



PENSION REFORM: LACERS TIER II

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City of Los Angeles
September 25, 2012

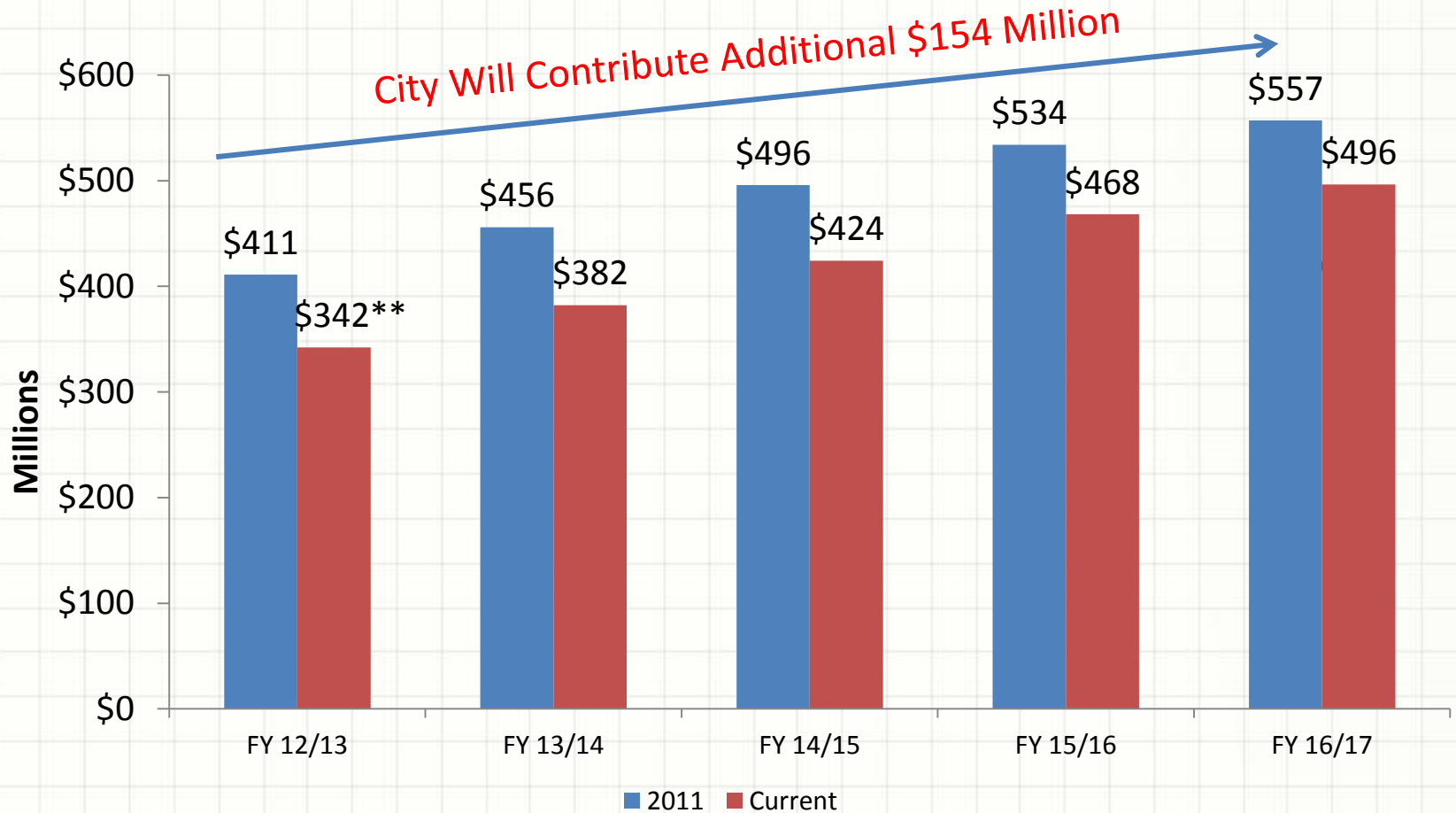
City Goals

- Sustainable Pension Plan
- Reduce City's Mid and Long Term Budgetary Deficits With Minimal Service Impacts
- Provide Competitive Benefits With Public & Private Sector
- Maintain Defined-Benefit Plan
- Preserve Retiree Healthcare for Employees
- Risk Sharing Components
- Only Applicable to New Hires that are Members of LACERS
- Eliminate Pension Spiking
- Save \$3.9 - \$4.3 Billion Over 30 Years
- Target July 1, 2013 Implementation

Financial Projections

- The City's Annual General Fund Contribution to LACERS is Projected to Reach Nearly \$500 Million in FY 16/17 (45% Increase)
- LACERS Unfunded Liability Is Projected to Reach \$6 Billion in FY 16/17 (45% Increase)

Illustration - City Contributions to LACERS*



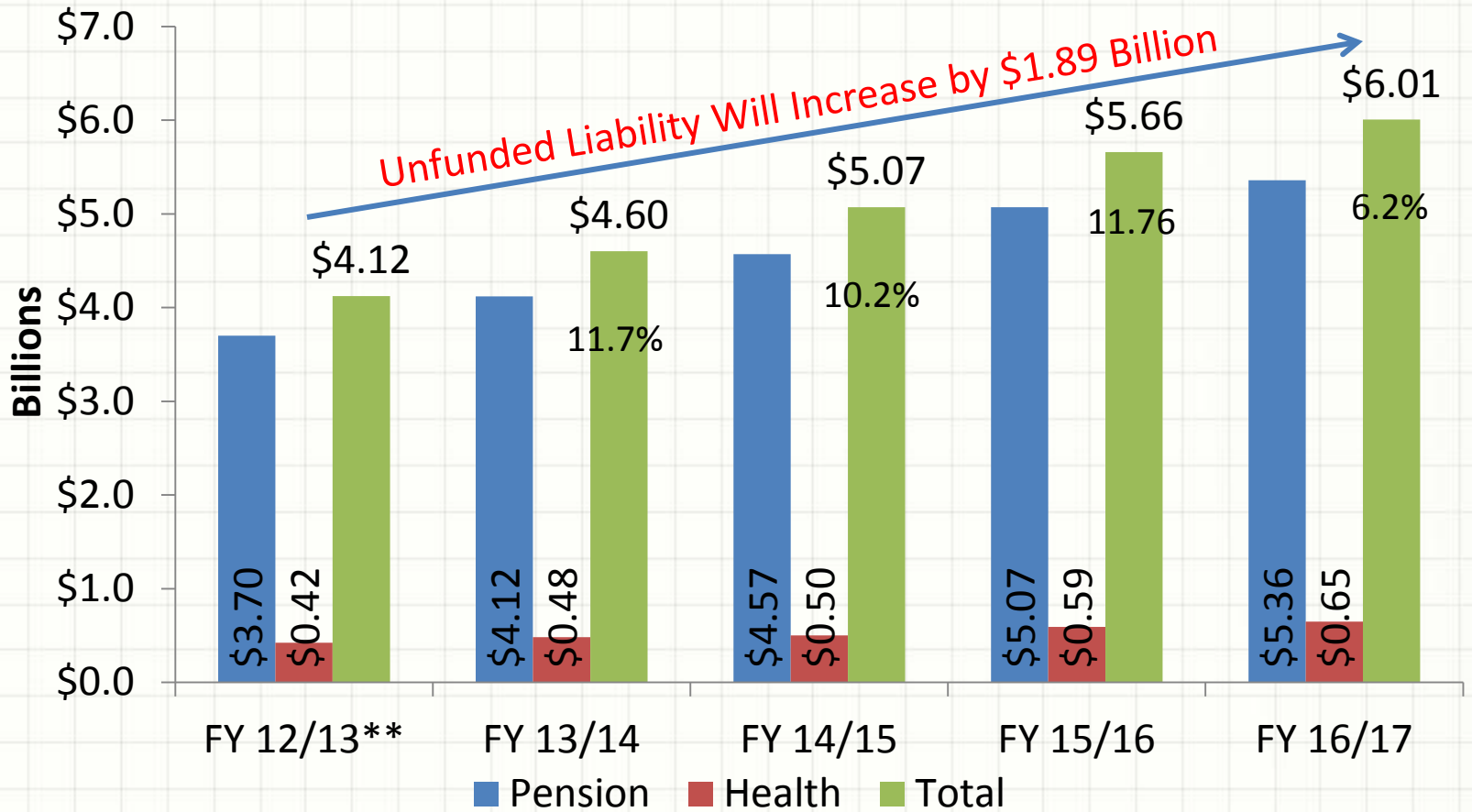
* Includes contributions for positions that are special fee, grant fund and special fund supported. Excludes Harbor and Airports Departments. Current is based on Segal "Five-Year Projection of Contributions, Funded Ratio, UAAL," dated 1/13/12. 2011 based on Segal "Five-Year Projection of Contributions, Funded Ratio, UAAL," dated 4/19/11. ** Actual Contribution Amount.

Cost of City Services

\$154 Million Is the Equivalent of Funding:

- 2,169 Civilian Worker Salaries; or
- 15 Aquatic Programs; or
- 770 Police Officer or Firefighter Hires; or
- 850 Ambulances; or
- 25 Libraries Receiving New Books; or
- 11 Helicopters; or
- 256 Miles of Street Reconstruction; or
- 440 Miles of Street Restoration; or
- 7.3 Million Potholes Repaired

Illustration - LACERS Unfunded Liability*



* Based on Segal "Five-Year Projection of Contributions, Funded Ratio, UAAL," dated 1/13/12.

** Actual amount based on Segal Actuarial Valuation for the Year Ended June 30, 2011.

Proposed New Tier Plan Design

- Modifies Retirement Age & Factor
- Caps Retirement Allowance to 75% of Final Compensation
- Secures 1-Party Healthcare Coverage for Retired Member
- Cost Sharing of Normal Cost & Unfunded Liabilities
- Addresses Pension Spiking
- Modifies Disability Retirement & Survivor Continuance Benefits

Proposed Service Retirement

- Normal Retirement (Full Allowance)
 - Age 65 with 10 Years of Service
 - Age 70
- Early Retirement (Reduced Allowance)
 - Age 55 with 10 Years of Service
- Retirement Factors Range from 0.77% (Age 55) to 2% (Age 65)
- Maximum Retirement Allowance is 75% of Final Compensation

Sample Benefit Factors

Retirement Age	Current	Proposed
55	2.16%*	0.77%
56	2.16%*	0.84%
57	2.16%*	0.92%
58	2.16%*	1.01%
59	2.16%*	1.11%
60	2.16%	1.22%
61	2.16%	1.34%
62	2.16%	1.48%
63	2.16%	1.63%
64	2.16%	1.81%
65	2.16%	2.00%

* LACERS member is at least Age 55 with 30 years of service; If LACERS member is less than Age 60 and/or has less than 30 years of service, the factor would be reduced based on early retirement reduction factors

Retirement Allowance Examples (Age 65 and 30 Years of Service)

Job Classification	Final Salary	Current Retirement Allowance (Tier I)	Proposed Retirement Allowance (Tier II)
Custodian	\$39,358	\$25,504	\$23,615
Senior Clerk Typist	\$58,610	\$37,979	\$35,166
Police Service Representative II	\$68,736	\$44,541	\$41,242
Management Analyst II	\$85,837	\$55,622	\$51,502
Deputy City Attorney	\$129,957	\$84,212	\$77,974
Chief Management Analyst	\$155,493	\$100,759	\$93,296

Employee Contributions

- 75% of Normal Cost plus 50% of Unfunded Liability
- Contribution Rate Adjusts Every 3 Years
 - May Adjust Up or Down
- Actuary Calculates Initial Contribution Rate to be 10% of Pay
 - Average Initial City Worker Contribution of \$7,200
 - Most Current Employees Contribute 11%

Retiree Healthcare

- For Non-Medicare Members:
 - Subsidy Tied to Lowest 1-Party Rate
 - 40% of Subsidy After 10 Years of Service
 - 100% of Subsidy After 30 Years of Service
- For Medicare Members:
 - 75% of Medicare Subsidy at 10 Years
 - 90% of Medicare Subsidy at 15 Years
 - 100% of Medicare Subsidy at 25 Years
- Subsidy is for Retired Member Only
- Initial Maximum Subsidy is \$596/month
- Includes Dental benefits (same as LACERS Tier I)

Other Plan Design Features

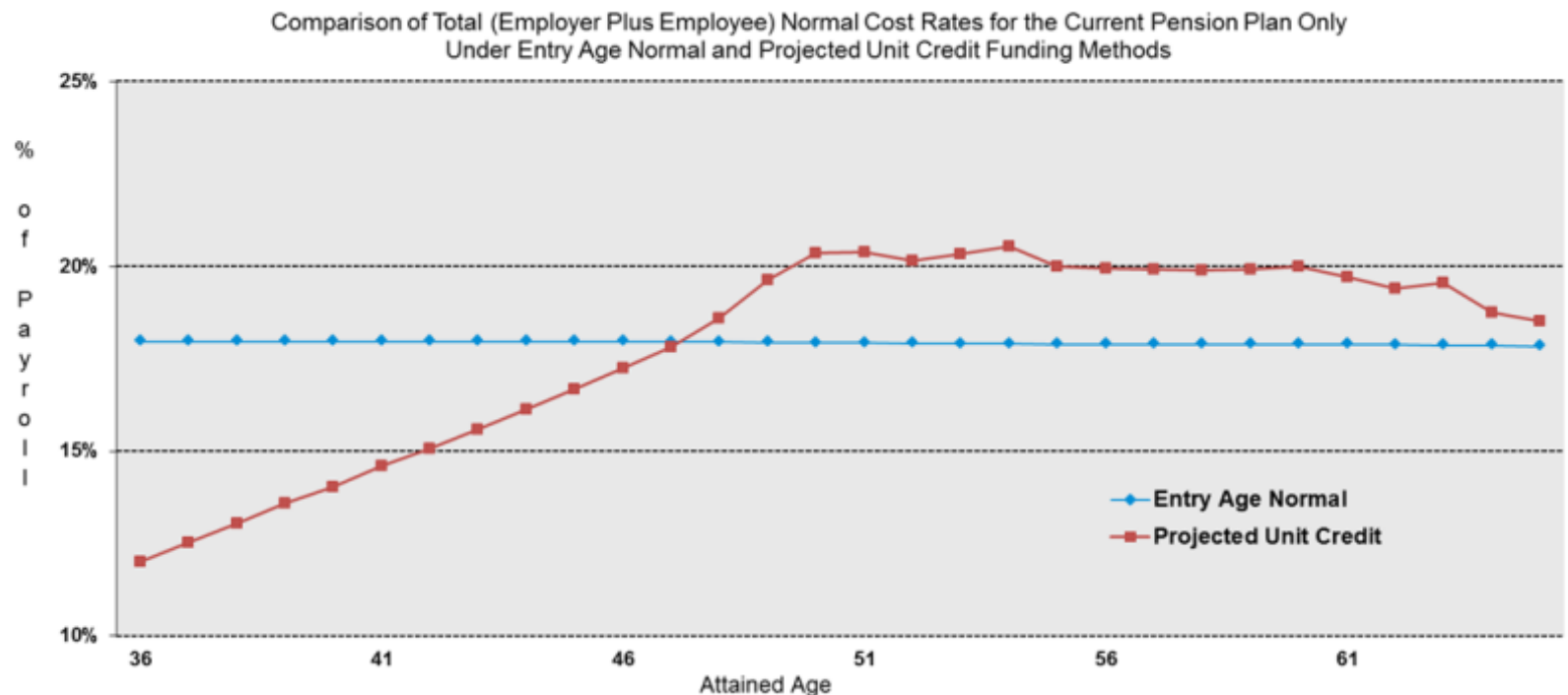
- Prevents Pension Spiking
 - Final Compensation is Based on the Highest 3 Year Average
 - Bonuses Do Not Count for Final Compensation Purposes
- 2% Maximum Annual COLA
 - Tied to CPI
 - Member May Purchase Additional COLA (1%)
 - Eliminates COLA Banking
 - Maintains Discretionary Adjustments by Council
- Cost Neutral Service Credit Purchases
 - Member Pays Full Actuarial Cost
 - Up to 4 Years Maximum Purchasable

Other Plan Design Features

- Disability Retirement
 - Reduces Factor from 1/70 (Tier I) to 1/90 (Tier II)
 - Eliminates 1/3 of Final Average Pay Calculation
 - Increases Eligibility Requirement from 5 to 10 Years
- Survivor Benefits
 - Member May Purchase Coverage Via Annuity
 - Eliminates 50% Continuance & Health Subsidy
 - Maintains \$2,500 Lump Sum Death Payment

Actuarial Valuation Cost Methodology, Part 1

- Projected Unit Credit (PUC) = Normal Cost Increases as Member Gets Closer to Retirement
- Entry Age Normal (EAN) = Normal Cost Remains a Level Percentage of Pay Over Member's Career
- EAN is Industry Best Practice



Note: This graph is intended for illustration purposes only and does not reflect actual costs of the plan.

Actuarial Valuation Cost Methodology, Part 2

- PUC is Currently Utilized for Active Members
- Existing Policy Utilizes EAN for Tier II
- Tier II Actuarial Study Will Contain Costing Information Under Both Methodologies
- Changing Methodology (PUC to EAN) for Active Members is Currently Being Studied

Illustration – Tier II Savings

Year	Fiscal Year	Actual* Annual	Actual* Cumulative	EAN* Annual	EAN* Cumulative
1	2014	\$1,502	\$1,502	\$4,682	\$4,682
5	2018	\$10,769	\$29,879	\$21,696	\$70,028
10	2023	\$42,647	\$168,997	\$67,081	\$308,804
15	2028	\$102,970	\$552,380	\$121,502	\$805,122
20	2033	\$175,088	\$1,271,698	\$184,394	\$1,596,491
25	2038	\$251,233	\$2,373,844	\$258,511	\$2,737,035
30	2043	\$333,771	\$3,870,224	\$343,576	\$4,281,952
Present Value (3.75% discount rate)			\$1,734,523		\$1,985,351

* “Actual” columns reflect the difference between the cost of the current plan benefits as currently funded under the PUC method and the proposed benefits funded under the EAN method. “EAN” columns reflect the difference between the current plan benefits and proposed benefits if both were funded under the EAN method.

Other Jurisdictions

Plan Design	Proposed Tier II	San Francisco	San Jose	San Diego	New Jersey	California
Type	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution	Defined Benefit	Defined Benefit
Retirement Age (Max. Factor)	65	62	65	N/A	65	67
Max. Retirement Factor	2.0%	2.3%	2.0%	N/A	0.50%	2.5%
Maximum Allowance	75%	75%	65%	Account Balance	50%	100% with cap at \$110,100
Employee Contribution	10% (initial) (75%/25% Normal Cost; 50%/50% Unfunded Liab.)	7.5% May adjust up to 13.5%	Unknown 50%/50% Normal Cost	Variable; 9.2% Maximum City Contribution	6.5% Will increase to 7.5% in 2018	8% 50%/50% Normal Cost
Retiree Healthcare	\$596/mo. max. subsidy	\$1,761/mo. max. subsidy	\$1,235/mo. max. subsidy	\$740/mo. max. subsidy or DC option	Retiree pays Full Cost	\$1,319/mo. max. subsidy
Final Compensation	3 Years	3 Years	3 Years	Account Balance	5 Years	3 Years
COLA	2%/year No Bank	2%/year Bank	1.5%/year No Bank	Account Balance	Suspended	3% Max.