

CITY EMPLOYEES' RETIREMENT SYSTEM

City of Los Angeles

California

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1976

Room 505, City Hall South

111 East First Street

Los Angeles, California 90012

ELECTED OFFICIALS
of the
CITY OF LOS ANGELES

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Mayor

BURT PINES
City Attorney

CHARLES NAVARRO
City Controller

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Second District

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CITY EMPLOYEES' RETIREMENT SYSTEM
of the
City of Los Angeles
California
FISCAL YEAR 1975-76

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CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY
MAYOR

CITY EMPLOYEES'
RETIREMENT SYSTEM
ROOM 505, CITY HALL SOUTH
111 EAST 1ST STREET
LOS ANGELES, CALIF. 90012
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GORDON A. TURNBAUGH
MANAGER-SECRETARY

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DONALD C. TILLMAN
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To the Mayor and City Council
of the City of Los Angeles

Attached is the annual report of the Board of Administration of the City Employees' Retirement System for the fiscal year ended June 30, 1976, in accordance with the provisions of Section 64 of the City Charter. Included as a part of this report are the System's financial statements as prepared by an independent Certified Public Accountant. These statements and the accompanying certification were received April 13, 1977.

FINANCIAL INFORMATION

Retirement System investments, in the 1975-76 fiscal year, increased in both book and market values as compared to the previous fiscal year. Book values at June 30, 1976 were \$15.2 million in short-term investments, \$381.7 million in long-term fixed-income investments, and \$93.1 million in stocks. This compares to June 30, 1975 investments of \$26.2 million, \$329.6 million, and \$75.1 million, respectively.

Comparing market value to amortized cost for fiscal 1975-76 and 1974-75, fixed-income investments on June 30, 1976 had a market value of 87.66% of cost, and stocks had a market value of 103.2% of cost. These figures show continuing improvement as compared with the 1974-75 percentages of 86.3% and 97.9%, respectively, due in part to a general reduction in interest rates and the market's more positive view of common stocks. During the 1975-76 fiscal year, the Board took advantage of the improved investment climate to liquidate certain of its stock and fixed-income holdings, realizing a net profit of \$88,600 in the process.

To the Mayor and City Council
of the City of Los Angeles

For the year ended June 30, 1976, the rate of return was 6.71% on fixed-income securities and 3.15% on stocks. This compares with 6.28% and 2.99%, respectively, for the previous fiscal year. It should be noted that the long-term fixed-income securities purchased during the 1975-76 fiscal year will yield the System approximately 8.37%, on average, as compared with 8.92% for purchases made during 1974-75, a year of generally higher interest rates. The yield on the fixed-income portfolio was significantly improved, over and above the normal interest income, through implementation of an active bond management program made possible by a change in the City Charter initiated by this Board. During the year, \$54.3 million par value of fixed-income securities were exchanged under this aggressive program, producing more than \$200,000 in additional current income which would otherwise have been unattainable.

The yield on the System's short-term securities (less than one year maturity) was 5.68% for the 1975-76 fiscal year, as compared with 7.92% for the previous year. This lesser return was due to the continuing decline in short-term interest rates available in the marketplace.

The Board contracts with Becker Securities Corporation to monitor the System's investment performance. This service measures and compares the performance of a large number of investment funds and also provides a separate comparison with a selected group of public funds. For the fiscal year ended June 30, 1976, the overall investment performance of the portfolio (based on market prices) ranked in the top third of the more than 1,300 funds in the Becker survey having assets of over \$50 million each.

BENEFIT IMPROVEMENTS

During the 1975-76 fiscal year, the City Council, under authority of Charter Section 512.2, adopted several ordinances which enhanced the benefits available to members and their families:

1. Retirement allowances were increased by 8% for most members retiring after October 12, 1975. This improvement, which changed the retirement formula from 2% to 2.16% of final compensation for each year of service, became effective October 12, 1975 and applied to all members except those employed in Civil Service classes represented by the Recreational Unit and Medical Services Unit.

To the Mayor and City Council
of the City of Los Angeles

2. The City established a defrayal of retirement contributions for members covered under the improved retirement formula described in the preceding paragraph. Under this defrayal, member contributions are reduced to one-half of what they would otherwise be.
3. The previously established one-year open period during which members were permitted to purchase credit for various types of previous service, scheduled to expire May 4, 1976, was extended to December 31, 1977, pending the outcome of efforts to establish reciprocity with the Department of Water and Power Employees' Retirement Plan.
4. Health insurance subsidies for retired members were increased and were extended to the dependents of retired members.
5. On April 1, 1976, a special 3% cost-of-living adjustment was made to all retirement allowances in effect prior to that date. This temporary increase is scheduled to remain in effect only until July 1, 1977.

We appreciate your consideration of this report and would welcome any comments or suggestions regarding the Retirement System's operations.

Respectfully submitted,

BOARD OF ADMINISTRATION



By Stephen Chrystie, President

CITY EMPLOYEES' RETIREMENT SYSTEM

GENERAL STATISTICS

Active Membership

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase or (Decrease)</u>
Males	16,586	17,265	(679)
Females	<u>5,528</u>	<u>5,755</u>	<u>(227)</u>
Total	22,114	23,020	(906)

Retirement Roll

	<u>June 30, 1976</u>		<u>June 30, 1975</u>	
	<u>Number</u>	<u>Average Monthly Allowance</u>	<u>Number</u>	<u>Average Monthly Allowance</u>
Service Retirements	4,394	\$449	4,058	\$404
Disability Retirements	434	270	403	252
Survivorships	256	341	228	318
Limited Pensions	11	565	26	786
Family Death Benefit Plan Beneficiaries	<u>157</u>	237	<u>128</u>	231
Total	5,252		4,843	

Applications Processed to Completion

	<u>1975 - 76</u>	<u>1974 - 75</u>	<u>Increase o (Decrease)</u>
Service Retirements	433	331	102
Disability Retirements	43	54	(11)
Family Death Benefit Plan	23	18	5
Death Benefits			
Active Employees			
Limited Pensions with Refund of Contributions	22	39	(17)
Survivorships	33	13	20
Refund of Contributions	34	18	16
Retired Employees			
Death Payments	189	168	21
Refund of Contributions to Former Members	1,330	1,083	247

Honorable Members of the City Council
of the City of Los Angeles, California

And

Board of Administration
City Employees' Retirement System

We have examined the balance sheet of the City of Los Angeles City Employees' Retirement System as of June 30, 1976 and 1975 and the related statements of changes in net assets available for plan benefits and city contributions (deficit) available for future retirees for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the City of Los Angeles City Employees' Retirement System at June 30, 1976 and 1975, and the changes in net assets available for plan benefits and city contributions (deficit) available for future retirees for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J. K. Lasser & Company
Ferguson, Leung & Co.

Los Angeles, California
October 28, 1976, except for
portions of Notes 2, 3 and 4
(pertaining to actuarial
amounts) which date is
March 31, 1977

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
BALANCE SHEET

JUNE 30, 1976 AND 1975

ASSETS

Cash
Receivables
 Accrued interest and dividend income
 Due from other funds
 Proceeds from sale of investments
Investments (Note 1)
 Temporary short term
 Bonds
 Common stocks

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

NET ASSETS AVAILABLE FOR PLAN BENEFITS

(See notes 2 and 4 regarding unfunded prior
and past service liability, vested benefits
and benefits earned to date)

MEMBERS' CONTRIBUTIONS

RESERVE FOR RETIREMENT ALLOWANCES FOR RETIRED
MEMBERS AT ACTUARIAL VALUATION

CITY CONTRIBUTIONS (DEFICIT) AVAILABLE FOR
FUTURE RETIREES (Notes 3 and 4)

TOTAL

See accompanying notes to the financial statements.

<u>1976</u>		<u>1975</u>	
	\$ 1,466,977		\$ 686,188
\$ 6,750,371		\$ 5,392,356	
1,530,644		2,366,001	
<u>501,001</u>	8,782,016		7,758,357
15,200,000		26,200,000	
381,656,970		329,600,715	
<u>93,115,820</u>	<u>489,972,790</u>	<u>75,057,728</u>	<u>430,858,443</u>
	500,221,783		439,302,988
	(3,594,568)		(1,545,022)
	<u>\$496,627,215</u>		<u>\$437,757,966</u>
	\$173,434,847		\$162,787,628
	367,957,344		269,204,884
	(44,764,976)		<u>5,765,454</u>
	<u>\$496,627,215</u>		<u>\$437,757,966</u>

CITY OF LOS ANGELES
 CITY EMPLOYEES' RETIREMENT SYSTEM
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
 AND
 STATEMENT OF CITY CONTRIBUTIONS (DEFICIT) AVAILABLE FOR FUTURE RETIREES
 YEARS ENDED JUNE 30, 1976 AND 1975

NET ASSETS AVAILABLE FOR PLAN BENEFITS

	1976	1975
REVENUES		
Taxes	\$ 39,957,596	\$ 31,297,973
Comprehensive Employment Training Act	1,727,674	1,491,227
Defrayal of portion of members' contributions (Note 5)	5,437,998	
Members' contributions	14,504,531	17,791,153
Family death benefit insurance plan premiums	494,732	274,824
Interest income (Note 1)	24,358,770	20,728,295
Dividend income (Note 1)	2,482,769	2,279,641
Miscellaneous	43	469
	88,964,113	73,863,582
EXPENDITURES		
Pensions		
Retirement allowances	24,745,637	21,670,316
Family death benefit insurance allowances	437,648	313,971
Refund of members' contributions (Note 6)	3,277,518	2,562,657
Transfer of retirement liability to Los Angeles County (Note 6)	982,530	
Administrative expenses		
Salary	423,013	356,160
Other	317,118	292,321
	30,183,464	25,195,425
EXCESS OF REVENUES OVER EXPENDITURES BEFORE GAIN (LOSS) ON DISPOSITION OF INVESTMENTS	58,780,649	48,668,157
GAIN (LOSS) ON DISPOSITION OF INVESTMENTS	88,600	(6,209,022)
EXCESS OF REVENUES OVER EXPENDITURES	58,869,249	42,459,135
NET ASSETS AVAILABLE FOR PLAN BENEFITS, JULY 1	437,757,966	395,298,831
NET ASSETS AVAILABLE FOR PLAN BENEFITS, JUNE 30	\$496,627,215	\$437,757,966

CITY CONTRIBUTIONS (DEFICIT) AVAILABLE FOR FUTURE RETIREES

BALANCE, JULY 1	\$ 5,765,454	\$ 6,017,855
Add: Excess of revenue over expenditures for the year	58,869,249	42,459,135
Less: Net increases in members' contributions and reserve for retirement allowances for the year	(109,399,679)	(42,711,536)
BALANCE, JUNE 30	(\$ 44,764,976)	\$ 5,765,454

See accompanying notes to the financial statements.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Temporary investments, consisting primarily of commercial paper, are carried at cost which approximated market at June 30, 1976 and 1975.

Investments in bonds are carried at amortized cost. Bonds held to maturity and are redeemed substantially at par. Exchanges of bonds are accounted for pursuant to the deferral and amortization method, whereby the amortized cost of the bonds disposed of is transferred as the cost of the bonds acquired, plus or minus any cash differentials. Resulting premiums and discounts are recorded as yield adjustments and amortized against investment income to be realized from the bonds acquired. During the years ended June 30, 1976 and 1975, bond investments with an aggregate amortized cost of approximately \$54,300,000 and \$12,500,000, respectively, were exchanged in this manner.

Investments in stocks are carried at cost and had quoted market values of \$96,000,000 and \$73,500,000 at June 30, 1976 and 1975 respectively.

Reserve for Retirement Allowances

As provided in the Los Angeles City Charter, the City Employees' Retirement System (the System) is maintained on a reserve basis, determined in accordance with accepted actuarial methods.

Income from Investments

The Charter of the City of Los Angeles provides that income from investments, exclusive of capital gains or losses, shall be credited to member contribution accounts and to actuarial reserve accounts.

2. RETIREMENT PLAN AND ACTUARIAL VALUATION

The retirement plan of the System is a defined benefit plan to which contributions are made by members and by the City of Los Angeles.

Benefit payments are made for service and disability retirements, death benefits, surviving spouse continuances and family death benefit insurance.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RETIREMENT PLAN AND ACTUARIAL VALUATION (CONTINUED)

Members of the System have a vested right to their own contributions. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System and having his or her contributions refunded.

The System engages a consulting actuary to prepare an actuarial valuation on a yearly basis. The valuation is made using assumptions which are based upon prior historical trends and statistical data developed during an actuarial investigation which is performed every five years. Valuation results reflect all plan modifications which have an impact on actuarial calculations.

Actuarial valuations performed by the consulting actuary contained the following balances (see Note 4):

- The actuarially determined unfunded prior and past service liability of the System was \$465,377,462 and \$418,195,035 at June 30, 1976 and 1975, respectively, and is generally being funded over a 30 year period ending June 30, 2004.
- The actuarially computed value of vested benefits for both retired and active members was \$749,454,208 and \$679,319,747 at June 30, 1976 and 1975, respectively. Vested benefits include the reserve for retirement allowances for retired members (\$367,957,344 at June 30, 1976 and \$269,204,884 at June 30, 1975) and were in excess of net assets available for plan benefits by \$252,826,993 and \$241,561,781 at June 30, 1976 and 1975, respectively. In determining the value of vested benefits, members with less than five years of service were treated as having no vested service retirement and only their contributions were considered vested.
- The actuarially computed value of benefits earned to date for both retired and active members was \$767,266,792 at June 30, 1976, and was \$270,639,577 in excess of net assets available for plan benefits. This amount was not determined at June 30, 1975. This calculation includes projected service retirement benefits earned for members with less than five years of service, rather than including only their contributions.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RETIREMENT PLAN AND ACTUARIAL VALUATION (CONTINUED)

The above actuarially determined values were primarily developed through the use of actuarial assumptions and factors adopted as a result of an actuarial investigation made at June 30, 1974, as modified for subsequent plan amendments.

The more significant assumptions underlying the actuarial computations are as follows:

- Interest rate - The assumed rate of return on investments is 5 1/4%.
- Salary increases and scales - The year end valuations reflect salary increases which take effect July 1 of the following fiscal year. The salary scales used by the actuary in making the actuarial valuation reflect increases due to merit, promotion and service. The scales do not reflect any provision for across the board increases arising from future inflation.

The American Academy of Actuaries in June, 1976 recommended the recognition of inflation in calculating present values in a retirement plan. However, the Academy recognized the difficulty in performing these calculations, except at the time of the next investigation, which is required to take place as of June 30, 1979. Presently the System anticipates having the investigation performed as of June 30, 1977. The effect of inflation is indeterminable at this time.

- Mortality and disability mortality basis - The valuation is based upon the use of the 1971 Group Annuity Mortality Table and the 1973 Disability Mortality Table.
- Employee turnover and retirement - Scales are used in the valuation, which are based upon System experience.
- Funding method - The entry age normal cost funding method is used in the valuation.
- Plan amendments - The June 30, 1975 valuation reflects a prospective increase of approximately 8% in active members' service retirements and employee contributions as a result of a City ordinance which became effective in October, 1975.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. CITY CONTRIBUTIONS (DEFICIT) AVAILABLE FOR FUTURE RETIREES

This amount represents the difference between the System's net assets available for plan benefits and the reserve for retirement allowances for retired members (actuarial valuation) plus members' contributions. Upon retirement a member's contributions are transferred to the reserve for retirement allowances for retired members.

At June 30, 1976 the net assets available for plan benefits was \$44,764,976 less than the amount required for members' contributions and retirement allowances for retired members, therefore there was no balance available for future retirees. At June 30, 1975, \$5,765,454 was available for future retirees.

The calculation of these amounts assumes that future experience will be consistent with actuarial assumptions (see Notes 2 and 4).

4. CHANGE IN ACTUARIAL ASSUMPTION

The plan provides for a maximum 3.00% cost of living annual increase in benefits to retired members. The June 30, 1976 actuarial valuation was prepared utilizing an assumption of a 3.00% annual rate of increase, whereas prior valuations assumed a 2.25% annual rate of increase. This change was made to more accurately reflect existing circumstances.

Because this change has a significant impact on actuarially computed obligations and the resulting unfunded prior and past service liability, the following table is being presented to reflect the estimated effect on the June 30, 1975 financial statements.

	1975 As reported	1975 Adjusted to reflect estimated effect of change in assumption
Reserve for retirement allowances	<u>\$269,204,884</u>	<u>\$287,941,544</u>
City contributions (deficit) available for future retirees	<u>\$ 5,765,454</u>	<u>(\$ 12,971,206)</u>
Unfunded prior and past service liability	<u>\$418,195,035</u>	<u>\$475,540,176</u>
Value of vested benefits	<u>\$679,319,747</u>	<u>\$726,386,164</u>

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. DEFRAIAL OF PORTION OF MEMBERS' CONTRIBUTIONS

A City ordinance became effective in October, 1975, which permits the City to subsidize and pay a portion of certain employee contributions. Payments made by the City in this manner are not refundable to members upon their withdrawal, prior to retirement, from the system. Therefore, the City does not have to contribute the total amount of employee contributions that it subsidizes. The amount payable by the City, based upon the June 30, 1976 actuarial valuation is approximately 75% of subsidized employee contributions. For the year ended June 30, 1976, the City contributed \$5,437,998 in this manner.

6. TRANSFER OF RETIREMENT LIABILITY TO LOS ANGELES COUNTY

Under the terms of a Joint Powers Agreement between the City of Los Angeles and Los Angeles County, lifeguard and beach maintenance personnel were transferred from City to County employment.

Pursuant to this transfer, the City paid the County \$982,530 during the year ended June 30, 1976 which represents the excess of the actuarially determined present value of benefits earned to date less applicable members' contributions for those employees who elected to transfer employment. Related members' contributions of \$494,740 were also transferred to the County.

INVESTMENT PORTFOLIO

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase (Decrease)</u>
Short-term Investments (at Par)	\$ 15,200,000.00	\$ 26,200,000.00	\$(11,000,000.00)
Fixed Income (at Amortized Cost)	381,656,969.48	329,600,715.67	52,056,253.81
Stocks (at Cost)	<u>93,115,820.18</u>	<u>75,057,727.53</u>	<u>18,058,092.65</u>
	<u>\$489,972,789.66</u>	<u>\$430,858,443.20</u>	<u>\$ 59,114,346.46</u>

DISTRIBUTION OF INVESTMENT PORTFOLIO

	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Short-term Investments	3.10%	6.08%
Fixed Income	77.89	76.50
Stocks	<u>19.01</u>	<u>17.42</u>
	<u>100.00%</u>	<u>100.00%</u>

DISTRIBUTION OF SECURITIES BY TYPE AND CLASS

	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Short-term Investments:		
U.S. Treasury Bills	--	--
Commercial Paper	73.68%	93.13%
Certificates of Deposit	<u>26.32</u>	<u>6.87</u>
	<u>100.00%</u>	<u>100.00%</u>
Fixed-Income:		
U. S. Government	8.26%	2.72%
Industrials	26.77	26.29
Public Utilities	32.07	36.50
Railroads	9.00	11.19
Miscellaneous	<u>23.90</u>	<u>23.30</u>
	<u>100.00%</u>	<u>100.00%</u>

DISTRIBUTION OF SECURITIES BY TYPE AND CLASS (continued)

	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Stocks:		
Common Stocks		
Drugs & Medical	10.45%	9.06%
Electrical Equipment	7.44	9.10
Office Equipment	16.06	17.61
Photographic	2.42	2.07
Technological	4.47	2.15
Automotive	1.68	2.09
Chemical	4.94	4.44
Machinery	5.29	5.30
Metals & Mining	4.76	5.47
Banks & Finance	2.66	3.12
Cosmetics	2.39	2.20
Food, Beverage & Soap	6.60	9.39
Insurance	2.08	2.44
Oil	8.55	5.79
Public Utilities	7.38	8.46
Retail Trade	8.99	8.68
Consumer & Services	2.13	2.65
Electronics & Instrumentation	<u>1.71</u>	<u>--</u>
Total Common Stocks	<u>100.00%</u>	<u>100.00%</u>

YIELD ON INVESTMENTS

	<u>Year Ended June 30, 1976</u>	<u>Year Ended June 30, 1975</u>
Fixed Income	6.71%	6.28%
Stocks	3.15	2.99
Fixed Income and Stocks	6.04	5.62
Short-term Securities	5.68	7.92
Total Portfolio	6.03	5.74