

# ANNUAL REPORT 1991 - 1992



## CITY EMPLOYEES' RETIREMENT SYSTEM

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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

Mike Hernandez  
First District

Joel Wachs  
Second District

Joy Picus  
Third District

John Ferraro  
Fourth District

Zev Yaroslavsky  
Fifth District

Ruth Galanter  
Sixth District

Ernani Bernardi  
Seventh District

Mark Ridley-Thomas  
Eighth District

Rita Walters  
Ninth District

Nate Holden  
Tenth District

Marvin Braude  
Eleventh District

Hal Bernson  
Twelfth District

Michael Woo  
Thirteenth District

Richard Alatorre  
Fourteenth District

Joan-Milke Flores  
Fifteenth District

BOARD OF ADMINISTRATION  
CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE  
CITY OF LOS ANGELES,  
CALIFORNIA  
FISCAL YEAR 1991-92

HENRY W. HURD, President  
RICHARD S. AMADOR, Vice President  
JOSE L. FIGUEROA  
E. KIRK JACKSON  
DENISE LAMAUTE  
RAYMOND A. YOUNG, Manager-Secretary

# CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY  
MAYOR

CITY EMPLOYEES'  
RETIREMENT SYSTEM  
360 EAST SECOND STREET  
8TH FLOOR  
LOS ANGELES, CA 90012-4207

RAYMOND A. YOUNG  
GENERAL MANAGER  
(213) 485-2824

BOARD OF  
ADMINISTRATION

HENRY W. HURD  
PRESIDENT

RICHARD S. AMADOR  
VICE PRESIDENT

JOSE L. FIGUEROA  
E. KIRK JACKSON  
DENISE LAMAUTE

COMMISSIONERS

February 9, 1993

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, 1992 is submitted in accordance with the provisions of Section 64 of the City Charter.

The City Employees' Retirement System is established by Article XXXIV of the City Charter. The System is 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.

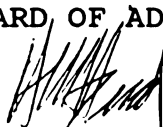
Two new Board members were appointed by the Mayor. Commissioner E. Kirk Jackson replaced Commissioner William T. Woods, and Commissioner Denise Lamaute replaced Commissioner Olga Marcus.

The total rate of return for the investment portfolio was 12.2%. Four new investment management firms were hired; Baille Gifford, Templeton, Chancellor, and Bond Procope -- a minority firm. Northern Trust took over as master custodian of the fund.

The number of active members decreased from 23,572 to 23,399 and the number of retirees increased from 10,862 to 11,359. The System continued to show funding progress by increasing its funding ratio to 80.1%.

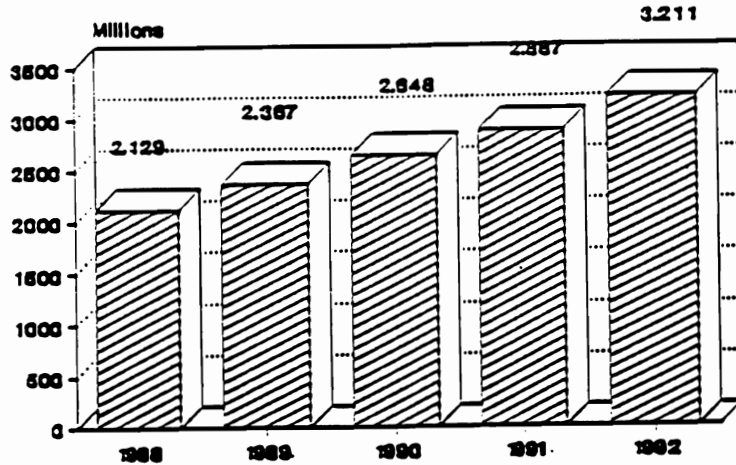
Respectfully Submitted,

BOARD OF ADMINISTRATION

  
HENRY HURD, President

## INVESTMENT SUMMARY

### Asset Growth Market Value



Assets continue to grow, increasing from \$2.887 billion to \$3.211 billion. Four investment managers were hired in fiscal year 1991-92, and a master custodian was selected that can maintain the international portfolio.

Baile Gifford and Templeton are international equity managers funded in November, 1991. Baile Gifford specializes in the United Kingdom/European market. Templeton

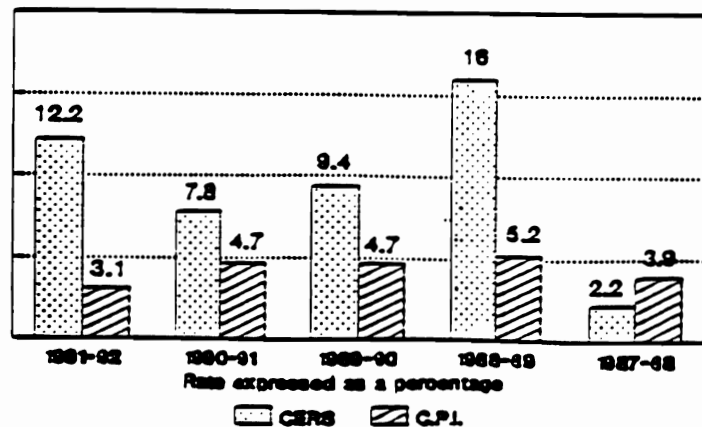
specializes in the Pacific Basin market. Bond Procope, a minority firm, and Chancellor are both growth equity managers. They were funded in April, 1992.

CERS also selected a custodian bank capable of handling international stocks. Prior to the selection of Northern Trust as custodian trustee, exposure to the international market was limited to using American Depository Receipts.

The total fund rate of return, exclusive of real estate, was 12.2%. This compares favorably with the annual Consumer Price Index of 3.1%, but places the fund in the third quartile of local government plans in the SEI universe of pension plans.

The total plan rates of return rank is 70 for the year ending June 30, 1992. The rank is 68 over a two year period, 72 over a three year period, 62 over a four year period, and 50 over a five year period.

### Total Fund Rate of Return Compared to the C.P.I.



## City Employees' Retirement System Annual Report 1992

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One of the reasons the plan compares less favorably with other government plans is the lower commitment to equities over the first half of the fiscal year and a large cash position held in the fund while waiting to fund new investment managers. Equities outperform cash equivalents over a long time horizon. This year the cash position decreased from \$472 million to \$270 million while the stock portfolio increased in market value from \$970 million to \$1.471 billion. Thus, cash went from 15.8% of the portfolio to 8.0% of the portfolio and stocks from 32.4% of the portfolio to 43.6% of the portfolio.

### INVESTMENT PORTFOLIO AT COST (000)

	June 30, 1992	Percent	June 30, 1991	Percent	Increase/ (Decrease)
Short-term investments	270,689	8.6	472,895	16.7	(202,206)
Fixed Income	1,447,131	46.1	1,434,035	50.7	13,096
Stocks	1,306,440	41.6	818,639	28.9	487,801
Real Estate	114,893	3.7	104,031	3.7	10,862
<b>TOTAL</b>	<b>3,139,153</b>		<b>2,829,600</b>		<b>309,553</b>

The real estate portfolio reflected the general industry slump with a net annual return of a minus 9.7%. The portfolio is diversified by both property type and regionally so as to be able to take advantage of any general market increase as the economy improves. Of the real estate portfolio, 37.2% is in office, 28.2% in retail, 10.3% in industrial and 24.3% in residential properties. Geographically, 1.6% is in New England, 27.7% in the Mid-Atlantic, 9% in the South, 16.2% in the industrial Midwest, 12.4% in the energy states, 16.9% in the Pacific Southwest, and 16.1% in the Pacific Northwest.

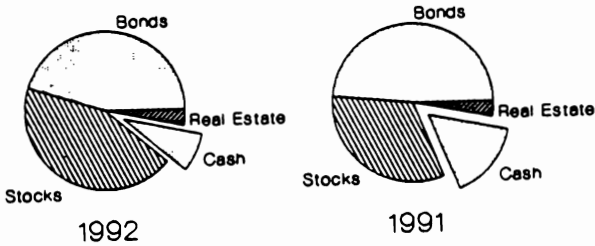
Investment performance is measured by SEI Capital Resources, the Board's pension fund consultant, and by Institutional Property Consultants, Inc, for real estate holdings. The returns are based on market value, including all realized and unrealized gains and losses. These returns are then compared to other like pension funds in the consultants' universe.

**City Employees' Retirement System  
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The following information is based on market value. Rates of return were calculated by SEI Capital Resources except for real estate which was prepared by Institutional Property Consultants.

Realized Rates of Return				
Year Ending	Stocks	Bonds	Cash	Real Estate
1988	6.39%	10.26%	7.54%	N/A
1989	3.37%	2.11%	9.45%	3.51%
1990	14.75%	9.85%	9.05%	7.71%
1991	6.53%	8.65%	8.20%	6.58%
1992	12.08%	11.41%	5.72%	5.42%

**Asset Diversification - Percent of Total Fund (Market Value)**



	FY 1992	FY 1991
Bonds	45.0%	48.3%
Stocks	43.6%	32.4%
Cash	8.0%	15.8%
Real Estate	3.4%	3.5%

**Investment Advisors**

Bond

- Loomis Sayles
  - Bankers Trust
  - WR Lazard
  - Lincoln Capital
- Domestic Equity
- Loomis Sayles
  - Bankers Trust
  - Chancellor
  - Bond, Procope
  - Ariel Capital

Real Estate

- La Salle Advisors, Inc
  - L & B Real Estate Counsel
  - The O'Connor Group
  - The RREEF Funds
  - Aldrich, Eastman & Waltch
  - TA Associates Realty
  - TCW Realty Advisors
- International Equity
- Axe Core
  - Templeton
  - Baillie Gifford



## **ACTUARIAL SUMMARY**

The object of accumulating assets is to create a fund capable of providing all promised benefits to all eligible members of the retirement system. The method of determining the amount needed and the progress toward that goal is determined by an annual actuarial valuation. This valuation, conducted by the system's actuary, The Wyatt Company, projects the future liabilities of the system by taking a snapshot of the characteristics of the membership and applying both economic and noneconomic assumptions. These assumptions are determined by studying the past actions of the fund every three years, and comparing each year's progress with those chosen assumptions to determine if they are still viable.

Once the liabilities are determined they are discounted to present value using the interest assumption of eight percent. Current actuarial assets are then subtracted from the liabilities to determine the amount that still needs to be funded. Using the projected unit credit method of actuarial funding, the valuation study then projects the amount of money that must be contributed in the next fiscal year to maintain the selected funding track of the system. Actuarial assets are determined by averaging the book value and market value of the fund. As can be seen in the summary, assets increased by 12.1% from \$2.9 billion to \$3.3 billion.

The total funded ratio of the plan, the ratio between assets and liabilities of both the retirement provisions and the health subsidy, increased from 77% to 80.1%, indicative of a well funded system. Most of the Unfunded Actuarial Accrued Liability will be amortized as a level percent of pay over a period ending June 30, 2004. Gains and losses of each year's activities are amortized over a 15 year period, while any further benefit changes will be

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### **ACTUARIAL ASSUMPTIONS**

**Interest Rate: 8%**  
**Cost-of-Living: 3%**  
**Salary increases: 6%**  
**Mortality: 1971 Group**  
**Mortality**  
    **1 year setback for males**  
    **5 year setback for females**  
**1981 Disability Mortality**  
**Table**  
**Medical Inflation Rate assumed**  
**to decrease over time to the**  
**year 2004**  
    **Pre-65 from 14% to 7%**  
    **Post-65 from 12% to 7%**  
    **Medicare from 9% to 7.5%**  
    **Dental from 12% to 7%**

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## City Employees' Retirement System Annual Report 1992

amortized over a thirty year period. The total contribution rate required by the city for fiscal year 1993-94 is 16.33% of active member's pay plus \$2.72 million. This is broken down into a percentage for the Entry Age Normal Cost (6.85%), health subsidy (3.26%) and unfunded actuarial accrued liability (6.22% plus \$2.7 million). These contributions are sufficient to meet the funding requirements of both the retirement benefits and health subsidy benefits.

### GENERAL STATISTICS

	June 30, 1992	June 30, 1991
Active Members	23,572	23,572
Monthly Retirement Allowances	13,169,754	13,169,754
Retirement:		
Service Retirements	7,687	7,577
Disability Retirements	933	913
Survivorships	501	489
Continuance to Spouse of Deceased Retirees	1,907	1,849
Limited Pensions	6	4
Family Death Benefit Plan Beneficiaries	150	150

### SERVICE RETIREMENTS

	1991-92	1990-91
Average Age - New Retirees	61.30	61.17
Average Service Credit (Years - New Retirees)	26.24	24.91
Average Allowance Granted - New Retirees	\$2,004.60	\$1,827.29
Average Allowance Paid - All Retirees	\$1,451.30	\$1,382.03

**City Employees' Retirement System  
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<b>Summary of Significant Valuation Results</b>				
		June 30, 1992	June 30, 1991	Percent Change
I.	<b>Total Membership</b>			
	A. Active Members	23,399	23,572	-0.7%
	B. Pensioners	11,359	10,862	+4.6%
II.	<b>Salaries at June 30</b>			
	A. Total Annual Payroll	\$915,343,121	\$833,128,768	+9.9%
	B. Average Monthly Salary	\$3,259	\$2,945	+10.7%
III.	<b>Benefits to Current Pensioners and Beneficiaries</b>			
	A. Total Annual Benefits	\$168,472,288	\$154,100,546	+9.3%
	B. Average Monthly Benefit Amount	\$1,236	\$1,182	+4.6%
IV.	<b>Total System Assets (Actuarial Value)</b>	<b>\$3,298,714,000</b>	<b>\$2,943,327,000</b>	<b>+12.1%</b>
V.	<b>Unfunded Actuarial Accrued Liability</b>			
	A. Retirement Benefits	\$511,906,957	\$562,921,043	-9.1%
	B. Health Subsidy Benefits	\$304,937,076	\$312,122,739	-2.3%
VI.	<b>Budget Items</b>			
	A. Retirement Benefits			
	1. Normal Cost as a Percent of Pay	6.85%	5.74%	+19.3%
	2. Amortization of Unfunded Actuarial Accrued Liability			
	i) Percent of Pay, plus	6.22%	6.52%	-4.6%
	ii) Fixed Dollar Amount	\$2,724,502	\$2,724,502	+0.0%
	3. Total Retirement Contribution	13.07%	12.26%	+6.6%
	B. Health Subsidy Contribution, as a Percent of Pay	3.26%	3.46%	-5.3%
	C. Total Contribution (A+B)			
	i) Percent of Pay, plus	16.33%	15.72%	+3.9%
	ii) Fixed Dollar Amount	\$2,724,502	\$2,724,502	+0.0%
VII.	<b>Funded Ratio</b>			
	A. Retirement Benefits	85.8%	83.0%	+3.0%
	B. Health Subsidy Benefits	39.1%	36.3%	+7.7%
	C. Total	80.1%	77.0%	+4.0%

**City Employees' Retirement System  
Annual Report 1992**

**Actuarial Balance Sheet As Of June 30, 1992**

Retirement Benefits

<b>ASSETS</b>		
1. Applicable Assets		\$3,085,517,616
2. Present Value of Future Member Contributions		\$674,440,163
3. Present Value of Future Contributions by the City For:		
a. Basic Pensions		
i. Normal Costs	\$580,269,492	
ii. Amortization of Certain Liabilities	124,669,024	
iii. Total		\$704,938,516
b. Cost-of-Living Pensions		
i. Normal Cost	\$198,327,883	
ii. Amortization of Certain Liabilities	387,237,933	
iii. Total		\$585,565,816
4. Total Assets		\$5,050,462,111
<b>LIABILITIES</b>		
5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)		
a. Basic	\$1,136,412,298	
b. Cost-of-Living	730,174,603	
c. Total		\$1,866,586,901
6. Present Value of Benefits to be Granted (Actives)		
a. Basic	\$2,554,157,150	
b. Cost-of-Living	629,718,060	
c. Total		\$3,183,875,210
7. Total Liabilities		\$5,050,462,111

**City Employees' Retirement System  
Annual Report 1992**

**Actuarial Balance Sheet As Of June 30, 1992**

Health Subsidy Benefits

<b>ASSETS</b>	
1. Applicable Assets	\$195,797,567
2. Present Value of Future Member Contributions	0
3. Present Value of Future Contributions by the City:	
a. Normal Costs	\$ 79,416,309
b. Amortization of Certain Liabilities	304,937,076
c. Total	\$384,353,385
4. Total Assets	\$580,150,952
<b>LIABILITIES</b>	
5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)	\$273,324,576
6. Present Value of Benefits to be Granted (Actives With Ten or More Years of Service)	306,826,376
7. Total Liabilities	\$580,150,952

**City Employees' Retirement System  
Annual Report 1992**

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**Summary of Retirement Benefits**

1. **Eligibility:** Members are eligible on their first day of City 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 after 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.

## City Employees' Retirement System Annual Report 1992

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### 4. Disability Retirement:

- A) Eligibility: Five years of continuous service and physically or mentally incapacitated so unable to perform duties of position.
- B) Benefit: 1/70 of Final Compensation per year of continuous service. If service is less than 23-1/3 years, then service is projected to retirement, with a maximum service of 23-1/3 years.
- C) Form of Payment: Benefit payable for life with 50% continuance to eligible spouse if employee had this coverage at time of retirement.

### 5. Deferred Service Retirement:

- A) Eligibility: Five years of service prior to termination of City service. Member must leave contributions on deposit and apply in writing within three years of termination.
- B) Benefit: Same as Service Retirement payable anytime after age 55, provided at least 10 years have elapsed from date of original membership ( or anytime after age 70).
- C) Form of Payment: Same as Service Retirement.

### 6. Pre-retirement Death Benefits:

#### A) Not Eligible for Disability or Service Retirement:

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

(i) = Accumulated contributions with interest.

(ii) = Limited monthly pension equal to half the average monthly salary for the year before death. Benefit is payable to surviving spouse, minor children, or dependent parents, and is payable for a period of 2 months times the number of completed years of service, to a maximum of 12 months.

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

## City Employees' Retirement System Annual Report 1992

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- 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:**
- Members 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.



## City Employees' Retirement System Annual Report 1992

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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 76% of the amounts otherwise paid by the Member.
- Post-January, 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.
- 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.
- C) **Cost:** It is recommended that the Member and City each contribute \$2.90 per month.

**City Employees' Retirement System  
Annual Report 1992**

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**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 65 and over 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, 1992, this amount is \$458 per month.

For retired Members age 65 and over 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 \$28.66 for Connecticut General and \$9.64 for Safeguard.



Flair Commerce Center  
9420 Telstar Avenue, Suite A-101  
El Monte, California 91731-2906  
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Honorable Members of the City Council of  
the City of Los Angeles, California, and

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

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of the Los Angeles City Employees' Retirement System (the System) as of June 30, 1992 and 1991 and the related statements of revenue, expenditures and changes in reserves for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles City Employees' Retirement System as of June 30, 1992 and 1991, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

*Quezada Godsey & Co*

Los Angeles, California  
November 25, 1992

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
BALANCE SHEETS  
JUNE 30**

	<u>1992</u>	<u>1991</u>
	(in thousands)	
<b>Assets</b>		
Cash	\$ 2,150	\$ 3,265
Receivables:		
Accrued interest and dividends	35,811	36,346
Proceeds from sale of investments	29,724	14,639
Other receivables	<u>4,106</u>	<u>3,464</u>
	<u>69,641</u>	<u>54,449</u>
Investments:		
Temporary, at cost	270,689	472,895
Bonds, at amortized cost	1,447,131	1,434,035
Common stocks, at cost	1,306,440	818,639
Real Estate, at cost	<u>114,893</u>	<u>104,031</u>
	<u>3,139,153</u>	<u>2,829,600</u>
<b>Total Assets</b>	<b><u>\$3,210,944</u></b>	<b><u>\$2,887,314</u></b>
<b>Liabilities and Reserves</b>		
Accounts payable and accrued expenses	\$ 30,213	\$ 24,963
Reserves:		
Member Contributions	491,744	450,775
City Contributions	2,483,416	2,233,029
Family Death Benefits	16,776	15,905
Health Benefits	<u>188,795</u>	<u>162,642</u>
	<u>3,180,731</u>	<u>2,862,351</u>
<b>Total Liabilities and Reserves</b>	<b><u>\$3,210,944</u></b>	<b><u>\$2,887,314</u></b>

The notes are an integral part of these financial statements.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF REVENUE AND EXPENDITURES  
FOR THE YEARS ENDED JUNE 30**

	<u>1992</u>	<u>1991</u>
	(in thousands)	
<b>Revenue</b>		
City contributions	\$ 164,867	\$ 151,293
Member contributions	<u>43,197</u>	<u>41,790</u>
	<u>208,064</u>	<u>193,083</u>
Investment Income:		
Interest	143,717	158,810
Dividends	32,510	28,991
Real Estate	5,970	5,768
Net Gain on sale of investments	<u>129,199</u>	<u>19,592</u>
	<u>311,396</u>	<u>213,161</u>
<b>Total Revenue</b>	<u>519,460</u>	<u>406,244</u>
<b>Expenditures</b>		
Pensions:		
Retirement allowances	\$ 162,883	\$ 152,235
Health insurance benefits	20,893	17,403
Family death benefits	593	638
Refund of members' contributions	7,973	8,573
Administrative expenses	<u>8,738</u>	<u>8,239</u>
<b>Total Expenditures</b>	<u>201,080</u>	<u>187,088</u>
<b>Excess Of Revenue Over Expenditures</b>	<u>\$ 318,380</u>	<u>\$ 219,156</u>

The notes are an integral part of these financial statements.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN RESERVES**  
**FOR THE YEAR ENDED JUNE 30, 1992**  
(in thousands)

	<u>Total</u>	<u>Member Contributions</u>	<u>City Contributions</u>	<u>Family Death Benefits</u>	<u>Health Benefits</u>
Balance June 30, 1991	\$ 2,862,351	\$ 450,775	\$ 2,233,029	\$ 15,905	\$ 162,642
<b>Additions:</b>					
Member Contributions	43,197	42,988		209	
City Contributions	164,867		138,627	231	26,009
Investment Income	<u>311,396</u>	<u>28,183</u>	<u>271,484</u>	<u>1,024</u>	<u>10,705</u>
	<u>519,460</u>	<u>71,171</u>	<u>410,111</u>	<u>1,464</u>	<u>36,714</u>
<b>Transfers:</b>					
Annuities awarded	-0-	(22,990)	22,990		10,332
Revised Actuarial Allocation	<u>-0-</u>	<u>(22,990)</u>	<u>(10,332)</u>	<u>-0-</u>	<u>10,332</u>
			<u>12,658</u>		<u>10,332</u>
<b>Deductions:</b>					
Allowance Expenditures	163,476		162,883	593	
Refund of Contributions	7,973	7,210	763		20,893
Administrative Expense	8,738	2	8,736		
Health Benefits	<u>20,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,893</u>
	<u>201,080</u>	<u>7,212</u>	<u>172,382</u>	<u>593</u>	<u>20,893</u>
Balance June 30, 1992	<u>\$ 3,180,731</u>	<u>\$ 491,744</u>	<u>\$ 2,483,416</u>	<u>\$ 16,776</u>	<u>\$ 188,795</u>

The notes are an integral part of these financial statements.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN RESERVES**  
**FOR THE YEAR ENDED JUNE 30, 1991**  
(in thousands)

	<u>Total</u>	<u>Member Contributions</u>	<u>City Contributions</u>	<u>Family Death Benefits</u>	<u>Health Benefits</u>
Balance June 30, 1990	\$ 2,643,195	\$ 411,448	\$ 2,058,012	\$ 15,027	\$ 158,708
<b>Additions:</b>					
Member Contributions	41,790	41,591		199	
City Contributions	151,293		141,212	214	9,867
Investment Income	<u>213,161</u>	<u>29,107</u>	<u>171,481</u>	<u>1,103</u>	<u>11,470</u>
	<u>406,244</u>	<u>70,698</u>	<u>312,693</u>	<u>1,516</u>	<u>21,337</u>
<b>Transfers:</b>					
Annuities awarded	<u>-0-</u>	<u>(23,338)</u>	<u>23,338</u>	<u>-0-</u>	<u>-0-</u>
<b>Deductions:</b>					
Allowance Expenditures	152,873		152,235	638	
Refund of Contributions	8,573	8,079	494		
Administrative Expense	8,239	(46)	8,285		
Health Benefits	<u>17,403</u>				<u>17,403</u>
	<u>187,088</u>	<u>8,033</u>	<u>161,014</u>	<u>638</u>	<u>17,403</u>
<b>Balance June 30, 1991</b>	<b>\$ <u>2,862,351</u></b>	<b>\$ <u>450,775</u></b>	<b>\$ <u>2,233,029</u></b>	<b>\$ <u>15,905</u></b>	<b>\$ <u>162,642</u></b>

The notes are an integral part of these financial statements.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

**Summary of Significant Accounting Policies**

**General Information**

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of the Board of Administration whose authority is granted by the Los Angeles City Charter (Article XXXIV). The System covers all personnel of City departments included in the City's regular operating budget except for certain employees of the Fire and Police departments, and includes the semi-autonomous departments of Airports and Harbor. The accounting records are maintained on the accrual method and the System follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB).

**Reserves:**

As provided in the Los Angeles City Charter, the City Employees' Retirement System is maintained on a reserve basis, determined in accordance with accepted actuarial methods. The City Charter establishes reserves for the following:

*Member Contributions* - Active member contributions to the plan and investment earnings distributions (interest) credited to members' accounts.

*Basic Pensions* - City contributions, interest, and capital gains accumulated to provide for the City's guaranteed portion of retirement benefits.

*Annuity* - Member contributions transferred to the City and used to provide the members' share of retirement benefits.

*Cost-of-Living* - Member and City contributions required to fund annual cost-of-living benefits for retirees.



LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991

*Health Subsidy* - City Contributions and interest reserved on an actuarial basis to provide health subsidies for retirees.

*Family Death Benefits* - Member and matching City contributions and interest reserved to pay benefits under the Family Death Benefit Insurance Plan established by the System.

For purposes of these financial statements the basic pensions, annuity and cost-of-living reserves have been combined and are included under the caption *City Contributions*.

Investments

The System invests primarily in domestic and international stocks, bonds, temporary investments and real estate. Investments in common stock are carried at the lower of average cost or market. Gains and losses on currency translations related to international stocks are realized at the time of sale. Gains and losses in uninvested currency are recognized periodically and on the settlement of purchase transactions.

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 to 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.

Real estate investments are recorded under the equity method. Temporary investments are carried at cost which approximates market value.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 1992 AND 1991**

Income from Investments

The Los Angeles City Charter provides that income from investments, exclusive of capital gains or losses on investments, shall be credited to member reserve accounts and to City reserve accounts in relation to the reserve balances. Realized capital gains and losses on investments are credited solely to the City's reserves.

Plan Description

The System operates as a single-employer defined benefit plan. The City of Los Angeles and eligible employees contribute to the System 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 applied to benefit payments.

Employer contributions are expressed as a percentage of applicable payroll (covered payroll). For the year ended June 30, 1992, the System's actuary recommended the rate of 14.24% as the City's contribution to the plan. The recommended rate for the year ended June 30, 1991 was 13.62%.

Members who entered the System prior to February, 1983 contribute from 8.64% to 12.94% of their salaries based upon the age they entered the System, however contributions are subsidized by the City under a collective bargaining agreement (see note on Defrayal of Portion of Member Contributions). Members entering subsequent to February, 1983 contribute a flat rate of 6%.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 1992 AND 1991**

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.

**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), the System 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, 1992 with an 8% interest earnings assumption and a 6% assumption for annual salary increases which is comprised of a 3% inflation factor and 3% for merit increases.

**Revised Actuarial Allocation**

In February, 1992 the actuary recommended changes in the allocations between reserves based on the conclusion of a three year actuarial study of the plan's experience. As a result, \$10.3 million was reallocated from the Reserve for City Contributions to the Reserve for Health Benefits.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

**Funding Status and Progress**

The amount shown below as *Total 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 the System 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, 1992 and 1991, the unfunded pension benefit obligation was \$622.3 million and \$628.2 million, respectively as follows (amounts in thousands):

	<u>1992</u>	<u>1991</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 1,866,587	\$ 1,729,600
Current employees:		
Accumulated employee contributions Employer-financed vested	<u>491,744</u> <u>1,239,094</u>	<u>450,775</u> <u>1,131,650</u>
Total Pension Benefit Obligation	3,597,425	3,312,025
Net Assets Available for Benefits, at Cost (Average of Cost and Market is \$3,085,518 and \$2,759,729)	<u>2,975,160</u>	<u>2,683,804</u>
Unfunded Pension Benefit Obligation	\$ <u>622,265</u>	\$ <u>628,221</u>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

For purposes of determining the funding requirements of the System, the actuarial valuation for net assets available for benefits is calculated using an average of cost and market value. For purposes of this report the net assets available for benefits is stated at cost which results in a different unfunded pension benefit obligation. The actuarial valuation for unfunded pension benefit obligation at June 30, 1992 and 1991 was \$511.9 million and \$552.3 million, respectively.

The City is currently actuarial funding retiree health benefits for current retirees and for active members eligible for a retired health subsidy, which is determined separately from the pension benefit obligation.

At June 30, 1992 and 1991, the unfunded health benefit liability was \$311.9 million and \$327.3 million, respectively as follows (amounts in thousands):

	<u>1992</u>	<u>1991</u>
<b>Health Benefit Liability:</b>		
Retired Members	\$ 273,325	\$ 267,124
Active Members	<u>227,410</u>	<u>222,867</u>
<b>Total Health Benefit Liability</b>	500,735	489,991
<b>Reserve for Health Benefits, at Cost</b> (Average of Cost and Market is \$195,798 and \$167,243)	<u>188,795</u>	<u>162,642</u>
<b>Unfunded Health Benefit Liability</b>	<u>\$ 311,940</u>	<u>\$ 327,349</u>

The actuarial valuation for unfunded health benefit liability using the average cost and market at June 30, 1992 and 1991 was \$304.9 million and \$322.7 million, respectively.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

**Contributions Required and Contributions Made**

The System's funding policy provides for periodic employer contributions at actuarial determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due.

The contributions to the System for the fiscal years ended June 30, 1992 and 1991 of \$208.1 million and \$193.1 million, respectively were made in accordance with actuarial determined requirements computed through the above mentioned actuarial valuation. The contributions consisted of the following (in millions):

	<u>1992</u>		<u>1991</u>	
	<u>Amount</u>	<u>Percentage of current covered payroll</u>	<u>Amount</u>	<u>Percentage of current covered payroll</u>
Covered Payroll	\$ <u>915.3</u>	<u>100.00%</u>	\$ <u>833.1</u>	<u>100.00%</u>
Normal Cost	49.9	5.45%	45.1	5.41%
Amortization of the Unfunded Actuarial Accrued Liability	90.8	9.92%	97.0	11.64%
Contribution for Prefunding Health Care Subsidy	<u>24.2</u>	<u>2.64%</u>	<u>9.2</u>	<u>1.10%</u>
Total City Contribution	164.9	18.01%	151.3	18.15%
Employee Contribution	<u>43.2</u>	<u>4.72%</u>	<u>41.8</u>	<u>5.02%</u>
Total	\$ <u>208.1</u>	<u>22.73%</u>	\$ <u>193.1</u>	<u>23.17%</u>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

**Deposits and Investments**

The System maintains all deposits and investments with its Custodian Trustee, except for \$2.2 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 and 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.

Investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are held by the System 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.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

At June 30, 1992 and 1991, the cost and market value of investments were as follows (in thousands):

<u>Investment Type</u>	Category 1			
	<u>1992</u>		<u>1991</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Temporary	\$ 270,689	\$ 270,689	\$ 472,895	\$ 472,895
Bonds	1,447,131	1,518,118	1,434,035	1,444,290
Stocks	1,306,440	1,471,419	818,639	970,335
Real Estate	<u>114,893</u>	<u>114,893</u>	<u>104,031</u>	<u>104,031</u>
	<u>\$3,139,153</u>	<u>\$3,375,116</u>	<u>\$2,829,600</u>	<u>\$2,991,551</u>

There were no Category 2 or 3 investments at June 30, 1992 and 1991.

Securities Lending

The System has entered into various short-term arrangements with its Custodian Trustee whereby securities were loaned to various brokers. The cost basis of securities lent were \$618.9 and \$835.1 million as of June 30, 1992 and 1991, respectively. The market values were \$647.6 million and \$842.8 million as of June 30, 1992 and 1991, 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 \$650.3 and \$857.5 million as of June 30, 1992 and 1991, respectively. These agreements provide for the return of the securities 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 sheets.



**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1992 AND 1991**

**Defrayal of Portion of Member Contributions**

For members prior to February 1983, the City subsidizes a portion of member contributions under a collective bargaining agreement. 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 73% of subsidized member contributions. For the years ended June 30, 1992 and 1991 the City contributed \$21.4 and \$21.0 million respectively, in this manner.

**Operating Lease**

The System leases building facilities, furniture and equipment under a non-cancelable operating lease which expires in 1997, at which time a five year renewal option is available. This lease also contains provisions for the System 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:

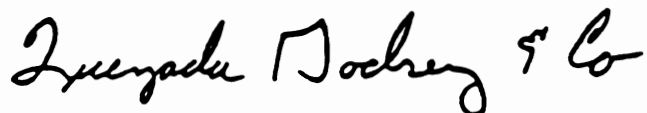
<b><u>Fiscal Year</u></b> <b><u>Ending June 30</u></b>	<b><u>Lease</u></b> <b><u>Amount</u></b>
1993	\$ 384,024
1994	384,024
1995	384,024
1996	410,496
1997	<u>410,496</u>
	<u>\$1,973,064</u>

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

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

**ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION  
PURSUANT TO GASB 5**

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the schedules on pages 17 through 21 is presented for purposes of additional analysis. It is not a required part of the basic financial statements, but is supplementary information required by Statement 5 of the Governmental Accounting Standards Board (GASB). Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements taken as a whole and, in our opinion, the schedules present fairly the information therein in conformity with the provisions of GASB Accounting.



Los Angeles, California  
November 25, 1992

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
COMPARATIVE SUMMARY OF NET ASSETS AVAILABLE FOR BENEFITS AND  
TOTAL ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS  
(in millions)**

<u>Fiscal year</u>	<u>Net assets available for benefits</u>	<u>Total actuarial present value of credited projected benefits</u>	<u>Percentage</u>
1982	1,027.3	1,527.7	67.2%
1983	1,154.4	1,826.3	63.2%
1984	1,278.4	1,962.7	66.3%
1985	1,426.6	2,138.2	66.7%
1986	1,665.4	2,361.7	70.5%
1987	1,935.8	2,535.8	76.3%
1988	2,119.6	2,712.8	78.1%
1989	2,350.7	2,934.9	80.1%
1990	2,643.2	3,108.0	85.0%
1991	2,862.4	3,312.0	86.4%
1992	3,180.7	3,597.4	88.4%

**COMPARATIVE SUMMARY OF UNFUNDED ACTUARIAL PRESENT VALUE OF  
CREDITED PROJECTED BENEFITS AND ANNUAL ACTIVE MEMBER PAYROLL  
(in millions)**

<u>Fiscal year</u>	<u>Unfunded actuarial present value of credited projected benefits</u>	<u>Annual active member payroll</u>	<u>Percentage</u>
1982	611.7	431.7	142%
1983	695.6	442.7	157%
1984	711.8	472.8	151%
1985	744.7	530.4	140%
1986	736.5	621.9	118%
1987	614.7	646.0	95%
1988	613.9	718.0	86%
1989	745.8	752.9	99%
1990	639.2	815.8	78%
1991	628.2	833.1	75%
1992	622.3	915.3	68%

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTE TO COMPARATIVE SUMMARIES ON PAGE 17**

**NOTE**

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

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

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

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGE  
COVERED BY NET ASSETS AVAILABLE FOR BENEFITS**

Fiscal year	Member Contributions (1)	Current retirees and beneficiaries (2)	City- financed portion (3)	Net assets available for benefits	Actuarial present value of credited projected benefits (in millions)		
					(1)	(2)	(3)
1982	239.3	761.2	527.2	1,027.3	100.0	100.0	5.8
1983	250.5	990.8	585.0	1,154.4	100.0	91.2	0.0
1984	261.1	1,085.5	616.0	1,278.4	100.0	93.7	0.0
1985	279.4	1,201.2	657.5	1,426.6	100.0	95.5	0.0
1986	301.9	1,300.8	759.1	1,665.4	100.0	100.0	8.3
1987	323.5	1,420.2	758.4	1,935.8	100.0	100.0	25.3
1988	346.4	1,530.4	836.0	2,119.7	100.0	100.0	29.1
1989	377.7	1,558.5	998.7	2,350.7	100.0	100.0	41.5
1990	411.4	1,617.0	1,080.2	2,643.2	100.0	100.0	56.9
1991	450.8	1,729.6	1,131.6	2,862.4	100.0	100.0	60.3
1992	491.7	1,866.6	1,239.1	3,180.7	100.0	100.0	66.4

**Note:**

The ultimate test of financial soundness is the System's ability to pay all promised benefits when due. The System's progress in accumulating assets to pay all promised benefits can be measured by comparing the present assets with (1) member contributions, (2) the actuarial present value of projected benefits payable to current retirees and beneficiaries, and (3) the City-financed portion of the actuarial present value of credited projected benefits payable to active plan participants. For the System, which receives actuarial determined contribution amounts, the total of actuarial values (1) and (2) should generally be fully covered by assets, and the portion of the actuarial value (3) covered by assets should increase over time. An increase in benefits can, of course, adversely affect the trends in the years such increased benefits are first reflected in the actuarial values.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
COMPARATIVE SUMMARY OF REVENUE BY SOURCE AND EXPENDITURES BY TYPE  
(in millions)**

**REVENUE BY SOURCE**

<u>Fiscal year</u>	<u>Member contributions</u>	<u>City contributions</u>	<u>Investment income</u>	<u>Subtotal</u>	<u>Gain (loss) on investments</u>	<u>Total</u>
1982	23.0	74.0	93.2	190.2	1.4	191.7
1983	19.3	76.0	93.6	188.9	22.1	211.0
1984	17.4	83.7	106.3	207.4	14.6	222.0
1985	19.3	100.6	114.9	234.8	21.2	255.9
1986	21.3	112.8	125.4	259.5	98.0	357.5
1987	24.9	120.6	130.8	276.3	123.9	400.2
1988	28.1	126.2	145.1	299.4	27.7	327.0
1989	32.6	134.0	162.4	329.0	55.7	384.7
1990	37.1	146.4	180.0	363.5	99.4	462.9
1991	41.8	151.3	193.5	386.6	19.6	406.2
1992	43.2	164.9	182.2	390.3	129.2	519.5

**EXPENDITURES BY TYPE**

<u>Fiscal year</u>	<u>Pensions</u>	<u>Refunds and transfers</u>	<u>Administrative</u>	<u>Total</u>
1982	63.0	6.9	2.0	71.9
1983	74.8	6.6	2.5	83.9
1984	89.6	5.5	2.9	98.0
1985	99.4	4.6	3.7	107.7
1986	109.1	5.3	4.3	118.7
1987	119.0	5.6	5.2	129.8
1988	130.4	6.6	6.2	143.2
1989	141.5	6.6	5.9	154.0
1990	156.0	7.2	7.1	170.3
1991	170.3	8.6	8.2	187.1
1992	184.4	8.0	8.7	201.1

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
MEMBERSHIP DATA  
JUNE 30, 1992**

At June 30, 1992 and 1991, the components of the System's membership were as follows:

	<u>1992</u>	<u>1991</u>
Active Nonvested	8,180	9,283
Active Vested	14,944	14,029
Terminated Vested	<u>275</u>	<u>260</u>
Total Active Members	23,399	23,832
Retired	<u>11,359</u>	<u>10,862</u>
Total Members	<u>34,758</u>	<u>34,694</u>