

**LETTER OF AGREEMENT
BETWEEN THE CITY OF LOS ANGELES AND
LOS ANGELES CITY UNIONS REPRESENTING ALL LACERS MEMBERS
EARLY RETIREMENT INCENTIVE PROGRAM
FUNDING GUARANTEE**

The City of Los Angeles and the Los Angeles City Unions that represent all LACERS members (Unions) have partnered to develop an Early Retirement Incentive Program (ERIP). The ERIP program is designed to separate as quickly as possible 2,400 employees from City service, thereby creating a first year salary savings estimated to be \$126,000,000. The ERIP represents a long-term obligation of the City of Los Angeles, and the Unions have agreed to contribute toward the reduction of that obligation. Before employees retire through the program, the LACERS' actuary will determine the actual cost of the ERIP, which will form the basis for the calculation of the Union's contribution to funding the ERIP. The Unions agree as follows:

1. The goal of ERIP is to separate 2,400 employees from City service as quickly as possible.
2. Benefit enhancements as provided on the attached early out proposal.
3. Accumulated Sick and Vacation time will be paid out over two separate tax years. The cash incentives as described under the early out proposal (Scenarios A – E) will also be paid over two separate tax years.
4. Employees shall only have the retirement option to select ERIP during the window period (the choice to select the standard LACERS retirement shall not be allowed during the ERIP window period).
5. The ERIP window period will be 45 days.
6. Management shall determine the order of the retirement dates for employees electing to retire during the window period.
7. Before all employees who enroll for the ERIP have retired through the program, the LACERS' actuary shall determine the total cost of the ERIP by calculating the difference between the increase in the Unfunded Actuarial Accrued Liability (UAAL) and the decrease in the Normal Cost (based on the actual employees retiring from ERIP and including the backfill assumptions provided by the actuary). This cost shall be an obligation of the employees.
8. The additional cash components of ERIP shall be an obligation of the employees.
9. Payment for the two obligations identified in items 7 and 8 above will commence on July 1, 2011 and end on June 30, 2026 or until the sum of the obligations identified in items 7 and 8 are fully paid, whichever comes first. The payment shall consist of an increase in the active employee retirement contribution rate of three-quarters (3/4) of one percent (0.75%).
10. The employee contribution rate for employees hired prior to 1983 (i.e. defrayal group) shall be adjusted to 6% upon ratification of this agreement. Commensurate with item 9 above, employees in the defrayal group (similar to all other employees) shall have their retirement contribution increased from 6% to 6.75% on July 1, 2011. Savings from the elimination of defrayal shall be credited towards the target savings figure (in items 7 and 8 above).

11. Once the City has recouped all costs associated with the ERIP as identified in items 7 and 8 above, the retirement contribution rate will be reduced by 0.75% to 6% for all employees.
12. As part of its Normal Cost calculation, the LACERS' actuary will provide an update on the cost (identified in items 7 and 8 above) and savings (identified in items 9 and 10 above) so that contribution rates may be adjusted accordingly to account for shortages and surpluses collected towards the payment of the ERIP. The actuarial updates shall not occur later than October 1, 2016, and October 1, 2021. The City and Unions will meet at least once annually after the release of the actuary's report to assess the progress on eliminating the obligation.
13. Certain classifications will be excluded and/or capped at a range of 20% - 35% (see attached preliminary lists). For classifications that will be capped, the individual bargaining units will meet with Management to determine the cap percentage to apply for each classification. A final determination shall be made within two weeks of the close of the window period. If agreement cannot be reached before the end of the deadline period, then the cap rate shall be 20%. In the event that the number of ERIP eligible employee filers exceeds the classification percentage, seniority shall prevail. Seniority shall be defined as the total time in City service. If there is a tie in total time in City service between two or more employees, then the employee with total time in the current classification shall prevail.
14. Each Union shall conduct its own membership vote. Ratification by each bargaining unit must be completed and the CAO notified in writing of ratification within three weeks of Council approval. Units representing a majority of the LACERS members must ratify all of the provisions of the retirement package. Compliance with this provision will be based on the Wages and Count for full-time employees dated November 17, 2008.
15. An Early Retirement Incentive Program that is cost-neutral to the City is a critical element of the parties' collaborative partial solution to the City's long-term economic viability. Therefore, the parties agree that should there be a successful legal challenge to either mechanism (end of defrayal or increased employee contributions) designed to ensure cost neutrality, the parties will meet under the Mutual Gains process to discuss and agree on alternative measures to ensure cost neutrality. Should the parties fail to agree on alternative measures that will ensure cost neutrality within 60 days of the City's exhaustion of all appeal options in the state court system against a successful legal challenge, the City may invoke established bargaining practices as prescribed by the Employee Relations Ordinance (ERO) to ensure cost neutrality as envisioned in this agreement, i.e., payment of the actual incremental cost of the ERIP and any refund of previous payments toward this goal required under the successful legal challenge.

**CITY OF LOS ANGELES
EARLY OUT PROPOSAL**

- Group 1: All full-time and part-time members who would be eligible for an unreduced or normal retirement with less than 33 years of service as of August 1, 2009. (2,561 members)
- Group 2: All full-time and part-time members who have a minimum 33 years of service and less than 55 years of age as of August 1, 2009. (105 members)
- Group 3: All full-time and part-time members who have less than 33 years of service and are within five years of age and/or service credit to achieve an unreduced or normal retirement. (3,673 members)
- Group 4: All full-time and part-time members who would be eligible for an unreduced or normal retirement with minimum 33 years of service and minimum 55 years of age as of August 1, 2009. (903 members)
- Group 5: All full-time and part-time members who began their City career prior to January 1, 1983, whose retirement contribution rate is less than 6% and who lack more than five years of age and/or service credit to achieve a normal retirement as of August 1, 2009. (444 members)

Total pool of eligible members: 7,686

- Scenario A: This scenario provides three years of service credit as an enhancement to the retirement benefit and \$15,000 cash to members of Group 1 only.
- Scenario B: This scenario provides age credit in order to reach an unreduced or normal retirement and \$15,000 cash to members of Group 2 only.
- Scenario C: This scenario provides a minimum of three years and a maximum of five years of age and/or service credit to achieve a normal or unreduced retirement and/or to enhance a retirement benefit and \$15,000 cash to members of Group 3 only.
- Scenario D: This scenario provides \$1,000 cash per year of service with no limitation on the amount payable to members of Group 4 only.
- Scenario E: This scenario provides five years of service credit to achieve an early or reduced retirement to members of Group 5 only.

BACKFILL RATE		
YEAR	ONE YEAR	CUMULATIVE
1	7%	7%
2 - 15	6%	91%

**CITY OF LOS ANGELES
EARLY OUT PROPOSAL**

EARLY OUT PROPOSAL TAKE RATE PACKAGES

	PACKAGE 1		PACKAGE 2
GROUP	ELIGIBLE	RETIREEES	RETIREEES
1	2,561	820	1,024
2	105	53	53
3	3,673	918	1,249
4	903	452	452
5	444	182	222
Total	7,686	2,424	2,999

SUMMARY OF BENEFITS ACROSS GROUPS AND WITHIN SCENARIOS

GROUP	SCENARIO									
	A		B		C		D		E	
	Cash	Credit	Cash	Credit	Cash	Credit	Cash	Credit	Cash	Credit
1	\$15,000	3 YOS								
2			\$15,000	Varies						
3			\$15,000						3-5 Age/YOS	
4									\$1,000/ YOS	N/A
5									N/A	5 YOS