

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: April 28, 2011

To: The City Council

From: Miguel A. Santana, City Administrative Officer

Subject: **AMENDMENTS TO THE 2007-2013 MEMORANDA OF UNDERSTANDING FOR THE COALITION OF LOS ANGELES CITY UNIONS (C.F. 09-2624)****SUMMARY**

At its meeting on April 27, 2011, the City Council instructed the City Administrative Officer (CAO) to report back on the impact of retiree healthcare costs and 36 furlough days for certain Coalition bargaining units. In addition, the CAO was requested to provide a breakdown of the number of Coalition members by bargaining unit. The purpose of this report is to provide additional information for the City Council to consider.

RETIREE HEALTHCARE

The tentative agreement includes a 4% employee contribution towards retiree healthcare effective July 1, 2011. This means Coalition employees will contribute 4% of their pre-tax pensionable salary to LACERS. The actuary has calculated that the City contribution to LACERS would be reduced by 3.65% of the applicable payroll. The average Coalition represented full-time employee salary is \$66,184. A 4% contribution would result in an approximate \$2,647 contribution per year or \$101 per paycheck. The contributions are pre-tax and are refundable if a member decides to leave City service. Enclosed is a copy of the statement by the actuary regarding the impact of the 4% contribution.

There is a pending item before the City Council to freeze the LACERS maximum medical subsidy at current levels for all active members as of July 1, 2011. The freeze will not impact any LACERS member that has retired prior to July 1, 2011. The subsidy freeze will also not apply to units that bargain an employee retiree health contribution. The current maximum medical subsidy for non-Medicare eligible members is \$1,190 per month or \$14,280 per year. The subsidy is more or less adjusted each year based on the premium cost increase of the Kaiser two-party plan. This methodology has historically maintained two-party coverage for LACERS retirees. Two-party coverage includes the retiree and their spouse or domestic partner.

The actuarial valuation assumes a medical inflation rate of 9.25% for Fiscal Year 2012-13 and trends downward by 0.5% for each year thereafter. After Fiscal Year 2021-2022, the inflation rate remains at 5% per year. The following table is a 10-year projection that compares the maximum medical subsidy under the current adjustment methodology to the maximum medical subsidy with a permanent freeze.

MAXIMUM MEDICAL SUBSIDY AT 25 YEARS OF SERVICE (100%)*			
Non-Medicare LACERS Members			
Fiscal Year	With Freeze	With Current Adjustment**	Difference
2011-12	\$14,280	\$14,280	\$0
2012-13	\$14,280	\$15,601	(\$1,321)
2013-14	\$14,280	\$16,966	(\$2,686)
2014-15	\$14,280	\$18,366	(\$4,086)
2015-16	\$14,280	\$19,789	(\$5,509)
2016-17	\$14,280	\$21,224	(\$6,944)
2017-18	\$14,280	\$22,656	(\$8,376)
2018-19	\$14,280	\$24,072	(\$9,792)
2019-20	\$14,280	\$25,456	(\$11,176)
2020-21	\$14,280	\$26,793	(\$12,513)

* For illustrative purposes, annual amounts are shown

** Based on medical trend inflation rate assumptions for LACERS valuation as of June 30, 2010

The above table illustrates the impact of freezing the maximum medical subsidy. If the freeze is approved, a LACERS member eligible for a maximum subsidy that retires after July 1, 2011, will be set at \$14,280. As the premium costs escalate and the subsidy remains constant over time, the LACERS member will be obligated to cover the difference. After the first year of implementation, the annual difference is \$1,321. After the fifth year of implementation, the annual difference is \$6,944. In Fiscal Year 2020-21, the annual difference is projected at \$12,513.

The City pre-funds its healthcare costs, meaning that the annual contribution to LACERS takes into account the normal cost of providing the healthcare benefits plus the unfunded actuarial accrued liability based on various assumptions adopted by the LACERS Board of Administration. The actuarial valuations assume that future medical subsidy amounts continue to increase with future medical inflation. Pre-funding occurs because a portion of the City contribution to LACERS includes funding to cover active members in the future. Therefore, any changes to freeze the subsidy at

current levels will have a significant impact to the City contribution. The actuary has calculated that a permanent freeze would reduce the City's annual contribution by nearly 5% of payroll (as previously reported under CF 10-1868).

FURLOUGHS

The tentative agreement reached with the Coalition includes a no furlough provision during the contract term. Bargaining units that did not ratify the agreement will be subject to at least 36 furlough days during Fiscal Year 2011-12 and beyond. This represents an approximate 14% salary decrease for affected unit members. With an average salary of \$66,184, Coalition members subject to furlough days would receive an approximate \$9,265 salary decrease or \$356 per pay period.

COALITION MEMBERS

A total of 14 out of 18 Coalition bargaining units ratified the tentative agreement. There are a total of over 19,000 Coalition represented employees. The 14 units that ratified the agreement represent approximately 57% of the Coalition represented workforce and the 4 units that did not ratify the agreement account for approximately 43%. Enclosed is a summary table of the number of Coalition represented employees by bargaining unit.

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Attachments

COALITION - NO. OF EMPLOYEES BY BARGAINING UNIT

	Bargaining Unit	MOU	No. of Employees*	No. of Employees* %
RATIFIED	Bldg. Trades	02	993	5.1%
	Equip Oper Labor	04	3,880	19.9%
	Librarians	06	298	1.5%
	Recreation Assistants	07	1,406	7.2%
	Pro Med	10	93	0.5%
	Recreational	11	361	1.9%
	Supv. Blue	12	775	4.0%
	Supv Bldg Trades	13	137	0.7%
	Service and Craft	14	990	5.1%
	Service Emp	15	1,136	5.8%
	Supv. Librarians	16	75	0.4%
	Crossing Guards	34	417	2.1%
	Mgmt Unit	36	497	2.6%
	Exec Admin Asst	37	95	0.5%
SUBTOTAL			11,153	57.2%
NOT RATIFIED	Clerical	03	5,713	29.3%
	Plant Equip Oper	09	315	1.6%
	Safety Security	18	1,853	9.5%
	Dep City Att	29	448	2.3%
	SUBTOTAL			8,329
GRAND TOTAL			19,482	100%

* All funds; Includes Full-Time and Part-Time



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VIA E-MAIL AND USPS

April 28, 2011

Mr. Thomas Simonovski
Senior Labor Relations Specialist
City of Los Angeles
Office of City Administrative Officer
200 North Main Street, Room 1200
Los Angeles, CA 90012-4190

**Re: Los Angeles City Employees' Retirement System (LACERS)
Impact of Additional Employee Contributions and Vested Right for
Retiree Health Benefits**

Dear Thomas:

In the enclosed letter to LACERS dated April 15, 2011, we determined that if the active members would agree to pay an additional 4% of pay in contributions, effective July 1, 2011, there would be a reduction in the City's contribution rate for fiscal year 2011/2012. This letter reviews the April 15th results and also addresses the cost impact of any related vesting of right to receive health benefits.

IMPACT OF ADDITIONAL EMPLOYEE CONTRIBUTIONS

The impact on the City's contribution rates for fiscal year 2011/2012 varies depending on when the City would pay its contributions. For instance, if the City follows its prior practice to prepay its contributions on July 15, 2011, the City's combined contribution rate for the Retirement and the Retiree Health Plans would decrease by 3.65% of payroll from 27.66% to 24.01% of payroll. A detailed breakdown of the rates for the Retirement and the Retiree Health Plans as well as the assumptions we used in our calculations were provided in our April 15th letter.

Mr. Thomas Simonovski
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VESTED RIGHT FOR RETIREE HEALTH BENEFITS

In preparing all the prior actuarial valuations for LACERS' Retiree Health Plan, we have always proceeded under the presumption that the plan of benefit would continue to be paid indefinitely for the current members. In particular, we have assumed that the future medical subsidy amounts would continue to increase with future medical inflation assumption.

We understand that in requesting the active members to make the 4% contributions (one-half of which was designated for the Retiree Health Plan for cost allocation purposes), the benefits paid by the Retiree Health Plan may be interpreted as a vested benefit. The City Attorney Office has requested that Segal comment on the cost associated with this vested right.


As we previously stated, we have always assumed in preparing our cost analysis for the Retiree Health Plan that all the benefits would continue to be paid indefinitely and that future medical subsidy amounts would continue to increase with future medical inflation. Therefore, we do not believe that there would be any additional cost that has not been accounted for in the actuarial process if the benefits were determined to be vested.

Please let us know if you have any questions.

Sincerely,



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



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

AYY/kek
Enclosure (5129572)



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VIA E-MAIL and USPS

April 15, 2011

Mr. Tom Moutes
General Manager
Los Angeles City Employees' Retirement System
360 E. Second Street, Second Floor
Los Angeles, CA 90012

**Re: Employer Contribution Rates for Fiscal Year 2011/2012
Reflecting Additional Employee Contributions**

Dear Tom:

As requested, we have determined the employer contribution rates for fiscal year 2011/2012 assuming that active members would agree to pay an additional 4% of pay in contributions, effective July 1, 2011. Consistent with our actuarial report, the employer contribution rates have been determined on three different payment-timing scenarios, and they are shown in the chart attached to this letter. The three payment-timing scenarios are as follows:

- Assuming a prepayment of contributions by the City at the beginning of the year (i.e., July 1, 2011);
- Assuming a prepayment of contributions by the City on July 15, 2011; or
- At the end of each pay period.

The employer rates shown in the attachment are based on the results from our June 30, 2010 valuation.

We understand that originally the intent was to divide the 4% of pay contributions equally between the pension plan and the health plan. However, it is our further understanding that in order for the additional employee contributions to be refundable to the members upon termination from LACERS, and for other tax considerations, the City has concluded that these additional employee contributions should be designated as pension plan contributions.

Since employee contributions are refundable (e.g., upon termination of employment before retirement), some of these additional contribution amounts would not be available to pay for retirement and other benefits, and therefore the offset to the employer contribution rate for the pension plan will be less than the full 4% of pay. In addition, employee contributions are made at the end of each pay period, so an adjustment is required to reflect the time value of money for the two prepayment scenarios described above.

Since the additional employee contributions are designated as pension plan contributions, there will be no changes to the health subsidy contribution rates determined in our June 30, 2010 valuation.

We understand that the payment of the additional 4% employee contribution rate is still subject to a vote by the LACERS membership and that the results of that vote may not be known until later this month. We understand that it is possible that some bargaining groups may opt out of having their employees pay the additional contributions. Therefore, we have shown in the attached chart the employer contribution rates both before and after the 4% employee contribution rate offset, adjusted both for refundability and for interest due to payment timing.

For the bargaining groups that opt out of paying the additional employee contribution rate, the employer rates in the attached chart under the column heading "Without Additional 4% Employee Contributions" would apply. These are the same rates shown in our June 30, 2010 valuation reports.

For the bargaining groups that do not opt out of paying the additional employee contribution rate, the employer rates under the column heading "With Additional 4% Employee Contributions" would apply.

As no data is currently available on the age and service profile of the actual employees who would elect to pay the additional employee contributions, we have calculated the refundability adjustment based on the entire active membership for LACERS as of the June 30, 2010 valuation date. If the membership of the bargaining groups opting to pay the additional employee contributions is actually younger and has less service (on average) than the total active membership, then these employees would be more likely to terminate LACERS employment and receive a refund of their contributions. This would eventually result in a larger refundability adjustment, which would consequently decrease the offset to the employer contribution rate and increase the net employer contribution rate.

On the other hand, if the group opting to pay the additional employee contributions is older and has more service on average than the entire active membership, then the actual refundability adjustment would be reduced, resulting eventually in a larger employer contribution rate offset and a lower net employer contribution rate.

Mr. Tom Moutes
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Note that with the exception of the increase in the employee contribution rate, the results shown in the attached chart are based on the same census data, actuarial assumptions, plan provisions, and methodologies used to perform the June 30, 2010 actuarial valuation.

If you have any questions, please let us know.

Sincerely,



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



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

DNA/bqb
Enclosure

cc: Li Hsi

Los Angeles City Employees' Retirement System

Employer Contribution Rates for Fiscal Year 2011/2012

**Based on June 30, 2010 Valuation Results and
Additional 4% of Pay in Employee Contributions**

	Without Additional 4% Employee Contributions		With Additional 4% Employee Contributions	
	Beginning of Year	July 15, 2011 End of Pay Periods	Beginning of Year	July 15, 2011 End of Pay Periods
A. Retirement Benefits				
1. Normal Cost as a Percent of Pay	9.37%	9.40%	5.73%	5.75%
2. Amortization of UAAL	11.02%	11.06%	11.02%	11.06%
3. Total Retirement Contribution	20.39%	20.46%	16.75%	16.81%
B. Health Subsidy Contribution				
1. Normal Cost as a Percent of Pay	4.14%	4.16%	4.14%	4.16%
2. Amortization of UAAL	3.03%	3.04%	3.03%	3.04%
3. Total Health Subsidy Contribution	7.17%	7.20%	7.17%	7.20%
C. Total Contribution (A+B)	27.56%	27.66%	23.92%	24.01%
				24.85%