ANNUAL REPORT

1993

(July 1, 1992 to June 30, 1993)

CITY OF LOS ANGELES DEPARTMENT OF PENSIONS

FIRE AND POLICE PENSION SYSTEMS

Department of Pensions

360 East Second Street • Suite 600 • Los Angeles, California 90012

1993 Annual Report

July 1, 1992 to June 30, 1993

Gary Mattingly
General Manager

James J. McGuigan
Assistant Manager

Allan Moore
Assistant Manager

Eudon Ferrell
Assistant City Attorney

Tom Lopez
Chief Investment Officer

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MAYOR
Richard J. Riordan

City Attorney	Controller
James Kenneth Hahn	Rick Tuttle

CITY COUNCIL

John Ferraro, *President*
Richard Alatorre, *President Pro Tempore*

Mike Hernandez First District	Joel Wachs Second District	Laura Chick Third District
John Ferraro Fourth District	Zev Yaroslavsky Fifth District	Ruth Galanter Sixth District
Richard Alarcon Seventh District	Mark Ridley-Thomas Eighth District	Rita Walters Ninth District
Nate Holden Tenth District	Marvin Braude Eleventh District	Hal Bernson Twelfth District
Jackie Goldberg Thirteenth District	Richard Alatorre Fourteenth District	Rudy Svorinich, Jr. Fifteenth District

BOARD OF PENSION COMMISSIONERS

Sam Diannitto, *President*

Susan Steinhauser *Vice President*	Louis Moret *Commissioner*
Tong Soo Chung *Commissioner*	Troy Smith *Commissioner*
Paul Hudson *Commissioner*	Kenneth E. Staggs *Commissioner*

CITY OF LOS ANGELES

CALIFORNIA

DEPARTMENT OF PENSIONS
360 EAST SECOND STREET
SUITE 600
LOS ANGELES, CA 90012-4203
485-2833

GARY MATTINGLY
GENERAL MANAGER

RICHARD J. RIORDAN
MAYOR

ALLAN E. MOORE
ASSISTANT GENERAL MANAGER—FISCAL

JAMES J. MCGUIGAN
ASSISTANT GENERAL MANAGER—BENEFITS

TOM LOPEZ
CHIEF INVESTMENT OFFICER

June 30, 1993

The Honorable Tom Bradley, Mayor
and
Honorable Members of the City Council:

In accordance with the Charter, I am submitting the Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1993.

We earned $370 million during the year, increasing assets to $5.35 billion. We rehired our real estate consultant, two high yield securities managers, three international equity managers, two core bond managers, and three large cap equity managers. In addition we purchased office buildings in Denver and Salt Lake City, and an apartment complex in Atlanta.

Callan Associates reviewed our asset allocation mix and recommended no changes to the existing plan after conducting an in-depth review of the plan's underlying assumptions.

Included in this annual report are financial statements prepared by our auditors, Miller, Kaplan, Arase & Co., and the summary report of our actuary, The Wyatt Company.

Respectfully submitted,

Gary Mattingly

Gary Mattingly

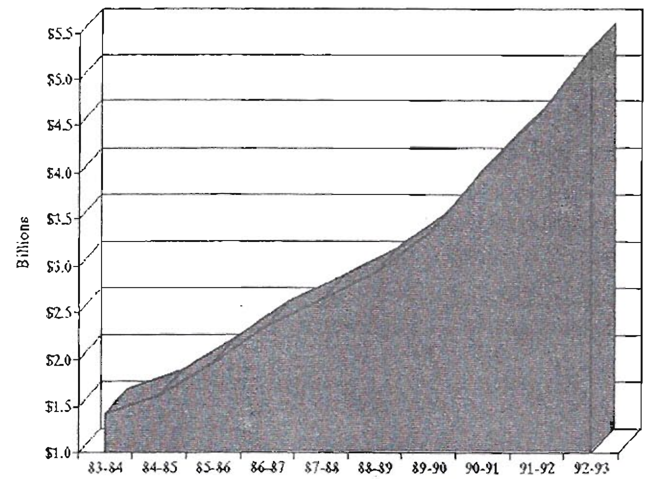
System Investments

Summary of Investment Activities

Introduction

During the past five years, the System's assets have grown from $2.80 billion to $5.35 billion. The investment program produced a gain of $706 million for the year ending June 30, 1993.

MARKET VALUE GROWTH OF SYSTEM ASSETS
Fiscal Year Ending June 30



Investment Environment

The bond market *(Salomon Bros. Broad Investment Grade Index)* was up 12.0 percent. Large capitalization stocks *(S & P 500)* achieved a 13.6 percent return. Small stocks *(NASDAQ Composite)* returned 26.0 percent. International stocks *(Morgan Stanley EAFE)* had a 10.1 percent return. Real Estate, as measured by the National Council of Real Estate Investment Fiduciaries Index *(NCREIF)* once again trailed all asset classes with a negative 3.7 percent return.

Investment Performance

The investment objectives of the System over a full market cycle (usually 3 to 5 years) are a return of at least two percent above the Consumer Price Index per year and above median investment performance for public funds.

For the past five years, the System's annualized return of 12.35 percent was more than double the inflation measure increase of 4.13 percent. For the one-year period, the System's overall investment performance was up 16.03 percent and outpaced the Consumer Price Index of 3.00 percent.

The System's performance was competitive with other public funds *(Trust Universe Comparison Service [TUCS])* over the past three to five years, ranging between the 25th and 57th percentile. For this past year, the System returned 16.03 percent (11th percentile) versus the public fund median of 14.2 percent. Most public funds have a higher commitment to bonds and a lower commitment to stocks. Our relative above median performance this year is mainly attributable to the above performance of our equities.

Asset Allocation Decisions

Our asset allocation plan establishes the blueprint for investing the System's assets in stocks, bonds, real estate and cash equivalents over a three to five year period. This plan is the single most important factor in managing risk and achieving superior investment performance in the long term.

The asset class targets for this period remained unchanged from the prior year and were as follows:

U.S. Large Capitalization Stocks	47%
U.S. Small Capitalization Stocks	5%
Non-U.S. Stocks	6%
U.S. Investment Grade Bonds	27%
High Yield Bonds	5%
Real Estate	10%

The actual asset class percentages of the System will vary from target allocations due to inflows (such as City and member contributions), outflows (such as pension payments) and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements. As of June 30, 1993, the asset values were as follows:

ASSET CLASS	MARKET VALUE (In millions) As of 6/30/93
U.S. Large Capitalization Stocks	$2,600.4
U.S. Small Capitalization Stocks	328.6
Non-U.S. stocks	258.0
U.S. Investment Grade Bonds	1,258.6
High Yield Bonds	184.9
Real Estate	197.2
Cash Equivalents	523.2
Total	$5,351.0

Domestic and foreign securities lending contributed $928,758 toward investment performance for the year. The options overwriting program is designed over the long run to add incremental return and reduce

Asset Allocation Decisions Cont'd

portfolio volatility. For the year, the program reduced investment return by $34.6 million.

Investment Activity

For the past five years, we have worked diligently toward fully implementing our asset allocation plan. The major portfolio activities for the year included funding two emerging equity managers and two emerging bond managers, and the addition of a commingled real estate fund. Administrative actions included the rehiring of our real estate consultant, two high yield securities managers, three international equity managers, two core bond managers, and three large cap equity managers. After several years of real estate inactivity, we purchased office buildings in Denver and Salt Lake City, and an apartment complex in Atlanta.

Callan Associates reviewed the Board's asset allocation mix and recommended no changes to the existing asset allocation plan after conducting an in-depth review of the underlying assumptions of the plan.

Last year the Board approved an emerging manager hiring program designed to bring into the mainstream relatively small money management firms who may make a significant contribution to the overall financial goals of the Pension Fund. The first managers hired under the emerging manager program commenced money management in October. The emerging equity managers hired were Galleon Capital Management Co. and Brown Capital Management, Inc., and the two fixed income core managers hired were HCM Capital Management, Inc., and Smith, Graham & Company.

Other Activity

The System votes all domestic and available international proxy solicitations. We voted 701 corporations' proxies in Fiscal Year 1992-93. The System votes affirmatively on preemptive rights, cumulative voting, adoption of the Sullivan Principles, and confidential voting. The System opposes anti-takeover measures and generally abstains on issues of a social, political, or environmental nature that have no expected economic impact on the System's assets.

The System's six phase South Africa Divestiture Program was adopted in 1985 after a legal and financial study concluded that the Program was *not* inconsistent with the fiduciary responsibilities owed to the System's members. The final Phase VI was implemented in 1991 and requires the divestiture of securities of all companies doing business in South Africa, unless the Board determines that a company is engaging in political, social, and economic activities that substantially assist efforts to end apartheid. A company may also be exempted if investments could conceivably be economically harmed by a restriction against purchase. Political events in the last half of the year suggest the Divestiture Program will be terminated in the near future.

CHANGE IN ASSET MIX: LAST TEN YEARS

Fiscal Year	Stocks	Bonds	Short Term Investments	Real Estate
83-84	37.0%	31.0%	32.0%	—
84-85	47.0%	41.0%	12.0%	—
85-86	51.7%	39.9%	8.4%	—
86-87	55.0%	33.0%	12.0%	—
87-88	53.0%	35.0%	10.0%	2.0%
88-89	59.8%	32.7%	5.7%	1.8%
89-90	52.4%	31.8%	9.9%	5.9%
90-91	52.0%	32.7%	9.2%	6.1%
91-92	51.7%	32.2%	10.4%	5.6%
92-93	59.0%	26.4%	11.4%	3.2%

Annual Rates of Return

Fiscal Year	Equities	Fixed Income	Real Estate	Total Fund*	CPI**
1983-84	−16.4%	2.1%		− 5.9%	4.2%
1984-85	29.6%	28.9%		25.3%	3.7%
1985-86	35.3%	19.1%		26.6%	1.7%
1986-87	23.7%	5.7%		14.2%	3.7%
1987-88	− 5.3%	6.9%		0.3%	3.9%
1988-89	20.5%	12.5%	8.7%	16.0%	3.7%
1989-90	14.9%	5.5%	7.4%	10.5%	4.7%
1990-91	5.2%	10.5%	− 3.0%	4.8%	4.3%
1991-92	15.2%	17.6%	− 3.1%	14.0%	3.1%
1992-93	18.7%	17.7%	−15.3%	16.0%	2.8%

*Total fund includes short-term investments **CPI is for the U.S. ending June 30th

Investment Advisors

STOCK MANAGERS

Alliance Capital Management
Amerindo Investment Advisors
The Boston Company
Brown Capital Management
Delta Asset Management
Frontier Capital Management
Galleon Capital Management
Husic Capital Management
Loomis Sayles & Company
Target Investors, Inc.

INTERNATIONAL STOCK MANAGERS

Clay Finlay, Inc.
Nomura Capital Management, Inc.
Oechsle International Advisors, Ltd.

BOND MANAGERS

The Boston Company Institutional Advisors, Inc.
GEM Capital Management
HCM Capital Management

BOND MANAGERS (Cont'd)

Lincoln Capital Management
Loomis Sayles & Company
Magten Asset Management Corporation

OPTION MANAGERS

Balch, Hardy, Scheinman & Winston, Inc.
MCQ, Inc.
Oppenheimer Capital Corporation

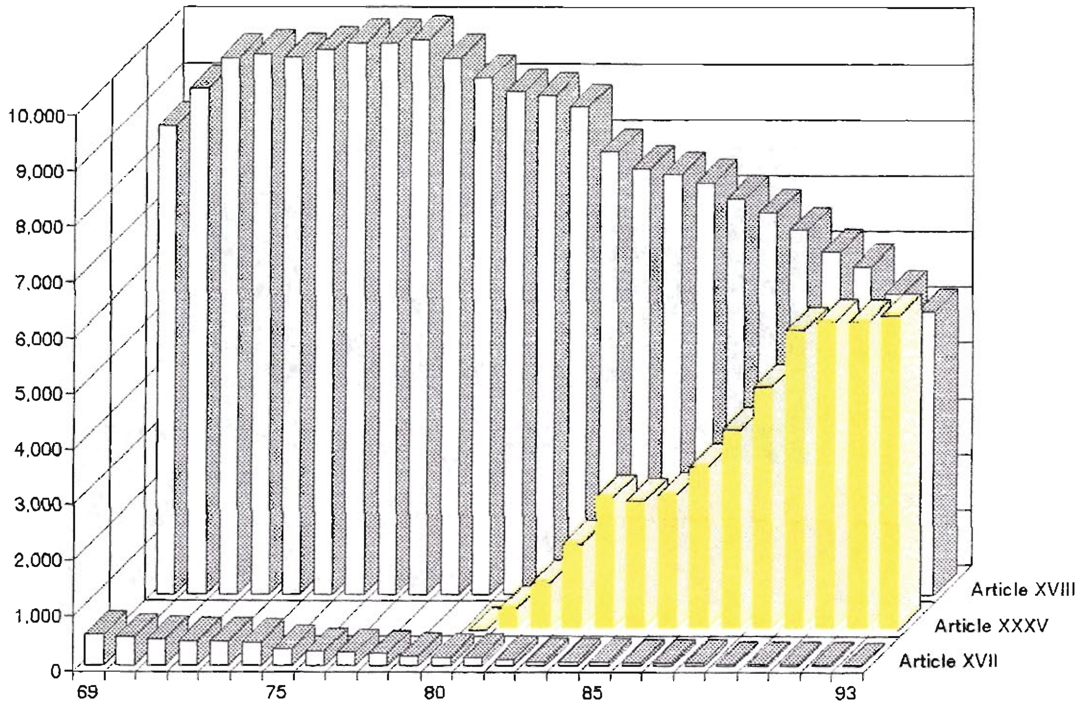
REAL ESTATE MANAGERS

Mellon/McMahan Real Estate Advisors, Inc.
Copley Real Estate Advisors
Equitable Real Estate
JMB Institutional Realty Corporation
Lowe Enterprises Investment Management, Inc.
Prudential Asset Management Company
Public Storage Institutional
RREEF
Sentinel Real Estate Corporation

Active and Retired Membership

POLICE & FIRE PENSION SYSTEMS

Active Membership: Last Twenty-Five Years



MEMBERSHIP AS OF JUNE 30, 1993			
Article	**Fire**	**Police**	**Total**
XVII	1	12	**13**
XVIII	1,573	3,502	**5,075**
XXXV	1,532	4,098	**5,630**
TOTAL	**3,106**	**7,612**	**10,718**

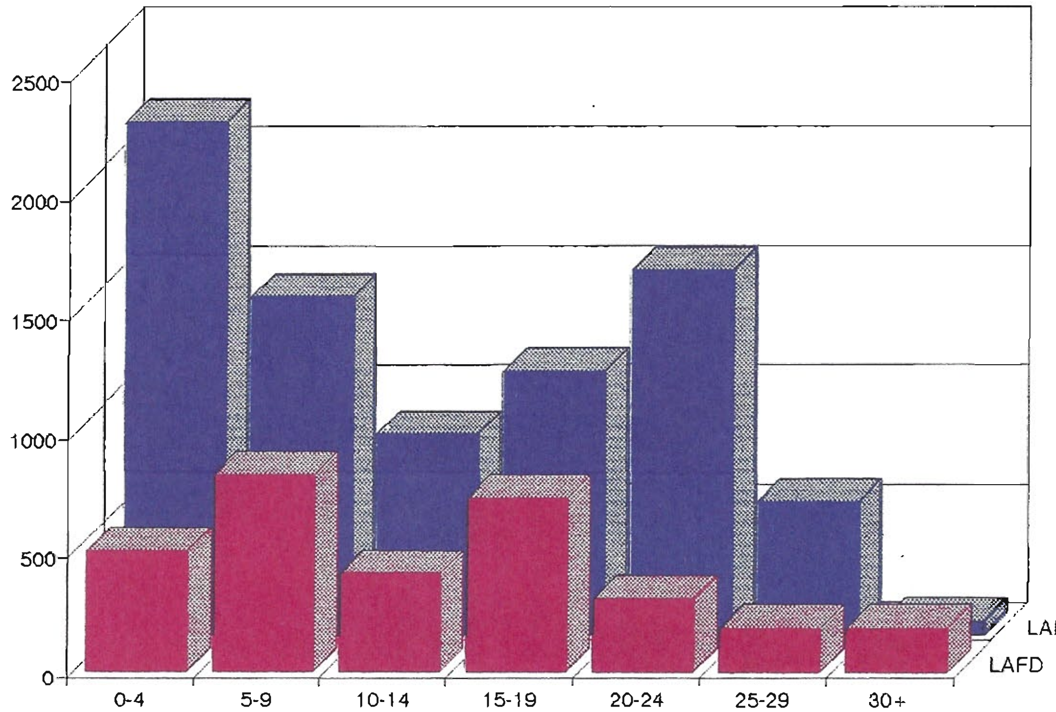
THREE PENSION SYSTEMS

There are currently three pension systems in operation serving active and retired membership. **The Fire and Police Pension System** (Charter Article XVII) was established under Charter Article XVII in 1925. In 1967, this plan was extensively amended, resulting in the creation of **The New Pension System** (Charter Article XVIII). Members of the Article XVII plan were given the option to transfer into this plan.

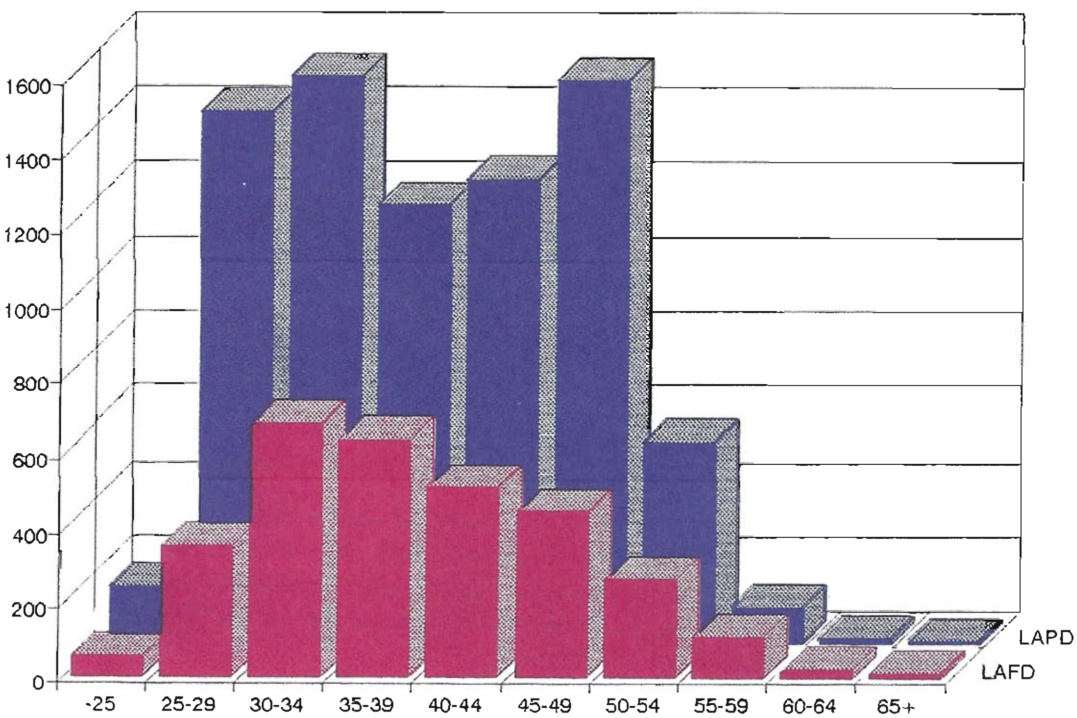
In 1980 the benefits of the system were again extensively revised. This resulted in the creation of **The Safety Members Pension Plan** (Charter Article XXXV). All members hired after December 8, 1980 become members of this plan.

ACTIVE MEMBERSHIP
By Years of Service

Years	Fire	Police
0-4	502	2,145
5-9	821	1,412
10-14	406	835
15-19	724	1,100
20-24	297	1,521
25-29	178	549
30 +	178	50
Total	**3,106**	**7,612**



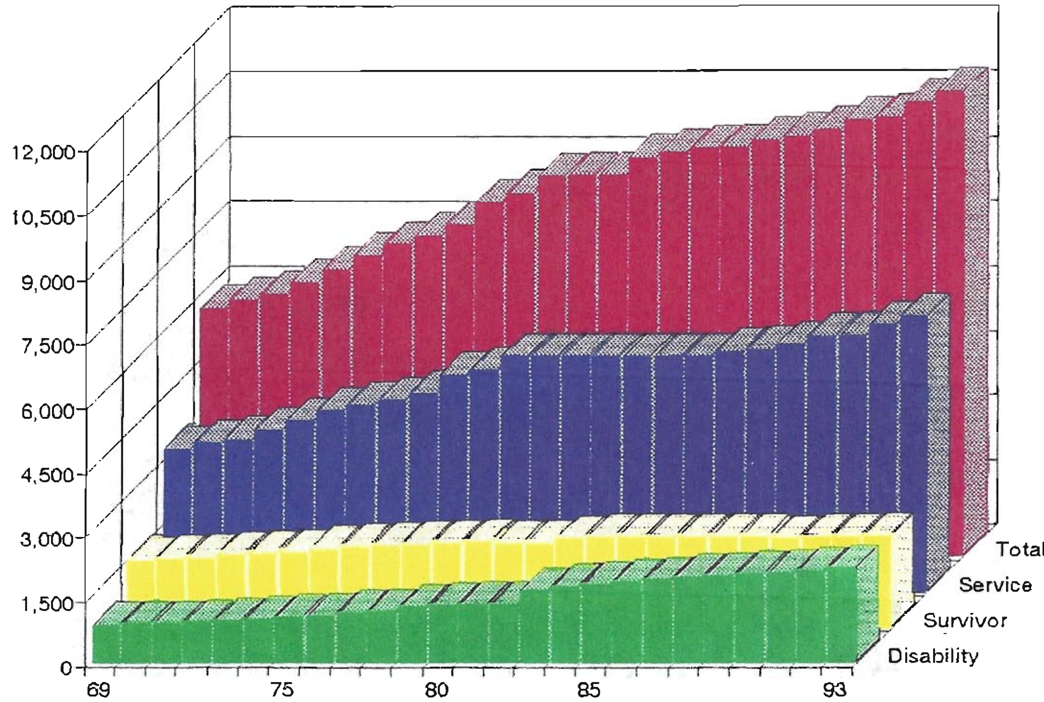
ACTIVE MEMBERSHIP
By Age Group



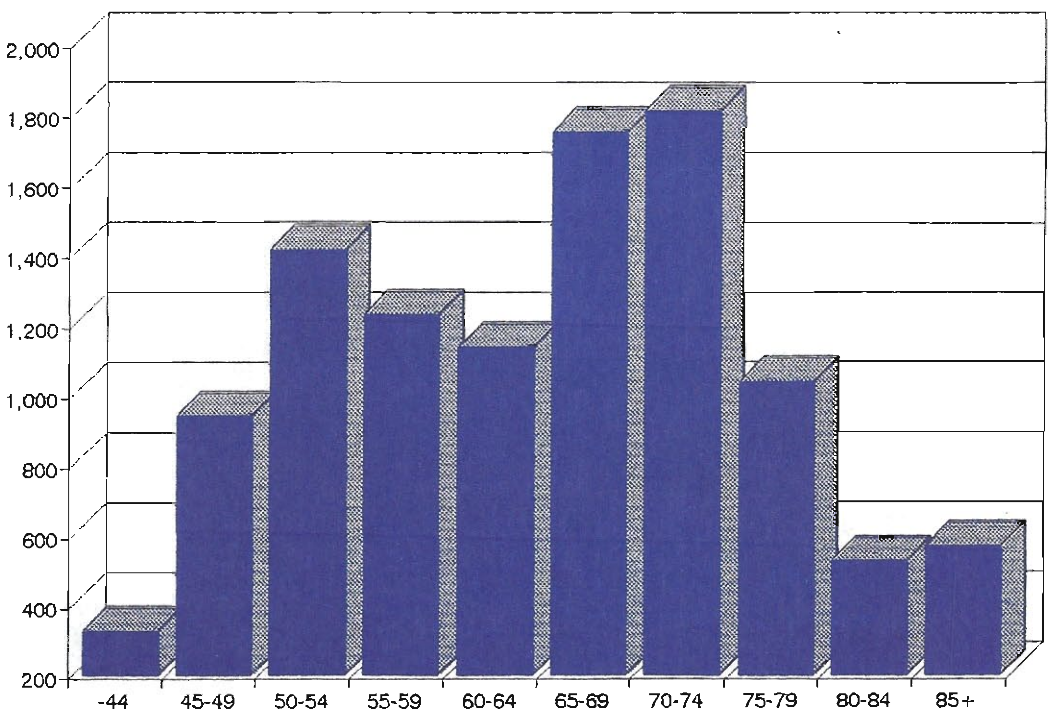
Age	Fire	Police
-25	56	147
25-29	355	1,414
30-34	678	1,508
35-39	640	1,166
40-44	515	1,239
45-49	449	1,499
50-54	266	535
55-59	113	92
60-64	24	10
65 +	10	2
Total	**3,106**	**7,612**

RETIRED MEMBERSHIP
Last Twenty-Five Years

AS OF JUNE 30, 1992	
Service Pensions	6,414
Disability Pensions	2,194
Survivor Pensions	2,132
Total	**10,740**

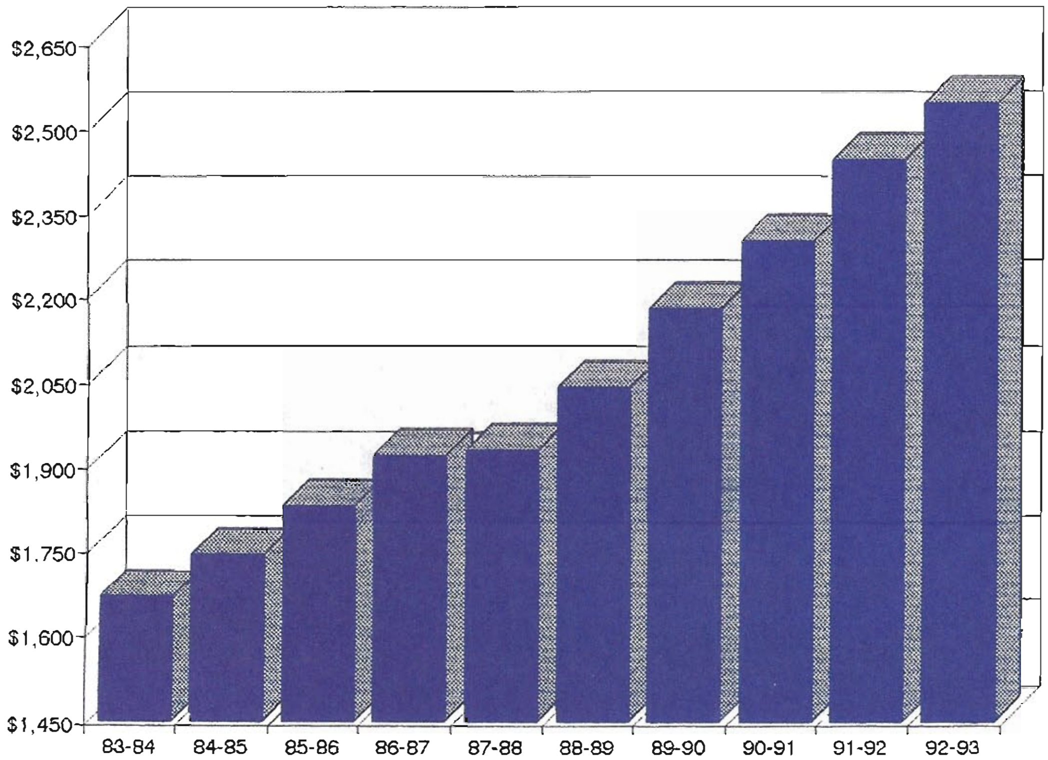


RETIRED MEMBERSHIP
By Age Group



Age	
-44	322
45-49	941
50-54	1,415
55-59	1,230
60-64	1,139
65-69	1,751
70-74	1,813
75-79	1,037
80-84	524
85+	568

AVERAGE MONTHLY PENSION

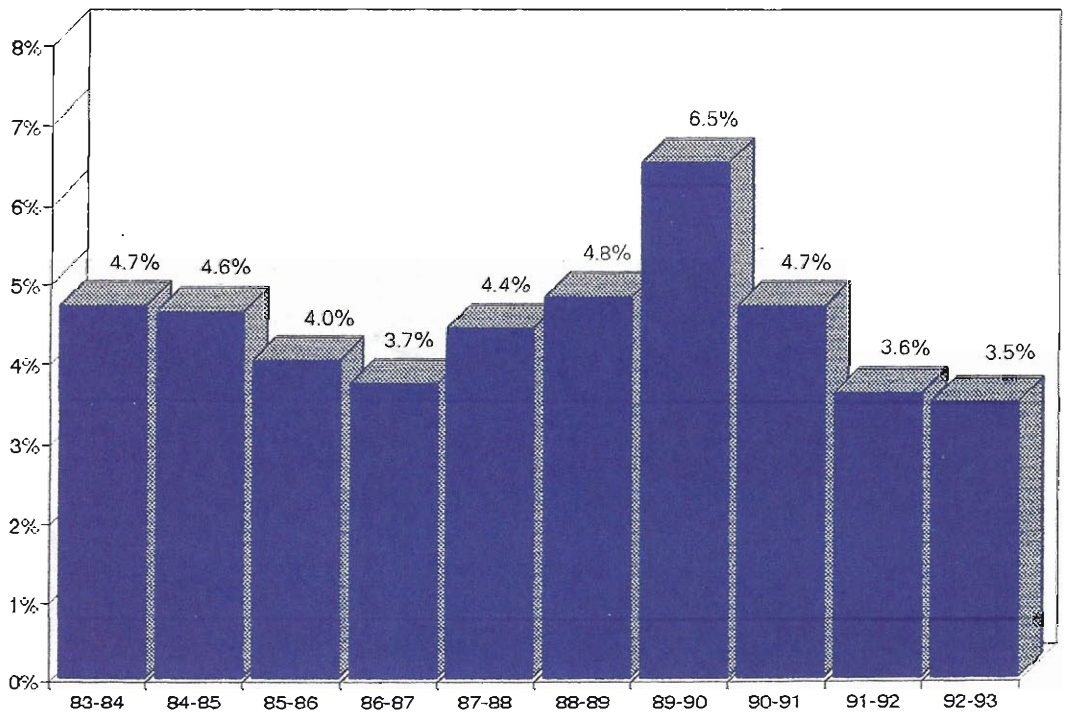


Year	Pension
83-84	$1,667
84-85	$1,741
85-86	$1,830
86-87	$1,918
87-88	$1,929
88-89	$2,039
89-90	$2,178
90-91	$2,299
91-92	$2,442
92-93	$2,543

COST OF LIVING ADJUSTMENTS

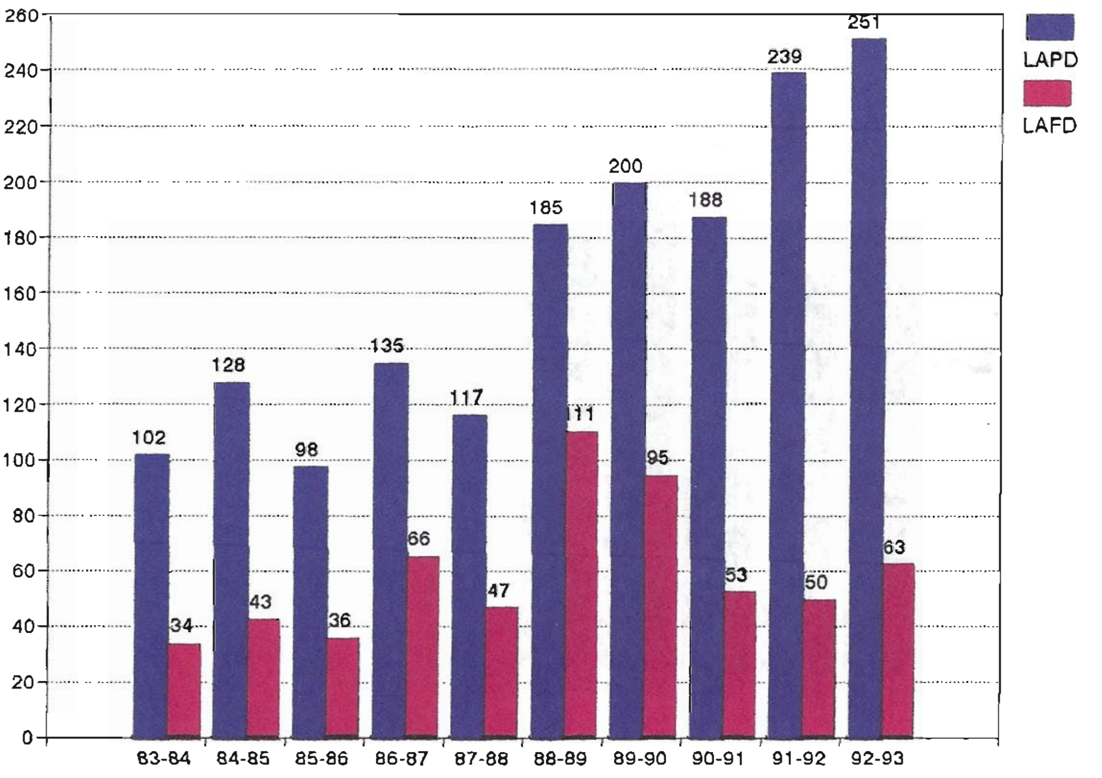
Effective July 1

Cost of living adjustments are made to eligible pensions each July 1, based on the movement of the consumer price index for the greater Los Angeles area from March 1 of the preceding year to March 1 of that year. Members of the *Safety Members Pension Plan* have cost of living increases capped at three percent. The City Council can provide for a discretionary cost of living increase above the 3% cap once every three years. Members of the other pension plans have no cap on their cost of living adjustments.

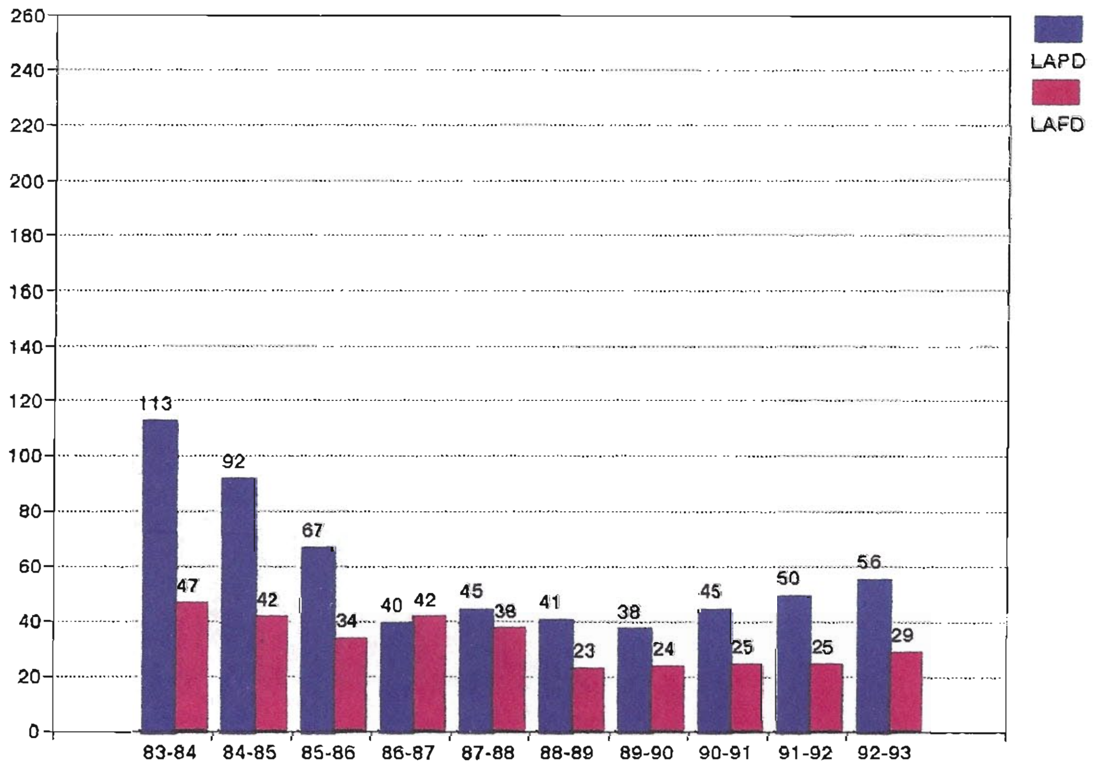


PENSION STATISTICS: LAST TEN YEARS

SERVICE PENSIONS GRANTED

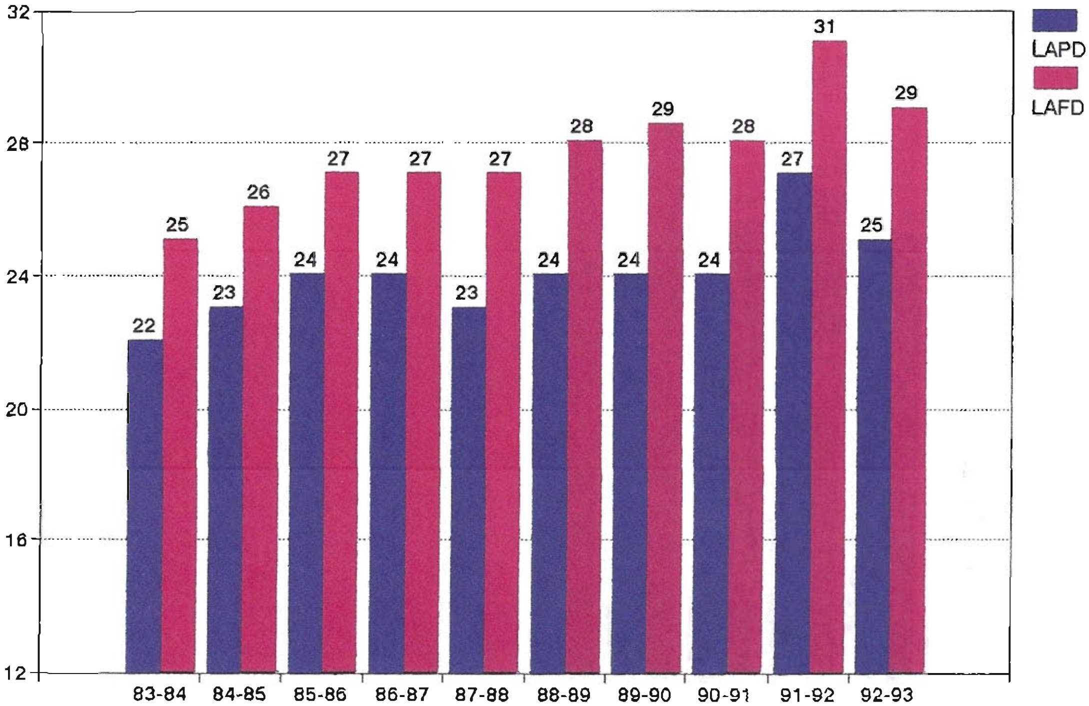


DISABILITY PENSIONS GRANTED

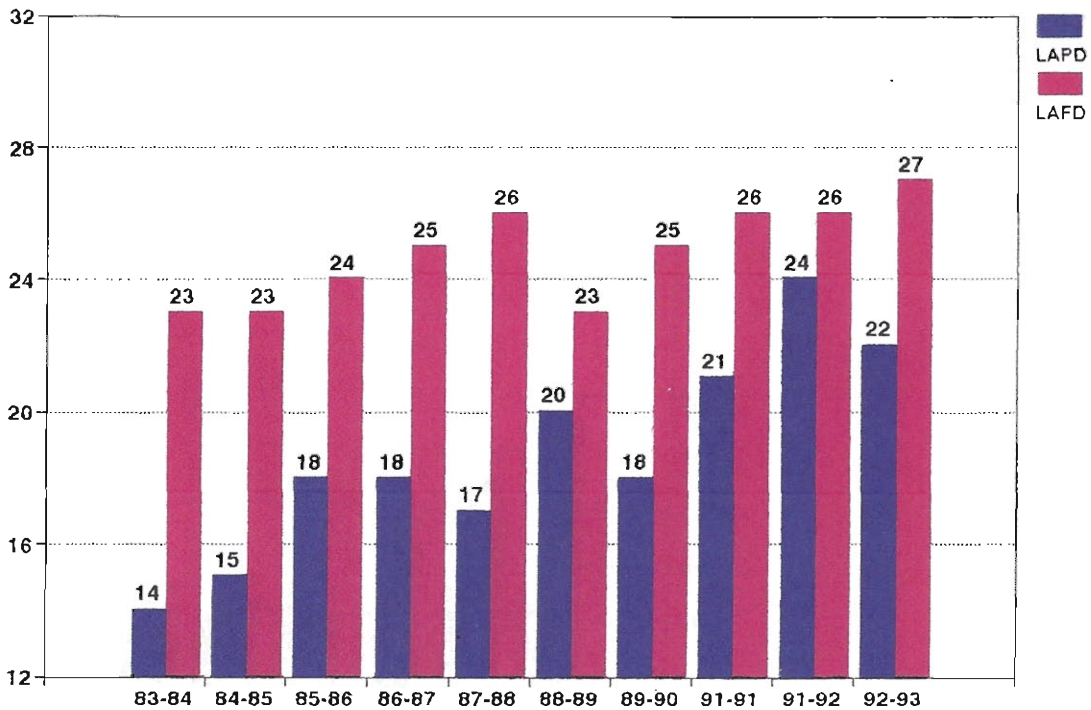


PENSION STATISTICS: LAST TEN YEARS

YEARS OF SERVICE
At Service Retirement

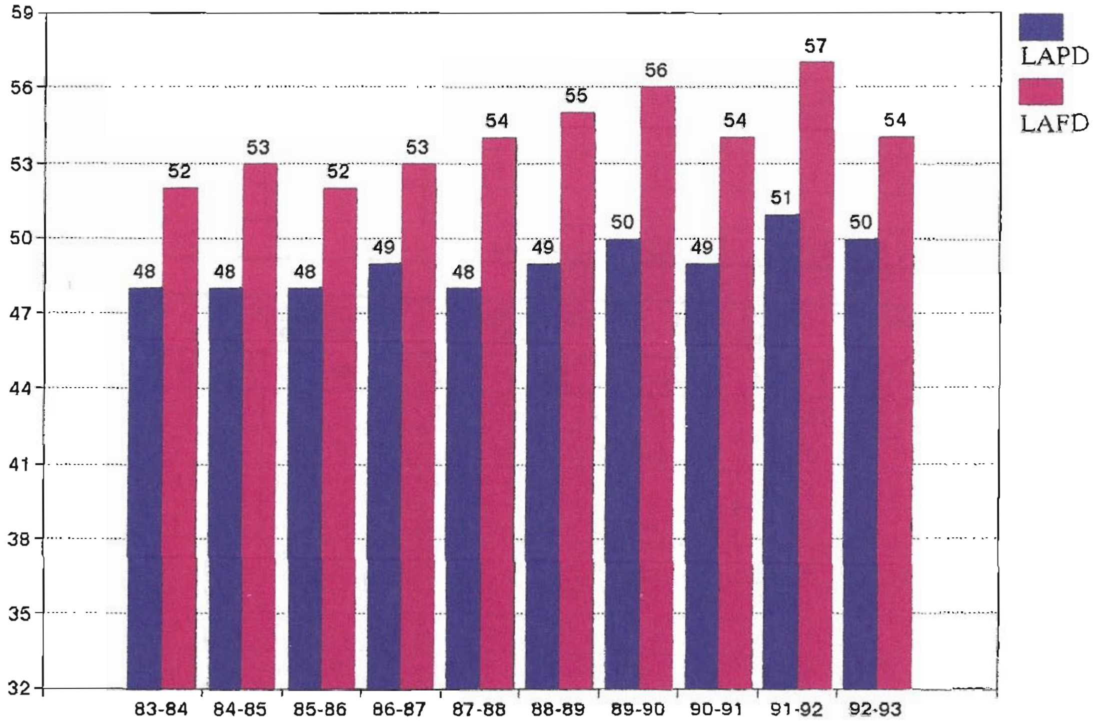


YEARS OF SERVICE
At Disability Retirement

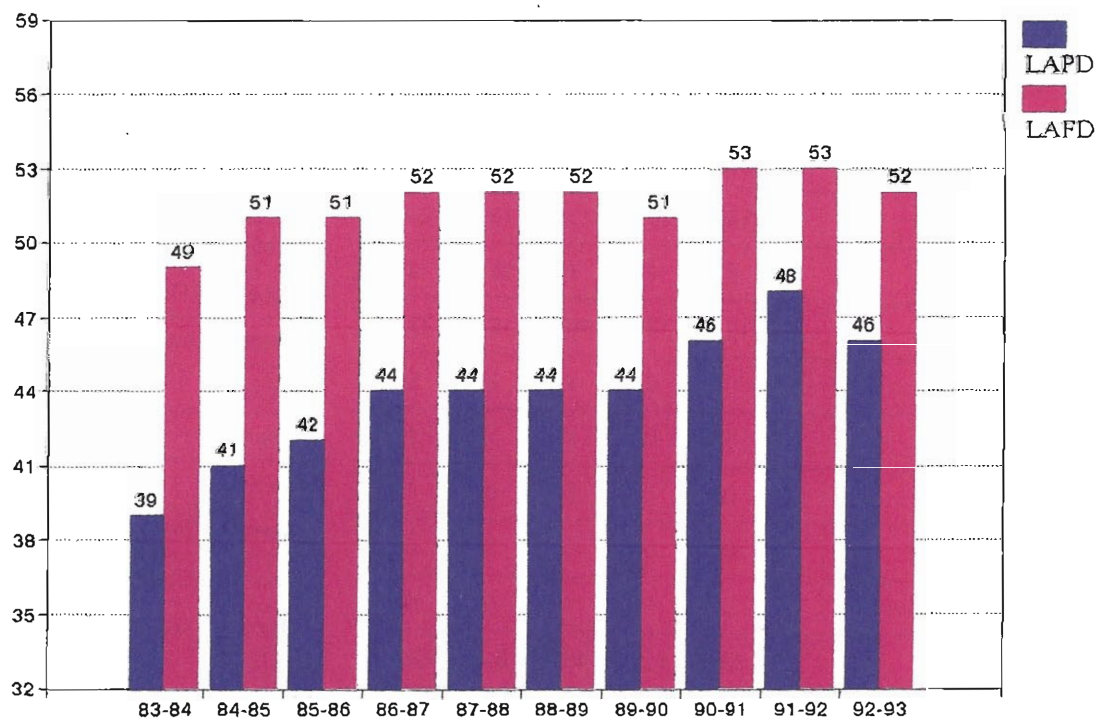


PENSION STATISTICS: LAST TEN YEARS

AVERAGE AGE
At Service Retirement



AVERAGE AGE
At Disability Retirement



SERVICE-CONNECTED DISABILITY PENSIONS

By Type, Department, and Rank: Last Five Years

	FISCAL YEAR 1988-89				FISCAL YEAR 1989-90				FISCAL YEAR 1990-91				FISCAL YEAR 1991-92				FISCAL YEAR 1992-93			
GRANTED	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total
Physical Only	19	0	31	50	22	1	24	47	25	0	35	60	24	0	43	67	22	5	43	70
Physical/Psychological	0	4	8	12	1	0	13	14	0	0	8	8	0	1	6	7	2	0	11	13
Psychological Only	0	0	2	2	0	0	1	1	0	0	2	2	0	0	1	1	0	0	2	2
TOTALS*	19	4	41	64	23	1	38	62	25	0	45	70	24	1	50	75	24	5	56	85

	FISCAL YEAR 1988-89				FISCAL YEAR 1989-90				FISCAL YEAR 1990-91				FISCAL YEAR 1991-92				FISCAL YEAR 1992-93			
	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total
Back	14	1	15	30	16	0	19	35	13	0	22	35	19	0	31	50	14	3	20	37
Neck	4	1	7	12	9	1	13	23	1	0	10	11	1	0	7	8	3	1	5	9
Knees	3	0	4	7	7	1	4	12	8	0	11	19	11	0	8	19	6	2	6	14
Other Orthopedic	2	2	9	13	9	1	8	18	3	0	6	9	6	0	10	16	7	1	14	22
Heart Attack	1	0	2	3	0	0	2	2	2	0	1	3	7	0	16	23	8	0	15	23
Ulcer	0	1	4	5	1	0	2	3	0	0	2	2	0	0	2	2	0	0	3	3
Hypertension	2	1	6	9	1	0	10	11	1	0	9	10	0	0	12	12	1	0	10	11
Hearing Loss	3	0	4	7	3	0	3	6	7	0	3	10	1	0	2	3	3	0	1	4
Pulmonary	2	1	1	4	0	0	0	0	1	0	0	1	1	0	2	3	2	0	4	6
Cancer	1	0	0	1	0	0	0	0	1	0	1	2	0	0	0	0	1	0	1	2
PCP Exposure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gun Shot Wound	0	0	1	1	0	0	0	0	0	0	1	1	0	0	0	0	0	0	1	1
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
TOTALS*	32	7	53	92	46	3	61	110	37	0	66	103	46	0	90	136	45	7	81	133

*Totals for type reflect multiple disability applications.

POLICE	88-89	89-90	90-91	91-92	92-93
Police Officer	25	25	23	16	24
Sergeant	6	4	7	15	4
Detective	12	13	15	19	22
Lieutenant	0	0	1	3	5
Captain	0	0	2	1	1
Commander	0	0	0	0	1
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
TOTALS	43	42	48	54	57

FIRE	88-89	89-90	90-91	91-92	92-93
Ambulance Driver/Paramedic	4	2	0	1	6
Firefighter	6	10	11	6	10
Apparatus Operator	0	0	1	0	0
Fireboat Mate	0	0	0	0	0
Engineer	7	5	5	4	5
Inspector	2	1	1	3	1
Captain	3	7	7	10	7
Battalion Chief	2	2	1	1	0
Assistant Chief	0	0	1	0	0
Deputy Chief	0	0	0	0	1
TOTALS	24	27	27	25	30

(FF—Firefighters, PM—Paramedics, PO—Police Officers)

Actuarial Report

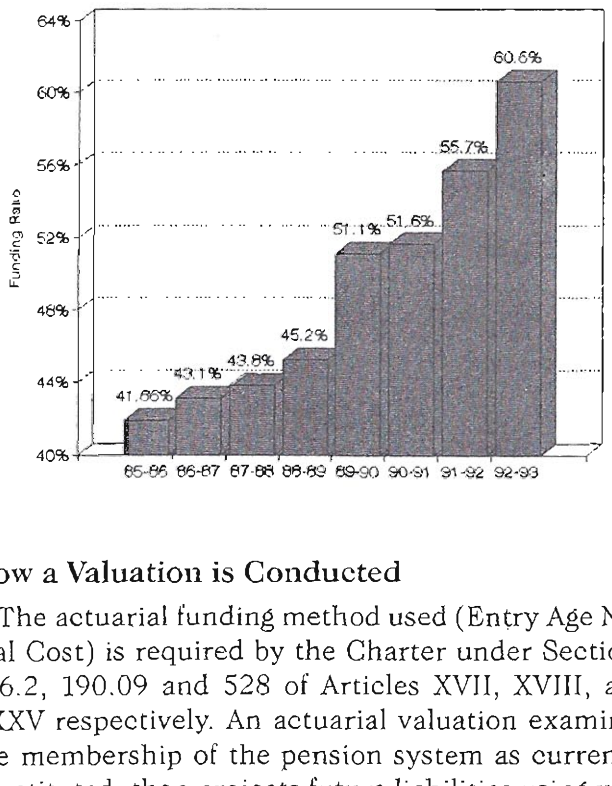
ACTUARIAL REPORT SUMMARY

Actuarial Valuations

Two actuarial valuations of the assets and liabilities of the pension benefits are conducted annually. One study examines the pension benefits paid to members and their beneficiaries, the other study examines the health subsidies allocated to qualifying members. These studies evaluate the funding progress of the system and determine the annual contribution requirements.

The funded status of the pension system is examined over a time span of several years to determine if funding progress is made. As can be seen by the following graph, satisfactory funding progress has occurred over the past eight years.

FUNDED STATUS



How a Valuation is Conducted

The actuarial funding method used (Entry Age Normal Cost) is required by the Charter under Sections 186.2, 190.09 and 528 of Articles XVII, XVIII, and XXXV respectively. An actuarial valuation examines the membership of the pension system as currently constituted, then projects future liabilities using various assumptions.

Non-economic actuarial assumptions on mortality of members and spouses, probability of service retirement and disability, probability of termination prior to retirement, and probability of having a surviving beneficiary, are created from studies made of the actual experience of the membership of the system. A new study is conducted not less than once every five years.

These assumptions are recommended by an actuary and adopted by the Board of Pension Commissioners. The last study was adopted by the Board on November 1992. An example of projected mortality is as follows:

Average Expected Years of Life Remaining for Pensioners

Service Pensioner (Average Age = 64)	17.4 years
Disabled Pensioner (Average Age = 55)	21.2 years
Survivor (Average Age = 72)	16.1 years

Economic assumptions are also studied, recommended by the actuary, and adopted by the Board. Economic assumptions in effect for this valuation period are:

Economic Assumptions

Cost-of-Living	*5.5%
Individual Salary	6.5%
Aggregate Salary	5.5%
Interest	8.5%

*(*Article XXXV is capped at 3%)*

Pension Benefit Balance Sheet

Cost of living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the interest assumption.

Once the liabilities of the system are computed the valuation study projects the member contributions expected to be received, which are reduced to today's dollar terms using the interest assumption. The individual salary assumption is used to project the total member contributions. The Entry Age Normal Cost contribution, the amount the City would contribute for a hypothetical new entrant into the system, is calculated. This amount would theoretically be sufficient to fully fund a member's retirement on the date of retirement if all assumptions were realized and no benefit changes were made.

These potential future contributions are considered assets of the system, along with assets currently being invested by the Pension Department. For purposes of determining the system contributions, the current assets are determined as a blend of the market value and book value of the assets.

As can be seen on the Actuarial Balance Sheets *(see p. 22)*, the balance of $3.298 billion is considered the unfunded actuarial liability.

Why there is an Unfunded Actuarial Liability

An unfunded actuarial liability can result from many variables. Often, benefit increases are credited to members while in the middle of their career, or even after they have retired. Since these benefit enhancements did not exist when the funding of the members' benefit began, contributions were not made during all or part of the members' working career. An example of a benefit enhancement that occurred was the lifting of a 2% cap on cost-of-living increases. This applied to all members, active and retired, and created an immediate unfunded liability. (The **Milestones** section at the end of this book contains more examples of benefit changes.)

The Entry Age Normal Cost actuarial method normally results in actuarial gains or losses, unless all actuarial assumptions are met each year. These actuarial gains or losses also result in decreases or increases in the unfunded actuarial liability.

Occasionally, the actuarial methodology itself is refined according to accepted actuarial practice. For example, salary increases were not utilized in the computations until the late 1970s. When this practice was included, it created an additional unfunded liability.

Finally, during a period in the history of the Pension System, the funding was on a pay-as-you-go basis, instead of an actuarial basis. When the system shifted to an actuarial basis, an immediate unfunded liability resulted.

How The Contribution Requirements are Calculated

The contribution is comprised of two pieces: The Entry Age Normal Cost Contribution and the contribution to amortize the unfunded liability. The unfunded liability is amoritzed over a time period and methodology prescribed in the Charter for each plan. The amortization period for Articles XVII and XVIII is scheduled to end June 30, 2037.

Article XVII is amortized as a level percent of all system members' (Articles XVII, XVIII, and XXXV combined) salaries. Article XXXV's amortization basis is a level percentage of plan members' salary over a continuous fifteen year cycle. Each year's actuarial gain or loss is amortized for fifteen years. Any gains or losses resulting from benefit changes are amortized over a thirty year period. Changes in the unfunded actuarial liability resulting from benefit changes are amortized over a thirty-year period.

With this information, the actuary computes the contribution requirements for the City.

Entry Age Normal Cost Contribution Requirements Recommended 1994-1995
(As a percentage of plan members' salary.)

Article XVII	18.936%
Article XVIII	26.534%
Article XXXV	14.569%

Unfunded Liability Contribution Requirements Recommended 1994-1995

Article XVII	$40,868,243
Article XVIII	20.614% of all system members' salary
Article XXXV	(1.574)% of Article XXXV members' salary

Health Subsidy Valuation

The health valuation study utilizes the same actuarial assumptions as the study on pension benefits, with the addition of a medical inflation assumption. Currently, medical costs are increasing at a faster pace than inflation. In 1993 the actuary assumed increases of 13% for pre-65 premiums and 11.5% for post-65 premiums. The actuary recommended a reduction of 6.5% in the trend rate in 2006 and beyond, which had been set at 7.5% in the previous valuation.

Using the same actuarial methods as for pension benefits, the Actuarial Balance Sheet is as shown on page 22.

The contributions suggested to fund the health subsidy plan are:

Entry Age Normal Cost Contribution Requirements Recommended 1994-1995
(As a percentage of plan members' salary)

Article XVII	0.880%
Article XVIII	2.141%
Article XXXV	4.107%

Unfunded Liability Contribution Requirements Recommended 1993-1994

Article XVII	$1,767,067
Article XVIII	3.803% of all system members' salary
Article XXXV	0.774% of Article XXXV members' salary

Valuation of Pension Benefits
Actuarial Balance Sheet As of June 30, 1993

ASSETS	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	$ 18,426,508	$4,309,601,903	$ 518,160,930	$4,846,189,341
2. Present Value of Future Member Contributions	93,929	122,854,731	287,537,547	410,486,207
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	695,889	500,882,809	542,356,713	1,043,935,411
b. Unfunded Actuarial Accrued Liability	467,527,123	2,891,149,327	(60,213,046)	3,298,463,404
4. Total Assets	$486,743,449	$7,824,488,770	$1,287,842,144	$9,599,074,363

LIABILITIES	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
5. Present Value of Benefits Already Granted				
a. Service Retirements	$ 136,852,984	$3,342,867,636	$ 2,414,236	$3,482,134,856
b. Disability Retirements	122,109,159	1,071,177,098	18,548,263	1,211,834,520
c. Survivors and Dependents	220,225,151	398,313,796	8,644,453	627,183,400
d. Total	$479,187,294	$4,812,358,530	$29,606,952	$5,321,152,776
6. Present Value of Benefits to be Granted				
a. Service Retirements	$ 6,602,092	$2,396,745,640	899,497,008	3,302,844,740
b. Disability Retirements	912,390	586,070,932	295,614,634	882,597,956
c. Survivors and Dependents	39,331	21,905,858	32,043,476	53,988,665
d. Total	$ 7,553,813	$3,004,722,430	$1,227,155,118	$4,239,431,361
7. Refund of Employee Contributions	2,342	7,407,810	31,080,074	38,490,226
8. Total Liabilities	$ 486,743,449	$7,824,488,770	$1,287,842,144	$9,599,074,363

Valuation of Post-Retirement Health Subsidy
Actuarial Balance Sheet as of June 30, 1993

ASSETS	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	$ 4,509,518	$ 52,025,348	$ 36,203,458	$ 92,738,324
2. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	18,656	33,721,537	126,227,278	156,967,471
b. Unfunded Actuarial Accrued Liability	20,215,069	533,362,043	40,435,714	594,012,826
3. Total Assets	$ 24,743,243	$ 619,108,928	$202,866,450	$ 846,718,621

LIABILITIES	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
4. Present Value of Benefits Already Granted	$ 23,920,908	$ 346,855,624	$ 1,371,113	$ 372,147,645
5. Present Value of Benefits to be Granted				
a. Actives Eligible to Retire	822,335	160,920,298	385,126	162,127,759
b. Other Actives	0	111,333,006	201,110,211	312,443,217
c. Total	822,335	272,253,304	201,495,337	474,570,976
6. Total Liabilities	$ 24,743,243	$ 619,108,928	$202,866,450	$ 846,718,621

Department Budget

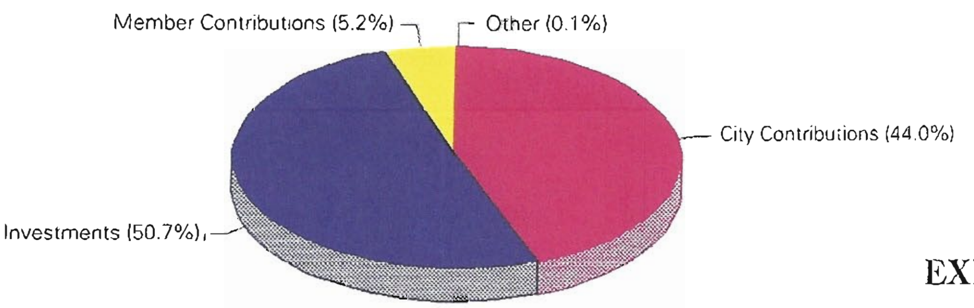
DEPARTMENT BUDGET

Receipts	Estimated 1992-93	Actual 1992-93
Balance Available	$ 3,156,002	$ 0
City Contribution	322,506,222	322,506,222
Member Contributions	42,943,724	40,507,788
Investment Income	197,000,000	213,286,412
Gain on Sale of Investments	—	157,379,338
Miscellaneous	400,000	424,867
Total Receipts	**$566,005,948**	**$734,104,627**

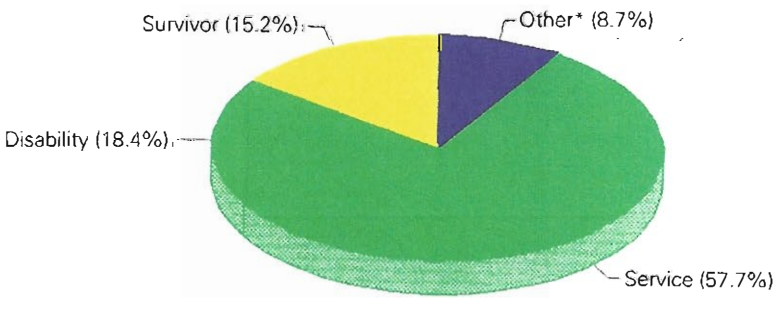
Expenditures	Estimated 1992-93	Actual 1992-93
Service Pensions	$202,300,000	$202,188,142
Disability Pensions	64,933,000	64,900,505
Surviving Spouse Pensions	53,000,000	52,791,776
Minors'/Dependents' Pensions	825,000	794,956
Refund of Member Contributions	2,800,000	2,504,630
Medicare	1,344,000	1,319,476
Health Insurance Subsidy	15,000,000	13,705,994
Investment Manager Fees	12,075,000	$ — *
Administrative Expense	5,065,350	15,432,279
Total Expenditures	**$357,342,350**	**$353,637,758**
Increase in Fund Balance	**$208,663,598**	**$380,466,869**

**Included in Administrative Expense*

RECEIPTS



EXPENDITURES



(*Minors'/Dependents' Pensions, Refund of Member Contributions, Medicare, Health Insurance Subsidy, Administrative Expense.)

Auditor's Report

MANNON KAPLAN, C.P.A.
JEFFREY S. SLOMIAK, C.P.A.
GEORGE NADEL RIVIN, C.P.A.
EDWIN KANEMARU, C.P.A.
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#95-2036255

Independent Auditor's Report

To the Board of Pension Commissioners of the
City of Los Angeles
Los Angeles, California

Members of the Board:

We have audited the accompanying balance sheets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 1993 and 1992, and the related statements of revenues, expenditures and changes in fund balance for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, such financial statements present fairly, in all material respects, the financial position of the City of Los Angeles Fire and Police Pension System as of June 30, 1993 and 1992, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

The financial statements as of June 30, for each of the years from 1984 through 1990 (none of which are presented here) were audited by other auditors whose report dated November 15, 1990 expressed a qualified opinion, based on the litigation discussed in Note 11 on those financial statements for each of the years from 1984 through 1988. This litigation was resolved and the resulting unfunded liability recorded in the financial statements beginning for the year ended June 30, 1989. In our opinion, except for the omission in years 1984 through 1988 of recording the unfunded liability discussed above and the inconsistency resulting from the effect of recording the unfunded actuarial liability of the health plan subsidy beginning in the year ended June 30, 1990, discussed in Note 2-G, the information set forth in the supplemental schedules for each of the ten years in the period ended June 30, 1993, appearing on Pages 12 through 15, is fairly stated, in all material respects, in relation to the financial statements from which it was derived.

Miller, Kaplan, Arase & Co

MILLER, KAPLAN, ARASE & CO.
November 29, 1993

City of Los Angeles Fire and Police Pension System
Balance Sheets

	JUNE 30, 1993		JUNE 30, 1992	
ASSETS				
CASH		$ 510,311		$ 2,271,389
RECEIVABLES				
Accrued Interest and Dividend Income	$ 30,470,216		$ 29,089,522	
Contributions	2,381,716		2,291,724	
Due from Brokers and Others	161,975,517		165,138,379	
Accrued Real Estate Income	1,333,768	196,161,217	1,447,287	197,966,912
INVESTMENTS				
Temporary, at Cost, Which Approximates Market	$ 563,493,050		$ 436,316,476	
Bonds, at Amortized Cost (Market Value of $1,443,539,340 in 1993 and $1,357,347,343 in 1992)	1,367,411,966		1,315,472,940	
Common Stock, at Cost (Market Value of $3,137,891,343 in 1993 and $2,590,333,398 in 1992)	2,309,118,507		2,043,689,542	
Preferred Stock, at Cost (Market Value of $49,245,096 in 1993 and $74,855,947 in 1992)	41,434,021		67,954,781	
Real Estate, including Real Estate Pools, and Real Estate Corporations, at Cost (Market Value of $197,190,597 in 1993 and $187,437,937 in 1992)	211,390,353	4,492,847,897	227,591,613	4,091,025,352
TOTAL ASSETS		$4,689,519,425		$4,291,263,653
LIABILITIES				
Benefits in Process of Payment	$ 766,397		$ 1,623,681	
Accounts Payable	5,152,673		3,996,525	
Deferred Option Premiums (Market Value of $75,606,883 in 1993 and $22,158,245 in 1992)	73,347,539		27,276,763	
Due to Brokers	149,461,047		178,002,393	
Mortgage Loan Payable — Note 8	5,936,345	234,664,001	5,975,736	216,875,098
NET ASSETS AVAILABLE FOR BENEFITS		$4,454,855,424		$4,074,388,555
FUND BALANCE				
Actuarial Present Value of Projected Benefits Payable to Current Retirants and Beneficiaries	$5,693,300,421		$5,374,385,161	
Actuarial Present Value of Credited Projected Benefits for Active Employees:				
Member Contributions	398,593,280		392,854,640	
Employer Financed Portion and Non-Refundable Member Contributions	2,255,437,953	$8,347,331,654	2,520,755,751	$8,287,995,552
Unfunded Actuarial Present Value of Credited Projected Benefits		(3,892,476,230)		(4,213,606,997)
TOTAL FUND BALANCE		$4,454,855,424		$4,074,388,555

City of Los Angeles Fire & Police Pension System
Statements of Revenues, Expenditures and Changes in Fund Balance

	JULY 1, 1992 to JUNE 30, 1993		JULY 1, 1991 to JUNE 30, 1992	
REVENUES				
City Contributions	$ 322,506,222		$ 337,710,888	
Member Contributions	38,003,158		39,874,823	
Miscellaneous	424,867	$ 360,934,247	811,447	$ 378,397,158
Investment Income:				
Interest	$ 132,927,855		$ 137,860,118	
Dividends	68,852,278		67,596,283	
Real Estate Income	10,315,512		8,743,342	
Securities Lending Income *(See Note 5)*	928,758		681,698	
Other	262,009	213,286,412	123,677	215,005,118
Investment Gains and Losses				
Net Loss on Foreclosure *(See Note 10)*	($ 34,092,187)		$—	
Provision for Permanent Impairment of Bonds	(6,967,657)		(13,816,159)	
Provision for Permanent Impairment of Real Estate	(37,823,958)		$—	
Provision for Permanent Impairment of Stocks	(570,199)		$—	
Net Gain on Sale of Investments	275,358,468		176,694,460	
Net Loss on Option Premiums	(38,525,129)	157,379,338	(8,515,897)	154,362,404
TOTAL REVENUES		$ 731,599,997		$ 747,764,680
EXPENDITURES				
Benefits Paid to Participants:				
Service	$ 202,188,142		$ 186,876,002	
Disability	64,900,505		60,615,857	
Surviving Spouses	52,791,776		51,316,631	
Minors and Dependents	794,956		866,789	
Health Plan Subsidy *(See Notes 2-G and 4)*	15,025,470	335,700,849	13,762,015	313,437,294
Investment Manager Fees	$ 11,040,227		$ 10,469,605	
Administrative Expense	4,392,052	15,432,279	5,082,532	15,552,137
TOTAL EXPENDITURES		$ 351,133,128		$ 328,989,431
NET REVENUES		$ 380,466,869		$ 418,775,249
FUND BALANCE, BEGINNING		4,074,388,555		3,655,613,306
FUND BALANCE, ENDING		$4,454,855,424		$4,074,388,555

Notes To Financial Statements

Note 1 — Description of Plan

The City of Los Angeles Department of Pensions operates under provisions of the City Charter of the City of Los Angeles, which provides that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan), based on the results of actuarial valuation, will be satisfied by the City of Los Angeles. In addition, the City of Los Angeles is required to fund the administrative expenses of the system.

In general, the System is a defined benefit pension plan covering all firefighters, police officers, paramedics, and civilian ambulance employees of the City of Los Angeles. Benefits are based on members' final compensation and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of three groups. Those members hired prior to January 26, 1967 participate in the first established Department of Pensions (Old System under Article XVII) unless they requested transfer to the New Pension System (New System under Article XVIII) established for members hired on or after January 26, 1967. Members hired after December 8, 1980 participate in the Safety Members Pension Plan (under Article XXXV) which was established at that time.

Members with 20 or more years of service in the Old System and New System are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 66⅔% in the Old System and 70% in the New System. There is no minimum age requirement. The Plans provide for unlimited cost-of-living adjustments in benefits for service. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements. Members of the Safety Members Pension Plan must be age 50, with ten years of service, to be entitled to an annual pension. Benefits are equal to 20% of their one-year average compensation, increasing for each year of service over ten years, to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefits can be adjusted by the City Council once every three years.

Since the Plan includes detailed provisions for each situation, members should refer to the Plan documents for more complete information.

Note 2 — Summary of Significant Accounting Policies

A. Basis of Presentation. The System's financial statements are prepared on the accrual basis of accounting and presented in accordance with Statement No. 6, "Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers," of the National Council on Governmental Accounting. Contributions and other income are recorded when earned, expenses when incurred, and gain or loss on investments in the year of disposition.

B. Cash. Cash consists primarily of an undivided interest in the cash held by the Treasurer of the City of Los Angeles and cash held by brokers in temporary bank accounts pending funding related to real estate investments.

C. Investments. The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record or the equivalent as determined by the Custodian, Bankers Trust Company. Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, Treasury bills and repurchase agreements are carried at cost, which approximates market at June 30, 1993 and 1992.

Pooled temporary investments represent funds invested in a Custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A-1 or P-1, or equivalent quality as determined by the Custodian.

Bonds are recorded at face value less unaccreted discount or plus unamortized premium. Bond premiums and discounts are amortized or accreted to the maturity date by adjusting the nominal interest rate to the yield basis upon which they were acquired.

Common and preferred stocks are carried at their cost basis.

Real estate investments are accounted for on the equity method of accounting when there is an interest of 20% or greater. The cost method has been used for investments of less than 20%. Direct real estate investments are depreciated on a straight-line basis over the estimated useful lives of the properties.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange at the balance sheet date. Resulting gains or losses are included in the statement of revenues, expenditures and changes in fund balance, if material.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Real estate market values are taken from recent appraisals, when available, and from the reports of investment advisors. Market values reflected by reports of advisors are based on recent purchase prices, appraisals and on advisor estimates.

Investments are written down when management deems there is a permanent impairment of value, with resulting charges recognized in the statement of revenues, expenditures and changes in fund balance.

D. **Income from Investments.** The Charter of the City of Los Angeles provides that the rate of return from investments, exclusive of gains and losses, shall be credited to member contribution accounts. Realized gains and losses on investments are recognized in the City's actuarial funding calculation.

E. **Deferrred Option Premiums.** As allowed by the Charter of the City of Los Angeles, the System writes covered call options. The deferred option premiums are stated in the accompanying balance sheets at cost. Income or loss on option transactions is reflected in current-year operations upon exercise, expiration of other disposition of the options.

F. **Repurchase Agreements.** The System enters into repurchase agreements with authorized banks and with broker-dealers registered under the Securities and Exchange Act of 1934, subject to the requirement that as collateral, the System receives securities that are direct obligations of or that are fully guaranteed as to principal and interest by the United States Government or any agency thereof; certificates of deposit, or eligible bankers' acceptances and other money market instruments rated A-1 and P-1, having a market value equal to not less than 100 percent of the amount of the repurchase agreement. Such collateral shall have been approved for direct purchase by the System.

At June 30, 1993 and 1992, the System had investments (at cost) in repurchase agreements of $19,825,000 and $-0-, respectively. The corresponding market value of these investments approximates cost.

G. **Post-Retirement Benefits.** Retired members currently receive a health plan subsidy. The amounts paid into this subsidy are charged to current year operations. Effective in the fiscal year ended June 30, 1990, the system reflected the unfunded actuarial liability of the health plan subsidy. The System's actuarial present value of projected benefits and unfunded actuarial liability includes the following amounts in the year ended June 30, 1993 as a result of this change:

Actuarial Present Value of Projected Benefits Payable to Current Retirants and Beneficiaries	**$372,147,645**
Actuarial Present Value of Credited Projected Benefits for Active Employees	**$474,570,976**
Unfunded Actuarial Present Value of Credited Projected Benefit	**$594,012,826**

Note 3 — Estimated Liability For Pensions

The estimated liability for pensions reflects the liabilities as determined by the System's actuaries based upon actuarial valuations as of June 30, 1993 and 1992. Such liabilities represent computed amounts that, if such amounts were held by the System, with additions from future contributions to be received to cover normal costs and with interest on investments compounded annually at a certain assumed rate, would be sufficient to meet the projected pension obligations. The valuation results for fiscal years ending June 30, 1993 and 1992 were based on demographic assumptions adopted as a result of studies of System experience made as of June 30, 1992. The most significant economic and actuarial assumptions for fiscal years 1993 and 1992 consist of the following:

	Pension System	Health Subsidy
Investment Return	8.5%	8.5%
Annual Salary Scale Increase		
Individually	6.5%	6.5%
Aggregate	5.5%	5.5%
Annual Cost of Living Increase:		
Old and New System Members:		
Accrued for Service Prior to June 30, 1982	5.5%	—
Accrued for All Subsequent Service (Subject to Any Applicable Caps)	5.5%	—
Safety Members Pension Plan Members	3.0%	—
Graded Medical Cost Rate Increases:		
Pre-65 Premiums	—	14.0%*
Post-65 Premiums	—	12.0%*

(*Decreasing gradually to 7.5% in 2003 and beyond.)

Mortality Among Retirees — The valuation for those on service retirement is based upon the 1983 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1974 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Motality Among Spouses — The valuation is based upon the 1983 Group Annuity Mortality Table.

Remarriage Among Spouses — Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

Note 4 — Funding Policy

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuaries, in their reports as of June 30, 1993 and 1992, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Old System members are required by the City Charter to contribute 6% of salary. Safety Members Pension Plan members are required to contribute 8% of salary.

The Charter of the City of Los Angeles specifies that the City will make the following contributions each year:

A. An amount equal to the City's share of defined entry-age normal costs.

B. For New System members and Old System members, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under the Safety Members Pension Plan, any "unfunded liability" of that System shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.

C. An amount to provide for health plan subsidies for retired members.

D. An amount to provide for administrative expenses.

Accordingly, the actuaries for the System have determined the contributions for items A, B, and C above, for the years ended June 30, 1993 and 1992, to be as follows:

	Percentage of Members' Salaries					
	Old System (Article XVII)		New System (Article XVIII)		Safety Members Pension Plan (Article XXXV)	
	1993	1992	1993	1992	1993	1992
Entry-Age Normal Cost Contribution	20.73%	21.41%	23.65%	23.93%	15.15%	15.34%
Amortization of Unfunded Liability	$44.2M	$45.7M	21.08%	20.75%	(0.57%)	(1.92%)
Health Plan Subsidy	$2.0M*	$1.7M*	$27.0M*	$21.5M*	$16.7M*	$10.2M*

(*Stated as required dollar amount)

The actuarially determined unfunded liability of the System is $3,892,476,230 at June 30, 1993 and $4,213,606,997 at June 30, 1992 (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City Charter, the amount at June 30, 1993 is to be amortized over the next 44 years** through contributions to be made by the City.

(**Amortization to be completed by year 2037.)

Contributions totaling $360,509,380 ($322,506,222 City and $38,003,158 member) were made during the period ending June 30, 1993 with respect to the pension plan and health plan subsidy, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 1992. These contributions consisted, for the aggregate pension plans, of approximately $153,600,000 normal cost and $161,800,000 amortization of the unfunded actuarial accrued liability. For the health plan subsidy, they consisted of approximately $19,900,000 normal cost and $25,200,000 amortization of the unfunded actuarial accrued liability.

Note 5 — Securities Lending

The System has entered into various short-term arrangements whereby investments are loaned to certain brokers as selected by the Custodian. The lending arrangements are collateralized by cash, letters of credit and marketable securities, held on the System's behalf by the Custodian. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit. Securities on loan to brokers continue to be shown at their cost basis in the balance sheet. Amounts outstanding at June 30, 1993 and 1992 are as follows:

	1993	1992
Securities on Loan:		
Cost	$430,841,240	$244,707,893
Market	$498,448,694	$268,320,314
Collateral (Market)	$511,813,067	$283,808,768

Note 6 — Contingencies

A. **Termination Rights.** All members who were active on or after July 1, 1982 have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement. The dollar amounts of the contributions and interest subject to this right at June 30, 1993 and 1992 are $398,593,280 and $392,854,640, respectively.

B. Legal Actions. Several legal actions against the Board of Pension Commissioners were pending at June 30, 1993. Except for the following matters, the combined potential liability of these actions is not deemed to be material to the net assets of the System.

In February 1987 the System was named in a class action lawsuit that sought to refund all disability pensioners' contributions on the basis that the disability pensions are not a pension award; thus, the City should not be allowed to keep the pension contributions. Per legal counsel, the class action represented a liability exposure that could range from ten million to fifty million dollars. The City filed a motion for summary judgment and on November 6, 1991 the trial court found that the class plaintiffs were not entitled to a refund of their pension contributions. On January 27, 1992, the plaintiffs filed timely Notice of Appeal. In a non-published opinion filed on November 18, 1993 the Court of Appeal upheld the decision of the trial court. A petition for review by the California Supreme Court was filed in December 1993. Legal counsel is confident that the California Supreme Court will deny the request for a hearing. Accordingly, no provision for any liability has been made in the financial statements.

In the past, the System has often been named in domestic relations matters dealing with the division of community property. In the opinion of System counsel, such domestic relations lawsuits no longer pose a threat to the System due to several recent Court of Appeal decisions which protect the System from the impact of divorce orders.

Note 7 — Sub-Investment Grade Bonds

At June 30, 1993 and 1992, the System had investments (at cost) in bonds rated below investment grade of approximately $201,728,646 and $188,744,379, respectively. The corresponding market values of these investments at these dates were $201,017,359 and $178,048,937, respectively.

Note 8 — Mortgage Loan Payable

This mortgage loan payable consists of the following at June 30:

	1993	1992
9.5% mortgage note, secured by Park Plaza Community Center, payable in monthly installments of interest only through October 1, 1991 and monthly installments of $50,450 (including interest) from November 1, 1991 until October 1, 1996 when the remaining balance of approximately $5,825,000 is payable.	$5,936,345	$5,975,736

Maturities of the mortgage loan payable are as follows for year end June 30:

1994	$43,300
1995	$47,598
1996	$52,322
1997	$5,793,125
Total	$5,936,345

Note 9 — Governmental Accounting Standards Board (GASB) Investment Categories

The System's investments in securities are categorized below, in accordance with categories established by the GASB, to give an indication of relative custodial credit risk assumed at year-end. Investments in real estate represent non-categorized investments under GASB guidelines. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, their trust departments or agents, but not in the System's name.

At June 30, 1993 and 1992, the carrying value and market value of investments were as follows (in thousands):

CATEGORY 1 INVESTMENTS
Investments (Excluding Real Estate and Short-Term Pooled Investment Fund)

1993		1992	
Cost	Market Value	Cost	Market Value
$4,008,341	$4,921,051	$3,619,326	$4,214,745

CATEGORY 3 INVESTMENTS
Investments in Short-Term Pooled Investment Fund)

1993		1992	
Cost	Market Value	Cost	Market Value
$273,117	$273,117	$244,108	$244,108

Investments presented in Category 3 represent the System's investment in a pooled short-term investment fund managed by the Custodian, which also performs safekeeping of the pool's securities (Note 2-C).

Note 10 — Loss on Foreclosure of Property

The System's investment in the property at 135 East 57th Street, New York City was originally structured as a first mortgage. The System received title to the property as a result of its mortgage interest in the property through Bankruptcy Court on December 30, 1992 which involved foreclosure of the property. Accordingly, the System's investment has been recorded as an investment in real estate. The difference between the mortgage receivable plus related costs, before foreclosure of $67,334,867 and the appraised value at June 30, 1993 of $33,242,680 is being recognized as a loss on foreclosure at June 30, 1993 of $34,092,187, as required by generally accepted accounting principals.

Note 11 — Cap on Cost of Living Adjustments

A lawsuit filed by the Los Angeles Police Protective League challenged the legality of a proposition that was approved by the electorate of the City of Los Angeles in regard to a 3% cap on cost-of-living adjustments for years of service subsequent to July 1, 1982. At the trial of this action, the lower court ruled on April 2, 1987 that the 3% cap is invalid and unenforceable. In addition, provisions in the Charter providing for a proration method of calculating the cost-of-living adjustment for the first year of retirement were ruled invalid and unenforceable. On April 26, 1989, the Court of Appeals affirmed the trial court's judgement, and the Supreme Court of California denied the City's petition for review of the decision. The resulting unfunded liability of $390.7 million was recorded in the financial statements for the year ended June 30, 1989.

Legal Summary

Summary of Legal Activities
General Pension Litigation in Fiscal Year 1991-1992

There were several court decisions rendered in the pension field which are of importance to the City and the Board. Some of these matters are now final and conclusive and further proceedings are pending in others. Some important cases have not yet reached the trial stage.

A brief summary of some of the cases handled by the City Attorney for the Board of Pension Commissioners presents the following:

Reiner et al v. City of Los Angeles

This lawsuit has been reported in several prior annual report legal summaries.

On February 6, 1987, a complaint for damages, conversion, violation of equal protection, violation of the due process clause, unjust enrichment and money had and received was filed by Joseph J. Reiner, in behalf of some 2,000 retired disability pensioners. Plaintiffs sought what was then estimated as One Hundred Million Dollars ($100,000,00.00) in damages. The plaintiff's claim was that fire and police pension plan members who receive disability pension grants also are entitled to a refund of their monthly pension contributions since, under the law, member contributions cannot be used to defray the cost of a disability pension.

On November 6, 1991, the matter came up for hearing in Department 59 of the Superior Court. At the conclusion of the proceedings the Court denied Plaintiffs' Motion for Summary Adjudication of Issues and granted the City's Motion for Summary Judgment.

The Plaintiffs filed timely notice of Appeal and the case was set for hearing in the Second Appellate District Court of Appeal.

City of Los Angeles v. George Aitchison

The ongoing Aitchison lawsuit also has been reported in previous legal summaries. This lawsuit involves a reactivated LAPD Sergeant who continued to receive pension payments for almost three years while also receiving an active salary. The pension overpayment exceeded $60,000.00.

Aitchison's actions in this regard also resulted in the imposition of discipline by the LAPD which took the form of suspended days off without pay. In response to his suspension, Aitchison filed a Petition for Peremptory Writ of Mandate which lawsuit is defended by the Employee Relations Section of this office.

Following the filing of our initial complaint in this matter, Atchison filed a cross-complaint against the City seeking declaratory and injunctive relief against the actions of the Board. No developments have occurred in this case during this reporting period other than ongoing discovery and nonsubstantive court appearances dealing with procedural issues.

City of Los Angeles v Eva and Deborah Sizer

The Sizer lawsuit also has been reported in prior summaries.

This case involves minor child benefits paid to the wife (Eva Sizer) of a deceased pension plan member on behalf of a minor child (Deborah Sizer). Eva Sizer was appointed Guardian Ad Litem of the Estate of Deborah Sizer. The Board of Pension Commissioners granted a monthly benefit to Deborah Sizer, payable to Eva Sizer, as Guardian Ad Litem. The benefit was available to Deborah Sizer until she attained eighteen years of age or married.

The minor attained age 18 on August 14, 1987, however, this fact as not made known to the Department of Pensions until June 27, 1991. This office, on behalf of the Board of Pension Commissioners, filed a complaint against the Sizers alleging conversion, unjust enrichment, and money had and received.

During this reporting period this office was successful in negotiating a settlement of this lawsuit and the matter is now awaiting issuance of a final dismissal order by the Court.

Thomas G. Pompa, et al v. Board of Pension Commissioners

Thomas G. Pompa is a disability pensioner under Article XVIII of the City Charter. Upon being faced with the prospect of having to repay over forty thousand dollars he had received in workers compensation awards, Pompa filed a Chapter 7 bankruptcy action claiming that the pay back amount was dischargeable as a debt under applicable federal statutes.

On behalf of the Board, this office filed a Complaint to Determine Dischargeability of a Debt in the United States Bankruptcy Court, Central District, San Bernardino. A Notice of Trial was issued for January 10, 1994. Following opposing counsel's review of our trial brief prepared in support of the complaint, it was agreed that the parties would stipulate to a court finding that the Board's recoupment of the prior compensation is not a collection of a "debt" as envisioned under Chapter 7 bankruptcy proceedings. The stipulation is awaiting execution by Mr. Pompa.

Briggs v. Briggs

Gordon J. Briggs is a retired member of the New Pension System. In a marriage dissolution judgment filed January 19, 1988, his former spouse, Joan K. Briggs, was awarded one-half of his pension benefit. Joan Briggs' community portion was to terminate in the event of her remarriage.

Joan Briggs remarried on February 16, 1992. Her one-half of Gordon Briggs' pension was terminated at his request on or about April 1, 1993. Legal proceeding then pursued between the parties based upon a contention by Joan Briggs that the court order requiring termination of her community portion upon marriage was an illegal order.

This office made court appearances on two occasions for purposes of ensuring that no retroactive or prospective orders were issued that would impose unlawful obligations on the System. At present, the System has been enjoined from disturbing the flow of benefits to Joan Briggs pending final decision of the court.

Kiefer v Kiefer

This matter involves a dispute between a retired (now deceased) disability pensioner and a divorced former spouse over the community interest in the member's disability pension benefit. After several court appearances, a dissolution order finally was obtained which awarded the former spouse a community share.

Prior to actual commencement of benefit payments to the former spouse, however, the member passed away leaving a qualified surviving spouse who is entitled to a widow's pension. The former spouse subsequently made a claim for a community share of the widow's pension. After a reasonable time, and in the absence of further formal court proceedings, this office approved present payment of a portion of the widow's pension to the former spouse.

Domestic Relations Lawsuits

In past summaries, we have routinely reported that the system often is faced with recurring domestic relations lawsuits dealing with the division of community property interests in active and retired members' pension benefits wherein family law courts issue pension division orders which have an adverse and unanticipated impact upon plan assets.

We now feel that these domestic relations lawsuits no longer pose a threat to the System as a result of several recent Court of Appeal decisions which, in effect, protect the System from the impact of divorce orders that are contrary to the System's pension plan provisions.

The fact remains, however, that the Pensions Section currently manages in excess of 1,100 marriage dissolution pension joinders in various stages of litigation. New joinders are processed at an average rate of 1-2 per week. A few recalcitrant community property orders continue to surface and are routinely opposed.

Writs of Mandate

The remaining cases for this reporting period, to the extent that they have not been finally resolved, are challenges by individual System members who feel aggrieved by Board decisions relative to their disability pension applications. Each of the following cases involves a Writ of Mandate filed in opposition to a disability pension denial:

Day v. Board of Pension Commissioners

The Superior Court upheld the Board's denial of a disability pension. The Court of Appeal upheld the decision of the trial court, vis a vis that of the Board.

Gibson v. Board of Pension Commissioners

The Board's denial of disability pension benefits was upheld in Superior Court. The case was argued in the Court of Appeal on February 17, 1993. The decision of the Board was upheld on appeal.

Lorenz v. Board of Pension Commissioners

Hearing on Petition for Writ of Mandate set for February 16, 1994.

Souza v. Board of Pension Commissioners

The Superior Court upheld the Board's denial of a disability pension.

Robison v. Board of Pension Commissioners

Petition for Peremptory Writ of Mandate filed. Notice of hearing pending.

Upp v. Board of Pension Commissioners

Hearing on Petition for Peremptory Writ Mandate set for March 28, 1994.

Description of Pension Benefits

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
1. SERVICE RETIREMENT			
a. Eligibility	20 years of service	20 years of service	Age 50 with 10 years of service.
b. Salary Base	Final salary rate	Final Salary rate	One-year average salary.
c. Pension as a percentage of salary base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1⅔% for each additional year between 25 and 35 years of service. Maximum of 66⅔% for 35 or more years of service.	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service. Maximum of 70% for 30 or more years of service.	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service. Maximum of 70% for 30 or more years of service
2. SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions	No age or service conditions	No age or service conditions
b. Salary Base c. Pension as a percentage of salary base	Final salary rate 50% to 90% depending on severity of disability.	Final salary rate 50% to 90% depending on severity of disability.	One-year average salary 30% to 90% depending on severity of disability, with a minimum of 2% per year of service.
3. NON-SERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service	Five years of service	Five years of service
b. Salary Base	Final salary rate for highest-paid police officer's or firefighter's rank.	Final salary rate for highest-paid police officer's or firefighter's rank.	One-year average of member's own salary.
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions for member.	No age or service conditions for member.	No age or service conditions for member.
b. Salary Base	Final salary rate	Final salary rate	One-year average salary
c. Eligible spouse's benefit as a percentage of salary base.	50% Pension stops upon remarriage.	50% with less than 25 years of service 55% with 25 or more years of service. Pension stops upon remarriage.	75% if service-connected death or disabled less than 3 years; otherwise 60% of member's disability pension. Pension stops upon remarriage.
d. Children's benefit as a percentage of spouse's benefit.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
e. Dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	100% if spouse or children not receiving.	100% if spouse or children not receiving.

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
5. DEATH WHILE ELIGIBLE FOR SERVICE RETIREMENT OR DEATH AFTER SERVICE RETIREMENT			
a. Eligibility	20 years of service	20 years of service	Age 50 with 10 years of service.
b. Eligible spouse's benefit	50% of final salary rate. Pension stops upon remarriage.	Member's accrued service retirement, not to exceed 55% of final Pension stops upon remarriage.	60% of member's accrued service retirement. At retirement, member may elect higher death benefit with corresponding actuarial reduction of service retirement benefit. Pension stops upon remarriage.
c. Children's benefit as a percentage of spouse's benefit.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death
d. Dependent parent's benefit as a percentage of member's benefit.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
6. NON-SERVICE-CONNECTED DEATH OR DEATH AFTER NON-SERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service.	Five years of service.	Five years of service.
b. Eligible spouse's benefit.	40% of final salary rate for highest-paid police officer's or firefighter's rank; if eligible for service retirement, the accrued service retirement not to exceed 50% of final salary rate. Pension stops upon remarriage.	40% of final salary rate for highest-paid police officer's or firefighter's rank; if eligible for service retirement, the accrued service retirement not to exceed 55% of final salary rate. Pension stops upon remarriage.	For non-service death: 30% of final one-year average salary or, if eligible for service retirement, 80% of accrued service retirement not to exceed 40% of final one-year average salary. For death after non-service disability; 60% of member's pension. Pension stops upon remarriage.
c. Children's benefit as a percentage of spouse's	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if child not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches 18 (age 22 if in school) unless child is disabled before age 21.
d. Dependent parent's benefit as a percentage of spouse's benefit.	100% if spouse or children not receiving.	100% if spouse or children not receiving.	100% if spouse or children not receiving.
7. COST-OF-LIVING			
a. Generally applicable provisions.	Current Plan Provision: Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.	Current Plan Provision: Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers	Annual cost-of-living increase not to exceed 3%. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
7. COST-OF-LIVING Continued			
a. Generally applicable provisions (cont'd)	Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	City Council may grant discretionary cost-of-living increases once every three years. Survivor's pensions include the percentage of cost-of-living increases applied to the member's pension prior to death. (Pro rata adjustment in the first year of retirement.)
b. Effective date of cost of living increases			
i. Service retirement, death while eligible for service retirement, death after service retirement.	Annual increases commence on the July 1st following the later of the effective date or the date the member would have been age 55.	Annual increases commence on the July 1st following the later of the effective date or the date the member would have completed 25 years of service	Annual increases commence the July 1st following the effective date.
ii. Service-connected disability, death after service-connected disability.	Annual increases commence on the July 1st following the effective date.	Annual increases commence on the July 1st following the effective date.	Annual increases commence on the July 1st following the effective date.
iii. Service-connected death, nonservice-connected disability, nonservice connected death, death after nonservice-connected disability.	Annual increase on the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier.	Annual increases on the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier.	Annual increases commence on the July 1st following the effective date.
8. MEMBERS' CONTRIBUTIONS AS AN ANNUAL PERCENTAGE OF PAY			
	6%. No member contributions required after thirty years of service.	6% plus ½ cost of cost-of-living benefit up to 1%. No member contributions required after thirty years of service.	8%. No member contributions required after thirty years of service.
9. MISCELLANEOUS			
a. Vesting of service retirement.	No vesting until retirement.	No vesting until retirement.	After 10 years of service.
b. Return of contributions with interest.	On termination or death if no other benefits are payable.	On termination or death if no other benefits are payable.	On termination or death if no other benefits are payable (except basic death benefit).
c. Basic death benefit.	None.	None.	In addition to return of contributions, beneficiary receives one-year average monthly salary times years of completed service (up to 6).

MILESTONES

1899-1901. A pension system for policemen was authorized by the California State Legislature and became effective in the City of Los Angeles on June 7, 1899. A pension system for firemen, similarly authorized, became effective June 10, 1901. Basic retirement provisions were one-half of salary of rank held after 20 years of service and attainment of age 60, and a service-connected disability pension of one-half of salary of the rank held at the date of retirement. There were also dependent benefits.

1913-1919. The Los Angeles City Council, by ordinances effective September 16, 1913, adopted the subtance of the systems authorized by state statute, but reduced the minimum retirement age to 55 and eliminated contributions. In 1919 such ordinances were amended to provide for a pension of one-half of the salary attached to the rank after 20 years of service, without limitations as to age.

1923-1925. Effective January 29, 1923, the substance of these two ordinances was adopted into the Charter. The system was placed upon an actuarial basis. Also 1⅔% for each year of service (in addition to the minimum of 20 required) was authorized up to a maximum pension of two-thirds of the salary of the rank held. This was continued in the new City Charter which became effective July 1, 1925. Added was a provision that service and disability pensions would remain fixed amounts.

1927. Effective January 17, 1927, the Charter was amended to provide that all members entering the service after that date would receive 50% of the average salary during the last three years for 25 years of service, plus 1⅔% for each of the next 10 years of service. This amendment imposed a limit upon service pensions at a pension of $1800 per year. Members' contributions to the cost of the system were set at 4% of salary. Pensions for widows were made fixed amounts.

1933. Effective may 15, 1933, the Charter was amended to eliminate the actuarial requirements and place the system on a "pay-as-you-to" basis of operation.

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension for 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the surviving spouses for unmarried minor children under 18. Members entering subsequent to January 17, 1947 could retire after 20 years of service upon 40% of the average salary of the last three years of service. In addition, they would receive 2% for each of the next five years of service, and 1⅓% for each of the next ten years of service. The maximum pension of two-thirds of average salary was retained, but the 1927 limitation was raised to the salary level of a police captain or fire battalion chief. Contributions were increased from 4% to 6% of salary.

1957. Effective April 18, 1957, an amendment removed the maximum limit attached to rank on service pensions.

1958. The California Supreme Court ruled that the 1925 Charter provisions for fixed pension did not apply to members employed prior to July 1, 1925 or to surviving spouses of members employed prior to January 17, 1927.

1959. Effective May 6, 1959, the Charter was amended to reestablish the system on an actuarial basis, with a 50-year amortization period for the unfunded liabilities, and the investment provisions were changed to permit investing up to 35% of the fund in common stocks.

1961. Effective July 1, 1961, a Charter amendment provided a one-time cost of living increase on all members' or widows' pensions that were based on service-connected disability or death.

1967. Article XVII was extensively amended, and a New Pension system in Article XVIII was adopted effective January 29, 1967 to provide, among other things, 1. Annual cost-of-living adjustments with a 2% cap to all members' or surviving spouses' pensions that were based on length of service; 2. 55% at 25 years of service plus 3% per year for a maximum of 70% at 30 years of service; 3. A minimum pension of $250 per month to be adjusted each year by the cost-of-living formula; 4. An extension of the funding period to seventy years, and 5. Changes in the investment authority to provide for mortgage investments and public improvement financing.

1968. Articles XVII and XVIII were amended to exclude overtime compensation from computation either for contributions or for benefits.

1969. Articles XVII and XVIII were amended effective May 2, 1969, to apply cost-of-living adjustments to disability pensions and to their dependents' pensions. Service pensioners were authorized to apply for return to active duty under specified limitations. The authorized limit for common stock investments was raised to 50% of the funds.

1971. Articles XVII and XVIII were amended effective July 1, 1971, to remove the 2% per year cost-of-living ceiling from all pensions eligible for cost of living increases; to increase the minimum pension to $350 per month; to grant pension credit for partial years of service; to bring into closer agreement certain provisions that were different in the two articles; and to add two employee members to the Board of Pension Commissioners.

1974. Articles XVII and XVIII were amended to enable the City Council to adopt ordinances allowing subsidy payments to be made toward health insurance and other programs for eligible pensioners.

1975. Articles XVII and XVIII were amended to allow cost-of-living adjustments for service-connected disability pensions of retired firefighters and police officers upon the July 1st following the date of retirement. This amendment eliminated certain waiting periods for those eligible to receive this adjustment.

1976. Article XVII was amended, effective April 15, 1977, to eliminate the mandatory retirement age provisions. also, the ordinance governing health insurance subsidy for pensioners was amended, effective September 30, 1976, to include subsidy payments on behalf of spouses and dependents of eligible members.

1980. Article XXXV, The Safety Members' Pension Plan, was adopted for new hires effective December 8, 1980. Among its provisions was a 3% cap on the cost-of-living adjustment, pension contributions can be refunded with interest upon termination, 2% per year of service up to 20 years; then 3% per year to a maximum of 70%, 60% of member's pension for a surviving spouse.

1981. The investment provisions of all Articles were extensively revised and provided, among other changes, 1. the investment of up to 70% in common stock and up to 25% of the 70% without dividend record and registration on a national securities exchange; 2. the investment of 35% in short term securities; 3. the appointment of a securities custodian bank; 4. a requirement to retain investment advisors registered under the Investment Advisor Act; 5. the selling and repurchasing of covered call options, and 6. permission - within established guidelines - to conduct transactions and exchanges of securities without specific prior Board approval.

1982. Articles XVII and XVIII were significantly revised with the passage of a charter amendment in June. A 3% cap on the cost-of-living adjustment was added for all future service earned by active members. Also, all active members became entitled to refunds of contributions should they terminate prior to retirement. Cost-of-living adjustments were pro-rated for the first year of retirement.

1982. Proposition V passed by voters in November provided for the transfer of paramedics and civilian ambulance drivers from the City Employee's Retirement System to the Safety Members' Pension Plan (Article XXXV).

1983. Passed by the voters, Charter Amendment 5 allows or Article XVII and XVIII active members to discontinue contributions to the pension system upon completition of thirty years of service.

1985. Charter Amendment 2 is passed by the voters. It allows for investments in real estate by all City of Los Angeles pension systems.

1990. Two charter amendments are approved by the voters. Charter Amendment I removes the waiting period for the cost-of-living adjustment for surviving spouses of members hired before December 8, 1980 who die while active in the line of duty. Charter Amendment J allows the City through a series of measures - to protect the integrity of the entire pension system in light of new tax code regulations. Also, the 3% cap on cost-of-living increases instituted in 1982 for Article XVII and XVIII members was overturned by court order.

1993. Charter Amendment 3 is enacted, permitting the recall of retired Article XVIII members for up to one year. Charter Amendment 2 is enacted, allowing the Board to increase the "prudent person" provisions of the Charter from 25% to 50%.

City of Los Angeles

Department of Pensions

Fire and Police Pension Systems