



April 22, 2024

The Honorable Members of the Budget, Finance, and Innovation Committee
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS) –
FISCAL YEAR 2024-25 PROPOSED BUDGET**

Dear Honorable Members:

As we approach the new fiscal year, I am pleased to present an overview of the initiatives and priorities outlined in LACERS' Fiscal Year 2024-25 (FY25) Preliminary Budget. This budget reflects our unwavering commitment to meeting the obligations of the Plan while advancing strategic initiatives to enhance member experience and operational efficiency.

Over the past fiscal years, LACERS has diligently allocated resources to better serve our Plan and improve member experience, adapting to both technological advancements and the transition back to in-person services post-pandemic. Concurrently, significant efforts have been directed towards supporting the success of the City's Human Resources and Payroll (HRP) project.

In line with our dedication to continuous improvement, LACERS has initiated the development of a new Strategic Plan. This plan will provide a refreshed framework guiding our operations for the next three to five years, aligning with evolving internal and external environments. Anticipated to be realized by the end of Fiscal Year 2023-24 (FY24), this Strategic Plan sets forth new goals to drive our mission forward.

The FY25 Budget ensures that LACERS remains steadfast in fulfilling its obligations to retirees, managing investments, and providing essential services to our members. Embedded within our FY25 Budget are initiatives with an equity focus, reflecting LACERS' dedication to equitable service delivery and workforce practices. As we move forward, we are prioritizing and resourcing equity efforts across all aspects of LACERS operations, ensuring that equity remains a cornerstone of our organizational ethos.

The FY24-25 Preliminary Budget and upcoming Strategic Plan represent our commitment to serving our members, managing resources effectively, and fostering an environment of equity and inclusion.

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KAREN BASS

Mayor of the City of Los Angeles

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LACERS Key Achievements and Equity Impacts for FY25

Retiring City Employees

Process Improvements in Retirement Services

LACERS continues to implement various measures to enhance retirement processing by improving workflows aimed at achieving greater efficiency. This involves leveraging new technological tools for tracking and monitoring, automating processes, scanning physical files into a digital content repository for ease of access, and identifying potential fraud. The Retirement Division also collaborates with City Attorney and other City Pension peers to stay up-to-date with everything from current regulations and federal laws to the utilization of artificial intelligence in retirement services, enabling them to provide consistent information and deliver Member benefits now and into the future.

Administering Retiree Healthcare Benefits

Improve the Value and Minimize Costs of Member's Health and Wellness Benefits

Over the past year, LACERS has implemented various cost-saving strategies to minimize health and wellness benefits expenses for its members. This is borne out by the current full funded status of LACERS Health Funds. Most recently, Health Division conducted a Request for Proposal for medical plans, which resulted in negotiations that saved \$2.8 million for plan year 2024. This also includes the popular Anthem Medicare Supplement Plan that was brought back for Members.

LACERS Well Program Expansion

The LACERS Well program provides support to retirees by offering resources and activities to promote their overall health and well-being. As a result of the pandemic, the LACERS Well program shifted mostly to virtual offerings. However, in response to popular demand, in-person offerings resumed in 2023. In the same year, the LACERS Well program introduced two new initiatives to enhance the existing program. Firstly, the Health Management Initiative is aimed at collaborating with health plan carriers to expand wellness services and activities. This initiative will also educate LACERS members about maintaining their health and informing them about various programs and benefits that are available through their LACERS medical, dental, and vision plans.

Secondly, the Non-Profit Organization Outreach Initiative aims to collaborate with the LACERS Well program, health plan carriers, non-profit organizations, and agency partners to enhance available health and wellness resources for Members.

Managing LACERS Investments Program

The triennial asset allocation study in FY24 evaluates the distribution of assets within our portfolio, aiming to optimize returns while managing risk effectively. By analyzing various factors such as market trends, economic indicators, and our fund's performance, the study provides insights into the efficacy of our current asset allocation strategy and where opportunities and risks may materialize.

The anticipated release of the study's findings later this year will serve as the cornerstone for investment decision-making in FY25 and beyond. Potential adjustments to the Asset Allocation Policy based on the study's recommendations will not only shape the trajectory of our investment approach but also safeguard the interests of our members.

Risk Management Program

LACERS investment staff continuously monitors the portfolio's performance and quality to achieve performance on a risk-adjusted basis. To ensure appropriate risk management oversight, LACERS established an internal Risk Management Committee comprised of investment officers that meets monthly to address a multitude of risk factors that may impact the portfolio. LACERS plans to further develop the committee by joining the Institutional Society of Risk Professionals to collaborate with peers on leading standards in risk management.

Environmental, Social and Governance

LACERS is committed to evaluating Environmental, Social, and Governance (ESG) risk factors as part of its risk management oversight. In order to consider the possible impact of such risk factors on portfolio assets, LACERS has developed an Environmental, Social, and Governance (ESG) Program that integrates industry best practices with the LACERS investment process and promotes engagement with other investment entities on ESG issues. The Emerging Manager Program (EMP), which is a component of LACERS ESG efforts, will continue to seek the hiring and retention of smaller firms that have the potential to add value to LACERS' portfolio. LACERS strives to promote diversity, equity, and inclusion (DEI) within the investment industry and encourages corporate governance practices that foster diversity. Furthermore, LACERS also offers internship opportunities to junior and senior students from local underserved colleges under its Investment Management Fellowship Program and partnerships with other nationally recognized investment diversity organizations.

Providing Supportive and Responsive Services to Members

Mayor's Language Access Plan Directive

The Language Access Plan (LAP) is a multi-phase initiative seeking to provide equitable access to benefits-related information for LACERS Members with limited English proficiency or other language barriers. LACERS has started the procurement process to secure a translation vendor that will translate the repository of resources identified as key information for Members. Once the Translation Vendor contract is finalized, LACERS will expand the language access services to other areas, such as video content and in-person seminars. This will ensure that all Members have access to important information and services, regardless of their language proficiency.

Business Continuity Plan & Emergency Planning and Preparation

LACERS updates its business continuity plan on an annual basis to ensure the execution of mission-essential functions in the event of an emergency interrupting operations. To evaluate the comprehensiveness of the plan, LACERS intends to procure a Tabletop Consultant for the development of tabletop exercises to simulate various scenarios. These exercises will also allow employees to better understand their roles and responsibilities under any circumstances.

City's Human Resources and Payroll Project

LACERS has partaken in HRP testing for the past year and have invested heavily in modifying the Pension Administration System to be compatible with the HRP system to mitigate impacts on LACERS operations. However, from the number of errors observed, LACERS have raised concerns on HRP system's base functionalities, data conversion, integration files, and other related issues, which impact LACERS' ability in processing retirements, receiving Member contributions, and other payroll deductions. The expected launch date of HRP is June 2024 and with many of the issues still outstanding, LACERS is preparing for the worst-case scenarios for post-HRP implementation with anticipation of manually resolving exceptions and developing mitigation strategies for any of the concerns not yet resolved by the go-live date.

Growing and Developing LACERS Workforce

Diversity, Equity, and Inclusion Efforts (DEI)

LACERS has steadily been making investments in developing and maintaining a high-performing workforce by instilling a high-development culture through the promotion of employee engagement. A LACERS fellowship program was established in FY24 that surfaces organizational needs of staff for professional success and creates pathways for growth into leadership for employees of all types. Phase one of the program has been completed and phase two is to begin in FY25. Content developed from the completion of the fellowship program will be embedded into a Learning Management System (LMS) to resolve organizational and leadership gaps for employee growth.

Additionally, LACERS has sought to by being an active participant in the Targeted Local Hire (TLH) and the Bridge to Jobs (BRIDGE) programs since inception to provide career opportunities to the targeted populations. LACERS also participates in the Alternative Pathway (Pathway) program for part-time/exempt employees to obtain regular, full-time employment. LACERS recognizes that many as-needed employees have potential to become productive full-time employees and is supportive of their career advancement within the City. In FY24, LACERS hired 15 new employees using the TLH, BRIDGE, and Pathway programs for entry-level positions, such as Office Trainee and Accounting Clerk Trainee, and has routinely provided training to introduce them to City processes and operations. Several prior TLH and BRIDGE hires have promoted within the department as well.

Funding the Retirement System

The City of Los Angeles, as Plan Sponsor of LACERS, should be commended for fully funding the actuarially required contribution every year and for the leading practice of pre-funding the retiree health care commitment. This funding discipline ensures that promised benefits can be paid, maintains intergenerational equity, and is one of the best strategies to ensure the health of the fund into the future.

Thank you for the opportunity to address the Committee. We appreciate your consideration and are pleased to answer any questions you may have.

Sincerely,



NEIL M. GUGLIELMO, General Manager
Los Angeles City Employees' Retirement System

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c: Carolyn Webb de Macias, Chief of Staff, Mayor's Office
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