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**ANNUAL REPORT
FOR THE PERIOD ENDING
JUNE 30, 1989**



LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**ANNUAL REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 1989**

**360 EAST SECOND STREET
EIGHTH FLOOR
LOS ANGELES, CALIFORNIA 90014-4207**

BOARD OF ADMINISTRATION
CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE
CITY OF LOS ANGELES
CALIFORNIA
FISCAL YEAR 1988-89

OLGA MARCUS, President
JOSE L. FIGUEROA, Vice President
HENRY W. HURD
MOISES R. LUNA
WILLIAM T. WOODS
JERRY F. BARDWELL, Manager-Secretary

ELECTED OFFICIALS
OF THE
CITY OF LOS ANGELES

TOM BRADLEY
Mayor

JAMES KENNETH HAHN
City Attorney

RICK TUTTLE
City Controller

MEMBERS OF THE CITY COUNCIL

Gloria Molina
First District

John Ferraro
Fourth District

Ernani Bernardi
Seventh District

Nate Holden
Tenth District

Michael Woo
Thirteenth District

Joel Wachs
Second District

Zev Yaroslavsky
Fifth District

Robert C. Farrell
Eighth District

Marvin Braude
Eleventh District

Richard Alatorre
Fourteenth District

Joy Picus
Third District

Ruth Galanter
Sixth District

Gilbert W. Lindsay
Ninth District

Hal Bernson
Twelfth District

Joan-Milke Flores
Fifteenth District

CITY OF LOS ANGELES
CALIFORNIA

BOARD OF
ADMINISTRATION

JOSE L. FIGUEROA
PRESIDENT

WILLIAM T. WOODS
VICE PRESIDENT

RICHARD S. AMADOR
HENRY W. HURD
OLGA MARCUS
COMMISSIONERS



TOM BRADLEY
MAYOR

CITY EMPLOYEES'
RETIREMENT SYSTEM

360 EAST SECOND STREET
8TH FLOOR
LOS ANGELES, CA 90012-4207

JERRY F. BARDWELL
GENERAL MANAGER
(213) 485-2824

December 31, 1989

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

The annual report of the Board of Administration of the City Employees' Retirement System for the fiscal year ending June 30, 1989 is submitted, in accordance with the provisions of Section 64 of the City Charter.

CHANGES IN THE BOARD OF ADMINISTRATION

The City Employees' Retirement System is established by Article XXXIV of the City Charter. The Article places the System under the exclusive management and control of a five member Board of Administration. Three members are appointed by the Mayor, subject to the approval of the City Council and two are employee-members elected by active members of the System.

Commissioner Jose Figueroa, whose term expired on June 30, 1989, was re-elected to a five year term ending June 30, 1994.

FINANCIAL INFORMATION:

BACKGROUND

The City Employees' Retirement System is a diversified fund with investment in bonds, stocks, short term securities and closed-end real estate pools. The Board's investment policy provides for an allocation of 45% of assets to equity-type investments and 55% to fixed income investments. These investments are managed by two fixed income and four equity advisors, internal staff and real estate advisors. Managers are hired on the basis of performance with management styles that complement the investment objectives established by the Board.

PERFORMANCE

The Fund's investment performance is measured by SEI Corp. The firm compares the market performance of the Fund's investment to other pension fund portfolios. Since the indicated returns are based on market value, they do not fully impact the actuarial funding for the year.

These rates of return measure the performance of our portfolio managers relative to other investment managers in the SEI Universe with diverse

investment objectives. The following table shows the Fund's ranking in the SEI Universe of public funds for 1987-88 and 1988-89. The ranking is from 1 to 100, with a number 1 ranking representing the best performance.

	<u>1988-89</u>		<u>1987-88</u>	
	RETURN	RANK	RETURN	RANK
CERS Equities	21.5	29	-5.3	41
CERS Bonds	13.8	13	8.0	39
CERS TOTAL FUND	16.0	25	2.2	32

The Fund's five year performance relative to other indices is indicated below.

	<u>1988-89</u>	<u>1987-88</u>	<u>1986-87</u>	<u>1985-86</u>	<u>1984-85</u>
CERS EQUITIES	21.5%	-5.3%	20.9%	36.5%	32.62%
STANDARD AND POORS 500	20.5%	-6.9%	25.2%	35.9%	31.0%
CERS BONDS	13.8%	8.0%	6.2%	22.7%	37.3%
SHEARSON-LEHMAN KUHN LOEB (MEDIUM TERM)	12.3%	7.5%	4.7%	20.6%	28.7%
SALOMON BROS. (LONG TERM)	16.2%	8.5%	5.6%	19.9%	41.9%
CERS TOTAL FUND	16.0%	2.2%	11.9%	27.3%	33.5%
CONSUMER PRICE INDEX	5.2%	3.9%	3.7%	1.7%	3.7%

INVESTMENTS

Assets are valued at cost for actuarial calculations. As a result, realized income, including net realized capital gains and losses, impact the level of actuarial funding. Rates of return of realized income for the last five years on stocks, bonds and short term investments are indicated below:

	<u>1988-89</u>	<u>1987-88</u>	<u>1986-87</u>	<u>1985-86</u>	<u>1984-85</u>
STOCKS	3.37%	6.39%	20.34%	22.70%	8.88%
BONDS	2.11%	10.26%	12.27%	11.80%	11.01%
SHORT TERM	9.45%	7.54%	6.37%	8.44%	10.05%
TOTAL	11.19%	8.68%	14.45%	14.84%	10.35%

These returns, together with the City and member contributions, account for the rapid growth of the Fund. At the end of this fiscal year, the Fund had invested assets totalling \$2.5 billion compared with \$2.1

billion at the end of the previous fiscal year. The following table illustrates the Fund's growth in the last two years.

	<u>1989</u>		<u>1988</u>	
	<u>COST</u>	<u>MARKET</u>	<u>COST</u>	<u>MARKET</u>
BONDS	\$1,169,345,000	\$1,202,667,000	\$1,145,191,949	\$1,132,748,302
STOCKS	800,850,000	955,905,000	774,774,197	843,262,841
TEMPORARY	316,065,000	316,065,000	161,054,570	161,054,570
TOTAL	\$2,309,477,000	\$2,497,854,000	\$2,081,020,716	\$2,137,065,713

SIGNIFICANT CHANGES:

TERMINATION OF ADVISORS

In the on-going review of investment policy and portfolio performance, the Board determined that two equity investment advisors should be terminated. Therefore, in April, 1989, the contracts with Alliance Capital Management and Westwood Management were terminated. The portfolios which they managed, totalling approximately \$180 million, were transferred into the S & P 500 index portfolio managed by Bankers Trust Company.

REAL ESTATE INVESTMENTS

The Board, with the assistance of its real estate consultant, subscribed to closed-end real estate pools managed by Aldrich, Eastman and Waltch, Lehndorff and Babson, and La Salle Advisors. Twenty million dollars (\$20,000,000) was committed to each pool for an initial real estate allocation of \$60 million. At year end, a total of \$22,850,000 had been funded.

INTERNATIONAL INVESTMENTS

Bailard, Biehl and Kaiser (BBK) were hired as strategic asset allocation consultants last year. To diversify the portfolio and develop vehicles for a strategic asset allocation policy, the System added real estate as an investment class. In continuing the asset diversification process, the Board commissioned SEI to prepare a report on the process of establishing an international equity portfolio.

OTHER SIGNIFICANT CHANGES:

SELECTION OF ACTUARY

The actuarial contract with Towers, Perrin, Forster and Crosby, Inc. expired with the June 30, 1988 actuarial valuation. Consistent with the City policy, Requests for Proposals (RFP's) were sought through an advertisement in the national edition of the Wall Street Journal. As a result, The Wyatt Company was hired as actuary. Included in their first valuation was a separate report on the funding of retired health insurance liability, which the System had first begun funding in 1987. This valuation projected the assets and liabilities of the retired health insurance subsidy which the System provides.

ACTUARIAL FUNDING PROGRESS

The System, by its traditional funding method, was 79.1% funded as of June 30, 1989. This method does not distinguish between retirement allowances and retired health insurance subsidies. The retired health insurance subsidy has now become a significant component, whose growth is inflating faster than other benefits. Therefore, in 1987, the System began prefunding this benefit for active members who were currently eligible to retire. This year, the liability for retired health insurance subsidy was separately valued, and approximately \$147 million of the fund's assets were designated for the retired health insurance reserve. This transfer of assets reduced the pension funding to 74.5%. The asset designation for the retired health insurance subsidy funded 62.3% of the health insurance subsidy for all retired and eligible-to-retire members.

PUBLIC SERVICE BUYBACK

The City adopted an ordinance effective February 20, 1989, which allowed active members to purchase retirement service credit for periods of military or public agency service for which they were not entitled to retirement benefits. This ordinance provided that member's pay the full present value of the additional liability assumed by the City.

CROSSING GUARDS BECOME MEMBERS

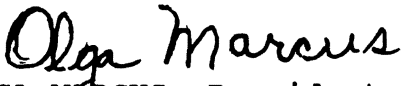
The City, prior to 1985, had employed Crossing Guards on an as-needed part-time basis. In this status, they were excluded from membership in CERS. In September, 1988, the City again assumed the responsibility of hiring Crossing Guards. As part of the negotiations, Crossing Guards with City service prior to 1985 were allowed to be certified for membership in CERS and to purchase service credit for the prior periods of City employment. Approximately 250 Crossing Guards were certified to membership.

NEW ACTIVE MEMBER RETIREMENT INFORMATION SYSTEM

In January, 1988, the CERS entered into a contract with Price Waterhouse and Genesys Software to provide a new computerized program for maintaining active member records. The final parallel test of the new system was begun on May 20, 1989. On July 1, 1989, the new system became operational.

Respectfully Submitted,

BOARD OF ADMINISTRATION


OLGA MARCUS, President

CITY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PORTFOLIO

	June 30, 1989	Percent	June 30, 1988	Percent	Increase/(Decrease)
Short-term Investments (at Cost)	\$319,703,591	13.8	\$164,297,322	7.9	\$155,406,269
Fixed Income (at Amortized Cost)	\$1,169,345,787	50.6	\$1,145,191,949	54.9	\$24,153,838
Stocks (at Cost)	\$800,850,875	34.6	\$774,774,197	37.2	\$26,076,678
Real Estate (at Cost)	\$23,214,798	1.0			\$23,214,798
TOTAL	\$2,313,115,051	100.0	\$2,084,263,468	100.0	\$228,851,583

GENERAL STATISTICS

	June 30, 1989	June 30, 1988
Active Members	23,296	21,406
Monthly Retirement Allowances	11,143,092	10,245,774
Retirement:		
Service Retirements	7,495	7,339
Disability Retirements	668	708
Survivorships	495	494
Continuance to Spouse of Deceased Retirees	1,649	1,573
Limited Pensions	3	10
Family Death Benefit Plan Beneficiaries	156	175
TOTAL	10,466	10,299

SERVICE RETIREMENTS

	1988-1989	1987-1988
Average Age - New Retirees	60.50	61.63
Average Service Credit (Years) - New Retirees	24.83	25.00
Average Allowance Granted - New Retirees	\$1,590.43	\$1,523.41
Average Allowance Paid - All Retirees	\$1,202.23	\$1,173.79



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Honorable Member of the City Council of
the City of Los Angeles, California, and

Board of Administration
City Employees' Retirement System
of the City of Los Angeles, California

We have examined the financial statements of the City Employees' Retirement System for the year ended June 30, 1989, and have issued our report thereon dated December 11, 1989. As part of our examination, we made a study and evaluation of the System's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the System's financial statements: Our study and evaluation was more limited than would have been necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the City Employees' Retirement System is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the System taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of management and should not be used for any other purpose.

Quynh Dooley & Co

Los Angeles, California
December 11, 1989

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
BALANCE SHEETS**

	June 30	
	<u>1989</u>	<u>1988</u>
	(in thousands)	
<u>ASSETS</u>		
Cash	\$ 3,638	\$ 3,243
Receivables		
Accrued interest and dividends	36,101	33,876
Proceeds from sale of investments	15,490	2,908
Other receivables	2,405	7,771
Investments		
Temporary, at cost	316,065	161,055
Bonds, at amortized cost	1,169,345	1,145,192
Common stocks, at cost	800,850	774,774
Real Estate, at cost	<u>23,217</u>	<u>-</u>
TOTAL ASSETS	2,367,111	2,128,819
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>16,442</u>	<u>9,216</u>
NET ASSETS AVAILABLE FOR PLAN BENEFITS	<u>\$2,350,669</u>	<u>\$2,119,603</u>
<u>FUND BALANCE</u>		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	\$1,558,485	\$1,530,377
Actuarial present value of credited projected benefits for active employees		
Member contributions	375,574	346,414
City-financed portion	<u>1,000,821</u>	<u>835,986</u>
	<u>1,376,395</u>	<u>1,182,400</u>
TOTAL ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS	2,934,880	2,712,777
Unfunded actuarial present value of credited projected benefits	<u>747,779</u>	<u>613,917</u>
	<u>2,187,101</u>	<u>2,098,860</u>
Reserve for family death benefit insurance	14,027	13,205
Reserve for retiree medical subsidy	146,707	5,129
Reserve for undistributed earnings	<u>2,834</u>	<u>2,409</u>
TOTAL FUND BALANCE	<u>\$2,350,669</u>	<u>\$2,119,603</u>

The notes are an integral part of these financial statements.

CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	Year ended June 30	
	1989	1988
	(in thousands)	
<u>REVENUES</u>		
City contributions	\$ 134,035	\$ 126,202
Member contributions	32,559	28,085
	166,594	154,287
Income from investments		
Interest	133,804	117,457
Dividends	28,643	27,674
Real Estate	382	-
	162,829	145,131
TOTAL REVENUES	329,423	299,418
<u>EXPENDITURES</u>		
Pensions		
Retirement allowance	140,851	129,744
Family death benefit insurance	653	721
Refund of members' contributions	6,607	6,585
Administrative expenses	5,938	6,181
	154,049	143,231
TOTAL EXPENDITURES	154,049	143,231
EXCESS OF REVENUES OVER EXPENDITURES BEFORE GAIN ON DISPOSITION OF INVESTMENTS	175,374	156,187
Gain on disposition of investments	55,692	27,600
EXCESS OF REVENUES OVER EXPENDITURES	231,066	183,787
Fund balance, beginning of the year	2,119,603	1,935,816
FUND BALANCE, END OF THE YEAR	\$2,350,669	\$2,119,603

The notes are an integral part of these financial statements.

**CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1989**

NOTE 1 - Summary of Significant Accounting Policies

General Information

The City Employees' Retirement System of the City of Los Angeles (CERS) is under the exclusive management and control of the Board of Administration whose authority was granted by the Los Angeles City Charter (Article XXXIV).

The accounting records are maintained on the accrual method and CERS follows the accounting principles and reporting guidelines as set forth in Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

Reserve for Retirement Allowances

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

Investments

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 stock are carried at cost.

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 City reserve accounts. Realized capital gains and losses on bonds are recognized in the City's actuarial funding calculation.

NOTE 2 - Plan Description

CERS operates as a single-employer defined benefit plan. The City of Los Angeles and eligible employees contribute to CERS based upon rates recommended by an independent actuary and adopted by the Board of Administration. Employee and employer contributions are invested and the earnings and contributions are used for monthly payments to retired members.

Employer contributions are expressed as a percentage of applicable payroll. Member rates are based upon age when they enter the system. 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 5). Members entering subsequent to February, 1983 contribute 6%.

Members of the plan 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.

Benefits are based upon age, length of service, and compensation. Service connected disability benefits may also be granted, based upon length of service.

NOTE 3 - Actuarial Valuation and Update for Purposes of Uniform Disclosure

For purposes of uniform disclosure as required by Statement 5 of the Governmental Accounting Standards Board (GASB), CERS engages an independent actuary to perform an annual actuarial valuation in conformance with GASB methodology. The latest such valuation was performed using the projected unit credit method as required by GASB as of June 30, 1989 with an 8% interest earnings assumption and a 5.75% assumption for annual salary increases based on factors of 3% for inflation and 2.75% for merit and productivity increases.

Funding Status and Progress: The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess CERS on a going concern

basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other pension funds.

At June 30, 1989 and 1988, the unfunded pension benefit obligation was \$747,779,000 and \$613,917,000, respectively as follows (amounts in thousands):

	<u>1989</u>	<u>1988</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,558,486	1,530,377
Current employees:		
Accumulated employee contributions	375,574	346,414
Employer-financed vested	<u>1,000,820</u>	<u>835,986</u>
TOTAL PENSION BENEFIT OBLIGATION	2,934,880	2,712,777
Net assets available for benefits, at cost (Market value is \$2,532,192 and \$2,101,865)	<u>2,187,101</u>	<u>2,098,860</u>
UNFUNDED PENSION BENEFIT OBLIGATION	<u>\$ 747,779</u>	<u>\$ 613,917</u>

Contributions Required and Contributions Made: The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due.

The contributions to CERS for the fiscal years ended June 30, 1989 and 1988 of \$166,594,000 and \$154,287,000 respectively were made in accordance with actuarially determined requirements computed through the above mentioned actuarial valuation. The contributions consisted of the following:

	<u>1989</u>		<u>1988</u>	
	<u>Amount</u>	<u>Percentage of current covered payroll</u>	<u>Amount</u>	<u>Percentage of current covered payroll</u>
Covered Payroll	<u>\$752,904,164</u>	<u>100.00%</u>	<u>\$697,005,943</u>	<u>100.00%</u>
Normal Cost	42,915,537	5.70%	39,380,836	5.65%
Amortization of the Unfunded Actuarial Accrued Liability	78,094,221	10.37%	74,693,261	10.72%
Contribution for Prefunding Health Care Subsidy	<u>13,025,242</u>	<u>1.73%</u>	<u>12,127,903</u>	<u>1.74%</u>
Total City Contribution	134,035,000	17.80%	126,202,000	18.11%
Employee Contribution	<u>32,559,000</u>	<u>4.32%</u>	<u>28,085,000</u>	<u>4.03%</u>
Total	<u>\$166,594,000</u>	<u>22.12%</u>	<u>\$154,287,000</u>	<u>22.14%</u>

NOTE 4 - Deposits and Investments

CERS maintains all deposits and investments with its Custodian Trustee, except for \$3.6 million, held by the City Treasurer of the City of Los Angeles at year end.

Funds are invested pursuant to the Los Angeles City Charter or the System's investment policy. In addition, Board resolutions, with limited exceptions, prohibit deposits and investments with financial institutions having specified relations with either the government of South Africa or certain private entities doing business with or in South Africa.

Deposits

At June 30, 1989 and 1988, the carrying amount of the System's deposits and Custodian Trustee balance was \$84.6 million and \$83.0 million, all of which was covered by federal depository insurance or by collateral held in the pledging banks' trust department or another financial institution.

Investments

Investments are categorized to give an indication of the level of risk assumed by CERS at year end. Category 1 includes investments that are held by CERS or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the System's name.

At June 30, 1989 and 1988, the carrying value and market value of investments were as follows (in thousands):

<u>June 30, 1989</u>	<u>Category</u>	<u>Market</u>
<u>Type of Investment</u>	<u>3</u>	<u>Value</u>
Temporary	\$ 316,065	\$ 316,065
Bonds	1,169,346	1,202,666
Stocks	800,850	955,827
Real Estate	<u>23,215</u>	<u>23,215</u>
	<u>\$2,309,475</u>	<u>\$2,497,773</u>
<u>June 30, 1988</u>	<u>Category</u>	<u>Market</u>
<u>Type of Investment</u>	<u>3</u>	<u>Value</u>
Temporary	\$ 78,056	\$ 78,056
Bonds	1,114,175	1,133,714
Stocks	<u>773,400</u>	<u>842,297</u>
	<u>\$1,965,631</u>	<u>\$2,054,067</u>

There were no Category 1 or 2 investments at June 30, 1989 and 1988.

Securities Lending

CERS has entered into various short-term arrangements with its Custodian Trustee whereby investments were loaned to various brokers. The cost basis of investments lent were \$116 and \$488.1 million as of June 30, 1989 and 1988, respectively. The market values were \$121 million and \$496.8 million as of June 30, 1989 and 1988, respectively.

These lending arrangements were collateralized by cash and marketable securities and by irrevocable letters of credit. The amount of the cash and securities collateralized was \$124 and \$499 million as of June 30, 1989 and 1988, respectively.

These agreements provide for the return of the investments and for a payment of: a) a fee, when the collateral is marketable securities or irrevocable letters of credit or b) interest earned on cash collateral on deposit. The securities on loan to the brokers continue to be shown at their cost basis on the balance sheet.

NOTE 5 - Defrayal of Portion of Member Contributions

For members prior to February 1983, the City subsidizes a portion of certain member contributions. Payments made by the City in this manner are not refundable to members upon their withdrawal from the plan prior to retirement. Therefore, the City does not have to contribute the total amount of member contributions that it subsidizes. The amount payable by the City, based upon the actuarial valuations, is approximately 68.82% of subsidized member contributions. For the years ended June 30, 1989 and 1988 the City contributed \$21 and \$21.2 million respectively, in this manner.

NOTE 6 - Operating Lease

CERS leases building facilities, furniture and equipment under a non-cancellable operating lease which expires in 1997, at which time a five year renewal option is available. This lease also contains provisions for CERS to pay their pro-rated share of subsequent increases in operating costs and taxes over the base rate established during the initial year of the lease.

The future minimum commitment under the lease is as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Lease</u> <u>Amount</u>
1990	\$ 344,292
1991	370,776
1992	384,024
1993	384,024
1994	384,024
Thereafter	<u>1,205,040</u>
	<u>\$3,072,180</u>

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**ACTUARIAL BALANCE SHEET AS OF
JUNE 30, 1989**

ASSETS

1. Applicable Assets		\$2,187,101,281
2. Present Value of Future Member Contributions		568,812,351
3. Present Value of Future Contributions by the City for:		
a. Basic Pensions		
i. Normal Costs		392,863,910
ii. Amortization of Certain Liabilities		
- Prior Service Pensions	5,332,622	
- Increase due to 1965 amendments	561,692	
- Remaining Unfunded Actuarial Accrued Liability	<u>331,239,843</u>	
- Total		337,134,157
b. Cost-of-Living Pensions		
i. Normal Cost		145,243,794
ii. Amortization of Certain Liabilities		
- Increase due to 1967 amendments	10,324,107	
- Remaining Unfunded Actuarial Liability	<u>400,320,378</u>	
- Total		<u>410,644,485</u>
4. TOTAL ASSETS		\$4,041,799,978

LIABILITIES

5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)		
a. Basic	\$ 938,858,100	
b. Cost-of-Living	<u>619,627,435</u>	
		1,558,485,535
6. Present Value of Benefits to be Granted (Actives)		
a. Basic	1,986,387,072	
b. Cost-of-Living	<u>496,927,371</u>	
		<u>2,483,314,443</u>
7. TOTAL LIABILITIES		\$4,041,799,978

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

SUMMARY OF PLAN BENEFITS

1. **Eligibility:** Members are eligible at the first of the month following employment.

2. **Final Compensation:** Highest 12-month average salary.

3. **Service Retirement:**
 - A) **Eligibility:** Age 55 with 10 years of service, or any age with 30 years of service, or age 70.

 - B) **Benefit :**
 - Beta Formula:** 2.16% of Final Compensation for each year of service.

 - Prior Formula:** 2% of Final Compensation for each year of service that Beta Formula does not apply.

 - C) **Reduction for Early Retirement:**
 - Beta Formula:** Unreduced for retirement after age 60 or age 55 with at least 30 years of service. Reduction factors apply for earlier retirement.

 - Prior Formula:** Unreduced for retirement after age 58-3/4. Reduction factors apply for earlier retirement.

 - D) **Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse if employee had that coverage at time of retirement. Larger continuances are available with actuarial reduction.

B) Eligible for Disability Retirement or Duty-Related

Death: Member receives (i) and (ii) where:

(i) = 60% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable for the lifetime of the Member's spouse.

(ii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

C) Eligible for Service Retirement:

Surviving spouse receives a lifetime benefit equal to 100% of the benefit the Member would have been entitled to if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced Service Retirement benefit on the day before death.

Benefits under the Family Death Benefit Insurance Plan are not available.

Surviving spouse may elect A or B in lieu of C.

7. Post-retirement Death Benefits:

Member receives (i), (ii), and (iii), where:

(i) = 50% continuance to surviving eligible spouse, if covered under the plan.

(ii) = Return of unused contributions and interest (provided normal cash refund annuity was selected) and any accrued but unpaid retirement allowance.

(iii) = \$500 death benefit allowance for burial expenses.

8. Post-retirement Cost of Living Benefits:

Each July 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions:

Pre-February, 1983 participants:

Members are assumed to contribute per the schedule effective July 1, 1981. To the extent that Members contribute less than the full rates, the City should contribute 72% of the amounts otherwise paid by the Member.

Post-February, 1983 participants:

Members contribute 6% of pay.

10. Family Death Benefit Insurance Plan:

A) Eligibility:

Employee may elect coverage after 18 months of City retirement service (only if not eligible for Service Retirement).

B) Benefits:

Benefits similar to those provided by Social Security Survivors' Insurance are payable if Member dies in active service after 18 months of Family Death Benefit Plan membership. Benefits are based on average earnings equal to the average of the Social Security wage bases for the ten years prior to the year of death.

C) Cost:

It is recommended that the Member and City each contribute \$3.20 per month.

11. Retiree Health Insurance Subsidy:

A) Eligibility:

Retirement after age 55 with 10 years of service, or retirement at age 70.

B) Benefits:

Medical

Before age 65 or after age 65 with only Medicare Part B:

A percentage of the Maximum Subsidy, up to a maximum of the actual premium paid to a City approved

health carrier. The percentage is 4% per year of service, up to a maximum of 100%. The Maximum Subsidy is \$301 per month as of July 1, 1989.

After age 65 with Parts A and B of Medicare:

A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10-14 years of service, 90% for 15-19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.

Dental

4% per year of service to a maximum of \$19.88 for Connecticut General and \$9.18 for Safeguard.

**FUNDED STATUS OF HEALTH SUBSIDY BENEFITS
AT JUNE 30, 1989**

The following schedule contains the funded status of the health subsidy benefits at June 30, 1989. Under a new Government Accounting Standards Board (GASB) exposure draft, Disclosure of Information on Post Employment Benefits Other than Pensions by State and Local Governmental Employers, issued in November, 1989, the expenditures and expenses for the period are the only financial information that needs to be disclosed. However, the exposure draft encourages more complete disclosures of information, if available.

We have applied the guidelines of GASB No. 5, which relates to the disclosure of pension information, to calculate the funded status. Since the assets of the health subsidy are in the same trust as pension assets, we believe it is appropriate to measure funding progress of each on the same basis.

Present Value of Health Subsidy Benefits Earned	
- Retired Members	\$ 181,492,507
- Active Members Eligible to Retire	<u>54,104,996</u>
- Total	\$ 235,597,503
 Health Subsidy Reserve	 \$ 146,707,299
 Funded Ratio	 62.3%

EXHIBIT

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**DEVELOPMENT OF CONTRIBUTION FOR HEALTH
INSURANCE PREMIUM SUBSIDY FOR FISCAL YEAR 1990-91**

	<u>Dollar Amount*</u>	<u>Percent of Pay</u>
1. Normal Cost at June 30, 1989	\$ 1,643,277	0.21%
2. Actuarial Accrued Liability at June 30, 1989	235,597,503	-
3. Estimated Reserve at June 30, 1989	146,707,299	-
4. Unfunded Actuarial Liability: (2)-(3)	88,890,204	-
5. Amortization of Unfunded Actuarial Liability (level percent of pay through June 30, 2004)	6,984,166	0.89%
6. Recommended Contribution: (1)+(5)	\$ 8,627,443	1.10%

*Dollar amounts are estimates based on pay rates at July 1, 1989, for illustrative purposes.

EXHIBIT

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**PRESENT VALUE OF HEALTH SUBSIDY BENEFITS
AS OF JUNE 30, 1989**

	<u>Number of Members</u>	<u>Present Value</u>
1. Current Pensioners	10,503	\$ 181,492,507
2. Active Employees Eligible to Retire	2,295	77,216,171
3. Other Active Employees	20,489	307,150,392
4. Total: (1)+(2)+(3)	33,287	565,859,070
5. Portion of (2) Attributable to Actuarial Liability	--	54,104,996
6. Actuarial Liability for Funding Purposes: (1)+(5)	--	\$ 235,597,503

EXHIBIT

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

SUMMARY OF HEALTH SUBSIDY BENEFITS

ELIGIBILITY : Members who retire with ten years of service. Subsidy begins at age 55.

SUBSIDY : Medical

For retired Members under age 65 or over age 65 with only Medicare Part B:

A percentage of the Maximum Subsidy, or the actual premium paid to a City approved health carrier, if less.

The percentage is 4% for each year of service, up to a maximum of 100% after 25 years.

Maximum Subsidy: The maximum is the rate currently paid for active City employees. As of July 1, 1989, this amount is \$301 per month.

For retired Members over age 65 with Medicare Parts A and B:

A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10 - 14 years of service, 90% for 15 - 19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.

Dental

4% per year of service to a maximum of \$19.88 for Connecticut General and \$9.18 for Safeguard.

EXHIBIT

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Methods	: Future cash flows were projected by applying medical trend rate factors to current annual claim rates. The prefunding of these cash flows is determined using the Projected Unit Credit Funding Method.
Discount on Projected Cash Flows	: 8% per year.
Medical Trend Rates	: 9% per year for retirees and actives eligible to retire. 8% for other actives.
Mortality	: 1971 Group Annuity Mortality Table, with a two year age setback.
Probability of Termination of Employment	: Same rates as used in valuation of retirement benefits. See retirement report for details.
City Medical Plan Coverage	: 80% of all retirees are assumed to receive a subsidy for a City approved health carrier.
Spouses and Dependent	: 90% of male and 65% of female retirees who receive a subsidy are assumed to be married and elect dependent coverage.
Medicare Coverage	: 85% of retirees are assumed to elect Medicare Parts A & B.
Dental Coverage	: 65% of retirees are assumed to elect dental coverage.

EXHIBIT

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

AVERAGE MONTHLY CLAIM RATES

MEDICAL

Less Than Age 65 or Age 65 and Over Without Medicare Parts A & B

	<u>Premium per month per year of service (maximum 25 years)</u>
Married Male	\$ 5.72
Single Male	3.79
Married Female	4.56
Single Female	3.46

Age 65 and Over With Medicare Parts A & B

Married Male	\$ 8.88
Single Male	6.50
Married Female	7.86
Single Female	6.44

DENTAL

\$ 0.67

EXHIBIT

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

DISTRIBUTION OF PENSIONERS AND AVERAGE MONTHLY HEALTH SUBSIDY AMOUNTS AS OF JUNE 30, 1989

ATTAINED AGE	PRE 1975	Retirements in Plan Year Beginning in														TOTAL	AVERAGE MONTHLY HEALTH SUBSIDY	
		1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988			
0 - 39	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40 - 44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45 - 49	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 54	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	104
55 - 59	8	1	4	3	2	3	7	7	5	5	54	72	111	137	111	530	201	
60 - 64	14	4	4	9	22	41	67	73	173	192	151	114	157	138	119	1278	201	
65 - 69	37	26	62	94	156	118	119	154	211	179	156	100	119	110	65	1706	131	
70 - 74	180	98	134	134	161	127	116	107	84	77	76	37	38	32	9	1410	108	
75 - 79	345	87	102	83	70	49	28	33	24	14	8	8	4	3	5	863	104	
80 - 84	372	39	27	12	11	5	3	3	3	0	0	1	1	1	0	478	102	
85 - 89	207	0	1	0	0	0	0	0	0	0	0	0	0	0	0	208	95	
90 - 94	85	0	0	0	0	0	0	0	0	0	0	0	0	0	0	85	91	
OVER 95	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	1248	255	334	335	422	343	340	377	500	468	445	332	430	421	309	6559		
AVERAGE MONTHLY HEALTH SUBSIDY	105	116	114	120	120	129	130	132	154	159	159	166	170	165	185			

AVERAGE MONTHLY HEALTH SUBSIDY: \$138
 TOTAL MONTHLY HEALTH SUBSIDY: \$907,187

