



May 19, 2020

TO: Each Trustee,
Board of Retirement
Board of Investments

SUBJECT: Joint BOR & BOI Meeting on May 20, 2020 – Green Folder Items

Following you will find the Green Folder items for the above mentioned meeting:

- 1) **Item V.A. – FY 2020-2021 Administrative, Retiree Healthcare Benefits, and OPEB Budgets (Presentation)**
The presentation is estimated to be 15-20 minutes followed by Q&A.
- 2) **Item V.C. – 100-Day Management Report to the Trustees (Presentation)**
The presentation is estimated to be 20-30 minutes followed by Q&A. The quantity of slides highlight the main points of the report.

Administrative, Retiree Healthcare Benefits
& OPEB Trust

BUDGET



Fiscal

Year

2020-2021

FY 2020 – 2021 Budget Hearings

Kimberly Hines, CPA
Manager, Administrative Services

JJ Popowich,
Assistant Executive Officer

FY 2020 – 2021 Budget Drivers

Mission - Vision - Values – Strategic Plan

Status Quo

COVID – 19
Response

Maintaining the Status Quo...

Original budget proposal included minimal increases and responsible reductions designed to provide new Executive Team time to evaluate and develop new strategic plans.

Salaries & Employee Benefits

Supplies & Services

3 New & 3
Upgraded
Positions

Negotiated
MOU Increases

Natural Step
Increases &
Merit Increases

Historical Usage
Adjusted for
Inflation

Reduced Travel
Expenses

...While Being Responsive to COVID-19 Impacts

Revisions presented to JOGC in April reflect changes resulting from LACERA's response to the COVID-19 pandemic including efforts to protect the well-being of staff members and continue providing near normal levels of service to our members.

Salaries & Employee Benefits

Revised
Overtime &
Temporary
Agency
Requests

Freeze on
Non-
Essential
Hiring

Possible
Suspension
of Matching
Funds

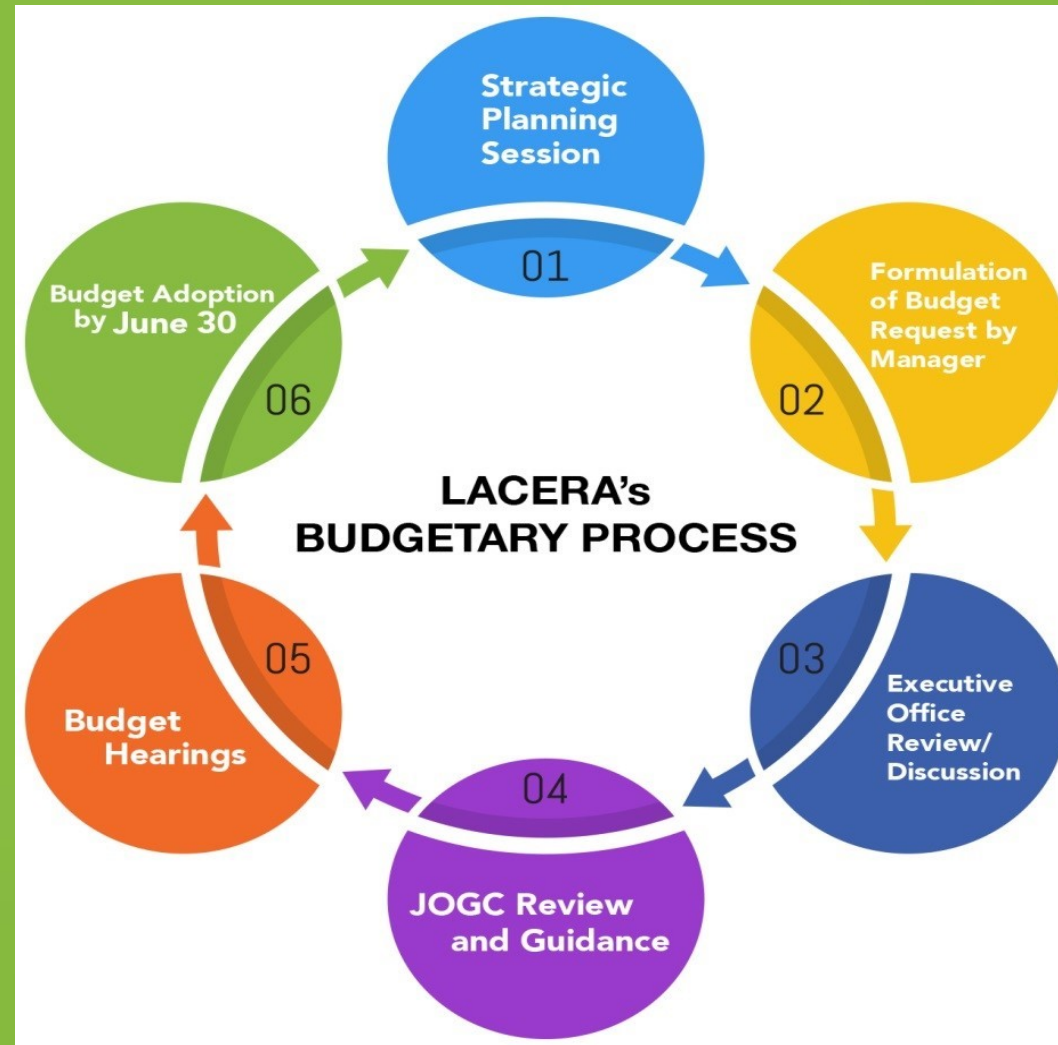
Supplies & Services

Remote Call
Center
Support

Secure Cloud
Migration for
Critical
Systems

Workstations
& Equipment
for Remote
Workers

Budget Development Process



Budget Policies

Statutory Budget Authorization

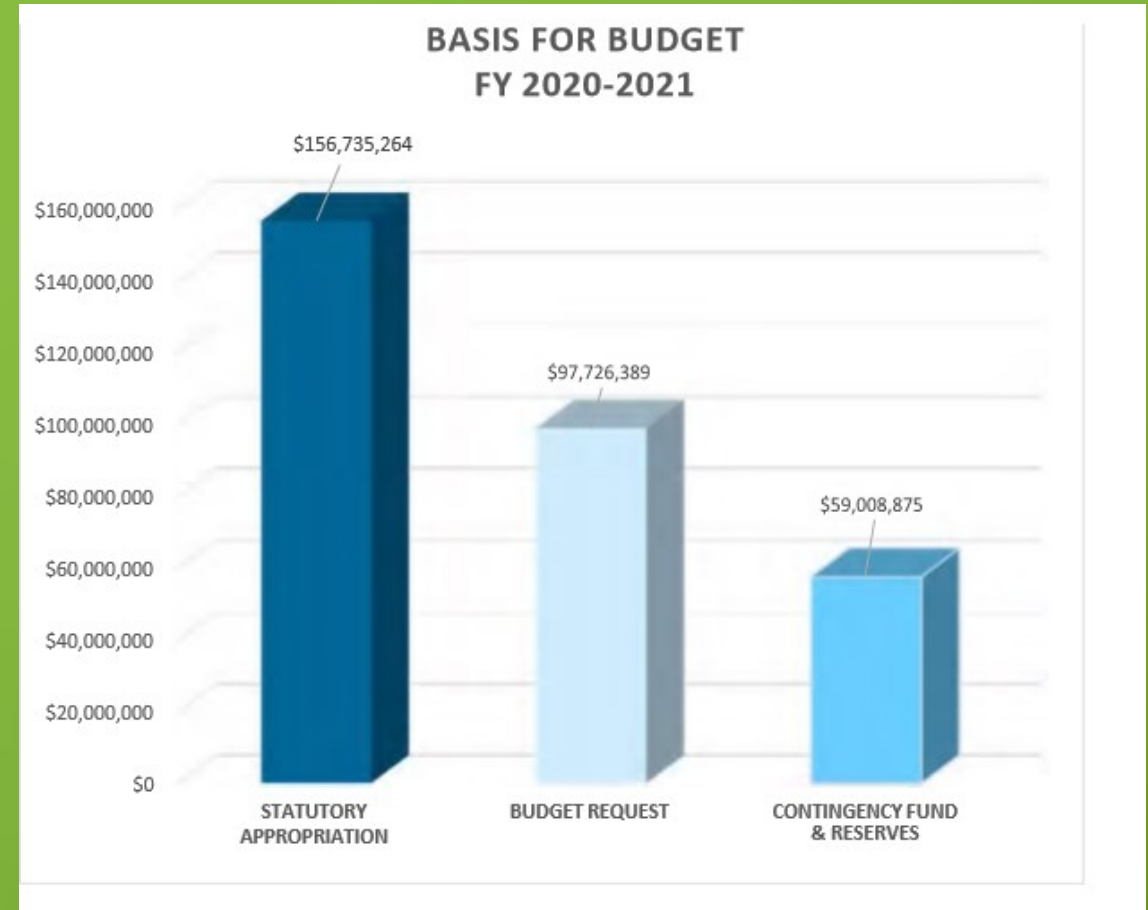
- Legal Authorization: CERL Section 31580.2
- 0.21 basis points of Accrued Liabilities
- Excludes Non-Administrative Costs (CERL 31596.1)

Contingency Funds

- Balance Remaining after Administrative Costs
- May be Reduced Further by \$500K Depending on Approval of Audit Committee Request

Retiree Healthcare Costs

- Administrative Overhead Costs are Charged Against RHC Budget on an Annual Basis



Administrative Budget Request Summary

ADMINISTRATIVE BUDGET	BUDGET REQUEST FY 2019-2020	BUDGET REQUEST FY 2020 – 2021	VARIANCE	% CHANGE
SALARIES & EMPLOYEE BENEFITS	\$74,774,390	\$79,483,389	\$4,708,999	6.3%
SERVICES & SUPPLIES	\$19,825,600	\$18,243,000	(\$1,582,600)	-8.0%
OPERATING BUDGET TOTAL	\$94,599,990	\$97,726,389	\$3,126,399	3.3%

Salaries & Employee Benefits

Increase in Salaries & Employee Benefits

3 New & 3 Upgraded
Positions

Negotiated MOU Increases

Natural Step Increases &
Merit Increases

Services & Supplies

Decrease in Services & Supplies

Historical Usage / Efficiency
Focus

Decrease in Travel/Training
Education Expenses

Increase in Technology Costs
Related to Remote Working

LACERA Austerity Plan: Recognizing Continued COVID-19 Impacts

Continue Remote Call Center operations & Introduce Virtual Member Service Center.

No travel directive for staff to continue until national health advisories regarding domestic and international travel are lifted.

Postpone all renovation and workstation equipment upgrades, except those necessary to support secure teleworking operations.

Hard hiring freeze on all non-essential positions and soft-hiring freeze on essential positions. All hiring must be approved by CEO.

Restrict overtime and compensation time usage to critical functions only while focusing on identifying opportunities for efficiencies.

Retiree Healthcare Budget Overview

In keeping with the overall status quo approach while we review current needs and engage in additional strategic planning the changes to the Retiree Healthcare Budget are minimal.

Salaries & Employee Benefits

Supplies & Services

Upgrading
Three Vacant
RBS II to Sr. RBS
Positions

Negotiated
MOU Increases

Natural Step
Increases &
Merit Increases

Increased
Operational
Costs Related to
Departmental
Overhead

New State
Street Bank
Costs to Comply
with GASB 84

Retiree Healthcare Budget Request Summary

RHC ADMINISTRATIVE BUDGET	BUDGET REQUEST FY 2019-2020	BUDGET REQUEST FY 2020 – 2021	VARIANCE	% CHANGE
SALARIES & EMPLOYEE BENEFITS	\$3,556,664	\$4,092,346	\$535,682	15.1%
SERVICES & SUPPLIES	\$4,668,186	\$5,340,628	\$672,442	14.4%
OPERATING BUDGET TOTAL	\$8,224,850	\$9,432,974	\$1,208,124	14.7%

Other Post Employment Benefits Cost Allocation Summary

Total OPEB operating costs are based on work performed and services provided in support of the OPEB Trust Fund. All costs are divided between LA County (75%), LACERA (5%), and the Superior Court (20%).

Salaries & Employee Benefits

Supplies & Services

Actual Hours Spent
on OPEB
Administration

Percentage of
Indirect S&EB for
Staff Supporting all
LACERA Ops

Direct S&S Costs

Percentage of
Indirect S&S
Supporting all
LACERA Ops

Other Post Employment Benefits Cost Allocation Summary

OPEB COST ALLOCATIONS	BUDGET REQUEST FY 2019-2020	BUDGET REQUEST FY 2020 – 2021	VARIANCE	% CHANGE
SALARIES & EMPLOYEE BENEFITS	\$155,183	\$428,043	\$272,860	175.8%
SERVICES & SUPPLIES	\$100,610	\$154,153	\$53,542	53.2%
OPERATING BUDGET TOTAL	\$255,793	\$582,196	\$326,403	127.6%

Questions?





100-DAY MANAGEMENT REPORT TO THE TRUSTEES OF THE BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

Santos H. Kreimann
Chief Executive Officer, LACERA

May 20, 2020

Discussion Topics

- Purpose of Report
- My Approach
- LACERA Strengths
- Actions to Date
- Opportunities for Improvement
- The Road Ahead

Purpose of Report

- ▶ My commitment to assess the organizational needs
- ▶ “100-Day Management Report”
 - ▶ Summarize my observations during my initial 100 days of tenure
 - ▶ Highlight LACERA’s initial and subsequent responses to the COVID-19 pandemic
 - ▶ Provide a general roadmap for moving forward
- ▶ Objectives
 - ▶ Put an executive structure in place with more integrated lines of business
 - ▶ Set LACERA on a course for more integrated services and systems that meet members’ needs
 - ▶ Promote increased accountability and collaboration, accompanied with leadership, management, and staff development

My Approach

My Management Philosophy

- ▶ Commitment to building and earning trust, respect, and integrity
- ▶ Welcoming of diverse perspectives, differences of opinions, and healthy debate to evaluate alternatives and solve problems
- ▶ Belief that LACERA staff should be part of the solution, not part of the problem
- ▶ Encouragement of staff to take time to plan and perform the job right the first time – and to exercise initiative and innovation in solving problems
- ▶ Guidance that staff tackle mistakes and establish a professional, vibrant, and rewarding work environment

Listening-Learning Style

- ▶ Absorb information to better understand LACERA's business rhythm and culture
- ▶ Assess individual skills and team competencies of executives and senior managers
- ▶ Evaluate existing procedures, information requirements, formal and informal decision-making processes
- ▶ Learn the lines of business and review key performance indicators
- ▶ Meet with key people to align expectations for the organization and identify operating challenges
- ▶ Conduct meetings and informal visits with staff and other LACERA stakeholders to open two-way communication lines

LACERA Strengths

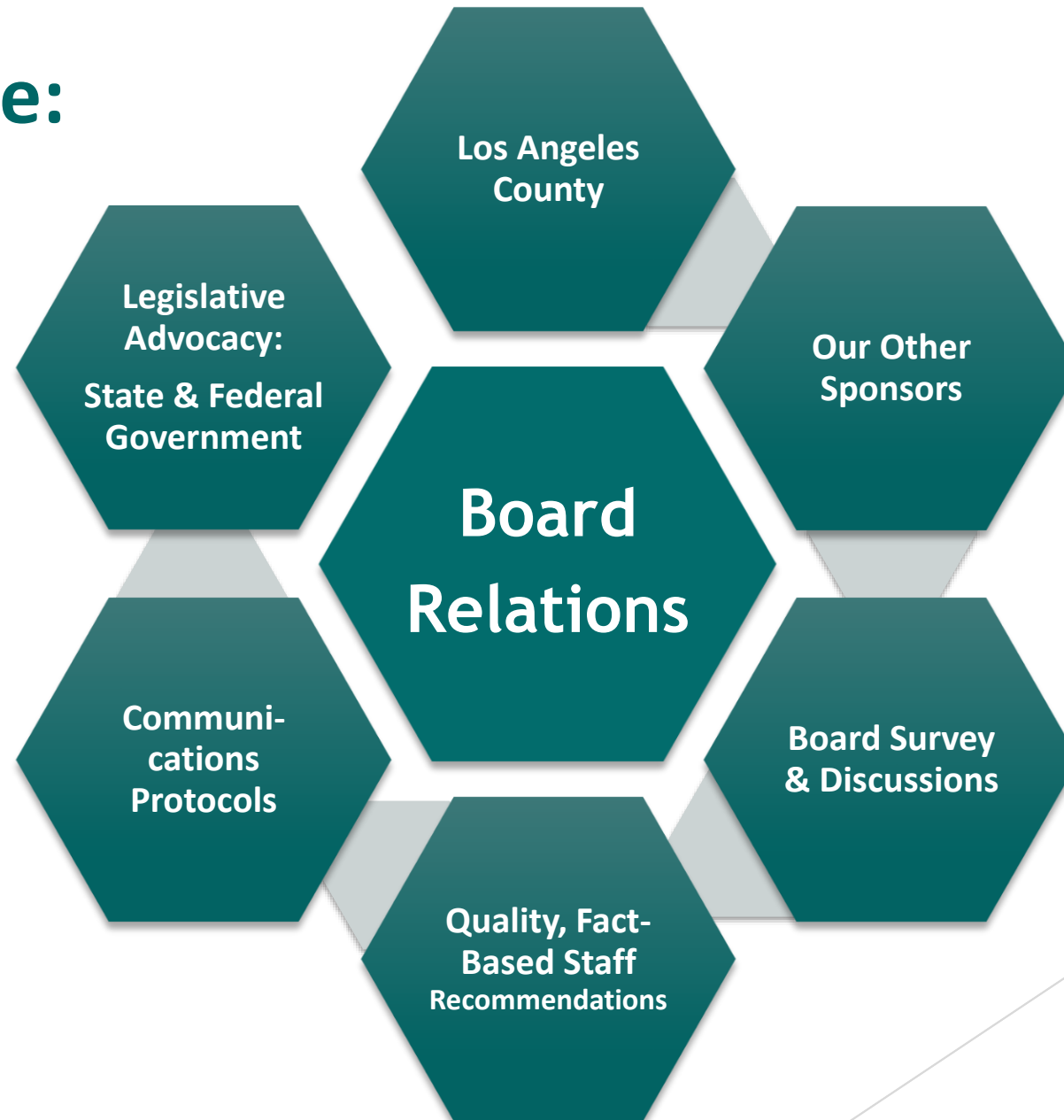
- ▶ COVID-19 pandemic amplified LACERA staff's dedication in serving our members
- ▶ Staff commitment to “members first” and LACERA mission
- ▶ Highly professional management of our \$57-billion investment portfolio on behalf of our members
 - ▶ Investment Division a model execution and collaboration
 - ▶ Prudent Strategic Asset Allocation (SAA) that provides greater diversification of LACERA's assets
 - ▶ Our fiscal responsibilities even greater with COVID-19
- ▶ Foundation to implement the improvements and structure in this report

Actions to Date

Actions to Date



Actions to Date: First 100 Days



Actions to Date: First 100 Days

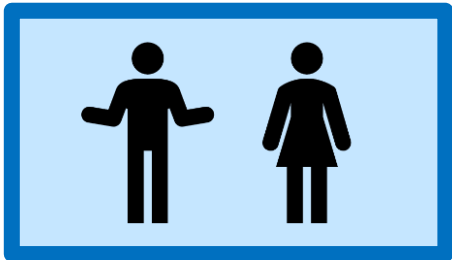
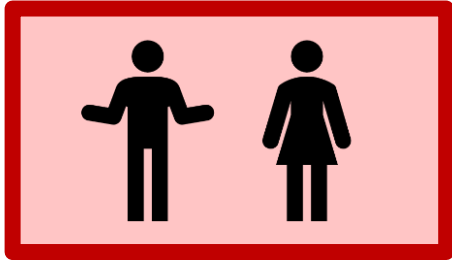


Actions to Date: First 100 Days



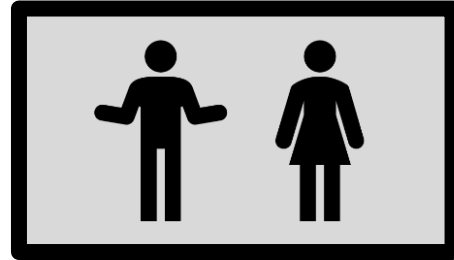
Actions to Date: COVID-19 Response

On March 16, 2020:

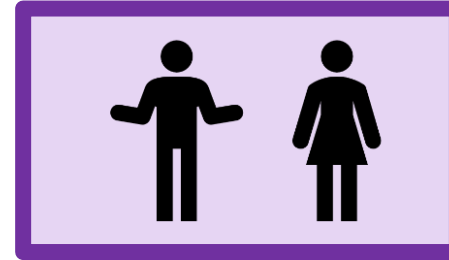


Tag teams:

- 1 week on/1 week off
- Cover member-related and other operational needs



- Critical day-to-day operations
 - IT
 - Document Processing Center
 - HR
 - Procurement
 - Other Admin functions
- Safety precautions to come to the office



100% of their work via telecommuting

- Investments
- Legal Services

Actions to Date: COVID-19 Response

Staff adapted, collaborated, and developed workaround to continue to serve members and perform their work

Benefits & Member Services Staff

- Benefits staff worked weekends to handle March Madness
- Member Services' training and roll out of remote call center

Information Systems

- 150+ computers remote
- Secure portals
- Access to member systems
- Email access
- Microsoft teams
- Remote call center
- Virtual board meetings

Investment

- Crisis Response Plan
- Due diligence globally
- Tested cash management protocols and other transactions with Finance and Admin before remote roll out

Member Communications

- Multiple communication channels
- Weekly Emails to Member
- Lacera.com Postings
- Ongoing Quarterly Newsletters

Coordination with Los Angeles County

- DPH liaison assigned to LACERA
- DPH information used to inform employees
- Daily participation in Covid-19 calls
- Remote Call Center collaboration
- Observed TTC's Disaster Recovery

Shifted to more normal routine by early April 2020

Focus Areas after COVID-19

Strategic Planning

COVID-19 Transition Plan

Business Continuity Planning

Disaster Recovery Planning

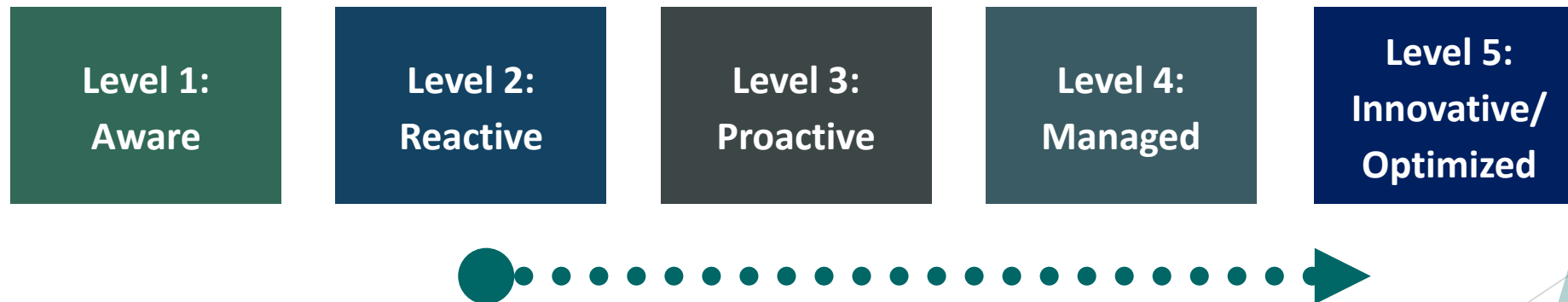
Management of Staff Working
Remotely

Opportunities for Improvement

- ▶ Organizational Alignment
- ▶ Vision and Planning for the Future
- ▶ IT Modernization
- ▶ Work Culture and Change Management
- ▶ Enhanced Processes and Operations

**Report Focuses on Operations, IT,
Finance, & Administration, not
Investments**

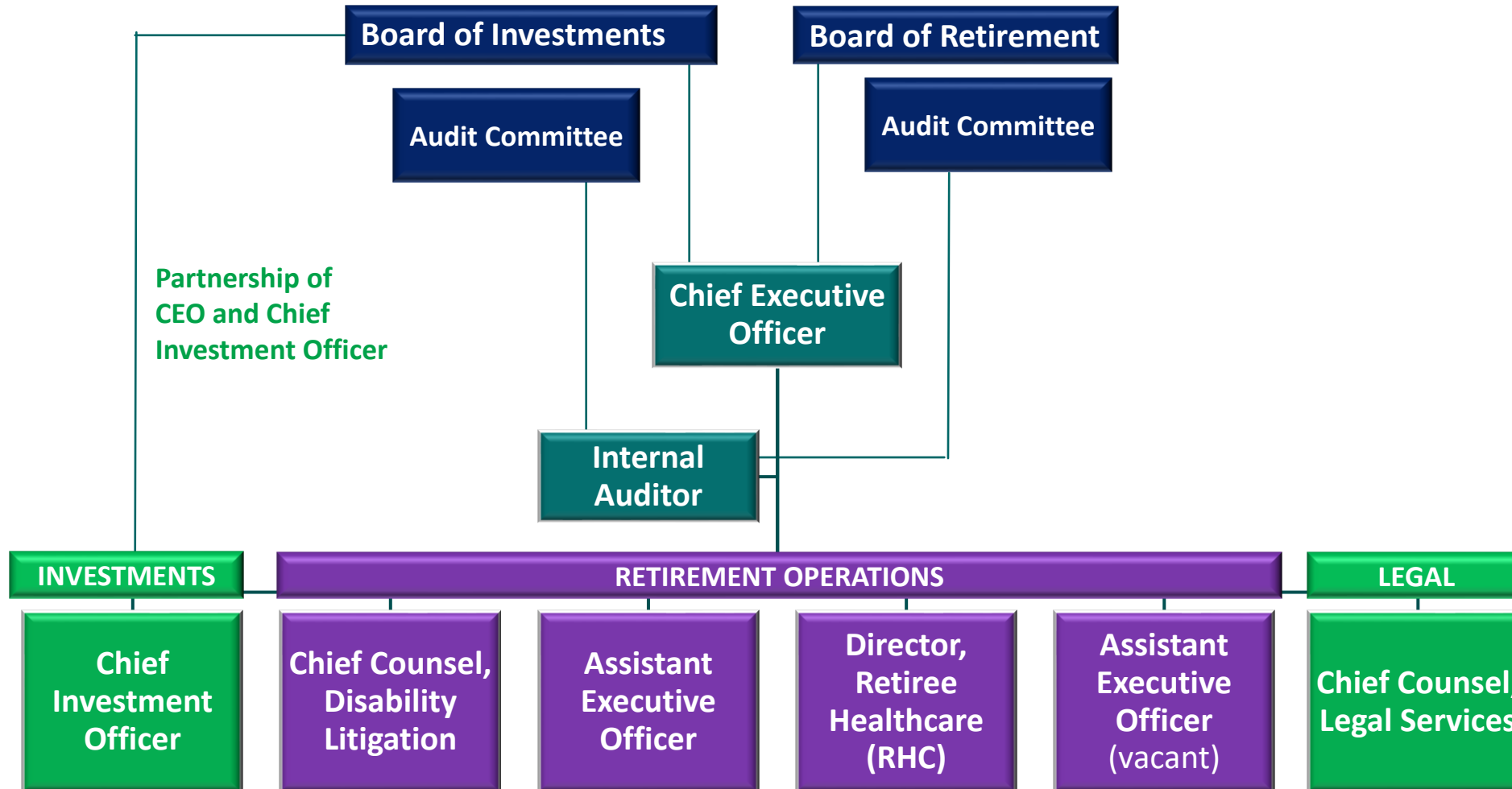
“LACERA has been fulfilling its mission and serving our members. Candor is needed for improving. This report is written in that spirit.”



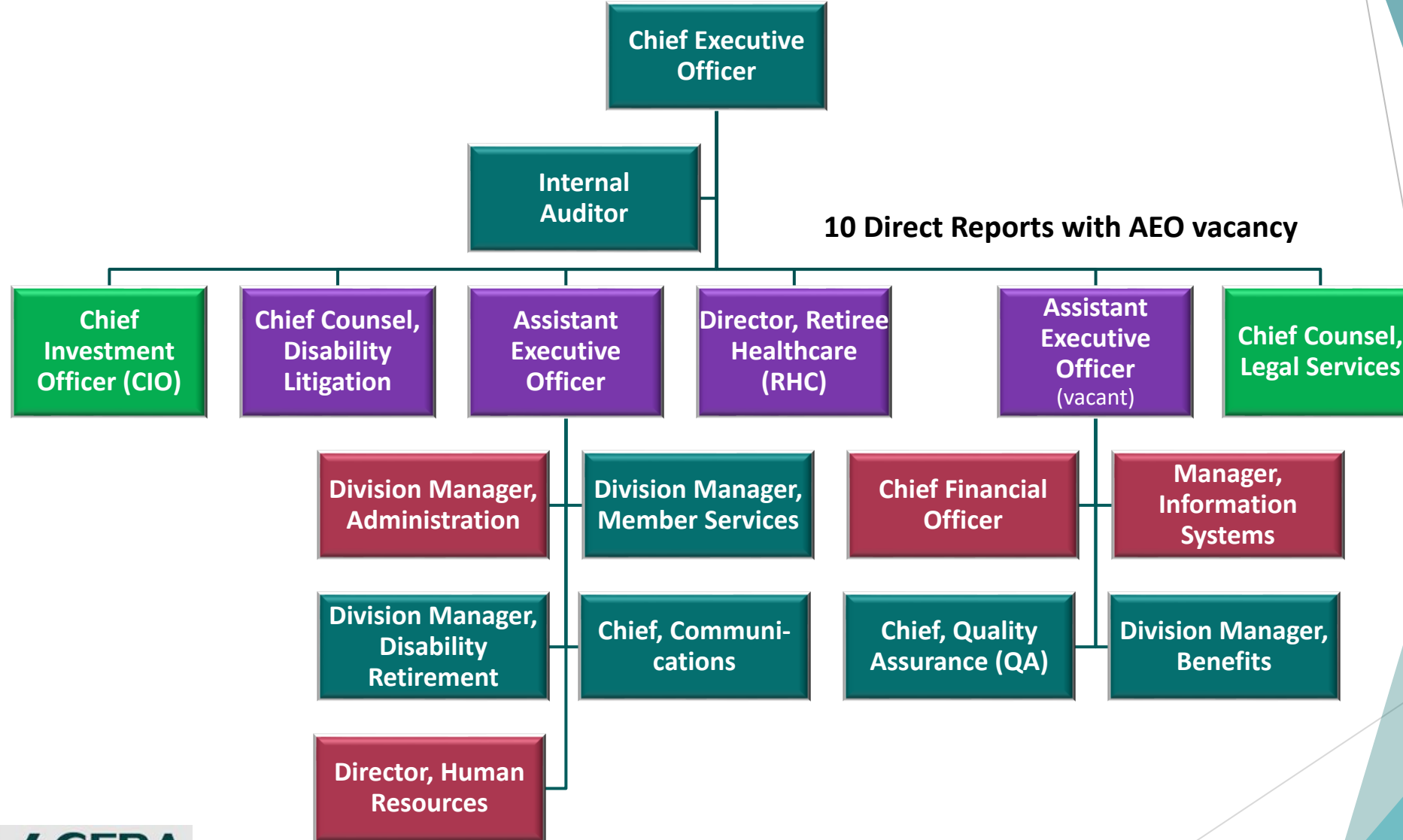


Organizational Alignment

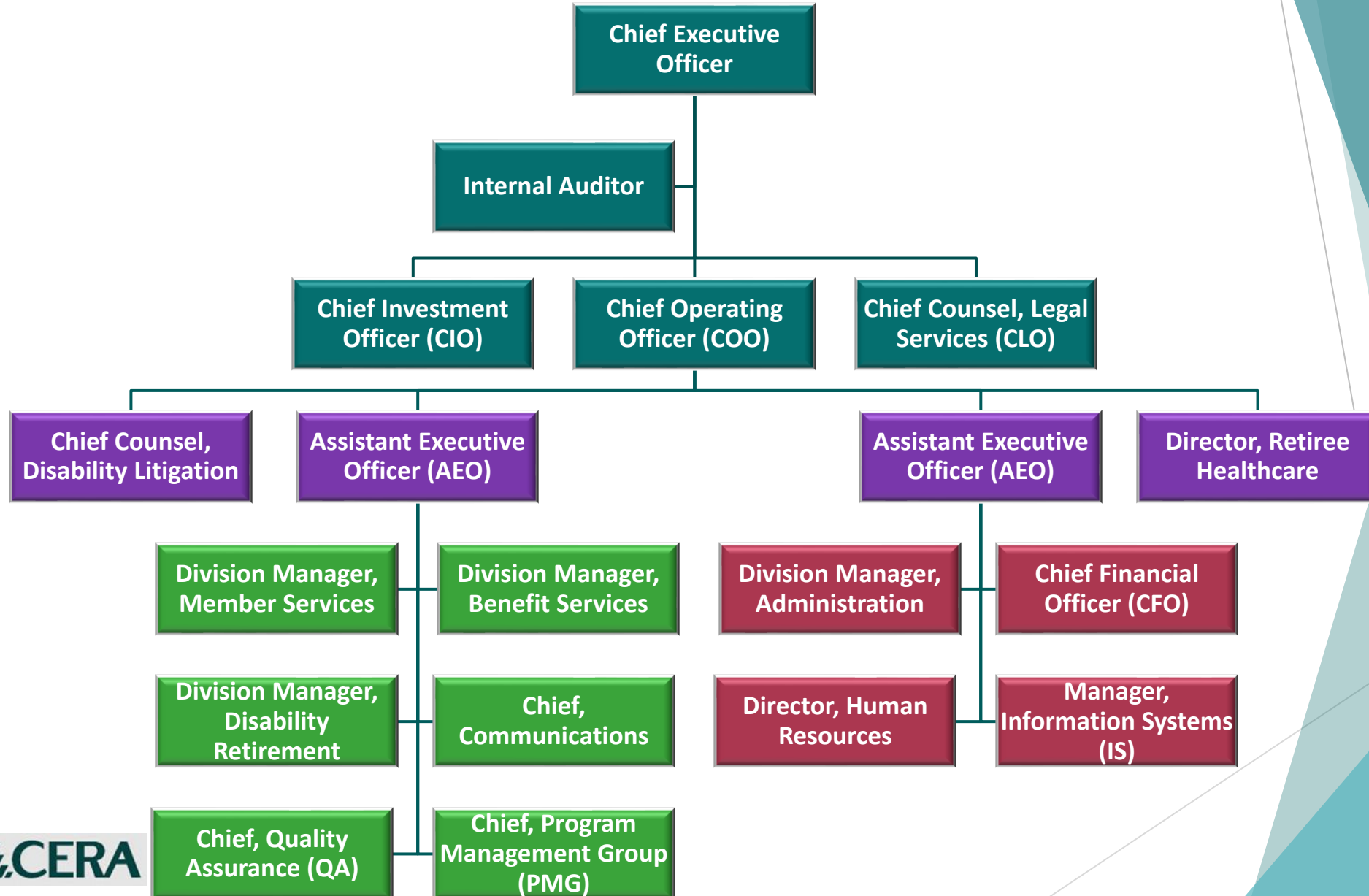
Current Executive Structure with the Boards



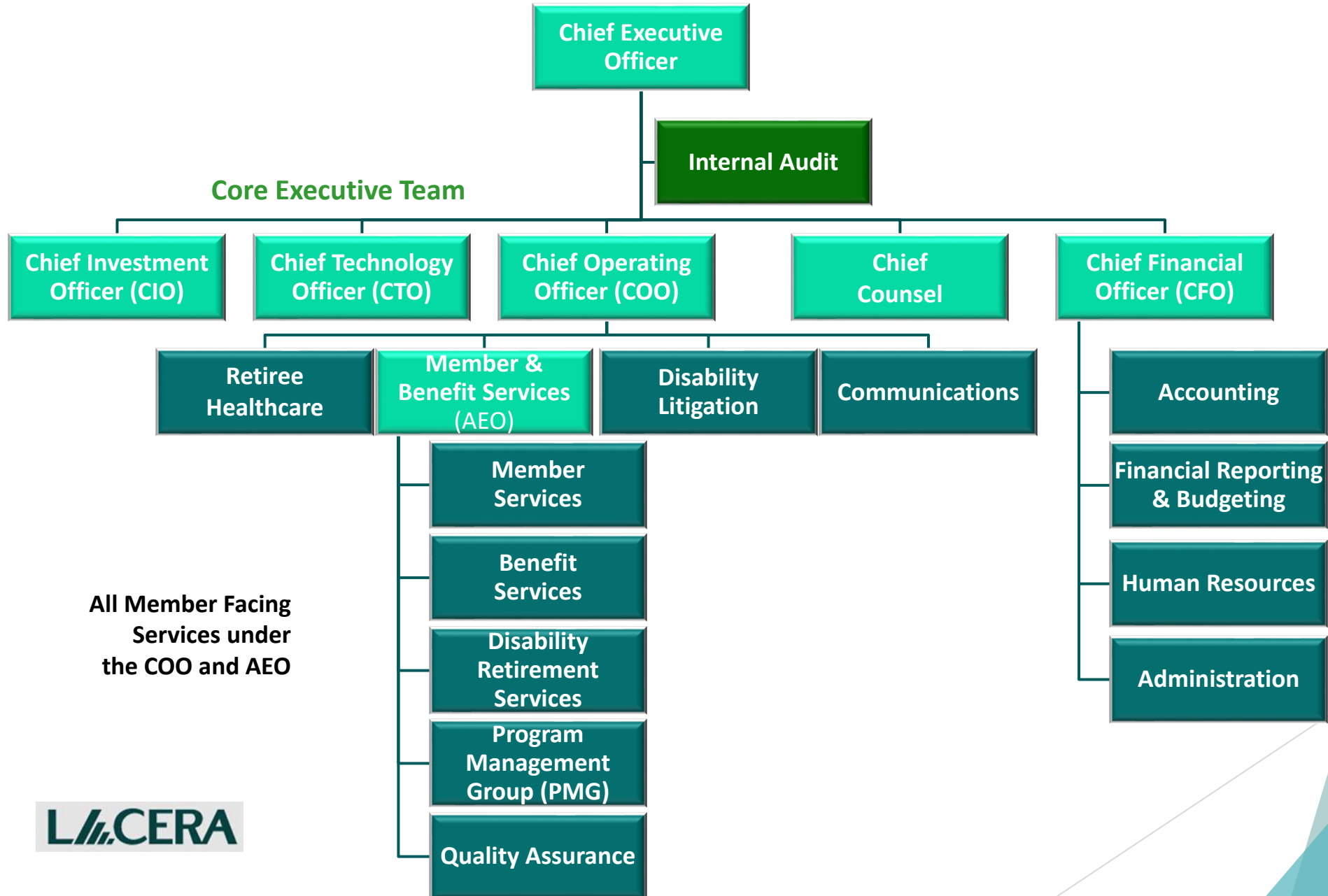
Current Structure under the Executive Team



Transitional Structure



Recommended Executive Structure



Organizational Alignment Benefits

- ▶ Supports LACERA's future directions and change management initiatives
- ▶ Provides a reasonable span of control for the CEO
- ▶ Integrates accountabilities across logical lines of business
 - ▶ Importance of COO, CFO, and CTO executive additions
- ▶ Creates career pathways & succession plans
- ▶ Fosters innovation and continuous improvement by leveraging technology
- ▶ Supports the Boards' legislative advocacy and policy-making roles
- ▶ Remains cost-effective, given our mission

Organizational Structure: Next Steps

Staff Communication of New
Organizational Alignment


Implementation of Executive
Structure

Role Definition of COO, CFO, CTO

Recruitment to Fill Vacancies and
New Positions

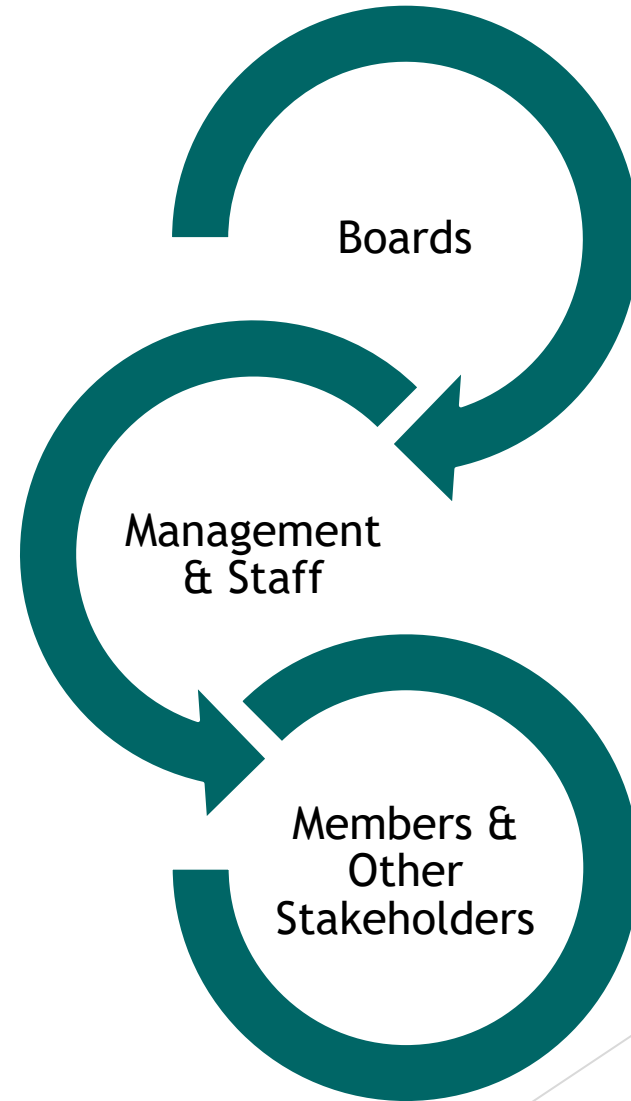
Greater Clarity and Integration
of Lines of Business

Vision and Planning for the Future

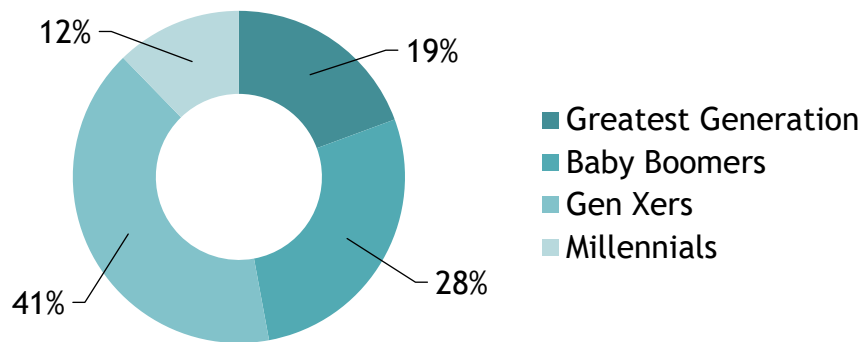


Strategic Planning

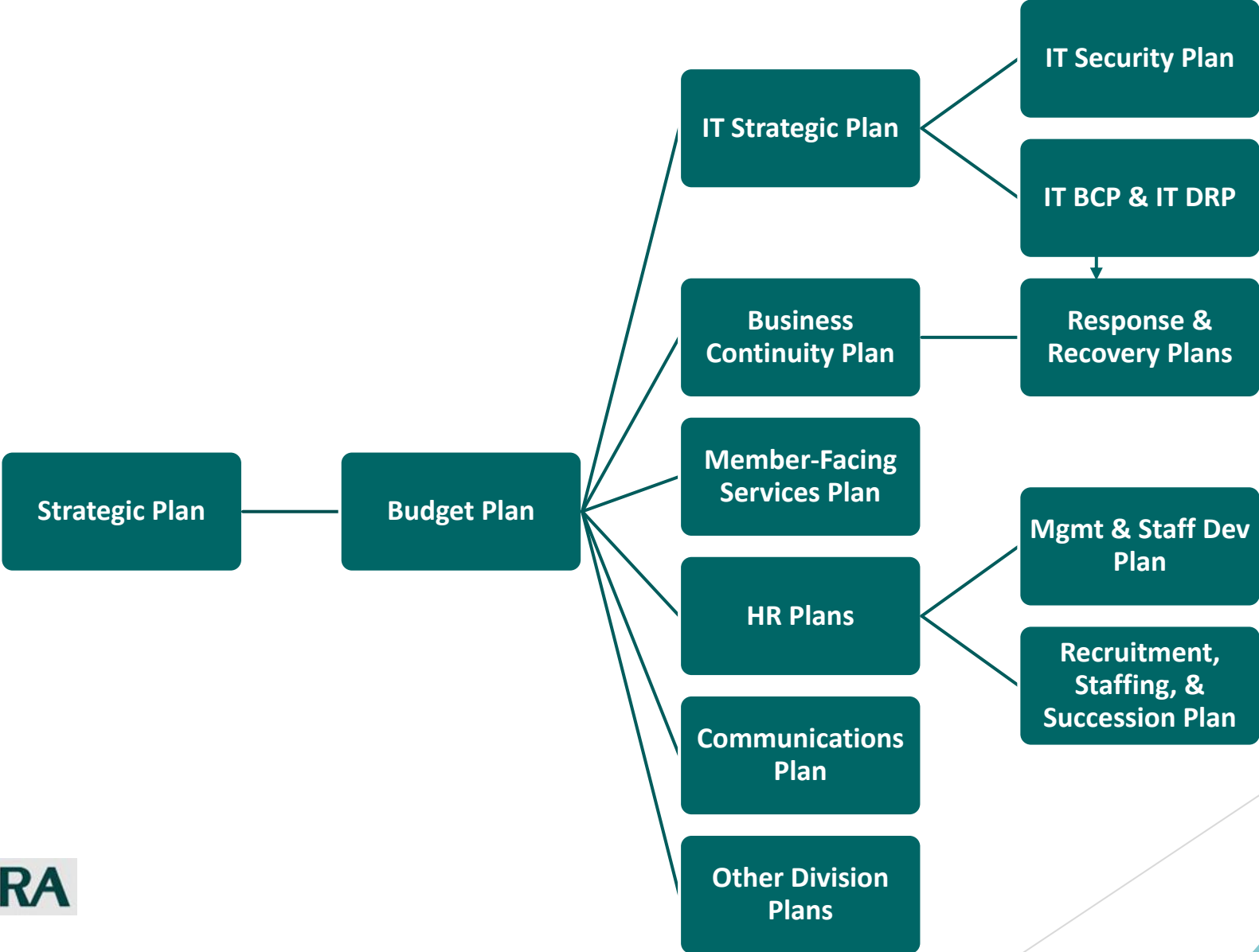
- ▶ Defining our vision to continue to deliver excellent member services and investment practices
- ▶ Identifying our strategic priorities
- ▶ Engaging the Board, staff, and stakeholders for greater buy-in and commitment
- ▶ Aligning other internal plans with the Strategic Plan



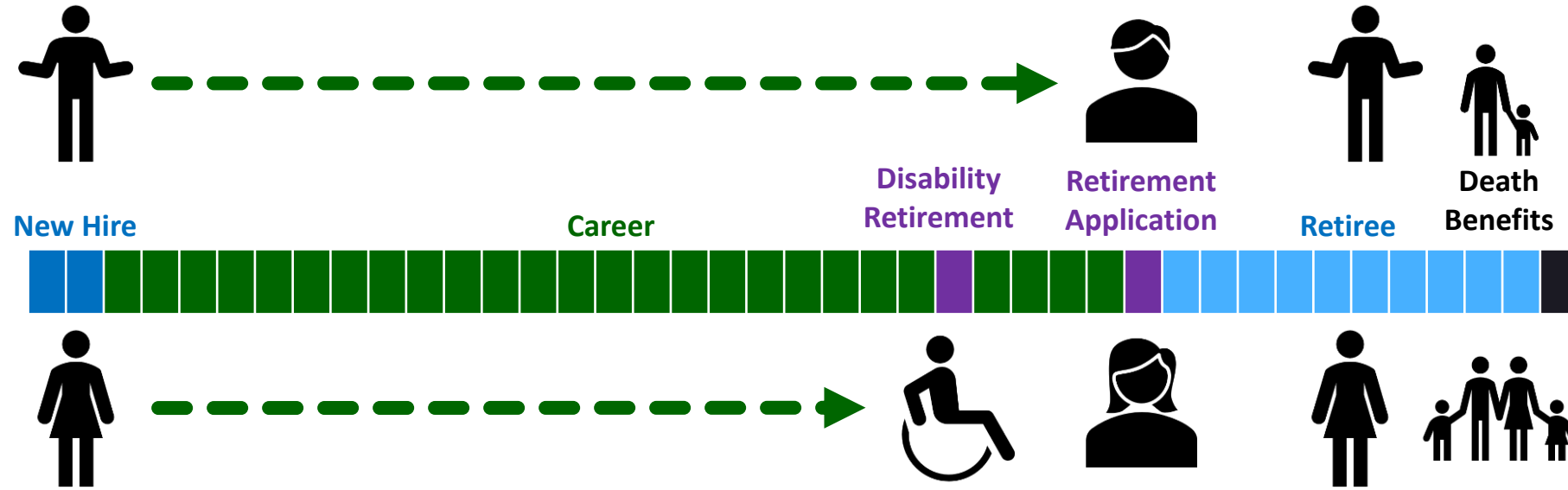
LACERA Generations



Integrated Planning Process and Plans



Integrated Member-Facing Services Plan: A Member's Journey at LACERA



Vision & Planning: Next Steps

Strategic Planning

COVID-19 Transition Plan

Business Continuity Planning

Integrated Planning Process to Develop Budget
and Other Plans to Support Strategic Plan

Management of Staff Working Remotely



IT Modernization

IT Modernization Importance

- ▶ LACERA's membership is growing, spans different generations, and is geographically more dispersed.
- ▶ Our members are increasingly technologically savvy with interest in one-stop and self-service capabilities.
- ▶ LACERA's workforce reflects societal expectations to work with the latest technologies in serving members, while maintaining an appropriate work-life balance.
- ▶ In the event of an emergency or a disaster, LACERA will have greater resiliency to respond and continue business operations.

IT Modernization

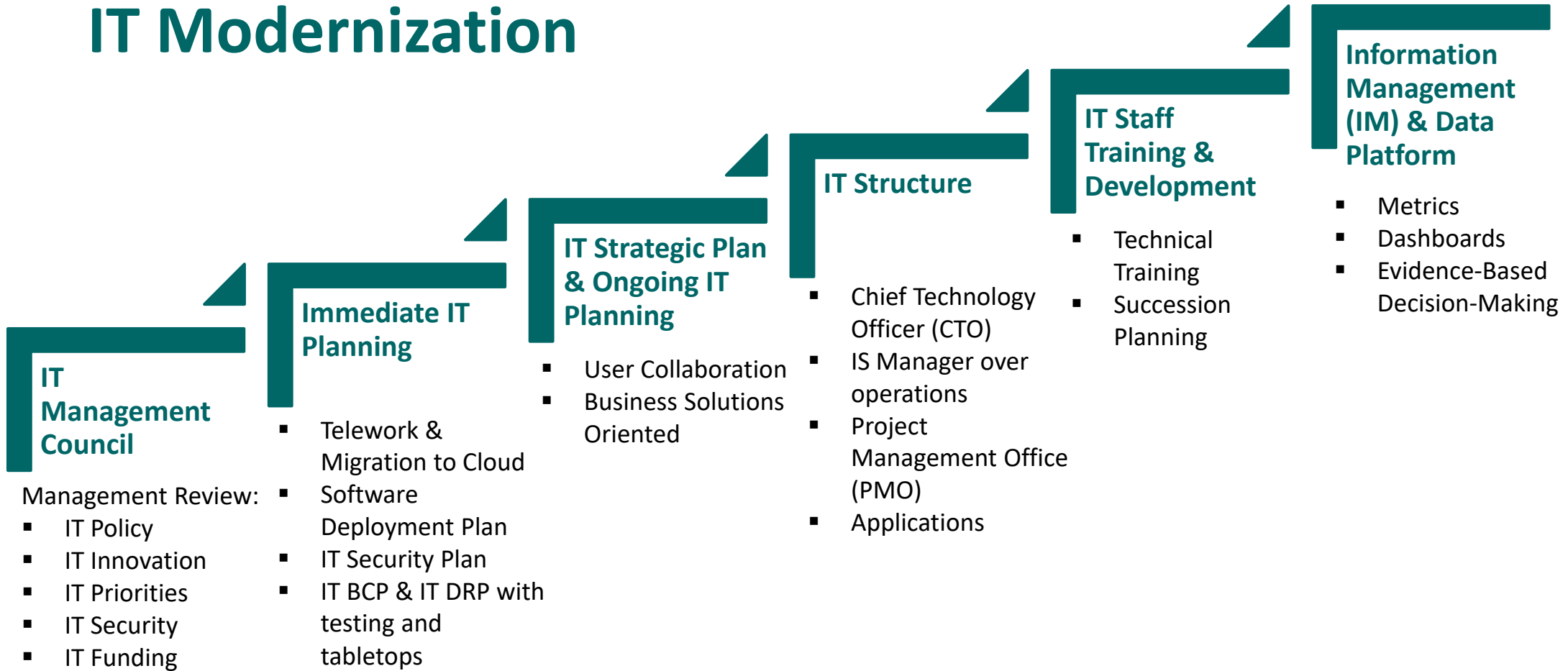
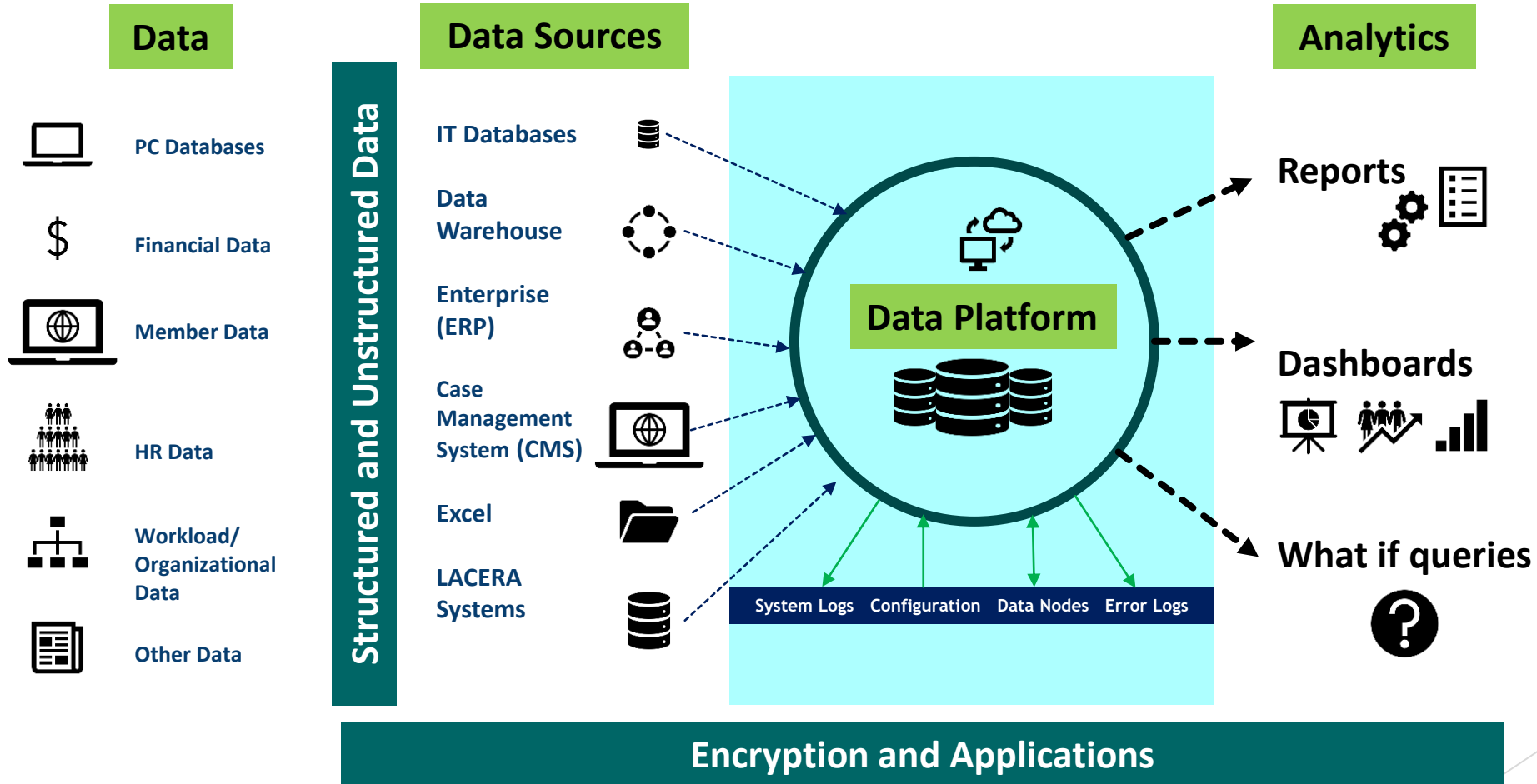


Illustration of a Data Platform for IM



IT Modernization: Next Steps

IT Planning, Structure, & Staffing

IT Security Review

IT Investment for IT Modernization

IT Implementation

IT Management Council



Work Culture and Change Management

Corporate Culture

Shared Values

- ▶ Trust/Respect and Teamwork/Accountability
- ▶ Management Philosophy
 - ▶ Become more effective managers and leaders
 - ▶ Motivate, coach, and develop their staff
 - ▶ Manage their people and operations
 - ▶ Assume greater accountability of themselves and their staff

Management Accountability

- ▶ Use of IM, metrics, and dashboards to identify areas for improved efficiency and quality improvements
- ▶ Proposed 5 Levels of Protection

Levels	Lines of Protection
5 th	Internal Audit
4 th	Compliance Officer
3 rd	LACERA Management, QA staff, & PMG staff
2 nd	QA & PMG staff
1 st	LACERA staff

Work Culture & Change Management: Next Steps

Leader & Management Development Program

Definition of Desired Culture of Part of Strategic Planning Effort

Redesign of Technical Training to Shorten Timeline to Acquire Skills

Compliance Officer Position & 5 Levels of Protection

HR Role in Recruitment, Hiring, Diversity & Inclusion, and Training & Development



Enhanced Processes and Operations

Continuous Process Improvements

Budgeting

- ▶ More disciplined, starting with a base budget
- ▶ Proposed budgets with metrics to justify request
- ▶ Greater collaboration in division budget reviews
- ▶ Budget preparation calendar
- ▶ Addition of experienced budget professionals

Other Process Improvements

- ▶ Less paper intensive
- ▶ Leverage technology so less labor intensive and more integrated and streamlined

Work Effort	Annual Volume
Phone Inquiries	117,000
Mail Processed	356,000
Calls Answered by Specialists	56,000
Outgoing Mail	51,000
Enrollment Forms Processed	6,900

PMG Broader Business Solution Responsibilities Across Member-Facing Services



**Dashboards and
performance metrics**



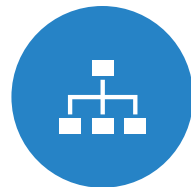
**Benchmarking and
identification of best
practices**



Process improvements



**Policy and procedural
documentation**

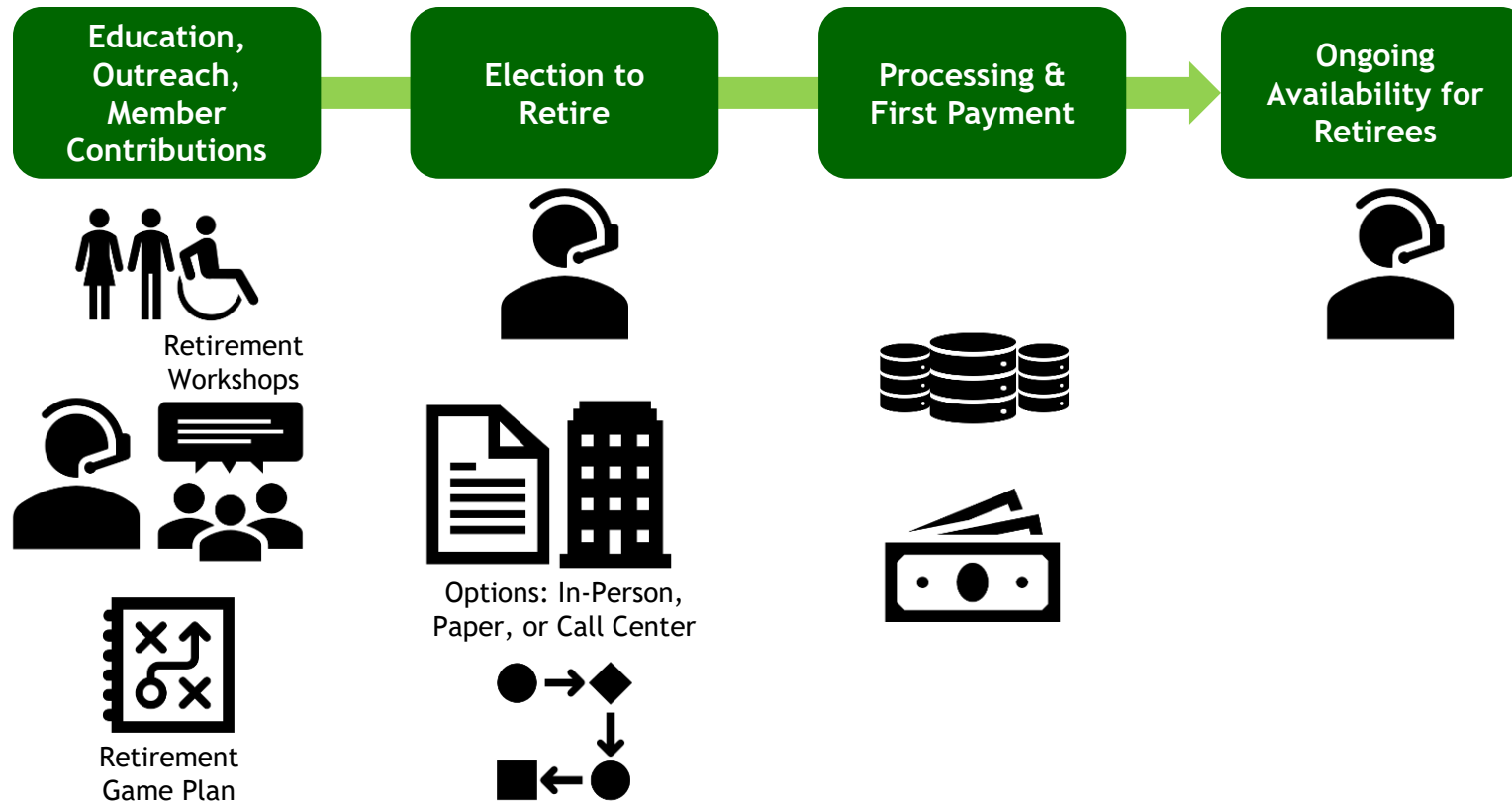


**Development of a
unified knowledge
management system**



**Training of managers
and supervisors in
collaboration with QA**

Need for Seamless Member, Benefit, and Healthcare Benefit Services



Continuous Process Improvements: Next Steps

Reengineering of Budget Process

Continuous Process Improvements

PMG Broader Responsibilities

Identification of Best Practices

The Road Ahead

- ▶ **Preliminary Actions in this Report**
- ▶ **Formal Strategic Planning** to develop a more thoughtful multi-year Strategic Plan in collaboration with the Trustees, staff, and external stakeholders