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April 21, 2021

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: 2021-22 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 (LAFPP) System and its 2021-22 Preliminary Budget.

2021-22 PRELIMINARY CITY CONTRIBUTION TO LAFPP (\$728.52 million)

On November 19, 2020, the Board of Fire and Police Pensions adopted the Actuarial Valuation Report for the period ending June 30, 2020, which showed the System's combined health and pension funding ratio on an actuarial basis remains well-funded at **88.6%**, a slight increase from the prior year's 88.5%.

The Actuarial Valuation Report further indicated the City, Harbor, and Airport Departments' combined contribution rate will *decrease* by 0.91%, from 46.60% to **45.69%** of sworn payroll for 2021-22 (with the City's contribution rate, excluding Harbor and Airports, decreasing from 46.79% to **45.89%**). These favorable valuation results are a result of loss layers from prior valuations being paid off, higher expected return on assets due to smoothing, and health premiums and subsidies being lower than projected. This favorable experience was offset by changes in actuarial assumptions including lowering the assumed rate of return, higher than expected salary increases for active members, and lower than expected employer contributions.

Based on the preliminary covered sworn payroll amounts as included in the Mayor's 2021-22 Proposed Budget, the City's contribution amount, including the Excess Benefit Plan (EBP), will decrease from \$746.64 million to approximately **\$728.52 million**. Once the City Council and the Harbor and Airport Commissions adopt their final covered sworn



payroll account figures, the City's final 2021-22 employer 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 for approval on June 17, 2021.

2021-22 LAFPP PRELIMINARY BUDGET

The Board of Fire and Police Pensions adopted the LAFPP Preliminary Budget on March 18, 2021. The budget was developed with consideration of resources needed to support post-reconstitution operations and multi-year business plan projects, while ensuring alignment with my proposed *Operational Vision Plan*. The *Operational Vision Plan* establishes a vision for how LAFPP will evolve its delivery of services in response to the impacts of the pandemic, and will, over the next several fiscal years, advance LAFPP towards a smaller carbon footprint (with a fully paperless strategy and reduced and/or shared workspace) and a resilient and mobile workforce (able to work remotely and on-site to provide services virtually or in-person).

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.

Anticipated Receipts (\$1.40 Billion)

Total anticipated receipts are comprised of the sources below:

- \$728.52 million for the City (employer) contribution (includes the EBP amount of \$2.19 million that is not transferred to LAFPP);
- \$165.86 million for member (employee) contributions;
- \$506.00 million in estimated Earnings on Investments (this does not include the Gain (Loss) 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 2021-22, receipts are expected to increase by \$8.57 million (0.6%) over the prior year. While the total City Contribution to LAFPP is expected to decrease by \$17.91 million over the prior year, this amount is anticipated to be offset by a \$0.48 million increase in Member Contributions and a \$26.00 million net increase in investments earnings and miscellaneous revenue.

Projected Expenditures (\$1.52 Billion)

Total projected expenditures are comprised of the sources below:

- \$1.38 billion for Benefits Expenses, which are made up of Pension and Health (OPEB) Benefits;
- \$120.93 million for Investment Management Expense; and
- \$25.23 million for Administrative Expense.

For 2021-22, total expenditures are expected to increase by \$79.78 million (5.5%) over the prior year due to:

- *\$63.41 million net increase in Benefits Expenses*
Benefits Expenses are made up of Pension and Health (OPEB) Expenses. Pension Benefits are projected to increase approximately \$53.21 million (4.6%) from the 2020-21 adopted budget for a total of \$1.21 billion. The bulk of the increase (\$56.00 million) is due to increases in the service pension payments to members and surviving spouse and domestic partner pension payments. Additionally, OPEB Benefits are expected to total \$163.90 million, an increase of \$10.20 million (6.6%). This amount however will be adjusted in the final budget to reflect the non-Medicare subsidy rate effective July 1, 2021 (as adopted by the Board of Fire and Police Pensions on April 1, 2021).
- *\$15.02 million increase in Investment Management Expense*
Investment management expenses are anticipated to total \$120.93 million in 2021-22 due to the substantial growth in plan assets and Board directed changes to the investment portfolio and its asset allocations. Investment management expense increases commensurate with asset growth, and LAFPP assets under management grew from \$23.52 billion at the end of 2019-20 to approximately \$28.74 billion at the end of March 2021.
- *\$1.35 million net increase in Administrative Expense*
Administrative expenses are anticipated to total \$25.23 million in 2021-22, and include costs for salaries, employer contributions to employee benefits, training and associated travel, contractual services, Board elections, and other office and administrative costs. The 5.7% increase in costs will mainly address employee salary step increases and employer responsibility for increased employee benefits costs.

2021-22 PRELIMINARY BUSINESS PLAN

LAFPP establishes an annual Business Plan to achieve its goals as outlined within our multi-year Strategic Plan. The Strategic Plan also identifies values that guide the pursuit of these goals: Collaboration, Respect, Efficiency, Accountability, Transparency, and Ethics. This year, we are notably adding “Diversity” to our values, as we embrace diversity, equity, and inclusion (DEI) in all aspects of our operations and believe in the power of DEI to enrich our organization. While the LAFPP Board has made previous and ongoing strides in support of diversity and inclusion, particularly in its investment selections, we feel it is critical to formally include this value now within our Strategic Plan.

The Business 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 Plan goals and in pursuit of those goals, the preliminary projects to be included in the 2021-22 Business Plan:

- I. *Ensure a Financially Sound Retirement System* – Institutional Limited Partners Association (ILPA) Diversity in Action Initiative
- II. *Manage Risk Throughout the Organization* – Association of Local Government Auditors (ALGA) Peer Review, Association Data Exchange Improvements, Alive and Well Verification, and the Enterprise-wide Cyber Security Program
- III. *Enhance Customer Care and Stakeholder Relations* – Creating member video guides for completing retirement and counseling forms
- IV. *Pursue Operational Efficiencies* – Updating the Emergency Preparedness Plan to reflect the new workplace, implementing the workflow in PARIS for Disability Case Management, and Pension Administration Benchmarking
- V. *Build and Support a Talented Workforce* – Implementing the permanent mobile/on-site hybrid workforce plan

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,



Raymond P. Ciranna
General Manager

cc: Board of Fire and Police Pension Commissioners
Jeanne Holm, Deputy Mayor of Budget and Innovation
Richard H. Llewellyn, City Administrative Officer