

ANNUAL REPORT

1993 - 1994



CITY EMPLOYEES' RETIREMENT SYSTEM

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

**ANNUAL REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 1994**

**360 EAST SECOND STREET
EIGHTH FLOOR
LOS ANGELES, CALIFORNIA 90012-4207**

TABLE OF CONTENTS

OFFICIALS	Page
Elected Officials, City of Los Angeles	i
Board of Administration City Employees' Retirement System	ii
 EXECUTIVE SUMMARY	
Letter of Elected Officials	1
Investment Summary	2-3
Actuarial Summary	4-8
Department Operations	9
 APPENDIX	
Auditors Report	10
• Balance Sheet	11
• Statement of Revenue and Expenditures	12
• Statement of Changes in Reserves	13-14
• Notes to Financial Statements	15-29
• Supplementary Information	30-36
Summary of Actuarial Valuation	37-38
Actuarial Balance Sheets	39-40
Summary of Plan Benefits	41-45

ELECTED OFFICIALS
OF THE
CITY OF LOS ANGELES

RICHARD J. RIORDAN
Mayor

JAMES KENNETH HAHN
City Attorney

RICK TUTTLE
City Controller

MEMBERS OF THE CITY COUNCIL

Mike Hernandez
First District

Joel Wachs
Second District

Laura Chick
Third District

John Ferraro
Fourth District

Zev Yaroslavsky
Fifth District

Ruth Galanter
Sixth District

Richard Alarcon
Seventh District

Mark Ridley-Thomas
Eighth District

Rita Walters
Ninth District

Nate Holden
Tenth District

Marvin Braude
Eleventh District

Hal Bernson
Twelfth District

Jackie Goldberg
Thirteenth District

Richard Alatorre
Fourteenth District

Rudy Svorinich, Jr.
Fifteenth District

BOARD OF ADMINISTRATION
CITY EMPLOYEES' RETIREMENT SYSTEM
OF THE
CITY OF LOS ANGELES,
CALIFORNIA
FISCAL YEAR 1993-94

DENISE LAMAUTE, President
JOSE L. FIGUEROA, Vice President
WILLIAM H. DOHENY, JR
MICHAEL J. GALVIN
JAN CHARLES GRAY
OSCAR PETERS, Manager-Secretary

CITY OF LOS ANGELES
CALIFORNIA



RICHARD J. RIORDAN
MAYOR

**BOARD OF
ADMINISTRATION**

WILLIAM H. DOHENY, JR.
PRESIDENT

MICHAEL J. GALVIN
VICE PRESIDENT

JAN CHARLES GRAY
BEVERLY RYDER
SHELLEY I. SMITH
COMMISSIONERS

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

OSCAR PETERS
GENERAL MANAGER
(213) 485-2824

February 14, 1995

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, 1994 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.

One new Board member, Michael J. Galvin, was elected by the members of the City Employees' Retirement System. Commissioner Melvin Neal resigned in September, 1993. The Mayor appointed Commissioners Jan Charles Gray and William H. Doheny, Jr.

One new equity investment manager was hired during the year. The investment managers as a whole enhanced the value of the portfolio by 2.5%. At year end, the portfolio had a market value of \$3.95 billion compared with \$3.8 billion as of June 30, 1993.

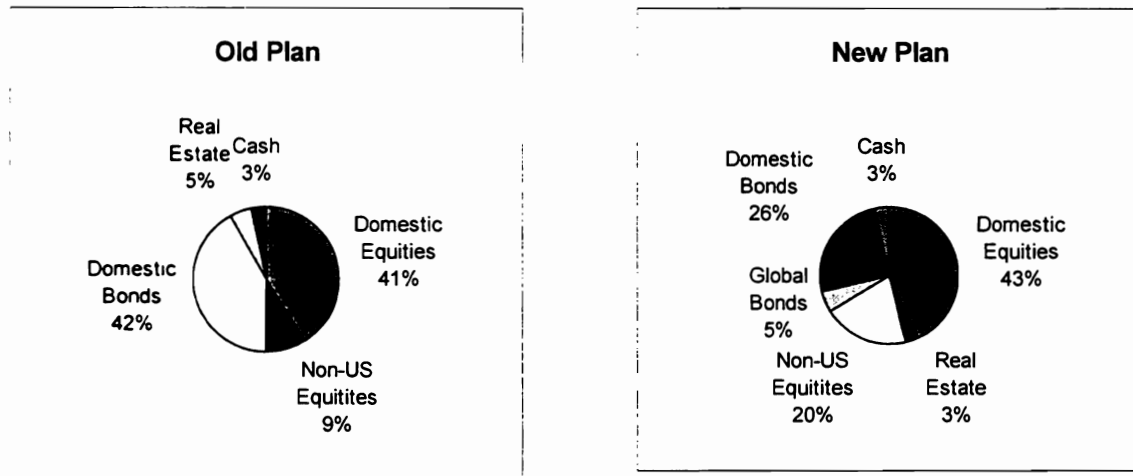
During the year active membership declined by 2.2% while the number of beneficiaries increased by 2.1% for a total of 22,270 active members and 11,894 beneficiaries on June 30, 1994. The funded status of the System continues to improve. The funded status was 90.1% at year end including retirement allowances and retired health insurance benefits.

Respectfully submitted,

BOARD OF ADMINISTRATION
Denise Lamaute, President

INVESTMENT SUMMARY

This fiscal year the Board of Administration adopted a new asset allocation strategy in an effort to increase the rate of return without significantly increasing volatility. Because of changing global economies the expected returns for the next decade were reduced and new weightings were needed. Under the old plan, the projected long-term rate of return for the Fund would have been 7.6%. Under the new plan, the projected long-term return is 8.1%, with no appreciable increase in volatility. The standard deviation of this new asset allocation mix is 9.47%.



The allocations to domestic equity, fixed income and indexed portfolios, small stocks, and non-US equities were increased. Allocations to actively managed core and long bonds, value and growth equities were reduced. Asset classes for global bonds and emerging markets equities were established but not yet funded as of the close of this fiscal year.

Overall, weightings to the broad asset classes of the revised plan were changed as follows: increased domestic equities from 41.0% to 42.8%; raised non-US equities from 9.0% to 20% (including 5% allocation to emerging markets); reduced domestic bonds from 42.0% to 26.2%; allocated 5% for global bonds; and reduced real estate from 5.0% to 3.0%.

The market value of the assets increased from \$3.8 billion to \$3.95 billion during the fiscal year 1993/1994 with the fund reaching the \$4 billion level for the first time on December 24, 1993. An equity investment advisory firm was hired. A new fund consultant was also hired.

Wells Fargo replaced Bankers Trust to manage a S&P 500 index portfolio. CB Commercial was hired to manage a real estate debt portfolio. Lincoln Capital replaced

Bankers Trust in managing the short-duration bond index portfolio. Asset Strategy Consulting replaced SEI as the fund consultant.

The US Federal Reserve's policy of raising interest rates to control inflation had a negative impact across the US financial markets. CERS' managers added value relative to the benchmarks across all asset classes. The following chart details the fund rate of return versus the benchmarks over the past five years. The 1993/94 returns are net of fees.

FIVE YEAR RATES OF RETURNS

FISCAL YEAR	93/94	92/93	91/92	90/91	89/90
CERS BONDS	-1.1	13.8	15.5	10.6	6.6
LEHMAN G/C INDEX	-1.5	13.2	14.2	10.2	7.1
CERS DOM STOCKS EQUITY	1.5	14.3	13.3	6.2	14.2
S & P 500 INDEX	1.3	13.6	13.4	7.4	16.5
CERS INTERNATIONAL STOCKS	22.3	10.9	--	--	--
EAFE INDEX	17.0	11.6	--	--	--
CERS REAL ESTATE	3.1	-3.8	-9.7	5.2	7.9
IPC REAL ESTATE INDEX	1.9	-3.3	-5.3	-1.6	4.8
CERS TOTAL FUND	2.5	13.1	12.2	7.8	9.4
CONSUMER PRICE INDEX	2.5	3.0	3.1	4.7	4.7

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 non-economic 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.

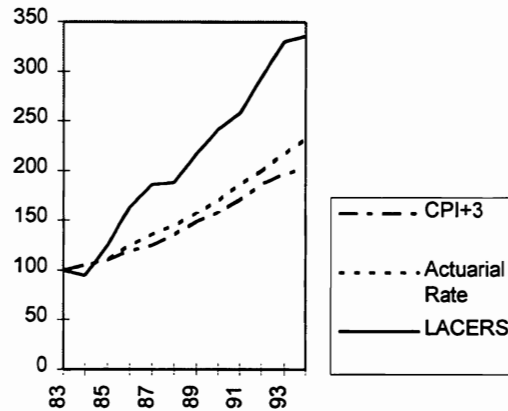
Actuarial Assumptions

Interest Rate	8.0% per year
Salary Increases	6.0% per year
Cost-of-Living	3.0% per year
Mortality	1971 Group Mortality Table with a 1 year setback for males and a 5 year setback for females
Medical Trend Rates	ranging from 11.0% in 1995 to 6% in 2008
Medicare Premium Inflation	ranging from 8.25% in 1995 to 6% in 2004

Once the liabilities are determined they are discounted to present value using the eight percent interest rate assumption. The actuarial value of the assets is determined by averaging the book value and market value of the fund. The current actuarial value of the assets is then subtracted from the present value of the liabilities to determine the amount that still need to be funded. Using the projected unit credit method actuarial funding, the valuation study then projects the amount that must be contributed in the next fiscal year to maintain the selected funding schedule of the system. The actuarial value of the assets increased from \$3.6 billion to \$3.9 billion.

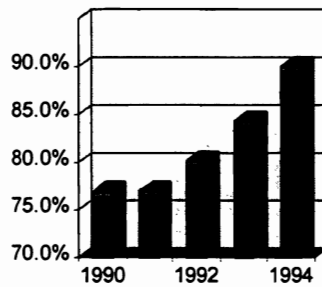
Over the past decade, CERS has consistently achieved investment returns exceeding our actuarial assumption. The following graph shows the an 11-year growth of \$100 based on the CPI, actuarial rate, and CERS investment returns.

Rate of Return Comparison



The total funded ratio of the plan, the ratio between assets and liabilities of both the retirement provisions and the health subsidy, increased from 84.3% to 90.1%, 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 benefit changes will be amortized over a thirty-year period.

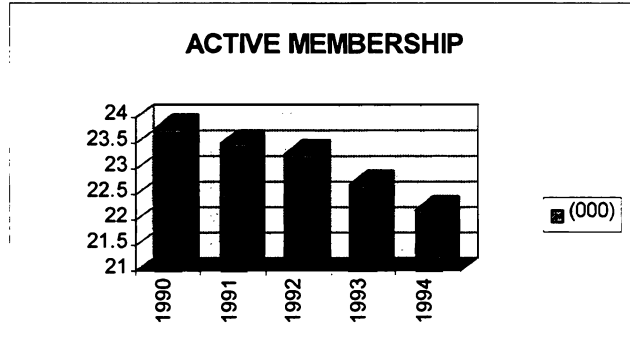
FUNDED STATUS



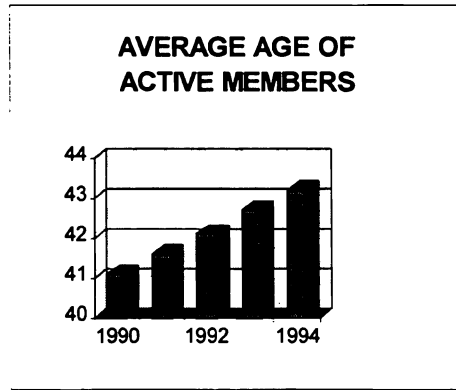
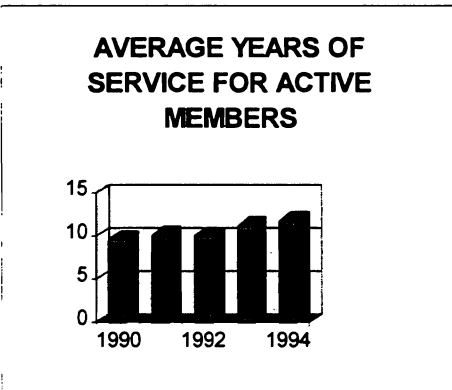
The total contribution rate required by the City for fiscal year 1995-96 is 15.06% of active member's pay plus \$2.72 million. This is broken down into a percentage for the Normal Cost (6.59%), health subsidy (2.99%) and unfunded actuarial accrued liability (5.48% plus 2.72 million). These contributions are sufficient to meet the funding requirement of both the retirements benefits and health subsidy benefits.

MEMBERSHIP INFORMATION

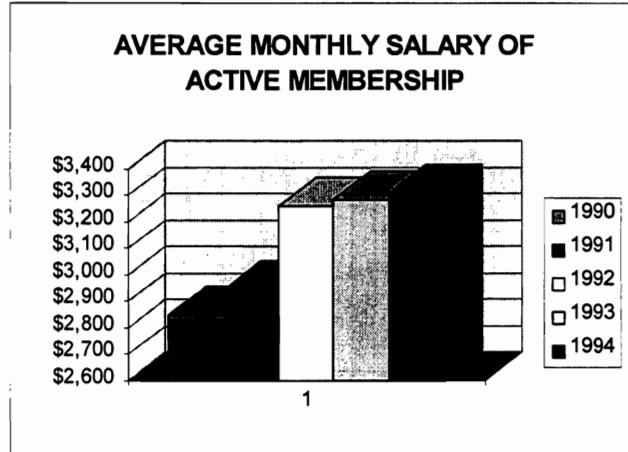
All City employees who are not members of the Department of Water and Power Retirement Plan, the Fire and Police Pension Plan, or the Pension Savings Plan are members of the City Employees' Retirement System. Membership has been decreasing each year since 1990 largely as a result of Citywide downsizing through attrition with a freeze on new hires.



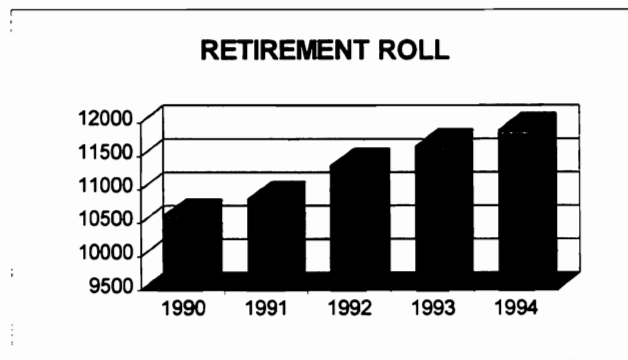
As a result of limiting new hires, the average years of service of active members has increased over the same time period. This also increased the average age of the membership. These changes increase the fund cost as a percent of payroll.



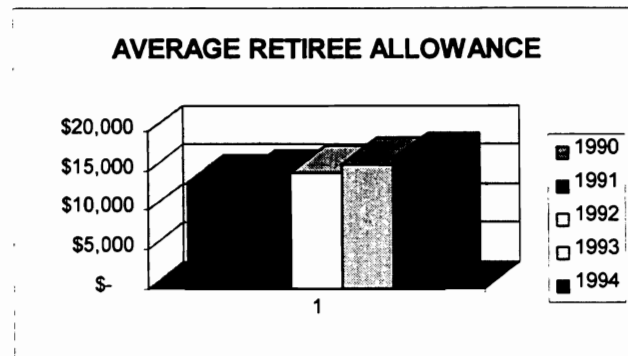
A byproduct of limiting new hires is that the average monthly salary of the membership also increases, even though the total City payroll may decrease.



The number of retired members and beneficiaries has continued to increase, reflecting greater longevity.

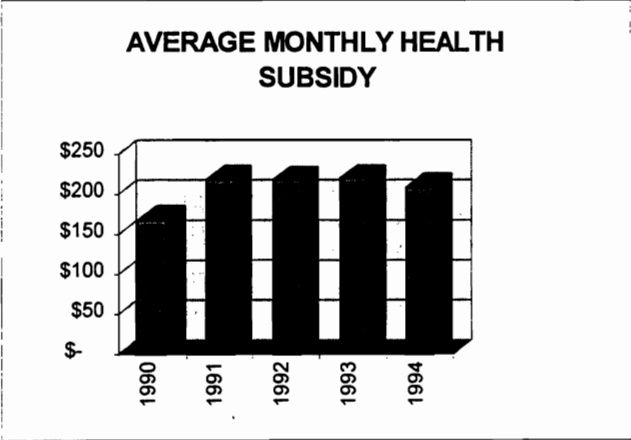


CERS provides for an annual cost-of-living increase to a maximum of three percent.



CERS also provides a retiree medical subsidy. This benefit is available to retired members who have at least ten years of service and are age 55 or older. The benefit formula provides for four percent of the maximum subsidy amount for each whole year of

service. Once a member reaches age 65 and if that member is in both Parts A and B of Medicare, the subsidy formula changes to reflect the Medicare benefit. The high rate of health insurance costs experienced in the area has been offset by cost containment measures. Thus the average medical subsidy premium has not increased over the last four year period after experiencing high growth the previous years.



DEPARTMENT OPERATIONS

The Department maintains files on site for 35,000 active and retired members. The earthquake on January 17, 1994 created chaos in the file room. Half of the files were on the floor. The file shelving was twisted and unstable. In the following weeks all staff worked overtime reassembling the files. After analyzing the cost of repairing the current file system and upgrading to prevent a recurrence of the problem staff recommended the transfer of all paper files to an optical imaging system integrated into a local area network (LAN). In addition to providing a more secure storage environment this solution provides significant processing efficiencies. The LAN was included in the 1995 budget. However, the earthquake advanced the timetable. In consultation with Information Services Department a bid request was issued for a turnkey system. A subsidiary of Cannon USA was selected.

A voice-mail system was installed in the office. Reduced staffing made it impossible to promptly answer the telephone during certain times of the month. The voice-mail system allows members to personally route their calls to the appropriate unit and to leave a message if staff is unable to promptly answer the telephones. While not the ideal solution the system insures that members will get a response to their call within a day.



**QUEZADA
GODSEY & CO.**
CERTIFIED PUBLIC ACCOUNTANTS

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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, 1994 and 1993 and the related statements of revenues and 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 audits 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, 1994 and 1993, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

El Monte, California
November 16, 1994

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

	<u>1994</u>	<u>1993</u>
	(in thousands)	
Assets		
Cash	\$ 69	\$ 3,962
Receivables:		
Accrued interest and dividends	27,061	32,080
Proceeds from sales of investments	40,820	64,101
Other receivables	<u>3,966</u>	<u>4,619</u>
	<u>71,847</u>	<u>100,800</u>
Investments:		
Temporary	414,008	397,096
Bonds	1,227,105	1,406,803
Common stocks	2,047,521	1,562,585
Real estate	<u>116,583</u>	<u>105,000</u>
	<u>3,805,217</u>	<u>3,471,484</u>
Total Assets	<u>\$3,877,133</u>	<u>\$3,576,246</u>
 Liabilities and Reserves		
Accounts payable and accrued expenses	\$ 3,294	\$ 3,612
Purchases of investments	<u>105,233</u>	<u>127,076</u>
Total Liabilities	108,527	130,688
Reserves:		
Member contributions	562,078	528,588
City contributions	2,960,901	2,690,216
Family death benefits	18,133	17,507
Health insurance benefits	<u>227,494</u>	<u>209,247</u>
Total Reserves	<u>3,768,606</u>	<u>3,445,558</u>
Total Liabilities and Reserves	<u>\$3,877,133</u>	<u>\$3,576,246</u>

The notes are an integral part of these financial statements.

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

	<u>1994</u>	<u>1993</u>
	(in thousands)	
Revenues		
City contributions	\$ 173,632	\$ 170,545
Member contributions	<u>42,290</u>	<u>42,720</u>
	<u>215,922</u>	<u>213,265</u>
Investment Income:		
Interest	117,503	115,242
Dividends	44,364	42,436
Real estate	8,387	6,561
Net gain on sales of investments	<u>167,140</u>	<u>101,548</u>
	<u>337,394</u>	<u>265,787</u>
Total Revenues	<u>553,316</u>	<u>479,052</u>
Expenditures		
Benefits:		
Retirement allowances	187,919	175,012
Health insurance benefits	22,176	21,387
Family death benefits	561	559
Refund of members' contributions	8,543	6,928
Administrative expenses	<u>11,069</u>	<u>10,339</u>
Total Expenditures	<u>230,268</u>	<u>214,225</u>
Excess Of Revenues Over Expenditures	<u>\$ 323,048</u>	<u>\$ 264,827</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, 1994
(In thousands)

	<u>Total</u>	<u>Member Contributions</u>	<u>City Contributions</u>	<u>Family Death Benefits</u>	<u>Health Insurance Benefits</u>
Balance June 30, 1993	\$ 3,445,558	\$ 528,588	\$ 2,690,216	\$ 17,507	\$ 209,247
Additions:					
Member contributions	42,290	42,095		195	
City contributions	173,632		143,549	225	29,858
Investment income	<u>337,394</u>	<u>24,956</u>	<u>301,106</u>	<u>767</u>	<u>10,565</u>
	<u>553,316</u>	<u>67,051</u>	<u>444,655</u>	<u>1,187</u>	<u>40,423</u>
Transfers:					
Annuities awarded	<u>-0-</u>	<u>(25,414)</u>	<u>25,414</u>	<u>-0-</u>	<u>-0-</u>
Deductions:					
Allowance expenditures	188,480		187,919	561	
Refund of contributions	8,543	8,147	396		
Administrative expenses	11,069		11,069		
Health insurance benefits	<u>22,176</u>	<u>8,147</u>	<u>199,384</u>	<u>561</u>	<u>22,176</u>
	<u>230,268</u>	<u>8,147</u>	<u>199,384</u>	<u>561</u>	<u>22,176</u>
Balance June 30, 1994	\$ 3,768,606	\$ 562,078	\$ 2,960,901	\$ 18,133	\$ 227,494

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, 1993
(In thousands)

	<u>Total</u>	<u>Member Contributions</u>	<u>City Contributions</u>	<u>Family Death Benefits</u>	<u>Health Insurance Benefits</u>
Balance June 30, 1992	\$ 3,180,731	\$ 491,744	\$ 2,483,416	\$ 16,776	\$ 188,795
Additions:					
Member contributions	42,720	42,524		196	
City contributions	170,545		138,259	224	32,062
Investment income	<u>265,787</u>	<u>24,505</u>	<u>230,635</u>	<u>870</u>	<u>9,777</u>
	<u>479,052</u>	<u>67,029</u>	<u>368,894</u>	<u>1,290</u>	<u>41,839</u>
Transfers:					
Annuities awarded	<u>-0-</u>	<u>(24,013)</u>	<u>24,013</u>	<u>-0-</u>	<u>-0-</u>
Deductions:					
Allowance expenditures	175,571		175,012	559	
Refund of contributions	6,928	6,172	756		
Administrative expenses	10,339		10,339		
Health insurance benefits	<u>21,387</u>				<u>21,387</u>
	<u>214,225</u>	<u>6,172</u>	<u>186,107</u>	<u>559</u>	<u>21,387</u>
Balance June 30, 1993	<u>\$ 3,445,558</u>	<u>\$ 528,588</u>	<u>\$ 2,690,216</u>	<u>\$ 17,507</u>	<u>\$ 209,247</u>

The notes are an integral part of these financial statements.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 is an independent department of the City of Los Angeles. The System's financial statements are included in the City of Los Angeles' Annual Financial Report as a retirement trust fund. The System covers all personnel of City departments included in the City's regular operating budget except for certain sworn employees of the Fire and Police departments, and includes the departments of Airports and Harbor.

Reporting Method

The financial statements are maintained on the accrual basis of accounting and the System follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), authoritative status of the National Council on Governmental Accounting and AICPA industry audit guide *Audits of Employee Benefit Plans*, as revised May 1, 1993.

Investments

Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993

As of June 30, 1993, Board resolutions, with limited exceptions, prohibited 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. On October 26, 1993 the Board repealed these restrictions to coincide with the City's policy.

The System's investment portfolios are comprised of domestic and international equities, domestic bonds, real estate investment funds and temporary investments that include obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1, bankers' acceptances, repurchase agreements, and the short-term investment fund managed by the System's custodian bank.

Investments in equity securities are carried at the lower of average cost or market, and investments in bonds are carried at amortized cost for fiscal year 1993. On July 1, 1993 the amortization of bonds was suspended (see accounting policy on *Bond Amortization* below). Temporary investments are carried at cost which approximates market value. Real estate investments are recorded in the financial statements under the equity method.

The System's custodian is the source of market values for all liquid investments. The market values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the Board's real estate consultant. Losses from real estate investments are generally obtained from information available through December 31, of the fiscal year.

The Los Angeles City Charter provides that earnings 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.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993

Unsettled investment trades as of year end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the balance sheets as receivables and labeled *proceeds from sales of investments*, and amounts payable for purchases are reported as payables and labeled *purchases of investments*.

Bond Amortization

On July 1, 1993, management discontinued the practice of amortizing bond premiums and discounts. Management's investment strategy as it relates to the bond portfolio is to achieve market appreciation and not hold bonds to their maturities. This investment strategy has been consistent during the past several years and management does not foresee a major shift in the strategy.

Reserves

As provided in the Los Angeles City Charter, the 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 credited to members' accounts, less refunds of members' contributions and transfers to the Annuity Reserve.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

City Contributions - Consists of the following components:

Basic Pensions - City contributions, investment earnings distributions, 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 for the members' share of retirement benefits and investment earnings distributions, less payments to retired members.

Cost-of-Living - Member and City contributions required to provide anticipated annual cost-of-living increases for retirement allowances.

Family Death Benefits - Member contributions and matching City contributions and investment earnings distributions reserved to pay benefits under the Family Death Benefits Insurance Plan established by the System.

Health Insurance Benefits - City Contributions and investment earnings distributions reserved on an actuarial basis to provide health subsidies for retirees.

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. Contributions are invested and applied to benefit payments with accumulated investment earnings. Employer contributions are expressed as a percentage of applicable payroll (covered payroll). For the year ended June 30, 1994, the System's actuary recommended the rate of 16.33% as the City's contribution to the plan. The recommended rate for the year ended June 30, 1993 was 15.72%.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993

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%.

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 as of June 30, 1994 using the projected unit credit method as required by GASB, with an 8% interest earnings assumption, an annual salary increase assumption which varies by age, averaging 6% per year over a full 30 year career, and a 3% cost-of-living factor on retirement benefit payments (see note on *Revised Actuarial Valuation*). The actuary also conducts a triennial investigation and actuarial valuation to examine noneconomic assumptions and determine the System's funding status.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

REVISED ACTUARIAL VALUATION

The actuarial valuation for the year ended June 30, 1993 was revised as recommended by the actuary to reflect a change in the salary increase assumption. The new salary increase assumption is based on individual salary increases which vary by age, averaging 6% per year over a full 30 year career. Prior to the change, the salary increase assumption was 6% for all individuals. The effect of the change is to decrease the contribution for retirement benefits by 2.21% totaling \$19.8 million for the year ended June 30, 1995.

As a result of the actuarial revisions, certain valuations contained in schedules throughout this report have been restated for the year ended June 30, 1993 and have been denoted as such. To obtain a comparison between the original valuation and the restated valuation for the year ended June 30, 1993, please refer to the prior year's report.

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.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

At June 30, 1994 and 1993, the unfunded pension benefit obligation was \$294.9 million and \$415.4 million, respectively as follows (amounts in thousands):

	<u>1994</u>	<u>1993</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 2,157,536	\$ 2,029,260
Current employees:		
Accumulated employee contributions	562,078	528,588
Employer-financed vested	<u>1,098,227</u>	<u>* 1,076,348</u>
Total Pension Benefit Obligation	3,817,841	* 3,634,196
Net Assets Available for Benefits, at Cost (Average of Cost and Market is \$3,629,724 and \$3,406,232)	<u>3,522,979</u>	<u>3,218,804</u>
Unfunded Pension Benefit Obligation	\$ <u>294,862</u>	*\$ <u>415,392</u>

* Amounts have been restated, see note on *Revised Actuarial Valuation*.

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, 1994 and 1993 was \$188.1 million and \$227.9 million, respectively.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

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

At June 30, 1994 and 1993, the unfunded health benefits insurance was \$245.6 million and \$288.2 million, respectively as follows (amounts in thousands):

	<u>1994</u>	<u>1993</u>
Health Benefits Liability:		
Retired Members	\$ 253,897	\$ 272,140
Active Members	<u>219,200</u>	<u>225,123</u>
Total Health Benefits Liability	473,097	497,263
Reserve for Health Benefits, at Cost (Average of Cost and Market is \$234,387 and \$221,431)	<u>227,494</u>	<u>209,247</u>
Unfunded Health Benefits Liability	\$ <u>245,603</u>	\$ <u>288,016</u>

The actuarial valuation for the unfunded health benefits insurance liability using the average cost and market for valuing the reserve for health benefits at June 30, 1994 and 1993 was \$238.7 million and \$275.8 million, respectively.

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.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

The contributions to the System for the fiscal years ended June 30, 1994 and 1993 of \$215.9 million and \$213.3 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>1994</u>		<u>1993</u>	
	<u>Amount</u>	<u>Percentage of current covered payroll</u>	<u>Amount</u>	<u>Percentage of current covered payroll</u>
Covered Payroll	\$ <u>884.9</u>	<u>100.00%</u>	\$ <u>898.1</u>	<u>100.00%</u>
Normal Cost	\$ 125.8	14.22%	\$ 118.1	13.15%
Amortization of the Unfunded Actuarial Accrued Liability	59.8	6.76%	62.7	6.98%
Contribution for Retired Health Insurance Benefits	29.9	3.38%	32.1	3.57%
Benefits Insurance Plan Total	<u>.4</u> \$ <u>215.9</u>	<u>0.04%</u> <u>24.40%</u>	<u>.4</u> \$ <u>213.3</u>	<u>0.04%</u> <u>23.74%</u>
Total City Contribution	\$ 173.6	19.62%	\$ 170.6	18.99%
Employee Contribution Total	<u>42.3</u> \$ <u>215.9</u>	<u>4.78%</u> <u>24.40%</u>	<u>42.7</u> \$ <u>213.3</u>	<u>4.75%</u> <u>23.74%</u>

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.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

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, was approximately 78% and 76% of subsidized member contributions for the years ended June 30, 1994 and 1993, respectively. The City contributed \$20.9 and \$21.9 million in this manner for the years ended June 30, 1994 and 1993, respectively.

DEPOSITS AND INVESTMENTS

The System maintains all deposits and investments with its custodian, except for \$68,838 held by the City Treasurer of the City of Los Angeles at year end. These deposits are categorized as follows, to give an indication of the level of risk assumed by the System at year end:

Category 1

Includes deposits insured or collateralized with securities held by the System or by its agent in the System's name.

Category 2

Includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the System's name.

Category 3

Includes deposits uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the System's name.

Investments are categorized as follows, to give an indication of the level of risk assumed by the System at year end:

Category 1

Includes investments insured or registered, or securities held by the System or its agent in the System's name.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

Category 2

Includes investments uninsured and unregistered, with securities held by the counterparty's trust department or agent in the System's name.

Category 3

Includes investments uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the System's name.

At June 30, 1994 and 1993, the carrying amount and market value of deposits and investments were as follows (in thousands):

<u>Investment Type</u>	<u>1994</u>		<u>1993</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Category 1</u>				
Temporary	\$ 298,389	\$ 298,389	\$ 373,699	\$ 373,699
Bonds	1,227,105	1,188,092	1,406,803	1,505,581
Stocks	<u>2,047,521</u>	<u>2,275,511</u>	<u>1,562,585</u>	<u>1,863,902</u>
	3,573,015	3,761,992	3,343,087	3,743,182
<u>Category 3</u>				
Short-Term Investment Fund	115,619	115,619	23,397	23,397
<u>Investments Not Categorized</u>				
Real Estate Investment Funds	<u>116,583</u>	<u>116,583</u>	<u>105,000</u>	<u>105,000</u>
	<u>\$3,805,217</u>	<u>\$3,994,194</u>	<u>\$3,471,484</u>	<u>\$3,871,579</u>

Real estate investments are not considered securities for purposes of custodial risk classification. There were no Category 2 investments at June 30, 1994 and 1993.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

SECURITIES LENDING AGREEMENT

The System has entered into various short-term arrangements with its custodian whereby securities are loaned to various brokers. The custodian determines which lenders' accounts to lend securities from by using an *impartial sequential system* that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro-rata among all lenders.

Minimum collateralization is 102% of market value of the borrowed U.S. securities and 105% in the case of international securities. Collateral consists of cash, government securities, and irrevocable bank letters of credit. Cash collateral may be invested separately or pooled in a separate fund for investing in quality money market or cash equivalent investments.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower.

Under the agreement, the custodian will indemnify the System as a result of the following; 1) the custodian's failure to make a reasoned determination of the credit worthiness of a potential borrower, 2) the filing of a petition of bankruptcy or similar action by the borrower, 3) the custodian's failure to obtain adequate collateral, and 4) not operating the securities lending program in compliance with the *Federal Financial Institutions Examination Council Supervisory Policy on Securities Lending*.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

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.

The market value of securities lent was \$609.5 and \$520.7 million as of June 30, 1994 and 1993, respectively, and the collateralized value of cash and securities was \$630.1 and \$530.6 million, respectively.

FUTURES AND FORWARD CONTRACTS

To facilitate efficient management of the portfolios the System uses S&P 500 index and bond futures and international currency forward contracts. The index and bond futures are used in managing the large index portfolios. These portfolios are passive investments used to maintain exposure to specific segments of the equity and bond markets consistent with the investment policy.

The forward contracts are used to facilitate translation of dollars into the domestic currencies of the international markets and to protect the underlying value of foreign currency investments from strengthening of the dollar. For the years ended June 30, 1994 and 1993, realized losses on foreign currency translation totaled \$3,402,317 and \$347,699, respectively.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

REDUCTION OF REAL ESTATE INVESTMENT PORTFOLIO TO MARKET

The carrying value of the real estate investment portfolio was reduced to market, which was lower than cost at June 30, 1994 and 1993 by \$2.9 and \$24.2 million, respectively. At June 30, 1994 the carrying value of the real estate investment portfolio based on the equity method was determined as follows (in thousands):

Balance at June 30, 1993	\$ 105,000
Income, expenses and distributions	416
Additional contributions	14,032
Reduction to market	<u>(2,865)</u>
Balance at June 30, 1994	\$ <u>116,583</u>

ADMINISTRATIVE EXPENSES

Administrative expenses of the System for the years ended June 30, 1994 and 1993 were as follows (in thousands):

	<u>1994</u>	<u>1993</u>
Investment Management Fees	\$ 5,884	\$ 5,472
Real Estate Management Fees	1,249	1,105
Contracts	1,672	1,591
Salaries	1,555	1,501
Other Expenses	<u>709</u>	<u>670</u>
	\$ <u>11,069</u>	\$ <u>10,339</u>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1994 AND 1993**

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:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Lease</u> <u>Amount</u>
1995	\$ 384,024
1996	410,496
1997	<u>410,496</u>
	<u>\$1,205,016</u>



**QUEZADA
GODSEY & CO.**
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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

**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 22 through 27 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.

El Monte, California
November 16, 1994

**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)**

Pension Benefit Obligation

<u>Fiscal year</u>	<u>Net assets available for benefits</u>	<u>Total actuarial present value of credited projected benefits</u>	<u>Percentage</u>
1985	1,415.9	2,138.2	66.2%
1986	1,653.8	2,361.7	70.0%
1987	1,923.4	2,535.8	75.8%
1988	2,106.4	2,712.8	77.6%
1989	2,175.8	2,934.9	74.1%
1990	2,469.5	3,108.0	79.5%
1991	2,683.8	3,312.0	81.0%
1992	2,975.2	3,597.4	82.7%
1993	3,218.8	* 3,634.2	* 88.6%
1994	3,523.0	3,817.8	92.3%

* Amounts have been restated, see note on *Revised Actuarial Valuation*.

Health Insurance Benefits Liability

<u>Fiscal year</u>	<u>Net assets available for benefits</u>	<u>Total health insurance benefits liability</u>	<u>Percentage</u>
1989	146.7	235.6	62.3%
1990	158.7	403.9	39.3%
1991	162.7	490.0	33.2%
1992	188.8	500.7	37.7%
1993	209.3	497.3	42.1%
1994	227.5	473.1	48.1%

Note:

As of June 30, 1987, the System began funding health insurance benefits for current retirees and for active members eligible to retire. As of June 30, 1989, a reserve was established for the health insurance benefits liability and \$146.7 million was transferred to the reserve from City contributions, based on actuarial estimates. Beginning in fiscal year 1989, the pension benefit obligation and the health insurance benefits liability are separately stated. The schedule of the health insurance benefits liability above will be expanded through experience to the ten-year historical trend data required by GASB Statement 5, in conformance with GASB implementation guidelines.

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

Pension Benefit Obligation

<u>Fiscal year</u>	<u>Unfunded actuarial present value of credited projected benefits</u>	<u>Annual active member payroll</u>	<u>Percentage</u>
1985	744.7	530.4	140.4%
1986	736.5	621.9	118.4%
1987	614.7	646.0	95.2%
1988	613.9	718.0	85.5%
1989	745.8	752.9	99.1%
1990	639.2	815.8	78.4%
1991	628.2	833.1	75.4%
1992	622.3	915.3	68.0%
1993	* 415.4	898.1	* 46.3%
1994	294.9	884.9	33.3%

* Amounts have been restated, see note on *Revised Actuarial Valuation*.

Health Insurance Benefits Liability

<u>Fiscal year</u>	<u>Total health insurance benefits liability</u>	<u>Annual active member payroll</u>	<u>Percentage</u>
1989	88.9	752.9	11.8%
1990	245.2	815.8	30.1%
1991	327.3	833.1	39.3%
1992	311.9	915.3	34.1%
1993	288.0	898.1	32.1%
1994	245.6	884.9	27.8%

NOTE TO COMPARATIVE SUMMARIES ON PAGES 22 AND 23

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	<u>Actuarial present value of credited projected benefits (in millions)</u>				Percentage of actuarial values covered by net assets <u>available for benefits</u>	
	<u>Member Contributions</u> (1)	<u>Current retirees and beneficiaries</u> (2)	<u>City- financed portion</u> (3)	<u>Net assets available for benefits</u>	(1)	(2) (3)
1985	279.4	1,201.2	657.5	1,415.9	100.0	95.5 0.0
1986	301.9	1,300.8	759.1	1,653.8	100.0	100.0 6.7
1987	323.5	1,420.2	758.4	1,923.4	100.0	100.0 23.7
1988	346.4	1,530.4	836.0	2,106.4	100.0	100.0 27.5
1989	377.7	1,558.5	998.7	2,175.8	100.0	100.0 24.0
1990	411.4	1,617.0	1,080.2	2,469.5	100.0	100.0 40.8
1991	450.8	1,729.6	1,131.6	2,683.8	100.0	100.0 44.5
1992	491.7	1,866.6	1,239.1	2,975.2	100.0	100.0 49.8
1993	528.6	2,029.2	* 1,076.3	3,218.8	100.0	100.0 *61.4
1994	562.1	2,157.5	1,098.2	3,523.0	100.0	100.0 73.2

* Amounts have been restated, see note titled *Revised Actuarial Valuation*.

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 REVENUES BY SOURCE AND EXPENDITURES BY TYPE
(in millions)

REVENUES 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>
1985	19.3	100.6	114.9	234.8	21.2	256.0
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	327.1
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
1993	42.7	170.6	164.3	377.6	101.5	479.1
1994	42.3	173.6	170.3	386.2	167.1	553.3

EXPENDITURES BY TYPE				
<u>Fiscal year</u>	<u>Benefits</u>	<u>Refunds and transfers</u>	<u>Administrative</u>	<u>Total</u>
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
1993	197.0	6.9	10.3	214.2
1994	210.7	8.5	11.1	230.3

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
MEMBERSHIP DATA
JUNE 30, 1994 AND 1993**

At June 30, 1994 and 1993, the components of the System's membership were as follows:

	<u>1994</u>	<u>1993</u>
Active nonvested	5,161	7,007
Active vested	16,784	15,483
Terminated vested	<u>325</u>	<u>287</u>
Total active members	22,270	22,777
Retired members	<u>11,894</u>	<u>11,641</u>
Total Members	<u>34,164</u>	<u>34,418</u>

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 non-economic 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 eight percent interest rate assumption. The actuarial value of the assets is determined by averaging the book value and market value of the fund. The current actuarial value of the assets is then subtracted from the present value of the liabilities to determine the amount that still needs to be funded. Using the projected unit credit method actuarial funding, the valuation study then projects the amount that must be contributed in the next fiscal year to maintain the selected funding schedule of the system. The actuarial value of the assets increased from \$3.6 billion to \$3.9 billion.

Over the past decade, CERS has consistently achieved investment returns exceeding our actuarial assumption. The attached chart shows the growth over the 11-year period of \$100.00 would have achieved based on CPI, actuarial rate and our investment target.

The total funded ratio of the plan, the ratio between assets and liabilities of both the retirement provisions and the health subsidy, increased from 84.4% to 90.1%, 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 amortized over a thirty-year period. The total contribution rate required by the City for fiscal year 1995-96 is 15.06% of active member's pay plus \$2.72 million. This is broken down into a percentage for the Entry Age Normal Cost (6.59%), health subsidy (2.99%) and unfunded actuarial accrued liability (5.48% plus 2.72 million). These contributions are sufficient to meet the funding requirement of both the retirement benefits and health subsidy benefits.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation As Of June 30, 1994

Summary of Significant Valuation Results					
		June 30, 1994		June 30, 1993	Percent Change
I.	Total Membership				
	A. Active Members	22,270		22,777	-2.2%
	B. Pensioners	11,894		11,641	+2.2%
II.	Salaries at June 30				
	A. Total Annual Payroll	\$884,950,676		\$898,116,886	-1.5%
	B. Average Monthly Salary	\$3,311		\$3,286	+0.8%
III.	Benefits to Current Pensioners and Beneficiaries				
	A. Total Annual Benefits	\$196,438,501		\$183,233,760	+7.2%
	B. Average Monthly Benefit Amount	\$1,376		\$1,312	+4.9%
IV.	Total System Assets (Actuarial Value)	\$3,882,792,939		\$3,646,189,500	+6.5%
V.	Unfunded Actuarial Accrued Liability				
	A. Retirement Benefits	\$188,117,516		\$227,963,954	-17.5%
	B. Health Subsidy Benefits	\$238,710,302		\$275,832,038	-13.5%
VI.	Budget Items				
	A. Retirement Benefits				
	1. Normal Cost as a Percent of Pay	6.58%		6.16%	+6.8%
	2. Amortization of Unfunded Actuarial Accrued Liability				
	i) Percent of Pay, plus	5.49%		5.12%	+7.2%
	ii) Fixed Dollar Amount	\$2,724,502		\$2,724,502	+0.0%
	3. Total Retirement Contribution	12.07%		11.28%	+7.0%
	B. Health Subsidy Contribution, as a Percent of Pay	2.99%		3.18%	-6.0%
	C. Total Contribution (A+B)				
	i) Percent of Pay, plus	15.06%		14.46%	+4.1%
	ii) Fixed Dollar Amount	\$2,724,502		\$2,724,502	+0.0%
VII.	Funded Ratio (Based on Actuarial Value of Assets)				
	A. Retirement Benefits	95.1%		93.7%	+1.5%
	B. Health Subsidy Benefits	49.5%		44.5%	+11.2%
	C. Total	90.1%		87.8%	+2.6%

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

Actuarial Balance Sheet As Of June 30, 1994

ASSETS		
1. Applicable Assets		\$3,629,723,739
2. Present Value of Future Member Contributions		\$439,436,133
3. Present Value of Future Contributions by the City For:		
a. Basic Pensions		
i. Normal Costs	\$597,196,822	
ii. Amortization of Certain Liabilities	(196,762,550)	
iii. Total		\$400,434,272
b. Cost-of-Living Pensions		
i. Normal Cost	\$180,511,626	
ii. Amortization of Certain Liabilities	384,880,066	
iii. Total		\$565,391,692
4. Total Assets		\$5,034,985,836
LIABILITIES		
5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)		
a. Basic	\$1,319,331,986	
b. Cost-of-Living	838,204,270	
c. Total		\$2,157,536,256
6. Present Value of Benefits to be Granted (Actives)		
a. Basic	\$2,313,595,357	
b. Cost-of-Living	563,854,223	
c. Total		\$2,877,449,580
7. Total Liabilities		\$5,034,985,836

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF HEALTH SUBSIDY BENEFITS**

Actuarial Balance Sheet As Of June 30, 1994

ASSETS		
1. Applicable Assets		\$234,386,941
2. Present Value of Future Member Contributions		0
3. Present Value of Future Contributions by the City:		
a. Normal Costs	\$ 72,024,316	
b. Amortization of Certain Liabilities	238,710,302	
c. Total		\$310,734,618
4. Total Assets		\$545,121,559
LIABILITIES		
5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)		\$253,897,472
6. Present Value of Benefits to be Granted (Actives With Ten or More Years of Service)		291,224,087
7. Total Liabilities		\$545,121,559

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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:** 2.16% of Final Compensation for each year of service.
 - 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.
 - 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.

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. Larger continuances are available with actuarial reduction.

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:** Member 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.

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.

Surviving spouse may elect A in lieu of B.

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 at death of last beneficiary eligible for monthly allowance.

(iii) = \$500 death benefit allowance for burial expenses at death of retired member.

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 80% 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 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 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, 1994, this amount is \$472 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 \$28.24 for Connecticut General and \$9.94 for Safeguard.