



Securing Your Tomorrows

Eric Garcetti, Mayor of the City of Los Angeles
Neil M. Guglielmo, General Manager
Todd Bouey, Assistant General Manager
Lita Payne, Assistant General Manager
Rodney June, Chief Investment Officer

April 22, 2019

The Honorable Members of the Budget and Finance Committee
c/o Office of the City Clerk
City Hall, Room 395

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM - FISCAL YEAR 2019-20 PROPOSED BUDGET

Dear Honorable Members:

The City of Los Angeles, as Plan Sponsor of the Los Angeles City Employees' Retirement System (LACERS), is to be recognized for fully funding the actuarially required contribution every year, and for the leading practice of pre-funding the retiree health care commitment. This funding discipline ensures that promised benefits can be paid, maintains intergenerational equity, and is one of the best strategies to ensure the health of the fund into the future.

LACERS is pleased to share news of several key accomplishments this Fiscal Year including a new Strategic Plan, invigorated by the infusion of *innovation*; and the adoption of Performance Management and Budgeting, modeled by our first set of Business Plan Initiatives.

LACERS Strategic Plan

Toward our mission *to protect and grow our trust fund and to ensure the sustainable delivery of ethical, reliable, and efficient retirement services to our Members*, the new Strategic Plan reflects what is important to our stakeholders -- the Board, the Members, and our staff -- as expressed in focus groups and surveys as part of the strategic plan development process. The Strategic Plan focuses on seven core areas:

- I. To provide outstanding customer service
- II. To deliver accurate and timely Member benefits
- III. To improve value and minimize costs of Members' health and wellness benefits
- IV. To optimize long-term risk adjusted returns through superior investments
- V. To uphold good governance practices which affirm transparency, accountability, and fiduciary duty
- VI. To increase organizational effectiveness, efficiency, and resiliency
- VII. To recruit, retain, mentor, empower, and promote a high-performing workforce

To reach these goals, Performance Management and Budgeting is employed, which incorporates metrics and performance data into the budget process. Initiatives which are approved in the annual Business Plan are funded and held to specified performance measures. Monthly performance reports reviewed in-person by the Executive and Performance Team, keep key initiatives continuously progressing toward the performance target.

Major Accomplishments

In my first full year as LACERS General Manager, our Board, management team, and staff have demonstrated an unwavering commitment to our Members and dedication to continuously improving the organization. This list of accomplishments represents just some of what we have been able to accomplish this year, but does not represent all of the exciting projects we continue to work on.

- ★ New Strategic Plan developed with stakeholder input
- ★ Introduced new Performance Management and Budgeting approach
- ★ Conducted Actuarial Experience Study adopting Generational Mortality as a more accurate demographic assumption for determining future plans costs
- ★ Established 115 Trust for Retiree Health Program mitigating against future health benefit caps and allowing smoothing against potential future Retiree Member premium spikes
- ★ Launched LACERS Board Meetings via Council Phone
- ★ Creation of Benefits Analyst and Senior Benefits Analyst classifications
- ★ Received 2018 Award for Certificate of Achievement for Excellence in Financial Reporting
- ★ Received 2018 Award for meeting professional standards for plan funding and administration
- ★ Retired 1,043 Members between Fiscal Year 2017-2018, 17% increase from 2017 (894); Pre-ERIP 84% increase (566 retired in Fiscal Year 2006-2007)
- ★ Conducted Open Enrollment 2019 and roll-out of the ALEX software (more than 1,500 visits; more than 90% surveyed found it helpful) virtually assisting Members through their health benefit choices
- ★ LACERS negotiated +4% increase in health care costs for 2019 (actuarial medical trend rate is +8%)
- ★ Implemented Tier 1 Enhanced Benefits; 95% (469) of 501 Members elected to remain with LACERS
- ★ Handled more than 46,000 calls, 6.6% increase (an average of almost 1,000 calls each week)
- ★ Implemented an auto call back feature to reduce Member time spent on hold
- ★ Launched the new MyLACERS Member Portal allowing Members to access their own retirement information online in a secure environment
- ★ Initiated LACERS Well – “Purpose” Campaign

Member Experience

A continuing emphasis for LACERS into next Fiscal Year will be our focus on “Improving the Member Experience.” LACERS has established our service philosophy and service level commitment to our Members, and in addition to the numerous accomplishments stated above, we will engage in a number of major initiatives through the 2019-20 Fiscal Year including:

- Launching a brand new Member focused website facilitating ease of navigation and scalability
- Providing more channels of communication to engage with Members and more self-service options
- Seeking continuous feedback and customer service performance monitoring in an ongoing service performance improvement loop

Considerations for the Committee

There are a few areas LACERS would like to highlight and request the Budget and Finance Committee to consider as ways to continue to support the Retirement System.

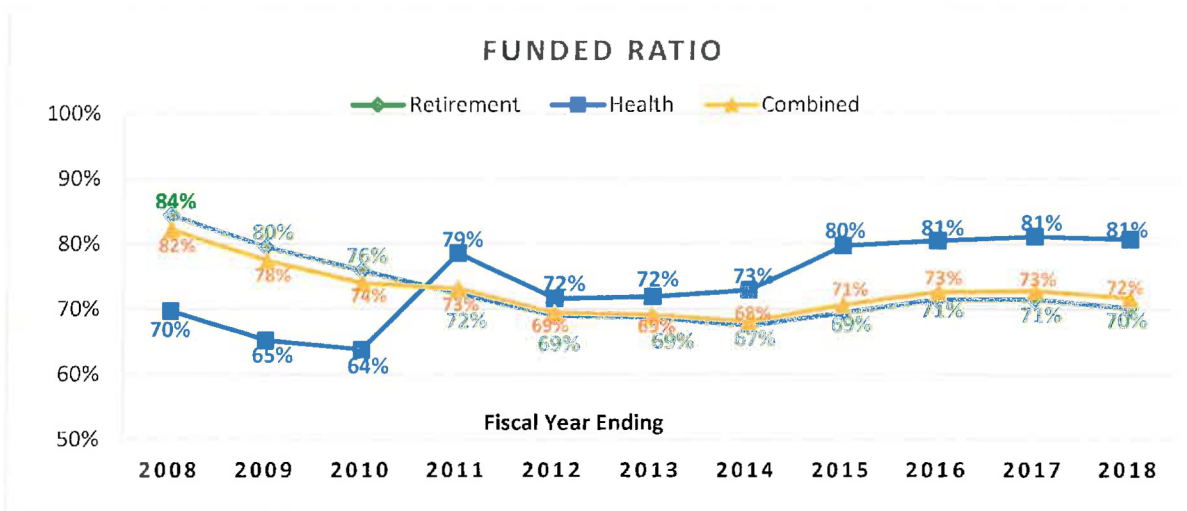
1) *Need for increased hiring support and flexibility*

Hiring has been an incredible challenge for LACERS, particularly for systems, accounting, and certain specialized staff. As such, LACERS offers a few suggestions that may readily improve this situation.

- Allow for campus interviews and on-campus job offers in entry level systems and accounting classifications contingent upon passing grades and completing a City background check. The recommended strategy has been successfully employed by the Department of Water and Power, and serves to introduce qualified students to a career of public service in the City of Los Angeles.
- Examine retention options for the Accounting and Systems series in order to better address turnover challenges.
- Offer open and continuous exams for the Benefits Specialist classification to ensure sufficient candidate pool availability.

2) *Improving the Fiscal Sustainability of the Plan*

LACERS is focused on improving the funded status of the Retirement System. While the City has met its actuarially required funding obligations, LACERS funded status has declined significantly over the past decade from 84 percent to 70 percent, even as compared to its sister City retirement agencies.



While there are a number of reasons for the lowered funded ratio, LACERS is committed to identifying opportunities to improve the long term funded status of the Retirement System, including recently adopting new demographic assumptions such as Generational Mortality to better reflect the costs of the System. LACERS would also like to highlight an opportunity for the City to consider similar to a practice the State of California (State) has recently engaged in addressing its own pension obligations during its budget process.

April 23, 2019

Page 4

Recently and proposed for next fiscal year's State budget, additional pension contributions above the required payments are being made into the State pension systems. The basic premise is that unused or surplus dollars generate greater value when invested with the pension system than in the State's coffers. This benefit is multiplied as these dollars generate greater return than the State would realize in its own treasury while simultaneously improving the funding to the pension systems and reducing long term costs to the State.

According to analysis by the State Legislative Analyst's Office (LAO), "Similar to the supplemental payment made in 2017-18, this proposal would save the state money over the long-term. Over the next few decades, CalPERS would have more assets earning investment returns for more time—resulting in lower employer contributions than would otherwise be the case." The LAO projects that an initial \$3 billion supplemental payment would accrue \$6.3 billion on net savings to the State over 30 years.

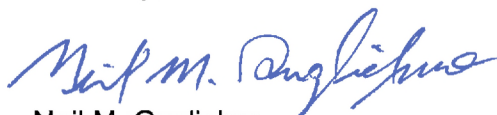
Making additional payments to the Unfunded Accrued Actuarial Liability of the Retirement System is fiscally prudent and LACERS is prepared to engage in discussion with the City and supports analysis and consideration of options that would allow the City to pursue this path.

3) *Neighbor Council Budget Advocates' White Paper*

As in prior years the Neighborhood Council Budget Advocates (NCBA) have released their Budget White Paper providing recommendations to the Mayor and City Council, including several pertaining to the retirement systems which warrant discussion. LACERS met with the NCBA in their review and preparation of their recommendations and we have provided our comments in response to recommendations directed to LACERS to the Office of the City Administrative Officer for inclusion in their report to the City Council. We look forward to discussing any of these recommendations with the Budget and Finance Committee.

Thank you for the opportunity to address the Committee. We appreciate your consideration and are pleased to answer any questions you may have.

Sincerely,



Neil M. Guglielmo
General Manager

cc: Matthew Szabo, Office of the Mayor
Miguel Sangalang, Office of the Mayor
Richard H. Llewellyn, City Administrative Officer
Maria D. Gutierrez, Office of the City Administrative Officer
LACERS Executives