

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1975

CITY EMPLOYEES' RETIREMENT SYSTEM

City of Los Angeles

California

Room 505, City Hall South
111 East First Street
Los Angeles, California 90012

ELECTED OFFICIALS
of the
CITY OF LOS ANGELES

Tom Bradley
Mayor

Burt Pines
City Attorney

Charles Navarro
City Controller

MEMBERS OF THE CITY COUNCIL

Louis R. Nowell
First District

Joel Wachs
Second District

Donald D. Lorenzen
Third District

John Ferraro
Fourth District

Zev Yaroslavsky
Fifth District

Pat Russell
Sixth District

Ernani Bernardi
Seventh District

Robert Farrell
Eighth District

Gilbert W. Lindsay
Ninth District

David Cunningham
Tenth District

Marvin Braude
Eleventh District

Robert M. Wilkinson
Twelfth District

Peggy Stevenson
Thirteenth District

Arthur K. Snyder
Fourteenth District

John S. Gibson, Jr.
Fifteenth District

BOARD OF ADMINISTRATION
CITY EMPLOYEES' RETIREMENT SYSTEM
of the
City of Los Angeles
California
FISCAL YEAR 1974 - 75

STEPHEN CHRYSTIE, President
DONALD C. TILLMAN, Vice-President
JERRY K. FIELDS
LAWRENCE C. JONES
ROLAND W. VINCENT
GORDON A. TURNBAUGH, Manager-Secretary

CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY
MAYOR

BOARD OF ADMINISTRATION

STEPHEN CHRYSTIE
PRESIDENT

DONALD C. TILLMAN
VICE-PRESIDENT

JERRY K. FIELDS
LAWRENCE C. JONES
ROLAND W. VINCENT

CITY EMPLOYEES' RETIREMENT SYSTEM

ROOM 505, CITY HALL SOUTH
111 EAST 1ST STREET
LOS ANGELES, CALIF 90012
485-2824

GORDON A. TURNBAUGH
MANAGER-SECRETARY

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

Gentlemen:

Presented herewith is the annual report of the Board of Administration of the City Employees' Retirement System for the fiscal year ended June 30, 1975, in accordance with the provisions of Section 64 of the City Charter. The delay in the preparation of this report is attributable to the System's requesting, for the first time, certified statements from independent Certified Public Accountants. The statements and certification, which were not received until March 1, 1976, are included in this annual report.

FINANCIAL INFORMATION

In the 1974-75 fiscal year, Retirement System investments increased in both book and market values as compared to the previous fiscal year. Book values at June 30, 1975 were \$26.2 million in short-term investments, \$329.6 million in long-term fixed-income investments, and \$75.1 million in stocks. This compares to June 30, 1974 investments of \$16.8 million, \$301.2 million and \$71.7 million, respectively.

Comparing market value to amortized cost for fiscal 1974-75 and 1973-74, fixed-income investments on June 30, 1975 had a market value of 86.3% of cost and stocks had a market value of 97.9% of cost. These figures contrast very favorably with the 1973-74 percentages of 81.0% and 83.9%, respectively.

During the year, the Board liquidated certain of its lowest quality holdings at a loss to prevent the fund from realizing even greater losses should the companies in question fail. The resulting realized losses were \$2,411,668 in bonds and \$3,797,354 in stocks. The money derived from these sales was used to purchase securities offering superior potential for higher returns and much improved safety of principal.

For the year ended June 30, 1975, the rate of return was 6.28% on fixed-income securities and 2.99% on stocks. This compares with 5.99% and 3.07%, respectively, for the previous fiscal year. It should be noted that the long-term fixed-income securities purchased during the 1974-75 fiscal year will yield the System approximately 8.92% on average. The yield on the System's short-term securities (less than one year maturity) was 7.92% for the 1974-75 fiscal year, as compared with 9.38% for the previous year. This decline in return was due to a significant drop in short-term interest rates.

The Board contracts with the Becker Securities Corporation to provide reports monitoring the System's investment performance. This service measures and compares the performance of a large number of investment funds and also provides a separate comparison with a selected group of public funds. For the fiscal year ended June 30, 1975, the overall investment performance of the portfolio (based on market prices) ranked in the top half of the more than 1,000 funds in the Becker survey.

BENEFIT IMPROVEMENTS

During the 1974-75 fiscal year, the City Council, under authority of Charter Section 512.2, adopted Ordinance No. 147,030, which became effective May 4, 1975. Among other things, this ordinance afforded members the opportunity to purchase credit for various types of previous service during a limited open period. In order to accomplish this, the System sent information cards to each of its 23,000 members, processed the returned cards to determine those members eligible to purchase credit, and began to notify them as to their eligibility and the amounts due.

In addition to the open period and some minor technical changes, Ordinance No. 147,030 provided a number of benefit improvements for members and their eligible survivors:

- 1) A reduction in the discounts applicable in cases of early retirement.
- 2) Increased disability retirement allowances in certain cases.
- 3) A new benefit payable to spouses of members who die while in active City service.
- 4) Increased allowances under optional continuances to surviving spouses.

NOMINEE PARTNERSHIP

The Board, in September 1974, established a nominee partnership to hold actual title to its securities. The effect of this is to expedite the transfer of securities at time of sale which allows the System to obtain more favorable prices upon disposition.

ACTUARIAL INVESTIGATION

Every five years, the System has its consulting actuary conduct an actuarial investigation in addition to its annual actuarial valuation. The investigation analyzes and updates the System's experience with respect to member separation rates, the salary progression of active members, and mortality rates among retired members.

As a result of the investigation completed January, 1975, and the actuary's resulting recommendation, the Board adopted a revised funding method, increased the assumed earnings rate from 5% to 5½%, and adopted new Group Annuity Mortality Tables and Disability Mortality Tables.

The total effect of these changes was to reduce the contributions required from the City taxpayers by approximately \$13 million and to keep the members' contribution rates at a constant level. Had these changes not been made, members' contribution rates would have increased by 5 to 7 percent. The newly-adopted Entry Age Normal Cost funding method, which is widely used throughout the country, is considered actuarially conservative and is recognized by the Internal Revenue Service.

Respectfully submitted,

BOARD OF ADMINISTRATION

A handwritten signature in cursive script that reads "Stephen Chrystie". The signature is written in black ink and is positioned above the typed name.

By Stephen Chrystie, President

CITY EMPLOYEES' RETIREMENT SYSTEM

GENERAL STATISTICS

Active Membership

	<u>June 30, 1975</u>	<u>June 30, 1974</u>	<u>Increase or (Decrease)</u>
Males	17,265	14,866	2,399
Females	<u>5,755</u>	<u>4,956</u>	<u>799</u>
Total	23,020	19,822	3,198

Retirement Roll

	<u>June 30, 1975</u>		<u>June 30, 1974</u>	
	<u>Number</u>	<u>Average Monthly Allowance</u>	<u>Number</u>	<u>Average Monthly Allowance</u>
Service Retirements	4,058	\$404	3,808	\$375
Disability Retirements	403	252	360	233
Survivorships	228	318	217	300
Limited Pensions	26	786	25	547
Family Death Benefit Plan Beneficiaries	<u>128</u>	231	<u>111</u>	212
Total	4,843		4,521	

Applications Processed to Completion

	<u>1974 - 75</u>	<u>1973 - 74</u>	<u>Increase or (Decrease)</u>
Service Retirements	331	471	(140)
Disability Retirements	54	48	6
Family Death Benefit Plan	18	11	7
Death Benefits			
Active Employees			
Limited Pensions with Refund of Contributions	39	34	5
Survivorships	13	17	(4)
Refund of Contributions	18	15	3
Retired Employees			
Death Payments	168	171	(3)
Refund of Contributions to Former Members	1,083	1,800	(717)

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

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

In our opinion, these financial statements present fairly the financial position of the City of Los Angeles City Employees' Retirement System at June 30, 1975, and the changes in net assets available for plan benefits and city contributions available for future retirees for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes, with which we concur, in the methods of presentation and disclosure as described in note 4.

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

Los Angeles, California
November 20, 1975, except
for portions of notes 2
and 3 (pertaining to
actuarial amounts) which
date is February 12, 1976

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

BALANCE SHEET

JUNE 30, 1975

ASSETS		
Cash		\$ 686,188
Receivables		
Accrued interest and dividend income	\$ 5,392,356	
Due from other funds	<u>2,366,001</u>	7,758,357
Investments (Note 1)		
Temporary short term	26,200,000	
Bonds	329,600,715	
Common stocks	<u>75,057,728</u>	<u>430,858,443</u>
		<u>439,302,988</u>
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(<u>1,545,022</u>)
NET ASSETS AVAILABLE FOR PLAN BENEFITS		
(See note 2 regarding unfunded prior		
<u>and past service liability and</u>		
<u>vested benefits)</u>		<u>\$437,757,966</u>
MEMBERS CONTRIBUTIONS		\$162,787,628
RESERVE FOR RETIREMENT ALLOWANCES FOR		
RETIRED MEMBERS AT ACTUARIAL VALUATION		269,204,884
CITY CONTRIBUTIONS AVAILABLE FOR		
FUTURE RETIREES (Note 3)		<u>5,765,454</u>
TOTAL		<u>\$437,757,966</u>

See accompanying notes to the financial statements.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
AND
CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES

YEAR ENDED JUNE 30, 1975

NET ASSETS AVAILABLE FOR PLAN BENEFITS

REVENUE:

Taxes	\$ 31,297,973
Comprehensive Employment Training Act	1,491,227
Members' contributions	17,791,153
Family death benefit insurance plan premiums	274,824
Interest income (Note 1)	20,728,295
Dividend income (Note 1)	2,279,641
Miscellaneous	469
	<u>73,863,582</u>

EXPENDITURES:

Pensions	
Retirement allowances	21,670,316
Family death benefit insurance allowances	313,971
Refund of members' contributions	2,562,657
Administrative expenses	
Salary	356,160
Other	292,321
	<u>25,195,425</u>

EXCESS OF REVENUE OVER EXPENDITURES BEFORE LOSS
ON DISPOSITION OF INVESTMENTS 48,668,157

LOSS ON DISPOSITION OF INVESTMENTS 6,209,022

EXCESS OF REVENUE OVER EXPENDITURES 42,459,135

NET ASSETS AVAILABLE FOR PLAN BENEFITS, JULY 1, 1974 395,298,831

NET ASSETS AVAILABLE FOR PLAN BENEFITS, JUNE 30, 1975 \$437,757,966

CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES (NOTE 3)

BALANCE, JULY 1, 1974	\$ 6,017,855
Add: Excess of revenue over expenditures for the year	42,459,135
Deduct: Net increases in members' contributions and reserve for retirement allowances for the year	(42,711,536)
BALANCE, JUNE 30, 1975	<u>\$ 5,765,454</u>

See accompanying notes to the financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

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

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

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

Reserve for Retirement Allowances

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

Income from Investments

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

2. RETIREMENT PLAN AND ACTUARIAL VALUATION

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

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

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RETIREMENT PLAN AND ACTUARIAL VALUATION (CONTINUED)

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

The System employs a consulting actuary, Towers, Perrin, Forster & Crosby, to prepare an actuarial valuation on a yearly basis. The valuation is based upon prior historical trends and data developed during an actuarial investigation which is performed every five years, as well as current plan modifications which have an impact on actuarial calculations.

The actuarial valuation performed by the consulting actuary as of June 30, 1975, contained the following balances:

- The actuarially determined unfunded prior and past service liability of the System is \$418,195,035 and is being funded over a 30 year period which ends June 30, 2004.
- The actuarially computed value of vested benefits for both retired and active members is \$679,319,747, including the reserve for retirement allowances for retired members of \$269,204,884, and is in excess of net assets available for plan benefits by \$241,561,781.

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

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

- Interest rate - The assumed rate of return on investments is 5 1/4%.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RETIREMENT PLAN AND ACTUARIAL VALUATION (CONTINUED)

- Salary increases and scales - The valuation reflects a 5 1/2% salary increase which was effective on July 1, 1975. The salary scales used by the actuary in making the actuarial valuation reflect increases due to merit, promotion and service. The scales do not reflect any provision for across the board increases arising from future inflation.
- Mortality and disability mortality basis - The valuation is based upon the use of the 1971 Group Annuity Mortality Table and the 1973 Disability Mortality Table.
- Employee turnover and retirement - Scales are used in the valuation, which are based upon System experience.
- Funding method - The entry age normal cost funding method is used in the valuation.
- Plan amendments - The valuation reflects a prospective increase of approximately 8% in active members' service retirements and employee contributions as a result of a City ordinance which became effective in October, 1975.

3. CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES

This amount represents the System's net assets in excess of the reserve for retirement allowances for retired members (actuarial valuation) and members' contributions. Upon retirement a member's contributions are transferred to the reserve for retirement allowances for retired members.

The balance of \$5,765,454 represents funds attributable to City contributions which are available for future retirees, assuming future experience is consistent with actuarial assumptions.

4. METHODS OF PRESENTATION AND DISCLOSURE

Prior years' financial statements did not disclose actuarial determinations. These financial statements give retroactive effect to such determinations. Additionally, certain other presentations and disclosures have been changed in these financial statements.

INVESTMENT PORTFOLIO

	<u>June 30, 1975</u>	<u>June 30, 1974</u>	<u>Increase (Decrease)</u>
Short-term Investments (at Par)	\$ 26,200,000.00	\$ 16,800,000.00	\$ 9,400,000.00
Fixed Income (at Amortized Cost)	329,600,715.67	301,218,287.34	28,382,428.33
Stocks (at Cost)	<u>75,057,727.53</u>	<u>71,690,081.91</u>	<u>3,367,645.62</u>
	<u>\$430,858,443.20</u>	<u>\$389,708,369.25</u>	<u>\$41,150,073.95</u>

DISTRIBUTION OF INVESTMENT PORTFOLIO

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Short-term Investments	6.08%	4.31%
Fixed Income	76.50	77.29
Stocks	<u>17.42</u>	<u>18.40</u>
	<u>100.00%</u>	<u>100.00%</u>

DISTRIBUTION OF SECURITIES BY TYPE AND CLASS

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Short-term Investments:		
U.S. Treasury Bills	---	11.90%
Commercial Paper	93.13%	88.10
Certificates of Deposit	<u>6.87</u>	<u>---</u>
	<u>100.00%</u>	<u>100.00%</u>
Fixed-Income:		
U.S. Government	2.72%	.03%
Industrials	26.29	23.38
Public Utilities	36.50	38.89
Railroads	11.19	12.50
Miscellaneous	<u>23.30</u>	<u>25.20</u>
	<u>100.00%</u>	<u>100.00%</u>

DISTRIBUTION OF SECURITIES BY TYPE AND CLASS (continued)

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Stocks:		
Common Stocks		
Drugs & Medical	9.06%	11.26%
Electrical Equipment	9.10	9.05
Office Equipment	17.61	14.14
Photographic	2.07	1.28
Technological	2.15	---
Automotive	2.09	2.18
Chemical	4.44	4.65
Machinery	5.30	4.49
Metals & Mining	5.47	3.35
Banks & Finance	3.12	2.96
Cosmetics	2.20	4.92
Education & Entertainment	---	1.15
Food, Beverage & Soap	9.37	7.41
Insurance	2.44	4.31
Oil	5.79	9.43
Public Utilities	8.46	8.90
Retail Trade	8.68	4.43
Rubber	---	2.80
Consumer & Services	<u>2.65</u>	<u>2.77</u>
Total Common Stocks	100.00%	99.48%
Preferred Stock		
Convertible Preferred	<u>---</u>	<u>.52%</u>
Total Equities	<u>100.00%</u>	<u>100.00%</u>

YIELD ON INVESTMENTS

	<u>Year Ended June 30, 1975</u>	<u>Year Ended June 30, 1974</u>
Fixed Income	6.28%	5.99%
Stocks	2.99	3.07
Fixed Income and Stocks	5.62	5.42
Short-term Securities	7.92	9.38
Total Portfolio	5.74	5.53

