



Securing Your Tomorrows

Date: April 21, 2014

To: The Honorable Members of the
Budget and Finance Committee

From: Thomas Moutes, General Manager *TM*

SUBJECT: FISCAL YEAR 2014-15 BUDGET HEARINGS

Thank you for the opportunity to submit a memorandum in advance of the budget hearings. This memorandum focuses on three of the many significant matters relating to our Plan: increasing productivity through technology, the City's contribution to LACERS, and the recent management audit of LACERS.

Increasing Productivity through Technology

LACERS is in the middle of a multi-year replacement of its Pension Administration System (PAS). The new PAS will be created based on more than 1,500 requirements identified by staff experts at LACERS. The new PAS will create significant efficiencies in our benefit administration, especially when combined with our process reengineering project which aims to optimize and automate our processes to the greatest possible extent. The process reengineering will include front-end scanning, automated workflows, a relatively paper-free environment, and enhanced customer service. In addition to creating efficiencies in our benefit administration, the PAS will provide useful and timely management statistics.

City Contribution

The City's contribution to LACERS is determined by applying the actuarially-determined percentages of payroll adopted by our Board to the estimated payroll for City employees covered by LACERS. For Fiscal Year 2014-15, the percentages of payroll adopted by our Board were 26.56% for Tier 1 members and 19.63% for Tier 2 members. The estimated City contribution for Fiscal Year 2014-15 is \$497 million, an increase of \$47 million when compared with Fiscal Year 2013-14. Of the \$47 million, \$26 million is attributable to an increase in the payroll and \$21 million is attributable to a rate increase. The rate increase largely is attributable to the continued recognition of the investment losses incurred during Fiscal Years 2007-08 and 2008-09 pursuant to the seven-year asset smoothing policy. Those losses will be fully realized at the ends of Fiscal Years 2015-16 and 2016-17, respectively.

While the investment returns for Fiscal Years 2007-08 and 2008-09 were disappointing, recent returns have been much better with a return of 14.3% last year and 12.3% over the last three

years. To date, this year, our returns are 13+% (unaudited). As of December 31, 2013, LACERS ranked in the 5th percentile for the quarter and the 14th percentile for the one-year period in comparison to other public funds with market values of greater than \$10 billion in the Trust Universe Comparison Service (TUCS) peer universe. These recent investment returns will help stabilize the City's contribution to LACERS.

LACERS' consulting actuary will be conducting an Experience Study later this calendar year. The purpose of the Experience Study is to periodically reexamine the ongoing validity of the demographic and economic assumptions related to the pension plan. One of the key economic assumptions is the projected earnings on plan assets. LACERS' current assumption is 7.75%. A recent Issue Brief by the National Association of State Retirement Administrators (NASRA) indicates that the average assumption is 7.72%. A recent recommendation from the Los Angeles 2020 Commission called for significantly lowering this assumption for the City's pension systems.

Management Audit

Pursuant to the City Charter, the Controller, Council, and Mayor conduct a Management Audit of LACERS every five years. The most recent audit concluded in March 2014 with the release of the final audit report. The audit found that "...the System operated in a reasonably efficient and economical manner". Our staff and Board are working through the specific audit recommendations.

As always, we would be glad to answer any questions you may have on the issues contained in this memorandum or any other aspect of our administration of LACERS.

c: LACERS Board of Administration
Rick Cole, Deputy Mayor