

pension perspectives

ACTIVE/DROP MEMBER NEWSLETTER

General Manager's Message

One of the great events that the Board schedules every year is the annual Educational Offsite Meeting. This year it was held on March 6, 2014 at The California Endowment. The purpose of the event is to provide training and education for the Board, staff and our stakeholders. The Educational Offsite Meeting was well received with attendance from the Los Angeles Firemen's Relief Association, Los Angeles Police Relief Association, Los Angeles Police Protective League, United Firefighters of Los Angeles City, Los Angeles Police Command Officers Association, Los Angeles Port Police Command Officers Association, Los Angeles Port Police Association and the Los Angeles Retired Fire and Police Association. With over 75 participants and speakers, attendance at this year's event was the highest in recent years.



Raymond P. Ciranna

This year's Educational Meeting included several different topics such as an Overview of Private Equity, Healthcare Reform Update, GASB 67 & 68 Implementation, Asset Allocation Primer and (Actuarial) Experience Study 101. All of these issues will be discussed by the Board in the months ahead.

On the subject of education... one of the benefits of education is to help people make informed decisions. I am a strong supporter of educating our members regarding their retirement planning. This includes retirement planning for our newest members as well as those who are close to retirement. I invite and strongly encourage every member to attend one of our Financial Planning Educational Seminars. Information about our seminars is available on page 10. Please let me know how we can better serve your financial planning needs.

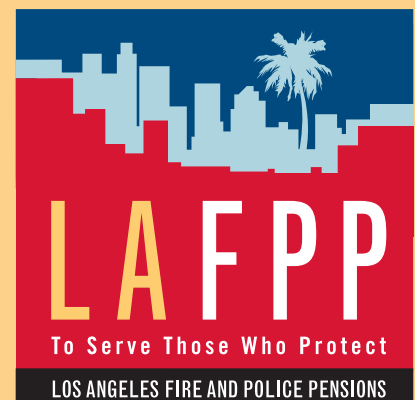
Since hitting the \$17 billion mark last October, a first for LAFPP, the Fund's portfolio remains strong. As of March 31, 2014, the unaudited market value of assets totals \$17.72 billion, an increase of \$1.97 billion from the \$15.75 billion reported

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May 2014

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The Pension Reform Act of 2014 is on Hold!

On March 14, 2014, San Jose Mayor Chuck Reed announced that he and fellow supporters would discontinue efforts to qualify “The Pension Reform Act of 2014” for this year’s November general election.

The decision came after Sacramento Superior Court Judge Allen Sumner rejected the lawsuit Reed filed against Attorney General Kamala Harris regarding the ballot language. The judge stated that Reed failed to prove that the ballot summary was false, misleading or biased. As a result of the legal challenge, Reed and supporters concluded

that it would be difficult to obtain the required 807,615 signatures by the June 5th deadline and instead, decided to resume their efforts at a later time for the November 2016 election.

The initiative, officially titled “Public Employees, Pension and Retiree Healthcare Benefits. Initiative Constitutional Amendment,” would have given all public employers the option to negotiate or change the terms of future pension benefits for current employees. Specifically, it would have allowed public employers to modify pension benefits for current employees on a prospective basis, meaning that

the terms of the pension could be changed for future years of service. However, benefits earned in exchange for past service could not be modified and would remain vested.

It is important to note that this initiative would not have impacted the benefits of any retired member of a public retirement system, including LAFPP members who retired or entered DROP before the effective date of the initiative. We will continue to monitor pension reform efforts and update the membership as information becomes available.



General Manager’s Message

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for the fiscal year ending June 30, 2013. These investment gains and other favorable experience will continue to offset the Great Recession’s lingering effects on our funding status. As of June 30, 2013, the funding status for pension benefits was 83.1%, a decrease of only 0.6%. Health subsidy benefits increased by 1.4% to a funding status of 38.5%.

More information on the Fund’s status and activities for the fiscal year ending June 30, 2013 is detailed in our latest annual report – available now in the *Financial Reports* section of our website, www.lafpp.com. Additionally, highlights from this report are provided on page 4.

In this *Pension Perspectives* issue we also provide information on your pension benefits, such as how any after-tax pension contributions you have made could affect the taxability of your future pension payments and/or DROP account distribution, and other information that I hope you find useful.

Please contact me if you have any questions or need assistance. I am available by email at ray.ciranna@lafpp.com or phone at (213) 978-4550.

Sincerely,
Raymond P. Ciranna
General Manager

Plan Funding Status and the City’s Contribution

For the period ending June 30, 2013, the Los Angeles Fire and Police Pension System is 83.1% funded for pension benefits on an actuarial basis.

An actuarial valuation is conducted once a year to determine whether the Plan’s assets and the employer and member contributions are sufficient to provide member benefits. Actuaries use a schedule of benefits, membership data and a set of actuarial assumptions (e.g., life expectancy, inflation rates, etc.) to estimate the cost of benefits.

The 2013 study determined that, on an actuarial basis, pension benefits are 83.1% funded, health benefits are 38.5% funded and the combined funded status of health and pension benefits is 77.3%.

The actuarial valuation also includes the calculation of the City’s contribution rate. The Charter specifies that the City will contribute an amount equal to: (1) the City’s share of defined entry-age normal costs (designed to fund a member’s total plan benefit

over the course of his/her career); (2) the percentage necessary to amortize the “unfunded liability” of the System (the Plan’s obligations in excess of the Plan’s projected assets); and (3) the amount to provide for health plan subsidies.

If made on July 15, 2014, the City’s contribution rate (including the Harbor Department) for FY 2014-15 will be:

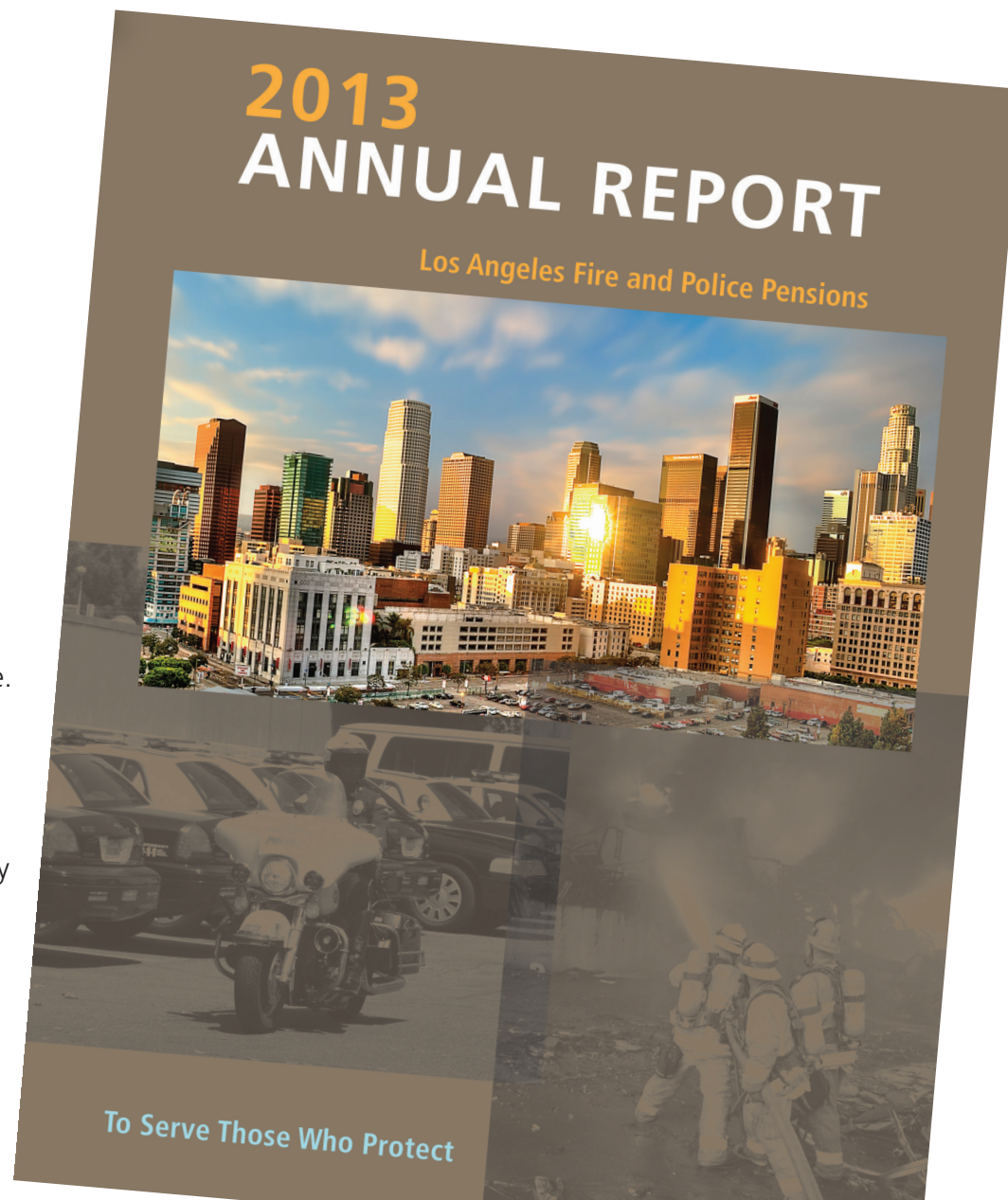
- **Pension Benefits** – 36.54% of sworn payroll, an increase of 2.80% from FY 2013-14;
- **Health Benefits** – 11.30% of sworn payroll, an increase of 0.73% from FY 2013-14.

Based on the Mayor’s proposed budget, the City’s contribution to the Fund for FY 2014-15 will be \$631 million, (including the Harbor Department’s contribution for Port Police members).

2013 ANNUAL REPORT

The annual report for the fiscal year ending June 30, 2013 is available online. This report provides detailed information on the status and fiscal health of the LAFPP System including a summary of the receipts and expenditures, investment performance and activities, actuarial funding status, membership statistics and more.

Highlights from the report are provided below. The full report may be accessed from the *Financial Reports* section of our website. For questions, you may contact the Communications & Special Projects Section at (213) 978-4530.



Annual Report Highlights – Fiscal Year Ending June 30, 2013			
Investment Performance		Total Benefits Paid	
Rate of Return	13.01%	Pension Payments to Pensioners & Beneficiaries	\$856 million
Earnings on Investments	\$440 million	Health & Dental Subsidy	\$98 million
Market Value of Assets	\$15.75 billion		
Actuarial Funded Status		Membership Totals	
Pension	83.1%	Active	12,033
Health	38.5%	DROP	1,191
Combined (Pension & Health)	77.3%	Retired (including Beneficiaries)	12,432
Contributions to the System		*Employer contribution includes the Harbor Department and is based on the results of the Actuarial Valuation for the fiscal year ending June 30, 2011.	
Employer*	\$509 million		
Members	\$122 million		

ABOUT LAFPP QUARTERLY REVIEW

Fast Facts!

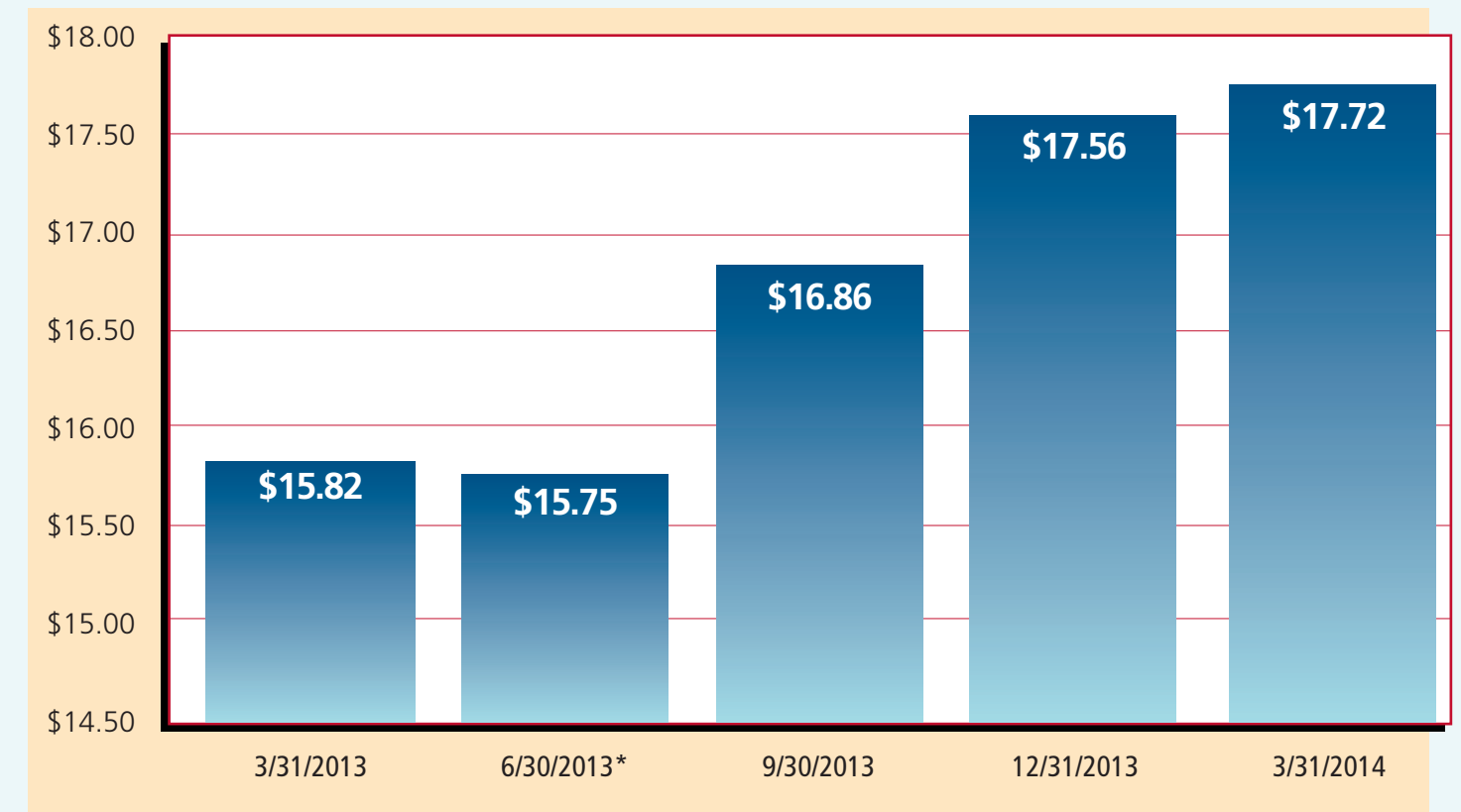
As of March 31, 2014:

Membership	
Total Membership	25,561
Active Members (including DROP)	12,920
Service Pensioners	7,941
Disability Pensioners	2,235
Qualified Survivors	2,465

DROP Program	
Total Entries – FY thru 3/31/14	205
Fire	62
Police	142
Port Police	1
Total Exits – FY thru 3/31/14	163
Fire	49
Police	113
Port Police	1
Total Current Participants	1,158

Investment Portfolio

Market Value (in billions)



* The market value for fiscal year ending June 30, 2013 is the final, audited amount.

Except where noted, the information provided above is unaudited. More information for this period is available on our website from the *About LAFPP* link.

If You Made Any After-tax Pension Contributions... A portion of your pension check may be tax-free!

Member pension contributions are generally made on a pre-tax basis. This means that your contributions are deducted from your pay before your income tax withholding is calculated. Since you have not been taxed on the money used to make those contributions, your monthly pension benefit will be subject to taxation. However, a portion of your pension benefit will not be taxed to account for any pension contributions you made on an after-tax (or post-tax) basis.

You could have after-tax contributions for any of the following reasons:

1. If you made member pension contributions from July 1, 1982 to December 20, 1996, they were made on an after-tax basis due to IRS rules and regulations during that time.
2. If you purchased service credit either with a lump sum payment or through payroll deduction, the money used for the purchase was subject to income tax.
3. If you elected to make the 2% "opt in" pension contribution to vest future retiree health subsidy increases, this contribution is collected after taxes.

These contributions and payments, known as "basis", are considered "previously taxed" because you have already paid taxes on the money used to make them.

"Basis Recovery" – Determining the Tax-Free Portion of Your Pension Benefit

If you have after-tax pension contributions, your pension benefit will be subject to "basis recovery" – a process used to determine the tax-free portion of your pension payment. The IRS' Simplified Method is the required formula used to calculate this amount. It takes into account your unrecovered after-tax contributions and your age (plus your spouse's or domestic partner's age, if applicable) at the time you retire/exit DROP and start receiving your monthly pension benefit. The younger you are at retirement, the longer it will take to recover your total after-tax contributions.

An example of the Simplified Method is available on the "Taxability of Pensions" web page in the *Retired Members* section of our website, www.lafpp.com. You can also read more about this formula in IRS Publication 575 at www.irs.gov.

Attention DROP Members!

When you prepare to exit DROP, you may have the opportunity to take a portion of your DROP account balance as a tax-free lump sum distribution to recoup any eligible after-tax contributions. Rather than recovering all of your after-tax contributions in payments over your retirement lifetime (per the Simplified Method), the Internal Revenue Code includes a provision that allows you to recover a portion of your eligible contributions using an accelerated basis recovery method.

As such, the following basis recovery method will be used for members exiting DROP on or after January 1, 2014:

- You may recover any after-tax contributions made before 1987 entirely through a lump sum DROP distribution.



- Any after-tax contributions made after 1986 will be recovered pro-rata between a lump sum DROP distribution and the monthly pension benefit. The portion recovered through the monthly pension benefit will be subject to the Simplified Method.

When you receive your DROP exit distribution forms, you will be provided a breakdown of your after-tax contributions, your distribution options, the amount that may be recovered tax-free from your DROP distribution and how much you will recover tax-free from your monthly pension benefit on an ongoing basis.

Attention Active Members!

You can log in to MyLAFPP to see an unaudited amount of your after-tax contributions. The amount is displayed on the "Personalized Information" page.

Questions...

In addition to the IRS website, more information is available on our website from the "Taxability of Pensions" page in the *Retired Members* section. For questions regarding the recovery of your after-tax contributions, please contact the DROP/Service Pensions Section at (213) 978-4575.

ATTENTION: Active Members With Less Than 5 Years of Service

Announcement regarding service credit purchases

Effective February 20, 2014, members with less than five (5) years of service may only purchase service credit through a trustee-to-trustee transfer from the City of Los Angeles Deferred Compensation Plan or a rollover from an eligible retirement plan. In order to comply with Internal Revenue Code Section 415(n), these members are no longer allowed to purchase service credit with a lump sum payment or through payroll deduction.

Examples of service credit purchases include buying back your recruit training time in the drill tower or police academy and purchasing military time or other government service under the Public Service Purchase (PSP) program. In order to complete your purchase, please confirm with the City's Deferred Compensation Plan (or other eligible retirement plan) that you have sufficient pre-tax funds to fully cover the cost.

As a reminder, you may calculate a PSP estimate or an estimate to purchase your recruit training time by logging in to MyLAFPP.

More information about purchasing service credit is available from the *Active Members* section of our website.

The DROP Study

As of this writing, the cost-neutrality study is complete and is under review by the City and the labor organizations. We are unaware of any changes to DROP at this time. However, any changes negotiated by the City and the labor organizations will apply to those members entering DROP on and after the effective date of the changes.

For the latest on the status of the review, please check our website for updates and be sure to stay connected with your union.

The Board of Fire & Police Pension Commissioners

The Board normally meets on the first and third Thursdays of the month at 8:30 a.m. at the LACERS facility, in the Los Angeles Times Building: 202 W. First Street, Ste. 500, Los Angeles, CA 90012. Most meetings, including special meetings, are from one to four hours in duration.

A directory of the current listing of Commissioners is as follows:

Board Directory

Commissioner	Appointed/Elected	Term Expiration
Ruben Navarro, President	Elected by Active Fire Members	June 30, 2017
Belinda M. Vega, Vice President	Appointed by the Mayor	June 30, 2016
George V. Aliano	Elected by Retired Police Members	June 30, 2014
Carl Cade	Appointed by the Mayor	June 30, 2015
Sam Diannitto	Elected by Retired Fire Members	June 30, 2015
Emanuel Pleitez	Appointed by the Mayor	June 30, 2018
Pedram Salimpour	Appointed by the Mayor	June 30, 2017
Corinne E. Tapia	Appointed by the Mayor	June 30, 2014
Robert von Voigt	Elected by Active Police Members	June 30, 2015

More information on the Board's schedule and agendas is available from the *Board of Administration* section of our website.

Move to New Headquarters Slated for Mid 2015

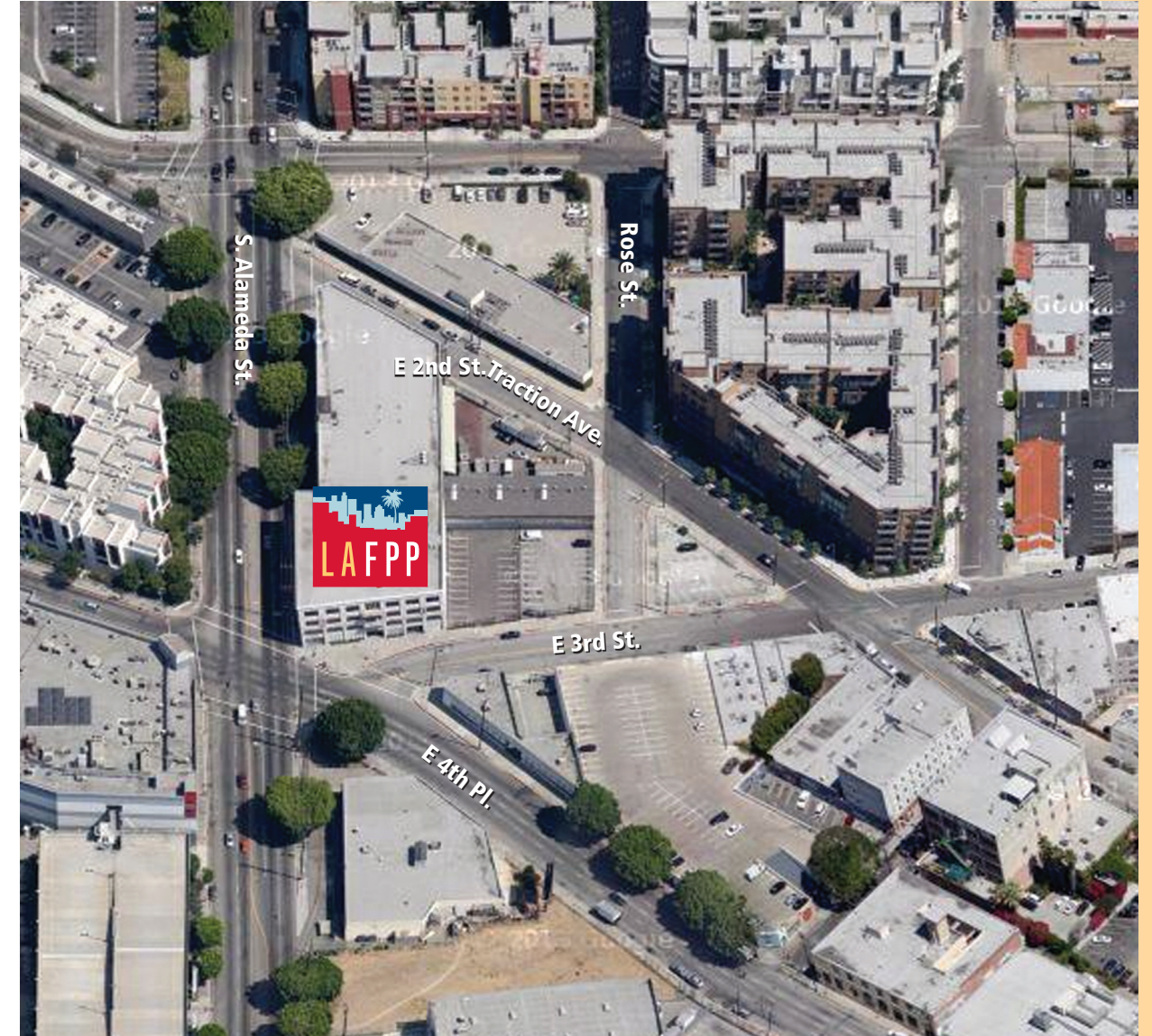


PHOTO COURTESY OF GOOGLE MAPS

The search for a suitable headquarters building is over!

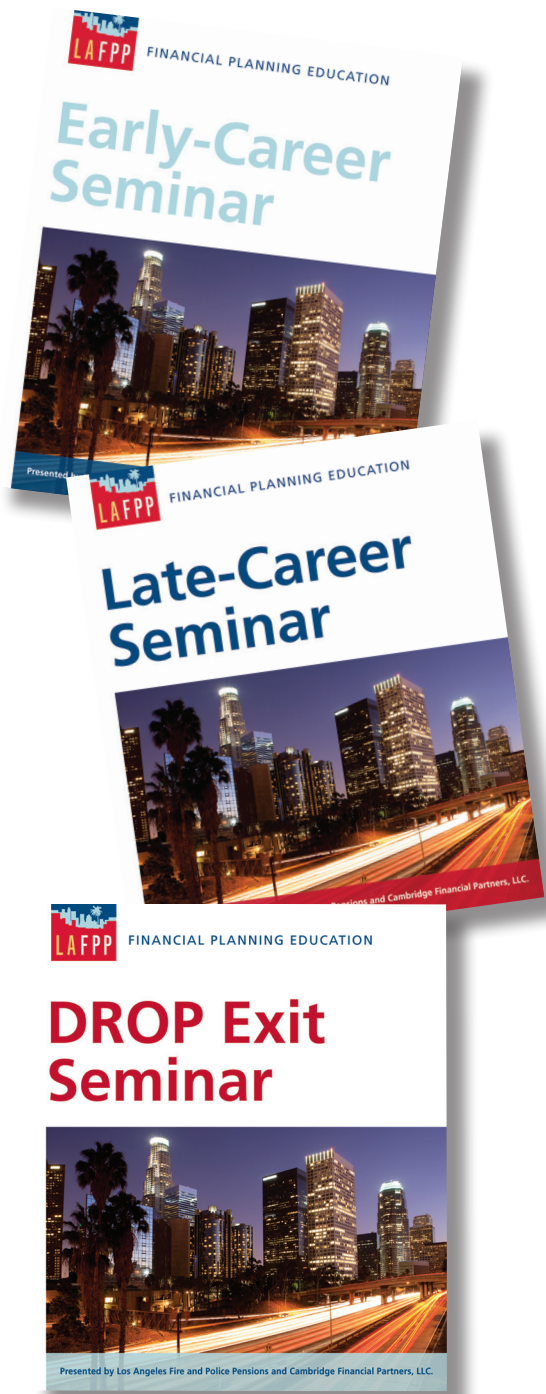
On July 24, 2013, LAFPP purchased the Neptune Building for \$12.8 million. The four-story, 54,000 square foot building is located at 701 East 3rd Street in the Arts District of Downtown Los Angeles.

On October 17, 2013, the new Boardroom was dedicated and named after the Board's longest-serving Commissioner, Sam Diannitto. Various upgrades are planned for the Sam Diannitto Boardroom to provide for a more efficient and technologically-advanced space.

Before occupying the building in mid 2015, other tenant improvements and building upgrades will be completed. We will provide periodic updates to keep you informed of the status.

Retired Police Board Member Election

On April 22, 2014, the City Clerk, in conjunction with LAFPP, conducted an election for the next five-year term for the Police Department Retired Employee Member of the Board of Fire and Police Pension Commissioners. As of this writing, the election results are pending. Please check the *LAFPP News & Highlights* section of our website after May 6th for an update.



Financial Planning Education Seminars

If you haven't heard, we have re-designed our pre-retirement training program and now offer financial planning education seminars to help prepare you for a successful retirement. These new seminars – Early-Career, Late-Career and DROP Exit – are designed to meet your needs based on your specific career stage and retirement planning.

Seminar registration is by invitation only. Therefore, please ensure that your department has your most current address. Members are invited based on years of service and age. Once you receive an invitation, you must register online by logging in to MyLAFPP or call the Communications & Special Projects Section at (213) 978-4530.

There are a limited number of spaces, so after registering please do not arrange for time off until you receive a confirmation letter from LAFPP. If you are not selected, you will be placed on a waiting list. **Due to the high demand, advance registration and walk-ins will not be accepted.**

Our fall schedule of seminars will be posted to our website by the end of June. Please check the "Planning for Retirement" page of the *Active/DROP Members* section of our website for more information.

Will There Be a Tier 6 Transfer Opportunity?

The Plan's tax counsel has advised that, under current guidance issued by the IRS, a governmental plan, such as LAFPP, cannot allow its members to voluntarily change their pre-tax employee contributions without affecting the Plan's tax-qualified status.

According to revised IRS regulations, giving current Active members in Tiers 2-5 the opportunity to transfer to Tier 6 gives them a choice of the pre-tax contribution they would make to the Plan, e.g., going from 7%, 8% or 9% to 11%; and

this choice jeopardizes the Plan's tax-qualified status under the Internal Revenue Code.

In the past, members were allowed to transfer tiers during an open enrollment because different tax provisions were in effect. There are, however, pending requests with the IRS to allow a one-time irrevocable election by current employees to change contributions to a defined benefit plan, such as LAFPP. We will monitor these efforts and provide updates on any subsequent changes to IRS regulations.

contact information & more

Our staff is available to assist you Monday through Friday (except holidays) from 8:00 am to 5:00 pm PT. Please refer to the following information to contact us.

Department Directory

Active Member Services (213) 978-4522

- Annual Member Statements
- Beneficiary Designations
- Contribution Accounts
- Dissolution of Marriage Information
- Refund of Contributions
- Request to Purchase Service Credit
 - Lost Service Time
 - Military or Other Government Service (PSP)
 - Recruit Training Time
 - Other Service Credit

Communications & Special Projects (213) 978-4530

- Annual Report
- Benefits Presentations
- Financial Planning Education Seminars
- MyLAFPP
- Newsletters
- Website Updates

Disability Pensions (213) 978-4500

- Active Member Deaths – Survivor Pensions
- Disability Pension Inquiries, Processing and Reviews
- Review of Dependent Children/Dependent Parent Qualifications

DROP/Service Pensions (213) 978-4575 (213) 978-4504 fax

- DROP - Information on the Deferred Retirement Option Plan
 - DROP Entry/Exit Inquiries and Processing
 - DROP Member Beneficiary Designation
- Service and Deferred Pension Inquiries and Processing

Upcoming Important dates & events

Holiday Schedule:

- May 26 – Memorial Day
- Jul 4 – Independence Day
- Sep 1 – Labor Day
- Oct 13 – Columbus Day
- Nov 11 – Veterans Day
- Nov 27 – Thanksgiving Day
- Nov 28 – Day After Thanksgiving
- Dec 25 – Christmas Day

Our office will be closed on these holidays, but you can still find information on our website!

Board & Committee Meetings:

- May 1 & 15
- Jun 5 & 19
- Jul 3 & 17
- Aug 7 & 21
- Sep 4 & 18
- Oct 2 & 16
- Nov 6 & 20
- Dec 4 & 18

Please check the *Board of Administration* section of our website for meeting information.

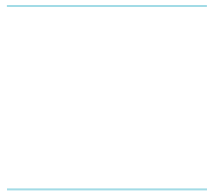
Other Ways to Contact Us

Main	(213) 978-4545	Address	360 E. Second St., Suite 400
Fax	(213) 978-4450		Los Angeles, CA 90012
TDD	(213) 978-4455	Mail Stop	390
Email	pensions@lafpp.com	Website	www.lafpp.com





Los Angeles Fire & Police Pensions
Mail Stop #390
360 East Second Street
Suite 400
Los Angeles, CA 90012



Email – The Green Way to Communicate!



Having an email address on file with LAFPP gives us another way to connect with you and deliver important information and news to you quickly and sustainably. This alternative contact method can be especially helpful if we are unable to reach you by mail or telephone.

Our forms have been updated to include a space for you to provide your email address. You can list a work or personal email address – whichever you prefer. You may also provide your email address to us by phone, or by submitting a signed, written notification via email, mail or fax as follows:

- **Email:** pensions@lafpp.com
- **Mail, Phone or Fax:**

Active members should call or send notification to:

LAFPP Active Member Services Section
360 E. Second Street, Suite 400
Los Angeles, CA 90012
(213) 978-4522
(213) 978-4450 fax

DROP members should call or send notification to:

LAFPP DROP/Service Pensions Section
360 E. Second Street, Suite 400
Los Angeles, CA 90012
(213) 978-4575
(213) 978-4504 fax

Please note that email is treated the same as all of your other contact information and is kept confidential and will not be disclosed without your consent.