

**DEPARTMENT OF  
FIRE AND POLICE  
PENSIONS**

701 E. 3RD STREET  
SUITE 200  
LOS ANGELES, CA 90013

(213) 279-3000 (Main Line)  
(844) 88-LAFPP (52377) - TOLL FREE  
FAX (213) 628-7716  
TDD (213) 628-7713

EMAIL: PENSIONS@LAFPP.COM

**CITY OF LOS ANGELES**  
CALIFORNIA



KAREN BASS  
MAYOR

JOSEPH SALAZAR  
GENERAL MANAGER

MYO THEDAR  
EXECUTIVE OFFICER

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BRYAN A. FUJITA  
CHIEF INVESTMENT OFFICER

April 23, 2024

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: Luigi Verano, Legislative Assistant

**Re: 2024-25 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 2024-25 Preliminary Budget.

**2024-25 PRELIMINARY CITY CONTRIBUTION TO LAFPP (\$677.98 million)**

On November 16, 2023, the Board of Fire and Police Pension Commissioners (LAFPP Board) adopted the Actuarial Valuation Report for the period ending June 30, 2023, which showed the System's combined pension and retiree health benefits funding ratio on an actuarial basis remains well-funded at **96.8%**, an increase from the prior year's 95.0%. The Actuarial Valuation Report further indicated the City, Harbor, and Airport Departments' combined contribution rate will decrease by 1.90%, from 40.41% to **38.51%** of sworn payroll for 2024-25 (with the City's contribution rate, excluding Harbor and Airports, decreasing from 40.63% to **38.72%**). These favorable valuation results are due to a higher-than-expected return on the valuation value of assets, as well as changes to the actuarial assumptions recommended as part of the most recent triennial Actuarial Experience Study adopted by the LAFPP Board on May 18, 2023. The decrease in employer contributions was partially offset by higher-than-expected COLA increases for retirees and beneficiaries and higher-than-expected salary increases for active sworn employees.

Based on the preliminary sworn payroll amounts included in the Mayor's 2024-25 Proposed Budget, the City's combined employer contribution amount (i.e., City, Harbor and Airport Departments), including funding for the Excess Benefit Plan (EBP), will increase from \$645.79 million to approximately **\$677.98 million**. Once the City Council and the Harbor and Airport Commissions adopt their final covered sworn payroll account



figures, the City's final 2024-25 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 20, 2024.

### **2024-25 LAFPP PRELIMINARY BUDGET**

The LAFPP Board approved its Preliminary Budget on March 21, 2024. The budget was developed with consideration of resources needed to support multi-year annual plan projects and additional member outreach and services.

The information summarized below will provide the Committee with information on LAFPP's anticipated receipts and expenditures. Please note the vast majority of LAFPP's expenditures are based on the provision of pension and other post-employment benefits as negotiated by the City and approved by voters.

#### **Anticipated Receipts (\$1.45 billion)**

Total anticipated receipts are comprised of the sources below:

- \$677.98 million for the City, Harbor, and Airport Departments' (employer) combined contribution (includes the EBP funding amount of \$1.60 million that is not transferred to LAFPP);
- \$182.85 million for member (employee) contributions;
- \$585.00 million in estimated Earnings on Investments (this does not include the Gain (Loss) on Sale of Investments, which is 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 2024-25, receipts are expected to increase by \$126.83 million (+9.6%) over the prior year. The majority of this increase is attributed to a \$79.00 million (+15.6%) net increase in Earnings on Investments based on forecasted growth of LAFPP's investment portfolio. Additionally, the combined total City and Member Contributions to LAFPP are expected to increase by approximately \$32.18 million (+5.0%) and 16.82 million (+10.1%), respectively.

#### **Projected Expenditures (\$1.84 billion)**

Total projected expenditures are comprised of the sources below:

- \$1.65 billion for Benefits Expenses, which are made up of Pension and Health/Other Post-Employment Benefits (OPEB);
- \$164.12 million for Investment Management Expense; and,
- \$31.33 million for Administrative Expense.

For 2024-25, total expenditures are expected to decrease by \$47.63 million (-2.5%) over the prior year due to:

- *\$51.86 million (-3.1%) net decrease in Benefits Expenses*  
Benefits Expenses are made up of Pension and Health (OPEB) Expenses. Pension Benefits are projected to decrease approximately \$67.06 million (-4.4%) from the 2023-24 adopted budget for a total of \$1.46 billion. The majority of the decrease (\$157.66 million) is due to decreases in Deferred Retirement Option Plan (DROP) distribution payments. Additionally, OPEB Benefits are expected to total \$184.40 million, an increase of \$15.20 million (+9.0%). This amount will be adjusted in the final budget to reflect the non-Medicare subsidy rate as adopted by the LAFPP Board, effective July 1, 2024.
- *\$0.83 million (+0.5%) net increase in Investment Management Expense*  
Investment management expenses are anticipated to total \$164.12 million in 2024-25 due to the growth in Plan assets and Board-directed changes to the investment portfolio and its asset allocations. Investment management expenses increase commensurate with asset growth; and LAFPP assets under management grew from \$29.39 billion at the end of 2022-23 to approximately \$31.44 billion at the end of March 2024.
- *\$3.40 million (+12.2%) net increase in Administrative Expense*  
Administrative expenses are anticipated to total \$31.33 million in 2024-25, 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 12.2% increase in costs will mainly address employee successor labor agreements, salary step increases, and employer responsibility for increased employee benefit costs.

## **2024-25 PRELIMINARY ANNUAL PLAN**

Each year LAFPP establishes an Annual Plan (formerly Business Plan) to achieve our Strategic Goals as outlined within the multi-year Strategic Plan. In January 2024, the LAFPP Board approved the 2025-27 Strategic Plan, which introduced an entirely new framework from prior strategic plans. Under the new framework, LAFPP's six (6) "Goals" were retitled as "Guiding Principles" to reflect these statements more accurately. Additionally, three (3) new Strategic Goals were developed to allow LAFPP to better allocate and focus its resources into three-year goals, which will improve the Department and advance its Mission and Vision.

Beginning in 2024-25, LAFPP's Annual Plan projects have been restructured into two (2) separate categories.

1. **Strategic Goal** projects, which will focus on achieving the three (3) new Strategic Plan Goals and Objectives adopted by the Board in January 2024.
2. **Operational Initiatives** projects, which will support one or more of LAFPP's six (6) Guiding Principles.

The Annual 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 Strategic Goals and Guiding Principles as contained in the 2025-27 Strategic Plan:

### **Strategic Goals**

1. Enhance Member Experience by Implementing Ongoing Improvements Based on Member Feedback
2. Enhance Outreach by Promoting Inclusivity and Engagement with Emerging Investment Managers
3. Enhance Employee Development by Increasing Opportunities for Training and Leadership Development

### **Guiding Principles**

1. Ensure a Financially Sound Retirement System
2. Manage Risk Throughout the Organization
3. Enhance Customer Care and Stakeholder Relations
4. Pursue Operational Efficiencies
5. Build and Support a Talented Workforce
6. Promote Diversity, Equity, and Inclusion (DEI) Throughout the Organization, Including Our Investment Portfolio and Business Partners

In pursuit of the Strategic Goals and Guiding Principles, the preliminary projects to be included in the 2024-25 Annual Plan are:

### **Strategic Goal Projects**

1. Member Surveys
2. Emerging Manager Outreach
3. In-House Training Program

### **Operational Initiatives Projects**

1. Implementation of Asset Allocation Plan\*
2. Penetration Testing on Pension Administration System (PARIS) and DocuShare Site

*\*Continuing project*

The Honorable Budget, Finance and Innovation Committee  
April 23, 2024  
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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,

A handwritten signature in blue ink, appearing to read 'JS', is positioned above the printed name.

Joseph Salazar, CEBS  
General Manager

JS:MTS:WKP:JMS:EJH:ADMN240051

cc: Board of Fire and Police Pension Commissioners  
Matt Hale, Deputy Mayor of Finance, Operations, and Innovation  
Matthew W. Szabo, City Administrative Officer