



THE SEGAL COMPANY

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January 11, 2012

Mr. Michael A. Perez
General Manager
Los Angeles Fire and Police Pension Plan
360 East Second Street, 6th Floor
Los Angeles, CA 90012

**Re: Los Angeles Fire and Police Pension Plan
FY 2012-2013 Retirement and Health Plan Contributions
with Adjustments to Reflect Three-Year Phase-in of City Contribution Rates**

Dear Mike:

On September 1, the Board elected to phase in the impact of new actuarial assumptions (adopted as recommended in the June 30, 2010 triennial Experience Study) on the City’s retirement and health plan contributions over a three-year period, beginning with the 2012-2013 fiscal year. The recommended (i.e., pre-phase-in) contribution rates for Fiscal Year 2012-2013 are contained in Segal’s June 30, 2011 reports entitled *Actuarial Valuation and Review of Retirement Benefits* and *Actuarial Valuation and Review of Other Postemployment Benefits (OPEB)*. This letter provides the “phased-in” contribution rates for Fiscal Year 2012-2013 and an analysis of the financial reporting and future contribution rate impact of the three-year phase-in.

PHASE-IN CONTRIBUTION RATES FOR 2012-2013

Table A below shows the full impact of the newly adopted actuarial assumptions on the City’s retirement and health plan contributions for fiscal year 2012-2013, assuming payment at the beginning of the year, on July 15, 2012, or at the end of each pay period. This is the portion of the increase over the current contribution rates that will be phased-in over three years.

Table A

Plan:	City Contribution Rate Impact of the New Actuarial Assumptions (percentage of payroll):		
	<u>Beginning of Year</u>	<u>15 - July</u>	<u>Biweekly</u>
Retirement	2.94%	2.95%	3.06%
Health	0.82%	0.82%	0.85%
Total	3.76%	3.77%	3.91%

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The incremental increases in the current City contribution rates for the first year of the phase-in are simply one-third of the rates shown in Table A. These first-year phase-in rates are shown below in Table B:

Table B

**First-Year Phase-In of the Impact of the
 New Actuarial Assumptions (percentage of payroll):**

Plan:	<u>Beginning of Year</u>	<u>15 - July</u>	<u>Biweekly</u>
Retirement	0.98%	0.98%	1.02%
Health	<u>0.27%</u>	<u>0.27%</u>	<u>0.29%</u>
Total	1.25%	1.25%	1.31%

Note that the rate impact for the second and third years of the phase-in will be slightly greater than simply adding another one-third of the full increases to the contribution rates for the preceding year, since interest will accrue on the portion of the full contribution rate increase that will not be made because of the phase-in. The actual incremental increase in the City contribution rate due to the phase-in for years two and three will be reflected in the new contribution rates determined at the time of each such future valuation.

The phased-in City contribution rates for 2012-2013 are provided in a table attached to this letter (Attachment 2). For your convenience, we have also attached a table with the City contribution rates for 2012-2013 before the phase-in (Attachment 1).

The rates in Attachment 2 (after the phase-in) are developed by taking the rates in Attachment 1 (before the phase-in) minus the rates in Table A (the full impact of the new actuarial assumptions) plus the rates in Table B (the first-year phase-in). This is the same as excluding two-thirds of the full impact of the new actuarial assumptions from the current 2011 valuation (i.e., two-thirds of the Table A amounts). This first-year deferred amount is shown below in Table C. In practice, each subsequent valuation will include another one-third of the Table A amounts by deferring one-third less than in the preceding valuation (i.e., deferring one-third in 2012 and none in 2013 and later).

Table C (i.e., rates from Table A – rates from Table B)

**First-Year Deferred Portion of the Impact of the
 New Actuarial Assumptions (percentage of payroll):**

Plan:	<u>Beginning of Year</u>	<u>15 - July</u>	<u>Biweekly</u>
Retirement	1.96%	1.97%	2.04%
Health	<u>0.55%</u>	<u>0.55%</u>	<u>0.56%</u>
Total	2.51%	2.52%	2.60%

IMPACT OF THREE-YEAR PHASE-IN ON FINANCIAL REPORTING

Both the retirement plan and health plan contribution rates recommended in Segal's June 30, 2011 actuarial valuation reports satisfy the parameters required for determining the Annual Required Contribution (ARC) under Governmental Accounting Standards 25/27 and 43/45 for the 2012-2013 fiscal year, including the requirement that the Equivalent Single Amortization Period (ESAP) for the Plan's Unfunded Actuarial Accrued Liability be amortized over an equivalent single period of no longer than 30 years. Those requirements are met before any phase-in, and reflect the full contribution rate impact of the new actuarial assumptions.

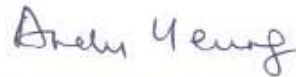
We have calculated that, for both the retirement and health plans, the ESAP is still shorter than 30 years even after the phase-in. This means that contributing the phase-in rates for 2012-2013 and later years will not result in the City recording a liability either for the pension plan (Net Pension Obligation or "NPO") or for the health plan (Net OPEB Obligation or "NOO").

If you have any questions, please let us know.

Sincerely,



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



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

TXB/kek
Enclosures

**Fiscal Year 2012-2013 Retirement and Health Plan Contributions
Before Reflecting Three-Year Phase-In of the
Impact of the New Actuarial Assumptions**

Employer Contributions	Retirement Plan ⁽¹⁾			OPEB Plan			Total		
	Beginning of Year	15-Jul	Biweekly	Beginning of Year	15-Jul	Biweekly	Beginning of Year	15-Jul	Biweekly
Tier 1									
1. Amortization of UAAL	\$17,534,670			\$2,237,548			\$19,772,218		
Tier 2									
1. Normal Cost	25.40%			3.40% ⁽³⁾			28.80%		
2. Amortization of UAAL ⁽²⁾	1.61%			3.84%			5.45%		
Tier 3									
1. Normal Cost	17.36%			3.91%			21.27%		
2. Amortization of UAAL	<u>9.73%</u>			<u>4.08%</u>			<u>13.81%</u>		
3. Total Retirement Contribution	27.09%	27.17%	28.15%	7.99%	8.02%	8.30%	35.08%	35.19%	36.45%
Tier 4									
1. Normal Cost	16.21%			3.52%			19.73%		
2. Amortization of UAAL	<u>13.81%</u>			<u>6.78%</u>			<u>20.59%</u>		
3. Total Retirement Contribution	30.02%	30.11%	31.20%	10.30%	10.33%	10.69%	40.32%	40.44%	41.89%
Tier 5 (without Harbor Port Police)									
1. Normal Cost	19.52%			3.66%			23.18%		
2. Amortization of UAAL	<u>8.99%</u>			<u>3.11%</u>			<u>12.10%</u>		
3. Total Retirement Contribution	28.51%	28.60%	29.63%	6.77%	6.79%	7.03%	35.28%	35.39%	36.66%
Tier 6 (without Harbor Port Police)									
1. Normal Cost	15.77%			5.49%			21.26%		
2. Amortization of UAAL	<u>8.99%</u>			<u>3.11%</u>			<u>12.10%</u>		
3. Total Retirement Contribution	24.76%	24.84%	25.73%	8.60%	8.63%	8.93%	33.36%	33.47%	34.66%
All Tiers Combined (without Harbor Port Police)									
1. Normal Cost	19.32%			3.67%			22.99%		
2. Amortization of UAAL	<u>12.04%</u>			<u>7.30%</u>			<u>19.34%</u>		
3. Total Retirement Contribution	31.36%	31.46%	32.59%	10.97%	11.00%	11.39%	42.33%	42.46%	43.98%
Harbor Port Police (Tier 5)									
1. Normal Cost	20.09%			4.41%			24.50%		
2. Amortization of UAAL	<u>7.63%</u>			<u>1.41%</u>			<u>9.04%</u>		
3. Total Retirement Contribution	27.72%	27.81%	28.81%	5.82%	5.84%	6.04%	33.54%	33.65%	34.85%
Harbor Port Police (Tier 6)									
1. Normal Cost	15.77%			5.49%			21.26%		
2. Amortization of UAAL	<u>7.63%</u>			<u>1.41%</u>			<u>9.04%</u>		
3. Total Retirement Contribution	23.40%	23.47%	24.32%	6.90%	6.92%	7.16%	30.30%	30.39%	31.48%
All Tiers Combined									
1. Normal Cost	19.32%			3.67%			22.99%		
2. Amortization of UAAL	<u>12.01%</u>			<u>7.26%</u>			<u>19.27%</u>		
3. Total Retirement Contribution	31.33%	31.43%	32.56%	10.93%	10.96%	11.34%	42.26%	42.39%	43.90%

⁽¹⁾ Includes additional 2% Contribution for Employees Paid on Base Pay Only

⁽²⁾ Percent of TOTAL payroll.

⁽³⁾ Tier 2 OPEB Normal Cost if expressed over TOTAL payroll is 0.04%.

**Fiscal Year 2012-2013 Retirement and Health Plan Contributions
After Reflecting 3-Year Phase-In of the
Impact of the New Actuarial Assumptions**

Employer Contributions	Retirement Plan ⁽¹⁾			OPEB Plan			Total		
	Beginning of Year	15-Jul	Biweekly	Beginning of Year	15-Jul	Biweekly	Beginning of Year	15-Jul	Biweekly
Tier 1									
1. Amortization of UAAL	\$16,789,144			\$2,124,786			\$18,913,930		
Tier 2									
1. Normal Cost	25.40%			3.40% ⁽³⁾			28.80%		
2. Amortization of UAAL ⁽²⁾	0.65%			3.64%			4.29%		
Tier 3									
1. Normal Cost	17.36%			3.91%			21.27%		
2. Amortization of UAAL	<u>8.55%</u>			<u>3.74%</u>			<u>12.29%</u>		
3. Total Retirement Contribution	25.91%	25.99%	26.93%	7.65%	7.68%	7.94%	33.56%	33.67%	34.87%
Tier 4									
1. Normal Cost	16.21%			3.52%			19.73%		
2. Amortization of UAAL	<u>12.67%</u>			<u>6.28%</u>			<u>18.95%</u>		
3. Total Retirement Contribution	28.88%	28.97%	30.01%	9.80%	9.83%	10.17%	38.68%	38.80%	40.18%
Tier 5 (without Harbor Port Police)									
1. Normal Cost	19.52%			3.66%			23.18%		
2. Amortization of UAAL	<u>8.07%</u>			<u>2.77%</u>			<u>10.84%</u>		
3. Total Retirement Contribution	27.59%	27.68%	28.67%	6.43%	6.45%	6.68%	34.02%	34.13%	35.35%
Tier 6 (without Harbor Port Police)									
1. Normal Cost	15.77%			5.49%			21.26%		
2. Amortization of UAAL ⁽⁴⁾	<u>7.82%</u>			<u>2.44%</u>			<u>10.26%</u>		
3. Total Retirement Contribution	23.59%	23.66%	24.52%	7.93%	7.96%	8.23%	31.52%	31.62%	32.75%
All Tiers Combined (without Harbor Port Police)									
1. Normal Cost	19.32%			3.67%			22.99%		
2. Amortization of UAAL	<u>10.08%</u>			<u>6.75%</u>			<u>16.83%</u>		
3. Total Retirement Contribution	29.40%	29.49%	30.55%	10.42%	10.45%	10.82%	39.82%	39.94%	41.37%
Harbor Port Police (Tier 5)									
1. Normal Cost	20.09%			4.41%			24.50%		
2. Amortization of UAAL	<u>6.61%</u>			<u>1.10%</u>			<u>7.71%</u>		
3. Total Retirement Contribution	26.70%	26.78%	27.75%	5.51%	5.52%	5.72%	32.21%	32.30%	33.47%
Harbor Port Police (Tier 6)									
1. Normal Cost	15.77%			5.49%			21.26%		
2. Amortization of UAAL ⁽⁴⁾	<u>6.96%</u>			<u>0.76%</u>			<u>7.72%</u>		
3. Total Retirement Contribution	22.73%	22.80%	23.62%	6.25%	6.27%	6.49%	28.98%	29.07%	30.11%
All Tiers Combined									
1. Normal Cost	19.32%			3.67%			22.99%		
2. Amortization of UAAL	<u>10.05%</u>			<u>6.71%</u>			<u>16.76%</u>		
3. Total Retirement Contribution	29.37%	29.46%	30.52%	10.38%	10.41%	10.78%	39.75%	39.87%	41.30%

⁽¹⁾ Includes additional 2% Contribution for Employees Paid on Base Pay Only

⁽²⁾ Percent of TOTAL payroll.

⁽³⁾ Tier 2 OPEB Normal Cost if expressed over TOTAL payroll is 0.04%.

⁽⁴⁾ Tier 6 UAAL amortization rates will be the same as corresponding Tier 5 UAAL amortization rates at the end of the phase-in period.