

Jim McGuigan

1977

Annual Report

BOARD OF PENSION COMMISSIONERS

CITY OF LOS ANGELES

CALIFORNIA



FOR THE FISCAL YEAR ENDED JUNE 30, 1977

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ELECTIVE OFFICERS OF THE CITY OF LOS ANGELES



TOM BRADLEY
Mayor

BURT PINES
City Attorney

IRA REINER
City Controller

LOS ANGELES CITY COUNCIL

BOB RONKA
First District

JOEL WACHS
Second District

JOY PICUS*
Third District

JOHN FERRARO
Fourth District

ZEV YAROSLAVSKY
Fifth District

PAT RUSSELL
Sixth District

ERNANI BERNARDI
Seventh District

ROBERT C. FARRELL
Eighth District

GILBERT W. LINDSAY
Ninth District

DAVID 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 Personnel and Labor Relations Committee

BOARD OF PENSION COMMISSIONERS 1976-77 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, 1977, submitted in accordance with the provisions of Section 64 of the City Charter.

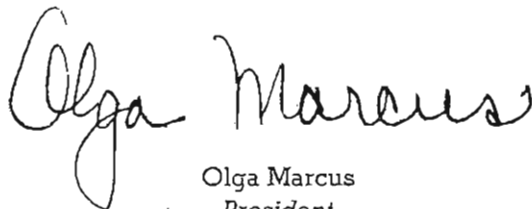
Favorable results reported herein include a continued gain in earnings of the Pension Funds, growth in assets, continued emphasis on bond investments, and a number of favorable decisions in the courts. Average purchase yield on the funds increased to 6.73%, and in addition there were capital gains of some \$1.7 million realized. Assets rose to \$548 million, with 79% of the increase attributable to new bond investments. In the courts a landmark case determined that a disabled police officer, who is able to perform restricted duties made available to him by his Department, is not required to be able to perform all of the duties of police officers.

Problems confronting the Pension Systems during the year include the continuing flood of disability claims, the impact of inflation on the cost of the Systems, and, as shown in the Actuary's report, a discovery during the year that a substantial part of the cost of a 1969 amendment had not previously been incorporated in the actuarial cost of the Systems. Appropriate adjustments have been made in the financial statements, and the Board continues to have the matter under review.

Respectfully submitted,

BOARD OF PENSION COMMISSIONERS

By



Olga Marcus
President

OM:jmh



OLGA MARCUS
President



JOHN A. CALFAS
Vice President



RONALD S.W. LEW



STUART D. BUCHALTER



DICK STANTON



JACK BORMAN



SAM DIANNITTO

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

Honorable Members:

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, 1977. 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 Articles XVII and XVIII of the City Charter.

FINANCIAL CONDITION

Pension System assets increased approximately 17% during the past year to a total of \$548 million, some \$80 million above the prior year total. More than 79% of the increase was converted into bond investments, while common stock purchases and sales resulted in a net increase of approximately \$16 million and the remainder was carried in short-term investments.

Revenues from interest and dividends showed an increase of 27% above the prior year. Taxes, representing the City's contribution to the cost of the system, increased by \$10 million or 10% while member contributions actually decreased by nearly \$1 million or 6%.

Realized capital gains during the year amounted to a net of approximately \$1.7 million. The gains were primarily attributable to the sale of Caterpillar Tractor, Dow Chemical, and Standard Oil of Ohio common stock, all of which had appreciated substantially since their original purchase.

Portfolio changes during the year included bond and stock purchases of more than \$128 million and sales of over \$49 million and reflected continued emphasis on increasing the use of bonds with their relatively high current yields. At the end of the year, common stocks had been reduced to approximately 27% of the Department's portfolio, while the bond component increased to 73%.

Nominee Partnership

During the fiscal year, bonds in the New System General Fund were transferred into the nominee name of NESPO. This procedure has facilitated the sale of securities 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 6.73%, an increase of nearly 4% over the 6.49% purchase yield reported last year. Since the yield on new bond issues actually decreased during the year, the increased yield of the portfolio was almost entirely due to the increased dividends on common stock holdings.

Short-Term Earnings

Temporary investments of the Pension Fund at year-end were \$40,817,000, a slight decrease from the amount held at the close of the prior year. Earnings on temporary investments totaled \$1,727,000. The decrease in earnings compared to 1975-76 reflects the continued decline in short-term interest rates during the fiscal year and the increased activity in long-term investments.

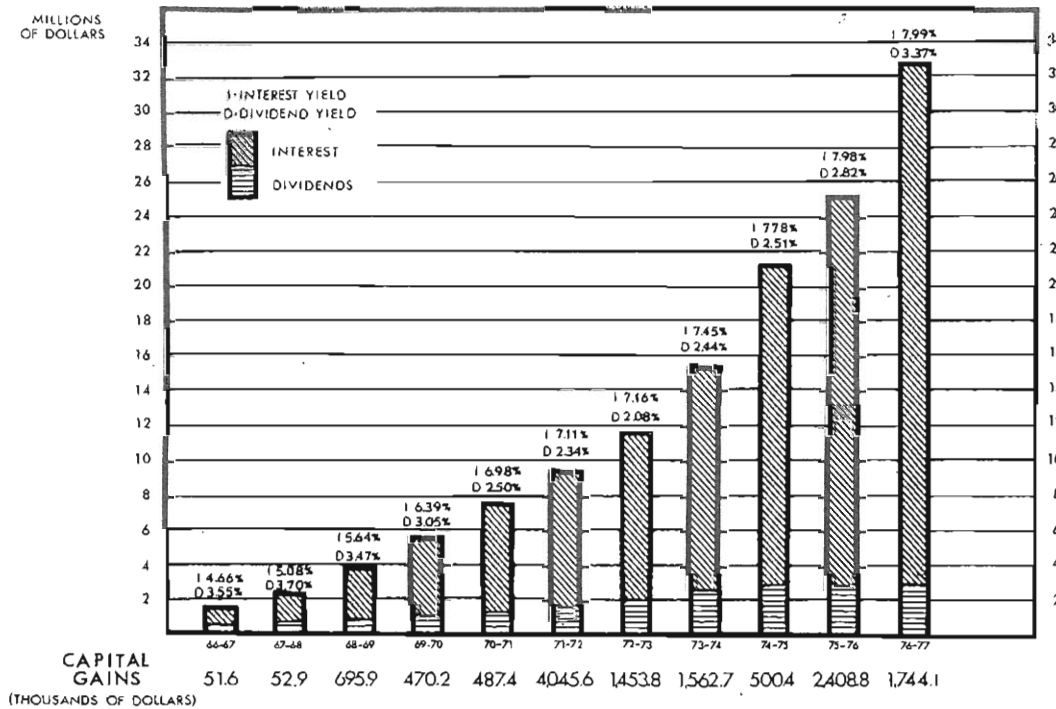
System Earnings from Securities

As shown in the following chart, earnings on securities of the pension funds were nearly \$7 million greater than the previous year, the largest annual increase in earnings to date. This increase was experienced in spite of the decline in interest rates on both bonds and short-term investments. While it is partially explained by the 34% increase in the amount of dividends received, it is largely due to the rapid increase in the asset base on which the earnings accrue. Since June 30, 1975, the total portfolio of bonds and stocks has increased by \$157 million or 46%.

As of June 30, 1977, the average purchase yield on bonds was 7.99%, essentially unchanged over the prior year. Since the average purchase yield on new bond investments actually declined by 5%, reflecting the decline in interest rates, the slight improvement in yield was due to increased emphasis on improvement of the bond portfolio through bond exchange transactions. During the fiscal year bonds with a total par value of \$17,530,000 were exchanged for bonds totalling \$17,750,000, resulting in an overall improvement in quality, an increase in annual income in excess of \$58,000, as well as an improvement in yield.

The yield on common stocks rose by nearly 20% as a result of numerous increases in dividend rates. The purchase yield on stocks does not include capital gains of approximately \$3,200,000 realized during the year.

PENSION SYSTEM EARNINGS



ACTUARIAL VALUATION, JUNE 30, 1977

The actuarial valuation as of June 30, 1977 incorporates changes in experience assumptions authorized by the Board of Pension Commissioners for:

- (1) Earnings of the system
- (2) Estimated long-term increases in salaries of active members
- (3) Estimated long-term increases in the cost of living benefit

The earnings assumption was increased from 5 $\frac{3}{8}$ % to 5 $\frac{3}{4}$ %, and this change acts to recognize greater earnings prospects, and thereby lowered tax cost. The salary and cost of living escalator assumptions were increased from 3% to 3 $\frac{1}{2}$ %, and these changes act to recognize increased cost prospects, and thereby increased tax cost.

An unexpected finding in the current valuation was a redetermination in the cost of living amendment to the Pension System adopted by the voters in April 1969. The actuaries report that cost values immediately following the April 1969 change reflected a portion of the effects of that change, but that a more important feature of the change made at that time was not identified and, therefore, not included as a cost factor either then or later. This finding resulted in a substantial increase in annual cost amounting to an estimated \$8 million per year, and in an increase in the unfunded liabilities of the system of an estimated \$180 million.

The overall net result of the 1977 valuation is an increase of some \$21.5 million above the 1977 tax cost, with total City tax contributions for 1978-79 of \$137.5 million, based on current salary levels.

MEMBERSHIP

As of June 30, 1977, 2,918 Firefighters and 7,311 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 257 are members of the Old Pension System, with 42 in the Fire Department and 215 in the Police Department. The following statement presents analysis of length of service of such members.

	Fire	Police	Total
Members with less than 5 years	656	1,637	2,293
With 5-9 years	395	2,759	3,154
With 10-19 years	1,048	2,186	3,234
With 20 years and over	819	729	1,548
TOTALS	2,918	7,311	10,229
Article XVII	42	215	257
Article XVIII	2,876	7,096	9,972

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.

	1976-77	1975-76	1974-75	1973-74	1972-73
Total Membership July 1st	10,212	10,334	10,223	10,102	10,190
On Leave or Suspension	38	27	52	30	44
On Military Leave	1	2	5	10	22
	10,173	10,305	10,166	10,062	10,124

	1976-77	1975-76	1974-75	1973-74	1972-73
Additions:					
New Appointments	557	402	749	970	590
Reappointments	47	37	32	27	30
Restorations	—	1	2	8	3
Reinstated	—	—	1	6	—
Reactivated	—	1	—	1	3
Return from Leave or Susp.	363	296	405	265	256
Restored from Military Leave	17	21	28	8	19
	<u>11,157</u>	<u>11,063</u>	<u>11,383</u>	<u>11,347</u>	<u>11,025</u>
Withdrawals:					
Service Retirements	279	252	270	362	321
Disability Retirements	108	67	69	44	72
Resigned	166a	219	313	454	295
Discharged	19b	10	10	8	8
Deaths	15	15	11	23	18
Leaves or Suspensions	365	307	380	287	242
Military Leaves Granted	18	20	25	3	7
Active Membership — June 30th	<u>10,187</u>	<u>10,173</u>	<u>10,305</u>	<u>10,166</u>	<u>10,062</u>
On Leave or Suspension	40	38	27	52	30
On Military Leave	2	1	2	5	10
Total Membership — June 30th	<u>10,229</u>	<u>10,212</u>	<u>10,334</u>	<u>10,223</u>	<u>10,102</u>

a — Not included above is one discharge in 1971/72 changed to resignation effective close 1/28/77, per court order.

b — Includes 2 discharges later changed to disability.

Military Leaves

On June 30, 1976, there was 1 member on military leave. The following schedule indicates the operation of military leave authorization during the fiscal year 1976-77:

On Leave June 30, 1976	1
Granted during 1976-1977	18
	<u>19</u>
Restored — Now Active	17
On Leave June 30, 1977	<u>2</u>

Appointed Fiscal Year 1976-77

During the course of the year 604 members were appointed and became members of the system. Some 252 or 42% of such members were married at the date of entrance. Forty seven such members were reappointees with an average age of 28. Of the 557 original appointees the median age was 24, the mode 22 and 23, and the average 25.

ELIGIBILITY

There were as of June 30, 1977 a total of 1,548 members eligible to retire. The following schedule shows the number of members eligible to retire at the end of each fiscal year as indicated:

Members Eligible Past Ten Years

Fiscal Year	Fire	Police	Total
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
1976-1977	819	729	1,548

During the fiscal year 1977-1978, an additional 296 members will become eligible if their service is continuous. Of these, 148 are Firefighters and 148 are Police Officers.

Members Eligible Next Ten Years

The following schedule indicates that 3,232 members of the Fire and Police Departments will become eligible to retire for years of service during the next ten fiscal years, of which 237 are under the Old Pension System.

Fiscal Year	Fire	Police	Total
1977-1978	148	148	296
1978-1979	103	145	248
1979-1980	115	145	260
1980-1981	114	152	266
1981-1982	156	203	359
1982-1983	222	249	471
1983-1984	41	261	302
1984-1985	72	241	313
1985-1986	87	292	379
1986-1987	8	330	338
Totals	1,066	2,166	3,232
Article XVII	33	204	237
Article XVIII	1,033	1,962	2,995

Thus, in addition to 15.1% of the presently active members already eligible to retire as indicated above; there will be an additional 31.6% of total Fire and Police present members who will become eligible to retire or will have retired by June 30, 1987.

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 the 2 Deputy Chiefs are eligible to retire, as are 10 out of 13 Assistant Chiefs, 46 out of 63 Battalion Chiefs, 210 out of 519 Captains and 215 out of 475 Engineers. In the Police Department 12 out of 13 Deputy Chiefs, 14 out of 23 Commanders, 47 out of 86 Captains and 90 out of 249 Lieutenants are eligible for service retirement.

ELIGIBILITY BY RANKS

June 30, 1977

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
40.....	—	—	—	—	—	—	1	—	—	—	—	1
36.....	1	—	—	—	3	—	1	2	—	—	—	7
35.....	2	—	—	—	1	1	2	—	—	—	—	6
34.....	1	1	—	—	—	—	—	1	—	—	—	3
33.....	2	—	—	—	—	—	1	—	—	—	—	3
30.....	17	—	1	—	19	2	23	2	1	1	—	66
29.....	39	1	—	1	28	9	46	6	3	—	—	133
28.....	11	1	1	—	13	2	14	5	1	—	—	48
27.....	15	1	3	2	19	—	19	7	—	—	—	66
26.....	6	1	—	—	8	—	5	2	—	—	—	22
25.....	34	3	—	—	35	4	20	4	—	—	—	100
24.....	12	—	1	—	11	1	10	2	2	1	—	40
23.....	11	—	—	1	15	1	9	2	—	—	—	39
22.....	32	1	1	—	22	5	14	5	—	—	—	80
21.....	10	2	1	—	12	1	12	4	1	—	—	43
20.....	75	5	1	1	29	12	33	4	2	—	—	162
19.....	60	7	2	—	25	7	39	7	—	—	—	147
18.....	53	1	—	—	15	3	31	2	2	—	—	107
17.....	48	6	3	—	15	4	32	3	1	—	—	112
16.....	48	5	1	—	13	8	42	2	—	—	—	119
15.....	71	19	—	—	23	5	37	1	—	—	—	156
14.....	97	19	—	—	36	14	51	2	—	—	—	219
13.....	16	1	—	—	6	2	11	—	—	—	—	36
12.....	27	5	—	—	16	1	18	—	—	—	—	67
11.....	40	5	—	—	15	—	25	—	—	—	—	85
9.....	46	6	—	—	37	2	7	—	—	—	—	98
8.....	13	3	—	—	7	2	5	—	—	—	—	30
7.....	44	4	—	—	11	1	8	—	—	—	—	68
6.....	77	16	—	—	25	2	3	—	—	—	—	123
5.....	47	10	—	—	16	3	—	—	—	—	—	76
4.....	53	12	—	—	—	2	—	—	—	—	—	67
3.....	132	12	—	—	—	—	—	—	—	—	—	144
2.....	175	—	—	—	—	—	—	—	—	—	—	175
1.....	67	—	—	—	—	—	—	—	—	—	—	67
0.....	203	—	—	—	—	—	—	—	—	—	—	203
Totals	1,585	147	15	5	475	94	519	63	13	2	—	2,918
Art-XVII	29	—	—	—	3	7	3	—	—	—	—	42
Art-XVIII.....	1,556	147	15	5	472	87	516	63	13	2	—	2,876

ELIGIBILITY BY RANKS

June 30, 1977

POLICE

Years Service	Police Officers	Investigator	Sergeant	Lieutenant	Captain	Commander	Deputy Chief	Police Chief	Total Empl's
36.....	—	—	—	—	—	—	—	1	1
35.....	—	2	—	—	—	—	—	—	2
34.....	—	—	—	—	—	—	—	—	—
33.....	—	1	—	—	—	1	—	—	2
31.....	2	—	—	—	—	—	—	—	2
30.....	15	12	9	3	5	2	—	—	46
29.....	32	37	13	7	6	—	—	—	95
28.....	16	32	20	7	8	1	4	—	88
27.....	13	22	11	9	6	1	3	—	65
26.....	6	9	3	5	—	—	—	—	23
25.....	6	12	7	11	—	1	—	—	37
24.....	10	23	7	7	4	1	—	—	52
23.....	12	28	11	13	5	2	1	—	72
22.....	15	34	20	8	6	2	2	—	87
21.....	14	28	21	9	5	1	—	—	78
20.....	20	27	15	11	2	2	2	—	79
19.....	29	56	33	17	10	2	—	—	147
18.....	29	63	27	20	4	1	—	—	144
17.....	26	45	53	15	6	2	—	—	147
16.....	29	62	38	15	7	3	1	—	155
15.....	41	90	55	17	3	1	—	—	207
14.....	60	104	72	21	5	—	—	—	262
13.....	67	100	64	25	4	—	—	—	260
12.....	99	68	69	14	—	—	—	—	250
11.....	146	70	59	9	—	—	—	—	284
10.....	187	89	49	5	—	—	—	—	330
9.....	414	118	91	—	—	—	—	—	623
8.....	496	70	52	1	—	—	—	—	619
7.....	429	48	30	—	—	—	—	—	507
6.....	608	17	28	—	—	—	—	—	653
5.....	346	4	7	—	—	—	—	—	357
4.....	328	2	7	—	—	—	—	—	337
3.....	496	—	—	—	—	—	—	—	496
2.....	358	—	—	—	—	—	—	—	358
1.....	185	—	—	—	—	—	—	—	185
0.....	261	—	—	—	—	—	—	—	261
Totals	4,795	1,273	871	249	86	23	13	1	7,311
Art-XVII	106	62	41	5	1	—	—	—	215
Art-XVIII.....	4,689	1,211	830	244	85	23	13	1	7,096

PENSION ROLL CHANGES

During the fiscal year, 497 pensions were granted and reinstated, 233 discontinued. This resulted in a net increase of 264 members on the pension rolls. The details of pensions granted and terminated during the course of the fiscal year are as follows:

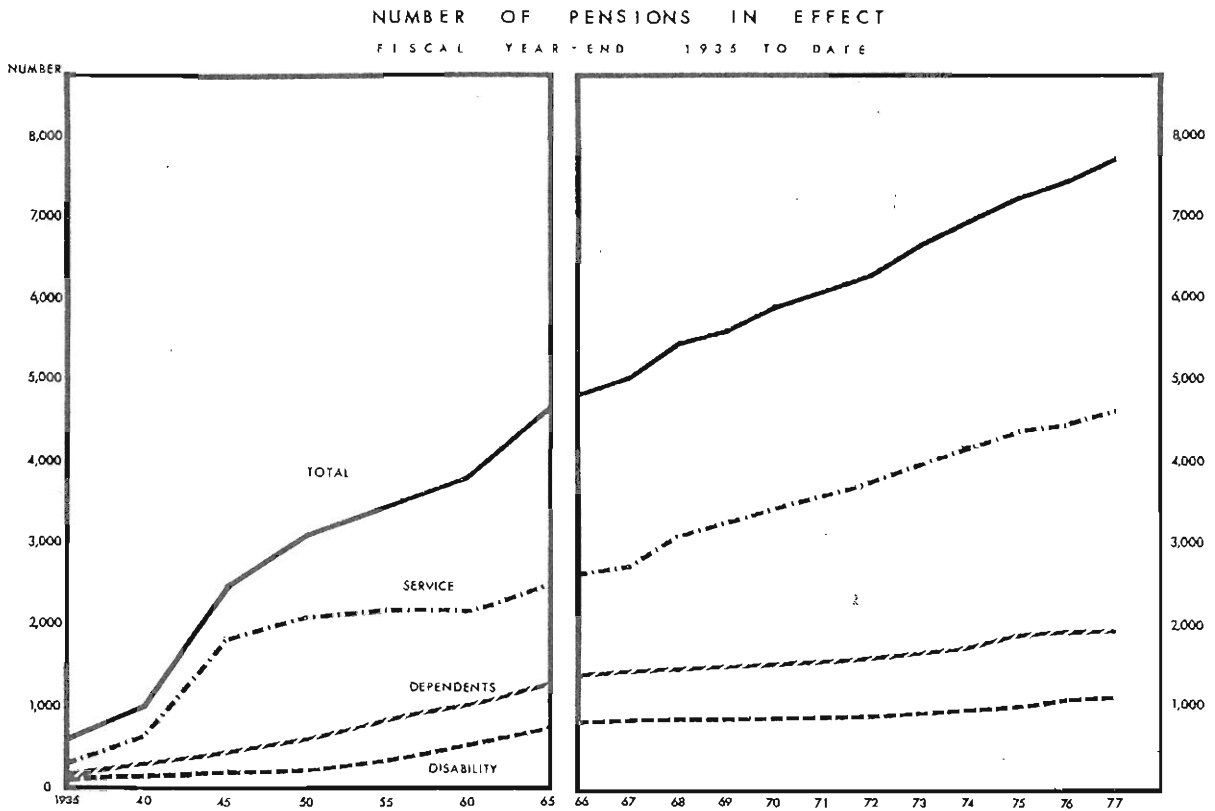
	Service Fluctuating Article 17		Service Pension Article 17 18		Service Disability Article 17 18		Non-Service Disability Article 17 18		Widows Article 17 18		Dependents Article 17 18		Minors Article 17 18		Total System
	17	18	17	18	17	18	17	18	17	18	17	18	17	18	
7-1-76	589	1259	2621	589	317	140	28	1653	204	1	2	23	22	7448	
Granted	—	3	276	5	85	—	20	69	33	—	—	2	1	494	
Reinstated	—	—	—	—	—	—	—	—	3	—	—	—	—	3	
Deaths	(57)	(40)	(30)	(19)	(3)	(3)	(2)	(65)	(2)	—	—	—	—	(221)	
Court Mand.															
Conversion	—	—	—	—	+2	—	-2	—	—	—	—	—	—	—	
Reactivated	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Decreased	—	—	—	1*	11*	—	—	9*	15*	—	—	—	—	36*	
Increased	—	—	—	3*	5*	—	—	1*	—	—	—	—	—	9*	
Remarriage	—	—	—	—	—	—	—	(1)	(2)	—	—	—	—	(3)	
Majority	—	—	—	—	—	—	—	—	—	—	—	(6)	(3)	(9)	
Transfers	—	—	—	—	—	—	—	—	+1	—	-1	—	—	—	
6-30-77	532	1222	2867	575	401	137	44	1656	237	1	1	19	20	7712	

* 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 4,469 to 4,621. Dependent pensions went up from 1,905 to 1,934. Disability pensions increased from 1,074 to 1,157. The total of all pensions in effect showed an increase of 264, from 7,448 to 7,712.



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	Totals
\$ 0.00-\$ 499.99	979	285	378	2	25	1,669
500.00- 599.00	583	194	144	0	9	930
600.00- 699.00	295	122	83	0	1	501
700.00- 799.99	189	125	56	0	1	371
800.00- 899.99	251	84	295	0	1	631
900.00- 999.99	431	77	517	0	1	1,026
1,000.00-1,099.99	384	78	211	0	0	673
1,100.00-1,199.99	333	49	20	0	0	402
1,200.00-1,299.99	397	53	99	0	0	549
1,300.00-1,399.99	251	27	48	0	1	327
1,400.00-1,499.99	162	14	5	0	0	181
1,500.00-1,599.99	128	23	4	0	0	155
1,600.00-1,699.99	86	12	18	0	0	116
1,700.00-1,799.99	20	1	0	0	0	21
1,800.00-1,899.99	34	4	2	0	0	40
1,900.00-1,999.99	18	3	3	0	0	24
2,000.00- and over	80	6	10	0	0	96
Totals	4,621	1,157	1,893	2	39	7,712
Average Pension	\$922.73	\$785.29	\$844.01	\$492.80	\$560.15	\$880.84

The overall average of \$880.84 is approximately 9.3% over the average for the prior fiscal year of \$805.44. The average number of fluctuating pensions, cost of living pensions and fixed pensions is reported as follows:

Fluctuating	Service	Disability	Widows	Dependents	Minors	Total
Number	532	33	1,064	0	2	1,631
Average Pension	\$1,096.83	\$958.33	\$995.33	\$ —	\$1,111.43	\$1,027.83
Cost of Living						
Number	3,682	1,009	751	2	26	5,470
Average Pension	\$ 885.53	\$755.55	\$630.77	\$492.80	\$ 515.45	\$ 824.67
Fixed Pension						
Number	407	115	76	0	11	609
Average Pension	\$1,031.75	\$996.61	\$839.84	\$ —	\$ 565.58	\$ 992.75
Other Pensions						
Number	0	0	2	0	0	2
Average Pension	\$ —	\$ —	\$569.83	\$ —	\$ —	\$ 569.83

The total fluctuating pensions represent a net decrease of 69 during the fiscal year. Cost of living pensions increased by 222 and fixed pensions increased by 110.

(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).

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 year 1975-76. During that year, the cost of living increase to eligible pensioners was an unprecedented 11.7%. The percentage increase for fiscal year 1976-77 was 9.3%.

AVERAGE PENSIONS

Fiscal Year	Overall Average Pension Per Month
1976-1977	\$880.84
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	406.68

AGES OF PENSIONERS

The following is an analysis of the ages of all pensioners at the close of June 30, 1977.

Ages	Service	Disability	Widows	Dependents	Minors	Total
0-19	0	0	0	0	39	39
20-24	0	0	0	0	0	0
25-29	0	15	7	0	0	22
30-34	0	64	17	0	0	81
35-39	0	77	17	0	0	94
40-44	20	111	29	0	0	160
45-49	177	122	38	0	0	337
50-54	1,000	252	132	0	0	1,384
55-59	1,274	261	127	0	0	1,662
60-64	743	121	181	0	0	1,045
65-69	437	65	210	0	0	712
70-74	200	18	367	1	0	586
75-79	451	32	381	0	0	864
80-84	243	12	255	0	0	510
85-89	66	5	108	1	0	180
90-94	9	2	23	0	0	34
95-99	1	0	1	0	0	2
Totals	4,621	1,157	1,893	2	39	7,712
Average Age	62	53	70	79	13	62

SERVICE PENSIONS

Pensions Granted

A total of 279 members of Fire and Police Departments retired effective prior to June 30, 1977, upon service pension. Of the total number, 276 retired under the New Pension System.

Reactivated

During the fiscal year 1976-77 no 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 127 service pensions were discontinued on account of death. These individuals were on the pension roll an average of twenty-two and a half years although the range of life after retirement varied from nineteen months to forty-five and a half 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
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
1976-1977	129	150	279

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	Fire	Average Age Police	Combined
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
1976-1977	54	53	53

Number Retiring Above or Below Age 50

The number of Police Officers retiring under 50 years of age continued to decrease while the number of Firefighters increased. In the last 10 years, however, only 20% of Firefighters retired under 50 years of age compared to 47% of Police Officers.

Fiscal Year	F I R E				P O L I C E			
	Under	Exactly	Over	Total	Under	Exactly	Over	Total
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
1974-1975	13	6	75	94	50	11	115	176
1975-1976	8	5	85	98	36	3	108	147
1976-1977	20	2	107	129	31	7	112	150
	229	56	850	1,135	911	109	899	1,919
Percent of Total	20%	5%	75%	100%	47%	6%	47%	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
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
1976-1977.....	27	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
1967-68.....	48	101	149	271	44	315
1967-69.....	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
1976-77.....	18	111	129	33	117	150

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.

DISABILITY PENSIONS**Pensions Granted**

A total of 110 members of Fire and Police Departments were granted disability pensions during the fiscal year ended June 30, 1977. Of these 90 were granted on a service-connected basis; while 20 were nonservice. An additional 2 pensions previously granted as nonservice-connected were converted to service-connected disability in response to court mandate.

Pensions Discontinued

Twenty-seven 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	
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
1976-1977.....	41	1	49	19	110

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	
1905-1909.....	1	0	0	0	1
1910-1914.....	1	0	0	0	1
1915-1919.....	1	0	0	0	1
1920-1924.....	0	0	1	0	1
1925-1929.....	0	0	0	0	0
1930-1934.....	3	0	2	0	5
1935-1939.....	4	0	12	0	16
1940-1944.....	3	0	8	0	11
1945-1949.....	2	2	7	3	14
1950-1954.....	13	3	32	10	58
1955-1959.....	39	8	65	27	139
1960-1964.....	46	9	205	35	295
1965-1969.....	25	8	99	32	164
1970-1974.....	107	7	89	10	213
1975-1979.....	90	4	121	23	238
Total.....	335	41	641	140	1,157

Analysis of Disability Pensioners by Age

Age	Fire	Police	Total
0-24.....	0	0	0
25-29.....	0	15	15
30-34.....	1	63	64
35-39.....	14	63	77
40-44.....	35	76	111
45-49.....	54	68	122
50-54.....	73	179	252
55-59.....	79	182	261
60-64.....	52	69	121
65-69.....	38	27	65
70-74.....	12	6	18
75-79.....	12	20	32
80-84.....	3	9	12
85-89.....	2	3	5
90-94.....	1	1	2
Total.....	376	781	1,157
Average Age.....	56	52	53

Age and Service of Disability Pensioners

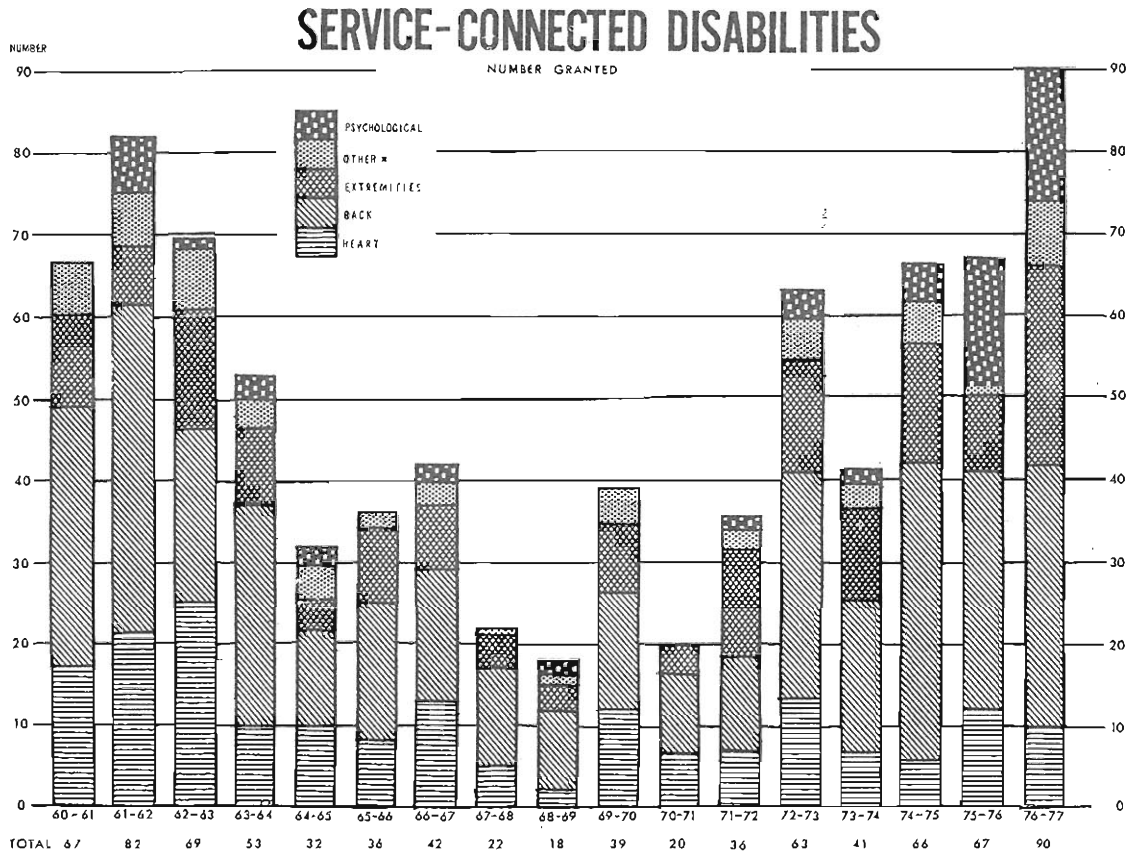
The average age and average number of years of service of Firefighters and Police Officers who were retired upon disability pension during the last ten fiscal years are reflected in the following schedules.

Fiscal Year	Average Age			Average Years		
	Fire	Police	Combined	Fire	Police	Combined
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
1976-1977.....	50	37	42	23	12	16

The above statistics show a decrease in age and years of service for Firefighters and Police Officers who retire on disability pension. Average age and years of service for Police Officers remain low when compared to Firefighters.

Service-Connected Disability

90 new service-connected disability pensions were granted in 1976-77. The accompanying chart shows a breakdown by primary disability for the last 17 years.



(Other) *

* Includes hypertension, eye disorders, cancer and miscellaneous physical ailments.

Analysis of Rates

There are 974 service-connected and 181 nonservice-connected disability pensions classified by rates in the following schedule as of June 30, 1977. Of this number 85 service-connected and 20 nonservice-connected disability pensions were granted under the New Pension System.

Analysis of Disability Pensioners by Rate

Rate	Fire	Police	Total
40%	41	140	181
50%	79	239	318
52%	0	1	1
55%	33	77	110
57½%	1	0	1
58%	1	0	1
60%	52	103	155
61%	3	0	3
64%	1	0	1
65%	74	116	190
66 2/3%	1	0	1
68%	1	0	1
69%	0	1	1
70%	58	44	102
72½%	1	0	1
75%	16	34	50
80%	7	13	20
85%	1	6	7
90%	4	9	13
Total	374	783	1,157

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. The program was expanded on September 30, 1976 to include subsidy payments on behalf of spouses and dependents of eligible members.

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 1976-77 and the number of eligible members in each plan are listed below:

Health Plan	Members With Subsidy	Subsidy Amount
City Basic	12	\$ 6,525.78
City Ross Loos	2	244.00
City Kaiser	7	3,043.44
Fire Medical	648	276,596.43
Fire Ross Loos	193	85,998.52
Police Occidental	385	174,587.68
Police Ross Loos	206	83,339.10
Police Kaiser	230	98,235.23
UFLAC Kaiser	65	31,124.22
	1,748	\$759,694.40

SUMMARIZATION OF MAJOR ACTIVITIES OF THE LEGAL SECTION

The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and Becker Securities Corporation, Towers, Perrin, Forster, Crosby & Co., Arthur Young & Associates, Lionel D. Edie Corp. and Peat, Marwick, Mitchell & Co.

Three formal opinions were submitted by the City Attorney's Office on the subjects of deductibility of workers' compensation awards from pensions, the Board of Pension Commissioners' duties with respect to the evaluation and treatment of medical evidence in disability hearings and on the subject of the City's right to offset the cost of medical and hospital services incurred under the Workers' Compensation laws against disability pension payments.

Informal opinions were rendered on the subjects of the Board's position with respect to the entitlement to a disability pension of a terminated firefighter or police officer who would be capable to perform light duty assignments if he could be returned to duty and another one on the Board's fiduciary liability and the advisability of insurance coverage for fiduciaries, including staff members.

A Charter amendment eliminating the mandatory retirement age provisions of Article XVIII was prepared and presented to the electorate. The amendment was adopted on April 7, 1977.

A proposed Charter amendment was drafted to permit the New Pension System to participate in the investment in pooled real estate investment trusts.

The ordinance establishing the procedure of election of employee commissioners was amended by revising the recall provisions and making other requested changes.

Among other noteworthy events, two further items are reported: Written advice was rendered regarding a request by Standard Oil of California to join in a request for an Internal Revenue Service ruling concerning the taxability of gains accruing to the holders of securities under a prepayment arrangement with Chevron (United Kingdom). Advice was also rendered on the reporting requirements (new) under Section 6058 of the Internal Revenue Code for retirement systems such as the Fire and Police Pension System and the New Pension System.

PROBATE MATTERS

This office examined 93 probate accountings, as well as petitions and other documents which were received by the Department of Pensions and four requests for special notice were prepared, served and filed. Fourteen guardianships and conservatorships were discontinued and nine were commenced. There are 104 guardianships pending, 46 covering minors and 58 covering incompetents.

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:

BLAKE v. CITY OF LOS ANGELES, BOARD OF PENSION COMMISSIONERS, ET AL

This is a class action brought by Fanchon Blake, a former police woman on behalf of herself and all others similarly situated, seeking injunctive and other relief against the City for its alleged unfair employment practices.

The complaint also sought adjustment of the pensions of the members of the class, predicated on the theory that but for the City's past position with respect to promotional opportunities for women police officers, higher pensions would have become payable to plaintiffs.

The City Attorney filed a Motion for Summary Judgment and the Federal District Court granted the Motion.

As of the close of the fiscal year, this case is on appeal by plaintiffs.

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 hearing in the Superior Court on July 24, 1975 and the writ 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 and, again, the City prevailed.

At the time of this report, an appeal by petitioner is pending in this case.

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 because the ability to perform the duties last assigned to him is not the 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 the 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.

The case was retried in Department 85 of the Superior Court and remanded to the Board by stipulation so as to comply with the requirements of **Topanga Assn. for a Scenic Community v. County of Los Angeles**, 11 Cal. 3d 506.

The case was still pending before the Board as of June 30, 1977.

DUPONT v. BOARD OF PENSION COMMISSIONERS

Petitioner was a former police officer seeking a writ of mandate to compel the Board to grant him a service-connected disability pension instead of the nonservice-connected disability pension previously awarded.

The matter was heard and decided on August 16, 1976 and was routine, save and except that two aspects of the case call for special mention. One was presented by the fact that the Superior Court, with respect to the determination of causation, held that service-connection in case of a pre-existing physical impairment would require **substantial** aggravation by factors related to the performance of one's duty in order to create a right to a service-connected disability pension.

The second facet of interest was the denial by the court of attorney's fees under Government Code Section 800 as had been requested by petitioner. This decision was reached after briefs on this point had been submitted by both parties. The court, thereby, upheld the City Attorney's contention that in order for Government Code Section 800 to apply, the Board would have had to overstep its bounds or have acted completely without a reasonable basis for their determination.

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. However, the City Attorney has filed a Motion for Summary Judgment which has been set for hearing on October 17, 1977.

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 was 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.

A stipulated judgment, waiving the rights of either party to appeal the matter was entered on August 27, 1976 and effectively disposed of this case.

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 a 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 and it is still pending at this time.

WESLEY v. BOARD OF PENSION COMMISSIONERS

In this case, a nonservice-connected disability pension was granted to a former police officer. Upon petition for writ of mandate, the Superior Court upheld the Board's determination. Petitioner appealed and contended that he had been denied procedural due process and that the court below erred in deciding the case upon the weight of the evidence alone, disregarding the prejudicial effect certain documentation in the administrative record had on the Board's decision.

The case was heard in the Court of Appeal on February 28, 1977 and the judgment of the Superior Court was affirmed.

Petitioner has petitioned the State Supreme Court to grant a hearing, but as yet, no action has been taken by the High Court.

OPERATIONS

Expenditures

Expenditures for pensions increased some \$9.5 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, approached \$761,000.

Administrative Expense

Administrative expense of the Fire and Police System increased 22.4% over the prior fiscal year primarily because of salary increases and higher cost of contractual and medical services. Litigation expense was up due to the prior year increase in rates for hearing reporters, while the decrease for actuarial expense was attributed to the fact that only one actuarial report was required.

Salaries

Salary expense for the year rose 9.8% above the prior year, representing an across-the-board cost of living salary increase and, in addition, the filling of vacant positions to handle the increased workload of the Department.

Travel Expense

Travel expense for the year more than doubled due to an increase in the number of board members and staff attending various conferences, and to an increase in travel and lodging costs. The meetings attended by board and staff were primarily for training and informational purposes.

Contractual Services

Contractual services increased 37.4% over the prior year. Two new contracts were a contribution factor for the increase. First, the company of Towers, Perrin, Forster & Crosby produced the New System Information Booklet for members at a cost of \$6,000, and second, the firm of Arthur Young & Company studied the cost effectiveness of improving cardiovascular medical care for firefighters and police officers in the City of Los Angeles for the sum of \$35,000. Also contributing to the increase was the rise in fees of over \$15,000 for Investment Counsel and almost \$23,000 for City Attorney services rendered. Most of the increase for the City Attorney, however, was due to full year billing in contrast to the previous year when a new system of billing was implemented. A rise in costs for nearly all services is attributed for the balance of the increase.

Medical Services

This account showed 30% increase over the prior year. This increase reflects both the increase in the number of disability claims filed during the year as well as the rising cost of required medical services.

Health Insurance

This account experienced a 47.1% 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 last 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. \$11,292 was expended during the year for this purpose. This was a 55% increase over the previous year figure of \$7,264. However, this is reflective of a full year's expenditure and, as such is not comparable.

Dental Insurance

This account was also established last 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 \$2,729 was expended in this regard. Again, this is not comparable with last year's figure of \$620.

Equipment, Furniture and Fixtures

Expenditures in this category increased some \$7,700 over last year. The main cause of the increase was the replacement of the department automobile and the purchase of an additional wheelindex file.

Surety Bonds

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

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

1923-1925. Effective January 29, 1923, the substance of these two ordinances was adopted into the Charter. The system was placed upon an actuarial basis. Also 1-2/3% for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of 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 1-2/3% 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 1-2/3% for each of the next ten years of service. The maximum pension of 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 re-establish 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.

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.

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

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

February 28, 1978

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, 1977.

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

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, 1977**

**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, 1977 there were 257 active members and 4,142 retired persons covered under Article XVII of the Charter (hereinafter referred to as the Fire and Police Pension System) and there were 9,972 active members and 3,570 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, 1977 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 5¾ % interest assumption, a 3½ % salary scale, and an assumed 3½ % annual cost of living increase. 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 $3\frac{1}{2}\%$, 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 $3\frac{1}{2}\%$, per annum, future increases.

It has been our understanding that the surviving spouse of a deceased retired member was to receive cost of living benefits applicable only to the period of time after the death of the retired member. However, it was brought to our attention during the past year that such surviving spouse receives cost of living benefit applicable to the entire period of time from the member's date of retirement. We have reflected this feature in the current valuation which has acted to increase City contributions.

**ACTUARIAL BALANCE SHEET
AS OF JUNE 30, 1977**

ASSETS

	Fire and Police Pension System	New Pension System	Combined
1. Assets from Accounting Balance Sheet	\$ 27,943,758	\$ 519,722,028	\$ 547,665,786
2. Present Value of Future Contributions by Members	3,477,846	173,264,322	176,742,168
3. Present Value of Future Contributions by the City for:			
(a) Entry Age Cost:			
(i) Basic Benefits	7,999,047	368,805,486	376,804,533
(ii) Cost of Living Benefits	6,781,800	274,747,711	281,529,511
(iii) Total	<u>14,780,847</u>	<u>643,553,197</u>	<u>658,334,044</u>
(b) Seventy Year Amortization of Unfunded Supplemental Present Value:			
(i) Basic Benefits	283,205,107	776,918,991	1,060,124,098
(ii) Cost of Living Benefits	195,527,074	699,794,389	895,321,463
(iii) Total	<u>478,732,181</u>	<u>1,476,713,380</u>	<u>1,955,445,561</u>
4. Total Assets	<u>\$524,934,632</u>	<u>\$2,813,252,927</u>	<u>\$3,338,187,559</u>

LIABILITIES

5. Accounts Payable	\$ 31,750	\$ 319,697	\$ 351,447
6. Reserve for Investment Losses	2,296,992	11,230,290	13,527,282
7. Present Value of Present Pensions to Pensioners now on Pension Roll:			
(a) Service	138,435,090	560,505,800	698,940,890
(b) Disability	66,112,941	96,676,825	162,789,766
(c) Dependents	166,939,573	43,772,824	210,712,397
(d) Total	<u>371,487,604</u>	<u>700,955,449</u>	<u>1,072,443,053</u>
8. Present Value of Prospective Pensions to Dependents of Present Pensioners:			
(a) Service	67,420,013	199,604,152	267,024,165
(b) Disability	31,653,780	36,503,293	68,157,073
(c) Total	<u>99,073,793</u>	<u>236,107,445</u>	<u>335,181,238</u>
9. Present Value of Prospective Pensions to Presently Active Members:			
(a) Service	34,640,757	1,229,958,912	1,264,599,669
(b) Disability	3,753,102	142,159,892	145,912,994
(c) Total	<u>38,393,859</u>	<u>1,372,118,804</u>	<u>1,410,512,663</u>
10. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die in Active Service	1,320,650	47,441,782	48,762,432
11. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die after Retirement:			
(a) Service	10,561,560	381,182,210	391,743,770
(b) Disability	1,768,424	63,897,250	65,665,674
(c) Total	<u>12,329,984</u>	<u>445,079,460</u>	<u>457,409,444</u>
12. Total Liabilities	<u>\$524,934,632</u>	<u>\$2,813,252,927</u>	<u>\$3,338,187,559</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, 1978, be as follows:

	Percentage of Members' Salaries of:	
	Fire and Police	New
	Pension System	Pension System
1. Entry Age Contribution:		
(a) Basic Benefits	13.8%	14.9%
(b) Cost of Living Benefits	11.7%	11.1%
(c) Total	25.5%	26.0%
2. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as Percentage of Salary:		
(a) Basic Benefits	Not	10.5%
(b) Cost of Living Benefits	Applicable	9.2%
(c) Total		19.7%
3. Total Percentage of Salary Contribution:		
(a) Basic Benefits	13.8%	25.4%
(b) Cost of Living Benefits	11.7%	20.3%
(c) Total	25.5%	45.7%
4. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as Annual Dollar Amount:		
(a) Basic Benefits	\$16,770,759	
(b) Cost of Living Benefits	11,327,091	Not
(c) Total	\$28,097,850	Applicable

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 60 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., 3½% 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 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 21.3%. 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 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
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, 1977 and 1976, 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 examinations were 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.

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, 1977 and 1976, 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.

May 25, 1978

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

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

June 30, 1977 and 1976

ASSETS

	1977	1976
Cash and temporary investments:		
Deposits with Treasurer of the City of Los Angeles:		
Restricted	\$ 87,718	\$ 52,190
Unrestricted	377,473	1,895,591
	465,191	1,947,781
Cash revolving funds	500	500
Temporary short-term investments, at cost, plus interest (approximates market)	40,816,831	42,121,277
	41,282,522	44,069,558
Receivables:		
Interest and dividends receivable	7,974,729	5,933,078
Others	5,375,289	3,914,177
	13,350,018	9,847,255
Investments:		
Bonds, at amortized cost (quoted market, \$362,468,640 in 1977 and \$280,829,541 in 1976)	\$ 358,247,448	294,405,305
Preferred stock, at cost (quoted market, \$145,000 in 1976)	—	211,659
Common stock, at cost (quoted market, \$119,660,719 in 1977 and \$117,793,570 in 1976)	134,781,665	118,759,704
Treasurer's deeds, at cost	735	735
Real property, at cost	3,398	3,398
	493,033,246	413,380,801
	\$ 547,665,786	\$ 467,297,614

LIABILITIES, RESERVES AND FUND CAPITAL (DEFICIT)

Accounts payable	\$ 351,447	\$ 1,272,463
Retroactive pensions payable	—	12,679
Reserve for pensions, at actuarial valuation (note 2):		
Pensioners	\$1,407,536,573	1,185,497,356
Active members	1,081,608,327	998,722,872
	2,489,144,900	2,184,220,228
	2,489,496,347	2,185,505,370
Fund capital (deficit):		
Accumulated deficit	(1,955,445,561)	(1,730,043,132)
Workers' Compensation Fund (note 3)	87,718	52,190
Reserve for investment losses	13,527,282	11,783,186
	(1,941,830,561)	(1,718,207,756)
Contingent liability (note 4)		
	\$ 547,665,786	\$ 467,297,614

See accompanying notes to financial statements.

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

STATEMENTS OF REVENUES AND EXPENDITURES

Years ended June 30, 1977 and 1976

	1977	1976	
Revenues:			
Taxes	\$112,730,821	\$102,938,709	
Interest	28,456,089	22,654,773	
Dividends	3,975,236	2,960,875	
Members' contributions	14,749,506	15,694,080	
Sales of unclaimed property	184,006	146,398	
Donations	222	365	
Miscellaneous	1,101	3,316	
Total revenues	160,096,981	144,398,516	
Expenditures:			
Pensions paid (note 3):			
Service	\$ 49,190,942	43,160,457	
Disability	10,243,947	8,683,637	
Widows	19,011,550	17,450,355	
Minors and dependents	277,665	325,972	
Health insurance subsidy	760,614	349,111	
	79,484,718	69,969,532	
Administrative expenses	1,054,492	80,539,210	70,831,340
Excess of revenues over expenditures before gain on disposition of invest- ments and addition to reserve requirements	79,557,771	73,567,176	
Gain on disposition of investments	1,744,096	2,409,035	
	81,301,867	75,976,211	
Addition to reserve requirements (note 2) ..	304,924,672	427,563,454	
Deficiency for the year	\$223,622,805	\$351,587,243	

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, 1977 and 1976

	<u>Accumulated (deficit)</u>	<u>Workers' Compensation Fund (note 3)</u>	<u>Reserve for investment losses</u>	<u>Total</u>
Balance (deficit), June 30, 1975, as previously reported	\$(1,252,496,923)	\$86,502	\$ 9,374,151	\$(1,243,036,270)
Adjustment to reflect restatement of reserve for pensions (note 2)	(123,584,243)	—	—	(123,584,243)
Balance (deficit), June 30, 1975, as restated	(1,376,081,166)	86,502	9,374,151	(1,366,620,513)
Revenue (deficiency) for the year (note 2)	<u>(353,961,966)</u>	<u>(34,312)</u>	<u>2,409,035</u>	<u>(351,587,243)</u>
Balance (deficit), June 30, 1976	(1,730,043,132)	52,190	11,783,186	(1,718,207,756)
Revenue (deficiency) for the year (note 2)	<u>(225,402,429)</u>	<u>35,528</u>	<u>1,744,096</u>	<u>(223,622,805)</u>
Balance (deficit), June 30, 1977	<u><u>\$(1,955,445,561)</u></u>	<u><u>\$87,718</u></u>	<u><u>\$13,527,282</u></u>	<u><u>\$(1,941,830,561)</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, 1977 and 1976

	<u>1977</u>	<u>1976</u>
Source of cash and temporary investments:		
Excess of revenues over expenditures before gain on disposition of investments and addition to reserve requirements	\$79,557,771	\$73,567,176
Gain on disposition of investments credited to reserve for investment losses	1,744,096	2,409,035
	<u>81,301,867</u>	<u>75,976,211</u>
Application of cash and temporary investments:		
Net increase (decrease) in investments:		
Bonds	63,842,143	67,536,586
Preferred stock	(211,659)	—
Common stock	16,021,961	8,409,113
Increase in interest and dividends receivable	2,041,651	1,451,135
Increase in other receivables	1,461,112	2,105,279
Decrease in accounts payable and retroactive pensions payable	933,695	2,331,768
Miscellaneous	—	245
	<u>84,088,903</u>	<u>81,834,126</u>
Net decrease in cash and temporary investments	(2,787,036)	(5,857,915)
Cash and temporary investments balances:		
Beginning of year	44,069,558	49,927,473
End of year	<u>\$41,282,522</u>	<u>\$44,069,558</u>

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 1977 and 1976**

(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.

(2) Reserve for Pensions

The reserve for pensions reflects the liabilities as determined by the System's independent actuaries based upon actuarial valuations as of June 30, 1977 and 1976. Such liabilities represent computed amounts, which if such amounts were held by the fund, 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, would be sufficient to meet the pension obligations. The valuations were determined on the basis of actuarial assumptions adopted as a result of investigations made by the System's independent actuaries as of December 31, 1975 and pursuant to the resolutions adopted by the Board of Pension Commissioners and consisted of the following:

	<u>June 30</u>	
	<u>1977</u>	<u>1976</u>
Interest assumption	5¾ %	5⅜ %
Annual salary scale increase	3½	3
Annual cost-of-living increase	<u>3½</u>	<u>3</u>

The primary factor in the \$304,924,672 addition to reserve requirements for 1977 was a change in the actuarial assumptions for the year ending June 30, 1977 adopted by the System. The major change was the assumption of future increases in salary at the compound annual rate of 3½ % for 1977 instead of 3% used in 1976. The primary factor in the \$427,563,454 addition to reserve requirements for 1976 was a change in actuarial assumptions for the year ending June 30, 1976 adopted by the System. The major change was the assumption of future increases in salary at the compound annual rate of 3%, instead of a reasonably flat salary assumption which made no provision for inflationary 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 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.

Accordingly, the independent actuaries for the System have determined the contributions for items 1, 2 and 3 above for the fiscal year commencing July 1, 1978 to be as follows:

	<u>Percentage of members' salaries:</u>	
	<u>Fire and Police Pension System</u>	<u>New Pension System</u>
1. Entry age contribution	25.5%	26.0%
2. Unfunded past service and health plan subsidy	—*	19.7
Total contribution	<u>25.5%</u>	<u>45.7%</u>

*Stated as a required dollar amount of \$28,097,850.

During 1977, the System was advised by its independent actuaries that not all provisions of the 1969 City Charter amendments affecting the System had been reflected in their determination of the reserve for pensions in prior years. The reserve computation had not fully reflected a revision to the cost-of-living benefit to survivors of retired members included in the 1969 amendments to the City Charter. The independent actuaries have issued revised reports as of June 30, 1976 and 1975. Accordingly, the accompanying 1976 statements have been restated to reflect an increase of \$189,405,666 in the "Reserve for pensions, at actuarial valuation" (\$116,459,760 as to "Pensioners" and \$72,945,906 as to "Active members") and "Fund capital (deficit)" and "Accumulated deficit" in the statements of assets, liabilities, reserves and fund capital (deficit) as of June 30, 1976 and an increase of \$65,821,423 to the "Addition to reserve requirements" and the "Deficiency for the year" in the statements of revenues and expenditures for the year ended June 30, 1976. The amount applicable to prior years of \$123,584,243 has been reflected as an increase to "Balance (deficit), June 30, 1975," in the statements of changes in fund capital (deficit).

The actuarially determined unfunded past service liability ("Fund capital (deficit)—Accumulated deficit") of the Pension System is \$1,730,043,132, as restated at June 30, 1976 and \$1,955,445,561 at June 30, 1977 (the increases result primarily from the change in actuarial assumptions described above). In accordance with the City Charter, the amount at June 30, 1977 is to be amortized over the next 60 years through contributions to be made by the

City. Such contributions should remain level as a percentage of salary but will increase in dollar amount in accordance with the assumed salary scale at $3\frac{1}{2}\%$ per annum compounded annually. This treatment can be expected to develop contributions in the near future which will be less than the interest requirement on the liability. Accordingly, the unfunded past service liability can be expected to increase for the next several years. 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 years ended June 30, 1975 and prior. With members' salaries expected to grow at the compound annual rate of $3\frac{1}{2}\%$ per year, the new method of amortization is expected to generate contributions in future years that will grow in proportion to the growth in members' salaries.

The System's independent actuaries in their report as of June 30, 1977 recommended that New System members contribute 1% in addition to the 6% member contribution rate provided in the City Charter.

(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 \$324,472 made during the year ended June 30, 1977 (\$189,311 for 1976) are included under pensions paid.

(4) Contingent Liability

Several legal actions were pending at June 30, 1977. 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	1976-77	1975-76	1974-75	1973-74	1972-73	1971-72	1970-71
Salaries	\$ 461,699	\$420,573	\$392,171	\$319,517	\$277,373	\$249,940	\$208,560
Overtime	280	795	2,295	.....	.....	.....	.....
Office and Administrative Expense	35,797	29,383	25,056	16,559	11,891	13,572	11,878
Operating Supplies and Expense .....	.....	.....	.....	.....	50	.....	2,000
Printing and Binding	10,364	9,114	6,747	5,498	6,215	6,671	9,344
Traveling	15,947	7,400	6,569	6,254	7,363	4,908	4,434
Contractual Services	310,858	226,283	190,667	107,181	90,661	82,906	51,748
Field Equipment	659	573	570	569	460	250	150
Petroleum Products	449	769	562	570	216	204	207
Transportation	1,304	1,116	722	513	410	233	215
Annual Audit	5,050	5,050	4,250	3,820	3,412	3,621	3,250
Governmental Meetings	70	.....	1,960	395	100	42	18
Litigation	27,923	17,900	8,428	9,018	7,983	8,165	9,593
Medical Services	131,300	100,985	47,842	30,784	31,447	24,529	18,807
Actuarial Expense	8,500	17,500	8,500	8,500	6,500	6,500	13,000
Health Insurance	18,499	12,573	8,418	4,451	6,464	4,077	3,722
Retirement Contributions	11,292	7,264	.....	.....	.....	.....	.....
Tuition Reimbursement	156	.....	.....	.....	.....	.....	.....
Dental Insurance	2,729	620	.....	.....	.....	.....	.....
Equipment, Furniture & Fixtures	11,616	3,910	7,797	5,018	4,488	25,418	11,160
	<u>\$1,054,492</u>	<u>\$861,808</u>	<u>\$712,554</u>	<u>\$518,647</u>	<u>\$455,033</u>	<u>\$431,036</u>	<u>\$348,086</u>

PENSION DEPARTMENT
STATEMENT OF OPERATIONS COMPARED

Fiscal Years 1970-71 to 1976-77

Schedule 2

REVENUES	1976-77	*	**	**	**	**	**
		1975-76	1974-75	1973-74	1972-73	1971-72	1970-71
Taxes	\$ 112,730,821	\$ 102,938,709	\$ 89,414,396	\$ 87,397,038	\$ 76,790,463	\$ 63,381,284	\$ 59,491,069
Dividends	3,975,236	2,960,875	2,817,894	2,448,289	1,950,933	1,530,367	1,206,340
Interest	28,456,089	22,654,773	18,425,424	13,119,191	9,680,994	8,087,889	6,255,043
Members' Contributions ...	14,749,506	15,694,080	12,642,986	11,276,454	10,678,323	9,797,464	8,848,302
Sales of Unclaimed Property	184,006	146,398	109,199	94,489	60,098	145,903	155,170
Donations	222	365	371	9,244	524	320	360
Miscellaneous	1,101	3,316	11,324	31,298	31,689	222,148	38,802
TOTAL REVENUES available for current year's expenditures ...	\$ 160,096,981	\$ 144,398,516	\$ 123,421,594	\$ 114,376,003	\$ 99,193,024	\$ 83,165,375	\$ 75,995,086
EXPENDITURES							
Pensions Paid							
Service	\$ 49,190,942	\$ 43,160,457	\$ 38,340,313	\$ 31,662,143	\$ 28,191,298	\$ 24,248,061	\$ 21,204,493
Disability	10,243,947	8,683,637	7,333,963	6,334,436	5,546,572	4,908,673	4,373,793
Widows	19,011,550	17,450,355	16,284,184	13,601,122	12,765,000	11,806,446	10,578,872
Minors & Dependents ...	277,665	325,972	288,431	291,919	224,330	228,477	189,411
TOTAL PENSIONS ...	\$ 78,724,104	\$ 69,620,421	\$ 62,246,891	\$ 51,889,620	\$ 46,727,200	\$ 41,191,657	\$ 36,346,569
Administrative Expense	\$ 1,054,492	\$ 861,808	\$ 712,554	\$ 518,647	\$ 455,033	\$ 431,036	\$ 348,086
Health Insurance Subsidy ...	760,614	349,111	61,118	.....	.....	.....	.....
TOTAL EXPENDITURES ...	\$ 80,539,210	\$ 70,831,340	\$ 63,020,563	\$ 52,408,267	\$ 47,182,233	\$ 41,622,693	\$ 36,694,655
EXCESS OF REVENUES OVER EXPENDITURES ...	\$ 79,557,771	\$ 73,567,176	\$ 60,401,031	\$ 61,967,736	\$ 52,010,791	\$ 41,542,682	\$ 39,300,431
Gain (Loss) on Sales of Investments	\$ 1,744,096	\$ 2,409,035	\$ 631,849	\$ 1,563,851	\$ 1,499,362	\$ 4,057,693	\$ 472,948
EXCESS OF REVENUES OVER EXPENDITURES ...	\$ 81,301,867	\$ 75,976,211	\$ 61,032,880	\$ 63,531,587	\$ 53,510,153	\$ 45,600,375	\$ 39,773,379
Reduction of (addition to) Actuarial Reserve	(304,924,672)	(427,563,454)	(151,654,957)	(154,211,797)	3,566,682	(184,411,363)	(84,401,166)
Revenue (deficiency) for the year before cumulative ef- fect of accounting change	.....	.....	.....	(90,680,210)	.....	.....	.....
Cumulative effect of accounting change .....	.....	.....	.....	(258,196,543)	.....	.....	.....
Revenue (deficit) for the year	(223,622,805)	(351,587,243)	(90,622,077)	(348,876,753)	57,076,835	(138,810,988)	(44,627,787)
Fund deficit at beginning of year	\$(1,718,207,756)	\$(1,366,620,513)	\$(1,152,414,193)	\$(803,537,440)	\$(860,614,275)	\$(721,803,287)	\$(677,175,500)
Fund deficit at end of year	\$(1,941,830,561)	\$(1,718,207,756)	\$(1,243,036,270)	\$(1,152,414,193)	\$(803,537,440)	\$(860,614,275)	\$(721,803,287)

* Restated as described in Note 2 to Notes to Financial Statements.

** Not restated to reflect all provisions of the 1969 City Charter Amendments as described in Note 2 to Notes to Financial Statements.