

The Water and Power Employees' Retirement
Plan of the City of Los Angeles

*Actuarial Valuation and Review
as of July 1, 2006*

Copyright © 2006

THE SEGAL GROUP, INC.,
THE PARENT OF THE SEGAL COMPANY
ALL RIGHTS RESERVED



The Segal Company
120 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

October 25, 2006

*Board of Administration
The Water and Power Employees' Retirement Plan of the City of Los Angeles
111 North Hope Street, Room 357
Los Angeles, California 90012*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of July 1, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2006-2007 and analyzes the preceding year's experience.

The census and financial information on which our calculations were based was prepared by the Retirement Office. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Paul C. Poon, ASA, MAAA, Enrolled Actuary, and Andy Yeung, ASA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

By:

*Paul Angelo, FSA, MAAA, EA
Senior Vice President and Actuary*

*Paul C. Poon, ASA, MAAA, EA
Associate Actuary*

*Andy Yeung, ASA, MAAA, EA
Associate Actuary*

cc: *Sangeeta Bhatia
Manoj B. Desai
Donna Weisz Jones, Esq.*

*Alan L. Manning, Esq.
Robert K. Rozanski
Michael R. Wilkinson, Esq.*

SECTION 1

VALUATION SUMMARY

| | |
|--|-----|
| Purpose | i |
| Significant Issues in Valuation Year..... | i |
| Summary of Key Valuation Results..... | iii |

SECTION 2

VALUATION RESULTS

| | |
|---|----|
| A. Member Data | 1 |
| B. Financial Information..... | 4 |
| C. Actuarial Experience..... | 7 |
| D. Recommended Contribution . | 12 |
| E. Information Required by the GASB..... | 14 |

SECTION 3

SUPPLEMENTAL INFORMATION

| | |
|--|----|
| EXHIBIT A Table of Plan Coverage | 15 |
| EXHIBIT B Members in Active Service as of June 30, 2006..... | 16 |
| EXHIBIT C Reconciliation of Member Data | 17 |
| EXHIBIT D Summary Statement of Income and Expenses on an Actuarial Value Basis..... | 18 |
| EXHIBIT E Table of Financial Information..... | 19 |
| EXHIBIT F Development of the Fund Through June 30, 2006..... | 20 |
| EXHIBIT G Development of Unfunded/(Overfunded) Actuarial Accrued Liability for Year Ended June 30, 2006..... | 21 |
| EXHIBIT H Table of Amortization Bases | 22 |
| EXHIBIT I Section 415 Limitations..... | 23 |
| EXHIBIT J Definitions of Pension Terms | 24 |
| EXHIBIT K Actuarial Balance Sheet | 26 |
| EXHIBIT L Reserves and Designated Balances.. | 27 |
| EXHIBIT M Adjusted Reserves | 28 |

SECTION 4

REPORTING INFORMATION

| | |
|--|----|
| EXHIBIT I Summary of Actuarial Valuation Results | 29 |
| EXHIBIT II Supplementary Information Required by the GASB – Schedule of Employer Contributions | 31 |
| EXHIBIT III Supplementary Information Required by the GASB – Schedule of Funding Progress | 32 |
| EXHIBIT IV Supplementary Information Required by the GASB | 33 |
| EXHIBIT V Development of the Net Pension Obligation and the Annual Pension Cost Pursuant to GASB 27 | 34 |
| EXHIBIT VI Actuarial Assumptions and Actuarial Cost Method | 35 |
| EXHIBIT VII Summary of Plan Provisions..... | 39 |

SECTION 1: Valuation Summary for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Purpose

This report has been prepared by The Segal Company to present a valuation of The Water and Power Employees' Retirement Plan of the City of Los Angeles as of July 1, 2006. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of March 31, 2006, provided by the Retirement Office;
- The assets of the Plan as of June 30, 2006, provided by the Retirement Office;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

- The market value of assets earned a return of 8.45% for the July 1, 2005 to June 30, 2006 plan year. The actuarial value of assets earned a return of 4.81% for the July 1, 2005 to June 30, 2006 plan year due to the recognition of prior investment losses. This resulted in an actuarial loss of \$198.9 million when measured against the assumed rate of return of 8.00%. This actuarial investment loss increased the Plan's required contribution by 3.52% of compensation.
- The salaries for continuing actives increased by 4.8% from the rate in effect on March 31, 2005 to the rate in effect on March 31, 2006. Since this increase is lower than the assumed rate of 5.5%, the plan experienced an actuarial gain from salary increases. This gain amounted to \$22.7 million for the current year, which decreased the Plan's required contribution by 0.40% of compensation.
- Under the Plan's funding policy, the required contribution rate continues to be larger than the mandatory 110% matching of the employee contribution. The required contribution for the 2006-2007 plan year is 22.25% of pay, which is estimated to be \$141.5 million. This includes amortization of the Plan's unfunded actuarial accrued liability (UAAL) over various fixed periods.

SECTION 1: Valuation Summary for The Water and Power Employees' Retirement Plan of the City of Los Angeles

- The total unrecognized return (i.e., the difference between the market value of assets and the actuarial value of assets) changed by \$211.3 million during the plan year from a \$210.8 million unrecognized loss in 2005 to a \$0.5 million unrecognized gain in 2006. This unrecognized return represents a small amount of deferred market value gains that will be recognized over the next four years. Once recognized, the \$0.5 million reserve will decrease the required contribution by about 0.01% of pay.
- This year, the balance in the General Reserve and the Reserve for Investment Gains and Losses increased from \$2,076 million as of June 30, 2005 to \$2,079 million as of June 30, 2006. These two reserves track changes in the book value of assets. Consistent with last year's valuation, this year we have been instructed to include all but \$65 million of the end of year General Reserve and Reserve for Investment Gains and Losses as valuation assets. This is approximately 1% of the end of year market value of assets.
- The actuarial accrued liability exceeds the actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$598.8 million. The Board's funding policy determines the Department's required contribution as the normal cost increased or offset by a UAAL amortization charge or credit. Under this funding policy, the Plan's UAAL is amortized over various 15 year periods, each beginning with the year that each portion or base of the UAAL was first identified and amortized.
- Governmental Accounting Standards Board Statement No. 25 (GASB 25) requires calculation of a measure of Plan cost called the Annual Required Contribution (ARC). Like the Board's required contribution, the GASB 25 ARC is determined as the normal cost increased or offset by a UAAL amortization charge or credit. In 2004, in order to comply with the GASB 25 requirement that the net amortization charge be sufficient to amortize any UAAL over no longer than 40 years, the Board chose to "fresh start" the Plan's UAAL amortization, effective July 1, 2004, by combining the existing amortization bases into a single base and amortizing the combined base over 15 years. Consistent with the Board's past policy, any new amortization bases after July 1, 2004 will also be amortized over 15 years.

As a result, there are now three amortization bases as of July 1, 2006, the "fresh start" base from July 1, 2004 and two bases for actuarial losses that occurred during the 2004-2005 and the 2005-2006 plan years.

SECTION 1: Valuation Summary for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Summary of Key Valuation Results

| | 2006 | 2005 |
|---|----------------|----------------|
| Contributions for plan year beginning July 1: | | |
| Required under funding policy | \$ 141,464,198 | \$ 118,341,826 |
| Percentage of payroll | 22.25% | 19.20% |
| Funding elements for plan year beginning July 1: | | |
| Total normal cost | \$ 105,840,848 | \$ 101,763,567 |
| Market value of assets | 6,513,239,533 | 6,182,214,890 |
| Actuarial value of assets | 6,447,763,436 | 6,331,047,528 |
| Actuarial accrued liability | 7,046,571,241 | 6,763,079,839 |
| Unfunded actuarial accrued liability | 598,807,805 | 432,032,311 |
| GASB 25/27 for plan year beginning July 1: | | |
| Annual pension cost | \$141,464,198 | \$116,651,020 |
| Actual contributions | -- | 101,556,257 |
| Percentage contributed | -- | 87.06% |
| Funded ratio | 91.50% | 93.61% |
| Covered payroll | \$635,728,131 | \$616,270,095 |
| Demographic data for plan year beginning July 1: | | |
| Number of retired participants and beneficiaries | 8,817 | 8,868 |
| Number of vested former members | 1,481 | 1,397 |
| Number of active members | 7,926 | 7,967 |
| Total projected compensation | \$635,728,131 | \$616,270,095 |
| Average projected compensation | 80,208 | 77,353 |

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, vested terminated members, retired participants and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

A historical perspective of how the member population has changed over the past ten valuations can be seen in this chart.

CHART 1
Member Population: 1997 – 2006

| Year Ended June 30 | Active Members | Vested Terminated Members* | Retired Participants and Beneficiaries | Ratio of Non-Actives to Actives |
|-------------------------------|---------------------------|---------------------------------------|---|--|
| 1997 | 8,695 | 1,111 | 8,399 | 1.09 |
| 1998 | 8,345 | 1,184 | 8,213 | 1.13 |
| 1999 | 6,518 | 1,450 | 9,967 | 1.75 |
| 2000 | 6,807 | 1,387 | 9,749 | 1.64 |
| 2001 | 7,250 | 1,415 | 9,576 | 1.52 |
| 2002 | 7,403 | 1,426 | 9,353 | 1.46 |
| 2003 | 7,731 | 1,445 | 9,161 | 1.37 |
| 2004 | 7,893 | 1,525 | 8,973 | 1.33 |
| 2005 | 7,967 | 1,397 | 8,868 | 1.29 |
| 2006 | 7,926 | 1,481 | 8,817 | 1.30 |

*Excludes terminated members due a refund of employee contributions

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Active Members

Plan costs are affected by the age, years of service and compensation of active members. In this year's valuation, there were 7,926 active members with an average age of 47.6, average years of service of 17.2 years and average compensation of \$80,208. The 7,967 active members in the prior valuation had an average age of 47.4, average service of 17.2 years and average compensation of \$77,353.

Inactive Members

In this year's valuation, there were 1,481 members with a vested right to a deferred or immediate vested benefit or entitled to a return of their employee contributions.

These graphs show a distribution of active members by age and by years of service.

CHART 2
Distribution of Active Members by Age as of June 30, 2006

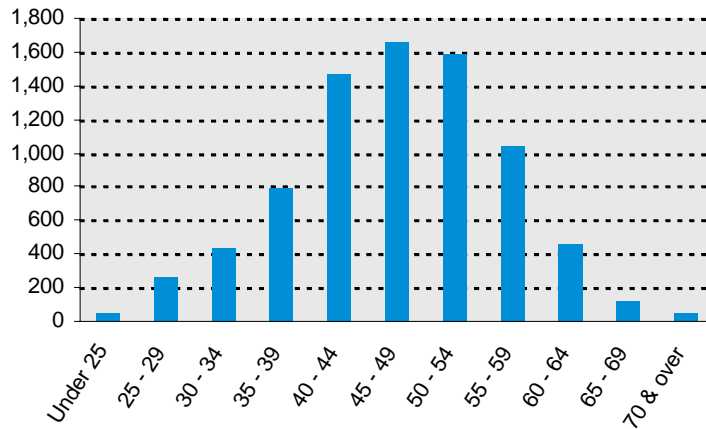
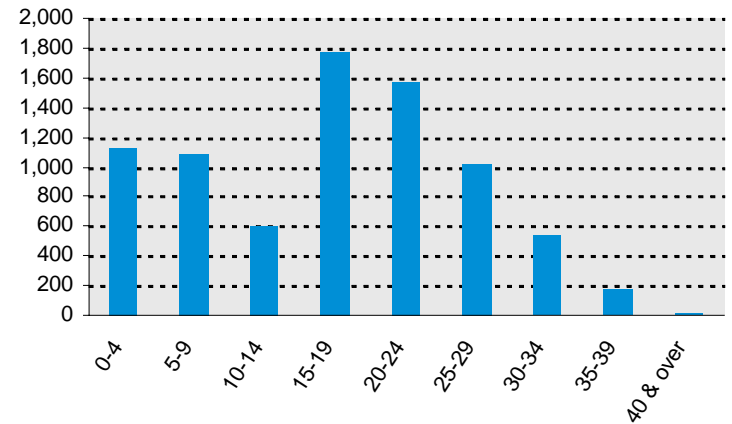


CHART 3
Distribution of Active Members by Years of Service as of June 30, 2006



SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Retired Participants and Beneficiaries

As of June 30, 2006, 6,628 retired participants and 2,189 beneficiaries were receiving total monthly benefits of \$27,946,063. For comparison, in the previous valuation, there were 6,652 retired participants and 2,216 beneficiaries receiving monthly benefits of \$26,762,591.

These graphs show a distribution of the current retired participants and beneficiaries based on their monthly amount and age.

CHART 4
Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of June 30, 2006

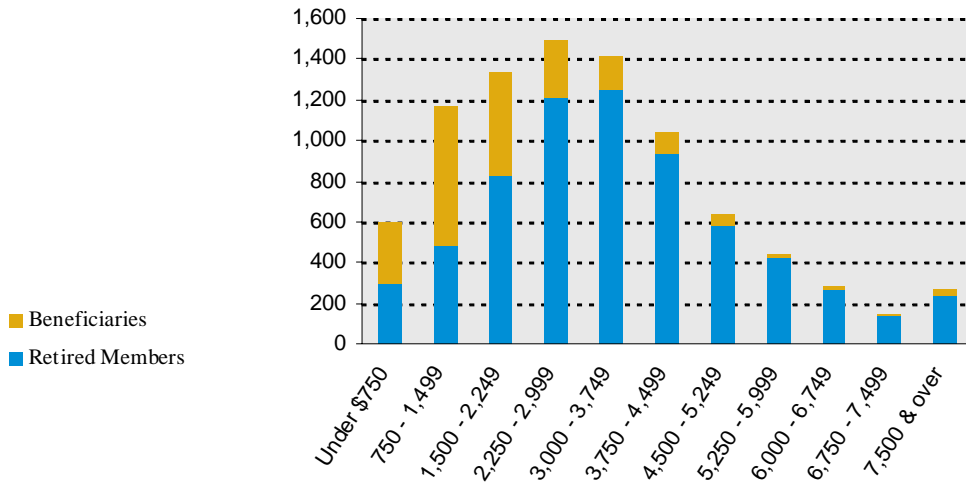
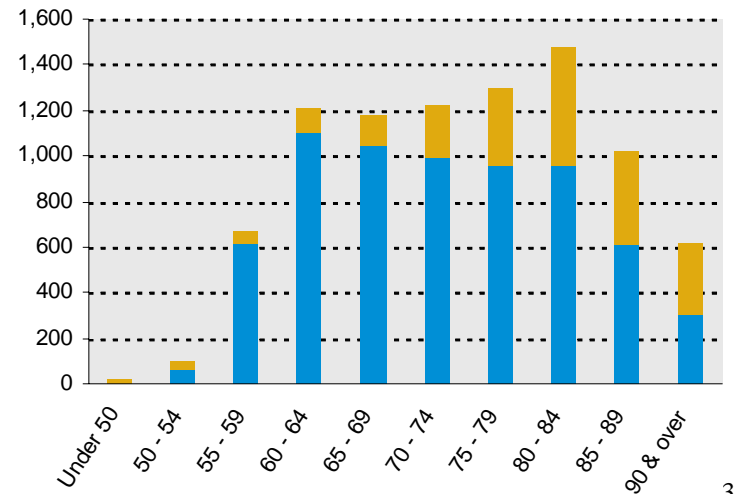


CHART 5
Distribution of Retired Participants and Beneficiaries by Type and by Age as of June 30, 2006



SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

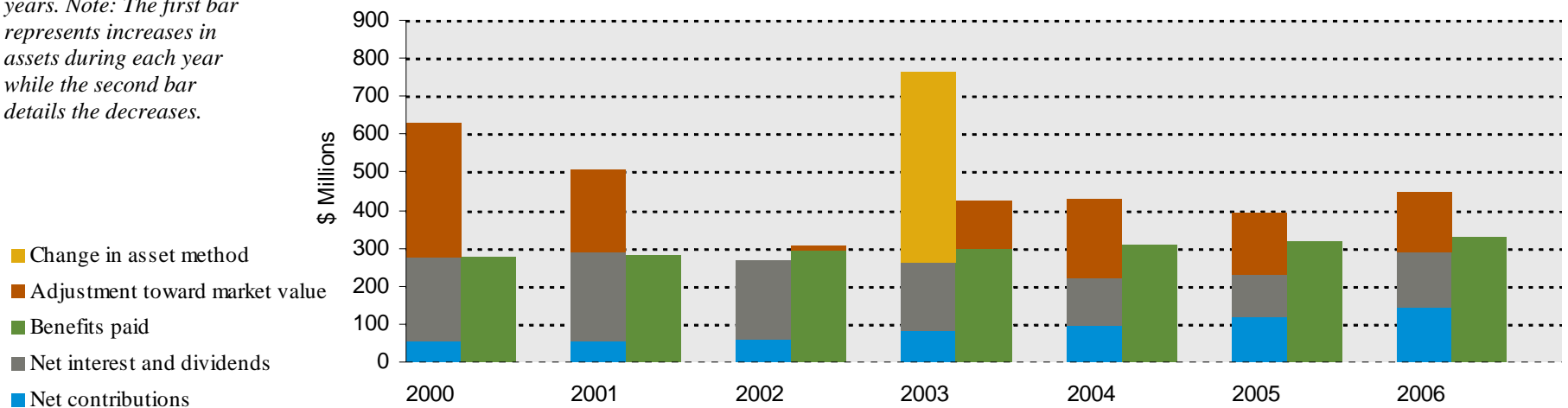
B. FINANCIAL INFORMATION

Retirement plan funding anticipates that, over the long term, both net contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits D, E and F.

The chart depicts the components of changes in the actuarial value of assets over the last seven years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6
Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2000 – 2006



SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

Please note that as instructed by Plan staff, we have included all but \$65.0 million (approximately 1% of the end of year market value of assets) in the General Reserve and Reserve for Investments Gains and Losses as valuation assets.

The chart shows the determination of the actuarial value of assets as of the valuation date.

**CHART 7
Determination of Actuarial Value of Assets as of June 30, 2006**

| | | | | |
|---|--|---------------------|--------------------|------------------------|
| 1 | Market value of assets, June 30, 2006 | | | \$ 6,513,239,533 |
| 2 | Calculation of Unrecognized Return | Original | Unrecognized | |
| | | Amount* | Return** | |
| | (a) Year ended June 30, 2006 | \$ 30,315,338 | \$ 24,252,270 | |
| | (b) Year ended June 30, 2005 | -46,868,215 | -28,120,929 | |
| | (c) Year ended June 30, 2004 | 178,199,134 | 71,279,654 | |
| | (d) Year ended June 30, 2003 | <u>-334,674,490</u> | <u>-66,934,898</u> | |
| | (e) Total Unrecognized Return | | | 476,097 |
| 3 | Gross actuarial value: (1) - (2e) | | | 6,512,763,436 |
| 4 | Portion of General Reserve and Reserve for Investment Gains and Losses not included as valuation asset | | | 65,000,000 |
| 5 | Net actuarial value as of June 30, 2006: (3) - (4) | | | <u>\$6,447,763,436</u> |
| 6 | Net actuarial value as a percentage of market value: (5) / (1) | | | 99.0% |

*Total return minus expected return on a market value basis

**Recognition at 20% per year over 5 years

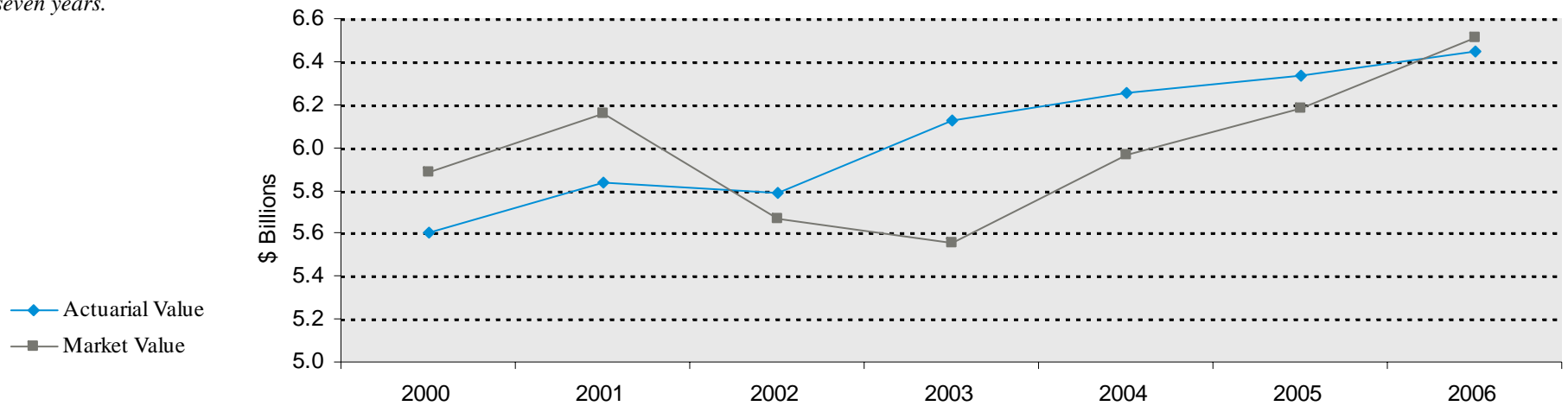
SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Both the actuarial value and market value of assets are representations of the LADWP's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the LADWP's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

Note that in the chart below, actuarial value of assets are exclusive of the General Reserve and Reserve for Investment Gains and Losses while that Reserve is included in the development of the Market Value of Assets.

This chart shows the change in the actuarial value of assets versus the market value over the past seven years.

CHART 8
Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2000 – 2006



SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term

development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss was \$173,935,396, \$198,925,656 from investments, offset by a gain of \$24,990,260 from all other sources. The net experience variation from individual sources other than investments was 0.4% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past year.

**CHART 9
Actuarial Experience for Year Ended June 30, 2006**

| | |
|--|------------------|
| 1. Net gain/(loss) from investments* | -\$198,925,656 |
| 2. Net gain/(loss) from salaries | 22,730,790 |
| 3. Net gain/(loss) from other experience | <u>2,259,470</u> |
| 4. Net experience gain/(loss): (1) + (2) + (3) | -\$173,935,396 |

**Details in Chart 10.*

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the LADWP's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets is 8.00%. The actual rate of return on an actuarial basis for the 2005-2006 plan year was 4.81%.

Since the actual return for the year was less than the assumed return, the LADWP experienced an actuarial loss during the year ended June 30, 2006 with regard to its investments.

This chart shows the gain/(loss) due to investment experience.

CHART 10
Actuarial Value Investment Experience for Year Ended June 30, 2006

| | |
|-------------------------------------|-----------------------|
| 1. Actual return | \$ 300,218,060 |
| 2. Average value of assets | 6,239,296,452 |
| 3. Actual rate of return: (1) ÷ (2) | 4.81% |
| 4. Assumed rate of return | 8.00% |
| 5. Expected return: (2) x (4) | \$499,143,716 |
| 6. Actuarial gain/(loss): (1) – (5) | <u>-\$198,925,656</u> |

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the last seven years, including the five-year and seven-year average.

Based upon future expectations, we have maintained the assumed rate of return of 8.00%. The investment return assumption will be reviewed in this year's experience study, along with the other actuarial assumptions.

CHART 11

Investment Return – Actuarial Value vs. Market Value: 2000 - 2006

| Year Ended June 30 | Net Interest and Dividend Income | | Recognition of Capital Appreciation | | Change in Asset Method | | Actuarial Value Investment Return | | Market Value Investment Return | |
|-----------------------|-------------------------------------|---------|--|---------|------------------------|---------|--------------------------------------|---------|-----------------------------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| 2000 | \$222,306,427 | 4.32% | \$351,743,541 | 6.90% | -- | -- | \$574,049,968 | 11.22% | \$ 22,463,396 | 0.39% |
| 2001 | 232,814,492 | 4.24% | 217,489,958 | 3.96% | -- | -- | 450,304,450 | 8.20% | 492,327,362 | 8.52% |
| 2002 | 206,326,546 | 3.61% | -14,327,506 | -0.25% | -- | -- | 191,999,040 | 3.36% | -251,053,638 | -4.16% |
| 2003 | 182,004,368 | 3.20% | -127,029,513 | -2.24% | \$503,018,121 | 8.86% | 557,992,976 | 9.82% | 107,504,970 | 1.93% |
| 2004 | 126,468,819 | 2.10% | 205,922,559 | 3.42% | -- | -- | 332,391,378 | 5.52% | 611,980,245 | 11.22% |
| 2005 | 114,263,238 | 1.86% | 164,012,112 | 2.66% | -- | -- | 278,275,350 | 4.52% | 419,463,599 | 7.16% |
| 2006 | <u>142,834,044</u> | 2.29% | <u>157,384,016</u> | 2.52% | -- | -- | <u>300,218,060</u> | 4.81% | <u>514,526,795</u> | 8.45% |
| Total | \$1,227,017,934 | | \$955,195,167 | | \$503,018,121 | | \$2,685,231,222 | | \$1,917,212,729 | |
| | | | | | | | Five-year average return | 5.57% | | 4.83% |
| | | | | | | | Seven-year average return | 6.64% | | 4.73% |

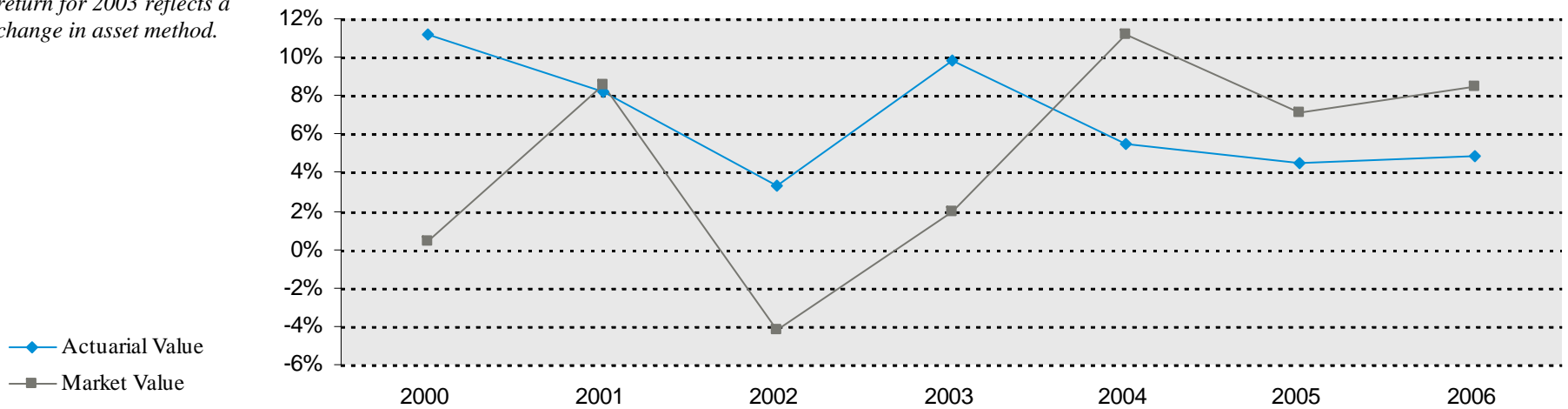
Note: Each year's yield is weighted by the average asset value in that year.

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

This chart illustrates how this leveling effect has actually worked over the years 2000 - 2006. The return for 2003 reflects a change in asset method.

CHART 12
Market and Actuarial Rates of Return for Years Ended June 30, 2000 - 2006



SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net gain from this other experience for the year ended June 30, 2006 amounted to \$24,990,260, which is 0.4% of the actuarial accrued liability.

The gain is primarily due to salary increases that were lower than expected.

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

D. RECOMMENDED CONTRIBUTION

The required Department contribution is made up of (a) the normal cost and (b) the amortization of the unfunded or overfunded actuarial accrued liability. For this year, another amortization base is created for the actuarial loss during plan year ending June 30, 2006. This produces a net amortization charge of \$67,255,742.

Under the current funding policy, the Department's required contribution rate increased as a percentage of pay. This was primarily the net result of the "smoothed" investment return being less than assumed, offset by lower than expected salary increases for active members and other favorable actuarial experience.

The chart compares this valuation's recommended contribution with the prior valuation.

CHART 13

Required Contribution

| Year Beginning July 1: | 2006 | | 2005 | |
|--|----------------------|---------------|----------------------|---------------|
| | Amount | % of Payroll | Amount | % of Payroll |
| 1. Total normal cost | \$105,840,848 | 16.65% | \$101,763,567 | 16.51% |
| 2. Expected employee contributions | <u>-37,073,323</u> | <u>-5.83%</u> | <u>-35,387,518</u> | <u>-5.74%</u> |
| 3. Employer normal cost: (1) + (2) | \$ 68,767,525 | 10.82% | \$ 66,376,049 | 10.77% |
| 4. Actuarial accrued liability | 7,046,571,241 | | 6,763,079,839 | |
| 5. Actuarial value of assets | <u>6,447,763,436</u> | | <u>6,331,047,528</u> | |
| 6. Unfunded/(overfunded) actuarial accrued liability: (4) - (5) | \$ 598,807,805 | | \$ 432,032,311 | |
| 7. Amortization of projected unfunded/(overfunded) actuarial accrued liability | 67,255,742 | 10.58% | 47,414,168 | 7.69% |
| 8. Total required contribution: (3) + (7), adjusted for timing* | <u>141,464,198</u> | <u>22.25%</u> | <u>118,341,826</u> | <u>19.20%</u> |
| 9. Employer match (110% of (2)), adjusted for timing* | 42,411,882 | 6.67% | 40,483,321 | 6.57% |
| 10. Greater of employer match (9) or total required contribution (8) | <u>\$141,464,198</u> | <u>22.25%</u> | <u>\$118,341,826</u> | <u>19.20%</u> |
| 11. Projected compensation | \$635,728,131 | | \$616,270,095 | |

**Required contributions are assumed to be paid at the middle of every year.*

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

The contribution rates as of July 1, 2006 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Required Contribution

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 14

Reconciliation of Required Contribution from July 1, 2005 to July 1, 2006

| | |
|--|---------------|
| Required Contribution as of July 1, 2005 | 19.20% |
| Effect of gains and losses on salary experience | -0.40% |
| Effect of contributions less than recommended contribution | 0.25% |
| Effect of investment (gain)/loss | 3.52% |
| Effect of other gains and losses on accrued liability | <u>-0.32%</u> |
| Total change | <u>3.05%</u> |
| Required Contribution as of July 1, 2006 | 22.25% |

SECTION 2: Valuation Results for The Water and Power Employees' Retirement Plan of the City of Los Angeles

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes. This information is shown in Chart 16.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

These graphs show key GASB factors.

CHART 15
Required Versus Actual Contributions

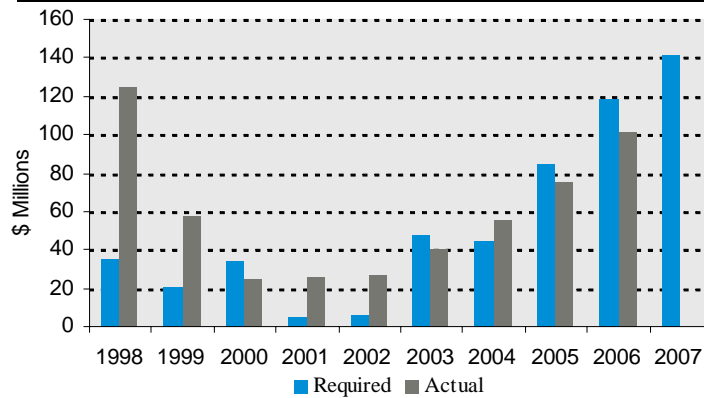
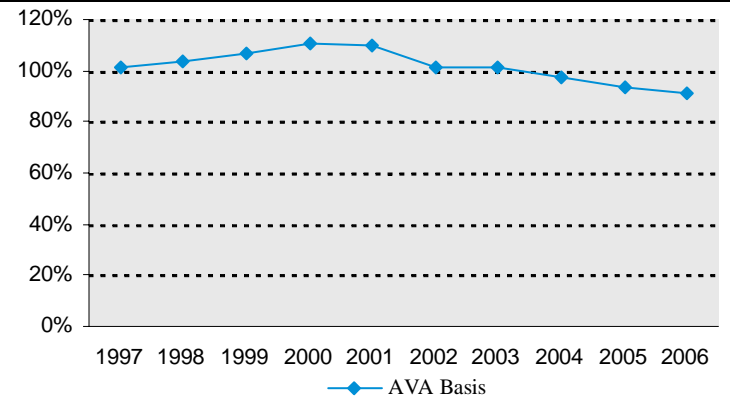


CHART 16
Funded Ratio



SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT A

Table of Plan Coverage

| Category | Year Ended June 30 | | Change From Prior Year |
|-------------------------------------|---------------------------|---------------|-------------------------------|
| | 2006 | 2005 | |
| Active members in valuation: | | | |
| Number | 7,926 | 7,967 | -0.5% |
| Average age | 47.6 | 47.4 | N/A |
| Average service | 17.2 | 17.2 | N/A |
| Projected total compensation | \$635,728,131 | \$616,270,095 | 3.2% |
| Projected average compensation | 80,208 | 77,353 | 3.7% |
| Account balances | 640,427,226 | 598,328,662 | 7.0% |
| Vested terminated members: | | | |
| Number | 1,481 | 1,397 | 6.0% |
| Average age | 49.1 | 48.3 | N/A |
| Average account balances | \$37,855 | \$34,601 | 9.4% |
| Retired participants: | | | |
| Number in pay status | 6,628 | 6,652 | -0.4% |
| Average age | 72.5 | 72.4 | N/A |
| Average monthly benefit | \$3,550 | \$3,386 | 4.8% |
| Beneficiaries: | | | |
| Number in pay status | 2,189 | 2,216 | -1.2% |
| Average age | 79.3 | 79.2 | N/A |
| Average monthly benefit | \$2,019 | \$1,914 | 5.5% |

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT B

**Members in Active Service as of June 30, 2006
By Age, Years of Service, and Average Compensation**

| Age | Years of Service | | | | | | | | | |
|-----------|------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| | Total | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40 & over |
| Under 25 | 42 | 42 | -- | -- | -- | -- | -- | -- | -- | -- |
| | \$55,702 | \$55,702 | -- | -- | -- | -- | -- | -- | -- | -- |
| 25 - 29 | 256 | 186 | 70 | -- | -- | -- | -- | -- | -- | -- |
| | 68,165 | 67,984 | \$68,648 | -- | -- | -- | -- | -- | -- | -- |
| 30 - 34 | 443 | 222 | 200 | 20 | 1 | -- | -- | -- | -- | -- |
| | 68,392 | 67,448 | 68,541 | \$77,177 | \$72,473 | -- | -- | -- | -- | -- |
| 35 - 39 | 796 | 202 | 245 | 162 | 180 | 7 | -- | -- | -- | -- |
| | 74,098 | 66,164 | 68,685 | 86,582 | 79,112 | \$74,625 | -- | -- | -- | -- |
| 40 - 44 | 1,473 | 173 | 222 | 180 | 598 | 285 | 14 | -- | 1 | -- |
| | 80,456 | 67,549 | 71,332 | 79,598 | 84,904 | 86,895 | \$75,910 | -- | \$62,451 | -- |
| 45 - 49 | 1,661 | 139 | 157 | 113 | 438 | 536 | 272 | 6 | -- | -- |
| | 82,500 | 67,749 | 71,875 | 76,217 | 80,085 | 88,872 | 89,965 | \$89,289 | -- | -- |
| 50 - 54 | 1,584 | 90 | 106 | 63 | 287 | 396 | 409 | 221 | 12 | -- |
| | 84,069 | 69,667 | 72,672 | 84,618 | 80,310 | 85,446 | 87,106 | 90,765 | 107,446 | -- |
| 55 - 59 | 1,039 | 48 | 57 | 39 | 169 | 204 | 203 | 225 | 92 | 2 |
| | 82,898 | 69,911 | 73,450 | 79,688 | 77,628 | 80,354 | 84,735 | 88,273 | 95,532 | \$ 59,257 |
| 60 - 64 | 464 | 21 | 29 | 21 | 68 | 100 | 95 | 67 | 55 | 8 |
| | 83,891 | 87,731 | 80,177 | 83,402 | 72,652 | 80,072 | 83,744 | 90,217 | 95,371 | 101,668 |
| 65 - 69 | 123 | 4 | 4 | 10 | 20 | 31 | 22 | 13 | 15 | 4 |
| | 77,763 | 64,764 | 100,938 | 73,093 | 70,063 | 75,470 | 79,581 | 79,446 | 89,088 | 77,595 |
| 70 & over | 45 | 2 | 3 | 1 | 10 | 12 | 7 | 4 | 3 | 3 |
| | 73,949 | 67,201 | 56,879 | 46,728 | 65,604 | 71,250 | 78,468 | 77,506 | 96,117 | 105,755 |
| Total | 7,926 | 1,129 | 1,093 | 609 | 1,771 | 1,571 | 1,022 | 536 | 178 | 17 |
| | \$80,208 | \$67,571 | \$70,678 | \$81,244 | \$80,931 | \$85,521 | \$86,709 | \$89,260 | \$95,567 | \$91,735 |

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT C

Reconciliation of Member Data

| | Active Members | Vested Former Members | Retired Participants | Beneficiaries | Total |
|-----------------------------------|-----------------------|------------------------------|-----------------------------|----------------------|--------------|
| Number as of July 1, 2005 | 7,967 | 1,397 | 6,652 | 2,216 | 18,232 |
| New members | 399 | N/A | N/A | N/A | 399 |
| Terminations – with vested rights | -121 | 121 | N/A | N/A | 0 |
| Retirements | -232 | -16 | 248 | N/A | 0 |
| Died with beneficiary | -10 | -1 | -108 | 119 | 0 |
| Died without beneficiary | 0 | 0 | -167 | -160 | -327 |
| Rehired | 20 | -20 | 0 | N/A | 0 |
| Data adjustments | 0 | 31 | 3 | 14 | 48 |
| Contribution refunds | <u>-97</u> | <u>-31</u> | <u>N/A</u> | <u>N/A</u> | <u>-128</u> |
| Number as of July 1, 2006 | 7,926 | 1,481 | 6,628 | 2,189 | 18,224 |

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT D

Summary Statement of Income and Expenses on an Actuarial Value Basis

| | Year Ended June 30, 2006 | Year Ended June 30, 2005 |
|--|--------------------------|--------------------------|
| Contribution income: | | |
| Employer contributions | \$101,556,257 | \$75,490,143 |
| Employee contributions | 41,324,895 | 38,855,089 |
| Administrative expense contributions | <u>2,914,174</u> | <u>2,534,097</u> |
| Net contribution income | \$145,795,326 | \$116,879,329 |
| Investment income: | | |
| Interest, dividends and other income | \$159,450,534 | \$126,531,298 |
| Adjustment toward market value | 157,384,016 | 164,012,112 |
| Less investment and administrative fees | <u>-16,616,490</u> | <u>-12,268,060</u> |
| Net investment income | <u>300,218,060</u> | <u>278,275,350</u> |
| Total income available for benefits | \$446,013,386 | \$395,154,679 |
| Less benefit payments: | | |
| Retirement benefits paid | -\$325,873,101 | -\$311,551,053 |
| Refund of members' contributions | <u>-3,424,377</u> | <u>-3,977,223</u> |
| Net benefit payments | -\$329,297,478 | -\$315,528,276 |
| Change in reserve for future benefits | \$116,715,908 | \$ 79,626,403 |

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT E

Table of Financial Information

| | Year Ended June 30, 2006 | Year Ended June 30, 2005* |
|--------------------------------------|-------------------------------|-------------------------------|
| Cash equivalents | \$ 821,517 | \$ 890,571 |
| Accounts receivable: | | |
| Accrued investment income | \$ 22,462,930 | \$ 20,816,999 |
| Securities lending - collateral | 537,684,195 | 682,751,744 |
| Department of Water and Power | 10,388,845 | 5,185,870 |
| Other | <u>266,979,176</u> | <u>370,467,270</u> |
| Total accounts receivable | 837,515,146 | 1,079,221,883 |
| Investments: | | |
| Fixed income | \$2,356,006,126 | \$2,391,029,462 |
| Equities | 4,217,097,899 | 3,912,058,377 |
| Other assets | <u>242,156,547</u> | <u>194,433,444</u> |
| Total investments at market value | <u>6,815,260,572</u> | <u>6,497,521,283</u> |
| Total assets | \$7,653,597,235 | \$7,577,633,737 |
| Less accounts payable: | | |
| Accounts payable | -\$602,673,507 | -\$712,667,103 |
| Security lending - collateral | <u>-537,684,195</u> | <u>-682,751,744</u> |
| Total accounts payable | -\$1,140,357,702 | -\$1,395,418,847 |
| Net assets at market value | <u>\$6,513,239,533</u> | <u>\$6,182,214,890</u> |
| Net assets at actuarial value | <u>\$6,447,763,436</u> | <u>\$6,331,047,528</u> |

**Due to revised audit information, some components for 2005 differ from last year's report; the total asset values did not change.*

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT F

Development of the Fund Through June 30, 2006

| Year Ended June 30 | Employer Contributions | Employee Contributions | Other Contributions | Net Investment Return* | Benefit Payments | Actuarial Value of Assets at End of Year |
|-------------------------------|-----------------------------------|-----------------------------------|--------------------------------|---------------------------------------|-----------------------------|---|
| 2001 | \$25,763,218 | \$27,688,883 | \$2,406,582 | \$450,304,450 | \$278,744,629 | \$5,833,274,582 |
| 2002 | 27,241,801 | 30,002,271 | 2,214,752 | 191,999,040 | 294,469,498 | 5,790,262,948 |
| 2003 | 40,560,882 | 36,490,767 | 2,623,157 | 557,992,976 | 299,555,007 | 6,128,375,723 |
| 2004 | 55,804,924 | 38,045,999 | 2,452,293 | 332,391,378 | 305,649,192 | 6,251,421,125 |
| 2005 | 75,490,143 | 38,855,089 | 2,534,097 | 278,275,350 | 315,528,276 | 6,331,047,528 |
| 2006 | 101,556,257 | 41,324,895 | 2,914,174 | 300,218,060 | 329,297,478 | 6,447,763,436 |

**Net of investment fees and administrative expenses. Includes a change in asset method of \$503 million for 2003.*

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT G

Development of Unfunded/(Overfunded) Actuarial Accrued Liability for Year Ended June 30, 2006

| | | |
|--|-------------------|----------------------|
| 1. Unfunded actuarial accrued liability at beginning of year | | \$432,032,311 |
| 2. Normal cost at beginning of year | | 101,763,567 |
| 3. Total actual contributions | | -145,795,326 |
| 4. Interest | | |
| (a) For whole year on (1) + (2) | \$42,703,670 | |
| (b) For half year on (3) | <u>-5,831,813</u> | |
| (c) Total interest | | <u>36,871,857</u> |
| 5. Expected unfunded actuarial accrued liability | | \$424,872,409 |
| 6. Change due to (gain)/loss* | | <u>173,935,396</u> |
| 7. Unfunded actuarial accrued liability at end of year | | <u>\$598,807,805</u> |

**Does not include a contribution loss of \$9,484,815 during the year.*

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT H

Table of Amortization Bases

| Type* | Date Established | Initial Years | Initial Amount | Annual Payment* | Years Remaining | Outstanding Balance |
|----------------|-------------------------|----------------------|-----------------------|------------------------|------------------------|----------------------------|
| Combined Base | 07/01/2004 | 15 | \$170,392,797 | \$18,432,327 | 13.00 | \$157,339,779 |
| Actuarial Loss | 07/01/2005 | 15 | 267,915,003 | 28,981,841 | 14.00 | 258,047,815 |
| Actuarial Loss | 07/01/2006 | 15 | 183,420,211 | <u>19,841,574</u> | 15.00 | <u>183,420,211</u> |
| Total | | | | \$67,255,742 | | \$598,807,805 |

**Level dollar amount. The outstanding July 1, 2004 amortization bases were combined into a single amortization base and amortized over 15 year.*

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT I

Section 415 Limitations

Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar limit of \$160,000 indexed for inflation. That limit is \$175,000 for 2006. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

Contribution rates determined in this valuation have not been reduced for the Section 415 limitations. Actual limitations will result in gains as they occur.

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT J

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial

Assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age; and
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost:

The amount of contributions required to fund the cost of benefits allocated to the current year of service.

Actuarial Accrued Liability

For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability

For Pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued

Liability:

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Amortization of the Unfunded

Actuarial Accrued Liability: Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

Investment Return:

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT K

Actuarial Balance Sheet

An overview of your Plan's funding is given by an Actuarial Balance Sheet. In this approach, we first determine the amount and timing of all future payments that will be made by the Plan for current participants. We then discount these payments at the valuation interest rate to the date of the valuation, thereby determining their present value. We refer to this present value as the "liability" of the Plan.

Second, we determine how this liability will be met. These actuarial "assets" include the net amount of assets already accumulated by the Plan, the present value of future member contributions, the present value of future Department normal cost contributions, and the present value of future Department amortization payments or credits.

Actuarial Balance Sheet

| <u>Assets</u> | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--|--------------------------|--------------------------|
| 1. Total actuarial value of assets | \$6,447,763,436 | \$6,331,047,528 |
| 2. Present value of future contribution by members | 341,318,095 | 329,801,671 |
| 3. Present value of future Department contributions for: | | |
| (a) entry age normal cost | 637,898,303 | 625,309,148 |
| (b) unfunded actuarial accrued liability | 598,807,805 | 432,032,311 |
| 4. Total current and future assets | \$8,025,787,639 | \$7,718,190,658 |
| <u>Liabilities</u> | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
| 5. Present value of benefits already granted: | \$3,818,191,932 | \$3,665,679,472 |
| 6. Present value of benefits to be granted: | \$4,207,595,707 | \$4,052,511,186 |
| 7. Total liabilities | \$8,025,787,639 | \$7,718,190,658 |

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT L

Reserves and Designated Balances

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|---|----------------------|----------------------|
| 1. Reserve for retirement allowance for retired members | \$3,938,183,417 | \$3,773,274,190 |
| 2. Contribution accounts: | | |
| (a) members (excluding additional contributions) | 724,446,624 | 671,096,938 |
| (b) Department of Water and Power | (866,865,319) | (742,644,395) |
| 3. General Reserve and Reserve for Investment Gains and Losses* | <u>2,079,412,580</u> | <u>2,075,613,450</u> |
| 4. Total | \$5,875,177,302 | \$5,777,340,183 |

*Out of the total General Reserve and Reserve for Investment Gains and Losses, \$65,000,000 is not included as valuation assets as of June 30, 2006.

SECTION 3: Supplemental Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT M
Adjusted Reserves

Each year the Retirement Board adjusts its retired reserves to agree with the value calculated during the valuation. The following table presents the required transfers.

| <u>Adjusted Reserves</u> | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--|----------------------|----------------------|
| 1. Retired reserve balance | \$3,938,183,417 | \$3,773,274,190 |
| 2. Actuarially computed present value | 3,818,191,932 | 3,665,679,472 |
| 3. Actuarial gain (loss): (1) – (2) | 119,991,485 | 107,594,718 |
| 4. Transfer from (to) DWP contribution accounts from retired reserves: | (119,991,485) | (107,594,718) |

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:

| | |
|--|-------|
| 1. Retired participants as of the valuation date (including 2,189 beneficiaries in pay status) | 8,817 |
| 2. Members inactive during year ended June 30, 2006 with vested rights | 1,481 |
| 3. Members active during the year ended June 30, 2006 | 7,926 |

The actuarial factors as of the valuation date are as follows:

| | |
|---|-----------------|
| 1. Normal cost | \$105,840,848 |
| 2. Present value of future benefits | 8,025,787,639 |
| 3. Present value of future normal costs | 979,216,398 |
| 4. Actuarial accrued liability | 7,046,571,241 |
| Retired participants and beneficiaries | \$3,818,191,932 |
| Inactive members with vested rights | 117,732,482 |
| Active members | 3,110,646,827 |
| 5. Actuarial value of assets (\$6,513,239,533 at market value as reported by Retirement Office) | 6,447,763,436 |
| 6. Unfunded actuarial accrued liability | \$598,807,805 |

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

The determination of the required and recommended contributions is as follows:

| | Dollar Amount | % of Payroll |
|--|----------------------|---------------------|
| 1. Total normal cost | \$105,840,848 | 16.65% |
| 2. Expected employee contributions | <u>-37,073,323</u> | <u>-5.83%</u> |
| 3. Employer normal cost: (1) + (2) | \$ 68,767,525 | 10.82% |
| 4. Amortization of unfunded/(overfunded) actuarial accrued liability | <u>67,255,742</u> | <u>10.58%</u> |
| 5. Total required contribution: (3) + (4), adjusted for timing* | \$141,464,198 | 22.25% |
| 6. Employer match (110% of (2)), adjusted for timing* | 42,411,882 | 6.67% |
| 7. Greater of employer match (6) or total required contribution (5) | 141,464,198 | 22.25% |
| 8. Projected payroll | 635,728,131 | |

**Required contribution is assumed to be paid at the middle of every year.*

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

| Plan Year Ended June 30 | Annual Required Contribution | Annual Pension Cost | Actual Contributions | Actual Contributions / Annual Required Contributions | Actual Contributions / Annual Pension Cost |
|------------------------------------|---|--------------------------------|---------------------------------|---|---|
| 1998 | \$ 31,514,506 | \$ 35,516,124 | \$124,470,502 | 395.0% | 350.5% |
| 1999 | 0 | 20,198,833 | 57,458,271 | -- | 284.5% |
| 2000 | 0 | 34,578,361 | 24,426,465 | -- | 70.6% |
| 2001 | 0 | 5,378,281 | 25,763,218 | -- | 479.0% |
| 2002 | 0 | 6,132,578 | 27,241,801 | -- | 444.2% |
| 2003 | 40,910,299 | 47,823,973 | 40,560,882 | 99.1% | 84.8% |
| 2004 | 44,128,205 | 50,773,126 | 55,804,924 | 126.5% | 109.9% |
| 2005 | 80,784,677 | 87,615,788 | 75,490,143 | 93.4% | 86.2% |
| 2006 | 110,268,590 | 116,651,020 | 101,556,257 | 92.1% | 87.1% |
| 2007 | 141,464,198 | 147,288,082 | -- | -- | -- |

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b) - (a) | Funded Ratio (a) / (b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c) |
|---------------------------------|--------------------------------------|--|--|-------------------------------|----------------------------|---|
| 07/01/1997 | \$3,850,530,272 | \$3,811,880,519 | -\$38,649,753 | 101.01% | \$430,000,000 | 0.00% |
| 07/01/1998 | 4,513,684,692 | 4,339,885,313 | -173,799,379 | 104.00% | 431,000,000 | 0.00% |
| 07/01/1999 | 5,254,093,071 | 4,911,443,303 | -342,649,768 | 106.98% | 355,000,000 | 0.00% |
| 07/01/2000 | 5,605,856,078 | 5,082,960,078 | -522,896,000 | 110.29% | 368,000,000 | 0.00% |
| 07/01/2001 | 5,833,274,582 | 5,306,262,736 | -527,011,846 | 109.93% | 403,265,472 | 0.00% |
| 07/01/2002 | 5,790,262,948 | 5,714,524,649 | -75,738,299 | 101.33% | 430,397,884 | 0.00% |
| 07/01/2003 | 6,128,375,723 | 6,042,086,785 | -86,288,938 | 101.43% | 527,787,469 | 0.00% |
| 07/01/2004 | 6,251,421,125 | 6,421,813,922 | 170,392,797 | 97.35% | 581,038,783 | 29.33% |
| 07/01/2005 | 6,331,047,528 | 6,763,079,839 | 432,032,311 | 93.61% | 616,270,095 | 70.10% |
| 07/01/2006 | 6,447,763,436 | 7,046,571,241 | 598,807,805 | 91.50% | 635,728,131 | 94.19% |

**Not less than zero*

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT IV

Supplementary Information Required by the GASB

| | |
|---|--|
| Valuation Date | July 1, 2006 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level dollar amortization |
| Remaining Amortization Period | The June 30, 2004 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2004. Any subsequent changes in Actuarial Accrued Liability are amortized over separate fifteen-year periods. |
| Asset Valuation Method | The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected returns on a market value basis and is recognized over a five year period. |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.00% |
| Projected Salary Increases | 5.50% |
| Cost of Living Adjustments | 3.00% |
| Membership of the Plan | |
| Retirees and Beneficiaries receiving benefits | 8,817 |
| Terminated plan members entitled to, but not yet receiving benefits | 1,481 |
| Active plan members | <u>7,926</u> |
| Total | 18,224 |

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT V

Development of the Net Pension Obligation and the Annual Pension Cost Pursuant to GASB 27

| Plan Year Ended June 30 | Employer Annual Required Contribution (a) | Employer Amount Contributed (b) | Interest on NPO (c) | ARC Adjustment (h) / (e) (d) | Amortization Factor (e) | Pension Cost (a) + (c) – (d) (f) | Change in NPO (f) – (b) (g) | NPO Balance NPO + (g) (h) |
|--------------------------------|--|--|----------------------------|-------------------------------------|--------------------------------|---|------------------------------------|----------------------------------|
| 1998 | \$31,514,506 | \$124,470,502 | -\$2,098,917 | -\$6,100,535 | 4.8007 | \$35,516,124 | -\$88,954,378 | -\$118,241,111 |
| 1999 | 0 | 57,458,271 | -8,318,592 | -28,517,425 | 4.1463 | 20,198,833 | -37,259,438 | -155,500,549 |
| 2000 | 0 | 24,426,465 | -10,631,644 | -45,210,005 | 3.4395 | 34,578,361 | 10,151,896 | -145,348,653 |
| 2001 | 0 | 25,763,218 | -10,973,809 | -16,352,090 | 8.8887 | 5,378,281 | -20,384,937 | -165,733,590 |
| 2002 | 0 | 27,241,801 | -12,512,869 | -18,645,447 | 8.8887 | 6,132,578 | -21,109,223 | -186,842,813 |
| 2003 | 40,910,299 | 40,560,882 | -14,106,614 | -21,020,288 | 8.8887 | 47,823,973 | 7,263,091 | -179,579,722 |
| 2004 | 44,128,205 | 55,804,924 | -13,558,251 | -20,203,172 | 8.8887 | 50,773,126 | -5,031,798 | -184,611,520 |
| 2005 | 80,784,677 | 75,490,143 | -13,938,151 | -20,769,262 | 8.8887 | 87,615,788 | 12,125,645 | -172,485,875 |
| 2006 | 110,268,590 | 101,556,257 | -13,022,666 | -19,405,096 | 8.8887 | 116,651,020 | 15,094,763 | -157,391,112 |
| 2007 | 141,464,198 | 141,464,198 | -11,883,013 | -17,706,897 | 8.8887 | 147,288,082 | 5,823,884 | -151,567,228 |

**The amount indicated for June 30, 2007 assumes the actual employer contribution for the year is equal to the contribution requirement under the Board's current funding policy.*

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT VI

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

*After Service Retirement
and Pre-retirement:*

1983 Group Annuity Mortality Table, with ages set back one year.

After Disability Retirement

1983 Group Annuity Mortality Table, with ages set back one year.

Termination Rates before Retirement:

| Age | Rate (%) | | | | | | | |
|-----|-----------|--------|------------|--------|----------------------|--------|--------------------|--------|
| | Mortality | | Disability | | Ordinary Withdrawal* | | Vested Withdrawal* | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 25 | 0.044 | 0.024 | 0.006 | 0.000 | 5.728 | 6.689 | 0.888 | 1.035 |
| 30 | 0.057 | 0.032 | 0.012 | 0.016 | 4.296 | 6.211 | 0.700 | 1.011 |
| 35 | 0.079 | 0.044 | 0.012 | 0.036 | 2.920 | 5.260 | 0.563 | 1.017 |
| 40 | 0.113 | 0.062 | 0.018 | 0.072 | 2.000 | 4.182 | 0.463 | 0.968 |
| 45 | 0.193 | 0.092 | 0.030 | 0.102 | 1.144 | 3.097 | 0.325 | 0.878 |
| 50 | 0.351 | 0.151 | 0.054 | 0.138 | 0.639 | 1.981 | 0.188 | 0.582 |
| 55 | 0.566 | 0.232 | 0.126 | 0.168 | 0.360 | 0.755 | 0.088 | 0.184 |
| 60 | 0.838 | 0.382 | 0.240 | 0.000 | 0.070 | 0.052 | 0.050 | 0.038 |
| 65 | 1.387 | 0.639 | 0.000 | 0.000 | 0.070 | 0.000 | 0.000 | 0.000 |

**Withdrawal rates are zero for members expected to retire. Ordinary withdrawal members are assumed to receive their account balance at termination. Vested withdrawal members are assumed to receive a deferred benefit from the plan.*

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

| Retirement Rates: | Age | Under 30 Years of Service | Over 30 Years of Service |
|--------------------------|------------|----------------------------------|---------------------------------|
| | 50 | 0.00% | 60.00% |
| | 51 | 0.00 | 15.00 |
| | 52 | 0.00 | 20.00 |
| | 53 | 0.00 | 5.00 |
| | 54 | 0.00 | 5.00 |
| | 55 | 5.00 | 25.00 |
| | 56 | 4.00 | 10.00 |
| | 57 | 1.00 | 10.00 |
| | 58 | 1.00 | 10.00 |
| | 59 | 2.00 | 10.00 |
| | 60 | 2.00 | 10.00 |
| | 61 | 3.00 | 5.00 |
| | 62 | 3.00 | 5.00 |
| | 63 | 3.00 | 20.00 |
| | 64 | 3.00 | 10.00 |
| | 65 | 100.00 | 100.00 |

Retirement Age and Benefit for Inactive

Vested Participants: Assume an immediate refund of employee normal contribution account plus department matching contribution account.

Definition of Active Members: First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.

Unknown Data for Members: Same as those exhibited by Members with similar known characteristics. If not specified, Members are assumed to be male.

Percent Married/Domestic Partner: 85% of male participants; 60% of female participants.

Age of Spouse: Female 4 years younger than their spouses.

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

| | |
|---|---|
| Future Benefit Accruals: | 1.0 year of service per year. |
| Other Government Service: | (a) 30% of the employees with less than 10 years of service will purchase an average of four years of service. (b) 41.25% of the employees with 10 years of service or more will purchase an average of four years of service. |
| Consumer Price Index: | Increase of 4.0% per year; benefit increases due to CPI subject to 3.0% maximum. |
| Employee Contribution and Matching Account Crediting Rate: | 8.00% |
| Net Investment Return: | 8.00% |
| Salary Increases: | 5.50% |
| Actuarial Value of Assets: | The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five year period. As directed by the Retirement Office, the actuarial value of assets may be reduced by an amount classified as a non-valuation reserve. |
| Actuarial Cost Method: | Entry Age Normal Actuarial Cost Method. Entry Age equals attained age less years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined as if the current benefit accrual rate had always been in effect. |

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Funding Policy:

The Department of Water and Power makes contributions equal to the Normal Cost adjusted by an amount to amortize any Surplus or Unfunded Actuarial Accrued Liability. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Entry Age Normal Cost method. The June 30, 2004 Unfunded Actuarial Liability is amortized over the fifteen year period commencing July 1, 2004. Any subsequent change in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen year periods. All amortization amounts are determined in equal dollar amounts over the amortization period. The Board may, by resolution, adopt a separate period of not more than thirty years to amortize the change in Surplus or Unfunded Actuarial Accrued Liability resulting from an unusual event, plan amendment or change in assumptions or methods. Finally, the Department of Water and Power contribution is not less than the matching contribution of 110% of member contributions.

Changes in Assumptions:

There have been no changes in actuarial assumptions since the last valuation.

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

EXHIBIT VII

Summary of Plan Provisions

This exhibit summarizes the major provisions of the LADWP included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Plan Year: July 1 through June 30

Census Date: March 31

Formula Retirement Benefit:

Age & Service Requirement

Age 60 with 5 years of service

Age 55 with 10 years of service in the last 12 years

Any age with 30 year of service; or

Receiving permanent total disability benefits from the Plan.

Note: To be eligible, the employee must have worked or been paid disability four of the last five years immediately preceding eligibility to retire, or while eligible to retire.

Amount

The greater of 2.1% of the Monthly Salary Base or \$9.50 per year of service. For those age 55 or older with 30 or more years of service the factor is 2.3% of the Monthly Salary Base.

Monthly Salary Base

Equivalent of monthly average salary of highest continuous 26 biweekly payroll periods (one year).

Cost of Living benefit

Based on changes to Los Angeles area consumer price index to a maximum of 3% per year.

Death After Retirement:

50% of retiree's unmodified allowance continued to eligible spouse or domestic partner (reduced if difference in ages is greater than five years).

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Minimum Benefit: If the money purchase annuity amount exceeds the monthly amount of the formula retirement benefit and the retiree meets the eligibility requirements for the formula retirement benefit, the amount of the money purchase annuity is paid and the cost-of-living and death after retirement continuance features of the formula retirement benefit are also paid.

Sample Early Retirement

Reduction Factors: The early retirement factor is determined by the attained age on the effective date of retirement. Every three months of attained age will affect the factor

| Attained Age at Actual Retirement | Exact Age | +3 Months | +6 Months | +9 Months |
|--|------------------|------------------|------------------|------------------|
| 48 | .7150 | .7225 | .7300 | .7375 |
| 49 | .7450 | .7525 | .7600 | .7675 |
| 50 | .7750 | .7825 | .7900 | .7975 |
| 51 | .8050 | .8125 | .8200 | .8275 |
| 52 | .8350 | .8425 | .8500 | .8575 |
| 53 | .8650 | .8725 | .8800 | .8875 |
| 54 | .8950 | .9025 | .9100 | .9175 |
| 55 | .9250 | .92875 | .9325 | .93625 |
| 56 | .9400 | .94375 | .9475 | .95125 |
| 57 | .9550 | .95875 | .9625 | .96625 |
| 58 | .9700 | .97375 | .9775 | .98125 |
| 59 | .9850 | .98875 | .9925 | .99625 |
| 60 & Over | 1.0000 | | | |

The factor is 1.0000 for those retiring at age 55 or later with at least 30 years of service.

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Member Normal Contributions:

If an employee became a plan member after June 1, 1984, the member normal contribution rate is 6% of pay.

If an employee became a plan member before June 1, 1984 or transferred from CERS with an entry age contribution rate, sample rates by entry age are as follows:

| <u>Entry Age</u> | <u>Rate</u> |
|------------------|-------------|
| 20 | 2.601% |
| 25 | 3.102% |
| 30 | 3.611% |
| 35 | 4.161% |
| 40 | 4.742% |
| 45 | 5.381% |
| 50 | 6.042% |
| 55 | 6.762% |
| 59 | 7.332% |

Department Current Service Contributions:

The Department of Water and Power makes actuarially based contributions that are a minimum of 110% of employee contributions.

Disability:

Disability benefits are paid from the Disability Fund. However, if a member is receiving permanent and total disability benefits, the member may elect to retire. Other than a nominal amount, no service credit during disability is earned for the 2.1% formula; however, credit is earned during disability toward the \$9.50 minimum formula.

SECTION 4: Reporting Information for The Water and Power Employees' Retirement Plan of the City of Los Angeles

Deferred Withdrawal Retirement Benefit (Vested):

| | |
|--------------------------------------|---|
| <i>Age & Service Requirement</i> | Age 60 with one-year contributing membership; or Age 55 with 10-years of contributing membership in the 12 years prior to separation from service. |
| <i>Amount</i> | Value of employee normal contribution account plus Department matching contribution (called current service contribution) account at retirement date |

Death Before Retirement:

Refund of employee contributions with interest. On the death of a member who is eligible for service retirement but who has not yet retired or who has 25 years of service, the member's spouse may elect a monthly allowance payable during the spouse's lifetime in lieu of return of the member's total accumulated contributions. The monthly allowance payable to the surviving spouse is the amount the spouse would have received had the member retired on the day before the member's death and elected a full joint and survivor allowance.

Withdrawal of Contributions Benefit (Ordinary Withdrawal):

Refund of employee contributions with interest.

Money Purchase Annuity:

A monthly lifetime benefit equal in value to the employee normal contribution account plus Department matching contribution (current service contribution) account at retirement date.

Changes in Plan Provisions: There have been no changes in the plan since the last valuation.

201139v1/04175.003