

CITY OF LOS ANGELES
CALIFORNIA



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April 20, 2017

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 Los Angeles Fire and Police Pension (LAFPP) System. I am pleased to report that the System's combined health and pension funding ratio on an actuarial basis is now 87.4%, up from 85.0% in the prior year. The City's 2017-18 contribution rate as a percentage of sworn payroll will decrease by 0.28% of sworn payroll, from 44.54% to 44.26%. This reduction is due to favorable actuarial experience such as lower than expected cost of living increases for retirees approved in 2015-16, lower than expected salary increases for active members, as well as increased valuation value of assets.

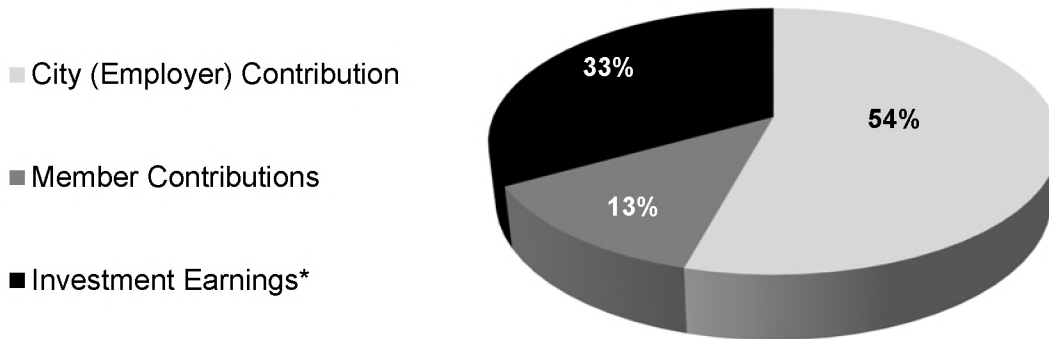
Based on the Mayor's Proposed Budget, the City's contribution amount, including the Excess Benefit Plan, will increase from \$620.8 million to \$641.5 million. Once the City Council and the Harbor Commission adopt final sworn payroll account figures, the City's actual 2017-18 contribution amount will 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 15, 2017.

Projected Receipts

Total projected revenues are expected to increase \$95.8 million to \$1,184.4 million. LAFPP revenues are derived primarily from three sources; the City's (employer) contribution, member (employee) contributions, and investment earnings.

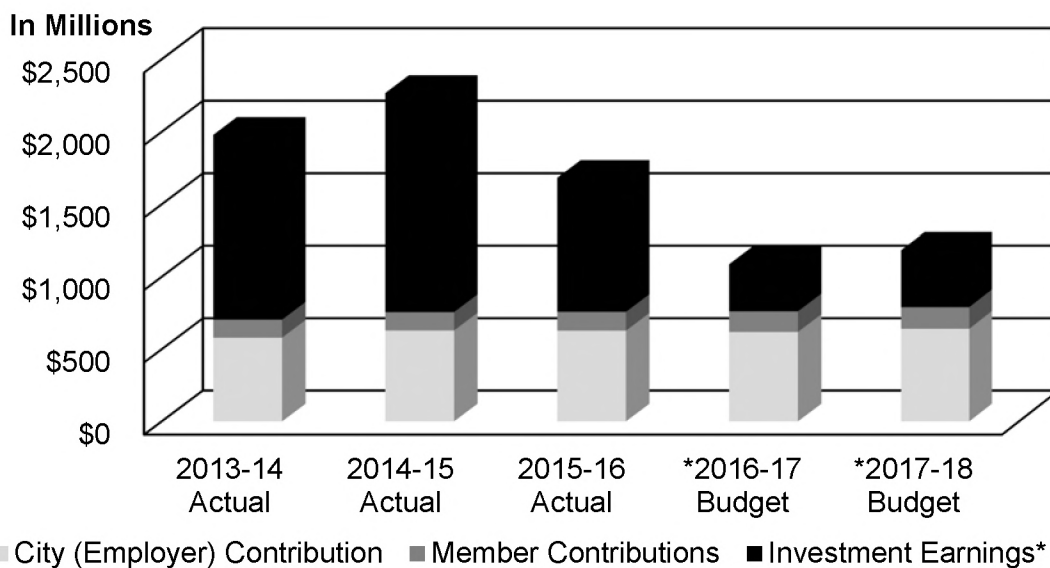


2017-18 Budget - Receipts



*Investment Earnings do not include Gain (Loss) on Sale of Investments

Five-Year Receipts History



*Investment Earnings do not include Gain (Loss) on Sale of Investments

Projected Expenditures

Total pension-related benefit expenses are projected to increase approximately \$60.8 million, or 5.7% from the 2016-17 adopted budget for a total of over \$1.1 billion. The bulk of the increase (\$48.5 million) is due to increased pension payments and Deferred Retirement Option Plan (DROP) payouts to members and beneficiaries. Additionally, health benefits are expected to increase \$12.3 million, or 9.5% from the prior year. The proposed administrative expense budget will increase modestly by approximately \$163,000 in 2017-18 after offsetting the retirement contribution credit from LACERS. Lastly, investment expenses are anticipated to increase slightly (\$3.4 million) due to the increase in the size of the portfolio.

The Honorable Budget and Finance Committee

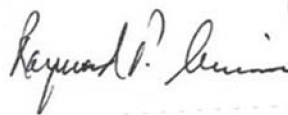
April 20, 2017

Page 3

In formulating our proposed budget, we aligned our priorities with the Mayor's priority outcomes and the goals adopted in the LAFPP 2015-18 Three-Year Strategic Plan. 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*". We remain focused on several projects that are critical to our operations including the Pension Administration System Replacement Project, the transfer of Airport Police Officers to LAFPP pursuant to the recently approved Charter amendment, and the creation and management of new health care plans for members transferring from LACERS health plans and new Harbor and Airport Police Officer enrollees.

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 black ink, appearing to read "Raymond P. Ciranna". The signature is written in a cursive style and is contained within a rectangular box.

Raymond P. Ciranna
General Manager

c: LAFPP Board

Matt Szabo, Deputy Mayor

Richard H. Llewellyn, Interim City Administrative Officer