
New York City Police Pension Fund

Subchapter 2



Comprehensive Annual Financial Report
A PENSION TRUST FUND OF THE CITY OF NEW YORK

Fiscal Year Ended
June 30, 1996
New York, New York

**New York City Police Pension Fund
Subchapter Two
A Pension Trust Fund of The City of New York**



**Comprehensive Annual Financial Report
Component Unit
of
The City of New York**

**Fiscal Year Ended
June 30, 1996
New York, New York**

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK
FOR THE
FISCAL YEAR ENDED JUNE 30, 1996

Prepared By: Accounting Unit under the direction of:
Inspector Joseph F. Maccone - Commanding Officer
New York City Police Pension Fund - Subchapter 2

Actuary

ROBERT C. NORTH JR. - Chief Actuary

Custodian of the funds

ALAN HEVESI - Comptroller of the City of New York

Headquarters Address

One Police Plaza, New York, New York 10038

Board of Trustees

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Hon. HOWARD SAFIR, Police Commissioner, Chairman
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**NEW YORK CITY POLICE PENSION FUND - SUBCHAPTER TWO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 A PENSION TRUST FUND OF THE CITY OF NEW YORK
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**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**INTRODUCTORY SECTION
PART 1**

FISCAL YEAR ENDED JUNE 30, 1996

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York City Police
Pension Fund,
Subchapter 2

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

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.



Arthur R. Lynch
President

Jeffrey L. Essell
Executive Director



POLICE DEPARTMENT
POLICE PENSION FUND, ARTICLE II
1 POLICE PLAZA, ROOM 1010
NEW YORK, N.Y. 10038-1497

November 26, 1996

To the Members of the Board of Trustees, Police Pension Fund Subchapter 2.

The Comprehensive Annual Financial Report, Police Pension Funds, Subchapter 2 (the Plan) a Pension Trust Fund of the City of New York for the fiscal year ended June 30, 1996, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the fund. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operation of the Retirement System. All disclosures necessary to enable the reader to gain an understanding of the Pension System's Financial Activities have been included.

Our independent auditors, KPMG Peat Marwick LLP-Watson, Rice & Co., have audited our financial statements, and have submitted an independent auditor report which is included in this book. The audit was conducted in accordance with generally accepted auditing standards.

The report has been prepared in accordance with the principles of Governmental Accounting and Reporting promulgated by the Governmental Accounting Standards Board. The Pension Plan has implemented Government Accounting Standards Board (GASB) Statements No.25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for defined contributions plans and Statement No.27, "Accounting for Pensions by state and local employers".

It is our objective to present fairly the financial statements, supporting schedules and statistical tables.

This report will be forwarded to the Government Finance Officers Association for the certificate of Achievement for Excellence in Financial Reporting. This report consists of four sections:

An Introductory Section, which contains the Commanding Officer's Letter of Transmittal and the identification of the Administrative Organization and consulting services utilized by the system; a Financial Section, which contains the opinion of the Independent Certified Public Accountants as well as the Financial Statements of the fund; an Actuarial Section which contains the systems Actuarial Data and the systems Actuarial Certification Letter; and the last section contains statistical tables of significant data pertaining to the New York City Police Pension Fund Subchapter 2.

The New York City Police Pension Fund Subchapter 2 represents the Finest Police Officers in the world. During 1975 The City of New York experienced a fiscal crisis. The Police Pension Fund Subchapter 2 as well as the four other actuarial city employee pension funds, New York City Employees' Retirement System, Teachers' Retirement System, Fire Pension Fund Subchapter 2 and Board of Education Retirement System, purchased millions of dollars of bonds from The City, which helped The City avoid bankruptcy.

Economic Condition and Outlook

Consumer spending increased significantly after the Thanksgiving Holiday. The increased volume of sales looks very good towards having a positive impact on the economy, however certain other factors have to be taken into consideration. The Gross Domestic Product (GDP) is about 2.5 percent and it is expected to remain the same in the remainder of the year. Inflation remains a reality. The Consumer Price Index (CPI) has risen to almost 3 percent in 1996, average hourly earnings have risen conservatively, the Federal Reserve Bank has continued to keep a lid on interest rates. Government spending also declined. The city economy improved but at a slow pace. Inflation remains under control in the city. The inflation rate in New York was below that of the nation. Downsizing government has also played a major impact on the economy, however jobs in the private sector have increased. New York City trails the nation in job growth.

Major Initiatives for the Year

Under the leadership of Mayor Giuliani the maintenance of Public Safety is a primary goal of the government of the City of New York. As a result of this policy the New York City Transit and Housing Authority Police Departments were merged with the New York City Police Department. Traffic Enforcement agents of the Transportation Department were also merged with us. We are now one police department (The "NYPD") under the unified direction of the Police Commissioner of the City of New York. The merger will put more cops on the street in order to reduce crime and improve the quality of life for everyone in this city, also this merger will increase operating efficiency and reduce costs substantially.

Financial and Budgetary Controls - The management of the plan is responsible for establishing and maintaining an internal control structure designed to ensure that the funds assets are protected from loss, theft, or misuse and that preparation of financial statements are done in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable but not absolute, assurance that these objectives are met. The plan also maintains budgetary controls. An annual examination of existing Internal Controls is performed in compliance with Directive #1 City Manager Financial Integrity Directive which is administered by the City Comptroller who is also the Treasurer of the Pension Funds. This study and evaluation disclosed no condition that is a material weakness. As a further quality control, the Audit Committee for the City of New York, which includes experts in Accounting and Municipal Finance from the private sector, oversees the independent audit process. This process includes the independent auditors' reports and the Auditors' Management Letter, as well as the Retirements' System response. The committee operates independently and issues its own annual report.

Investment Policy - The investment policies are adopted by the Board of Trustees. Investments are made in a variety range of securities including Domestic and International Stocks and Bonds as well as Short-Term Investments as to minimize risks and maintain a high competitive return. Fiscal 1996 was a good year for domestic equity markets. Foreign markets performed well. The pension Fund continued to diversify assets throughout various types of financial instruments. We also gave emerging markets of smaller developing countries consideration towards purchasing equity in their respective countries. The economies of these countries are expected to grow significantly in the near future.

The Pension Plan's securities landing program was increased to all assets. Securities on loan are fully collateralized with cash or treasury instruments. By increasing the funds return, the city contributions to the plan may be reduced, thereby saving the City of New York millions of dollars. Programs were also developed that will not only provide better than market returns but also provide economic growth in this city. Programs were also developed to improve the quality of life in New York City as well as the economy of our city.

Total fund performance was well above the assumed actuarial return and well ahead of the median public funds in this country. The Fund was also successful to achieve reduction of Investment Manager fees, thus keeping more investment income in the Plan.

The following table reflects increases and decreases in revenues and expenses for fiscal years 1996 and 1995 respectively. Amounts are in thousands.

<u>Description</u>	<u>Amount 1996</u>	<u>Amount 1995</u>	<u>Net Increase / (Decrease)</u>
Member Contributions	\$ 43,791	\$ 57,697	(24.10%)
Employer Contribution	554,961	414,928	33.75%
Total Contribution	598,752	472,625	26.69%
Interest Income	334,648	301,036	11.17%
Dividend Income	123,302	110,214	11.88%
Net Appreciation (Depreciation) in Fair Value of Investments	999,953	1,075,604	(7.03%)
Investment Expenses	63,813	46,414	37.49%
Net Investment Income	1,457,903	1,486,854	(1.95%)
Benefit Payments and Withdrawals	743,446	688,544	7.97%
Payments to Other Funds-Net	813	4,022	(79.79%)
Excess earnings to New York Police Department			
Variable Supplements Funds	400,000	290,000	37.93%
Total Deductions	1,144,259	982,566	16.46%

As a result net assets available for Pension Benefits increased from \$10,098,450,000 in fiscal year 1995 to \$10,980,324,000 in fiscal year 1996, reflecting a 8.7% increase.

The following are consultants for the various types of investments:

Fixed Income Advisors

Government

BZW Barclays
Fischer, Francis
Putman Companies

Mortgage

Bear Sterns
Miller Anderson
Pimco

Corporate

BEA
T. Rowe Price
Alliance Capital

Foreign

Solomon Brother
Bank of Ireland
Yankee
Capital Guardian
G.E. Investment
Scudder
BEA

Equity Advisors

Loomis Sayles
Schroder Wertheim
W.R. Huff
Bankers Trust - Index
Equity Liquity
Selligman
IDS Advisory Group
Fidelity Management
Equinox Capital.
Smith Barney

The comptroller of the City of New York is the custodian of the pension fund assets and provides investment services through independent advisors. Actuarial services are provided to the system by the City's Chief Actuary employed by the Board of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the fund. All financial information is discussed in the financial section.

For the Future

It is the aim of our investment advisors to provide safe and high rates of return for all our investments. Trustees review the performance of the investment advisors periodically in order that maximum returns can be realized. As Custodian and Investment Manager of The Police Pension Fund, the Comptroller is responsible for the pension fund assets which are in excess of 13.5 billion dollars. The investment policy is to minimize credit and market risks while maintaining a competitive yield on the portfolio. The Comptroller continues to work with the Police Pension Fund to develop an innovative targeted investment program.

Financial Overview and Fund Structure

This report includes all funds of the Police Pension Fund Subchapter 2 which are as follows:

1. The Annuity Saving fund is composed of contributions received from active members usually through payroll deductions.
2. The Contingent Reserve Fund is employer contributions.
3. The Annuity Reserve Fund is member contributions transferred at retirement to provide the annuity portion retirement allowance.
4. The Pension Reserve Fund is employer contributions transferred at retirement to provide the pension portion at retirement.
5. The Group Life Insurance Fund is employer contributions used to provide death benefits. They are payable to the beneficiary or estate of a member. The part of the benefits derived from City contributions (not exceeding \$50,000) shall be paid as insurance from The Group Life Insurance Fund.

Other Information

The Government Finance Officers Association of the United States and Canada (GFOA) awarded Certificates of achievement for Excellence in Financial Reporting to the New York City Police Pension Fund Subchapter 2 for its Component Unit Financial Report for the fiscal years ended June 30, 1987 through June 30, 1995. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The compilation of this report reflects the combined effort of the staff of the Pension Section, the Chief Actuary of the City of New York and the Comptroller's office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of indicating stewardship of the assets contributed by the members of the system. I would like to take this opportunity to thank the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Fund. I also want to express my appreciation to the Pension Section's Accounting Unit, especially to our Chief Accountant Abraham Papilsky and Deputy Chief Accountant Louis Dory. I appreciate their efforts, which have continued to be of primary importance in preparation of all accounting and statistical data for this report.

In closing, without the leadership and support of the Board of Trustees, preparation of this report would not have been possible.

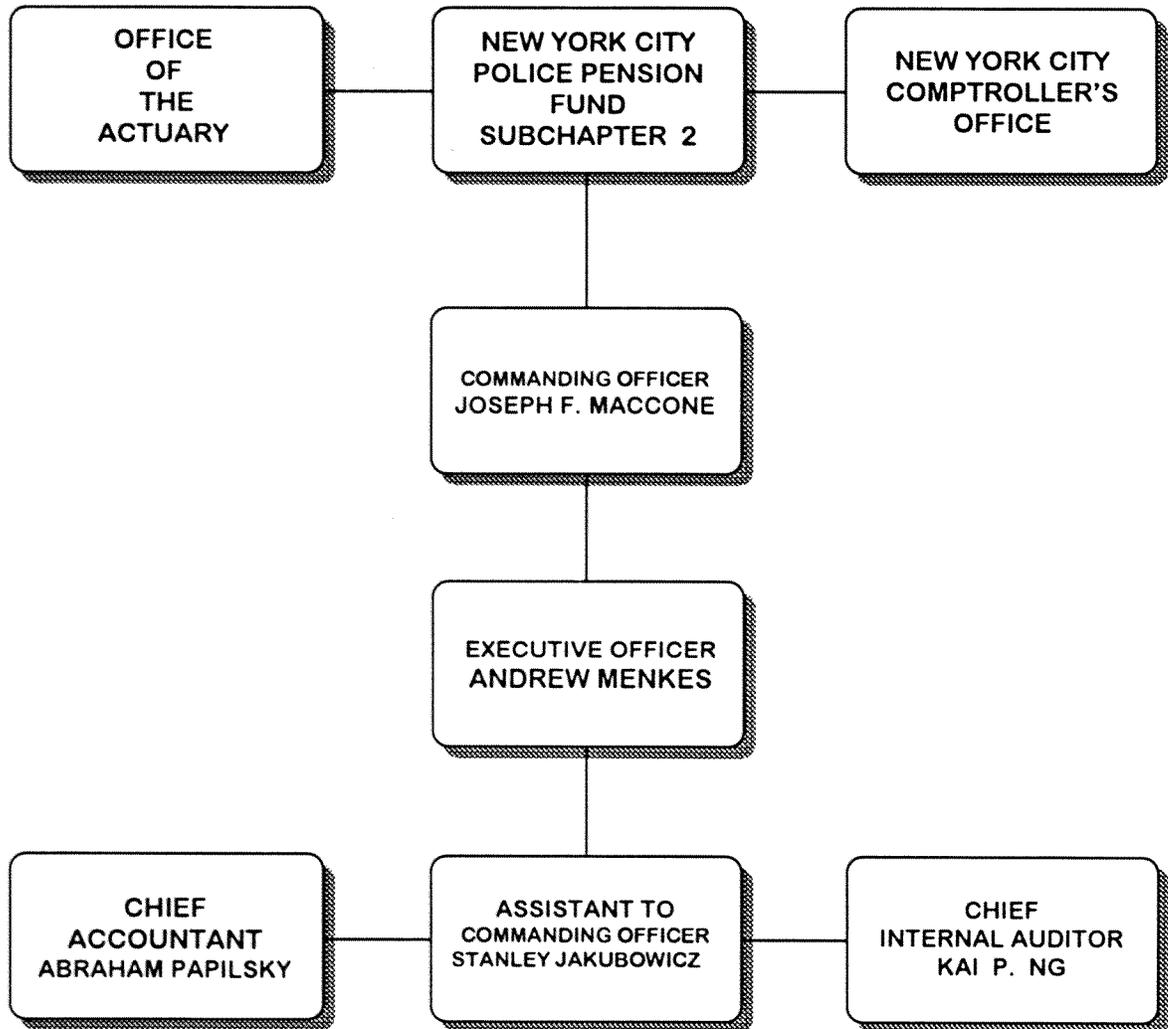
Respectfully submitted,



Joseph F. Maccone
Inspector,
Commanding Officer,
Pension Section

JFM/lc

NEW YORK CITY POLICE PENSION FUND - SUBCHAPTER TWO
ADMINISTRATIVE ORGANIZATION



**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**FINANCIAL SECTION
PART II**

FISCAL YEAR ENDED JUNE 30, 1996

Independent Auditors' Report

The Board of Trustees
New York Police Department
Pension Fund - Subchapter 2:

We have audited the accompanying statements of plan net assets of the New York Police Department Pension Fund - Subchapter 2 (the "Plan") as of June 30, 1996 and 1995, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 1996 and 1995, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

As described in note 2(e), the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions."

The information on Schedules 1 through 3 is not a required part of the financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG Peat Marwick LLP

October 25, 1996

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Statements of Plan Net Assets

June 30, 1996 and 1995

(in thousands)

	<u>1996</u>	<u>1995</u> (Restated)
Assets:		
Receivables:		
Receivables for investment securities sold	\$ 101,279	186,667
Accrued interest and dividends receivable	56,165	52,845
Employer contribution receivable - long term (note 6)	491,912	500,177
Employer contribution receivable - short term	13,912	-
Due from New York City Employees' Retirement System (note 1)	<u>594</u>	<u>586,108</u>
Total receivables	663,862	1,325,797
Investments, at fair value (notes 2 and 3):		
Securities purchased under agreements to resell	7,825	129,750
U.S. Government Agency	26,200	-
Other short-term investments:		
Commercial paper	26,286	49,979
Short-term investment fund	795,563	555,956
Debt securities:		
U.S. Government	1,952,187	1,995,765
Corporate	1,203,821	1,211,980
International investment fund - fixed income	118,944	127,827
Foreign	124,205	106,021
Equity securities	6,364,502	4,764,819
International investment fund - equities	987,397	846,026
Collateral from securities lending transactions	<u>1,235,203</u>	<u>996,355</u>
Total investments	12,842,133	10,784,478
Other assets	<u>2,791</u>	<u>1,766</u>
Total assets	<u>13,508,786</u>	<u>12,112,041</u>
Liabilities:		
Accounts payable (note 2)	354,924	21,521
Payables for investment securities purchased	521,173	666,846
Accrued benefits payable	17,162	15,493
Deferred employer contribution	-	23,376
Due to variable supplements funds (note 4)	400,000	290,000
Securities lending transactions	<u>1,235,203</u>	<u>996,355</u>
Total liabilities	2,528,462	2,013,591
Contingent liabilities (note 9)	<u> </u>	<u> </u>
Plan net assets held in trust for pension benefits (A schedule of funding progress for the Plan is presented on Schedule 1)	\$ <u>10,980,324</u>	<u>10,098,450</u>

See accompanying notes to financial statements.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Statements of Changes in Plan Net Assets

Years ended June 30, 1996 and 1995

(in thousands)

	<u>1996</u>	<u>1995</u> (Restated)
Additions:		
Contributions (notes 5 and 6):		
Member contributions (net of loans to members - note 5)	\$ 43,791	57,697
Employer contributions	<u>554,961</u>	<u>414,928</u>
Total contributions	<u>598,752</u>	<u>472,625</u>
Investment income:		
Interest income	334,648	301,036
Dividend income	123,302	110,214
Net appreciation in fair value of investments	<u>999,953</u>	<u>1,075,604</u>
Total investment income	1,457,903	1,486,854
Less investment expenses	<u>63,813</u>	<u>46,414</u>
Net investment income	<u>1,394,090</u>	<u>1,440,440</u>
Adjustment for prior year transfer to variable supplements funds (note 1)	18,207	-
Transfer from New York City Employees' Retirement System (note 1)	<u>15,084</u>	<u>622,000</u>
Total additions	<u>2,026,133</u>	<u>2,535,065</u>
Deductions:		
Benefits payments and withdrawals (note 1)	743,446	688,544
Payments to other funds, net (note 1)	813	4,022
Excess earnings to New York Police Department Variable Supplements Funds (note 4)	<u>400,000</u>	<u>290,000</u>
Total deductions	<u>1,144,259</u>	<u>982,566</u>
Net increase	881,874	1,552,499
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>10,098,450</u>	<u>8,545,951</u>
End of year	\$ <u>10,980,324</u>	<u>10,098,450</u>

See accompanying notes to financial statements.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

June 30, 1996 and 1995

(1) Plan Description

The City of New York (the "City") maintains a number of pension systems providing benefits for employees and employees of its various agencies (as defined within plan documents). The City's main pension systems are the New York Police Department Pension Fund - Subchapter 2 (the "Plan"), the New York City Employees' Retirement System ("NYCERS"), the New York City Teachers' Retirement System, the New York City Board of Education Retirement System and the New York Fire Department Subchapter Two Pension Fund. Each pension system is a separate Public Employee Retirement System ("PERS") with a separate oversight body and is financially independent of the others.

The Plan is a single-employer PERS. The Plan provides pension benefits for full-time uniformed employees of the Police Department. All full-time uniformed employees of the New York City Police Department are required to become members of the Plan upon employment.

The Plan functions in accordance with existing State statutes and City laws. It combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employer and the members. Employer contributions and investment income provide all benefits not provided by member contributions.

In June 1991, the Governmental Accounting Standards Board (the "GASB") issued Statement No. 14, "The Financial Reporting Entity." The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Plan considered whether its officials appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens on, the Plan. The Plan also considered whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the Plan.

The Plan is included in the City's Comprehensive Annual Financial Report ("CAFR") as a pension trust fund.

At June 30, 1996 and 1995, the dates of the Plan's most recent actuarial valuations, the Plan's membership consisted of:

	<u>1996</u>	<u>1995</u>
	(A)	(A)
Retirees and beneficiaries receiving benefits	31,455	30,974
Terminated vested members not yet receiving benefits	10	4
Active members	<u>36,204</u>	<u>31,059</u>
Total	<u>67,669</u>	<u>62,037</u>

(A) These figures exclude 3,830 Police, Subchapter One participants as of June 30, 1995 and 4,316 participants as of June 30, 1994.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(1), Continued

These figures also exclude retirees and beneficiaries no longer receiving benefits who have not yet been cancelled from the retirement registers, and includes only current active members receiving salary as of each June 30.

As of April 2, 1995, members of the Housing Police and, as of April 30, 1995, members of the Transit Police were transferred from NYCERS to the New York Police Department Pension Fund - Subchapter 2. The total assets to be transferred was approximately \$622 million of which \$36 million was transferred as of June 30, 1995. As of June 30, 1996, all but approximately \$594 thousand had been transferred.

The Plan provides three main types of retirement benefits: service retirements, ordinary disability retirements (non job-related disabilities) and accident disability retirements (job-related disabilities).

- A service retirement benefit provides an allowance of one-half of "final salary" (as defined within plan documents) after 20 years or 25 years of service (as elected), with additional benefits equal to a specified percentage per year of service (currently approximately 1.67%) of "average salary" (as defined within plan documents) times number of years in excess of the 20-year or 25-year minimum. These additional benefits are increased, where applicable, by an annuity attributable to member contributions with respect to service over the 20-year or 25-year minimum and by any benefits attributable to the employer's contributions with respect to such service under the Increased-Take-Home-Pay ("ITHP") program.
- An ordinary disability retirement benefit generally provides a pension equal to 1/40 of final salary times the number of years of service but not less than one-half of final salary if ten or more years of service were completed or one-third of final salary if less than ten years of service were completed.
- An accident disability retirement benefit provides a pension of three-fourths of final salary plus an increment as described above under service retirement for years of service in excess of the 20-year or 25-year minimum plus an annuity based on the member's contributions with accumulated interest and the amount accumulated under the ITHP program.

Annuities attributable to member contributions are reduced on an actuarial basis for any loans with unpaid balances outstanding at the date of retirement.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(1), Continued

Subject to certain conditions, the Plan also provides that members become fully vested as to benefits upon the completion of 15 years of service. In addition, the Plan includes provisions for death benefits.

Finally, certain service retirees also receive supplemental benefits under the New York Police Department Variable Supplements Funds, which are not included in these financial statements.

The New York State Constitution provides that the pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, amendments were made to the State Retirement and Social Security Law to modify certain benefits for employees joining the Plan on or after the effective date of such amendments. These amendments, which affect employees who joined the Plan after July 1, 1973, established certain benefit limitations relating to eligibility for retirement, the salary base for benefits and maximum benefits.

(2) Summary of Significant Accounting Policies and Plan Asset Matters

(a) *Basis of Accounting*

The Plan is accounted for on the accrual basis where the measurement focus is on the flow of economic resources. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Contributions from members are recorded when the employer makes payroll deductions from plan members. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) *Method Used to Value Investments*

Investments are valued at fair value. Traded securities are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold.

Purchases and sales of securities are reflected on the trade date.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on the accrual basis.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(2), Continued

No investment in any one organization represents 5% or more of the net assets held in trust for pension benefits.

(c) *Income Taxes*

Income retained by the Plan is not subject to Federal income tax.

(d) *Other*

Accounts payable represents, principally, amounts due to banks for benefit payments made on or before June 30, 1996 and 1995; transfers to the appropriate bank accounts were made after those dates.

(e) *Restatement*

In May 1995, the GASB issued Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The Statement requires that securities loaned as assets and related liabilities be reported in the statements of plan net assets. Cash received as collateral on securities lending transactions and investments made with that cash will be reported as assets. Securities received as collateral should also be reported as assets if the government entity has the ability to pledge or sell them without a borrower default. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 1995. The GASB encouraged early application of this Statement, which the Plan has elected to do. Accordingly, for the year ended June 30, 1996, the Plan recorded the investments purchased with the cash collateral as collateral from securities lending transactions with a corresponding liability as securities lending transactions. The June 30, 1995 financial statements have been restated to reflect the adoption of GASB 28.

State statutes and board of trustees policies permit the Plan to lend its securities (the underlying securities) to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Plan's custodian lends the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities and international equities and bonds held in collective investments funds. In return, it receives collateral in the form of cash, treasury and agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year end, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers equal or exceed the amounts the borrowers owe the Plan.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(2), Continued

The contracts with the plan custodian require borrowers to indemnify the Plan if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand within a period specified in each agreement by either the Plan or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. The underlying securities (fixed income) have an average maturity of ten years.

As of June 30, 1996, the underlying securities loaned out for the Plan amounted to approximately \$1,235.2 million. The collateral was approximately \$1,235.2 million.

As of June 30, 1995, the underlying securities loaned out for the Plan amounted to approximately \$996.4 million. The collateral was approximately \$1,027.8 million.

(3) Deposits and Investments

The Administrative Code of The City of New York authorizes the investment of plan assets (other than equities) subject to the terms, conditions, limitations and restrictions imposed by law for investment by savings banks.

The criteria for the Plan investments are as follows:

- (a) Fixed income investments may be made only in U.S. Government securities, securities of Government agencies backed by the U.S. Government, securities of companies rated BBB or better by both Standard & Poor's Corporation and Moody's Investors Service and any bond on the Legal Investments for New York Savings Banks list published annually by the New York State Banking Department.
- (b) Equity investments may be made only in those stocks that meet the qualifications of the State Retirement and Social Security Law.
- (c) Short-term investments may be made in the following instruments:
 - (i) U.S. Government securities or Government agencies' securities fully guaranteed by the U.S. Government.
 - (ii) Commercial paper rated A1 or P1 by Standard & Poor's Corporation or Moody's Investors Service, respectively.
 - (iii) Repurchase agreements collateralized in a range of 100% to 103% of matured value purchased through the primary dealers of U.S. Government securities.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

(3), Continued

- (d) Investments in banker's acceptances and certificates of deposit may be made with any of the ten largest banks with either the highest or next to the highest rating categories of the leading independent bank rating firms.
- (e) Investments up to 7.5% of total pension fund assets may be made in instruments not specifically covered by the State Retirement and Social Security Law.

Cash deposits are insured by the Federal Deposit Insurance Corporation for up to \$100,000 per plan member and are, therefore, fully insured.

Investments of the Plan are categorized by level of custodial credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the entity's name.

Investments owned by the Plan at June 30, 1996 and 1995 are summarized as follows:

	<u>1996</u>	<u>1995</u> (Restated)
	(in thousands)	
Categorized (A):		
Repurchase agreements	\$ 7,825	129,750
Commercial paper	26,286	49,979
U.S. Government securities	1,952,187	1,995,765
U.S. Government Agency	26,200	-
Corporate bonds	1,203,821	1,211,980
Equity securities	6,364,502	4,764,819
Foreign debt securities	<u>124,205</u>	<u>106,021</u>
Subtotal	<u>9,705,026</u>	<u>8,258,314</u>
Noncategorized (B):		
Short-term investment fund	795,563	555,956
International investment fund - fixed income	118,944	127,827
International investment fund - equities	987,397	846,026
Assets under securities lending transactions	<u>1,235,203</u>	<u>996,355</u>
Subtotal	<u>3,137,107</u>	<u>2,526,164</u>
Total	\$ <u>12,842,133</u>	<u>10,784,478</u>

- (A) All categorized investments are Category 1 risk.
- (B) These securities are not categorized because they are not evidenced by securities that exist in physical or book-entry form.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(4) Due to Variable Supplements Funds ("VSFs")

The Administrative Code of The City of New York provides that the Plan pay to the Police Officers' Variable Supplements Fund ("POVSF") and the Police Superior Officers' Variable Supplements Fund ("PSOVSF") amounts equal to certain excess earnings on equity investments of the Plan. Such transfers from the Plan to the POVSF and PSOVSF are limited to the unfunded accumulated benefit obligation ("ABO") of these VSFs. The excess earnings are defined as the amount by which earnings on equity investments of the Plan exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies of prior years' excess earnings that fell below the yield of fixed income investments.

Chapter 247 of the Laws of 1988 modified the method for determining the amount of any deficit for the POVSF. It also provided that interest will accrue on the cumulative deficit attributable to the POVSF until subsequent favorable returns on stocks eliminate any cumulative deficit. These changes serve to reduce and delay the amount of excess earnings payable from the Plan to the POVSF.

Chapter 479 of the Laws of 1993 modified the method for determining the amount of any deficit for the PSOVSF. It also provided that interest will accrue on the cumulative deficit attributable to the PSOVSF until subsequent favorable returns on stocks eliminate any cumulative deficit. These changes serve to reduce and delay the amount of the excess earnings payable from the Plan to the PSOVSF.

For fiscal year 1995, \$290 million in excess earnings on equity investments of the Plan was estimated to be transferable to the respective VSFs as of June 30, 1995. In addition, actual excess earnings on equity investments related to fiscal year 1995 were approximately \$18 million less than estimated. The actual excess earnings were transferred to the VSFs during fiscal year 1996.

For fiscal year 1996, \$400 million in excess earnings on equity investments of the Plan is estimated to be transferable to the PSOVSF. It is payable to the PSOVSF as of June 30, 1996 and is expected to be paid during fiscal year 1997.

The excess earnings on equity investments of the Plan payable to the VSF from the Plan as of June 30, 1996 and 1995 are as follows:

	<u>1996</u>	<u>1995</u>
	(in millions)	
	(A)	(A)
Police Officers	\$ -	140
Police Superior Officers	<u>400</u>	<u>150</u>
Total	\$ <u>400</u>	<u>290</u>

(A) The amount of excess earnings of the Plan transferable to the POVSF and the PSOVSF are limited to their unfunded accumulated benefit obligations.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(5) Contributions

The financial objective of the Plan is to fund members' retirement benefits during their active service and to establish contribution rates which, expressed as a percentage of active payroll, will remain approximately level from generation to generation.

Member contributions are made on the basis of a normal rate of contribution that is assigned by the Plan at the time of membership. The normal rate, which is dependent upon the member's age and plan, as well as the tables in effect at the time of membership, is determined so as to provide an annuity that will be approximately one-quarter of the service retirement. Members may voluntarily increase their rates of contribution by 50% for the purpose of purchasing an additional annuity. Members are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such member's contribution accounts. Contributions from members are recorded when the employer makes payroll deductions from Plan members.

Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding. The amount of member loans outstanding as of June 30, 1996 was approximately \$281 million and as of June 30, 1995 was approximately \$237 million.

The City is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined rates.

Chapter 633 of the Laws of 1994 amended the schedules of payments toward the unfunded actuarial accrued liability ("UAAL") and the balance sheet liability ("BSL") to provide that the UAAL and BSL as of June 30, 1993 be amortized over a period of 17 years beginning fiscal year 1994, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

The actuarial assumptions and methods utilized to determine the fiscal year 1996 employer contributions differed from that used to determine the fiscal year 1995 employer contributions. The fiscal year 1996 employer contribution increased by approximately \$29 million compared to what it would have been utilizing the former assumptions and methods. The change in fiscal year 1996 employer contributions equals the difference between the fiscal year 1996 employer contribution and the June 1995 estimates of fiscal year 1996 employer contributions. The June 1995 estimate of fiscal year 1996 employer contributions was based on the actuarial assumptions and methods in effect on June 30, 1994. It is also based on June 30, 1994 census data and covered payroll projected forward to June 30, 1995 on an estimated basis. The fiscal year 1996 employer contribution is based on the actuarial assumptions and methods in effect on June 30, 1995. It is also based on actual June 30, 1995 census data and covered payroll.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(5), Continued

The change in assumptions and methods were adopted to reflect recommendations by the Actuary, approved by the Board of Trustees, and amendment to the law as discussed in note 9. The change in actuarial asset valuation method was adopted to reflect on a more current market basis for investments held by the Plan. Employer contributions were equal to the Actuary's recommendations.

Significant actuarial assumptions used to compute contribution requirements are those used to compute the Actuarial Accrued Liability shown in the schedule of funding progress.

(6) Employer Contribution Receivable - Long Term

As a result of state legislation in 1982, the City made certain revisions, effective July 1, 1980, to the Plan. Among other provisions, the legislation changed the timing of pension contributions by the City. Prior to enactment, pension contributions were made on a statutory basis which reflected pension costs incurred two years earlier. The law provides that the accrued pension contributions receivable from the City at June 30, 1980, as adjusted, must be amortized over 40 years beginning in fiscal year 1982, with interest at 7.5% per annum (8% beginning in fiscal year 1983, 8.25% beginning in fiscal year 1989 and 8.5% beginning in fiscal year 1991). The interest is included in employer contributions each year.

Chapter 608 of the Laws of 1991 amended this payment schedule to provide that the accrued pension contributions receivable from the City at June 30, 1990 be amortized over 20 years beginning in fiscal year 1991 with interest at 8.5% per annum.

Chapter 633 of the Laws of 1994 further amended the payment schedule to provide that the accrued pension contribution receivable from the City as of June 30, 1993 be amortized over a period of 17 years beginning fiscal year 1994, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

Chapter 598 of the Laws of 1996 continues the payment schedule to provide that the accrued pension contribution receivable from the City as of June 30, 1995 be amortized over a period of 15 years beginning fiscal year 1996, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(7) Investment Advisors

The Comptroller of The City of New York (the "Comptroller") utilizes several investment advisors to manage long-term debt and equity portfolios. Advisors must obtain prior approval before each purchase or sale of a particular security. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

(8) Related Parties

Administrative and investment expenses (\$15,426,852 in fiscal year 1996 and \$11,116,611 in fiscal year 1995) except for certain investment expenses are paid by the City.

The Comptroller is custodian of plan assets. The Comptroller also provides cash receipt and cash disbursement services to the Plan. Actuarial services are provided to the Plan by the City's Office of the Actuary employed by the Boards of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the Plan. Other administrative services are also provided by the City.

(9) Contingent Liabilities and Other Matters

Contingent Liabilities

The Plan has a number of claims pending against it and has been named as defendant in a number of lawsuits. The Plan also has certain other contingent liabilities. Management of the Plan, on the advice of legal counsel, believes that such proceedings and contingencies will not have a material effect on the plan net assets or changes in plan net assets of the Plan. Under the State statutes and City laws that govern the functioning of the Plan, increases in the obligation of the Plan to members and beneficiaries ordinarily result in increases in the obligations of the City to the Plan.

Other Matters

During 1996, 1995 and 1994, certain events described herein took place which, in the opinion of plan management, could have the effect of increasing obligations of the Plan to members and beneficiaries. The effect of such events has not been fully quantified, however, it is the opinion of plan management that such developments would not have a material effect on Plan net assets or changes in Plan net assets.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

(9), Continued

(a) *New York State Legislature*

Chapter 633 of the Laws of 1994 amended the Administrative Code of The City of New York regarding the method of determining the amount of employer contributions to the New York City Retirement Systems. It provides for revised schedules of annual payments to amortize unfunded actuarial accrued liabilities ("UAAL") as of June 30, 1993 over a period of 17 years from that date. The amount of each annual UAAL payment after the first is to equal 103% of the preceding annual payment.

Chapter 119 of the Laws of 1995 amends the General Municipal Law and the Administrative Code of The City of New York and provides for supplemental retirement allowances for certain retirees of the actuarially-funded New York City Retirement Systems and Closed Pension Funds. It is effective July 1, 1997 or earlier, if the City Council so elects (which it did on October 25, 1995, providing increases effective December 1, 1996).

Chapter 503 of the Laws of 1995 amended the Administrative Code of The City of New York in relation to the transfer of assets, liabilities and administration of certain pension funds in the New York City Police Department. See note 1 for more details.

Chapter 642 of the Laws of 1995 amends the Administrative Code of The City of New York to continue for fiscal year 1996 the rates of interest used in fiscal year 1995 to credit interest on member contributions and to compute employer contributions to the New York City Retirement Systems.

Chapter 209 of the Laws of 1996 escalates the special accidental death benefit to a widow or widower or the deceased member's children under the age of 18, or a student under the age of 23, if the widow or widower of a police officer had died. This legislation provides an increase of approximately 3% effective July 1, 1996.

Chapter 598 of the Laws of 1996 amends the Administrative Code of The City of New York. It continues the current statutory interest rate for New York Police Department, Subchapter Two Pension Fund in valuing liabilities and cancels certain unfunded accrued liability payments. It makes provisions regarding the rate of regular interest used in the actuarial valuation of liabilities for the purpose of calculating contributions, the making of contributions to the Plan, the crediting of special interest and additional interest to members and the allowance of supplementary interest on the fund. It provides for:

1. An actuarial interest rate assumption of 8.50% per annum.
2. Revising the methodology used to finance benefits attributable to ITHP reserves and service credits for Military Service.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

(9), Continued

3. Including member contributions in the actuarial value of assets.
4. Reestablishing total unfunded actuarial accrued liabilities as of June 30, 1995 and consolidating most amounts as of that date.
5. Amortizing the consolidated unfunded actuarial accrued liabilities, including the balance sheet liability portion of the total sum, over a period of 15 years from June 30, 1995, where each payment after the first annual payment equals 103% of its preceding annual payment.

(b) *Federal Legislation*

In 1990, the Congress adopted the Older Workers' Benefit Protection Act of 1990 ("OWBPA"). This package of amendments to the Age Discrimination in Employment Act of 1967 ("ADEA") overturned the 1989 decision of the U.S. Supreme Court in *Public Employee Retirement System of Ohio v. Betts* and made it clear that age discrimination in employee benefits is prohibited.

Congress provided a two-year delay in the effective date of the OWBPA for state and local governments. Plus, the Equal Employment Opportunity Commission ("EEOC") and the Secretaries of Labor and Treasury were specifically directed by the new law to provide assistance to states in identifying and securing independent technical advice to assist with compliance.

Following adoption by the Boards of Trustees of the actuarial pension systems of proposed changes in benefits, the City has submitted proposed legislation to the New York State Legislature in order to implement changes in benefits that would bring the actuarial pension systems into compliance with OWBPA. This proposed legislation is awaiting consideration by the Legislature.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Schedule of Funding Progress
(In conformity with the Plan's funding method)

(Unaudited)

(in thousands)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial valuation date <u>June 30</u>	Actuarial value of <u>assets</u>	Actuarial accrued liability (AAL) frozen <u>entry age</u> (A)	Unfunded AAL (<u>UAAL</u>) (B)(2-1)	Funded <u>ratio</u> (1÷2)	Covered <u>payroll</u>	UAAL as a percentage of covered <u>payroll</u> (2-1)÷5
1995*	\$ 9,632,930**	10,955,850	1,322,920	87.9%	\$ 1,844,885	71.7%
1994	8,137,414	9,537,538	1,400,124	85.3%	1,478,485	94.7%
1993	7,658,405	8,973,327	1,314,922	85.3%	1,379,928	95.3%
1992	7,088,879	8,446,542	1,357,663	83.9%	1,332,598	101.9%
1991	6,618,932**	8,016,563	1,397,631	82.6%	1,303,589	107.2%
1990*	5,823,680	7,265,130	1,441,450	80.2%	1,241,938	116.1%
1989	5,228,098	6,998,575	1,770,477	74.7%	1,184,042	149.5%

* Revised economic and non-economic assumptions due to experience review.

** Re-established the actuarial asset value to equal market value.

- (A) To effectively assess the funding progress of the Plan, it is necessary to compare the actuarial value of assets and the actuarial accrued liabilities calculated in a manner consistent with the Plan's funding method over a period of time. The actuarial accrued liability is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future normal cost contributions.
- (B) The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets. This is the same as unfunded frozen actuarial accrued liability, which is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Schedule of Employer Contributions

(Unaudited)

(in thousands)

<u>Annual fiscal year ended June 30</u>	<u>Required contribution</u>	<u>Percentage contributed</u>
1996	\$ 554,961	100%
1995	414,928	100
1994	414,446	100
1993	448,767	100
1992	421,322	100
1991	434,877	100
1990	475,107	100

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Actuarial Methods and Assumptions

(Unaudited)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the last two actuarial valuations follows:

<u>Valuation date</u>	<u>June 30, 1995</u>	<u>June 30, 1994</u>
Actuarial cost method	Frozen entry age.	Frozen entry age.
Amortization method for: Unfunded actuarial accrued liabilities	Level percentage of payroll.	Level percentage of payroll except for UAAL established by Merger Legislation which is amortized using Level Dollars.
Remaining amortization period	15 years.	16 years for Consolidated Unfunded Accrued Liability and BSL. Ten years for additional Unfunded Accrued Liability established on account of Merger Legislation.
Actuarial asset valuation method	5-year average of market values with market value restart as of June 30, 1995.	5-year average of market values.
Actuarial assumptions: Assumed rate of return on investments	8.50% per annum.	8.50% per annum (net of transferrable earnings).
Postretirement mortality	Tables based on current experience.	Tables based on current experience.
Active service withdrawal, death, disability, service retirement	Tables based on current experience.	Tables based on current experience.
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 4.0% per year.	In general, merit and promotion increases plus assumed general wage increases of 5.5% per year.
Cost-of-living adjustments	Provided by the legislature on an ad-hoc basis.	Provided by the legislature on an ad-hoc basis.

**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**ACTUARIAL SECTION
PART III**

FISCAL YEAR ENDED JUNE 30, 1996



OFFICE OF THE ACTUARY

220 CHURCH STREET • NEW YORK, N.Y. 10013-6301
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY

December 18, 1996

Members Of The Board Of Trustees
New York City Police Department,
Subchapter Two Pension Fund
One Police Plaza
New York, NY 10038

Re: Actuarial Information For The Comprehensive Annual Financial
Report ("CAFR") For The Fiscal Year Ended June 30, 1996

Dear Members:

The financial objective of the New York City Police Department, Subchapter Two Pension Fund (the "Plan") is to fund members' retirement benefits during their active service and to establish employer normal contribution rates which, expressed as a percentage of active member annualized covered payroll, will remain approximately level over the future working lifetimes of those active members.

The City of New York contributes to the Plan on a statutory basis consistent with generally accepted actuarial principles. Actuarial valuations are performed annually as of June 30.

Actuarial Assumptions And Methods In Effect June 30, 1995

Provided in this Actuarial Section of the CAFR is a "Summary Of Actuarial Assumptions And Methods In Effect As Of June 30, 1995." These actuarial assumptions and methods were employed in the June 30, 1995 actuarial valuation that was used to determine Fiscal Year 1996 employer contributions to the Plan.

These actuarial assumptions and methods differ from those employed in the June 30, 1994 actuarial valuation that was used to determine Fiscal Year 1995 employer contributions to the Plan.

Members Of The Board Of Trustees
New York City Police Department,
Subchapter Two Pension Fund
December 18, 1996
Page 2

The revised actuarial assumptions and methods were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

Benefits And Census Data

A summary of the benefits available under the Plan is provided elsewhere in this CAFR.

Census data are submitted by the Plan's administrative staff, by the employer's payroll facilities and by the Comptroller of the City of New York, and are reviewed by the Office of the Actuary for consistency and reasonability.

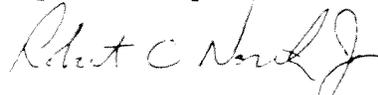
A summary of the census data as of June 30, 1995 is included in this CAFR. This census data reflects the merger of the Housing and Transit Police forces into the New York City Police Department during April 1995.

A summary of the census data used in the June 30, 1994 actuarial valuation of the Plan is available in the June 30, 1994 CAFR.

Presentation Style

The actuarial information is being presented in a manner believed to be consistent with the requirements of the Governmental Accounting Standards Board Statement No. 25 which was adopted for financial reporting purposes beginning Fiscal Year 1995.

Respectfully Submitted,



Robert C. North, Jr., F.S.A.
Chief Actuary

RCN/dp

cc: Inspector J.F. Maccone

0587L:PCB/dp

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1995*

- (1) The assumed investment return rate is 8.50% per annum.
- (2) The mortality tables for service and disability pensioners were developed from an experience study of the Plan's and the predecessor Plan's pensioners. Sample probabilities are shown in Table 1.
- (3) Active Service tables are used to predict various withdrawals from active service. Sample probabilities are shown in Table 2 for members eligible for service retirement and in Table 3 for members not eligible for service retirement.
- (4) A Salary Scale is used to estimate salaries at retirement or death. Sample percentage increases are shown in Table 4. The Salary Scale includes an assumed General Wage Increase rate of 4.0% per annum.
- (5) The valuation method assumes a closed group. Salaries of members on the valuation date are assumed to increase in accordance with the Salary Scale.
- (6) The Frozen Entry Age Actuarial Cost Method of funding is utilized by the Plan's Actuary to calculate the contributions from the employer.

Under this method, the excess of the actuarial present value of projected benefits of members as of the valuation date, over the sum of the Actuarial Value of Assets plus the Unfunded Actuarial Accrued Liability ("UAAL"), is allocated on a level basis over the future earnings of members who are on payroll as of the valuation date. Actuarial gains and losses are reflected in the employer normal contribution rate.

The UAAL was consolidated and reestablished in accordance with the Actuarial Cost Method as of June 30, 1995 as provided by Chapter 598 of the Laws of 1996 ("Chapter 598/96"), which also provided for schedules of payments toward the UAAL, including the Balance Sheet Liability ("BSL") portion of the UAAL.

* Revised actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1995*
(Continued)

The schedules of payments toward the UAAL and BSL established by Chapter 598/96 provide that the UAAL and BSL as of June 30, 1995 be amortized over a period of 15 years beginning Fiscal Year 1996, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

- (7) Beginning with the June 30, 1991 actuarial valuation (used to determine Fiscal Year 1992 employer contributions), the Actuarial Asset Valuation Method recognized expected investment returns immediately and phased in investment returns greater or less than expected returns over a period of five years. To implement this new method, a Market Value Restart was used which reset the Actuarial Asset Value to Market Value as of June 30, 1991. For the June 30, 1992 to June 30, 1994 actuarial valuations, investment returns greater or less than expected rates of return were phased in as they arose.

In conjunction with all of the other changes in actuarial assumptions and methods as of June 30, 1995, the Actuary again used a Market Value Restart and set the Actuarial Asset Value to equal Market Value as of June 30, 1995.

- (8) The actuarial assumptions and methods described herein were adopted by the Board of Trustees to be effective for Fiscal Years beginning on and after July 1, 1995 based upon recommendations made by the Actuary in a Report dated October 6, 1995. The Actuary's Report took into account a recent actuarial experience study and recommendations made by the independent actuarial auditor, William M. Mercer, Inc. in a report entitled Report On The Experience Study Of The New York City Retirement Systems For The Four Years Ended June 30, 1993 dated December 29, 1994.
- (9) Distinct male and female probabilities for mortality are used effective June 30, 1995.

* Revised actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1995*
(Continued)

- (10) A dual overtime assumption (i.e., a baseline overtime assumption for most years and a separate overtime assumption for the years included in the calculation of Final Average Salary) has been introduced as of June 30, 1995. Baseline overtime of 6% is assumed together with overtime assumptions used in Final Average Salary of:
- 12% for Tier I Service Retirements
 - 9% for Tier II Service Retirements
 - 2% for Tier I Disability Retirements
 - 4% for Tier II Disability Retirements
 - 6% for all other benefits.
- (11) Salary data as of June 30, 1995 was adjusted to be consistent with collective bargaining agreements estimated to be achieved. The salary data was also adjusted to reflect overtime earnings by an assumed baseline overtime rate of 6%.
- (12) In calculating the actuarial present value of benefits for active members, the "P-factor" method of apportioning the benefits between member and employer contributions has been eliminated beginning with the June 30, 1995 valuation in accordance with Chapter 598/96.
- In place of the P-factor methodology, Chapter 598/96 provides that the actuarial valuations incorporate the actuarial present values of benefits attributable to member contributions and ITHP Reserves.
- (13) Member contributions are included in the Actuarial Value of Assets beginning with the June 30, 1995 actuarial valuation in accordance with Chapter 598/96.
- (14) The methodology used to finance service credits attributable to Military Service has been revised beginning with the June 30, 1995 actuarial valuation in accordance with Chapter 598/96.
- (15) The methodology for determining the estimated value of assets of POLICE that may become transferrable to the Variable Supplements Funds has been revised beginning with the June 30, 1995 actuarial valuation in accordance with Chapter 598/96.

* Revised actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1995*
(Continued)

Table 1

Deaths Among Service And Disability Pensioners

Percentage Of Pensioners Dying Within Next Year

<u>Age</u>	<u>Service Pensioners</u>		<u>Disability Pensioners</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
40	.1238%	.0665%	.1946%	.1172%
50	.4780	.3200	.5836	.3920
60	1.1200	.8400	1.4240	1.0200
70	2.7000	1.7100	3.3876	2.1260
80	7.4430	4.5300	9.2590	5.5500
90	19.9360	12.0500	23.2464	14.9900
100	33.4520	30.1400	38.8512	37.5960
110	100.0000	100.0000	100.0000	100.0000

Table 2

Retirements And Deaths After Eligibility For Service Benefits

Percentage Of Eligible Active Members Retiring
Or Dying Within Next Year

<u>Age</u>	<u>Service Retirement</u> Years Of Service Since Elig.			<u>Accident</u> <u>Disability</u> <u>Retirement</u>	<u>Ordinary</u> <u>Disability</u> <u>Retirement</u>	<u>Ordinary Death</u>		<u>Accidental</u> <u>Death</u>
	<u>0-1</u>	<u>1-2</u>	<u>2+</u>			<u>Males</u>	<u>Females</u>	
40	32.0000%	16.0000%	12.0000%	1.7400%	.3800%	.1238%	.0665%	.020%
45	40.0000	20.0000	12.0000	1.8200	.4600	.2183	.1010	.020
50	40.0000	20.0000	12.0000	1.8900	.6600	.3909	.1647	.020
55	40.0000	20.0000	12.0000	2.3900	2.4600	.6131	.2541	.010
60	40.0000	20.0000	20.0000	3.2900	7.2600	.9158	.4241	.000
63	100.0000	100.0000	100.0000	N/A	N/A	N/A	N/A	N/A

* Revised actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1995*
(Continued)

Table 3

Withdrawals From Active Service Before Eligibility For Service Benefits

Percentage Of Active Members Separating Within Next Year

<u>Age</u>	<u>Withdrawal</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Ordinary Death</u>		<u>Accidental Death</u>
				<u>Males</u>	<u>Females</u>	
20	3.160%	.2000%	.0300%	.0377%	.0189%	.020%
25	2.650	.3900	.0700	.0464	.0253	.020
30	1.290	.7500	.2000	.0607	.0342	.020
35	0.550	1.5000	.2500	.0860	.0476	.020
40	0.420	1.7400	.3800	.1238	.0665	.020
45	0.340	1.8200	.4600	.2183	.1010	.020
50	0.320	1.8900	.6600	.3909	.1647	.020
55	0.300	2.3900	2.4600	.6131	.2541	.010
60	0.100	3.2900	7.2600	.9158	.4241	.000

Table 4

Salary Scale

<u>Years Of Service</u>	<u>Assumed Annual Percentage Increases Within Next Year</u>
0	9.00%
5	5.00
10	5.80
15	5.60
20	5.00
25	5.00
30	5.00
35	5.00
40	5.00

Of the total annual increase shown, 4.0% is assumed to represent General Wage Increase due to inflation and the remainder is assumed to represent merit and promotion.

* Revised actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 were proposed by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>VALUATION DATE</u>	<u>NUMBER</u>	<u>ANNUAL PAYROLL</u>	<u>ANNUAL AVERAGE PAY</u>	<u>PERCENTAGE INCREASE IN AVERAGE PAY</u>
6-30-86	27,380	\$ 958,948,300	\$ 35,024	8.9%
6-30-87	28,341	1,049,129,615	37,018	5.7
6-30-88	28,144	1,163,247,025	41,332	11.7
6-30-89*	26,440	1,184,041,790	44,782	8.3
6-30-90	25,927	1,241,937,674	47,901	7.0
6-30-91	27,368	1,303,588,785	47,632	(0.6)
6-30-92	27,249	1,332,598,223	48,904	2.7
6-30-93	28,166	1,379,927,841	48,993	0.2
6-30-94	31,059	1,478,485,171	47,602	(2.8)
6-30-95**	36,204	1,844,884,786	50,958	7.1

* Prior to June 30, 1989, Number included all members who were not officially withdrawn and Annual Payroll included the last valuation salaries of all such members. In addition, overtime earnings were not reflected in Annual Payroll.

Beginning June 30, 1989, Number includes only those who were on payroll as of the valuation date and Annual Payroll includes only the salaries of those on payroll as of the valuation date, increased by 4% to reflect overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

** The June 30, 1995 Number and Annual Payroll reflect the merger of the Housing and Transit Police forces into the New York City Police Department during April 1995. The June 30, 1995 Annual Payroll was also increased by 6% to reflect baseline overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

YEAR ENDED	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
	NUMBER ⁽¹⁾	ANNUAL ALLOWANCES	NUMBER ⁽²⁾	ANNUAL ALLOWANCES	NUMBER ⁽³⁾	ANNUAL ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
6-30-86	1,507	\$ 41,594,530	304	\$ 4,290,352	24,343	\$363,874,799	11.4%	\$ 14,948
6-30-87	1,536	49,927,245	319	4,768,412	25,560	409,033,632	12.4	16,003
6-30-88	1,247	47,650,374	347	5,537,773	26,460	451,146,233	10.3	17,050
6-30-89	1,290	31,356,392	356	6,069,800	27,394	476,432,825	5.6	17,392
6-30-90	1,735	36,242,327	403	7,008,976	28,726	505,666,176	6.1	17,603
6-30-91	1,355	63,565,988	524	9,223,972	29,557	560,008,192	10.8	18,947
6-30-92	885	44,507,805	472	8,942,984	29,970	595,573,013	6.4	19,872
6-30-93	998	45,172,785	626	12,439,872	30,342	628,305,926	5.5	20,707
6-30-94	1,219	42,247,397	523	8,962,640	30,974	647,103,008	5.4	20,892
6-30-95 ⁽⁴⁾	1,009	43,191,422	528	8,946,990	31,455	681,347,440	5.3	21,661

- (1) Prior to June 30, 1991 Number Added to Rolls equaled actual Pension Numbers issued during fiscal year even if not on payroll as of June 30. From June 30, 1991 thru June 30, 1993 this includes beneficiaries who became entitled to benefits due to death of retirees. Beginning June 30, 1994 this excludes beneficiaries who became entitled to benefits due to death of retirees and also excluded those who were not on payroll as of June 30.
- (2) Prior to June 30, 1991 Number Removed from Rolls equaled actual Termination Numbers issued during fiscal year. From June 30, 1991 thru June 30, 1993 this includes retirees who deceased and left beneficiaries entitled to benefits. Beginning June 30, 1994 this excludes retirees who deceased and left beneficiaries who were on payroll as of June 30 and includes all those who went off payroll by June 30, even if a Termination Number was not issued.
- (3) Prior to June 30, 1994, Rolls at End of Year included all retirees and beneficiaries who were not issued Termination Numbers. It also reflected anticipated benefits for new retirees receiving partial payments prior to finalization of the benefit calculations and anticipated supplemental benefits for service retirees under age 62. Beginning June 30, 1994 these figures represent only those who were on the pensioner payroll as of June 30 and amounts actually being paid. Had this method been used for June 30, 1993, the figures for Number and Annual Allowances of the Rolls at End of Year would have been 30,278 and \$613,818,251, respectively. The figures for Number Added, Number Removed and Percent Increase in Annual Allowances for June 30, 1994 are calculated using these revised figures for June 30, 1993.
- (4) For June 30, 1995, Added to Rolls and Rolls at End of Year excluded 3,830 pensioners from POLICE, Subchapter One.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF ACTUAL VS. REQUIRED CONTRIBUTIONS
(\$ Thousands)

<u>FISCAL YEAR ENDED</u>	<u>ACTUAL EMPLOYER CONTRIBUTION*</u>	<u>REQUIRED EMPLOYER CONTRIBUTION</u>	<u>EMPLOYER RATE OF CONTRIBUTION**</u>
6-30-87	\$480,720	\$480,720	49.025%
6-30-88	500,001	500,001	46.893%
6-30-89	533,621	533,621	44.612%
6-30-90	477,397	477,397	40.319%
6-30-91	443,582	443,582	35.717%
6-30-92	432,223	432,223	33.156%
6-30-93	462,098	462,098	34.676%
6-30-94	418,113***	418,113	30.300%
6-30-95	418,983****	418,983	28.339%
6-30-96	562,360*****	562,360	30.482%

* Generally represents employer contributions plus payments towards the Balance Sheet Liability received on a cash basis, excluding any adjustments for delayed payments. Contributions on the accrual basis are shown in the financial statements and "Revenue by Source".

** The employer rates of contribution represent a percentage of the salaries of members who were on payroll as of the preceding June 30th increased to reflect overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

*** Represents total employer contributions made during Fiscal Year 1994 net of \$29,815 thousand deferred to Fiscal Year 1995 and adjustments for delayed payments. Equals total employer contributions accrued for Fiscal Year 1994.

**** Represents total employer contributions made during Fiscal Year 1995 net of \$23,376 thousand deferred to Fiscal Year 1996 and reflects impact of Chapter 503 of the Laws of 1995 which provides for the merger of certain assets and liabilities of the Police Department, Subchapter One Pension Fund into the Plan. Equals total employer contributions accrued for Fiscal Year 1995.

***** Represents total employer contributions made during Fiscal Year 1996 plus \$23,376 thousand deferred from Fiscal Year 1995 and adjustments for delayed payments. Equals total employer contributions accrued for Fiscal Year 1996.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF FUNDING PROGRESS
(IN CONFORMITY WITH THE PLAN'S FUNDING METHOD)

(in thousands)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date <u>June 30</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability (AAL) Frozen <u>Entry Age</u> (A)	Unfunded AAL (UAAL) (B)	Funded <u>Ratio</u> (1/2)	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u> (2-1)/5
1995*	\$9,632,930**	\$10,955,850	\$1,322,920	87.9%	\$1,844,885	71.7%
1994	8,137,414	9,537,538	1,400,124	85.3%	1,478,928	94.7%
1993	7,658,405	8,973,327	1,314,922	85.3%	1,379,928	95.3%
1992	7,088,879	8,446,542	1,357,663	83.9%	1,332,589	101.9%
1991	6,618,932**	8,016,563	1,397,631	82.6%	1,303,589	107.2%
1990*	5,823,680	7,265,130	1,441,450	80.2%	1,241,938	116.1%
1989	5,228,098	6,998,575	1,770,477	74.7%	1,184,042	149.5%

* Revised economic and non-economic assumptions due to experience review.

** Reestablished the Actuarial Asset Value to equal Market Value.

(A) To effectively assess the funding progress of the Plan, it is necessary to compare the Actuarial Value of Assets and the Actuarial Accrued Liabilities calculated in a manner consistent with the Plan's funding method over a period of time. The Actuarial Accrued Liability is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future normal cost contributions.

(B) The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This is the same as Unfunded Frozen Actuarial Accrued Liability, which is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

To fully evaluate trends in financial soundness, changes in assumptions and benefits need to be evaluated. The economic assumptions used in the actuarial calculations for establishing the Unfunded Actuarial Accrued Liability are as follows:

Valuation Date (June 30)	Assumed Annual Rate Of Return On Investments	Merit And Promotion Increases Plus An Assumed General Wage Increase Per Year Of
1995	8.50%	4.0%
1994	8.50	5.5
1993	8.50	5.5
1992	8.50	5.5
1991	8.50	5.5
1990	8.50	5.5
1989	8.25	5.5

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF PLAN PROVISIONS

DEFINITIONS

Accumulated Deductions - The total contributions made by a member to his annuity savings account, with regular and special interest thereon.

Reserve for Increased Take Home Pay ("ITHP") - A reserve consisting of 2.5% or 5% of the member's salary, pursuant to the provisions of Section 13-226 of the Code, accumulated with regular and additional interest.

Minimum Accumulation - The amount of normal contributions accumulated with interest to the earliest date for service retirement less the amount of the reserve for ITHP on such date.

Final Salary - (1) For a member who joined prior to July 1, 1973, the annual rate of salary earnable on the date of retirement. (2) For a member who joined after June 30, 1973, the average salary earned during any three consecutive years which provide the highest average salary. However, if the salary earned during any year included in this three year period exceeds the average of the previous two years by more than twenty percent, the amount in excess of twenty percent is excluded from the computation.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

Variable Supplements Funds - The New York City Police Department maintains the Police Officers' Variable Supplements Funds (POVSF) and the Police Superior Officers' Variable Supplements Funds (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of the Administrative Code of the City of New York.

BENEFITS

Briefly stated, the benefit provisions and the contribution provisions, of which account was taken in the valuation, are as follows:

I. SERVICE RETIREMENT

The service retirement allowance consists of two parts, a pension payable from City contributions and an annuity from member's contributions.

According to his election when he joined the Pension Fund, a member may retire from service after having completed 20 years of police service, or after having completed 25 years of police service, or at the attainment of age 55 regardless of years of service.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

Upon retirement after having become eligible for service retirement the member receives an allowance which is the sum of (a) 50% of final salary, reduced by an annuity which is the actuarial equivalent of the minimum accumulation, (b) an annuity which is the actuarial equivalent of the accumulated deduction and (c) for all years of service other than the minimum required service:

- (i) for a member who joined prior to July 1, 1973, $1/60$ of average salary for the period of service after the completion of his minimum required service for each year of such service; for a member who joined after June 30, 1973, $1/60$ of average salary for the period of service after the completion of his minimum required service but for not more than the last ten years of such service, and
- (ii) a pension for ITHP which is the actuarial equivalent of the reserve for ITHP less the reserve for ITHP at the minimum service date with interest to the date of retirement.

II. ORDINARY DISABILITY RETIREMENT

An ordinary disability retirement allowance is paid upon the disablement of a member from causes other than accident in the actual performance of duty.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

For a member who elected the 20 year plan, the ordinary disability retirement allowance is equal to $1/40$ ($1/50$ for members who elected the 25 year plan; $1/60$ for members who elected to retire at the attainment of age 55) of final salary multiplied by the number of years of service for a member who joined before July 1, 1973, and multiplied by the number of years of service not exceeding thirty for a member who joined after June 30, 1973, but not less than $1/2$ of his final salary if he completed 10 or more years of City service, or $1/3$ of his final salary if less than 10 years of City service.

III. ACCIDENT DISABILITY RETIREMENT

Upon the occurrence of disability caused by an accident in the actual performance of duty, a member is granted a retirement allowance. The allowance consists of a pension equal to three-fourths of his final salary and, if he is eligible for service retirement, an additional increment of $1/60$ of average salary from date of eligibility for service retirement to date of retirement for each year of service after the completion of the required minimum for a member who joined before July 1, 1973, and for each of the years of service not exceeding 10 years after the completion of the required minimum for a member who joined after June 30, 1973. An additional pension is paid which is the actuarial equivalent of the reserve for ITHP, as well as an annuity which is the amount which can be purchased with the member's accumulated deductions.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

IV. ORDINARY DEATH BENEFIT

Upon the death of a member in active service from causes other than accident in the actual performance of duty, a benefit is paid to his estate or to such person as he shall have nominated.

With respect to a member who joined before July 1, 1973, the benefit is equal to the compensation earnable by the member in the six months immediately preceding his death and, if the total number of years of allowable service exceeds ten, then the benefit is equal to the compensation earnable by him during the twelve months immediately preceding death. In addition, the member's accumulated deductions, the reserve for ITHP, and the City's obligation on account of military service, if any, are paid to his estate or to his designated beneficiary.

The benefit payable on account of such a member who at the time of his death, would have been eligible for service retirement is either the benefit described above or an amount equal to the reserve on the retirement allowance which would have been payable if he had retired on the day before his death, whichever is larger.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

A member who joins after June 30, 1973 is covered for a death benefit upon completion of 90 days of service. The amount of the death benefit is equal to three times member's salary raised to the next higher multiple of \$1,000. In addition, the member's accumulated deductions are payable.

The Rules and Regulations adopted by the Board of Trustees in accordance with Chapter 581 of the Laws of 1970 provide that the first \$50,000 of each benefit on account of death in active service is payable from the group term life insurance plan. Only the amount in excess of \$50,000, if any, is payable by the Pension Fund..

V. ACCIDENT DEATH BENEFIT

The benefit is payable upon the death of a member which occurs as the result of an accident sustained in the performance of duty.

The accidental death benefit is a lump sum payment of the reserve for ITHP and a pension equal to one-half of the average salary in the five years immediately preceding death but not less than one-half the full salary of a first grade patrolman, payable to the widow for life, or if there is no widow, to a child, or children until the attainment of age 18 or age 23 if a full-time

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

student, or if there is no widow or child, to the dependent parents. In addition, the member's accumulated deductions and ITHP reserve are paid to his/her estate or designated beneficiary.

VI. TERMINATION OF EMPLOYMENT

A member who either resigns or is dismissed receives a benefit equal to his accumulated deductions. At resignation with at least 15 years of service, at least 5 of which immediately precede resignation, the member may elect, in lieu of a return of his accumulated deductions, to receive a service retirement allowance reduced in proportion to his years of service. The allowance is deferred to the earliest date on which the member would have been eligible for service retirement had the member not resigned. Should a member who elected to receive a vested retirement allowance die during the period of deferment, the benefit is the accumulated deductions.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

VII. DEPENDENT BENEFIT

Upon the death of a member during active service or after retirement, a pension of \$600 per annum is payable to the widow until remarriage, to a child, or to the dependent parents, provided that upon becoming a member, he had elected to make the additional contributions required for this benefit.

VIII. SUPPLEMENTAL RETIREMENT ALLOWANCE

A Supplemental Retirement Allowance is payable during the life of certain retired members. One half of the amount is also payable during the life of spouse beneficiaries if such retired member had elected one of the options under the Administrative Code which provides that benefits are to be continued for the life of such spouse after the death of the retired member, and where the death of such retired member occurred or occurs more than thirty days after the effective date of the retirement of such member.

Supplemental Retirement Allowances are payable to members who retired prior to Calendar Year 1983 and either retired for disability or attained age 62. The benefit is equal to a percentage, depending on the Calendar Year of retirement, of the first \$10,500 of the retirement allowance entitled had the member not elected any optional forms of benefit.

Effective December 1996, in accordance with Chapter 119 of the Laws of 1995 and actions by the New York City Council, additional Supplemental Retirement Allowances became payable to members who retired prior to Calendar Year 1990 and either retired for disability, attained age 62 or attained age 55 after being retired for 10 or more years. The additional Supplemental Retirement Allowance for a retired member creates a total Supplemental Retirement Allowance equal to a percentage, depending on the Calendar Year of retirement, of the first \$12,500 of the retirement allowance entitled had the member not elected any optional form of retirement.

OPTIONS ON RETIREMENT

A member upon retirement may elect to receive his basic retirement allowance payable in monthly installments throughout life with all payments ending at death, or may elect to receive the actuarial equivalent in any one of the following optional forms:

- (a) With respect to members who joined prior to July 1, 1973, a cash refund allowance under which reduced payments will be made for the life of the member with a provision that, in case of death before such payments have equaled the present value of the retirement allowance at date of retirement, the balance shall be paid to the designated beneficiary or estate in a lump sum. With respect to members who joined after June 30, 1973, this option is only available with respect to the annuity.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

- (b) With respect to members who join or joined after June 30, 1973, a five - or ten-year certain and life thereafter allowance under which reduced payments will be made for the life of the member with a provision that, in case of death within the guarantee period, the benefit that would have been payable had the member survived shall continue to the designated beneficiary or estate for the balance of the guarantee period.
- (c) A joint and survivor allowance under which reduced payments will be made for the life of the member with a provision that at the death of the member the same payments or one-half of such payments shall be continued for the life of such other person as the member shall have designated.
- (d) Such other form of benefit which is the actuarial equivalent of the basic benefit as may be certified by the actuary and approved by the Board of Trustees. By resolution, the Board of Trustees has approved an option under which reduced payments will be made for the life of the member with a provision that upon his death, a sum specified by the member at the time of retirement shall be paid to his designated beneficiary or estate.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

CONTRIBUTIONS

The benefits of the Fund are financed by employee and employer contributions and from the earnings on the invested funds.

I. MEMBER CONTRIBUTIONS

Member contributions are made on the basis of a normal rate of contribution that is assigned by the Plan at the time of membership. The normal rate, which is dependent upon the member's age at membership and plan, as well as the tables in effect for such purpose, is determined so as to provide an annuity of approximately one-quarter of the service retirement allowance at the earliest date for service retirement. Members may voluntarily increase their rates of contribution by 50% for the purpose of purchasing an additional annuity.

Contributions from members are recorded when the employer makes payroll deductions from Plan members. Members are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such member's contribution accounts.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

II. EMPLOYER CONTRIBUTIONS

The frozen entry age actuarial cost method of funding is utilized by the Plan's Actuary to calculate the contribution from the employer.

Employer contributions, including the amount to fund the employer contribution receivable - long-term, are accrued by the Plan and are funded by the employer on a current basis and amounted to \$ 562,359,733 for the Fiscal Year ended June 30, 1996.

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**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**STATISTICAL SECTION
PART IV**

FISCAL YEAR ENDED JUNE 30, 1996

New York Police Department Pension Fund - Subchapter 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE (In Thousands)

LUMP SUM PAYMENTS

Fiscal Year	Service & Disability Retirement	Ordinary Death in Service	Payments Death After Retirement	Line of Duty Deaths	Total
06/30/87	\$393,734	\$9,787	\$2,788	\$2,119	\$408,428
06/30/88	429,503	6,031	2,275	2,247	440,056
06/30/89	476,331	9,707	2,322	2,328	490,688
06/30/90	515,693	8,282	2,070	2,458	528,503
06/30/91	556,232	15,500	2,481	2,690	576,903
06/30/92	589,091	5,544	3,003	2,785	600,423
06/30/93	608,515	2,962	4,008	2,818	618,303
06/30/94	645,751	3,774	2,905	3,116	655,546
06/30/95	675,120	6,203	2,070	4,828	688,221
06/30/96	1,100,393	9,503	3,528	1,152	1,114,576

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE

JUNE 30, 1995

SERVICE RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	0	\$ 0	0	\$ 0
30 to 34	0	0	0	0
35 to 39	0	0	0	0
40 to 44	246	25,750	1	27,120
45 to 49	1830	26,761	54	25,537
50 to 54	3470	23,967	66	25,884
55 to 59	2976	20,878	41	21,418
60 to 64	2294	17,352	27	21,400
65 to 69	2582	15,167	33	11,702
70 to 74	2352	12,219	38	10,749
75 to 79	1681	11,553	17	9,960
80 to 84	382	12,264	14	12,252
85 to 89	14	12,935	1	14,208
90 & up	0	0	0	0

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE

JUNE 30, 1995

ORDINARY DISABILITY (NON-DUTY) RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	1	\$12,960	2	\$14,404
30 to 34	31	15,604	10	15,659
35 to 39	56	16,363	25	18,213
40 to 44	67	14,406	17	18,054
45 to 49	374	13,134	18	16,146
50 to 54	638	12,527	20	13,753
55 to 59	437	16,791	11	11,220
60 to 64	478	27,212	15	12,777
65 to 69	839	30,035	8	25,075
70 to 74	650	25,347	14	19,018
75 to 79	365	22,183	10	18,893
80 to 84	78	21,274	1	28,117
85 to 89	2	24,135	1	15,330
90 & up	0	0	0	0

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE

JUNE 30, 1995

ACCIDENT DISABILITY RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	40	\$33,040	10	\$32,187
30 to 34	396	34,600	59	33,703
35 to 39	508	34,806	75	32,637
40 to 44	450	32,212	37	32,665
45 to 49	1402	28,448	43	27,117
50 to 54	1944	27,576	41	30,885
55 to 59	1104	27,656	10	31,829
60 to 64	754	29,340	3	18,835
65 to 69	842	29,409	9	27,571
70 to 74	559	23,601	3	20,772
75 to 79	278	20,688	3	16,434
80 to 84	51	20,594	0	0
85 to 89	2	14,845	0	0
90 & up	0	0	0	0

SCHEDULE OF BENEFIT EXPENSES BY TYPE
JUNE 30, 1995

SERVICE OR DISABILITY
SURVIVORS (OF DECEASED PENSIONERS UNDER SELECTED OPTIONS)

AGE	MEN		WOMEN	
	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE
UNDER 30	1	\$13,586	5	\$15,136
30 to 34	0	0	4	12,318
35 to 39	0	0	0	0
40 to 44	0	0	4	17,477
45 to 49	0	0	6	19,020
50 to 54	0	0	7	14,798
55 to 59	0	0	14	16,337
60 to 64	0	0	20	13,942
65 to 69	0	0	55	11,819
70 to 74	0	0	69	8,854
75 to 79	0	0	56	8,472
80 to 84	0	0	20	9,039
85 to 89	0	0	2	8,786
90 & up	0	0	0	0

New York Police Department Pension Fund - Subchapter 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE JUNE 30, 1995

BENEFICIARIES OF PENSIONERS KILLED IN ACTUAL PERFORMANCE OF DUTY

AGE	MEN		WOMEN	
	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE
UNDER 30	2	\$15,957	3	\$25,389
30 to 34	0	0	7	22,655
35 to 39	0	0	11	21,485
40 to 44	0	0	17	17,324
45 to 49	0	0	41	13,820
50 to 54	0	0	51	13,160
55 to 59	1	23,528	36	8,857
60 to 64	1	19,040	42	8,438
65 to 69	0	0	32	7,791
70 to 74	1	22,227	21	6,830
75 to 79	0	0	13	6,127
80 to 84	0	0	2	5,132
85 to 89	0	0	1	5,611
90 & up	0	0	0	0

NEW YORK CITY POLICE PENSION FUND - SUBCHAPTER 2
ANALYSIS OF PORTFOLIO YIELDS
 JUNE 30, 1996- 1995
 (in thousands)

DESCRIPTION	1996		1995	
	MARKET VALUE	YIELD ON MARKET VALUE	MARKET VALUE	YIELD ON MARKET VALUE
Securities purchased under agreements to resell:				
U.S. Government Agency	\$7,825	2.34%	\$129,750	0.93%
Commercial Paper	26,200	—	—	
Short Term Investment Fund	26,286	8.87	49,979	6.94
	795,563	3.06	555,956	3.26
Bonds:				
U.S. Government	1,952,187	20.99	1,995,765	14.33
Corporate	1,203,821	20.06	1,211,980	21.63
Other: Foreign	124,205	6.81	106,021	3.35
International Investment Fund & Fixed Income	118,944	9.50	127,827	8.69
Equities	6,364,502	27.21	4,764,819	9.11
International Fund - Equities	987,397	1.00	846,026	0.77
Collateral from Securities Lending	1,235,203	1.34	996,355	0.01

NEW YORK CITY POLICE PENSION FUND - SUBCHAPTER 2
 ANALYSIS OF PORTFOLIO YIELDS
 JUNE 30, 1994- 1993
 (in thousands)

DESCRIPTION	1994		COST	YIELD ON COST	1993		YIELD ON COST	
	MARKET VALUE	YIELD ON MARKET VALUE			MARKET VALUE	COST		
Securities purchased under agreements to resell:	\$126,340	1.1%	\$126,340	1.1%	\$23,865	3.1%	\$23,865	3.1%
Discount Notes	—	—						
Treasury Bills	37,955	6.2	37,593	6.2	112,418	2.1	112,418	2.1
Commercial Paper	—	7.1	0	7.1	31,891	2.2	31,891	2.2
Short Term Investment Fund	479,018	2.9	479,018	2.9	510,365	4.5	510,365	4.5
Bonds:								
U.S. Government	1,781,852	6.1	1,844,983	6.2	2,266,824	11.0	2,172,809	11.5
Corporate	1,024,291	5.1	1,055,646	5.2	1,064,406	11.5	1,038,417	11.8
Other: Foreign	86,404	2.8	89,785	2.7	83,222	12.4	81,055	12.8
International Investment Fund & Fixed Income	101,871	3.8	63,000	5.9	92,610	5.5	63,000	6.8
Mortgages	0	0.05	0	0.05	11	7.2	11	7.2
Equities	4,054,117	0.07	2,566,862	1.2	3,989,878	14.3	2,320,976	24.1
International Fund - Equities	713,603	14.2	629,882	15.6	475,395	12.1	425,917	12.7

(in thousands)

INVESTMENT PORTFOLIO DESCRIPTION	1992			
	MARKET VALUE	YIELD ON MARKET VALUE	COST	YIELD ON COST
Securities purchased under agreements to resell:	\$38,825	7.4%	\$38,825	7.4%
Treasury Bills	--	--	--	--
Commercial Paper	114,263	5.6	114,263	5.6
Short Term Investment Fund	400,923	8.2	400,923	8.2
Bonds:				
U.S. Government	2,089,021	11.9	2,020,493	12.2
Corporate	893,931	11.6	874,036	11.8
Other: Foreign	76,699	14.3	75,068	14.5
International Investment Fund & Fixed Income	83,223	5.2	63,000	6.2
Mortgages	91	7.4	91	7.4
Equities	3,578,209	14.2	2,197,531	22.6
International Fund - Equities	417,023	(3.8)	421,554	(3.7)

NEW YORK CITY PENSION - SUBCHAPTER 2
SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENT AMOUNTS

In Actuary's Sect

Fiscal Year	Age & Service Retirement Benefits		Ordinary (Non-Duty) Disability Benefits		Accidental (Duty) Disability Benefits	
	Number	Average Annual Allowance	Number	Average Annual Allowance	Number	Average Annual Allowance
06/30/86	13,066	\$11,728	3827	\$15,164	6071	\$20,671
06/30/87	14,255	12,767	4,104	16,622	6,706	22,103
06/30/88	14,229	13,495	4,075	17,330	6,681	22,894
06/30/89	14,426	13,760	4,058	17,422	6,802	23,148
06/30/90	14,711	14,125	4,030	17,487	6,879	23,383
06/30/91 *	17,262	16,342	4,274	19,053	7,606	25,302
06/30/92	17,394	16,998	4,257	20,226	7,868	26,596
06/30/93	17,390	17,672	4,282	21,045	8,178	27,582
06/30/94	17,866	17,942	4,211	21,084	8,375	27,705
06/30/95	18,119	18,672	4,168	21,505	8,623	28,675

* Prior to 6-30-91 "NUMBER" Removed from Rolls equated actual Termination Numbers issued during fiscal year. From June 30, 1991 thru June 30, 1993 this includes retirees who deceased and left beneficiaries entitled to benefits. Beginning June 30, 1994 this excludes retirees who deceased and left beneficiaries who were on payroll as of June 30 and includes all those who went off payroll by June 30, even if a Termination Number was not issued.

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New York Police Department Pension Fund - Subchapter 2

Expense by Type (Unaudited)

(In Thousands)

Fiscal Year Ended June 30	Benefit Payments	Refunds	Administrative Expenses	Payment to Other Pension Funds	Total	Employer Contributions as a Percentage of Annual Covered Payroll
1991	\$576,901	\$874	-	-	\$577,775	33.6%
1992	600,424	357	6	49,315	650,102	31.6
1993	618,303	1,104	5	113,336	732,748	32.5
1994	655,546	322	-	1,679	657,547	28.0
1995	978,223	321	-	(617,978)	360,566	22.5
1996	1,114,576	328	-	14,271	1,129,175	30.1

New York Police Department Pension Fund - Subchapter 2

Revenue by Source (Unaudited)

(In Thousands)

Fiscal Year Ended June 30	Net Member Contributions	Employer Contributions	Investment Income	Other	Total	Employer Contributions as a Percentage of Annual Covered Payroll
1991	\$13,008	\$434,877	\$483,930	\$4,870	\$936,685	33.6%
1992	15,226	421,322	846,599	-	1,283,147	31.6
1993	(3,647)	448,767	990,092	-	1,435,212	32.5
1994	53,295	414,445	315,235	-	782,975	28.0
1995	57,697	414,928	1,440,440	-	1,913,065	22.5
1996	43,791	554,961	1,412,297	-	2,011,049	30.1