



# Memorandum

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

**FROM: Benjie Chua Foy**

**SUBJECT: Consideration of Proposed Budget for Fiscal Year 2020-2021**

**DATE: April 6, 2020**

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Approved

Date

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## **RECOMMENDATION**

Discussion and action on the proposed budget for fiscal year 2020-2021.

## **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, 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 \$211,926,000.

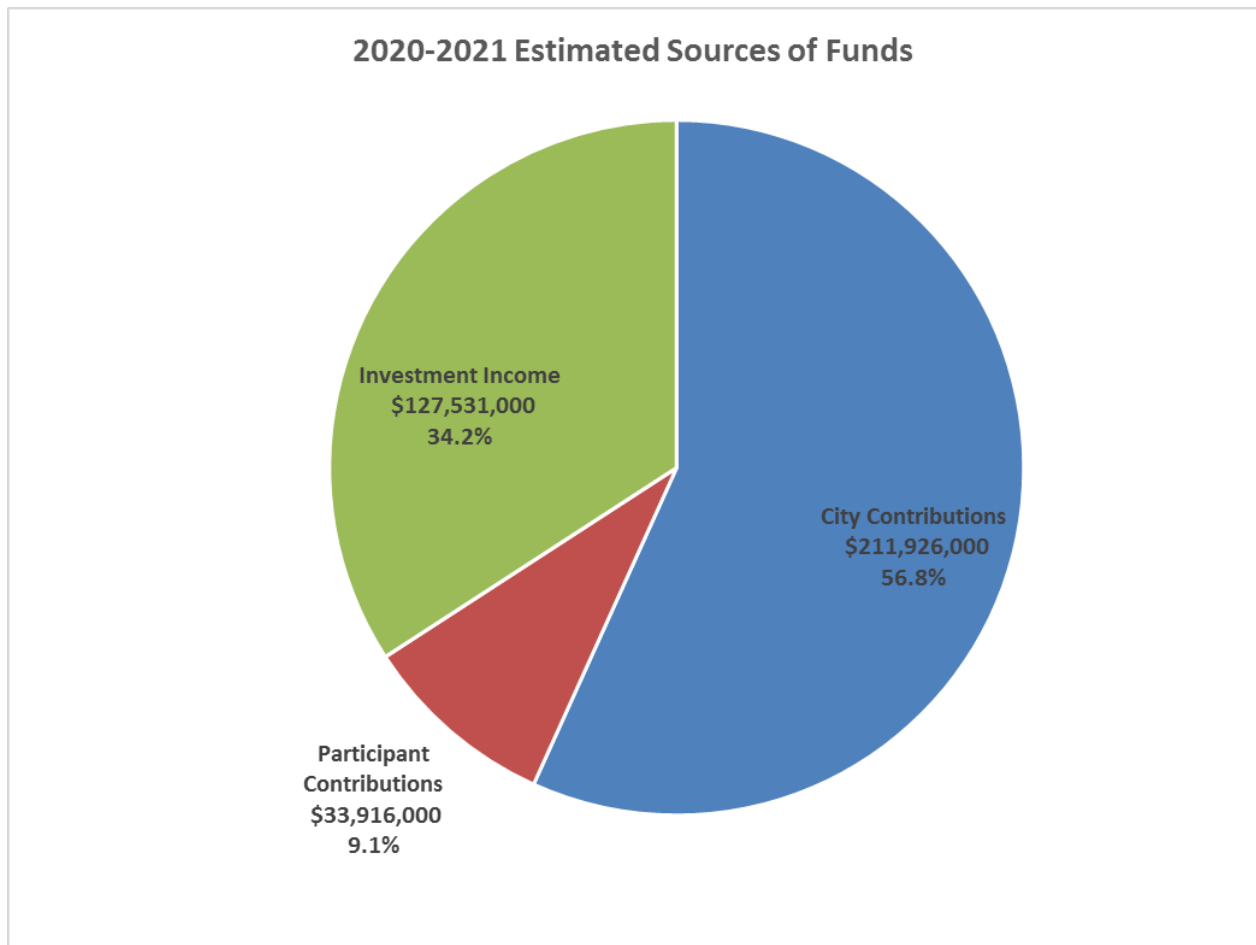
The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY21 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2019 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$33,916,000, a 0.6% increase from the 2019-2020 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension increased from 7.06% to 7.22% while their covered payroll decreased from \$149.3 million to \$142.1 million. Tier 2 contribution rates for pension decreased from 8.33% to 7.92% while covered payroll increased from \$159.4 million to \$180.6 million. 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 \$21 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 \$220,198,000, an increase of \$10,021,000, or 4.77%, 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 \$30,608,000, an increase of \$177,000, or 0.58%, 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 only one VEBA withdrawal in fiscal year 2018-2019 and future withdrawals are expected to be minimal, if any.

### *ADMINISTRATIVE EXPENSE BUDGET*

The proposed administrative expenses budget of \$5,697,000 is a net decrease of 1.71% or \$99,000 from the prior year proposed budget of \$5,796,000.

### PERSONNEL SERVICES

The budget for personnel services was increased to \$3,560,000, an increase of \$71,000, or 2.03% over the prior year adopted budget of \$3,489,000. 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 number of positions in Retirement Services will remain at 39.75 due to the proposals. The limited-date position for Information Systems Analyst that expires on June 30, 2020 will not be renewed. The other proposed personnel changes for fiscal year 2020-2021 are to add a Senior Investment Officer and to convert a Benefits Staff Specialist into a Benefits Disability Analyst. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having two reemployed retirees for the maximum time allowed per the Municipal Code.

### NON-PERSONNEL / EQUIPMENT

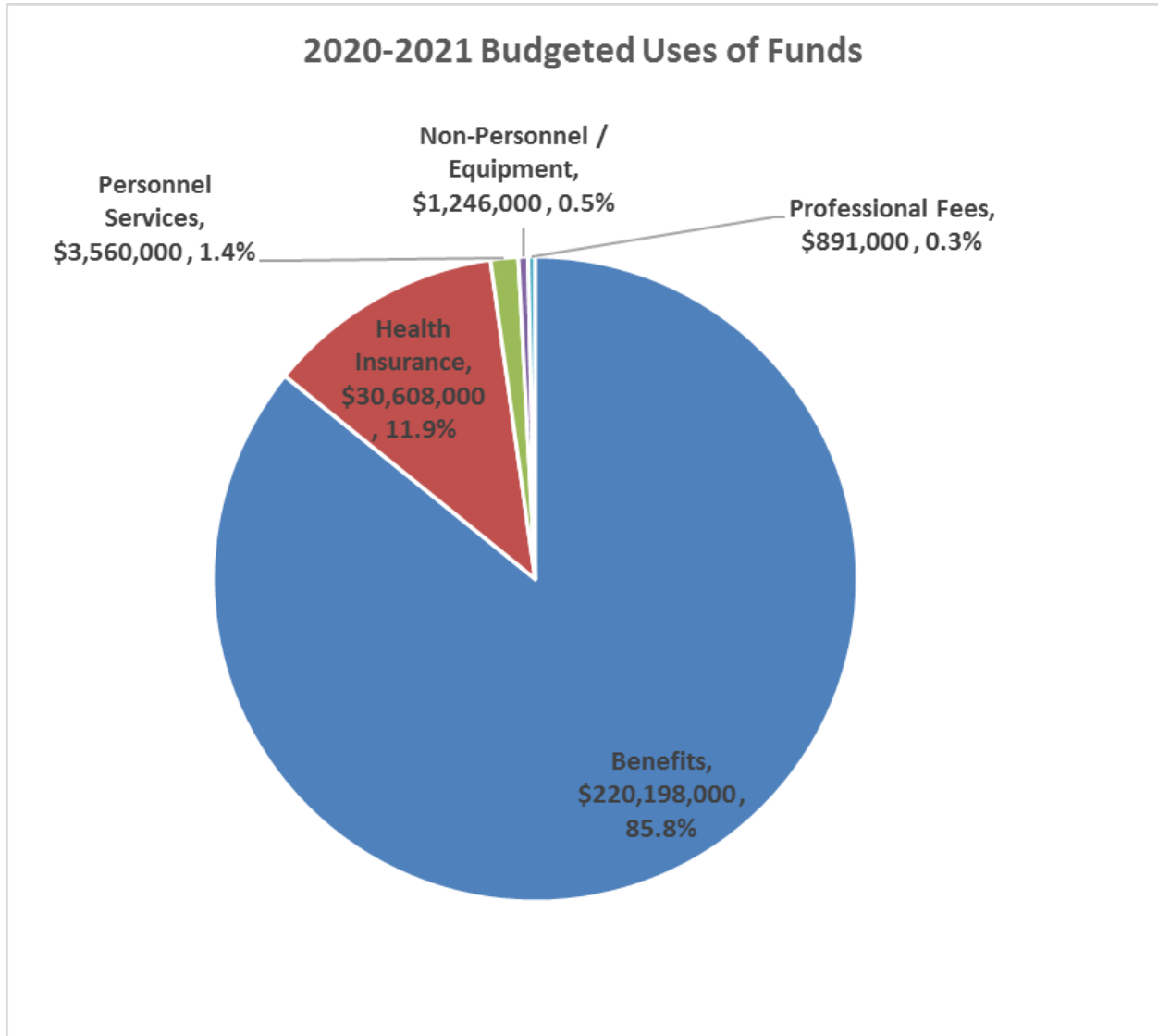
The budget for non-personnel / equipment was decreased to \$1,246,000, a decrease of \$162,000, or 11.5% from the prior year adopted budget of \$1,408,000. This category includes data processing costs for investments, rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The decrease was mainly due to a decrease of \$134,000 in the investment analytics and research budget and a decrease of \$62,000 in the pension administration annual maintenance fee, offset by an increase in IT hardware/software of \$26,000. The decrease of \$134,000 was due to a reclassification of the services provided by State Street, the custodian bank, to align with how the expenses are recorded in the Comprehensive Annual Financial Report. The decrease of \$62,000 was due to the implementation of the new pension administration system, which had a lower annual maintenance fee. The increase of \$26,000 in IT hardware/software was due to the social media and phone center projects that are planned for the fiscal year.

### PROFESSIONAL SERVICES

The budget for professional services was reduced to \$752,000, a slight decrease of \$10,000, or 1.3% from the prior year adopted budget of \$762,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. Decreases in budgetary amounts for core professional services resulted from reducing actuarial services due to an experience study that is being conducted in FY19-20 and not FY20-21 offset by an increase in temporary staffing services due to increased workload in the Benefits division.

### MEDICAL SERVICES

The budget for medical services increased to \$139,000, a slight increase of \$2,000, or 1.5% over the prior year adopted budget of \$137,000. 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 2020-2021

**PROPOSED BUDGET**

**FISCAL YEAR 2020-2021**

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

April 16, 2020

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

**Proposed Budget for Fiscal Year 2020-2021**

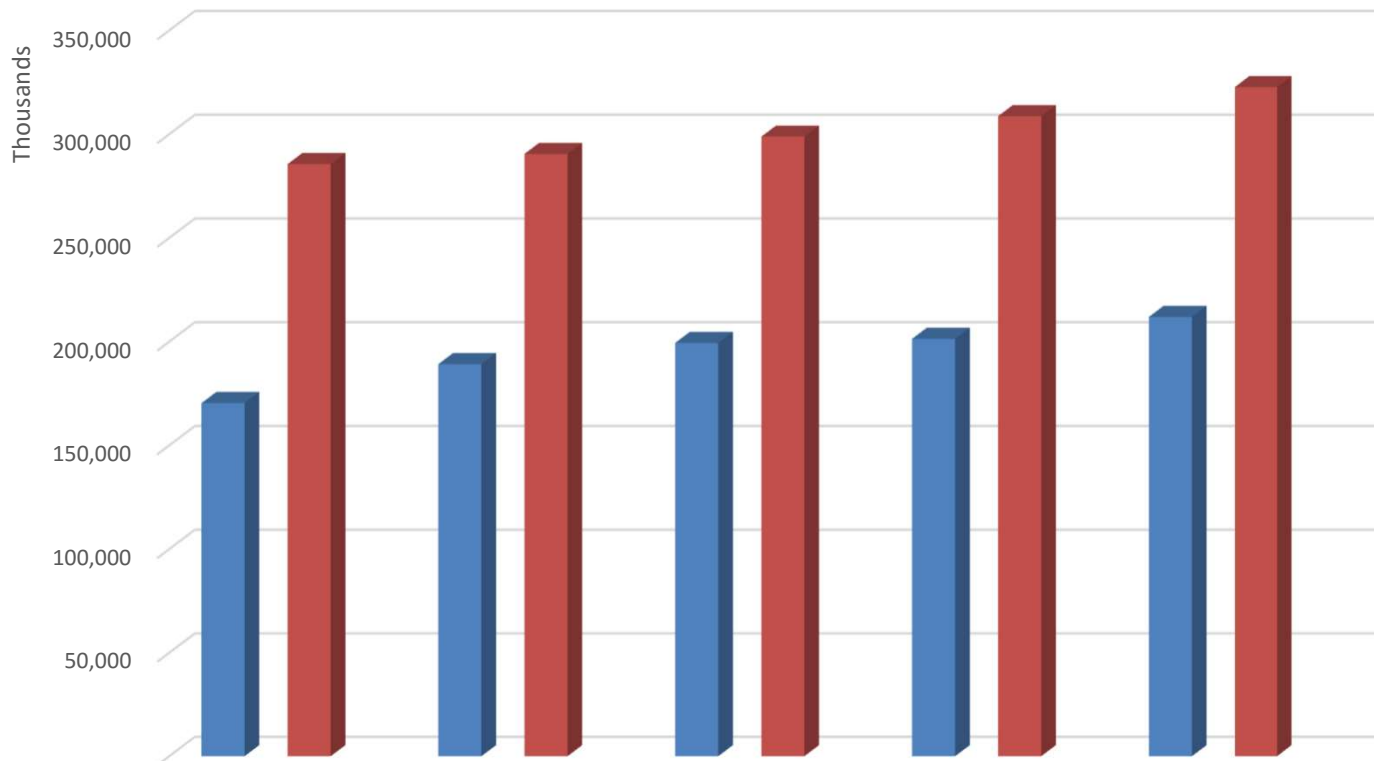
	<b>(A)</b> <b>2018-2019</b> <b>Actual</b>	<b>(B)</b> <b>2019-2020</b> <b>Modified</b>	<b>(C)</b> <b>2019-2020</b> <b>Forecast</b>	<b>(D)</b> <b>2020-2021</b> <b>Proposed</b>	<b>(A) to (B)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(B) - (C)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(C) - (D)</b> <b>Increase</b> <b>(Decrease)</b>
<b>SOURCE OF FUNDS</b>							
Beginning Fund Balance							
Claims Reserve	2,346,590,000	2,426,640,000	2,426,640,000	<b>2,534,166,900</b>	80,050,000	0	107,526,900
Total Beginning Fund Balance	2,346,590,000	2,426,640,000	2,426,640,000	<b>2,534,166,900</b>	80,050,000	0	107,526,900
Transfers							
COLAs	25,588	26,845	23,133	<b>23,000</b>	1,257	(3,712)	(133)
City Contributions	199,416,000	201,348,000	201,347,711	<b>211,926,000</b>	1,932,000	(289)	10,578,289
Total Transfers	199,441,588	201,374,845	201,370,844	<b>211,949,000</b>	1,933,257	(4,001)	10,578,156
Revenue							
Participant Contributions	33,184,000	33,708,600	33,878,746	<b>33,916,000</b>	524,600	170,146	37,254
Investment Income	86,327,000	124,070,431	121,461,973	<b>127,531,000</b>	37,743,431	(2,608,458)	6,069,027
Total Revenue	119,511,000	157,779,031	155,340,719	<b>161,447,000</b>	38,268,031	(2,438,312)	6,106,281
<b>TOTAL SOURCE OF FUNDS</b>	<b><u>2,665,542,588</u></b>	<b><u>2,785,793,876</u></b>	<b><u>2,783,351,563</u></b>	<b><u>2,907,562,900</u></b>	<b><u>120,251,288</u></b>	<b><u>(2,442,313)</u></b>	<b><u>124,211,337</u></b>
<b>USE OF FUNDS</b>							
Expenditures							
COLAs	25,588	26,845	23,133	<b>23,000</b>	1,257	(3,712)	(133)
Benefits	205,066,000	210,176,903	213,443,355	<b>220,198,000</b>	5,110,903	3,266,452	6,754,645
Health Insurance	28,826,000	30,431,277	30,701,990	<b>30,608,000</b>	1,605,277	270,713	(93,990)
VEBA Transfers	19,000	0	18,900	<b>0</b>	(19,000)	18,900	(18,900)
Personnel Services	2,961,017	3,489,000	3,195,380	<b>3,560,000</b>	527,983	(293,620)	364,620
Non-Personnel/Equipment <sup>(1)</sup>	1,174,744	1,408,000	1,082,747	<b>1,246,000</b>	233,256	(325,253)	163,253
Professional Fees	830,239	899,000	719,158	<b>891,000</b>	68,761	(179,842)	171,842
Total Expenditures	238,902,588	246,431,025	249,184,663	<b>256,526,000</b>	7,528,437	2,753,638	7,341,337
Ending Fund Balance							
Claims Reserve	2,426,640,000	2,539,362,851	2,534,166,900	<b>2,651,036,900</b>	112,722,851	(5,195,951)	116,870,000
Total Ending Fund Balance	2,426,640,000	2,539,362,851	2,534,166,900	<b>2,651,036,900</b>	112,722,851	(5,195,951)	116,870,000
<b>TOTAL USE OF FUNDS</b>	<b><u>2,665,542,588</u></b>	<b><u>2,785,793,876</u></b>	<b><u>2,783,351,563</u></b>	<b><u>2,907,562,900</u></b>	<b><u>120,251,288</u></b>	<b><u>(2,442,313)</u></b>	<b><u>124,211,337</u></b>

Amount not included in budget since no cash outlay:

Amortization expense for PG3	\$ 133,809	\$ 390,007	\$ 396,998	\$ 396,998
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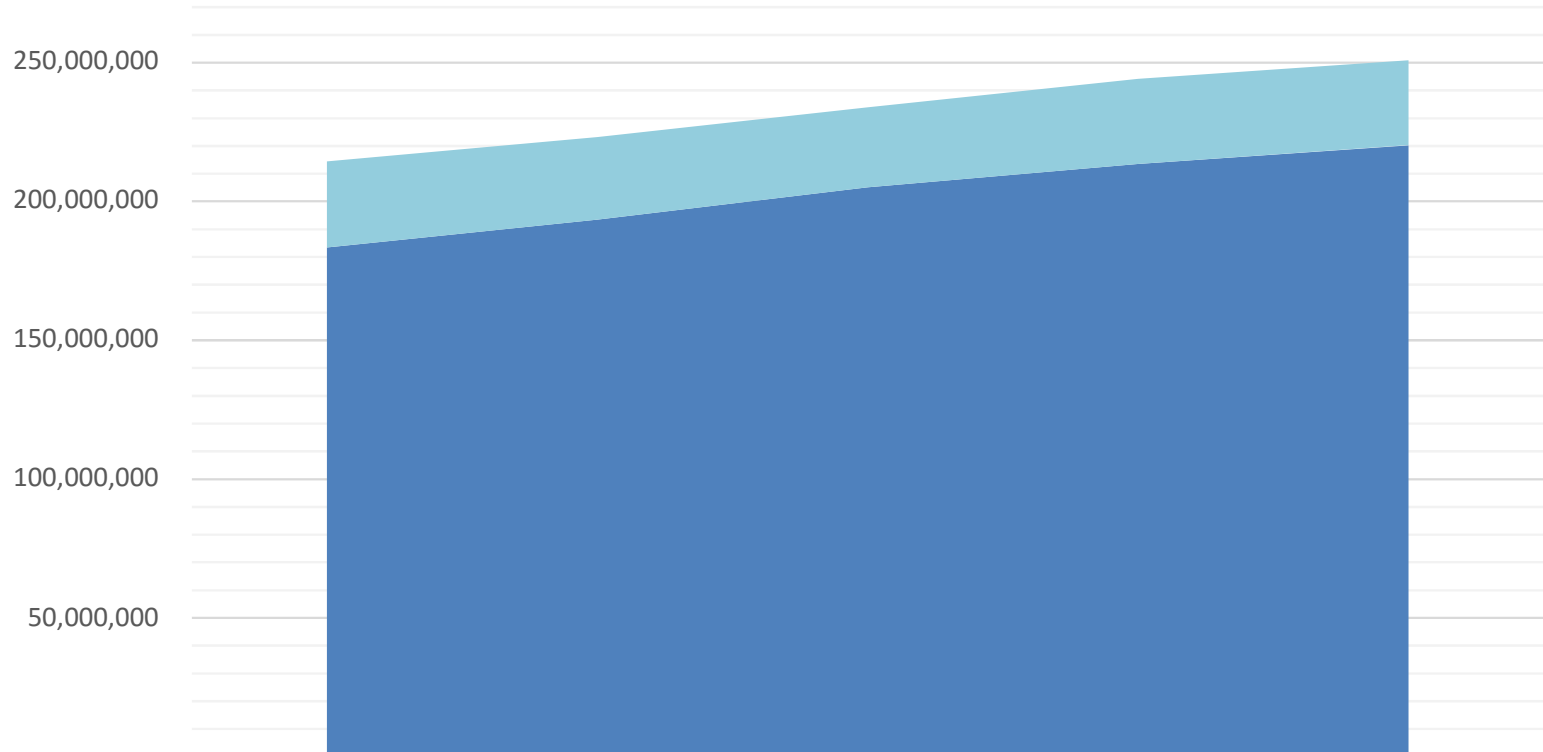
<sup>(1)</sup> Non-personnel equipment FY18-19	\$ 1,174,744
Rounding in CAFR	110
Amortization expense	(133,809)
As shown in Administrative Expenses	<b>\$ 1,041,045</b>

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



	FY 16-17	FY 17-18	FY 18-19	FY 19-20 (Forecast)	FY 20-21 (Proposed)
<span style="color: blue;">■</span> Total City Contributions	170,388,000	189,167,000	199,416,000	201,347,711	211,926,000
Total City Contribution % Change	6.5%	11.0%	5.4%	1.0%	5.3%
<span style="color: red;">■</span> Total Covered Payroll	285,595,469	290,504,000	298,824,000	308,702,000	322,709,000
Total Covered Payroll % Change	18.3%	1.7%	2.9%	3.3%	4.5%

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



	FY 2017 - Actual	FY 2018 - Actual	FY 2019 - Actual	FY 2020 - Forecast	FY 2021 - Proposed
Total Benefits	214,437,000	223,124,000	233,892,000	244,145,345	250,806,000
Health Insurance % Change	4.8%	-4.1%	-3.0%	6.5%	-0.3%
Health Insurance	31,007,000	29,724,000	28,826,000	30,701,990	30,608,000
Pension Benefits % Change	5.8%	5.4%	6.0%	4.1%	3.2%
Pension Benefits	183,430,000	193,400,000	205,066,000	213,443,355	220,198,000

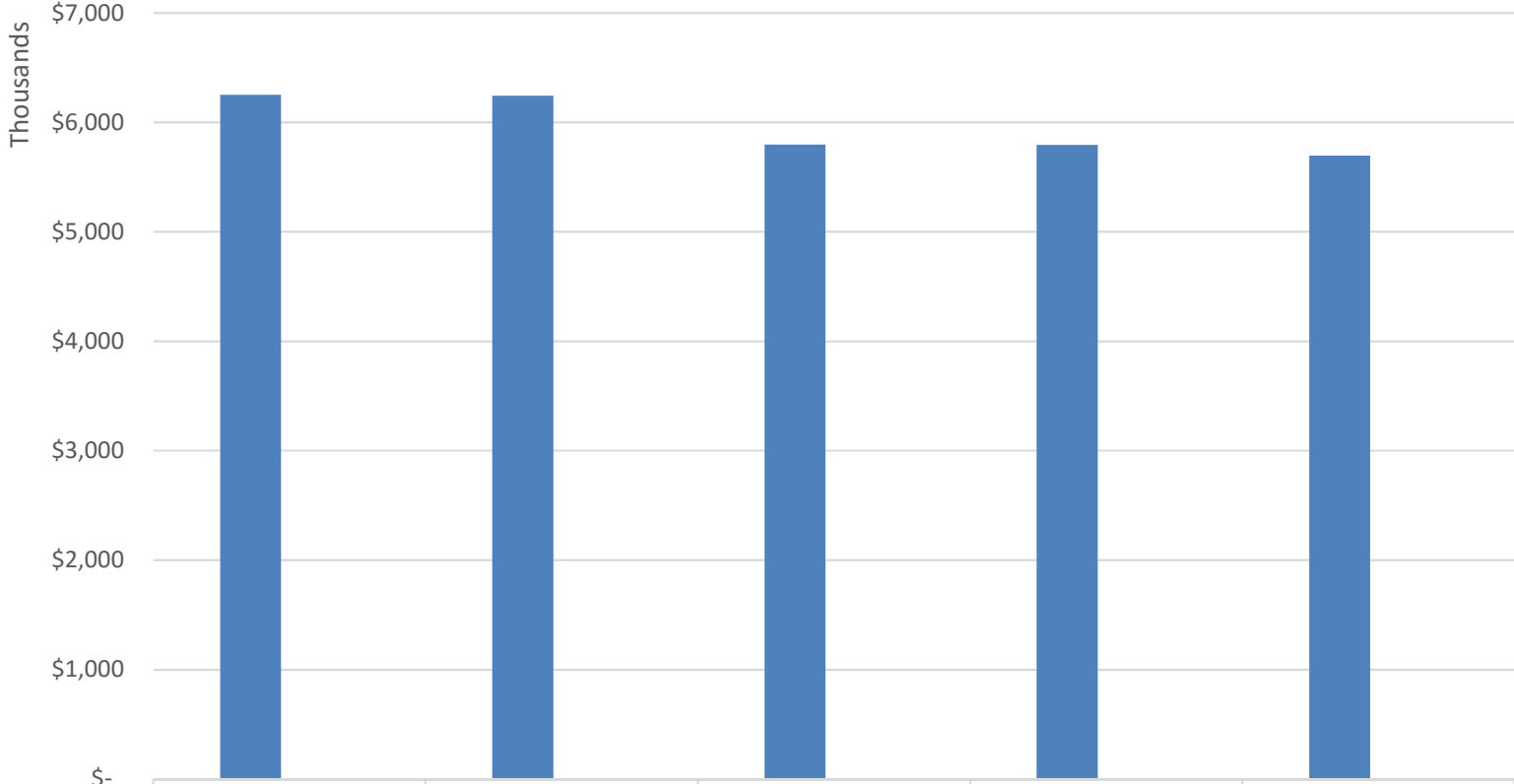


## FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

### Administrative Expenses: FY 2020-2021

	(A) 2018-2019 Actual	(B) 2019-2020 Adopted	(C) 2019-2020 Forecast	(D) 2020-2021 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>PERSONNEL SERVICES</b>							
Salaries and employee benefits	2,961,017	3,489,000	3,195,380	3,560,000	527,983	(293,620)	364,620
Total Personnel Services	2,961,017	3,489,000	3,195,380	3,560,000	527,983	(293,620)	364,620
<b>NON-PERSONNEL / EQUIPMENT</b>							
Investment analytics and research	399,297	569,000	409,811	435,000	169,703	(159,189)	25,189
Insurance	185,810	193,000	186,772	193,000	7,190	(6,228)	6,228
IT hardware / software	81,738	97,000	94,744	123,000	15,262	(2,256)	28,256
LRS - annual maintenance fee	49,476	110,000	45,540	48,000	60,524	(64,460)	2,460
Postage and printing	52,521	90,000	67,117	90,000	37,479	(22,883)	22,883
Rent	201,092	210,000	205,061	212,000	8,908	(4,939)	6,939
Training and travel	28,165	63,500	28,345	65,000	35,335	(35,155)	36,655
Office supplies and board meeting expense	15,589	30,000	17,053	30,000	14,411	(12,947)	12,947
Other non-personnel / equipment	27,357	45,500	28,304	50,000	18,143	(17,196)	21,696
Total Non-personnel / Equipment	1,041,045	1,408,000	1,082,747	1,246,000	366,955	(325,253)	163,253
<b>PROFESSIONAL SERVICES</b>							
Actuary	209,491	217,000	251,927	210,000	7,509	34,927	(41,927)
External auditor	101,343	80,000	55,427	83,000	(21,343)	(24,573)	27,573
Legal	183,156	295,000	197,439	282,000	111,844	(97,561)	84,561
Pension administration system	28,211	36,500	9,244	21,000	8,289	(27,256)	11,756
Temporary staffing agencies	185,687	44,000	70,922	77,000	(141,687)	26,922	6,078
Other professional services	45,363	89,500	52,232	79,000	44,137	(37,268)	26,768
Total Professional Services	753,251	762,000	637,191	752,000	8,749	(124,809)	114,809
<b>MEDICAL SERVICES</b>							
Independent medical examiners	21,950	66,000	27,098	54,000	44,050	(38,902)	26,902
Medical consultant	55,038	71,000	54,869	85,000	15,962	(16,131)	30,131
Total Medical Services	76,988	137,000	81,967	139,000	60,012	(55,033)	57,033
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>4,832,301</b>	<b>5,796,000</b>	<b>4,997,285</b>	<b>5,697,000</b>	<b>963,699</b>	<b>(798,715)</b>	<b>699,715</b>

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



	FY 16-17	FY 17-18	FY 18-19	FY 19-20 (Adopted)	FY 20-21 (Proposed)
■ Admin Exp Budget*	\$6,251,200	\$6,244,800	\$5,799,000	\$5,796,000	\$5,697,000
% Change	9.4%	-0.1%	-7.1%	-0.1%	-1.7%

\* Amount includes budget for operations only.

**OFFICE OF RETIREMENT SERVICES**

**Departmental Position Detail**

<b>Position</b>	<b>2018-2019 Adopted (1)</b>	<b>2019-2020 Adopted (2)</b>	<b>2019-2020 Forecast (3)</b>	<b>2020-2021 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	0.00	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	7.00	1.00	1.00	Add-delete staff specialist to a Disability Analyst
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 Supervisor	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	2.00	2.00	2.00	1.00	(1.00)	(1.00)	Limited Date position expires June 30, 2020
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	0.00	0.00	0.00	-	-	
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	-	-	
Senior Retirement Investment Officer	1.00	1.00	1.00	2.00	1.00	1.00	Proposed addition
Staff Specialist	7.00	6.00	6.00	5.00	(1.00)	(1.00)	Add-delete staff specialist to a Disability Analyst
Staff Specialist 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 20-21**

