

Los Angeles City Employees' Retirement System

Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS



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February 8, 2017

Mr. Richard H. Llewellyn
Interim City Administrative Officer
Attention: Ms. Maritta Aspen
Chief, Employee Relations Division
City of Los Angeles
200 North Main Street, Suite 1500
Los Angeles, CA 90012-4137

Dear Richard:

We are pleased to submit our study of proposed enhanced benefits for Airport Peace Officers (APO) at the Los Angeles City Employees' Retirement System (LACERS) who elect to remain at LACERS prior to January 7, 2018. Current APO members who do not elect to remain at LACERS would otherwise elect to be transferred to Los Angeles Fire and Police Pension Plan (LAFPP) Tier 6 by January 7, 2018. From that date (hereafter referred to as the "LAFPP transfer date") forward, all new Airport Peace Officers would be enrolled in LAFPP Tier 6, rather than in LACERS.

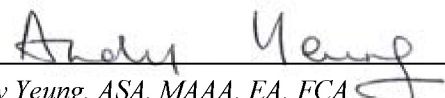
To conduct this study, we have utilized the membership data from the June 30, 2016 LACERS retirement and retiree health valuations pertaining to this group of active members, with an adjustment to exclude those employees who are expected to exit the workforce, using the actuarial assumptions used in this study, for the approximate 18-month period following the June 30, 2016 valuation. No current inactive vested members, retirees, or beneficiaries previously employed as Peace Officers have been included in this study. With the exception of the service retirement assumptions and a few other miscellaneous assumptions discussed herein, this study uses the same actuarial assumptions and methodologies adopted by the Retirement Board for use in the June 30, 2016 LACERS valuations. A brief description of the methodology used to select the service retirement assumptions for the proposed enhanced benefits is provided in Section 1.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary and Thomas Bergman, ASA, MAAA, Enrolled Actuary. Both are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

By: 
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Senior Vice President and Actuary


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DNA/bbf

cc: Tom Moutes

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SECTION 1: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Review Summary

BASIS FOR CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact of the proposed enhanced benefits for members who elect to remain at LACERS, we have utilized the data provided for the June 30, 2016 LACERS valuations of the retirement and retiree health plans pertaining to active Airport Peace Officers (APO). Based on prior discussions with LACERS when we prepared similar studies in the past few years, it is our understanding that this group of employees is represented by the following Bargaining Units: 30 (L. A. Airport Peace Officers), 39 (L. A. Airport Supervisory Peace Officers), and 40 (Airport Peace Command Officers). It is our further understanding there were no civilian employees within those Bargaining Units that should be excluded from our study. In addition, there were three active non-represented Airport Peace Officers as of June 30, 2016, and we have included those members in this study.

As of the June 30, 2016 valuation date, Airport Peace Officers were enrolled in the LACERS Tier 1 plan if they were hired before July 1, 2013, or if they became a member of Tier 2 between July 1, 2013 and February 21, 2016 and were subsequently transferred to Tier 1 effective February 21, 2016 (pursuant to Ordinance No. 184134). Airport Peace Officers were enrolled in the LACERS Tier 3 plan if they were hired on or after February 21, 2016. Pursuant to the draft Ordinance upon which this study is based, the APO currently in Tier 1 who would be entitled to the enhanced benefits will remain in the current Tier 1, which also contains other Tier 1 members in all other City departments. That is, the APO Tier 1 members receiving enhanced benefits will not be placed in a separate tier. Furthermore, the draft Ordinance states that the APO currently in Tier 3 who will be entitled to the enhanced benefits will also be placed in the current Tier 1, effective January 7, 2018. *Note that, even though APO Tier 1 and Tier 3 members will be placed in the current Tier 1 with the other Tier 1 members in all other City departments, throughout the remainder of this report we have used the term “APO tier” to represent just the APO members in the combined Tier 1 group that are entitled to the enhanced benefits (i.e., the APO subgroup of the whole Tier 1 group that is included in this study).*

- Note that any inactive vested members, retired members, and beneficiaries as of June 30, 2016, and any members hired after June 30, 2016, are not included in this study. The adjustments we have made to account for expected terminations (including retirements, disabilities, deaths, deferred vested retirements, and refunds) between the June 30, 2016 valuation date and the January 7, 2018 LAFPP transfer date have been noted at the point where those adjustments were made. (In order to simplify the calculations, we have only adjusted the projected terminations over an 18-month period.) The demographic profile of the current Airport Peace Officers used in this study is provided in subsection 2B.
- Current APO members can elect to remain at LACERS and receive the enhanced benefits described in the draft Ordinance, or they can elect to purchase all of their past LACERS service and transfer that service to LAFPP Tier 6. At this time, we do not know specifically which members will elect to remain at LACERS and will be eligible for the enhanced benefits. In prior studies similar to this, we made the assumption that members with lower service would be most likely to purchase their past LACERS service and transfer to LAFPP, with the higher service members likely to remain at LACERS due to the higher cost to those members of purchasing their past service.

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Accordingly, as we have previously discussed with the City, we have shown a range of costs for the enhanced LACERS benefits in this report based on including either all APO members (Scenario 1) or only APO members with 5 or more years of service (Scenario 2).

- For purposes of this study, we have determined the costs associated with transferring all of the current Airport Peace Officers from Tier 1 (i.e., after the APO Tier 3 members have been included in Tier 1 with APO Tier 1 members) to the new APO tier. We have also provided in subsections 2C-1 and 2C-2 the Normal Costs before and after they were re-calculated as if all Airport Peace Officers are already enrolled in Tier 1. As shown on page 16 for the retirement and health plans, under Scenario 1 there is a difference between the combined Tiers 1 and 3 employer Normal Cost rate of 8.42% versus the 8.45% Normal Cost rate re-calculated as if all Airport Peace Officers were already enrolled in Tier 1. However, under Scenario 2, there is no difference in the 8.25% combined Tiers 1 and 3 employer Normal Cost rate and the re-calculated Normal Cost rate shown on page 17, as there are no Tier 3 members under Scenario 2.

It is beyond the scope of this study and, hence, we have excluded from our analysis the cost associated with providing LAFPP Tier 6 benefits for those APO members who elect to transfer out of LACERS. For a discussion of that cost, please refer to our letter dated July 7, 2016.

- In the on-going annual valuations, the City is paying the same Normal Cost contribution rates for all active members within their respective Tier, rates calculated based on the demographic profile of current active employees covered in all City departments. As a result, there is a pooling of actuarial experience, especially the average age at entry into LACERS, in determining the Normal Cost rates. For comparison purposes, we have re-calculated the employer and employee Normal Cost contribution rates for the pension and the retiree health plans based on only the data for the Airport Peace Officers included in this study under the current benefit formulas for Tiers 1 and 3, and compared these re-calculated rates with the Normal Cost contribution rates under the proposed APO tier.

For the retirement plan, as we have shown on page 16, the employer Normal Cost rates developed in the June 30, 2016 valuation report based on employees covered in all departments were 6.74% for Tier 1 and 3.85% for Tier 3, payable at the beginning of the year. The re-calculated employer Normal Cost rates for only the Airport Peace Officers included in this study were 5.46% for Tier 1 and 2.51% for Tier 3 under Scenario 1 (all APO members), and 5.41% for Tier 1 under Scenario 2 (only APO members with 5 or more years of service; there were no Tier 3 APO members with 5 or more years of service, so no Tier 3 normal cost rate has been provided under this Scenario). The re-calculated employee Normal Cost rates for the Airport Peace Officers were 10.60% under both Scenarios 1 and 2. (This employee rate has been discounted with interest to the beginning of the year. Before discounting, the rate is 11.00% for both Tier 1 and Tier 3.) The lower employer Normal Cost rates calculated for the Airport Peace Officers is mainly attributable to the lower ages at entry, on average, for the Airport Peace Officers in comparison to employees in all City departments.

On an aggregate basis, the re-calculated, combined Tier 1 and Tier 3 employer Normal Cost rate for only the Airport Peace Officers was 5.45% under Scenario 1 and 5.41% under Scenario 2. The re-calculated employer Normal Cost rate for all Airport Peace Officers included in this study after treating all Airport Peace Officers as Tier 1 employees was 5.47% under Scenario 1 and 5.41% under Scenario 2.

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Similarly for the health plan, we have shown on page 16 that on an aggregate basis the re-calculated combined Tier 1 and Tier 3 employer Normal Cost rate for the Airport Peace Officers only was 2.97% under Scenario 1. The re-calculated employer Normal Cost rate for all Airport Peace Officers included in this study after treating all Airport Peace Officers as Tier 1 employees was 2.98%, under Scenario 1. Under Scenario 2, the combined Tier 1 and Tier 3 employer Normal Cost rate was 2.84% and the re-calculated Tier 1 employer Normal Cost rate was also 2.84%.

- In addition to the employer contribution rates provided in Section 2, subsections D-1 and D-2, it is anticipated that the employer would have to continue to contribute the same Unfunded Actuarial Accrued Liability (UAAL) rates of 15.44% and 1.43% of total payroll for the pension and health plans¹, respectively, that were determined in the June 30, 2016 valuation. This is because the UAAL rates were determined as a level percent of pay including payrolls for all current active members plus new entrants who entered LACERS after June 30, 2016.
- The draft Ordinance mentions that an APO member who elects to remain at LACERS and who would be eligible for the enhanced benefits “...shall be responsible for making a lump sum mandatory additional contribution payment of \$5,700 to LACERS... before January 8, 2019...” The Ordinance further mentions that “if an Airport Peace Officer Member fails to complete this \$5,700 payment before January 8, 2019, or prior to his or her retirement date, whichever is earlier, the Member shall forfeit eligibility for the enhanced benefits...” For purposes of this study, we have assumed that all APO members who elect to remain at LACERS prior to the January 7, 2018 LAFPP transfer date will make their \$5,700 lump sum contributions on that date, as long as they have not exited the workforce before then. This is consistent with the timing we have utilized in adjusting the Actuarial Accrued Liability (AAL) to reflect APO members exiting the workforce prior to the LAFPP transfer date.² Note that there could be some small additional cost if, instead, all \$5,700 payments were to be made at the end of the one-year period on January 8, 2019. Based on the actuarial assumptions used in this study, we estimate that out of the original 530 APO members as of June 30, 2016 under Scenario 1, approximately 483 members are anticipated to remain active as of January 7, 2018. Based on a \$5,700 payment from each of these remaining members, we have estimated that a lump sum amount of about \$2,754,000 would be due to LACERS as of January 7, 2018. This amount is provided at the end of subsection D-1 of this report. In the chart that is shown at the beginning of subsection D-1, we have discounted this amount with interest to the June 30, 2016 valuation date in order to present costs all as of the June 30, 2016 valuation date.

Similarly, under Scenario 2, we anticipate that about 417 of the original 453 APO members as of June 30, 2016 will remain in active service as of January 7, 2018. This equates to a lump sum amount of about \$2,373,000 as of January 7, 2018 due on account of these remaining members. This amount is provided at the end of subsection D-2 of this report.

¹ Assumes contributions are made at the beginning of the year.

² That adjustment is referenced in the Retirement Plan Costs subsection of Section 2A in this report.

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- Increases in the UAAL rates due to changes in benefit provisions and/or actuarial assumptions are discussed in Section 2 of this report. When we calculate the increase in UAAL to reflect the benefit improvements offered under the proposed APO tier, we have separately identified (1) the contributions required to be made by the Department of Airports (which equals the difference between the Tier 1 and Tier 3 Normal Cost rates adjusted with interest at the assumed earnings rate of 7.50%) to upgrade the Tier 3 benefit to the Tier 1 benefit for the members expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018 and (2) the lump sum amount expected to be paid by January 7, 2018 of \$5,700 per employee for the Tier 1 members (including those that will convert to Tier 1 from Tier 3) expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018. Item (2), regarding the \$5,700 lump sum contribution per remaining employee, has been deducted from the UAAL contribution rate calculation. Item (1), regarding the transfer of Tier 3 APO members to Tier 1, does not need to be deducted from the UAAL contribution rate calculation, since our starting point for cost comparison assumes that all APO members are already in the Tier 1 plan. We have separately identified the cost of that Tier 3 to Tier 1 transfer at the end of subsection D-1, under Scenario 1. Note that there is no additional cost for Item (1) under Scenario 2, since there were no Tier 3 APO members under that Scenario.

- Even though there are no proposed changes in the health plan benefits (as mentioned later in the Benefit Provisions subsection of Section 1), we have determined there to be additional health plan costs. These additional costs are attributable to the changes in the actuarial assumptions used for this study (to anticipate earlier retirement because of the enhanced retirement benefit) as discussed in the Assumptions and Methodologies subsection of Section 1.

SECTION 1: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Review Summary

ASSUMPTIONS AND METHODOLOGIES

- Most of the actuarial assumptions used in this study are the same as those adopted by the Retirement Board for use in the June 30, 2016 valuations.

Under the current pension formula for Tier 1, normal retirement age to receive an unreduced retirement benefit is based on attaining the earlier of: (1) age 55 with 30 years of City service, (2) age 60 with 10 years of continuous City service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of continuous City service or any age (under 55) with 30 years of City service. The reduction is 1.5% for each year of retirement between 55 and 60 plus 3.0% for each year of retirement before age 55.

The current retirement rates (probabilities) for Tier 1 are structured to anticipate lower incidences of retirement for members who have not yet attained age 55 with 30 years of service but can retire with a reduced early pension benefit. The current rates also use relatively higher retirement rates for members after they attain age 55 with 30 years of service since they can receive an unreduced pension benefit.

- As discussed in the following Benefit Provisions subsection, we have been requested to estimate the cost impact of an enhanced level of benefits for Airport Peace Officers within LACERS Tier 1. When we prepared similar studies in the past, we retained the current structure of having two sets of retirement assumptions for members with and without 30 years of service, since normal and early retirement eligibility remained unchanged. Each of the retirement rates for the APO tier were increased by a flat 1% over the rates currently utilized for Tier 1 members, to reflect the higher level of retirement benefits under that proposed tier.³

The detailed retirement rates under the APO tier are provided in Section 3, Exhibit I.

- Currently for Tier 1 and Tier 3 members, future inactive vested participants are assumed to begin collecting pension benefits at the later of age 58 or the current attained age. We have maintained that assumption under the APO tier, since the same normal and early retirement eligibility provisions apply under that tier. We have also left all the termination rates unchanged under the APO tier, similar to the assumptions we made in our earlier studies for Options B and E back in 2015 and 2016.
- For the LACERS Tier 1 and Tier 3 plans, there is no distinction made between service-connected disability and non-service connected disability benefits, whereas a distinction is made between those two types of disability benefits under the APO tier. Due to this distinction, we made an assumption regarding the proportion of disabilities assumed to be service connected and non-service connected. This is discussed further in the following Benefit Provisions subsection. Note, however, that we have not made any changes to the rates

³ The retirement rates utilized in this study for the APO tier are the same rates used in our Option B and Option E reports dated September 28, 2015 and April 5, 2016, respectively, since both of those studies were based on a 2.3% service retirement factor as well.

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of disability for this study, since no experience is available under either the non-enhanced or the enhanced disability benefit formulas for just the APO members. This is consistent with our past practice in pooling the disability experience of all LACERS members in developing the disability rates for various City departments.

SECTION 1: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Review Summary

BENEFIT PROVISIONS

➤ Comparison of Benefits

A comparison of the major benefit provisions under the current Tier 1 and the proposed APO tier is provided in Section 3, Exhibit II.

The transfer of existing Airport Peace Officers into the APO tier is based on the election of each member, and Tier 3 members electing to remain at LACERS would have their past service converted to Tier 1. APO employees who remain at LACERS would be responsible for a mandatory lump sum additional contribution of \$5,700 to be paid before January 8, 2019 (or prior to their retirement date, if earlier) in order to receive the APO tier enhanced benefits.

➤ Eligibility for Service Retirement

Under the current Tier 1 pension formula, normal retirement age to receive an unreduced retirement benefit is based on attaining the earlier of: (1) age 55 with 30 years of City service, (2) age 60 with 10 years of continuous City service, or (3) age 70. A subsidized, reduced early retirement benefit is paid for those members attaining age 55 with 10 years of continuous City service or any age (under 55) with 30 years of City service. The reduction is 1.5% for each year of retirement between 55 and 60 plus 3.0% for each year of retirement before age 55.

The same provisions discussed above apply to the APO tier.

➤ Service Retirement Benefit

The current Tier 1 pension formula is *Retirement Factor (2.16%) x Final Average Compensation x Service Credit x Early Retirement Reduction Factor (age based)*. The maximum pension benefit is 100% of Final Average Compensation.

Under the APO tier, the pension formula is *Retirement Factor (2.30%) x Final Average Compensation x Service Credit x Early Retirement Reduction Factor (age based)*. The maximum pension benefit is 100% of Final Average Compensation.

The same Early Retirement Reduction Factors that are used for the current Tier 1 also apply to the APO tier. Retirement Factors at sample ages, with the Early Retirement Reduction Factor applied, are provided below for the current Tier 1 and the APO tier.

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Retirement Factor (with Early Retirement Reduction Factor applied)		
<u>Age</u>	<u>Current Tier 1</u>	<u>APO Tier</u>
45	1.35%	1.44%
50	1.67%	1.78%
55	2.00%	2.13%
60	2.16%	2.30%

➤ **Disability Retirement Benefits**

For the LACERS Tier 1 plan, there is no distinction between service-connected disability and non-service connected disability benefits⁴.

Under the APO tier, there are no age or service requirements for service connected disability eligibility. For non-service connected disability benefits, members are eligible after five years of service. The service connected disability benefit is 30% to 90% of Final Average Compensation depending on the severity of the disability, with a minimum of 2% of Final Average Compensation per year of Service Credit. The non-service connected disability benefit is 30% to 50% of Final Average Compensation depending on the severity of the disability.

For cost purposes, we have assumed that 90% of disability retirements are service connected and the remaining 10% are non-service connected. This is the same assumption currently utilized in the LAFPP valuation. In addition, for all disability benefits we have assumed that the benefit calculated using the service retirement formula would be paid if the member is eligible and that benefit is greater than that calculated under the disability retirement formula.

⁴ The current disability benefit is the greater of 1/3 (or 33.33%) of Final Average Compensation or 1/70 (or 1.43%) of Final Average Compensation for each year of service.

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➤ Survivor Benefits

Under the APO tier, there is a distinction for pre- and post-retirement death benefits depending on whether the pre-retirement death or the member's original disability retirement prior to death is classified as service connected or non-service connected⁵. A comparison of the death benefits is provided in Section 3, Exhibit II. Under the APO tier, all pre-retirement deaths are assumed to be service connected.

➤ Member Contribution Rates

Effective July 1, 2011, the member normal contribution rate became 7% for all Tier 1 employees. The 7% member rate will be paid until June 30, 2026 or until the Early Retirement Incentive Program (ERIP) Cost Obligation defined in Ordinance 180926 is fully funded (whichever comes first). The member normal contribution rate will drop down to 6% afterwards. Beginning January 1, 2013, all non-represented Tier 1 members and Tier 1 members in certain bargaining groups are required to pay an additional 4% member contribution rate to defray the cost of providing a Retiree Medical Plan premium subsidy (this additional rate has increased to 4.5% for certain members). Currently, all Tier 1 (and Tier 3) APO members are paying a rate of 11%. We have assumed that they will continue to pay the same 11% rate under the APO tier.

APO employees who remain at LACERS would be responsible for a mandatory lump sum additional contribution of \$5,700 to be paid before January 8, 2019 (or prior to their retirement date, if earlier) in order to receive the APO tier enhanced benefits.

Members with no eligible spouse or domestic partner at retirement can request a refund of the survivor portion of the member contributions (i.e., generally based on a contribution rate of 0.5% of pay). Again, we have assumed under the APO tier that members will continue paying the member rates they are currently paying. We have continued to assume that the member normal contribution rate for the APO tier will drop down to 6% after June 30, 2026 or until the ERIP Cost Obligation is fully paid, whichever comes first.

➤ Health Benefits

There are no proposed changes in health plan benefits relative to the current Tier 1. The changes in the employer Normal Cost rates for the proposed health plans, as shown in Section 2, take into account the changes in the service retirement rates assumed for this study.

⁵ Under the current Tier 1 plan, there is a distinction between the eligibility for service-connected death benefits and non-service connected death benefits in that for a service-connected death, the eligible survivor is eligible for a disability survivorship benefit even if the member did not have five years of continuous service.

SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Valuation Results

A. DISCUSSION OF RESULTS

➤ Adjustment to APO Members as of June 30, 2016 to Anticipate Those Expected to Remain in Employment as of January 7, 2018

- It is our understanding that under the proposed Ordinance, only active APO members (such as the 530 and 453 that we started with in our projections as of June 30, 2016 for Scenarios 1 and 2, respectively) who remain active as of January 7, 2018 would be eligible for the enhanced benefits.
- In order to estimate the number of active APO members as of January 7, 2018, we applied the actuarial assumptions used in this study to predict expected terminations (including retirements⁶, disabilities, deaths, deferred vested retirements, and refunds). We then excluded the approximate payroll and increase in UAAL from those expected to terminate over an approximate 18-month period following June 30, 2016 from this calculation.

➤ Retirement Plan Costs

Normal Cost

- As shown in subsection B, the average entry age of the Airport Peace Officers included in this study (approximately age 29 under either Scenario 1 or Scenario 2) is about five years younger than the average entry age of all City employees included in the June 30, 2016 valuations for LACERS (approximately age 34). Generally, under the Entry Age actuarial cost method used by LACERS, a lower age at entry leads to a lower Normal Cost calculation.
- For the June 30, 2016 valuations, the Normal Cost rates were calculated based on the combined demographics of all City employees (including the Airport Peace Officers included in this study). However, for purposes of this study, we have established a baseline for cost comparison by calculating the separate Tier 1 and Tier 3 Normal Cost rates based only on the demographics of the Airport Peace Officers under the current LACERS benefit formulas, and we have aggregated those results. As shown in subsections C-1 and C-2 (pages 16 and 17), the Normal Cost rates calculated based on the demographics for Airport Peace Officers only are lower than the rates previously determined for all City employees, due to the lower average entry ages.
- As of the June 30, 2016 valuation date, Airport Peace Officers were enrolled in LACERS' Tier 1 plan if hired before July 1, 2013, or if they became a member of Tier 2 between July 1, 2013 and February 21, 2016 and were subsequently transferred to Tier 1 effective February 21, 2016 (pursuant to Ordinance No. 184134). For purposes of this study, we have included the normal costs associated with transferring all the current Airport Peace Officers from Tier 1 to the APO tier under the enhanced benefits, and we

⁶ As we have used the expected retirement assumptions used in this study under the enhanced benefit formula, we also tested the difference in the number of retirements anticipated under the enhanced and the non-enhanced benefit formulas over the 18-month period used in the projection. We do not deem the difference of 1 to 2 in expected retirements to be very significant.

SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Valuation Results

have reported separately the costs associated with treating all Tier 3 Peace Officers as Tier 1 employees. As shown on page 16, the employer Normal Cost rate increase associated with having all affected Peace Officers in Tier 1 is about 0.03% of pay (19.05% - 19.02%)⁷, under Scenario 1.

AAL and UAAL

- In addition to the changes in the Normal Costs discussed above, we have also determined the increase in the actuarial accrued liability (AAL).⁸ In order to fund the increase in the AAL for both of the Scenarios, we have presented the City with two illustrations. In the first illustration, we amortize the increase in the AAL over a 15-year period, which is the current amortization period used by LACERS for plan changes, expressed as a percentage of total Airport Peace Officer pay after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months. In the second illustration, we amortize the increase in the AAL over a 15-year period, expressed as a percentage of total LACERS pay for all members in all City departments. These additional AAL costs would need to be paid along with the additional Normal Costs discussed above.
- Increases in the UAAL rates due to changes in benefit provisions and/or actuarial assumptions are discussed in Section 2 of this report. When we calculate the increase in UAAL to reflect the benefit improvements offered under the proposed APO tier, we have separately identified (1) the contributions required to be made by the Department of Airports (which equals the difference between the Tier 1 and Tier 3 Normal Cost rates adjusted with interest at the assumed earnings rate of 7.50%) to upgrade the Tier 3 benefit to the Tier 1 benefit for the members expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018 and (2) the lump sum amount expected to be paid by January 7, 2018 of \$5,700 per employee for the Tier 1 members (including those that will convert to Tier 1 from Tier 3) expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018. Item (2), regarding the \$5,700 lump sum contribution per remaining employee, has been deducted from the UAAL contribution rate calculation. Item (1), regarding the transfer of Tier 3 APO members to Tier 1, does not need to be deducted from the UAAL contribution rate calculation, since our starting point for cost comparison assumes that all APO members are already in the Tier 1 plan. We have separately identified the cost of that Tier 3 to Tier 1 transfer at the end of subsection D-1, under Scenario 1. Note that there is no additional cost for Item (1) under Scenario 2, since there were no Tier 3 APO members under that Scenario.

⁷ In addition to the changes in Normal Cost rates discussed above, classifying future new employees hired as Airport Peace Officers as Tier 1 members means the potential Tier 3 Normal Cost savings, as current Airport Peace Officers in Tier 1 leave and are replaced by future Airport Peace Officers in Tier 3, will not materialize.

⁸ For active members, the actuarial accrued liability is the accumulated value of the past Normal Costs, assuming that the same Normal Cost rate (expressed as a level percentage of payroll) has always been contributed from the member's age at entry into LACERS through the date of this valuation as of June 30, 2016.

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> Health Plan Costs

- As noted in the Benefit Provisions subsection of Section 1, there are no proposed changes in health plan benefits. However, as observed in this Section 2, we have calculated changes in the Normal Cost rates under both Scenarios, due to the changes in the service retirement rates assumed for this study.

> Summary of Total Additional Costs

- Details on the additional costs under Scenarios 1 and 2, separately and combined for the retirement and the health plans, are provided in Section 2, subsections D-1 and D-2, respectively. Below we have provided a summary of the results for both plans combined, which are also shown in those subsections.
- It is beyond the scope of this study and, hence, we have excluded from our analysis the cost associated with providing LAFPP Tier 6 benefits for those APO members who elect to transfer out of LACERS. For a discussion of that cost, please refer to our letter dated July 7, 2016.

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Valuation Results**

Additional Costs

*Contribution rates are payable at the beginning of the year;
expressed as a % of payroll*

	Scenario 1 – All APO Members		Scenario 2 – Only APO Members with 5 or more Years of Service	
	Normal Retirement Factor of 2.30% with Death and Disability Benefits Identical to LAFPP Tier 6		Normal Retirement Factor of 2.30% with Death and Disability Benefits Identical to LAFPP Tier 6	
	<u>% of Payroll</u>	<u>Annual Amount⁽¹⁾</u>	<u>% of Payroll</u>	<u>Annual Amount⁽¹⁾</u>
Retirement and Health Plans Combined				
1. Increase in Total Normal Cost	2.23% ⁽²⁾		2.21%	
2. Expected Employee Contributions	<u>0.00%</u>		<u>0.00%</u>	
3. Increase in Employer Normal Cost: (1) + (2)	2.23%	\$1,032,229	2.21%	\$929,099
4. (a) Actuarial Accrued Liability	\$22,884,345		\$22,669,277	
(b) Reduction in AAL due to Exiting Workforce	\$3,779,656		\$3,786,659	
(c) Mandatory \$5,700 Contribution Per Remaining Employee ⁽³⁾	<u>\$2,470,837</u>		<u>\$2,128,863</u>	
(d) Net AAL (4a) - (4b) - (4c)	\$16,633,852		\$16,753,755	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽⁴⁾	2.99%	\$1,384,020	3.32%	\$1,395,751
(b) 15-Yr Amortization of AAL / Total Pay ⁽⁴⁾	0.07%	\$1,384,020	0.07%	\$1,395,751

⁽¹⁾ Based on projected fiscal year 2016/2017 payroll after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months (\$46,288,290 Scenario 1; \$42,040,696 Scenario 2), except for item 5(b) which is based on payroll for all LACERS members in all City departments (\$1,968,702,630).

⁽²⁾ Excludes the cost of classifying current Tier 3 Airport Peace Officers as Tier 1.

⁽³⁾ Discounted to June 30, 2016.

⁽⁴⁾ We have presented two illustrations for paying off the additional AAL associated with these Scenarios.

Note that under Scenario 1, there is an additional cost to the costs shown above associated with upgrading the Tier 3 benefit to the Tier 1 benefit for the members expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018. We have estimated the lump sum contribution amount for that upgrade to be about \$14,600 as of January 7, 2018.

SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Valuation Results

Scenarios 1 and 2

- The increase in the Normal Cost rate under Scenarios 1 and 2 is due to (a) the increase in the benefit level for the retirement plan, and (b) the changes in the assumed service retirement rates.
- As illustrated above, there is an increase in the AAL under these Scenarios. The increase in the AAL is due (a) the changes in the assumed service retirement rates, and (b) the assumption that the higher Normal Cost rates calculated under these Scenarios have been charged from the dates of entry into LACERS for the members included in the study to the date of this valuation, rather than the actual Normal Cost rates that have been charged over that period based on the current Tier 1 and Tier 3 plans⁹.
- As we have mentioned throughout this report, the contribution rates provided herein assume that all contributions will be paid at the beginning of the year. If it is desired to consider results based on different timing for payment of contributions, such as July 15 or at the end of each pay period (similar to the timing scenarios utilized in the LACERS valuations), then the contribution rates provided herein will have to be adjusted. We will provide the adjustment factors if requested to do so by LACERS.

⁹ This assumption is an intrinsic feature of LACERS' Entry Age Cost Method and the setting of the Normal Cost rates as a level percentage of payroll.

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

B. Demographics as of June 30, 2016

	Tier 1	Tier 3	Tiers 1 and 3 Combined
Active Members in Valuation*:			
<i>Scenario 1: All Airport Peace Officers</i>			
Number of employees	524	6	530
Average entry age	28.9	31.7	29.0
Average employment service	14.5	0.1	14.3
Average attained age	43.4	31.8	43.3
Projected total compensation for FY 2016/2017, assuming each employee stays in employment during the entire fiscal year	\$50,441,047	\$313,657	\$50,754,704
Projected average compensation	\$96,262	\$52,276	\$95,764
Projected total compensation for FY 2016/2017, after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months**			\$46,288,290
<i>Scenario 2: Only Airport Peace Officers with 5 or more Years of Service</i>			
Number of employees	453	0	453
Average entry age	28.7	N/A	28.7
Average employment service	16.5	N/A	16.5
Average attained age	45.2	N/A	45.2
Projected total compensation for FY 2016/2017, assuming each employee stays in employment during the entire fiscal year	\$45,746,133	N/A	\$45,746,133
Projected average compensation	\$100,985	N/A	\$100,985
Projected total compensation for FY 2016/2017, after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months**			\$42,040,696

* The data used for this study is from the June 30, 2016 valuation data, and it includes data for three non-represented members plus members hired under the following Bargaining Units only: 30 (L. A. Airport Peace Officers), 39 (L. A. Airport Supervisory Peace Officers), and 40 (Airport Peace Command Officers).

** Based on the actuarial assumptions utilized for the enhanced benefits.

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

C-1. Current Normal Cost Contribution Rates and Actuarial Accrued Liability as of June 30, 2016 – All APO Members (Scenario 1)

Contribution rates payable at the beginning of the year, expressed as a % of payroll

	Paid by the City for all City Departments		Based on Demographic Profile of Airport Peace Officers Only			Re-calculated as if all Airport Peace Officers are Enrolled in Tier 1
	<u>Tier 1</u>	<u>Tier 3</u>	<u>Tier 1</u>	<u>Tier 3</u>	<u>Combined</u>	<u>Tier 1</u>
Retirement Plan						
1. Total Normal Cost	17.35%	14.45%	16.06%	13.11%	16.05%	16.07%
2. Expected Employee Contributions ⁽¹⁾	<u>-10.61%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>
3. Employer Normal Cost: (1) + (2)	6.74%	3.85%	5.46%	2.51%	5.45%	5.47%
4. Actuarial Accrued Liability						\$189,041,953
Health Plan						
1. Total Normal Cost	3.47%	3.81%	2.96%	4.57%	2.97%	2.98%
2. Expected Employee Contributions	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>
3. Employer Normal Cost: (1) + (2)	3.47%	3.81%	2.96%	4.57%	2.97%	2.98%
4. Actuarial Accrued Liability						\$32,908,389
Total						
1. Total Normal Cost	20.82%	18.26%	19.02%	17.68%	19.02%	19.05%
2. Expected Employee Contributions	<u>-10.61%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>	<u>-10.60%</u>
3. Employer Normal Cost: (1) + (2)	10.21%	7.66%	8.42%	7.08%	8.42%	8.45%
4. Actuarial Accrued Liability						\$221,950,342

⁽¹⁾ Discounted to beginning of year. The average employee rates for contributions made at the end of each pay period are actually 11.01% (Tier 1, All City Departments), 11.00% (Tier 3, All City Departments), 11.00% (Tier 1, Airport Peace Officers Only), 11.00% (Tier 3, Airport Peace Officers Only), and 11.00% (Combined, Airport Peace Officers Only).

As shown above, classifying current Tier 3 Airport Peace Officers as Tier 1 members has increased the total (retirement and health plan) employer and employee Normal Cost rate by 0.03% of pay (i.e., from 19.02% to 19.05%). In addition, future new employees hired as Airport Peace Officers will be enrolled in the LAFPP Tier 6 plan instead of the LACERS Tier 1 plan. It is also beyond the scope of this study and, hence, we have excluded from our analysis the cost associated with providing LAFPP Tier 6 benefits to those future new employees. For a discussion of that cost, please refer to our letter dated July 7, 2016.

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

C-2. Current Normal Cost Contribution Rates and Actuarial Accrued Liability as of June 30, 2016 – Only APO Members with 5 or more Years of Service (Scenario 2)

Contribution rates payable at the beginning of the year, expressed as a % of payroll

	Paid by the City for all City Departments		Based on Demographic Profile of Airport Peace Officers Only			Re-calculated as if all Airport Peace Officers are Enrolled in Tier 1
	<u>Tier 1</u>	<u>Tier 3</u>	<u>Tier 1</u>	<u>Tier 3</u>	<u>Combined</u>	<u>Tier 1</u>
Retirement Plan						
1. Total Normal Cost	17.35%	14.45%	16.01%	N/A	16.01%	16.01%
2. Expected Employee Contributions ⁽¹⁾	<u>-10.61%</u>	<u>-10.60%</u>	<u>-10.60%</u>	N/A	<u>-10.60%</u>	<u>-10.60%</u>
3. Employer Normal Cost: (1) + (2)	6.74%	3.85%	5.41%	N/A	5.41%	5.41%
4. Actuarial Accrued Liability						\$187,533,717
Health Plan						
1. Total Normal Cost	3.47%	3.81%	2.84%	N/A	2.84%	2.84%
2. Expected Employee Contributions	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>	N/A	<u>-0.00%</u>	<u>-0.00%</u>
3. Employer Normal Cost: (1) + (2)	3.47%	3.81%	2.84%	N/A	2.84%	2.84%
4. Actuarial Accrued Liability						\$32,589,257
Total						
1. Total Normal Cost	20.82%	18.26%	18.85%	N/A	18.85%	18.85%
2. Expected Employee Contributions	<u>-10.61%</u>	<u>-10.60%</u>	<u>-10.60%</u>	N/A	<u>-10.60%</u>	<u>-10.60%</u>
3. Employer Normal Cost: (1) + (2)	10.21%	7.66%	8.25%	N/A	8.25%	8.25%
4. Actuarial Accrued Liability						\$220,122,974

⁽¹⁾ Discounted to beginning of year. The average employee rates for contributions made at the end of each pay period are actually 11.01% (Tier 1, All City Departments), 11.00% (Tier 3, All City Departments), 11.00% (Tier 1, Airport Peace Officers Only), and 11.00% (Combined, Airport Peace Officers Only).

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

D-1. Comparison of Costs – All APO Members (Scenario 1)

Contribution rates payable at the beginning of the year, expressed as a % of payroll

	<u>Current Benefit Formula</u>	<u>New Benefit Formula</u>	<u>Difference</u>	
	<u>% of Payroll</u>	<u>% of Payroll</u>	<u>% of Payroll</u>	<u>Annual Amount⁽¹⁾</u>
Retirement Plan				
1. Total Normal Cost	16.07%	18.22%	2.15%	
2. Expected Employee Contributions ⁽²⁾	<u>-10.60%</u>	<u>-10.60%</u>	<u>-0.00%</u>	
3. Employer Normal Cost: (1) + (2)	5.47%	7.62%	2.15%	\$995,198
4. (a) Actuarial Accrued Liability (AAL)	\$189,041,953	\$210,981,739	\$21,939,786	
(b) Reduction in AAL due to Exiting Workforce			<u>\$3,582,333</u>	
(c) Net AAL (4a) - (4b)			\$18,357,453	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			3.30%	\$1,527,514
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.08%	\$1,527,514
Health Plan				
1. Total Normal Cost	2.98%	3.06%	0.08%	
2. Expected Employee Contributions	<u>-0.00%</u>	<u>-0.00%</u>	<u>-0.00%</u>	
3. Employer Normal Cost: (1) + (2)	2.98%	3.06%	0.08%	\$37,031
4. (a) Actuarial Accrued Liability	\$32,908,389	\$33,852,948	\$944,559	
(b) Reduction in AAL due to Exiting Workforce			<u>\$197,323</u>	
(c) Net AAL (4a) - (4b)			\$747,236	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			0.13%	\$60,175
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.00% ⁽⁴⁾	\$60,175
Total				
1. Total Normal Cost	19.05%	21.28%	2.23% ⁽⁵⁾	
2. Expected Employee Contributions	<u>-10.60%</u>	<u>-10.60%</u>	<u>-0.00%</u>	
3. Employer Normal Cost: (1) + (2)	8.45%	10.68%	2.23%	\$1,032,229
4. (a) Actuarial Accrued Liability	\$221,950,342	\$244,834,687	\$22,884,345	
(b) Reduction in AAL due to Exiting Workforce			\$3,779,656	
(c) Mandatory \$5,700 Contribution Per Remaining Employee			<u>\$2,470,837</u> ⁽⁶⁾	
(d) Net AAL (4a) - (4b) - (4c)			\$16,633,852	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			2.99%	\$1,384,020
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.07%	\$1,384,020

⁽¹⁾ Based on projected fiscal year 2016/2017 payroll of \$46,288,290 after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months, except for item 5(b) which is based on payroll for all LACERS members in all City departments (\$1,968,702,630).

⁽²⁾ The average employee rate for contributions made at the end of each pay period is actually 11.00% for both the current and new formulas.

⁽³⁾ We have presented two illustrations for paying off the additional AAL associated with this Scenario.

⁽⁴⁾ Less than 0.01%.

⁽⁵⁾ Excludes the cost of classifying current Tier 3 Airport Peace Officers as Tier 1 that was noted on the bottom of page 15 (i.e., 0.03% of pay) as that cost is already included under the current benefit formula.

⁽⁶⁾ Discounted to June 30, 2016. The value of this amount as of January 7, 2018 is approximately \$2,754,000.

SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Valuation Results

D-1. Comparison of Costs – All APO Members (Scenario 1; continued)

In addition to the employer contribution rates provided above, it is anticipated that the employer would continue to contribute the same UAAL rates of 15.44% and 1.43% of total payroll for the pension and health plans¹⁰, respectively, that were determined in the June 30, 2016 valuation. This is because the UAAL rates were determined as a level percent of pay including payrolls for all current members plus new entrants who entered LACERS after June 30, 2016.

As discussed in Section 1, we have also estimated the contributions required to be made by the Department of Airports to upgrade the Tier 3 benefit to the Tier 1 benefit for the members expected to continue in employment as APO and elect to remain at LACERS on January 7, 2018. This lump sum contribution amount equals the difference between the Tier 1 and Tier 3 Normal Cost rates, adjusted with interest at the assumed earnings rate of 7.50%. Based on the data provided for the June 30, 2016 valuation for the 6 active Tier 3 APO members as of that date, we have estimated the lump sum contribution amount to be about \$14,600. This amount can be broken down as \$15,600 for the Retirement Plan and negative \$1,000 for the Health Plan. The Health Plan figure is actually a negative amount since the Tier 3 Health Plan Normal Cost rates have been higher than the Tier 1 Normal Cost rates over the period from February 21, 2016 (the inception date of Tier 3) through January 7, 2018.

Finally, we also discussed in Section 1 that we would provide in this subsection the lump sum contribution amount on January 7, 2018 representing a total payment of \$5,700 from every Airport Peace Officer Member who elected to remain in LACERS as of that date. Based on the actuarial assumptions used in this study, we have estimated that a lump sum amount of about \$2,754,000 would be due to LACERS as of January 7, 2018. In the chart shown on the previous page, we have discounted this amount with interest to the June 30, 2016 valuation date in order to present costs on that page all as of the June 30, 2016 valuation date.

¹⁰ Assumes contributions made at the beginning of the year.

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

D-2. Comparison of Costs – Only APO Members with 5 or more Years of Service (Scenario 2)

Contribution rates payable at the beginning of the year, expressed as a % of payroll

	Current Benefit Formula	New Benefit Formula	Difference	
	% of Payroll	% of Payroll	% of Payroll	Annual Amount ⁽¹⁾
Retirement Plan				
1. Total Normal Cost	16.01%	18.14%	2.13%	
2. Expected Employee Contributions ⁽²⁾	<u>-10.60%</u>	<u>-10.60%</u>	<u>0.00%</u>	
3. Employer Normal Cost: (1) + (2)	5.41%	7.54%	2.13%	\$895,467
4. (a) Actuarial Accrued Liability (AAL)	\$187,533,717	\$209,271,784	\$21,738,067	
(b) Reduction in AAL due to Exiting Workforce			<u>\$3,587,557</u>	
(c) Net AAL (4a) - (4b)			\$18,150,510	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			3.59%	\$1,509,261
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.08%	\$1,509,261
Health Plan				
1. Total Normal Cost	2.84%	2.92%	0.08%	
2. Expected Employee Contributions	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
3. Employer Normal Cost: (1) + (2)	2.84%	2.92%	0.08%	\$33,633
4. (a) Actuarial Accrued Liability	\$32,589,257	\$33,520,467	\$931,210	
(b) Reduction in AAL due to Exiting Workforce			<u>\$199,102</u>	
(c) Net AAL (4a) - (4b)			\$732,108	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			0.14%	\$58,857
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.00% ⁽⁴⁾	\$58,857
Total				
1. Total Normal Cost	18.85%	21.06%	2.21%	
2. Expected Employee Contributions	<u>-10.60%</u>	<u>-10.60%</u>	<u>0.00%</u>	
3. Employer Normal Cost: (1) + (2)	8.25%	10.46%	2.21%	\$929,099
4. (a) Actuarial Accrued Liability	\$220,122,974	\$242,792,251	\$22,669,277	
(b) Reduction in AAL due to Exiting Workforce			\$3,786,659	
(c) Mandatory \$5,700 Contribution Per Remaining Employee			<u>\$2,128,863</u> ⁽⁵⁾	
(d) Net AAL (4a) - (4b) - (4c)			\$16,753,755	
5. (a) 15-Yr Amortization of AAL / APO Pay ⁽³⁾			3.32%	\$1,395,751
(b) 15-Yr Amortization of AAL / Total Pay ⁽³⁾			0.07%	\$1,395,751

⁽¹⁾ Based on projected fiscal year 2016/2017 payroll of \$42,040,696 after accounting for APO members expected to exit the workforce according to the actuarial assumptions over the next 18 months, except for item 5(b) which is based on payroll for all LACERS members in all City departments (\$1,968,702,630).

⁽²⁾ The average employee rate for contributions made at the end of each pay period is actually 11.00% for both the current and new formulas.

⁽³⁾ We have presented two illustrations for paying off the additional AAL associated with this Scenario.

⁽⁴⁾ Less than 0.01%.

⁽⁵⁾ Discounted to June 30, 2016. The value of this amount as of January 7, 2018 is approximately \$2,373,000.

**SECTION 2: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Valuation Results**

D-2. Comparison of Costs – Only APO Members with 5 or more Years of Service (Scenario 2; continued)

In addition to the employer contribution rates provided above, it is anticipated that the employer would continue to contribute the same UAAL rates of 15.44% and 1.43% of total payroll for the pension and health plans¹¹, respectively, that were determined in the June 30, 2016 valuation. This is because the UAAL rates were determined as a level percent of pay including payrolls for all current members plus new entrants who entered LACERS after June 30, 2016.

We discussed in Section 1 that we would provide in this subsection the lump sum contribution amount on January 7, 2018 representing a total payment of \$5,700 from every Airport Peace Officer Member who elected to remain in LACERS as of that date. Based on the actuarial assumptions used in this study, we have estimated that a lump sum amount of about \$2,373,000 would be due to LACERS as of January 7, 2018. In the chart shown on the previous page, we have discounted this amount with interest to the June 30, 2016 valuation date in order to present costs on that page all as of the June 30, 2016 valuation date.

¹¹ Assumes contributions made at the beginning of the year.

**SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Supporting Exhibits**

EXHIBIT I

Actuarial Assumptions for Current and Proposed Benefits

Actuarial Assumptions:

The service retirement assumptions used in determining the results under the current and the proposed tiers are shown on the following page. We have also shown the service connected disability, non-service connected disability, and pre-retirement death benefit assumptions under the APO tier.

Except as noted in this Exhibit, all other actuarial assumptions are the same as those adopted by the Retirement Board for use in the June 30, 2016 actuarial valuation.

**SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Supporting Exhibits**

Retirement Rates:

Age	Rate (%)			
	Current Tier 1		APO Tier	
	Non-55/30	55/30	Non-55/30	55/30
50	6.0	0.0	7.0	0.0
51	3.0	0.0	4.0	0.0
52	3.0	0.0	4.0	0.0
53	3.0	0.0	4.0	0.0
54	16.0	0.0	17.0	0.0
55	6.0	20.0	7.0	21.0
56	6.0	14.0	7.0	15.0
57	6.0	14.0	7.0	15.0
58	6.0	14.0	7.0	15.0
59	6.0	14.0	7.0	15.0
60	6.0	14.0	7.0	15.0
61	6.0	14.0	7.0	15.0
62	7.0	15.0	8.0	16.0
63	7.0	15.0	8.0	16.0
64	7.0	16.0	8.0	17.0
65	12.0	17.0	13.0	18.0
66	12.0	17.0	13.0	18.0
67	12.0	17.0	13.0	18.0
68	12.0	17.0	13.0	18.0
69	12.0	17.0	13.0	18.0
70	100.0	100.0	100.0	100.0

**SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Supporting Exhibits**

Service Connected Disability Benefits:

APO Tier:

Years of Service	Benefit
Less than 20	55% of Final Average Compensation
20 – 30	65% of Final Average Compensation
More than 30	75% of Final Average Compensation

Breakdown of Types of Disability Retirement: 90% of disabilities are assumed to be service connected. The other 10% are assumed to be non-service connected.

Non-Service Connected Disability Benefits:

APO Tier:

40% of Final Average Compensation.

Pre-retirement Death Benefits:

APO Tier:

100% of pre-retirement death benefits are assumed to be service connected.

SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Supporting Exhibits

**EXHIBIT II
Plan Summary for Current and Proposed Benefits**

Plan Provisions: In the following table, we have provided a high-level comparison of the pertinent benefits for the proposed APO tier. Unless included in the table, all the other plan provisions are assumed to be the same as those used in the June 30, 2016 valuation for Tier 1 members.

<u>Plan Design</u>	<u>Current Tier 1</u>	<u>APO Tier</u>
<i>Transfers</i>	Not Applicable	Current members can elect to remain at LACERS under the APO tier of benefits or purchase their past LACERS service and transfer to LAFPP Tier 6.
<i>Retirement Formula (Normal Retirement Age)</i>	Retirement Factor * Final Average Compensation * Service Credit	Retirement Factor * Final Average Compensation * Service Credit
<i>Retirement Factor</i>	2.16%	2.30%
<i>Final Average (Monthly) Compensation</i>	Equivalent of monthly average salary of highest continuous 12 months (one year); includes base salary plus regularly assigned bonuses or premium pay.	Equivalent of monthly average salary of highest continuous 12 months (one year); includes base salary plus regularly assigned bonuses or premium pay.
<i>Maximum Retirement Allowance</i>	100% of Final Average Compensation	100% of Final Average Compensation
<i>Normal Retirement</i>	<u>Age and Service Requirement</u> Age 55 with 30 years of City service; or Age 60 with 10 years of continuous City service; or Age 70	<u>Age and Service Requirement</u> Age 55 with 30 years of City service; or Age 60 with 10 years of continuous City service; or Age 70
<i>Early Retirement</i>	<u>Age and Service Requirement</u> Age 55 with 10 years of continuous City service; or Any age with 30 years of City service	<u>Age and Service Requirement</u> Age 55 with 10 years of continuous City service; or Any age with 30 years of City service
<i>Early Retirement Reduction Factor</i>	3% per year of service before age 55; 1.5% per year of service after age 55	3% per year of service before age 55; 1.5% per year of service after age 55
<i>Sample Early Retirement Factors</i>	Age 45: 0.6250 Age 55: 0.9250 Age 50: 0.7750 Age 60: 1.0000	Age 45: 0.6250 Age 55: 0.9250 Age 50: 0.7750 Age 60: 1.0000
<i>Vesting</i>	5 years	5 years

**SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier 1</u>	<u>APO Tier</u>
<i>Deferred Vested Retirement</i>	<p><u>Age and Service Requirement:</u> Age 55 with 30 years of service; or Age 60 with 5 years of continuous City service and 10 years have elapsed from first date of membership; or Age 70 with 5 years of continuous City service</p> <p><u>Benefit:</u> Same as for Normal Retirement (or refund of contributions and accumulated interest)</p>	<p><u>Age and Service Requirement:</u> Age 55 with 30 years of service; or Age 60 with 5 years of continuous City service and 10 years have elapsed from first date of membership; or Age 70 with 5 years of continuous City service</p> <p><u>Benefit:</u> Same as for Normal Retirement (or refund of contributions and accumulated interest)</p>
	<p><u>Age and Service Requirement:</u> Age 55 with 5 years of continuous City service and 10 years have elapsed from first date of membership; or Age 55 with 10 years of continuous City service</p> <p><u>Benefit:</u> Same as for Early Retirement (or refund of contributions and accumulated interest)</p>	<p><u>Age and Service Requirement:</u> Age 55 with 5 years of continuous City service and 10 years have elapsed from first date of membership; or Age 55 with 10 years of continuous City service</p> <p><u>Benefit:</u> Same as for Early Retirement (or refund of contributions and accumulated interest)</p>
<i>Service Connected Disability</i>	<p>There is no distinction between service connected and non-service connected disability.</p> <p><u>Age and Service Requirement:</u> 5 years of continuous service</p> <p><u>Benefit:</u> Greater of: 1/3 of Final Average Compensation, or 1/70 (1.43%) of Final Average Compensation for each year of service</p>	<p>Disability caused by the discharge of duties.</p> <p><u>Age and Service Requirement:</u> No age or service requirements</p> <p><u>Benefit:</u> 30% to 90% of Final Average Compensation depending on severity of disability with a minimum of 2% of Final Average Compensation per year of Service Credit</p>
<i>Non-Service Connected Disability</i>	<p>See Service Connected Disability</p>	<p>Disability not caused by the discharge of duties.</p> <p><u>Age and Service Requirement:</u> 5 years of continuous service</p> <p><u>Benefit:</u> 30% to 50% of Final Average Compensation depending on severity of disability</p>

SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS Supporting Exhibits

<u>Plan Design</u>	<u>Current Tier 1</u>	<u>APO Tier</u>
<i>Service Connected Death or Death after Service Connected Disability</i>	<p><u>Age and Service Requirement:</u> For beneficiaries of active members, benefits are based upon member's eligibility for retirement on the date of death and whether or not the member was enrolled in the Family Death Benefit Plan (FDBP). If service connected death, the eligible surviving spouse is eligible for a disability survivorship even if the member did not have five years of continuous service.</p> <p><u>Benefit:</u> (1) Service survivorship (if eligible); or (2) Vested service survivorship on the date the member would have been age 55 and contributions on deposit for 10 years from date of entry; or (3) Disability survivorship and FDBP (if eligible); or (4) Refund of contributions and limited monthly pension (i.e., for every year of service, two monthly payments of ½ of the Final Average Compensation, not to exceed 12 monthly payments for 6 or more years of service) and FDBP (if eligible)</p>	<p><u>Age and Service Requirement:</u> None (survivors are not eligible for FDBP benefits if the member was eligible for service retirement or deferred retirement benefits at the time of his/her death)</p> <p><u>Benefit:</u> <i>Service Connected Death</i> 80% of member's Final Average Compensation</p> <p><i>Death after Service Connected Disability</i> If the death occurs within three years of the member's effective date of pension, then the eligible survivor shall receive 80% of the Final Average Compensation.</p> <p>Otherwise, a pension equal to 80% of the pension received by the deceased member immediately preceding the date of death.</p>
<i>Non-Service Connected Death w/ less than 5 Years of Service</i>	<p><u>Age and Service Requirement:</u> None</p> <p><u>Benefit:</u> Return of contributions plus accrued interest, and, if member had at least one year of service, a limited monthly pension (i.e., for every year of service, two monthly payments of ½ of the Final Average Compensation, not to exceed 12 monthly payments for 6 or more years of service)</p>	<p><u>Age and Service Requirement:</u> None</p> <p><u>Benefit:</u> Return of contributions plus accrued interest, and, if member had at least one year of service, a limited monthly pension (i.e., for every year of service, two monthly payments of ½ of the Final Average Compensation, not to exceed 12 monthly payments for 6 or more years of service)</p>
<i>Non-Service Connected Death w/at least 5 Years of Service</i>	<p><u>Age and Service Requirement:</u> Any age with 5 years of service</p> <p><u>Benefit:</u> See service connected death benefit above (note: the exception does not apply to non-service connected deaths)</p>	<p><u>Age and Service Requirement:</u> Any age with 5 years of service</p> <p><u>Benefit:</u> 50% of member's Final Average Compensation</p>
<i>Death after Non-service Connected Disability or Service Retirement</i>	50% of retired member's pension at no cost to member. Optional continuance up to 100% of retired member's pension at a cost to member.	Pension equal to 70% of the pension received by the deceased member
<i>Burial Allowance</i>	\$2,500 for deceased retired member's beneficiary	\$2,500 for deceased retired member's beneficiary

**SECTION 3: Proposed Enhanced Benefits for Airport Peace Officers Who Elect to Remain at LACERS
Supporting Exhibits**

<u>Plan Design</u>	<u>Current Tier 1</u>	<u>APO Tier</u>
<i>Cost of Living Benefit</i>	Based on changes to Los Angeles area Consumer Price Index, to a maximum of 3% per year; excess banked	Based on changes to Los Angeles area Consumer Price Index, to a maximum of 3% per year; excess banked
<i>Employee Contribution Rate</i>	11% (or 11.5% for certain members) until June 30, 2026 or until the ERIP Cost Obligation is fully paid, then 10% (or 10.5% for members currently paying 11.5%). Members with no eligible spouse or domestic partner at retirement can request a refund of the survivor portion of the member contributions (i.e., generally based on a contribution rate of 0.5% of pay).	11% until June 30, 2026 or until the ERIP Cost Obligation is fully paid, then 10%. In addition, APO employees who remain at LACERS would be responsible for a mandatory lump sum additional contribution of \$5,700 to be paid before January 8, 2019 (or prior to their retirement date, if earlier) in order to receive the APO tier enhanced benefits. Members with no eligible spouse or domestic partner at retirement can request a refund of the survivor portion of the member contributions (i.e., generally based on a contribution rate of 0.5% of pay).
<i>Health Plan Benefits</i>	Current Tier 1 benefits	Same as for LACERS Tier 1 members

Notes: (1) The cost of service credit purchases (such as back contributions, re-deposit, public service buyback, and government service buyback) have not been reflected in the costs provided in this study, under any of the tier provisions listed above.

(2) Any costs associated with the Family Death Benefit Plan have not been included in this study.

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