

2% @ 67

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

*Proposed New Tier of Benefit for New Entrants  
of the Pension Plan (2.00% @ 67) and  
Retiree Health Plan (\$596 / month)*

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*March 30, 2012*

*Mr. Thomas Simonovski  
Senior Labor Relations Specialist  
City of Los Angeles  
200 N. Main Street, Room 1200  
City Hall East  
Los Angeles, CA 90012-4190*

*Dear Thomas:*

*We are pleased to submit our study of proposed benefits for new members of the Los Angeles City Employees' Retirement System (LACERS).*

*As the proposed tier would only be offered to new employees, for which actual data is not available, we have assumed in this valuation that their demographic profiles (e.g., entry age, composition of male versus female, etc.) can be approximated by the data profile of current active members hired in the three years prior to the most recent valuation as of June 30, 2011. No current inactive vested members, retirees, or beneficiaries have been included in this valuation. With the exception of the service retirement assumptions and the Entry Age Normal funding method adopted by the Board of Retirement for new tiers of benefit, this study uses the same actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2011 valuation. A brief description of the methodology used to select the service retirement assumptions for the proposed new tier is provided in Section 1.*

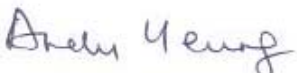
*The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary and Thomas Bergman, MAAA, Enrolled Actuary. Both are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.*

*Sincerely,*

*THE SEGAL COMPANY*

By: 

*Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary*



*Andy Yeung, ASA, MAAA, FCA, EA  
Vice President and Associate Actuary*

*DNA/kek*

## SECTION 1

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**BASIS FOR CONTRIBUTION RECOMMENDATIONS**

- To estimate the potential cost impact of the proposed new tier, this study assumes that the demographic profiles of the members entering the new tier would be comparable to current active members hired in the three years prior to the June 30, 2011 actuarial valuation.

For comparison purposes only, we have calculated the employer and employee Normal Cost contribution rates for the pension and the health plans for members hired in the three years prior to the June 30, 2011 actuarial valuation under the current benefit formulas, and we compared these rates with the Normal Cost contribution rates under the proposed tier of benefit.

- We have shown the employer Normal Cost rates for the pension and health plans under the proposed tier in Section 2B of this report. If the proposed tier is adopted by the City, we assume that the LACERS Board of Retirement would be requested to adopt a tier-specific employer Normal Cost rate for each of the current and the new tiers of benefit for the pension and health plans. This means that, absent the complication explained later in this report involving the two different funding methods for the current and the proposed tiers, the aggregate employer Normal Cost rates for the pension and health plans would gradually decline, as a higher proportion of the total future active employee payroll would be subject to the lower employer Normal Cost rates required for the new tier of benefit.
- In addition to the employer Normal Cost rates provided in Section 2B, it is anticipated that the employer would have to continue to contribute the same Unfunded Actuarial Accrued Liability (UAAL) rates of 12.41% and 1.08% of total payroll for the pension and health plans\*, respectively, that were determined in the June 30, 2011 valuation. This is because the UAAL rates were determined as a level percent of pay including payrolls for all current members plus new entrants who entered LACERS after June 30, 2011.

*\* Assumes contributions are made at the beginning of the year, and reflects the 5-year phase-in of the impact of new actuarial assumptions. Note that these UAAL rates are expected to increase over each of the next 4 years (if no other actuarial gains/losses are incurred), due to the phase in of the remaining contribution rate increase.*

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**ASSUMPTIONS AND METHODOLOGIES**

- Most of the actuarial assumptions used in this study are the same as those adopted by the Retirement Board for use in the June 30, 2011 valuation.

Under the current pension formula, the normal retirement age to receive an unreduced retirement benefit is based on attaining the earlier of: (1) age 60 with 10 years of service, (2) age 55 with 30 years of service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement between 55 and 60 and 3.0% for each year of retirement before age 55.

The current retirement rates (probabilities) are structured to anticipate lower incidences of retirement for members who have not yet attained age 55 with 30 years of service and so can retire but with a reduced early pension benefit, while using relatively higher retirement rates for members after they attain age 55 with 30 years of service since they can receive an unreduced pension benefit.

- As discussed in the following Benefit Provisions subsection, we have been requested to estimate the potential cost impact of the new tier. There are more restrictive age and service requirements under the proposed tier for a member to receive an unreduced pension benefit (i.e., normal retirement age). Since the retirement benefit factors are different for the proposed tier, we have adjusted the retirement rates accordingly. In general, where proposed retirement factors are lower than under the current pension formula we would typically lower the retirement rates, and where proposed retirement factors are higher than under the current pension formula we would typically increase the retirement rates.

In the June 30, 2011 valuation, separate sets of retirement assumptions would apply before and after members attain eligibility for unreduced benefits upon attaining age 55 with 30 years of service. For the proposed tier, we have retained the current structure of having two sets of retirement assumptions for members with and without 30 years of service. While there is no specific trigger upon reaching 30 years of service (e.g., unreduced retirement or a maximum retirement allowance), members with 30 years of service are still deemed more likely to retire than members with less service due to their higher benefit. Those with at least 30 years of service generally have a higher “replacement ratio” (i.e., post-retirement income vs. pre-retirement income) making them more able to retire and thus more likely to retire. These service retirement assumptions would need to be reviewed as retirement experience under the new tier becomes available.

The detailed retirement rates are provided in Section 3, Exhibit I.

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- The funding method used by the Board of Retirement for the current benefit formula is called the Projected Unit Credit (PUC) method. Under the PUC method, the City's Normal Cost rates for the current tier would be about the same from one annual actuarial valuation to the next provided that the average attained age of the active employee population remains relatively stable between valuations. As new employees enter the proposed tier, the average attained age of the remaining active employees in the current tier will increase. This will result in a gradual increase in the City's Normal Cost rates for the current tier even though there is no change in the benefit for the current tier. Because this increase in the City's Normal Cost rates for the current tier is more closely related to the PUC funding method than to the proposed tier of benefit, we have not included such future cost impacts for the current tier in the body of this report. However, we have provided in the Appendix One a chart that compares the projected total (i.e., employer plus employee) Normal Cost rates under the PUC and the EAN methods for the current tier of Pension Plan benefits. That chart is prepared based on the closed group (i.e., no new entrants) of active members covered by the Pension Plan valuation as of June 30, 2011.

The Board of Retirement has approved the Entry Age Normal (EAN) method for use in setting the contribution rates for any new tier of benefit. Under the EAN method, the Normal Cost rates for an individual employee is expected to stay level as a percent of payroll throughout that employee's career.

When the City compares the cost of the current tier with the proposed tier, the same discussion provided above regarding the change in the City's Normal Cost rates under the PUC funding method for all the active members covered under the current tier may have to be taken into consideration. In order to provide the City with an "apples-to-apples" comparison of the cost under the current and the proposed tiers, we have also calculated the City's Normal Cost for the current tier under the EAN method.

The Normal Cost rates for new entrants (with an average age of 36.3 based on members hired during the last three years) under the current tier calculated using both the PUC and the EAN methods and under the proposed tier calculated using only the EAN method are provided in Section 2B. As requested by the City, we have provided in Appendix Two the normal costs for the current tier and the proposed tier calculated using the PUC method. Again, we want to emphasize that the cost for the proposed tier under the PUC method should be used for informational and comparison purposes only as it is the policy of the Board of Retirement to use the EAN method for any new tier.

**Additional Discussion Regarding PUC and EAN Methods**

The ultimate costs (ignoring expenses) for the pension plan and the retiree health plan are the actual benefits paid from the Plans. Each year, an actuarial valuation is completed to develop an annual contribution for each Plan. The valuation uses a funding method to allocate the ultimate costs to each year of service, and thus among past service, current service, and future service. The cost attributed to the current year of service is the Plan's normal cost. The cumulative cost attributed to past service is the Plan's actuarial accrued liability. The Plan's annual contribution is the normal cost, plus an amortization

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amount for the Plan's unfunded actuarial accrued liability (UAAL).

Under the PUC method, the normal cost is the present value of the benefit "earned" during the year, but based on projected pay levels at retirement. For an individual member, the PUC normal costs increase each year (both in dollar amount and as a percentage of pay) because even though the benefit "earned" each year is constant, the present value increases as the member gets a year closer to retirement. Under the EAN method, the normal cost is specifically determined in order to remain a level percentage of pay over the member's career.

For each member, the PUC normal cost starts lower than the EAN normal cost, and eventually becomes higher. This crossover occurs because the PUC method will have to make up for the lower level of contributions during the earlier stages of the member's career. The crossover point where PUC normal costs become higher than EAN normal cost is dependent on each plan's benefit structures. Therefore, even with the same plan population, a method change from PUC to EAN can increase the normal cost for some plan designs and decrease the normal cost for others.

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**BENEFIT PROVISIONS**

- A comparison of the major benefit provisions under the current and the proposed tiers is provided in Section 3, Exhibit II.
- Under the current tier, pension benefits are calculated based on the highest average salary earned during any 12-month period and salary would include base salary plus regularly assigned bonuses or premium pay. Under the proposed tier, pension benefits would be calculated based on the average salary earned during the last 36-month period and salary would include only base salary, excluding assigned bonuses or premium pay.

We have not been provided with the data to analyze the relationship between the base salary and the regularly assigned bonuses or premium pay used in the June 30, 2011 valuation. However, information was previously provided by the City for use in analyzing that relationship for the data used in the June 30, 2008 valuation. As agreed to by the City, we have continued to use the relationship observed in the June 30, 2008 valuation data in this current study. Based on our earlier analysis, it is assumed in this study that there would be a 2% difference between the base salary and the total of the base salary plus the assigned bonuses or premium pay.

Under the current tier, the base salary plus the assigned bonuses or premium pay are used in developing both the benefit liability and the salary base for setting the City and the employee contribution rates. For the proposed tier, we have used only the base salary in developing the benefit liability. For comparison purposes, we have calculated a set of contribution rates assuming contributions would continue to be made on the base salary plus the assigned bonuses or premium pay. This allows a consistent comparison with the contribution rates developed for the current plan<sup>1</sup>.

However, we are assuming that in practice, if the proposed tier is adopted, the City and the employee would be assessed contributions based on the base salary and no contributions would be assessed for the assigned bonuses or premium pay. The contribution rates developed using this assumption are also provided in Section 2B of this report.

- Under the current pension formula, normal retirement age to receive an unreduced retirement benefit is based on attaining the earlier of: (1) age 60 with 10 years of service, (2) age 55 with 30 years of service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30

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<sup>1</sup> *As can be observed from the rates provided in this report, the contribution rates expressed as a percent of the base salary plus the assigned bonuses or premium pay are “scalable” to the contribution rates expressed as a percent of the base salary by using the 2% difference between the two salary bases. This means that if the 2% differential observed in the data provided for the 2008 valuation is no longer current, adjusted contribution rates using base salary plus the assigned bonuses or premium pay can be estimated by proration.*



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years of service. The reduction is 1.5% for each year of retirement between 55 and 60 and 3.0% for each year of retirement before age 55.

Under the proposed tier, normal retirement age for unreduced benefits is either age 70 or age 67 with 10 years of service.

- The current pension formula is *Normal Retirement Factor (2.16%) x Final Compensation x Service Credit x Early Retirement Reduction Factor (age based)*.

Under the proposed tier, the pension formula is *Retirement Factor (age based) x Final Compensation x Service Credit*.

Retirement Factors at sample ages are provided below (note that the complete set of Retirement Factors is provided in Section 3, Exhibit II).

<u>Age</u>	<u>Retirement Factor</u>	
	<u>Current*</u>	<u>Proposal</u>
50	1.67%	N/A
55	2.00%	N/A
57	2.06%	1.16%
60	2.16%	1.41%
62	2.16%	1.58%
65	2.16%	1.83%
67	2.16%	2.00%

\* With Early Retirement Reduction Factor applied.

- Effective July 1, 2011, the member normal contribution rate became 7% for all employees. The 7% member rate shall be paid until June 30, 2026 or until the “ERIP Cost Obligation” is fully paid, whichever comes first.

In addition, members in certain bargaining groups are required to pay an additional 4% member contribution rate, beginning July 1, 2011. All non-represented members and members in one particular bargaining group are required to pay an additional 2% member contribution rate retroactive to July 1, 2011. For these members, the additional member contribution rate will increase to 4% beginning January 1, 2013. As these contributions are refundable to members upon termination from LACERS and for other tax considerations, they are designated by the City as pension plan contributions. For the purpose of this study, we have made the simplifying assumption that all current members are required to pay a

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contribution of 11% in determining the net employer cost under the current formula. This assumption has no effect on the incremental cost of the new tier.

All of the current member contributions are designed to fund part of the Normal Cost contribution rates for the pension plan, and members do not participate in the payment of any Normal Cost for the health plan. The employees also do not pay any of the cost to amortize the UAAL for the pension and the health plans.

Under the proposed tier, new members would contribute 9% toward the pension plan (with no adjustment for the ERIP Ordinance), and 2% toward the health plan. For the same reasons as under the current plan, all member contributions have been designated as pension plan contributions.

- Currently, employees and the City are exempted from paying FICA taxes for Social Security purposes because pension benefits are provided via their participation in LACERS. It is our understanding that a certain minimum level of contributions has to be made to continue the FICA tax exemptions. As the actual requirements to determine FICA tax exemption may be complex, the City may want to consult with its tax counsel to confirm that the proposed tier of benefit meets those requirements.
- For members paying either the 2% or 4% additional contributions, the current retiree health subsidy for non-Medicare retirees for calendar year 2012 is capped at \$1,190 per month and is adjusted by the Kaiser 2-party rate in future years. The current vesting schedule is 40% of the subsidy after 10 years of service, plus an additional 4% subsidy per year of service thereafter, with a maximum of 100% after 25 years.

Under the proposed tier, the \$1,190 health subsidy for non-Medicare retirees for calendar year 2012 would be lowered to \$596 per month for new employees entering the proposed tier. For vesting, the current schedule of providing 40% of the subsidy after 10 years of service would be retained under the proposed tier, but the additional subsidy would be reduced to 3% per year of service after 10 years, with a maximum of 100% after 30 years. Note that in our study we have assumed that the maximum monthly subsidy of \$596 applies to all participants under age 65 or not eligible for Medicare A & B (i.e., all single party, married/with domestic partner, and eligible survivors), as well as to all participants eligible for Medicare A & B. The \$596 subsidy is adjusted by the lowest 1-party rate in future years. Under the proposed tier, there is no change in the current vesting schedule after participants are eligible for Medicare A & B.

The current retiree dental vesting schedule is 4% of the subsidy per year of service, with a maximum of 100% after 25 years of service. The vesting schedule under the proposed plan is changed to 40% of the maximum subsidy for a retiree with 10 years of service, with an additional 3% of the maximum subsidy per year, for a maximum of 100% after 30 years of service.

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Under the proposed plan, no medical or dental subsidies are available to dependents.

Note that the change in the employer normal cost rate for the proposed health plan (as shown in Section 2) also takes into account the change in the service retirement rates assumed for this study that anticipate generally later retirements for the new members.

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**GOVERNMENT SERVICE BUYBACK PROGRAM**

- Besides the pension and the health benefits payable at retirement, the proposed tier also includes a modification to the amount required for a member to purchase service under the Government Service Buyback (GSB) Program.

Under the current GSB program, a member can purchase service for periods of uncompensated maternity leave or service credit previously earned at another governmental agency by either (a) transferring the accumulated contributions currently on deposit at the other employer or (b) paying an amount equal to the member's contribution rate at LACERS times the current annual salary. Under the proposed tier of benefit, the purchase price would be set so that it would be cost neutral to the plan. Currently there is no cap on the amount of service that may be purchased through the GSB program. Under the proposed tier, a maximum of 4 years may be purchased.

- In general, there would be a cost to the City associated with the current GSB program because the contributions paid by the employee would not include the employer's component of the total Normal Cost required to pay for such service credit. If an employee purchases service through a transfer from any governmental agency plan, the residual cost to the City is dependent on the amount of employee contributions that were previously paid plus the interest credited to the employee account by the other plan.

In practice, the cost to the City may be offset somewhat to the extent that other terminated employees who are vested withdraw their contributions at LACERS to have their benefits paid by another governmental agency plan.

- Besides the pension plan, there may also be a cost to the health plan unless the member has already accrued the prerequisite 25 or 20 years of service under the current plan to receive 100% of the health subsidy before and after age 65 excluding GSB service purchase.
- In determining the employer contribution rate in the ongoing actuarial valuation, there is no explicit assumption to anticipate any future GSB purchases meaning that the costs of future GSB purchases are not prefunded but rather reflected as actuarial losses and amortized as part of the cost for the UAAL after the GSB purchases were made.

Therefore, any changes in the GSB program would not result in any immediate cost savings but it should result in a reduction in the amount of future actuarial losses and the associated UAAL rate increases.

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- In order to provide the City with an order-of-magnitude impact on the future UAAL rate, the City has provided us with the data for those members who have purchased service through the GSB program from August 1989 to 2009. As there were significantly higher number of purchases made immediately after the implementation of the program at around 1989, we have limited our review to only those purchases that took place during January 1, 2004 to March 31, 2009 (the latest date GSB purchases were included in the report prepared by the City for a previous cost study prepared as of June 30, 2008). There were 1,049 purchases made during the period of about 5¼ years. Of those purchases, only 711 members were still reported as active members in the June 30, 2008 valuation.
- As we do not have the necessary data to estimate the cost to the City for the GSB for those members who have already retired, we have only studied the cost for those members who were still active as of the June 30, 2008 valuation<sup>2</sup>. Also note that the cost to the City for the GSB may tend to increase as members defer their decision to purchase GSB towards retirement because of adverse selection.

The cost to the City to provide for the GSB purchases is provided in Section 2, Exhibit D. The City should be aware that this annual cost is only the current year UAAL rate increase from one year of GSB purchases, even though the actuarial losses from those GSB purchases are amortized and paid over a period of 15 years.

On the other hand, the above cost is based on the average number of purchases made by all active members and not just by those hired during the last three years (as we have assumed in preparing the other costs of this study). Therefore, the annual reduction in cost to the UAAL may be overstated in the short term since only new entrants hired into the proposed tier would be affected by the new GSB rules.

- It should be noted that the results shown in Section 2D are based on the current tier benefit formulas. As the pension and health plan benefits provided under the proposed tier are lower than under the current tier, it is expected that the savings to the City associated with the changes in the GSB program under the proposed tier would be less. In order to provide an order-of-magnitude estimate, we have reviewed the costs of the current and proposed tiers for an average employee who was included in the original GSB costing. For the average employee, the present value of pension benefits under the proposed tier was approximately 73% of the present value of pension benefits under the current tier. We have not made a comparison of the present value of health benefits under the current and proposed tiers. This is because, as can be observed from Item 4 and Item 5 of Section 2D for the value of the pension and health benefits, respectively, from those who actually made GSB purchases, the increase in the present value of health benefits was much smaller than the increase in the

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<sup>2</sup> While we have continued to use the results of an earlier analysis of the GSB prepared as of June 30, 2008 to prepare this report, we do not anticipate that updating the results to June 30, 2011 (used in the rest of this report) would lead to a significantly different conclusion.

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present value of pension benefits. As such, we would anticipate a reduction in the GSB program savings under the proposed tier of approximately 27%, based on these results.

- There is an additional requirement that under the proposed plan, GSB purchases have to be cost neutral to the City. In order for the GSB to be cost neutral, the purchase price paid by an employee has to be equal to the increase in the present value of the pension and the health benefits that are expected to be received by that employee.

In practice, it would not be possible to guarantee absolute cost neutrality. This is because employees are allowed to purchase GSB services anytime before they retire from LACERS, so that numerous assumptions have to be made in projecting both the timing and the level of anticipated benefits (e.g., retirement age, final compensation, marital status, etc.). Please note that even if the City were to restrict the purchases to be made only at retirement, there are still some risks that the purchases may not be cost neutral as employees may outlive the life expectancy assumption or the actual market return may be less than the investment return assumption used in the purchase price calculations.

One way to minimize the most significant potential cost impacts associated with these purchases would be to accept the initial purchase prices calculated as preliminary estimates and have the final purchase prices be updated using a “true-up” process at retirement. This has most of the same advantages as allowing purchases only at retirement, and would be similar to the Public Service Purchase program currently in place at the Los Angeles Fire and Police Pension Plan.

However, the City should be aware that there would be administration and communication issues associated with this kind of true-up process. The City may want to discuss those issues with LACERS before proceeding to finalize the GSB purchase design.

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Valuation Results**

**A. Demographics as of June 30, 2011**

	<b>Hired During the Last Three Years</b>
<b>Active members in valuation<sup>(1)</sup>:</b>	
Average entry age	36.3
Projected average compensation – base salary only <sup>(2)</sup>	\$64,030
Projected average compensation – base salary plus assigned bonuses or premium pay	\$65,337
Approximate number of new employees hired in each year <sup>(3)</sup>	339

<sup>(1)</sup> The data used for this study is based on the June 30, 2011 valuation and it includes the data for members hired in the three years prior to the June 30, 2011 valuation date.

<sup>(2)</sup> This is calculated by assuming that the 2% difference between the base salary and the total of the base salary plus the assigned bonuses or premium pay observed for the data used in the June 30, 2008 valuation would remain unchanged for the data reported for the June 30, 2011 valuation, as confirmed by the City.

<sup>(3)</sup> While the City has employed far fewer new employees annually over the past three years when compared to the past five years, the average entry age for these employees is not materially different from the new employees hired during the period from July 1, 2006 to June 30, 2011.

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**B. Comparison of Normal Cost Contribution Rates Before and After Change in Benefit Formula  
(Based on Demographics of Employees Hired During the Last Three Years with an Average Entry Age of About 36)**

<b>Current Benefit Formula</b>	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>
<u>Projected Unit Credit Method</u>				
Pension Plan	1.65%	\$1,078	11.00%	\$7,187
Health Plan	<u>2.12%</u>	<u>1,385</u>	<u>0.00%</u>	<u>0</u>
Total	3.77%	\$2,463	11.00%	\$7,187
<u>Entry Age Normal Method</u>				
Pension Plan	7.23%	\$4,724	11.00%	\$7,187
Health Plan	<u>3.05%</u>	<u>1,993</u>	<u>0.00%</u>	<u>0</u>
Total	10.28%	\$6,717	11.00%	\$7,187

**Proposed Benefit Formula – Using Base Salary for Benefit Liability but Base Salary Plus Assigned Bonuses or Premium Pay to Calculate Contribution Rate**

	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>
<u>Entry Age Normal Method</u>				
Pension Plan	1.29%	\$845	10.78%	\$7,043
Health Plan	<u>2.13%</u>	<u>1,389</u>	<u>0.00%</u>	<u>0</u>
Total	3.42%	\$2,234	10.78%	\$7,043

**Proposed Benefit Formula – Using Base Salary for Both Benefit Liability and to Calculate Contribution Rate**

	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(3)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(3)</sup></u>
<u>Entry Age Normal Method</u>				
Pension Plan	1.32%	\$845	11.00%	\$7,043
Health Plan	<u>2.17%</u>	<u>1,389</u>	<u>0.00%</u>	<u>0</u>
Total	3.49%	\$2,234	11.00%	\$7,043

<sup>(1)</sup> The employer normal cost rates shown are assumed to be paid on July 15.

<sup>(2)</sup> These per member amounts are based on June 30, 2011 average annual base salary plus assigned bonuses or premium pay of \$65,337 for active members hired in the past three years.

<sup>(3)</sup> These per member amounts are based on June 30, 2011 average annual base salary of \$64,030 for active members hired in the past three years.



**SECTION 2: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Valuation Results**

**C. Change in Normal Cost Contribution Rates due to Change in Benefit Formula**

**Proposed Benefit Formula – Using Base Salary for Benefit Liability but Base Salary Plus Assigned Bonuses or Premium Pay to Calculate Contribution Rate**

	Employer Rate		Member Rate	
	<u>% of Payroll</u> <sup>(1)</sup>	<u>Estimated Average Annual Amount</u> <sup>(2)</sup>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount</u> <sup>(2)</sup>
<u>Entry Age Normal Method</u>				
Pension Plan	(5.94)%	\$(3,879)	(0.22)%	\$(144)
Health Plan	<u>(0.92)%</u>	<u>(604)</u>	<u>0.00%</u>	<u>0</u>
Total	(6.86)%	\$(4,483)	(0.22)%	\$(144)

**Proposed Benefit Formula – Using Base Salary for Both Benefit Liability and to Calculate Contribution Rate**

	Employer Rate		Member Rate	
	<u>% of Payroll</u> <sup>(1),(4)</sup>	<u>Estimated Average Annual Amount</u> <sup>(3)</sup>	<u>% of Payroll (paid bi-weekly)</u> <sup>(4)</sup>	<u>Estimated Average Annual Amount</u> <sup>(3)</sup>
<u>Entry Age Normal Method</u>				
Pension Plan	(6.06)%	\$(3,879)	(0.22)%	\$(144)
Health Plan	<u>(0.94)%</u>	<u>(604)</u>	<u>0.00%</u>	<u>0</u>
Total	(7.00)%	\$(4,483)	(0.22)%	\$(144)

<sup>(1)</sup> The employer normal cost rates shown are assumed to be paid on July 15.

<sup>(2)</sup> These per member amounts are based on June 30, 2011 average annual base salary plus assigned bonuses or premium pay of \$65,337 for active members hired in the past three years.

<sup>(3)</sup> These per member amounts are based on June 30, 2011 average annual base salary of \$64,030 for active members hired in the past three years.

<sup>(4)</sup> Due to the different salary definitions for the current and proposed tiers, the change in the normal cost contribution rates has been expressed as a percent of payroll by dividing the estimated average annual amount by the average annual base salary (rather than by subtracting the current rate from the proposed rate).

**SECTION 2: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS  
Valuation Results**

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**D. Reduction in Annual UAAL Rate from Change in GSB Program (\$ in millions):**

1.	Number of GSB purchases made between January 1, 2004 and March 31, 2009 (5 ¼ years)	1,049
2.	Number of members in Item 1 still reported as active in June 30, 2008 valuation	711
3.	Total GSB purchase price for 711 active members (adjusted with interest to June 30, 2008)	\$12.0
4.	Increase in present value of benefits for pension plan due to GSB purchases for 711 active members	\$45.2
5.	Increase in present value of benefits for health plan due to GSB purchases for 711 active members	\$7.5
6.	Increase in UAAL due to GSB purchases for 711 active members from the past 5 ¼ years (Item 4 + Item 5 - Item 3)	\$40.7
7.	Increase in UAAL due to GSB purchases for 1,049 active members from the past 5 ¼ years (Item 6 x Item 1 / Item 2)	\$60.0
8.	Increase in UAAL due to average number of GSB purchases in 1 year (Item 7 / 5 ¼)	\$11.4
9.	Increase in UAAL rate for one year of GSB purchases	0.05%
10.	Increase in UAAL annual costs for one year of GSB purchases (based on June 30, 2008 projected payroll of \$1,977.6 million)	\$1.0

Note: The above calculations have been prepared using the current tier. Please see discussions in Section 1 about the difference in the value of benefits between the current and the proposed tiers.

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS  
Supporting Exhibits**

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**EXHIBIT I**

**Actuarial Assumptions for Current and Proposed Tiers**

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**Actuarial Assumptions:**

The service retirement assumptions that are used in determining results under the current and the proposed tiers are shown on the next page. All other actuarial assumptions are the same as those adopted by the Retirement Board for use in the June 30, 2011 actuarial valuation.

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

**Retirement Rates:**

Age	Rate (%)			
	Current Tier		Proposed Tier	
	Non-55/30	55/30	Less Than 30 Years	Over 30 Years
50	8.0	0.0		
51	4.0	0.0		
52	4.0	0.0		
53	4.0	0.0		
54	15.0	0.0		
55	8.0	20.0		
56	8.0	15.0		
57	8.0	15.0	4.0	9.0
58	8.0	15.0	4.0	9.0
59	8.0	15.0	4.0	9.0
60	8.0	15.0	5.5	9.0
61	8.0	16.0	5.5	10.0
62	8.0	17.0	5.5	12.0
63	8.0	18.0	5.5	14.0
64	8.0	19.0	5.5	16.0
65	13.0	20.0	11.0	18.0
66	13.0	20.0	11.0	18.0
67	13.0	20.0	12.0	19.0
68	13.0	20.0	12.0	19.0
69	13.0	20.0	12.0	19.0
70	100.0	100.0	100.0	100.0

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

**EXHIBIT II**

**Plan Summary for Current and Proposed Tiers**

**Plan Provisions:** In the following table, we have provided a high-level comparison of the pertinent benefits from the current and the proposed tiers. Please note that unless included in the table, all the other plan provisions are assumed to be the same as those used in the June 30, 2011 valuation.

<u>Plan Design</u>	<u>Current Tier</u>	<u>Proposed Tier</u>
<i>Retirement Formula</i>	Final Compensation * Service Credit * Retirement Factor	
<i>Normal Retirement Factor</i>	2.16% per year of service	2.00% per year of service at age 67
<i>Retirement Allowance (Maximum)</i>	100% of Final Compensation	75% of Final Compensation
<i>Normal Retirement</i>	Age 60 with 10 years of service; or Age 55 with 30 years of service; or Age 70	Age 67 with 10 years of service Age 70
<i>Early Retirement</i>	Age 55 with 10 years of service; or Any age with 30 years of service	Age 57 with 10 years of service
<i>Early Retirement Reduction Factor</i>	3% per year of service before age 55; and 1.5% per year of service after age 55	
<i>Early Retirement Factors</i>	Sample Retirement Factors (with Early Retirement Reduction Factor applied):  Age 50: 1.67% Age 55: 2.00% Age 57: 2.06% Age 60: 2.16% Age 65: 2.16%	Retirement Factors:  Age 57: 1.16%    Age 63: 1.66% Age 58: 1.24%    Age 64: 1.75% Age 59: 1.33%    Age 65: 1.83% Age 60: 1.41%    Age 66: 1.92% Age 61: 1.50%    Age 67: 2.00% Age 62: 1.58%
<i>Deferred Vested Retirement</i>	Age 60 with 5 years of service and 10 years have elapsed from first date of membership; or Age 55 with 30 years of service; or Age 70 with 5 years of service  Benefit Amount: Same as for Normal Retirement	Age 57 with 5 years of service and 10 years have elapsed from first date of membership  Benefit Amount: Same as for Normal/Early Retirement

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier</u>	<u>Proposed Tier</u>
<i>Deferred Vested Retirement (cont.)</i>	Age 55 with 5 years of service and 10 years have elapsed from first date of membership; or Age 55 with 10 years of service  Benefit Amount: Same as for Early Retirement	
<i>Disability Retirement</i>	5 years of continuous service  Benefit Amount: 1/70 * Final Compensation * Service Credit; or 1/3 * Final Compensation, if greater	10 years of continuous service  Benefit Amount: 1/90 * Final Compensation * Service Credit
<i>Employee Contribution Rate</i>	7% (pension plan only), effective from July 1, 2011 until June 30, 2026 or until the ERIP Cost Obligation is fully paid, whichever comes first.  Members in certain bargaining groups are required to pay an additional 4% member contribution rate, beginning July 1, 2011. All non-represented members and members of one particular bargaining group are required to pay an additional 2% member contribution rate retroactive to July 1, 2011. For these members, the additional member contribution rate will increase to 4% beginning January 1, 2013.	9% towards pension 2% towards health (all designated as pension plan contributions since refundable upon termination from LACERS and for other tax considerations)
<i>Final Compensation</i>	Average of highest 12 months; includes base salary plus regularly assigned bonuses or premium pay <sup>(1)</sup>	Average of last 36 months; base salary (excludes regularly assigned bonuses or premium pay) <sup>(1)</sup>
<i>COLA</i>	Based on CPI subject to a maximum of 3% per year	Based on CPI subject to a maximum of 2% per year; only after 2 years of retirement
<i>COLA Bank</i>	Yes	No

<sup>(1)</sup> It is our understanding that the IRC Section 401(a)(17) compensation limit would apply to all new hires.

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

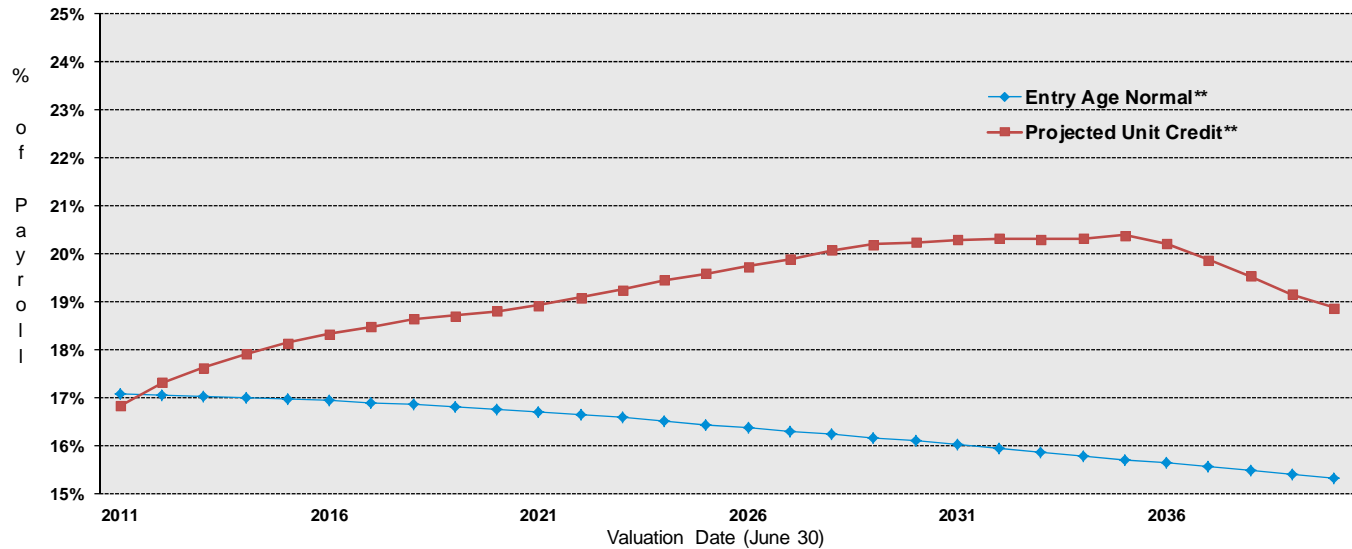
<u>Plan Design</u>	<u>Current Tier</u>	<u>Proposed Tier</u>
<i>Retiree Health Subsidy (Non-Medicare)</i>	Defined benefit; \$1,190 per month cap for calendar year 2012; adjusted by Kaiser 2-party rate	Defined benefit; \$596 per month cap for calendar year 2012; adjusted by 1-party lowest cost standard plan. No benefit for dependents.
<i>Retiree Health Vesting Schedule (Non-Medicare)</i>	40% of subsidy after 10 years of service; 4% additional subsidy per year of service thereafter; 100% after 25 years of service	40% of subsidy after 10 years of service (minimum age 57); 3% additional subsidy per year of service thereafter; 100% after 30 years of service
<i>Retiree Health Subsidy for Medicare (i.e. after 65) Retirees</i>	Defined Benefit; Maximum for 2-party coverage is \$623.30	Defined Benefit; Maximum for 1-party coverage is \$596. No benefit for dependents.
<i>Retiree Health Vesting Schedule for Medicare (i.e. after 65) Retirees</i>	75% of benefit for 10-14 years of service, 90% of benefit for 15-19 years of service, 100% of benefit for 20+ years of service.	75% of benefit for 10-14 years of service, 90% of benefit for 15-19 years of service, 100% of benefit for 20+ years of service.
<i>Retiree Dental Subsidy</i>	Defined Benefit; \$44.14/month subsidy for 2012. Assumed to increase 5% per year	Defined Benefit; \$44.14/month subsidy for 2012. Assumed to increase 5% per year
<i>Retiree Dental Vesting Schedule</i>	40% of subsidy after 10 years of service; 4% additional subsidy per year of service thereafter; 100% after 25 years of service	40% of subsidy after 10 years of service (minimum age 57); 3% additional subsidy per year of service thereafter; 100% after 30 years of service
<i>Medicare Part B Reimbursement</i>	\$99.90 per month for 2012. Assumed to increase 5% per year	\$99.90 per month for 2012. Assumed to increase 5% per year
<i>Government Service Buybacks</i>	Cost is based on employee contribution rate; no limit on the number of years of service purchased	Actuarial adjustment to ensure cost neutrality; may purchase up to 4 years

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

**APPENDIX ONE**

**Comparison of Projected Normal Cost Rates Under PUC and EAN Funding Methods for Current Tier of Pension Plan Benefits**

Comparison of Total (Employer Plus Employee) Normal Cost Rates for the Closed Group of Actives as of 6/30/2011\* for Current Pension Plan Only Under Entry Age Normal and Projected Unit Credit Funding Methods



\* For this illustration, we have not included the normal cost rates for any new employees who may be covered under the current pension plan after June 30, 2011.

\*\* Normal cost rates adjusted with interest to an assumed payment date on July 15th.

Note: Please refer to Item (4) below for the estimated year-by-year contribution rates used to prepare the chart above.

The following are points of note about the above projected contribution rates in the above chart:

1. For the closed group of active members included in the June 30, 2011 valuation, the total Normal Cost rates (for the Pension Plan only) under the PUC method were lower than what would have been calculated under the EAN method.



**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

This also would have been the case in prior valuations. However, the total Normal Cost rates under the PUC method are expected to exceed those under the EAN method starting with the next valuation as of June 30, 2012.

2. Under the assumption of a closed group of active members, the total Normal Cost rates for the current tier will continue to rise above the current level of about 16.8% of payroll (assuming payment on July 15<sup>th</sup>) determined in the June 30, 2011 valuation to about 20-21% of payroll.
3. The average entry age of the closed group of active members included in the June 30, 2011 valuation was 34 (calculated by subtracting the average service of about 13 from the average attained age of about 47, both determined in the 2011 valuation). This was about 2 years older than the average entry age of about 36 assumed for the new entrants in this new tier study. Even so, the above chart may still serve to provide some indication of the relative cost patterns under the PUC and EAN methods for the new tier. This illustrates that while there may be higher current contribution costs for the new tier under EAN method compared to PUC, the cost under PUC would eventually increase unless the City is able to keep hiring more and more younger employees to keep the average attained age of the employees covered under the new tier from increasing.
4. The estimated year-by-year contribution rates (assuming payment on July 15) used to prepare the chart above are provided in the table below:

Percent of Payroll			Percent of Payroll		
June 30,	Entry Age Normal	Projected Unit Credit	June 30,	Entry Age Normal	Projected Unit Credit
2011	17.1%	16.8%	2026	16.4%	19.7%
2012	17.1%	17.3%	2027	16.3%	19.9%
2013	17.0%	17.6%	2028	16.2%	20.1%
2014	17.0%	17.9%	2029	16.2%	20.2%
2015	17.0%	18.1%	2030	16.1%	20.2%
2016	16.9%	18.3%	2031	16.0%	20.3%
2017	16.9%	18.5%	2032	15.9%	20.3%
2018	16.9%	18.6%	2033	15.9%	20.3%
2019	16.8%	18.7%	2034	15.8%	20.3%
2020	16.8%	18.8%	2035	15.7%	20.4%
2021	16.7%	18.9%	2036	15.6%	20.2%
2022	16.7%	19.1%	2037	15.6%	19.9%
2023	16.6%	19.3%	2038	15.5%	19.5%
2024	16.5%	19.5%	2039	15.4%	19.2%
2025	16.4%	19.6%	2040	15.3%	18.9%

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS Supporting Exhibits**

**APPENDIX TWO**

**Normal Cost Rates Under PUC Funding Method for Current and Proposed Tiers (Informational Purposes Only)**

**Comparison of Normal Cost Contribution Rates Before and After Change in Benefit Formula  
(Based on Demographics of Employees Hired During the Last Three Years with an Average Entry Age of About 36)**

<b>Current Benefit Formula</b>	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>
<u>Projected Unit Credit Method</u>				
Pension Plan	1.65%	\$1,078	11.00%	\$7,187
Health Plan	2.12%	1,385	0.00%	0
Total	3.77%	\$2,463	11.00%	\$7,187

**Proposed Benefit Formula – Using Base Salary for Benefit Liability but Base Salary Plus Assigned Bonuses or Premium Pay to Calculate Contribution Rate**

	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(2)</sup></u>
<u>Projected Unit Credit Method</u>				
Pension Plan	-1.25% <sup>(4)</sup>	-\$820	10.78%	\$7,043
Health Plan	1.47%	960	0.00%	0
Total	0.22%	\$140	10.78%	\$7,043

**Proposed Benefit Formula – Using Base Salary for Both Benefit Liability and to Calculate Contribution Rate**

	<b>Employer Rate</b>		<b>Member Rate</b>	
	<u>% of Payroll<sup>(1)</sup></u>	<u>Estimated Average Annual Amount<sup>(3)</sup></u>	<u>% of Payroll (paid bi-weekly)</u>	<u>Estimated Average Annual Amount<sup>(3)</sup></u>
<u>Projected Unit Credit Method</u>				
Pension Plan	-1.28% <sup>(4)</sup>	-\$820	11.00%	\$7,043
Health Plan	1.50%	960	0.00%	0
Total	0.22%	\$140	11.00%	\$7,043

<sup>(1)</sup> The employer normal cost rates shown are assumed to be paid on July 15.

<sup>(2)</sup> These per member amounts are based on June 30, 2011 average annual base salary plus assigned bonuses or premium pay of \$65,337 for active members hired in the past three years.

<sup>(3)</sup> These per member amounts are based on June 30, 2011 average annual base salary of \$64,030 for active members hired in the past three years.

<sup>(4)</sup> The normal cost rate is negative because the lower normal cost calculated at the attained age of about 36 under the PUC method is expected to be fully paid for by the member's contributions.

**SECTION 3: Benefit Changes (Pension: 2% @ 67; Retiree Medical: \$596/mo.) for New Members of LACERS  
Supporting Exhibits**

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*As requested by the City, we have provided in Appendix Two the normal costs for the current tier and the proposed tier calculated using the PUC method. Again, we want to emphasize that the cost for the proposed tier under the PUC method should be used for informational and comparison purposes only as it is the policy of the Board of Retirement to use the EAN method for any new tier.*

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