County of Los Angeles
CHIEF EXECUTIVE OFFICE
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WILLIAM T FUJIOKA
Chief Executive Officer

November 27, 2012

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

21 November 27, 2012

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

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

Dear Supervisors:

RECOMMENDATION TO CLOSE LACERA RETIREMENT PLAN E
(ALL SUPERVISORIAL DISTRICTS - 3 VOTES)

SUBJECT

This letter and accompanying resolution recommends the closure of the Los Angeles County Employees Retirement Association (LACERA) Retirement Plan E to employees first hired into an eligible position by the County on or after November 27, 2012 including those employees who establish reciprocity under the defined benefit retirement system administered by LACERA (System).

IT IS RECOMMENDED THAT THE BOARD:

1. Approve the attached resolution to close Plan E, effective November 27, 2012.

2. Instruct the Auditor-Controller to make the payroll system changes necessary to implement these recommendations.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On September 12, 2012, Governor Brown signed the California Public Employee's Pension Reform Act of 2013 (PEPRA) into law. Generally speaking, PEPRA revises existing retirement contribution and benefits formulas and increases the cost-sharing obligation for any "new member" of a California public retirement system on and after January 1, 2013. With a few exceptions, most provisions for current members remain unchanged.

The only pension plans exempt from PEPRA are those under the University of California system and charter cities and counties that do not participate in California Public Employees' Retirement System (CalPERS) or are not governed by the County Employees Retirement Law of 1937 (CERL). Although Los Angeles County (County) is governed by a charter, its defined benefit plans are administered by LACERA pursuant to CERL. As such, the County is restricted to offering only PEPRA-compliant defined benefit plans to those who become new members of LACERA on and after January 1, 2013.

New Member Defined

Under PEPRA, a "new member" is either 1) an individual who becomes a member of the System for the first time on or after January 1, 2013, and who was not a member of any other public retirement system prior to that date - or - 2) an individual who becomes a member of a System for the first time on or after January 1, 2013, who was a member of another public retirement system prior to that date, but who does not establish reciprocity under the System.

It is also critical to understand that one's date of hire and LACERA membership date are different. Pursuant to Government Code Section 31552, a newly hired eligible employee becomes a member of the defined benefit plan on the first of the month following the date of hire. In other words, an individual hired on December 1, 2012 will become a LACERA member on January 1, 2013.

PEPRA's Impact on Retirement Plan E

Plan E was adopted by the Board of Supervisors and implemented effective January 4, 1982 pursuant to CERL. It is distinct from the other LACERA defined benefit plans because it is non-contributory. This means that only the County, not the Plan E member, contributes to the plan. Accordingly, the benefits available to Plan E participants are not as rich as those available to the contributory Plan D participants (Attachment A).

Among its many requirements, PEPRA mandates that "new members" share 50-50 with the employer to cover the normal cost of a public entity's defined benefit system. This requirement, however, now eliminates the fundamental basis upon which Plan E was established (i.e., to provide a non-contributory defined benefit option for defined benefit plan members).

Justification to Close Plan E

The removal of the non-contributory feature leaves no significant advantages to Plan E. As part of this analysis, we reviewed potential replacement plans for the current Plans D and E that have PEPRA compliant formulas. A new Plan G would incorporate the PEPRA general formula and eligibility requirements while maintaining the current Plan D death and disability benefits. Likewise, a potential new Plan H would also incorporate the PEPRA general formula and eligibility requirements while maintaining the current Plan E limited death and disability benefits. In comparing the two proposed plans, there are a few benefits that would be the same under either plan. However, the remaining features of Plan G remain far superior to those available in Plan H (Attachment A).

Under PEPRA, existing defined benefit plans (Plan D, Plan E, and Safety Plan B) become automatically available as PEPRA-compliant plans (Plan G, Plan H, and Safety Plan C, respectively) for new members hired on or after December 1, 2012. However, given the clear disadvantages of Plan E without the non-contributory component, we have determined that it is in the best interests of the County and potential new employees to close the plan, thereby making the implementation of Plan H unnecessary. Implementation of Plan G and Safety Plan C requires no separate board action. Plan D will remain available to members who establish reciprocity under the System.

To provide some perspective, closure of LACERA retirement plans to new members is not a new concept or event. Over 30 years ago and long before PEPRA, the County initiated its own pension reforms to ensure long-term financial stability of its retirement program. This resulted in the eventual closure of Plans A, B, C, and Safety Plan A to new members and the establishment of Plans D and E and Safety Plan B.

Implementation of Strategic Plan Goals

The recommended change is consistent with the Countywide Strategic Plan Goal, Organizational Effectiveness, and demonstrates fiscal integrity and financial responsibility. In addition to facilitating cost savings for the County as detailed in the next section, closure of Plan E will simplify LACERA-related recordkeeping and processing of new employees.

FISCAL IMPACT/FINANCING

The fundamental change that new members share 50 percent of the normal cost of the defined benefit plan will eventually reduce the amount the County must contribute toward the normal cost portion of retirement expenses. However, since this new cost sharing ratio only applies to new employees, any material savings will likely be achieved over a long-term period. An initial actuarial study conducted for LACERA by Milliman (the pension plan actuary) indicates that Plan G will have a lower employer cost to the County compared to Plans D and E. Plan G will have a 7.75 percent normal cost for the County compared to 8.11 percent and 8.88 percent for Plan D and Plan E, respectively. This will result in a lower employer contribution for those employees who are hired on or after December 1, 2012.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Plan E was implemented via a Board resolution. Pursuant to Government Code Sections 31483 and 31487(h), we are now submitting the attached resolution to close Plan E effective November 27, 2012. By this action, Plan E will be closed to all employees first hired into an eligible position by the County on or after November 27, 2012 including those employees who establish reciprocity under the System.

The County met and conferred with the impacted employee organizations regarding the proposed PEPRA pension plan changes. The accompanying resolution has been approved as to form by County Counsel.

Several communication pieces regarding PEPRA have been sent to the active members via e-mail and regular mail, informational forums have been held and are continuing to be scheduled, and updates have been made to the LACERA website regarding PEPRA changes. However, the recommendation to close Plan E will not be publicized or added to the website until the resolution is adopted by the Board.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Your approval of this recommendation will enhance the operational effectiveness of the departments by streamlining LACERA-related recordkeeping and processing associated with those who become new members on and after January 1, 2013.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:BC:JA
MTK:VMH:mst

Attachment

c: Auditor-Controller
County Counsel
Executive Office, Board of Supervisors
All Department Heads
SEIU Local 721
Coalition of County Unions

ATTACHMENT A

COMPARISON OF PLAN D AND PLAN E

GENERAL PROVISIONS	PLAN D	PLAN E
Member Contributes to Plan	Yes	No
Vested	5 years of county service credit	10 years of county service credit
Eligible Age to Receive Retirement Allowance	Age 50, with at least 10 years of service credit, or 30 years of service credit, regardless of age, or age 70, regardless of service credit	Vested members at age 55, or 70, regardless of service credit
Maximum Percentage of Final Compensation Member Can Receive as Retirement Allowance	100%	80%
Disability Retirement	Yes	No*
Pre-Retirement Death Benefit	Yes	No*
Pre-Retirement Survivor Benefits	Yes	No*
Eligible Former Members May Be Reinstated to Prior Contributory Plan	Yes	No
May Purchase Service Credit for Eligible Government Service Prior to LACERA Membership	Yes	No

*Plan E members are covered by the County Long-Term Disability and Survivor Benefit Plan.

COMPARISON OF PLAN G (PEPRA D) AND PLAN H (PEPRA E)

PROVISION	GENERAL PLAN G	GENERAL PLAN H
General Retirement Formula	2.5% at 67	2.5% at 67
Eligibility Requirements	52 with 5 years of service	52 with 5 years of service
May Purchase Service Credit for Eligible Government Service Prior to LACERA Membership	Yes	No
Disability Retirement	Yes	No
LACERA Pre-Retirement Death Benefit	Yes	No
County Pre-Retirement Death Benefits	55% of LTD Benefits	Non-MegaFlex – 55% of the 60% LTD Benefit Megaflex – may purchase SIB insurance
LACERA Post-Retirement $5,000 Death/Burial Benefit	Yes	Yes
Post-Retirement Survivor Benefit	65% of member's allowance	55% of member's allowance
County Life Insurance Benefit for Active Members	$2,000	$10,000

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA CLOSING LACERA RETIREMENT PLAN E EFFECTIVE NOVEMBER 27, 2012

WHEREAS, the County Employees Retirement Law (CERL), provides for an alternative plan, known as Plan E, for the County of Los Angeles (County), as set forth in California Government Code (Government Code) Sections 31487 through 31495.6;

WHEREAS, pursuant to Government Code Section 31487, effective January 4, 1982, the County of Los Angeles adopted "Plan E" as a non-contributory tier of benefits for general members of the defined benefit retirement system (System) administered by the Los Angeles County Employees Retirement Association (LACERA);

WHEREAS, Plan E was intended to provide general members of the System with the option of participating in a less-rich defined benefit plan to which they were not required to contribute;

WHEREAS, the California Public Employees' Pension Reform Act of 2013 (PEPRA) imposes, among other requirements, 50-50 normal cost sharing on all "new members" of the System, including those who would participate in Plan E;

WHEREAS, under PEPRA, a "new member" of the System means: (1) An individual who becomes a member of the System for the first time on or after January 1, 2013, and who was not a member of any other public retirement system prior to that date, or (2) an individual who becomes a member of a System for the first time on or after January 1, 2013, who was a member of another public retirement system prior to that date, but who is not subject to reciprocity under the System;

WHEREAS, under Government Code Section 31552, a newly hired eligible employee becomes a member of the System on the first day of the month following the month in which he is employed in an eligible position by the County;

WHEREAS, pursuant to LACERA By-Laws, only employees hired by the County into three-quarter time, permanent positions (Eligible Positions) are eligible for membership in the System;

WHEREAS, under PEPRA, employees who first become members of the System on and after January 1, 2013, but who establish reciprocity under the System, are entitled to the same benefit tier(s) that were offered to employees who became System members before PEPRA became effective;

WHEREAS, Plan E will cease to serve its primary function as a non-contributory plan option when PEPRA becomes effective;

WHEREAS, closing Plan E for new members under PEPRA, but continuing Plan E for newly-hired eligible employees who either become members before PEPRA becomes effective or who establish reciprocity under the System, will increase the costs of maintaining Plan E;

WHEREAS, the County has determined that continuing to maintain Plan E for any newly hired employees is not in the long-term interests of the County and its employees;

WHEREAS, Section 31483 of the Government Code provides that whenever the Board of Supervisors (Board) makes a particular provision or provisions of the CERL effective in the County through adoption of a resolution, the Board may at any time thereafter adopt a further resolution terminating the applicability of such provision or provisions as to employees of the County whose services commence after a given future date specified in that latter resolution;

WHEREAS, Section 31487(h) of the Government Code provides that any changes to Plan E are not effective unless mutually agreed to by the County and employee representatives and adopted by majority resolution of the Board;

WHEREAS, the County has met and conferred with employee representatives, and those employee representatives have agreed to the closure of Plan E for newly-hired eligible employees, including those who establish reciprocity;

NOW, THEREFORE, BE IT RESOLVED by the Board of Supervisors of the County of Los Angeles that Plan E – before and after any modifications required by PEPRA – is closed to, and no longer available for participation by, employees first hired into an Eligible Position by the County on or after the date of this resolution, including those employees who establish reciprocity under the System; and

RESOLVED FURTHER, that all terms of Plan E continue to be effective for each employee first hired into an Eligible Position by the County before the date of this resolution, unless such employee: (1) terminated or terminates employment with the County; (2) terminated or terminates membership with the System (e.g., by withdrawing all contributions and/or waiving membership as applicable); and, (3) is subsequently rehired into an Eligible Position on or after the date of this resolution without restoring membership by redepositing his or her contributions with interest in the System as provided under CERL Sections 31652, 31652.1, or 32652.2, as applicable;

RESOLVED FURTHER, that a County employee who terminates or terminated his County employment and who is then rehired into an Eligible Position on or after the date of this resolution will be treated as though he or she is being hired for the first time if he or she terminated his or her prior membership with the System (e.g., by withdrawing all contributions and/or waiving membership as applicable) and fails to restore membership by redepositing his or her contributions with interest in the System as provided under CERL Sections 31652, 31652.1, or 32652.2, as applicable.

The foregoing resolution was on the 27th day of November, 2012, adopted by the Board of Supervisors of the County of Los Angeles and ex officio the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.

SACHI A. HAMAI
Executive Officer
Board of Supervisors

By ______________________
Deputy

APPROVED AS TO FORM:

JOHN F. KRATTLI
County Counsel

By ______________________
RICHARD D. BLOOM
Principal Deputy County Counsel
Labor & Employment Division