CITY EMPLOYEES' RETIREMENT SYSTEM

City of Los Angeles

California

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

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 1983-84

ELECTED OFFICIALS

of the

CITY OF LOS ANGELES

TOM BRADLEY
Mayor

IRA REINER
City Attorney

JAMES KENNETH HAHN
City Controller

MEMBERS OF THE CITY COUNCIL

Howard Finn
First District

Joel Wachs
Second District

Joy Picus
Third District

John Ferraro
Fourth District

Zev Yaroslavsky
Fifth District

Pat Russell
Sixth District

Ernani Bernardi
Seventh District

Robert C. Farrell
Eighth District

Gilbert W. Lindsay
Ninth District

David Cunningham
Tenth District

Marvin Braude
Eleventh District

Hal Bernson
Twelfth District

Peggy Stevenson
Thirteenth District

Arthur K. Snyder
Fourteenth District

Joan Milke Flores
Fifteenth District

BOARD OF ADMINISTRATION

WILLIAM T WOODS
PRESIDENT
JAMES B McKENNA
VICE-PRESIDENT
CHESTER J BACHRY
HENRY W. HURD
JEAN P. KYMAN

CITY OF LOS ANGELES

CALIFORNIA

TOM BRADLEY
MAYOR

CITY EMPLOYEES' RETIREMENT SYSTEM

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

JERRY F BARDWELL
MANAGER-SECRETARY

December 11, 1984

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, 1984, in accordance with the provisions of Section 64 of the City Charter.

FINANCIAL INFORMATION

Investment Environment

During the past year, the stock market gave up many of the gains registered in the prior year and bond prices declined in the face of continued rising interest rates. These market directions were reflected in several broad indices. Specifically, the Standard & Poors 500 Stock Index, which measures stock-market performance, was down 4.6% for the year. The Shearson Lehman Government/Corporate Bond Index, which is an index of medium-term bonds, was up 1.8%, while the Salomon Bros. Bond Index, an index of long-term bonds, was down 6.3%. During the year 91-day Treasury bills had an average yield of 9.2%. The System diversified its investments in the stock and bond markets, therefore the market value of the total portfolio is affected by the general direction of these markets.

Performance

The Board contracts with Merrill Lynch Capital Markets Group to act as consultant on asset allocation and performance measurement.

Total portfolio performance for the fiscal year ending June 30, 1984, was down 4.5%. This total rate of return is determined by comparing total market values including investment income, and is used as a tool for evaluating the performance of investment managers. The fund's performance ranks near the lower one-third of public funds evaluated by Merrill Lynch, and is due, in large part, to the poor performance of long-term bonds during the year.

This year, the fund realized net income from investments of $120,928,290. As a percentage of average portfolio cost, the return for this year was 10.2%, as compared to 11.1% for the prior year.

Investments

At the end of the year, the System had bond investments with a cost of $807,184,399 and a quoted market value of $631,417,583. Although the cost of bonds is greater than the market value, gains and losses are not realized in the Fund's accounting records except when 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 10.32% for the year as compared to 10.26% for the previous year. The increased return was achieved by an active bond-management program.

At the end of the year the Fund held stocks with a cost of $312,541,183 and market value of $302,061,703. Net realized gains for the year totaled $13.8 million as compared to $14.8 million last year. Because of a change of equity advisors, the fund had limited stock-option activities this year. Realized option income was approximately $800 thousand this year, compared to a loss of $2.4 million last year. The rate of return for dividends, realized option income, and capital gains on the average monthly cost of the stock portfolio was 9.3% compared with 11.0% last year.

At the end of the year short-term investments amounted to $131,496,148. The rate of return on these investments was 10.18% as compared with 10.85% for the previous year. The rate of return on short-term investments is a function of prevailing rates in the market place.

Significant Changes

As part of the decision to allocate 33% of the Fund to equity investments, additional funds were committed to the equity market. Of the five equity advisors employed at the beginning of the year, Bankers Trust and Loomis, Sayles continued to manage funds, while contracts with Crocker Investment Management Co., CMB, Inc., and First Pacific Advisors were terminated.

In addition, six new advisors were hired. These advisors were hired because of their historical performance and investment style. The new advisory firms and the assets initially allocated are shown below.

Greater Than Market Risk:	Initial Allocation
Alliance Capital Management	$50 million
Security Pacific Investment Managers	$50 million

At Market Risk:

Investment Advisers, Inc.	$50 million
M.D. Sass	$50 million

Lower Than Market Risk:

Provident Capital Management	$50 million
Nicholas Kronwall Capital Management	$25 million

A copy of the current investment goals and policy is attached.

BENEFIT CHANGE

One significant benefit change occurred during the year. Effective January 1, 1984, retirees having both Medicare part "A" (hospital) and part "B" (supplementary medical benefits) coverage received reimbursement of the part "B" premium. This reimbursement of $14.60 a month affects approximately 3200 retired members. Attached is a summary of the major Plan provisions.

ELECTION OF EMPLOYEE-MEMBER

During the year Commissioner Chester J. Bachry was elected to serve another five-year term on the Board of Administration. Commissioner Bachry is employed in the Department of Public Works, Bureau of Engineering.

Respectfully submitted,

BOARD OF ADMINISTRATION

William T. Woods

by William T. Woods, 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 or Duty-Related Death

The sum of the following:

i. 60% of the allowance the member would have received if granted a disability retirement allowance the day before the member's death, 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 granted an Option 1 (100% continuance) service retirement the day before the member's death. 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

	June 30, 1984	Percent	June 30, 1983	Percent	Increase (Decrease)
Short-term Investments (at Par)	$ 131,496,198	10.5	$ 63,537,239	5.7	$ 67,958,959
Fixed Income (at Amortized Cost)	807,184,399	64.5	792,140,194	71.5	15,044,205
Stocks (at Cost)	312,541,183	25.0	252,852,897	22.8	59,688,286
Total	$1,251,221,780	100.0	$1,108,530,330	100.0	$ 142,691,450

GENERAL STATISTICS

	June 30, 1984	June 30, 1983
Active Members	18,111	17,997
Retirement:		
Service Retirements	6,196	6,467
Disability Retirements	657	645
Survivorships	475	457
Continuance to Spouse of Deceased Retirees	1,249	1,161
Limited Pensions	23	24
Family Death Benefit Plan Beneficiaries	201	140
Total	8,801	8,894
Monthly Retirement Allowances	$7,508,309	$6,879,729

SERVICE RETIREMENTS

	1983-84	1982-83
Average Age	60.26	61.12
Average Service Credit (years)	23.78	24.26
Average Allowance	$1,241.01	$1,115.34

INVESTMENT POLICY STATEMENT

This statement of investment policy for the Los Angeles City Employees' Retirement System outlines investment objectives, goals and guidelines for the Investment Managers.

I. OBJECTIVE

The investment of the assets of the Los Angeles City Employees' Retirement System shall be for the exclusive purpose of providing benefits to the plan participants.

II. GOALS

A. CHARACTERISTICS OF THE PLAN

1. The present value of liability is relatively well-funded and is trending toward a condition of being fully funded.

2. Contributions exceed benefit payments and will for a long period of time.

3. It is a contributory plan and a defined benefit plan.

4. Accounting policies of the fund indicate that realized capital gains are desirable to reduce future cost of funding and/or provide improved benefits in the future.

B. BACKGROUND DISCUSSION

In order to minimize the cost of providing benefits to the plan participants and provide an acceptable level of benefits, the investment return is expected to exceed the rate of inflation when measured across market cycles. The risk level of the investment program will be tempered by prudent selection of investments and by the asset allocation policies of the Board of Administration for the Los Angeles City Employees' Retirement System. In following a philosophy which will help to insure preservation of capital, commitment to equity-oriented investments, which tend to be more volatile than fixed income-oriented investments, will be limited to no more than 33% of the assets of the Los Angeles City Employees' Retirement System total fund (valued at cost). It is also recognized that separate investment manager decisions regarding current market environments may cause the commitment to equity securities to be considerably lower.

For goal-setting purposes, the following assumptions are made:

1. Equity-oriented investments should produce a 6-7% premium over the rate of inflation as measured by the Consumer Price Index (C.P.I.) across a market cycle (normally three to five years). This will, most likely, not occur every year, but will be the expected cumulative result over a market cycle (normally three to five years).

2. Fixed income investments should provide 1.5 to 2% premium over the rate of inflation.
3. Cash equivalents will be utilized for defensive purposes when the investment managers consider the equity or fixed income market to be unattractive. It is expected that cash equivalents will normally mirror the growth rate of inflation and provide minimal "premium," even though recent market environments have provided a "real" return from cash equivalents.

4. Adjustments to the investment goals for the total fund will be affected most by the asset allocation policies agreed upon by the trustees. While the objectives of the fund can be achieved with traditional investment vehicles, namely bonds, stocks and cash equivalents, the Board and the investment advisors may wish to use alternative investment vehicles.

5. Implementation of changes in asset allocation in the fund may be made by both allocation of cash flows and reallocation of funds among managers.

6. Policies should be reviewed yearly, or when significant relative market moves occur, or when the Board believes sufficient reason for consideration of change exists.

7. Manager Selection - Because diversification of management style can improve the probability of achieving desired investment results, managers with differing investments styles should be utilized.

C. STATEMENT OF GOALS

1. Total Fund: Inflation + 3.5%
   Time Horizon: 1 market cycle, normally 3-5 years.

2. Funds committed to equity managers: Inflation + 7%
   Time Horizon: 1 market cycle, normally 3-5 years.

3. Funds committed to fixed income managers: Inflation + 2%
   Time Horizon: 1 market cycle, normally 3-5 years.

4. From an absolute rate of return perspective, the fund is expected to return no less than 8-1/2% annualized across market cycles. If favorable equity or bond market conditions exist, returns should be significantly higher than 8-1/2% annualized.

5. Relative to other public funds, total fund performance should be better than two-thirds of the funds as measured by professional performance monitoring services. Measurement of results will be performed using a total return concept and market valuations as outlined in the Bank Administration Institute guidelines, published in 1968, and utilized by professional performance-monitoring services such as Merrill Lynch's Investment Peformance Analysis Reports.

III INVESTMENT POLICY GUIDELINES FOR INVESTMENT MANAGERS

General (applicable to all investment managers)
These guidelines are to provide direction for the Investment Managers employed by the Los Angeles City Employees' Retirement System. The Board of Administration has the responsibility to insure each manager is aware of these guidelines and that each manager is complying with these guidelines. Requests to deviate from these guidelines must be approved by the Board of Administration.

The Investment manager shall manage money in the best interest of the plan participants. All provisons of the Charter of the City of Los Angeles shall be complied with, particularly Section 504. In addition, investment actions are expected to comply with "prudent man" standards. Imprudent and speculative types of securities shall be avoided. Each Investment Manager will be expected to know the Rules of the Board and comply with those rules. The Board is aware that certain rules may impact an investment manager's performance. It is each manager's responsibility to identify policies that do have adverse impact on performance and initiate discussion toward possible improvement of the Rules of the Board. In the absence of any initiation of impact discussion, the manager will be fully accountable for performance.

Managers shall report in writing and comment monthly on any portfolio securities which are plus or minus 20% from cost and/or from the previous monthly valuation. The purpose is to enable the Board to continually monitor the selling disciplines employed by the managers.

A. EQUITY SPECIALISTS

1. General: Employing a blend of investment managers with a variety of investment management styles can help to "spread the risk" without reducing expected return.

   Three basic investment guidelines are outlined in separate paragraphs--one for managers who will be expected to maintain a risk posture that is lower than the stock market in general, a second for managers who will be granted more leeway and a risk posture similar to the market, and a third with an allowable risk profile greater than the market.

2. INVESTMENT GUIDELINES - Equity Managers with lower than market risk profile.

   Since historical equity market results have produced an average of 6% (annualized) for Market Cycles it is expected that a lower risk profile manager should be able to at least match the stock market results (as measured by the Standard & Poors 500 Index) and provide a premium of 6% over the rate of inflation (as measured by the Consumer Price Index). It should be emphasized that returns in excess of the Consumer Price Index every year are unlikely. The emphasis is on the market cycle (normally 3-5 years)--that the annualized return across the cycle should provide a 6% premium.

In addition, when performance is compared against other equity oriented managers, rankings are expected to be above the 25th percentile (1 is highest) when reviewed across a market cycle from trough to trough. Any time a manager's performance falls below median, the manager will be expected to provide an explanation.

3. INVESTMENT GUIDELINES -- Equity Managers with risk profiles similar to the market.

Since historical equity market results have produced an average of 6% (annualized) for market cycles, it is expected that a manager with a risk profile similar to the market should be able to produce a premium of 7% above the rate of inflation (as measured by the Standard & Poors 500 Index and Consumer Price Index). It should be emphasized that returns in excess of the Consumer Price Index every year are unlikely. The emphasis is on the market cycle (normally 3-5 years)--that the annualized return across the cycle should provide a 7% premuim.

In addition, when performance is compared against other equity oriented managers, rankings are expected to be above the 33% when reviewed across a market cycle from peak to peak. Any time a manager's performance falls below median, the manager will be expected to provide an explanation.

4. INVESTMENT GUIDELINES -- Equity Managers with risk profiles greater than the market.

Since historical equity market results have produced an average of 6% (annualized) for market cycles, it is expected that a manager with a risk profile greater than the market should be able to produce a premium of 8% above the rate of inflation (as measured by the Standard & Poors 500 Index and Consumer Price Index). It should be emphasized that returns in excess of the Consumer Price Index every year are unlikely. The emphasis is on the market cycle (normally 3-5 years)--that the annualized return across the cycle should provide an 8% premium.

In addition, when performance is compared against other equity oriented managers, rankings are expected to be above the 15th percentile when reviewed across a market cycle from peak to peak. Any time a manager's performance falls below median, the manager will be expected to provide an explanation.

5. INVESTMENTS GUIDELINES -- Options on equities

The primary purpose of having an option writing investment program for the City of Los Angeles Retirement System is to reduce the volatility of the equity portion of the fund. During down market conditions greater incremental return is expected than during up markets. Across market cycles, an incremental goal of 1% is expected. Specific rules of the Board apply to equity option writing investment managers. Each equity manager will be responsible for understanding those rules and complying with them. Each equity manager may utilize options at his discretion. During down market conditions greater incremental return is expected than during up markets. Across market cycles, an incremental goal of 1% is expected.

B. FIXED INCOME SPECIALIST - INVESTMENT GUIDELINES

These guidelines and the applicable Rules of the Board provide direction for Fixed Income Managers employed by the City of Los Angeles Board of Retirement.

Since the fixed income market has produced an average of 1.5% (annualized)for Market Cycles, it is expected that fixed income managers should be able to provide a premium of 2% over the rate of inflation as measured by the Consumer Price Index over a market cycle (3-5 years). In achieving these results, the manager should strive to preserve the capital of the fund.

Annual income should be at least 10% of the average book value per year. Risk, as measured by the standard deviation of the return as it has varied from the 91-day treasury bill rate, should not be greater than that observed in the long term sector of bond market as measured by the Merrill Lynch Long Term High Quality Bond Index (#9).

When compared to other fixed income funds, performance should be in the top third of the sample--across a bond market cycle, normally 3-5 years.

Touche Ross & Co.

October 19, 1984

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, 1984 and 1983, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the City of Los Angeles City Employees' Retirement System as of June 30, 1984 and 1983, and the revenues, expenses and changes in fund balance and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

3700 WILSHIRE BOULEVARD - LOS ANGELES, CALIFORNIA 90010 - (213) 381-3251

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

BALANCE SHEETS

	June 30			
	1984		1983	
ASSETS				
CASH		$ 4,112,848		$ 12,883,983
RECEIVABLES:				
Accrued interest and dividend income	$ 25,347,880		$ 20,998,822	
Other receivables	2,600,455		1,838,689	
Proceeds from sale of investments	3,568,224	31,516,559	14,564,856	37,402,367
INVESTMENTS (Note 1):				
Temporary, at cost	131,496,198		63,537,239	
Bonds, at amortized cost	807,184,399		792,140,194	
Common stocks, at cost	312,541,183	1,251,221,780	252,852,897	1,108,530,330
Total assets		1,286,851,187		1,158,816,680
LIABILITIES				
UNEARNED PREMIUM FROM SALE OF STOCK AND BOND OPTIONS		(142,617)		(172,121)
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(8,336,887)		(4,255,892)
NET ASSETS AVAILABLE FOR PLAN BENEFITS (see Note 2 regarding unfunded prior and past service liability)		$1,278,371,683		$1,154,388,667
FUND BALANCE (Note 4)				
ACTUARIAL PRESENT VALUE OF PROJECTED BENEFITS PAYABLE TO CURRENT RETIREES AND BENEFICIARIES		$1,085,542,238		$ 990,798,766
ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS FOR ACTIVE EMPLOYEES:				
Member contributions	$261,142,033		$250,516,756	
City contributions	615,986,437	877,128,470	585,013,344	835,530,100
Total actuarial present value of credited projected benefits		1,962,670,708		1,826,328,866
UNFUNDED ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS		(711,796,767)		(695,364,489)
		1,250,873,941		1,130,964,377
RESERVE FOR FAMILY DEATH BENEFIT INSURANCE		9,841,982		9,000,473
RESERVE FOR GAIN/LOSS ON EQUITIES (Note 1)		15,627,059		12,655,455
UNDISTRIBUTED EARNINGS		2,028,701		1,768,362
TOTAL FUND BALANCE		$1,278,371,683		$1,154,388,667

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	Year ended June 30 1984	1983
REVENUES:		
City contributions (Notes 3 and 4)	$ 83,728,554	$ 75,978,254
Members' contributions	17,357,284	19,332,716
Income from investments (Note 1):		
Interest earned	94,516,597	87,555,648
Dividends	10,658,771	8,302,534
Stock and bond option premiums	1,104,468	(2,282,025)
	106,279,836	93,576,157
	207,365,674	188,887,127
EXPENDITURES:		
Pensions:		
Retirement allowances	88,790,395	74,002,489
Family death benefit insurance	759,667	792,589
Refund of members' contributions	4,871,441	4,379,076
Administrative expenses	2,898,740	2,557,053
Transfer of paramedics contributions to the Los Angeles Fire and Police Pension System	710,869	2,201,305
	98,031,112	83,932,512
EXCESS OF REVENUES OVER EXPENDITURES BEFORE GAIN ON DISPOSITION OF INVESTMENTS	109,334,562	104,954,615
GAIN ON DISPOSITION OF INVESTMENTS	14,648,454	22,148,725
EXCESS OF REVENUES OVER EXPENDITURES	123,983,016	127,103,340
FUND BALANCE, beginning of year	1,154,388,667	1,027,285,327
FUND BALANCE, end of year	$1,278,371,683	$1,154,388,667

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended June 30 1984	Year ended June 30 1983
SOURCE OF FUNDS:		
Net income	$123,983,016	$127,103,340
Decrease (increase) in proceeds from sale of investments receivable	10,996,633	(12,543,724)
Increase in accounts payable and accrued expenses	4,080,995	2,449,139
	139,060,644	117,008,755
USE OF FUNDS:		
Increase (decrease) in temporary investments	67,958,959	(96,997,765)
Increase in common stock investments	59,688,286	93,893,023
Increase in bond investments	15,044,205	108,997,797
Increase in accrued interest and dividends	4,349,058	936,044
Increase in other receivables	761,766	363,095
Decrease in unamortized premiums from sale of bond and stock options	29,505	1,086,554
	147,831,779	108,278,748
DECREASE (INCREASE) IN CASH	$ 8,771,135	($ 8,730,007)

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1984 AND 1983

Note 1 - Summary of Significant Accounting Policies:

Cash

Cash consists primarily of an undivided interest in the cash held by the Treasurer of the City of Los Angeles.

Investments

Temporary investments, consisting primarily of commercial paper, certificates of deposit and treasury bills, are carried at cost which approximate market at June 30, 1984 and 1983.

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 at 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.

	1984	1983
Bonds		
Cost value	$807,200,000	$792,100,000
Market value	$633,300,000	$722,400,000
Bond exchanges during the year:		
Amortized cost	$488,200,000	$395,400,000
Market value	$427,800,000	$364,900,000
Bonds on which options are written:		
Amortized cost	$ 10,300,000	$ 12,500,000
Market value	$ 10,000,000	$ 12,300,000
Sales value if exercised plus premium received	$ 9,500,000	$ 12,800,000

Investments in common stock are carried at cost.

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.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1984 AND 1983

(Continued)

	1984	1983
Common stock		
Cost value	$312,500,000	$252,900,000
Market value	$302,000,000	$303,700,000
Stocks on which options are written:		
Cost	$ 870,000	$ 2,200,000
Market value	$ 860,000	$ 3,500,000
Sales value if exercised plus premium received	$ 940,000	$ 3,600,000

Securities Lending

The City of Los Angeles City Employees' Retirement System (System) has entered into various short-term arrangements whereby investments with a cost basis of $171,597,155 (1984) and $88,456,188 (1983) and a market value of $145,968,571 (1984) and $91,442,126 (1983) were loaned to various brokers. The lending arrangements are collateralized by cash and marketable securities of $152,981,080 (1984) and $93,270,970 (1983). These agreements provide for the return of the investments and for a payment of: a) a fee, when the collateral is marketable securities, or b) interest earned on cash collateral on deposit. The securities on loan to the broker continue to be shown at their cost basis in the balance sheet.

Reserve for Retirement Allowances

As provided in the Charter of the City of Los Angeles, the City Employees' Retirement 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 in City reserve accounts. Realized capital gains and losses on bonds are recognized in the City's actuarial funding calculation. Net cumulative gains and losses on stocks, in excess of 5% of book value at year-end, are treated in the same manner. Such gains and losses up to 5% of book value are excluded from the funding calculation.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1984 AND 1983

(Continued)

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. Members who entered the System prior to February 1983 contribute from 8.64% to 12.94% of their salaries. Contributions are subsidized by the City for certain members under a collective bargaining agreement (see Note 3). Members entering subsequent to February 1983 contribute 6%.

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.

	1984	1983
Active members	18,111	17,997
Retired members:		
Continuous pensions	8,802	8,497
Limited pensions	46	10
Family death benefits	169	172
Total pensioners	9,017	8,679

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, 1983. Valuation results reflect all plan modifications that have an impact on actuarial calculations.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1984 AND 1983

(Continued)

The most significant assumptions underlying the actuarial computations for both 1984 and 1983 are as follows:

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

- 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 1981 Disability Tables for Safety and Miscellaneous (nonsafety) Members.

- Employee turnover and retirement - Expected rates of employee turnover and retirement were developed during the last actuarial investigation, June 30, 1983, based on actual experience of the System. These rates will be used until the next actuarial investigation.

- Funding method for retirement - The projected unit credit cost funding method is used. Under this method normal costs are calculated as the present value of projected benefits deemed to be accrued to date.

- Funding method for Family Death Benefits - The Term Cost Funding Method is used whereby the amount contributed in any one year is the present value of expected claims arising during the year.

- Funding of prior and past service costs - These costs are generally being funded over a 30-year period ending June 30, 2004, as a fixed dollar amount.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1984 AND 1983

(Continued)

Note 3 - Defrayal of Portion of Members' Contributions:

For members prior to February 1983, the City subsidizes 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 67% of subsidized employee contributions. For the years ended June 30, 1984 and 1983, the City contributed $19,175,164 and $17,067,468, respectively, in this manner.

Note 4 - Explanation of Actuarial Values and Changes:

The total actuarial present values of credited projected benefits were $1,962,670,708 and $1,826,328,866 at June 30, 1984 and 1983, respectively, consisting of:

	June 30, 1984	% of active member payroll	June 30, 1983	% of active member payroll
Actuarial present value of projected benefits payable to current retirees and beneficiaries	$1,085,542,238	229.6%	$ 990,798,766	223.8%
Actuarial present value of credited projected benefits for active participants:				
Member contributions	261,142,033	55.2	250,516,756	56.6
City contributions	615,986,437	130.3	585,013,344	132.2
Total actuarial present value of credited projected benefits	$1,962,670,708	415.1%	$1,826,328,866	412.6%

The total actuarial present value of credited projected benefits increased by $136,341,842 from June 30, 1983 to June 30, 1984. There were no changes in actuarial assumptions and no changes in benefit provisions during the year.

ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION
PURSUANT TO NCGA STATEMENT 6

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the schedules is presented for purposes of additional analysis. It is not a required part of the basic financial statements, but is supplementary information required by Statement 6 of the National Council of Governmental Accounting. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements taken as a whole and, in our opinion, the schedules present fairly the information therein in conformity with the rules of the National Council on Governmental Accounting.

Touche Ross & Co.

Certified Public Accountants

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

COMPARATIVE SUMMARY OF NET ASSETS AVAILABLE FOR BENEFITS AND TOTAL ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS

Fiscal year	Net assets available for benefits	Total actuarial present value of credited projected benefits	Percentage
1975	$ 437,757,966	$ 679,416,249	64.4%
1976	$ 496,627,215	$ 767,266,792	64.7%
1977	$ 563,308,766	$1,093,167,846	51.6%
1978	$ 636,083,834	$1,184,157,985	53.7%
1979	$ 713,027,536	$1,185,230,085	60.2%
1980	$ 792,508,197	$1,265,265,674	62.6%
1981	$ 907,590,444	$1,368,360,750	66.3%
1982	$1,027,285,327	$1,527,663,867	67.2%
1983	$1,154,388,667	$1,826,328,866	63.2%
1984	$1,278,371,683	$1,962,670,738	66.3%

COMPARATIVE SUMMARY OF UNFUNDED ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS AND ANNUAL ACTIVE MEMBER PAYROLL

Fiscal year	Unfunded actuarial present value of credited projected benefits	Annual active member payroll	Percentage
1975	$418,195,035	$318,865,493	131%
1976	$465,377,462	$332,519,333	140%
1977	$642,556,667	$345,662,256	186%
1978	$661,767,087	$373,638,656	177%
1979	$566,374,062	$355,947,876	159%
1980	$546,791,034	$359,131,258	152%
1981	$553,902,690	$406,846,047	136%
1982	$611,741,373	$431,723,128	142%
1983	$695,634,489	$442,654,872	157%
1984	$711,796,767	$472,772,622	151%

See note on page 12.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

Note:

Each time an employer entity adopts a higher level of benefits, additional actuarial liabilities are created. For the system, which receives actuarially determined contributions, these additional actuarial liabilities are financed systematically over a period of future years.

Looking at the dollar amount of the actuarial present value of credited projected benefits or the unfunded portion thereof can be misleading. Analysis of (i) the ratio of net assets available for benefits to the total actuarial present value of credited projected benefits and (ii) the ratio of the unfunded actuarial present value of credited projected benefits to annual active member payroll, provides indexed values which facilitate understanding.

Analysis of these indexed values over a period of years will give an indication of whether the system is becoming financially stronger or weaker. The greater the ratio of net assets available for benefits to the total actuarial present value of credited projected benefits, the stronger the system. Similarly, the smaller the ratio of the unfunded actuarial present value of credited projected benefits to annual active member payroll, the stronger the system.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGE
COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

	Actuarial present value of credited projected benefits for				Percentage of actuarial values covered by net assets available for benefit		
Fiscal year	Member contributions	Current retirees and beneficiaries	Active members, City - financed portion	Net assets available for benefits	(1)	(2)	(3)
1975	$162,787,628	$ 269,204,884	$247,423,737	$ 437,757,966	100%	100.0%	2.3%
1976	$173,434,847	$ 367,957,344	$225,874,601	$ 496,627,215	100%	87.8%	0.0%
1977	$180,236,615	$ 411,547,967	$501,383,264	$ 563,308,766	100%	93.1%	0.0%
1978	$189,681,349	$ 484,471,178	$510,005,458	$ 636,083,834	100%	92.1%	0.0%
1979	$195,840,177	$ 535,348,021	$454,041,887	$ 713,027,536	100%	96.6%	0.0%
1980	$200,939,485	$ 610,117,815	$454,208,374	$ 792,508,197	100%	97.0%	0.0%
1981	$219,916,264	$ 672,286,965	$476,157,486	$ 907,590,444	100%	100.0%	3.2%
1982	$239,310,491	$ 761,152,367	$527,201,009	$1,027,285,327	100%	100.0%	5.8%
1983	$250,516,756	$ 990,798,766	$585,013,344	$1,154,388,667	100%	91.2%	0.0%
1984	$261,142,033	$1,085,542,238	$615,986,437	$1,278,371,683	100%	93.7%	0.0%

Note:

T ultimate test of financial soundness is the systems' ability to pay all ised benefits when due. The system's progress in accumulating assets to pay all promised benefits can be measured by comparing the present assets with (1) member contributions, (2) the actuarial present value of projected benefits payable to current retirees and beneficiaries, and (3) the City-financed portion of the actuarial present value of credited projected benefits payable to active plan participants. For the system, which receives actuarially determined contribution amounts, the total of actuarial values (1) and (2) should generally be fully covered by assets and the portion of the actuarial value (3) covered by assets should increase over time. An increase in benefits can, of course, adversely affect the trends in the years such increased benefits are first reflected in the actuarial values.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

COMPARATIVE SUMMARY OF REVENUES BY SOURCE AND EXPENSES BY TYPE

REVENUES BY SOURCE

Fiscal year	Member contributions	City contributions	Investment income	Subtotal	Gain (loss) on investments	Total
1975	$18,065,977	$32,789,200	$ 23,008,405	$ 73,863,582	($ 6,209,022)	$ 67,654,560
1976	$14,999,263	$47,123,268	$ 26,841,582	$ 88,964,113	$ 88,600	$ 89,052,713
1977	$12,833,679	$56,606,000	$ 31,786,873	$101,226,552	$ 709,660	$101,936,212
1978	$14,776,932	$65,068,277	$ 38,198,405	$118,043,614	($ 3,759,167)	$114,284,447
1979	$14,879,997	$67,732,338	$ 48,717,743	$131,320,078	($ 4,552,887)	$126,767,191
1980	$12,498,068	$67,151,605	$ 62,283,414	$141,933,087	($ 4,517,097)	$137,415,990
1981	$20,829,043	$76,516,474	$ 68,032,456	$165,377,973	$12,026,273	$177,404,246
1982	$22,969,657	$74,025,458	$ 93,225,862	$190,220,977	$ 1,432,603	$191,653,580
1983	$19,332,716	$75,978,254	$ 93,576,157	$188,887,127	$22,148,725	$211,035,852
1984	$17,357,284	$83,728,554	$106,279,836	$207,365,674	$14,648,454	$222,014,128

EXPENSES BY TYPE

Fiscal year	Benefits	Refunds and transfers	Administrative	Total
1975	$21,984,287	$2,562,657	$ 648,481	$25,195,425
1976	$25,183,285	$4,260,048	$ 740,131	$30,183,464
1977	$31,018,192	$3,357,065	$ 879,404	$35,254,661
1978	$36,361,095	$3,938,313	$1,209,971	$41,509,379
1979	$42,043,273	$6,629,753	$1,150,463	$49,823,489
1980	$48,704,965	$7,980,718	$1,249,646	$57,935,329
1981	$54,772,742	$5,591,335	$1,957,922	$62,321,999
1982	$63,047,208	$6,930,918	$1,980,571	$71,958,697
1983	$74,795,078	$6,580,381	$2,557,053	$83,932,512
1984	$89,550,062	$5,582,310	$2,898,740	$98,031,112

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1984

ASSETS

1. Total Applicable Assets			$1,250,873,941
2. Present Value of Future Contributions of Members			362,128,900
3. Present Value of Future Contributions by the City on Account of:			
a. Basic Pensions:			
i. Normal Cost		$201,397,437	
ii. Amortization of Certain Liabilities:			
- Prior Service Pensions	$ 7,334,348		
- Increase due to 1965 Amendments	2,804,364		
- Remaining Unfunded Actuarial Accrued Liability	378,040,596	388,179,308	
b. Cost-of-Living Pensions:			
i. Normal Cost		104,348,363	
ii. Amortization of Certain Liabilities:			
- Increase due to 1967 Amendments	14,199,505		
- Remaining Unfunded Actuarial Accrued Liability	309,417,984	323,617,489	1,017,542,597
4. Total Assets			2,630,545,438

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1984

LIABILITIES

5. Present Value of Benefits Already Granted:		
a. Basic	$ 698,013,929	
b. Cost-of-Living	387,528,309	$1,085,542,238
6. Present Value of Benefits to Be Granted:		
a. Basic	$1,202,146,000	
b. Cost-of-Living	342,857,200	1,545,003,200
7. Total Liabilities		$2,630,545,438