

**FEDERATED CITY
EMPLOYEES'
RETIREMENT SYSTEM -
BUDGET FOR FISCAL
YEAR 2022-2023**



Memorandum

TO: Board of Administration for the Federated City Employees' Retirement System **FROM: Benjie Chua Foy**

SUBJECT: Consideration of Proposed Budget for Fiscal Year 2022-2023

DATE: March 10, 2022

Approved

Date

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2022-2023.

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 (personnel, non-personnel, professional and medical services) and not the individual line items (e.g., rent, IT, supplies, printing, etc. in the non-personnel category). 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 \$224,315,000.

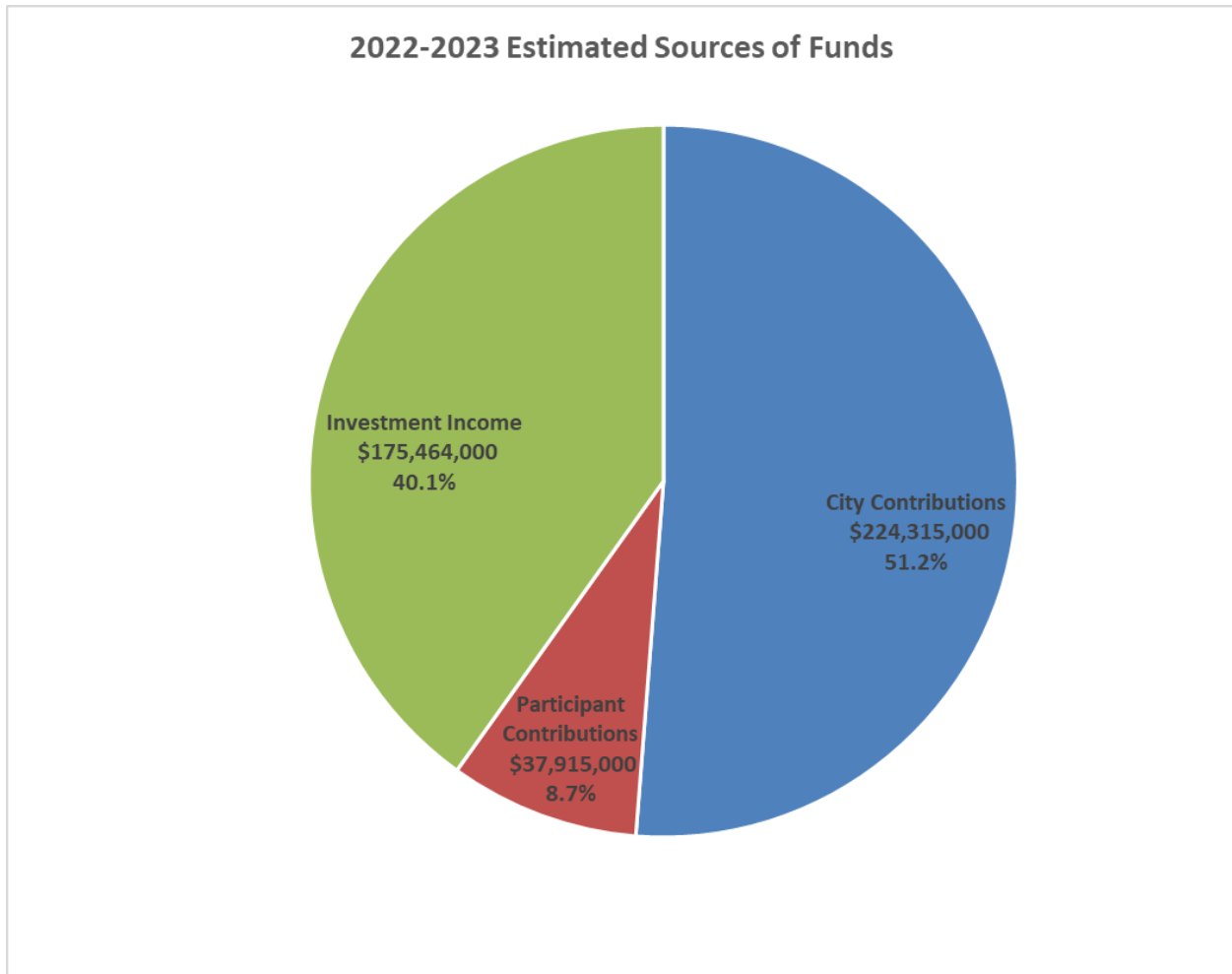
The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY23 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2021 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$37,915,000, a 3.18% increase from the 2021-2022 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension increased slightly from 7.39% to 7.41% while their covered payroll decreased from \$137.2 million to \$132.6 million. Tier 2 contribution rates for pension decreased from 8.17% to 8.13% while covered payroll increased from \$214.6 million to \$237.2 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, as calculated by the actuary.

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 \$244,321,000, an increase of \$13,856,000, or 6.01%, 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 \$31,679,000, a decrease of \$1,061,000, or 3.24%. 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 2020-2021 and future withdrawals are expected to be minimal, if any.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$5,729,000 is a net increase of 4.11% or \$226,000 from the prior year modified budget of \$5,503,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$3,986,000, an increase of \$302,000, or 8.20% over the prior year adopted budget of \$3,684,000. 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 proposed personnel changes for FY22-23 are to add: 1) Senior Supervisor, Administration, 2) Senior Analyst, and 3) Analyst in the Benefits Division to address some of the backlogs and increasing workload. 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

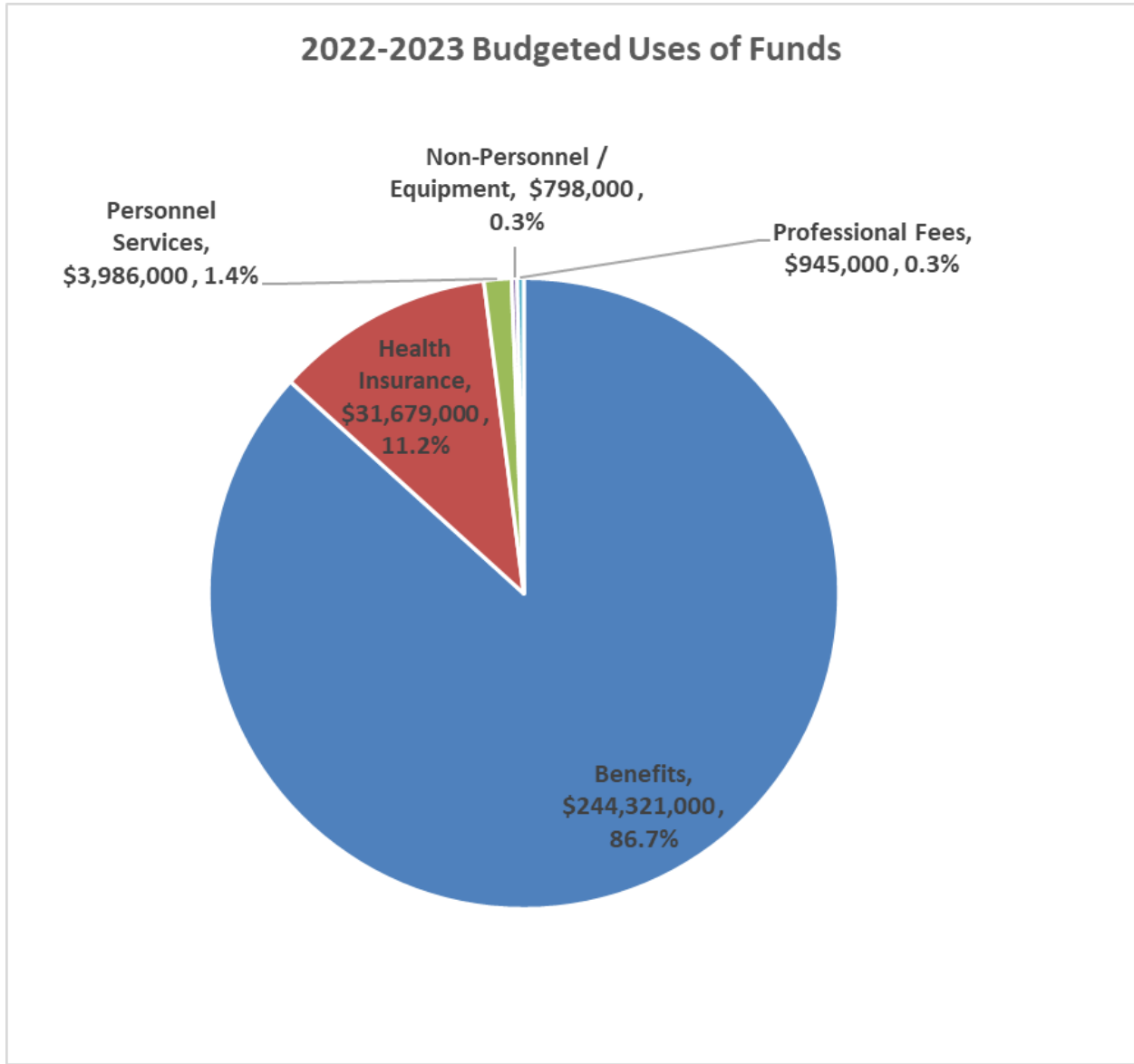
The budget for non-personnel / equipment was increased to \$798,000, an increase of \$74,000, or 10.22% from the prior year adopted budget of \$724,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the increase in fiduciary insurance of \$27,000 to align with current increases in fees, the increase of \$25,000 in postage and printing to align with current costs, as well as general increases across the board.

PROFESSIONAL SERVICES

The budget for professional services was reduced to \$800,000, a decrease of \$215,000, or 21.2% from the prior year modified budget of \$1,015,000. The adopted budget was modified to increase legal services by \$200,000. If it had not been modified, current year proposed budget would be a decrease of \$15,000, or 1.8% from the prior year adopted budget of \$815,000. 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 mainly from removing actuarial audit services for \$100,000, increasing temporary services by \$32,000, and adding small increases to legal and other professional services.

MEDICAL SERVICES

The budget for medical services was increased to \$145,000, an increase of \$65,000, or 81.3% over the prior year adopted budget of \$80,000. 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 increase is due to the onboarding of the recently approved new medical services provider following the retirement of Dr. Tierman.



Attachment: Proposed Budget for Fiscal Year 2022-2023

PROPOSED BUDGET

FISCAL YEAR 2022-2023

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

March 17, 2022

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Proposed Budget for Fiscal Year 2022-2023

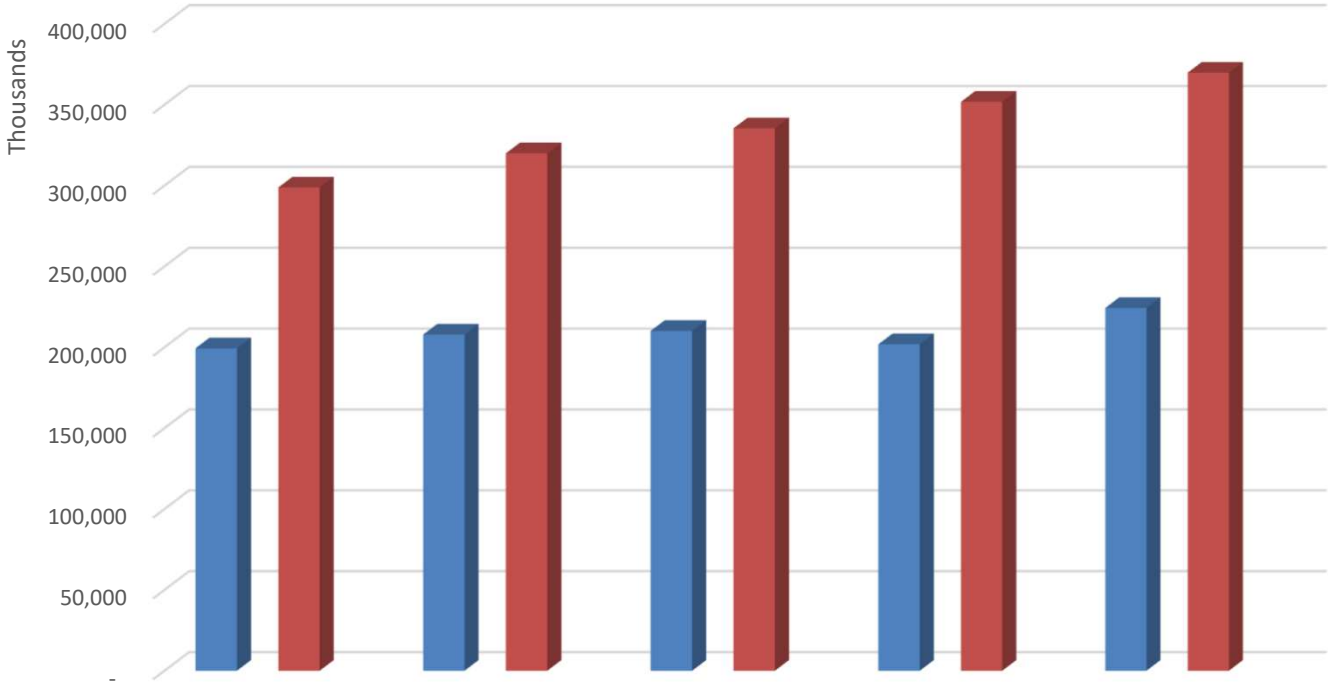
	(A) 2020-2021 Actual	(B) 2021-2022 Modified	(C) 2021-2022 Forecast	(D) 2022-2023 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
SOURCE OF FUNDS							
Beginning Fund Balance							
Claims Reserve	2,511,327,000	3,268,953,000	3,268,953,000	3,406,838,900	757,626,000	0	137,885,900
Total Beginning Fund Balance	2,511,327,000	3,268,953,000	3,268,953,000	3,406,838,900	757,626,000	0	137,885,900
Transfers							
COLAs	19,000	18,000	16,500	16,500	(1,000)	(1,500)	0
City Contributions	210,200,000	225,915,000	201,876,500	224,315,000	15,715,000	(24,038,500)	22,438,500
Total Transfers	210,219,000	225,933,000	201,893,000	224,331,500	15,714,000	(24,040,000)	22,438,500
Revenue							
Participant Contributions	35,999,000	36,747,000	36,746,400	37,915,000	748,000	(600)	1,168,600
Investment Income	775,968,000	127,754,000	168,697,000	175,451,000	(648,214,000)	40,943,000	6,754,000
Total Revenue	811,967,000	164,501,000	205,443,400	213,366,000	(647,466,000)	40,942,400	7,922,600
TOTAL SOURCE OF FUNDS	<u>3,533,513,000</u>	<u>3,659,387,000</u>	<u>3,676,289,400</u>	<u>3,844,536,400</u>	<u>125,874,000</u>	<u>16,902,400</u>	<u>168,247,000</u>
USE OF FUNDS							
Expenditures							
COLAs	19,000	18,000	16,500	16,500	(1,000)	(1,500)	0
Benefits	227,206,000	230,465,000	233,364,000	244,321,000	3,259,000	2,899,000	10,957,000
Health Insurance	31,871,000	32,740,000	31,000,000	31,679,000	869,000	(1,740,000)	679,000
VEBA Transfers	5,000	0	10,000	10,000	(5,000)	10,000	0
Personnel Services	3,198,000	3,684,000	3,321,000	3,986,000	486,000	(363,000)	665,000
Non-Personnel/Equipment ⁽¹⁾	1,517,000	724,000	723,000	798,000	(793,000)	(1,000)	75,000
Professional Fees	744,000	1,095,000	1,016,000	995,000	351,000	(79,000)	(21,000)
Total Expenditures	264,560,000	268,726,000	269,450,500	281,805,500	4,166,000	724,500	12,355,000
Ending Fund Balance							
Claims Reserve	3,268,953,000	3,390,661,000	3,406,838,900	3,562,730,900	121,708,000	16,177,900	155,892,000
Total Ending Fund Balance	3,268,953,000	3,390,661,000	3,406,838,900	3,562,730,900	121,708,000	16,177,900	155,892,000
TOTAL USE OF FUNDS	<u>3,533,513,000</u>	<u>3,659,387,000</u>	<u>3,676,289,400</u>	<u>3,844,536,400</u>	<u>125,874,000</u>	<u>16,902,400</u>	<u>168,247,000</u>

Amount not included in budget since no cash outlay:

Amortization expense for PG3	\$ 412,979	\$ 412,979	\$ 412,979	\$ 412,979
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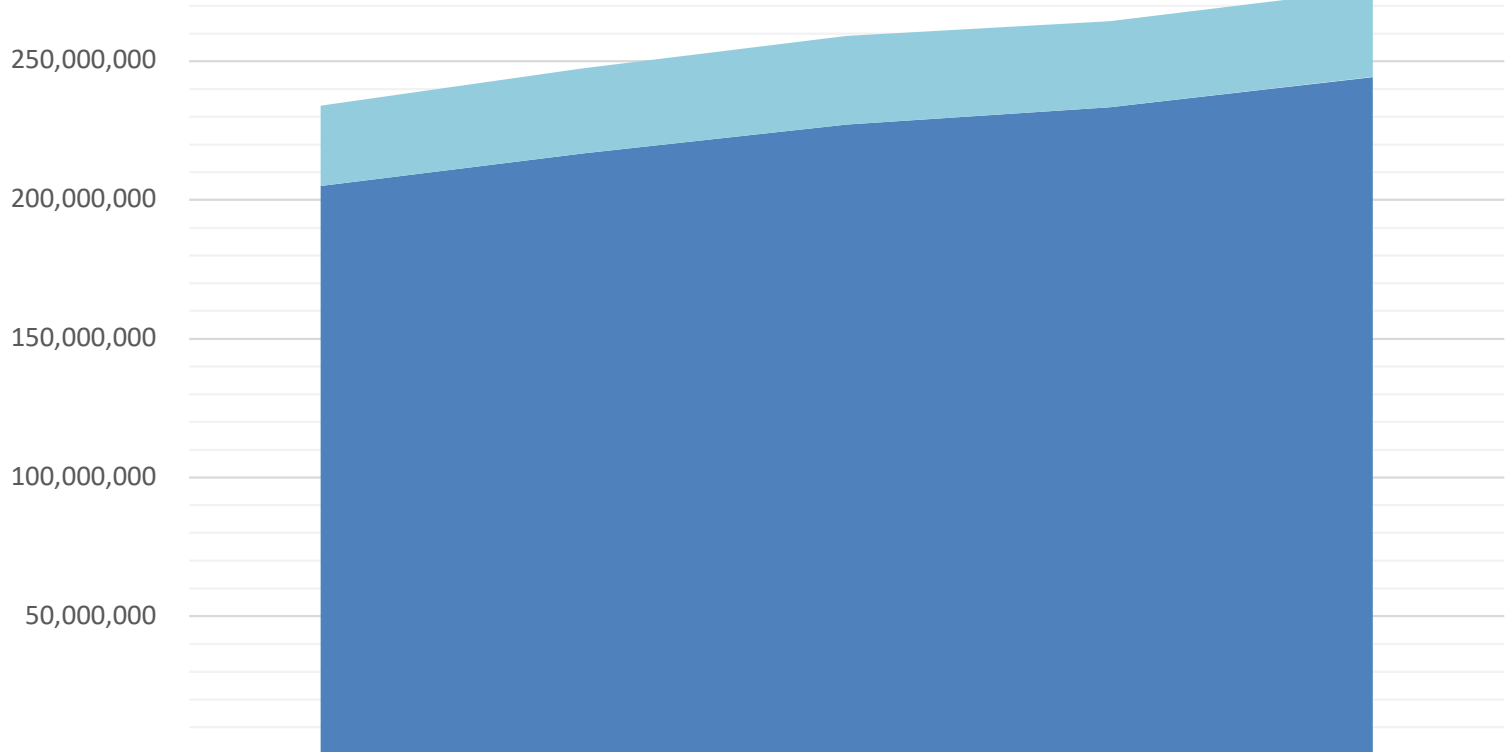
⁽¹⁾ Non-personnel equipment FY20-21	\$ 1,517,000
Rounding in ACFR	439
Amortization expense	(412,979)
Investments data processing	(393,268)
As shown in Administrative Expenses	\$ 711,192

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



	FY 18-19	FY 19-20	FY 20-21	FY 21-22 (Forecast)	FY 22-23 (Proposed)
■ Total City Contributions	199,416,000	207,860,000	210,200,000	201,876,500	224,315,000
Total City Contribution % Change	5.4%	4.2%	1.1%	-4.0%	11.1%
■ Total Covered Payroll	298,824,000	319,980,000	335,421,000	351,799,000	369,800,000
Total Covered Payroll % Change	2.9%	7.1%	4.8%	4.9%	5.1%

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Pension Benefits and Health Insurance



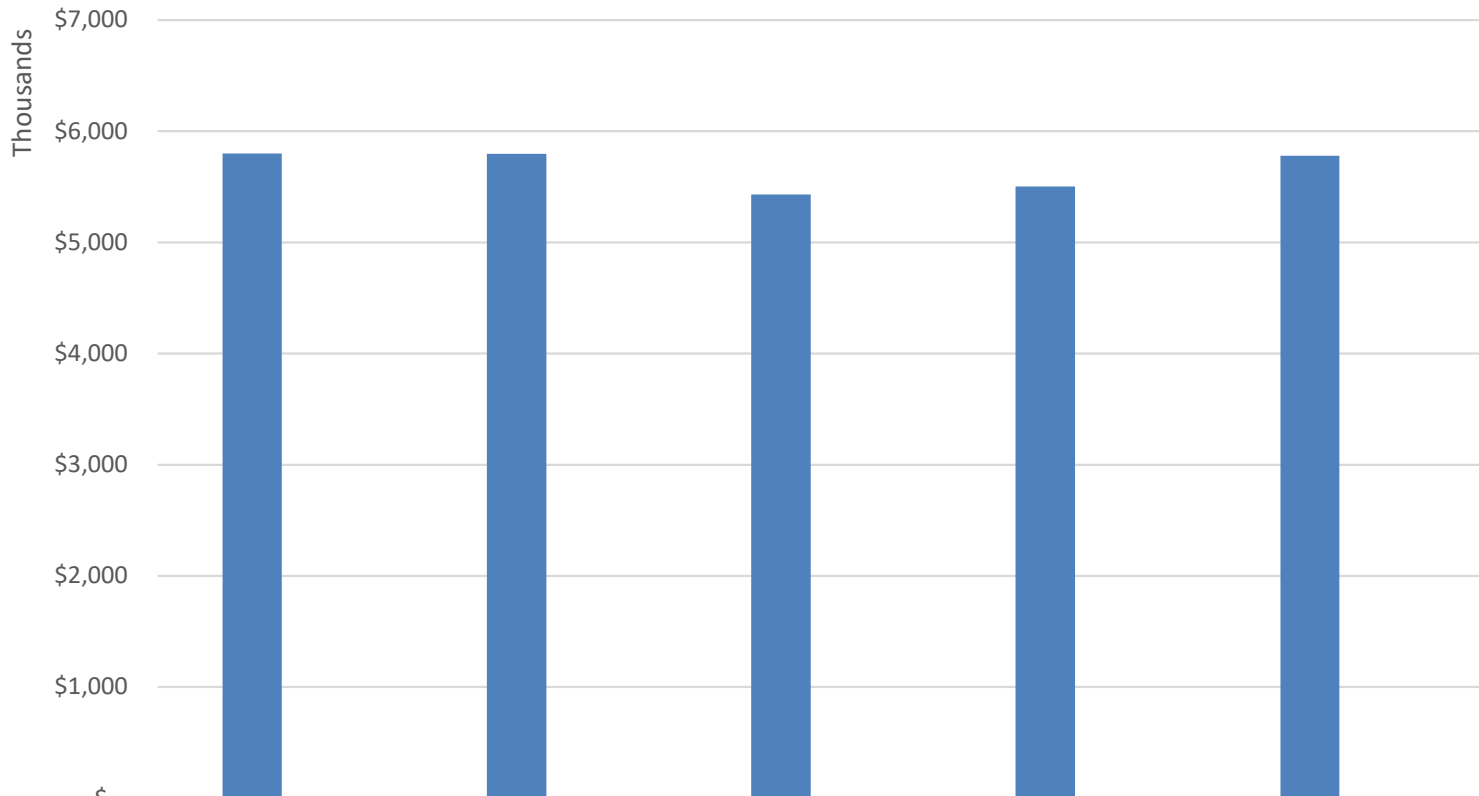
	FY 2019 - Actual	FY 2020 - Actual	FY 2021 - Actual	FY 2021 - Forecast	FY 2022 - Proposed
Total Benefits	233,892,000	247,507,000	259,077,000	264,364,000	276,000,000
Health Insurance % Change	-3.0%	6.8%	3.5%	-2.7%	2.2%
Health Insurance	28,826,000	30,779,000	31,871,000	31,000,000	31,679,000
Pension Benefits % Change	6.0%	5.7%	4.8%	2.7%	4.7%
Pension Benefits	205,066,000	216,728,000	227,206,000	233,364,000	244,321,000

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Administrative Expenses: FY 2022-2023

	(A) 2020-2021 Actual	(B) 2021-2022 Adopted	(C) 2021-2022 Forecast	(D) 2022-2023 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
PERSONNEL SERVICES							
Salaries and employee benefits	3,198,023	3,684,000	3,320,158	3,986,000	485,977	(363,842)	665,842
Total Personnel Services	3,198,023	3,684,000	3,320,158	3,986,000	485,977	(363,842)	665,842
NON-PERSONNEL / EQUIPMENT							
Insurance	214,453	213,000	228,414	240,000	(1,453)	15,414	11,586
IT hardware / software	140,399	107,000	94,708	109,000	(33,399)	(12,292)	14,292
LRS - annual maintenance fee	47,640	48,000	49,845	50,000	360	1,845	155
Postage and printing	81,095	60,000	80,001	85,000	(21,095)	20,001	4,999
Rent	186,327	215,000	233,623	222,000	28,673	18,623	(11,623)
Training and travel	7,930	20,000	5,283	25,000	12,070	(14,717)	19,717
Office supplies and board meeting expense	8,016	15,000	6,892	15,000	6,984	(8,108)	8,108
Other non-personnel / equipment	25,332	46,000	24,270	52,000	20,668	(21,730)	27,730
Total Non-personnel / Equipment	711,192	724,000	723,036	798,000	12,808	(964)	74,964
PROFESSIONAL SERVICES							
Actuary / actuarial audit	184,566	320,000	307,305	227,000	135,434	(12,695)	(80,305)
External auditor	80,817	83,000	92,837	85,000	2,183	9,837	(7,837)
Legal	335,918	457,000	433,784	365,000	121,082	(23,216)	(68,784)
Pension administration system	20,759	16,000	22,773	20,000	(4,759)	6,773	(2,773)
Temporary staffing agencies	23,573	60,000	104,117	92,000	36,427	44,117	(12,117)
Other professional services	64,822	79,000	40,565	61,000	14,178	(38,435)	20,435
Total Professional Services	710,455	1,015,000	1,001,381	850,000	304,545	(13,619)	(151,381)
MEDICAL SERVICES							
Independent medical examiners	3,500	44,000	7,000	40,000	40,500	(37,000)	33,000
Medical consultant	29,603	36,000	7,000	105,000	6,397	(29,000)	98,000
Total Medical Services	33,103	80,000	14,000	145,000	46,897	(66,000)	131,000
TOTAL ADMINISTRATIVE EXPENSES	<u>4,652,773</u>	<u>5,503,000</u>	<u>5,058,575</u>	<u>5,779,000</u>	<u>850,227</u>	<u>(444,425)</u>	<u>720,425</u>
Data processing for Investments	393,268						
Amortization expense	412,979						
Rounding	(20)						
Total Admin Expenses per ACFR	<u>5,459,000</u>						

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Administrative Expense Budget



	FY 18-19	FY 19-20	FY 20-21	FY 21-22 (Adopted)	FY 22-23 (Proposed)
■ Admin Exp Budget*	\$5,799,000	\$5,796,000	\$5,430,000	\$5,503,000	\$5,779,000
% Change	-7.1%	-0.1%	-6.3%	1.3%	5.0%

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* Amount includes budget for operations only.

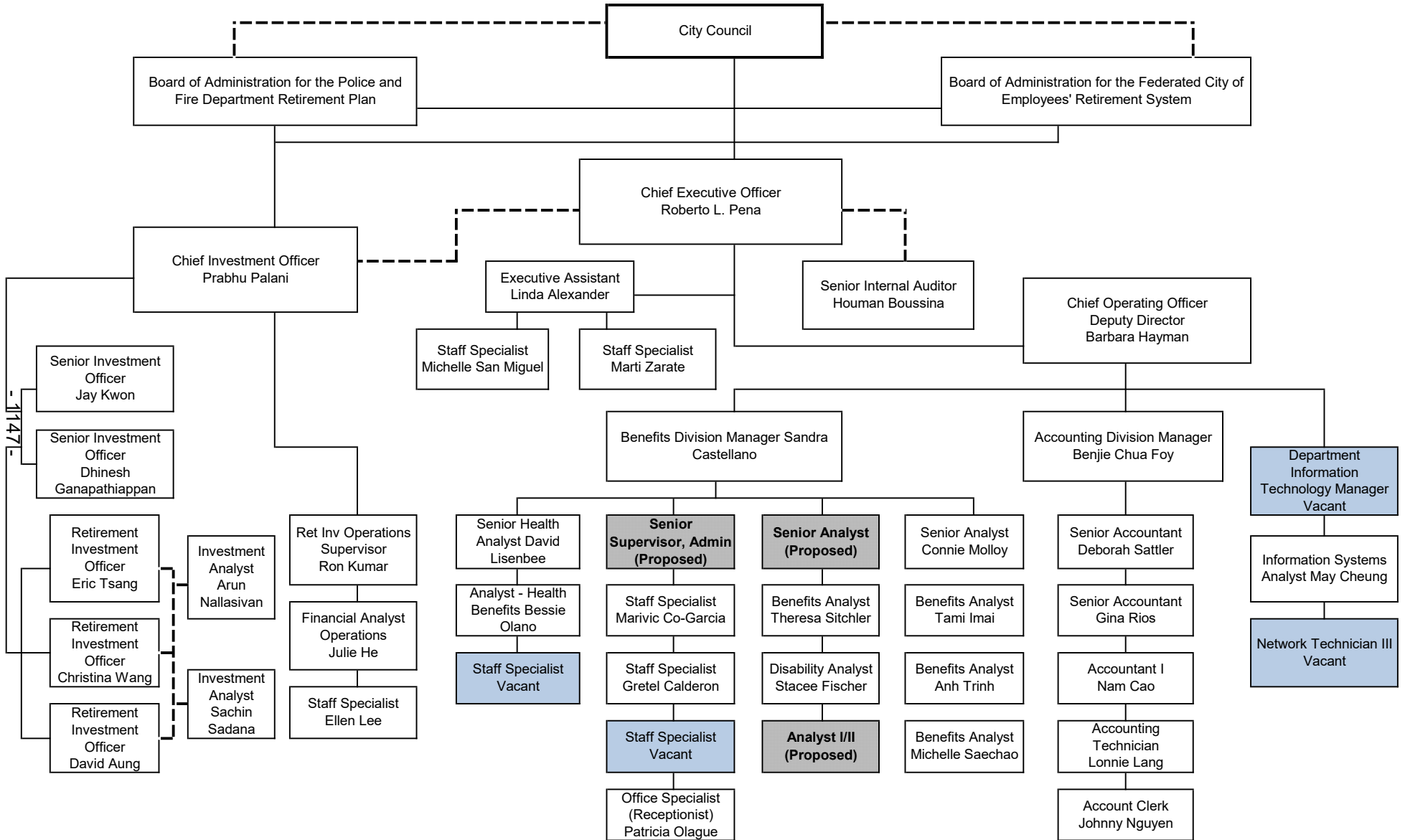
OFFICE OF RETIREMENT SERVICES

Departmental Position Detail

Position	2020-2021 Adopted (1)	2021-2022 Adopted (2)	2021-2022 Forecast (3)	2022-2023 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	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	7.00	1.00	1.00	Proposed addition for Benefits Division
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	1.00	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	3.00	1.00	1.00	Proposed addition for Benefits Division
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Retirement Investment Officer	1.00	2.00	2.00	2.00	-	-	
Senior Supervisor, Administration	0.00	0.00	0.00	1.00	1.00	1.00	Proposed addition for Benefits Division
Staff Specialist	6.00	6.00	6.00	6.00	-	-	
Staff Specialist PT	0.75	1.00	1.00	1.00	-	-	
Total Positions	38.75	40.00	40.00	43.00	3.00	3.00	

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**OFFICE OF RETIREMENT SERVICES
Proposed Organizational Chart
Budget FY22-23**



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