



# Pension Buyouts

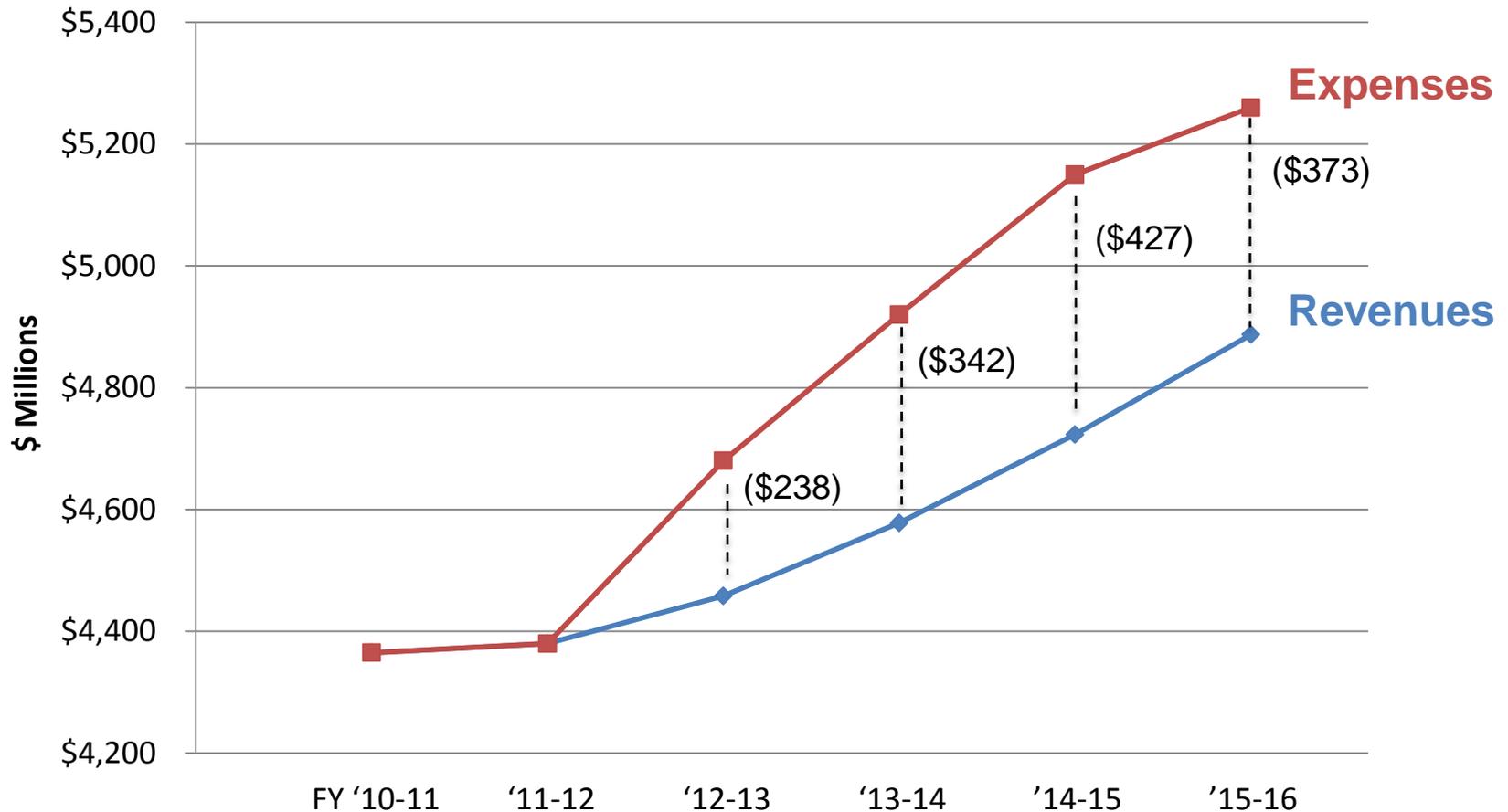
**A Plan to Save L.A.'s  
Budget**

Paid for by Emanuel Pleitez for Los Angeles Mayor 2013, 1972 E. Cesar E. Chavez Ave., Los Angeles, CA, 90033. Additional information available at [ethics.lacity.org](http://ethics.lacity.org).

# Los Angeles is on the brink of bankruptcy

Budget Outlook, FY 2012-13 to 2015-16

\$ million

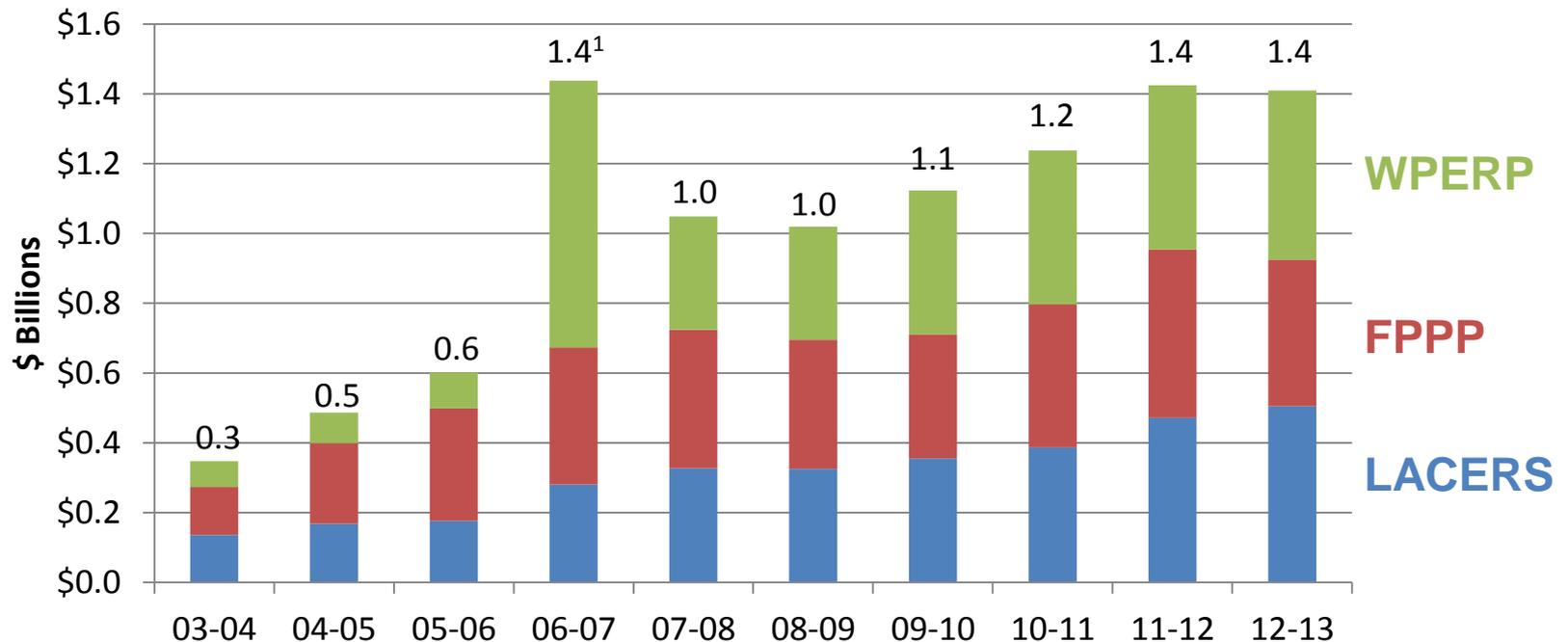


Source: CAO Four-Year Budget Outlook and Update to the Three-Year Plan to Fiscal Sustainability, submitted April 6, 2012

# Our pension system is squeezing our budget

## City Contributions to Pension Funds, FY 2003-04 to 2012-13

\$ billion



Fiscal Year	% of total expenditures
03-04	7
04-05	9
05-06	10
06-07	22
07-08	15
08-09	14
09-10	16
10-11	18
11-12	21
12-13	19

1) In 2007, the DWP began pre-funding retiree health care for the first time, causing the “spike” shown here and ongoing higher costs of WPERP.

Source: “Putting numbers on LA’s Pension Problem”, as presented to LA Chamber of Commerce in October 2012; Emanuel Pleitez for Los Angeles Mayor 2013.

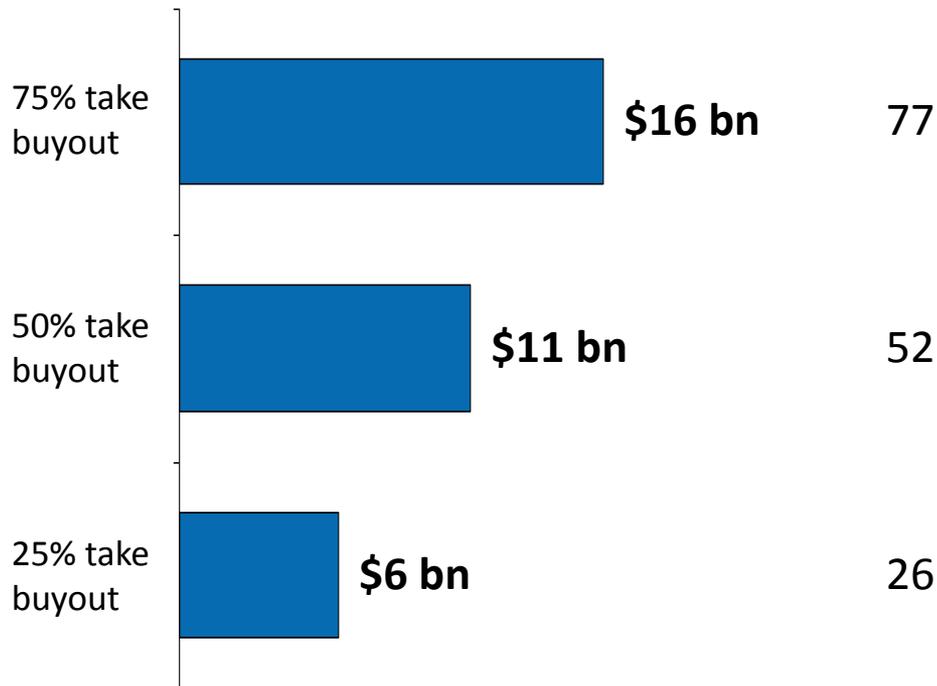
# Pension buyouts can be a solution

- Pensions are nothing more than deferred compensation
- A **buyout plan** would give employees their money (the net present value of their expected pension benefits over their lifetime) today
- Buyouts would be offered to current employees, who can choose whether or not they take their money now
- Plan leverages the city's strong credit rating to raise the capital needed for the buyout at a low interest rate

# Pension buyout could cost between \$6 and \$16 billion

Estimated buyout of LACERS, FPPP, and WPERP<sup>1</sup>

% increase in city debt



## Methodology

1. Use average benefit, age at retirement, and life expectancy to estimate cash flow of future pension payments for the average current employee
2. Discount cash flow to its present value
3. Multiply by number of employees in each plan who take the buyout
4. Calculate for each of the three city pension plans, and sum the results

1) Under our reading of California law, the City cannot compel any individual employee to take the buyout. Instead, each employee can decide whether to take the buyout or not. Here we present the total cost of the buyout across the three pension plans if 25, 50, or 75 percent of employees take the buyout.

Source: LACERS, FPPP, and WPERP actuarial reports; Emanuel Pleitez for Los Angeles Mayor 2013.

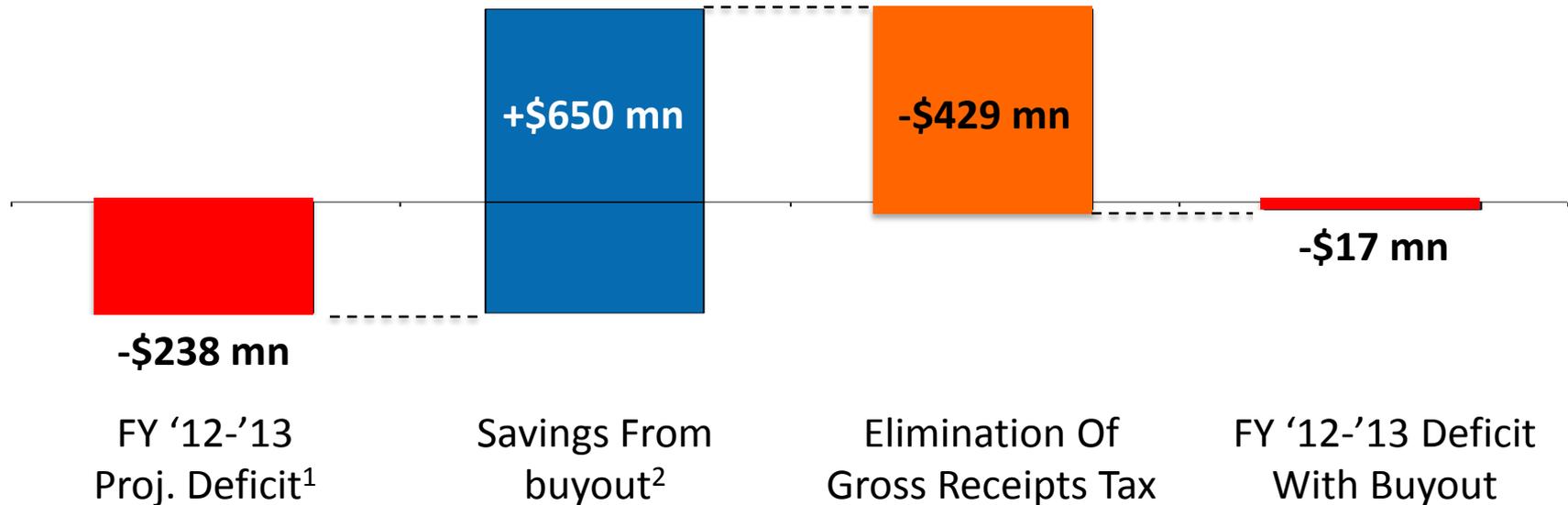
# A buyout is in everyone's best interest

- **Los Angeles:** avoids bankruptcy, frees up budget, and gets better credit rating
- **City employees:** get money today instead of nothing tomorrow
- **Investors:** get a safe municipal security to invest in (since no threat of bankruptcy)

# Buyouts can not only fix our budget mess, but also give us room to eliminate the gross receipts tax

## FY 2012-'13 Deficit Under Buyout Plan

\$ million



1) That is, before the Mayor and City Council passed cuts to close the deficit for the fiscal year.

2) The buyout, while raising debt to pay current employees' the present value of their expected benefits, would also cut the city's annual bill for pension expenses, since the city would no longer need to pay into the trust fund to pay workers who bought out of the system. Here, we show the expected savings from a buyout of 50 percent of current city employees.

Source: Emanuel Pleitez for Los Angeles Mayor 2013.



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**1972 E. Cesar E. Chavez Avenue | Los Angeles, CA 90033**

**213.377.4163**

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