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April 21, 2023

The Honorable Budget, Finance and Innovation Committee
City Council, City of Los Angeles
c/o City Clerk, City Hall, Room 395
Los Angeles, CA 90012
Attn: Andrew Suh, Legislative Assistant

Re: 2023-24 Los Angeles Fire and Police Pensions (LAFPP) Preliminary Budget

Honorable Members:

Thank you for the opportunity to provide the Budget, Finance and Innovation Committee information on the Los Angeles Fire and Police Pension (LAFPP) System and its 2023-24 Preliminary Budget.

2023-24 PRELIMINARY CITY CONTRIBUTION TO LAFPP (\$657.88 million)

On December 1, 2022, the Board of Fire and Police Pension Commissioners (LAFPP Board) adopted the Actuarial Valuation Report for the period ending June 30, 2022, which showed the System's combined health and pension funding ratio on an actuarial basis remains well-funded at **95.0%**, an increase from the prior year's 92.5%.

The Actuarial Valuation Report further indicated the City, Harbor, and Airport Departments' combined contribution rate will *decrease* by 1.26%, from 41.67% to **40.41%** of sworn payroll for 2023-24 (with the City's contribution rate, excluding Harbor and Airports, decreasing from 41.84% to **40.63%**). These favorable valuation results are a result of a higher than expected return on the valuation value of assets (after smoothing), lower than expected salary increases for active members, higher than expected employer contributions (i.e., due to the scheduled one-year lag in implementing the lower contribution rates calculated in the June 30, 2021 valuation for FY 2022-23), and lower health plan premiums and subsidies than projected in the prior valuation. This decrease was offset by higher than expected COLA increases for retirees and beneficiaries, shortening the remaining amortization period for the Tier 1 unfunded actuarial accrued liability (UAAL), amortizing the prior year's UAAL over a smaller than expected projected total payroll, and other experience losses.



Based on the preliminary covered sworn payroll amounts as included in the Mayor's 2023-24 Proposed Budget, the City's contribution amount, including the Excess Benefit Plan (EBP), will decrease from \$670.26 million to approximately **\$657.88 million**. Once the City Council and the Harbor and Airport Commissions adopt their final covered sworn payroll account figures, the City's final 2023-24 employer contribution amount will be adjusted accordingly. A final LAFPP Budget reflecting these changes will then be submitted to the LAFPP Board for approval on June 15, 2023.

2023-24 LAFPP PRELIMINARY BUDGET

The LAFPP Board approved the LAFPP Preliminary Budget on March 16, 2023. The budget was developed with consideration of resources needed to support multi-year business plan projects and additional member outreach and services.

The information summarized below will provide the Committee information on LAFPP's anticipated receipts and expenditures. Please note the vast majority of LAFPP's expenditures are based on the provision of retirement benefits as negotiated by the City.

Anticipated Receipts (\$1.33 billion)

Total anticipated receipts are comprised of the sources below:

- \$657.88 million for the City (employer) contribution (includes the EBP amount of \$0.42 million that is not transferred to LAFPP);
- \$169.66 million for member (employee) contributions;
- \$506.00 million in estimated Earnings on Investments (this does not include the Gain (Loss) Sale of Investments, which are provided after the amount is audited and therefore not included in the budget); and
- \$0.50 million in anticipated miscellaneous receipts from various sources.

For 2023-24, receipts are expected to decrease by \$10.79 million (-1.6%) over the prior year due to the expected decrease in the total City Contribution to LAFPP. This amount is partially offset by a \$3.72 million (+2.2%) net increase in Member Contributions. There are no expected increases or decreases for investments earnings and miscellaneous revenue sources.

Projected Expenditures (\$1.88 billion)

Total projected expenditures are comprised of the sources below:

- \$1.69 billion for Benefits Expenses, which are made up of Pension and Health/Other Post-Employment Benefits (OPEB);
- \$160.47 million for Investment Management Expense; and
- \$28.22 million for Administrative Expense.

For 2023-24, total expenditures are expected to increase by \$167.21 million (+9.8%) over the prior year due to:

- *\$157.79 million net increase in Benefits Expenses*
Benefits Expenses are made up of Pension and Health (OPEB) Expenses. Pension Benefits are projected to increase approximately \$155.09 million (+11.3%) from the 2022-23 adopted budget for a total of \$1.52 billion. The majority of the increase (\$141.29 million) is due to increases in the service pension payments to members and Deferred Retirement Option Plan (DROP) distribution payments. Additionally, OPEB Benefits are expected to total \$167.50 million, an increase of \$2.70 million (+1.6%). This amount however will be adjusted in the final budget to reflect the non-Medicare subsidy rate effective July 1, 2023 (as adopted by the LAFPP Board in April 2023).
- *\$8.53 million net increase in Investment Management Expense*
Investment management expenses are anticipated to total \$160.47 million in 2023-24 due to the growth in plan assets and Board-directed changes to the investment portfolio and its asset allocations. Investment management expense increases commensurate with asset growth; and LAFPP assets under management grew from \$27.98 billion at the end of 2021-22 to approximately \$28.93 billion at the end of March 2023.
- *\$0.89 million net increase in Administrative Expense*
Administrative expenses are anticipated to total \$28.22 million in 2023-24, and include costs for salaries, employer contributions to employee benefits, training and associated travel, contractual services, Board elections, and other office and administrative costs. The 3.3% increase in costs will mainly address employee salary step increases and employer responsibility for increased employee benefits costs.

2023-24 PRELIMINARY BUSINESS PLAN

LAFPP establishes an annual Business Plan to achieve its goals as outlined within our multi-year Strategic Plan. The Strategic Plan also identifies values that guide the pursuit of these goals: Collaboration, Respect, Efficiency, Accountability, Transparency, Ethics, and Diversity. On November 18, 2021, the LAFPP Board adopted the 2022-24 Strategic Plan and formally incorporated “Diversity” as a value, reaffirming the System’s belief in the power of diversity, equity, and inclusion (DEI) to enrich the organization now and into the future.

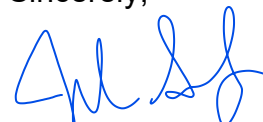
The Business Plan is developed in conjunction with the Budget each year to ensure resources are available and strategically utilized in the upcoming fiscal year. Following are LAFPP's current Strategic Plan goals and in pursuit of those goals, the preliminary projects to be included in the 2023-24 Business Plan are:

- I. *Ensure a Financially Sound Retirement System*
 1. Monitoring of Management Audit Recommendations
- II. *Manage Risk Throughout the Organization*
 2. Secure Access to All Department Resources
- III. *Enhance Customer Care and Stakeholder Relations*
 3. Secure Messaging and Document Uploads in the Pension and Retirement Information System (PARIS)
 4. Enhanced Subsidy and Reimbursement Stakeholder Outreach
 5. Non-Qualified Survivor Benefit Purchase Program Initiative
- IV. *Pursue Operational Efficiencies*
 6. Elimination of Deceased Pensioners Database
 7. Selection of Replacement Disability Claims Management Database
 8. Cost Effectiveness Measurement (CEM) Benchmarking
- V. *Build and Support a Talented Workforce*
 9. Investments Training for LAFPP Staff and Board
- VI. *Promote Diversity, Equity, and Inclusion (DEI) Throughout the Organization, Including our Investment Portfolio and Business Partners*
 10. Diversity, Equity, and Inclusion (DEI) Training Initiative and Program.

An additional project focused on Employee Development will be added to the Final Business Plan, to enrich and empower LAFPP staff with knowledge and augment succession planning.

Thank you again for the opportunity to provide relevant budget information to the Committee. I am available to answer any questions the Committee may have.

Sincerely,



Joseph Salazar, CEBS
General Manager

cc: Board of Fire and Police Pension Commissioners
Jeanne Holm, Deputy Mayor of Budget and Innovation
Matthew W. Szabo, City Administrative Officer