

**2021-2022**

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**OPERATING BUDGET**

**FEDERATED CITY  
EMPLOYEES'  
RETIREMENT  
SYSTEM**

**BUDGET FOR  
FISCAL YEAR  
2021-2022**



# Memorandum

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

**FROM: Benjie Chua Foy**

**SUBJECT: Consideration of Proposed Budget for Fiscal Year 2021-2022**

**DATE: March 9, 2021**

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Approved

Date

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## **RECOMMENDATION**

Discussion and action on the proposed budget for fiscal year 2021-2022.

## **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 \$225,915,000.

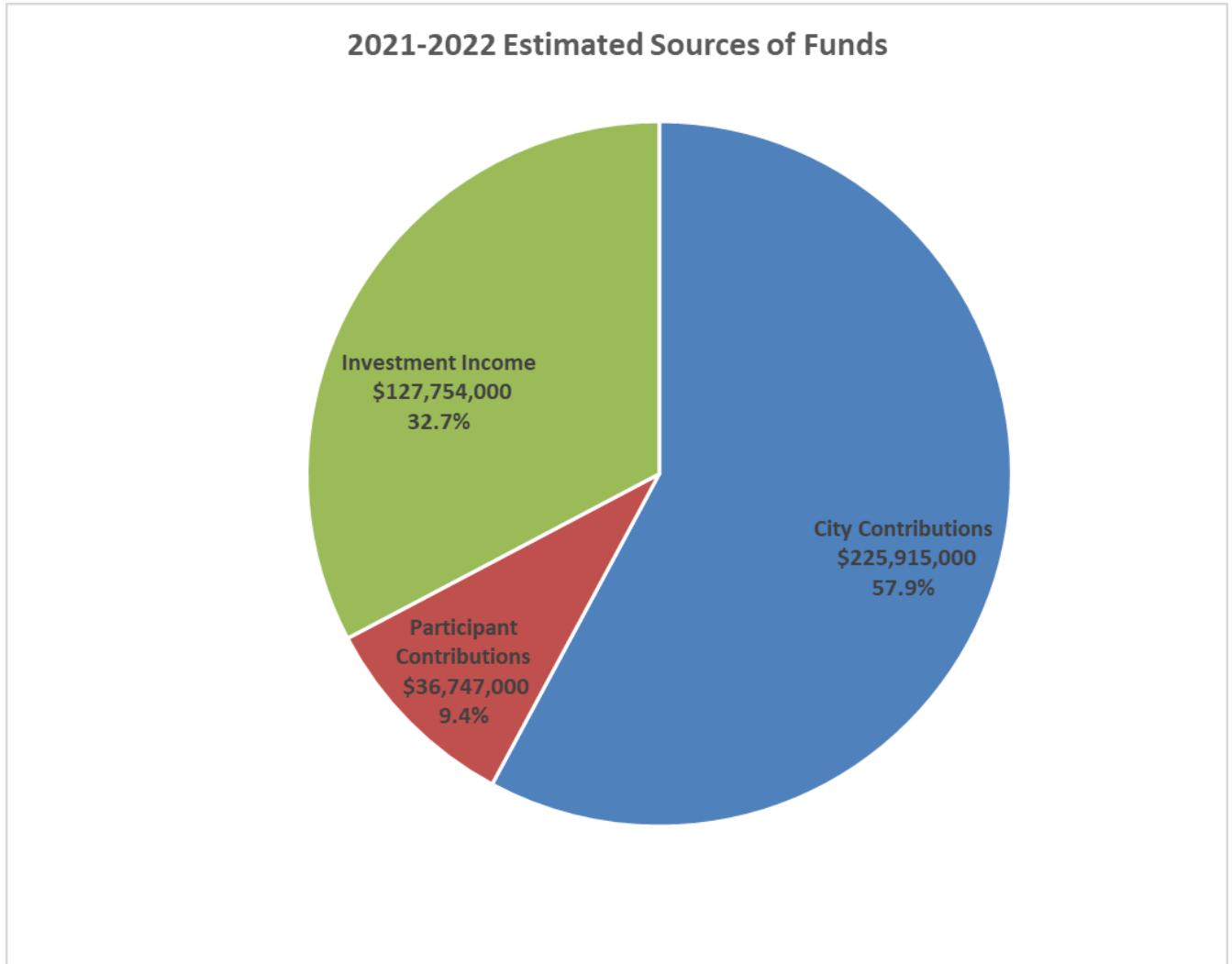
The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City’s total covered payroll. The FY22 contribution amounts assume the Board’s adoption in April/May, as shown in the June 30, 2020 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$36,747,000, an 8.35% increase from the 2020-2021 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension increased from 7.22% to 7.39% while their covered payroll decreased from \$142.1 million to \$137.2 million. Tier 2 contribution rates for pension increased from 7.92% to 8.17% while covered payroll increased from \$180.6 million to \$214.6 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 \$20 million.

## 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 \$230,465,000, an increase of \$10,267,000, or 4.66%, 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 \$32,740,000, an increase of \$2,132,000, or 6.97%. The projected amount was extracted from the actuary’s projections. 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 2019-2020 and future withdrawals are expected to be minimal, if any.

#### *ADMINISTRATIVE EXPENSE BUDGET*

The proposed administrative expenses budget of \$5,303,000 is a net decrease of 2.34% or \$127,000 from the prior year proposed budget of \$5,430,000. If the prior year proposed budget excluded the investment data analytics, like this year, there would be an increase of \$308,000 or 6.17% in the budget.

#### PERSONNEL SERVICES

The budget for personnel services was increased to \$3,684,000, an increase of \$327,000, or 9.74% over the prior year adopted budget of \$3,357,000. 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 increase to 40 from 38.75 due to the proposals. The proposed personnel changes for FY21-22 are to add a Senior Investment Officer in order to convert the over-strength position currently in place to a permanent one and to convert a part-time Staff Specialist into a full-time position. 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

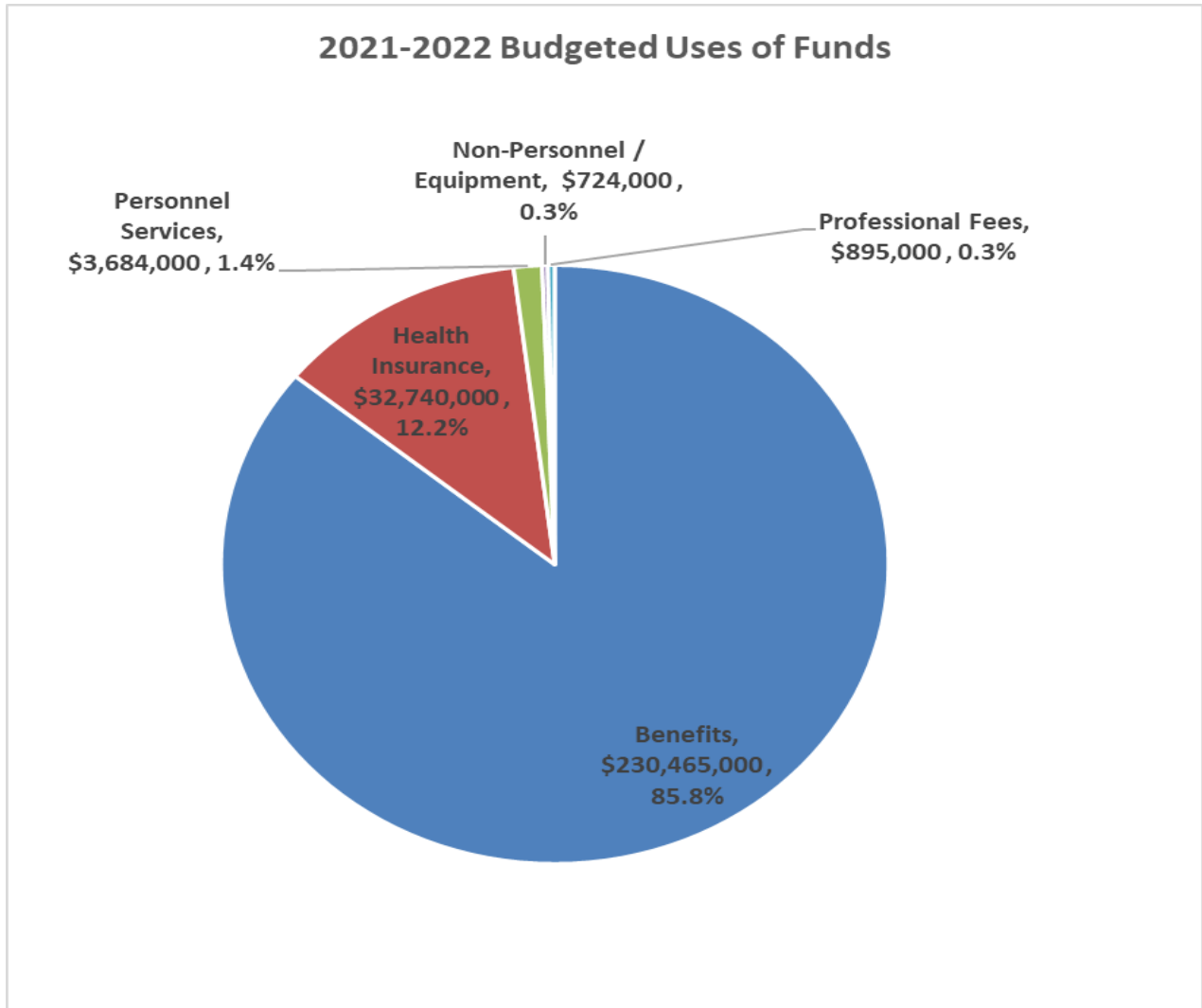
The budget for non-personnel / equipment was decreased to \$724,000, a decrease of \$497,000, or 40.70% from the prior year adopted budget of \$1,221,000. This category includes data processing costs for investments, rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The decrease was mainly due to the removal of \$435,000 in the investment analytics and research budget, as well as decreases of \$30,000 in postage and printing, \$15,000 in supplies and \$20,000 in travel, offset by an increase in insurance of \$20,000. The investment analytics and research budget was removed in order to be consistent with General Counsel interpretation that investment expenses are excluded from the administrative budget and is instead subtracted directly from the Plan earnings. If the investments analytics and research budget would have remained included in the budget, non-personnel/equipment budget would have only decreased by \$62,000 or 5.10% compared to the adopted budget.

#### PROFESSIONAL SERVICES

The budget for professional services was increased to \$815,000, an increase of \$63,000, or 8.40% from the prior year adopted budget of \$752,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. Increases in budgetary amounts for core professional services resulted mainly from adding actuarial audit services for \$100,000, reducing legal services by \$25,000 and reducing temporary staffing services by \$17,000.

#### MEDICAL SERVICES

The budget for medical services decreased to \$80,000, a decrease of \$20,000, or 20.0% from the prior year adopted budget of \$100,000, to be more in line with the trend for the past couple of years. 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 2021-2022

**PROPOSED BUDGET**

**FISCAL YEAR 2021-2022**

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

March 18, 2021

## FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

### Proposed Budget for Fiscal Year 2021-2022

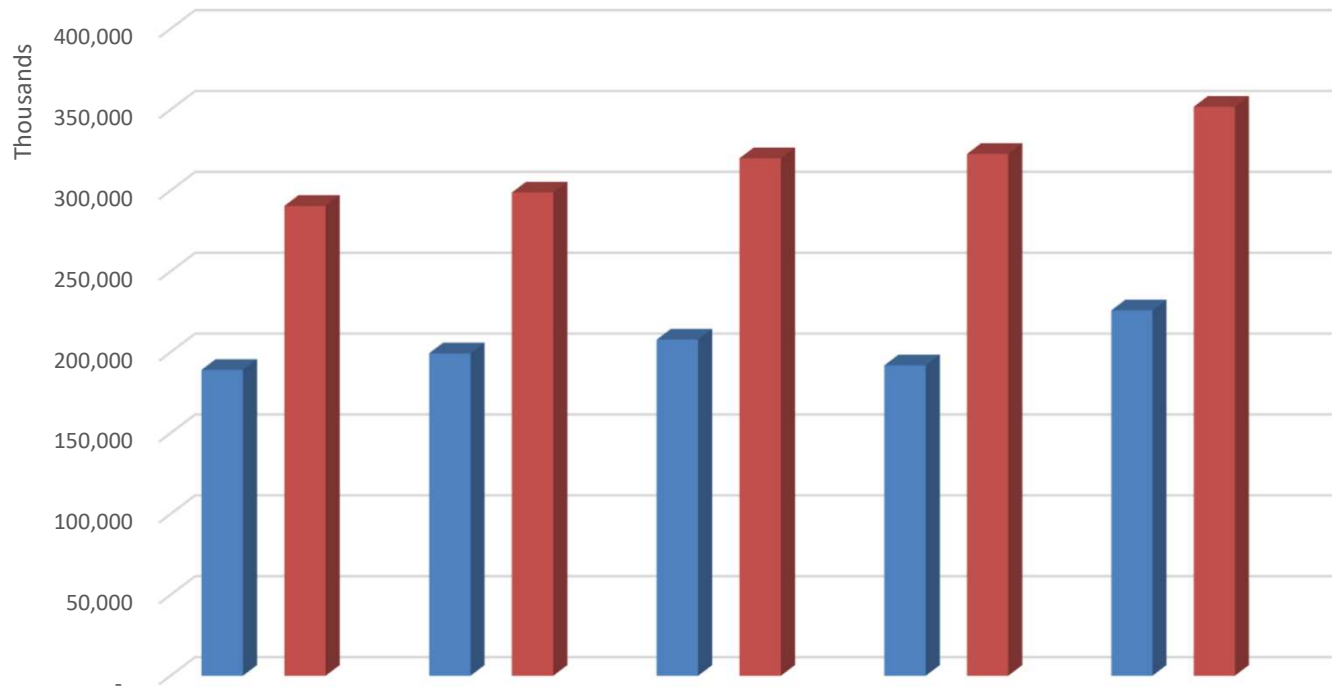
	(A) 2019-2020 Actual	(B) 2020-2021 Modified	(C) 2020-2021 Forecast	(D) 2021-2022 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>SOURCE OF FUNDS</b>							
Beginning Fund Balance							
Claims Reserve	2,426,640,000	2,511,327,000	2,511,327,000	<b>2,600,459,193</b>	84,687,000	0	89,132,193
Total Beginning Fund Balance	2,426,640,000	2,511,327,000	2,511,327,000	<b>2,600,459,193</b>	84,687,000	0	89,132,193
Transfers							
COLAs	22,617	23,000	18,923	<b>18,000</b>	383	(4,077)	(923)
City Contributions	207,860,000	211,926,000	191,944,722	<b>225,915,000</b>	4,066,000	(19,981,278)	33,970,278
Total Transfers	207,882,617	211,949,000	191,963,645	<b>225,933,000</b>	4,066,383	(19,985,355)	33,969,355
Revenue							
Participant Contributions	35,774,000	33,915,640	33,916,522	<b>36,747,000</b>	(1,858,360)	882	2,830,478
Investment Income	93,984,000	127,531,378	123,743,420	<b>127,754,000</b>	33,547,378	(3,787,958)	4,010,580
Total Revenue	129,758,000	161,447,018	157,659,942	<b>164,501,000</b>	31,689,018	(3,787,076)	6,841,058
<b>TOTAL SOURCE OF FUNDS</b>	<b><u>2,764,280,617</u></b>	<b><u>2,884,723,018</u></b>	<b><u>2,860,950,587</u></b>	<b><u>2,990,893,193</u></b>	<b><u>120,442,401</u></b>	<b><u>(23,772,431)</u></b>	<b><u>129,942,606</u></b>
<b>USE OF FUNDS</b>							
Expenditures							
COLAs	22,617	23,000	18,923	<b>18,000</b>	383	(4,077)	(923)
Benefits	216,728,000	220,198,000	223,345,327	<b>230,465,000</b>	3,470,000	3,147,327	7,119,673
Health Insurance	30,779,000	30,608,000	32,120,000	<b>32,740,000</b>	(171,000)	1,512,000	620,000
VEBA Transfers	13,000	0	4,700	<b>10,000</b>	(13,000)	4,700	5,300
Personnel Services	3,275,000	3,357,000	3,131,562	<b>3,684,000</b>	82,000	(225,438)	552,438
Non-Personnel/Equipment <sup>(1)</sup>	1,496,000	1,221,000	1,126,674	<b>724,000</b>	(275,000)	(94,326)	(402,674)
Professional Fees	640,000	852,000	744,208	<b>895,000</b>	212,000	(107,792)	150,792
Total Expenditures	252,953,617	256,259,000	260,491,394	<b>268,536,000</b>	3,305,383	4,232,394	8,044,606
Ending Fund Balance							
Claims Reserve	2,511,327,000	2,628,464,018	2,600,459,193	<b>2,722,357,193</b>	117,137,018	(28,004,825)	121,898,000
Total Ending Fund Balance	2,511,327,000	2,628,464,018	2,600,459,193	<b>2,722,357,193</b>	117,137,018	(28,004,825)	121,898,000
<b>TOTAL USE OF FUNDS</b>	<b><u>2,764,280,617</u></b>	<b><u>2,884,723,018</u></b>	<b><u>2,860,950,587</u></b>	<b><u>2,990,893,193</u></b>	<b><u>120,442,401</u></b>	<b><u>(23,772,431)</u></b>	<b><u>129,942,606</u></b>

Amount not included in budget since no cash outlay:

Amortization expense for PG3	\$ 408,727	\$ 408,727	\$ 408,727	\$ 408,727
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<sup>(1)</sup> Non-personnel equipment FY19-20	\$ 1,496,000
Rounding in CAFR	936
Amortization expense	(408,727)
As shown in Administrative Expenses	<b>\$ 1,088,209</b>

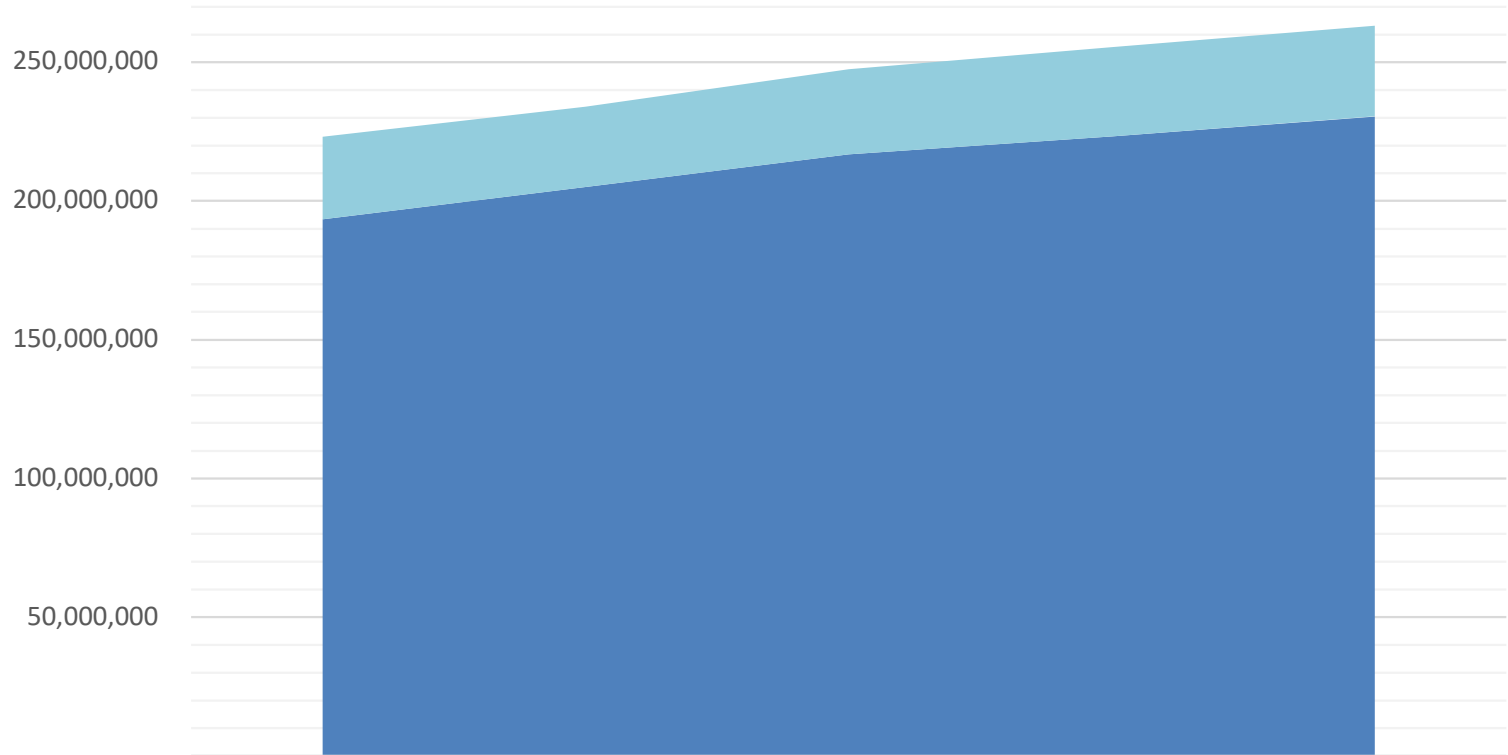
### FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Total City Contributions & Covered Payroll



	FY 17-18	FY 18-19	FY 19-20	FY 20-21 (Forecast)	FY 21-22 (Proposed)
<span style="color: blue;">■</span> Total City Contributions	189,167,000	199,416,000	207,860,000	191,944,722	225,915,000
Total City Contribution % Change	11.0%	5.4%	4.2%	-7.7%	17.7%
<span style="color: red;">■</span> Total Covered Payroll	290,504,000	298,824,000	319,980,000	322,709,000	351,800,000
Total Covered Payroll % Change	1.7%	2.9%	7.1%	0.9%	9.0%



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



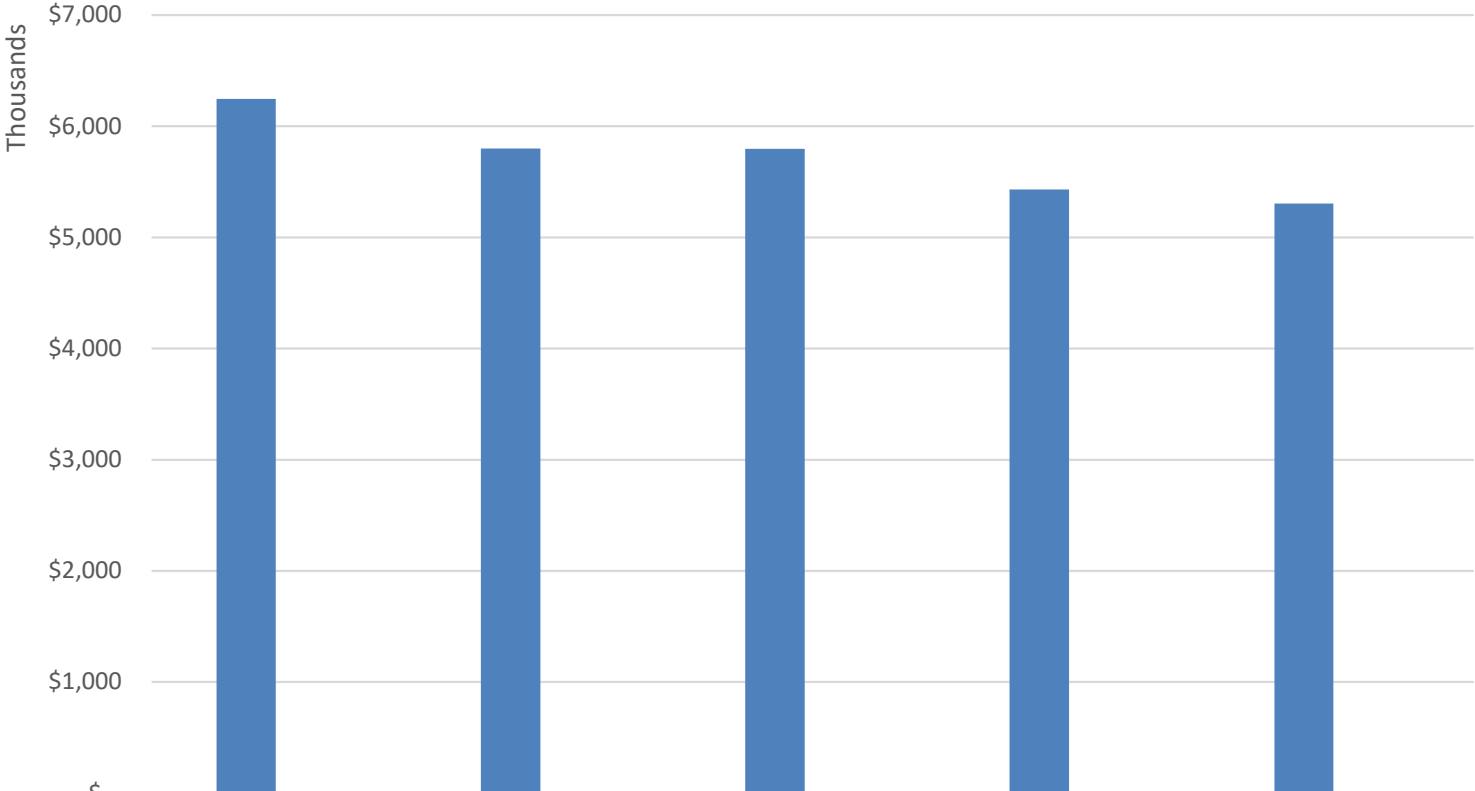
	FY 2018 - Actual	FY 2019 - Actual	FY 2020 - Actual	FY 2021 - Forecast	FY 2022 - Proposed
Total Benefits	223,124,000	233,892,000	247,507,000	255,465,000	263,205,000
Health Insurance % Change	-4.1%	-3.0%	6.8%	4.4%	1.9%
Health Insurance	29,724,000	28,826,000	30,779,000	32,120,000	32,740,000
Pension Benefits % Change	5.4%	6.0%	5.7%	3.1%	3.2%
Pension Benefits	193,400,000	205,066,000	216,728,000	223,345,000	230,465,000

## FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

### Administrative Expenses: FY 2021-2022

	(A) 2019-2020 Actual	(B) 2020-2021 Adopted	(C) 2020-2021 Forecast	(D) 2021-2022 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>PERSONNEL SERVICES</b>							
Salaries and employee benefits	3,275,142	3,357,000	3,131,562	<b>3,684,000</b>	81,858	(225,438)	552,438
Total Personnel Services	3,275,142	3,357,000	3,131,562	<b>3,684,000</b>	81,858	(225,438)	552,438
<b>NON-PERSONNEL / EQUIPMENT</b>							
Investment analytics and research	401,130	435,000	401,642	-	33,870	(33,358)	(401,642)
Insurance	207,386	193,000	188,023	<b>213,000</b>	(14,386)	(4,977)	24,977
IT hardware / software	99,438	123,000	137,942	<b>107,000</b>	23,562	14,942	(30,942)
LRS - annual maintenance fee	45,540	48,000	47,640	<b>48,000</b>	2,460	(360)	360
Postage and printing	59,167	90,000	87,798	<b>60,000</b>	30,833	(2,202)	(27,798)
Rent	209,223	212,000	203,433	<b>215,000</b>	2,777	(8,567)	11,567
Training and travel	26,304	40,000	18,409	<b>20,000</b>	13,696	(21,591)	1,591
Office supplies and board meeting expense	13,365	30,000	10,986	<b>15,000</b>	16,635	(19,014)	4,014
Other non-personnel / equipment	26,656	50,000	30,801	<b>46,000</b>	23,344	(19,199)	15,199
Total Non-personnel / Equipment	1,088,209	1,221,000	1,126,674	<b>724,000</b>	132,791	(94,326)	(402,674)
<b>PROFESSIONAL SERVICES</b>							
Actuary / actuarial audit	236,360	210,000	216,089	<b>320,000</b>	(26,360)	6,089	103,911
External auditor	55,427	83,000	80,817	<b>83,000</b>	27,573	(2,183)	2,183
Legal	186,458	282,000	275,803	<b>257,000</b>	95,542	(6,197)	(18,803)
Pension administration system	9,144	21,000	7,564	<b>16,000</b>	11,856	(13,436)	8,436
Temporary staffing agencies	50,452	77,000	38,647	<b>60,000</b>	26,548	(38,353)	21,353
Other professional services	60,938	79,000	66,132	<b>79,000</b>	18,062	(12,868)	12,868
Total Professional Services	598,779	752,000	685,052	<b>815,000</b>	153,221	(66,948)	129,948
<b>MEDICAL SERVICES</b>							
Independent medical examiners	17,998	54,000	13,000	<b>44,000</b>	36,002	(41,000)	31,000
Medical consultant	22,631	46,000	46,156	<b>36,000</b>	23,369	156	(10,156)
Total Medical Services	40,629	100,000	59,156	<b>80,000</b>	59,371	(40,844)	20,844
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b><u>5,002,759</u></b>	<b><u>5,430,000</u></b>	<b><u>5,002,444</u></b>	<b><u>5,303,000</u></b>	<b><u>427,241</u></b>	<b><u>(427,556)</u></b>	<b><u>300,556</u></b>

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



	FY 17-18	FY 18-19	FY 19-20	FY 20-21 (Adopted)	FY 21-22 (Proposed)
■ Admin Exp Budget*	\$6,244,800	\$5,799,000	\$5,796,000	\$5,430,000	\$5,303,000
% Change	-0.1%	-7.1%	-0.1%	-6.3%	-2.3%

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\* Amount includes budget for operations only.

**OFFICE OF RETIREMENT SERVICES**

**Departmental Position Detail**

<b>Position</b>	<b>2019-2020 Adopted (1)</b>	<b>2020-2021 Adopted (2)</b>	<b>2020-2021 Forecast (3)</b>	<b>2021-2022 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	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	-	-	
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	2.00	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	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 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	6.00	6.00	6.00	6.00	-	-	
Staff Specialist PT	0.75	0.75	0.75	1.00	0.25	0.25	Proposed addition
<b>Total Positions</b>	<b>39.75</b>	<b>38.75</b>	<b>38.75</b>	<b>40.00</b>	<b>1.25</b>	<b>1.25</b>	

**OFFICE OF RETIREMENT SERVICES  
Proposed Organizational Chart  
Budget FY21-22**

