

FUNDAMENTAL FIDUCIARY DUTIES AND SOUND ACTUARIAL FUNDING

Presentation to the Board of Administration
Los Angeles City Employees' Retirement System

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Harvey L. Leiderman

ReedSmith

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FUNDAMENTAL FIDUCIARY DUTIES

- **Duty to obey the exclusive benefit rule**
- **Duty of loyalty – to act in the best interest of *all* members, today and tomorrow**
- **Duty of prudence – to provide sound actuarial funding of promised benefits and to exercise independent judgment**
- **Subordinate duty – to “minimize employer contributions”**
 - **Measured over the long-term**

RECENT EXTRAORDINARY ECONOMIC EVENTS

- **Direct Impact on LACERS**
 - **Investment earnings**
 - **Cash flow**
 - **Assumed rate of return**
 - **Gap between Actuarial and Market Value of Assets**
 - **Funded ratio**
 - **Contribution rates**

RECENT EXTRAORDINARY ECONOMIC EVENTS

- **Impact on the City Affecting LACERS**
 - Revenues
 - Workforce
 - ERIP

- **Impact on Members Affecting LACERS**
 - Job security
 - Wage security
 - Retirement assumptions

THE LACERS BOARD IS NOT THE CITY COUNCIL

- City Council's job – steward of the City's finances and the people's health and welfare
- **LACERS' job – steward of the City's promise to its civilian employees**
- City Council's obligation – not to promise more than it can pay for
- **LACERS' obligation – to deliver on the City's promises**

FACTORS THAT ARE OK TO CONSIDER

- Remember – prudence is measured *“under the circumstances then prevailing...”*
- Substantial employer hardship that could threaten the fund’s soundness
 - Decline in revenue sources
 - Operating deficits
 - Reductions in force
 - City’s ability to make timely contributions

FACTORS THAT ARE OK TO CONSIDER, CONT'D.

- City's ability to meet *future* obligations (would we extend credit to this borrower?)
- Volatility of contribution rates
- LACERS' cash flow requirements (will you be able to pay benefits on time without "fire-sale" of assets?)
- LACERS' long-term funding obligations
- Actuarially sound methodologies

CHECKLIST FOR PRUDENT DECISION MAKING

- Conduct open and public meetings – no “serial meetings” or emails
- Provide notice to members and retiree organizations
- Avoid “negotiating” with the City
- Act independently – don’t bow to pressure
- Watch out for conflicts of interest

CHECKLIST FOR PRUDENT DECISION MAKING

- Conduct full due diligence
- Obtain actuarial “if/then” models
- Obtain actuary’s recommendations and assurance of compliance with standards of practice
- Determine if any jeopardy to members’ benefit security

CHECKLIST FOR PRUDENT DECISION MAKING

- Consider “subsequent events” after valuation date
- Consider existing policies (are there reasons to change them?)
- Weigh all of the facts fairly and intelligently
- Make and retain complete record of deliberations, actions

ABOVE ALL, KEEP YOUR BALANCE!



The Fundamental Fiduciary Duties of the Board of Administration Los Angeles City Employees' Retirement System

California Constitution, Art. XVI, § 17

Primary Loyalty Rule

The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

Exclusive Benefit Rule

The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

Prudent Person Rule/Duty to Diversify Investments/Actuarial Soundness

The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims....[They] shall diversify the investments of the system so as to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.

The Fundamental Fiduciary Duties of the Board of Administration Los Angeles City Employees' Retirement System

Los Angeles City Charter, Section 1106

Consistent with Article XVI, Section 17 of the California Constitution, and any successor constitutional provision, and subject to the limitations set forth elsewhere in the Charter concerning anything other than pension and retirement system administration and control over system investments, each pension and retirement board of the City shall:

(a) **Administration of the Pension or Retirement System.** Have sole and exclusive responsibility to administer its system for the following purposes:

- (1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services;
- (2) to minimize City contributions; and
- (3) to defray the reasonable expenses of administering the system.

The duty to system participants and their beneficiaries shall take precedence over any other duty.

(b) **Assets.** Have sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of:

- (1) providing benefits to system participants and their beneficiaries; and
- (2) defraying the reasonable expenses of administering the system.

(c) **Prudent Person Standard.** Discharge its duties with respect to its system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(d) **Investments.** Diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

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(e) **Actuarial Services.** Have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of its systems in accordance with recognized actuarial methods.

(f) **Rules and Regulations.** Have the power to adopt any rules, regulations, or forms it deems necessary to carry out its administration of a pension or retirement system or assets under its control.