



Los Angeles Department of Water & Power

RESOLUTION NO. 015 252

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JUN 16 2015

BOARD LETTER APPROVAL

POWER SYSTEM

WATER SYSTEM

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LEGAL

Retirement

RELEASE DATE: JUN 26 2015

LINDA P. LE  
Retirement Plan Manager

  
MARCIE L. EDWARDS  
General Manager

DATE: June 4, 2015

SUBJECT: Resolution Approving the Proposed Plan Amendments to the Water and Power Employees' Retirement Plan to Change the Regular Interest Rate, and the Mortality Table and Interest Rate Used in the Calculation of Retirement Allowances and Conversion to Optional Benefits Amounts

**SUMMARY**

At its Regular meeting of May 13, 2015, the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) approved recommendation of Plan amendments to change the Regular Interest Rate, and the mortality table and credited interest rate used in the calculation of retirement allowances and conversion to optional benefits amounts. These changes will align the actuarial assumptions in the Plan with those used in the actuarial valuations, as recommended by the Plan's actuary, Segal Consulting (Segal), and adopted by the Retirement Board on April 9, 2014. Reconciling the retirement calculation with the actuarial assumptions will result in cost savings to the Department.

There are three major steps in the Plan amendment process as follows:

1. The Retirement Board adopts a resolution recommending the Board of Water and Power Commissioners (Board of Commissioners) approve the proposed Plan amendment;
2. The Board of Commissioners adopts a resolution approving the proposed Plan amendment; and
3. The Retirement Board adopts a resolution to amend the Plan.

Adoption of the attached resolution by the Board of Commissioners will complete step two of the three step process and will direct the Retirement Plan Manager to transmit same to the Retirement Board.

City Council approval is not required.

## **RECOMMENDATION**

It is recommended that the Board of Commissioners adopt the attached resolution approving the proposed amendments to Plan Sections III C (9), IV A (4), IV F (5), and VII L (3), and direct the Retirement Plan Manager to transmit the same to the Retirement Board for final adoption.

## **ALTERNATIVES CONSIDERED**

None.

## **FINANCIAL INFORMATION**

Prior to the adoption of any benefit change, a report from the Plan's actuary must be presented to both the Retirement Board and the Board of Commissioners analyzing the cost impact of the proposed changes upon the Plan. Additionally, state law requires that the actuary's report be presented in a public meeting at least two weeks prior to adoption of any change in benefits, and that the actuary be present to provide information as needed at a public meeting.

In its letter dated May 5, 2015, Segal determined that aligning the actuarial assumptions in the Plan with those used in the in the actuarial valuations will **decrease the required Department contribution rate by \$16.3 million annually** as indicated below:

<b>PLAN AMENDMENTS</b>	<b>ANNUAL SAVINGS</b>
<b>Change in Regular Interest Rate</b>	\$4.1 million
<b>Change in mortality table and interest rate used in the calculation of retirement allowances</b>	\$12.2 million
<b>Change in mortality table and interest rate to convert to optional benefit amounts</b>	No immediate impact

## **BACKGROUND**

On June 26, 2013, Segal presented its report, "Analysis of Actuarial Experience during the Period July 1, 2009 through June 30, 2012", which included several recommendations that were adopted by the Retirement Board at its Regular meeting on April 9, 2014, for use in the actuarial valuations of the Plan.

### **1. Changing the Regular Interest Rate**

The Regular Interest Rate credited to the member's contributions is currently 7.75%, while the assumed rate of growth on investments is 7.5% per year. The Regular Interest Rate affects the total amount of contributions that are available upon a member's retirement or withdrawal. Since the interest rate credited to the member's contributions is higher than the rate assumed to be earned by the assets, the difference results in a higher employer cost. Amending the Plan to align these two rates will result in a decrease in the required Department contribution by 0.46% of compensation or \$4.1 million annually.

Plan Section IV A (4) has been amended several times. The most recent amendment was effective April 13, 2011. If approved, this Plan amendment will be effective upon the first day of the month following the final adoption of the resolution to amend the Plan by the Retirement Board (Step 3 of the Plan Amendment Process).

2. Changing the mortality table and interest rate used in the calculation of retirement allowances

Member contributions are converted to annuities at retirement, which are currently calculated using the 1983 Group Annuity Mortality Table (1983-GAM) with an interest rate of 8%, while the valuation assumptions are based on the RP-2000 Combined Healthy Mortality Table (RP-2000) with an interest rate of 7.5%. Since the 1983-GAM is based on a shorter life expectancy and credited with a higher interest rate, the calculation produces a higher annuity benefit than would result from a calculation based on the actuarial assumptions. Amending the Plan to align these factors will result in a decrease in the required Department contribution by 1.35% of compensation or \$12.2 million annually.

Plan Section III C (9) was last amended effective July 1, 1991. If approved, this Plan amendment will be effective May 1, 2016 due to the extensive planning, modification, and execution time required to put the calculation into effect.

3. Changing the mortality table and interest rate used to convert to optional benefit amounts

Members may elect one of several available options at retirement, which will provide a continuance to a surviving named beneficiary upon the member's death. The conversion to these optional benefit amounts is currently calculated using the 1983-GAM table with an interest rate of 8%, while the valuation assumptions are based on the RP-2000 table with an interest rate of 7.5%. The 1983-GAM is based on a shorter life expectancy, but the interest rate is credited at a higher amount, thus resulting in a mixed impact on the optional benefit amounts depending on the ages of the member and the beneficiary. Amending the Plan to align these factors will have no immediate impact on the required Department contribution.

Plan Section IV F (5) was last amended effective July 1, 1980. Plan Section VII L (3) became effective January 1, 2014, with the implementation of Tier 2. If approved, these Plan amendments will be effective May 1, 2016, due to the extensive planning, modification, and execution time required to put the calculation into effect.

## **ENVIRONMENTAL DETERMINATION**

In accordance with Section 15060 (c)(3) of the California Environmental Quality Act (CEQA) Guidelines, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378 (b)(2) states that continuing administrative activities, such as the approval of Plan amendments, do not meet that definition.

## **CITY ATTORNEY**

The Office of the City Attorney has reviewed and approved the Resolution as to form and legality.

## **ATTACHMENTS**

- Resolution
- Attachment A – Proposed Plan Amendment, Section IV A (4)
- Attachment B – Proposed Plan Amendment, Section III C (9)
- Attachment C – Proposed Plan Amendments, Section IV F (5) and VII L (3)
- Board Agenda Item No. 11 and Resolution 15-68 from the Retirement Board Regular Meeting of May 13, 2015 (without attachments)
- Board Agenda Item No. 12 and Resolution 15-69 from the Retirement Board Regular Meeting of May 13, 2015 (without attachments)
- Segal Consulting Letter Dated May 5, 2015