2.3% @ 65
2.16% @ 65
80% cap
90% cap

**LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM**

***Proposed New Tiers of Benefit for New Entrants
Based on Proposals from the City
(Pension Plan and Retiree Medical Plan)***

SEGAL

The Segal Company
100 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

January 10, 2011

Mr. Thomas Simonovski
Senior Labor Relations Specialist
City of Los Angeles
200 N. Main Street, Room 1200
City Hall East
Los Angeles, CA 90012-4190

Dear Thomas:

We are pleased to submit our study of proposed benefits for new members of the Los Angeles City Employees' Retirement System (LACERS).

As the proposed tiers would only be offered to new employees, for which actual data is not available, we have assumed in this valuation that their demographic profiles (e.g., entry age, composition of male versus female, etc.) can be approximated by the data profile of current active members hired in the three years prior to the most recent valuation as of June 30, 2010. No current inactive vested members, retirees, or beneficiaries have been included in this valuation. With the exception of the service retirement assumptions and the Entry Age Normal funding method adopted by the Board of Retirement for new tiers of benefit, this study uses the same actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2010 valuation. A brief description of the methodology used to select the service retirement assumptions for the proposed new tiers is provided in Section 1.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary and Patrick Twomey, ASA, MAAA, Enrolled Actuary. Both are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,

THE SEGAL COMPANY

By:

Paul Angelo, FSA, MAAA, EA
Senior Vice President and Actuary

Andy Yeung, ASA, MAAA, EA
Vice President and Associate Actuary

DNA/hy

BASIS FOR CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact of the proposed new tiers, this study assumes that the demographic profiles of the members entering the new tiers would be comparable to current active members hired in the three years prior to the June 30, 2010 actuarial valuation.

  For comparison purposes only, we have calculated the employer and employee Normal Cost contribution rates for the pension and the health plans for members hired in the three years prior to the June 30, 2010 actuarial valuation under the current benefit formulas, and we compared these rates with the Normal Cost contribution rates under the proposed tiers of benefit.

- We have shown the employer Normal Cost rates for the pension and health plans under the proposed tiers in Section 2B of this report. If any of the proposed tiers are adopted by the City, we assume that the LACERS Board of Retirement would be requested to adopt a tier-specific employer Normal Cost rate for each of the current and the new tiers of benefit for the pension and health plans. This means that the aggregate employer Normal Cost rates for the pension and health plans would gradually decline, as a higher proportion of the total future active employee payroll would be subject to the lower employer Normal Cost rates required for the new tier of benefit.

- In addition to the employer Normal Cost rates provided in Section 2B, it is anticipated that the employer would have to continue to contribute the same Unfunded Actuarial Accrued Liability (UAAL) rates of 11.02% and 3.03% of <u>total</u> payroll for the pension and health plans*, respectively, that were determined in the June 30, 2010 valuation. This is because the UAAL rates were determined as a level percent of pay including payrolls for all current members plus new entrants who entered LACERS after June 30, 2010.

* Assumes contributions are made at the beginning of the year.

ASSUMPTIONS AND METHODOLOGIES

- Most of the actuarial assumptions used in this study are the same as those adopted by the Retirement Board for use in the June 30, 2010 valuation.

  Under the current pension formula, normal retirement age to receive an unreduced retirement benefit is based on attaining the minimum of: (1) age 60 with 10 years of service, (2) age 55 with 30 years of service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement between 55 and 60 and 3.0% for each year of retirement before age 55.

  The current retirement rates (probabilities) are structured to anticipate lower incidences of retirement for members who have not yet attained age 55 with 30 years of service and so can retire but with a reduced early pension benefit, while using relatively higher retirement rates for members after they attain age 55 with 30 years of service since they can receive an unreduced pension benefit.

- As discussed in the following Benefit Provisions subsection, we have been requested to estimate the potential cost impact of a new tier based on two main City proposals. There are more restrictive age and service requirements under each of the proposed tiers for a member to receive an unreduced pension benefit (i.e., normal retirement age). Since the retirement benefit factors vary for each of the two main proposals, we have adjusted the retirement rates accordingly. In general, where proposed retirement factors are lower than under the current pension formula we would typically lower the retirement rates, and where proposed retirement factors are higher than under the current pension formula we would typically increase the retirement rates.

  In the June 30, 2010 valuation, separate sets of retirement assumptions would apply before and after members attain eligibility for unreduced benefits upon attaining age 55 with 30 years of service. For the proposed tiers, we have retained the current structure of having two sets of retirement assumptions for members with and without 30 years of service. While there is no specific trigger upon reaching 30 years of service (e.g., unreduced retirement or a maximum retirement allowance), members with 30 years of service are still deemed more likely to retire than members with less service due to their higher benefit. Those with at least 30 years of service generally have a higher “replacement ratio” (i.e., post-retirement income vs. pre-retirement income) making them more able to retire and thus more likely to retire. These service retirement assumptions would need to be reviewed as retirement experience under the new tiers becomes available.

  The detailed retirement rates are provided in Section 3, Exhibit I.

- The funding method used by the Board of Retirement for the current benefit formula is called the Projected Unit Credit (PUC) method. Under the PUC method, the City's Normal Cost rates for the current tier would be about the same from one annual actuarial valuation to the next provided that the average attained age of the active employee population remains relatively stable between valuations. As new employees enter the proposed tier, the average attained age of the remaining active employees in the current tier will increase. This will result in a gradual increase in the City's Normal Cost rates for the current tier even though there is no change in the benefit for the current tier. As the increase in the City's Normal Cost rates for the current tier is more closely related to the PUC funding method than to the proposed tier of benefit, we have not analyzed such cost impact for the current tier in this report.

  The Board of Retirement has approved the Entry Age Normal (EAN) method for use in setting the contribution rates for any new tier of benefit. Under the EAN method, the Normal Cost rates for an individual employee is expected to stay level as a percent of payroll throughout that employee's career.

  When the City compares the cost of the current tier with the proposed tiers, the same discussion provided above regarding the change in the City's Normal Cost rates under the PUC funding method for all the active members covered under the current tier may have to be taken into consideration. In order to provide the City with an "apples-to-apples" comparison of the cost under the current and the proposed tiers, we have also calculated the City's Normal Cost for the current tier under the EAN method.

  The Normal Cost rates for new entrants (with an average age of 36 based on members hired during the last three years) under the current tier calculated using both the PUC and the EAN methods and under the proposed tiers calculated using only the EAN method are provided in Section 2B.

  Additional Discussion Regarding PUC and EAN Methods

  The ultimate costs (ignoring expenses) for the Retirement Plan and the Health Subsidy Plan are the actual benefits paid from the Plans. Each year, an actuarial valuation is completed to develop an annual contribution for each Plan. The valuation uses a funding method to allocate the ultimate costs to each year of service, and thus among past service, current service, and future service. The cost attributed to the current year of service is the Plan's normal cost. The cumulative cost attributed to past service is the Plan's actuarial accrued liability. The Plan's annual contribution is the normal cost, plus an amortization amount for the Plan's unfunded actuarial accrued liability (UAAL).

  Under the PUC method, the normal cost is the present value of the benefit "earned" during the year, but based on projected pay levels at retirement. For an individual member, the PUC normal costs increase each year (both in dollar amount and as a percentage of pay) because even though the benefit "earned" each year is constant, the present value increases as the member gets a year closer to retirement. Under the EAN method, the normal cost is specifically determined in order to remain a level percentage of pay over the member’s career.

For each member, the PUC normal cost starts lower than the EAN normal cost, and eventually becomes higher. This crossover occurs because the PUC method will have to make up for the lower level of contributions during the earlier stages of the member’s career. The crossover point where PUC normal costs become higher than EAN normal cost is dependent on each plan’s benefit structures. Therefore, even with the same plan population, a method change from PUC to EAN can increase the normal cost for some plan designs and decrease the normal cost for others.

BENEFIT PROVISIONS

- A comparison of the major benefit provisions under the current and the proposed tiers is provided in Section 3, Exhibit II.

  These benefit provisions are based on two main proposals by the City. Note that both of the main City proposals have two scenarios on maximum retirement allowance expressed as a percent of Final Compensation (referred to as scenario A and scenario B), resulting in four City proposals overall. Hereafter we refer to the four total proposals as (1) City Proposal #1A (i.e., main City proposal #1, scenario A), (2) City Proposal #1B, (3) City Proposal #2A, and (4) City Proposal #2B.

- Under the current pension formula, normal retirement age to receive an unreduced retirement benefit is based on attaining the minimum of: (1) age 60 with 10 years of service, (2) age 55 with 30 years of service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement between 55 and 60 and 3.0% for each year of retirement before age 55.

  Under the proposed tiers, normal retirement age for unreduced benefits is age 65 with 10 years of service for both of the City's Proposals.

- The current pension formula is *Normal Retirement Factor (2.16%) x Final Compensation x Service Credit x Early Retirement Reduction Factor (age based)*.

  Under the proposed tiers, the pension formula is *Retirement Factor (age based) x Final Compensation x Service Credit*.

  Retirement Factors at sample ages are provided below (note that the complete set of Retirement Factors is provided in Section 3, Exhibit II).

	Retirement Factor		
Age	**Current***	**City Proposal #1**	**City Proposal #2**
50	1.67%	N/A	N/A
55	2.00%	1.16%	1.16%
57	2.06%	1.40%	1.40%
60	2.16%	1.76%	1.76%
65	2.16%	2.30%	2.16%

* With Early Retirement Reduction Factor applied.

- In the June 30, 2010 valuation, employees hired on or after January 1, 1983 under the current tier pay a fixed rate of 6% of payroll to fund part of the Normal Cost contribution rates for the pension plan but do not participate in the payment of any Normal Cost for the health plan. The employees also do not pay any of the cost to amortize the UAAL for the pension and the health plans.

  According to the 2009 Early Retirement Incentive Program (ERIP) Ordinance, the 6% Normal Cost rate paid by the employee will increase to 7% for all active members (including new hires under the current tier) beginning July 1, 2011 and ending June 30, 2026 (a 15-year period), or until the "ERIP Cost Obligation" is fully paid, whichever comes first.

  Under City Proposals #1 and #2, new members would contribute 9% toward the pension plan (with no adjustment for the ERIP Ordinance), and 2% toward the health plan to secure one party coverage (e.g., single) or 4% to secure two party coverage (e.g., married). In order to develop an aggregate employee contribution rate for single and married members combined under the health plan, we have utilized the percentage of active employees as of June 30, 2010 who were male or female and applied the percent assumed to be married and receive a medical subsidy at retirement. Overall, this corresponds to an aggregate employee rate of about 3% for the health plan.

- Aside from the change in the employee contribution rates, there are no other proposed changes in health plan benefits under any of the City proposals. The change in the employer normal cost rates for the proposed health plans, as shown in Section 2, takes into account the new employee rate paid at the end of each pay period, the refund of some of those contributions, and the change in the service retirement rates assumed for this study that anticipate generally later retirements for the new members.

A. Demographics as of June 30, 2010

	Hired During the Last Three Years
Active members in valuation*:	
Average entry age	36.0
Projected average compensation – base salary plus assigned bonuses or premium pay	$61,212
Approximate number of new employees hired in each year	700

* *The data used for this study is based on the June 30, 2010 valuation and it includes the data for members hired in the three years prior to the June 30, 2010 valuation date.*

B. Comparison of Contribution Rates Before and After Change in Benefit Formula

(Based on Demographics of Employees Hired During the Last Three Years with an Average Entry Age of 36)

	NORMAL COST			
	Employer Rate		Member Rate	
Current Benefit Formula	% of Payroll[1]	Estimated Average Annual Amount[2]	% of Payroll (paid bi-weekly)	Estimated Average Annual Amount[2]
Projected Unit Credit Method				
Pension Plan	5.35%	$3,275	7.00%	$4,285
Health Plan	3.14%	1,922	0.00%	0
Total	8.49%	$5,197	7.00%	$4,285
Entry Age Normal Method				
Pension Plan	10.83%	$6,629	7.00%	$4,285
Health Plan	4.36%	2,669	0.00%	0
Total	15.19%	$9,298	7.00%	$4,285

[1] *The employer normal cost rates shown are assumed to be paid on July 15.*

[2] *These per member amounts are based on June 30, 2010 average annual base salary plus assigned bonuses or premium pay of $61,212 for active members hired in the past three years.*

B. Comparison of Contribution Rates Before and After Change in Benefit Formula (continued)
(Based on Demographics of Employees Hired During the Last Three Years with an Average Entry Age of 36)

	NORMAL COST			
	Employer Rate		Member Rate	
Proposed Benefit Formula (Entry Age Normal Method)	% of Payroll[1]	Estimated Average Annual Amount[2]	% of Payroll (paid bi-weekly)	Estimated Average Annual Amount[2]
City Proposal #1A				
Pension Plan	6.80%	$4,162	9.00%	$5,509
Health Plan	1.56%	955	3.00%[3]	1,836
Total	8.36%	$5,117	12.00%	$7,345
City Proposal #1B				
Pension Plan	6.90%	$4,224	9.00%	$5,509
Health Plan	1.56%	955	3.00%[3]	1,836
Total	8.46%	$5,179	12.00%	$7,345
City Proposal #2A				
Pension Plan	6.32%	$3,869	9.00%	$5,509
Health Plan	1.53%	937	3.00%[3]	1,836
Total	7.85%	$4,806	12.00%	$7,345
City Proposal #2B				
Pension Plan	6.38%	$3,905	9.00%	$5,509
Health Plan	1.53%	937	3.00%[3]	1,836
Total	7.91%	$4,842	12.00%	$7,345

(1) The employer normal cost rates shown are assumed to be paid on July 15.

(2) These per member amounts are based on June 30, 2010 average annual base salary plus assigned bonuses or premium pay of $61,212 for active members hired in the past three years.

(3) This is the aggregate rate for members assumed to secure either one party coverage (2% contribution rate) or two party coverage (4% contribution rate), based on the assumed proportion of male & female and single & married members.

C. Change in Contribution Rates due to Change in Benefit Formula

	NORMAL COST (Measured Under Entry Age Normal Method)			
	Employer Rate		Member Rate	
	% of Payroll[1]	Estimated Average Annual Amount[2]	% of Payroll (paid bi-weekly)	Estimated Average Annual Amount[2]
City Proposal #1A				
Pension Plan	(4.03)%	$(2,467)	2.00%	$1,224
Health Plan	(2.80)%	(1,714)	3.00%	1,836
Total	(6.83)%	$(4,181)	5.00%	$3,060
City Proposal #1B				
Pension Plan	(3.93)%	$(2,405)	2.00%	$1,224
Health Plan	(2.80)%	(1,714)	3.00%	1,836
Total	(6.73)%	$(4,119)	5.00%	$3,060
City Proposal #2A				
Pension Plan	(4.51)%	$(2,760)	2.00%	$1,224
Health Plan	(2.83)%	(1,732)	3.00%	1,836
Total	(7.34)%	$(4,492)	5.00%	$3,060
City Proposal #2B				
Pension Plan	(4.45)%	$(2,724)	2.00%	$1,224
Health Plan	(2.83)%	(1,732)	3.00%	1,836
Total	(7.28)%	$(4,456)	5.00%	$3,060

[1] *The employer normal cost rates shown are assumed to be paid on July 15.*

[2] *These per member amounts are based on June 30, 2010 average annual base salary plus assigned bonuses or premium pay of $61,212 for active members hired in the past three years.*

EXHIBIT I

Actuarial Assumptions for Current and Proposed Tiers

Actuarial Assumptions: The service retirement assumptions that are used in determining results under the current and the proposed tiers are shown on the next page. All other actuarial assumptions are the same as those adopted by the Retirement Board for use in the June 30, 2010 actuarial valuation.

Retirement Rates:

	Rate (%)					
	Current Tier		Proposed Tier			
			City Proposal #1		City Proposal #2	
Age	Non-55/30	55/30	Less Than 30 Years	Over 30 Years	Less Than 30 Years	Over 30 Years
50	10.0	0.0				
51	5.0	0.0				
52	5.0	0.0				
53	5.0	0.0				
54	15.0	0.0				
55	10.0	20.0	5.0	12.5	5.0	12.5
56	10.0	15.0	5.0	10.0	5.0	10.0
57	10.0	15.0	5.0	10.0	5.0	10.0
58	10.0	15.0	5.0	10.0	5.0	10.0
59	10.0	15.0	5.0	10.0	5.0	10.0
60	10.0	15.0	7.5	15.0	7.5	15.0
61	10.0	16.0	7.5	16.0	7.5	16.0
62	10.0	17.0	7.5	17.0	7.5	17.0
63	10.0	18.0	10.0	18.0	10.0	18.0
64	10.0	19.0	10.0	19.0	10.0	19.0
65	15.0	20.0	20.0	20.0	15.0	20.0
66	15.0	20.0	20.0	20.0	15.0	20.0
67	15.0	20.0	20.0	20.0	15.0	20.0
68	15.0	20.0	20.0	20.0	15.0	20.0
69	15.0	20.0	20.0	20.0	15.0	20.0
70	100.0	100.0	100.0	100.0	100.0	100.0

EXHIBIT II

Plan Summary for Current and Proposed Tiers

Plan Provisions: In the following table, we have provided a high level comparison of the pertinent benefits from the current and the proposed tiers. Please note that unless included in the table, all the other plan provisions are assumed to be the same as those used in the June 30, 2010 valuation.

Plan Design	Current Tier	Proposed Tier: City Proposal #1	Proposed Tier: City Proposal #2
Retirement Formula	Final Compensation * Service Credit * Retirement Factor		
Normal Retirement Factor	2.16% per year of service	2.30% per year of service at age 65	2.16% per year of service at age 65
Retirement Allowance (Maximum)	100% of Final Compensation	Scenario A: 80% of Final Compensation Scenario B: 90% of Final Compensation	Scenario A: 80% of Final Compensation Scenario B: 90% of Final Compensation
Normal Retirement	Age 60 with 10 years of service; or Age 55 with 30 years of service; or Age 70	Age 65 with 10 years of service	Age 65 with 10 years of service
Early Retirement	Age 55 with 10 years of service; or Any age with 30 years of service	Age 55 with 10 years of service	Age 55 with 10 years of service
Early Retirement Reduction Factor	3% per year of service before age 55; and 1.5% per year of service after age 55	6% per year of service before age 62	6% per year of service before age 62
Early Retirement Factors	Sample Retirement Factors (with Early Retirement Reduction Factor applied): Age 50: 1.67% Age 55: 2.00% Age 57: 2.06% Age 60: 2.16% Age 65: 2.16%	Retirement Factors: Age 55: 1.16% Age 56: 1.28% Age 57: 1.40% Age 58: 1.52% Age 59: 1.64% Age 60: 1.76% Age 61: 1.88% Age 62: 2.00% Age 63: 2.10% Age 64: 2.20% Age 65: 2.30%	Retirement Factors: Age 55: 1.16% Age 56: 1.28% Age 57: 1.40% Age 58: 1.52% Age 59: 1.64% Age 60: 1.76% Age 61: 1.88% Age 62: 2.00% Age 63: 2.05% Age 64: 2.10% Age 65: 2.16%
Deferred Vested Retirement	Age 60 with 5 years of service and 10 years have elapsed from first date of membership; or Age 55 with 30 years of service; or Age 70 with 5 years of service	Age 55 with 5 years of service and 10 years have elapsed from first date of membership	Age 55 with 5 years of service and 10 years have elapsed from first date of membership

Plan Design	Current Tier	Proposed Tier	
		City Proposal #1	City Proposal #2
Deferred Vested Retirement (cont.)	Benefit Amount: Same as for Normal Retirement Age 55 with 5 years of service and 10 years have elapsed from first date of membership; or Age 55 with 10 years of service Benefit Amount: Same as for Early Retirement	Benefit Amount: Same as for Normal/Early Retirement	Benefit Amount: Same as for Normal/Early Retirement
Employee Contribution Rate	6% (pension plan only) for members hired on or after January 1, 1983. However, for the 15-year period between July 1, 2011 and June 30, 2026, a 7% contribution will be made.	9% towards pension; 2% towards health to secure 1 party coverage or 4% towards health to secure 2 party coverage	9% towards pension; 2% towards health to secure 1 party coverage or 4% towards health to secure 2 party coverage
Final Compensation	Average of highest 12 months; includes base salary plus regularly assigned bonuses or premium pay*	Average of last 24 months; includes base salary plus regularly assigned bonuses or premium pay*	Average of last 24 months; includes base salary plus regularly assigned bonuses or premium pay*

* It is our understanding that the IRC Section 401(a)(17) compensation limit would apply to all new hires.

5116003v1/08133.110