

**LOS ANGELES COUNTY
EMPLOYEES RETIREMENT
ASSOCIATION**



**ACTUARIAL REVIEW
REPORT ON THE 2025
INVESTIGATION OF
EXPERIENCE**

PREPARED FEBRUARY 18, 2026



February 18, 2026
Mr. Richard Bendall
Chief, Internal Audit
Los Angeles County Employees Retirement Association
300 North Lake Avenue, Suite 840
Pasadena, California 91101

Dear Mr. Bendall:

Cavanaugh Macdonald Consulting, LLC has performed an independent review of the 2025 Investigation of Experience for Retirement Benefit Assumptions, prepared for the Los Angeles County Employees Retirement Association (LACERA). As an independent reviewing or auditing actuary, we have verified the numerical results and provided our professional opinion on the reasonableness and appropriateness of the actuarial assumptions and methods recommended in the report. We have also offered our comments on possible ways to improve the process in future experience investigations.

The retained actuary for LACERA is Milliman, Inc. We would like to thank them for their cooperation and assistance in providing the required information to us. **We find the proposed actuarial assumptions and methods to be reasonable. The Investigation of Experience was performed by qualified actuaries and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.** This report documents the detailed results of our review.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are happy to respond to any questions you may have.

Sincerely,

A handwritten signature in blue ink that reads 'Brent A. Banister'.

Brent A. Banister, Ph.D., FSA, EA, MAAA, FCA
Chief Actuary

A handwritten signature in blue ink that reads 'Patrice Beckham'.

Patrice A. Beckham, FSA, FCA, MAAA, EA
Consulting Actuary

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SECTION I – EXECUTIVE SUMMARY

LACERA engaged Cavanaugh Macdonald Consulting, LLC (CavMac) to prepare an independent review of the 2025 Investigation of Experience for the Retirement Benefits Assumptions Report prepared by LACERA's retained actuary, Milliman, Inc. The scope of the actuarial review requested by LACERA includes:

- independent verification of the results in the Study,
- evaluation of any recommendations in the Report,
- preparation of a report containing CavMac's findings and conclusions from the actuarial review, and
- presentation of any findings to the Board of Investments.

The process of setting actuarial assumptions brings together a blend of both numerical analysis and professional judgment. An experience study is not simply a mathematical exercise, but also draws on the experience and insight of the professionals conducting the study to interpret those results and develop assumptions that will appropriately model future experience. While our review included confirming certain data tabulations supporting the results in Milliman's report, we wish to stress that we also examined the bigger picture to determine if an assumption, or recommended change, is appropriate. We considered whether there are other ways to develop an assumption, whether an assumption may be simplified, and whether or not the assumption reflects trends that we have observed in other similar plans. The fact that we might prefer an alternate approach does not automatically mean that Milliman's approach is not reasonable. Rather, we offer some of these thoughts as a consideration for future studies, fully aware that there are multiple ways in which to appropriately model a dynamic retirement program like LACERA.

Overall, we find Milliman's work to be accurate and complete, and we have not identified any material findings.

We summarize our findings for each major review task as follows:

1. Review of Data Used in the 2025 Experience Study

The actuarial review of the 2025 Investigation of Experience for Retirement Benefit Assumptions Report is based on the experience study data provided to us by Milliman. We requested and received from Milliman the full valuation (processed) data files for the 2022, 2023, 2024, and 2025 valuations. These files allowed us to replicate certain portions of Milliman's analysis with regards to the observed experience for the demographic assumptions. In our opinion, the data used is sufficient for the purposes of the experience study, appears consistent with previous Retirement Plan valuations and, therefore, appropriately reflects the active and inactive membership of LACERA during the three-year study period ending on June 30, 2025.





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2. Review and Evaluate the Proposed Economic and Demographic Assumptions Contained in the 2025 Investigation of Experience for Retirement Benefits Assumptions Report

We find the work prepared by Milliman and reviewed within the scope of this assignment to be based on reasonable processes, to be technically sound, and to be fairly presented. Milliman's work related to LACERA's experience, selecting assumptions, and presenting the associated results is based on generally accepted actuarial practices and principles. Relevant details for each assumption reviewed are provided in Section 3 of our Report.

3. Present Any Recommendations to the Board of Investments Regarding the Work Completed by Milliman

We believe that the actuarial assumptions recommended by Milliman are reasonable and appropriate for use in the upcoming actuarial valuation for LACERA. We have no findings of material discrepancies with generally accepted actuarial principles or professional standards. In Section 4, we provide some minor considerations and suggestions for future studies.

While the Investigation of Experience is a triennial study, Milliman often considers more than the last three years of data so as to have greater confidence in its resulting conclusions. Because the three years before this study period (2019-2022) was during the COVID pandemic, Milliman considered results with and without these three years in order to make sure that their decisions were not unduly affected by something unique to COVID. In our opinion, this was an appropriate decision, and one followed by many actuaries working for public plans.

Milliman proposes changes to several demographic assumptions in its experience study report. We would classify many of these recommendations as typical on-going and fine-tuning changes. We believe that all the proposed changes are reasonable and appropriate.

In our review of the 2022 Investigation of Experience for Retirement Benefits Assumptions, we made some recommendations for Milliman's consideration, including making a specific assumption for inflation in the Los Angeles area. We note that this assumption was developed in the 2025 Investigation. We also suggested that some of the exhibits would be enhanced by showing each age rather than quinquennial groups and that the report might benefit by having some additional tables of experience. Milliman reflected these suggestions in this 2025 Investigation, resulting in what we believe is more helpful insight for the reader.

Conclusions

Because of the complexity of actuarial work and the impact of professional judgment on the selection of assumptions, we would not expect our opinions to be the same as those of Milliman. We do expect, however, that there would be sufficient explanation of their choices and decisions in the report to allow us to acknowledge the recommendations they propose are reasonable based upon the relevant factors. In our opinion, the assumptions and methods proposed by Milliman





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are reflective of sound professional judgment and are appropriate for the systematic funding of the pension obligations of LACERA.

We have determined that the actuarial methods, assumptions, processes, and the report are consistent with the applicable Actuarial Standards of Practice. Throughout this report, we have noted a few minor items for consideration that we believe may present opportunities for improvement, but none that we believe would have a material impact on the proposed assumptions.

The remainder of this report provides the basis for our findings and evaluation of the recommendations that appear in the 2025 Investigation of Experience for Retirement Benefits Assumptions Report and our conclusions.

We would like to thank LACERA's staff for their responsiveness in providing the information that we requested during the course of our review. Additionally, we would also like to thank Milliman for their cooperation and assistance in providing the requested information and answering our questions.





SECTION II – ACTUARIAL ASSUMPTIONS

BACKGROUND ON ACTUARIAL ASSUMPTIONS

The actuarial assumptions form the basis of any actuarial valuation or cost study. Since it is not possible to know in advance how each member's career will evolve in terms of salary growth, future service and cause of termination, the actuary must develop assumptions in an attempt to estimate future patterns. These assumptions enable the actuary to estimate the amount of benefits earned and to reasonably anticipate when and how long these benefits will be paid. Similarly, the actuary must make an assumption about future investment earnings of the trust fund. In developing the assumptions, the actuary examines the past experience, but more heavily considers future expectations to make the best estimate of the anticipated experience under the plan. The selection of assumptions should conform to ASOP No. 27 "*Selection of Assumptions for Measuring Pension Obligations*". (Note that prior to January 1, 2025 there were separate ASOPs for economic and demographic assumptions.)

There are two general types of actuarial assumptions:

- Economic assumptions – these include the investment return assumption (expected return on plan assets), assumed rates of salary increase, price inflation, wage inflation, and increases in total covered payroll.
- Demographic assumptions – these include the assumed rates of retirement, mortality, termination, and disability.

The discussion on the actuarial assumptions on the following pages is based on the data and recommendations found in Milliman's 2025 Investigation of Experience for Retirement Benefit Assumptions.





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ECONOMIC ASSUMPTIONS

Actuarial Standards of Practice (ASOPs) are issued by the Actuarial Standards Board to provide guidance to actuaries with respect to certain aspects of performing their work. As mentioned earlier, ASOP 27 is the actuarial standard that addresses the selection of or recommendations regarding assumptions for measuring pension obligations (liabilities) under defined benefit plans. There are two particular items from ASOP 27 that we believe are relevant to the discussion:

- (1) For a given assumption, there is a range of possible choices, and
- (2) An assumption may be made with a degree of conservatism, when appropriate and disclosed.

Milliman did not recommend any changes to the current set of economic assumptions other than to use separate assumptions for local and national inflation. The assumptions are summarized below:

Proposed Assumptions	
Price inflation (Los Angeles)	2.75%
Price inflation (US)	2.50%
Total wage growth	3.25%
Payroll Growth	3.25%
Investment return	7.00%
Cost-of-Living Adjustment	
Plan A	2.75%
Other Plans	2.00%

Each assumption is briefly discussed in the following narrative.

Price Inflation: Price inflation indirectly impacts the rates of future salary increase, the payroll growth assumption, and the investment return assumption, so the underlying price inflation component in each must be consistent in accordance with the guidance provided in ASOP 27. In addition, because the retirees receive a cost-of-living adjustment (COLA) linked to changes in the CPI-U, the inflation assumption also impacts the COLA assumption.

Inflation has varied significantly over time, with some notably high periods (well over 10%) in the 1970's influencing the long-term average. Until the least four years, inflation was below the long-term average for many years. In 2022, there was a significant upward spike in inflation to just over 9% that has since moderated. The financial markets' pricing of inflation (comparing





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Treasuries and TIPS) suggests that the markets expect inflation to remain relatively low, at around 2% to 3% for the next 30 years.

While the market pricing argument suggests long-term lower inflation, we note that inflation is not random. It can be significantly affected by monetary and fiscal policy, and those policies may change dramatically and rapidly. Consequently, there are also some reasonable arguments for assuming that inflation could be higher than it has been over the last 20 years for a sustained period.

In their report, Milliman provides supporting documentation for their recommendations for the inflation assumption. Until recently, there had been a trend among public retirement systems to lower this assumption, with many selecting an assumption in the range of 2.25% to 2.50%. LACERA bases their COLA on the Los Angeles area CPI, which has tended to be higher than the national CPI over the recent past. Wages are also likely to be affected by the local (Los Angeles) economy. The national CPI, however, serves as the basis for compensation limits and investment analysis. While using a single assumption in the past, Milliman now proposes assuming 2.75% for Los Angeles and 2.5% for the United States as a whole. As we noted last time, we believe that using separate assumptions can improve the estimation process. We find Milliman's analysis and proposed assumptions to be reasonable.

General Wage Growth: The general wage growth or wage inflation assumption consists of price inflation and a real wage growth component (also called productivity). These increases are affected by a variety of factors including price inflation, the policies of the employer, and the nature and extent of competition for employees in the relevant labor markets. Over time, however, the impact of wage increases in the broader economy will also have a strong influence as workers and competing employers respond to market forces.

Milliman considers several relevant sources in their analysis of this assumption including:

- (1) the National Average Wage Index (published by the Social Security Administration),
- (2) the assumption used by the Social Security Administration in their 75-year projections,
and
- (3) actual LACERA data.

Based on these sources, Milliman recommends retaining the current 0.50% real wage growth assumption. While we find this assumption reasonable, we would note that over the last 30 years – following the high inflation period of the 70's and early 80's – the real wage growth in the general economy has been higher than the 50-year average of 0.50% that Milliman cites. We also realize that the National Average Wage Index has limitations in that it does not perfectly track wage inflation directly (although it is a reasonable proxy) and because it is a reflection of the entire U.S. Social Security covered population which may have different pay increase patterns from those of LACERA employees.





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Public-sector employees have also lagged the salary increases across the broader economy in more recent years, at least when the costs of benefits are excluded. Another source to consider is the State and Local Government Workers Employment Cost Index, produced by the Bureau of Labor Statistics. It provides evidence that real “across the board” salary increases have averaged about 0.2% annually during the last 10 to 20 years. Total compensation (with benefits) has increased at a real rate of about 0.8% over that same period. Whether these trends will continue or there will be a correction is an open question.

In Milliman’s analysis of merit salary increases, there is a persistent merit increase for general members of around 0.55% for service after 25 years. Typically, there is very little, if any, true merit increase after 30 years. One could argue that this assumed increase is more appropriately classified as part of the general wage increase rather than merit, although Milliman believes it truly is part of the merit salary increase arising from promotions. Since the total of the general wage growth and merit is the same regardless how of this persistent merit is classified, there is no effect on the liability measures either way.

Milliman also uses the general wage growth assumption as the basis for their recommended payroll increase assumption. The payroll growth assumption is used in the amortization of the Unfunded Actuarial Accrued Liability (UAAL) and is appropriate for developing costs that are intended to be reasonably stable as a percentage of covered payroll. Using the general wage inflation to estimate future payroll growth has been a common practice amongst public plan practitioners for many years, but we would point out that some retirement systems are choosing to amortize the UAAL with an assumed payroll growth that is somewhat lower than the wage inflation assumption or even setting the assumption equal to the expected growth in the revenue of the sponsoring organization.

One consideration in setting a lower assumption has been that as older employees retire, new employees are being hired with lower salaries. In theory, there are internal promotions to fill the vacated positions, but this expected payroll growth has not always been realized in the past, especially given the high proportion of baby boomers that were still in the work force. Because the youngest baby boomers are now more than 60-years old, this potential impact may be nearly finished. Of course, LACERA’s experience may vary from that of other public plans. We are not opposed to Milliman’s choice of using the wage inflation assumption as the payroll increase assumption, but we could also be comfortable with an assumption that was between price inflation and wage inflation which would provide a margin of conservatism for adverse deviations. Note the 3.25% payroll growth for amortization could be thought of as having some conservatism if the persistent merit described above were treated as part of wage growth.

Investment Return Assumption: In our opinion, the investment return assumption should represent the long-term compound rate of return expected on the plan assets, considering the asset allocation, the real rate of return on each asset class, and the underlying inflation rate, all net of investment (and possibly administrative) expenses paid from the Trust.





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The long-term relationship between price inflation and investment return has long been recognized by economists. The basic principle is that the investor demands a more or less level “real return” – the excess of actual investment return over price inflation. If inflation rates are expected to be high, investment return rates are also expected to be high, while low inflation rates will result in lower expected investment returns, at least in the long run.

The period considered for pension funding represents a very long horizon (30 to 50 years or more). In reviewing this assumption, the actuary should consider asset allocation policy, historical returns, and expectations of future returns. Frequently, asset advisors focus on no more than the next 5 to 10 years since they are most concerned with how to invest the funds currently to maximize returns. The longer term is less relevant to them, but it is, of course, paramount to actuaries who are projecting benefits to be paid for the next 50 to 100 years. This difference in perspective can significantly influence how investment advisors and actuaries derive an investment return assumption.

Our preferred approach to setting the investment return assumption is called the “building block” approach. This approach develops a “real” return, or the return net of inflation, and then adds it to the inflation assumption. One advantage of this approach is that it assures that the total or “nominal” return is consistent with the inflation assumption, since it is determined as the sum of the price inflation assumption and the real rate of return. A second advantage is that it is helpful when comparing various sources of expected returns by eliminating any differences related to price inflation expectations as a source of variation in the nominal return assumptions. While we find this approach helpful, we also acknowledge that there are other reasonable approaches that may be used and are compliant with actuarial standards of practice. Milliman does not directly use the building block approach, although they acknowledge the relationship between inflation and total return.

In Milliman’s analysis of the expected return, they considered three sets of capital market assumptions regarding future expected returns. They also considered the general trend observed with respect to the investment return assumptions used by other large public systems, but primarily relied on the expected future return arising from these capital market assumptions. We believe their approach is appropriate as the asset allocations and risk perspective of each board influences the investment return used by the system, so the median return assumption would not necessarily be an appropriate basis to use in setting LACERA’s assumption. The three sources of capital market assumptions are:

- (1) Meketa, LACERA’s investment advisor,
- (2) Milliman’s internal investment experts, and
- (3) the 2025 Horizon Actuarial Services Survey, which reviews the assumptions of about 40 investment consulting firms (including Meketa) who work with defined benefit plans, providing a median return for each common asset class.





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As was noted earlier, most investment advisors focus on a shorter timeframe than actuaries because they are using the assumptions for a different purpose. For instance, the 2025 Horizon Survey included 41 advisors with capital market assumptions for the next 10-year period, but only 27 advisors provided assumptions for periods of 20 years or more. Milliman's discussion states they have given consideration to both the 10-year and 20-year time horizons, which we believe to be appropriate. As Milliman notes, LACERA is a mature retirement plan. One consequence is that annual benefit payments exceed annual contributions, so the difference must be made up from investment income. For LACERA, this shortfall is currently about 2% of the total trust fund, an amount that could likely be covered by income cash flows such as interest payments and stock dividends, rather than by selling assets. However, this net negative outflow means that the expected lower returns over the next ten years (when lower returns are forecast) will diminish the corpus of the trust over this period so a comparatively lower trust fund balance will exist when the higher returns are earned. This will limit the ability of the higher returns on the LACERA trust fund in the long term to offset the impact of the lower returns in the next ten years, so we agree that it is appropriate to consider both the short and long horizons, as Milliman has done.

After considering the expected returns of these three sources, Milliman recommends leaving the investment return assumption unchanged at 7.00%. In their development of this assumption, they have developed results net of investment expenses (a standard approach) and also include a reduction for administrative expenses discussed more fully below.

In summary, there is a range of reasonable assumptions for the investment return assumption, and we believe the recommended assumption of 7.00% falls within that range. Other reasonable approaches could lead to different recommendations of which some might be lower than 7.00% and some might be higher. Because a stable investment return assumption is helpful in achieving contribution stability, we believe that choosing to leave this assumption unchanged is reasonable.

Use of Investment Return Assumption for GASB Discount Rate: The investment return assumption used in the funding valuation is net of both investment and administrative expenses. GASB requires the use of an assumption regarding the expected return on assets that is net of investment expenses, but not administrative expenses. Administrative expenses are directly modeled in the projection of the Fiduciary Net Position for purposes of determining whether there is a depletion date of the plan assets in the future (called the crossover test). This test determines whether the assumption for the expected return on assets may be used for the GASB discount rate.

As part of the experience investigation, Milliman reviewed the actual administrative expenses for the past 10 years and estimated that these expenses have averaged about 0.15% of the asset value. Consequently, their recommendation for GASB 67 and 68 reporting is to use an investment return assumption that is 0.15% higher than the investment return assumption used for funding purposes. This approach has been used in the past, and we believe it is reasonable and appropriate to continue its use.





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COLA: Closely related to the price inflation assumption is the Cost-of-Living Adjustment (COLA) assumption. The actual COLAs granted to LACERA members are based upon the change in the CPI-U for the Los Angeles metropolitan area. By law, there are upper limits on the COLA that may be granted each year (varying by plan), but to the extent that inflation exceeds the actual COLA granted in any year, there is a “carry-over” which future COLAs may use in years when inflation is lower than the cap. If inflation is less than 0% for a year, the member benefit may be reduced, but not below the original benefit. In these situations, it is also anticipated that the carry-over would be utilized to offset the negative inflation adjustment and perhaps even provide a positive COLA as well. Based on the design of the COLA, we believe Milliman’s recommendation to set the COLA assumption equal to the price inflation assumption (up to the capped level) is an appropriate model. Note that the assumption is higher for current Plan A retirees due to the COLA accumulation banks.

DEMOGRAPHIC ASSUMPTIONS

The major demographic assumptions used in the valuation process are the assumed rates of retirement, termination of employment (with or without a vested benefit), disability, and mortality (death before or after retirement). Other non-economic assumptions that are typically evaluated include salary merit increases, election of refunds in lieu of a deferred benefit, and family composition (where applicable for death and some disability benefits).

General Comments

The purpose of a study of demographic experience is to compare what actually happened to the individual members of LACERA during the study period (July 1, 2022 through June 30, 2025) with what was expected to happen based on the actuarial assumptions, using the results as an important tool to evaluate whether some adjustment to the current assumptions is necessary.

The basic steps performed by most actuaries include the following:

- First, the number of members changing membership status, called decrements, during the study is tabulated by age, duration, gender, group, and membership class as appropriate (active, retired, etc.).
- Next, the number of members expected to change status is calculated by multiplying certain membership statistics, called exposure, by the expected rates of decrement.
- Finally, the number of actual decrements is compared with the number of expected decrements. The comparison is called the actual to expected ratio (A/E Ratio), and is expressed as a percentage.

The A/E ratio is a key indicator as to the overall fit of actual experience to that expected based on the assumptions. While this metric is an important measurement, the fit of the assumption at





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each individual age or service duration is also critical because experience that is higher at certain ages/durations does not typically offset the impact of experience that is lower at other ages/durations. The fit of the actual experience to the assumption at each age or duration is important in order to more accurately value the liabilities (present value of future benefits). The A/E ratio also provides a good way to easily evaluate the impact of the recommended assumption in comparison to the current assumption to determine how much the assumption was adjusted.

For the most part, Milliman's analysis develops these A/E ratios with compensation-weighted exposures and decrements (for actives) or benefit-weighted exposures and decrements (for retirees) rather than using the counts of members. This means, for example, that the influence of the higher-paid members on retirement rates is greater than lower-paid members. Since the higher paid (and usually longer service) group also has greater liability, this aligns the assumptions better with actual experience of the plan liabilities and should reduce the dollar amount of actuarial gains and losses from year to year. We are very supportive of this approach, as we use it in our own practice.

As part of our review of the demographic assumptions, Milliman provided us with the processed valuation data files for the 2022 through 2025 valuations. They also provided us with their detailed experience study results, including the number of exposures and observed decrements, broken down by LACERA plan, sex, and age or service as appropriate for each assumption. We used the valuation data files to replicate the exposure and decrement summary for active and retired members over the study period and matched the total number of decrements almost exactly. We also attempted to validate Milliman's results at each age or service data point. Due to rounding issues, we did not always match each cell exactly, but we were able to satisfy ourselves that Milliman's processing was performed with a sufficient degree of accuracy and that the results are reliable for the assessment and development of actuarial assumptions.

In the following paragraphs, we make specific comments on the demographic assumptions.

Merit Salary Increases: In the economic assumptions section, we discussed Milliman's development of the general wage growth assumption. A second type of salary increase occurs at the individual level as a result of such things as promotion and longevity. Milliman examined these increases separately for General and Safety members, recognizing that the two groups have different patterns of salary increase through a typical member's career. They also studied the assumption as a function of years of service. We agree that these two factors are the most appropriate and commonly used approaches to model merit increases.

Total salaries are reported from year to year so, in order to isolate the merit component of the salary increases, Milliman compared the total salaries of each individual member in each consecutive year of employment, after removing the estimated general wage inflation observed in the actual LACERA data for each year. We find this approach a reasonable way in which to isolate the salary increases due to merit and longevity.





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For purposes of this analysis, Milliman used the last 15 years of actual salary increases. We note that this period is longer than that used by many actuaries. From our perspective, a period that is too long may not be sensitive to recent changes or trends. For instance, with nearly all of the active membership being employed by the County, a change in the longevity compensation structure could quickly affect the merit scale but might not be easily detected with Milliman’s longer time frame. Milliman’s report indicates this analysis was also performed for the most recent time periods to detect any significant recent change, but none was found, reducing our concern with their methodology.

Rates of Mortality: One of the most important demographic assumptions in the pension valuation is mortality because it projects how long benefit payments are expected to be made. The longer retirees live and receive benefits, the larger the liability of the system, thus increasing the contributions necessary to actuarially fund the system. In addition, if members live longer than anticipated by the assumption, the true cost of future benefit obligations will be understated, and contributions will increase as the unfavorable experience unfolds. Because there are also death benefits payable for active members, it is also relevant to consider the patterns of death for active members, although this assumption has comparatively little impact on the valuation results due to the low probability of active member deaths.

In early 2025, the Society of Actuaries (SOA) published an updated set of mortality tables (Pub-2016 Tables) that are based solely on the experience of public retirement systems rather than corporate pension plans. These tables include mortality rates for active members, healthy retirees, disabled retirees, and beneficiaries of retirees, and also vary by membership type (general government, teachers, and public safety). They represent the significant improvement in the universe of mortality tables available to value public retirement systems first made in 2019. Milliman proposes updating to these newer tables, with certain adjustments as appropriate, for their recommended mortality rates. We believe that Milliman’s use of these tables is appropriate and reasonable.

In the past, mortality rates for those of retirement age have gradually declined each year. Because actuarial valuations are projecting many years into the future, it is reasonable to anticipate that mortality rates will continue to decline, so they will be lower in the future than they are now. In order to anticipate that improvement, Milliman uses an approach known as “generational mortality” in which the mortality rates at most ages are “improved” by a small amount each year in estimating an individual’s future lifespan. The SOA publishes a projection scale each year which essentially grades recently observed mortality improvement into its long-term expected improvement over a short period of time. Milliman’s assumption has been, and continues to be, a simplified version of the SOA-published mortality improvement scale that uses only the ultimate year of that projection scale. There is insufficient data from LACERA to statistically test this assumption, but we believe it is reasonable and have observed other systems using similar simplified mortality improvement assumptions. Because the SOA has not updated the improvement scale since the last study while waiting to see the ultimate impact of COVID, Milliman recommends the most recent scale, a recommendation that we find reasonable.





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Milliman uses separate mortality assumptions based on sex, membership type (General or Safety), and status (active, healthy retiree, and disabled retiree). For the most part, they use the corresponding table from the SOA Pub-2016 tables, sometimes scaled by a constant multiplier to achieve a better fit to actual experience. Overall, this approach to selecting mortality tables reflects common actuarial practice. Further, Milliman bases their analysis on benefit-weighted amounts for retirees and compensation-weighted amounts for actives. This weighting is an appropriate way in which to reflect the observed patterns of mortality rates varying by benefits/compensation.

While we do not disagree with Milliman's recommendations, we offer some observations. First, the SOA Pub-2016 Tables include beneficiary mortality tables. Milliman elected to use the General membership healthy retiree table for beneficiaries and provides a robust rationale for their approach. We note that there is not a uniform approach in the pension actuarial community and so we have no objection to Milliman's preference.

Second, in our experience we have found that the quality of the fit of a mortality table can sometimes be improved by applying one scaling factor at younger ages and a different factor at older ages (with a blending around the transition age). When they next make a change to the mortality assumption, we would suggest that Milliman consider whether or not such an approach might allow a better fit of the mortality assumption to observed experience across all ages. This approach is not as widely used in the pension actuarial profession, but for larger retirement systems, such as LACERA, may have some merit. Milliman's graphs do not indicate any significant fit issues.

Rates of Retirement: Retirement is a decision that is usually planned by an individual at a time that is perceived as most beneficial from a personal and financial perspective. One significant factor is the interaction of the retirement eligibility provisions with the potential retirement date. Because the different LACERA retirement plans have different eligibility requirements and benefit provisions, it is not surprising that retirement behavior varies by plan. Milliman develops retirement rates for General plans A-D, plan E, and plan G, and for Safety plans A&B and plan C. The newer plans (General G and Safety C) do not have any meaningful retirement experience yet, and so the proposed rates are based on applying professional judgment to the experience observed in the other plans. Likewise, General plans A-C and Safety plan A have been in existence long enough that there are few members left, and so there is no longer sufficient data to perform a meaningful analysis.

For each plan or group of plans, Milliman observed the actual and expected retirements, weighted by compensation, as described earlier. The assumption and analysis varies by age, a typical approach. In general, we believe that the proposed changes recommended by Milliman are an appropriate response to the observed retirement patterns. We also commend Milliman for a more thorough analysis to identify delayed disability retirements and remove those from the service retirement analysis.





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In some plans, particularly in the public safety arena, the provisions for the availability and amount of benefits lead to patterns that are more influenced by years of service than age. Milliman performed additional analysis beginning with the 2022 study to determine how retirement rates vary with service and modified their assumptions to now be effectively a function of age and service. We believe this was a useful enhancement.

Rates of Termination: The termination of employment assumption is a service-based assumption which is the most commonly used format for other public retirement systems. Milliman examined General members and Safety members separately, which is reasonable given the different jobs and termination patterns of the two groups. General plan E is valued separately from plans D and G because experience has shown a different behavior by those who elected this option.

Milliman proposes some minor adjustments to some of the termination rates to improve the quality of the fit to actual experience. Their analysis considered compensation-weighting in the development of the A/E ratios, and we concur with that.

For General plans A-C, the termination assumption has no significant effect on estimating future obligations since there are few members left who are not currently retirement eligible. Our preference would be to use the termination rates from the newer plans for General plans A-C because in calculating the normal cost, the Entry Age Normal cost method requires the use of retrospective termination rates. We note that Milliman changed to use this approach with this study.

Refund of Employee Contributions: In the valuation process, this assumption is applied to active members who are assumed to terminate employment after becoming vested. It anticipates the election of a refund of accumulated employee contributions by the member and the resulting forfeiture of any vested monthly benefit payable once the member is eligible for retirement. As would be expected, the probability of electing a refund declines as service increases, and so Milliman studies this assumption as a function of service, with separate rates for General and Safety membership.

We find Milliman's analysis and proposed changes reasonable. There are some retirement systems where the valuation assumes that the decision of whether or not a refund is elected is based on which option is most valuable (i.e., the higher present value) to the member from the system's perspective. Such an approach is designed to value the worst-case scenario to the system, regardless of how experience is expected to unfold. While we are not necessarily suggesting that Milliman change to this approach, they have indicated they have considered it and will continue to consider it in the future.

Rates of Disability: Disability is a relatively low occurrence event, and so the analysis of disability rates is generally challenging. Lack of data creates results with limited credibility. Milliman has considered disability separately for males and females and for General and Safety





SECTION II – ACTUARIAL ASSUMPTIONS

members, which is a very common and appropriate approach. (Because General plan E has no disability provision, those members are excluded.) Disability may be either service-connected or not-service-connected, so an analysis of both rates was conducted for General members. For Safety members, nearly all observed disabilities were service-connected, so the analysis focused on service-connected disability only.

In general, we believe that Milliman's analysis and proposed adjustments to the disability rates are reasonable and appropriate. As noted in the retirement section, Milliman performed additional work to identify delayed disability retirements, an exercise we believe will improve the quality of the assumptions.

Other Assumptions: There are some miscellaneous assumptions that were addressed in the experience study report. These assumptions do not have a major impact on the valuation results, and we believe the recommendations are all reasonable. The assumptions include:

- Probability of retiring with an eligible survivor
- Beneficiary age
- Deferred vested member retirement age
- Reciprocity employment rates for deferred vested members





SECTION III – ACTUARIAL METHODS

ACTUARIAL COST METHOD

For all retirement plans, whether defined benefit or defined contribution, the basic retirement funding equation is:

$$C + I = B + E$$

Where:

- C = employer and member contributions
- I = investment income
- B = benefits paid
- E = expenses paid from the fund, if any.

As can be seen from the formula, for a given level of benefits and expenses the greater “I” is, the smaller “C” is. This is the underlying reason for advance funding a pension plan, and historically investment income pays for 65% to 75% of the benefit dollars received by plan members. In other words, for every dollar paid to a member only 25 to 35 cents comes from contributions. To determine what pattern of contributions is needed, plan sponsors hire actuaries to estimate the cost of their plans and to create a budget for systematic contributions to meet that cost.

Different actuarial cost methods can provide for more rapid funding, more level funding over time, or more flexibility in funding. The choice of an actuarial cost method will determine the pattern or pace of the funding and, therefore, should be linked to the long-term financing objectives of the system and benefit security considerations.

The actuarial cost method used by LACERA is the individual Entry Age Normal method. This cost method determines the normal cost as a level percentage of pay which, if paid from entry into the plan to the last assumed retirement age, will accumulate to an amount sufficient to pay the expected benefit payments. Entry Age Normal tends to result in stable normal cost rates, a feature that has helped make it the most commonly used cost method for public plans. An additional cost is determined by amortizing the unfunded actuarial accrued liability (discussed later in this section).

In our opinion, the actuarial cost method employed by the LACERA is appropriate and will systematically fund the prospective pension benefits on an actuarially sound basis, if all of the actuarial assumptions are realized and the actuarially required contributions are made.





SECTION III – ACTUARIAL METHODS

ASSET VALUATION METHOD

Since the purpose of actuarial funding is to build up an asset pool (remember the importance of “I” in “C + I = B + E”) actuaries need to value the current asset pool on each valuation date. The market value could be used, but it would tend to create too much volatility from valuation date to valuation date, and a single day’s measurement is not necessarily indicative of the true underlying value of the investments held by the plan. Thus, most actuaries use an asset valuation method which smooths out these fluctuations in pursuit of achieving more stable funding measures and (when relevant) developing more level contributions. A good asset valuation method places values on a plan’s assets which are related to current market value, but which will also produce a smooth pattern of costs.

The goal of the actuarial asset valuation method is thus to smooth or reduce investment market fluctuations. This is particularly important during periods of volatile capital markets in which abrupt changes in asset values, when factored into the funding valuation, produce sudden unnecessary changes in contribution levels. In this case, “unnecessary” implies that the change in asset values is not necessarily a true revaluing of the assets involved, but rather a fluctuation reflecting a current economic climate or a short-term reaction to specific news.

LACERA’s Asset Valuation Method: The asset valuation method used by Milliman in the valuation is a variant of methods commonly used by other public sector retirement systems. The smoothing method finds the difference between the actual investment return and the expected investment return on the market value of assets. The dollar amount of this difference is then recognized equally over five years. Additionally, the prior deferred gains or losses are first used to offset any current loss or gain respectively.

Compliance with ASOP 44

Actuarial Standard of Practice Number 44, “*Selection and Use of Asset Valuation Methods for Pension Valuations*”, provides guidance to the actuary when selecting an asset valuation method for purposes of a defined benefit pension plan actuarial valuation. Several of the terms in the criteria of ASOP 44 such as “reasonable” and “sufficiently narrow” are not specifically defined. As a result, actuaries can differ in their opinion on these matters. As we consider the current asset valuation method used by LACERA, we believe it satisfies the requirements of ASOP 44.

We find LACERA’s asset valuation method to be reasonable and appropriate and compliant with ASOP 44.





SECTION III – ACTUARIAL METHODS

AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY METHOD

Currently, the unfunded actuarial accrued liability is amortized using a layered base approach. Following the establishment of the initial UAAL base, each year actuarial gains or losses arising from asset and demographic experience or other factors such as assumption and benefit changes are amortized over a new 20-year period with payments that are determined as a level percentage of payroll. Further, future benefit improvements are amortized over 10 years.

The layered amortization approach has rapidly become the most common amortization method used by public retirement systems, and we believe this method is reasonable for amortizing LACERA's UAAL. It is also worth noting that, as LACERA does, most public retirement systems develop UAAL payments that are intended to be level, as a percentage of payroll, in the future. This general amortization methodology is very much in the mainstream with public retirement systems.

We believe Milliman's recommendation for the amortization method is appropriate.





SECTION IV – INVESTIGATION OF EXPERIENCE REPORT REVIEW

GENERAL OBSERVATIONS

Because of the diversity of public retirement systems and their actuaries, along with the scope and frequency of experience studies, the reports are also very diverse, ranging from extensive formal reports with many charts and tables to only a slide presentation. Actuarial Standards of Practice provide only minimal guidance on the contents of these reports, so much of the report depends upon the style and preference of both the retained actuary and the retirement system board and staff. Milliman's report is on the more comprehensive end of the spectrum, including some degree of numerical detail and graphical illustration along with narrative explanation.

In offering the following ideas, we are by no means suggesting that these are necessary or that the current report is inadequate. Rather, we are sharing some ideas from our years of experience that we believe might be useful to LACERA and Milliman. Ultimately, they will decide if any of these ideas are worth pursuing in future experience studies.

At the end of the report, Milliman includes an appendix that contains the proposed assumptions, with the assumption changes highlighted. While this approach makes it very easy to identify which rates were changed, it is not clear how they have changed. As an alternative, they could consider an additional appendix which includes the current assumptions, allowing an easy way to compare not only what rates were changed, but how they were changed.

EXAMINATION OF PRIOR REVIEW

CavMac prepared a review report of the 2022 Milliman Investigation of Experience which included a number of suggestions for future experience studies. Most of these suggestions were simply ideas for enhancements, many of which simply suggested consideration of an alternative approach. We note that Milliman modified their assumption regarding inflation to have separate assumptions for the Los Angeles area and national inflation. Milliman also made some adjustments to graphs and tables in the report that we suggested might improve the presentation.

We do not believe there any items identified last time which needed to be addressed that were not addressed this time.

SUMMARY OF CAVMAC SUGGESTIONS FOR FUTURE INVESTIGATIONS OF EXPERIENCE

CavMac performs a concurrent review of Milliman's work, allowing us to provide feedback in advance to Milliman regarding corrections or suggestions. As a result, we do not expect to have many suggestions beyond some stylistic preferences. We would categorize the suggestions we have made as optional and largely a matter of personal opinion.

