



**Board of Administration Agenda**

**REGULAR MEETING**  
**TUESDAY, SEPTEMBER 25, 2018**  
**TIME: 10:00 A.M.**  
**MEETING LOCATION:**  
LACERS Ken Spiker Boardroom  
202 West First Street, Suite 500  
Los Angeles, California 90012-4401

President: Cynthia M. Ruiz  
Vice President: Elizabeth L. Greenwood  
  
Commissioners: Elizabeth Lee  
Sandra Lee  
Nilza R. Serrano  
Sung Won Sohn  
Michael R. Wilkinson  
  
Manager-Secretary: Neil M. Guglielmo  
  
Executive Assistant: Ani Ghokassian  
  
Legal Counsel: City Attorney's Office  
Retirement Benefits Division

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION
- II. APPROVAL OF MINUTES FOR [SPECIAL BOARD](#) AND [REGULAR BOARD](#) MEETINGS OF SEPTEMBER 11, 2018 AND POSSIBLE BOARD ACTION
- III. BOARD PRESIDENT VERBAL REPORT
- IV. GENERAL MANAGER VERBAL REPORT
  - A. REPORT ON DEPARTMENT OPERATIONS
  - B. UPCOMING AGENDA ITEMS
- V. CONSENT AGENDA
  - A. [MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR AUGUST 2018](#)
- VI. BOARD/DEPARTMENT ADMINISTRATION

- A. [AMENDMENT TO CONTRACT NO. 4171 WITH CORTEX APPLIED RESEARCH, INC. AND POSSIBLE BOARD ACTION](#)
- VII. COMMITTEE REPORT(S)
  - A. INVESTMENT COMMITTEE VERBAL REPORT ON THE MEETING OF SEPTEMBER 11, 2018
- VIII. INVESTMENTS
  - A. CHIEF INVESTMENT OFFICER VERBAL REPORT
  - B. [INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION](#)
- IX. ACTUARIAL PROGRAM
  - A. [ASSUMPTIONS FOR THE JUNE 30, 2018 RETIREE HEALTH ACTUARIAL VALUATION AND POSSIBLE BOARD ACTION](#)
- X. BENEFITS ADMINISTRATION
  - A. [PROPOSED RATING SCHEDULE FOR ENHANCED DISABILITY RETIREMENT BENEFITS AND POSSIBLE BOARD ACTION](#)
  - B. [BOARD TRAINING ON TIER 1 ENHANCED BENEFITS](#)
- XI. DISABILITY RETIREMENT APPLICATION(S)
  - A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF EMMETT JACKSON AND POSSIBLE BOARD ACTION
- XII. OTHER BUSINESS
- XIII. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, October 9, 2018 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.
- XIV. ADJOURNMENT

MINUTES OF THE REGULAR MEETING  
**BOARD OF ADMINISTRATION**  
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Ken Spiker Boardroom  
202 West First Street, Fifth Floor  
Los Angeles, California

September 11, 2018

10:02 a.m.

**Agenda of: Sept. 25, 2018**

**Item No: II**

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PRESENT:	President:	Cynthia M. Ruiz
	Vice President:	Elizabeth L. Greenwood
	Commissioners:	Elizabeth Lee Sandra Lee Nilza R. Serrano Michael R. Wilkinson
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counsel:	James Napier
ABSENT:	Commissioner	Sung Won Sohn

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*The Items in the Minutes are numbered to correspond with the Agenda.*

I

PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION – President Ruiz asked if there were any persons who wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment cards were received.

II

APPROVAL OF MINUTES FOR BOARD MEETING OF AUGUST 28, 2018 AND POSSIBLE BOARD ACTION – A motion to approve the minutes of August 28, 2018 was moved by Commissioner Serrano, seconded by Vice President Greenwood, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood and President Ruiz -6; Nays, None.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz stated that she will be attending the largest Environmental, Social, Governance (ESG) Conference, PRI in Person 2018, being held in San Francisco from September 12-14, 2018. Commissioner Serrano reminded all attendees of the September 11, 2001 terrorist attacks and recognized the lives lost.

IV

GENERAL MANAGER VERBAL REPORT

- A. REPORT ON DEPARTMENT OPERATIONS – Neil Guglielmo, General Manager, discussed the following items:
- Draft year-end financials submitted to auditors on time.
  - Staff is working with the Controller's Office on automating employer pick-up captures.
  - Technology tips for staff regarding email phishing.
  - LACERS new office hours: 7:00 a.m. to 4:00 p.m.
  - Thanked Public Works for the new trash and recycle containers delivered to the LACERS office.
  - For sustainability purposes, glass cups and carafes now being used for water during Board Meetings.
- B. UPCOMING AGENDA ITEMS – Neil Guglielmo, General Manager, stated there will be training for the Board on the Airport Peace Officers Tier 1 Enhanced Benefits. Additional future agenda items will include the contract with Cortex Consulting Services, Actuarial Other Post Employment Benefits (OPEB) Program, and CEM Benchmarking.

V

CONSENT AGENDA

- A. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER – The report was received by the Board and filed.
- B. MARKETING CESSATION NOTIFICATION – The report was received by the Board and filed.
- C. RECEIVE AND FILE – EDUCATION AND TRAVEL EXPENDITURE REPORT FOR FISCAL YEAR 2017-18 – The report was received by the Board and filed.
- D. TRAVEL AUTHORITY – COMMISSIONER ELIZABETH LEE; FIDUCIARY INVESTORS SYMPOSIUM, STANFORD, CALIFORNIA; SEPTEMBER 30 – OCTOBER 2, 2018 AND POSSIBLE BOARD ACTION – Vice President Greenwood moved approval of the following Resolution:

**TRAVEL AUTHORITY  
FIDUCIARY INVESTORS SYMPOSIUM  
SEPTEMBER 30 - OCTOBER 2, 2018  
STANFORD, CALIFORNIA**

**RESOLUTION 180911-A**

WHEREAS, Board approval is required for all international travel requests and travel not included in the Approved List of Educational Seminars;

WHEREAS, the Fiduciary Investors Symposium in Stanford, California is not included in the Approved List of Educational Seminars authorized by the Board Education and Travel Policy for Fiscal Year 2018-19, and therefore requires individual approval;

WHEREAS, the sound management of the assets and liabilities of a trust fund imposes a continuing need for all Board Members to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties;

THEREFORE, BE IT RESOLVED, that Commissioner Elizabeth Lee is hereby authorized to attend the Fiduciary Investors Symposium on September 30 - October 2, 2018, in Stanford, California;

BE IT FURTHER RESOLVED, that the reimbursement of up to \$2,038 for Commissioner Elizabeth Lee is hereby authorized for reasonable expenses in connection with participation.

Which motion was seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.

- E. TRAVEL AUTHORITY – COMMISSIONER ELIZABETH L. GREENWOOD; 2018 PUBLIC PENSION TRUSTEES FIDUCIARY CONFERENCE, NEW YORK, NEW YORK; OCTOBER 2-3, 2018 AND POSSIBLE BOARD ACTION – Commissioner Serrano moved approval of the following Resolution:

**TRAVEL AUTHORITY  
2018 PUBLIC PENSION TRUSTEES FIDUCIARY CONFERENCE  
OCTOBER 2 - 3, 2018  
NEW YORK, NEW YORK**

**RESOLUTION 180911-B**

WHEREAS, Board approval is required for all international travel requests and travel not included in the Approved List of Educational Seminars;

WHEREAS, the 2018 Public Pension Trustees Fiduciary Conference in New York, New York is not included in the Approved List of Educational Seminars authorized by the Board Education and Travel Policy for Fiscal Year 2018-19, and therefore requires individual approval;

WHEREAS, the sound management of the assets and liabilities of a trust fund imposes a continuing need for all Board Members to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties;

THEREFORE, BE IT RESOLVED, that Commissioner Elizabeth L. Greenwood is hereby authorized to attend the 2018 Public Pension Trustees Fiduciary Conference on October 2 - 3, 2018, in New York, New York;

BE IT FURTHER RESOLVED, that the reimbursement of up to \$1,925.50 for Commissioner Greenwood is hereby authorized for reasonable expenses in connection with participation.

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.

## VI

### BOARD/DEPARTMENT ADMINISTRATION

- A. TRIENNIAL BOARD POLICY REVIEW: THE BOARD PROCEDURES, GUIDANCE FOR BOARD MEMBERS, CONTRACT ADMINISTRATION AND POSSIBLE BOARD ACTION – John Koontz, Senior Management Analyst with Administrative Services, discussed this item. Commissioner Serrano moved approval, seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.
- B. LARGER ANNUITY PROGRAM REVIEW AND POSSIBLE BOARD ACTION – Todd Bouey, Assistant General Manager, presented this item and requested approval from the Board to allow staff time to review the Larger Annuity Program and come back to the Board with their findings and recommendations. President Ruiz directed a report back within six months. Commissioner Serrano moved approval, seconded by Vice President Greenwood, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.

## VII

### COMMITTEE REPORT(S)

- A. BENEFITS ADMINISTRATION COMMITTEE VERBAL REPORT ON THE MEETING OF SEPTEMBER 11, 2018 – Commissioner Wilkinson stated that the Committee approved the Ratings Schedule for Enhanced Disability Retirement Benefits.

## VIII

### INVESTMENTS

- A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value, \$17.62 Billion as of September 10, 2018. Mr. June stated that he will be attending the Principles for Responsible Investment (PRI) in Person 2018 Conference in San Francisco, CA from September 12-14, 2018. Mr. June also stated that LACERS becoming a signatory with PRI was approved by the Board in 2007, however, no action was taken. At a future meeting this Board will discuss LACERS becoming a signatory.
- B. PRESENTATION BY NEPC, LLC OF THE PORTFOLIO PERFORMANCE REVIEW REPORT FOR THE QUARTER ENDING JUNE 30, 2018 – Carolyn Smith, Partner and Kevin Novak, Consultant at NEPC presented this item to the Board.

## IX

President Ruiz adjourned the Regular Meeting at 10:55 a.m. to convene in Closed Session.

## DISABILITY RETIREMENT APPLICATION(S)

*Item IX-B taken out of order*

### **B. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION FOR MARCELO VALERIO AND POSSIBLE BOARD ACTION**

President Ruiz reconvened the Regular Meeting at 11:07 a.m. and announced that during Closed Session the Board unanimously approved the the Disability Retirement Application of Marcelo Valerio.

- A. ADOPTION OF FINDINGS OF FACT FOR MICHAEL KARATSONYI AND POSSIBLE BOARD ACTION – Anna Ingram, Management Analyst, presented this item to the Board. Commissioner Serrano moved approval, seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, and President Ruiz -5; Nays, Vice President Greenwood -1.

X

## LEGAL/LITIGATION

- A. CONSIDERATION OF OUTSIDE TAX COUNSEL FOR THREE YEAR CONTRACT(S) EFFECTIVE SEPTEMBER 21, 2018 AND POSSIBLE BOARD ACTION – James Napier, Deputy City Attorney, presented this item to the Board. Vice President Greenwood moved approval, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.

XI

OTHER BUSINESS – There was no other business.

XII

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, September 25, 2018 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

XIII

ADJOURNMENT – There being no further discussion before the Board, President Ruiz adjourned the meeting at 11:11 a.m.

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Cynthia M. Ruiz  
President

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Neil M. Guglielmo  
Manager-Secretary



MINUTES OF THE SPECIAL MEETING  
**BOARD OF ADMINISTRATION**  
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Ken Spiker Boardroom  
202 West First Street, Fifth Floor  
Los Angeles, California

September 11, 2018

9:55 a.m.

**Agenda of: Sept. 25, 2018**

**Item No: II**

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PRESENT:	President:	Cynthia M. Ruiz
	Vice President:	Elizabeth L. Greenwood <small>(arrived at 9:59 a.m.)</small>
	Commissioners:	Elizabeth Lee Sandra Lee Nilza R. Serrano Michael R. Wilkinson
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counsel:	James Napier
ABSENT:	Commissioner:	Sung Won Sohn

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*The Items in the Minutes are numbered to correspond with the Agenda.*

I

PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION – President Ruiz asked if there were any persons who wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment cards were received.

II

PROPOSED ORDINANCE CREATING LACERS 115 TRUST FUND AND POSSIBLE BOARD ACTION – Deputy City Attorney Miguel Bahamon presented this item to the Board. Commissioner Wilkinson moved approval, seconded by Vice President Greenwood, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Greenwood, and President Ruiz -6; Nays, None.

III

ADJOURNMENT – There being no further discussion before the Board, President Ruiz adjourned the meeting at 10:01 a.m.

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Cynthia M. Ruiz  
President

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Neil M. Guglielmo  
Manager-Secretary

Agenda of: SEPT. 25, 2018

Item No: V-A

**MONTHLY REPORT ON SEMINARS AND CONFERENCES  
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS  
(FOR THE MONTH OF AUGUST 2018)**

In accordance with Section V.H.2 of the approved Board Education and Travel Policy, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, seminars and conferences they attended as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member. This monthly report shall include all seminars and conferences attended during the 4-week period preceding the Board meeting wherein the report is to be presented.

**BOARD MEMBER:**

President Cynthia M. Ruiz  
Vice President Elizabeth L. Greenwood

Commissioner Elizabeth Lee  
Commissioner Sandra Lee  
Commissioner Nilza R. Serrano  
Commissioner Sung Won Sohn  
Commissioner Michael R. Wilkinson

<b>DATE(S) OF EVENT</b>	<b>SEMINAR / CONFERENCE TITLE</b>	<b>EVENT SPONSOR (ORGANIZATION)</b>	<b>LOCATION (CITY, STATE)</b>
	<b>NOTHING TO REPORT</b>		



**Report to Board of Administration**

*Neil M. Guglielmo*

Agenda of: **SEPTEMBER 25, 2018**

From: Neil M. Guglielmo, General Manager

ITEM: **VI-A**

**SUBJECT: AMENDMENT TO CONTRACT NO. 4171 WITH CORTEX APPLIED RESEARCH, INC. AND POSSIBLE BOARD ACTION**

Recommendation

That the Board:

1. Approve Amendment No. 1 to Contract No. 4171 with Cortex Applied Research, Inc. (Cortex) to increase the Fiscal Year (FY) 2018-19 contract ceiling amount from \$60,000 to \$80,000 to provide board governance consulting services; and,
2. Authorize the General Manager to negotiate and execute the final contract amendment.

Discussion

In June 2017, the Board awarded a three-year contract to Cortex for an annual total amount of up to \$60,000 to provide board governance consulting services. In August 2017, LACERS utilized Cortex to facilitate the Board's self-evaluation.

In accordance with the Board's Strategic Planning Policy (Board Administrative Policy 5.2), the Board and management are to engage in a triennial strategic planning process including an environmental scan, and establishing/reaffirming the LACERS mission, vision, guiding principles, and three year goals. The last strategic plan developed by LACERS was in 2013, thus an updated strategic planning process is due and particularly pertinent as major Pension Administration System implementation work is completed.

In July 2018, LACERS issued a Task Order Solicitation (TOS) to its bench of board governance consultants to provide strategic planning services, including facilitation of organizational strengths, weaknesses, opportunities, and threats analysis. One firm, Cortex, responded to the TOS. Based on the proposal of \$77,500 submitted by Cortex for the strategic planning project, staff is recommending that Cortex's annual contract amount be increased by \$20,000 to cover the difference plus any contingencies, amending the annual contract ceiling for FY 2018-19 from \$60,000 to \$80,000.

*Strategic Plan Impact Statement:*

This contract amendment request conforms to LACERS Strategic Plan Board Governance Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

This report was prepared by Edeliza Fang, Senior Management Analyst II, Administrative Services Division.

NG:TB:DWN:EF

Attachment: Proposed Resolution

**AMENDMENT NO.1 TO CONTRACT NO. 4171  
WITH CORTEX APPLIED RESEARCH INC.  
FOR BOARD GOVERNANCE CONSULTING SERVICES**

**PROPOSED RESOLUTION**

WHEREAS, Cortex Applied Research Inc. ("Cortex") has been under contract with LACERS since June 13, 2017, providing board governance consulting services; and

WHEREAS, the original contract annual ceiling amount is \$60,000; and

WHEREAS, LACERS issued a Task Order Solicitation in July 2018 for strategic planning and Cortex was selected to provide the consulting services for a proposed fee of \$77,500; and

WHEREAS, it is recommended that an additional \$20,000 be authorized under this contract for a total maximum compensation amount of \$80,000 in Fiscal Year 2018-19; and

NOW, THEREFORE, BE IT RESOLVED, that the Board:

1. Approve a contract amendment to increase the Fiscal Year 2018-19 contract limit by \$20,000, with a total annual contract amount not to exceed \$80,000; and,
2. Authorize the General Manager to approve and execute the necessary contract amendment documents with Cortex.

September 25, 2018



**LACERS**  
LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM



## ***Report to Board of Administration***

From: Investment Committee  
Sung Won Sohn, Chairperson  
Nilza R. Serrano  
Elizabeth Lee

Agenda of: **SEPTEMBER 25, 2018**

ITEM: **VIII-B**

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**SUBJECT: INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION**

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### Recommendation

That the Board approve a one-year contract extension with AJO, LP for management of an active large cap value equities portfolio; and, authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

### Discussion

On September 11, 2018, the Committee considered the attached staff report (Attachment A) recommending a one-year contract extension with AJO, LP (AJO). The firm has managed an active U.S. large cap value equities portfolio for LACERS since October 2001, and the current contract expires on October 31, 2018. The Committee discussed the current fee structure and AJO's "On-Watch" status pursuant to the LACERS Manager Monitoring Policy. The Committee recommends a one-year contract extension in light of AJO's improved performance since the beginning of the "On-Watch" period.

### *Strategic Plan Impact Statement*

A contract extension with AJO, LP will allow the fund to maintain a diversified exposure to the U.S. large cap value equity markets, which is expected to help achieve satisfactory long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Investment Division.

RJ:BF:BS:ap

Attachments: A) Investment Committee Recommendation Report dated September 11, 2018  
B) Proposed Resolution



## Report to Investment Committee

*Neil M. Guglielmo*  
From: Neil M. Guglielmo, General Manager

Agenda of: **SEPTEMBER 11, 2018**

ITEM: VII

**SUBJECT: INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

### Recommendation

That the Committee recommend to the Board a one-year contract extension with AJO, LP for management of an active large cap value equities portfolio.

### Discussion

#### *Background*

AJO, LP (AJO) has managed an active U.S. large cap value equities portfolio for LACERS since October 2001, and is benchmarked against the Russell 1000 Value Index. AJO uses a quantitative investment strategy that seeks to identify well-managed companies with cash profits, relatively low market valuations, positive price and earnings momentum, and favorable market sentiment. AJO also emphasizes efficient trading to minimize transaction costs. The portfolio management team consists of seven portfolio managers, including Ted Aronson, a founding principal of AJO. LACERS' portfolio was valued at \$184 million as of June 30, 2018.

As detailed in the Performance section of this report, AJO has been "On-Watch" for performance since June 30, 2016, pursuant to the LACERS Manager Monitoring Policy (Policy). Last year, at its meeting of August 22, 2017, the Board approved a one-year extension to AJO's contract and watch period as a result of AJO's improved performance; the current contract extension expires on October 31, 2018.

#### *Organization*

AJO is 100% employee-owned, has 67 employees, and is headquartered in Philadelphia with a satellite office in Boston. As of June 30, 2018, AJO managed approximately \$24 billion in total assets with \$12 billion in the U.S. large cap value equities strategy.

#### *Due Diligence*

AJO's investment philosophy, strategy, process, and key personnel have not changed over the contract period.



*Performance*

Two years ago, AJO was placed "On Watch" for an initial one-year period beginning June 30, 2016, and ending June 30, 2017, due to a breach of the following Policy criteria based on performance as of June 30, 2016:

1. Annualized net underperformance versus the benchmark over the trailing 5-year period.
2. Moving average net Information Ratio less than 0.20 over the trailing 5-year period.

Annualized returns as of June 30, 2016, are presented in the table below.

Annualized Performance as of 6/30/16 (Net-of-Fees)									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	-0.99	-6.79	-0.71	7.38	11.82	9.94	13.47	5.66	7.65
Russell 1000 Value Index	4.58	2.86	3.49	9.87	13.54	11.35	14.50	6.13	7.44
% of Excess Return	-5.57%	-9.65%	-4.20%	-2.49%	-1.72%	-1.41%	-1.03%	-0.47%	0.21%

<sup>^</sup>Inception Date: 10/31/01

Last year, subsequent to the end of the initial one-year watch period, the Board and Investment Committee reviewed AJO's performance as of June 30, 2017. While AJO continued to breach the two Policy criteria, performance had improved over all time periods as shown in the table below. The Board and Investment Committee approved a recommendation from staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, to extend AJO's contract and watch period for an additional year.

Annualized Performance as of 6/30/17 (Net-of-Fees)									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	1.42	18.55	5.12	5.33	10.07	13.14	14.17	5.42	8.32
Russell 1000 Value Index	1.34	15.53	9.01	7.36	11.26	13.94	14.31	5.57	7.94
% of Excess Return	0.08%	3.02%	-3.89%	-2.03%	-1.19%	-0.80%	-0.14%	-0.15%	0.38%

<sup>^</sup>Inception Date: 10/31/01

As of June 30, 2018, the end of the second one-year watch period, AJO continued to breach the two Policy criteria. However, the firm continued to improve performance substantially as presented in the table below. Specifically, over the one-year period ending June 30, 2018, the strategy outperformed its benchmark by 426 basis points (4.26%) net-of-fees. The strategy continues to add value to the LACERS portfolio since inception, outperforming the benchmark by 61 basis points (0.61%) on an annualized basis.

Annualized Performance as of 6/30/18 (Net-of-Fees)									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	1.55	11.03	14.73	7.05	6.73	10.26	11.28	8.81	8.48
Russell 1000 Value Index	1.18	6.77	11.06	8.26	7.21	10.34	11.27	8.49	7.87
% of Excess Return	0.37%	4.26%	3.67%	-1.21%	-0.48%	-0.08%	0.01%	0.32%	0.61%

<sup>^</sup>Inception Date: 10/31/01

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance as of 6/30/18 (Net-of-Fees)										
	YTD 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
AJO	-0.97	16.22	9.68	0.00	9.06	38.25	17.62	2.61	15.74	15.20
Russell 1000 Value Index	-1.69	13.66	17.34	-3.83	13.45	32.53	17.51	0.39	15.51	19.69
% of Excess Return	0.72%	2.56%	7.66%	-3.83%	-4.39%	5.72%	0.11%	2.22%	0.23%	-4.49%

Staff and NEPC recommend a one-year extension of the contract and watch period due to AJO's progress toward compliance with the Policy.

#### *Fees*

LACERS pays AJO an effective annual fee of 30 basis points (0.30%), which is approximately \$552,000 annually based on the value of LACERS' assets as of June 30, 2018. This fee ranks between the 4<sup>th</sup> and 5<sup>th</sup> percentile of AJO's peers based on the eVestment U.S. Large Cap Value universe (i.e., AJO's fee is lower than 95% of peers).

#### *General Fund Consultant Opinion*

NEPC, LACERS' General Fund Consultant, concurs with this recommendation.

#### *Strategic Plan Impact Statement*

A contract renewal with AJO, LP will allow the fund to maintain a diversified exposure to the U.S. large cap value equities market, which is expected to help achieve satisfactory long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Investment Division.

RJ:BF:BS:ap

Attachments:      A) Consultant Recommendation – NEPC  
                           B) Workforce Composition



**To:** Los Angeles City Employees' Retirement System Investment Committee  
**From:** NEPC, LLC  
**Date:** September 11, 2018  
**Subject:** AJO Partners – Large Cap Value Equities Contract Extension

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### **Recommendation**

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) extend the contract that is currently in place with AJO Partners Ltd. ('AJO') for a period of one year from the date of contract expiry. NEPC also recommends an extension of the LACERS' Watch status at this time for a period of one year in accordance with the LACERS' Manager Monitoring Policy.

### **Background**

AJO has been an active equity manager for LACERS since October 31, 2001. As of June 30, 2018 AJO managed \$183.8 million, or 1.1% of Plan assets with an asset-based fee of 0.285% annually. The performance objective is to exceed the performance of the Russell 1000 Value Index, net of fees, by 2.0% over full market cycles. AJO has been on 'watch' pursuant to LACERS Manager Monitoring Policy since June 30, 2016 for underperforming the benchmark in the five-year trailing return as well as having a negative five-year information ratio. While performance over the past year has been positive versus the benchmark (i.e., 11.03% vs. 6.77%), it was not enough to bring the five-year performance return above the benchmark.

The firm is 100% employee-owned, with the founder Ted Aronson remaining an active owner and investment team member. Over the past ten years, Mr. Aronson has transitioned approximately 55% of the ownership of the firm to other active employees. In the past five years, there have been two Principal level departures from the team responsible for managing the portfolio, however, the two departures were unrelated and we believe they have not negatively impacted the firm's resources or the investment process. The key individuals managing the product have been with AJO for at least 15 years with a significant portion being owners in the firm. The firm's business continuity plan and key-man risk planning appears to include a cogent succession plan for its founder.

The firm manages approximately \$24 billion on behalf of 109 clients with 67 employees; 57 individuals are located in Philadelphia and 10 are located in Boston. The firm's key client relationship types include public pension (37%), corporate/ERISA (28%), and pooled sub-advised mutual fund clients (25%) making up 90% of total AUM.



The philosophy and process employed to construct the portfolio has been consistently applied. AJO's stock selection process focuses on identifying companies with consistent earnings and free-cash-flow characteristics trading at attractive valuations based on price/book, price/sales and price/earnings criteria along with positive momentum and sentiment characteristics. The product's portfolio construction is designed to be sector-neutral to the benchmark weightings, but the product will maintain over- and under-weightings to industry categories that are driven by bottom-up stock selection.

### **Performance**

Since inception, the AJO portfolio has outperformed the Russell 1000 Value Index by 0.61%, net of fees, through June 30, 2018. In the five-year period ended June 30, 2018, the portfolio underperformed the index by 0.08% (10.26% vs. 10.34%), ranking in the 61<sup>st</sup> percentile in the eVestment Large Cap Value Equity peer group of investment managers (please refer to Exhibit 1). The portfolio has an information ratio of -0.02 and ranks in the 61<sup>st</sup> percentile among its peers over the past five years. Since inception, the information ratio is 0.17 and ranks in the 39<sup>th</sup> percentile for the period ended June 30, 2018. It is worth noting, that the five-year information ratio most recently turned negative in 2016 and recovered to near positive territory in the fourth quarter of 2017 (refer to Exhibit 2). Active risk, as measured by tracking error versus the index since inception has been 3.5% oscillating between 2% and 4% on a rolling three-year basis over the past 13 years.

The portfolio experienced a relatively large drawdown in the first half of 2016 underperforming the Russell 1000 Value Index by 10.4% (-4.1% vs. 6.3%). During this time period the market favored lower volatility stocks while ignoring valuation, momentum and other key factors that have historically generated excess return in security selection for AJO.

In the one year ended June 30, 2018 the portfolio outperformed the benchmark by 4.26% (11.03% vs. 6.77%) ranking in the 33<sup>rd</sup> percentile in its peer group. Strong active large cap value manager outperformance in the past two years has resulted in medium to long-run median manager returns the large cap value equity space to rank above the index in the trailing three-years, five-years and 10 years ended June, 2018 (refer to Exhibit 1). Referring to Exhibit 3, on a cumulative basis the portfolio has added value quarterly since inception against its benchmark. Meaning, investment gains from periods of outperformance have not been eroded by periods of underperformance on a cumulative basis relative to the benchmark. There are however notable periods of underperformance of 2.5% or larger in five quarterly periods.

It is worth noting that while AJO's benchmark agnostic approach can result in short-term periods of high volatility, it is this ability to be less constrained to a benchmark that we believe may result in attractive long-term qualities for the equity program broadly. Importantly, there is a large body of academic work that supports 'value' as being a factor in driving alpha within equity markets and over long periods of time AJO has been able to harvest gains for LACERS using their approach.

With respect to investment management fees, when compared to other large cap value managers at the same asset level, eVestment U.S. Large Cap Value, AJO falls between the



4<sup>th</sup> and 5<sup>th</sup> percentile, or in other words, 95% of the universe charges higher investment management fees.

### **Conclusion**

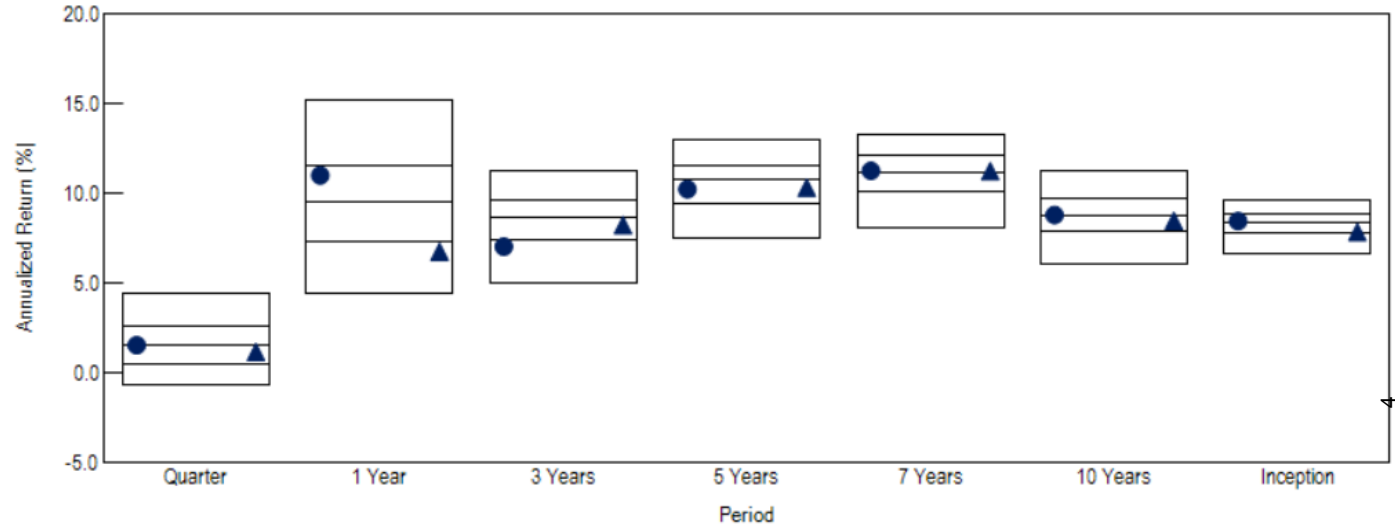
While AJO has struggled to outperform the index over the medium-term, their consistent, repeatable process and quantitative benchmark agnostic strategy has led to positive cumulative performance over longer periods. There have not been any material changes to the team responsible for the strategy, which has now been together for 16 years, and while we cannot anticipate future changes to the team, the strong planning and team structure that has been built suggests stability in the near term.

The following tables provide specific performance information, net of fees referenced above.

Exhibit 1

eVestment US Large Cap Value Equity Net Account  
Ending June 30, 2017

**eV US Large Cap Value Equity Net Return Comparison  
Ending June 30, 2018**



	Return (Rank)													
	Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Inception							
5th Percentile	4.43	15.23	11.30	13.04	13.28	11.31	9.68							
25th Percentile	2.57	11.56	9.59	11.60	12.10	9.75	8.84							
Median	1.59	9.56	8.64	10.75	11.20	8.76	8.42							
75th Percentile	0.44	7.29	7.45	9.49	10.07	7.91	7.82							
95th Percentile	-0.71	4.47	4.98	7.54	8.09	6.09	6.64							
# of Portfolios	230	230	226	212	187	166	86							
● Aronson, Johnson & Ortiz	1.55 (52)	11.03 (33)	7.05 (81)	10.26 (61)	11.28 (46)	8.81 (48)	8.48 (46)							
▲ Russell 1000 Value	1.18 (60)	6.77 (81)	8.26 (58)	10.34 (59)	11.27 (47)	8.49 (56)	7.87 (73)							



Exhibit 2

Rolling 5 Year Information Ratio

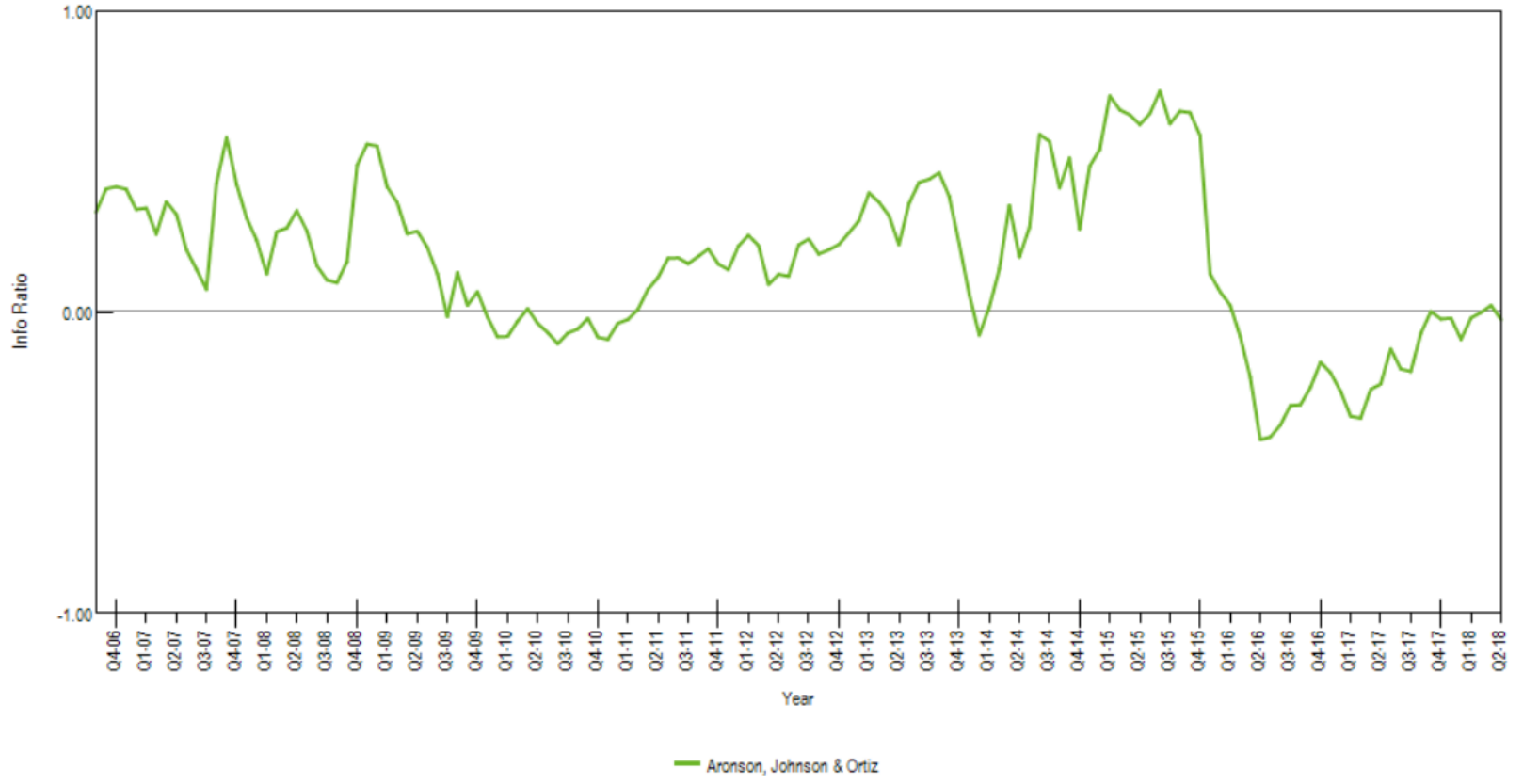
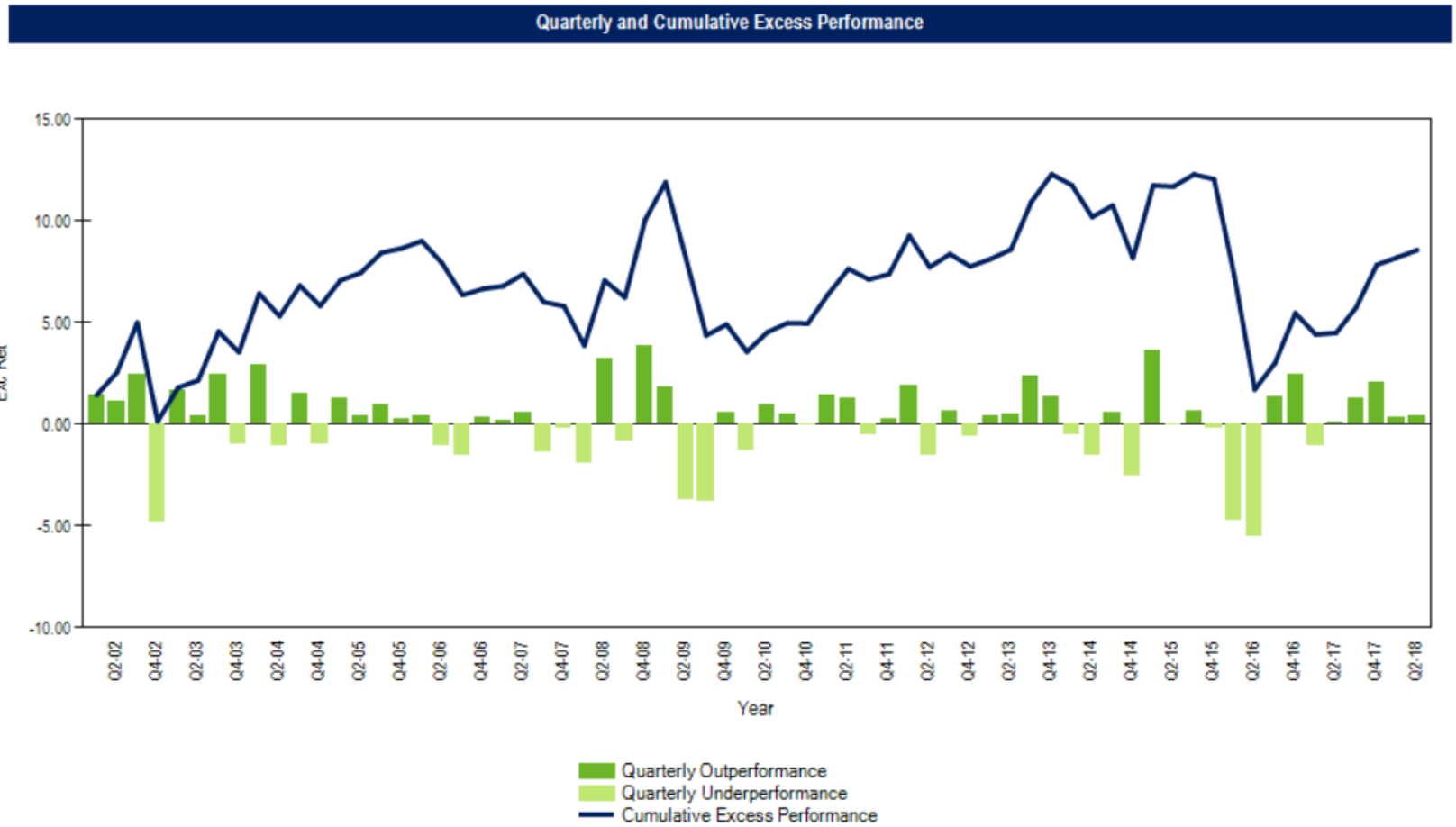


Exhibit 3







Vendor **AJO**  
 Address **230 S. Broad Street, 20th Floor**  
**Philadelphia, PA 19102**

Date Completed: **August 29, 2018**

Category **Domestic Equities**

TOTAL COMPOSITION OF WORK FORCE									
Occupation	African American	Hispanic	Asian or Pacific Islander	American Indian/Alaskan Native	Caucasian (Non Hispanic)	Total Employees	Percent (%) Minority	Gender	
	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Male Full Time	Female Full Time
Officials & Managers	0	0	0	0	4	4	0.00%	2	2
Professionals	3	5	8	0	40	56	28.57%	40	16
Technicians	0	0	0	0	0	0	0.00%	0	0
Sales Workers	0	0	0	0	0	0	0.00%	0	0
Office/Clerical	1	0	0	0	6	7	14.29%	1	6
Semi-Skilled	0	0	0	0	0	0	0.00%	0	0
Unskilled	0	0	0	0	0	0	0.00%	0	0
Service Workers	0	0	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0	0	0.00%	0	0
<b>Total</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>0</b>	<b>50</b>	<b>67</b>	<b>25.37%</b>	<b>43</b>	<b>24</b>

CONTRACT EXTENSION  
AJO, LP  
ACTIVE LARGE CAP VALUE EQUITIES  
PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

WHEREAS, LACERS current one-year contract extension with AJO, LP (AJO) for active large cap value equities portfolio management expires on October 31, 2018; and,

WHEREAS, AJO was placed "On-Watch" on July 26, 2016, for performance as of June 30, 2016, in accordance with the LACERS Manager Monitoring Policy (Policy); and,

WHEREAS, AJO has shown progress toward compliance with the Policy during the "On-Watch" period; and,

WHEREAS, on September 25, 2018, the Board approved the Investment Committee's recommendation for a one-year contract extension; and,

NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

<u>Company Name:</u>	AJO, LP
<u>Service Provided:</u>	Active Large Cap Value Equities Portfolio Management
<u>Effective Dates:</u>	November 1, 2018 through October 31, 2019
<u>Duration:</u>	One year
<u>Benchmark:</u>	Russell 1000 Value Index
<u>Allocation as of June 30, 2018:</u>	\$184 million

September 25, 2018



**Report to Board of Administration**

*Neil M. Guglielmo*

Agenda of: **SEPTEMBER 25, 2018**

From: Neil M. Guglielmo, General Manager

ITEM: **IX-A**

**SUBJECT: ASSUMPTIONS FOR THE JUNE 30, 2018 RETIREE HEALTH ACTUARIAL VALUATION AND POSSIBLE BOARD ACTION**

Recommendation

That the Board adopt the attached actuarial assumptions for the June 30, 2018 Retiree Health Actuarial Valuation as recommended by LACERS' consulting actuary, Segal Consulting (Segal).

Discussion

Segal reviews the assumptions used for LACERS' health actuarial valuation annually due to the dynamic nature of healthcare costs, as opposed to economic (such as the investment rate of return) and demographic assumptions (such as the mortality rates) which are generally reviewed and updated every three years based on the results of the Triennial Experience Study, the latest of which was completed based on experience through June 30, 2017. Attached for the Board's consideration are the recommended assumptions for the medical trend, per capita costs, and other health-specific assumptions to be applied in the June 30, 2018 Retiree Health Actuarial Valuation.

The recommended per capita costs assumption, in general, combines the new 2019 medical/dental premium rates approved by the Board recently with the 2018 rates; such rates will then be adjusted by factors specific to age, gender, and spousal status. The medical trend is applied to the per capita costs to project future healthcare costs. Segal's recommended initial calendar year trend rate for Medicare plans is reset at 6.50%, while the non-Medicare plans rate is reset at 7.00%; both of these rates remain unchanged from last year's initial rate. The initial rates are graded down by 0.25% each year until reaching a set ultimate rate of 4.50%, also holding steady from last year. Dental and Medicare Part B trend assumptions decrease to 4.00% (from 4.50% in the prior year) based upon Segal survey data and a review of the historical Medicare Part B premiums. Other assumptions will be consistent with the economic and demographic assumptions adopted by the Board as part of the Triennial Experience Study.

Andy Yeung of Segal Consulting will present the recommended health assumptions.

This report was prepared by Todd Bouey, Assistant General Manager.

NMG:TB:JPK

Attachment: Segal Recommendation Letter dated September 18, 2018



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308  
T 415.263.8200 www.segalco.com

September 18, 2018

Mr. Neil Guglielmo  
General Manager  
Los Angeles City Employees' Retirement System  
202 West First Street, Suite 500  
Los Angeles, CA 90012-4401

**Re: Los Angeles City Employees' Retirement System  
Assumptions and Methods Recommended for the June 30, 2018 Retiree Health  
Actuarial Valuations**

Dear Neil:

We have provided in this letter the health care related actuarial assumptions that we recommend to the Board for the June 30, 2018 retiree health valuations.

The health care trend assumptions used in the health valuations are reviewed annually. Every year Segal Consulting publishes a set of health care trend assumptions based on the latest research and information available to our health actuaries. The health care trend assumptions take into account factors such as recent and expected premium increases affecting our clients, changes in utilization of health care and cost shifting from Medicare.

Other assumptions such as the proportion of members expected to be covered by each health benefit provider (e.g. Kaiser, etc.) can sometimes be volatile due to the dynamic nature of the health care market place. That projection is typically based on the enrollment experience among the current retirees during the most recent annual open enrollment.

Following are our recommended assumptions for the June 30, 2018 health plan valuations:

1. Health Care Trend Assumptions – The detailed health care trend assumptions we are recommending to the Board are outlined in Item 1 of the Attachment.
  - For non-Medicare plans, we are recommending first-year trend reset at 7.00%, then grading down by 0.25% each year until reaching an ultimate rate of 4.50% after ten years.
  - For Medicare plans, we are recommending the first-year trend rate be reset at 6.50%, then grading down by 0.25% each year until reaching an ultimate rate of 4.50% after eight years.

- Dental and Medicare Part B trend assumptions will decrease to 4.00% based upon Segal survey data and a review of the historical Medicare Part B premiums.

Setting the trend assumption begins with selecting the first-year increase, and then selecting a step for grading down the trends over several years to an ultimate long-term trend.

We select first-year trend to project the current premiums and subsidies to the following year. In developing first-year health care trend assumptions, a mix of health industry expectations and plan specific information is used as follows:

- a. Segal's National Health Care Practice develops trend standards each year. The methodology utilizes data from Segal's annual Segal Health Plan Cost Trend Survey of insurers, pharmacy benefit managers (PBMs), and managed care organizations. An analysis of historic trend was performed to evaluate the differences in projected trend vs. actual. The methodology looked at variation of actual results and fitted them to the differences between actual and projected trend.
- b. Segal's National Health Care Practice then publishes its internal standards for use by its health actuaries and consultants. These internal standards cover a variety of benefits (e.g. medical, dental, vision) and plan design types (e.g. PPO, HMO). Unlike Segal's annual trend survey, which displays averages of the survey results, the trend standards provide ranges of acceptable assumptions.
- c. For retiree health valuations, without additional information, we would choose a first-year trend in the middle of the range provided in the Segal trend standards. If any additional information from the client or its health consultant is available, Segal may consider that information when setting the first-year trend.
- d. Retiree health care valuations typically project benefit payments (as far as 80 years) far into the future. Segal's Office of the Chief Actuary has provided standards on trends in the years following the first year of projection. Trend for each year is to decrease until it reaches an ultimate trend rate.

Based upon a review of updated industry survey and renewal information, along with the draft 2019 Segal trend survey data, we propose a reset of the health care cost trend assumptions for the non-Medicare and Medicare plans and a reduction in the trend assumptions for dental and Medicare Part B plans.

2. Note on Premium Renewals and Health Care Trend Assumption – Health care trend assumptions take into account factors such as recent and expected premium increases, changes in utilization of health care and cost shifting from Medicare. While there is often a high correlation between a trend rate and the actual cost increase assessed by a carrier, trend rates and the actual net annual change in plan costs (and thus premiums) can also differ substantially. A plan sponsor's costs/premiums can be significantly different from projected claims cost trends due to diverse factors ranging from group demographics, plan design, claim volatility and underwriting cycles. Carrier actions to gain market share and the impact of ACA fees are additional factors that influence short-term premiums though they may not necessarily reflect the cost trend assumptions used in an actuarial

valuation. For example, a cycle of favorable experience used in the rate setting basis can reduce the claim portion of the premium but that does not mean that the future costs will follow that pattern. Furthermore, carrier renewals themselves reflect a range of future cost trend assumptions from as low as 4.8% to 12%.

3. Per Capita Health Care Costs – These costs are used to project the premiums for current active members when they retire. Based on the percentage of retired members, spouses and beneficiaries electing health coverage, and the proportion of members enrolled in each available medical plan, we have developed the per capita health premium costs to cover a member in the 2018-2019 fiscal year as provided in Items 2(b) and 2(d) of the Attachment. Note there are three small plans (SCAN, UHC Medicare Advantage HMO for Arizona and Nevada) offered by LACERS that are not included in Item 2(d) because we assume a 0% participation rate for each of those plans. On average, their premiums are close to the UHC California Medicare Advantage plan.

Based on the June 30, 2018 membership data, we have provided the observed and assumed election rates among the different medical plans in Items 2(b) and 2(d) of the Attachment.

The per capita costs for members subject to the retiree medical subsidy cap are provided in Item 2(e) of the Attachment.

In accordance with Actuarial Standard of Practice (ASOP) No. 6, *Measuring Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*, we will continue to value health care costs by adjusting premiums using age-specific factors.

The per capita costs for the dental plan that we will use for the June 30, 2018 valuation are provided in Item 2(f) of the Attachment.

4. Increase in Future Health Subsidy Maximums – Consistent with our previous valuation practice, we will continue to assume that the Board's health subsidy will increase at the same rate as the long-term health trend, for retired members and their qualified survivors, who retired before July 1, 2011.

It should be noted that in our valuation we do not reflect the other potential limit on health subsidy increase in Sec. 4.1111(b) of the Administrative Code which references the average subsidy increase for the upcoming year under consideration and the actual subsidy increases for the preceding two years because our health trend is intended to reflect overall experience in the long run.<sup>1</sup>

---

<sup>1</sup> We note that in the attachment to one of the agenda items for the August 14, 2018 Board meeting, the Board had authority to increase the 2019 non-Medicare maximum subsidy by up to 7.25%, which is greater than the 7.00% trend used in the June 30, 2017 valuation before considering the actual subsidy increases for the preceding years.

5. Other Assumptions – The other demographic and economic assumptions and methods will be consistent with those adopted in our July 1, 2014 to June 30, 2017 triennial experience study.

### **Impact Of Health Care Reform**

In the prior actuarial valuation as of June 30, 2017, we were directed by LACERS to reflect the impact of the projected excise tax on certain high cost medical plans beginning in 2020 as prescribed by the Affordable Care Act (ACA) and related statutes. (It should be noted though that since we published the June 30, 2017 valuation report, the effective date of the excise tax has been postponed to 2022.) We understand that this is consistent with the parameters under Statements No. 74 and 75 as approved by the Governmental Accounting Standards Board (GASB) for financial reporting purposes. Unless directed otherwise by LACERS, we will continue to reflect the projected excise tax liability in the June 30, 2018 valuations, both for funding and financial reporting purposes.

We look forward to discussing this with you and your Board. Please let us know if you have any questions.

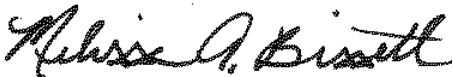
Sincerely,



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



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



Melissa A. Bissett, FSA, MAAA  
Senior Health Consultant and Actuary

JAC/gxk  
Attachment

**ATTACHMENT**

**Comparison of Current and Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**1) Health Care Trend Rates**

<b>MEDICAL TRENDS USED IN THE JUNE 30, 2017 VALUATION</b>						
Trends to be applied in following fiscal years, to all health plans.						
Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium						
First Fiscal Year (July 1, 2017 through June 30, 2018)						
Plan	Anthem Blue Cross PPO, Under Age 65	Anthem Blue Cross Medicare Supplement	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Anthem Blue Cross HMO, Under 65	UHC Medicare HMO
Trend to be applied to 2017-2018 Fiscal Year premium	7.23%	6.85%	5.16%	5.72%	7.18%	5.74%
Trend (Approx.)			The fiscal year trend rates are based on the following calendar year trend rates:			
Fiscal Year	Non-Medicare	Medicare	Calendar Year	Non-Medicare	Medicare	
2018-2019	6.87%	6.37%	2018	7.00%*	6.50%*	
2019-2020	6.62%	6.12%	2019	6.75%	6.25%	
2020-2021	6.37%	5.87%	2020	6.50%	6.00%	
2021-2022	6.12%	5.62%	2021	6.25%	5.75%	
2022-2023	5.87%	5.37%	2022	6.00%	5.50%	
2023-2024	5.62%	5.12%	2023	5.75%	5.25%	
2024-2025	5.37%	4.87%	2024	5.50%	5.00%	
2025-2026	5.12%	4.62%	2025	5.25%	4.75%	
2026-2027	4.87%	4.50%	2026	5.00%	4.50%	
2027-2028	4.62%	4.50%	2027	4.75%	4.50%	
2028 and later	4.50%	4.50%	2028	4.50%	4.50%	
Dental Premium Trend	4.50% for all years					
Medicare Part B Premium Trend	4.50% for all years					

\* For example, the 7.00% assumption, when applied to the 2018 non-Medicare medical premiums would provide the projected 2019 non-Medicare medical premiums. This trend would also be applied to the maximum medical subsidy, based on the non-Medicare Kaiser premium.



**ATTACHMENT**

**Comparison of Current and Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**1) Health Care Trend Rates**

<b>PROPOSED MEDICAL TRENDS FOR THE JUNE 30, 2018 VALUATION</b>						
Trends to be applied in following fiscal years, to all health plans.						
Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium						
First Fiscal Year (July 1, 2018 through June 30, 2019)						
Plan	Anthem Blue Cross PPO, Under Age 65	Anthem Blue Cross Medicare Supplement	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Anthem Blue Cross HMO, Under 65	UHC Medicare HMO
Trend to be applied to 2018-2019 Fiscal Year premium	3.50%	3.25%	3.50%	4.29%	-1.75%	3.25%
Trend (Approx.)			The fiscal year trend rates are based on the following calendar year trend rates:			
Fiscal Year	Non-Medicare	Medicare	Calendar Year	Non-Medicare	Medicare	Trend (applied to calculate following year premium)
2019-2020	6.87%	6.37%	2019	7.00%*	6.50%*	
2020-2021	6.62%	6.12%	2020	6.75%	6.25%	
2021-2022	6.37%	5.87%	2021	6.50%	6.00%	
2022-2023	6.12%	5.62%	2022	6.25%	5.75%	
2023-2024	5.87%	5.37%	2023	6.00%	5.50%	
2024-2025	5.62%	5.12%	2024	5.75%	5.25%	
2025-2026	5.37%	4.87%	2025	5.50%	5.00%	
2026-2027	5.12%	4.62%	2026	5.25%	4.75%	
2027-2028	4.87%	4.50%	2027	5.00%	4.50%	
2028-2029	4.62%	4.50%	2028	4.75%	4.50%	
2029 and later	4.50%	4.50%	2029	4.50%	4.50%	
Dental Premium Trend	4.00% for all years					
Medicare Part B Premium Trend	Trend for the 2018-19 fiscal year will be calculated based on the actual increase in Medicare B premium from 2018 to 2019, when it becomes available. 4.00% for years following the 2019 calendar year.					

\* For example, the 7.00% assumption, when applied to the 2019 non-Medicare medical premiums would provide the projected 2020 non-Medicare medical premiums. This trend would also be applied to the maximum medical subsidy, based on the non-Medicare Kaiser premium.

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**2)(a) Per Capita Costs used in the June 30, 2017 Valuation – Participant Under Age 65 or Not Eligible for Medicare A&B**

2017 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO		\$826.43	\$1,736.88	\$826.43	\$1,652.86	\$1,736.88	\$1,652.86	\$826.43	\$826.43	\$826.43
Anthem Blue Cross PPO		\$1,182.49	\$1,736.88	\$1,182.49	\$2,360.51	\$1,736.88	\$1,736.88	\$1,182.49	\$826.43	\$826.43
Anthem Blue Cross HMO		\$982.02	\$1,736.88	\$982.02	\$1,959.57	\$1,736.88	\$1,736.88	\$982.02	\$826.43	\$826.43

2018 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO		\$853.39	\$1,790.80	\$853.39	\$1,706.78	\$1,790.80	\$1,706.78	\$853.39	\$853.39	\$853.39
Anthem Blue Cross PPO		\$1,270.81	\$1,790.80	\$1,270.81	\$2,537.02	\$1,790.80	\$1,790.80	\$1,270.81	\$853.39	\$853.39
Anthem Blue Cross HMO		\$1,054.33	\$1,790.80	\$1,054.33	\$2,104.06	\$1,790.80	\$1,790.80	\$1,054.33	\$853.39	\$853.39

2017-2018 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER	Observed and Assumed Election Percent	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO	<b>61.9%</b>	\$839.91	\$1,763.84	<b>\$839.91</b>	\$1,679.82	\$1,763.84	<b>\$1,679.82</b>	\$839.91	\$839.91	<b>\$839.91</b>
Anthem Blue Cross PPO	<b>22.5%</b>	\$1,226.65	\$1,763.84	<b>\$1,226.65</b>	\$2,448.77	\$1,763.84	<b>\$1,763.84</b>	\$1,226.65	\$839.91	<b>\$839.91</b>
Anthem Blue Cross HMO	<b>15.6%</b>	\$1,018.18	\$1,763.84	<b>\$1,018.18</b>	\$2,031.82	\$1,763.84	<b>\$1,763.84</b>	\$1,018.18	\$839.91	<b>\$839.91</b>

\* Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, shown on page 7, section 2(e) of our letter dated September 20, 2017.

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**2)(b) Proposed Per Capita Costs for the June 30, 2018 Valuation – Participant Under Age 65 or Not Eligible for Medicare A&B**

2018 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO		\$853.39	\$1,790.80	\$853.39	\$1,706.78	\$1,790.80	\$1,706.78	\$853.39	\$853.39	\$853.39
Anthem Blue Cross PPO		\$1,270.81	\$1,790.80	\$1,270.81	\$2,537.02	\$1,790.80	\$1,790.80	\$1,270.81	\$853.39	\$853.39
Anthem Blue Cross HMO		\$1,054.33	\$1,790.80	\$1,054.33	\$2,104.06	\$1,790.80	\$1,790.80	\$1,054.33	\$853.39	\$853.39

2019 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO		\$853.39	\$1,790.80	\$853.39	\$1,706.78	\$1,790.80	\$1,706.78	\$853.39	\$853.39	\$853.39
Anthem Blue Cross PPO		\$1,270.81	\$1,790.80	\$1,270.81	\$2,537.02	\$1,790.80	\$1,790.80	\$1,270.81	\$853.39	\$853.39
Anthem Blue Cross HMO		\$952.46	\$1,790.80	\$952.46	\$1,900.32	\$1,790.80	\$1,790.80	\$952.46	\$853.39	\$853.39

2018-2019 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER	Observed and Assumed Election Percent	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
Kaiser HMO	<b>62.4%</b>	\$853.39	\$1,790.80	<b>\$853.39</b>	\$1,706.78	\$1,790.80	<b>\$1,706.78</b>	\$853.39	\$853.39	<b>\$853.39</b>
Anthem Blue Cross PPO	<b>21.9%</b>	\$1,270.81	\$1,790.80	<b>\$1,270.81</b>	\$2,537.02	\$1,790.80	<b>\$1,790.80</b>	\$1,270.81	\$853.39	<b>\$853.39</b>
Anthem Blue Cross HMO	<b>15.7%</b>	\$1,003.40	\$1,790.80	<b>\$1,003.40</b>	\$2,002.19	\$1,790.80	<b>\$1,790.80</b>	\$1,003.40	\$853.39	<b>\$853.39</b>

\* Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 7, section 2(e).

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**2)(c) Per Capita Costs used in the June 30, 2017 Valuation – Participant Eligible for Medicare A&B**

2017 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>										
Kaiser Senior Advantage HMO		\$245.25	\$245.25	\$245.25	\$490.50	\$490.50	\$490.50	\$245.25	\$245.25	\$245.25
Anthem Blue Cross Medicare Supplement		\$505.93	\$505.93	\$505.93	\$1,007.39	\$1,007.39	\$1,007.39	\$505.93	\$505.93	\$505.93
UHC Medicare Adv. HMO for California		\$260.82	\$260.82	\$260.82	\$517.17	\$517.17	\$517.17	\$260.82	\$260.82	\$260.82

2018 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>										
Kaiser Senior Advantage HMO		\$257.25	\$257.25	\$257.25	\$514.50	\$514.50	\$514.50	\$257.25	\$257.25	\$257.25
Anthem Blue Cross Medicare Supplement		\$542.51	\$542.51	\$542.51	\$1,080.42	\$1,062.50	\$1,062.50	\$542.51	\$542.51	\$542.51
UHC Medicare Adv. HMO for California		\$273.69	\$273.69	\$273.69	\$542.78	\$542.78	\$542.78	\$273.69	\$273.69	\$273.69

2017-2018 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>	Observed and Assumed Election Percent									
Kaiser Senior Advantage HMO	<b>58.0%</b>	\$251.25	\$251.25	<b>\$251.25</b>	\$502.50	\$502.50	<b>\$502.50</b>	\$251.25	\$251.25	<b>\$251.25</b>
Anthem Blue Cross Medicare Supplement	<b>30.3%</b>	\$524.22	\$524.22	<b>\$524.22</b>	\$1,043.91	\$1,034.95	<b>\$1,034.95</b>	\$524.22	\$524.22	<b>\$524.22</b>
UHC Medicare Adv. HMO for California	<b>11.7%</b>	\$267.26	\$267.26	<b>\$267.26</b>	\$529.98	\$529.98	<b>\$529.98</b>	\$267.26	\$267.26	<b>\$267.26</b>

\* Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 7, section 2(e) of our letter dated September 20, 2017.

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

**2)(d) Proposed Per Capita Cost for the June 30, 2018 Valuation – Participant Eligible for Medicare A&B**

2018 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>										
Kaiser Senior Advantage HMO		\$257.25	\$257.25	\$257.25	\$514.50	\$514.50	\$514.50	\$257.25	\$257.25	\$257.25
Anthem Blue Cross Medicare Supplement		\$542.51	\$542.51	\$542.51	\$1,080.42	\$1,062.50	\$1,062.50	\$542.51	\$542.51	\$542.51
UHC Medicare Adv. HMO for California		\$273.69	\$273.69	\$273.69	\$542.78	\$542.78	\$542.78	\$273.69	\$273.69	\$273.69

2019 Calendar Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>										
Kaiser Senior Advantage HMO		\$262.47	\$262.47	\$262.47	\$524.94	\$524.94	\$524.94	\$262.47	\$262.47	\$262.47
Anthem Blue Cross Medicare Supplement		\$542.51	\$542.51	\$542.51	\$1,080.42	\$1,062.50	\$1,062.50	\$542.51	\$542.51	\$542.51
UHC Medicare Adv. HMO for California		\$273.69	\$273.69	\$273.69	\$542.78	\$542.78	\$542.78	\$273.69	\$273.69	\$273.69

2018-2019 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
		Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy	Monthly Premium	Maximum Subsidy*	Subsidy
<b>CARRIER</b>	Observed and Assumed Election Percent									
Kaiser Senior Advantage HMO	<b>58.1%</b>	\$259.86	\$259.86	<b>\$259.86</b>	\$519.72	\$519.72	<b>\$519.72</b>	\$259.86	\$259.86	<b>\$259.86</b>
Anthem Blue Cross Medicare Supplement	<b>30.6%</b>	\$542.51	\$542.51	<b>\$542.51</b>	\$1,080.42	\$1,062.50	<b>\$1,062.50</b>	\$542.51	\$542.51	<b>\$542.51</b>
UHC Medicare Adv. HMO for California	<b>11.3%</b>	\$273.69	\$273.69	<b>\$273.69</b>	\$542.78	\$542.78	<b>\$542.78</b>	\$273.69	\$273.69	<b>\$273.69</b>

\* Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 7, section 2(e).

## ATTACHMENT

### **Recommended Actuarial Assumptions For the June 30, 2018 Health Valuation**

#### **2)(e) Proposed Per Capita Costs – Subject to Retiree Medical Subsidy Cap for the 2018-2019 Fiscal Year**

Tier 1 members who were subject to the retiree medical subsidy cap would have monthly health insurance subsidy maximums capped at the levels in effect at July 1, 2011, as shown in the table below. We understand that no active members are subject to the cap but that some inactive members may be subject to the cap.

	<b>Single Party</b>	<b>Married/With Domestic Partner</b>	<b>Eligible Survivor</b>
Under 65 – All Plans	\$1,190.00	\$1,190.00	\$593.62
Over 65			
Kaiser Senior Advantage HMO	\$203.27	\$406.54	\$203.27
Blue Cross Medicare Supplement	\$478.43	\$478.43	\$478.43
UHC Medicare Adv. HMO	\$219.09	\$396.47	\$219.09

#### **2)(f) Proposed Per Capita Costs for use in June 30, 2018 Valuation – Dental Plan**

Maximum Dental Subsidy

<b>Carrier</b>	<b>Actual / Assumed Participation Percent</b>	<b>Monthly 2018 Calendar Year Subsidy</b>	<b>Monthly 2019 Calendar Year Subsidy</b>	<b>Monthly 2018- 2019 Fiscal Year Subsidy</b>
Delta Dental PPO	79.2%	\$44.60	\$44.60	\$44.60
DeltaCare USA	20.8%	\$12.80	\$13.57	\$13.19

#### **3) Other Assumptions**

In the June 30, 2018 valuation, we will also apply the following demographic and economic assumptions and methodologies as adopted in the triennial experience study covering July 1, 2014 to June 30, 2017:

- a. Discount rate: We will apply the 7.25% investment return assumption that the Board approved as a result of the triennial experience study covering July 1, 2014 to June 30, 2017.
- b. Demographic assumptions: These include the incidence of service retirement, disability retirement, withdrawal, deferred vested retirement and death. We will apply the assumptions adopted in our July 1, 2014 to June 30, 2017 triennial experience study.
- c. Funding methodologies: The Entry Age Cost Method will continue to be used in this valuation.

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

- d. Expected annual rate of increase in the Board’s health subsidy amount:

We have made an assumption that the Board’s health subsidy amount will increase at the same rate as the anticipated increase in benefit costs. We recommend leaving this assumption unchanged for the June 30, 2018 valuation. (Please also see discussions under (4) in our cover letter regarding how subsidy increases are to be projected in the valuation.)

- e. Percentage of retirees over age 65 covered by Medicare Parts A and B: In the prior valuation, we assumed that 100% of retirees will enroll in Medicare Parts A and B upon reaching age 65. We recommend maintaining this assumption for the June 30, 2018 valuation.
- f. Market value of assets will be used for the June 30, 2018 GASB 74 valuation.

Market value of assets less unrecognized returns will be used for the June 30, 2018 funding valuation.

Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. For the June 30, 2018 valuation, the asset smoothing component of the funding policy will be adjusted by combining the deferred gain and loss “layers” that comprise the net deferred investment gain of \$2.6 million as determined in the June 30, 2017 valuation into a single six-year smoothing layer. This layer will be recognized over the next six years in six level amounts of approximately \$0.4 million for each year.

In addition, the actuarial value of assets is further adjusted, if necessary, to stay within 40% of the market value of assets.

- g. Implicit Subsidy: It is our understanding that retiree premium rates are not pooled with the active rates and no implicit subsidy exists, and LACERS has confirmed this understanding.
- h. Spouse Age Difference in Years for Retirees with Medical Coverage:

Member Gender	Average Observed Age Difference for Spouse (Rounded to Nearest Integer)	Current Assumption	Recommended Assumption
Male	-4	-4	-4
Female	2	2	2

**ATTACHMENT**

**Recommended Actuarial Assumptions  
For the June 30, 2018 Health Valuation**

The table below summarizes the data used in deriving our recommendations:

	<b>All Male Retirees</b>	<b>All Female Retirees</b>
Number of LACERS Members Electing Coverage for Spouse / Domestic Partner	3,967	886
Average Retiree Age	72.19	66.96
Average Spouse Age	68.43	68.68
Average Age Difference, Rounded to Nearest Integer	-4	2

i. Spouse/Domestic Partner Coverage:

<u>Member Gender</u>	<u>Observed Percentage Coverage for Spouse / Domestic Partner from Last 3 Years of Retirements</u>	<u>Current Assumption</u>	<u>Recommended Assumption</u>
Male	60%	60%	60%
Female	35%	30%	35%



## ATTACHMENT

### **Recommended Actuarial Assumptions For the June 30, 2018 Health Valuation**

The table below summarizes the data used in deriving our recommendations:

	<b>Three Year Total</b>	<b>Plan Year Ended June 30, 2018</b>	<b>Plan Year Ended June 30, 2017</b>	<b>Plan Year Ended June 30, 2016</b>
New Male Retirees with LACERS Health Subsidy	<b>1,267</b>	510	411	346
New Male Retirees with LACERS Health Subsidy with Spouse / Domestic Partner Coverage	<b>755</b>	309	237	209
<b>Male Spouse Coverage Percentage</b>	<b>60%</b>			
New Female Retirees with LACERS Health Subsidy	<b>822</b>	319	268	235
New Female Retirees with LACERS Health Subsidy with Spouse / Domestic Partner Coverage	<b>284</b>	128	74	82
<b>Female Spouse Coverage Percentage</b>	<b>35%</b>			

j. Retiree Medical and Dental Coverage Election:

Service Range	Observed Enrollment in June 30, 2018 Data	Current Assumption	Recommended Assumption*
10 – 14	57%	65%	60%
15 – 19	78%	80%	80%
20 – 24	90%	90%	90%
25 and Over	95%	95%	95%

\* For deferred vested members, we assume an election percent of 50% of these rates

k. Reconciliation of Total OPEB Liability (TOL) for GAS 74 and 75 – When reconciling the TOL for the GAS 74 and 75 valuations, changes in TOL attributable to a health care trend, discount rate, and changes adopted from the triennial experience study will be treated as assumption changes. All other changes like spouse coverage, retiree spouse age differences, and health care premium and subsidy rates more or less than expected will be treated as experience gains or losses for GAS 74 and 75 financial reporting purposes.



***Report to Board of Administration***

From: Benefits Administration Committee  
 Michael R. Wilkinson, Chairperson  
 Cynthia M. Ruiz  
 Sandra Lee

Agenda of: **SEPTEMBER 25, 2018**

ITEM: **X - A**

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**SUBJECT: PROPOSED RATING SCHEDULE FOR ENHANCED DISABILITY RETIREMENT BENEFITS AND POSSIBLE BOARD ACTION**

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Recommendation

That the Board approve and adopt the proposed disability Rating Schedule for Enhanced Disability Retirement Benefits.

Discussion

At the September 11, 2018 Benefits Administration Committee meeting, staff presented the attached report and proposed Rating Schedule for evaluating Enhanced Disability Retirement applications for sworn Members of LACERS. The Committee discussed and recommended forwarding the schedule to the Board for approval.

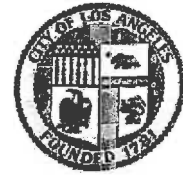
Strategic Plan Impact Statement:

The adoption of the proposed Rating Schedule is part of Strategic Plan Goal II – Benefit Delivery. The approval of this recommendation will ensure the accurate and timely delivery of retirement benefits.

This report was prepared by Ferralyn Sneed, Senior Management Analyst, Retirement Services Division.

NG:KF:FS

Attachments: 1) Benefits Administration Committee Report dated September 11, 2018  
 2) Proposed Resolution



**Report to Benefits Administration Committee**

*Karen Freire*

From: Karen Freire, Chief Benefits Analyst

Agenda of: **SEPTEMBER 11, 2018**

ITEM: **III**

**SUBJECT: PROPOSED RATING SCHEDULE FOR ENHANCED DISABILITY RETIREMENT BENEFITS AND POSSIBLE COMMITTEE ACTION**

Recommendation

That the Committee review, provide comments, and recommend to the Board to approve and adopt the proposed Disability Rating Schedule for Enhanced Disability Retirement Benefits.

Discussion

On January 7, 2018, Los Angeles Administrative Code (LAAC) Section 4.1008.1, pursuant to Ordinance No. 184853 establishing LACERS' Tier 1 Enhanced Benefits for sworn Airport Peace Officers, went into effect. Included in LAAC Section 4.1008.1(d) is a provision that requires the Board of Administration to adopt a Disability Rating Schedule for sworn disability retirement awards. Unlike the civilian disability retirement benefits, which provide a flat 33 percent disability benefit of the Member's Final Average Compensation and makes no distinction between duty-related and nonduty-related disabling conditions, the Enhanced Benefit for sworn personnel does. Under the Enhanced Disability Retirement Benefit, the allowance awards could range from 30 to 50 percent of the Member's Final Compensation for a nonservice-connected disability and 30 to 90 percent of the Member's Final Compensation for a service-connected disability. In addition, the Service-connected disability retirement awards may also qualify for tax exclusion for both the Member and eligible survivor(s).

The attached proposed Rating Schedule is the same schedule currently utilized by Los Angeles Fire and Police Pensions (LAFPP) and was developed with input and feedback from the unions representing the sworn Members of LAFPP to ensure fair and consistent treatment of disability retirement applicants. The schedule is designed to aid the Board in assessing the degree of disability of an applicant based on the supporting medical evidence. The degrees of disability are divided into categories and are assigned a score/numerical range based on the level of limitations: Minimal Limitations have a rating of up to 35 percent; Moderate Limitations have a rating of up to 53 percent; Serious Limitations have a rating of up to 71 percent; Severe Limitations have a rating of up to 89 percent; and, a finding of Complete Disability has a rating of 90 percent.

In addition to the Disability Rating Schedule, it should be noted that approved Service-connected applicants will receive a minimum award based on their years of Service. The degree to which the

Board assesses the duty-relatedness of the applicant's disability will also be used to determine the apportionment of tax exclusion. If the Board's rating is less than the minimum required benefit, the applicant's award will not be subject to tax exclusion.

### Summary

Staff recommends adoption of the proposed Disability Rating Schedule. The Tier 1 LACERS' Enhanced Benefits for Airport Peace Officers are based on the benefits received by LAFPP Tier 6 Members. Adoption of the proposed Rating Schedule will provide consistent application of disability retirement assessment guidelines for all City sworn personnel.

### Strategic Plan Impact Statement

Adoption of the Disability Rating Schedule conforms to the Benefit Delivery goal of ensuring accurate and timely delivery of Member benefits. The Rating Schedule ensures fair and consistent review of enhanced disability retirement applications and benefit awards.

This report was prepared by Ferralyn Sneed, Sr. Management Analyst of the Retirement Services Division.

KF:FS

Attachment:

- 1) Proposed Rating Schedule
- 2) Proposed Resolution

## DISABILITY RATING SCHEDULE AND WORKSHEET

**Applicant / Pensioner:**

Based upon objective evidence, assign a number within a category that most closely reflects the individual's medical limitations.

**No Limitations**

**0**

***Minimal Limitations***

**GENERAL:** Can perform most activities with minor limitations. Pain is an annoyance but does not significantly limit the activity causing the pain.

**ORTHO / NEURO (Back, Neck, Upper & Lower Extremities):** Can perform ordinary, normal jobs not requiring extreme levels of physical activity. Can lift, carry, push or pull 26 or more lbs. Must use caution when walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 60 minutes without a break. Can use stairs or climb ladders.

**INTERNAL (Cardio, Gastro, Pulm, Oncol):** Symptoms can be controlled with modified diet or lifestyle, OTC medication or exercise program. Can handle normal physical / emotional occupational stress. Can control bowel & bladder functions. No end organ damage present.

**PSYCHIATRIC:** Can follow directions, perform normal tasks & assignments, capable of self-initiating, planning & decision making activities. Therapy required on an as-needed basis. Does not require psychotropic medication. Can meet the public, work alone or with others. Requires normal supervision. Can handle normal personal or occupational stress.

**01-35**

***Moderate Limitations***

**GENERAL:** Can perform most activities with some limitation of endurance or physical ability. Pain is tolerated but causes some diminished levels of performance of the activity that causes the pain.

**ORTHO / NEURO:** Can perform semi sedentary jobs not requiring prolonged physical activity. Can lift, carry, push or pull 21 – 25 lbs. Should avoid walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 45 minutes without a break. Limited use of stairs or climbing ladders. No altercations. Can squat, kneel, crawl or work above shoulder level for limited periods of time.

**INTERNAL:** Symptoms can be controlled with prescriptions medication. Limit exposure to environmental irritants i.e. dust or fumes. No unusual or prolonged physical / emotional occupational stress. Requires restroom to be readily available. Avoid abdominal constricting activities. Early stages of end organ damage present.

**PSYCHIATRIC:** Can follow directions, perform simple tasks & assignments. No planning or decision making responsibility. Therapy required at least twice per month. Requires psychotropic medication on an as-needed basis. No public contact. Requires close supervision. Has difficulty handling normal personal or occupational stress.

**36-53**

***Serious Limitations***

**GENERAL:** Can perform most activities, but may require occasional assistance. Pain is tolerated but causes significantly reduced performance levels in the activity causing the pain.

**ORTHO / NEURO:** Can perform semi sedentary jobs with limited physical activity. Can lift, carry, push or pull 11 – 20 lbs. No walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 30 minutes without a break. No climbing stairs or ladders. Can work with a telephone or computer. No above shoulder work.

**INTERNAL :** Symptoms only partially controllable with prescription medication. No sudden demands for physical / emotional occupational stress. Requires restrooms in close proximity to workstation. No environmental irritants i.e. dust or fumes. Significant end organ damage present.

**PSYCHIATRIC:** Can follow only simple directions, performing one task at a time. Therapy required weekly. Requires psychotropic medication daily. Can handle very low levels of personal or occupational stress. Requires constant supervision.

**54-71**

<b>Severe Limitations</b>		
<b>GENERAL:</b> Cannot perform most activities without assistance. Extremely limited endurance and physical ability. Pain precludes the activity causing the pain. <b>ORTHO / NEURO:</b> Can perform sedentary jobs requiring very limited physical activity. No lifting, carrying, pushing or pulling more than 10 lbs. Can hold position, sit, stand, walk or drive as needed up to 15 minutes without a break. <b>INTERNAL:</b> Symptoms uncontrollable. No physical / emotional occupational stress. Immediate access to restroom required. Extensive end organ damage present. <b>PSYCHIATRIC:</b> Requires daily therapy or institutionalization. Is a danger to self and others.		<b>72-89</b>
<b>Completely Disabled</b>		<b>90</b>
	<b>RATING</b>	

**APPROVAL OF DISABILITY RATING SCHEDULE  
FOR ENHANCED DISABILITY RETIREMENT BENEFIT**

**PROPOSED RESOLUTION**

WHEREAS, Los Angeles Administrative Code (LAAC) Section 4.1008.1 pursuant to Ordinance No. 184853, establishes LACERS' Tier 1 Enhanced Benefits for sworn Airport Peace Officers who comply with the eligibility requirements under the plan;

WHEREAS, LAAC Section 4.1008.1(d) requires the Board of Administration to adopt a Disability Rating Schedule to assist in standardizing sworn Service-connected disability retirement awards;

WHEREAS, after review and discussion of the proposed Rating Schedule, the Board determined the schedule guidelines met the criteria for providing consistent standardized disability retirement awards;

NOW, THEREFORE, BE IT RESOLVED that the Board hereby approves and adopts the Service-connected Disability Retirement Rating Schedule as required pursuant to LAAC Section 4.1008.1(d).



# LACERS

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

## **BOARD TRAINING ON DISABILITY RETIREMENT AND ACTIVE DEATH FOR SWORN MEMBERS**

**September 25, 2018**







**TIER I ENHANCED BENEFITS FOR  
AIRPORT PEACE OFFICERS**

**AIRPORT  
POLICE**  
Los Angeles World Airports  
C2832

# PRESENTATION OVERVIEW

- Part 1 Background
- Part 2 Differences Between Civilian and Sworn Disability
- Part 3 Non Service-Connected Disability Retirement
- Part 4 Service-Connected Disability Retirement
- Part 5 Standards of Evidence
- Part 6 Board Responsibility
- Part 7 Rating Scale
- Part 8 Presumptives, Exclusions, Examination and Hardship, Re-examination, Benefit Adjustments
- Part 9 Disability Retirements for APO Former Members
- Part 10 Active Death
- Part 11 Practice Cases
- Part 12 Questions



# BACKGROUND



# BACKGROUND

## Ballot Measure SSS Approved November 2016

- Amends the Los Angeles City Charter to grant Airport Peace Officers (APO) and Airport Safety Officers (ASO)\* hired prior to January 7, 2018, the option to transfer to the Los Angeles Fire and Police Pensions (LAFPP) or remain with LACERS and receive Enhanced Benefits on par with those received by LAFPP Tier 6 members

\*ASO classification eliminated and consolidated under APO in 2017.

# BACKGROUND

## Ballot Measure SSS Approved November 2016

- APO Members who remain with LACERS must make a one time additional lump sum contribution payment of \$5,700 by January 8, 2019, in order to qualify for the Enhanced Benefits



# CIVILIAN VS SWORN DISABILITY RETIREMENT



# CIVILIAN DISABILITY RETIREMENT



- Benefit pays 33% of Members monthly salary
- Does not distinguish between Non Service-Connected disability and Service-Connected disability
- Fully taxable
- Member may request re-examination at anytime and may be returned to work, provided the Member does not have a terminated status
- All applicants must have five years of Continuous Service

# SWORN DISABILITY RETIREMENT



- Review of all applications is conducted by the Board through a hearing process
- Distinguishes between Service-Connected disability and Non Service-Connected disability
- Approved benefit has a percentage range based on the level of disability and/or years of service (Benefit range 30% to 90%)
- Personnel records may be included and may be considered when reviewing the disability application
- Sub Rosa may apply (Service-Connected)
- Service-Connected disability retirements are tax excluded (All or some portion thereof)
- Option to return to active duty limited to five years from Board approval date



A close-up photograph of a person's hand holding a bright yellow rectangular sign. The sign has a thin black border and contains the text "ALL YOU NEED TO KNOW" in a bold, sans-serif font. The word "NEED" is highlighted in red, while "ALL YOU" and "TO KNOW" are in black. The background is dark and out of focus, showing a person in a suit and tie.

**ALL YOU  
NEED  
TO KNOW**

**Sworn Disability Retirement**

# NON SERVICE-CONNECTED



- Requires five years of Continuous Service
- Physical or mental incapacitation is not the result of injuries or sickness caused by the discharge of duties
- Benefit can be no less than 30% and not more than 50% of the Member's Final Compensation

# SERVICE-CONNECTED



- Physical or mental incapacitation is the result of injuries sustained or sickness caused by the discharge of the duties
- There must be **clear and convincing evidence** that the discharge of the Member's duties is the predominant cause of the incapacity
- Benefit can be no less than 30% and no more than 90% of the Member's Final Compensation
- In no case can the retirement benefit be less than the equivalent of 2% of the Member's Final Compensation for each year of Service
- Five-year Continuous Service requirement not applicable

# STANDARD OF EVIDENCE

## **LAAC Section 4.1008.1 (b) Service-Connected Disability**

.....An Airport Peace Office Member's incapacity is caused by the discharge of his or her duties if there is **clear and convincing evidence** that the discharge of the member's duties is the predominant cause of the incapacity





# STANDARDS OF EVIDENCE

## **Preponderance of the Evidence**

This level of proof generally applies in civil litigation. This level of proof has been described as “more likely than not” or “more likely right than wrong” or “51 percent ” or even “50 percent plus a feather.” All that is required is a slight tilting of the scales to meet this burden.

## **Clear and Convincing Evidence**

The next level of proof is *clear and convincing evidence*. It requires a higher level of proof because now there is something more important at issue. *Clear and convincing evidence* is exactly as its name implies. The evidence must be both clear and convincing. A substantial showing or high probability is required because now we are dealing with more serious matters.

## **Beyond a Reasonable Doubt**

Proof *beyond a reasonable doubt* is the highest level of proof and for excellent reason. We are now dealing with people's freedoms, liberties, and lives. Because people may get executed or incarcerated, the highest level of proof is required and justifiably so.



# BOARD RESPONSIBILITY



# BOARD RESPONSIBILITY

- Determine whether or not the Member is incapable of performing his or her duties or those to which he or she would be assigned within the Member's civil service classification if returned to duty
- Determine whether the Member's incapacity or disability is Service-Connected or Non Service-Connected
- Determine the percentage of the Member's incapacity or disability, within the prescribed limitations
- Determine whether a former Member's existing incapacity or disability occurred prior to the termination of his or her active status, and that such incapacity or disability had been continuous up to the date of the Board's determinations



# BOARD RESPONSIBILITY

## DETERMINING LEVEL OF DISABILITY



# Board Responsibility

## Rating Schedule

## And Worksheet

DISABILITY RATING WORKSHEET	
Applicant / Pensioner: Based upon objective evidence, assign a number within a category that most closely reflects the individual's medical limitations.	
<i>No Limitations</i>	0
<p><i>Minimal Limitations</i></p> <p><b>GENERAL</b> Can perform most activities with minor limitations. Pain is an annoyance but does not significantly limit the activity causing the pain.</p> <p><b>ORTHO / NEURO ( Back, Neck, Upper &amp; Lower Extremities )</b> Can perform ordinary, normal jobs not requiring extreme levels of physical activity. Can lift, carry, push or pull 26 or more lbs. Must use caution when walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 60 minutes without a break. Can use stairs or climb ladders.</p> <p><b>INTERNAL ( Cardio, Gastro, Pulm, Oncol )</b> Symptoms can be controlled with modified diet or lifestyle, OTC medication or exercise program. Can handle normal physical / emotional occupational stress. Can control bowel &amp; bladder functions. No end organ damage present.</p> <p><b>PSYCHIATRIC</b> Can follow directions, perform normal tasks &amp; assignments, capable of self initiating, planning &amp; decision making activities. Therapy required on an as-need basis. Does not require psychotropic medication. Can meet the public, work alone or with others. Requires normal supervision. Can handle normal personal or occupational stress.</p>	01-35
<p><i>Moderate Limitations</i></p> <p><b>GENERAL</b> Can perform most activities with some limitation of endurance or physical ability. Pain is tolerated but causes some diminished levels of performance of the activity that causes the pain.</p> <p><b>ORTHO / NEURO</b> Can perform semi sedentary jobs not requiring prolonged physical activity. Can lift, carry, push or pull 21 – 25 lbs. Should avoid walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 45 minutes without a break. Limited use of stairs or climbing ladders. No alterations. Can squat, kneel, crawl or work above shoulder level for limited periods of time.</p> <p><b>INTERNAL</b> Symptoms can be controlled with prescriptions medication. Limit exposure to environmental irritants i.e. dust or fumes. No unusual or prolonged physical / emotional occupational stress. Requires restroom to be readily available. Avoid abdominal constricting activities. Early stages of end organ damage present.</p> <p><b>PSYCHIATRIC</b> Can follow directions, perform simple tasks &amp; assignments. No planning or decision making responsibility. Therapy required at least twice per month. Requires psychotropic medication on an as-needed basis. No public contact. Requires close supervision. Has difficulty handling normal personal or occupational stress.</p>	36-53
<p><i>Serious Limitations</i></p> <p><b>GENERAL</b> Can perform most activities, but may require occasional assistance. Pain is tolerated but causes significantly reduced performance levels in the activity causing the pain.</p> <p><b>ORTHO / NEURO</b> Can perform semi sedentary jobs with limited physical activity. Can lift, carry, push or pull 11 – 20 lbs. No walking on uneven surfaces. Can hold position, sit, stand, walk or drive as needed up to 30 minutes without a break. No climbing stairs or ladders. Can work with a telephone or computer. No above shoulder work.</p> <p><b>INTERNAL</b> Symptoms only partially controllable with prescription medication. No sudden demands for physical / emotional occupational stress. Requires restrooms in close proximity to workstation. No environmental irritants i.e. dust or fumes. Significant end organ damage present.</p> <p><b>PSYCHIATRIC</b> Can follow only simple directions, performing one task at a time. Therapy required weekly. Requires psychotropic medication daily. Can handle very low levels of personal or occupational stress. Requires constant supervision.</p>	54-71
<p><i>Severe Limitations</i></p> <p><b>GENERAL</b> Cannot perform most activities without assistance. Extremely limited endurance and physical ability. Pain precludes the activity causing the pain.</p> <p><b>ORTHO / NEURO</b> Can perform sedentary jobs requiring very limited physical activity. No lifting, carrying, pushing or pulling more than 10 lbs. Can hold position, sit, stand, walk or drive as needed up to 15 minutes without a break.</p> <p><b>INTERNAL</b> Symptoms uncontrollable. No physical / emotional occupational stress. Immediate access to restroom required. Extensive end organ damage present.</p> <p><b>PSYCHIATRIC</b> Requires daily therapy or institutionalization. Is a danger to self and others.</p>	72-89
<i>Total Disability</i>	90
	<b>RATING</b>

DF 245

# PRESUMPTIVES



- California Labor Code industrial injury provisions covering certain public safety officers
- Identifies and attributes certain disabling conditions as arising out of the course and scope performing public safety duties
- Presumptives are not conclusive or definitive and may be countered by other evidence medical or otherwise
- Presumptives are not typically used in determining sworn disability retirement benefits

# EXCLUSION



## **Willful Misconduct**

- Board shall consider whether and to what extent the activity giving rise to the disability of the Member was caused or aggravated by the Member's willful misconduct
- If the Board finds that the disability was caused or aggravated by such willful misconduct, the Board shall deny the Member's application for a disability retirement



# BENEFIT ADJUSTMENT REVIEWS



- The Board by motion or upon the written request of any Service-Connected or Non Service-Connected Retired Member, may consider new evidence pertaining to the Retired Member's case
- The Board, after reviewing the new evidence may increase or decrease the percentage the Retired Member's disability rating within the limitations prescribed for Service-Connected and Non Service-Connected disability
- Any such increase or decrease shall be based solely on the injuries or sickness for which the Member was retired

# RE-EXAMINATION AND HARDSHIP



- If a Retired Member resides outside of the State of California, the Board shall order medical examinations at any designated location it determines to be acceptable
- If it is determined traveling to the designated location will impose a financial hardship on the Member, the Board has the authority to defray reasonable costs related to the travel
- The definition of hardship and the documentation required to verify hardship shall be established by the Board

# RE-EXAMINATION BENEFIT ADJUSTMENTS



**Periodic Medical Examinations.** Except in those instances in which the Board has determined that, due to the nature of the disability, no purpose would be served in having periodic medical examinations to determine whether a Retired Member remains disabled, Retired Airport Peace Officer Members on a disability retirement shall undergo medical examinations at periodic intervals for the first five (5) years of disability retirement, and at any time thereafter, as determined by the Board.

**Benefit Adjustments.** Any Retired Member retired for more than five (5) years on a Service-Connected or Non Service-Connected disability retirement, who is found to be no longer disabled, or who has failed to submit to re-examination as the Board may order within a reasonable time as determined by the Board, shall have an allowance adjusted to thirty percent (30%) of the Member's Final Compensation. The adjusted allowance shall reflect such cost of living adjustments as would have occurred had the Retired Airport Peace Officer Member's pension originally been based on such adjusted percentage.

# Disability Retirement For Former APO Members

## *Conversion of Benefit*

- Applies to any former Member, terminated or retired, who believes he or she is eligible for a disability retirement
- Has one (1) year from termination of employment or one (1) year from last day on active payroll to apply for a Non Service or Service-Connected disability retirement
- Continuity of disability rules also apply



# ACTIVE DEATH



# ACTIVE DEATH



- An Eligible Survivor may request the Board deem a Member's active death Service-Connected
- The Eligible Survivor **must provide clear and convincing evidence** that the discharge of the Member's duties were the predominant cause of death
- The Board will require one medical record review by a licensed physician at minimum or more at its' discretion
- The Board at its' discretion may forgo a formal hearing





# Practice Cases

Pulling  
it all  
Together

# Practice Case

## Non Service-Connected

Officer Skye Porte

Age 45

13.3 years of service

Claimed Disability- diabetes, chronic kidney disease, on dialysis 3x a week, eligible for transplant

Examined by:

Internist- Disabled no accommodations

Nephrologist- Disabled no accommodation

Nephrologist- Disabled no accommodation

Based on the Rating Worksheet what limitation category does the officer's condition fall under and what is the maximum percentage benefit available to the officer?

Moderate Limitations 36-53%

Staff recommendation – 50% non service-connected

Reexamination in 4 years- May possibly return if Applicant receives kidney transplant

# Practice Case

## Service-Connected

Jet Bloom

Age 56

20.5 years of service

Claimed Disability: Constant lower back pain, neck pain, shoulder pain from a trip and fall in Terminal 1 in 2015, cannot lift heavy objects

Examined by:

Orthopedist- Disabled no accommodation, condition will likely worsen over time

Orthopedist- Disabled no accommodation, condition will likely worsen over time

Orthopedist- Disabled with accommodation, return to sedentary position but condition will continue to deteriorate

Based on the Rating Worksheet what limitation category does the officer's condition fall under and what is the maximum percentage benefit available to the officer?

Serious Limitations 54-71%

Minimum disability percentage based on years of service:  $20.5\text{yrs} \times 2\% = 41\%$

Staff recommendation – 60% service-connected

Exclude from reexamination

# Practice Case

## Retirement Conversion

Leif Quick

Age 55

10.98 years of service

Status: Early Service Retirement with an effective date of June 30, 2017 (23% benefit)

Applied for Service-Connected Disability Retirement on July 5, 2018

Has an accepted open and related workers' compensation claim

Claimed Disability: Depression, anxiety, post-traumatic stress disorder, chest pain,

Examined by:

Psychiatrist- Disabled, moderate PTSD requiring medication

Psychiatrist- Disabled, requiring medication and weekly therapy

Cardiologist- Not disabled, chest pain related to anxiety stemming from PTSD, controlled with medication episodes rare or infrequent

Based on the Rating Worksheet what limitation category does the officer's condition fall under and what is the maximum percentage benefit available to the officer?

Minimum disability percentage based on years of service:  $10.98 \text{ yrs} \times 2\%$

= 22%

Staff recommendation – 53% service-connected

# PRACTICE CASE

## ACTIVE DEATH

Vince Aire'

Age 37

15 years of service

Cause of death: Chronic myeloid leukemia

Surviving Spouse claim: Member's exposure to jet fuel, jet fuel fumes and other airport chemicals caused the member's leukemia.

Workers' Compensation: Accepted the member's claim based on the cancer/leukemia presumptive for police officers

Medical records reviewed conducted by:

Oncologist- Claimant died from chronic myeloid leukemia, a form of leukemic associated with an abnormal chromosome that mutates into a defective gene. Genetic not environmental form of leukemia. It develops slowly and individuals may be aware they have the condition until blood tests are performed. Patients can live for years with the disease.

Based on medical evidence, did the officer's condition arise out of the performance of his duties?

No, this form of leukemia is genetic in origin not environmental.

Staff recommendation – 50% non service-connected

# QUESTIONS?

