Presentation to City Council
Adoption of LACERS’ Funding Policies

April 6, 2010
Promises Made, Promises Kept

- City as Plan Sponsor Negotiates and Adopts Retirement Benefits
- LACERS Has a Fiduciary Responsibility to Prudently Administer Retirement Benefits
Promises Made

- What Promises Have Been Made?
- To Whom Have Promises Been Made?
What Promises Have Been Made?

The City, As Plan Sponsor, Adopted:

- Defined Benefit Pension Plan
- Retiree Health Subsidy
What Promises Have Been Made?

LACERS Benefits:

- Mainly are Specified in the City’s Administrative Code
- Generally Have Not Increased in Recent Years
What Promises Have Been Made?

LACERS Benefits:

- **Average Annual**
  - Service Retirement Allowance: $41,268
  - Disability Retirement Allowance: $16,992
  - Survivor Continuance: $20,028
  - Retiree Health Subsidy: $9,111
To Whom Have Promises Been Made?
To Whom Have Promises Been Made?

ACTIVE MEMBERS

Number of Active Members


Fiscal Year Ending

Low: 22,081
High: 30,236
Funding Promised Benefits

\[ C + I = B + E \]

Contributions + Investment Income = Benefit Payments + Expenses
Funding Promised Benefits

Funded Ratios

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Many Factors Affect the City’s Contribution:

- Benefits
- Investment Returns
- City Payroll
- Actuarial Funding Policies and Assumptions
Benefits Paid by LACERS:

- **$56.7 million** monthly (March 2010, including Health Subsidy of **$6.5 million**)
- **$536 million** annually (for FYE 06/30/09, including Health Subsidy of **$66.4 million**)

City Contribution for FY 2009-10: **$355 million**
Funding Promised Benefits - Investments

LACERS Annual Investment Return

Rate of Return (%)

25 20 15 10 5 0 -5 -10 -15 -20


Fiscal Year (ending June 30)

As of Dec. 31, 2009

8% Assumed Rate

2.5% 14.9% 16.7% 19.2% 12.8% 11.1% 18.6% 12.4% 19.5% -19.6% 18.22%

www.lacers.org
Funding Promised Benefits – City Contributions

“Covered” Payroll

Contribution Rate
(Actuarially-Determined %)

City’s Contribution Amount
(City’s contribution is a percentage of City payroll)
Funding Promised Benefits – City Payroll

Increase of over 91% (1997-2009)
The Retirement Board’s duty is to make sure the system is properly funded so that it can deliver the promised benefits on time.

“Consistent with Article XVI, Section 17 of the California Constitution, each pension and retirement board of the City shall...have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of its systems in accordance with recognized actuarial methods.”

Los Angeles City Charter, Section 1106

Actuarial methods are used to project when the benefits will be due, and when contributions will be needed in order to fully fund them.
In selecting actuarial methods and setting contribution rates, the Retirement Board may consider the City’s fiscal hardship if it impacts the pension fund’s soundness. The Board may consider

- A decline in revenue sources
- Operational deficits
- Reductions in force
- The City’s ability to make timely contributions
- The City’s ability to meet future obligations
- Volatility of contribution rates
- LACERS’ cash flow requirements
- LACERS’ long-term funding obligations
Funding Policies Adopted by LACERS Board in the Last Year:

- Amortizing the Unfunded Actuarial Accrued Liability Associated (UAAL) with the City’s Proposed ERIP
- Modification of Asset Smoothing Method
- Adoption of Comprehensive Actuarial Funding Policy
Funding Promised Benefits – Actuarial Funding Policies

Amortizing the UAAL associated with the City’s Proposed ERIP – adopted September 8, 2009

- Consideration by Board
  - August 3, 2009
    - All stakeholders participated
    - Announcement of Ad Hoc Committee

- Further Consideration by Board
  - August 6, 2009
    - All stakeholders participated
    - Creation of Ad Hoc Committee
Amortizing the UAAL associated with the City’s Proposed ERIP – adopted September 8, 2009

- Consideration by Ad Hoc Committee
  - August 14, 2009
    - All stakeholders participated
    - Advice from City Attorney
    - Presentation by Consulting Actuary
Funding Promised Benefits – Actuarial Funding Policies

Amortizing the UAAL associated with the City’s Proposed ERIP – adopted September 8, 2009

- Consideration by Ad Hoc Committee
  - September 1, 2009
    - All stakeholders participated

- Further Consideration by Board
  - September 8, 2009
    - All stakeholders participated
Funding Promised Benefits – Actuarial Funding Policies

Amortizing the UAAL associated with the City’s Proposed ERIP – adopted September 8, 2009

- ERIP Amortization Period Options Considered:
  - 0 Years
  - 5 Years
  - 8 Years
  - 10 Years
  - 15 Years

- Board Action:
  - Adoption of 15-Year Amortization Period for ERIP
Funding Promised Benefits – Actuarial Funding Policies

Modification of Asset Smoothing Method – adopted September 22, 2009

- Study Presented to Board
  - April 28, 2009
    - Presentation by Consulting Actuary
- Considered by Audit & Strategic Planning Committee:
  - May 20, 2009
    - Presentation by Consulting Actuary
    - Presentation by Fiduciary Counsel Regarding Legal Framework for Considering Modifications to Current Actuarial Funding Method
Funding Promised Benefits – Actuarial Funding Policies

Modification of Asset Smoothing Method – adopted September 22, 2009

- Considered by Audit & Strategic Planning Committee
  - September 8, 2009
    - Presentation by Consulting Actuary
- Considered and Adopted by Board
  - September 22, 2009
Modification of Asset Smoothing Method

- Asset Smoothing Options Considered:
  - Market Value of Assets Corridor
    - 80%-120%
    - 70%-130%
    - 60%-140%
    - 50%-150%
    - No Corridor
  - Asset Smoothing Period
    - 5 Years
    - 7 Years
    - 10 Years
    - 12 Years
Modification of Asset Smoothing Method – adopted September 22, 2009

Board Action:
- Expand Market Value of Assets Corridor
  - From 80%-120 to 50%-150%
- Retain 5-year Asset Smoothing Period
Adoption of Comprehensive Actuarial Funding Policy – adopted March 17, 2010

- Presentation to Board
  - January 26, 2010
    - Actuarial 101 and LACERS Funding Policies Presentation by Consulting Actuary

- Presentation to Board
  - February 11, 2010
    - LACERS Funding Policy Presentation by Consulting Actuary

- Consideration by Board
  - February 23, 2010

- Further Consideration and Final Adoption by Board
  - March 17, 2010
Funding Promised Benefits – Actuarial Funding Policies

Board Actions:

- Adopted Actuarial Funding Policy Goals:
  - Future contributions and current plan assets sufficient to provide for all benefits
    - Cost of current service plus
    - Payments to fully fund any unfunded past service costs.
  - Reasonable allocation of the cost of benefits
    - Well-reasoned allocation method
    - Avoid undue intergenerational cost shifts.
  - Manage future employer contribution volatility
    - To the extent reasonably possible
    - Consistent with other policy goals
Funding Promised Benefits – Actuarial Funding Policies

- **Adopted Comprehensive Actuarial Funding Policy**
  - Actuarial Cost Method
    - Projected Unit Credit for Existing Retirement and Health Benefits
    - Entry Age Normal for Any New Tiers of Benefits
  - Asset Smoothing Method
    - Reaffirmed Expansion of Market Value of Assets Corridor
      - From 80%-120% to 50%-150%
    - Reaffirmed Retention of 5-year Asset Smoothing Period
  - Amortization Policy
    - Adopted various amortization periods based on when and how unfunded liability arose
Funding Promised Benefits – Actuarial Funding Policies

- Board’s actions reflect consideration of the impact of extraordinary events on the City
  - Amortizing ERIP over 15 years will reduce City’s FY 2010-11 contributions by $49 million compared with 5-year amortization
  - Expanding Market Corridor will reduce City’s FY 2010-11 contributions by $80+ million
Funding Promised Benefits – Actuarial Funding Policies

- LACERS’ Board had substantive discussions over a long period of time in which all stakeholders participated.
- LACERS’ Board considered extraordinary events and impacts on City’s finances.
- LACERS’ Board considered all reasonable options.
- LACERS’ Board made decisions consistent with fiduciary responsibility to the plan members while helping to mitigate impact on current City contributions.