CITY OF LOS ANGELES

CALIFORNIA

JUNE LAGMAY
City Clerk

HOLLY L. WOLCOTT
Executive Officer

ANTONIO R. VILLARAIGOSA
MAYOR

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CITY CLERK

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August 5, 2010

To All Interested Parties:

The City Council adopted the action(s), as attached, under Council file No. 10-1250, at its meeting held August 3, 2010.

June Lagmay

City Clerk

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PERSONNEL

BUDGET & FINANCE

10-1250

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MOTION

JUL 14 2010

Various state governments are converting to hybrid pension systems for their employees utilizing 401(k) plans popularly used in the private sector. Some new state workers in Michigan and Utah will soon begin to receive part of their retirement benefits from a 401(k)-type plan, after lawmakers there recently voted to adopt plans that combine a 401(k) component with a guaranteed benefit.

These hybrid plans are considered to be a cost-cutting measure for states seeking to pare back the guaranteed-retirement payments for government workers. The new plans shift more responsibility for funding retirement benefits to employees. Utah and Michigan join six other states that have some form of hybrid plans for public workers. Most of those states, including Oregon and Washington, created hybrid plans within the past 15 years. A number of other states have expressed interest in hybrid plans. Some officials in North Carolina and Pennsylvania, for instance, are contemplating a move to a hybrid plan.

Governments trying to rein in pension costs are hoping these hybrid plans can represent a middle ground because they maintain a defined-benefit plan for workers while they move some of the investment risk to employees.

In Utah, most current employees are in a pension where the state in 2010 contributes 16% of an employee's monthly income. Workers do not contribute. Faced with rising contribution rates, lawmakers voted to have new workers as of July 1, 2011 choose to enroll in a defined-contribution plan—like a 401(k)—or a hybrid plan. In the hybrid plan, workers can invest in a 401(k)-type fund. State and employee contributions to the defined-benefit portion of the hybrid plan fluctuate based on the financing of the pension fund. The state contribution is capped at 10% across both parts of the plan.

In Michigan, new school employees as of July 1 contribute 2% of monthly income to a 401(k)-type fund, with state employers matching up to 1% of pay. Employees are automatically enrolled in the fund but can choose to opt out or choose to contribute more. Public employers will contribute on average 2.5% of an employee's monthly income toward retirement, down from an average base of 4%. There is no longer a cost-of-living adjustment in retirement.

Given the City's increasing burden in meeting its pension obligations at a time of fiscal crisis and in balancing our annual budgets, it is appropriate that we explore the feasibility and applicability of hybrid pension systems to Los Angeles.

I THEREFORE MOVE that the City Administrative Officer, in consultation with the City's three pension systems, the Personnel Department and the Chief Legislative Analyst, be directed to report with recommendations relative to the feasibility and applicability of using hybrid pension systems for Los Angeles.

JUL 28 2010 CONTINUED TO ~~Aug 3~~ 2010

PRESENTED BY: ___________________

BILL ROSENDAHL
Councilman, 11th District

ADOPTED
AUG 03 2010
LOS ANGELES CITY COUNCIL

SECONDED BY: ___________________

JUL 23 2010 - CONTINUED TO ~~July 28~~ 2010

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