



CITY OF LOS ANGELES

October 11, 2011

Roberta Conroy
President

Los Angeles City Employees' Retirement System (LACERS)
360 E. Second Street, Second Floor
Los Angeles, CA 90012

Re: LACERS Board Agenda Items V-A and V-B for October 11, 2011 - Actuarial Program

Dear Ms. Conroy:

The purpose of this letter is to request that the LACERS Board defer consideration of reducing the rate of return assumption from 8% to 7.75% for one year. Should the LACERS Board approve any reduction in the rate of return assumption, we request that it be phased-in over a five-year period. In addition, please direct the general manager to work with the City Administrative Officer (CAO) on the actuarial assumptions prior to their submission to the actuary.

We thank you for your recent communication to all LACERS members on October 4, 2011, whereby you indicate LACERS will administer the medical subsidy freeze adopted by the City Council and Mayor. We also appreciate that LACERS will not pursue separate legal advice on the vested rights issue.

It is our understanding that the LACERS Board will consider the results of a recent actuarial experience study and additional retiree healthcare assumptions in preparation for its June 30, 2011 actuarial valuation. The actuarial assumptions adopted by the LACERS Board will have serious ramifications for the City of Los Angeles.

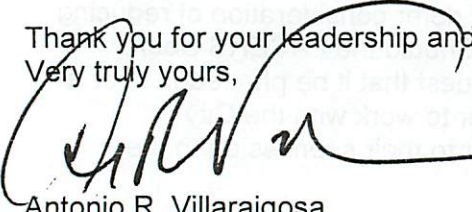
A significant portion of the City's budgetary shortfalls over the last few years has resulted from escalating pension and other post-employment benefits costs. The City and LACERS Board have made difficult decisions to satisfy fiduciary responsibilities to our retirees, our employees, and our constituents. We must continue to work closely together to ensure the City's fiscal stability and the Plan's solvency.

The LACERS staff and actuary recommend numerous assumption changes resulting from the actuarial experience study, such as changes to the investment return, salary increases, retirement rates, and mortality rates. There is no information provided in the staff reports that

demonstrate the impact to the City's contribution if such assumptions are adopted. It is also unclear from the staff reports whether all of the recommended assumptions reflect the actual experience of salary increases as a majority of LACERS active members experienced either 0% cost-of-living adjustments or a significant modification in salaries. It is for this reason we respectfully ask that your Board direct the LACERS staff to work with the CAO in developing the assumptions to ensure that they reflect the actual changes in the relevant bargaining agreements and City ordinances, such as the recently adopted retiree health care freeze. The Board of Fire and Police Pension Commissioners recently approved a similar request from the City.

As part of the proposed assumption changes, the LACERS Board will also consider reducing its investment return rate of assumption from 8% to 7.5%. A reduction of this magnitude will instantly lead to a tremendous increase in the City's contribution, with initial estimates at \$50 million. The City is currently facing a budget deficit for next fiscal year of up to \$250 million. If the LACERS Board adopts the proposed assumption change, the City's deficit will likely increase to \$300 million, necessitating the need for mitigation measures which would almost certainly include employee layoffs. We simply cannot afford any further cuts to our civilian workforce. In *Brandt v. Board of Retirement*, the Court of Appeal noted that "staving off possible job losses by active members" is a factor that a retirement board may consider in exercising its duties to participants and beneficiaries. We urge you to discuss these impacts with the CAO. If you decide go forward with this change, we request a five-year phase-in.

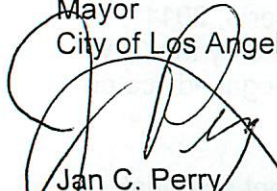
Thank you for your leadership and continued commitment to the City of Los Angeles.
Very truly yours,



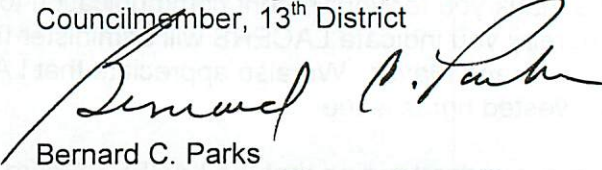
Antonio R. Villaraigosa
Mayor
City of Los Angeles



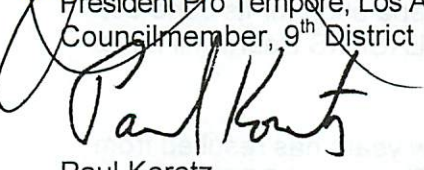
Eric Garcetti
President, Los Angeles City Council
Councilmember, 13th District



Jan C. Perry
President Pro Tempore, Los Angeles City Council
Councilmember, 9th District



Bernard C. Parks
Chair, Budget and Finance Committee
Councilmember, 8th District



Paul Koretz
Chair, Personnel Committee
Councilmember, 5th District

cc: The Honorable Members of the City Council
Thomas Moutes, General Manager, LACERS
Miguel A. Santana, CAO
Gerry F. Miller, CLA