



# Memorandum

**TO: Board of Administration for the Federated City Employees' Retirement System** **FROM: Benjie Chua Foy**

**SUBJECT: Consideration of Proposed Budget for Fiscal Year 2023-2024**

**DATE: April 7, 2023**

Approved

Date

## **RECOMMENDATION**

Discussion and action on the proposed budget for fiscal year 2023-2024.

## **BACKGROUND**

The Board approves the contribution rates recommended by the actuary which is made by the City. The Board also approves the administrative expense budget for reporting on the Source and Use Statements submitted for inclusion in the City's operating budget. The amounts approved by the Board are the total category amounts (personnel, non-personnel, professional and medical services) and not the individual line items (e.g., rent, IT, supplies, printing, etc. in the non-personnel category). If an individual line item goes over budget, no approval is required from the Board, as long as the total category amount remains under budget. This proposed budget is provided to the Board for discussion and approval, and if necessary, a revised and final budget will be prepared for approval at the next meeting. Highlights of the proposed budget are as follows:

## **ANALYSIS**

### ***SOURCES OF FUNDS***

#### **CITY CONTRIBUTIONS**

The City contribution for the retirement and health benefit plan for the coming fiscal year is estimated to be \$234,618,000.

The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY24 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2022 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

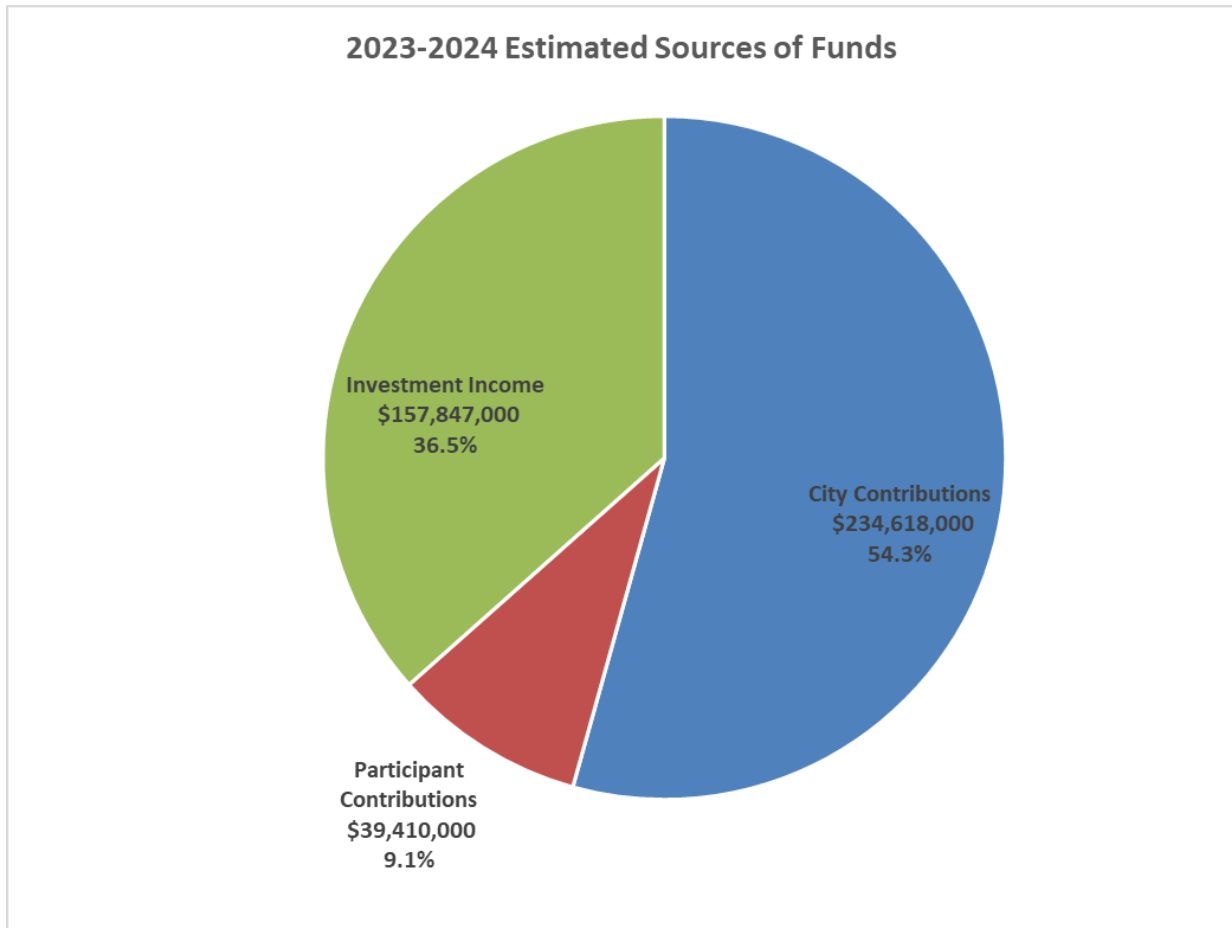
#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$39,410,000, a 3.94% increase from the 2022-2023 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension decreased slightly from 7.41% to 7.34% and their covered payroll decreased from \$132.6 million to \$128.9 million. Tier 2 contribution rates for pension decreased from 8.13% to 8.01% while covered payroll increased from \$237.2 million to \$266.8 million. Healthcare

contribution rates remain at 7.5% per the Municipal Code for Tier 1 and eligible Tier 2 members, while the City’s contribution is a flat dollar amount of approximately \$18.5 million, as calculated by the actuary.

### INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.625%. The beginning fund balance, along with the City’s contributions and member contributions offset with the expenditures, are expected to earn less than the full rate since these amounts will occur throughout the year.



### ***USES OF FUNDS***

#### PENSION BENEFITS AND HEALTH INSURANCE

The pension benefits budget increased to \$255,466,000, an increase of \$11,145,000, or 4.56%, which is the average increase for the past five years. Pension benefits include service pensions, disability and survivorship pensions, death benefits and refunds of contributions.

The health insurance budget increased to \$32,401,000, an increase of \$722,000, or 2.28%, which is the average increase for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

VEBA withdrawals represent the funds taken out of the healthcare plan by Tier 1 and eligible Tier 2 members who opted out of the healthcare plan. Fiscal year 2017-2018 had the largest amount since it was the first year of the opt-in to the VEBA and will continue through calendar year 2022 for rehired employees with healthcare contributions. There was no VEBA withdrawal in FY2021-2022, and future withdrawals for FY2022-2023 are expected to be minimal, if any, since 2022 is the last calendar year that can have any withdrawals.

#### *ADMINISTRATIVE EXPENSE BUDGET*

The proposed administrative expenses budget of \$6,254,000 is a net increase of 6.38% or \$375,000 from the prior year modified budget of \$5,879,000.

#### *PERSONNEL SERVICES*

The budget for personnel services was increased to \$4,306,000, an increase of \$320,000, or 8.03% over the prior year adopted budget of \$3,986,000. The Budget Office's labor distribution report drives the personnel budget, which covers all the staff in Retirement Services. The salaries and benefits of all staff, except for investment staff, is split 50/50 between the System and the Police and Fire Department Retirement Plan (Plan). The investment staff is split 40/60 between the System and the Plan, which is roughly based on asset size. The proposed personnel changes for FY23-24 are to: 1) add an Overstrength Medicare Analyst in the Health section of the Benefits division, 2) upgrade the vacant Office Specialist to a Senior Office Specialist in the front desk in the Benefits division, and 3) upgrade the vacant Account Tech to an Accountant I/II in the Accounting division to address the increasing and more challenging workloads. The number of positions in Retirement Services will increase to 44 from 43 due to the proposals. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having three, instead of two, reemployed retirees for the maximum time allowed per the Municipal Code.

#### *NON-PERSONNEL / EQUIPMENT*

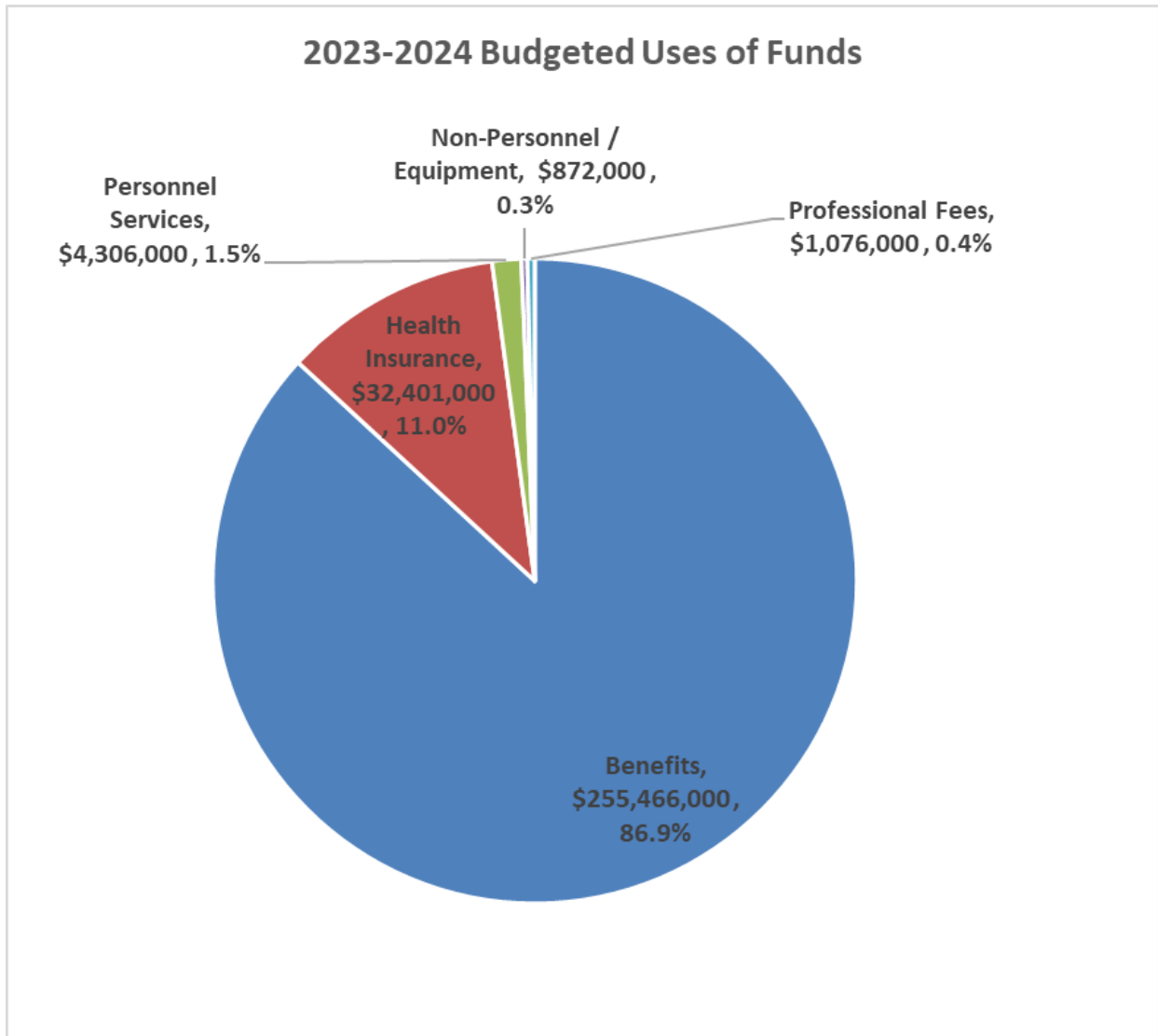
The budget for non-personnel / equipment was increased to \$872,000, an increase of \$74,000, or 9.27% from the prior year adopted budget of \$798,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the proposed change in financial software in IT hardware/software, the cubicle reconfiguration for the Benefits division, and to account for general increases across the board.

#### *PROFESSIONAL SERVICES*

The budget for professional services was reduced to \$931,000, a decrease of \$19,000, or 2.0% from the prior year modified budget of \$950,000. The adopted budget was modified to increase legal services by \$25,000 and temporary staffing service by \$75,000. If it had not been modified, current year proposed budget would be an increase of \$81,000, or 9.5% from the prior year adopted budget of \$850,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. The increase to the adopted budget is mainly due to the increase in temp services for the Benefits division to backfill for vacancies and assist with peak periods, as well as increases in actuarial and legal services to account for the rise in the need of their services in the past few years. The decrease from the modified budget is minimal and is due to the expectations that legal and temporary staffing services will see a slight reduction.

**MEDICAL SERVICES**

The budget for medical services remained steady at \$145,000. This category is for expenses related to the processing of disability applicants, which include costs for a medical advisor and medical services from independent medical examiners (IME).



Attachment: Proposed Budget for Fiscal Year 2023-2024

**PROPOSED BUDGET**

**FISCAL YEAR 2023-2024**

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

April 20, 2023

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

**Proposed Budget for Fiscal Year 2023-2024**

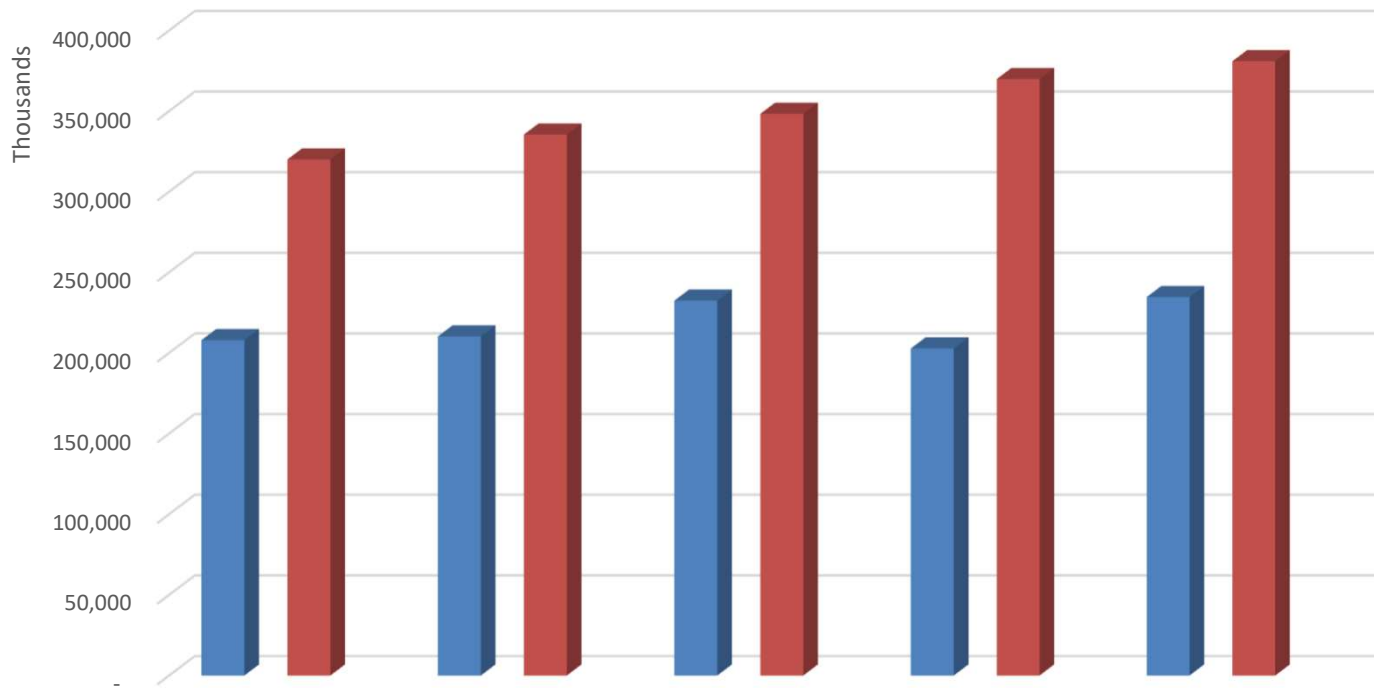
	<b>(A)</b> <b>2021-2022</b> <b>Actual</b>	<b>(B)</b> <b>2022-2023</b> <b>Modified</b>	<b>(C)</b> <b>2022-2023</b> <b>Forecast</b>	<b>(D)</b> <b>2023-2024</b> <b>Proposed</b>	<b>(A) to (B)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(B) - (C)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(C) - (D)</b> <b>Increase</b> <b>(Decrease)</b>
<b>SOURCE OF FUNDS</b>							
Beginning Fund Balance							
Claims Reserve	3,268,953,000	3,057,148,000	3,057,148,000	<b>3,168,843,000</b>	(211,805,000)	0	111,695,000
Total Beginning Fund Balance	3,268,953,000	3,057,148,000	3,057,148,000	<b>3,168,843,000</b>	(211,805,000)	0	111,695,000
Transfers							
COLAs	16,600	16,500	7,500	<b>7,500</b>	(100)	(9,000)	0
City Contributions	232,385,000	224,315,000	202,723,000	<b>234,618,000</b>	(8,070,000)	(21,592,000)	31,895,000
Total Transfers	232,401,600	224,331,500	202,730,500	<b>234,625,500</b>	(8,070,100)	(21,601,000)	31,895,000
Revenue							
Participant Contributions	37,329,000	37,915,000	37,915,000	<b>39,410,000</b>	586,000	0	1,495,000
Investment Income	-207,415,000	175,451,000	151,525,000	<b>157,847,000</b>	382,866,000	(23,926,000)	6,322,000
Total Revenue	-170,086,000	213,366,000	189,440,000	<b>197,257,000</b>	383,452,000	(23,926,000)	7,817,000
<b>TOTAL SOURCE OF FUNDS</b>	<b>3,331,268,600</b>	<b>3,494,845,500</b>	<b>3,449,318,500</b>	<b>3,600,725,500</b>	<b>163,576,900</b>	<b>(45,527,000)</b>	<b>151,407,000</b>
<b>USE OF FUNDS</b>							
Expenditures							
COLAs	16,600	16,500	7,500	<b>7,500</b>	(100)	(9,000)	0
Benefits	237,273,000	244,321,000	243,125,000	<b>255,466,000</b>	7,048,000	(1,196,000)	12,341,000
Health Insurance	31,088,000	31,679,000	31,679,000	<b>32,401,000</b>	591,000	0	722,000
VEBA Transfers	0	0	0	<b>0</b>	0	0	0
Personnel Services	3,582,000	3,986,000	3,921,000	<b>4,306,000</b>	404,000	(65,000)	385,000
Non-Personnel/Equipment <sup>(1)</sup>	1,161,000	798,000	758,000	<b>872,000</b>	(363,000)	(40,000)	114,000
Professional Fees	1,000,000	1,095,000	985,000	<b>1,076,000</b>	95,000	(110,000)	91,000
Total Expenditures	274,120,600	281,895,500	280,475,500	<b>294,128,500</b>	7,774,900	(1,420,000)	13,653,000
Ending Fund Balance							
Claims Reserve	3,057,148,000	3,212,950,000	3,168,843,000	<b>3,306,597,000</b>	155,802,000	(44,107,000)	137,754,000
Total Ending Fund Balance	3,057,148,000	3,212,950,000	3,168,843,000	<b>3,306,597,000</b>	155,802,000	(44,107,000)	137,754,000
<b>TOTAL USE OF FUNDS</b>	<b>3,331,268,600</b>	<b>3,494,845,500</b>	<b>3,449,318,500</b>	<b>3,600,725,500</b>	<b>163,576,900</b>	<b>(45,527,000)</b>	<b>151,407,000</b>

Amount not included in budget since no cash outlay:

Amortization expense for PG3 and GASB							
87 lease interest expenses	\$ 439,062	\$ 439,062	\$ 439,062	\$ 439,062			

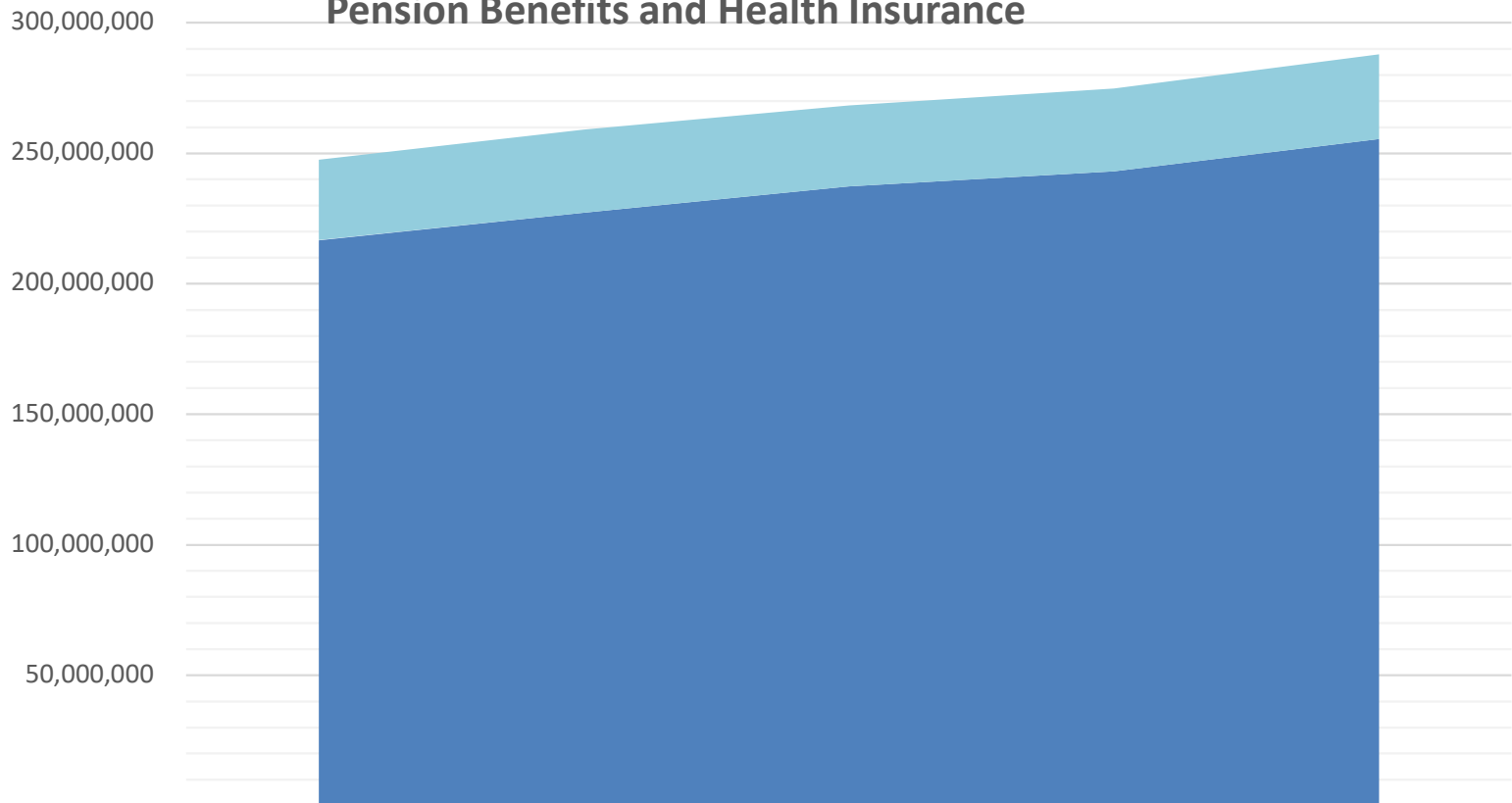
<sup>(1)</sup> Non-personnel equipment FY21-22	\$ 1,161,000
Rounding in ACFR	189
Amortization expense	(439,062)
As shown in Administrative Expenses	<b>\$ 722,127</b>

### FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Total City Contributions & Covered Payroll



	FY 19-20	FY 20-21	FY 21-22	FY 22-23 (Forecast)	FY 23-24 (Proposed)
<span style="color: blue;">■</span> Total City Contributions	207,860,000	210,200,000	232,385,000	202,723,000	234,618,000
Total City Contribution % Change	4.2%	1.1%	10.6%	-12.8%	15.7%
<span style="color: red;">■</span> Total Covered Payroll	319,980,000	335,421,000	348,307,000	369,833,000	380,900,000
Total Covered Payroll % Change	7.1%	4.8%	3.8%	6.2%	3.0%

## FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Pension Benefits and Health Insurance



	FY 2020 - Actual	FY 2021 - Actual	FY 2022 - Actual	FY 2023 - Forecast	FY 2024 - Proposed
Total Benefits	247,507,000	259,077,000	268,361,000	274,804,000	287,867,000
Health Insurance % Change	6.8%	3.5%	-2.5%	1.9%	2.3%
Health Insurance	30,779,000	31,871,000	31,088,000	31,679,000	32,401,000
Pension Benefits % Change	5.7%	4.8%	4.4%	2.5%	5.1%
Pension Benefits	216,728,000	227,206,000	237,273,000	243,125,000	255,466,000

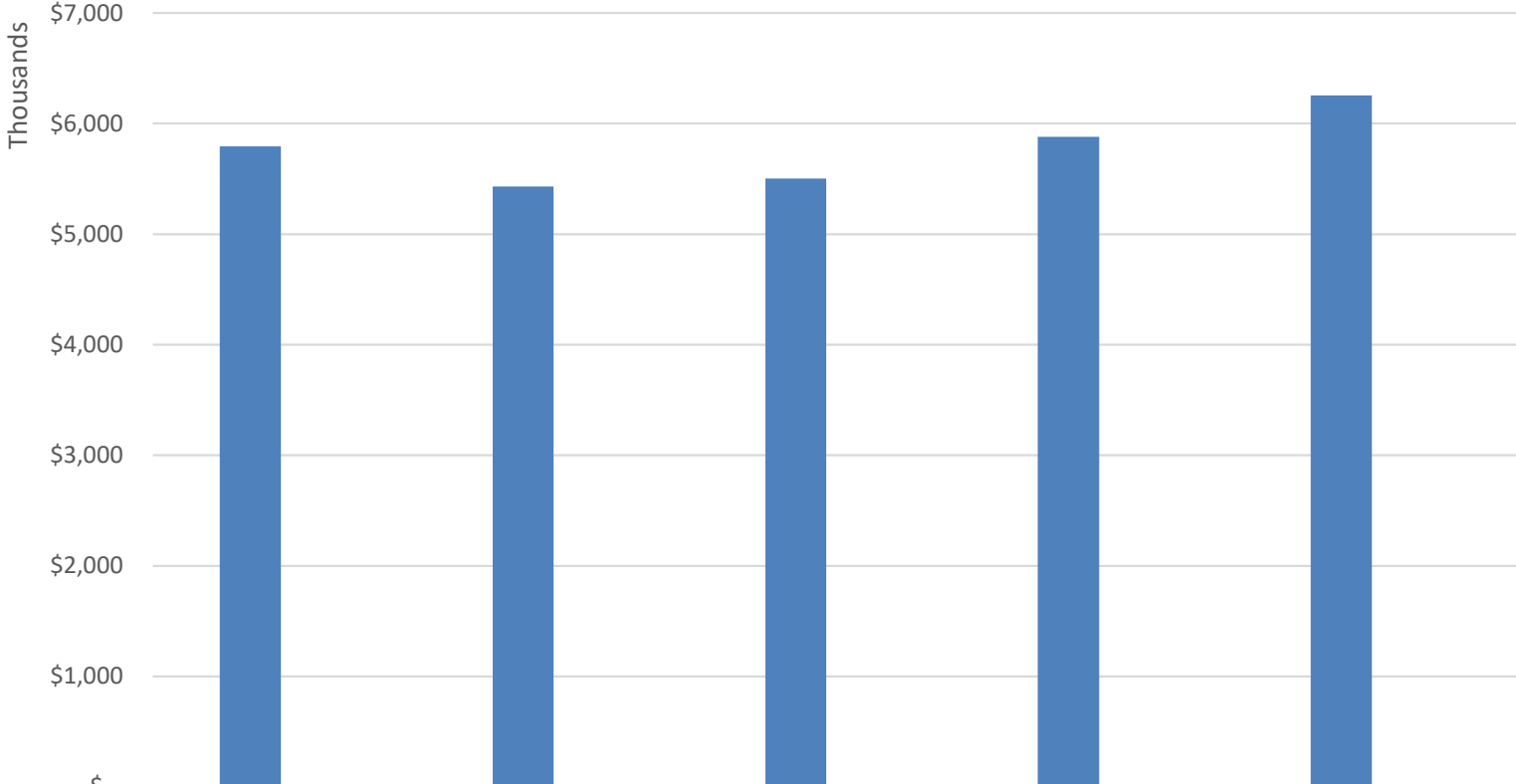


## FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

### Administrative Expenses: FY 2022-2023

	(A) 2021-2022 Actual	(B) 2022-2023 Adopted	(C) 2022-2023 Forecast	(D) 2023-2024 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>PERSONNEL SERVICES</b>							
Salaries and employee benefits	3,581,518	3,986,000	3,920,651	<b>4,306,000</b>	404,482	(65,349)	385,349
Total Personnel Services	3,581,518	3,986,000	3,920,651	<b>4,306,000</b>	404,482	(65,349)	385,349
<b>NON-PERSONNEL / EQUIPMENT</b>							
Insurance	222,848	240,000	233,361	<b>240,000</b>	17,152	(6,639)	6,639
IT hardware / software	88,961	109,000	81,571	<b>130,000</b>	20,039	(27,429)	48,429
LRS - annual maintenance fee	49,845	50,000	52,160	<b>55,000</b>	155	2,160	2,840
Postage and printing	77,776	85,000	93,841	<b>100,000</b>	7,224	8,841	6,159
Rent	232,481	222,000	223,875	<b>230,000</b>	(10,481)	1,875	6,125
Training and travel	13,652	25,000	30,920	<b>30,000</b>	11,348	5,920	(920)
Office supplies and board meeting expense	7,670	15,000	11,896	<b>15,000</b>	7,330	(3,104)	3,104
Other non-personnel / equipment	28,894	52,000	30,818	<b>72,000</b>	23,106	(21,182)	41,182
Total Non-personnel / Equipment	722,127	798,000	758,442	<b>872,000</b>	75,873	(39,558)	113,558
<b>PROFESSIONAL SERVICES</b>							
Actuary / actuarial audit	336,189	227,000	257,072	<b>270,000</b>	(109,189)	30,072	12,928
External auditor	92,837	85,000	84,908	<b>85,000</b>	(7,837)	(92)	92
Legal	391,173	390,000	336,122	<b>359,000</b>	(1,173)	(53,878)	22,878
Pension administration system	16,944	20,000	17,852	<b>24,000</b>	3,056	(2,148)	6,148
Temporary staffing agencies	90,741	167,000	159,757	<b>132,000</b>	76,259	(7,243)	(27,757)
Other professional services	40,806	61,000	43,270	<b>61,000</b>	20,194	(17,730)	17,730
Total Professional Services	968,690	950,000	898,981	<b>931,000</b>	(18,690)	(51,019)	32,019
<b>MEDICAL SERVICES</b>							
Independent medical examiners	700	40,000	42,000	<b>145,000</b>	39,300	2,000	103,000
Medical consultant	30,758	105,000	44,461	<b>0</b>	74,242	(60,539)	(44,461)
Total Medical Services	31,458	145,000	86,461	<b>145,000</b>	113,542	(58,539)	58,539
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>5,303,793</b>	<b>5,879,000</b>	<b>5,664,535</b>	<b>6,254,000</b>	<b>575,207</b>	<b>(214,465)</b>	<b>589,465</b>
Amortization expense	439,062						
Rounding	145						
<b>Total Admin Expenses per ACFR</b>	<b>5,743,000</b>						

### FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Administrative Expense Budget



	FY 19-20	FY 20-21	FY 21-22	FY 22-23 (Adopted)	FY 23-24 (Proposed)
■ Admin Exp Budget*	\$5,796,000	\$5,430,000	\$5,503,000	\$5,879,000	\$6,254,000
% Change	-0.1%	-6.3%	1.3%	6.8%	6.4%

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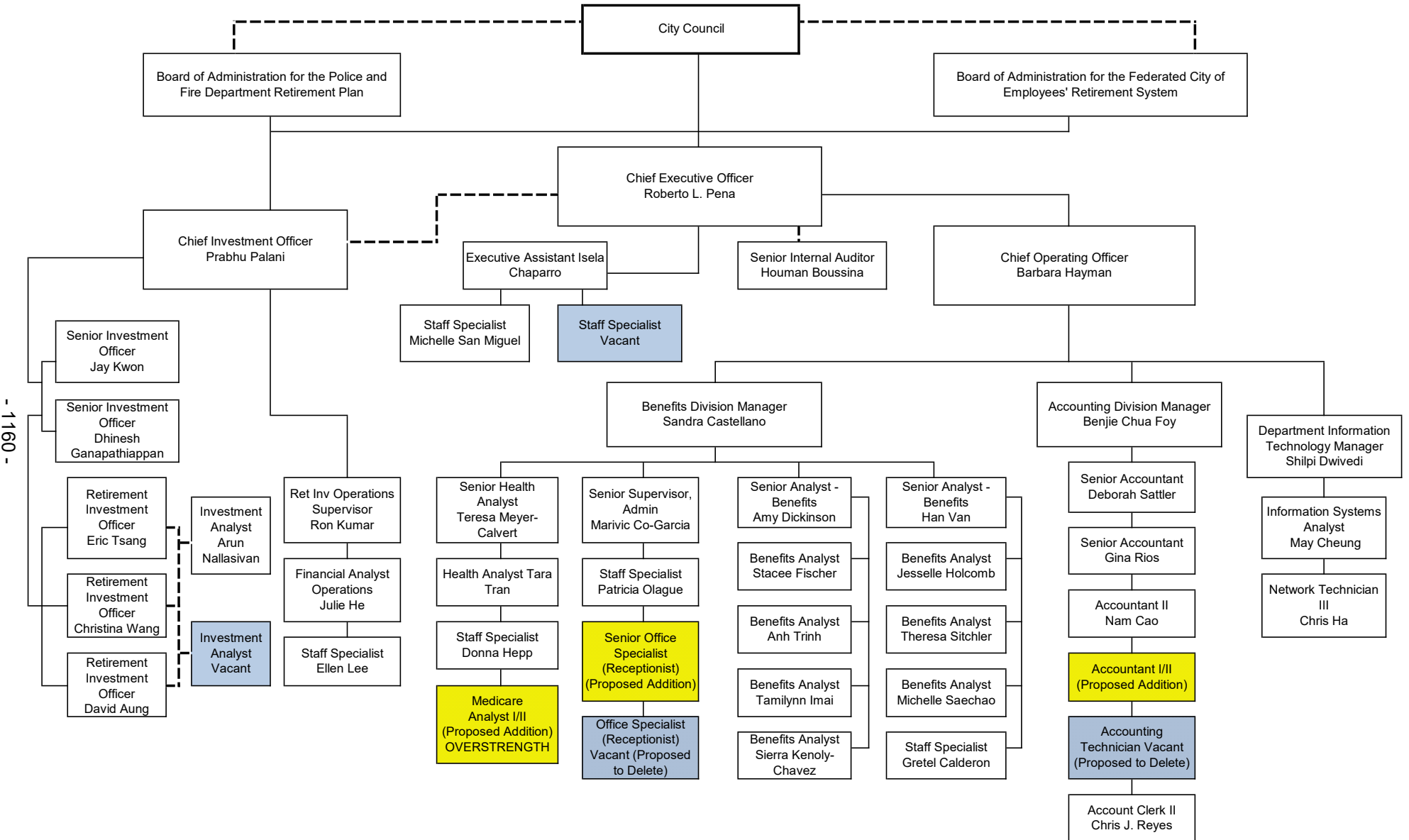
\* Amount includes budget for operations only.

**OFFICE OF RETIREMENT SERVICES**

**Departmental Position Detail**

<b>Position</b>	<b>2021-2022 Adopted (1)</b>	<b>2022-2023 Adopted (2)</b>	<b>2022-2023 Forecast (3)</b>	<b>2023-2024 Proposed (4)</b>	<b>Increase / (Decrease) (2 to 4)</b>	<b>Increase / (Decrease) (3 to 4)</b>	<b>Explanation</b>
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accountant I/II	1.00	1.00	1.00	2.00	1.00	1.00	Upgrade the Account Tech to an Accountant I/II
Accounting Technician	1.00	1.00	1.00	0.00	(1.00)	(1.00)	Upgrade the Account Tech to an Accountant I/II
Analyst I/II	6.00	7.00	8.00	9.00	2.00	1.00	Upgraded Staff Specialist to Analyst I/II in Benefits Division in December 2022 and Proposed addition of Medicare Analyst for Benefits Division - Overstrength
Assistant Director and Chief Investment Officer	1.00	1.00	1.00	1.00	-	-	
Department Information Technology Manager	1.00	1.00	1.00	1.00	-	-	
Deputy Director	1.00	1.00	1.00	1.00	-	-	
Director of Retirement Services	1.00	1.00	1.00	1.00	-	-	
Division Manager	2.00	2.00	2.00	2.00	-	-	
Executive Assistant	1.00	1.00	1.00	1.00	-	-	
Financial Analyst	1.00	1.00	1.00	1.00	-	-	
Investments Operations Supervisor	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	1.00	1.00	1.00	1.00	-	-	
Network Technician I/II/III	1.00	1.00	1.00	1.00	-	-	
Office Specialist II	1.00	1.00	1.00	0.00	(1.00)	(1.00)	Upgrade the Office Specialist to a Senior Office Specialist in Benefits Division
Retirement Investment Analyst I/II	2.00	2.00	2.00	2.00	-	-	
Retirement Investment Officer	3.00	3.00	3.00	3.00	-	-	
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	3.00	3.00	3.00	-	-	
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Office Specialist	0.00	0.00	0.00	1.00	1.00	1.00	Upgrade the Office Specialist in Benefits Division
Senior Retirement Investment Officer	2.00	2.00	2.00	2.00	-	-	
Senior Supervisor, Administration	0.00	1.00	1.00	1.00	-	-	
Staff Specialist	7.00	7.00	6.00	6.00	(1.00)	-	Upgraded Staff Specialist to Analyst I/II in Benefits Division in December 2022
<b>Total Positions</b>	<b>40.00</b>	<b>43.00</b>	<b>43.00</b>	<b>44.00</b>	<b>1.00</b>	<b>1.00</b>	

**OFFICE OF RETIREMENT SERVICES  
Proposed Organizational Chart  
Budget FY22-23**



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