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April 19, 2019

The Honorable Budget and Finance Committee
City Council, City of Los Angeles
c/o City Clerk, City Hall, Room 435
Los Angeles, CA 90012
Attn: Richard Williams, Legislative Assistant

Re: 2019-20 LAFPP Proposed Budget

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 remains well-funded at 86.9%, a slight increase from the prior year's 85.6%. The City's 2019-20 General Fund contribution rate as a percentage of sworn payroll will increase by 0.52%, from 46.85% to 47.37%, a result of gain layers from the June 30, 2003 valuation being fully amortized, higher than expected salary increase for active members, and higher than expected COLAs for Tier 1 and 2 retirees and beneficiaries. This increase is partially offset by a higher than expected return on the valuation value of assets (after smoothing) and amortizing the prior year's unfunded actuarial accrued liability (UAAL) over a larger than expected payroll.

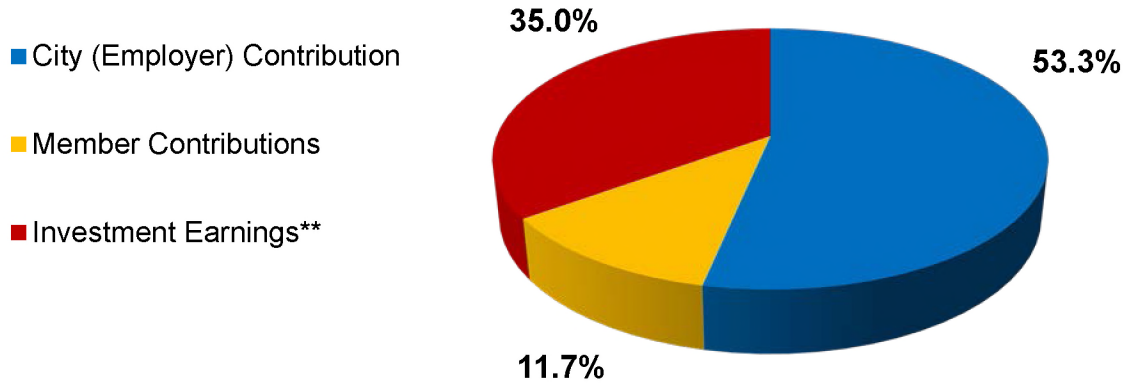
Based on the Mayor's Proposed Budget, the City's contribution amount, including the Excess Benefit Plan, will increase from \$694.17 million to \$715.49 million. Once the City Council and the Harbor and Airport Commissions adopt their final sworn payroll account figures, the City's actual 2019-20 contribution amount will be adjusted accordingly. A final LAFPP Budget reflecting these changes will then be submitted to the Board of Fire and Police Pension Commissioners (Board) for approval on June 20, 2019.

Projected Receipts

Total projected revenues are expected to increase \$36.93 million, to \$1.34 billion. LAFPP revenues are derived primarily from three sources: City (employer) contribution, member (employee) contributions, and investment earnings.



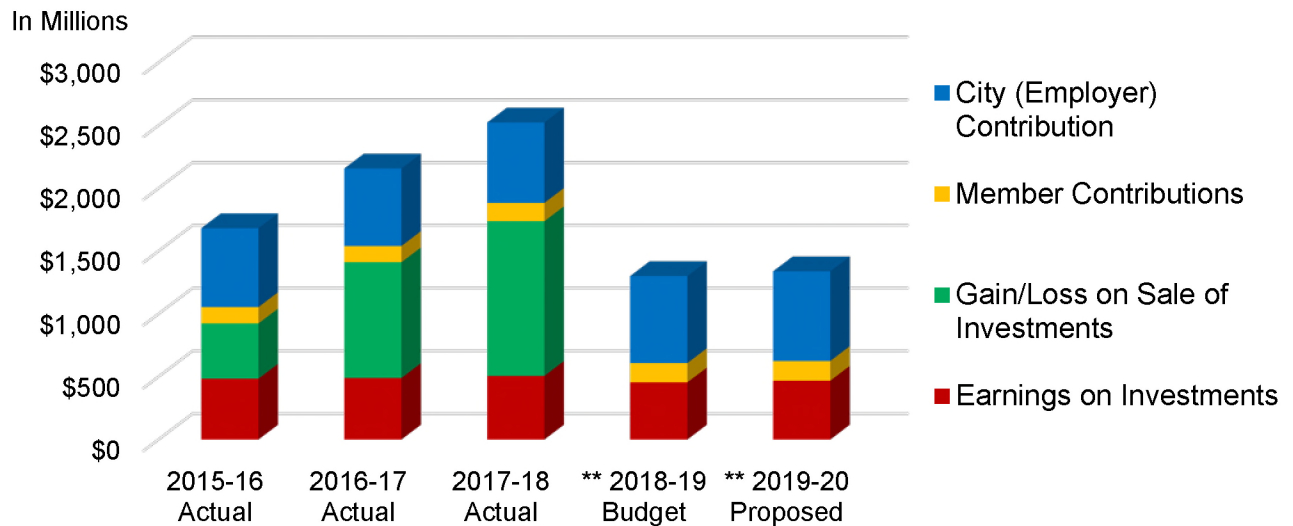
2019-20 Budget - Receipts*



*Receipts do not include Miscellaneous revenue. Percentages may be rounded.

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

Five-Year Receipts History*



*Receipts do not include Miscellaneous funds.

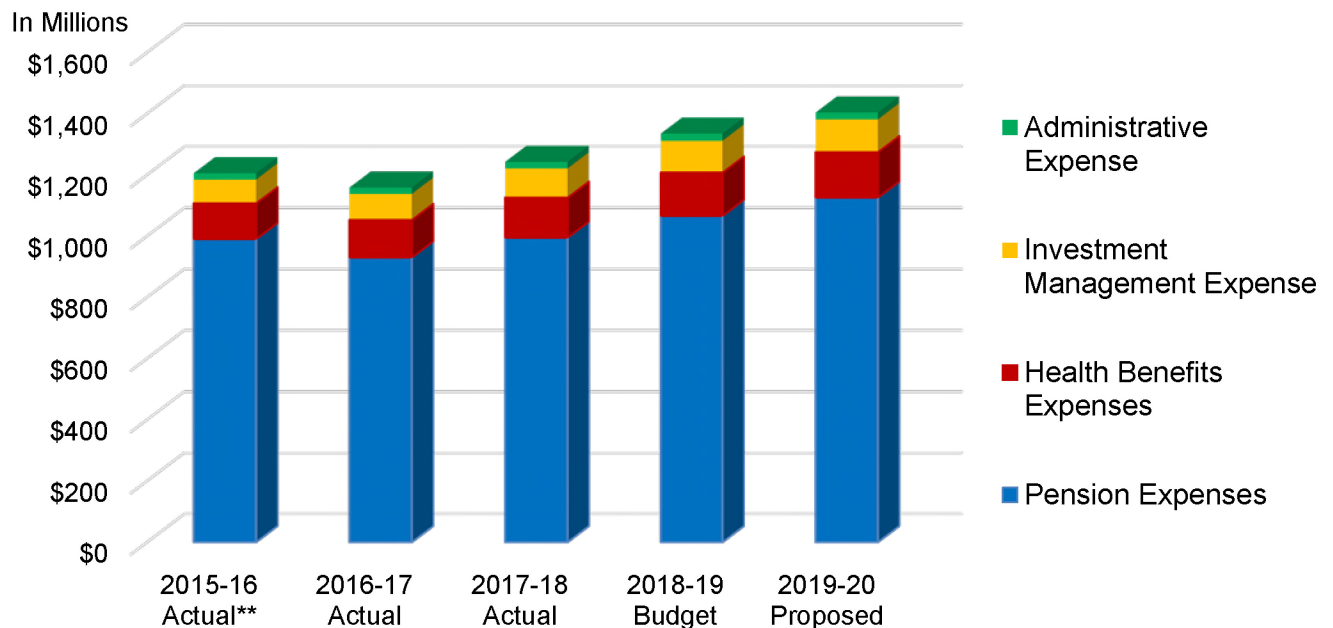
**Investment Earnings do not include Gain (Loss) on Sale of Investments.

Projected Expenditures

Expenditures are expected to increase by \$68.71 million for a total of \$1.40 billion. Of this amount, pension-related benefit expenses are projected to increase approximately \$59.63 million, or 5.6%, from the 2018-19 adopted budget for a total of \$1.13 billion. The bulk of the increase (\$59.63 million) is due to increased service pension payments and Deferred Retirement Option Plan (DROP) payouts to members and beneficiaries. Additionally, health benefits are expected to total \$148.45 million, an increase of \$6.95 million, or 4.9% from the prior year. This estimate will be adjusted once the Board determines the increase in the non-Medicare subsidy rate beginning July 1, 2019.

The proposed administrative expense budget will significantly decrease by \$1.26 million in 2019-20 due to reductions in contractual and overtime expenses primarily related to the completed implementation of the first phase of the Pension and Retirement Information System (PARIS) project. Lastly, investment management expenses are anticipated to increase by \$3.39 million (3.3%) due to the anticipated growth of the portfolio.

Five-Year Expenditure History*



* Pension and Health Benefits are non-discretionary expenses.

** Fiscal year 2015-16 marks the 5-year mandatory exit for members who joined DROP in April 2011, who would otherwise have to contribute an additional 2% in exchange for increases in retired health benefits.

Our 2019-20 Proposed Budget was developed in conjunction with the 2019-20 Business Plan projects, which are aligned with the LAFPP 2019-21 Three-Year Strategic Plan Goals, Objectives and Initiatives as adopted by the Board in February 2018. We remain

committed to continued superior service to our membership through several projects:

- Research and pursue improvements in the emerging manager program,
- Review and reengineer the Pensions Division business processes to leverage PARIS functionalities,
- Benchmark current investment fees and pursue opportunities to lower fees where possible,
- Research new actuarial standards and assumptions in preparation for the new experience study,
- Create focused benefit communications to address frequently asked information, and
- Enhance the Contractor Disclosure Review process to ensure investment and procurement decisions are made solely on the merits of the goods or services.

Neighborhood Budget Advocates' White Paper

As in prior years, the Neighborhood Council Budget Advocates have released their White Paper providing several recommendations to the Mayor and City Council, as well as to the respective pension systems. These recommendations were drawn from their meetings with LACERS and LAFPP and warrant discussion and consideration. We provided our comments to the CAO for inclusion in their report to the City Council. However, we look forward to discussing these recommendations with the Budget and Finance Committee.

Of note, are several recommendations that refer to a lower assumed rate of return. We appreciate the due diligence and concern over the unfunded liabilities of the pension systems. These growing liabilities for many state and local plans are of significant issue and call for pro-active management of these liabilities. Here in the City of Los Angeles, the pension systems have methodically studied and addressed these liabilities to balance the needs of the City while achieving the long-term goal of retirement sustainability.

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

Sincerely,



Raymond Ciranna
General Manager

c: LAFPP Board
Miguel Sangalang, Deputy Mayor
Richard H. Llewellyn, City Administrative Officer