March 12, 2002

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:

RETIREMENT CHANGES
(3 - VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the following changes in County retirement benefits contingent on the terms and conditions set forth in Recommendations 2 and 3:

   a) Approve implementation of Section 31462.3 of the Government Code establishing one year "final compensation" for persons employed by the County on or after October 1, 2000 who retire on or after July 1, 2001 under any of the contributory retirement plans commonly known as general member Plans B, C, D, and Safety Plan B; and

   b) Approve the implementation of Government Code Sections 31491.3 and 31495.5 establishing a cost-of-living provision for the non-contributory general member retirement plan commonly known as Plan E, changing the way Plan E benefits are coordinated with Social Security benefits, and making other technical changes to Plan E as provided in said sections; and

   c) Approve the implementation of Government Code Sections 31492.1, 31760.12, 31765.2, 31781.12, and 31785.4 increasing the "unmodified" survivor benefits provided under Plans A, B, C, D, E, and Safety Plans A and B by five percentage points with respect to employees who are in active County service on the operative date of these recommendations; and

d) Approve the implementation of Government Code Sections 31494.2, and 31494.5 permitting employees in Plan D to transfer to Plan E on a prospective basis, and employees in Plan E to transfer to Plan D on either a prospective basis or, at the employee's election, on a partially or fully retrospective basis subject to the terms and conditions set forth in said sections; and

e) Approve an adjustment in the current $750 post-retirement lump sum death benefit payable with respect to retirees in Plans A, B, C, D, and Safety Plans A and B to $5,000 and extend that benefit to retirees in Plan E with the understanding the new benefit will be payable only in those cases where the death of the retiree occurs on or after the operative date of these recommendations; and

f) Approve an amendment to prior action taken by your Board on May 15, 2001 authorizing, under specified circumstances, payment of a designated portion of the employee retirement contributions under Safety Plan B whereby such amendment shall, 1) substitute the terms and conditions in Recommendation 2 for the terms and conditions set forth in paragraph 3 of the May 15, 2001 resolution implementing such prior Board action, 2) make the May 15, 2001 action applicable only to Safety Plan B members in active service on or after the operative date of these recommendations, and 3) make other technical changes in the May 15, 2001 action in accordance with the terms of the resolution accompanying these recommendations (Attachment A); and

2. Stipulate that the approvals granted under Recommendation 1 are contingent on the execution of a written agreement between the County and LACERA, substantially equivalent to the attached draft agreement (Attachment B) requiring that LACERA establish and maintain through July 1, 2010 a "Corridor Funding" policy, as defined in the draft agreement; instruct the Chief Administrative Officer, with the assistance of County Counsel, to meet with appropriate LACERA representatives, as required, to obtain LACERA approval of such agreement; and instruct the Chair to sign the agreement; and

3. Indicate your Board's intent to adopt the accompanying resolution implementing Recommendation 1, contingent on satisfaction of the terms and conditions set forth in Recommendation 2, and to place the resolution on the agenda two weeks hence, on March 26, 2002, in satisfaction of Section 7507 of the Government Code which requires that the actuarial impact of these recommendations be made public at least two weeks prior to adoption.

<u>PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION</u>

The purpose of these recommendations is to implement the proposed retirement benefit enhancements contingent on LACERA action to adopt a new Corridor Funding policy that would substantially improve the County's ability to manage future retirement costs. Corridor Funding is an actuarially sound funding approach that would maintain a well funded retirement system while providing the County with a much needed buffer against wide swings in LACERA investment experience and related swings in year-to-year County retirement costs. The recommended benefit enhancements are appropriate in terms of retirement benefit policy and necessary as consideration for LACERA's commitment to make the proposed change in funding policy.

<u>Implementation of Strategic Plan Goals</u>

The Corridor Funding and retirement benefit adjustments provided for in these recommendations are directly responsive to the Strategic Plan goals of fiscal responsibility and workforce excellence.

<u>FISCAL IMPACT/FINANCING</u>

The costs of the proposed retirement changes are within the parameters established by your Board. Under Section 7507 of the Government Code, your Board is required to retain the services of an "enrolled actuary" to prepare an estimate of the cost of these recommendations and to make that estimate public at least two weeks in advance. Such estimate is hereby provided in the attached statement from Buck Consultants (Attachment C).

<u>FACTS AND PROVISIONS/LEGAL REQUIREMENTS</u>

The genesis of these recommendations goes back to the Countywide fringe benefit negotiations that took place in 2000 and your Board's December 12, 2000 approval of the 2000-03 Fringe Benefit Memoranda of Understanding (MOUs) with the Coalition of County Unions, AFL-CIO and SEIU, Local 660, AFL-CIO. These MOUs provide, among other things, for the implementation of the retirement benefit changes recommended herein for active County employees plus an improved survivor benefit for existing retirees. The parties agreed to jointly support the local option legislation necessary to implement the negotiated changes (AB 399) and to an MOU stipulation that the actual implementation of the various changes would be contingent on a commitment from LACERA to fund the cost of these and other designated retirement liabilities from LACERA surplus funding. At the time these negotiations were concluded, LACERA was reporting a surplus that was more than sufficient to fund all of the negotiated changes.

Subsequent to the conclusion of the 2000 fringe benefit negotiations, LACERA's investment portfolio began to experience losses that have now effectively eliminated all LACERA surplus. This leaves LACERA with no capability to satisfy the aforementioned funding contingency and it makes the related MOU provision effectively defunct.

The Corridor Funding policy recommended herein is being advanced as an alternative to the current LACERA policy and the related provisions in the 1994 Retirement System Funding Agreement. Under Corridor Funding, the retirement system will be deemed fully funded if the system is anywhere between 90 percent and 110 percent funded. That is, if the funded ratio is within the 90 percent to 110 percent "corridor", no unfunded liability payments would be payable to LACERA and no credits would be due the County. If the funded status falls below 90 percent, the shortfall below 90 percent would become payable by the County over a 30 year amortization period. Conversely, if a surplus above 110 percent were to develop, a credit against the contributions otherwise payable by the County would be determined based on the surplus over 110 percent amortized over 30 years.

The Corridor Funding arrangement we are recommending is an actuarially acceptable funding approach that allows for short-term fluctuations in LACERA investment performance without the year-to-year volatility in County costs that can be caused by the current funding arrangement. It also recognizes the reality that it is neither necessary nor possible to maintain any retirement system at a funded status of precisely 100 percent all of the time.

These recommendations would fully implement all of the previously negotiated retirement changes that impact active County employees and, in that sense, bring a degree of closure to the 2000 fringe benefit negotiations. We are also recommending a $5,000 post-retirement lump sum death benefit for all current and future retirees, regardless of retirement plan, provided the benefit is limited to deaths that occur on or after the date these recommendations become effective.

Section 7507 of the Government Code requires that an "enrolled actuary" determine the cost impact of proposed changes in public retirement benefits and that a statement of impact be made public at least two weeks prior to adoption of the changes. Therefore, we are recommending that the resolution necessary to implement these recommendations be placed on the March 26, 2002 agenda and that your Board indicate its intent to adopt that resolution on that date. In addition, because implementation of these recommendations requires certain irrevocable commitments from the County and LACERA that would effectively override pertinent provisions of the 1994 Retirement System Funding Agreement, we are recommending that the County and LACERA enter into a written agreement substantially equivalent to the attached draft agreement and that your Board's approval of these recommendations be conditioned on the successful execution of such agreement.

The accompanying resolution and draft agreement have been approved as to form by County Counsel.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

These recommendations will not impact any existing County service or project.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:PHS
WL:pb

Attachments (3)

c: County Counsel
Auditor-Controller
Director of Personnel
LACERA
Coalition of County Unions, AFL-CIO
SEIU, Local 660, AFL-CIO

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA REGARDING COUNTY EMPLOYEE RETIREMENT BENEFITS

WHEREAS, the Board of Supervisors is authorized by Government Code Section 31462.3 to approve one year “final compensation” for persons employed by the County on or after October 1, 2000 who retire on or after July 1, 2001 under any of the contributory County retirement plans commonly known as Plans B, C, and D for general members and Plan B for safety members; and

WHEREAS, the Board of Supervisors is authorized by Government Code Sections 31491.3 and 31495.5 to establish a cost-of-living provision for the retirement plan commonly known as Plan E, make changes in the way Plan E benefits are coordinated with Social Security benefits, and make other technical changes to Plan E as provided for in said sections; and

WHEREAS, the Board of Supervisors is authorized by Government Code Sections 31492.1, 31760.12, 31765.2, 31781.12, and 31785.4 to approve a five percentage point adjustment in the “unmodified” survivor benefits otherwise payable under each of the County’s general and safety member retirement plans on behalf of employees who are in active County service on or after the date such adjustment is implemented; and

WHEREAS, the Board of Supervisors is authorized by Government Code Sections 31494.2, and 31494.5 to permit employees in Plan D to transfer to Plan E on a prospective basis, and employees in Plan E to transfer to Plan D on either a prospective basis or, at the employee’s election, a partially or fully retrospective basis subject to the terms and conditions set forth in said sections; and

WHEREAS, on December 12, 2000, the Board of Supervisors approved memoranda of understanding with the Coalition of County Unions, AFL-CIO and SEIU, Local 660, AFL-CIO providing, among other things, for the joint union/management support of legislation that resulted in the enactment of the aforementioned Government Code sections. The memoranda of understanding further provided for implementation of these provisions contingent on agreement by the Los Angeles County Employees Retirement Association (LACERA) to fund the cost of these and other designated retirement liabilities from LACERA surplus funding; and

WHEREAS, the Board of Supervisors is authorized by Government Code Section 31581.1 to pay up to one-half of the contributions normally required of members of the retirement system, including members of Safety Plan B, for any period of time designated in the resolution providing for such payment; and

WHEREAS, on May 15, 2001, the Board of Supervisors approved an amendment to the memorandum of understanding with the Coalition of County Unions, AFL-CIO and a resolution providing for the payment of a designated portion of employee retirement contributions for members of Safety Plan B contingent on the aforementioned requirement that LACERA agree to use LACERA surplus to fund the cost of the payments as well as other designated retirement costs; and

WHEREAS, there has been no action by LACERA to authorize the use of LACERA surplus in connection with the May 15, 2001 resolution, and it now appears that no such action will be forthcoming relative to that issue or any of the other negotiated retirement enhancements approved on December 12, 2000 due to the fact that recent LACERA investment losses have effectively eliminated all such surplus; and

WHEREAS, notwithstanding the loss of LACERA surplus funding, the Board of Supervisors desires to implement the reductions in employee contributions set forth in the aforementioned May 15, 2001 resolution and to implement the other retirement benefit improvements provided for in this resolution contingent on LACERA's adoption of certain policies that would assist the County in managing future retirement costs;

NOW, THEREFORE BE IT RESOLVED by the Board of Supervisors of the County of Los Angeles that:

1. Sections 31462.3, 31491.3, 31495.5, 31492.1, 31760.12, 31765.2, 31781.12, 31785.4, 31494.2, and 31494.5 of the Government Code shall become operative in the County of Los Angeles when the conditions set forth in paragraph 3 of this resolution are fully met; and

2. The resolution approved by the Board of Supervisors on May 15, 2001 authorizing the payment of a designated portion of the members' retirement contributions in Safety Plan B is hereby amended by a) replacing the terms and conditions set forth in paragraph 3 of that resolution with the terms and conditions set forth in paragraph 3 of this resolution, and b) limiting the payments provided for in said May 15, 2001 resolution to Safety Plan B members in active County service on or after the operative date of this resolution; provided, however, that payments due any such Safety Plan B member for any or all of the period July 1, 2001 through the operative date of this resolution shall be paid in the form of an additional prospective reduction in the member's future retirement contributions payable in connection with future active service. Such additional prospective reductions shall be equal to six percent of the member's monthly "compensation earnable," as defined by the County Employees Retirement Law of 1937, and shall continue on a monthly basis until the earlier of a) the point where the member has fully recouped the reduction in employee contributions he would have received under the May 15, 2001 resolution if that resolution had become fully operative July 1, 2001, or b) the date the member retires or otherwise terminates County service. To the extent any payments authorized by the May 15, 2001 resolution, as amended by this resolution, exceed one-half of the employee contributions otherwise required of a Safety Plan B member, such payments shall be deemed to be made pursuant to Government Code Section 31639.85 which, in the case of safety

members, specifically permits the Board of Supervisors to pay any portion of the safety members contributions to the system; and

3. Notwithstanding any other provision of this resolution, this resolution shall not become operative unless and until LACERA enters into a written agreement with the County that provides for a) the establishment of a LACERA "Corridor Funding" policy to be applied to actuarial valuations reflecting LACERA's funded status as of June 30, 2001 through June 30, 2008, as defined in the attachment to this resolution (Resolution Attachment); and b) a term that expires on July 1, 2010.

The foregoing resolution was adopted by the Board of Supervisors of the County of Los Angeles at its regular meeting on the ________ day of March, 2002.

VIOLET VARONA-LUKENS, Executive
Officer of the Board of Supervisors
of the County of Los Angeles

By______________________________
Deputy

APPROVED AS TO FORM:

LLOYD W. PELLMAN
County Counsel

By_____________________
Deputy

REQUIRED LACERA COMMITMENTS

1. **Definitions**

The following terms, when used herein with initial capital letters, unless the context clearly indicates otherwise, shall have the following respective meanings:

a) “Actuarial Accrued Liability” means the portion of the present value of projected retirement benefits which is not provided for by future Normal Costs, as determined by LACERA’s actuary

b) “Actuarial Valuation of Assets” means the value of cash, investments and other property of LACERA as determined by LACERA’s actuary in accordance with the asset smoothing procedure adopted by LACERA for use in its actuarial valuations.

c) “Contingency Reserve” means the reserve account established by LACERA for future earnings deficiencies, investment losses, and other contingencies as required by Sections 31592 and 31592.2 of the Government Code.

d) “County Contribution Credit Reserve” means the reserve account established on behalf of the County by LACERA for the accumulated balance of the County’s proportionate share of excess earnings as stipulated in the 1994 Retirement System Funding Agreement. Additions to this reserve include distributions from excess earnings during the Fiscal Years ending 1994 through 1998 and interest credited thereto. Deductions include payments, as the County authorizes, for future employer contributions due LACERA and for funding a portion of the retiree health care program under the provisions of Internal Revenue Code 401(h).

e) “Fiscal Year” means the period of twelve months beginning on July 1 of any year and ending on June 30 of the following year. With regard to the timing of LACERA’s actuarial valuations, a Fiscal Year is the same as a valuation year.

f) “Funded Ratio” means the ratio of the Valuation Reserves to the Actuarial Accrued Liability.

g) “Normal Cost” means the portion of the present value of projected retirement benefits allocated to a valuation year by the actuarial funding method adopted by LACERA

h) “STAR COLA” means the retiree cost-of-living adjustment known as the “supplemental targeted adjustment for retirees” provided pursuant to Sections 31874.3(b) and (c).

i) "STAR COLA Reserve" means the reserve account established by LACERA for the purpose of funding STAR COLA payments to retirees.

j) "Thirty Year Rolling Amortization Period" means a period of 30 years over which 1) the County may pay principal and interest with regard to any charge attributable to a funding shortfall, as determined pursuant to this attachment to this resolution, or b) the County may receive a credit for principal and interest with regard to any funding excess, determined pursuant to this attachment to this resolution. Such payment or credit shall 1) be calculated as a level percentage of payroll based on an interest rate equal to the assumed rate of investment return used by LACERA for actuarial valuation purposes, and 2) be re-set each year based on the latest Funding Ratio figure and a new 30 year period.

k) "Valuation Reserves" means the Actuarial Value of Assets of LACERA calculated without regard to 1) funding allocated to the STAR COLA Reserve, 2) funding allocated to the County Contribution Credit Reserve, and 3) funding allocated to the Contingency Reserve equal to one percent of total LACERA assets. Any funding in the Contingency Reserve in excess of one percent of total assets shall, for purposes of this Agreement, be deemed to be assets in the Valuation Reserve even if LACERA does not otherwise recognize such funding for valuation purposes.

2. **<u>Corridor Funding</u>**

Notwithstanding Section 9(b) of the 1994 Retirement System Funding Agreement entered into on August 9, 1994 by and between LACERA and the County, commencing with the Triennial actuarial valuation reflecting LACERA's funded status as of June 30, 2001 and continuing with each subsequent interim actuarial valuation and triennial actuarial valuation through and including the valuation reflecting LACERA's funded status as of June 30, 2008, the County shall, commencing no later than 90 days following July 1 of the Fiscal Year immediately following each such valuation, make annual contributions to LACERA in accordance with the following funding policy (hereinafter referred to as "Corridor Funding").

a) "Corridor Funding" for purposes of this resolution means a LACERA funding policy that provides that the County contribution for any Fiscal Year will be based on the County Normal Cost for that year increased or decreased by an amortization charge or credit determined as follows.

    i) If the Funded Ratio is less than 90 percent, the County shall pay an amortization charge to LACERA based on the difference between the Actuarial Value of Assets and 90 percent of the Actuarial Accrued Liability. The charge shall be such difference amortized over a Thirty Year Rolling Amortization Period.

ii) If the Funded Ratio is in excess of 110 percent, LACERA shall reduce future County Normal Costs by an amortization credit based on the difference between the Actuarial Value of Assets and 110 percent of the Actuarial Accrued Liability. The credit shall be such difference amortized over a Thirty Year Rolling Amortization Period.

b) In addition to any Normal Costs payable by the County, and any additional charges or credits provided for in subsection (a), the County shall pay the costs of any employee contributions the Board of Supervisors has, by resolution, agreed to pay subject to the terms and conditions set forth in such resolution.

c) The funding policy described herein shall, with respect to all actuarial valuations reflecting LACERA's funding status from June 30, 2001 through and including June 30, 2008, be in lieu of and shall supersede any other funding policy or funding requirements otherwise set forth in the 1994 Retirement System Funding Agreement entered into between the County and LACERA on August 9, 1994.

d) The County shall begin paying LACERA the additional County Normal Costs necessitated by the benefit enhancements set forth in this resolution beginning with the contributions attributable to the first month such benefits take effect, or the first month following the date LACERA identifies the costs and gives notice to the County, whichever occurs later. Such costs shall include any increase or decrease in County contributions due to changes in covered Plan D and Plan E payroll that may result from employee transfers between Plan D and Plan E as provided for in this resolution. However, with regard to any actuarial adjustment in Normal Cost contribution rates or Actuarial Accrued Liability for Plan D or Plan E that may ultimately be necessary due to demographic changes caused by employee transfers between these plans, LACERA shall make no such adjustment and the County shall not be obligated to pay any additional costs based on any such adjustment until such time as LACERA has had an opportunity to base the adjustment on an actuarial valuation of actual transfer experience between the two plans. To the extent feasible, any change in Normal Cost rates or Actuarial Accrued Liability attributable to transfers between Plans D and E shall be based on actual transfer experience rather than assumed transfer experience.

(e) Except as otherwise provided in this Resolution Attachment, nothing herein shall be construed to limit or restrict any lawful power or authority LACERA is otherwise entitled to exercise during the term of this Agreement; nor shall anything herein be construed to broaden or enhance such power or authority.

Attachment B

DRAFT 2002 RETIREMENT SYSTEM FUNDING AGREEMENT

This RETIREMENT SYSTEM FUNDING AGREEMENT (this "Agreement") is entered into as of ___________________ 2002, by and between the LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION ("LACERA"), a retirement association established under Section 31550 of the Government Code of the State of California and the COUNTY OF LOS ANGELES (the "County").

WITNESSETH:

WHEREAS, LACERA, acting through its Board of Retirement and Board of Investments, has the power and duty to manage and administer a retirement system (the "System") for participating current and retired employees of the County and participating districts under Chapter 3 (commencing with Section 31450) of Part 3 of Division 1 of the Title 3 of the Government Code of the State of California (the "1937 Act"); and

WHEREAS, the Board of Supervisors is desirous of implementing the retirement benefit adjustments set forth in this Agreement contingent on certain covenants from LACERA that would assist the County in managing future retirement costs;

NOW, THEREFORE, in consideration of the foregoing and the terms, covenants, and conditions herein contained, LACERA and the County agree as follows:

1. **Definitions**

a) Capitalized terms which are not defined in the recitals to the Agreement are used as defined below:

i) "Actuarial Accrued Liability" means the portion of the present value of projected retirement benefits which is not provided for by future Normal Costs, as determined by LACERA's actuary

ii) "Actuarial Valuation of Assets" means the value of cash, investments and other property of LACERA as determined by LACERA's actuary in accordance with the asset smoothing procedure adopted by LACERA for use in its actuarial valuations.

iii) "Contingency Reserve" means the reserve account established by LACERA for future earnings deficiencies, investment losses, and other contingencies as required by Sections 31592 and 31592.2 of the Government Code.

iv) "County Contribution Credit Reserve" means the reserve account established on behalf of the County by LACERA for the accumulated balance of the County's proportionate share of excess earnings as stipulated in the 1994 Retirement System Funding Agreement. Additions to this reserve include distributions from excess earnings during the Fiscal Years ending 1994 through 1998 and interest credited thereto. Deductions include payments, as the County authorizes, for future employer contributions due LACERA and for funding a portion of the retiree health care program under the provisions of Internal Revenue Code 401(h).

v) "Fiscal Year" means the period of 12 months beginning on July 1 of any year and ending on June 30 of the following year. With regard to the timing of LACERA's actuarial valuations, a Fiscal Year is the same as a valuation year.

vi) "Funded Ratio" means the ratio of the Valuation Reserves to the Actuarial Accrued Liability.

vii) "Interim Actuarial Valuation" means a valuation performed between Triennial Actuarial Valuations, applying the same assumptions as were used in the immediately preceding Triennial Actuarial Valuation.

viii) "March 26, 2002 Resolution of the Board of Supervisors" means the RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA REGARDING COUNTY EMPLOYEE RETIREMENT BENEFITS presented to the Board of Supervisors on March 12, 2002 for adoption on March 26, 2002.

ix) "Normal Cost" means the portion of the present value of projected retirement benefits allocated to a valuation year by the actuarial funding method adopted by LACERA

x) "Plan A" means the plan available to employees who became general members of the System prior to September 1, 1977.

xi) "Plan B" means the plan available to employees who became general members of the System between September 1, 1977 and September 30, 1978.

xii) "Plan C" means the plan available to employees who became general members of the System between October 1, 1978 and May 31, 1979.

xiii) "Plan D" means the plan available to employees who became general members of the System on or after June 1, 1979 and who are not members of Plan E.

xiv) "Plan E" means the plan available to 1) employees hired on or after January 4, 1982 who became general members of the System subsequent to that date and who have not elected membership in Plan D, and 2) other general members of the System who elected to transfer to Plan E during an approved transfer period.

xv) "Safety Plan A" means the plan available to employees who became safety members of the System prior to September 1, 1977.

xvi) "Safety Plan B" means the plan available to employees who became safety members of the System on or after September 1, 1977.

xvii) "STAR COLA" means the retiree cost-of-living adjustment known as the "supplemental targeted adjustment for retirees" provided pursuant to Sections 31874.3(b) and (c).

xviii) "STAR COLA Reserve" means the reserve account established by LACERA for the purpose of funding STAR COLA payments to retirees.

xix) "Thirty Year Rolling Amortization Period" means a period of 30 years over which 1) the County may pay principal and interest with regard to any charge attributable to a funding shortfall, as determined pursuant to this Agreement, or b) the County may receive a credit for principal and interest with regard to any funding excess, determined pursuant to this Agreement. Such payment or credit shall 1) be calculated as a level percentage of payroll based on an interest rate equal to the assumed rate of investment return used by LACERA for actuarial valuation purposes, and 2) be re-set each Fiscal Year based on the latest Funding Ratio figure and a new 30 year amortization period.

xx) "Triennial Actuarial Valuation' means the actuarial investigation and valuation of the System which is required to be performed at least every three years pursuant to Section 31453 of the 1937 Act.

xxi) "Valuation Reserves" means the Actuarial Value of Assets of LACERA calculated without regard to 1) funding allocated to the STAR COLA Reserve, 2) funding allocated to the County Contribution Credit Reserve, and 3) funding allocated to the Contingency Reserve equal to one percent of total LACERA assets. Any funding in the Contingency Reserve in excess of one percent of total assets shall, for purposes of this Agreement, be deemed to be assets in the Valuation Reserves even if LACERA does not otherwise recognize such funding for valuation purposes.

xxii) "1994 Retirement System Funding Agreement" means the RETIREMENT SYSTEM FUNDING AGREEMENT entered into on August 9, 1994 by and between LACERA and the County.

b) As used in this Agreement, unless the context clearly requires otherwise, words of the male gender include the female and neuter genders, and words of the singular number include the plural number.

2. **Corridor Funding**

Notwithstanding Section 9(b) of the 1994 Retirement System Funding Agreement, commencing with the Triennial Actuarial Valuation reflecting LACERA's funded status as of June 30, 2001 and continuing with each subsequent Interim Actuarial Valuation and Triennial Actuarial Valuation through and including the valuation reflecting LACERA's funded status as of June 30, 2008, the County shall, commencing no later than 90 days following July 1 of the Fiscal Year immediately following each such valuation, make annual contributions to LACERA in accordance with the following funding policy (hereinafter referred to as "Corridor Funding").

a) "Corridor Funding" for purposes of this Agreement means a LACERA funding policy that provides that the County contribution for any Fiscal Year will be based on the County Normal Cost for that year increased or decreased by an amortization charge or credit determined as follows.

  i) If the Funded Ratio is less than 90 percent, the County shall pay an amortization charge to LACERA based on the difference between the Actuarial Value of Assets and 90 percent of the Actuarial Accrued Liability. The charge shall be such difference amortized over a Thirty Year Rolling Amortization Period.

  ii) If the Funded Ratio is in excess of 110 percent, LACERA shall reduce future County Normal Costs by an amortization credit based on the difference between the Actuarial Value of Assets and 110 percent of the Actuarial Accrued Liability. The credit shall be such difference amortized over a Thirty Year Rolling Amortization Period.

b) In addition to any Normal Costs payable by the County, and any additional charges or credits provided for in subsection (a), the County shall pay the costs of any employee contributions the Board of Supervisors has, by resolution, agreed to pay subject to the terms and conditions set forth in such resolution.

c) The funding policy set forth in this Section 2 shall, with respect to all actuarial valuations reflecting LACERA's funding status from June 30, 2001 through and including June 30, 2008, be in lieu of and shall supersede any other funding policy or funding requirements otherwise set forth in the 1994 Retirement System Funding Agreement.

(d) Except as otherwise provided in this Section 2, nothing herein shall be construed to limit or restrict any lawful power or authority LACERA is otherwise entitled to exercise during the term of this Agreement; nor shall anything herein be construed to broaden or enhance such power or authority.

3. **Consideration**

As consideration for the covenants set forth in Section 2 of this Agreement, the County warrants it will implement the following retirement benefit changes:

a) Pursuant to Government Code Section 31462.3 and the March 26, 2002 Resolution of the Board of Supervisors, one year "final compensation" shall be implemented for Plans B, C, and D and Safety Plan B for persons employed by the County on or after October 1, 2000 who retire on or after July 1, 2001; and

b) Pursuant to Government Code Sections 31491.3 and 31495.5 and the March 26, 2002 Resolution of the Board of Supervisors, Plan E shall be amended by adding a cost-of-living provision, changing the way Plan E benefits are coordinated with Social Security benefits, and making other technical changes to Plan E as provided in said sections, effective on the operative date of the March 26, 2002 Resolution of the Board of Supervisors; and

c) Pursuant to Government Code Sections 31492.1, 31760.12, 31765.2, 31781.12, and 31785.4 and the March 26, 2002 Resolution of the Board of Supervisors, the "unmodified" survivor benefits provided under Plans A, B, C, D, and E and Safety Plan A and Safety Plan B shall be increased by five percentage points on behalf of employees who are in active County service on or after the operative date of the March 26, 2002 Resolution of the Board of Supervisors; and

d) Pursuant to Government Code Sections 31494.2, and 31494.5 and the Resolution of the Board of Supervisors, employees in Plan D shall be permitted to transfer to Plan E on a prospective basis, and employees in Plan E shall be permitted to transfer to Plan D on either a prospective basis or, at the employee's election, a partially or fully retrospective basis subject to the terms and conditions set forth in said sections. Such transfer arrangements shall become operational within such time period as determined by LACERA, but not prior to the operative date of the March 26, 2002 Resolution of the Board of Supervisors; and

e) The current $750 post-retirement lump sum death benefit payable on behalf of retirees in Plans A, B, C, and D and Safety Plan A and Safety Plan B shall be increased to $5,000 and a $5,000 post-retirement lump sum death benefit shall be established on behalf of retirees in Plan E; provided, however, that the increased benefit in the case of Plans A, B, C, and D and Safety Plan A and Safety Plan B and the new benefit in the case of Plan E, shall be payable only where the death of the retiree occurs on or after the operative date of the March 26, 2002 Resolution of the Board of Supervisors; and

f) Pursuant to Government Code Section 31581.1 and the RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA REGARDING RETIREMENT SYSTEM CONTRIBUTIONS approved by the Board of Supervisors on May 15, 2001, as amended by the March 26, 2002 Resolution of the Board of Supervisors, the County shall pay a designated portion of the employee contributions for employees in Safety Plan B in accordance with the provisions set forth in said resolutions; and

g) The County shall begin paying LACERA the additional County Normal Costs necessitated by subsections (a), (b), (c), and (d) beginning with the contributions attributable to the first month the benefits provided for in those subsections take effect, or the first month following the date LACERA identifies the costs and gives notice to the County, whichever occurs later. Such costs shall include any increase or decrease in County contributions due to changes in covered Plan D and Plan E payroll that may result from employee transfers between Plan D and Plan E as provided for in subsection (d). However, with regard to any actuarial adjustment in Normal Cost contribution rates or Actuarial Accrued Liability for Plan D or Plan E that may ultimately be necessary due to demographic changes caused by employee transfers between these plans, LACERA shall make no such adjustment and the County shall not be obligated to pay any additional costs based on any such adjustment until such time as LACERA has had an opportunity to base the adjustment on an actuarial evaluation of actual transfer experience between the two plans. It is the intent of the parties that, to the extent feasible, any change in Normal Cost contribution rates or Actuarial Accrued Liability attributable to transfers between Plans D and E shall be based on actual transfer experience rather than assumed transfer experience. The County shall pay LACERA the amounts required under subsection (f) as the reduced employee contributions take effect pursuant to the Resolution of the Board of Supervisors.

4. **Amendments**

No amendment or waiver of any provision of this Agreement nor consent to any departure herefrom shall in any event be effective unless the same shall be in writing and signed by the County and LACERA, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

5. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

6. **Assignment**

This Agreement shall be binding on and inure to the benefit of the County and LACERA and their respective successors; provided that none of the rights and obligations of either party under this Agreement may be assigned.

7. **Headings**

Section headings in this Agreement are included only for convenience of reference and shall not constitute a part of this Agreement for any other purpose.

8. **Term**

This Agreement shall expire on July 1, 2010.

9. **Notices**

Notice by either party to the other under this Agreement shall be deemed given when delivered in writing to the following address:

If to the County, to:
David E. Janssen
Chief Administrative Officer
County of Los Angeles
500 West Temple Street, Room 713
Los Angeles, California 90012

If to LACERA, to:

Marsha D. Richter
Chief Executive Officer
Los Angeles County Employees Retirement Association
300 North Lake Avenue, Suite 820
Pasadena, California 91101-4149

Either party may change its address for notices by giving written notice to the other party in accordance with this Section 9.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day, month and year first above written.

COUNTY OF LOS ANELES

By:________________________
Zev Yaroslavsky
Chairman, Board of Supervisors

ATTEST:

Violet Varona-Lukens
Executive Officer of the
Board of Supervisors

By:____________________
Deputy

APPROVED AS TO FORM:

Lloyd W. Pellman
County Counsel

By:_____________________
Deputy

LOS ANGELES COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

By:_______________________________
Sandra Anderson
Chair, Board of Investments

APPROVED AS TO FORM:

By:_______________________________
David L. Muir
Chief Counsel