LACERA POSTSCRIPT

P.S.

PLANNING A SECURE FUTURE

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

VOL. 14 NO. 3 NEWS FOR ACTIVE MEMBERS DECEMBER 2004

Planning Ahead for Retirement

Q: I prospectively transferred to Plan D one year ago. Before my transfer I sustained an injury, however as a Plan E member I was ineligible to apply for disability benefits. Now that I am a Plan D member, am I eligible to apply for disability benefits?

A: Plan D members are eligible for disability benefits. However, members who prospectively transfer from Plan E to Plan D must complete either two continuous years (or five years, if not continuous) of service in Plan D before they are eligible to apply for disability benefits. Because you have only been a Plan D member for one year, you must either work for another year or earn four more years of service (if not continuous) before you will be eligible to apply.

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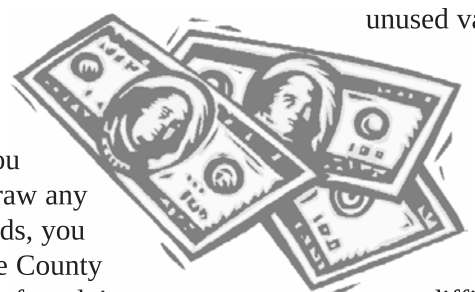
Does LACERA Allow Hardship Loans?

LACERA's Retirement Benefits Specialists are often asked by active County employees whether they are allowed to withdraw all or some of their retirement contributions. The answer to this question is, unfortunately, no. If you are an active employee, you may not withdraw retirement contributions, even in the event of financial hardship. If you wish to withdraw any retirement funds, you must terminate County employment before doing so.



If you decide to terminate and withdraw your contributions, it can take up to 6 weeks from the termination date for you to receive a refund of your retirement contributions from LACERA. Also keep in mind that if you withdraw your contributions and you do not roll your money into an IRA or another employer's qualified plan within 60 days from the date of your distribution check, you will incur a mandatory 20% Federal tax withholding; you may elect the amount of State withholding on the withdrawal form. Please consult a tax advisor about the tax implications of withdrawing pre-tax contributions. (When you terminate County service, you will receive any unused vacation or 100% sick pay, known as Termination Pay, from the County; consult your personnel officer.)

When faced with financial difficulties, it's hard to think long-term. However, if you are vested, LACERA strongly encourages you to leave your contributions on deposit until you are ready to retire. When you terminate and withdraw your contributions, you forfeit all rights to the lifetime pension and benefits you would have been entitled to receive at the time of retirement.

ISSUE • HIGHLIGHTS

From the EXECUTIVE DESK

Marsha D. Richter—CEO, LACERA

An Eventful Year

It's hard to believe it, but another year has come and gone! While looking forward to 2005, I would like to take a moment to reflect on some of the accomplishments that have made LACERA a better retirement association this year. Every area of LACERA contributed to our members' overall satisfaction, as well as the health of the retirement fund.

One of LACERA's proudest accomplishments is winning the PPCC Award from the Public Pension Coordinating Council (PPCC). The Achievement Award recognizes excellence in plan design and providing retirement services. The Public Pension Standards are intended to reflect minimum expectations for public retirement systems management and administration, and serve as a benchmark by which all public defined benefit plans should be measured.

This year has seen great improvements in customer service at LACERA. The Member Services Division continues to serve you with increasing accuracy and efficiency. This year alone approximately 136,000 telephone inquiries were received from members, 86% of which were answered within 30 seconds.

The Quality and Assurance Division has also been working diligently to raise the bar on serving the LACERA membership. Three full months of training and orientation are required before a new Benefits Specialist is ready to answer your benefits questions. The intense training required to become a Member Benefits Specialist reflects how important it is for us to have knowledgeable and well-informed staff on the other end of the phone line.

The Claims Processing Division also delivered excellent customer service this year. In fact, its staff's overall processing accuracy rating increased from 86% to 93%. And during the annual March "rush" of retirements, Claims Processing was able to pay 99.3% or 798 of 804 retirees within 30 days of their retirement date. Numbers like these reflect our dedication to continue striving to bring you 100% member satisfaction. The Popular Financial Annual Report (PAFR) and the Comprehensive Annual Financial Report (CAFR) were both compiled and printed again this year with terrific cooperation among the LACERA Boards, staff, and other professional service providers. There are many different kinds of information that must be compiled for these reports, including data that reflects financial, benefit, and customer service accomplishments. It speaks to the superb teamwork at LACERA that, year after year, both of these reports win awards for excellence in their fields.

As we continue on our quest to deliver the highest quality customer service to our members, LACERA pledges to be on the cutting edge of new technologies and innovative solutions for work processes and services. It's important to you—so it's important to us. Happy New Year, everyone!

2004 Legislative Updates

by Jan Barcus

Several bills amending the County Employees Retirement Law (CERL) were enacted by the State Legislature during the recently concluded legislative session. This article provides a summary of those bills.

I. Bills Amending the LACERA Plans without Further Action by the Board of Retirement or the Board of Supervisors

AB 2234 (Chapter 533)

Survivors Right to Complete Plan Transfer Contract
Existing law authorizes members of LACERA Retirement Plan E to transfer their membership to the contributory plan by making specified contributions. If the member dies prior to completing payment, his or her spouse may receive benefits under the contributory plan if he or she pays the balance of the contributions due within 90 days after the member's death. Section 10 of AB 2234 extends the period for completing payment to 120 days.

Response to Catastrophic Event
Section 19 of AB 2234 allows the retirement system to contract with a third party to temporarily administer the system if a catastrophic event destroys or severely damages the retirement system's administrative facilities or otherwise prevents or significantly hinders administration of the system.

The cost of contracting with the third party shall be a charge against the investment earnings of the retirement fund.

Brown Act
Sections 20 and 21 authorize the Board of Retirement to hold closed sessions to consider the purchase or sale of a specific pension fund investment. All decisions made in closed session shall be by roll call vote and disclosed at the first open meeting following the close of the transaction or transfer of assets.

AB 2982 (Chapter 379)
Reemployment Plan for Service-Connected Disability

Existing law provides that after the Board of Retirement finds that a member is incapacitated for the performance of his or her duties but is capable of performing other duties, the employer is asked to initiate a reemployment plan under vocational rehabilitation provisions of the Labor Code which were repealed effective January 1, 2004. For members who become incapacitated after January 1, 2004, this bill requires the employer to notify the member of suitable County positions and to consult with the member to develop a reemployment plan for approval by the member. The provisions of this bill take effect immediately.

AB 3094 (Chapter 506)
Benefit Payment Collection

This bill adds an exemption to the California Right to Privacy provisions of the Government Code on Exceptions to require financial institutions to provide a retirement system with information about member accounts which received direct deposit transfers after the date of the member's death. This bill also amends the County Employees Retirement Law to require that retirement benefit payments that are directly deposited by electronic fund transfer into the member's account after the members' death are to be refunded to the retirement system.

SB 1206 (Chapter 466)
Overpayment Adjustment and Collection

This bill gives the Board of Retirement the discretion to adjust a member's retirement allowance and collect any overpayment if the member made, or caused, fraudulent compensation reports that resulted in his or her compensation being overstated.

II. Bills Enacting Provisions Which Do Not Take Effect in Los Angeles County Unless Adopted by Majority Vote of the Board of Retirement

AB 979 (Chapter 441)
Alternate Retired Member

Existing law authorizes the Board of Retirement to appoint an alternate retired member (alternate to the eighth (retired) member). Section 1 of AB 979 provides that an alternate retired member shall receive compensation for all meetings attended. Section 1 also gives the Board of Retirement the discretion to define the duties of the alternate retired member.

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Do you have questions regarding your retirement benefits?

Telephone LACERA at

626-564-6132

800-786-6464

FAX: 626-564-6155

Your Social Security number is the key to finding your records.

We thank you for your patience and understanding when you call.

welcome@lacera.com

Now you can e-mail LACERA to ask about general retirement information. Just use the LACERA e-mail address shown above. If you have specific questions about your benefits or need to resolve any issues affecting your personal retirement account, please contact LACERA at

800-786-6464

and ask to speak to a Retirement Benefits Specialist.

P.S.

WorldCom Securities Litigation Update

By Michael D. Herrera, Staff Counsel

On June 21, 2002, WorldCom shocked the financial community when it filed the largest bankruptcy in United States history. With investors still reeling from the Enron debacle, the financial community was again thrown into turmoil by allegations of massive accounting fraud at the telecommunications giant. In the aftermath of WorldCom's historic collapse, thousands of WorldCom employees lost their jobs, senior executives resigned and/or were convicted of securities fraud, and institutional investors, including many state and private pension funds, lost hundreds of millions of dollars in investments.

Beginning in April, 2002, defrauded investors filed more than 20 federal class action lawsuits throughout the country against WorldCom and related defendants, including many of the Wall Street banks that underwrote WorldCom's securities. But many large institutional investors, particularly those with prior experience prosecuting securities cases, were concerned that any recovery obtained through the federal class action would be significantly diluted given the large number of defrauded investors with billions of dollars of combined losses. This became an even greater concern after WorldCom filed for bankruptcy. As a result, many institutional investors elected to opt out of the federal class action and pursue their own individual actions in state court.

In July, 2002, LACERA, the California Public Employees Retirement System (CalPERS), and the California State Teachers' Retirement System (CalSTRS) filed a joint complaint in Los Angeles County Superior Court against several WorldCom related defendants, including former executives, the company's auditor (Arthur Anderson), and several banks that underwrote WorldCom securities, including Citigroup and several others. Our complaint alleges that senior executives—assisted by Arthur Anderson—perpetrated the largest corporate fraud and accounting scandal in history by overstating the company's earnings by billions of dollars over several years. We further contend that WorldCom and several underwriter banks exploited these artificially inflated earnings to defraud investors into buying billions of dollars worth of WorldCom securities that later became worthless when the fraud was revealed. According to recent calculations, LACERA suffered damages of approximately $50 million on certain WorldCom bonds issued in 1998, 2000, and 2001.

Earlier this year, Citigroup announced that it would pay $2.65 billion to settle claims by WorldCom investors in the class action lawsuit. Under the Citigroup settlement, class members will recover $.006 per dollar on their stock claims, and $.09 per dollar for their bond claims. After it announced the $2.65 billion payout, Citigroup also announced that it had set aside an additional

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Legislation updates cont'd from pg. 3

III. Bills Enacting Provisions That Do Not Take Effect in Los Angeles County Unless Adopted by Majority Vote of the Board of Supervisors

AB 979 (Chapter 441)
Survivor Continuance

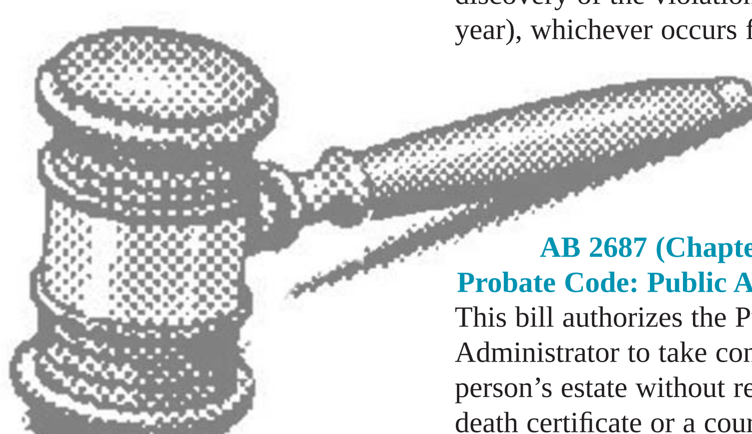
Section 5 of AB 979 authorizes the Board of Supervisors to allow a retired member to elect a reduced allowance to provide a survivor's continuance when the marriage occurs after retirement. The Board may also allow a member to elect a reduced monthly allowance to "purchase" a "pop-up" provision should his or her named beneficiary die before the member.

AB 2234 (Chapter 533)
Plan E Service Purchases

Section 9 of AB 2234 authorizes the Board of Supervisors to allow Plan E members to receive service credit for time not otherwise recognized, under the same purchase rules and upon payment of contributions calculated under the same purchase formulas as apply to members of the contributory plan.

SB 1260 (Chapter 152)
Increased Survivor Allowance

SB 1260 authorizes the Board of Supervisors to allow a member to provide an increased survivor continuance benefit paid to his or her eligible spouse. To provide the increased allowance the member takes a reduction in his or her monthly retirement allowance equal to the actuarial difference between the continuing allowance under the Unmodified settlement option and the increased survivor allowance.



IV. Other Bills That Impact LACERA Operations.

AB 2167 (Chapter 575)
Corporations Code Related to Securities

This bill codifies certain recessionary rights for securities purchased from a broker/dealer not qualified under state law to act in that capacity, and spells out certain measures of damage. The bill extends the statute of limitations for securities fraud actions to within 5 years after the violation (now 4 years) or within 2 years of the plaintiff's discovery of the violation (now one year), whichever occurs first.

AB 2687 (Chapter 888)
Probate Code: Public Administrator

This bill authorizes the Public Administrator to take control of a person's estate without requiring a death certificate or a court order. The bill includes property held by a retirement fund administrator.

WorldCom cont'd from pg. 4

$6.7 billion to resolve outstanding litigation. This came as welcome news to WorldCom investors deciding whether to opt out of the Citigroup settlement and continue pursuing their individual actions.

LACERA, together with CalPERS and CalSTRS, decided to stay the course and continue pursuing our individual action in order to recover a premium over the Citigroup class settlement. Our case, which was removed to federal court and transferred to New York after it was filed, will eventually be sent back to federal court in California for trial. In the meantime, we continue to vigorously prosecute our case and are confident that we will succeed in obtaining a satisfactory recovery. LACERA is represented by the Lerach, Coughlin, Stoia and Robbins law firm.

In 2001, LACERA adopted a Securities Litigation Policy in response to growing incidents of corporate corruption and fraud. The policy implements procedures designed to enhance recovery of damages from corporate wrongdoers. Shortly after the policy was adopted, LACERA was appointed lead plaintiff in the Enterasys Networks, Inc. securities litigation and obtained a $50 million settlement on behalf of class members, as well as significant corporate governance changes at the company. More recently, LACERA increased the net recovery for class members in the AMF Bowling, Inc. securities litigation by getting the attorneys' fees in that case reduced by more than $1 million dollars. LACERA, through its Legal Office, is actively engaged in identifying, evaluating and prosecuting securities fraud cases in which the fund has an interest.

Michael D. Herrera is Staff Counsel for LACERA handling litigation matters.

Using Termination Pay

Last year, the County first allowed the use of termination pay to purchase Additional Retirement Credit (ARC). Now there is a new program for the use of termination pay.

On November 3, 2004, the County Board of Supervisors adopted a proposal for a new program that permits you to make a one-time *irrevocable* election to roll over termination pay, on a tax-deferred basis, to either the County of Los Angeles 401(k) Savings Plan or to a new Termination Pay Pick-Up Plan (TPP). Both elections are subject to eligibility requirements and certain limits under the Internal Revenue Code.

The termination pay will be transferred to LACERA from the Auditor-Controller, and may only be used to pay an ARC contract balance; other service credit purchases may not be made with termination pay.

What Is Termination Pay?

Termination pay may include (depending on your personal situation) balances of unused vacation, 100% sick leave (except Personal Sick), accrued overtime, holiday, and MegaFlex non-elective leave balance. It is usually paid in a lump sum, separate from your last regular paycheck, and is subject to tax withholding. For more information about termination pay, contact your Human Resources representative.

Delaying Your Retirement

If you are interested in using termination pay to complete an ARC contract, or wish to transfer it to a 401(k) Savings Plan or TPP Plan, you must complete the necessary contracts **at least 90 days prior** to your termination date. If it is necessary for you to delay retirement to take advantage of this program, contact your department to *postpone your termination date* from the County, and write or fax LACERA 626-564-6155 to *rescind your retirement election*. Your written request to rescind must be received prior to your retirement date.

Using Termination Pay to Pay for ARC

You may elect only one termination pay contract. If you wish to purchase ARC with termination pay, you will need to complete both termination pay and ARC contracts at the same LACERA counseling appointment.

- **If your termination pay *exceeds* the balance on your ARC contract...**
  The Auditor-Controller will pay the amount you designate toward the purchase of ARC first, then, if you choose, transfer all or a portion of your remaining termination pay to your Savings Plan or TPP Plan, up to current IRS limits, and finally, return any remaining termination pay to you (minus tax withholding).

- **If the termination pay balance is *less than* the amount needed to complete your ARC contract...**
  The full termination pay amount will be transferred to LACERA. You will have 120 days after your date of retirement to pay the remaining balance, or LACERA will prorate your Additional Retirement Credit.

For More Information

- For information about the amount of your termination pay, contact your Human Resources representative.
- For more information about ARC, visit the ARC Calculator and ARC FAQ pages on our web site at **www.lacera.com**, or contact LACERA at 800-786-6464.
- For information about transferring all of your termination pay to the Savings Plan or TPP, contact Great-West at 800-947-0845.

Important Disclosure Information

The transfer of termination pay is intended to qualify as a before-tax contribution under Section 414(h)(2) of the Internal Revenue Code. To confirm this, the County will seek an IRS private letter ruling which may conclude that termination pay does not qualify as a before-tax contribution. If this happens, the termination pay transferred to pay the ARC Contract will be refunded to you and will become taxable. You will be responsible for any taxes, penalties, and interest. In this case, your retirement allowance would be recalculated (reduced) and you will be required to repay LACERA the amount of retirement allowance overpaid to you. If you wish to re-purchase the Additional Retirement Credit

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Ventura Update: A Review

It's been a while since we've written about the specifics of the Ventura Decision, so here is a review of the basics.

Retirement allowances are calculated as a percentage of final compensation. A person's final compensation is equal to the average pensionable earnings during either a 12-consecutive-month or 36-consecutive-month period, depending on the member's retirement plan.

Historically, LACERA excluded from final compensation many items of pay on the basis that they were not received by everyone in the same job classification. We refer to these as "special pay" items. Examples are bonuses for utilizing a foreign language on the job, additional pay for working an evening shift, and bonuses for achieving certain certifications that evidence advanced skills applied on the job. The practice of excluding special pay items was challenged in court by the Ventura County Deputy Sheriff's Association. The case was litigated all the way to the California Supreme Court, which held that the practice of excluding special pay items was invalid. The Supreme Court's decision came to be known as the "Ventura Decision." It required LACERA to include special pay items in final compensation starting October 1, 1997. The Court left for a later decision whether its ruling should be applied retroactively, i.e., whether special pay items must be included in final compensation for periods *prior* to October 1, 1997.

LACERA's refusal to apply the decision retroactively to members who retired prior to October 1997 resulted in the current litigation. The court has now ordered LACERA to recalculate the final compensation for all members who retired with a final compensation period prior to October 1997 and who received compensation under one of the special pay items during their final compensation period. LACERA was further ordered to adjust each affected retiree's retirement allowance, going back to May 1995. Adjustments for earlier periods are barred by the statute of limitations.

It is important to note that funds received *after* termination, such as cash-outs for unused vacation and 100% sick time (Termination Pay) are not considered in the recalculation of retirement allowances. To find out which pay items may be counted as pensionable, go to **www.lacera.com**, click on the article, "Implementing Ventura Retroactively," and follow the link at the bottom of the page to the list of pensionable items.

There are five steps that must be taken before the Ventura Decision can be implemented, and we are currently on Step 2 of the process (see below). The attorneys are getting closer to reaching an agreement on the implementation process to be presented to the Court. As always, we will provide further updates as they become available.

Steps of the process:

1) Attorneys and their clients analyze actuarial estimates.
2) **Attorneys finalize an agreement on the implementation process to be presented to the Court. (We are at this point in the process.)**
3) Attorneys present the implementation process to the Court.
4) LACERA and the County notify members of the plaintiff class of the terms of the implementation agreement and the right to file objections with the Court.
5) Court holds a hearing to consider any objections and makes a ruling that either approves an implementation process or provides further instructions to the parties.

Once the Court has approved an implementation process, LACERA will begin the implementation, which includes adjustment of retirement allowances for eligible retirees.

Termination Pay cont'd from pg. 6

within 120 days from notification, you may roll over your 401(k), 457, IRA or other qualified plan funds. Or you may pay with after-tax dollars provided the amount is within the 415(c) limits for the year you terminate. (The 415(c) limits for 2005 are $42,000*, adjusted annually by the IRS, or 100% of your compensation, whichever is less.) Please seek the advice of your tax advisor or attorney.

** Limits for those over age 50 may be greater due to catch-up provisions.*

The 2004 PAFR

We are pleased to include the Popular Annual Financial Report (PAFR) in this issue of *PostScript*. This publication summarizes financial and service accomplishments from the fiscal year ended June 30, 2004. If you wish to review the full Comprehensive Annual Financial Report (CAFR), please visit **www.lacera.com**, click on the Investments tab at the top of the page, and click on the "CAFR" link.

Compare Defined Benefit and Defined Contribution Plans

LACERA's Defined Benefit Plan	Defined Contribution Plans—401(k) and 457 Plans
1) Employer promises to pay specified benefit at retirement	1) Employer promises to contribute specified amount to member account periodically
2) Retirement allowance is payable for the life of the member	2) Benefit payments stop when money is exhausted
3) Employer invests the funds and bears the risk of adverse investment performance	3) Employee decides how to invest the funds and bears the risk of adverse investment performance
4) Benefit amount is determined by average pay, years of service, and age	4) Benefit amount is determined by investment performance and amount of contributions
5) Better inflation protection through COLA (cost-of-living) Programs	5) No COLA Program
6) Funds not available during active service	6) Hardship withdrawals permitted, sometimes loans permitted during active service
7) Reciprocal pension benefits possible with specified public employers	7) Possible transfer of member funds to tax-qualified plans as allowed by law
8) Various retirement benefit options available to member	
9) $5,000 lump sum death benefit for retirees	

Q&A cont'd from pg. 1

Q: When I retire I would like to move out of state. What kind of health care coverage is available for retired members who do not live in California?

A: Out-of-state retirees have several choices for health care coverage, depending on where they choose to live. Blue Cross is the only health care plan that is available anywhere in the U.S. CIGNA Network Model and Kaiser Permanente are available, however the states where those plans are offered are limited. To find out more about which plans are available in which states, contact LACERA at 800-786-6464 and press #1 for Retiree Healthcare.

Q: If I move out of State, will I still owe taxes on my LACERA retirement allowance?

A: Perhaps. Although you will not owe taxes to California on your retirement income if you are a resident of another state, you may owe taxes on that income in your state of residence. If you have other taxable income in California and want to use withholding from your LACERA check to pay these taxes, you may designate the appropriate amount to meet that tax bill even though you are a resident of another state.

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