

CITY EMPLOYEES' RETIREMENT SYSTEM

City of Los Angeles

California

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

Room 300, City Hall South
111 East First Street
Los Angeles, California 90012

BOARD OF ADMINISTRATION
CITY EMPLOYEES' RETIREMENT SYSTEM
of the
City of Los Angeles
California
FISCAL YEAR 1981-82

JEAN P. KYMAN, President
WILLIAM T. WOODS, Vice-President
CHESTER J. BACHRY
HENRY W. HURD
JAMES B. McKENNA
EARL D. ANSCHULTZ, Manager-Secretary

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of the
CITY OF LOS ANGELES

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City Attorney

JAMES KENNETH HAHN
City Controller

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Tenth District

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Eleventh District

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Thirteenth District

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Fourteenth District

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CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF ADMINISTRATION

JEAN P. KYMAN
PRESIDENT
WILLIAM T. WOODS
VICE-PRESIDENT
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HENRY W. HURD
JAMES B. MCKENNA

CITY EMPLOYEES' RETIREMENT SYSTEM

ROOM 300, CITY HALL SOUTH
111 EAST 1ST STREET
LOS ANGELES, CA 90012
485-2824

EARL D. ANSCHULTZ
MANAGER-SECRETARY

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 ending June 30, 1982, in accordance with the provisions of Section 64 of the City Charter.

FINANCIAL INFORMATION

Investment Environment

The investment environment for the year was good for bonds but poor for stocks. Two broad indices measure the general performance of these markets. The Standard and Poor's 500 Stock Index which measures stock market performance was down 11.7% for the year. The Lehman Bros. Kuhn Loeb Bond Index measures bond market performance and was up 11.9% for the period. Average return on 91-day Treasury Bills was 12.5%. Among other popular but less broadly based indices, the Dow Jones Industries average was down 11.4%, and the Salomon Bros. Bond Index was up 8.7%. The System's stock and bond portfolios are diversified, and the total portfolio market value at any one time is affected by the general direction of security markets.

Performance

The Board contracts with A.G. Becker, Inc. to monitor the System's investment performance. For the fiscal year ending June 30, 1982, the rate of return on the total portfolio was 5.6%, which ranks in the top quarter of the funds participating in the Becker survey. This rate of return takes into account the income from investments and the change in quoted market value of investments held during the year. It should be noted that these fluctuating market prices are not the basis for valuing assets in determining contribution levels for the Plan. Net income received on investments for the year does affect these contribution levels and, as a percentage of average portfolio cost, the return on this basis was 10.06% for the year.

Investments

At the end of the year, the System had bond investments with a cost of \$683,142,397 and a quoted market value of \$525,800,000. Although the cost of bonds is greater than the market value, gains and losses are not realized in the Fund's accounting records except in cases where bonds are sold. Bonds held to maturity are redeemed at face value, and no capital gain or loss is realized by the Fund even though the market price of these issues may fluctuate widely in the years prior to maturity. Interest income on bonds as a percentage of cost was 9.70% for the year as compared to 8.54% for the

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

previous year. The increased return was achieved by continuing an active bond exchange program and committing new funds at higher rates of interest.

At the end of the year, the Fund held stocks with a cost of \$158,959,874 and market value of \$138,800,000. Net realized gains on stock sales during the year was \$3.7 million as compared to \$11.6 million for the previous year. The System executes a covered call option writing program on equity securities. This program is designed to improve the conventional rate of return on equities provided by dividend income and realized capital gains or losses. In the option program, the Retirement System sells to a buyer the right to buy a specific number of shares for a specific period of time at a specified price. Depending upon subsequent market conditions, the option contract may be exercised by the buyer, it may expire worthless to the buyer, or the Retirement System may cancel its obligation to the buyer with an open market purchase of outstanding contracts. Income derived from this program for the year amounted to \$7.0 million as compared to \$2.5 million for the previous year. Income from dividends, net realized capital gains and the option program produced a return of 10.71% for the year as opposed to 13.94% in the previous year when the realized net capital gain was much higher and dividend income was slightly higher.

Short-term investments at the end of the year amounted to \$160,535,000. The return on these investments as a percentage of cost was 13.81% for the year as compared to 11.62% for the previous year. The rate of return on short-term investments is mainly a function of prevailing rates in the marketplace.

OTHER DEVELOPMENTS

1) Provisions in the City Charter amendment of June 1981 gave the Board greater flexibility in managing the Retirement Fund. The amended provisions permit the Board to engage the services of a custodial bank. During the year, a nationwide search was conducted and Irving Trust Company was selected to perform custodial services. The custodial bank relationship permits more timely collection of investment income and greatly enhances the ability to invest funds quickly and settle investment transactions promptly. Irving Trust will also execute a security lending program for the System.

2) During the year, Donald C. Tillman retired after serving for many years as an employee-member of the Board of Administration. An election was conducted and the participants of the Plan elected Henry W. Hurd to fill the vacancy created by Mr. Tillman's retirement. Mr. Hurd is on the staff of the Department of Personnel.

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

3) Chemical Bank was retained by the Board as a fixed-income advisor. Loomis Sayles continues to advise the Board in this area. Each of these advisors will have responsibility for approximately one-half of the System's bond portfolio.

Your consideration of this report is appreciated.

Respectfully submitted,

BOARD OF ADMINISTRATION

A handwritten signature in cursive script, appearing to read "Jean P. Kyman".

by Jean P. Kyman, President

CITY EMPLOYEES' RETIREMENT SYSTEM
SUMMARY OF MAJOR PLAN PROVISIONS

1. Service Retirement

A. Eligibility

10 years of service and age 55, or 30 years of service at any age, or age 70.

B. Allowance

2.16% of final monthly compensation for each year of service (reduced if retirement prior to age 60 unless participant has attained age 55 with 30 years of service).

C. Benefits to Spouse

50% continuance to eligible spouse if employee elected to participate in continuance plan.

2. Disability Retirement

A. Eligibility

Five or more years of continuous service and physically or mentally incapacitated to perform duties of position.

B. Allowance

1/3 of final monthly compensation, or 1/70 of monthly final compensation for each year of service credit, in some cases, extended to age 65.

C. Benefits to Spouse

50% continuance to eligible spouse if employee elected to participate in continuance plan.

3. Deferred Retirement

A. Eligibility

Terminate City service with five or more years of retirement credit, apply in writing within three years after termination, and agree to leave accumulated contributions on deposit. Application required for retirement at any time after attaining age 55, provided at least 10 years have elapsed since employee first became a member, or at age 70 without any elapsed time requirement.

B. Allowance

Same as service retirement.

C. Benefit to Spouse

Same as service retirement.

4. Death Prior to Retirement

A. Not Eligible to Retire

The sum of:

- i. accumulated contributions
- ii. a monthly pension to the surviving spouse, minor children, or dependent parents of the deceased member, payable for a period equal to two months times the number of completed years of service credit to a maximum period of 12 months at the rate of 1/2 of the average monthly salary for the year prior to death and
- iii. if deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under that Plan.

B. Eligibility for Disability Retirement of Duty-Related Death

The sum of the following:

- i. 60% of the allowance the member would have received if he had been granted a disability retirement allowance the day before he died, payable for the lifetime of the member's surviving spouse, and
- ii. if the deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under the Plan.

C. Eligible for Retirement

Surviving spouse receives a lifetime survivorship allowance based on an actuarially computed percentage of the retirement allowance the member would have been entitled to if he had been granted an Option 1 (100% continuance) service retirement the day before he died. Benefits under the Family Death Benefit Insurance Plan, if any, are not payable. The surviving spouse may elect A or B in lieu of C.

CITY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PORTFOLIO

	<u>June 30, 1982</u>	<u>Percent</u>	<u>June 30, 1981</u>	<u>Percent</u>	<u>Increase (Decrease)</u>
Short-term Investments (at Par)	\$ 160,535,004	16.0	\$ 87,019,521	9.8	\$ 73,515,483
Fixed Income (at Amortized Cost)	683,142,397	68.1	648,348,180	72.8	34,794,217
Stocks (at Cost)	158,959,874	15.9	155,410,139	17.4	3,549,735
Total	<u>\$1,002,637,275</u>	<u>100.0</u>	<u>\$890,777,840</u>	<u>100.0</u>	<u>\$111,859,435</u>

GENERAL STATISTICS

	<u>June 30, 1982</u>	<u>June 30, 1981</u>
Active Members	<u>18,661</u>	<u>19,730</u>
Retirement:		
Service Retirements	5,488	5,255
Disability Retirements	606	563
Survivorships	434	401
Continuance to Spouse of Deceased Retirees	1,015	945
Limited Pensions	24	16
Family Death Benefit Plan Beneficiaries	254	241
Total	<u>7,821</u>	<u>7,421</u>
Monthly Retirement Allowances	\$5,208,699	\$4,622,810

SERVICE RETIREMENTS

	<u>1981-82</u>	<u>1980-81</u>
Average Age	62	61
Average Service Credit (years)	23.13	22.76
Average Allowance	\$994.77	\$840.32

Touche Ross & Co.

November 30, 1982

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

and

Board of Administration
City Employees' Retirement System
City of Los Angeles

We have examined the balance sheets of the City of Los Angeles City Employees' Retirement System as of June 30, 1982 and 1981, and the related statements of changes in net assets available for plan benefits and City contributions 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, the financial statements referred to above present fairly the financial position of the City of Los Angeles City Employees' Retirement System at June 30, 1982 and 1981, the changes in net assets available for plan benefits and City contributions available for future retirees for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

June 30

<u>1932</u>		<u>1981</u>	
	\$ 4,153,976		\$ 2,038,168
\$ 20,062,778		\$ 16,027,993	
1,475,594		1,241,882	
<u>2,021,132</u>	23,559,504	<u>2,271,998</u>	19,541,873
160,535,004		87,019,521	
683,142,397		648,348,180	
<u>158,959,874</u>	<u>1,002,637,275</u>	<u>155,410,139</u>	<u>890,777,840</u>
	1,030,350,755		912,357,881
	(1,258,675)		(2,597,900)
	(<u>1,806,753</u>)		(<u>2,169,537</u>)
	<u>\$1,027,285,327</u>		<u>\$907,590,444</u>
\$ 239,310,491		\$219,916,264	
	761,152,367		672,286,963
	<u>26,822,469</u>		<u>15,387,217</u>
	<u>\$1,027,285,327</u>		<u>\$907,590,444</u>

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

	Year ended June 30	
	1982	1981
REVENUES:		
City contributions (Notes 3 and 4)	\$ 74,025,458	\$ 76,516,474
Members' contributions	22,969,657	20,829,043
Income from investments (Note 1):		
Interest earned	79,279,009	58,790,861
Dividends	6,869,559	6,717,960
Stock option premiums	7,077,294	2,523,635
	93,225,862	68,032,456
	190,220,977	165,377,973
EXPENDITURES:		
Pensions:		
Retirement allowances	62,148,208	53,946,740
Family death benefit insurance allowances	899,000	826,002
Refund of members' contributions	6,930,918	5,591,335
Administrative expenses	1,980,571	1,957,922
	71,958,697	62,321,999
EXCESS OF REVENUES OVER EXPENDITURES BEFORE GAIN ON DISPOSITION OF INVESTMENTS	118,262,280	103,055,974
GAIN ON DISPOSITION OF INVESTMENTS	1,432,603	12,026,273
EXCESS OF REVENUES OVER EXPENDITURES	119,694,883	115,082,247
NET ASSETS AVAILABLE FOR PLAN BENEFITS, beginning of year	907,590,444	792,508,197
NET ASSETS AVAILABLE FOR PLAN BENEFITS, end of year	\$1,027,285,327	\$907,590,444

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES

	<u>Year ended June 30</u>	
	<u>1982</u>	<u>1981</u>
BALANCE, July 1	\$ 15,387,217	(\$ 18,549,103)
Add excess of revenues over expenditures for the year	119,694,883	115,082,247
Less net increases in members' contributions and reserve for retirement allowances for retired members at actuarial valuation for the year	(108,259,631)	(81,145,927)
BALANCE, June 30	<u>\$ 26,822,469</u>	<u>\$ 15,387,217</u>

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1982 AND 1981

Note 1 - Summary of Significant Accounting Policies:

Investments

Temporary investments, consisting primarily of commercial paper and certificates of deposit, are carried at cost, which approximated market at June 30, 1982 and 1981.

Investments in bonds are carried at amortized cost and had quoted values of approximately \$525,800,000 and \$470,000,000 at June 30, 1982 and 1981, respectively. 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 as the cost of the bonds acquired, plus or minus any cash principal 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, 1982 and 1981, bond investments with an aggregate amortized cost of approximately \$498,700,000 and \$456,500,000, respectively, were exchanged in this manner. The amortized cost of the bonds exchanged exceeded the quoted value of the bonds by \$120,700,000 and \$100,100,000 for 1982 and 1981, respectively.

Investments in common stocks are carried at cost and had quoted market values of approximately \$138,800,000 and \$172,600,000 at June 30, 1982 and 1981, respectively. At June 30, 1982, stocks with a cost of approximately \$21,400,000 and a quoted market value of approximately \$20,000,000 had outstanding covered call option contracts written against them. If all of the options were exercised, the aggregate sales value of those optioned stocks would be approximately \$20,700,000. Option premiums are accounted for on a completed transaction basis, with earned net premiums being credited to income accounts for all expired or repurchased contracts. Option premiums are accounted for as part of the stock sales price when the option is exercised.

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.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1982 AND 1981

(Continued)

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 the City's actuarial reserve accounts. Realized capital gains and losses on bonds are recognized in the City's actuarial reserve accounts. Net cumulative gains and losses on stocks, in excess of 5% of book value at year-end, are treated in the same manner.

Note 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, family death benefit insurance and health insurance subsidies.

Members of the System 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.

At June 30, 1982, there were 18,661 active members covered by the Plan. In addition, there were 7,819 pensioners receiving continuous pensions, 8 receiving limited pensions and 228 receiving family death benefits.

The System engages a consulting actuary to prepare an actuarial valuation on an annual basis. The valuation is made using assumptions that are based upon prior historical trends and statistical data developed during an actuarial investigation, which is performed at intervals no greater than five years. The most recent investigation was performed as of June 30, 1980. Valuation results reflect all plan modifications that have an impact on actuarial calculations.

The most significant assumptions underlying the actuarial computations for both 1982 and 1981 are as follows:

- Interest rate - The assumed rate of return on investments is 8%.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1982 AND 1981

(Continued)

- Salary increases and scales - The salary scale used by the actuary in making the actuarial valuation consists of two elements: one element for service, merit and promotion and another element for anticipated increases arising from future inflation. These elements totaled 5-3/4%.
- Cost of living annual increase - The year-end valuations were prepared utilizing an assumption of a 3% annual rate of increase for both retired members and for active members when they retire.
- Mortality after service and disability retirements - The valuation is based upon the use of the 1971 Group Annuity Mortality Table and the 1973 Disability Mortality Table.
- 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. These rates will be used until the next actuarial investigation.
- Funding method - The entry age normal cost funding method is used in the actuarial valuation. Under this method, normal costs are calculated as a level percentage of salary necessary to fund the projected future benefits over the period from the date of participation to the date of retirement.
- Funding of prior and past service costs - These costs are generally being funded over a 30-year period ending June 30, 2004, as a level percentage of salary.

Based upon actuarial valuations performed by the consulting actuary, the actuarially determined unfunded prior and past service costs of the System were \$611,741,373 and \$553,902,690 at June 30, 1982 and 1981, respectively.

The actuarially computed value of benefits earned to date for both retired and active members was \$1,527,663,867 and \$1,368,360,715 at June 30, 1982 and 1981, respectively. Earned benefits include benefits earned to date by all members, including those with less than five years of service, based upon a projection for future salary increases in accordance with salary scale assumptions, discounted for expected withdrawals. Earned benefits were in excess of net assets available for plan benefits by \$500,378,540 and \$460,770,271 at June 30, 1982 and 1981, respectively.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1982 AND 1981

(Continued)

Note 3 - City Contributions 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 at actuarial valuation plus active members' contributions. Upon retirement, a member's contributions are transferred to the reserve for retirement allowances for retired members.

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

Note 4 - Defrayal of Portion of Members' Contributions:

A City ordinance became effective in October 1975 that 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 from the System prior to retirement. 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 actuarial valuations, is approximately 70% of subsidized employee contributions. For the years ended June 30, 1982 and 1981, the City contributed \$13,976,097 and \$12,499,869, respectively, in this manner.

Los Angeles City Employees'
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1982

ASSETS

1. Total Assets from Accounting Balance Sheet			\$1,030,350,755
2. Present Value of Future Contributions of Members			338,335,300
3. Present Value of Future Contributions by the City on Account of:			
a. Basic Pensions:			
i. Normal Cost		\$105,858,200	
ii. Amortization of Certain Liabilities:			
- Prior Service Pensions \$	7,942,813		
- Increase due to 1965 Amendments	3,486,066		
- Remaining Unfunded Supplemental Present Value	<u>342,268,297</u>	353,697,176	
b. Cost-of-Living Pensions:			
i. Normal Cost		55,189,300	
ii. Amortization of Certain Liabilities:			
- Increase due to 1967 Amendments	15,377,506		
- Remaining Unfunded Supplemental Present Value	<u>242,666,691</u>	<u>258,044,197</u>	<u>772,788,873</u>
4. Total Assets			<u>\$2,141,474,928</u>

Los Angeles City Employees'
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1982

LIABILITIES

5. Current Liabilities		\$ 1,806,753
6. Unearned Premium From Sale of Stock Options		1,258,675
7. Present Value of Benefits Already Granted:		
a. Basic	\$ 500,657,692	
b. Cost-of-Living	<u>260,494,675</u>	761,152,367
8. Present Value of Benefits to Be Granted:		
a. Basic	\$1,059,169,300	
b. Cost-of-Living	<u>300,136,100</u>	1,359,305,400
9. Reserve for Gain or Loss on Equities		7,947,994
10. Undistributed Earnings Reserve		1,786,448
11. Family Death Benefit Insurance Reserve		8,217,291
12. Fund Balance		<u>0</u>
13. Total Liabilities		\$2,141,474,928