



Securing Your Tomorrows

Date: April 20, 2017

To: The Honorable Members of the
Budget and Finance Committee

From: Thomas Moutes, General Manager 
Los Angeles City Employees' Retirement System

SUBJECT: FISCAL YEAR 2017-18 BUDGET HEARINGS

Thank you for the opportunity to submit a memorandum in advance of your budget hearings. Pursuant to your request, our memorandum mainly focuses on LACERS use of best practices and departmental metrics.

LACERS Use of Best Practices

Our use of Best Practices includes:

Departmental Administration

- Recently, we hosted a Pension Symposium to educate all of our stakeholders regarding the national perspective of state and local public pensions; an overview of LACERS; and the upcoming risks that all public pension funds, like LACERS, face.
- LACERS has earned a Certificate of Achievement for Excellence in Governmental Accounting and Financial Reporting by the Government Finance Officers Association (GFOA) of the United States and Canada for our Comprehensive Annual Financial Report. LACERS has earned this award every year since 1999.
- LACERS continues to actively promote and celebrate its Guiding Principles of Character, Kindness, Professionalism, Respect, and Teamwork.

Investments

- LACERS commissions investment program benchmarking reports. These reports consistently have concluded that: our net total returns were above the U.S. public median; our net value added was above the U.S. public median; and our fund had slightly lower fees compared to our peers.

Retiree Health Benefits

- LACERS retiree medical cost increases are well below the actuarially-assumed medical increase rate (4.8% annual increases versus a 8.8% annual trend rate over the last ten years) due to:
 - Our use of data analytics to better understand our retirees' health plan utilization and related costs;
 - Adopting intelligent plan design changes;
 - Going out to RFP frequently; and
 - Implementing a retiree-only wellness program.

Benefit Administration/Technology

- We are nearing the completion of the multi-year replacement project of our Pension Administration System (PAS). Our new PAS will differ from our current system as it will not only serve as a data warehouse, but will have our benefit policies and processes embedded within it to create significant efficiencies in our benefits administration, especially when combined with our process reengineering project.
- Our process reengineering project aims to optimize and automate our processes to the greatest possible extent. The process reengineering project will include front-end scanning, automated workflows, a relatively paper-free environment, and enhanced customer service.

Risk Management

- LACERS scored well on the cyber resilience review conducted on behalf of the City by the U.S. Department of Homeland Security. Our score reflects that cybersecurity is a Department priority and that our efforts in this area are extensive and continuous.
- We continuously update, enhance, and test our Business Continuity Plan.

We are proud of the best practices we have implemented and continuously look for opportunities to improve our staff capabilities and our organization.

Departmental Metrics

LACERS uses metrics to ensure timely completion of projects and the maximization of program efficiency and effectiveness.

Our metrics include:

- Measuring the progress of our multi-year Pension Administration System replacement project;
- Ensuring excellence in customer service through customer satisfaction surveys. The surveys measure satisfaction with counseling, seminars, and workshops with a goal of at least 90% member satisfaction;

- Ensuring ongoing compliance with regulatory requirements;
- Using medical plan utilization data analytics to identify cost drivers that can be changed and working with medical plan carriers to mitigate the impacts of those cost drivers;
- Ensuring continuing education of our staff and Board; and
- Measuring the effectiveness of the active managers in our investment portfolio.

We will continue to grow our performance metrics, especially as our PAS comes on-line during the 2017-18 fiscal year.

City Contribution Outlook

Essentially, the City's contribution to LACERS is calculated by multiplying the percent of payroll calculated by our consulting actuary and adopted by our Board by the payroll of the employees covered by LACERS.

Despite the expected increase in the payroll for the employees covered by LACERS in the next fiscal year, the City's contribution to LACERS will decrease based on the lower percent of payroll adopted by our Board and the result of the true-up process for the current fiscal year (the actual 2016-17 payroll is lower than was anticipated in last year's budget process).

In the coming years, it is quite likely that the percent of payroll calculated by our actuary will increase even if our actuarial assumptions remain unchanged and we exactly meet all of those assumptions. As was discussed at our Pension Symposium, many pension plans are anticipating lower rates of investment return in the coming years and also are anticipating mortality improvements. Changes to the investment return and/or mortality assumptions would increase the near-term City contribution rates.

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
Matt Szabo, Deputy Mayor