

**POLICE AND FIRE
DEPARTMENT
RETIREMENT PLAN -
BUDGET FOR FISCAL
YEAR 2022-2023**



Memorandum

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

FROM: Benjie Chua Foy

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

DATE: February 28, 2022

Approved *Robert A. Pera*

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 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 \$235,108,000.

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

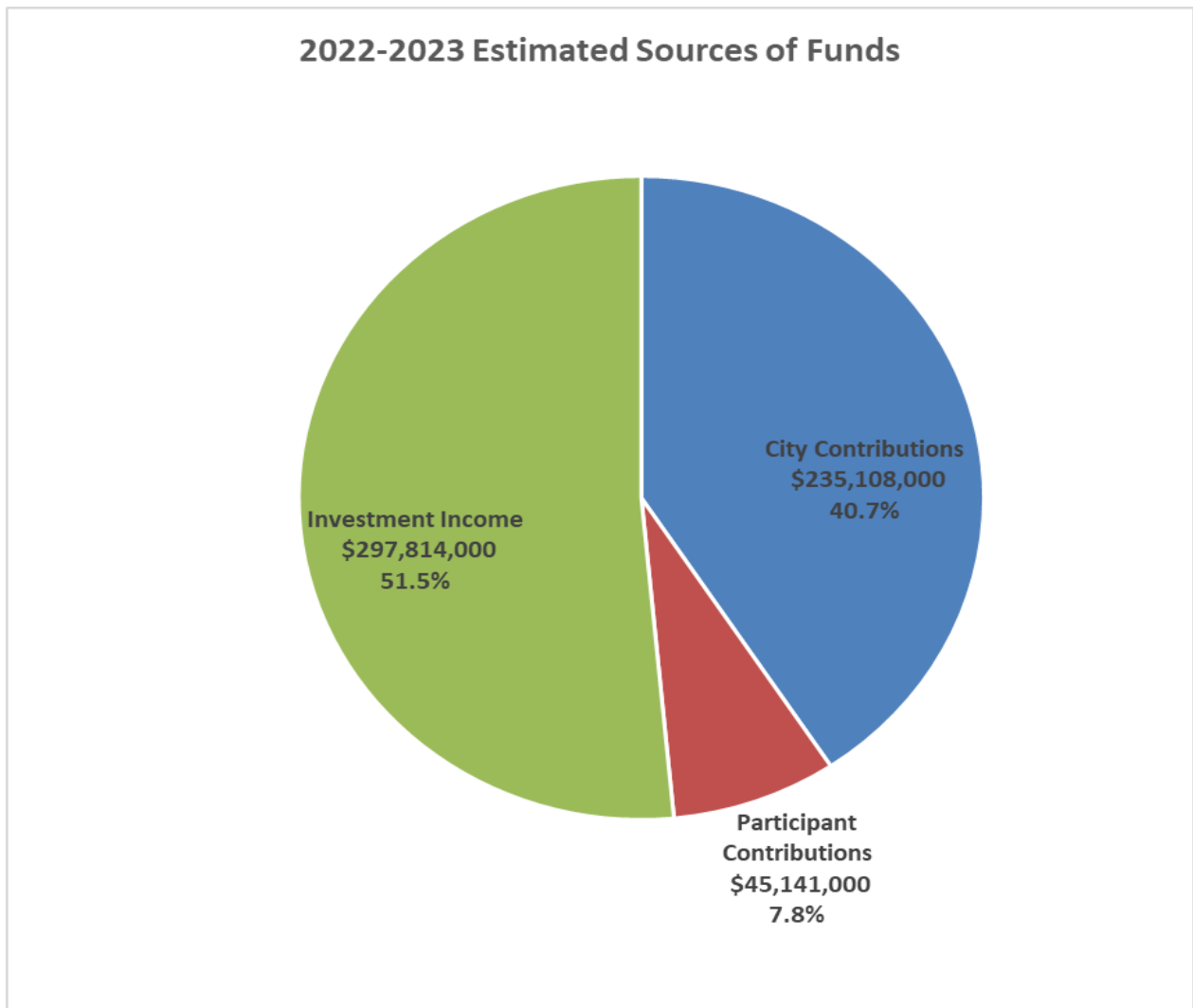
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$45,141,000, a 3.40% increase from the 2021-2022 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 10.85% to 10.99% while their covered payroll decreased from \$84.4 million to \$77.5 million.

Fire Tier 1 contribution rates for pension increased slightly from 11.91% to 12.11% while covered payroll decreased slightly from \$71.8 million to \$68.7 million. Police Tier 2 contribution rates for pension decreased from 14.43% to 14.37% and covered payroll increased from \$67.3 million to \$84.2 million. Fire Tier 2 contribution rates for pension decreased from 15.28% to 15.18%, while covered payroll increased from \$24.5 million to \$29.7 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 \$265,735,000, an increase of \$13,146,000 over the forecast, or 5.20%, 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 \$25,618,000, an increase of \$179,000 over the forecast, or 0.70%, 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 2020-2021 and future withdrawals are expected to be minimal, if any.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$6,326,000 is a net increase of \$275,000 or 4.54% from the prior year modified budget of \$6,051,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$4,463,000, an increase of \$267,000, or 6.36% over the prior year adopted budget of \$4,196,000. 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 43 from 40 due to the proposals. 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

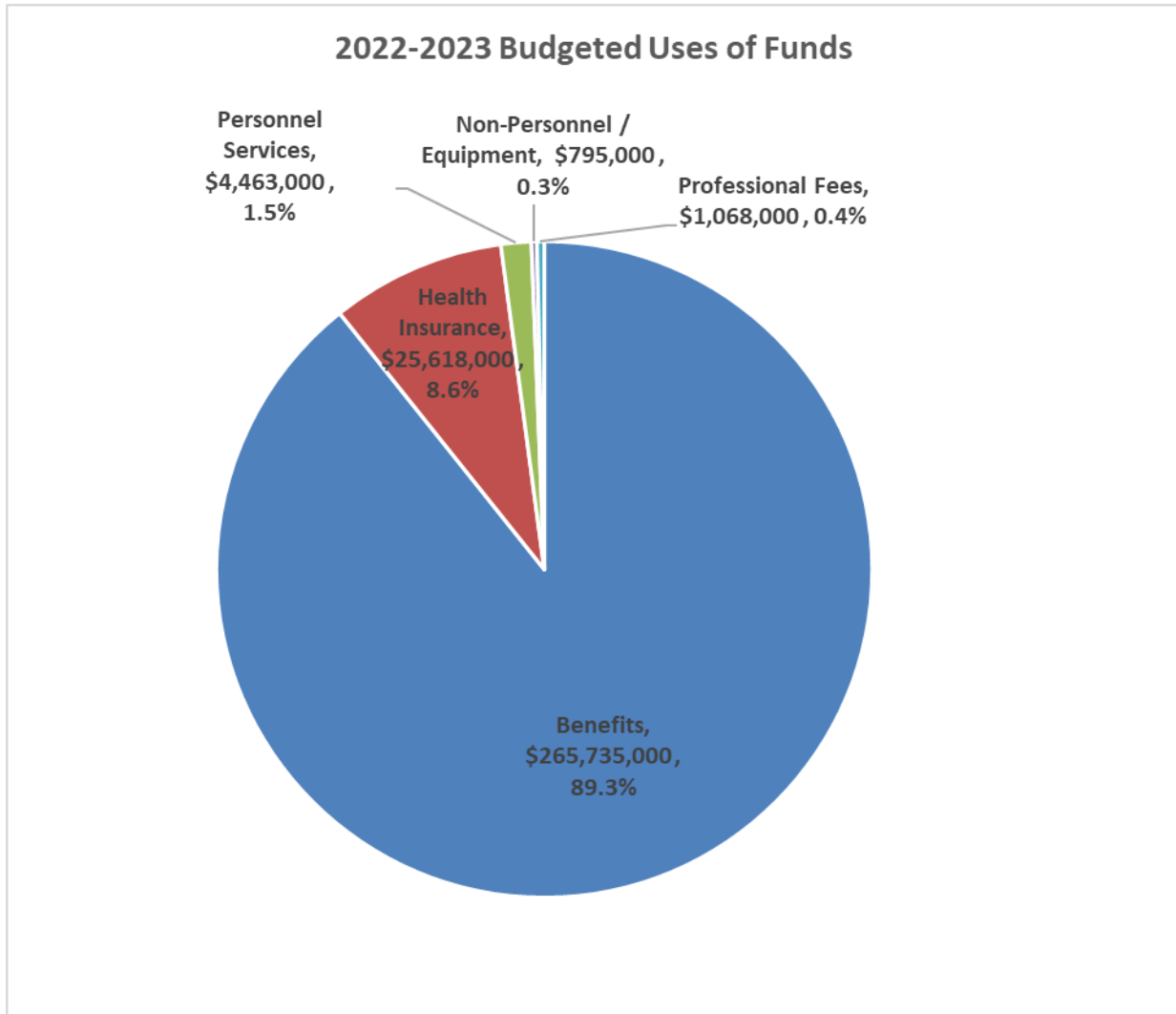
The budget for non-personnel / equipment was increased to \$795,000, an increase of \$69,000, or 9.50% from the prior year adopted budget of \$726,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the increase in fiduciary insurance of \$44,000 to align with current increases in fees, as well as general increases across the board.

PROFESSIONAL SERVICES

The budget for professional services was reduced to \$798,000, a decrease of \$219,000, or 21.2% from the prior year modified budget of \$1,017,000. The adopted budget was modified to increase legal services by \$150,000. If it had not been modified, current year proposed budget would be a reduction of \$791,000, a decrease of \$69,000, or 8.0% from the prior year adopted budget of \$867,000. 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 and adding small increases to legal and other professional services.

MEDICAL SERVICES

The budget for medical services was increased to \$270,000, an increase of \$158,000, or 141.1% over the prior year adopted budget of \$112,000. 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 signing a contract with a new medical vendor who will assist with the backlog that has accumulated due to having no outside medical advisor.



Attachment: Proposed Budget for Fiscal Year 2022-2023

PROPOSED BUDGET

FISCAL YEAR 2022-2023

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

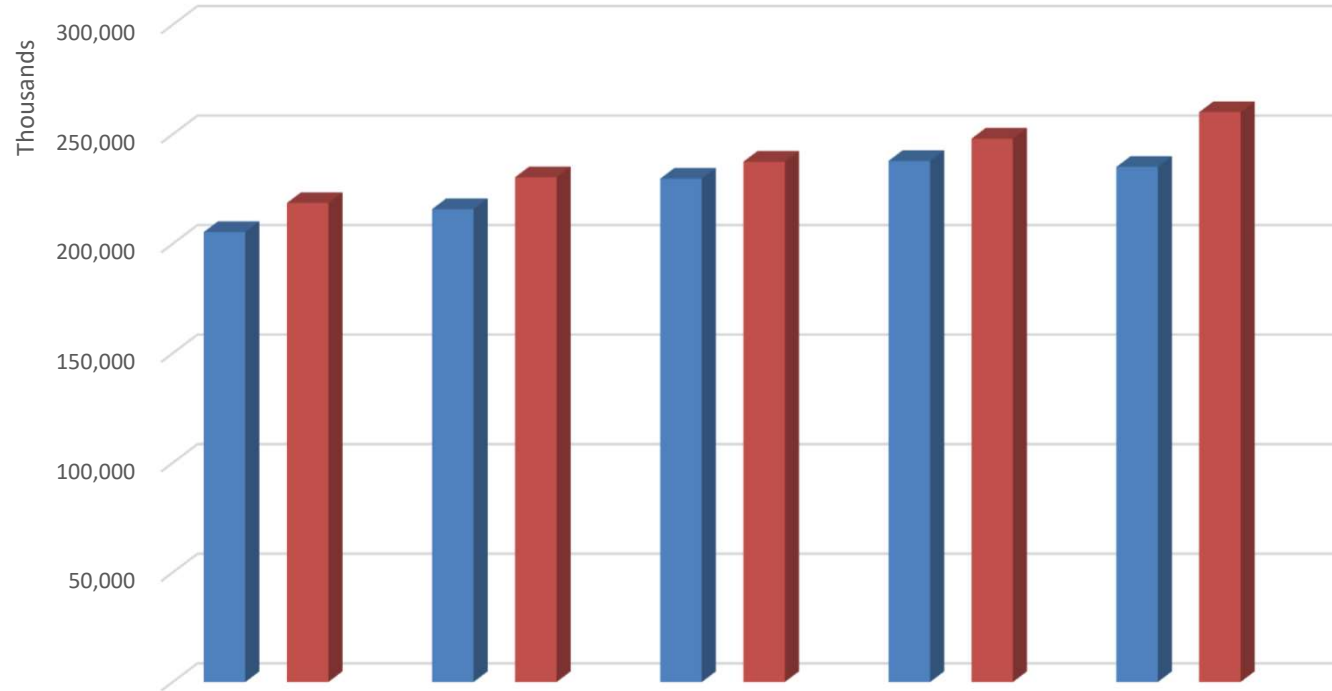
March 3, 2022

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Statement of Source and Use of Funds

	(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	3,910,552,000	5,002,953,000	5,002,953,000	5,284,490,000	1,092,401,000	0	281,537,000
Total Beginning Fund Balance	3,910,552,000	5,002,953,000	5,002,953,000	5,284,490,000	1,092,401,000	0	281,537,000
Transfers							
City Contributions	229,767,000	238,555,000	237,863,000	235,108,000	8,788,000	(692,000)	(2,755,000)
1970 COLA	500	1,000	500	1,000	500	(500)	500
1980 COLA	7,000	9,000	6,000	7,000	2,000	(3,000)	1,000
1990 COLA	4,000	4,000	4,000	4,000	0	0	0
Total Transfers	229,778,500	238,569,000	237,873,500	235,120,000	8,790,500	(695,500)	(2,753,500)
Revenue							
Participant Income	41,508,000	43,660,000	43,663,000	45,141,000	2,152,000	3,000	1,478,000
Investment Income, net of expenses	1,097,284,000	226,268,000	283,572,000	297,814,000	(871,016,000)	57,304,000	14,242,000
Total Revenue	1,138,792,000	269,928,000	327,235,000	342,955,000	(868,864,000)	57,307,000	15,720,000
TOTAL SOURCE OF FUNDS	5,279,122,500	5,511,450,000	5,568,061,500	5,862,565,000	232,327,500	56,611,500	294,503,500
USE OF FUNDS							
Expenditures							
Benefits	244,310,000	250,113,000	252,589,000	265,735,000	5,803,000	2,476,000	13,146,000
Health Insurance	25,974,000	25,738,000	25,439,000	25,618,000	(236,000)	(299,000)	179,000
VEBA withdrawals	0	0	0	0	0	0	0
Personnel Services (Ret.)	3,711,000	4,196,000	3,762,000	4,463,000	485,000	(434,000)	701,000
Non-Personnel/Equipment ⁽¹⁾	1,485,000	726,000	694,000	795,000	(759,000)	(32,000)	101,000
Professional Fees	678,000	1,129,000	1,077,000	1,068,000	451,000	(52,000)	(9,000)
1970 COLA	500	1,000	500	1,000	500	(500)	500
1980 COLA	7,000	9,000	6,000	7,000	2,000	(3,000)	1,000
1990 COLA	4,000	4,000	4,000	4,000	0	0	0
Total Expenditures	276,169,500	281,916,000	283,571,500	297,691,000	5,746,500	1,655,500	14,119,500
Ending Fund Balance							
Claims Reserve	5,002,953,000	5,229,534,000	5,284,490,000	5,564,874,000	226,581,000	54,956,000	280,384,000
Total Ending Fund Balance	5,002,953,000	5,229,534,000	5,284,490,000	5,564,874,000	226,581,000	54,956,000	280,384,000
TOTAL USE OF FUNDS	5,279,122,500	5,511,450,000	5,568,061,500	5,862,565,000	232,327,500	56,611,500	294,503,500
<u>Amount not included in budget since no cash outlay:</u>							
Amortization expense for PG3	\$ 412,979	\$ 412,979	\$ 412,979	\$ 412,979			
⁽¹⁾ Non-personnel equipment FY19-20	\$ 1,485,000						
Rounding in CAFR	196						
Amortization expense	(412,979)						
As shown in Administrative Expenses	\$ 1,072,217						

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

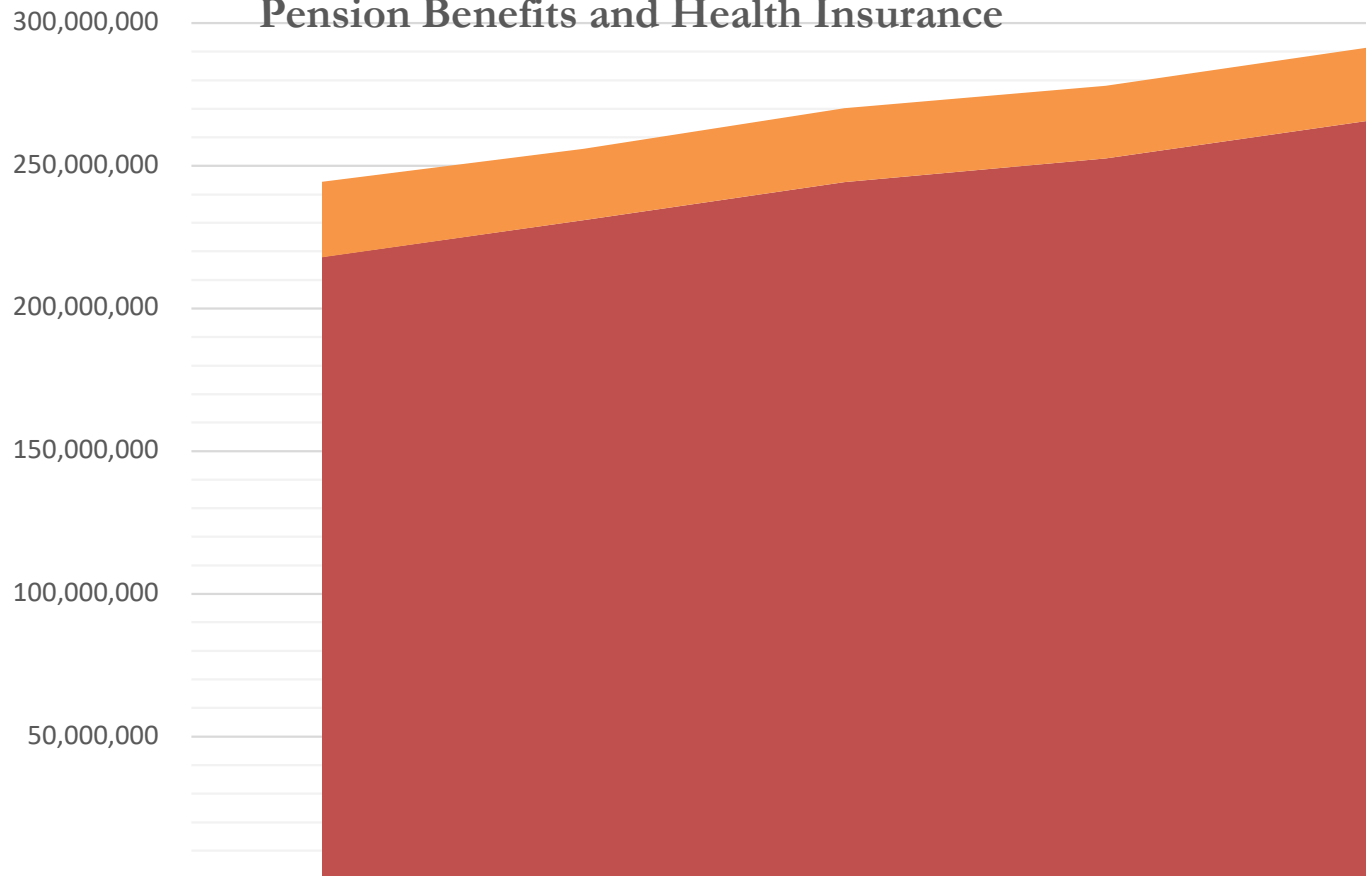


(50,000)

	FY 18-19	FY 19-20	FY 20-21	FY 21-22 (Forecast)	FY 22-23 (Estimate)
■ Total City Contributions	205,362,000	215,831,000	229,767,000	237,863,000	235,108,000
Total City Contribution % Change	12.2%	5.1%	6.5%	3.5%	-1.2%
■ Total Covered Payroll	218,619,000	230,401,000	237,476,000	248,022,000	260,100,000
Total Covered Payroll % Change	7.6%	5.4%	3.1%	4.4%	4.9%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Pension Benefits and Health Insurance



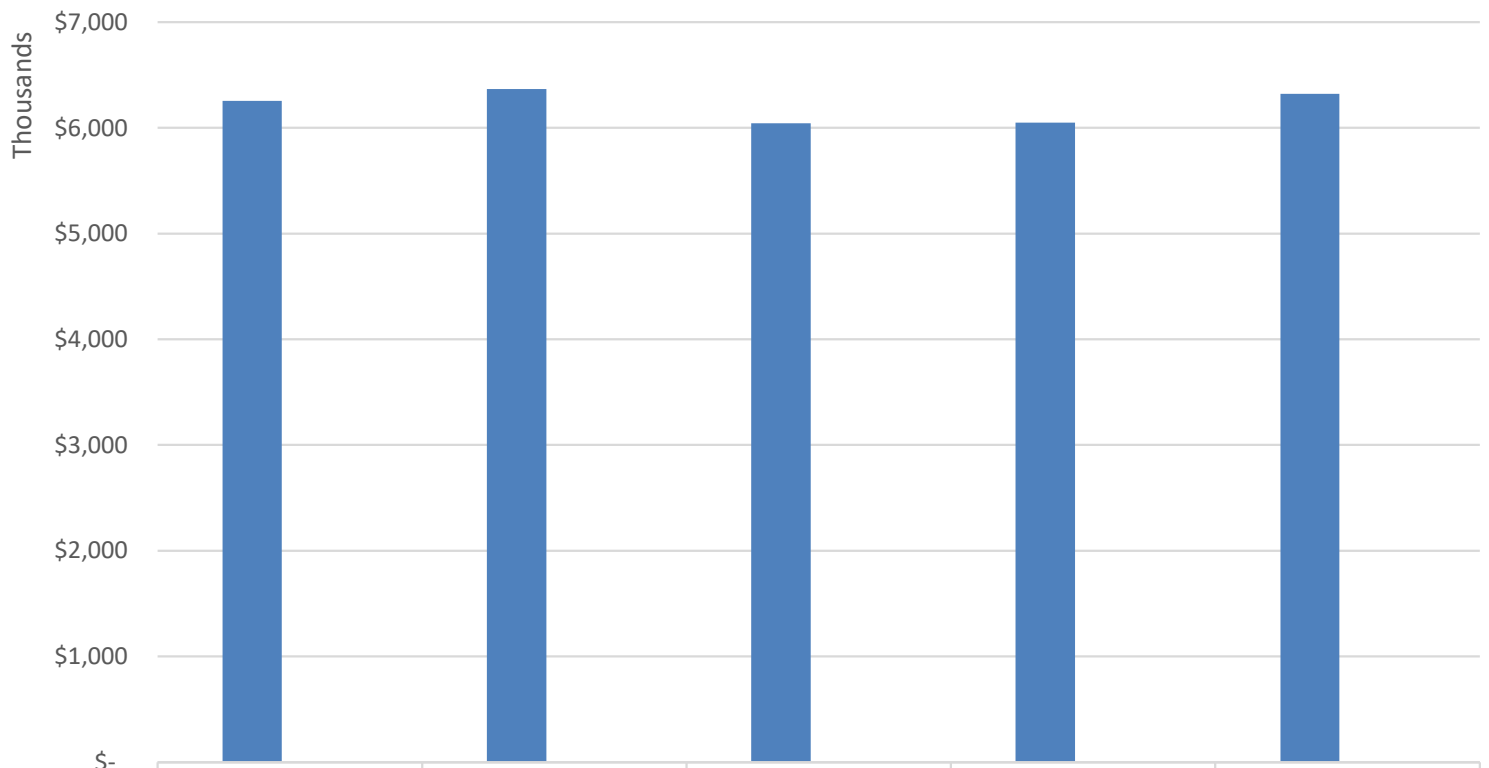
	FY 18-19 - Actual	FY 19-20 - Actual	FY 20-21 - Actual	FY 21-22 - Forecast	FY 22-23 - Proposed
Total Benefits	244,411,000	256,039,000	270,284,000	278,028,000	291,353,000
Health Insurance	26,403,000	25,031,000	25,974,000	25,439,000	25,618,000
Pension Benefits	218,008,000	231,008,000	244,310,000	252,589,000	265,735,000
Health Insurance % Change	-4.6%	-5.2%	3.8%	-2.1%	0.7%
Pension Benefits % Change	5.5%	6.0%	5.8%	3.4%	5.2%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

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	3,711,220	4,196,000	3,761,353	4,463,000	484,780	(434,647)	701,647
Total Personnel Services	3,711,220	4,196,000	3,761,353	4,463,000	484,780	(434,647)	701,647
NON-PERSONNEL / EQUIPMENT							
Investment analytics and research	393,268	-	-	-	(393,268)	-	-
Rent	186,327	215,000	233,623	222,000	28,673	18,623	(11,623)
Insurance	215,432	212,000	233,414	256,000	(3,432)	21,414	22,586
IT hardware / software	141,722	107,000	94,708	109,000	(34,722)	(12,292)	14,292
Postage and printing	47,202	60,000	44,138	60,000	12,798	(15,862)	15,862
LRS - annual maintenance fee	47,640	48,000	49,845	50,000	360	1,845	155
Training and travel	4,259	20,000	3,228	25,000	15,741	(16,772)	21,772
Other non-personnel / equipment	28,349	49,000	28,110	58,000	20,651	(20,890)	29,890
Office supplies and board meeting expenses	8,016	15,000	6,892	15,000	6,984	(8,108)	8,108
Total Non-personnel / Equipment	1,072,215	726,000	693,958	795,000	(346,215)	(32,042)	101,042
PROFESSIONAL SERVICES							
Actuary / actuarial audit	199,303	370,000	340,569	262,000	170,697	(29,431)	(78,569)
External auditor	80,817	83,000	92,837	85,000	2,183	9,837	(7,837)
Legal	218,502	410,000	409,325	275,000	191,498	(675)	(134,325)
Pension administration system	20,759	16,000	22,773	24,000	(4,759)	6,773	1,227
Temporary staffing agencies	23,573	60,000	104,117	92,000	36,427	44,117	(12,117)
Other professional services	47,363	78,000	43,435	60,000	30,637	(34,565)	16,565
Total Professional Services	590,317	1,017,000	1,013,056	798,000	426,683	(3,944)	(215,056)
MEDICAL SERVICES							
Independent medical examiners	58,524	46,000	63,769	100,000	(12,524)	17,769	36,231
Medical consultant	28,700	66,000	-	170,000	37,300	(66,000)	170,000
Total Medical Services	87,224	112,000	63,769	270,000	24,776	(48,231)	206,231
TOTAL ADMINISTRATIVE EXPENSES	5,460,976	6,051,000	5,532,136	6,326,000	590,024	(518,864)	793,864

POLICE & FIRE DEPARTMENT RETIREMENT PLAN
Administrative Expense Budget
FY 2018-2019 to FY 2022-2023



	FY 18-19	FY 19-20	FY 20-21	FY 20-21 (Adopted)	FY 21-22 (Proposed)
■ Admin Exp Budget*	\$6,259,000	\$6,369,000	\$6,044,000	\$6,051,000	\$6,326,000
■ % Change	-9.0%	1.8%	-5.1%	0.1%	4.5%

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* Amount includes budget for operations only.

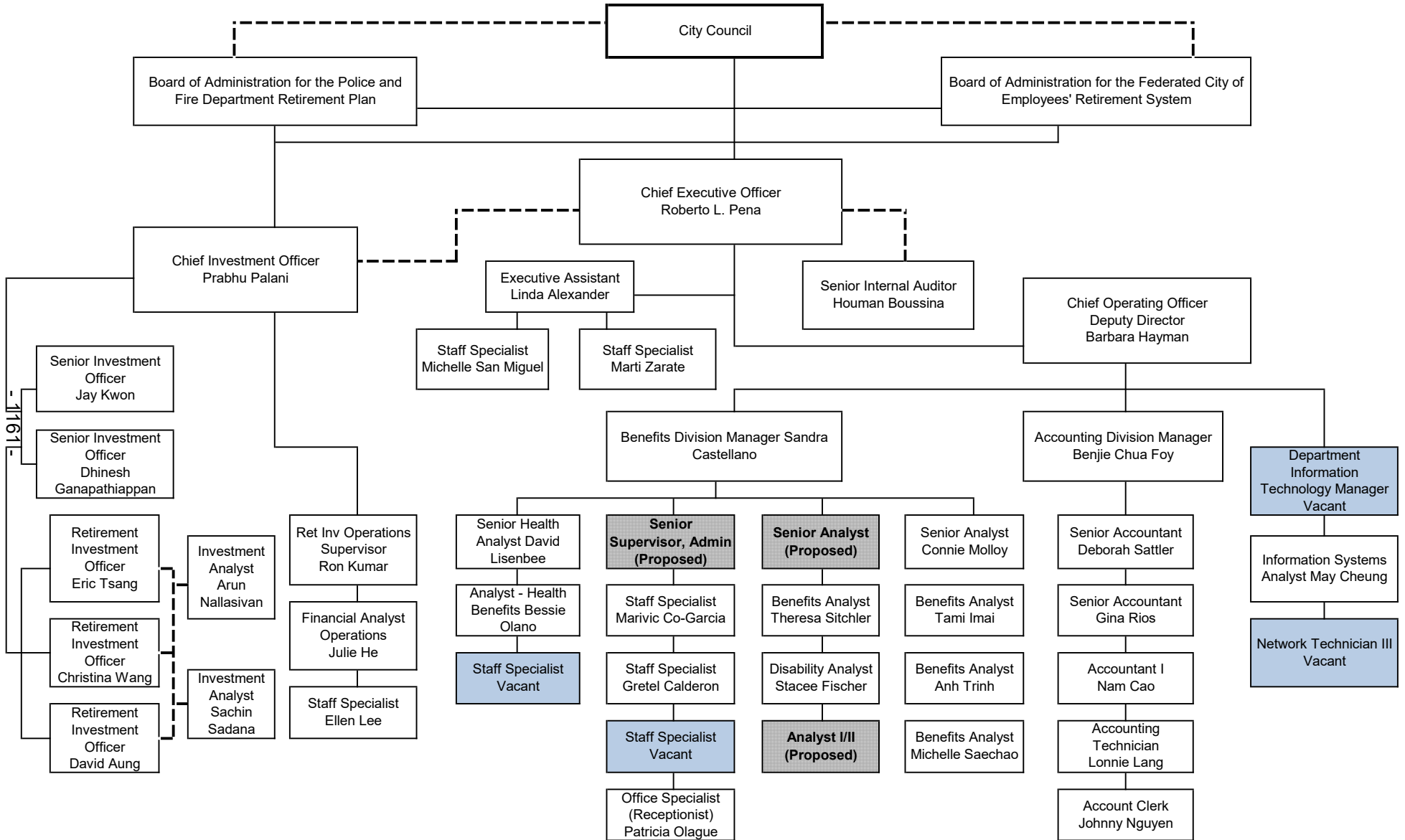
OFFICE OF RETIREMENT SERVICES

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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