CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

Date:

November 5, 2013

To:

The City Council

From:

Miguel A. Santana, City Administrative Office

Subject:

RECIPROCITY BETWEEN THE LOS ANGELES CITY EMPLOYEES'

RETIREMENT SYSTEM AND THE WATER AND POWER EMPLOYEES'

RETIREMENT PLAN (C.F. 13-1459)

On November 4, 2013, the City Attorney submitted a draft ordinance amending Chapter 10 of Division 4 of the Los Angeles Administrative Code to suspend reciprocity between the Los Angeles City Employees' Retirement System (LACERS) and the Water and Power Employees' Retirement Plan (WPERP). The attached actuarial report from The Segal Company dated November 5, 2013, is hereby transmitted for consideration by the City Council in conjunction with the draft ordinance from the City Attorney.

Attachment

MAS:MHA:0714031



THE SEGAL COMPANY 100 Montgomery Street Suite 500 San Francisco, CA 94104-4308 T-415-263.8200 F-415.263.8290 www.segalco.com

VIA E-MAIL AND USPS

November 5, 2013

Mr. Tom Coutlas Office of the City Administrative Officer 200 North Main Street, Room 1200 Los Angeles, CA 90012-4190

Re: Los Angeles City Employees' Retirement System (LACERS) – New Reciprocity Program for Members Who Transfer Employment Between the City of Los Angeles (the City) and the Department of Water and Power (DWP)

Dear Tom:

We have been requested by your office to comment on the financial impact to LACERS' retirement program under a proposed change to the current reciprocity provisions as found in Chapter 10 of Division 4 of the Administrative Code.

It is our understanding that the proposal would impact the following three categories of employees:

- 1) Employees who become members of Tier 1 or Tier 2 at LACERS prior to January 1, 2014 who have transferred from DWP with vested rights in DWP's retirement program based on contributing less than one year or with no vested rights based on having withdrawn all of their DWP contributions.
- 2) Employees who become members of Tier 1 or Tier 2 at LACERS prior to January 1, 2014 who transferred from DWP with vested rights in DWP's retirement program based on having contributed one or more years.
- 3) Employees who transfer from DWP to the City on or after January 1, 2014 who would become enrolled under Tier 2 at LACERS after such transfer. Those employees have previously been members of DWP's retirement program.

Members Under Category One

We understand from our discussion that the new reciprocity provisions would not have a direct impact on the cost for these members to purchase their DWP service as the current program at LACERS (which is less costly for the members) would continue to be available to determine the purchase price.

Members Under Category Two

We have not been able to obtain from the City the actual members who would be covered under the second category so as to perform an actual cost calculation. However, our understanding from our discussion with your office is that there should only be a relatively small number of such members. In that case, we anticipate that the cost that they may potentially add to LACERS to be relatively insignificant because of the small number of such members.

Members Under Category Three

Under the proposal, members who transfer from DWP to the City on or after January 1, 2014 would be enrolled in LACERS' Tier 2 plan and would be entitled to a retirement benefit under Tier 2 only with respect to their future service after the date of the transfer. The only exception is that past service with DWP would count toward vesting and eligibility for the LACERS' Tier 2 benefit.

For members in Category Three, the proposed program is different from the current reciprocity program under which reciprocal employees transfer their past employee contributions from DWP to LACERS and then receive full (past and future) service credit under the LACERS' Tier 1 plan.

Note that as advised by your office, we are not commenting in this letter on the financial impact under the proposed reciprocity program when members transfer from LACERS to DWP. This is primarily due to the observation that such members may be viewed as exercising a similar right already available to deferred vested members to leave their contributions on deposit in order to receive a LACERS retirement benefit when they subsequently retire. However, it should be noted that compared to members who terminated City of Los Angeles related employment, more of the transfers to DWP would eventually become vested under the proposed reciprocity program because the future service earned after the date of the transfer to DWP would count toward meeting the vesting requirements at LACERS.

Discussions and Results for Members in Category Three

Since the proposed reciprocity program would only apply to transfers that take place on or after January 1, 2014, we do not have any membership data available to analyze the exact financial impact of the proposed program to LACERS. However, relative to the current program, the proposed reciprocity program should result in a reduction in cost for LACERS.

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Under the current reciprocity program, LACERS receives only the employee's portion but not the employer's portion of the past contributions made to DWP when members transfer from DWP to LACERS. This results in an actuarial loss incurred by LACERS as LACERS has to provide a benefit for all of the past service without receiving all of the past contributions. Under the proposed program, unless a transferred employee pays an additional amount to purchase his/her past DWP service at LACERS, LACERS would only be responsible for providing a benefit for future service after the date of the transfer, there would no longer be an actuarial loss from providing benefits for that past service. However, it is not possible to quantify the savings relative to the current program as such amount is highly dependent on the number of such future transfers.

Under the proposed program, a transferred employee would be allowed to pay an additional amount to purchase his/her past DWP service at LACERS and the cost of the purchase would be determined in the same way as the amount that is currently paid by Tier 2 members under the terms of the Governmental Service Buyback Program (GSB). We note that there is no direct relationship between the amount paid for such service and the actual value of the additional benefit. However, as Tier 2 members would be required to pay the full member and employer normal costs under the Tier 2 GSB program¹, we believe that any cost that may be added as a result of the conversion of past DWP service to LACERS to be relatively insignificant.

Vesting and Eligibility Service

Note that DWP service would count toward meeting the vesting and eligibility requirements for members under all three Categories. However, based again on our understanding from discussion with your office that there are not likely to be too many members under Categories One and Two, the potential cost exposure to the City from those small number of members should not be material.

For members in Category Three, the vesting and eligibility service from DWP would only have helped those members who would otherwise not have met the vesting and eligibility requirements to retire under Tier 2^2 based on just their LACERS service. As this is an open program, it is not possible to quantify this cost in advance so the City should be aware of the potential for an additional cost when the City hires an employee from DWP.

The cost to amortize any UAAL that may emerge after January 1, 2014 would also be paid by the members under the GSB program.

Members in Tier 2 would generally have to meet one of the following requirements in order to receive a retirement benefit: (a) age 70 or (b) age 55 with 10 years of service. Note that the above requirements are only for members who retire directly from employment as the requirements for members who retire from deferred status are slightly different.

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Please let us know if you have any questions.

Sincerely,

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

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

AYY/kek

cc: Mary Jo Curwen