

ANNUAL REPORT

1990 - 1991



CITY EMPLOYEES'

RETIREMENT SYSTEM

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 1991

360 EAST SECOND STREET
EIGHTH FLOOR
LOS ANGELES, CALIFORNIA 90012-4207

TABLE OF CONTENTS

OFFICIALS

Page

| | |
|---|----|
| Elected Officials, City of Los Angeles | i |
| Board of Administration, City Employees' Retirement System | ii |

EXECUTIVE SUMMARY

| | |
|-----------------------------|-----|
| Letter to Elected Officials | 1-4 |
| Summary matrix | 5 |

ACTUARY'S REPORT

| | |
|---|-------|
| Actuarial Assumptions & Methods Summary | 30 |
| Actuarial Balance Sheet 6-30-91 | 17 |
| City Contributions - Health Subsidy 1992-93 | 27 |
| City Contributions - Retirements 1992-93 | 20 |
| Funded Status - Retirement System | 18-19 |
| Funded Status - Health Subsidy Benefits | 26 |
| Health Subsidy Benefits Summary | 28-29 |
| Health Subsidy Distribution - Inception to 1990 | 31 |
| Retirement Benefits Summary | 21-24 |
| Retirement Distribution - Inception to 1990 | 25 |

AUDITOR'S REPORT

| | |
|-------------------------------|------|
| Balance Sheet | 7 |
| Notes to Financial Statements | 9-16 |
| Revenues and Expenditures | 8 |

ELECTED OFFICIALS
OF THE
CITY OF LOS ANGELES

TOM BRADLEY
Mayor

JAMES KENNETH HAHN
City Attorney

RICK TUTTLE
City Controller

MEMBERS OF THE CITY COUNCIL

Gloria Molina
First District

Joel Wachs
Second District

Joy Picus
Third District

John Ferraro
Fourth District

Zev Yaroslavsky
Fifth District

Ruth Galanter
Sixth District

Ermani Bernardi
Seventh District

Robert C. Farrell
Eighth District

Rita Walters
Ninth District

Nate Holden
Tenth District

Marvin Braude
Eleventh District

Hal Bernson
Twelfth District

Michael Woo
Thirteenth District

Richard Alatorre
Fourteenth District

Joan-Milke Flores
Fifteenth District

**BOARD OF ADMINISTRATION
CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE
CITY OF LOS ANGELES,
CALIFORNIA
FISCAL YEAR 1990-91**

**OLGA MARCUS, President
HENRY W. HURD, Vice President
RICHARD S. AMADOR
JOSE L. FIGUEROA
WILLIAM T. WOODS
JERRY F. BARDWELL, Manager-Secretary**

CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF ADMINISTRATION

OLGA MARCUS
PRESIDENT

HENRY W. HURD
VICE PRESIDENT

RICHARD S. AMADOR
JOSE L. FIGUEROA
WILLIAM T. WOODS
COMMISSIONERS

CITY EMPLOYEES' RETIREMENT SYSTEM

360 EAST SECOND STREET
8TH FLOOR
LOS ANGELES, CA 90012-4207

JERRY F. BARDWELL
GENERAL MANAGER
(213) 485-2824

December 31, 1991

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

The annual report of the Board of Administration of the City Employees' Retirement System for the fiscal year ending June 30, 1991 is submitted in accordance with the provisions of Section 64 of the City Charter.

The City Employees' Retirement System is established by Article XXXIV of the City Charter. The System is under the exclusive management and control of a five-member Board of Administration. Three members are appointed by the Mayor, subject to the approval of the City Council, and two are employee-members elected by active members of the System.

CHANGES IN THE BOARD OF ADMINISTRATION

Commissioner William T. Woods, who had served on the Board since July 1, 1980, indicated his intention to resign when his term expired on June 30, 1991. He agreed to continue serving until a replacement could be nominated.

PORTFOLIO MANAGEMENT

BACKGROUND

The investments of the System are diversified with holdings in real estate, domestic and international stocks and fixed income securities. Active and passive strategies are used in the investment program. Active managers are hired on the basis of their historical performance and styles of management. The assets are managed by four fixed-income advisors; five equity advisors; one multi-asset advisor; and seven real-estate fund managers. Short term investments are managed by internal staff.



PERFORMANCE

Investment performance is measured by SEI Corporation, the Board's pension fund consultant. The returns are based on market value and, therefore, take into account all realized and unrealized market gains and losses. These rates of return are ranked relative to those for other managers in the SEI universe of public funds. Rankings for the years 1990-91 and 1989-90 are shown on the following table. The ranking is from 1 to 100, with a number 1 ranking representing the best performance. Real Estate information is from Institutional Property Consultants, the Board's real estate consultant.

| | <u>1990-91</u> | | <u>1989-90</u> | |
|------------------|----------------|------|----------------|------|
| | RETURN | RANK | RETURN | RANK |
| CERS Equities | 6.2 | 81 | 4.6 | 54 |
| CERS Bonds | 10.6 | 44 | 6.6 | 70 |
| CERS Real Estate | 0.8 | N/A | N/A | N/A |
| CERS TOTAL FUND | 7.8 | 71 | 9.4 | 72 |

The Fund's five-year performance relative to other indices is indicated below.

| | <u>1990-91</u> | <u>1989-90</u> | <u>1988-89</u> | <u>1987-88</u> | <u>1986-87</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| CERS Domestic Equities | 6.2% | 14.6% | 21.5% | -5.3% | 20.9% |
| Standard and Poors 500 | 7.4% | 16.5% | 20.5% | -6.9% | 25.2% |
| CERS Bonds | 10.6% | 6.6% | 13.8% | 8.0% | 6.2% |
| Shearson-Lehman Govt. Corp. (Medium Term) | 10.2% | 7.1% | 12.3% | 7.5% | 4.7% |
| Salomon Bros. (Long Term) | 10.8% | 6.0% | 16.2% | 8.5% | 5.6% |
| CERS - Int'l Index | -9.2% | N/A | N/A | N/A | N/A |
| MSCI - EAFE Index | -11.5% | N/A | N/A | N/A | N/A |
| Real Estate | 5.2% | 7.9% | N/A | N/A | N/A |
| IPC Index | -1.6% | 4.8% | N/A | N/A | N/A |
| CERS TOTAL FUND | 7.8% | 9.4% | 16.0% | 2.2% | 11.9% |
| Consumer Price Index | 4.7% | 4.7% | 5.2% | 3.9% | 3.7% |

REALIZED RETURNS

Rates of return reflecting realized income for the last five years on stocks, bonds, short-term investments, and real estate are indicated below:

| | <u>1990-91</u> | <u>1989-90</u> | <u>1988-89</u> | <u>1987-88</u> | <u>1986-87</u> |
|------------------|----------------|----------------|----------------|----------------|----------------|
| Stocks | 6.53% | 14.75% | 3.37% | 6.39% | 20.34% |
| Bond | 8.65% | 9.85% | 2.11% | 10.26% | 12.27% |
| Cash Equivalents | 8.20% | 9.05% | 9.45% | 7.54% | 6.37% |
| Real Estate | 6.58% | 7.71% | 3.51% | N/A | N/A |
| TOTAL | 7.89% | 11.47% | 11.19% | 8.68% | 14.45% |

These returns, together with the City and member contributions, account for the rapid growth of the Fund. At the end of this fiscal year, the Fund had invested assets totalling \$2.8 billion compared with \$2.6 billion (at cost) at the end of the previous fiscal year. The following table of invested assets illustrates the Fund's growth in the last two years.

| | <u>1991</u> | | <u>1990</u> | |
|------------------|--------------------|--------------------|-------------------|-------------------|
| | <u>COST</u> | <u>MARKET</u> | <u>COST</u> | <u>MARKET</u> |
| Bonds | \$1,434,035,000 | \$1,444,290,000 | \$1,345,966,000 | \$1,334,633,000 |
| Stocks | 818,639,000 | 970,335,000 | 779,307,000 | 938,225,000 |
| Cash Equivalents | 472,895,000 | 472,895,000 | 414,687,000 | 414,687,000 |
| Real Estate | <u>104,031,000</u> | <u>104,031,000</u> | <u>56,065,000</u> | <u>56,065,000</u> |
| TOTAL | \$2,829,600,000 | \$2,991,551,000 | \$2,596,025,000 | \$2,743,610,000 |

SIGNIFICANT CHANGES

INTERNATIONAL INVESTMENTS

The Board initially established its international portfolio using an index approach. In January, 1990, a fifty million dollar-Europe Australia Far East (EAFE) index was established using American Depository Receipts (ADR's). This approach allowed for investing in international markets, with the securities held in domestic depositories. In June the Board began the expansion of the international diversification with the release of two equity requests for proposal, one for a UK/Europe manager, the other for a Pacific Basin manager. The Board expects to allocate about \$130 million between the managers.

MASTER CUSTODIAN

The contract with Bank of New York to provide securities custody and securities lending was scheduled to expire on July 31, 1991. The Board intended to increase diversification in international equities, so two requests for proposal were issued in February 1991, one for domestic and one for international. A total of 35 responses (17 for International custody, and 18 for Domestic custody) were received.

Four custodians who could provide both services were selected and a review committee comprised of one Board member, the pension fund consultant, and staff members from Management, Investments, and Accounting, made site inspections of the facilities. As a result, two proposers made presentations before the Board. Northern Trust was selected for all custody and securities lending.

Respectfully Submitted,

BOARD OF ADMINISTRATION


OLGA MARCUS, President

CITY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PORTFOLIO (000)

| | June 30, 1991 | Percent | June 30, 1990 | Percent | Increase/(Decrease) |
|-------------------------------------|--------------------|--------------|--------------------|--------------|---------------------|
| Short-term Investments (at Cost) | \$ 472,895 | 16.4 | \$ 414,687 | 16.0 | (\$ 58,202) |
| Fixed Income (at Amortized Cost) | \$1,434,035 | 49.7 | \$1,345,966 | 51.8 | (\$ 88,069) |
| Stocks (at Cost) | \$ 818,639 | 28.3 | \$ 779,307 | 30.0 | \$ 39,332 |
| Real Estate (at Cost) | \$ 104,031 | 3.6 | \$ 56,065 | 2.2 | (\$ 47,966) |
| TOTAL | \$2,887,314 | 100.0 | \$2,596,025 | 100.0 | (\$291,289) |

GENERAL STATISTICS

| | June 30, 1991 | June 30, 1990 |
|--|---------------|---------------|
| Active Members | 23,572 | 23,871 |
| Monthly Retirement Allowances | 13,169,754 | 12,186,774 |
| Retirement: | | |
| Service Retirements | 7,782 | 7,638 |
| Disability Retirements | 913 | 692 |
| Survivorships | 489 | 492 |
| Continuance to Spouse of Deceased Retirees | 1,644 | 1,784 |
| Limited Pensions | 4 | 4 |
| Family Death Benefit Plan Beneficiaries | 150 | 163 |
| TOTAL | 10,982 | 10,773 |

SERVICE RETIREMENTS

| | 1990-91 | 1989-90 |
|---|------------|------------|
| Average Age - New Retirees | 61.17 | 60.99 |
| Average Service Credit (Years - New Retirees) | 24.91 | 24.62 |
| Average Allowance Granted - New Retirees | \$1,827.29 | \$1,712.79 |
| Average Allowance Paid - All Retirees | \$1,382.03 | \$1,277.40 |



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Los Angeles, California 90010
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Honorable Members of the City Council of
the City of Los Angeles, California, and

Board of Administration
City Employees' Retirement System
of the City of Los Angeles, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of the City Employees' Retirement System of the City of Los Angeles (the System) as of June 30, 1991 and 1990 and the related statements of revenue, expenditures and changes in reserves 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City Employees' Retirement System of the City of Los Angeles as of June 30, 1991 and 1990, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Quezada Godsey & Co

Los Angeles, California
November 22, 1991

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
BALANCE SHEETS**

| | June 30 | |
|---------------------------------------|--------------------|--------------------|
| | 1991 | 1990 |
| | (in thousands) | |
| Assets | | |
| Cash | \$ 3,265 | \$ 2,411 |
| Receivables: | | |
| Accrued interest and dividends | 36,346 | 40,015 |
| Proceeds from sale of investments | 14,639 | 3,539 |
| Other receivables | 3,464 | 5,621 |
| Investments: | | |
| Temporary, at cost | 472,895 | 414,687 |
| Bonds, at amortized cost | 1,434,035 | 1,345,966 |
| Common stocks, at cost | 818,639 | 779,307 |
| Real Estate, at cost | 104,031 | 56,065 |
| Total Assets | \$2,887,314 | \$2,647,611 |
| Liabilities and Reserves | | |
| Accounts payable and accrued expenses | 24,963 | 4,416 |
| Reserve for Member Contributions | 450,775 | 411,448 |
| Reserve for City Contributions | 2,233,029 | 2,058,012 |
| Reserve for Family Death Benefits | 15,905 | 15,027 |
| Reserve for Health Benefits | 162,642 | 158,708 |
| Total Reserves | 2,862,351 | 2,643,195 |
| Total Liabilities and Reserves | \$2,887,314 | \$2,647,611 |

The notes are an integral part of these financial statements.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
STATEMENTS OF REVENUE AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30**

| | <u>1991</u> | <u>1990</u> |
|--|------------------|------------------|
| | (in thousands) | |
| Revenue | | |
| City contributions | \$151,293 | \$146,392 |
| Member contributions | <u>41,790</u> | <u>37,085</u> |
| | <u>193,083</u> | <u>183,477</u> |
| Investment Income: | | |
| Interest | 158,810 | 142,880 |
| Dividends | 28,991 | 33,936 |
| Real Estate | 5,768 | 3,230 |
| Net Gain on sale of investments | <u>19,592</u> | <u>99,377</u> |
| | <u>213,161</u> | <u>279,423</u> |
| Total Revenue | <u>406,244</u> | <u>462,900</u> |
| Expenditures | | |
| Pensions: | | |
| Retirement allowances | 152,235 | 140,961 |
| Health insurance benefits | 17,403 | 14,434 |
| Family death benefit insurance | 638 | 644 |
| Refund of members' contributions | 8,573 | 7,225 |
| Administrative expenses | <u>8,239</u> | <u>7,110</u> |
| Total Expenditures | <u>187,088</u> | <u>170,374</u> |
| Excess Of Revenue Over Expenditures | <u>\$219,156</u> | <u>\$292,526</u> |

The notes are an integral part of these financial statements.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

Summary of Significant Accounting Policies

General Information

The City Employees' Retirement System of the City of Los Angeles (the System) is under the exclusive management and control of the Board of Administration whose authority is granted by the Los Angeles City Charter (Article XXXIV).

The accounting records are maintained on the accrual method and the System follows the accounting principles and reporting guidelines as set forth in Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

Reserve for Retirement Allowances

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

Investments

Investments in bonds are carried at amortized cost. Bonds that are held to maturity are redeemed 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 to the cost of the bonds acquired, plus or minus any cash principal differentials.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

Resulting premiums and discounts are recorded as yield adjustments and amortized against investment income to be realized from the bonds acquired. Investments in common stock, real estate and temporary investments are carried at cost.

Income from Investments

The Los Angeles City Charter provides that income from investments, exclusive of capital gains or losses on investments, shall be credited to member reserve accounts and to City reserve accounts. Realized capital gains and losses on investments are recognized in the City's actuarial funding calculation.

Plan Description

The System operates as a single-employer defined benefit plan. The City of Los Angeles and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board of Administration. Employee and employer contributions are invested and the earnings and contributions are used for monthly payments to retired members.

Employer contributions are expressed as a percentage of applicable payroll. Members who entered the System prior to February, 1983 contribute from 8.64% to 12.94% of their salaries based upon the age they entered the System, however contributions are subsidized by the City under a collective bargaining agreement (see note on Defrayal of Portion of Member Contributions). Members entering subsequent to February, 1983 contribute a flat rate of 6%.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

Members of the plan have a vested right to their own contributions and accumulated investment earnings. 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 and accumulated investment earnings refunded. Benefits are based upon age, length of service, and compensation.

Actuarial Valuation and Update for Purposes of Uniform Disclosure

For purposes of uniform disclosure as required by Statement 5 of the Governmental Accounting Standards Board (GASB), the System engages an independent actuary to perform an annual actuarial valuation in conformance with GASB methodology. The latest such valuation was performed using the projected unit credit method as required by GASB as of June 30, 1991 with an 8% interest earnings assumption and a 6% assumption for annual salary increases which is comprised of a 3% inflation factor and 3% for merit increases.

Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other pension funds.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

At June 30, 1991 and 1990, the unfunded pension benefit obligation was \$628.2 million and \$639.2 million, respectively as follows (amounts in thousands):

| | <u>1991</u> | <u>1990</u> |
|---|-------------------|-------------------|
| Pension benefit obligation: | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 1,729,600 | \$1,617,041 |
| Current employees: | | |
| Accumulated employee contributions | 450,775 | 411,448 |
| Employer-financed vested | <u>1,131,650</u> | <u>1,080,170</u> |
| Total Pension Benefit Obligation | 3,312,025 | 3,108,659 |
| Net Assets Available for Benefits, at cost (Market is \$2,835,654 and \$2,790,780) | <u>2,683,804</u> | <u>2,469,460</u> |
| Unfunded Pension Benefit Obligation | <u>\$ 628,221</u> | <u>\$ 639,199</u> |

For purposes of determining the funding requirements of the System, the actuarial valuation for net assets available for benefits is calculated using a "blended" or an average of cost and market value. For purposes of this report the net assets available for benefits is stated at cost which results in a different unfunded pension benefit obligation. The actuarial valuation for unfunded pension benefit obligation at June 30, 1991 and 1990 was \$552.3 million and \$565.4 million, respectively.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

The City is currently advance funding retiree health benefits for current retirees and for active members eligible to retire. Beginning with the 1987 actuarial valuation, the health benefit liability for retirees and those active members eligible to retire have been determined separately from the pension benefit obligation. A reserve for health benefits has been established and as of June 30, 1991, \$162.6 million had been transferred to the reserve to reflect the amount funded before 1987.

At June 30, 1991 and 1990, the unfunded health benefit liability was \$322.7 million and \$245.1 million, respectively as follows (amounts in thousands):

| | <u>1991</u> | <u>1990</u> |
|-----------------------------------|-------------------|-------------------|
| Health Benefit Liability: | | |
| Retired Members | \$ 267,124 | \$ 221,506 |
| Active Members | <u>222,867</u> | <u>182,349</u> |
| Total Health Benefit Liability | 489,991 | 403,855 |
| Reserve for Health Benefits | <u>167,243</u> | <u>158,708</u> |
| Unfunded Health Benefit Liability | <u>\$ 322,748</u> | <u>\$ 245,147</u> |

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

Contributions Required and Contributions Made

The System's funding policy provides for periodic employer contributions at actuarial determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due.

The contributions to the System for the fiscal years ended June 30, 1991 and 1990 of \$193.1 million and \$183.5 million, respectively were made in accordance with actuarial determined requirements computed through the above mentioned actuarial valuation. The contributions consisted of the following (in millions):

| | <u>1991</u> | | <u>1990</u> | |
|--|-----------------|--|----------------|--|
| | <u>Amount</u> | <u>Percentage of current covered payroll</u> | <u>Amount</u> | <u>Percentage of current covered payroll</u> |
| Covered Payroll | <u>\$ 833.1</u> | <u>100%</u> | <u>\$815.8</u> | <u>100.00%</u> |
| Normal Cost | 45.1 | 5.41 | 46.5 | 5.70% |
| Amortization of the Unfunded Actuarial Accrued Liability | 97.0 | 11.64 | 85.7 | 10.50% |
| Contribution for Prefunding Health Care Subsidy | <u>9.2</u> | <u>1.10</u> | <u>14.2</u> | <u>1.74%</u> |
| Total City Contribution | 151.3 | 18.15 | 146.4 | 17.94% |
| Employee Contribution | <u>41.8</u> | <u>5.02</u> | <u>37.1</u> | <u>4.55%</u> |
| Total | <u>193.1</u> | <u>23.17</u> | <u>\$183.5</u> | <u>22.49%</u> |

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

Deposits and Investments

The System maintains all deposits and investments with its Custodian Trustee, except for \$3.3 million, held by the City Treasurer of the City of Los Angeles at year end.

Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy. In addition, Board resolutions, with limited exceptions, prohibit deposits and investments with financial institutions having specified relations with either the government of South Africa or certain private entities doing business with or in South Africa.

Investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the System's name.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990**

At June 30, 1991 and 1990, the carrying value and market value of investments were as follows (in thousands):

| <u>Investment Type</u> | Category 1 | | | |
|------------------------|--------------------|---------------------|--------------------|---------------------|
| | 1991 | | 1990 | |
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Temporary | \$ 472,895 | \$ 472,895 | \$ 414,687 | \$ 414,687 |
| Bonds | 1,434,035 | 1,444,290 | 1,345,966 | 1,334,633 |
| Stocks | 818,639 | 970,335 | 779,307 | 938,225 |
| Real Estate | <u>104,031</u> | <u>104,031</u> | <u>56,065</u> | <u>56,065</u> |
| | <u>\$2,829,600</u> | <u>\$2,991,551</u> | <u>\$2,596,025</u> | <u>\$2,743,610</u> |

There were no Category 2 or 3 investments at June 30, 1991 and 1990.

Securities Lending

The System has entered into various short-term arrangements with its Custodian Trustee whereby securities were loaned to various brokers. The cost basis of securities lent were \$835.1 and \$411.1 million as of June 30, 1991 and 1990, respectively. The market values were \$842.8 million and \$423.5 million as of June 30, 1991 and 1990, respectively.

These lending arrangements were collateralized by cash and marketable securities and by irrevocable letters of credit. The amount of the cash and securities collateralized was \$857.5 and \$439.7 million as of June 30, 1991 and 1990, respectively.

These agreements provide for the return of the securities and for a payment of: a) a fee, when the collateral is marketable securities or irrevocable letters of credit or b) interest earned on cash collateral on deposit. The securities on loan to the brokers continue to be shown at their cost basis on the balance sheets.

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF RETIREMENT BENEFITS**

Actuarial Balance Sheet As Of June 30, 1991

| Assets | | |
|--|---------------|-----------------|
| 1. Applicable Assets | | \$2,759,729,180 |
| 2. Present Value of Future Member Contributions | | 643,725,340 |
| 3. Present Value of Future Contributions by the City for: | | |
| a. Basic Pensions | | |
| i. Normal Costs | 532,177,814 | |
| ii. Amortization of Certain Liabilities | 197,424,707 | 729,602,521 |
| b. Cost-of-Living Pensions | | |
| i. Normal Cost | 182,566,105 | |
| ii. Amortization of Certain Liabilities | 354,871,419 | 537,437,524 |
| 4. Total Assets | | \$4,670,494,565 |
| Liabilities | | |
| 5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries) | | |
| a. Basic | 1,063,122,256 | |
| b. Cost-of-Living | 666,477,841 | 1,729,600,097 |
| 6. Present Value of Benefits to be Granted (Actives) | | |
| a. Basic | 2,360,613,252 | |
| b. Cost-of-Living | 580,281,216 | 2,940,894,468 |
| 7. Total Liabilities | | \$4,670,494,565 |

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Funded Status At June 30, 1991

In order to assess the funded status of the System, disclosure of a standardized measure of pension liability is required by Government Accounting Standards Board (GASB) Statement No. 5 - *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*. This measure of funded status compares the present value of benefits accrued to June 30, 1991 to the value of accumulated plan assets. For retired Members and beneficiaries, the present value of remaining benefit payments is disclosed. For active Members, the present value of the benefits accrued to June 30, 1991 is disclosed. In the latter calculation, we calculate accrued benefits based upon service to June 30, 1991. We also recognize assumed future salary increases. GASB No. 5 covers only pension type benefits provided by public employee retirement systems.

Under GASB Statement No. 12, *Disclosure of Information on Post Employment Benefits Other Than Pensions by State and Local Government Employers*, issued in November 1989, the expenditures and expenses for the period are the only financial information that needs to be disclosed for post-retirement health subsidy benefits. However, the statement encourages more complete disclosures of information, if available. Therefore, we have included a GASB No. 5 figure for the health subsidy benefits of the System in this report, as if GASB No. 5 applied to health subsidy benefits.

On the next page, we present the funded status of the System under GASB No. 5, along with a comparison of the System's funded status in the prior year. The current System assets available for retirement benefits are 161% of the present value of retirement benefits for current retired Members and their beneficiaries. When the present value of accrued retirement benefits for active Members is added, the System assets available for retirement benefits represent 83.3% of the total present value of accrued retirement benefits on June 30, 1991. This funded ratio increased slightly since the last valuation, primarily due to a return on assets which was slightly greater than the 8% assumed.

Current health subsidy reserves are 62.6% of the present value of health subsidy benefits for current retired Members. When the present value of health subsidy benefits for active Members with ten or more years of service is added, the funded ratio becomes 34.1%.

The combined funded ratio for retirement and health subsidy benefits is 77.0%.

| Funded Status | | | |
|---|------------------------|------------------------|-----------------------|
| | June 30, 1991 | June 30, 1990 | Percent Change |
| Retirement Benefits | | | |
| Present Value of Retirement Benefits Earned | | | |
| - Retired Members and Beneficiaries | \$1,729,600,097 | \$1,617,040,898 | +7.0% |
| - Active Members | <u>1,582,425,209</u> | <u>1,491,617,808</u> | +6.1% |
| - Total | <u>\$3,312,025,306</u> | <u>\$3,108,658,706</u> | +6.5% |
| Actuarial Value of Assets Available for Retirement Benefits | \$2,759,729,180 | \$2,543,254,085 | +8.5% |
| Funded Ratio for Retirement Benefits | 83.3% | 81.8% | +1.8% |
| Health Subsidy Benefits | | | |
| Present Value of Health Subsidy Benefits Earned | | | |
| - Retired Members | \$267,123,952 | \$221,505,504 | +20.6% |
| - Active Members With Ten or More Years of Service | <u>222,866,614</u> | <u>182,349,483</u> | +22.2% |
| - Total | <u>\$489,990,566</u> | <u>\$403,854,987</u> | +21.3% |
| Actuarial Value of Assets Available for Health Subsidy Benefits | \$167,242,910 | \$158,708,335 | +5.4% |
| Funded Ratio for Health Subsidy Benefits | 34.1% | 39.3% | -13.2% |
| Combined Retirement and Health Subsidy Funded Ratio | 77.0% | 76.9% | +0.1% |

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF RETIREMENT BENEFITS**

| Recommended City Contributions For Fiscal Year 1992 - 1993 | | | |
|---|---------------------------------|-------------|--------------------------------|
| | Percentage of Salary | plus | Fixed Dollar Amount |
| For Basic Retirement Benefits | | | |
| Normal Cost | 4.31% | | |
| Prior Service-Minimum Pensions (amortized as a level dollar amount until June 30, 1997) | | | \$927,955 |
| Unfunded Actuarial Accrued Liability | 2.65% | | |
| Total Contributions for Basic Retirement Benefits | 6.96% | plus | \$927,955 |
| For Cost-of-Living Retirement Benefits | | | |
| Normal Cost | 1.43% | | |
| Increase due to 1967 Amendment (Amortized as a level dollar amount until June 30, 1997) | | | \$1,796,547 |
| Unfunded Actuarial Accrued Liability | 3.76% | | |
| Total Contributions for Cost-of-Living Retirement Benefits | 5.19% | plus | \$1,796,547 |
| Total Basic and Cost-of-Living Contributions for Retirement Benefits | 12.15% | plus | \$2,724,502 |

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

Summary Of Retirement Benefits

1. **Eligibility:** Members are eligible on their first day of City employment

2. **Final Compensation:** Highest 12-month average salary.

3. **Service Retirement:**
 - A) **Eligibility:** Age 55 with 10 years of service, or any age with 30 years of service, or age 70.

 - B) **Benefit :**
 - Beta Formula:** 2.16% of Final Compensation for each year of service.

 - Prior Formula:** 2% of Final Compensation for each year of service that Beta Formula does not apply.

 - C) **Reduction for Early Retirement:**
 - Beta Formula:** Unreduced for retirement after age 60, or after age 55 with at least 30 years of service. Reduction factors apply for earlier retirement.

 - Prior Formula:** Unreduced for retirement after age 58-3/4. Reduction factors apply for earlier retirement.

 - D) **Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse if employee had that coverage at time of retirement. Larger continuances are available with actuarial reduction.

4. Disability Retirement:

- A) Eligibility:** Five years of continuous service and physically or mentally incapacitated so unable to perform duties of position.
- B) Benefit:** 1/70 of Final Compensation per year of continuous service. If service is less than 23-1/3 years, then service is projected to retirement, with a maximum service of 23-1/3 years.
- C) Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse if employee had this coverage at time of retirement.

5. Deferred Service Retirement:

- A) Eligibility:** Five years of service prior to termination of City service. Member must leave contributions on deposit and apply in writing within three years of termination.
- B) Benefit:** Same as Service Retirement payable anytime after age 55, provided at least 10 years have elapsed from date of original membership (or anytime after age 70).
- C) Form of Payment:** Same as Service Retirement.

6. Pre-retirement Death Benefits:

- A) Not Eligible for Disability or Service Retirement:** Member receives (i), (ii), and (iii) where:
- (i) = Accumulated contributions with interest.
- (ii) = Limited monthly pension equal to half the average monthly salary for the year before death. Benefit is payable to surviving spouse, minor children, or dependent parents, and is payable for a period of 2 months times the number of completed years of service, to a maximum of 12 months.
- (iii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

B) Eligible for Disability Retirement or Duty-Related

Death: Member receives (i) and (ii) where:

(i) = 60% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable for the lifetime of the Member's spouse.

(ii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

C) Eligible for Service Retirement:

Surviving spouse receives a lifetime benefit equal to 100% of the benefit the Member would have been entitled to if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced Service Retirement benefit on the day before death.

Benefits under the Family Death Benefit Insurance Plan are not available.

Surviving spouse may elect A or B in lieu of C.

7. Post-retirement Death Benefits:

Member receives (i), (ii), and (iii), where:

(i) = 50% continuance to surviving eligible spouse, if covered under the plan.

(ii) = Return of unused contributions and interest (provided normal cash refund annuity was selected) and any accrued but unpaid retirement allowance.

(iii) = \$500 death benefit allowance for burial expenses.

8. Post-retirement Cost-of-Living Benefits:

Each July 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions: Pre-February, 1983 participants:

Members are assumed to contribute per the schedule effective July 1, 1981. To the extent that Members contribute less than the full rates, the City should contribute 75% of the amounts otherwise paid by the Member.

Post-January, 1983 participants:

Members contribute 6% of pay.

10. Family Death Benefit Insurance Plan:

A) Eligibility: Employee may elect coverage after 18 months of City retirement service.

B) Benefits: Benefits similar to those provided by Social Security Survivors' Insurance are payable if Member dies in active service after 18 months of Family Death Benefit Plan membership.

C) Cost: It is recommended that the Member and City each contribute \$2.90 per month.

CITY OF LOS ANGELES EMPLOYEE'S RETIREMENT SYSTEM

DISTRIBUTION OF PENSIONERS BY PLAN YEAR OF RETIREMENT AND BY ATTAINED AGE AS OF JUNE 30, 1991

TOTAL FOR ALL PENSIONERS

| ATTAINED AGE | PRE 1977 | Retirements in Plan Year Beginning in | | | | | | | | | | | | | | | | | TOTAL | AVERAGE AMOUNT |
|------------------------|----------|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-------|-------|----------------|
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | | | | | |
| 0 - 39 | 3 | 0 | 0 | 3 | 6 | 3 | 5 | 3 | 3 | 3 | 5 | 7 | 4 | 5 | 13 | 14 | 74 | 7,881 | | |
| 40 - 44 | 7 | 0 | 7 | 9 | 9 | 6 | 7 | 8 | 8 | 7 | 10 | 7 | 7 | 9 | 7 | 9 | 108 | 8,497 | | |
| 45 - 49 | 22 | 5 | 11 | 6 | 12 | 7 | 8 | 6 | 6 | 9 | 7 | 9 | 9 | 11 | 6 | 5 | 132 | 9,144 | | |
| 50 - 54 | 31 | 9 | 16 | 24 | 9 | 9 | 7 | 13 | 11 | 11 | 13 | 10 | 23 | 19 | 8 | 8 | 213 | 8,880 | | |
| 55 - 59 | 47 | 9 | 11 | 14 | 19 | 20 | 11 | 15 | 13 | 15 | 65 | 97 | 139 | 163 | 161 | 799 | 18,251 | | | |
| 60 - 64 | 90 | 27 | 34 | 30 | 44 | 87 | 126 | 147 | 169 | 139 | 171 | 160 | 148 | 171 | 127 | 1670 | 18,035 | | | |
| 65 - 69 | 225 | 94 | 176 | 140 | 140 | 151 | 275 | 237 | 178 | 141 | 165 | 144 | 145 | 92 | 76 | 2379 | 16,975 | | | |
| 70 - 74 | 596 | 181 | 209 | 189 | 185 | 174 | 145 | 134 | 134 | 74 | 85 | 63 | 37 | 37 | 17 | 2260 | 14,060 | | | |
| 75 - 79 | 829 | 124 | 132 | 100 | 76 | 78 | 52 | 33 | 31 | 23 | 13 | 6 | 6 | 2 | 5 | 1510 | 11,822 | | | |
| 80 - 84 | 854 | 35 | 32 | 22 | 21 | 15 | 10 | 6 | 1 | 5 | 1 | 2 | 4 | 5 | 1 | 1014 | 9,240 | | | |
| 85 - 89 | 495 | 2 | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 500 | 8,015 | | | |
| 90 - 94 | 199 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 203 | 6,941 | | | |
| OVER 95 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| TOTAL | 3398 | 487 | 631 | 537 | 521 | 550 | 646 | 603 | 554 | 429 | 538 | 502 | 527 | 516 | 423 | 10862 | | | | |
| AVERAGE BENEFIT AMOUNT | 9,036 | 12,583 | 13,217 | 13,276 | 12,892 | 14,582 | 17,880 | 17,333 | 17,503 | 17,091 | 18,119 | 18,917 | 18,823 | 19,623 | 20,652 | | | | | |

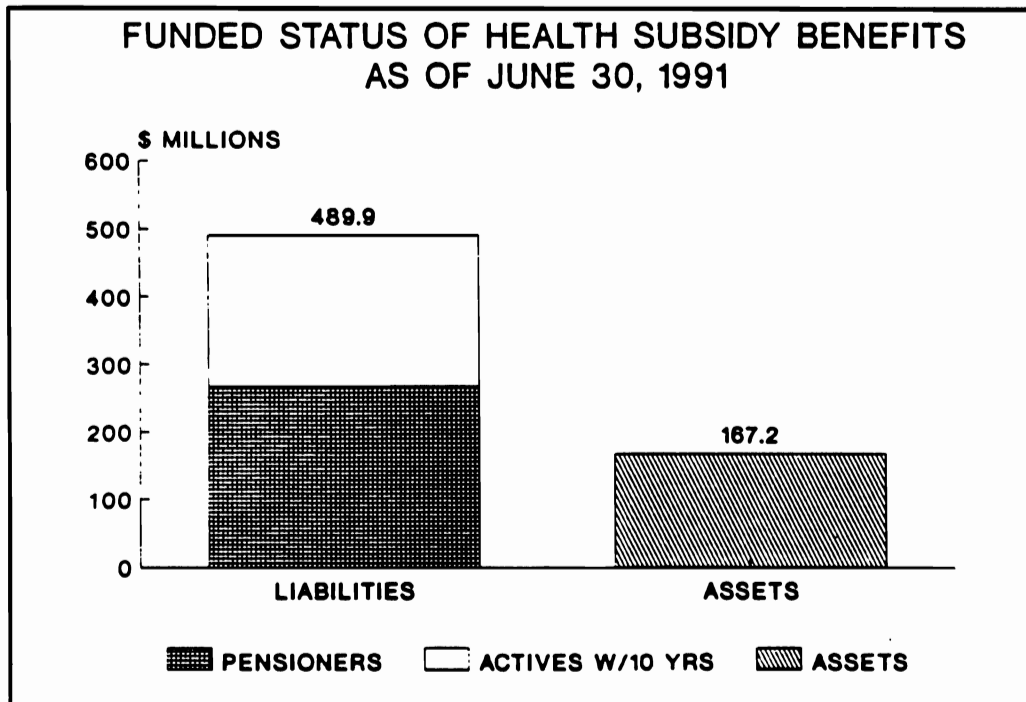
AVERAGE BENEFIT AMOUNT: \$14,187
 TOTAL ANNUAL BENEFITS: \$154,100,546

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM VALUATION OF HEALTH SUBSIDY BENEFITS

Funded Status Of Health Subsidy Benefits At June 30, 1991

This information is calculated using the guidelines of GASB No. 5 (see page 5). These figures do not include assets or liabilities of the retirement benefits of the System.

| | |
|---|----------------------|
| Present Value of Health Subsidy Benefits Accrued to June 30, 1991 | |
| - Retired Members | \$267,123,952 |
| - Active Members with Ten Years of Service | 222,866,614 |
| - Total | 489,990,566 |
| Actuarial Value of Assets Available for Health Subsidy Benefits | \$167,242,910 |
| Funded Ratio | 34.1% |



**Recommended City Contribution For
Health Subsidy Benefits For Fiscal Year 1992-1993**

| | Dollar Amount | Percent of Pay |
|---|------------------|-------------------|
| 1. Normal Cost at June 30, 1991 | \$ 9,621,075 | 1.12% |
| 2. Actuarial Accrued Liability at June 30, 1991 | 489,990,566 | — |
| 3. Actuarial Value of Assets Available for Health Subsidy Benefits at June 30, 1991 | 167,242,910 | — |
| 4. Unfunded Actuarial Accrued Liability (UAAL) (2) - (3) | 322,747,656 | — |
| 5. Amortization of UAAL | | |
| - Initial Base as a Level Percent of Pay through June 30, 2004 | 5,195,972 | .60% |
| - 6/30/89 Change in Assumptions | 957,693 | .11% |
| - 6/30/89 Change in Funding | 5,975,542 | .69% |
| - Actuarial Loss from 1989 to 1990 | 4,370,878 | .51% |
| - Actuarial Loss from 1990 to 1991 | <u>4,650,544</u> | <u>.54%</u> |
| Total | 21,150,629 | 2.45% |
| 6. Recommended Contribution: (1)+(5) | \$30,771,704 | 3.57% |

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

Summary Of Health Subsidy Benefits

Eligibility: Members who retire with ten years of service. Subsidy begins at age 55.

Subsidy: *Medical*

For retired Members under age 65 or 65 and over with only Medicare Part B:

A percentage of the Maximum Subsidy, or the actual premium paid to a City approved health carrier, if less.

The percentage is 4% for each year of service, up to a maximum of 100% after 25 years.

Maximum Subsidy: The maximum is the rate currently paid for active City employees. As of July 1, 1991, this amount is \$447 per month.

For retired Members age 65 and over with Medicare Parts A and B:

A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10 - 14 years of service, 90% for 15 - 19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.

Dental

4% per year of service to a maximum of \$26.15 for Connecticut General and \$9.00 for Safeguard.

| | |
|--|---|
| Mortality: | 1971 Group Annuity Mortality Table, with a one year age setback for males and a five year age setback for females. |
| Probability of Termination of Employment: | Same rates as used in valuation of retirement benefits. See retirement report for details. |
| City Medical Plan Coverage: | 80% of all retirees are assumed to receive a subsidy for a City approved health carrier. |
| Spouses and Dependents: | 90% of male and 65% of female retirees who receive a subsidy are assumed to be married and elect dependent coverage. |
| Medicare Coverage: | 85% of retirees are assumed to elect Medicare Parts A & B. |
| Dental Coverage: | 65% of retirees are assumed to elect dental coverage. |
| Funding Method: | Projected Unit Credit Cost Method. |
| Asset Valuation Method: | An asset value equal to the average of book and market values was used in determining annual funding requirements. |

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**Summary Of Actuarial Assumptions
And Methods Used For Valuation
Of Health Subsidy Benefits**

Methods: Future cash flows were projected by applying medical trend rate factors to current annual claim rates. The prefunding of these cash flows is determined using the Projected Unit Credit Funding Method.

Discount on Projected Cash Flows: 8% per year.

Medical Trend Rates:

| Year | Increase |
|-------------|-----------------|
| 1991-1992 | 13.0% |
| 1992-1993 | 12.0% |
| 1993-1994 | 11.5% |
| 1994-1995 | 11.0% |
| 1995-1996 | 10.5% |
| 1996-1997 | 10.0% |
| 1997-1998 | 9.5% |
| 1998-1999 | 9.0% |
| 1999-2000 | 8.5% |
| 2000-2001 | 8.0% |
| 2001-2002 | 7.5% |
| 2002+ | 7.0% |

CITY OF LOS ANGELES EMPLOYEE'S RETIREMENT SYSTEM
 DISTRIBUTION OF PENSIONERS BY PLAN YEAR OF RETIREMENT AND BY ATTAINED AGE AS OF JUNE 30, 1991

TOTAL FOR ALL PENSIONERS

| ATTAINED AGE | PRE 1977 | Retirements in Plan Year Beginning in | | | | | | | | | | | | | | | | | TOTAL | AVERAGE AMOUNT |
|------------------------|----------|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-------|-------|----------------|
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | | | | | |
| 0 - 39 | 3 | 0 | 0 | 3 | 6 | 3 | 5 | 3 | 3 | 3 | 5 | 7 | 4 | 5 | 13 | 14 | 74 | 7,881 | | |
| 40 - 44 | 7 | 0 | 7 | 9 | 9 | 6 | 7 | 6 | 8 | 7 | 10 | 7 | 7 | 9 | 7 | 9 | 108 | 8,497 | | |
| 45 - 49 | 22 | 5 | 11 | 6 | 12 | 7 | 8 | 8 | 6 | 9 | 7 | 9 | 9 | 11 | 6 | 5 | 132 | 9,144 | | |
| 50 - 54 | 31 | 9 | 16 | 24 | 9 | 9 | 7 | 13 | 11 | 11 | 13 | 10 | 10 | 23 | 19 | 8 | 213 | 8,880 | | |
| 55 - 59 | 47 | 9 | 11 | 14 | 19 | 20 | 11 | 15 | 13 | 15 | 65 | 97 | 139 | 163 | 161 | 799 | 18,251 | | | |
| 60 - 64 | 90 | 27 | 34 | 30 | 44 | 87 | 126 | 147 | 169 | 139 | 171 | 160 | 148 | 171 | 127 | 1670 | 18,035 | | | |
| 65 - 69 | 225 | 94 | 176 | 140 | 140 | 151 | 275 | 237 | 178 | 141 | 165 | 144 | 145 | 92 | 76 | 2379 | 16,975 | | | |
| 70 - 74 | 596 | 181 | 209 | 189 | 185 | 174 | 145 | 134 | 134 | 74 | 85 | 63 | 37 | 37 | 17 | 2260 | 14,060 | | | |
| 75 - 79 | 829 | 124 | 132 | 100 | 76 | 78 | 52 | 33 | 31 | 23 | 13 | 6 | 6 | 2 | 5 | 1510 | 11,822 | | | |
| 80 - 84 | 854 | 35 | 32 | 22 | 21 | 15 | 10 | 6 | 1 | 5 | 1 | 2 | 4 | 5 | 1 | 1014 | 9,240 | | | |
| 85 - 89 | 495 | 2 | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 500 | 8,015 | | | |
| 90 - 94 | 199 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 203 | 6,941 | | | |
| OVER 95 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| TOTAL | 3398 | 487 | 631 | 537 | 521 | 550 | 646 | 603 | 554 | 429 | 538 | 502 | 527 | 516 | 423 | 10862 | | | | |
| AVERAGE BENEFIT AMOUNT | 9,036 | 12,583 | 13,217 | 13,276 | 12,892 | 14,582 | 17,880 | 17,333 | 17,503 | 17,091 | 18,119 | 18,917 | 18,823 | 19,623 | 20,652 | | | | | |

AVERAGE BENEFIT AMOUNT: \$14,187
 TOTAL ANNUAL BENEFITS: \$154,100,546