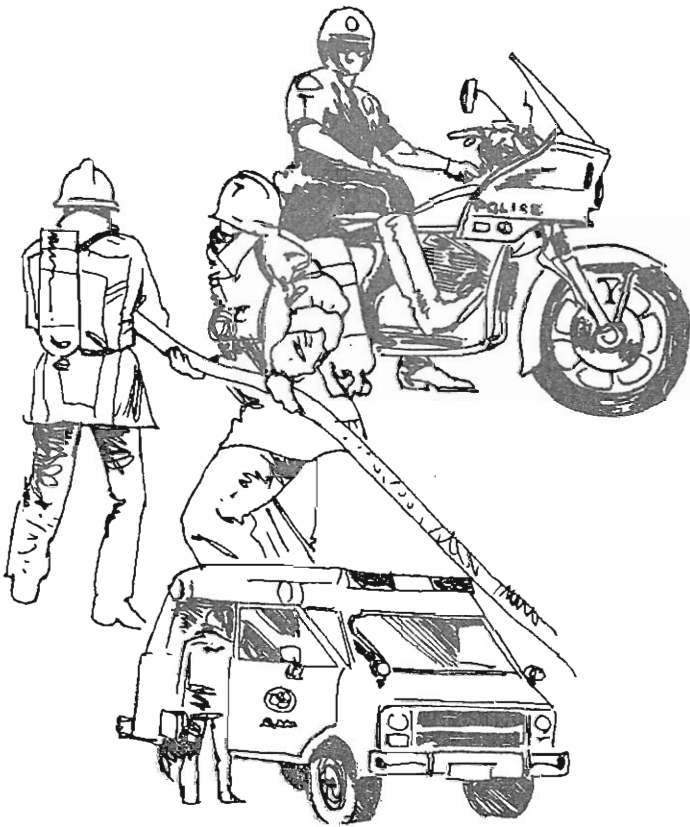


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**CITY OF LOS ANGELES**

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**BOARD OF PENSION COMMISSIONERS**



**Annual  
Report  
1986**

---

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

---

MAYOR  
Tom Bradley

CITY ATTORNEY  
James Kenneth Hahn

CONTROLLER  
Rick Tuttle

CITY COUNCIL

Pat Russell, President  
Joan Mike Flores, President Pro Tempore

Howard Finn  
First District

Gilbert W. Lindsay  
Ninth District

Joel Wachs  
Second District

David Cunningham  
Tenth District

Joy Picus  
Third District

Marvin Braude  
Eleventh District

John Ferraro  
Fourth District

Hal Bernson  
Twelfth District

Zev Yaroslavsky  
Fifth District

Michael Woo  
Thirteenth District

Pat Russell  
Sixth District

Richard Alatorre  
Fourteenth District

Ernani Bernardi  
Seventh District

Joan Milke Flores  
Fifteenth District

Robert C. Farrell  
Eighth District

# THE BOARD OF PENSION COMMISSIONERS

DAVE VELASQUEZ  
President

DELLENE ARTHUR, Vice-President

SHERMAN ANDELSON, Commissioner

KENYON CHAN, Commissioner

BERT COHEN, Commissioner

SAM DIANNITTO, Commissioner

KEN STAGGS, Commissioner

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

ANNUAL REPORT 1986

GENERAL MANAGER Gary Mattingly	CONTENTS	Page
<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 Criterion Investment Management Company Loomis Sayles &amp; Company Magten Asset Management Security Pacific Investment Managers Solomon Asset Management 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..... 18</p> <p>Actuarial Report..... 21</p> <p>Auditor's Report..... 24</p> <p>Budget..... 31</p> <p>Legal..... 34</p> <p>Pension Benefits..... 36</p> <p>Milestones ..... 39</p>	

CITY OF LOS ANGELES  
CALIFORNIA



TOM BRADLEY  
MAYOR

BOARD OF PENSION  
COMMISSIONERS

DAVE VELASQUEZ  
PRESIDENT  
DELLENE ARTHUR  
VICE-PRESIDENT  
SHERMAN L. ANDELSON  
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BERT COHEN  
SAM DIANNITTO  
KENNETH E. 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  
1985 - 86 Annual Report

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

Presented herewith, in accordance with Section 64 of the City Charter, is the annual report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1986.

We are pleased to report that, once again, the market value of pension assets has grown. The System's total assets of over \$2.3 billion represents an increase of over \$533 million, or nearly 30 percent, over last year's total.

The investment gains made, along with lower than expected cost-of-living adjustments and salary increases, have acted to decrease the System's unfunded actuarial accrued liability - a significant financial event which provides for greater funding of the pension system.

As in past years, the 1985 - 1986 annual report includes financial statements prepared by Touche, Ross & Company and a summary report of the actuary, Towers, Perrin, Forster & Crosby.

Active pension system membership decreased during the year while retired membership continued to grow. As of June 30, 1986, there were 9,903 active and 9,487 retired members covered by the Los Angeles Fire and Police Pension System.

Respectively submitted,

Dave Velasquez  
President  
Board of Pension Commissioners

AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER

CITY OF LOS ANGELES  
CALIFORNIA



TOM BRADLEY  
MAYOR

BOARD OF PENSION  
COMMISSIONERS

DAVE VELASQUEZ  
PRESIDENT  
DELLENE ARTHUR  
VICE-PRESIDENT  
SHERMAN L. ANDELSON  
KENYON S. CHAN  
BERT COHEN  
SAM DIANNITTO  
KENNETH E. STAGGS

DEPARTMENT OF  
PENSIONS

501 CITY HALL SOUTH  
111 EAST FIRST STREET  
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 1986 has proven to be a significant one for the Department of Pensions and the Los Angeles Fire and Police Pension System.

The System's investments have once again made very strong gains, recording a 26.6 percent total rate of return. Such earnings have resulted in a \$533 million increase in the market value of the Pension System's stocks, bonds and cash equivalent investments. The 26.6 percent rate of return compares extremely well with our assumed actuarial rate of investment of 8.5 percent.

In addition, the 4 percent cost-of-living adjustment effective July 1, 1986, and received by most of the System's pensioners, was lower than the assumed actuarial inflation rate of 5.5 percent. Such gains have caused a reduction in the Pension Plan's Unfunded Actuarial Accrued Liability.

During the upcoming fiscal year, the Department of Pensions looks forward to providing greater retirement security and even better service for all members of the Los Angeles Fire and Police Pension System.

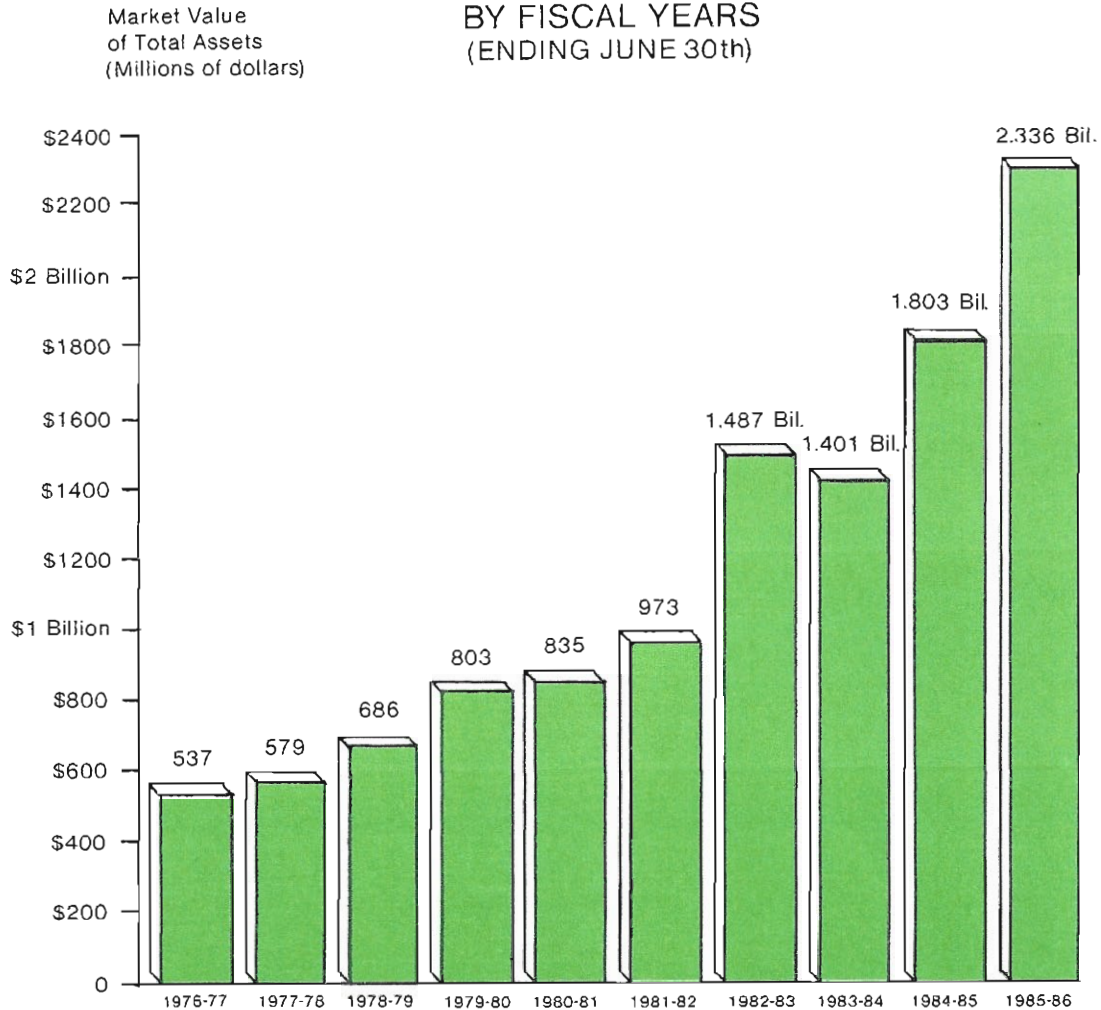
Very truly yours,

Gary Mattingly

AN EQUAL EMPLOYMENT OPPORTUNITY — AFFIRMATIVE ACTION EMPLOYER

# INVESTMENTS

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



For the second consecutive year, the investment environment continued robust, with the major market indices once again recording strong gains. The Standard and Poor's index of 500 stocks gained 35.9 percent. In the bond market, the Shearson Lehman Government/Corporate Bond Index rose by 20.7 percent. The market value of Fire and Police Pension System investments increased by \$533 million to \$2.336 billion, recording a 26.6 percent total rate of return.

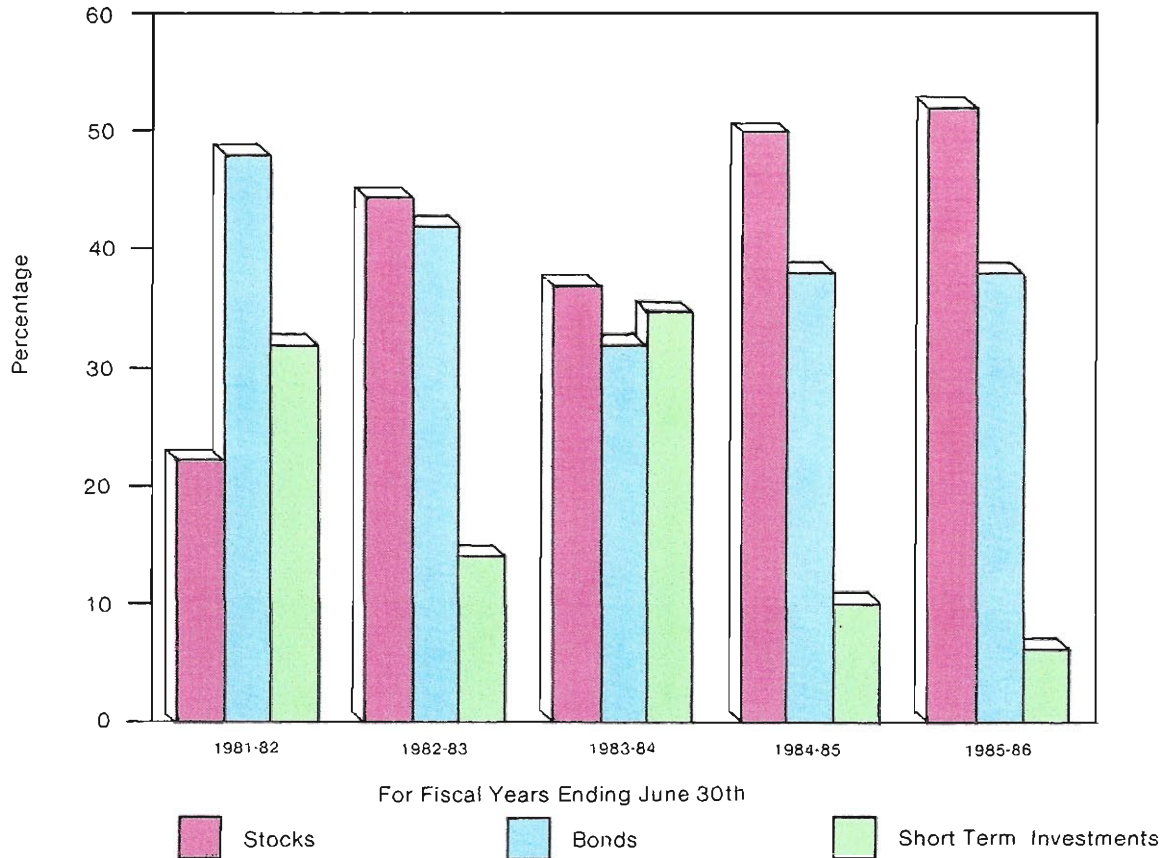
The asset mix of the fund remained almost unchanged from the prior year. At the end of the year, the total fund portfolio was approximately

52 percent stocks, 39 percent bonds, and 9 percent cash equivalents.

Part of the increase in total assets was due to revenues from interest and dividends, which increased by \$13 million above last year to a total of \$130.0 million. The increase was due to the larger asset base of the fund.

The growth in assets was very strong in absolute terms, and the fund's comparative performance was above median, outperforming 53 percent of the balanced funds measured by the SEI performance evaluation service.

## FIRE AND POLICE PENSION SYSTEM ASSET MIX 1981 - 82 THROUGH 1985 - 86



The performance of the stocks owned by the fund, 35.3 percent, was below median, outperforming 37 percent of SEI's measured funds.

The bonds owned by the fund performed near median at 19.1 percent, ranking in the top 49 percent of funds measured by the SEI service. The high sales turnover of issues, 96.8 percent, continued from the prior year as the two investment grade bond managers, Boston Company and Security Pacific Investment Managers, sought an aggressive bond swap strategy.

During the year, two new high yield bond advisors, Magten Asset Management and

Solomon Asset Management were hired. These managers bring to the fund two different methods of high yield market participation. In addition, the high yield specialty represents a move by the fund toward greater diversification of the assets. The fund intends to continue the asset diversification process next year after completion of an asset allocation study by Callan Associates.

Upon the request of the Mayor and the City Council, the Board of Pension Commissioners has adopted a five year program to divest from those companies doing business with the Government of South Africa. Although no action has been taken against any company to date, careful study of the issue continues.



ANNUAL RATES OF RETURN  
BASED ON MARKET VALUE

Fiscal Year Ending June 30	Equities	Bonds	Total Fund *	CPI**
1976-77	-5.40%	13.80%	7.40%	6.90%
1977-78	-0.10%	-0.50%	0.30%	7.40%
1978-79	12.10%	7.00 %	8.20%	10.90%
1979-80	15.20%	-2.00 %	5.80%	14.30%
1980-81	20.50%	-8.90%	-1.30%	9.60%
1981-82	-13.90%	12.70%	6.20%	7.10%
1982-83	68.80%	35.40%	46.90%	2.60%
1983-84	-16.40%	2.10%	-5.90%	4.20%
1984-85	29.60%	28.90%	25.30%	3.70%
1985-86	35.30%	19.10%	26.60%	1.70%

\* Total fund includes short term investments

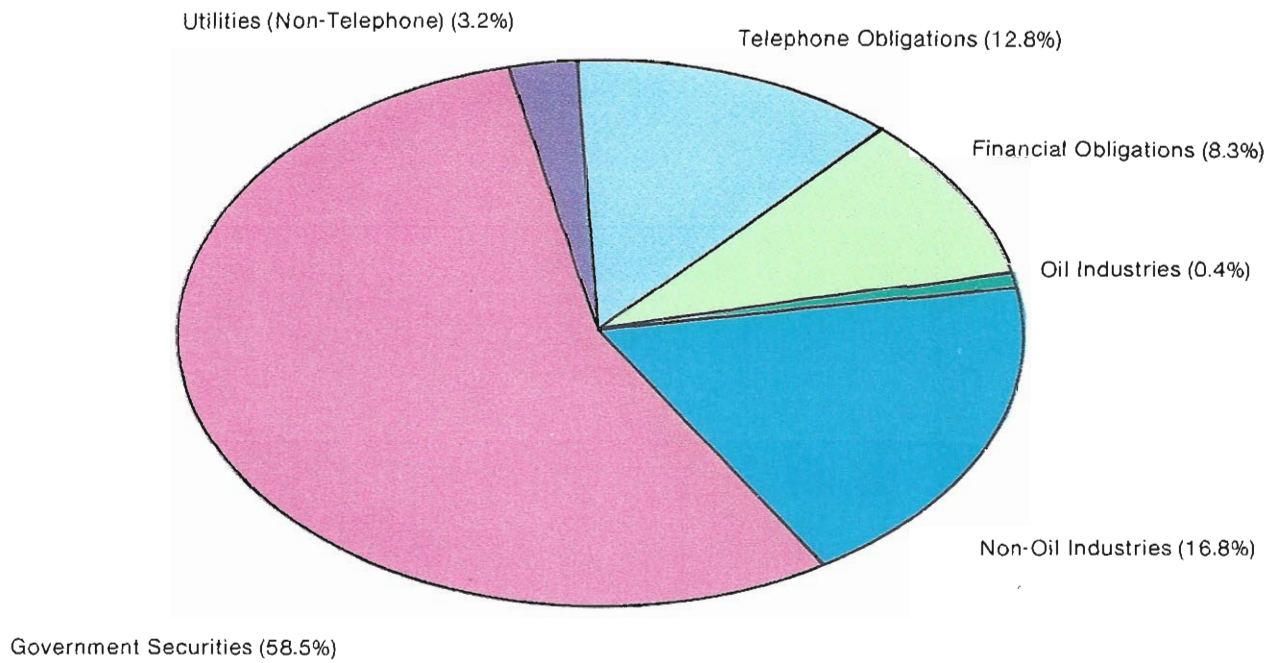
\*\* The percentages shown are for years ending June 30th. Pension COLA's use the CPI for the year ending in February.

ASSET CHANGE SUMMARY  
(IN MILLIONS)

Beginning Market Value (7/1/85)	1,803.0
Contributions (City & Members)	255.0
Benefits Paid to Participants	(209.2)
Dividend and Interest Income	130.9
Gain/Loss on Sale of Securities	175.4
Change in Market Value of Securities Held	181.3
Ending Market Value (6/30/86)	2,336.4

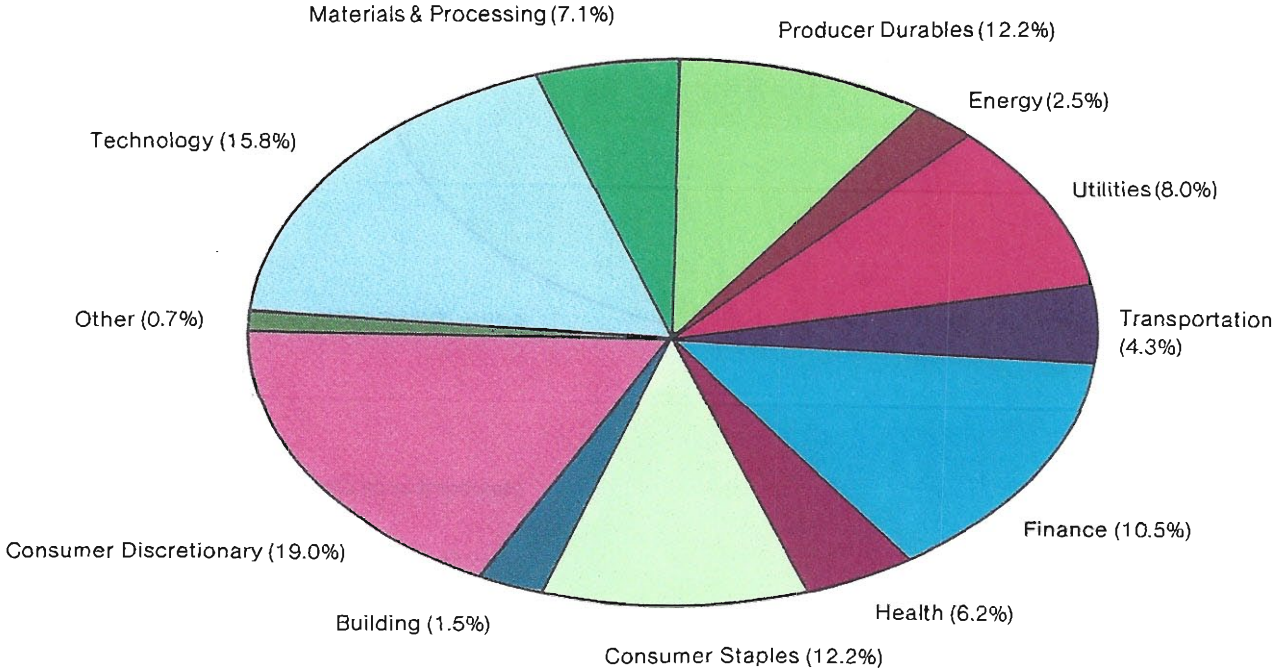
# DIVERSIFICATION OF BOND ASSETS

(As of June 30, 1986)



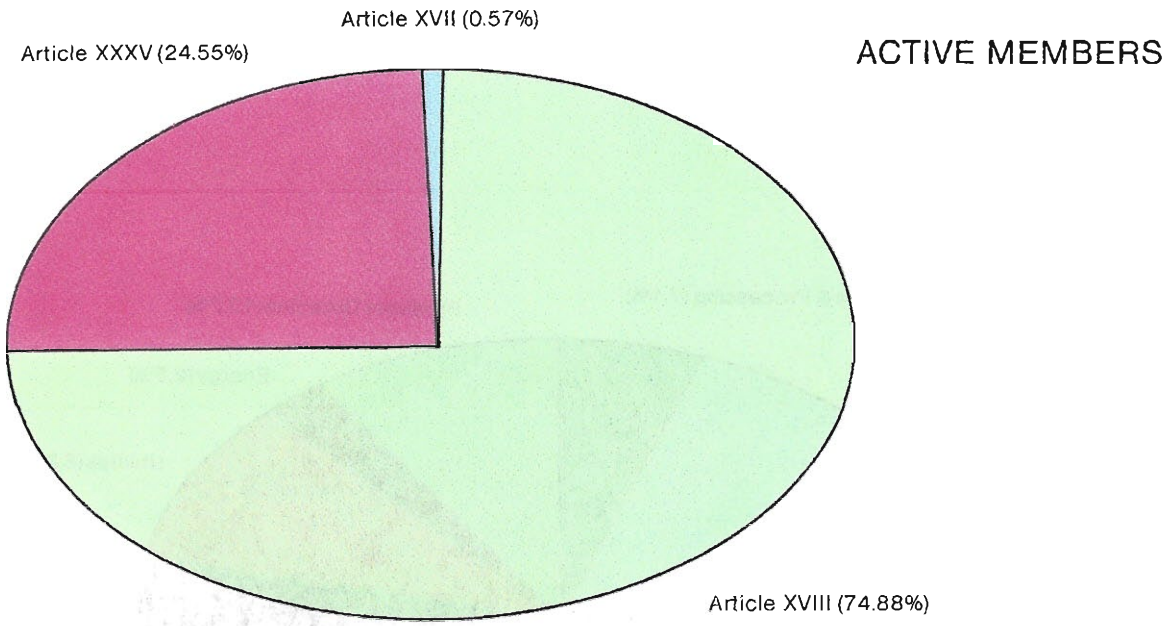
\* Source : SEI Report, June 30, 1986

DIVERSIFICATION OF EQUITY ASSETS  
BY INDUSTRY SECTOR  
(June 30, 1986)



\* Source: SEI Report dated June 30, 1986

# MEMBERSHIP



Membership by City Charter Article :

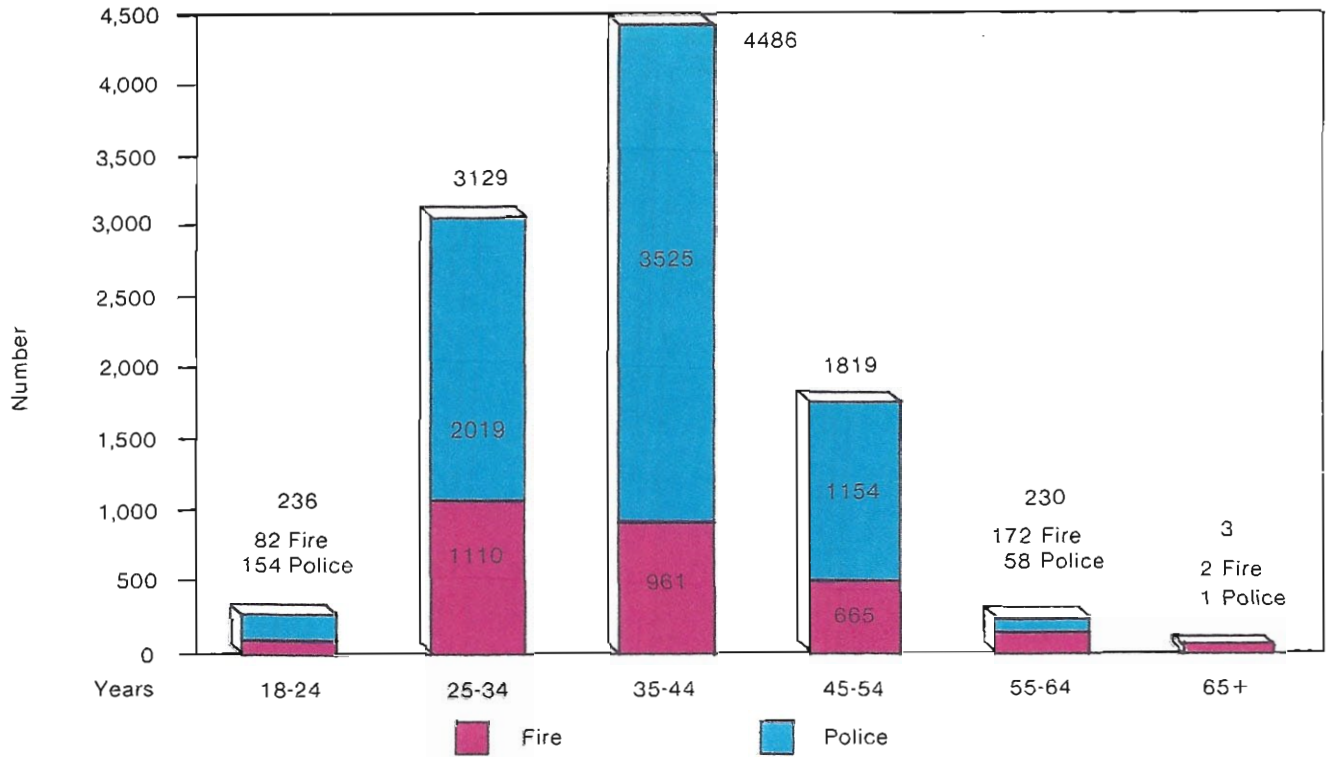
	Fire	Police	Total
XVII	6	51	57
XVIII	2172	5243	7415
XXXV	814	1617	2431
	2992	6911	9903

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.

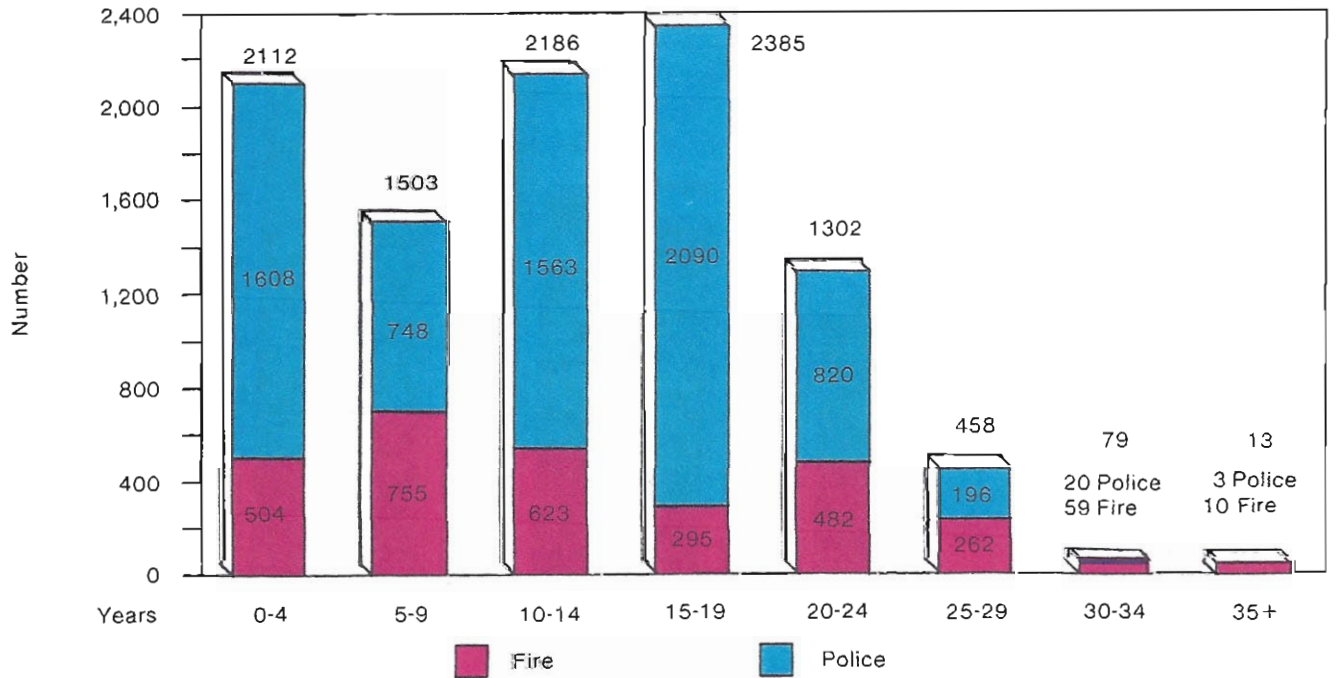
In 1980, the Safety members Pension Plan (Article XXXV) was approved by the voters of the City of Los Angeles to cover new hires to the Fire and Police Departments. As Fire Department employees, Paramedics and Civilian Ambulance Drivers were allowed to transfer to Article XXXV from the City Employees' Retirement System in November of 1982.

Total active membership in the three pension plans which comprise the Los Angeles Fire and Police Pension System, as of June 30, 1986, equalled 9,903 a net decrease of 135 members since June 30, 1985.

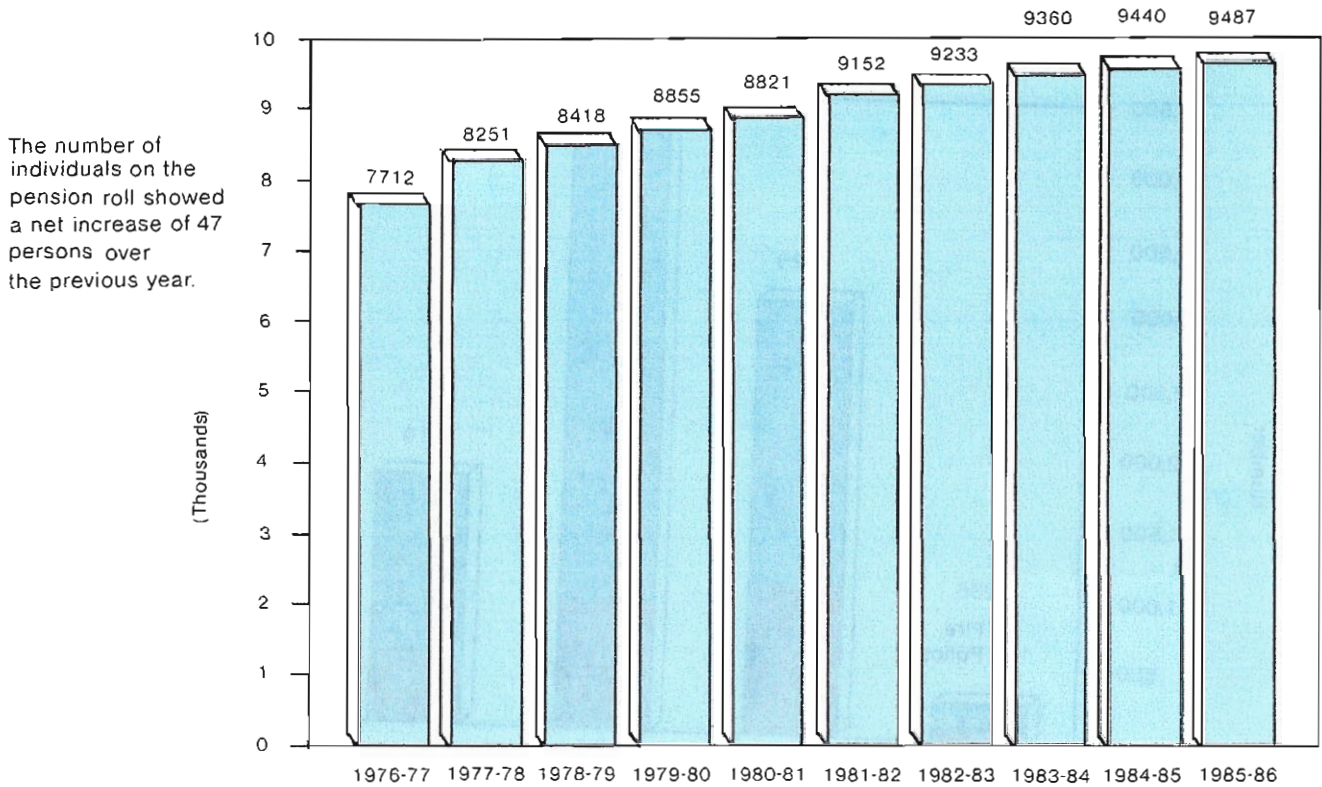
### AGE COMPARISON BY DEPARTMENT (ACTIVE MEMBERS)



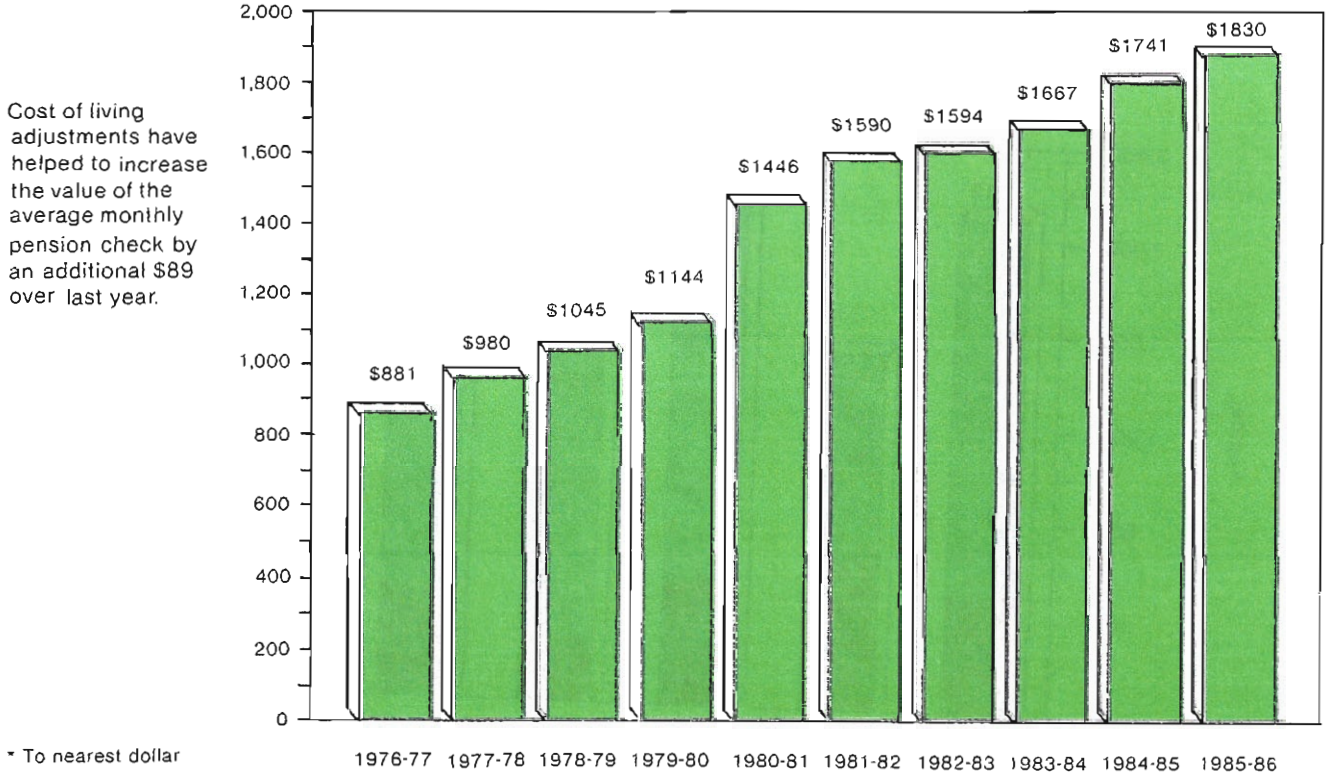
### COMPARISON OF YEARS OF SERVICE BY DEPARTMENT (ACTIVE MEMBERS)



**RETIRED MEMBERSHIP**  
FOR FISCAL YEARS ENDING JUNE 30TH



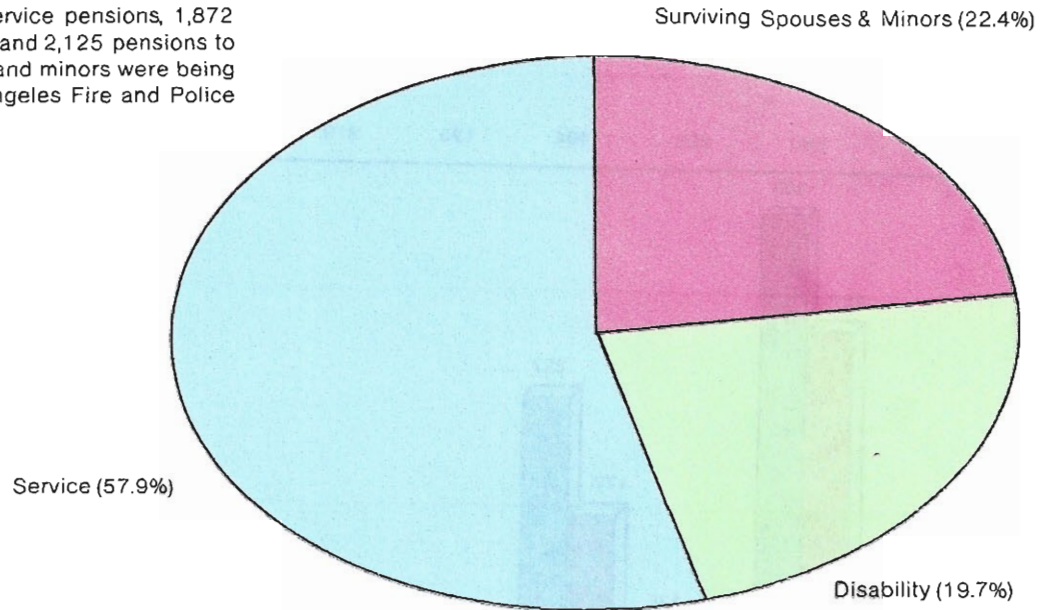
**COMPARISON OF AVERAGE MONTHLY PENSIONS**  
BY FISCAL YEAR ENDING JUNE 30TH \*



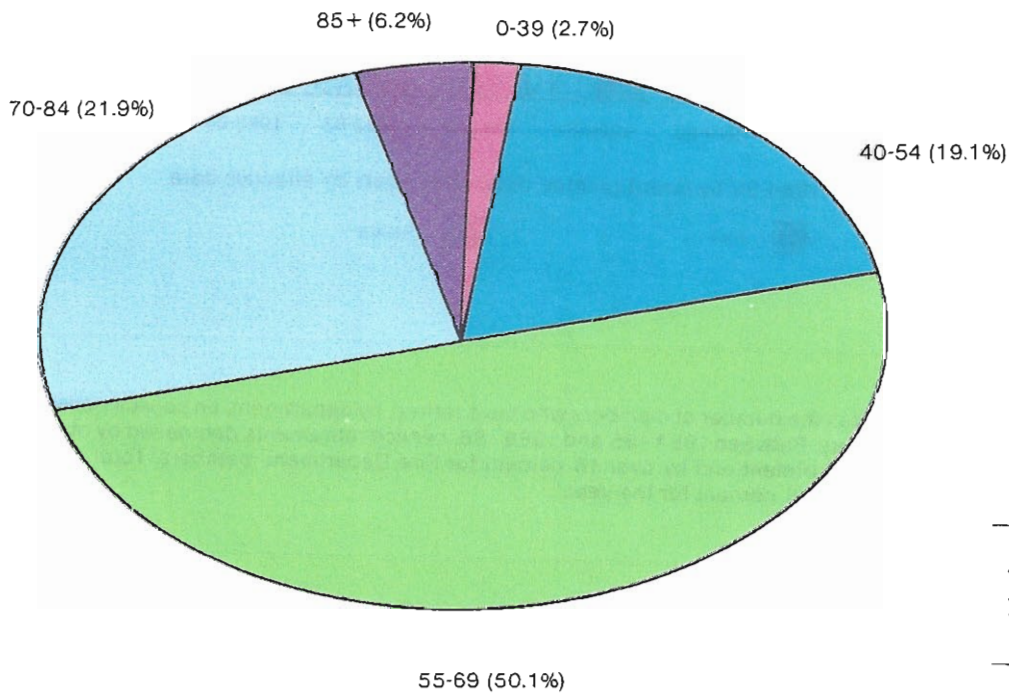
\* To nearest dollar

# TYPES OF PENSIONS

Pension benefits are payable to system members and their survivors. As of June 30, 1986, 5,490 service pensions, 1,872 disability pensions and 2,125 pensions to surviving spouses and minors were being paid by the Los Angeles Fire and Police Pension System.



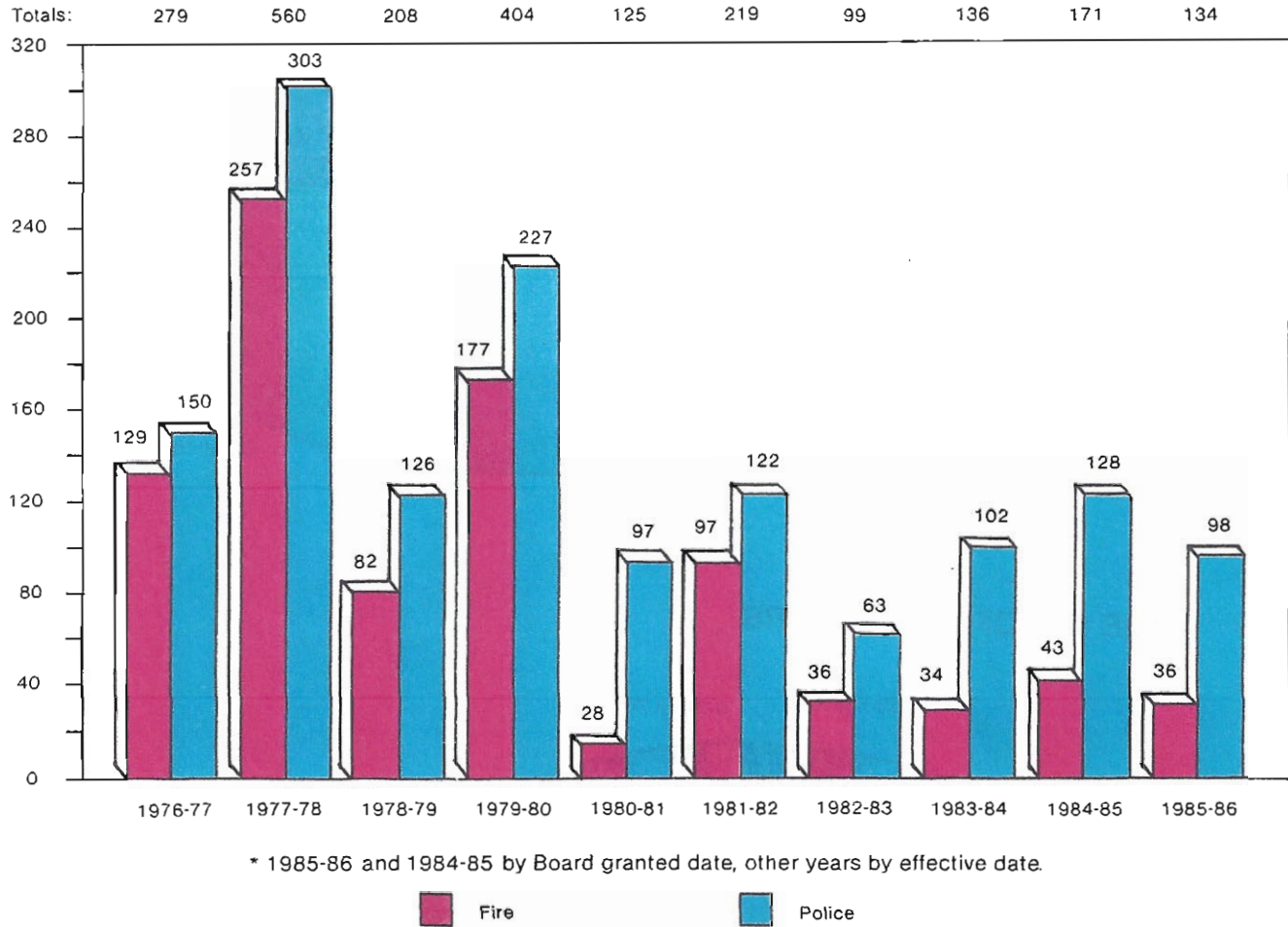
## AGE MIX OF PENSIONERS



Age	Number
0-39	= 253
40-54	= 1814
55-69	= 4754
70-84	= 2076
85+	= 590
<b>Total</b>	<b>= 9487</b>



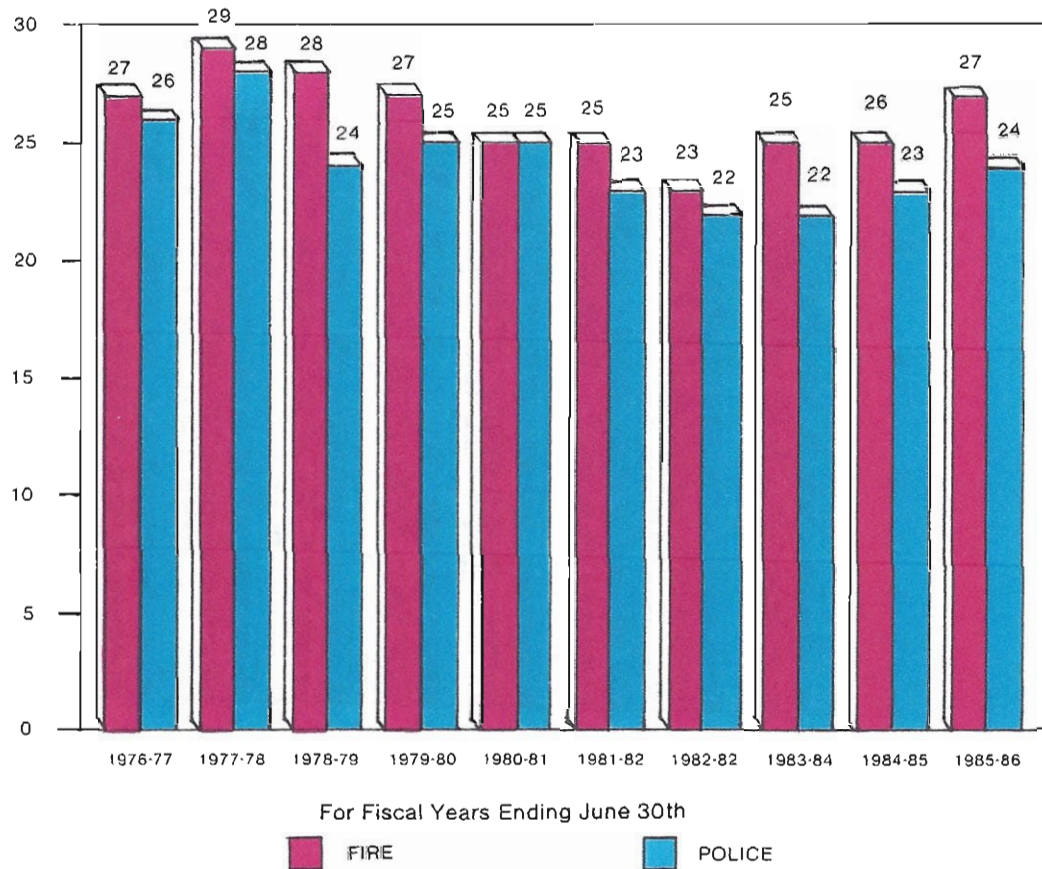
## SERVICE PENSIONS \*



The graph above illustrates the number of members who have retired, by department, on service pensions over the last ten fiscal years. Between 1984 - 85 and 1985 - 86, service retirements decreased by over 23 percent for the Police Department and by over 16 percent for Fire Department members. Total service retirements decreased by 21.6 percent for the year.

## AVERAGE YEARS OF SERVICE AT RETIREMENT BY DEPARTMENT

COMBINED AVERAGE YEARS: 27 28 26 26 25 24 22 23 24

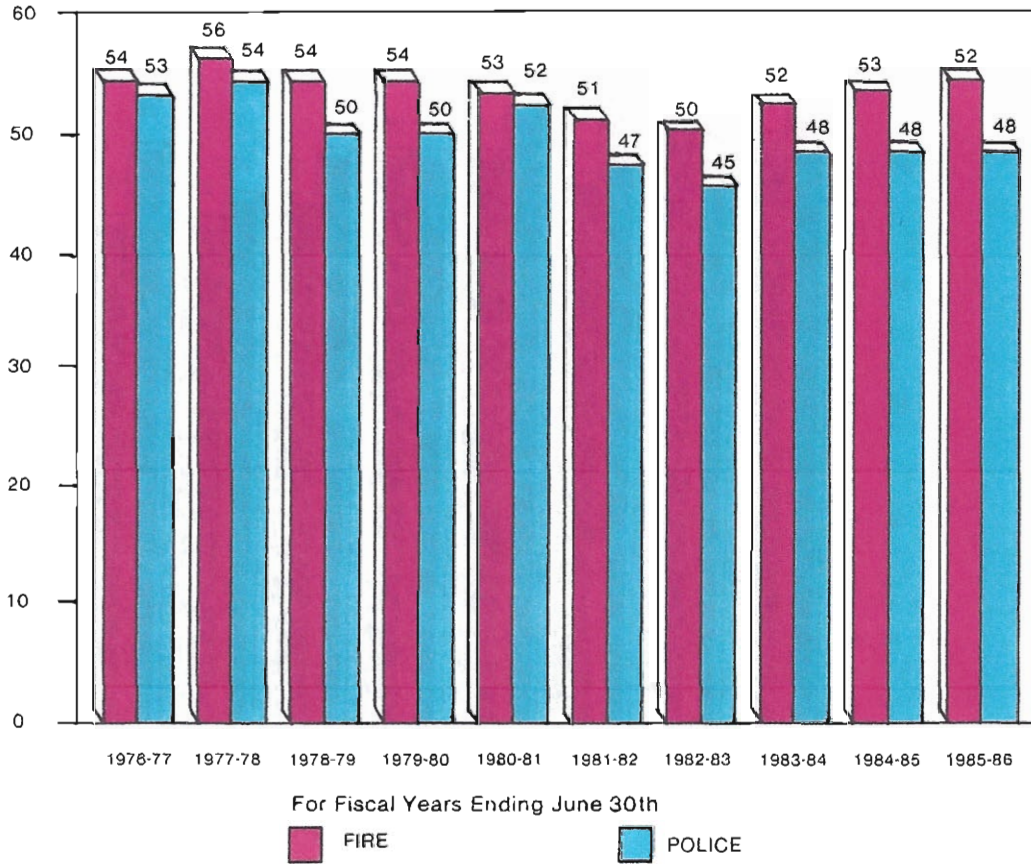


As illustrated by the graph, the average years of service at retirement are beginning to show a steady increase since falling to a lowpoint in the 1982-83 fiscal year.

Members of the Fire and Police Pension System (Article XVII) and the New Pension System (Article XVII) must complete 20 years of service in order to be eligible for service retirement. Members of the Safety Members' Pension Plan (Article XXXV) must complete 10 years of service and be at least age 50 prior to receiving a service pension.

# AVERAGE AGE AT RETIREMENT BY DEPARTMENT

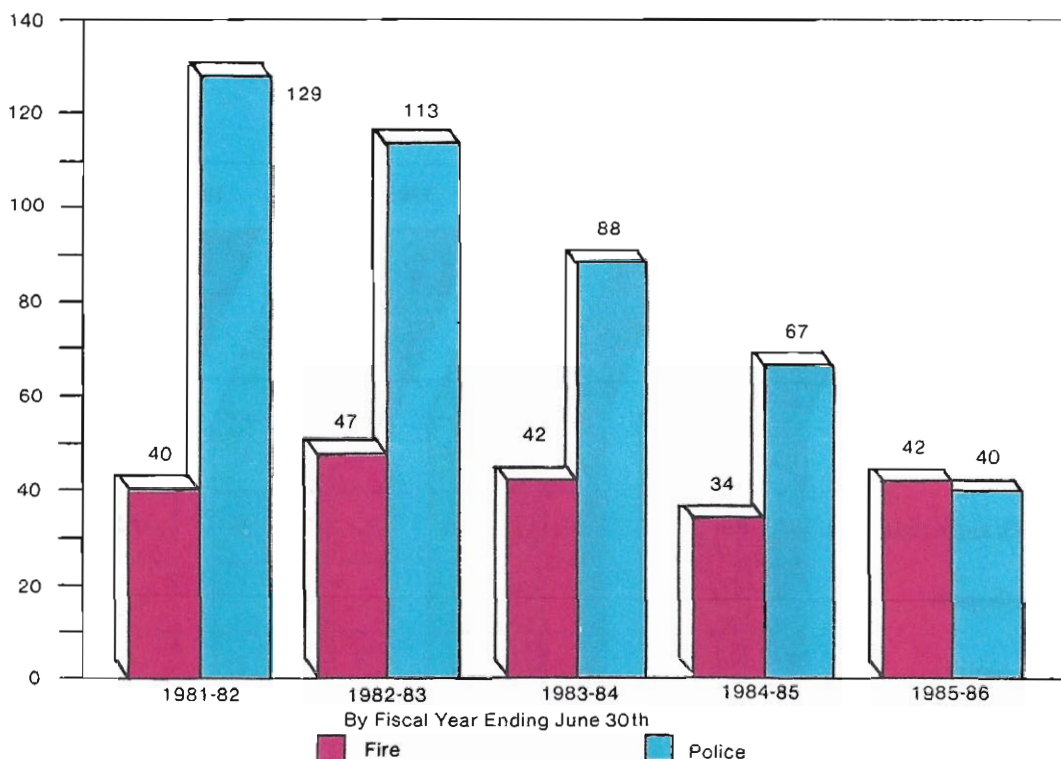
COMBINED AVERAGE AGE: 53 55 51 52 52 49 47 49 49 49



Although average age at service retirement has declined over the course of the decade, average life expectancy has increased. Providing pension benefits for a greater number of years imposes a higher liability on the pension fund. This liability is met by a combination of larger City contributions and greater investment earnings.

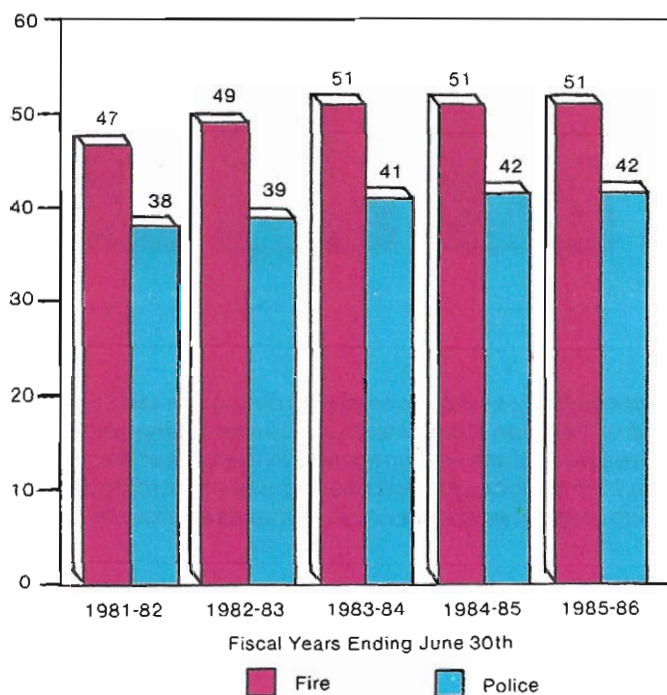
## DISABILITY PENSIONS

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

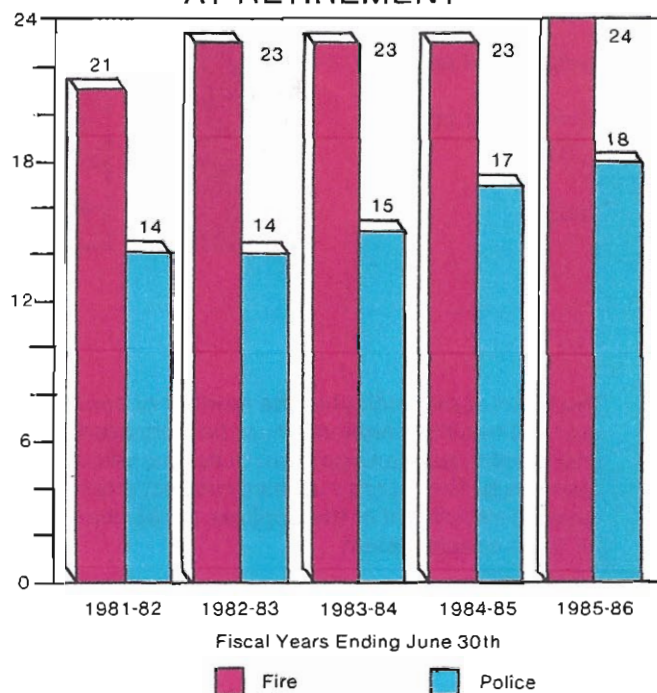


The average age and average years of service of Firefighters and Police Officers who retired with disability pensions during the last five fiscal years are reflected below:

### AVERAGE AGE AT RETIREMENT



### AVERAGE YEARS OF SERVICE AT RETIREMENT



## SERVICE CONNECTED DISABILITY PENSIONS BY TYPE AND DEPARTMENT FOR THE LAST FIVE FISCAL YEARS \*

\* FY 1983-84 through 1985-86 by granted date, other years recorded by effective date.

	1981 - 82			1982 - 83			1983 - 84			1984 - 85			1985 - 86		
	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total
Back only	14	25	39	19	16	35	11	10	21	9	6	15	13	8	21
Back, neck and orthopedic	6	18	24	10	4	14	12	18	30	6	10	16	12	8	20
Other orthopedic	3	1	4	5	2	7	3	2	5	5	3	8	8	0	8
Cardiovascular	4	7	11	7	4	11	4	2	6	1	2	3	1	1	2
Internal	0	2	2	0	4	4	1	1	2	1	2	3	1	1	2
Multiple	6	18	24	3	13	16	7	9	16	11	16	27	5	6	11
Miscellaneous	3	2	5	0	1	1	1	4	5	1	0	1	0	1	1
Psychological only	1	12	13	1	15	16	0	10	10	0	3	3	1	2	3
Psychological plus physical	0	24	24	1	32	33	3	29	32	0	24	24	0	13	13
Totals	37	109	146	46	91	137	42	85	127	34	66	100	41	40	81

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

SERVICE AND NON-SERVICE CONNECTED  
DISABILITY RETIREMENT BY RANK

	1981-82	1982-83	1983-84	1984-85	1985-86
Police					
Police Officer	92	76	60	41	19
Sergeant	19	16	9	9	9
Detective	15	21	17	15	8
Lieutenant	2	0	2	2	4
Captain	1	0	0	0	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Asst. Chief	0	0	0	0	0
Totals *	129	113	88	67	40
Fire					
Ambulance Driver / Paramedic	0	0	4	1	4
Firefighter	20	21	16	13	12
Apparatus Operator	1	2	2	4	1
Engineer	7	5	7	7	8
Inspector	2	0	2	1	2
Captain	9	17	10	7	12
Battalion Chief	0	2	0	1	2
Asst. Chief	1	0	0	0	1
Deputy Chief	0	0	1	0	0
Totals *	40	47	42	34	42

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

# ACTUARIAL REPORT

## ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1986

ASSETS				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Applicable Assets	\$24,091,390	\$1,861,054,475	\$ 90,284,445	\$1,975,430,310
2. Present Value of Future Contributions by Members	696,284	180,276,682	86,204,487	267,177,453
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost	2,555,988	547,804,679	229,526,137	779,886,804
(b) Unfunded Actuarial Accrued Liability	542,699,031	2,794,416,959	(8,623,314)	3,328,492,676
4. TOTAL	\$570,042,693	\$ 5,383,552,795	\$397,391,755	\$6,350,987,243
LIABILITIES				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
5. Present Value of Benefits Already Granted				
(a) Service	\$210,576,493	\$2,021,589,728	\$ 1,433,688	\$2,233,599,909
(b) Disability	137,506,493	641,609,678	3,577,449	782,693,620
(c) Dependents	200,486,483	181,408,870	2,559,287	384,454,640
(d) Total	548,569,469	2,844,608,276	7,570,424	3,400,748,169
6. Present Value of Benefits to Be Granted				
(a) Service	18,783,542	1,970,191,823	238,118,908	2,227,094,273
(b) Disability	2,572,903	525,667,667	134,083,178	662,323,748
(c) Death	89,684	16,004,332	6,632,452	22,726,468
(d) Total	21,446,129	2,511,863,822	378,834,538	2,912,144,489
7. Refund of Employee Contributions	27,095	17,753,093	10,987,050	28,767,238
8. TOTAL LIABILITIES	\$ 570,042,693	\$5,374,225,191	\$397,392,012	\$6,350,987,243

## RESULTS OF VALUATIONS

As of June 30, 1986, there were 9,903 active and 9,487 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, 1986 are shown on the Actuarial Balance Sheet (see previous page). These valuations were based on the demographic assumptions adopted June 30, 1984 and 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 \$6.35 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 (\$1.98 billion) already accumulated in the Systems. Item 2 is the present value of member contributions (\$267 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	22.025%
XVIII	21.271%
XXXV	21.301%

These contribution percentages are known as normal cost percentages. The Entry Age Normal Cost percentage is, simply stated, the City's level percentage of payroll needed to fund benefits for new entrants (hypothetical new entrants for Articles XVII and XVIII) to the Systems. The current present value of these contributions is \$780 million.

For the third step, the existing assets (\$1.98 billion), plus the present value of future normal costs (\$.78 billion), plus the present value of future member contributions (\$.27 billion) were compared to the present value of the benefits to be paid out (\$6.35 billion). The Systems were short by \$3.33 billion.\*

The shortfall (or balancing item) of \$3.33 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 \$3.33 billion is needed.

\* Apparent discrepancy in result is due to the rounding process.

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

Article	Amount	Pattern
XVII	\$46,860,370	As a level dollar amount through the fiscal year 2037.
XVIII	25.25%	As a level of total payroll, i.e., Articles XVII, XVIII, and XXXV through the fiscal year 2037.
XXXV	(0.77%)	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, 1986	June 30, 1985
1. City's Entry Age Normal Cost*	22.02%	20.80%
2. Amortization of the UAAL	\$46,860,370	\$47,516,323
3. Health Plan Subsidy	\$1,750,000	\$1,500,000

\* 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, 1986	June 30, 1985
1. City's Entry Age Normal Cost*	21.27%*	20.40%*
2. Amortization of the UAAL	25.25%**	27.05%**
3. Health Plan Subsidy	\$5,550,000	\$5,000,000

\* 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 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 7.14%. 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 7.14% 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, 1986	June 30, 1985
1. City's Entry Age Normal Cost*	21.30%	21.40%
2. Amortization of UAAL *	(.77%)	(.44%)
3. Total Contributions *	20.53%	20.96%

\* 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.

# AUDITOR'S REPORT



November 12, 1986

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, 1986 and 1985, 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, 1986 and 1985, 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

Touche Ross International

CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
BALANCE SHEETS

	June 30			
	1986		1985	
<b>ASSETS:</b>				
Cash :				
Restricted (Note 3)	\$		\$	619,319
Unrestricted		307,389	\$ 307,389	448,870
				\$ 1,068,189
Receivables :				
Accrued interest and dividend income		27,325,293		23,0414,390
Contributions		1,943,142		1,540,470
Due from brokers and others		38,764,690	68,033,125	11,477,858
				36,032,718
Investments:				
Temporary, at cost, which approximates market		214,659,270		203,283,657
Bonds, at amortized cost (market value \$878,935,383 in 1986 and \$698,079,863 in 1985)		825,832,859		667,135,673
Common stock, at cost (market value \$1,209,560,064 in 1986 and \$913,479,115 in 1985)		905,481,226	1,945,973,355	767,671,268
				1,638,090,598
Total assets			2,014,313,869	1,675,191,505
<b>LIABILITIES :</b>				
Benefits in process of payment		231,022		287,102
Accounts payable		1,399,067		1,709,832
Due to brokers		37,520,946	39,151,035	46,942,338
				48,939,272
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>			<u>\$1,975,162,834</u>	<u>\$1,626,252,233</u>
<b>FUND BALANCE :</b>				
Actuarial present value of projected benefits payable to current retirants and beneficiaries		3,400,748,169		\$3,694,070,003
Actuarial present value of credited projected benefits for active employees:				
Member contributions		551,205,796		290,744,166
Employer financed portion		1,351,701,545	5,303,655,510	1,925,975,052
				5,910,789,221
Unfunded actuarial present value of credited projected benefits			( 3,328,492,676)	( 4,284,536,988)
Total fund balance			<u>\$1,975,162,834</u>	<u>\$1,626,252,233</u>

See accompanying notes to financial statements.

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

	Year ended June 30			
	1986		1985	
REVENUES :				
City contributions	\$228,529,732		\$220,099,118	
Member contributions	26,318,618		25,417,400	
Miscellaneous	131,776	\$ 254,980,126	320,253	\$ 245,836,771
Investment income :				
Interest	99,923,364		85,875,262	
Dividends	32,025,382		31,148,464	
Gain on sale of investments	175,166,660		37,086,314	
Securities lending income (Note 6)	646,168	307,761,574	337,377	154,447,417
		562,741,700		400,284,188
EXPENDITURES - benefits				
paid to participants:				
Service	125,383,998		119,093,488	
Disability	37,934,076		35,466,439	
Surviving spouses	38,733,380		37,455,912	
Minors and dependents	561,429		527,484	
Health insurance subsidy	6,268,690		5,457,735	
	208,881,573		198,001,058	
Administrative expense	4,949,526	213,831,099	5,355,755	203,356,813
NET OPERATING INCOME		348,910,601		196,927,375
FUND BALANCE, July 1, 1985		1,626,252,233		1,429,324,858
FUND BALANCE, June 30, 1986		<u>\$1,975,162,834</u>		<u>\$1,626,252,233</u>

See accompanying notes to financial statements.

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

	Year ended June 30	
	1986	1985
SOURCE OF FUNDS -		
net operating income	\$348,910,601	\$196,927,375
USE OF FUNDS:		
Increase in bond investment	158,697,186	229,685,740
Increase in common stock investment	137,809,958	245,092,304
Increase (decrease) due from brokers and others	27,286,832	( 149,757)
Increase (decrease) in temporary investments	11,375,613	( 253,818,936)
Decrease (increase) in due to broker	9,421,392	( 28,692,612)
Increase in accrued interest and dividends	4,310,903	5,488,707
Increase (decrease) in contributions receivable	402,672	( 607,858)
Decrease in accounts payable	310,765	52,532
Increase (decrease) in benefits in process of payment	56,080	( 248,086)
	349,671,401	196,802,034
INCREASE (DECREASE) IN CASH	(\$ 760,800)	\$ 125,341

See accompanying notes to financial statements.

CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 1986 AND 1985

NOTE 1 - DESCRIPTION OF PLAN :

The City of Los Angeles Department of Pensions 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 Department of Pensions (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 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% annual 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 the 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, 1986 and 1985.

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.

Reclassifications

Certain reclassifications have been made in the 1985 financial statements to conform to the classifications used in 1986.

**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. During 1986, 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, 1986 and 1985. 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 five-year (July 1, 1979 - June 30, 1984) 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:

	1986	1985
- Investment return	8.5%	8%
- Annual salary scale increase		6%
Individually	6.5%	
Aggregate	5.5%	
- Annual cost-of-living increase:		
Old System and New System members:		
Accrued for service prior to June 30, 1982	5.5%	6%
Accrued for all subsequent service	3.0%	3%
Safety Members Pension Plan members	3.0%	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.

- Mortality among retirees - The valuation for those on service retirement is based upon the 1983 Group Annuity Mortality Table. 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 1983 Group Annuity Mortality Table.

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

The changes in the assumptions for 1986 resulted in a decrease of the unfunded actuarial liability by approximately \$739,200,000.

**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, 1986 and 1985, 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:

- An amount equal to the City's share of defined entry-age costs.
- 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.
- An amount to provide for health plan subsidies for retired members.
- 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, 1986 and 1985 are to be as follows:

	Percentage of Members' Salaries					
	Old System		New Pension System		Safety Members Pension Plan	
	1986	1985	1986	1985	1986	1985
Entry-age normal cost contribution	20.11%	18.84%	19.16%	18.59%	19.10%	19.76%
Amortization of unfunded liability	\$45,690,233*	\$47,888,285*	\$92,326,165*	\$87,671,135*	.82%	.30%
Health plan subsidy	1,750,000*	\$ 1,250,000*	\$ 4,250,000*	\$ 3,075,000*		

\* Stated as required dollar amount.

The actuarially determined unfunded liability of the System is \$3,328,492,676 at June 30, 1986 and \$4,284,536,988 at June 30, 1985 (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, 1986 is to be amortized over the next 51 years through contributions to be made by the City.

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.

**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, 1986 and 1985 are as follows:

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.

	1986	1985
Securities on loan:		
Cost	\$280,197,061	\$156,639,073
Market	\$308,135,772	\$172,434,221
Collateral	\$294,999,877	\$166,861,982

**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, 1986 and 1985 are \$551,205,796 and \$290,744,166, respectively.

Legal Action

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1986. Except for the following case, the combined potential liability is deemed to be not material to the net assets of the System.



# BUDGET

## DEPARTMENT OF PENSIONS

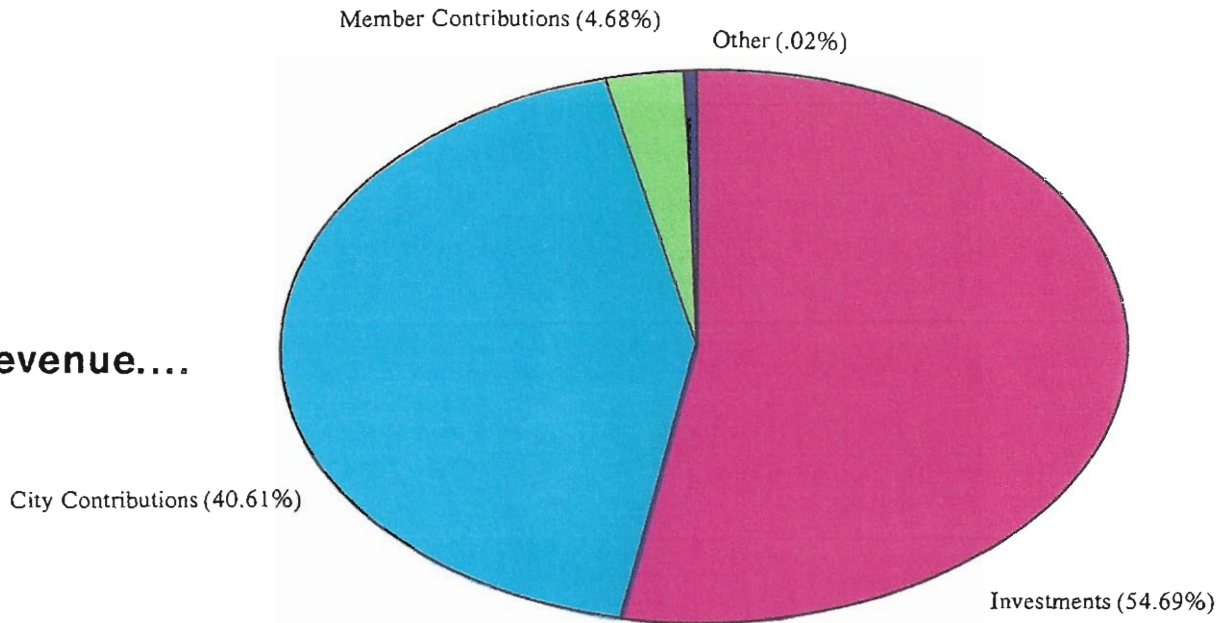
### FIRE AND POLICE PENSION SYSTEM, NEW PENSION SYSTEM, AND SAFETY MEMBERS PENSION PLAN.

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. The Board administers the provisions of the Charter relative to service, disability, and dependents' pensions for members of the Fire and Police Departments.

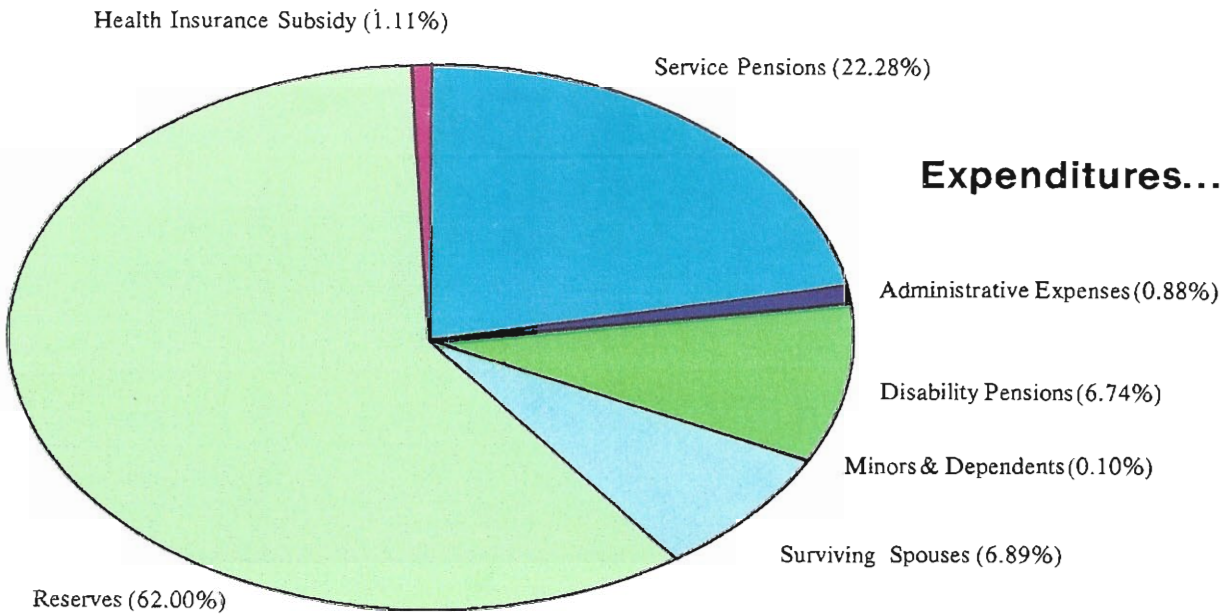
RECEIPTS	Budget	Actual
	1985 - 86	1985 - 86
Taxes and General Fund .....	\$226,462,742	\$228,529,732
Member Contributions.....	28,136,504	26,318,618
Earnings on Investments.....	120,000,000	307,761,574
Sale of Unclaimed Property.....	350,000	—
Miscellaneous .....	300	131,776
<b>TOTAL RECEIPTS.....</b>	<b>\$374,949,546</b>	<b>\$562,741,700</b>
EXPENDITURES	Budget	Actual
	1985 - 86	1985 - 86
Service Pensions.....	\$125,164,944	\$125,383,998
Disability Pensions.....	37,780,404	37,934,076
Surviving Spouses' Pensions .....	39,081,384	38,733,380
Minor's / Dependents' Pensions .....	500,904	561,429
Health Insurance Subsidy.....	6,300,000	6,268,690
Administrative Expense.....	5,773,778	4,949,526
<b>TOTAL EXPENDITURES.....</b>	<b>\$214,601,414</b>	<b>\$213,831,099</b>
Return to Reserve.....	160,348,132	348,910,601
<b>TOTAL EXPENDITURES AND RETURN TO RESERVE .....</b>	<b>\$374,949,546</b>	<b>\$562,741,700</b>

LOS ANGELES FIRE & POLICE  
 PENSION SYSTEM 1985-86  
 INCOME: \$562,741,700

**Revenue....**



**Expenditures...**



ADMINISTRATIVE EXPENSE COMPARISON  
1981 - 82 to 1985 - 86

OPERATING EXPENSE	1981-82	1982-83	1983-84	1984-85	1985-86
Salaries .....	\$804,023	\$991,625	\$1,131,046	1,194,980	\$1,360,937
Overtime .....	952	7,102	6,013	15,961	18,235
Office and Administrative Expense..	49,152	49,560	56,881	80,925	57,530
Operating Supplies and Expense ...	100	—	—	15,000	(6,314)
Printing and Binding .....	8,806	10,957	12,448	10,000	4,296
Travel .....	16,854	22,027	40,559	38,446	44,965
Contractual Services .....	1,185,570	1,584,156	2,927,525	3,214,447	3,082,329
Field Equipment .....	—	1,280	(980)	300	(294)
Petroleum Products .....	1,795	2,700	—	1,000	553
Transportation .....	—	1,300	8,346	—	—
Annual Audit .....	14,576	10,029	8,800	9,700	14,544
Governmental Meetings .....	300	—	—	—	—
Litigation .....	36,744	317,387	96,040	83,925	20,027
Medical Services .....	382,450	469,817	433,631	497,827	157,238
Actuarial Expense .....	19,000	29,000	21,500	30,000	47,400
Health Insurance .....	40,914	72,800	36,631	69,683	79,812
Retirement Contributions .....	24,000	36,000	36,970	47,900	51,600
Tuition Reimbursement .....	—	995	1,812	1,724	1,606
Dental Insurance .....	4,046	7,004	4,177	6,447	7,772
Equipment, Furniture & Fixtures...	4,302	87,491	10,857	37,490	7,290
	<u>\$2,593,584</u>	<u>\$3,701,230</u>	<u>\$4,832,256</u>	<u>\$5,355,755</u>	<u>\$4,949,526</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 Solomon Asset Management, Magten Asset Management, an amendment to the Touche Ross contract, a contract with Callan Associates, modifications of the contract with Bankers Trust and Towers, Perrin, Forster & Crosby and a contract with Ronald A. Karp Associates, Inc.

### PROBATE MATTERS

This office examined 39 accountings, as well as petitions and other documents which were received by the Department of Pensions, Four requests for special notice were prepared, filed and served. Two guardianships and 2 conservatorships were discontinued and four were commenced. There are 95 guardianships pending, 51 covering minors, 44 covering incompetents, 10 dependent children and one 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:
    - Baker v. Board of Pension Commissioners
    - Johnson v. Board of Pension Commissioners
    - Lavorin v. Board of Pension Commissioners
    - Durand v. Board of Pension Commissioners
    - Montez v. Board of Pension Commissioners
    - Schaffer v. Board of Pension Commissioners
    - Sipos v. Board of Pension Commissioners
    - Von Ahn v. Board of Pension Commissioners
    - West v. Board of Pension Commissioners
  - II. Decisions reversing the Board:
    - Cook v. Board of Pension Commissioners
    - Mahoney v. Board of Pension Commissioners
    - Wells v. Board of Pension Commissioners
- (B) Cases presenting interesting facts or legal issues.

### GROGAN v. BOARD OF PENSION COMMISSIONERS

Dennis Grogan is a former firefighter retired on a 65% service-connected disability pension.

Mr. Grogan has twice challenged the Board's percentage rating of his disability. The first time on April 26, 1985, the Superior Court decided that the Board's findings neither supported its action nor Mr. Grogan's contention that he should be entitled to a higher disability rating. Consequently, the court remanded the matter for further proceedings and adoption of new findings. Under the new findings, Mr. Grogan's disability rating remained at 65%.

Mr. Grogan again filed a petition for writ of mandate alleging abuse of discretion. On May 16, 1986, another hearing was held in Superior Court and the Board prevailed.

The court was persuaded that although Mr. Grogan had severe health problems and in spite of the fact that no rating schedule existed, the Board had not abused its discretion. The court realized that under the provisions of the fire and police pension systems of the City, a person with a 50% disability pension award would already have to be totally disabled for purposes of performing assignable duties within his rank (relying on *Craver v. City of Los Angeles*, 42 Cal. App. 3d 76). Consequently, it would take a strong showing on the part of a pensioner to prove to the court that the Board had abused its discretion in awarding a 65% disability pension. This burden Mr. Grogan did not meet. We also contended that the Board could orient the percentage of a disability pension award to a pensioner's overall ability to compete in the open labor market since any percentage of disability pension awarded by the Board presupposes total disability for purposes of performing fire and police duties.

Since the time within which Mr. Grogan could have appealed from the decision of the Superior Court has run, the matter is now 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.

Early in 1985, the plaintiffs moved for reconsideration of the Superior Court's action granting summary judgment. Plaintiffs prevailed. The case is now scheduled to go to trial in November 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.

#### WOODMAN v. BOARD OF PENSION COMMISSIONERS

James P. Woodman is a former police officer on a service connected disability pension. He was retired in 1976 and reviewed in 1978. At the latter proceedings, the Board lowered his disability rating from 55% to 50% and ordered that there be no further review of his medical condition. The pensioner then moved out of state, bought a home, started a business and subsequently became a police officer in a small town in Colorado.

When the board found out that Mr. Woodman had become engaged in police work, he was ordered reviewed, his pension was terminated and he returned to work for the Los Angeles Police Department.

Mr. Woodman challenged the Board's decision in the Superior Court and the Board prevailed. However, upon appeal, the lower court was reversed. The Court of Appeal, in an unpublished opinion, invoked the doctrine of equitable estoppel in holding that Mr. Woodman was entitled to and did rely on the Board's declared intentions not to medically review his case.

The pensioner remained on the job for approximately 15 months and when his pension was reinstated, he claimed entitlement to both his pension and the salary received during that time period. When his claim was denied, he commenced legal action contending that he was entitled to his dual compensation as damages for the Board's actions. The Superior Court decided in favor of the plaintiff and the Board appealed.

As of the time of this report, both parties to the appeal have filed their respective briefs, however, no hearing date has been set.

#### 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 53 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 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.
<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
<b>Death While Eligible for Service Retirement or Death After Service Retirement</b>			
(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.
<b>Nonservice-Connected Death or Death After Nonservice-Connected Disability</b>			
(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. City Council may grant discretionary cost-of-living increase once every three years on capped portion.  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 increase compounded. City Council may grant discretionary cost-of-living increases once every three years on capped portion.  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	Annual increases commence on the July 1st following the effective date or the July 1st following the date the member would have been age 55 if later.	Annual increases commence on the July 1st following the effective date or the July 1st following the date the member would have completed 25 years service if later.	Same provisions for all types of pensions. Annual increases commence on the July 1st following the effective date.
(1) Service retirement, death while eligible for service retirement, death after service retirement			
(2) Service-connected disability, death after service-connected disability.	Annual increases commence on the July 1st following effective date.	Annual increases commence on the July 1st following the effective date.	
(3) Service-connected death, nonservice-connected disability, non-service-connected death, death after non-service-connected disability.	Annual increases commence on the July 1st following 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 July 1st following the date the member would have had 25 years of service or on the July 1st following 5 years after the effective date of the pension if earlier.	
Members' contributions as an annual percentage of pay.	6%.	6% plus 1/4 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 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 two-thirds 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 1⅓% 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 surviving spouses 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 1⅓% for each of the next ten years of service. The maximum pension of two-thirds 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 surviving spouses 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 Plan, 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 Plan. (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.

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**DEPARTMENT OF PENSIONS**

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