

**CITY OF LOS ANGELES**  
CALIFORNIA



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April 22, 2025

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: Mandy Morales, Legislative Assistant

**Re: 2025-26 Los Angeles Fire and Police Pensions (LAFPP) Preliminary Budget**

Honorable Members:

Thank you for the opportunity to provide the Budget and Finance Committee information on the Los Angeles Fire and Police Pension System and its 2025-26 Preliminary Budget.

Los Angeles Fire and Police Pensions (LAFPP) is one of the City's three retirement plans for its workforce. LAFPP is solely dedicated to administering the defined benefit retirement plan for sworn employees of the City (Fire, Police, and certain Port Police and Airport Police) and has served eligible members and their beneficiaries since June 7, 1899, marking our 125-year anniversary this past year.

**2025-26 PRELIMINARY CITY CONTRIBUTION TO LAFPP (\$652.26 million)**

On December 5, 2024, the Board of Fire and Police Pension Commissioners (LAFPP Board) adopted the Actuarial Valuation Report for the period ending June 30, 2024, which showed the System's combined health and pension funding ratio on an actuarial basis remains well-funded at **97.0%**, an increase from the prior year's 96.8%. The Actuarial Valuation Report further indicated the City, Harbor, and Airport Departments' combined contribution rate will decrease by 2.87%, from 38.51% to **35.64%** of sworn payroll for 2025-26 (with the City's contribution rate, excluding Harbor and Airports, decreasing from 38.72% to **35.80%**). This decrease is primarily due to the net loss layer from the June 30, 2009 valuation being fully amortized and the higher than expected investment return on the valuation value of assets (after smoothing), partially offset by higher than expected salary increases for active members and COLA increases for retirees and beneficiaries.

Based on the preliminary covered sworn payroll amounts as included in the Mayor's 2025-26 Proposed Budget, the City's combined contribution amount, including the Excess



Benefit Plan (EBP), will decrease from \$670.21 million to approximately \$649.75 million. However, pursuant to Charter Amendment FF, an additional \$2.51 million is required as a one-time reimbursement of monies to be refunded to those eligible Tier 6 LAFPP members who previously paid to transfer their City service from LACERS to LAFPP, bringing the City's combined contribution, including the EBP, to **\$652.26 million**. Once the City Council and the Harbor and Airport Commissions adopt their final covered sworn payroll account figures, the City's final 2025-26 employer contribution amount will be adjusted accordingly. A final LAFPP Budget reflecting these changes will then be submitted to the LAFPP Board for approval on June 18, 2025.

### **2025-26 LAFPP PRELIMINARY BUDGET**

The LAFPP Board approved the LAFPP Preliminary Budget on March 20, 2025. The budget was developed with consideration of resources needed to support multi-year annual plan projects and additional member outreach and services.

The information summarized below will provide the Committee information on LAFPP's anticipated receipts and expenditures. Please note the vast majority of LAFPP's expenditures are based on the provision of retirement benefits as negotiated by the City and approved by voters.

#### **Anticipated Receipts (\$1.43 billion)**

Total anticipated receipts are comprised of the sources below:

- \$652.26 million for the City (employer) contribution (includes the EBP amount of \$2.20 million that is not transferred to LAFPP);
- \$190.12 million for member (employee) contributions;
- \$585.00 million in estimated Earnings on Investments (this does not include the Gain/Loss on Sale of Investments, which are provided after the amount is audited and therefore not included in the budget); and,
- \$0.50 million in anticipated miscellaneous receipts from various sources.

For 2025-26, receipts are expected to decrease by \$9.04 million (-0.6%) from the prior year. This is primarily attributed to a decrease in the Combined Total City Contribution due to the adoption of the June 30, 2024 pension and health valuation reports, which reflected a decrease in the City's combined (General Fund, Harbor, and Airport) employer contribution rate from 38.51% to 35.64%. Additionally, the Combined Total City Contribution to LAFPP is expected to decrease by approximately \$17.95 million (-2.7%).

#### **Projected Expenditures (\$2.07 billion)**

Total projected expenditures are comprised of the sources below:

- \$1.85 billion for Benefits Expenses, which are made up of Pension and Health/Other Post-Employment Benefits (OPEB);
- \$186.99 million for Investment Management Expense; and,

- \$32.06 million for Administrative Expense.

For 2025-26, total expenditures are expected to increase by \$213.36 million (11.5%) over the prior year due to:

- *\$190.77 million (+11.5%) net increase in Benefits Expenses*  
Benefits Expenses are non-discretionary costs for our member benefits. This is attributed to increases in all Pension Benefits and OPEB Expense categories, with the most significant increases being in Service Pension payments, DROP Distributions, and Health Insurance Premium Subsidies. These increases are partially offset by a \$3.60 million decrease in Refund of Contributions.
- *\$21.64 million (+13.1%) net increase in Investment Management Expense*  
Investment management expenses are anticipated to total \$186.99 million in 2025-26 due to the forecasted growth in plan assets and Board-directed changes to the investment portfolio and asset allocation. Investment management expenses increase commensurate with asset growth; and LAFPP assets under management grew from \$31.35 billion at the end of 2023-24 to approximately \$32.39 billion at the end of March 2025.
- *\$0.95 million (+3.0%) net increase in Administrative Expense*  
Administrative expenses are anticipated to total \$32.06 million in 2025-26, and include costs for salaries, employer contributions to employee benefits, training and associated travel, contractual services, and other office and administrative costs. The 3.0% increase in costs will mainly address salary costs due to successor labor agreements that include at least two (2) scheduled increases for most bargaining units. Additional increases cover LAFPP's employer contribution for staff retirement benefits that are paid directly to LACERS.

### **2025-26 PRELIMINARY ANNUAL PLAN**

Each year LAFPP establishes an Annual Plan to achieve our Strategic Goals as outlined within the multi-year Strategic Plan. In January 2024, the LAFPP Board approved the 2025-27 Strategic Plan, which includes six (6) Guiding Principles and three (3) Strategic Goals. This framework allows LAFPP to better allocate and focus its resources into three-year goals, which will improve the Department's services and operations and advance its Mission and Vision.

LAFPP's Annual Plan projects are structured into two (2) separate categories.

1. **Strategic Goal** projects, which will focus on achieving the three (3) Strategic Plan Goals and Objectives adopted by the Board in January 2024.
2. **Operational Initiatives** projects, which will support one or more of LAFPP's six (6) Guiding Principles.

The Annual Plan is developed in conjunction with the Budget each year to ensure resources are available and strategically utilized in the upcoming fiscal year. Following are LAFPP's current Strategic Goals and Guiding Principles:

### **Strategic Goals**

1. Enhance Member Experience by Implementing Ongoing Improvements Based on Member Feedback
2. Enhance Outreach by Promoting Inclusivity and Engagement with Emerging Investment Managers
3. Enhance Employee Development by Increasing Opportunities for Training and Leadership Development

### **Guiding Principles**

1. Ensure a Financially Sound Retirement System
2. Manage Risk Throughout the Organization
3. Enhance Customer Care and Stakeholder Relations
4. Pursue Operational Efficiencies
5. Build and Support a Talented Workforce
6. Promote Diversity, Equity, and Inclusion (DEI) Throughout the Organization, Including Our Investment Portfolio and Business Partners

In pursuit of the Strategic Goals and Guiding Principles, the preliminary projects to be included in the 2025-26 Annual Plan are:

### **Strategic Goal Projects**

1. Member Feedback\*
2. Emerging Manager Outreach\*
3. Mentorship Program

### **Operational Initiatives Projects**

1. Popular Annual Report
2. Elimination of the Attained Age Database
3. Web-Based Contractor Disclosure Form
4. Review and Update of the Los Angeles Administrative Code for LAFPP Board Elections
5. Artificial Intelligence-Powered Reference Tool

\*Continuing project

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Thank you again for the opportunity to provide relevant budget information to the Committee. I am available to answer any questions the Committee may have.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Salazar', is positioned above the typed name.

Joseph Salazar, CEBS  
General Manager

JS:MTS:WKP:JMS:EJH:ADMN250057

cc: Board of Fire and Police Pension Commissioners  
Matt Hale, Deputy Mayor of Finance, Operations and Innovation  
Matthew W. Szabo, City Administrative Officer