



**Milliman**

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November 29, 2004

Mr. Gregg Rademacher  
Assistant Executive Officer  
LACERA  
P. O. Box 7060  
Pasadena, CA 91109-7060

Re: Confirmation of Negotiated Ventura Implementation Plan

Dear Gregg:

On November 18, 2004, you notified us that the parties to the legal suit regarding the Ventura pay issues have negotiated a settlement based on the information we provided to you. In our June 30, 2004 report, we provided detailed information regarding a proposed implementation plan to apply the Ventura legal decision to LACERA's members retired prior to October 1, 1997. In that proposed implementation plan, we used incomplete information to estimate the financial impact of the Ventura determination for some members. As part of the proposed implementation plan, we assumed that 50% of the measured increase in total payroll increases would be used to determine the increase in a general member's Final Compensation. We also assumed that 75% of the measured increase in total payroll increases would be used to determine the increase in a safety member's Final Compensation. As stated in our June report, we believe these assumptions provided a conservative estimate to project the impact on member's benefits where no individual data is available.

We also provided additional cost analysis information in our September 10, 2004 letter to Mr. Michael Toumanoff, by varying the assumption used to determine how much of the increase in total Ventura payroll would result in an increase in members' Final Compensation amounts. We also changed the assumption regarding the arrears offset amounts from those presented in the original implementation plan.

We understand that the parties have agreed upon an alternative set of assumptions, using 47% for the general members and 72% for the safety members where no individual data is available. We believe this modification of our original proposed implementation plan is reasonable and well within the expectations of the data provided to us. These final adjustments to assumptions do not impact the benefits or cost for members retiring after 1992, as their benefits are based on the actual increase in their Final Compensation due to the additional Ventura Pensionable Earnings (VPE) items.



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We understand that the parties have also decided to amend the arrears offset assumption for Plan B,C, and D members from our original proposed assumption of 40% to be 20%. Plan E members have no arrears offset and there is no change in the assumptions regarding the arrears offset for the Plan A members.

We also understand that the attorney fees of \$3.75 million are to be paid out of the value of the increased benefits to members and that 10% of the value of the increased benefits will be held in a settlement pool to cover the cost of any contested benefit payment amounts.

Within a few days, we will provide revised cost amounts that recognize these three changes:

- 1) the new 47% / 72% assumptions
- 2) the reduction to 20% / 18% for the arrears offset for all plan members
- 3) the reduction to account for the attorney fees and the 10% settlement pool

We will also be computing and providing revised factors similar to those presented in our June 30, 2004 report that will be used to determine both the revised monthly benefits and the lump sum retroactive payments.

This letter is being provided in advance of the updated financial data and benefit factors so that all parties will know that, in our opinion, the new proposed implementation plan with revised assumptions is reasonable based on the information available.

Please let us know if there is any other information we can provide to you regarding this situation. Any reader of this letter and information needs to refer to our June 30, 2004 report describing the full disclosure of all actuarial assumptions, methods and the data we used in preparing the cost amounts, and the details of the proposed implementation plan.

Sincerely,

Karen I. Steffen, F.S.A., M.A.A.A.  
Consulting Actuary

KIS/nlo

Enclosure

cc: Mike Toumanoff, Esq.  
David Muir, Esq.  
Mr. Daniel Wade