

Via Email

June 7, 2024

Joseph Salazar, CEBS
General Manager
City of Los Angeles Fire and Police Pension Plan
701 East 3rd Street, Suite 200
Los Angeles, CA 90013

**Re: City of Los Angeles Fire and Police Pension Plan (LAFPP)
Proposal to transfer certain LACERS members to LAFPP for past and future service
benefit improvement**

Dear Joe:

In the two attached reports both dated August 24, 2023, we provided the cost to transfer five groups of members out of LACERS and into LAFPP based on the then most recent June 30, 2022 valuations. In one report, we provided the increase in the present value of benefits and related increase in unfunded liability associated with upgrading the past LACERS service through June 30, 2022 to LAFPP service, after accounting for certain assets that would be transferred from LACERS to LAFPP. In the other report, we provided the increase in the annual normal cost (relative to that which would otherwise be paid by the City at LACERS) associated with providing each year of future service anticipated to be earned after June 30, 2022 at LAFPP.

Last month we were informed by LAFPP that this proposal would be presented to the City Council for their review and approval before being provided to the voters for their approval. We were asked to opine from an actuarial perspective either for the City to: (a) rely on the results of the earlier study which were based on the valuations as of June 30, 2022, or (b) authorize Segal to collect the necessary membership, financial and other information so the results would be updated to use the most recent valuations as of June 30, 2023.

Recommendations and summary of results

As we understand that timing is of the essence and that even if the results were to be updated using the most recent valuations as of June 30, 2023, they would have to be updated again (probably based on the valuations as of June 30, 2024) when the transfer actually takes place in 2025. Based on these considerations, we recommend that the City consider using the results from the attached reports subject to the modifications and limitations outlined in this letter.

A high-level summary of the anticipated cost to the City associated with this proposal follows:

Category	Cost determined as of June 30, 2022	Annual interest if not paid on or around June 30, 2022
Five groups of LACERS members to transfer past service through June 30, 2022	\$77.1 million	\$5.4 million
Cost to transfer each year of service after June 30, 2022	\$6.3 million	\$0.4 million
Other LAPD or Airport Peace Officer members who had previously transferred from LACERS to LAFPP and would now have their transfer costs refunded by the City	\$3.0 million	\$0.2 million
TOTAL	\$86.4 million	\$6.0 million

Final membership groups to be included in the proposal for approval

In our original reports, we included five groups of active LACERS members affiliated with: LAPD, LAWA Police, Municipal Police, Park Rangers and Port Police. We also included inactive vested LACERS members from the above groups and some of those were currently active members of LAFPP while others were not.

We have been informed by the City that all inactive vested LACERS members from the five groups who were not currently active members of LAFPP would be excluded for the transfer. We have therefore restated the results provided in our August 24, 2023 reports to exclude the cost for those LACERS members. These results are provided in Exhibit One for the present value to convert all the past LACERS service to LAFPP service earned through June 30, 2022 and in Exhibit Two for the increase in annual normal cost for each year of future service earned after June 30, 2022.

As it is our understanding that only those members actively employed in 2025 after the voters' approval would be eligible for transfer, the actual group of members who ultimately transfer would probably be a large subset of those included in our original reports.

Net pension cost and net health cost to the City associated with transferring the past LACERS service to LAFPP service

The net pension cost and the net health cost to transfer the past LACERS service to LAFPP service for the five groups of members calculated using the actuarial assumptions in the June

30, 2022 valuations are provided in Exhibit One. The total cost as of June 30, 2022 was \$77,133,019 if paid in a lump sum or \$6,523,166 annually if paid in installments over a 15-year period used by the Board to amortize unfunded actuarial accrued liabilities (UAAL) as a result of a plan amendment. The following are points of note when considering these results:

- These results have been calculated using the actuarial assumptions applied by LAFPP and LACERS in their valuations as of June 30, 2022. Both LAFPP and LACERS had adopted new actuarial assumptions for use in their valuations effective as of June 30, 2023. Even though the 7.00% investment return assumption used by both LAFPP and LACERS in their 2022 valuations has remained unchanged and the other assumption changes had a relatively modest impact on the liabilities, the City should nonetheless be aware that the final liabilities would be different once they are updated to reflect the new assumptions.
- The above lump sum payment of \$77.1 million was determined assuming it would be paid on or around June 30, 2022. Since that payment was not made, it should be adjusted with interest at 7.00% per year (annual interest would be about \$5.4 million). Furthermore, as LACERS service credit would continue to be accrued for the members after June 30, 2022, there would be further increase in cost to transfer the service after that date. The approximate cost of transferring service after June 30, 2022 could be estimated by using the increase in the normal cost as discussed next.

Increase in the City's normal cost to provide LAFPP Tier 6 benefit for future service after June 30, 2022

The increase in annual normal cost for each year of future service earned after June 30, 2022 is provided in Exhibit Two. The total increase in annual normal cost as of June 30, 2022 was \$6,321,000 calculated at the beginning of the year. The followings are points of notes when considering these results:

- The increase in the normal cost had been calculated using the assumptions as of June 30, 2022 before reflecting the new assumptions adopted by LAFPP and LACERS for use starting with the June 30, 2023 valuations.
- Since the dollar normal costs were calculated to be proportional to the growth in payroll, they would be expected to increase annually at the rate of 3.25% (using the wage increase assumption applied in the June 30, 2022 valuations) and other projected merit and promotional increases. This increase would be offset to some extent over time as more and more employees from the five groups leave City employment due to retirement, etc.
- As the net pension cost and the net health cost to convert past LACERS service had been calculated assuming the conversion would take place as of June 30, 2022, we recommend that the City add \$6.3 million calculated at the beginning of the year, with interest at about \$0.4 million to the end of the year, for each year of additional past LACERS service that would also be converted to LAFPP service.

Other LAPD or Airport Peace Officer members who had previously transferred their service credit from LACERS to LAFPP by paying lump sums or installments

Besides the five groups of LACERS members already addressed in this letter, under this proposal, the City would also be picking up the cost associated with some LAPD or Airport Peace Officer members who previously agreed to pay the full actuarial cost (either in lump sum or in installments) so that their past LACERS service credit could be counted as LAFPP service credit. Those members are currently LAFPP members and we understand that refunds would be made by LAFPP on behalf of the City to those members who paid in full or in part. The City would either advance or reimburse LAFPP for the costs associated with issuing these refunds.

As we pointed out in our August 24, 2023 report for the cost to transfer the past service, we did not include any cost to LAFPP for this group of current LAFPP members since we have not been tracking that cost in our ongoing annual actuarial valuations.

We have since been provided with the amounts paid in lump sums and/or installments. After consulting with your office, we recommend that the total cost to the City associated with picking up the above cost include not only amounts already paid by the members that would be refunded to them, they should also be adjusted to include future installments that have yet to be made by the members as they would not have been included in any cost studies previously prepared by Segal on behalf of the City.

The original purchase costs determined around 2015 for the LAPD and around 2018 for the Airport Peace Officer members totaled about \$3,048,000 when adjusted with interest to June 30, 2022. Since the \$3.0 million was not paid on that date, it should be adjusted with interest at 7.00% per year (annual interest would be about \$0.2 million).

Other considerations

This document has been prepared for the exclusive use and benefit of LAFPP, based upon information provided by LAFPP or otherwise made available to Segal at the time this document was created. Segal makes no representation or warranty as to the accuracy of any forward-looking statements and does not guarantee any particular outcome or result. Except as may be required by law, this document should not be shared, copied or quoted, in whole or in part, without the consent of Segal. This document does not constitute legal, tax or investment advice or create or imply a fiduciary relationship. You are encouraged to discuss any issues raised with your legal, tax and other advisors before taking, or refraining from taking, any action.

The undersigned are members of the American Academy of Actuaries and we meet the Qualification Standard of the American Academy of Actuaries to render the actuarial opinion herein.

Joseph Salazar, CEBS
June 7, 2024
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We look forward to discussing this report with you.

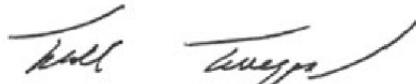
Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary



Todd Tauzer, FSA, MAAA, FCA, CERA
Senior Vice President and Actuary

ST/jl
Enclosures

cc: Gregory Mack

Cost to Move All Past LACERS Benefit Service to LAFPP Tier 5 or 6 as of June 30, 2022

(1) Group / Status	(2) Number of Members	(3) Projected Annual Payroll as of June 30, 2022	(4) Total Years of LACERS Benefit Service Available for Transfer	Pension (5) Present Value of LACERS Benefit Service at LAFPP ¹	Pension (6a) LACERS Pension Assets: Employer	Pension (6b) LACERS Pension Assets: Employee ²	Pension (6c) LACERS Pension Assets: Employer and Employee	Pension (7) Net Pension Cost	Health (8) Present Value of LACERS Benefit Service at LAFPP ¹	Health (9) LACERS Health Assets	Health (10) Net Health Cost	Total (11) Total Net Cost	Amortized Payment (12) 15-Year Amortized Payment of Total Cost at LAFPP ³
LAPD													
Active - not LAFPP active	22	\$2,850,650	461.78	\$16,480,733	\$7,868,993	\$4,145,470	\$12,014,463	\$4,466,270	\$3,445,231	\$2,556,438	\$888,793	\$5,355,063	\$452,880
LAWA Police													
Active - not LAFPP active	370	\$46,881,509	6,683.45	\$239,653,601	\$127,268,524	\$62,967,349	\$190,235,873	\$49,417,728	\$47,158,037	\$38,731,703	\$8,426,334	\$57,844,062	\$4,891,892
Municipal Police													
Active - not LAFPP active	17	\$2,044,492	378.60	\$12,712,924	\$6,127,888	\$3,326,244	\$9,454,132	\$3,258,792	\$2,935,910	\$2,196,615	\$739,295	\$3,998,087	\$338,120
Inactive Vested - LAFPP active	9		58.98	2,521,504	118,659	361,317	479,976	2,041,528	252,758	59,927	192,831	2,234,359	188,961
Subtotal	26		437.58	\$15,234,428	\$6,246,547	\$3,687,561	\$9,934,108	\$5,300,320	\$3,188,668	\$2,256,542	\$932,126	\$6,232,446	\$527,081
Park Rangers													
Active - not LAFPP active	31	\$2,811,834	348.22	\$9,697,412	\$4,273,067	\$2,422,724	\$6,695,791	\$3,001,621	\$2,238,799	\$1,829,460	\$409,339	\$3,410,960	\$288,466
Port Police													
Active - not LAFPP active	7	\$1,014,152	174.96	\$6,572,201	\$3,555,394	\$1,549,309	\$5,104,703	\$1,467,498	\$1,203,389	\$869,828	\$333,561	\$1,801,059	\$152,316
Active - LAFPP active	1	66,513	1.27	73,886	1,354	6,463	7,817	66,069	4,274	4,274	0	66,069	5,587
Inactive Vested - LAFPP active	12		42.73	2,641,677	130,231	285,689	415,920	2,225,757	197,603	0	197,603	2,423,360	204,944
Subtotal	20		218.96	\$9,287,764	\$3,686,979	\$1,841,461	\$5,528,440	\$3,759,324	\$1,405,266	\$874,102	\$531,164	\$4,290,488	\$362,847
All Groups Combined													
Active - not LAFPP active	447	\$55,602,637	8047.01	\$285,116,871	\$149,093,866	\$74,411,096	\$223,504,962	\$61,611,909	\$56,981,366	\$46,184,044	\$10,797,322	\$72,409,231	\$6,123,674
Active - LAFPP active	1	66,513	1.27	73,886	1,354	6,463	7,817	66,069	4,274	4,274	0	66,069	5,587
Inactive Vested - LAFPP active	21		101.71	5,163,181	248,890	647,006	895,896	4,267,285	450,361	59,927	390,434	4,657,719	393,905
Total	469	\$55,669,150	8,149.99	\$290,353,938	\$149,344,110	\$75,064,565	\$224,408,675	\$65,945,263	\$57,436,001	\$46,248,245	\$11,187,756	\$77,133,019	\$6,523,166

¹ For each individual member, the present value of the LACERS benefit service at LAFPP has been calculated to be an amount not less than the amount of the LACERS asset for that member, separately for Pension and Health.

² Total of member contribution balances as of June 30, 2022.

³ Beginning of year. The amortized payment is calculated using the 7.00% investment return assumption along with the 3.25% payroll growth assumption used in the June 30, 2022 LAFPP actuarial valuation. If the payment is funded over an open group payroll, the contribution rate will be level as a percentage of payroll. If the City pays the total net cost at the time of the transfer, there would be no impact on LAFPP's funded ratio or unfunded actuarial accrued liability (UAAL). For the Pension Plan, should the City choose to amortize the initial net Pension cost of \$65.9 million over 15 years, LAFPP's funded ratio (on a valuation value of assets basis) would initially decrease from 98.0% to 97.7% at the time of the assumed transfer date of June 30, 2022 and the UAAL would initially increase by the \$65.9 million. The funded ratio would increase over time (and the UAAL would decrease over time) as the City makes the amortized payments over 15 years. For the OPEB plan, choosing to amortize the initial \$11.2 million net Health cost would have very little impact on the funded ratio (74.3%).

Increase in City's Beginning of Year Normal Cost to Provide LAFPP Tier 6 Benefit for Future Service After June 30, 2022

Group / LACERS Tier	Retirement Plan	Health Plan	Both Plans Combined	Annual Amount ¹
LAPD				\$377,000
Tier 1	9.87%	3.35%	13.22%	
Tier 3	N/A	N/A	N/A	
LAWA Police ²				\$5,084,000
Tier 1	7.67%	3.17%	10.84%	
Tier 3	N/A	N/A	N/A	
Municipal Police				\$287,000
Tier 1	10.39%	3.66%	14.05%	
Tier 3	N/A	N/A	N/A	
Park Rangers				\$433,000
Tier 1	10.33%	4.45%	14.78%	
Tier 3	12.17%	4.68%	16.85%	
Port Police				\$140,000
Tier 1	9.56%	3.19%	12.75%	
Tier 3	13.68%	2.17%	15.85%	
All Groups Combined				\$6,321,000
Tier 1	8.02%	3.24%	11.26%	
Tier 3	12.28%	4.49%	16.78%	

¹ Based on the following projected annual LACERS payroll as of June 30, 2022 for the eligible members included in this study (active counts, average ages and average benefit service are also shown):

Projected Annual LACERS Payroll as of June 30, 2022

Group	Tier 1	Tier 3	Combined	Active Count	Average Age	Average Benefit Service
LAPD	\$2,850,650	\$0	\$2,850,650	22	49.7	21.0
LAWA Police	46,881,509	0	46,881,509	370*	46.8	18.1
Municipal Police	2,044,492	0	2,044,492	17	50.9	22.3
Park Rangers	1,962,902	848,932	2,811,834	31	41.7	11.2
Port Police	1,014,152	67,668	1,081,820	8	51.7	22.0
All Groups Combined	\$54,753,705	\$916,600	\$55,670,305	448	46.8	18.0

* 358 of these 370 active members are in LACERS Tier 1 Enhanced as of June 30, 2022 (the remaining 12 are in LACERS Tier 1).

² LACERS' Tier 1 and Tier 1 Enhanced share the employer normal cost rates, although LAWA pays an additional normal cost rate (currently 0.07% of pay) based on all City Tier 1 payroll, for the cost of the enhancement for the Tier 1 Enhanced members within Tier 1 for the Retirement Plan.



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Via E-mail

August 24, 2023

Mr. Joseph Salazar
General Manager
City of Los Angeles
Fire and Police Pension Plan
701 East 3rd Street, Suite 200
Los Angeles, CA 90013

Re: LAFPP – Increases in Normal Cost Rates for Sworn Peace Officers and Park Rangers to Enter Tier 6

Dear Joe:

In conjunction with our study on the cost to upgrade past service related to the possible transfer of Sworn Peace Officers and Park Rangers out of LACERS and into LAFPP Tier 6 (see our letter dated August 24, 2023), we have calculated herein the increases in the normal cost rates paid by the City associated with future service if existing Sworn Peace Officers and Park Rangers who are currently enrolled in the LACERS' plans are permitted to enter LAFPP Tier 6. (See special note below.) In the rest of this letter, the above members included in our study are referred to as eligible members. In our letter dated August 24, 2023 which details the results of the study to upgrade past service related to these members, we have included a description of how these members were identified and provided additional details regarding their current LACERS group and tier.

Special Note

As part of the data provided by LACERS on July 28, 2023, 22 members of LACERS are active members of LAFPP as of June 30, 2022. Since the 22 members are already reflected as active members in LAFPP's June 30, 2022 valuations (enrolled as either Tiers 5 or 6) with a normal cost rate calculated in those valuations, we have not included them again in this letter.

The results provided in this letter reflect a June 30, 2022 valuation date.

Summary of Results

The increases in the normal cost rates for the City, expressed as a percent of payroll, to allow existing eligible members to enter LAFPP Tier 6 are shown on the following page. These increases are the difference between the LACERS normal cost rate and the LAFPP normal cost rate, both determined just for the eligible members. The increases are shown separately for each of the five groups of eligible members included in our August 24, 2023 transfer study letter

noted above (and for all five groups combined), and by the Tier in which these members are currently covered under LACERS.¹

**Increases in the City's Normal Cost Rates²
 & Annual Contribution Amounts**

Group / LACERS Tier	Retirement Plan	Health Plan	Both Plans Combined	Annual Amount ³
LAPD				\$377,000
Tier 1	9.87%	3.35%	13.22%	
Tier 3	N/A	N/A	N/A	
LAWA Police ⁴				\$5,084,000
Tier 1	7.67%	3.17%	10.84%	
Tier 3	N/A	N/A	N/A	
Municipal Police				\$287,000
Tier 1	10.39%	3.66%	14.05%	
Tier 3	N/A	N/A	N/A	
Park Rangers				\$433,000
Tier 1	10.33%	4.45%	14.78%	
Tier 3	12.17%	4.68%	16.85%	
Port Police				<u>\$140,000</u>
Tier 1	9.56%	3.19%	12.75%	
Tier 3	13.68%	2.17%	15.85%	
All Groups Combined				\$6,321,000
Tier 1	8.02%	3.28%	11.30%	
Tier 3	11.96%	2.71%	14.67%	

Although the normal cost rates paid by the City would increase due to the transfer of eligible members from LACERS into LAFPP Tier 6, there would be no adverse impact on the LAFPP plan funded ratios. The reason for this is that the City would be obligated to make these normal

- ¹ We have also included the increase in the annual normal cost contribution amounts, separately for each of the five groups (and for all five groups combined), but for Tiers 1 and 3 combined.
- ² These increases represent the changes in the City's normal cost rates payable during fiscal year 2023/2024 as a result of the eligible members being transferred from members in LACERS to members of LAFPP Tier 6. All City contribution rates provided in this letter are assumed to be payable at the beginning of the year.
- ³ Based on the following projected annual LACERS payroll as of June 30, 2022 for the eligible members included in this study (active counts, average ages and average benefit service are also shown):

Projected Annual LACERS Payroll as of June 30, 2022

Group	Tier 1	Tier 3	Combined	Active Count	Average Age	Average Benefit Service
LAPD	\$2,850,650	\$0	\$2,850,650	22	49.7	21.0
LAWA Police	46,881,509	0	46,881,509	370*	46.8	18.1
Municipal Police	2,044,492	0	2,044,492	17	50.9	22.3
Park Rangers	1,962,902	848,932	2,811,834	31	41.7	11.2
Port Police	<u>1,014,152</u>	<u>67,668</u>	<u>1,081,820</u>	<u>8</u>	51.7	22.0
All Groups Combined	\$54,753,705	\$916,600	\$55,670,305	448	46.8	18.0

* 358 of these 370 active members are in LACERS Tier 1 Enhanced as of June 30, 2022 (the remaining 12 are in LACERS Tier 1).

- ⁴ LACERS' Tier 1 and Tier 1 Enhanced share the employer normal cost rates, although LAWA pays an additional normal cost rate (currently 0.07% of pay) based on all City Tier 1 payroll, for the cost of the enhancement for the Tier 1 Enhanced members within Tier 1 for the Retirement Plan.

cost contributions (in addition to employees paying their ongoing employee normal cost rate), along with paying the entire cost of converting any past LACERS service to LAFPP Tier 6 service.

It should be noted that the normal cost increases provided in the table above are with respect to the funding required by the City. We have assumed that the eligible members would continue to pay an employee normal cost rate of 11% of pay per pay period (which is unchanged from the rate they are currently paying into LACERS).⁵

Background

We have been directed by the Board of Fire and Police Pension Commissioners to conduct an actuarial study regarding the transfer of all Sworn Peace Officers and Park Rangers who are currently members of LACERS to LAFPP Tier 6, at the request of the City Administrative Officer (CAO). We understand the full cost of the transfers would be made by the City and there would be no direct cost to the employee to transfer to LAFPP Tier 6 and upgrade their past service from LACERS. We also understand that no definitive transfer date has been set. Accordingly, we have assumed a membership transfer date of June 30, 2022, which is the last valuation date that we have complete system-wide membership and financial data for both LACERS and LAFPP.

Besides the eligible members included in this study, we understand based on an earlier inquiry that LAFPP would be able to provide directly to the City the amount that would be required to be reimbursed by the General or Special Fund to those LAPD or Airport Peace Officer members who previously paid the full actuarial cost so that their past LACERS service credit could be counted as LAFPP service credit. As a result, we have not included the cost of that reimbursement in this study.

There would be increases in the City's ongoing normal cost rates associated with enrolling the eligible members in LAFPP instead of LACERS, and those increases in normal cost rates are provided in this letter. However, the cost for the conversion of past LACERS service into LAFPP service is beyond the scope of this letter and instead is presented in our aforementioned August 24, 2023 letter.

Methodology

The increases in the City's normal cost rates have been calculated in the following steps:

Step One: Normal Cost Rates under LACERS

Employees of the City become members of LACERS on the first day of employment in a position with the City in which the employee is not excluded from membership. Members employed prior to July 1, 2013 are designated as Tier 1. All Tier 2 employees who became members between July 1, 2013 and February 21, 2016 were transferred to Tier 1 effective

⁵ We have assumed that the employee contribution rate is 11% until June 30, 2026. Thereafter, if the member has less than 25 years of service, the contribution rate will remain at 11% and if the member has 25 or more years of service, the contribution rate will reduce to 10%.

February 21, 2016. All Tier 1 Airport Peace Officers (APO, employed by LAWA, including certain fire fighters) appointed to their positions before January 7, 2018 who elected to remain at LACERS after January 6, 2018, and who paid their mandatory additional contribution of \$5,700 to LACERS before January 8, 2019, or prior to their retirement date, whichever was earlier, are designated as Tier 1 Enhanced. Those employed on or after February 21, 2016 are designated as Tier 3 (unless a specific exception applies to the employee, providing a right to Tier 1 status).

The LACERS normal cost rates for the City, expressed as a percent of payroll, for the eligible members enrolled in LACERS, determined using their demographics and the actuarial assumptions used in LACERS' June 30, 2022 valuations, are as follows:

The City's Normal Cost Rates for Eligible Members Enrolled in LACERS			
Group / Tier	Retirement Plan	Health Plan	Both Plans Combined
LAPD			
Tier 1	6.86%	2.51%	9.37%
Tier 3	N/A	N/A	N/A
LAWA Police			
Tier 1	9.35%	2.81%	12.16%
Tier 3	N/A	N/A	N/A
Municipal Police			
Tier 1	6.68%	2.76%	9.44%
Tier 3	N/A	N/A	N/A
Park Rangers			
Tier 1	7.05%	3.62%	10.67%
Tier 3	5.21%	3.39%	8.60%
Port Police			
Tier 1	7.43%	2.29%	9.72%
Tier 3	3.31% ⁶	3.31%	6.62%
All Groups Combined			
Tier 1	9.01%	2.81%	11.81%
Tier 3	5.07%	3.38%	8.45%

In determining the normal cost rates above, we recalculated the City's normal cost rates for the eligible members under the LACERS Tier 1, Tier 1 Enhanced and Tier 3 plan provisions for which they are covered and using the respective actuarial assumptions for those tiers. Even though 11.90% (after APO)⁷ and 9.30% are the City's combined (i.e., Retirement and Health Plans) normal cost rates calculated for all Tier 1 and Tier 3 members, respectively, we believe it would be more appropriate when determining the increase in the cost to provide benefits under LAFPP to start with the 11.81% (Tier 1, after APO) and 8.45% (Tier 3) normal cost rates shown in the table above, which were calculated based on only the eligible members included in the study.

⁶ There is just one Port Police member in Tier 3 included in this study.

⁷ That is, after reflecting the increase in the contribution rate due to enhanced benefits for APO.

Step Two: Normal Cost Rates under LAFPP

In this step, we calculate the normal cost rates associated with enrolling the eligible members as described in Step One in LAFPP Tier 6, determined using the actuarial assumptions used in LAFPP's June 30, 2022 valuations to be as follows:

Group / Tier	The City's Normal Cost Rates if LACERS Eligible Members Join LAFPP Tier 6 ⁸		
	Retirement Plan	Health Plan	Both Plans Combined
LAPD	16.73%	5.86%	22.59%
LAWA Police	17.02%	5.98%	23.00%
Municipal Police	17.07%	6.42%	23.49%
Park Rangers	17.38%	8.07%	25.45%
Port Police	16.99%	5.48%	22.47%
All Groups Combined	17.03%	6.09%	23.12%

Step Three: Increase in Normal Cost Rates

The increases in the normal cost rates for the City for the existing eligible members to transfer from LACERS to LAFPP can be calculated by taking the difference between the normal cost rates for LAFPP calculated in Step Two and the normal cost rates for LACERS calculated in Step One. These increases, expressed as a percent of payroll, are as follows:

⁸ We were informed by LAFPP that all of the members included herein would be classified as Police members for annual actuarial valuations purposes. Therefore, we have developed the costs for this study by using the actuarial assumptions for rates of termination, service and disability retirements that we have been assuming for Police members currently enrolled in Tier 6.

**Increases in the City's Normal Cost Rates⁹
 & Annual Contribution Amounts**

Group / Tier	Retirement Plan	Health Plan	Both Plans Combined	Annual Amount¹⁰
LAPD				\$377,000
Tier 1	9.87%	3.35%	13.22%	
Tier 3	N/A	N/A	N/A	
LAWA Police ¹¹				\$5,084,000
Tier 1	7.67%	3.17%	10.84%	
Tier 3	N/A	N/A	N/A	
Municipal Police				\$287,000
Tier 1	10.39%	3.66%	14.05%	
Tier 3	N/A	N/A	N/A	
Park Rangers				\$433,000
Tier 1	10.33%	4.45%	14.78%	
Tier 3	12.17%	4.68%	16.85%	
Port Police				<u>\$140,000</u>
Tier 1	9.56%	3.19%	12.75%	
Tier 3	13.68%	2.17%	15.85%	
All Groups Combined				\$6,321,000
Tier 1¹²	8.02%	3.28%	11.30%	
Tier 3¹²	11.96%	2.71%	14.67%	

⁹ These increases represent the changes in the City's normal cost rates payable during fiscal year 2023/2024 as a result of the eligible members being transferred from members in LACERS to members of LAFPP Tier 6. All City contribution rates provided in this letter are assumed to be payable at the beginning of the year.

¹⁰ Based on the following projected annual LACERS payroll as of June 30, 2022 for the eligible members included in this study (active counts, average ages and average benefit service are also shown):

Projected Annual LACERS Payroll as of June 30, 2022

Group	Tier 1	Tier 3	Combined	Active Count	Average Age	Average Benefit Service
LAPD	\$2,850,650	\$0	\$2,850,650	22	49.7	21.0
LAWA Police	46,881,509	0	46,881,509	370*	46.8	18.1
Municipal Police	2,044,492	0	2,044,492	17	50.9	22.3
Park Rangers	1,962,902	848,932	2,811,834	31	41.7	11.2
Port Police	1,014,152	67,668	1,081,820	8	51.7	22.0
All Groups Combined	\$54,753,705	\$916,600	\$55,670,305	448	46.8	18.0

* 358 of these 370 active members are in LACERS Tier 1 Enhanced as of June 30, 2022 (the remaining 12 are in LACERS Tier 1).

¹¹ LACERS' Tier 1 and Tier 1 Enhanced share the employer normal cost rates, although LAWA pays an additional normal cost rate (currently 0.07% of pay) based on all City Tier 1 payroll, for the cost of the enhancement for the Tier 1 Enhanced members within Tier 1 for the Retirement Plan.

¹² These rates are the difference between the All Groups Combined Normal Cost rates under LACERS for each tier in Step One and the All Groups Combined Normal Cost rates under LAFPP in Step Two, for the eligible members.

Note on Effect on Funded Ratios, Normal Costs and Placement of These Eligible Members in Future Valuations

Although the City's normal cost rates would increase due to the transfer of eligible members from LACERS to LAFPP Tier 6, there would be no adverse impact on the LAFPP plan funded ratios. The reason for this is that the City would be obligated to make these normal cost contributions (in addition to employees paying their ongoing employee normal cost rate), along with paying the entire cost of converting any past LACERS service to LAFPP Tier 6 service.¹³

It should be noted that the normal cost increases provided in the table above are with respect to the funding required by the City. We have assumed that the eligible members would continue to pay an employee normal cost rate of 11% of pay per pay period (which is unchanged from the rate they are currently paying into LACERS).¹⁴

Should the City adopt LAFPP Tier 6 membership for any of the eligible member groups included in this study, we would need to consult with LAFPP as to where some of the eligible members should be placed in the ongoing valuations. This is based on our understanding that some of the five departments included in this study might be closed to new hires, or the new hires from those departments are already enrolled in LAFPP together with members of other departments.

Note on Assumed Medical Plan Selection

We understand that eligible members who join LAFPP Tier 6 will, upon reaching eligibility to retire, have a choice of LAFPP retiree medical plans and will be subject to the LAFPP maximum medical subsidy limit. Due to limited, readily available data on Sworn Peace Officer and Park Ranger enrollment in LACERS medical plans¹⁵, we will need to make new assumptions (potentially different from those in the LACERS or LAFPP valuations) for medical plan election among eligible members at retirement. As experience emerges over time, we can refine our medical plan election assumptions for this group.

¹³ As detailed in our June 5, 2023 letter related to the cost to upgrade past service for possible transfer of Sworn Peace Officers and Parker Rangers from LACERS to LAFPP Tier 6, if the City pays the total net cost related to the transfer at the time of the transfer, there would be no impact on LAFPP's funded ratio or unfunded actuarial accrued liability (UAAL). For the Pension Plan, should the City choose to amortize the initial net Pension cost of \$64.4 million over 15 years, LAFPP's funded ratio (on a valuation value of assets basis) would initially decrease from 98.0% to 97.7% at the time of the assumed transfer date of June 30, 2022 and the UAAL would initially increase by the \$64.4 million. The funded ratio would increase over time (and the UAAL would decrease over time) as the City makes the amortized payments over 15 years. For the OPEB plan, choosing to amortize the initial \$11.8 million net Health cost would have very little impact on the funded ratio. Despite having additional UAAL of \$11.8 million, the funded ratio would slightly increase (from 74.3% to 74.4%) because the asset transfer from LACERS was based on a higher funded ratio than the LAFPP OPEB plan.

¹⁴ We have assumed that the employee contribution rate is 11% until June 30, 2026. Thereafter, if the member has less than 25 years of service, the contribution rate will remain at 11% and if the member has 25 or more years of service, the contribution rate will reduce to 10%.

¹⁵ As part of the LACERS valuation, we do not analyze retiree health elections by department as the Bargaining Unit information is not provided for current retirees.

For this study, we have assumed that eligible members will select similar plans roughly in proportion as assumed for future LAFPP Police retirees, shown on pages 54 and 55 in our June 30, 2022 OPEB valuation report. For pre-65 retirees, we have assumed that 65% will enroll in the Anthem Blue Cross PPO, 25% will enroll in the Kaiser Permanente HMO and 10% will enroll in the Anthem Blue Cross HMO plan. For retirees over age 65, we have assumed that 75% will enroll in the Anthem Blue Cross PPO, 15% will enroll in the Kaiser Permanente Senior Advantage HMO and 10% will enroll in the Anthem Blue Cross HMO plan.

Note on Experience Studies Recommending Assumptions for June 30, 2023 Valuations

During the performance of this study, both Systems were undergoing experience studies that were to propose new actuarial assumptions for the June 30, 2023 valuations. (These experience studies have since been completed.) As we are only providing results determined as of June 30, 2022, we have not reflected the impact of the new assumptions in this study.

Statement of Actuarial Opinion

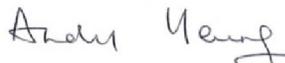
The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,



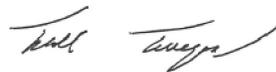
Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA
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cc: Edwin Avanesian
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Via E-mail

August 24, 2023

Mr. Joseph Salazar
General Manager
City of Los Angeles
Fire and Police Pension Plan
701 East 3rd Street, Suite 200
Los Angeles, CA 90013

Mr. Neil Guglielmo
General Manager
Los Angeles City Employees'
Retirement System
P.O. Box 512218
Los Angeles, CA 90051-0218

**Re: City of Los Angeles Fire and Police Pension Plan (LAFPP) and
Los Angeles City Employees' Retirement System (LACERS)
Methods and Assumptions Used in Determining Asset Transfer Amounts and
Costs to Move Five Groups of Members out of LACERS and into LAFPP Tiers 5 or 6
(Based on Data Provided on January 27, 2023 and July 28, 2023)**

Dear Joe and Neil:

At the request of the City Administrative Officer (CAO), Segal has been directed by the Board of Fire and Police Pension Commissioners to conduct an actuarial study regarding the transfer of all Sworn Peace Officers and Park Rangers who are currently members of LACERS to LAFPP Tiers 5 or 6.¹ We understand the Sworn Peace Officers and Park Rangers to be included in the study belong to the following five groups: LAPD,² LAWA Police, Municipal Police, Park Rangers, and Port Police. (In the rest of this letter, the above members included in our study are referred to as eligible members.) The purpose of the study is to determine the cost associated with moving all the remaining eligible members in those groups out of LACERS and into LAFPP Tiers 5 or 6, including the associated amount of assets to be transferred from LACERS to LAFPP.

We are writing to both LACERS and LAFPP to provide the methods and assumptions that we used for purposes of determining the amount of assets available to be transferred from LACERS to LAFPP. We have also included the methods and assumptions that we used for purposes of determining the cost of the service to be converted to the LAFPP Tiers 5 or 6 formulas.

Besides the eligible members included in this study, we understand based on an earlier inquiry that LAFPP would be able to provide directly to the City the amount that would be required to be reimbursed by the General or Special Fund to those LAPD or Airport Peace Officer members who previously paid the full actuarial cost so that their past LACERS service credit could be

¹ The specific LAFPP Tier in which the members included in the study would be placed is discussed later in this letter.

² Former general services employees who became LAPD sworn employees, but who remained in LACERS.

counted as LAFPP service credit. As a result, we have not included the cost of that reimbursement in this study.

Separately, the increase in normal cost rates to upgrade future service has been provided in our letter dated August 24, 2023.

Background

Pursuant to a report to the Board of Fire and Police Pension Commissioners from Ray Ciranna dated September 15, 2022, “Upon their graduation from an approved training academy, all new Harbor (hired on/after January 8, 2006) and Airport (hired on/after January 7, 2018) police officers became members of LAFPP. Previously, these employees were members of the Los Angeles City Employees’ Retirement System (LACERS) upon hiring. In 2006-07, existing Harbor/Port Police officers were given the option to transfer from LACERS to LAFPP Tier 5 during a one-year election period.³ Any Harbor/Port Police who did not file an election during this one-year period remained LACERS members.

The General Services Department’s Office of Public Safety (“OPS”) was consolidated into the LAPD in July 2012. At that time, OPS officers were members of LACERS. These officers were able to transfer to regular LAPD police officer classifications following an abbreviated academy training period and, pursuant to Administrative Code Section 4.1002(c), were allowed to opt out of membership in LACERS to become members of LAFPP Tier 6.⁴

In 2017, existing Airport Police were also given the opportunity to transfer from LACERS to LAFPP Tier 6.⁵

Due to a variety of factors, including the ultimate cost borne by these employees to become LAFPP members, some OPS/LAPD, Harbor, and Airport police chose to remain members of LACERS rather than transfer to LAFPP.”

In his letter dated September 6, 2022 to LAFPP, the City of Los Angeles City Administrative Officer (CAO), Matthew W. Szabo, requested that the Board of Fire and Police Pension Commissioners authorize Segal to conduct an actuarial study to determine the potential impact “regarding the transfer of all Sworn Peace Officers employed by the Airports Department, Harbor Department and Los Angeles Police Department and all employees in the Park Ranger and related, sequential classifications who are members of a Los Angeles City Employees’ Retirement System tier into the Los Angeles Fire and Police Pensions Tier 6. The proposed study would be premised on a conversion of all LACERS service credit into LAFPP Tier 6 credit, including any unfunded liability, paid for by the employing agency, e.g., the Airports Department, Harbor Department, or City of Los Angeles General Fund.”

³ Transferring employees were required to pay a \$5,700 “Transfer Contribution Payment” and only service with the Harbor Department in specific sworn classifications was transferred from LACERS to LAFPP Tier 5.

⁴ In addition, pursuant to a March 2013 Charter amendment, in conjunction with their change in employment status, these Tier 6 members had the option to purchase their years of LACERS service credit they earned while employed in specific OPS officer classifications.

⁵ As a condition of their transfer from LACERS to LAFPP, transferring Airport Police were required to purchase all their past LACERS service by paying the full actuarial cost of the service being transferred, reduced by the amount of any funds transferred from LACERS to LAFPP in connection with the transferred service.

It should be noted that some of the members included in this study were already members of LAFPP Tier 5 as of the June 30, 2022 assumed membership and asset transfer date (discussed later in this letter). We have confirmed with LAFPP that we should assume these members would convert all their LACERS service credit into LAFPP Tier 5 credit rather than LAFPP Tier 6 credit. All other members included in the study are assumed to convert all their LACERS service credit into LAFPP Tier 6 credit.

Eligible Members

We understand Paul Girard from the CAO's Office has confirmed that members in the following units should be included in this study:

MOU	Unit	MOU	Unit
MOU 24	Los Angeles Police Protective League	MOU 39	Airport Police Supervisors
MOU 25	LAPD Command Officer	MOU 40	Airport Command Officers
MOU 28	Municipal Police Officers	MOU 65	Park Rangers
MOU 38	Port Police Officers	Unrepresented	Airport Staff Officers
MOU 27	Port Police Command	MOU 36	Chief Park Ranger (class code 1968)
MOU 30	Airport Peace Officers	MOU 24	Police Lieutenant (2232-1, 2232-2)

On January 27, 2023, LACERS provided us with a file of 677 specific LACERS members who they identified as members of the above-noted units as of June 30, 2022. We compared this file with the data we received to perform the LACERS June 30, 2022 Retirement Plan valuation and we observed that the 677 members were classified as follows at that time:

Total Eligible Members Identified in LACERS as of June 30, 2022

LACERS Status as of June 30, 2022	Count
Deceased	6
Retired	16
Terminated (withdrew LACERS member contributions)	4
Active	449
Inactive Vested	<u>202</u>
Total	677

Based on follow-up information from LACERS, after their consultation with the City, we were instructed to exclude the deceased, retired and terminated members counted above. In addition, one of the active members counted above was made a member of LACERS in error in the PensionGold extract for the June 30, 2022 valuation data and we have been instructed to exclude that member as well. As a result, there were 448 active and 202 inactive vested members, for a total of 650 members, included in this study. A breakdown of these 650 members by group and by LACERS status as of June 30, 2022 is as follows:

Eligible Members Included in Study

Group	LACERS Status as of June 30, 2022		
	Active	Inactive Vested	Total
LAPD	22	2	24
LAWA Police	370	110	480
Municipal Police	17	47	64
Park Rangers	31	21	52
Port Police	<u>8</u>	<u>22</u>	<u>30</u>
Total	448	202	650

Subsequently, on July 28, 2023, LACERS provided us with a file of 1 specific LACERS active member (included in the count of 448 in the table above) and 24 specific LACERS inactive vested members (included in the count of 202 in the table above) who were also confirmed members of LAFPP as of January 2023. We compared this file with the data we received to perform the LAFPP June 30, 2022 Pension Plan valuation and observed the following LACERS and LAFPP statuses for these 25 members:

Statuses of 25 Members in July 28, 2023 File

LACERS Status as of June 30, 2022	LAFPP Status as of June 30, 2022				Total
	Active	Active (DROP)	Service Retired	Disability Retired	
Active	1 ⁶	-	-	-	1
Inactive Vested	<u>21</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>24</u> ⁷
Total	22	1	1	1	25

Note that 13 out of these 25 members were LAFPP Tier 5 members as of June 30, 2022, and as we noted earlier, we have assumed these members would convert all their LACERS service credit into LAFPP Tier 5 credit. The other 12 of these members (and all the other members included in this study) are assumed to convert all their LACERS service credit into LAFPP Tier 6 credit.

⁶ This member was a new trainee in the June 30, 2022 Pension Plan active valuation data for LAFPP, with 0 years of LAFPP service.

⁷ We note that of the 202 inactive vested LACERS members, 24 of them, as identified in the aforementioned July 28, 2023 file we received, were also included in the June 30, 2022 LAFPP Pension Plan valuation data, in a status other than inactive vested. Nonetheless, we have included the cost for these 24 LAFPP non-inactive vested members with the cost for all 202 inactive vested LACERS members. That is, we have split the costing based on LACERS June 30, 2022 status, rather than LAFPP status as of that date.

Special Note Regarding 202 Inactive Vested LACERS Members Included in Study

As requested by the City, we have included 202 inactive vested LACERS members in this study. However, we have identified the cost of these members separately from the LACERS actives because some of the LACERS inactive vested members would not be eligible for LAFPP Tier 5 or Tier 6 benefits unless they return to work for the City before they retire (we currently do not have an assumption in our valuation for LAFPP's inactive vested members to return to active employment) and have at least 20 years of LAFPP service at retirement. Under the LAFPP plan provisions for Tiers 5 and 6, only members with at least 20 years of service would be eligible for a retirement benefit. All other members would be entitled to a refund of member contributions.

The 202 inactive vested LACERS members included in the study have been classified as follows:

- a. There are 149 inactive vested members who have less than 5 years of past LACERS benefit service and are currently assumed to only receive a refund of member contributions at LACERS because they have not met the eligibility requirements to receive a deferred benefit at LACERS. Of the 149 inactive vested LACERS members, 12 were also active LAFPP members, 1 was an active DROP LAFPP member, and 1 was a disability retired LAFPP member. Therefore, after the transfer from LACERS to LAFPP, 135 (i.e., $149 - 12 - 1 - 1 = 135$) members would also be assumed to receive only a refund of member contributions at LAFPP (because they have less than 20 years of service). The 12 members who were active LAFPP members would continue to be active under LAFPP after the transfer. After consultation with LAFPP, the 1 active DROP member and the 1 disability retired member would be assumed to receive only a refund of member contributions related to their LACERS service after the transfer.
- b. There are 48 inactive vested members who are currently expected to receive a deferred retirement benefit at LACERS (because they have at least 5 years of LACERS benefit service) but they would not be eligible to receive a deferred benefit at LAFPP (because they have less than 20 years of past LACERS benefit service.) Of the 48 inactive vested LACERS members, 9 were also active LAFPP members and 1 was a service retired LAFPP member. For most of these net 38 (i.e., $48 - 9 - 1 = 38$) members, valuing a liability at LAFPP produces a lower result (equal to the refund of member contributions) than the liability that is valued at LACERS. Therefore, it may be likely that these members would end up not transferring to LAFPP because LAFPP could not pay them a benefit unless they return to work for the City in an eligible position. The 9 members who were active LAFPP members would continue to be active under LAFPP after the transfer. After consultation with LAFPP, the 1 retired member would be assumed to receive only a refund of member contributions related to their LACERS service after the transfer.
- c. There are 5 inactive vested members who have over 20 years of past LACERS benefit service. Accordingly, we have calculated a deferred retirement benefit under LAFPP Tiers 5 or 6 for these members and have used the value of that benefit to calculate the cost of their transfer.

In the sections below, we first provide the methods and assumptions used in determining the amount of assets to be transferred from LACERS to LAFPP for the 650 eligible members. We then provide the methods and assumptions used in determining the cost of converting the service from LACERS to LAFPP Tiers 5 or 6.

Section One: Methods and Assumptions Used in Determining Assets to be Transferred

LACERS has confirmed that we should assume all the LACERS benefit service for the members included in the study is eligible for conversion to LAFPP Tiers 5 or 6, and the calculations that follow reflect a transfer of all benefit service accrued while at LACERS. The results have been prepared using the financial and membership information originally provided for the LACERS Retirement Plan and Retiree Health Plan valuations as of June 30, 2022, for the members identified by LACERS as eligible members for this study.

As previously communicated in our March 30, 2023 e-mail to both LAFPP and LACERS, the preliminary costs determined herein assume a membership and asset transfer date of June 30, 2022, which is the last valuation date that we have complete system-wide membership and financial data for both LAFPP and LACERS. This is based on our understanding that no definitive transfer date has been set yet. Once a final transfer date is chosen, the cost to transfer will have to be recalculated as of that date. In addition to the complications inherent in this preliminary calculation, that recalculation will require additional assumptions or data to be made or obtained, such as salary and service increases as well as returns on assets since June 30, 2022.

Based on the assumed transfer date of June 30, 2022 noted above, the preliminary costs to transfer have been determined based on the respective actuarial assumptions used to perform both the Retirement Plan and Retiree Health Plan valuations for LACERS and LAFPP as of June 30, 2022. During the performance of this study, both systems were undergoing experience studies that were to propose new actuarial assumptions effective for the June 30, 2023 valuations. (Those experience studies have since been completed.) Depending on when the final transfer date for this study is determined, we may need to discuss with both systems which set of actuarial assumptions should be used for the final transfer calculations.

Part A: Determination of Liability as of June 30, 2022

The amount of funds due to LAFPP from LACERS calculated for this study was determined to be the amount of plan assets available to cover all funded actuarial accrued liability (AAL) for the LACERS service to be transferred. This was the same process we used for a somewhat similar transfer study for Airport Peace Officers (APO) that was performed several years ago, pursuant to the provisions of Section 4.2215 of the Los Angeles Administrative Code.

Note that for the prior APO study, we understood that each employee was responsible to pay for the cost of their transfer of past service. To ensure there was no impact on the member's cost due to their gender, we developed a cost to purchase on a "unisex" basis (so two members with exactly the same information, except one is male and one is female, would have the same cost to transfer). However, for this study, we understand the full cost will be made by the City and

there would be no direct cost for the employee to transfer to LAFPP Tiers 5 or 6 and upgrade their past service from LACERS. Accordingly, we have developed the costs herein on a sex-distinct basis (i.e., the members' genders as reported in the LACERS' June 30, 2022 valuation data were used).

Since the LACERS June 30, 2022 Retirement Plan and Retiree Health Plan valuations were performed on an individual, sex-distinct basis, the total liabilities (prior to any transfer) determined for each of the specific individuals included in this study were based on the liabilities for those members from the June 30, 2022 valuations.

Part B: Determination of Asset Transfer as of June 30, 2022

In order to determine the amount of funds that need to be transferred from LACERS to LAFPP for this study, we utilized the market value funded ratios from the June 30, 2022 valuations for the entire LACERS Retirement and Retiree Health Plans. At the time of the June 30, 2022 valuations, the LACERS Retirement and Retiree Health plans were 70.66% and 93.49% funded on a market value of assets basis, respectively. We applied these funded ratios to each of the members' AAL amounts to calculate the amount of assets to be initially allocated on behalf of each of the members as of June 30, 2022. If the initial allocated amount for a specific member was less than the member's contribution balance at June 30, 2022 (which only applies to the Retirement Plan), then the allocated amount was increased and set equal to the member's contribution balance.

Part C: Determination of Net Employer Transfer at June 30, 2022 for Each of the Retirement and Retiree Health Plans

We determined the net employer amount of assets to be transferred from LACERS to LAFPP as of the June 30, 2022 transfer date to be the total asset amount discussed in Part B above less the amount of member contributions as of that date.

Section Two: Methods and Assumptions Used in Determining Cost to Purchase All Past LACERS Service at LAFPP

While the discussions in Section One above would affect both LACERS and LAFPP, the discussions below pertaining to the cost to upgrade all past LACERS service at LAFPP to be paid by the City would only affect LAFPP.

As noted above, we have been requested to perform asset transfer and cost calculations as of the June 30, 2022 hypothetical transfer date, assuming the eligible members transfer all past service at LACERS to LAFPP. Following the same methodology used for the prior APO study, the City's cost to transfer the past service would be reduced by the amount of any funds transferred from LACERS to LAFPP, determined as described in Section One above.

Any methods and assumptions needed specifically for this study and which were not part of the methods and assumptions used in the June 30, 2022 valuations are described in this letter.

All 448 eligible members currently active in LACERS are assumed to be active LAFPP employees as of the transfer date. Of the 202 eligible members currently inactive vested in LACERS, 178 of them are assumed to remain inactive vested LAFPP members as of the transfer date, 21 of them are currently active in LAFPP (and assumed in the study to remain active), 1 is an active DROP in LAFPP, 1 is a disability retiree in LAFPP, and 1 is a service retiree in LAFPP.

Part A: Determination of Present Value of Benefits Without Any Transfer Service for Each of the Retirement and Retiree Health Plans

For the LACERS members who have never been a member in LAFPP

In the **hypothetical**⁸ case where members do not transfer any of their past LACERS service, the transferring employees would be treated similar to any other members who transfer out of positions eligible for LACERS participation and move to a position eligible for LAFPP participation. That is, the transferring employee would receive the same LAFPP benefits that are available to new employees in the same position within LAFPP.

We calculated the present value of the LAFPP benefits as of the transfer date by projecting that the members would retire (either due to service or disability), participate in the DROP, terminate from service, or die following the assumptions used in the June 30, 2022 valuations,⁹ and only considering the service to be earned at LAFPP. However, the assumptions used in the LAFPP valuations for projecting both terminations before retirement and future salary increases are based on years of service, with higher rates of termination and higher salary increases for members with lower service, and vice versa. Therefore, we used the total of the past LACERS service and the service to be earned at LAFPP to determine the termination rates and salary increases to be applied, despite the presumption in this step that the members would not transfer their past LACERS service. This is justified by the observation that members who enter LAFPP membership would not be starting a brand new career with the City and so would be less likely to behave like new employees.

⁸ It is necessary to assume, hypothetically, that a member would be allowed not to transfer any past LACERS service, so we can compare the present value of benefits before and after the transfer. Note, however, that in practice, eligible members would transfer to LAFPP Tiers 5 or 6 and have all their past service accrued while a member of LACERS counted as service under LAFPP.

⁹ We were informed by LAFPP that all the members included herein would be classified as Police members for annual actuarial valuations purposes. Therefore, we have developed the costs for this study by using the actuarial assumptions for rates of termination, service and disability retirements that we have been assuming for Police members currently enrolled in Tiers 5 or 6.

In addition, for purposes of determining the present value of the LAFPP benefits that is due to termination before retirement, we assumed that the employee contribution rates for the eligible active members is the same as the contribution rates for APO members who have already transferred from LACERS.¹⁰

For the 22 LACERS members who are already a member in LAFPP¹¹

Before this study, these 22 members were included in the LAFPP June 30, 2022 valuations as active members and a liability was calculated for them in the LAFPP June 30, 2022 valuations based on their tiers (Tier 5 or Tier 6) and using service they have accrued under LAFPP.

Because a baseline liability has already been established in the LAFPP June 30, 2022 valuations for these 22 members, we have used the present value of benefits determined in the LAFPP June 30, 2022 valuations as their present value of benefit without any transfer service.

Part B: Determination of Present Value of Benefits with LACERS Service Transferred for Each of the Retirement and Retiree Health Plans

We calculated the present value of the LAFPP benefits with LACERS service as of the transfer date by using a similar process discussed above in Part A except that we now included all the past service from LACERS as LAFPP service. In calculating the present value of the LAFPP benefits, we also included a liability for the refund of LACERS member contributions anticipated by the termination assumptions used in the LAFPP valuations.

Part C: Determination of the Increase in the Present Value of Benefits for Each of the Retirement and Retiree Health Plans for Transferring Service

We took the difference between the present value of benefits determined in Section Two, Parts B and A, and offset that result with the member and employer assets transferred from LACERS as determined in Section One, Part B. That difference (if positive) is the net cost after the asset transfer to transfer all past LACERS service to LAFPP.

¹⁰ In particular, for Tier 5 members, we assumed the contribution rate is 9%. For Tier 6 members, we assumed the contribution rate is 11% until June 30, 2026. Thereafter, if the Tier 6 member has less than 25 years of service, the contribution will remain at 11% and if the Tier 6 member has 25 or more years of service, the contribution rate will reduce to 10%.

¹¹ Based on the July 28, 2023 file provided by LACERS, 1 of these LACERS members was an active member in LACERS and 21 of these members were LACERS Inactive Vested members as of June 30, 2022.

There are 47 active members under the Pension Plan and 96 active members under the Health Plan for which the difference between the present value of benefits determined in Section Two, Parts B and A is less than the member and employer assets transferred from LACERS as determined in Section One. There are also 37 inactive vested members under the Pension Plan and 26 inactive vested members under the Health Plan that fall into the same category. For these members, we have set the present value of LACERS benefit service at LAFPP to be no less than the amount of the LACERS asset amount to be transferred. These adjustments are about \$2.5 million for active members and \$5.4 million for inactive vested members for Pension and Health Plans combined and represent a more conservative estimate of the net cost to the City. The \$5.4 million for inactive vested members is higher because many of those members are not expected to be eligible for LAFPP pension or health benefits unless they return to active employment after the transfer.

Results

Attachment A to this letter shows the net cost to the City to transfer all past LACERS service to LAFPP for the 448 active and 202 inactive vested eligible members, and the amount of assets to be transferred from LACERS to LAFPP for those members. The costs shown are calculated as of the hypothetical June 30, 2022 transfer date and are subject to change based on the final agreed upon transfer date.

Statement of Actuarial Opinion

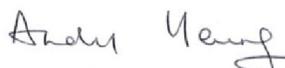
The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary



Mehdi Riazi, FSA, MAAA, FCA, EA
Vice President and Actuary



Todd Tauzer, FSA, MAAA, FCA, CERA
Senior Vice President and Actuary

DNA/hy
Enclosure

Sworn Peace Officers and Park Rangers Transfer Study Cost to Move All LACERS Benefit Service to LAFPP Tiers 5 or 6 as of June 30, 2022

(1) Group / Status	(2) Number of Members	(3) Projected Annual Payroll as of June 30, 2022	(4) Total Years of LACERS Benefit Service Available for Transfer	Pension					Health			(11) Total Net Cost	(12) Amortized Payment 15-Year Amortized Payment of Total Cost at LAFPP**
				(5) Present Value of LACERS Benefit Service at LAFPP*	(6a) LACERS Pension Assets: Employer	(6b) LACERS Pension Assets: Employee**	(6c) LACERS Pension Assets: Employer and Employee	(7) Net Pension Cost	(8) Present Value of LACERS Benefit Service at LAFPP*	(9) LACERS Health Assets	(10) Net Health Cost		
LAPD													
Active - not LAFPP active	22	\$2,850,650	461.78	\$16,480,733	\$7,868,993	\$4,145,470	\$12,014,463	\$4,466,270	\$3,445,231	\$2,556,438	\$888,793	\$5,355,063	\$452,880
Inactive Vested - not LAFPP active	2		1.19	4,376	0	4,376	4,376	0	0	0	0	0	0
Subtotal	24		462.97	\$16,485,109	\$7,868,993	\$4,149,846	\$12,018,839	\$4,466,270	\$3,445,231	\$2,556,438	\$888,793	\$5,355,063	\$452,880
LAWA Police													
Active - not LAFPP active	370	\$46,881,509	6,683.45	\$239,653,601	\$127,268,524	\$62,967,349	\$190,235,873	\$49,417,728	\$47,158,037	\$38,731,703	\$8,426,334	\$57,844,062	\$4,891,892
Inactive Vested - not LAFPP active	110		467.41	9,577,620	4,152,098	3,731,845	7,883,943	1,693,677	1,669,751	1,064,922	604,829	2,298,506	194,385
Subtotal	480		7,150.86	\$249,231,221	\$131,420,622	\$66,699,194	\$198,119,816	\$51,111,405	\$48,827,788	\$39,796,625	\$9,031,163	\$60,142,568	\$5,086,277
Municipal Police													
Active - not LAFPP active	17	\$2,044,492	378.60	\$12,712,924	\$6,127,888	\$3,326,244	\$9,454,132	\$3,258,792	\$2,935,910	\$2,196,615	\$739,295	\$3,998,087	\$338,120
Inactive Vested - not LAFPP active	38		147.99	3,063,680	1,056,960	930,209	1,987,169	1,076,511	684,082	276,964	407,118	1,483,629	125,471
Inactive Vested - LAFPP active	9		58.98	2,521,504	118,659	361,317	479,976	2,041,528	252,758	59,927	192,831	2,234,359	188,961
Subtotal	64		585.57	\$18,298,108	\$7,303,507	\$4,617,770	\$11,921,277	\$6,376,621	\$3,872,750	\$2,533,506	\$1,339,244	\$7,716,075	\$652,552
Park Rangers													
Active - not LAFPP active	31	\$2,811,834	348.22	\$9,697,412	\$4,273,067	\$2,422,724	\$6,695,791	\$3,001,621	\$2,238,799	\$1,829,460	\$409,339	\$3,410,960	\$288,466
Inactive Vested - not LAFPP active	21		63.75	609,299	256,407	352,892	609,299	0	134,259	134,259	0	0	0
Subtotal	52		411.97	\$10,306,711	\$4,529,474	\$2,775,616	\$7,305,090	\$3,001,621	\$2,373,058	\$1,963,719	\$409,339	\$3,410,960	\$288,466
Port Police													
Active - not LAFPP active	7	\$1,014,152	174.96	\$6,572,201	\$3,555,394	\$1,549,309	\$5,104,703	\$1,467,498	\$1,203,389	\$869,828	\$333,561	\$1,801,059	\$152,316
Active - LAFPP active	1	66,513	1.27	73,886	1,354	6,463	7,817	66,069	4,274	4,274	0	66,069	5,587
Inactive Vested - not LAFPP active	10		34.14	562,463	438,834	123,629	562,463	0	38,597	38,597	0	0	0
Inactive Vested - LAFPP active	12		42.73	2,641,677	130,231	285,689	415,920	2,225,757	197,603	0	197,603	2,423,360	204,944
Subtotal	30		253.10	\$9,850,227	\$4,125,813	\$1,965,090	\$6,090,903	\$3,759,324	\$1,443,863	\$912,699	\$531,164	\$4,290,488	\$362,847
All Groups Combined													
Active - not LAFPP active	447	\$55,602,637	8,047.01	\$285,116,871	\$149,093,866	\$74,411,096	\$223,504,962	\$61,611,909	\$56,981,366	\$46,184,044	\$10,797,322	\$72,409,231	\$6,123,674
Active - LAFPP active	1	66,513	1.27	73,886	1,354	6,463	7,817	66,069	4,274	4,274	0	66,069	5,587
Inactive Vested - not LAFPP active	181		714.48	13,817,438	5,904,299	5,142,951	11,047,250	2,770,188	2,526,689	1,514,742	1,011,947	3,782,135	319,856
Inactive Vested - LAFPP active	21		101.71	5,163,181	248,890	647,006	895,896	4,267,285	450,361	59,927	390,434	4,657,719	393,905
Total	650	\$55,669,150	8,864.47	\$304,171,376	\$155,248,409	\$80,207,516	\$235,455,925	\$68,715,451	\$59,962,690	\$47,762,987	\$12,199,703	\$80,915,154	\$6,843,022

* For each individual member, the present value of the LACERS benefit service at LAFPP has been calculated to be an amount not less than the amount of the LACERS asset for that member, separately for Pension and Health.

** Total of member contribution balances as of June 30, 2022.

*** Beginning of year. The amortized payment is calculated using the 7.00% investment return assumption along with the 3.25% payroll growth assumption used in the June 30, 2022 LAFPP actuarial valuation.

If the payment is funded over an open group payroll, the contribution rate will be level as a percentage of payroll.

If the City pays the total net cost at the time of the transfer, there would be no impact on LAFPP's funded ratio or unfunded actuarial accrued liability (UAAL). For the Pension Plan, should the City choose to amortize the initial net Pension cost of \$68.7 million over 15 years, LAFPP's funded ratio (on a valuation value of assets basis) would initially decrease from 98.0% to 97.7% at the time of the assumed transfer date of June 30, 2022 and the UAAL would initially increase by the \$68.7 million. The funded ratio would increase over time (and the UAAL would decrease over time) as the City makes the amortized payments over 15 years. For the OPEB plan, choosing to amortize the initial \$12.2 million net Health cost would have very little impact on the funded ratio (74.3%).