DEFINED CONTRIBUTION PLAN
HYBRID PLAN

LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Proposed New Tiers of Benefit for New Entrants
(Pension Plan and Retiree Medical Plan)

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

October 14, 2010

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 two proposed new tiers of benefit for 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 valuation as of June 30, 2009. 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 recently adopted by the Board of Retirement for new tier of benefit, this study uses the same actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2009 valuation. A brief description of the methodology used to select the service retirement assumptions for the proposed new tier 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	*Andy Yeung, ASA, MAAA, EA*
Senior Vice President and Actuary	*Vice President and Associate Actuary*

KS/kek

SECTION 1

REVIEW SUMMARY

SECTION 2

VALUATION RESULTS

SECTION 3

SUPPORTING EXHIBITS

OVERVIEW

- This study provides contribution rates for two proposed new tiers of benefit. The two proposals are as follows:

  Proposed Tier #1 – DC (Defined Contribution) Plan only design for pension benefit
  Proposed Tier #2 – Hybrid DB/DC Plan design for pension benefit

- To estimate the potential cost impact, we assume that each proposal is a stand-alone proposal. That is, only one proposal would be ultimately implemented and that there would not be a choice between the two proposals available at the same time.

CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact, this study assumes that the demographic profiles of the members entering the new tier would be comparable to current active members hired in the three years prior to the June 30, 2009 actuarial valuation. For comparison purposes only, we have calculated the employer Normal Cost contribution rates for the pension and the health plans and the employee Normal Cost contribution rates (i.e., fixed rate of 6.0% to the pension plan for employees hired on or after January 1, 1983 and 0.0% for the health plan) for members hired in the three years prior to the June 30, 2009 actuarial valuation, under the current benefit formulas and compared these rates with the employer Normal Cost contribution rates and the aggregate employee Normal Cost contribution rates under the proposed tiers of benefit.

  We are in the process of preparing the June 30, 2010 valuation that would establish the employer and the employee contribution rates for the 2011/2012 fiscal year. We will be reflecting the current ERIP Ordinance to show a higher employee contribution rate in that valuation. Please refer to the Benefit Provisions Section of this report for a more detailed discussion of that change.

- 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 tier is 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 payrolls would be subject to the lower employer Normal Cost rates required for the new tier of benefit.

- In determining the employer Normal Cost rates for the DC plans, we have taken the maximum City DC contribution rates under the two proposed tiers (5% of salary for Proposed Tier #1 and 3% of salary for Proposed Tier #2) and reduced them by the projected forfeiture anticipated for those members who are expected to terminate employment before they become fully vested in the DC benefits after 5 years of service.

- 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 8.19% and 2.53% of total payroll for the pension and health plans, respectively, determined in the June 30, 2009 valuation assuming contributions made at the beginning of the fiscal year. This is because the UAAL rates were determined as a level percent of pay(1) including payrolls for all current members plus new entrants who entered LACERS after June 30, 2009.

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, 2009 valuation. Under the current formula, the 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 who can only retire 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.

  Under the current pension formula, normal retirement age to receive an unreduced retirement benefit is based on attaining the minimum of: (1) age 55 with 30 years of service, (2) age 60 with 10 years of service or (3) age 70. A subsidized 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 Tier #1, the pension benefit is structured as a defined contribution plan where both employee and employer contribution are a fixed percentage of salary (with the employer rate adjusted for forfeitures from those members who are expected to terminate before fully vested in the DC benefits) and the benefit is the accumulated account balance available at retirement. There is also a 3% contribution that the employer will make into a Health Reimbursement Account (HRA) that will always be fully vested at all times. For such benefit structure, there is no need to establish retirement probability to determine the employer's cost. However, the retiree health subsidy is still a defined benefit structure, therefore, retirement rates are set primarily for use in valuing the cost of the retiree health plan. The retiree health plan only provides a subsidy after the retiree is eligible for Medicare (i.e., upon age 65). Therefore, the retirement rates are set such

---

(1) *It is our understanding that the level percent of pay approach used by LACERS to amortize UAAL is permitted by GASB if new employees are allowed to enter LACERS. What may not be as clear is whether when new employees are only allowed a DC Plan benefit (as is the case under Proposed Tier #1) that may preclude the use of the level percent of open payroll approach and so require the acceleration of contribution to amortize the UAAL for the current plan. Therefore, the City may want to consult with the auditor of LACERS before finalizing its decisions on the Proposed Tier #1 plan.*

that the average retirement age is very close to age 65. This also reflects the general expectation that members will not retire as early without a defined benefit plan. The detailed retirement rates are provided in Section 3, Exhibit I.

- Under the Proposed Tier #2, the pension benefit is structured as a hybrid or combination DB/DC plan. Under the DB plan, normal retirement age to receive an unreduced retirement benefit is age 60 with 10 years of service or any age with 30 years of service. A subsidized early retirement benefit is paid for those members attaining age 55 with 10 years of service. The reduction factor is the same as the current plan, 1.5% for each year of retirement between 55 and 60 and 3.0% for each year of retirement before age 55.

  We have lowered the retirement rates before age 55 to reflect the lowering of the retirement benefit from 2.16% per year of service at age 60 under the current formula to 1.00% per year of service at age 60 under the proposed DB formula. Also, in the June 30, 2009 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 tier, we no longer have a separate set of retirement assumption for members attaining age 55 with 30 years of service. The detailed retirement rates are provided in Section 3, Exhibit I.

  For the DC Plan, we assume an employee will make a 3% contribution in order to receive the maximum 3% matching employer contribution.

- 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 recently 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 tier, 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.

BENEFIT PROVISIONS

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

- Under the current tier, pension benefits are calculated based on the highest average salary earned during any 12-month period and salary would include base salary plus regularly assigned bonuses or premium pay. Under the DB component of the Proposed Tier #2, pension benefits would be calculated based on the average salary earned during the last 36-month period and salary would include only base salary, excluding assigned bonuses or premium pay.

  We have not been provided with the data to analyze the relationship between the base salary and the regularly assigned bonuses or premium pay used in the June 30, 2009 valuation. However, information was previously provided by the City for use in analyzing that relationship for the data used in the June 30, 2008 valuation. As agreed to by the City, we have continued to use the relationship observed in the June 30, 2008 valuation data in this current study. Based on our earlier analysis, it is assumed in this study that there would be a 2% difference between the base salary and the total of the base salary plus the assigned bonuses or premium pay.

  Under the current tier, the base salary plus the assigned bonuses or premium pay are used in developing both the benefit liability and the salary base for setting the City and the employee contribution rates. For the Proposed Tier #2, we have used only the base salary in developing the benefit liability for the DB plan and in developing the matching employer contribution for the DC plan. For comparison purposes, we have calculated a set of contribution rates for Proposed Tier #2 assuming contributions would continue to be made on the base salary plus the assigned bonuses or premium pay. This allows a consistent comparison with the contribution rates developed for the current plan.

  However, we are assuming that in practice, if the Proposed Tier #2 is adopted, the City and the employee would be assessed contributions based on the base salary and no contributions would be assessed for the assigned bonuses or premium pay. The contribution rates developed using this assumption for Proposed Tier #2 are also provided in Section 2B of this report.

- In the June 30, 2009 valuation, employees hired on or after January 1, 1983 under the current tier pay a fixed rate of 6.0% 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 current Early Retirement Incentive Program (ERIP) Ordinance, that 6.0% Normal Cost rate paid by the employee will increase to 7% in the June 30, 2010 valuation. According to that Ordinance, the employee rate for active members (including new hires under the current tier) is scheduled to increase to 7% 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. Since the contribution rate shown under the current tier is based on the results from the June 30, 2009 valuation (which established the contribution rate for the 2010/2011 fiscal year), we have not included the additional 1% member contribution discussed above.

- Currently, employees and the City are exempted from making FICA taxes for Social Security purposes because pension benefits are provided via their participation in LACERS. It is our understanding that certain minimum level of contributions has to be made to continue the FICA tax exemptions. As the actual requirements may be complex, the City may want to consult with its tax counsel to confirm that the two proposed tiers of benefit meet those requirements.

GOVERNMENT SERVICE BUYBACK PROGRAM

- Besides the pension and the health benefits payable at retirement, the Proposed Tier #1 will no longer allow purchase under the Government Service Buyback (GSB) Program and the Proposed Tier #2 includes a modification to the amount required for a member to purchase service under the GSB Program.

  Under the current GSB program, a member can purchase service for periods of uncompensated maternity leave or service credit previously earned at another governmental agency by either (a) transferring the accumulated contributions currently on deposit at the other employer or (b) paying an amount equal to the member's contribution rate at LACERS (i.e., 6.0% to the pension plan for employees hired on or after January 1, 1983) times the current annual salary. Under the proposed tier of benefit, the purchase price would be set so that it would be cost neutral to the plan.

- In general, there would be a cost to the City associated with the current GSB program because the contributions paid by the employee would not include the employer's component of the total Normal Cost required to pay for such service credit. If an employee purchases service through a transfer from any governmental agency plan, the residual cost to the City is dependent on the amount of employee contributions that were previously paid plus the interest credited to the employee account by the other plan.

  In practice, the cost to the City may be offset somewhat to the extent that other terminated employees who are vested withdraw their contributions at LACERS to have their benefits paid by another governmental agency plan.

- Besides the pension plan, there may also be a cost to the health plan unless the member has already accrued the prerequisite current 25 or 20 years of service to receive 100% of the health subsidy before and after age 65 excluding GSB service purchase.

- In determining the employer contribution rate in the ongoing actuarial valuation, there is no explicit assumption to anticipate any future GSB purchases meaning that the costs of future GSB purchases are not prefunded but rather reflected as actuarial losses and amortized as part of the cost for the UAAL after the GSB purchases were made.

  Therefore, any changes in the GSB program would not result in any immediate cost savings but it should result in a reduction in the amount of future actuarial losses and the associated UAAL rate increases.

- In order to provide the City with an order-of-magnitude impact on the future UAAL rate, the City has provided us with the data for those members who have purchased service through the GSB program since August 1989 to 2009. As there were significantly higher number of purchases made immediately after the implementation of the program at around 1989, we have limited our review to only those purchases that took place during January 1, 2004 to March 31, 2009 (the latest date GSB purchases were included in the report prepared by the City for a previous new tier cost study). There were 1,049 purchases made during the period of about 5¼ years. Of those purchases, only 711 members were still reported as active members in the June 30, 2008 valuation.

- As we do not have the necessary data to estimate the cost to the City for the GSB for those members who have already retired, we have only studied the cost for those members who were still active as of the June 30, 2008 valuation(2). Also note that the cost to the City for the GSB may tend to increase as members defer their decision to purchase GSB towards retirement because of adverse selection.

  The cost to the City to provide for the GSB purchases is provided in Section 2, Exhibit C. The City should be aware that this annual cost is only the current year UAAL rate increase from one year of GSB purchases, even though the actuarial losses from those GSB purchases are amortized and paid over a period of 15 years.

  On the other hand, the above cost is based on the average number of purchases made by all active members and not just by those hired during the last three years (as we have assumed in preparing the other costs of this study). Therefore, the annual reduction in cost to the UAAL may be overstated in the short term since only new entrants hired into the proposed tier would be affected by the new GSB rules.

---

(2) *While we have continued to use the results of an earlier analysis of the GSB prepared as of June 30, 2008 to prepare this report, we do not anticipate that updating the results to June 30, 2009 (used in the rest of this report) would lead to a significantly different conclusion.*

- There is an additional requirement that under the proposed plan, GSB purchases have to be cost neutral to the City. In order for the GSB to be cost neutral, the purchase price paid by an employee has to be equal to the increase in the present value of the pension and the health benefits that are expected to be received by that employee.

  In practice, it would not be possible to guarantee absolute cost neutrality. This is because employees are allowed to purchase GSB services anytime before they retire from LACERS, so that numerous assumptions have to be made in projecting both the timing and the level of anticipated benefits (e.g., retirement age, final compensation, martial status, etc.). Please note that even if the City were to restrict the purchases to be made only at retirement, there are still some risks that the purchases may not be cost neutral as employees may outlive the life expectancy assumption or the actual market return may be less than the investment return assumption used in the purchase price calculations.

  One way to minimize the most significant potential cost impacts associated with these purchases would be to accept the initial purchase prices calculated as preliminary estimates and have the final purchase prices be updated using a “true-up” process at retirement. This has most of the same advantages as allowing purchases only at retirement, and would be similar to the Public Service Purchase program currently in place at the Los Angeles Fire and Police Pension Plan.

  However, the City should be aware that there would be administration and communication issues associated with this kind of true-up process. The City may want to discuss those issues with LACERS before proceeding to finalize the GSB purchase design.

A. Demographics as of June 30, 2009

	Hired During the Last Three Years
Active members in valuation*:	
Average entry age	35.9
Projected average compensation – base salary only**	$55,188
Projected average compensation – base salary plus assigned bonuses or premium pay	$56,314
Approximate number of new employees hired in each year	1,400

* *The data used for this study is based on the June 30, 2009 valuation and it includes the data for members hired in the three years prior to the June 30, 2009 valuation date.*

** *This is calculated by assuming that the 2% difference between the base salary and the total of the base salary plus the assigned bonuses or premium pay observed for the data used in the June 30, 2008 valuation would remain unchanged for the data reported for the June 30, 2009 valuation.*

B1. Proposed Tier #1 (DC Plan) 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 Attained Age of 36.

Under Current Benefit Formula	Employer Rate		Member Rate	
	% of Payroll[1]	Estimated Average Annual Amount[2]	% of Payroll (paid bi-weekly)	Estimated Average Annual Amount[2]
Under Projected Unit Credit Method				
Pension Plan – Normal Cost	6.02%	$3,388	6.00%	$3,379
Health Plan – Normal Cost	2.99%	$1,684	0.00%	$0
Total – Normal Cost	9.01%	$5,072	6.00%	$3,379
Under Entry Age Normal Method				
Pension Plan – Normal Cost	11.68%	$6,580	6.00%	$3,379
Health Plan – Normal Cost	4.28%	$2,408	0.00%	$0
Total – Normal Cost	15.96%	$8,988	6.00%	$3,379

Under Proposed Tier #1 Benefit Formula – Using Base Salary for Benefit Liability But Base Salary Plus Assigned Bonuses or Premium Pay to Calculate Contribution Rate

	Employer Rate		Member Rate	
	% of Payroll	Estimated Average Annual Amount[2]	% of Payroll	Estimated Average Annual Amount[2]
Pension Plan – DC Contribution	4.57%[3]	$2,259	8.00%	$4,505
Health Plan – Normal Cost	1.22%[1]	$687	0.00%	$0
Health Plan – HRA Contribution	3.00%[3]	$1,689	0.00%	$0
Total Cost	8.79%	$4,635	8.00%	$4,505

(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, 2009 average annual base salary plus assigned bonuses or premium pay of $56,314 for active members hired within the past three years.*

(3) *It is assumed that the DC contribution and HRA contribution will be made at every pay period.*

B2. Proposed Tier #2 (Hybrid DB/DC Plan) 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 Attained Age of 36.

	Employer Rate		Member Rate	
Under Current Benefit Formula	% of Payroll[1]	Estimated Average Annual Amount[2]	% of Payroll (paid bi-weekly)	Estimated Average Annual Amount[2]
Under Projected Unit Credit Method				
Pension Plan – Normal Cost	6.02%	$3,388	6.00%	$3,379
Health Plan – Normal Cost	2.99%	$1,684	0.00%	$0
Total – Normal Cost	9.01%	$5,072	6.00%	$3,379
Under Entry Age Normal Method				
Pension Plan – Normal Cost	11.68%	$6,580	6.00%	$3,379
Health Plan – Normal Cost	4.28%	$2,408	0.00%	$0
Total – Normal Cost	15.96%	$8,988	6.00%	$3,379

Under Proposed Tier #2 Benefit Formula – Using Base Salary for Benefit Liability But Base Salary Plus Assigned Bonuses or Premium Pay to Calculate Contribution Rate

	Employer Rate		Member Rate	
	% of Payroll	Estimated Average Annual Amount[2]	% of Payroll	Estimated Average Annual Amount[2]
Pension Plan – DB Normal Cost	4.96%[1]	$2,794	1.23%	$690
Pension Plan – DC Contribution	2.69%[4]	$1,512	2.94%	$1,656
Health Plan – Normal Cost	1.58%[1]	$891	0.00%	$0
Total Cost	9.23%	$5,197	4.17%	$2,346

Under Proposed Tier #2 Benefit Formula – Using Base Salary for Both Benefit Liability and to Calculate Contribution Rate

	Employer Rate		Member Rate	
	% of Payroll	Estimated Average Annual Amount[3]	% of Payroll	Estimated Average Annual Amount[3]
Pension Plan – DB Normal Cost	5.06%[1]	$2,794	1.25%	$690
Pension Plan – DC Contribution	2.74%[4]	$1,512	3.00%	$1,656
Health Plan – Normal Cost	1.62%[1]	$891	0.00%	$0
Total Cost	9.42%	$5,197	4.25%	$2,346

(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, 2009 average annual base salary plus assigned bonuses or premium pay of $56,314 for active members hired within the past three years.*

(3) *These per member amounts are based on June 30, 2009 average annual base salary of $55,188 for active members hired within the past three years.*

(4) *It is assumed that the DC contribution will be made at every pay period.*

C. Reduction in Annual UAAL Rate from Change in GSB Program ($ in millions):

1	Number of GSB purchases made between January 1, 2004 and March 31, 2009 (5 ¼ years)	1,049
2	Number of members in Item 1 still reported as active June 30, 2008 valuation	711
3	Total GSB purchase price for 711 active members (adjusted with interest to June 30, 2008)	$12.0
4	Increase in present value of benefits for pension plan due to GSB purchases for 711 active members	$45.2
5	Increase in present value of benefits for health plan due to GSB purchases for 711 active members	$7.5
6	Increase in UAAL due to GSB purchases for 711 active members from the past 5 ¼ years (Item 4 + Item 5 - Item 3)	$40.7
7	Increase in UAAL due to GSB purchases for 1,049 active members from the past 5 ¼ years (Item 6 x Item 1 / Item 2)	$60.0
8	Increase in UAAL due to average number of GSB purchases in 1 year (Item 7 / 5.25)	$11.4
9	Increase in UAAL rate for one year of GSB purchases	0.05%
10	Increase in UAAL annual costs for one year of GSB purchases (``based on June 30, 2008 projected payroll of $1,977.6 million)	$1.0

EXHIBIT I

Actuarial Assumptions and Plan Summary 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, 2009 actuarial valuation.

Retirement Rates:

	Rate (%)			
	Current Tier		Proposed Tier #1	Proposed Tier #2
			DC Plan	Hybrid DB/DC Plan
Age	Non-55/30	55/30		
50	10	0	0	5
51	5	0	0	3
52	5	0	0	3
53	5	0	0	3
54	15	0	0	8
55	10	20	9	15
56	10	15	2	3
57	10	15	2	4
58	10	15	2	4
59	10	15	3	5
60	10	15	6	10
61	10	16	6	10
62	10	17	12	20
63	10	18	9	15
64	10	19	9	15
65	15	20	10	16
66	15	20	10	17
67	15	20	11	18
68	15	20	11	19
69	15	20	12	20
70	100	100	100	100

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, 2009 valuation.

Plan Design	Current Tier	Proposed Tier #1 – DC Plan	Proposed Tier #2 – Hybrid DB/DC Plan
Retirement Formula	Final Compensation * Service Credit * Retirement Factor	Account Balance	DB: Final Compensation * Service Credit * Retirement Factor DC: Account Balance
Retirement Factor	2.16% per year of service	N/A	DB: 1.0% per year of service
Retirement Allowance (Maximum)	100% of Final Compensation	N/A	None
Normal Retirement	Age 55 and 30 years of service; or Age 60 and 10 years of service; or Age 70	DC: Vesting Schedule for Employer Contributions: 1 year – 0% 2 years – 25% 3 years – 50% 4 years – 75% 5 years – 100%	DB: Age 60 with 10 years of service; or Any age with 30 years of service DC: Vesting Schedule of Employer Contributions 1 year – 0% 2 years – 25% 3 years – 50% 4 years – 75% 5 years – 100%
Early Retirement	Age 55 with 10 years of service; or Any age with 30 years of service	N/A	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	N/A	3% per year of service before age 55; and 1.5% per year of service after age 55

Plan Design	Current Tier	Proposed Tier #1 – DC Plan	Proposed Tier #2 – Hybrid DB/DC Plan
Deferred Vested Retirement	Age 70 with 5 years of service; or 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 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	Account Balance	DB: Age 60 with 10 years of service; or Any age with 30 years of service Benefit Amount: Same as for Normal Retirement Age 55 with 10 years of service Benefit Amount: Same as for Early Retirement DC: Account balance
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, an actuarially defined 7% contribution will be made.	8% (pension plan only), pre-tax, including regularly assigned bonuses/premium pay	DB: 1.25% DC: Minimum 1% with up to 80% based on IRS contribution limits
Employer Contribution Rate	Actuarially defined	5% (pension plan only), including regularly assigned bonuses/premium pay, reduced by forfeitures from those members terminating before reaching 100% vesting Retiree Health Subsidy: actuarially defined	DB: actuarially defined DC: 100% match of first 1%, up to 3%, including regularly assigned bonus/premium pay Retiree Health Subsidy: actuarially defined
Final Compensation	Average of highest 12 months; includes base salary plus regularly assigned bonuses or premium pay	N/A	DB: Average of last 36 months; base salary only and excludes regularly assigned bonuses or premium pay
COLA	Based on CPI subject to a maximum of 3% per year	N/A	None

Plan Design	Current Tier	Proposed Tier #1 – DC Plan	Proposed Tier #2 – Hybrid DB/DC Plan
COLA Bank	Yes	N/A	None
Retiree Health Subsidy (Non-Medicare)	Defined benefit; $1,123 per month cap for calendar year 2010; adjusted by Kaiser 2 party rate	Retiree pays full premium.	Defined benefit; $563 per month cap for calendar year 2010; adjusted by CPI (general price inflation) and subject to a maximum of 3% of CPI
Retiree Health Vesting Schedule (Non-Medicare)	4% of subsidy per year of service; 100% after 25 years	Retiree pays full premium.	40% of subsidy after 10 years of service; 3% additional subsidy per year of service thereafter; 100% after 30 years of service
Retiree Health Subsidy for Medicare (i.e. after 65) Retirees	Defined Benefit; Maximum for 2-party coverage is $643.42	Defined benefit; $563 per month cap for calendar year 2010; adjusted by CPI (general price inflation) and subject to a maximum of 3% of CPI.	Same as for non-Medicare retirees, described above.
Retiree Health Factor for Medicare (i.e. after 65) Retirees	75% of premium for 10-14 years of service, 90% of premium for 15-19 years of service, 100% of premium for 20+ years of service.	Percent of premium paid by retirees: 10-14 years – 30% 15-19 years – 25% 20-24 years – 20% 25-29 years – 15% 30 years or more – 10%	Same as for non-Medicare retirees, described above.
Retiree Dental Subsidy	Defined Benefit; $36.16/month subsidy for 2010. Assumed to increase 5% per year	No longer available.	Defined Benefit; $36.16/month subsidy for 2010. Annual cost increases subject to maximum of 3% or CPI.
Retiree Dental Factor	4% of subsidy per year; 100% max. (25 years)	No longer available.	4% of subsidy per year; 100% max. (25 years)
Medicare Part B Reimbursement	$96.40 per month for 2010. Assumed to increase 5% per year	No longer available.	No longer available.
Health Reimbursement Arrangement (HRA)	N/A	Employer contribution of 3%, fully vested at all times; No Employee contribution	N/A

Plan Design	Current Tier	Proposed Tier #1 – DC Plan	Proposed Tier #2 – Hybrid DB/DC Plan
Government Service Buybacks	Cost is based on member's contribution rate of 6%; no limit on the number of years of service purchased	N/A	Required actuarial adjustment to ensure cost neutrality; subject to a maximum of 4 years of service purchased

5102184v3/08133.105