

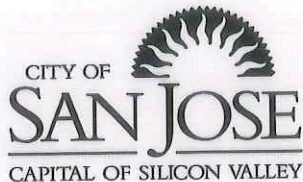


2018-2019

OPERATING BUDGET

**FEDERATED CITY
EMPLOYEES'
RETIREMENT
SYSTEM**

**PROPOSED
BUDGET FOR
FISCAL YEAR
2018-2019**



Memorandum

**TO: Board of Administration for the
Federated Retirement System**

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2018-2019**

DATE: March 7, 2018

Approved

Roberto L. Pera

Date

3/7/18

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2018-2019.

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 and not the individual line items. If the individual line item goes over budget, no approval is required from the Board, if 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 \$191,966,120.

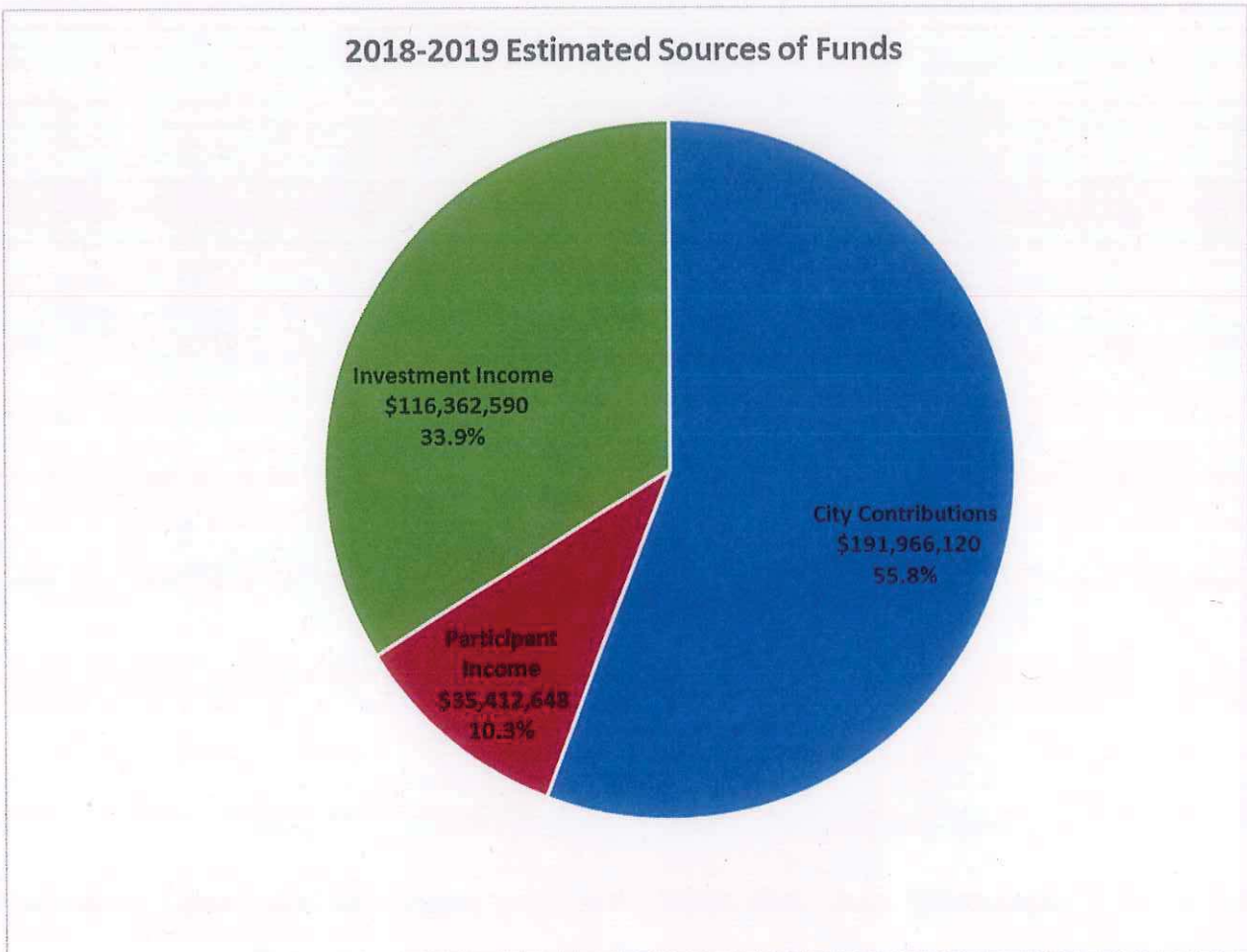
This contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY19 contributions rates assume the Board's adoption in April/May inclusive of the changes from Measure F, as shown in the June 30, 2017 actuarial reports for pension and healthcare. The City's covered payroll is also based on the amounts shown in the June 30, 2017 actuarial reports for pension and healthcare.

PARTICIPANT INCOME

Total member contributions are estimated at \$35,412,648, a 5.5% increase from the 2017-2018 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension increased from 6.6% to 6.85% while their covered payroll decreased from \$165.6 million to \$158.8 million. Tier 2 contribution rates for pension and covered payroll increased from 7.72% to 8.28% and from \$109.3 million to \$137.9 million, respectively. Healthcare contribution rates were reduced to 7.5% for members, while the City's contribution is a flat dollar amount of approximately \$26 million. In addition, the covered payroll will most likely decrease due to the VEBA opt-in from Measure F.

INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.875%. The beginning fund balance, along with the City's contributions are expected to earn the full rate while the member contributions offset with the expenditures are expected to earn less than the full rate.



USES OF FUNDS

PENSION BENEFITS AND HEALTH INSURANCE

The pension benefits budget increased to \$209,001,120, an increase of \$11,606,329, or 5.88%, 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 \$33,000,663, an increase of \$904,823, or 2.82%, which is the average increase for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$5,799,000 is a net decrease of 7.1% or \$445,800 from the prior year proposed budget of \$6,244,800.

PERSONNEL SERVICES

The budget for personnel services was reduced to \$3,340,000, a decrease of \$153,800, or 4.4% over the prior year adopted budget of \$3,493,800. 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 based on asset size. The number of positions in Retirement Services remained at 39.75. However, two of the positions are limited-date positions which expire on June 30, 2018. The proposed personnel changes for FY18-19 are to convert the limited-date positions to permanent positions. The main reason for the decrease is due to the implementation of the VEBA which essentially reduces the City's contribution for healthcare for Tier 2 members.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was reduced to \$1,287,000, a decrease of \$82,800, or 6.0% over the prior year adopted budget. This category includes data processing costs for investments, rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. This reduction is due to several reasons:

- \$93,000 reduction in investment analytics and research due to the decrease in the risk management implementation budget to be in line with the contractual amounts due to Verus
- \$10,000 increase due to general increases in fees and contracts.

PROFESSIONAL SERVICES

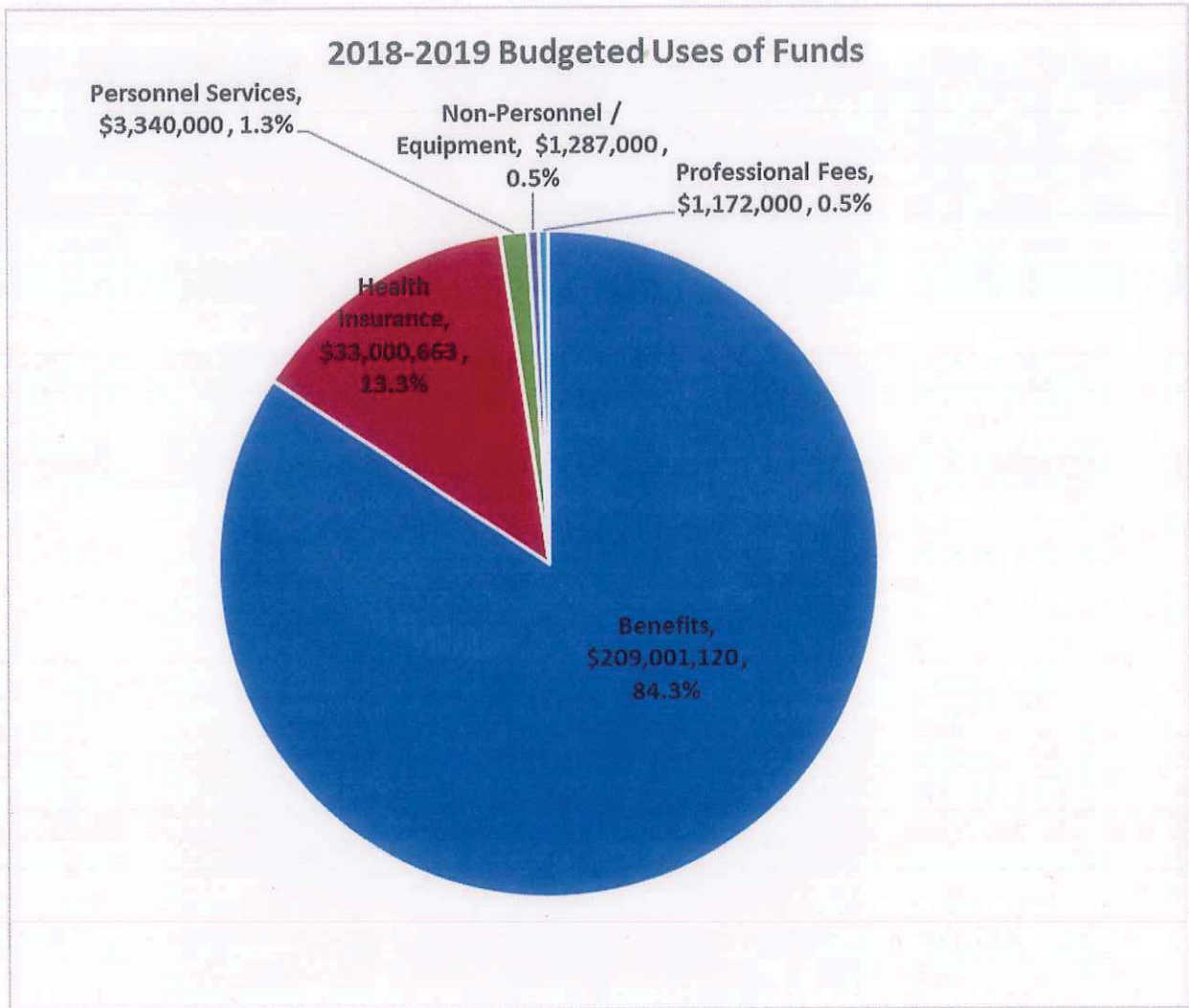
The budget for professional services was reduced to \$964,000, a slight decrease of \$26,200, or 2.7% over the prior year adopted budget of \$990,200. Funding is required to continue the professional services necessary to meet core business needs in the area of actuarial services, financial audit services, legal services, and temporary staffing services. Decreases in budgetary amounts for core professional services resulted from reducing the budgetary amounts to be in line with prior year trends which were offset by planned projects for FY18-19. These include the following:

- \$36,000 reduction in actuarial services budget based on contractual services and projected retention services
- \$13,000 reduction in legal services budget to be consistent with past trends
- \$14,000 reduction in pension administration system-related budget to be consistent with past trends
- \$37,000 increase in temporary staffing services budget due to the pensionable earnings correction project, open enrollment and most significantly, the implementation of the new pension administration system which are required for IT, accounting and benefits as parallel productions are occurring.

MEDICAL SERVICES

The budget for medical services was reduced to \$208,000, a decrease of \$183,000, or 28.5% over the prior year adopted budget of \$391,000. 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). Reasons for the decrease include the following:

- Prior year's budget was prepared in anticipation of a 3-doctor Board medical advisor panel which has not been implemented
- Since Dr. Tierman was a new consultant, it was not known how many reports she would be capable of producing. It was not until late 2017 that her pattern of 4 a month per plan evolved
- Fiscal year 2017 started with a backlog of 30 IME reports received and many reviews required of Dr. Tierman, which were included in last year's budget.
- Current year budget is more in line with a typical year.



Attachment: Proposed Budget for Fiscal Year 2018-2019

PROPOSED BUDGET
FISCAL YEAR 2018-2019

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

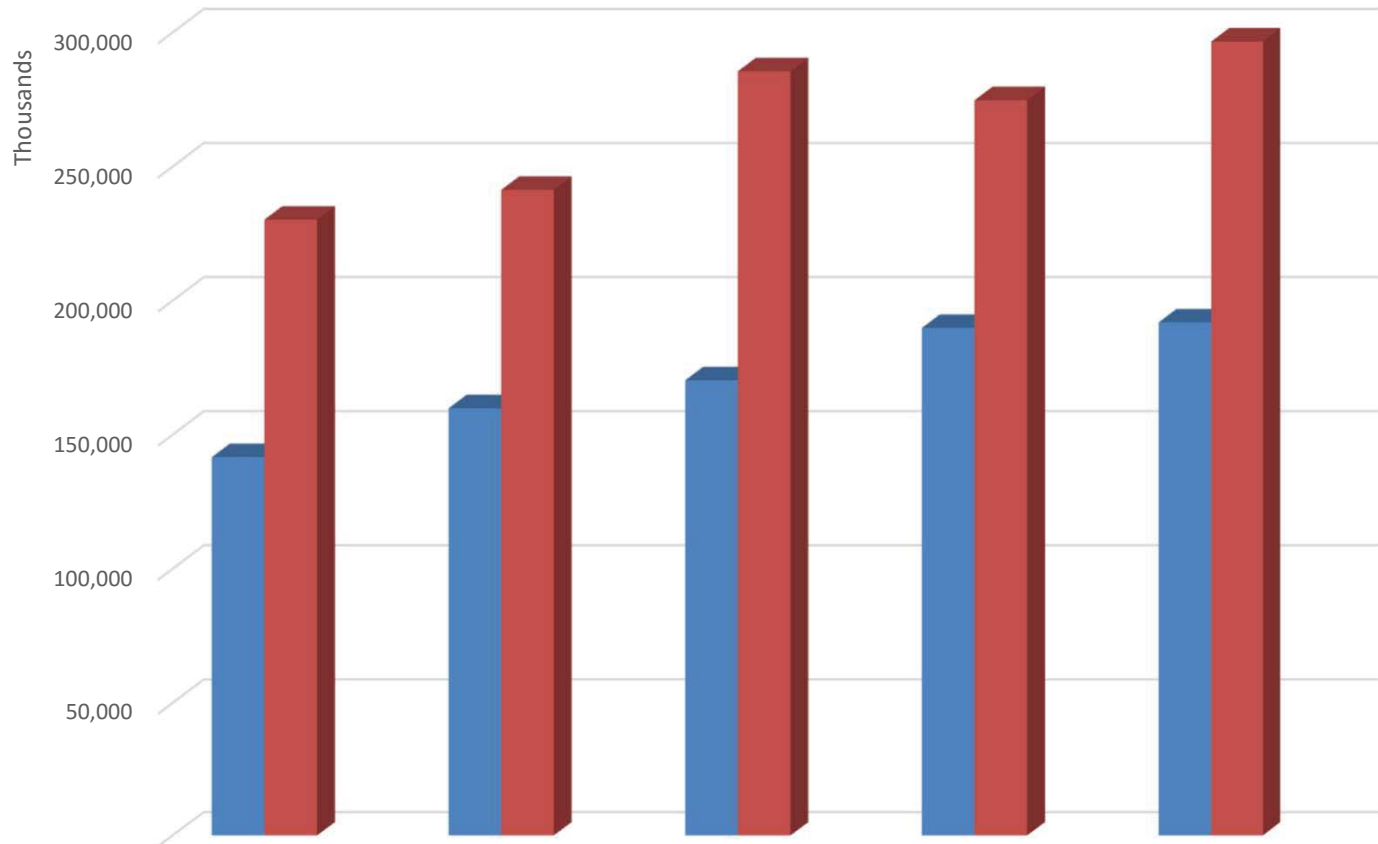
March 15, 2018

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Proposed Budget for Fiscal Year 2018-2019

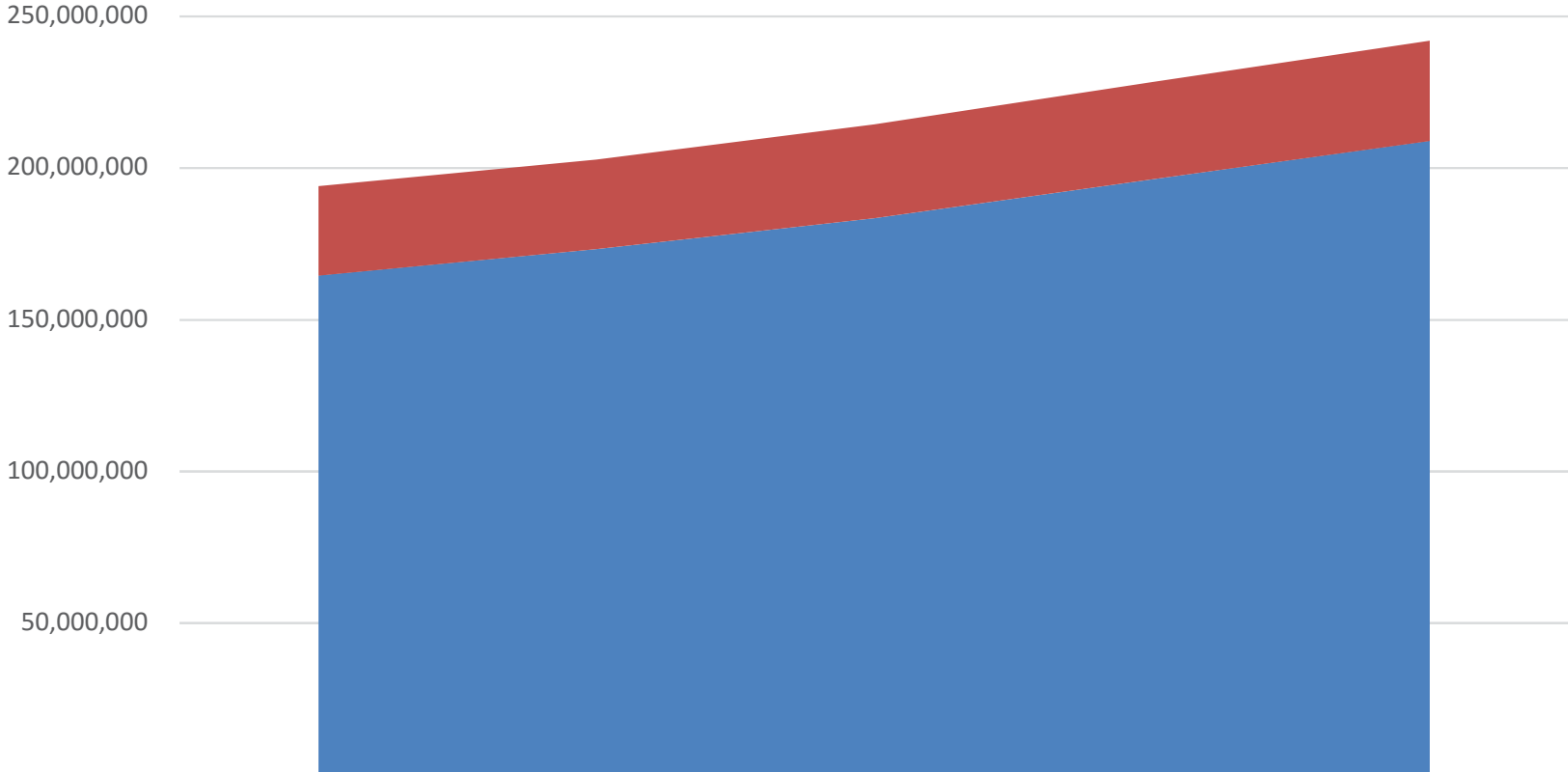
	<u>2016-2017 Actual</u>	<u>2017-2018 Adopted</u>	<u>2017-2018 Forecast</u>	<u>2018-2019 Proposed</u>
SOURCE OF FUNDS				
Beginning Fund Balance				
Claims Reserve	2,084,728,000	2,233,162,000	2,232,623,374	2,310,597,212
Total Beginning Fund Balance	2,084,728,000	2,233,162,000	2,232,623,374	2,310,597,212
Transfers				
COLAs	32,966	33,525	27,462	26,244
City Contributions	170,388,000	186,502,648	189,907,295	191,966,120
Total Transfers	170,420,966	186,536,173	189,934,757	191,992,364
Revenue				
Participant Income	34,054,000	33,574,179	34,954,154	35,412,648
Investment Income	163,051,000	148,058,291	114,572,576	116,362,590
Total Revenue	197,105,000	181,632,470	149,526,730	151,775,238
TOTAL SOURCE OF FUNDS	<u>2,452,253,966</u>	<u>2,601,330,643</u>	<u>2,572,084,861</u>	<u>2,654,364,814</u>
USE OF FUNDS				
Expenditures				
COLAs	32,966	33,525	27,462	26,244
Benefits	183,430,000	197,394,791	196,244,088	209,001,120
Health Insurance	31,007,000	30,250,000	32,095,840	33,000,663
Personnel Services	3,065,147	3,493,800	2,947,920	3,340,000
Non-Personal/Equipment ⁽¹⁾	1,139,540	1,369,800	1,035,042	1,287,000
Professional Fees ⁽²⁾	955,939	1,381,200	1,002,734	1,172,000
Total Expenditures	219,630,592	233,923,116	233,353,086	247,827,027
Ending Fund Balance				
Claims Reserve	2,232,623,374	2,367,407,527	2,338,731,774	2,406,537,787
Total Ending Fund Balance	2,232,623,374	2,367,407,527	2,338,731,774	2,406,537,787
TOTAL USE OF FUNDS	<u>2,452,253,966</u>	<u>2,601,330,643</u>	<u>2,572,084,861</u>	<u>2,654,364,814</u>
Per CAFR	613,864			
Investment data processing fees	435,900			
CAFR design, stipends and education budgeted as professional fees	(13,941)			
Amount capitalized in CAFR	103,717			
	⁽¹⁾ 1,139,540			
Per CAFR	941,998			
CAFR design, stipends and education budgeted as professional fees	13,941			
	⁽²⁾ 955,939			

Total City Contributions & Covered Payroll



	FY 14-15	FY 15-16	FY 16-17	FY 17-18 (Forecast)	FY 18-19 (Estimate)
Total City Contributions	141,710,000	159,921,000	170,388,000	189,907,295	191,966,120
Total Covered Payroll	230,294,798	241,365,429	285,595,469	274,822,267	296,700,000
Total City Contribution % Change	11.7%	12.9%	6.5%	11.5%	1.1%

Federated City Employees' Retirement System Pension Benefits and Health Insurance



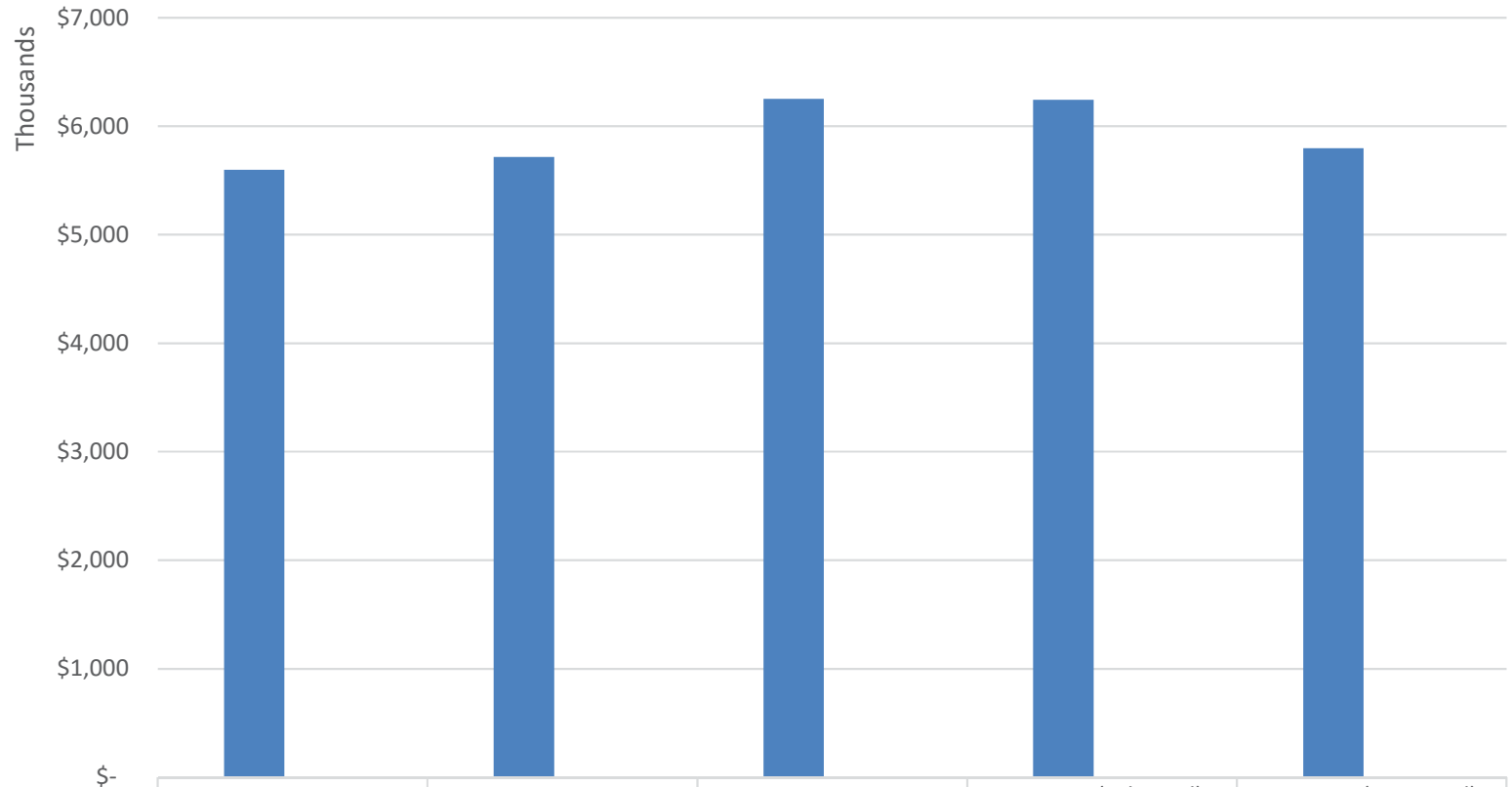
	FY 2015 - Actual	FY 2016 - Actual	FY 2017 - Actual	FY 2018 - Forecast	FY 2019 - Proposed
Total	194,005,000	202,895,000	214,437,000	228,339,928	242,001,783
■ Health Insurance	29,443,000	29,577,000	31,007,000	32,095,840	33,000,663
■ Pension Benefits	164,562,000	173,318,000	183,430,000	196,244,088	209,001,120

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Administrative Expenses: FY 2018-2019

	<u>2016-2017 Actual</u>	<u>2017-2018 Adopted</u>	<u>2017-2018 Forecast</u>	<u>2018-2019 Proposed</u>
PERSONNEL SERVICES				
Salaries and employee benefits	3,065,147	3,493,800	2,947,920	3,340,000
Total Personnel Services	3,065,147	3,493,800	2,947,920	3,340,000
NON-PERSONNEL / EQUIPMENT				
Investment analytics and research	463,400	578,000	412,995	485,000
Insurance	184,443	185,000	195,095	195,000
IT hardware / software	62,149	78,800	36,292	90,000
LRS - annual maintenance fee	103,717	105,000	106,829	110,000
Postage and printing	57,469	105,000	36,541	90,000
Rent	197,051	200,000	194,269	200,000
Training and travel	41,811	70,000	9,410	70,000
Other non-personnel / equipment	29,500	48,000	43,611	47,000
Total Non-personnel / Equipment	1,139,540	1,369,800	1,035,042	1,287,000
PROFESSIONAL SERVICES				
Actuary	297,124	245,000	166,280	209,000
External auditor	59,107	70,000	62,232	70,000
Legal	301,802	395,000	338,241	382,000
Pension administrative system	22,202	52,500	38,018	35,500
Temporary staffing agencies	83,056	132,000	157,269	169,000
Other professional services	43,683	95,700	78,814	98,500
Total Professional Services	806,974	990,200	840,854	964,000
MEDICAL SERVICES				
Independent medical examiners	88,365	220,000	95,280	136,000
Medical consultant	60,600	171,000	66,600	72,000
Total Medical Services	148,965	391,000	161,880	208,000
TOTAL ADMINISTRATIVE EXPENSES	<u>5,160,626</u>	<u>6,244,800</u>	<u>4,985,696</u>	<u>5,799,000</u>

Administrative Expense Budget FY 2014-2015 to FY 2018-2019



	FY 14-15	FY 15-16	FY 16-17	FY 17-18 (Adopted)	FY 18-19 (Proposed)
■ Admin Exp Budget*	\$5,597,259	\$5,716,203	\$6,251,200	\$6,244,800	\$5,799,000
■ % Change	13.7%	2.1%	9.4%	-0.1%	-7.1%

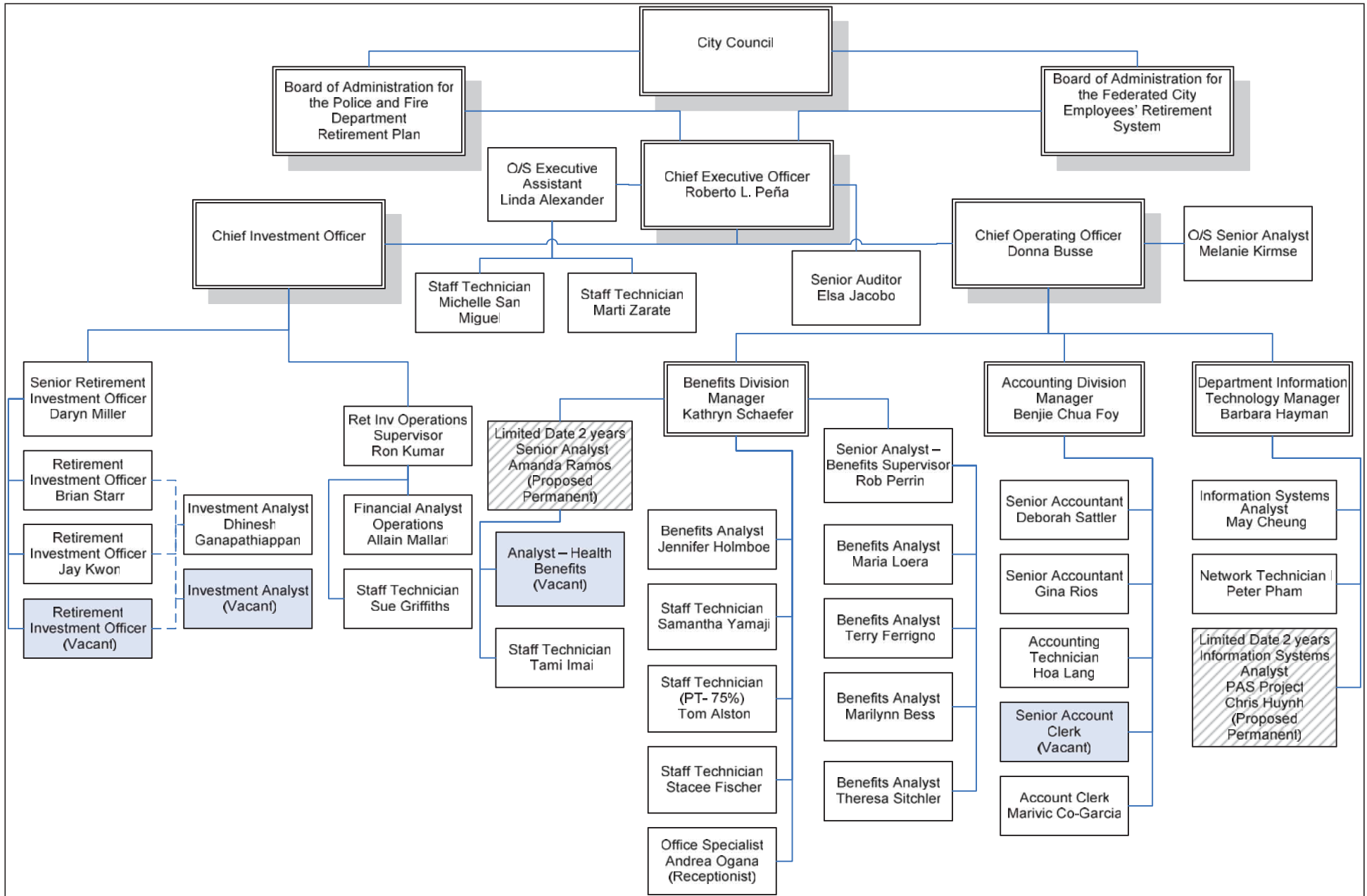
* Amount includes budget for operations only.

Office of Retirement Services

Departmental Position Detail

Position	2016-2017 Adopted (1)	2017-2018 Adopted (2)	2017-2018 Forecast (3)	2018-2019 Proposed (4)	Increase / (Decrease) (2 to 4)	Increase / (Decrease) (3 to 4)	Explanation
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accounting Technician	1.00	1.00	1.00	1.00	-	-	
Analyst I/II	6.00	6.00	6.00	6.00	-	-	
Assistant Director and Chief Investment Officer	1.00	1.00	1.00	1.00	-	-	Previous one left April 2017 and a new one was hired in March 2018
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	-	-	Previous one left January 2017 and a new one was hired in September 2017
Executive Assistant	0.00	0.00	1.00	1.00	1.00	-	Reclassification from Staff Tech in December 2017
Financial Analyst	1.00	1.00	1.00	1.00	-	-	New one hired December 2017
Investments Operations Officer	0.00	1.00	1.00	1.00	-	-	Reclassification from RIO to this one in July 2017
Information Systems Analyst	2.00	2.00	2.00	2.00	-	-	
Network Technician I/II/III	1.00	1.00	1.00	1.00	-	-	
Office Specialist II	1.00	1.00	1.00	1.00	-	-	
Retirement Investment Analyst I/II	2.00	2.00	1.00	2.00	-	1.00	Vacant position
Retirement Investment Officer	4.00	3.00	2.00	3.00	-	1.00	Reclassification from RIO to this one in July 2017; vacant position
Senior Account Clerk	1.00	1.00	1.00	1.00	-	-	
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	2.00	2.00	2.00	-	-	
Senior Auditor	1.00	1.00	1.00	1.00	-	-	New one hired December 2017
Senior Retirement Investment Officer	1.00	1.00	1.00	1.00	-	-	
Staff Technician	7.00	7.00	6.00	6.00	(1.00)	-	Reclassification from Staff Tech in December 2017
Staff Technician PT	0.75	0.75	0.75	0.75	-	-	
Total Positions	39.75	39.75	37.75	39.75	0.00	2.00	

**OFFICE OF RETIREMENT SERVICES
PROPOSED ORGANIZATIONAL CHART
FY 18-19**



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