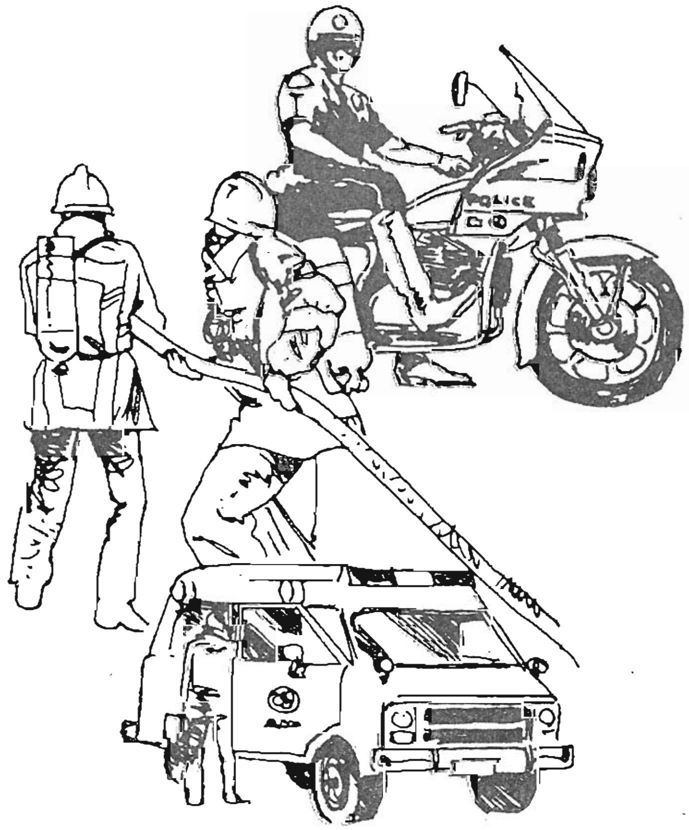
ANNUAL REPORT

1991

CITY OF LOS ANGELES DEPARTMENT OF PENSIONS



FIRE AND POLICE PENSION SYSTEMS

Department of Pensions

360 East Second Street • Suite 600 • Los Angeles, California 90012

Annual Report 1991

Gary Mattingly
General Manager

James J. McGuigan
Assistant Manager

Allan Moore
Assistant Manager

Siegfried O. Hillmer
Assistant City Attorney

Dennis R. Sugino
Chief Investment Officer

Actuary
The Wyatt Company

Auditor
Miller, Kaplan, Arase, & Co.

Custodian Bank
Bankers Trust Company

Table of Contents

MAYOR
Tom Bradley

City Attorney	Controller
James Kenneth Hahn	Rick Tuttle

CITY COUNCIL

John Ferraro, *President*
Marvin Braude, *President Pro Tempore*

Mike Hernandez First District	Joel Wachs Second District	Joy Picus Third District
John Ferraro Fourth District	Zev Yaroslavsky Fifth District	Ruth Galanter Sixth District
Ernani Bernardi Seventh District	Mark Ridley-Thomas 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 PENSION COMMISSIONERS

Paul C. Hudson, *President*

Leland Wong *Vice President*	Dellene Arthur *Commissioner*
Kenyon S. Chan *Commissioner*	Sam Diannitto *Commissioner*
Kenneth E. Staggs *Commissioner*	Dave Velasquez *Commissioner*

CITY OF LOS ANGELES
CALIFORNIA

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

GARY MATTINGLY
GENERAL MANAGER

TOM BRADLEY
MAYOR

ALLAN E. MOORE
ASSISTANT GENERAL MANAGER—FISCAL

JAMES J. McGUIGAN
ASSISTANT GENERAL MANAGER—BENEFITS

DENNIS R. SUGINO
CHIEF INVESTMENT OFFICER

The Honorable Tom Bradley, Mayor
and
Honorable Members of the City Council:

In accordance with Section 64 of the City Charter, I am submitting the Annual Report on the affairs and operations of the Department of Pensions for the fiscal year ended June 30, 1991.

The investment program produced a return of $168 million for the past year, increasing the total assets to $4.034 billion. During the fiscal year all major components of the asset allocation program were completed. The fund terminated two managers and hired a domestic yield oriented large capitalization stock manager.

The Board adopted an Emerging Manager Policy designed to allow the Board to contract with managers who normally would not qualify for consideration, many of them women and minorities.

The phased-in South Africa Divestment Program was fully implemented during the year.

As in past annual reports, we are including financial statements prepared by our auditors, Miller, Kaplan, Arase, & Co. as well as a summary report of our actuary, The Wyatt Company.

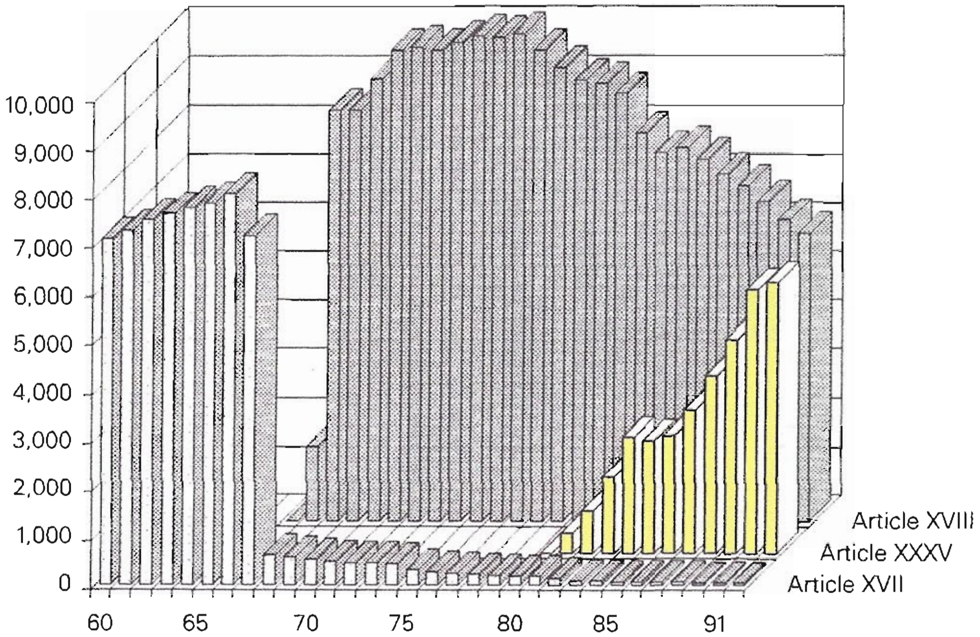
Respectfully submitted,

Gary Mattingly

Gary Mattingly

Active and Retired Membership

POLICE AND FIRE PENSION SYSTEMS
Active Membership: 1990-1991



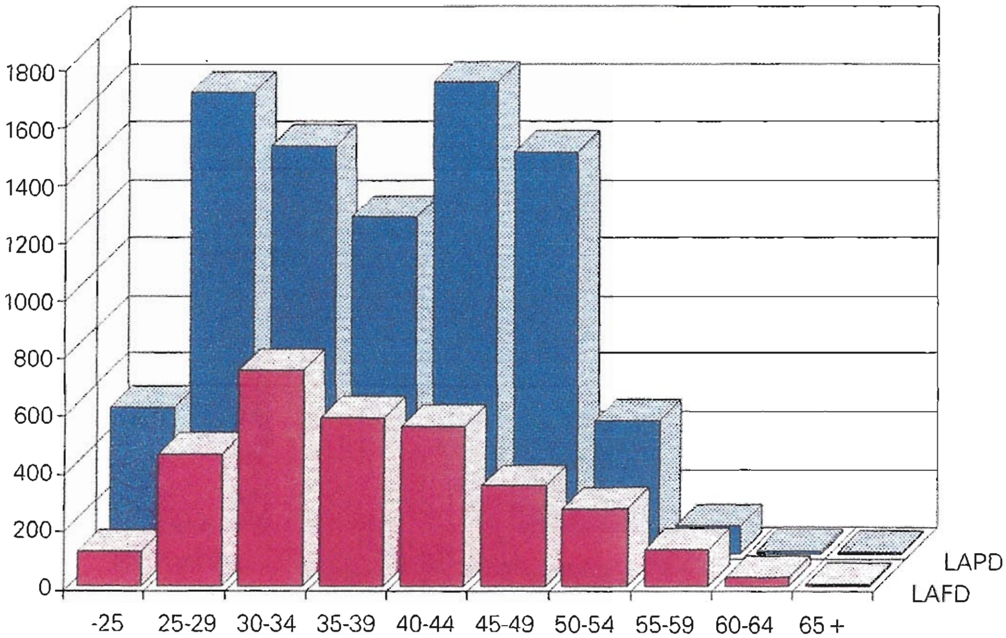
MEMBERSHIP AS OF JUNE 30, 1991			
ARTICLE	FIRE	POLICE	TOTAL
XVII	2	28	30
XVIII	1728	4160	5888
XXXV	1468	4055	5523
TOTAL	3198	8243	11441

THREE PENSION SYSTEMS

There are three pension systems that serve the active and retired membership of the Los Angeles Police and Fire Departments. The *Fire and Police Pension System* was established under Charter Article XVII in 1925. In 1967 this plan was extensively amended. Out of this process, the *New Pension System* (Charter Article XVIII) came into being. Members of the Article XVII plan were given the option to transfer into this plan.

In 1980, the benefits of the system were again extensively revised. This resulted in the creation of *The Safety Members Pension Plan* (Charter Article XXXV). All members hired after December 8, 1980 become members of this plan.

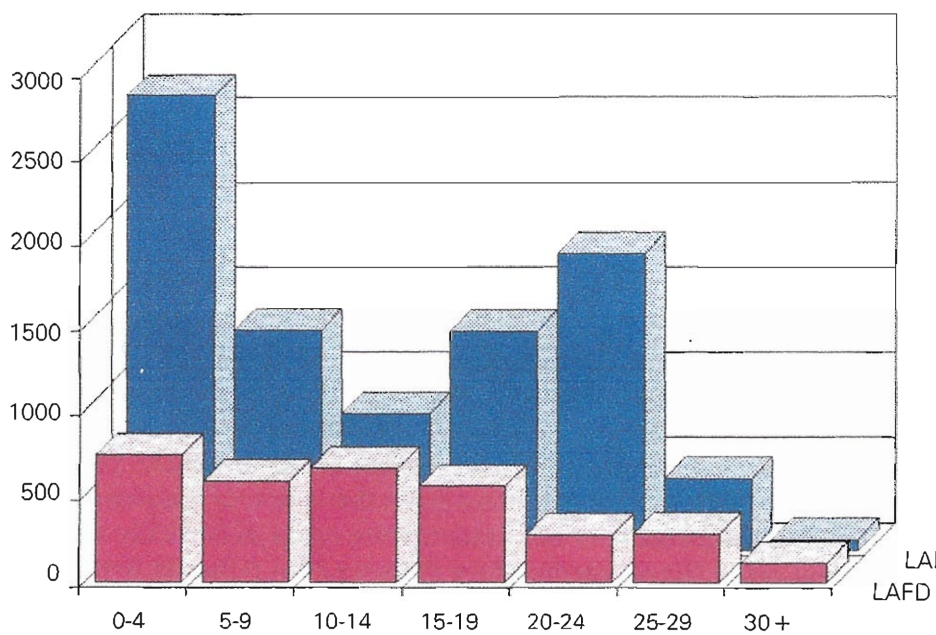
ACTIVE MEMBERSHIP
BY AGE GROUP



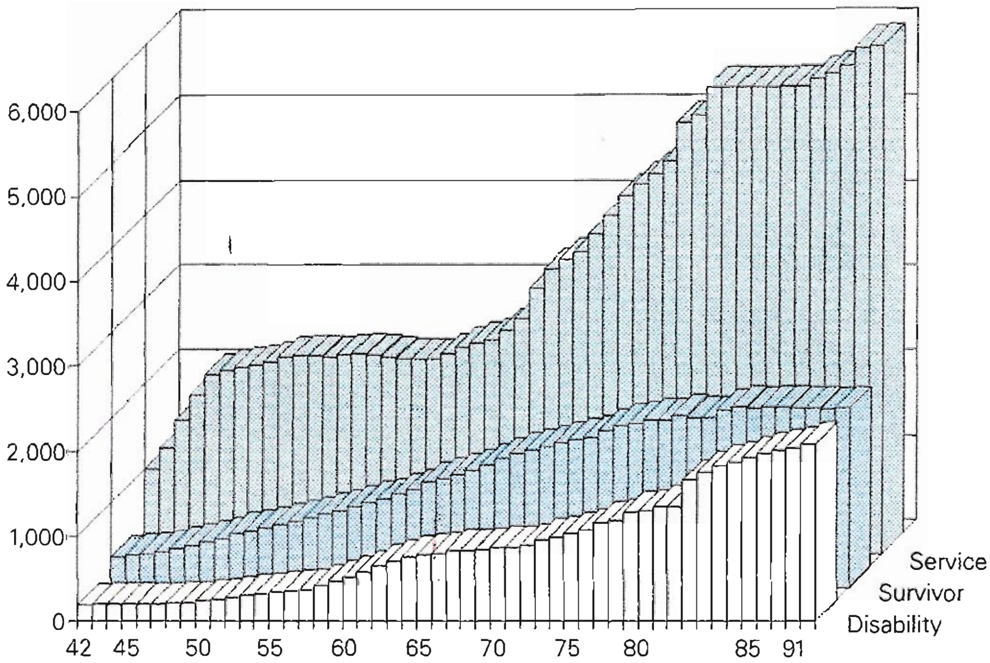
AGE	LAFD	LAPD
-25	116	501
25-29	454	1592
30-34	742	1408
35-39	577	1162
40-44	548	1624
45-49	344	1388
50-54	264	459
55-59	122	94
60-64	27	10
65+	4	5
TOTAL	3198	8243

ACTIVE MEMBERSHIP
BY YEARS OF SERVICE

YEARS	LAFD	LAPD
0-4	733	2672
5-9	587	1285
10-14	661	791
15-19	555	1280
20-24	270	1739
25-29	281	419
30+	111	57
TOTAL	3198	8243



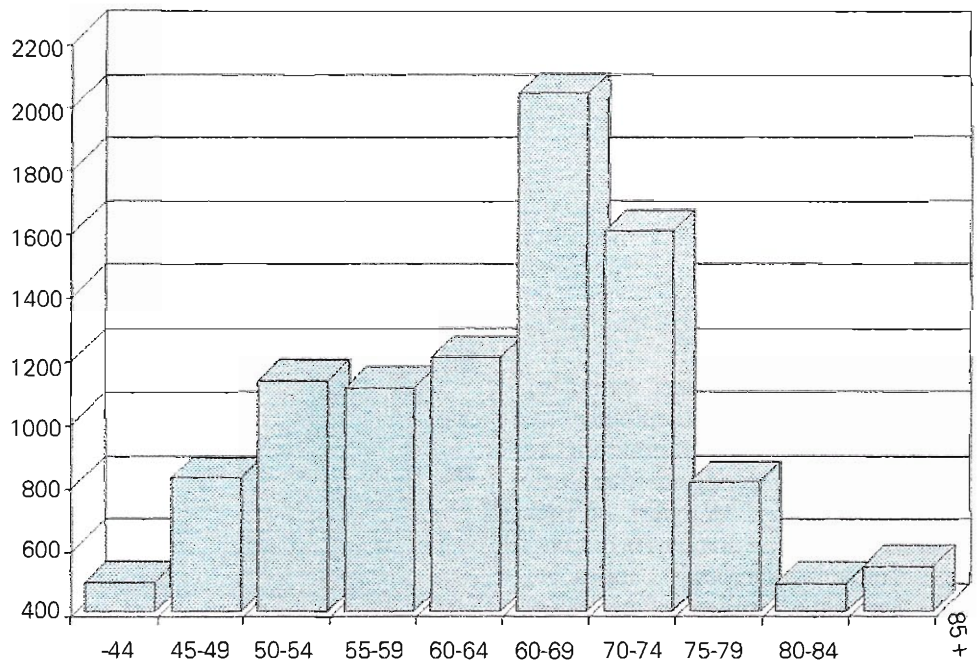
RETIRED MEMBERSHIP
LAST FIFTY YEARS



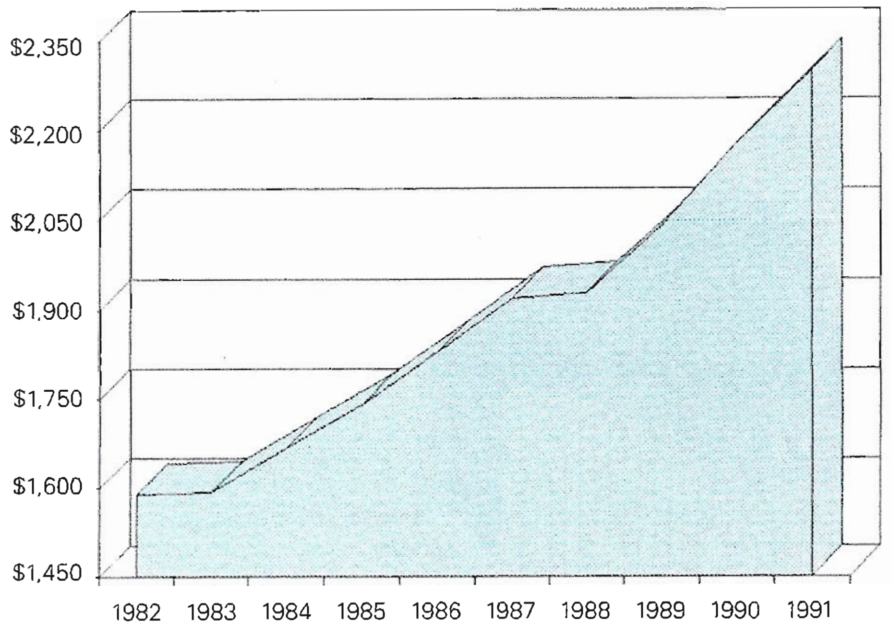
RETIRED MEMBERSHIP — JUNE 30		
Service Pensions	5,974	58.7%
Disability Pensions	2,099	20.6%
Survivor Pensions	2,110	20.7%
All Pensions	10,183	100.0%

RETIRED MEMBERSHIP
BY AGE GROUP

AGE	TOTAL
-44	491
45-49	820
50-54	1123
55-59	1101
60-64	1195
65-69	2027
70-74	1593
75-79	804
80-84	488
85 +	541



AVERAGE MONTHLY PENSIONS



YEAR	AMT
1981	$1,446
1982	$1,590
1983	$1,594
1984	$1,667
1985	$1,741
1986	$1,830
1987	$1,918
1988	$1,929
1989	$2,039
1990	$2,178
1991	$2,299

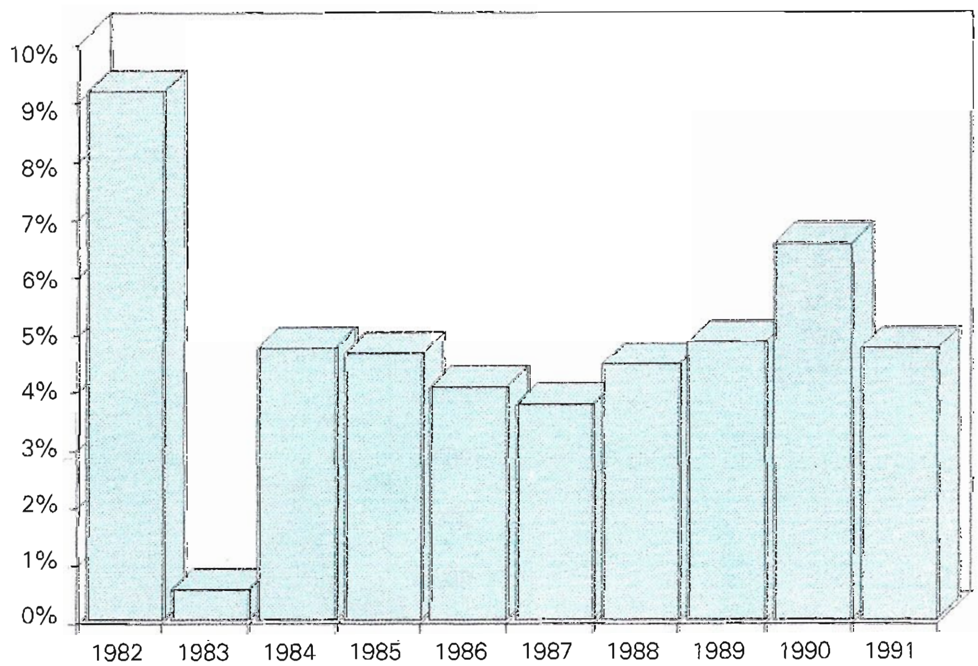
COST OF LIVING ADJUSTMENTS

EFFECTIVE JULY 1

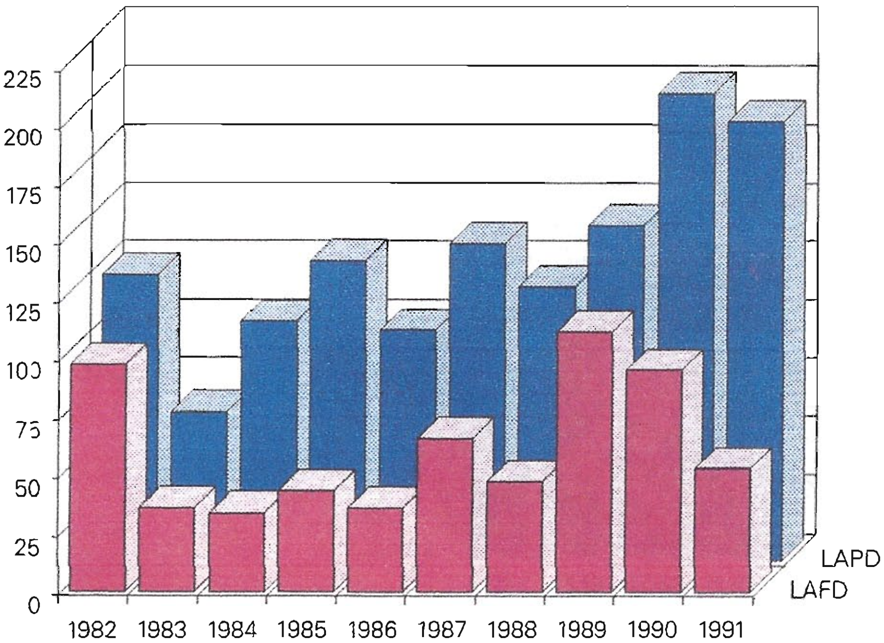
YEAR	COLA*
1982	9.1%
1983	0.5%
1984	4.7%
1985	4.6%
1986	4.0%
1987	3.7%
1988	4.4%
1989	4.8%
1990	6.5%
1991	4.7%

Cost of living adjustments are made to eligible pensions each July 1, based on the consumer price index for the greater Los Angeles area ending in February. Members of the *Safety Members Pension Plan* have cost of living increases capped at three percent. Members of the other pension plans have no cap on their cost of living adjustments.

*Cost Of Living Adjustment



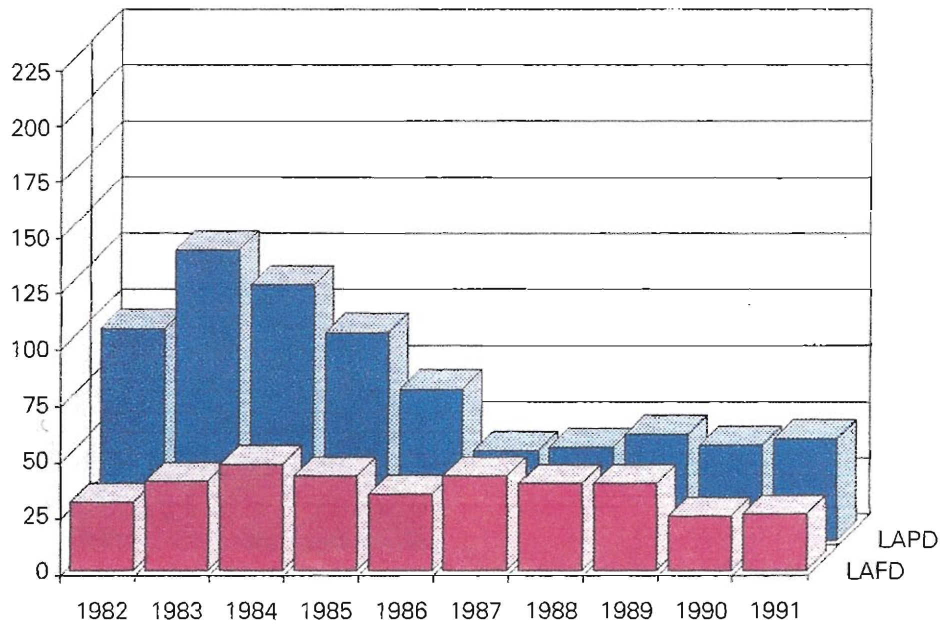
SERVICE PENSIONS GRANTED



YEAR	LAFD	LAPD
1982	97	122
1983	36	63
1984	34	102
1985	43	128
1986	36	98
1987	66	135
1988	47	117
1989	111	143
1990	95	200
1991	53	188

DISABILITY PENSIONS GRANTED

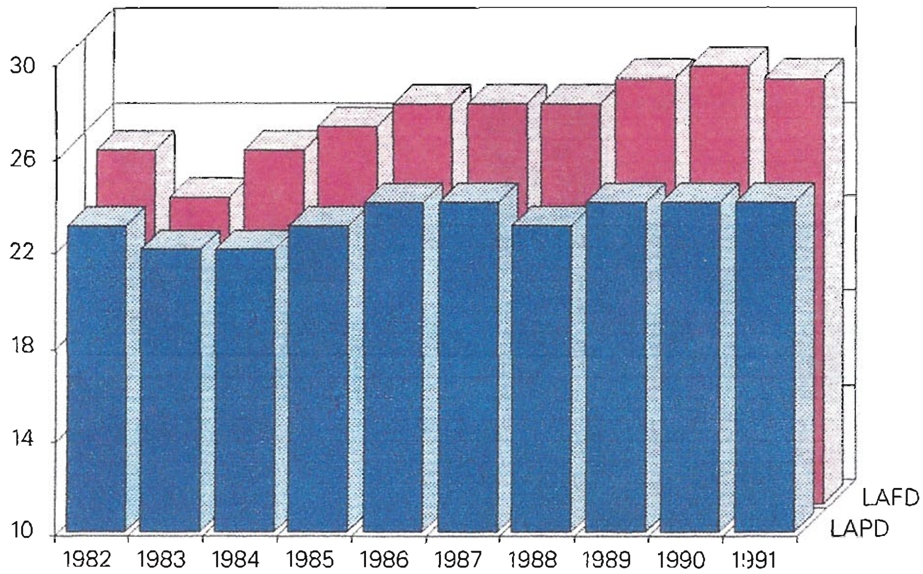
YEAR	LAFD	LAPD
1982	30	94
1983	40	129
1984	47	113
1985	42	92
1986	34	67
1987	42	40
1988	39	41
1989	39	47
1990	24	42
1991	25	45



Source: Department Records

MEMBERSHIP

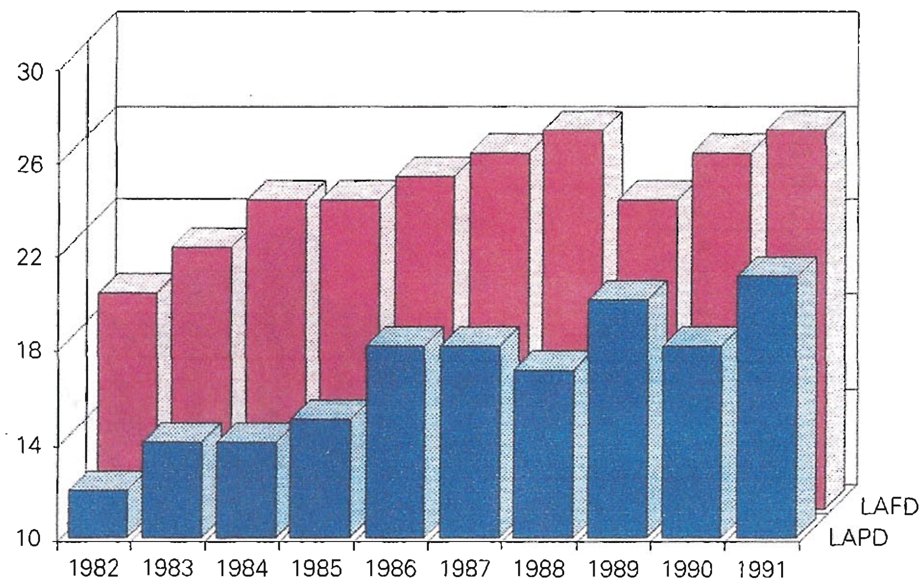
YEARS OF SERVICE
AT SERVICE RETIREMENT



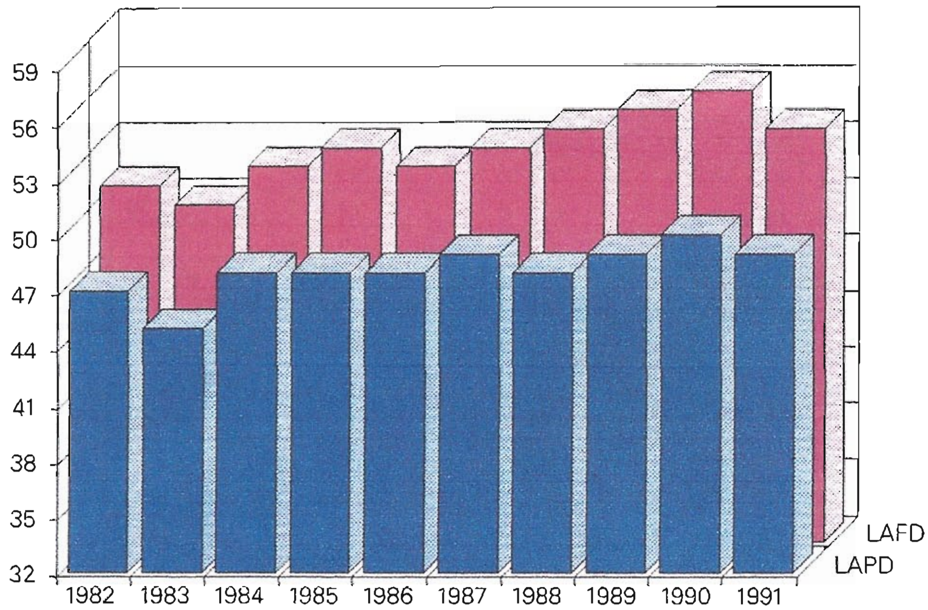
YEAR	LAFD	LAPD
1982	25.0	23.0
1983	23.0	22.0
1984	25.0	22.0
1985	26.0	23.0
1986	27.0	24.0
1987	27.0	24.0
1988	27.0	23.0
1989	28.0	24.0
1990	28.5	24.0
1991	28.0	24.0

YEARS OF SERVICE
AT DISABILITY RETIREMENT

YEAR	LAFD	LAPD
1982	19	12
1983	21	14
1984	23	14
1985	23	15
1986	24	18
1987	25	18
1988	26	17
1989	23	20
1990	25	18
1991	26	21



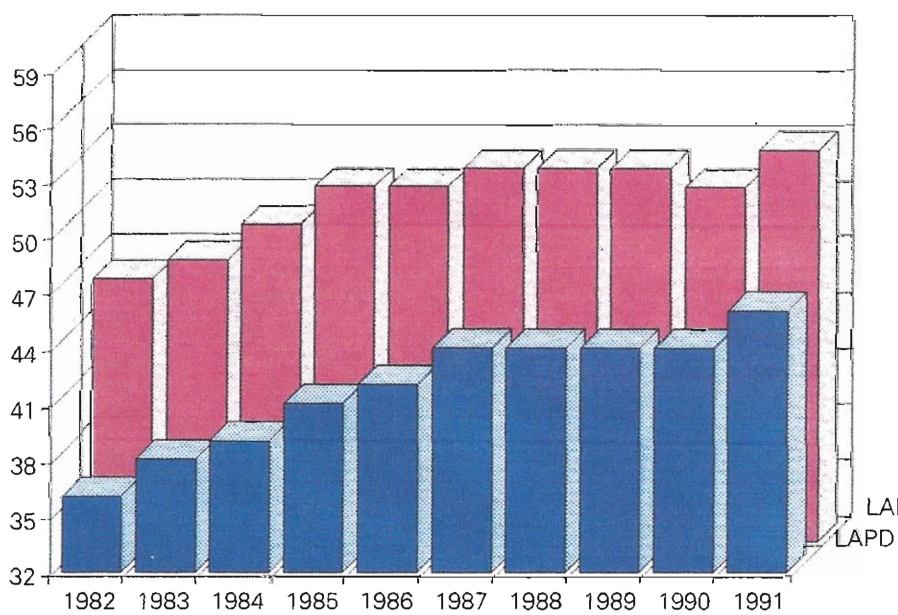
AVERAGE AGE
AT SERVICE RETIREMENT



YEAR	LAFD	LAPD
1982	51	47
1983	50	45
1984	52	48
1985	53	48
1986	52	48
1987	53	49
1988	54	48
1989	55	49
1990	56	50
1991	54	49

AVERAGE AGE
AT DISABILITY RETIREMENT

Year	LAFD	LAPD
1982	46	36
1983	47	38
1984	49	39
1985	51	41
1986	51	42
1987	52	44
1988	52	44
1989	52	44
1990	51	44
1991	53	46



TYPES OF PENSIONS

SERVICE-CONNECTED DISABILITY RETIREMENTS
BY TYPE AND DEPARTMENT

	FISCAL YEAR 1986-87				FISCAL YEAR 1987-88				FISCAL YEAR 1988-89				FISCAL YEAR 1989-90				FISCAL YEAR 1990-91			
GRANTED	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total
Physical Only	36	3	24	63	36	1	36	73	19	0	31	50	22	1	24	47	25	0	35	60
Physical/Psychological	0	0	13	13	1	0	7	8	0	4	8	12	1	0	13	14	0	0	8	8
Psychological Only	0	0	3	3	0	0	2	2	0	0	2	2	0	0	1	1	0	0	2	2
TOTALS*	36	3	40	79	37	1	45	83	19	4	41	64	23	1	38	62	25	0	45	70

	FISCAL YEAR 1986-87				FISCAL YEAR 1976-88				FISCAL YEAR 1988-89				FISCAL YEAR 1989-90				FISCAL YEAR 1990-91			
	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total	FF	PM	PO	Total
Back	23	1	12	36	22	1	14	37	14	1	15	30	16	0	19	35	13	0	22	35
Neck	5	0	5	10	10	0	7	17	4	1	7	12	9	1	13	23	1	0	10	11
Knees	7	0	3	10	4	0	2	6	3	0	4	7	7	1	4	12	8	0	11	19
Other Orthopedic	13	2	5	20	15	0	12	27	2	2	9	13	9	1	8	18	3	0	6	9
Heart Attack	0	0	2	2	2	0	5	7	1	0	2	3	0	0	2	2	2	0	1	3
Ulcer	0	0	3	3	1	0	3	4	0	1	4	5	1	0	2	3	0	0	2	2
Hypertension	4	0	8	12	2	0	11	13	2	1	6	9	1	0	10	11	1	0	9	10
Hearing Loss	5	1	1	7	6	0	4	10	3	0	4	7	3	0	3	6	7	0	3	10
Pulmonary	6	0	2	8	5	0	2	7	2	1	1	4	0	0	0	0	1	0	0	1
Cancer	0	0	0	0	5	0	2	7	1	0	0	1	0	0	0	0	1	0	1	2
PCP Exposure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gun Shot Wound	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	1	0	1	1
TOTALS*	63	4	41	108	72	1	62	135	32	7	53	92	46	3	61	110	37	0	66	103

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

POLICE	86-87	87-88	88-89	89-90	90-91
Police Officer	22	21	25	25	23
Sergeant	4	11	6	4	7
Detective	11	11	12	13	15
Lieutenant	2	4	0	0	1
Captain	2	0	0	0	2
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
TOTALS	41	47	43	42	48

FIRE	86-87	87-88	88-89	89-90	90-91
Ambulance Driver/Paramedic	3	2	4	2	0
Firefighter	15	9	6	10	11
Apparatus Operator	0	0	0	0	1
Fireboat Mate	0	1	0	0	0
Engineer	6	7	7	5	5
Inspector	0	1	2	1	1
Captain	14	16	3	7	7
Battalion Chief	1	2	2	2	1
Assistant Chief	0	1	0	0	1
Deputy Chief	0	0	0	0	0
TOTALS	39	39	24	27	27

*Totals for type are more because of multiple disabilities.

(FF—Firefighters, PM—Paramedics, PO—Police Officers)

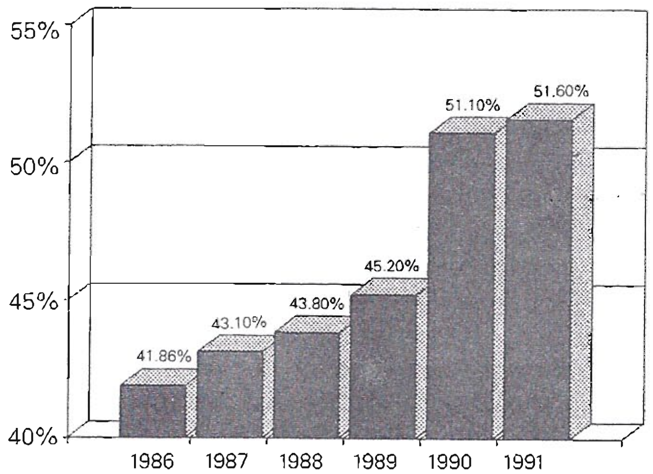
Actuarial Report
System Investments
Auditor's Report
Annual Budget

Actuarial Valuations

Two actuarial valuations of the assets and liabilities of the pension benefits are conducted annually. One study examines the pension benefits paid to members and their beneficiaries, the other study examines the health subsidies allocated to qualifying members. These studies evaluate the funding progress of the system and determine the contributions needed to fund the benefits for that year.

The funding status of the pension system is examined over a time span of several years to determine if funding progress is made. As can be seen by the following graph, satisfactory funding progress has occurred over the past five years.

FUNDED STATUS



How a Valuation is Conducted

The actuarial methodology used, (Entry Age Normal Cost), is required by the Charter under sections 186.2, 190.09 and 528 of Articles XVII, XVIII, and XXXV respectively. An actuarial valuation examines the membership of the pension system as currently constituted, then projects future liabilities using various assumptions.

Non-economic actuarial assumptions on mortality of members and spouses, probability of service retirement and disability, probability of termination prior to retirement, and probability of having a surviving beneficiary, are created from studies made of the actual experience of the membership of the system. A new study is conducted not less than once every five years.

These assumptions are recommended by an actuary and adopted by the Board of Pension Commissioners. The last study was adopted by the Board on August 25, 1989. An example of projected mortality is as follows:

Average Expected Years of Life Remaining for Pensioners

Service Pensioner (Average Age = 64)	17.4 years
Disabled Pensioner (Average Age = 55)	21.2 years
Survivor (Average Age = 72)	16.3 years

Economic assumptions are also studied, recommended by the actuary, and adopted by the Board. Economic assumptions used for this valuation period are:

Economic Assumptions

Cost-of-Living	5.5%*
Individual Salary	6.5%
Aggregate Salary	5.5%
Interest	8.5%

*Article XXXV is capped at 3%

Pension Benefit Balance Sheet

Cost of living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the interest assumption.

Once the liabilities of the system are computed the valuation study projects the contributions expected to be received, which are reduced to today's dollar terms using the interest assumption. The aggregate salary assumption is used to project the total member contributions. The Entry Age Normal Cost contribution, the amount the City would contribute for a hypothetical new entrant into the system, is calculated. This amount would theoretically be sufficient to fully fund the member's retirement on the date of retirement if funding was accurate throughout the member's employing period.

These potential future contributions are considered assets of the system, along with assets currently being invested by the Pension Department. The current assets are a blend of the market value and book value of the assets.

As can be seen on the Actuarial Balance Sheets (p. 18), the assets of $5.470 billon do not cover the liabilities of $9.142 billion. The balance, $3.671 billion is considered the unfunded actuarial liability.

Why There Is An Unfunded Liability

An unfunded liability can result from many variables. Often, benefit increases are credited to members while in the middle of their career, or even after they have retired. Since these benefit enhancements did not exist, contributions were not made during all or part of the members' working career. An example of a benefit enhancement that occurred was the lifting of a 2% cap on cost-of-living increases in 1972. This applied to all members, active and retired, and created an immediate unfunded liability. (Please consult the **Milestones Section** of the Annual Report for more examples of benefit changes.)

The Entry Age Normal Cost actuarial method normally results in actuarial gains or losses, unless all actuarial assumptions are met each year. These actuarial gains or losses are also included in the unfunded liability.

Occasionally, the actuarial methodology itself is refined according to accepted actuarial practice. For example, salary increases were not utilized in the computations until the late 1970s. When this practice was included, it created an additional unfunded liability.

Finally, during a period in the history of the Pension System, the funding was on a pay-as-you-go basis, instead of an actuarial basis. When the system shifted to an actuarial basis an immediate unfunded liability resulted.

How The Contribution Requirements Are Calculated

The unfunded liability is amortized over a time period and methodology prescribed in the Charter for each plan. Article XVII and XVIII's amortization period is scheduled to end in the fiscal year 2037.

Article XVII is amortized as a level dollar amount. Article XVIII is amortized as a level percent of all system members (Article's XVII, XVIII, and XXXV combined) salaries. Article XXXV's amortization time period is a level percentage of plan members' salary over a continuous fifteen-year cycle, each year's actuarial gain or loss is amortized for fifteen years. The following year's actuarial gain or loss is amortized for another fifteen years. Any gains or losses resulting from benefit changes are amortized over a thirty-year period.

Utilizing all this information, the actuary then computes the contribution requirements for the City.

Entry Age Normal Cost
Contribution Requirements
(As a percentage of plan members' salary)

Article XVII	20.731%
Article XVIII	23.647%
Article XXXV	15.148%

Unfunded Liability
Contribution Requirements

Article XVII	$44,200,000
Article XVIII	21.076% of all system members' salary
Article XXXV	(0.574)% of plan members' salary

Health Subsidy Valuation

The health valuation study utilizes the same actuarial assumptions as the study on pension benefits, with the addition of a medical inflation assumption. Currently, medical costs are increasing at a faster pace than inflation generally. Therefore the actuary assumed a 13% increase in 1991. However, this rate of inflation is not expected to continue indefinitely, so the assumption decreases slowly until an ultimate rate of 7.5% is reached in the year 2001.

Using the same actuarial methods as for the pension benefits, the Actuarial Balance Sheet is as shown on page 18.

The contributions suggested to fund the health subsidy plan are:

Entry Age Normal Cost
Contribution Requirements
(As a percentage of plan members' salary)

Article XVII	0.972
Article XVIII	2.216%
Article XXXV	4.782%

Unfunded Liability Contribution Requirements

Article XVII	$2.033 million
Article XVIII	3.509% of all system members' salary
Article XXXV	1.170% of plan members' salary

ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1991

ASSETS

	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets (Market Related Value)	$24,804,571	$3,467,053,125	$ 332,151,528	$3,824,009,224
2. Present Value of Future Member Contributions	286,373	154,677,992	275,189,602	430,153,967
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	1,854,247	654,129,412	560,013,830	1,215,997,489
b. Unfunded Actuarial Accrued Liability	507,432,302	3,190,625,949	(26,619,161)	3,671,439,090
4. Total Assets	$534,377,493	$7,466,486,478	$1,140,735,799	$9,141,599,770

LIABILITIES

	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
5. Present Value of Benefits Already Granted				
a. Service Retirements	$ 154,368,486	$2,817,029,597	$ 1,671,451	$2,973,069,534
b. Disability Retirements	127,938,422	941,580,525	11,919,736	1,081,438,683
c. Survivors and Dependents	234,808,694	334,872,402	5,420,912	575,102,008
d. Total	517,115,602	4,093,482,524	19,012,099	4,629,610,225
6. Present Value of Benefits to be Granted				
a. Service Retirements	15,072,275	2,654,464,274	757,289,246	3,426,825,795
b. Disability Retirements	2,105,294	684,530,012	305,500,056	992,135,362
c. Survivors and Dependents	76,015	23,275,849	28,122,428	51,474,292
d. Total	17,253,584	3,362,270,135	1,090,911,730	4,470,435,449
7. Refund of Employee Contributions	8,307	10,733,819	30,811,970	41,554,096
8. Total Liabilities	$ 534,377,493	$7,466,486,478	$1,140,735,799	$9,141,599,770

ACTUARIAL BALANCE SHEET FOR HEALTH SUBSIDY BENEFITS AS OF JUNE 30, 1991

ASSETS

	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets (Market Related Value)	$ 3,603,124	$ 16,271,996	$ 4,569,590	$ 24,444,710
2. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	50,194	43,769,228	139,522,088	183,341,510
b. Unfunded Actuarial Accrued Liability	23,352,517	531,246,892	54,593,700	609,193,109
3. Total Assets	$ 27,005,835	$ 591,288,116	$198,685,378	$ 816,979,329

LIABILITIES

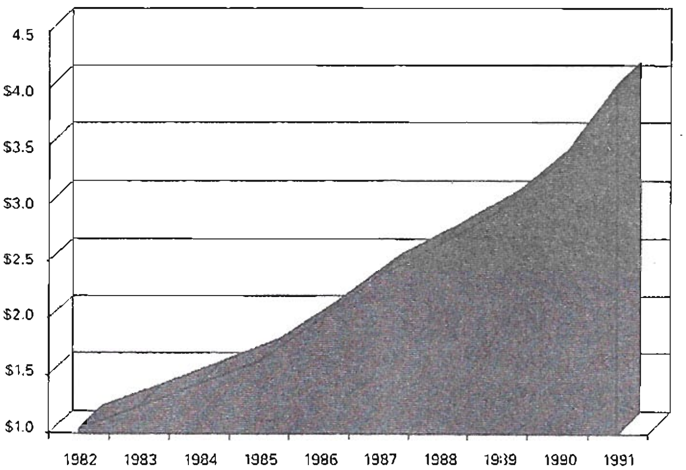
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
4. Present Value of Benefits Already Granted	$ 25,273,126	$ 293,755,832	$ 974,503	$ 320,003,461
5. Present Value of Benefits to be Granted				
a. Actives Eligible to Retire	1,732,709	155,237,224	390,812	157,360,745
b. Other Actives	0	142,295,060	197,320,063	339,615,123
c. Total	1,732,709	297,532,284	197,710,875	496,975,868
6. Total Liabilities	$ 27,005,835	$ 591,288,116	$198,685,378	$ 816,979,329

SUMMARIZATION OF ACTIVITIES OF THE INVESTMENT SECTION

Introduction

The investment program produced a gain of $168 million in the past year. For the past five years, the System's assets have grown from $2.4 billion to $4.0 billion and investment performance was responsible for $1.3 billion of this growth.

MARKET VALUE GROWTH OF SYSTEM ASSETS
In Billions of Dollars — Fiscal Year Ending June 30, 1991



Investment Environment

The bond market *(Salomon Bros. Broad Investment Grade Index)* was up 10.8 percent. Large capitalization stocks *(S & P 500)* achieved a 7.4 percent return. Small stocks *(NASDAQ Composite)* produced a modest 4.9 percent. International stocks *(Morgan Stanley EAFE)* had a negative 11.5 percent return. Real Estate *(NCREIF)* was stagnant with a negative 1.2 percent return.

Investment Performance

The investment objectives of the System, over a full market cycle (usually 3 to 5 years), are a return of at least two percent above the consumer price index per year and above median investment performance for public funds.

For the past five years, the System's annualized return of 8.8 percent was almost double the inflation measure increase of 4.5 percent. For the one-year period, the System's overall investment performance was up 4.8 percent and kept pace with the consumer price index increase of 4.7 percent.

The System's performance was competitive with other public funds *(Trust Universe Comparison Service)* over the past three to five years. For this past year, the System returned 4.8 percent versus the public fund median of 8.1 percent. Most public funds have a higher commitment to bonds and a lower commitment to stocks. Our relative underperformance is mainly attributable to the good performance of bonds; our allocation to international stocks also dragged down the overall near term performance.

Asset Allocation Decisions

Our asset allocation plan establishes the blueprint for investing the System's assets in stocks, bonds, real estate and cash equivalents over a three to five year period. It is the single most important decision in managing risk and achieving superior investment performance in the long term.

The asset class targets for this period were as follows: U.S. large capitalization stocks (47%), U.S. small capitalization stocks (5%), Non-U.S. stocks (6%), U.S. investment grade bonds (27%), high yield bonds (5%) and real estate (10%).

The actual asset class percentages of the System will vary from target allocations due to inflows (such as City and member contributions), outflows (such as pension payments) and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements. As of June 30, 1991, the asset values were as follows:

ASSET CLASS	MARKET VALUE (In millions) As of 6/30/91
U.S. large capitalization stocks	$1,930.1
U.S. small capitalization stocks	211.1
Non-U.S. stocks	205.0
U.S. investment grade bonds	1,114.2
High yield bonds	201.9
Real Estate	214.1
Cash Equivalents	157.6
Total	$4,034.0

Domestic and foreign securities lending contributed $821,000 and the custodian bank's stock/dividend reinvestment program an additional $19,000 toward investment performance for the year. The options overwriting program is designed over the long run to add incremental return and reduce portfolio volatility. For the year, the program reduced investment return by $37 million.

Investment Activity

For the past three years, we have worked diligently toward fully implementing our asset allocation plan. All major components of this plan are now in place. The major portfolio activities of the year included fine tuning the number of stock managers and adding one investment to the real estate portfolio.

Hill Samuel Investment Advisors Ltd. was hired in August 1989 as one of four international stock advisors. The Board terminated its relationship with the firm this year when resignations by a number of key professionals left the firm less capable of achieving expected investment performance results. The assets were divided among the three remaining international equity managers.

BMI Capital Management was retained in July 1988 as one of five domestic small capitalization stock managers. The Board terminated this manager due to poor investment performance and allocated the account assets equally among the other investment managers in this asset class.

The Boston Company Institutional Investors, Inc. was hired to manage a $400 million domestic yield oriented large capitalization stock account after a nation-wide competitive search. The selection of this firm completes our plan to have three active investment styles represented in the $2.0 billion domestic large capitalization stock asset class.

We purchased Park Plaza Community Shopping Center for the real estate portfolio of the system. This retail center consists of almost 200,000 square feet and is anchored by Vons and Savon Drugs. It is located on Western Avenue near Park Western Drive in the San Pedro community of the City of Los Angeles. JMB Institutional Realty Corporation advised the Board on the purchase.

Wilshire Associates was hired to assist the Board with investment performance measurement. Wyatt Asset Services was hired to assist in investment manager searches. SEI Funds Evaluation Service's contract for consulting was not renewed.

ASSET REALLOCATION PLAN
Current Status

	Current Portfolio	Target Portfolio
U.S. Stocks	49.0%	47.0%
Bonds	26.0%	27.0%
Small Cap Equities	7.3%	5.0%
Real Estate Equity	5.4%	10.0%
International Equity	4.5%	6.0%
Cash Equivalents	4.2%	0.0%
High Yield Bonds	3.6%	5.0%

In 1989 the Board amended its strategic asset allocation plan to further reduce volatility or risk of the Plan through diversification and to enhance the potential for increased investment return. The graph shows the current breakdown of system assets.

Other Activity

The System votes all domestic and available international proxy solicitations. There were 652 proxies voted in Fiscal Year 1990-91. The System votes affirmatively on preemptive rights, cumulative voting, adoption of the Sullivan Principles, and confidential voting. The System opposes anti-takeover measures and generally abstains on issues of a social, political, or environmental nature that have no expected economic impact on the System's assets.

The System's six phase South Africa Divestiture Program was adopted in 1985 after a legal and financial study concluded that the Program was not inconsistent with the fiduciary responsibilities owed to the System's members. The final Phase VI was implemented and requires the divestiture of securities of all companies doing business in South Africa, unless the System determines that a company is engaging in political, social, and economic activities that substantially assist efforts to end apartheid. A company may also be exempted if investments would be economically harmed.

The Board adopted an Emerging Manager Policy in 1991 to provide opportunities to contract with managers excluded from past searches who could not meet our normal size and years of service requirements. It also is consistent with the City's policy to utilize minority and women-owned business enterprises.

CHANGE IN ASSET MIX: 1982-1991
Fiscal Year ending June 30, 1991

Fiscal Year	Stocks	Bonds	Short Term Investments	Real Estate
1982	22.0%	49.0%	29.0%	0.0%
1983	45.0%	41.0%	14.0%	0.0%
1984	37.0%	31.0%	32.0%	0.0%
1985	47.0%	41.0%	12.0%	0.0%
1986	51.7%	39.9%	8.4%	0.0%
1987	55.0%	33.0%	12.0%	0.0%
1988	53.0%	35.0%	10.0%	2.0%
1989	59.8%	32.7%	5.7%	1.8%
1990	52.4%	31.8%	9.9%	5.9%
1991	52.0%	32.7%	9.2%	6.1%

The above figures show the ten-year overall change in how the system's funds are invested. Note the recent addition of Real Estate to the System's portfolio.

ANNUAL RATES OF RETURN

As of June 30	Equities	Fixed Income	Real Estate	Total Fund*	CPI**
1981-82	−13.9%	12.7%		−1.3%	9.6%
1982-83	68.8%	35.4%		46.9%	2.6%
1983-84	−16.4%	2.1%		−5.9%	4.2%
1984-85	29.6%	28.9%		25.3%	3.7%
1985-86	35.3%	19.1%		26.6%	1.7%
1986-87	23.7%	5.7%		14.2%	3.7%
1987-88	−5.3%	6.9%		0.3%	3.9%
1988-89	20.5%	12.5%	8.7%	16.0%	3.7%
1989-90	14.9%	5.5%	7.4%	10.5%	4.7%
1990-91	5.2%	10.5%	−3.0%	4.8%	4.3%

*Total fund includes short-term investments **C.P.I. is for the U.S. ending June 30th

INVESTMENT ADVISORS

Stock Managers

Alliance Capital Management
Amerindo Investment Advisors
The Boston Company
Frontier Capital Management
Husic Capital Management
Loomis Sayles and Company
Security Pacific Investment Managers
Target Investors, Inc.

International Stock Managers

Globe Finlay, Inc.
Nomura Capital Management, Inc.
Oechsle International Advisors, Ltd.

Bond Managers

The Boston Company Institutional Investors, Inc.
Cypress Capital Management
Magten Asset Management Corporation
Security Pacific Investment Managers, Inc.

Option Managers

Balch, Hardy, Scheinman & Winston, Inc.
MCQ, Inc.
Oppenheimer Cap;ital Corporation

Real Estate Managers

The Boston Company Real Estate Counsel, Inc.
Copley Real Estate Advisors
Equitable Real Estate
FS/Weingarten Realty Partners
JMB Institutional Realty Corporation
Prudential Asset Management Company
Public Storage Institutional
Sentinel Real Estate Corporation

MANNON KAPLAN, C.P.A.
JEFFREY S. SLOMIAK, C.P.A.
GEORGE NADEL RIVIN, C.P.A.
EDWIN KANEMARU, C.P.A.
KENNETH R. HOLMER, C.P.A.
DOUGLAS S. WAITE, C.P.A.
JAMES E. VEALE, C.P.A.
JOSEPH C. CAHN, C.P.A.
CHARLES SCHNAID, C.P.A.
DONALD G. GARRETT, C.P.A.

STANLEY L. MILLER, C.P.A.*
PAUL ARASE, C.P.A.*
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THE CALIFORNIA SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS
#95-2036255

INDEPENDENT AUDITORS' REPORT

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

Members of the Board:

We have audited the accompanying balance sheet of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 1991, and the related statement of revenues, expenditures and changes in fund balance for the year 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 audit. The June 30, 1990 financial statements were audited by other auditors whose report, dated November 15, 1990, on those statements included an explanatory paragraph that described the litigation discussed in Note 6 to the financial statements. As discussed in Note 9 to the financial statements, the System has restated its June 30, 1990 balance sheet and supplemental schedule balances to conform to the June 30, 1991 financial statement presentation. The other auditors reported on the June 30, 1990 financial statements before the restatement.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the City of Los Angeles Fire and Police Pension System as of June 30, 1991, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, the System has been named in a class action lawsuit that seeks to refund all disability pensioners' contributions. In addition, the System has been named in several domestic relation matters. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

The financial statements as of June 30, for each of the years from 1982 through 1989 (none of which are presented here) were audited by other auditors whose report dated November 15, 1990 expressed a qualified opinion, based on the litigation on those financial statements for each of the years from 1982 through 1988. This litigation was settled and the resulting unfunded liability recorded in the financial statements for the year ended June 30, 1989. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion based on our audit. As discussed in Note 9 to the financial statements, the System has restated its June 30, 1990 balance sheet and supplemental schedule balances to conform to the June 30, 1991 financial statement presentation. The other auditors reported on the June 30, 1990 financial statements before the restatement. In our opinion, except for the omission in years 1982 through 1988 of recording the judgment discussed and the inconsistency resulting from the effect of recording the unfunded actuarial liability of the health plan subsidy in the year ended June 30, 1990, discussed in Note 2, the information set forth in the supplemental schedules for each of the ten years in the period ended June 30, 1991, appearing on pages 10 through 13, is fairly stated, in all material respects, in relation to the financial statements from which it was derived.

We also audited the adjustments described in Note 9 that were applied to restate the 1990 balance sheet and supplemental schedules. In our opinion, such adjustments are appropriate and have been properly applied.

Miller Kaplan Arase & Co

MILLER, KAPLAN, ARASE & CO.

January 3, 1992

City of Los Angeles Fire and Police Pension System
BALANCE SHEETS
Years ended June 30, 1991 and 1990

	1991	1990
ASSETS		
CASH	$ 1,607,626	$ 1,538,682
RECEIVABLES		
Accrued interest and dividend income	23,453,743	26,670,009
Contributions	1,985,477	1,979,538
Due from brokers and others	13,609,126	19,796,779
Accrued real estate income	1,154,846	1,370,598
SUBTOTAL	40,203,192	$49,816,924
INVESTMENTS		
Temporary investments	302,029,979	333,294,697
Bond investments	1,222,706,554	1,070,000,448
Common stock investments	1,926,954,615	1,754,878,064
Preferred stock investments	18,164,973	10,228,518
Real estate pools	228,993,212	199,155,185
SUBTOTAL	$3,698,849,333	$3,367,556,912
TOTAL ASSETS	$3,740,660,151	$3,418,912,518
LIABILITIES		
Benefits in process of payment	1,639,419	1,688,190
Accounts payable	2,942,107	2,167,173
Deferred Option Premiums	51,142,396	44,424,001
Due to brokers	23,322,923	18,511,726
Mortgage loan payable	6,000,000	————
SUBTOTAL	$85,046,845	$66,791,090
Net assets available for benefits	$3,655,613,306	$3,352,121,428
FUND BALANCE		
Actuarial present value of projected benefits payable to current retirants and beneficiaries	4,949,613,686	4,696,731,246
Actuarial present value of credited projected benefits for active employees:		
Member contributions	395,323,917	381,844,824
Employer financed portion	2,591,307,902	2,533,723,882
SUBTOTAL	$7,936,245,505	$7,612,299,952
Unfunded actuarial present value of credited projected benefits	($4,280,632,199)	($4,260,178,524)
TOTAL FUND BALANCE	$3,655,613,306	$3,352,121,428

See notes to financial statements.

City of Los Angeles Fire and Police Pension System
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Years ended June 30, 1991 and 1990

	July 1, 1990 to June 30, 1991		July 1, 1989 to June 30, 1990	
REVENUES				
City Contributions	$340,843,137		$316,429,364	
Member Contributions	37,820,348		34,883,307	
Miscellaneous	392,329	$379,055,814	325,103	$351,637,774
Investment Income				
Interest	133,912,766		125,295,117	
Dividends	60,960,014		63,058,300	
Provision for permanent impairment of bonds	($10,584,070)		($16,861,978)	
Real Estate Income	7,080,147		7,776,641	
Securities lending income — See Note 5	801,240		464,414	
Other	321,489	192,491,586	————	179,732,494
Net gain on sale of investments	93,888,939		179,262,661	
Net loss on option premiums	($54,669,448)	39,219,491	($6,115,364)	173,147,297
		$610,766,891		$704,517,565
EXPENDITURES				
Benefits paid to participants:				
Service	175,190,902		160,594,308	
Disability	56,479,714		52,983,458	
Surviving spouses	47,862,049		45,331,389	
Minors and dependents	986,446		853,036	
Health Plan subsidy — See Note 4	11,522,614		10,271,812	
	$292,041,725		$270,034,003	
Administrative expense	15,233,288	307,275,013	13,547,455	283,581,458
NET OPERATING INCOME		$ 303,491,878		$ 420,936,107
FUND BALANCE, BEGINNING		$3,352,121,428		$2,931,185,321
FUND BALANCE, ENDING		$3,655,613,306		$3,352,121,428

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 1991 and 1990

Note 1 — Description of Plan

The City of Los Angeles Department of Pensions operates under provisions of the City Charter of the City of Los Angeles, which provides that the funding requirements of the City of Los Angeles Fire and Police Pension System *(the System or the Plan)*, based on the results of actuarial valuation, will be satisfied by the City of Los Angeles. In addition, the City of Los Angeles is required to fund the administrative expenses of the System.

In general, the System is a defined benefit pension plan covering all firefighters, police officers, paramedics and civilian ambulance employees of the City of Los Angeles. Benefits are based on members' final compensation and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of three groups. Those members hired prior to January 26, 1967 participate in the Fire and Police Pension System *(Old System)* unless they requested transfer to the New Pension System *(New System)* established for members hired on or after January 26, 1967. Members hired after December 8, 1980 participate in the Safety Members Pension Plan that was established at that time.

Members with 20 or more years of service in the Old System and New System are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 66⅔% in the Old System and 70% in the New System. There is no minimum age requirement. The Plans provide for unlimited cost-of-living adjustments in benefits for service. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements. Members of the Safety Members' Pension Plan must be age 50, with ten years of service, to be entitled to an annual pension. Benefits are equal to 20% of their one-year average compensation, increasing for each year of service over ten years, to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefits can be adjusted by the City Council once every three years.

Since the Plan includes detailed provisions for each situation, members should refer to the Plan Documents for more complete information.

Note 2 — Summary of Significant Accounting Policies

A. Basis of Presentation. The System's financial statements are prepared on the accrual basis of accounting and presented in accordance with Statement No. 6, *"Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers,"* of the National Council on Governmental Accounting. Contributions and other income are recorded when earned, expenses when incurred, and gain or loss on investments in the year of disposition.

B. Cash. Cash consists primarily of an undivided interest in the cash held by the Treasurer of the City of Los Angeles and cash held by brokers in temporary bank accounts pending funding related to real estate investments.

C. Investments. Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, and Treasury bills, are carried at cost, which approximates market at June 30, 1991 and 1990.

Bonds are recorded at face value less unaccredited discount or plus unamortized premium. Bond premium and discounts are amortized or accreted to the maturity date by adjusting the nominal interest rate to the yield basis upon which they were acquired. Bonds are written off when management deems there is a permanent impairment of value.

Common and preferred stocks are carried at their cost basis.

Real estate investments are accounted for on the equity method of accounting when there is an interest of 20% or greater. The cost method has been used for investments of less than 20%. Direct real estate investments are depreciated on a straight-line basis over the estimated useful lives of the properties.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange at the balance sheet date. Resulting gains or losses are included in the statement of revenues, expenditures and changes in fund balance, if material.

The stated market value of investments is generally based on published market prices or quotations from major investment dealers. Real estate market values are taken from the reports of the investment advisors.

D. Income from Investments. The Charter of the City of Los Angeles provides that the rate of return from investments, exclusive of gains and losses, shall be credited to member contribution accounts. Realized gains and losses on investments are recognized in the City's actuarial funding calculation.

E. Deferred Option Premiums. As allowed by the Charter of the City of Los Angeles, the System writes covered call options. The deferred revenue is stated at the current market value, with the resulting charge or credit reflected in current-year operations.

F. Post-Retirement Benefits. Retired members currently receive a health plan subsidy. The amounts paid into this subsidy are charged to current year operations. Effective in the fiscal year ended June 30, 1990, the System reflected the unfunded actuarial liability of the health plan subsidy. The System's actuarial present value of projected benefits and unfunded actuarial liability has increased by the following amounts in the year ended June 30, 1990 as a result of this change:

Actuarial Present Value of Projected Benefits payable to Current Retirants and Beneficiaries	$292,293,505
Actuarial Present Value of Credited Projected Benefits for Active Employees	$277,243,608
Unfunded Actuarial Present Value of Credited Projected Benefit	($569,537,113)

Note 3 — Estimated Liability For Pensions

The estimated liability for pensions reflects the liabilities as determined by the System's actuaries based upon actuarial valuations as of June 30, 1991 and 1990. Such liabilities represent computed amounts that, if such amounts were held by the System, with additions from future contributions to be received to cover normal costs and with interest on investments compounded annually at a certain assumed rate, would be sufficient to meet the projected pension obligations. The valuation results were based on the demographic assumptions adopted as a result of the study of System experience made as of June 30, 1988. The most significant economic and actuarial assumptions for fiscal years 1991 and 1990 consist of the following:

	1991	1990
Investment Return	8.5%	8.5%
Annual Salary Scale Increase:		
Individually	6.5%	6.5%
Aggregate	5.5%	5.5%
Annual Cost-of-Living Increase:		
Old System and New System Members	5.5%	5.5%
Safety Members'Pension Plan Members	3.0%	3.0%

Mortality among retirees — The valuation for those on service retirement is based upon the 1983 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1974 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses — The valuation is based upon the 1983 Group Annuity Mortality Table.

Remarriage among spouses — Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

Note 4 — Funding Policy

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuaries, in their reports as of June 30, 1991 and 1990, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Old System members are required by the City Charter to contribute 6% of salary. Safety Members Pension Plan members are required to contribute 8% of salary.

The Charter of the City of Los Angeles specifies that the City will make the following contributions each year:

A. An amount equal to the City's share of defined entry-age normal costs.

B. For New System members and Old System members, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under the Safety Members' Pension Plan, any "unfunded liability" due to the benefit changes of that System shall be amortized over a 30-year period, and actuarial expereience gains and losses shall be amortized over a 15-year period.

C. An amount to provide for health plan subsidies for retired members.

D. An amount to provide for administrative expenses.

Accordingly, the actuaries for the System have determined the contributions for items A., B., and C. above, for the years ended June 30, 1991 and 1990 to be as follows:

	PERCENTAGE OF MEMBERS' SALARIES					
	OLD SYSTEM		NEW SYSTEM		SAFETY MEMBERS PENSION PLAN	
	1991	1990	1991	1990	1991	1990
Entry-Age Normal Cost Contribution	21.82%	24.09%	24.22%	22.89%	16.10%	17.88%
Amortization of Unfunded Liability	$47.2M	$48.9M	23.00%	22.55%	(1.81%)	(1.16%)
Health Plan Subsidy	$3.5M*	$2.7M*	$21M*	$11.5M*	$3.4M*	$1.1M*

Stated as required dollar amount.

The actuarially determined unfunded liability of the System is $4,280,632,199 at June 30, 1991 and $4,260,178,524 at June 30, 1990 (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City Charter, the amount at June 30, 1991 is to be amortized over the next 46 years through contributions to be made by the City.

Note 5 — Securities Lending

The System has entered into various short-term arrangements whereby investments are loaned to various brokers. The lending arrangements are collateralized by cash, letters of credit and marketable securities. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit. Securities on loan to brokers continue to be shown at their cost basis in the balance sheet.

Amounts outstanding at June 30, 1991 and 1990 are as follows:

	1991	1990
Securities on Loan:		
Cost	$245,177,591	$274,291,800
Market	$270,303,417	$272,765,262
Collateral	$279,825,497	$279,756,756

Note 6 — Contingencies

A. Termination Rights. All members who were active on or after July 1, 1982 have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement. The dollar amounts of the contributions and interest subject to this right at June 30, 1991 and 1990 are $395,323,917 and $381,844,824, respectively.

B. Legal Action. Several legal actions against the Board of Pension Commissioners were pending at June 30, 1991. Except for the following matters, the combined potential liability is not deemed to be material to the net assets of the system.

The System has been named in a class action lawsuit that seeks to refund all disability pensioners' contributions on the basis that the disability pensions are not a pension award; thus, the City should not be allowed to keep the pension contributions. The City filed a motion for summary judgment which was granted on November 6, 1991. It is reasonable to assume that plaintiffs will appeal from the decision.. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the financial statements.

There are currently pending several domestic relations matters wherein the System has been or will be ordered to (1) make survivorship payments to ineligible former spouses; (2) make payments of community interest while the member is still working but eligible to retire; and (3) make payments to the estates of deceased former spouses. The System is contesting these orders. No opinion can be given by management as to the ultimate outcome, nor can an estimate of the potential liability be made at this time. Accordingly, no liability has been recorded in the financial statements.

Note 7 — Sub-Investment Grade Bonds

At June 30, 1991 and 1990, the System had investments in bonds rated below investment grade of approximately $222,343,895 and $161,291,637, respectively.

Note 8 — Mortgage Loan Payable

This mortgage loan payable consists of the following at June 30:

	1991	1990
9.5% mortgage note secured by Park Plaza Community Center, payable in monthly installments of interest only through October 1, 1991 and monthly installments of $50,450 (including interest) from November 1, 1991 until October 1, 1996 when the remaining balance of approximately $5,825,000 is payable.	$6,000,000	—————

Maturities of the mortgage loan payable are as follows for year end June 30:

1992	$24,000
1993	$39,000
1994	$43,000
1995	$48,000
1996	$52,000
Thereafter	$5,794,000
Total	**$6,000,000**

Note 9 — Reclassification of 1990 Financial Statement and Supplemental Schedules

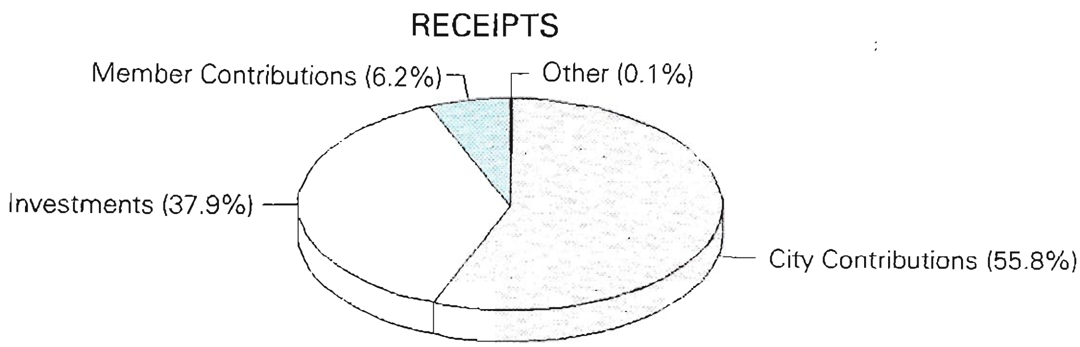
Member contributions and employer financed portion under the heading "Fund Balance" of the June 30, 1990 balance sheet have been reallocated. The original amounts were $850,461,101 and $2,065,107,605, respectively. The reallocation was caused by overstatement of member contributions in that year which did not take into consideration the fact that members retired during the year and should, therefore, be removed from calculation. Certain supplemental schedule balances for the period from June 30, 1985 through June 30, 1990 have been reclassified accordingly.

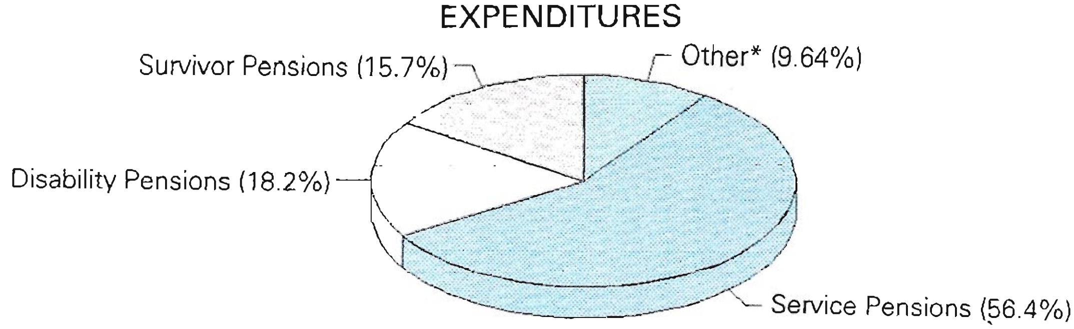
DEPARTMENT OF PENSIONS

BUDGET — 1990-1991

RECEIPTS	Estimated 1990-91*	Actual 1990-91**
Taxes and General Fund	$345,631,937	$340,843,137
Member Contributions	39,200,000	39,952,714
Earnings on Investments	195,000,000	192,491,586
Gain on Sale of Investments	—	39,219,491
Miscellaneous	400,000	392,329
TOTAL RECEIPTS	**$580,231,937**	**$612,899,257**
EXPENDITURES		
Service Pensions	$175,550,000	$175,190,902
Disability Pensions	57,000,000	56,479,714
Surviving Spouse Pensions	48,908,900	47,862,049
Minors'/Dependents' Pensions	1,100,000	986,446
Refund of Member Contributions	2,100,000	2,132,366
Health Insurance Subsidy	10,385,000	10,480,528
Medicare	1,052,000	1,042,086
Administrative Expense	16,227,100	15,233,288
TOTAL EXPENDITURES	**$312,323,000**	**$309,407,379**
INCOME vs. EXPENDITURES	**$267,908,937**	**$303,491,878**

*From 1990-1991 Annual Budget
**From Auditor's Report and Accounting Section Records





Fiscal year ending June 30.
*Administrative — 4.90%, Health Subsidy — 3.71%, Refunds of Contributions — 0.69%, Medicare — 0.34%.

Legal Summary

Department of Pensions
SUMMARIZATION OF ACTIVITIES OF THE LEGAL SECTION

General Pension Litigation in Fiscal Year 1990-1991

There were several court decisions rendered in the pension field which are of importance to the City and the Board. Some of these matters are now final and conclusive and appeals are pending in others. Some important cases have not yet reached the trial stage.

A brief summary of some of the cases handled by the City Attorney for the Board of Pension Commissioners presents the following:

Holmes v Holmes

Catherine B. Holmes, former spouse of active police Detective Don Felece Holmes, sought by an Order to Show Cause, a Superior Court family law order, which would award her a survivor interest in Mr. Holmes' fire and police pension benefit along with a right to present payment of her community share of said pension by the Department of Pensions prior to Mr. Holmes' actual retirement.

The City Attorney, on behalf of the Board of Pension Commissioners, filed a trial brief in opposition to Mrs. Holmes' demand.

At the August 23, 1989 Superior Court hearing on Mrs. Holmes' order to Show Cause, the trial judge, based upon the points and authorities raised in the Claimant's [Board's] brief, convinced the parties to take the matter off calendar until the issues surrounding Mrs. Holmes' request have been resolved at the Appellate Court level.

Since the Holmes accord on August 23, 1989, the Legal Section has been successful on two occasions before the Court of Appeal in reversing trial court orders which unlawfully awarded pension benefits in the manner requested by Mrs. Holmes *(See Nice* v *Nice* and *Longan* v *Longan herein).* As of this writing the Holmes matter has not been reactivated.

Longan v Longan

Suzanne Longan-Glanz, the former spouse of active firefighter Joseph C. Longan, obtained a family law judgment on February 8, 1989 which provided, among other things, that the Board of Pension Commissioners do the following:

1. Set up separate accounts for the community property interests of Mr. & Mrs. Longan with the New Pension System.
2. Cause immediate payment of benefits to Mrs. Longan although Mr. Longan, who presently is able to retire, remains an active employee.
3. Provide survivor benefit to Mrs. Longan for her lifetime in the event of Mr. Longan's prior death notwithstanding that the New Pension System does not pay a survivor benefit to a divorced former spouse.

Following notice of the aforestated judgment, the City Attorney, on behalf of the Board, filed a motion for new trial and request to reconsider or modify decision. The trial court denied this motion after hearing on May 19, 1989.

Oral argument in the Court of Appeal, Division 3, took place on September 19, 1991. In an unpublished opinion filed October 17, 1991, the Court of Appeal reversed the trial court decision finding that (1) there is no authority to compel the Board to pay pension benefits [to anyone] prior to its contractual obligation to do so and (2) the Board cannot be compelled to pay 'survivor' benefits to Suzanne contrary to its pension plan provisions.

The matter is remanded to the trial court with directions to make further orders consistent with the Court of Appeal decision.

McCormick v Board of Pension Commissioners

Michael C. McCormick was granted a service-connected disability pension by the Board on November 3, 1983, with a review to be scheduled two years thereafter.

When Department of Pensions staff began taking steps to cause a review of McCormick's case (June 1985), it was first learned that McCormick was in opposition to any further review of his case.

The issue of the Board's legal right to review McCormick's case was detailed fully in this section's 1989-90 year-end summary of litigated cases and will not be here repeated. The previous summary concluded with a report that McCormick had appealed a February 1988 Superior Court decision upholding the Board's right to review his disability status.

On February 2, 1989, the Board determined, after full and open hearing, that McCormick was no longer disabled and that he could be returned to LAPD duty. During approximately nineteen (19) months thereafter, the Department of Pensions and the Medical Liaison Section of the LAPD, were involved in the difficult task of processing Mr. McCormick through the work fitness examination required by the LAPD prior to returning McCormick to duty.

Oral argument on McCormick's appeal was heard in Division Four of the Second Appellate District on July 17, 1990. By unpublished opinion filed July 26, 1990, the Court of Appeal upheld the decision of the Superior Court, *vis a vis* the Board, finding that the Board had jurisdiction under the Charter to review McCormick's pensionable status irrespective of the error in the Board's initial findings.

In a final Board hearing on October 25, 1990, the Board again passed a motion finding McCormick no longer disabled and ordered that his pension be terminated pursuant to the provisions of City Charter Section 190.12(d).

Lawrence Molinar v *City of Los Angeles, et al*

Lawrence Molinar was terminated from employment as a police officer following a disciplinary Board of Rights hearing, effective July 7, 1983. A subsequent application for a disability pension was denied by the Board of Pension Commissioners on May 30, 1985.

Molinar thereafter filed a Petition for Peremptory Writ of Mandate in Superior Court challenging the actions of both the LAPD Board of Rights and the Board of Pension Commissioners. The trial court upheld the Board's denial of a disability pension but remanded the matter to the LAPD Board of Rights to reconsider the penalty phase of its disciplinary proceedings.

On April 1, 1987, the LAPD Board reconvened, unfortunately without notice to Molinar, and again voted to terminate. Following appropriate notice to Molinar, a second rehearing was convened on April 20, 1987. After its conclusion, termination again was imposed.

A second petition for Peremptory Writ of Mandate was filed by Molinar and a hearing thereon was held in Superior Court on February 2, 1989. The trial judge was of the opinion that the earlier Superior Court decision in effect mandated that Molinar be given a penalty other than termination. Molinar again was ordered reinstated with all attendant compensation. The LAPD Board, because of its actions, was required to pay $1,500.00 in attorney's fees.

The City Attorney, on behalf of the LAPD Board of Rights, appealed the trial court decision on the basis that said decision invaded the right of the Chief of Police to determine penalty for disciplinary infractions and thus was an abuse of discretion. Oral argument was held on August 14, 1990.

By unpublished opinion dated August 15, 1990, the Second Appellate District of the Court of Appeal upheld the trial court decision upon a finding that said decision was supported by substantial evidence in the record.

The City Attorney recommended against seeking further review in this case based upon its opinion that the case involved no facts or circumstances which meet the criteria for further review in the Court of Appeal or the California Supreme Court.

Molinar has now returned to LAPD duty.

Nice v *Nice*

On March 26, 1990, a judge of the Los Angeles County Superior Court in a marriage dissolution proceeding awarded Geraldine A. Nice one-half (½) of the community interest in the pension benefit of Perry A. Nice, an active firefighter. Mr. Nice currently is eligible to retire having served in excess of 25 years.

The trial judge also ordered the Board to begin immediate payment of benefits to Mrs. Nice and should she survive Mr. Nice's prior death, to pay her a survivor benefit based on her community property share. Neither of these benefits is a feature of the New Pension System, the pension system of which Mr. Nice is a member.

The City Attorney, on April 26, 1990, filed a motion to Set Aside and/or Modify the Judgment of March 26, 1990. At hearing on May 22, 1990, said motion was denied. A Notice of Appeal was filed on June 8, 1990.

Oral argument in the Second Appellate District Court of Appeal took place on April 18, 1991. On May 23, 1991, the Court of Appeal rendered its published opinion reversing the trial court decision. The essence of the Court of Appeal decision is that a trial court, in a marriage dissolution proceeding, is not free to divide the community interests in an employee spouse's pension benefit in a manner which is inconsistent with the pension plan provisions [the employment contract].

The matter is remanded to the trial court and now is awaiting further proceedings consistent with the Court of Appeal decision.

Reiner v. City of Los Angeles, et al

This is a class action brought by a former police officer now retired on a disability pension, for himself and as a class representative for all former firefighters and police officers similarly situated.

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

After a number of pre-trial proceedings in the case the City has filed a Motion of Summary Judgment and Plaintiffs have filed cross motions for Summary Adjudication. All motions will be heard in November of 1991.

Rita Rosa v Board of Pension Commissioners

Rita Rosa, a former police officer and member of the New Pension System applied for a disability pension on account of claimed injuries of a psychological and orthopedic nature sustained while in training at the Police Academy, from which she never graduated. The application was denied and the denial was subsequently challenged in Superior Court.

The court focused on evidence in support of a finding that Rosa, subsequent to her injuries at the academy and subsequent to her resignation from the Los Angeles Police Department was not at all times disabled. However, since Rosa is a former member, her disability, in accordance with applicable Charter provisions, had to have been continuous from the date of injury to the date of the Board hearing to make her eligible for disability retirement and the court so held. Consequently, the Superior court denied Rosa's Petition for Writ of Mandate, from which decision she has filed an appeal. No briefing schedule has been set as yet.

Wilmington v Wilmington

Pursuant to a marriage dissolution judgment filed on March 21, 1989, Carol Ann Wilmington was awarded one-half (½) of the community interest in the pension benefit of Walter Thomas Wilmington, an active firefighter. The Board was ordered to begin payment of such interest upon Mrs. Wilmington's election, regardless of Mr. Wilmington's active status.

The Superior Court judgment also awarded Mrs. Wilmington a survivor interest [a continuation of her community property share] in the event of Mr. Wilmington's prior death.

Neither of these benefits is a feature of the New Pension System, the pension system of which Mr. Wilmington is a member. Although he currently is eligible to retire on account of years of service, Mr. Wilmington has not chosen to terminate his service.

The City Attorney submitted a Superior Court trial brief in this matter and participated in oral argument on December 4, 1987. Notwithstanding this office's opposition to Mrs. Wilmington's requested relief, the court remained of the opinion that newly-enacted Civil Code Section 4800.8 permitted such award of benefits. Timely Notice of Appeal was filed by this office on May 31, 1989.

Because of the substantial similarity of issues in this case and those involved in recent Court of Appeal decisions, all parties have agreed to enter this matter into the Court of Appeal voluntary settlement process. The initial settlement conference is set for February 21, 1992. If the issues are not settled by agreement of the parties, the matter will proceed to appellate review as planned.

Description of Pension Benefits

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
1. SERVICE RETIREMENT			
a. Eligibility	20 years of service	20 years of service	Age 50 with 10 years of service.
b. Salary Base	Final salary rate	Final Salary rate	One-year average salary.
c. Pension as a percentage of salary base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1⅔% for each additional year between 25 and 35 years of service. Maximum of 66⅔% for 35 or more years of service.	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service. Maximum of 70% for 30 or more years of service.	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service. Maximum of 70% for 30 or more years of service
2. SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions	No age or service conditions	No age or service conditions
b. Salary Base c. Pension as a percentage of salary base	Final salary rate 50% to 90% depending on severity of disability.	Final salary rate 50% to 90% depending on severity of disability.	One-year average salary 30% to 90% depending on severity of disability, with a minimum of 2% per year of service.
3. NON-SERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service	Five years of service	Five years of service
b. Salary Base	Final salary rate for highest-paid police officer's or firefighter's rank.	Final salary rate for highest-paid police officer's or firefighter's rank.	One-year average of member's own salary.
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions for member.	No age or service conditions for member.	No age or service conditions for member.
b. Salary Base	Final salary rate	Final salary rate	One-year average salary
c. Eligible spouse's benefit as a percentage of salary base.	50% Pension stops upon remarriage	50% with less than 25 years of service 55% with 25 or more years of service. Pension stops upon remarriage.	75% if service-connected death or disabled less than 3 years; otherwise 60% of member's disability pension. Pension stops upon remarriage.
d. Children's benefit as a percentage of spouse's benefit.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	Same as Article XVII	Same percentage as Article XVII. Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
e. Dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	Same as Article XVII.	Same as Article XVII.

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
5. DEATH WHILE ELIGIBLE FOR SERVICE RETIREMENT OR DEATH AFTER SERVICE RETIREMENT			
a. Eligibility	20 years of service	20 years of service	Age 50 with 10 years of service.
b. Eligible spouse's benefit	50% of final salary rate. Pension stops upon remarriage.	Member's accrued service retirement, not to exceed 55% of final Pension stops upon remarriage.	60% of member's accrued service retirement. At retirement, member may elect higher death benefit with corresponding actuarial reduction of service retirement benefit. Pension stops upon remarriage.
c. Children's benefit as a percentage of spouse's benefit.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death
d. Dependent parent's benefit as a percentage of member's benefit.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
6. NON-SERVICE-CONNECTED DEATH OR DEATH AFTER NON-SERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service.	Five years of service.	Five years of service.
b. Eligible spouse's benefit.	40% of final salary rate for highest-paid police officer's or firefighter's rank; if eligible for service retirement, the accrued service retirement not to exceed 50% of final salary rate. Pension stops upon remarriage.	40% of final salary rate for highest-paid police officer's or firefighter's rank; if eligible for service retirement, the accrued service retirement not to exceed 55% of final salary rate. Pension stops upon remarriage.	For non-service death: 30% of final one-year average salary or, if eligible for service retirement, 80% of accrued service retirement not to exceed 40% of final one-year average salary. For death after non-service disability; 60% of member's pension. Pension stops upon remarriage.
c. Children's benefit as a percentage of spouse's	100% if spouse not receiving benefit, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled prior to age 21.	Same as Article XVII.	Same as Article XVII, except benefit payable until age 22 if child attends school full time.
d. Dependent parent's benefit as a percentage of spouse's benefit.	100% if spouse or children not receiving.	Same as Article XVII.	Same as Article XVII.
7. COST-OF-LIVING			
a. Generally applicable provisions.	Current Plan Provision: Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.	Current Plan Provision: Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers	Annual cost-of-living increase not to exceed 3%. Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.

DESCRIPTION OF PENSION BENEFITS

	Article XVII	Article XVIII	Article XXXV
7. COST-OF-LIVING Continued			
a. Generally applicable provisions (cont'd)	Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	Survivors' pensions include the percentage of cost-of-living increases applied to the member's pension prior to death.	City Council may grant discretionary cost-of-living increases once every three years. Survivor's pensions include the percentage of cost-of-living increases applied to the member's pension prior to death. Pro rata adjustment in the first year of retirement.
b. Effective date of cost of living increases			
i. Service retirement	Annual increases commence on the July 1st following the later of the effective date or the date the member would have been age 55.	Annual increases commence on the July 1st following the later of the effective date or the date the member would have completed 25 years of service.	Same provision for all types of pensions. Annual increases commence on the July 1st following the effective date.
ii. Service-connected disability	Annual increases commence on the July 1st following the effective date.	Annual increases commence on the July 1st following the effective date.	
iii. Non-service-connected disability.	Annual increases commence on the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier.	Annual increases commence on the date the member would have had 25 years of service or 5 years after the effective date of the pension, if earlier.	
iv. Service-connected death, non-service-connected death, death after service-connected disability, death after non-service-connected disability, death while eligible for service retirement.	Annual increases commence on the July 1st following the effective date.	Annual increases commence on the July 1st following the effective date	
v. Non-service-connected death, death after service connected disability death after non-service connected disability, and death while eligible for service retirement.	Annual increases commence on the date the member would have been age 55, or five years after the effective date of the pension, if earlier	Annual increases commence on the date the member would have been age 55, or five years after the effective date of the pension, if earlier	
8. MEMBERS' CONTRIBUTIONS AS AN ANNUAL PERCENTAGE OF PAY			
	6%. No member contributions required after thirty years of service.	6% plus ½ cost of cost-of-living benefit up to 1%. No member contributions required after thirty years of service.	8%. No member contributions required after thirty years of service.
9. MISCELLANEOUS			
a. Vesting of service retirement.	No vesting until retirement.	No vesting until retirement.	After 10 years of service.
b. Return of contributions with interest.	On termination or death if no other benefits are payable.	On termination or death if no other benefits are payable.	On termination or death if no other benefits are payable (except basic death benefit).
c. Basic death benefit.	None.	None.	In addition to return of contributions, beneficiary receives one-year average salary times years of completed service (not to exceed 6).

1899-1901. A pension system for policemen was authorized by the California State Legislature and became effective in the City of Los Angeles on June 7, 1899. A pension system for firemen, similarly authorized, became effective June 10, 1901. Basic retirement provisions were one-half of salary of rank held after 20 years of service and attainment of age 60, and a service-connected disability pension of one-half of salary of the rank held at the date of retirement. There were also dependent benefits.

1913-1919. The Los Angeles City Council, by ordinances effective September 16, 1913, adopted the substance of the systems authorized by state statute, but reduced the minimum retirement age to 55 and eliminated contributions. In 1919 such ordinances were amended to provide for a pension of one-half of the salary attached to the rank after 20 years of service, without limitations as to age.

1923-1925. Effective January 29, 1923, the substance of these two ordinances was adopted into the Charter. The system was placed upon an actuarial basis Also 1⅔% for each year of service, in addition to the minimum of 20 required was authorized up to a maximum pension of two-thirds of the salary of the rank held. This was continued in the new City Charter which became effective July 1, 1925. Added was a provision that service and disability pensions would remain fixed amounts.

1927. Effective January 17, 1927, the Charter was amended to provide that all members entering the service after that date would receive 50% of the average salary during the last three years for 25 years of service, plus 1⅔% for each of the next 10 years of service. This amendment imposed a limit upon service pensions at a pension of $1800 per year. Members' contributions to the cost of the system were set at 4% of salary. Pensions for widows were made fixed amounts.

1933. Effective May 15, 1933 the Charter was amended to eliminate the actuarial requirements and place the system essentially upon a "pay-as-you-go" basis of operation.

1947. Effective June 16, 1947, the Charter was amended to create an off duty disability pension 40% of the highest salary attached to the rank of fireman or policeman. A non-service dependent's pension provided a pension for 40% of the highest salary attached to the rank of fireman or policeman at the date of death. Additional percentages were allowed the surviving spouses for minor children under 18 and unmarried. Members entering subsequent to January 17, could retire after 20 years of service upon 40% of the average salary for the last three years of service. In addition, they would receive 2% for each of the next five years of service, and 1⅔% for each of the next ten years of service. The maximum pension of two-thirds of average salary was retained, but the 1927 limitation was raised to accord was salary level of a police captain or fire battalion chief. Contributions were increased from 4% to 6% of salary.

1957. Effective April 18, 1957, an amendment removed the maximum limit attached to rank on service pensions.

1958. The California Supreme Court ruled that the 1925 Charter provisions for fixed pension did not apply to members employed prior to July 1, 1925, not to surviving spouses of members employed prior to January 17, 1927.

1959. Effective May 6, 1959, the Charter was amended to reestablish the system on an actuarial basis, with a 50-year amortization period for the unfunded liabilities, and the investment provisions were changed to permit investing up to 35% of the fund in common stocks.

1961. Effective July 1, 1961, a Charter amendment provided a one time cost of living increase on all members' or widows' pensions that were based on service connected disability or death.

1967. Article XVII was extensively amended, and a New Pension system in Article XVIII was adopted effective January 29, 1967, to provide: annual cost of living adjustments to all members' or surviving spouses pensions that were based on length of service retirement, to 55% at 25 years of service, plus 3% per year for a maximum of 70% at 30 years of service; a minimum pension of $250.00 per month, to be adjusted each year by the cost of living formula; an extension of the funding period to 70 years; changes in the investment authority to provide for mortgage investments and public improvement financing; and other changes.

1968. Articles XVII and XVIII were amended to exclude overtime compensation from computation, either for contributions or for benefits.

1969. Articles XVII and XVIII were amended effective May 2, 1969, to apply cost of living adjustment to disability pensioners and to their dependents' pensions.

Service pensioners were authorized to apply for return to active duty under specified limitations. The authorized limit for common stock investments was raised to 50% of the funds.

1971. Articles XVII and XVIII were amended effective July 1, 1971, to remove the 2% per year cost of living ceiling from all pensions eligible for cost of living increases; to increase the minimum pension to $350.00 per month; to grant pension credit for partial years of service; to bring into closer agreement certain provisions that were different in the two articles; and to add two employee members to the Board of Pension Commissioners.

1974. Articles XVII and XVIII were amended to enable the City Council to adopt ordinances allowing subsidy payments to be made toward health insurance and other programs for eligible pensioners.

1975. Articles XVII and XVIII were amended to allow cost of living adjustments for service-connected disability pensions of retired firefighters and police officers upon the July 1st following the date of retirement. This amendment eliminated certain waiting period for those eligible to receive cost of living adjustments.

1976. Article XVII was amended, effective April 15, 1977, to eliminate the mandatory retirement age provisions. Also, the ordinance governing health insurance subsidy for pensioner was amended, effective September 30, 1976, to include subsidy payments on behalf of spouses and dependents of eligible members.

1980. Article XXXV, The Safety Members' Pension Plan was adopted for new hires effective December 8, 1980 to provide; a 3% cap on the cost-of-living adjustment; refundability of pension contributions with interest upon termination; 2% per year of service up to 20 years, the 3% per years to a maximum of 70%; 60 of member's pension for surviving spouse; and other provisions.

1981. The investment provisions of all Articles were extensively revised and provided among other changes: the investment of up to 70% in common stock and up to 25% of the 70% without dividend record and registration on a national securities exchange; the investment of 35% in short term securities; the appointment of a securities custodian bank; a requirement to retain investment advisors registered under the Investment Advisors Act; the selling and repurchasing of covered call options, and permission to conduct transactions and exchanges of securities without specific prior Board approval within established guidelines.

1982. Articles XVII and XVIII were significantly revised with the passage of a charter amendment in June. A 3% cap on the cost-of-living adjustment was added for all future service earned by active members. Also all active members became entitled to refunds of contributions if they should terminate prior to retirement. Cost-of-living adjustments were pro-rated for the first year of retirement.

1982. Proposition V passed by voters in November provided for the transfer of paramedics and civilian ambulance drivers from the City Employees' Retirements System to the Safety Members' Pension Plan (Article XXXV).

1983. Charter amendment 5 allows for Article XVII and XVIII active members to discontinue contributions to the pensions system upon completion of 30 years of service.

1985. Charter amendment 2 allows for investments in real estate by all City of Los Angeles Pension Systems.

1990. Charter Amendment I removes the waiting period for the cost of living adjustment for surviving spouses of members hired before December 8, 1980 who die while active in the line of duty. Charter Amendment J allows the city–through a series of measures–to protect the integrity of the entire pension system in light of new tax code regulations, Section 415. The 3% cap on cost-of-living increases instituted in 1982 for Article 17 & 18 members was overturned by court order.

CITY OF
LOS ANGELES

DEPARTMENT OF PENSIONS
FIRE AND POLICE PENSION SYSTEMS