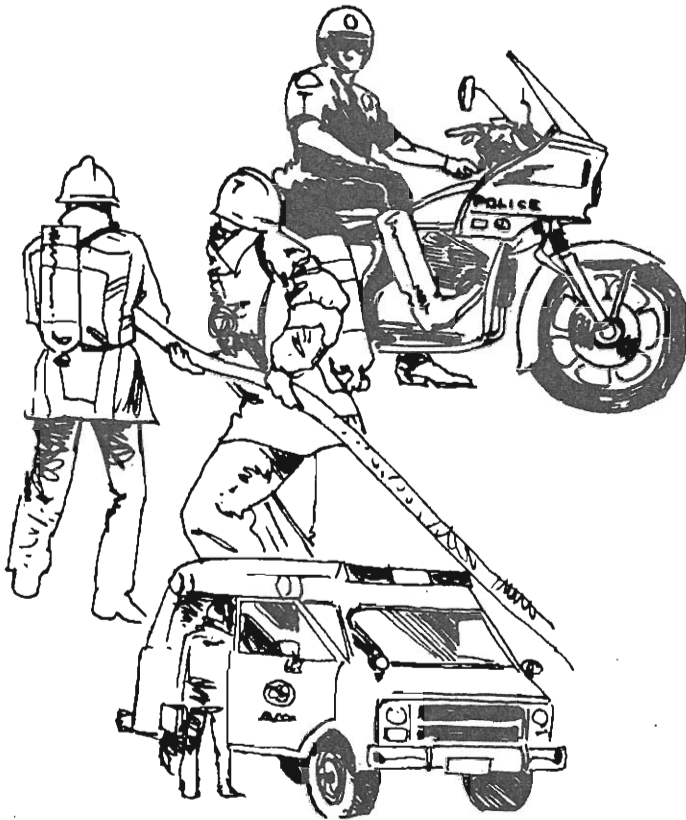


Jim McGuigan

CITY OF LOS ANGELES

BOARD OF PENSION COMMISSIONERS



**Annual
Report
1987**

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

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CITY ATTORNEY
James Kenneth Hahn

CONTROLLER
Rick Tuttle

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Marvin Braude, President Pro Tempore

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Ninth District

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Eleventh District

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Fourth District

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Twelfth District

Zev Yaroslavsky
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Fourteenth District

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Seventh District

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Fifteenth District

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Eighth District

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President

KENYON CHAN, Vice-President

SHERMAN ANDELSON, Commissioner

BERT COHEN, Commissioner

SAM DIANNITTO, Commissioner

KEN STAGGS, Commissioner

DAVE VELASQUEZ, Commissioner

DEPARTMENT OF
PENSIONS
360 E. Second St., Suite 600
Los Angeles, CA 90012

ANNUAL REPORT 1987

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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 Alliance Capital Management Corp. Equitable Real Estate JMB Institutional Realty Loomis Sayles & Company Magten Asset Management Prudential Asset Management Security Capital Realty Partners 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 4</p> <p>Manager's Report..... 5</p> <p>Investments 6</p> <p>Membership</p> <p style="padding-left: 20px;">Active..... 12</p> <p style="padding-left: 20px;">Retired..... 14</p> <p>Types of Pensions</p> <p style="padding-left: 20px;">Service..... 15</p> <p style="padding-left: 20px;">Disability..... 19</p> <p>Actuarial Report..... 23</p> <p>Auditor's Report..... 26</p> <p>Budget 33</p> <p>Legal..... 36</p> <p>Pension Benefits 38</p> <p>Milestones 41</p>	

CITY OF LOS ANGELES
CALIFORNIA



TOM BRADLEY
MAYOR

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DEPARTMENT OF
PENSIONS

360 EAST SECOND STREET
SUITE 600
LOS ANGELES, CA 90012-4203
485-2833

GARY MATTINGLY
GENERAL MANAGER

Board of Pension Commissioners
1986 - 87 Annual Report

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

In accordance with Section 64 of the City Charter, I am submitting the annual report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1987.

We are pleased to report that pension assets have increased by approximately \$403 million and that the System's Unfunded Liability has, again, decreased. The System's total assets as of June 30, 1987 were \$2.7 billion.

We have continued to diversify our investments, in accordance with the revised asset allocation plan adopted by the Board, to reduce investment volatility and increase investment returns.

Growth in plan membership is also evident. As of June 30, 1987, there were 10,112 active and 9,646 retired plan members covered by the Los Angeles Fire and Police Pension System.

As in the past, the 1986 - 87 annual report includes financial statements prepared by Touche, Ross and Company as well as a summary report of the actuary, Towers, Perrin, Forster and Crosby.

Respectfully submitted,

Dellene Arthur, President
Board of Pension Commissioners

AN EQUAL EMPLOYMENT OPPORTUNITY — AFFIRMATIVE ACTION EMPLOYER

CITY OF LOS ANGELES
CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF PENSION
COMMISSIONERS

DELLENE ARTHUR
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VICE-PRESIDENT

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DEPARTMENT OF
PENSIONS

360 EAST SECOND STREET
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485-2833

GARY MATTINGLY
GENERAL MANAGER

The Honorable Board of Pension Commissioners
City of Los Angeles

Honorable Members:

Fiscal year 1986-87 has proven to be one of change and growth for the Department of Pensions and the Los Angeles Fire and Police Pension System.

Our new facilities are one of the visible improvements we have made. We moved our offices from the City Hall complex to a larger location in the Brunswig Square Building at 360 East Second Street. Staff now has the room and modern facilities we need to best serve our members.

Following the asset allocation plan adopted by the Board, the Pension System began its initial investment into real estate by committing \$60 million to four real estate pool managers. Our long-term goal is to allocate ten percent of assets to real estate.

The Pension Fund's investments have once again posted strong gains, recording a 14.2 percent total rate of return. This compares very well to our assumed actuarial rate of investment of 8.5 percent. Investment gains, combined with a lower than assumed cost-of-living adjustment, have once again helped to reduce the Plan's unfunded liability.

During the next fiscal year, the Department of Pensions looks forward to further strengthening the Los Angeles Fire and Police Pension System and to providing greater retirement security for all our members.

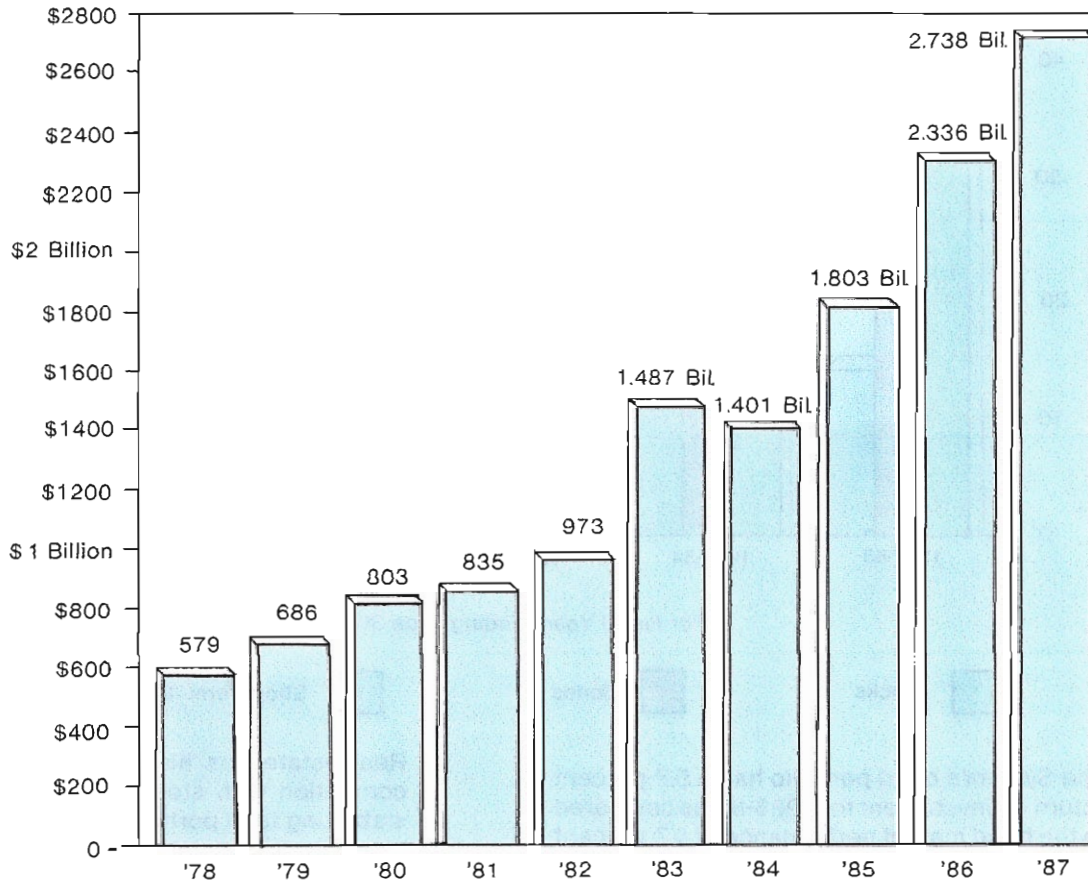
Very truly yours,

Gary Mattingly

INVESTMENTS

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

Market Value
of Total Assets
(Millions of dollars)



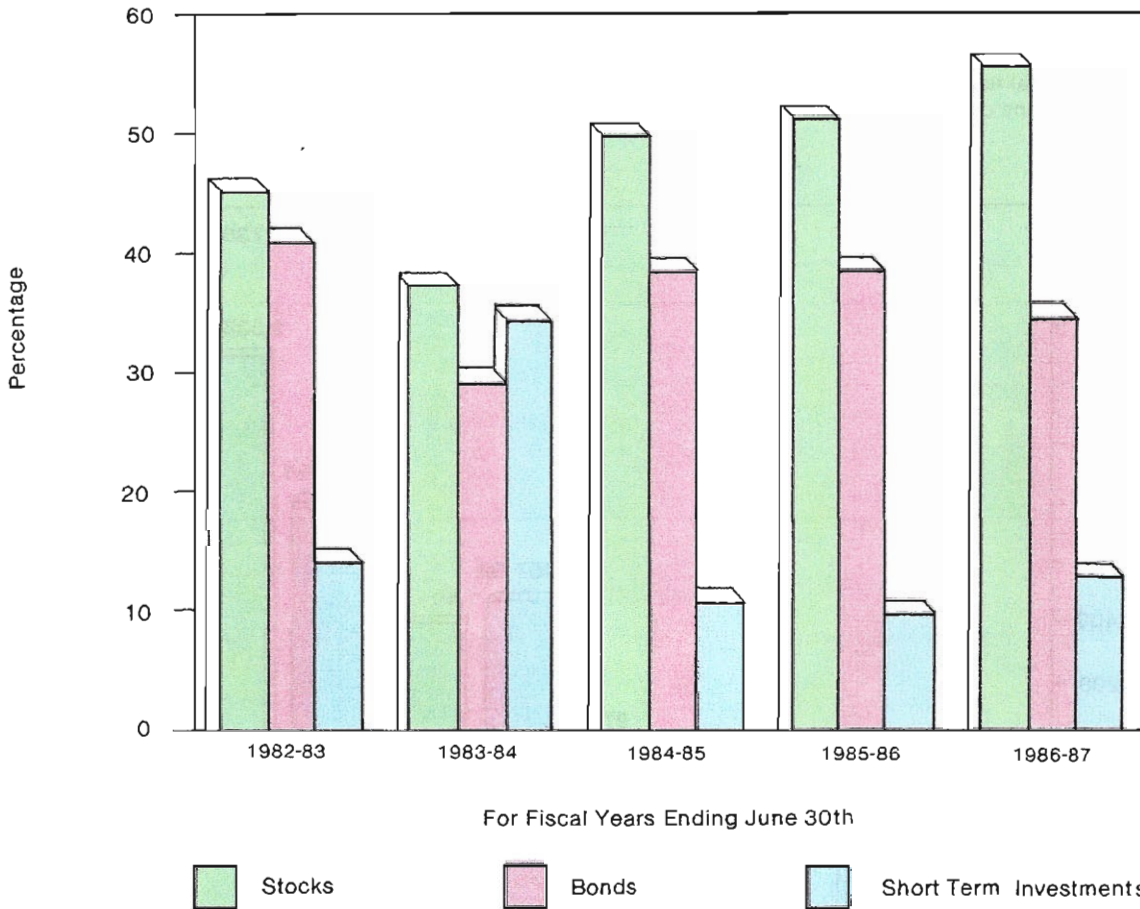
Highlighting the investment results of the Fire & Police Pension System is a rate of return of 14.2 percent for the 1986-87 total portfolio. This includes stocks, bonds, and short term investments. This placed the System's investment performance in the top one-third of the SEI Funds Evaluation Service (SEI) data base of 1,002 pension funds. By year's end, the total fund portfolio was approximately 55 percent stocks, 33 percent bonds, and 12 percent cash equivalents.

The System's stock portfolio for 1986-87 had a return on investment of 23.7 percent. This compared favorably with the 25.2 percent

performance of the stock market as measured by the Standard and Poor's 500 Index. Compared to SEI's universe of pension funds, the System performed in the 30th percentile for its stock portfolio.

During the year, Alliance Capital was hired to manage a passive style stock index fund which is expected to closely track the performance of the Standard and Poor's 500 Index. They were allotted a total of \$400 million. Alliance replaced an underperforming active style manager, Criterion Investment Management.

FIRE AND POLICE PENSION SYSTEM ASSET MIX 1982 - 83 THROUGH 1986 - 87



The System's bond portfolio had a 5.7 percent return on investment for 1986-87 as compared to the bond market performance of 4.7 percent as measured by the Shearson Lehman Corporate/Government Bond Index. SEI rated the System's bond performance near the median with a 52nd percentile ranking.

The System has a long-term plan to continue diversification of assets to reduce risk and improve investment performance. After extensive study, the Board of Pension Commissioners reallocated a portion of assets from long term bonds to stock and real estate investments. One stock index fund manager, three option overwriters and four real estate pooled fund managers were hired. The goal of the Board-approved asset allocation program is for a 65 percent investment in stocks, 19 percent in bonds, 10 percent in real estate, and the remaining six percent in cash-equivalent temporary investments.

Real estate has historically exhibited a low correlation with stocks and bonds, therefore stabilizing total portfolio returns and providing less risk. Real estate has also proved to be a hedge against inflation. During 1986-87, the Board made a combined commitment of \$60 million to four real estate pooled fund managers. The four pooled real estate managers are Equitable Real Estate, Prudential Asset Management, JMB Institutional Realty, and Security Capital Realty Partners.

Oppenheimer Capital Corp., MCQ Inc. and Balch, Hardy, and Scheinman, Inc. were selected as option overwriting managers in 1986-87 to write covered call-options on the System's stock portfolio. This investment strategy is intended to increase the yield on the System's stock portfolio in the long-term by approximately 1.0 to 2.0 percent and decrease portfolio volatility or riskiness. The option managers began their services on July 1, 1987 and their full year performance will be reported in the FY 1987-88 Annual Report.

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

Fiscal Year Ending June 30	Equities	Bonds	Total Fund *	CPI**
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%
1986-87	23.70%	5.70%	14.20%	3.72%

* Total fund includes short term investments

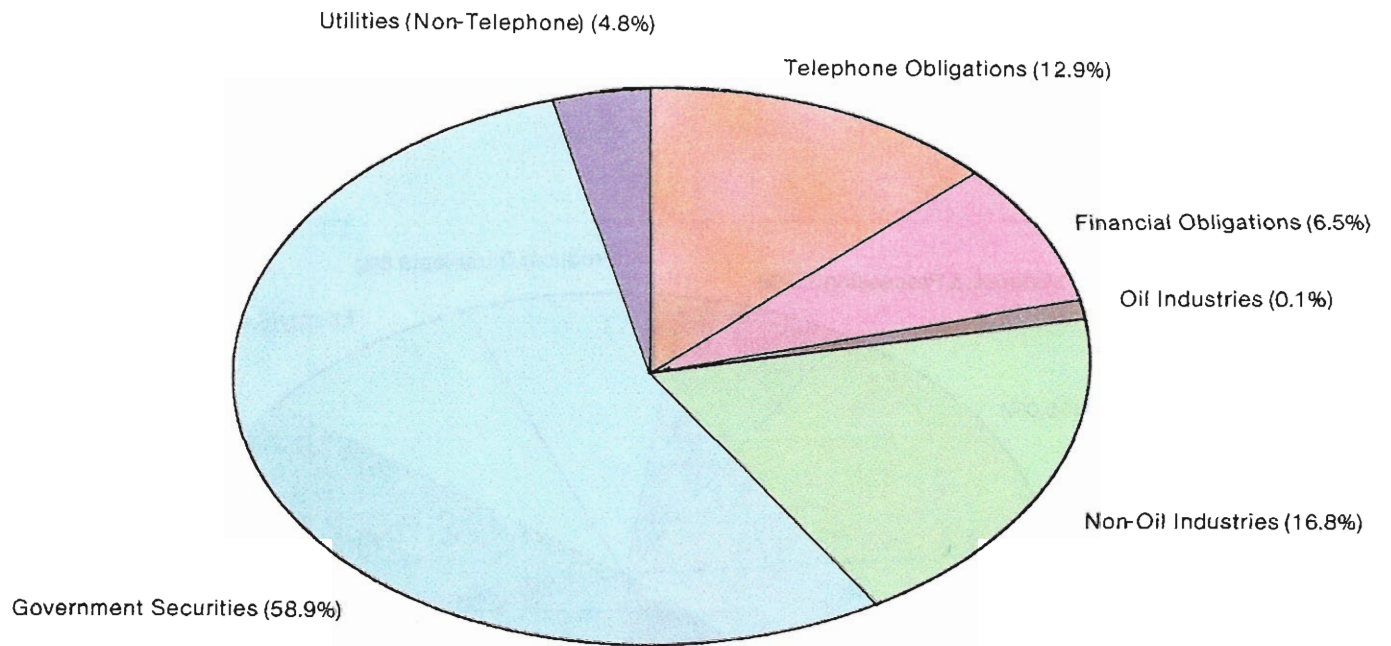
** C.P.I. is for the U.S. ending June 30th.

ASSET CHANGE SUMMARY
(IN MILLIONS)

Beginning Market Value (7/1/86)	2,336.4
Contributions (City & Members)	300.8
Benefits Paid to Participants	(223.6)
Dividend and Interest Income	136.1
Gain/Loss on Sale of Securities	184.9
Securities Lending Income	1.1
Change in Market Value of Securities Held	2.0
Ending Market Value (6/30/87)	2,737.7

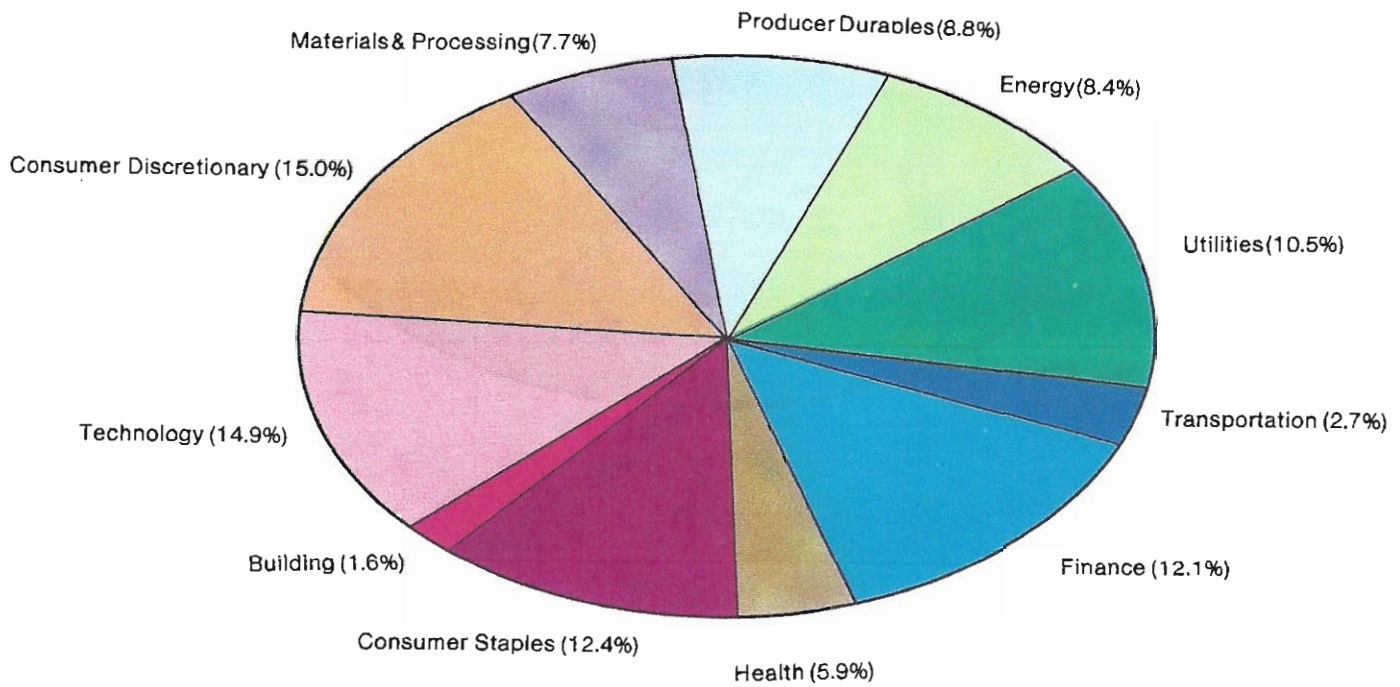
DIVERSIFICATION OF BOND ASSETS

(As of June 30, 1987)



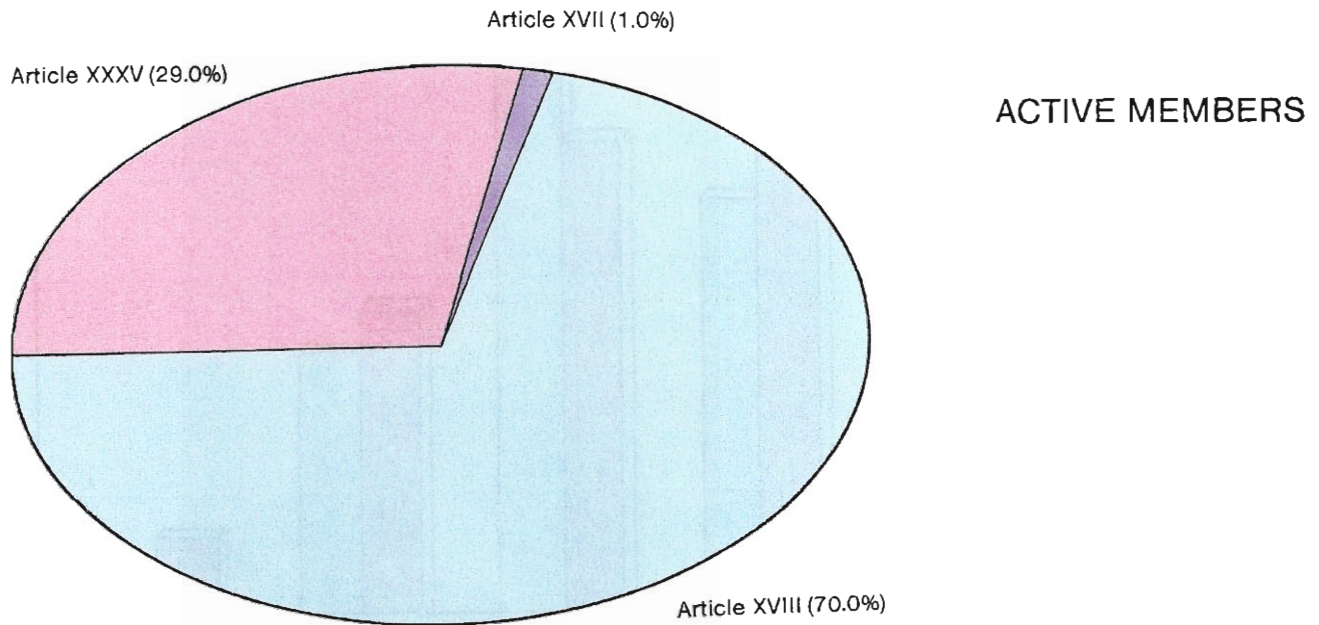
* Source : SEI Report, June 30, 1987

DIVERSIFICATION OF EQUITY ASSETS
BY INDUSTRY SECTOR
(June 30, 1987)



* Source : SEI Report dated June 30, 1987

MEMBERSHIP



Membership by City Charter Article :

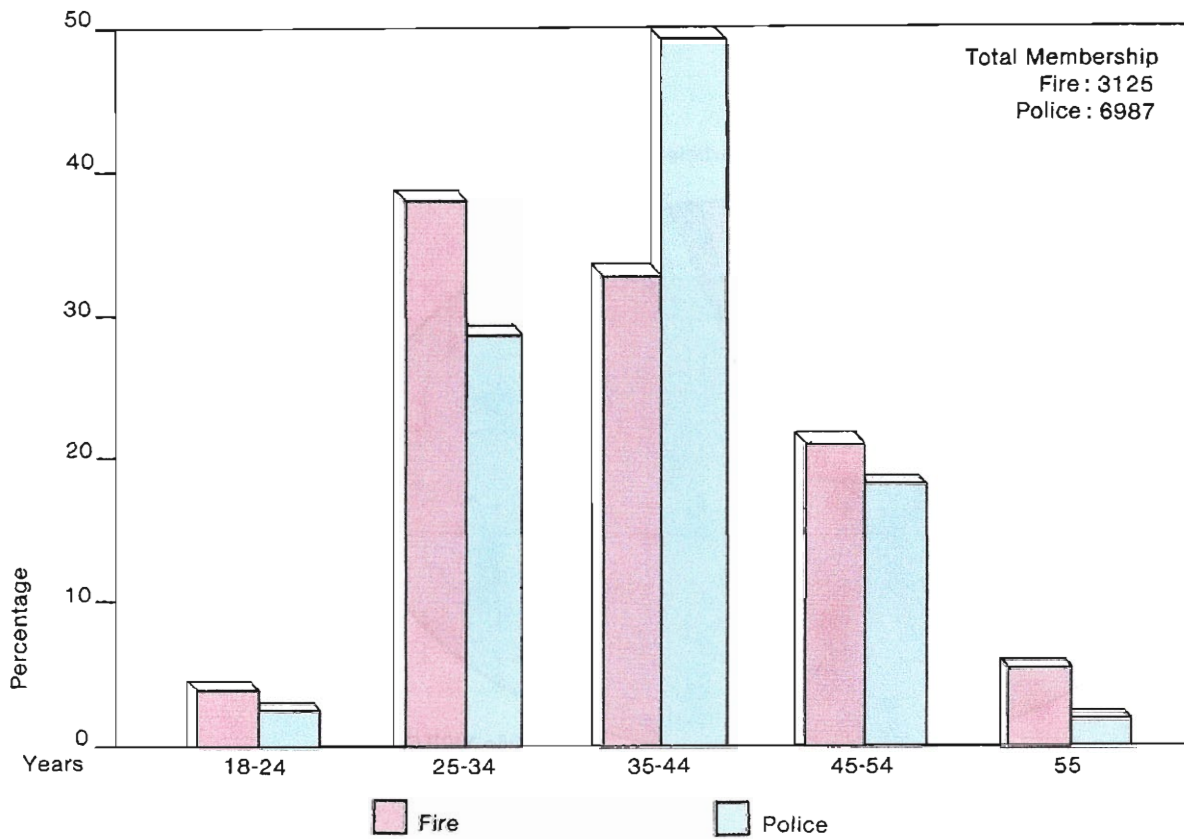
	Fire	Police	Total
XVII	6	46	52
XVIII	2074	5040	7,114
XXXV	1045	1901	2,946
	3125	6987	10,112

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.

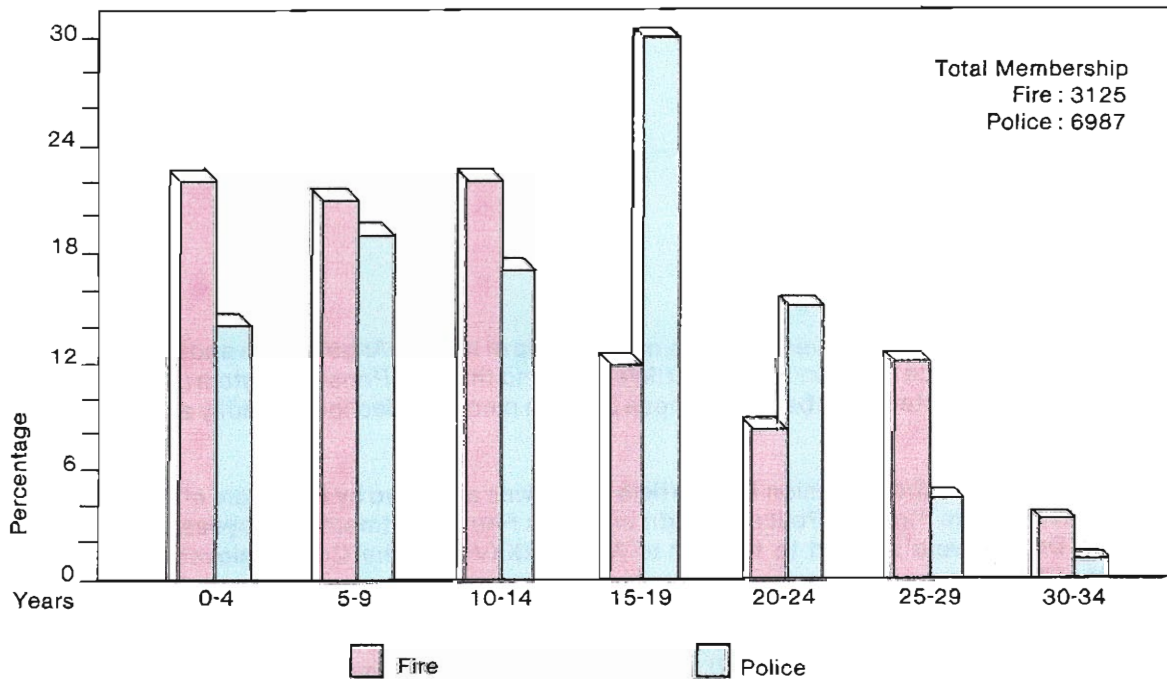
In 1980, the Safety members Pension Plan (Article XXXV) was approved by the voters of the City of Los Angeles to cover new hires to the Fire and Police Departments. As Fire Department employees, Paramedics and Civilian Ambulance Drivers were allowed to transfer to Article XXXV from the City Employees' 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, 1987, equalled 10,112 a net increase of 209 members since June 30, 1986.

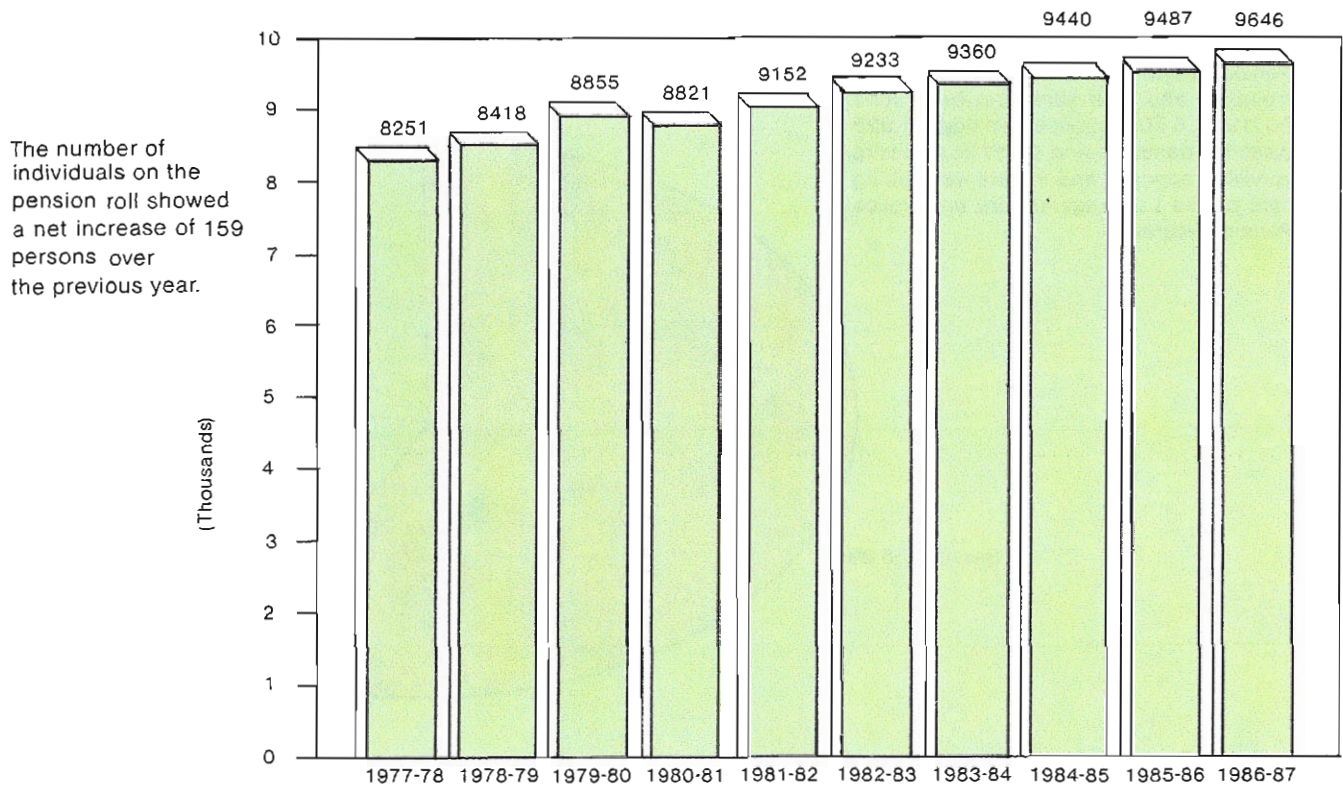
PERCENTAGE OF ACTIVE MEMBERS BY AGE GROUP



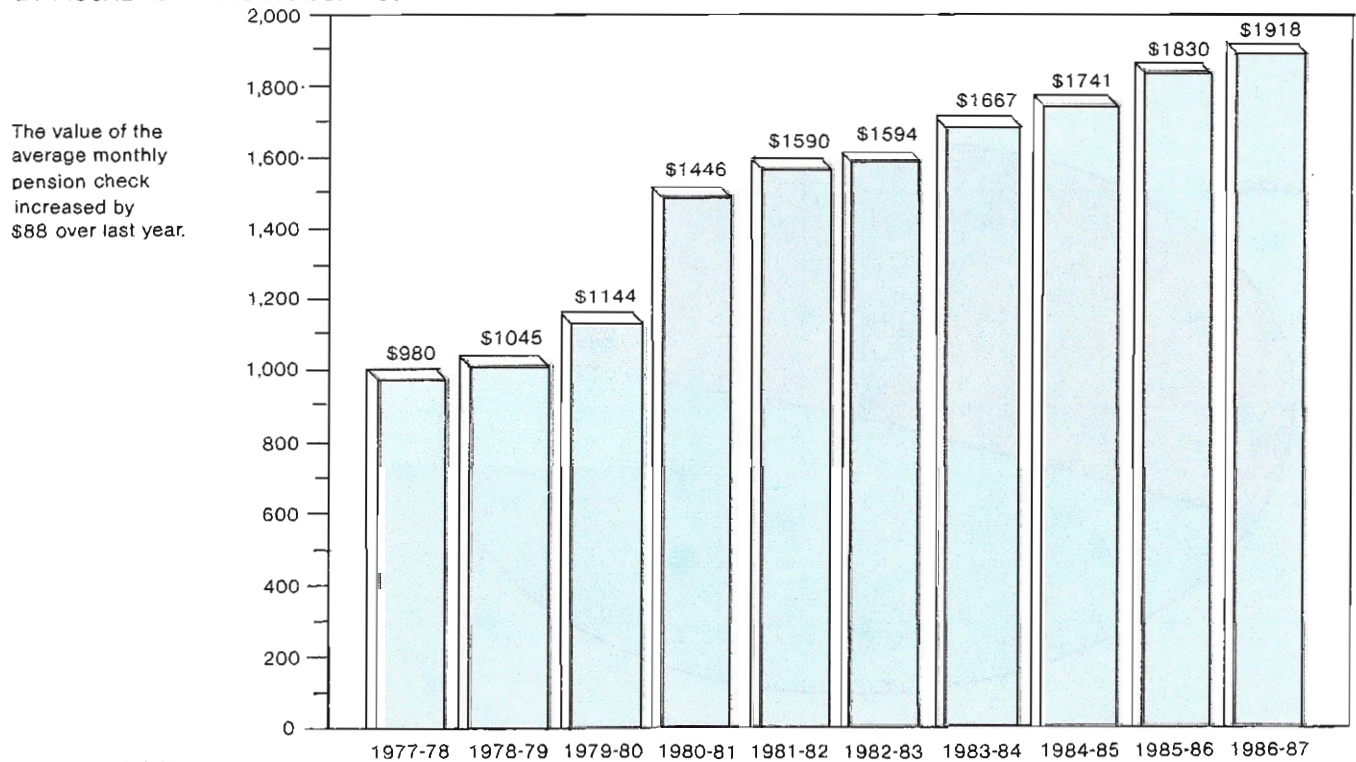
PERCENTAGE OF ACTIVE MEMBERS BY YEARS OF SERVICE



RETIRED MEMBERSHIP FOR FISCAL YEARS ENDING JUNE 30TH



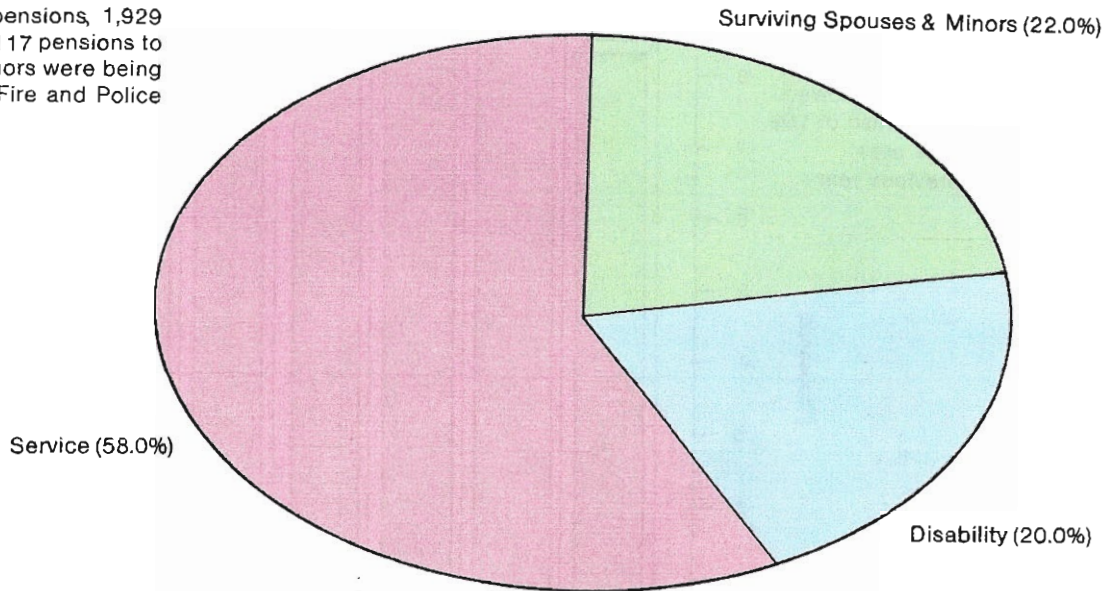
COMPARISON OF AVERAGE MONTHLY PENSIONS BY FISCAL YEAR ENDING JUNE 30TH *



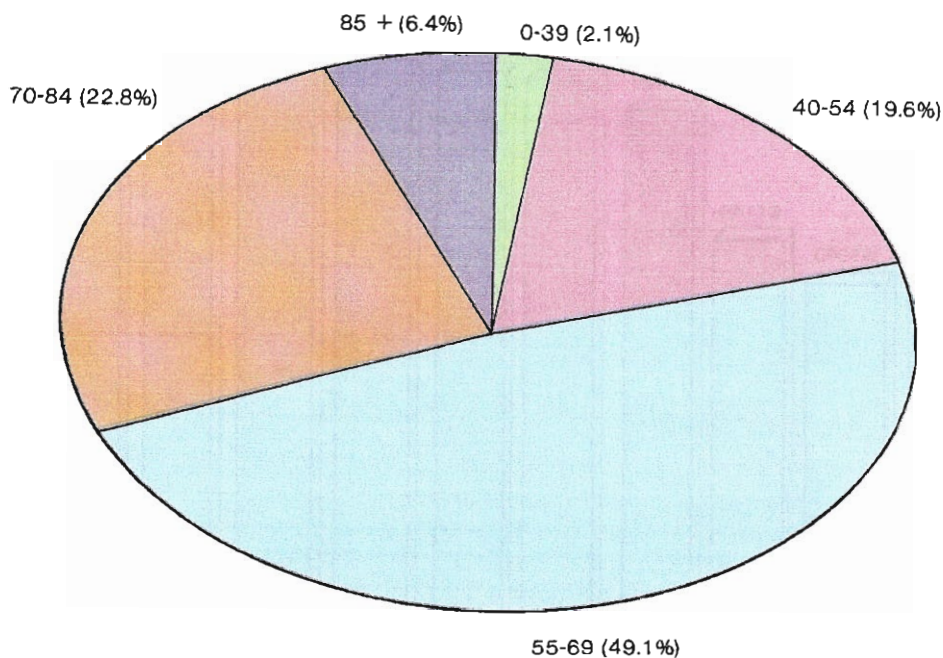
* To nearest dollar

TYPES OF PENSIONS

Pension benefits are payable to system members and their survivors. As of June 30, 1987, 5,600 service pensions, 1,929 disability pensions and 2,117 pensions to surviving spouses and minors were being paid by the Los Angeles Fire and Police Pension System.

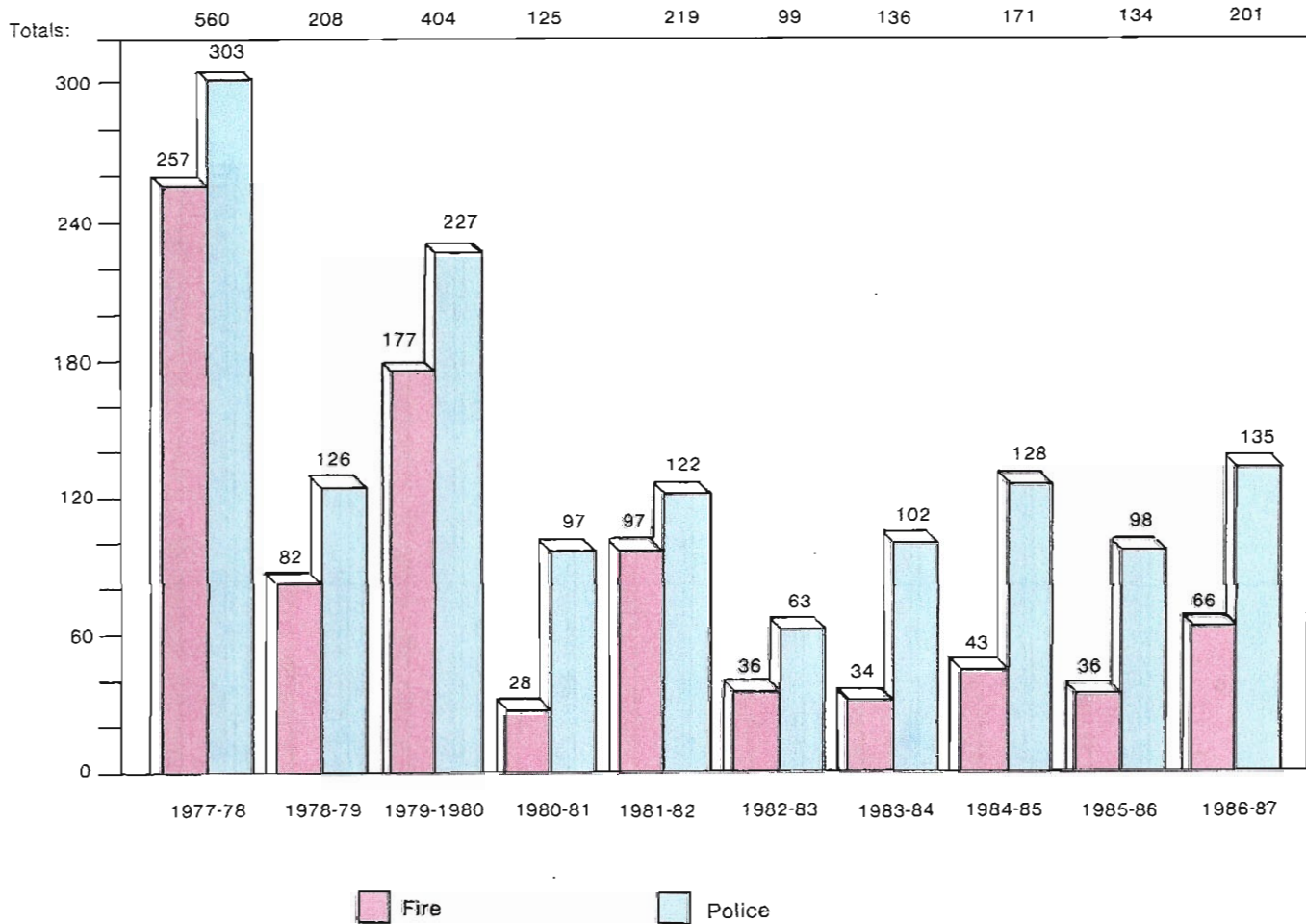


AGE MIX OF PENSIONERS



Age	Number
0-39	= 201
40-54	= 1890
55-69	= 4737
70-84	= 2199
85+	= 619
Total	= 9646

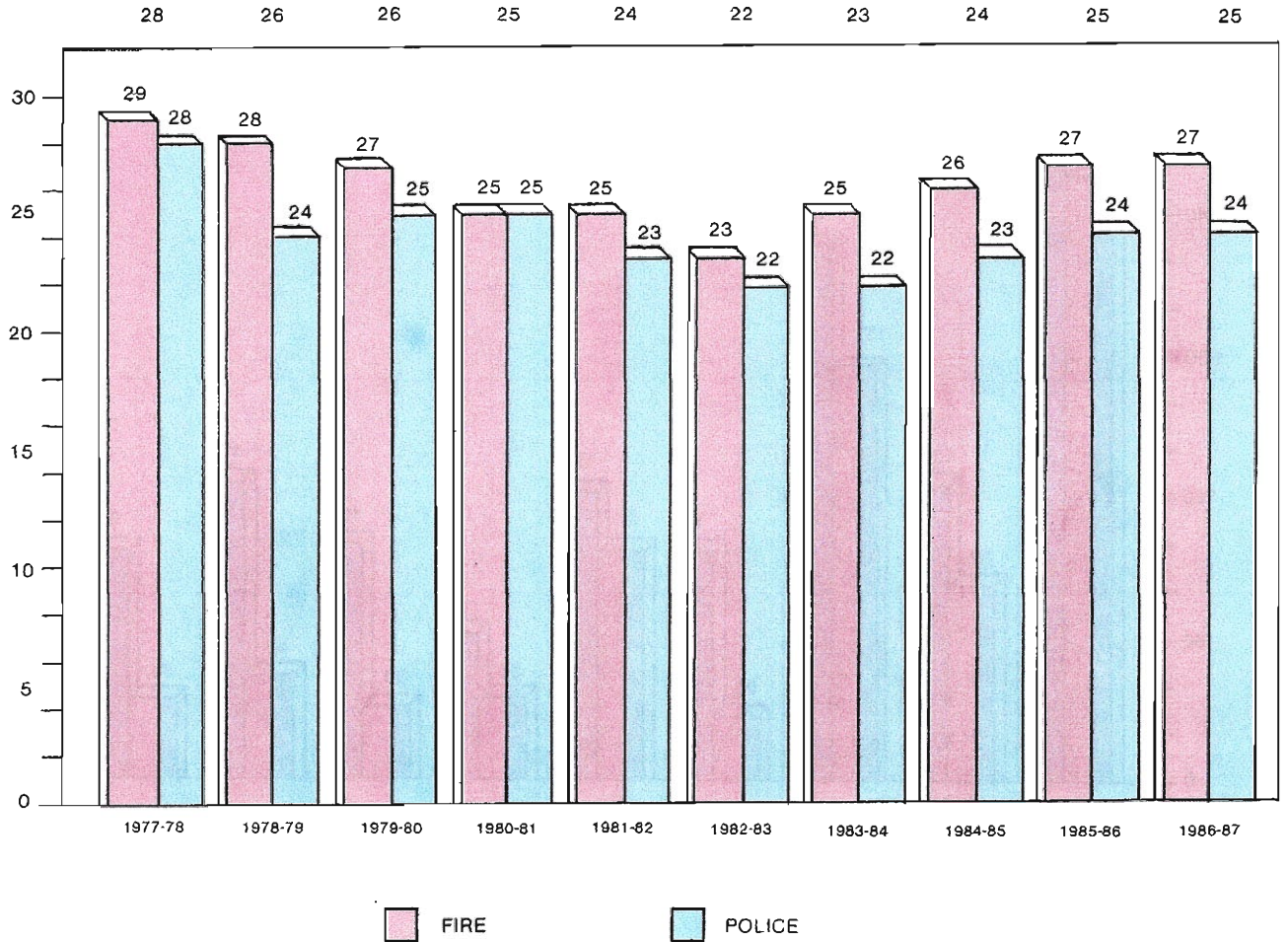
SERVICE PENSIONS *



The graph above illustrates the number of members who have retired, by department, on service pensions over the last ten fiscal years. Between 1985-86 and 1986-87, service retirements increased by nearly 38 percent for the Police Department and by over 83 percent for Fire Department members. Total service retirements increased by 50 percent for the year.

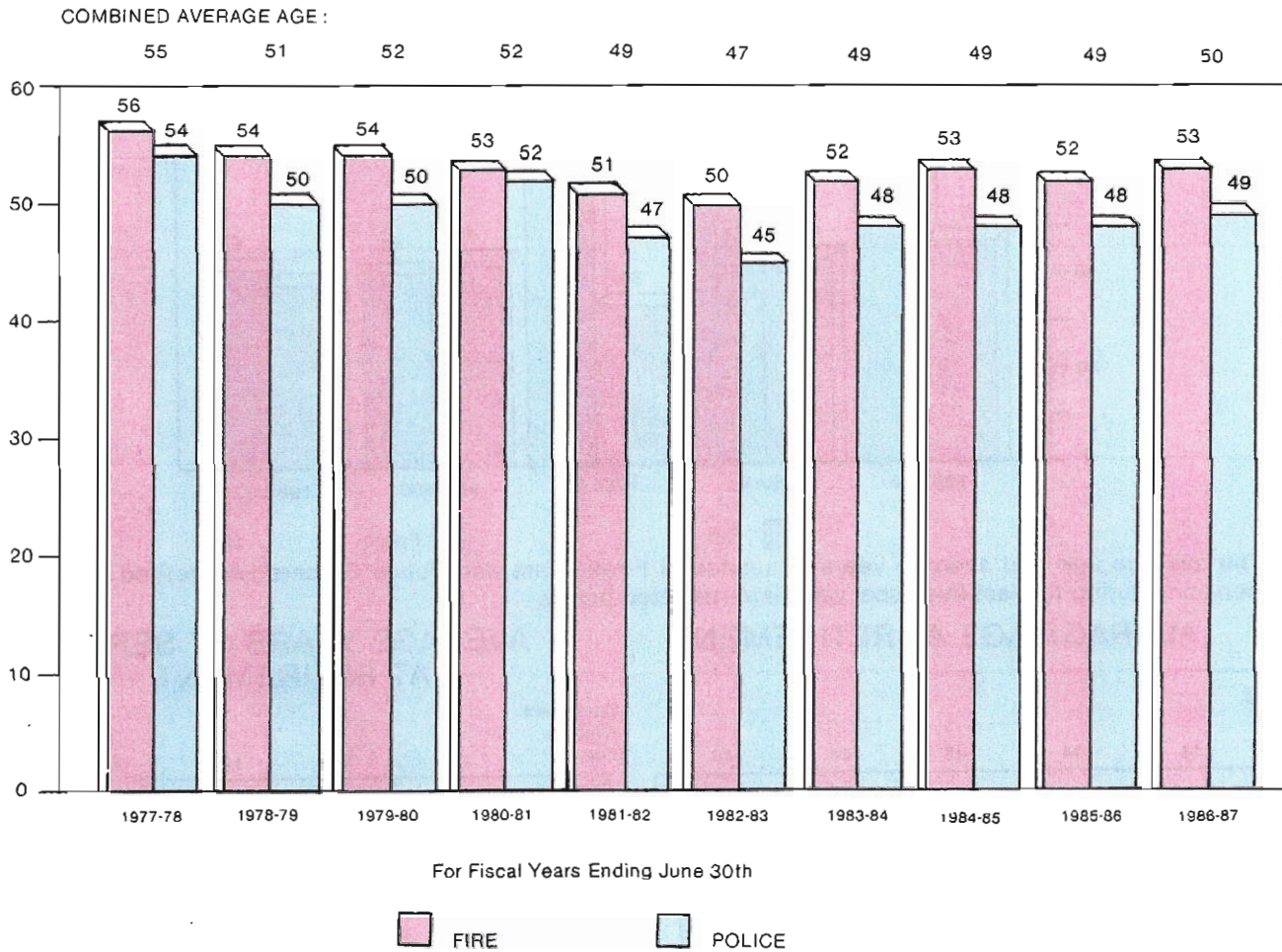
AVERAGE YEARS OF SERVICE AT RETIREMENT BY DEPARTMENT

COMBINED AVERAGE YEARS:



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.

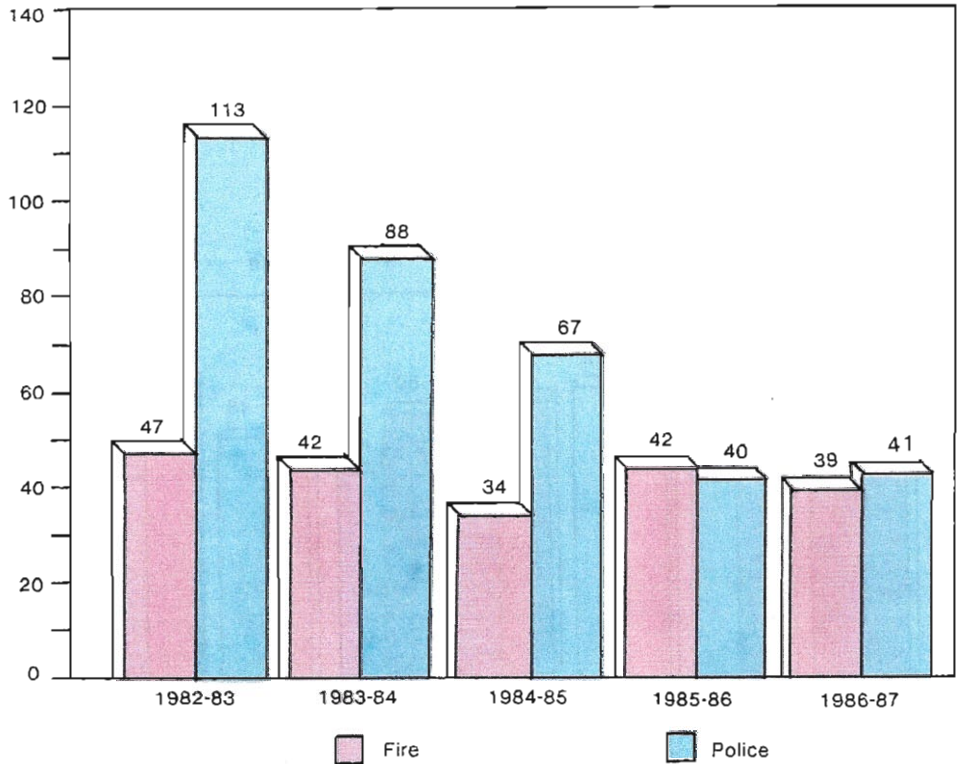
AVERAGE AGE AT RETIREMENT BY DEPARTMENT



Members of the Los Angeles Fire & Police Pension System generally become eligible for pension benefits at an earlier age than their civilian counterparts. Providing pension benefits for a greater number of years imposes a higher liability on the pension fund. This liability is being met by a combination of City and employee contributions as well as greater investment earnings.

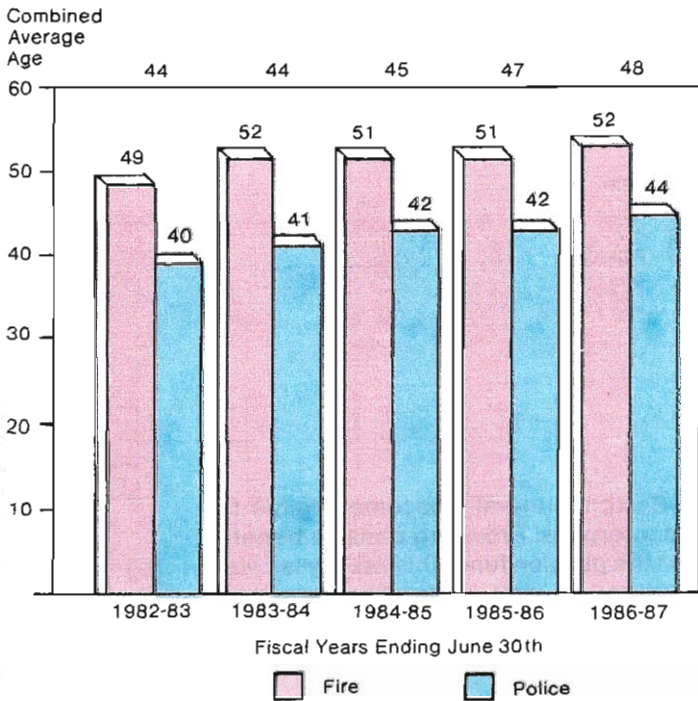
DISABILITY PENSIONS

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

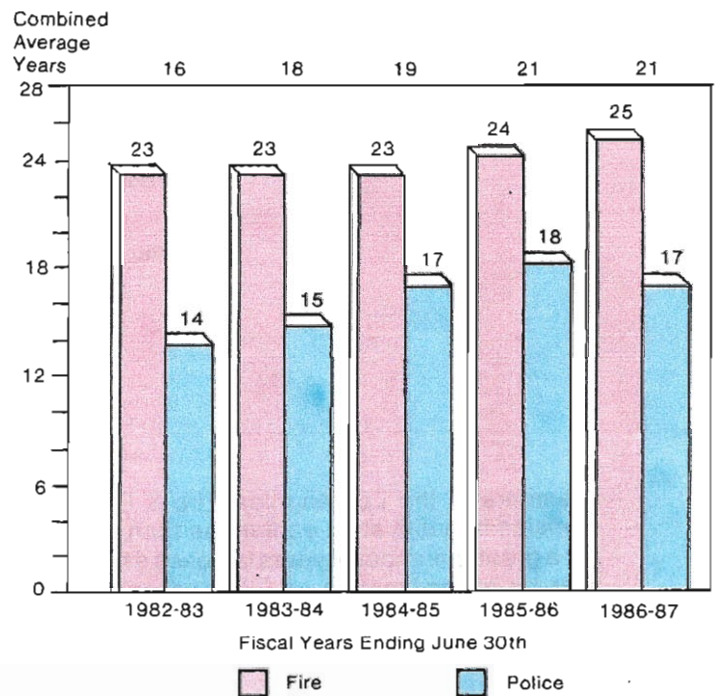


The average age and average years of service of Firefighters and Police Officers who retired with disability pensions during the last five fiscal years are reflected below:

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 1982-83 by effective date, other years recorded by granted date.

	1982-83			1983-84			1984-85			1985-86			1986-87		
	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total	Fire	Police	Total
Back only	19	16	35	11	10	21	9	6	15	13	8	21	9	0	9
Back, neck and orthopedic	10	4	14	12	18	30	6	10	16	12	8	20	15	7	22
Other orthopedic	5	2	7	3	2	5	5	3	8	8	0	8	3	2	5
Cardiovascular	7	4	11	4	2	6	1	2	3	1	1	2	3	7	10
Internal	0	4	4	1	1	2	1	2	3	1	1	2	1	2	3
Multiple	3	13	16	7	9	16	11	16	27	5	6	1	8	5	13
Miscellaneous	0	1	1	1	4	5	1	0	1	0	1	1	0	1	1
Psychological only	1	15	16	0	10	10	0	3	3	1	2	3	0	3	3
Psychological plus physical	1	32	33	3	29	32	0	24	24	0	13	13	0	13	13
Totals	46	91	137	42	85	127	34	66	100	41	40	81	39	40	79

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.

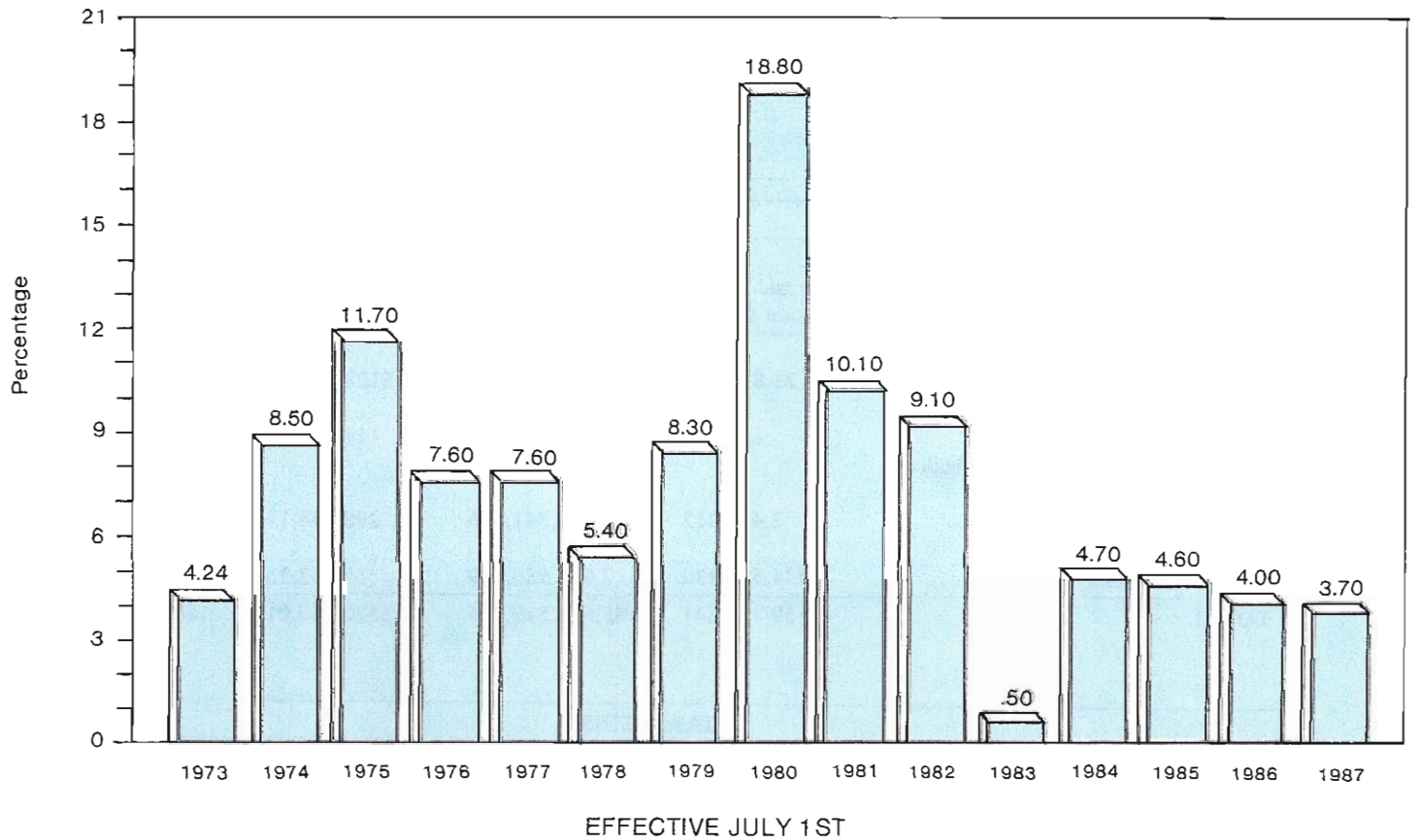
The chart on the following page gives a comparison of the disability pensions granted by department and rank during the past five fiscal years.

SERVICE AND NON-SERVICE CONNECTED
DISABILITY RETIREMENT BY RANK

	1982-83	1983-84	1984-85	1985-86	1986-87
Police					
Police Officer	76	60	41	19	22
Sergeant	16	9	9	9	4
Detective	21	17	15	8	11
Lieutenant	0	2	2	4	2
Captain	0	0	0	0	2
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Asst. Chief	0	0	0	0	0
Totals *	113	88	67	40	41
Fire					
Ambulance Driver / Paramedic	0	4	1	4	3
Firefighter	21	16	13	12	15
Apparatus Operator	2	2	4	1	0
Engineer	5	7	7	8	6
Inspector	0	2	1	2	0
Captain	17	10	7	12	14
Battalion Chief	2	0	1	2	1
Asst. Chief	0	0	0	1	0
Deputy Chief	0	1	0	0	0
Totals *	47	42	34	42	39

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

PENSION COST OF LIVING ADJUSTMENTS



Although cost of living adjustments are made to eligible pensions each July 1st, the percentage of increase is based on the consumer price index for the greater Los Angeles area ending in February.

Members of the Safety Members' Pension Plan have cost of living increases capped at three percent. Members of the other pension plans have a three percent cap on their cost of living adjustments for years of service after June 30, 1982.

ACTUARIAL REPORT

ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1987

ASSETS				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
1. Applicable Assets	\$ 21,823,041	\$2,233,436,357	\$128,846,993	\$2,384,106,391
2. Present Value of Future Contributions by Members	634,258	180,155,822	111,508,095	292,298,175
3. Present Value of Future Contributions by the City for:				
(a) Entry Age Normal Cost	2,418,012	572,341,026	298,744,177	873,503,215
(b) Unfunded Actuarial Accrued Liability	534,591,930	2,643,586,069	(18,382,250)	3,159,795,749
4. TOTAL	\$559,467,241	\$5,629,519,274	\$520,717,015	\$6,709,703,530
LIABILITIES				
	Fire and Police Pension System	New Pension System	Safety Members Pension Plan	Combined
5. Present Value of Benefits Already Granted				
(a) Service	\$203,940,142	\$2,154,139,787	\$ 1,384,148	\$2,359,464,077
(b) Disability	137,407,513	690,349,305	5,434,325	833,191,143
(c) Dependents	196,803,431	194,039,675	1,811,729	392,654,835
(d) Total	538,151,086	3,038,528,767	8,630,202	3,585,310,055
6. Present Value of Benefits to Be Granted				
(a) Service	18,888,907	2,029,010,096	313,801,157	2,361,700,160
(b) Disability	2,324,198	530,892,206	175,314,918	708,531,322
(c) Death	82,555	15,782,411	8,647,809	24,512,775
(d) Total	21,295,660	2,575,684,713	497,763,884	3,094,744,257
7. Refund of Employee Contributions	20,495	15,305,794	14,322,929	29,649,218
8. TOTAL LIABILITIES	\$559,467,241	\$5,629,519,274	\$520,717,015	\$6,709,703,530

RESULTS OF VALUATIONS

As of June 30, 1987, there were 10,112 active and 9,646 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, 1987 are shown on the Actuarial Balance Sheet (see previous page). These valuations were based on the demographic assumptions adopted June 30, 1985 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 \$6.71 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 (\$2.38 billion) already accumulated in the Systems. Item 2 is the present value of member contributions (\$292 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	22.874%
XVIII	22.238%
XXXV	21.433%

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 \$874 million.

For the third step, the existing assets (\$2.38 billion), plus the present value of future normal costs (.87 billion), plus the present value of future member contributions (\$.29 billion) were compared to the present value of the benefits to be paid out (\$6.71 billion). The Systems were short by \$3.16 billion. *

The shortfall (or balancing item) of \$3.16 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 \$3.16 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	\$46,222,604	As a level dollar amount through the fiscal year 2037.
XVIII	22.83%	As a level of total payroll, i.e., Articles XVII, XVIII, and XXXV through the fiscal year 2037.
XXXV	(1.42%)	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, 1987	June 30, 1986
1. City's Entry Age Norman Cost*	22.87%	22.02%
2. Amortization of the UAAL	\$46,222,604	\$46,860,370
3. Health Plan Subsidy	\$1,750,000	\$1,750,000
4. Medicare Subsidy	\$198,000	N.A.

* 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, 1987	June 30, 1986
1. City's Entry Age Normal Cost	22.24% *	21.27% *
2. Amortization of the UAAL	22.83% *	22.25% **
3. Health Plan Subsidy	\$6,250,000	\$5,550,000
4. Medicare Subsidy	\$534,000	N.A.

* 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 7.44%. 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 7.44% 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% salary.

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, 1987	June 30, 1986
1. City's Entry Age Normal Cost*	21.43%	21.30%
2. Amortization of UAAL *	(1.42%)	(.77%)
3. Total Contributions *	20.02%	20.53%

* 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



Board of Pension Commissioners
of the City of Los Angeles
Los Angeles, California

We have examined the balance sheets of the City of Los Angeles Fire and Police Pension System (the System) at June 30, 1987 and 1986, and the related statements of revenues, expenditures and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 6, the System was served a judgment in a lawsuit seeking removal of the 3% cap on cost-of-living adjustments for years of service subsequent to July 1, 1982. The effects of this judgment have not yet been calculated and, accordingly, no liability has been provided in these financial statements.

In our opinion, except for the omission of recording the judgment discussed in the preceding paragraph, the aforementioned financial statements present fairly the financial position of the City of Los Angeles Fire and Police Pension System at June 30, 1987 and 1986, 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			
	1987		1986	
ASSETS :				
		\$ 240,183		\$ 307,389
Receivables:				
Accrued interest and dividend income	\$ 24,209,902		\$ 27,325,293	
Contributions	2,078,398		1,943,142	
Due from brokers and others	5,923,468	32,211,768	38,764,690	68,033,125
Investments:				
Temporary, at cost, which approximates market	334,077,528		214,659,270	
Bonds, at amortized cost (market value \$869,401,215 in 1987 and \$878,935,383 in 1986)	876,900,712		825,832,859	
Common stock, at cost (market value \$1,492,479,734 in 1987 and \$1,203,269,994 in 1986)	1,132,702,439		899,895,062	
Preferred stock at cost (market value \$9,274,155 in 1987 and \$6,290,070 in 1986)	9,402,828	2,353,083,507	5,586,164	1,945,973,355
Total assets		2,385,535,458		2,014,313,869
LIABILITIES :				
Benefits in process of payment	234,301		231,022	
Accounts payable	1,346,219		1,399,067	
Due to brokers	15,433,083	17,013,603	37,520,946	39,151,035
NET ASSETS AVAILABLE FOR BENEFITS		\$2,368,521,855		\$1,975,162,834
FUND BALANCE :				
Actuarial present value of projected benefits payable to current retirants and beneficiaries	\$3,585,310,055		\$3,400,748,169	
Actuarial present value of credited projected benefits for active employees:				
Member contributions	614,447,451		551,205,796	
Employer financed portion	1,328,560,098	\$5,528,317,604	1,351,701,545	\$5,303,655,510
Unfunded actuarial present value of credited projected benefits		(3,159,795,749)		(3,328,492,676)
Total fund balance		\$2,368,521,855		\$1,975,162,834

See accountants' report and 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			
	1987		1986	
REVENUES :				
City contributions	\$272,025,075		\$228,529,732	
Member contributions	28,777,189		26,318,618	
Miscellaneous	253,457	\$ 301,055,721	131,776	\$ 254,980,126
Investment income :				
Interest	98,414,732		99,923,364	
Dividends	37,729,322		32,025,382	
Gain on sale of investments	184,943,717		175,166,660	
Securities lending income (Note 5)	1,084,934	322,172,705	646,168	307,761,574
	623,228,426		562,741,700	
EXPENDITURES - benefits				
paid to participants:				
Service	133,181,111		125,383,998	
Disability	41,728,686		37,934,076	
Surviving spouses	40,819,992		38,733,380	
Minors and dependents	813,406		561,429	
Health insurance subsidy	7,066,125		6,268,690	
	223,609,320		208,881,573	
Administrative expense	6,260,085	229,869,405	4,949,526	213,831,099
NET OPERATING INCOME		393,359,021		348,910,601
FUND BALANCE, beginning		1,975,162,834		1,626,252,233
FUND BALANCE, ending		\$2,368,521,855		\$1,975,162,834

See accountants' report and accompanying notes to financial statements.

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

	Year ended June 30	
	1987	1986
SOURCE OF FUNDS -		
Net operating income	\$393,359,021	\$348,910,601
USE OF FUNDS :		
Increase in common stock investments	232,807,377	132,223,794
Increase in temporary investments	119,418,258	11,375,613
Increase in bond investments	51,067,853	158,697,186
Decrease in due to brokers	22,087,863	9,421,392
Increase in preferred stock investments	3,816,664	5,586,164
Increase in contributions receivable	135,256	402,672
Decrease in accounts payable	52,848	310,765
(Increase) decrease in benefits in process of payment	(3,279)	56,080
(Decrease) increase in due from brokers and others	(32,841,222)	27,286,832
(Decrease) increase in accrued interest and dividend income	(3,115,391)	4,310,903
	393,426,227	349,671,401
DECREASE IN CASH	(\$ 67,206)	(\$ 760,800)

See accountants' report and accompanying notes to financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1987 AND 1986

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 Safety Members Pension Plan which was established at that time.

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.

Certain reclassifications have been made in the 1986 financial statements to conform with 1987 classifications.

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, 1987 and 1986.

Bond 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 - 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, 1987 and 1986. 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 projected 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:

	1987	1986
- Investment return	8.5%	8.5%
- Annual salary scale increase:		
Individually	6.5%	6.5%
Aggregate	5.5%	5.5%
- Annual cost-of-living increase:		
Old System and New System members:		
Accrued for service prior to June 30, 1982	5.5%	5.5%
Accrued for all subsequent service	3.0%	3.0%
Safety Members Pension Plan members	3.0%	3.0%

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

NOTE 4 - FUNDING POLICY:

As a condition of participation, members are required to contribute a percentage of their salary to the System. The System's actuaries, in their reports as of June 30, 1987 and 1986, 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 or percentage necessary to amortize the "unfunded liability" of the system over a 70-year period beginning with the fiscal year commencing July 1, 1967. Under the Safety 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, 1987 and 1986 to be as follows:

	Percentage of members' salaries					
	Old System		New System		Safety Members Pension Plan	
	1987	1986	1987	1986	1987	1986
Entry-age normal cost contribution	22.60%	20.11%	22.20%	19.16%	23.30%	19.10%
Amortization of unfunded liability	\$49,586,684*	\$45,690,233*	\$111,579,211*	\$92,326,165*	.04%	.82%
Health plan subsidy	\$ 1,500,000*	\$ 1,750,000*	\$ 5,000,000*	\$ 4,250,000*		

* Stated as required dollar amount.

The actuarially determined unfunded liability of the System is \$3,159,795,749 at June 30, 1987 and \$3,328,492,676 at June 30, 1986 (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, 1987 is to be amortized over the next 51 years through contributions to be made by the City.

NOTE 5 - 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. Securities on loan to brokers continue to be shown at their cost basis in the balance sheet. Amounts relating to fiscal years ended June 30, 1987 and 1986 are as follows:

	1987	1986
Securities on loan:		
Cost	\$281,080,400	\$280,197,061
Market	\$277,400,438	\$308,135,772
Collateral	\$296,398,216	\$294,999,877

NOTE 6 - 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, 1987 and 1986 are \$614,447,451 and \$551,205,796, respectively.

Legal Action

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1987. Except for the following case, the combined potential liability is not deemed to be 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 regard to the 3% cap on cost-of-living adjustments for years of service subsequent to July 1, 1982. At the trial of this action, the lower court ruled on April 2, 1987 that the 3% cap is invalid and unenforceable. In addition, provisions in the Charter providing for a proration method of calculating the cost-of-living adjustment for the first year of retirement are invalid and unenforceable. On May 27, 1987, the City filed a notice of appeal to the Court of Appeal.

The System's attorney feels there are meritorious grounds for appeal but that no opinion can be given as to the ultimate outcome. No actuaries have been engaged to determine the potential liability and, accordingly, no liability has been recorded in the financial statements at this time.

NOTE 7 - SUBSEQUENT EVENT (UNAUDITED):

In October 1987, the stock market suffered a severe decline. Conversely, interest declined causing bonds to increase in value. As of November 30, 1987, the net unrealized loss on the cost basis of System investments is approximately \$70,932,636 as follows:

Cost	\$2,341,634,192
Market	\$2,270,701,556

BUDGET

DEPARTMENT OF PENSIONS

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

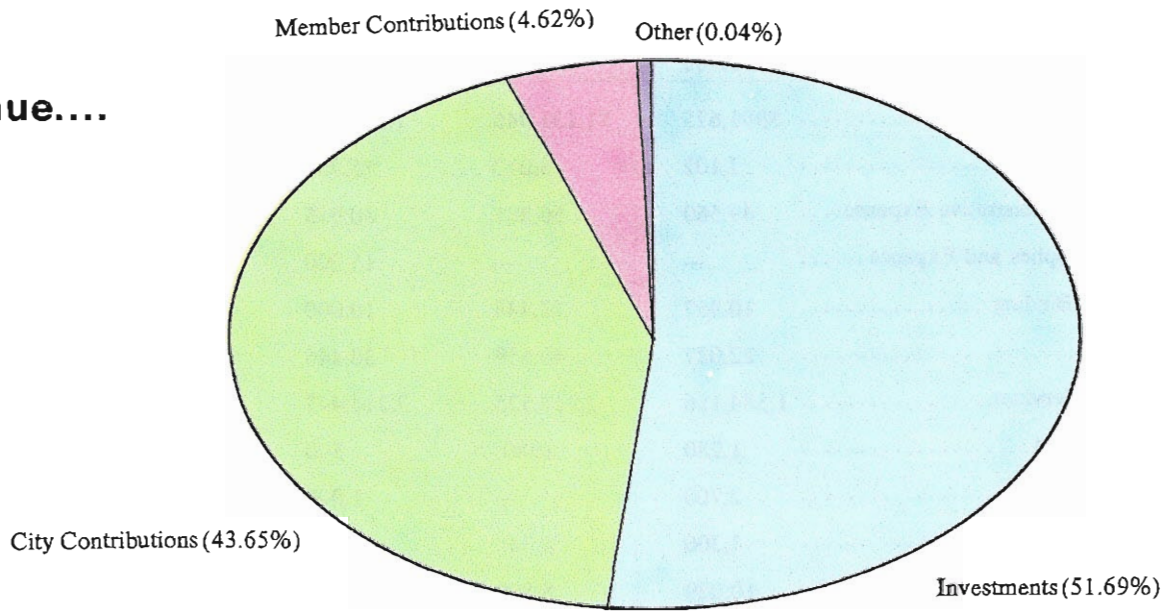
The Board of Pension Commissioners has the responsibility for and the exclusive control of the administration and investment of monies in the several funds of the Fire and Police Pension System, New Pension System and the Safety Members Pension Plan. The Board administers the provisions of the Charter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

RECEIPTS	Budget 1986 - 87	Actual 1986 - 87
Taxes and General Fund	\$269,388,992	\$272,025,075
Member Contributions.....	31,446,461	28,777,189
Earnings on Investments.....	139,767,590	322,172,705
Sale of Unclaimed Property.....	325,000	—
Miscellaneous	292	253,457
TOTAL RECEIPTS.....	\$440,928,335	\$623,228,426

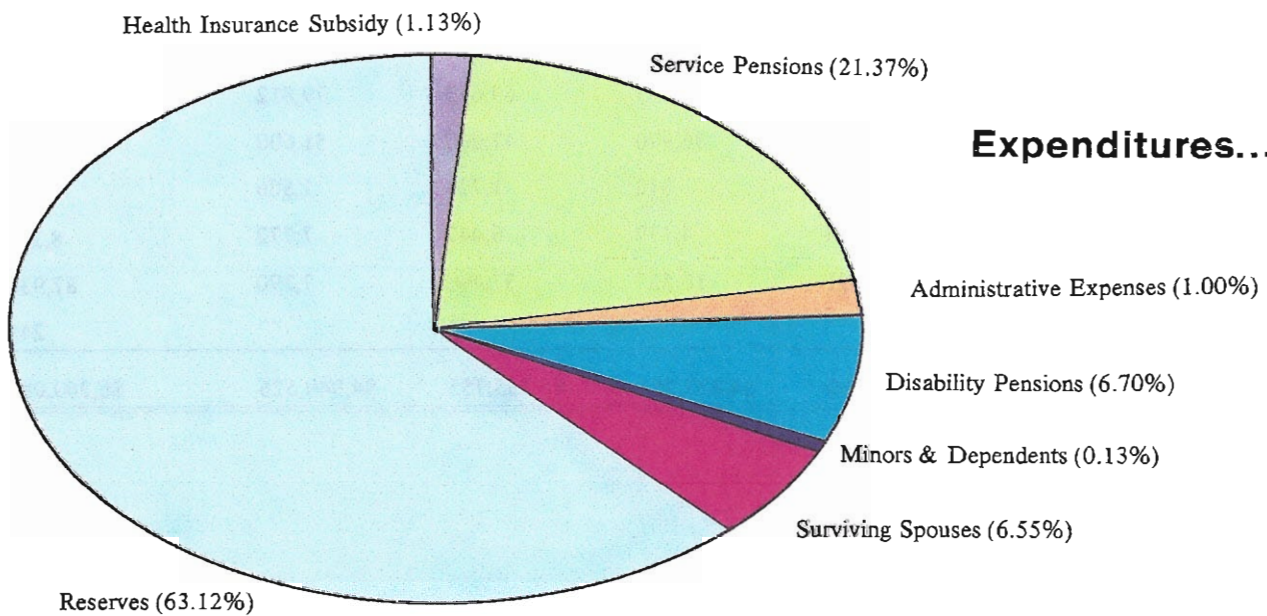
EXPENDITURES	Budget 1986 - 87	Actual 1986 - 87
Service Pensions.....	\$131,480,894	\$133,181,111
Disability Pensions.....	39,740,691	41,728,686
Surviving Spouses' Pensions	41,126,415	40,819,992
Minor's / Dependents' Pensions	525,945	813,406
Health Insurance Subsidy.....	6,500,000	7,066,125
Administrative Expense.....	7,408,285	6,260,085
TOTAL EXPENDITURES.....	\$226,782,230	\$229,869,405
Return to Reserve.....	214,146,105	393,359,021
TOTAL EXPENDITURES AND RETURN TO RESERVE	\$440,928,335	\$623,228,426

LOS ANGELES FIRE & POLICE
 PENSION SYSTEM 1986-87
 INCOME : \$623,228,426

Revenue....



Expenditures...



ADMINISTRATIVE EXPENSE COMPARISON
1982 - 83 to 1986 - 87

OPERATING EXPENSE

	1982-83	1983-84	1984-85	1985-86	1986-87
Salaries	\$991,625	\$1,131,046	1,194,980	\$1,360,937	\$1,561,161
Overtime	7,102	6,013	15,961	18,235	17,393
Office and Administrative Expense	49,560	56,881	80,925	57,530	79,009
Operating Supplies and Expense	—	—	15,000	(6,314)	2,646
Printing and Binding	10,957	12,448	10,000	4,296	16,653
Travel	22,027	40,559	38,446	44,965	44,155
Contractual Services	1,584,156	2,927,525	3,214,447	3,082,329	3,925,523
Field Equipment	1,280	(980)	300	(294)	—
Petroleum Products	2,700	—	1,000	553	349
Transportation	1,300	8,346	—	—	200
Annual Audit	10,029	8,800	9,700	14,544	14,867
Governmental Meetings	—	—	—	—	1,042
Litigation	317,387	96,040	83,925	20,027	28,235
Medical Services	469,817	433,631	497,827	157,238	302,486
Actuarial Expense	29,000	21,500	30,000	47,400	37,400
Health Insurance	72,800	36,631	69,683	79,812	76,092
Retirement Contributions	36,000	36,970	47,900	51,600	55,440
Tuition Reimbursement	995	1,812	1,724	1,606	892
Dental Insurance	7,004	4,177	6,447	7,772	8,365
Equipment, Furniture & Fixtures	87,491	10,857	37,490	7,290	87,936
Medicare Contribution	—	—	—	—	241
	<u>\$3,701,230</u>	<u>\$4,832,256</u>	<u>\$5,355,755</u>	<u>\$4,949,526</u>	<u>\$6,260,085</u>

LEGAL

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 the following contractors:

1. Bankers Trust
2. Abax Information Systems
3. Callan Associates
4. Security Pacific Investment Managers
(2 contracts [equity investments and debt-type investments] and 2 contract extensions)
5. Wright Investors (1 contract and 1 extension thereof)
6. Wyatt Company
7. Lyon Associates
8. Iverson, Yoakum, Papiano & Hatch
9. David Jacobson
10. Wilkie, Farr & Gallagher
11. Alliance Capital Management Corp.
12. Boston Company

PROBATE MATTERS

This office examined 48 accountings, as well as petitions and other documents which were received by the Department of Pensions. Eight requests for special notice were prepared, filed and served. Fifteen guardianships and conservatorships were discontinued and eight were commenced. There are 99 guardianships pending, 45 covering minors, 46 covering incompetents and 8 covering dependent children.

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:

Bontempo v. Board of Pension Commissioners
Carrington v. Board of Pension Commissioners
Garcia v. Board of Pension Commissioners
Merchant v. Board of Pension Commissioners

Rothmiller v. Board of Pension Commissioners
Schaper v. Board of Pension Commissioners
Schyvynck v. Board of Pension Commissioners
II. Decisions reversing the Board:

Cook v. Board of Pension Commissioners
(B) Cases presenting interesting facts or legal issues

BATAC v. CITY OF LOS ANGELES
(VALDEZ v. CITY OF LOS ANGELES)

Plaintiffs commenced employment with the City subsequent to December 8, 1980, the effective date of The Safety Member's Pension Plan. They claim that the City, at the time of plaintiffs' recruitment, had made representations that they would become members of the New Pension System, and that the City was estopped to deny them such membership.

In June of 1987, the case was consolidated for trial which resulted in its redesignation as Batac v. City of Los Angeles. A trial date was set for January 21, 1988.

BOARD OF PENSION COMMISSIONERS
v. SUPERIOR COURT (183 Cal. App. 3d 1012)

In a dissolution proceeding involving Clarson Corriveau, a member of the New Pension System, the wife was awarded a proportional share of her husband police officer's prospective service retirement pension. Later, Mr. Corriveau suffered a work-related injury and was awarded a disability pension. At that time he was also eligible for service retirement, but his disability pension benefits were 3 percent greater than service retirement benefits. The Board, which had previously been joined as a party, proceeded to set off the amount of workers' compensation benefits the City has paid and would pay against the disability pension. The Superior Court had ordered that Mr. Corriveau was entitled to reimbursement for all funds which were set off in excess of the 3 percent differential. The Board appealed.

The Court of Appeal reversed the decision of the Superior court. The Court held the set off was proper since it was provided for by the City Charter and since disability pension

benefits, unlike service pension benefits, are not financed by employee contributions which is prohibited by Labor Code Section 3751.

BROCKMAN

v. BOARD OF PENSION COMMISSIONERS

The Board denied Mr. Brockman's application for a disability pension. Upon a petition for writ of mandate, the case was remanded to the Board for further decision on the issue of the availability of light duty positions. The Board complied with the Court's order and established that a suitable light duty position could be made available.

Mr. Brockman again filed a petition for writ of mandate. A hearing before a different judge resulted in a determination that the evidence in the record was insufficient to demonstrate the availability of a light duty position. The Court furthermore ordered that the Board grant the petitioner a service-connected disability pension.

Based upon the opinion of legal counsel the Board filed a notice of appeal.

McCORMICK

v. BOARD OF PENSION COMMISSIONERS

This is the case of a retired system member whose disability pension was made subject to a medical review when the Board placed him on his disability pension status. Erroneously, the findings of fact adopted by the Board did not reflect the condition of a medical review. Corrected findings were adopted by the Board and notice was sent to Mr. McCormick.

At the time set for review, Mr. McCormick refused to submit to the review process. He ultimately sought a writ of prohibition in order to prevent the Board from taking further action with respect to the matter. The writ issued on a preliminary basis, subject to a later hearing on the merits of the case. Before such a hearing could take place, the Board moved to dissolve the writ and the motion was granted. Although the Board is now free to pursue the matter of the review, it is anticipated that further court action will follow.

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 lawsuit, 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.

The case went to trial in February of 1987, at the conclusion of which judgment was rendered in favor of plaintiffs. The court ruled that Los Angeles City Charter §§184.96 and 190.143, subsections (A)(1), (A)(2) and (A)(4) imposing a 3% limitation on cost of living adjustments to portion of the pension benefits under Articles XVII and XVIII are invalid and unenforceable because each of them is a law impairing the obligation of contract within the meaning of Article I Section 9 of the Constitution of the State of California and Article 1 Section 10, Clause 1 of the Constitution of the United States.

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.

The Court of Appeal held that the trial court did not abuse its discretion by considering the "surplus" paid to Mr. Woodman as damages for the uprooting that he and his family experienced due to the Board's action.

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 58 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. Option at member's retirement for higher continuance to spouse with actuarial reduction.
(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. 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	100% if spouse not receiving, otherwise : 25% for one child 40% for two children 50% for three children	Same as Article XVII	Same as Article XVII
	Pension not payable after child reaches age 18 unless disabled prior to age 21.		Pension payable for child in school up to age 21.
(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.	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.	Annual cost of living increase not to exceed 3%. Cost-of-living increases compound. Pro rata adjustment in the first year of retirement
	Cost-of-living increases compounded. City Council may grant discretionary cost-of-living increase once every three years on capped portion.	Cost-of-living increase compounded. City Council may grant discretionary cost-of-living increases once every three years on capped portion.	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.	Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	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 1/2 cost of cost-of-living benefit up to 1%	8%
MISCELLANEOUS			
(a) Vesting of service retirement	On retirement	On retirement	After 10 years of service.
(b) Return of contributions with interest	On termination or death with no other benefits.	On termination or death with no other benefits.	On termination or death
(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 1 $\frac{3}{4}$ % for each year of service, in addition to the minimum of 20 required, was authorized up to a maximum pension of 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 1 $\frac{3}{4}$ % for each of the next 10 years of service. This amendment imposed a limit upon service pensions at a pension of \$1800 per year. Members' contributions to the cost of the system were set at 4% of salaries. Pensions for widows were made fixed amounts.

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

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension of 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension of 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the 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 1 $\frac{3}{4}$ % 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.

Jim McGuigan

DEPARTMENT OF PENSIONS

