

Jim Mc Guigan

1979

Annual Report

BOARD OF PENSION COMMISSIONERS

**CITY OF LOS ANGELES
CALIFORNIA**



FOR THE FISCAL YEAR ENDED JUNE 30, 1979

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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

HAL BERNSON
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 1978-79 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, 1979, submitted in accordance with the provisions of Section 64 of the City Charter.

Pension System assets increased by about 16% to a total of \$726 million, more than \$100 million above the prior year's total. At year-end, approximately 59% of the portfolio was invested in bonds, 19% in common stocks and the remaining 22% in temporary investments; the portfolio's average purchase yield was 7.28% as compared with 6.98% a year earlier. Throughout the year available cash was placed primarily in short-term money market instruments because of the increasingly higher yields available there. Indeed, short-term yields as high as 15% were obtainable at year-end, in line with the general increase in interest rates brought about, in part, by the continuing surge of inflation. Unfortunately, inflation also brought about a rapid rise in pension costs.

According to the actuarial valuation for the year ended June 30, 1979, the System's Unfunded Supplemental Present Value (sometimes called the Unfunded Liability) rose to \$2.418 billion from \$2.094 billion a year earlier. This increase arose in large part because actual cost of living adjustments and salary increases exceeded actuarial assumptions, and because of adjustments made in the actuarial assumptions to bring them more in line with current reality. Thus, we see the effects of rampant inflation as it continues to drive up pension costs, bringing on the funding problems now being faced by this and other pension systems.

Respectfully submitted,
BOARD OF PENSION COMMISSIONERS
By

Jack Borman
JACK BORMAN
President



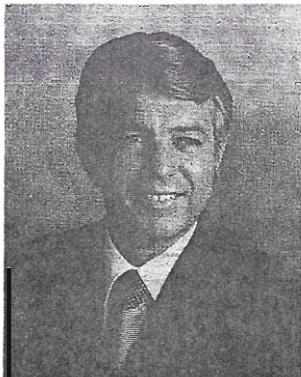
JACK BORMAN
President



RONALD S. W. LEW
Vice President



OLGA MARCUS



SAM DIANNITTO



BERT COHEN



JOHN A. CALFAS



DICK STANTON

Board of Pension Commissioners
Room 501, 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, 1979. This report includes the financial statements which have been audited by Coopers & Lybrand, who are employed by the Board under contract. In addition there is provided a summary report by the Department's actuaries, Martin E. Segal Company, 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 by approximately 16% during the past year to a total of \$726 million, more than \$100 million above the prior year total. Of this increase, less than 9% was converted into bond investments while common stock purchases and sales resulted in a net increase of only \$26,000. Over 90% of the amount available for investment remained in short-term investments, which have been providing a higher yield than long-term investments since late 1978.

Revenues from interest and dividends showed an increase of 23% above the previous year. The City's contribution to the cost of the system, provided by taxes and assistance from the General Fund, increased by nearly \$31 million or 27% while member contributions increased by \$300,000 or 2%.

Realized capital losses during the year amounted to a net of approximately \$3.1 million. While there was a gain of nearly \$100,000 on stock transactions, this was more than offset by losses on bonds. All of these losses were attributable to the system's method of accounting for bond exchanges, which recognizes the full extent of the loss on the sale at the time of the transaction while amortizing the discount on the purchase over the life of the bond.

Portfolio changes during the year included bond and stock purchases of nearly \$91 million and sales of approximately \$82 million. At year-end, common stocks represented 24% of long-term investments and 19% of the total portfolio while bonds represented 76% and 59%, respectively. Temporary investments increased from 12% to nearly 22% of the total portfolio.

Average Purchase Yield

At the end of the fiscal year, the average purchase yield of the portfolio was 7.28%, an increase of over 4% above the 6.98% purchase yield reported last year.

Short-Term Earnings

Temporary investments of the Pension Fund at par at year-end were \$154,500,000, double the amount held at the close of the prior year. Earnings on temporary investments totaled \$7,600,000, over 2½ times the amount earned the previous year. This significant increase was due to continued upward pressure on

short-term interest rates as well as the substantial proportion of revenues committed to short-term investments.

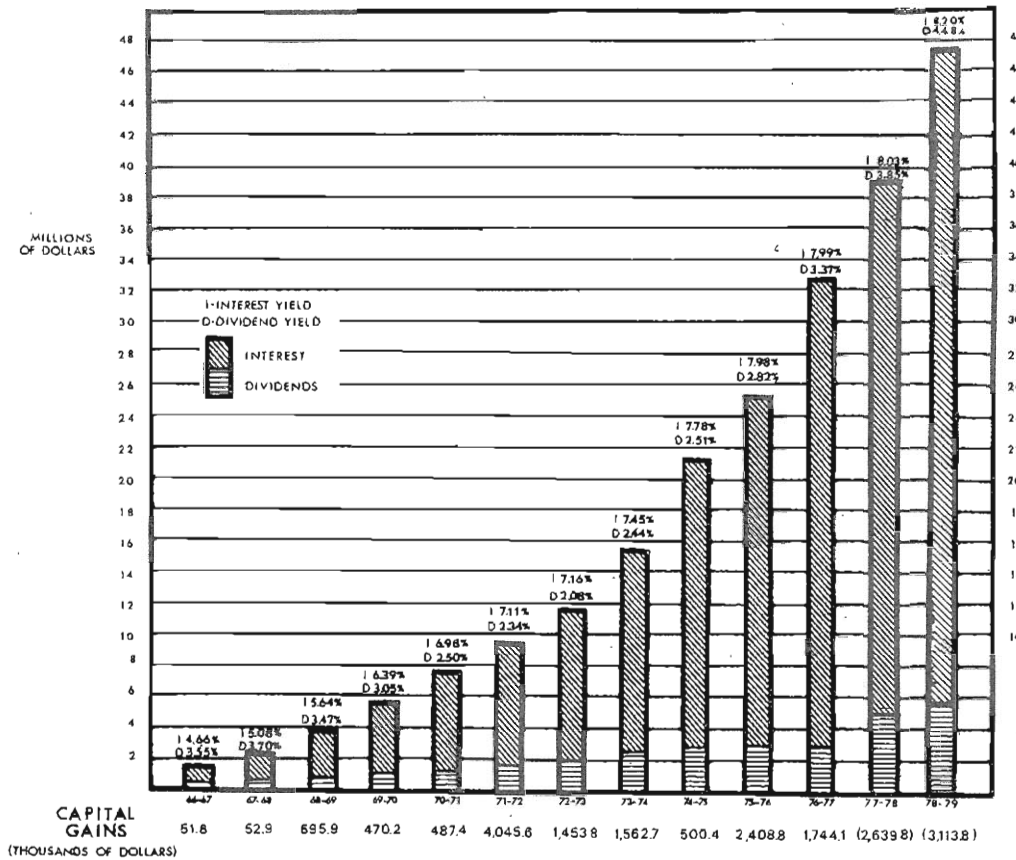
System Earnings from Securities

As shown in the following chart, earnings on securities of the pension funds were nearly \$9 million greater than the previous year, reflecting the continued growth of the asset base on which the earnings accrue as well as the high yields currently available on short-term investments.

As of June 30, 1979, the average purchase yield on bonds was 8.20%. A relatively small percentage of this increase was due to outright purchases of bonds at higher interest rates. The increase was primarily a function of the continued emphasis on improvement of the bond portfolio through bond exchange transactions. During the fiscal year, bonds with a total par value of \$55,691,000 were exchanged for bonds totaling \$54,595,000, resulting in an increase in annual income of approximately \$81,000, a substantial decrease in average years to maturity, and an improvement in yield.

The yield on common stocks rose approximately 16% as a result of increases in dividend rates. The purchase yield on stocks does not reflect capital gains realized during the year.

PENSION SYSTEM EARNINGS



ACTUARIAL VALUATION, JUNE 30, 1979

The actuarial valuation as of June 30, 1979 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 for retired members

The earnings assumption was increased from 6 $\frac{5}{8}$ % to 7 $\frac{1}{4}$ %, 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 4 $\frac{1}{2}$ % to 5 $\frac{1}{4}$ % and these changes act to recognize increased cost prospects, and thereby increased tax cost. The report is set forth in detail beginning on page 26.

Overall, the actuarial valuation, when applied to the existing salary totals for sworn members of the Fire and Police Departments, will result in an increase of about \$5 million in the 1980-81 fiscal year. These cost increases primarily reflect the continuing impact of inflation on the system.

MEMBERSHIP

As of June 30, 1979, 2,712 Firefighters and 6,889 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 211 are members of the Old Pension System, with 31 in the Fire Department and 180 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	644	1,092	1,736
With 5- 9 years	478	2,209	2,687
With 10-19 years	900	3,019	3,919
With 20 years and over	690	569	1,259
TOTALS	2,712	6,889	9,601
Article XVII	32	180	212
Article XVIII	2,680	6,709	9,389

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.

	1978-79	1977-78	1976-77	1975-76	1974-75
Total Membership July 1st	9,881	10,229	10,212	10,334	10,223
On Leave or Suspension	45	40	38	27	52
On Military Leave	0	2	1	2	5
	9,836	10,187	10,173	10,305	10,166

Additions:	1978-79	1977-78	1976-77	1975-76	1974-75
New Appointments	252	509	557	402	749
Reappointments	11	43	47	37	32
Restorations	—	—	—	1	2
Reinstated	—	—	—	—	1
Reactivated	—	1	—	1	—
Return from Leave or Suspension ...	313	349	363	296	405
Restored from Military Leave	13	13	17	21	28
	<u>10,425</u>	<u>11,102</u>	<u>11,157</u>	<u>11,063</u>	<u>11,383</u>
Withdrawals:					
Service Retirements	208	560	279	252	270
Disability Retirements	77	88 ^a	108	67	69
Resigned	216	230	166	219	313
Discharged	31	13	19	10	10
Deaths	11	10	15	15	11
Leaves or Suspensions	328	354	365	307	380
Military Leaves Granted	14	11	18	20	25
Active Membership—June 30th	<u>9,540</u>	<u>9,836</u>	<u>10,187</u>	<u>10,173</u>	<u>10,305</u>
On Leave or Suspension	60	45	40	38	27
On Military Leave	1	—	2	1	2
Total Membership—June 30th	<u>9,601</u>	<u>9,881</u>	<u>10,229</u>	<u>10,212</u>	<u>10,334</u>

a — Not included is 1 resignation in 77-78 granted a disability pension in 78-79.

Military Leaves

On June 30, 1979, there was 1 member on military leave. The following schedule indicates the operation of military leave authorization during the fiscal year 1978-79.

On Leave June 30, 1978	0
Granted during 1979	14
	<u>14</u>
Restored — Now Active	13
On Leave June 30, 1979	<u>1</u>

Appointed Fiscal Year 1978-79

During the course of the year 263 members were appointed and became members of the system. Eleven such members were reappointees with an average age of 27.

ELIGIBILITY

There were as of June 30, 1979 a total of 1,033 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
1969-70.....	1,190	1,305	2,495
1970-71.....	1,131	1,245	2,376
1971-72.....	1,121	1,140	2,261
1972-73.....	998	1,043	2,041
1973-74.....	894	925	1,819
1974-75.....	877	863	1,740
1975-76.....	806	799	1,605
1976-77.....	819	729	1,548
1977-78.....	683	564	1,247
1978-79.....	583	450	1,033

Members Eligible Next Ten Years

During the fiscal year 1979-80, an additional 244 members will become eligible if their service is continuous. Of these, 103 are Firefighters and 141 are Police Officers.

The following schedule indicates that 3,875 members of the Fire and Police Departments will become eligible to retire for years of service during the next ten fiscal years; of which 183 are under the Old Pension System.

Fiscal Year	Fire	Police	Total
1979-80.....	109	140	249
1980-81.....	111	148	259
1981-82.....	152	199	351
1982-83.....	215	243	458
1983-84.....	40	251	291
1984-85.....	71	232	303
1985-86.....	85	277	362
1986-87.....	8	321	329
1987-88.....	91	578	669
1988-89.....	28	576	604
TOTAL.....	910	2,965	3,875
Article XVII.....	20	163	183
Article XVIII.....	890	2,802	3,692

Thus, in addition to 13.10% of the presently active members already eligible to retire as indicated above, there will be an additional 40.4% of total Fire and Police present members who will become eligible to retire or will have retired by June 30, 1989.

Eligibility By Ranks

The following tables show eligibility for retirement by ranks, in both the Fire and Police Departments. These tables indicate that in the Fire Department all 4 Deputy Chiefs are eligible to retire, as are 9 of the 14 Assistant Chiefs, and 44 out of 64 Battalion Chiefs. In the Police Department, 8 out of 10 Deputy Chiefs, 13 out of 20 Commanders, 37 out of 78 Captains and 77 out of 213 Lieutenants are eligible for service retirement.

ELIGIBILITY BY RANKS

June 30, 1979

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 Emp'l's
42.....	0	0	0	0	0	0	1	0	0	0	0	1
38.....	1	0	0	0	1	0	0	0	0	0	0	2
37.....	1	0	0	0	0	1	0	0	0	0	0	2
35.....	1	0	0	0	0	0	0	0	0	0	0	1
32.....	4	0	0	0	1	0	8	0	0	0	0	13
31.....	4	1	0	0	3	2	8	1	0	0	0	19
30.....	1	0	0	0	3	0	3	1	1	0	0	9
29.....	8	1	0	1	13	0	5	5	1	0	0	34
28.....	5	0	0	0	4	0	3	1	0	0	0	13
27.....	16	2	0	0	16	2	11	4	0	0	0	51
26.....	5	0	1	0	7	0	5	2	1	1	1	23
25.....	8	0	0	1	13	2	5	2	0	0	0	31
24.....	28	1	2	0	18	5	13	5	1	0	0	73
23.....	10	2	1	0	11	1	11	3	1	0	0	40
22.....	55	2	2	1	23	14	39	6	2	1	0	145
21.....	46	4	0	1	23	6	38	8	2	0	0	128
20.....	47	1	0	0	13	2	34	6	0	2	0	105
19.....	44	5	3	0	15	5	28	7	2	0	0	109
18.....	38	5	0	1	14	8	44	4	1	0	0	115
17.....	55	11	2	0	26	8	48	1	1	0	0	152
16.....	80	11	0	0	42	13	60	7	1	0	0	214
15.....	11	1	0	0	4	3	13	0	0	0	0	32
14.....	19	5	0	0	13	2	25	1	0	0	0	65
13.....	34	4	0	0	13	2	32	0	0	0	0	85
11.....	31	5	0	0	31	4	27	0	0	0	0	98
10.....	10	3	0	0	8	0	9	0	0	0	0	30
9.....	30	5	1	0	23	0	9	0	0	0	0	68
8.....	62	14	0	0	33	5	9	0	0	0	0	123
7.....	36	7	0	0	26	4	3	0	0	0	0	76
6.....	32	15	0	0	18	3	0	0	0	0	0	68
5.....	93	21	0	0	26	3	0	0	0	0	0	143
4.....	152	23	0	0	0	0	0	0	0	0	0	175
3.....	67	0	0	0	0	0	0	0	0	0	0	67
2.....	198	0	0	0	0	0	0	0	0	0	0	198
1.....	138	0	0	0	0	0	0	0	0	0	0	138
0.....	66	0	0	0	0	0	0	0	0	0	0	66
Totals	1,436	149	12	5	441	95	491	64	14	4	1	2,712
Art. XVII ..	23	0	0	0	1	5	3	0	0	0	0	32
Art. XVIII ..	1,413	149	12	5	440	90	488	64	14	4	1	2,680

ELIGIBILITY BY RANKS
June 30, 1979
POLICE

Years Service	Police Officers	Detective	Sergeant	Lieutenant	Captain	Commander	Deputy Chief	Police Chief	Total Empls
37.....	0	1	0	0	0	0	0	0	1
35.....	0	0	0	0	0	1	0	0	1
32.....	2	0	3	0	2	0	0	0	7
31.....	3	3	2	2	2	0	0	0	12
30.....	4	1	3	1	2	0	0	0	11
29.....	4	2	2	2	3	0	1	1	15
28.....	4	5	3	3	0	0	0	0	15
27.....	3	4	3	6	0	0	0	0	16
26.....	4	9	4	4	0	1	1	0	23
25.....	2	19	7	6	2	2	1	0	39
24.....	14	27	16	8	6	2	2	0	75
23.....	12	27	17	8	4	1	0	0	69
22.....	16	19	10	10	1	3	2	0	61
21.....	17	45	22	12	11	2	1	0	110
20.....	21	53	20	15	4	1	0	0	114
19.....	25	44	49	15	7	1	1	0	142
18.....	26	63	36	16	7	3	1	0	152
17.....	40	89	54	17	4	1	0	0	205
16.....	53	101	68	21	8	1	0	0	252
15.....	61	96	61	25	8	1	0	0	252
14.....	92	68	68	7	6	0	0	0	241
13.....	129	72	57	13	1	0	0	0	272
12.....	158	95	57	9	0	0	0	0	319
11.....	369	126	96	5	0	0	0	0	596
10.....	437	88	58	5	0	0	0	0	588
9.....	383	60	40	1	0	0	0	0	484
8.....	521	38	42	2	0	0	0	0	603
7.....	294	18	22	0	0	0	0	0	334
6.....	287	10	14	0	0	0	0	0	311
5.....	468	6	3	0	0	0	0	0	477
4.....	332	0	2	0	0	0	0	0	334
3.....	165	0	0	0	0	0	0	0	165
2.....	238	0	0	0	0	0	0	0	238
1.....	228	0	0	0	0	0	0	0	228
0.....	127	0	0	0	0	0	0	0	127
Totals.....	4,539	1,189	839	213	78	20	10	1	6,889
Article XVII.....	84	52	49	5	1	0	0	0	180
Article XVIII.....	4,455	1,137	799	208	77	20	10	1	6,709

Years of Service for Eligible Active Members

Years of Service	Fire	Police	Total
20.....	105	114	219
21.....	128	110	238
22.....	145	61	206
23.....	40	69	109
24.....	73	75	148
25.....	31	39	70
26.....	23	23	46
27.....	51	16	67
28.....	13	15	28
29.....	34	15	49
30.....	9	11	20
31.....	19	12	31
32.....	13	7	20
35.....	1	1	2
37.....	2	1	3
38.....	2	0	2
42.....	1	0	1
Total.....	690	569	1,259
Article XVII.....	31	176	207
Article XVIII.....	659	393	1,052

The total number of active Fire and Police members now eligible to retire is 1,259. Of these, 339 have 25 or more years of service. 1,052 are members of Article XVIII.

PENSION ROLL CHANGES

During the fiscal year, 391 pensions were granted or reinstated, 224 discontinued. This resulted in a net increase of 167 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 18		Service Disability Article 18		Non-Service Disability Article 18		Widows Article 18		Dependents Article 18		Minors Article 18		Total System
	17	18	17	18	17	18	17	18	17	18	17	18	17	18	
7-1-78	474	3395	1196	559	467	137	58	1654	267	1	1	19	23	8251	
Granted	—	3	205	5	58	3	12	71	30	—	—	2	—	389	
Reinstated	—	—	—	—	—	—	—	1	1	—	—	—	—	2	
Deaths	(50)	(38)	(24)	(14)	(1)	(1)	—	(80)	(2)	—	—	—	—	(210)	
Reactivated	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Decreased	—	—	—	6*	14*	—	—	6*	14*	—	—	—	—	—	
Increased	—	—	—	2*	2*	—	—	—	1*	—	—	—	—	—	
Remarriage	—	—	—	—	—	—	—	(4)	(3)	—	—	—	—	(7)	
Majority	—	—	—	—	—	—	—	—	—	—	—	(4)	(3)	(7)	
Transfers	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
6-30-79	424	3576	1161	550	524	139	70	1642	293	1	1	17	20	8418	

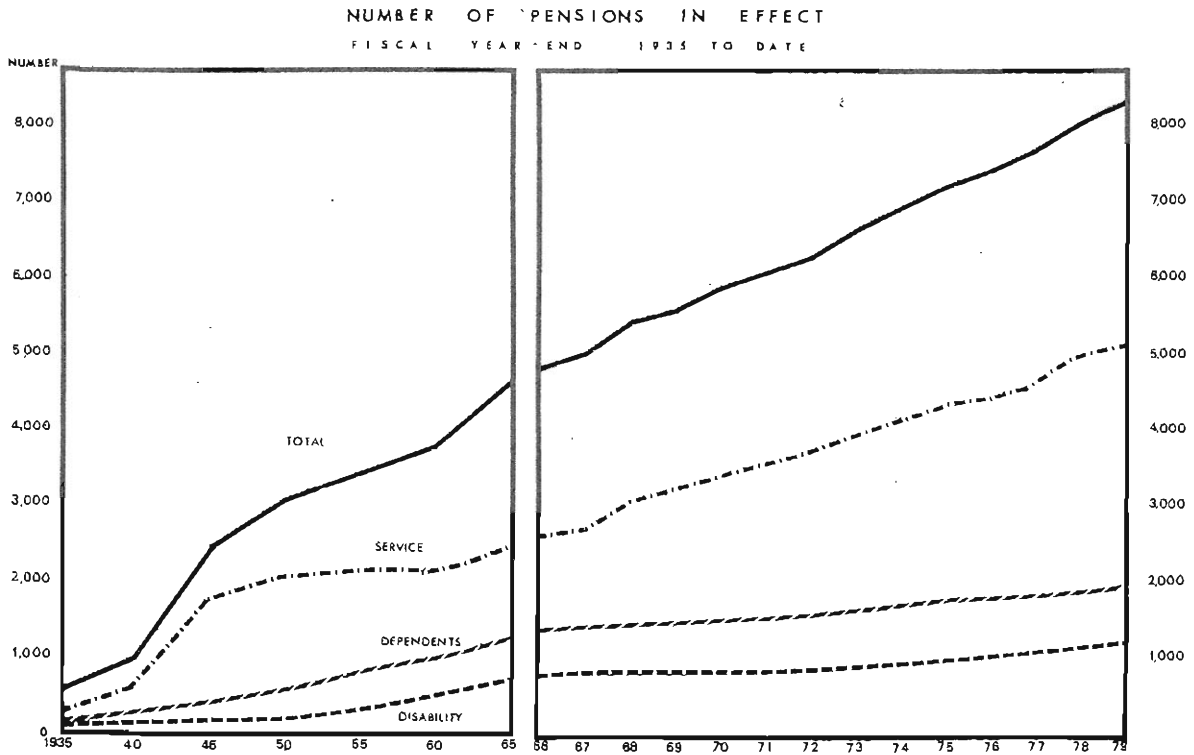
* Statistical only, does not affect totals

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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 5,065 to 5,161. Dependent pensions went up from 1,965 to 1,974. Disability pensions increased from 1,221 to 1,283. The total of all pensions in effect showed an increase of 167 from 8,251 to 8,418.



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
\$.00-\$ 599.99	1,149	351	427	1	23	1,951
600.00- 699.99	455	140	148	0	8	751
700.00- 799.99	242	142	70	0	3	457
800.00- 899.99	193	95	56	0	0	344
900.00- 999.99	210	92	245	0	0	547
1,000.00- 1,099.99	361	92	524	0	1	978
1,100.00- 1,199.99	347	92	67	0	1	507
1,200.00- 1,299.99	360	76	207	0	1	644
1,300.00- 1,399.99	394	54	17	0	0	465
1,400.00- 1,499.99	458	60	96	0	0	614
1,500.00- 1,599.99	250	21	41	0	1	313
1,600.00- 1,699.99	201	13	3	0	0	217
1,700.00- 1,799.99	205	22	4	0	0	231
1,800.00- 1,899.99	113	14	19	0	0	146
1,900.00- 1,999.99	41	2	0	0	0	43
2,000.00-and over	181	17	12	0	0	210
Totals	5,160	1,283	1,936	1	38	8,418
Average Pension	\$1,109.35	\$921.73	\$962.77	\$558.88	\$668.01	\$1,045.04

The overall average of \$1,045.04 is approximately 10.66% over the average for the prior fiscal year of \$979.93. 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	423	22	1,032	0	1	1,478
Average Pension	\$1,283.39	\$1,131.07	\$1,150.95	\$ —	\$1,586.01	\$1,188.92
Cost of Living						
Number	4,426	1,161	811	1	29	6,428
Average Pension	\$1,102.01	\$ 916.17	\$ 732.37	\$558.88	\$ 631.25	\$1,019.66
Fixed Pension						
Number	311	100	91	0	8	510
Average Pension	\$ 976.60	\$ 940.21	\$ 890.61	\$ —	\$ 681.91	\$ 949.50
Other Pensions						
Number	0	0	2	0	0	2
Average Pension	\$ —	\$ —	\$ 569.83	\$ —	\$ —	\$ 569.83

The total fluctuating pensions represent a net decrease of 80 during the fiscal year. Cost of living pensions increased by 343 and fixed pensions decreased by 96. (Note: Fluctuating pensions are those that directly parallel 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. Comparison of these average amounts shows that the largest percentage increase (14.5%) occurred in fiscal year 1975-76 due primarily to an 11.7% cost of living increase to eligible pensioners. The average monthly pension for fiscal year 1978-79 increased 6.64% from the prior year.

AVERAGE PENSIONS

Fiscal Year	Overall Average Pension Per Month
1969-70	\$468.42
1970-71	511.90
1971-72	560.59
1972-73	597.07
1973-74	638.83
1974-75	703.09
1975-76	805.44
1976-77	880.84
1977-78	979.93
1978-79	1,045.04

AGES OF PENSIONERS

The following is an analysis of the ages of all pensioners at the close of June 30, 1979.

Ages	Service	Disability	Widows	Dependents	Minors	Total
0-19	0	0	2	0	38	40
20-24	0	0	0	0	0	0
25-29	0	5	4	0	0	9
30-34	0	69	17	0	0	86
35-39	0	105	27	0	0	132
40-44	35	130	27	0	0	192
45-49	187	142	38	0	0	367
50-54	878	201	103	0	0	1,182
55-59	1,545	294	157	0	0	1,996
60-64	1,011	163	172	0	0	1,346
65-69	550	84	200	0	0	834
70-74	249	35	328	0	0	612
75-79	319	33	403	0	0	755
80-84	282	17	289	0	0	588
85-89	81	3	133	1	0	218
90-94	20	2	35	0	0	57
95-99	3	0	1	0	0	4
Totals	5,160	1,283	1,936	1	38	8,418
Average Age	62	53	70	89	16	62

SERVICE PENSIONS

Pensions Granted

A total of 208 members of Fire and Police Departments retired effective prior to June 30, 1979, upon service pension. Of the total number, 205 retired under the New Pension System.

Reactivated

The following schedule represents activity in requests for reactivation since its inception on May 2, 1969. There were no requests for reactivation during 1978-79.

Dept.	Request Received	Pension Board Approved	Pension Board Disapproved	Denied Return By Active Department	Total Reactivated
Fire	3	3	0	0	3
Police	72	70	2	10	58

Pensions Discontinued

During the fiscal year a total of 112 service pensions were discontinued on account of death. These individuals were on the pension roll an average of twenty-three and a half years although the range of life after retirement varied from one month 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
1969-70	66	169	235
1970-71	90	137	227
1971-72	142	166	308
1972-73	150	177	327
1973-74	131	231	362
1974-75	94	176	270
1975-76	98	147	245
1976-77	129	150	279
1977-78	257	303	560
1978-79	82	126	208

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
1969-70	52	47	49
1970-71	56	50	53
1971-72	54	52	53
1972-73	53	51	52
1973-74	54	53	53
1974-75	55	53	53
1975-76	55	52	53
1976-77	54	53	53
1977-78	56	54	55
1978-79	54	50	51

Number Retiring Above or Below Age 50

The number of Police Officers retiring under 50 years of age increased while the number of Firefighters decreased. In the last 10 years only 15% of Firefighters retired under 50 years of age compared to 34% of Police Officers.

Fiscal Year	FIRE				POLICE			
	Under 50	Exactly 50	Over 50	Total	Under 50	Exactly 50	Over 50	Total
1969-70	24	5	37	66	131	5	33	169
1970-71	12	2	76	90	70	9	58	137
1971-72	26	10	106	142	64	11	91	166
1972-73	36	7	107	150	58	13	106	177
1973-74	25	9	97	131	70	18	143	231
1974-75	13	6	75	94	50	11	115	176
1975-76	8	5	85	98	36	3	108	147
1976-77	20	2	107	129	31	7	112	150
1977-78	11	6	240	257	35	19	249	303
1978-79	13	4	65	82	70	6	50	126
	188	56	995	1,239	615	102	1,065	1,782
Percent of Total	15%	5%	80%	100%	34%	6%	60%	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 of Service	
		Police	Combined
1969-70.....	26	22	23
1970-71.....	28	24	26
1971-72.....	27	25	26
1972-73.....	27	25	26
1973-74.....	27	27	27
1974-75.....	27	25	25
1975-76.....	28	26	27
1976-77.....	27	26	27
1977-78.....	29	28	28
1978-79.....	28	24	26

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
	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
1977-78.....	15	242	257	35	268	303
1978-79.....	14	68	82	60	66	126

In fiscal year 1978-79, 4 of the 82 Fire pensioners retired with 20 years of service and 8 had exactly 25 years of service. Of the 126 total Police pensioners, 36 had attained 20 years of service while 31 had exactly 25 years. The experience of the last ten years indicates that more members of the system choose to retire after completion of 25 years, but that in the current fiscal year, more of these retirees were Fire members than were Police.

DISABILITY PENSIONS**Pensions Granted**

A total of 78 members of Fire and Police Departments were granted disability pensions during the fiscal year ended June 30, 1979. Of these, 63 were granted on a service-connected basis; while 15 were nonservice.

Pensions Discontinued

Sixteen disability pensioners were discontinued on account of death during the past year.

Pensions Denied

Fifty-four disability pension applications were denied during the fiscal year. Twenty-five applications were withdrawn.

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	FIRE		POLICE		Total
	Service	Nonservice	Service	Nonservice	
1969-70.....	23	6	16	4	49
1970-71.....	12	0	8	2	22
1971-72.....	12	1	24	2	39
1972-73.....	36	3	27	5	71
1973-74.....	24	1	17	2	44
1974-75.....	32	4	34	5	75
1975-76.....	25	0	42	5	72
1976-77.....	41	1	49	19	110
1977-78.....	33	3	39	15	90
1978-79.....	25	1	38	14	78
1979-80.....					68

Effective Dates of Current Disability Pensions

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

Pension Effective Fiscal Year	FIRE		POLICE		Total
	Service	Nonservice	Service	Nonservice	
1905-09.....	0	0	1	0	1
1910-14.....	1	0	0	0	1
1915-19.....	0	0	1	0	1
1920-24.....	1	0	0	0	1
1925-29.....	1	0	0	0	1
1930-34.....	1	0	2	0	3
1935-39.....	2	0	7	0	9
1940-44.....	2	0	6	0	8
1945-49.....	2	2	7	3	14
1950-54.....	12	3	31	10	56
1955-59.....	36	8	62	27	133
1960-64.....	42	9	198	33	282
1965-69.....	24	8	98	30	160
1970-74.....	106	7	88	10	211
1975-79.....	148	6	195	53	402
Total.....	378	43	696	166	1,283

Analysis of Disability Pensioners by Age

Age	Fire	Police	Total
0-24.....	0	0	0
25-29.....	0	5	5
30-34.....	1	68	69
35-39.....	10	95	105
40-44.....	36	94	130
45-49.....	65	77	142
50-54.....	77	124	201
55-59.....	93	201	294
60-64.....	56	107	163
65-69.....	46	38	84
70-74.....	19	16	35
75-79.....	13	20	33
80-84.....	3	14	17
85-89.....	1	2	3
90-94.....	1	1	2
Total.....	421	862	1,283
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 schedule:

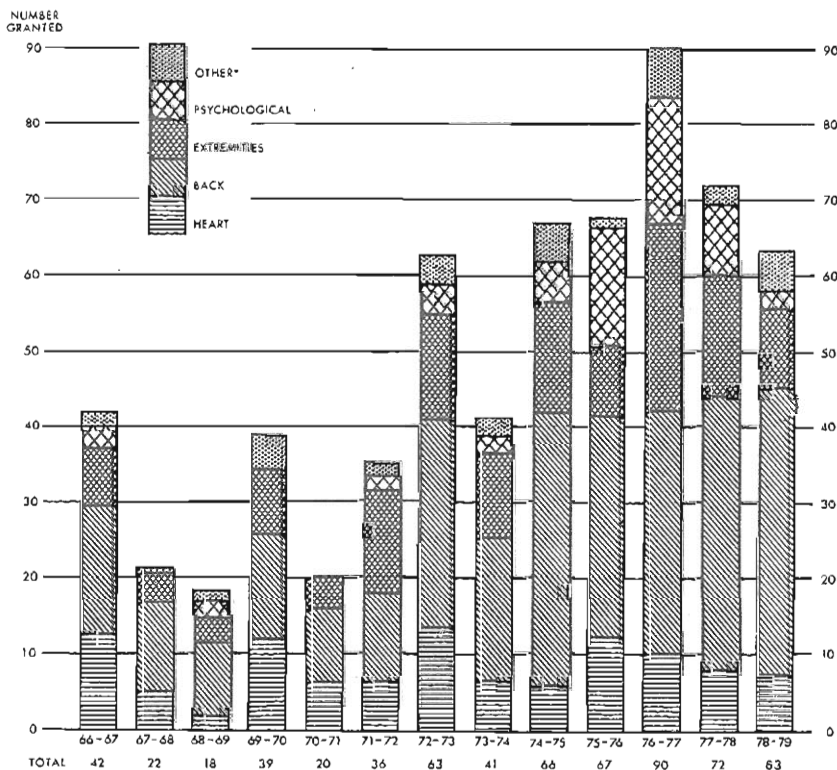
Fiscal Year	Average Age			Average Years		
	Fire	Police	Combined	Fire	Police	Combined
1969-70	48	40	45	21	14	18
1970-71	39	41	40	15	16	15
1971-72	48	38	41	20	13	16
1972-73	48	36	43	22	11	16
1973-74	50	37	45	22	11	17
1974-75	51	38	44	22	12	17
1975-76	52	39	43	24	13	17
1976-77	50	37	42	23	12	16
1977-78	48	39	42	23	12	16
1978-79	51	40	44	20	12	15

Average age and years of service for Police Officers remain low when compared to Firefighters.

Service-Connected Disability

Sixty-three new service-connected disability pensions were granted in 1978-79. The accompanying chart shows a breakdown by primary disability for the last 14 years.

SERVICE-CONNECTED DISABILITIES



*OTHER includes hypertension, eye disorders, cancer and miscellaneous physical ailments.

Analysis of Rates

There are 1,074 service-connected and 209 nonservice-connected disability pensions classified by rates in the following schedule as of June 30, 1979. Of this number 58 service-connected and 12 nonservice-connected disability pensions were granted under the New Pension System during the past year.

Analysis of Disability Pensioners by Rate

Rate	Fire	Police	Total
40%	43	166	209
50%	93	259	352
52%	0	1	1
55%	44	88	132
57½%	1	0	1
58%	1	0	1
60%	58	117	175
61%	3	0	3
64%	1	0	1
65%	74	124	198
66%	1	0	1
67%	1	1	2
68%	2	0	2
69%	0	1	1
70%	73	45	118
72½%	1	0	1
75%	15	32	47
80%	5	14	19
85%	1	6	7
90%	4	8	12
Total	421	862	1,283
Article XVII Service			550
Article XVII Nonservice			139
Article XVIII Service			524
Article XVIII Nonservice			70

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. As of June 30, 1979, there were 2,171 members receiving subsidy benefits. 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 1978-79 are listed below for each health plan.

Health Plan	Subsidy Amount
City Basic	\$ 14,334
City Ross Loos	1,332
City Kaiser	14,887
Fire Medical	415,721
Fire Ross Loos	115,615
Police Occidental	289,342
Police Ross Loos	127,513
Police Kaiser	176,229
UFLAC Kaiser	62,764
Total	\$1,217,737

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

CONTRACTS

The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and Peat, Marwick, Mitchell & Co., Becker Securities and Dr. Richard Cooper.

PROBATE MATTERS

This office examined 52 Probate accountings, as well as petitions and other documents which were received by the Department of Pensions and 11 requests for special notice were prepared, filed and served. Sixteen guardianships and conservatorships were discontinued and 11 were commenced. There are 94 guardianships pending, 57 covering incompetents and 37 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 state.

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

(A) Cases not presenting unique facts or legal issues

I. Decisions upholding the Board:

Cooper v. Board of Pension Commissioners
Imig v. Board of Pension Commissioners
Higgins v. Board of Pension Commissioners
Vandervort v. Board of Pension Commissioners

II. Decisions reversing the Board:

Conver v. Board of Pension Commissioners
McLaurin v. Board of Pension Commissioners
May v. Board of Pension Commissioners
Fien v. Board of Pension Commissioners
Weismann v. Board of Pension Commissioners
Berry v. Board of Pension Commissioners
Rowland v. Board of Pension Commissioners
Miller v. Board of Pension Commissioners

(B) Cases presenting unique facts or legal issues

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. Plaintiff appealed and the Circuit Court of Appeals reversed the trial court.

The City has filed a petition for a hearing in the United States Supreme Court.

CRAVER v. CITY OF LOS ANGELES, ET AL

Petitioner sought (and is still 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. He also contends that evidence that originated after the termination of his employment demonstrates his inability to perform the limited duties to which he was assigned.

The case was first tried on January 6, 1972 and judgment was rendered in favor of the City and the Board.

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 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 judgement test" in the review of decisions of agencies 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 Board rescinded its former action and reconsidered the case. However, upon the conclusion of its proceedings, the Board again denied the application. The City Attorney was instructed to prepare findings. The findings and objections thereto, as well as a motion by Craver for reconsideration were before the Board in November of 1978. The Board denied the application for reconsideration and adopted the findings.

Craver has again filed a petition for writ of mandate challenging the Board's latest decision.

GOINS ET AL v. BOARD OF PENSION COMMISSIONERS

This is an action brought by the widow of a police officer 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 contended 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 was 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.

The City Attorney filed a motion for summary judgment which was granted.

Plaintiff appealed. The Court of Appeal reversed the trial court. The City Attorney petitioned for a rehearing in the Court of Appeal. The petition was granted but the Court of Appeal reaffirmed its decision. The City Attorney petitioned the State Supreme Court for a hearing, which petition was denied.

Further proceedings on behalf of the other members of the class are anticipated.

HOLMES v. CITY OF LOS ANGELES

This case presents the issue of the legality of the non-refundability provisions of Sections 186 ½ 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 186 ½ and 190.10 resulted in a contract of adhesion and, secondly, the question of the constitutionality of the nonrefundability of members' contributions.

After certification as a class action, the case was tried in the Superior Court in December and January of 1978. The Court rendered judgement in favor of the City. Plaintiffs have appealed from that decision.

LITTLE v. BOARD OF PENSION COMMISSIONERS

This case is worthy of special consideration only because of the fact that it is now on appeal after a decision by the Superior Court and the sole basis of such appeal is the contention that the judge of the Superior Court abused his discretion with respect to the facts, an issue almost never raised by the Board's attorneys (because it is a futile effort under normal circumstances) and rarely presented by petitioners who did not succeed in the Court below.

Parke Little is a police officer whose application for a disability pension was denied. By petition for writ of mandate, he challenged the Board's decision and contended that based upon the evidence contained in the administrative record, he should have been entitled to a service-connected disability pension.

The case was heard on May 10, 1979 in Department 85 of the Superior Court and the petition was denied. Petitioner in this case filed a notice of appeal.

MALIN v. BOARD OF PENSION COMMISSIONERS

Steven Malin, a former police officer, now retired on a disability pension, filed a petition for writ of mandate challenging the Board's procedures and, in particular, the refusal to state triable issues and the absence of an established rating system.

The matter was heard on March 28, 1979 in Department 85 and after argument by both counsel, the case was submitted. Subsequently, the Superior Court denied the petition for writ of mandate. Judgment was entered May 7, 1979. Petitioner has filed a notice of appeal.

MORIARITY v. BOARD OF PENSION COMMISSIONERS

In this mandate action by a former police officer, petitioner contended that the weight of the evidence supported her entitlement to a disability pension.

Petitioner's claim had been based on physical and psychiatric problems.

The Superior Court in denying the petition, upheld the Board's decision and had the Court's minute order reflect that petitioner was not disabled from all duties as a police officer and that the weight of the evidence supported a finding that petitioner was unwilling to perform the duties for which she was then qualified.

Carlene Moriarity re-applied for a disability pension which application was again denied.

OPERATIONS

Expenditures

Expenditures for pensions increased over \$13.9 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, paid for the first time in fiscal year 1974-75, increased some \$214,000.

Administrative Expense

Administrative expense of the Fire and Police Pension System increased 17.5% over the prior fiscal year primarily because of salary increases, additional investment advisor fees, and higher costs of services.

Salaries

Salary expense for the year rose 9.9% 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.

Traveling Expense

Traveling expense for the year was 37.6% less than the prior year, and meetings attended by board and staff were primarily for training and informational purposes.

Contractual Services

Contractual services increased 34.5% from the previous year. The cost of regular contracts and services increased slightly due to inflationary pressures. Near the end of the prior fiscal year 1977-78, an additional investment advisor was placed under contract in order to diversify investment management. This contract amounted to an \$115,000 increase. This was the major factor behind the increase in this account.

Medical Services

This account showed a 31.3% increase over the prior year. This increase reflects the rising cost of required medical services, and the increased number of required medical examinations.

Health Insurance

This account experienced a 16.5% increase over last year. The difference was due substantially to premium increases by carriers of health insurance plans, as well as the filling of new and vacant positions.

Retirement Contributions

This account experienced a 12.3% increase over last year. This was attributable to higher salary rates, and the filling of new and vacant positions.

Dental Insurance

This account showed an increase of 8.5% over last year, reflecting increased premium costs, as well as the filling of new and vacant positions.

Equipment, Furniture and Fixtures

Expenditures in this category decreased 97.3% over last year. This was due to the Mayor's freeze on the purchase of equipment after the passage of Proposition 13. It is anticipated that there will, of necessity, be a large increase in this category next year to replace old, worn or obsolete equipment.

Surety Bonds

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

Position	Amount of Bond
Operational Coverage:	
Manager-Secretary	\$ 50,000
Chief Accountant	25,000
All others, each	10,000

Nominee Partnership

Manager-Secretary	1,000,000
Assistant Managers	1,000,000
Other Partners	1,000,000

Respectfully submitted,



JAMES S. MUHLSTEIN
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 of 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 of 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.

MARTIN E. SEGAL COMPANY
520 SOUTH VIRGIL AVENUE
LOS ANGELES, CALIFORNIA 90020
(213) 382-1347

March 4, 1980

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

Gentlemen and Ms. Marcus:

We are pleased to provide the attached summarized report of the results of the actuarial valuations of the Fire and Police Pension System and the New Pension System of the City of Los Angeles, as of June 30, 1979.

We would like to express our sincere appreciation to the Pension Office Staff for their cooperation in providing us with the employee and pensioner data, and other necessary information required to conduct the valuations.

Respectfully submitted,

MARTIN E. SEGAL COMPANY, INC.

James R. Laws, F.S.A.

JRL:dl

**ACTUARIAL VALUATIONS
OF THE
FIRE AND POLICE PENSION SYSTEM
AND
NEW PENSION SYSTEM
OF THE
CITY OF LOS ANGELES
AS OF
JUNE 30, 1979**

**SECTION I
RESULTS OF VALUATIONS**

As of June 30, 1979, there were 213 active members and 3,934 retired persons covered under Article XVII of the Charter (hereinafter referred to as the Fire and Police Pension System), and there were 9,388 active members and 4,484 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, 1979 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 by the Towers, Perrin, Forster, & Crosby actuarial consulting firm as of December 31, 1975, and, pursuant to the Resolution adopted by the Board of Pension Commissioners, upon a $7\frac{1}{4}\%$ interest assumption, a $5\frac{1}{4}\%$ salary increase assumption, and an assumed $5\frac{1}{4}\%$ annual cost of living increase.

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

Item 1 shows the aggregate assets 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 Entry Age Normal Cost and that portion attributable to the Unfunded Supplemental Present Value (also referred to as the Unfunded Accrued 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 each July 1 in accordance with changes in the Consumer Price Index. For the current valuations, we have assumed that persons eligible for such increases will receive future cost of living increases of $5\frac{1}{4}\%$ per annum. We have also assumed that persons eligible to receive "fluctuating" pensions in accordance with increases in salary granted active members will receive future benefit increases of $5\frac{1}{4}\%$ per annum.

**ACTUARIAL BALANCE SHEET AS OF
JUNE 30, 1979**

ASSETS

	Fire and Police Pension System	New Pension System	Combined
1. Assets from Accounting Balance Sheet	\$ 37,256,667	\$ 688,496,564	\$ 725,753,231
2. Present Value of Future Contributions by Members ..	2,966,487	188,193,770	191,160,257
3. Present Value of Future Contributions by the City for:			
(a) Entry Age Normal Cost:			
(i) Basic Benefits	5,607,973	329,912,205	335,520,178
(ii) Cost of Living Benefits	5,603,330	361,935,986	367,539,316
(iii) Total	11,211,303	691,848,191	703,059,494
(b) Unfunded Supplemental Present Value:			
(i) Basic Benefits	246,453,212	802,414,311	1,048,867,523
(ii) Cost of Living Benefits	245,650,833	1,123,129,848	1,368,780,681
(iii) Total	492,104,045	1,925,544,159	2,417,648,204
4. TOTAL CURRENT AND FUTURE ASSETS	<u>\$543,538,502</u>	<u>\$3,494,082,684</u>	<u>\$4,037,621,186</u>

LIABILITIES

5. Accounts Payable	\$ 1,686,090	\$ 390,389	\$ 2,076,479
6. Reserve for Investment Losses	2,326,577	5,447,059	7,773,636
7. Present Value of Present Pensions to Pensioners now on Pension Roll:			
(a) Service	134,383,100	825,177,856	959,560,956
(b) Disability	69,223,092	137,143,712	206,366,804
(c) Dependents	192,580,120	69,580,271	262,160,391
(d) Total	396,186,312	1,031,901,839	1,428,088,151
8. Present Value of Prospective Pensions to Dependents of Present Pensioners:			
(a) Service	62,660,794	274,790,808	337,451,602
(b) Disability	31,586,976	46,431,379	78,018,355
(c) Total	94,247,770	321,222,187	415,469,957
9. Present Value of Prospective Pensions to Presently Active Members:			
(a) Service	33,591,099	1,459,970,560	1,493,561,659
(b) Disability	3,422,090	169,092,715	172,514,805
(c) Total	37,013,189	1,629,063,275	1,666,076,464
10. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die in Active Service:	1,153,754	54,183,395	55,337,149
11. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die after Retirement:			
(a) Service	9,813,676	399,278,640	409,092,316
(b) Disability	1,111,134	52,595,900	53,707,034
(c) Total	10,924,810	451,874,540	462,799,350
12. TOTAL LIABILITIES	<u>\$543,538,502</u>	<u>\$3,494,082,684</u>	<u>\$4,037,621,186</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 as a level percentage of compensation.
2. An amount equal to a percentage of the salaries of all New Pension System members and a dollar amount for all Fire and Police Pension System members necessary to amortize the "Unfunded Accrued Liability" (also referred to as the Unfunded Supplemental Present Value) of the Systems over a 70-year period beginning with 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, 1980 be as follows:

	Percentage of Members' Salaries of:	
	Fire and Police Pension System	New Pension System
1. Entry Age Contribution:		
(a) Basic Benefits	11.9%	12.5%
(b) Cost of Living Benefits	11.7%	13.5%
(c) Total	23.6%	26.0%
2. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as Percentage of Salary:		
(a) Basic Benefits	Not	9.8%
(b) Cost of Living Benefits	Applicable	13.1%
(c) Total		22.9%
3. Total Percentage of Salary Contribution:		
(a) Basic Benefits	11.9%	22.3%
(b) Cost of Living Benefits	11.7%	26.6%
(c) Total	23.6%	48.9%
4. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy Required as an Annual Dollar Amount:		
(a) Basic Benefits	\$18,239,232	Not
(b) Cost of Living Benefits	17,546,722	Applicable
(c) Total	\$35,785,954	

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 57 years (from July 1, 1980) by contributions which are projected to remain level as a percentage of salary but which will increase in dollar amount in accordance

with the salary increase assumption, i.e., 5¼ % per annum. It is to be noted that this treatment will develop contributions in the early amortization years which will be less than the interest requirement on the liability. Accordingly, the dollar amount of the Unfunded Supplemental Present Value can be expected to increase for the next several years although as a percentage of salary it is projected to decrease.

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 for the New Pension System amounts to 27.6%. Accordingly, we recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. 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.

COOPERS & LYBRAND
CERTIFIED PUBLIC ACCOUNTANTS

A MEMBER FIRM OF
COOPERS & LYBRAND (INTERNATIONAL)

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

We have examined the balance sheet of the City of Los Angeles Fire and Police Pension System as of June 30, 1979 and the related statement of revenues, expenditures and changes in deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the City of Los Angeles Fire and Police Pension System for the year ended June 30, 1978 were examined by other auditors whose report dated November 10, 1978 expressed an unqualified opinion on those statements.

In our opinion, the aforementioned financial statements present fairly the financial position of the City of Los Angeles Fire and Police Pension System at June 30, 1979, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Los Angeles, California
March 4, 1980

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

BALANCE SHEETS

June 30, 1979 and 1978

ASSETS

	1979	1978
Cash and temporary investments:		
Deposits with Treasurer of the City of Los Angeles:		
Restricted	\$ 357,364	\$ 383,951
Unrestricted	962,010	675,093
	1,319,374	1,059,044
Cash revolving funds	500	500
Temporary short-term investments, at cost plus accrued interest, which approximates market	155,413,456	76,145,146
	\$ 156,733,330	\$ 77,204,690
Receivables:		
Interest and dividends receivable	9,105,585	8,811,925
Due from brokers and others	4,376,999	175,000
Contributions	14,438,490	3,890,884
	27,921,074	12,877,809
Investments:		
Bonds, at amortized cost (market value \$378,896,079 in 1979 and \$374,216,674 in 1978)	407,729,849	399,819,887
Common stock, at cost (market value \$122,802,190 in 1979 and \$114,847,148 in 1978)	133,364,845	133,338,658
Treasurer's deeds, at cost	735	735
Real property, at cost	3,398	3,398
	541,098,827	533,162,678
Total assets	725,753,231	623,245,177

LIABILITIES AND DEFICIT

Benefits in process of payment	1,727,277	
Accounts payable	349,202	248,251
	2,076,479	248,251
Estimated liability for pensions, at actuarial valuation (Note 3):		
Pensioners	1,843,319,793	1,681,981,208
Active members	1,289,993,212	1,024,246,957
	3,133,313,005	2,706,228,165
	3,135,389,484	2,706,476,416
Deficit:		
Accumulated deficit	(2,409,874,568)	(2,083,615,190)
Workers' Compensation Fund (Note 5)	238,315	383,951
	(2,409,636,253)	(2,083,231,239)
Total liabilities and deficit	\$ 725,753,231	\$ 623,245,177

The accompanying notes are an integral part of the financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN DEFICIT

For The Years Ended June 30, 1979 and 1978

	1979	1978
Revenues:		
Taxes	\$ 84,056,712	\$ 115,361,071
Appropriations from City of Los Angeles General Fund	62,027,251	
Members' contributions	16,104,051	15,804,432
Sales of unclaimed property	148,754	194,243
Donations	37	180
Miscellaneous	508	2,684
	\$ 162,337,313	\$ 131,362,610
Investment income:		
Interest	42,207,125	33,943,580
Dividends	5,570,023	5,018,001
(Loss) on disposition of investments	(3,113,823)	(2,639,822)
	44,663,325	36,321,759
Total revenues	207,000,638	167,684,369
Expenditures:		
Benefits paid to participants:		
Service	67,183,719	56,359,503
Disability	13,931,941	12,475,580
Surviving spouses	22,386,394	20,762,266
Minors and dependents	321,714	311,202
Health insurance subsidy	1,217,737	1,004,154
	105,041,505	90,912,705
Administrative expenses	1,279,307	1,089,077
Total expenditures	106,320,812	92,001,782
Excess of revenues over expenditures before addition to estimated liability for pension requirements	100,679,826	75,682,587
Addition to pension liability requirements	427,084,840	217,083,265
Deficiency for the year	(326,405,014)	(141,400,678)
Deficit, beginning of year	(2,083,231,239)	(1,941,830,561)
Deficit, end of year	(\$2,409,636,253)	(\$2,083,231,239)

The accompanying notes are an integral part of the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 1979 and 1978

1. Description Of Plan:

The City of Los Angeles Fire and Police Pension System operates under provisions of the City Charter of the City of Los Angeles.

In general, the System is a defined benefit pension plan covering all firefighters and police officers of the City of Los Angeles. Benefits are based on members' final compensation and term of service. In addition, the plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of two groups. Those members hired prior to January 26, 1967 participate in the first established Fire and Police Pension System (Old System) unless they requested transfer to the New Pension System (New System) established for members hired on or after January 26, 1967.

Members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years to a maximum of 70% for 30 or more years of service. There is no minimum age requirement for retirement. Members who terminate their employment for reasons other than death or disability forfeit their accumulated plan benefits including any contributions they have made to the System. The plan provides for cost-of-living increases in the benefits.

2. Summary of Significant Accounting Policies:

Basis Of Presentation

The System's financial statements are prepared on the accrual basis of accounting. Contributions and other income are recorded when earned, expenses when incurred, and gains or losses on investments in the year of disposition.

Investments

Bonds are recorded at face value less unamortized discount, or plus unamortized premium. Bond premium and discounts are amortized to maturity date by adjusting the nominal interest rate to the yield basis upon which they were acquired. The stated market value of investments is generally based on published market prices and quotations from major investment dealer firms.

Except for short-term investments, all securities are purchased as long-term investments. Under these circumstances, securities are initially recorded at cost with no recognition of temporary fluctuations in market value. The initial cost of debt-type securities is adjusted through the amortization process.

3. Estimated Liability For Pensions:

The estimated liability for pensions reflects the liabilities as determined by the System's actuaries based upon actuarial valuations as of June 30, 1979 and 1978. Such liabilities represent computed amounts, which if such amounts were held by the System, with additions from future contributions to be received to cover normal costs and with interest on investments compounded annually at a certain assumed rate, would be sufficient to meet the pension obligations. The valuations were determined on the basis of actuarial assumptions adopted as a

result of investigations made by an actuarial consulting firm as of December 31, 1975, and pursuant to the resolutions adopted by the Board of Pension Commissioners and consisting of the following:

	1979	1978
Investment return	7¼ %	6⅝ %
Annual salary scale increase	5¼	4½
Annual cost-of-living increase	5¼	4½

4. Funding Policy:

As a condition of participation, members are required to contribute a percentage of their salary to the System. The System's actuaries in their reports as of June 30, 1979 and also as of June 30, 1978 recommended that New Pension System (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 (Old System) members are required by the City Charter to contribute 6% of salary.

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

- a. An amount equal to the City's share of defined entry age costs.
- b. An amount equal to a percentage of salaries of all New System members, and a dollar amount for Old System members, necessary to amortize the "unfunded liability" of the system over a 70 year period beginning with the fiscal year commencing July 1, 1967.
- c. An amount to provide for Health Plan subsidies for retired members.
- d. An amount to provide for administrative expenses.

Accordingly, the actuaries for the System have determined the contributions for items (a), (b) and (c) above for the fiscal year commencing July 1, 1980 to be as follows:

	<u>Percentage of members' salaries:</u>	
	<u>Fire and Police Pension System</u>	<u>New Pension System</u>
Entry age contribution	23.6%	26.0%
Unfunded liability and health plan subsidy ...	*	22.9
	<u>23.6%</u>	<u>48.9%</u>

* Stated as required dollar amount of \$35,785,954.

The actuarially determined unfunded liability of the System is \$2,409,874,568 at June 30, 1979 and \$2,083,615,190 at June 30, 1978 (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City Charter, the amount at June 30, 1979 is to be amortized over the next 58 years through contributions to be made by the City. Contributions on behalf of the New Pension System should remain level as a percentage of salary but will increase in dollar amount in accordance with the assumed salary scale increase at 5¼% per annum compounded annually. This treatment is projected to develop contributions which will be less than the interest requirements on the liability until the year 2020.

Contributions to provide for the unfunded liability on behalf of the Fire and Police Pension System is determined as a level dollar amount over the remaining 58 year amortization period.

5. 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 \$525,636 made during the year ended June 30, 1979 (\$528,767 for 1978) are included under "Benefits Paid To Participants".

6. Contingent Liabilities:

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1979. Except for two class actions for which the combined potential liability is deemed to be not material to the net assets of the System, Counsel for the Fire and Police Pension System believes that good and meritorious defenses exist and that the Board should prevail.

DEPARTMENT OF PENSIONS
ADMINISTRATIVE EXPENSE COMPARISON

Schedule 1

Operating Expense	1978-79	1977-78	1976-77	1975-76	1974-75	1973-74	1972-73
Salaries	\$ 566,713	\$ 515,625	\$ 461,699	\$420,573	\$392,171	\$319,517	\$277,373
Overtime .....	.....	288	280	795	2,295	.....	.....
Office and Administrative Expense	37,995	34,378	35,797	29,383	25,056	16,559	11,891
Operating Supplies and Expense	2,200	.....	.....	.....	.....	.....	50
Printing and Binding	13,921	-8,553	10,364	9,114	6,747	5,498	6,215
Traveling	7,499	12,017	15,947	7,400	6,569	6,254	7,363
Contractual Services	387,966	288,514	310,858	226,283	190,667	107,181	90,661
Field Equipment	(367)	460	659	573	570	569	460
Petroleum Products	(500)	1,200	449	769	562	570	216
Transportation	3,336	988	1,304	1,116	722	513	410
Annual Audit	6,000	6,000	5,050	5,050	4,250	3,820	3,412
Governmental Meetings .....	.....	225	70	.....	1,960	395	100
Litigation	26,284	23,913	27,923	17,900	8,428	9,018	7,983
Medical Services	176,614	134,502	131,300	100,985	47,842	30,784	31,447
Actuarial Expense	11,900	15,900	8,500	17,500	8,500	8,500	6,500
Health Insurance	22,046	18,929	18,499	12,573	8,418	4,451	6,464
Retirement Contributions	14,160	12,607	11,292	7,264	.....	.....	.....
Tuition Reimbursement .....	.....	166	156	.....	.....	.....	.....
Dental Insurance	3,224	2,972	2,729	620	.....	.....	.....
Equipment, Furniture & Fixtures	316	11,840	11,616	3,910	7,797	5,018	4,488
	<u>\$1,279,307</u>	<u>\$1,089,077</u>	<u>\$1,054,492</u>	<u>\$861,808</u>	<u>\$712,554</u>	<u>\$518,647</u>	<u>\$455,033</u>

**DEPARTMENT OF PENSIONS
STATEMENT OF OPERATIONS
Fiscal Years 1972-73 to 1978-79**

Schedule 2

	1978-79	1977-78	1976-77	1975-76	1974-75	1973-74	1972-73
REVENUES							
Taxes	\$ 84,056,712	\$ 115,361,071	\$ 112,730,821	\$ 102,938,709	\$ 89,414,396	\$ 87,397,038	\$ 76,790,463
Appropriations from General Fund	62,027,251						
Dividends	5,570,023	5,018,001	3,975,236	2,960,875	2,817,894	2,448,289	1,950,933
Interest	42,207,125	33,943,580	28,456,089	22,654,773	18,425,424	13,119,191	9,680,994
Gain (Loss) on Sales of Investments	(3,113,823)	(2,639,822)	1,744,096	2,409,035	631,849	1,563,851	1,499,362
Members' Contributions ..	16,104,051	15,804,432	14,749,506	15,694,080	12,642,986	11,276,454	10,678,323
Sales of Unclaimed Property	148,754	194,243	184,006	146,398	109,199	94,489	60,098
Donations	37	180	222	365	371	9,244	524
Miscellaneous	508	2,684	1,101	3,316	11,324	31,298	31,689
***TOTAL REVENUES available for current year's expenditures	<u>\$ 207,000,638</u>	<u>\$ 167,684,369</u>	<u>\$ 161,841,077</u>	<u>\$ 146,807,551</u>	<u>\$ 124,053,443</u>	<u>\$ 115,939,854</u>	<u>\$ 100,692,386</u>
EXPENDITURES							
Pensions Paid							
Service	\$ 67,183,719	\$ 56,359,503	\$ 49,190,942	\$ 43,160,457	\$ 38,340,313	\$ 31,662,143	\$ 28,191,298
Disability	13,931,941	12,475,580	10,243,947	8,683,637	7,333,963	6,334,436	5,546,572
Widows	22,386,394	20,762,266	19,011,550	17,450,355	16,284,184	13,601,122	12,765,000
Minors & Dependents ..	321,714	311,202	277,665	325,972	288,431	291,919	224,330
TOTAL PENSIONS	<u>\$ 103,823,768</u>	<u>\$ 89,908,551</u>	<u>\$ 78,724,104</u>	<u>\$ 69,620,421</u>	<u>\$ 62,246,891</u>	<u>\$ 51,889,620</u>	<u>\$ 46,727,200</u>
Administrative Expense	\$ 1,279,307	\$ 1,089,077	\$ 1,054,492	\$ 861,808	\$ 712,554	\$ 518,647	\$ 455,033
Health Insurance Subsidy ..	1,217,737	1,004,154	760,614	349,111	61,118	....	....
TOTAL EXPENDITURES	<u>\$ 106,320,812</u>	<u>\$ 92,001,782</u>	<u>\$ 80,539,210</u>	<u>\$ 70,831,340</u>	<u>\$ 63,020,563</u>	<u>\$ 52,408,267</u>	<u>\$ 47,182,233</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 100,679,826</u>	<u>\$ 75,682,587</u>	<u>\$ 81,301,867</u>	<u>\$ 75,976,211</u>	<u>\$ 61,032,880</u>	<u>\$ 63,531,587</u>	<u>\$ 53,510,153</u>
Reduction of (addition to) Actuarial Reserve	(427,084,840)	(217,083,265)	(304,924,672)	(427,563,454)	(151,654,957)	(154,211,797)	3,566,682
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	(326,405,014)	(141,400,678)	(223,622,805)	(351,587,243)	(90,622,077)	(348,876,753)	57,076,835
Fund deficit at beginning of year	(2,083,231,239)	(1,941,830,561)	(1,718,207,756)	(1,366,620,513)	(1,152,414,193)	(803,537,440)	(860,614,275)
Fund deficit at end of year ..	<u>\$(2,409,636,253)</u>	<u>\$(2,083,231,239)</u>	<u>\$(1,941,830,561)</u>	<u>\$(1,718,207,756)</u>	<u>\$(1,243,036,270)</u>	<u>\$(1,152,414,193)</u>	<u>\$(803,537,440)</u>

* Restated as described in Note 2 to Notes to Financial Statements for Fiscal Year 1976-77.
 ** Not restated to reflect all provisions of the 1969 City Charter Amendments as described in Note 2 to Notes to Financial Statements for Fiscal Year 1976-77.
 *** Restated to reflect the relocation of Gain (Loss) on Sales of Investments under the major heading REVENUES.