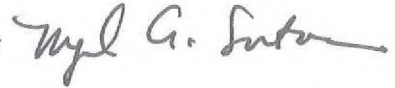


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: October 15, 2010

To: The City Council
Mayor Antonio R. Villaraigosa

From: Miguel A. Santana, City Administrative Officer



Subject: **PENSION REFORM FOR NEW HIRES**

SUMMARY

On August 3, 2010, the City Council requested the Office of the City Administrative Officer (CAO) to report back on pension reform efforts for new member hires. The recommendations in this report are consistent with instructions received from the Executive Employee Relations Committee (EERC) on October 12, 2010, regarding new member hires of the Los Angeles Fire and Police Pensions (LAFPP). A report under separate cover will be submitted to the City Council for new member hires of the Los Angeles City Employees' Retirement System (LACERS). It is anticipated that for every 1,000 LAFPP new hires, the new retirement tiers recommended in this report will save approximately \$173 Million under the recommended new tier design, over a 30 year period.

BACKGROUND

Over the last several months, the CAO has met with labor unions representing members of LAFPP to discuss retirement tiers for new hires. The establishment of a retirement tier for new hires is not a mandatory subject of bargaining. However, as a gesture of good faith, the CAO has reached out to all labor unions to keep them informed about the City's efforts and solicit input on proposed tier designs. We have shared the new tier designs approved by the EERC with the labor unions, have asked for specific input on the proposed designs, and commissioned actuarial cost studies.

Actuarial studies which identify various options for creating retirement tiers for new hires with the objective of reducing City costs have been completed. Options have focused on plan designs that balance cost savings without significantly sacrificing recruitment and retention efforts. The plan design options contain several suggestions and input received from labor unions. The new plans would be open to newly hired members of the LAFPP. The proposed plan designs contain options that take into consideration modifications in the following areas:

- Retirement Age Eligibility
- Retirement Factor
- Maximum Retirement Allowance
- Employee Contributions To Pensions
- Employee Contributions To Retiree Healthcare
- Final Average Compensation

Summaries of the plan designs and actuarial cost studies are enclosed with this report.

PROPOSED LAFPP TIER VI (CHARTER AMENDMENT)

The proposed plan for sworn employees would be open to newly hired members of LAFPP. Adoption of a new LAFPP tier requires a Charter Amendment. For the March 11, 2011, election, the deadline for Council to request the City Attorney to draft the ballot resolution is November 3, 2010.

The recommended sworn plan allows employees to retire with a minimum pension of 40% at age 50 with 20 years of service and a maximum pension of 90% after 33 years of service. The 90% maximum pension should continue to encourage retention of experienced officers as well as attract qualified police and fire applicants in the future. The plan would also include total employee contributions of 11%, of which 2% would go towards retiree health benefits. Employee contributions would cease after 33 years of service. In addition, the retirement allowance would be based on a member's highest two-year average salary.

The following table provides additional details on the recommended plan design, including a summary of the actuarial cost results:

FIRE & POLICE PENSIONS – NEW TIER FOR NEW HIRES		
PLAN DESIGN	CURRENT (TIER 5)	PROPOSED
Retirement Benefit Factor	Year 20 = 50% Years 21-29 = 3%/year Year 30 = 4% Years 31-33 = 3%/year	Year 20 = 40% Years 21-25 = 3%/year Year 26-30 = 4%/year Year 31-33 = 5%/year
Maximum Retirement Allowance	90%	90%
Minimum Retirement Age	50	50
Employee Pension Contribution	9%; or 8% if Funded Ratio < 100%	9%
Employee Health Contribution	0%	2%
Deaths – Service Connected	75% of Final Compensation	80% of Final Compensation

FIRE & POLICE PENSIONS – NEW TIER FOR NEW HIRES		
PLAN DESIGN	CURRENT (TIER 5)	PROPOSED
Deaths – NonService Connected	30% to 40% of Final Compensation or 60% of member's pension	50% of Final Compensation or 70% of member's pension
Final Compensation	1 Year Avg	2 Year Avg
Employer Cost	\$15,367	\$11,933
Employer % of Payroll	22.5%	17.47%
Employee Cost	\$6,147	\$7,513
Employee % of Payroll	9%	11%
City Savings	--	\$3,434
Savings % of Payroll	--	5.03%

Since the specific details of the plan are complex and there is limited time to draft the specific language for the Charter, the recommended approach is to enact a Charter amendment that allows the City to adopt the plan, substantially as described above and in the attachments, by ordinance. This is the same methodology that was previously utilized to adopt the Tier 5 pension plan and the Deferred Retirement Option Plan (DROP). The Charter amendment would provide a three-month period for implementation of the plan by ordinance. Following adoption of the enabling ordinance, further modifications would require Charter amendment. If approved by the voters, it is anticipated the plan would become effective on July 1, 2011.

ADDITIONAL PROPOSED MODIFICATIONS

In addition to the benefit modifications under the various new tier design options, the CAO proposes that consideration be given to the following concepts and be requested to report back within a specified time period:

- Pension Stabilization – A funding policy to cover the “Normal Cost” of the retirement plan on an annual basis. The City’s funding policy on pensions should specifically indicate that, at a minimum, sufficient funding to cover the “Normal Cost” of the retirement plan be made available through a combination of City contributions, employee contributions, and retirement system investment returns. This is necessary to avoid underfunding the retirement system during times when the funded ratio achieves a funded status of 100% or more.
- Flexibility to Address Recruitment and Retention Issues in Out Years – In the event the City experiences significant recruitment and retention issues directly attributed to the decreased benefits of the new retirement tiers, the Council, with Mayoral approval, may request the CAO to report back on

options to implement mitigating measures (e.g. pension enhancements, other salary and benefit enhancements).

WATER AND POWER EMPLOYEES' RETIREMENT PLAN (WPERP)

In addition to reporting back on pension reform efforts for LACERS and LAFPP, the Office of the CAO was requested to report back on the Water and Power Employees' Retirement Plan. The Department of Water and Power (DWP) has a separate retirement plan for its employees. WPERP members may retire at any age with at least 30 years of service, at age 55+ with at least 10 years of service, or at age 60+ with at least 5 years of service. The retirement factor is 2.3% for members that retire at a minimum age of 55 with 30 years of service. Otherwise, the retirement factor is 2.1%. A retiree health medical subsidy is provided at 100% for members that retire at age 55+ with at least 30 years of service. Plan members hired after May 31, 1984, contribute 6% of pay, and plan members hired before June 1, 1984, contribute based on their age at entry ranging from 2.6% to 7.3%.

Charter Section 1186 indicates that any WPERP plan amendments must be approved by the Board of Water and Power Commissioners and adopted by the WPERP Board of Administration. The Mayor and City Council have no direct authority to make plan amendments, including enacting pension reform efforts for new employee hires. With the recent concerns raised by the DWP over escalating pension costs and the intent to reform the City's current pension plans to make them more financially sustainable, it would be prudent to consider whether a Charter Amendment should be placed on the ballot for the upcoming March 11, 2011, election. The intent of the Charter Amendment would be to transfer the current plan sponsorship authority away from the DWP Board of Water and Power Commissioners and to the City Council. This would be consistent with the current plan sponsorship model under LACERS and LAFPP.

FISCAL IMPACT

Adoption of the new tiers would result in savings to the General Fund. It is anticipated that for every 1,000 new hires, the new retirement tiers recommended in this report will save approximately \$173 Million under the LAFPP design, over a 30 year period.

RECOMMENDATION

It is recommended that the City Council instruct the City Attorney to prepare a ballot resolution for the March 11, 2011, election based on the proposed plan design for a Fire and Police Pension Tier VI as detailed in this report.

MAS:TTS:07110010

Attachments

FIRE AND POLICE PENSIONS - RETIREMENT TIER FOR NEW HIRES PLAN DESIGN		
PLAN DESIGN	CURRENT PLAN	RECOMMENDED
Retirement Factor	Service Years: 20 = 50% 20+ = 3%/year 30 = 4% add'l	Service Years: 20 = 40% 21-25 = 3%/year 26-30 = 4%/year 31-33 = 5%/year
Retirement Allowance (Maximum)	90% of Final Compensation	90% of Final Compensation
Normal Retirement	Age 50/Service 20	Age 50/Service 20
Employee Contribution Rate	8% or 9%, if Funded Ratio < 100%	<u>11% Total</u> 9% contribution towards pension 2% contribution towards health
Final Compensation	Average of highest 12 months	Average of highest 24 months
COLA	CPI based w/3% max.; COLA bank	CPI based w/3% max.; COLA bank
Survivor Benefits - Service Connected	Before Retirement: 75% of FC After Retirement: 75% of FC (w/in 3 years of retirement) or 60% of member's pension	Before Retirement: 80% of FC After Retirement: 80% of FC (w/in 3 years of retirement) or 80% of member's pension
Survivor Benefits - NonService Connected	Before Retirement: 30% to 40% of FC After Retirement: 60% of member's pension	Before Retirement: Minimum 50% of FC After Retirement: 70% of member's pension
Employer Cost	\$15,367	\$11,933
Employer % of Payroll	22.50%	17.47%
Employee Cost	\$6,147	\$7,513
Employee % of Payroll	9%	11%
City Savings	--	\$3,434
Savings % of Payroll	--	5.03%

LOS ANGELES FIRE AND POLICE PENSION PLAN

*Proposed New Tier of Benefit for New Entrants
(Pension Plan and Retiree Medical Plan)*

Copyright © 2010

**THE SEGAL COMPANY, INC.
THE PARENT OF THE SEGAL COMPANY
ALL RIGHTS RESERVED**



The Segal Company
100 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

October 1, 2010

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 the proposed new tier of benefit for members of the Los Angeles Fire and Police Pension Plan (LAFPP).


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 last valuation as of June 30, 2008. No current inactive vested members, retirees or beneficiaries have been included in this valuation. With the exception of the service retirement assumptions, this study uses the same actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2008 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 results in this report are unchanged from the draft report that we issued dated July 14, 2009.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary and Patrick Twomey, ASA, 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, EA
Senior Vice President and Actuary


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

SUV/hy

SECTION 1

REVIEW SUMMARY

Contribution Recommendations1
Assumptions and Methodologies.....2
Benefit Provisions3

SECTION 2

VALUATION RESULTS

A. Demographics as of June 30,
20085
B. Comparison of Contribution
Rates Before and After
Change in Benefit Formula.....6

SECTION 3

SUPPORTING EXHIBITS

EXHIBIT I
Actuarial Assumptions and Plan
Summary for Current and
Proposed Tiers7
EXHIBIT II
Individual Member Contribution
Rates11

SECTION 1: Benefit Changes for New Members of LAFPP Review Summary

The results provided under this study are determined based on the membership demographics as of June 30, 2008 as well as the actuarial assumptions and methodologies adopted by the Board for the June 30, 2008 actuarial valuation. They are unchanged from the draft report that we issued dated July 14, 2009.

The Board of Retirement has approved a 7.75% interest rate for use in the June 30, 2010 valuation. While the application of a 7.75% interest rate would result in a change in the Tier 5 and the new tier's normal cost rates included in this study, the difference in the total employer and member normal cost rate between the two tiers should still be generally proportional to those determined in this study.

CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact, this study assumes that the demographic profiles of the members entering the new tier would be comparable to current Tier 5 active members hired in the three years prior to the June 30, 2008 actuarial valuation. For comparison purposes only, we have calculated the Tier 5 employer Normal Cost contribution rates for the pension and the health plans and the employee Normal Cost contribution rates (i.e., fixed rate of 9.0% to the pension plan while the pension plan is less than 100% funded and 0.0% for the health plan) for members hired in the three years prior to the June 30, 2008 actuarial valuation, and compared these rates with the employer Normal Cost contribution rates and the aggregate employee Normal Cost contribution rates under the proposed tier of benefit.
- We have shown the employer Normal Cost rates for the pension and the 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 LAFPP Board of Retirement would be requested to adopt a tier specific employer Normal Cost rate for the new tier of benefit for the pension and the health plans. This means that the aggregate employer Normal Cost rates for all tiers for the pension and the health plans may gradually decline as a higher proportion of the total future active employee payrolls 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 UAAL rates for Tier 5 of 1.54% and 1.49% of total payroll for the pension and the health plans, respectively, determined in the June 30, 2008 valuation assuming contributions made at the beginning of the fiscal year. This is because the UAAL rates¹ for Tier 5 were determined as a level percent of pay including payrolls for all current members plus new entrants who entered LAFPP after June 30, 2008.

¹ Please note that the UAAL rate for Tier 2 has been developed in the annual actuarial valuation by expressing the UAAL payment over the total payroll from members of all tiers. After the proposed tier is adopted, we anticipate that the payroll for the new tier would be included in developing the UAAL rate for Tier 2.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

- In Section 2B, we compare the current Tier 5 employee rate of 9.0%² for the pension plan with the aggregate rate determined under Sections 4.1031 (a) and (b) of the Administrative Code based on the demographic profiles of the members hired in the three years prior to the June 30, 2008 actuarial valuation. The detailed entry age based employee rates are provided in Section 3, Exhibit II.

ASSUMPTIONS AND METHODOLOGIES

- Most of the actuarial assumptions used in this study are those adopted by the Retirement Board for use in the June 30, 2008 valuation.

Under the current Tier 5, there is a separate set of age specific retirement rates (probabilities) for the Fire employees and for the Police employees. Of the members expected to retire at each age, we assume 90% of them to retire from DROP status (after staying in the DROP for an assumed period of four years) and 10% from active status. For the current Tier 5 formula, we have not used years of service in projecting retirements because age appears to be a better predictor for estimating when active members in Tier 5 have retired directly from active status upon reaching age 50 and 20 years of service or from DROP status after initially attaining the DROP eligibility requirements of age 50 and 25 years of service. Also, members have retired in the past with less than 33 years of service thereby earning less than the maximum benefit of 90% of final compensation available from the pension plan.

Under the proposed tier, the eligibility requirements for retiring from active status would remain unchanged (i.e., age 50 and 20 years of service) but the eligibility requirements for participating in the DROP would be increased to age 50 with 30 years of service. As the service retirement benefit under the proposed tier would provide a lesser benefit and would now be capped at 70% of final compensation after 30 years of service, we have reduced the retirement rates somewhat before a member reaches 30 years of service and added the additional assumption that upon reaching 30 years of service, there is a 25% probability that the member would either elect to retire immediately or elect to DROP and then retire after staying in DROP for an assumed period of four years.

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

² A contribution rate of 9.0% would be paid by the employee when LAFPP's funded ratio is less than 100%. Once the funded ratio equals or exceeds 100%, the contribution rate would be reduced to 8.0%.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

BENEFIT PROVISIONS

- A comparison of the major benefit provisions under the current and the proposed tiers is provided in Section 3, Exhibit I.
- Under the current Tier 5 plan, the 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 pay³. Under the proposed tier, the pension benefit 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.

As the breakdown between the base salary and the regularly assigned bonuses or premium pay was not provided in the data used for the June 30, 2008 valuation, we used a data file sent to us by the City with such breakdown. After comparing the base salary with the total of the base salary plus the assigned bonuses or premium pay, we estimate that there would be an 8% difference between the base salary and the total of the base salary plus the assigned bonuses or premium pay.

- Under the current Tier 5 plan, 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.

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 Tier 5 plan, employees pay a fixed rate of 9.0%⁴ of payroll to fund part of the Normal Cost contribution rates for the pension plan but 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, the employee rates for the initial plan year would be set using the entry age based employee rates under Sections 4.1031 (a) and (b). For each subsequent plan year, the employee rates would be calculated by adjusting the employee rates for the prior plan year to reflect any changes in the employer's total Normal Cost plus UAAL rate that would otherwise be required for the current plan year in the absence of any change in the employee rates. The annual increase/decrease in the employee rates would be subject to a limit of plus or minus 1% of payroll.

³ Examples of regularly assigned bonuses or premium pay include: longevity pay, special pay, assignment pay and hazard pay.

⁴ A contribution rate of 9.0% would be paid by the employee when LAFPP's funded ratio is less than 100%. Once the funded ratio equals or exceeds 100%, the contribution rate would be reduced to 8.0%.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

As we described above, the employer's rate for the proposed tier would have to include the same UAAL rates for Tier 5 of 1.54% and 1.49% of payroll for the pension and the health plans, respectively, determined in the June 30, 2008 valuation assuming contributions made at the beginning of the fiscal year. The City should establish the extent, if any, that the employees of the proposed tier would share in the fluctuations in the employer's rate that are caused by the current benefits for members in the current Tier 5.

- Under the current Tier 5 plan, a member who receives a service connected disability would receive a benefit equal to 30% to 90% of final compensation depending on the severity of disability. As we have not been provided with data in the regular valuation or the experience study to allow us to review the pattern of the severity of prior disabilities, we have continued the methodology used by the Plan's prior actuary that assumes a correlation of the severity of disability with the length of service. Under that methodology, it is assumed that members with less than 20 years of service would receive a benefit equal to 50% of final compensation, members with 20 to 30 years of service would receive 60% of final compensation and members with over 30 years of service would receive 70% of final compensation.

Based on the above assumptions, there would be no reduction in the cost even though the maximum level of service connected disability benefit is reduced from 90% of final compensation under current Tier 5 to 70% of final compensation under the proposed tier.

- The health benefit provided under the proposed tier is the same as that provided for employees currently in Tier 5. There is a change in the Normal Cost contribution rate only as a result of the change in the timing of expected retirement using the new service retirement rates.

**SECTION 2: Benefit Changes for New Members of LAFPP
Valuation Results**

A. Demographics as of June 30, 2008

	Hired During the Last Three Years
Active members in valuation*:	
Average entry age	27.4
Projected average compensation – base salary only	\$56,420
Projected average compensation – base salary plus assigned bonuses or premium pay	\$61,326
Approximate number of new employees hired in each year	750

** The data used for this study is based on the June 30, 2008 valuation and it includes the data for members hired in the three years prior to the June 30, 2008 valuation date.*

**SECTION 2: Benefit Changes for New Members of LAFPP
Valuation Results**

B. Comparison of Contribution Rates Before and After Change in Benefit Formula:

Under Current Benefit Formula

	Employer Rate		Average Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	19.16%	\$11,750	9.00%	\$5,519
Health Plan - Normal Cost	4.19%	\$2,570	0.00%	\$0
Total - Normal Cost	23.35%	\$14,320	9.00%	\$5,519

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

	Employer Rate		Average Member Rate	
	<u>% of Payroll⁽³⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	13.31%	\$8,164	8.70%	\$5,337
Health Plan - Normal Cost	3.76%	\$2,306	0.00%	\$0
Total - Normal Cost	17.07%	\$10,470	8.70%	\$5,337

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

	Employer Rate		Average Member Rate	
	<u>% of Payroll⁽⁴⁾</u>	<u>Estimated Average Annual Amount⁽⁵⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽⁵⁾</u>
Pension Plan - Normal Cost	14.47%	\$8,164	9.46%	\$5,337
Health Plan - Normal Cost	4.09%	\$2,306	0.00%	\$0
Total - Normal Cost	18.56%	\$10,470	9.46%	\$5,337

⁽¹⁾ The employer normal cost rates shown are assumed to be paid on July 15. The employer normal cost rate payable at the end of each pay period is 19.87%, 4.35%, and 24.22% for the pension plan, health plan, and total plan, respectively.

⁽²⁾ These per member amounts are based on June 30, 2008 average annual base salary plus assigned bonuses or premium pay of \$61,326 for active members hired within the past three years.

⁽³⁾ The employer normal cost rates shown are assumed to be paid on July 15. The employer normal cost rate payable at the end of each pay period is 13.81%, 3.90%, and 17.71% for the pension plan, health plan, and total plan, respectively.

⁽⁴⁾ The employer normal cost rates shown are assumed to be paid on July 15. The employer normal cost rate payable at the end of each pay period is 15.00%, 4.25%, and 19.25% for the pension plan, health plan, and total plan, respectively.

⁽⁵⁾ These per member amounts are based on June 30, 2008 average annual base salary of \$56,420 for active members hired within the past three years.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

EXHIBIT I

Actuarial Assumptions and Plan Summary for Current and Proposed Tiers

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, 2008 actuarial valuation.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

Retirement Rates:

Age	Rate (%)			
	Current Tier 5*		Proposed Tier (Before 30 Years of Service)	
	Fire	Police	Fire	Police
50	8	15	6	12
51	8	15	6	12
52	8	15	6	12
53	8	15	6	12
54	8	15	6	12
55	10	15	8	12
56	10	15	8	12
57	10	18	8	15
58	12	20	10	15
59	15	25	12	20
60	20	25	15	20
61	20	25	15	20
62	20	25	15	20
63	25	25	20	20
64	30	30	25	25
65	100	100	100	100

Years of Service	Proposed Tier (After 30 Years of Service) For Both Fire and Police	
	Ret Without DROP	Ret With DROP
30	25	0
31	0	0
32	0	0
33	0	0
34	0	100

* Under the current plan, of all the members expected to retire with a service retirement benefit, we assume a 90% DROP utilization rate if they also satisfy the requirements for participating in the DROP. Members are assumed to remain in the DROP for 4 years.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

Plan Provisions: In the following table, we have provided a high level comparison of the pertinent benefits from the current Tier 5 and the proposed tier. Please note that unless included in the table, all other plan provisions are assumed to be the same as those used in the June 30, 2008 valuation.

<u>Plan Design</u>	<u>Current Tier 5</u>	<u>Proposed Tier</u>
Retirement Formula	Final Compensation * Service Credit * Retirement Factor	
Retirement Factor	Year 20 = 50% Years 20+ = 3% per year Except at Year 30 where 4% is provided instead	Year 20 = 40% Years 20+ = 3% per year
Retirement Allowance (Maximum)	90% of Final Compensation after 33 years of service	70% of Final Compensation after 30 years of service
Normal Retirement	Age 50 and 20 years of service	
DROP Eligibility	Age 50 and 25 years of service	Age 50 and 30 years of service
Disability Retirement	<u>Service Connected</u> 30% to 90% of Final Compensation	<u>Service Connected</u> 30% to 70% of Final Compensation
	<u>Non-Service Connected</u> 30% to 50% of Final Compensation	<u>Non-Service Connected</u> 30% to 50% of Final Compensation
Survivor Benefit	<u>Service Connected</u> Death before retirement = 75% of Final Compensation; Death after retirement = 75% of Final Compensation (if death within 3 years of retirement) or 60% of member's pension	
	<u>Non-Service Connected</u> Death before retirement = 30% to 40% of Final Compensation Death after retirement = 60% of member's pension	
Basic Death benefit	Beneficiary receives 1 year of average monthly salary times years of completed service (not to exceed 6 years)	

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier 5</u>	<u>Proposed Tier</u>
Employee Contribution Rate	9% when funded ratio < 100%; 8% thereafter; no member contributions after 33 years of service.	Rate for First Plan Year: From 8.22% to 13.33%, based on Entry Age (see Section 3, Exhibit II for rates); no member contributions after 30 years of service. Rate for Subsequent Plan Years: Based on the employee rates for the prior plan year adjusted to reflect any changes in the employer's total Normal Cost plus UAAL rate that would otherwise be required for the current plan year in the absence of any change in the employee rates. The annual increase/decrease in the employee rates would be subject to a limit of plus or minus 1% of payroll.
Final Compensation	Average of highest 12 months; includes base salary plus regularly assigned bonuses or premium pay	Average of last 36 months; base salary only and excludes regularly assigned bonuses or premium pay
COLA		Based on CPI subject to a maximum of 3% per year
COLA Bank		Yes
Retiree Health Subsidy		<u>Non Medicare eligible</u> Minimum age 55 with 10 years of service; Subsidy = 4% per year of service (100% maximum after 25 years of service); maximum subsidy for 2009 = \$895.81 per month (under age 65), \$690.21 per month (after age 65) <u>Medicare eligible</u> Over age 65 with 10 years of service; Subsidy = 75% with 10-14 years of service, 90% with 15-19 years of service, 100% after 20 years of service; maximum subsidy for 2009 = \$406.44 per month (single), \$872.15 per month (multi-coverage)

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

EXHIBIT II

Individual Member Contribution Rates

Member Contribution Rates for Proposed Tier Expressed as a Percentage of Monthly Compensation (Base Salary)			
Entry Age	% of Payroll	Entry Age	% of Payroll
16	8.22	41	11.21
17	8.32	42	11.34
18	8.41	43	11.46
19	8.53	44	11.59
20	8.64	45	11.73
21	8.75	46	11.87
22	8.87	47	12.00
23	8.98	48	12.12
24	9.10	49	12.25
25	9.21	50	12.37
26	9.32	51	12.49
27	9.43	52	12.61
28	9.56	53	12.72
29	9.68	54	12.83
30	9.81	55	12.94
31	9.94	56	13.04
32	10.07	57	13.15
33	10.21	58	13.24
34	10.32	59 and over	13.33
35	10.44		
36	10.58		
37	10.70		
38	10.83		
39	10.97		
40	11.10		

5039662v1/08133.106

LOS ANGELES FIRE AND POLICE PENSION PLAN

*Proposed Tier 6 "Option A" Plan for New Entrants
(Pension Plan and Retiree Medical Plan)*

Copyright © 2010

THE SEGAL COMPANY, INC.
THE PARENT OF THE SEGAL COMPANY
ALL RIGHTS RESERVED



The Segal Company
100 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

October 14, 2010

Mr. Thomas Simonovski
Senior Labor Relations Specialist
City of Los Angeles
Office of the City Administrative Officer
200 North Main Street, Room 1200
City Hall East, Mail Stop 139
Los Angeles, CA 90012

Dear Thomas:


We are pleased to submit our study of the proposed Tier 6 plan for members of the Los Angeles Fire and Police Pension Plan (LAFPP). The plan of benefits included in this study are identical to those outlined as "Option A" of the union's proposal.


As the proposed Tier 6 plan 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 last valuation as of June 30, 2009. No current inactive vested members, retirees or beneficiaries have been included in this valuation. With the exception of the service retirement assumptions, this study uses the same actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2009 valuation. A brief description of the methodology used to select the service retirement assumptions for the proposed new tier is provided in Section I.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary and Patrick Twomey, ASA, 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, EA
Senior Vice President and Actuary


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

SUV/hy

SECTION 1

REVIEW SUMMARY

Proposed Tier 6 Plan.....1
Contribution Recommendations2
Assumptions and Methodologies.....3
Benefit Provisions4

SECTION 2

VALUATION RESULTS

A. Demographics as of June 30,
20096
B. Comparison of Contribution
Rates Before and After
Change in Benefit Formula.....7

SECTION 3

SUPPORTING EXHIBITS

EXHIBIT I
Actuarial Assumptions and Plan
Summary for Current and
Proposed Tiers9

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

PROPOSED TIER 6 PLAN

- The proposed Tier 6 pension plan design, also referred to as “Option A” of the union’s proposal, is somewhat of a hybrid between the current Tier 4 and Tier 5 pension plans. A comparison of the service retirement benefit provided under Tier 4, Tier 5 and the proposed Tier 6 is provided in the table below.

Years of Service	Benefit As A Percentage of Final Average Compensation		
	Tier 4	Tier 5	Proposed Tier 6
20	40%	50%	40%
20 – 25	3%	3%	3%
25 – 30	3%	3%*	4%
30 – 33	Capped at 70%	3%	5%

**4% benefit is provided for year 30 of service.*

- The survivor and continuance benefits under the proposed Tier 6 plan are enhanced so that survivors would receive a greater benefit than those under the current Tier 5 plan. Additionally, three alternative final compensation periods have been used to determine benefits under the proposed Tier 6 plan based on the actual salary received during a consecutive 12-month, 18-month or 24-month period. The proposed Tier 6 plan also includes a 1% or 2% employee contribution towards the retiree health plan. In summary, we have prepared our cost analysis under the following six optional plan designs.

	Option #1	Option #2	Option #3	Option #4	Option #5	Option #6
Final Compensation	12 Months	12 Months	18 Months	18 Months	24 Months	24 Months
Employee Contribution to Retiree Health Plan (% of Payroll)	1%	2%	1%	2%	1%	2%

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact, this study assumes that the demographic profiles of the members entering the new Tier 6 plan would be comparable to current Tier 5 active members hired in the three years prior to the June 30, 2009 actuarial valuation. For comparison purposes only, we have calculated the Tier 5 employer Normal Cost contribution rates for the pension and the retiree health plans and the Tier 5 employee Normal Cost contribution rates (i.e., fixed rate of 9.0% to the pension plan while the pension plan is less than 100% funded and 0.0% for the retiree health plan) for members hired in the three years prior to the June 30, 2009 actuarial valuation, and compared these rates with the employer Normal Cost contribution rates and the aggregate employee Normal Cost contribution rates under the proposed Tier 6 (i.e., fixed rate of 9.0% to the pension plan and either 1.0% or 2.0% for the retiree health plan).
- We have shown the employer Normal Cost rates for the pension and the retiree health plans under the proposed Tier 6 in Section 2B of this report. If the proposed Tier 6 is adopted by the City, we assume that the LAFPP Board of Retirement would be requested to adopt a tier specific employer Normal Cost rate for the new Tier 6 for the pension and the retiree health plans. This means that the aggregate City employer Normal Cost rates for all tiers for the pension and the retiree health plans may gradually decline as a higher proportion of the total future active employee payrolls would be subject to the lower employer Normal Cost rates required for the new Tier 6.
- In addition to the employer Normal Cost rates provided in Section 2B, it is anticipated that the City would have to continue to contribute the same UAAL rates for Tier 5 of 3.97% and 1.91% of total Tier 5 plus Tier 6 payroll for the pension and the retiree health plans, respectively, determined in the June 30, 2009 valuation assuming contributions made at the beginning of the fiscal year. Due to the open group amortization methodology, the UAAL rates¹ for Tier 5 were determined as a level percent of pay including payrolls for all current Tier 5 members plus new entrants who entered LAFPP after June 30, 2009.
- In Section 2B, we compare the current Tier 5 employee rate of 9.0%² for the pension plan with the rate of 9.0% for the pension plan plus either 1.0% or 2.0% for the retiree health plan.

¹ Please note that the City's UAAL rate for Tier 2 has been developed in the annual actuarial valuation by expressing the UAAL payment over the City's total payroll from members of all tiers. After the proposed tier is adopted, we anticipate that the payroll for the new tier would also be included in developing the UAAL rate for Tier 2.

² A contribution rate of 9.0% would be paid by the employee when LAFPP's funded ratio is less than 100%. Once the funded ratio equals or exceeds 100%, the contribution rate would be reduced to 8.0%.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

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, 2009 valuation.

Under the current Tier 5, there is a separate set of age specific retirement rates (probabilities) for the Fire employees and for the Police employees. Of the members expected to retire at each age, we assume 90% of them to retire from DROP status (after staying in the DROP for an assumed period of four years) and 10% from active status. For the current Tier 5 formula, we have not used years of service in projecting retirements because age appears to be a better predictor for estimating when active members in Tier 5 have retired directly from active status upon reaching age 50 and 20 years of service or from DROP status after initially attaining the DROP eligibility requirements of age 50 and 25 years of service.

Under the proposed Tier 6 plan, the eligibility requirements for service retirement from active status would remain unchanged from those used for the current Tier 5 plan (i.e., age 50 with 20 years of service). The eligibility requirements for participating in the DROP would also remain unchanged (i.e., age 50 with 25 years of service). As the service retirement benefit formula under the proposed Tier 6 plan is somewhat of a hybrid between the current Tier 4 and Tier 5 plans, starting at age 50, we have assumed the same retirement rates as those assumed for Tier 4 members retiring on or before age 55 and then used the same retirement rates as those assumed for Tier 5 members retiring after age 55. The net impact of the modified assumption is that members in the proposed Tier 6 plan are expected to retire on the average about one year later than the members in the current Tier 5 plan. The detailed retirement rates are provided in Section 3, Exhibit 1.

- The Board of Retirement has approved a 7.75% interest rate for use in the June 30, 2010 valuation. While the application of a 7.75% interest rate would result in a change in the Tier 5 and Tier 6 normal cost rates included in this study, the difference in the total employer and member normal cost rate between the two tiers should still be generally proportional to those determined in this study.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

BENEFIT PROVISIONS

- A comparison of the major benefit provisions under the current Tier 5 plan and the proposed Tier 6 plan is provided in Section 3, Exhibit I.
- Under the proposed Tier 6 plan, the service retirement benefit is equal to the service retirement benefit provided under the current Tier 4 plan for those with up to 25 years of service. For those with more than 25 years of service, the Tier 6 service retirement benefit is greater than the Tier 4 service retirement benefit but less than the Tier 5 service retirement benefit. However, similar to the current Tier 5 plan, the maximum Tier 6 retirement allowance is 90% of final compensation after 33 years of service.
- Under the current Tier 5 plan, employees pay a fixed rate of 9.0%³ of payroll to fund part of the Normal Cost contribution rates for the pension plan but 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 6 plan, employees pay a fixed rate of 9.0% of payroll to fund part of the Normal Cost contribution rates for the pension plan and a fixed rate of either 1.0% or 2.0% of payroll to fund part of the Normal Cost contribution rates for the retiree health plan.

- Under the current Tier 5 plan, a survivor would receive a service connected death benefit equal to 75% of final compensation for deaths before retirement (or deaths within 3 years of retirement) or 60% of the deceased member's benefit for deaths after retirement. A survivor would receive a non-service connected death benefit equal to 30% to 40% of final compensation for deaths before retirement or 60% of the deceased member's benefit for deaths after retirement.

Under the proposed Tier 6 plan, a survivor would receive a service connected death benefit equal to 80% of final compensation for deaths before retirement (or deaths within 3 years of retirement) or 80% of the deceased member's benefit for deaths after retirement. A survivor would receive a non-service connected death benefit equal to 50% of final compensation for deaths before retirement or 70% of the deceased member's benefit for deaths after retirement.

- Under the current Tier 5 plan, the final compensation used to determine benefits are based on the actual salary received during any 12 consecutive months of service. The final compensation remains unchanged under Options 1 and 2 of the proposed Tier 6 plan. However, the final compensation is based on the actual salary received during any 18 consecutive months of service under Options 3 and 4 and on the actual salary received during any 24 consecutive months of service under Options 5 and 6.

³ A contribution rate of 9.0% would be paid by the employee when LAFPP's funded ratio is less than 100%. Once the funded ratio equals or exceeds 100%, the contribution rate would be reduced to 8.0%.

**SECTION 1: Benefit Changes for New Members of LAFPP
Review Summary**

- The retiree health benefit provided under the proposed Tier 6 plan continues to be the same as that provided for employees currently in Tier 5.

There are changes in the Normal Cost contribution rate only as a result of the change in the timing of expected retirement using the new service retirement rates as well as the introduction of employee contributions. In addition, it is also assumed that the employee contributions are refundable upon termination of employment with less than 20 years of service.

**SECTION 2: Benefit Changes for New Members of LAFPP
Valuation Results**

A. Demographics as of June 30, 2009

	Hired During the Last Three Years
Active members in valuation*:	
Average entry age	27.4
Projected average compensation**	\$68,301
Approximate number of new employees hired in each year	759

* *The data used for this study is based on the June 30, 2009 valuation and it includes the data for members hired in the three years prior to the June 30, 2009 valuation date.*

** *Includes both base salary and assigned bonuses or premium pay.*

**SECTION 2: Benefit Changes for New Members of LAFPP
Valuation Results**

B. Comparison of Contribution Rates Before and After Change in Benefit Formula:

Under Current Tier 5 Benefit Formula

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	18.34%	\$12,526	9.00%	\$6,147
Health Plan - Normal Cost	4.16%	\$2,841	0.00%	\$0
Total - Normal Cost	22.50%	\$15,367	9.00%	\$6,147

**Under Proposed Tier 6 Benefit Formula – Option 1
(Final 12-Month Average Compensation with 1% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.79%	\$10,785	9.00%	\$6,147
Health Plan - Normal Cost	3.14%	\$2,145	1.00%	\$683
Total - Normal Cost	18.93%	\$12,930	10.00%	\$6,830

**Under Proposed Tier 6 Benefit Formula – Option 2
(Final 12-Month Average Compensation with 2% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.79%	\$10,785	9.00%	\$6,147
Health Plan - Normal Cost	2.26%	\$1,544	2.00%	\$1,366
Total - Normal Cost	18.05%	\$12,329	11.00%	\$7,513

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

⁽²⁾ These per member amounts are based on June 30, 2009 average annual pay of \$68,301 for active members hired within the past three years.

**SECTION 2: Benefit Changes for New Members of LAFPP
Valuation Results**

**Under Proposed Tier 6 Benefit Formula – Option 3
(Final 18-Month Average Compensation with 1% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.40%	\$10,518	9.00%	\$6,147
Health Plan - Normal Cost	3.14%	\$2,145	1.00%	\$683
Total - Normal Cost	18.54%	\$12,663	10.00%	\$6,830

**Under Proposed Tier 6 Benefit Formula – Option 4
(Final 18-Month Average Compensation with 2% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.40%	\$10,518	9.00%	\$6,147
Health Plan - Normal Cost	2.26%	\$1,544	2.00%	\$1,366
Total - Normal Cost	17.66%	\$12,062	11.00%	\$7,513

**Under Proposed Tier 6 Benefit Formula – Option 5
(Final 24-Month Average Compensation with 1% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.21%	\$10,389	9.00%	\$6,147
Health Plan - Normal Cost	3.14%	\$2,145	1.00%	\$683
Total - Normal Cost	18.35%	\$12,534	10.00%	\$6,830

**Under Proposed Tier 6 Benefit Formula – Option 6
(Final 24-Month Average Compensation with 2% Retiree Health Contribution)**

	Employer Rate		Current Member Rate	
	<u>% of Payroll⁽¹⁾</u>	<u>Estimated Average Annual Amount⁽²⁾</u>	<u>% of Payroll</u>	<u>Estimated Average Annual Amount⁽²⁾</u>
Pension Plan - Normal Cost	15.21%	\$10,389	9.00%	\$6,147
Health Plan - Normal Cost	2.26%	\$1,544	2.00%	\$1,366
Total - Normal Cost	17.47%	\$11,933	11.00%	\$7,513

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

⁽²⁾ These per member amounts are based on June 30, 2009 average annual pay of \$68,301 for active members hired within the past three years.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

EXHIBIT I

Actuarial Assumptions and Plan Summary for Current and Proposed Tiers

Actuarial Assumptions:

The service retirement assumptions that are used in determining results under the current Tier 5 and the proposed Tier 6 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, 2009 actuarial valuation.

SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits

Retirement Rates:

Age	Rate (%)			
	Current Tier 5*		Proposed Tier 6*	
	Fire	Police	Fire	Police
50	8	15	2	8
51	8	15	2	8
52	8	15	4	8
53	8	15	4	15
54	8	15	4	15
55	10	15	6	15
56	10	15	10	15
57	10	18	10	18
58	12	20	12	20
59	15	25	15	25
60	20	25	20	25
61	20	25	20	25
62	20	25	20	25
63	25	25	25	25
64	30	30	30	30
65	100	100	100	100

* Under the current plan and proposed plan, of all the members expected to retire with a service retirement benefit, we assume a 90% DROP utilization rate if they also satisfy the requirements for participating in the DROP. Members are assumed to remain in the DROP for 4 years.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

Plan Provisions: In the following table, we have provided a high level comparison of the pertinent benefits from the current Tier 5 and the proposed Tier 6. Please note that unless included in the table, all other plan provisions are assumed to be the same as those used in the June 30, 2009 valuation.

<u>Plan Design</u>	<u>Current Tier 5</u>	<u>Proposed Tier 6</u>
Retirement Formula	Final Compensation * Service Credit * Retirement Factor	
Retirement Factor	Year 20 = 50% Years 20+ = 3% per year Except at Year 30 where 4% is provided instead	Year 20 = 40% Years 20-25 = 3% per year (15%) Years 26-30 = 4% per year (20%) Years 31-33 = 5% (15%)
Retirement Allowance (Maximum)	90% of Final Compensation after 33 years of service	
Final Compensation	Monthly average salary actually received during any 12 consecutive months of service; includes base salary plus regularly assigned bonuses or premium pay	Options 1 & 2: Monthly average salary actually received during any 12 consecutive months of service Options 3 & 4: Monthly average salary actually received during any 18 consecutive months of service Options 5 & 6: Monthly average salary actually received during any 24 consecutive months of service Note: Final compensation includes base salary plus regularly assigned bonuses or premium pay under all of the above options
Service Retirement Eligibility	Age 50 and 20 years of service	
DROP Eligibility	Age 50 and 25 years of service	
Disability Retirement	<u>Service Connected</u> 30% to 90% of Final Compensation <u>Non-Service Connected</u> 30% to 50% of Final Compensation	

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier 5</u>	<u>Proposed Tier 6</u>
Survivor Benefit	<u>Service Connected</u> Death before retirement = 75% of Final Compensation; Death after retirement = 75% of Final Compensation (if death within 3 years of retirement) or 60% of member's pension <u>Non-Service Connected⁽¹⁾</u> Death before retirement = 30% to 40% of Final Compensation Death after retirement = 60% of member's pension	<u>Service Connected</u> Death before retirement = 80% of Final Compensation; Death after retirement = 80% of Final Compensation (if death within 3 years of retirement) or 80% of member's pension <u>Non-Service Connected⁽¹⁾</u> Death before retirement = 50% of Final Compensation Death after retirement = 70% of member's pension
Basic Death Benefit	Beneficiary receives 1 year of average monthly salary times years of completed service (not to exceed 6 years)	
Deferred Vested Benefit Eligibility	Same as normal retirement	
Refund of Contributions	Yes	
Employee Contribution Rate	<u>Pension</u> 9% when funded ratio < 100%; 8% thereafter; no member contributions after 33 years of service. <u>Retiree Health</u> 0%	<u>Pension</u> 9%; no member contributions after 33 years of service <u>Retiree Health</u> Options 1, 3 & 5: 1%; no member contributions after 25 years of service Options 2, 4 & 6: 2%; no member contributions after 25 years of service
COLA	Based on CPI subject to a maximum of 3% per year	
COLA Bank	Yes	

⁽¹⁾All deaths are assumed to be service connected in the valuation.

**SECTION 3: Benefit Changes for New Members of LAFPP
Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier 5</u>	<u>Proposed Tier 6</u>
Retiree Health Subsidy		<u>Under Age 65</u> Minimum age 55 with 10 years of service; Subsidy = 4% per year of service (100% maximum after 25 years of service); maximum subsidy for 2009-2010 Fiscal Year = \$958.52 per month (under age 65)
		<u>Age 65 and Over</u> Over age 65 with 10 years of service; Subsidy = 75% with 10-14 years of service, 90% with 15-19 years of service, 100% after 20 years of service; maximum subsidy for 2009-2010 Fiscal Year = \$434.44 per month (single), \$738.43 per month (multi-coverage)

5046554v1/96043.901