



April 21, 2025

The Honorable Members of the Budget and Finance 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 2025-26 PROPOSED BUDGET

Dear Honorable Members:

The City of Los Angeles, as Plan Sponsor of LACERS, has fully funded the actuarially required contribution every year. This funding discipline ensures that promised benefits can be paid, maintains intergenerational equity, and is one of the best strategies to ensure the fund's health into the future. As a result of this sustained diligence and fiscal stewardship, LACERS' funded status has steadily increased, calculated at 76.3% for the period ending June 30, 2024, while the employer contribution rate has slightly decreased year-over-year.

Nevertheless, there is much further to go to get LACERS to the funded status it needs, and significant financial headwinds of resistance. Between April 3rd and April 8th, LACERS asset valuations declined by nearly \$1.3 billion, with a current portfolio value of approximately \$23.7 billion. While investments have partially recovered from the aforementioned steep decline and fiscal year gains to date are net positive, it has been a bumpy ride. Significant volatility is expected to continue, particularly as influenced by tariff policies and a great deal of uncertainty in financial markets.

The current fiscal year has witnessed some of the widest market swings since the COVID pandemic. Recently, the broad U.S. public equity indices have fallen into market correction territory as investors seek alternative havens for capital such as non-U.S. investments, fixed income, and real assets. Investment research continues to confirm that maintaining a steady and rational strategic course through punishing economic and market conditions proves to be the most prudent and beneficial course of action for long-term institutional investors who seek to optimize risk-adjusted returns.

Managing LACERS Investments Program

LACERS investment staff and its consultants manage the assets according to the Board-approved Asset Allocation and Investment Policies to ensure the highest probability of achieving established financial objectives within a risk-management framework. Research does not support the use of tactical investing to add meaningful value to multi-billion-dollar investment portfolios. Accordingly, staff will continue to manage the Investment Program according to the long-term strategic asset

LA CITY EMPLOYEES' RETIREMENT SYSTEM

977 N. Broadway
Los Angeles, CA
90012-1728

(800) 779-8328
RTT: (888) 349-3996

www.LACERS.org
lacers.services@lacers.org

KAREN BASS

Mayor of the City of Los Angeles

LACERS BOARD OF ADMINISTRATION

Annie Chao, *President*
Janna Sidley, *Vice President*
Thuy Huynh
Elizabeth Lee
Gaylord "Rusty" Roten
Sung Won Sohn
Michael R. Wilkinson

LACERS EXECUTIVE STAFF

Todd Bouey
Interim General Manager
Dale Wong-Nguyen
Executive Officer
Vacant
Assistant General Manager
Rodney June
Chief Investment Officer

allocation approved by the Board in Fiscal Year 2021-22 while also ensuring compliance to LACERS Investment Policy, which is the cornerstone to long-term investment performance success.

Following the completion of the Triennial Asset Allocation Study in Fiscal Year 2023-24 (FY24), the LACERS Board of Administration approved updates to the asset Allocation Policy to make way for added flexibility to asset class weightings that would align more closely with current global market opportunities as reflected in adopted benchmarks. Implementation of the new Asset Allocation Policy will begin in the upcoming fiscal year. In addition, staff will explore appropriate Investment Policy modifications and evaluate evolving investment strategies for Board consideration.

In conjunction with the revised Allocation Policy updates, LACERS introduced infrastructure strategies to the investment program to mitigate the impact of higher levels of inflation, provide additional cash yield to address liquidity and add diversification to further immunize the unwanted effects of elevated market volatility. Furthermore, LACERS will continue the allocation of capital to a restructured Private Credit Program to enhance financial performance at reduced levels of investment risk.

Retiring Members of the City Workforce

One of LACERS' Strategic Goals is to deliver accurate and timely Member benefits, which also encompasses a broader set of responsibilities to support Members throughout their retirement journey. In FY24, there were over 1,500 new retirement benefits, disability retirements, and deceased Member benefits processed, with similar result trending this year.

In the coming fiscal year, LACERS' priority includes implementation of ballot Measure FF, passed by voters in November 2024, amending the City Charter to allow certain peace officers to transfer their LACERS pension to the Los Angeles Fire and Police Pensions (LAFPP). The execution of the ordinance necessitates close coordination between the two pension systems to ensure a seamless transition of employee and employer contributions. Additionally recognizing the City's financial challenges, LACERS stands prepared to assist the City in counseling the City workforce in regard to their retirement benefits and options should they separate from City service.

Administering Retiree Healthcare Benefits

LACERS aims to continuously improve the value and minimize the costs of Members' health and wellness benefits. Through rigorous analysis and negotiations of annual medical plan premiums, LACERS has achieved lower premiums, contributing to the reduction in the City contribution rate, and further by self-funding the vision and dental Preferred Provider Organization (PPO) plans, LACERS has been able to retain surplus premium funds to be applied toward future premium increases. For the most recent three-year average (2023-2025), LACERS' medical trend rate is at 3.91% versus the actuarial assumed medical trend rate of 7.33%. LACERS will continue to identify and implement various cost-saving measures to minimize health and wellness benefits for its Members.

LACERS' success in providing retirement and healthcare benefits to all Members by securing and growing the trust fund is a testament to LACERS' staff, but it would not be possible without the leadership and support of the LACERS Board of Administration, Mayor's Office, and City Council.

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

Sincerely,

A handwritten signature in black ink, appearing to read "TBouey", with a long horizontal flourish underneath.

Todd Bouey, Interim General Manager
Los Angeles City Employees' Retirement System

- c: Carolyn Webb de Macias, Chief of Staff, Mayor's Office
- Jenny Punsalan Delwood, Deputy Chief of Staff, Mayor's Office
- Matthew Hale, Deputy Mayor of Finance, Mayor's Office
- Matthew Szabo, City Administrative Officer
- Janelle Irving, Office of the City Administrative Officer
- Sharon Tso, Chief Legislative Analyst
- Karen Kalfayan, Assistant Chief Legislative Analyst