

Jim McGuigan

1976

Annual Report

BOARD OF PENSION COMMISSIONERS

CITY OF LOS ANGELES

CALIFORNIA



FOR THE FISCAL YEAR ENDED JUNE 30, 1976

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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

ZEV YAROSLAVSKY
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

PEGGY 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 1975-1976 ANNUAL REPORT

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

Presented herewith is the Annual Report of the Board of Pension Commissioners for the fiscal year ended June 30, 1976, submitted in accordance with the provisions of Section 64 of the City Charter.

Pension assets increased 19% to a total of \$467 million, some \$74 million above the prior year total. More than 85% of the increase was invested in long-term bonds as a means of increasing the yield in investments. During the year, bonds were purchased on an average yield basis of 8.38%, which had the effect of raising total bond yield to 7.98%, and the overall average yield of the entire fund to 6.49%. In addition, the Pension System realized capital gains on sales of securities of \$2.4 million. Thus, we show a very strong investment performance for the year.

Tax cost of the Pension System was reduced from a rate of \$1.11 for the prior year, to a rate of \$1.00 for the 1976-77 year, which represented a slowing in the rate of growth of pension cost, improvements in earnings and increased assessment rolls.

Continuing problems facing the Pension System include the adverse effects of inflation, and the rising tide of disability applications, which for the past year are triple the number of six years earlier.

Our efforts to improve the earnings of the System represent our contribution in counteracting the impact of inflation. The rising levels of disability reflect similar trends elsewhere, not only in California but nationwide, and the attractiveness of tax-free pensions when measured against higher and higher tax brackets as inflation pushes salaries upward. Despite such problems, this Pension System compares favorably to the experience of other safety member pension systems, and this board intends to maintain this favorable experience.

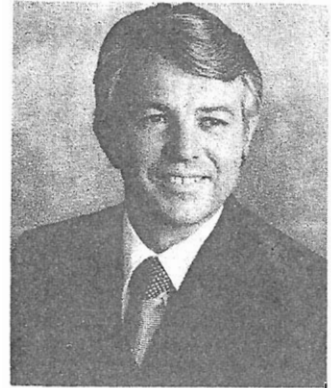
Respectfully submitted,

BOARD OF PENSION COMMISSIONERS

By



Sam Diannitto, Jr.
President



SAM DIANNITTO
President



OLGA MARCUS
Vice President



RONALD S. W. LEW

SD:vs



LEON SAVITCH



DICK STANTON



JACK BORMAN



JOHN A. CALFAS

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, 1976. This report includes the financial statements which have been audited by Peat, Marwick, Mitchell & Co., who are employed by the Board under contract. In addition, there is provided a summary report by the Department's actuaries Towers, Perrin, Forster & Crosby, Inc., 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 19% during the past year to a total of \$467 million, some \$78 million above the prior year total. More than 85% of the increase was converted into bond investments, while common stock purchases and sales resulted in a net increase of approximately \$8.5 million and the remainder was carried in short term investments.

Revenues from interest and dividends showed an increase of 21% above the prior year. Taxes, representing the City's contribution to the cost of the system, increased by \$13.5 million or 15% while member contributions increased by \$3 million or 24%.

Capital gains during the year amounted to a net of approximately \$2.4 million. A large part of this gain was attributable to the sale of a portion of Dow Chemical stock, which had more than doubled in price since its purchase.

Portfolio changes during the year included bond and stock purchases of more than \$92 million and sales of over \$15 million. At the end of the year, common and preferred stocks constituted approximately 28% of the Department's portfolio.

Nominee Partnership

During the fiscal year, the balance of the stock in the New System General Fund was transferred into the nominee name of NESPO. This procedure has facilitated the sale of equities since it has eliminated technical problems in clearance that resulted from the practice of holding all title in the name of the Board of Pension Commissioners.

Average Purchase Yield

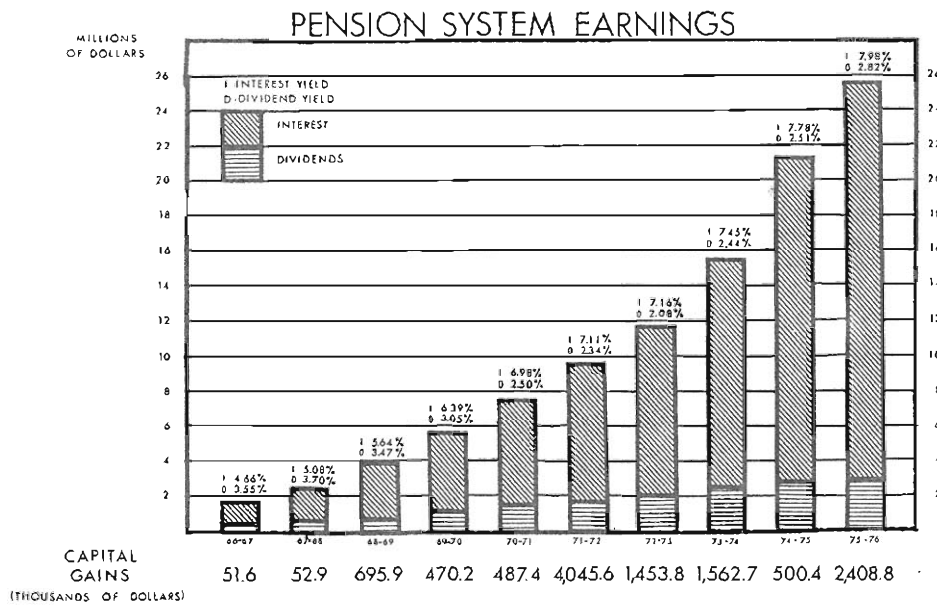
At the end of the fiscal year, the average purchase yield of the portfolio was 6.49%, an increase of more than 7% over the 6.05% purchase yield reported last year.

Short-Term Earnings

Temporary investments of the Pension Fund at year-end were \$42,200,000, a nominal increase over the amount held at the close of the prior year. Earnings on temporary investments totaled \$2,626,000, a 5.5% increase over the amount earned the previous year. Despite continued emphasis on full investment of funds, the dramatic increase in earnings reported last year was not repeated, primarily due to the substantial decline in short-term interest rates. In addition, a greater proportion of the revenues for the year, 53% as opposed to 35% during 1974-75, was used for long-term investment.

System Earnings From Securities

As shown in the following chart, earnings on securities of the pension funds continue to grow, increasing nearly \$4.4 million. While this represents a significant increase over the previous year, the growth was somewhat moderated by the aforementioned decline in short-term interest rates. Interest on long-term investments also reflected a flattening of rates. However, the average purchase yield on bonds still increased by more than 2.5% to 7.98%. The yield on common stocks rose by a greater margin, increasing by nearly 12-½% to 2.82% as a result of numerous increases in dividend rates. The purchase yield on stocks does not include capital gains of approximately \$2,800,000 realized during the year.



Five-Year-Actuarial-Investigation

Every five years the Pension Board contracts with the actuaries to check the validity of assumptions used in annual valuations. Actual and

expected retirements and terminations are compared. If necessary, the actuarial assumptions are modified to reflect changes.

This year, the proposed modifications included changes in mortality rates after retirement, recognition of separation from service prior to three years active service and new remarriage rates for widows of system members. Recognition of increasing salary rates for active members for the last ten years led the actuaries to urge the Board to also adopt an inflationary salary scale of 3 percent. This salary scale, coupled with an assumed rate of interest of 5- $\frac{3}{8}$ percent seemed the most reasonable way of reflecting rising salaries.

The Board after due deliberation and examination of the impact of these new assumptions adopted them as proposed by the actuaries. They were used in the valuation of the pension system as of June 30, 1976.

Actuarial Valuation, June 30, 1976

The valuation was based on active and retired membership as it existed June 30, 1976. The resulting actuarial balance sheet showed total liabilities of \$2.7 billion, an increase of \$614 million over 1975 liabilities. Increases of \$124 million in liabilities for pensioners were caused by a 3 percent increase in numbers of pensioners and 11.7 percent cost of living adjustment. Future pension liabilities for currently active members increased by \$490 million. This dramatic increase was caused by the assumption that salaries of active members will rise at an annually compounded rate of 3 percent. Previously, no such assumption had been made. On the asset side, the actuarial balance sheet showed increases in the present value for contributions by members and the City's Entry Age Contribution.

The recognition by the actuaries of increased liabilities due to ever increasing salaries forced a reevaluation of entry age cost. This cost, when expressed as a percentage of salary, had been relatively stable in recent years and only changed appreciably with major benefit changes. With the inflationary salary assumption, entry age cost rose from 15.4 percent in 1975 to 23.1 percent in 1976.

The new entry age cost and increases in present value of members' contribution partially offset the \$614 million increase in total liabilities. The net effect was that the unfunded supplemental present value (previously called "unfunded liability") increased by 288 million. Contribution rates to amortize this 1.5 billion unfunded supplemental present value have been reduced by using a new method of amortization. Previously, the actuaries determined a fixed dollar amount to be paid each year to the end of the amortization period. Now, the amount necessary for amortization is expressed as a fixed percentage of salaries paid to active members. This will have the effect that contributions by the City necessary to amortize unfunded supplemental present value will increase in direct proportion to salary increases.

The new contribution rates listed in the actuarial report will be applied to determine tax requirements for the fiscal year 1977-1978. The actual dollar amount will depend on the salaries for sworn personnel in the budget for Fire and Police Departments for the same year.

MEMBERSHIP

As of June 30, 1976, 2,885 Firefighters and 7,327 Police Officers were members of the system. This includes members on leave of absence without pay, members on military leave and members on suspension. Of this number 301 are members of the Old Pension System, with 48 in the Fire

Department and 253 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 | 521 | 1,755 | 2,276 |
| With 5-9 years | 322 | 2,789 | 3,111 |
| With 10-19 years | 1,236 | 1,984 | 3,220 |
| With 20 years and over | 806 | 799 | 1,605 |
| TOTAL | 2,885 | 7,327 | 10,212 |
| Article XVII | 48 | 253 | 301 |
| Article XVIII | 2,837 | 7,074 | 9,911 |

TRANSFER OF MEMBERS TO NEW PENSION SYSTEM

During the year, the Board approved a total of 122 applications from members of the Fire and Police Pension System (The "Old System") to transfer to the New Pension System. A total of 87 members of the Police Department and 13 members of the Fire Department have transferred. 22 of those approved have not yet completed the transfer.

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.

| | 1975-76 | 1974-75 | 1973-74 | 1972-73 | 1971-72 |
|---|---------|---------|---------|---------|---------|
| Total Membership July 1st | 10,334 | 10,223 | 10,102 | 10,190 | 10,153 |
| On Leave or Suspension | 27 | 52 | 30 | 44 | 39 |
| On Military Leave | 2 | 5 | 10 | 22 | 32 |
| | 10,305 | 10,166 | 10,062 | 10,256 | 10,224 |
| Additions: | | | | | |
| New Appointments | 402 | 749 | 970 | 590 | 697 |
| Reappointments | 37 | 32 | 27 | 30 | 27 |
| Restorations <i>Disability Pensions</i> | 1 | 2 | 8 | 3 | 3 |
| Reinstated <i>Service Pensions</i> | — | 1 | 6 | — | — |
| Reactivated <i>Disability Pensions</i> | 1 | — | 1 | 3 | 6 |
| Return from Leave or Susp. | 296 | 405 | 265 | 256 | 396 |
| Restored from Military Leave ... | 21 | 28 | 8 | 19 | 25 |
| | 11,063 | 11,383 | 11,347 | 11,025 | 11,236 |
| Withdrawals: | | | | | |
| Service Retirements | 252 | 270 | 362 | 321 | 315 |
| Disability Retirements | 67 | 69 | 44 | 72 | 39 |
| Resigned | 219 | 313 | 454 | 295 | 315 |
| Discharged | 10 | 10 | 8 | 8 | 11 |
| Deaths | 15 | 11 | 23 | 18 | 19 |
| Leaves or Suspensions | 307 | 380 | 287 | 242 | 401 |
| Military Leaves Granted | 20 | 25 | 3 | 7 | 15 |
| Active Membership—June 30th .. | 10,173 | 10,305 | 10,166 | 10,062 | 10,121 |
| On Leave or Suspension | 38 | 27 | 52 | 30 | 44 |
| On Military Leave | 1 | 2 | 5 | 10 | 22 |
| Total Membership—June 30th .. | 10,212 | 10,334 | 10,223 | 10,102 | 10,187 |

Appointed Fiscal Year 1975-76

During the course of the year 439 members were appointed and became members of the system. Some 224 or 51% of such members were married at the date of entrance. Thirty-seven such members were reappointees with an average age of 26. Of the 402 original appointees the median age was 24, the mode 24, and the average 25.

ELIGIBILITY

There were as of June 30, 1976, a total of 1,605 members eligible to retire. 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 |
|--------------------|-------------|---------------|--------------|
| 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 |
| 1974-1975 | 877 | 863 | 1,740 |
| 1975-1976 | 806 | 799 | 1,605 |

During the fiscal year 1976-1977, an additional 261 members will become eligible if their service is continuous. Of these, 170 are Firefighters

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 4 Deputy Chiefs are eligible to retire, as are 10 out of 13 Assistant Chiefs, 47 out of 64 Battalion Chiefs, 218 out of 514 Captains and 231 out of 469 Engineers. In the Police Department 11 out of 14 Deputy Chiefs, 15 out of 23 Commanders, 52 out of 84 Captains and 98 out of 247 Lieutenants are eligible for service retirement.

ELIGIBILITY BY RANKS
July 1, 1975 thru June 30, 1976

FIRE

| Years Service | Fire- fighters | Appar. Oper. | Fire- boat Mate | Fire- boat Pilot | Engineer | Inspector | Captain | Battalion Chief | Ass't Chief | Deputy Chief | Chief Engineer | Total Empl's |
|------------------|-------------------|-----------------|-----------------------|------------------------|----------|-----------|---------|--------------------|----------------|-----------------|-------------------|-----------------|
| 39 | — | — | — | — | — | — | 1 | — | — | — | — | 1 |
| 35 | 1 | — | — | — | 4 | 1 | 1 | 2 | — | — | — | 9 |
| 34 | 2 | — | — | — | 1 | 1 | 3 | — | — | — | — | 7 |
| 33 | 1 | 1 | — | — | — | — | — | 1 | — | — | — | 3 |
| 32 | 2 | — | — | — | — | — | 1 | — | — | — | — | 3 |
| 29 | 34 | 1 | 1 | 1 | 29 | 4 | 45 | 5 | 3 | 1 | — | 124 |
| 28 | 47 | 1 | 1 | 1 | 39 | 9 | 58 | 7 | 3 | — | 1 | 167 |
| 27 | 13 | 1 | 2 | — | 17 | 2 | 15 | 6 | 1 | 1 | — | 58 |
| 26 | 15 | 1 | 3 | 2 | 23 | 1 | 22 | 7 | — | — | — | 74 |
| 25 | 9 | 1 | — | — | 8 | — | 5 | 2 | — | — | — | 25 |
| 24 | 39 | 3 | — | — | 45 | 3 | 22 | 4 | — | 1 | — | 117 |
| 23 | 15 | — | — | — | 12 | 1 | 10 | 2 | 2 | 1 | — | 43 |
| 22 | 12 | — | 1 | — | 15 | 1 | 8 | 2 | — | — | — | 39 |
| 21 | 39 | 1 | 1 | — | 25 | 3 | 14 | 5 | — | — | — | 88 |
| 20 | 13 | 2 | — | — | 13 | 2 | 13 | 4 | 1 | — | — | 48 |
| 19 | 88 | 6 | 1 | 1 | 29 | 11 | 35 | 2 | 1 | — | — | 174 |
| 18 | 69 | 8 | 1 | — | 26 | 5 | 35 | 6 | — | — | — | 150 |
| 17 | 58 | 2 | — | — | 14 | 1 | 31 | 1 | 2 | — | — | 109 |
| 16 | 51 | 7 | 2 | — | 13 | 4 | 31 | 4 | — | — | — | 112 |
| 15 | 51 | 10 | 1 | — | 12 | 8 | 37 | 1 | — | — | — | 120 |
| 14 | 75 | 25 | — | — | 20 | 5 | 34 | 1 | — | — | — | 160 |
| 13 | 119 | 20 | — | — | 28 | 10 | 43 | 2 | — | — | — | 222 |
| 12 | 15 | 1 | — | — | 6 | 3 | 11 | — | — | — | — | 36 |
| 11 | 30 | 5 | — | — | 15 | 2 | 15 | — | — | — | — | 67 |
| 10 | 42 | 7 | — | — | 18 | 2 | 17 | — | — | — | — | 86 |
| 8 | 54 | 10 | — | — | 27 | 4 | 3 | — | — | — | — | 98 |
| 7 | 14 | 6 | — | — | 7 | 1 | 2 | — | — | — | — | 30 |
| 6 | 50 | 8 | — | — | 10 | — | 2 | — | — | — | — | 70 |
| 5 | 97 | 19 | — | — | 6 | 2 | — | — | — | — | — | 124 |
| 4 | 66 | 1 | — | — | 7 | 2 | — | — | — | — | — | 76 |
| 3 | 68 | — | — | — | — | 1 | — | — | — | — | — | 69 |
| 2 | 143 | — | — | — | — | — | — | — | — | — | — | 143 |
| 1 | 174 | — | — | — | — | — | — | — | — | — | — | 174 |
| 0 | 59 | — | — | — | — | — | — | — | — | — | — | 59 |
| Totals | 1,565 | 147 | 14 | 5 | 469 | 89 | 514 | 64 | 13 | 4 | 1 | 2,885 |
| Art-XVII | 34 | — | — | — | 4 | 5 | 5 | — | — | — | — | 48 |
| Art-XVIII | 1,531 | 147 | 14 | 5 | 465 | 84 | 509 | 64 | 13 | 4 | 1 | 2,837 |

ELIGIBILITY BY RANKS

July 1, 1975 thru June 30, 1976

POLICE

| Years Service | Police Officers | Investigator | Sergeant | Lieutenant | Captain | Commander | Deputy Chief | Police Chief | Total Emp's |
|---------------|-----------------|--------------|----------|------------|---------|-----------|--------------|--------------|-------------|
| 35 | --- | --- | --- | --- | --- | 1 | --- | 1 | 2 |
| 34 | --- | 2 | --- | --- | --- | --- | --- | --- | 2 |
| 33 | --- | --- | 1 | --- | --- | --- | --- | --- | 1 |
| 32 | --- | 1 | --- | --- | --- | 1 | --- | --- | 2 |
| 30 | 2 | --- | --- | --- | 1 | --- | --- | --- | 3 |
| 29 | 30 | 26 | 16 | 11 | 7 | 2 | 1 | --- | 93 |
| 28 | 45 | 43 | 17 | 10 | 6 | --- | --- | --- | 121 |
| 27 | 24 | 43 | 22 | 8 | 8 | 2 | 4 | --- | 111 |
| 26 | 14 | 26 | 13 | 10 | 6 | 1 | 4 | --- | 74 |
| 25 | 7 | 11 | 3 | 5 | --- | --- | --- | --- | 26 |
| 24 | 9 | 18 | 7 | 12 | 1 | 1 | --- | --- | 48 |
| 23 | 10 | 25 | 7 | 7 | 4 | 1 | --- | --- | 54 |
| 22 | 12 | 30 | 11 | 13 | 7 | 3 | --- | --- | 76 |
| 21 | 18 | 35 | 23 | 9 | 6 | 2 | 2 | --- | 95 |
| 20 | 17 | 32 | 22 | 13 | 6 | 1 | --- | --- | 91 |
| 19 | 28 | 31 | 15 | 13 | 2 | 2 | 2 | --- | 93 |
| 18 | 31 | 57 | 32 | 17 | 8 | 2 | --- | --- | 147 |
| 17 | 30 | 65 | 30 | 17 | 5 | --- | --- | --- | 147 |
| 16 | 26 | 46 | 57 | 13 | 4 | 2 | --- | --- | 148 |
| 15 | 31 | 64 | 39 | 14 | 7 | 2 | 1 | --- | 158 |
| 14 | 43 | 91 | 61 | 17 | 2 | --- | --- | --- | 214 |
| 13 | 60 | 102 | 79 | 19 | 2 | --- | --- | --- | 262 |
| 12 | 75 | 99 | 70 | 23 | 2 | --- | --- | --- | 269 |
| 11 | 108 | 63 | 75 | 10 | --- | --- | --- | --- | 256 |
| 10 | 156 | 68 | 63 | 3 | --- | --- | --- | --- | 290 |
| 9 | 207 | 81 | 48 | 3 | --- | --- | --- | --- | 339 |
| 8 | 455 | 99 | 84 | --- | --- | --- | --- | --- | 638 |
| 7 | 531 | 49 | 49 | --- | --- | --- | --- | --- | 629 |
| 6 | 458 | 41 | 18 | --- | --- | --- | --- | --- | 517 |
| 5 | 644 | 11 | 11 | --- | --- | --- | --- | --- | 666 |
| 4 | 359 | 5 | --- | --- | --- | --- | --- | --- | 364 |
| 3 | 338 | 4 | --- | --- | --- | --- | --- | --- | 342 |
| 2 | 497 | --- | --- | --- | --- | --- | --- | --- | 497 |
| 1 | 359 | --- | --- | --- | --- | --- | --- | --- | 359 |
| 0 | 193 | --- | --- | --- | --- | --- | --- | --- | 193 |
| Totals | 4,817 | 1,268 | 873 | 247 | 84 | 23 | 14 | 1 | 7,327 |
| Art-XVII | 129 | 72 | 48 | 4 | --- | --- | --- | --- | 253 |
| Art-XVIII | 4,688 | 1,196 | 825 | 243 | 84 | 23 | 14 | 1 | 7,074 |

MEMBERS BECOMING ELIGIBLE NEXT TEN YEARS

The following schedule indicates that 3,203 members of the Fire and Police Departments will become eligible to retire for years of service during the next ten fiscal years, of which 259 are under the Old Pension System.

| Fiscal Year | Fire | Police | Total |
|---------------|-------|--------|-------|
| 1976-1977 | 170 | 91 | 261 |
| 1977-1978 | 151 | 148 | 299 |
| 1978-1979 | 104 | 148 | 252 |
| 1979-1980 | 115 | 146 | 261 |
| 1980-1981 | 115 | 155 | 270 |
| 1981-1982 | 160 | 209 | 369 |
| 1982-1983 | 225 | 251 | 476 |
| 1983-1984 | 41 | 270 | 311 |
| 1984-1985 | 72 | 246 | 318 |
| 1985-1986 | 88 | 298 | 386 |
| TOTALS | 1,241 | 1,962 | 3,203 |
| Article XVII | 41 | 218 | 259 |
| Article XVIII | 1,200 | 1,744 | 2,944 |

Thus, in addition to 15.7% of the presently active members already eligible to retire as indicated above, there will be an additional 31% of total Fire and Police present members who will become eligible to retire or will have retired by June 30, 1986.

MILITARY LEAVES

On June 30, 1975, there were 2 members on military leave. The following schedule indicates the operation of military leave authorization during the fiscal year 1975-76:

| | |
|--------------------------|-------|
| On Leave June 30, 1975 | 2 |
| Granted during 1975-1976 | 20 |
| | <hr/> |
| Restored — Now Active | 21 |
| On Leave June 30, 1976 | 1 |

PENSION ROLL CHANGES

During the fiscal year 445 pensions were granted and reinstated, 227 discontinued. This resulted in a net increase of 218 members on the pension rolls. The details of pensions granted and terminated during the course of the fiscal year are as follows:

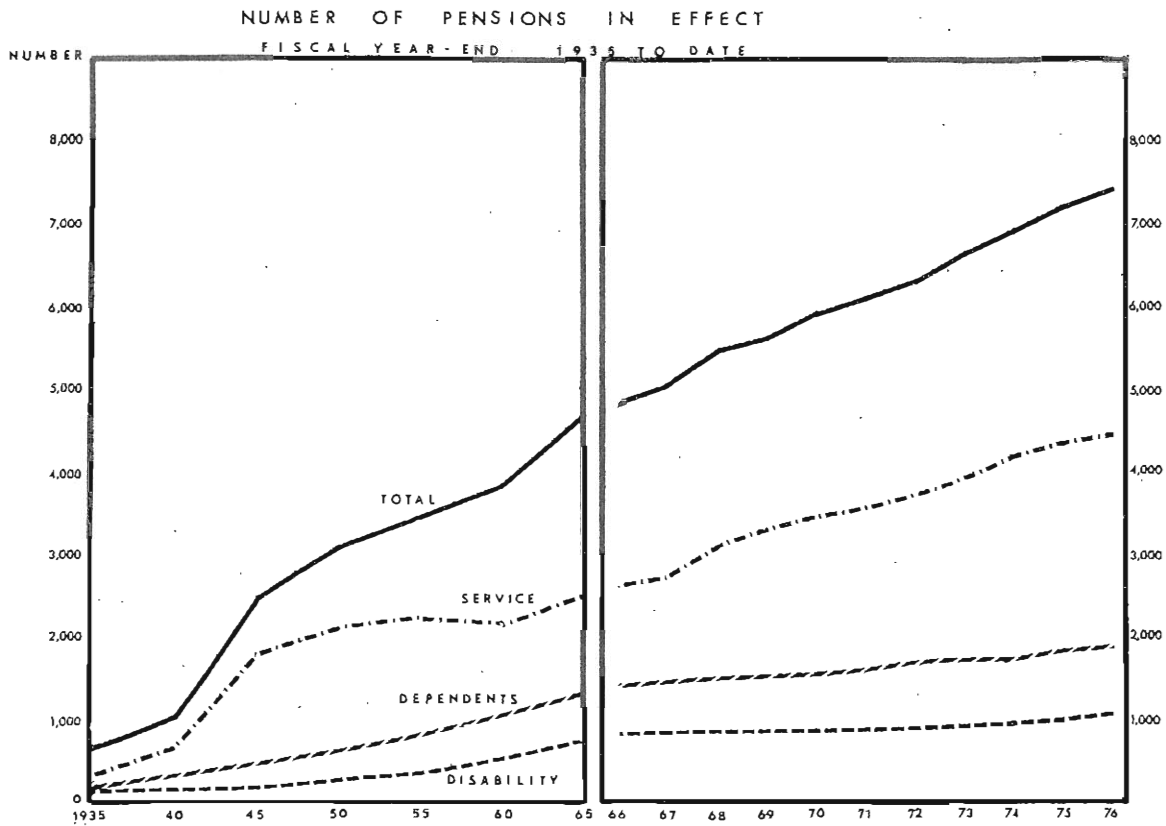
| | Service | Service | | Service | | Non-Service | | Widows | | Dependents | | Minors | | Total System |
|--------------|------------------------|--------------------|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------|------------|------------|------------|------------|------------|--------------|
| | Fluctuating Article 17 | Pension Article 17 | Pension Article 18 | Disability Article 17 | Disability Article 18 | Disability Article 17 | Disability Article 18 | Article 17 | Article 18 | Article 17 | Article 18 | Article 17 | Article 18 | |
| 7-1-75 | 648 | 1305 | 2407 | 602 | 253 | 146 | 27 | 1633 | 161 | 1 | 2 | 24 | 21 | 7230 |
| Granted | — | 4 | 241 | 5 | 62 | 2 | 3 | 73 | 46 | — | — | 2 | 4 | 442 |
| Reinstated | — | — | — | — | — | — | — | — | 3 | — | — | — | — | 3 |
| Deaths | (59) | (49) | (26) | (18) | — | (8) | — | (53) | (3) | — | — | — | — | (216) |
| Court. Mand. | | | | | | | | | | | | | | |
| Conversion | — | — | — | — | +2 | — | -2 | — | — | — | — | — | — | — |
| Reactivated | — | (1) | (1) | — | — | — | — | — | — | — | — | — | — | (2) |
| Decrease | — | — | — | — | 5* | — | — | 9* | 13* | — | — | — | — | 27* |
| Increased | — | — | — | 3* | 7* | — | — | — | — | — | — | — | — | 10* |
| Remarriage | — | — | — | — | — | — | — | — | (3) | — | — | — | (1) | (4) |
| Majority | — | — | — | — | — | — | — | — | — | — | — | (3) | (2) | (5) |
| 6-30-76 | 589 | 1259 | 2621 | 589 | 317 | 140 | 28 | 1653 | 204 | 1 | 2 | 23 | 22 | 7448 |

*Statistical only, does not affect totals

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 from 4,360 to 4,469. Dependent pensions went up from 1,842 to 1,905. Disability pensions increased from 1,028 to 1,074. The total of all pensions in effect showed an increase of 218, from 7,230 to 7,448.



PENSIONS CLASSIFIED BY AMOUNTS

The following schedule shows the classification of pensions paid by number of pensioners in \$100.00 brackets up to the monthly amount of \$2,000.00, and the average pension being paid in each classification:

| Amounts | Service | Disability | Widows | Dependents | Minors | Total |
|------------------|----------|------------|----------|------------|----------|----------|
| \$0.00-\$499.99 | 1,272 | 373 | 413 | 2 | 31 | 2,091 |
| 500.00- 599.99 | 455 | 182 | 132 | 0 | 10 | 779 |
| 600.00- 699.99 | 225 | 117 | 70 | 1 | 1 | 414 |
| 700.00- 799.99 | 213 | 91 | 60 | 0 | 1 | 365 |
| 800.00- 899.99 | 486 | 90 | 741 | 0 | 2 | 1,312 |
| 900.00- 999.99 | 388 | 58 | 121 | 0 | 0 | 567 |
| 1000.00-1099.99 | 355 | 43 | 120 | 0 | 0 | 518 |
| 1100.00-1199.99 | 387 | 44 | 108 | 0 | 0 | 539 |
| 1200.00-1299.99 | 219 | 22 | 48 | 0 | 0 | 289 |
| 1300.00-1399.99 | 162 | 15 | 5 | 0 | 0 | 182 |
| 1400.00-1499.99 | 113 | 21 | 3 | 0 | 0 | 137 |
| 1500.00-1599.99 | 64 | 8 | 20 | 0 | 0 | 92 |
| 1600.00-1699.99 | 25 | 3 | 1 | 0 | 0 | 29 |
| 1700.00-1799.99 | 29 | 2 | 1 | 0 | 0 | 32 |
| 1800.00-1899.99 | 15 | 0 | 7 | 0 | 0 | 22 |
| 1900.00-1999.99 | 10 | 0 | 1 | 0 | 0 | 11 |
| 2000.00 and over | 51 | 5 | 6 | 0 | 0 | 62 |
| Totals | 4,469 | 1,074 | 1,857 | 3 | 45 | 7,448 |
| Average Pension | \$838.13 | \$702.06 | \$794.26 | \$520.09 | \$507.12 | \$805.44 |

The overall average of \$805.44 is approximately 14.5 percent over the average for the prior fiscal year of \$703.09. 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 | 589 | 35 | 1,075 | 0 | 1 | 1,700 |
| Average Pension | \$1,024.29 | \$895.46 | \$936.98 | ----- | \$806.49 | \$966.31 |
| Cost of Living | | | | | | |
| Number | 3,544 | 970 | 699 | 3 | 32 | 5,248 |
| Average Pension | \$799.52 | \$675.96 | \$565.35 | \$520.09 | \$477.10 | \$743.77 |
| Fixed Pension | | | | | | |
| Number | 336 | 69 | 82 | 0 | 12 | 499 |
| Average Pension | \$919.87 | \$970.85 | \$809.63 | ----- | \$562.24 | \$900.20 |
| Other Pensions | | | | | | |
| Number | 0 | 0 | 1 | 0 | 0 | 1 |
| Average Pension | ----- | ----- | \$400.00 | ----- | ----- | \$400.00 |

The total fluctuating pensions represent a net decrease of 72 during the fiscal year. Cost of living pensions increased by 472 and fixed pensions decreased by 183.

AVERAGE MONTHLY PENSIONS FOR LAST TEN YEARS

The following chart shows the overall average pension paid for the last ten years. The largest percentage increase (14.5%) occurred in fiscal 1975-1976. During that year, the cost-of-living increases to eligible pensioners was an unprecedented 11.7%.

AVERAGE PENSIONS

| Fiscal Year | Overall Average Pension Per Month |
|-----------------|-----------------------------------|
| 1975-1976 | 805.44 |
| 1974-1975 | 703.09 |
| 1973-1974 | 638.83 |
| 1972-1973 | 597.07 |
| 1971-1972 | 560.59 |
| 1970-1971 | 511.90 |
| 1969-1970 | 468.42 |
| 1968-1969 | 440.24 |
| 1967-1968 | 424.85 |
| 1966-1967 | 406.88 |
| 1965-1966 | 391.85 |

AGES OF PENSIONERS

The following is an analysis of the ages of all pensioners at the close of June 30, 1976.

| Ages | Service | Disability | Widows | Dependents | Minors | Total |
|-------------------|---------|------------|--------|------------|--------|-------|
| 0-19 | 0 | 0 | 0 | 0 | 45 | 45 |
| 20-24 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25-29 | 0 | 12 | 5 | 1 | 0 | 18 |
| 30-34 | 0 | 43 | 16 | 0 | 0 | 59 |
| 35-39 | 0 | 65 | 18 | 0 | 0 | 83 |
| 40-44 | 18 | 98 | 18 | 1 | 0 | 135 |
| 45-49 | 207 | 126 | 53 | 0 | 0 | 386 |
| 50-54 | 1055 | 261 | 116 | 0 | 0 | 1,432 |
| 55-59 | 1151 | 230 | 136 | 0 | 0 | 1,517 |
| 60-64 | 637 | 113 | 174 | 0 | 0 | 924 |
| 65-69 | 391 | 53 | 228 | 0 | 0 | 672 |
| 70-74 | 255 | 20 | 388 | 1 | 0 | 664 |
| 75-79 | 469 | 37 | 373 | 0 | 0 | 879 |
| 80-84 | 216 | 9 | 228 | 0 | 0 | 453 |
| 85-89 | 62 | 5 | 87 | 0 | 0 | 154 |
| 90-94 | 8 | 2 | 16 | 0 | 0 | 26 |
| 95-99 | 0 | 0 | 1 | 0 | 0 | 1 |
| Totals | 4,369 | 1,074 | 1,857 | 3 | 45 | 7,448 |
| Average Age | 62 | 53 | 69 | 47 | 12 | 62 |

AVERAGE AGE AT DATE OF RETIREMENT

An analysis of the average age of Firefighters and Police Officers at the time of retirement on service pension is set forth for the last ten fiscal years in the following tables.

| Fiscal Year | Average Age | | |
|-----------------|-------------|--------|----------|
| | Fire | Police | Combined |
| 1966-1967 | 53 | 47 | 50 |
| 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 |
| 1974-1975 | 55 | 53 | 53 |
| 1975-1976 | 55 | 52 | 53 |

Number Retiring Above or Below Age 50

As in previous years, the number of Firefighters and Police Officers retiring under 50 years of age decreased. In the last 10 years only 21% of Firefighters retired under age 50 compared to 52% of Police Officers.

| | F I R E | | | | P O L I C E | | | |
|------------------|----------|------------|---------|-------|-------------|------------|---------|-------|
| | Under 50 | Exactly 50 | Over 50 | Total | Under 50 | Exactly 50 | Over 50 | Total |
| 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 | 113 | 106 | 177 |
| 1973-1974 | 25 | 9 | 97 | 131 | 70 | 18 | 143 | 231 |
| 1974-1975 | 13 | 6 | 75 | 94 | 50 | 11 | 115 | 176 |
| 1975-1976 | 8 | 5 | 85 | 98 | 36 | 3 | 108 | 147 |
| | 225 | 54 | 780 | 1,059 | 1,018 | 117 | 811 | 1,946 |
| Percent of Total | 21% | 5% | 74% | 100% | 52% | 6% | 42% | 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 Year | Fire | Average Years Police | Combined |
|-------------|------|-------------------------|----------|
| 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 |
| 1974-1975 | 27 | 25 | 25 |
| 1975-1976 | 28 | 26 | 27 |

YEARS OF SERVICE AT RETIREMENT

| | F I R E | | | P O L I C E | | |
|---------|-------------------------------|------------------------------|------------|-------------------------------|------------------------------|--------------|
| | Less Than 25 Years Of Service | 25 Years Of Service And Over | Fire Total | Less Than 25 Years Of Service | 25 Years Of Service And Over | Police Total |
| 1966-67 | 22 | 31 | 53 | 161 | 16 | 177 |
| 1967-68 | 48 | 101 | 149 | 271 | 44 | 315 |
| 1968-69 | 27 | 59 | 86 | 208 | 43 | 251 |
| 1969-70 | 30 | 36 | 66 | 143 | 26 | 169 |
| 1970-71 | 22 | 68 | 90 | 81 | 56 | 137 |
| 1971-72 | 24 | 118 | 142 | 51 | 115 | 166 |
| 1972-73 | 21 | 129 | 150 | 39 | 138 | 177 |
| 1973-74 | 14 | 117 | 131 | 31 | 200 | 231 |
| 1974-75 | 14 | 80 | 94 | 32 | 144 | 176 |
| 1975-76 | 10 | 88 | 98 | 33 | 114 | 147 |

The experience of the last 10 years shows that more and more members of the system choose to retire after completion of 25 years. It is particularly impressive for Police Officers, where the total number of service retirements remained relatively stable for the last eight years, but the number of retirees with over 25 years increased greatly.

Age and Service of Disability Pensioners

The average age and average number of years of service of Firefighters and Police Officers who were retired upon disability pension during the last ten fiscal years are reflected in the following schedules.

| Fiscal Year | AVERAGE AGE | | | AVERAGE YEARS | | |
|-------------|-------------|--------|----------|---------------|--------|----------|
| | Fire | Police | Combined | Fire | Police | Combined |
| 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 |
| 1974-1975 | 51 | 38 | 44 | 22 | 12 | 17 |
| 1975-1976 | 52 | 39 | 43 | 24 | 13 | 17 |

The above statistics show increasing age and years of service for Firefighters who retire on disability pension. Disability retirements from the Police Department show the opposite trend.

SERVICE PENSIONS

Pensions Granted

A total of 245 members of Fire and Police Departments retired effective prior to June 30, 1976, upon service pension. Of the total number, 241 retired under the New Pension System.

Reactivated

During the fiscal year 1975-1976 two requests for return to active duty were approved by the Board of Pension Commissioners. 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 | 71 | 69 | 2 | 10 | 58 |

Pensions Discontinued

During the fiscal year a total of 134 service pensions were discontinued on account of death. (Two pensions were discontinued because the members were reactivated.) These individuals were on the pension roll an average of twenty years although the range of life after retirement varied from 2 months to forty-four 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 |
|-------------|------|--------|-------|
| 1966-1967 | 53 | 177 | 230 |
| 1967-1968 | 149 | 315 | 464 |
| 1968-1969 | 86 | 251 | 337 |
| 1969-1970 | 66 | 169 | 235 |
| 1970-1971 | 90 | 137 | 227 |
| 1971-1972 | 142 | 166 | 308 |
| 1972-1973 | 150 | 177 | 327 |
| 1973-1974 | 131 | 231 | 362 |
| 1974-1975 | 94 | 176 | 270 |
| 1975-1976 | 98 | 147 | 245 |

DISABILITY PENSIONS

Pensions Granted

A total of 72 members of Fire and Police Departments were granted disability pensions during the fiscal year ended June 30, 1976. Of these 67 were granted on a service-connected basis; while 5 were non-service. An additional 2 pensions previously granted as non-service connected were converted to service-connected disability in response to court mandate.

Pensions Discontinued

26 Disability pensioners were discontinued on account of death during the past year.

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 statements:

| Pension Effective Fiscal Year | F I R E | | P O L I C E | | Total |
|----------------------------------|---------|------------|-------------|------------|-------|
| | Service | Nonservice | Service | Nonservice | |
| 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 |
| 1974-1975 | 32 | 4 | 34 | 5 | 75 |
| 1975-1976 | 25 | 0 | 42 | 5 | 72 |

Years On Pension

The following schedule shows effective dates of disability pensioners currently on the pension roll grouped in five year intervals.

| Pension Effective Fiscal Year | F I R E | | P O L I C E | | Total |
|----------------------------------|---------|------------|-------------|------------|-------|
| | Service | Nonservice | Service | Nonservice | |
| 1920-1924 | 1 | 0 | 0 | 0 | 1 |
| 1925-1929 | 1 | 0 | 0 | 0 | 1 |
| 1930-1934 | 3 | 0 | 4 | 0 | 7 |
| 1935-1939 | 5 | 0 | 13 | 0 | 18 |
| 1940-1944 | 4 | 0 | 9 | 0 | 13 |
| 1945-1949 | 2 | 2 | 8 | 4 | 16 |
| 1950-1954 | 14 | 4 | 33 | 10 | 61 |
| 1955-1959 | 40 | 9 | 65 | 27 | 141 |
| 1960-1964 | 47 | 9 | 209 | 35 | 300 |
| 1965-1969 | 25 | 8 | 104 | 32 | 169 |
| 1970-1974 | 107 | 8 | 90 | 11 | 216 |
| 1975-1979 | 52 | 4 | 70 | 5 | 131 |
| Total | 301 | 44 | 605 | 124 | 1,074 |

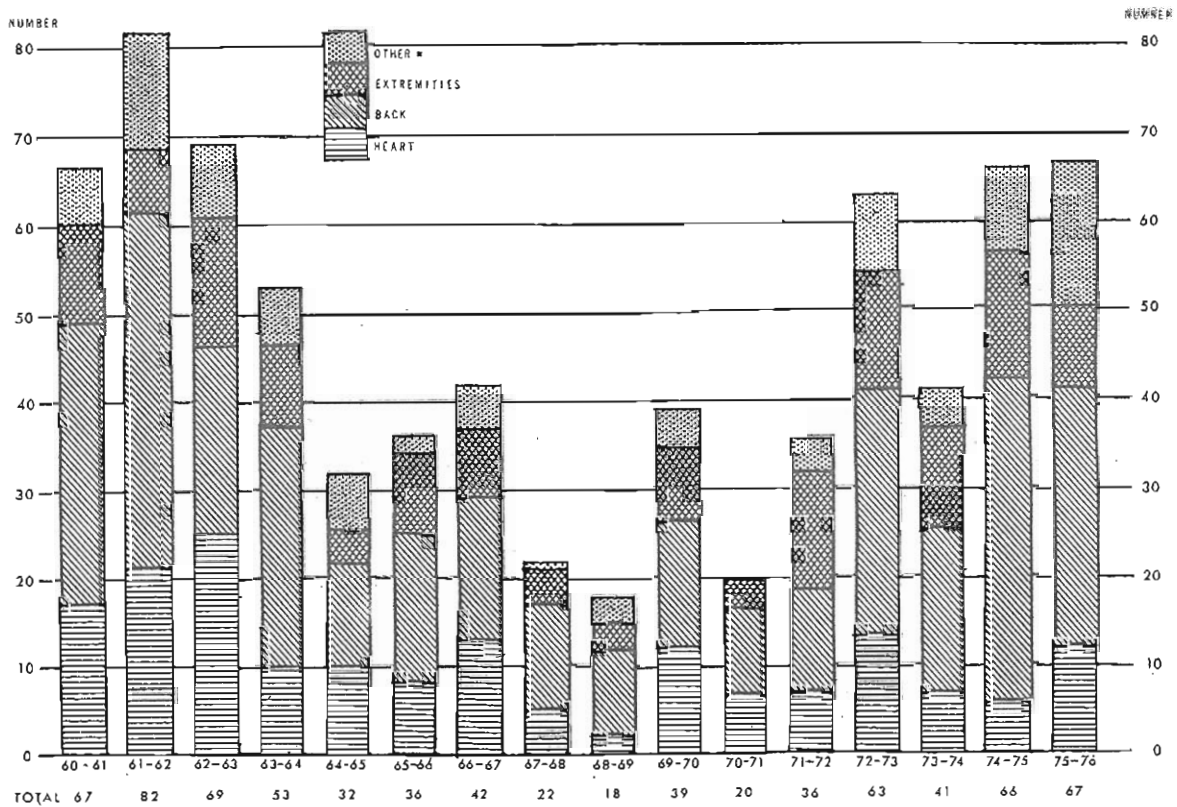
Analysis of Disability Pensioners by Age

| Age | Fire | Police | Total |
|-------------|------|--------|-------|
| 0-24 | 0 | 0 | 0 |
| 25-29 | 0 | 12 | 12 |
| 30-34 | 1 | 42 | 43 |
| 35-39 | 13 | 52 | 65 |
| 40-44 | 32 | 66 | 98 |
| 45-49 | 51 | 75 | 126 |
| 50-54 | 67 | 194 | 261 |
| 55-59 | 62 | 168 | 230 |
| 60-64 | 58 | 55 | 113 |
| 65-69 | 27 | 26 | 53 |
| 70-74 | 15 | 5 | 20 |
| 75-79 | 14 | 23 | 37 |
| 80-84 | 2 | 7 | 9 |
| 85-89 | 2 | 3 | 5 |
| 90-94 | 1 | 1 | 2 |
| Total | 345 | 729 | 1,074 |
| Average Age | 56 | 52 | 53 |

Service-Connected Disability

67 new Service-connected disability pensions were granted in 1975-1976. The accompanying chart shows a breakdown by primary disability for the last 16 years.

SERVICE CONNECTED DISABILITIES
NUMBER GRANTED



*Includes psychological disorders, hypertension and miscellaneous physical ailments.

Analysis of Rates

There are 906 service-connected disability pensions and 168 non-service connected pensions classified by rates in the following schedule as of June 30, 1976. Of this number 317 service-connected and 28 non-service connected disability pensioners were granted under the New Pension System.

Analysis of Disability Pensioners by Rate

| Rate | Fire | Police | Total |
|-------------|------|--------|-------|
| 40% | 44 | 124 | 168 |
| 50% | 75 | 227 | 302 |
| 52% | 0 | 1 | 1 |
| 55% | 32 | 71 | 103 |
| 57½% | 1 | 0 | 1 |
| 58% | 1 | 0 | 1 |
| 60% | 42 | 92 | 134 |
| 61% | 3 | 0 | 3 |
| 64% | 1 | 0 | 1 |
| 65% | 70 | 104 | 174 |
| 66⅓% | 1 | 0 | 1 |
| 69% | 0 | 1 | 1 |
| 70% | 45 | 44 | 89 |
| 72½% | 1 | 0 | 1 |
| 75% | 16 | 34 | 50 |
| 80% | 8 | 14 | 22 |
| 85% | 2 | 7 | 9 |
| 90% | 3 | 10 | 13 |
| Total | 345 | 729 | 1,074 |

HEALTH INSURANCE SUBSIDIES

On April 30, 1975, the Pension Department began paying subsidies toward the health insurance premiums of retired members. To be eligible for these subsidies, pensioners must be at least sixty years of age and have completed a minimum of ten years of service. Also, the retired members must be enrolled in City sponsored or City approved plans. Finally, if eligible for federally funded Medicare, members must be enrolled to the extent of their entitlement.

Currently, subsidies are paid toward three City sponsored plans provided through the Personnel Department and six City approved plans provided through the Firemen's Relief Association, Police Relief Association and United Firefighters of Los Angeles. The actual amount of subsidy that is paid on behalf of each eligible member varies, depending on years of service, Medicare status, and the actual cost of the particular health plan.

The total subsidy amounts for fiscal year 1975-76 and the number of eligible members in each plan are listed below:

| Health Plan | Members With Subsidy | Subsidy Amount. |
|-------------------------|----------------------|-----------------|
| City Basic | 13 | \$ 3,487.56 |
| City Ross Loos | 1 | 124.20 |
| City Kaiser | 4 | 551.19 |
| Fire Medical | 625 | 133,868.94 |
| Fire Ross Loos | 207 | 42,156.65 |
| Police Occidental | 366 | 76,498.16 |
| Police Ross Loos | 193 | 40,848.28 |
| Police Kaiser | 207 | 39,302.92 |
| UFLAC Kaiser | 57 | 12,457.01 |
| | 1,673 | \$349,294.91 |

**SUMMARIZATION OF MAJOR ACTIVITIES
OF THE LEGAL DEPARTMENT**

The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and Becker Securities Corporation and amended an existing contract with Peat, Marwick, Mitchell & Co.

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 continued to create 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.

The decisions by the State Supreme Court in **Strumsky v. San Diego County Employees Assn.**, 11 Cal. 3d 28 and **Topanga Assn. for a Scenic Community v. County of Los Angeles**, 11 Cal. 3d 506 caused the City Attorney's Office to issue a number of reports and memoranda to advise the Board of the increasing need to formalize Board hearings and to create an administrative record to withstand the measures of scrutiny now applicable upon review of the Board's determinations in the Superior Court. Guidelines for a proposed hearing procedure were developed, however, no further action was taken with regard to it.

One of the results of the Supreme Court case of **Topanga, supra** has been the increased involvement of the legal staff, as well as the Board and management personnel of the Department of Pensions, with the drafting and proper processing of findings of fact in conjunction with the determination of disability and survivorship benefit applications. Although it has been well established in this state that findings of administrative adjudicatory bodies, such as the Board of Pension Commissioners, do not have to meet the standards of findings in a court of law, the inadequacy of administrative findings has often been criticized by the courts. It is, therefore, notable that during the first year in which there has been compliance with the tenets of **Topanga**, the manner of preparation and adoption of the Pension System's findings of fact has withstood judicial scrutiny.

An opinion was submitted formalizing advice previously given on the impact of federal sex discrimination legislation on the rights of certain beneficiaries under Article XVII of the Charter (Reference: Equal Employment Opportunity Act of 1972, 42 USCA Sec. 2000).

The existing health subsidy ordinance for retired members previously adopted by the City Council pursuant to the enabling provisions of Sections 189 and 190.50 of the City Charter were amended to correct what appeared to be an inequitable treatment of retired system members who are eligible to receive benefits under Part A of Medicare.

As an outgrowth of the requirements under Proposition No. 9 (Political Reform Act of 1974, Sec. 81,000 et. seq., California Government Code), it became incumbent upon the Board of Pension Commissioners to adopt a conflict of interest code. Although, as of the closing date of this report, no such code has been adopted, innumerable questions that have arisen with respect to the parameters of the requirements under such a conflict of interest code, make it important to record this ongoing problem for purposes of this report.

PROBATE MATTERS

This office examined 135 probate accountings, as well as petitions and other documents which were received by the Department of Pensions and 14 requests for special notice were prepared, served and filed. Eleven guardianships and conservatorships were discontinued and 17 were commenced. There are 109 guardianships in effect, 48 covering incompetents and 61 covering minors.

LITIGATION

There were several court decisions rendered in the pension field which are of importance to the City, some of which are now 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:

AGRUSA v. BOARD OF PENSION COMMISSIONERS

This is a case based upon ex-police officer Salvatore S. Agrusa's petition for a writ of mandate seeking to compel the Board to grant him a service-connected disability pension instead of the nonservice-connected disability pension previously awarded. Petitioner relies on the independent judgment test established in *Strumsky v. San Diego County Employees Assn.*

On June 16, 1976, the case was heard in the Superior Court which sustained the Board's decision by denying the writ.

It is noteworthy that this was a "heart case" and that it could once again be demonstrated to the court's satisfaction that the nexus between duty-involvement and heart disability can be and, in fact, must be proved to establish entitlement to a service-connected disability pension.

CAMACHO v. BOARD OF PENSION COMMISSIONERS

The Board of Pension Commissioners denied Christopher Camacho's application for a disability pension. Petitioner relied heavily, if not exclusively, on the holding in *Topanga Assn. for a Scenic Community v. County of Los Angeles*, 11 Cal. 3d 506, attacking the Board's determination on the grounds that no findings were made in support of its decision. The City Attorney contended, inter alia, that the minutes of the proceedings before the Board contain and constitute proper findings.

The case was set for hearings in the Superior Court on July 24, 1975, which sustained the petitioner and the writ was issued.

Subsequently, further proceedings took place before the Board on December 18, 1975, and January 22, 1976, with the result that findings were formulated reiterating the Board's previous position that the applicant was not disabled. The Board's decision focused very much on the fact that the applicant did, for two years prior to his termination, perform the regular duties of a police officer.

The case was again taken to the Superior Court. No hearing has been set as of the date of this report.

CRAVER v. CITY LOS OF 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 because the ability to perform the duties last assigned to him is not criteria

upon which entitlement 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 judgment in favor of the respondent City and Board was rendered.

Petitioner appealed from the judgment and, on September 4, 1974, the Court of Appeal, while upholding the trial court's determination with respect to the applicable criteria of disability, remanded the matter to the trial court for further disposition in recognition of the new standards established by State Supreme Court in *Bixby v. Pierno*, 4 Cal. 3d 130 and *Strumsky v. San Diego County Employees Retirement System*, 11 Cal. 3d 28, i.e. the use of the "independent judgment test" in the review of decisions by adjudicatory bodies such as the Board of Pension Commissioners.

GOINS et al v. BOARD OF PENSION COMMISSIONERS

This is a class action brought by the widow of a police officer on behalf of herself and all others similarly situated, predicated on the requirements that a widow, in order to be eligible for a pension as a qualified surviving spouse of a deceased system member who at the time of death was retired, must have been married to the deceased at least one year prior to the date of his retirement. Plaintiff contends that Section 183½ of Article XVII "amended" Section 183 so as to require that a widow in order to be eligible for a pension need to have been married to a retired pensioner for only one year prior to death.

It is the Board's contention that Section 183½ added a survivor's benefit for members under Article XVII of the Charter by providing for a widow's pension in case of death after five years of service due to other than service-connected causes. Only a most casual reading of the provisions of Section 183½ could lead to the type of "interpretation" that would support plaintiffs' contentions.

At this time, the matter has not been certified as a class action and no early trial date is anticipated.

HOHMANN et al v. CITY OF LOS ANGELES et al

In this case, a class action was brought against the City and the Board by a group of retired deputy chiefs, assistant chiefs and widows of deputy chiefs or assistant chiefs of police, all on a fluctuating pension, seeking 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 maintained 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.

Upon motion by the City, the case was decertified as a class action and assigned out to be tried on the merits of former Deputy Chief Hohmann's case alone. However, before the start of the trial, settlement was reached between the parties wherein plaintiff waived his right to a fluctuating pension based on the salary of a Deputy Chief II and the City agreed to adjust his pension to reflect as its basis the highest step of the class of Deputy Chief I rather than that of a lower step which had previously been utilized in calculating his pension pursuant to a City Attorney Opinion.

HOLMES v. CITY OF LOS ANGELES

This case presents the not so novel issue of the legality of the nonrefundability provisions of Sections 186½ and 190.10 of the City Charter. The reportable aspects of the case are as follows:

This is the first time that a suit has been brought framed as a class action, seeking to compel the City to return monies to terminated former System Members which were contributed by them as members of the System.

The City proceeded to move for summary judgment, which motion was granted in part. However, the court determined that two triable issues remained to be adjudicated: Whether the provisions of Sections 186½ and 190.10 resulted in contract of adhesion and, secondly, the question of the constitutionality of the nonrefundability of members' contributions.

As of the time of this report, the case has not been certified as a class action nor has it been set for trial.

SULLIVAN v. BOARD OF PENSION COMMISSIONERS

This case is one of many domestic relations matters the court has been confronted with for the last two or three years. Although claims arising out of dissolution of marriage proceedings ordinarily remain unreported with regard to the specifics, this particular matter deserves special reference in that the attorneys for the member's former spouse have taken the novel approach of bringing an action (1) for declaratory relief, (2) to impress a trust on funds under the management and control of the Board and (3) for specific performance. As a rule, claims for the payment of a community property interest in a member's pension by a non-member spouse are presented by way of utilizing Joinder Rules 1250 et seq. of the California Rules of Court and are routinely honored if the judgment reflects in proper form that the rights of a spouse to a part of a member's pension were adjudicated.

The case was tried and, on May 5, 1976, judgment was entered in favor of the Board of Pension Commissioners. However, plaintiff has appealed from the judgment with the result the matter remains pending at this time.

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 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 Board, to directly pay to a non-member spouse his or her community property interest in a pension. At the close of the fiscal year there were 12 instances in which separate payments to spouses were being made under such orders.

OPERATIONS

Expenditures

Expenditures for pensions increased some \$7.4 million as a result of increases in numbers of pensioners, higher pensions derived from higher salary levels and cost of living increases. The health insurance subsidy for pensioners that was paid for the first time in fiscal year 1974-75, amounted to a little over \$349,000. The expenditure of almost \$3.5 million for settlement of the Melendres and Fire and Police Protective League salary law suits was reflected in the financial statement for fiscal year 1974-75; however, the actual cash payment was made this year. 2,410 pensioners or their survivors received approximately \$1.4 million for the Melendres salary suit beginning with the July, 1975 payment, and 3,135 pensioners or their survivors received nearly \$2.1 million for the Fire and Police Protective League salary suit.

Administrative Expense

Administrative expense of the Fire and Police Pension System increased 21.3% over the prior fiscal year primarily because of salary increases and higher cost of contractual and medical services. Litigation expense was up due to an increase in rates for hearing reporters, while the increase for actuarial expense was attributed to the cost of the five-year investigation.

Salaries

Salary expense for the year rose 7.8% above the prior year, representing an across-the-board cost of living pay increase. Thirty-three individuals were employed by the Department during the year.

Travel Expense

Travel expense for the year increased 12.7% due mainly to increased costs for travel and lodging. The meetings attended by Board and staff were primarily for training and informational purposes.

Contractual Services

Contractual services increased some 18.7% over the prior year, attributable to the increase in the cost of services performed by the Data Service Bureau; to the newly implemented system of billing for services rendered by the City Attorney; and to an increase in investigations connected with the larger number of disability claims processed. Additional costs were incurred for almost all other services, due primarily to the inflationary trend of the economy.

Medical Services

This account showed a 111.1% increase over the prior year. This increase reflects both the increase in the number of disability claims settled during the year as well as the rising cost of required medical services.

Health Insurance

This account experienced a 49.4% increase over the last year. The difference was due substantially to premium increases by the carriers of health insurance plans.

Retirement Contributions

This account was established this year as part of the wage and salary agreement which provided funds to subsidize one-half of the staff employee contributions to the City Employees' Retirement System. \$7,264 was expended during the year for this purpose.

Dental Insurance

This account was established during the year as part of the wage and salary agreement which provided a subsidy to employee members of the City Employees' Retirement System for a group dental program. During the year a total of \$620 was expended in this regard.

Equipment, Furniture and Fixtures

Expenditures in this category decreased nearly 50% below the prior year. The need for new items to equip additional personnel was met last year resulting in the substantial decrease.

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

A SHORT HISTORY OF FIRE AND POLICE PENSION SYSTEM

1899-1901. A pension system for Police Officers was authorized by the California State Legislative and became effective in the City of Los Angeles on June 7, 1899. A pension system for Firefighters, 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 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 pension 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 Firefighters or Police Officers. A non-service dependent's pension provided a pension of 40% of the highest salary attached to the rank of Firefighter or Police Officer 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 of 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 were 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 pensions 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.

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 cost of living adjustments.

TOWERS, PERRIN, FORSTER & CROSBY
ONE CENTURY PLAZA
LOS ANGELES, CALIFORNIA 90067
(213) 553-3470

October 27, 1976

Board of Pension Commissioners
City of Los Angeles
Room 501, City Hall South
111 E. 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, 1976.

We wish to express our sincere appreciation to the Pension Office staff for the completeness and accuracy of the employee data they furnished for the valuation.

Respectfully submitted,

TOWERS, PERRIN, FORSTER, & CROSBY, INC.

Harry M. Church

**ACTUARIAL VALUATIONS
OF THE
FIRE AND POLICE PENSION SYSTEM
AND
NEW PENSION SYSTEM
OF THE
CITY OF LOS ANGELES
AS OF
JUNE 30, 1976**

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, 1976, there were 301 active members and 4,254 retired persons covered under Article XVII of the Charter (hereinafter referred to as the Fire and Police Pension System) and there were 9,911 active members and 3,194 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, 1976 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, 1975, and, pursuant to the Resolution adopted by the Board of Pension Commissioners, upon a $5\frac{3}{8}\%$ interest assumption. The actuarial assumptions were discussed in detail in our report to the Board of Pension Commissioners dated May 26, 1976.

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

Item 1 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 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. Also, we have assumed that persons eligible to receive "fluctuating" pensions, in accordance with increases in salary granted active members, will receive 3%, per annum, future increases.

ACTUARIAL BALANCE SHEET
AS OF JUNE 30, 1976

ASSETS

| | Fire and Police Pension System | New Pension System | Combined |
|--|-----------------------------------|------------------------|------------------------|
| 1. Assets from Accounting Balance Sheet | \$ 30,867,097 | \$ 436,430,518 | \$ 467,297,615 |
| 2. Present Value of Future Contributions by members | 3,861,647 | 156,634,057 | 160,495,704 |
| 3. Present Value of Future Contributions by the City for: | | | |
| (a) Entry Age Cost: | | | |
| (i) Basic Benefits | 9,509,209 | 355,463,456 | 364,972,665 |
| (ii) Cost of Living Benefits | 5,088,899 | 161,982,915 | 167,071,814 |
| (iii) Total | 14,598,108 | 517,446,371 | 532,044,479 |
| (b) Seventy Year Amortization of Unfunded Supplemental Present Value: | | | |
| (i) Basic Benefits | 277,027,906 | 760,632,617 | 1,037,660,523 |
| (ii) Cost of Living Benefits | 122,740,278 | 380,236,665 | 502,976,943 |
| (iii) Total | 399,768,184 | 1,140,869,282 | 1,540,637,466 |
| 4. Total Assets | <u>\$449,095,036</u> | <u>\$2,251,380,228</u> | <u>\$2,700,475,264</u> |

LIABILITIES

| | | | |
|--|----------------------|------------------------|------------------------|
| 5. Accounts Payable | \$ 19,022 | \$ 1,266,120 | \$ 1,285,142 |
| 6. Reserve for Investment Losses | 3,288,248 | 8,494,939 | 11,783,187 |
| 7. Present Value of Present Pensions to Pensioners now on Pension Roll: | | | |
| (a) Service | 138,261,308 | 465,967,405 | 604,228,713 |
| (b) Disability | 63,032,397 | 67,981,661 | 131,014,058 |
| (c) Dependents | 134,573,510 | 37,314,929 | 171,888,439 |
| (d) Total | 335,867,215 | 571,263,995 | 907,131,210 |
| 8. Present Value of Prospective Pension to Dependents of Present Pensioners | | | |
| (a) Service | 44,430,371 | 88,514,525 | 132,944,896 |
| (b) Disability | 15,262,610 | 13,751,070 | 29,013,680 |
| (c) Total | 59,692,981 | 102,265,595 | 161,958,576 |
| 9. Present Value of Prospective Pensions to Presently Active Members: | | | |
| (a) Service | 36,182,472 | 1,126,023,110 | 1,162,205,582 |
| (b) Disability | 4,158,224 | 128,320,163 | 132,478,387 |
| (c) Total | 40,340,696 | 1,254,343,273 | 1,294,683,969 |
| 10. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die in Active Service | 1,410,671 | 42,625,849 | 44,036,520 |
| 11. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die after Retirement: | | | |
| (a) Service | 7,204,322 | 233,601,207 | 240,805,529 |
| (b) Disability | 1,271,881 | 37,519,250 | 38,791,131 |
| (c) Total | 8,476,203 | 271,120,457 | 279,596,660 |
| 12. Total Liabilities | <u>\$449,095,036</u> | <u>\$2,251,380,228</u> | <u>\$2,700,475,264</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 New Pension System members and a dollar amount for Pension System members necessary to amortize the "Unfunded Liability" (now referred to as Unfunded Supplemental Present Value) of the Systems over a 70-year period beginning with the fiscal year commencing July 1, 1967.
3. An amount to provide for health plan subsidies for retired members.
4. An amount to provide for Administrative Expenses.

Pursuant to Subparagraphs 1, 2 and 3 above, we recommend that the City's contributions for the fiscal year commencing July 1, 1977, be as follows:

| | Percentage of Members' Salaries of: | |
|---|--|-------------------------------|
| | Fire and Police Pension System | New Pension System |
| 1. Entry Age Contribution: | | |
| (a) Basic Benefits | 14.8% | 15.9% |
| (b) Cost of Living Benefits | 7.9 | 7.2 |
| (c) Total | <u>22.7%</u> | <u>23.1%</u> |
| 2. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as Percentage of Salary: | | |
| (a) Basic Benefits | Not | 10.9% |
| (b) Cost of Living Benefits | Applicable | <u>5.4</u> |
| (c) Total | | 16.3% |
| 3. Total Percentage of Salary Contribution: | | |
| (a) Basic Benefits | 14.8% | 26.8% |
| (b) Cost of Living Benefits | 7.9 | 12.6 |
| (c) Total | <u>22.7%</u> | <u>39.4%</u> |
| 4. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as Annual Dollar Amount: | | |
| (a) Basic Benefits | \$14,965,954 | Not |
| (b) Cost of Living Benefits | <u>6,528,583</u> | Applicable |
| (c) Total | \$21,494,537 | |

The foregoing recommendation for the Health Insurance Subsidy for retired members reflects meeting such obligation on a pay-as-you-go basis.

The foregoing recommendation for the Unfunded Supplemental Present Value for the New Pension System reflects amortizing the liability

over the remaining 61 years by contributions which should remain level as a percentage of salary but which will increase in dollar amount in accordance with the assumed salary scale, i.e., 3% per annum, compounded annually. It is to be noted that this treatment will develop contributions in the near future which will be less than the interest requirement on the liability. Accordingly, the Unfunded Supplemental Present Value can be expected to increase for the next several years.

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 $\frac{1}{2}$ 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 13.6%. 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 System will be maintained in compliance with the Charter of the City of Los Angeles and in accordance with the methods and assumptions underlying the calculations.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS
535 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, 1976 and 1975, 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 consider necessary in the circumstances.

In our opinion, 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, 1976 and 1975, 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 applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

October 18, 1976

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

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

June 30, 1976 and 1975

ASSETS

| | 1976 | 1975 |
|---|----------------|----------------|
| Cash and temporary investments: | | |
| Deposits with Treasurer of the City of Los Angeles: | | |
| Restricted | \$ 52,190 | \$ 86,502 |
| Unrestricted | 1,895,591 | 8,834,353 |
| | 1,947,781 | 8,920,855 |
| Cash revolving funds | 500 | 500 |
| Temporary short-term investments - at cost, plus interest (approximates market) | 42,121,277 | 41,006,118 |
| | 44,069,558 | 49,927,473 |
| Receivables: | | |
| Interest and dividends receivable | 5,933,078 | 4,481,943 |
| Others | 3,914,177 | 1,808,898 |
| | 9,847,255 | 6,290,841 |
| Investments: | | |
| Bonds - at amortized cost (quoted market, \$280,829,541, \$209,182,665 in 1975) | \$ 294,405,305 | \$226,868,719 |
| Preferred stock - at cost (quoted market, \$145,000, \$150,000 in 1975) .. | 211,659 | 211,659 |
| Common stock - at cost (quoted market, \$117,793,570, \$106,946,049 in 1975) | 118,759,704 | 110,350,591 |
| Treasurer's deeds - at cost | 735 | 735 |
| Real property - at cost | 3,398 | 3,125 |
| | 413,380,801 | 312,535,720 |
| | \$ 467,297,614 | \$ 393,653,170 |

LIABILITIES, RESERVES AND FUND CAPITAL (DEFICIT)

| | | |
|--|-------------------|-------------------|
| Accounts payable | \$ 1,272,463 | \$ 163,555 |
| Retroactive pensions payable | 12,679 | 3,453,354 |
| Reserve for pensions—at actuarial valuation (note 2): | | |
| Pensions | \$ 1,069,037,596 | \$ 944,435,853 |
| Active members | 925,776,966 | 688,636,678 |
| | 1,994,814,562 | 1,633,072,531 |
| | 1,996,099,704 | 1,636,689,440 |
| Fund capital (deficit): | | |
| Accumulated deficit | \$(1,540,637,466) | \$(1,252,496,923) |
| Workers' Compensation Fund (note 3) | 52,190 | 86,502 |
| Reserve for investment losses | 11,783,186 | 9,374,151 |
| Contingent liability (note 4) | | |
| | \$ 467,297,614 | \$ 393,653,170 |

See accompanying notes to financial statements.

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

STATEMENTS OF REVENUES AND EXPENDITURES

Years ended June 30, 1976 and 1975

| | 1976 | 1975 | |
|--|---------------|---------------|------------|
| Revenues: | | | |
| Taxes | \$102,938,709 | \$89,414,396 | |
| Interest | 22,654,773 | 18,425,424 | |
| Dividends | 2,960,875 | 2,817,894 | |
| Members' contributions | 15,694,080 | 12,642,986 | |
| Sales of unclaimed property | 146,398 | 109,199 | |
| Donations | 365 | 371 | |
| Miscellaneous | 3,316 | 11,324 | |
| ✓ Total revenues | 144,398,516 | 123,421,594 | |
| Expenditures: | | | |
| Pensions paid (note 3): | | | |
| Service | \$ 43,160,457 | \$38,340,313 | |
| Disability | 8,683,637 | 7,333,963 | |
| Widows | 17,450,355 | 16,284,184 | |
| Minors and dependents | 325,972 | 288,431 | |
| Health insurance subsidy | 349,111 | 61,118 | |
| | 69,969,532 | 62,308,009 | |
| Administrative expenses | 861,808 | 712,554 | 63,020,563 |
| Excess of revenues over expendi- tures before gain on disposition of investments and addition to reserve requirements | \$ 73,567,176 | \$ 60,401,031 | |
| Gain on disposition of investments | 2,409,035 | 631,849 | |
| | 75,976,211 | 61,032,880 | |
| Addition to reserve requirements (note 2) | 361,742,031 | 151,654,957 | |
| Deficiency for the year | \$285,765,820 | \$ 90,622,077 | |

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, 1976 and 1975

| | Accumulated (deficit) | Workers' Compensation Fund (note 3) | Reserve for investment losses | Total |
|---|--------------------------|--|--|-------------------|
| Balance (deficit), June 30, 1974 | \$(1,161,210,288) | \$53,793 | \$ 8,742,302 | \$(1,152,414,193) |
| Revenue (deficiency) for the year | (91,286,635) | 32,709 | 631,849 | (90,622,077) |
| Balance (deficit), June 30, 1975 | \$(1,252,496,923) | \$86,502 | \$ 9,374,151 | \$(1,243,036,270) |
| Revenue (deficiency) for the year (note 2) | (288,140,543) | (34,312) | 2,409,035 | (285,765,820) |
| Balance (deficit), June 30, 1976 | \$(1,540,637,466) | \$52,190 | \$11,783,186 | \$(1,528,802,090) |

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, 1976 and 1975

| | <u>1976</u> | <u>1975</u> |
|---|---------------------|---------------------|
| Source of cash and temporary investments: | | |
| Excess of revenues over expenditures before gain on disposition of investments and addition to reserve requirements | \$73,567,176 | \$60,401,031 |
| Gain on disposition of investments credited to reserve for investment losses | 2,409,036 | 631,849 |
| Decrease in real property | — | 14,984 |
| Increase in accounts payable and retroactive pensions payable | — | 3,541,428 |
| | <u>75,976,212</u> | <u>64,589,292</u> |
| Application of cash and temporary investments: | | |
| Net increase in investments: | | |
| Bonds | 67,536,586 | 42,278,943 |
| Common stock | 8,409,113 | 281,879 |
| Increase in interest and dividends receivable | 1,451,135 | 980,078 |
| Increase (decrease) in other receivables | 2,105,279 | (95,193) |
| Decrease in accounts payable and retroactive pensions payable | 2,331,768 | — |
| Miscellaneous | 246 | — |
| | <u>81,834,127</u> | <u>43,445,707</u> |
| Net increase (decrease) in cash and temporary investments | (5,857,915) | 21,143,585 |
| Cash and temporary investments balances: | | |
| July 1 | 49,927,473 | 28,783,888 |
| June 30 | <u>\$44,069,558</u> | <u>\$49,927,473</u> |

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

Notes to Financial Statements
June 30, 1976 and 1975

(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. Where quoted market values are not available, par value is used for market.

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 that 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.

Classifications

Amounts previously reported as taxes receivable and accounts receivable as of June 30, 1975 have been reclassified to other receivables to be comparable with the classification as of June 30, 1976.

(2) Reserve for Pensions

The reserve for pensions reflects the liabilities as determined by the actuarial valuations as of June 30, 1976 and 1975. 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 investigations made as of December 31, 1975 and 1970, and upon a 5- $\frac{3}{8}$ % assumed rate of interest.

The primary factor in the \$361,742,031 addition to reserve requirements for 1976 (\$151,654,957 for 1975) was a change in the actuarial assumptions for the year beginning July 1, 1976. The major change was the assumption of future increases in salary at the compound annual rate of 3%, in lieu of a reasonably flat salary scale assumption which made no provision for cost of living increases. 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 New Pension System members, and a dollar amount for Pension System members, necessary to amortize the "unfunded liability" of the systems over a seventy-year period beginning with the fiscal year commencing July 1, 1967;

3. An amount to provide for Health Plan subsidies for retired members; and

4. An amount to provide for administrative expenses.

Accordingly, the actuaries for the System have determined the contributions for items 1, 2 and 3 above for the fiscal years commencing July 1, 1976 and 1977 to be as follows:

| | Percentage of members' salaries of: | | | |
|---------------------------------|-------------------------------------|--------------|--------------------|--------------|
| | Fire and Police Pension System | | New Pension System | |
| | 1977 | 1976 | 1977 | 1976 |
| 1. Entry age contribution | 22.7% | 14.7% | 23.1% | 15.4% |
| 2. Unfunded past service | —* | —* | 16.3 | 24.9 |
| Total contribution | <u>22.7%</u> | <u>14.7%</u> | <u>39.4%</u> | <u>40.3%</u> |

*Stated as required dollar amount of \$21,494,537 for 1977 and \$21,459,975 for 1976.

The actuarially determined unfunded past service liability of the Pension System is \$1,540,637,466 at June 30, 1976 and \$1,252,496,323 at June 30, 1975 (with the increase resulting primarily from the change in actuarial assumptions described above). In accordance with the City Charter, this amount is to be amortized over the next 61 years through contributions to be made by the City. The decrease in the percentage of City contributions to members' salaries required to amortize the unfunded past service liability of the New Pension System is due to a change in the method of amortizing such liability. For the fiscal year commencing July 1, 1977 and subsequent years, this liability is to be amortized with annual contributions which are expected to be a level percentage of members' salaries, rather than with level dollar amounts, as was done in prior years. With members' salaries expected to grow at the compound annual rate of 3% per year, the new method of amortization is expected to generate contributions in future years which will grow in proportion to the growth in members' salaries.

(3) Workers' Compensation Fund

Tax revenues are deposited directly into the Workers' Compensation Fund for Fire and Police pensioners by the City Controller, and workers' compensation benefits to pensioners of the Fire and Police Pension System are paid therefrom. Payments of \$189,311 made during the year ended June 30, 1976 ((\$327,292 for 1975), are included under pensions paid.

(4) Contingent Liability

Several legal actions were pending at June 30, 1976. Counsel for the Fire and Police Pension System believes that adverse decisions in several of these cases could result in sizable future pension cost increases. 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 | 1975-76 | 1974-75 | 1973-74 | 1972-73 | 1971-72 | 1970-71 | 1969-70 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Salaries | \$420,573 | \$392,171 | \$319,517 | \$277,373 | \$249,940 | \$208,560 | \$198,038 |
| Overtime | 795 | 2,295 | ----- | ----- | ----- | ----- | ----- |
| Office and Administrative Expense | 29,383 | 25,056 | 16,559 | 11,891 | 13,572 | 11,878 | 9,631 |
| Operating Supplies and Expense | ----- | ----- | ----- | 50 | ----- | 2,000 | ----- |
| Printing and Binding | 9,114 | 6,747 | 5,498 | 6,215 | 6,671 | 9,344 | 5,892 |
| Traveling | 7,400 | 6,569 | 6,254 | 7,363 | 4,908 | 4,434 | 4,798 |
| Contractual Services | 226,283 | 190,667 | 107,181 | 90,661 | 82,906 | 51,748 | 46,666 |
| Field Equipment | 573 | 570 | 569 | 460 | 250 | 150 | 300 |
| Petroleum Products | 769 | 562 | 570 | 216 | 204 | 207 | 205 |
| Transportation | 1,116 | 722 | 513 | 410 | 233 | 215 | 195 |
| Annual Audit | 5,050 | 4,250 | 3,820 | 3,412 | 3,621 | 3,250 | 2,750 |
| Governmental Meetings | ----- | 1,960 | 395 | 100 | 42 | 18 | 220 |
| Litigation | 17,900 | 8,428 | 9,018 | 7,983 | 8,165 | 9,593 | 10,837 |
| Medical Services | 100,985 | 47,842 | 30,784 | 31,447 | 24,529 | 18,807 | 26,768 |
| Actuarial Expense | 17,500 | 8,500 | 8,500 | 6,500 | 6,500 | 13,000 | 6,500 |
| Health Insurance | 12,573 | 8,418 | 4,451 | 6,464 | 4,077 | 3,722 | ----- |
| Retirement Contributions | 7,264 | ----- | ----- | ----- | ----- | ----- | ----- |
| Dental Insurance | 620 | ----- | ----- | ----- | ----- | ----- | ----- |
| Equipment, Furniture & Fixtures | 3,910 | 7,797 | 5,018 | 4,488 | 25,418 | 11,160 | 15,206 |
| | <u>\$861,808</u> | <u>\$712,554</u> | <u>\$518,647</u> | <u>\$455,033</u> | <u>\$431,036</u> | <u>\$348,086</u> | <u>\$330,026</u> |

PENSION DEPARTMENT
STATEMENT OF OPERATIONS COMPARED

Fiscal Years 1969-70 to 1975-76

Schedule 2

| REVENUES | 1975-76 | 1974-75 | 1973-74 | 1972-73 | 1971-72 | 1970-71 | 1969-70 |
|---|--------------------------|--------------------------|--------------------------|------------------------|------------------------|------------------------|------------------------|
| Taxes | \$ 102,938,709 | \$ 89,414,396 | \$ 87,397,038 | \$ 76,790,463 | \$ 63,381,284 | \$ 59,491,069 | \$ 50,573,717 |
| Dividends | 2,960,875 | 2,817,894 | 2,448,289 | 1,950,933 | 1,530,367 | 1,206,340 | 1,035,283 |
| Interest | 22,654,773 | 18,425,424 | 13,119,191 | 9,680,994 | 8,087,889 | 6,255,043 | 4,720,395 |
| Members' Contributions .. | 15,694,080 | 12,642,986 | 11,276,454 | 10,678,323 | 9,797,464 | 8,848,302 | 7,455,724 |
| Sales of Unclaimed | | | | | | | |
| Property | 146,398 | 109,199 | 94,489 | 60,098 | 145,903 | 155,170 | 158,851 |
| Donations | 365 | 371 | 9,244 | 524 | 320 | 360 | 168 |
| Miscellaneous | 3,316 | 11,324 | 31,298 | 31,689 | 222,148 | 38,802 | 7,457 |
| TOTAL REVENUES available for current year's expenditures | \$ 144,398,516 | \$ 123,421,594 | \$ 114,376,003 | \$ 99,193,024 | \$ 83,165,375 | \$ 75,995,086 | \$ 63,951,595 |
| EXPENDITURES | | | | | | | |
| Pensions Paid | | | | | | | |
| Service | \$ 43,160,457 | \$ 38,340,313 | \$ 31,662,143 | \$ 28,191,298 | \$ 24,248,061 | \$ 21,204,493 | \$ 19,356,718 |
| Disability | 8,683,637 | 7,333,963 | 6,334,436 | 5,546,572 | 4,908,673 | 4,373,793 | 4,173,725 |
| Widows | 17,450,355 | 16,284,184 | 13,601,122 | 12,765,000 | 11,806,446 | 10,578,872 | 9,232,752 |
| Minors & Dependents .. | 325,972 | 288,431 | 291,919 | 224,330 | 228,477 | 189,411 | 198,215 |
| TOTAL PENSIONS | \$ 69,620,421 | \$ 62,246,891 | \$ 51,889,620 | \$ 46,727,200 | \$ 41,191,657 | \$ 36,346,569 | \$ 32,961,410 |
| Administrative Expense | \$ 861,808 | \$ 712,554 | \$ 518,647 | \$ 455,033 | \$ 431,036 | \$ 348,086 | \$ 330,026 |
| Health Insurance Subsidy .. | 349,111 | 61,118 | ..... | ..... | ..... | ..... | ..... |
| TOTAL EXPENDITURES | \$ 70,831,340 | \$ 63,020,563 | \$ 52,408,267 | \$ 47,182,233 | \$ 41,622,693 | \$ 36,694,655 | \$ 33,291,436 |
| EXCESS OF REVENUES OVER EXPENDITURES | \$ 73,567,176 | \$ 60,401,031 | \$ 61,967,736 | \$ 52,010,791 | \$ 41,542,682 | \$ 39,300,431 | \$ 30,660,159 |
| Gain (Loss) on Sales of Investments | \$ 2,409,035 | \$ 631,849 | \$ 1,563,851 | \$ 1,499,362 | \$ 4,057,693 | \$ 472,948 | \$ 470,440 |
| EXCESS OF REVENUES OVER EXPENDITURES | \$ 75,976,211 | \$ 61,032,880 | \$ 63,531,587 | \$ 53,510,153 | \$ 45,600,375 | \$ 39,773,379 | \$ 31,130,599 |
| Reduction of (Addition to) Actuarial Reserve | (361,742,031) | (151,654,957) | (154,211,797) | 3,566,682 | (184,411,363) | (84,401,166) | (61,890,773) |
| 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 | (285,765,820) | (90,622,077) | (348,876,753) | 57,076,835 | (138,810,988) | (44,627,787) | (30,760,174) |
| Fund deficit at beginning of year | \$(1,243,036,270) | \$(1,152,414,193) | \$(803,537,440) | \$(860,614,275) | \$(721,803,287) | \$(677,175,500) | \$(646,415,326) |
| Fund deficit at end of year | \$(1,528,802,090) | \$(1,243,036,270) | \$(1,152,414,193) | \$(803,537,440) | \$(860,614,275) | \$(721,803,287) | \$(677,175,500) |