

Jim McGuigan

1981

Annual Report

BOARD OF PENSION COMMISSIONERS

CITY OF LOS ANGELES

CALIFORNIA



FOR THE FISCAL YEAR ENDED JUNE 30, 1981

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ELECTIVE OFFICERS OF THE CITY OF LOS ANGELES



TOM BRADLEY
Mayor

IRA REINER
City Attorney

JAMES KENNETH HAHN
City Controller

LOS ANGELES CITY COUNCIL

HOWARD FINN
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

JOAN MILKE FLORES
Fifteenth District

BOARD OF PENSION COMMISSIONERS 1980-81 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, 1981, submitted in accordance with the provisions of Section 64 of the City Charter.

We are pleased to report that Pension Systems assets increased by approximately 9.3% to a total of \$917.9 million, more than \$78 million above the prior year's total. Bond investments increased by \$31 million to a total of \$573 million, while common stock investments increased by \$71.3 million to \$201 million. At year's end, the portfolio was composed of 64% in bonds, 23% in common stocks, and 13% in temporary investments. The system continued to invest a substantial portion of available cash in short-term money market instruments since yields in excess of 20% were available during the year. These extremely high short-term yields coincided with the continuing high level of interest rates resulting, in part, from the ongoing sweep of inflation throughout the economy. Thus inflation raised the level of short-term yields available, but it also caused a rapid escalation in pension costs.

The system's actuarial evaluation for the period ending June 30, 1981, reported the Unfunded Supplemental Present Value (sometimes called the Unfunded Liability) at \$3.370 billion, as compared with \$3.177 billion the previous year. This increase was due to a number of factors, including actuarial losses incurred when the actual cost of living adjustments and salary increases exceeded actuarial assumptions, and subsequent adjustments made in the economic actuarial assumptions to bring them more in line with this recent experience. As noted, this accelerating inflation continues to drive up pension costs, further enlarging the problem of funding this and other pension systems.

Respectfully submitted,
BOARD OF PENSION COMMISSIONERS
By



ARTHUR BURDORF
President



ARTHUR BURDORF
President



GARO MINASSIAN
Vice President



OLGA MARCUS



SAM DIANNITTO



DAVID BOW WOO



KARL L. MOODY



BERT COHEN

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, 1981. 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 actuary, Martin E. Segal Company, employed by the Board under contract to examine the actuarial health of the Pension System, as required by Articles XVII, XVIII and XXXV of the City Charter.

FINANCIAL CONDITION

Pension System assets increased by approximately 9.3% during the past year to a total of \$917.9 million, more than \$78 million above the prior year's total. Investments in bonds increased by \$31 million while common stock purchases and sales resulted in a net increase of \$71.3 million. At year-end, common stocks represented 26% of long-term investments and 22.6% of the total portfolio while bonds represented 74% and 64.3% respectively. Temporary investments represent 13.1% of the total portfolio at year-end.

Revenues from interest and dividends showed an increase of 32% 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 \$20.4 million or 13% while member contributions increased by almost \$837 thousand or 4.8%.

Net realized capital losses during the year amounted to approximately \$45.3 million which include a loss of \$130 thousand on stock transactions. Most of these losses were attributable to the system's method of accounting for bond exchanges, which recognizes the full extent of gains or losses on bonds sold. Bonds purchased in the exchange program were bought at approximately \$42 million discount to face value. This discounted value will be taken into income over the life of the issues required.

System Earnings from Securities

The approximate market value of temporary investments of the pension fund at year-end was \$114.9 million. Earnings on temporary investments totaled \$14.8 million or 16.6% on the average balance from the year. The yield on the short-term portfolio for the previous year was 11.7%.

Dividend and interest earnings on securities of the pension funds were nearly \$20.8 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 available on short-term investments.

As of June 30, 1981, the yield on bonds excluding capital gain or losses, was 9.3% as compared to 9.24% for the previous year. This increase resulted from outright purchases of bonds at higher yields as well as a continued emphasis on yield improvement through bond exchange transactions.

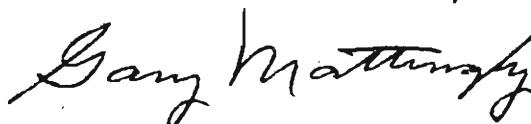
The yield on common stocks, excluding capital gain or losses, was 4% as compared to 4.5% for the previous year. The reduced yield was due to an addition to the portfolio of lower yielding stocks which were deemed by the Fund's Investment Advisors to have good potential for capital appreciation.

The return on the portfolio, excluding capital gains and losses, was 9.1% as compared to 8.3% for the previous year.

PENSION SYSTEM EARNINGS

Fiscal Year	Average Purchase Yield		Earnings		Total
	Stocks	Bonds	Stocks	Bonds	
66-67	3.55%	4.66%	274,856	1,311,910	1,586,766
67-68	3.70%	5.08%	418,561	1,977,077	2,395,638
68-69	3.47%	5.64%	621,296	3,153,521	3,774,817
69-70	3.05%	6.39%	1,035,283	4,720,395	5,755,678
70-71	2.50%	6.98%	1,206,340	6,255,043	7,461,383
71-72	2.34%	7.11%	1,503,367	8,087,889	9,618,256
72-73	2.08%	7.16%	1,950,933	9,680,994	11,631,927
73-74	2.44%	7.45%	2,448,289	13,119,191	15,567,480
74-75	2.51%	7.78%	2,817,894	18,425,424	21,243,318
75-76	2.82%	7.98%	2,960,875	22,654,773	25,615,648
76-77	3.37%	7.99%	3,975,236	28,456,089	32,431,325
77-78	3.85%	8.03%	5,018,001	33,943,580	38,961,581
78-79	4.48%	8.20%	5,570,023	42,207,125	47,777,148
79-80	4.50%	9.24%	6,123,866	59,340,364	65,464,230
80-81	4.00%	9.30%	6,568,053	79,708,881	86,276,934

Respectfully submitted,



GARY MATTINGLY
General Manager

ACTUARIAL INFORMATION

Fiscal year 1980-81 has been one of major changes for the Fire and Police Pension System as two ballot measures were approved by the voters. The first measure, Article XXXV, effective December 8, 1980, established a new pension plan for all new hires after graduation from basic training. This plan, The Safety Members Pension Plan, drastically changed benefits by putting a "cap" on pension increases, widening the percentages available in granting disability pensions, and raising contributions rates to 8%.

The second ballot measure, passed June 2, 1981, amended Charter Articles XVII, XVIII and XXXV by changing investment requirements. This amendment increased the amount of assets that can be invested in stocks and short term securities, allowed sales and repurchases of covered call options, liberalized dividend requirements and allowed the hiring of a custodian bank.

The establishment of a new pension system and changes in actuarial assumptions led to a decrease in the percentage of salary costs needed to fund the system. The impact of the investment charter amendment has not been felt as there was not enough time for full implementation prior to the close of the fiscal year.

The three Fire and Police Pension Plans serve 18,333 members — 8,821 retired participants and beneficiaries, 8,302 non-vested active members, and 1,210 vested active members. Each year an actuarial valuation is performed on the system to determine the contributions necessary to fund the system. This evaluation is based on the assets of the system, the economic and non-economic assumptions, the characteristics of active employees and pensioners, and the legal provisions of the pension system.

ACTUARIAL CHANGES

The actuarial valuation of June 30, 1981 incorporates changes in the economic assumptions by increasing the earnings assumption from 7-3/4% to 8% and decreasing the salary assumption from 6-1/8% to 6%. The cost-of-living assumption remained at 6%. The non-economic assumptions remained the same and are based on a 4-year experience investigation ending June 30, 1979.

ACTIVE MEMBER CHARACTERISTICS

As of June 30, 1981, 2,877 Firefighters and 6,635 Police Officers were members of the system. This includes members on leave of absence without pay, members on military leave and members on suspension. The total number of employees, 9,512, increased 3.3% from last year's total of 9,207. Of this number 233 Fire and 162 Police are members of Article XXXV, The Safety Members Pension Plan which became effective December 8, 1980.

**Employees in Active Service as of June 30, 1981
by Age and Years of Service**

Age	Total	Years of Service							
		0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 and over
Total	9,512	1,792	2,036	2,782	1,692	938	223	45	4
20 - 24	499	498	1	—	—	—	—	—	—
25 - 29	1,238	883	355	—	—	—	—	—	—
30 - 34	2,220	341	1,118	741	—	—	—	—	—
35 - 39	2,492	56	499	1,526	411	—	—	—	—
40 - 44	1,692	5	61	463	941	221	1	—	—
45 - 49	888	3	2	52	316	453	62	—	—
50 - 54	401	5	—	—	24	242	124	6	—
55 - 59	85	1	—	—	—	22	35	27	—
60 & over	17	—	—	—	—	—	1	12	4

From the Actuarial Valuation of June 30, 1981, Martin E. Segal Co.

**Employees in Active Service as of June 30, 1981
Age, Service and Compensation Data**

	FIRE			POLICE			Total
	Article XVII	Article XVIII	Article XXXV	Article XVII	Article XVIII	Article XXXV	
Number employees	22	2,622	233	134	6,339	162	9,512
Average age	47.5	38.4	24.2	42.3	36.2	26.2	36.5
Average years of service	20.0	13.1	0.3	17.7	11.8	0.4	11.8
Total annual earnings*	\$718,000	\$85,814,000	\$5,223,000	\$4,600,000	\$206,081,000	\$3,651,000	\$306,087,000

*Including July 1, 1981 salary increases

From the Actuarial Valuation of June 30, 1981, Martin E. Segal Co.

During the course of the fiscal year 150 Police Officers and 55 Firefighters resigned and 11 were discharged on probationary termination. There were 4 Police Officer and 6 Firefighter deaths. 711 individuals were appointed and became members of the pension system. This is the first increase in force in over five years. The following schedule presents an analysis of the changes in membership of both the Fire and Police departments during the past fiscal year.

	1980-81
Total Membership July 1st	9,207
Appointments	<u>711</u>
	9,918
Service Retirements	119
Disability Retirements	61
Resigned	205
Discharged	11
Deaths	<u>10</u>
Total Membership June 30th	9,512

ELIGIBILITY

There were as of June 30, 1981 a total of 1,463 members eligible to retire. The following schedule shows the number of members eligible to retire at the end of each fiscal year.

Members Eligible Past Ten Years

Fiscal Year	Fire	Police	Total
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
1979-80	711	624	1,335
1980-81	782	681	1,463

Members: Eligible Next Ten Years

During the fiscal year 1981-82, an additional 446 members will become eligible if their service is continuous. Of these, 204 are Firefighters and 242 are Police Officers.

The following schedule indicates that 4,556 members of the Fire and Police Departments will become eligible to retire for years of service during the next ten fiscal years.

Fiscal Year	Fire	Police	Total
1982-83	204	242	446
1983-84	32	244	276
1984-85	62	227	289
1985-86	84	261	345
1986-87	97	303	400
1987-88	29	564	593
1988-89	67	544	611
1989-90	120	452	572
1990-91	75	566	641
1991-92	67	325	392
TOTAL	837	3,728	4,565

Thus, in addition to 15.3% of the presently active members already eligible to retire as indicated above, there will be an additional 47.9% of total Fire and Police present members who will become eligible to retire or will have retired by June 30, 1992.

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 13 of the 15 Assistant Chiefs, and 53 out of 67 Battalion Chiefs. In the Police Department, all 12 Deputy Chiefs, 11 out of 20 Commanders, 49 out of 78 Captains and 85 out of 227 Lieutenants are eligible for service retirement.

ELIGIBILITY BY RANKS
July 1, 1980 thru June 30, 1981

POLICE

Years Service	Police Officer	Detective	Sergeant	Lieutenant	Captain	Commander	Deputy Chief	Police Chief	Total Employees
40	0	1	0	0	0	0	0	0	1
35	0	0	1	0	1	0	0	0	2
34	0	1	0	0	1	0	0	0	2
33	1	1	0	0	0	0	0	0	2
32	0	0	1	1	1	0	0	1	4
31	1	0	1	0	0	0	0	0	2
30	0	0	1	3	0	0	0	0	4
29	1	2	2	1	1	0	1	0	8
28	1	7	1	2	2	2	1	0	16
27	1	5	1	1	3	0	1	0	12
26	0	13	8	8	1	0	0	0	30
25	12	18	8	7	3	3	2	0	53
24	12	33	15	8	11	2	2	0	83
23	13	31	11	11	4	1	1	0	72
22	12	25	32	10	6	2	1	0	88
21	14	46	26	15	9	0	3	0	113
20	32	82	50	18	6	1	0	0	189
19	43	99	66	24	6	4	0	0	242
18	55	94	56	25	12	2	0	0	244
17	77	72	59	11	5	3	0	0	227
16	116	75	50	16	4	0	0	0	261
15	132	105	50	14	2	0	0	0	303
14	313	140	95	16	0	0	0	0	564
13	344	116	67	17	0	0	0	0	544
12	320	72	55	5	0	0	0	0	452
11	428	75	54	9	0	0	0	0	566
10	246	39	37	3	0	0	0	0	325
9	224	23	35	2	0	0	0	0	284
8	381	13	25	0	0	0	0	0	419
7	287	13	10	0	0	0	0	0	310
6	143	2	5	0	0	0	0	0	150
5	229	0	1	0	0	0	0	0	230
4	206	0	0	0	0	0	0	0	206
3	108	0	0	0	0	0	0	0	108
2	141	0	0	0	0	0	0	0	141
1	91	0	0	0	0	0	0	0	91
0	287	0	0	0	0	0	0	0	287
Totals	4,271	1,203	823	227	78	20	12	0	6,635
Article XVII	62	37	21	6	0	0	0	0	126
Article XVIII	4,047	1,166	802	221	78	20	12	1	6,347
Article XXXV	162	0	0	0	0	0	0	0	162

Years of Service for Eligible Active Members

Years of Service	Fire	Police	Total
20	150	189	339
21	104	113	217
22	95	88	183
23	78	72	150
24	105	83	188
25	116	53	169
26	29	30	59
27	32	12	44
28	18	16	34
29	10	8	18
30	20	4	24
31	5	2	7
32	6	4	10
33	4	2	6
34	6	2	8
39	1	2	3
40	2	1	3
41	1	0	1
Totals	782	681	1,463

PENSION ROLL CHANGES

On June 30, 1981 a total of 8,821 individuals were receiving retirement benefits. Of this total, there were 6,831 retired members and 1,990 beneficiaries. The average monthly benefit for all such individuals was approximately \$1,430, which is about 11% higher than last year.

Of the 6,831 retired members, approximately 22% are under age 55, 26% are 55 through 59, 24% are 60 through 64, and 28% are 65 and over. Approximately 64% of the retirees were receiving monthly benefits of at least \$1,000 and 41% were receiving at least \$1,500.

On July 1, 1981 the total monthly benefits to the 8,821 individuals receiving benefits, including the July 1, 1981 automatic increases, amounted to approximately \$12,754,700, about 12% higher than the corresponding figure of \$11,432,000 a year earlier. On an annual basis, benefit payments totaled about \$153 million on July 1, 1981.

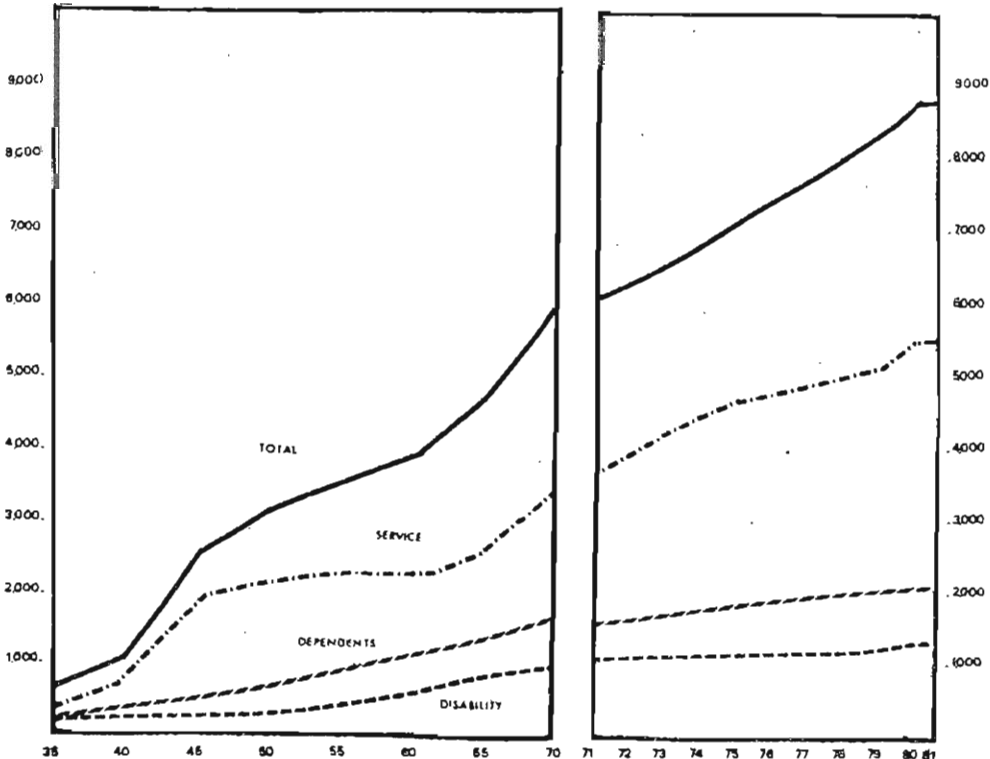
115 service pensions were granted effective fiscal year 1980-81, eight of which were under Article XVII. 91 disability pensions were granted in 1980-81, only 61 of which were effective in that fiscal year. The rest were effective in prior fiscal years.

101 widow pensions were granted effected 1980-81. 35 of these pensions are fluctuating, 33 are under Article XVII and 33 under Article XVIII. Six minors were granted pensions.

During 1981, 230 pensioners died and were removed from the roll. Of these 109 were service pensioners, 29 disability pensioners, 91 were widows, and one a minor. Also removed from the roll were 31 minors who attained age 18, one pensioner who was reinstated to active duty, and 5 widows who remarried.

The number of pensioners on the roll has leveled while the dollar amount of the pension roll increased about 12%. This is due in part to a 10.1% cost-of-living increase and higher pension bases of the new pensioner as opposed to those who were discontinued.

NUMBER OF PENSIONS IN EFFECT
FISCAL YEAR-END 1935 TO DATE



AVERAGE MONTHLY PENSIONS FOR LAST TEN YEARS

Fiscal Year	Average Pension Per Month
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
1979-80	1,143.79
1980-81	1,430.89

SERVICE PENSIONS**Pensions Granted**

A total of 115 members of the Fire and Police Departments retired effective prior to June 30, 1981 on service pension. Of the total number, 107 retired under the New Pension System.

Reactivated

The following schedule represents activity in requests for reactivation since its inception on May 2, 1969. There was one for reactivation during 1980-81.

Dept.	Request Received	Pension Board Approved	Pension Board Disapproved	Denied Return By Active Department	Total Reactivated
Fire	3	3	0	0	3
Police	73	71	2	10	59

Pensions Discontinued

During the fiscal year a total of 109 service pensions were discontinued because of death.

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
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
1979-80	177	227	404
1980-81	28	91	115

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
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
1979-80	54	50	52
1980-81	53	52	52
	<i>54 1/2</i>	<i>52</i>	<i>52 1/10</i> *

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
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
1979-80	27	25	26
1980-81	25	25	25
	<i>Aver 27 1/3</i>	<i>25 3/8</i>	<i>26 3/10</i> *

Years of Service at Retirement

	FIRE			POLICE		
	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
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
1979-80	36	141	177	85	142	227
1980-81	20	8	28	54	37	91

DISABILITY PENSIONS

The following two tables demonstrate some of the characteristics of the primary pensioners as to amount of pension, age, and type of pension. These tables do not include widows and minors.

**Pensions in Force on June 30, 1981
By Type of Pension and Monthly Amount**

Monthly Benefit	Total	Type of Pension	
		Service	Disability
Total	6,831	5,435	1,396
Under \$700	1	—	1
\$ 700 — \$799	1,729	1,325	404
800 — 899	441	320	121
900 — 999	318	239	79
1000 — 1099	289	216	73
1100 — 1199	284	189	95
1200 — 1299	329	231	98
1300 — 1399	259	165	94
1400 — 1499	364	279	85
1500 — 1599	368	302	66
1600 — 1699	355	291	64
1700 — 1799	459	400	59
1800 — 1899	416	370	46
1900 — 1999	274	251	23
\$2000 and over	945	857	88

From Actuarial Valuation of June 30, 1981, Martin E. Segal Co.

**Pensions in Force on June 30, 1981
By Type and Nearest Age on Date of Valuation**

Nearest Benefit	Total	Type of Pension	
		Service	Disability
Total	6,831	5,435	1,396
25 — 29	4	—	4
30 — 34	61	—	61
35 — 39	142	—	142
40 — 44	200	57	143
45 — 49	400	226	174
50 — 54	708	547	161
55 — 59	1,786	1,515	271
60 — 64	1,651	1,403	248
65 — 69	765	658	107
70 — 74	429	384	45
75 — 79	196	182	14
80 — 84	341	321	20
85 and over	148	142	6

From Actuarial Valuation of June 30, 1981, Martin E. Segal Co.

Disability Retirements by Years

The following table shows the total number of disability pensions by department, by service or non-service, by the years they became effective over a ten-year period.

Pension Effective Fiscal Year	FIRE		POLICE		Total
	Service	Nonservice	Service	Nonservice	
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	31	0	49	10	90
1980-81	22	0	23	16	61

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	Fire	Average Age		Fire	Average Years	
		Police	Combined		Police	Combined
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
1979-80	50	39	43	24	14	17
1980-81	46	36	38	19	12	14

Average *49.4* *37.9* *21.0* *12.2*

TYPES OF DISABILITY

Service-Connected Disability Pensions Granted by Fiscal Year

Fiscal Year	76-77	77-78	78-79	79-80	80-81
Back or neck only	24	23	19	7	18
Other orthopedic	11	7	11	6	10
Back, neck and orthopedic	10	13	10	11	12
Cardiovascular	9	3	8	9	7
Internal	0	0	0	2	0
Multiple	12	15	9	11	9
Miscellaneous	6	0	0	2	2
Psychological only	5	4	2	0	6
Psychological plus physical	5	7	4	5	27
Totals	82	72	63	53	91

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 four 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, 1981, there were 2,754 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 1980-81 are listed below for each health plan.

Health Plan	Subsidy Amount	Subsidized Members
City Maxicare	\$ 86	2
City Basic	28,826	71
City Ross Loos	3,922	19
City Kaiser	23,664	31
Fire Medical	565,373	856
Fire Ross Loos	156,985	227
Police Occidental	473,326	835
Blue Cross/Health Net	74,765	99
Police Kaiser	314,255	479
UFLAC Kaiser	105,657	135
Total	\$1,746,859	2,754

**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 Chemical Bank, Century Capital, Wright Investors' Service, Security Pacific National Bank, and Judd Marmor, M.D.

PROBATE MATTERS

This office examined 30 probate accountings, as well as petitions and other documents which were received by the Department of Pensions. Eleven requests for special notice were prepared, filed and served. Fifteen guardianships and conservatorships were discontinued and sixteen were commenced. There are 91 guardianships pending, 51 covering minors and 40 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 yet reached the trial stage.

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

(A) Cases not presenting unique facts or legal issues

I. Decisions upholding the Board:

Hostetler v. Board of Pension Commissioners
Escamilla v. Board of Pension Commissioners
McCourt v. Board of Pension Commissioners
Weston v. Board of Pension Commissioners
Dakins v. Board of Pension Commissioners
Huizar v. Board of Pension Commissioners
Schaefer v. Board of Pension Commissioners
Rayworth v. Board of Pension Commissioners
Bennett v. Board of Pension Commissioners
Bowman v. Board of Pension Commissioners
Tingirides v. Board of Pension Commissioners

II. Decisions reversing the Board:

Jimenez v. Board of Pension Commissioners
Dale v. Board of Pension Commissioners
Calamia v. Board of Pension Commissioners
Warren Miller v. Board of Pension Commissioners
Warren v. Board of Pension Commissioners
Carol Miller v. Board of Pension Commissioners
Conver v. Board of Pension Commissioners
Lucier v. Board of Pension Commissioners
Kelly v. Board of Pension Commissioners
Oberhaus v. Board of Pension Commissioners
May v. Board of Pension Commissioners
Pagenkopp v. Board of Pension Commissioners
Norris v. Board of Pension Commissioners
Gomez v. Board of Pension Commissioners

(B) Cases presenting unique facts or legal issues**BEAN v. BOARD OF PENSION COMMISSIONERS**

Petitioner is a former police officer whose employment terminated November 29, 1978. On January 8, 1981, Mr. Bean filed an application for a disability pension. Because of the lapse of time between the date of termination and the date of his application, the City took the position that because of the one-year claims provisions of Sections 363, 376 and 376.1 of the City Charter, Mr. Bean's application was not filed in a timely manner and rejected it on that basis.

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

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 writ of certiorari in the United States Supreme Court; however, before further proceedings were had before the High Court, the City settled all claims of the plaintiffs in the action. Consequently, this matter is now concluded.

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 24, 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 judgment 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 filed a Petition for Writ of Mandate which was denied. Craver again appealed. Subsequently, the appeal was dismissed because of appellant's failure to comply with the rules governing appeals.

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.

The Goins case is currently in the process of class certification and will again be in court on December 1, 1981 for a trial of unresolved issues.

GURULE v. BOARD OF PENSION COMMISSIONERS

Leo R. Gurule received a nonservice-connected disability pension. He filed a Petition for Writ of Mandate, challenging the Board's determination that his disability was not service-connected.

Some evidence being presented that pre-existing conditions were exacerbated into a disabling state as a total or partial result of non-disabling job-related injuries, the Petition was granted.

The City appealed because the court had relied, in its decision, on the case of **Gelman v. Board of Retirement**, 85 Cal. App. 3d 92 which case is based upon a Government Code section requiring that if work-relatedness is "a cause" of disability, entitlement to a service-connected disability exists. The City contends that the provisions of Section 190.12 of the Charter require a different standard to be applied.

Although both parties have submitted their briefs, the case has not been set for oral argument in the Court of Appeal.

HOLMES v. CITY OF LOS ANGELES

This case presents the issue of the legality of the non-refundability 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 Section 186½ and 190.10 resulted in a contract of adhesion and, secondly, the question of the constitutionality of the non-refundability 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 judgment in favor of the City.

Plaintiffs appealed and, on March 24, 1981, the Court of Appeal upheld the decision of the trial court (117 Cal, App. 3d 212).

In April, 1981, Plaintiffs petitioned for a hearing in the State Supreme Court, but the petition was denied.

MARY HOLMES v. BOARD OF PENSION COMMISSIONERS

This is an action for declaratory relief. Plaintiff is the widow of a former retired police officer who retired in 1968. Plaintiff was married to the decedent at the time of his death and one year prior thereto. Both the decedent and plaintiff were, at the time of decedent's retirement, married to someone other than decedent or plaintiff, respectively. They were married to each other, however, for several years at some time during decedent's employment as a police officer.

Plaintiff contends that she is eligible to receive widow's benefits and the City's position is that she is not entitled thereto in that she is not a "qualified surviving spouse" pursuant to the definition of said term in paragraph (j) of Section 190.02 of the City Charter which requires at least one year or marriage to the effective date of retirement.

As yet no trial has been set in this case.

LITTLE v. BOARD OF PENSION COMMISSIONERS

This case is noteworthy only because of the fact that it went up on appeal after hearing in the Superior Court. The sole basis for the appeal was petitioner's and appellant's 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 attorney and rarely presented by petitioners who did not succeed in the Court below.

Parke Little was a police officer whose application for a disability pension had been 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.

The Court of Appeal upheld the decision of the Superior Court and the case is now final and concluded.

OBERHAUS v. BOARD OF PENSION COMMISSIONERS

Mr. Oberhaus is a former police officer who applied for and was granted a disability pension. However, the Board decided that the applicant's disability was due to nonservice-connected causes. The pensioner disagreed and filed a Petition for Writ of Mandate.

The case was heard in Superior Court and writ was granted, based upon the court's determination that the case of **Greatorex v. Board of Administration**, 91 Cal. App. 3d 54 precluded the Board from denying that petitioner's disability was service-connected in that, according to the Superior Court, a prior decision by the Workers' Compensation Appeals Board that petitioner sustained a work-related injury was res judicata in the matter of petitioner's disability pension application before the Board.

The City appealed. At the close of the fiscal year, briefing in the case has not been completed.

SHANAHAN v. BOARD OF PENSION COMMISSIONERS

Plaintiff is the former spouse of a member who is now retired on a disability pension. Plaintiff has filed a complaint for declaratory relief and claims a community property interest in the member's disability pension. At the time of his retirement, the member was not eligible to retire on account of years of service. The City's position is that under the tenets of the Supreme Court case of **In re Marriage of Stenquist** (1978) 21 Cal. 3d 779, a disability pension is not a divisible community property asset.

DOMESTIC RELATIONS MATTER

The City Attorney's office provided information to members, their spouses and attorneys in connection with dissolution of marriage proceedings in which the pension was a community property asset.

In addition, the Board of Pension Commissioners was joined as a party in 60 dissolution proceedings and "Notices of Appearance" were filed by the City Attorney in these proceedings. When orders or judgements were received in matters which affected the payment of pensions, such were forwarded to staff with appropriate instructions.

A SHORT HISTORY OF THE 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 1½% for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of ⅔ 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 1½% 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 1½% for each of the next ten years of service. The maximum pension of ⅔ 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.

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

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

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

January 26, 1982

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, the New Pension System, and the Safety Members Pension Plan of the City of Los Angeles, as of June 30, 1981.

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/as

**ACTUARIAL VALUATIONS
OF THE
FIRE AND POLICE PENSION SYSTEM,
THE
NEW PENSION SYSTEM,
AND THE
SAFETY MEMBERS PENSION PLAN
OF THE
CITY OF LOS ANGELES
AS OF
JUNE 30, 1981**

**SECTION I
RESULTS OF VALUATIONS**

As of June 30, 1981, there were 156 active members and 3,698 retired persons covered under Article XVII of the City Charter (hereinafter referred to as the Fire and Police Pension System), and there were 8,961 active members and 5,123 retired persons covered under Article XVIII of the City Charter (hereinafter referred to as the New Pension System). Members appointed on or after the effective date of Article XXXV of the City Charter are covered under the new Safety Members Pension Plan.

The results of the Actuarial Valuation of the three Systems as of June 30, 1981 are shown on the following Actuarial Balance Sheet. These valuations were carried out on the basis of the actuarial assumption adopted as a result of the experience investigation over the four year period ended June 30, 1979, and, pursuant to the Resolution adopted by the Board of Pension Commissioners, upon a 8.00% interest assumption, a 6.00% salary increase assumption, and an assumed 6.00% 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, 7% of salary for members under the New Pension System, and 8% of salary for members under Safety Members Pension Plan, 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."

Item 5 was taken directly from the Accounting Balance Sheet. Items 6 through 11 show the actuarially computed liability for all benefits that will be paid under the Systems as they are 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 and covered by the Fire and Police Pension System or the New Pension System will receive future cost of living increases of 6% per annum; those covered by the Safety Members Pension Plan are assumed to receive future cost of living increases of 3% 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 6% per annum.

**ACTUARIAL BALANCE SHEET AS OF
JUNE 30, 1981**

ASSETS

	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Assets from Accounting Balance Sheet	\$ 24,696,800	\$ 893,126,886	\$ 109,458	\$ 917,933,144
2. Present Value of Future Contributions by Members	1,907,811	189,313,761	7,642,149	198,863,721
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost:				
(i) Basic Benefits	3,962,736	351,730,454	10,564,231	366,257,421
(ii) Cost of Living Benefits	4,513,484	483,129,033	6,556,422	494,198,939
(iii) Total	8,476,220	834,859,487	17,120,653	860,456,360
(b) Unfunded Supplemental Present Value:				
(i) Basic Benefits	238,001,943	903,006,540	562,492	1,141,570,975
(ii) Cost of Living Benefits	340,425,294	1,888,220,277	208,914	2,228,854,485
(iii) Total	578,427,237	2,791,226,817	771,406	3,370,425,460
4. TOTAL CURRENT AND FUTURE ASSETS	<u>\$613,508,068</u>	<u>\$4,708,526,951</u>	<u>\$ 25,643,666</u>	<u>\$5,347,678,685</u>

LIABILITIES

5. Accounts Payable	\$ 1,792,305	\$ 688,212	—	\$ 2,480,517
6. Present Value of Present Pensions to Pensioners now on Pension Rolls:				
(a) Service	162,730,280	1,268,611,232	—	1,431,341,512
(b) Disability	98,965,307	254,291,472	—	353,256,779
(c) Dependents	215,244,856	100,759,404	—	316,004,260
(d) Total	476,940,443	1,623,662,108	—	2,100,602,551
7. Present Value of Prospective Pensions to Dependents of Present Pensioners:				
(a) Service	58,822,324	331,866,152	—	390,688,476
(b) Disability	30,916,215	54,591,900	—	85,508,115
(c) Total	89,738,539	386,458,052	—	476,196,591
8. Present Value of Prospective Pensions to Presently Active Members:				
(a) Service	32,333,078	1,882,281,632	16,386,779	1,931,001,489
(b) Disability	4,298,187	341,441,049	5,616,506	351,355,742
(c) Total	36,631,265	2,223,722,681	22,003,285	2,282,357,231
9. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die prior to retirement	403,316	30,649,630	409,296	31,462,242
10. Present Value of Prospective Pensions to Dependents of Presently Active Members who will die after Retirement:				
(a) Service	7,097,131	376,273,880	1,711,110	385,082,121
(b) Disability	905,069	67,072,388	557,169	68,534,626
(c) Total	8,002,200	443,346,268	2,268,279	453,616,747
11. Refund of employee contributions	—	—	962,806	962,806
12. TOTAL LIABILITIES	<u>\$613,508,068</u>	<u>\$4,708,526,951</u>	<u>\$ 25,643,666</u>	<u>\$5,347,678,685</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 Board of Pension Commissioners will prepare a budget each year setting forth the estimated cost of maintaining these retirement systems with the following items budgeted separately:

1. An amount equal to the City's share of 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 Board of Pension Commissioners' budget for the fiscal year commencing July 1, 1982 be as follows:

	Percentage of Members' Salaries of: Fire and Police Pension System	New Pension System
1. Entry Age Contribution:		
(a) Basic Benefits	12.7%	13.1%
(b) Cost of Living Benefits	14.6%	17.9%
(c) Total	27.3%	31.0%
2. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy as a Percentage of Salary:		
(a) Basic Benefits	Not	9.7%
(b) Cost of Living Benefits	Applicable	19.1%
(c) Total		28.8%
3. Total Percentage of Salary Contribution:		
(a) Basic Benefits	12.7%	22.8%
(b) Cost of Living Benefits	14.6%	37.0%
(c) Total	27.3%	59.8%
4. Unfunded Supplemental Present Value Contribution and Health Plan Subsidy as an Annual Dollar Amount:		
(a) Basic Benefits	\$19,757,910	Not
(b) Cost of Living Benefits	26,641,635	Applicable
(c) Total	\$46,399,545	

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 55 years (from July 1, 1982) by contributions which are projected to

remain level as a percentage of salary but which will increase in dollar amount in accordance with the aggregate salary increase assumption; aggregate salaries are assumed to increase at the cost of living assumption of 6%. 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 42 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 1/2 of the cost of the benefits provided by Section 190.14 as shall be determined by the Board upon an actuarial valuation obtained by it pursuant to Section 190.08, . . .”

The total cost of Cost of Living benefits for the New Pension System amounts to 38.0%. 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.

Section 528 of Article XXXV of the Charter of the City of Los Angeles specifies that Board of Pension Commissioners will prepare a budget each year setting forth the estimated cost of maintaining the Safety Members Pension Plan with the following items budgeted separately:

1. An amount equal to the City's share of a defined Entry Age Cost as a level percentage of salary.
2. An amount equal to a percentage of the salaries of all members of the Safety Members Pension Plan necessary to amortize any Unfunded Accrued Liability. Actuarial experience gains and losses are amortized over a 15-year period in accordance with Section 527(b) of Article XXXV.
3. An amount to provide for any benefits granted by the City Council by ordinance.
4. An amount to provide for administrative expenses.

Pursuant to Subparagraphs 1 and 2, above, we recommend that the Board of Pension Commissioners' budget for the fiscal year commencing July 1, 1982 be as follows:

	Percentage of Members' Salaries of the Safety Members Pension Plan
1. Entry Age Contribution:	
(a) Basic Benefits	10.6%
(b) Cost of Living Benefits	6.5
(c) Total	17.1%
2. Unfunded Supplemental Present Value Contribution as a Percentage of Salary:	
(a) Basic Benefits	0.5%
(b) Cost of Living Benefits	0.2
(c) Total	0.7%
3. Total Percentage of Salary Contribution:	
(a) Basic Benefits	11.1%
(b) Cost of Living Benefits	6.7
(c) Total	17.8%

In our opinion, if these recommendations are adopted, the Fire and Police Pension System, the New Pension System, and the Safety Members Pension Plan, 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 sheets of the City of Los Angeles Fire and Police Pension System for the years ended June 30, 1981 and 1980, and the related statement of revenues, expenditures and changes in deficit 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 aforementioned financial statements present fairly the financial position of the City of Los Angeles Fire and Police Pension System at June 30, 1981 and 1980 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Los Angeles, California
February 16, 1982

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

**BALANCE SHEETS
June 30, 1981 and 1980**

	1981	1980
ASSETS:		
Cash and temporary investments:		
Deposits with Treasurer of the City of Los Angeles:		
Restricted	\$ 190,865	\$ 335,019
Unrestricted	775,382	610,838
	966,247	945,857
Cash revolving funds	500	500
Temporary short-term investments, at cost plus accrued interest, which approximates market	114,978,212	146,020,957
	\$ 115,944,959	\$ 146,967,314
Receivables:		
Interest and dividends receivable	18,957,602	12,819,795
Due from brokers and others	1,482,830	69,627
Contributions	6,475,455	6,589,298
	26,915,887	19,478,720
Investments:		
Bonds, at amortized cost (market value \$662,813,834 in 1981 and \$509,633,950 in 1980)	573,204,353	542,147,489
Common stock, at cost (market value \$218,894,063 in 1981 and \$127,369,372 in 1980)	201,863,813	130,556,862
Treasurer's deeds, at cost	735	735
Real property, at cost	3,398	3,398
	775,072,298	672,708,484
Total assets	\$ 917,933,144	\$ 839,154,518
LIABILITIES AND DEFICIT:		
Benefits in process of payment	\$ 1,792,035	\$ 70,133
Accounts payable	688,482	15,383,622
	2,480,517	15,453,755
Estimated liability for pensions, at actuarial valuation (Note 3):		
Pensioners	2,576,608,277	2,434,847,581
Active members	1,709,078,945	1,565,565,573
	4,285,687,222	4,000,413,154
	4,288,167,739	4,015,866,909
Deficit:		
Accumulated deficit	(3,370,425,460)	(3,177,047,410)
Workers' Compensation Fund (Note 5)	190,865	335,019
Total liabilities and deficit	(3,370,234,595)	\$(3,176,712,391)
	\$ 917,933,144	\$ 839,154,518

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 Year Ended June 30, 1981 and 1980

	1981	1980
Revenues:		
Taxes	\$148,781,062	\$ 152,144,133
Appropriations from City of Los Angeles General Fund	27,894,805	4,089,464
Members' contributions	18,206,901	17,369,257
Sales of unclaimed property	379,036	146,511
Donations	69,288	16
Miscellaneous	—	1,248
	\$ 195,331,092	\$ 173,750,629
Investment income:		
Interest	79,708,881	59,340,364
Dividends	6,568,053	6,123,866
(Loss) on disposition of investments.	(45,344,724)	(20,652,822)
	40,932,210	44,811,408
Total revenues	236,263,302	218,562,037
Expenditures:		
Benefits paid to participants:		
Service	93,048,325	75,155,039
Disability	21,866,968	16,086,700
Surviving spouses	25,231,405	24,049,065
Minors and dependents	418,552	363,302
Health insurance subsidy	1,746,859	1,449,359
	142,312,109	117,103,465
Administrative expenses	2,199,329	1,434,561
Total expenditures	144,511,438	118,538,026
Excess of revenues over expenditures before addition to estimated liability for pension requirements	91,751,864	100,024,011
Addition to pension liability requirements	285,274,068	867,100,149
Deficiency for the year	(193,522,204)	(767,076,138)
Deficit, beginning of year	(3,176,712,391)	(2,409,636,253)
Deficit, end of year	(\$3,370,234,595)	(\$3,176,712,391)

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

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS**

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 hired after November 4, 1980, participate in the newly established Safety Members Pension Plan.

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, 1981 and 1980. 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. In 1981 the valuations were determined on the basis of (1) actuarial assumptions adopted as a result of a four-year (July 1, 1975-June 30, 1979) experience

investigation made by an actuarial consulting firm, and (2) economic assumptions adopted by the Board of Pension Commissioners.

The economic assumptions consist of the following:

	<u>1981</u>	<u>1980</u>
Investment return	8%	7¾%
Annual salary scale increase	6	6½
Annual cost of living increase	6	6

The changes in economic assumptions noted above had the effect of decreasing the additions to pension liability requirement by \$173,773,807.

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, 1981 and June 30, 1980 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, 1982 to be as follows:

	<u>Percentage of Members' Salaries</u>		
	<u>Fire and Police Pension System</u>	<u>New Pension System</u>	<u>Safety Members Pension Plan</u>
Entry age contribution	27.3%	31.0%	17.1%
Unfunded liability and health plan subsidy	*	28.8	.7
	<u>27.3%</u>	<u>59.8%</u>	<u>17.8%</u>

* Stated as required dollar amount of \$46,399,545.

The actuarially determined unfunded liability of the System is \$3,370,425,460 at June 30, 1981 and \$3,177,047,410 at June 30, 1980 (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, 1981 is to be amortized over the next 56 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 6% 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 2023. 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 56-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 \$144,154 made during the year ended June 30, 1981 (\$303,296 for 1980) are included under "Benefits Paid To Participants".

6. Contingent Liabilities:

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1981. Except for three 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	1980-81	1979-80	1978-79	1977-78	1976-77	1975-76	1974-75
Salaries	\$ 752,729	\$ 636,935	\$ 566,713	\$ 515,625	\$ 461,699	\$420,573	\$392,171
Overtime	889	.....	.....	288	280	795	2,295
Office and Administrative Expense	38,307	43,441	37,995	34,378	35,797	29,383	25,056
Operating Supplies and Expense	13,797	7,800	2,200	.....	.....	.....	.....
Printing and Binding	4,385	11,721	13,921	8,553	10,364	9,114	6,747
Travel	19,316	13,894	7,499	12,017	15,947	7,400	6,569
Contractual Services	984,907	423,610	387,966	288,514	310,858	226,283	190,667
Field Equipment .....	.....	800	(367)	460	659	573	570
Petroleum Products .....	.....	1,566	(500)	1,200	449	769	562
Transportation .....	.....	2,259	3,336	988	1,304	1,116	722
Annual Audit .....	.....	8,000	6,000	6,000	5,050	5,050	4,250
Governmental Meetings .....	.....	35	.....	225	70	.....	1,960
Litigation	31,174	35,680	26,284	23,913	27,923	17,900	8,428
Medical Services	288,086	153,374	176,614	134,502	131,300	100,985	47,842
Actuarial Expense	19,000	19,000	11,900	15,900	8,500	17,500	8,500
Health Insurance	24,259	25,800	22,046	18,929	18,499	12,573	8,418
Retirement Contributions	19,450	13,129	14,160	12,607	11,292	7,264	.....
Tuition Reimbursement .....	.....	.....	.....	166	156	.....	.....
Dental Insurance	2,696	3,877	3,224	2,972	2,729	620	.....
Equipment, Furniture & Fixtures	334	33,641	316	11,840	11,616	3,910	7,797
	<u>\$2,199,329</u>	<u>\$1,434,562</u>	<u>\$1,279,307</u>	<u>\$1,089,077</u>	<u>\$1,054,492</u>	<u>\$861,808</u>	<u>\$712,554</u>

**DEPARTMENT OF PENSIONS
STATEMENT OF OPERATIONS
Fiscal Years 1974-75 to 1980-81**

Schedule 2

REVENUES	1980-81	1979-80	1978-79	1977-78	* 1976-77	** 1975-76	** 1974-75
Taxes	\$ 148,781,062	\$ 152,144,133	\$ 84,056,712	\$ 115,361,071	\$ 112,730,821	\$ 102,938,709	\$ 89,414,396
Appropriations from							
General Fund	27,894,805	4,089,464	62,027,251	5,018,001	3,975,236	2,960,875	2,817,894
Dividends	6,568,053	6,123,866	5,570,023	33,943,580	28,456,089	22,654,773	18,425,424
Interest	79,708,881	59,340,364	42,207,125	(2,639,822)	1,744,096	2,409,035	631,849
Gain (Loss) on Sales of Investments	(45,344,724)	(20,652,822)	(3,113,823)	15,804,432	14,749,506	15,694,080	12,642,986
Members' Contributions	18,206,901	17,369,257	16,104,051	194,243	184,006	146,398	109,199
Sales of Unclaimed Property	379,036	146,511	148,754	180	222	365	371
Donations	69,288	16	37	508	1,101	3,316	11,324
Miscellaneous .....	.....	1,248	508	2,684	1,101	3,316	11,324
***TOTAL REVENUES available for current year's expenditures	\$ 236,263,302	\$ 218,562,037	\$ 207,000,638	\$ 167,684,369	\$ 161,841,077	\$ 146,807,551	\$ 124,053,443
EXPENDITURES							
Pensions Paid							
Service	\$ 93,048,325	\$ 75,155,039	\$ 67,183,719	\$ 56,359,503	\$ 49,190,942	\$ 43,160,457	\$ 38,340,313
Disability	21,866,968	16,086,700	13,931,941	12,475,580	10,243,947	8,683,637	7,333,963
Surviving Spouses	25,231,405	24,049,065	22,386,394	20,762,266	19,011,550	17,450,355	16,284,184
Minors & Dependents	418,552	363,302	321,714	311,202	277,665	325,972	288,431
TOTAL PENSIONS	\$ 140,564,250	\$ 115,654,106	\$ 103,823,768	\$ 89,908,551	\$ 78,724,104	\$ 69,620,421	\$ 62,246,891
Administrative Expense	\$ 2,199,329	\$ 1,434,561	\$ 1,279,307	\$ 1,089,077	\$ 1,054,492	\$ 861,808	\$ 712,554
Health Insurance Subsidy	1,746,859	1,449,359	1,217,737	1,004,154	760,614	349,111	61,118
TOTAL EXPENDITURES	\$ 144,511,438	\$ 118,538,026	\$ 106,320,812	\$ 92,001,782	\$ 80,539,210	\$ 70,831,340	\$ 63,020,563
EXCESS OF REVENUES OVER EXPENDITURES	\$ 91,751,864	\$ 100,024,011	\$ 100,679,826	\$ 75,682,587	\$ 81,301,867	\$ 75,976,211	\$ 61,032,880
Reduction of (addition to) Actuarial Reserve	(285,274,068)	(867,100,149)	(427,084,840)	(217,083,265)	(304,924,672)	(427,563,454)	(151,654,957)
Revenue (deficiency) for the year before cumulative ef- fect of accounting change .....	.....	.....	.....	.....	.....	.....	.....
Cumulative effect of accounting change .....	.....	.....	.....	.....	.....	.....	.....
Revenue (deficit) for the year	(193,522,204)	(767,076,138)	(326,405,014)	(141,400,678)	(223,622,805)	(351,587,243)	(90,622,077)
Fund deficit at beginning of year	(3,176,712,391)	(2,409,636,253)	(2,083,231,239)	(1,941,830,561)	(1,718,207,756)	(1,366,620,513)	(1,152,414,193)
Fund deficit at end of year	<u>\$ (3,370,234,595)</u>	<u>\$ (3,176,712,391)</u>	<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>

*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.