


**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: **September 18, 2012**

To: The City Council  
Mayor Antonio R. Villaraigosa

From: Miguel A. Santana, City Administrative Officer 

Subject: **PENSION REFORM FOR NEW HIRES – LACERS (C.F. 10-1250)**

### SUMMARY

This report provides an update to a previous CAO report to the City Council dated October 22, 2010, regarding the City's pursuit of pension reform for new member hires of the Los Angeles City Employees' Retirement System (LACERS). The information in this report is the culmination of several initiatives to bring the pension system to sustainability as proposed in the City's Three Year Plan to Fiscal Sustainability.

During the last three years, the City has actively engaged in the following cost containment measures: 1) increasing active member pension contributions from 7% to 11% to pay for retiree healthcare; 2) freezing retiree healthcare subsidies for non-contributing employees; 3) deferring cost-of-living adjustments; 4) reducing the size of the civilian workforce by nearly 5,000 positions (1993 employment levels); 5) implementing a new retirement tier for sworn personnel; and, 6) lowering the new hire salary for sworn personnel by 20%. Notwithstanding these actions, the City remains in dire fiscal condition, and further long term cost containment must be implemented to ensure fiscal stability. Therefore, it is recommended the City Council adopt a proposed new LACERS retirement tier for all new civilian hires.

The proposed new tier will reduce the City's future pension costs by:

- 1) Moving the normal retirement ages up from 55 to 65, to reflect growing trends that people are living longer;
- 2) Lowering the maximum retirement factor from 2.16% to 2.00% per year of service;
- 3) Capping the maximum retirement allowance at 75% of an employees' final compensation instead of up to 100%;

- 4) Eliminating pension spiking by setting an employees' pension on a 3-year salary average as opposed to one year;
- 5) Modifying disability retirement benefits to avoid spikes in the number of disability retirements;
- 6) Eliminating the current 50% survivor continuance benefit and providing employees' with an option to purchase a continuance for their surviving spouse/domestic partner;
- 7) Capping future retiree annual cost-of-living adjustments to 2% with the option for the employee to purchase up to 3%;
- 8) Requiring employees pay the full cost of purchasing service credit and limiting the number of years purchasable to 4 years maximum; and,
- 9) Controlling retiree healthcare costs by limiting the benefit to retirees only.

In addition, the most unique aspect of the proposed tier is the cost sharing element, which requires employees contribute a portion of their salary at 75% of the normal cost<sup>1</sup> of the pension benefits *plus* 50% of any future unfunded liabilities<sup>2</sup>. This will relieve the City from carrying 100% of future pension cost increases.

On August 21, 2012, the City Council instructed the CAO to finalize an actuarial study with the plan design components outlined in this report. On September 11, 2012, the Executive Employee Relations Committee (EERC) instructed the CAO to work with the City Attorney to present the new LACERS tier for City Council consideration. The City Attorney is submitting the relevant ordinance for a new LACERS tier under a separate report.

The information in this report is for the City Council's consideration of a proposed new LACERS tier (Tier II) that will only apply to new hires effective July 1, 2013. It is estimated that implementation of Tier II will result in a 5-year savings of \$30 million to \$70 million, a 10-year savings of \$169 million to \$309 million, and a 30-year savings of \$3.9 billion to \$4.3 billion. A copy of the final cost study, which was prepared by an independent enrolled actuary as required by Charter Section 1168, is enclosed with this report (Attachment III).

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<sup>1</sup> Normal Cost refers to the actual cost of the current benefits during a given year.

<sup>2</sup> Unfunded liabilities result from investment gains/losses during the year, actuarial assumption changes based on experience studies, and plan amendments (e.g. benefits changes). Unfunded Liability refers to the amount of money needed to pay for benefits (earned so far plus benefits not yet earned) based on a members' service. This amount is amortized to build the necessary assets over time to cover the liabilities.

## **BACKGROUND**

Consistent with the State's recent pension reform efforts and under the guidance of the City Attorney, the City's position is that the establishment of a retirement tier for new hires is not a mandatory subject of bargaining. The CAO, at the direction of the Mayor and City Council, has reached out to all labor unions to keep them informed about the City's efforts and solicited input on proposed tier designs. This outreach began in January 2010. From January 2010 up until the present time, the CAO has met with civilian labor unions on a dozen separate occasions to keep labor informed about the City's plan designs and to solicit feedback. Labor did provide at least two plan designs which the CAO commissioned for actuarial study. Those plans resulted in increased pension costs to the City. A summary of the union proposals are enclosed in Attachment IV.

The most recent meetings with civilian labor unions occurred on September 6, 2012 and September 10, 2012. As directed by the City Council, CAO staff presented labor with an overview of the most recent proposed LACERS Tier II plan design. The CAO shared the new tier design with labor, asked for labor's input on the proposed design, and commissioned a final actuarial cost study. During the course of the pension reform discussions, the CAO commissioned 14 actuarial cost studies of pension plan designs, including defined-benefit, defined-contribution, hybrid, and suggested union plan designs. Copies of all of the actuarial studies may be downloaded from the CAO's internet website (<http://cao.lacity.org>).

On a parallel track, the CAO met with labor unions that represent members of the sworn Los Angeles Fire and Police Pensions (LAFPP). The outcome of those meetings led to a final plan design which ultimately was placed on the March 2011 election ballot. Los Angeles voters approved Measure G, which set forth a new pension tier under LAFPP, Tier 6. Tier 6 became effective July 1, 2011 and applies to all new sworn hires that are members of the LAFPP. The estimated Tier 6 savings is approximately \$160 million over a 10-year period. When combining the Tier 6 savings and the 20% salary reduction for new sworn officer hires, the City saves approximately \$17,000 per officer hired. Based on actual police officer hiring, the savings during the last two fiscal years is approximately \$7.6 million.

In addition, the City's actions regarding retiree healthcare has led to securing active member contributions for both civilian and sworn employees. The majority of civilian LACERS members now contribute an additional 4% of salary, for an 11% of salary total contribution towards their pensions and retiree healthcare. The majority of LAFPP members also contribute an additional 2% of salary, for an 11% of salary total contribution towards their pensions and retiree healthcare. LACERS and LAFPP members that do not make the additional contribution will not be entitled to any future increases in the maximum medical subsidy. The combined annual savings for these active member contributions is approximately \$62.5 Million.

Concerns have been made regarding how Tier II will stymie the City's recruitment and retention of employees and result in increased Workers' Compensation costs for the City. Under the powers of the City Charter, the City Council will retain the authority to make future benefits modifications and may address recruitment and retention efforts and unintended Workers' Compensation costs as they arise. For example, if a department is experiencing specific retention issues, then the City may look at the total compensation package (e.g. salary and fringe benefits) and determine if any adjustments are necessary. Establishing a 401(K) matching program may be another alternative to making adjustments to the total compensation package.

## **FINANCIAL ILLUSTRATIONS**

Over the last several years, the City has experienced significant increases to its annual required contribution to its retirement systems, including LACERS. There are various factors that impact the City's contribution rate. These factors include, but are not limited to the following: cost of benefits, aging workforce, increases to payroll (including cost-of-living adjustments), investment returns, changes to plan funding policies and amortization periods, and changes to plan actuarial assumptions (both economic and demographic).<sup>3</sup> In addition, the global financial market loss of 2009 was a significant historical event which also directly led to increases in the contribution rate.

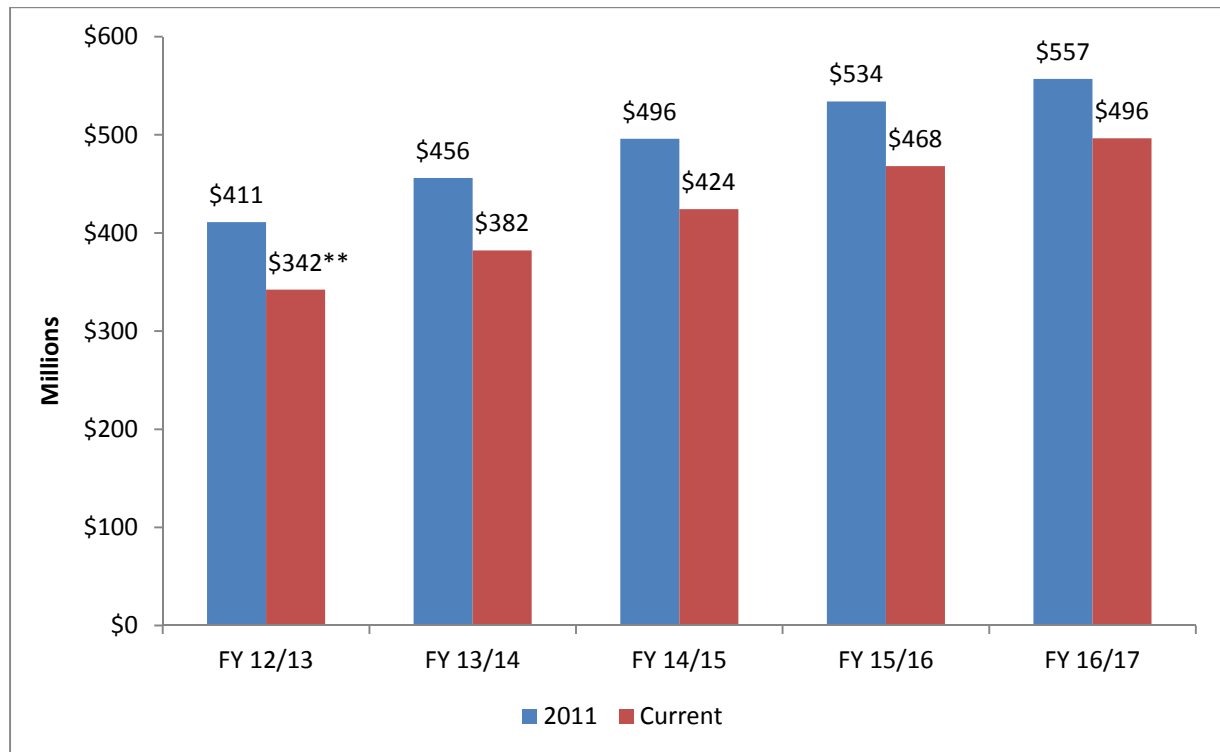
The City has taken specific actions designed to mitigate contribution increases to preserve and minimize the impact on City services. During the last few years, the City has engaged in the following: 1) secured labor agreements for active members to contribute 2% to 4% of salary towards retiree healthcare benefits, deferred cost-of-living adjustments; 2) froze retiree healthcare benefits for non-contributing employees; 3) reduced the size of its civilian workforce by nearly 5,000 positions (1993 employment levels); 4) implemented a new retirement tier for sworn personnel; and, reduced the new hire salary for sworn personnel by 20%.

While all of the above actions have helped to reduce the growth in City contribution to its retirement systems, the most recent information demonstrates that the City contribution to LACERS will continue to grow. The following graph illustrates the growth in the City's contribution to LACERS during the next several years:

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<sup>3</sup> To plan for the cost and liabilities of the retirement system, the Board of Administration, under guidance of the plan's actuary, adopts assumptions that are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the assumptions, and to the extent there are differences, the future contribution requirement is adjusted. Actuarial assumptions include, but are not limited to: inflation, investment returns, salary increases, retirement rates, mortality rates, termination rates, and disability incidence rates. In addition, the Board of Administration, under guidance of the plan's actuary, may adopt changes to its funding policies and amortization periods.

### ILLUSTRATION OF CITY CONTRIBUTION TO LACERS\*



\* Includes contributions for positions that are special fee, grant fund and special fund supported. Excludes Harbor and Airports Departments. Current is based on Segal "Five-Year Projection of Contributions, Funded Ratio, UAAL," dated 1/13/12. 2011 Projections based on Segal Five-Year Projection of Contributions, Funded Ratio, UAAL, dated 4/19/11. \*\* Actual Contribution Amount.

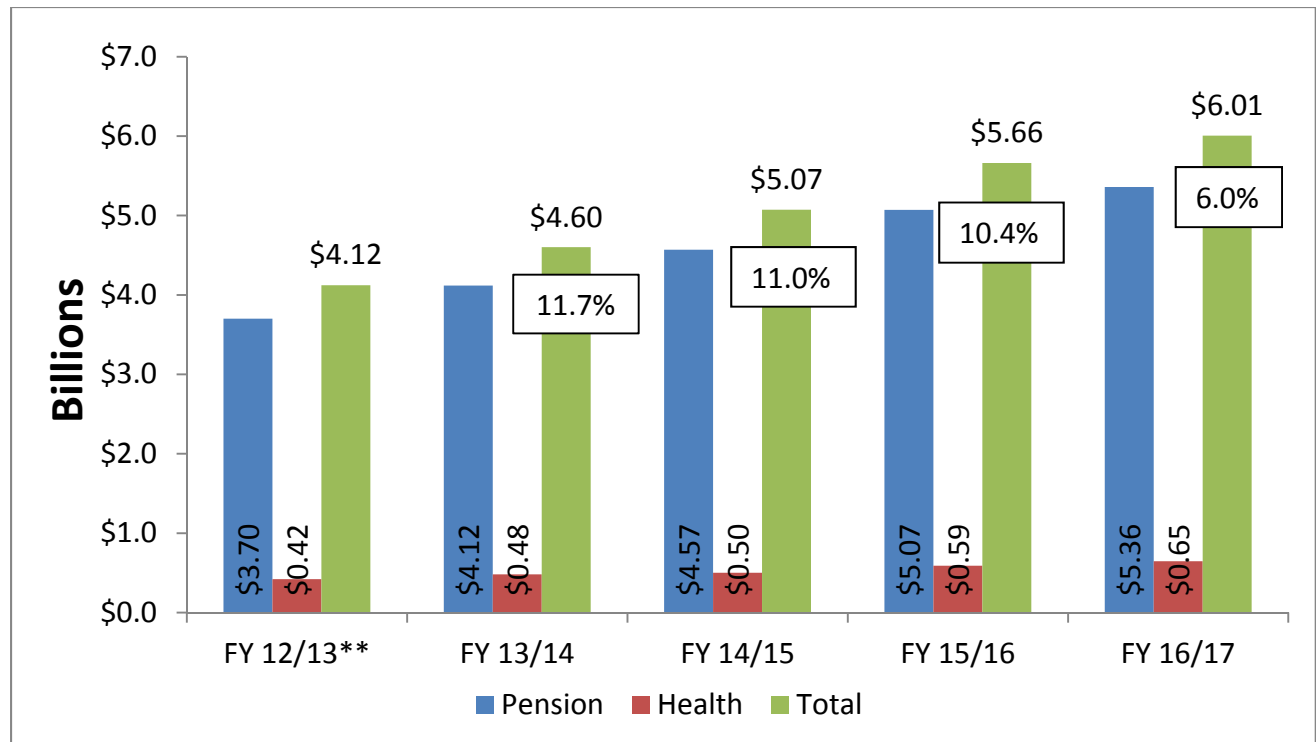
As the above graph illustrates, the most recent information indicates the City contribution is on pace to average 16.5% less per year than the 2011 projections. However, the City is still projected to contribute an additional \$154 million from the current fiscal year to Fiscal Year 16/17, which represents a 45% increase. The value of \$154 million today would fund the equivalent of the following services:

- 2,169 Civilian Worker Salaries; or
- 15 Aquatic Programs; or
- 770 Police Officer or Firefighter Hires; or
- 850 Ambulances; or
- 25 Libraries Receiving New Books; or
- 11 Helicopters; or
- 256 Miles of Street Reconstruction; or
- 440 Miles of Street Restoration; or
- 7.3 Million Potholes Repaired

The anticipated increases to the City contribution towards LACERS are mostly driven by increases in the unfunded liability. The following graph illustrates the

projected growth in the plan's unfunded liability during the next several years, including the percentage increase from one fiscal year to the next fiscal year:

### ILLUSTRATION OF LACERS UNFUNDED LIABILITY



\* Based on Segal "Five-Year Projection of Contributions, Funded Ratio, UAAL," dated 1/13/12. \*\* Actual amount based on Segal Actuarial Valuation for the Year Ended June 30, 2011.

The above graph illustrates that the plans' unfunded liability will grow by approximately 45%, from \$4.1 Billion to \$6 Billion during the next four years. This represents an average \$475 Million increase every year. The City contribution consists of a combination of the plan's normal cost *plus* unfunded liability. Unfunded liabilities result from investment gains/losses during the year, actuarial assumption changes based on experience studies, and plan amendments (e.g. benefits changes). As the unfunded liability grows, the City's contribution grows.

It is also important to note that major changes to financial reporting requirements by the Governmental Accounting Standards Board (GASB) are forthcoming. The new standards include, but are not limited to the following changes in financial reporting requirements for employers: 1) place the Net Pension Liability on the Balance Sheet; 2) calculate the pension liability with the Entry Age Normal<sup>4</sup> cost

<sup>4</sup> Entry Age Normal (EAN) is the actuarial valuation costing methodology which calculates a plan's Normal Cost as a level percentage of pay over a member's career. The contribution amount remains relatively stable over time. In contrast, the Projected Unit Credit (PUC) is utilized as the costing methodology for LACERS. Under the PUC, the Normal Cost increases as the member gets closer to retirement. In

methodology; 3) utilize more extensive note disclosures; and, 4) utilize shorter amortization periods for gains and losses. It is anticipated that the new GASB requirements, when implemented, may result in the financial reporting of higher unfunded liabilities. While the GASB requirements are not funding requirements, the City may face greater demands to allocate additional funding to the plan as compared to the current GASB requirements. Plan sponsors are required to incorporate the new reporting requirements starting in Fiscal Year 2014/15.

With escalating contributions and projected increases in the unfunded liability, the time has come for the City to implement a new LACERS retirement tier or face possible mandatory reductions in services to residents and continued fiscal instability.

## **PROPOSED PLAN DESIGN**

Recently, the EERC and City Council instructed the CAO to finalize the enclosed actuarial study which contains several plan design components that are unique to Tier II. The new plan would be open to newly hired members of LACERS. Current employees will not be allowed entry and will not be impacted by the new plan. The Tier II plan design was incorporated with the following goals in mind:

- Sustainable Pension Plan
- Reduce City's Mid and Long Term Budgetary Deficits With Minimal Service Impacts
- Provide Competitive Benefits With Public & Private Sector
- Maintain Defined-Benefit Plan
- Preserve Retiree Healthcare for Employees
- Risk Sharing Components
- Only Applicable to New Hires that are Members of LACERS
- Eliminate Pension Spiking
- Target July 1, 2013 Implementation

The CAO has worked with the actuary to develop specific plan design features which are consistent with the above goals. The proposed plan will provide future hires that retire at age 65 with a retirement allowance similar to today's pension. Tier II ensures the City will remain competitive with other public and private sector employers. Attachment I is a summary chart that compares the current LACERS plan with the proposed Tier II plan for new hires. A narrative summary of the major Tier II plan design components are as follows:

**Modifies Retirement Age & Factor (2% at Age 65)** – Current LACERS members may retire at Age 55 with 30 years of City service, at Age 60 with 10 years of continuous

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general, the PUC initially incurs a smaller contribution than the EAN during the first several years of the member's career. Over time, the cost for the same member will result in the PUC incurring a higher contribution than the EAN.

service, or at Age 70. Under Tier II, the normal retirement age for an unreduced benefit is Age 65. In addition, the maximum retirement factor<sup>5</sup> is 2.00% per year of service credit. Tier II members may take an early retirement and retire as early as Age 55, however, the retirement factor will be reduced to its actuarial equivalent. To retire (normal or early), a Tier II member must have at least 10 years of continuous City service (unless the member retires at Age 70).

The full range of actuarial equivalent retirement factors is listed in the following table:

Age At Retirement	Benefit Factor	Age At Retirement	Benefit Factor
55.00	0.7700%	60.25	1.2500%
55.25	0.7880%	60.50	1.2800%
55.50	0.8050%	60.75	1.3100%
55.75	0.8230%	61.00	1.3400%
56.00	0.8400%	61.25	1.3750%
56.25	0.8600%	61.50	1.4100%
56.50	0.8800%	61.75	1.4450%
56.75	0.9000%	62.00	1.4800%
57.00	0.9200%	62.25	1.5180%
57.25	0.9430%	62.50	1.5550%
57.50	0.9650%	62.75	1.5930%
57.75	0.9880%	63.00	1.6300%
58.00	1.0100%	63.25	1.6750%
58.25	1.0350%	63.50	1.7200%
58.50	1.0600%	63.75	1.7650%
58.75	1.0850%	64.00	1.8100%
59.00	1.1100%	64.25	1.8580%
59.25	1.1380%	64.50	1.9050%
59.50	1.1650%	64.75	1.9530%
59.75	1.1930%	65.00	2.0000%
60.00	1.2200%	Over 65.00	2.0000%

The current LACERS benefit for a normal retirement is 2.16% per year of City service. This represents a 0.16% difference between the current factor and the proposed maximum retirement benefit factor for new hires. The retirement allowance is calculated by multiplying the retirement factor by the number of years of City service by the Final Compensation. The Tier II member will end up receiving a retirement allowance that is very similar to members under the current plan as long as the member retires at age 65.

<sup>5</sup> Retirement Factor is the percentage utilized in calculating the member's pension benefit.



For example, a member with a Final Compensation of \$72,000 (average City worker salary) retires at Age 65 with 30 years of City service. The member will receive 60% of \$72,000, which equals an annual \$43,200 pension:

$$30 \text{ Years} \times 2.00\% \times \$72,000 = \$43,200$$

This calculation is further illustrated in the following table, which illustrates how the retirement factor will compare between the current plan and proposed Tier II plan for selected job classifications when a member retires under a normal retirement (unreduced factor):

**Retirement Allowance Examples  
 (Age 65 and 30 Years of Service)**

<b>Job Classification</b>	<b>Final Salary</b>	<b>Current Retirement Allowance (Tier I)</b>	<b>Proposed Retirement Allowance (Tier II)</b>
Custodian	\$39,358	\$25,504	\$23,615
Senior Clerk Typist	\$58,610	\$37,979	\$35,166
Police Service Representative II	\$68,736	\$44,541	\$41,242
Management Analyst II	\$85,837	\$55,622	\$51,502
Deputy City Attorney	\$129,957	\$84,212	\$77,974
Chief Management Analyst	\$155,493	\$100,759	\$93,296

**Cost Sharing of Normal Cost & Unfunded Liabilities** – Under the current LACERS plan, most employees contribute 11% of salary and the City contributes 25.25%<sup>6</sup> of payroll. Under the cost sharing design of Tier II, members will contribute 75% of the Plan’s Normal Cost plus 50% of the Plan’s Unfunded Actuarial Liability. The actuary calculates the Tier II cost is initially 13.31% of payroll. This represents the Normal Cost only because no unfunded liability has emerged at this time due to the plan being a new plan. Of this amount, the initial employee contribution rate will be a total of 10% of salary (75% of Normal Cost) and that the City’s initial contribution rate will be 3.31% of payroll (25% of Normal Cost).

<sup>6</sup> The City contribution rate of 25.25% of payroll was determined by the Segal “Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2011.” It is anticipated the rate will change from year to year.

For example, if a Tier II member earns an average City salary of \$72,000 and the City's Tier II payroll is \$67 million, then the initial annual contribution amounts will be as follows:

$$\begin{aligned} \text{Employee Contribution (75\% of Normal Cost)} &= 10\% \times \$72,000 = \$7,200 \\ \text{City Contribution (25\% of Normal Cost)} &= 3.31\% \times \$67 \text{ million} = \$2.2 \text{ million} \end{aligned}$$

To mitigate employee contribution fluctuations, the employee contribution rate will adjust every three years, with the first rate adjustment effective July 1, 2017. Each year, the City's contribution rate will be actuarially adjusted.

**Caps Retirement Allowance to 75% of Final Compensation** – Current LACERS members may retire at 100% of Final Compensation, which under a normal retirement would take approximately 46 years of service credit to accomplish. Under Tier II, the maximum allowable benefit cannot exceed 75% of a Tier II member's Final Compensation. This means a member that retires at Age 65 will need approximately 37.5 years of service credit to reach the 75% cap. A member age 65 with a final compensation amount of \$72,000 (average City worker salary) and with 37.5 years of service would receive an annual pension of \$54,000.

**Addresses Pension Spiking** – Final Compensation is based on a 36-month average of the Tier II member's highest compensation. Currently, LACERS members receive a Final Compensation based on the highest 12-month average compensation.

**Secures Single Party Retiree Healthcare Coverage for Retired Member** – Current LACERS members (non-Medicare) may be entitled to a medical subsidy that is tied to the Kaiser two-party rate. The maximum medical subsidy amount is currently \$1,190/month. Current LACERS members may utilize their medical subsidy to purchase plans for their spouses and/or dependents. The proposed Tier II medical subsidy is tied to the lowest cost single party plan. The initial medical subsidy amount for Tier II members is \$596/month. There are no healthcare subsidies for dependents/spouses.

In addition, Tier II non-Medicare members will be eligible for a 40% medical subsidy after 10 years of service and an additional 3% medical subsidy for every year thereafter (100% medical subsidy after 30 years of service). The accrual rate for current LACERS member is 4% per year of service meaning that 100% of the medical subsidy is achieved after 25 years of service. Tier II Medicare members will be eligible for 75% of the Medicare single-party premium if they have 10-14 years of service; 90% if they have 15-19 years of service; or 100% if 20 or more years of service.

**Modifies Disability Retirement** – A Tier II member must have at least 10 years of service to be eligible to receive a disability retirement. The disability retirement is based on a benefit level of  $1/90^{\text{th}}$  of salary times the number of service years. Under the current LACERS plan, a disability retirement benefit is either  $1/3$  of the member's salary or  $1/70^{\text{th}}$  of salary times the number of service years, whichever is larger. Current

LACERS members must have at least 5 years of service to be eligible to receive a disability retirement.

**Modifies Survivor Continuance Benefits** – Current LACERS members contribute a portion of their salary towards a 50% survivor continuance benefit. The continuance only activates in the event the member dies before the beneficiary. In addition, a current LACERS member may opt to reduce his/her retirement allowance at retirement and provide a survivor benefit for his/her spouse or domestic partner at a value greater than 50%. Under Tier II, there is no automatic 50% survivor continuance in the event of death after retirement. However, a Tier II member may elect to reduce his/her retirement allowance at retirement and provide a survivor benefit. The actual cost to the Tier II member to purchase this benefit is not known at this time because the cost is dependent on several factors, including but not limited to the member's retirement allowance, final compensation, age at retirement, age of the beneficiary, level of benefit selected, etc.

**Modifies Cost-of-Living Adjustments (COLA)** – Current LACERS members receive annual maximum 3% COLAs, which are tied to the Consumer Price Index (CPI). If the CPI exceeds 3% in a given year, the difference between the actual CPI and 3% will be “banked” for the member. Previously banked amounts are used to provide members with larger COLAs during years in which the CPI is less than 3%. A Tier II member may receive a maximum 2% COLA tied to the Consumer Price Index (CPI). The member may voluntarily purchase up to 3% COLA. Tier II members will not be able to “bank” COLA, however, the City Council retains its authority to approve discretionary COLA adjustments.

**Service Purchases** – Current LACERS members may purchase time spent in other government employment by paying their employee contribution rate (most contribute 11%) times current salary times the number of service years purchased. Under this model, the employee does not pay the full actuarial cost of the service purchased, as the City picks up the difference between the employees contribution and actual cost of the purchased time. There is no limit to the amount of years a member may purchase. Tier II members will pay the full actuarial cost and may not purchase more than 4 years of prior government service. This is the same model applied to the LAFPP.

## **OTHER JURISDICTIONS**

The City is not alone in considering a new retirement tier for new hires. Several major public sector entities in California and across the nation have either implemented or are in the process of implementing significant pension reforms for new hires. The State of California has recently approved legislation that will implement pension reforms for several agencies within the State. The actions of the California legislature specifically impact pension plans for new hires that are employed by the State, certain Counties, non-Charter cities, and school districts. To allow each Charter City to adopt a pension plan to meet their specific needs, the State excluded Charter cities like the City of Los Angeles from any pension reform requirements or limitations.

The following table is a brief summary of key plan design elements of recent pension reform efforts for new hires at selected agencies:

Plan Design	Proposed Tier II	San Francisco	San Jose	San Diego	New Jersey	California
Type	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution	Defined Benefit	Defined Benefit
Retirement Age (Max. Factor)	65	62	65	N/A	65	67
Max. Retirement Factor	2.0%	2.3%	2.0%	N/A	0.50%	2.5%
Maximum Allowance	75%	75%	65%	Account Balance	50%	100% with cap at \$110,100
Employee Contribution	10% (initial)  (75%/25% Normal Cost; 50%/50% Unfunded Liab.)	7.5%  May adjust up to 13.5%	Unknown  50%/50% Normal Cost	Variable;  9.2% Maximum City Contribution	6.5%  Will increase to 7.5% in 2018	8%  50%/50% Normal Cost
Retiree Healthcare	\$596/mo. max. subsidy	\$1,761/mo. max. subsidy	\$1,235/mo. max. subsidy	\$740/mo. max. subsidy or DC option	Retiree pays Full Cost	\$1,319/mo. max. subsidy
Final Compensation	3 Years	3 Years	3 Years	Account Balance	5 Years	3 Years
COLA	2%/year No Bank	2%/year Bank	1.5%/year No Bank	Account Balance	Suspended	3% Max.

Attachment V is a summary comparison between the City’s plan and the State’s plan. There are some similarities in plan design concepts, but there are also differences which include: retirement factor, cost sharing, and retiree healthcare features. As explained in the Proposed Plan Design section of this report, Tier II has a maximum retirement factor of 2.00% per year of service. The State’s plan is considerably higher as it increases the maximum retirement factor to 2.50% per year of service (the State’s prior maximum factor was 2.418%). This means a retiree with a \$100,000 final compensation and 30 years of service will receive a Tier II pension of \$60,000 annually and a pension from the State at \$75,000 annually (a 25% difference). In addition, the State’s plan does not make any adjustments to retiree healthcare.

The City’s proposed Tier II contribution is also designed to share the costs of the unfunded liability between the City and the employee, while preserving the plan as a defined benefit. This ensures that future employees share the burden of future escalating costs. The Tier II employee contribution is calculated as a percentage of the Normal Cost plus any Unfunded Liabilities that may result.

## **IMPLEMENTATION**

Pursuant to Charter Section 1168, adoption of a new LACERS tier requires an ordinance with two separate readings at a minimum of 30 days apart. If approved by the City Council, then Tier II would become effective for all new members of LACERS as of July 1, 2013. An ordinance that incorporates all of the plan design features outlined in this report has been submitted by the City Attorney under separate cover.

## **FISCAL IMPACT**

Results of the actuarial cost studies indicate the City would achieve a 5-year savings of up to \$70 million, a 10-year savings of up to \$309 million, and a 30-year savings of up to \$4.3 billion. Attachment II illustrates the projected savings to the City on an annual basis during the next 30 fiscal years.

## **RECOMMENDATION**

It is recommended that the City Council approve the ordinance to establish the proposed plan design for LACERS Tier II as detailed in this report.

*MAS:TTS*

Enclosures: Attachment I – Comparison of Current LACERS Plan & Proposed Tier II  
Attachment II – Tier II Savings Illustration  
Attachment III – Bartel Actuarial Study, dated September 13, 2012  
Attachment IV – Summary of Union Proposals  
Attachment V – Comparison of Proposed Tier II & California State Plan for  
New Hires

**COMPARISON OF CURRENT LACERS PLAN & PROPOSED TIER II**

<b>PLAN DESIGN</b>	<b>CURRENT</b>	<b>PROPOSED - TIER II</b>
<b>Retirement Factor</b>	2.16%	2.00% (Age 65) Actuarial Equivalent (< Age 65)
<b>Max. Allowance</b>	100%	75%
<b>Normal Retirement</b>	Age 55/Service 30; or Age 60/Service 10; or Age 70	Age 65/Service 10 Age 70
<b>Employee Contribution</b>	11% Total (majority)	10% (Initial) 75% of Normal Cost + 50% of Unfunded Liability
<b>Employer Contribution</b>	Actuarially Defined	25% of Normal Cost + 50% of Unfunded Liability
<b>Retiree Health Subsidy</b>	Defined Benefit; \$1,190/month subsidy; Adjusted by Kaiser 2 party rate (majority of members)	Defined Benefit; \$596/month subsidy; Adjusted by 1 party lowest cost standard plan
<b>Retiree Health Factor</b>	40% of Subsidy at 10 YOS (Minimum Age 55); After 10 YOS, accrue 4% per YOS; 100% max. (25 years)	40% of Subsidy with 10 YOS (Minimum Age 55); After 10 YOS, accrue 3% per YOS; 100% max. (30 years)
<b>Service Purchases</b>	Cost is based on employee contribution rate; No max. on # of years purchased	Member pays full cost (Employer + Employee Contribution 7-Year Average); May purchase up to 4 years
<b>Cost-of-Living Adjustment</b>	CPI based w/3% max.; COLA bank	CPI based w/2% max.; May purchase 1% additional; No COLA bank
<b>Final Compensation</b>	Average of highest 12 months	Average of highest 36 months; Excludes bonuses
<b>Disability Retirement</b>	Maximum benefit is 1/70 of pay or 1/3 of Salary 5 Year Eligibility	Benefit is 1/90 of salary 10 Year Eligibility
<b>Survivor Continuance</b>	1) 50% of Retiree's unmodified allowance or a modified continuance 2) \$2,500 lump sum death benefit; 3) Any unused contributions if member elects cash refund annuity option	1) Life annuity 2) \$2,500 lump sum death benefit; 3) Any unused contributions if member elects cash refund annuity option

**TIER II SAVINGS ILLUSTRATION**  
**(\$ in thousands)**

<b>Year</b>	<b>Fiscal Year</b>	<b>Actual* Annual</b>	<b>Actual* Cumulative</b>	<b>EAN* Annual</b>	<b>EAN* Cumulative</b>
1	2014	\$1,502	\$1,502	\$4,682	\$4,682
2	2015	\$3,386	\$4,889	\$9,499	\$14,181
3	2016	\$5,699	\$10,588	\$14,452	\$28,634
4	2017	\$8,522	\$19,110	\$19,698	\$48,332
5	2018	\$10,769	\$29,879	\$21,696	\$70,028
6	2019	\$15,156	\$45,035	\$29,542	\$99,570
7	2020	\$20,433	\$65,468	\$38,003	\$137,573
8	2021	\$26,743	\$92,211	\$47,191	\$184,763
9	2022	\$34,140	\$126,351	\$56,960	\$241,723
10	2023	\$42,647	\$168,997	\$67,081	\$308,804
11	2024	\$52,339	\$221,337	\$77,507	\$386,311
12	2025	\$63,298	\$284,635	\$88,214	\$474,525
13	2026	\$75,551	\$360,186	\$99,018	\$573,544
14	2027	\$89,224	\$449,410	\$110,076	\$683,620
15	2028	\$102,970	\$552,380	\$121,502	\$805,122
16	2029	\$115,467	\$667,847	\$133,219	\$938,341
17	2030	\$128,420	\$796,266	\$145,232	\$1,083,573
18	2031	\$142,202	\$938,469	\$157,708	\$1,241,281
19	2032	\$158,141	\$1,096,610	\$170,817	\$1,412,098
20	2033	\$175,088	\$1,271,698	\$184,394	\$1,596,491
21	2034	\$190,178	\$1,461,876	\$198,440	\$1,794,932
22	2035	\$205,081	\$1,666,957	\$212,954	\$2,007,886
23	2036	\$220,003	\$1,886,960	\$227,784	\$2,235,670
24	2037	\$235,651	\$2,122,611	\$242,854	\$2,478,524
25	2038	\$251,233	\$2,373,844	\$258,511	\$2,737,035
26	2039	\$266,521	\$2,640,365	\$274,823	\$3,011,858
27	2040	\$282,114	\$2,922,479	\$291,621	\$3,303,480
28	2041	\$298,311	\$3,220,790	\$308,771	\$3,612,250
29	2042	\$315,663	\$3,536,453	\$326,126	\$3,938,376
30	2043	\$333,771	\$3,870,224	\$343,576	\$4,281,952
<b>Present Value (3.75% discount rate)</b>			<b>\$1,734,523</b>		<b>\$1,985,351</b>

\*\*Actual" columns reflect the difference between the cost of the current plan benefits as currently funded under the PUC method and the proposed benefits funded under the EAN method. "EAN" columns reflect the difference between the current plan benefits and proposed benefits if both were funded under the EAN method.

Entry Age Normal (EAN) is the actuarial valuation costing methodology which calculates a plan's Normal Cost as a level percentage of pay over a member's career. The contribution amount remains relatively stable over time. In contrast, the Projected Unit Credit (PUC) is utilized as the costing methodology for LACERS. Under the PUC, the Normal Cost increases as the member gets closer to retirement. In general, the PUC initially incurs a smaller contribution than the EAN during the first several years of the member's career. Over time, the cost for the same member will result in the PUC incurring a higher contribution than the EAN.



**BARTEL**  
ASSOCIATES, LLC

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## **City of Los Angeles**

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

**2% @ 65 with Actuarial Equivalent Early Benefits**

### **Actuarial Analysis**

September 13, 2012



# TABLE OF CONTENTS

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<b>SECTION</b>	<b>PAGE</b>
1. Comments	1
2. Summary of Results	3
3. Outline of Potential Plan Design	5
4. Actuarial Assumptions	8
5. Participant Data	9
6. Tier II Savings Projection	10
7. Effect of Early Retirement Rates	13
8. Cost-Sharing of Unfunded Payment	14

# SECTION 1

## COMMENTS

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### Introduction

Bartel Associates has prepared this estimate of the costs a proposed new tier of benefits for future new hires in the Los Angeles City Employees' Retirement System. These cost estimates were prepared by using the group of current plan participants hired in the three years ending June 30, 2011 as a proxy for future new hires. This is the same methodology and the same group of participants used by The Segal Company, Inc. in their previous analysis of the cost of two different proposed new tiers: 2% @65 and 2% @67. The costs for the current program are included here for comparison purposes. Except as noted, we have used the same actuarial methods and assumptions in developing the costs for the proposed new tier as in previous actuarial studies, so that the results will be directly comparable.

The purpose of this study is to provide the City with information about the relative costs of this proposed future plan design, as summarized in this report. The actual future costs will differ from those presented in this report due to differences in the demographics of actual covered employees as well as the actuarial methods and assumptions used at that time.

Finally, note that this report considers only funding costs for the pension and OPEB plans and therefore does not address accounting requirements under the new GASB Statements 67 and 68. Our report also does not consider any funding or plan design requirements that may be implemented in 2012 or later for California public pension plans.

### Comments

Pay Basis. This report shows results on two bases: Base Pay Only and Base Plus Bonuses specified as pensionable in MOUs. The Base Plus Bonus results assume that benefits are calculated using base pay plus bonuses specified as pensionable in MOUs. We have used the same assumption as the Segal Company in their studies: that these bonuses are on average 2% of base pay. The costs for these benefits are shown as a percentage of base pay plus the specified bonuses. The Base Pay Only results assume that benefits are calculated using base pay only, and show the resulting costs and contributions as a percentage of base pay.

Retirement Rates. As discussed in Section 7, we have used Retirement Rates that we believe will best estimate retirement behavior of new tier employees until such time as an experience study can be made.

Contribution Rates. The employee contribution rates contemplated by all of the benefit design in this study, including the current plan, are significantly higher than they have historically been. This is even more so if the plan develops a large Unfunded Actuarial Accrued Liability and employees are required to fund a portion of the amortization payments. This will lead to employees accumulating larger contribution account balances, while at the same time, their expected retirement benefits will be lower than in the past. We expect this will likely lead to changes in employee termination rates and contributions withdrawal experience. However, we have not anticipated this change in our analysis.

Social Security. We believe the proposed 2% @65 formula will qualify under the Defined Benefit Retirement System Safe Harbor rules, and not require participants to join Social Security. However, we made this determination as actuaries and the City's legal counsel should review our findings.



# SECTION 1

## COMMENTS

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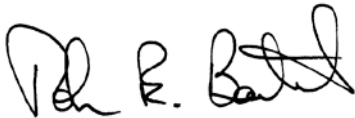
Projected Unit Credit Funding Method. The projected unit credit (PUC) funding method which has been used in the LACERS actuarial valuations attributes the cost of benefits to the time when they accrue. Under the current plan, a portion of the disability benefit (1/3 of pay) is accrued by employees immediately upon hire, even though they cannot receive the benefit until they satisfy the 5 year eligibility requirement. This immediately-accrued benefit results in newly entered employees having a relatively substantial accrued liability relating to the disability benefit. In the annual valuation, this liability would be amortized as a loss and is not and will not be part of the Normal Cost. Thus, to evaluate the full cost of all current plan benefits under the PUC funding method we have added the amortization of the initial liability to the normal cost.

The proposed new tier benefit eliminates this 1/3 of pay minimum disability benefit.

It should be noted that the PUC and Entry Age Normal (EAN) funding methods produce different cost patterns over time, with EAN's cost generally starting higher but increasing more slowly over time. For this reason we have shown the costs for the all of the current and proposed benefits under both funding methods, for comparison purposes. Please see the Tier II Savings Projection section for more detail.

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.

\* \* \* \* \*



John E. Bartel, ASA, MAAA, FCA  
President



Mary Elizabeth Redding, FSA, MAAA, EA  
Assistant Vice President

## SECTION 2

### SUMMARY OF RESULTS

#### Comparison of Estimated Contribution Rates: Current & Proposed (2% @ 65, Actuarial Early, Base + Bonus) Formulas

All Amounts are Average Per New Employee

*Blue Italics amounts developed from Segal's reports*

	<b>Pension: Current Plan</b>	<b>Pension: Proposed 2% @ 65 Base+ Bonus</b>	<b>OPEB: Current Plan</b>	<b>OPEB: Proposed Plan</b>	<b>Total: Current Plan</b>	<b>Total: Proposed Plan</b>
Base Pay	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>
Base Pay + Included Bonus	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>
<b>Entry Age Normal</b>						
Employer Normal Cost	<i>\$ 7,337</i>	\$ 1,825	<i>\$(620)</i>	\$ 351	<i>\$6,717</i>	\$ 2,175
Employee Normal Cost	<i>4,574</i>	<u>5,467</u>	<u>2,613</u>	<u>1,052</u>	<u>7,187</u>	<u>6,519</u>
Total Normal Cost	<i>11,911</i>	7,291	<i>1,993</i>	1,403	<i>13,904</i>	8,694
<u>Cost as % of Base + Bonus</u>						
• Employer Cost % of Pay	<i>11.23%</i>	2.79%	<i>(0.95%)</i>	0.54%	10.28%	3.33%
• Employee Normal Cost % of Pay	<i>7.00%</i>	<u>8.37%</u>	<u>4.00%</u>	<u>1.61%</u>	<u>11.00%</u>	<u>9.98%</u>
• Total Cost % of Pay	<i>18.23%</i>	11.16%	<i>3.05%</i>	2.15%	21.28%	13.31%
Employer Cost Portion	<i>61.6%</i>	25.0%	<i>(31.1%)</i>	25.0%	48.3%	25.0%
Employee Cost Portion	<i>38.4%</i>	75.0%	<i>131.1%</i>	75.0%	51.7%	75.0%
<b>Projected Unit Credit</b>						
Employer Normal Cost	<i>\$3,691</i>	\$ 1,324	<i>\$(1,228)</i>	\$ 241	<i>\$2,463</i>	\$ 1,565
Employee Normal Cost	<i>4,574</i>	<u>3,969</u>	<u>2,613</u>	<u>722</u>	<u>7,187</u>	<u>4,691</u>
Total Normal Cost	<i>8,265</i>	5,293	<i>1,385</i>	963	<i>9,650</i>	6,256
Accrued Liability	14,000	-	-	-	14,000	-
15-Year Amortization of AL	<u>1,168</u>	=	=	=	<u>1,168</u>	-
Total Cost	9,433	5,293	<i>1,385</i>	963	10,818	6,256
<u>Cost as % of Base + Bonus</u>						
• Employer Cost % of Pay	7.44%	2.03%	<i>(1.88%)</i>	0.37%	5.56%	2.40%
• Employee Normal Cost % of Pay	<i>7.00%</i>	<u>6.07%</u>	<u>4.00%</u>	<u>1.11%</u>	<u>11.00%</u>	<u>7.18%</u>
• Total Cost % of Pay	14.44%	8.10%	<i>2.12%</i>	1.47%	16.56%	9.57%
Employer Cost Portion	51.5%	25.0%	<i>(88.7%)</i>	25.0%	33.6%	25.0%
Employee Cost Portion	48.5%	75.0%	<i>188.7%</i>	75.0%	66.4%	75.0%
Employee contributions payable bi-weekly Employer contributions payable July 15 <sup>th</sup> Employee contributions allocated to OPEB paid to Retirement Trust.						



## SECTION 2

### SUMMARY OF RESULTS

#### Comparison of Estimated Contribution Rates: Current & Proposed (2% @ 65, Actuarial Early, Base Pay Only) Formulas

All Amounts are Average Per New Employee

*Blue Italics amounts developed from Segal's reports*

	<b>Pension: Current Plan</b>	<b>Pension: Proposed 2% @ 65 Base Pay</b>	<b>OPEB: Current Plan</b>	<b>OPEB: Proposed Plan</b>	<b>Total: Current Plan</b>	<b>Total: Proposed Plan</b>
Base Pay	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>	<i>\$64,030</i>
Base Pay + Included Bonus	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>	<i>65,337</i>
<b>Entry Age Normal</b>						
Employer Normal Cost	<i>\$ 7,337</i>	\$ 1,789	<i>\$(620)</i>	\$ 351	<i>\$6,717</i>	\$ 2,139
Employee Normal Cost	<i>4,574</i>	<u>5,360</u>	<u>2,613</u>	<u>1,052</u>	<u>7,187</u>	<u>6,412</u>
Total Normal Cost	<i>11,911</i>	7,148	<i>1,993</i>	1,403	<i>13,904</i>	8,551
<u>Cost as % of Base Pay</u>						
• Employer Cost % of Pay	<i>11.46%</i>	2.79%	(0.97%)	0.55%	10.49%	3.34%
• Employee Normal Cost % of Pay	<i>7.14%</i>	<u>8.37%</u>	<u>4.08%</u>	<u>1.64%</u>	<u>11.22%</u>	<u>10.01%</u>
• Total Cost % of Pay	<i>18.60%</i>	11.16%	3.11%	2.19%	21.71%	13.35%
Employer Cost Portion	<i>61.6%</i>	25.0%	<i>(31.1%)</i>	25.0%	48.3%	25.0%
Employee Cost Portion	<i>38.4%</i>	75.0%	<i>131.1%</i>	75.0%	51.7%	75.0%
<b>Projected Unit Credit</b>						
Employer Normal Cost	<i>\$3,691</i>	\$ 1,299	<i>\$(1,228)</i>	\$ 241	<i>\$2,463</i>	\$ 1,540
Employee Normal Cost	<i>4,574</i>	<u>3,893</u>	<u>2,613</u>	<u>722</u>	<u>7,187</u>	<u>4,615</u>
Total Normal Cost	<i>8,265</i>	5,192	<i>1,385</i>	963	<i>9,650</i>	6,155
Accrued Liability	14,000	-	-	-	14,000	-
15-Year Amortization of AL	<u>1,168</u>	-	-	-	<u>1,168</u>	-
Total Cost	9,433	5,192	<i>1,385</i>	963	10,818	6,155
<u>Cost as % of Base Pay</u>						
• Employer Cost % of Pay	7.59%	2.03%	<i>(1.92%)</i>	0.38%	5.67%	2.41%
• Employee Normal Cost % of Pay	<i>7.14%</i>	<u>6.08%</u>	<u>4.08%</u>	<u>1.13%</u>	<u>11.22%</u>	<u>7.21%</u>
• Total Cost % of Pay	14.73%	8.11%	<i>2.16%</i>	1.50%	16.89%	9.61%
Employer Cost Portion	51.5%	25.0%	<i>(88.7%)</i>	25.0%	33.6%	25.0%
Employee Cost Portion	48.5%	75.0%	<i>188.7%</i>	75.0%	66.4%	75.0%

Employee contributions payable bi-weekly

Employer contributions payable July 15<sup>th</sup>

Employee contributions allocated to OPEB paid to Retirement Trust.



### SECTION 3

## OUTLINE OF PROPOSED PLAN DESIGN

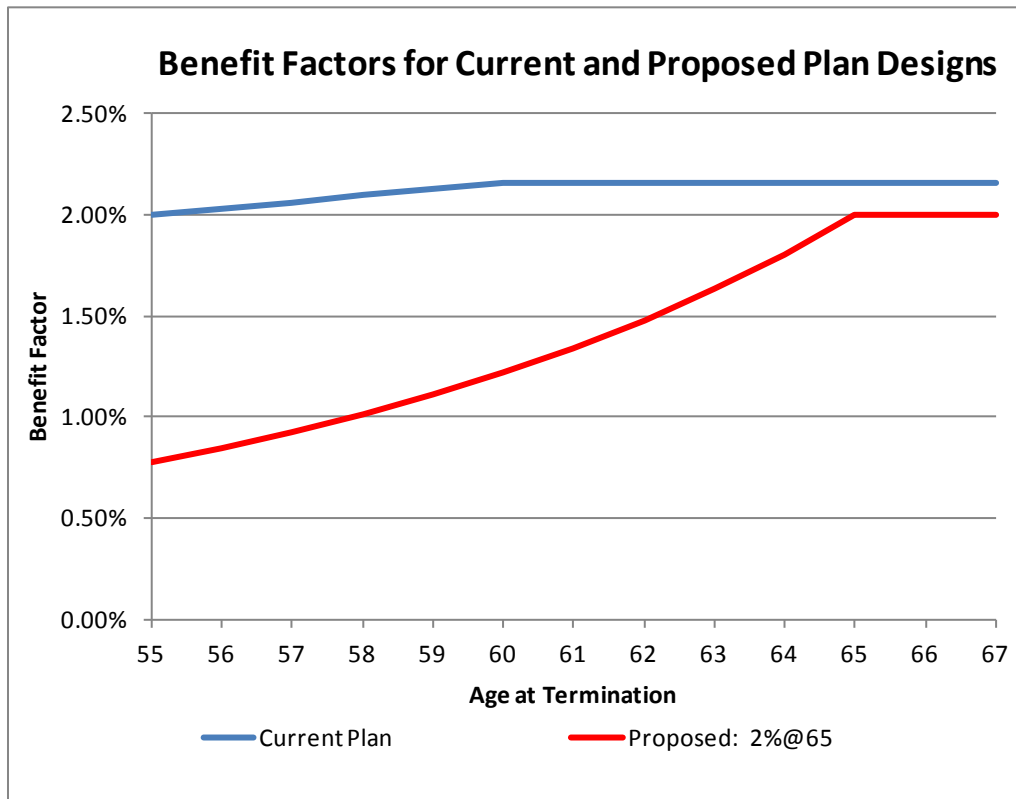
	<b>Current Pension Plan</b>	<b>Proposed Pension: 2% @ 65</b>
<b>Benefit</b>	2.16% @ 60	2.0 % @ 65
<b>Maximum benefit</b>	100%	75%
<b>Normal (Unreduced) Retirement</b>	55/30 60/10 70/0	65/10 70/0
<b>Early Retirement Eligibility</b>	55/10 or /30 yrs	55/10
<b>Reduction for Early Retirement (see next page)</b>	1.5% per year after 55	Actuarial (7.5%/yr)
<b>Employee Contribution Rate</b>	7% for pension	75% of Normal Cost 8.37% pay for pension EAN, 6.07% PUC
<b>Final Average Compensation</b>	1 year, Base + some bonus, IRS limits	3 years Base Only OR Base + pensionable bonus specified in MOU, IRS limits
<b>COLA</b>	3%	2% (add'l coverage purchasable)
<b>Disability Eligibility</b>	5 years	10 years
<b>Disability</b>	Greater of: 1/3 of pay OR 1/70 (1.43%) x pay x svc. No early ret. reduction.	1/90 (1.11%) x pay x service. No early ret. reduction.
<b>Vested Termination</b>	- = Early ret. - Return of Contr. @ 55 If <10 years	- = Early ret. - Return of Contr. @ 55 If <10 years
<b>Post-Retirement Death</b>	-Married: 50% J&S - Else: Life Annuity, Return survivor contr. - \$2,500 LS death benefit	- Life annuity (add'l coverage purchasable) - \$2,500 LS death benefit
<b>Payment for Unfunded Liabilities (Gains and Losses)</b>	100% Employer paid	50% Employer, 50% Employee paid. Ee rate fixed for 3-year periods. Applies to UAL for Tier II benefits only.

## SECTION 3

### OUTLINE OF PROPOSED PLAN DESIGN

Retirement Age	Current Pension Plan	Proposed Pension: 2% @ 65
Age 55	2.00%	0.77%
Age 56	2.03%	0.84%
Age 57	2.06%	0.92%
Age 58	2.10%	1.01%
Age 59	2.13%	1.11%
Age 60	2.16%	1.22%
Age 61	2.16%	1.34%
Age 62	2.16%	1.48%
Age 63	2.16%	1.63%
Age 64	2.16%	1.81%
Age 65	2.16%	2.00%
Age 66	2.16%	2.00%
Age 67	2.16%	2.00%

Employee Contribution Rates	7.0%	8.57% (EAN)
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## SECTION 3

### OUTLINE OF PROPOSED PLAN DESIGN

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	<b>Current OPEB Plan</b>	<b>Proposed OPEB Plan</b>
<b>Pre-Medicare Benefit</b>	\$1,190/mo cap in 2012	\$596/mo cap in 2012
<b>Post-Medicare Benefit</b>	\$623.3/mo cap in 2012	\$596/mo cap in 2012
<b>Dependents Covered</b>	Yes	No
<b>Benefit Increase</b>	Kaiser 2-party rate	Lowest 1-party rate
<b>Employee Contribution Rate (Paid in Pension Plan)</b>	4% for OPEB	75% of Normal Cost 1.64% of base pay (1.61% base + bonus) for OPEB EAN, 1.13% (1.11% base + bonus) PUC
<b>Non-Medicare "Vesting"</b>	40% @ 10 yrs, 4%/yr after. 100% @ 25 yrs	40% @ 10 yrs, 3% per yr after. 100% @ 30 yrs
<b>Medicare "Vesting"</b>	75% @ 10 yrs, 90% @ 15 yrs, 100% @ 20 yrs	75% @ 10 yrs, 90% @ 15 yrs, 100% @ 20 yrs
<b>Dental Benefit</b>	\$44.14/mo in 2012. Assume 5%/yr increase	\$44.14/mo in 2012. Assume 5%/yr increase
<b>Dental "vesting"</b>	Same as non-Medicare	Same as non-Medicare
<b>Medicare Part B</b>	\$99.9/mo in 2012. Assume 5%/yr increase	None
<b>Eligibility</b>	Same as pension including deferred vested	Same as pension. Minimum commencement age 55
<b>Disability Eligibility</b>	Same as pension	Minimum 55/10 for 40% subsidy



## SECTION 4

### ACTUARIAL ASSUMPTIONS

The same assumptions were used as in Segal's 6/30/11 and Proposed New Tier reports, except for the Early Retirement Rates as discussed in Section 7. Key assumptions are summarized below.

Valuation Date	July 30, 2011		
Actuarial Funding Methods	PUC (Projected Until Credit) with attribution following the accrual rate. EAN (Entry Age Normal) with normal cost a level percentage of pay.		
Discount Rate	7.75%		
Early Retirement Rates	Depend on benefit program and age & service. The average age at retirement produced by each set of rates is shown below.		
		Under 30 years	Over 30 years
	Current Plan	60.2	60.2
	Proposed Pension & OPEB: 2% @ 65	63.0	61.9
Salary Increases	Aggregate payroll increases - 4.25% Individual - Based on age/service, 11.25% to 4.65% per year		
Mortality	RP-2000 Combined healthy, set back 2 years for males and 1 year for females		
Withdrawal	Based on age/service, 11.25% to 1.75%/year		
Disability	Based on age, from 0.01% to 0.2%/year		
Healthcare Trend	Medical: 8.75% for 2012-2013, decreasing ½% per year to 5% after 8 years. Dental: 5% Medicare Part B: 5% after 2012-3		
Health Care Participation at Retirement	Based on service: 65% @ 10 yrs 80% @ 15 yrs 90% @ 20 yrs 95% > 25 yrs		
Marriage %	<u>Pension</u> - 76% of males, 50% of females married, husbands 3 years older than wives. <u>OPEB</u> - 60% of males, 30% of females cover dependents. Male employees 4 years older, female employees 2 years younger than their spouses.		
Benefit commencement (vested terminated)	Age 57		

## SECTION 5 PARTICIPANT DATA

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This study uses data based on participants hired during the three years preceding June 30, 2011.  
A summary of the participant data follows:

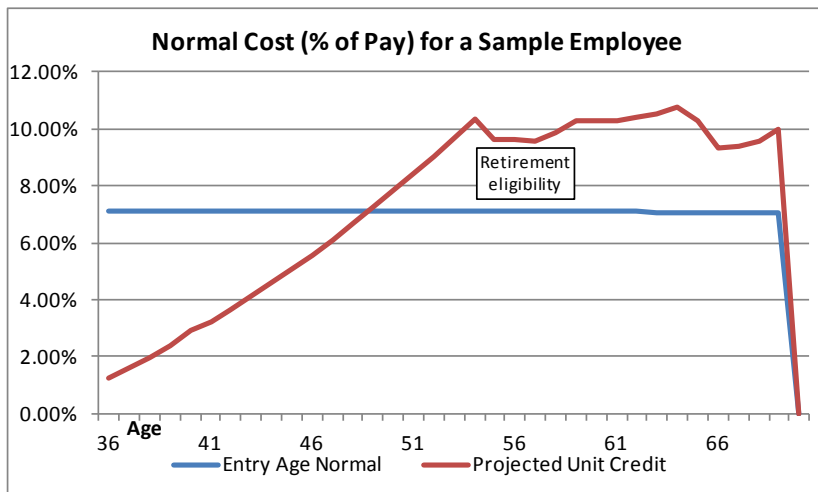
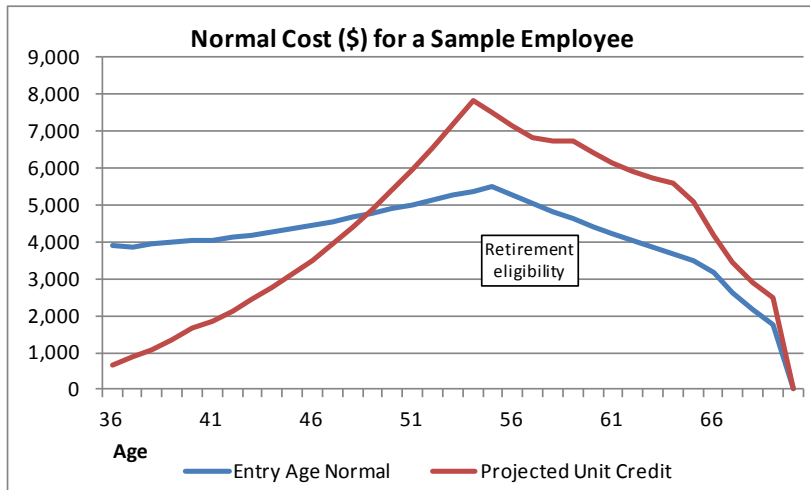
**Distribution of Study Participants by Entry Age and Salary**

	Under \$25,000	\$25,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$125,000	\$125,000 to \$150,000	\$150,000 to \$175,000	\$175,000 to \$200,000	Over \$200,000	Total
Under 20	0	12	2	0	0	0	0	0	0	14
20 - 24	0	63	54	12	0	0	0	0	0	129
25 - 29	0	93	102	40	3	0	0	0	0	238
30 - 34	0	41	84	31	3	4	0	0	0	163
35 - 39	0	38	58	26	3	2	0	1	0	128
40 - 44	0	29	28	29	3	0	2	0	1	92
45 - 49	0	33	41	31	2	2	2	1	0	112
50 - 54	0	23	21	15	3	2	3	1	2	70
55 - 59	0	13	10	12	2	1	3	2	2	45
60 - 64	0	8	3	3	1	1	1	1	1	19
Over 65	0	4	1	0	1	0	0	0	0	6
<b>Total</b>	<b>0</b>	<b>357</b>	<b>404</b>	<b>199</b>	<b>21</b>	<b>12</b>	<b>11</b>	<b>6</b>	<b>6</b>	<b>1,016</b>

## SECTION 6 TIER II SAVINGS PROJECTIONS

---

The Cost Projections in this section estimate costs on both the current Projected Unit Credit (PUC) and the future Tier II Entry Age Normal (EAN) funding method. The cost patterns of the two funding methods are very different, making the comparison of costs and benefits between the methods complex. The two charts below illustrate the cost patterns of the two funding methods. These charts use actual valuation projections of Normal Cost for one employee, and so take into account probabilities of retirement and the decreasing likelihood that the participant will remain employed at the later ages. The dollar amount of Normal Cost declines after retirement eligibility because a portion of the employee is assumed to have already retired.

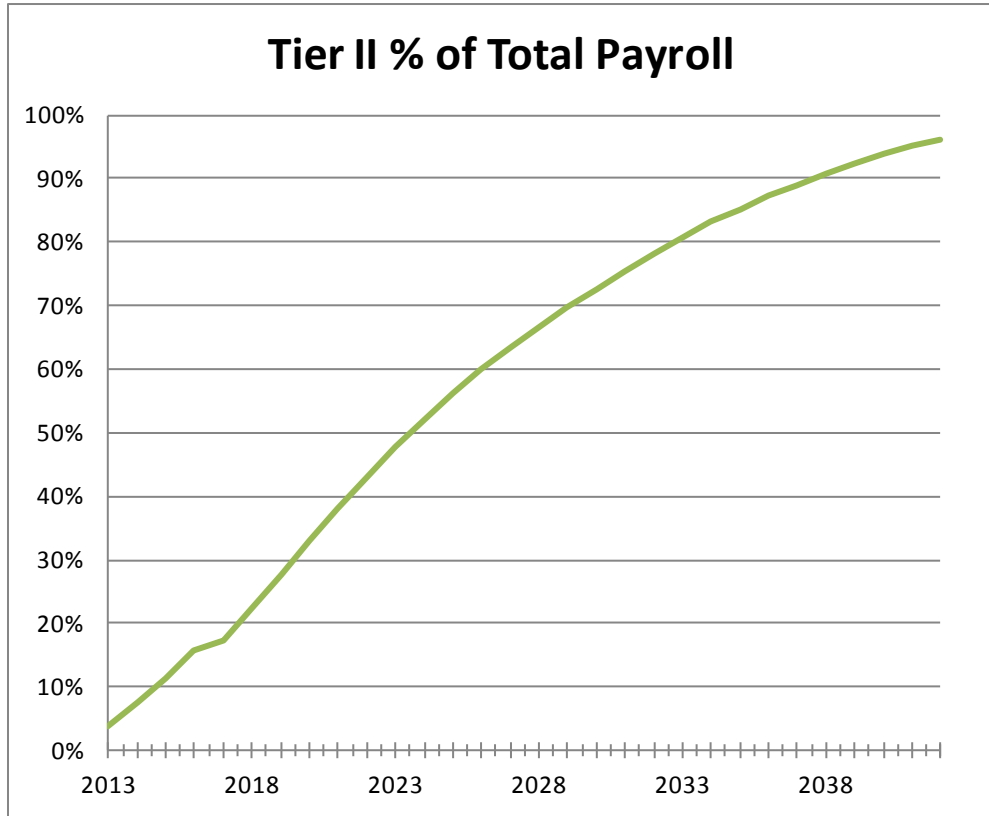


## SECTION 6 TIER II SAVINGS PROJECTIONS

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In projecting the Tier II payroll, we used the same actuarial assumptions as in the actuarial valuation to project the payroll of the Tier I group, taking into account the termination and retirement rates as well as assumed salary increases. Also, we assumed that during the period of no total payroll growth that current employees would receive no cost-of-living pay increase (but would continue to receive promotion increases).

The chart below shows Tier II payroll as a percentage of total payroll.



## SECTION 6

### TIER II SAVINGS PROJECTIONS

The following chart estimates the savings from implementing the proposed Tier II benefits. The columns headed "Tier II Savings (Actual)" show the difference between the cost of the current plan benefits, as currently funded using the PUC funding method, and the proposed Tier II funded on the EAN method. The columns headed "Tier II Savings (EAN)" show the difference between the current benefits and the proposed Tier II benefits if both were funded using the EAN method.

Estimated Savings (\$000's)									
YR	FY	PAYROLL GROWTH	BASE PAY-ROLL	TIER II % PAY-ROLL	TIER II PAYROLL	TIER II SAVINGS (Actual)		TIER II SAVINGS (EAN)	
						ANNUAL	CUMU-LATIVE	ANNUAL	CUMU-LATIVE
1	2013	0.00%	1,817,662	4%	67,367	1,502	1,502	4,682	4,682
2	2014	0.00%	1,817,662	8%	136,678	3,386	4,889	9,499	14,181
3	2015	0.00%	1,817,662	11%	207,949	5,699	10,588	14,452	28,634
4	2016	0.00%	1,817,662	16%	283,423	8,522	19,110	19,698	48,332
5	2017	0.00%	1,817,662	17%	312,176	10,769	29,879	21,696	70,028
6	2018	4.25%	1,894,913	22%	425,062	15,156	45,035	29,542	99,570
7	2019	4.25%	1,975,447	28%	546,806	20,433	65,468	38,003	137,573
8	2020	4.25%	2,059,403	33%	679,002	26,743	92,211	47,191	184,763
9	2021	4.25%	2,146,928	38%	819,567	34,140	126,351	56,960	241,723
10	2022	4.25%	2,238,172	43%	965,192	42,647	168,997	67,081	308,804
11	2023	4.25%	2,333,295	48%	1,115,214	52,339	221,337	77,507	386,311
12	2024	4.25%	2,432,460	52%	1,269,267	63,298	284,635	88,214	474,525
13	2025	4.25%	2,535,839	56%	1,424,722	75,551	360,186	99,018	573,544
14	2026	4.25%	2,643,612	60%	1,583,829	89,224	449,410	110,076	683,620
15	2027	4.25%	2,755,966	63%	1,748,234	102,970	552,380	121,502	805,122
16	2028	4.25%	2,873,094	67%	1,916,818	115,467	667,847	133,219	938,341
17	2029	4.25%	2,995,201	70%	2,089,671	128,420	796,266	145,232	1,083,573
18	2030	4.25%	3,122,497	73%	2,269,178	142,202	938,469	157,708	1,241,281
19	2031	4.25%	3,255,203	76%	2,457,795	158,141	1,096,610	170,817	1,412,098
20	2032	4.25%	3,393,549	78%	2,653,146	175,088	1,271,698	184,394	1,596,491
21	2033	4.25%	3,537,775	81%	2,855,257	190,178	1,461,876	198,440	1,794,932
22	2034	4.25%	3,688,130	83%	3,064,089	205,081	1,666,957	212,954	2,007,886
23	2035	4.25%	3,844,876	85%	3,277,472	220,003	1,886,960	227,784	2,235,670
24	2036	4.25%	4,008,283	87%	3,494,302	235,651	2,122,611	242,854	2,478,524
25	2037	4.25%	4,178,635	89%	3,719,586	251,233	2,373,844	258,511	2,737,035
26	2038	4.25%	4,356,227	91%	3,954,290	266,521	2,640,365	274,823	3,011,858
27	2039	4.25%	4,541,367	92%	4,195,988	282,114	2,922,479	291,621	3,303,480
28	2040	4.25%	4,734,375	94%	4,442,743	298,311	3,220,790	308,771	3,612,250
29	2041	4.25%	4,935,586	95%	4,692,460	315,663	3,536,453	326,126	3,938,376
30	2042	4.25%	5,145,348	96%	4,943,534	333,771	3,870,224	343,576	4,281,952
Current present value of 30-year savings using 7.75% discount rate							\$ 806,690		\$ 967,625
Current present value of 30-year savings using 3.75%** discount rate							\$1,734,523		\$1,985,351

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

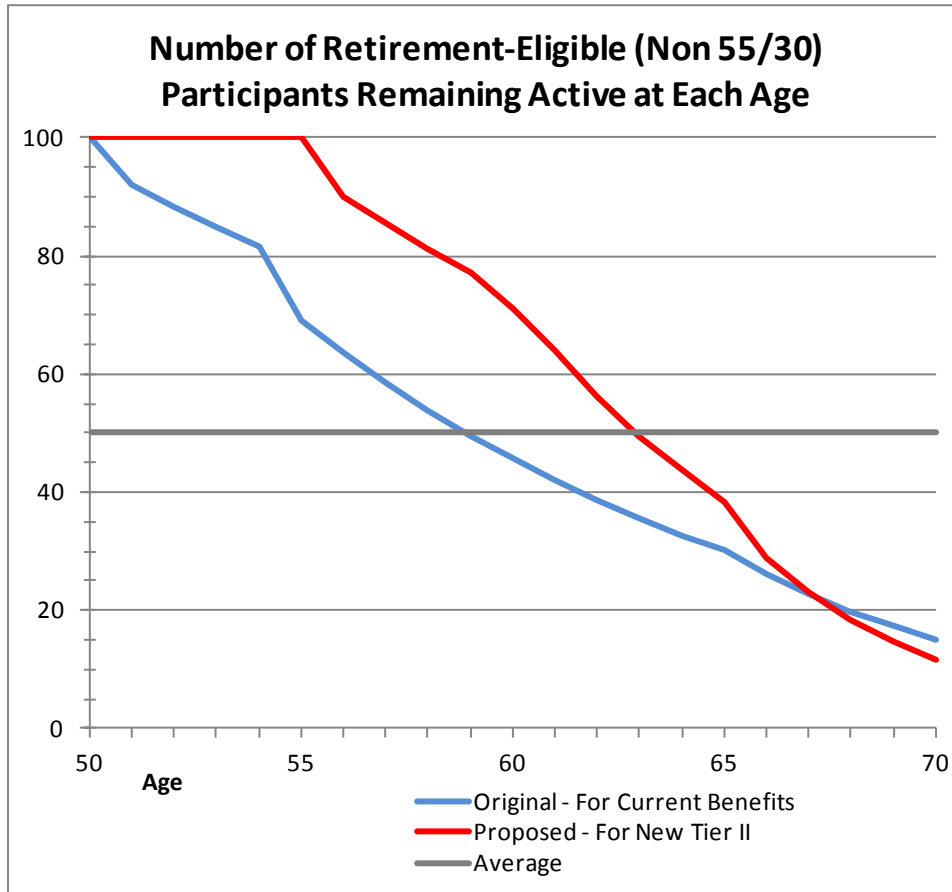


## SECTION 7 EARLY RETIREMENT RATES

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Bartel Associates developed proposed early retirement rates under which participants retire, on average, at the age where their benefit under the proposed formula is the same percentage of pay as under the current formula. Those rates were used in our valuation of the proposed New Tier II benefits. We believe these rates are appropriate to use until an experience study can be completed.

The chart below compares the two sets of rates. Rather than show the actual rate table, we show the number of employees remaining active at each age. The blue horizontal line marks 50%. Where this line crosses the retirement rate curves is the point where half of the participants have retired.



## SECTION 8

### COST-SHARING OF UNFUNDED PAYMENT

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In the future, if actuarial assumptions are not exactly met, the Plan will develop an unfunded or an overfunded actuarial liability (UAL), as the plan assets will not exactly equal the Actuarial Accrued Liability (AAL). The City believes that the employees should bear a portion of the cost of the required amortization payments on the UAL. We agree that this is appropriate since the UAL would not exist if the Normal Cost payments had always been exactly correct. If a UAL exists it means that on average, past Normal Costs have been too small, and thus employees have benefitted from a lower Normal Cost rate than otherwise.

The proposed Tier II includes the provision that 50% of the amortization payments attributable to the Tier II participants be allocated to employees as additional required employee contributions. To minimize fluctuations, the employee contribution rate is determined every 3 years as the average of the previous 3 years' amortization payments.

We offer the following comments on cost sharing of amortization payments.

“Generational equity” is one consideration. The employees who benefitted from lower Normal Cost rates will not be exactly the same employees who must make increased contributions to amortize the UAL. But similarly, the taxpayers who benefitted from the City's lower normal cost rates are not the same ones who must pay higher taxes for the additional UAL amortization.

Significance. In the early years of Tier II, the group's assets and liabilities are small in dollar amount as well as a percentage of Tier II payroll. The dollar amounts of any gains and losses and amortization payments will also be small and perhaps immaterial. However, as the plan's assets and liabilities grow these have the potential to become much more significant.

Calculation of Amortization Payments. The illustrations that follow assume that amortization payments will continue to be calculated as in the past, as an amortization of the UAL attributable to Tier II employees, and spread over a period of years as a level percentage of Tier II payroll. In the past, and in our illustrations, that calculation has assumed payroll will grow at 4.25% per year. However, the Tier II group is expanding and so its payroll increases much faster than 4.25% per year. The resulting amortization payments actually decrease over time as a percentage of Tier II total payroll.

Administration. In order to implement any cost sharing, the assets attributable to Tier II participants will need to be tracked separately, as will all actuarial gains and losses and amortization bases and payments. In considering a cost-sharing methodology, we believe ease of administration is very important. We believe any attempt to segregate gains and losses by type (asset losses, liability/demographic losses, changes in actuarial assumptions, etc.) will unnecessarily complicate the calculation. Similarly, we believe the use of a “corridor” where a certain level of gains or losses would not be allocated to employee contributions would be difficult to develop the required employee contribution rate, and is not necessary if a smoothing method is used as proposed.

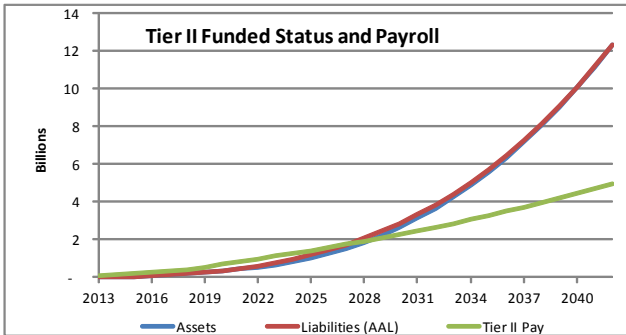
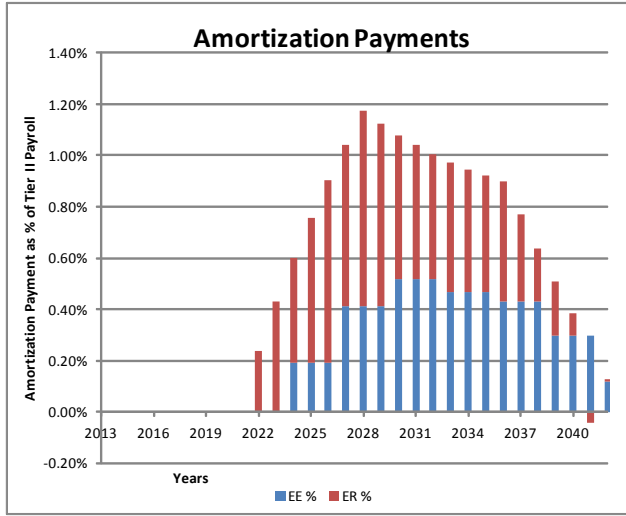
There are several sets of illustrations to show how this would work under various scenarios.

# SECTION 8 COST-SHARING OF UNFUNDED PAYMENT

**Scenario: Sample: One-year large asset loss average to 0.**

**Percentage (Gain) or Loss in each Year**

	Liability	Assets	Assumption Change
2013	0%	0%	0%
2014	0%	0%	0%
2015	0%	0%	0%
2016	0%	0%	0%
2017	0%	0%	0%
2018	0%	0%	0%
2019	0%	0%	0%
2020	0%	0%	0%
2021	0%	40%	0%
2022	0%	0%	0%
2023	0%	0%	0%
2024	0%	0%	0%
2025	0%	0%	0%
2026	0%	0%	0%
2027	0%	0%	0%
2028	0%	0%	0%
2029	0%	0%	0%
2030	0%	0%	0%
2031	0%	0%	0%
2032	0%	0%	0%
2033	0%	0%	0%
2034	0%	0%	0%
2035	0%	0%	0%
2036	0%	0%	0%
2037	0%	0%	0%
2038	0%	0%	0%
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2040	0%	0%	0%
2041	0%	0%	0%
2042	0%	0%	0%



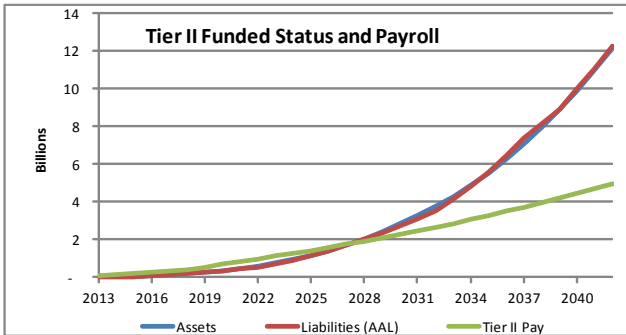
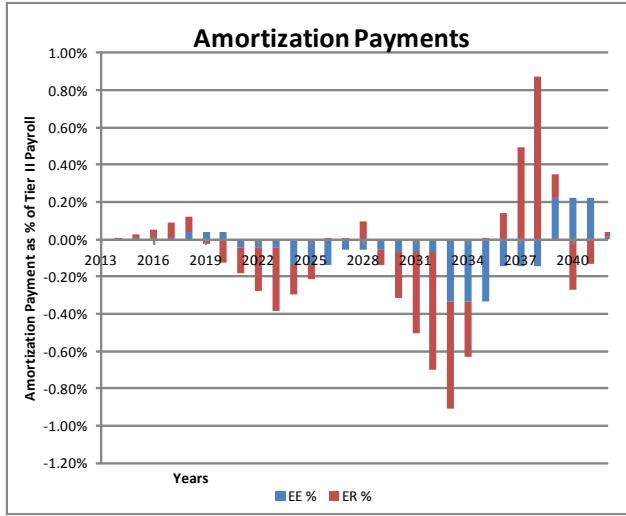


# SECTION 8 COST-SHARING OF UNFUNDED PAYMENT

**Scenario: Sample: Fluctuating Gains and Losses, average to 0.**

**Percentage (Gain) or Loss in each Year**

	Liability	Assets	Assumption Change
2013	2%	0%	0%
2014	2%	0%	0%
2015	2%	0%	0%
2016	2%	0%	0%
2017	2%	0%	0%
2018	-3%	0%	0%
2019	-3%	0%	0%
2020	-3%	0%	0%
2021	-3%	0%	0%
2022	-3%	0%	0%
2023	1%	0%	0%
2024	1%	0%	0%
2025	1%	0%	0%
2026	1%	0%	0%
2027	1%	0%	0%
2028	-2%	0%	0%
2029	-2%	0%	0%
2030	-2%	0%	0%
2031	-2%	0%	0%
2032	-2%	0%	0%
2033	2%	0%	0%
2034	2%	0%	0%
2035	2%	0%	0%
2036	2%	0%	0%
2037	2%	0%	0%
2038	-2%	0%	0%
2039	-2%	0%	0%
2040	1%	0%	0%
2041	0%	0%	0%
2042	0%	0%	0%

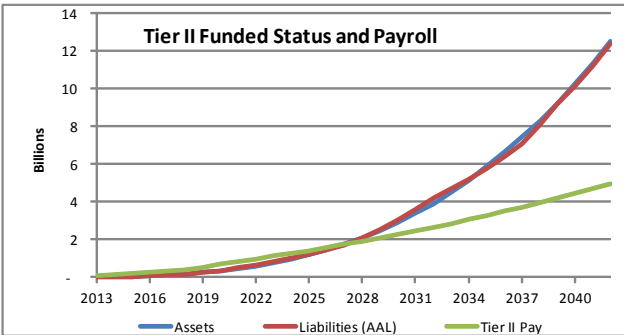
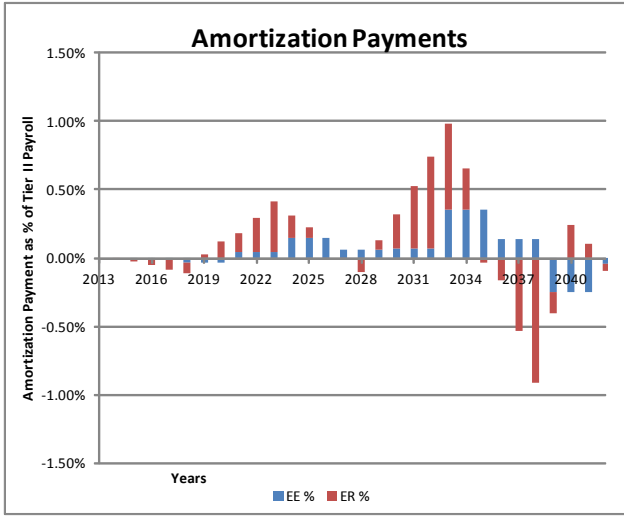


# SECTION 8 COST-SHARING OF UNFUNDED PAYMENT

**Scenario: Fluctuating Gains and Losses, opposite direction to previous scenario**

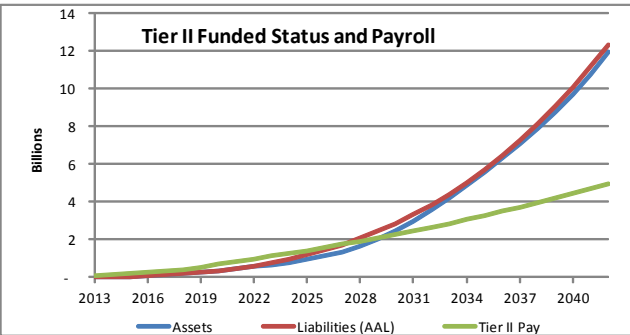
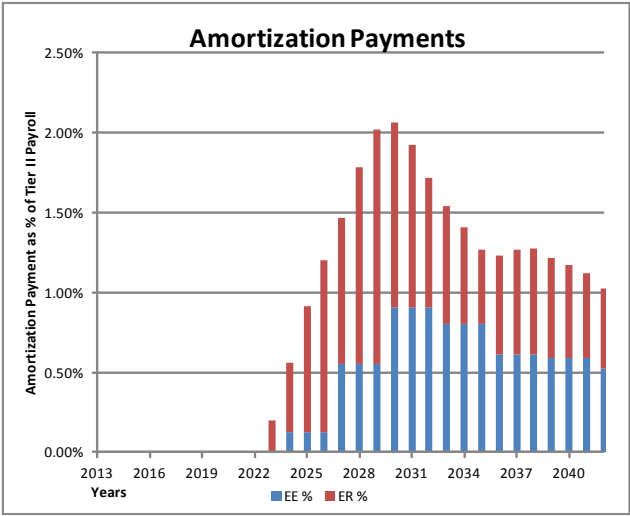
**Percentage (Gain) or Loss in each Year**

Year	Liability	Assets	Assumption Change
2013	-2%	0%	0%
2014	-2%	0%	0%
2015	-2%	0%	0%
2016	-2%	0%	0%
2017	-2%	0%	0%
2018	3%	0%	0%
2019	3%	0%	0%
2020	3%	0%	0%
2021	3%	0%	0%
2022	3%	0%	0%
2023	-1%	0%	0%
2024	-1%	0%	0%
2025	-1%	0%	0%
2026	-1%	0%	0%
2027	-1%	0%	0%
2028	2%	0%	0%
2029	2%	0%	0%
2030	2%	0%	0%
2031	2%	0%	0%
2032	2%	0%	0%
2033	-2%	0%	0%
2034	-2%	0%	0%
2035	-2%	0%	0%
2036	-2%	0%	0%
2037	-2%	0%	0%
2038	2%	0%	0%
2039	2%	0%	0%
2040	-1%	0%	0%
2041	0%	0%	0%
2042	0%	0%	0%



# SECTION 8 COST-SHARING OF UNFUNDED PAYMENT

Scenario: Persistent Asset Losses			
Percentage (Gain) or Loss in each Year			
	Liability	Assets	Assumption Change
2013	0%	0%	0%
2014	0%	0%	0%
2015	0%	0%	0%
2016	0%	0%	0%
2017	0%	0%	0%
2018	0%	0%	0%
2019	0%	0%	0%
2020	0%	0%	0%
2021	0%	0%	0%
2022	0%	30%	0%
2023	0%	25%	0%
2024	0%	5%	0%
2025	0%	-5%	0%
2026	0%	0%	0%
2027	0%	5%	0%
2028	0%	-5%	0%
2029	0%	-2%	0%
2030	0%	-2%	0%
2031	0%	-2%	0%
2032	0%	-2%	0%
2033	0%	2%	0%
2034	0%	2%	0%
2035	0%	2%	0%
2036	0%	2%	0%
2037	0%	2%	0%
2038	0%	0%	0%
2039	0%	0%	0%
2040	0%	0%	0%
2041	0%	0%	0%
2042	0%	0%	0%



**ATTACHMENT IV**

**SUMMARY OF UNION PROPOSALS**

<b>PLAN DESIGN</b>	<b>CURRENT</b>	<b>UNION #1</b>	<b>UNION 2</b>	
<b>Retirement Factor</b>	2.16%	Age 55 1.59% Age 56 1.69% Age 57 1.79% Age 58 1.91% Age 59 2.03% Age 60 2.16%	Age 50 1.092% Age 51 1.156% Age 52 1.224% Age 53 1.296% Age 54 1.376% Age 55 1.460% Age 56 1.552%	Age 57 1.650% Age 58 1.758% Age 59 1.874% Age 60 2.000% Age 61 2.134% Age 62 2.272% Age 63 2.418%
<b>Max. Retirement Allowance</b>	100%	No change	No change	
<b>Normal Retirement</b>	Age 55/Service 30; or Age 60/Service 10; or Age 70	Age 60/Service 10	Age 63/Service 10	
<b>Employee Contribution</b>	11% Total (majority)	8%	8%	
<b>Employer Contribution</b>	Actuarially Defined	Actuarially Defined	Actuarially Defined	
<b>Retiree Health Subsidy</b>	Defined Benefit; \$1,190/month subsidy; Adjusts Kaiser 2 party rate (most members)	No change	No change	
<b>Retiree Health Factor</b>	40% of Subsidy at 10 YOS (Min. Age 55); After 10 YOS, accrue 4% per YOS; 100% max. (25 years)	No change	No change	
<b>Service Purchases</b>	Cost is based on employee contribution rate; No max. on # of years purchased	No change	No change	
<b>Cost-of-Living Adjustment</b>	CPI based w/3% max.; COLA bank	No change	No change	
<b>Final Compensation</b>	Average of highest 12 months	Average of highest 24 months; Limit maximum to IRC with annual CPI adjustments	Average of highest 24 months; Limit maximum to IRC with annual CPI adjustments	
<b>Disability Retirement</b>	Maximum benefit is 1/70 of pay or 1/3 of Salary 5 Year Eligibility	No change	No change	
<b>Survivor Continuance</b>	1) 50% of Retiree's unmodified allowance or a modified continuance 2) \$2,500 lump sum death benefit; 3) Any unused contributions if member elects cash refund annuity option	No change	No change	

COMPARISON OF PROPOSED TIER II AND CALIFORNIA STATE PLAN FOR NEW HIRES

PLAN DESIGN	PROPOSED PLAN - LACERS	CALIFORNIA STATE PLAN
Retirement Factors	Age 50 - N/A	Age 59 - 1.11%
	Age 51 - N/A	Age 60 - 1.22%
	Age 52 - N/A	Age 61 - 1.34%
	Age 53 - N/A	Age 62 - 1.48%
	Age 54 - N/A	Age 63 - 1.63%
	Age 55 - 0.77%	Age 64 - 1.81%
	Age 56 - 0.84%	Age 65 - 2.00%
	Age 57 - 0.92%	Age 66 - 2.00%
	Age 67 - 2.00%	Age 67 - 2.50%
Max. Retirement Allowance	75% of Final Compensation	100% of Final Compensation (cap of \$110,100 or \$132,120 if not covered by Social Security)
Normal Retirement	Age 65 & 10 years of service or Age 70	Age 52 & 5 years of service
Employee Contribution	10% initial contribution; 75% of Normal Cost + 50% of Unfunded Liability	50% of Normal Cost (new hires); Current employees will increase to 8% if no labor agreement within 5 years
Employer Contribution	3.31% initial contribution; 25% of Normal Cost + 50% of Unfunded Liability	50% of Normal Cost
Retiree Health Subsidy	Defined Benefit - Lowest 1-party rate; Currently \$596 per month	\$1,319 max. subsidy
COLA	Based on CPI with 2% max; No COLA Bank	Based on CPI with 2% to 5% max.
Government Service Buyback	Member pays full cost; Purchase up to maximum of 4 years	Prohibited
Final Compensation	Average of highest 3 years; Excludes bonuses and premium pay	Average of highest 3 years; Excludes bonuses and premium pay
Disability Retirement	Maximum benefit = 1/90 of pay	Maximum benefit = 1.5% at 65
Spousal Continuance	Available for additional cost	Surviving spouse eligible for up to 100%
Estimated Savings	\$3.9 Billion to \$4.3 Billion over 30 years	\$18 Billion over 30 years (combined with sworn modifications)