
CITY OF LOS ANGELES

BOARD OF PENSION COMMISSIONERS



**Annual
Report
1985**

**DEPARTMENT OF PENSIONS
FIRE AND POLICE PENSION SYSTEMS**

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Ira Reiner

CONTROLLER
James Kenneth Hahn

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Joan Milke Flores, President Pro Tempore

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President

DAVE VELASQUEZ, Vice - President

SHERMAN ANDELSON, Commissioner

DELLENE ARTHUR, Commissioner

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SAM DIANNITTO, Commissioner

KEN STAGGS, Commissioner

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

ANNUAL REPORT 1985

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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 & Crosby</p> <p>AUDITOR Touche Ross & Co.</p> <p>CUSTODIAN BANK Bankers Trust Company</p> <p>INVESTMENT ADVISORS Criterion Investment Management Company Favia, Hill & Associates Loomis Sayles & Company Security Pacific Investment Managers The Boston Company Wright Investors' Service</p> <p>PERFORMANCE MEASUREMENT S.E.I. Funds Evaluation Service</p>	<p>Board Letter 3</p> <p>Manager's Report 4</p> <p>Investments 5</p> <p>Membership</p> <p style="padding-left: 20px;">Active 11</p> <p style="padding-left: 20px;">Retired 13</p> <p>Types of Pensions</p> <p style="padding-left: 20px;">Service 15</p> <p style="padding-left: 20px;">Disability 17</p> <p>Actuary Report 20</p> <p>Auditor Report 23</p> <p>Budget 30</p> <p>Legal 33</p> <p>Pension Benefits 35</p> <p>Milestones 38</p>	

CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF PENSION COMMISSIONERS

DAVID BOW WOO
PRESIDENT

DAVE VELASQUEZ
VICE-PRESIDENT

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KEN STAGGS

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 1984-85 Annual Report

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

Presented herewith is the Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1985 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.

We are pleased to report that the market value of pension system assets increased by \$402 million, or nearly 29 percent, during the past year to a total of \$1.8 billion.

A Charter amendment approved by voters in June of this year allows the pension system to invest in real estate. The Board will now begin the process of selecting real estate advisors to assist with investments.

The results of an actuarial investigation conducted as of June 30, 1984 have led to the adoption of demographic assumptions which presume increased longevity after retirement, increased probability of service connected disability and decreased probability of ordinary termination. Although such assumptions were somewhat offset by higher than expected investment gains and lower than expected cost-of-living adjustments, they result, nonetheless, in an increase in liabilities and costs to the System.

Total pension system membership continues to increase. As of June 30, 1985, there were 10,038 active and 9,440 retired members covered by the Los Angeles Fire and Police Pension System.

Respectively submitted,

David Bow Woo
President
Board of Pension Commissioners

CITY OF LOS ANGELES
CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF PENSION
COMMISSIONERS

DAVID BOW WOO
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GARY MATTINGLY
GENERAL MANAGER

Hon. Board of Pension Commissioners
City of Los Angeles

Honorable Members:

Fiscal Year 1985 ended with a number of important events affecting the Department of Pensions and the Los Angeles Fire and Police Pension Systems.

The Systems' investments recorded a 25.3 percent total rate of return reflecting a strong investment environment and resulting in an increase of \$402 million in the market value of the Systems' stocks, bonds and cash equivalent investments. The 25.3 percent rate of return compared especially well with our assumed actuarial rate of investment return of 8 percent.

Also comparing favorably, the 4.6% cost of living adjustment (COLA) effective July 1, 1985 for most pensioners was lower than our assumed actuarial inflation rate of 6 percent.

After over a year of intensive effort, the voters in June of 1985 approved Charter Amendment 2 which allows, for the first time, investments in real estate. This authority to allow diversification in our investments is especially needed now, because our assets have increased from \$800 million to \$1.8 billion in the last five years. When that much money is invested only in stocks and bonds, the volatility of the Systems' earnings will vary significantly from year to year. By diversifying, or "spreading the risk," this volatility will be reduced and, in fact, increase the overall long term earnings of the System.

As part of an on-going program to increase our communications with our members, a Department of Pensions newsletter was distributed to all active and retired members for the first time. This newsletter covered various aspects of the retirement system in an effort to answer the most frequently asked questions about the Pension Plan. We intend to publish this newsletter every spring.

Finally, Fiscal Year 1985 saw the selection of the Department of Pensions as a participant in a City-wide prototype program called the Fiscal Management Information System (FMIS). This program will ultimately reduce the volume of paperwork in the Accounting Section through the use of an on-line computer system. Once fully implemented, savings of both time and cost are anticipated.

During 1986, the Department of Pensions plans to continue to meet the challenge of providing greater retirement security and service for all members of the Los Angeles Fire and Police Pension Systems.

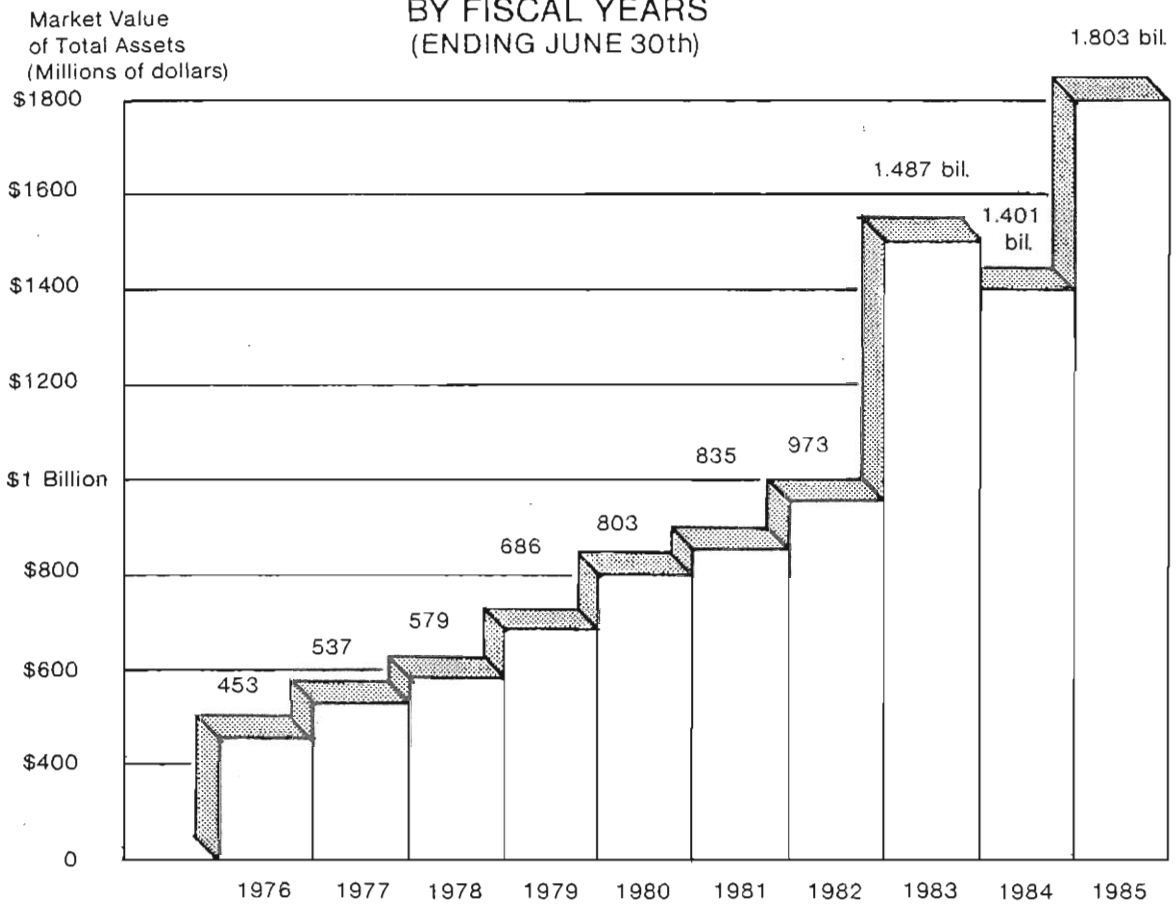
Very truly yours,

Gary Mattingly

AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER

INVESTMENTS

GROWTH OF FIRE AND POLICE PENSION SYSTEM ASSETS BY FISCAL YEARS (ENDING JUNE 30th)



The investment environment in fiscal 1985 was robust, with the major market indices recording strong gains. The Standard and Poor's index of 500 stocks gained 31 percent. In the bond market, the Shearson Lehman Government/Corporate Bond Index rose by 28.7 percent. The market value of Fire and Police Pension System investments increased by \$402 million to \$1.803 billion, recording a 25.3 percent total rate of return.

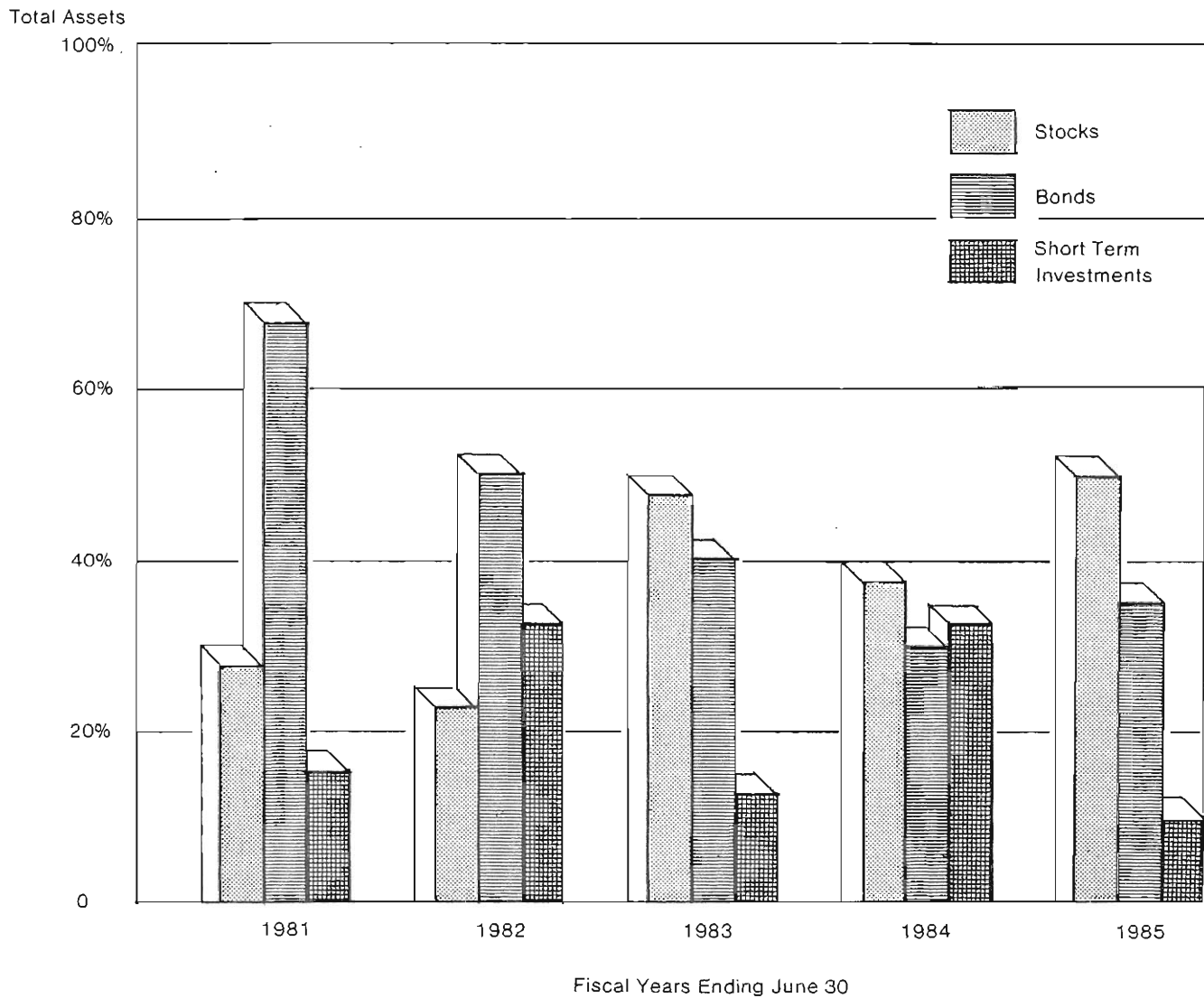
The investment advisors became more aggressive by committing cash reserves to bonds and stocks as the markets improved. At the end of the year the total fund portfolio was approximately 51 percent stocks, 39 percent bonds, and 10 percent cash equivalents.

Part of the increase in total assets was due to revenues from interest and dividends, which increased \$12.8 million to a total of \$114.6 million. The increase was due to the larger asset base of the fund.

Although the growth in assets was very strong in absolute terms, the fund's comparative performance was below median, outperforming only 31 percent of the balanced funds measured by the SEI performance evaluation service.

The performance of the stocks owned by the fund, +29.6 percent, was slightly below median, outperforming 45 percent of SEI's measured funds.

FIRE AND POLICE PENSION SYSTEM ASSET MIX 1981 - 85



The bonds owned by the fund performed relatively well at +28.9 percent, ranking in the top 44 percent of funds measured by the SEI service. The high sales turnover of issues, 145.2 percent, continued from the prior year as the two bond managers, Boston Company and Security Pacific Investment Managers, sought an aggressive bond swap strategy.

During the year, two new equity advisors, Criterion Investment Management and Loomis Sayles, were hired after a lengthy search. Shortly thereafter, one equity advisor's contract was

terminated. These changes result in a more diversified mix of equity management styles. The fund now employs four equity advisors, including Wright Investors' Services and Security Pacific Investment Managers. Shortly after hiring the new equity managers, the fund contracted with A.S. Hansen Company to search for high-yield bond managers. The search had not been completed at the end of the fiscal year.

**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%	5.9%
1977	-5.4%	13.8%	7.4%	6.9%
1978	-.1%	-.5%	.3%	7.4%
1979	12.1%	7.0%	8.2%	10.9%
1980	15.2%	-2.0%	5.8%	14.3%
1981	20.5%	-8.9%	-1.3%	9.6%
1982	-13.9%	12.7%	6.2%	7.1%
1983	68.8%	35.4%	46.9%	2.6%
1984	-16.4%	2.1%	-5.9%	4.2%
1985	29.6%	28.9%	25.3%	3.7%

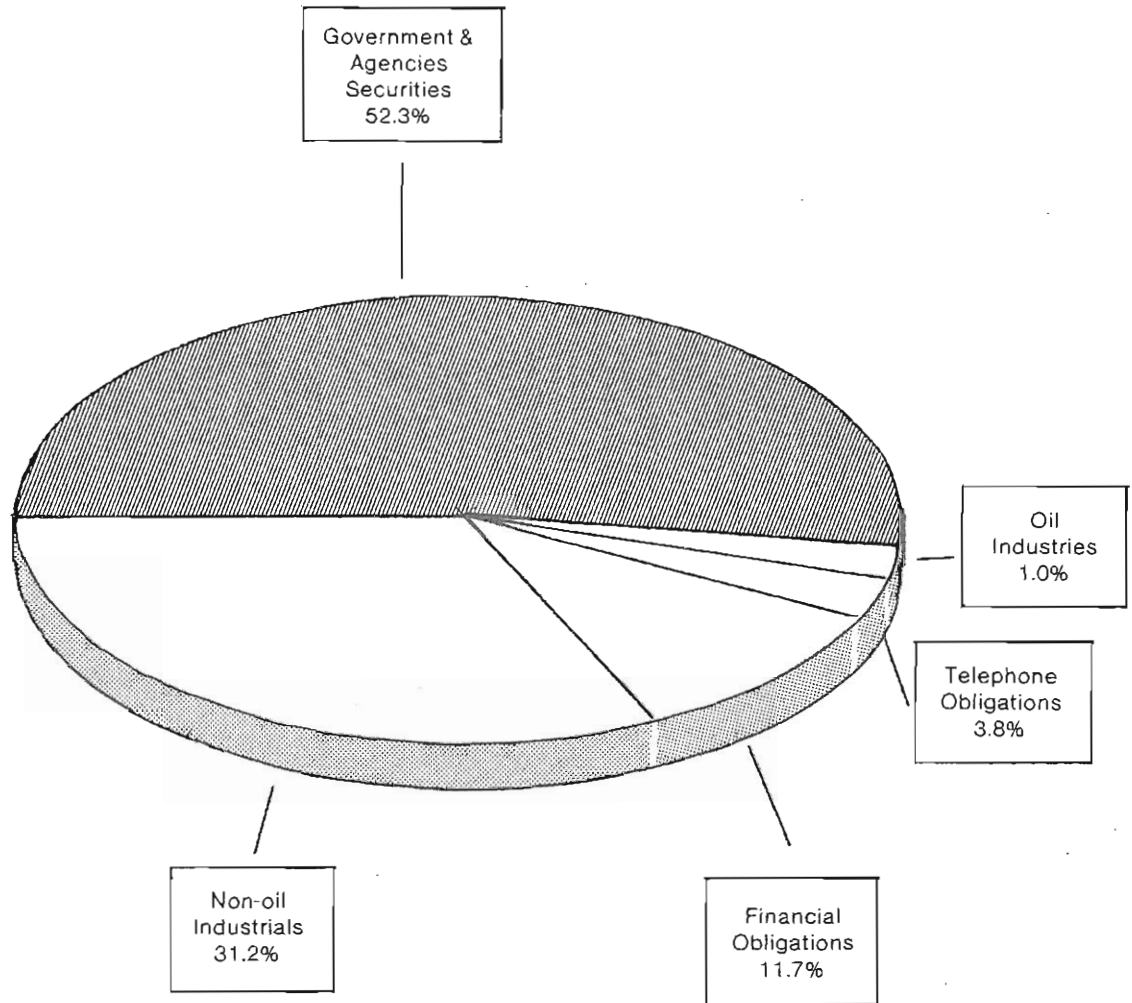
* Total fund includes short term investments



** The percentages shown are for years ending June 30th. Pension COLA's use the CPI for the year ending in February.

ASSET CHANGE SUMMARY
(IN MILLIONS)

Beginning Market Value (7/1/84)	\$ 1,401.0
Contributions (City & Members)	245.5
Benefits paid to participants	(198.0)
Dividend and interest income	117.0
Gain/loss on sale of securities	37.1
Change in market value of securities held	<u>200.4</u>
Ending Market Value (6/30/85)	\$ 1,803.0

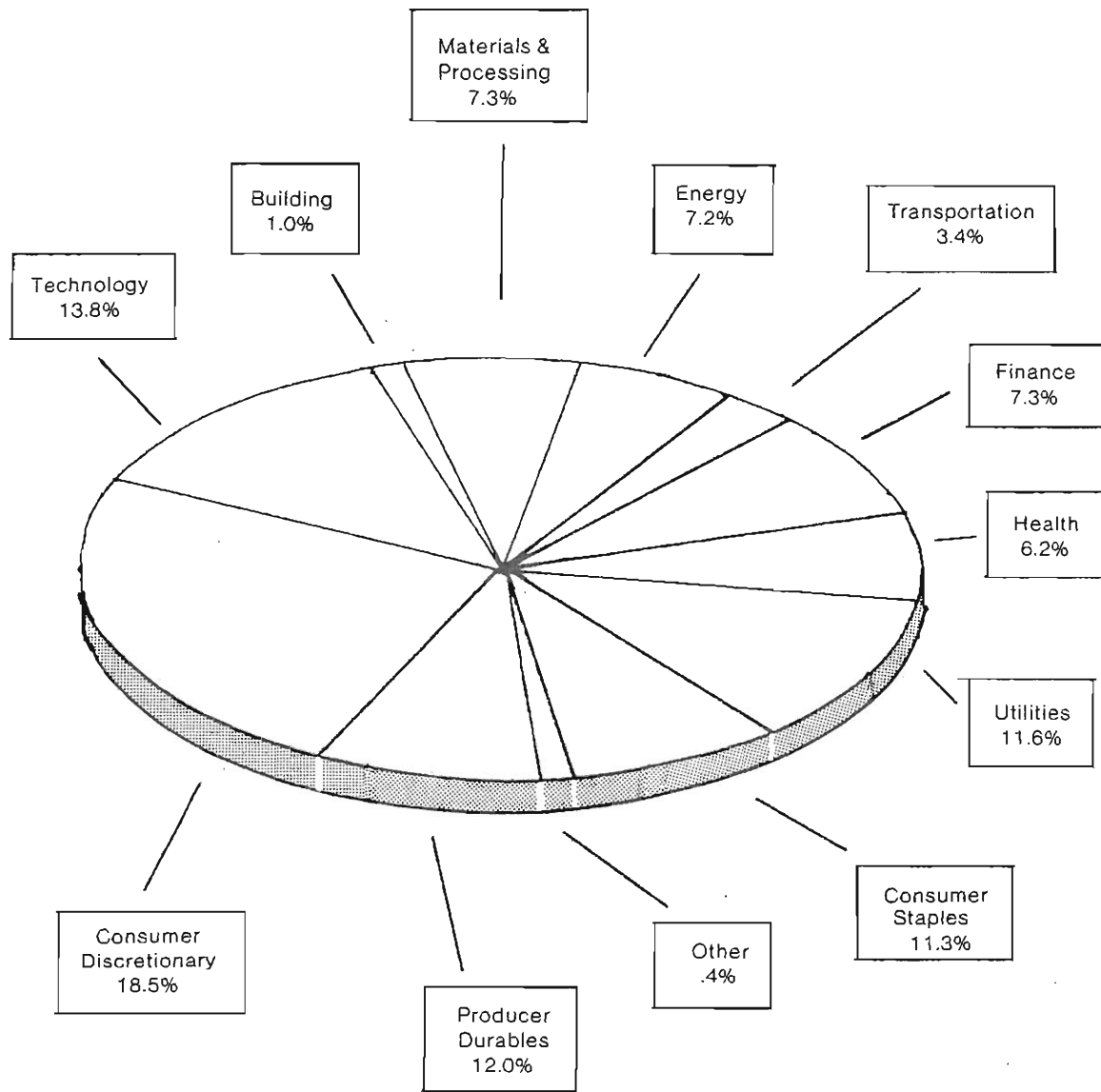
DIVERSIFICATION OF BOND ASSETS AS OF JUNE 30, 1985 *



 Governmental Obligations = 52.3%
 Corporate Obligations = 47.7%

* Source: SEI Report dated June 30, 1985

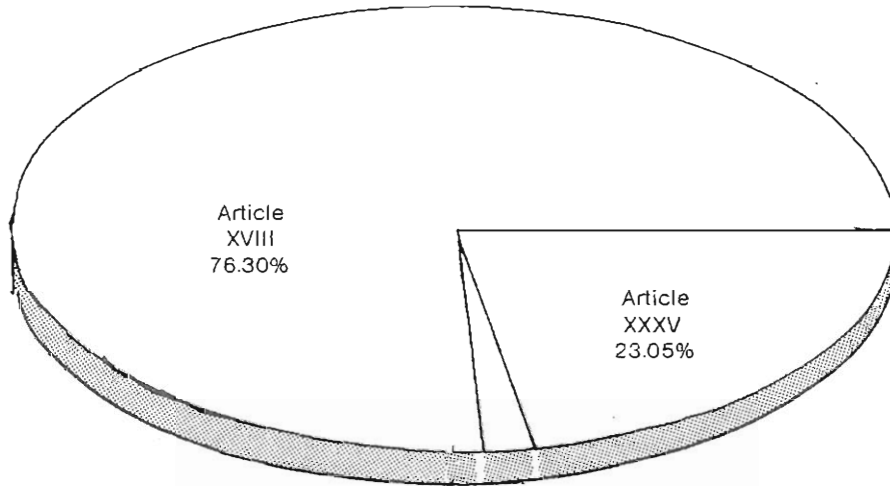
DIVERSIFICATION OF EQUITY ASSETS
BY INDUSTRY SECTOR
AS OF JUNE 30, 1985*



* Source: SEI Report dated June 30, 1985.

MEMBERSHIP

ACTIVE MEMBERS



Article XVII
.65%

Membership by City Charter Article:

	Fire	Police	Total
XVII	6	59	65
XVIII	2256	5403	7659
XXXV	728*	1586	2314
	2,990	7,048	10,038

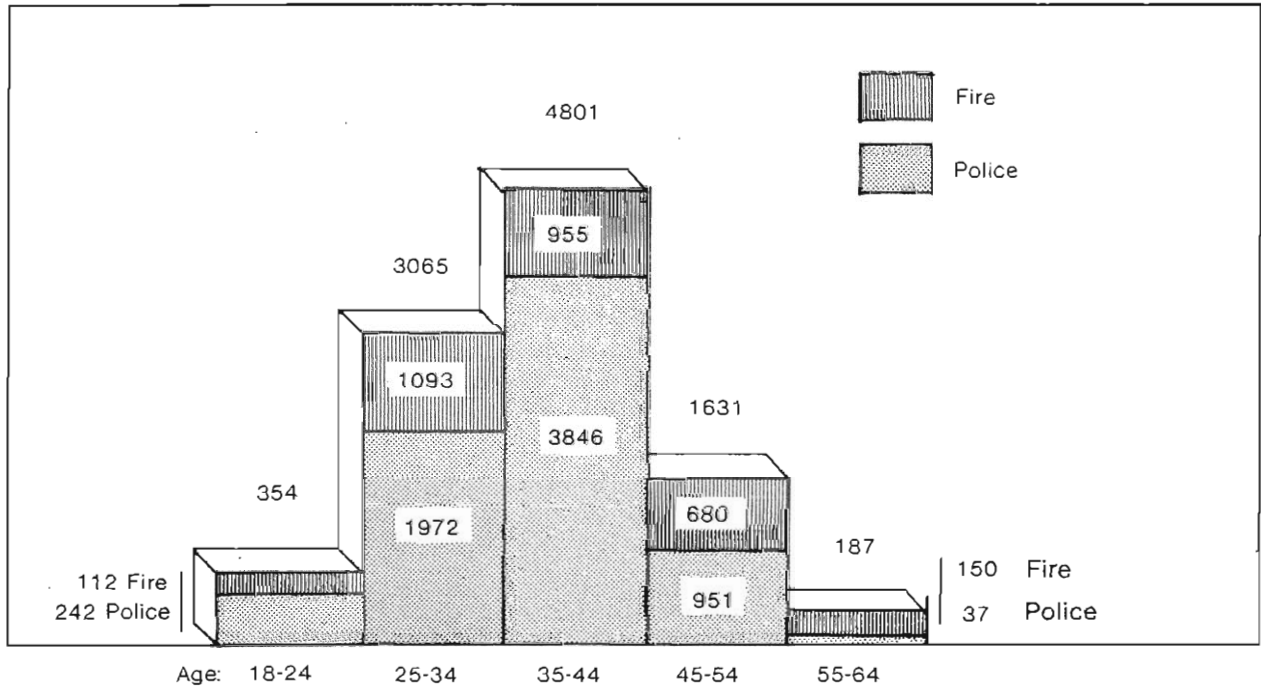
* Paramedics and Civilian Ambulance Drivers included in Fire Department beginning in 1983.

The Los Angeles Fire and Police Pension System includes three separate pension plans all of which cover the City's sworn Police officers, Fire fighters and Paramedics. Two of these plans, the Fire and Police Pension System (Article XVII) and the New Pension System (Article XVIII) are closed to new members. Membership in these plans is therefore expected to decline steadily as current members either retire or terminate employment.

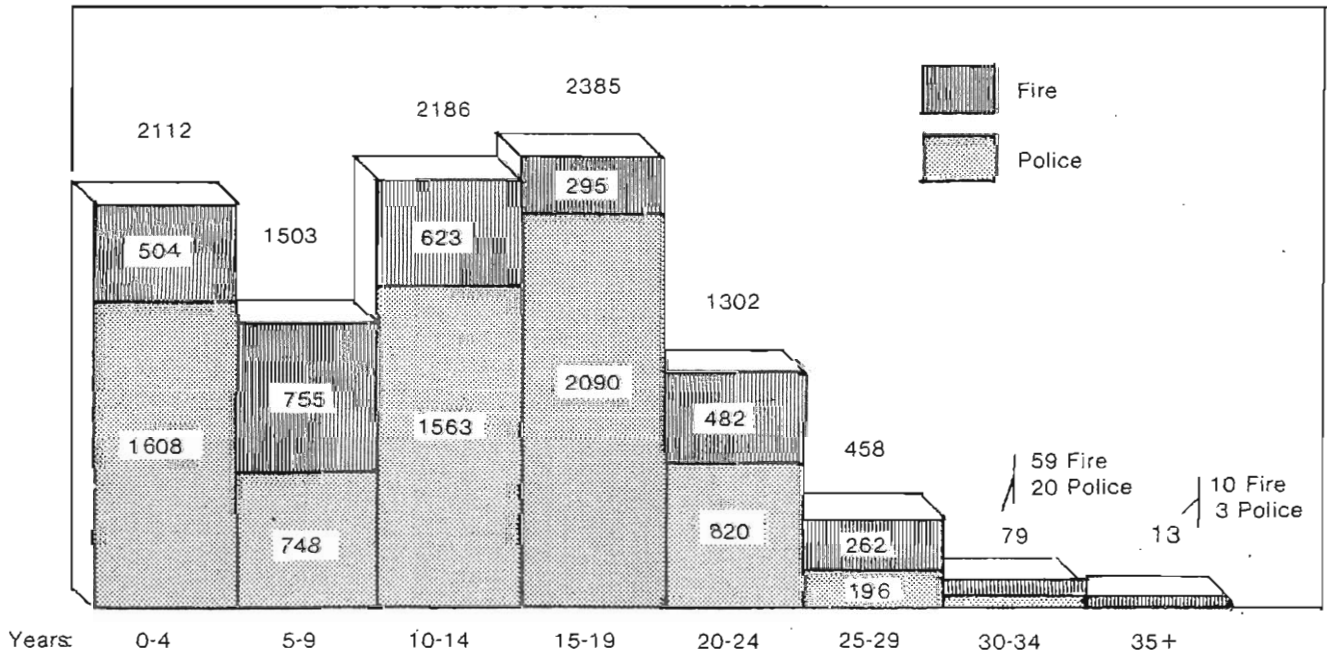
The retirement plan currently in effect for new hires is the Safety Members Pension Plan (Article XXXV). This plan was approved by voters in 1980. In 1982, Paramedics and Civilian Ambulance Drivers were allowed to transfer to Article XXXV from the City Employees' Retirement System.

As of June 30, 1985 there were a total of 10,038 members of the three plans which comprise the Los Angeles Fire and Police Pension System. This represents an increase of 30 members since June 30, 1984.

AGE COMPARISON BY DEPARTMENT (ACTIVE MEMBERS)

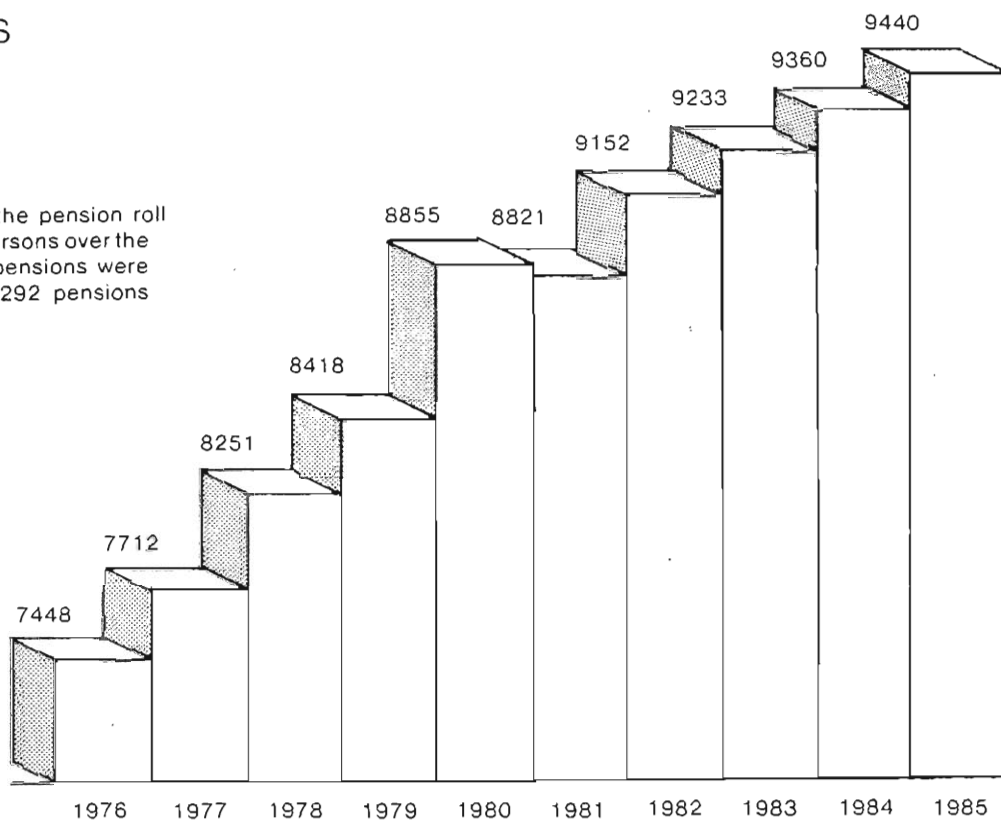


COMPARISON OF YEARS OF SERVICE BY DEPARTMENT (ACTIVE MEMBERS)



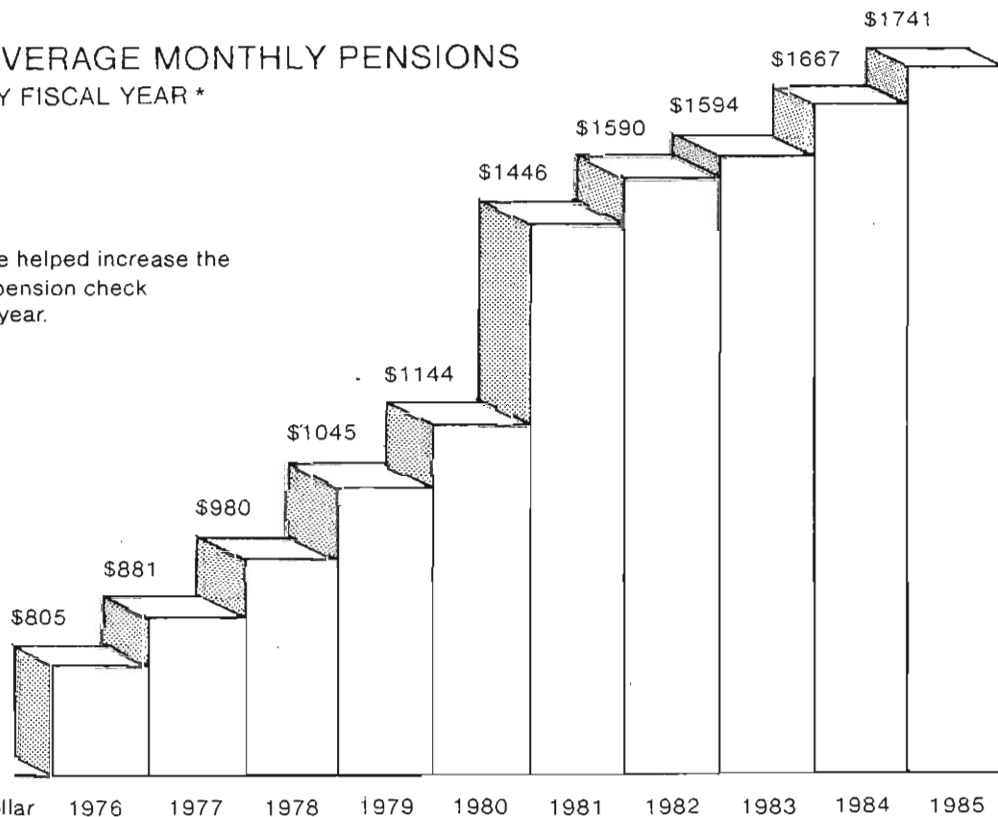
RETIRED MEMBERS

The number of members on the pension roll showed a net increase of 80 persons over the previous year. A total of 372 pensions were granted during the year with 292 pensions terminated.



COMPARISON OF AVERAGE MONTHLY PENSIONS BY FISCAL YEAR *

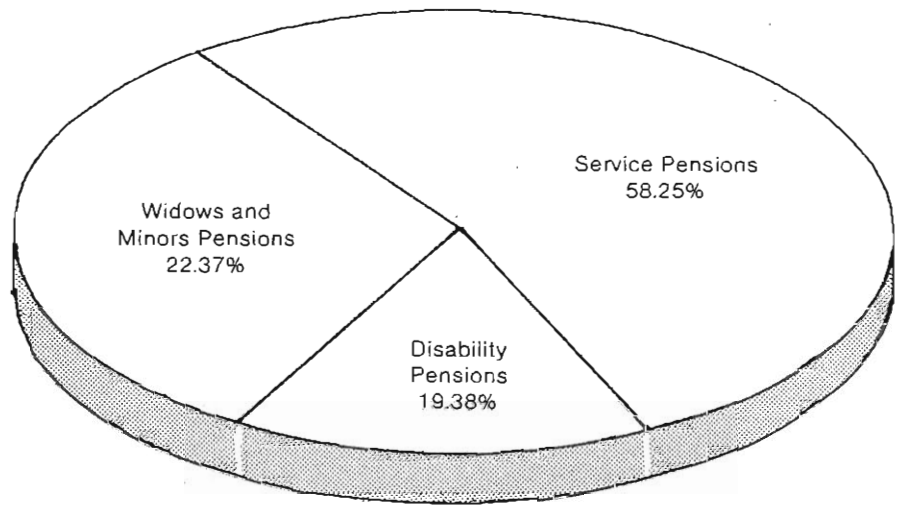
Cost of living adjustments have helped increase the value of the average monthly pension check by an additional \$74 over last year.



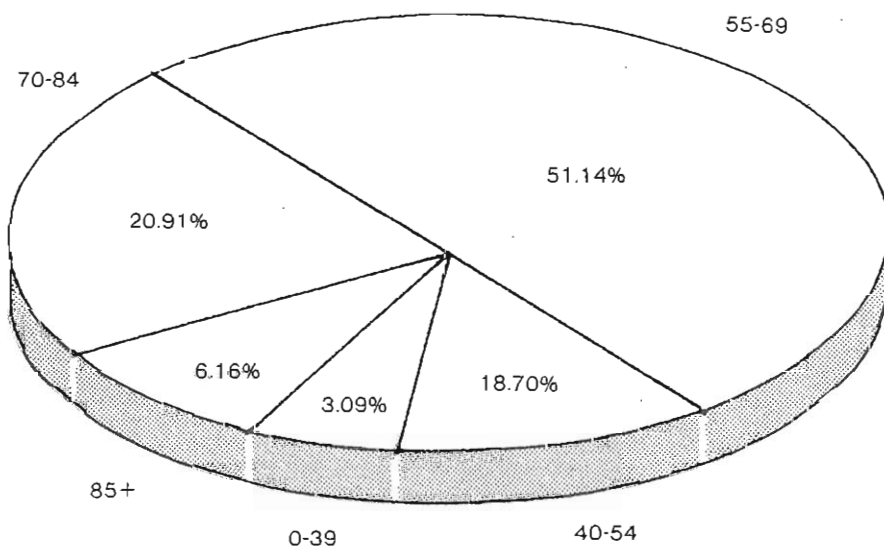
* To nearest dollar

TYPES OF PENSIONS

Pension benefits are payable to System members and their survivors. As of June 30, 1985, 5,499 service pensions, 1,829 disability pensions and 2,112 pensions to widows and minors were being paid by the Los Angeles Fire and Police Pension System.

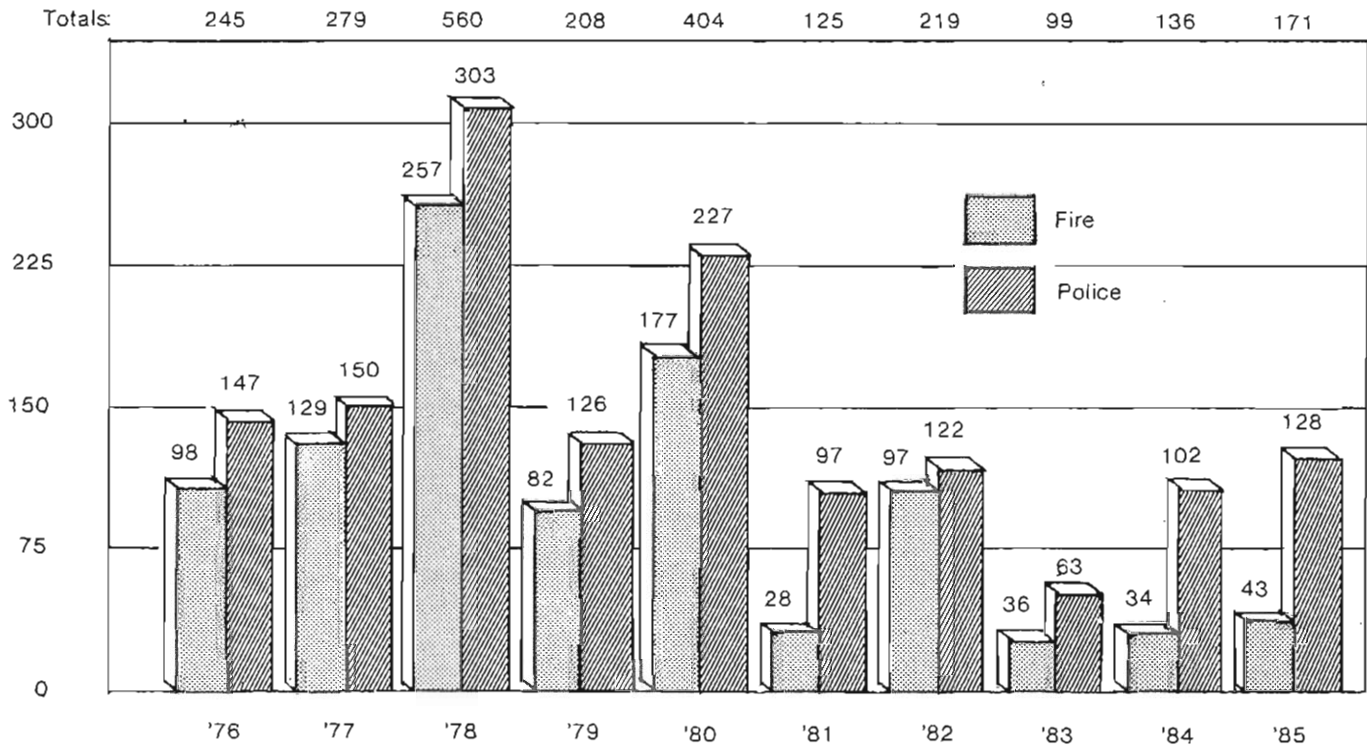


AGE MIX OF PENSIONERS AS OF JUNE 30, 1985



AGE	NUMBER
0-39	= 292
40-54	= 1765
55-69	= 4828
70-84	= 1974
85+	= 581
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TOTAL	= 9440

SERVICE PENSIONS *

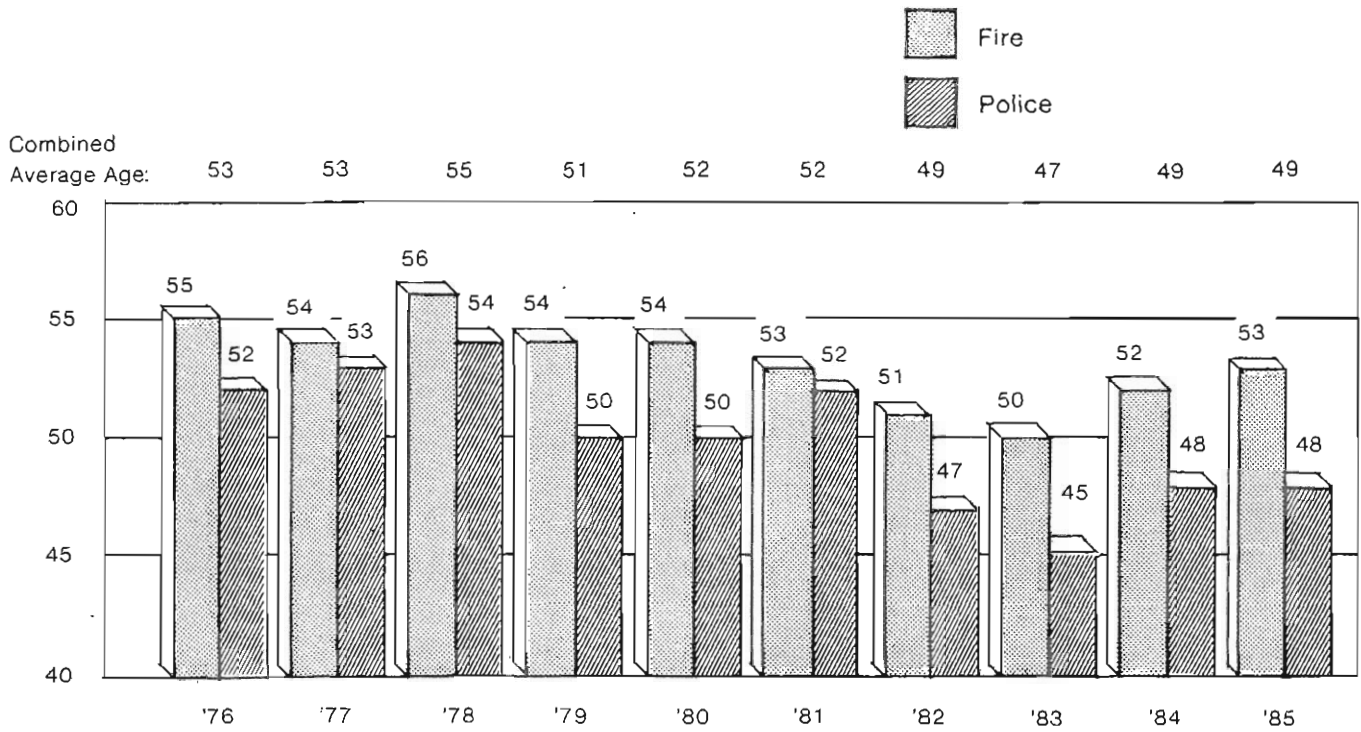


* 1985 recorded by Board granted date, other years by effective date

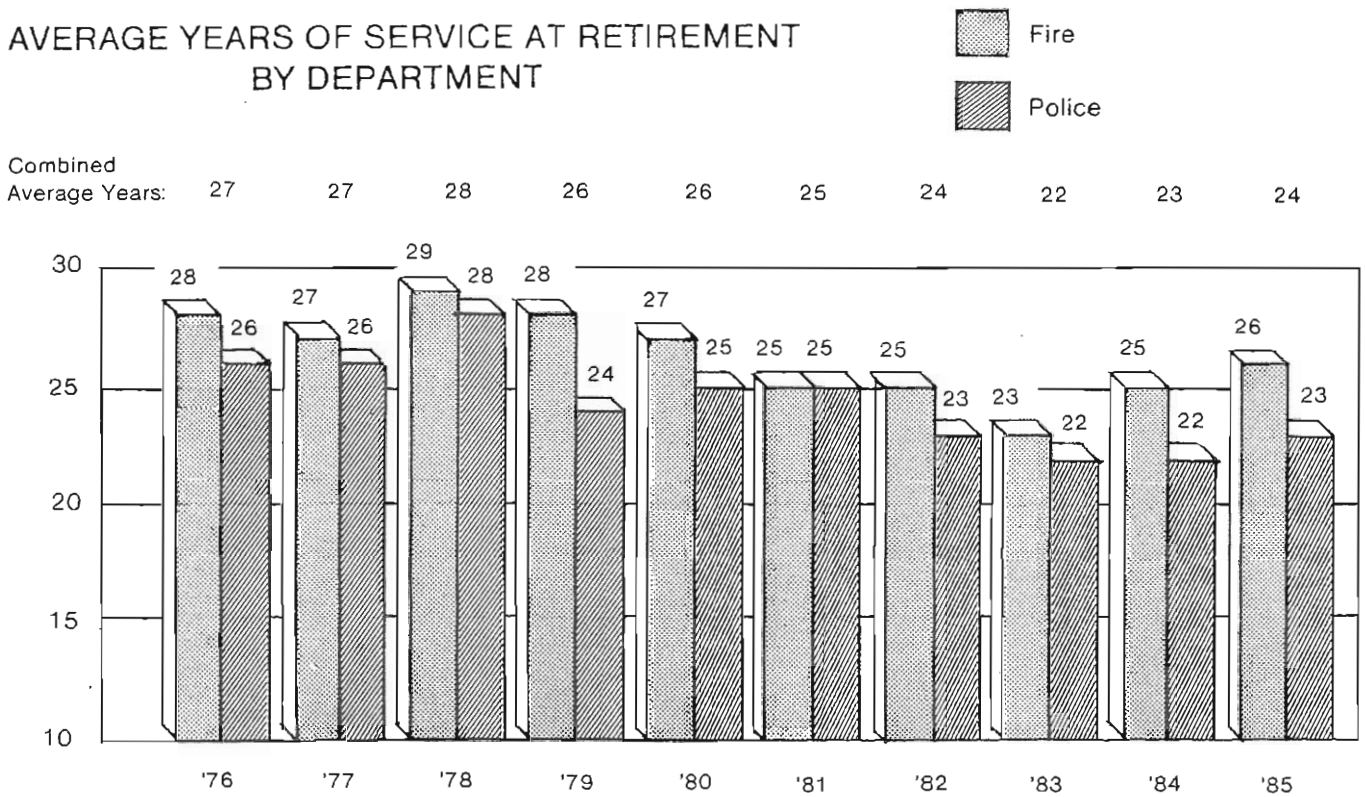
The above graph illustrates the number of members who have retired, by department, on service pensions for the last ten fiscal years. Service retirements increased in fiscal 1985 by over 25 percent for Police Department and by over 26 percent for Fire Department members. Total service retirements increased by 25.7 percent for the year.

The graphs on the following page give a comparison of the average age and average years of service at retirement by department. While average age at retirement for all System members remained equal to that for fiscal 1984, the average years of service at retirement indicates a slight increase over the past year.

AVERAGE AGE AT RETIREMENT BY DEPARTMENT

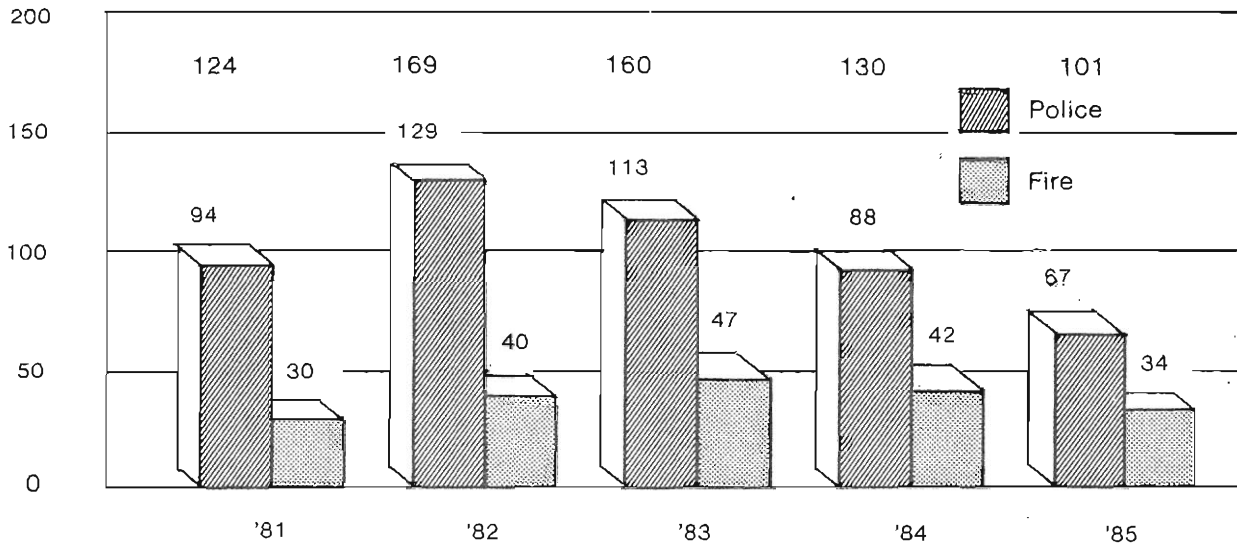


AVERAGE YEARS OF SERVICE AT RETIREMENT BY DEPARTMENT



DISABILITY PENSIONS

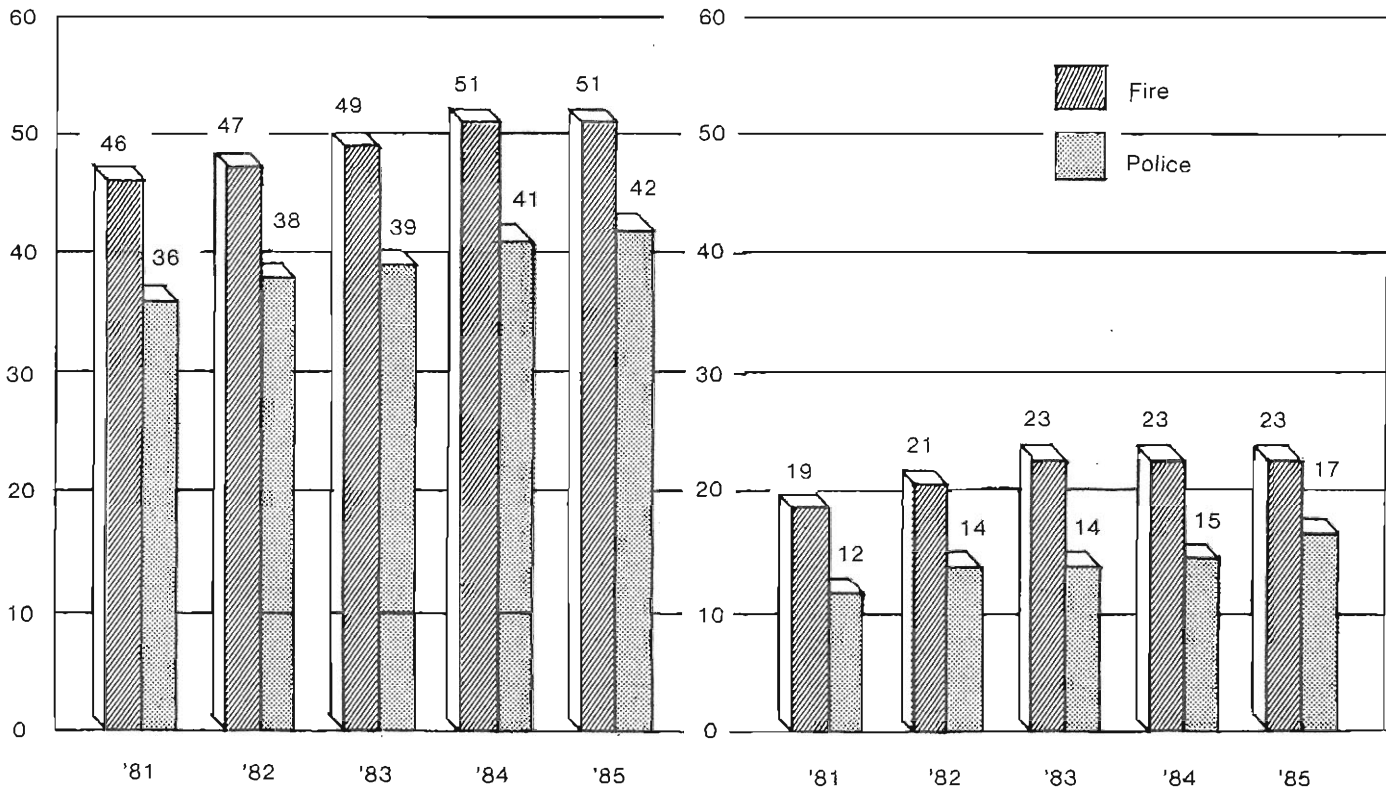
The following graph indicates the number of disability pensions granted (service and non-service connected), by department, over the past five fiscal years.



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

AVERAGE AGE AT RETIREMENT

AVERAGE YEARS OF SERVICE AT RETIREMENT



SERVICE CONNECTED DISABILITY PENSIONS BY TYPE AND DEPARTMENT *

* 1984 and 1985 by granted date, other years recorded by effective date

	1981			1982			1983			1984			1985		
	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total
Back only	8	10	18	14	25	39	19	16	35	11	10	21	9	6	15
Back, neck and orthopedic	5	7	12	6	18	24	10	4	14	12	18	30	6	10	16
Other orthopedic	5	5	10	3	1	4	5	2	7	3	2	5	5	3	8
Cardiovascular	4	3	7	4	7	11	7	4	11	4	2	6	1	2	3
Internal	0	0	0	0	2	2	0	4	4	1	1	2	1	2	3
Multiple	1	8	9	6	18	24	3	13	16	7	9	16	11	16	27
Miscellaneous	1	1	2	3	2	5	0	1	1	1	4	5	1	0	1
Psychological only	0	6	6	1	12	13	1	15	16	0	10	10	0	3	3
Psychological plus physical	3	24	27	0	24	24	1	32	33	3	29	32	0	24	24
Totals	27	64	91	37	109	146	46	91	137	42	85	127	34	66	100

The above graph indicates the number of service connected disability pensions awarded during the last five fiscal years. Disability pensions must be approved by the Board of Pension Commissioners before taking effect. The Board will require an applicant to be examined by at least three physicians who specialize in the area of the medical problem(s). The Board may also request a recommendation from an independent hearing examiner regarding the case. The applicant or the applicant's representative can also present evidence or call witnesses before the Board for their consideration.

The graph on the following page gives a comparison of the disability pensions granted by department and rank during the past four fiscal years.

SERVICE AND NON-SERVICE CONNECTED
DISABILITY RETIREMENT BY RANK

	1982	1983	1984	1985
Police				
Police Officer	92	76	60	41
Sergeant	19	16	9	9
Detective	15	21	17	15
Lieutenant	2	0	2	2
Captain	1	0	0	0
Commander	0	0	0	0
Deputy Chief	0	0	0	0
Asst. Chief	0	0	0	0
Totals *	129	113	88	67
Fire				
Ambulance Driver/ Paramedic	0	0	4	1
Firefighter	20	21	16	13
Apparatus Operator	1	2	2	4
Engineer	7	5	7	7
Inspector	2	0	2	1
Captain	9	17	10	7
Battalion Chief	0	2	0	1
Asst. Chief	1	0	0	0
Deputy Chief	0	0	1	0
Totals *	40	47	42	34

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

ACTUARIAL REPORT

ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1985

ASSETS				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Applicable Assets	\$25,234,611	\$1,540,154,566	\$60,863,058	\$1,626,252,235
2. Present Value of Future Contributions by Members	857,676	191,149,312	78,831,344	270,838,332
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost	2,973,166	556,347,648	211,008,784	770,329,598
(b) Unfunded Actuarial Accrued Liability	550,978,869	2,999,105,279	(4,762,759)	3,545,321,389
4. TOTAL	\$580,044,322	\$5,286,756,805	\$345,940,427	\$6,212,741,554
LIABILITIES				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
5. Present Value of Benefits Already Granted				
(a) Service	\$215,684,915	\$1,945,210,462	\$ 481,529	\$2,161,376,906
(b) Disability	139,190,156	592,831,180	1,927,003	733,948,339
(c) Dependents	200,260,663	159,265,818	1,152,119	360,678,600
(d) Total	555,135,734	2,697,307,460	3,560,651	3,256,003,845
6. Present Value of Benefits to Be Granted				
(a) Service	21,621,464	2,011,208,700	208,650,528	2,241,480,692
(b) Disability	3,155,844	547,897,699	120,131,395	671,183,880
(c) Death	106,381	16,742,141	5,956,574	22,805,096
(d) Total	24,882,631	2,575,848,540	334,738,497	2,935,469,668
7. Refund of Employee Contributions	25,957	13,600,805	7,641,279	21,268,041
8. TOTAL LIABILITIES	\$580,044,322	\$5,286,756,805	\$345,940,427	\$6,212,741,554

RESULTS OF VALUATIONS

As of June 30, 1985, there were 10,038 active and 9,440 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, 1985 are shown on the Actuarial Balance Sheet (see previous page). These valuations were based on the demographic assumptions adopted June 30, 1984 and revised economic assumptions of 8.5% annual interest, 6.5% annual salary, 5.5% annual consumer price index and 5.5% aggregate payroll growth increase.

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 \$6.21 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 (\$1.63 billion) already accumulated in the Systems. Item 2 is the present value of member contributions (\$271 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	20.8
XVIII	20.4
XXXV	21.4

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 \$770 million.

For the third step, the existing assets (\$1.63 billion), plus the present value of future normal costs (\$.77 billion), plus the present value of future member contributions (\$.27 billion) were compared to the present value of the benefits to be paid out (\$6.21 billion). The Systems were short by \$3.54 billion.

The shortfall (or balancing item) of \$3.54 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 \$3.54 billion is needed.

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

Article	Amount	Pattern
XVII	\$47,516,323	As a level dollar amount through the fiscal year 2037.
XVIII	27.05%	As a level of total payroll, i.e., Articles XVII, XVIII, and XXXV through the fiscal year 2037.
XXXV	(.44%)	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, 1985	June 30, 1984
1. City's Entry Age Normal Cost*	20.80%	20.11%
2. Amortization of the UAAL	\$47,516,323	\$45,690,233
3. Health Plan Subsidy	\$1,500,000	\$1,750,000

* 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 5.5% 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 assumption, by the year 2022 the amortization payment will have grown sufficiently to start meeting the interest on the then current unfunded liability.

	June 30, 1985	June 30, 1984
1. City's Entry Age Normal Cost*	20.40%*	19.16%*
2. Amortization of the UAAL	27.05%**	23.79%**
3. Health Plan Subsidy	\$5,000,000	\$4,250,000

* 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 amounts implied by the amortization percentage can be expected to grow by 5.5% per year if all assumptions are met.

Section 190.09 of the City Charter refers to cost-of-living contributions by New Pension System members as follows:

“That percentage of the amount of salary, as shown on each such payroll, of each System Member whose name appears thereon, but not to exceed 1% thereof, which shall be equal to ½ of the cost of the 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 6.87%. The Actuary believes 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 6.87% 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, 1985	June 30, 1984
1. City's Entry Age Normal Cost*	21.40%	19.10%
2. Amortization of UAAL *	(.44%)	.82%
3. Total Contributions *	20.96%	19.92%

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

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.

ADDENDUM

This Actuarial Report summary reflects the change in actuarial assumptions adopted by the Board of Pension Commissioners in its meeting of April 10, 1986. Prior to the adoption of these rates, economic assumptions included 8% annual interest, 6% annual salary, and 6% annual consumer price index increase. The Auditor's report, which follows, was published prior to the change and does not reflect the more recent actuarial economic assumptions.

AUDITOR'S REPORT

Touche Ross & Co.

November 22, 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, 1985 and 1984, 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 7, 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, 1985 and 1984, 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
 BALANCE SHEETS

	June 30			
	1985		1984	
ASSETS:				
Cash:				
Restricted (Note 3)	\$ 619,319		\$ 841,887	
Unrestricted	448,870	\$ 1,068,189	100,961	\$ 942,848
Receivables:				
Accrued interest and dividend income	23,014,390		17,525,683	
Contributions	1,540,470		2,148,328	
Due from brokers and others	11,477,858	36,032,718	11,627,615	31,301,626
Investments:				
Temporary, at cost, which approximates market	203,283,657		457,102,593	
Bonds, at amortized cost (market value \$698,079,863 in 1985 and \$400,293,014 in 1984)	667,135,673		437,449,933	
Common stock, at cost (market value \$913,479,115 in 1985 and \$525,607,844 in 1984)	767,671,268	1,638,090,590	522,578,964	1,417,131,490
Total assets		1,675,191,505		1,449,375,964
LIABILITIES:				
Benefits in process of payment	287,102		39,016	
Accounts payable	1,709,832		1,762,364	
Due to brokers	46,942,338	48,939,272	18,249,726	20,051,106
NET ASSETS AVAILABLE FOR BENEFITS		<u>\$1,626,252,233</u>		<u>\$1,429,324,858</u>
FUND BALANCE:				
Actuarial present value of projected benefits payable to current retirants and beneficiaries	\$3,694,070,003		\$3,210,851,547	
Actuarial present value of credited projected benefits for active employees:				
Member contributions (Note 8)	290,744,166		202,627,361	
Employer financed portion	1,925,975,052	\$5,910,789,221	1,669,120,579	\$5,082,599,487
Unfunded actuarial present value of credited projected benefits		(4,284,536,988)		(3,653,274,629)
Total fund balance		<u>\$1,626,252,233</u>		<u>\$1,429,324,858</u>

See accompanying notes to financial statements.

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

	Year ended June 30			
	1985		1984	
REVENUES:				
Taxes	\$155,662,819		\$ 62,371,344	
Appropriations from City of Los Angeles general fund	64,436,299		150,599,653	
Member contributions	25,417,400		24,268,742	
Sales of unclaimed property	303,544		304,634	
Miscellaneous	<u>16,709</u>	\$ 245,836,771	<u>260</u>	\$ 237,544,633
Investment income:				
Interest	85,875,262		79,206,008	
Dividends	31,148,464		22,821,947	
Gain on sale of investments	37,086,314		47,158,295	
Securities lending income (Note 6)	<u>337,377</u>	<u>154,447,417</u>	<u>379,188</u>	<u>149,565,438</u>
		400,284,188		387,110,071
EXPENDITURES - Benefits paid to participants:				
Service	119,093,488		113,671,610	
Disability	35,466,439		31,773,752	
Surviving spouses	37,455,912		34,853,187	
Minors and dependents	527,484		539,675	
Health insurance subsidy	<u>5,457,735</u>		<u>4,465,209</u>	
	198,001,058		185,303,433	
Administrative expense	<u>5,355,755</u>	<u>203,356,813</u>	<u>4,832,256</u>	<u>190,135,689</u>
NET OPERATING INCOME		196,927,375		196,974,382
FUND BALANCE, July 1, 1984		<u>1,429,324,858</u>		<u>1,232,350,476</u>
FUND BALANCE, June 30, 1985		<u>\$1,626,252,233</u>		<u>\$1,429,324,858</u>

See accompanying notes to financial statements.

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

	<u>Year ended June 30</u>	
	<u>1985</u>	<u>1984</u>
SOURCE OF FUNDS:		
Net operating income	\$196,927,375	\$196,974,382
Decrease (increase) in temporary investments	253,818,936	(288,059,319)
Increase (decrease) in due to broker	28,692,612	(22,102,289)
Decrease (increase) in contributions receivable	607,858	(893,035)
Decrease (increase) in benefits in process of payment	248,086	(566,317)
Decrease in proceeds from sale of investments receivable	<u>149,757</u>	<u>7,215,225</u>
	480,444,624	(107,431,353)
USE OF FUNDS:		
Increase (decrease) in common stock investment	245,092,304	(36,487,578)
Increase (decrease) in bond investment	229,685,740	(68,758,089)
Increase in accrued interest and dividends	5,488,707	1,943,426
Decrease (increase) in accounts payable	<u>52,532</u>	<u>(1,431,578)</u>
	<u>480,319,283</u>	<u>(104,733,819)</u>
INCREASE (DECREASE) IN CASH	<u>\$ 125,341</u>	<u>(\$ 2,697,534)</u>

See accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1985 AND 1984

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 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. City paramedics and civilian ambulance employees were transferred into the System from the City Employees Retirement System on November 28, 1982.

Members with 20 or more years of service in the Old System and New System are entitled to annual pension benefit 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, 1985 and 1984.

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.

NOTE 3 - WORKERS' COMPENSATION FUND:

Restricted cash consists of tax revenues which were 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. Subsequent to June 30, 1985, the fund became inactive and the remaining balance was transferred into the New System General Pension Fund.

NOTE 4 - 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, 1985 and 1984. 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 four-year (July 1, 1975 - June 30, 1979) (1984) and five-year (July 1, 1979 - June 30, 1984) (1985) experience investigations 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:
 - Old System and New 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 respective actuarial investigation based on actual experience of the System.
- Mortality among retirees - The valuation for those on service retirement is based upon the 1971 Group Annuity Mortality Table projected to 1980 (1984) and the 1983 Group Annuity Mortality Table (1985). 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 (1984 and 1985).
- Mortality among spouses - The valuation is based upon the 1951 Female Group Mortality Table (1984) and the 1983 Group Annuity Mortality Table (1985).

Remarriage among spouses - Expected rates of remarriage were developed during the respective actuarial investigation based upon actual experience of the System.

The changes in the noneconomic assumptions for 1985 resulted in an increase of the unfunded actuarial liability by approximately \$600,000,000.

NOTE 5 - 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, 1985 and 1984, 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 Old System members, a dollar amount of 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 Members 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 years ended June 30, 1985 and 1984 are to be as follows:

	Percentage of Members' Salaries		
	Old System 1985	New Pension System 1985	Safety Members Pension Plan 1985
Entry-age normal cost contribution	22.60%	22.20%	23.30%
Amortization of unfunded liability	\$49,586,684	27.16% *	.04%
Health plan subsidy	\$1,500,000	\$5,000,000	

* Percentage is applied to the total payroll of active employees covered by Articles XVII, XVIII, and XXXV per 1984 charter amendment.

The actuarially determined unfunded liability of the System is \$4,284,536,988 at June 30, 1985 and \$3,653,274,629 at June 30, 1984 (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, 1985 is to be amortized over the next 52 years through contributions to be made by the City.

NOTE 6 - 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, letters of credit 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 letters of credit, 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, 1985 and 1984 are as follows:

	1985	1984
	Securities on loan:	
Cost	\$156,639,073	\$82,955,419
Market	\$172,434,221	\$80,273,386
Collateral	\$166,861,982	\$82,685,467

NOTE 7 - CONTINGENCIES:

Termination Rights

All members who were active on July 1, 1982 have 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 subject to this right at June 30, 1985 and 1984 are \$290,744,166 and \$202,627,361.

Legal Action

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1985. 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 a proposition which was approved by the electorate of the City of Los Angeles in regards to the 3% cap on cost of living adjustments for years of service subsequent to July 1, 1982. On June 6, 1983, the Superior Court entered partial summary judgment in favor of defendants on the issue. The plaintiffs moved the Superior Court for an order reconsidering its

prior grant. On May 30, 1985, the Court indicated that it would reconsider and vacate its prior grant of summary judgment in favor of the defendants, but would deny the plaintiffs' motion for summary judgement. The effect of this ruling is to allow the litigation to proceed to trial.

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 8 - SUBSEQUENT EVENT:

On August 15, 1985, the System's Board of Pension Commissioners adopted a formal divestiture plan of companies doing business in South Africa. The plan consists of six phases to be implemented over five years, at which time the System will complete its divestiture of all companies doing business in South Africa unless a company's activities are substantially assisting efforts to end apartheid. The completion of the divestiture plan is contingent upon the assurance from legal counsel that each phase is within the Board's fiduciary responsibilities. Thereby, any action taken by the Board must first benefit the members of the System. As of the adoption date, the South African investments represented approximately 25% of the total investments of the System.

BUDGET

DEPARTMENT OF PENSIONS

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

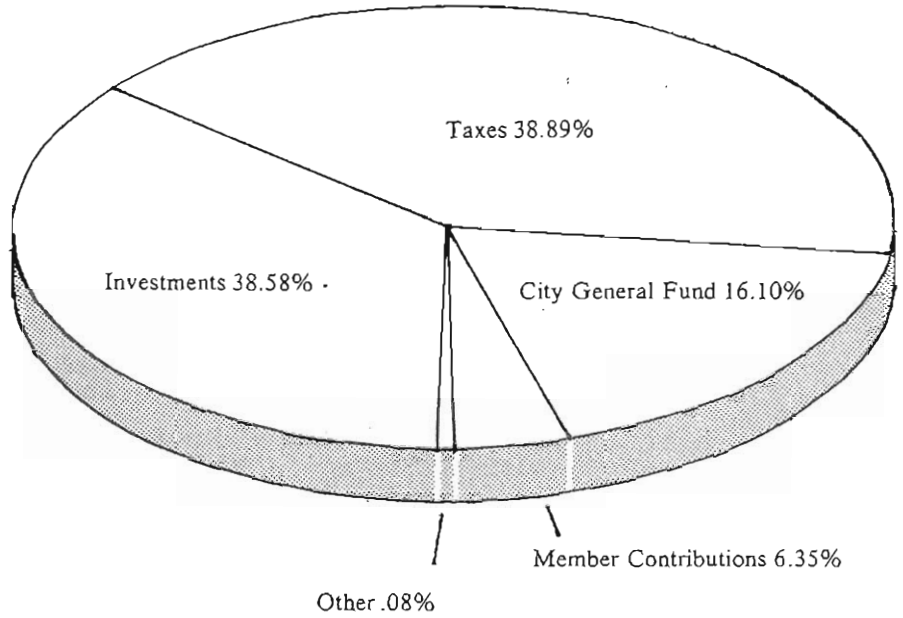
The Board of Pension Commissioners has the responsibility for and the exclusive control of the administration and investment of monies in the several funds of the Fire and Police Pension System, New Pension System and the Safety Members Pension Plan and administers the provisions of the Charter relative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

RECEIPTS	Budget 1984 - 85	Actual 1984 - 85
Taxes and General Fund	\$219,788,917	\$220,099,118
Member Contributions	27,738,620	25,417,400
Earnings on Investments	106,000,000	154,447,417
Sale of Unclaimed Property	300,000	303,544
Miscellaneous	3,000	16,709
TOTAL RECEIPTS	\$353,830,537	\$400,284,188

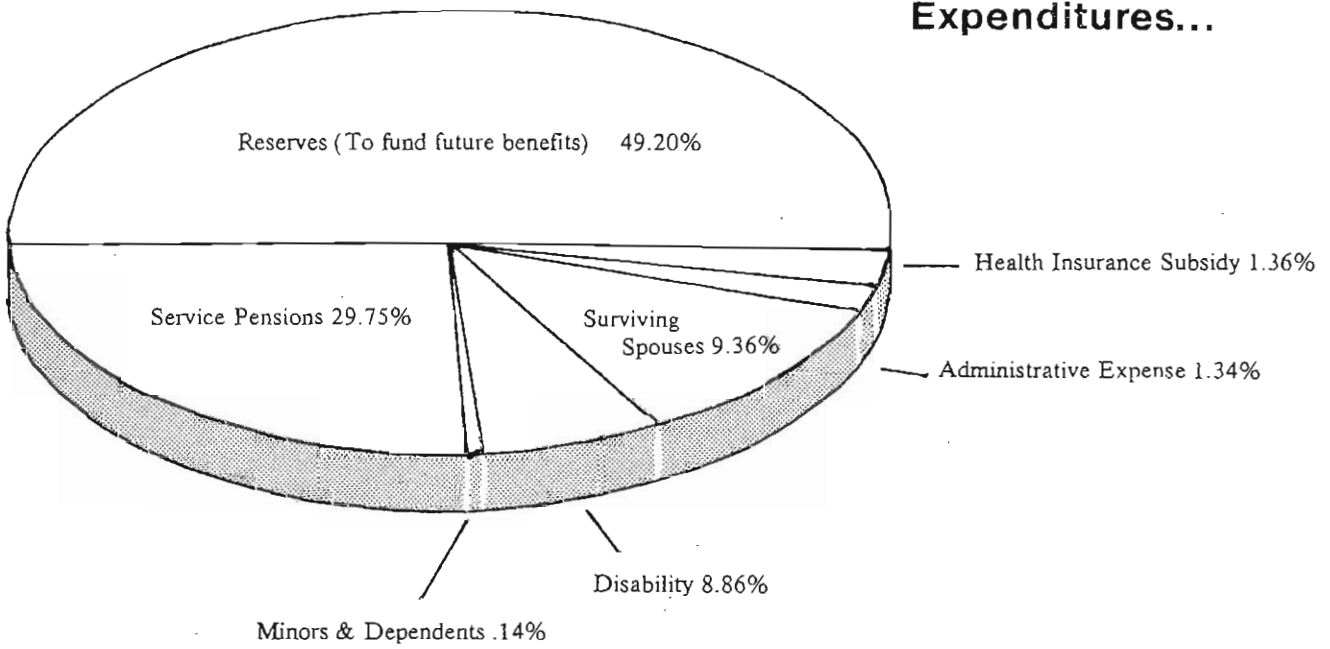
EXPENDITURES	Budget 1984-85	Actual 1984-85
Service Pensions	\$125,940,031	\$119,093,488
Disability Pensions	34,321,715	35,466,439
Widows' Pensions	37,215,652	37,455,912
Minor's / Dependents' Pensions	526,404	527,484
Health Insurance Subsidy	5,600,000	5,457,735
Administrative Expense	6,058,382	5,355,755
Loss On Disposition of Investments	—	—
TOTAL EXPENDITURES	\$209,662,184	\$203,356,813
Return to Reserve	144,168,353	196,927,375
TOTAL DISBURSEMENTS	\$353,830,537	\$400,284,188

LOS ANGELES FIRE & POLICE
PENSION SYSTEM 1984-85
INCOME: \$400,284,188

Revenue....



Expenditures...



ADMINISTRATIVE EXPENSE COMPARISON
1980-81 to 1984-85

OPERATING EXPENSE

	1980-81	1981-82	1982-83	1983-84	1984-85
Salaries	\$752,729	\$804,023	\$991,625	\$1,131,046	\$1,194,980
Overtime	889	952	7,102	6,013	15,961
Office and Administrative Expense..	38,307	49,152	49,560	56,881	80,925
Operating Supplies and Expense ...	13,797	100	—	—	15,000
Printing and Binding	4,385	8,806	10,957	12,448	10,000
Travel	19,316	16,854	22,027	40,559	38,446
Contractual Services	984,907	1,185,570	1,584,156	2,927,525	3,214,447
Field Equipment	—	—	1,280	(980)	300
Petroleum Products	—	1,795	2,700	—	1,000
Transportation	—	—	1,300	8,346	—
Annual Audit	—	14,576	10,029	8,800	9,700
Governmental Meetings	—	300	—	—	—
Litigation	31,174	36,744	317,387	96,040	83,925
Medical Services	288,086	382,450	469,817	433,631	497,827
Actuarial Expense	19,000	19,000	29,000	21,500	30,000
Health Insurance	24,259	40,914	72,800	36,631	69,683
Retirement Contributions	19,450	24,000	36,000	36,970	47,900
Tuition Reimbursement	—	—	995	1,812	1,724
Dental Insurance	2,696	4,046	7,004	4,177	6,447
Equipment, Furniture & Fixtures...	334	4,302	87,491	10,857	37,490
	<u>\$2,199,329</u>	<u>\$2,593,584</u>	<u>\$3,701,230</u>	<u>\$4,832,256</u>	<u>\$5,355,755</u>

LEGAL

DEPARTMENT OF PENSIONS SUMMARIZATION OF MAJOR ACTIVITIES OF THE LEGAL SECTION

CONTRACTS

The City Attorney prepared and approved as to form contracts between the Board of Pension Commissioners and Touche Ross & Co., Loomis Sayles, Criterion Investment, and an Agreement Modifying the Contract between the Board of Pension Commissioners and Wright Investors, as well as a contract with Towers, Perrin, Forster & Crosby.

PROBATE MATTERS

This office examined 51 probate accountings, as well as petitions and other documents which were received by the Department of Pensions. Ten requests for special notice were prepared, filed and served. Three guardianships and conservatorships were discontinued and ten were commenced. There are 94 guardianships pending, 40 covering minors, 48 covering incompetents, 5 dependent children and 1 covering a dependent parent.

LITIGATION

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
 - I. Decisions upholding the Board:
 - Ellis v. Board of Pension Commissioner
 - Ferry v. Board of Pension Commissioner
 - Sansky v. Board of Pension Commissioners
 - Von Ahn v. Board of Pension Commissioners
 - II. Decisions reversing the Board:
 - Schmider v. Board of Pension Commissioners
 - West v. Board of Pension Commissioners
- (B) Cases presenting interesting facts or legal issues

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 186-½ 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.

After completion of pre-trial pleadings and as a result of negotiations between the parties, Mr. Guluzza, in October 1984, filed a request for dismissal.

The matter is now final and concluded.

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.

During the fiscal year, Mr. Meadows filed a request for dismissal of his appeal.

The matter is now final and concluded.

RIVARD v. BOARD OF PENSION COMMISSIONERS

Morris Rivard is a former police officer now on a non-service-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.

The Court of Appeal affirmed the Superior Court holding that, based upon the whole record, the evidence was substantial and sufficient to support the actions of the Board and the judgment of the trial court.

The matter is now final and concluded.

SHANAHAN v. BOARD OF PENSION COMMISSIONERS

Plaintiff is the former spouse of a member who is now retired on a disability pension. Plaintiff filed a complaint for declaratory relief and claimed 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 was 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 asset.

By the beginning of 1985, the plaintiff moved to take the case off calendar. This matter may now be deemed final and concluded.

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.

Plaintiffs prevailed. It is anticipated that this case will now go to trial by the beginning of 1986.

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 now ready for trial; however, no date has been set as yet.

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 60 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
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 1½% for each additional year between 25 and 35 years of service. Maximum of 66⅔% 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.
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 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.

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. 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, 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%
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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 disability 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 state statute, but reduced the minimum retirement age to 55 and eliminated contributions. In 1919 such ordinances were amended to provide for a pension of one-half of the salary attached to the rank after 20 years of service, without limitation as to age.

1923-1925. Effective January 29, 1923, the substance of these two ordinances was adopted into the Charter. The system was placed upon an actuarial basis. Also 1½% for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of ⅔ of the salary of the rank held. This was continued in the new City Charter which became effective July 1, 1925. Added was a provision that service and disability pensions would remain fixed amounts.

1927. Effective January 17, 1927, the Charter was amended to provide that all members entering the service after that date would receive 50% of the average salary during the last three years for 25 years of service, plus 1½% for each of the next 10 years of service. This amendment imposed a limit upon service pensions at a pension of \$1800 per year. Members' contributions to the cost of the system were set at 4% of salaries. Pensions for widows were made fixed amounts.

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

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension of 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension of 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the widow for minor children under 18 and unmarried. Members entering subsequent to January 17, 1927, could retire after 20 years of service upon 40% of the average salary for the last three years of service. In addition, they would receive 2% for each of the next five years of service, and 1½% for each of the next ten years of service. The maximum pension of ⅔ of average salary was retained, but the 1927 limitation was raised to accord with salary level of a police captain or fire battalion chief. Contributions were increased from 4% to 6% of salaries.

1957. Effective April 18, 1957, an amendment removed the maximum limit attached to rank on service pensions.

1958. The California Supreme Court ruled that the 1925 Charter provisions for fixed pensions did not apply to members employed prior to July 1, 1925, nor to widows of members employed prior to January 17, 1927.

1959. Effective May 6, 1959, the Charter was amended to re-establish the system on an actuarial basis, with a 50-year amortization period for the unfunded liabilities, and the investment provisions were changed to permit investing up to 35% of the fund in common stocks.

1961. Effective July 1, 1961, a Charter amendment provided a one time cost of living increase on all members' or widows' pensions that were based on service connected disability or death.

1967. Article XVII was extensively amended, and a New Pension System in Article XVIII was adopted effective January 29, 1967, to provide: annual cost of living adjustments to all members' or widows' pensions that were based on length of service retirement, to 55% at 25 years of service, plus 3% per year for a maximum of 70% at 30 years of service; a minimum pension of \$250.00 per month, to be adjusted each year by the cost of living formula; an extension of the funding period to 70 years; changes in the investment authority to provide for mortgage investments and public improvement financing; and other changes.

1968. Articles XVII and XVIII were amended to exclude overtime compensation from computation, either for contributions or for benefits.

1969. Articles XVII and XVIII were amended effective May 2, 1969, to apply cost of living adjustments to disability pensioners and to their dependents' pensions. Service pensioners were authorized to apply for return to active duty under specified limitations. The authorized limit for common stock investments was raised to 50% of the funds.

1971. Articles XVII and XVIII were amended effective July 1, 1971, to remove the 2% per year cost of living ceiling from all pensions eligible for cost of living increases; to increase the minimum pension to \$350.00 per month; to grant pension credit for partial years of service; to bring into closer agreement certain provisions that were different in the two articles; and to add two employee members to the Board of Pension Commissioners.

1974. Articles XVII and XVIII were amended to enable the City Council to adopt ordinances allowing subsidy payments to be made toward health insurance and other programs for eligible pensioners.

1975. Articles XVII and XVIII were amended to allow cost of living adjustments for service-connected disability pensions of retired firefighters and police officers upon the July 1st following the date of retirement. This amendment eliminated certain waiting periods for those eligible to receive cost of living adjustments.

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

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

1981. The investment provisions of all Articles were extensively revised and provide among other changes: the investment of up to 70% in common stock and up to 25% of the 70% without 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.

1985. Charter amendment 2 allows for investments in real estate by all City of Los Angeles Pension Systems.

DEPARTMENT OF PENSIONS

