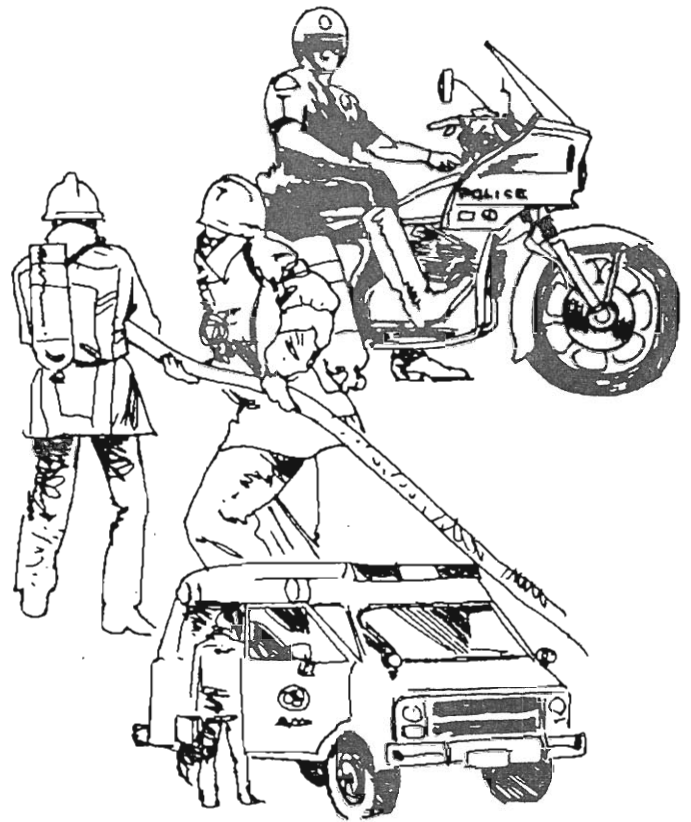


*Jim McGuire*

CITY OF  
LOS ANGELES

BOARD OF  
PENSION  
COMMISSIONERS

# ANNUAL REPORT 1988



DEPARTMENT OF PENSIONS

FIRE AND POLICE PENSION SYSTEMS

**MAYOR**

Tom Bradley

**CITY ATTORNEY**

James Kenneth Hahn

**CONTROLLER**

Rick Tuttle

**CITY COUNCIL**

John Ferraro, President

Marvin Braude, President Pro Tempore

Gloria Molina

First District

Robert C. Farrell

Eighth District

Joel Wachs

Second District

Gilbert W. Lindsay

Ninth District

Joy Picus

Third District

Nate Holden

Tenth District

John Ferraro

Fourth District

Marvin Braude

Eleventh District

Zev Yaroslavsky

Fifth District

Hal Bernson

Twelfth District

Ruth Galanter

Six District

Michael Woo

Thirteenth District

Ermani Bernardi

Seventh district

Richard Alatorre

Fourteenth District

Joan Milke Flores

Fifteenth District

## THE BOARD OF PENSION COMMISSIONERS

KENYON CHAN  
President

Ken Staggs  
Vice President

Sherman Andelson  
Commissioner

Dellene Arthur  
Commissioner

Bert Cohen  
Commissioner

Sam Diannitto  
Commissioner

Dave Velasquez  
Commissioner

**DEPARTMENT OF  
PENSIONS**

360 E. Second Street, Suite 600  
Los Angeles, California 90012

**ANNUAL REPORT 1988**

*General Manager*

Gary Mattingly

*Assistant Managers*

James J. McGuigan

Allan Moore

*Chief Investment Officer*

Dennis R. Sugino

*Legal*

Siegfried O. Hillmer

Assistant City Attorney

*Actuary*

Towers, Perrin, Forster & Crosby

*Auditor*

Touche Ross & Co.

*Custodian Bank*

Bankers Trust Company

*Investment Advisors*

Alliance Capital Management Corp.

Balch, Hardy & Scheinman, Inc.

Equitable Real Estate

JMB Institutional Realty

Loomis Sayles & Company

Magten Asset Management

MCQ, Inc.

Oppenheimer Option Management

Prudential Asset Management

Security Pacific Investment Managers

Sentinel Real Estate Corporation

Solomon Asset Management

The Boston Company

Wright Investors' Service

*Performance Measurement*

S.E.I. Funds Evaluation Service

**CONTENTS**

	<i>Page</i>
Board Letter .....	4
Manager's Report .....	5
Investments .....	6
Membership	
Active .....	11
Retired .....	13
Types of Pensions	
Service .....	15
Disability .....	17
Actuarial Report .....	22
Auditor's Report .....	25
Budget .....	32
Legal .....	35
Pension Benefits .....	41
Milestones .....	44

CITY OF LOS ANGELES  
CALIFORNIA



TOM BRADLEY  
MAYOR

DEPARTMENT OF  
PENSIONS

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

GARY MATTINGLY  
GENERAL MANAGER

BOARD OF PENSION  
COMMISSIONERS

---

KENYON S. CHAN  
PRESIDENT

KENNETH E. STAGGS  
VICE-PRESIDENT

SHERMAN L. ANDELSON  
DELLENE ARTHUR  
BERT R. COHEN  
SAM DIANNITTO  
DAVE VELASQUEZ

Board of Pension Commissioners  
1987-88 Annual Report

The Honorable Tom Bradley, Mayor  
and  
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, 1988.

In spite of the October 1987 stock market crash, we are pleased to report that the System's total assets increased to \$2.8 billion. Our gains in other asset classes proved to more than compensate for the reverses experienced by our equity investments.

Growth in plan membership continues. As of June 30, 1988 there were 9,756 retired and 10,541 active members of the pension system.

As in past annual reports, we are including financial statements prepared by our auditors, Touche, Ross and Company as well as a summary report of our actuary, The Wyatt Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenyon S. Chan".

Kenyon Chan, President  
Board of Pension Commissioners

CITY OF LOS ANGELES  
CALIFORNIA



TOM BRADLEY  
MAYOR

BOARD OF PENSION  
COMMISSIONERS

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

DEPARTMENT OF  
PENSIONS

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

GARY MATTINGLY  
GENERAL MANAGER

The Honorable Board of Pension Commissioners  
City of Los Angeles

Honorable Members:

The biggest news of this fiscal year was the stock market crash on October 19, 1987.

After enjoying an average rate of return of 30 percent per year for the past three years on our stock investments, we lost 7.4 percent this year. However, our fixed income investments enabled us to finish the year with a slight gain which, coupled with contributions from our members and the City, increased fund assets from \$2,737,700,000 to \$2,798,800,000.

Implementation of the very ambitious asset allocation plan begun last year continued. We began the options overwriting program, hired small capitalization equity managers and began the real estate program. This added diversification will reduce the volatility of the fund as well as increase the rate of return.

A survey of both the active and retired members indicated a need for a pre-retirement counseling program. We have begun designing such a program for active members contemplating retirement and hope to conduct the first seminar next year.

Very truly yours,

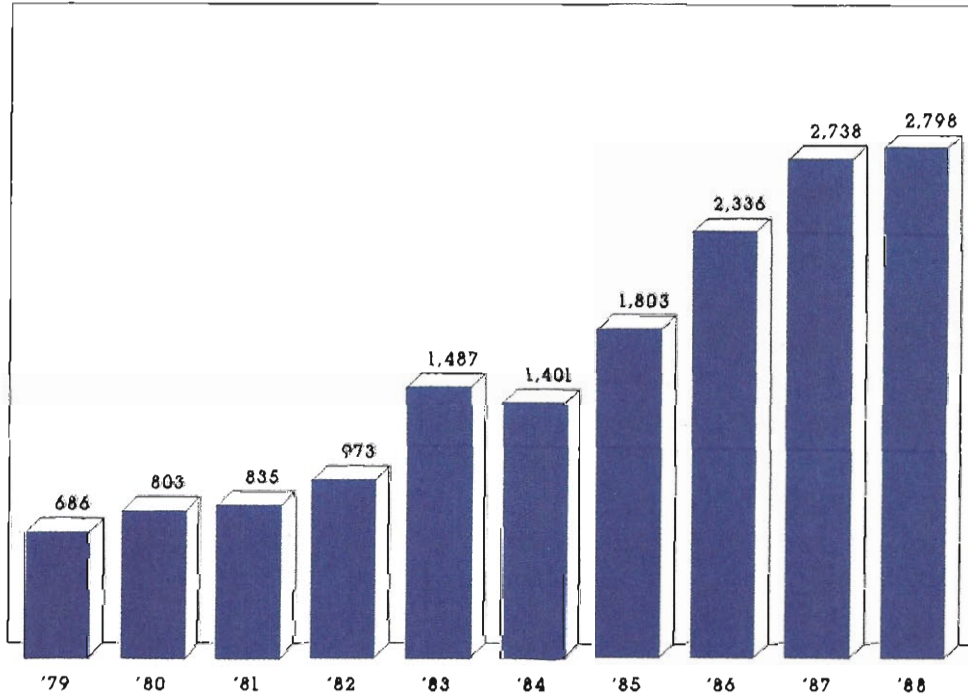
A handwritten signature in black ink that reads "Gary Mattingly". The signature is written in a cursive style with a large initial "G".

Gary Mattingly

INVESTMENTS

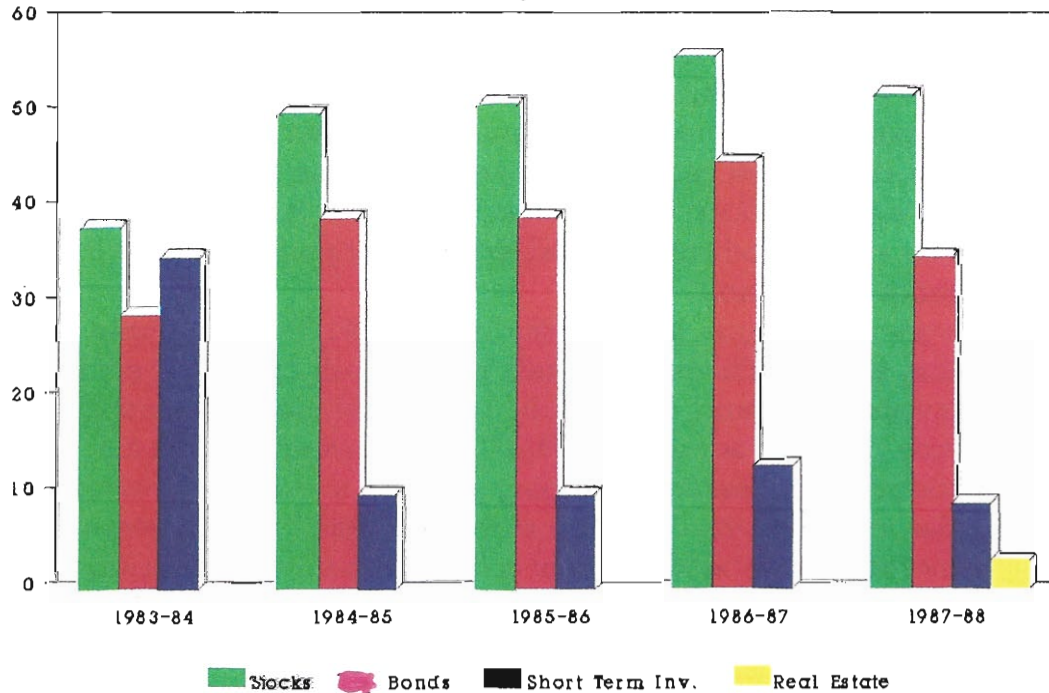
GROWTH OF FIRE AND POLICE PENSION SYSTEM ASSETS BY FISCAL YEARS (ENDING JUNE 30th)

Market Value of Total Assets (Millions of dollars)



FIRE AND POLICE SYSTEM ASSET MIX 1983-84 through 1987-88

Percentages



## INVESTMENTS

For the five-year period ending June 30, 1988 the Fire and Police Pension System grew in value from \$1.4 billion to \$2.8 billion. The three major elements of growth for the System were City contributions, member contributions, and investment returns on System assets. Investment decisions produced an 11.2 percent annualized rate of return during this five-year period. In dollars, the investment returns added \$1.015 billion in asset value. Inflation, as measured by the Consumer Price Index (CPI), grew by 3.5 percent on an annualized basis during this same period.

After establishing its investment objectives and policy, the Board's most important investment decision is *asset allocation*. This determination of how much to invest in asset classes within a diversified portfolio is the primary means of managing risk and also typically accounts for 80 percent or more of investment returns.

In 1986, the Board adopted a new asset allocation plan with the objective of diversifying the System into additional asset classes to reduce risk and potentially further increase investment returns. This asset allocation plan consists of 65 percent investment in equity type securities, 19 percent in bonds, 10 percent in real estate and 6 percent in cash equivalent temporary investments. To implement this plan the Board has already retained professional investment advisors in the asset classes of high-yield bonds, options overwriting and commingled real estate pools. During 1987-88 the Board also retained investment advisors in the asset classes of small capitalization stocks and direct-owned real estate. In 1988-89, the Board has scheduled hiring of international stock advisors and domestic convertible bond advisors.

The System's *stock portfolio* of \$1.46 billion (at year end) is managed by one passive S&P 500 index and three active investment advisors. The five-year performance of this asset class was an annualized 10.8 percent. For the past year, which includes the infamous stock market crash of October 1987, the stock portfolio had a negative investment return of 5.3 percent. According to SEI Funds Evaluation Services, the median stock investment performance for the last five years was 12.5 percent and for the last year, a negative 7.4 percent.

The \$1.003 billion *bond portfolio* is managed by two core investment grade and two high-yield bond advisors. For the past five years, the annualized rate of return on bonds was 12.3 percent. For the last year, the portfolio returned 6.9 percent. SEI reported that the median bond portfolio investment return was 12.2 for five years and 7.8 percent for the last year.

The System's *real estate portfolio* was initiated during the year and had \$46 million invested in six commingled real estate funds at year end. Investment performance will be reported when a full year of experience is available.

Three *option overwriters* began services during 1987-88. These advisors write covered call options on the existing stock portfolios. Premiums paid by call option buyers in excess of option liabilities produce investment returns and reduce volatility of the stock portfolio. For its first year, the options overwriting program added \$10,569,000 in net investment income.

The System participates in a *securities lending* program in conjunction with its custodian bank. This program provides income to the System from the fees paid by borrowers of the securities. All loans of securities are required to be 102 percent collateralized by borrowers to protect the system. In 1987-88, the System received \$975,000 in additional income from this program.



## INVESTMENTS

### ANNUAL RATES OF RETURN BASED ON MARKET VALUE

Fiscal Year Ending June 30	Equities	Bonds	Total Fund*	CPI*
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%
1987-88	- 5.30%	6.90%	0.30%	3.94%

\* Total fund includes short term investments

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

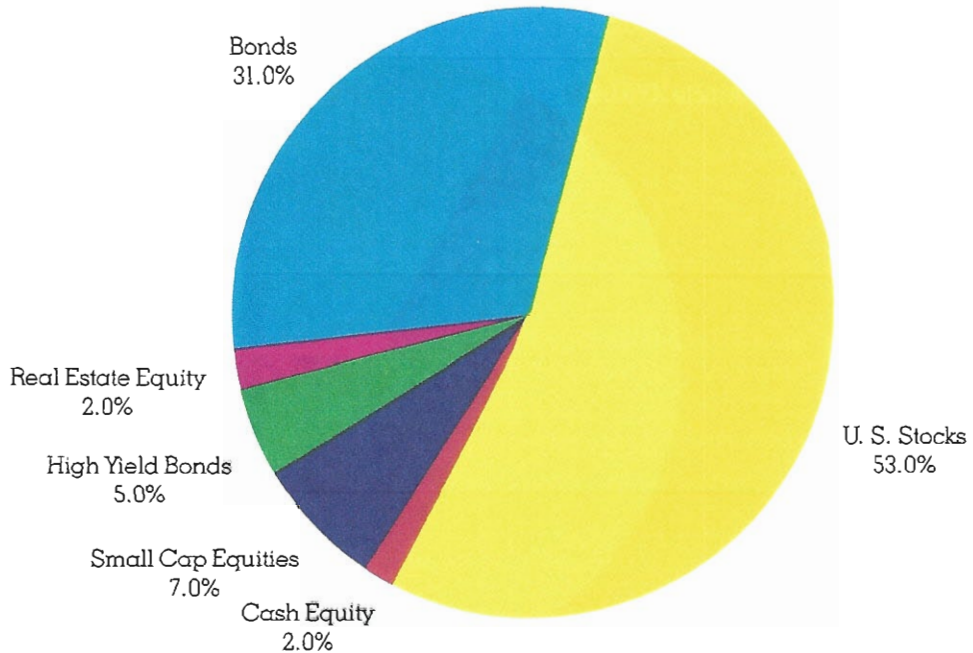
**INVESTMENTS****ASSET CHANGE SUMMARY  
(IN MILLIONS)**

Beginning Market Value (7/1/87) .....	2737.7
Contributions (City & Members) .....	310.3
Benefits Paid to Participants .....	(234.5)
Dividend and Interest Income .....	159.8
Gain/Loss on Sale of Securities .....	32.3
Option Premiums Earned .....	10.6
Securities Lending Income .....	1.0
Change in Market Value of Securities Held .....	(218.4)
Ending Market Value (6/30/88) .....	2,798.8

# INVESTMENTS

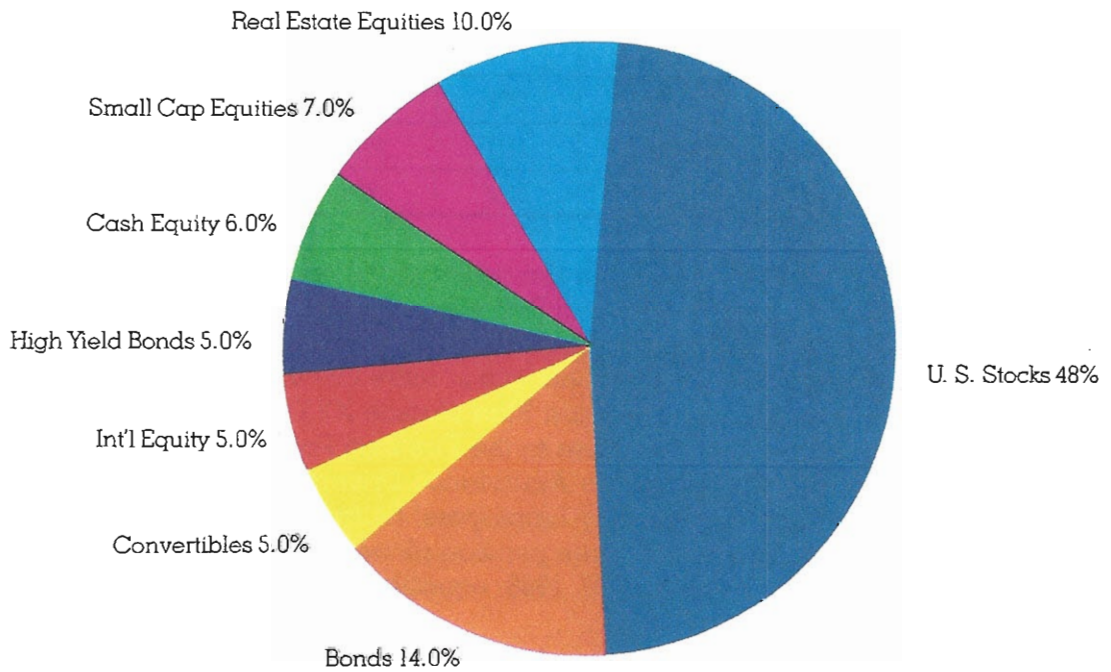
## COMPARISON OF PORTFOLIO ASSET MIX

### CURRENT PORTFOLIO . . .



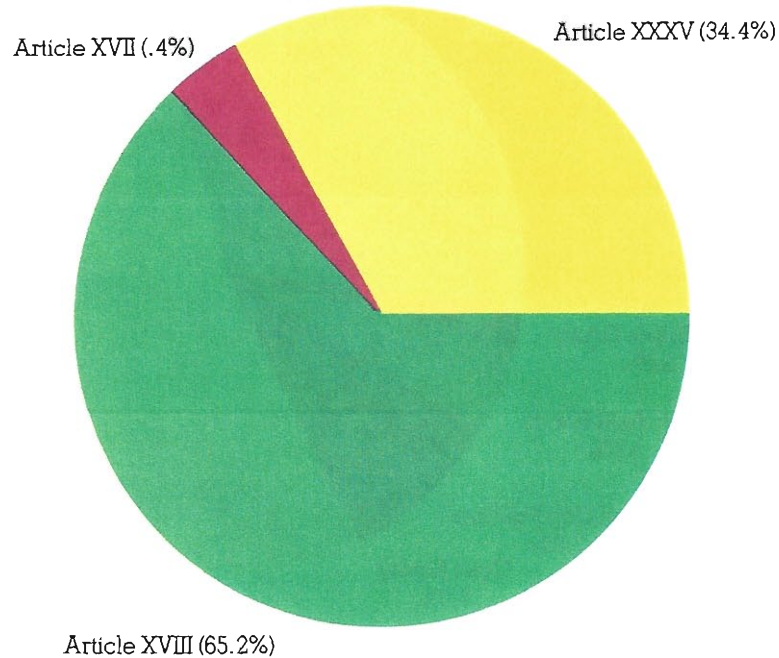
In 1986 the Board adopted an asset reallocation plan that is intended to reduce volatility or riskiness of the Plan through diversification and to enhance the potential for increased investment return. The phased implementation of the asset reallocation plan is targeted for completion in FY 1989-90.

### TARGET PORTFOLIO . . .



# MEMBERSHIP

## ACTIVE MEMBERS



Membership by City Charter Article:

	Fire	Police	Total
XVII	5	41	46
XVIII	1987	4885	6872
XXXV	1111	2512	3623
	3103	7438	10541

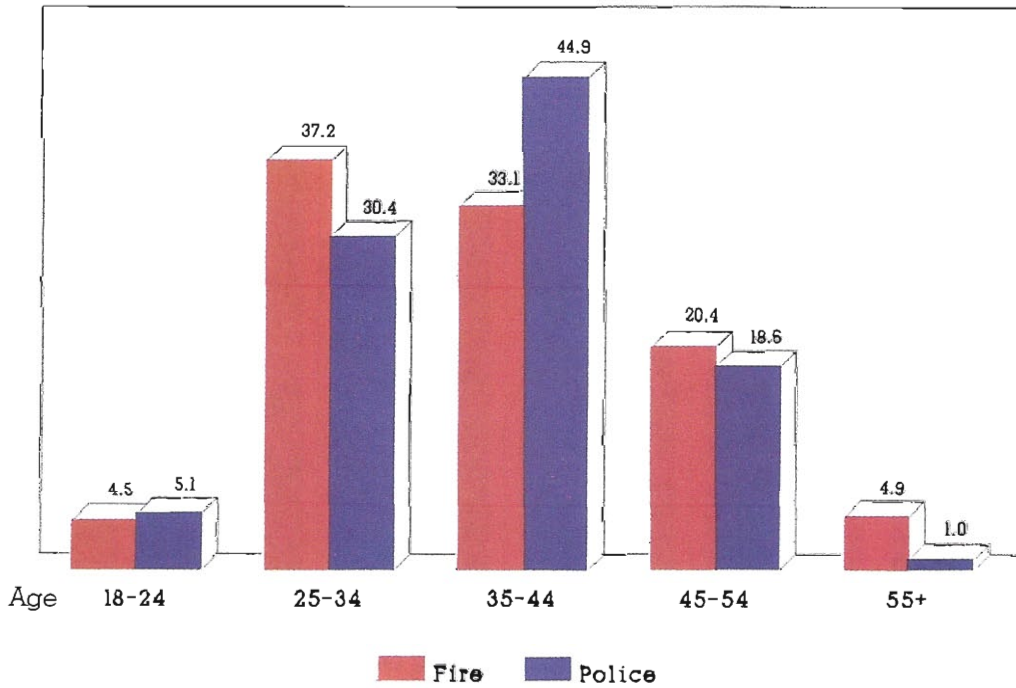
Three separate pension plans cover the active membership of the Los Angeles Fire and Police Pension Systems. Of these, the Fire and Police Pension System (Article XVII) and the New Pension System (Article XVIII) are closed to new members. As expected, membership in these pension plans has declined steadily 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 the Safety Members' Pension Plan from the City Employees' Retirement System in November of 1982.

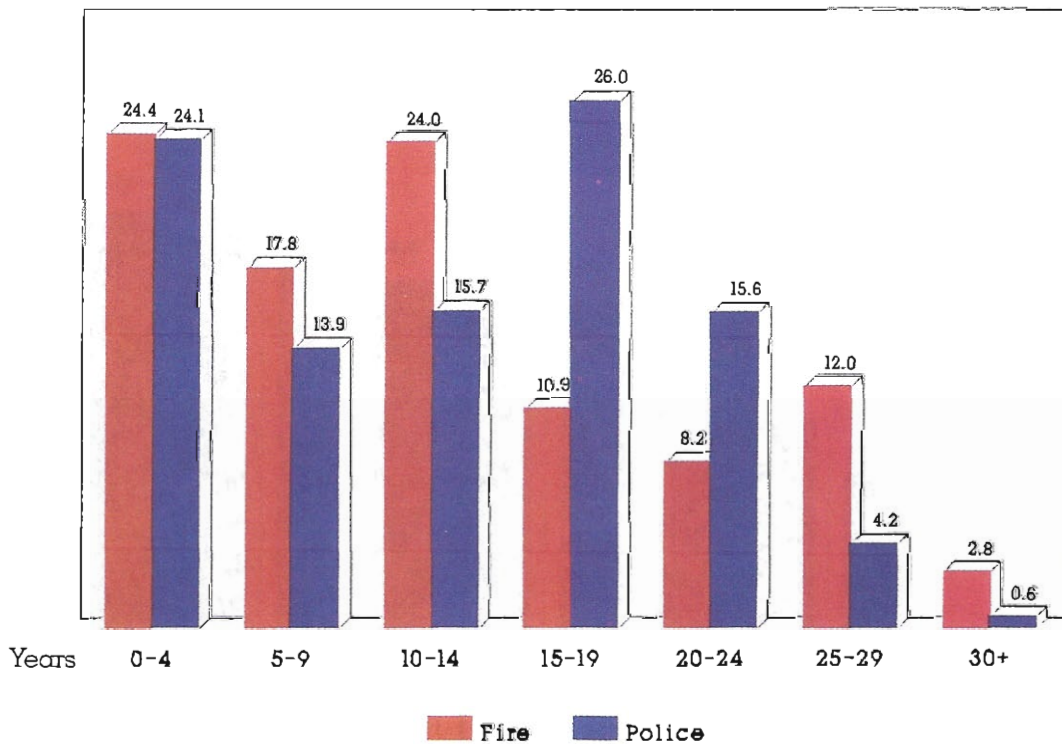
Total active membership in the three pension plans which comprise the Los Angeles Fire and Police Pension Systems, as of June 30, 1988, equalled 10,541 a net increase of 429 members since June 30, 1987.

# MEMBERSHIP

## PERCENTAGE OF ACTIVE MEMBERS BY AGE GROUP\*



## PERCENTAGE OF ACTIVE MEMBERS BY YEARS OF SERVICE\*

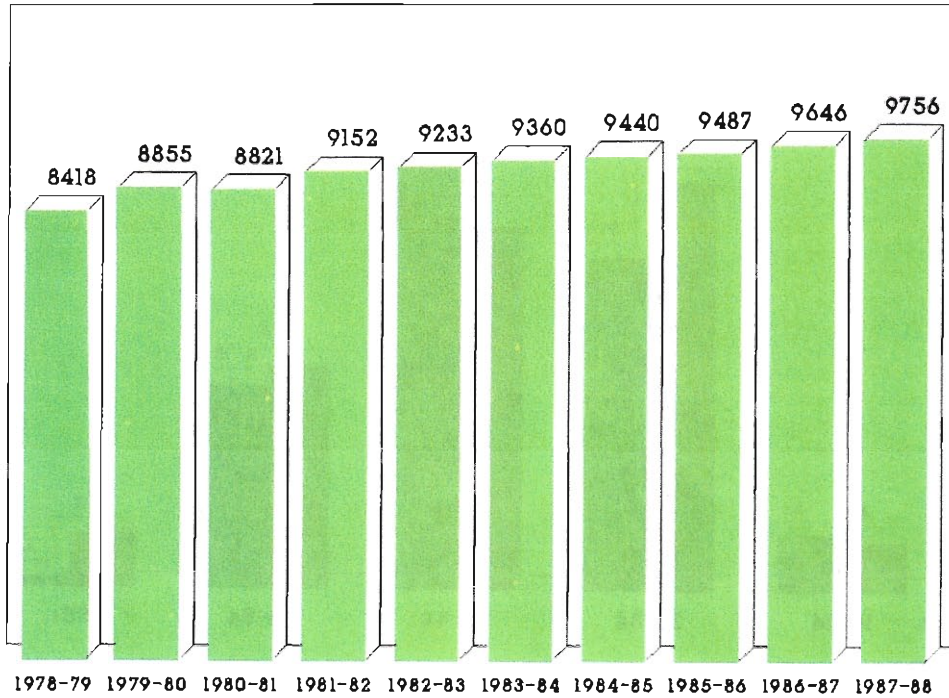


\*Figures may not total 100% due to rounding process.

**MEMBERSHIP**

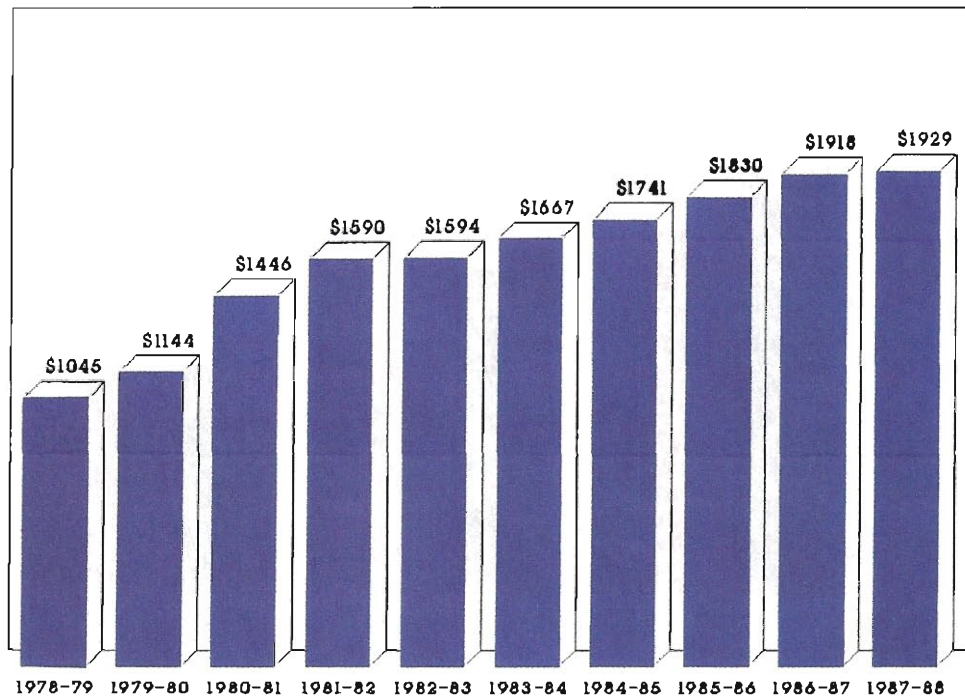
**RETIRED MEMBERSHIP  
FOR FISCAL YEARS ENDING JUNE 30TH**

The number of individuals on the pension roll showed a net increase of 110 persons over the previous year.



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

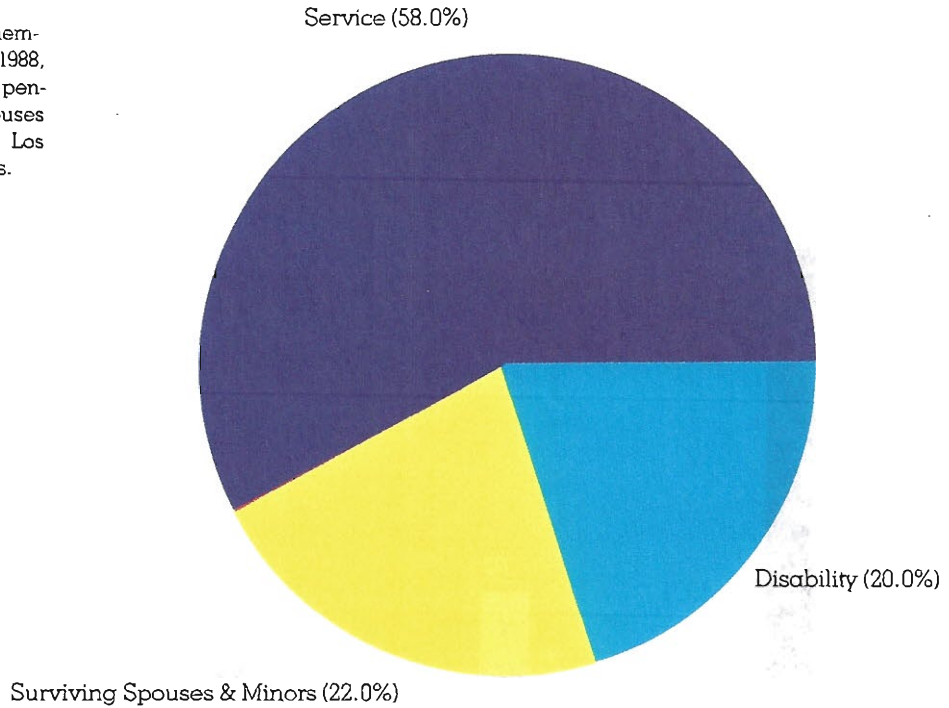
The value of the average monthly pension check increased by \$884 over the past ten years.



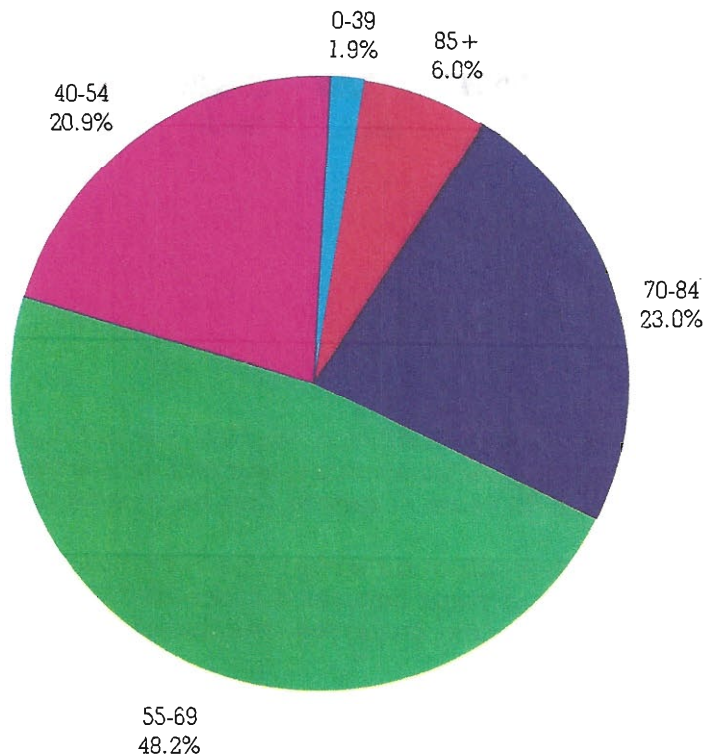
\*To the nearest dollar

## TYPES OF PENSIONS

Pension benefits are payable to system members and their survivors. As of June 30, 1988, 5662 service pensions, 1984 disability pensions and 2110 pensions to surviving spouses and minors were being paid by the Los Angeles Fire and Police Pension Systems.



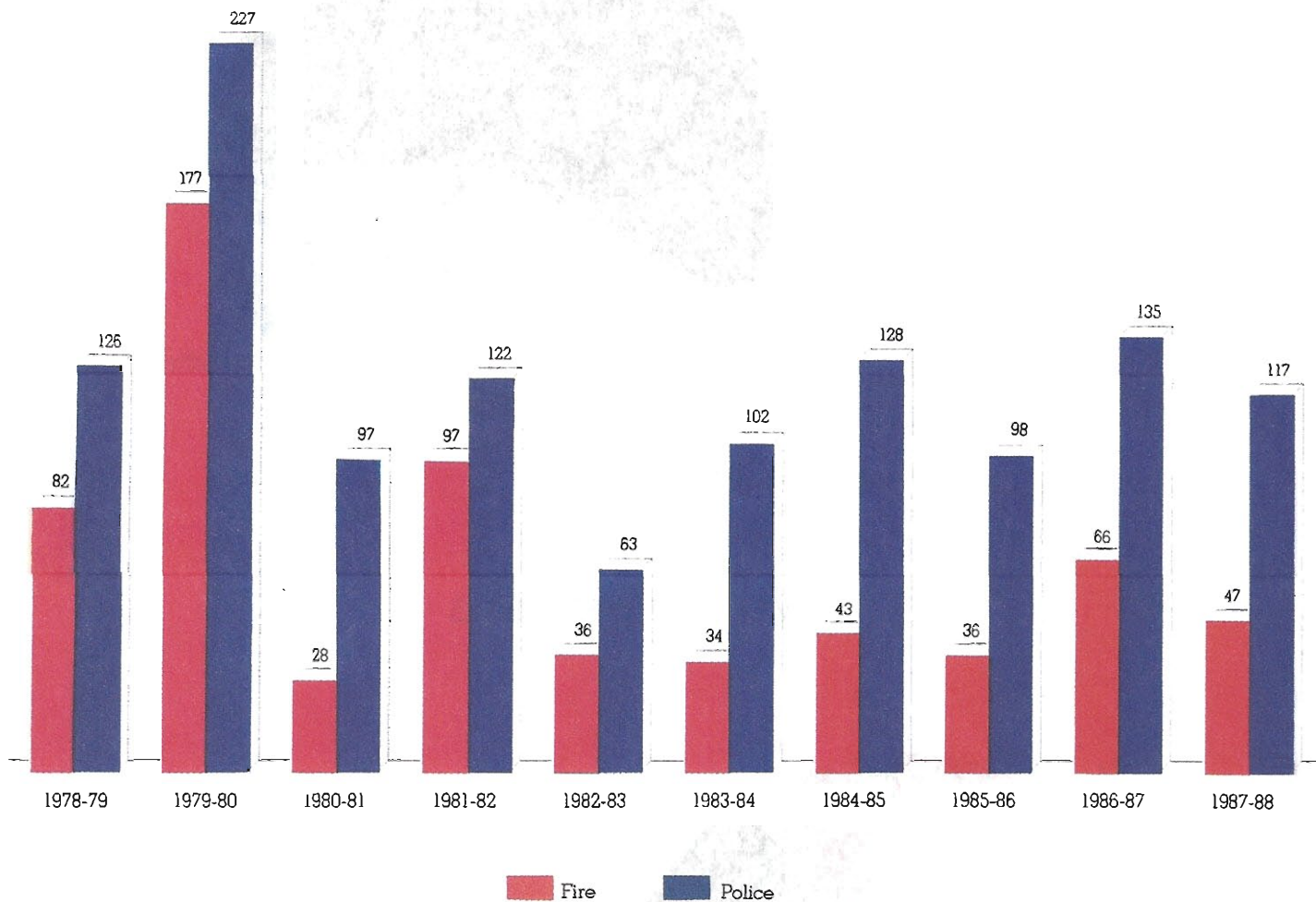
## AGE MIX OF PENSIONERS



Age	Number
0-39	= 186
40-54	= 2034
55-69	= 4703
70-84	= 2248
85+	= 585
<b>Total</b>	<b>= 9756</b>

# TYPES OF PENSIONS

## SERVICE PENSIONS\*



Members of the Fire and Police Pension System (Article XVII) and the New Pension System (Article XVIII) 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.

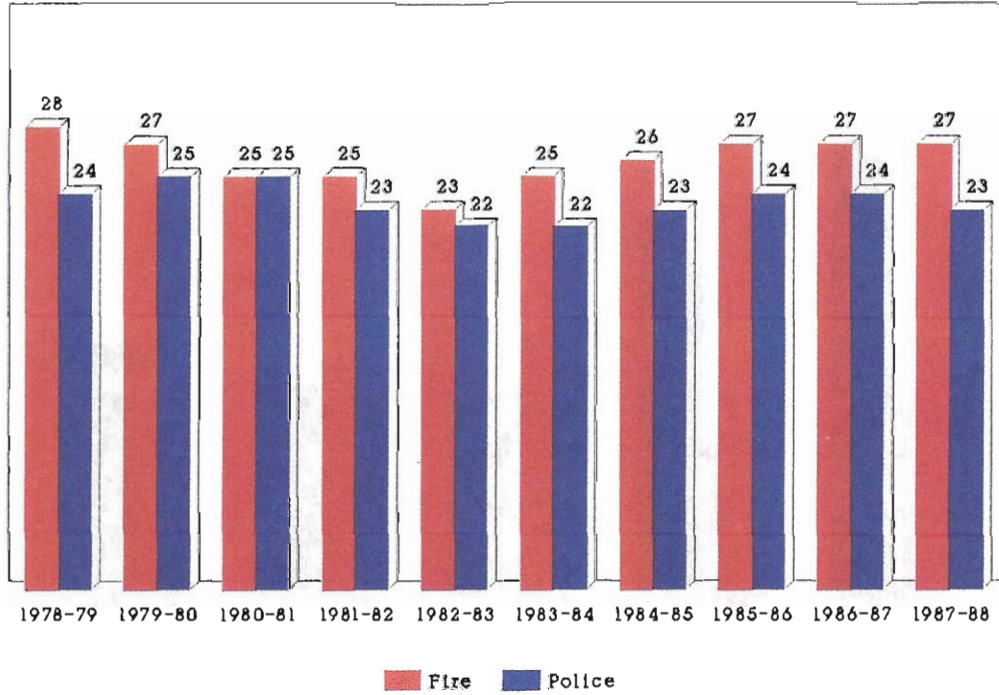
Members generally become eligible for pension benefits at an earlier age than their civilian counterparts. Providing pension benefits for a greater number of years imposes a higher liability on the pension fund. This liability is being met by a combination of City and employee contributions as well as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

\*1984-85 through 1987-88 by Board granted date, other years by effective date.

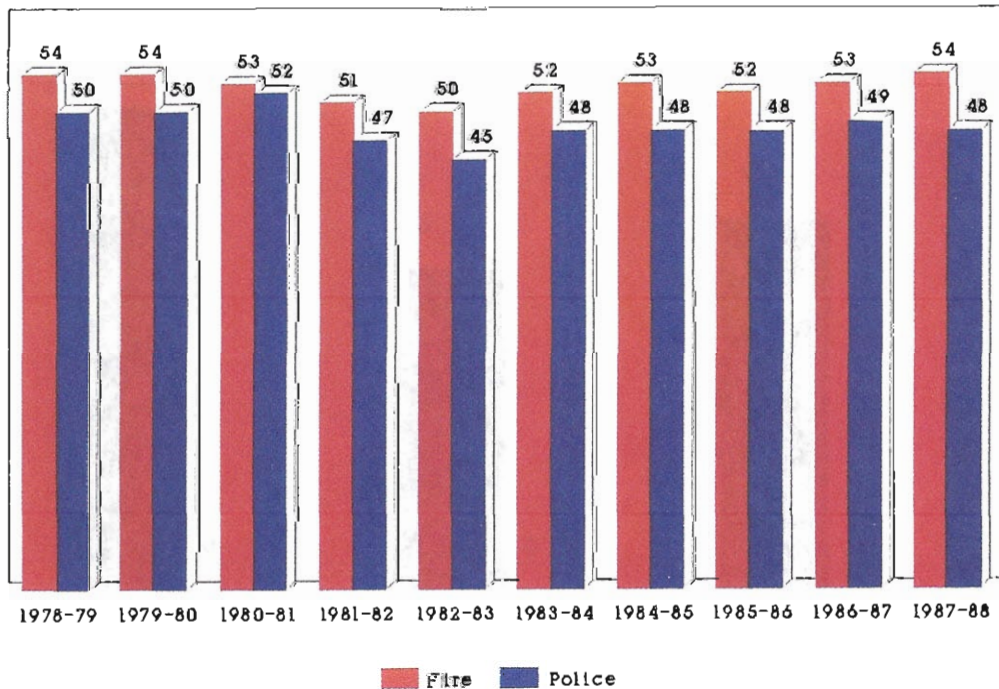


## TYPES OF PENSIONS

AVERAGE YEARS OF SERVICE AT RETIREMENT  
(BY DEPARTMENT)

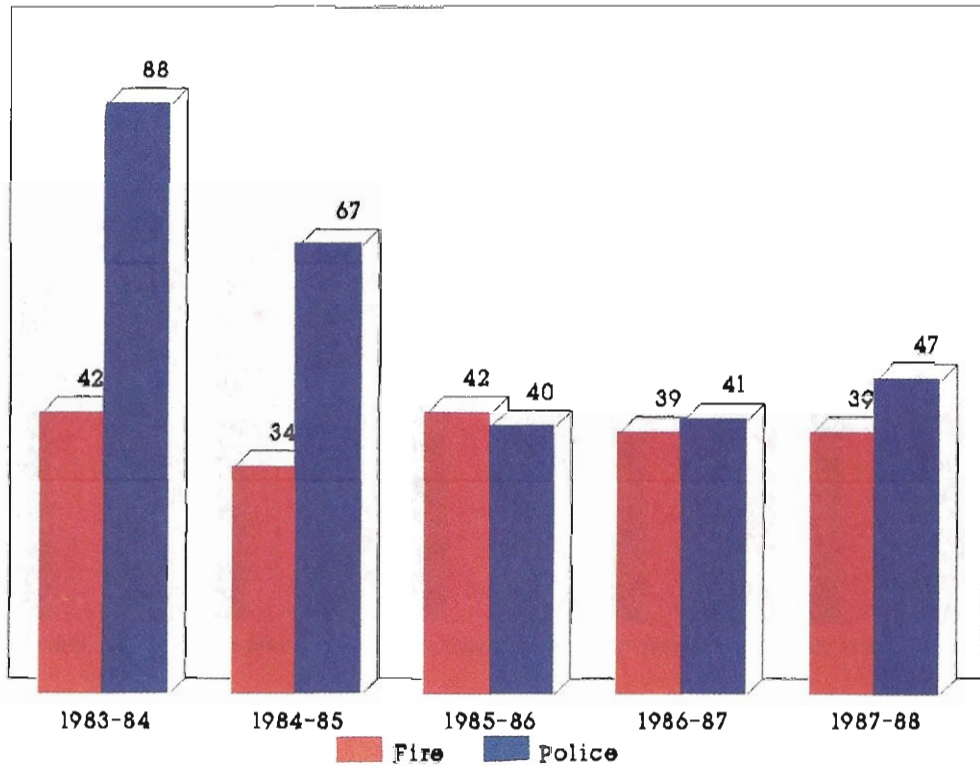


AVERAGE AGE AT RETIREMENT  
(BY DEPARTMENT)



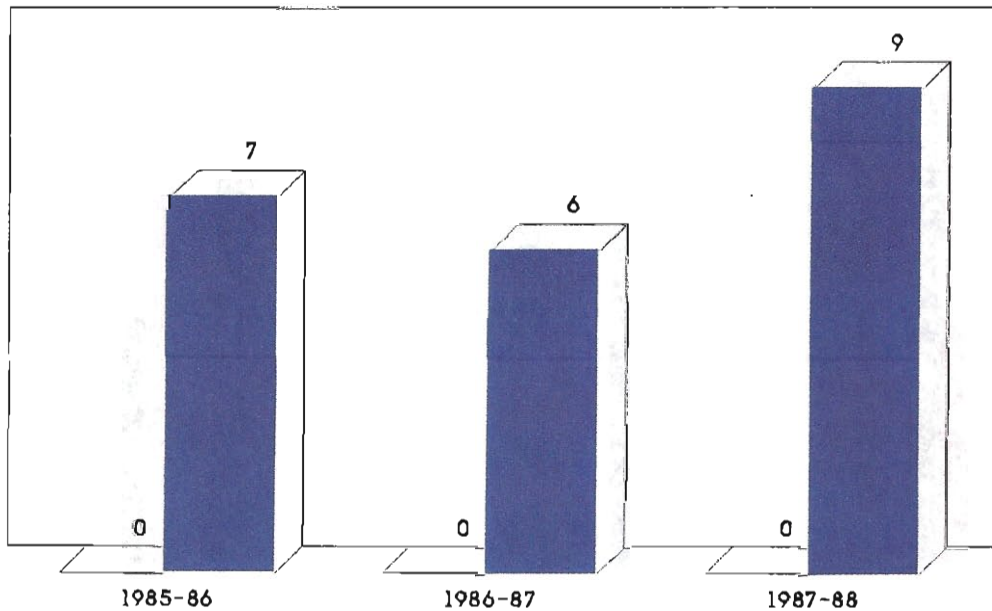
# TYPES OF PENSIONS

## DISABILITY PENSIONS



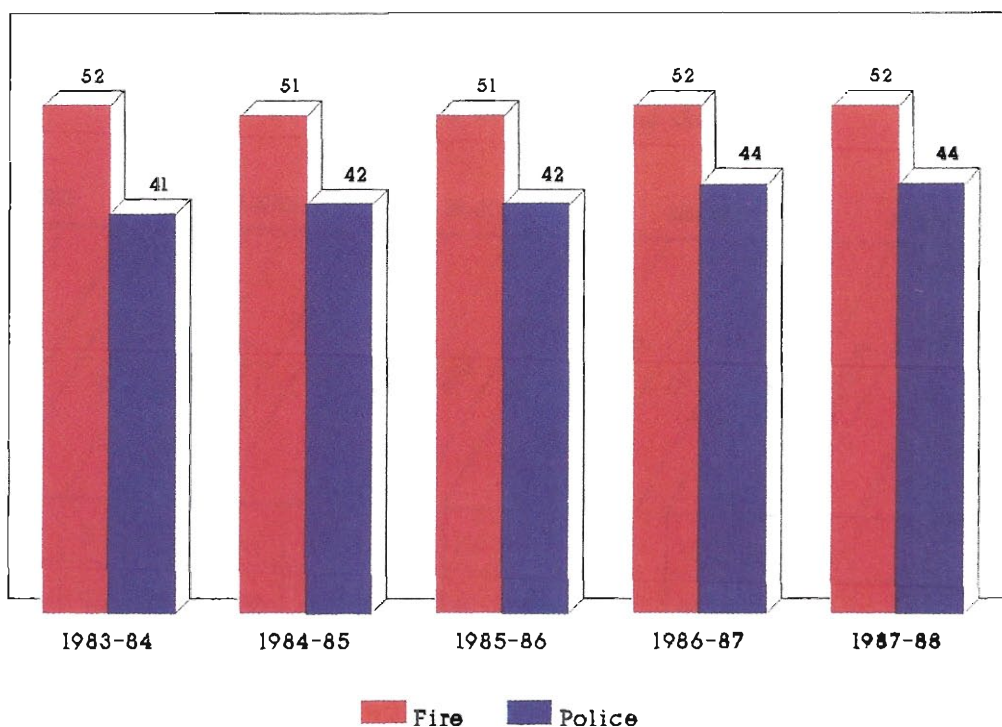
The above graph indicates the number of disability pensions granted (service and non-service connected), by department, over the past five fiscal years.

The following graph shows the number of individuals, by department, returned to active duty from disability pensions during the past three fiscal years.



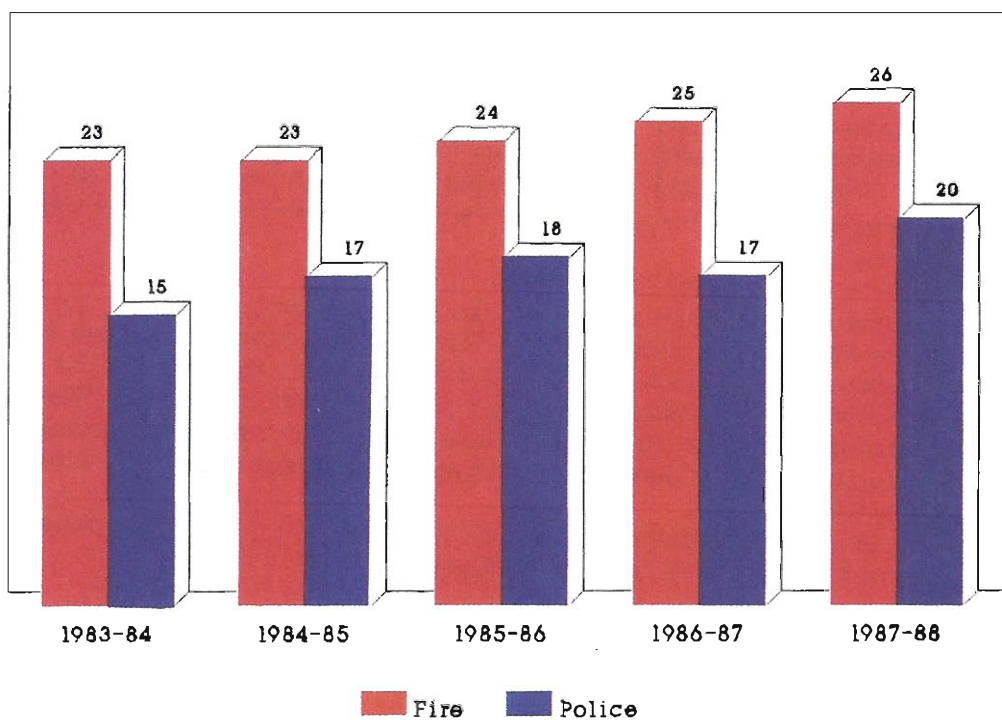
## TYPES OF PENSIONS

### AVERAGE AGE AT DISABILITY RETIREMENT



The average age and average years of service of sworn Fire and Police Department personnel who retired with disability pensions during the last five fiscal years are reflected on this page.

### AVERAGE YEARS OF SERVICE AT DISABILITY RETIREMENT



# TYPES OF PENSIONS

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

\*By granted date

	1983-84			1984-85			1985-86			1986-87			1987-88		
	FIRE	POLICE	TOTAL	FIRE	POLICE	TOTAL	FIRE	POLICE	TOTAL	FIRE	POLICE	TOTAL	FIRE	POLICE	TOTAL
Back Only	11	10	21	9	6	15	13	8	21	9	0	9	7	4	11
Back, neck and orthopedic	12	18	30	6	10	16	12	8	20	15	7	22	14	5	19
Other orthopedic	3	2	5	5	3	8	8	0	8	3	2	5	2	4	6
Cardiovascular	4	2	6	1	2	3	1	1	2	3	7	10	2	9	11
Internal	1	1	2	1	2	3	1	1	2	1	2	3	0	5	5
Multiple	7	9	16	11	16	27	5	6	11	8	5	13	10	9	19
Miscellaneous	1	4	5	1	0	1	0	1	1	0	1	1	2	0	2
Psychological only	0	10	10	0	3	3	1	2	3	0	3	3	0	2	2
Psychological plus physical	3	29	32	0	24	24	0	13	13	0	13	13	1	7	8
<b>Totals</b>	<b>42</b>	<b>85</b>	<b>127</b>	<b>34</b>	<b>66</b>	<b>100</b>	<b>41</b>	<b>40</b>	<b>81</b>	<b>39</b>	<b>40</b>	<b>79</b>	<b>38</b>	<b>45</b>	<b>83</b>

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.

**TYPES OF PENSIONS**

**SERVICE AND NON-SERVICE CONNECTED  
DISABILITY RETIREMENTS  
(BY RANK)**

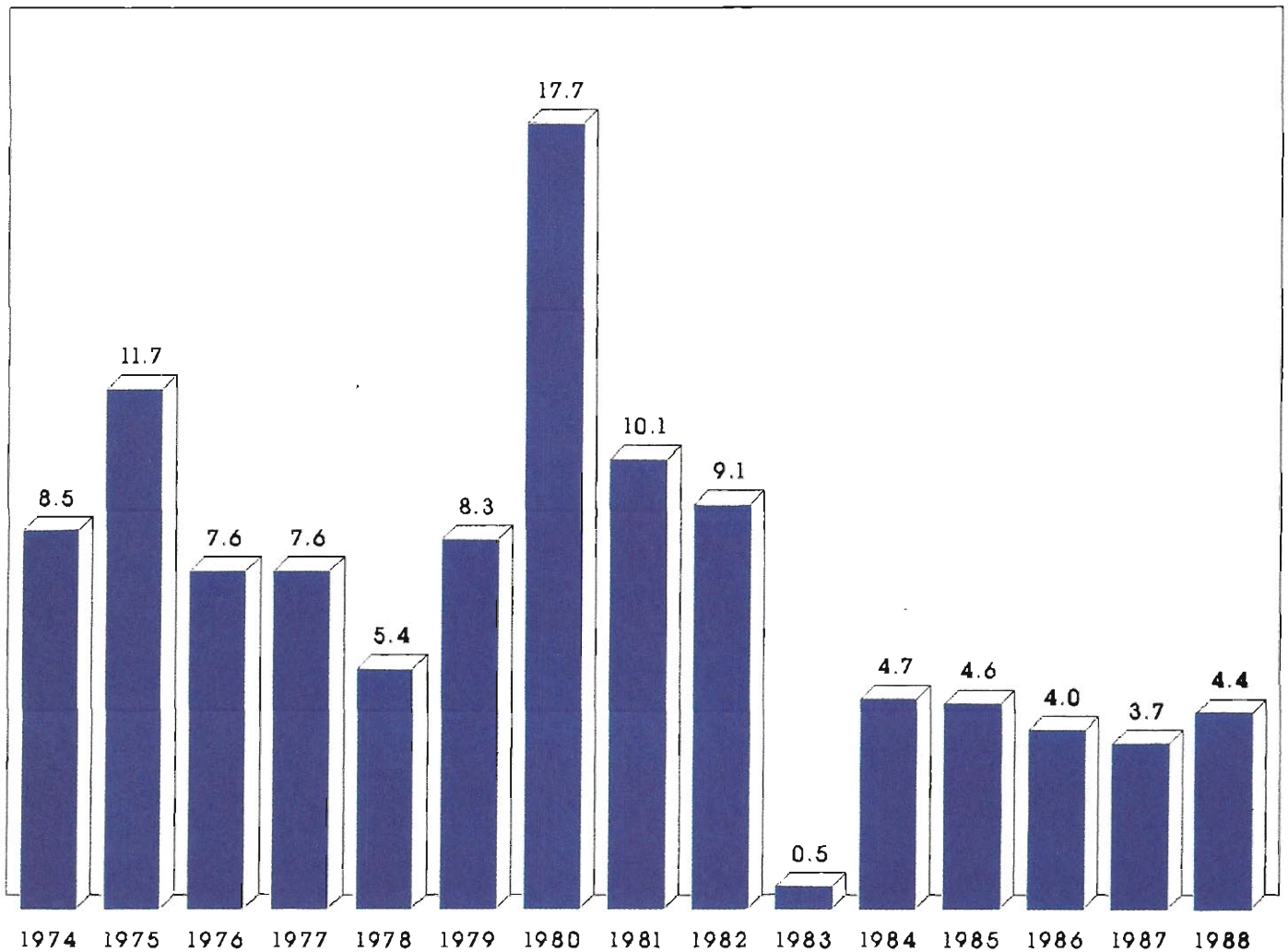
	1983-84	1984-85	1985-86	1986-87	1987-88
<b>POLICE</b>					
Police Officer	60	41	19	22	21
Sergeant	9	9	9	4	11
Detective	17	15	8	11	11
Lieutenant	2	2	4	2	4
Captain	0	0	0	2	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Asst. Chief	0	0	0	0	0
<b>TOTALS*</b>	<b>88</b>	<b>67</b>	<b>40</b>	<b>41</b>	<b>47</b>
 <b>FIRE</b>					
Ambulance Driver/ Paramedic	4	1	4	3	2
Firefighter	16	13	12	15	9
Apparatus Operator	2	4	1	0	0
Fireboat Mate	0	0	0	0	1
Engineer	7	7	8	6	7
Inspector	2	1	2	0	1
Captain	10	7	12	14	16
Battalion Chief	0	1	2	1	2
Asst. Chief	0	0	1	0	1
Deputy Chief	1	0	0	0	0
<b>TOTALS*</b>	<b>42</b>	<b>34</b>	<b>42</b>	<b>39</b>	<b>39</b>

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

# TYPES OF PENSIONS

## PENSION COST OF LIVING ADJUSTMENTS

EFFECTIVE JULY 1ST



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, 1988**

**ASSETS**

	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets .....	\$ 22,720,992	\$2,453,161,603	\$165,744,354	\$2,641,626,949
2. Present value of Future Member Contributions .....	499,169	174,679,709	147,729,340	322,908,218
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Cost .....	2,367,697	632,457,309	349,560,026	984,385,032
b. Unfunded Actuarial Accrued Liability .....	564,646,932	2,855,673,921	( 19,484,827)	3,400,836,026
4. TOTAL ASSETS .....	<u>\$590,234,790</u>	<u>\$6,115,972,542</u>	<u>\$643,548,893</u>	<u>\$7,349,756,225</u>

**LIABILITIES**

	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
5. Present Value of Benefits Already Granted				
a. Service Retirements .....	\$187,293,614	\$2,181,339,465	\$ 1,820,422	\$2,370,453,501
b. Disability Retirements .....	129,369,032	735,912,862	4,622,541	869,904,435
c. Survivors and Dependents .....	253,292,141	237,624,605	1,091,400	492,008,146
d. Total .....	<u>569,954,787</u>	<u>3,154,876,932</u>	<u>7,534,363</u>	<u>3,732,366,082</u>
6. Present Value of Benefits to be granted				
a. Service Retirements .....	18,177,998	2,380,992,419	396,846,159	2,796,016,576
b. Disability Retirements .....	2,045,852	557,408,141	216,321,412	775,775,405
c. Survivors and Dependents .....	52,555	15,807,078	10,228,160	26,087,793
d. Total .....	<u>20,276,405</u>	<u>2,954,207,638</u>	<u>623,395,731</u>	<u>3,597,879,774</u>
7. Refund of Employee Contributions .....	3,598	6,887,972	12,618,799	19,510,369
8. TOTAL LIABILITIES .....	<u>\$590,234,790</u>	<u>\$6,115,972,542</u>	<u>\$643,548,893</u>	<u>\$7,349,756,225</u>

# ACTUARIAL REPORT

## RESULTS OF VALUATIONS

As of June 30, 1988, there were 10,541 active and 9756 retired members of the Los Angeles Fire and Police Pension Systems. 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, 1988 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 \$7.35 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 (\$2.64 billion) already accumulated in the Systems. Item 2 is the present value of member contributions (\$323 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	24.092%
XVIII	22.891%
XXXV	17.884%

These contribution percentages are known as normal cost percentages. The Entry Normal Age Normal Cost percentages 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 \$984 million.

For the third step, the existing assets (2.64 billion), plus the present value of future normal costs (.98 billion), plus the present value of future member contributions (\$.32 billion) were compared to the present value of the benefits to be paid out (\$7.35 billion). The Systems were short by 3.40 billion.\*

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

The shortfall (or balancing item) of 3.40 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 3.40 billion is needed.

The Actuary has determined that the appropriate amounts needed to amortize the U.AAL are as follows:

Article	Amount	Pattern
XVII	\$48,892,806	As a level dollar amount through the fiscal year 2037.
XVIII	22.545%	As a level of total payroll, i.e., Articles XVII, XVIII, and XXXV through the fiscal year 2037.
XXXV	(1.156%)	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 Cost with respect to current members. The excess 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



## ACTUARIAL REPORT

has been a level dollar amount including principal and interest. The following summarizes the Actuary's results:

	June 30, 1988	June 30, 1987
1. City's Entry Age Normal Cost*	24.092%	22.87%
2. Amortization of the UAAL	\$48,892,806	\$46,222,604

\*Percentage is applied to Article XVII payroll only.

### 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, 1988	June 30, 1987
1. City's Entry Age Normal Cost	22.891%*	22.24%*
2. Amortization of the UAAL	22.545%**	22.83%**

\* 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 a 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 6.7%. The Actuary believes that if the System were to maintain separate accounts for basic and cost-of-living assets, there would also be a UAAL with respect to cost-of-living benefits so the total cost (Normal cost plus amortization) would be in excess of 6.7% 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.

### 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 1988	June 30 1987
1. City's Entry Age Normal Cost*	17.884%	21.43%
2. Amortization of the UAAL*	(1.156%)	(1.42%)
3. Total Contributions*	16.728%	20.013%

\*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

January 6, 1989

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

We have audited the accompanying balance sheets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 1988 and 1987, and the related statements of revenues, expenditures and changes in fund balance and changes in financial position for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7 to the financial statements, 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 financial statements referred to in the first paragraph above present fairly the financial position of the City of Los Angeles Fire and Police Pension Systems as of June 30, 1988 and 1987, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

We have also previously audited, in accordance with generally accepted auditing standards, the balance sheets as of June 30, 1982, 1983, 1984, 1985, 1986 and 1987, and the related statements of revenues, expenditures and changes in fund balances and changes in financial position for the years then ended (none of which are presented herein); and we expressed qualified opinions, based on the litigation discussed above, on those financial statements. The financial statements as of June 30, 1979, 1980 and 1981, were audited by other auditors whose reports dated March 4, 1980, February 23, 1981 and February 16, 1982, respectively, expressed unqualified opinions on those statements. In our opinion, the information set forth in the selected financial data for each of the seven years in the period ended June 30, 1988 appearing on pages 13-16, is fairly stated, except for the omission of recording the judgment discussed above, in all material respects in relation to the financial statements from which it was derived.



Certified Public Accountants

## AUDITOR'S REPORT

CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
BALANCE SHEETS

	June 30	
	1988	1987
<b>ASSETS:</b>		
Cash	\$ 600,416	\$ 240,183
Receivables:		
Accrued interest and dividend income	\$ 26,336,739	\$ 24,209,902
Contributions	1,301,851	2,078,398
Due from brokers and others	25,913,333	5,923,468
	53,551,923	32,211,768
Investments:		
Temporary, at cost, which approximates market	467,879,897	334,077,528
Bonds, at amortized cost (market value \$866,746,700 in 1988 and \$869,401,215 in 1987)	879,029,316	876,900,712
Common stock, at cost (market value \$1,376,198,228 in 1988 and \$1,492,479,734 in 1987)	1,207,380,539	1,132,702,439
Preferred stock, at cost (market value \$12,968,265 in 1988 and \$9,274,155 in 1987)	12,040,059	9,402,828
Real estate pools, at cost (market value 47,695,578 in 1988)	46,545,809	2,353,083,507
Total assets	2,667,027,959	2,385,535,458
<b>LIABILITIES</b>		
Benefits in process of payment	338,159	234,301
Accounts payable	1,896,988	1,346,219
Deferred option premiums (market value \$5,322,126)	4,604,714	
Due to brokers	19,919,813	15,433,083
	26,759,674	17,013,603
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b><u>\$2,640,268,285</u></b>	<b><u>\$2,368,521,855</u></b>
<b>FUND BALANCE:</b>		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	\$3,732,366,082	\$3,585,310,055
Actuarial present value of credited projected benefits for active employees:		
Member contributions	685,442,008	614,447,451
Employer financed portion	1,623,296,221	1,328,560,098
	\$6,041,104,311	\$5,528,317,604
Unfunded actuarial present value of credited projected benefits	( 3,400,836,026)	( 3,159,795,749)
Total fund balance	<b><u>\$2,640,268,285</u></b>	<b><u>\$2,368,521,855</u></b>

See auditor's report and accompanying notes to financial statements.

**AUDITOR'S REPORT**

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

	Year ended June 30			
	1988		1987	
<b>REVENUES:</b>				
City contributions .....	\$279,786,608		\$272,025,075	
Member contributions .....	30,103,457		28,777,189	
Miscellaneous .....	372,810	\$310,262,875	253,457	\$301,055,721
<b>Investment income:</b>				
Interest .....	114,501,926		98,414,732	
Dividends .....	45,302,225		37,729,322	
Gain on sale of Investments .....	32,310,766		184,943,717	
Option premiums earned .....	10,568,873			
Securities lending income (Note 6) .....	1,000,506	203,684,296	1,084,934	322,172,705
		513,947,171		623,228,426
<b>EXPENDITURES – Benefits paid to participants:</b>				
Service .....	139,767,264		133,181,111	
Disability .....	44,640,929		41,728,686	
Surviving spouses .....	41,683,301		40,819,992	
Minors and dependents .....	637,264		813,406	
Health insurance subsidy (Note 5) .....	7,730,806		7,066,125	
	234,459,564		223,609,320	
Administrative expense .....	7,741,177	242,200,741	6,260,085	229,869,405
<b>NET OPERATING INCOME</b> .....		271,746,430		393,359,021
<b>FUND BALANCE, beginning</b> .....		2,368,521,855		1,975,162,834
<b>FUND BALANCE, ending</b> .....		\$2,640,268,285		\$2,368,521,855

See auditor's report and accompanying notes to financial statements.

**AUDITOR'S REPORT**

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

	Year ended June 30	
	1988	1987
<b>SOURCE OF FUNDS —</b>		
Net operating income .....	\$271,746,430	\$393,359,021
<b>USE OF FUNDS</b>		
Increase in temporary investments .....	133,802,369	119,418,258
Increase in common stock investments .....	74,678,100	232,807,377
Increase in real estate pools investments .....	46,545,809	
Increase (decrease) in due from brokers and others .....	19,989,865	( 32,841,222)
Increase in preferred stock investments .....	2,637,231	3,816,664
Increase in bond investments .....	2,128,604	51,067,853
Increase (decrease) in accrued interest and dividend income .....	2,126,837	( 3,115,391)
(Increase) decrease in benefits in process of payment .....	( 103,858)	( 3,279)
(Increase) decrease in accounts payable .....	( 550,769)	52,848
(Decrease) increase in contributions .....	( 776,547)	135,256
Increase) decrease in due to brokers .....	( 4,486,730)	22,087,863
(Increase) in deferred option premiums .....	( 4,604,714)	
	271,386,197	393,426,227
<b>INCREASE (DECREASE) IN CASH .....</b>	<b>\$ 360,233</b>	<b>(\$ 67,206)</b>

See auditor's report and accompanying notes to financial statements.

**AUDITOR'S REPORT**

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 1988 AND 1987**

**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 City of Los Angeles Fire and Police Pension System (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 System (Old System) unless they requested transfer to the New Pension System (New System) established for members hired on or after January 26, 1967. Members hired after December 8, 1980 participate in the Safety Members' Pension Plan, which was established at that time.

Members with 20 or more years of service in the Old System or 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 66-2/3% in the Old System and 70% in the New System. 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.

See plan documents for a more detailed description of the Plan.

**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 undivided 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, 1988 and 1987.

Bonds are recorded at face value less unaccreted discount or plus unamortized premium. Bond premiums 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 the earnings on 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 1987 financial statements to conform with 1988 classifications.

**Deferred Option Premiums**

As allowed by the Charter of the City of Los Angeles, the system writes covered call options through securities. The

# AUDITOR'S REPORT

## NOTES TO FINANCIAL STATEMENTS (Continued)

deferred revenue is stated at the current market value, with the resulting charge or credit reflected in current year operations.

### 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, 1988 and 1987. 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 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:

	1988	1987
• 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 1983 Group Annuity Mortality Table.
- Remarriage among spouses — Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience for the System.

### 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, 1988 and 1987, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter; therefore, a total of 7% is being contributed. 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, 1988 and 1987 to be as follows:

### PERCENTAGE OF MEMBERS' SALARIES

	Old System		New System		Safety Members Pension Plan	
	1988	1987	1988	1987	1988	1987
Entry-age normal cost contribution	22.02%	22.60%	21.27%	22.20%	21.30%	23.30%
Amortization of unfunded liability	\$46,860,370*	\$49,586,684*	\$104,125,455*	\$111,579,211*	(.77%)	.04%
Health plan subsidy	\$ 1,750,000*	\$ 1,500,000*	\$ 5,550,000*	\$ 5,000,000*		

\*Stated as required dollar amount.

# AUDITOR'S REPORT

## NOTES TO FINANCIAL STATEMENTS (Continued)

The actuarially determined unfunded liability of the System is \$3,400,836,026 at June 30, 1988 and \$3,159,795,749 at June 30, 1987 (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, 1988 is to be amortized over the next 50 years through contributions to be made by the City.

### NOTE 5 — POST-RETIREMENT BENEFITS:

Retired members currently receive a health plan subsidy. The amounts paid into this subsidy are charged to current year operations. The unfunded actuarial liability for the health plan subsidy has not been recorded. The amounts paid for the health insurance subsidy is \$7,730,806 for the year ended June 30, 1988 and \$7,066,125 for the year ended June 30, 1987.

### NOTE 6 — SECURITIES LENDING:

The System has entered into various short-term arrangements whereby investments are 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, 1988 and 1987 are as follows:

	1988	1987
Securities on loan:		
Cost .....	\$348,212,049	\$281,080,400
Market .....	\$347,116,442	\$277,400,438
Collateral .....	\$358,581,839	\$296,398,216

### 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, 1988 and 1987 are \$685,442,008 and \$614,447,451, respectively.

#### Legal Action

Several legal actions against the Board of Pension Commissioners were pending at June 30, 1988. 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.



**BUDGET**

**DEPARTMENT OF PENSIONS  
FIRE AND POLICE PENSION SYSTEM,  
NEW PENSION SYSTEM, AND  
SAFETY MEMBERS' PENSION PLAN**

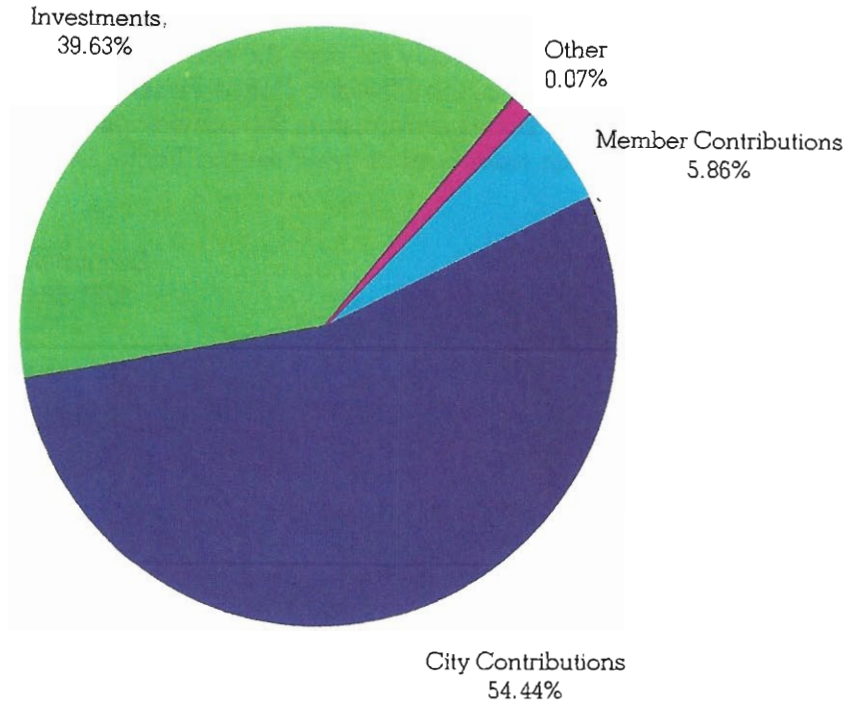
The Board of Pension Commissioners has the responsibility for and the exclusive control of the administration and investment of monies in the several funds of the Fire and Police Pension System, New Pension System and the Safety Members' Pension Plan. The Board administers the provisions of the Charter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

	Estimated 1987-88	Actual 1987-88
<b>RECEIPTS</b>		
Balance Available .....	\$ 971,930	—
Taxes and General Fund .....	\$279,786,608	\$279,786,608
Member Contributions .....	30,900,000	30,103,457
Earnings on Investments .....	159,500,000	203,684,296
Gain on Sale of Investments .....	—	—
Miscellaneous .....	140,000	372,810
<b>TOTAL RECEIPTS .....</b>	<b><u>\$471,298,538</u></b>	<b><u>\$513,947,171</u></b>
	Estimated 1987-88	Actual 1987-88
<b>EXPENDITURES</b>		
Service Pensions .....	\$139,603,331	\$139,767,264
Disability Pensions .....	44,698,126	44,640,929
Surviving Spouses' Pensions .....	44,698,166	41,683,301
Minor's / Dependents' Pensions .....	687,678	637,264
Health Insurance Subsidy .....	7,250,000	7,730,806
Medicare .....	525,000	—
Administrative Expense .....	10,570,130	7,741,177
<b>TOTAL EXPENDITURES .....</b>	<b><u>\$245,032,431</u></b>	<b><u>\$242,200,741</u></b>
Return to Reserve .....	226,266,107	271,746,430
<b>TOTAL EXPENDITURES AND RETURN TO RESERVE .....</b>	<b><u>\$471,298,538</u></b>	<b><u>\$513,947,171</u></b>

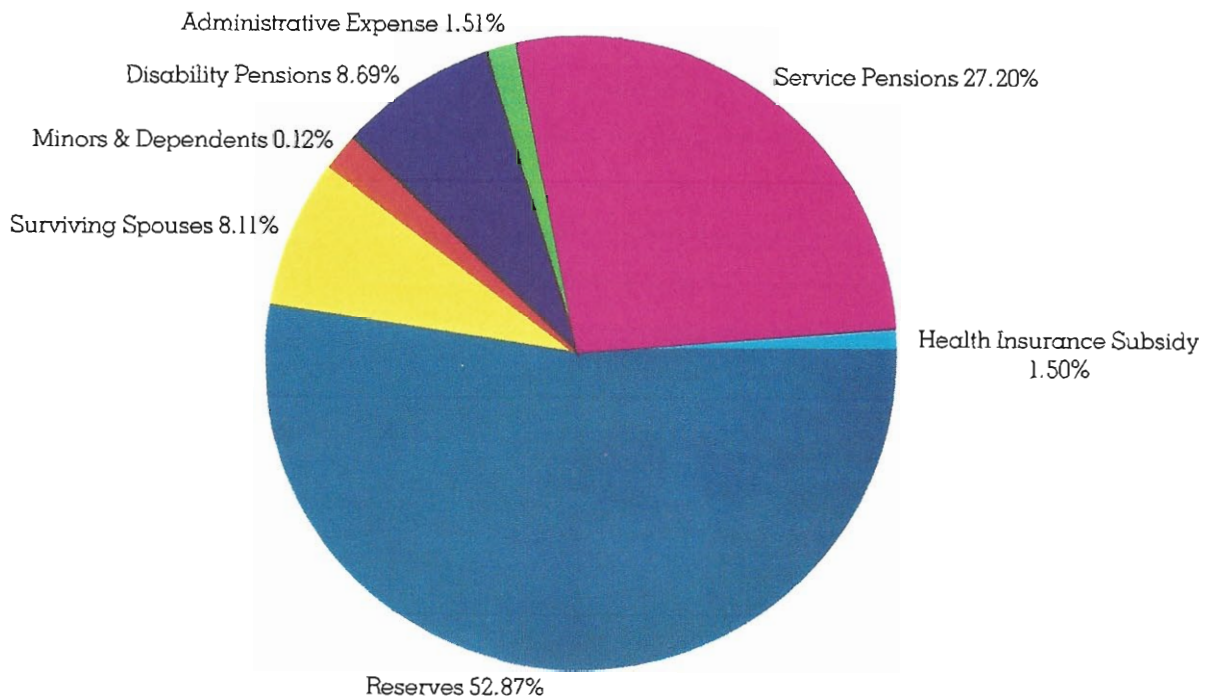
**BUDGET**

**LOS ANGELES FIRE & POLICE PENSION SYSTEM  
1987-88 INCOME: \$513,947,171**

**REVENUE**



**EXPENDITURES**



**BUDGET**

**ADMINISTRATIVE EXPENSE COMPARISON**  
1983-84 to 1987-88

**OPERATING EXPENSE**

	1983-84	1984-85	1985-86	1986-87	1987-88
Salaries .....	\$1,131,046	1,194,980	\$1,360,937	\$1,561,161	\$1,728,435
Overtime .....	6,013	15,961	18,235	17,393	10,811
Office and Administrative Expense .....	56,881	80,925	57,530	79,009	71,903
Operating Supplies and Expense .....	—	15,000	(6,314)	2,646	—
Printing and Binding .....	12,448	10,000	4,296	16,653	11,282
Travel .....	40,559	38,446	44,965	44,155	51,702
Contractual Services .....	2,927,525	3,214,447	3,082,329	3,925,523	5,207,828
Field Equipment	(980)	300	(294)	—	—
Petroleum Products .....	—	1,000	553	349	344
Transportation .....	8,346	—	—	200	(200)
Annual Audit .....	8,800	9,700	14,544	14,867	15,933
Government Meetings .....	—	—	—	1,042	—
Litigation .....	96,040	83,925	20,027	28,235	20,650
Medical Services .....	433,631	497,827	157,238	302,486	437,227
Actuarial Expense .....	21,500	30,000	47,400	37,400	31,050
Health Insurance .....	36,631	69,683	79,812	76,092	88,380
Retirement Contributions .....	36,970	47,900	51,600	55,440	63,000
Tuition Reimbursement .....	1,812	1,724	1,606	892	558
Dental Insurance .....	4,177	6,447	7,772	8,365	8,399
Equipment, Furniture & Fixtures .....	10,857	37,490	7,290	87,936	(8,675)
Medicare Contribution .....	—	—	—	241	2,550
	<b>\$4,832,256</b>	<b>\$5,355,755</b>	<b>\$4,949,526</b>	<b>\$6,260,085</b>	<b>\$7,741,177</b>

**LEGAL**

**SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION**

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:**

Montez v. Board of Pension Commissioners  
Schaffer v. Board of Pension Commissioners

**II. Decisions reversing the Board:**

Osmond v. Board of Commissioners

**B. Cases presenting interesting facts or legal issues.**

*Batac v. City of Los Angeles (Valdez v. City of Los Angeles)*

This case, originally a class action, was initiated by members of the Safety Members' Pension Plan. Plaintiffs commenced employment with the City subsequent to December 8, 1980, the effective date of said plan. They claim that employees of the City, at the time of plaintiffs' recruitment, had made representations that they would become members of the New Pension System, established under Article XVIII and they claimed that the City was estopped to deny them such membership.

The City opposed class certification and the Superior Court decertified the case. Twenty-eight individual law suits were subsequently filed out of the group of approximately 300 firefighters and police officers who were hired at the same time as the plaintiffs.

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

However, before the case went to trial, the City filed a motion for summary judgment as to twenty-six of the named plaintiffs. The motion was heard on January 15, 1988 and summary judgment was granted. Plaintiffs appealed from the decision, but no further steps and proceedings were taken before the end of the fiscal year.

As to two of the plaintiffs, a complete settlement was accomplished and subsequently approved by both the court and the Board.

*Bontempo v. Board of Pension Commissioners*

Donald G. Bontempo, a former police officer, applied for a disability pension on March 24, 1981 claiming psychiatric injury. He was terminated for disciplinary reasons effective February 23, 1981. On March 10, 1983, the Board denied Bontempo's application upon a finding that he was capable of performing the duties to which he could have been assigned but for his termination.

Bontempo thereafter filed a petition for writ of mandate in Superior Court alleging that the Board's denial was not based on substantial evidence. The court denied the writ upon a finding that the weight of the evidence in the administrative record supported the decision of the Board.

The court specifically noted that Bontempo did not voluntarily terminate his employment because of a disability but, rather, he was terminated involuntarily because of misconduct. In the court's opinion the

**LEGAL****SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION (Continued)**

evidence indicated that had Bontempo not been terminated, he would have remained on duty without psychiatric complaint.

Bontempo thereafter filed an appeal to the court's decision, the progress of which currently is underway in the Second Appellate District.

*Brockman v. Board of Pension Commissioners*

Jerry Brockman was initially appointed to the LAPD on October 13, 1969. In March of 1971, he resigned for personal reasons and remained away from the LAPD until a subsequent reappointment on March 14, 1977.

On November 30, 1980, Brockman allegedly was pistol whipped while off duty in a bar robbery. As a result of actions taken months later by Brockman, he became the object of an internal LAPD disciplinary investigation. Brockman voluntarily resigned in July 1982 rather than face LAPD Board of Rights charges arising out of his conduct.

Brockman filed an application for a disability pension on July 14, 1981 claiming job-related stress and strain resulting from the bar robbery. At its hearing of January 5, 1984, the Board denied Brockman's application based on its finding that he was capable of performing the duties to which he could have been assigned but for his resignation.

Brockman challenged the Board's decision by filing a petition for peremptory writ of mandate in Superior Court alleging that the denial of his application for disability pension benefits constituted an abuse of discretion and was contrary to law. Hearing thereon was held on November 12, 1985.

Although the court was of the opinion that Brockman was not disabled within the meaning of Charter Section 190.12, it nonetheless remanded the matter to the Board for further findings as to the availability of a light duty assignment.

Further hearing on the question of light duty job availability was held before the Board on May 22, 1986. The Board determined that Brockman was capable of light duty performance and, further, a light duty position was available in the LAPD.

The matter came before the Superior Court a second time on January 8, 1987, Judge Jerome K. Fields presiding. Notwithstanding the prior opinion of Judge Shimer as to non-disability and LAPD testimony that a light duty position was available for Brockman, Judge Fields granted Brockman's petition for writ of mandate on the basis that Brockman was disabled from the performance of his duty and that no light duty assignment was available.

On behalf of the Board of Pension Commissioners, the office of the City Attorney filed an appeal to the later Superior Court decision. Oral arguments in said appeal were heard and a decision is pending.

*Carrington v. Board of Pension Commissioners*

C. W. Carrington was appointed to the LAPD on April 26, 1966. During his entire tenure of approximately eighteen years, Carrington served primarily as a basic patrol officer eventually rising to the rank of Police Officer, Class III.

On July 2, 1984, Carrington was arrested for a criminal act in Santa Ana, California by police officers of that city. As a result of disciplinary charges flowing from the arrest incident, Carrington was terminated from the LAPD by a Board of Rights effective October 11, 1984. Carrington's LAPD termination was upheld by both the Superior Court (August 14, 1985) and the Court of Appeal (October 24, 1988).

**LEGAL**

**SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION (Continued)**

Carrington filed application for a disability pension on February 5, 1985, claiming chest pains allegedly due to a stress-related condition caused by his accumulated experiences as a police officer. The Board denied his application on February 13, 1986 upon a finding that but for his disciplinary termination, he was capable of performing the duties to which he would have been assigned, to wit, light police duties.

Carrington thereafter challenged the Board's decision by petition for peremptory writ of mandate in Superior Court alleging that the Board committed a prejudicial abuse of discretion in denying his application.

Hearing on the petition took place on July 19, 1986 in the Superior Court. The Court denied the petition upon a finding that the Board's decision was supported by a preponderance of evidence indicating that Carrington was capable of performing the duties of a police officer.

Carrington filed a timely appeal to the Superior Court decision charging that the trial court's findings were inconsistent and devoid of substantial evidentiary support. The matter was argued in Division 5 of the Court of Appeal on August 5, 1987.

In an unpublished opinion filed August 7, 1987, the Court of Appeal affirmed the decision of the trial court ruling that its decision was supported by substantial evidence in the record.

Carrington's appeal was not based upon alleged error in the trial court, rather, he sought merely to argue again the Board and trial court interpretations of the medical evidence and, perhaps, to appeal to the equity side of the court in light of his eighteen years of service.

*Boyd Johnson v. City of Los Angeles*

Boyd Johnson is a former police officer. On March 23, 1982, he applied for a disability pension alleging stress related psychological trauma. On December 18, 1986, the Board granted Johnson a service-connected disability pension retroactive to his last day on the payroll of the LAPD.

In granting Johnson's application, the Board followed the procedure prescribed in the City Charter which mandates, inter alia, that an applicant shall be "examined by and a written report thereon rendered by at least three regularly licensed and practicing physicians selected by it." In fact, Johnson was examined by nine physicians; however, the reports of three of the nine physicians were taken out of the administrative record upon objection by Johnson's attorney.

After further proceedings, the Board decided to send Johnson to a new panel of psychiatrists and Johnson, dissatisfied with the Board's decision, filed a lawsuit against the City, the Board, and the individual Commissioners, seeking punitive damages. Subsequently, the Board met and pursuant to Johnson's attorney's request, decided to send the administrative record to four psychiatrists who had previously examined him to receive their evaluation. Thereafter, Johnson received his pension.

Johnson's lawsuit alleged causes of action for breach of trust (Civil Code § 2228), intentional infliction of emotional distress, negligent infliction of emotional distress and injunctive relief. The City demurred to the complaint on the grounds that the court lacked jurisdiction on Johnson's claims of negligent and intentional infliction of emotional distress and injunctive relief since his sole remedy for the allegations in these causes of action lay in a writ of administrative mandamus. On August 27, 1986, the court granted the demurrer and dismissed Johnson's second, third and fourth causes of action for intentional infliction of emotional distress, negligent infliction of emotional distress and injunctive relief, leaving him with only his purported cause of action for violation of Civil Code § 2228.

As of the close of the fiscal year, the case was "dormant." However, it is anticipated that a number of legal steps and proceedings will be initiated early in the next year.

**LEGAL****SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION (Continued)***McCormick v. Board of Pension Commissioners*

The Board granted Michael C. McCormick a service-connected disability pension of 55% of regular salary on November 3, 1983. The Board, at that time, stated on the record that McCormick's case was to be medically reviewed in two years. However, Mr. McCormick later was forwarded findings of fact which erroneously stated that his case would not be subjected to further medical review.

On January 4, 1984, approximately three weeks after the erroneous findings were mailed, McCormick and his legal counsel were informed of the error and mailed corrected Board findings specifying that his case would be reviewed in two years.

In June, 1985, Pension Department staff began preparation for a review of McCormick's disability status. At that time, McCormick, based upon the initially erroneous findings, took the position that the Board was forever barred to review his case.

On May 7, 1986, McCormick filed a writ of prohibition in Superior Court to prevent the Board from taking further action in his case until after a court hearing on the issue of a further review. The writ was granted by Judge John L. Cole on May 9, 1986. Pursuant to motion of the City (the Board), the writ of prohibition was dissolved by Judge Jerome K. Fields on July 20, 1987.

Following the court's action of July 20, 1987, Pension Department staff resumed efforts to cause a review of McCormick's medical condition. McCormick still refused all cooperation and, on January 19, 1988, noticed a motion to petition for a second writ of prohibition scheduled for hearing on February 4, 1988 in Superior Court. On said date Judge Miriam Vogel denied the petition upon a finding that McCormick had offered no authority supporting the position that the Board had lost its Charter authority to conduct a review of a pensioner's medical status.

McCormick thereafter filed a petition for writ of prohibition in the Court of Appeal in a further effort to prevent a review of his medical status. The petition was denied in Division 7 of the Second Appellate District on March 14, 1988 upon the basis that McCormick's remedy lay in an appeal of Judge Vogel's February 4, 1988 denial of his Superior Court petition for writ of prohibition.

McCormick subsequently filed his notice of appeal on March 18, 1988. Said appeal presently is awaiting scheduling by the Court of Appeal.

McCormick subsequently has submitted to review examinations by selected pension doctors and currently is awaiting the scheduling of his case before the Board.

*Merchant v. Board of Pension Commissioners*

Thomas L. Merchant initially filed application for a disability pension on January 11, 1985 claiming injury to his back. On May 10, 1985, Merchant was arrested by the California Highway Patrol on charges of driving under the influence. Shortly thereafter, on July 30, 1985, he amended his application to include injuries to his psyche. An LAPD Board of Rights terminated Merchant effective August 10, 1985, having found him guilty of driving under the influence and of unnecessarily slapping a private citizen in the same incident.

The Board denied Merchant's application for a disability pension at its hearing of July 31, 1986 upon a finding that but for his disciplinary termination, he was capable of performing the duties to which he could be assigned, to wit, light police duties.

Merchant then challenged the Board's decision by petition for writ of mandate in Superior Court alleging that the Board's findings were not supported by the evidence and that the Board committed a prejudicial abuse of discretion in denying him a disability pension.

**LEGAL****SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION (Continued)**

Hearing on Merchant's petition took place in Superior Court on January 30, 1987. The court applied the independent judgment test to the evidence contained in the administrative record and, after oral presentations, denied the petition on the basis that the evidence supported the findings of the Board.

Merchant thereafter filed a notice of appeal of the Superior Court decision on April 15, 1987. As of the close of the fiscal year, briefs have been filed by both parties but no hearing date has been set.

*Reiner v. City of Los Angeles, et al*

This class action brought by a former police officer now retired on a disability pension for himself and as a class representative for all former firefighters and police officers similarly situated. The class has not been certified as of the time of this report.

Reiner contends that he is entitled to a refund of amounts of workers' compensation received by him and then offset against his disability pension pursuant to the requirements of Section 190.15 of the City Charter. Reiner's theory of the case is that his disability pension is payable out of the New System General Pension Fund and that his contributions made toward the payment of a pension on account of years of service were deposited in the New System Service Pension Fund and since those monies are non-refundable, the City is "double-dipping" in that it recoups its workers' compensation obligation and at the same time keeps his contributions without having to pay a service pension.

A number of pre-trial proceedings have been had in the case as of the time for this report, including the City's demurrer which was sustained in part overruled in part.

*Ryan v. Board of Pension Commissioners*

William F. Ryan was appointed to the LAPD on April 28, 1965. On April 27, 1984, Ryan became involved in an on-duty traffic accident which investigation thereof by the LAPD resulted in his being charged with several disciplinary infractions.

Prior to his disciplinary hearing on said charges, Ryan, on May 9, 1984, filed application for disability pension claiming incapacitating injuries to his back, neck and upper and lower extremities. Following his LAPD Board of Rights hearing on October 18, 1984, Ryan was found guilty of all charges alleged and was permanently removed from the LAPD effective August 1, 1984.

Petitioner's disability pension application was assigned to a hearing examiner pursuant to Board policy. After hearing on June 4, 1985, the Hearing Examiner, Attorney Beauford H. Phelps, concluded that based on the evidence contained in the administrative record, Ryan should be awarded a service-connected disability pension.

After reviewing the hearing examiner's recommendation, the Board, on September 5, 1985, determined that the hearing examiner's findings did not provide sufficient information for the Board to decide the merit of Ryan's application. The Board thereafter moved to hold a full hearing before the Board to determine the matter of Ryan's pension application.

On November 14, 1985, the Board held its hearing on the question of Ryan's disability and then determined that but for his disciplinary termination Ryan was capable of performing the duties to which he could be assigned, to wit, light police duties. The application was denied on that basis.

Ryan then petitioned the Superior Court for a peremptory writ of mandate arguing that the Board's decision was not supported by the evidence and was thus an abuse of discretion. The Superior Court agreed with Ryan's contention and, on October 26, 1987, granted the peremptory writ.

The City filed a notice of appeal from the Superior Court decision on the basis that, one, substantially



**LEGAL****SUMMARIZATION OF LITIGATION ACTIVITIES  
OF THE LEGAL SECTION (Continued)**

all of the expert medical opinion indicated that Ryan was capable of limited duty performance (not as a homicide detective) and, two, competent LAPD testimony indicated that such a light duty position was available to Ryan.

The record on appeal in this matter is currently under preparation by the Superior Court after which the parties will be instructed by the Court of Appeal to file their briefs.

*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 Officers' 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 a summary judgment. Plaintiffs prevailed. 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) (4) imposing a 3% limitation on cost of living adjustments to a 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 I, Section 10, Clause 1 of the Constitution of the United States.

The City appealed from the decision of the Superior Court, however, as of the time of this report there is no indication when the case may be decided.

**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 an ever-increasing number of dissolution proceedings and "Notices of Appearances" were filed by the City in response to those joiners. Many of the dissolution cases required the active in-court involvement of the City Attorney.

# 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 members.
(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.

## PENSION BENEFITS

Features	Article XVII	Article XVIII	Article XXXV
(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 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  Pension not payable after child reaches age 18, unless disabled prior to age 21.	Same as Article XVII.	Same as Article XVII.  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.
<b>COST OF LIVING</b>			
(a) Generally applicable provisions	Annual cost-of-living increase on the pension accrued prior to	Annual cost-of-living increase on the pension accrued prior to	Annual cost-of-living increase not to exceed 3%.

## PENSION BENEFITS

Features	Article XVII	Article XVIII	Article XXXV
	July 1, 1982 and annual cost-of-living increase not to exceed 3% on years of service after July 1, 1982.	July 1, 1982 and annual cost-of-living increase not to exceed 3% on years of service after July 1, 1982.	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 increases compounded. City Council may grant discretionary cost-of-living increase once every three years on capped portion.	City Council may grant discretionary cost-of-living increases once every three years.
	Survivors' pensions include the 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 pensions 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 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	Some provisions for all types of pensions. Annual increases commence on 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 the 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.	
Member's contributions as an annual percentage of pay.	6%	6% plus ½ cost of cost-of-living benefit up to 1%	8%
<b>MISCELLANEOUS</b>			
(a) Vesting of service retirement.	On retirement.	On retirement.	After 10 years of service.
(b) Return of contributions with interest.	On termination or death with no other benefits.	On termination or death with no other benefits.	On termination or death
(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 ordinance 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  $1\frac{2}{3}\%$  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  $1\frac{2}{3}\%$  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 salary. 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  $1\frac{2}{3}\%$  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 salary.

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 reestablish 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 surviving spouses 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.

## MILESTONES

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 provided 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.

# DEPARTMENT OF PENSIONS

