



Milliman

Consultants and Actuaries

1301 Fifth Avenue, Suite 3800
Seattle, WA 98101-2605
Tel +1 206 624.7940
Fax +1 206 623.3485
www.milliman.com

March 9, 2005

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

Re: Confirmation of March 9, 2005 Settlement Agreement Papers regarding the Ventura Implementation Plan

Dear Gregg:

This letter confirms that I have received and reviewed the settlement documents today, which include:

- a) The joint application to approve notice to class and to set fairness hearing date.
- b) The notice of property settlement
- c) The settlement agreement
- d) Modified Exhibit 1A

I have reviewed this material and in particular provided the financial cost information used in these documents as well as the Modified Exhibit 1A.

We understand that the parties have agreed upon an alternative set of assumptions regarding the portion of increased total payroll due to Ventura related pay items that would result in an increase in members' Final Compensation. The alternative assumptions use 47% for the general members and 72% for the safety members as discussed in our November 29, 2004 letter. As stated in that letter, 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.

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



Mr. Gregg Rademacher
March 9, 2005
Page 2

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.

Attached to this letter is a detailed comparison of the financial costs associated with the Implementation Plan, based on both the original 50%/75% assumptions and on the modified 47%/72% assumptions. Both of these costs also reflect the change in the assumption regarding the arrears offset amounts from those presented in the original implementation plan. The arrears offset is equal to 20% of the benefit for all members except for Plan A members retired on disability where the offset is equal to 18%. Plan E members have no arrears offset, since they do not make employee contributions to their plan.

We also understand that the attorney fees of \$3.75 million are to be paid out of the value of the increased benefits to all impacted members. In addition, 10% of the value of the increased benefits for members retired prior to 1993 (\$12.1 million) will be held in a settlement pool to cover the cost of individually recalculated benefit payment amounts, if any, for those members. Any unused remainder of this pool will revert back to partial restoration of the benefits affected by the 10% reduction. The costs presented in the attached table of costs do not reflect these further adjustments.

The modified Table 1A reflects the 47%/72% revised assumptions, before any adjustment for the arrears offset, the attorney fees or the 10% settlement pool. A copy of the modified Table 1A is also included for documentation purposes with this letter. All other exhibits in our original June 30, 2004 report were based on the results shown in Table 1A, so they would all need to be revised using the 47%/72% assumptions.

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. They should also refer to our November 29, 2004 letter confirming the negotiated changes in assumptions.

Sincerely,

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

KIS/nlo

Enclosures

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

**Los Angeles County Employees Retirement Association
Modified Exhibit 1a**

**Percentage Increase in Benefits by Plan
Updated March 2005**

**Amounts are BEFORE the offset of the arrears contributions
No Adjustments for Attorneys' Fees**

Year of Retirement	General Plan A	Safety Plan A	General Plans B - D	Safety Plan B	General Plan E
1941	0.3333%	0.5757%			
1942	0.3401%	0.5908%			
1943	0.3470%	0.6059%			
1944	0.3540%	0.6214%			
1945	0.3611%	0.6373%			
1946	0.3683%	0.6536%			
1947	0.3758%	0.6703%			
1948	0.3833%	0.6875%			
1949	0.3910%	0.7050%			
1950	0.3989%	0.7231%			
1951	0.4069%	0.7415%			
1952	0.4151%	0.7605%			
1953	0.4235%	0.7800%			
1954	0.4320%	0.7999%			
1955	0.4407%	0.8203%			
1956	0.4495%	0.8413%			
1957	0.4586%	0.8628%			
1958	0.4678%	0.8849%			
1959	0.4772%	0.9075%			
1960	0.4868%	0.9307%			
1961	0.4966%	0.9545%			
1962	0.5066%	0.9789%			
1963	0.5168%	1.0039%			
1964	0.5272%	1.0296%			
1965	0.5378%	1.0559%			
1966	0.5486%	1.0829%			
1967	0.5596%	1.1106%			
1968	0.5709%	1.1390%			
1969	0.5824%	1.1681%			
1970	0.5941%	1.1980%			
1971	0.6060%	1.2286%			
1972	0.6182%	1.2600%			
1973	0.6306%	1.2923%			
1974	0.6433%	1.3253%			
1975	0.6563%	1.3592%			
1976	0.6695%	1.3939%			
1977	0.6829%	1.4296%			
1978	0.6967%	1.4661%	0.6830%	1.4299%	
1979	0.7107%	1.5036%	0.6968%	1.4664%	
1980	0.7250%	1.5420%	0.7108%	1.5039%	
1981	0.7396%	1.5815%	0.7251%	1.5424%	
1982	0.7544%	1.6219%	0.7397%	1.5818%	0.7397%
1983	0.7696%	1.6634%	0.7545%	1.6223%	0.7545%
1984	0.7851%	1.7059%	0.7697%	1.6637%	0.7697%
1985	0.8009%	1.7495%	0.7852%	1.7063%	0.7852%
1986	0.8170%	1.7942%	0.8010%	1.7499%	0.8010%
1987	0.8334%	1.8401%	0.8171%	1.7946%	0.8171%
1988	0.8502%	1.8872%	0.8335%	1.8405%	0.8335%
1989	0.8673%	1.9354%	0.8503%	1.8876%	0.8503%
1990	0.8847%	1.9849%	0.8674%	1.9358%	0.8674%
1991	0.9025%	2.0356%	0.8848%	1.9853%	0.8848%
1992	0.9207%	2.0877%	0.9026%	2.0361%	0.9026%

Note that for years 1993 through 1997, actual Ventura Pensionable Earnings will be used for each individual member to determine benefits.

Prepared by Milliman March 8, 2005

Ventura 2004 Study Results

Arrears contributions for Plans B, C, & D assumed at 20% for service retirements, no adjustments for attorney fees or 10% settlement pool

Original June 30, 2004 cost Information using 50% - general, 75% - safety assumptions to convert total payroll increases into Final Compensation Increases*					
	Subtotals by Member's Year of Retirement				Totals
	Those Retired Prior to 1981	Those Retired from 1981-1992	Subtotal for Prior to 1993	Those Retired 1993 or later	
Retroactive Payments with 7% Compound Interest					
i. Estimated Total Value of Retroactive Payments as of June 30, 2004 according to 2004 Study - All Plans	\$20.604	\$64.701	\$85.305	\$30.625	\$115.930
Present Value of Future Benefits					
p. Estimated Present Value of Future Benefits after June 30, 2004 according to 2004 Study - All Plans	\$13.485	\$59.308	\$72.793	\$37.996	\$110.789
Total Liabilities for Retroactive Adjustments to Retirees					
r. Estimated value from 2004 Study (i.+p.)	\$34.089	\$124.009	\$158.098	\$68.621	\$226.719
t. Estimated value of arrears contributions	\$6.594	\$23.952	\$30.546	\$13.062	\$43.608
u. Net Increase in Total Liabilities (r. - t.)	\$27.495	\$100.057	\$127.552	\$55.559	\$183.111
Amended to use 47% - general, 72% - safety assumptions to convert total payroll increases into Final Compensation Increases*					
	Subtotals by Member's Year of Retirement				Totals
	Those Retired Prior to 1981	Those Retired from 1981-1992	Subtotal for Prior to 1993	Those Retired 1993 or later	
Retroactive Payments with 7% Compound Interest					
i. Estimated Total Value of Retroactive Payments as of June 30, 2004 according to 2004 Study - All Plans	\$19.573	\$61.405	\$80.978	\$30.625	\$111.603
Present Value of Future Benefits					
p. Estimated Present Value of Future Benefits after June 30, 2004 according to 2004 Study - All Plans	\$12.833	\$56.368	\$69.201	\$37.996	\$107.197
Total Liabilities for Retroactive Adjustments to Retirees					
r. Estimated value from 2004 Study (i.+p.)	\$32.406	\$117.773	\$150.179	\$68.621	\$218.800
t. Estimated value of arrears contributions	\$6.267	\$22.743	\$29.010	\$13.062	\$42.072
u. Net Increase in Total Liabilities (r. - t.)	\$26.139	\$95.030	\$121.169	\$55.559	\$176.728

* References discussion of methods used in the LACERA Proposed implementation Plan dated June 30, 2004