

# **ANNUAL REPORT**

## **1989 - 1990**



# **CITY EMPLOYEES'**

# **RETIREMENT SYSTEM**

CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT  
FOR THE FISCAL YEAR ENDING  
JUNE 30, 1990

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

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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

Gloria Molina  
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

Robert C. Farrell  
Eighth District

Gilbert W. Lindsay  
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 1989-90

JOSE L. FIGUEROA, President  
WILLIAM T. WOODS, Vice President  
RICHARD S. AMADOR  
HENRY W. HURD  
OLGA MARCUS  
JERRY F. BARDWELL, Manager-Secretary

CITY OF LOS ANGELES  
CALIFORNIA

BOARD OF  
ADMINISTRATION

JOSE L. FIGUEROA  
PRESIDENT

WILLIAM T. WOODS  
VICE PRESIDENT

RICHARD S. AMADOR  
HENRY W. HURD  
OLGA MARCUS  
COMMISSIONERS



TOM BRADLEY  
MAYOR

CITY EMPLOYEES'  
RETIREMENT SYSTEM

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

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

December 31, 1990

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, 1990 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.

CHANGES IN THE BOARD OF ADMINISTRATION:

Commissioner Olga Marcus, whose term expired on June 30, 1990, was re-appointed to a five-year term ending June 30, 1995.

PORTFOLIO MANAGEMENT:

BACKGROUND

The investments of the System are diversified with holdings in real estate, domestic and international stocks and fixed income securities. Active and passive strategies are used in the investment program. Active managers are hired on the basis of their historical performance and styles of management. The assets are managed by four fixed-income advisors; five equity advisors; one multi-asset advisor; and seven real estate fund managers. Short term investments are managed by internal staff.

PERFORMANCE

Investment performance is measured by SEI Corporation, the Board's pension fund consultant. The returns are based on market value and, therefore, take into account all realized and unrealized market gains and losses. These rates of return are ranked relative to those for other managers in the SEI universe of public funds. Rankings for the years 1989-90 and 1988-89 are shown on the following table. The ranking is from 1 to 100, with a number 1 ranking representing the best performance.



	<u>1989-90</u>		<u>1988-89</u>	
	RETURN	RANK	RETURN	RANK
CERS Equities	14.6	54	21.5	29
CERS Bonds	6.6	70	13.8	13
CERS TOTAL FUND	9.4	72	16.0	25

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

	<u>1989-90</u>	<u>1988-89</u>	<u>1987-88</u>	<u>1986-87</u>	<u>1985-86</u>
CERS Equities	14.6%	21.5%	-5.3%	20.9%	36.5%
Standard and Poors 500	16.5%	20.5%	-6.9%	25.2%	35.9%
CERS Bonds	6.6%	13.8%	8.0%	6.2%	22.7%
Shearson-Lehman Govt. Corp. (Medium Term)	7.1%	12.3%	7.5%	4.7%	20.6%
Salomon Bros. (Long Term)	6.0%	16.2%	8.5%	5.6%	19.9%
CERS TOTAL FUND	9.4%	16.0%	2.2%	11.9%	27.3%
Consumer Price Index	4.7%	5.2%	3.9%	3.7%	1.7%

#### REALIZED RETURNS

Rates of return reflecting realized income for the last five years on stocks, bonds, short term investments, and real estate are indicated below:

	<u>1989-90</u>	<u>1988-89</u>	<u>1987-88</u>	<u>1986-87</u>	<u>1985-86</u>
Stocks	14.75%	3.37%	6.39%	20.34%	22.70%
Bonds	9.85%	2.11%	10.26%	12.27%	11.80%
Short Term	9.05%	9.45%	7.54%	6.37%	8.44%
Real Estate	7.71%	3.51%			
TOTAL	11.47%	11.19%	8.68%	14.45%	14.84%

These returns, together with the City and member contributions, account for the rapid growth of the Fund. At the end of this fiscal year, the Fund had invested assets totalling \$2.6 billion compared with \$2.3 billion at the end of the previous fiscal year. The following table of invested assets illustrates the Fund's growth in the last two years.

	<u>1990</u>		<u>1989</u>	
	<u>COST</u>	<u>MARKET</u>	<u>COST</u>	<u>MARKET</u>
Bonds	\$1,345,965,000	\$1,334,633,000	\$1,169,345,000	\$1,202,667,000
Stocks	779,307,000	938,227,000	800,850,000	955,905,000
Temporary	414,687,000	414,687,000	316,065,000	316,065,000
Real Estate	<u>56,065,000</u>	<u>56,065,000</u>	<u>23,217,000</u>	<u>23,217,000</u>
TOTAL	\$2,596,024,000	\$2,743,612,000	\$2,309,477,000	\$2,497,854,000

SIGNIFICANT CHANGES:

BOND INDEX PORTFOLIOS

The Board established two index portfolios for the short-maturity sector of the fixed-income portfolio. Bankers Trust Company was selected to manage a 1-7 year Corporate/Government Bond Index, and W. R. Lazard was selected to manage 3-7 year Government Bond Index portfolio. These portfolios were funded June 1, 1990 with a \$345 million allocation.

INTERNATIONAL INVESTMENTS

The Board increased the diversity of the portfolio by allocating funds for international equity investments. The index strategy was selected because it provides an efficient method of adjusting amounts allocated to our international equity exposure. The index portfolio is designed to track the performance of the Europe Australia Far East (EAFE) Index, which represents the major equity markets of the world excluding North America. Axe Core Advisors was selected to manage a portfolio composed of American Depository Receipts (ADR's). These securities are dollar denominated surrogates of international stocks. Because they are dollar denominated they can be held by the existing master custodian. This significantly reduces the expense associated with international investing. The portfolio was funded with \$50 million on January 1, 1990.

REAL ESTATE

In June 1990 the Board completed a review of its initial real estate investments and selected four additional commingled real estate investments to complete the development of a core real estate portfolio. The four investments were Advent Realty II managed by T. A. Associates; Retail Property Trust managed by J. W. O'Connor; Apartment Fund I managed by RREEF; and, Realty Fund VI managed by TCW. The Board committed \$20 million to each investment.

OTHER SIGNIFICANT CHANGES:

ACTUARIAL FUNDING

Our actuary, The Wyatt Company, reviewed the System's actuarial experience for the three-year period ending June 30, 1989. The study also reviewed



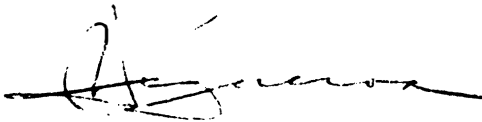
the liability for retired health insurance subsidies and the method of valuing assets when computing actuarial liabilities. As a result of this study, the Board approved several changes in actuarial assumptions as recommended by the actuary. These changes included adopting new retired lives mortality tables; assuming 6% annual salary increases for active members; expanding the population for computing the retired health insurance subsidy liability to include all members with over ten years of service; and changing the asset valuation method for actuarial purposes to reflect the average of historical cost and current market value.

**BENEFIT LIMITATION**

To assure that the CERS remains a qualified retirement plan under Internal Revenue Service provisions, the Plan was amended by an ordinance which limited the benefits to comply with Section 415 of the Internal Revenue Code. These restriction will apply only to members entering the System after January 1, 1990.

Respectfully Submitted,

**BOARD OF ADMINISTRATION**



**JOSE L. FIGUEROA, President**

## CITY EMPLOYEES' RETIREMENT SYSTEM

### INVESTMENT PORTFOLIO (000)

	June 30, 1990	Percent	June 30, 1989	Percent	Increase/(Decrease)
Short-term Investments (at Cost)	\$414,687	16.0	\$319,704	13.8	(\$94,983)
Fixed Income (at Amortized Cost)	\$1,345,966	51.8	\$1,169,346	50.6	(\$176,620)
Stocks (at Cost)	\$779,307	30.0	\$800,851	34.6	\$21,544
Real Estate (at Cost)	\$56,065	2.2	\$23,215	1.0	(\$32,850)
<b>TOTAL</b>	<b>\$2,596,025</b>	<b>100.0</b>	<b>\$2,313,116</b>	<b>100.0</b>	<b>(\$282,909)</b>

### GENERAL STATISTICS

	June 30, 1990	June 30, 1989
Active Members	23,871	23,296
Monthly Retirement Allowances	12,186,774	11,143,092
Retirement:		
Service Retirements	7,638	7,495
Disability Retirements	692	668
Survivorships	492	495
Continuance to Spouse of Deceased Retirees	1,784	1,649
Limited Pensions	4	3
Family Death Benefit Plan Beneficiaries	163	156
<b>TOTAL</b>	<b>10,604</b>	<b>10,466</b>

### SERVICE RETIREMENTS

	1989-1990	1988-1989
Average Age - New Retirees	60.99	61.66
Average Service Credit (Years) - New Retirees	24.62	25.10
Average Allowance Granted - New Retirees	\$1,712.79	\$1,607.62
Average Allowance Paid - All Retirees	\$1,281.14	\$1,202.23



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

3580 Wilshire Boulevard, Suite 1200  
Los Angeles, California 90010  
(213) 380-0642 • Fax: (213) 380-5752

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

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

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying balance sheets of the City Employees' Retirement System of the City of Los Angeles (the System) as of June 30, 1990 and 1989 and the related statements of revenues, 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 City Employees' Retirement System of the City of Los Angeles as of June 30, 1990 and 1989, 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 9, 1990

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

	June 30	
	<u>1990</u>	<u>1989</u>
	(in thousands)	
<b>Assets</b>		
Cash	\$ 2,411	\$ 3,638
Receivables:		
Accrued interest and dividends	40,015	36,101
Proceeds from sale of investments	3,539	15,490
Other receivables	5,621	2,405
Investments:		
Temporary, at cost	414,687	316,065
Bonds, at amortized cost	1,345,966	1,169,345
Common stocks, at cost	779,307	800,850
Real Estate, at cost	<u>56,065</u>	<u>23,217</u>
<b>Total Assets</b>	<b>\$ <u>2,647,611</u></b>	<b>\$ <u>2,367,111</u></b>
<b>Liabilities and Reserves</b>		
Accounts payable and accrued expenses	<u>4,416</u>	<u>16,442</u>
Reserve for Member Contributions	411,448	377,700
Reserve for City Contributions	2,058,012	1,811,385
Reserve for Family Death Benefits	15,027	14,027
Reserve for Health Benefits	<u>158,708</u>	<u>147,557</u>
<b>Total Reserves</b>	<b><u>2,643,195</u></b>	<b><u>2,350,669</u></b>
<b>Total Liabilities and Reserves</b>	<b>\$ <u>2,647,611</u></b>	<b>\$ <u>2,367,111</u></b>

The notes are an integral part of these financial statements.

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

	<b>1990</b>	<b>1989</b>
	(in thousands)	
<b>Revenues</b>		
City contributions	\$ 146,392	\$ 134,035
Member contributions	<u>37,085</u>	<u>32,712</u>
	<u>183,477</u>	<u>166,747</u>
Investment Income:		
Interest	142,880	133,804
Dividends	33,936	28,643
Real Estate	3,230	382
Net Gain on sale of investments	<u>99,377</u>	<u>55,692</u>
	<u>279,423</u>	<u>218,521</u>
<b>Total Revenues</b>	<b><u>462,900</u></b>	<b><u>385,268</u></b>
<b>Expenditures</b>		
Pensions:		
Retirement allowance	140,961	129,482
Health insurance benefits	14,434	11,369
Family death benefit insurance	644	653
Refund of members' contributions	7,225	6,607
Administrative expenses	<u>7,110</u>	<u>6,188</u>
<b>Total Expenditures</b>	<b><u>170,374</u></b>	<b><u>154,299</u></b>
<b>Excess Of Revenues Over Expenditures</b>	<b>\$ <u>292,526</u></b>	<b>\$ <u>230,969</u></b>

The notes are an integral part of these financial statements.

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

**Summary of Significant Accounting Policies**

**General Information**

The City Employees' Retirement System of the City of Los Angeles (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 accounting records are maintained on the accrual method and the System follows the accounting principles and reporting guidelines as set forth in Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

**Reserve for Retirement Allowances**

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

**Investments**

Investments in bonds are carried at amortized cost. Bonds that are held to maturity are redeemed at par. Exchanges of bonds are accounted for pursuant to the deferral and amortization method, whereby the amortized cost of the bonds disposed of is transferred 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.

Investments in common stock, real estate and temporary investments are carried at cost.

**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. Realized capital gains and losses on investments are recognized in the City's actuarial funding calculation.

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

**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 used for monthly payments to retired members.

Employer contributions are expressed as a percentage of applicable payroll. 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 using the projected unit credit method as required by GASB as of June 30, 1990 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.

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

**Funding Status and Progress**

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess 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, 1990 and 1989, the unfunded pension benefit obligation was \$639.2 million and \$745.8 million, respectively as follows (amounts in thousands):

	1990	1989
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$1,617,041	\$1,558,485
Current employees:		
Accumulated employee contributions	411,448	377,700
Employer-financed vested	1,080,170	998,695
Total Pension Benefit Obligation	3,108,659	2,934,880
Net Assets Available for Benefits, at cost (Market is \$2,790,780 and \$2,538,967)	2,469,460	2,189,085
Unfunded Pension Benefit Obligation	\$ 639,199	\$ 745,795

For purposes of determining the funding requirements of the System, the actuarial valuation for net assets available for benefits is calculated using a "blended" or 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, 1990 and 1989 was \$565.4 million and \$561.9 million, respectively.



**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

The City is currently advance funding retiree health benefits for current retirees and for active members eligible to retire. Beginning with the 1987 actuarial valuation, the health benefit liability for retirees and those active members eligible to retire have been determined separately from the pension benefit obligation. A reserve for health benefits has been established and as of June 30, 1989, \$135.6 million had been transferred to the reserve to reflect the amount funded before 1987.

At June 30, 1990 and 1989, the unfunded health benefit liability was \$245.1 million and \$190.3 million, respectively as follows (amounts in thousands):

	<u>1990</u>	<u>1989</u>
<b>Health Benefit Liability:</b>		
Retired Members	\$ 221,506	\$ 185,934
Active Members	<u>182,349</u>	<u>151,897</u>
Total Health Benefit Liability	403,855	337,831
Reserve for Health Benefits	<u>158,708</u>	<u>147,557</u>
Unfunded Health Benefit Liability	\$ <u>245,147</u>	\$ <u>190,274</u>

**Contributions Required and Contributions Made**

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

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

The contributions to the System for the fiscal years ended June 30, 1990 and 1989 of \$183.5 million and \$166.6 million, respectively were made in accordance with actuarially determined requirements computed through the above mentioned actuarial valuation. The contributions consisted of the following (in millions):

	<u>1990</u>		<u>1989</u>	
	<u>Amount</u>	<u>Percentage of current covered payroll</u>	<u>Amount</u>	<u>Percentage of current covered payroll</u>
Covered Payroll	<u>\$815.8</u>	<u>100.00%</u>	<u>\$752.9</u>	<u>100.00%</u>
Normal Cost	46.5	5.70%	42.9	5.70%
Amortization of the Unfunded Actuarial Accrued Liability	85.7	10.50%	78.1	10.37%
Contribution for Prefunding Health Care Subsidy	<u>14.2</u>	<u>1.74%</u>	<u>13.0</u>	<u>1.73%</u>
Total City Contribution	146.4	17.94%	134.0	17.80%
Employee Contribution	<u>37.1</u>	<u>4.55%</u>	<u>32.6</u>	<u>4.32%</u>
Total	<u>\$183.5</u>	<u>22.49%</u>	<u>\$166.6</u>	<u>22.12%</u>

**Deposits and Investments**

The System maintains all deposits and investments with its Custodian Trustee, except for \$2.4 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.

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

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.

At June 30, 1990 and 1989, the carrying value and market value of investments were as follows (in thousands):

Category 1

Investment Type	1990		1989	
	Cost	Market Value	Cost	Market Value
Temporary	\$ 414,687	\$ 414,687	\$ 316,065	\$ 316,065
Bonds	1,345,966	1,334,633	1,169,345	1,202,666
Stocks	779,307	938,225	800,850	955,827
Real Estate	<u>56,065</u>	<u>56,065</u>	<u>23,217</u>	<u>23,217</u>
	<u>\$2,596,025</u>	<u>\$2,743,610</u>	<u>\$2,309,477</u>	<u>\$2,497,775</u>

There were no Category 2 or 3 investments at June 30, 1990 and 1989.

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 \$50.8 and \$116.0 million as of June 30, 1990 and 1989, respectively. The market values were \$56.0 million and \$121.0 million as of June 30, 1990 and 1989, 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 \$57.0 and \$124.0 million as of June 30, 1990 and 1989, respectively.

**CITY EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1990 AND 1989**

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 sheet.

**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 68.7% of subsidized member contributions. For the years ended June 30, 1990 and 1989 the City contributed \$21.7 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>
1991	\$ 370,776
1992	384,024
1993	384,024
1994	384,024
1995	384,024
1996	410,496
1997	<u>410,496</u>
	<b><u>\$2,727,864</u></b>

**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
Actuarial Balance Sheet As Of June 30, 1990**

<b>Assets</b>		
1. Applicable Assets		\$2,543,254,085
2. Present Value of Future Member Contributions		643,200,486
3. Present Value of Future Contributions by the City for:		
a. Basic Pensions		
i. Normal Costs	506,512,474	
ii. Amortization of Certain Liabilities	198,410,251	704,922,725
b. Cost-of-Living Pensions		
i. Normal Cost	175,006,538	
ii. Amortization of Certain Liabilities	366,994,370	542,000,908
4. Total Assets		\$4,433,378,204
<b>Liabilities</b>		
5. Present Value of Benefits Already Granted (Pensioners and Beneficiaries)		
a. Basic	996,135,721	
b. Cost-of-Living	620,905,177	1,617,040,898
6. Present Value of Benefits to be Granted (Actives)		
a. Basic	2,260,949,227	
b. Cost-of-Living	555,388,079	2,816,337,306
7. Total Liabilities		\$4,433,378,204

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

**Summary Of Plan Benefits**

1. **Eligibility:** Members are eligible at the first of the month following employment.
2. **Final Compensation:** Highest 12-month average salary.
3. **Service Retirement:**
  - A) **Eligibility:** Age 55 with 10 years of service, or any age with 30 years of service, or age 70.
  - B) **Benefit :**
    - Beta Formula:** 2.16% of Final Compensation for each year of service.
    - Prior Formula:** 2% of Final Compensation for each year of service that Beta Formula does not apply.
  - C) **Reduction for Early Retirement:**
    - Beta Formula:** Unreduced for retirement after age 60 or age 55 with at least 30 years of service. Reduction factors apply for earlier retirement.
    - Prior Formula:** Unreduced for retirement after age 58-3/4. Reduction factors apply for earlier retirement.
  - D) **Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse if employee had that coverage at time of retirement. Larger continuances are available with actuarial reduction.

**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:**

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.

**C) Eligible for Service Retirement:**

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

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

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

**7. Post-retirement Death Benefits:**

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

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

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

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

**8. Post-retirement Cost-of-Living Benefits:**

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

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



**9. Employee Contributions: Pre-February, 1983 participants:**

Members are assumed to contribute per the schedule effective July 1, 1981. To the extent that Members contribute less than the full rates, the City should contribute 73% of the amounts otherwise paid by the Member.

**Post-February, 1983 participants:**

Members contribute 6% of pay.

**10. Family Death Benefit Insurance Plan:**

**A) Eligibility:** Employee may elect coverage after 18 months of City retirement service.

**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 \$3.20 per month.

**11. Retiree Health Insurance Subsidy:**

**A) Eligibility:** Retirement after age 55 with 10 years of service, or compulsory retirement at age 70.

**B) Benefits:** Medical

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

A percentage of the Maximum Subsidy, up to a maximum of the actual premium paid to a City approved health carrier. The percentage is 4% per year of service, up to a maximum of 100%. The Maximum Subsidy is \$382 per month as of July 1, 1990.

**After age 65 with Parts A and B of Medicare:**

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

**Dental**

**4% per year of service to a maximum of \$22.46 for Connecticut General and \$9.00 for Safeguard.**

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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## **Funded Status Of Health Subsidy Benefits At June 30, 1990**

The schedule on the following page contains the funded status of the health subsidy benefits at June 30, 1990. Under a new Government Accounting Standards Board (GASB) exposure draft, Disclosure of Information on Post Employment Benefits Other than Pensions by State and Local Governmental Employers, issued in November, 1989, the expenditures and expenses for the period are the only financial information that needs to be disclosed. However, the exposure draft encourages more complete disclosures of information, if available.

In order to assess the funded status of the System, disclosure of a standardized measure of pension liability is required by GASB No. 5. This measure of funded status compares the present value of benefits accrued to June 30, 1990 to the value of accumulated plan assets. For pensioners and beneficiaries, the present value of remaining benefit payments is disclosed. For active Members, the present value of the benefit accrued to June 30, 1990 is disclosed. In the latter calculation, we calculate accrued benefits based upon service to June 30, 1990. We also recognize assumed future medical trend increases.

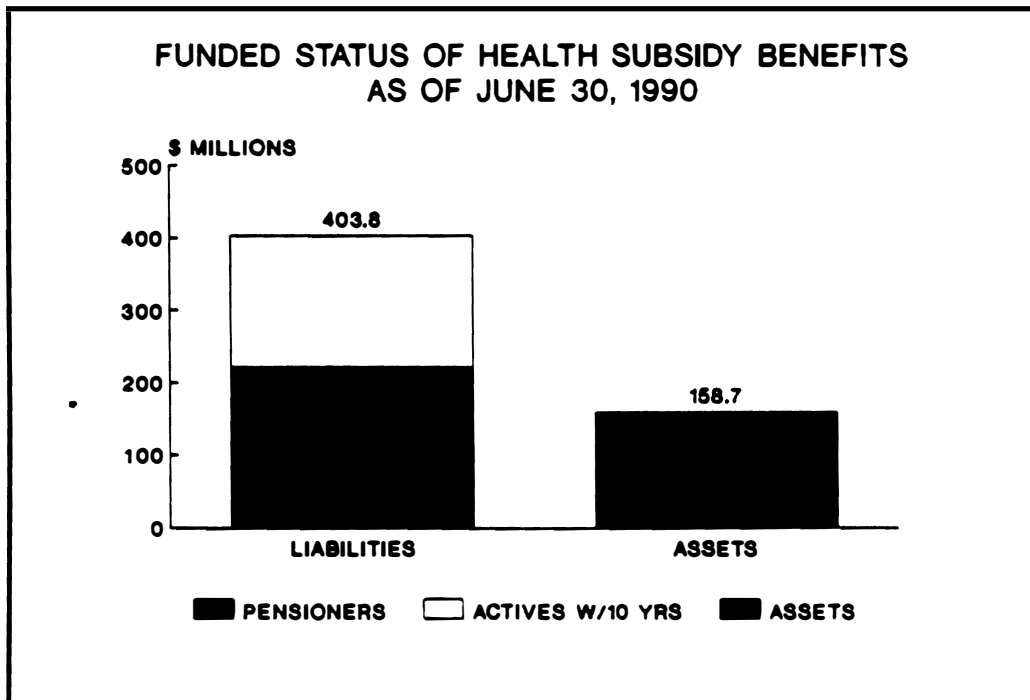
Although this standard does not specifically apply to health subsidy benefits, we feel it is still a good way to measure the funding progress for these benefits.

On the next page, we present the funded status of the health subsidy benefits.

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## **Funded Status Of Health Subsidy Benefits At June 30, 1990**

Present Value of Health Subsidy Benefits Accrued to June 30, 1990	
- Retired Members	<b>\$221,505,504</b>
- Active Members with Ten Years of Service	<b>182,349,483</b>
- Total	<b>403,854,987</b>
Health Subsidy Reserve	<b>\$158,708,335</b>
Funded Ratio	<b>39.3%</b>



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

<b>Development Of Contribution For Health Insurance Premium Subsidy For Fiscal Year 1990-91</b>		
	<b>Dollar Amount*</b>	<b>Percent of Pay</b>
1. Normal Cost at June 30, 1990	\$ 7,887,487	.93%
2. Actuarial Accrued Liability at June 30, 1990	403,854,987	—
3. Health Subsidy Reserve at June 30, 1990	158,708,335	—
4. Unfunded Actuarial Accrued Liability (UAAL) (2)-(3)	245,146,652	—
5. Amortization of UAAL		
- Initial Base as a Level Percent of Pay through June 30, 2004	3,873,896	.46%
- 6/30/89 Change in Assumptions	901,122	.11%
- 6/30/89 Change in Funding	5,622,567	.66%
- Actuarial Loss from 1989 to 1990	<u>4,104,432</u>	<u>.48%</u>
Total	14,502,017	1.71%
6. Recommended Contribution: (1)+(5)	<b>\$22,389,504</b>	<b>2.64%</b>
<i>*Dollar amounts are estimates based on pay rates at July 1, 1990, for illustrative purposes.</i>		

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

<b>Present Value Of Health Subsidy Benefits As Of June 30, 1990</b>		
	<b>Number of Members</b>	<b>Present Value</b>
1. Current Pensioners	10,604	\$221,505,504
2. Active Employees with Ten Years of Service	9,113	279,175,251
3. Other Active Employees	14,758	224,218,759
4. Total: (1)+(2)+(3)	34,475	724,899,514
5. Portion of (2) Attributable to Actuarial Liability	—	182,349,483
6. Actuarial Liability for Funding Purposes: (1)+(5)	—	\$403,854,987

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

**Summary Of Health Subsidy Benefits**

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

**Subsidy:** *Medical*

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

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

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

**Maximum Subsidy:** The maximum is the rate currently paid for active City employees. As of July 1, 1990, this amount is \$382 per month.

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

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

*Dental*

4% per year of service to a maximum of \$22.46 for Connecticut General and \$9.00 for Safeguard.

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

**Summary Of Actuarial**  
**Assumptions And Methods**

**Methods:**

Future cash flows were projected by applying medical trend rate factors to current annual claim rates. The prefunding of these cash flows is determined using the Projected Unit Credit Funding Method.

**Discount on Projected**  
**Cash Flows:**

8% per year.

**Medical Trend Rates:**

<b>Year</b>	<b>Increase</b>
1990-1991	14.0%
1991-1992	13.0%
1992-1993	12.0%
1993-1994	11.5%
1994-1995	11.0%
1995-1996	10.5%
1996-1997	10.0%
1997-1998	9.5%
1998-1999	9.0%
1999-2000	8.5%
2000-2001	8.0%
2001-2002	7.5%
2002+	7.0%



<b>Mortality:</b>	<b>1971 Group Annuity Mortality Table, with a one year age setback for males and a five year age setback for females.</b>
<b>Probability of Termination of Employment:</b>	<b>Same rates as used in valuation of retirement benefits. See retirement report for details.</b>
<b>City Medical Plan Coverage:</b>	<b>80% of all retirees are assumed to receive a subsidy for a City approved health carrier.</b>
<b>Spouses and Dependent:</b>	<b>90% of male and 65% of female retirees who receive a subsidy are assumed to be married and elect dependent coverage.</b>
<b>Medicare Coverage:</b>	<b>85% of retirees are assumed to elect Medicare Parts A &amp; B.</b>
<b>Dental Coverage:</b>	<b>65% of retirees are assumed to elect dental coverage.</b>

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

EXHIBIT VI

DISTRIBUTION OF PENSIONERS BY PLAN YEAR OF RETIREMENT AND BY ATTAINED AGE AS OF JUNE 30, 1990

TOTAL FOR ALL PENSIONERS

ATTAINED AGE	PRE 1976	Retirements in Plan Year Beginning in														TOTAL	MONTHLY AVERAGE HEALTH SUBSIDY	
		1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989			
0 - 39	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40 - 44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45 - 49	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
55 - 59	7	2	3	3	2	6	5	3	6	3	46	80	115	132	141	554	252	
60 - 64	12	4	2	14	14	41	54	135	143	165	110	146	133	141	113	1227	250	
65 - 69	42	49	84	139	101	112	143	212	194	161	113	138	121	101	54	1764	162	
70 - 74	233	124	126	151	133	117	128	100	100	88	46	53	41	19	8	1467	132	
75 - 79	371	106	94	85	71	53	40	30	17	18	12	4	4	5	2	912	125	
80 - 84	398	33	20	15	9	5	6	3	0	0	1	1	2	2	2	497	120	
85 - 89	226	1	0	0	0	0	0	0	0	0	0	0	0	0	0	227	112	
90 - 94	80	0	0	0	0	0	0	0	0	0	0	0	0	0	0	80	106	
OVER 95	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	1369	319	329	407	330	334	376	483	460	435	328	422	416	400	320	6728		
MONTHLY AVERAGE HEALTH SUBSIDY	126	133	143	144	148	154	155	186	184	189	199	205	204	222	227			

AVERAGE MONTHLY HEALTH SUBSIDY: \$168  
 TOTAL MONTHLY HEALTH SUBSIDY: \$1,136,261