

The Guardian

Los Angeles Police Relief Association, Inc.



Volume 30, Number 3

Third Quarter 2011

Annual Treasurer's Report

By Tim McBride

The rebound continued in calendar year 2010 from the "great recession" of 2008 (October 2007-March 2009) as solid gains continued for association investments. Investments managed solely by the Board returned 10.3%. For many years, a conservative investment manager in Colorado has managed approximately 10% of available funds where investments returned 5%. This firm also managed a capital preservation mutual fund. The two funds combined returned a total of 9.6%. LAPRA's asset allocation model of 60% fixed income, 40% equities (including 15% international equities) has served our members well. Again in 2010, we met and exceeded the actuarial assumption of 7.5%.

The investment philosophy of the Board emphasizes fixed income investments over equity investments primarily to ensure availability of cash to meet benefit obligations, reduce volatility that occurs in equity markets, and be a prudent steward of members' money.

In 2010 equity investments flourished with the S&P index returning 15.1%, Morgan Stanley International EAFE index returning 7.8%, and BAR Cap US Aggregate Bond index returning 6.5%.

This doesn't tell the whole story however, as the Federal Reserve has held interest rates artificially low in their continuing battle against deflationary forces and attempts to stimulate the economy. LAPRA has approximately 18% in short-term fixed income investments such as treasuries, CD's and federal paper. Those investments returned next to nothing but should a disaster strike our members, we are in a strong position to meet our obligations. This approach may be too conservative. However, this is an unusual financial climate, and we prefer the return of principal over a more risky approach.

That said, there were still some standouts in both fixed income and equity funds in 2010 as follows:

Jensen Large Cap Growth Fund	+11.8%
Vanguard Select Mid Cap Value Fund	+19.4%
T. Rowe Price Media and Telecomm	+26.8%
First Eagle Global Equity Fund	+17.6%
Mutual Shares Global Discovery Z*	+11.3%
Dodge & Cox Income Fund	+7.2%
Vanguard GNMA	+6.9%
PIMCO Total Return Fund**	+8.5%

* Our largest equity holding

** Our largest fixed income holding



Tim McBride

I am always hesitant to quote advisors or funds, as the reader may take that fund and think it's the answer to all investments when an allocation of multiple approaches is preferable.

If I had to pick one particular fund it, would probably be Vanguard Wellesley Income Fund (+10.7%) or Vanguard Wellington (+10.9%). Both

are allocation funds investing in both equities and income. These funds are also LAPRA holdings and have a very low expense ratio.

In this annual report, we attempt to inform our members of the financial status of the association, the results of the annual audit and investment information.

These are difficult times in our country, in our state and in our city. Expenses exceed revenue in each. As I write this report at the end of August, Standard and Poor downgraded the country's debt, Barron's magazine rated California as the worst-run state in the nation financially having the highest unemployment rate nationally. Our local issues are well-known to most of you with pensions being revised for new hires and medical subsidies for retirees under attack. Financial

Annual Treasurer's Report (continued)

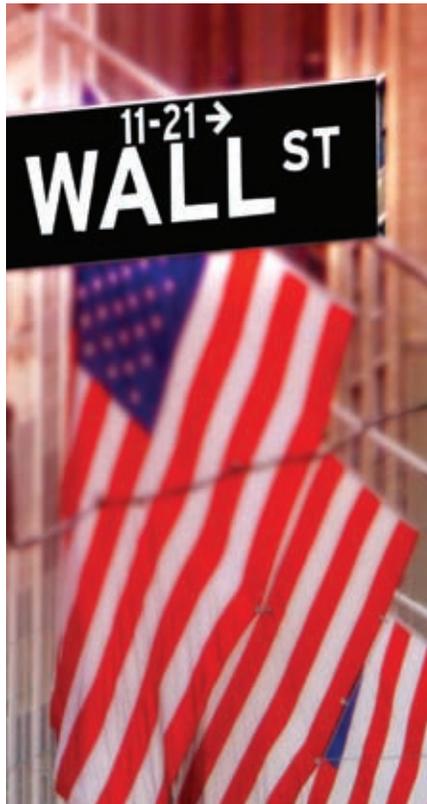
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issues and problems are no longer confined to any particular shore as the global economy, both positive and negative, seemingly impacts everyone, everywhere. Not only is the dollar weakening by the day, the euro is as well. It will be surprising if the euro lasts, at least in its current form. I don't mean the money specifically, rather the partnership with several member countries near bankruptcy. So what does all this mean for LAPRA investing, personal investing and for your deferred comp and 401k's? Let me offer the following:

First, if you believe like I do in this country, in our people, in freedom, then you believe we will overcome the difficulties. Second it is clear that investments are going to be volatile at the least. So you should protect yourself. Be diversified and keep a healthy amount of cash. I realize for most of us this is difficult. As a young cop I had no money, high credit card debt and a large mortgage. My advice is to reduce your debt, spend less than you make and save given the uncertainty of the near future.

Let me chat a bit about gold. Recently I spoke to some central coast retirees with that great title, "The Fuzz that Wuzz". While visiting old friends, one of my closest friends asked me what I think about gold. I gave a very simplistic and kind of dumb, kind of smart answer. "I don't know!" In reality, I know a lot and I know little. I read that in India the government is buying gold, same for China. In Japan the people are selling gold.

Gold is the only investment that seems to be in a bull market. But if you look at a gold chart, it's parabolic, meaning nearly straight up. Nothing



goes straight up. Gold is volatile. A few days ago it was down \$200 in one day. "How much is gold worth?" I ask myself. Is it worth \$500 dollars an ounce? \$2000 an ounce? \$5000 an ounce? Well its worth what people are willing to pay for it of course. GE, Proctor and Gamble and the rest we can value, look at debt, profit, price earnings ratios, risks to the business, value of assets and more.

A member called me the other day and told me he was selling all of his equities because a second dip recession is inevitable and the bond market was tumbling. He was going to put 50% in cash and 50% in gold and silver. He wanted to know what I thought?

A good case can be made for buying and holding a portion of assets in gold and silver, diamonds, platinum and other commodities. It has been one hell of a bull market in gold and

I wouldn't buy until it corrected. If I already owned it, I would rebalance my investments down to a 10% to 20% portion of assets. Will it correct? Sure someday. But what scares me about gold is that I have a hard time figuring what it's worth, and I know when it falls it will fall hard and fast. It will break right through stop loss orders like it did a few days ago, down \$200. So I think a portion of your assets invested in these type commodities is fine. But never put all of your eggs in one basket, especially the one everyone is buying. Buy the one that's out of favor. Next year, the year after, that basket will be in, the other out.

Another question I get asked regularly has to do with mutual funds or exchange traded funds (ETF's). I have always believed that a top money manager can out perform someone that buys every company, whether it be small or large cap or in between, international, bonds or whatever. There are now ETF's for everything. They are liquid and cheap when it comes to costs, and they trade like stocks so you can be in one day and out the next. So I did an ad hoc comparison of managers LAPRA has selected compared to the most common ETF's. In most cases, the quality manager outperformed including fees. I think ETF's are a fine way of investing for the average person that wants to get a variety of investments, and who is unsure who to let manage their money.

As I conclude this annual report, the LAPRA Board will continue to do the best job we can for our members. We will continue to diversify association funds and meet our obligations. The Board thanks you for your support. ■

Los Angeles Police Relief Association, Inc.

Summary of Financial Statement Statement of Net Assets Available for Benefits and Benefit Obligations December 31, 2010

	Self-Insured and Insured Plans	Emergency Relief Fund	Total 12/31/10
NET ASSETS AVAILABLE FOR BENEFITS			
ASSETS			
Investments, at Fair Value			
• Certificates of Deposit	\$ 5,910,112	–	\$ 5,910,112
• Mutual Funds	41,150,302	–	41,150,302
• Cash in Interest Bearing Accounts	<u>4,106,578</u>	–	<u>4,106,578</u>
• Total Investments	<u>51,166,992</u>	–	<u>51,166,992</u>
Receivables	<u>710,439</u>	<u>\$102,073</u>	<u>812,512</u>
Prepaid Expenses and Deposits	65,200	–	65,200
Obligation Reserves	48,644,835	–	48,644,835
Cash	25,762	–	25,762
Net Property and Equipment	<u>5,268,839</u>	–	<u>5,268,839</u>
TOTAL ASSETS	<u>105,882,067</u>	<u>102,073</u>	<u>105,984,140</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	377,022	–	377,022
Advanced Member Contributions	348,191	–	348,191
Police Charity Plan	<u>111,147</u>	–	<u>111,147</u>
TOTAL LIABILITIES	<u>836,360</u>	–	<u>836,360</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>105,045,707</u>	<u>102,073</u>	<u>105,147,780</u>
BENEFIT OBLIGATIONS			
Amounts Currently Payable for Participants	336,301	–	336,301
Amounts Due to Insurance Companies	12,016,117	–	12,016,117
Dental Claims Liability	847,578	–	847,578
Paid-Up Life Insurance for Participants	1,310,234	–	1,310,234
Estimated Future Death, Policy Surrender and Sick Benefits	<u>20,598,561</u>	–	<u>20,598,561</u>
TOTAL BENEFIT OBLIGATIONS	<u>35,108,791</u>	–	<u>35,108,791</u>
EXCESS OF NET ASSETS AVAILABLE FOR BENEFITS OVER BENEFIT OBLIGATIONS	<u>\$69,936,916</u>	<u>\$102,073</u>	<u>\$70,038,989</u>

2010 Actuarial Report

By Tim McBride

Each year LAPRA's Board of Directors contracts with an actuarial firm to determine the ability of the association to meet its responsibilities in funding member benefits. The actuarial firm also evaluates member life expectancy vs. national averages. Due to the many compilations, this report lags year-end accounting reporting.

Although not exciting to read or for that matter to write, this is an important part of association business to ensure members' benefits are sufficiently funded. The Board changed actuarial firms from Segal to Mercer Co. with Mercer Co. preparing the 2010 report.

The two most important points in the 2010 actuarial report are similar to previous reports:

- association assets exceed expectations of funding needs; and
- the actuarial assumption of 7.5% remains intact.

The association's over-funded status is one of pride for the Board as many employee benefit organizations have found themselves under-funded due to the difficult investment climate over the last decade.



Membership of active LAPD employees decreased slightly from 2009 to 2010 with 9,523 members vs. 9,508 members. The trend of our retirees living longer than the national average continues with 5,960 retired members in 2010 and 5,927 in 2009.

Annual operating expenses for the emergency relief self-insured life insurance and off-duty sick and disability programs continued to

decrease with \$206,726 expended by the association in 2009 vs. \$168,239 in 2010 due to more efficient administration.

The average age of our active members increased slightly from 40.1 years in 2009 vs. 40.6 years in 2010. In 2010 we had one active member over age 70 and eight active members between the ages of 60 and 65.

Life expectancy trends reveal a continuing pattern of our members enjoying life longer than the national average. In 2009 we lost 6 active members vs. 5 in the prior year. We also lost 145 retirees in 2009 vs. 103 in the prior year. Although the total deaths in 2009 (151) reflect an increase over the prior year (108), the national average expected deaths for the same populations in 2009 was 163.6. ■

According to our latest actuarial report, association assets continue to exceed expectations of funding member benefits. We're proud of this fact given many employee benefit organizations find themselves under-funded due to the difficult investment climate over the last decade.

The Guardian Celebrates 30-Year Anniversary and Honors the Passing of Its Founder

As the **Guardian** closes in on its 30-year anniversary communicating Los Angeles Police Relief Association business, health, life, disability and other benefits information, and emergency relief programs, we celebrate the passing of its founder, Wayne Mackley.

If you joined the department after 1982, as most of our members did, then you do not remember LAPRA in the pre-**Guardian** days. Prior to 1982, there were numerous issues having to do with eligibility for medical or dental coverage for LAPRA members and dependents after members experienced certain life events such as marriage, divorce, birth of child or death of family member. Suffice it to say that insurance companies take a dim view of providing benefits for dependents of members they know nothing about.

It was the vision of Wayne Mackley that the **Guardian** be used to communicate changes to member benefits, report association business, and serve as a reminder to members to notify the association when changes in their own lives (such as marriage, birth, death, or even a change of address) occur that may affect their LAPRA benefits. The publication also served as a way to share the wonderful activities that members participated in, both on and off-duty. It was Wayne's vision that officers who work a beat and a detective table should be recognized for also coaching sport teams,



participating in church activities, attending school after hours and a myriad of other activities that make our officers the well rounded people they are. With this edition of the **Guardian**, we're recognizing Wayne.

"Wayne was like that," explained Vernetta, his high school sweetheart and wife of 55 years. "He loved LAPD officers and was a caring, giving person always thinking of others, trying to help and make their lives better."

Wayne was born in Michigan and moved to Southern California at the age of six. He attended local schools graduating from Lake Elsinore High School. He attended both Cal State Los Angeles and Occidental College before receiving his Bachelor Degree from Pepperdine University. He joined the LAPD in 1959. Wayne is survived by his wife (Vernetta), two children (David and Theresa) and four grandchildren.

Wayne worked a myriad of assignments, but was probably best known for his time as a police officer and sergeant at Metro Division, where he worked 11 of his 27 years with the department.

Wayne was eulogized by another legend, Ron McCarthy stating, "Wayne was that quiet, hard, tough, intelligent leader that balanced force with technique, tactics with intellect and always did the right thing." Retired LAPD Captain and former COP of Fullerton, Pat McKinley described Wayne as "able to bring order to chaos."



Wayne retired as a Lieutenant following assignments in Narcotics and RHD. Following his retirement from the LAPD, Wayne worked for the California Lottery for 12 years.

Wayne left us on June 18 in Cedar Edge, Colorado at the age of 73... way too early as the world needs more men like him. Wayne, thank you for service with the LAPRA Board. Vernetta, thank you for loaning him to us.

Wayne's eulogy was an honest and fitting tribute:

*He was dedicated;
He was loyal;
He was courageous;
He knew fear and defeated it;
He saved police officers lives and careers;
He saved LAPD's reputation every day;
He was a just and humble man.*

Thank you for everything. ■

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