LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING

TUESDAY, APRIL 28, 2020

TIME: 10:00 A.M.

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Board of Administration's April 28, 2020, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to participate:
Dial: (669) 900-6833 or (346) 248-7799
Meeting ID# 304 965 289

Information to listen only: Live Board Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), 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.

President:	Cynthia M. Ruiz
Vice President:	Michael R. Wilkinson
Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq*. More information is available at ethics.lacity.org/lobbying. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

Disclaimer to participants

Please be advised that all LACERS Board and Committee Meeting proceedings are audio recorded.

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT*

II. APPROVAL OF MINUTES FOR REGULAR BOARD MEETING OF MARCH 24, 2020 AND POSSIBLE BOARD ACTION

III. BOARD PRESIDENT VERBAL REPORT

IV. GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS

B. UPCOMING AGENDA ITEMS

V. RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR MARCH 2020

B. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER

C. MARKETING CESSATION REPORT NOTIFICATION TO THE BOARD

VI. BOARD/DEPARTMENT ADMINISTRATION

A. MID-YEAR BUDGET ADJUSTMENTS FOR FISCAL YEAR 2019-20 AND POSSIBLE BOARD ACTION

B. COST-OF-LIVING ADJUSTMENT FOR JULY 2020 AND POSSIBLE BOARD ACTION

C. PRESENTATION BY INVESCO REAL ESTATE OF THE 977 N. BROADWAY PROJECT REPORT FOR THE QUARTER ENDING MARCH 31, 2020

D. PRESENTATION OF THE AUDIT OF LACERS' JUNE 30, 2019 ACTUARIAL VALUATION AND REVIEW OF THE EXPERIENCE STUDY BY CHEIRON

E. EMERGENCY PURCHASES AND EXPENDITURES REPORT FOR COVID-19 AND POSSIBLE BOARD ACTION

VII. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. SECURITIES LENDING PROGRAM MODIFICATIONS AND POSSIBLE BOARD ACTION

VIII. DISABILITY RETIREMENT APPLICATION(S)

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF GERARDO LOPEZ AND POSSIBLE BOARD ACTION

IX. OTHER BUSINESS

X. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, May 12, 2020 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board meetings while public health concerns relating to the novel coronavirus continue.

XI. ADJOURNMENT

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

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, California

March 24, 2020

10:11 a.m.

Agenda of: April 28, 2020

Item No: II

PRESENT via Zoom Meeting:	President:	Cynthia M. Ruiz
	Vice President:	Michael R. Wilkinson
	Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn
	General Manager:	Neil M. Guglielmo
	Legal Counselor:	Anya Freedman Joshua Geller Miguel Bahamon
PRESENT at LACERS offices:	Manager-Secretary	Lita Payne
	Executive Assistant	Ani Ghoukassian

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

Item I was taken out of order.

II

APPROVAL OF MINUTES FOR THE REGULAR MEETING OF MARCH 10, 2020 AND POSSIBLE BOARD ACTION – Commissioner Elizabeth Lee moved approval of the minutes for the Regular Meeting of March 10, 2020, seconded by Commissioner Serrano and was adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz discussed the success of LACERS innovative approach to holding a Board meeting via a Zoom Meeting due to the COVID-19 pandemic crisis. She remarked the Board was treading in uncharted territory and requested the patience of participants in this new meeting venue.

IV

GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS – Lita Payne, Executive Officer, advised the Board of the following measures LACERS has undertaken in response to the Covid-19 pandemic, so that LACERS can still conduct business:

- New website was launched prematurely to allow more flexibility
- Acquisition of Zoom licenses (10) to allow remote web meetings
- Telephonic meetings held with all health carriers to ensure continued enrollment
- Changed message on the general line to advise members to send inquiries through email
- Medicare Workshop on March 17, 2020, at California Endowment offered as a webinar was canceled due to venue shutdown
- Staff remotely picking up and responding to any voicemails on general line
- Response to all calls and emails within two business days
- Finalizing the Planning for Retirement video for posting it to LACERS website
- Ballots for the LACERS Retired Member of the Board Election were mailed out to retirees today. While the City Clerk - Election Division Offices are closed to the public, members can call and make an appointment if they want to drop off their ballots or request a replacement ballot
- The 2020 health plan confirmation statements will be mailed out in two batches; one went out yesterday and the balance will be mailed on March 30, 2020
- Potential cancelation of the April 14, 2020 Board and Committee Meetings and will be discussed with President Ruiz before confirming

A. UPCOMING AGENDA ITEMS – There were no items discussed.

V

RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR FEBRUARY 2020 – This report was received by the Board and filed.

VI

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE REPORT FROM MEETING OF MARCH 10, 2020 – Commissioner Serrano stated that the Committee discussed the Investment Manager Contract with Neuberger

Berman Investment Advisers LLC, the Investment Manager Contract with Blackrock Institutional Trust Company and the Investment Committee Charter Review.

Item I was taken out of order.

I

PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION – President Ruiz asked if any persons wished to speak on matters within the Board's jurisdiction, to which there was one response via phone. Mr. Lawrence Nash, LACERS retired member, asked if the Call Center could be open longer hours. Lita Payne, Executive Officer, responded that LACERS is in the process of purchasing equipment to get the Call Center up and running remotely.

VII

DISABILITY RETIREMENT APPLICATION(S)

President Ruiz recessed the Regular Meeting at 10:29 a.m. to convene in Closed Session. Joshua Geller, Deputy City Attorney, was present during the Closed Session items.

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO RECONSIDER THE DISABILITY RETIREMENT APPLICATION OF NORBERT STYLC AND POSSIBLE BOARD ACTION (HEARING)

B. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF VIVECA BUTLER AND POSSIBLE BOARD ACTION (HEARING)

President Ruiz reconvened the Regular Meeting at 11:10 a.m. and announced that the Board unanimously approved the Disability Retirement Application of Norbert Stylc and unanimously denied the Disability Retirement Application of Viveca Butler.

VIII

BOARD/DEPARTMENT ADMINISTRATION

A. PROPOSED BUDGET, PERSONNEL, AND ANNUAL RESOLUTIONS FOR FISCAL YEAR 2020-21 AND POSSIBLE BOARD ACTION –Dale Wong Nguyen, Chief Benefits Analyst, Todd Bouey, Assistant General Manager, Chief Benefits Analysts Karen Freire and Alex Rabrenovich, presented this item to the Board. The discussion lasted thirty-four minutes. Commissioners Elizabeth Lee and Chao both suggested amendments to the staff recommendation. Commissioner Chao moved approval of staff's recommendation with amendments, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

IX

INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer reported that the Total Portfolio Value was $15.11 billion as of March 23, 2020 and discussed the following items:

- LACERS investment program and policies
- Securities Lending Program
- Anticipated delays in the investment managers searches; staff will proceed to the point of contracting; timing and amount of funding will be determined at a later point in time

President Ruiz recessed the Board meeting at 12:50 p.m. for a break and reconvened the Board meeting at 12:58 p.m.

B. TEMPORARY MODIFICATIONS TO THE ASSET ALLOCATION AND REBALANCING POLICIES AND POSSIBLE BOARD ACTION – Rod June, Chief Investment officer and Bryan Fujita, Investment Officer III, presented this item to the Board. Commissioner Serrano moved approval of staff's recommendation, seconded by Commissioner Chao, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

C. PRESENTATION BY NEPC, LLC OF THE PORTFOLIO PERFORMANCE REVIEW REPORT FOR THE QUARTER ENDING DECEMBER 31, 2019 – Carolyn Smith with NEPC presented this item to the Board virtually using Zoom and the discussion lasted twenty-two minutes.

D. INVESTMENT MANAGER CONTRACT WITH NEUBERGER BERMAN INVESTMENT ADVISERS LLC REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION - Commissioner Serrano moved approval of the following Resolution. President Ruiz asked if any persons wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment notifications received.

CONTRACT EXTENSION
NEUBERGER BERMAN INVESTMENT ADVISERS LLC
ACTIVE CORE FIXED INCOME
PORTFOLIO MANAGEMENT

<u>RESOLUTION 200324-C</u>

WHEREAS, LACERS' current two-year contract extension with Neuberger Berman Investment Advisers LLC (Neuberger Berman) for active core fixed income portfolio management expires on June 30, 2020; and,

WHEREAS, Neuberger Berman was placed "On Watch" for an initial one-year period effective March 21, 2019 pursuant to LACERS' Manager Monitoring Policy; and,

WHEREAS, staff, in concurrence with NEPC, LLC, LACERS' General Fund Consultant, have determined to maintain Neuberger Berman's current "On Watch" status for an additional one-year period based on Neuberger Berman's performance as of February 29, 2020; and, WHEREAS, a one-year contract extension will provide the necessary time to complete an ongoing investment manager search to evaluate the marketplace of active core fixed income strategies in which Neuberger Berman is a participant; and,

WHEREAS, a contract extension with Neuberger Berman will allow the fund to maintain a diversified exposure to the active core fixed income market; and,

WHEREAS, on March 24, 2020, the Board approved the Investment Committee's recommendation to approve a one-year contract extension with Neuberger Berman.

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

Company Name:	Neuberger Berman Investment Advisers LLC
Service Provided:	Active Core Fixed Income Portfolio Management
Effective Dates:	July 1, 2020 through June 30, 2021
Duration:	One year
Benchmark:	Bloomberg Barclays Capital U.S. Aggregate Bond Index
Allocation as of February 29, 2020:	$829 million

Which motion was seconded by Commissioner Sohn, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None

E. INVESTMENT MANAGER CONTRACT WITH BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. REGARDING MANAGEMENT OF MULTIPLE PASSIVE INVESTMENT MANDATES AND POSSIBLE BOARD ACTION - Commissioner Serrano moved approval of the following Resolution. President Ruiz asked if any persons wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment notifications received.

CONTRACT RENEWAL
BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A.
MULTIPLE PASSIVE INDEX
PORTOFLIO MANAGEMENT

RESOLUTION 200324-D

WHEREAS, LACERS' current two-year contract extension with BlackRock Institutional Trust Company, N.A. (BlackRock) for passive management of multiple index strategies expires on May 31, 2020; and,

WHEREAS, a contract renewal with BlackRock will allow LACERS to maintain a diversified passive exposure in various equity and fixed income markets; and, WHEREAS, on March 24, 2020, the Board approved the Investment Committee's recommendation for a three-year contract renewal with BlackRock.

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

Company Name:	BlackRock Institutional Trust Company, N.A.
Service Provided:	Multiple Passive Index Portfolio Management
Effective Dates:	June 1, 2020 through May 31, 2023
Duration:	Three years
Benchmark:	S&P 500 Index Russell 1000 Growth Index Russell 1000 Value Index Russell 2000 Index Russell 2000 Growth Index Russell 2000 Value Index MSCI World ex-U.S. Index MSCI EAFE Growth Index MSCI EAFE Value Index MSCI Emerging Markets Index MSCI EAFE Small Cap Index Barclay's U.S. Aggregate Bond Index

Which motion was seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

F. INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE BOARD ACTION - Commissioner Serrano moved approval, seconded by Commissioner Chao. President Ruiz asked if any persons wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment notifications received. The item was adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

X

LEGAL/LITIGATION

A. DISCUSSION OF OUTSIDE SECURITIES MONITORING COUNSEL CONTRACT WITH LABATON SUCHAROW LLP AND POSSIBLE BOARD ACTION – Anya Freedman, Assistant City Attorney, presented this item. Discussion lasted nine minutes and Vice President Wilkinson moved approval, seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

B. ENGAGEMENT WITH PAPA JOHN'S INTERNATIONAL, INC. REGARDING CORPORATE GOVERNANCE ISSUES – Deputy City Attorney Miguel Bahamon and partners with Bernstein Litowitz Berger and Grossmann LLP, Edward Timlin and Hannah Ross, presented this item to the Board. President Ruiz read the statement issued by the City Attorney that will be posted to the LACERS website.

XI

OTHER BUSINESS- There was no other business.

XII

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, April 14, 2020 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 business before the Committee, President Ruiz adjourned the Meeting at 1:58 p.m.

Cynthia M. Ruiz
President

Lita Payne
Manager-Secretary

Agenda of:	**APR. 28, 2020**
Item No:	**V-A**

MONTHLY REPORT ON SEMINARS AND CONFERENCES
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS
(FOR THE MONTH OF MARCH 2020)

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 Michael R. Wilkinson

Commissioner Annie Chao
Commissioner Elizabeth Lee
Commissioner Sandra Lee
Commissioner Nilza R. Serrano
Commissioner Sung Won Sohn

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

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-A

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

SERVICE RETIREMENTS

Member Name	Service	Department	Classification
Allen, Scott Paul	29	Police Dept.	Sr Equipment Mechanic
Andrews, Amel	13	PW - Sanitation	Maint Laborer
Angeles, Eduardo A	17	City Attorney's Office	Sr Asst City Atty
Anthony, Mary Lee	28	PW - Sanitation	Administrative Clerk
Ardent, Thomas R	33	PW - Sanitation	Shift Supt W/W Trmt
Ballin, Mario	30	Dept. of Rec. & Parks	Park Maint Supvr
Barraza, Rosemarie I	32	Fire Dept.	Sr Mgmt Analyst
Barrett, Steven F	31	PW - Resurf & Reconstr Div.	St Svcs Supvr
Bell, Martha Laura	33	Information Technology Agency	Programmer/Analyst
Benavidez, Lora	30	Fire Dept. -	Exec Admin Asst
Bermudez, Rafael	6	Dept. of Rec. & Parks	Special Prog Asst
Bernal, Manuel	10	LA Housing Dpt.	Director Of Housing
Bernal, Robert Michael	34	LA Housing Dept.	Sr Mgmt Analyst
Boose Marchman, Diane Denise	30	Police Dept.	Police Service Rep
Braden, Teresa A	6	Dept. of Airports	Airport Guide
Bruce, Roger L	33	Dept. of Bldg. & Safety	Build Mech Inspector
Burris, Bert W	14	Dept. of Rec. & Parks	Gardener Caretaker
Cao, Pascal Lon Thanh	19	GSD - Bldg. Svcs.	Air Cond Mech Supvr
Carlos, Jose Trinidad	33	Fire Dept.	Commun Electrician
Catalano, Jeffrey	17	PW - Sanitation	Environmental Spec
Chan, Linda Y	32	Library Dept.	Administrative Clerk
Chavez, Roberto P	12	Fire Dept.	Heavy Duty Equip Mechanic
Clark, Derrick D	19	PW - Resurf & Reconstr Div.	St Svcs Worker
Coleman, John H	31	Dept. of Bldg. & Safety	Build Mech Inspector
Cooke, Allen D	42	PW - St. Tree Div.	Tree Surgeon Supvsr
Crowder, Diana	12	PW - ENGINEERING	Sr Administrative Clerk
Culpepper, Gregory L	29	GSD - As Needed	Equipmnt Mechanic
Davis, Paul	20	Dept. of Rec. & Parks	Environmental Supvr
Dawson, Ga Von Elaine	30	Police Dept.	Sr Administrative Clerk
De Anda, Elizabeth	39	Fire Dept.	Exec Admin Asst
De Luna, Patricia	32	City Attorney's Office	Sr Legal Assistant
Devera, Mary Jean C	40	PW - General Office	Sr Systems Analyst
Dizon, Ernie Quizon	13	Dept. of Bldg. & Safety	Accounting Clerk

Dolliole, Troy	36	PW - St. Maint.	St Svcs Supt
Donohue, Marissa F	30	Personnel Dept.	Secretary
Drake, Terry V	38	Dept. of Rec. & Parks	Masonry Worker
Eder, David J	30	EWDD	Sr Mgmt Analyst
Ellis, George Bernard	31	PW - Sanitation	Ref Coll Truck Oper
Fernandez Fernandez, Jose Luis	31	PW - Sanitation	Mech Helper
Fong, May K	34	PW - Engineering	Secretary
Gatchalian, Romulo	14	GSD - Accounting	Sr Accountant
Griffin, Errol A	19	Office of the City Admin Officer	Sr Labor Rel Spec
Gropp, Kevin D	27	GSD - Fleet Services	Helicopter Mech
Grube, Gloria	41	Police Dept.	Police Admin
Gurrea, Mediatrix A	18	City Attorney's Office	Legal Secretary
Herr, Jeffrey A	29	Cultural Affairs	Arts Manager
Hess, Marc	32	Dept. of Rec. & Parks	Mech Repairer
Hirschkoff, Jeffrey M	29	GSD - Fleet Services	Equipmnt Mechanic
Hollinshead, Michelle	30	Police Dept.	Police Service Rep
Howard, Thomas E	30	Dept. of Airports	Airport Police Ofcr
Humphrey, Michael	21	Police Dept.	Sr Systems Analyst
Ibarra, Elsa Margaret	3	Office of the City Clerk	Ch Election Clk
Irani, Mehinoo A	27	Dept. of Rec. & Parks	Child Care Center Dir
Isip, Sonia Garcia	30	PW - St. Lighting	Accounting Clerk
Jackson, Dylan	36	PW - Resurf & Reconstr Div.	St Svcs Supvr
Jancu, Marie Angela	11	City Attorney's Office	Legal Assistant
Jiron, Robert S	29	PW - Sanitation	W/Wtr Coll Worker
Johnson, August L	31	Dept. of Transportation	Sr Traffic Supv
Kaliniecki, Antoni	29	PW - Sanitation	Mech Engrg Assc
Kinoshita, Rose S	36	Harbor Dept.	Sr Administrative Clerk
Kutas, Michael	20	PW - Contract Administration	Constr Inspector
Lacount, Frankie M	25	PW - Sanitation	Ref Coll Truck Opr
Lanyan, Martin Kian	10	GSD - Standards	Mat Test Engr Assoc
Laroux, Thomas P	33	PW - Sanitation	Plumber
Latter, Sam D	12	Library Dept.	Administrative Clerk
Lau, Wai Kwong	33	Dept. of Bldg. & Safety	Office Engrg Tech
Law, David T	17	LA Housing Dept.	Systems Analyst
Lee, Suet Har Anita	30	COUNCIL - As Needed	Systems Analyst
Lemus, Sergio A	30	Dept. of Rec. & Parks	Painter
Lesel, Dov S	45	City Attorney's Office	Asst City Attorney
Lewis, Monica L	35	Police Dept.	Administrative Clerk
Lewis, Russell B	37	Dept. of Airports	Airp Manager
Lewis Jr, Rayfield	32	PW - Sanitation	Ref Coll Truck Oper
Lontok, Ignacio Z	24	PW - Sanitation	Env Compliance Insp
Lujan Stresak, Sandra	20	City Attorney's Office	City Atty Admin Crd

Martin III, Reginald W	12	PW - Sanitation	W/Wtr Trmt Oper
Martinescu, Ionela	14	Dept. of Airports	Gardener Caretaker
Marzett, Wayland Kirk	33	PW - Sanitation	W/Wtr Coll Supervisor
Massabki, Raffi A	35	PW - Engineering	Civil Engineer
Mc Cormick, Brian	31	PW - Sanitation	Sanitation Wstwater Mgr
Mc Cray, Cynthia	38	Dept. of Airports	Management Analyst
Mcandrews, Jacqueline	32	Police Dept.	Sr Police Serv Rep
Mccollum, Ronald	35	Dept. of Transportation	Traf Mark/Sign Supt
Mendivil, Edward	25	Dept. of Transportation	Traf Officer
Metzler, Janet	44	Library Dept.	Sr Librarian
Miller, Dennis Earl	14	Dept. of Airports	Plumber Supervisor
Miranda, Salvador	31	PW - Sanitation	Ref Coll Truck Oper
Mitchell, Edward J	31	Dept. of Bldg. & Safety	Sr Electrcl Inspector
Mok, Bruce	33	PW - Sanitation	Envrmntl Engineer
Moody, Carol L	31	Dept. of Airports	Secretary
Moore, David Phillip	28	Police Dept. - Civilian	Automotive Supervisor
Moshksar, Mehrdad	30	Dept. of Transportation	Transp Engineer
Munoz, Patricia	33	Personnel Dept.	Pers Records Supv
Murphy, Margaret A	22	Library Dept.	Pr Librarian
Murray, Thomas Dinh	13	PW - Sanitation	Sr W/W Treatment Oper
Nakamoto, Taiji	34	Dept. of Airports	Sr Gardener
Nguyen, Sohn Truong	30	Information Technology Agency	Sr Systems Analyst
Ortega Alvarez, Maria	15	Dept. of Airports	Custodian Airport
Pointer, Diana Michelle	32	Fire & Police Pensions	Sr Mgmt Analyst
Pusateri, Doreen M	36	PW - Street Use Inspection	St Svc Investigator
Quebec, Celestina	17	COUNCIL - AS NEEDED	Council Aide
Quenon, Loretta M	25	GSD - Bldg. Fac Mgmt.	Ch Management Analyst
Rak, Zdzislaw	25	Police Dept.	Forensic Prnt Spec
Ramirez, Richard L	34	GSD - Standards	Drill Rig Operator
Reed, Gregory M	30	Police Dept.	Detention Officer
Rendon, Frank David	30	Harbor Dept.	Constr & Maint Supv
Rodarte, Guadalupe N	36	Employee Relations Board	Commission Exec Asst
Rodas, Julio Ibarra	5	Dept. of Rec. & Parks	Special Prog Asst
Romero, Raul Saldana	6	Dept. of Rec. & Parks	Asst Park Svcs Attnd
Rozak, Bruce A	30	Dept. of Bldg. & Safety	Build Mech Inspector
Ruiz, Federico	26	Dept. of R&P	Sr Gardener
S Catanzarite, Estella	33	EWDD	Sr Mgmt Analyst
Salaices, Joe D	37	Dept. of Rec. & Parks	Supt Of R/P Operations
Samarini, Debra Lynn	32	GSD - Materials Mgmt.	Sr Storekeeper
Samonte, Romulo S	26	PW - ENGINEERING	Structrl Engrg Assc
Santiago, Victoria A	25	PW - ACCOUNTING	Dept Chief Acct
Sarni, Olivia Ann	16	GSD - Bldg. Fac Mgmt.	Custodian
Sarullo, Michael J	30	PW - ENGINEERING	Pr Civil Engineer

Satake, Eiko	30	Office of Finance - Tax & Permit	Pr Tax Compliance Ofcr
Sherick-Bright, Angela	34	GSD - Admin.	Asst Gm Gen Svcs Dept
Shrikian, Zohrab	30	PW - Sanitation - Info & Cntrl Sys	Sr Systems Analyst
Stuart, Demetra Kaye	15	Dept. of Airports	Administrative Clerk
Supernor, Martha E	8	Personnel Dept.	Special Investigator
Tamimi, Belal Bassam	28	PW - ENGINEERING	Envrmntl Engrg Assc
Thomas, Craig Steven	19	Police Dept. - Civilian	Security Officer
Thorsell, Jeffrey R	30	GSD - Bldg. Svcs.	Sheet Metal Worker
Tilley, Robert L	15	Dept. of Airports	Administrative Clerk
Torres, Martha	31	Police Dept. - Civilian	Administrative Clerk
Valensi, James E	17	Harbor Dept.	Boat Captain
Van Eps, John Arthur	25	GSD - Fleet Services	Equipmnt Mechanic
Varalyay, James L	25	PW - Engineering	Systems Analyst
Vasquez, Frank	14	GSD - Fleet Services	Maint & Constr Helper
Vega, Steven	18	PW - St. Maint.	St Svcs Supvr
Villegas, Robert C	30	Dept. of Rec. & Parks	Air Cond Mechanic
Walker, Marlene L	6	Dept. of Rec. & Parks	Recreation Asst
Wang, Thomas S	30	Dept. of Airports	Systems Programmer
Welling, Kent W	30	PW - Engineering	Civil Engineer
Williams, Eldora E	34	Dept. of Airports	Management Analyst
Williams, Richard E	32	Office of the City Clerk	Legislative Asst
Winfrey, Gregory	16	Dept. of Airports	Sr Security Officer
Woldemariam, Tsegalem	20	LA Housing Dept.	Finance Dev Officer
Woods, Brenda K	20	Personnel Dept.	Workers Comp Claims Ast
Wu, Deng Fu	29	Harbor Dept.	Systems Programmer
Yoshimura, Dan Akira	34	Personnel Dept.	Personnel Dir
Yu, Stanley Fun	18	LA Housing Dept.	Rehab Constr Spec
Zamora, Patricia A	42	Police Dept.	Sr Administrative Clerk

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-A

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

Approved Death Benefit Payments

Deceased	Beneficiary/Payee
TIER 1	
Acuna, Benjamin B	Dolly Dario Acuna for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Ayers, James W	Cynthia Althea Day for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Joanna Theresa Wright for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Baldovino, Mayorico Salvosa	Theresa L Baldovino for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Batiste, Frank C (Deceased Active)	Gregory Deon Randolph for the payment of the Accumulated Contributions
Berlant, Evelyn Shirley	Debra Lee Perez for the payment of the Accrued But Unpaid Disability Continuance Allowance

Bordier, Claire H	Paul M Bordier for the payment of the Accrued But Unpaid Continuance Allowance
Bui, Howard N	Michele H Nguyen for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Calderon, Delia M	Beatrice Quinn for the payment of the Accrued But Unpaid Continuance Allowance
Campbell, Paula T	Rosetta La Shaun Moore for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Tyra Monique Blake for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Carter, Camille Mary	Peter Louis Rashkin for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Chambers, Perlie M	Carolyn E Williams for the payment of the Accrued But Unpaid Disability Continuance Allowance Accrued But Unpaid Disability Retirement Allowance Burial Allowance
Christensen, David L	Dianne M Christensen for the payment of the Accrued But Unpaid Service Retirement Allowance Thomas Michael Christensen for the payment of the Burial Allowance

Comley, Marthell	Michele Patricia Tuch for the payment of the Burial Allowance
Cuaresma, Lawrence G	Conchita P Cuaresma for the payment of the Accrued But Unpaid Service Retirement Allowance Unused Contributions
	Hope Chappel Church C/O Pastor Dale Turner for the payment of the Accrued But Unpaid Service Retirement Allowance Unused Contributions
	Patricia Lani Cuaresma for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
	Racquel P Samio for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
	Shirri-Lynn L Sacro for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
Culling, Keith A W	Gregory Nevin Culling for the payment of the Accrued But Unpaid Service Retirement Allowance Unused Contributions
Currens, John W	Donna Jean Currens for the payment of the Burial Allowance
	Edith C Currens for the payment of the Accrued But Unpaid Service Retirement Allowance
	Kenneth B Currens for the payment of the Burial Allowance

Dallas, Sidney P	Katherine M Dallas for the payment of the Accrued But Unpaid Service Retirement Allowance Stewart Paul Dallas for the payment of the Burial Allowance
Dawson, Nancy D	Andrew Richard Dawson for the payment of the Accrued But Unpaid Survivorship (Retirement) Allowance
Detchmendy, James Morrow (Deceased Active)	David M Detchmendy for the payment of the Accumulated Contributions Judith Ann Poindexter for the payment of the Accumulated Contributions
Doolittle, Edward A	Kathleen Marie Cobern for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Drossel, Lowell G	Jerome A Drossel for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Espinosa, Floyd	Alfred Andrew Nicolas for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Fischer, Harvey M	Nicole Louise Fischer for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Fobbs, Bearties	Tineka R Fobbs-Perry for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Fredholm, Sidney R	Bruce Eric Fredholm for the payment of the Burial Allowance
Gan, Joseph C	Jamie C Gan for the payment of the Accrued But Unpaid Service Retirement Allowance Accrued But Unpaid Continuance Allowance Burial Allowance Unused Contributions Service Retirement Allowance Unused Contributions Continuance Allowance Jason C Gan for the payment of the Accrued But Unpaid Service Retirement Allowance Accrued But Unpaid Continuance Allowance Burial Allowance Unused Contributions Service Retirement Allowance Unused Contributions Continuance Allowance Johann C Gan for the payment of the Accrued But Unpaid Service Retirement Allowance Accrued But Unpaid Continuance Allowance Burial Allowance Unused Contributions Service Retirement Allowance Unused Contributions Continuance Allowance
Garza, Kate	Frances Ann Garza for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Gomez, Hope A	Daniel A Gomez for the payment of the Accrued But Unpaid Service Retirement Allowance

Griffith, Lydia	Joan Eckert for the payment of the Accrued But Unpaid Continuance Allowance
Grubbs, Otis D	Stephen E Grubbs, Trustee of The Otis D Grubbs Trust for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Herring, Cynthia	Larry White for the payment of the Accrued But Unpaid Service Retirement Allowance
Hidalgo, Charmaine E	Simeon P Hidalgo for the payment of the Accrued But Unpaid Service Retirement Allowance
Imai, Mary K	Kathleen M Imai-Davis for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Jimenez, Luis	Margo I Jimenez for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Jordan, Jackie C	Jack Carl Kozak for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Vickie Lee Kozak for the payment of the Accrued But Unpaid Service Retirement Allowance

Kopp, Randall Miller	Kandice M Deem for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
Krowe, Samuel Phillip	Rosemarie R Krowe for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Linson, Leonard E	Bettye J Linson for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Malcom, Shirley A	Santos Gilbert Chavez Jr. for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
Malin, David H	Robert Michael Galotti for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Martin, Georgeann A	Letrice Necole Martin for the payment of the Accrued But Unpaid Disability Retirement Allowance Burial Allowance
Mauricio, Fruto G	Ruben Briones Mauricio for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Mccain, Patricia Lourene	Charles F Mccain for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Mcnamee, Lonnie	Alice L Mcnamee for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance
Miller, Anita D	Alicia Denchasy for the payment of the Accrued But Unpaid Service Retirement Allowance
Norton, Betty	Valerie Neau for the payment of the Accrued But Unpaid Service Retirement Allowance
Norton, John V	Benjamin Todd Norton for the payment of the Accrued But Unpaid Disability Retirement Allowance
Okuda, Linda (Deceased Active)	David Y Okuda for the payment of the Accumulated Contributions
Ortega, Helen M	Nadina Ann Ortega for the payment of the Accrued But Unpaid Continuance Allowance
Ortiz, Martha J	Deborah Lynn Mc Mahon for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Michael Thomas Gonzalez for the payment of the Accrued But Unpaid Service Retirement Allowance

Panaligan, Petronilo C	Maria Teresa Panaligan for the payment of the Burial Allowance Richter J Panaligan for the payment of the Burial Allowance
Pazasis, Frank W (Deceased Active)	Richard A Pazasis for the payment of the Accumulated Contributions
Pfeifle, Gregory	Ryan Wesley Pfeifle for the payment of the Accrued But Unpaid Disability Continuance Allowance
Pressler, Ronald J	Steven James Pressler for the payment of the Accrued But Unpaid Disability Retirement Allowance Burial Allowance
Remy, Raymond	Kimber Lynn Edwards for the payment of the Burial Allowance
Rhoades, Judith A	Annette Lorraine Mcculloch for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Colleen Mcculloch-Underwood for the payment of the Accrued But Unpaid Service Retirement Allowance
Robinson, Shakira I	Rashad Emeen Nash Jr. for the payment of the Accumulated Contributions

Romer, Alice	Anita B De Pedro for the payment of the Accrued But Unpaid Disability Continuance Allowance
Savelli, Gregory J (Deceased Active)	John Robert Savelli for the payment of the Accumulated Contributions
Schlumpberger, B J	Margo M Schlumpberger for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Schwaber, Anna M	Angela Mary Burwitz for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Anita Mae Bowman for the payment of the Accrued But Unpaid Service Retirement Allowance
Sherman, Donald J	Eddie Green Sherman for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Shields, Thomas K	Paul W Rademaker for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Simpson, Reginald J	Algie Laron Simpson for the payment of the Burial Allowance

Smith, Eddie	Bernice Smith for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Smith, George R	Kevin Brenden Smith for the payment of the Accrued But Unpaid Continuance Allowance Sabrina Mcfall for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance
Smith, Louis N	Darlene Williams Smith for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Stewart, Lee	Leanne Marie Stewart for the payment of the Accrued But Unpaid Survivorship (Retirement) Allowance Unused Contributions Taylor Renae Stewart for the payment of the Accrued But Unpaid Survivorship (Retirement) Allowance Unused Contributions
Sutton, Maurice R (Deceased Active)	Jeffrey M Sutton for the payment of the Accumulated Contributions Jo Sutton for the payment of the Accumulated Contributions Raymond Sutton for the payment of the Accumulated Contributions
Takashima, Reiko	Nami Takashima Brown for the payment of the Accrued But Unpaid Continuance Allowance

Tamayo, Mac Larry	Henrietta Hanson for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Agenda of: **APRIL 28, 2020**

Item No: **V-C**

**MARKETING CESSATION REPORT
NOTIFICATION TO THE BOARD**

The Board's Marketing Cessation Policy was adopted in order to prevent and avoid the appearance of undue influence on the Board or any of its Members in the award of investment-related and other service contracts. Pursuant to this Policy, this notification procedure has been developed to ensure that Board Members and staff are regularly apprised of firms for which there shall be no direct marketing discussions about the contract or the process to award it; or for contracts in consideration of renewal, no discussions regarding the renewal of the existing contract.

Firms listed in Attachments 1 and 2 are subject to limited communications with Board Members and staff pursuant to the Policy and will appear and remain on the list, along with the status, from the first publicized intention to contract for services through the award of the contract. Lists of current LACERS' contracts are on file in the Board office and are available upon request.

Attachments: 1) Contracts Under Consideration for Renewal
2) Active RFPs and RFQs

ATTACHMENT 1

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM CONTRACTS LIST
FOR THE APRIL 28, 2020 BOARD MEETING

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
CITY ATTORNEY							
1.	Foley & Lardner, LLP	Legal Services - Health & Data Privacy Law	Pending	Pending	Board Approved on 8/27/2019; Contract under review for execution.	05/27/2019	05/27/2020
2.	Hogan Marren Babbo & Rose, Ltd	Legal Services - Health & Data Privacy Law	Pending	Pending	Board Approved on 8/27/2019; Contract under review for execution.	05/27/2019	05/27/2020
3.	Orrick, Herrington & Sutcliff, LLP	Legal Services - Health & Data Privacy Law	Pending	Pending	Board Approved on 8/27/2019; Contract under review for execution.	05/27/2019	05/27/2020
4.	Polsinelli, LLP	Legal Services - Health & Data Privacy Law	Pending	Pending	Board Approved on 8/27/2019; Contract under review for execution.	05/27/2019	05/27/2020

ATTACHMENT 1

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM CONTRACTS LIST
FOR THE APRIL 28, 2020 BOARD MEETING

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
HEALTH BENEFITS ADMINISTRATION							
5.	Anthem 2020	Medical HMO & PPO	01/01/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	01/01/2020	12/31/2020
6.	Anthem Blue View Vision 2020	Vision Services Contract	01/01/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	01/01/2020	12/31/2020
7.	Delta Dental 2020	Dental PPO and HMO	01/01/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	01/01/2020	12/31/2020
8.	Kaiser 2020	Medical HMO	1/1/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	1/1/2020	12/31/2020
9.	SCAN 2020	Medical HMO	1/1/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	1/1/2020	12/31/2020

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM CONTRACTS LIST
FOR THE APRIL 28, 2020 BOARD MEETING

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
10.	United Healthcare 2020	Medical HMO	1/1/2020	12/31/2020	Board Approved on 8/28/2019; Contract under review for execution.	1/1/2020	12/31/2020
HUMAN RESOURCES							
11.	CPS HR Consulting	Compensation Study Consulting Services	4/20/2020	7/31/2020	GM approved contract; negotiations in process.	1/10/2020	7/10/2020
INVESTMENTS							
12.	BlackRock Institutional Trust, N.A.	Multi Passive Index	6/1/2013	5/31/2020	Board approved contract extension on 3/24/2020; negotiations in process	3/6/2020	8/31/2020
13.	Dimensional Fund Advisors, LP	Active U.S. Treasury Inflation Protected Securities ("TIPS")	07/01/2014	06/30/2020	On 1/14/20 Investment Committee requested further info from staff before taking action.	01/10/2020	09/30/2020

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM CONTRACTS LIST
FOR THE APRIL 28, 2020 BOARD MEETING

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
14.	Dimensional Fund Advisors, LP	Active Non-U.S. Equities Emerging Markets Value	07/01/2014	06/30/2020	Board approved contract renewal on 1/28/20; negotiations in process.	01/10/2020	09/30/2020
15.	Neuberger Berman Fixed Income LLC	Active Core Fixed Income	7/1/2013	6/30/2020	Board approved contract extension on 2/26/2020; negotiations in process.	3/6/2020	12/30/2020
16.	Principal Global Investors, LLC	Active U.S. Mid Cap Core Equities	07/01/2014	06/30/2020	Board approved contract renewal on 1/28/20; negotiations in process.	01/10/2020	09/30/2020

Start Date - The estimated start date of the restricted period is three (3) months prior to the expiration date of the current contract. No entertainment or gifts of any kind should be accepted from the restricted source as of this date. Firms intending to participate in the Request for Proposal process are also subject to restricted marketing and communications.

End Date - The estimated end date of the restricted period is three (3) months following the expiration date of the current contract. For investment-related contracts, the estimated end date is normally six (6 months) following the expiration of the current contract. For health carrier contracts, the estimated end date is normally one (1 year) following the expiration of the current contract. Estimated dates are based on contract negotiation periods from prior years.

ATTACHMENT 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CONTRACTS LIST FOR THE APRIL 28, 2020 BOARD MEETING

ACTIVE RFPs AND RFQs

NO.	DESCRIPTION	MARKETING CESSATION STATUS AND VENDOR RESPONSES
		INTERNAL AUDIT
1	External Auditor	**RFP Release Date:** March 2, 2020 **Submission Deadline:** April 17, 2020 **Status:** Proposals pending evaluation. **List of Respondents:** BDO USA, Brown Armstrong, CPA, Clifton Larson Allen LLP, Eide Bailey LLP, Macias, Ginni, and O'Connell, LLP, Moss Adams, Williams, Adley, and Company.
		INVESTMENTS
2	Core Fixed Income RFP	**RFP Release Date:** August 19, 2019 **Submission Deadline:** October 4, 2019 **Status:** In progress **List of Respondents:** Amundi Pioneer Institutional Asset Management, Inc., Baird Advisors, BlackRock, Inc., BMO Global Asset Management, Brown Brothers Harriman & Co., C.S. McKee, L. P., Calvert Research and Management (Calvert or CRM),Conning, Dimensional Fund Advisors LP, Dodge & Cox, EARNEST Partners, LLC, FIAM LLC, Galliard Capital Management, Garcia Hamilton & Associates, L.P., Goldman Sachs Asset Management L.P., Guggenheim Partners Investment Management, LLC, Income Research & Management, Intergrity Fixed Income, Management, LLC, Invesco Advisers, Inc., J.P. Morgan Asset Management, Jennison Associates LLC, Lazard Asset Management LLC, LM Capital Group, LLC, Longfellow Investment Management Co., LLC, Loomis, Sayles & Company, L.P, Manulife Investment Management, MFS Institutional Advisors, Inc., Morgan Stanley Investment Management, National Investment Services, Neuberger Berman, Nuveen, LLC, Payden & Rygel, PGIM Fixed Income, Piedmont Investment Advisors, Inc., PIMCO, Princeton Asset Management, LLC, Progress Investment Management Company, LLC, Pugh Capital Management, Inc,. Quadratic Capital Management LLC, Ramirez Asset Management, Schroder Investment Management North America Inc., Securian Asset Management, Inc., Segall Bryant & Hamill, Sit Investment Associates, Inc. (Sit), SLC Management, Smith Graham & Co., Investment Advisors, L.P., Sterling Capital Management LLC, T. Rowe Price Associates, Inc., TCW Group, Inc., The Capital Group Companies,Inc., Voya Investment Management (Voya IM), Wellington Management Company LLP, Wells Fargo Asset Management, Western Asset Management Company, LLC

ATTACHMENT 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CONTRACTS LIST FOR THE APRIL 28, 2020 BOARD MEETING

ACTIVE RFPs AND RFQs

NO.	DESCRIPTION	MARKETING CESSATION STATUS AND VENDOR RESPONSES
3	Emerging Market Debt Mandate Search	**RFP Release Date:** June 19, 2019 **Submission Deadline:** July 22, 2019 **Status:** On February 11, 2020, the Investment Committee advanced four firms as semi-finalists: Ashmore Investment Management; Wellington Management Company LLP; PGIM Fixed Income, Schroder Investment Management North America Inc. **List of Respondents:** Eaton Vance Management, Ashmore Investment Management, Capital Group, Fidelity Institutional Asset Management, GAM USA, INC., Northwest Passage Capital Advisors LLC, Payden & Rygel, PGIM Fixed Income, Schroder Investment Management North America Inc., Stone Harbor Investment Partners LP, LM Capital Group, Wellington Management Company LLP, Manulife Investment Management, Global Evolution USA LLC, GoldenTree Asset Management LP, Goldman Sachs Asset Management L.P., Investec Asset Management, Nuveen, A TIAA Company
4	Emerging Market Small Cap Equities Mandate Search	**RFP Release Date:** June 10, 2019 **Submission Deadline:** July 22, 2019 **Status:** In progress **List of Respondents:** LMCG Investments, LLC, AQR Capital Management, LLC, Dimensional Fund Advisors LP, EAM Investors, LLC, Ashmore, Cedar Street Asset Management LLC, Copper Rock Capital Partners, LLC, FIAM LLC, Macquarie Investment Management, RBC GLobal Management, Inc., Capital, River and Mercantile LLC, Schroder Investment Management North America Inc., Somerset Capital Management LLP, Wasatch Advisors, Inc., Kayne Anderson Rudnick Investment Management, Franklin Templeton Investments, Globeflex Capital, LP, Quantitative Management Associates, LLC, State Street Global Advisors Distributor, LLC

ATTACHMENT 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CONTRACTS LIST FOR THE APRIL 28, 2020 BOARD MEETING

ACTIVE RFPs AND RFQs

NO.	DESCRIPTION	MARKETING CESSATION STATUS AND VENDOR RESPONSES
5	High Yield Fixed Income and Hybrid High Yield Fixed Income / U.S. Floating Rate Bank Loan Mandate Search	**RFP Release Date:** February 25, 2019 **Submission Deadline:** April 12, 2019 **Status:** On February 11, 2020, the Board awarded contracts to: High Yield Fixed Income - Loomis, Sayles & Company, L.P. Hybrid Fixed Income/Bank Loans - DDJ Capital Management, LLC Negotiations in process. **List of Respondents:** Ares Management LLC, Arena Capital Advisors, LLC, Guggenhein Partners Investment Management, LLC, Aegon Asset Management US, MacKay Shields LLC, Post Advisory Group, LLC, Diamond Hill Capital Management, Inc., AXA Investment Managers, Pacific Asset Management, Mesirow Financial Investment Management, Inc., DDJ Capital Management, LLC, Par-Four Investment Management, LLC, PGIM Fixed Income, Beach Point Capital Management LP, KKR Credit, Barrings LLC, Eaton Vance Management, Brigade Capital Management, LP, Morgan Stanley Investment Management, Lord, Abbett & Co. LLC, BlackRock, Inc., L & S Advisors, Inc., Mellon Investments Corporation, Seix Investment Advisors LLC, Legal & General Investment Management, Principal Global, Bain Capital Credit, LP, Princeton Asset Management, LLC, Symphony Asset Management, LLC, PIMCO, The Capital Group Companies, Inc., Loomis, Sayles & Company, L.P., Credit Suisse Asset Management, LLC, J.P. Morgan Asset Management, Hotchkis and Wiley Capital Management, LLC, Northern Trust, CVC Credit Partners, LLC
6	U.S. Small Cap Equities Mandate Search	**RFP Release Date:** February 25, 2019 **Submission Deadline:** April 12, 2019 **Status:** On December 2, 2019, Investment Committee discussed advancing the following five firms as finalists: Core: Copeland Capital Management, LLC Growth: EAM Investors, LLC; Granahan Investment Management **List of Respondents:** 361 Capital, LLC, Aberdeen Standard Investments Inc., Acuitas Investments, LLC, Alliance Bernstein AB, Allianz Global Investors AllianzGI, AltraVue Capital, LLC , American Century Investment Management, Inc., AMI Asset Management Corporation, Anchor Capital Advisors LLC, Ariel Investments, LLC, Aristotle Capital Boston, LLC, Axiom Investors , Baron Capital, Barrow, Hanley, Mewhinney, Strauss, LLC, Bernzott Capital Advisors, Bivium Capital Partners, LLC, BlackRock, Inc., BMO Global Asset Management, BNP Paribas Asset Management USA Inc., Boston Advisors, LLC, Boston Partners Global Investors, Inc., Bridge City Capital, LLC, Cadence Capital Management LLC, Capital Impact Advisors, LLC, Capital Prospects LLC, Ceredex Value Advisors LLC, ClearBridge Investments, LLC, Copeland Capital Management, LLC, Dimensional Fund Advisors LP, Driehaus Capital Management LLC, Eagle Asset Management, EAM Investors, LLC, EARNEST Partners, LLC, Eastern Shore Capital Management, a Division of Moody Aldrich Partners, LLC, Eaton Vance Management, Elk Creek Partners LLC, Falcon Point Capital, LLC, Federated MDTA, LLC, FIAM LLC, Fisher Investments, Franklin Advisers, Inc., Frontier Capital Management Company, LLC, Goldman Sachs Asset Management, Granahan Investment Management , Granite Investment Partners, LLC, Great Lakes Advisors, LLC, GW&K Investment Management, LLC

ATTACHMENT 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CONTRACTS LIST FOR THE APRIL 28, 2020 BOARD MEETING

ACTIVE RFPs AND RFQs

NO.	DESCRIPTION	MARKETING CESSATION STATUS AND VENDOR RESPONSES
7	Private Credit Mandate Search	**RFP Release Date:** December 10, 2018 **Submission Deadline:** January 18, 2019 **Status:** On July 23, 2019, Board awarded contracts to Alcentra Limited; Benefit Street Partners L.L.C.; Crescent Capital Group LP; and Monroe Capital LLC. Negotiations in process. **List of Respondents:** Alcentra Limited, Barings LLC, MB Global Partners, LLC, Backcast Partners Management LLC, BlackRock, Inc., CLSA Capital Partners (HK) Limited, Cross Ocean Adviser LLP, Clearwater Capital Partners (Fiera Capital Corporation), Guggenheim Partners, LLC, Goldman Sachs Asset Management, L.P., Pemberton Capital Advisors LLP, Kayne Anderson Capital Advisors, L.P., Maranon Capital, L.P., Bain Capital Credit, LP, Breakwater Management LP, Carlyle Global Credit Investment Management L.L.C., Crescent Capital Group LP, MV Credit Partners LLP, New Mountain Capital, LLC, Park Square Capital USA LLC, Tor Investment Management (Hong Kong) Limited, AlbaCore Capital LLP, Muzinich & Co., Inc., Kartesia Management S.A., Medalist Partners, LP, NXT Capital Investment Advisers, LLC, Owl Rock Capital Partners, PennantPark Investment Advisers, PIMCO Investments LLC, Deerpath Capital Management, LP, Brightwood Capital Advisors, Magnetar Capital LLC, MC Credit Partners LP, Oaktree Capital Management, L.P., THL Credit Advisors LLC, White Oak Global Advisors, LLC, Benefit Street Partners L.L.C., EntrustPermal / Blue Ocean GP LLC, Willow Tree Credit Partners LP, Monroe Capital LLC, Runway Growth Capital LLC, Stellus Capital Management, LLC

***RESTRICTED PERIOD FOR REQUEST FOR PROPOSAL OR REQUEST FOR QUALIFICATIONS:**

Start Date - The restricted period commences on the day the Request for Proposal is released.

End Date - The restricted period ends on the day the contract is executed.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: APRIL 28, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: VI – A**

SUBJECT: **MID-YEAR BUDGET ADJUSTMENTS FOR FISCAL YEAR 2019-20 AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board:

1. Adopt the proposed resolution to authorize an increase of $1.3 million to the Salaries Account in the 2019-20 Budget;
2. Adopt the proposed resolution to authorize $1.3 million in decreases to various accounts as determined by the General Manager.

Executive Summary

The 2019-20 Administrative Expense Budget of $28,076,399 was approved by the Board on May 14, 2019. This interim budget request seeks an increase in the Salaries Account to meet payroll for the remainder of the fiscal year, to be offset by decreases in various expense accounts (see Table 1 on page 2). Recognizing the uncertainty caused by the current pandemic on department operations, it is recommended that the General Manager be provided with the budgetary authority to determine the accounts to decrease at fiscal year-end in order to meet urgent expenditures related to LACERS' COVID-19 response.

TABLE 1 – TENTATIVE CHANGES TO VARIOUS FUND APPROPRIATION ACCOUNTS

APPROPRIATION ACCOUNT	2019-20 ADOPTED BUDGET	INCR./(DECR.) TO ACCOUNTS (TENTATIVE)	2019-20 ADJUSTED BUDGET (TENTATIVE)
SALARIES	$ 14,110,952	$ 1,300,000	$ 15,410,952
OVERTIME	473,744	(138,553)	335,191
PRINTING	124,000	(12,006)	111,994
TRAVEL	245,845	(113,626)	132,219
EMPLOYEE BENEFITS	6,122,500		6,122,500
CONTRACTS	5,438,456	(787,930)	4,650,526
OFFICE EXPENSE	1,064,177	(94,589)	969,588
EQUIPMENT	496,725	(153,296)	343,429
TOTAL	**$ 28,076,339**	**$ -**	**$ 28,076,339**

Discussion

INCREASES TO APPROPRIATIONS

As of the pay period ending April 11, 2020, $12.1 million in salaries has been expended against a $14.1 million budget. The remaining $2 million is insufficient to meet the projected payroll need of $3 million for the remainder of the fiscal year. This projection is based on an average bi-weekly payroll of $585,000 for the past seven pay periods, projected over the remaining pay periods, for a total of $3 million. An additional 10%, or $300,000 is requested as a contingency for any unpredictable expenses paid from the salaries account such as employee retirements, or employee separation from City service, resulting in payouts of vacation, sick, and overtime balances.

The shortfall in the salaries account can largely be attributed to:

1) Hiring Success versus Increased Salary Savings Rate

   The 2019-20 Budget increased the Salary Savings rate from 6% to 9%, representing a total $1.4 million in salary reduction versus base salaries. This reduction was aggressively applied in 2019-20 after several years of significant excess salaries at year end, averaging $1.5 million in the past three years. Despite the historical trend, LACERS hiring has been highly successful in the current fiscal year, with few vacancies currently.

2) Obligatory Retroactive Salary Increases

   Salary contract negotiations concluded this fiscal year and retroactive salary increases to our employees totaling $368,000 were paid in March. These retroactive salary increases largely covered the period of October 2018 through November 2019. Prospective salary rate increases average 4.5%, for an additional $131,000 increase to the Salaries account.

3) Employee Retirement Payouts

   Significant retirement payouts totaling $185,000 have been made so far this year, with at least one upcoming known retirement payout projected at $100,000. It is difficult to project other retirements before the end of the year as employees may submit an application 30-60 days prior to retirement and they are not required to inform management. Retirement payouts are not budgeted and are absorbed by salary savings.

4) Unbudgeted Part-Time Salaries

   Part-time salaries, projected at $204,000 for 2019-20, are funded by salary savings rather than budgeted in a separate account, contrary to the practice in other City departments. In Fiscal Year 2020-21, a separate As-Needed Salaries Account will be established to improve tracking and monitoring of these expenses.

DECREASES IN APPROPRIATIONS

To offset the increase to the Salaries Account, the following corresponding $1.3 million in decreases have been identified in Table 2.

TABLE 2 – TENTATIVE DECREASES IN APPROPRIATIONS

APPROPRIATION ACCOUNT	2019/20 ADOPTED BUDGET	INCR./(DECR.) TO ACCOUNTS (TENTATIVE)	2019/20 ADJUSTED BUDGET (TENTATIVE)
OVERTIME	$ 473,744	$ (138,553)	$ 335,191
PRINTING	124,000	(12,006)	111,994
TRAVEL	245,845	(113,626)	132,219
EMPLOYEE BENEFITS	6,122,500		6,122,500
CONTRACTS	5,438,456	(787,930)	4,650,526
OFFICE EXPENSE	1,064,177	(94,589)	969,588
EQUIPMENT	$ 496,725	(153,296)	$ 343,429
TOTAL		**$ (1,300,000)**	

Descriptions of these proposed appropriation reductions are as follows:

- Overtime -- ($138,553)

Overtime used to address backlogs in service purchases are eliminated, retaining only overtime needed for mission critical work that needs to be accomplished in excess of normal work hours.

- Printing – ($12,006)

This represents surplus from completed printing projects such as the 1099-Rs, the deferment of printing of a training manual, and a reduction in the ad-hoc printing budget.

- Travel – ($113,626)

Nearly all funds for travel have been eliminated, retaining some funds for Board travel, and Investment's due diligence travel, and professional continuing education requirements for Internal Audit staff.

- Contractual Services – ($787,930)

This amount represents surplus from completed engagements in audit, emergency exercises, pension administration system consulting, benefit claims services, salary compensation studies, computer consulting, and others. Includes the deferral of procurement for cyber liability insurance, and elimination of the rents for the cancelled lease expansion at the Times building.

- Office Expense – ($94,589)

The identified surplus results from a deferral of a front-end scanning intelligence project, elimination of various expenses intended for the cancelled lease expansion at the Times building, and an expected surplus in the budget for Medical benefits for department employees.

- Equipment – ($153,296)

Surpluses in the equipment budget include elimination of various furniture purchases for the cancelled lease expansion at the Times building, completion of cubicle reconfiguration projects, and decreases to various ad-hoc equipment funds.

These accounts have been identified for decrease; however given the uncertainty resulting from the pandemic environment, it is recommended that the General Manager be authorized to determine the timing of the decreases, and if necessary adjust the accounts from which the decreases will occur before the end of the fiscal year.

COVID-19 BUDGETARY IMPACTS

The Federal, State, and local stay-at-home orders fast-tracked a major department undertaking to enable employees to work from home as soon as feasibly possible. The effort has involved creating a secure information technology infrastructure to allow cloud and remote computing, and the purchase of hardware and software for department users. Each employee is being equipped with a mobile phone and remote access to their office computer.

One positive outcome of the move to work from home is that the Mobile Workforce Initiative has been kick started. The initiative was contemplated as part of the move to LACERS new headquarters building with the goal of equipping all employees with a laptop and docking station, as well as a cell phone to encourage movement within the office and greater opportunities to collaborate in multiple common work area. Our development of a mobile work environment is now ahead of schedule and meeting dual purposes.

To date the department has expended $135,664 on technological equipment, mobile phones, collaborative and productivity software, and other necessities to enable this transition (see Attachment 1). Recorded staff time for planning and implementing the pandemic response, is currently at $169,000. All COVID-19 related expenses are unbudgeted, but they are being tracked so that when Federal, State or local funding becomes available the expenses can be submitted for reimbursement. Additional expenditures are expected as purchase orders are fulfilled for items on back order such as additional mobile equipment and disinfecting supplies. To pay for upcoming pandemic and telework-related invoices, funds have been reallocated within approved budgets from lower priority expenditures. However, due to as yet unknown emergency expenses to respond to the crisis, it is recommended that the General Manager be authorized to determine the accounts to be decreased close to year-end.

To facilitate this recommendation, it is requested that two separate proposed resolutions be adopted by the Board. The first, to be executed immediately is an increase to the salaries budget. The second is a resolution to decrease various appropriation accounts to be determined by the General Manager to achieve an offset to the increase in the salaries appropriation before the close of the fiscal year.

Strategic Plan Impact Statement

This Mid-Year Budget includes funding to ensure the department can continue to deliver its mission for the remainder of Fiscal Year 2019-20.

Prepared By: Dale Wong-Nguyen, Chief Benefits Analyst

NMG/TB/DWN

Attachments:
1. COVID-19 Expense Report of April 10, 2020 to the City Administrative Officer
2. Proposed Resolution – Increases in Appropriations
3. Proposed Resolution – Decreases in Appropriations

ATTACHMENT 1

Inventory of COVID-19 Expenditures for Los Angeles City Employees' Retirement System as of 4/9/20

DESCRIPTION OF COVID EXPENSE	FY20 AMOUNT	ONE TIME EXPENSE	NOTES
Microsoft Office 365 licenses (170)	$ 43,026		To be used by staff to telecommute - First order was for 25 licenses at $15,621 - Second order was for 145 licenses at $27,405
100 Samsung Galaxy A20 cell phones for telecommuting @ $148.37 each	$ 16,469	$ 16,469	One-time expense to enable our call centers to field calls and staff to communicate.
Monday.com licenses (100)	$ 15,407		Project management software to allow staff to track work status and completion remotely
Microsoft Azure licenses (170)	$ 13,872		To be used by staff to telecommute
ZScaler Telecommute Licenses and Connectors	$ 11,100		For remote access of City tools and software to enable staff to telecommute ZScaler $30 x 170 licenses, Total $5,100. ZScaler Connectors $2,000 x 3, Total $6,000
37 S10e 128GB phones for telecommuting @ $239.99 each	$ 8,880	$ 8,880	One-time expense to enable staff to communicate and use the phone as a portable computer. $239.99 per phone X 37 phones = $8,880 plus tax
(2nd Order) Service for 74 cell phones used for telecommuting @ $13.88 each	$ 4,108	$ 4,108	$1,027.12 monthly X 4 months. FY20: $4,108.48
ZOOM Video licenses with webinar (18)	$ 3,166		To be used by staff to meet while telecommuting
Service for 37 S10e cell phones used for telecommuting @ $33.62 each	$ 3,732		$33.62 X 37 phones = $1,243.94 a month X 3 months = $3,731.82
Adobe Pro licenses (8)	$ 2,635		To be installed onto laptops used by Execs for e-signature capabilities and for Sr. Staff to telecommute 8 at $329.39 each = $2,635.12 2 licenses for Executives, 6 licenses for Investment Division
Disinfecting wipes, hand sanitizer, soap	$ 2,227		Supplies for staff to disinfect work surfaces and prevent illnesses
(1st Order) Service for 26 cell phones used for telecommuting @ $13.88 each	$ 1,444	$ 1,444	$360.88 monthly X 4 months. FY20: $1,443.52
Docusign licenses @ $480 each (3)	$ 1,440		Software for signature collection from staff telecommuting 3 licenses X $480 each =
Network Dongles & Cables	$ 1,226	$ 1,226	Dell Adapter USB C $46.18 x 22, Total $1,015.96. Category 6a Cable 25ft $47 x 2packs, Total $94.00
Board Election - Special Mailing	$ 1,000		Mailing to advertise the LACERS Board of Administration Election
Gloves, masks, wipes	$ 1,000		Supplies for staff to disinfect work surfaces and prevent illnesses

ATTACHMENT 1

Inventory of COVID-19 Expenditures for Los Angeles City Employees' Retirement System as of 4/9/20

Verizon Data Service for 5 Ipads @ $37.99/month/Ipad	$ 760		$189.95 monthly X 4 months. FY20: $759.80
Office supplies for telecommuting	$ 750		Pens, highlighters, paper, ancillary egonomic sheet holders,
(2st Order) 67 Protective cases for Samsung Galaxy A20 cell phones @ $9.97 each	$ 668	$ 668	67 cases X $9.97 = $667.99
Ancillary wires and connectors	$ 600		Provided to staff who was issued equipment to enable them to securely hardwire laptops to routers to telecommute
40 Protective cases for Samsung Galaxy S10e cell phones @ $11.67.	$ 467	$ 467	40 cases X $11.67 = $466.90
Verizon phone service for 2 S8 Phone @ $50.70/month/phone	$ 406		$101.40 montly. FY20: $405.60
(1st Order) 33 Protective cases for Samsung Galaxy A20 cell phones @ $10.88 each.	$ 360	$ 360	33 cases X $10.88 = $359.04
Phone message books	$ 250		Supplies to help call center staff track phone calls
90 Screen Protectors for Samsung Galaxy A20 cell phones @ $5.99 per three pack	$ 180	$ 180	30 packs X $5.99 = $179.70
P-Card purchase	$ 161	$ 161	P-Card purchase of items for telecommuting purposes. - one (1) bluetooth keyboard (for our DeX testbed of using cell phones as computers for telecommuters) - ten (10) Samsung Galaxy A20 phone cases for the cell phones issued to telecommuting staff
Bloomberg - Disaster Recovery Service license $35/month	$ 140		Remote access to Bloomberg Terminal $35 monthly X 3 months. FY20 $140
Samsung Multiport Adapter	$ 100	$ 100	Used by Systems to test computing via cellphone
3 Ipad Chargers @ $29.99/each	$ 90	$ 90	Chargers to enable re-deployment of Ipads
TOTAL	**$ 135,664**	**$ 34,153**	

PROPOSED RESOLUTION
FISCAL YEAR 2019-20 BUDGET
SUPPLEMENTAL APPROPRIATION

WHEREAS on May 14, 2019, the Board adopted the 2019-20 Budget in the amount of $28,045,067; and,

WHEREAS salary negotiations between the City and unions resulted in retroactive salary increases for City employees, at the cost of $368,000 for LACERS staff; and prospective salary increases for employees through June 30, 2020 at the cost of an additional $131,000, or a 4.5% increase; and

WHEREAS the 2019-20 Budget increased the Salary Savings rate from 6% to 9%, representing a total $1.4 million in salary reduction versus base salaries. Despite the actualized salary savings in the past three years, LACERS' effective hiring, with few vacancies currently, have yielded lower salary savings;

WHEREAS Salary Savings are used to pay for employee retirement payouts and part-time salaries, expected total no less than $500,000; as well as for substitute authority positions;

WHEREAS the Board has full control over increases and decreases to the LACERS budget pursuant to Los Angeles City Charter Section 1106(b)(2);

NOW THEREFORE, BE IT RESOLVED, that the Board:

1) Authorize an increase of $1,300,000 to the Salaries-General Account (APPR 161010) for regular and temporary staffing;

2) Authorize the General Manager to correct any typographical or technical errors within the intent of this Board action.

PROPOSED RESOLUTION
FISCAL YEAR 2019-20 BUDGET
REDUCTIONS IN APPROPRIATIONS

WHEREAS on May 14, 2019, the Board adopted the 2019-20 Budget in the amount of $28,045,067; and,

WHEREAS a supplemental budget appropriation of $1,300,000 to the Salaries Account was approved by the Board on April 28, 2020;

WHEREAS offsets have been pre-identified in the appropriation accounts for travel, contractual services, printing, office expense, and equipment; however the pandemic crisis environment has changed LACERS' operations drastically in a few short weeks; and it would be prudent to proceed with reductions to budgetary accounts when there is absolute certainty that no other unanticipated expenses will arise before the closing of the fiscal year;

WHEREAS the Board has full control over increases and decreases to the LACERS' budget pursuant to Los Angeles City Charter 1106(b)(2);

NOW THEREFORE, BE IT RESOLVED, that the Board authorize the General Manager to reduce appropriations by $1,300,000 and to determine the timing, frequency, and reduction amounts to each appropriation account for Fiscal Year 2019-20.

Further, be it resolved that the General Manager is authorized to correct any typographical or technical errors within the intent of this Board action.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: APRIL 28, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: VI – B**

SUBJECT: **COST-OF-LIVING ADJUSTMENT FOR JULY 2020 AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board adopt a 3% cost-of-living-adjustment for Tier 1 and Tier 1 Enhanced Members, and a 2% cost-of-living adjustment for Tier 3 Members, as detailed in the schedule prepared by LACERS' consulting actuary, to be effective July 1, 2020.

Executive Summary

On July 1 of each year, eligible retired Members and beneficiaries may receive a cost-of-living adjustment (COLA) to their benefits, as determined by the Board. The COLA is based on the average annual percentage change in the Consumer Price Index (CPI) for the Los Angeles area which is 3.1% for calendar year 2019, and subject to the limitations in the Los Angeles Administrative Code (LAAC) § 4.1022 for Tier 1 and § 4.1080.17 for Tier 3.

Discussion

The COLA benefits effective July 1, 2020, are summarized as follows, and are further detailed in the attached letter from LACERS' consulting actuary.

Membership	Initial retirement date	COLA Limitations[1]	COLA effective July 1, 2020
Tier 1 and Tier 1 Enhanced participants and beneficiaries	On or before July 1, 2019	• 3.0% maximum increase • Excess will be banked (Added to existing accumulated balance. See attached schedule.)	3.0%
Tier 1 and Tier 1 Enhanced participants and beneficiaries with less than one full year of retirement	July 2, 2019 to June 30, 2020	• Prorated COLA increase of 1/12th for each full month of retirement	1/12th of 3.0% each full month retired

		• Excess will not be banked for less than one full year of retirement	
Tier 3 participants and beneficiaries	On or before July 1, 2019	• 2.0% maximum increase • No COLA bank	2.0%
Tier 3 participants and beneficiaries with less than one full year of retirement	July 2, 2019 to June 30, 2020	• Prorated COLA increase of 1/12th for each full month of retirement • No COLA Bank	1/12th of 2.0% each full month retired

[1] Tier 1 and Tier 1 Enhanced Members whose retirement benefits continued from July 1 through June 30 receive the excess amount of 0.1% (known as "Excess COLA" which is the difference between CPI change of 3.1% for the year and 3.0% maximum COLA) added to their COLA bank. In years when the CPI changes are less than 3.0%, the accumulated banked benefit is applied toward achieving the 3.0% maximum increase. Pursuant to LAAC § 4.1080.17, the Tier 3 COLA benefit is capped at 2.0% and there is no banked benefit.

Strategic Plan Impact Statement

This action meets the Benefit Delivery Goal by ensuring accurate payment of benefits in accordance with the plan documents codified in the Los Angeles Administrative Code.

Prepared By: Mikyong Jang, Departmental Chief Accountant IV

LP/TB/MJ

Attachment: 1. Segal Letter dated April 15, 2020 with COLA Schedule

Segal

180 Howard Street Suite 1100
San Francisco, CA 94105-6147
segalco.com
T 415.263.8283
ayeung@segalco.com

Via Email

April 15, 2020

Mr. Neil Guglielmo
General Manager
Los Angeles City Employees' Retirement System
P.O. Box 512218
Los Angeles, CA 90051-0218

**Re: Los Angeles City Employees' Retirement System (LACERS)
Cost-of-Living Bank as of July 1, 2020**

Dear Neil:

We have prepared a schedule showing the accumulated banked benefits for the System's retirees and beneficiaries reflecting the cost-of-living adjustments as of July 1, 2020.

The annual average CPI increased from 265.962 in 2018 to 274.114 in 2019, an increase of 3.1% (rounded to the nearest one-tenth of one percent). This figure was determined by using the Consumer Price Index (CPI) for all Urban Consumers in the Los Angeles-Long Beach-Anaheim Area.

Note that participants with membership dates on and after February 21, 2016 were placed in Tier 3, unless the participant qualified for Tier 1 membership. Participants in Tier 3 are entitled to a maximum of 2% COLA provision after retirement (instead of a maximum of 3% COLA provision for Tier 1 and Tier 1 Enhanced[1]). In addition, excess COLA will not be banked under the Tier 3 provision and all Tier 3 retirees and beneficiaries will receive the same COLA regardless of retirement date.

The schedule in Exhibit A contains four columns for Tier 1 and Tier 1 Enhanced participants:

Column 1. Accumulated Banked Benefits as of July 1, 2019. This data was obtained from a similar schedule we prepared last year but adjusted pursuant to a direction provided by LACERS this year to start the accumulation of banked benefits only for members who have been retired for at least a full year beginning July 1, 2018.

Column 2. Actual average CPI increase of 3.1%.

[1] Tier 1 Enhanced is for all Tier 1 Airport Peace Officers (including certain fire fighters) appointed to their positions before January 7, 2018 who elected to remain at LACERS after January 6, 2018, and who paid their mandatory additional contribution of $5,700 to LACERS before January 8, 2019, or prior to their retirement date, whichever was earlier.

Column 3. Cost-of-living increase granted as of July 1, 2020, for a full year of retirement.

Column 4. Accumulated Banked Benefits as of July 1, 2020.
(Column (1) + Column (2) - Column (3), but limited to no less than 0%)

As shown in Exhibit A, the cost-of-living increase as of July 1, 2020 for all Tier 1 and Tier 1 Enhanced participants is the full 3.0% maximum increase permitted by the Administrative Code. The difference between 3.1% and 3.0%, or 0.1%, will increase the accumulated bank for each of the eligible participants for future COLA increases.

For Tier 3 participants, the cost-of-living increase as of July 1, 2020 will be 2.0% regardless of retirement date as shown in Exhibit B.

Please give us a call if you have any questions.

Sincerely,

Andy Yeung

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

OH/gxk
Enclosures

cc: Todd Bouey
Lita Payne
Dale Wong-Nguyen

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST-OF-LIVING INCREASES AND ACCUMULATED BANKED BENEFITS
As of July 1, 2020

Exhibit A
Tier 1 and Tier 1 Enhanced Participants

Initial Retirement Date			July 1, 2019 Accumulated Banked Benefits (1)	Increase in the Annual Average CPI (2)	COLA* (3)	July 1, 2020 Accumulated Banked Benefits (4)
On or Before 07/01/1978			15.800%	3.100%	3.000%	15.900%
07/02/1978	to	07/01/1979	11.550%	3.100%	3.000%	11.650%
07/02/1979	to	08/01/1979	6.944%	3.100%	3.000%	7.044%
08/02/1979	to	09/01/1979	7.139%	3.100%	3.000%	7.239%
09/02/1979	to	10/01/1979	7.333%	3.100%	3.000%	7.433%
10/02/1979	to	11/01/1979	7.528%	3.100%	3.000%	7.628%
11/02/1979	to	12/01/1979	7.722%	3.100%	3.000%	7.822%
12/02/1979	to	01/01/1980	7.917%	3.100%	3.000%	8.017%
01/02/1980	to	02/01/1980	8.111%	3.100%	3.000%	8.211%
02/02/1980	to	03/01/1980	8.306%	3.100%	3.000%	8.406%
03/02/1980	to	04/01/1980	8.500%	3.100%	3.000%	8.600%
04/02/1980	to	05/01/1980	8.694%	3.100%	3.000%	8.794%
05/02/1980	to	06/01/1980	8.889%	3.100%	3.000%	8.989%
06/02/1980	to	07/01/1980	9.083%	3.100%	3.000%	9.183%
07/02/1980	to	06/30/2018	0.800%	3.100%	3.000%	0.900%
07/01/2018	to	06/30/2019	0.000%	3.100%	3.000%	0.100%
07/01/2019 **	to	06/30/2020		3.100%	3.000%	0.000%

* COLA benefits for partial year retirements are pro-rated.

** Only those retirees (or continuing survivors) whose benefits commenced on July 1 and continued through June 30 receive a COLA bank in years of excess CPI. For initial retirement dates starting July 1, 2018 and later, the July 1, 2020 COLA bank for a July 1 retiree (or continuing survivor) is shown on the row above. For example, the July 1, 2020 COLA bank is 0.900% for a July 1, 2018 retirement date and 0.100% for a July 1, 2019 retirement date.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST-OF-LIVING INCREASES
As of July 1, 2020

Exhibit B
Tier 3 Participants

	Increase in the Annual Average CPI	COLA*
All Tier 3 Participants Retired on or before 06/30/2020	3.100%	2.000%

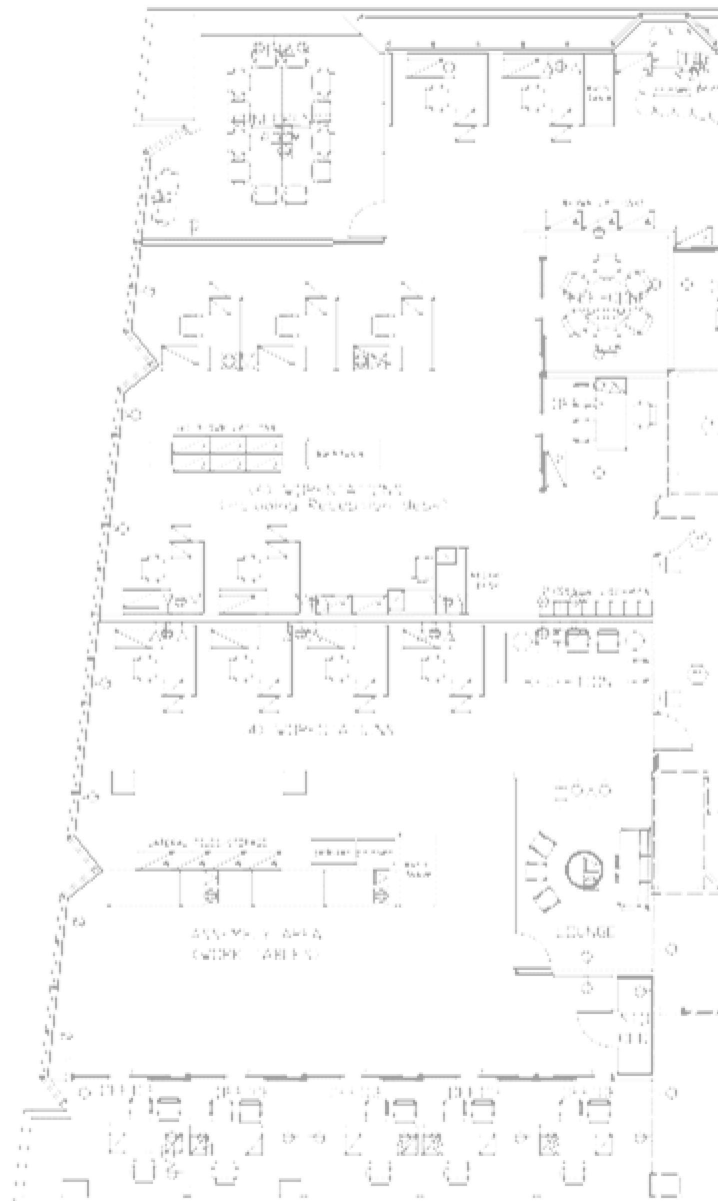
* COLA benefits for partial year retirements are pro-rated.

PRESENTATION BY INVESCO REAL ESTATE OF THE 977 N. BROADWAY PROJECT REPORT FOR THE QUARTER ENDING MARCH 31, 2020

For Los Angeles City Employees' Retirement System

TABLE OF CONTENTS

- Executive Summary
- 3rd Quarter Updates
- Property Financial Overview
- Impact of COVID-19
- 4th Quarter Goals



EXECUTIVE SUMMARY

In October 2019, the Board authorized and completed the purchase of 977 N. Broadway, Los Angeles, California at a price of $33,750,000.

The five story office building was built in 1984 and encompasses 64,585 square feet with a 110-space subterranean parking structure.

The property will serve as LACERS headquarters for the foreseeable future.

LACERS engaged Invesco as Advisor to facilitate the management oversight, capital and occupier programs as well as submit quarterly reports and asset level budgets.

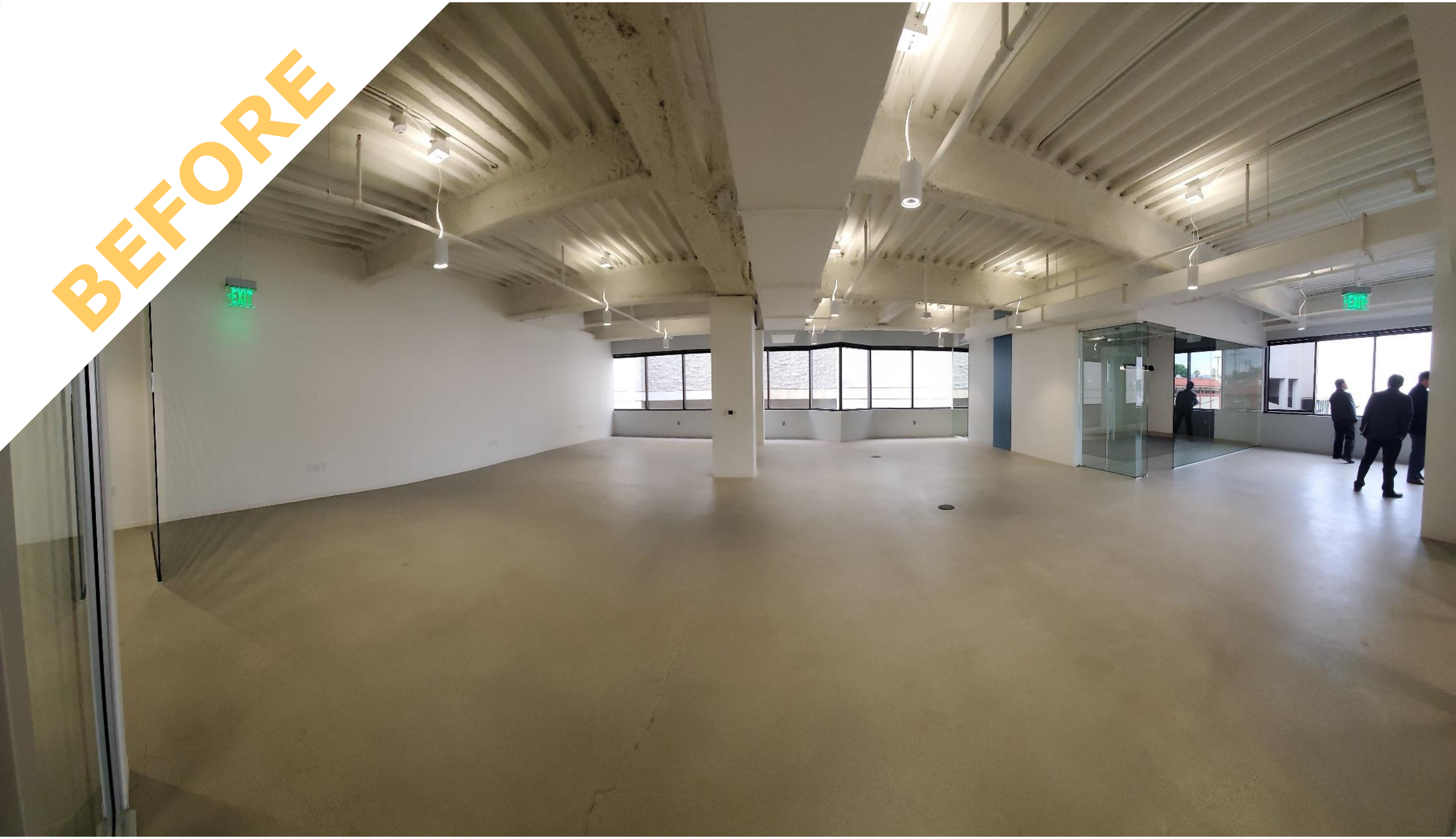
3RD QUARTER UPDATES

During the 3rd Quarter, LACERS, Invesco and the property management team oversaw the relocation of 25 LACERS members from its current headquarters into the 2nd floor of 977 N. Broadway.

In order to accomplish this task:

- Architectural firm of HOK engaged to provide expertise with layout, furniture and general occupier direction;
- Plans for the 2nd floor were designed;
- Furniture vendors were identified, then planned, procured and set-up the furniture;
- Network service was installed to tie into the Times Building HQ network environment;
- New mobile worker equipment technology was deployed;
- A moving vendor was identified, then planned, and moved files and equipment;
- Move was completed 3/16/2020.

3RD QUARTER UPDATES cont…



3RD QUARTER UPDATES cont…

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3RD QUARTER UPDATES cont…

3RD QUARTER UPDATES cont…

In addition to the 2nd Floor Relocation activities, the following projects were accomplished during the Quarter:

- Asset Management Agreement between Invesco and LACERS executed;
- Interim budget for the period from acquisition thru 6/30/2020 submitted and approved on February 13th by the Board;
- A new property management team - Cushman & Wakefield replaced RiverRock effective April 1st;
- Engaged parking vendor, Reef Parking, to establish parking policies and manage the parking garage as occupancy increases;
- Drafting Fiscal Year 20/21 Budget to be submitted for approval.

PROPERTY FINANCIAL OVERVIEW

Description	3Q20 Actual	3Q20 Budget	Variance	% Var	YTD Actual	YTD Budget	Variance	% Var
INCOME - Total	$ 77,864.25	$ 80,122.25	$ (2,258.00)	-2.8%	$ 233,595.63	$ 240,366.75	$ (6,771.12)	-2.8%
EXPENSES								
Repairs & Maintenance	$ 2,040.03	$ 17,958.00	$ 15,917.97	88.6%	$ 6,259.48	$ 31,799.00	$ (25,539.52)	-80.3%
Janitorial	$ 5,619.83	$ 11,740.00	$ 6,120.17	52.1%	$ 17,438.41	$ 25,860.00	$ (8,421.59)	-32.6%
Security	$ 14,200.99	$ 16,890.00	$ 2,689.01	15.9%	$ 40,580.84	$ 38,135.32	$ 2,445.52	6.4%
Utilities	$ 6,126.09	$ 7,578.00	$ 1,451.91	19.2%	$ 22,415.71	$ 22,541.00	$ (125.29)	-0.6%
Property Mgmt Fee & Payroll	$ 29,755.32	$ 25,200.00	$ (4,555.32)	-18.1%	$ 81,723.55	$ 75,600.00	$ 6,123.55	8.1%
Misc Operating (Garage, Landscape, Utilitie	$ 6,256.09	$ 16,112.00	$ 9,855.91	61.2%	$ 22,805.71	$ 40,643.00	$ (17,837.29)	-43.9%
General & Administrative	$ 8,396.38	$ 6,325.00	$ (2,071.38)	-32.7%	$ 8,171.81	$ 12,725.00	$ (4,553.19)	-35.8%
Insurance	$ 2,899.58	$ 14,540.00	$ 11,640.42	80.1%	$ 8,698.74	$ 43,620.00	$ (34,921.26)	-80.1%
Taxes	$ 38,972.19	$ 39,000.00	$ 27.81	0.1%	$ 116,916.57	$ 117,000.00	$ (83.43)	-0.1%
Total Expenses	$ 114,266.50	$ 155,343.00	$ 41,076.50	26.4%	$ 325,010.82	$ 407,923.32	$ (82,912.50)	-20.3%
NET INCOME	**$ (36,402.25)**	**$ (75,220.75)**	**$ (43,334.50)**	**57.6%**	**$ (91,415.19)**	**$ (167,556.57)**	**$ (76,141.38)**	**45.4%**

IMPACT OF COVID-19

During the 3rd Quarter, LACERS, Invesco and the management team made operational adjustments to address COVID-19:

- LACERS employees in 977 are abiding by Safer at Home directive;
- One of two non-LACERS tenants is still physically reporting out of 977. The firm is staggering staff working in the office and practicing social distancing;
- Due to the reduction in occupancy, services were scaled back at the property including:
  - Reef Parking contract – suspended;
  - Day Porter & Janitorial – services have been scaled back;
  - Engineering – services have been scaled back;
  - Security – the increased coverage to 24/7 will remain in effect.

MISCELLANEOUS UPDATES

- **Insurance:** Policy was cancelled with existing provider and transferred to Invesco's umbrella policy at a savings as well as expanded coverage (earthquake);
- **Property Taxes:** LACERS paid $104,918.80 in property taxes and will apply for reimbursement once the County completes its review of LACERS tax exemption application;
- **Operating Bank Accounts:** Management team set up both an investment level account under Invesco oversight as well as an operating account with PacShore for operating expenses;
- **Chinatown BID:** LACERS has submitted their petition to renew the building's participation in the Chinatown BID. Staff will be assigned to participate.

4^{th} QUARTER GOALS

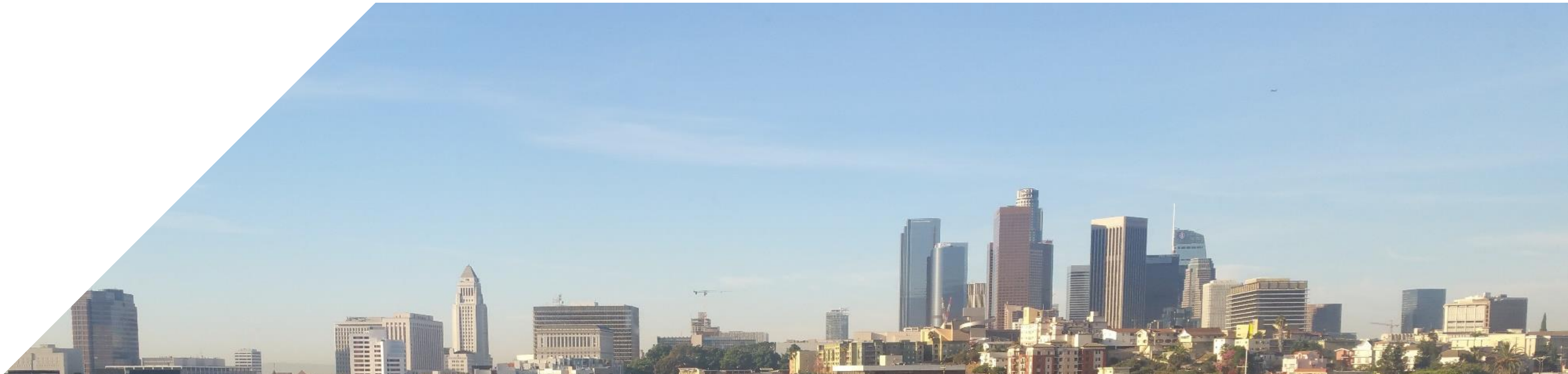
During the next Phase, the team will be focusing on the critical paths to both the capital projects as well as LACERS full occupancy of the building.

These Steps To Be Taken in the Following Quarter Include:

- Sending out RFPs to Architectural Firms for Occupier Services & common area improvements (HOK, Wolcott, SAA);
- Interview & Engage Architectural firm for programming process;
- Engage City furniture and space planning contractor to develop work space layout;
- Engage seismic consultant to design specifications and proposals for seismic work;
- Engage curtain wall/roofing consultant to develop specifications for building envelope renovations;

4^{th} QUARTER GOALS cont…

- Engage technology consultant to support Phase 2 final occupation of 977 Broadway;
- Review and update LACERS policies for emergency planning and building parking operations;
- Submit Fiscal Year 2021 Budget to Board for Approval.



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION
From: Rahoof Wally Oyewole, Dept. Audit Manager
Rahoof Oyewole

MEETING: APRIL 28, 2020
ITEM: VI – D

SUBJECT: **PRESENTATION OF THE AUDIT OF LACERS' JUNE 30, 2019 ACTUARIAL VALUATION AND REVIEW OF EXPERIENCE STUDY BY CHEIRON, AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board:
1. Receive and file the attached Cheiron's Actuarial Audit Report, and
2. Direct Staff and Segal Consulting to evaluate the feasibility of key recommendations from Cheiron's audit report.

Executive Summary

On July 9, 2019, the Board awarded a new three-year contract to incumbent LACERS Consulting Actuary, Segal Consulting, which necessitated a need for actuarial audit services. After going through the selection process, the Audit Committee recommended Cheiron to the Board for audit actuary contract award. On October 8, 2019, the Board awarded audit actuary contract to Cheiron. The firm has now completed the actuarial audit and submitted the attached report (Attachment 2). Actuaries from Cheiron will present their audit results to the Board.

Discussion

Background
According to the Government Finance Officers Association (GFOA), due diligence requires that pension plan fiduciaries exercise prudence in selecting service providers such as actuaries, and in monitoring the quality of their work. An actuarial audit, a process of engaging an outside actuary to review the work of plan consulting actuary, is a valuable tool for monitoring the quality of actuarial services performed on behalf of a pension plan. Best practice recommends conducting an actuarial audit in cases where an incumbent actuary has provided service for five consecutive years or more. The primary goal of an actuarial audit is to perform an independent examination of the methods used by the incumbent actuary for soundness and compliance with actuarial standards. LACERS last actuarial audit was completed in 2013.

On February 26, 2019, the Board approved the release of a Request for Proposal for actuarial consulting as well as actuarial audit services. Segal Consulting, LACERS' incumbent actuary, won the consulting contract. Since Segal has been LACERS actuary for more than five consecutive years, staff believe conducting an actuarial audit would benefit LACERS and provide the Board some assurance that methods used by incumbent actuary are consistent with standards and reasonable for LACERS. After going through an RFP selection process, staff and the Audit Committee recommended Cheiron, Inc. be selected to perform the audit. On October 8, 2019, the Board awarded Cheiron audit actuary contract.

Scope of the Actuarial Audit

The scope of the project focused on June 2019 Valuation Reports and included (a) full replication audit of LACERS Retirement and Health Plan valuations; (b) a review of LACERS' most recent Experience Study for reasonableness and internal consistency; and, (c) a reconciliation of identified discrepancies. Cheiron also examined whether valuation results are based on reasonable actuarial assumptions in compliance with Actuarial Standards of Practice (ASOPs).

Audit Findings and Recommendations

Overall, the audit provides LACERS and the Board confirmation that (a) actuarial results provided by Segal can be relied upon; (b) Segal actuarial report, assumptions and methods comply with Actuarial Standards of Practice; and (c) communication of valuation results is complete and reasonable. However, Cheiron offers some recommendations for Segal and Board's consideration. Cheiron's audit report with detail findings, comments and recommendations is attached (Attachment 2). Segal's response to the recommendations is also attached (Attachment 3). Cheiron actuaries will be available to present the report to the Board.

<u>Strategic Plan Impact Statement</u>

Actuarial audit helps the Board in meeting its due diligence and fiduciary responsibility with regards to monitoring the soundness and quality of actuarial services provided to LACERS by incumbent actuary. This is consistent with Board's governance goal to "uphold governance practices which affirm transparency, accountability and fiduciary duty."

<u>Prepared By:</u> Rahoof "Wally" Oyewole, Departmental Audit Manager

RO

Attachments: 1. Cheiron's Presentation
2. Cheiron's Audit Report to the Audit Committee and the Board
3. Segal's Response to Cheiron's Audit Findings

Los Angeles City Employees' Retirement System

Classic Values, Innovative Advice

BOARD Meeting: 04/28/20
Item VI – D
Attachment 1

Audit of the June 30, 2019 Actuarial Valuation and Review of the 2014-2017 Experience Study

April 28, 2020

Anne Harper, FSA, MAAA, EA
Graham Schmidt, ASA, FCA, MAAA, EA

Discussion Topics

- Audit Summary
- Cheiron Recommendations
- Actuarial Valuation Replication Results
- Review of Assumptions
- Review of Actuarial Methods
- Comments on Report Contents

Purpose of the Audit is to Confirm

- The Board can rely on Segal's results
- Actuarial methods and assumptions are in compliance with ASOPs
- The communications of the results are complete and reasonable

Audit Summary

- **Valuation is materially accurate (i.e., within 5%) and was computed in accordance with generally accepted actuarial principles**
- **The assumptions recommended in the experience study are reasonable and in accordance with generally accepted actuarial principles**
- **We strongly support Segal's recommendations:**
  – To reduce the inflation assumption from 3.00% to 2.75% and the discount rate from 7.25% to 7.00%, and
  – To adopt generational mortality tables
    - However, we strongly recommend they use a benefit-weighted approach for the next experience study

Cheiron Recommendations

- Include projections in future valuation reports
  - Already included in separate Risk Assessment report, but we strongly suggest including the projections in the AVR
  - Expand disclosures included in Risk Assessment
- Consider miscellaneous technical changes for Experience Study
  - Credibility adjustments for active member mortality assumptions
  - Use of generational mortality projections for optional form factors
  - Analysis of reciprocity rates using recent retirement data
  - Additional demographic assumption disclosures
  - “Risk adjustment” and active management expense methodologies
  - A longer grading period for the medical trends to reach the ultimate level

Valuation Replication Results

Retirement Plan Valuation Results as of June 30, 2019			
	Segal	Cheiron	Ratio
Present Value of Future Benefits	$ 23,735,641,420	$ 23,733,525,494	100%
Actuarial Liability	$ 20,793,421,143	$ 20,779,001,429	100%
Valuation Value of Assets (VVA)	14,818,564,427	14,818,564,427	100%
Unfunded Actuarial Liability (UAL)	$ 5,974,856,716	$ 5,960,437,002	100%
Funded Ratio on VVA basis	71.3%	71.3%	100%
Contribution Rate by Component (BOY)			
Net Employer Normal Cost	6.23%	6.07%	97%
UAL Payment Rate	18.33%	18.26%	100%
Total Employer Contribution	24.56%	24.34%	99%

Valuation Replication Results

OPEB Plan Valuation Results as of June 30, 2019	Segal	Cheiron	Ratio
Present Value of Future Benefits	$ 3,981,517,502	$ 3,988,484,334	100%
Actuarial Liability	$ 3,334,298,549	$ 3,342,852,146	100%
Valuation Value of Assets (VVA)	2,812,661,894	2,812,661,894	100%
Unfunded Actuarial Liability (UAL)	$ 521,636,655	$ 530,190,252	102%
Funded Ratio on VVA basis	84.4%	84.1%	100%
Contribution by Component			
Dollar Amount (BOY)			
Net Employer Normal Cost	$ 76,422,769	$ 77,742,638	102%
UAL Payment Rate	23,236,922	23,236,922	100%
Total Employer Contribution	$ 99,659,691	$ 100,979,560	101%
Rate as % of Payroll (BOY)			
Net Employer Normal Cost	3.43%	3.49%	102%
UAL Payment Rate	1.04%	1.04%	100%
Total Employer Contribution	4.47%	4.53%	101%

Valuation Replication Results

Retirement Plan Liabilities as of June 30, 2019 ($ in millions)	Tier 1			Tier 1 APO Enhanced Benefits		
	Segal	Cheiron	Ratio	Segal	Cheiron	Ratio
Present Value of Future Benefits						
Inactive members	$ 12,061.5	$ 12,054.9	100%	$ 69.2	$ 69.0	100%
Active members	10,670.3	10,682.3	100%	321.4	322.7	100%
Total	$ 22,731.9	$ 22,737.2	100%	$ 390.6	$ 391.7	100%
Actuarial Liability						
Inactive members	$ 12,061.5	$ 12,054.9	100%	$ 69.2	$ 69.0	100%
Active members	8,338.5	8,343.9	100%	239.4	242.7	101%
Total	$ 20,400.0	$ 20,398.8	100%	$ 308.6	$ 311.7	101%
Present Value of Future Normal Cost	$ 2,331.9	$ 2,338.4	100%	$ 81.9	$ 80.0	98%

Valuation Replication Results

Retirement Plan Liabilities as of June 30, 2019 ($ in millions)	Tier 3			Total Retirement Plan		
	Segal	Cheiron	Ratio	Segal	Cheiron	Ratio
Present Value of Future Benefits						
Inactive members	$ 6.0	$ 6.0	100%	$ 12,136.7	$ 12,129.9	100%
Active members	607.2	598.6	99%	11,598.9	11,603.6	100%
Total	$ 613.2	$ 604.6	99%	$ 23,735.6	$ 23,733.5	100%
Actuarial Liability						
Inactive members	$ 6.0	$ 6.0	100%	$ 12,136.7	$ 12,129.9	100%
Active members	78.8	62.5	79%	8,656.7	8,649.1	100%
Total	$ 84.8	$ 68.5	81%	$ 20,793.4	$ 20,779.0	100%
Present Value of Future Normal Cost	$ 528.4	$ 536.1	101%	$ 2,942.2	$ 2,954.5	100%

Valuation Replication Results

Retirement Plan Contribution Comparison as of June 30, 2019
($ in millions)

	Segal		Cheiron		Ratio	
	Amount	% of Payroll	Amount	% of Payroll	Amount	% of Payroll
Total Retirement Plan						
Total Normal Cost	$ 375.0	16.85%	$ 371.8	16.69%	99%	99%
Expected Employee Contributions	236.3	10.62%	236.5	10.62%	100%	100%
Employer Normal Cost	$ 138.6	6.23%	$ 135.2	6.07%	97%	97%
UAL Payment Rate	407.9	18.33%	406.7	18.26%	100%	100%
Total Employer Contribution	$ 546.5	24.56%	$ 542.0	24.34%	99%	99%
Tier 1						
Total Normal Cost	$ 324.8	17.30%	$ 320.6	17.07%	99%	99%
Expected Employee Contributions	199.4	10.63%	199.6	10.62%	100%	100%
Employer Normal Cost	$ 125.4	6.67%	$ 121.1	6.44%	97%	97%
UAL Payment Rate	344.1	18.33%	343.2	18.26%	100%	100%
Total Employer Contribution	$ 469.5	25.00%	$ 464.2	24.71%	99%	99%
Tier 3						
Total Normal Cost	$ 50.2	14.42%	$ 51.1	14.69%	102%	102%
Expected Employee Contributions	36.9	10.62%	37.0	10.62%	100%	100%
Employer Normal Cost	$ 13.2	3.80%	$ 14.2	4.07%	107%	107%
UAL Payment Rate	63.8	18.33%	63.6	18.26%	100%	100%
Total Employer Contribution	$ 77.0	22.13%	$ 77.8	22.34%	101%	101%

Valuation Replication Results

Retirement Plan Data Summary as of June 30, 2019	Segal	Cheiron	Ratio
Active Members			
Total Number	26,632	26,632	100.0%
Average Age	47.0	47.0	100.0%
Average Service	13.2	13.2	100.3%
Projected Compensation	$2,225,412,831	$2,226,980,860	100.1%
Average Compensation	$83,562	$83,620	100.1%
Account Balances	$2,266,740,475	$2,268,676,978	100.1%
Service Retirees			
Total Number	15,165	15,168	100.0%
Average Age	71.9	71.8	99.9%
Average Monthly Benefit	$4,489	$4,493	100.1%
Disabled Retirees			
Total Number	888	888	100.0%
Average Age	67.1	67.0	99.9%
Average Monthly Benefit	$1,762	$1,762	100.0%
Beneficiaries			
Total Number	3,981	3,980	100.0%
Average Age	76.3	76.3	100.0%
Average Monthly Benefit	$2,342	$2,341	100.0%
Vested Terminated Members			
Total Number	8,588	8,647	100.7%
Average Age	44.5	44.5	100.0%

Valuation Replication Results

OPEB Inactive Data Summary as of June 30, 2019	Segal	Cheiron	Ratio
Retirees			
Number of Non-Disabled	13,609	13,546	99.5%
Number of Disabled	334	330	98.8%
Total Number	13,943	13,876	99.5%
Average Age	71.9	71.9	100.0%
Beneficiaries			
Total Number	1,848	1,809	97.9%
Average Age	79.6	79.6	99.9%
Vested Terminated Members			
Total Number	1,474	1,528	103.7%
Average Age	50.9	50.9	100.1%

Demographic Assumption Review

- Mortality
- Retirement
  - Current active members
  - Current and future deferred vested members
- Rates of Reciprocity
- Other Demographic Assumption
  - Disability and termination rates
  - Merit and promotional pay increases
  - Miscellaneous assumptions
- OPEB Assumptions
  - Medical trend rates

Economic Assumption Review

- Investment Return
  - Reviewed and support Segal's recommended move from 7.25% to 7.0%
    - 7.25% rate adopted by Board also considered reasonable
  - Risk adjustment: geometric vs. arithmetic
  - Investment expenses
- Inflation
  - Reviewed and support Segal's recommended move from 3.0% to 2.75%
    - 3.00% rate adopted by Board also considered reasonable, but Board should continue to monitor

Actuarial Method Review

- The actuarial methods are reasonable and in compliance with the Actuarial Standards of Practice
  - **Actuarial Cost Method**: Individual Entry-Age Normal
  - **Asset Smoothing Method**: 7-year smoothing period for actuarial investment gains and losses, with 40% corridor around market value
  - **Amortization Policy**: 15-year closed periods for actuarial gains and losses and plan changes, 20-year period for assumption and method changes

Contents of Reports

		June 30, 2019	June 30, 2018
		% of Payroll	% of Payroll
Employer Contribution Rates:[1]	Tier 1		
	• At the beginning of the year	25.00%	24.98%
	• On July 15	25.08%	25.06%
	• At the end of each pay period	25.90%	25.88%
	Tier 3		
	• At the beginning of the year	22.13%	22.05%
	• On July 15	22.20%	22.12%
	• At the end of each pay period	22.92%	22.85%
	Combined		
	• At the beginning of the year	24.56%	24.67%
	• On July 15	24.63%	24.75%
	• At the end of each pay period	25.43%	25.56%

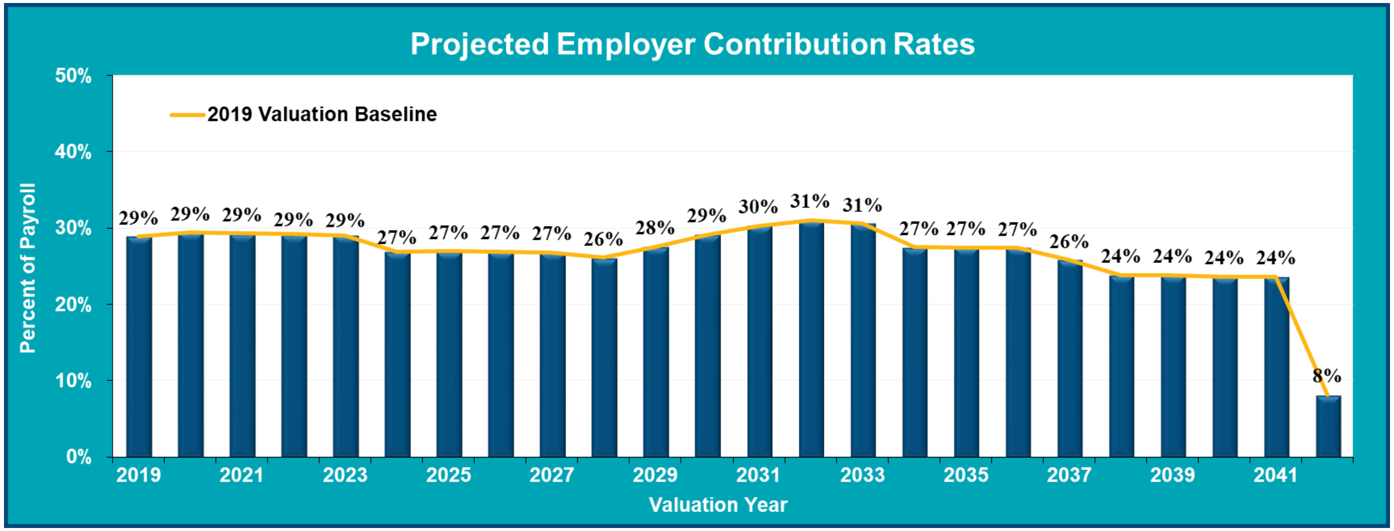
(1) There is a 12-month delay until the rate is effective.

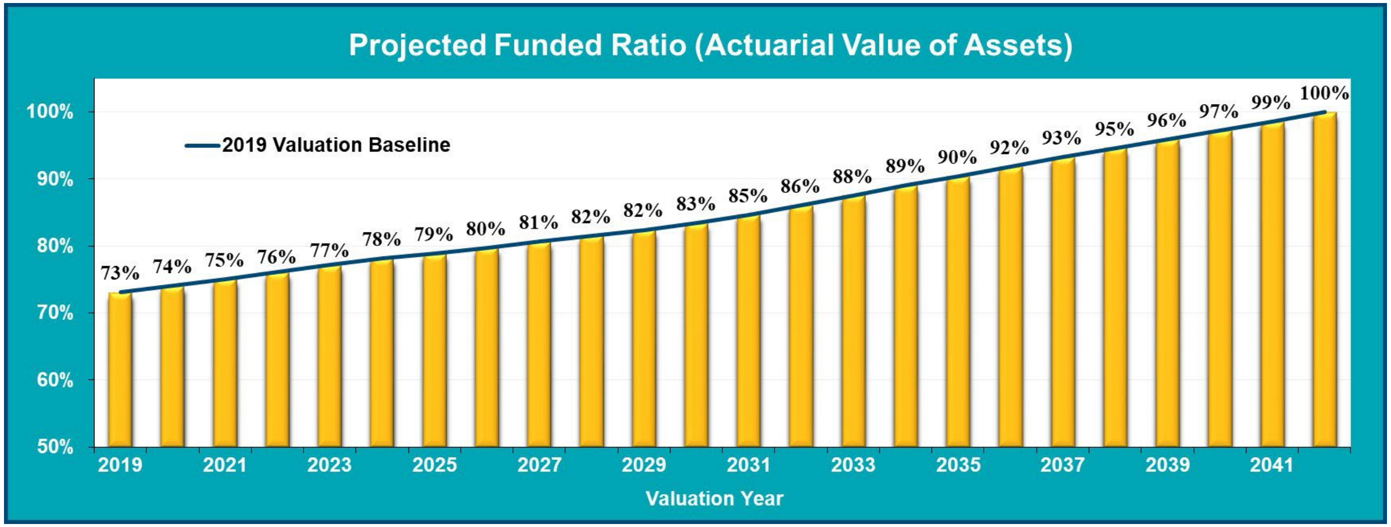
		June 30, 2019	June 30, 2018
Actuarial Accrued Liability:	• Retired members and beneficiaries	$11,620,004,477	$10,778,202,813
	• Inactive vested members	516,719,939	485,374,682
	• Active members	8,656,696,727	8,681,001,563
	• Total Actuarial Accrued Liability	20,793,421,143	19,944,579,058
	• Normal Cost for plan year beginning June 30	374,967,243	370,409,073
Assets:	• Market Value of Assets (MVA)[1]	$17,707,909,933	$16,989,616,344
	• Actuarial Value of Assets (AVA)[1]	17,711,461,636	16,687,907,767
	• AVA as a percentage of MVA	100.0%	98.2%
	• Valuation Value of Retirement Assets (VVA)	$14,818,564,427	$13,982,435,465
	• Market Value of Retirement Assets (MVA)	14,815,592,841	14,235,230,528
Funded status:	• Unfunded Actuarial Accrued Liability (UAAL) on VVA basis	$5,974,856,716	$5,962,143,593
	• Funded ratio on VVA basis for retirement (VVA/AAL)	71.27%	70.11%
	• UAAL on MVA basis	$5,977,828,302	$5,709,348,530
	• Funded ratio on MVA basis for retirement (MVA/AAL)	71.25%	71.37%
Key assumptions:	• Net investment return	7.25%	7.25%
	• Price Inflation	3.00%	3.00%
	• Payroll growth	3.50%	3.50%

(1) Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

Projection Samples

Investment results as assumed, 7.25% each year





Reliance

The purpose of this presentation is to provide the results of our independent audit of the June 30, 2019 Actuarial Valuation of the Los Angeles City Employees' Retirement System.

In preparing this presentation, we relied on information, some oral and some written, supplied by the Los Angeles City Employees' Retirement System and Segal. This information includes, but is not limited to, the plan provisions, member data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future results may differ significantly from this presentation due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Cheiron's presentation was prepared exclusively for the Los Angeles City Employees' Retirement System Audit Committee and Board of Administration for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Graham Schmidt, ASA, FCA, MAAA, EA
Consulting Actuary

Anne Harper, FSA, MAAA, EA
Principal Consulting Actuary

Classic Values, Innovative Advice

BOARD Meeting: 04/28/20
Item VI – D
Attachment 2

Los Angeles City Employees' Retirement System

Audit of the June 30, 2019 Actuarial Valuation, and Review of the Experience Study (July 1, 2014 through June 30, 2017)

Produced by Cheiron

April 2020

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Via Electronic Mail

April 8, 2020

The Audit Committee and the Board of Administration
Los Angeles City Employees' Retirement System
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

Members of the Committee and the Board:

Cheiron is pleased to present the results of our actuarial audit of the June 30, 2019 Actuarial Valuation and Review of the Los Angeles City Employees' Retirement System (LACERS) and the July 1, 2014 through June 30, 2017 Experience Study performed by Segal Consulting (Segal). We would like to thank Segal for providing us with information and explanations that facilitated the actuarial audit process and ensured that our findings are accurate and benefit LACERS.

We direct your attention to the executive summary section of our report that highlights the key findings of our review. The balance of the report provides details in support of these findings along with supplemental data, background information, and discussion of the process used in the evaluation of the work performed by Segal.

In preparing our report, we relied on information (some oral and some written) supplied by LACERS and Segal. This information includes, but is not limited to, actuarial assumptions and methods adopted by LACERS, the plan provisions, employee data, and financial information.

We performed an informal examination of the obvious characteristics of the data for reasonableness in accordance with Actuarial Standard of Practice No. 23. A detailed description of all information provided for this review is provided in the body of our report.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This report was prepared exclusively for the Los Angeles City Employees' Retirement System for the purpose described herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other users.

Sincerely,
Cheiron

Anne D. Harper, FSA, MAAA, EA
Principal Consulting Actuary

Graham A. Schmidt, ASA, FCA, MAAA, EA
Consulting Actuary

James A. Summers, FSA, MAAA
Consulting Actuary

SECTION I – EXECUTIVE SUMMARY

Scope of Assignment

Cheiron performed a complete independent replication of the LACERS June 30, 2019 Actuarial Valuations for the Retirement Plan and the Other Postemployment Benefits. We reviewed the census data provided by LACERS staff, and compared it to the information used by Segal in their valuations. We then performed a full parallel valuation, including the calculation of the projected benefits, Actuarial Liability, and normal cost for all LACERS members, and compared the results to those shown in Segal's actuarial valuation report.

Additionally, Cheiron performed a review of the assumptions and actuarial methods recommended by Segal in the Actuarial Experience Study covering the period from July 1, 2014 to June 30, 2017.

The basic objectives of our review are to answer three questions:

1. Given the assumptions applied, are the valuation results (benefit flows, liabilities, and actuarial costs) accurate?

2. Are the valuation results based upon reasonable actuarial assumptions and methods, and are they in full compliance with Actuarial Standards of Practice (ASOPs)?

3. Is the actuarial information being provided to LACERS comprehensive? Does the LACERS Board have the information required to assess the present and future financial status of the Plans?

Our review included an analysis of each of the following:

- We collected both raw member data from LACERS and edited data from Segal. We performed an independent analysis on the raw data to confirm the member information used in the actuarial valuations.

- We reviewed and evaluated the actuarial methods and assumptions displayed in the valuation reports, and reviewed the results and recommendations made in the last experience study.

- We independently determined plan liabilities, assets and costs, and compared them to those presented in the valuation reports and in separate detailed results provided to us by Segal.

- In addition to the assets, liabilities, and costs shown in the valuation reports, we also reviewed the content of the reports for completeness and compliance with Actuarial Standards of Practice.

SECTION I – EXECUTIVE SUMMARY

This audit provides LACERS confirmation that:

- The results reported by Segal can be relied upon,
- Segal's actuarial valuation report, assumptions and methods comply with Actuarial Standards of Practice (ASOP), and
- The communication of the actuarial valuation results is complete and reasonable.

Key Findings and Recommendations

The main findings of our review are as follows:

1. As a result of our efforts, we are able to confirm that the liabilities and costs computed in the valuations as of June 30, 2019 are materially accurate and were computed in accordance with generally accepted actuarial principles. For the scope of this audit, materiality means the results in the aggregate are within industry standards of plus or minus 5%.

2. We have reviewed the economic and demographic assumptions recommended in the most recent Actuarial Experience Study presented by Segal. We have found them to be reasonable and in accordance with generally accepted actuarial principles. In particular, we support Segal's recommendation to reduce the inflation assumption from 3.00% to 2.75% and the discount rate from 7.25% to 7.00%. We also support their recommendation of a change to use generational mortality assumptions. However, we strongly suggest Segal review the methodology used to analyze the mortality assumption for the base tables.

Our primary recommendations are related to the assumptions, and are summarized as follows:

- Cheiron determined the demographic assumptions proposed in Segal's Experience Study to be generally reasonable and in compliance with acceptable standards of actuarial practice. However, we have a few recommendations Segal should consider at the time of the next experience study:

    - We strongly suggest, similar to our recommendation in the June 30, 2012 actuarial audit, that Segal use a benefit-weighted approach to developing LACERS' mortality assumption.

    - Review the rates of vested terminated members retiring from reciprocal and non-reciprocal status when determining the likelihood of future terminating members establishing reciprocity and the newly terminated employees during the experience study period, rather than just basing the assumption on the percentage of all terminated members reporting reciprocity.

    - Disclose the number of exposures, actual and expected decrements, and the actual-to-expected ratios for each of the demographic assumptions. Providing this information will also allow better assessment of what credibility to give the observed experience versus the rates developed based on the historical experience.

SECTION I – EXECUTIVE SUMMARY

- Overall, the economic assumptions proposed in Segal's review represent a reasonable set of assumptions. However, we have two comments – explained in detail later in our report – related to the "risk adjustment" and active management expense methodologies that Segal employs in developing their recommendations for the assumed rate of return. We note that accounting for these two issues will tend to push the recommended rate in opposite directions, and will thus offset each other. Accordingly, we still consider the rate recommended by Segal (7.0%) to be a reasonable assumption.

- We commend Segal for including projections of the outstanding balance of the Unfunded Actuarial Liability (UAL) and UAL payment projections on pages 54-55 of the valuation report. However, we suggest that Segal also include projections of the employer contribution rate and funded status in their report to help the LACERS Board and stakeholders understand the dynamics of their actuarial funding policies and the impact of the new benefit tiers on the future costs of the system.

- We recommend a longer grading period for the medical trends to reach the ultimate level such as what can be developed using the Getzen Model of Long-Run Medical Cost Trends published by the Society of Actuaries. Additional details supporting this change in health trend setting methodology are provided in Section V, Review of Actuarial Methods.

SECTION II – REVIEW OF RETIREMENT VALUATION RESULTS

Valuation Procedures

Overall, we find that the June 30, 2019 actuarial valuation procedures applied in the reporting of the funded status and the determination of the funding requirements based on the current funding policies and adopted assumptions are technically reasonable and conform to the ASOPs. Using the same actuarial assumptions and methods, census data, and plan provisions from the June 30, 2019 valuation report, we independently calculated the valuation results below:

- Present value for future benefits
- Actuarial Liability
- Unfunded Actuarial Liability
- Normal cost
- Contributions as a dollar amount and as a percentage of payroll

Valuation Results

Our independent replication of the June 30, 2019 actuarial valuation found no material difference in calculations of plan liabilities, normal costs, Actuarial Value of Assets, and overall contribution rates from the amounts calculated by Segal based on the adopted assumptions and methods. There is an industry standard when performing audits that results should be within 5.0% to allow for differences in valuation systems and differences in methodology approaches.

Our replication of the measures of retirement plan liabilities and costs is summarized in Table II-1 below. We note that all results are within 5% of Segal's calculation. Consequently, we conclude that the valuation prepared by Segal for LACERS as of June 30, 2019 is reasonable and can be relied on by the Board for its intended purpose.

Table II-1
Retirement Plan Valuation Results as of June 30, 2019

	Segal	Cheiron	Ratio
Present Value of Future Benefits	$ 23,735,641,420	$ 23,733,525,494	100%
Actuarial Liability	$ 20,793,421,143	$ 20,779,001,429	100%
Valuation Value of Assets (VVA)	14,818,564,427	14,818,564,427	100%
Unfunded Actuarial Liability (UAL)	$ 5,974,856,716	$ 5,960,437,002	100%
Funded Ratio on VVA basis	71.3%	71.3%	100%
Contribution Rate by Component (BOY)			
Net Employer Normal Cost	6.23%	6.07%	97%
UAL Payment Rate	18.33%	18.26%	100%
Total Employer Contribution	24.56%	24.34%	99%

SECTION II – REVIEW OF RETIREMENT VALUATION RESULTS

To confirm that the match is close across all Tiers, we show a comparison of the Retirement Plan liabilities for each Tier below in Tables II-2 and II-3. We note that all results are within the 5% threshold for the total Retirement Plan, Tier 1, and Tier 1 Enhanced Benefits for APO.

Table II-2
Retirement Plan Liabilities as of June 30, 2019
($ in millions)

	Tier 1			Tier 1 APO Enhanced Benefits		
	Segal	Cheiron	Ratio	Segal	Cheiron	Ratio
Present Value of Future Benefits						
Inactive members	$ 12,061.5	$ 12,054.9	100%	$ 69.2	$ 69.0	100%
Active members	10,670.3	10,682.3	100%	321.4	322.7	100%
Total	$ 22,731.9	$ 22,737.2	100%	$ 390.6	$ 391.7	100%
Actuarial Liability						
Inactive members	$ 12,061.5	$ 12,054.9	100%	$ 69.2	$ 69.0	100%
Active members	8,338.5	8,343.9	100%	239.4	242.7	101%
Total	$ 20,400.0	$ 20,398.8	100%	$ 308.6	$ 311.7	101%
Present Value of Future Normal Cost	$ 2,331.9	$ 2,338.4	100%	$ 81.9	$ 80.0	98%

Table II-3
Retirement Plan Liabilities as of June 30, 2019
($ in millions)

	Tier 3			Total Retirement Plan		
	Segal	Cheiron	Ratio	Segal	Cheiron	Ratio
Present Value of Future Benefits						
Inactive members	$ 6.0	$ 6.0	100%	$ 12,136.7	$ 12,129.9	100%
Active members	607.2	598.6	99%	11,598.9	11,603.6	100%
Total	$ 613.2	$ 604.6	99%	$ 23,735.6	$ 23,733.5	100%
Actuarial Liability						
Inactive members	$ 6.0	$ 6.0	100%	$ 12,136.7	$ 12,129.9	100%
Active members	78.8	62.5	79%	8,656.7	8,649.1	100%
Total	$ 84.8	$ 68.5	81%	$ 20,793.4	$ 20,779.0	100%
Present Value of Future Normal Cost	$ 528.4	$ 536.1	101%	$ 2,942.2	$ 2,954.5	100%

We note that the calculation of the Tier 3 Actuarial Liability for active members is 21% lower than Segal's calculation. It is not unusual for there to be differences in the allocation of the total present value of benefits into past and future amounts (the Actuarial Liability and present value of future normal costs, respectively) due to the different valuation systems and minor differences

SECTION II – REVIEW OF RETIREMENT VALUATION RESULTS

in programming, particularly for groups like Tier 3 where the members have low levels of service. We are not concerned with these differences if they offset each other (where Cheiron's present value of future normal cost for Tier 3 shown in Table II-3 above are higher than Segal's, but our Actuarial Liability for Tier 3 in Table II-3 are lower) and when the projected value of benefits match is so close (within 1%), as it is in our analysis.

Our replication of the employer contribution amounts and rates by Tier is shown below in Table II-4. All calculations are assuming contributions are payable at the beginning of the year. We note that the total employer rates by Tier are all within the 5% threshold.

Table II-4
Retirement Plan Contribution Comparison as of June 30, 2019
($ in millions)

	Segal		Cheiron		Ratio	
	Amount	% of Payroll	Amount	% of Payroll	Amount	% of Payroll
Total Retirement Plan						
Total Normal Cost	$ 375.0	16.85%	$ 371.8	16.69%	99%	99%
Expected Employee Contributions	236.3	10.62%	236.5	10.62%	100%	100%
Employer Normal Cost	$ 138.6	6.23%	$ 135.2	6.07%	97%	97%
UAL Payment Rate	407.9	18.33%	406.7	18.26%	100%	100%
Total Employer Contribution	$ 546.5	24.56%	$ 542.0	24.34%	99%	99%
Tier 1						
Total Normal Cost	$ 324.8	17.30%	$ 320.6	17.07%	99%	99%
Expected Employee Contributions	199.4	10.63%	199.6	10.62%	100%	100%
Employer Normal Cost	$ 125.4	6.67%	$ 121.1	6.44%	97%	97%
UAL Payment Rate	344.1	18.33%	343.2	18.26%	100%	100%
Total Employer Contribution	$ 469.5	25.00%	$ 464.2	24.71%	99%	99%
Tier 3						
Total Normal Cost	$ 50.2	14.42%	$ 51.1	14.69%	102%	102%
Expected Employee Contributions	36.9	10.62%	37.0	10.62%	100%	100%
Employer Normal Cost	$ 13.2	3.80%	$ 14.2	4.07%	107%	107%
UAL Payment Rate	63.8	18.33%	63.6	18.26%	100%	100%
Total Employer Contribution	$ 77.0	22.13%	$ 77.8	22.34%	101%	101%

Census Data

The LACERS Staff and Segal provided us with the data that was used in the June 30, 2019 actuarial valuation. We reviewed the information in both files and find that the data used in the valuation is valid, complete, and contains the necessary data elements for purposes of performing the actuarial valuation of LACERS.

We also find that the methods and requirements provided in the Actuarial Standard of Practice No. 23 *Data Quality* have been adhered to, to the extent applicable for the valuation of pension plan obligations.

In Table II-5 below and Table II-6 on the following page, we compare the raw June 30, 2019 data file provided by LACERS to Segal's processed data file and found only very minor differences between the files.

Table II-5
Retirement Plan Active Member Data as of June 30, 2019

	Segal	Cheiron	Ratio
Tier 1 Active Members			
Total Number	21,226	21,226	100.0%
Average Age	49.6	49.6	99.9%
Average Service	16.2	16.2	100.0%
Projected Compensation	$1,877,504,719	$1,878,856,066	100.1%
Average Compensation	$88,453	$88,517	100.1%
Tier 3 Active Members			
Total Number	5,406	5,406	100.0%
Average Age	37.0	37.0	100.1%
Average Service	1.6	1.6	101.3%
Projected Compensation	$347,908,112	$348,124,794	100.1%
Average Compensation	$64,356	$64,396	100.1%

SECTION II – REVIEW OF RETIREMENT VALUATION RESULTS

Table II-6
Retirement Plan Data Summary as of June 30, 2019

	Segal	Cheiron	Ratio
Active Members			
Total Number	26,632	26,632	100.0%
Average Age	47.0	47.0	100.0%
Average Service	13.2	13.2	100.3%
Projected Compensation	$2,225,412,831	$2,226,980,860	100.1%
Average Compensation	$83,562	$83,620	100.1%
Account Balances	$2,266,740,475	$2,268,676,978	100.1%
Service Retirees			
Total Number	15,165	15,168	100.0%
Average Age	71.9	71.8	99.9%
Average Monthly Benefit	$4,489	$4,493	100.1%
Disabled Retirees			
Total Number	888	888	100.0%
Average Age	67.1	67.0	99.9%
Average Monthly Benefit	$1,762	$1,762	100.0%
Beneficiaries			
Total Number	3,981	3,980	100.0%
Average Age	76.3	76.3	100.0%
Average Monthly Benefit	$2,342	$2,341	100.0%
Vested Terminated Members			
Total Number	8,588	8,647	100.7%
Average Age	44.5	44.5	100.0%

Plan Provisions

We compared the summary of plan provisions shown in Section 4, Exhibit II of Segal's June 30, 2019 Valuation Report to the benefits in Division 4, Chapter 10 of the Los Angeles City Administrative Code. In general, the plan provisions shown in Segal's exhibit match what is in the Administrative Code, and based on our close match of the Segal liabilities as part of our parallel valuation, we conclude that Segal has appropriately reflected these provisions in the actuarial valuation.

SECTION III – REVIEW OF HEALTH VALUATION RESULTS

Valuation Procedures

Overall, we find that the June 30, 2019 actuarial valuation procedures applied in the reporting of the funded status and the determination of the funding requirements based on the current funding policies and adopted assumptions are technically reasonable and conform to the ASOPs. This is based on our review of: the valuation report, the census data used in the valuation, and our parallel valuation using the information described above.

Valuation Results

Our independent replication of the June 30, 2019 actuarial valuation found no material difference in calculations of plan liabilities, normal costs, Actuarial Value of Assets, and overall contribution rates from the amounts calculated by Segal based on the adopted assumptions and methods. We note that all results are within 5% of Segal's calculation. See Table III-1 below. Consequently, we conclude that the valuation prepared by Segal for LACERS as of June 30, 2019 is reasonable and can be relied on by the Board for its intended purpose.

Table III-1
OPEB Plan Valuation Results as of June 30, 2019

	Segal	Cheiron	Ratio
Present Value of Future Benefits	$ 3,981,517,502	$ 3,988,484,334	100%
Actuarial Liability	$ 3,334,298,549	$ 3,342,852,146	100%
Valuation Value of Assets (VVA)	2,812,661,894	2,812,661,894	100%
Unfunded Actuarial Liability (UAL)	$ 521,636,655	$ 530,190,252	102%
Funded Ratio on VVA basis	84.4%	84.1%	100%
Contribution by Component			
Dollar Amount (BOY)			
Net Employer Normal Cost	$ 76,422,769	$ 77,742,638	102%
UAL Payment Rate	23,236,922	23,236,922	100%
Total Employer Contribution	$ 99,659,691	$ 100,979,560	101%
Rate as % of Payroll (BOY)			
Net Employer Normal Cost	3.43%	3.49%	102%
UAL Payment Rate	1.04%	1.04%	100%
Total Employer Contribution	4.47%	4.53%	101%

The OPEB plan benefits are the same for members in Tier 1 and Tier 3, and thus we have not shown the detail by Tier as was shown for the retirement plan benefits.

Census Data

The LACERS Staff and Segal provided us with the data that was used in the June 30, 2019 actuarial valuation. We reviewed the information in both files and find that the data used in the valuation is valid, complete, and contains the necessary data elements for purposes of performing the actuarial valuation of LACERS.

We also find that the methods and requirements provided in the Actuarial Standard of Practice No. 23 *Data Quality* have been adhered to, to the extent applicable for the valuation of other postemployment benefit obligations.

In Table III-5 below, we compare the raw June 30, 2019 inactive data file provided by LACERS to Segal's processed data file and found only very minor differences between the files. The active member data is the same as the retirement plan data.

Table III-2
OPEB Inactive Data Summary as of June 30, 2019

	Segal	Cheiron	Ratio
Retirees			
Number of Non-Disabled	13,609	13,546	99.5%
Number of Disabled	334	330	98.8%
Total Number	13,943	13,876	99.5%
Average Age	71.9	71.9	100.0%
Beneficiaries			
Total Number	1,848	1,809	97.9%
Average Age	79.6	79.6	99.9%
Vested Terminated Members			
Total Number	1,474	1,528	103.7%
Average Age	50.9	50.9	100.1%

Segal excludes 54 deferred disabled members from their inactive member count of 1,474 at June 30, 2019 on page 17 of the OPEB valuation report. Deferred disableds do not receive a retiree health subsidy until age 55. The 54 are identified when they reconcile to the pension data on page 20 of the report. Segal assured us that they include their deferred benefit in the valuation. We suggest Segal consider whether the counts on page 17 should be adjusted in future reports to reflect these deferred members if they are being included in the valuation liabilities.

Also on page 20 of the OPEB valuation report, there are members for each valuation status that are "eligible for future health benefits" that are subtracted from the pension valuation counts to arrive at the health valuation counts. We recommend that Segal make a similar consideration as to whether these members should be included in the status counts if a liability is valued for these members.

SECTION III – REVIEW OF HEALTH VALUATION RESULTS

There are several footnotes in the OPEB and GASB 74 report documenting that "other losses include the recognition for the first time of the liability for about 250 retirees receiving a premium reimbursement for health plans not sponsored by LACERS. Data for those retirees are not included in the regular retiree membership data as members receiving a medical subsidy from LACERS, and were provided separately for the first time for this valuation." We recommend Segal clarify whether this is specifically referring to the Medical Premium Reimbursement Program (MPRP), which does receive annual mention regarding Medicare Part B premium reimbursement. We also believe it would be helpful if Segal indicated how much of the Chart 2, row 8, $38,443,686 in other losses is attributable to this first time update. Segal indicated the retiree counts in the current report included this group of about 250 members.

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

Demographic Assumptions

The June 30, 2019 actuarial valuation was based on the assumptions adopted by the LACERS Board, based on recommendations made by Segal in the actuarial experience study covering the three-year period ending June 30, 2017.

Mortality

Segal recommended that LACERS adopt a new approach for developing mortality assumptions based on the generational projection of mortality improvements, which is step #4 in the building blocks for developing mortality assumptions typically used by most actuaries.

1. Select a standard mortality table based on experience most closely matching the anticipated experience of the System.

2. Compare the actual experience of the System to that predicted by the selected standard table for the period of the experience study.

3. Adjust the standard table, either fully or partially, depending on the level of credibility for the System's experience. This adjusted table is called the base table.

4. Select an appropriate standard mortality improvement projection scale and apply it to the base table.

We strongly support the recommended change to the generational mortality approach. However, we have issues with the application of steps #1-3 in Segal's experience study.

Benefit vs. Headcount-Weighted

Our issues with steps #1 and #2 are related, and have to do with the fact that mortality studies in the U.S. have consistently shown that higher income individuals have longer life expectancies than lower income individuals. Because higher income individuals also typically have higher pension benefit amounts, it is important for a pension plan to use assumptions that are weighted to reflect the impact on liability. Otherwise, the mortality assumptions could accurately predict the number of deaths at each age, but still underestimate the liabilities, if the higher-benefit members are outliving the lower-benefit members.

Segal briefly mentioned the benefit-weighted approach in their experience study report and stated that the "RP-2014 benefit-weighted mortality tables were prepared without any data from public and multi-employer pension plans" as their justification for not using the standard RP-2014 Tables, which are benefit-weighted. However, the headcount-weighted RP-2014 Tables were also developed without any data from public and multi-employer pension plans.

The report published by the Retirement Plans Experience Committee (RPEC) that accompanied the release of the RP-2014 tables clearly states, "*For the measurement of most pension obligations, tables weighted by benefit amount generally produce the most appropriate results.*"

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

The report also describes a number of applications in which headcount-weighted tables may produce more accurate results, including estimates of average age at death, projections of retirement populations, and the measurement of OPEB plan obligations; the list of exceptions did not include the measurement of liabilities in traditional pay-related defined benefit plans.

One reason that RPEC recommends the use of the benefit-weighted tables for pension applications is that the behavior of the two tables are quite different: the mortality rates for the headcount-weighted tables are considerably higher at earlier ages, but gradually converge with the benefit-weighted rates at the highest ages. Using a headcount-weighted table will tend to overstate mortality rates in the early years of retirement, and understate it in later years, assuming the overall actual-to-expected ratio is close to 100% based on the number of deaths. Unless Segal has sufficient evidence to indicate that the pattern of mortality for LACERS looks closer to the headcount-weighted tables (measured on a liability-weighted basis), we believe the default should be to use a benefit-weighted table when a choice between such tables is available. Furthermore, in our audit of Segal's 2011 Experience Study, we had made the recommendation to consider examining the mortality experience weighted by benefit amounts rather than just participant counts for future studies.

The impact of using the standard benefit-weighted RP-2014 Annuitant and Employee Mortality Tables projected generationally with the MP-2017 improvement scale on the retirement plan would increase the Actuarial Liability by about $254 million, and the funded ratio would decrease from 71.3% to 70.5%. In addition, the employer contribution rate for the retirement plan would increase by approximately 1.0% of payroll.

We commend Segal for highlighting longevity risk as a primary risk in their new Risk Assessment section of their June 30, 2019 actuarial valuation report. They recognized that longevity risk "can be reduced by using tables appropriate for the Plan (public experience tables) that are weighted by benefit levels…" But subsequently, in their Risk Assessment report published in February 2020, they say that "it is premature to estimate the impact of applying these new mortality tables (SOA's Pub-2010) on employer contribution rates until we perform the next triennial experience study." The new Actuarial Standard of Practice (ASOP) No. 51 specifically addresses sensitivity testing, a process for measuring the impact of a change in an actuarial assumption, as a method for assessing risk. We note that Segal themselves included a sensitivity test related to the use of benefit-weighted mortality tables in their experience study report.

We disagree that providing a cost estimate of the impact of the newly released Society of Actuaries' public retirement plan mortality tables (Pub-2010) requires a full experience analysis, especially within the context of ASOP No. 51 and Segal's stand-alone Risk Assessment report. The SOA developed separate mortality tables based on whether the members were classified as general, safety, or teachers and are income-dependent (median income levels for general males and females are $21,239 and $11,872, respectively) and gender-based. In our professional judgment, using the General Above-Median mortality tables as a proxy for sensitivity testing is reasonable, given the nature of the System's participants and the average annual pension benefit for healthy annuitants is $48,500 (more than double the median for male retirees only).

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

The impact of using Pub-2010 General Above-Median group of mortality tables, projected generationally with the MP-2019 improvement scale (the most recent projection scale, released in the fall of 2019) would increase the Actuarial Liability by approximately $519 million, and the funded ratio would decrease from 71.3% to 69.6%. In addition, the employer contribution rate for the retirement plan would increase by approximately 2.0% of payroll from the June 30, 2019 valuation results.

Based on the results under these two different sets of mortality tables – one correlated to LACERS' current headcount-weighted tables, and one based on public sector pension plan data for General members with a similar income profile – it is reasonable to conclude that a 1.0% to 2.0% of pay increase in the LACERS' employer contribution rate could result from moving from headcount-weighted to benefit-weighted mortality tables. The actual impact on the retirement plan will depend on LACERS' own mortality experience during the next experience study period.

Credibility

Very few pension plans have sufficient experience to develop their own mortality tables. Most plans instead adjust a standard table (step #3) to provide a reasonable match their own experience. However, with approximately 1000 deaths necessary for full credibility (defined by a 90% probability that the observed rate is within 5% of the true rate) and actual mortality rates quite low at most ages, many plans lack sufficient data to perform even a full adjustment to a standard table (i.e., adjust the tables so the actual-to-expected ratio based on the plan's data is close or equal to 100%).

For the pre-retirement mortality assumption, Segal recommended a 90% adjustment to the Headcount-Weighted RP-2014 Employee Mortality Table without showing any experience data and without substantiating the credibility needed to perform that adjustment. Typically, when there is very little actual experience, which is usually the case with active member mortality experience, significant adjustments to the standard table are not made. For future reports, we suggest that Segal provide the active mortality experience data and consider the credibility of the data before making any adjustments to the standard table.

Optional Forms

Segal provided a letter on July 17, 2019 with their recommendation for determining actuarial assumptions for optional forms and annuity benefits and we concur that their approach is reasonable. Their recommendation is to use a static table with projected mortality improvement for 15 years, representing the approximate duration for active members expected to retire in the next three years based on the 2018 valuation data.

Another option is to develop factors using the full generationally-projected mortality tables, based on those computed for a member expected to retire at the mid-point of the time period to which the factors are expected to be used. This option is sometimes limited, however, by the constraints of the Plan's benefit administration software.

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

Rates of Reciprocity

As part of their last experience review, Segal recommended maintaining the assumption that 5% of inactive vested members will go on to be covered by a reciprocal retirement system. These assumptions are somewhat lower than the rates of reciprocity we have seen at other California systems.

Segal noted that they reviewed all the inactive member data and that approximately 4% were reported as being covered by a reciprocal system.

However, for many plans we work with, members do not report that they have established reciprocity with another system until just prior to retirement. Therefore, we generally request that the system provide us with the new retirees who have retired from inactive vested status during the study period, and determine what percentage of those individuals retired from a reciprocal system, rather than just looking at the percentage of current inactive vested members with reciprocity. In addition, we suggest that Segal review the members who terminated more recently (i.e., during the last two previous experience study period) to see if the experience differs from that of the entire inactive vested population.

We recommend at the time of the next experience study that Segal analyze the reciprocity assumption based on new retirements and recent terminations, instead of basing the assumption on the total inactive vested cohort.

Other Demographic Assumptions

We believe the analysis and assumptions proposed by Segal for the other demographic assumptions – including retirement and termination rates, merit and promotional pay increases, retirement age for inactive vested members, percentage married/domestic partner, and assumed spouse age differences – are reasonable based on the information presented, and consistent with the methods and assumptions we have seen used at other systems.

Similar to our recommendation in the June 30, 2012 actuarial valuation audit, we maintain that Segal should disclose the number of exposures, actual and expected decrements, and the actual-to-expected (A/E) ratios for each of the demographic assumptions. In addition to giving a reviewer the information necessary to evaluate the proposed assumptions, providing this information will also allow better assessment of what credibility to give the observed experience versus the rates developed based on the historical experience.

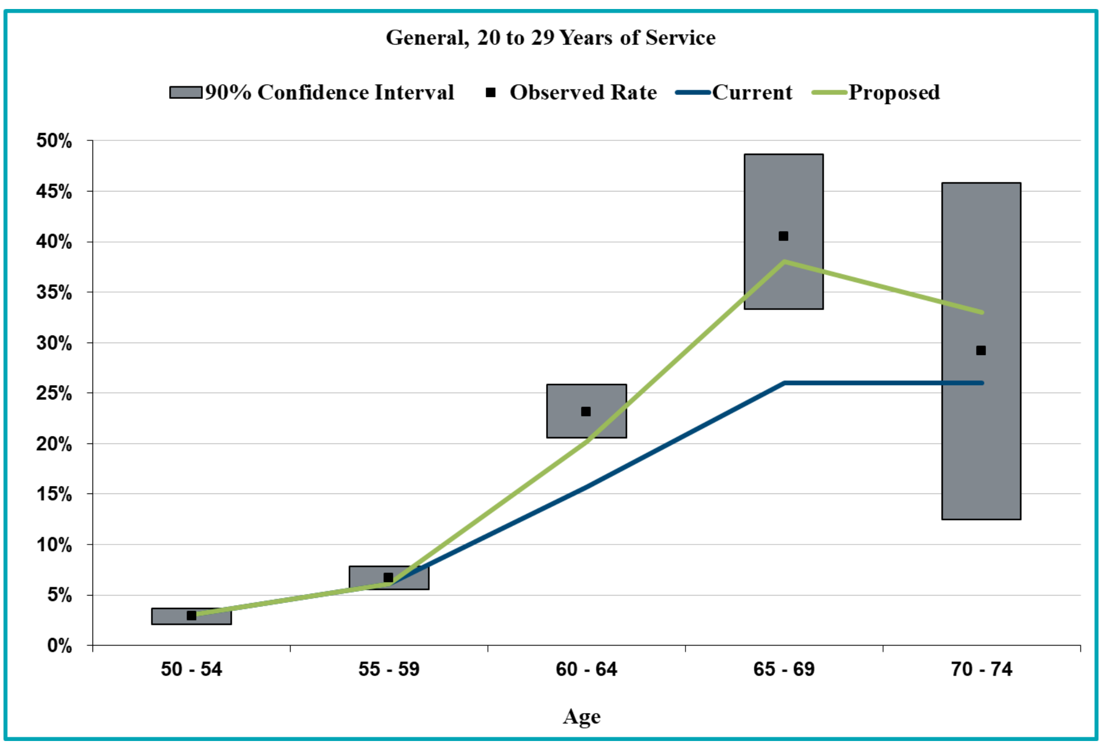
On the next page, we show an example of a chart that illustrates the results of a demographic assumption analysis. In this example, the actual retirement experience for general members who are eligible to retire with between 20 to 29 years of service is shown. Generally, the closer the actual-to-expected ratio is to 100%, the closer the assumptions align with the experience of the plan and are better predictors of future behavior.

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

With the proposed assumption change, the number of assumed retirements increased from 268 to 315, closer to the actual number of retirements that was 343. The proposed assumption changes resulted in decreasing the A/E ratio for this group from 128% to 109%.

General, 20 to 29 Years of Service						
		Retirements			Actual to Expected Ratios	
Age	Exposures	Actual	Current	Proposed	Current	Proposed
50 - 54	1,316	38	39	40	96%	95%
55 - 59	1,329	89	82	82	109%	109%
60 - 64	709	164	111	143	147%	115%
65 - 69	111	45	29	42	156%	107%
70 - 74	24	7	6	8	112%	88%
Total	**3,489**	**343**	**268**	**315**	**128%**	**109%**
R-squared			**93%**	**98%**		

We also suggest performing a more in-depth analysis of retirement, termination, mortality, and disability incidence by developing confidence intervals for age or service ranges. In the example below, 90% confidence intervals are calculated, which represents the range within which the true decrement rate during an experience study period falls with 90% confidence. (If there is insufficient data to calculate a confidence interval, the confidence interval is shown as the entire range of the graph.) If the current assumption is outside the 90% confidence interval of the observed experience, it is a generally a good indicator that a change to the assumption should be considered (i.e. increasing the retirement rates for ages 60-69).



Economic Assumptions

Overall, the economic assumptions proposed in Segal's review represent a reasonable set of assumptions. In particular, we agree with Segal's recommendation to reduce the assumed rate of price inflation from 3.00% to 2.75%, and to reduce the investment return assumption from 7.25% to 7.00%, net of investment and administrative expenses. However, the decision to maintain the 7.25% assumed rate of return and 3.00% inflation rate are also reasonable. We encourage the Board and Segal to continue to monitor these assumptions since the current market environment and peer group comparisons with other California systems show support for lowering these assumptions.

We have comments, however, on the "risk adjustment" that Segal used in developing their return recommendation, as well as several other aspects of the economic assumptions.

Risk Adjustment

In their experience study report, Segal spends a significant amount of time discussing the concept of a "risk adjustment" – also referred to as a margin for adverse deviation. The following language is from their experience study report (page 16):

> *In our model, the confidence level associated with a particular risk adjustment represents the relative likelihood that future investment earnings would equal or exceed the assumed earnings over a 15-year period on an expected value basis.*

In a footnote, they explain that the expected value basis means that:

> *If a retirement system uses the expected **arithmetic** average return as the discount rate in the funding valuation, that retirement system is expected to have no surplus or asset shortfall relative to its expected obligations assuming all actuarial assumptions are met in the future.*

Another approach actuaries use in defining a "confidence level" answers the question: what is the likelihood the investment return will exceed the assumed return, when compounded over a given period of time? This approach is related to the average **geometric** return (rather than the average **arithmetic** return), which will always be lower than the arithmetic average. Both approaches are discussed in the applicable Actuarial Standards of Practice.

In the most recent experience study, Segal's "confidence level" model provided LACERS with a 58% likelihood that the arithmetic average investment return will exceed the recommended assumption of 7.00% over a 15-year period. We performed our own modeling of the confidence level using the geometric return approach and the sample of investment consultants that Segal used in developing their recommendations. We measured a 49% likelihood of achieving the 7.00% return after adjusting these returns for the 2.75% inflation assumption recommended by Segal and if the returns were reduced by 0.40% for the investment and administrative expenses identified by Segal.

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

To update this analysis, we modeled the confidence level based on NEPC's 2019 capital market assumptions, the target asset allocation adopted on April 10, 2018, and LACERS' assumed rate of return of 7.25% and 3.00% inflation assumption. We measured a 50% likelihood of achieving the current assumed return of 7.25%, net of administrative and investment expenses.

Investment Expenses

A frequent assumption used in setting return assumptions is that the additional returns earned due to active management will offset the higher level of expenses associated with active management. Instead of this approach, Segal assumes that additional expenses for active management simply reduce the return, which is a more conservative assumption but implies that – all other things being equal – Segal's model would result in a higher recommended return assumption if the Board were invested passively instead of using active managers. While there is much debate about this question among investment professionals, we prefer to remain neutral, assuming no advantage or disadvantage to active management.

Segal did note that only 1/3 of the investment expenses, approximately eight basis points, in 2017 were paid for expenses associated with active management. We note that the slight conservatism included in this approach may enhance the likelihood that the investment return assumption could be achieved on a compound basis, yet not enough to offset the impact from the risk adjustment issue identified above.

Inflation

We believe that both Segal's recommendation to move to a 2.75% inflation assumption and the Board's decision to maintain a 3.00% assumption represent a reasonable long-term assumption. However, we note that NEPC's inflation assumption for both the short-term (2.25%) and long- term (2.75%), as well as the inflation forecasts used by Social Security in their 2019 report (2.60%) and derived from 30-year Treasury bonds as of February 2020 (1.68%) are all still below the current inflation assumption of 3.00%.

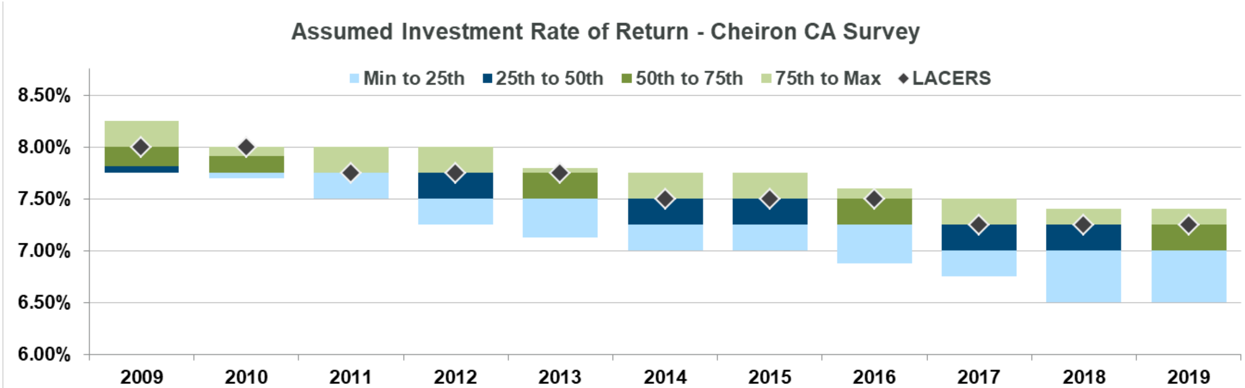
While we understand that large and sudden changes in long-term assumptions can be disruptive to the employers and members, and we acknowledge that a 3.00% inflation assumption still represents a reasonable long-term expectation given historical rates, we recommend that Segal and the Board continue to monitor this assumption and consider further reductions if market-based inflation expectations remain low.

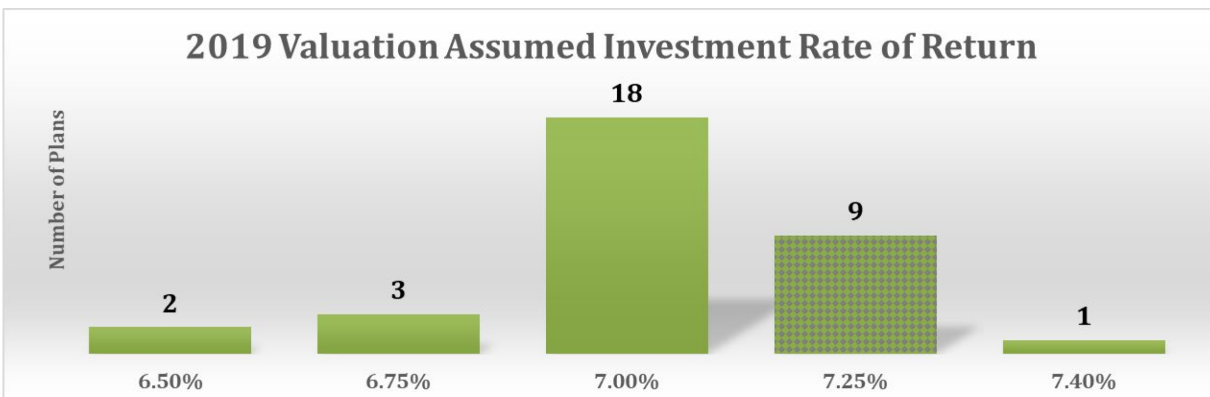
Comparison with Other California Public Retirement Systems

Each System has a unique asset allocation, which is the main driver in determining the portfolio's expected rate of investment return, along with the investment consultants' capital market assumptions for the respective asset classes. However, we would like to point out that there has been a significant trend over the last decade of public pension systems lowering their investment rate of return.

SECTION IV – REVIEW OF ACTUARIAL ASSUMPTIONS

The graphs below show distribution of assumed investment rate of return for a sample of California public pension systems and the trend of lowering the assumed rate of return.





The median investment rate of return for most of the California pension systems is now 7.00%.

Other Economic Assumptions

We believe the analysis and assumptions proposed by Segal for the other economic assumptions – including "across the board" real pay increases, amortization payment growth, COLA growth, and crediting rate for employee contributions – are reasonable based on the information presented, and consistent with the methods and assumptions we have seen used at other systems.

Actuarial Methods

Actuarial methods relate to the application of actuarial assumptions in the determination of Plan liabilities and contributions. These methods include the actuarial cost method, amortization policy, actuarial asset smoothing, and cost-sharing methodologies. The questions guiding our review of the actuarial methods were the following:

- Are the methods acceptable and appropriate for the intended purpose?
- Do the methods comply with relevant accounting and actuarial standards?

Actuarial Cost Method

The individual Entry Age Actuarial Cost Method is used in the June 30, 2019 actuarial valuation. Under this method, the expected cost of benefits for each individual member is allocated over that member's career as a level percentage of that member's expected salary. The normal cost for the plan is the sum of the individual normal costs calculated for each member. We concur with this methodology and note that it is a "Model Practice" based on the guidance issued by the California Actuarial Advisory Panel (CAAP), and a "Best Practice" based on guidance issued by the Government Finance Officers Association. Segal has also applied this method in a manner that complies with the disclosure requirements under GASB Statements 67 and 68.

Asset Smoothing Method

The Actuarial (or smoothed) Value of Assets is determined using a seven-year period, for investment gains and losses. The Actuarial Value of Assets is limited by a 40% corridor around the Market Value of Assets and we have confirmed that the Segal report applies the actuarial smoothing method as described.

Most other public plans we serve use a five-year smoothing period and incorporate either a 20% corridor below and above the Market Value of Assets or do not apply a corridor. We performed stochastic projections of funded ratios and employer contribution rates using both LACERS asset smoothing method and a five-year smoothing period with a 20% corridor. There was no measurable difference in the results between the two asset smoothing methods.

In our opinion, the method used by LACERS satisfies the Actuarial Standard of Practice, which governs asset valuation methods (ASOP No. 44), which requires that the actuarial asset value should fall within a "reasonable range around the corresponding market value" and that differences between the actuarial and the market value should be "recognized within a reasonable period of time." In fact, the Market Value and Actuarial Value of Assets were within 0.02% as of June 30, 2019.

We commend Segal for including the funded ratio and unfunded liability using both the market value and smoothed value of assets in their report. These disclosures are included in the "Model Disclosure Elements for Actuarial Valuation Reports" adopted by the CAAP.

SECTION V – REVIEW OF ACTUARIAL METHODS

Amortization Policy

The current Amortization Policy for LACERS is a layered amortization policy, with the balance of the unfunded liability as of June 30, 2012 (with the exception of the 2009 ERIP and the two GASB 25/27 layers) amortized as a level percentage of payroll over a closed 30-year period (23 years remaining as of June 30, 2019). On or after June 30, 2004 each subsequent year's unfunded liability attributable to experience gains or losses is amortized as a level percentage of payroll over a new closed 15-year period, while assumption or method changes are amortized over separate 20-year periods. Plan amendments are amortized over closed 15-year periods and future early retirement incentive programs will be amortized over a period of up to five years.

We have confirmed that the Segal report applies the amortization method as described. This amortization method is in accordance with funding policy guidance issued by the CAAP, GFOA, and the Conference of Consulting Actuaries Public Plans Community.

We commend Segal for calculating and disclosing what is known as the "single equivalent amortization period" for the amortization schedule (about 20 years as of June 30, 2019). This provides the reader with an estimate of the "average" amortization period, and represents the length of time that would be required to amortize the overall UAL if the current UAL payment rate were held constant.

Medical Trends

We recommend a longer grading period for the medical trends to reach the ultimate level such as those that can be developed using the Getzen Model of Long-Run Medical Cost Trends published by the Society of Actuaries. A parameterized model where initial trends reflect short-term plan specific expectations and longer-term trends are based on economic assumptions provides a more dynamic assessment than survey data. The actuary provides input on the long-term model parameters including inflation, real per capita GDP growth, excess medical cost growth, and capacity constraints on health costs with respect to GDP. Longer grading periods would most likely increase the accrued liability and normal costs.

SECTION VI – CONTENTS OF REPORTS

Contents of the Actuarial Valuation Reports

As noted in the Executive Summary, one of the objectives of the audit is to determine whether the information being provided to LACERS is comprehensive, and includes the information required to assess the present and future financial status of the Plans.

We find the actuarial valuation report is comprehensive and provides the information required to assess the present financial status of the Plan. In particular, the report is in compliance with Actuarial Standards of Practice with respect to the disclosures required under the relevant standards, including ASOP 4 (Measuring Pension Obligations), ASOP 6 (Measuring Retiree Group Benefits Obligations), ASOP 27 (Selection of Economic Assumptions), ASOP 35 (Selection of Demographic and Other Noneconomic Assumptions), ASOP 41 (Actuarial Communications), and ASOP 44 (Selection and Use of Asset Valuation Methods).

However, we have some recommendations with respect to additional disclosures that could be included which we believe would add value to the valuation report and related documents, in particular in areas that would assist the trustees and other stakeholders in their ability to assess the *future* financial status of the Plan.

Projections

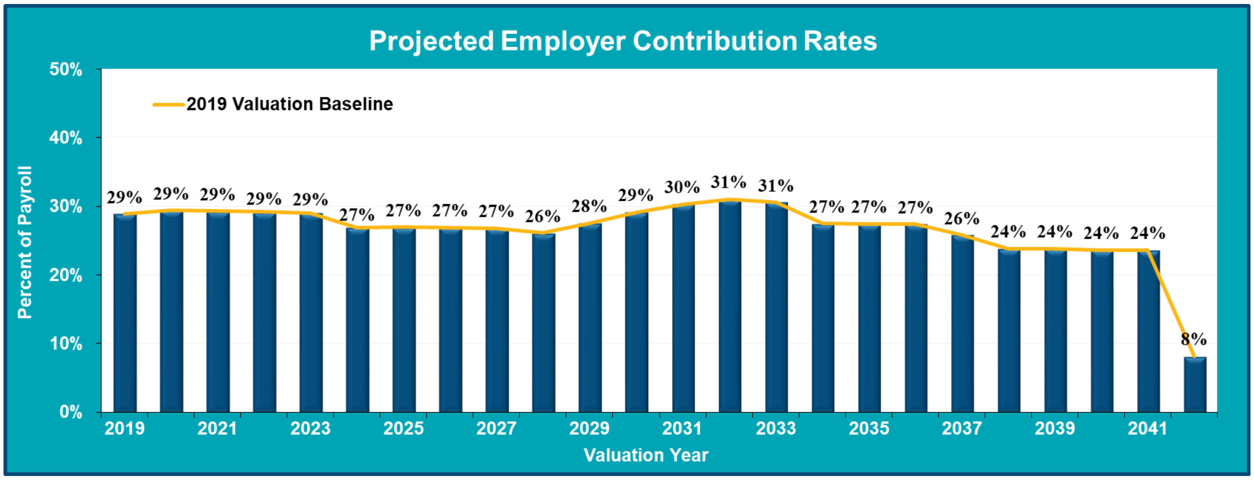
We commend Segal for including projections of the outstanding balance of the Unfunded Actuarial Liability (UAL) and UAL payment projections in the actuarial valuation report. However, under LACERS's asset smoothing method there are gains and losses to be realized over the next six years, even if the investment returns actually achieve the 7.25% target each year, that are not included in Segal's projections.

We believe that the report would be significantly improved and more useful to readers if it contained projections of future employer contributions, the projected UAL (including the phasing-in of deferred gains and losses), and funded ratios. Also, the dynamics of Tier 3 in reducing the employer contribution rate should be of interest to stakeholders. At a minimum, these projections should be based on all assumptions being met.

We note that including deterministic projections directly in the valuation report is a common approach by other firms as well, as can be seen in the valuation reports performed by Milliman for LACERA (https://www.lacera.com/investments/actuarial_reports/actuarial_valuation.pdf), by Gabriel Roeder Smith for the Employees Retirement System of Texas (https://ers.texas.gov/About-ERS/Reports-and-Studies/ERS-Actuarial-Valuation-Reports/2017-ERS-Pension-Valuation-Reports-December-2017.pdf), as well as by Segal for some of their other clients (https://www.trsil.org/sites/default/files/documents/TRS_Annual-Actuarial-Valuation_Final.pdf). We note that these types of projections are included in LACERS's Risk Assessment report dated February 19, 2020, but we suggest that including these types of projections in the valuation report would provide a benefit to the reader by enabling them to have complete information without having to review a second report.

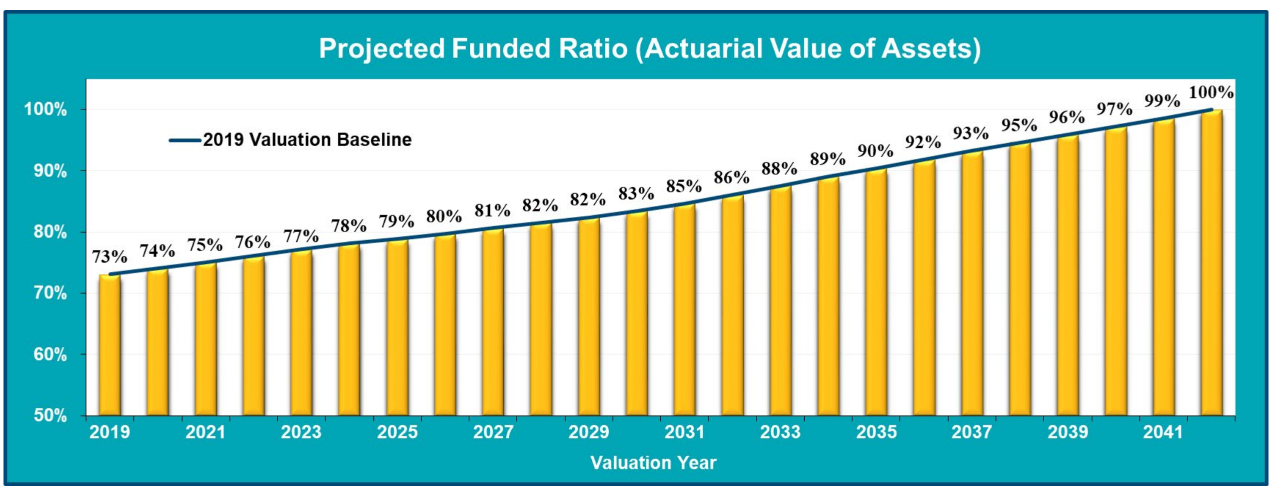
SECTION VI – CONTENTS OF REPORTS

Below we have provided projections for LACERS combined retirement and health plans, based on an assumption that the Plan will earn 7.25% each on the assets.



The contribution projections show the total employer contribution rate over a 23-year period. The employer contribution rate is expected to gradually decrease over the next five years due to net deferred assets gains. The rate decreases in 2024 and 2028 are a result of the 2009 ERIP amendment and 2013 actuarial loss, respectively, being fully paid. The contribution rate begins to increase from 2029 to 2032 due to past actuarial gains for FYE 2014-2017 becoming fully amortized. Starting in 2032, several amortization payments will be fully paid including the 2014, 2017, and 2018 assumption changes and the $4.2 billion UAL as of June 30, 2012 with the 2042 valuation.

The next graph shows a projection of the funded ratio based on the Actuarial Value of Assets.



The projections show gradual funding progress each year and LACERS is expected to be fully funded in 2042, if all actuarial assumptions are met in each future year, including an investment return of 7.25% each year.

SECTION VI – CONTENTS OF REPORTS

Health Valuation Reports

In accordance with ASOP No. 6, the age and gender specific factors provided on page 35 of the OPEB report are used to adjust premiums to develop graded per-capita claim costs. It may be more appropriate to provide the resulting age banded and gender dollar costs by carrier and tier to illustrate the resulting per capita claim cost assumptions made on page 34, instead of providing the average of the calendar 2019 and 2020 premium rates and referring to those as per capita costs. Rather than as an assumption, the actual premium rates for both 2019 and 2020 could be provided elsewhere such as under Summary of Plan to document the source data used from the annual Health Benefits Guides. This would have no impact on the valuation cost results.

With respect to Health Care reform, it is noted on page 38 that the anticipated future excise tax on high cost plans was reflected in the current valuation. We believe it would have been helpful to the readers to have known the dollar impact of this "Cadillac tax" on the current valuation result and when it would first impact LACERS. However, since this tax – as well as the Medical Device and Health Insurance Tax (HIT) – were subsequently repealed in December of 2019, the issue is now moot.

Risk Disclosures

In order to comply with ASOP No. 51, actuaries must both identify and assess risks that "may reasonably be anticipated to significantly affect the plan's future financial condition" (Section 3.2). The identification and measurement of risk can be done in either the valuation report or a separate document, as Segal has done in the Risk Assessment Report, and we commend Segal in their identification of specific risk factors on page 16-17 of this report.

However, in Section 3.4 of ASOP No. 51, several methods – including scenario testing, stress testing, sensitivity testing, and stochastic modeling – are suggested for the actuary to use for assessing risks that have been identified. We note that Segal's Risk Assessment Report only includes two scenario projections, reflecting scenarios where FYE 2020 investment returns are 0% or 14.50%, instead of the assumed 7.25%. Many firms frequently provide assessments using the other suggested methods, including sensitivity testing and stochastic modeling, and we note that Segal also included several of these assessments in their Risk Analysis presentation from 2017. We suggest that Segal consider expanding the disclosures included in their Risk Assessment Report, and have provided some suggested examples in a supplementary document provided to Staff.

APPENDIX A – GLOSSARY OF TERMS

1. **Actuarial Assumptions**

   Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, investment income, and salary increases. Demographic assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

2. **Actuarial Gain (Loss)**

   The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial funding method.

3. **Actuarial Liability**

   The Actuarial Liability is the present value of all benefits accrued as of the valuation date using the methods and assumptions of the valuation. It is also referred to by some actuaries as the "accrued liability" or "actuarial accrued liability."

4. **Actuarial Present Value**

   The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

5. **Actuarial Value of Assets**

   The Actuarial Value of Assets equals the Market Value of Assets adjusted according to the smoothing method. The smoothing method is intended to smooth out the short-term volatility of investment returns in order to stabilize contribution rates and the funded status.

6. **Actuarial Cost Method**

   A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal costs and the Actuarial Liability. It is sometimes referred to as the "actuarial funding method."

APPENDIX A – GLOSSARY OF TERMS

7. Funded Status

The Actuarial Value of Assets divided by the Actuarial Liability. The funded status can also be calculated using the Market Value of Assets.

8. Governmental Accounting Standards Board

The Governmental Accounting Standards Board (GASB) defines the accounting and financial reporting requirements for governmental entities. GASB Statement No. 67 defines the plan accounting and financial reporting for governmental pension plans, and GASB Statement No. 68 defines the employer accounting and financial reporting for participating in a governmental pension plan. GASB Statement No. 74 defines the plan accounting and financial reporting for governmental OPEB plans, and GASB Statement No. 75 defines the employer accounting and financial reporting for participating in a governmental OPEB plan.

9. Market Value of Assets

The fair value of the Plan's assets assuming that all holdings are liquidated on the measurement date.

10. Normal Cost

The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. It is sometimes referred to as "current service cost." Any payment toward the Unfunded Actuarial Liability is not part of the normal cost.

11. Present Value of Projected Benefits

The estimated amount of assets needed today to pay for all benefits promised in the future to current members of the Plan, assuming all actuarial assumptions are met.

12. Present Value of Future Normal Costs

The actuarial present value of retirement association benefits allocated to future years of service.

13. Unfunded Actuarial Liability (UAL)

The difference between the Actuarial Liability and the Actuarial Value of Assets. This is sometimes referred to as the "unfunded accrued liability."

CHEIRON

Classic Values, Innovative Advice

Segal

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BOARD Meeting: 04/28/20
Item VI – D
Attachment 3

April 2, 2020

Mr. Todd Bouey
Assistant General Manager
Los Angeles City Employees' Retirement System
P.O. Box 512218
Los Angeles, CA 90051-0218

**Re: Los Angeles City Employees' Retirement System (LACERS)
Response to Cheiron's Audit Findings on the June 30, 2019 Actuarial Valuation and July 1, 2014 Through June 30, 2017 Triennial Experience Study**

Dear Todd:

Cheiron was contracted by the Board to review the liabilities and the 2020/2021 contribution rates determined in the June 30, 2019 valuations of the Retirement and Retiree Health (OPEB) Plans. They were also contracted to perform a high level review of the most recent July 1, 2014 through June 30, 2017 triennial experience study that the Board used to set the actuarial assumptions applied in the June 30, 2018 and 2019 valuations.

Our overall reaction is that the actuarial audit confirms the accuracy and reasonableness of the actuarial valuation and the experience study. We have prepared the following responses to several of the points raised throughout Cheiron's audit.

Statement of Key Findings and Recommendations from Actuarial Audit

According to Cheiron, "The results reported by Segal can be relied upon, Segal's actuarial valuation report, assumptions and methods comply with Actuarial Standards of Practice (ASOP), and the communication of the actuarial valuation results is complete and reasonable."

Liabilities and Costs

The following are the principal valuation results from Cheiron's audit:

	Segal	Cheiron
Retirement Plan		
Aggregate Beginning of Year Employer Contribution Rate (% of Payroll)	24.56%	24.34%
Funded Ratio	71.3%	71.3%
Retiree Health Plan		
Aggregate Beginning of Year Employer Contribution Rate (% of Payroll)	4.47%	4.53%
Funded Ratio	84.4%	84.1%

Economic Assumptions

Cheiron supports our recommendation in the triennial experience study to reduce the inflation assumption from 3.00% to 2.75% and the discount rate from 7.25% to 7.00%. This is true even though, in the body of their report, they also comment on the “expected arithmetic return” approach we use to set the investment return assumption for LACERS versus the “expected geometric return” approach they use to set the investment return assumption for their clients, both of which are acceptable under the applicable Actuarial Standards of Practice.

On that topic, Cheiron is not doing an “apples-to-apples” comparison when they determine a 49% likelihood of LACERS achieving the 7.00% return after adjusting for the 2.75% inflation assumption under their model. This is because under the geometric approach used by Cheiron for their other California clients, we understand they would not have reduced the expected return calculation by any of the observed 0.28% that Segal included as an allowance for investment expenses.

Benefit-Weighted Mortality Tables

Cheiron strongly suggests that Segal use a benefit-weighted approach to develop the mortality assumption. This is consistent with prior advice provided to LACERS by Segal. Specifically, on page 30 of our July 1, 2014 through June 30, 2017 triennial experience study, for the Retirement Plan we estimated an increase in cost of 3.12% of payroll associated with switching ultimately to benefit-weighted generational RP-2014 mortality tables, and an increase in cost of 1.76% of payroll associated with switching to headcount-weighted generational RP-2014 mortality tables (for an additional increase of 1.36% of payroll under benefit-weighted mortality). As we also indicated in that study, and based on subsequent discussion with LACERS, we would recommend to LACERS to switch to the benefit-weighted generational mortality table when the mortality tables developed based on public sector experience became available. Since the Society of Actuaries published and adopted the Pub-2010 mortality tables in 2019, we are going to recommend those tables in the triennial experience study that is currently in progress.

Based on the results previously provided in the above study, we find Cheiron’s estimated cost increase of 1% to 2% of payroll included in their audit report as the impact of adopting the benefit-weighted mortality tables to be reasonable.

Segal

Proportion of Future Active Members Leaving LACERS to Work for a Reciprocal Employer

In Cheiron's report, they recommend that we "Review the rates of vested terminated members retiring from reciprocal and non-reciprocal status when determining the likelihood of future terminating members establishing reciprocity and the newly terminated employees during the experience study period, rather than just basing the assumption on the percentage of all terminated members reporting reciprocity."

Even though in our experience study report we mentioned that the 5% reciprocity assumption was developed based on all inactive vested members (which was increased with a margin of 1% above the 4% of vested terminated members actually reported with a reciprocal employer), during the study we also looked at the proportion of newly terminated employees who were reported with a reciprocal employer during July 1, 2014 and June 30, 2017 and that proportion came in at less than 1%. We did not use the less than 1% proportion of only newly terminated employees to set this assumption because it may be the case that not all members had yet reported their reciprocal status.

Additional Disclosures on Exposures, Actual and Expected Decrements and Ratios

Cheiron has suggested that we include additional disclosures on exposures, actual and expected decrements and ratios in our triennial experience study report. Since we have already included some of the above disclosures in our triennial experience study, we would take their suggestion to include more disclosures under advisement.

Include Projections of Employer Contribution Rate and Funded Status in Valuation Report

Cheiron suggested that "Segal also include projections of the employer contribution rate and funded status in their report to help the LACERS Board and stakeholders understand the dynamics of their actuarial funding policies and the impact of the new benefit tiers on the future costs of the system." Based on Segal's experience with similar retirement systems and consistent with LACERS' past practice and direction, we have included projections of the employer contribution rate and funded status in a stand-alone Segal work product. Specifically, starting with the June 30, 2019 valuation, some of the sample information provided and cited in Cheiron's audit report has already been included in our Risk Report prepared for LACERS. Furthermore, based on our discussion with the Board when we presented the Risk Report, we are working with LACERS staff to determine what additional stress testing and/or stochastic modeling would be useful for inclusion in future Risk Reports.

As for where and how such risk assessments should be made available to LACERS and its stakeholders, we do not agree with Cheiron's practice of including such extensive risk modeling in the basic actuarial valuation report. For a complex system such as LACERS with many stakeholders looking for different information about the Retirement and Health Plans, we find it more effective to present the funding valuation and the risk assessments in separate reports. The funding valuation determines current funded status and recommends contribution rate requirements based on a point-in-time measure of the assets and the liabilities. In contrast, Segal's Risk Report presents first a detailed review of past experience, followed by assessments and illustrations of potential future experience. Even though these more detailed risk assessments are a relatively new work product, we have already found having a separate report and a separate presentation has led to deeper and more focused discussions of risk than if this information was bundled with the regular actuarial valuation.

Medical Trend Assumptions and Use of the Getzen Model

In Cheiron's report, they recommend "a longer grading period for the medical trends to reach the ultimate level such as those that can be developed using the Getzen Model of Long-Run Medical Cost Trends published by the Society of Actuaries…The actuary provides input on the long-term model parameters including inflation, real per capita GDP growth, excess medical cost growth, and capacity constraints on health costs with respect to GDP."

As alluded to by Cheiron, the model published by the Society of Actuaries (SOA) and used by Cheiron is dependent on additional assumptions in particular about the "year limit" and "share resistance level of GDP", which project at what point the level of health care spending is high enough relative to income that it creates resistance to further increases. We note that in the Technical Manual that accompanies the SOA model, it says that "Both the year and resistance limits are plausible and conceptually sound, yet any specific value chosen for such limits is somewhat arbitrary and speculative". We echo the limitation cited in the Technical Manual but we would be glad to further explore the pros and cons of that alternative model (including the contribution rate impact) if the Board were to authorize such analysis before LACERS chooses the medical trend assumptions before the June 30, 2020 valuation.

Please let us know if you have any questions.

Sincerely,

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

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

DNA/hy

cc: Anne D. Harper, FSA, EA, MAAA
Graham A. Schmidt, ASA, EA, FCA, MAAA
James A. Summers, FSA, MAAA

Segal

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: APRIL 28, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: VI – E**

SUBJECT: **EMERGENCY PURCHASES AND EXPENDITURES FOR COVID-19 AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board approve $17,733.28 of purchases and expenses paid by the emergency Corporate Credit Card for LACERS Business Continuity of Operations Plan caused by the COVID-19 Pandemic.

Executive Summary

On May 12, 2015, the Board approved LACERS to obtain and use a Corporate Credit Card, and delegated authority to the General Manager to determine and monitor its appropriate use (Attachment 1).

The Mayor's "Safer At Home" directive mandated all City staff members to begin telecommuting to the greatest extent possible. In response to this and in the face of a rapidly evolving situation this required LACERS to immediately obtain various equipment and applications to accommodate staff working remotely and ensuring our ability to perform our fundamental fiduciary duties to our Members in the delivery of retirement and health benefits. Pursuant to the procedures established for use of the Corporate Credit Card ("Emergency Card"), acting General Manager Lita Payne activated LACERS Business Continuity Plan, and approved use of the Emergency Card on March 18, 2020. LACERS Chief Accountant secured the needed limits for the three Emergency Cards based on the estimated amounts needed, and the cardholders procured critical items to support LACERS business continuance.

Discussion

The emergency purchases and final expenses paid by the Emergency Cards as of April 2, 2020 are summarized and attached (Attachment 2). Additional purchases and expenses have and may occur in as much as the Mayor's "Safer at Home" Order is still in effect and the COVID-19 situation remains fluid. All cardholders are required to submit invoices and receipts, and Fiscal Management Division verifies the transactions. A report will be made to the Board in May 2020 with any additional Emergency Care expenses. Potentially, costs incurred during the COVID-19 Pandemic may be reimbursable from Federal or State funds contingent upon availability and applicability to LACERS.

Strategic Plan Impact Statement

This action meets the Benefit Delivery Goal by ensuring timely payment of benefits in accordance with the plan documents codified in the Los Angeles Administrative Code.

Prepared By: Mikyong Jang, Departmental Chief Accountant IV

NG/TB/MJ

Attachments: 1. Copy of Board report dated May 12, 2015

2. Summary of Emergency Purchases and Expenses

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Report to Board of Administration

Agenda of: **MAY 12, 2015**

From: Thomas Moutes, General Manager ITEM: **VI-B**

SUBJECT: **AUTHORITY FOR A CORPORATE CREDIT CARD FOR BUSINESS CONTINUITY PURPOSES**

Recommendation:

That the Board authorize LACERS to obtain and use a corporate credit card and delegate authority to the General Manager to determine and monitor its appropriate use.

Discussion:

In further development of the Los Angeles City Employees' Retirement System's (LACERS') Business Continuity Plan (BCP), LACERS is seeking a means by which authorized LACERS personnel can make purchases necessary to support recovery efforts and the re-establishment of vital Member services following a disaster or emergency event. Emergency events requiring implementation of our BCP may range from a small building-specific emergency event to a large-scale regional emergency event forcing the displacement of operations and services. Depending upon the type, duration, and severity of an emergency event, purchases may include items such as computer equipment, office supplies, cell phones, alternate location lease costs if a City facility is unavailable, air travel to alternate locations, lodging for appropriate staff, and other provisions.

Staff looked into the City's Emergency Purchasing Card program as a potential solution to the Department's business continuity planning needs since other City departments will be making use of this program to procure items and supplies during an emergency. However, the Office of the Controller informed staff that the City's Emergency Purchasing Card was implemented generally for first-responder City departments addressing life-safety issues and not for business continuity purposes. Additionally, staff was advised that the City's Emergency Purchasing Cards have a preset purchasing limit of $250,000 and can only be used during an event where the Mayor of the City of Los Angeles has declared a local emergency. During non-Mayoral declared emergencies, other City departments will need to use normal purchasing channels to procure necessary supplies and services. This requires time and layers of approval in order for requests to be processed, delaying the department's ability to re-establish operations and services. Staff determined the City's Emergency Purchasing Card program is not designed to support LACERS' business continuity needs.

Staff recommends securing a corporate credit card from our custodian bank for emergency purposes. This action supports LACERS' on-going objective to increase independence, self-reliance, and take proactive measures to mitigate risks, as well as ensures LACERS is able to perform its fundamental fiduciary duty to its Members of ensuring the delivery of retirement and health benefits in a timely and accurate manner despite a large or small emergency event. Upon receiving authorization from the Board, LACERS will request a corporate credit card through its current custodian bank, Northern Trust Corporation. Northern Trust does not charge annual fees or other credit card fees.

LACERS will establish appropriate internal controls to protect against fraud or misuse of the credit cards which will have a total credit limit of $400,000. The Departmental Chief Accountant or his/her designee from LACERS Fiscal Management Section shall be the corporate credit card administrator ("administrator"). Three (3) staff members from outside Fiscal Management Section shall each be assigned a corporate credit card with the collective credit card limit. During normal operations, the dollar limit of the corporate credit cards will be set at $1.00. Should an emergency event arise requiring its usage, as determined by the General Manager, the administrator shall increase the limit to an appropriate amount, and approve purchases needed to support recovery efforts, pursuant to Charter Section 505, to ensure business continuity. Setting a low dollar threshold allows for the corporate credit cards to be on active status and prevents inappropriate use by the cardholder since only the administrator has the authorization to increase the limit. In the event that the corporate credit card is used, a report will be made by the General Manager to the Board, at the first available Board Meeting following the emergency event, seeking approval after-the-fact for all purchases made in support of recovery efforts and the re-establishment of vital Member services. Once normal operations have been re-established and corporate credit card charges have been paid, the limit shall be reduced back to its original threshold of $1.00.

The corporate credit card payments will be made directly from the LACERS Trust Fund with the custodian bank, and not through the City's Financial Management System. These payments, however, are subject to the Office of the Controller's audit.

<u>Strategic Plan Impact Statement</u>:

This request for authorization to obtain and use a corporate credit card for business continuity purposes conforms to the Benefit Delivery goal of ensuring accurate and timely delivery of Member benefits, to the Organizational goal of maximizing organizational effectiveness and efficiency under the Emergency Preparedness objective of the LACERS Strategic Plan.

This report was prepared by John Koontz, Senior Management Analyst I, and Edeliza Fang, Senior Management Analyst II, of the Administrative Services Division.

DWN:EF:JK

Attachment: Proposed Resolution

ATTACHMENT

AUTHORITY FOR A CORPORATE CREDIT CARD
FOR BUSINESS CONTINUITY PURPOSES

PROPOSED RESOLUTION

WHEREAS, pursuant to the Los Angeles City Charter § 1110 (b), no expenditure shall be made or financial obligations incurred by the department except as authorized by the annual departmental budget appropriation, or appropriations made after the adoption of the annual budget, or as otherwise provided in the Charter;

WHEREAS, LACERS' mission is to establish a trustworthy lifelong relationship with our members, serving them through reliable and efficient delivery of benefits funded by prudent investment of plan assets;

WHEREAS, LACERS is seeking a means by which authorized LACERS personnel can make purchases necessary to support recovery efforts and the re-establishment of vital Member services following a disaster or emergency event;

WHEREAS, the established City Emergency Purchasing Card can only be used during a Mayoral-declared emergency, and for City-wide recovery efforts by first-responder City departments only;

WHEREAS, the City will only allow normal purchasing procedures for procuring needed departmental equipment and supplies, which will not allow LACERS to begin recovery efforts immediately;

WHEREAS, LACERS' custodian bank can provide a Corporate Credit Card that will allow LACERS to acquire necessary equipment and supplies, and facilitate any needed travel arrangements;

WHEREAS, the Corporate Credit Card does not charge fees and payments can be made through the LACERS Trust Fund;

WHEREAS, appropriate internal controls will be established to protect against fraud and misuse of the credit cards;

WHEREAS, in the event the Corporate Credit Card is used, a report will be made by the General Manager to the Board at the first available Board Meeting following the emergency event;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Administration authorizes the General Manager to acquire a Corporate Credit Card to be used only for business continuity purposes; assign three (3) staff members as users of the Corporate Credit Card; and designate the Chief Accounting Employee to determine the appropriate time to increase the credit limit and the appropriate amount, not to exceed $400,000.

May 12, 2015

Attachment 2

Summary of Emergency Purchases and Expenses Paid by Emergency Corporate Credit Card

Purchase Date	Items	Description/Purpose	Card Holder	Amount
03/18/20	Multiport Adapter	To test DeX capability on mobile phones	JK	$ 117.21
03/18/20	Bluetooth Keyboard	To test DeX capability on mobile phones	JK	32.84
03/18/20	Cables and Adapters	To establish network connectivity of mobile devices	EF	1,226.10
03/20/20	Monday.Com License	To increase Monday.Com licenses to provide work from task management	EF	15,407.37
03/25/20	Phone Protective Cases	Mobile phones protective cases	JK	949.76
Total Emergency Purchases & Expenses from Emergency Corporate Credit Card for Cycle Ending 04/02/20				**$ 17,733.28**

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: APRIL 28, 2020**
From: Neil M. Guglielmo, General Manager | **ITEM: VII – B**

Neil M. Guglielmo

SUBJECT: **SECURITIES LENDING PROGRAM MODIFICATIONS AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board:

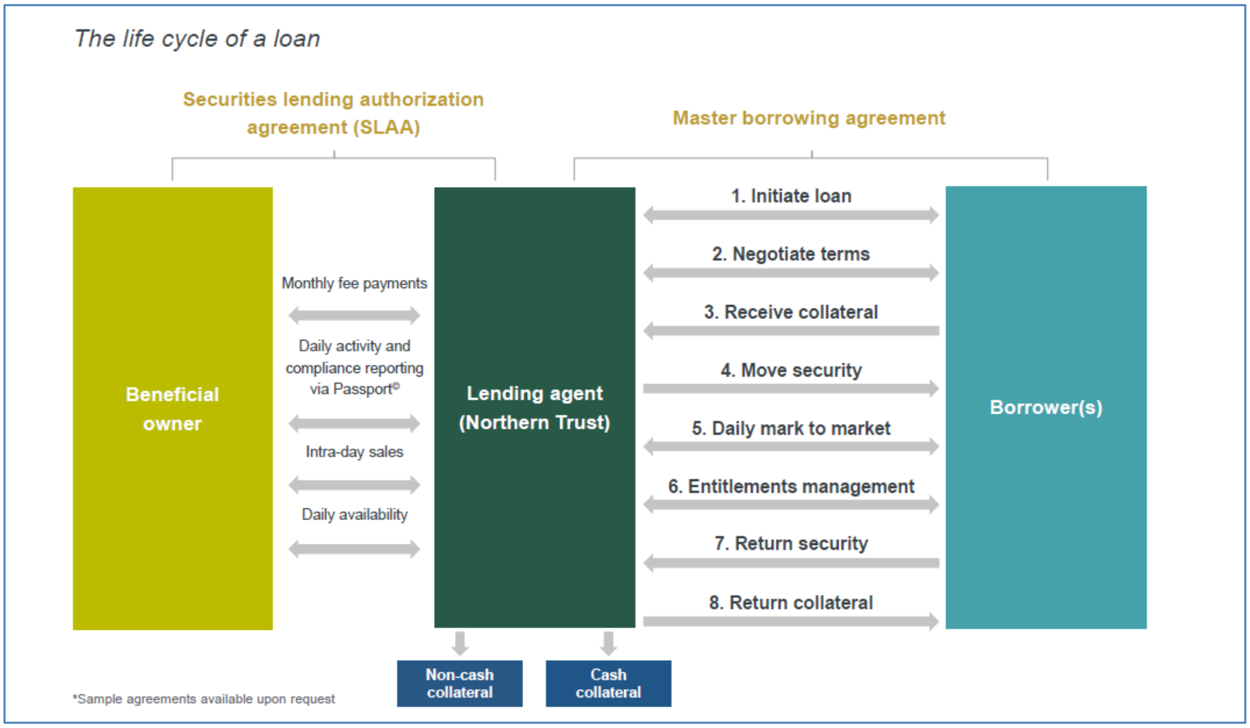
1. Affirm staff decision to temporarily reduce the volume of loans under the Securities Lending Program in order to reduce LACERS' exposure to program risks in light of current market conditions;

2. Authorize staff to revise the Securities Lending Program Cash and Non-Cash Collateral Guidelines as needed in light of both current and forecasted near term market conditions; and,

3. Direct staff to report to the Board in approximately six months on the status of the Securities Lending Program and the effects of such modifications.

Discussion

Background on LACERS' Securities Lending Program
The LACERS Securities Lending Program (SLP) seeks to generate income by lending public markets securities owned by LACERS to qualified borrowers. Securities loans are fully collateralized based on the fair value of the borrowed securities. Collateral received against the securities loans may be in certain types of eligible securities (Non-Cash Collateral) or in the form of cash (Cash Collateral); income is earned differently based on collateral type. Under a Non-Cash Collateral lending structure, income is generated from fees paid by borrowers. Under a Cash Collateral lending structure, income is generated by investing the cash collateral in short-term investments under a separately managed custom investment fund. The Northern Trust Company (Northern Trust), LACERS' Master Custodian Bank, has served as the SLP agent (agent) and as Cash Collateral custom fund investment manager since 1991. The following diagrams provide a hypothetical illustration of the aforementioned program structure and process in greater detail.



HOW REVENUE IS GENERATED

Example: Northern Trust lends $25 million of US Equity

Non-Cash Loan

The $25 million market value loan is for 30 days collateralized by a US Treasury.

1	Receive non-cash collateral valued at **$25,500,000** (102%)	
2	Fee charged to borrower on the value of the loan (20 bps)	$4,167
3	Gross revenue (gross spread 20 bps) credited to client monthly	$4,167
4	Monthly lender's fee (@ 30%)	$1,250
5	**Net client earnings**	**$2,917**

Cash Loan

The $25 million market value loan is for 30 days collateralized with cash (federal funds at 2.00%)

1	Receive cash collateral valued at **$25,500,000** (102%)	
2	Cash collateral invested in a collateral pool at yield of 2.10%	$44,625
3	Rebate paid to borrower at rate of 1.80%	$(38,250)
4	Gross Revenue (gross spread 30 bps)	$6,375
5	Monthly lender's fee (@ 30%)	$1,913
6	**Net client earnings**	**$4,462**

*Fee split between Lender and agent referenced in the diagram is for illustrative purposes only. The current agreement entitles Northern Trust to 15% of program revenue, with LACERS earning the residual 85% of program revenue.

The SLP is governed by LACERS Securities Lending Policy (Policy) under the broader Investment Policy adopted February 12, 2019, and by customized collateral and investment guidelines. The Policy defines the SLP objective, scope, and the roles and responsibilities of the Board, staff, and the SLP agent. Additionally, the Policy acknowledges risks from securities lending activities to include, but are not limited to, credit risk in the form of counterparty risk, market risk in the form of cash collateral reinvestment risk and interest rate risk, and operational risk in the form of trade settlement risk. The current agent indemnifies LACERS against counterparty defaults[1]; however, LACERS bears the risk of investing cash collateral, exposing LACERS to potential principal losses as a tradeoff to generating income from cash collateral.

The collateral and investment guidelines, which are negotiated by staff with general investment consultant input and approved by the General Manager, supplement the Policy and mitigate identified risks by setting standards for the type, level, and investment of collateral the agent may accept on LACERS' behalf. The guidelines are set forth in two separate documents, one for Cash Collateral and the other for Non-Cash Collateral, which are attachments to the securities lending contract with the agent. The Cash Collateral Guidelines address the eligible investments, credit quality, diversification, liquidity, and trading for the custom investment fund. The Non-Cash Collateral Guidelines address collateralization levels, eligible collateral, credit quality, and diversification. The Cash Collateral Guidelines were last negotiated and agreed upon between the agent and staff in 2015. The Non-Cash Collateral Guidelines were more recently amended in 2018.

SLP Modifications under Current Market Conditions

While the SLP has been designed to mitigate risks and earn incremental income to LACERS under recent bull market conditions, staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, are concerned that the current COVID-19 crisis and its unprecedented impact on economic and market conditions has severely elevated the inherent risks of the SLP including reduced investment program liquidity. When time is of the essence, the Policy empowers LACERS' General Manager and Chief Investment Officer to modify or suspend the SLP to address unusual and significant risk factors deemed to have a material adverse impact. Accordingly, LACERS staff, with the concurrence of NEPC, initiated a temporary de-risking of the SLP in mid-March by reducing the volume of loans outstanding. A survey of several other public pension plans has indicated that they either have made or in the process of making modifications to their respective securities lending programs since the beginning of the crisis. The table below summarizes volume reduction of the SLP between February 29, 2020 and April 10, 2020.

	2/29/2020	4/10/2020	$ Change	% Change
Securities Loans Market Value	$2,202,806,781	$1,122,147,370	-$1,080,659,411	-49%
Cash Collateral Market Value	$773,792,174	$361,134,747	-$412,657,427	-53%
Non-Cash Collateral Market Value	$1,535,005,490	$804,650,991	-$730,354,499	-48%
Utilization Rate[2]	18%	10%	NA	-44%

[1] An example of a default is when a counterparty is unable to return the borrowed securities according to the agreed-upon terms.

[2] Value of securities on loan as a percentage of the value of securities available to loan

Proposed SLP Modifications to Collateral and Investment Guidelines
To further reduce LACERS' SLP risk exposure and protect investment program liquidity in light of both current and forecasted near term market conditions, staff is seeking the Board's authorization to implement temporary modifications of the SLP Cash and Non-Cash Collateral Guidelines (as drafted by staff and NEPC) as summarized below.

Cash Collateral Guidelines

- Shorten the duration and maturity of individual investments to 60 days, thus shortening the investment fund's maximum weighted average maturity to 60 days. Currently, a portion of the fund has investment maturities extended up to 13 months; the current guidelines permit a maximum weighted average maturity of 180 days
- Require a non-U.S. country to hold a sovereign credit rating of AA- or higher (or the equivalent) by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) in order for non-U.S. government or corporate debt to be eligible for investment
- Remove asset-backed commercial paper[3] as an eligible investment
- Include Secured Overnight Financing Rate (SOFR)-indexed variable and floating rate securities as eligible investments
- Define the minimum credit rating requirement for short term investments to be A1/P1/F1 or higher (or the equivalent) by any two NRSRO's
- Restrict investments in obligations of issuers who are also LACERS' counterparties in a securities loan

Non-Cash Collateral Guidelines

- Limit non-U.S. government debt collateral to those countries with a sovereign credit rating of AA- or higher (or the equivalent) by at least two NRSRO's
- Remove debt of political subdivisions and agencies of non-U.S. governments as eligible non-cash collateral
- Require the agent to inform LACERS of debt collateral downgrades within five business days

By implementing these temporary SLP risk-reducing and investment program liquidity enhancement modifications, staff and consultant believe that the SLP risk level will be better aligned with these unusual and more volatile market conditions. However, a reduction in SLP risk will decrease securities lending income as a result of reduced loan volumes due to more restrictive collateral and investment guidelines.

Should the Board approve the recommendations included within this report, staff would then negotiate temporary SLP guideline modifications with the agent. Staff will continue to closely monitor the state of the markets, implementation of proposed guideline changes, and the impact of such changes on program income and risk factors, and will report back to the Board in approximately six months. NEPC concurs with the recommendations contained in this report.

[3] A short-term investment vehicle that is backed by underlying securities. Underlying asset pools usually include credit card receivables, student loans, and auto loan receivables.

Strategic Plan Impact Statement

The modification of the Securities Lending Program, by way of both the reduction of the volume of loans and the revision of the Cash and Non-Cash Collateral Guidelines, helps LACERS address the risks brought about by the current and forecasted near term market conditions. The program modifications allow LACERS to optimize long-term risk adjusted investment returns (Goal IV) and to uphold good governance practices which affirm transparency, accountability and fiduciary duty (Goal V).

Prepared By: Jeremiah Paras, Investment Officer I, Investment Division

RJ/BF/WL/JP

Attachments:
1. Investment Policy – Section XV. Securities Lending Policy (pages 244 to 246)
2. Current Cash Collateral Guidelines
3. Current Non-Cash Collateral Guidelines

XV. SECURITIES LENDING POLICY

A. Objectives

The primary goal of LACERS' Securities Lending Program ("Program") is to enhance returns for the System by lending securities owned by LACERS to qualified borrowers. The Program features customized guidelines for prudent risk controls and is designed to not interfere with LACERS' overall investment strategy.

B. Scope

The securities lending agent ("Agent"), pursuant to the securities lending contract, is responsible for locating creditworthy securities borrowers, facilitating securities lending transactions, managing collateral pledged by borrowers, providing daily mark-to-market, and acting in a fiduciary capacity in carrying out its lending duties on behalf of LACERS. The Agent may manage two distinct types of collateral with the goal to maximize net income, split between the Agent and the System, consistent with the safety of principal, maintenance of liquidity and LACERS' guidelines.

Cash collateral is reinvested by the Agent in a separate account based on LACERS' guidelines. Guidelines for the cash collateral separate account are provided in detail in the securities lending contract and address the eligible investments, credit quality, diversification, liquidity, and trading for the Program.

Non-cash collateral is held in a separate account established expressly for LACERS. Guidelines for the non-cash collateral separate account are provided in detail in the securities lending contract and address collateralization levels, eligible instruments, credit quality, and diversification.

C. Roles and Responsibilities

1. **The Board:**
   a) Reviews and approves the Securities Lending Policy.
   b) Modifies or terminates the Program.
   c) Selects and terminates the Securities Lending Agent.
   d) Reviews the Program's overall performance.
2. **Staff:**
   a) Oversees the performance of the lending agent and the cash collateral investment manager in carrying out the objectives of the Program and complying with pre-determined guidelines.
   b) Consistent with the Program objectives and the securities lending contract, reviews, approves, and removes the counterparties as proposed by the Agent.
   c) If the Board is unable to convene in a timely manner to address unusual and significant risk factors that are deemed to have a material adverse impact (e.g. a material reduction in cash reinvestment market liquidity) on the integrity of the Program, LACERS' General Manager and Chief Investment Officer may decide

jointly to modify or suspend the Program. The Chief Investment Officer shall report the action(s) and reasons for such action(s) at the next scheduled Board meeting.

d) Reports to the Board an annual report summarizing securities lending activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

3. **The Agent:**

a) Ensures that counterparties that borrow LACERS' securities are qualified pursuant to LACERS' approved credit standards.

b) Indemnifies LACERS against borrower default.

c) Accepts and invests collateral according to collateral investment guidelines agreed upon with LACERS.

d) Provides the following reports to LACERS:

Reporting Requirements of the Agent		
Ad hoc Reports	Monthly Reports	Quarterly Reports
• Any borrower defaults within a practicable time frame. • Any violations of LACERS' guidelines with a plan for correction within a practicable time frame.	• Volume and lending spreads for the Program. • Total income received by LACERS and by the Agent for borrowing activity. • Investment management activities and risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days' liquidity, etc.	• LACERS lending activity, earnings, risk characteristics and general trends in the security lending marketplace.

D. **Potential Risks**

LACERS acknowledges the following primary risks of its securities lending activities:

1. **Counterparty Risk**

Counterparty risk arises when the borrower defaults on the return of the securities on loan to the lender. This risk is mitigated by LACERS' guideline requirements that borrowed securities are over-collateralized and marked to market on a daily basis by the Agent. Additionally, the Agent is bound by the securities lending contract to indemnify LACERS for any shortfalls in collateral in the event of a borrower default.

2. **Cash Reinvestment Risk**

Cash reinvestment risk arises when the investments in the cash collateral separate account become impaired or decrease in value, potentially resulting in a collateral deficiency and loss of principal. LACERS' guidelines are designed to minimize cash reinvestment risk.

3. **Interest Rate Risk**

Interest rate risk arises when the rebate rate that LACERS pays to the borrowers exceeds the return on the cash collateral investments. The Agent monitors and manages the interest rate exposure of the cash collateral pool versus the Agent's current interest rate forecast by using statistical analysis. Any negative earnings that occur as a result of interest rate risk will be shared between LACERS and the Agent at the same percentage as the fee arrangement.

4. **Other Risks**

Trade settlement and operational risks associated with securities lending are assumed by the Agent. Corporate actions such as voting rights remain with the security and will become the right of the borrower when the security is on loan. LACERS can still vote proxies for those shares not on loan or may instruct the Agent to return shares so that any specific proxy can be voted.

ATTACHMENT 1 TO SCHEUDLE B
SECURITIES LENDING AUTHORIZATION AGREEMENT
(the "Agreement")
BETWEEN THE BOARD OF ADMINISTRATION OF THE CITY EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF LOS ANGELES ("System") AND THE NORTHERN TRUST COMPANY ("Agent")

INVESTMENT MANAGER OBJECTIVES AND GUIDELINES FOR CUSTOM CASH COLLATERAL ACCOUNT / COLLATERAL ACCOUNT ('THE SHORT TERM INVESTMENT ACCOUNT')

INVESTMENT OBJECTIVE

To seek to maximize current income to the extent consistent with safety of principal, maintenance of liquidity and the investment standards set forth below. The Short Term Investment Account (the "Fund") is intended as a separate account for the investment of U.S.-dollar based cash Collateral received by Agent..

Upon the effective date of these guidelines, the Lender and Agent hereby acknowledge that there may be certain assets in the Fund that would not meet these guidelines if newly purchased at this time ("Transition Assets"), though these assets were in compliance with the relevant guidelines at the time of purchase. The Lender and Agent hereby agree that Agent may, at its sole discretion, hold Transition Assets until maturity, unless otherwise directed by Lender.

Cash Collateral Guidelines

Listed below are the cash Collateral guidelines specifying eligible investments, credit quality standards, and diversification, maturity and liquidity requirements. Subject to the above, all requirements, including diversification, listed in these guidelines are effective at the time of purchase of any security or instrument as a cash Collateral investment. Agent will make use of market standard settlement methods for cash investments including the use of a tri-party custodian as approved by Agent's appropriate risk committee. Settlement through a tri-party custodian may result in cash collateral.

INVESTMENT GUIDELINES

1. **Eligible Investments**:

    (a) Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and custodial receipts with respect thereto.

(b) Obligations of domestic or foreign commercial banks, including Agent, (or branches thereof where deposits with branches are general obligations of the parent bank) and bank holding companies, including, but not limited to, commercial paper, bankers' acceptances, certificates of deposit, time deposits, notes and bonds. Certificates of deposit and time deposits shall not be acceptable from issuers domiciled in Portugal, Italy, Ireland, Greece or Spain.

(c) Obligations of U.S. and foreign corporations, including, but not limited to, commercial paper, asset backed commercial paper, notes, bonds and debentures. Asset backed commercial paper must carry 100% liquidity support.

(d) Obligations issued by foreign governments or political subdivisions thereof, and their agencies or instrumentalities.

(e) Units of the NTGI Collective Short Term Investment Fund.

(f) Repurchase agreements with counterparties approved by the Agent's appropriate credit committee at the time of purchase where the Collateral is held by Agent or for the account of Agent by an agent or subcustodian of Agent or a central bank, depository, or a third party custodian, and which is fully collateralized by investments described in paragraph (a) above and having a market value, including accrued interest, equal to or greater than the amount invested in the repurchase agreement. Initial collateralization will be at 102%, except cash collateral shall be collateralized at 100%.

(g) In the case of each investment (a) through (f) above: (i) All investments shall be denominated in U.S. dollars, and (ii) investments may include variable and floating rate instruments. Variable and floating rate instruments will be limited to those securities with reference indexes of Federal Funds Effective, Federal Funds Open, 1 Month LIBOR and 3 Month LIBOR and which are structured such that the spread relationship between the security coupon rate and index reference rate is constant.

2. **Credit Quality:**

(a) With respect to commercial paper and other short-term obligations, investments and reinvestments shall be limited to obligations rated (or issued by an issuer that has been rated) at the time of purchase in the highest rating category (within which there may be sub-categories or gradations indicating relative standing) by any two of the Nationally Recognized Statistical Rating Organizations ("NRSROs") that have assigned a rating to such security (or issuer).

(b) With respect to bonds and other long-term obligations, investments and reinvestments shall be limited to obligations rated at the time of purchase in one of the two highest rating categories (within which there may be sub-categories or gradations indicating relative standing) by the NRSROs that have assigned a rating to such security.

(c) Notwithstanding (a) and (b) above, Agent may invest assets of the Fund in the NTGI Collective Short Term Investment Fund which is deemed to be of equal or superior credit quality.

3. **Diversification:**

(a) Except for repurchase agreements and obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, a maximum of 3% of the value of the total assets of the Fund may be invested in securities of any one issuer. With respect to the NTGI Collective Short Term Investment Fund, holdings in excess of 3% of the value of total assets of the Fund are permitted, but should not exceed 50% without written permission from the client.

(b) A maximum of 15% of the value of the total assets of the Fund may be invested in repurchase agreements with one counterparty.

(c) A maximum of 15% of the value of the total assets of the Fund may be exposed to the risks of any one foreign country and a maximum of 25% of the value of the total assets of the Fund may be exposed to the risks of non-U.S. entities. This limitation is applicable to the obligations of all foreign issuers. Only entities domiciled in large industrialized and politically stable countries which have been assigned a sovereign long-term rating of AA- or higher by each NRSRO monitored by Lender may be used, subject to that restriction outlined in 1 (b) above.

(d) Except for the banking industry, a maximum of 25% of the value of the total assets of the Fund may be invested in obligations of issuers having their principal business in the same industry. For such purposes, personal and business finance companies are considered to be in separate industries. Finance companies which are wholly-owned will be considered to be in the industries of their parents if there activities are primarily related to financing the operations of their parents.

(e) Compliance with the credit quality and diversification requirements of these guidelines shall be determined on the basis of values or ratings at the time of acquisition of any security.

4. **Liquidity/Maturity:**

(a) A minimum of 20% of the value of the assets of the Fund should mature daily. Holdings of the NTGI Collective Short Term Investment Fund will be included in this calculation.

(b) A minimum of 35% of the value of the assets of the Fund will mature within one month.

(c) The interest rate sensitivity of the Fund will be limited to a maximum of 60 days.

(d) The maximum final or average maturity of any variable or floating rate security will be two years. The maximum final or average maturity of a fixed rate security will be 13 months. The maximum weighted average maturity (as herein defined) of the Fund will be limited to 180 days.

(e) A maximum of 25% of the value of the assets of the Fund may be invested in securities or instruments which have a maturity (as herein defined) exceeding 97 days.

(f) Compliance with the liquidity and maturity requirements of these guidelines shall be determined on the basis of values or ratings at the time of acquisition of any security.

(g) For the purposes of this Annex 1, the "maturity" of a security or instrument shall be defined as the date when final payment is due, with these exceptions: (a) instruments issued or guaranteed by the U.S. Government or any agency or instrumentality thereof which have a variable rate of interest shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, (b) variable rate instruments (other than those described in (a) above) shall be deemed to have a maturity equal to the longer of the period of time remaining until either, (i) the next readjustment of the interest rate or (ii) the principal amount can be recovered through demand or maturity, (c) floating rate instruments which incorporate a demand feature shall be deemed to have a maturity equal to the period of time remaining until the principal amount can be recovered through demand, (d) a repurchase agreement shall be deemed to have a maturity equal to the period of time remaining until the date on which the repurchase is scheduled to occur, or, if no date is specified but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the securities.

(h) For the purposes of this Annex 1, the "interest rate sensitivity" of a security or instrument shall mean (a), in the case of a fixed rate security or instrument (i) the date on which final payment is due or (ii) the principal amount can be recovered through demand (if applicable) or

(b) in the case of a floating or variable rate security or instrument, the shorter of the period of time remaining until either (i) the next readjustment of the interest rate or (ii) the principal amount can be recovered through demand (if applicable).

5. Trading Policy

Although the Fund will generally not engage in short-term trading, the Agent may dispose of any portfolio security prior to its maturity if, on the basis of a revised credit evaluation of the issuer or other considerations, Agent believes such disposition is advisable. Subsequent to its purchase, a portfolio security or issuer thereof may be assigned a lower rating or cease to be rated. Such an event would not necessarily require the disposition of the security, if the continued holding of the security is determined to be in the best interest of the Fund. In any event, Lacers will be notified within 5 business days when any security is downgraded below the minimum requirements set forth in these investment guidelines.

Dated: 8/24/15

THE BOARD OF ADMINISTRATION OF THE LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

By: ______________________
Name: Thomas Moutes
Title: General Manager

AAF

EXHIBIT A

ATTACHMENT 2 TO SCHEDULE B
SECURITIES LENDING AUTHORIZATION AGREEMENT
(the "Agreement")
BETWEEN THE BOARD OF ADMINSTRATION OF THE LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM ("System") AND THE NORTHERN TRUST COMPANY (the "Agent")

INVESTMENT MANAGER GUIDELINES FOR CUSTOM NON-CASH COLLATERAL ACCOUNT

Non-Cash Collateral Guidelines

Listed below are the Non-Cash Collateral Guidelines specifying collateralization levels and eligible Non-Cash Collateral.

Agent will make use of market standard settlement methods for Non-Cash Collateral, including the use of a tri-party custodian. Any cash held intra-day or temporarily overnight at a tri-party custodian with respect to Non-Cash Collateral arising directly from Loans is a balance sheet obligation of the bank used by your custodian.

Capitalized terms used but not defined herein shall have the meanings given to them in the Addendum or the Agreement, as applicable.

Collateralization Levels

Initial collateralization levels for all Loans will not be less than 102% of the Market Value of the Borrowed Securities, or not less than 105% if the Borrowed Securities and the Non-Cash Collateral are denominated in different currencies. Initial Non-Cash Collateral will be received prior to, or simultaneously with, delivery of loaned securities.

Marking to market is performed every business day subject to de minimis rules of change in value, and, pursuant to the Borrowing Agreements, the Borrower is required to deliver additional Non-Cash Collateral when necessary so that the total Non-Cash Collateral held by Agent for all Loans to the Borrower of all Participating Lenders will at least equal the Market Value of all the Borrowed Securities of all Participating Lenders loaned to the Borrower. If the Borrowed Securities and the initial Non-Cash Collateral are denominated in the same currency, additional Non-Cash Collateral may be denominated in a currency different from that of the original Non-Cash Collateral, but Non-Cash Collateral levels shall be maintained throughout the Loan as if all Non-Cash Collateral were denominated in the same currency as the Borrowed Securities.

Eligible Instruments

Eligibility of Non-Cash Collateral is determined at the time of receipt of such Non-Cash Collateral.

- Obligations issued or guaranteed by the U.S., U.K., and any other OECD (Organization for Economic Cooperation and Development) member states or their local governments, agencies, instrumentalities or authorities ("Government and Agency Instruments")

- Obligations issued by Supranational entities

- Corporate debt securities, including convertible securities and excluding commercial paper, issued by U.S. and non-U.S. corporations and which match the currency of the borrowed securities

- Equity securities which are part of any of the following indices:

Australia S&P/ASX 200	Hong Kong Hang Seng
Canada S&P/TSX 60	Japan NIKKEI 225
German DAX 30	United Kingdom FTSE 100
EURO STOXX 50	United States S&P 500
France CAC 40	United States Russell 1000
	United States Russell 3000

Credit Quality

- Except for obligations issued or guaranteed by the U.S. Government and U.K. Government, Government and Agency Instruments and Supranational Instruments are restricted to those obligations with a long-term rating (or issued by an issuer that is rated with respect to a class of long-term obligations or a comparable long-term obligation) of AA- or higher (or the equivalent) at time of receipt by at least one Nationally Recognized Statistical Rating Organization ("NRSRO").

- Corporate debt securities are restricted to those obligations with a long-term rating (or issued by an issuer that is rated with respect to a class of long-term obligations or a comparable long-term obligation) of AA (or the equivalent) or higher by at least two NRSROs. If there are more than two ratings by NRSROs, then all ratings must be AA (or the equivalent) or higher.

Diversification

- Obligations issued or guaranteed by the U.S., U.K., and any other OECD member states or their local governments, agencies, instrumentalities or authorities and supranational obligations may be accepted without limit.

- Equity and convertible securities may only be accepted (interchangeably) as Collateral for equity and convertible securities loans. Corporate debt securities, other than convertible securities, may only be accepted as Collateral for loans of corporate debt securities (other than convertible securities).

- Eligible Instruments shall be accepted subject to internal diversification limits (which may include, without limitation, issuer or liquidity restrictions) as may be established for each Instrument type by Agent's appropriate risk committee from time to time.

Dated:

THE BOARD OF ADMINISTRATION OF THE LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Neil M. Guglielmo

By:

Name: Neil Guglielmo

Title: General Manager

ACCEPTED:

THE NORTHERN TRUST COMPANY

By: ______________________

Name: George Trapp

Title: Senior Vice President