

Via Email

May 12, 2025

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: City of Los Angeles Fire and Police Pension Plan (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 May 12, 2025), 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 May 12, 2025, 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 January 25, 2025, January 28, 2025 and March 27, 2025, 8 inactive members of LACERS were identified as active members of LAFPP as of June 30, 2024. Since the 8 members are already reflected as active members in LAFPP's June 30, 2024 valuations (enrolled as Tier 6) with a normal cost rate calculated in those valuations, we have not included them in this letter.

The results provided in this letter reflect a June 30, 2024 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 for the group of eligible members only. The increases are shown separately for each of the five groups of eligible members included in our May 12, 2025 transfer study letter noted above and for all five groups combined.¹

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

Group / LACERS Tier	Retirement Plan	Health Plan	Both Plans Combined	Annual Amount ³
LAPD	10.08%	3.41%	13.49%	\$429,000
LAWA Police ⁴	6.64%	3.09%	9.73%	4,295,000
Municipal Police	9.92%	3.89%	13.81%	268,000
Park Rangers	8.19%	4.89%	13.08%	438,000
Port Police	9.08%	3.00%	12.08%	105,000
All Groups Combined	7.10%	3.25%	10.35%	\$5,535,000

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 from this change in normal cost. 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. In particular, if the City pays the total net cost at the time of the transfer for LAPD and the Municipal Police, there would be no impact on LAFPP Fire and Police Departments' funded ratio or unfunded actuarial accrued liability (UAAL) for the Pension Plan.⁵

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.

² These increases represent the changes in the City's normal cost rates payable during fiscal year 2025/2026 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, 2024 for the 413 eligible members included in this study as noted in footnote 1 on page 5 of this letter (active counts, average ages and average benefit service are also shown):

Projected Annual LACERS Payroll as of June 30, 2024

Group	Tier 1	Tier 3	Combined	Active Count	Average Age	Average Benefit Service
LAPD	\$2,961,068	\$214,954	\$3,176,022	24	47.1	19.1
LAWA Police	44,124,596	0	44,124,596	332*	48.1	19.5
Municipal Police	1,939,267	0	1,939,267	16	51.8	23.3
Park Rangers	2,038,146	1,314,380	3,352,526	35	41.0	10.4
Port Police	792,658	75,651	868,309	6	52.7	21.5
All Groups Combined	\$51,855,735	\$1,604,985	\$53,460,720	413	47.7	18.9

* 323 of these 332 active members are in LACERS Tier 1 Enhanced as of June 30, 2024 (the remaining 9 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.

⁵ If the UAAL would not be paid in full by the City for LAPD and the Municipal Police, there would be a small reduction in the LAFPP Fire and Police Departments' funded ratio for the Pension Plan.

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).*

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. We understand the full cost of the transfers would be covered 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, 2024, 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 that any Airport Peace Officer members who previously paid \$5,700 to remain at LACERS and receive enhanced benefits, who are actively employed as of January 12, 2025 and who subsequently elect to transfer from LACERS to LAFPP Tier 6, are entitled to an interest-free refund of the \$5,700 from LACERS. As the refunds are to be cost neutral to LACERS, the Department of Airports would be required to issue up-front payments to the Retirement System that fully cover the cost of the refunds. We have included the cost of those up-front refund payments in the cost to upgrade past service letter dated May 12, 2025.

Similarly, LAFPP is required to refund the cost associated with LAPD or Airport Peace Officer Members who previously paid the full actuarial cost (either in a lump sum or installments) so that their past LACERS service credit would be counted as LAFPP service credit. Those members are currently LAFPP members and we understand that interest-free refunds would be made in a tax compliant manner by LAFPP on behalf of the City or the Department of Airports. We have included the cost of those refund payments required to be paid up front by the City or the Department of Airports to LAFPP in our letter dated May 12, 2025.

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 May 12, 2025 letter.

* 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 with LAFPP, the contribution rate will remain at 11%, and if the member has 25 or more years of service and if they were formerly Tier 1 members of LACERS, the contribution rate will reduce to 10%. (Based on information provided to Segal for this study regarding Internal Revenue Code requirements, we understand that former LACERS Tier 3 members who have 25 or more years of service with LAFPP will continue to pay 11% in pre-tax contributions, since their counterparts in LACERS are paying an 11% pre-tax rate.)

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 included in LACERS 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 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 LACERS¹ and determined using their demographics and the actuarial assumptions used in LACERS’ June 30, 2024 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	7.13%	2.90%	10.03%
Tier 3	5.92%	7.34%	13.26%
LAWA Police			
Tier 1	10.02%	3.36%	13.38%
Tier 3	N/A	N/A	N/A
Municipal Police			
Tier 1	7.08%	3.25%	10.33%
Tier 3	N/A	N/A	N/A
Park Rangers			
Tier 1	8.08%	4.37%	12.45%
Tier 3	4.78%	3.48%	8.26%
Port Police			
Tier 1	8.38%	2.62%	11.00%
Tier 3	5.13% ²	6.73%	11.86%

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

¹ There were 403 active members at LACERS as of June 30, 2024 eligible for the transfer study and the normal cost rates in the table under Step One are based on the demographics of just those 403 members as of that date.

² There is just one Port Police member in Tier 3 included in this study.

though 12.63% (after APO)¹ and 9.36% 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 normal cost rates by tier for each Group shown in the table above, which were calculated based on **only** the eligible members for each Group included in the study.

Step two: Normal cost rates under LAFPP

In this step, we calculate the normal cost rates associated with enrolling the eligible members as initially described in Step One in LAFPP Tier 6,² determined using the actuarial assumptions used in LAFPP’s June 30, 2024 valuations, to be as follows:

The City’s Normal Cost Rates if LACERS Eligible Members Join LAFPP Tier 6³

Group / Tier	Retirement Plan	Health Plan	Both Plans Combined
LAPD	17.13%	6.61%	23.74%
LAWA Police	16.66%	6.45%	23.11%
Municipal Police	17.00%	7.14%	24.14%
Park Rangers	14.98%	8.91%	23.89%
Port Police	17.17%	5.98%	23.15%

In determining the normal cost rate for the LAFPP Retirement Plan, based on information provided to Segal for this study, we have incorporated our understanding of the Internal Revenue Code requirement that the Tier 6 benefit for the Park Rangers would be subject to an age-based early retirement reduction if they retire prior to age 60 (or prior to age 55 if the member has 30 or more years of service at retirement).

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:

¹ That is, after reflecting the increase in the contribution rate due to enhanced benefits for APO.

² We understand that 10 of the members eligible for the transfer study were classified as inactive members at LACERS as of June 30, 2024 but subsequently became active members at LACERS after that date. The demographics for these 10 members along with the demographics for the 403 active members at LACERS as of June 30, 2024 (for a total of 413 active members) were used in developing the LAFPP normal cost rates as of June 30, 2024 shown in the table below, as all 413 members are assumed to enter active status at LAFPP as of June 30, 2024 for purposes of this study.

³ 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 Rates¹ and Annual Contribution Amounts

Group / Tier	Retirement Plan	Health Plan	Both Plans Combined	Annual Amount ²
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All Groups Combined	7.10%	3.25%	10.35%	\$5,535,000

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 from these changes in normal cost. 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. In particular, if the City pays the total net cost at the time of the transfer for LAPD and the Municipal Police, there would be no impact on LAFPP Fire and Police Departments' funded ratio or unfunded actuarial accrued liability (UAAL) for the Pension Plan.⁴

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

¹ These increases represent the changes in the City's normal cost rates payable during fiscal year 2025/2026 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.

² Based on the following projected annual LACERS payroll as of June 30, 2024 for the 413 eligible members included in this study as noted in footnote 1 on the previous page (active counts, average ages and average benefit service are also shown):

Projected Annual LACERS Payroll as of June 30, 2024

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³ 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.

⁴ If the UAAL would not be paid in full by the City for LAPD and the Municipal Police, there would be a small reduction in the LAFPP Fire and Police Departments' funded ratio for the Pension Plan.

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).¹

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 plans², 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.

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, 2024 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.

Statement of actuarial opinion

This document has been prepared for the exclusive use and benefit of LAFPP, based upon information provided by the Plan 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. This document should only be copied, reproduced, or shared with other parties in its entirety as necessary for the proper administration of the Plan. 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.

¹ 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 with LAFPP, the contribution rate will remain at 11%, and if the member has 25 or more years of service and if they were formerly Tier 1 members of LACERS, the contribution rate will reduce to 10%. (Based on information provided to Segal for this study regarding Internal Revenue Code requirements, we understand that former LACERS Tier 3 members who have 25 or more years of service with LAFPP will continue to pay 11% in pre-tax contributions, since their counterparts in LACERS are paying an 11% pre-tax rate.)

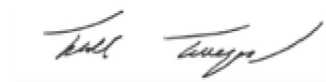
² As part of the LACERS valuation, we do not analyze retiree health elections by department as the Bargaining Unit information is not provided for current retirees.

Mr. Joseph Salazar
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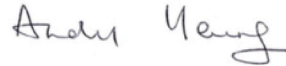
These calculations were supervised by Andy Yeung, ASA, MAAA, FCA, EA and Mehdi Riazi, FSA, MAAA, FCA, EA. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

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

Sincerely,



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



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



Mehdi Riazi, FSA, MAAA, FCA, EA
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Emily Klare, ASA, MAAA, EA
Senior Actuary

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