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VIA E-MAIL & USPS

June 20, 2019

Mr. Neil Guglielmo
General Manager
Los Angeles City Employees' Retirement System
202 West First Street, Suite 500
Los Angeles, CA 90012-4401

Re: Los Angeles City Employees' Retirement System (LACERS) - Actuarial Valuation of the Larger Annuity Program as of June 30, 2018

Dear Neil:

As requested, we have performed an actuarial valuation of LACERS' Larger Annuity Program (LAP) as of June 30, 2018, to determine if the balance in the larger annuity reserve would be sufficient to pay future benefits to those who chose to annuitize their self-paid account balance in the LAP when they retired from LACERS. The valuation was based on the LAP retired member and beneficiary census data that LACERS supplied with the June 30, 2018 valuation data for the Retirement Plan and on the reported asset reserves for the LAP as of that date. The valuation was performed using the same methodology and actuarial assumptions used to perform the June 30, 2018 valuation of the Retirement Plan.[1]

We have determined that if all the actuarial assumptions used in the June 30, 2018 valuation were to be met and assuming no changes in those assumptions, there would be sufficient assets in the LAP to pay the future benefits.

LAP Overview

LACERS offers an optional Larger Annuity Program whereby members can make voluntary post-tax or pre-tax rollover contributions during City employment in order to receive a larger annuity upon retirement (the City does not contribute to the program). There are two investment options for the member contributions; that is, contributions can earn interest based on the same rate that is credited to regular member contributions (i.e., based on the five-year treasury note), or they can receive the actual rate of return for the publicly-traded portion of the LACERS investment portfolio. The larger annuity benefit at retirement is based only on the voluntary

[1] The benefit purchased by the retired members in the LAP would not impact the amount of subsidy available to the retiree from the retiree health plan.

member contributions, plus any interest or investment returns thereon, and any rollover amounts from other qualified retirement funds.

We understand that on October 8, 2013, the Board adopted a fixed annual increase of 3% to the Larger Annuity benefits, prospectively, regardless of the actual change in the Consumer Price Index. Furthermore, based on a Board rule, the fixed 3% per year benefit increase is applied to all tiers.

Census Data

In the main payee census data file provided by LACERS for the June 30, 2018 Retirement Plan valuation, there were 20 records coded by LACERS as benefit type of "ACONT" ("Larger Annuity Continuance," i.e., beneficiary records) and 511 records coded as "ADDAN" ("Larger Annuity," i.e., retired member records), for a total of 531 LAP records. When we were performing the Retirement Plan valuation, out of the 20 beneficiary records, LACERS indicated that three of these beneficiaries were deceased during Fiscal Year 2017/2018. Accordingly, we have excluded these three records from the LAP valuation. Out of the 511 retired member records, one of these records was indicated as a disability retirement in the Retirement Plan valuation data, so we have treated that record as a disability retirement for purposes of the LAP valuation as well. Overall, the number of retired member and beneficiary records included in our June 30, 2018 valuation of the LAP is as follows:

Counts of LAP Retired Member and Beneficiary Records as of June 30, 2018	
Service Retirements	510
Disability Retirements	1
Beneficiaries	17
Total	528

These 528 retired member and beneficiary records were receiving total annual LAP benefits of about $4.0 million, after applying the July 1, 2018 benefit increase rate of 3% to the benefits we received in the June 30, 2018 LAP valuation data.[2]

Methods and Assumptions

As noted above, the LAP valuation was performed using the same methodology and actuarial assumptions used to perform the June 30, 2018 valuation of the Retirement Plan. In particular, the main assumptions we utilized in this valuation are as follows:

[2] The LAP data we received did not contain the July 1, 2018 3% increase, similar to the Retirement Plan valuation data we received.

Main Actuarial Assumptions as of June 30, 2018	
Interest	7.25%
Cost-of-Living Benefit Increases	3.00% per annum, for all tiers
Mortality	
Healthy Members and All Beneficiaries	Headcount-Weighted RP-2014 Healthy Annuity Mortality Tables (separate tables for males and females) projected generationally with the two-dimensional mortality improvement scale MP-2017
Disabled Members	Headcount-Weighted RP-2014 Disabled Retiree Mortality Tables (separate tables for males and females) projected generationally with the two-dimensional mortality improvement scale MP-2017

Results

Based on the information presented above, the results of the June 30, 2018 valuation of the LAP are as follows:

LAP Valuation Results as of June 30, 2018	
1. Actuarial Accrued Liability*	$53,295,759
2. Larger Annuity Reserve at Actuarial (Smoothed) Value (Acct. 253)**	-53,440,892
3. Unfunded Actuarial Accrued Liability/(Surplus) on an Actuarial Value Basis	$(145,133)

* For retirees and beneficiaries in payment status as of the valuation date.

** Excludes the Reserve for Larger Annuity Contributions established for current active members (Acct. 256). The market value of the Larger Annuity Reserve, excluding Acct. 256, is $54,407,075 as of June 30, 2018, which leaves a surplus of $1,111,316 on a market value basis.

It appears that the main reason for the favorable result of surplus assets for the LAP as of June 30, 2018 is the investment experience of the program upon the recovery of the market downturn around 2008 and 2009. As of June 30, 2009, the Larger Annuity Reserve stood at about $9.9 million on a market value basis. This reserve has increased to about $61.4 million as of June 30, 2018, of which about $54.4 million is held in Account 253 to pay the larger annuity benefits (LAP Account 256 is held for active member contribution balances prior to retirement). The market value return on the total LAP assets has averaged about 10.8% per year, from July 1, 2009 through June 30, 2018.

Additional Discussions

We understand that one of the questions LACERS had before the valuation was performed was whether the Larger Annuity Program has enough assets to pay future benefits.

This question is especially important for the LAP because under the current provisions found in the Administrative Code, it is our understanding that when a member chose to annuitize their self-paid account balance in the LAP when he/she retired from LACERS, the annuity amount had to be "*determined by the actuary to be cost-neutral.*" The basis for the cost-neutral calculation, as recommended by Segal (the actuary), has been the same investment return assumption and mortality assumptions used by the System in the funding valuation for the Retirement Plan under the presumption that all of those assumptions would be met.

However, unlike the funding valuation, if actual experience in the future were to come in worse than expected or changes were made to strengthen the assumptions, then assets might no longer be sufficient. As it is also our understanding that the System might not be allowed to subsequently change the amount of the Larger Annuity Program benefit, the Board might need to consider a strategy such as combining the assets and the liabilities of both the Larger Annuity Program and the Retirement Plan so that any resultant liabilities (or surplus) in the LAP would be included in the UAAL rate determination for the Retirement Plan.

However, before considering such strategy, the Board would need to confirm if the above would be permissible under the Administrative Code.

We are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein. As we cannot give legal advice, any understanding of the Administrative Code expressed above should be reviewed by legal counsel.

Please let us know if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

DNA/gxk

cc: Todd Bouey
Lita Payne
Dale Wong-Nguyen