

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN FISCAL YEAR 2025–2026 BUDGET PROPOSAL

April 3, 2025

2025–2026 Budget at a Glance

- ▶ Development of the budget
- ▶ Administrative expense breakdown
- ▶ Sources of funds
- ▶ Uses of funds
- ▶ Proposed administrative budget
- ▶ Personnel services analysis
- ▶ Non–personnel/equipment analysis
- ▶ Professional services analysis
- ▶ Medical services analysis
- ▶ Analysis and comparisons to other CA plans

Development of the Police & Fire Department Retirement Plan's FY25–26 Proposed Budget

The Proposed Budget is broken down into the following categories:

► Sources of Funds

- **City contributions** – Estimated based on the contribution rates and total covered payroll shown in the actuarial reports for June 30, 2024
- **Participant income** – Estimated based on the contribution rates and total covered payroll shown in the actuarial reports for June 30, 2024
- **Investment income** – Calculated using the assumed rate of return based on reserve plus City's contributions for the whole year and other activities throughout the year

► Uses of Funds

- **Benefits and health insurance** – pension payments, health insurance subsidy, return of contributions and death benefits. Amounts were calculated based on the average increase for the past 5 years
- **Administrative expense** – this represents the operating expenses for the Office of Retirement Services. The detail is shown in the following slide.

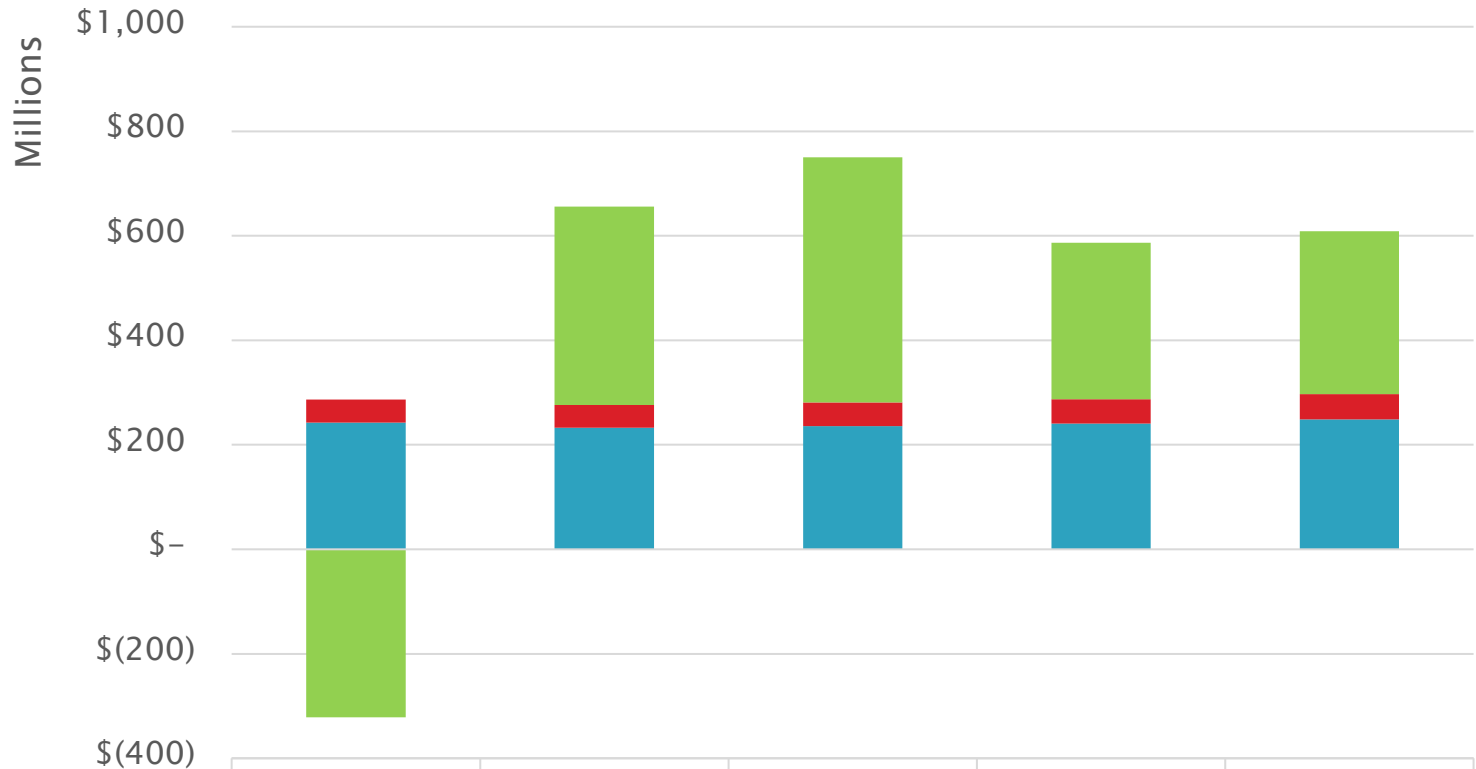
Administrative Expense Budget FY25–26

The Administrative Expense Budget portion is categorized into the following line items:

- ▶ **Personnel services** – 50% of the Office of Retirement Services direct staff labor costs including salary and benefits based on the City's Budget Office labor reports, except for Investments staff which is split based on market value (60% PF and 40% Fed).
- ▶ **Non-personnel/equipment** – administrative overhead cost such as rent, supplies, equipment, etc., excluding professional services.
- ▶ **Professional services** – non-investment professional services including actuarial, legal, IT and other professional consulting services.
- ▶ **Medical services** – this represents an estimate for independent medical examiners.

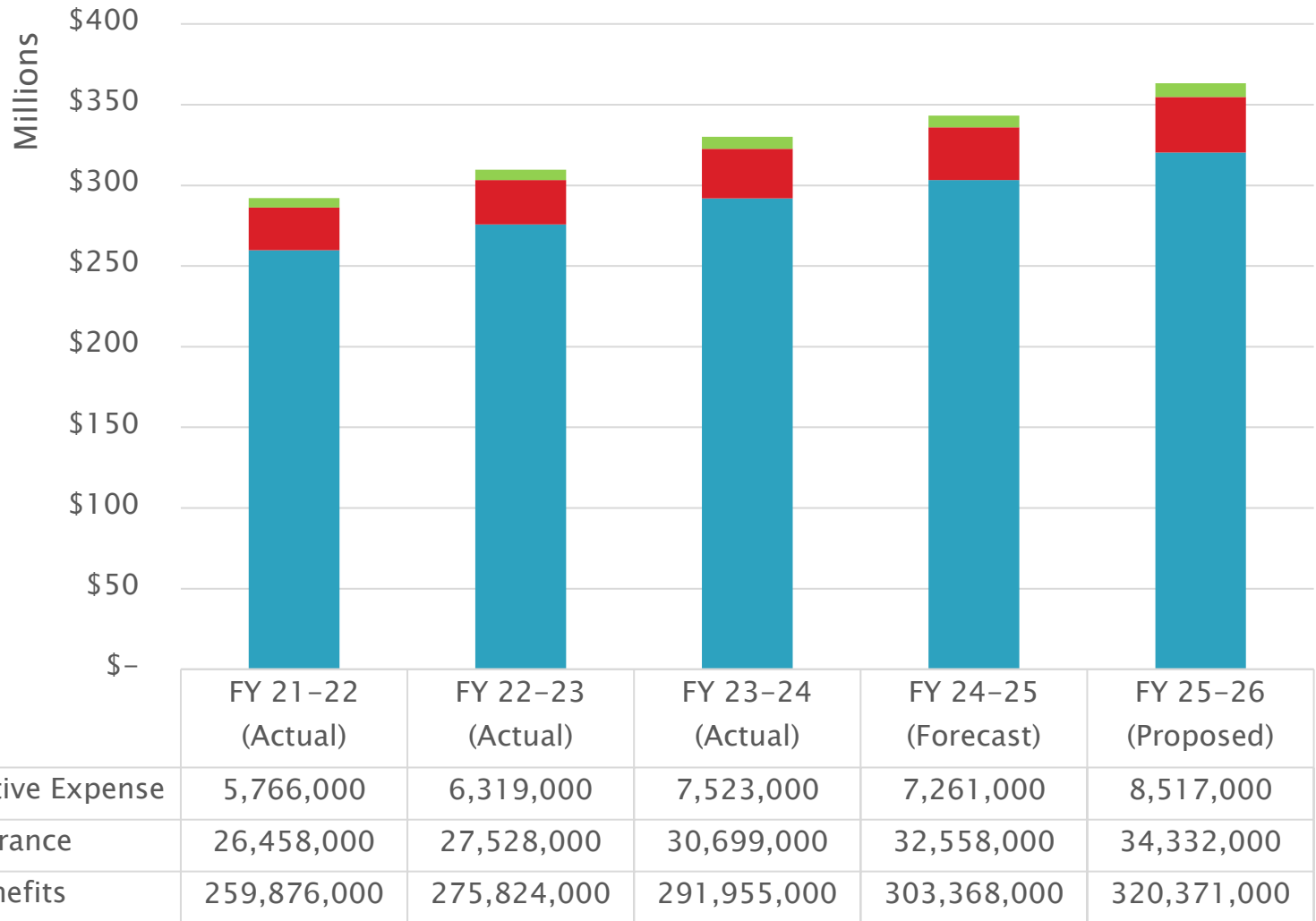
The Administrative Budget does **NOT** include investment professional services, consultants and investment manager fees and capitalized costs.

Sources of Funds



| | FY 21-22 (Actual) | FY 22-23 (Actual) | FY 23-24 (Actual) | FY 24-25 (Forecast) | FY 25-26 (Proposed) |
|---------------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
| Investment Income | (321,850,000) | 379,522,000 | 469,322,000 | 299,661,000 | 311,887,000 |
| Participant Contributions | 43,769,000 | 43,960,000 | 45,259,000 | 46,407,000 | 47,978,000 |
| City Contributions | 242,809,000 | 232,513,000 | 235,866,000 | 240,750,000 | 248,934,000 |

Uses of Funds



NOTE: Non-cash items such as amortization expense is not included in administrative expense

Police & Fire Proposed Administrative Budget for FY 2025–2026

The following is a comparison of previous fiscal year actual figures, current year adopted budget and forecast, and proposed next year budget:

| Expenses | 2023– 2024 Actual (A) | 2024– 2025 Adopted (B) | 2024– 2025 Forecast (C) | 2025–2026 Proposed ⁽¹⁾ (D) | % Increase (Decrease) (B to D) | % Increase (Decrease) (C to D) |
|------------------------------|--------------------------------|---------------------------------|----------------------------------|---|--------------------------------------|--------------------------------------|
| Personnel Services | \$4,958,630 | \$5,698,000 | \$5,059,000 | \$5,581,000 | (2.05%) | 10.32% |
| Non-Personnel / Equipment | 747,876 | 867,000 | 742,481 | 824,000 | (4.96%) | 10.98% |
| Professional Services | 1,408,395 | 1,296,000 | 1,186,800 | 1,752,000 | 35.19% | 47.62% |
| Medical Services | 407,854 | 360,000 | 272,000 | 360,000 | 0.00% | 32.35% |
| Total | \$7,522,755 | \$8,221,000 | \$7,260,281 | \$8,517,000 | 3.60% | 17.31% |

⁽¹⁾ – Detail for changes provided in the following slides

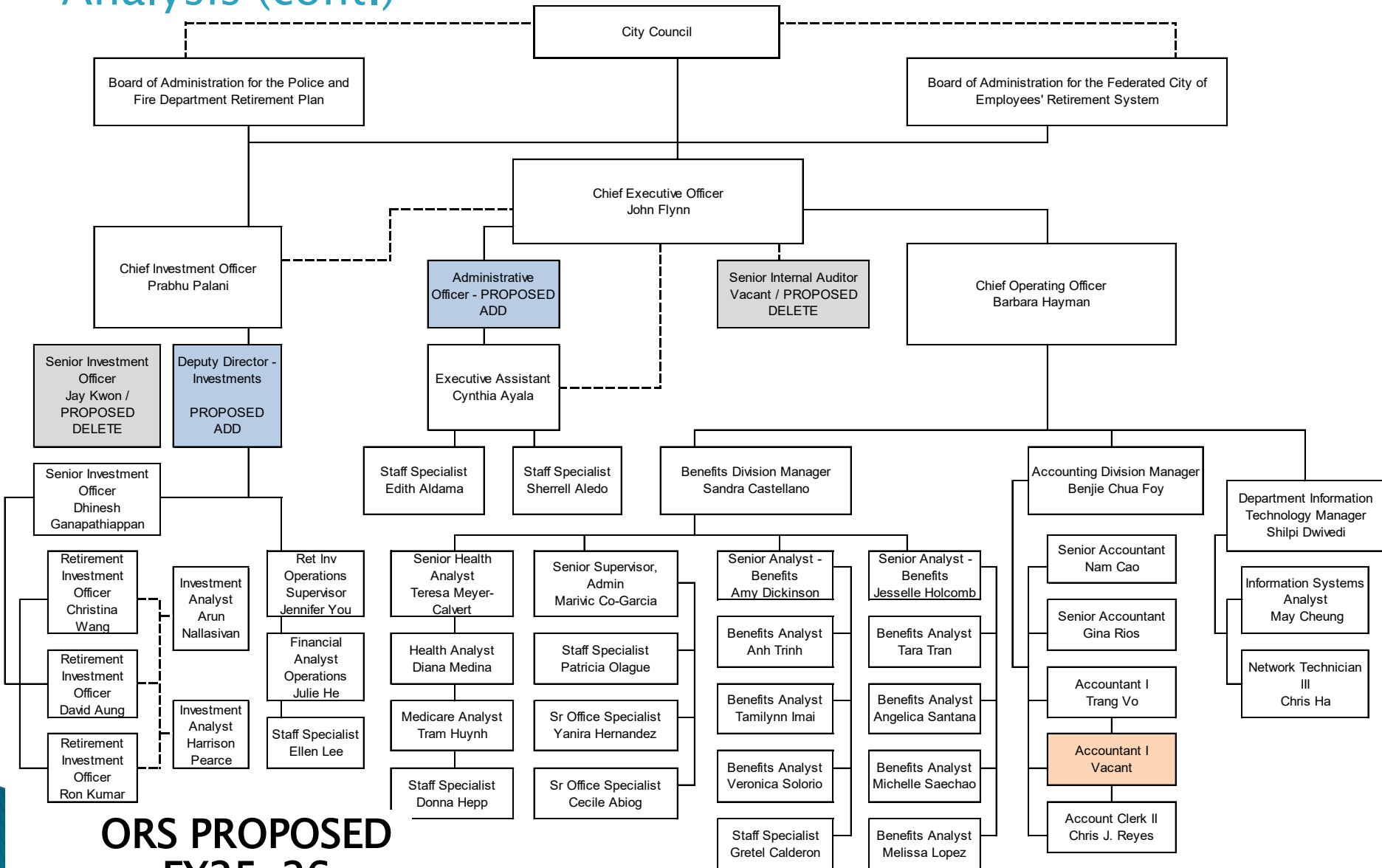
Personnel Services Analysis

| Expenses | 2023–2024 Actual (A) | 2024–2025 Adopted (B) | 2024–2025 Forecast (C) | 2025–2026 Proposed (D) | % Increase (Decrease) (B to D) | % Increase (Decrease) (C to D) |
|--|----------------------|-----------------------|------------------------|------------------------|--------------------------------|--------------------------------|
| Personnel Services | \$4,958,630 | \$5,698,000 | \$5,059,000 | \$5,581,000 | (2.05%) | 10.32% |
| Authorized positions for both plans | 43.0 | 45.0 | 45.0 | 45.0 | 0.0 | 0.0 |
| Full time employee (FTE) allocated to Plan | 22.6 | 23.6 | 23.6 | 23.6 | 0.0 | 0.0 |
| Actual filled FTEs for both plans | 41.0 | | 44.0 | | | |
| FTEs allocated to Plan | 21.6 | | 23.1 | | | |

- ▶ Personnel Services decreased from last year's budget due to:
 - The removal of an overstrength position in the Benefits division for four months
 - The removal of one month funding for a CEO for the transition and savings in the compensation for new CEO
- ▶ Proposals for FY25–26 included in budget
 - Deleting a Senior Investment Officer and converting it to Deputy Director in Investments
 - Deleting the Senior Internal Auditor position
 - Adding an Administrative Officer
 - Continuing over–strength position for 12 months for Admin Staff Specialist
 - Continuing 50% funding for a Cybersecurity IT Specialist
- ▶ Allocation of FTEs are 50/50, except for Investments staff at 60% for Police and Fire

Personnel Services Analysis (cont.)

Current Organizational Chart for Retirement Services, including budget proposals, of which Police & Fire receives one half of a full-time employee (FTE) – O/S positions not included



Non-Personnel/Equipment Analysis

| Expenses | 2023-2024 Actual (A) | 2024-2025 Adopted (B) | 2024-2025 Forecast (C) | 2025-2026 Proposed (D) | % Increase (Decrease) (B to D) | % Increase (Decrease) (C to D) |
|-------------------------|----------------------|-----------------------|------------------------|------------------------|--------------------------------|--------------------------------|
| Non-personnel/Equipment | \$747,876 | \$867,000 | \$742,481 | \$824,000 | (4.96%) | 10.98% |

- ▶ **Non-Personnel/Equipment decreased by \$43,000**
 - Due to reallocation of \$123,000 in pension administration system-related expenses to professional services
 - Due to a reduction in postage and printing of \$20,000 for planned electronic distribution of newsletters and a reduction of \$12,000 in insurance to align with current costs
 - Offset by an additional \$60,000 for the expansion of the 5th floor and an additional \$15,000 for an upgrade to the document management system
 - Plus, CPI-driven cost increases.

- ▶ Difference from forecast to adopted budget is mainly due to conscientious effort to reduce costs

Non-Personnel/Equipment Analysis (cont.)

Below is a list of main non-personnel/equip. categories and budget amounts

| Minor Budget Category | Budget Basis | FY25-26 Proposed Amount | FY24-25 Adopted Amount | \$Change / % Change |
|-----------------------------------|---|-------------------------|------------------------|-----------------------------|
| Rent | Rent for Office of Retirement Services (ORS) based on lease amount, as well as Common Area Maintenance costs | \$250,000 | \$249,000 | \$1,000 / 0.40% |
| Insurance | Fiduciary and commercial liability insurance | \$213,000 | \$225,000 | (\$12,000) / (5.33%) |
| IT hardware / Software | Includes social media, new card keys, new laptops and iPads | \$106,000 | \$130,000 | (\$24,000) / (18.46%) |
| Postage and printing | Postage, shipping and printing costs for open enrollment, contribution rate, quarterly newsletter, and other communication | \$45,000 | \$65,000 | (\$20,000) / (30.77%) |
| Training/Travel | Board and staff travel including education and conferences, roundtables, due diligence, etc. | \$40,000 | \$35,000 | \$5,000 / 14.29% |
| Office Supplies | Includes office supplies and Board meeting expenses, including food | \$30,000 | \$25,000 | \$5,000 / 20.00% |
| Other non-personnel and equipment | Includes lease, mileage, communication, dues and subscriptions, equipment / furniture, training, and a buffer for leasehold improvements for the building (last year included the LRS annual fee) | \$140,000 | \$138,000 | \$2,000 / 1.45% |
| | NON-PERSONNEL / EQUIPMENT TOTAL | \$824,000 | \$867,000 | (\$43,000) / (4.96%) |

Professional Services Analysis

| Expenses | 2023–2024 Actual (A) | 2024–2025 Adopted (B) | 2024–2025 Forecast (C) | 2025–2026 Proposed (D) | % Increase (Decrease) (B to D) | % Increase (Decrease) (C to D) |
|-----------------------|----------------------------|-----------------------------|------------------------------|------------------------------|--------------------------------------|--------------------------------------|
| Professional Services | \$1,408,395 | \$1,296,000 | \$1,186,800 | \$1,752,000 | 35.19% | 47.62% |

- ▶ Professional Services increased by \$456,000 from last year's adopted budget
 - \$160,000 increase in legal services
 - \$123,000 increase due to reallocation of pension administration system-related expenses
 - \$90,000 addition for outsourced internal audit
 - \$50,000 increase in governance services due to additional services for Strategic Planning support
 - \$63,000 in other services including actuarial services due to experience study, Cybersecurity IT specialist consultant, CEM benchmarking, and CPI increases
 - \$30,000 reduction in temporary staffing agencies
- ▶ Other considerations
 - Cost associated with the pension administration system are NOT included in the budget as those costs are being capitalized.
- ▶ The following slide is a list of major professional services categories, budget basis and budget amounts.

Professional Services – Other Analysis (cont.)

Below is a list of main professional services categories and budget amounts

| Minor budget category | Budget Basis | FY25–26 Proposed Amount | FY24–25 Adopted Amount | \$Change / % Change |
|------------------------------------|--|-------------------------|------------------------|---------------------------|
| Legal | General, fiduciary, domestic relations order, disability and tax legal services – note this budget line excludes investment legal. | \$841,000 | \$681,000 | \$160,000 / 23.49% |
| Actuary | Annual valuation and GASB reports for Pension & OPEB, benefit calculations, including 415 matters, and other miscellaneous consultations | \$290,000 | \$271,000 | \$19,000 / 7.01% |
| Other Professional Services | Includes retiree search agency, Cybersecurity IT specialist, CEM benchmark and communications consultant | \$114,500 | \$58,500 | \$56,000 / 95.73% |
| Pension Admin System (PensionGold) | Pension administration system annual maintenance fee Ad hoc web changes billed per hour; disaster recovery; ad hoc change request enhancements; web hosting monthly charge | \$131,500 | \$24,000 | \$107,500 / 447.92% |
| Temp Agencies | Temporary staffing to fill vacant positions and assist with open enrollment | \$115,000 | \$144,500 | (\$29,500) / (20.42%) |
| Audit | Annual financial audit agreement amount and outsourced internal audit | \$185,000 | \$92,000 | \$93,000 / 101.09% |
| Governance services | Governance services, CEO/CIO metrics, policy review, strategic planning support | \$75,000 | \$25,000 | \$50,000 / 200.00% |
| | PROFESSIONAL SERVICES OTHER BUDGET TOTAL | \$1,752,000 | \$1,296,000 | \$456,000 / 35.19% |

Medical Services Analysis

| Expenses | 2023– 2024 Actual (A) | 2024– 2025 Adopted (B) | 2024– 2025 Forecast (C) | 2025– 2026 Proposed (D) | % Increase (Decrease) (B to D) | % Increase (Decrease) (C to D) |
|------------------|--------------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| Medical Services | \$407,854 | \$360,000 | \$272,000 | \$360,000 | 0.00% | 32.35% |

- ▶ Medical services remained flat compared to prior year
- ▶ Other considerations:
 - Contract with medical advisor has been terminated
 - Using independent medical examiners
- ▶ Below is a summary of medical services provided:
 - Obtain medical information from disability applicants, attorneys and workers' compensation
 - Review all medical reports received
 - Refer to independent medical examiners
 - Summarize relevant medical information and prepare medical report regarding causation, disability, and medical support of injury
 - Attend monthly Disability Committee hearings, as necessary

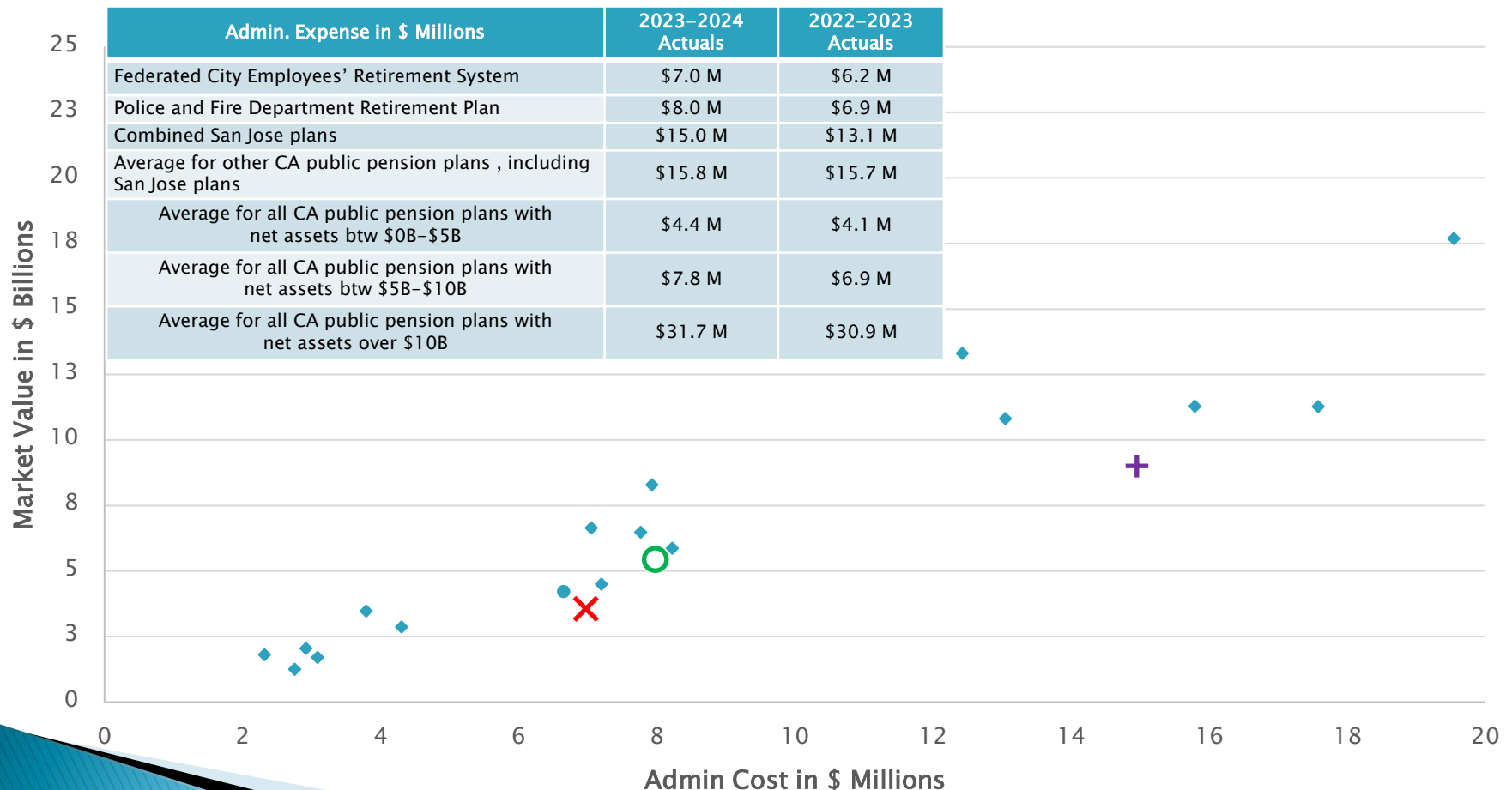
Administrative Cost Comparison – in \$

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$6,968,000

“O” below represents the Police and Fire Plan, \$7,980,000

“+” below represents the combined San Jose plans, \$14,948,000



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs (4 plans not shown since over \$20 million in admin costs: LACERS, LACERA, OCERS, San Bernardino CERA)

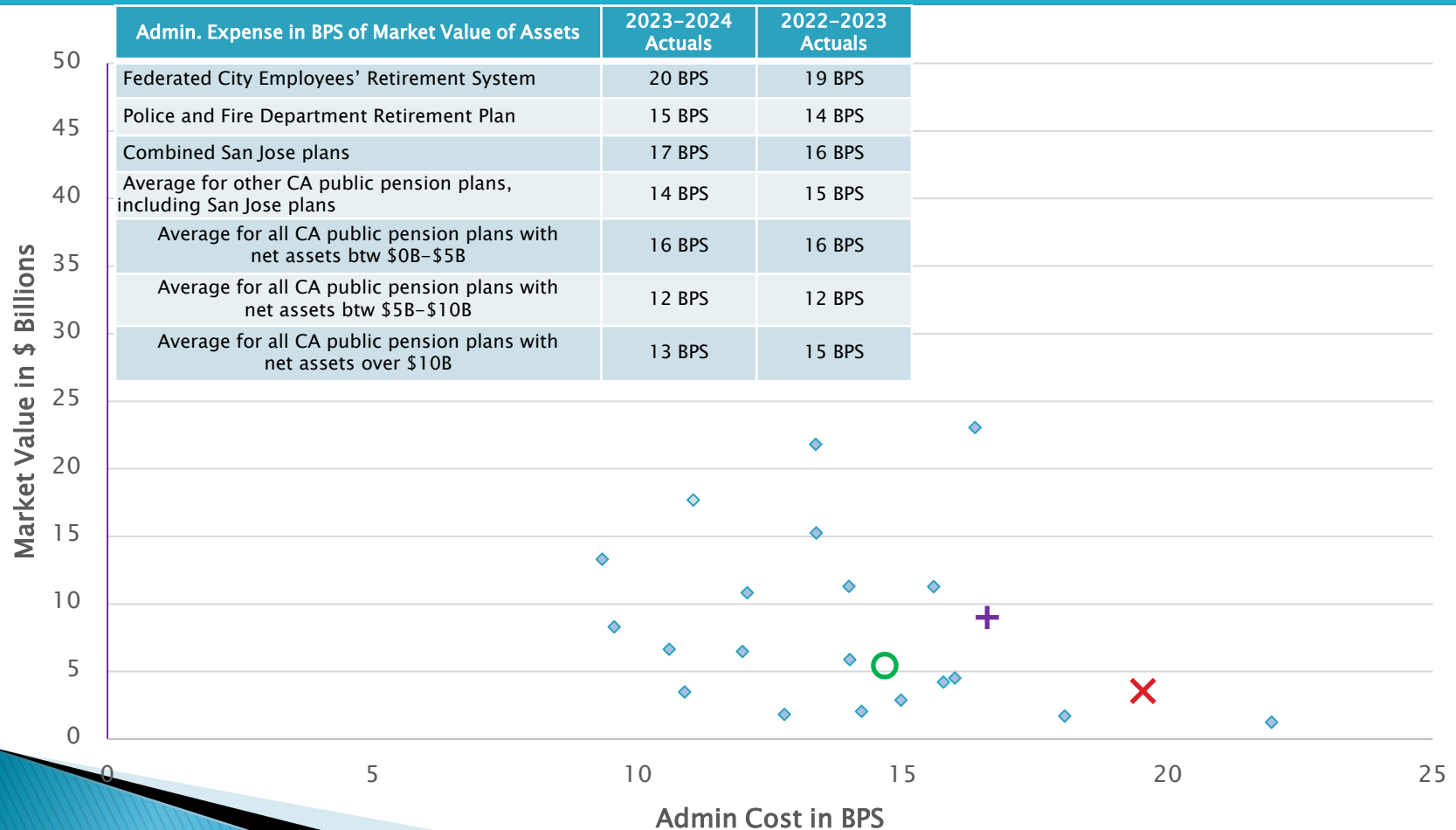
Administrative Cost Comparison – in BPS

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$6,968,000

“O” below represents the Police and Fire Plan, \$7,980,000

“+” below represents the combined San Jose plans, \$14,948,000



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs (LACERA not shown since market value is greater than \$50 million)

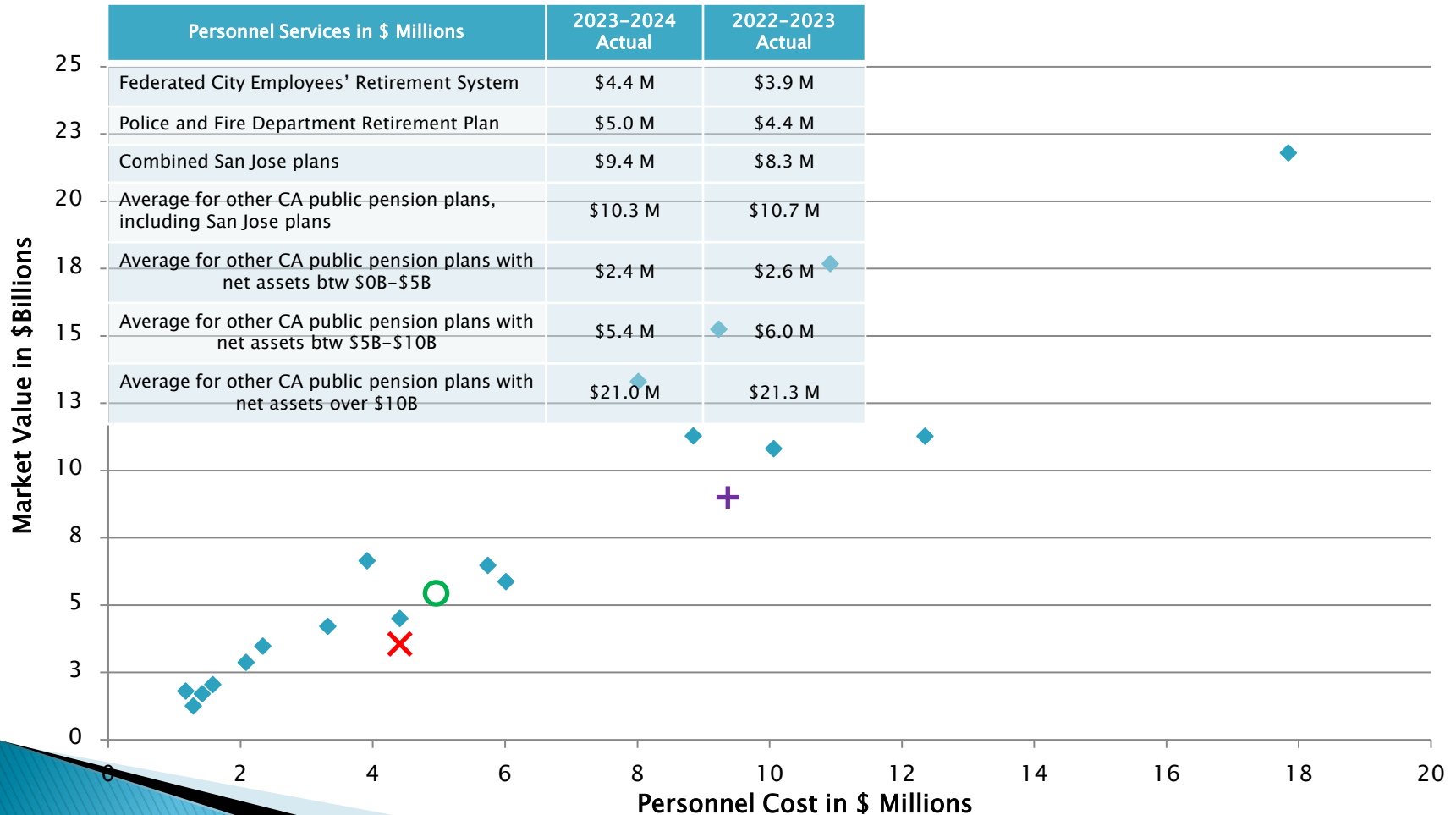
Personnel Services Analysis – in \$

Personnel Expense in \$ Millions – Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$4,407,000

“O” below represents the Police and Fire Plan, \$4,959,000

“+” below represents the combined San Jose plans, \$9,366,000



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs (LACERS and LACERA not shown since personnel costs are greater than \$20 million)

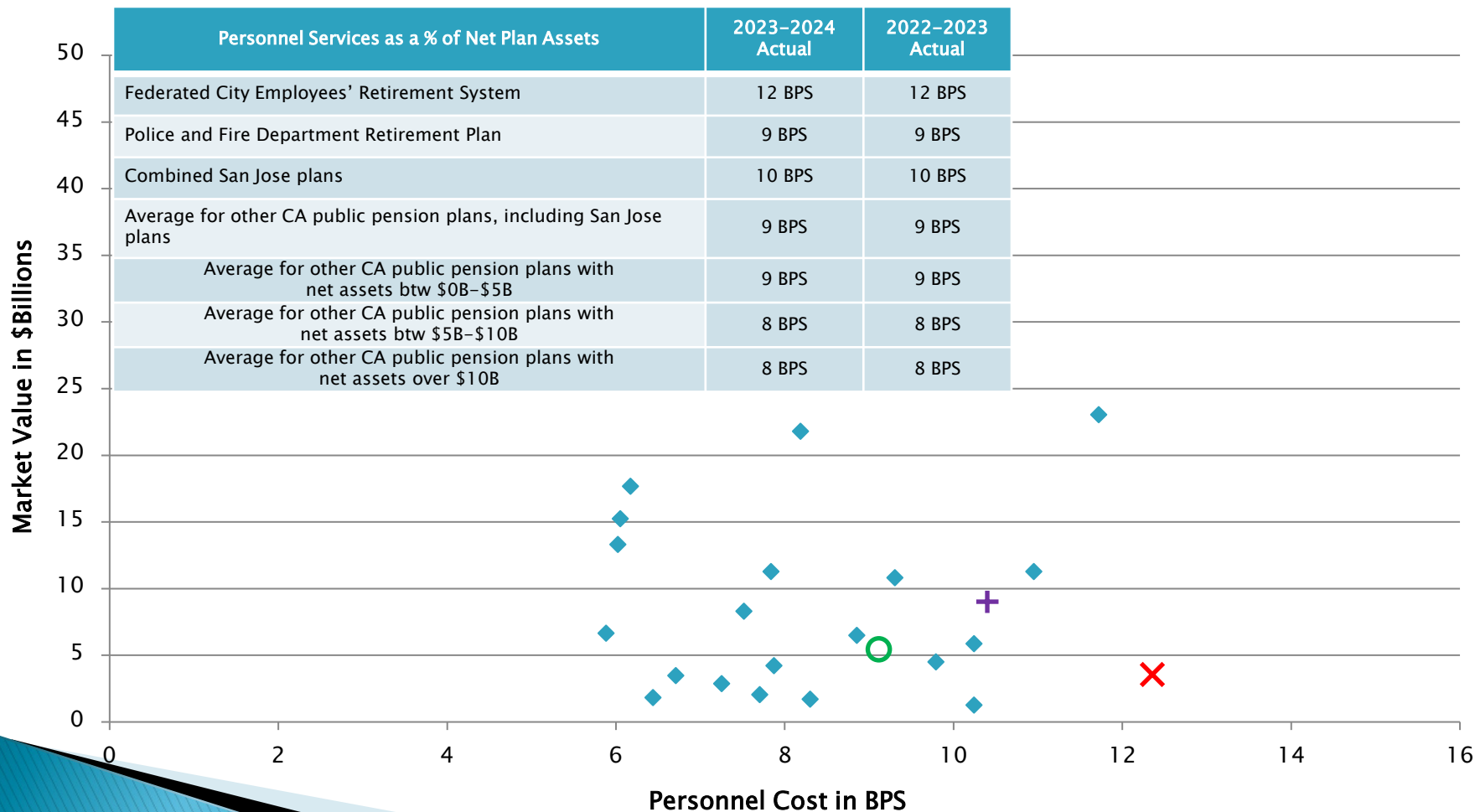
Personnel Services Analysis – in BPS

Personnel Expense in BPS of Market Value of Assets – Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$4,407,000

“O” below represents the Police and Fire Plan, \$4,959,000

“+” below represents the combined San Jose plans, \$9,366,000



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs

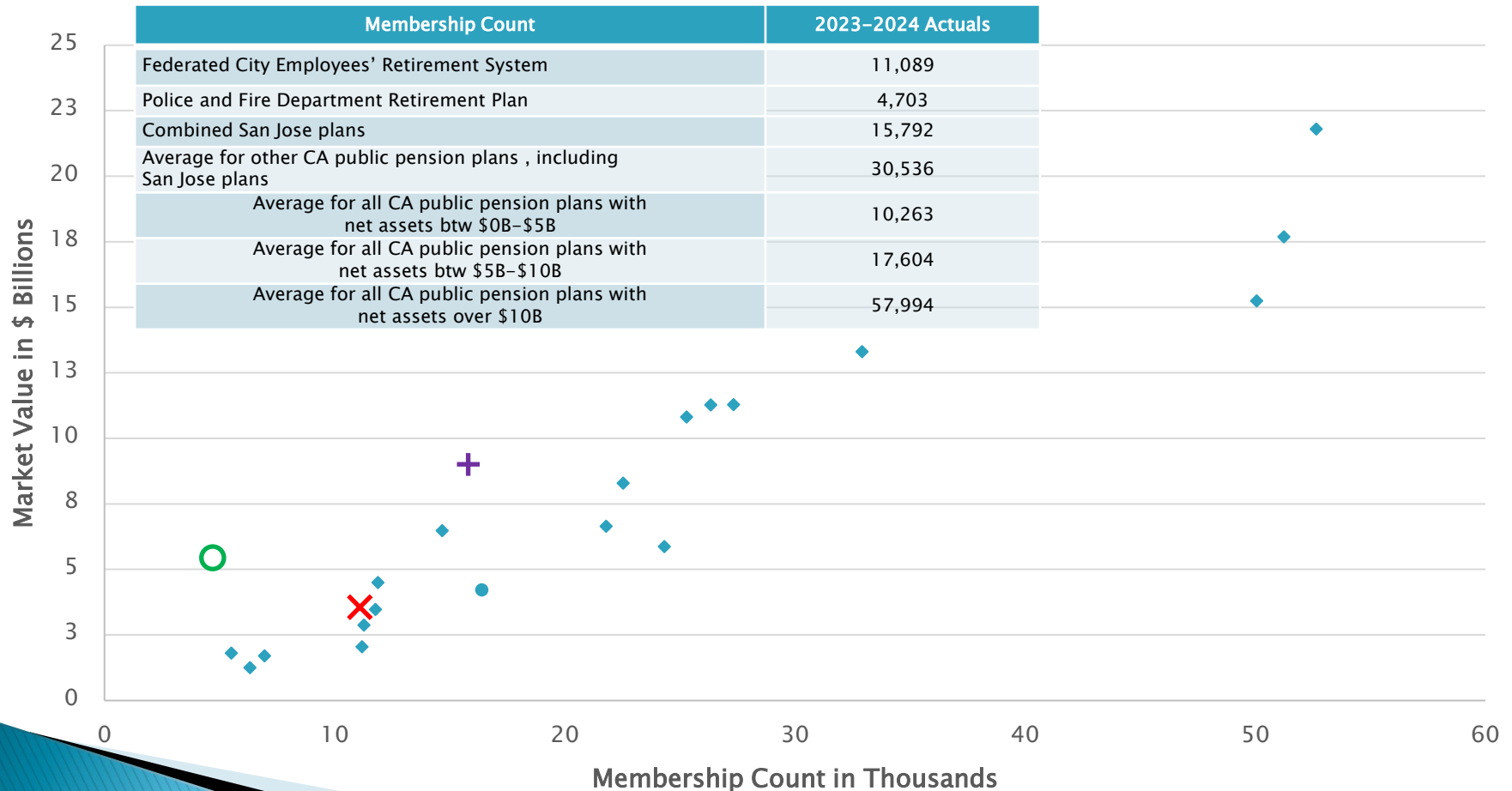
Membership Count Comparison

Membership Count of Market Value of Assets – Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, 11,089

“O” below represents the Police and Fire Plan, 4,703

“+” below represents the combined San Jose plans, 15,792



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs; LACERA's membership count is not shown – 194,742

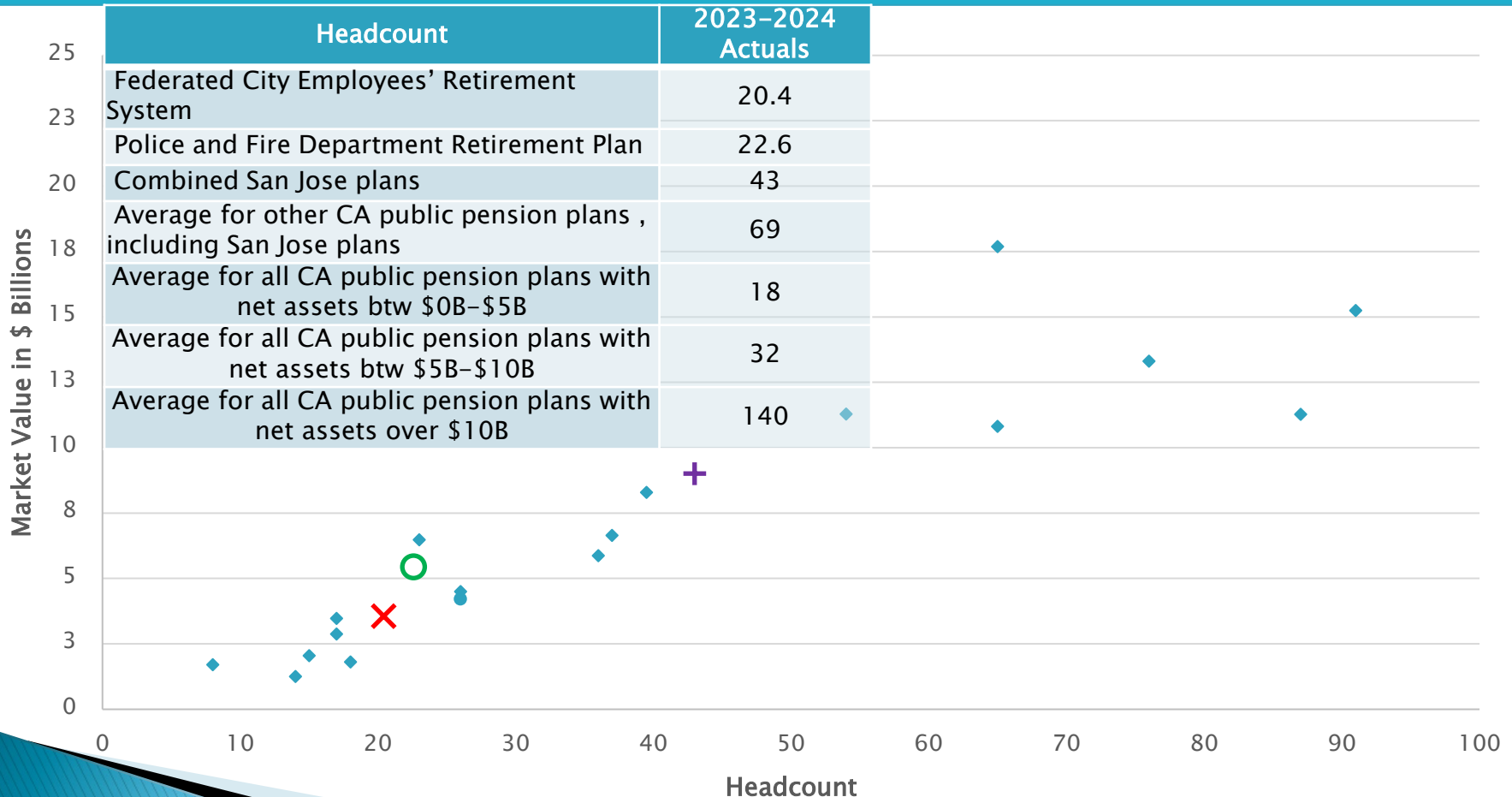
Headcount Comparison

Actual Headcount of Market Value of Assets –
Actual as of 6/30/24 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, 20.4

“O” below represents the Police and Fire Plan, 22.6

“+” below represents the combined San Jose plans, 43



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs; Three plans with over 100 are not shown (LACERS, LACERA, OCERS)