Jim McGuigan

CITY OF LOS ANGELES

BOARD OF PENSION COMMISSIONERS

Annual Report 1982

DEPARTMENT OF PENSIONS

FIRE AND POLICE PENSION SYSTEMS

MAYOR

Tom Bradley

CITY ATTORNEY

Ira Reiner

CONTROLLER

James Kenneth Hahn

CITY COUNCIL

Pat Russell, President

Joan Milke Flores, President Pro Tempore

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

DEPARTMENT OF
PENSIONS
Room 501, City Hall South
Los Angeles, Ca 90012

ANNUAL REPORT 1982

GENERAL MANAGER
Gary Mattingly

ASSISTANT MANAGERS
William S. Hutchinson
James J. McGuigan

LEGAL
Siegfried O. Hillmer
Assistant City Attorney

ACTUARY
Towers, Perrin, Forster & Crosby

AUDITOR
Touche Ross & Co.

CUSTODIAN BANK
Bankers Trust

INVESTMENT ADVISORS
Chemical Bank
Security Pacific Investments
Wright Investment Service
Boston Company

PERFORMANCE MEASUREMENT
A. G. Becker Incorporated

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BOARD OF PENSION COMMISSIONERS
1981-82 ANNUAL REPORT

Honorable members:

There is presented herewith the Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1982 in accordance with the provision of Section 64 of the City Charter.

This report includes financial statements audited by Touche, Ross & Co. and a summary report of the actuary, Towers, Perrin, Forster & Crosby.

We are please to report that pension system assets increased by approximately 13.9% during the past year to a total of $1.04 billion, more than $127 million above the prior year's total. At year end, common stocks represented 21%, bonds 50%, and temporary investments 29% of the total portfolio.

Revenues from interest and dividends showed an increase of 20% 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 $50.8 million or 28.8%, while member contribution increased by $2.9 million or 16%.

The total number of persons on pension increased by 331 to a total of 9,152 while the monthly pension roll increased from $12.754 million to $14.554 million.

Respectfully submitted,
BOARD OF PENSION COMMISSIONERS
By

GARO MINASSIAN
President

GARO MINASSIAN
President

KARL L. MOODY
Vice President

OLGA MARCUS

SAM DIANNITTO

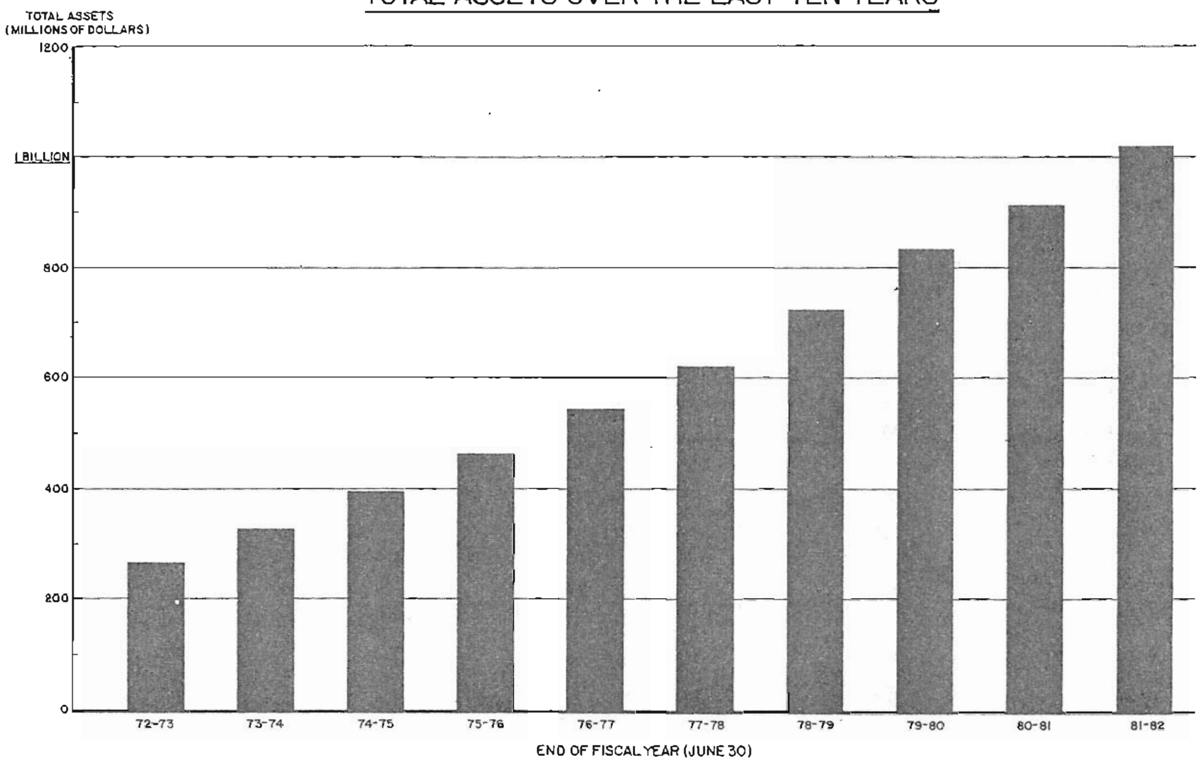
ARTHUR BURDORF

BERT COHEN

DAVID BOW WOO

Investments

GROWTH OF FIRE AND POLICE PENSION SYSTEM
TOTAL ASSETS OVER THE LAST TEN YEARS



As demonstrated by the above chart the Fire and Police Pension System has shown continued growth to a record 1.04 billion dollars in book value assets with a market value of 951 million dollars.

Investments in bonds decreased by $66,706,437 to a total of $506,497,915 while common stocks increased by $16,615,205 to a total of $218,479,018. Temporary investments in money markets increased by $183,853,365 to a total ot $298,831,577. This is due to an asset reallocation strategy by the Board of Pension Commissioners upon the advice of the four investment advisors to increase overall commitment to the stock market.

Revenues from interest and dividends increased by $17,473,000 to a total of $103,750,000. The City's contribution to the cost of the system, provided by taxes and assistance from the General Fund, increased by $50,853,000 to a total of $227,529,000. Member contributions increased by $2,900,000 to a total of $21,114,000. Benefits paid to participants increased by $17,900,000 to a total of $160,245,000.

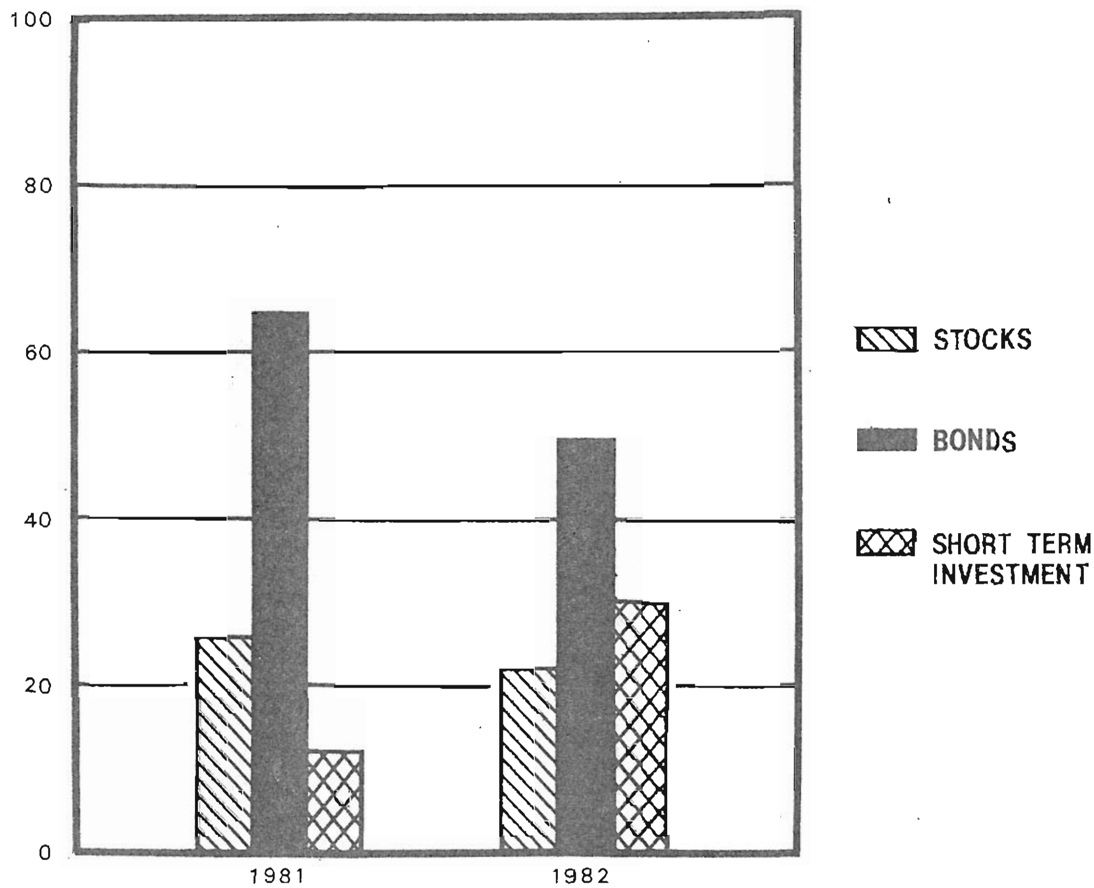
Realized capital losses during the year amounted to a net of approximately $61,624,000. Most of these losses were attributable to the system's method of accounting for bond exchange, which recognizes the full extent of the loss on the sale at the time of the transaction while amortizing the discount on the purchase over the life of the bond.

The fund has shown a good relative performance for fiscal year 81-82, returning 6.2% and outperforming 67% of other public funds as measured by the A.G. Becker Incorporated investment measurement service.

This performance was derived despite a poor stock market environment where annual returns for the S & P 500 were a negative 7.8%. Part of the funds superior performance was achieved by having a high proportion of the fund assets in the short term money market where the average yield for T-Bills for the year was 13.1%.

FIRE AND POLICE PENSION SYSTEM

ASSET MIX 1981–1982



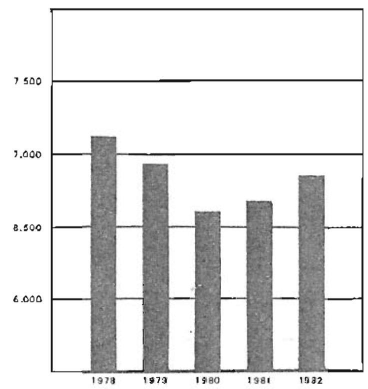
Investment performance for the year ending June 30, 1982 showed increased asset development to short term investments due to a decreased emphasis on bonds. All new monies had been allocated to common stock managers who, due to a poor performing stock market and high interest rates, committed these funds to short term money instruments while awaiting an upwards turn in the stock market.

The bond portion of the fund ranked in the top 36% of funds measured by the Becker service with an annual rate of return of 12.6%. This is the highest rate of return earned since 1977. There was a high turnover in issues, 96.8%, as the two bond managers, Boston Company and Security Pacific Investment Management, continued an aggressive bond swap strategy.

The equity portion of the fund showed a net loss due primarily to a falling market. The Standard & Poor's 500 index fell by 11.7%. The equity managers, Security Pacific Investment Management, Wright Investors' Service, and Chemical Bank, committed between 34 and 45% of their assets under management to short term investments. The equity portfolio showed a loss of 13.8%. The equity portion of the fund is considered to be a highly diversified, low risk portfolio.

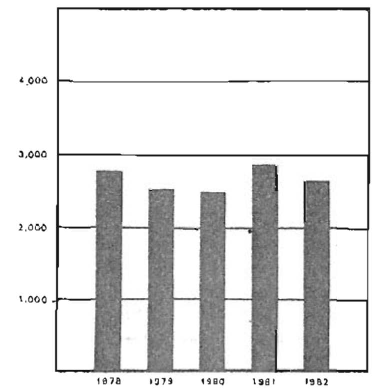
Active Members

POLICE



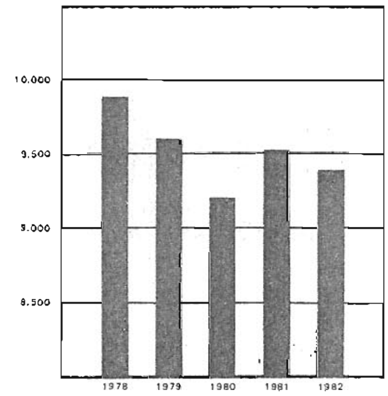
POLICE MEMBERSHIP HAS BEEN INCREASING

FIRE



WHILE FIRE MEMBERSHIP HAS BEEN DECREASING

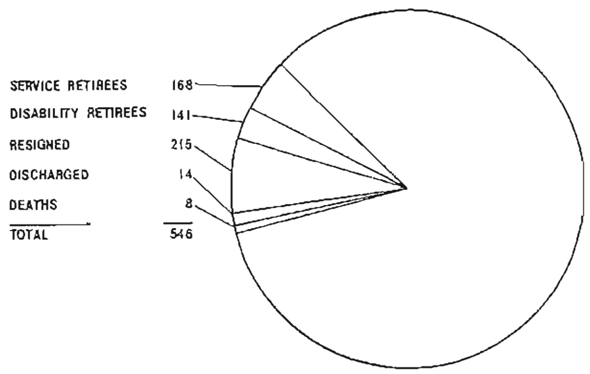
FIRE AND POLICE



THUS TOTAL ACTIVE MEMBERSHIP IS DOWN

MEMBERSHIP JULY 1, 1981

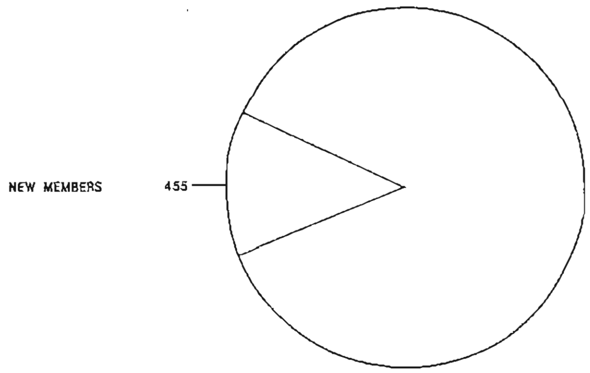
9512



8968 AFTER DELETIONS

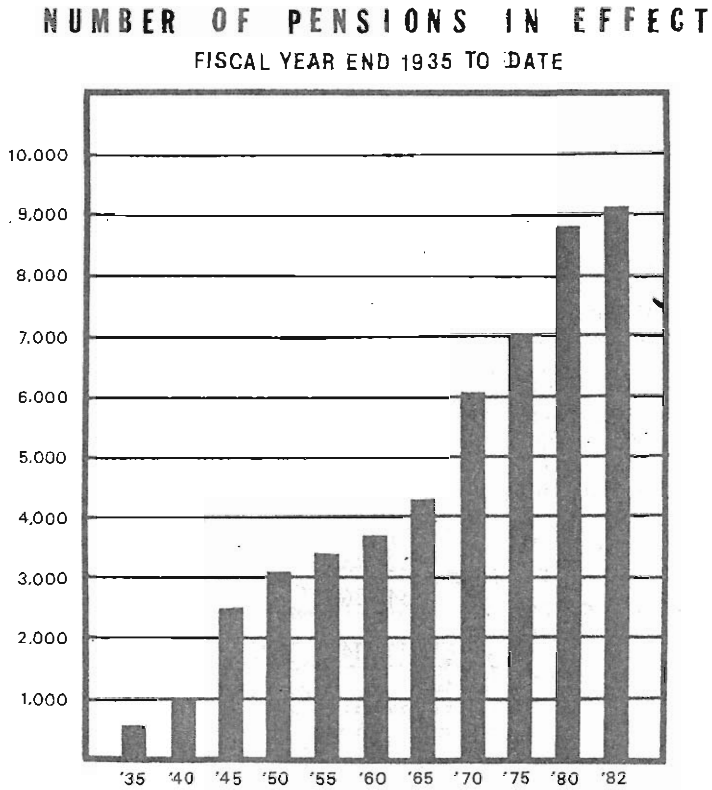
MEMBERSHIP JUNE 30, 1982

9421

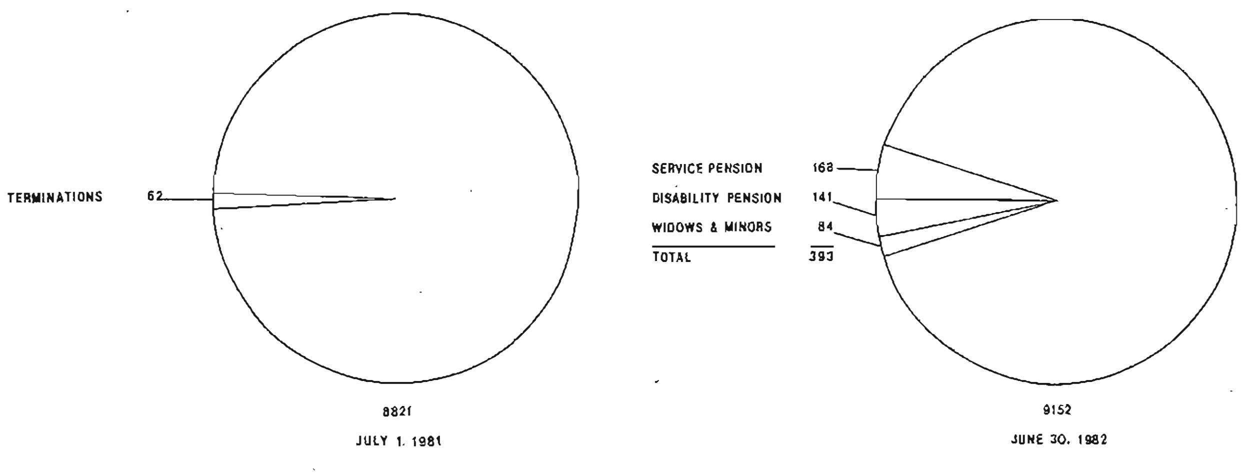


8968 BEFORE ADDITIONS

Retired Members



CHANGES IN PENSION ROLL



Actuary Report

ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1982

ASSETS

	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Assets from Accounting Balance Sheet	$ 20,139,770	$1,017,252,363	$ 8,004,438	$1,045,396,571
2. Present Value of Future Contributions by Members	1,324,376	194,498,048	24,600,960	220,423,384
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost:				
(i) Basic Benefits	2,911,912	361,299,712	36,463,344	400,674,968
(ii) Cost of Living Benefits	1,628,454	176,298,752	22,665,424	200,592,630
(iii) Total	4,540,366	537,598,464	59,128,768	601,267,598
(b) Unfunded Supplemental Present Value:	617,332,247	2,880,572,701	(5,140,228)	3,492,764,720
4. TOTAL CURRENT AND FUTURE ASSETS	$643,336,759	$4,629,921,576	$ 86,593,938	$5,359,852,273

LIABILITIES

	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
5. Accounts Payable	$ 65,703	$ 1,709,738	—	$ 1,775,441
6. Present Value of Benefits Already Granted:				
(a) Service	244,636,663	1,868,881,052	—	2,113,517,715
(b) Disability	147,632,956	465,252,716	—	612,885,672
(c) Dependents	221,996,245	115,497,078	—	337,493.323
(d) Total	614,265,864	2,449,630,846	—	3,063,896,710
7. Present Value of Benefits to Be Granted:				
(a) Service	26,454,973	1,878,332,601	60,245,494	1,965,033,068
(b) Disability	2,292,826	266,029,280	21,805,632	290,127,738
(c) Death	208,416	22,020,192	1,704,065	23,932,673
(c) Total	28,956,215	2,166,382,073	83,755,191	2,279,093,479
8. Refund of Employee Contributions	48,977	12,198,919	2,838,747	15,086,643
9. TOTAL LIABILITIES	$643,336,759	$4,629,921,576	$ 86,593,938	$5,359,852,273

RESULTS OF VALUATIONS

As of June 30, 1982, under Article XVII (Fire and Police Pension System) there were 100 active and 3,629 retired members; under Article XVIII (New Pension System) 8,471 active and 5,523 retired members; under Article XXXV (Safety Members Pension Plan) 850 active and 0 retired members.

The results of the Actuarial Valuation of the three Systems as of June 30, 1982 are shown on the Actuarial Balance Sheet (see next page). These valuations were based on the demographic assumptions adopted December 31, 1980. These assumptions were 8% annual interest, 6% annual salary, and a 6% annual consumer price index increase, and are identical to those used in the last actuarial report, June 30, 1981.

The Assets and Accounts Payable items of the Actuarial Balance Sheet were provided by the Pension Office and were accepted without audit.

The preparation of the Actuarial Balance Sheet involved three steps. First the amount and timing of all future payments to be made by the three Systems were determined. Then these payments were discounted at the valuation interest rate to the date of valuation, thereby determining the present value. As the Balance Sheet shows, the total present value of benefits to be paid out is $5.36 billion and is the "liability" of the Systems.

The second step was the determination of how this liability was to be met. Item 1 in the Balance Sheet represents the amount of assets (1.05 billion) already accumulated in the Systems. Item 2 is the present value of member contribution ($200 million). Item 3a is the present value of future City normal costs. Using the Entry Age Normal Cost Method, the City is (as a First step) budgeting the following percentages of the respective payrolls:

Article	Normal Cost Percentage
XVII	20.57
XVIII	19.35
XXXV	19.23

These contribution percentages are known as normal cost percentages. The Entry Age Normal Cost percentage is, simply stated, the City's level percentage of payroll needed to fund benefits for new entrants (hypothetical new entrants for Articles XVII and XVIII) to the Systems. The current present value of Entry Age Normal Cost is $601 million.

For the third step the existing assets ($1.05 billion), plus the present value of future normal costs ($.60 billion), plus the present value of future member contributions ($.22 billion) were compared to the present value of the benefits to be paid out ($5.36 billion). The Systems were short by $3.49 billion.

The shortfall (or balancing item) of $3.49 billion is the Unfunded Actuarial Liability (UAL) of the Systems. To fund the Systems into actuarial balance a pattern of contributions which has a present value of $3.49 billion is needed.

For fiscal year 1982 the appropriate amounts needed to amortize the UAL are as follows:

Article	Amount	Pattern
XVII	$50,113,774	As a level dollar amount through the fiscal year 2037.
XVIII	$84,618,133	Increasing by 6% per year through the fiscal year 2037.
XXXV	—1.66%	As a level percentage of Article XXXV payroll for periods up to 15 years.

RECOMMENDED CONTRIBUTIONS

The actuarial cost methods for determining the annual budget for Articles XVII, XVIII and XXXV are given in Sections 186.2, 190.09, and 528, respectively of the City Charter. All three sections specify the Entry Age Normal Cost Method as the basis for determining the budget amounts.

The Entry Age Normal Cost method defines the Normal Cost as the level percentage of salary necessary to fund the projected future benefit over the period from the date of entry (i.e., employment) to the date of retirement. The Normal Cost percentage is subdivided into two parts. The first part is the percentage of salary specified as the member contribution; the second part, the City portion, is the balance after deducting the member contribution percentage from the total Normal Cost percentage. The Actuarial Liability is equal to the excess of total present value of benefits (earned and unearned with respect to all current members) over the present value of future member contributions and the present value of future City Normal Costs with respect to current members. The excess of the Actuarial Liability over the assets, as noted before, is called the Unfunded Actuarial Liability (UAL) and is amortized using techniques and periods that vary from Article to Article. The various techniques and periods are discussed Article by Article in the following sections.

Budget for Fire and Police Pension System (Article XVII)

The pension budget for the Fire and Police Pension System includes the Entry Age Normal Cost and an amount to amortize the UAL over the period ending with the fiscal year 2036-2037. Traditionally, the amortization of the UAL has been a level dollar amount including principal and interest. The following summarizes the results:

	June 30, 1981	June 30, 1982
1. City's Entry Age Normal Cost*	27.3%	20.57%
2. Amortization of the UAL	$46,399,545	$50,113,774
3. Health Plan Subsidy	Included in (2)	1,025,000

*Percentage is applied to Article XVII payroll only.

The Health Plan Subsidy budget was developed by the Pension Office; it is included here for completeness.

Budget for New Pension System (Article XVIII)

The budget for the New Pension System includes the Entry Age Normal Cost and an amount sufficient to amortize the UAL of the New Pension System over the period ending with the fiscal year 2036-2037.

The amortization of the New Pension System's UAL was designed to produce an increasing payment pattern so that each year's payment would be the same percentage of the System's total payroll (which also presumably increased at the same rate). The amortization payments have been calculated to increase at the same rate as the System's cost-of-living increase assumption (currently 6% per year). The combination of the length of the amortization period and the increasing payment pattern implies that payments in earlier years are insufficient to cover interest on the UAL; therefore, the UAL can be expected to increase for many future years. Under the current assumptions, by the year 2022 the amortization payment will have grown sufficiently to start meeting the interest on the then current unfunded liability.

Since the New Pension System is now closed to new entrants, it is virtually impossible for the increasing amortization payments as described above to remain a level percentage of New Pension System payroll since that payroll will have declined to zero in about 30 years as all current members retire or resign.

Nevertheless it would be appropriate to continue the traditional increasing payment pattern for amortizing the Article XVIII UAL because the payment can reasonably be expected to remain as a level percentage of total (Articles XVII, XVIII and XXXV) payroll. Using this approach the results can be summarized as follows:

	June 30, 1981	June 30, 1982
1. City's Entry Age Normal Cost*	31.0%	19.35%
2. Amortization of the UAL	28.8%	$84,618,133 (28.03%)**
3. Health Plan Subsidy	Included in (2)	$ 3,075,000

*Percentage is applied to Article 18 Payroll only.

**This percentage is based on the Chief Administrative Officer's 1983-84 budget estimate for Article 18 Sworn Salaries of $301,860,261.

Note that for long-term budget purposes the dollar amounts shown for 1982 can be expected to grow by 6% per year if all assumptions are met. The percentage figures shown for 1982 are expected to increase dramatically as Article XVIII membership shrinks.

Section 190.09 might be interpreted to require the amortization of the Article XVIII UAL over the remaining expected payroll of the closed group of Article XVIII members. Such an interpretation would greatly increase the City's 1983-1984 budget requirement for Articvle XVIII. It is estimated that under this interpretation the Article XVIII budget for the fiscal year 1983-1984 would be 123% of pay. This interpretation was not applied last year; moreover, it was probably not contemplated at the time Article XXXV was drafted.

The reader should be aware that the overriding factor affecting contribution rates since last year was Proposition H which limited cost-of-living increases and introduced the refund of employee contribution.

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 whall be equal to ½ of the cost of the benefits provided by Section 190.14 as shall be determined to the Board upon an actuarial valuation obtained by it pursuant to Section 190.08, . .".

The total Normal Cost for cost-of-living benefits amounts to 7.35%. It is our opinion that if the System were to maintain separate accounts for basic and cost-of-living assets there would also be a UAL with respect to cost-of-living benefits so the total cost (Normal Cost plus amortization) would be in excess of 7.35% of payroll. 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.

Budget for Safety Members Pension Plan (Article XXXV)

The Budget for the Safety Members Pension Plan consists of the Entry Age Normal Cost plus the amount needed to amortize the UAL. Presumably, any UAL has resulted from actuarial experience gains and losses and these are to be amortized over 15 years.

Using this approach we summarize our results as follows:

	June 30,1981	June 30,1982
1. City's Entry Age Normal Cost*	17.1%	19.23%
2. Amortization of UAL	.7%	−1.66%
3. Total Contributions*	17.8%	17.57%

*Percentage is applied to Safety Members Pension Plan members only.

A negative amortization percentage is common with new systems. The negative UAL has probably arisen because turnover has been higher than assumed. The turnover assumption is generally based on a full range of employees covering various periods of service; Article XXXV includes only short-service employees who are more likely than average to resign.

In our opinion if these recommendations are adopted, all three systems 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.

Auditor Report

Touche Ross & Co.

April 15, 1983

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 for the year ended June 30, 1982, and the related statements 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, 1981 were examined by other auditors whose report dated February 16, 1982 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, 1982 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.

TOUCHE ROSS & CO.

Certified Public Accountants

BALANCE SHEETS

June 30, 1982 and 1981

	June 30			
	1982		1981	
ASSETS				
CASH:				
Restricted	$ 374,024		$ 190,865	
Unrestricted	1,098,457	$ 1,472,481	775,882	$ 966,747
RECEIVABLES:				
Accrued interest and dividends income	18,949,355		18,957,602	
Contributions	1,026,599		6,475,455	
Due from brokers and others	135,493	20,111,447	1,482,830	26,915,887
INVESTMENTS (Note 2):				
Temporary, at cost plus accrued interest, which approximates market	298,831,577		114,978,212	
Bonds, at amortized cost (market value $446,026,051 in 1982 and $662,813,834 in 1981)	506,497,915		573,204,352	
Common stock, at cost (market value $206,196,333 in 1982 and $218,894,063 in 1981)	218,479,018		201,863,813	
Others	4,133	1,023,812,643	4,133	890,050,510
Total assets		$ 1,045,396,571		$ 917,933,144
LIABILITIES AND DEFICIT				
BENEFITS IN PROCESS OF PAYMENT		$ —		$ 1,792,035
ACCOUNTS PAYABLE		1,775,441		688,482
		1,775,441		2,480,517
ESTIMATED LIABILITY AT ACTUARIAL VALUATION FOR:				
Pensions (Note 3):				
Pensioners	$ 3,063,522,686		$ 2,576,608,277	
Active members	1,457,402,497		1,708,116,139	
Refund of employees contributions	15,086,643	4,536,011,826	962,806	4,285,687,222
		4,537,787,267		4,288,167,739
CONTINGENT LIABILITIES (Note 6)				
DEFICIT:				
Accumulated deficit (Note 4)	(3,492,764,720)		(3,370,425,460)	
Workers' Compensation Fund (Note 5)	374,024	(3,492,390,696)	190,865	$(3,370,234,595)
		$ 1,045,396,571		$ 917,933,144

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN DEFICIT

June 30, 1982 and 1981

	Year ended June 30			
	1982		1981	
REVENUES:				
Taxes	$ 192,536,914		$ 148,781,062	
Appropriations from City of Los Angeles general fund	34,992,265		27,894,805	
Members' contribution	21,114,860		18,206,901	
Sales of unclaimed property	233,881		379,036	
Miscellaneous	3,356	$ 248,881,276	69,288	$ 195,331,092
Investment income:				
Interest	94,664,863		79,708,881	
Dividends	9,085,310		6,568,053	
Loss on disposition of investment	(61,623,916)	42,126,257	(45,344,724)	40,932,210
		291,007,533		236,263,302
EXPENDITURES:				
Benefits paid to participants:				
Service	103,528,010		93,048,325	
Disability	23,854,627		21,866,968	
Surviving spouses	30,032,133		25,231,405	
Minors and dependents	422,909		418,552	
Health insurance subsidy	2,407,767		1,746,859	
	160,245,446		142,312,109	
Administrative expense	2,593,584	162,839,030	2,199,329	144,511,438
EXCESS OF REVENUES OVER EXPENDITURES BEFORE ADDITION TO ESTIMATED LIABILITY FOR PENSION REQUIREMENTS		128,168,503		91,751,864
ADDITION TO PENSION LIABILITY REQUIREMENTS		250,324,604		285,274,068
DEFICIENCY FOR THE YEAR		(122,156,101)		(193,522,204)
DEFICIT, beginning of year		(3,370,234,595)		(3,176,712,391)
DEFICIT, end of year		($3,492,390,696)		($3,370,234,595)

See accompanying notes to the financial statements.

NOTES TO THE 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 three 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 December 8, 1980 participate in the newly-established Safety Members Pension Plan.

Members with 20 or more years of service in the Fire and Police Pension System and New Pension System 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%. There is no minimum age requirement. The plans provide for unlimited cost-of-living adjustments in benefits for service prior to June 30, 1982 and a 3% adjustment cap in benefits for all subsequent service. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not receive a pension. Members of the Safety Members Pension Plan must be age 50 with 10 years of service to be entitled to an annual pension. Benefits are equal to 20% of their one-year average compensation, increasing for each year of service over 10 years to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate a maximum of 3% per year. Contributions are refundable for those who terminate and do not receive a pension.

2. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

The System's financial statements are prepared on the accrual basis of accounting. Contribution 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 dealers.

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.

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, 1982, and 1981. 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 1982 and 1981 the valuations were determined on the basis of (1) actuarial assumptions adopted as a result of a four-year (July 1, 1975 - July 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 for 1982 and 1981:

Investment return	8%
Annual salary scale increase	6%
Annual cost of living increase	6%

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, 1982 and 1981, 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. Safety Members Pension Plan members are required to contribute 8% 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 Pension System members, and a dollar amount for the Fire and Police Pension 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. Under the Safety Member Pension Plan, any "unfunded liability" of that system shall be amortized over a 30-year period and actuarial experience gain and losses shall be amortized over a 15-year period.

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:

	Percentage of members' salaries		
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan
Entry age normal cost contribution	20.57%	19.35%	19.23%
Amortization of the unfunded liability	$50,113,774*	28.03%	(1.66%)
Health plan subsidy	$ 1,025,000	$3,075,000	

* Stated as required dollar amount.

The actuarially-determined unfunded liability of the System is $3,492,764,720 at June 30, 1982 and $3,370,425,460 at June 30, 1981 (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, 1982 is to be amortized over the next 55 years through contributions to be made by the City. Contributions on behalf of the New Pensions 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 55-year amortization period. Contributions to provide for the unfunded liability on behalf of the Safety Members Pension Plan are amortized over a 30-year period and actuarial experience gains and losses are amortized over a 15-year 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 worker's compensation benefits to pensioners of the Fire and Police Pension System are paid therefrom. Expenses of $960,797, which were incurred during the year ended June 30, 1982 ($144,154 for 1981), are included under "Benefits Paid To Participants."

6. Contigent Liabilities:

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1982. Except for four 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.

Budget

STATEMENT OF OPERATIONS
1979-80 to 1981-82

	1981-82	1980-81	1979-80
Revenues:			
Taxes	$ 192,536,914	$ 148,781,062	$ 152,144,133
Appropriations from General Fund	34,992,265	27,894,805	4,089,464
Dividends	9,085,310	6,568,053	6,123,866
Interest	94,664,863	79,708,881	59,340,364
Gain (Loss) on Sales of Investments	(61,623,916)	(45,344,724)	(20,652,822)
Members' contributions	21,114,860	18,206,901	17,369,257
Sales of unclaimed property	233,881	379,036	146,511
Donations	485	69,288	16
Miscellaneous	2,871	—	1,248
TOTAL REVENUES available for current year's expenditures	$ 291,007,533	$ 236,263,302	$ 218,562,037
Expenditures:			
Pensions Paid			
Service	$ 103,528,010	93,048,325	75,155,039
Disability	23,854,627	21,866,968	16,086,700
Surviving spouses	30,032,133	25,231,405	24,049,065
Minors and dependents	422,909	418,552	363,302
TOTAL PENSIONS	$ 157,837,679	$ 140,564,250	$ 115,654,106
Administrative expenses	$ 2,593,584	2,199,329	1,434,561
Health insurance subsidy	2,407,767	1,746,859	1,449,359
TOTAL EXPENDITURES	$ 162,839,030	$ 144,511,438	$ 118,538,026
EXCESS OF REVENUES OVER EXPENDITURES	$ 128,168,503	$ 91,751,864	$ 100,024,011
Reduction of (addition to) Actuarial Reserve	250,324,604	(285,274,068)	(867,100,149)
Revenue (deficiency) for the year before cumulative effect of accounting change	—	—	—
Revenue (deficit) for the year	(122,156,101)	(193,522,204)	(767,076,138)
Fund deficit at beginning of year	(3,370,234,595)	(3,176,712,391)	(2,409,636,253)
Fund deficit at end of year	$ 3,492,390,696	$ (3,370,234,595)	$ (3,176,712,391)

ADMINISTRATIVE EXPENSE COMPARISON
1979-80 to 1981-82

Operating Expense	1981-82	1980-81	1979-80
Salaries	$ 804,023	$ 752,729	$ 636,935
Overtime	952	889	—
Office and Administrative Expense	49,152	38,307	43,441
Operating Supplies and Expense	100	13,797	7,800
Printing and Binding	8,806	4,385	11,721
Travel	16,854	19,316	13,894
Contractual Services	1,185,570	984,907	423,610
Field Equipment	—	—	800
Petroleum Products	1,795	—	1,566
Transportation	—	—	2,259
Annual Audit	14,576	—	8,000
Governmental Meetings	300	—	35
Litigation	36,744	31,174	35,680
Medical Services	382,450	288,086	153,374
Actuarial Expense	19,000	19,000	19,000
Health Insurance	40,914	24,259	25,800
Retirement Contributions	24,000	19,450	13,129
Tuition Reimbursement	—	—	—
Dental Insurance	4,046	2,696	3,877
Equipment, Furniture & Fixtures	4,302	334	33,641
	$ 2,593,584	$2,199,329	$ 1,434,562

Legal

The City Attorney provides legal assistance for the Department of Pensions. During fiscal year 1982 such legal assistance was composed, in part, of the following.

PROBATE AND CONTRACT MATTERS

The legal staff examined petitions, documents, and 50 probate accountings . . . prepared, filed, and served 17 requests for special notice . . . discontinued 14 guardianships and conservatorships . . . began 18 new guardianships and conservatorships for a total of 87 pending . . . prepared and approved as to form contracts with A. G. Becker Company and the Boston Company.

LITIGATION

Cases not presenting unique facts or legal issues

During the year there were eleven court decisions which upheld prior decisions by the Board; none which reversed the Board.

Cases presenting unique facts or legal issues

A. Cases continuing from prior years. The full text of these four cases can be found in the 1981 Annual Report.

GOINS ET AL v. BOARD OF PENSION COMMISSIONERS

After class certification, the case was retired on the issues of applicability of the Board's statue of limitations defense and that of the claims provisions of the Charter. Judgement was rendered in favor of plaintiffs. As of the end of the fiscal year, no further steps and proceedings had been initiated.

MARY HOLMES v. BOARD OF PENSION COMMISSIONERS

The plaintiff, contending that she is eligible to receive a widows benefit, filed a motion for summary judgement. A hearing in Superior Court has been set for September 8, 1982.

OBERHAUS v. BOARD OF PENSION COMMISSIONERS

In 1981 the Superior Court had granted plaintiff's petition for a writ of mandate to be found eligible for a service-connected disability. During 1982, the Court of Appeal reversed the Superior Court. Mr. Oberhaus petitioned the State Supreme Court for a hearing. The hearing was denied. However, the Supreme Court decertified the case for publication. As a result the case of **Dakins v Board of Pension Commissioners**, 134 Cal. App. 3d 374 (also see below) is controlling with respect to the issues presented.

SHANAHAN v. BOARD OF PENSION COMMISSIONERS

This complaint for declaratory relief has not been set for trial.

B. Cases that are new this year.

BARTH v. BOARD OF PENSION COMMISSIONERS

Sidney S. Barth is a former member of the Police Department, now retired on a service pension. He attempted to have his service pension changed to a service-connected disability pension, which claim the Board denied based upon (a) the prohibition in Section 190.11 of the Charter against such change; and (b) the claims provisions of the Charter.

Mr. Barth petitioned the Superior Court for a writ of mandate to reverse the Board's action. The petition was denied. Mr. Barth appealed. At the end of the fiscal year, no further steps and proceedings had been initiated beyond that action.

DAKINS v. BOARD OF PENSION COMMISSIONERS

Dennis C. Dakins received a nonservice-connected disability pension. Previously, he had received a workers' compensation award for industrial injury.

Mr. Dakins petitioned the Superior Court for a writ of mandate contending that the Board was collaterally estopped to deny a service-connected disability pension based upon the Workers' Compensation Appeals Board determination finding industrial causation of Mr. Dakins' injury.

The Superior Court denied the petition and Mr. Dakins appealed. At the end of the fiscal year, the case had not been brought to a conclusion in the Court of Appeal.

LOS ANGELES POLICE PROTECTIVE LEAGUE v. CITY OF LOS ANGELES

This was a complaint for injunctive relief. A member of the plaintiff organization had filed an application for a disability pension. Certain documents in his pension file caused him to raise objections concerning their admissibility in the proceedings. Inasmuch as the documents were not excluded, court action was instituted.

The outgrowth of the proceedings in court was an agreement between the parties on the basis of a voluntary settlement reached between LAPD, the Pension Department and the Los Angeles Police Protective League. The agreement pertains to the matter of dissemination of information and materials by the LAPD with respect to individual pension applicants' files. The pertinent proviso of the agreement requires that any document or record which constitutes "personnel records" forwarded by the Los Angeles Police Department to the Pension Department for consideration on a pension application, must be signed and reflect the source(s) of any information contained therein, and further, the material must be forwarded to the applicant concurrently with transmittance to the Pension Department.

UNITED FIREFIGHTERS & LOS ANGELES POLICE PROTECTIVE LEAGUE v. CITY OF LOS ANGELES

These cases involve the validity of Charter Amendment "H", which the voters of the Los Angeles adopted at the election of June 8, 1982. Both the plainiff unions contend that the Amendment is unconstitutional as an infringement of their members' vested pension rights. Since the Amendment is expected to result in savings to the City and its citizens of approximately $30 million annually for the foreseeable future, this is an important piece of litigation.

As of the time of this report, the parties are involved in pre-trial proceedings and no trial date has been set.

VALDEZ v. CITY OF LOS ANGELES

This is a class action by a group of plaintiffs who are members of the Safety Members Pension Plan (Article XXXV of the City Charter), which was adopted effective December 8, 1980. Plaintiffs contend that they are entitled to membership under the provisions of Article XVIII of the Charter because of alleged representations made to them by employees of the City at the time of their recruitment.

At the time of this report the parties are involved in procedural matters ancillary to class certification.

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 68 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.

Pension Benefits

Features	Article XVII	Article XVIII	Article XXXV
Service Retirement			
(a) Eligibility	20 years of service.	20 years of service.	Age 50 with 10 years of service.
(b) Salary base	Final salary rate.	Final salary rate.	One-year average salary.
(c) Pension as a percentage of base	40% with 20 years of service plus 2% for each additional year less than 25 years of service plus 1⅔% for each additional year between 25 and 35 years of service.	40% with 20 years of service plus 2% for each additional year less than 25 years of service. 55% with 25 years of service plus 3% for each additional year between 25 and 30 years of service.	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service.
	Maximum of 66⅔% for 35 or more years of service.	Maximum of 70% for 30 or more years of service.	Maximum of 70% for 30 or more years of service.
Service Connected Disability			
(a) Eligibility	No age or service conditions.	No age or service conditions.	No age or service conditions.
(b) Salary base	Final salary rate.	Final salary rate.	One-year average salary.
(c) Pension as a percentage of base	50% to 90% depending on severity of disability.	50% to 90% depending on severity of disability.	30% to 90% depending on severity of disability.
Nonservice-Connected Disability			
(a) Eligibility	Five years of service.	Five years of service.	Five years of service.
(b) Salary base	Final salary rate for highest-paid police officer's or firefighter's rank.	Final salary rate for highest-paid police officer's or firefighter's rank.	One-year average salary.
(c) Pension as a percentage of base	40%.	40%.	30% to 50% depending on severity of disability.
Service-Connected Death or Death after Service-Connected Disability			
(a) Eligibility	No age or service conditions for member.	No age or service conditions for member.	No age or service conditions for member.
(b) Salary base	Final salary rate.	Final salary rate.	One-year average salary.

(c) Eligible spouse's benefit as a percentage of base	50%. Pension not payble on remarriage.	50% with less than 25 years of service. 55% with 25 or more years of service.. Pension not payable on remarriage.	75% of salary base else 60% of pension. Pension not payable on remarriage.
(d) Children's benefit as a percentage of spouse's benefit	100% if spouse not receiving, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless disabled prior to age 21.	Same as Article XVII.	Same percentages as Article XVII. Pension not payable after child reaches age 18 (age 22 if in school) unless disabled before age 21.
(e) Dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	Same as Article XVII.	Same as Article XVII.
Death While Eligible for Service Retirement or Death After Service Retirement			
(a) Eligibility	20 years of service.	20 years of service.	Age 50 with 10 years of service.
(b) Eligible spouse's benefit	50% of final salary rate. Pension not payable on remarriage.	Member's accrued service retirement not to exceed 55% of final salary rate. Pension not payable on remarriage.	60% of member's accrued service retirement. Option at member's retirement for higher continuance to spouse with actuarial reduction. Pension not payable on remarriage.
(c) Children's benefit as a percentage of spouse's benefit	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
(d) Dependent parent's benefit as a percentage of spouse's benefit	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
Nonservice-Connected Death or Death After Nonservice-Connected Disability			
(a) Eligibility	Five years of service.	Five years of service.	Five years of service.
(b) Eligible spouse's benefit	40% of final salary rate for highest-paid police officer's or firefighter's rank or if eligible for service retirement 50% of final salary rate. Pension not payable on remarriage.	40% of final salary rate for highest-paid police officer's or firefighter's rank or if eligible for service retirement the accrued service retirement not to exceed 55% of final salary rate. Pension not payable on remarriage.	30% of final one-year average salary or if eligible for service retirement 80% of accrued service retirement not to exceed 40% of final one-year average salary. Pension not payable on remarriage.

(c) Children's benefit as a percentage of spouse's benefit	100% if spouse not receiving, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless disabled prior to age 21.	Same as Article XVII.	Same as Article XVII.
(d) Dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	Same as Article XVII.	Same as Article XVII.
Cost of Living			
(a) Generally applicable provisions	Annual cost-of-living increase on the pension accrued prior to July 1, 1982 and annual cost-of-living increase not to exceed 3% on the pension accrued after July 1, 1982. Cost-of-living increases compounded. Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	Annual cost-of-living increase on the pension accrued prior to July 1, 1982 and annual cost-of-living increase not to exceed 3% on the pension accrued after July 1, 1982. Cost-of-living increases compounded. Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	Annual cost of living increase not to exceed 3%. Cost-of-living increases compound. Pro rata adjustment in the first year of retirement. Board may grant discretionary cost-of-living increases once every three years. Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.
(b) Effective date of cost-of-living increases			
(1) Service retirement, death while eligible for service retirement, death after service retirement	Annual increases commence on the effective date or the date the member would have been age 55 if later.	Same provisions for all types of pension. Annual increases commence on the effective date.	Annual increases commence on the effective date or the date the member would have completed 25 years of service if later.
(2) Service-connected disability, death after service-connected disability	Annual increases commence on the effective date.	Annual increases commence on the effective date.	
(3) Service-connected death, nonservice-connected disability, non-service-connected death, death after nonservice-connected disability.	Annual increases commence on the date the member would have been age 55 or 5 years after the effective date of the pension if earlier.	Annual increases commence on the date the member would have had 25 years of service or 5 years after the effective date of the pension if earlier.	
Members' contributions as an annual percentage of pay.	6%.	6% plus ½ cost of cost-of-living benefit up to 1%	8%.
Miscellaneous			
(a) Vesting of service retirement	On retirement.	On retirement.	After 10 years of service.
(b) Return of contributions with interest.	On termination or death with no other benefits.	On termination or death with no other benefits.	On termination or death with no other benefits except on basic death benefit.
(c) Basic death benefit	None.	None.	Beneficiary receives one-year average salary times years of completed service not to exceed 6 in addition to return of contributions.

Milestones

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 1⅔% 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 1⅔% 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 1⅔% 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 Coucil 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.

1982. Articles XVII and XVIII were significantly revised with the passage of a charter amendment in June. A 3% cap on the cost-of-living adjustment was added for all future service earned by active members. Also, all active members became entitled to refunds of contributions if they should terminate prior to retirement. Cost-of-living adjustments were pro-rated for the first year of retirement.

Jim McGuigan

DEPARTMENT OF PENSIONS

LITHOGRAPHY BY CITY OF LOS ANGELES PRINTING SERVICES