

**2019-2020**

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**OPERATING BUDGET**

**FEDERATED CITY  
EMPLOYEES'  
RETIREMENT  
SYSTEM**

**BUDGET FOR  
FISCAL YEAR  
2019-2020**



# Memorandum

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

**FROM: Benjie Chua Foy**

**SUBJECT: Consideration of Proposed Budget  
for Fiscal Year 2019-2020**

**DATE: March 13, 2019**

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Approved

Date

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## **RECOMMENDATION**

Discussion and action on the proposed budget for fiscal year 2019-2020.

## **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 \$201,348,000.

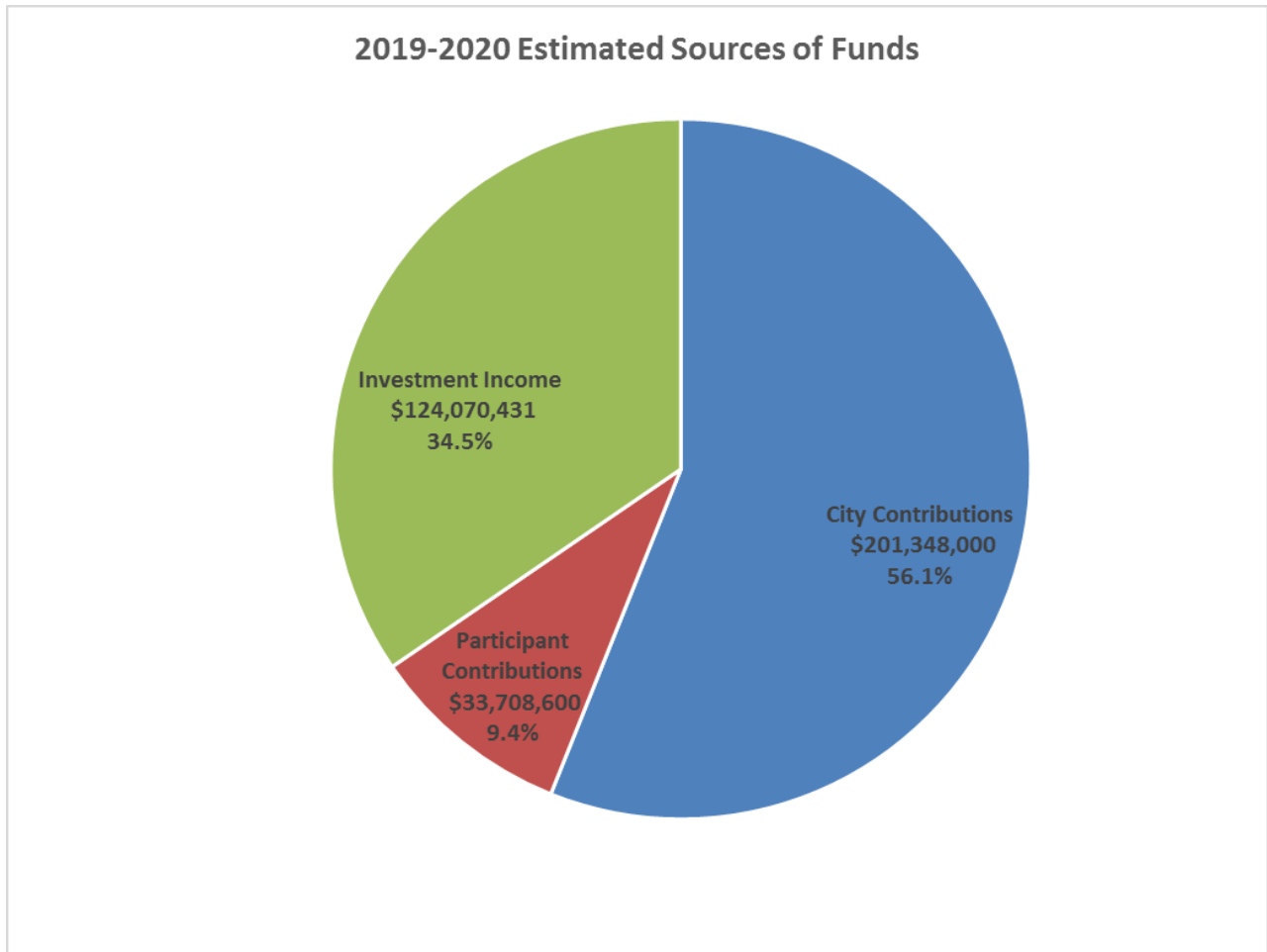
The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY20 contribution amounts assume the Board's adoption in April/May inclusive of the changes from Measure F, as shown in the June 30, 2018 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$33,708,600, a 4.8% decrease from the 2018-2019 adopted amount but a 2.1% increase from the 2018-2019 forecast amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension increased from 6.81% to 7.06% while their covered payroll decreased from \$158.8 million to \$149.3 million. Tier 2 contribution rates for pension and covered payroll increased from 8.28% to 8.33% and from \$137.9 million to \$159.4 million, respectively. Healthcare contribution rates remain at 7.5% per the Municipal Code for Tier 1 and some Tier 2 members, while the City's contribution is a flat dollar amount of approximately \$22 million.

## INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.75%. 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 \$210,176,903, an increase of \$1,175,783, or 0.56% from the FY18-19 adopted amount of \$209,001,120, but a \$9,659,579 or 4.82% increase from the FY18-19 forecasted amount. Pension benefits include service pensions, disability and survivorship pensions, death benefits and refunds of contributions.

The health insurance budget increased to \$30,431,277, a decrease of \$2,569,386, or 7.79% from the FY18-19 adopted amount of \$33,000,663. 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. Last fiscal year will have the largest amount as 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.

### *ADMINISTRATIVE EXPENSE BUDGET*

The proposed administrative expenses budget of \$6,059,000 is a net increase of 4.5% or \$260,000 from the prior year proposed budget of \$5,799,000.

### PERSONNEL SERVICES

The budget for personnel services was increased to \$3,489,000, an increase of \$149,000, or 4.5% over the prior year adopted budget of \$3,340,000. The main reason for the increase is due to the increased benefit rates, as well as adding two return to work retirees in the budget. 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, 2019. The proposed personnel changes for FY19-20 were requested to convert the limited-date positions to permanent positions, and after discussions with the Mayor's Office, we understand there is support of approving the two limited-date positions.

### NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was increased to \$1,408,000, an increase of \$96,000, or 7.3% over the prior year adopted budget of \$1,312,000. 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 increase was mainly due to an increase of \$84,000 in the investment analytics and research budget for added services. The rest of the increase is due to CPI increases in various categories.

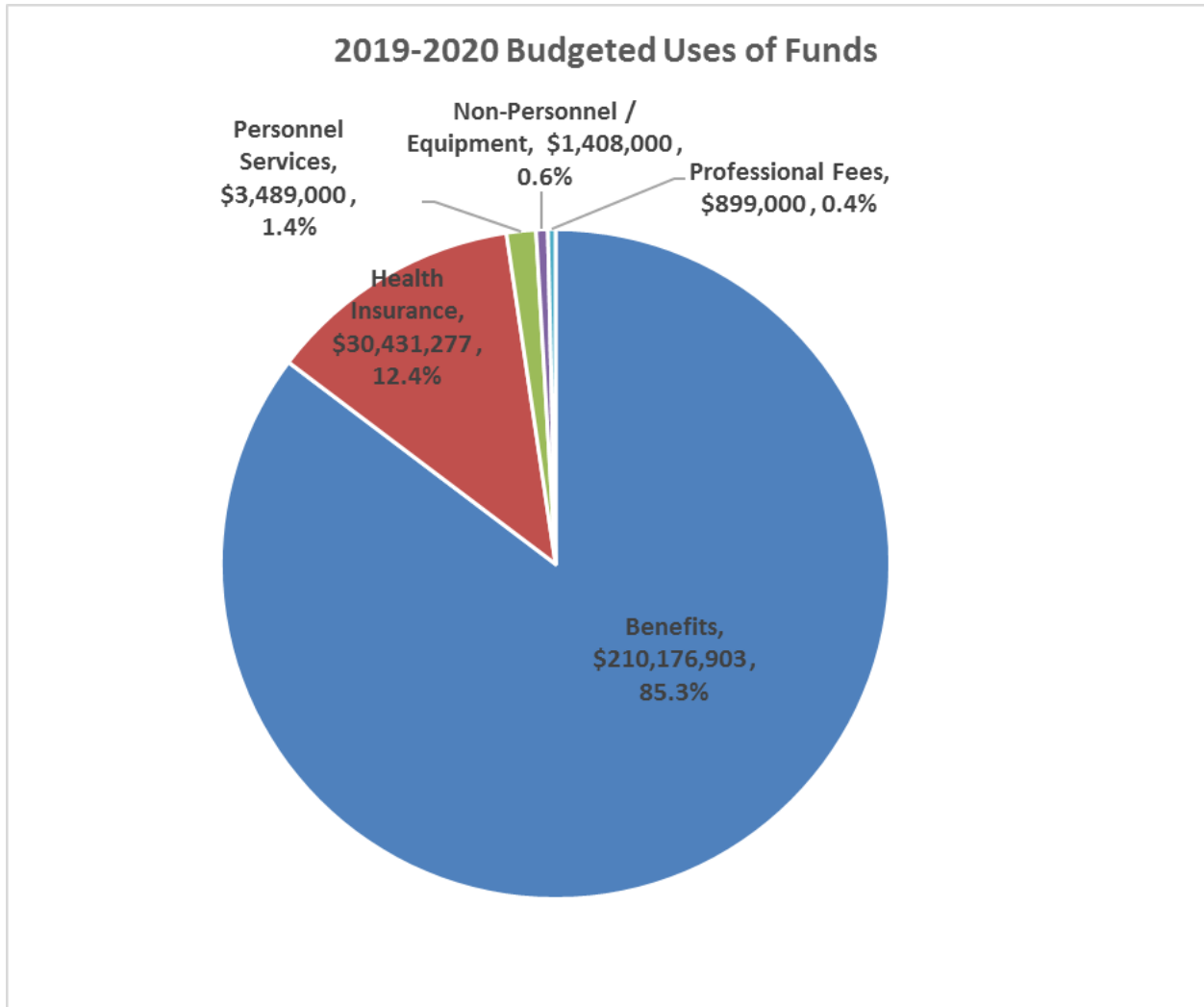
### PROFESSIONAL SERVICES

The budget for professional services was reduced to \$762,000, a decrease of \$177,000, or 18.9% from the prior year adopted budget of \$939,000. 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 FY19-20. These include the following:

- \$125,000 decrease in temporary staffing services budget due to the completion of the pensionable earnings correction project and the implementation of the new pension administration system
- \$87,000 reduction in legal services budget based on contractual services and projected retention services
- \$25,000 addition for a communications consultant
- \$10,00 addition in other categories for CPI adjustment.

### MEDICAL SERVICES

The budget for medical services decreased to \$137,000, a decrease of \$71,000, or 34.1% over the prior year adopted budget of \$208,000. 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). The main reason for the decrease is due to a better handle on how many cases are processed on a monthly basis, as well as to be in line with previous expenses.



Attachment: Proposed Budget for Fiscal Year 2019-2020

**PROPOSED BUDGET**

**FISCAL YEAR 2019-2020**

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

March 21, 2019

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

**Proposed Budget for Fiscal Year 2019-2020**

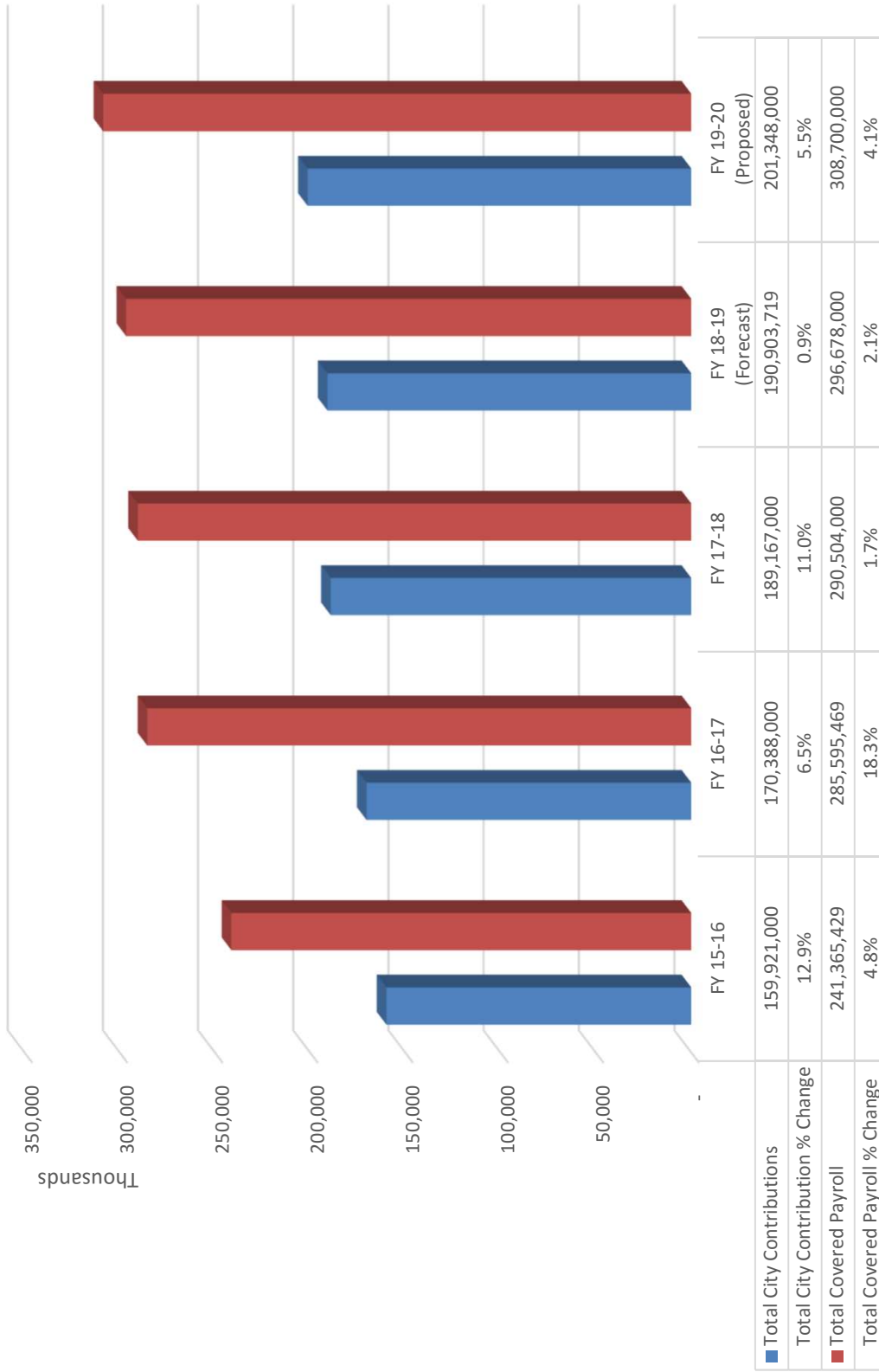
	(A) 2017-2018 Actual	(B) 2018-2019 Modified	(C) 2018-2019 Forecast	(D) 2019-2020 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>SOURCE OF FUNDS</b>							
Beginning Fund Balance	2,233,162,000	2,346,590,000	2,346,590,000	2,455,398,123	113,428,000	0	108,808,123
Claims Reserve	2,233,162,000	2,346,590,000	2,346,590,000	2,455,398,123	113,428,000	0	108,808,123
Total Beginning Fund Balance							
Transfers	27,304	26,950	25,588	25,704	(354)	(1,362)	116
COLAs	189,167,000	191,966,120	190,903,719	201,348,000	2,799,120	(1,062,401)	10,444,281
City Contributions	189,194,304	191,993,070	190,929,307	201,373,704	2,798,766	(1,063,763)	10,444,397
Total Transfers							
Revenue	36,046,000	35,412,648	33,008,931	33,708,600	(633,352)	(2,403,717)	699,669
Participant Contributions	129,829,000	116,362,590	119,031,408	124,070,431	(13,466,410)	2,668,818	5,039,023
Investment Income	165,875,000	151,775,238	152,040,339	157,779,031	(14,099,762)	265,101	5,738,692
Total Revenue							
<b>TOTAL SOURCE OF FUNDS</b>	<b>2,588,231,304</b>	<b>2,690,358,308</b>	<b>2,689,559,646</b>	<b>2,814,550,858</b>	<b>102,127,004</b>	<b>(798,662)</b>	<b>124,991,212</b>
<b>USE OF FUNDS</b>							
Expenditures	27,304	26,950	25,588	25,704	(354)	(1,362)	116
COLAs	193,400,000	209,001,120	200,517,324	210,176,903	15,601,120	(8,483,796)	9,659,579
Benefits	29,724,000	33,000,663	28,774,328	30,431,277	3,276,663	(4,226,335)	1,656,949
Health Insurance	13,497,000	0	18,900	0	(13,497,000)	18,900	(18,900)
VEBA Transfers	2,899,282	3,340,000	2,923,342	3,489,000	440,718	(416,658)	565,658
Personnel Services	1,208,473	1,312,000	1,127,461	1,408,000	103,527	(184,539)	280,539
Non-Personal/Equipment	885,245	1,147,000	774,580	899,000	261,755	(372,420)	124,420
Professional Fees							
Total Expenditures	241,641,304	247,827,733	234,161,523	246,429,884	6,186,429	(13,666,210)	12,268,361
Ending Fund Balance	2,346,590,000	2,442,530,575	2,455,398,123	2,568,120,974	95,940,575	12,867,548	112,722,851
Claims Reserve	2,346,590,000	2,442,530,575	2,455,398,123	2,568,120,974	95,940,575	12,867,548	112,722,851
Total Ending Fund Balance							
<b>TOTAL USE OF FUNDS</b>	<b>2,588,231,304</b>	<b>2,690,358,308</b>	<b>2,689,559,646</b>	<b>2,814,550,858</b>	<b>102,127,004</b>	<b>(798,662)</b>	<b>124,991,212</b>

Amount not included in budget since no cash outlay.

Amortization estimate for PG3 (to be placed in service February 2019 = 5 months for FY18-19; PG3 to be amortized over 10 years)

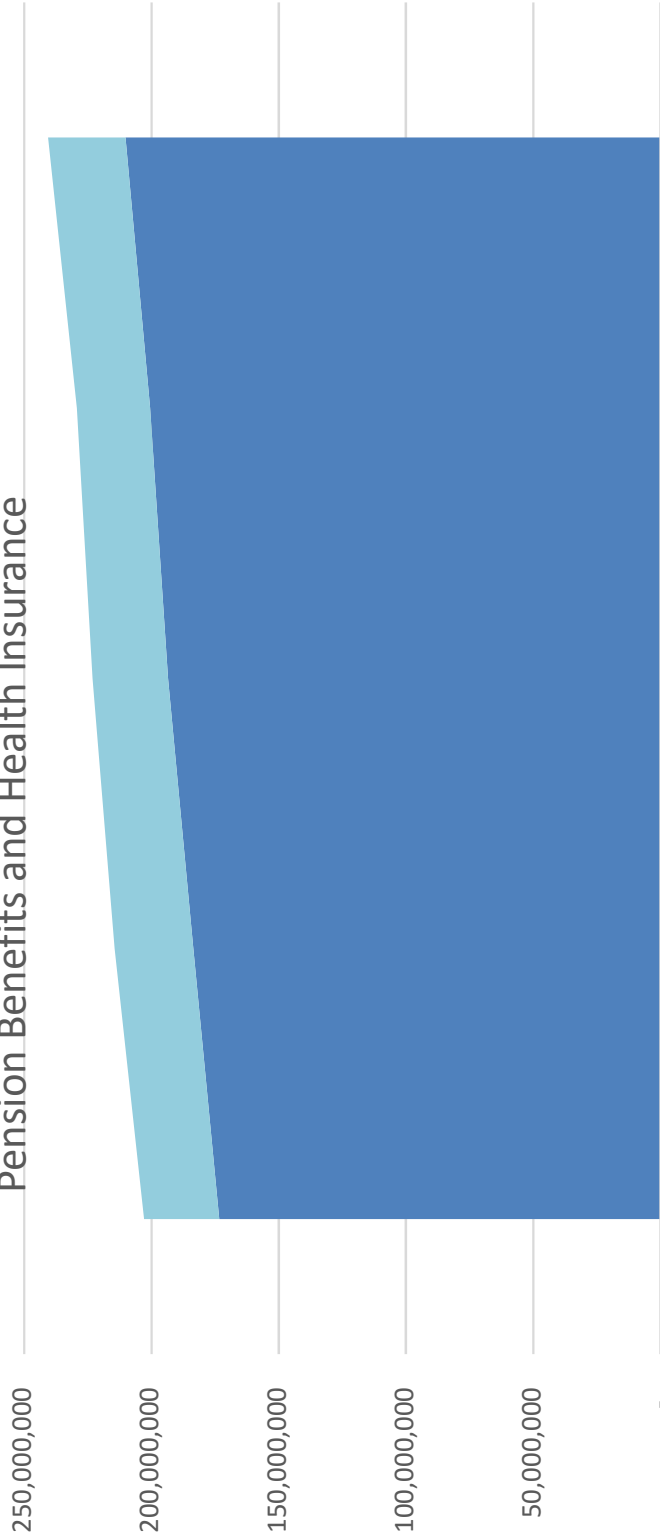
\$ 162,503 \$ 390,007

### Total City Contributions & Covered Payroll





## Federated City Employees' Retirement System Pension Benefits and Health Insurance



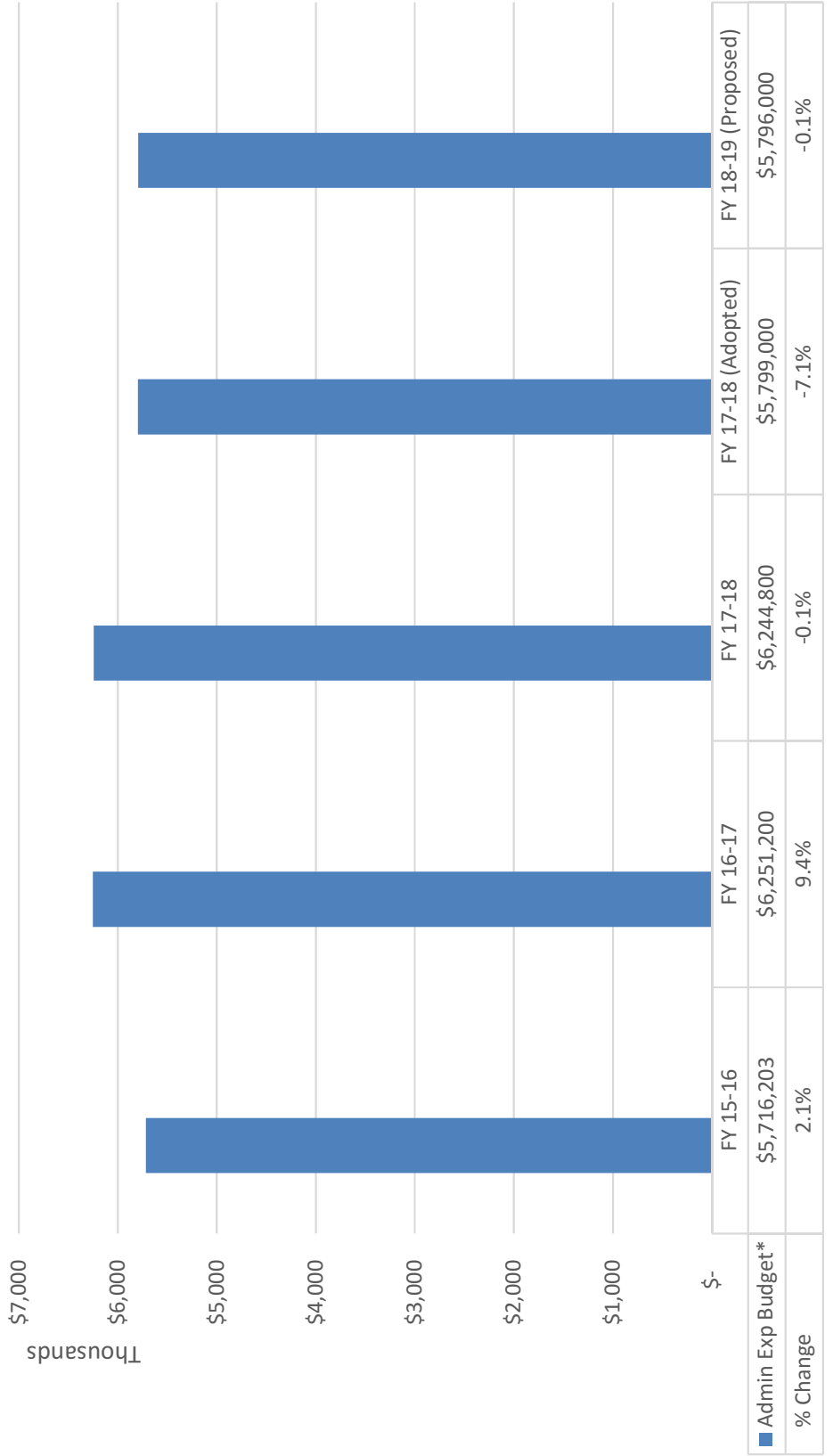
	FY 2016 - Actual	FY 2017 - Actual	FY 2018 - Actual	FY 2019 - Forecast	FY 2020 - Proposed
Total Benefits	202,895,000	214,437,000	223,124,000	229,291,652	240,608,180
Health Insurance % Change	0.5%	4.8%	-4.1%	-3.2%	5.8%
Health Insurance	29,577,000	31,007,000	29,724,000	28,774,328	30,431,277
Pension Benefits % Change	5.3%	5.8%	5.4%	3.7%	4.8%
Pension Benefits	173,318,000	183,430,000	193,400,000	200,517,324	210,176,903

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

**Administrative Expenses: FY 2019-2020**

	(A) 2017-2018 Actual	(B) 2018-2019 Adopted	(C) 2018-2019 Forecast	(D) 2019-2020 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>PERSONNEL SERVICES</b>							
Salaries and employee benefits	2,899,282	3,340,000	2,923,342	3,489,000	440,718	(416,658)	565,658
Total Personnel Services	2,899,282	3,340,000	2,923,342	3,489,000	440,718	(416,658)	565,658
<b>NON-PERSONNEL / EQUIPMENT</b>							
Investment analytics and research	556,873	485,000	523,633	569,000	(71,873)	38,633	45,367
Insurance	185,491	195,000	186,759	193,000	9,509	(8,241)	6,241
IT hardware / software	44,789	90,000	62,901	97,000	45,211	(27,099)	34,099
LRS - annual maintenance fee	106,829	110,000	44,510	110,000	3,171	(65,490)	65,490
Postage and printing	52,344	90,000	48,668	90,000	37,656	(41,332)	41,332
Rent	196,107	200,000	198,446	210,000	3,893	(1,554)	11,554
Training and travel	20,649	70,000	27,487	65,000	49,351	(42,513)	37,513
Office supplies and board meeting expense	16,377	30,000	20,067	30,000	13,623	(9,933)	9,933
Other non-personnel / equipment	29,014	42,000	14,990	44,000	12,986	(27,010)	29,010
Total Non-personnel / Equipment	1,208,473	1,312,000	1,127,461	1,408,000	103,527	(184,539)	280,539
<b>PROFESSIONAL SERVICES</b>							
Actuary	174,400	209,000	185,700	217,000	34,600	(23,300)	31,300
External auditor	62,232	70,000	77,588	80,000	7,768	7,588	2,412
Legal	271,979	382,000	188,286	295,000	110,021	(193,714)	106,714
Pension administration system	39,561	35,500	41,007	36,500	(4,061)	5,507	(4,507)
Temporary staffing agencies	166,889	169,000	157,061	44,000	2,111	(11,939)	(113,061)
Other professional services	50,889	73,500	15,906	89,500	22,611	(57,594)	73,594
Total Professional Services	765,950	939,000	665,548	762,000	173,050	(273,452)	96,452
<b>MEDICAL SERVICES</b>							
Independent medical examiners	62,650	137,000	43,900	66,000	74,350	(93,100)	22,100
Medical consultant	56,645	71,000	65,132	71,000	14,355	(5,868)	5,868
Total Medical Services	119,295	208,000	109,032	137,000	88,705	(98,968)	27,968
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>4,993,000</b>	<b>5,799,000</b>	<b>4,825,383</b>	<b>5,796,000</b>	<b>806,000</b>	<b>(973,617)</b>	<b>970,617</b>

### Administrative Expense Budget FY 2015-2016 to FY 2018-2019



**OFFICE OF RETIREMENT SERVICES**

**Departmental Position Detail**

Position	2017-2018 Adopted (1)	2018-2019 Adopted (2)	2018-2019 Forecast (3)	2019-2020 Proposed (4)	Increase / (Decrease) (2 to 4)	Increase / (Decrease) (3 to 4)	Explanation
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accountant I	0.00	0.00	1.00	1.00	1.00	-	Reclassification from Senior Account Clerk
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	-	-	
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	0.00	1.00	1.00	1.00	-	-	
Financial Analyst	1.00	1.00	1.00	1.00	-	-	
Investments Operations Officer	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	2.00	2.00	2.00	2.00	-	-	1 is a limited-date position that is being requested to be permanent
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	2.00	2.00	-	-	
Retirement Investment Officer	3.00	3.00	3.00	3.00	-	-	
Senior Account Clerk	1.00	1.00	0.00	0.00	(1.00)	-	Reclassification to Accountant I
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	2.00	2.00	2.00	-	-	1 is a limited-date position that is being requested to be permanent
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Retirement Investment Officer	1.00	1.00	1.00	1.00	-	-	
Staff Technician	7.00	6.00	6.00	6.00	-	-	
Staff Technician PT	0.75	0.75	0.75	0.75	-	-	
<b>Total Positions</b>	<b>39.75</b>	<b>39.75</b>	<b>39.75</b>	<b>39.75</b>	<b>0.00</b>	<b>0.00</b>	

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

