SEGAL

THE SEGAL COMPANY
120 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

September 19, 2007

Ms. Robyn L. Barnes, CEBS
Communications & Special Projects Manager
Los Angeles Fire and Police Pensions
360 East Second Street, Suite 400
Los Angeles, CA 90012-4203

Mr. Tom Moutes, CEBS
Assistant General Manager
Los Angeles City Employees Retirement System
360 East Second Street, Second Floor
Los Angeles, CA 90012-4203

Re: Harbor Department (Port Police Officers) Transfer from LACERS to LAFPP

Dear Robyn and Tom:

As requested, we have estimated the amount of assets that will be transferred from LACERS to LAFPP resulting from the Harbor Department employees (Port Police Officers) who have elected such transfers. As agreed to by both plans, the transfer amounts have been calculated using October 31, 2007 as the date of transfer.

Below we provide some background information along with the separate transfer amounts for the pension plan and for the postretirement medical plan.

Background

The Los Angeles City Council approved Ordinance No. 177214 which allows Harbor Department (Port Police Officers) the option to transfer from LACERS to Tier 5 of LAFPP. The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Harbor Department is transferable to LAFPP. Other "non-sworn" service with other City Departments is not eligible for transfer. It is our understanding that there is no reciprocal agreement between LACERS and LAFPP. This means that, for those members who elect to transfer to LAFPP but have residual non-sworn service left with

LACERS, their eligibility to receive a vested pension or postretirement medical benefit from LACERS is entirely based on their residual service with LACERS (or with other employers that have reciprocal agreements with LACERS), but will not include their future service with LAFPP.

All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into Tier 5 of LAFPP.

Data Used in the Study

To conduct our study, LACERS provided us with data on the 40 members who elected to transfer from LACERS to LAFPP. This data contained the following information for each member:

- years of sworn service transferred
- date service transferred
- years of non-sworn service remaining at LACERS
- employee contributions transferred
- date employee contributions transferred

Note that one of the records contains a comment that says "Legal Issues" and another that says "Community Prop Issues". We have ignored these comments for purposes of our study.

Methodology

As discussed in our June 4, 2007 letter, the Ordinance states that "the amount of funds due to the Plan [LAFPP] from LACERS shall be mutually agreed upon between the Plan and LACERS and is to include, but not necessarily be limited to, employee contributions, City contributions, and earnings to cover **all funded accrued liability** for the period of the transferred service" [emphasis added]. We mentioned in that letter that we will base the transfer amount on the Projected Unit Credit Actuarial Accrued Liability (AAL) for the actual service transferred, adjusted by the funded percentage on a market value basis.

In this letter, we have used assets and liabilities as of January 1, 2006 to approximate the funded value (on a market value basis) of the January 8, 2006 accrued liability because that was close to the January 8, 2006 date that Harbor Department members could elect to transfer from LACERS to LAFPP. More importantly, December 31, 2005 was the closest date to January 8, 2006 that market value of assets from LACERS was readily available. The value of the funded accrued liability determined as of January 1, 2006 has been brought forward to the date of assets transfer of October 31, 2007 using the 8% annual investment rate of return assumption from the actuarial valuation. It is our understanding that both plans have reviewed and agreed to the process described.

For the postretirement medical benefits, we also discussed in our June 4, 2007 letter that the AAL calculation will take into account LACERS' past practice of funding benefits only after the member attains ten years of service. This is because up through the June 30, 2005 actuarial valuation, which determined the contributions through the 2006-2007 fiscal year, the contribution rate paid by the City for the postretirement medical benefits has been calculated only with respect to those active members with ten or more years of service. Therefore, the funded portion of the liability through January 1, 2006 was calculated entirely for those active members with ten or more years of service.

Pension Plan

Based on the June 30 actuarial valuation dates, the last time all of the transferring Harbor Department employees were active members in LACERS was as of June 30, 2005. We have projected the AAL using the membership data and actuarial assumptions from that valuation to January 1, 2006 assuming all the actuarial assumptions have been met from July 1, 2005 to January 1, 2006.

The City has been prepaying the 2005-2006 and 2006-2007 fiscal years contributions for all of its active employees based on their projected payroll estimates. It is our understanding from discussions with LACERS that the City's payroll projections have not been reduced to reflect the election of 40 members to go from LACERS to LAFPP. This means, first, that the City's contributions for the entire 2005-2006 fiscal year for the 40 members who elected to transfer to LAFPP are already included when we calculate the funded value of the accrued liability using market value of assets as of December 31, 2005. However, the City's contributions based on the projected payroll for the 40 members for the 2006-2007 fiscal year have to be added into the asset projection as of July 1, 2006. Both of these amounts have then been brought forward to October 31, 2007 using the 8.00% annual investment rate of return assumption from the actuarial valuation.

For the purpose of determining the funded accrued liability as of January 1, 2006, LACERS has provided us with the unaudited financial result of the System as of December 31, 2005. The pension component of the assets as of December 31, 2005 has been calculated by taking the average of the proportion of the pension assets to the total pension, postretirement health and other assets determined in the June 30, 2005 and June 30, 2006 valuations.

In determining the funded accrued liability, we have applied the assets proportionately to the total projected active and inactive liabilities (i.e., retirees, beneficiaries and deferred vested members) as of January 1, 2006 under the assumption that all assets in the System are available to pay all liabilities regardless of the status of the member.

Finally, the asset transfer was offset by the employee contributions that were already transferred by LACERS, again projected with the 8% assumed annual investment rate of return to October 31, 2007.

In this process, there is a proportionate share of assets that have accumulated to fund the liability for the non-sworn service remaining with LACERS. As mentioned, the non-sworn service may not be enough to keep some members vested in LACERS, so that they may not be entitled to a retirement benefit. When those members take a refund, the assets retained by

LACERS may be more than sufficient to provide for a refund of the contributions, resulting in a gain to LACERS.

Postretirement Medical Plan

The asset transfer amount under the postretirement medical plan was developed in a manner similar to the pension plan transfer. The only difference as we have noted above is that we have only included in the liability calculations those active members with 10 or more years of service as of June 30, 2005.

Additionally, employee contributions do not apply to the postretirement medical plan.

Results

Based on the methodology described above, the asset transfer amounts due from LACERS to LAFPP as of October 31, 2007 are as follows:

Asset Transfers from LACERS to LAFPP as of October 31, 2007

Pension Plan	
- From Employer Contributions	$7,044,648
- Employee Contributions	(1,634,647)
Subtotal	$5,410,001
Postretirement Medical Plan	
- From Employer Contributions	$810,075
Grand Total	$6,220,076

The above results have been calculated using the results and actuarial assumptions used in the June 30, 2005 retirement and health actuarial valuations. The retirement valuation was prepared by Paul Poon, ASA, MAAA, EA and Andy Yeung, ASA, MAAA, EA and the health valuation was prepared by Andy Yeung, ASA, MAAA, EA and Patrick Twomey, ASA, MAAA, EA.

Please let us know if you have any questions on this information.

By:

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

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

DNA/hy