

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: December 7, 2015

To: The City Council

From: Miguel A. Santana, City Administrative Officer



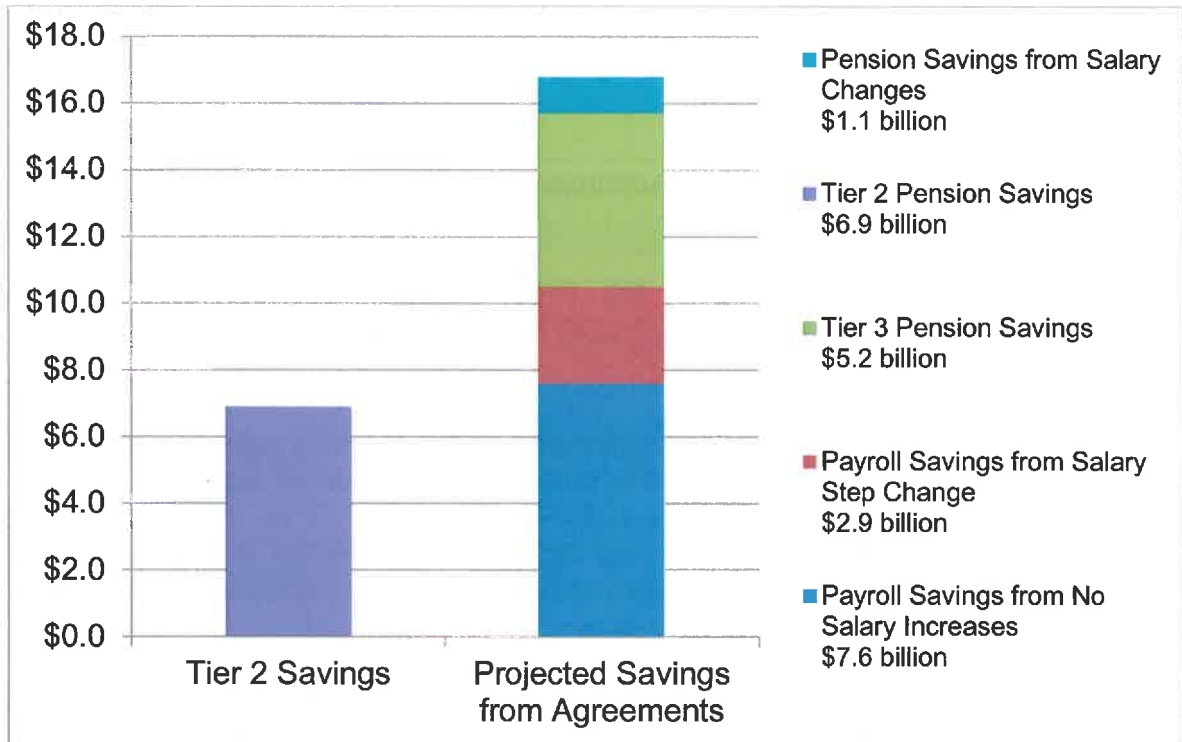
Subject: **ADDENDUM REPORT TO PROPOSED RESOLUTION OF LABOR ISSUES – COALITION OF LOS ANGELES CITY UNIONS**

This report is an informational addendum to the recently released report by the City Administrative Officer relative to the proposed resolution of labor issues with the Coalition of Los Angeles City Unions (CF No. 15-1423). This addendum is being released to provide clarity on the savings information presented in the original report and present additional savings calculations from the actuary pertaining to the proposed salary changes.

As presented in the original report, the proposed agreements are projected to save the City \$15.7 billion, cumulative over 30 years pursuant to an actuarial analysis. Of this amount \$5.2 billion are pension savings that are derived from lower employer pension costs from the new Tier 3 as compared to Tier 1. The remaining \$10.5 billion are payroll savings that the City is anticipated to achieve with the implementation of the salary step changes (\$2.9 billion) and as a result of the negotiated salary adjustments with multiple years of no increases (\$7.6 billion). Section 12 of Attachment 21 to the original report illustrate the 30 year cumulative savings associated with these salary changes.

Subsequent to the release of the original report, questions pertaining to the pension savings derived from the proposed salary changes were asked which could not be answered from the existing actuarial report. As a result, this Office requested a supplemental actuarial analysis to determine the pension savings derived from the salary changes which is attached. As illustrated in the attachment, in addition to the \$10.5 billion in payroll savings resulting from the salary changes, \$1.1 billion in pension savings are anticipated to be achieved due to the proposed salary changes, cumulative over 30 years. This additional savings, when combined with the previously reported savings of \$15.7 billion from the proposed agreements, will result in \$16.8 billion in pension and payroll savings for the City, cumulative over 30 years. The savings chart from the original report has been adjusted to reflect this change as follows.

Savings Comparison between Tier 2 and Proposed Agreements (\$ in Billions)



Source: Actuarial Report, Bartel & Associates – Attachment 21
& Addendum Report

Attachment



B. | RTTEL
ASSOCIATES LLC

City of Los Angeles

Addendum to

**Proposed Tier of New Benefits for Future Employees
in the
Los Angeles City Employees' Retirement System**

And

**Effect of Proposed Salary Agreement on Employees
in the
Los Angeles City Employees' Retirement System**

Actuarial Analysis

December 2015

INTRODUCTION

Bartel Associates has prepared this addendum to our previous report "Proposed Tier of New Benefits for Future Employees in the Los Angeles City Employees' Retirement System And Effect of Proposed Salary Agreement on Employees in the Los Angeles City Employees' Retirement System Actuarial Analysis" dated December 2, 2015 to estimate the effects of proposed changes in salary schedules on Tier 1 plus proposed Tier 3 pension and OPEB costs.

As in our previous report, we have assumed all active LACERS members are covered by both the current 8-step schedule and the new proposed salary schedules. For purposes of this study, the changes were assumed to be reflected immediately in the City's pension and OPEB contribution rates as changes in actuarial assumptions. LACERS' actuary may apply different timing to the recognition of this change and that could have a significant effect on the timing of pension and OPEB savings, although the total amount of savings over time would remain the same.

We assumed modest growth in the total number of LACERS active members: 1,000 employees over the first 5 years and an additional 2,000 employees over the next 5 years. We also assumed that current and future members would terminate their employment or retire in accordance with the actuarial assumptions, and that those positions would be replaced with new employees covered by Tier 3, and the proposed salary schedule.

Please see the previous report for full details of the actuarial methodology and assumptions. Except as noted, we have used the same actuarial methods and assumptions in The Segal Company's 6/30/2014 valuation reports.

The purpose of this study is to provide the City with information about the relative costs of proposed future plan designs and salary schedules, as summarized in this report. Actual future costs will differ from those presented in this report due to differences in the demographics, including actual salaries, of actual covered employees. In addition, timing of the pension and OPEB contribution impacts shown in this report can also be affected by the timing of their recognition in the annual actuarial valuations performed by LACERS' actuary. LACERS' actuary will determine the actual City pension and OPEB contributions in all future years.

Finally, note that this report considers only funding costs for the pension and OPEB plans and therefore does not address GASB accounting requirements.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principals and practices. This study was prepared by the undersigned, who are members of the American Academy of Actuaries meeting the Academy Qualification Standards.



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EFFECT OF SALARY CHANGES ON PENSION AND OPEB COSTS

The following estimates the pension and OPEB savings of Tier 1/Proposed Tier 3 with the Proposed Salary Schedule as compared to with current 8-Step Salary Program for all LACERS employees. The accompanying pay COLA reduction is assumed reflected immediately as a change in assumptions in the actuarial valuation. 1,000 net new employees are assumed added over the first 5 years, and 2000 more added over the next 5 years. Costs below exclude current Unfunded Actuarial Accrued Liability payments which do not impact savings.

Estimated Savings (Cost) (\$000's)					
YR	FISCAL YEAR	ESTIMATED CITY PENSION + OPEB FUTURE SERVICE COST		ESTIMATED SAVINGS (COST)	
		BEFORE SALARY CHANGES	FINAL	ANNUAL	CUMULATIVE
1	2015	\$ 222,000	\$ 183,000	\$ 39,000	\$ 39,000
2	2016	226,000	179,000	47,000	86,000
3	2017	228,000	175,000	53,000	139,000
4	2018	232,000	174,000	58,000	197,000
5	2019	234,000	175,000	59,000	256,000
6	2020	222,000	163,000	59,000	315,000
7	2021	230,000	169,000	61,000	376,000
8	2022	238,000	177,000	61,000	437,000
9	2023	247,000	184,000	63,000	500,000
10	2024	255,000	191,000	64,000	564,000
11	2025	264,000	198,000	66,000	630,000
12	2026	271,000	204,000	67,000	697,000
13	2027	309,000	237,000	72,000	769,000
14	2028	318,000	245,000	73,000	842,000
15	2029	326,000	251,000	75,000	917,000
16	2030	334,000	314,000	20,000	937,000
17	2031	335,000	316,000	19,000	956,000
18	2032	346,000	327,000	19,000	975,000
19	2033	351,000	333,000	18,000	993,000
20	2034	360,000	343,000	17,000	1,010,000
21	2035	369,000	353,000	16,000	1,026,000
22	2036	374,000	359,000	15,000	1,041,000
23	2037	381,000	368,000	13,000	1,054,000
24	2038	394,000	381,000	13,000	1,067,000
25	2039	398,000	386,000	12,000	1,079,000
26	2040	417,000	405,000	12,000	1,091,000
27	2041	430,000	419,000	11,000	1,102,000
28	2042	439,000	428,000	11,000	1,113,000
29	2043	453,000	444,000	9,000	1,122,000
30	2044	475,000	466,000	9,000	1,131,000
Current present value of 30-year savings using 7.50% discount rate					582,000
Current present value of 30-year savings using 4.00%** discount rate					769,000

* Figures are provided for illustrative purposes only and are based on various assumptions, including annual growth, payroll, and Tier 3 % of payroll. ** Approximation of GASB 68 AA Bond rate



SALARY SCHEDULES AND ACTUARIAL ASSUMPTIONS

The following describes the current 8-Step and Proposed Agreement salary schedules, as well as the 5-Step Salary Schedule in place at the time of the most recent actuarial experience study, as well as actuarial assumptions used in the modeling. Please note:

- The salary schedules described are assumed to apply for all LACERS employees
- The study assumes all future employees will be hired at the same salary step number as currently. This will mean lower starting salaries for all employees hired immediately after implementation of the proposed salary schedules.
- Projected savings assume the actuary reflects the negotiated salary COLAs immediately in the actuarial assumptions. Other possible timing will significantly impact the timing (but not the total over time) of savings in City pension contributions.

Assumptions for Cost Projections Under Proposed Salary Agreement and Tier 3

	6/30/2014 Actuarial Valuation (5-Step)	8-Step (Current)	Proposed Salary Agreement
Salary Schedule	5.5% pay increases after each of the first 4 years of employment, for a total of 5 Steps	5-Step Schedule with additional 2.75% increases after 5 th , 6 th , and 7 th year of employment, for a total of 8 Steps	Two 9-month steps of 2.75% before first step of 8-step schedule for future hires (become new steps 1 and 2), additional 1 earlier 2.75% step for training class estimated as 10% of population. One step of 2.75% added to end of current 8-step schedule.
Salary COLAs	Related to CPI	Related to CPI	0% first 2 years, 2% year 3. Related to CPI thereafter.
Future Hires	N/A	Based on demographics of new hires in previous 5 years.	Based on demographics of new hires in previous 3 years. Future employees assumed hired into the same step number as currently (so lower starting salaries for all new hires immediately following implementation.)



SALARY SCHEDULES AND ACTUARIAL ASSUMPTIONS

	6/30/2014 Actuarial Valuation (5-Step)	8-Step (Current)	Proposed Salary Agreement
Recognition of Change to New Pay Schedule	N/A	Pay increases recognized as they occur	Impact of negotiated COLAs reflected immediately as change in assumptions. Note that this has a significant effect on the timing of savings.
Pension and OPEB Benefits	N/A	Tier 1 for current Tier 1 Tier 2 for current Tier 2 plus future hires	Tier 1 for current Tier 1 and Tier 2 Tier 3 for future hires
Population growth	N/A	1,000 employees added over the first 5 years, additional 2,000 added over next 5 years	
Future mortality improvement	N/A	Mortality continues to improve in the future based on Society of Actuaries Scale BB ("generational mortality")	
Unfunded Actuarial Accrued Liability at Date of Change	N/A	Excluded from calculations as it will not be impacted by change.	
ERIP employee contributions	N/A	Assumed to end in 2026	
Other Actuarial Assumptions	N/A	As in 6/30/2014 Actuarial Valuation	
Basis for projections	N/A	June 30, 2014 actuarial valuation performed by The Segal Company, with projected changes in population according to actuarial assumptions. Future hires, future salaries, and future benefits as described in this report.	

SALARY SCHEDULES AND ACTUARIAL ASSUMPTIONS

Salary Scale assumptions

	Salary Schedule			
	6/30/2014 Actuarial Valuation (5-Step)	8-Step (Current)	Proposed Agreement	
			Regular	Training
Assumed proportion of new hires	100%	100%	90%	10%
Starting pay as a % of current starting pay	100%	100%	94.7%	92.2%
CPI component of pay increases, by year from Agreement:				
Year 1 and 2	3.25%	3.25%	0%	0%
Year 3	3.25%	3.25%	2.00%	2.00%
Year 4 and later	3.25%	3.25%	3.25%	3.25%
Assumed increase rates below are in addition to CPI increase plus assumed 0.75% annual across-the-board pay increase.				
Years of Service				
0	6.50%	6.50%	4.63%	2.75%
1	6.20%	6.20%	4.50%	4.63%
2	5.10%	5.10%	5.50%	4.50%
3	3.10%	3.10%	5.30%	5.50%
4	2.10%	2.10%	4.10%	5.30%
5	1.10%	2.00%	2.60%	4.10%
6	1.00%	1.75%	2.05%	2.60%
7	0.90%	1.50%	1.88%	2.05%
8	0.70%	0.70%	1.63%	1.88%
9	0.60%	0.60%	1.50%	1.63%
10	0.40%	0.40%	1.10%	1.50%
11	0.40%	0.40%	0.65%	1.10%
12	0.40%	0.40%	0.50%	0.65%
13	0.40%	0.40%	0.40%	0.50%
Over 13 years	0.40%	0.40%	0.40%	0.40%

