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CITY OF LOS ANGELES

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BOARD OF PENSION COMMISSIONERS



Annual  
Report  
1984

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DEPARTMENT OF PENSIONS  
FIRE AND POLICE PENSION SYSTEMS

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**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

Gilbert W. Lindsay  
Ninth District

Joel Wachs  
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David Cunningham  
Tenth District

Joy Picus  
Third District

Marvin Braude  
Eleventh District

John Ferraro  
Fourth District

Hal Bernson  
Twelfth District

Zev Yaroslavsky  
Fifth District

Peggy Stevenson  
Thirteenth District

Pat Russell  
Sixth District

Arthur K. Snyder  
Fourteenth District

Ernani Bernardi  
Seventh District

Joan Milke Flores  
Fifteenth District

Robert C. Farrell  
Eighth District

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

ANNUAL REPORT                      1984

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<p>ASSISTANT MANAGERS William S. Hutchison James J. McGuigan</p> <p>LEGAL Siegfried O. Hillmer Assistant City Attorney</p> <p>ACTUARY Towers, Perrin, Forster &amp; Crosby</p> <p>AUDITOR Touche Ross &amp; Co.</p> <p>CUSTODIAN BANK Bankers Trust Company</p> <p>INVESTMENT ADVISORS Favia Hill Security Pacific Investment Managers Wright Investors' Service The Boston Company</p> <p>PERFORMANCE MEASUREMENT S.E.I. Funds Evaluation Service</p>	<p>Board Letter..... 3</p> <p>Manager's Report ..... 4</p> <p>Investments..... 6</p> <p>Membership</p> <p style="padding-left: 20px;">Active.....12</p> <p style="padding-left: 20px;">Retired.....14</p> <p style="padding-left: 20px;">Service Pensions .....16</p> <p style="padding-left: 20px;">Disability Pensions.....18</p> <p>Actuary Report .....21</p> <p>Auditor Report.....24</p> <p>Budget .....30</p> <p>Legal ..... 33</p> <p>Pension Benefits..... 36</p> <p>Milestones..... 39</p>	

# CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY  
MAYOR

## BOARD OF PENSION COMMISSIONERS

GARO MINASSIAN  
PRESIDENT

KARL MOODY  
VICE-PRESIDENT

ARTHUR BURDORF  
BERT COHEN  
SAM DIANNITTO  
OLGA MARCUS  
DAVID BOW WOO

## DEPARTMENT OF PENSIONS

501 CITY HALL SOUTH  
111 EAST FIRST STREET  
LOS ANGELES, CA 90012-4182  
485-2833

GARY MATTINGLY  
GENERAL MANAGER

### Board of Pension Commissioners 1983-84 Annual Report

Honorable Tom Bradley, Mayor  
and  
Honorable Members of the  
City Council

Honorable Members:

Presented herewith is the Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1984 in accordance with Section 64 of the City Charter.

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

Due to a downturn in the Market, Fire and Police Pension System assets decreased from \$1.487 billion to a total market value of \$1,401 billion. Revenues from interest and dividends increased by \$4.3 million during the year to a total of \$101.8 million. The increase reflects higher yield from money market instruments purchased from sales of stocks. In addition, the securities lending program continued to return a significant amount of additional revenue to the System.

Even with the decline in market value of total assets, the System's actuarial evaluation for the year indicates that the investment earnings of the fund, on a book value basis, exceeded the 8% actuarial assumption. Such investment gains kept the increase in the unfunded actuarial accrued liability at a level lower than previously expected. This, in turn, reduced the required City contribution.

The number of active members covered by the Pension System increased by 408, or 4 percent, to a total of 10,008. The monthly pension roll increased by \$.88 million, or 6 percent, to \$15.6 million.

Respectively submitted,

GARO MINASSIAN  
PRESIDENT  
BOARD OF PENSION COMMISSIONERS

Karl L. Moody, Vice-President

Sam Diannitto, Commissioner

Arthur Burdorf, Commissioner

Olga Marcus, Commissioner

Bert Cohen, Commissioner

David Bow Woo, Commissioner

AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER

# CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY  
MAYOR

## BOARD OF PENSION COMMISSIONERS

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LOS ANGELES, CA 90012-4182  
485-2833

GARY MATTINGLY  
GENERAL MANAGER

The Honorable Board  
of Pension Commissioners  
City of Los Angeles

Honorable Members:

Fiscal year 1984 saw a number of new and continuing events of significance for the Los Angeles Fire and Police Pension System.

The fiscal year ended with a decline in the market value of the Pension System's total assets due primarily to a downturn in the market. Nevertheless, significant funding progress was made for the year. This progress in funding was even greater than expected because investment and cost-of-living gains outweighed salary losses.

Our contract with a master custodian, Bankers Trust Company, has allowed us to engage in securities lending, which returned over \$379,000 in additional revenue during the year.

This past year also saw the beginning of a Direct Deposit Program which allows thousands of our pensioners the security of having their monthly pension checks deposited directly into their bank accounts.

A major modernization project continued during fiscal 1984 to convert active and retired member files to a computer-accessed microfilm system. The computer purchased for this project is multi-tasking, offering the Department word processing capabilities previously unavailable. Such automation projects will reduce access time to member records, improve security and save labor costs and space.

The Los Angeles Fire and Police Pension System continues to be a defendant in a lawsuit filed by the Los Angeles Police Protective League and the United Firefighters of Los Angeles City. This suit seeks removal of the voter approved three percent cap placed on cost-of-living adjustments for service earned after July 1, 1982 for members of the Fire and Police Pension System (Article 17) and the New Pension System (Article 18).

Finally, in April 1984, approval was granted by the Board to utilize a Hearing Examiner Program for disability cases on a permanent basis. This program will help save a substantial amount of time presently required by the Board of Pension Commissioners in hearing disability cases.

Fiscal year 1984 saw advances being made in many areas of the Pension System. During Fiscal year 1985, the Department of Pensions plans to continue advancing toward a more fully funded pension fund and toward greater retirement security and service for our members.

Very truly yours,



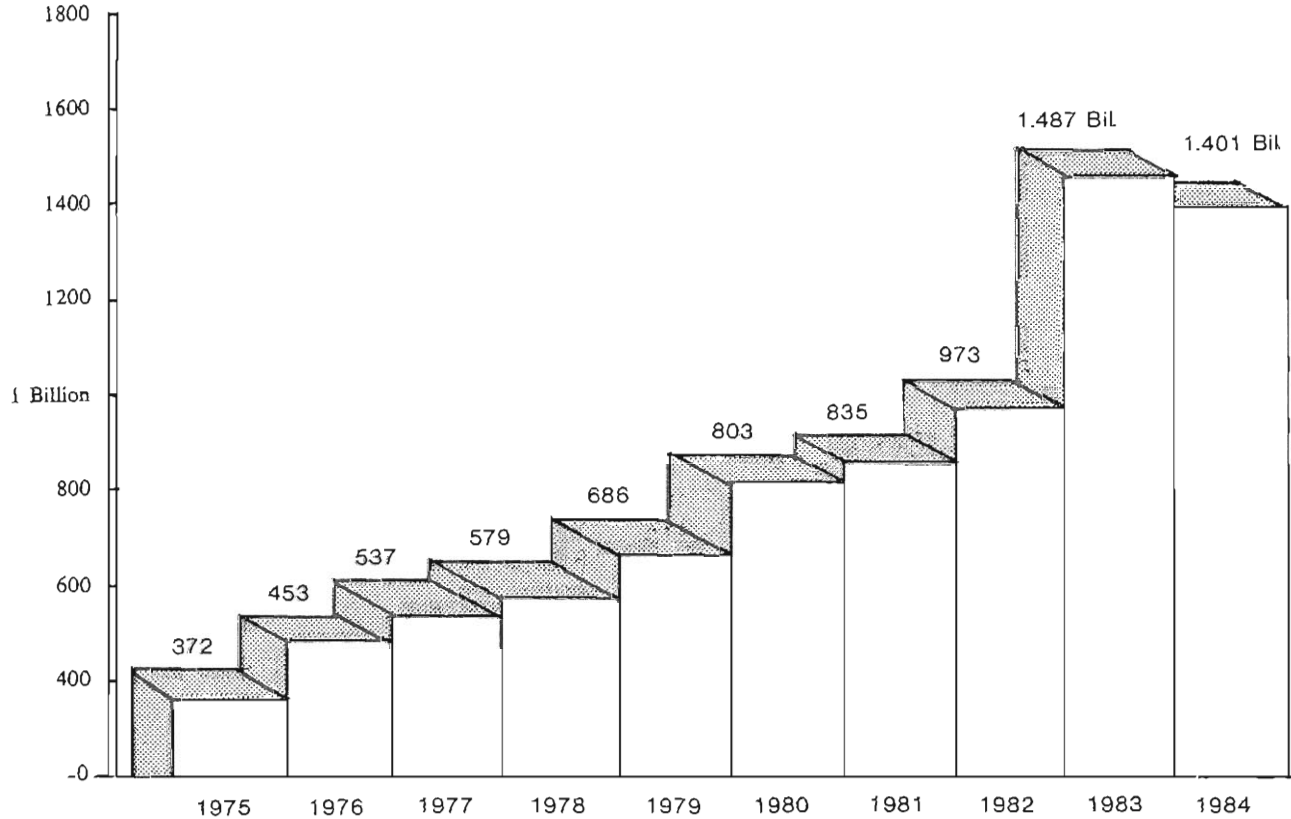
Gary Mattingly

GM:mu

# INVESTMENTS

MARKET VALUE  
OF TOTAL ASSETS  
(MILLIONS OF DOLLARS)

GROWTH OF THE FIRE AND POLICE  
PENSION SYSTEM ASSETS  
BY FISCAL YEARS

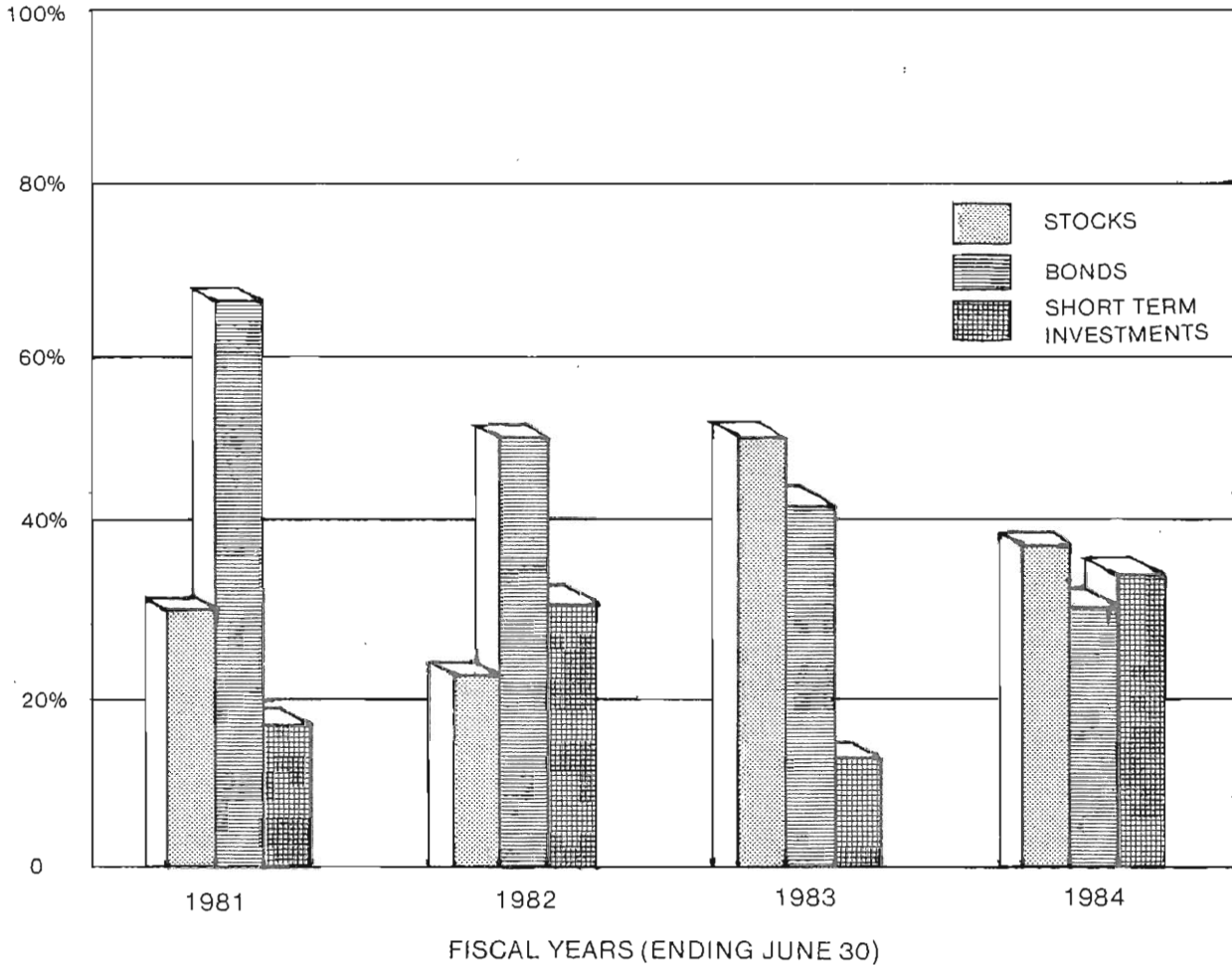


The investment environment in fiscal 1984 was difficult, with most major market indexes recording losses. The very large blue chip companies represented in the Dow Jones Industrials Index lost 2.8 percent, the Standard and Poor's index of 500 stocks lost 4.6 percent, and the indexes that include many smaller capitalization companies lost more than 10 percent. In the bond market, the Salomon Brothers high grade bond index lost 6.3 percent. Bonds with intermediate and shorter maturities managed to stay on the positive side, as the Shearson Government/Corporate index rose by 1.8 percent. The market value of Fire and Police Pension System investments declined by 5.9 percent to \$1.401 billion.

As can be seen in the Asset Mix chart, the investment advisors became more defensive, selling stocks and bonds and raising short-term investments. At the end of the year the total fund portfolio was approximately 38 percent stocks, 29 percent bonds, and 33 percent cash equivalents (money market instruments).

## FIRE AND POLICE PENSION SYSTEM ASSET MIX 1981 - 1984

TOTAL ASSETS



In spite of the decline in total assets, market value, revenues from interest and dividends increased by \$4.3 million to a total of \$101.8 million. This increase reflected higher yields from money market instruments purchased from sales of stocks.

The fund's overall performance for fiscal 1984 was below median, outperforming only 36 percent of the balanced funds measured by the SEI (formerly A.G. Becker) performance evaluation service.

The performance of the stocks owned by the fund, -16.4 percent, compared unfavorably with the stock market environment, although the stock advisors mitigated the overall effect somewhat by raising cash reserves.

The bonds owned by the fund performed relatively well at 2.1 percent, ranking in the top 36 percent of funds measured by the SEI service. The high turnover in issues, 72.6 percent, continued from the prior year as the two bond managers, Boston Company and Security Pacific Investment Managers, sought an aggressive bond swap strategy.



**ANNUAL RATES OF RETURN  
BASED ON MARKET VALUE**

Fiscal Year	Equities	Bonds	Total Fund *	CPI**
Ended June 30 1976	7.3%	11.6%	8.9%	7.6%
1977	-5.4%	13.8%	7.4%	7.6%
1978	-.1%	-.5%	.3%	5.4%
1979	12.1%	7.0%	8.2%	8.3%
1980	15.2%	-2.0%	5.8%	17.7%
1981	20.5%	-8.9%	-1.3%	10.1%
1982	-13.9%	12.7%	6.2%	9.1%
1983	68.8%	35.4%	46.9%	.5%
1984	-16.4%	2.1%	-5.9%	4.7%

1985

4.6

1986

4.0

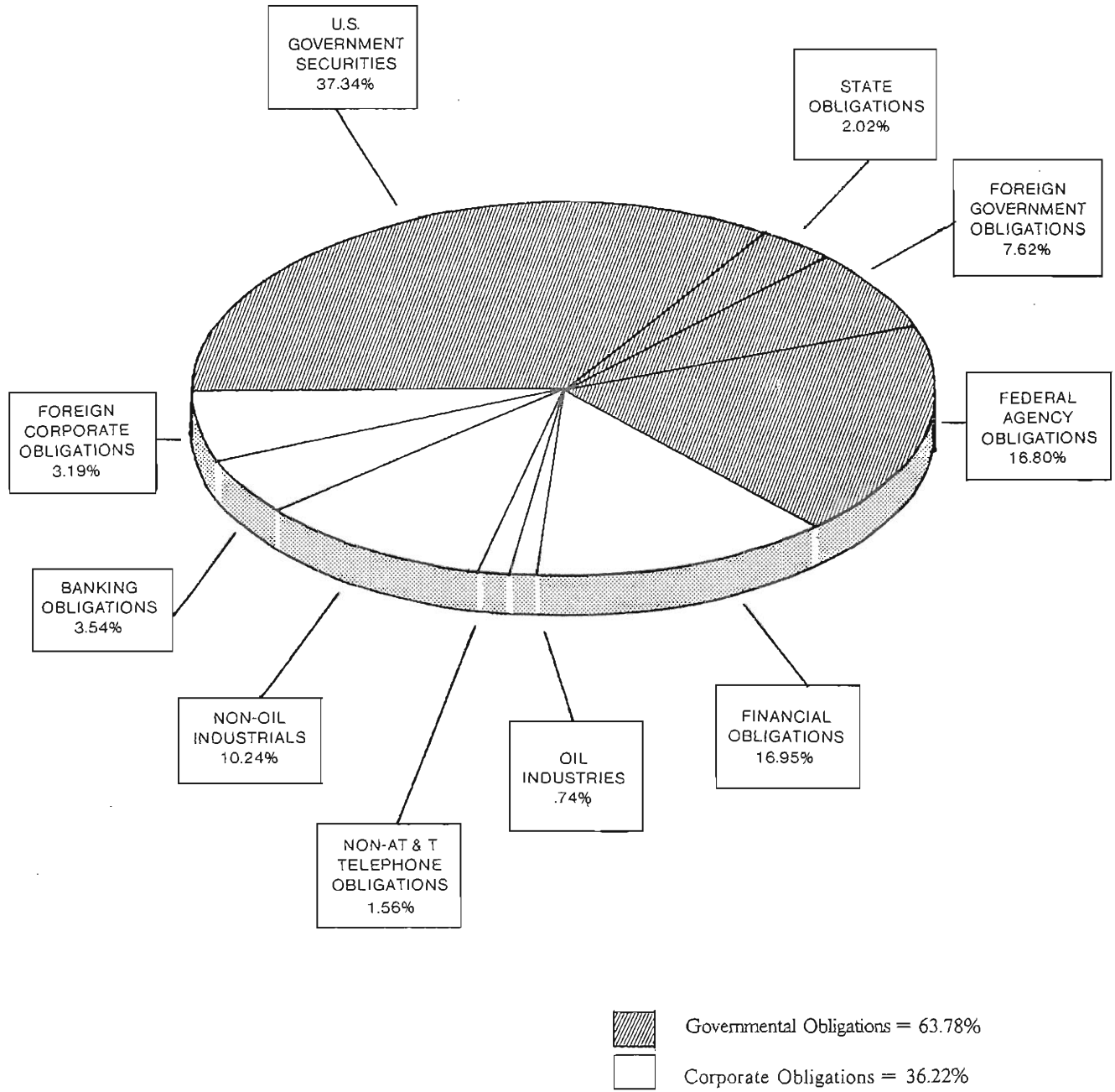
\* Total fund includes short term investments

\*\* The consumer price index percentage utilized in calculating annual cost-of-living increases is for the year ending in February.

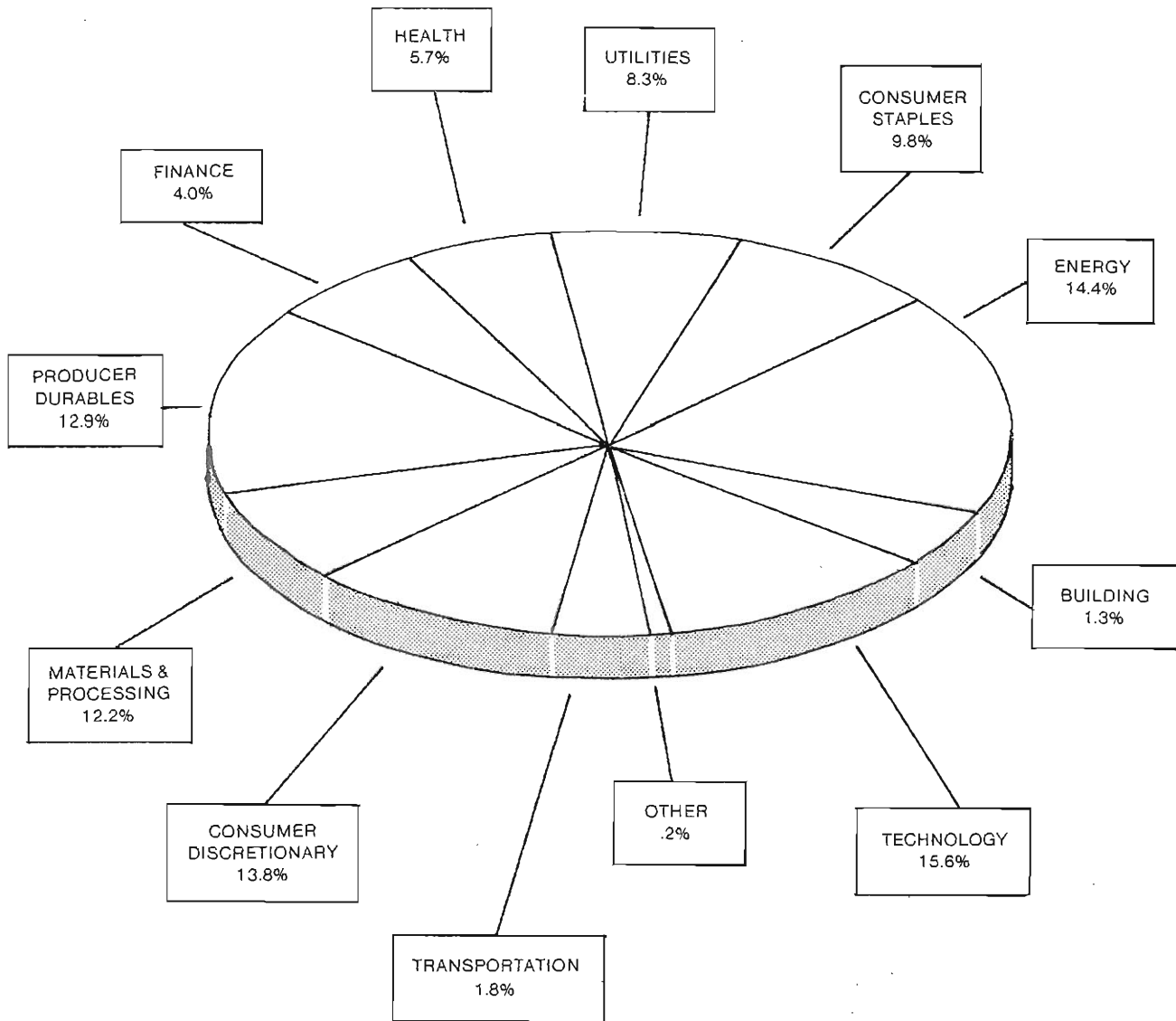
Asset Change Summary  
(in millions)

Beginning Market Value (7/1/83)	1,487.0
Contributions (City & Members)	237.2
Benefits paid to participants	(185.3)
Dividend and interest income	101.8
Gain/loss on sale of securities	47.2
Change in market value of securities held	<u>(286.9)</u>
Ending Market Value (6/30/84)	1,401.0

DIVERSIFICATION OF BOND ASSETS  
AS OF JUNE 30, 1984

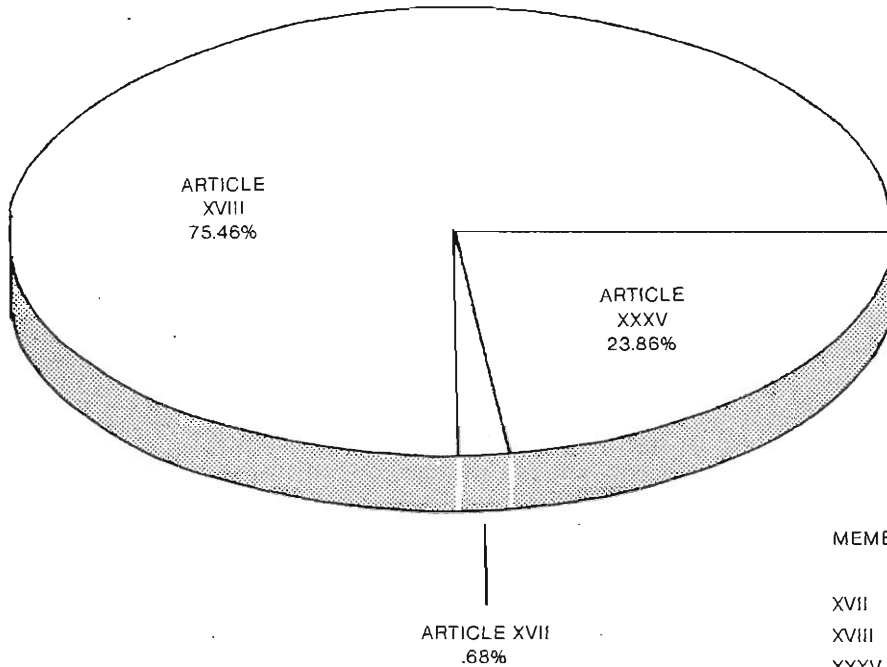


DIVERSIFICATION OF EQUITY ASSETS  
BY INDUSTRY SECTOR  
AS OF JUNE 30, 1984



# MEMBERSHIP

## ACTIVE MEMBERS



	MEMBERSHIP BY ARTICLE:		TOTAL
	FIRE	POLICE	
XVII	6	62	68
XVIII	2206	5346	7,552
XXXV	781 *	1607	2,388
	2993	7015	10,008

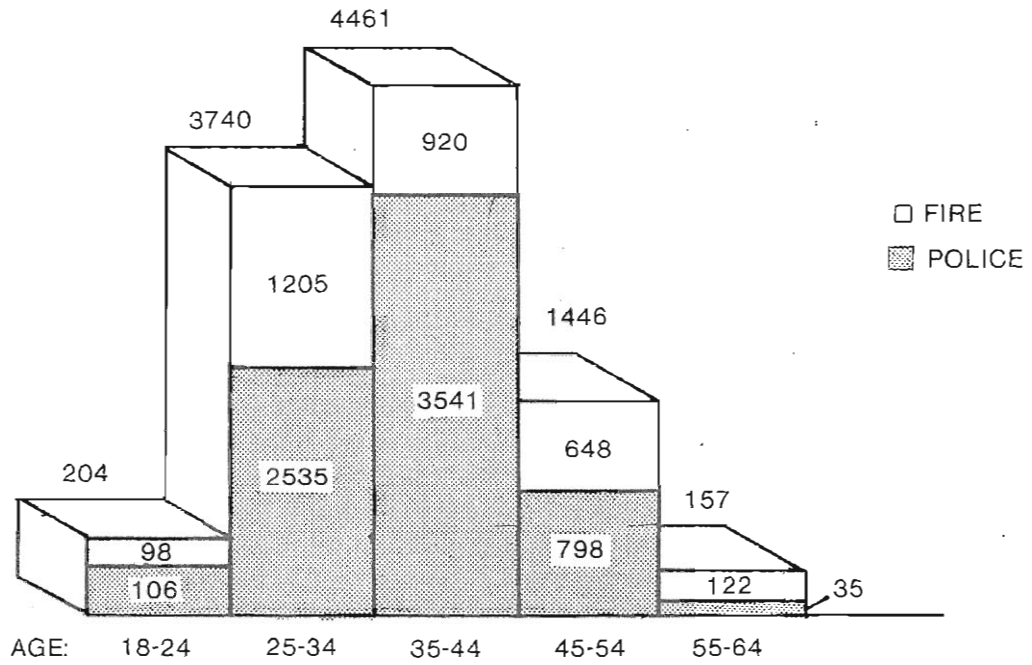
\* Paramedics and Civilian Ambulance Drivers included in Fire Department beginning in 1983.

Three separate pension plans cover the active membership of the Los Angeles Fire and Police Pension System. Of these, the Fire and Police Pension System (Article XVII) and the New Pension System (Article XVIII) are closed to new members. As expected, membership in these pension plans has declined steadily as members either retire or terminate employment.

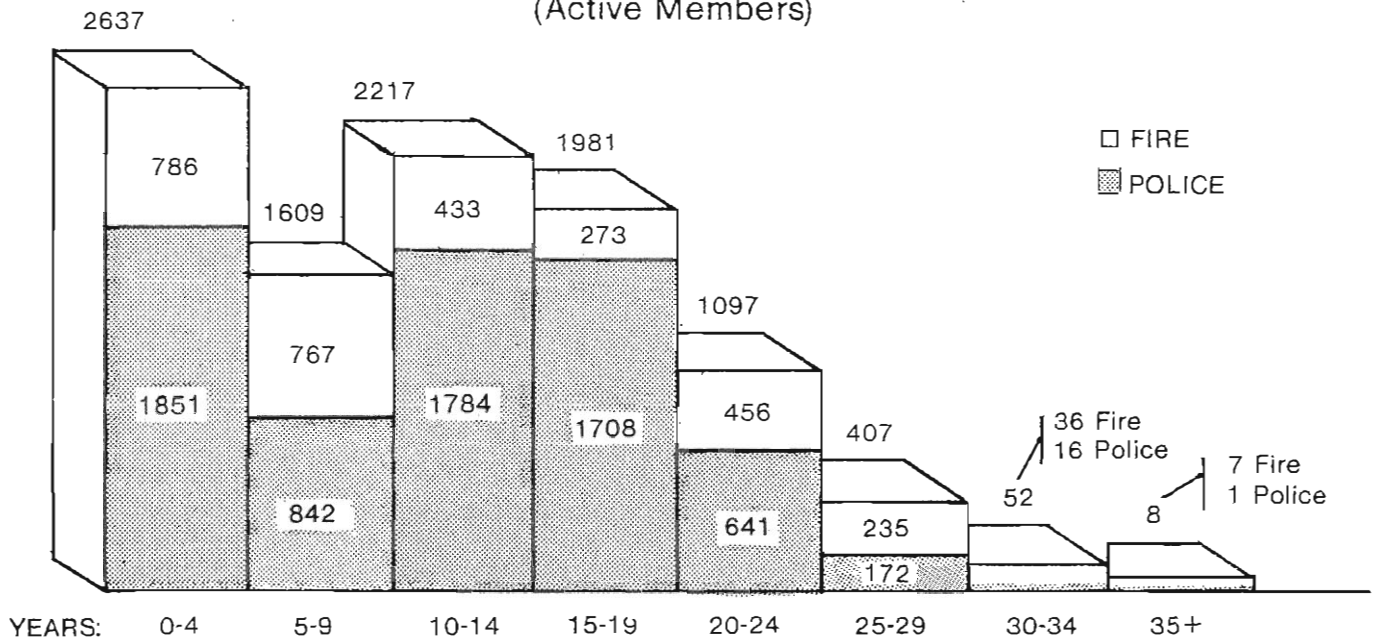
In 1980, the Safety Members Pension Plan (Article XXXV) was approved by the voters of the City of Los Angeles to cover new hires to the Fire and Police Departments. In November of 1982, paramedics and civilian ambulance drivers, after voter approval, were allowed to transfer to this plan from the City Employees' Retirement System.

Total membership in the three pension plans which comprise the Los Angeles Fire and Police Pension System, as of June 30, 1984, equalled 10,008, a net increase of 408 members since June 30, 1983.

### AGE COMPARISON BY DEPARTMENT (Active Members)

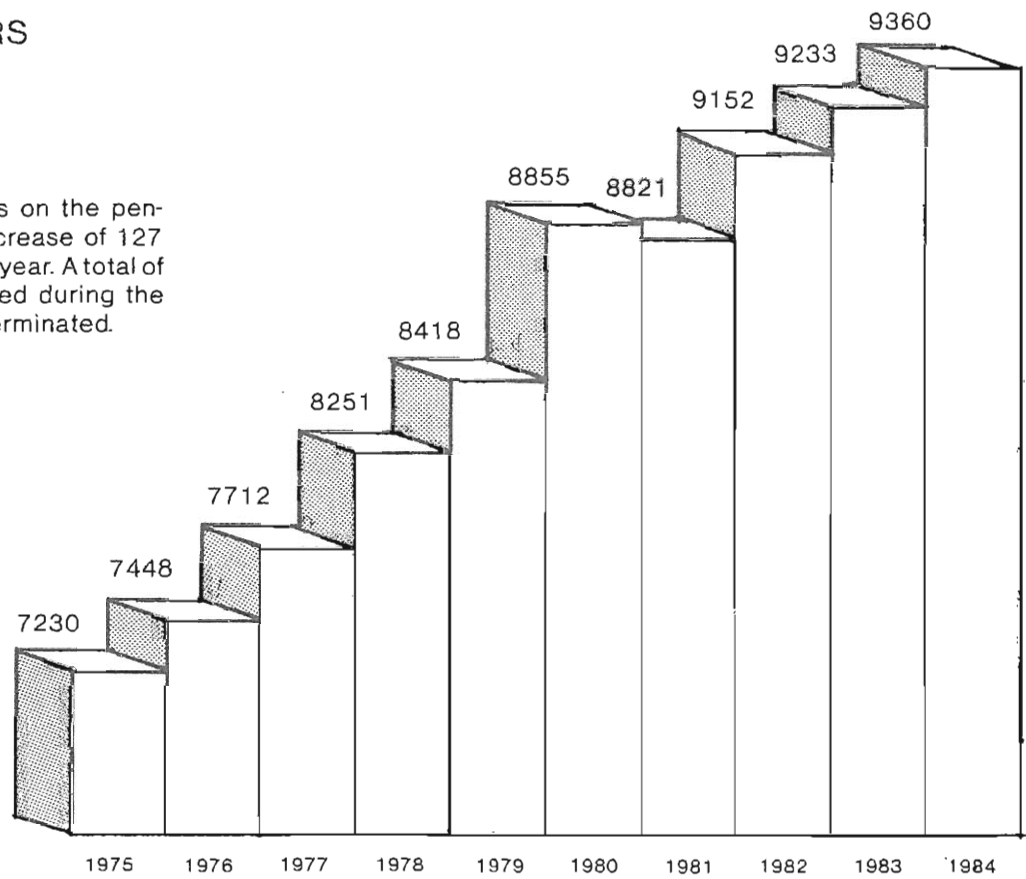


### COMPARISON OF YEARS OF SERVICE BY DEPARTMENT (Active Members)



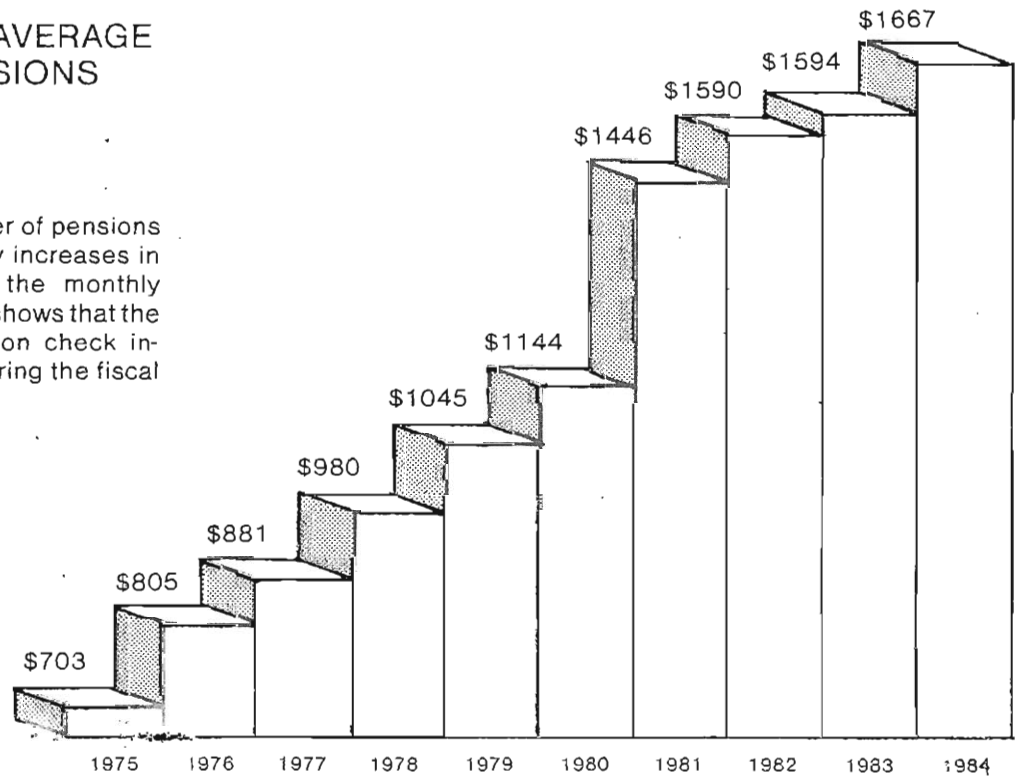
## RETIRED MEMBERS

The number of individuals on the pension roll showed a net increase of 127 persons over the previous year. A total of 412 pensions were granted during the year with 285 pensions terminated.



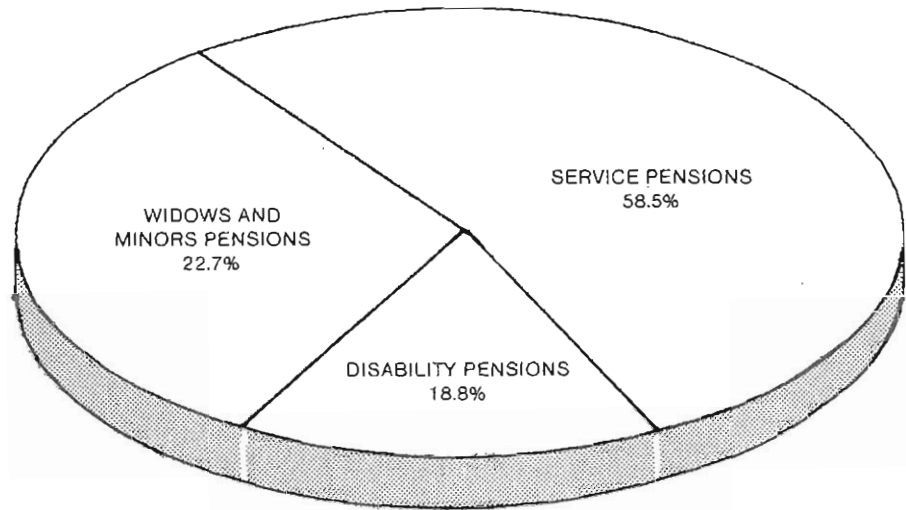
## COMPARISON OF AVERAGE MONTHLY PENSIONS

The increase in the number of pensions has been accompanied by increases in the average amount of the monthly pension check. The graph shows that the value of a monthly pension check increased by 4.6 percent during the fiscal year 1984.

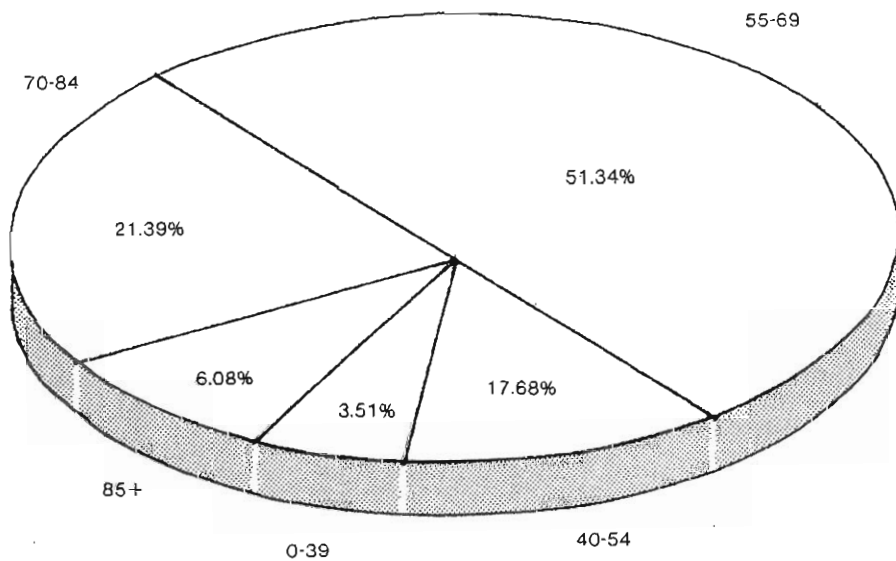


# TYPES OF PENSIONS

Pension benefits are payable to System Members and their survivors. As of June 30, 1984, 5,477 service pensions, 1,761 disability pensions and 2,122 pensions to widows and minors were being paid by the Los Angeles Fire and Police Pension System.



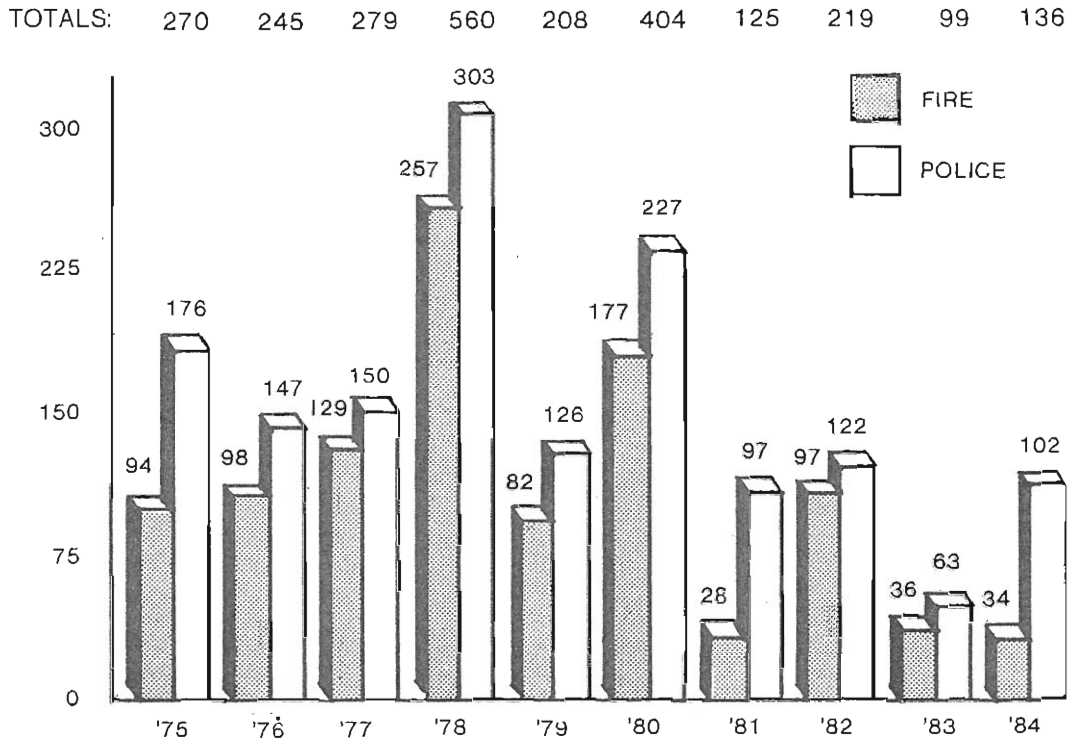
# AGE MIX OF PENSIONERS AS OF JUNE 30, 1984



AGE	NUMBER
0-39	= 329
40-54	= 1655
55-69	= 4805
70-84	= 2002
85 +	= 569
<b>TOTAL</b>	<b>= 9360</b>



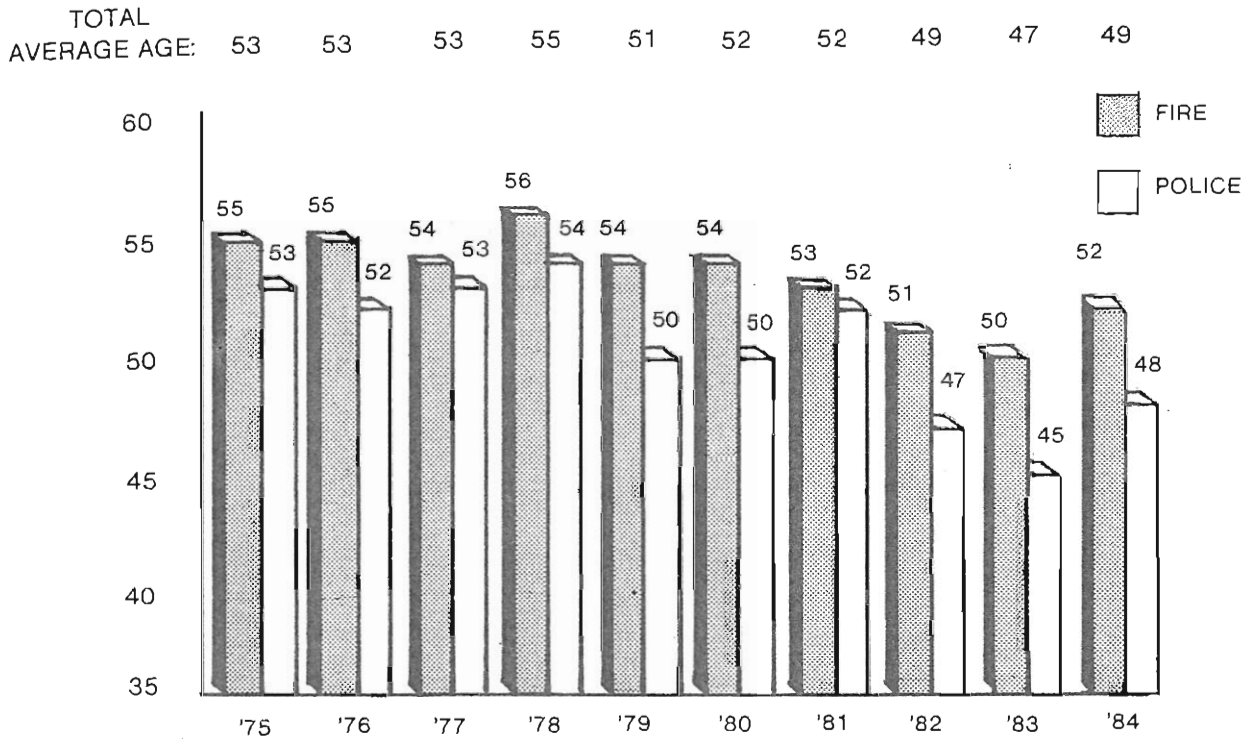
## SERVICE PENSIONS



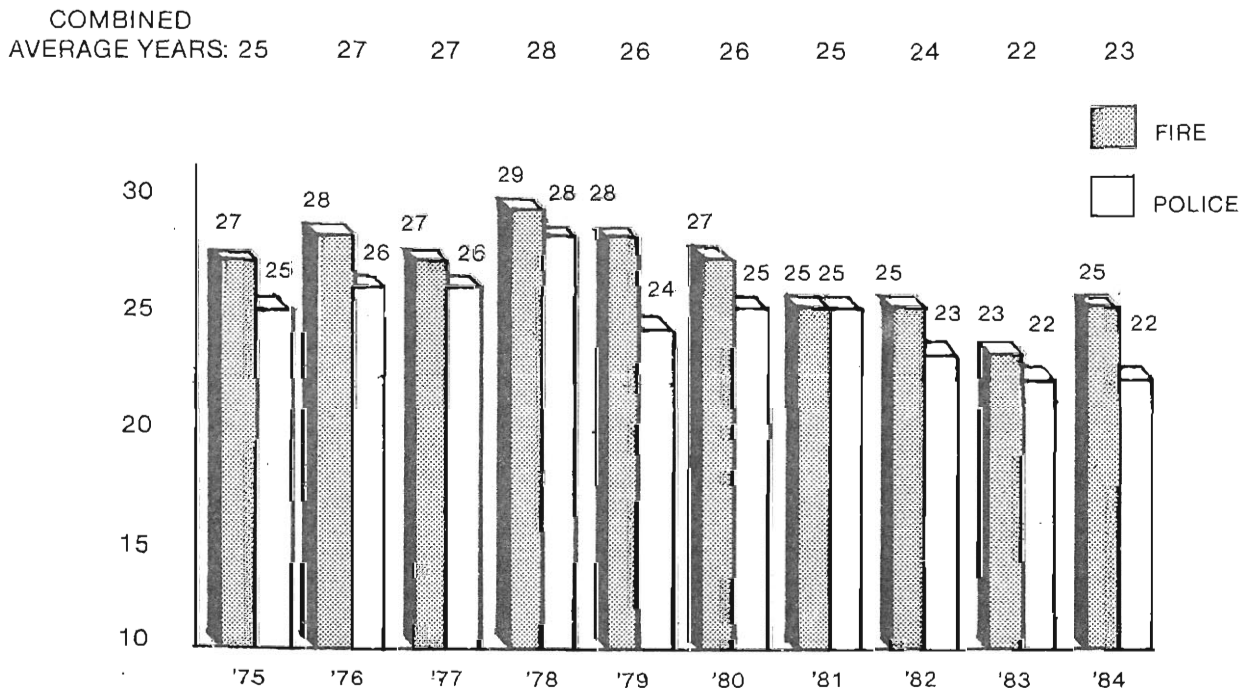
The above graph illustrates the total number of members who have retired, by effective date, on service pensions for the last ten fiscal years. Although no specific trends are indicated, the graph shows that the number of service pension retirements in the Police Department increased between fiscal years 1983 and 1984 by 62%, from 63 to 102. During the same time, Fire Department service pension retirements decreased slightly from 36 to 34.

The graphs on the following page give a comparison of the average age and average years of service at retirement by department. Both indicate a slight reversal of a general downward trend in the average age and years of service for both Fire and Police Department members.

## AVERAGE AGE AT RETIREMENT BY DEPARTMENT

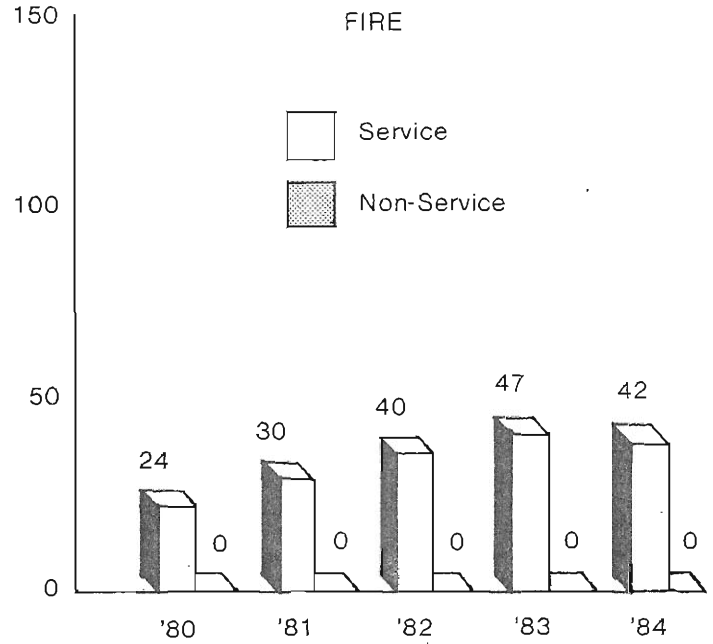
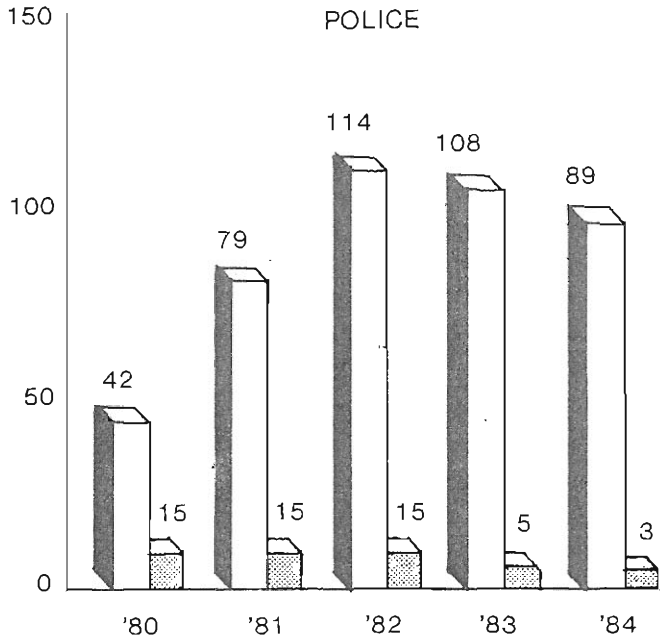


## AVERAGE YEARS OF SERVICE AT RETIREMENT BY DEPARTMENT

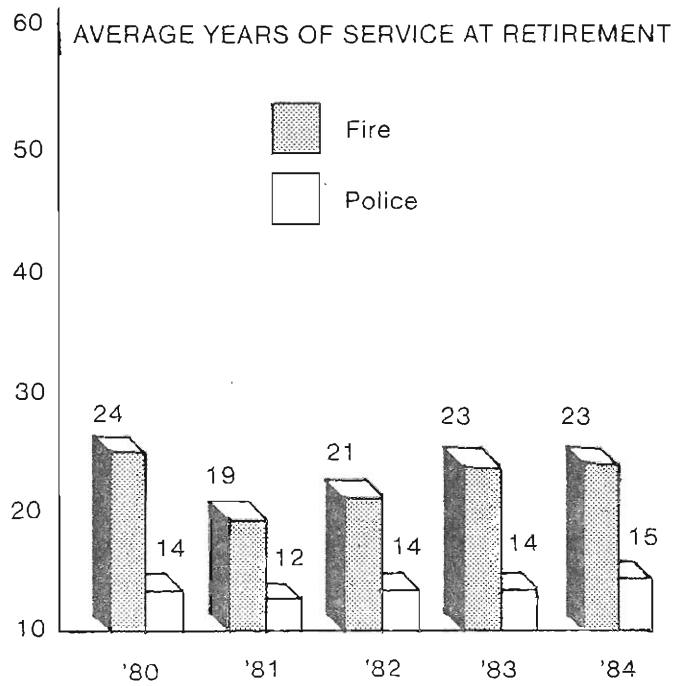
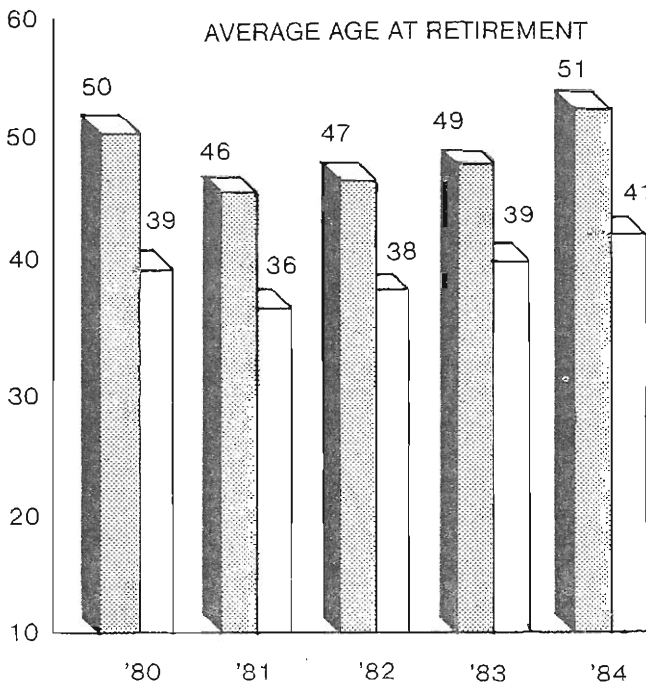


# DISABILITY PENSIONS

The following graphs illustrate the total number of disability pensions granted by department, service or non-service connected, over a five year period.



The average age and average number of years of service of Firefighters and Police Officers who were retired upon disability pensions during the last five fiscal years are reflected below:



SERVICE CONNECTED DISABILITY PENSIONS  
BY TYPE AND DEPARTMENT \*

\* recorded by effective date

	1980			1981			1982			1983			1984		
	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total
Back only	3	4	7	8	10	18	14	25	39	19	16	35	11	10	21
Back, neck and orthopedic	4	7	11	5	7	12	6	18	24	10	4	14	12	18	30
Other orthopedic	5	1	6	5	5	10	3	1	4	5	2	7	3	2	5
Cardiovascular	5	4	9	4	3	7	4	7	11	7	4	11	4	2	6
Internal	0	2	2	0	0	0	0	2	2	0	4	4	1	1	2
Multiple	5	6	11	1	8	9	6	18	24	3	13	16	7	9	16
Miscellaneous	1	1	2	1	1	2	3	2	5	0	1	1	1	4	5
Psychological only	0	0	0	0	6	6	1	12	13	1	15	16	0	10	10
Psychological plus physical	0	5	5	3	24	27	0	24	24	1	32	33	3	29	32
Totals	23	30	53	27	64	91	37	109	146	46	91	137	42	85	127

The above chart gives a comparison of the types and number of service connected disability pensions made effective during the fiscal years since 1979-80. In recent years the number of back only; back, neck and orthopedic; psychological; and psychological plus physical disability pensions had increased dramatically. However, as indicated by the chart, fiscal 1984 saw a slight decrease in the total number of these types of disability retirements.

The graph on the following page gives a comparison of disability pensions granted by department and rank.

## DISABILITY RETIREMENTS BY RANK

	1982	1983	1984
Police			
Police Officer	92	76	63
Sergeant	19	16	10
Detective	15	21	17
Lieutenant	2	0	2
Captain	1	0	0
Commander	0	0	0
Deputy Chief	0	0	0
Asst. Chief	0	0	0
Totals *	129	113	92
Fire			
Ambulance Driver/ Paramedic	0	0	4
Firefighter	20	21	16
Apparatus Operator	1	2	2
Engineer	7	5	7
Inspector	2	0	2
Captain	9	17	10
Battalion Chief	0	2	0
Asst. Chief	1	0	0
Deputy Chief	0	0	1
Totals *	40	47	42

\* Totals indicate number of disability pensions granted during the fiscal year.

# ACTUARY REPORT

## ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1984

### ASSETS

	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Applicable Assets	\$ 24,451,049	\$ 1,372,435,156	\$ 39,095,071	\$1,435,981,276
2. Present Value of Future Contributions by Members	919,256	188,782,738	85,781,013	275,483,007
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost	3,081,012	516,646,720	204,765,472	724,493,204
(b) Unfunded Actuarial Accrued Liability	561,461,301	3,076,634,525	8,522,385	3,646,618,211
4. TOTAL	\$ 589,912,618	\$5,154,499,139	\$ 338,163,941	\$6,082,575,698

### LIABILITIES

	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
5. Present Value of Benefits Already Granted				
(a) Service	\$ 216,440,966	\$1,902,637,256	0	\$2,119,078,222
(b) Disability	140,748,913	590,921,412	0	731,670,325
(c) Dependents	207,991,000	152,112,000	0	360,103,000
(d) Total	565,180,879	2,695,670,668	0	3,210,851,547
6. Present Value of Benefits to Be Granted				
(a) Service	22,301,018	2,107,439,177	\$ 240,770,579	2,370,510,774
(b) Disability	2,246,638	368,289,829	81,873,056	452,409,523
(c) Death	156,735	22,793,104	6,557,825	29,507,664
(d) Total	24,704,391	2,498,522,110	329,201,460	2,852,427,961
7. Refund of Employee Contributions	27,348	10,306,361	8,962,481	19,296,190
8. TOTAL LIABILITIES	\$ 589,912,618	\$5,154,499,139	\$ 338,163,941	\$6,082,575,698

## RESULTS OF VALUATIONS

As of June 30, 1984, there were 10,008 active and 9,360 retired members of the Los Angeles Fire and Police Pension System. Members of the pension systems are entitled to pension and auxiliary benefits according to Articles XVII, XVIII or XXXV of the City Charter.

The results of the actuarial valuation of the three systems as of June 30, 1984 are shown on the Actuarial Balance Sheet (see previous page). These valuations were based on the demographic assumptions adopted December 31, 1980. These assumptions were 8% annual interest, 6% annual salary, and 6% annual consumer price index increase and are identical to those used in the actuarial reports of June 30, 1983.

The Assets and Accounts Payable items of the Actuarial Balance Sheet were provided by the Department of Pensions 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 \$6.08 billion and is the "liability" of the System.

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 (\$1.44 billion) already accumulated in the System. Item 2 is the present value of member contributions (\$275 million). Item 3(a) 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	20.11
XVIII	19.16
XXXV	19.10

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 after Proposition H for Articles XVII and XVIII) to the Systems. The current present value of these contributions is \$724 million.

For the third step, the existing assets (\$1.44 billion), plus the present value of future normal costs (\$.72 billion), plus the present value of future member contributions (\$.27 billion) were compared to the present value of the benefits to be paid out (\$6.08 billion). The Systems were short by \$3.65 billion.

The shortfall (or balancing item) of \$3.65 billion is the Unfunded Actuarial Accrued Liability (UAAL) of the Systems. To fund the Systems into actuarial balance, a pattern of contributions which has a present value of \$3.65 billion is needed.

The Actuary has determined that the appropriate amounts needed to amortize the UAAL are as follows:

Article	Amount	Pattern
XVII	\$45,690,233	As a level dollar through the fiscal year 2037.
XVIII	23.79%	As a level of total payroll, i.e., Articles XVII, XVIII, and XXXV through the fiscal year 2037.
XXXV	.82%	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 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 Accrued Liability (UAAL) 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 UAAL over the period ending with the fiscal year 2036-2037. Traditionally, the amortization of the Unfunded Actuarial Accrued Liability has been a level dollar amount including principal and interest. The following summarizes the Actuary's results:

	June 30, 1984	June 30, 1983
1. City's Entry Age Normal Cost*	20.11%	18.84%
2. Amortization of the UAAL	\$45,690,233	\$47,888,285
3. Health Plan Subsidy	1,750,000	1,250,000

\* Percentage is applied to Article XVII payroll only

The Health Plan Subsidy budget was developed by the Department of Pensions and is included here for completeness.

**BUDGET FOR NEW PENSION SYSTEM  
(ARTICLE XVIII)**

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

The amortization of the New Pension System's UAAL is designed to produce an increasing payment pattern so that each year's payment would be the same percentage of the System's total payroll for that year. The amortization payments have been calculated to increase at the same rate as the System's cost-of-living increase assumption (currently at 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 UAAL; therefore, the UAAL 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.

	June 30, 1984	June 30, 1983
1. City's Entry Age Normal Cost	19.16% *	18.59% *
2. Amortization of the UAAL	23.79%**	25.03%**
3. Health Plan Subsidy	\$4,250,000	\$3,750,000

\* Percentage is applied to Article XVIII payroll only.

\*\* This percentage is applied to the total payroll of active employees covered by Articles XVII, XVIII, and XXXV per 1984 Charter Amendment.

Note that for long-term budget purposes the dollar amount implied by the amortization percentage can be expected to grow by 6% per year if all assumptions are met. Since cost-of-living and asset gains outweighed salary losses for Article XVIII, the percentage for amortization of the UAAL decreased from last year.

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 cost of living benefits provided in this Article as shall be determined by 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 6.30%. It is believed by the Actuary that if the System were to maintain separate accounts for basic and cost-of-living assets, there would also be a UAAL with respect to cost-of-living benefits so the total cost (Normal Cost plus amortization) would be in excess of 6.30% of payroll. Accordingly, it is recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary.

**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 UAAL. Presumably, the UAAL has resulted from actuarial experience gains and losses and these are to be amortized over 15 years. Using this approach the results can be summarized as follows:

	June 30, 1984	June 30, 1983
1. City's Entry Age Normal Cost*	19.10%	19.76%
2. Amortization of UAAL*	.82%	.30%
3. Total Contributions*	19.92%	20.06%

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

One reason for the increase in the percentage for amortization of Article XXXV UAAL was the rehire of Article XVII and XVIII members who previously terminated. Upon rehire such members are granted past service in the Article XXXV plan based on their previous service in the other plans. Since there is no corresponding asset transfer, an increase in the UAAL of Article XXXV results. Since the Article XXXV UAAL is small to begin with, the moderate number of such rehires has had a disproportionate effect as the Article XXXV payroll base increases in future years.

The percentage for amortization of Article XXXV UAAL also increased because of the added past service liability due to the transfer into Article XXXV of paramedics and civilian ambulance drivers from the Los Angeles City Employees' Retirement System. Although the transfer occurred in 1983, the effect of the transfer was not fully reflected in the service data until this year.

The increase in the percentage for amortization of Article XXXV UAAL would have been larger had it not been for investment and withdrawal gains.

In the opinion of the Actuary, with adoption of the above recommendations, all three systems will be maintained in compliance with the City Charter and in accordance with the methods and assumptions underlying the calculations.



# AUDITOR REPORT

*Touche Ross & Co.*

May 3, 1985

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 (the System) for the years ended June 30, 1984 and 1983, and the related statements of revenues, expenditures and changes in fund balance and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 4, the System is a defendant in a lawsuit seeking removal of the 3% cap on cost of living adjustments for years of service subsequent to July 1, 1982.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of the City of Los Angeles Fire and Police Pension System at June 30, 1984 and 1983 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Touche Ross & Co.*

Certified Public Accountants

CITY OF LOS ANGELES  
 FIRE AND POLICE PENSION SYSTEM  
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	Year ended June 30			
	1984		1983	
<b>REVENUES:</b>				
Taxes	\$ 62,371,344		\$185,444,978	
Appropriations from City of Los Angeles general fund	150,599,653		5,912,139	
Members' contributions	24,268,742		20,882,898	
Sales of unclaimed property	304,634		330,403	
Miscellaneous	260	\$ 237,544,633	2,949	\$ 212,573,367
<b>Investment income:</b>				
Interest	79,206,008		80,320,446	
Dividends	22,821,947		17,193,368	
Gain on sale of investments	47,158,295		61,643,813	
Securities lending income (Note 7)	379,188	149,565,438	128,430	159,286,057
		387,110,071		371,859,424
<b>EXPENDITURES:</b>				
<b>Benefits paid to participants:</b>				
Service	113,671,610		112,427,805	
Disability	31,773,752		29,641,956	
Surviving spouses	34,853,187		33,408,895	
Minors and dependents	539,675		477,250	
Health insurance subsidy	4,465,209		3,472,942	
	185,303,433		179,428,848	
Administrative expense	4,832,256	190,135,689	3,701,230	183,130,078
<b>NET OPERATING INCOME</b>		196,974,382		188,729,346
<b>FUND BALANCE, July 1, 1983</b>		1,232,350,476		1,043,621,130
<b>FUND BALANCE, June 30, 1984</b>		<u>\$1,429,324,858</u>		<u>\$1,232,350,476</u>

See accompanying notes to the financial statements.

CITY OF LOS ANGELES  
 FIRE AND POLICE PENSION SYSTEM  
 BALANCE SHEETS

Year ended June 30

	1984		1983	
<b>ASSETS:</b>				
Cash:				
Restricted (Note 3)	\$ 841,887		\$ 1,346,684	
Unrestricted	100,961	\$	942,848	\$ 3,640,382
Receivables:				
Accrued interest and dividend income	17,525,683		15,582,257	
Contributions	2,148,328		1,255,293	
Due from brokers and others	11,627,615	31,301,626	18,842,840	35,680,390
Investments:				
Temporary, at cost plus accrued interest, which approximates market	457,102,593		169,043,274	
Bonds, at amortized cost (market value \$400,293,014 in 1984 and \$519,182,204 in 1983)	437,449,933		506,208,022	
Common stock, at cost (market value \$525,607,844 in 1984 and \$759,625,213 in 1983)	522,578,964	1,417,131,490	559,066,542	1,234,317,838
Total Assets		1,449,375,964		1,273,638,610
<b>LIABILITIES:</b>				
Benefits in process of payment	39,016		605,333	
Accounts payable	1,762,364		330,786	
Due to brokers	18,249,726	20,051,106	40,352,015	41,288,134
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		<u>\$1,429,324,858</u>		<u>\$1,232,350,476</u>
<b>FUND BALANCE:</b>				
Actuarial present value of projected benefits payable to current retirants and beneficiaries	\$3,210,851,547		\$3,068,314,385	
Actuarial present value of credited projected benefits for active employees:				
Member contributions (Note 8)	202,627,361		195,789,042	
Employer financed portion	1,669,120,579	\$5,082,599,487	1,525,130,224	\$4,789,233,651
Unfunded actuarial present value of credited projected benefits		<u>(3,653,274,629)</u>		<u>(3,556,883,175)</u>
<b>TOTAL FUND BALANCE</b>		<u>\$1,429,324,858</u>		<u>\$1,232,350,476</u>

See accompanying notes to the financial statements.

CITY OF LOS ANGELES  
 FIRE AND POLICE PENSION SYSTEM  
 STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended June 30	
	1984	1983
<b>SOURCE OF FUNDS:</b>		
Net operating income	\$196,974,382	\$188,729,346
Decrease in bond investments	68,758,089	289,893
Decrease (increase) in common stock investments	36,487,578	( 340,587,524)
Decrease (increase) in proceeds from sale of investments receivable	7,215,225	( 18,707,347)
Increase (decrease) in accounts payable	1,431,578	( 1,444,655)
	310,866,852	( 171,720,287)
 <b>USE OF FUNDS:</b>		
Increase (decrease) in temporary investments	288,059,319	( 129,792,436)
Decrease (increase) due to broker	22,102,289	( 40,352,015)
Increase (decrease) in accrued interest and dividends	1,943,426	( 3,367,098)
Increase in contributions receivable	893,035	228,694
Decrease (increase) in benefits in process of payment	566,317	( 605,333)
	313,564,386	( 173,888,188)
 <b>(DECREASE) INCREASE IN CASH</b>	 (\$ 2,697,534)	 \$ 2,167,901

See accompanying notes to the financial statements.

CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 1984 AND 1983

NOTE 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, which provides that the funding requirements of the System, based on the results of actuarial valuation, will be satisfied by the City of Los Angeles. In addition, the City of Los Angeles is required to fund the administrative expenses of the System.

In general, the System is a defined benefit pension plan covering all firefighters, police officers, paramedics and civilian ambulance employees 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 25, 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 qualify for a pension. Members of the Safety Members Pension Plan must be age 50 with ten 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 ten years to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate at a maximum of 3% per year. These benefits can be adjusted by City Council once every three years.

NOTE 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.

Cash

Cash consists primarily of an individual interest in the cash held by the Treasurer of the City of Los Angeles.

Investments

Temporary investments, consisting primarily of bankers acceptances, commercial paper, certificates of deposit and treasury bills, are carried at cost which approximates market at June 30, 1984 and 1983.

Bonds are recorded at face value less unaccreted discount, or plus unamortized premium. Bond premium and discounts are amortized or accreted 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.

Income from Investments

The Charter of the City of Los Angeles provides that income from investments, exclusive of capital gains and losses, shall be credited to member contribution accounts. Realized capital gains and losses on investments are recognized in the City's actuarial funding calculation.

Reclassification

Certain reclassifications have been made to the 1983 financial statements to conform to the 1984 presentation.

NOTE 3 - WORKERS' COMPENSATION FUND:

Restricted cash consists of tax revenues which are deposited directly into the Workers' Compensation Fund for Fire and Police pensioners by the City Controller. Workers' compensation benefits to pensioners of the Fire and Police Pension System are paid therefrom. In the event that the Fund becomes inactive, any remaining balance would become the property of the Fire and Police General Fund.

NOTE 4 - CONTINGENT LIABILITIES:

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1984. Except for the following case, the combined potential liability is deemed to be not material to the net assets of the System.

The case, filed by the L.A. Police Protective League, challenges the legality of the proposition described in Note 8 in regards to the 3% cap on cost of living adjustments for years of service subsequent to July 1, 1982. The eventual outcome of this case cannot be predicted, and the ultimate liability with respect to it cannot be reasonably estimated. Since the minimum potential liability for this case cannot be reasonably estimated, no liability for it has been recorded in the financial statements.

NOTE 5 - 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, 1984 and 1983. Such liabilities represent computed amounts which, if such amounts were held

by the System, with additions from future contributions to be received to cover normal costs and with interest on investments compounded annually at a certain assumed rate, would be sufficient to meet the pension obligations. The valuations were determined on the basis of (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 most significant economic and actuarial assumptions consist of the following:

- Investment return 8%
- Annual salary scale increase 6%
- Annual cost of living increase:
  - Fire and Police Pension System and new pension system members:
    - Accrued for service prior to June 30, 1982 6%
    - Accrued for all subsequent service 3%
    - Safety Members Pension Plan Members 3%
- Employee turnover and retirement - Expected rates of employee turnover and retirement were developed during the last actuarial investigation based on actual experience of the System. These rates will be used until the next actuarial investigation.
- Mortality among retirees - The valuation for those on service retirement is based upon the 1971 Group Annuity Mortality Table projected to 1980. The valuation for those on disability retirement is based upon the 1974 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.
- Mortality among spouses - The valuation is based upon the 1951 Female Group Mortality Table.
- Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System. These rates will be used until the next actuarial investigation.

**NOTE 6 - 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, 1984 and 1983, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. 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. For New System members and the Old System members, a dollar amount or percentage 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 gains 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, 1983 to be as follows:

	Percentage of members' salaries		
	Old System	New Pension System	Safety Members Pension Plan
Entry-age normal cost contribution	18.84%	18.59%	19.76%
Amortization of the unfunded liability	\$47,888,285 *	\$87,671,135 *	0.30%
Health plan subsidy	\$ 1,250,000	\$ 3,750,000	

\* Stated as required dollar amount.

The actuarially determined unfunded liability of the System is \$3,563,274,629 at June 30, 1984 and \$3,556,883,175 at June 30, 1983 (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, 1984 is to be amortized over the next 53 years through contributions to be made by the City.

**NOTE 7 - SECURITIES LENDING:**

The System had entered into various short-term arrangements whereby investments were loaned to various brokers. The lending arrangements are collateralized by cash and marketable securities. These agreements provide for the return of the investments and for a payment of: a) a fee, when the collateral is marketable securities, or b) interest earned when the collateral is cash on deposit. The securities on loan to the broker continue to be shown at their cost basis in the balance sheet. Amounts relating to fiscal years ended June 30, 1984 and 1983 are as follows:

	1984	1983
Securities on loan:		
Cost	\$82,955,419	\$104,525,043
Market	\$80,273,386	\$132,408,835
Collateral	\$82,685,467	\$135,386,318

**NOTE 8 - CHANGES TO PLAN PROVISIONS:**

On July 1, 1982, two changes in the System became effective as a result of a ballot proposition approved by the electorate of the City of Los Angeles. The first change gave all members who were active on July 1, 1982 a vested right to their past contributions and accrued interest in the event of their termination prior to retirement. The dollar amounts of the contributions and interest at June 30, 1984 and 1983 are \$202,627,361 and \$195,789,042. The second change placed a 3% limitation on cost-of-living benefits for all service subsequent to June 30, 1982 (Note 4).

On November 28, 1982, as a result of approved ballot proposition, City paramedics and civilian ambulance employees were transferred into the System from the City Employees Retirement System.

# BUDGET

## DEPARTMENT OF PENSIONS

### FIRE AND POLICE PENSION SYSTEM, NEW PENSION SYSTEM, AND SAFETY MEMBERS PENSION PLAN

The Board of Pension Commissioners has the responsibility for and the exclusive control of the administration and investment of monies in the several funds of the Fire and Police Pension System, New Pension System and the Safety Members Pension Plan and administers the provisions of the Charter relative to service, disability, and dependents' pensions for members of the Fire and Police Departments.

#### RECEIPTS

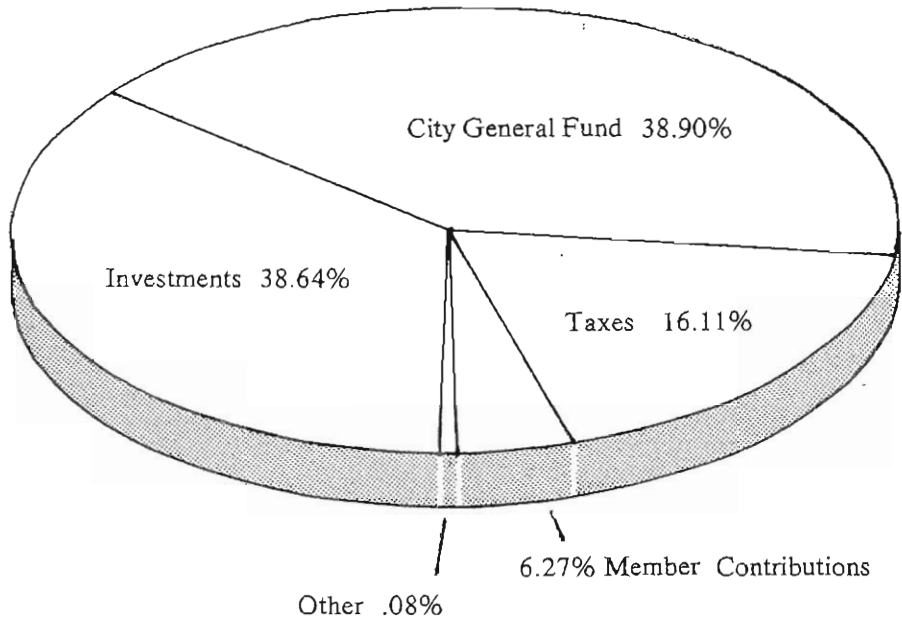
	Budget 1983 - 84	Actual 1983 - 84
Taxes .....	\$212,809,847	\$212,970,997
Contributions .....	26,123,040	24,268,742
Earnings on Investments .....	103,200,000	149,565,438
Sale of Unclaimed Property .....	260,000	304,634
Miscellaneous .....	5,000	260
<b>TOTAL RECEIPTS .....</b>	<b>\$342,397,887</b>	<b>\$387,110,071</b>

#### EXPENDITURES

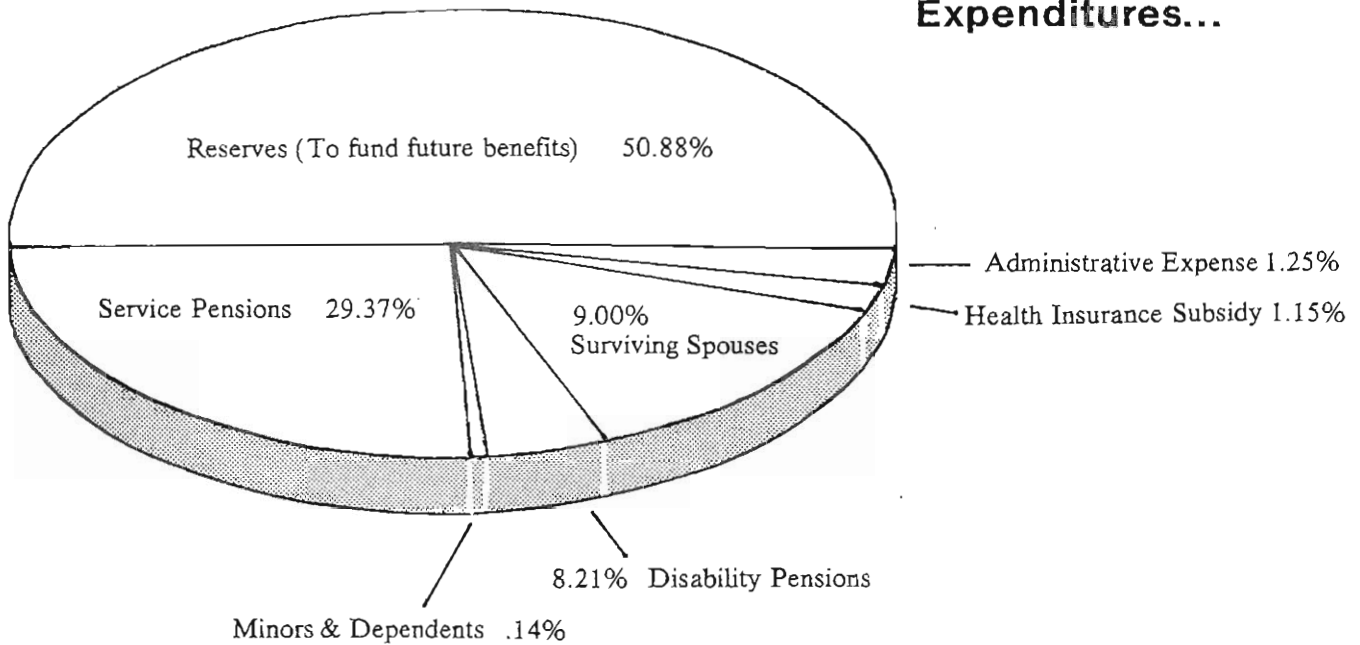
	Budget 1983 - 84	Actual 1983 - 84
Service Pensions .....	\$120,962,395	\$113,671,610
Disability Pensions .....	39,589,383	31,773,752
Widows' Pensions .....	35,354,983	34,853,187
Minor's / Dependents' Pensions .....	449,248	539,675
Health Insurance Subsidy .....	4,100,000	4,465,209
Administrative Expense .....	4,496,524	4,832,256
Loss On Disposition of Investments .....	—	—
<b>TOTAL EXPENDITURES .....</b>	<b>\$204,952,533</b>	<b>\$190,135,689</b>
Return to Reserve .....	137,445,354	196,974,382
<b>TOTAL DISBURSEMENTS .....</b>	<b>\$342,397,887</b>	<b>\$387,110,071</b>

LOS ANGELES FIRE & POLICE  
 PENSION SYSTEM 1983 - 84  
 INCOME: \$387,110,071

**Revenue....**



**Expenditures...**





## ADMINISTRATIVE EXPENSE COMPARISON

1979-80 to 1983-84

Operating Expense :

	1983-84	1982-83	1981-82	1980-81	1979-80
Salaries .....	\$1,131,046	991,625	804,023	752,729	636,935
Overtime.....	6,013	7,102	952	889	—
Office and Administrative Expense	56,881	49,560	49,152	38,307	43,441
Operating Supplies and Expense..	—	—	100	13,797	7,800
Printing and Binding.....	12,448	10,957	8,806	4,385	11,721
Travel.....	40,559	22,027	16,854	19,316	13,894
Contractual Services.....	2,927,525	1,584,156	1,185,570	984,907	423,610
Field Equipment.....	(980)	1,280	—	—	800
Petroleum Products.....	—	2,700	1,795	—	1,566
Transportation.....	8,346	1,300	—	—	2,259
Annual Audit.....	8,800	10,029	14,576	—	8,000
Governmental Meetings.....	—	—	300	—	35
Litigation .....	96,040	317,387	36,744	31,174	35,680
Medical Services.....	433,631	469,817	382,450	288,086	153,374
Actuarial Expense.....	21,500	29,000	19,000	19,000	19,000
Health Insurance.....	36,631	72,800	40,914	24,259	25,800
Retirement Contributions.....	36,970	36,000	24,000	19,450	13,129
Tuition Reimbursement.....	1,812	995	—	—	—
Dental Insurance.....	4,177	7,004	4,046	2,696	3,877
Equipment, Furniture & Fixtures.	10,857	87,491	4,302	334	33,641
	<u>\$4,832,256</u>	<u>\$3,701,230</u>	<u>\$2,593,584</u>	<u>\$2,199,329</u>	<u>\$1,434,562</u>

# LEGAL

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

### CONTRACTS

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The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and Boston Company, Criterion Investment Management Company, Loomis Sayles, SEI Funds Evaluation Service and Touche Ross.

### PROBATE MATTERS

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This office examined 50 probate accountings, as well as petitions and other documents which were received by the Department of Pensions. Twenty requests for special notice were prepared, filed and served. Sixteen guardianships and conservatorships were discontinued and twenty were commenced. There are 93 guardianships pending, 29 covering minors and 64 covering incompetents.

### LITIGATION

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There are 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

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##### I. Decisions upholding the Board:

Bishop v. Board of Pension Commissioners  
Chancey v. Board of Pension Commissioners  
Dill v. Board of Pension Commissioners  
Fuhrman v. Board of Pension Commissioners  
Graff v. Board of Pension Commissioners  
Lopez v. Board of Pension Commissioners  
Page v. Board of Pension Commissioners  
Sacco v. Board of Pension Commissioners  
Shaver v. Board of Pension Commissioners

##### II. Decisions reversing the Board:

Benitez v. Board of Pension Commissioners  
Dierks v. Board of Pension Commissioners  
Galbally v. Board of Pension Commissioners  
Peterson v. Board of Pension Commissioners  
Pruett v. Board of Pension Commissioners  
Wiggs v. Board of Pension Commissioners

#### (B) Cases Presenting interesting facts or legal issues

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### 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 challenging the Board's action. The petition was denied. He appealed.

The Court of Appeal reversed the Superior Court, holding that the Charter provisions relied on by the Board were intended only to prohibit simultaneous or concurrent payment from two different pension funds and did not prohibit Mr. Barth from filing an application for a change of pension status. The Court also held that Charter Section 190.16 expressly permitted the change. (Barth v. Board of Pension Commissioners, 145 Cal. App. 3d 826)

### BOWMAN v. BOARD OF PENSION COMMISSIONERS

Robert Bowman is a member of the Fire Department presently on service retirement. His application for a disability pension had been denied. He unsuccessfully requested to re-apply pursuant to Board Rule 4.15b. Mr. Bowman took the matter to Superior Court where his petition for writ of mandate was denied.

Upon appeal, the Superior Court was reversed and the case remanded to that court for the issuance of a writ of mandate directing the Board to grant Mr. Bowman's request for a hearing on his reapplication for a disability pension.

The decision was based in the main on the state of the record which indicated that the Fire Department was unable to locate a position suited to Mr. Bowman's rank and work-related physical disabilities and condition. (Bowman v. Board of Pension Commissioners, 155 Cal. App. 3d 937)

### CAUSEY v. BOARD OF PENSION COMMISSIONERS

Vance D. Causey, a former member of the Police Department now on a service-connected disability pension, had previously been granted a nonservice-connected disability pension.

Concurrent with the processing of the disability pension application by the Board, Mr. Causey had presented a claim for compensation to the Workers' Compensation Appeals Board.

The Board had granted Mr. Causey's nonservice-connected disability pension in 1980. The Superior Court upheld the Board in 1982. This decision was appealed by Mr. Causey. The WCAB, upon stipulation, made a finding as to work-relatedness of his disability in 1983.

The Court of Appeal focused on the 1983 "first final judgment" by the WCAB and held that since the judgment, based on the stipulation in the workers' compensation proceeding, had become final pending appeal, the City was collaterally estopped from adopting any position in the proceedings before the Board in contravention of that judgment. (*Causey v. Board of Pension Commissioners*, 152 Cal. App. 3d 484)

#### GARCIA v. BOARD OF PENSION COMMISSIONERS

Gerald Garcia, a former police officer, sought by writ of mandate to set aside a decision by the Board denying him a service-connected disability pension. The Superior Court upheld the Board and Mr. Garcia appealed.

Mr. Garcia contended that a pre-existing psychological condition had been aggravated by his employment, in that he had been ridiculed on television after his ticketing of a show business personality.

The Court of Appeal held that absent findings by the Board that Mr. Garcia's pre-existing personality problem was aggravated by the discharge of his duties as a police officer, the decision of the Superior Court should be upheld.

#### GOINS ET AL v. BOARD OF PENSION COMMISSIONER

This case, which first started in 1973, was finally brought to a conclusion during fiscal year 1983-84. (For details on the facts and the law see: *Goins v. Board of Pension Commissioners*, 96 Cal. App. 3d 1005)

After the above-referenced litigation had terminated and a class of similarly situated plaintiffs had been certified, there was a further trial involving the issues of the Board's defenses and attorney fees. Plaintiffs prevailed. The Board appealed. The Court of Appeal upheld the Superior Court. The matter is now final and concluded.

#### GULUZZA v. CITY OF LOS ANGELES

This case involved the same fundamental issues as those presented in *Holmes v. City of Los Angeles*, 117 Cal. App. 3d 212, a case in which a large class of former firefighters and police officers had challenged the nonrefundability provisions (since repealed) of Charter Sections 186-1/2 and 190.10.

In *Holmes*, the plaintiffs failed to get a hearing in either the California Supreme Court or the United States Supreme Court.

Mr. Guluzza's case (framed as a "Complaint for Damages") is of interest only in that he added causes of action not previously considered, i.e. for conversion and for money had and received.

At the end of the fiscal year no trial date had been set.

#### HORVATH v. BOARD OF PENSION COMMISSIONERS

Michael J. Horvath, a police officer, had applied for and had been denied a disability based upon the Board's finding that he was capable of performing light duties. The Superior Court agreed with the Board's decision and Mr. Horvath appealed.

The Court of Appeal affirmed the judgment of the Superior Court. Although the issues raised by the appellant were of substantial magnitude, such as denial of due process, consideration by the Superior Court of reports the authors of which had not been cross-examined and generally abuse of discretion, the appellate court nevertheless upheld the Board.

#### HENRY H. v. BOARD OF PENSION COMMISSIONERS

Henry H. is a former police officer whose application for a disability pension was denied based on those provisions in Section 190.12 (b) of the Charter pertaining to nonservice-connected disability pensions, which provide for a forfeiture of such a pension if it is due to or caused by the member's moral turpitude.

Mr. H. unsuccessfully challenged the Board's denial in Superior Court and appealed from that decision.

The record in the case contained evidence that the appellant had sexually molested his minor stepdaughter.

The Court held that pension rights may be forfeited if an appropriate provision is contained in the pension plan at the time employment commences. It also held that appellant's conduct clearly fell into the definition of the term "moral turpitude." (*Henry H. v. Board of Pension Commissioners*, 149 Cal. App. 3d 965)

#### MEADOWS v. BOARD OF PENSION COMMISSIONERS

Garland W. Meadows is a former police officer, currently on a service-connected disability pension of 50% under the provisions of Article XVIII.

Mr. Meadows challenged the percentage of his disability pension in Superior Court, based on his contention that the absence of a system by which disability pension awards are rated (such as exists for Article XXXV) amounted to a denial of due process of law.

The Superior Court upheld the Board and Mr. Meadows appealed.

By the end of the fiscal year, both parties had participated in an informal conference in the Court of Appeal, at which time briefing was deferred to January of 1985 pending investigation by the Board into the feasibility of the implementation of a rating system for Article XVIII.

#### OBERHAUS v. BOARD OF PENSION COMMISSIONERS

Thomas Oberhaus, a former police officer, is now on a service-connected disability pension. The Board had originally awarded him a nonservice-connected disability pension.

Mr. Oberhaus went to Superior Court on a petition for writ of mandate. That court reversed the Board's decision. The Board appealed.

The Court of Appeal reversed the Superior Court but remanded the case to the lower court.

At the time of retrial, the case of *Dakins v. Board of Pension Commissioners* (134 Cal. App. 3d 374) had been decided and the Superior Court rendered judgment in favor of Mr. Oberhaus, reaffirming the *Dakins* concept that the determination by the WCAB as to causation of disability is binding on the Board.

#### RIVARD v. BOARD OF PENSION COMMISSIONERS

Morris Rivard is a former police officer now on a nonservice-connected disability pension. He challenged that decision in Superior Court, but the Board prevailed.

Mr. Rivard whose claim with the WCAB had been turned down, filed an appeal from the Superior Court decision.

His contention that he is entitled to a service-connected disability pension is based upon the tenets of *Gurule v. Board of*

Pension Commissioners, 126 Cal. App. 3d 523, a case in which it was held that any work-related cause of a disability would result in entitlement to a service-connected disability pension.

As of the close of the fiscal year this case had not been heard by the Court of Appeal.

#### 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.

As of the time of this report, the case has not been set for trial.

#### UNITED FIREFIGHTERS OF LOS ANGELES ET AL v. CITY OF LOS ANGELES ET AL (Proposition H Litigation)

On June 8, 1982, the qualified electors of the City adopted Proposition "H", amending certain Charter provisions to effectuate a limit on cost of living entitlements of fire and police pensioners, effective July 1, 1982. The limitation was to affect only those rights to cost of living adjustments that would accrue on account of services rendered after July 1, 1982. All rights based upon service prior to said date (i.e. consumer price index oriented cost of living adjustments), were not affected by Proposition "H".

The employee organizations representing the members of the fire and police pension systems filed a complaint, challenging the amendments, principally on the grounds that they unconstitutionally deprived the members of vested pension and contract rights.

The City's defense was that there is a distinction to be drawn between earned and unearned benefits to determine the validity of the amendment.

Upon a motion for summary judgment, the Superior Court agreed with the City's position by granting partial summary judgment. The court did not rule on the issue of the validity of apportionment of cost of living adjustments, which was also implemented by the Proposition "H" amendments.

After the Court of Appeal handed down its decision in *Pasadena Police Officer's Association v. City of Pasadena* (147 Cal. App. 3d 695), a case somewhat similar to the Proposition "H" litigation, the plaintiffs in this case petitioned the Superior Court for reconsideration of its prior decision.

As of the end of the fiscal year no further action had been taken in this case.

#### VALDEZ v. CITY OF LOS ANGELES

This was 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.

The City opposed class certification and the Superior Court decertified the case.

As of the end of the fiscal year twenty individual law suits had been filed against the City and the Board.

All of these law suits are currently at the discovery stage.

#### WINN v. BOARD OF PENSION COMMISSIONERS

Larry D. Winn is a former member of the Police Department. The Board denied his application for a disability pension.

Mr. Winn challenged the Board's decision in the Superior Court based on the contention that he had received a finding and an award from the WCAB and that under *Dakins v. Board of Pension Commissioners*, 134 Cal. App. 3d 374, the Board was estopped to deny his disability pension. The Superior Court denied his petition and Mr. Winn appealed.

The Court of Appeal affirmed the decision of the Superior Court and thereby upheld the determination of the Board.

The Court of Appeal differentiated the situation presented in this case from *Dakins*, because unlike that case the issue in Mr. Winn's case was whether or not the Board was bound by the WCAB's finding of disability and not whether disability was service-connected. The Court held that the questions before the Board and the WCAB were not identical and that consequently the Board was not collaterally estopped to deny disability after the WCAB decision. (*Winn v. Board of Pension Commissioners*, 149 Cal. App. 3d 532)

#### DOMESTIC RELATIONS MATTERS

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 50 dissolution proceedings and "Notices of Appearance" were filed by the City Attorney in these proceedings. When orders or judgments 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
<b>Service Retirement</b>			
(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 1% for each additional year between 25 and 35 years of service.  Maximum of 66% for 35 or more 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.  Maximum of 70% for 30 or more 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 70% for 30 or more years of service.
<b>Service Connected Disability</b>			
(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.
<b>Nonservice-Connected Disability</b>			
(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.
<b>Service-Connected Death or Death after Service-Connected Disability</b>			
(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 payable 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 spouses'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.
<b>COST OF LIVING</b>			
(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.  City Council 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.	Annual increases commence on the effective date or the date the member would have completed 25 years service if later.	Same provisions for all types of pension. Annual increases commence on the effective date.
(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, nonservice-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%
<b>MISCELLANEOUS</b>			
(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 1 $\frac{3}{4}$ % for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of  $\frac{3}{5}$  of the salary of the rank held. This was continued in the new City Charter which became effective July 1, 1925. Added was a provision that service and disability pensions would remain fixed amounts.

1927. Effective January 17, 1927, the Charter was amended to provide that all members entering the service after that date would receive 50% of the average salary during the last three years for 25 years of service, plus 1 $\frac{3}{4}$ % for each of the next 10 years of service. This amendment imposed a limit upon service pensions at a pension of \$1800 per year. Members' contributions to the cost of the system were set at 4% of salaries. Pensions for widows were made fixed amounts.

1933. Effective May 15, 1933, the Charter was amended to eliminate the actuarial requirements and place the system essentially upon a "pay-as-you-go" basis of operation.

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension of 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension of 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the widow for minor children under 18 and unmarried. Members entering subsequent to January 17, 1927, could retire after 20 years of service upon 40% of the average salary for the last three years of service. In addition, they would receive 2% for each of the next five years of service, and 1 $\frac{3}{4}$ % for each of the next ten years of service. The maximum pension of  $\frac{3}{5}$  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 or 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 dividend 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.

1982. Proposition V passed by voters in November provided for the transfer of paramedics and civilian ambulance drivers from the City Employees' Retirement System to the Safety Members Pension System. (Article XXXV).

1983. Charter amendment 5 allows for Article XVII and XVIII active members to discontinue contributions to the pension system upon completion of 30 years of service.

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# DEPARTMENT OF PENSIONS

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