


#24

RECEIVED
AUG 03 2010

CITY RETIREMENT SYSTEMS

August 3, 2010



CAO
CITY AND COUNTY FINANCIAL OFFICER

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

CAO
CITY AND COUNTY FINANCIAL OFFICER

2

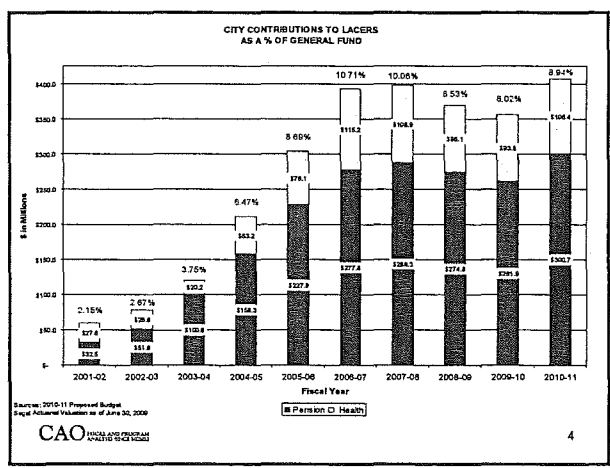
LACERS Fast Facts

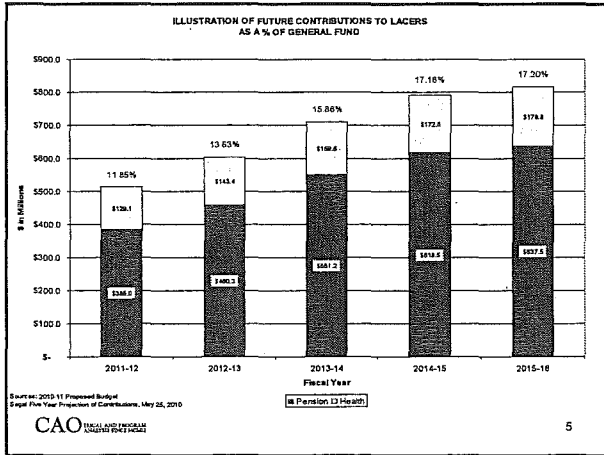
For the Fiscal Year Ended, June 30, 2009:

- 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

CAO
CITY AND COUNTY FINANCIAL OFFICER

Sources: Segal Valuation & CAFR, June 30, 2009 3





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

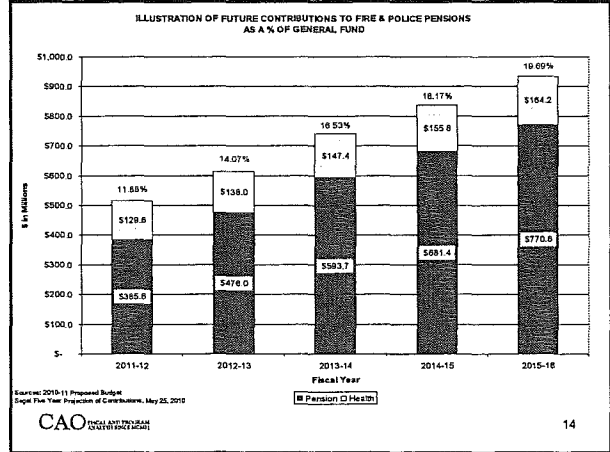
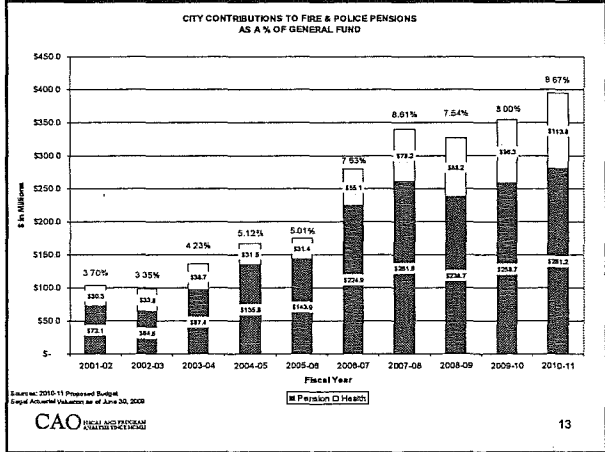
Annual Cost-of-Living Adjustment Increases for Retired Members					
Effective Date	Average CPI	Approved COLA	Max. COLA	Difference	COLA Bank
7/1/2009	3.50%	3.00%	3.00%	0.50%	0.5% banked
7/1/2008	3.30%	3.00%	3.00%	0.30%	0.3% banked
7/1/2007	4.30%	3.00%	3.00%	1.30%	1.3% banked
7/1/2006	4.50%	3.00%	3.00%	1.50%	1.5% banked
7/1/2005	3.30%	3.00%	3.00%	0.30%	0.3% banked
7/1/2004	2.60%	2.60%	3.00%	-0.40%	Up to 0.4% was used from bank
7/1/2003	2.80%	2.80%	3.00%	-0.20%	Up to 0.2% was used from bank
7/1/2002	3.30%	3.00%	3.00%	0.30%	0.3% banked
7/1/2001	3.30%	3.00%	3.00%	0.30%	0.3% banked
7/1/2000	2.30%	2.30%	3.00%	-0.70%	Up to 0.7% was used from bank

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)

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)



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

CAO
CITY OF CHICAGO
OFFICE OF THE CITY AUDITOR

15

Fire & Police Pensions Plan Design

	Tier 4	Tier 5
Normal Retirement	No Minimum Age; 20 Years of Service	Age 50; 20 Years of Service
Pension Percentage		
20 Years	40%	50%
25 Years	55%	65%
30 Years	70%	81%
33 Years	70%	90%

CAO
CITY OF CHICAGO
OFFICE OF THE CITY AUDITOR

16

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

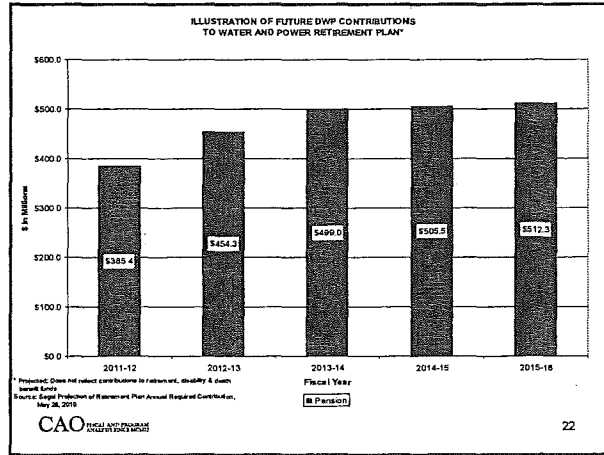
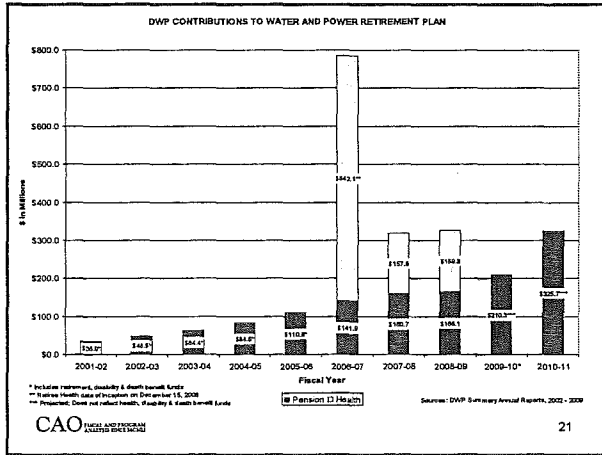
Fire & Police Pensions Plan Design

- 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



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%

CAO CITY AND COUNTY OF DENVER
23

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%

CAO CITY AND COUNTY OF DENVER
24

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

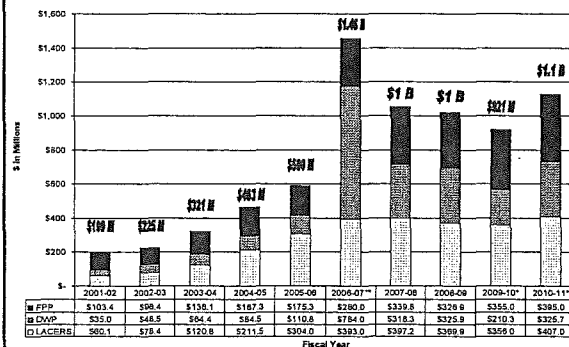
DWP Retirement Plan Design

- 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

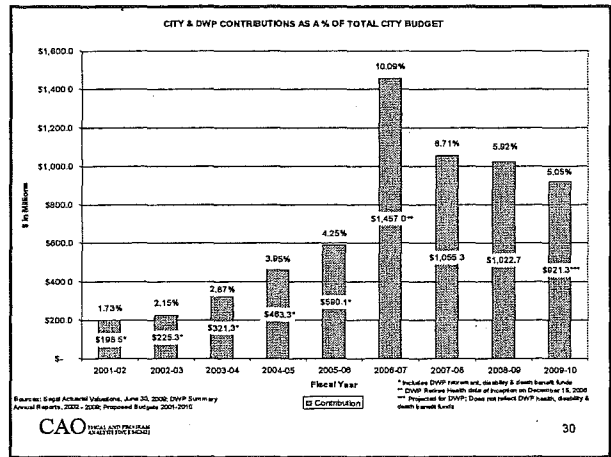
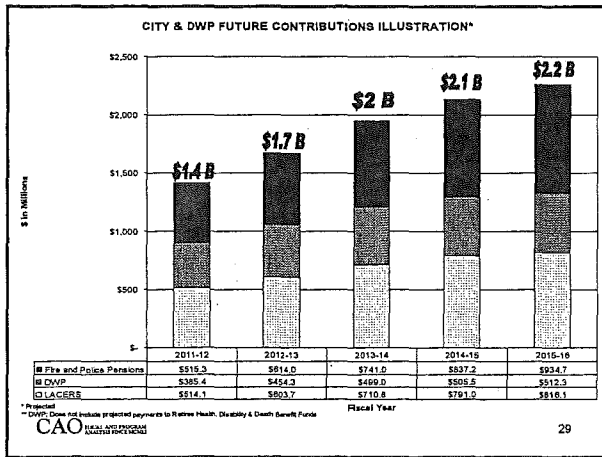
DWP Retirement Plan Design

- 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



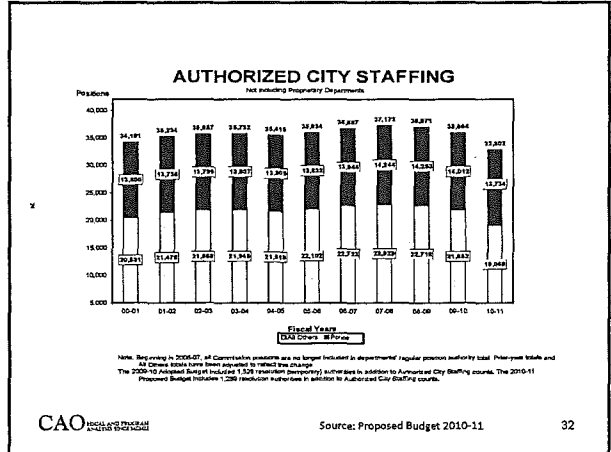
* DWP: Does not reflect retirement, disability & health benefit costs
 ** DWP: Retiree Health care of inception on December 15, 2006



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

CAO



LACERS Cost-of-Living-Adjustments

Effective Date	Average CPI	Approved COLA
7/1/2009	3.50%	3.00%
7/1/2008	3.30%	3.00%
7/1/2007	4.30%	3.00%
7/1/2006	4.50%	3.00%
7/1/2005	3.30%	3.00%
7/1/2004	2.60%	2.60%
7/1/2003	2.80%	2.80%
7/1/2002	3.30%	3.00%
7/1/2001	3.30%	3.00%
7/1/2000	2.30%	2.30%

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 = $1.62\% (\text{Age } 65) \times \text{Years of Service} \times \text{Salary}$

DC Formula = Employer matches up to 2% of employee salary

State of Georgia (Hybrid Plan)

DB Formula = $1\% \times \text{Years of Service} \times \text{Salary}$

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

CAO CITY AND COUNTY OF DENVER

Source: www.ssa.gov/planners

45

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

CAO CITY AND COUNTY OF DENVER

46

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

CAO CITY AND COUNTY OF DENVER

47

Proposed New Tier Designs

- Move to sustainability
- Long-term cost savings
- Applicable to new hires only

CAO CITY AND COUNTY OF DENVER

48

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

CAO

49

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

CAO

50

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

CAO

51