City Retirement Systems

CIVILIAN EMPLOYEES
- Los Angeles City Employees' Retirement System (LACERS)
- Water and Power Employees' Retirement Plan (WPERP)

SWORN EMPLOYEES
- Los Angeles Fire and Police Pensions (LAFPP)
  - Includes sworn employees of LAPD, LAFD, and Harbor Department

COMMONALITIES BETWEEN SYSTEMS
- Defined-Benefit (DB) Plan
- Service Pension, Disability, Survivor & Health Benefits
- Boards of Administration
- Retirees do not receive Social Security retirement benefits
LACERS Fast Facts

For the Fiscal Year Ended, June 30, 2009:

- Net Plan Assets - $10.1 Billion (Actuarial Value) & $8.1 Billion (Market Value)
- Funded Ratio Total - 77.4% (Actuarial Value) & 57.6% (Market Value)
- $383 Million City Contributions (538% Increase since Fiscal Year 2001-02)
- $118 Million Employee Contributions
- 30,065 active members
  - Average Age is 46.4
  - Average Salary is $66,518
- 14,991 retired members (includes beneficiaries & disabilities)
  - Average Age at Retirement is 60
  - Average Annual Benefit is $41,268
  - 70% of members are eligible for a 100% medical & dental subsidy

Sources: Segal Valuation & CAFR, June 30, 2009
CITY CONTRIBUTIONS TO LACERS
AS A % OF GENERAL FUND

Sources: 2010-11 Proposed Budget
Segal Actuarial Valuation as of June 30, 2009

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Pension</th>
<th>Health</th>
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<tbody>
<tr>
<td>2001-02</td>
<td>$27.6</td>
<td>$32.5</td>
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<tr>
<td>2002-03</td>
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<td>$20.2</td>
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<td>2004-05</td>
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<td>2005-06</td>
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<td>$288.3</td>
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<tr>
<td>2008-09</td>
<td>$95.1</td>
<td>$274.8</td>
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<tr>
<td>2009-10</td>
<td>$93.8</td>
<td>$261.9</td>
</tr>
<tr>
<td>2010-11</td>
<td>$106.4</td>
<td>$300.7</td>
</tr>
</tbody>
</table>
ILLUSTRATION OF FUTURE CONTRIBUTIONS TO LACERS
AS A % OF GENERAL FUND

Sources: 2010-11 Proposed Budget
Segal Five Year Projection of Contributions, May 25, 2010

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FISCAL AND PROGRAM ANALYSIS SINCE MCMXLI
LACERS Plan Design

• City Contributions
  – Actuarially calculated every year
  – 24.49% of payroll for FY 10/11
  – $407 Million for FY 10/11

• Employee Contributions
  – Currently at 6% of salary
    • Average Contribution per Employee is $3,991 per year
  – Effective July 1, 2011, will change to 7% of salary
    • Average Contribution per Employee projected at $4,796 per year
LACERS Plan Design

- Normal Retirement (Full Allowance)
  - Age 55 with 30 Years of City Service
  - Age 60 with 10 Years of Continuous Service
  - Age 70

- Retirement Benefit for a Normal Retirement is calculated as follows:

  Retirement Factor (2.16%) x Final Compensation x Service Credit

- Examples of the annual Retirement Benefit with the average employee annual salary of $66,518:

  - 10 Years Service Credit (Age 60+) x 2.16% x $66,518 = $14,367
  - 20 Years Service Credit (Age 60+) x 2.16% x $66,518 = $28,736
  - 30 Years Service Credit (Age 55+) x 2.16% x $66,518 = $43,104
  - 35 Years Service Credit (Age 55+) x 2.16% x $66,518 = $50,288
LACERS Plan Design

• Final Compensation (FC) is based on highest consecutive 12-month period

• Maximum Allowance = 100% of FC at 46.3 Years of Service

• Retiree Health (Medical & Dental)
  – Eligible for a Subsidy at Age 55 & 10 Years of Service
  – 40% of Subsidy at 10 Years of Service (2% of retirees eligible)
  – 100% Subsidy at 25 Years of Service (70% of retirees eligible)
  – Current Dental Maximum Subsidy is $36.16/month
  – Current Medical Maximum Subsidy is $1,123/month (Tied to Kaiser 2-Party Rate)
LACERS Plan Design

- Annual Cost of Living Adjustments (COLA) up to 3% per year based on Consumer Price Index (CPI)

- If CPI exceeds 3%, the difference will be “banked” and applied to future year(s) when the CPI is less than 3%

- Government Service Buybacks
  - May purchase any number of years, if eligible
  - Employees contribute 6% of salary for each year purchased

- Reciprocity with various other governmental entities
## COLA Bank Impact

### Annual Cost-of-Living Adjustment Increases for Retired Members

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Average CPI</th>
<th>Approved COLA</th>
<th>Max. COLA</th>
<th>Difference</th>
<th>COLA Bank</th>
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</thead>
<tbody>
<tr>
<td>7/1/2009</td>
<td>3.50%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.50%</td>
<td>0.5% banked</td>
</tr>
<tr>
<td>7/1/2008</td>
<td>3.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.30%</td>
<td>0.3% banked</td>
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<tr>
<td>7/1/2007</td>
<td>4.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>1.30%</td>
<td>1.3% banked</td>
</tr>
<tr>
<td>7/1/2006</td>
<td>4.50%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>1.50%</td>
<td>1.5% banked</td>
</tr>
<tr>
<td>7/1/2005</td>
<td>3.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.30%</td>
<td>0.3% banked</td>
</tr>
<tr>
<td>7/1/2004</td>
<td>2.60%</td>
<td>2.60%</td>
<td>3.00%</td>
<td>-0.40%</td>
<td>Up to 0.4% was used from bank</td>
</tr>
<tr>
<td>7/1/2003</td>
<td>2.80%</td>
<td>2.80%</td>
<td>3.00%</td>
<td>-0.20%</td>
<td>Up to 0.2% was used from bank</td>
</tr>
<tr>
<td>7/1/2002</td>
<td>3.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.30%</td>
<td>0.3% banked</td>
</tr>
<tr>
<td>7/1/2001</td>
<td>3.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.30%</td>
<td>0.3% banked</td>
</tr>
<tr>
<td>7/1/2000</td>
<td>2.30%</td>
<td>2.30%</td>
<td>3.00%</td>
<td>-0.70%</td>
<td>Up to 0.7% was used from bank</td>
</tr>
</tbody>
</table>

Source: www.lacers.org
Fire & Police Pensions Fast Facts

- Five Distinct Retirement Tiers (Tiers I, II, III, IV & V)
  - Tier V implemented on January 1, 2002

- For the Fiscal Year Ended, June 30, 2009 (combined Tiers I-V):
  - Net Plan Assets - $15 Billion (Actuarial Value) & $10.9 Billion (Market Value)
  - Funded Ratio Total - 89.4% (Actuarial Value)
  - $327 Million City Contributions (216% Increase since Fiscal Year 2001-02)
  - $104 Million Employee Contributions
  - 13,802 active members
    - Average Age is 40.1 (Tier IV is 41.2; Tier V is 39.6)
    - Average Salary is $98,337 (Tier IV is $106,243; Tier V is $97,570)
  - 12,327 retired members (includes beneficiaries & disabilities)
    - Average Age at Retirement is 51.4 (Tier IV is 45.1; Tier V is 55.1)
    - Average Annual Benefit is $59,940 (Tier IV is $45,324; Tier V is $83,004)

Sources: Segal Valuation & CAFR, June 30, 2009
Deferred Retirement Option Plan (DROP)

- Implemented on May 1, 2002
- Voluntary program
- Tier V - Must be minimum Age 50 with at least 25 Years of Service
- Employees continue working for up to 5 years, receive a normal salary & continue to pay contributions
- Employees are considered “retired”, however, do not receive a retirement allowance until exiting DROP
- During the DROP period, the retirement allowance is placed in a DROP account and earns 5% interest per annum
- After the DROP period expires, employees may no longer work as a sworn member and begin receiving their retirement allowance plus the DROP account funds (e.g. via lump sum)
CITY CONTRIBUTIONS TO FIRE & POLICE PENSIONS
AS A % OF GENERAL FUND

Fiscal Year


Sources: 2010-11 Proposed Budget
Segal Actuarial Valuation as of June 30, 2009

Pension □ Health

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ILLUSTRATION OF FUTURE CONTRIBUTIONS TO FIRE & POLICE PENSIONS
AS A % OF GENERAL FUND

Sources: 2010-11 Proposed Budget
Segal Five Year Projection of Contributions, May 25, 2010

Fiscal Year

2011-12
$385.6
11.88%

2012-13
$476.0
14.07%

2013-14
$593.7
16.53%

2014-15
$681.4
18.17%

2015-16
$770.6
19.69%

$1,000.0
$900.0
$800.0
$700.0
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0

$ In Millions

Pension □ Health
Fire & Police Pensions Plan Design

• City Contributions
  – Actuarially calculated every year
  – 30.12% of payroll for FY 10/11 (All Tiers)
  – $395 Million for FY 10/11 (All Tiers)

• Employee Contributions
  – For Tier IV, the contribution is 8% of salary
  – For Tier V, the contribution is 8% of salary if the Plan is funded at 100% or more:
    • The contribution is 9% of salary if Plan is funded at less than 100%
    • Employees currently contribute 9% of salary
Fire & Police Pensions Plan Design

<table>
<thead>
<tr>
<th></th>
<th>Tier 4</th>
<th>Tier 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Retirement</td>
<td>No Minimum Age; 20 Years of Service</td>
<td>Age 50; 20 Years of Service</td>
</tr>
<tr>
<td>Pension Percentage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 Years</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>25 Years</td>
<td>55%</td>
<td>65%</td>
</tr>
<tr>
<td>30 Years</td>
<td>70%</td>
<td>81%</td>
</tr>
<tr>
<td>33 Years</td>
<td>70%</td>
<td>90%</td>
</tr>
</tbody>
</table>
Fire & Police Pensions Plan Design

• Retirement Benefit for a Normal Retirement is calculated as follows:

  Final Average Salary x Pension Percentage (based on Years of Service)

• Examples of the annual Retirement Benefit with the Tier V average employee annual salary of $97,570:

  • 20 Years = 50% x $97,570 = $48,785
  • 25 Years = 65% x $97,570 = $63,537
  • 30 Years = 81% x $97,570 = $79,031
  • 33 Years = 90% x $97,570 = $87,813
Fire & Police Pensions Plan Design

- Final Average Salary (FAS) is based on highest consecutive 12-month period

- Maximum Allowance
  - Tier V maximum allowance is 90% of FAS at 33 Years of Service
  - Tier IV maximum allowance is 70% of FAS at 30 Years of Service

- Retiree Health (Medical & Dental)
  - Eligible for Subsidy at Age 55 & 10 Years of Service
  - 40% of Subsidy at 10 Years of Service
  - 100% Subsidy at 25 Years of Service
  - Current Dental Maximum Subsidy is $36.16/month
  - Current Medical Maximum Subsidy is $1,025.62/month
Fire & Police Pensions Plan Design

- For Tiers III, IV & V, annual Cost of Living Adjustments (COLA) up to 3% per year based on Consumer Price Index (CPI)

- For Tier V only, if CPI exceeds 3%, the difference will be "banked" and applied to future year(s) when the CPI is less than 3%

- Purchase Service Program (PSP)
  - May purchase government service up to 4 years, if eligible
  - Employees pay full actuarial cost

- No Reciprocity with various other governmental entities
DWP Retirement Plan Fast Facts

For the Fiscal Year Ended June 30, 2009:

- $7.2 Billion Net Plan Assets (Actuarial Value) & $5.7 Billion (Market Value)
- 89.97% Funded Ratio (Retirement) – Actuarial Value (Ratio of Assets to Liabilities)
- $326 Million DWP Contributions (831% Increase since Fiscal Year 2001-02)
- $60 Million Employee Contributions
- 9,047 active members
  - Average Age is 47.8
  - Average Salary is $90,791
- 8,584 retired members
  - Average Annual Benefit is $48,948

Source: Segal Valuation, June 30, 2009
DWP CONTRIBUTIONS TO WATER AND POWER RETIREMENT PLAN

$ in Millions


* Includes retirement, disability & death benefit funds
** Retiree Health date of inception on December 15, 2006
*** Projected; Does not reflect health, disability & death benefit funds

Sources: DWP Summary Annual Reports, 2002 - 2009
ILLUSTRATION OF FUTURE DWP CONTRIBUTIONS TO WATER AND POWER RETIREMENT PLAN*

* Projected; Does not reflect contributions to retirement, disability & death benefit funds
Source: Segal Projection of Retirement Plan Annual Required Contribution, May 28, 2010
DWP Retirement Plan Design

- **DWP Contributions**
  - Actuarially calculated every year
  - 26.12% of payroll for FY 10/11 (does not include retiree health)
  - $325.7 for FY 10/11 (does not include retiree health)

- **Employee Contributions**
  - 6% of salary (employees hired after May 31, 1984)
  - Employees hired before May 31, 1984 contribute based on “age at entry”, ranging from 2.34% (Age 17) to 8.902% (Age 69+):
    - Entry Age 20 = 2.601%
    - Entry Age 30 = 3.611%
    - Entry Age 40 = 4.742%
    - Entry Age 50 = 6.042%
    - Entry Age 60 = 7.493%
DWP Retirement Plan Design

- Normal Retirement
  - Any Age with 30 Years of City Service
  - Age 55 with 10 Years of Service in the Last 12 Years
  - Age 60 with 5 Years of Service

- Retirement Factor is 2.1%
  - 10 Years = 21%
  - 20 Years = 42%
  - 30 Years = 63%

- Retirement Factor is 2.3% for Employees Age 55 with 30 Years of Service
  - 30 Years = 69%
  - 35 Years = 80.5%
DWP Retirement Plan Design

- Retirement Benefit for a Normal Retirement is calculated as follows:

  Retirement Factor (2.1% or 2.3%) x Average Salary x Service Credit

- Examples of the annual Retirement Benefit with the average employee annual salary of $90,791:

  - 10 Years Service Credit (Age 60+) x 2.1% x $90,791 = $10,985
  - 20 Years Service Credit (Age 60+) x 2.1% x $90,791 = $19,066
  - 30 Years Service Credit (Age 55+) x 2.3% x $90,791 = $62,646
  - 35 Years Service Credit (Age 55+) x 2.3% x $90,791 = $73,087
DWP Retirement Plan Design

- Average Salary (AS) = average monthly equivalent of the employee’s highest one year salary

- Maximum Allowance = 100% of AS at 43.5 Years of Service

- Retiree Health (Medical & Dental)
  - Benefits are provided for by MOU, not the WPERP
  - Eligibility is based on combination of Age and Service
  - 100% Subsidy at Age 55 & 30 Years of Service
  - Current Dental Maximum Subsidy is $134.10/month
  - Current Medical Maximum Subsidy is $1,135.16/month
DWP Retirement Plan Design

- Annual Cost of Living Adjustments (COLA) up to 3% per year (based on CPI); may also adjust downward

- If CPI exceeds 3%, the difference will be “banked” and applied to future year(s) when the CPI is less than 3%

- Other Governmental Service (OGS)
  - May purchase any number of years, if eligible
  - Employees contribute their normal contribution for each year purchased

- Reciprocity with LACERS
CITY & DWP CONTRIBUTIONS HISTORY

$ in Millions

Fiscal Year


FPP  $103.4  $98.4  $136.1  $167.3  $175.3  $280.0  $339.8  $326.9  $355.0  $395.0

DWP  $35.0  $48.5  $64.4  $84.5  $110.8  $784.0  $318.3  $325.9  $210.3  $325.7

LACERS  $60.1  $78.4  $120.8  $211.5  $304.0  $393.0  $397.2  $369.9  $356.0  $407.0

* DWP: Does not reflect retirement, disability & death benefit funds
** DWP: Retiree Health date of inception on December 15, 2006
CITY & DWP FUTURE CONTRIBUTIONS ILLUSTRATION*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fire and Police Pensions</th>
<th>DWP</th>
<th>LACERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>$515.3</td>
<td>$385.4</td>
<td>$514.1</td>
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<tr>
<td>2012-13</td>
<td>$614.0</td>
<td>$454.3</td>
<td>$603.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>$741.0</td>
<td>$499.0</td>
<td>$710.8</td>
</tr>
<tr>
<td>2014-15</td>
<td>$837.2</td>
<td>$505.5</td>
<td>$791.0</td>
</tr>
<tr>
<td>2015-16</td>
<td>$934.7</td>
<td>$512.3</td>
<td>$816.1</td>
</tr>
</tbody>
</table>

* Projected
** DWP: Does not include projected payments to Retiree Health, Disability & Death Benefit Funds
CITY & DWP CONTRIBUTIONS AS A % OF TOTAL CITY BUDGET

Sources: Segal Actuarial Valuations, June 30, 2009; DWP Summary Annual Reports, 2002 - 2009; Proposed Budgets 2001-2010

* Includes DWP retirement, disability & death benefit funds
** DWP Retiree Health date of inception on December 15, 2006
*** Projected for DWP; Does not reflect DWP health, disability & death benefit funds
What are the Principal Cost Drivers?

- Staffing levels
- Cost-of-living-adjustments
- Healthcare benefit costs
- Increased pension benefits (e.g. Tier V)
- Longer life expectancies
- Early retirement pension benefits
- Market volatility
Note: Beginning in 2006-07, all Commission positions are no longer included in departments' regular position authority total. Prior-year totals and All Others totals have been adjusted to reflect this change.

The 2009-10 Adopted Budget included 1,528 resolution (temporary) authorities in addition to Authorized City Staffing counts. The 2010-11 Proposed Budget includes 1,289 resolution authorities in addition to Authorized City Staffing counts.

Source: Proposed Budget 2010-11
## LACERS Cost-of-Living-Adjustments

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Average CPI</th>
<th>Approved COLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2009</td>
<td>3.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>7/1/2008</td>
<td>3.30%</td>
<td>3.00%</td>
</tr>
<tr>
<td>7/1/2007</td>
<td>4.30%</td>
<td>3.00%</td>
</tr>
<tr>
<td>7/1/2006</td>
<td>4.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>7/1/2005</td>
<td>3.30%</td>
<td>3.00%</td>
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<td>7/1/2004</td>
<td>2.60%</td>
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<td>3.00%</td>
</tr>
<tr>
<td>7/1/2000</td>
<td>2.30%</td>
<td>2.30%</td>
</tr>
</tbody>
</table>

Source: www.lacers.org
What Pension Benefits May Be Changed?

- Existing Employees
  - Vested pension rights make it difficult to modify current benefits
  - Must provide an equivalent benefit in exchange
  - Meet and Confer with labor organizations
- New hires
  - The City Attorney advises that future hires do not have vested pension rights
  - Meet and Consult with labor organizations
- Retiree Health Benefits
  - Per the Administrative Code, the Boards of Administration approve subsidy increases
Defined Benefit (DB) Plans

- Guaranteed retirement benefit
- Retirement Allowance = based on a formula (i.e. Service Years x Retirement Factor x Average Salary)
- Benefit is provided for the lifetime of the retiree or his/her beneficiary
- Risk = Employer
- Typically includes health & disability benefits
- Investment decisions made by professional money managers
- Portability = Low
Defined Contribution (DC) Plans

- Retirement benefit is based on an employee’s individual investment account
- Retirement Allowance = based on growth of contributed assets and how the assets are distributed over time
- Employee may face significant uncertainty about his/her expected benefit level
- Risk = Employee
- Does not typically include health, death & disability benefits
- Investment decisions made by individual employee
- Portability = High
Hybrid Plans

- A Hybrid Plan incorporates aspects of both a DB plan and a DC plan
- Typically include:
  - Lower level DB plan formula to ensure some financial security
  - Employer match based on employee contribution
  - Mandatory employer contributions
What Are Other Entities Doing?

The following is a sample of what others are doing:

- DB Plans
  - State of California
  - City of San Francisco

- DC Plans
  - State of Alaska

- Hybrid Plans
  - Orange County
  - State of Georgia
State of California (DB Plan)

Major Changes for State

- Increased employee contribution rates (active members & new hires)
- Employee contributions towards retiree health (active members & new hires)
- Increased minimum age requirement (new hires)
- Changed final compensation to 3-year average (new hires)
State of California (DB Plan)

Major Changes for Unions

– Increases to top salary steps
– No changes to retirement formula and maximum retirement allowance
– Paychecks are not affected by delays in enacting the state's annual budget
City of San Francisco (DB Plan)

- November 2010 Ballot Measure
  - Increase employee contributions to 9% or 10%
    (approximately ½ of City workers do not contribute)
State of Alaska (DC Plan)

- Individual Retirement Savings Account
  - Employee = 8%
  - Employer = 5% or 7%

- Retiree Medical Benefit (Age 65)
  - Employer = 1.75% (adjusted annually)

- Health Reimbursement Arrangement
  - Employer = 3%

- Death and Disability Benefit
  - Employer = 0.4% to 0.22% (adjusted annually)
Orange County (Hybrid Plan)

DB Formula = 1.62% (Age 65) x Years of Service x Salary

DC Formula = Employer matches up to 2% of employee salary
State of Georgia (Hybrid Plan)

DB Formula = 1% x Years of Service x Salary

DC Formula = Employer matches 1% of employee salary and for each percent above 1%, up to a total of 3%
Social Security Retirement Benefits

• Full benefits at Age 65 or older
• Reduced benefits at Age 62
• Average indexed monthly earnings during 35 years earned the most
• An employee contributes 6.2% of wages
• A person Age 65 with an annual salary of $66,518 retiring today would receive $18,252 annually

Source: www.ssa.gov/planners
Transitioning from DB to DC

• Does not eliminate the City’s current liabilities of existing plans
• Closing the DB plan may ultimately require changes in asset allocation that will likely produce lower investment returns
• Projected lower pension benefits for employees
• Potential for hidden administrative costs
• May potentially increase costs during initial implementation years
Mechanisms to Adopt Benefit Changes

- LACERS – Council Adoption of an Ordinance
- Fire & Police Pensions – Voter Approval of a Charter Amendment
- DWP Retirement Plan – Approval by Board of Water and Power Commissioners
Proposed New Tier Designs

- Move to sustainability
- Long-term cost savings
- Applicable to new hires only
Proposed New Tier Designs

City is studying various design elements:

- Retirement Age Eligibility
- Retirement Factor
- Maximum Retirement Allowance
- Employee Contributions To Pensions & Retiree Healthcare
- Final Compensation Term
- Retiree Healthcare Subsidy
- Cost-of-living-adjustments (COLA)
- Applicable to new hires only
Current Status

- EERC has provided direction
- Sought input with labor unions representing LACERS & Fire/Police Pension members
- Preparing new tier designs for actuarial study
- Continuous updates to EERC
Next Steps

• Continue meeting with labor unions on pension reform for existing employees
• Continue advising EERC and Council
• Complete actuarial studies on plan design by end of September 2010
• Ordinance - Council adoption
• Charter Amendment - March 11, 2011 Election