LETTER OF AGREEMENT
BETWEEN THE CITY OF LOS ANGELES AND
LOS ANGELES CITY UNIONS REPRESENTING ALL LACERS MEMBERS
EARLY RETIREMENT INCENTIVE PROGRAM
FUNDING GUARANTEE

The City of Los Angeles and the Los Angeles City Unions that represent all LACERS members ("employees") have partnered to develop an Early Retirement Incentive Program ("ERIP"). The ERIP program is designed to separate as quickly as possible 2,400 employees from City service. The ERIP represents a long-term obligation of the City of Los Angeles, and the Unions have agreed to contribute toward the reduction of that obligation. After employees retire through the program, the LACERS' actuary will determine the actual cost of the ERIP, which will form the basis for the calculation of the Union's contribution to funding the ERIP. The Unions agree as follows:

1. The goal of ERIP is to separate no more than 2,400 employees from City service as quickly as possible.

2. Benefit enhancements as provided on the attached early out proposal.

3. Accumulated Sick and Vacation time is not payable to employees retiring under the ERIP, and such employees shall not be entitled to a payment of Accumulated Sick and Vacation Time upon retirement. Employees retiring under the ERIP shall receive a Severance Payment in the amount of what would be the employee's Accumulated Sick and Vacation Time. In addition, employees retiring under the ERIP shall receive a Separation Payment as set forth in the attached early out proposal (Scenarios A-E). The Severance Payment and applicable Separation Payment shall constitute a Bona Fide Separation Pay Plan under IRC Section 457(e)(11). These payments shall be completed by the end of the second calendar year following the calendar year in which the employee separates from City service.

4. Employees shall only have the retirement option to select ERIP during the window period (the choice to select the standard LACERS retirement shall not be allowed during the ERIP window period).

5. The ERIP window period will be 45 days.

6. Management shall determine the order of the retirement dates for employees electing to retire during the window period.

7. The ERIP actuarial cost, as determined by the LACERS' actuary, and the total cost of the Separation Payments shall, together, be known as the "ERIP Cost Obligation." The LACERS actuary has preliminarily determined the ERIP Cost Obligation, as presented in the actuarial report dated September 25, 2009, to be $271 Million, based on a projection of 2,229 ERIP Eligible Filers actually retiring. This cost shall be an obligation of the employees, with the payment term specified in item 8 below to be prorated if fewer than 2,400 employees actually retire under ERIP, using the methodology in the actuarial report dated September 25, 2009.

8. LACERS members' payment of the ERIP Cost Obligation shall commence on July 1, 2011, and end on June 30, 2026, or when the ERIP Cost Obligation is fully paid, which ever comes first. The payment shall consist of a 1% increase in the LACERS active employee retirement contribution rate of 6% of which 0.5% is the survivor contribution portion, so that the total LACERS active employee retirement contribution rate shall be 7% for all LACERS members. After all ERIP Eligible Filers actually retiring under the ERIP have retired, the LACERS actuary shall re-calculate the ERIP Cost Obligation based on the number of ERIP Eligible Filers actually retiring, using the same methodology used to determine the preliminary ERIP Cost Obligation. However, the City reserves the right to increase the LACERS active employee contribution rate for new City hires, in accordance with all applicable laws and practices.

9. The employee contribution rate for employees hired prior to 1983 (i.e. defrayal group) shall be adjusted to 6% upon ratification of this agreement. Commensurate with item 8 above, employees in the defrayal group (similar to all other employees) shall have their retirement contribution increased from 6% to 7%

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on July 1, 2011. Savings from the elimination of defrayal shall be credited towards the target savings figure (in item 7 above).

10. Once the City has recouped all costs associated with the ERIP as identified in items 7 and 8 above, the retirement contribution rate will be reduced by 1% to 6% for all employees.

11. The LACERS actuary will provide updates on the progress toward the payment of the cost (identified in item 7 above) based on the contributions and savings (identified in items 8 and 9 above), including an estimate of the remaining contribution term. The City and Unions will meet at least once annually after the release of the actuary's report to assess the progress on eliminating the obligation.

12. Certain classifications will be excluded and/or capped at a range of 20% - 35% (see attached preliminary lists). For classifications that will be capped, the individual bargaining units will meet with Management to determine the cap percentage to apply for each classification. A final determination shall be made within two weeks of the close of the window period. If agreement cannot be reached before the end of the deadline period, then the cap rate shall be 20%. In the event that the number of ERIP eligible employee filers exceeds the classification percentage, seniority shall prevail. Seniority shall be defined as the total time in City service. If there is a tie in total time in City service between two or more employees, then the employee with more total time in the current classification shall prevail.

13. Each Union shall conduct its own membership vote. Ratification by each bargaining unit must be completed and the CAO notified in writing of ratification by no later than October 23, 2009. Units representing a majority of the LACERS members must ratify all of the provisions of the retirement package. Compliance with this provision will be based on the Wages and Count for full-time employees dated November 17, 2008.

14. It is understood and agreed that this LOA is subject to all applicable Federal and State laws, City ordinances and regulations, and the Charter of the City of Los Angeles. If any part or provision of this LOA, including but not limited to the cost-saving mechanisms referenced in Paragraph 7, is in conflict or inconsistent with such applicable provisions of Federal, State, or local law or regulations, or is otherwise held to be invalid or unenforceable by any court of competent jurisdiction, such part or provisions shall be suspended and superseded thereby and the remainder of this LOA shall not be affected. The parties agree to negotiate promptly a replacement for such part or provision, including but not limited to alternative cost-saving measures to enforce the employees' responsibility for the ERIP Cost Obligation under Paragraph 7. Should the parties fail to agree on replacement provisions, including but not limited to alternative cost-neutrality mechanisms, within 20 days of the City's exhaustion of all feasible appeal options in the state court system against a successful legal challenge, the City may invoke established bargaining practices as prescribed by the Employee Relations Ordinance (ERO) towards cost-neutrality as envisioned in this agreement.

15. The pension of each Group 1, 2, and 3 employee retiring under the terms and conditions of this ERIP Agreement under a normal retirement (unreduced benefit) shall be reduced by 1%, using the following Normal Retirement Benefit Formula:

    [Final Compensation x Service Credit x Retirement Factor (2.16%)] x .990

16. The pension of each Group 5 employee retiring under the terms and conditions of this ERIP Agreement shall be reduced by 1%, using the following Early Retirement Benefit Formula:

    [Final Compensation x Service Credit x Retirement Factor (2.16%)] x [Reduction Factor] x .990

    The Reduction Factor is the standard LACERS Early Retirement Reduction Factor.

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Group 1 includes only LACERS members who already qualify for a normal (unreduced) retirement with less than 33 years of service and are at least 55 years of age. These employees would receive three years of service credit and a $15,000 separation payment.

Group 2 includes only LACERS members who do not currently qualify for a normal (unreduced) retirement and who have at least 33 years of service but have not reached age 55. These employees would receive sufficient age credit to receive a normal (unreduced) retirement, an additional three years of service credit and a $15,000 separation payment.

Group 3 includes only LACERS members who do not currently qualify for a normal (unreduced) retirement. These employees have less than 33 years of service and are within five years of age credit and/or service credit to achieve a normal (unreduced) retirement. These employees would receive a minimum of three years and a maximum of five years of age credit and/or service credit to receive a normal (unreduced) retirement and/or to enhance a retirement benefit and a $15,000 separation payment.

Group 4 includes only LACERS members who already qualify for a normal (unreduced) retirement with a minimum of 33 years of service and are at least age 55. These employees would receive a separation payment of $1,000 for each year of service.

Group 5 includes only LACERS members who do not currently qualify for a normal (unreduced) retirement. These employees lack more than five years of age (in order to meet age qualification for a benefit) and/or service credit, were hired by the City prior to 1983 and currently have a portion of their employee contribution defrayed by the City. These employees would receive up to five years of service credit to receive an early or reduced retirement and $15,000 separation payment.

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