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CITY EMPLOYEES' RETIREMENT SYSTEM

City of Los Angeles

California

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

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

BOARD OF ADMINISTRATION

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JERRY F. BARDWELL
MANAGER SECRETARY

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

Attached is the annual report of the Board of Administration of the City Employees' Retirement System for the fiscal year ending June 30, 1983, in accordance with the provisions of Section 64 of the City Charter.

FINANCIAL INFORMATION

Investment Environment

The investment environment for the year was favorable for stocks and bonds. Two broad indices measure the general performance of these markets. The Standard and Poor's 500 Stock Index measures stock market performance and was up 61.1% for the year. The Lehman Bros. Kuhn Loeb Bond Index measures bond market performance and was up 29.1% for the year. Average return on 91-day Treasury Bills was 9.2%. The System has investments in the stock and bond markets, and the total portfolio market value at any one time is affected by the general direction of these security markets.

Performance

The Board contracts with A.G. Becker, Inc. to monitor the System's investment performance. For the fiscal year ending June 30, 1983, the rate of return on the total portfolio was 36.0%, which ranks in the top half of the funds participating in the Becker survey. This rate of return takes into account the income from investments and the change in quoted market value of investments held during the year. It should be noted that these fluctuating market prices are not the basis for valuing assets in determining contribution levels for the System. Net income received on investments for the year does affect these contribution levels and, as a percentage of average portfolio cost, the return on this basis was 11.11% for the year as compared to 10.06% for the previous year.

Investments

At the end of the year, the System had bond investments with a cost of $792,140,194 and a quoted market value of $722,446,226. Although the cost of bonds is greater than the market value, gains and losses are not realized in the Fund's accounting records except in cases where bonds are sold. Bonds held to maturity are redeemed at face value, and no capital gain or loss is realized by the Fund even though the market price of these issues may fluctuate widely in the years prior to maturity. Interest income on bonds as a percentage of cost was 10.16% for the year as compared to 9.70% for the previous year. The increased return was achieved by continuing an active bond management program and committing new funds in the bond market.

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

At the end of the year, the Fund held stocks with a cost of $252,852,897 and market value of $303,667,911. Net realized gains on stock sales during the year were $14.8 million as compared to $3.7 million for the previous year. Because of a strong stock market, the stock option program realized a loss of $2.4 million as compared to a gain of $7.0 million in the previous year. Income from dividends, net realized capital gains together with losses from the option program produced a return of 11.01% for the year as compared to 10.7% in the previous year when the realized net capital gain was much lower.

Short-term investments at the end of the year amounted to $63,537,239. The return on these investments as a percentage of cost was 10.85% for the year as compared to 13.81% for the previous year. The rate of return on short-term investments is mainly a function of prevailing rates in the marketplace.

BENEFIT INFORMATION

Attached is a summary of the major Plan provisions and following are major events affecting benefits which occurred during the year.

Ad-Hoc Cost-of-Living Increase

In December 1982, a discretionary cost-of-living increase was granted. For members who retired prior to July 2, 1979, the increase was 7%. For those who retired between July 2, 1979 and June 1, 1982 the increase averaged about .2% for each month on retirement between those dates. There was no adjustment for members who retired after June 1, 1982.

Early Retirement Benefit Improvement

Effective January 1, 1983, the early retirement reduction factor was eliminated for members between age 55 and 60 with 30 years of service. The reduction for early retirement remains for members retiring before age 55 with 30 years of service or retiring between age 55 and 60 with less than 30 years service.

OTHER DEVELOPMENTS

1) A recent amendment to the City Charter permitted the Board to enter into a custodial agreement thereby benefiting from securities lending and settlement efficiencies. Irving Trust Co. was selected as the master custodian and in September 1982 all securities held by the fund were transferred to Irving Trust Co. In December 1982 the first securities lending transactions were entered.

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

2) In January 1983, Bankers Trust and Loomis Sayles were contracted to each manage $50 million in equity investments.

3) The Board retained Merrill Lynch Capital Markets Group as a consultant to assist in making asset allocations, selecting investment advisors and in formalizing goals and objectives for the fund. A copy of the investment policy statement 1983-84 which resulted from this is attached.

We appreciate your consideration of this report.

Respectfully submitted,

BOARD OF ADMINISTRATION

William T. Woods

by William T. Woods, President

CITY EMPLOYEES' RETIREMENT SYSTEM
SUMMARY OF MAJOR PLAN PROVISIONS

1. Service Retirement

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

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

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

2. Disability Retirement

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

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

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

3. Deferred Retirement

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

   B. Allowance
      Same as service retirement.

   C. Benefit to Spouse
      Same as service retirement.

4. Death Prior to Retirement

A. Not Eligible to Retire

The sum of:

i. accumulated contributions

ii. a monthly pension to the surviving spouse, minor children, or dependent parents of the deceased member, payable for a period equal to two months times the number of completed years of service credit to a maximum period of 12 months at the rate of 1/2 of the average monthly salary for the year prior to death and

iii. if deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under that Plan.

B. Eligibility for Disability Retirement or Duty-Related Death

The sum of the following:

i. 60% of the allowance the member would have received if granted a disability retirement allowance the day before the member's death, payable for the lifetime of the member's surviving spouse, and

ii. if the deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under the Plan.

C. Eligible for Retirement

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

CITY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PORTFOLIO

	June 30, 1983	Percent	June 30, 1982	Percent	Increase (Decrease)
Short-term Investments (at Par)	$ 63,537,239	5.7	$ 160,535,004	16.0	$(96,997,765)
Fixed Income (at Amortized Cost)	792,140,194	71.5	683,142,397	68.1	108,997,797
Stocks (at Cost)	252,852,897	22.8	158,959,874	15.9	93,893,023
Total	$1,108,530,330	100.0	$1,002,637,275	100.0	$105,893,055

GENERAL STATISTICS

	June 30, 1983	June 30, 1982
Active Members	17,997	18,661
Retirement:		
Service Retirements	6,467	5,488
Disability Retirements	645	606
Survivorships	457	434
Continuance to Spouse of Deceased Retirees	1,161	1,015
Limited Pensions	24	24
Family Death Benefit Plan Beneficiaries	140	254
Total	8,894	7,821
Monthly Retirement Allowances	$6,324,125	$5,208,699

SERVICE RETIREMENTS

	1982-83	1981-82
Average Age	61.12	62
Average Service Credit (years)	24.26	23.13
Average Allowance	$1,115.34	$994.77

INVESTMENT POLICY STATEMENT 1983-84

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

I. OBJECTIVE

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

II. GOALS

A. CHARACTERISTICS OF THE PLAN

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

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

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

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

B. BACKGROUND DISCUSSION

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

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

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

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

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

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

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

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

C. STATEMENT OF GOALS

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

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

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

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

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

III INVESTMENT POLICY GUIDELINES FOR INVESTMENT MANAGERS

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

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

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

A. EQUITY SPECIALISTS

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

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

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

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

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

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

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

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

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

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

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

5. INVESTMENTS GUIDELINES -- Options on equities

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

B. FIXED INCOME SPECIALIS - INVESTMENT GUIDELINES

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

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

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

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

Touche Ross & Co.

April 13, 1984

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

and

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

We have examined the balance sheets of the City of Los Angeles City Employees' Retirement System as of June 30, 1983 and 1982, and the related statements of changes in net assets available for plan benefits and City contributions available for future retirees for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the City of Los Angeles City Employees' Retirement System as of June 30, 1983 and 1982, and the changes in net assets available for plan benefits and City contributions available for future retirees for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Touche Ross & Co.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

BALANCE SHEETS

	June 30			
	1983		1982	
ASSETS				
CASH		$ 12,883,983		$ 4,153,976
RECEIVABLES:				
Accrued interest and dividend income	$ 20,998,822		$ 20,062,778	
Other receivables	1,838,689		1,475,594	
Proceeds from sale of investments	14,564,856	37,402,367	2,021,132	23,559,504
INVESTMENTS (Note 1):				
Temporary	63,537,239		160,535,004	
Bonds	792,140,194		683,142,397	
Common stocks	252,852,897	1,108,530,330	158,959,874	1,002,637,275
Total assets		1,158,816,680		1,030,350,755
LIABILITIES				
UNEARNED PREMIUM FROM SALE OF STOCK AND BOND OPTIONS		(172,121)		(1,258,675)
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(4,255,892)		(1,806,753)
NET ASSETS AVAILABLE FOR PLAN BENEFITS (see Note 2 regarding unfunded prior and past service liability)		$1,154,388,667		$1,027,285,327
FUND BALANCE				
MEMBERS' CONTRIBUTIONS		$ 250,516,756		$ 239,310,491
RESERVE FOR RETIREMENT ALLOWANCES FOR RETIRED MEMBERS AT ACTUARIAL VALUATION		990,798,766		761,152,367
CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES (CITY CONTRIBUTIONS REQUIRED TO FUND DEFICIENCY) (Note 3)		(86,926,855)		26,822,469
Total fund balance		$1,154,388,667		$1,027,285,327

See notes to financial statements.

Touche Ross & Co.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

	Year ended June 30 1983	Year ended June 30 1982
REVENUES:		
City contributions (Notes 3 and 4)	$ 75,978,254	$ 74,025,458
Members' contributions	19,332,716	22,969,657
Income from investments (Note 1):		
Interest earned	87,555,648	79,279,009
Dividends	8,302,534	6,869,559
Stock and bond option premiums	(2,282,025)	7,077,294
	93,576,157	93,225,862
	188,887,127	190,220,977
EXPENDITURES:		
Pensions:		
Retirement allowances	74,002,489	62,148,208
Family death benefit insurance	792,589	899,000
Refund of members' contributions	4,379,076	6,930,918
Administrative expenses	2,557,053	1,980,571
Transfer of paramedics contributions to the Los Angeles Fire and Police Pension System	2,201,305	
	83,932,512	71,958,697
EXCESS OF REVENUES OVER EXPENDITURES BEFORE GAIN ON DISPOSITION OF INVESTMENTS	104,954,615	118,262,280
GAIN ON DISPOSITION OF INVESTMENTS	22,148,725	1,432,603
EXCESS OF REVENUES OVER EXPENDITURES	127,103,340	119,694,883
NET ASSETS AVAILABLE FOR PLAN BENEFITS, beginning of year	1,027,285,327	907,590,444
NET ASSETS AVAILABLE FOR PLAN BENEFITS, end of year	$1,154,388,667	$1,027,285,327

See notes to financial statements.

Touche Ross & Co.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CITY CONTRIBUTIONS AVAILABLE FOR FUTURE RETIREES
(City contribution required to fund deficiency)

	Year ended June 30	
	1983	1982
BALANCE, July 1	$ 26,822,469	$ 15,387,217
Add:		
Excess of revenues over expenditures for the year	127,103,340	119,694,883
Increases in members' contributions	11,206,265	19,394,227
Less - increase in reserve for retirement allowances for retired members at actuarial valuation for the year	(229,646,399)	(88,865,404)
BALANCE, June 30	($ 86,926,855)	$ 26,822,469

See notes to financial statements.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1983 AND 1982

Note 1 - Summary of Significant Accounting Policies:

Investments

Temporary investments, consisting primarily of commercial paper, certificates of deposit and treasury bills, are carried at cost which approximated market at June 30, 1983 and 1982.

	1983	1982
Bonds		
Market value	$722,400,000	$525,800,000
Bond exchanges during the year:		
Amortized cost	$395,400,000	$498,700,000
Market value	$364,900,000	$378,000,000
Bonds on which options are written:		
Amortized cost	$ 12,500,000	
Market value	$ 12,300,000	
Sales value if exercised	$ 12,800,000	
Common stock		
Market value	$303,700,000	$138,000,000
Stocks on which options are written:		
Cost	$ 2,200,000	$ 21,400,000
Market value	$ 3,500,000	$ 20,000,000
Sales value if exercised	$ 3,500,000	$ 20,700,000

Investments in bonds are carried at amortized cost. Bonds that are held to maturity are redeemed at par. Exchanges of bonds are accounted for pursuant to the deferral and amortization method, whereby the amortized cost of the bonds disposed of is transferred at the cost of the bonds acquired, plus or minus any cash principal differentials. Resulting premiums and discounts are recorded as yield adjustments and amortized against investment income to be realized from the bonds acquired.

Investments in common stocks are carried at cost.

Option premiums are accounted for on a completed transaction basis, with earned net premiums being credited to income accounts for all expired or repurchased contracts. Option premiums are accounted for as part of the stock sales price when the option is exercised.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1983 AND 1982

(Continued)

The System had entered into various short-term arrangements whereby investments with a cost basis of $88,456,188 and a market value of $91,442,126 at June 30, 1983 were loaned to various brokers. The lending arrangements are collateralized by cash and marketable securities of $93,270,970. These agreements provide for the return of the investments and for a payment of: a) a fee, when the collateral is marketable securities, or b) interest earned on cash collateral on deposit. The securities on loan to the broker continue to be shown at their cost basis in the balance sheet.

Reserve for Retirement Allowances

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

Note 2 - Retirement Plan and Actuarial Valuation:

The retirement plan of the System is a defined benefit plan to which contributions are made by members and by the City of Los Angeles. Members who entered the System prior to February 1983 contribute from 8.64% to 12.94% of their salaries. Contributions are subsidized by the City for certain members under a collective bargaining agreement (see Note 4). Subsequent to that date, new members contribute 6%.

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

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1983 AND 1982

(Continued)

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

At June 30, 1983, there were 17,997 active members covered by the plan. In addition, there were 8,497 pensioners receiving continuous pensions, ten receiving limited pensions and 172 receiving family death benefits.

The System engages a consulting actuary to prepare an actuarial valuation on an annual basis. The valuation is made using assumptions that are based upon prior historical trends and statistical data developed during an actuarial investigation, which is performed at intervals no greater than five years. The most recent investigation was performed as of June 30, 1983. Valuation results reflect all plan modifications that have an impact on actuarial calculations.

The most significant assumptions underlying the actuarial computations for both 1983 and 1982 are as follows:

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

- Salary increases and scales - The salary scale used by the actuary in making the actuarial valuation consists of two elements: one element for service, merit and promotion and another element for anticipated increases arising from future inflation. These elements totaled 5-3/4%.

- Cost of living annual increase - The year-end valuations were prepared utilizing an assumption of a 3% annual rate of increase for both retired members and for active members when they retire.

- Mortality after service and disability retirements - The valuation for 1983 is based upon the use of the 1981 Disability Tables for Safety and Miscellaneous (nonsafety) members. The valuation per 1982 is based upon the use of the 1971 Group Annuity Mortality Table and the 1973 Disability Mortality Table.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1983 AND 1982

(Continued)

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

- Funding method for retirement - The projected unit credit cost funding method is used in the 1983 actuarial valuation. Under this method normal costs are calculated as the present value of projected benefits deemed to be accrued to date. For 1982 the entry age normal cost funding method is used in the actuarial valuation. Under this method, normal costs are calculated as a level percentage of salary necessary to fund the projected future benefits over the period from the date of participation to the date of retirement.

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

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

Based upon actuarial valuations performed by the consulting actuary, the actuarially determined unfunded prior and past service costs of the System were $695,364,489 and $611,741,373 at June 30, 1983 and 1982, respectively.

The change in the funding method caused a decrease in the unfunded prior and past service costs of $98,186,300 in 1983.

The actuarially computed value of benefits earned to date for both retired and active members was $1,826,328,866 and $1,527,663,867 at June 30, 1983 and 1982, respectively. The liability for vested benefits as of June 30, 1983 amounts to $1,787,000,000. Earned benefits include benefits earned to date by all members, including those with less than five years of service, based upon a projection for future salary increases in accordance with salary scale assumptions, discounted for expected withdrawals. Earned benefits were in excess of net assets available for plan benefits by $671,940,199 and $500,378,540 at June 30, 1983 and 1982, respectively. In addition, Family Death Benefit funding is calculated at $9,000,473. Major changes in the actuarially computed value of benefits resulted primarily from: 1) the 7% ad hoc retiree increase; 2) the low turnover experience in 1983; and 3) more conservative assumptions adopted for post-disability retirement longevity and early retirement frequency.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1983 AND 1982

(Continued)

Note 3 - City Contributions Available for Future Retirees:

This amount represents the difference between the System's net assets available for plan benefits and the reserve for retirement allowances for retired members at actuarial valuation plus active members' contributions. Upon retirement, a member's contributions are transferred to the reserve for retirement allowances for retired members.

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

Note 4 - Defrayal of Portion of Members' Contributions:

For members prior to February 1983, the City subsidized a portion of certain employee contributions. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement. Therefore, the City does not have to contribute the total amount of employee contributions that it subsidizes. The amount payable by the City, based upon the actuarial valuations, is approximately 67% of subsidized employee contributions. For the years ended June 30, 1983 and 1982, the City contributed $17,067,468 and $13,976,097, respectively, in this manner.

Los Angeles City Employees'
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1983

ASSETS

1. Total Applicable Assets			$1,130,964,377
2. Present Value of Future Contributions of Members			344,471,800
3. Present Value of Future Contributions by the City on Account of:			
a. Basic Pensions:			
i. Normal Cost		$185,493,900	
ii. Amortization of Certain Liabilities:			
- Prior Service Pensions	$ 7,650,281		
- Increase due to 1965 Amendments	3,158,325		
- Remaining Unfunded Actuarial Accrued Liability	372,683,379	383,491,985	
b. Cost-of-Living Pensions:			
i. Normal Cost		96,208,700	
ii. Amortization of Certain Liabilities:			
- Increase due to 1967 Amendments	14,811,159		
- Remaining Unfunded Actuarial Accrued Liability	297,061,345	311,872,504	977,067,089
4. Total Assets			2,452,503,266

Los Angeles City Employees'
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1983

LIABILITIES

5. Present Value of Benefits Already Granted:		
a. Basic	$ 635,563,818	
b. Cost-of-Living	355,234,948	$ 990,798,766
6. Present Value of Benefits to Be Granted:		
a. Basic	$1,136,794,100	
b. Cost-of-Living	324,910,400	1,461,704,500
7. Total Liabilities		$2,452,503,266