



SACHI A. HAMAI
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

"To Enrich Lives Through Effective And Caring Service"

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

March 13, 2018

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

16 March 13, 2018

CELIA ZAVALA
ACTING EXECUTIVE OFFICER

**ADJUSTMENTS TO EMPLOYEE RETIREMENT CONTRIBUTION RATES
FOR PUBLIC EMPLOYEES' PENSION REFORM ACT OF 2013
DEFINED BENEFIT PLANS
ALL DISTRICTS
(3 VOTES)**

SUBJECT

Recommendation to approve adjustments to the employee retirement contribution rates for the Los Angeles County Employees Retirement Association (LACERA) defined benefit plans established pursuant to the Public Employees' Pension Reform Act of 2013 (PEPRA). The recommended changes are effective July 1, 2018, and are applicable only to represented and non-represented employees who are members of General Plan G or Safety Plan C.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve the employee contribution rate changes effective July 1, 2018, for all represented and non-represented employees who are members of General Member Plan G or Safety Member Plan C (Attachment A).
2. Instruct the Auditor-Controller to make the system changes necessary to implement this recommendation.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The County Employees Retirement Law of 1937 requires that an actuarial valuation of the retirement system be conducted at least once every three years. This law further requires that on the basis of such valuation, a recommendation is to be made to the Board of Supervisors (Board) at least 45

days prior to the beginning of the succeeding fiscal year to change employer and/or member contribution rates, as may be necessary, to properly fund the retirement system. Although a triennial review is required by law, the plan actuary (Milliman) conducts an annual review pursuant to LACERA's Board of Investments' Retirement Funding Policy to measure the plan's funding progress and to recommend any contribution rate changes.

The purpose of this recommendation is to set the employee contribution rates only for the defined benefit plans established pursuant to PEPRA - General Plan G and Safety Plan C. The recommended rates are applicable to and are the same for represented and non-represented members of these plans. Also, the recommended rates are at a level that represents a 50 percent share of the plans' benefit costs based upon the June 30, 2017 LACERA actuarial valuation report prepared by Milliman. This report was subsequently approved by LACERA's Board of Investments on January 10, 2018.

Employee Contribution Rate Change Schedule

The employee contribution rates for PEPRA plans (General Member Plan G and Safety Member Plan C) must be changed annually, if indicated by the annual actuarial valuation, to ensure that the employee contribution rates are maintained at a level that represents a 50 percent share of the plans' benefit costs.

In contrast, the employee contribution rates for the non-PEPRA plans (General Member Plans A, B, C, and D and Safety Member Plans A and B) are adjusted on a triennial basis, if warranted, by the Investigation of Experience study (experience study) that the plan actuary conducts in conjunction with the annual valuation. The experience study reviews the reasonableness of the economic and non-economic actuarial assumptions used to derive the employee and employer contribution rates. Specifically, it compares the actual experience to what was predicted to happen using these actuarial assumptions. The actuary then determines whether any changes to the underlying assumptions or methodology are warranted to better project the retirement benefit plan's liabilities and asset growth. If changes are made, the non-PEPRA employee contribution rates are adjusted accordingly.

The last adjustment to these non-PEPRA plans was made effective July 1, 2017, based upon the June 30, 2016 valuation. Since there was no experience study conducted in conjunction with the June 30, 2017 valuation, Milliman did not recommend any changes to the employee contribution rates for the non-PEPRA plans at this time. If rate changes are recommended following the next scheduled experience study and valuation period ending June 30, 2019, we will return to the Board with revised employee contribution rates for these non-PEPRA plans, effective July 1, 2020.

General Plan G and Safety Plan C

As described in rate change letters from previous years, PEPRA revised retirement contribution and benefits formulas, and required the County to implement several significant changes with respect to contribution rates. One of the most significant changes mandated by PEPRA was the requirement that all new members of a California public retirement system as of January 1, 2013, must pay at least 50 percent of the normal cost of funding the retirement benefit. Normal cost is defined as the percentage of payroll for each fiscal year that must be contributed to the retirement fund to pay for the promised benefit as determined by the retirement plan actuary. To comply with these funding requirements, two new PEPRA defined benefit plans (General Member Plan G and Safety Member Plan C) were established and the non-contributory General Member Plan E was closed to new members, effective November 27, 2012.

Aside from the 50/50 cost sharing feature, these plans differ from the legacy LACERA defined benefit plans in that the employee contribution rates are the same for all participants regardless of entry age. This flat rate feature has significant advantages over the entry age-based rates, including ease of administration and lower probability of calculation errors. Additionally, based upon a LACERA survey of other California public retirement plans, most are using flat rates versus entry age-based rates.

Implementation of Strategic Plan Goals

The retirement benefit and funding changes provided for in these recommendations are directly responsive to the Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability by ensuring sufficient funding of the County's retirement system and providing a means to more easily administer the subject plans.

FISCAL IMPACT/FINANCING

Since these recommendations are limited to changing the employee portion of the retirement contribution rates for PEPRA defined benefit plans, there is no increase in net County costs.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The unions were advised. The Coalition of County Unions was notified on January 29, 2018, and the Service Employees International Union Local 721 on January 31, 2018. The recommended rates are detailed in Attachment A.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

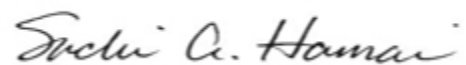
None.

The Honorable Board of Supervisors

3/13/2018

Page 4

Respectfully submitted,

A handwritten signature in cursive script that reads "Sachi A. Hamai".

SACHI A. HAMAI

Chief Executive Officer

SAH:JJ:MM:MTK

SM:LR:mst

Enclosures

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Human Resources
Los Angeles County Employees Retirement
Association
Coalition of County Unions
SEIU Local 721

**EMPLOYEE CONTRIBUTION RATES FOR PEPRA RETIREMENT PLANS
EFFECTIVE JULY 1, 2018**

Retirement Plan	New Recommended Rate <i>(same for all entry ages)</i>	Current Rates Effective 7/1/2017
General Members – Retirement Plan G	8.43%	8.31%
Safety Members – Retirement Plan C	13.87%	14.00%