



LAFPP

LOS ANGELES FIRE AND POLICE PENSIONS

PENSION REFORM – What Does It Mean for LAFPP?

Board Retreat: January 6, 2011



To Serve Those Who Protect



Nationwide Pension Reform





Nationwide Pension Reform

Pension Benefits

- In the first 10 months of 2010, 19 states took action to reduce pension liabilities, either through reducing benefits or increasing employee contributions.
- In 2009, 11 states made similar changes and 8 did so in 2008.

Source: The Pew Charitable Trusts

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Nationwide Pension Reform

Retiree Health Benefits

- States such as New Hampshire, Kentucky, New Jersey and South Carolina have made changes to how they structure and pay for retiree health benefits in an attempt to better manage their related long-term liabilities.
- Changes included:
 - Employee contributions to fund retiree health care;
 - Setting up a Health Insurance Trust fund (versus pay-as-you-go); and
 - Establishing a union managed pre-tax health account for employees.

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Statewide Pension Reform





California/Local Pension Reform – Two Vehicles for Change

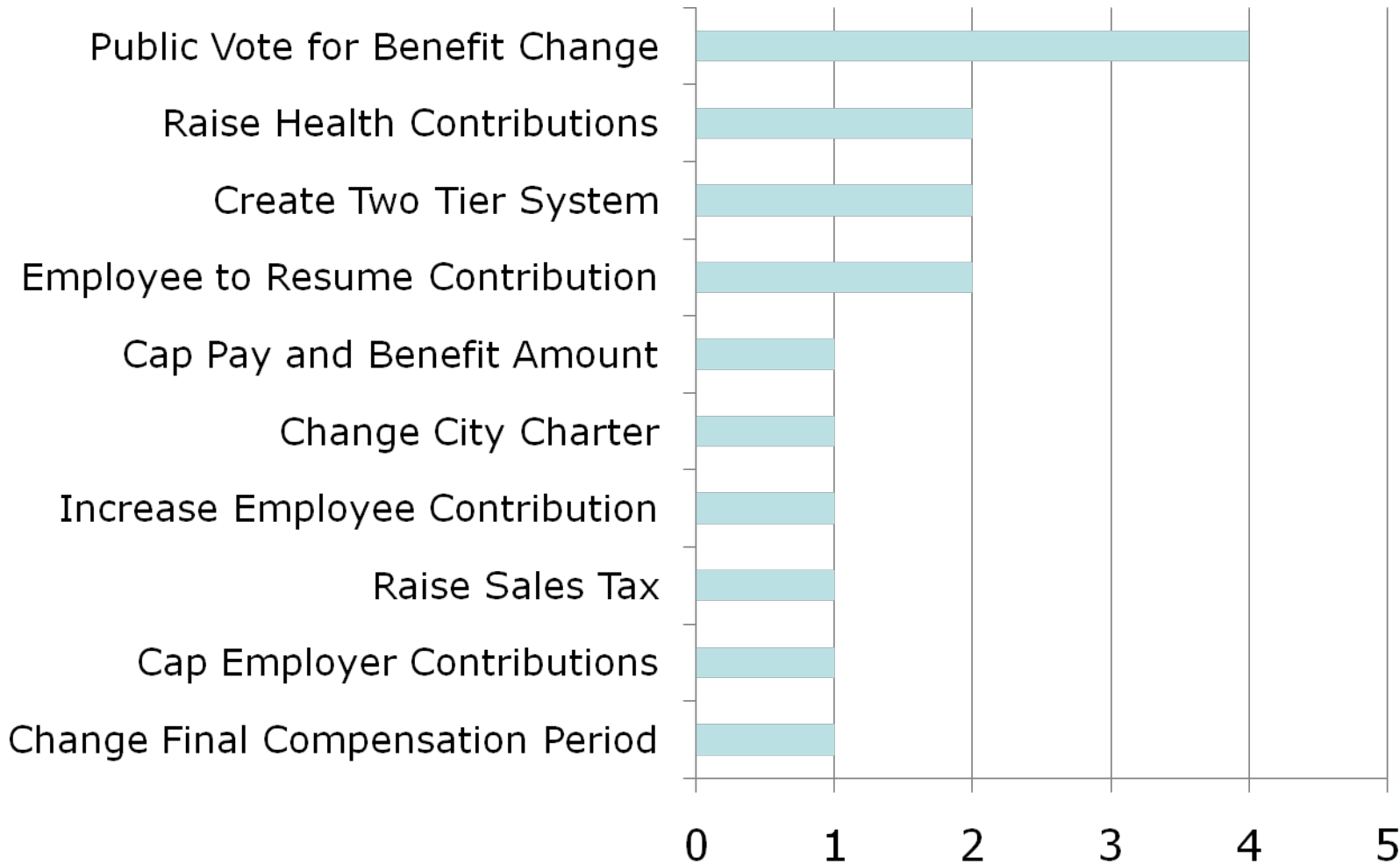
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- Contract Amendments –
 - At least 15 agencies have completed contract amendments to modify pension benefits.
 - 9 or more agencies are still negotiating amendments.
- Ballot Measures –
 - 13 ballot measures for 10 agencies in November 2010: 11 passed



CA Ballot Issues – November 2010

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Summary of Measures

- San Diego – Prop D: Failed
 - Sales tax increase conditional upon employees:
 - Resuming pension contributions;
 - DROP cost-neutrality study;
 - Creating a two-tier system for firefighters; and
 - Starting a voluntary DC plan.
- San Francisco – Prop B: Failed
 - Increase employee contributions for retirement benefits;
 - Decrease employer contributions to the Health Service System for health benefits for employees, retirees and their dependents; and
 - Change rules for arbitration proceedings about City collective bargaining agreements.

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Summary of Measures

- Bakersfield – Measure D: Passed
 - Reduced retirement benefits for newly-hired police and firefighters:
 - Employees will pay 100% of their employee pension contribution,
 - 2% per year at age 50,
 - 36 highest paid consecutive months.
- Carlsbad – Prop G: Passed
 - Amended city charter to require a public vote on pension increases for government workers.
- Menlo Park – Measure L: Passed
 - Increased retirement age to 60 for future employees (Except Police Officers), future benefit increases require voter approval.

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Summary of Measures

- Murrieta – Props D & E: Passed
 - Cap on pay/benefits that did not name pensions but did not exclude them either.
- Redding – Measures A & B: Passed
 - Advisory only: Labor negotiations policy on employee contributions to pension fund and requiring city workers to have worked for a minimum of five years, and be enrolled in Medicare (if eligible) before the city would contribute to retiree health insurance premium costs.

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Summary of Measures

- Riverside County – Measures L & M: Passed
 - Competing Measures, both passed but “M” received more affirmative votes. Requires voter approval for increases in public safety employee retirement benefits or decreases in job related pre-retirement death benefits, and allows decreases in retirement benefits.
- San Jose – Measure W: Passed
 - Removed language from city charter that defined the rules for the age at which city employees can retire and how much the city must pay into their pension fund. San Jose City Council now has the flexibility to make decisions on those matters. Workers hired after 2011 would fall under the new rules.

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City of Los Angeles – LAFPP Pension Reform





Tier 6 on March 2011 Ballot

- Result of 10 months of negotiations with labor organizations. LAFPP staff was involved in an advisory capacity.
- City Council adopted resolutions on November 17, 2010 to place issue on March 8, 2011 ballot.
- Applies to sworn members of Fire, Police or Harbor Departments hired on or after July 1, 2011.
- Estimated to reduce Normal Cost by 5.03% of Tier 6 payroll.

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Main Provisions of Tier 6

- Must be at least age 50 with a minimum of 20 years of service.
- Maximum pension of 90% at 33 years:
 - 20 years = 40%
 - 21-25 = 3% per year
 - 26-30 = 4% per year
 - 31-33 = 5% per year.
- Final Average Salary = Highest 24 consecutive months.

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Main Provisions of Tier 6

- 11% mandatory employee contribution:
 - 9% pension contribution until 33 YOS
 - 2% to support funding of retiree health benefits until 25 YOS.
- Health subsidy for service-connected disability pensioners with less than 10 YOS.
- Survivors of active members killed while on active military duty entitled to 50% nonservice-connected survivor's pension.

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Main Provisions of Tier 6

- City Council may pass an ordinance in the future to allow members of other Tiers to transfer into Tier 6 during an enrollment period.
 - However, it must be actuarially cost neutral to the pension system with the employee paying the full cost.
 - Actuarial study would need to be completed and the details negotiated between the City and the labor organizations.
 - Do not expect implementation by July 1, 2011.

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Tier-by-Tier Comparison





More Than One LAFPP Pension Plan

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TIER	EMPLOYMENT DATES	ACTIVE MEMBERS*
1	1925 – Jan 28, 1967	0
2	Jan 29, 1967 – Dec 7, 1980	140
3	Dec 8, 1980 – Jun 30, 1997	954
4	Jul 1, 1997 – Dec 31, 2001	422
5	Jan 1, 2002 – Jun 30, 2011	12,138
6	Jul 1, 2011 –	

*June 30, 2010 Actuarial Valuation





Member Contributions

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	TIER 2	TIER 3/4	TIER 5	TIER 6
% Salary	7%	8%	9%*	11%**
Contributions End	30	30	33	33
Refundable	Yes	Yes/No	Yes	Yes

*City picks up 1% if pension system is at least 100% funded.

**2% of employee contribution goes to support funding of retiree health benefits. This portion will cease after 25 years of service.





Service Pension Requirements

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	TIER 2	TIER 3	TIER 4	TIER 5	TIER 6
Minimum Age	None	50	None	50	50
Minimum YOS	20	10	20	20	20
Pension Base	Normal Pension Base (NPB): last pay rate	Final Average Salary (FAS): 12-month Average	Final Average Salary (FAS): 12-month Average	Final Average Salary (FAS): 12-month Average	Final Average Salary (FAS): 24-month Average
COLA Cap	No Cap	3%	3%	3%	3%
COLA Bank	No	No	No	Yes	Yes





Service Pension Factors

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YOS	TIER 2	TIERS 3 - 4	TIER 5	TIER 6	YOS	TIER 2	TIERS 3 - 4	TIER 5	TIER 6
20	40%	40%	50%	40%	27	61%	61%	71%	63%
21	42%	43%	53%	43%	28	64%	64%	74%	67%
22	44%	46%	56%	46%	29	67%	67%	77%	71%
23	46%	49%	59%	49%	30	70%	70%	81%	75%
24	48%	52%	62%	52%	31			84%	80%
25	55%	55%	65%	55%	32			87%	85%
26	58%	58%	68%	59%	33			90%	90%





Service-Connected Disability

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	TIER 2	TIERS 3, 4 & 5	TIER 6
% of Pension Base	50% - 90%	30% - 90%	30% - 90%
Pension Base	NPB	FAS (12 mo)	FAS (24 mo)
Minimum pension	Available service pension	Greater of 30% or 2% per YOS	Greater of 30% or 2% per YOS





Nonservice-Connected Disability

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	TIER 2	TIERS 3, 4 & 5	TIER 6
% of Pension Base	40%	30% - 50%	30% - 50%
Pension Base	Nonservice-Connected Pension Base*	FAS (12 mo)	FAS (24 mo)

*Highest monthly salary for basic rank of Police Officer III or Firefighter III, and the highest longevity pay.





Survivor Benefits

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SERVICE-CONNECTED DEATH	TIER 2	TIERS 3, 4 & 5	TIER 6
Before Retirement	50% of NPB or 55% if 25+ YOS	75% of FAS (12 mo) <i>Former Tier 2:</i> 75% of NPB	80% of FAS (24 mo)
After Retirement	50% of NPB or 55% if more than 25+ YOS	60% of Member's Service-Connected Disability Pension*	80% of Member's Service-Connected Disability Pension*

*Survivor receives active duty benefit if death occurs within 3 years of pension effective date and is due to service-connected disability.





Survivor Benefits

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NONSERVICE-CONNECTED	TIER 2	TIERS 3, 4 & 5	TIER 6
Before Retirement (min. 5 YOS)	40% of Nonservice Connected Pension Base <i>or</i> If 20+ YOS, same pension member would have received, up to 55% of NPB	30-40% of FAS (12 mo) <i>Former Tier2: 40% of Nonservice-Connected Pension Base</i>	50% of FAS (24 mo)
After Retirement	Same as Member's pension up to 55% of NPB*	60% of Member's pension	70% of Member's pension

*Death after Nonservice-Connected Disability Pension: Survivor receives 40% of Nonservice-Connected Pension Base.





DROP Requirements

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	TIER 2	TIER 3	TIER 4	TIER 5	TIER 6
Minimum Age	None	50	None	50	50
Minimum YOS	25	25	25	25	25
Maximum Time in DROP	60 mos	60 mos	60 mos	60 mos	60 mos
COLA Cap	3%	3%	3%	3%	3%
COLA Bank	No	No	No	Yes	Yes





Implementation of Tier 6





Steps to Implement Tier 6

- Pass Enabling Ordinances*:
 - Per Tier 6 Charter Language - Must be adopted by June 30, 2011:
 - Subsidies for Tier 6 Disability Retirees With Less Than Ten Years of Service
 - Health Insurance Premium Subsidy for Tier 6 to be Provided on the Same Terms and Conditions as for Other Tiers
- Amend current ordinances by June 30, 2011:
 - Public Service Purchase (PSP) Program
 - Deferred Retirement Option Plan (DROP)

*Ordinances cannot be adopted until at least 30 days after first reading, nor until after a public hearing. As such, Ordinances should have first reading no later than May 31, 2011.

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Steps to Implement Tier 6

- Amend various Board rules by June 30, 2011
- Program and Test Systems:
 - Work with Controller's Office and ITA to modify City's payroll system to accommodate new payroll codes by June 30, 2011.
 - Work with consultant to modify OnPoint (LAFPP's membership system) to track new Tier 6 members and calculate benefits by June 30, 2011.

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Steps to Implement Tier 6

- Member Communications:
 - Modify all existing forms and letters to add new Tier.
 - Produce new Summary Plan Description, Survivor Handbooks, etc.
 - If opened to other Tiers:
 - Notify members of enrollment period
 - Provide benefit comparison information
 - Conduct informational sessions
 - Track tier transfers and send reminders

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Funding and Contribution History

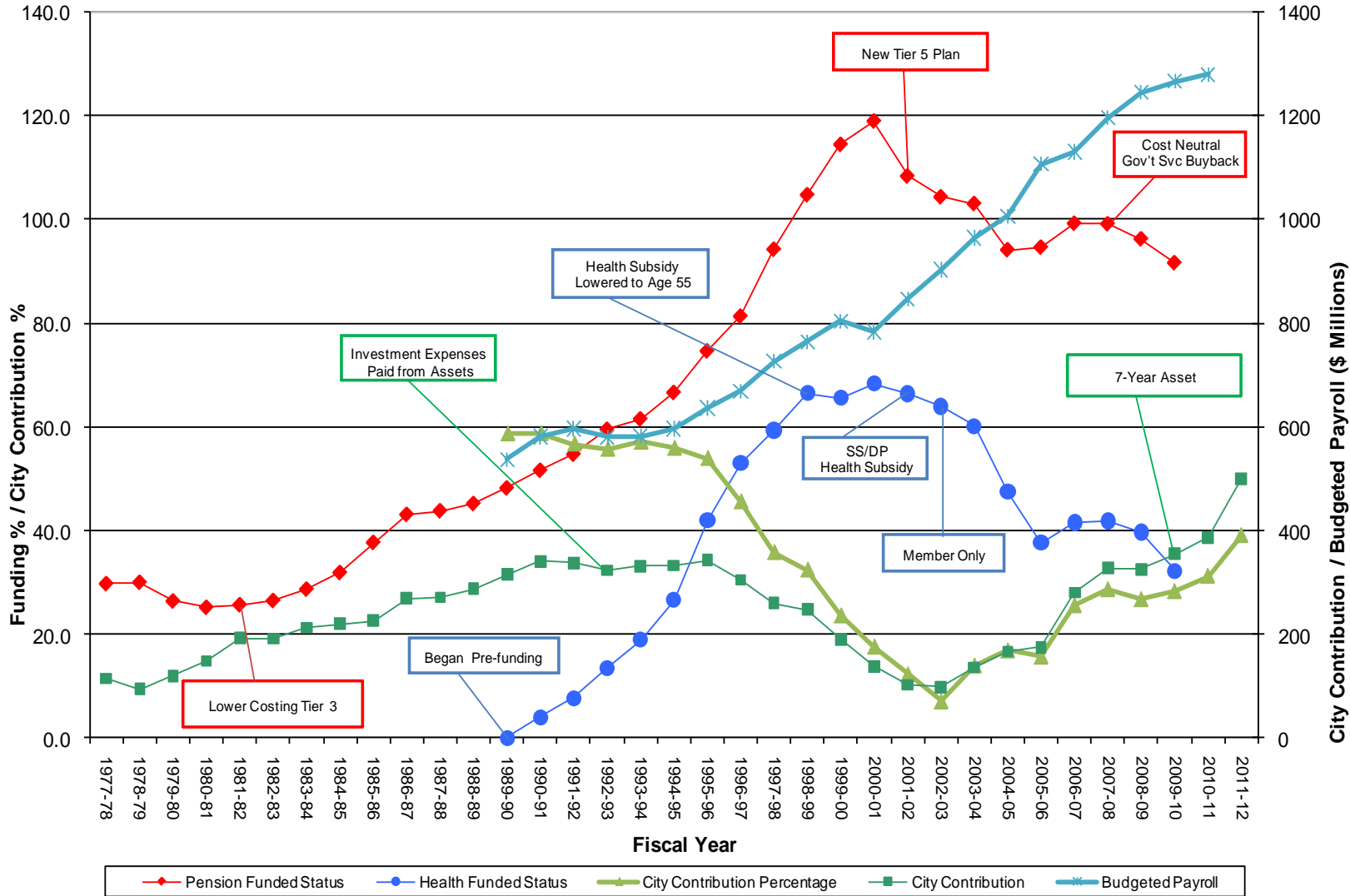




Los Angeles Fire and Police Pensions

LAFPP Funding & City Contribution History

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Questions?

