

**2021-2022**

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**OPERATING BUDGET**

**POLICE AND FIRE  
DEPARTMENT  
RETIREMENT  
PLAN**

**BUDGET FOR  
FISCAL YEAR  
2021-2022**



# Memorandum

**TO: Board of Administration for the  
Police and Fire Plan**

**FROM: Benjie Chua Foy**

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

**DATE: February 23, 2021**

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Approved *Robert A. Pera*

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 \$238,555,000.

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 beginning of the year amounts if the City prefunds the Police and Fire Tier 1 contributions, similar to the prior year.

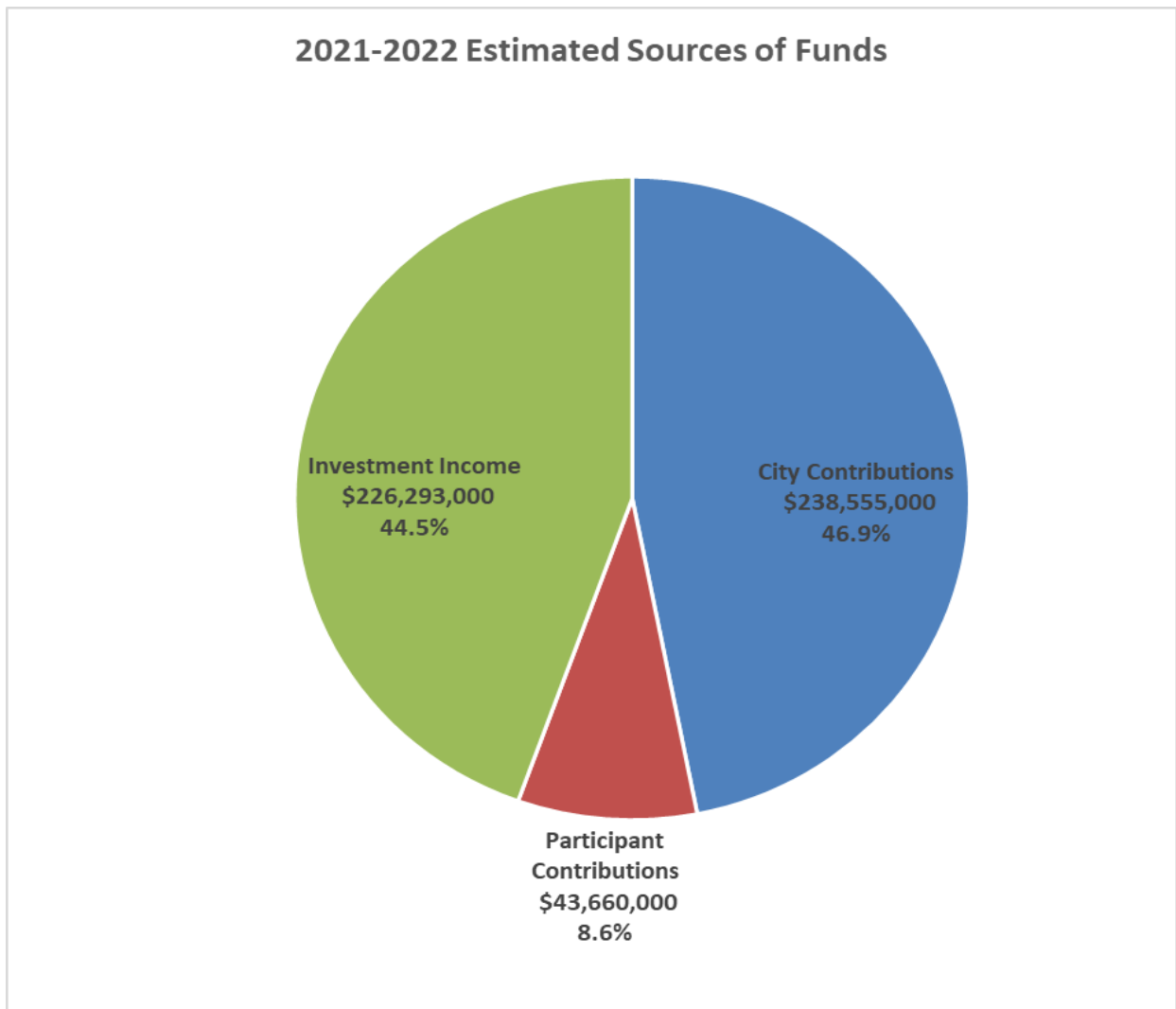
#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$43,660,000, a 1.60% increase from the 2020-2021 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension increased slightly going from 10.72% to 10.85% while their covered payroll decreased from \$93.3 million to \$84.4 million. Fire Tier 1 contribution rates for pension increased

slightly from 11.72% to 11.91% while covered payroll increased slightly from \$71.2 million to \$71.8 million. Police Tier 2 contribution rates for pension increased from 14.18% to 14.43% and covered payroll increased from \$58.4 million to \$67.3 million, while Fire Tier 2 contribution rates for pension decreased from 15.53% to 15.28% while covered payroll increased from \$20.6 million to \$24.5 million. Healthcare contribution rates remain at 8.0% per the Municipal Code for Tier 1 members, while Tier 2 are required to go into the VEBA.

### 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 \$250,113,000, an increase of \$11,855,000 over the forecast, or 4.98%, 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 decreased to \$25,738,000, an increase of \$437,000 over the forecast, or 1.73%, 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 members who opted out and the mandatory movement of Tier 2 members 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 were no VEBA withdrawals in fiscal year 2019-2020 and future withdrawals are expected to be minimal, if any.

#### *ADMINISTRATIVE EXPENSE BUDGET*

The proposed administrative expenses budget of \$5,901,000 is a net decrease of \$143,000 or 2.37% from the prior year proposed budget of \$6,044,000.

#### *PERSONNEL SERVICES*

The budget for personnel services was increased to \$4,196,000, an increase of \$406,000, or 10.71% over the prior year adopted budget of \$3,790,000. 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 Plan and the Federated City Employees' Retirement System (System). The investment staff is split 60/40 between the Plan and the System, 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 \$726,000, a decrease of \$499,000, or 40.73% from the prior year adopted budget of \$1,225,000. 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 \$19,000. 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 \$64,000 or 5.2% compared to the adopted budget.

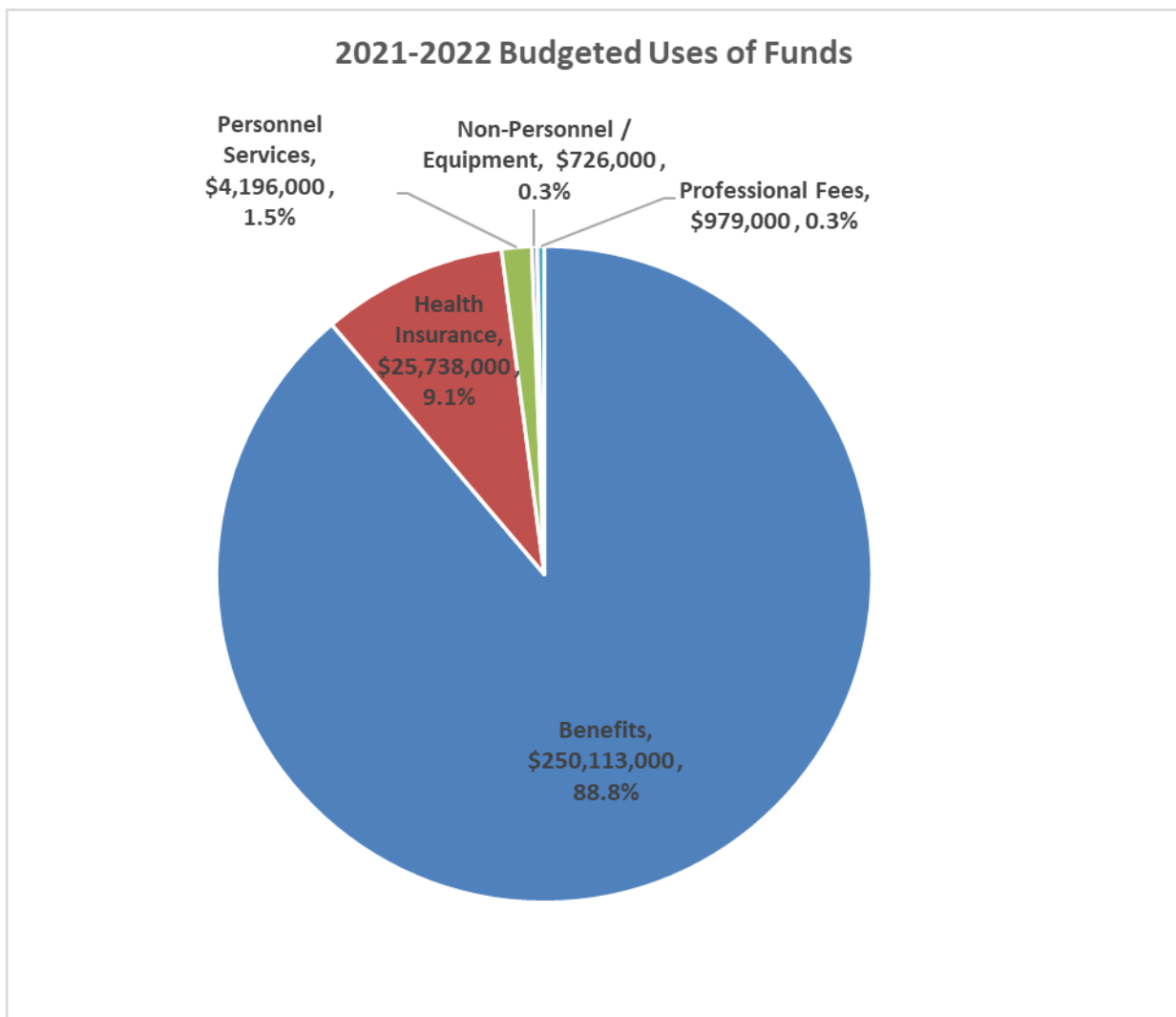
#### *PROFESSIONAL SERVICES*

The budget for professional services was increased to \$867,000, an increase of \$56,000, or 6.9% from the prior year adopted budget of \$811,000. 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 \$57,000 and increasing actuarial services by \$35,000, the approximate amount of the experience study that is being conducted in FY21-22.

### MEDICAL SERVICES

The budget for medical services was reduced to \$112,000, a decrease of \$106,000, or 48.6% over the prior year adopted budget of \$218,000. 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 to align the budget with the actual amounts spent from prior years.



Attachment: Proposed Budget for Fiscal Year 2021-2022

**PROPOSED BUDGET**

**FISCAL YEAR 2021-2022**

**POLICE AND FIRE DEPARTMENT RETIREMENT PLAN**

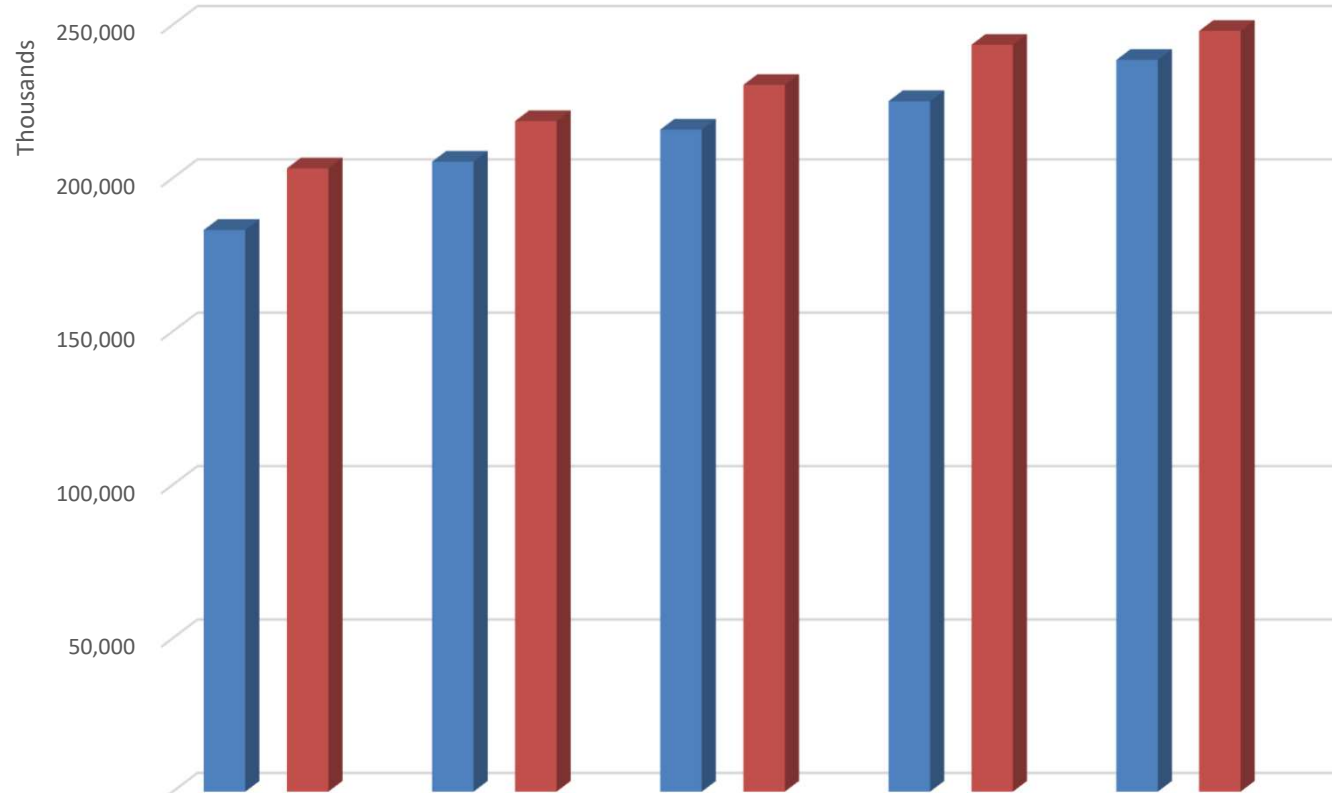
March 4, 2021

**POLICE & FIRE DEPARTMENT RETIREMENT PLAN**

**Statement of Source and Use of Funds**

	<b>(A)</b> <b>2019-2020</b> <b>Actual</b>	<b>(B)</b> <b>2020-2021</b> <b>Modified</b>	<b>(C)</b> <b>2020-2021</b> <b>Forecast</b>	<b>(D)</b> <b>2021-2022</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	3,774,379,000	3,910,552,000	3,910,552,000	4,128,776,570	136,173,000	0	218,224,570
Total Beginning Fund Balance	3,774,379,000	3,910,552,000	3,910,552,000	4,128,776,570	136,173,000	0	218,224,570
Transfers							
City Contributions	215,831,000	231,282,000	225,095,358	238,555,000	15,451,000	(6,186,642)	13,459,642
1970 COLA	534	1,000	534	1,000	466	(466)	466
1980 COLA	8,385	9,000	7,139	9,000	615	(1,861)	1,861
1990 COLA	3,801	4,000	3,801	4,000	199	(199)	199
Total Transfers	215,843,720	231,296,000	225,106,832	238,569,000	15,452,280	(6,189,168)	13,462,168
Revenue							
Participant Income	40,780,000	42,987,000	42,983,392	43,660,000	2,207,000	(3,608)	676,608
Investment Income, net of expenses	141,328,000	224,507,914	219,119,647	226,293,000	83,179,914	(5,388,267)	7,173,353
Total Revenue	182,108,000	267,494,914	262,103,039	269,953,000	85,386,914	(5,391,875)	7,849,961
<b>TOTAL SOURCE OF FUNDS</b>	<b>4,172,330,720</b>	<b>4,409,342,914</b>	<b>4,397,761,871</b>	<b>4,637,298,570</b>	<b>237,012,194</b>	<b>(11,581,043)</b>	<b>239,536,699</b>
<b>USE OF FUNDS</b>							
Expenditures							
Benefits	231,008,000	234,580,000	238,258,472	250,113,000	3,572,000	3,678,472	11,854,528
Health Insurance	25,031,000	26,703,000	25,300,222	25,738,000	1,672,000	(1,402,778)	437,778
VEBA withdrawals	0	0	0	0	0	0	0
Personnel Services (Ret.)	3,553,452	3,790,000	3,654,936	4,196,000	236,548	(135,064)	541,064
Non-Personnel/Equipment <sup>(1)</sup>	1,472,853	1,225,000	1,090,284	726,000	(247,853)	(134,716)	(364,284)
Professional Fees	700,695	1,029,000	669,913	979,000	328,305	(359,087)	309,087
1970 COLA	534	1,000	534	1,000	466	(466)	466
1980 COLA	8,385	9,000	7,139	9,000	615	(1,861)	1,861
1990 COLA	3,801	4,000	3,801	4,000	199	(199)	199
Total Expenditures	261,778,720	267,341,000	268,985,301	281,766,000	5,562,280	1,644,301	12,780,699
Ending Fund Balance							
Claims Reserve	3,910,552,000	4,142,001,914	4,128,776,570	4,355,532,570	231,449,914	(13,225,344)	226,756,000
Total Ending Fund Balance	3,910,552,000	4,142,001,914	4,128,776,570	4,355,532,570	231,449,914	(13,225,344)	226,756,000
<b>TOTAL USE OF FUNDS</b>	<b>4,172,330,720</b>	<b>4,409,342,914</b>	<b>4,397,761,871</b>	<b>4,637,298,570</b>	<b>237,012,194</b>	<b>(11,581,043)</b>	<b>239,536,699</b>
<u>Amount not included in budget since no cash outlay:</u>							
Amortization expense for PG3	\$ 408,727	\$ 408,727	\$ 408,727	\$ 408,727			
<sup>(1)</sup> Non-personnel equipment FY19-20	\$ 1,472,853						
Rounding in CAFR	(623)						
Amortization expense	(408,727)						
As shown in Administrative Expenses	\$ 1,063,503						

## POLICE & FIRE DEPARTMENT RETIREMENT PLAN Total City Contributions & Covered Payroll

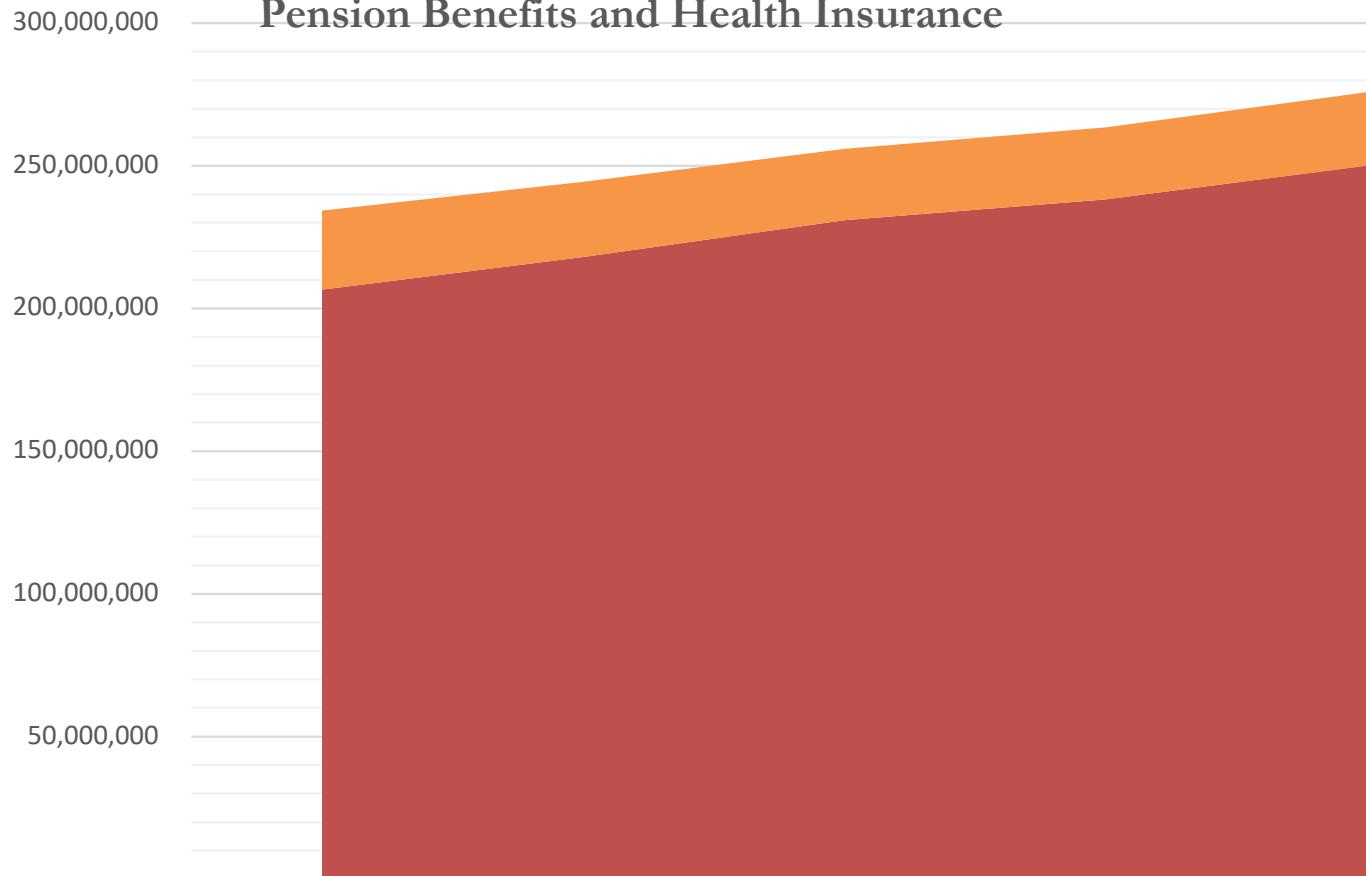


	FY 17-18	FY 18-19	FY 19-20	FY 20-21 (Forecast)	FY 21-22 (Estimate)
Total City Contributions	183,094,000	205,362,000	215,831,000	225,095,358	238,555,000
Total City Contribution % Change	16.2%	12.2%	5.1%	4.3%	6.0%
Total Covered Payroll	203,164,000	218,619,000	230,401,000	243,500,000	248,000,000
Total Covered Payroll % Change	6.5%	7.6%	5.4%	5.7%	1.8%



# POLICE & FIRE DEPARTMENT RETIREMENT PLAN

## Pension Benefits and Health Insurance



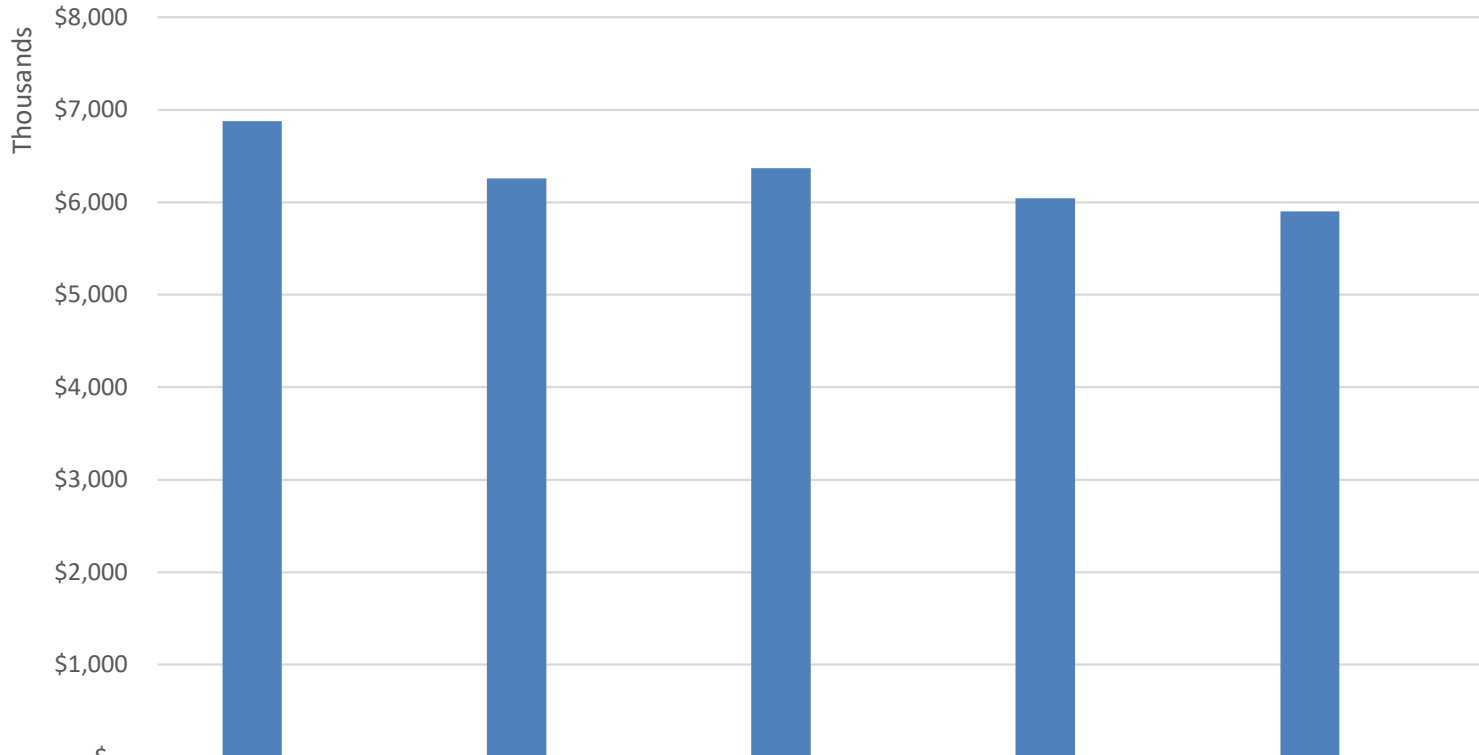
	FY 17-18 - Actual	FY 18-19 - Actual	FY 19-20 - Actual	FY 19-20 - Forecast	FY 20-21 - Proposed
Total Benefits	234,316,000	244,411,000	256,039,000	263,558,694	275,851,000
Health Insurance	27,686,000	26,403,000	25,031,000	25,300,222	25,738,000
Pension Benefits	206,630,000	218,008,000	231,008,000	238,258,472	250,113,000
Health Insurance % Change	11.6%	-4.6%	-5.2%	1.1%	1.7%
Pension Benefits % Change	5.4%	5.5%	6.0%	3.1%	5.0%

## POLICE & FIRE DEPARTMENT RETIREMENT PLAN

### 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	3,553,452	3,790,000	3,654,936	<b>4,196,000</b>	236,548	(135,064)	541,064
Total Personnel Services	3,553,452	3,790,000	3,654,936	<b>4,196,000</b>	236,548	(135,064)	541,064
<b>NON-PERSONNEL / EQUIPMENT</b>							
Investment analytics and research	401,130	435,000	390,654	-	33,870	(44,346)	(390,654)
Rent	209,223	212,000	208,782	<b>215,000</b>	2,777	(3,218)	6,218
Insurance	184,295	193,000	194,589	<b>212,000</b>	8,705	1,589	17,411
IT hardware / software	100,886	123,000	148,147	<b>107,000</b>	22,114	25,147	(41,147)
Postage and printing	47,274	90,000	53,668	<b>60,000</b>	42,726	(36,332)	6,332
LRS - annual maintenance fee	45,540	48,000	47,640	<b>48,000</b>	2,460	(360)	360
Training and travel	19,586	40,000	9,333	<b>20,000</b>	20,414	(30,667)	10,667
Other non-personnel / equipment	41,523	54,000	31,985	<b>49,000</b>	12,477	(22,015)	17,015
Office supplies and board meeting expenses	14,046	30,000	5,486	<b>15,000</b>	15,954	(24,514)	9,514
Total Non-personnel / Equipment	1,063,503	1,225,000	1,090,284	<b>726,000</b>	161,497	(134,716)	(364,284)
<b>PROFESSIONAL SERVICES</b>							
Actuary / actuarial audit	227,387	235,000	221,698	<b>370,000</b>	7,613	(13,302)	148,302
External auditor	55,427	83,000	80,817	<b>83,000</b>	27,573	(2,183)	2,183
Legal	213,099	317,000	217,324	<b>260,000</b>	103,901	(99,676)	42,676
Pension administration system	9,144	21,000	7,782	<b>16,000</b>	11,856	(13,218)	8,218
Temporary staffing agencies	50,452	77,000	19,397	<b>60,000</b>	26,548	(57,603)	40,603
Other professional services	47,775	78,000	41,440	<b>78,000</b>	30,225	(36,560)	36,560
Total Professional Services	603,284	811,000	588,458	<b>867,000</b>	207,716	(222,542)	278,542
<b>MEDICAL SERVICES</b>							
Independent medical examiners	35,488	116,000	29,700	<b>46,000</b>	80,512	(86,300)	16,300
Medical consultant	61,923	102,000	51,755	<b>66,000</b>	40,077	(50,245)	14,245
Total Medical Services	97,411	218,000	81,455	<b>112,000</b>	120,589	(136,545)	30,545
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>5,317,650</b>	<b>6,044,000</b>	<b>5,415,133</b>	<b>5,901,000</b>	<b>726,350</b>	<b>(628,867)</b>	<b>485,867</b>

**POLICE & FIRE DEPARTMENT RETIREMENT PLAN**  
**Administrative Expense Budget**  
**FY 2017-2018 to FY 2021-2022**



	FY 17-18	FY 18-19	FY 19-20	FY 20-21 (Adopted)	FY 21-22 (Proposed)
Admin Exp Budget*	\$6,876,800	\$6,259,000	\$6,369,000	\$6,044,000	\$5,901,000
% Change	6.1%	-9.0%	1.8%	-5.1%	-2.4%

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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**

