ATTACHMENT II

Segal

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June 6, 2022

Ms. Linda Le
Retirement Plan Manager
Los Angeles Water and Power Employees' Retirement Plan
111 North Hope Street, Room 357
Los Angeles, CA 90012

Re: Water and Power Employees' Retirement Plan of the City of Los Angeles (WPERP) Review of Investment Return Assumption for Death and Disability Funds – Alternative Assumptions

Dear Linda:

As part of the actuarial experience study, we reviewed the actuarial assumptions that will be used in the funding valuation and Governmental Accounting Standards Board (GASB) valuation for the Retirement Plan. Similar assumptions will be applied in the funding reviews[1] for the Death Benefit Fund and Disability Fund. However, the one exception is the investment return assumption.[2] Since the Death and Disability Funds have a significantly different asset allocation as compared to the Retirement Plan, a different investment return assumption is necessary. Currently, a 3.50% per annum investment return assumption is used in the funding reviews for the Death and Disability Funds.

We have been requested to provide an alternative investment return assumption to that recommended in our May 20, 2022 letter based on an alternative economic assumption for the Retirement Plan that would maintain the inflation assumption at 2.75%. The following table summarizes the components of the current and alternative investment return assumptions for the funding reviews for the Death and Disability Funds, based on the Death and Disability Funds' current target asset allocation which is 100% fixed income investments.

[1] These assumptions are also used in the GASB 74 valuation for the Death Benefit Fund.

[2] The Death Benefit Fund also includes an assumption of family composition at death. We are recommending no change to that assumption.

Calculation of Investment Return Assumption

Assumption Component	July 1, 2022 Alternative	July 1, 2019 Adopted Value
Inflation	2.75%	2.75%
Portfolio Real Rate of Return[3]	0.36%	1.37%
Expense Adjustment	(0.10%)	(0.10%)
Total	**3.01%**	**4.02%**
Proposed Assumption	**3.00%**	**3.50%**

The alternative 3.00% investment return assumption includes expected real rates of returns for the fixed income asset class as well as the alternate 2.75% inflation assumption and an adjustment for investment expenses. It includes 0.01% margin for adverse deviation. The reasons for the decrease in the proposed investment return assumption are the roughly 1.0% decrease in the real return for the fixed income asset class compared to three years ago.

Cost Impact

We have estimated the impact of the alternate 3.00% investment return assumption as if it were applied to the July 1, 2021 actuarial valuations. For the Disability Fund, the recommended Department contribution rate for the Temporary Disability Benefit Fund would increase by $0.01 per $100 of compensation, or about $123,000 based on the projected compensation of $1,233 million in the July 1, 2021 actuarial valuation report. The recommended Department contribution rate for the Permanent Total Disability Fund would remain at $0 per $100 of compensation. For the Death Benefit Fund, there would be an increase in the recommended Department contribution rate of about 0.09% of pay (or $1.2 million per year). The increase in the unfunded actuarial accrued liabilities (UAAL) for the Death Benefit Fund is about $11 million.

The cost impact calculations are based on the July 1, 2021 actuarial valuation including the participant data, actuarial assumptions and methods on which that valuation was based. That valuation and the calculations for this assumption review were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary.

[3] These are based on the projected arithmetic returns provided by RVK and five other investment advisory firms serving WPERP and 16 other city and county retirement systems in California, as well as Segal's investment advisory division. These return assumptions are gross of any applicable investment expenses.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

Eva Yum, FSA, MAAA, EA
Vice President & Actuary

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