



FOR ACTIVE MEMBERS



THE PLAN

Water and Power Employees' Retirement Plan

Spring 2014



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A message from the Board President, JAVIER ROMERO



It seems lately we have been bidding farewell to a number of people who have had long-term associations with the Retirement Plan, most notably two members of the Board, retiree representative Michael Moore, and Joint System representative Cindy Coffin. Most recently we said goodbye to Plan Manager Sangeeta Bhatia [see related article]. These departures give me pause to think about the purpose of the Retirement Board and how we, as Board members, have tried to fulfill our responsibilities.

The Retirement Board has the sole and exclusive responsibility to administer all benefits provided under the Water and Power Employees' Retirement Plan (Plan) for the membership and their beneficiaries. In addition, the Retirement Board has absolute control over the Plan's assets, including the investment of those assets.

Although the purpose of the Retirement Board has not changed substantially since 1938 when the Plan was created, the complexities of these responsibilities and the standards to which Board members are held have definitely evolved. The Plan started with simple fixed-income (bond) investments but now must allocate funds between a myriad of other asset classes as well. For many years, the Plan was only allowed to invest in US stocks and bonds. Now the funds are invested in developed and emerging markets throughout the world in recognition of the global economy in which we live.

Moreover, we as individuals on the Retirement Board are now held to a higher

standard of conduct known as the "prudent expert" rule which mandates that as fiduciaries of the Plan we must, "*Discharge its duties with respect to its system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*" This rule directs trustees "to observe how men/women of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

The Board takes this responsibility seriously. We receive extensive training. We employ skilled staff within the Retirement Office. We hire experienced consultants to guide us. We welcome feedback and suggestion from all our Plan participants. We are committed to be vigilant to ensure a strong healthy Plan for years to come.

Investments

The Plan's portfolio is invested in a variety of asset classes, including domestic and international equity, fixed income, real estate, private equity, and alternative investments. The Retirement Board is in the process of adding new fixed income strategies to the portfolio such as the global credit and bank loans to further protect the portfolio. Adding new strategies and rebalancing the portfolio to match the target percentages takes time. Therefore, there are often differences between the actual and target allocation, as shown below.

The Board's adopted long-term asset allocation targets, as well as current asset allocation percentages are as follows:

| Asset Class | Target Percent | As of 3/31/14 |
|----------------------|----------------|---------------|
| Domestic Equity | 33.0% | 38.2% |
| International Equity | 21.0% | 23.0% |
| Fixed Income | 24.0% | 21.5% |
| Covered Calls | 5.0% | 7.3% |
| Real Estate | 5.0% | 2.0% |
| Private Equity | 5.0% | 1.2% |
| Real Return | 6.0% | 5.8% |
| Cash | 1.0% | 1.0% |

The Retirement Board has adopted this diversified asset allocation structure to maximize investment returns while incurring a prudent level of volatility in those returns. Careful attention is paid not only to how the various classes perform during different market cycles, but also how they perform relative to each other. By having strategic classes that act differently, the chance of significant losses is reduced.

As of March 31, 2014, the Retirement Plan had an aggregate value of \$9.3 billion. This represents a \$131 million increase in value over the last quarter and \$1.08 billion over the same date in 2013.

The Plan's portfolio has outperformed the median (more than half the) public sector plans of similar size and assets.

The Retirement Board's general investment consultant, Pension Consulting Alliance, Inc. (PCA) remains cautiously optimistic about the portfolio returns in 2014. PCA notes that they are expecting higher future interest rates, which will likely decrease bond prices for the markets. However, the Plan's portfolio is well diversified to help minimize interest rate risk. In addition, the market continues to respond positively to the winding down of the Federal Reserve's economic stimulus program, which was used to improve the conditions for economic growth.

The next important review of the portfolio will be done this summer using returns from June 30, 2014.



Farewell to Retirement Plan Manager, **SANGEETA BHATIA**

On April 1, 2014, after 25 years of service with the Department of Water and Power (LADWP), Sangeeta Bhatia retired as the Retirement Plan Manager of the Water and Power Employees' Retirement Plan (the Plan). Sangeeta devoted the last 15 years of her career to serving the members of the Plan. Under her leadership and expertise, the Plan achieved several milestones, including the effective implementation of the Board's investment strategy to transition the

management of investments to external full discretion investment management. Additionally, Institutional Investor Magazine recognized the Retirement Plan for the speed at which transition of that magnitude was accomplished. Furthermore, she established the Retiree Health Benefits Trust and the related successful transition of DWP funds to the Trust, and implemented Plan amendments such as changes to the Additional Annuity program, interest crediting rate change, and suspension of Reciprocity with the City. Most importantly, she administered Plan benefits with great professionalism and deep compassion.

Sangeeta began her career with DWP in 1988 as a Utility Accountant in the

Internal Audit Division, of the Financial Services Organization and promoted to Senior Utility Accountant in 1991. While in these roles, she represented DWP in numerous audits and was closely involved in the development and implementation of the currently used DWP budget information system. Since 1998, she has faithfully served Water and Power Employees' Retirement Plan. Sangeeta joined the Retirement Office in 1998 as the Plan's Chief Accountant, promoted to Assistant Retirement Plan Manager in 2001 and was appointed Retirement Plan Manager in 2005.

The Retirement Board and Retirement Office staff will truly miss Sangeeta and wishes her all the best in retirement!

Retirement Cost-of-Living-Adjustments (COLAs)

Are you thinking of retiring and wondering if it's better to retire in January, February, mid-year or later in the year to make the most of cost-of-living-adjustments (COLAs)?

No worries, the Water and Power Employees' Retirement Plan (WPERP) has you covered! You will receive a COLA regardless of which month you choose to retire. The COLA percentage is determined by the WPERP Board of Administration on or before the first day of April each year by reference to the Consumer Price Index and becomes effective on July 1. The Board may determine the COLA to be positive or negative, though negative COLAs are rare. Should a negative COLA occur, please keep in mind that it cannot reduce your retirement allowance lower than the option amount chosen at the time of retirement.

If you retire on July 1, your first retirement check will be calculated using the full COLA for the current fiscal year (July through June of the following year). If you retire between August and June, your first retirement check will be calculated using

a pro-rated COLA applicable to the month you choose to retire. After you retire, you will receive additional COLAs beginning July 1 following your retirement date and every July 1 thereafter. Remember - retirement checks are paid a month after retirement, so your July retirement allowance with the COLA will be seen on the check payable August 1.

As an example, if you retire in January 2015, you will receive 50 percent of the COLA for fiscal year 2014-2015 and 100 percent of the COLA for fiscal year 2015-2016. Not a bad deal!

Another thing to remember is that while you get a higher pro-rated COLA if you retire earlier in the fiscal year, you will obtain more service credits, which will result in a higher pension benefit, if you retire later in the fiscal year.

If you have any questions regarding COLAs, please call the Retirement Section at (213) 367-1715. We would be happy to assist you!

Annual Member Statements

Every member of the Retirement Plan will be receiving an Annual Member Statement in early August of this year. The Annual Member Statements will include information in regards to your Total Accumulated Contributions, which is the amount of funds in your Retirement Account for the annual period ending June 30, 2014. Additionally, it will include whether or not you are enrolled in the Supplemental Family Death benefit, and/or the Additional Annuity Program.

Annual Member Statements are delivered to each member's work address. Therefore, please check your work address in the LADWP Phone Directory to ensure that you receive your Annual Member Statement. If any of the information is incorrect, please contact your timekeepers to have them make the correction in HRMS first.

If you have any questions, please contact the Retirement Plan Office at (213) 367-1712.

A message from the Interim Retirement Plan Manager, **MARY HIGGINS**



2014 is shaping up to be an active year in the Retirement Office for so many reasons. As noted elsewhere in this Newsletter, Sangeeta Bhatia, who had been the Retirement

Plan Manager since 2005, retired on April 1st. The Retirement Plan Manager is a civil service position; therefore, the Personnel Department will conduct a search and selection process for Sangeeta's replacement. I was moved from the position of Assistant Retirement Plan Manager over the Benefits Program to serve as the Interim Retirement Plan Manager while the selection process is conducted.

In addition to a change in leadership, we also anticipate completing two projects this year that have been long-term goals of the Retirement Board: implementation of the final components of the Integrated Pension System (IPS) and the rollout of a revised website late this year.

Prior to IPS, the Retirement Office maintained multiple computer systems; one for active employee service and contribution information, one for retired member payroll plus several side

programs to calculate service purchase costs and benefits. Now, all data are stored in the same system which also has the capability of doing almost all retirement benefit calculations. This integration reduces the risk of calculation and other errors. It also makes information more readily available to Retirement Office staff which gives us better ability to immediately respond to questions posed by members.

Major change, like our computer system, always presents challenges too. We continue to verify the data converted from the legacy systems to ensure accuracy. This is a very detailed time-consuming process which will take some time to complete. Furthermore, we verified the legal basis for all of our pay practices as part of the development process. As a result, we identified the need to modify a few practices to comply with Internal Revenue Code (IRC) requirements. These modifications had little to no impact on current retirees.

With the full implementation of IPS, the Retirement Office is now focused on developing a more dynamic website. Staff has been researching the best way to provide more information to our members while still safeguarding the integrity and security of the system's data. We will also be working with ITS Division on a website design to insure the final product is user friendly and pleasing to the eye. We look forward to presenting the updated website late this year and welcome your feedback.

Tier 2

As stated in our last newsletter, pension reform measures went into effect on January 1, 2014. There is NO impact on the retirement, disability, or death benefits for current employees and retirees. Included in the reform is the suspension of reciprocity between the Water and Power Employees' Retirement Plan (Plan) and the Los Angeles City Employees' Retirement System (LACERS). This change can affect the pension benefits for active employees who transfer to the City or for active City employees who transfer to DWP.

As of April 30, 2014, DWP hired a total of 176 new employees after the changes to the pension benefits on January 1, 2014, including 55 transfers from the City. As expected, the Retirement Office Staff has received numerous phone calls from City employees inquiring as to how the suspension of reciprocity could affect them if they accepted a position with DWP. Staff is available to discuss the various factors over the phone and to provide employees with materials that could assist them with their decision-making process. There are many additional factors and assumptions that need to be considered and made before calculating the pension outcomes.

For more information regarding pension changes, please visit the Retirement Office website at <http://retirement.ladwp.com> or contact the Retirement Plan Office at (213) 367-1692. Furthermore, we encourage you to contact LACERS and the Health Plans Office to receive other pertinent information that might affect your decision.



How To Reach Us

TELEPHONE

DWP Retirement Toll Free: (800) 367-7164

DWP Retirement Office: (213) 367-1715
(Retirement Applications, Beneficiary Changes, Report the Death of Retiree/Eligible Spouse)

DWP Disability:
(213) 367-1680

DWP Health Plan and Medicare:
(800) 831-4778

DWP Credit Union:
(800) 300-9728

DWP Employee's Association:
(213) 367-3146

DWP INTAKE Magazine:
(213) 367-1361

LACEA (City Club):
(213) 620-0388

EAP (Horizon Health):
(888) 439-7327

I.D. Badges:
(213) 367-3303

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We welcome your suggestions and comments regarding this newsletter. Please email us at retire@ladwp.com.