

**DEPARTMENT OF
FIRE AND POLICE
PENSIONS**

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CITY OF LOS ANGELES
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TOM LOPEZ
CHIEF INVESTMENT OFFICER

April 22, 2016

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

Attn: Richard Williams, Legislative Assistant

Honorable Members:

Thank you for the opportunity to appear before the Budget and Finance Committee to discuss the Fire and Police Pension System. I am pleased to report that the System's combined health and pension funding ratio on an actuarial basis is now 85.0%, up from 80.8% in the prior year. The City's 2016-17 contribution rate as a percentage of sworn payroll will decrease by 1.97% of sworn payroll, from 46.51% to 44.54%. This reduction is due to favorable actuarial experience such as lower than expected cost of living increases for retirees approved in FY 2014-15 for retirees, lower than expected salary increases for active members, as well as increased valuation value of assets.

Based on the Mayor's Proposed Budget, the City's contribution amount, including the Excess Benefit Plan, will decrease from \$627.1 million to \$621.3 million. Once the City Council and the Harbor Commission adopt final sworn payroll account figures, the City's actual 2016-17 contribution amount will be adjusted accordingly. A final Fire and Police Pension Budget will then be submitted to the Board of Fire and Police Pension Commissioners for approval on June 16, 2016.

Overall, expenses in 2016-17 are expected to decline by about \$40.5 million. Pension benefit expenses will reduce by \$42.8 million from 2015-16, with a significant portion resulting from a projected decrease of mandatory Deferred Retirement Option Plan (DROP) exits. The proposed administrative expense budget will decrease by approximately \$641,000 in 2016-17, while maintaining critical programs that are prioritized as mandatory and essential to the Department's business operations. The Department's Investment expense budget will rise slightly, due to an assumed growth in our investment portfolio in 2016-17 and expanded funding commitments for the real estate and private equity asset classes.

In formulating our proposed budget, we aligned our priorities with the Mayor's four priority outcomes and the goals adopted in the LAFPP 2015-18 Three-Year Strategic Plan as we



remain focused on several multi-year projects that are critical to our operations. The 2015-18 Three-Year Strategic Plan includes five goals to support our vision *"To be a leader and innovator in the public pension industry through an uncompromising dedication to excellence, customer service, transparency, and education"*. The Pension Administration System Replacement Project will be in its second year, the ongoing digitizing project will continue to enhance our electronic records retention and file management system, and communication and outreach efforts will continue to expand next fiscal year.

Once again, thank you for opportunity to appear before the Committee. We are always available to answer any questions the Committee may have regarding our System.

Sincerely,

A handwritten signature in cursive script, appearing to read "Raymond P. Ciranna".

Raymond P. Ciranna
General Manager

c: LAFPP Board
Matt Szabo, Deputy Mayor
Miguel A. Santana, City Administrative Officer