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

* As of June 30, 2009. Does not include FY 2009-10 retirees
To Whom Have Promises Been Made?

- Number of retirees increased by approximately 65% from 1990 to 2010.
- The percent change in retirees in 2010 is almost equal to the total net change experienced over the last 10 years.

Increase of 16.7% (1999-2009)
Increase of 16.0% (2009-2010)
To Whom Have Promises Been Made?

- Membership has grown by approximately 37% from 1998 to 2009.
- More than 53% of our members have less than 10 years of service.
- More than 20,000 active members are considered to have vested benefits with LACERS because they have at least 5 years of Service with the City.
Funding Promised Benefits

C + I = B + E

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

Funded Ratio = Assets / Liabilities
Funding Promised Benefits

Many Factors Affect the City’s Contribution:

- Benefits
- Investment Returns
- City Payroll
- Actuarial Funding Policies and Assumptions
Funding Promised Benefits

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
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)
Funding Promised Benefits – City Contribution
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.
Two funding facts:

- Funding methods affect the timing of payments of costs, but don’t change the actual costs of providing the benefits

- Paying for benefits over longer amortization periods costs the City more due to interest payments
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

Funding Methods & Actuarial Assumptions

- **Asset Smoothing**
  - Spreads investment gains and losses over multiple years
    - Reduces short-term impact of market volatility on City’s contribution

- **Market Corridor**
  - Helps ensure that the market value of assets doesn’t stray too far from the actuarial value of assets (smoothed value)
Funding Promised Benefits – Actuarial Funding Policies

Board Adoption of Modification of Asset Smoothing Method

- Expand Market Value of Assets Corridor
  - From 80%-120 to 50%-150%
- Retain 5-year Asset Smoothing Period
Board 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
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.