

## COMPARISON OF THE BANKRUPTCY AVOIDANCE AND PENSION PROTECTION (RIORDAN) CHARTER AMENDMENT TO CITY PENSION PLANS

	PLAN DESIGN	CURRENT	PROPOSED
ACTIVE MEMBERS	<b>Employee Pension Contributions and Retiree Healthcare</b>	<p>Most members contribute the following fixed rates:</p> <p>LACERS – 11% of salary LAFPP – 11% of salary DWP – 6% of salary</p>	<ul style="list-style-type: none"> <li>• Current employees of all of the City’s retirement systems (LACERS, LAFPP, DWP) shall make a contribution equal to or greater than the amount of the City’s actual cost.</li> <li>• Capped at 100% of Normal Cost (before employee contributions, inclusive of retirement and health). LACERS = 19.89%; LAFPP = 32.36%; DWP = 24.28%</li> <li>• Employee contributions may increase by up to 3% per year (LACERS, LAFPP) or 5% per year (DWP) for retiree health and pensions.</li> <li>• Does not apply to any existing MOU in effect as of the effective date of the amendment.</li> </ul>
	<b>Employee Compensation &amp; Pension Funding Limitation</b>	<p>Pensionable salary includes base pay plus any regularly assigned bonus and/or premium pay compensation.</p>	<ul style="list-style-type: none"> <li>• No increase in base salary shall be used to calculate pension benefits if the City’s actual cost exceeds 15% of payroll in any fiscal year (LACERS, DWP) or 25% of payroll in any fiscal year (LAFPP).</li> <li>• Exception would be if an employee promotes, as that salary increase would still be pensionable. <u>This could result in pension spiking.</u></li> </ul>
	<b>Uniform Final Average Salary (FAS)</b>	<ul style="list-style-type: none"> <li>• For LACERS and DWP, FAS is computed based on the highest consecutive 12 months of a member’s career.</li> <li>• For LAFPP Tier 6, FAS is computed based on the highest consecutive 24 months of a member’s career.</li> </ul>	<ul style="list-style-type: none"> <li>• FAS is computed based on a 36 consecutive month average.</li> <li>• Excludes overtime, bonus and non-salary compensation from FAS calculation.</li> </ul>
NEW EMPLOYEES HIRED ON OR AFTER JULY 1, 2013	<b>Defined Contribution (DC) Pension Plan</b>	<p>The proposed new LACERS Tier for new hires is a defined benefits plan (DB) and contains the following parameters:</p> <ul style="list-style-type: none"> <li>• 2% at Age 65 benefits factor</li> <li>• Caps Retirement Allowance to 75% of Final Compensation</li> <li>• Secures 1-Party Healthcare Coverage for Retired Member</li> <li>• Employee contribution based on a 75%/25% split of the Plan’s Normal Cost plus 50%/50% split of the Plan’s Unfunded Actuarial Accrued Liability</li> <li>• FAS based on a consecutive 36 months of a member’s highest salary. Excludes bonuses and premium pay.</li> <li>• Modifies Disability Retirement &amp; Survivor Continuance Benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Employees will <u>not</u> be enrolled in a defined benefits plan.</li> <li>• Employees will be enrolled in the City’s Defined Contribution Plan, Social Security or a combination of both the City’s Defined Contribution Plan and Social Security, as determined by Council.</li> <li>• Existing death and disability benefits will not change.</li> <li>• Employees will <u>not</u> receive retiree healthcare benefits, except for Medicare benefits.</li> <li>• Maximum City contribution to DC plan is 10% of salary per fiscal year (civilian) and 12.5% of salary per fiscal year (sworn).</li> <li>• Establishes a Defined Contribution Plan Administrator.</li> <li>• Employee contributions will be a percentage of compensation and set by Council.</li> <li>• Employees may contribute up to the maximum allowed under IRS regulations.</li> <li>• Employees may “opt out” and receive no City contribution.</li> </ul>

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	<b>Defined Contribution Plan Vesting</b>	Currently, City employees in LACERS and LAFPP vest in 5 years.	Vesting Schedule: Less than 1 Year = 0% Vested 1-2 Years = 20% Vested 2-3 Years = 40% Vested 3-4 Years = 60% Vested 4-5 Years = 80% Vested 5+ Years = 100% Vested
<b>OTHER</b>	<b>Termination of Defined Benefit Plans</b>	N/A	<ul style="list-style-type: none"> <li>• Conversion to DC Plan</li> <li>• Lump Sum or Annuitized Payout</li> <li>• Other Lawful Means</li> </ul>
	<b>Transparency</b>	The City already publishes salary information, including the fiscal impact of every MOU approved by Council.	<ul style="list-style-type: none"> <li>• City shall publish on its website the budgetary impact of all salary increases, including what is negotiated in MOUs and COLAs granted for retired members.</li> <li>• Requires a Sensitivity Analysis be published in each retirement systems' Comprehensive Annual Financial Report (CAFR) which shows a 10 year projection of employer contributions with different assumed rates of return (3% greater and lower than the current rate of return assumption).</li> <li>• Requires each retirement system to publish a list of retirees' primary residences showing the number of retirees who live in the City and outside the State. Individual addresses are not required to be published.</li> </ul>
	<b>Pension and Retirement System Boards</b>	<ul style="list-style-type: none"> <li>• LAFPP has 9 members, 5 appointed by the Mayor.</li> <li>• LACERS has 7 members, 4 appointed by the Mayor.</li> <li>• DWP has 7 members, none appointed by the Mayor.</li> </ul>	<ul style="list-style-type: none"> <li>• LAFPP has 11 members, 7 appointed by the Mayor.</li> <li>• LACERS has 9 members, 6 appointed by the Mayor.</li> <li>• DWP has 9 members, 2 appointed by the Mayor.</li> <li>• For each Board, 2 Mayoral appointees shall have financial, accounting, or investment management expertise.</li> </ul>
	<b>Defined Contribution Administrator</b>	N/A	<ul style="list-style-type: none"> <li>• Appointed by Mayor and confirmed by City Council under Charter Sec. 508.</li> <li>• Requires services of financial planners to consult with enrolled employees.</li> <li>• Engages services of legal, financial, investment and other experts and consultants at expense of Trust Fund (concerns that legal services may conflict with City Attorney).</li> <li>• Above costs reduce employee earnings at same rate regardless of whether investment choice is active or passive.</li> </ul>
	<b>Defined Benefit (DB) Amortization</b>	LACERS/LAFPP use current level percentage of payroll amortization for UAAL.	If LACERS and LAFPP use current level percentage of payroll amortization, then the amortization payment from employer will be based on entire payroll, not just those in the DB plan. This artificially inflates the cost to employer of the DB plan.