

1974

Annual Report

BOARD OF PENSION COMMISSIONERS

**CITY OF LOS ANGELES
CALIFORNIA**



FOR THE FISCAL YEAR ENDED JUNE 30, 1974

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ELECTIVE OFFICERS OF THE CITY OF LOS ANGELES



TOM BRADLEY
Mayor

BURT PINES
City Attorney

CHARLES NAVARRO
City Controller

LOS ANGELES CITY COUNCIL

LOUIS R. NOWELL
First District

JOEL WACHS*
Second District

DONALD D. LORENZEN
Third District

JOHN FERRARO
Fourth District

VACANT
Fifth District

PAT RUSSELL
Sixth District

ERNANI BERNARDI
Seventh District

ROBERT FARRELL
Eighth District

GILBERT W. LINDSAY*
Ninth District

DAVID S. CUNNINGHAM
Tenth District

MARVIN BRAUDE
Eleventh District

ROBERT M. WILKINSON
Twelfth District

ROBERT J. STEVENSON
Thirteenth District

ARTHUR K. SNYDER*
Fourteenth District

JOHN S. GIBSON, JR.
Fifteenth District

*Member Police, Fire and Civil Defense Committee

BOARD OF PENSION COMMISSIONERS
1973-74 ANNUAL REPORT

To the Mayor and City Council
of the City of Los Angeles

Gentlemen:

Presented herewith is the annual report of the Board of Pension Commissioners for the fiscal year ended June 30, 1974, submitted in accordance with the provisions of Section 64 of the City Charter.

Pension System assets increased by approximately 25% for the 1974 year to a total of \$329 million, some \$60 million above the prior year. Earnings increased 34%, while taxes increased only 14%, representing the increased cost-of-living benefit adopted in the 1971 election. Member contributions increased 6%.

Capital gains on sales of securities amounted to a net of approximately \$1.6 million, and earnings on temporary investments amounted to more than \$1.7 million.

Proposition C, which permits the payment of health insurance subsidies for pensioners, was approved by the voters in June 1974. An ordinance providing this additional benefit is expected to be adopted during the 1974-75 fiscal year, but will not affect the tax rate for at least another year.

Respectfully submitted,

BOARD OF PENSION COMMISSIONERS

By



President

LS:em



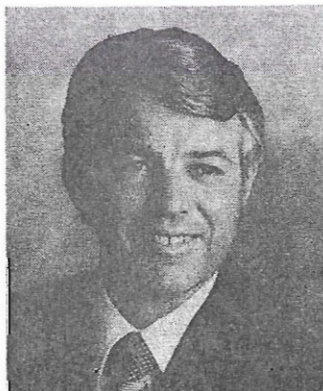
LEON SAVITCH
President



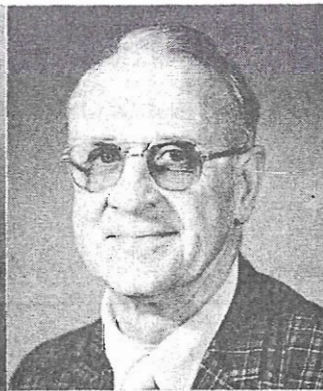
STEPHEN D. GAVIN
Vice President



OLGA MARCUS



SAM DIANNITTO



KEN CARPENTER



JACK BORMAN



JOEL M. WINITZ

December 2, 1974

Board of Pension Commissioners
Room 155, City Hall South
111 East First Street
Los Angeles, California 90012

Gentlemen:

There is presented herewith the Manager's Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1974. This report includes the statements of assets, liabilities and operations prepared by Peat, Marwick, Mitchell & Co., who are employed by the Board under contract, to audit the financial position of the Department. In addition, there is provided a summary report by the Department's actuaries Coates and Crawford, employed by the Board under contract, to examine into the actuarial health of the Pension System, as required by Article XVII and XVIII of the City Charter.

FINANCIAL CONDITION

Pension System assets increased approximately 25% during the past year to a total of \$329 million, some \$60 million above the prior year total. Almost 90% of the increase was converted into bond investments which were emphasized because of the high interest rates prevailing during the year. There was no change in the holding of preferred stocks, and common stocks increased by \$6 million.

Earnings for the year, comprised of interest and dividends, showed an increase of 34% above the prior year. Taxes, representing the City's contribution to the cost of the system, increased 14%, reflecting the application of the cost-of-living benefits adopted in the 1971 election to the pensions of those who had retired prior to the measure's adoption. Member contributions increased 6%.

Capital gains during the year, resulting from sales of securities, amounted to a net of approximately \$1,600,000. Portfolio changes during the year included bond and stock purchases of more than \$73,000,000 and sales of nearly \$14,000,000. At the end of the year, common and preferred stocks constituted approximately 37% of the Department's portfolio.

Average Purchase Yield

The average purchase yield on the Pension Fund at the end of the fiscal year amounted to 5.58%, a 15% increase over the 4.91% purchase yield reported last year. This significant change was primarily due to the purchase of bond issues with increasingly high coupon rates. If realized gain were included in the yield values, the average return would be further increased to 6.04%.

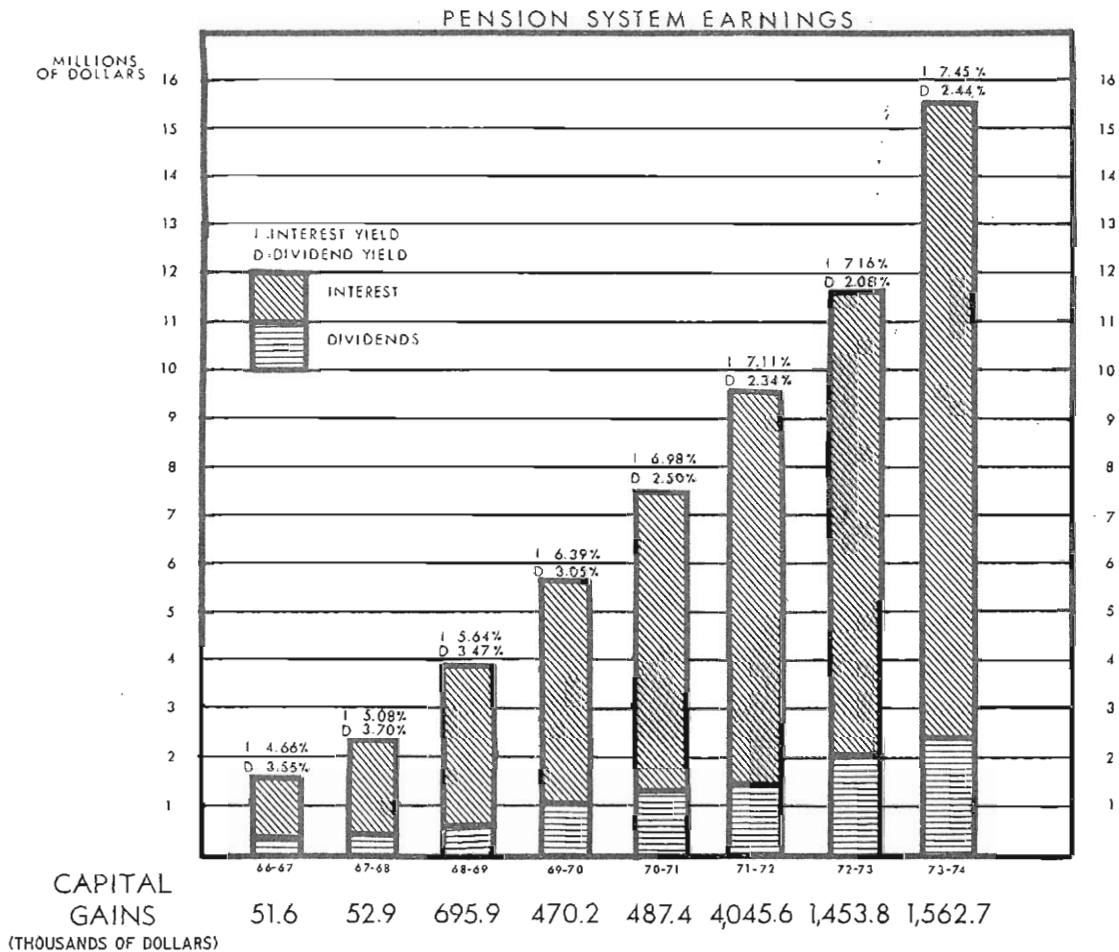
Short-Term Earnings

Temporary investments of the Pension Fund at year end were \$26,400,000, an increase of more than 16% over the \$22,650,000 held at the close of the prior year. Earnings on temporary investments for the year amounted to \$1,719,000, compared to \$1,181,000 the previous year. This increase of 46% was due to the greater emphasis on short-term investments

as well as to the substantial increase in interest rates. During the year, maturities and sales of short-term securities, including U.S. Treasury Bills and commercial paper, amounted to \$117 million.

System Earnings

As shown in the following chart, earnings on the Pension funds grew at an accelerated rate during the past fiscal year. During the previous five years, earnings had increased an average of \$2 million per year while earnings in the past year increased by nearly twice that amount. Bond earnings show an average yield of 7.45%, an increase of 4% over the prior year. While common stocks show a yield of only 2.44%, this represents a 17% increase over last year and does not include realized capital gains of approximately \$1.6 million during the year.



ACTUARIAL REPORT

The report of the actuaries, set forth in detail later in this report, shows an increase of almost \$196.5 million in total liabilities of the systems, and an increase of \$92.2 million in the unfunded liability. These increases are attributable mainly to the cost of living increase of 8.5% granted to eligible pensioners, and the 6.7% increase granted to fluctuating pensioners effective July 1, 1974.

Entry age rates for current service in both systems remained the same as the previous year, namely 17.5% of payroll for the New Pension System, and 16.7% of the payroll for the old Fire and Police Pension System. Amortization rates for past service decreased in the old Fire and Police Pension System from 244.5% to 238.8%, but the New Pension System experienced a slight increase from 23.0% to 23.8%. In total, the bottom line average showed a net increase of about 1.1% of Fire and Police payrolls.

The assumed rate of interest remained at 5.0%. The new rate was first used in the valuation for June 30, 1973 and is not the rate of actual earnings anticipated in the ensuing year, but is the average interest rate assumed to be realized for the period of many years into the future.

Nominee Partnership

In this fiscal year, there was completed the task of establishing a nominee partnership in the Department, through which title could be held to investments, thereby facilitating the sale of such investments. Since the beginning of the equity program in 1963, increasing problems had been found in the sale of common stocks because of the practice of holding all title in the name of the Board of Pension Commissioners despite stock exchange requirements for the use of a nominee name for expeditious clearance. The Department's auditors required the exclusion of the Chief Accounting Employee from becoming a member of the partnership, with the result that the General Manager and three others of the administrative staff became the nominee partners. Surety bonds were taken out as reported below.

MEMBERSHIP

As of June 30, 1974, there were 2,915 firemen and 7,308 policemen as members of the system including members on leave of absence without pay, members on military leave and members on suspension. Of this number 436 are members of the Old Pension System, with 63 in the Fire Department and 373 in the Police Department. The following statement presents an analysis of length of service of such members:

	Fire	Police	Total
Members with less than 5 years	486	2,467	2,953
With 5-9 years	280	2,223	2,503
With 10-19 years	1,255	1,693	2,948
With 20 years and over	894	925	1,819
TOTAL	2,915	7,308	10,223
Article XVII	63	376	439
Article XVIII	2,852	6,932	9,784

Analysis of Membership

The following schedule presents an analysis of the changes in membership of both the Fire and Police Departments during the last five fiscal years.

	1973-74	1972-73	1971-72	1970-71	1969-70
Total Membership July 1st	10,102	10,190	10,153	9,591	9,325
On Leave or Suspension	30	44	39	19	35
On Military Leave	10	22	32	17	42
	10,062	10,124	10,082	9,555	9,248
Additions:					
New Appointments	970	590	697	1,082	931
Reappointments	27	30	27	45	51
Restorations	8	3*	3*	2*	6
Reinstated	6	—	—	2**	—
Reactivated	1	3	6	23	27
Return from Leave or Susp.	265	256	396	293	214
Restored from Military Leave ..	8	19	25	14	37
	11,347	11,025	11,236	11,016	10,514

Withdrawals:					
Service Retirements	362	321	315	227	235
Disability Retirements	44	72	39	22	49
Resigned	454	295	315	314	438
Discharged	8	8	11	10	13
Deaths	23	18	19	19	14
Leaves or Suspension	287	242	401	313	198
Military Leaves Granted	3	7	15	29	12
Active Membership-June 30th	10,166	10,062	10,121	10,082	9,555
On Leave or Suspension	52	30	44	39	19
On Military Leave	5	10	22	32	17
Total Membership-June 30th	10,223	10,102	10,187	10,153	9,591

*Includes 5 disabilities granted after resignation and/or discharge in 1969-70; 2 in 1970-71; 1 in 1971-72 and 2 restored to active duty from resignation; and 3 in 1972-73.

**Includes 2 service pensions granted after discharge.

Appointed Fiscal Year 1973-74

During the course of the year 998 members were appointed and became members of the system. Some 679, or 68% of such members were married at the date of entrance. Twenty seven such members were reappointees with an average age of 27. One such member was reactivated at age 46. Of the 970 original appointees the median age was 24, the mode 21 and the average 25.

ELIGIBILITY

There were as of June 30, 1974, a total of 1,819 members eligible to retire. All are 25-year members. The following schedule shows the number of members eligible to retire at the end of each fiscal year as indicated:

Fiscal Year	Fire	Police	Total
1963-1964	638	503	1,141
1964-1965	602	446	1,048
1965-1966	559	610	1,169
1966-1967	906	892	1,798
1967-1968	1,122	1,189	2,311
1968-1969	1,148	1,282	2,430
1969-1970	1,190	1,305	2,495
1970-1971	1,131	1,245	2,376
1971-1972	1,121	1,140	2,261
1972-1973	998	1,043	2,041
1973-1974	894	925	1,819

During the fiscal year 1974-75, an additional 158 members will become eligible if their service is continuous. Of these 48 are firemen.

Service of Present Eligibles

Years of Service	Fire	Police	Total
20	46	103	149
21	46	57	103
22	126	53	179
23	27	35	62
24	99	108	207
25	77	152	229
26	218	200	418
27	204	192	396
28	0	4	4
29	0	1	1
30	8	5	13
31	7	4	11
32	12	5	17
33	19	4	23
36	1	0	1
37	2	1	3
38	1	0	1
39	1	0	1
45	0	1	1
	894	925	1,819

Eligibility By Ranks

The following tables show eligibility for retirement by ranks, in both the Fire and Police Departments. These tables show that in the Fire Department all Assistant and Deputy Chiefs are eligible to retire as are 78% of the Battalion Chiefs, 50% of the Captains and 56% of the Engineers. In the Police Department 83% of the Deputy Chiefs, 65% of the Commanders, 63% of the Captains and 40% of the Lieutenants are eligible for service retirement. At the other end of the service spectrum, the Fire Department has only 16.6% of its members with less than 5 years service, while the Police Department has over 33% of its members in this short service area.

ELIGIBILITY BY RANKS

July 1, 1973 thru June 30, 1974

FIRE

Years Service	Firemen	Auto Firemen	Fire Boat Mate	Fire Boat Pilot	Inspector	Engineer	Chief Engineer	Captain	Battalion Chief	Deputy Chief	Ass't Chief	Total Emp's
39	---	---	---	---	---	1	---	---	---	---	---	1
38	---	---	---	---	---	---	---	1	---	---	---	1
37	---	---	---	---	---	---	---	1	1	---	---	2
36	---	---	---	---	---	---	---	1	---	---	---	1
33	3	---	---	---	---	7	1	2	3	---	3	19
32	2	---	---	---	1	2	---	4	3	---	---	12
31	1	1	---	---	---	1	---	2	2	---	---	7
30	5	---	---	---	1	---	---	1	1	---	---	8
27	57	1	1	1	9	52	---	71	7	---	5	204
26	63	1	1	2	10	59	---	70	9	2	1	218
25	17	1	2	---	4	25	---	22	4	1	1	77
24	21	1	5	2	3	28	---	31	8	---	---	99
23	10	1	---	---	---	9	---	5	2	---	---	27
22	43	4	---	---	4	47	---	22	5	---	1	126
21	15	---	---	---	2	12	---	12	4	---	1	46
20	15	---	---	---	2	19	---	10	---	---	---	46
19	44	2	1	---	3	30	---	16	2	---	---	98
18	18	2	---	---	2	13	---	13	3	---	---	51
17	99	7	1	1	6	28	---	34	2	---	---	178
16	77	7	1	---	5	30	---	32	3	---	---	155
15	68	3	---	---	2	12	---	28	2	---	---	115
14	61	11	2	---	4	10	---	26	1	---	---	115
13	64	15	1	---	6	7	---	28	---	---	---	121
12	91	26	---	---	6	14	---	24	---	---	---	161
11	147	24	---	---	10	15	---	28	1	---	---	225
10	20	3	---	---	2	3	---	8	---	---	---	36
9	42	7	---	---	---	10	---	8	---	---	---	67
8	59	5	---	---	---	18	---	5	---	---	---	87
6	70	17	---	---	1	8	---	---	---	---	---	96
5	23	5	---	---	---	2	---	---	---	---	---	30
4	63	5	---	---	1	2	---	---	---	---	---	71
3	124	---	---	---	---	---	---	---	---	---	---	124
2	75	---	---	---	---	---	---	---	---	---	---	75
1	69	---	---	---	---	---	---	---	---	---	---	69
0	147	---	---	---	---	---	---	---	---	---	---	147
Totals	1,613	149	15	6	84	464	1	505	63	3	12	2,915
Art-XVII	45	2	---	---	8	3	---	5	---	---	---	63
Art-XVIII	1,568	147	15	6	76	461	1	500	63	3	12	2,852

ELIGIBILITY BY RANKS

July 1, 1973 thru June 30, 1974

POLICE

Years Service	Police	Investigator	Sergeant	Lieutenant	Captain	Commander	Police Chief	Deputy Chief	Total Emp'l's
45	1	—	—	—	—	—	—	—	1
37	—	—	—	—	—	1	—	—	1
33	—	1	—	—	—	2	1	—	4
32	1	3	—	1	—	—	—	—	5
31	—	1	2	—	—	1	—	—	4
30	—	2	—	—	2	1	—	—	5
29	1	—	—	—	—	—	—	—	1
28	1	1	1	—	1	—	—	—	4
27	60	74	23	21	9	3	—	2	192
26	76	74	25	13	12	—	—	—	200
25	41	60	25	11	9	4	—	2	152
24	22	37	23	12	7	1	—	6	108
23	11	13	6	5	—	—	—	—	35
22	11	18	9	13	2	—	—	—	53
21	10	27	8	8	3	1	—	—	57
20	24	35	18	16	9	1	—	—	103
19	35	38	29	14	6	2	—	1	125
18	21	34	26	14	5	1	—	—	101
17	28	34	16	11	3	1	—	1	94
16	37	58	37	15	5	2	—	—	154
15	34	67	35	13	4	—	—	—	153
14	29	46	57	14	2	1	—	—	149
13	38	66	40	11	6	1	—	—	162
12	53	88	64	12	1	—	—	—	218
11	68	96	81	17	—	—	—	—	262
10	95	94	67	19	—	—	—	—	275
9	128	60	67	8	—	—	—	—	263
8	179	62	55	—	—	—	—	—	296
7	257	66	29	—	—	—	—	—	352
6	577	59	32	—	—	—	—	—	668
5	604	29	11	—	—	—	—	—	644
4	524	5	2	—	—	—	—	—	531
3	682	—	2	—	—	—	—	—	684
2	312	—	—	—	—	—	—	—	312
1	325	1	—	—	—	—	—	—	326
0	614	—	—	—	—	—	—	—	614
Totals	4,899	1,249	790	248	86	23	1	12	7,308
Art-XVII	210	94	65	7	—	—	—	—	376
Art-XVIII	4,689	1,155	725	241	86	23	1	12	6,932

Members Becoming Eligible Next Ten Years

The following schedule indicates that 2,901 members of the Fire and Police Departments will become eligible to retire for years of service during the next ten fiscal years, of which 247 are under the Old Pension System.

Fiscal Year	Fire	Police	Total
1974-1975	102	129	231
1975-1976	53	104	157
1976-1977	175	92	267
1977-1978	155	156	311
1978-1979	111	156	267
1979-1980	117	145	262
1980-1981	117	161	278
1981-1982	164	214	378
1982-1983	224	251	475
1983-1984	71	204	275
TOTALS	1,289	1,612	2,901
Article XVII	52	195	247
Article XVIII	1,237	1,417	2,654

Thus, in addition to 18% of the present active members already eligible to retire as indicated above, there will be an additional 29% to total Fire and Police present members who will become eligible to retire or will have retired by June 30, 1984.

MILITARY LEAVES

On June 30, 1974 there were 10 members on military leave. The following schedule indicates the operation of military leave authorization during the fiscal year 1973-1974:

On Leave June 30, 1974	10
Granted during 1973-1974	3
	<u>13</u>
Restored — Now Active	8
	<u>5</u>
On Leave June 30, 1974	5

PENSION ROLL CHANGES

During the fiscal year, 512 pensions were granted and reinstated, 192 discontinued. This resulted in a net increase of 320 members on the pension rolls, 17 applications were withdrawn and 4 were denied. The details of pensions granted and terminated during the course of the fiscal year are as follows:

	Fluctuating Article		Cost of Living Article		Service Disability Article		Non-Service Disability Article		Widows Article		Dependents Article		Minors Article		Total System
	17	18	17	18	17	18	17	18	17	18	17	18	17	18	
7-1-73	788	1349	1825	629	160	147	17	1587	104	1	2	30	14	6653	
Granted	---	6	356	4	37	---	3	66	29	---	---	5	5	511	
Reinstated	---	---	---	---	---	---	---	1	2	---	---	---	2**	1	
Deaths	66	28	10	12	1	1	1	64	---	---	---	---	---	183	
Reactivated	---	---	1	---	---	---	---	---	---	---	---	---	---	1	
Withdrawn	---	---	6*	1*	10*	---	---	---	---	---	---	---	---	---	
Denied	---	---	4*	---	---	---	---	---	---	---	---	---	---	---	
Decrease	---	---	---	4*	6*	---	---	8*	4*	---	---	---	---	---	
Increased	---	---	---	1*	---	---	---	---	---	---	---	---	---	---	
Remarriage	---	---	---	---	---	---	---	1	3	---	---	---	---	4	
Majority	---	---	---	---	---	---	---	---	---	---	---	4	---	4	
	722	1327	2170	621	196	146	19	1589	132	1	2	31	17	6973	

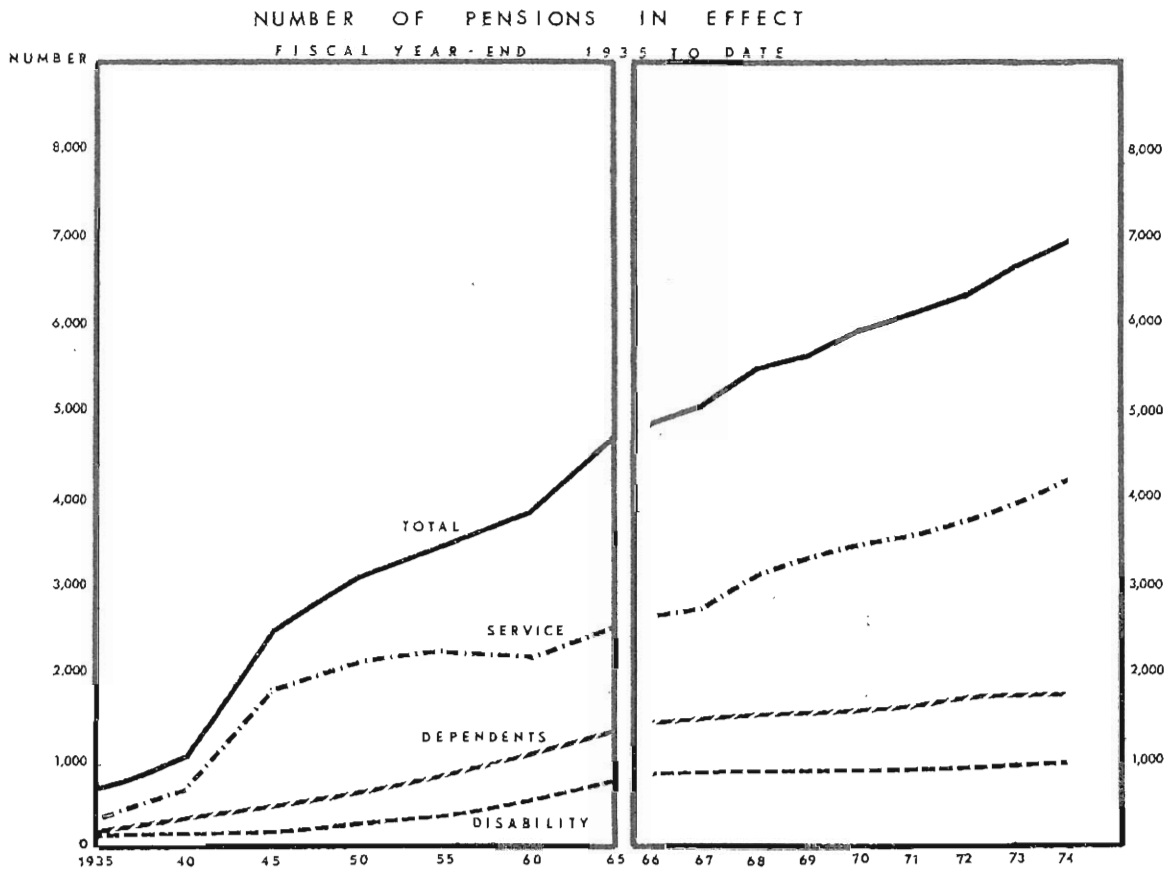
*Statistical only, does not affect totals.

**Minor's Pension discontinued because Widow's Pension was reinstated.

PENSIONS IN EFFECT — 1935 TO DATE

The accompanying chart illustrates the changing relationship of the different classifications of pensions in effect at year end since 1935.

During the year, service pensions increased 6.5% (3,962 to 4,219). Dependent pensions went up 2% (1,738 to 1,772). Disability pensions increased 3% (953 to 982). The total of all pensions showed an increase of 4.8% (6,653 to 6,973).



PENSIONS CLASSIFIED BY AMOUNTS

The following schedule shows the classification of pensions paid by number of pensioners in \$40.00 brackets up to the monthly amount of \$1,025, and the average pension being paid in each classification:

Amounts	Service	Disability	Widows	Dependents	Minors	Total
000-384	1,055	304	334	1	31	1,725
385-424	370	104	57	1	4	536
425-464	216	99	73	0	3	391
465-504	147	71	37	0	3	258
505-544	105	67	28	1	3	204
545-584	100	55	25	0	3	183
585-624	117	38	20	0	0	175
625-664	94	34	23	0	0	151
665-704	369	33	618	0	0	1,020
705-744	211	33	101	0	0	345
745-784	180	29	10	0	0	219
785-824	172	22	99	0	0	293
825-864	174	17	105	0	1	297
865-904	102	9	5	0	0	116
905-944	147	18	5	0	0	170
945-984	160	11	92	0	0	263
985-1024	78	11	2	0	0	91
1025 or over	422	27	87	0	0	536
Totals	4,219	982	1,721	3	48	6,973
Average						
Pension	\$656.74	\$536.66	\$659.63	\$431.97	\$422.03	\$638.83

The overall average of \$638.83 is approximately seven percent over the average for the prior fiscal year of \$597.07. The average number of fluctuating pensions, cost of living pensions and of fixed pensions is reported as follows (Note: Fluctuating pensions are those that fluctuate with changes in salary of active members; cost of living pensions are those receiving the cost of living formula which is applicable on July 1st of each year; fixed pensions are those not yet eligible for cost of living adjustment):

Fluctuating	Service	Disability	Widows	Dependents	Minors	Total
Number	734	46	1,067	0	1	1,848
Average Pension	\$851.69	\$750.11	\$776.98	.....	\$851.73	\$806.03
Cost of Living						
Number	2,842	766	587	2	32	4,229
Average Pension	\$590.71	\$479.61	\$446.43	\$454.76	\$381.33	\$548.85
Fixed						
Number	643	170	67	1	15	896
Average Pension	\$726.02	\$735.97	\$622.58	\$386.40	\$480.22	\$696.18

The total fluctuating pensions represent a net decrease of 68 during the fiscal year. Cost of living pensions increased by 581 and fixed pensions decreased by 200.

AGES OF PENSIONERS

The following is an analysis of the ages of all pensioners at the close of June 30, 1974.

Ages	Service	Disability	Widows	Dependents	Minors	Total
0-19	0	0	0	0	48	48
20-24	0	2	0	0	0	2
25-29	0	8	1	1	0	11
30-34	0	31	13	0	0	45
35-39	0	49	16	0	0	65
40-44	14	86	17	0	0	117
45-49	415	163	49	0	0	627
50-54	967	262	110	0	0	1,337
55-59	826	156	123	0	0	1,105
60-64	575	91	155	0	0	821
65-69	289	47	280	1	0	617
70-74	438	32	386	0	0	856
75-79	445	37	317	0	0	799
80-84	180	11	179	1	0	371
85-89	60	5	63	0	0	128
90-94	10	1	10	0	0	21
95-99	0	1	2	0	0	3
Totals	4,219	982	1,721	3	48	6,973
Average Age	62	53	69	59	12	62

Average Age at Date of Retirement

An analysis of the average age of Firemen and Policemen at the time of retirement on service pension is set forth for the last ten fiscal years in the following table.

Fiscal Year	Fire	Average Age Police	Combined
1964-1965	55	53	53
1965-1966	56	48	49
1966-1967	53	47	40
1967-1968	55	48	50
1968-1969	54	48	49
1969-1970	52	47	49
1970-1971	56	50	53
1971-1972	54	52	53
1972-1973	53	51	52
1973-1974	54	53	53

Number Retiring Above or Below Age 50

The number of Firemen retiring at over 50 years of age has in most years been greater than the number of Policemen retiring at that age. This year with the largest total retirements in 5 years, more Policemen retired at age 50 and over.

Fiscal Year	F I R E				P O L I C E			
	Under Exactly Over			Total	Under Exactly Over			Total
	50	50	50	Total	50	50	50	Total
1964-1965	8	1	23	32	38	9	52	99
1965-1966	8	—	38	41	141	8	37	186
1966-1967	16	—	37	53	138	15	24	177
1967-1968	39	5	105	149	223	15	77	315
1968-1969	26	5	55	86	178	17	56	251
1969-1970	24	5	37	66	131	5	33	169
1970-1971	12	2	76	90	70	9	58	137
1971-1972	26	10	106	142	64	11	91	166
1972-1973	36	7	107	150	58	13	106	177
1973-1974	25	9	97	131	70	18	143	231
	215	44	681	940	1,111	120	677	1,908
Percent of Totals	23%	5%	72%	100%	58%	6%	36%	100%

Average Years of Service at Date of Retirement

Analysis of the years of service performed prior to service retirement is set forth for the last ten fiscal years:

Fiscal Years	Fire	Average Years	
		Police	Combined
1964-1965	29	25	26
1965-1966	29	22	23
1966-1967	26	21	22
1967-1968	27	22	24
1968-1969	27	22	23
1969-1970	26	22	23
1970-1971	28	24	26
1971-1972	27	25	26
1972-1973	27	25	26
1973-1974	27	27	27

Years of Service at Retirement

This year, the number of retirements from the Police Department increased, while those for the Fire Department decreased. The number of retirees with over 25 years of service has increased for both departments.

NUMBER OF FIREMEN AND POLICEMEN

Fiscal Year	FIRE				Total	POLICE				Total
	Less	Exac.	Over	Total		Less	Exac.	Over	Total	
	20	25	25			25	20	25		
1964-1965	1	12	—	19	32	13	56	1	29	99
1965-1966	....	12	2	27	41	121	44	4	17	186
1966-1967	17	5	9	22	53	131	30	7	9	177
1967-1968	36	12	12	89	149	190	63	18	44	315
1968-1969	14	13	6	53	86	135	73	9	34	251
1969-1970	7	23	1	35	66	85	58	....	26	169
1970-1971	3	19	....	68	90	17	64	23	33	137
1971-1972	11	13	44	74	142	15	36	60	55	166
1972-1973	7	14	52	77	150	15	24	73	65	177
1973-1974	4	10	10	107	131	19	10	53	147	229
	100	133	136	571	940	741	458	248	459	1,906
Percent of Totals	11%	14%	14%	61%	100%	39%	24%	13%	24%	100%

Age and Service of Disability Pensioners

The average age and average number of years of service of Firemen and Policemen who were retired upon disability pension during the last ten fiscal years are reflected in the following schedules. The data for 1973-1974 shows an increase in average age of Firemen and Policemen retired on disability pensions.

Fiscal Year	AVERAGE AGE			AVERAGE YEARS		
	Fire	Police	Combined	Fire	Police	Combined
1964-1965	45	41	41	20	15	16
1965-1966	41	41	41	15	16	16
1966-1967	42	42	42	16	16	16
1967-1968	42	40	40	12	13	13
1968-1969	37	40	39	9	14	13
1969-1970	48	40	45	21	14	18
1970-1971	39	41	40	15	16	15
1971-1972	48	38	41	20	13	16
1972-1973	48	36	43	22	11	16
1973-1974	50	37	45	22	11	17

SERVICE PENSIONS

Pensions Granted

A total of 362 members of Fire and Police Departments retired effective prior to June 30, 1974 upon service pension. Of the total number, 356 retired under the New Pension System.

Reactivated

During the fiscal year 1973-1974, one request for return to active duty was approved by the Board of Pension Commissioners. The member was reactivated. The following schedule represents activity in requests for reactivation since its inception on May 2, 1969:

Dept.	Request Received	Pension Board Approved	Pension Board Disapproved	Denied Return By Active Department	Total Reactivated
Fire	3	3	0	0	3
Police	69	67	2	10	56

Pensions Discontinued

During the fiscal year a total of 104 service pensions were discontinued on account of death. These individuals were on the pension rolls on average of twenty-four years although the range of life after retirement varied from two months to forty-five years. In addition thereto, one service pension was discontinued by reactivation to the Police Department. This individual was on the pension rolls less than two years.

Service Retirements by Years

The total number of members who retired upon service pension is presented by departments for the last ten fiscal years in the following statement:

Fiscal Year	FIRE		POLICE		Total
	20 Year	20-25 Year	20 Year	20-25 Year	
1964-1965	1	31	6	93	131
1965-1966	2	39	1	185	227
1966-1967	2	51		177	230
1967-1968	3	146	2	313	464
1968-1969	2	84	1	250	337
1969-1970	--	66	2	167	235
1970-1971	--	90	--	137	227
1971-1972	--	142	1	165	308
1972-1973	1	149	--	177	327
1973-1974	--	131	--	231	362

DISABILITY PENSIONS

Pensions Granted

A total of 44 members of Fire and Police Departments were granted disability pensions during the fiscal year ended June 30, 1974. Of these 41 were granted on a service-connected basis while 3 were non-service.

Pensions Discontinued

Fifteen Disability pensioners were discontinued on account of death during the past year. There were no restorations to active duty.

Disability Retirements by Years

The total number of members retiring upon disability pension is represented by departments for the last ten fiscal years in the following statement:

Fiscal Year	FIRE		POLICE		Total
	Service	Nonservice	Service	Nonservice	
1964-1965	9	0	23	15	47
1965-1966	7	0	29	12	48
1966-1967	10	5	32	11	58
1967-1968	3	0	19	4	26
1968-1969	3	2	15	5	25
1969-1970	23	6	16	4	49
1970-1971	12	0	8	2	22
1971-1972	12	1	24	2	39
1972-1973	36	3	27	5	71
1973-1974	24	1	17	2	44

Years on Pension

Pension Effective Fiscal Year	FIRE		POLICE		Total
	Service	Nonservice	Service	Nonservice	
1905-1909	0	0	1	0	1
1910-1914	1	0	0	0	1
1915-1919	0	0	1	0	1
1920-1924	1	0	0	0	1
1925-1929	1	0	0	0	1
1930-1934	5	0	6	0	11
1935-1939	5	0	14	0	19
1940-1944	5	0	10	0	15
1945-1949	3	3	9	4	19
1950-1954	17	4	36	10	67
1955-1959	40	10	67	29	146
1960-1964	51	9	222	36	318
1965-1969	27	9	103	31	170
1970-1974	104	7	88	13	212

Analysis of Rates

There are 817 service-connected disability pensions and 165 non-service-connected pensions classified by rates in the following schedule as of June 30, 1974. Of this number 196 service-connected and 19 non-service-connected disability pensioners were granted under the New Pension System.

Rate	Fire	Police	Total
40%	42	123	165
50%	71	221	292
52%	0	1	1
55%	25	65	90
57½%	1	0	1
58%	1	0	1
60%	46	80	126
61%	3	0	3
64%	1	0	1
65%	53	97	150
66¾%	1	0	1
69%	0	1	1
70%	32	33	65
72½%	1	0	1
75%	13	29	42
80%	8	12	20
85%	3	6	9
90%	1	12	13
Total	302	680	982

Analysis of Disability Pensioners by Age

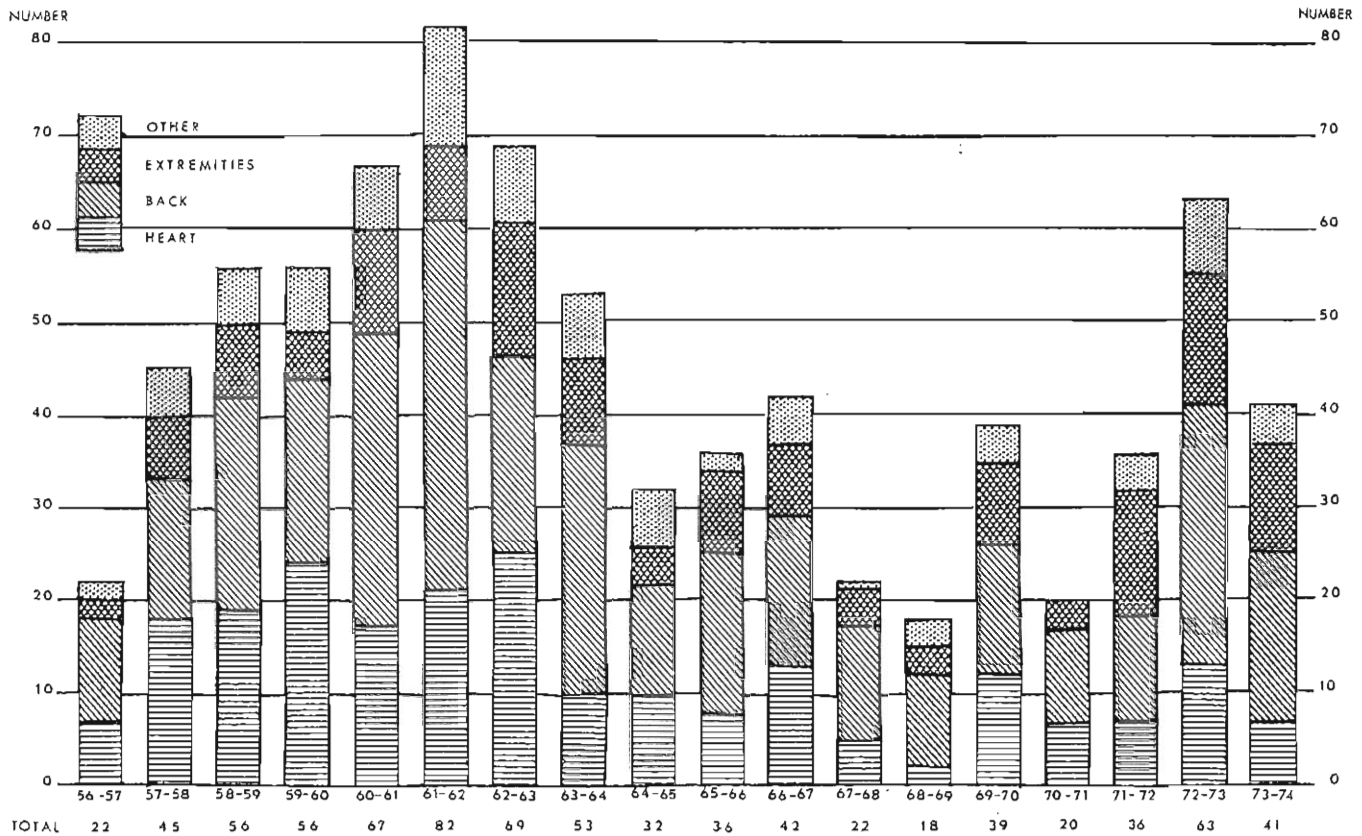
Age	Fire	Police	Total
0-24	0	2	2
25-29	0	8	8
30-34	4	27	31
35-39	13	36	49
40-44	34	52	86
45-49	45	118	163
50-54	55	207	262
55-59	44	112	156
60-64	46	45	91
65-69	26	21	47
70-74	20	12	32
75-79	10	27	37
80-84	2	9	11
85-89	2	3	5
90-94	1	0	1
95-99	0	1	1
Total	302	680	982
Average Age	56	52	53

Service-Connected Disability

31 New Service-connected disability pensions were granted in 1973-74. The accompanying chart shows a breakdown by primary disability for the last 18 years.

SERVICE CONNECTED DISABILITIES

NUMBER GRANTED



SUMMARIZATION OF LEGAL ACTIVITIES

The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and investment counsel, actuaries and with Union Bank to assist in the purchase, exchange, transfer and registration of securities owned by the Board of Pension Commissioners.

The ever increasing concern with pension plans and programs, both at the state and federal level, as demonstrated by numerous legislative enactments and an even larger number of pending bills has created a need to analyze and evaluate the impact which such legislation or proposed legislation does or could have on municipal pension systems such as those maintained by the City of Los Angeles. On some occasions, it was necessary to attend hearings and to write reports for the purposes of assisting in formulating an official city position with respect to certain legislative schemes.

The office prepared Charter amendments for the June 4, 1974 State Primary Election to enable the City Council to adopt by ordinance a health subsidy program for retired firemen and policemen as well as their eligible beneficiaries.

The newly appointed Board of Pension Commissioners generated a number of requests to explore new avenue for the investment of retirement funds in order to attain higher yields thereon. Extensive study and research resulted in reports, an opinion on the legality of investing pension funds in federally insured student loans and proposals to the Board pointing out legally permissible new methods of utilizing the assets of the funds in the manner proposed by the Board.

With the assistance of this office, nominee partnerships were established for the Fire & Police Pension Systems to hold and transfer title to stocks in a nominee name.

Advising and counseling the Board of Pension Commissioners at their regular meetings, particularly with respect to that aspect of their proceedings which requires them to act as adjudicators of certain pension entitlements, most particularly those of disability pension applicants has become of increasing importance in light of some recent State Supreme Court decisions.

More than 2,000 claims for the adjustment of their respective pension bases were filed by individuals because of pending salary litigation between the City and employee organizations representing Fire and Police personnel processed by this office.

In addition to the above enumerated activities, mention should be made of the fact that Pension Division of the City Attorney's Office is frequently called upon to respond to inquiries by many of the members and their dependents covered by the Fire & Police Pension Systems concerning their rights under Articles XVII or XVIII respectively. Oral advice to the General Manager and his staff is a daily requirement and is becoming more and more necessary as the legal complexities in the administration of retirement plans increase. In line therewith, mention should be made of the fact that a considerable number of written memoranda are addressed to the Pension Department which is necessary to provide a handy reference on important matters of recurrent nature.

PROBATE MATTERS

This office examined 89 probate accountings as well as various petitions and other documents which were received by the Department of Pensions, and 19 requests for special notice were prepared, served and filed. 7 guardianships and conservatorships were discontinued and 19 were added. There are 101 active guardianships, 48 covering incompetents and 53 covering minors.

LITIGATION

There are several court decisions rendered in the pension field which are of importance to the City; some of which are final and conclusive and appeals are pending in others. Some important cases have not reached the trial stage.

A brief summary of some of these cases is as follows:

CRAVER v. CITY OF LOS ANGELES et al

Petitioner is seeking to obtain a disability pension previously denied him by the Board. He contends that the Board erred in its determination and that the ability or inability to perform the duties last assigned to a police officer is not the proper test upon which entitlement to a disability pension should be predicated and that the correct application of the pertinent Charter provisions requires that disability resulting in an inability to perform the regular duties (e.g. substantially all types of ordinary police work) of a police officer is a sufficient basis for the granting of a service-connected disability pension.

The case was tried on January 6, 1972 in Department 65 of the Superior Court and judgement in favor of the respondent City and Board was rendered.

Petitioner has appealed from the judgment, but at this time no date has been set for a hearing before the Court of Appeal.

MYER v. CITY OF LOS ANGELES

Petitioner, widow of a police officer and receiving a widow's pension pursuant to Section 190.13 (a) (6) of Article XVIII of the Charter, contends that the provisions of Section 190.15 allowing for a reduction of all but service pensions by the total amount of a workmen's compensation award do not apply with respect to her type of pension because her husband would, at the time of his death, have been eligible for a service pension pursuant to Section 190.11 and that, consequently, her rights should be deemed derivative of those enjoyed by her husband before his demise. The matter went to trial in the Superior Court and judgment was rendered in favor of the City.

Petitioner appealed from the judgment and, on May 8, 1973, the case was heard in Division 4 of the Court of Appeal. On May 15, 1973, the opinion of the Court of Appeal was filed, sustaining the trial court's determination, thereby upholding the Board of Pension Commissioners' position. No petition for hearing in the Supreme Court having been filed, the matter is now concluded.

McLEOD v. BOARD OF PENSION COMMISSIONERS

Petitioner, a former policeman, seeks a disability pension. His contention is that the fact of his having been able to perform the regular duties of a police officer, up to the time of his resignation from the Police Department, is immaterial if an injury sustained by him while on duty, subsequently — and after his employment has been terminated — results in disability and inability to perform the duties of a police officer. He also contends that, at the time of the Board's last denial of his application, there was no evidence in the record to support a finding that petitioner

at that time was not disabled and contends furthermore that the Board has in fact admitted his disability at the time the aforementioned action was taken.

Upon review in Superior Court, judgment was rendered in favor of the Board.

Petitioner appealed from the trial court's determination and the Court of Appeal sustained the decision of the lower court.

Subsequently, a petition for hearing in the Supreme Court was filed but denied. Therefore, this matter is now concluded.

HOHMAN v. CITY OF LOS ANGELES et al

In this case, a class action brought against the City and the Board, a group of retired deputy chiefs, assistant chiefs and widows of deputy chiefs or assistant chiefs of police, all on fluctuating pension, have brought suit to seek a judicial determination regarding the proper basis for their pension which, according to a City Attorney opinion, is to be predicated on the salary currently received by a Deputy Chief of Police I. Plaintiffs maintain that the appropriate basis for their pensions should be the highest salary paid within the class title of deputy chief, meaning the salary received by a Deputy Chief of Police II. In brief, the City's position is that inasmuch as a Deputy Chief II is subject to reassignment to the lower pay grade of Deputy Chief I and inasmuch as a Deputy Chief II serves as the Acting Chief of Police whenever the latter is gone, the basis for fluctuating pensions presently applied is appropriate.

Pre-trial procedures, such as discovery, filing of certificates of readiness and informal conference on class issues having taken place, the matter is expected to be ready for trial in the foreseeable future.

OLSON v. BOARD OF PENSION COMMISSIONERS et al

The somewhat unique aspect of this case is presented by the fact that the jurisdiction of the Superior Court was invoked by petitioner's petition for a writ of mandate to compel the Board of Pension Commissioners to grant a pension, the total amount of which would be identical to the amount of pension petitioner is currently receiving pursuant to the Board determination now being attached by petitioner. Because of the length of service of petitioner's deceased husband, her entitlement was predicated on a finding of his nonservice-connected death with her eligibility to receive a pension computed on the basis of his length of service with the City. The petitioner seeks a finding of service-connected causation of her husband's death because she has been advised that a service-connected death pension qualifies for total exclusion from petitioner's gross income for tax purposes pursuant to Section 104 (a) of the Internal Revenue Code.

At the time of completion of this report, this case has not come to trial.

SAMARDICH v. BOARD OF PENSION COMMISSIONERS

Petitioner sought relief from a denial of a disability pension by petitioning for a writ of mandate. The peremptory writ was granted by the Superior Court, remanding the case for further proceedings to the Board of Pension Commissioners. The petitioner had been found to be fit to perform restricted duties only, but the employing department advised that they had no restricted duty positions available for petitioner.

While this case is of minor significance as far as legal issues are concerned, it is reported herein because it focuses upon a problem which is frequently presented and which possibly could be taken care of by petitioner's employing department with respect to him and others similarly situated, thereby saving the City considerable pension costs.

DOMESTIC RELATIONS LITIGATION

The involvement of the Department of Pensions in dissolution of marriage proceedings, previously reported on, has further increased because the California Rules of Court, in concert with the Family Law Act, now provide a method whereby a respondent or petitioner, as the case may be may apply to the court for an ex parte order commanding a claimant third party, such as the boards or the departments who hold property subject to the court's jurisdiction, to be joined as parties to dissolution of marriage proceedings although the principle that pensions are community property has long been well established in this state.

However, the law is still in a state of uncertainty as to whether or not a court can retain continuing jurisdiction over the respective interests of spouses in a future pension allowance when, at the time of trial, the employee has vested right, but a mere expectancy to pension allowance.

OPERATIONS

Expenditures

Expenditures for pensions increased some \$5 million as a result of increases in numbers of pensioners, higher pensions derived from higher salary levels and cost of living increases.

Administrative Expenses

Administrative expense of the Fire and Police Pension System increased 14% over the prior fiscal year primarily because of salary increases and higher cost of contractual services. Fees for surety bonds increased as a result of the creation of the nominee partnership in the Department.

Salaries

Salary expense for the year rose 15% above the prior year, representing an across-the-board cost of living pay increase, and an increase in occupied positions. Thirty-two individuals were employed by the Department, including one Assistant City Attorney and one Deputy City Attorney IV.

Travel Expense

Travel expense for the year was some 15% less than the prior year and meetings attended by Board and staff were primarily for training and informational purposes.

Contractual Services

Contractual services increased some 18% over the prior year, attributable to the increase in the cost of investment counseling, where fees are related to the amount of the portfolio; to the cost of the election of a member of the Board from the Police Department; and to the increased cost of stock market monitoring equipment. Additional cost was incurred for services performed by the Data Service Bureau.

Medical Services

This account showed a slight decrease in cost amounting to 2% less than the prior year. This reflects the small number of disability pension claims settled during the year.

Health Insurance

The decrease of nearly 31% for this item does not reflect the last quarterly payment which was paid subsequent to the close of the fiscal year. The subsequent payment would put the expenditure for health insurance at about the same level as for the prior year.

Equipment, Furniture and Fixtures

Although this account showed a net increase of \$530, the total expenditure of \$5,018 was less than the amounts spent during 71/72, 70/71 and 69/70.

Surety Bonds

Surety bonds were carried on Department personnel in the following amount:

Position	Amount of Bond
Operational Coverage:	
Manager-Secretary	\$ 50,000
Chief Accountant	25,000
All others, each	5,000
 Nominee Partnership:	
Manager-Secretary	1,000,000
Assistant Manager	1,000,000

Respectfully submitted,



M. LEWIS THOMPSON
Manager-Secretary

MLT:wms

A SHORT HISTORY OF FIRE AND POLICE PENSION SYSTEM

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 pension of one-half of the 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 substance of the systems authorized by 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 limitation as to age.

1923-25. Effective January 29, 1923, the substance of these two ordinances was adopted into the Charter. The system was placed upon an actuarial basis. Also $1\frac{2}{3}\%$ for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of $\frac{2}{3}$ 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' service, plus $1\frac{2}{3}\%$ 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 salaries. 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 essentially upon a "pay-as-you-go" basis of operation.

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension of 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension of 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the widow for minor children under 18 and unmarried. Members entering subsequent to January 17, 1927, could retire after 20 years' service upon 40% of the average salary for the last three years of service. In addition, they would receive 2% for each of the next five years of service, and $1\frac{2}{3}\%$ for each of the next ten years of service. The maximum pension of $\frac{2}{3}$ of average salary was retained, but the 1927 limitation was raised to accord with salary level of a police captain or fire battalion chief. Contributions were increased from 4% to 6% of salaries.

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 pensions did not apply to members employed prior to July 1, 1925, nor to widows 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: annual cost of living adjustments to all members' or widows' pensions that were based on length of service retirement, to 55% at 25 years of service, plus 3% per year for a maximum of 70% at 30 years of service; a minimum pension of \$250.00 per month, to be adjusted each year by the cost of living formula; an extension of the funding period to 70 years; changes in the investment authority to provide for mortgage investments and public improvement financing; and other changes.

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 pensioners 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 \$350.00 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.

EDWARD L. CHAPIN
HARRY M. CHURCH
BARRETT N. COATES, JR.
ANGUS L. CRAWFORD
ROBERT H. LITTLE

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SAN FRANCISCO

COATES AND CRAWFORD
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PASADENA, CALIFORNIA 91101
(213) 681-4455

October 30, 1974

Board of Pension Commissioners
City of Los Angeles
Room 501, City Hall South
111 East 1st Street
Los Angeles, California 90012

Gentlemen:

We are pleased to transmit herewith our Report setting forth the results of the valuations of the Fire and Police Pension System and New Pension System of the City of Los Angeles, as of June 30, 1974.

Respectfully submitted,

COATES AND CRAWFORD
Consulting Actuaries

By /s/ Harry M. Church

HMC:th

**ACTUARIAL VALUATIONS
OF THE
FIRE AND POLICE PENSION SYSTEM
AND
NEW PENSION SYSTEM
OF THE
CITY OF LOS ANGELES
AS OF
JUNE 30, 1974**

SECTION I

RESULTS OF VALUATIONS

The "Proposed Charter Amendment P" which was approved by the electors in the November 8, 1966 election amended Article XVII of the City Charter to increase benefits, and added Article XVIII which established the New Pension System.

As of June 30, 1974, there were 440 active members and 4,432 retired persons covered under Article XVII of the Charter (hereinafter referred to as the Fire and Police Pension System) and there were 9,783 active members and 2,536 retired persons covered under Article XVIII of the Charter (hereinafter referred to as the New Pension System).

The results of the Actuarial Valuation of the Two Systems as of June 30, 1974 are shown on the following Actuarial Balance Sheet. These valuations were carried out on the basis of the actuarial assumptions adopted as the result of the investigation that was made as of December 31, 1970, and pursuant to the Resolution adopted by the Board of Pension Commissioners, upon a 5% interest assumption. The actuarial assumptions were discussed in detail in our report to the Board of Pension Commissioners dated June 9, 1971.

The following comments may facilitate a review of the items shown on the Actuarial Balance Sheet.

Item I shows the assets on hand and was taken from the Accounting Balance Sheet. Item 2 shows the present value of future contributions, amounting to 6% of salary for members under the Fire and Police Pension System and 7% of salary for members under the New Pension System, that will be received from the present members of the Systems. Item 3 shows the present value of future contributions that will be received from the City and is broken down into that portion attributable to the City's share of the entry age cost and that portion attributable to the amortization

of the Unfunded Liability of the Systems. Each portion of the City's contribution is also broken down between that portion attributable to "Basic Benefits" and that portion attributable to "Cost of Living Benefits."

Items 5 and 6 were taken directly from the Accounting Balance Sheet.

Items 7 through 11 show the actuarially computed liability for all benefits that will be paid under the System as it is presently constituted including Cost of Living benefits.

The City Charter specifies that Cost of Living adjustments will be made to certain pensions in the event the Consumer Price Index changes. For the current valuations, we have assumed that persons eligible for unlimited increases will receive 3%, per annum, future cost of living increases.

In keeping with our past practice, any future increases in pension payable to members receiving fluctuating pensions will be reflected in future valuations as they occur.

ACTUARIAL BALANCE SHEET
AS OF JUNE 30, 1974

ASSETS

	Fire and Police Pension System	New Pension System	Combined
1. Assets from Accounting Balance Sheet	\$ 39,895,697	\$ 289,183,166	\$ 329,078,863
2. Present Value of Future Contributions by Members	4,478,074	124,033,137	128,511,211
3. Present Value of Future Contributions by the City for:			
(a) Entry Age Cost:			
(i) Basic Benefits	8,582,974	219,715,842	228,298,816
(ii) Cost of Living Benefits	3,880,997	90,366,999	94,247,996
(iii) Total	<u>\$ 12,463,971</u>	<u>\$ 310,082,841</u>	<u>\$ 322,546,812</u>
(b) Seventy Year Amortization of "Unfunded Liability":			
(i) Basic Benefits	\$290,077,836	\$ 553,572,228	\$ 843,650,064
(ii) Cost of Living Benefits	78,192,031	239,368,193	317,560,224
(iii) Total	<u>\$368,269,867</u>	<u>\$ 792,940,421</u>	<u>\$1,161,210,288</u>
4. Total Assets	<u>\$425,107,609</u>	<u>\$1,516,239,565</u>	<u>\$1,941,347,174</u>

LIABILITIES

5. Accounts Payable	\$	75,481	\$ 75,481
6. Reserve for Investment Losses	2,482,530	6,259,772	8,742,302
7. Present Value of Present Pensions to Pensioners now on Pension Roll:			
(a) Service	133,024,344	323,970,128	456,994,472
(b) Disability	58,285,354	31,711,684	89,997,038
(c) Dependents	122,576,978	19,820,778	142,397,756
(d) Total	<u>\$313,886,676</u>	<u>\$ 375,502,590</u>	<u>\$ 689,389,266</u>
8. Present Value of Prospective Pensions to Dependents of Present Pensioners:			
(a) Service	\$ 45,079,689	\$ 65,710,350	\$ 110,790,039
(b) Disability	16,209,638	8,568,428	24,778,066
(c) Total	<u>\$ 61,289,327</u>	<u>\$ 74,278,778</u>	<u>\$ 135,568,105</u>
9. Present Value of Prospective Pensions to Presently Active Members:			
(a) Service	\$ 29,283,927	\$ 679,985,420	\$ 709,269,347
(b) Disability	7,817,015	155,716,464	163,533,479
(c) Total	<u>\$ 37,100,942</u>	<u>\$ 835,701,884</u>	<u>\$ 872,802,826</u>
10. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die in Active Service	\$ 2,087,382	\$ 42,485,803	\$ 44,573,185
11. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die after Retirement:			
(a) Service	\$ 6,256,890	\$ 143,042,336	\$ 149,299,226
(b) Disability	2,003,862	38,892,921	40,896,783
(c) Total	<u>\$ 8,260,752</u>	<u>\$ 181,935,257</u>	<u>\$ 190,196,009</u>
12. Total Liabilities	<u>\$425,107,609</u>	<u>\$1,516,239,565</u>	<u>\$1,941,347,174</u>

SECTION II
RECOMMENDED CONTRIBUTIONS

Section 186.2 of Article XVII and Section 190.09 of Article XVIII of the Charter of the City of Los Angeles specify that the City will make the following contributions each year:

1. An amount equal to the City's share of a defined Entry Age Cost.
2. An amount equal to a percentage of the salaries of all members necessary to amortize the "Unfunded Liability" of the Systems over a 70-year period beginning with the fiscal year commencing July 1, 1967, with specified contributions for the first year (1967-1968).
3. An amount to provide for Administration Expense.

Pursuant to Subparagraphs 1 and 2 above, we recommend that the City's contributions for the fiscal year commencing July 1, 1975, be as follows:

	Percentages of Members' Salaries of:	
	Fire and Police Pension System	New Pension System
1. Entry Age Contribution:		
(a) Basic Benefits	11.5%	12.4%
(b) Cost of Living Benefits	5.2	5.1
(c) Total	16.7%	17.5%
2. Unfunded Past Service Contribution:		
(a) Basic Benefits	188.1%	16.6%
(b) Cost of Living Benefits	50.7	7.2
(c) Total	238.8%	23.8%
3. Total Contribution:		
(a) Basic Benefits	199.6%	29.0%
(b) Cost of Living Benefits	55.9	12.3
(c) Total	255.5%	41.3%

It should be noted that the disproportionately large City contribution rate for the Fire and Police Pension System stems from the fact that the System consists of a closed group of 440 active members and 4,432 retired persons, as of June 30, 1974, and the City Charter requires that the City contribution rate be expressed as a percentage of active members' salaries.

Section 190.10 of the City Charter refers to Cost of Living contributions by New Pension System members as follows:

"That percentage of the amount of salary, as shown on each such payroll, of each System Member whose name appears thereon, but not to exceed 1% thereof, which shall be equal to ½ of the cost of the benefits provided by Section 190.14 as shall be determined by the Board upon an actuarial valuation obtained by it pursuant to Section 190.08, . . ."

The total cost of Cost of Living benefits amounts to 12.3%. Accordingly, we recommend that New System Members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Fire and Police Pension System Members are required by the City Charter to contribute 6% of salary.

In our opinion, if these recommendations are adopted, the Fire and Police Pension System and the New Pension System will be maintained on sound actuarial bases in compliance with the Charter of the City of Los Angeles.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

555 SOUTH FLOWER STREET

LOS ANGELES, CALIFORNIA 90071

The Board of Pension Commissioners
of the City of Los Angeles:

We have examined the statements of assets, liabilities, reserves and fund capital (deficit) of the City of Los Angeles Fire and Police Pension System as of June 30, 1974 and 1973, and the related statements of revenues and expenditures, changes in fund capital (deficit) and source and application of cash and temporary investments for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have been furnished the reports of independent actuaries reflecting the reserve for pensions which represents the present values of amounts required to pay pensions already entered upon, and for pensions to be entered upon, relating principally to services rendered prior to June 30, 1974 and 1973.

In our opinion, based on our examination and on the reports of consulting actuaries as to the reserve for pensions, the accompanying statements of assets, liabilities, reserves and fund capital (deficit), revenues and expenditures, changes in fund capital (deficit), and source and application of cash and temporary investments present fairly the financial position of the City of Los Angeles Fire and Police Pension System at June 30, 1974 and 1973, and the results of its operations and the source and application of its cash and temporary investments for the years then ended, in conformity with generally accepted accounting principles which, except for the change in method of accounting for the reserve for pensions as described in the second paragraph of note 2 of notes to financial statements, with which we concur, have been applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

September 30, 1974

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM**

**STATEMENTS OF ASSETS, LIABILITIES, RESERVES AND
FUND CAPITAL (DEFICIT)**

June 30, 1974 and 1973

	ASSETS		1974	1973
Cash and temporary investments:			<u>1974</u>	<u>1973</u>
Deposits with Treasurer of the City of Los Angeles: -----				
Restricted ----- \$	53,793			\$ 96,799
Unrestricted -----	<u>2,808,243</u>	\$ 2,862,036	<u>2,418,050</u>	\$ 2,514,849
Cash revolving funds -----		500		500
Temporary short-term ¹ investments—at cost, plus interest (approximate market) -----		25,921,352		22,454,096
		<u>28,783,888</u>		<u>24,969,445</u>
Interest and dividends receivable -----		3,501,865		2,489,690
Taxes receivable -----		1,832,776		1,322,000
Accounts receivable -----		71,315		37,564
Investments:				
Bonds—at amortized cost (quoted market, \$160,983,864, \$126,404,021 in 1973) -----	\$ 184,589,776			\$131,814,447
Preferred stock—at cost (quoted market, \$181,000, \$196,000 in 1973) ---	211,659			211,659
Common stock—at cost (quoted market, \$98,764,810, \$66,162,490 at September 30, 1974, \$111,544,049 in 1973) -----	110,068,712			104,634,020
Treasurer's deeds—at cost -----	735			735
Real property—at cost -----	<u>18,136</u>	294,889,018	<u>18,136</u>	<u>236,678,997</u>
		<u>\$ 329,078,862</u>		<u>\$ 265,497,696</u>

LIABILITIES, RESERVES AND FUND CAPITAL (DEFICIT)

Accounts payable -----		\$ 75,481		\$ 25,902
Reserve for pensions—at actuarial valuation (note 2):				
Pensioners -----	\$ 824,903,577			
Active members -----	<u>656,513,997</u>	1,481,417,574		1,069,009,234
		<u>1,481,493,055</u>		<u>1,069,035,136</u>
Fund Capital (deficit):				
Accumulated (deficit) -----	\$(1,161,210,288)			\$(810,812,690)
Workmen's Compensation Fund (note 3) -----	53,793			96,799
Reserve for investment losses -----	<u>8,742,302</u>	(1,152,414,193)	<u>7,178,451</u>	(803,537,440)
Contingent liability (note 4).				
		<u>\$ 329,078,862</u>		<u>\$ 265,497,696</u>

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

STATEMENTS OF REVENUES AND EXPENDITURES

Years ended June 30, 1974 and 1973

	1974	1973	
Revenues:			
Taxes	\$ 87,397,038	\$76,790,463	
Interest	13,119,191	9,680,994	
Dividends	2,448,289	1,950,933	
Members' contributions	11,276,454	10,678,323	
Sales of unclaimed property	94,489	60,098	
Donations	9,244	524	
Miscellaneous	31,298	31,689	
Total revenues	114,376,003	99,193,024	
 Expenditures:			
Pensions paid (note 3):			
Service	\$31,662,143	\$28,191,298	
Disability	6,334,436	5,546,572	
Widows	13,601,122	12,765,000	
Minors	276,368	208,208	
Dependents	15,551	16,122	
	51,889,620	46,727,200	
Administrative expenses	518,647	455,033	47,182,233
	52,408,267	455,033	
Excess of revenues over expendi- tures before gain on disposition of investments, (addition to) reduction of reserve require- ments and cumulative effect of accounting change	61,967,736	52,010,791	
Gain on disposition of investments	1,563,851	1,499,362	
	63,531,587	53,510,153	
(Addition to) reduction of reserve requirements (note 2)	(154,211,797)	3,566,682	
Revenue (deficiency) for the year before cumulative effect of accounting change	(90,680,210)	57,076,835	
Cumulative effect of accounting change (note 2)	(258,196,543)		
Revenue (deficiency) for the year	\$(348,876,753)	\$57,076,835	

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

STATEMENTS OF CHANGES IN FUND CAPITAL (DEFICIT)

Years ended June 30, 1974 and 1973

	Accumulated (deficit)	Workmen's Compensation Fund (note 3)	Reserve for investment losses	Total
Balance (deficit), July 1, 1972	\$(866,473,063)	\$179,699	\$5,679,089	\$(860,614,275)
Revenue (deficiency) for the year —	<u>55,660,373</u>	<u>(82,900)</u>	<u>1,499,362</u>	<u>57,076,835</u>
Balance (deficit), June 30, 1973	(810,812,690)	96,799	7,178,451	(803,537,440)
Revenue (deficiency) for the year (note 2)	<u>(350,397,598)</u>	<u>(43,006)</u>	<u>1,563,851</u>	<u>(348,876,753)</u>
Balance (deficit), June 30, 1974 ...	<u><u>\$(1,161,210,288)</u></u>	<u><u>\$ 53,793</u></u>	<u><u>\$8,742,302</u></u>	<u><u>\$(1,152,414,193)</u></u>

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

STATEMENTS OF SOURCE AND APPLICATION
OF CASH AND TEMPORARY INVESTMENTS

Years ended June 30, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Source of cash and temporary investments:		
Excess of revenues over expenditures before gain on disposition of investments, (addition to) or reduction of reserve requirements and cumulative effect of accounting change	\$61,967,736	\$52,010,791
Gain on disposition of investments credited to reserve for investment losses	1,563,851	1,499,362
Net decrease in preferred stock investments	-----	650,802
Increase in accounts payable	49,579	-----
Decrease in taxes receivable	-----	43,000
	<u>63,581,166</u>	<u>54,203,955</u>
Application of cash and temporary investments:		
Net increase in investments:		
Bonds	52,775,329	23,930,829
Common stock	5,434,692	27,736,173
Increase in interest and dividends receivable	1,012,175	494,432
Increase in taxes receivable	510,776	-----
Increase in accounts receivable	33,751	37,564
Decrease in accounts payable	-----	24,055
	<u>59,766,723</u>	<u>52,223,053</u>
Net increase in cash and temporary investments ..	3,814,443	1,980,902
Cash and temporary investments balances:		
July 1	24,969,445	22,988,543
June 30	<u>\$28,783,888</u>	<u>\$24,969,445</u>

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

Notes to Financial Statements

June 30, 1974 and 1973

(1) Summary of Significant Accounting Policies

Investments

It is the accounting policy of the system not to provide for the fluctuation in market value of bonds, as such investments are usually held to maturity and, if so held, they should be redeemed substantially at par. Bond premiums and discounts are amortized to maturity date by adjusting the nominal interest rate to the yield basis upon which they were acquired.

Reserve for Pensions

The Charter of the City of Los Angeles provides that the Fire and Police Pension System be maintained on a reserve basis, which shall be determined in accordance with accepted actuarial methods.

Reserve for Investment Losses

Gains or losses on the disposition of investments are credited or charged to the reserve for investment losses.

(2) Reserve for Pensions

The reserve for pensions reflects the liabilities as determined by the actuarial valuations as of June 30, 1974 and 1973. Such liabilities represent computed amounts that, with additions from future contributions to be received to cover normal costs and with interest on fund investments compounded annually at a certain assumed rate, are calculated to provide assets sufficient to meet the pension obligations. The valuation was determined on the basis of actuarial assumptions adopted as a result of an investigation made as of December 31, 1970, and upon a 5% assumed rate of interest.

During the year ended June 30, 1974, the reserve for pensions of \$1,481,417,574 was increased to reflect a change in the method of accounting. It includes the present value of pensions already entered upon of \$824,903,577 and pensions to be entered upon of \$1,107,572,020 net of the present value of future normal contributions by the City and members of \$451,058,023. The cumulative effect of this change plus the effect of salary and cost of living adjustments, described below, resulted in a net increase in the reserve of \$412,408,340 as of June 30, 1974. This net adjustment consists of the following:

Change in definition (accounting method) for	
years ending prior to June 30, 1974	\$258,196,543
Current year addition to reserve requirements	154,211,797
Total	<u>\$412,408,340</u>

Had the change in accounting method been effected at the beginning of the year ended June 30, 1973, the reserve for pensions would have been increased by \$258,196,543 at June 30, 1973. The increase in reserve requirements would have been \$48,527,010 for the year ended June 30, 1973, instead of a decrease of \$3,566,682.

The actuarially determined unfunded past service liability of the pension system is \$1,161,210,288 at June 30, 1974 and \$1,069,009,234 at June 30, 1973. In accordance with the City Charter, this amount is to be

amortized over the next sixty-three years through contributions to be made by the City. The Charter of the City of Los Angeles specifies that the City will make the following contributions each year:

1. An amount equal to the City's share of defined entry age costs;
2. An amount equal to a percentage of salaries of all members necessary to amortize the "unfunded liability" of the systems over a seventy-year period beginning with the fiscal year commencing July 1, 1967, with specified contributions for the first year (1967-68); and
3. An amount to provide for administrative expenses.

Accordingly, the actuaries for the Fire and Police Pension System have determined the contributions for items 1 and 2 above for the fiscal year commencing July 1, 1974 and 1975 to be as follows:

	Percentages of Members' Salaries of:			
	Fire and Police Pension System		New Pension System	
	1975	1974	1975	1974
1. Entry age contribution	16.7%	16.7%	17.5%	17.5%
2. Unfunded past service	238.8	244.5	23.8	23.0
Total contribution	<u>255.5%</u>	<u>261.2%</u>	<u>41.3%</u>	<u>40.5%</u>

The primary factor in the \$154,211,797 addition to reserve requirements for 1974 was upward salary and cost of living adjustments approximating 6.7% and 8.5% respectively, resulting in increased liabilities for both fluctuating and fixed pensions. The primary factor in the \$3,566,682 reduction in reserve requirements for 1973 was an increase in the assumed rate of interest from 4 $\frac{5}{8}$ % to 5%.

The disparity of the percentages of City contributions to members' salaries required to amortize the unfunded past service cost is due to the unfunded past service liability of the Fire and Police Pension System, amounting to \$368,269,867 as of June 30, 1974 (\$360,311,447 as of June 30, 1973), being amortized at a rate applicable to the current payroll of approximately 440 active members (450 for 1973) compared to the unfunded past service liability of the New Pension System, amounting to \$792,940,421 as of June 30, 1974 (\$708,697,787 as of June 30, 1973), being amortized at a rate applicable to the current payroll of approximately 9,800 active members (approximately 9,650 for 1973).

(3) Workmen's Compensation Fund

Tax revenues are deposited directly into the Workmen's Compensation Fund for Fire and Police pensioners by the City Controller, and workmen's compensation benefits to pensioners of the Fire and Police Pension System are paid therefrom. Payments of \$393,006 made during the year ended June 30, 1974 (\$282,900 for 1973), are included under pensions paid.

(4) Contingent Liability

Several legal actions were pending at June 30, 1974. Counsel for the Fire and Police Pension System believes that adverse decisions in several of these cases could result in future pension cost increases of some consequence. In one such case, a judgement against the City was rendered and upheld on appeal and, as a consequence thereof, will become part of the unfunded liability of the system. The amount is not presently known. However, such cost increases would be funded by increased tax revenues under the authority of the City Charter.

PENSION DEPARTMENT
ADMINISTRATIVE EXPENSE COMPARED

Schedule 1

Operating Expense	1973-74	1972-73	1971-72	1970-71	1969-70	1968-69	1967-68
Salaries	\$319,517	\$277,373	\$249,940	\$208,560	\$198,038	\$168,829	\$157,343
Office and Administrative Expense	16,559	11,891	13,572	11,878	9,631	9,013	8,180
Operating Supplies and Expense .....	.....	50	.....	2,000	2,000	.....	.....
Printing and Binding	5,498	6,215	6,671	9,344	5,892	5,107	7,544
Traveling	6,254	7,363	4,908	4,434	4,798	4,471	3,182
Contractual Services	107,181	90,661	82,906	51,748	46,686	39,191	31,940
Field Equipment	569	460	250	150	300	229	150
Petroleum Products	570	216	204	207	205	246	103
Transportation	513	410	233	215	195	211	115
Annual Audit	3,820	3,412	3,621	3,250	2,750	2,750	2,500
Governmental Meetings	395	100	42	18	220	.....	.....
Litigation	9,018	7,983	8,165	9,593	10,837	10,001	12,670
Medical Services	30,784	31,447	24,529	18,807	26,768	28,859	23,130
Actuarial Expense	8,500	6,500	6,500	13,000	6,500	6,500	11,500
Health Insurance	4,451	6,464	4,077	3,722	.....	.....	.....
Equipment, Furniture & Fixtures	5,018	4,488	25,418	11,160	15,206	4,579	4,726
	<u>\$518,647</u>	<u>\$455,033</u>	<u>\$431,036</u>	<u>\$348,086</u>	<u>\$330,026</u>	<u>\$279,986</u>	<u>\$263,083</u>

PENSION DEPARTMENT
STATEMENT OF OPERATIONS COMPARED

Fiscal Years 1967-68 to 1973-74

Schedule 2

REVENUES	1973-74	1972-73	1971-72	1970-71	1969-70	1968-69	1967-68
Taxes	\$ 87,397,038	\$ 76,790,463	\$ 63,381,284	\$ 59,491,069	\$ 50,573,717	\$ 49,826,636	\$ 36,993,830
Dividends	2,448,289	1,950,933	1,530,367	1,206,340	1,035,283	621,296	418,561
Interest	13,119,191	9,680,994	8,087,889	6,255,043	4,720,395	3,153,521	1,977,077
Members' Contributions	11,276,454	10,678,323	9,797,464	8,848,302	7,455,724	6,677,287	5,786,094
Sales of Unclaimed Property ..	94,489	60,098	145,903	155,170	158,851	72,807	117,625
Donations	9,244	524	320	360	168	526	274
Miscellaneous	31,298	31,689	222,148	38,802	7,457	6,657	16,697
TOTAL REVENUES available for current year's expenditures	\$ 114,376,003	\$ 99,193,024	\$ 83,165,375	\$ 75,995,086	\$ 63,951,595	\$ 60,358,730	\$ 45,310,158
EXPENDITURES							
Pensions Paid							
Service	\$ 31,662,143	\$ 28,191,298	\$ 24,248,061	\$ 21,204,493	\$ 19,356,718	\$ 17,770,007	\$ 15,818,310
Disability	6,334,436	5,546,572	4,908,673	4,373,793	4,173,725	3,825,222	3,770,881
Widows	13,601,122	12,765,000	11,806,446	10,578,872	9,232,752	8,345,293	7,794,194
Minors	276,368	208,208	217,720	189,411	198,215	162,453	150,146
Dependents	15,551	16,122	10,757	-----	-----	-----	-----
TOTAL PENSIONS	\$ 51,889,620	\$ 46,727,200	\$ 41,191,657	\$ 36,346,569	\$ 32,961,410	\$ 30,102,975	\$ 27,533,531
Administrative Expense	\$ 518,647	\$ 455,033	\$ 431,036	\$ 348,086	\$ 330,026	\$ 279,986	\$ 263,083
TOTAL EXPENDITURES	\$ 52,408,267	\$ 47,182,233	\$ 41,622,693	\$ 36,694,655	\$ 33,291,436	\$ 30,382,961	\$ 27,796,614
EXCESS OF REVENUES OVER EXPENDITURES	\$ 61,967,736	\$ 52,010,791	\$ 41,542,682	\$ 39,300,431	\$ 30,660,159	\$ 29,975,769	\$ 17,513,544
Gain (Loss) on Sale of Investments	1,563,851	1,499,362	4,057,693	472,948	470,440	445,069	54,914
EXCESS OF REVENUES OVER EXPENDITURES	\$ 63,531,587	\$ 53,510,153	\$ 45,600,375	\$ 39,773,379	\$ 31,130,599	\$ 30,420,838	\$ 17,568,458
Reduction of (Addition to) Actuarial Reserve	(154,211,797)	3,566,682	(184,411,363)	(84,401,166)	(61,890,773)	(43,586,828)	(43,712,313)
Revenue (deficiency) for the year before cumulative effect of accounting change	\$ (90,680,210)	---	---	---	---	---	---
Cumulative effect of accounting change*	(258,196,543)	---	---	---	---	---	---
Revenue (deficit) for the year	\$(348,876,753)	\$ 57,076,835	\$(138,810,988)	\$ (44,627,787)	\$ (30,760,174)	\$ (13,165,990)	\$ (26,143,855)
Fund deficit at beginning of year	(803,537,440)	(860,614,275)	(721,803,287)	(677,175,500)	(646,415,326)	(633,249,336)	(607,105,481)
Fund deficit at end of year	\$(1,152,414,193)	\$(803,537,440)	\$(860,614,275)	\$(721,803,287)	\$(677,175,500)	\$(646,415,326)	\$(633,249,336)

*Reference is made to the second paragraph of note 2 of notes to financial statements on page 37 of this annual report.