



January 14, 2010

Mayor Antonio Villaraigosa
Members, Los Angeles City Council
Los Angeles City Hall
200 N. Spring Street
Los Angeles, CA 90012

Re: City of Los Angeles Public Pension Reform – Potential Ballot Initiative

Dear Mayor and Honorable City Councilmembers:

On behalf of our organizations, we write to express our strong support for your efforts to address the city's public pension crisis. Los Angeles has an opportunity to be a national leader in fiscal responsibility by acting quickly and boldly to fix this system.

As you know, the unsustainable pension system threatens to decimate city services and lead to a potential municipal bankruptcy. Our organizations believe that effective, structural pension reforms should be based on a series of core principles as well as collaboration with all affected stakeholders. Below are eight recommendations that we believe are vital to any effective reform package.

1. Increase employee contribution rates to reflect market conditions

Under the current system, employee contributions rates remain fixed when there are market downturns or poor investment results. Taxpayers cover all risks and are forced to make up any shortfall through greater general fund contributions to LACERS and LAFPP. In 2008, taxpayers contributed 21% of payroll to LACERS for pension benefits while employees paid 6%. In the same year, taxpayers contributed 28% of payroll into LAFPP, while employees paid 8%. In both pension funds, taxpayer contributions are forecast to double over the next five years. Placing this burden solely on taxpayers is neither equitable nor sustainable.

In addition to an overall increase in employee contributions, employee contributions should also fluctuate based on actual market conditions. Any ballot initiative placed before voters should require higher contributions from employees when investment results at the pension plans fall below forecasts. Employee contribution levels for new hires should be set at a higher base level.

2. Raise eligible retirement age to Social Security age

With life expectancy increasing dramatically over the past two decades, the current minimum retirement age (55 years old) means that many employees will receive pension benefits for 30-40 years after they leave the workplace – exceeding their total number years working for the city.

Sixty-six (66) is the current age when private sector employees become eligible for Social Security benefits. The city's retirement age should be indexed to Social Security to ensure that any future adjustments at the federal level are reflected here locally. For sworn public safety officers – fire and police – the retirement age should be set at the Social Security age minus six to eight years. States and municipalities throughout the nation are beginning to make these adjustments.

3. Reevaluate post-retirement health care benefits

\$350 million is spent annually to fund post-retirement health care benefits. Unlike pension benefits, retiree health care benefits have been deemed by the Ninth Circuit court to be non-vested and open to negotiation or revision. This means that the city can modify retiree health care benefits for existing employees as well as for future hires. Sacramento County recently lowered its post-retirement health care subsidy by 40% recently to \$144 per month compared to more than \$1,000 per month in Los Angeles. Ensuring that there is an equitable and sustainable cost sharing for funding post-retirement health care should be an important component of any pension reform effort.

4. Lower the annual service credit for each year worked and cap total pension benefits

Currently, employees of the city accrue pension benefits at 2.5% a year for public safety employees, 2.16% a year for general city employees, and 2.1% a year for DWP employees. Employees can retire with 90% to 100% of their final salary as a pension benefit, depending on which plan they are in. A pension reform initiative should lower the annual service credit percentage to an average of 2.0% for general and DWP employees, an average of 2.25% for safety employees, and cap the total benefits at 65% to 75% of total salary for all city employees.

5. Service credit purchase based on actuarial value

LACERS employees who transfer to the city can purchase service credits for past government work at subsidized rates. The city should require anyone who makes such a purchase to pay the full actuarial value, as is done at LAFPP.

6. No more pension spiking

Final retirement benefits should be based on an average of the last three years in salary, not including overtime, unused vacation and sick days, or other forms of compensation except for base salary. Greater oversight and accountability must also be implemented to reduce the use of the worker's compensation system to spike final pension earnings. To reduce "double dipping," employees who retire with a city pension should not be allowed to work for the city as a contractor or consultant for a one year period.

7. Raise the number of mayoral-appointed pension board members

The three city pension boards should have a greater majority of Mayor-appointed members, to protect the interests of the taxpayers who are ultimately liable for the benefits represented by the pension system. Each pension board should also have at least three members with demonstrated financial expertise.

8. Consolidate the three agencies administering LA pension funds

Currently, Los Angeles maintains three separate and redundant pension agencies. To save tens of millions of dollars a year, starting immediately, the three agencies should be merged into a single department, a

recommendation first made by Controller Laura Chick in her audits of the pension systems in 2007. All three funds would be maintained separately but they would have only a single "back office" to administer the systems. Such arrangements are well-established in the pension world.

Conclusion

We appreciate and value the hard-working city employees who are committed to providing services essential to our public safety and quality of life. And, at the same time, we know that the current pension system is unsustainable for the residents, businesses, taxpayers and the city employees.

It is our commitment to work in collaboration with the Mayor, City Council, public employees unions and the general public to make the improvements necessary to save our city from bankruptcy and protect the next generation of taxpayers and city workers.

Sincerely,



Carol Schatz
President & CEO
Central City Association



Tracy Rafter
President & CEO
BizFed



Gary Toebben
President & CEO
Los Angeles Area Chamber of Commerce



Stuart Waldman
President & CEO
Valley Industry & Commerce Association