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

**ANNUAL REPORT  
FOR THE FISCAL YEAR ENDING JUNE 30, 1987**

**ROOM 300, CITY HALL SOUTH  
111 EAST FIRST STREET  
LOS ANGELES, CALIFORNIA 90012**



BOARD OF ADMINISTRATION  
CITY EMPLOYEES' RETIREMENT SYSTEM  
of the  
CITY OF LOS ANGELES  
CALIFORNIA  
FISCAL YEAR 1986-87

OLGA MARCUS, President  
HENRY W. HURD, Vice-President  
CHESTER J. BACHRY  
ESTHER A. TORREZ  
WILLIAM T. WOODS  
JERRY F. BARDWELL, Manager-Secretary

ELECTED OFFICIALS  
of the  
CITY OF LOS ANGELES

TOM BRADLEY  
Mayor

JAMES KENNETH HAHN  
City Attorney

RICK TUTTLE  
City Controller

MEMBERS OF THE CITY COUNCIL

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First District

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Second District

Joy Picus  
Third District

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Fourth District

Zev Yaroslavsky  
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Ruth Galanter  
Sixth District

Ernani Bernardi  
Seventh District

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Twelfth District

Michael Woo  
Thirteenth District

Richard Alatorre  
Fourteenth District

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Fifteenth District

# CITY OF LOS ANGELES

CALIFORNIA



TOM BRADLEY  
MAYOR

## BOARD OF ADMINISTRATION

HENRY W HURD  
PRESIDENT

OLGA MARCUS  
WILLIAM T WOODS  
JOSE L FIGUEROA

## CITY EMPLOYEES' RETIREMENT SYSTEM

ROOM 300 CITY HALL SOUTH  
111 EAST 1ST STREET  
LOS ANGELES CA 90012  
485-2824

JERRY F BARDWELL  
MANAGER SECRETARY

December 31, 1987

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, 1987 is submitted, in accordance with the provisions of Section 64 of the City Charter.

### FINANCIAL INFORMATION

#### BACKGROUND

The City Employees' Retirement System is a diversified fund with investment commitments to bonds, stocks and short term securities. The Board's investment policy allocates assets on a cost basis with 40% of the assets allocated to equity and 60% allocated to fixed income. Management of the fund is also diversified with two fixed income and five equity advisors. Managers are hired on the basis of performance with management styles that complement the investment objectives established by the Board.

#### PERFORMANCE

The Fund's investment performance is measured by SEI Co. This service compares the market performance of the Fund's investment to other pension fund portfolios. The indicated returns are based on market value and, therefore, may not fully impact the actuarial funding. These rates of return are significant, however, because they measure the performance of our portfolio managers relative to other investment managers in the SEI Universe. The following table shows the Fund's ranking in the SEI Universe of public funds for 1985-86 and 1986-87. The ranking is from 1 to 100, with a number 1 ranking representing the best performance.

	<u>1986-87</u>		<u>1985-86</u>	
	RETURN	RANK	RETURN	RANK
CERS Equities	20.9%	47	36.5%	64
CERS Bonds	6.2%	31	22.7%	13
CERS TOTAL FUND	11.9%	57	27.3%	64

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

	<u>1986-87</u>	<u>1985-86</u>	<u>1984-85</u>	<u>1983-84</u>	<u>1982-83</u>
CERS EQUITIES	20.9%	36.5%	32.6%	-12.2%	56.6%
STANDARD AND POORS 500	25.2%	35.9%	31.0%	- 4.6%	61.1%
CERS BONDS	6.2%	22.7%	37.3%	- 3.7%	36.1%
SHEARSON-LEHMAN KUHN LOEB (MEDIUM TERM)	4.7%	20.6%	28.7%	1.8%	29.1%
SALOMON BROS. (LONG TERM)	5.6%	19.9%	41.9%	- 6.3%	42.4%
CERS TOTAL FUND	11.9%	27.3%	33.5%	- 4.5%	36.1%
CONSUMER PRICE INDEX	3.7%	1.7%	3.7%	4.2%	2.6%

#### INVESTMENTS

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

	<u>1986-87</u>	<u>1985-86</u>	<u>1984-85</u>	<u>1983-84</u>	<u>1982-83</u>
STOCKS	20.34%	22.70%	8.88%	9.29%	11.01%
BONDS	12.27%	11.80%	11.01%	10.46%	11.17%
SHORT TERM	6.37%	8.40%	10.05%	10.18%	10.85%
TOTAL	14.46%	14.84%	10.35%	10.21%	11.11%

These returns, together with the City and member contributions account for the rapid growth of the Fund. At the end of this fiscal year the Fund had invested assets totalling \$1.9 billion compared with \$1.6 billion at the end of the previous fiscal year. The following table illustrates the Fund's growth in the last two years.

	<u>COST</u>	<u>1987</u>	<u>MARKET</u>	<u>COST</u>	<u>1986</u>	<u>MARKET</u>
BONDS	\$1,021,162,794	\$1,024,843,835	\$	976,369,075	\$1,046,106,240	
STOCKS	673,588,419	855,109,252		527,199,074	675,113,143	
TEMPORARY	215,642,383	215,642,383		136,072,702	136,072,702	
TOTAL	\$1,910,393,596	\$2,095,595,470	\$1,639,640,851		\$1,857,292,085	

SIGNIFICANT CHANGES

S & P 500 Index Advisor Hired

The Board, in July, 1986, selected the Bankers Trust Investment Management Group to manage a S & P 500 Index portfolio. The decision to use the passive product was based on the desire to have full market exposure and to add or withdraw funds without affecting investment performance. The portfolio was initiated with a \$30 million cash contribution.

TERMINATION OF ADVISOR

As part of the on-going audit of investment advisors, the Board determined that M. D. Sass was not providing the performance expected of active managers. The contract was terminated in May, 1986. Responsibility for the assets managed by M. D. Sass was transferred to Bankers Trust, to be converted into the index portfolio.

REDUCTION OF CITY CONTRIBUTION RATES

The City contribution required to fund the System has been reduced by 1.99% of covered payroll during the last ten years. In addition, we have also initiated reserve funding for the retired health insurance subsidies. This was primarily the result of the excellent returns provided by financial markets over the last five years.

Respectfully Submitted,

BOARD OF ADMINISTRATION



OLGA MARCUS, President

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## CITY EMPLOYEES' RETIREMENT SYSTEM

CORRECTED COPY

## INVESTMENT PORTFOLIO

	<u>June 30, 1987</u>	<u>Percent</u>	<u>June 30, 1986</u>	<u>Percent</u>	<u>Increase (Decrease)</u>
Short-term Investments (at Cost)	\$ 215,642,383	11.2	\$ 133,970,916	8.2	\$ 81,671,467
Fixed Income (at Amortized Cost)	1,021,162,794	53.5	976,369,075	59.6	44,793,719
Stocks (at Cost)	<u>673,588,419</u>	<u>35.3</u>	<u>527,199,074</u>	<u>32.2</u>	<u>146,389,345</u>
Total	<u>\$1,910,393,596</u>	<u>100.0</u>	<u>\$1,637,539,065</u>	<u>100.0</u>	<u>\$272,854,531</u>

## GENERAL STATISTICS

	<u>June 30, 1987</u>	<u>June 30, 1986</u>
Active Members	<u>20,840</u>	<u>20,081</u>
Retirement:		
Service Retirements	7,163	6,956
Disability Retirements	693	651
Survivorships	496	486
Continuance to Spouse of Deceased Retirees	1,413	1,340
Limited Pensions	10	4
Family Death Benefit Plan Beneficiaries	<u>168</u>	<u>164</u>
Total	<u>9,943</u>	<u>9,601</u>
Monthly Retirement Allowances	\$9,356,151	\$8,486,962

## SERVICE RETIREMENTS

	<u>1986-87</u>	<u>1985-86</u>
Average Age	61.14	61.05
Average Service Credit (years)	24.20	24.08
Average Allowance Granted During Fiscal Year 1987	\$1,379.17	\$1,397.86
Average Allowance Granted Overall	\$1,089.00	\$1,164.78



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

3580 Wilshire Boulevard, Suite 1200  
Los Angeles, California 90010  
(213) 380-0642

November 18, 1987

Honorable Members of the City Council of  
the City of Los Angeles, California  
and  
Board of Administration  
City Employees' Retirement System  
City of Los Angeles, California

We have examined the balance sheet of the City of Los Angeles City Employees' Retirement System as of June 30, 1987, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the system for the year ended June 30, 1986, were examined by other auditors whose report dated October 16, 1986, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the City of Los Angeles City Employees' Retirement System as of June 30, 1987, and the revenues, expenses and changes in fund balance and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Quezada Navarro & Co.*



CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
BALANCE SHEETS

	June 30	
ASSETS	1987	1986
CASH	\$ 1,955,635	\$ 2,101,786
RECEIVABLES:		
Accrued interest and dividend	28,787,582	26,934,391
Proceeds from sale of investments	3,705,230	10,969,617
Other receivables	3,074,621	3,527,646
	35,567,433	41,431,654
INVESTMENTS (Note 1):		
Temporary, at cost	215,642,383	133,970,916
Bonds, at amortized cost (market value \$1,033,396,647 in 1987 and \$1,046,106,240 in 1986)	1,021,162,794	976,369,075
Common stocks, at cost (market value \$846,556,441 in 1987 and \$675,113,143 in 1986)	673,588,419	527,199,074
	1,910,393,596	1,637,539,065
Total Assets	1,947,916,664	1,681,072,505
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	(12,100,904)	(15,709,158)
Net assets available for plan benefits (see Note 2 regarding unfunded prior and past service liability)	\$1,935,815,760	\$1,665,363,347
<u>FUND BALANCE</u> (Note 4)		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	\$1,453,848,958	\$1,300,786,498
Actuarial present value of credited projected benefits for active employees:		
Member contributions	323,512,702	301,862,160
City-financed portion	758,441,378	759,065,086
	1,081,954,080	1,060,927,246
Total actuarial present value of credited projected benefits	2,535,803,038	2,361,713,744
Unfunded actuarial present value of credited projected benefits	(614,664,799)	(736,484,965)
	1,921,138,239	1,625,228,779
Reserve for family death benefit insurance	12,420,339	11,645,957
Reserve for gain/loss on equities (Note 1)		26,359,954
Reserve for undistributed earnings	2,257,182	2,128,657
Total fund balance	\$1,935,815,760	\$1,665,363,347

See notes to financial statements.

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

	Year ended June 30	
	1987	1986
<b>REVENUES:</b>		
City contributions	\$ 120,646,862	\$ 112,838,247
Member contributions	24,925,931	21,316,506
Income from investments (Note 1):		
Interest	109,507,813	106,473,775
Dividends	21,277,878	18,890,873
Stocks and bond option premiums	(30,622)	
	130,755,069	125,364,648
	276,327,862	259,519,401
 <b>EXPENDITURES:</b>		
Pensions:		
Retirement allowance	118,244,720	108,413,859
Family death benefit insurance	731,279	716,459
Refund of members' contributions	5,558,941	5,291,570
Administrative expenses	5,249,354	4,326,147
	129,784,294	118,748,035
Excess of revenues over expenditures before gain on disposition of investments	146,543,568	140,771,366
Gain on disposition of investments	123,908,845	97,955,257
Excess of revenues over expenditures	270,452,413	238,726,623
Fund balance, July 1,	1,665,363,347	1,426,636,724
Fund balance, June 30,	\$1,935,815,760	\$1,665,363,347

See notes to financial statements.

CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended June 30	
	1987	1986
<b>SOURCES OF FUNDS:</b>		
Excess of revenues over expenditures	\$ 270,452,413	\$ 238,726,623
Increase (decrease) in temporary investments	(81,671,467)	16,430,941
Increase (decrease) in payable and accrued expenses	(3,608,254)	2,661,322
	185,172,692	257,818,886
<b>USE OF FUNDS:</b>		
Increase in bond investments	44,793,719	133,210,901
Increase in common stock investments	146,389,345	117,080,140
Increase in accrued interest and dividends	1,853,191	1,513,295
Increase (decrease) in proceeds from sale of investments receivable	(7,264,387)	4,181,473
Increase (decrease) in other receivables	(453,025)	552,575
	185,318,843	256,538,384
Increase (decrease) in cash	\$ (146,151)	\$ 1,280,502

See notes to financial statements.

CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1987

Note 1 - Summary of Significant Accounting Policies

Cash

Cash consists primarily of cash on deposit with the Treasurer of the City of Los Angeles.

Investments

Temporary investments, consisting primarily of commercial paper, certificates of deposit and treasury bills, are carried at cost which approximates market.

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

	<u>1987</u>	<u>1986</u>
Bond exchanges during the year:		
Amortized cost	\$344,766,437	\$268,615,746
Market value	319,246,628	268,899,849

Investments in common stock are carried at cost.

The System has an agreement with a securities broker, whereby approximately 50% of the brokerage fees paid by the System are returned to the fund. The amounts returned for 1987 and 1986 were approximately \$42,000 and \$95,000, respectively.

### Securities Lending

The System has entered into various short-term arrangements whereby investments were loaned to various brokers. The cost basis of investments lent were \$363,040,816 and \$201,827,845 as of June 30, 1987 and 1986, respectively. The market values were \$382,913,629 and \$228,693,915 as of June 30, 1987 and 1986, 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 \$319,337,602 and \$231,954,818 as of June 30, 1987 and 1986, respectively.

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

### Reserve for Retirement Allowances

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

### Income from Investments

The Charter of the City of Los Angeles provides that income from investments, exclusive of capital gains or losses, shall be credited to member contribution accounts and to City reserve accounts. Realized capital gains and losses on bonds are recognized in the City's actuarial funding calculation. Net cumulative gains and losses on stocks, in excess of 5% of book value at year-end, are treated in the same manner. Such gains and losses up to 5% of book value are excluded from the funding calculation. This reserve has been eliminated by Board resolution effective in fiscal year 1987.

Note 2 - Retirement Plan and Actuarial Valuation

The retirement plan of the System is a defined benefit plan to which contributions are made by members and by the City of Los Angeles. Members who entered the System prior to February 1983 contribute from 8.64% to 12.94% of their salaries. Contributions are subsidized by the City for certain members under a collective bargaining agreement (see Note 3). Members entering subsequent to February 1983 contribute 6%.

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

Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five 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.

	<u>1986</u>	<u>1987</u>
Active members	<u>20,075</u>	<u>21,082</u>
Retired members:		
Continuous pensions	9,433	9,766
Limited pensions	4	10
Family death benefits	<u>164</u>	<u>167</u>
Total pensioners	<u>9,601</u>	<u>9,943</u>

The System engages a consulting actuary to prepare an actuarial valuation on an annual basis. The valuation is made using assumptions that are based upon prior historical trends and statistical data developed during an actuarial investigation, which is performed at intervals no greater than five years. The most recent investigation was performed as of June 30, 1986. Valuation results reflect all plan modifications that have an impact on actuarial calculations.

The most significant assumptions underlying the actuarial computations for both 1987 and 1986 are as follows:

- Interest rate - The assumed rate of return on investments is 8%.
- Salary increases and scales - The salary scale used by the actuary in making the actuarial valuation consists of two elements: one element for service, merit and promotion, and another element for anticipated increases arising from future inflation. These elements totaled 5-3/4%.
- Cost of living annual increase - The year-end valuations were prepared utilizing an assumption of a 3% annual rate of increase for both retired members and for active members when they retire.
- Mortality after service and disability retirements - The valuation is based upon the use of the 1971 Group Annuity Mortality Table and the 1981 Disability Tables for Safety and Miscellaneous (nonsafety) Members.
- Employee turnover and retirement - Expected rates of employee turnover and retirement were developed during the last actuarial investigation, June 30, 1986, based on actual experience of the System. These rates will be used until the next actuarial investigation.

- Funding method for retirement - The projected unit credit cost funding method is used. Under this method, normal costs are calculated as the present value of projected benefits deemed to be accrued to date.
- Funding method for family death benefits - The Term Cost Funding Method is used whereby the amount contributed in any one year is the present value of expected claims arising during the year.
- Funding of prior and past service costs - These costs are generally being funded over a 30-year period ending June 30, 2004, as a fixed dollar amount.

Note 3 - Defrayal of Portion of Member Contributions:

For members prior to February 1983, the City subsidizes a portion of certain member contribution. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement. Therefore, the City does not have to contribute the total amount of member contributions that it subsidizes. The amount payable by the City, based upon the actuarial valuations, is approximately 68.82% of subsidized member contributions. For the years ended June 30, 1987 and 1986 the City contributed \$20,906,379 and \$20,823,532, respectively, in this manner.



Note 4 - Explanation of Actuarial Values and Changes

The total actuarial present values of credited projected benefits were \$2,535,803,038 and \$2,361,713,744 at June 30, 1987 and 1986, respectively, consisting of:

	<u>June 30, 1987</u>	<u>% of active member payroll</u>	<u>June 30, 1986</u>	<u>% of active member payroll</u>
Actuarial present value of projected benefits payable to current retirees and beneficiaries	\$1,453,848,958	225.1%	\$1,300,786,498	209.2%
Actuarial present value of credited projected benefits for active participants:				
Member contributions	323,512,702	50.1%	301,862,160	48.5%
City contributions	<u>758,441,378</u>	<u>117.4%</u>	<u>759,065,086</u>	<u>122.1%</u>
Total actuarial present value of credited projected benefits	<u>\$2,535,803,038</u>	<u>392.6%</u>	<u>\$2,361,713,744</u>	<u>379.8%</u>

The total actuarial present value of credited projected benefits increased by \$174,089,294 from June 30, 1986 to June 30, 1987. There were no changes in actuarial assumptions and no changes in benefit provisions during the year.

Los Angeles City Employees'  
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1987

ASSETS

1. Total Applicable Assets			\$1,921,138,239
2. Present Value of Future Contributions of Members			481,942,600
3. Present Value of Future Contributions by the City on Account of:			
a. Basic Pensions:			
i. Normal Cost		\$312,230,339	
ii. Amortization of Certain Liabilities:			
- Prior Service Pensions	\$ 6,226,654		
- Increase due to 1965 Amendments	1,563,337		
- Remaining Unfunded Actuarial Accrued Liability	<u>220,431,350</u>	228,221,341	
b. Cost-of-Living Pensions:			
i. Normal Cost		162,566,861	
ii. Amortization of Certain Liabilities:			
- Increase due to 1967 Amendments	12,054,977		
- Remaining Unfunded Actuarial Accrued Liability	<u>374,388,481</u>	<u>386,443,458</u>	<u>1,089,461,999</u>
4. Total Assets			<u>3,492,542,838</u>

Los Angeles City Employees'  
Retirement System

ACTUARIAL BALANCE SHEET

AS OF JUNE 30, 1987

LIABILITIES

5. Present Value of Benefits Already Granted:

a. Basic	\$ 900,434,868	
b. Cost-of-Living	<u>519,734,670</u>	\$1,420,169,538

6. Present Value of Benefits to Be Granted:

a. Basic	\$1,614,544,900	
b. Cost-of-Living	<u>457,828,400</u>	<u>2,072,373,300</u>

7. Total Liabilities \$3,492,542,838

CITY EMPLOYEES' RETIREMENT SYSTEM  
SUMMARY OF MAJOR PLAN PROVISIONS

1. Service Retirement

A. Eligibility

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

B. Allowance

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

C. Benefits to Spouse

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

2. Disability Retirement

A. Eligibility

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

B. Allowance

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

C. Benefits to Spouse

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

3. Deferred Retirement

A. Eligibility

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

B. Allowance

Same as service retirement.

C. Benefit to Spouse

Same as service retirement.

4. Death Prior to Retirement

A. Not Eligible to Retire

The sum of:

- i. accumulated contributions
- ii. a monthly pension to the surviving spouse, minor children, or dependent parents of the deceased member, payable for a period equal to two months times the number of completed years of service credit to a maximum period of 12 months at the rate of 1/2 of the average monthly salary for the year prior to death and
- iii. if deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under that Plan.

B. Eligibility for Disability Retirement or Duty-Related Death

The sum of the following:

- i. 60% of the allowance the member would have received if granted a disability retirement allowance the day before the member's death, payable for the lifetime of the member's surviving spouse, and
- ii. if the deceased member was a qualified member of the Family Death Benefit Insurance Plan, such benefits as are payable under the Plan.

C. Eligible for Retirement

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