

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN FISCAL YEAR 2024–2025 BUDGET PROPOSAL

March 7, 2024

2024–2025 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 FY24-25 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, 2023
- **Participant income** – Estimated based on the contribution rates and total covered payroll shown in the actuarial reports for June 30, 2023
- **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.

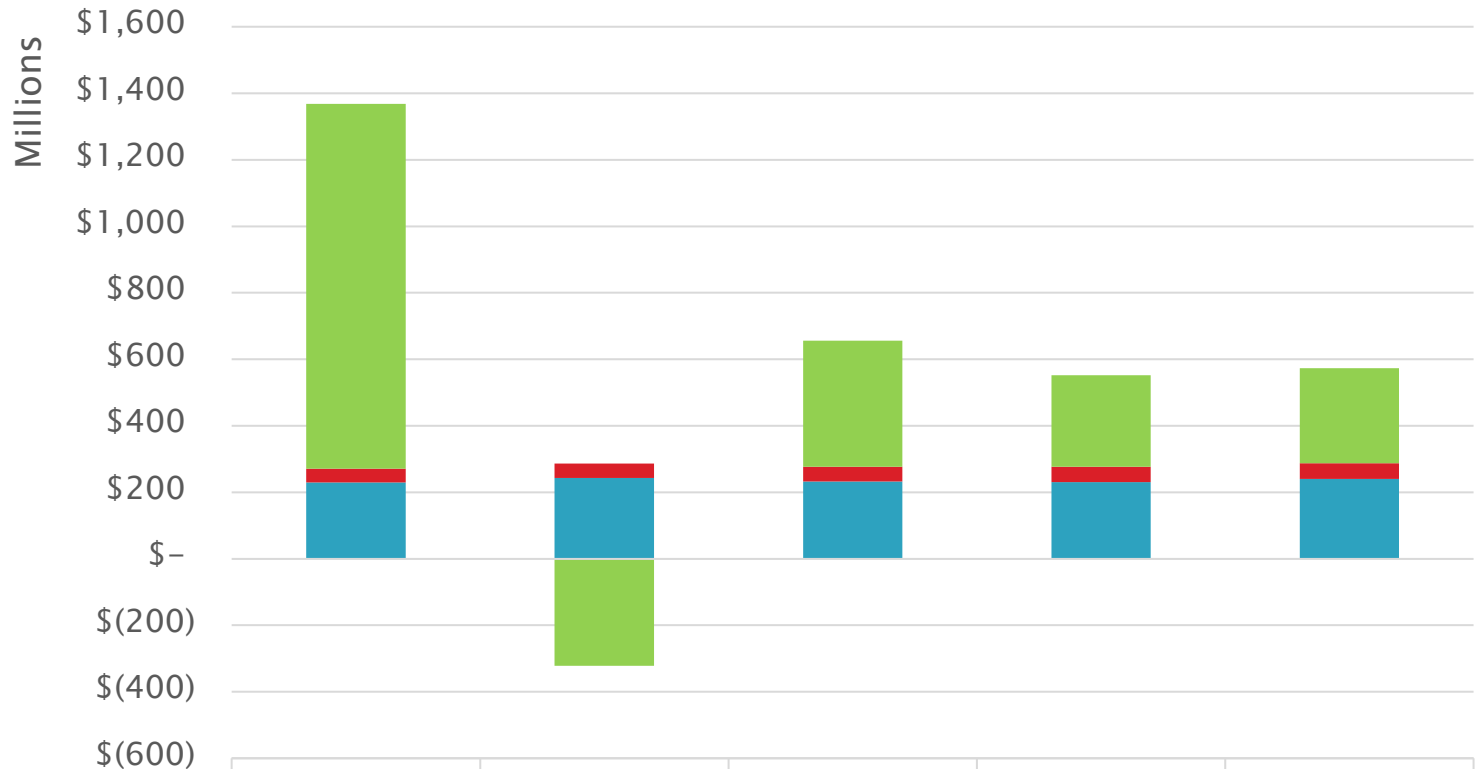
Administrative Expense Budget FY24–25

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.

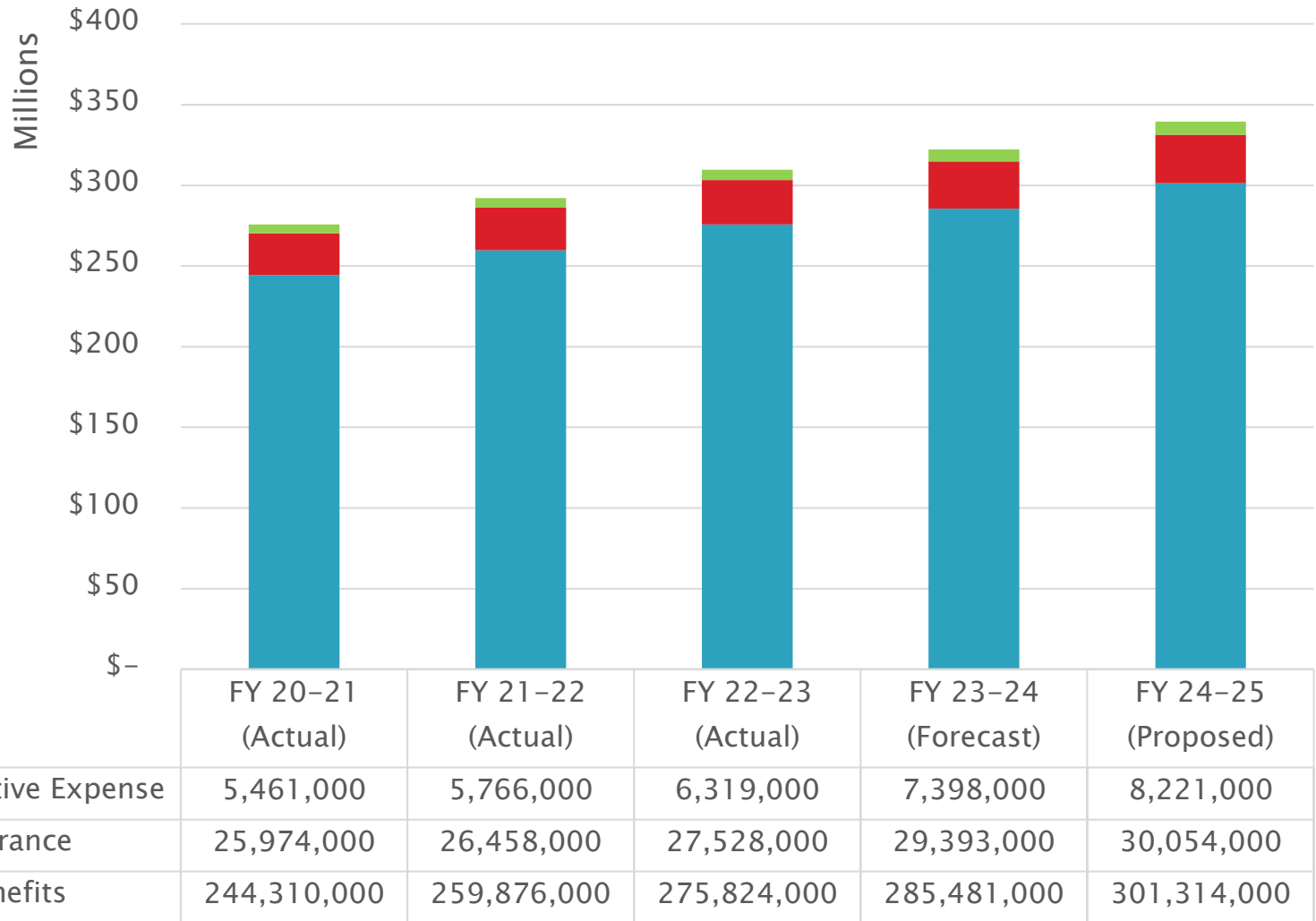
The Administrative Budget does **NOT** include investment professional services, consultants and investment manager fees and capitalized costs.

Sources of Funds



	FY 20-21 (Actual)	FY 21-22 (Actual)	FY 22-23 (Actual)	FY 23-24 (Forecast)	FY 24-25 (Proposed)
Investment Income	1,097,284,000	(321,850,000)	379,522,000	275,086,000	286,253,000
Participant Contributions	41,508,000	43,769,000	43,960,000	46,394,000	46,410,000
City Contributions	229,767,000	242,809,000	232,513,000	230,289,000	240,695,000

Uses of Funds



Note: Amortization expense is not included in administrative expense

Police & Fire Proposed Administrative Budget for FY 2024–2025

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

Expenses	2022– 2023 Actual (A)	2023– 2024 Adopted/ Modified (B)	2023– 2024 Forecast (C)	2024–2025 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Personnel Services	\$4,438,410	\$4,792,000/ \$4,992,000	\$4,960,000	\$5,698,000	18.91%/ 14.14%	14.88%
Non-Personnel / Equipment	707,786	859,000	727,156	867,000	0.93%	19.23%
Professional Services	992,297	903,000/ 1,403,000	1,351,360	1,296,000	43.52%/ (7.63%)	(4.10%)
Medical Services	180,869	360,000	360,000	360,000	0.00%	0.00%
Total	\$6,319,362	\$6,914,000/ \$7,614,000	\$7,398,516	\$8,221,000	18.90%/ 7.97%	11.12%

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

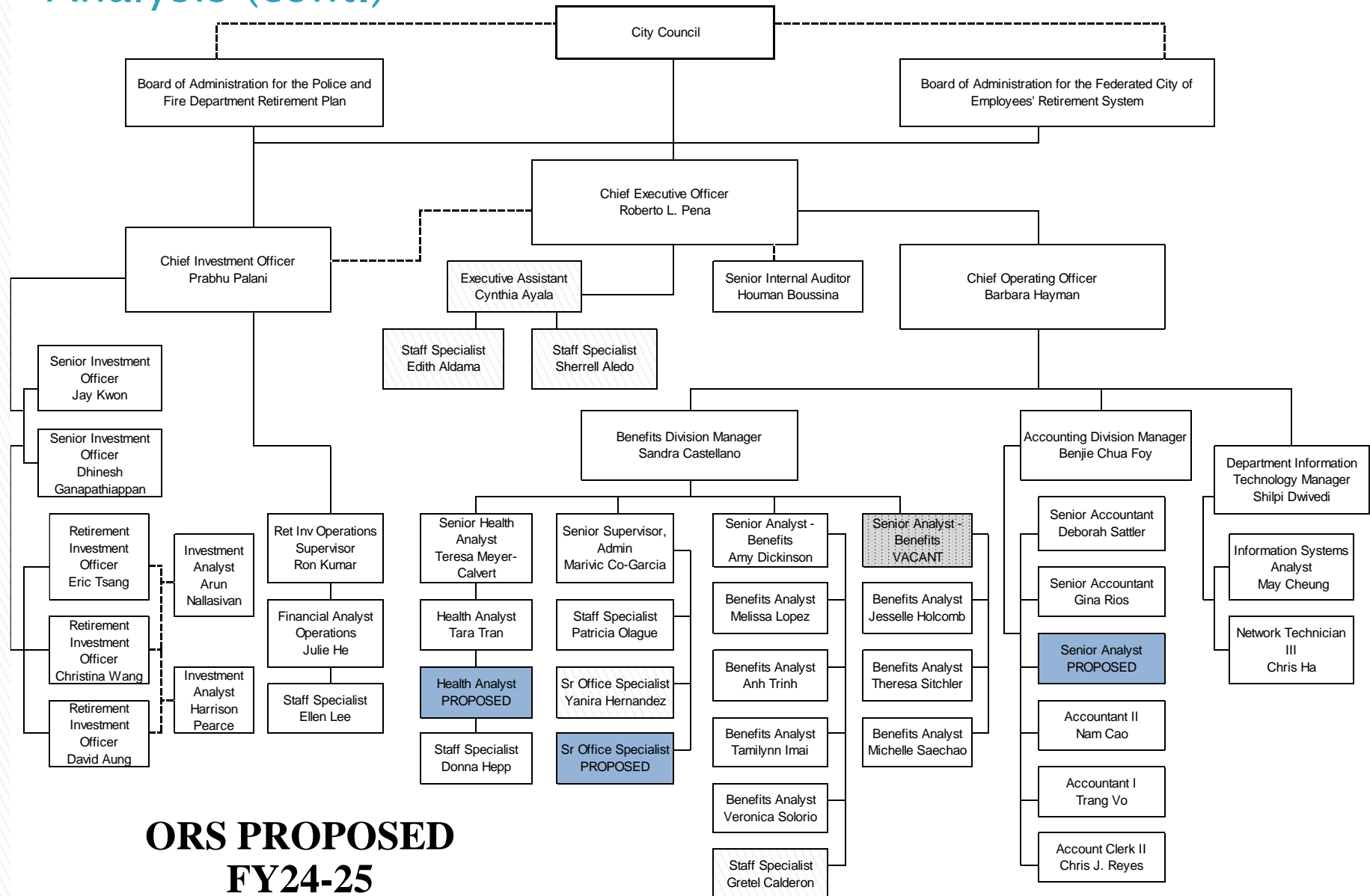
Personnel Services Analysis

Expenses	2022– 2023 Actual (A)	2023– 2024 Adopted (B)	2023– 2024 Forecast (C)	2024–2025 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Personnel Services	\$4,438,410	\$4,792,000/ \$4,992,000	\$4,960,000	\$5,698,000	18.91%/ 14.14%	14.88%
Authorized positions for both plans	43.0	43.0	43.0	46.0	3.0	3.0
Full time employee (FTE) allocated to Plan	21.5	21.5	21.5	23.0	1.5	1.5
Actual filled FTEs for both plans	40.0		42.0			
FTEs allocated to Plan	20.0		21.0			

- ▶ Personnel Services increased from last year's budget due to:
 - Proposals, budgeting three return to work retirees for the full year and increased benefit rates
- ▶ Proposals for FY24–25 included in budget
 - Adding a Compliance Senior Analyst in Accounting
 - Adding a Medicare Analyst to the Health Team in Benefits
 - Adding a Senior Office Specialist for the Front Desk in Benefits
 - Funding a 50% Cybersecurity IT person
 - Over-strength position for 4 months for Benefits analyst, 12 months for Admin Staff Specialist and 1 month for CEO

Personnel Services Analysis (cont.)

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



Non-Personnel/Equipment Analysis

Expenses	2022– 2023 Actual (A)	2023– 2024 Adopted (B)	2023– 2024 Forecast (C)	2024–2025 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Non– personnel/ Equipment	\$707,786	\$859,000	\$727,156	\$867,000	0.93%	19.23%

- ▶ Non-Personnel/Equipment remained fairly consistent with last year. Slight increase is due to CPI.
- ▶ Difference from forecast to adopted budget is mainly due to planned projects that were budgeted not coming to fruition such as phone center project and change in financial statement software

Non-Personnel/Equipment Analysis (cont.)

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

Minor Budget Category	Budget Basis	FY24-25 Proposed Budget Amount
Rent	Rent for Office of Retirement Services (ORS) based on lease amount, as well as Common Area Maintenance costs	\$249,000
Insurance	Fiduciary and commercial liability insurance	225,000
IT hardware / Software	Includes proposed phone center and social media, wireless microphone system for 5 th floor Board room and hosting service	130,000
Postage and printing	Postage, shipping and printing costs for open enrollment, contribution rate and newsletter mailings and other communication	65,000
LRS - annual maintenance fee	Pension administration system annual maintenance fee based on contract amount	58,000
Training/Travel	Board and staff travel including education and conferences, roundtables, due diligence, etc.	35,000
Other non-personnel and equipment	Includes lease, mileage, communication, dues and subscriptions, equipment/furniture, training, supplies, and a buffer for leasehold improvements for the building	105,000
	NON-PERSONNEL / EQUIPMENT TOTAL	\$867,000

Professional Services Analysis

Expenses	2022-2023 Actual (A)	2023-2024 Adopted/ Modified (B)	2023-2024 Forecast (C)	2024-2025 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Professional Services	\$992,297	903,000/ 1,403,000	1,351,360	1,296,000	43.52%/ (7.63%)	(4.10%)

- ▶ Professional Services increased by \$393,000 from last year's adopted budget mainly due to increases in fiduciary and disability legal services. The adopted budget was modified to add \$500,000 for legal services.
- ▶ Other considerations
 - Cost associated with the new 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	FY24–25 Budget Amount
Legal	Legal services provided by Reed Smith, Saltzman and Johnson and Ice Miller LLP – note this budget line excludes investment legal.	\$681,000
Actuary	Annual valuation and GASB reports for Pension & OPEB, benefit calculations, including 415 matters, and other miscellaneous consultations	271,000
Audit	Annual financial audit agreement amount plus other services	92,000
Other Professional Services	Includes retiree search agency, governance services and communications consultant	83,500
Temp Agencies	Temporary staffing to fill vacant positions and assist with open enrollment	144,500
Pension Admin System (PensionGold)	Ad hoc web changes billed per hour; disaster recovery; ad hoc change request enhancements; web hosting monthly charge	24,000
	PROFESSIONAL SERVICES OTHER BUDGET TOTAL	\$1,296,000

Medical Services Analysis

Expenses	2022– 2023 Actual (A)	2023– 2024 Adopted/ Modified (B)	2023– 2024 Forecast (C)	2024– 2025 Proposed (1) (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Medical Services	\$180,869	\$360,000	\$360,000	\$360,000	0.00%	0.00%

- ▶ 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

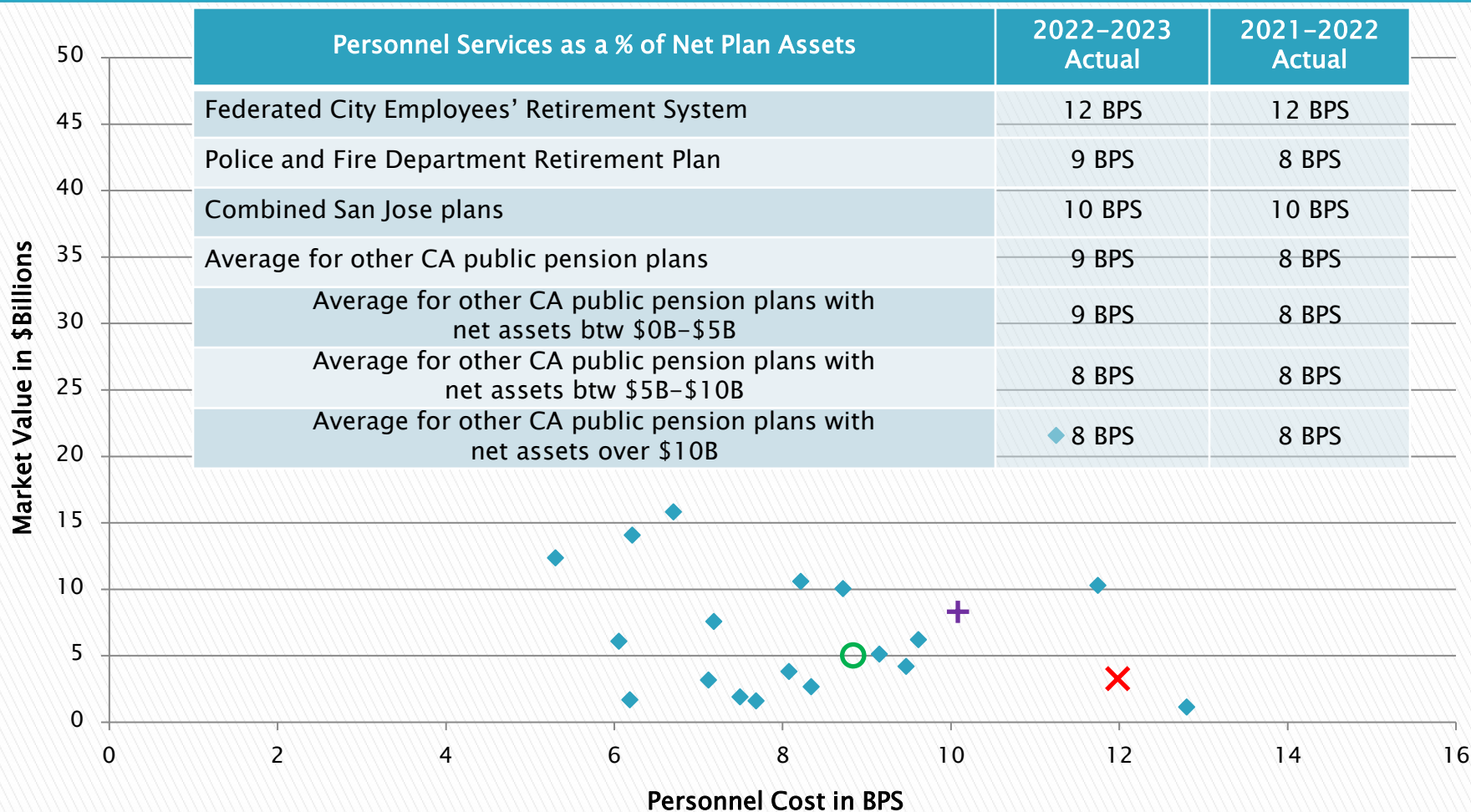
Personnel Services Analysis – in BPS

Personnel Expense in BPS of Market Value of Assets – Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$3,282,000

“O” below represents the Police and Fire Plan, \$5,021,000

“+” below represents the combined San Jose plans, \$8,303,000



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

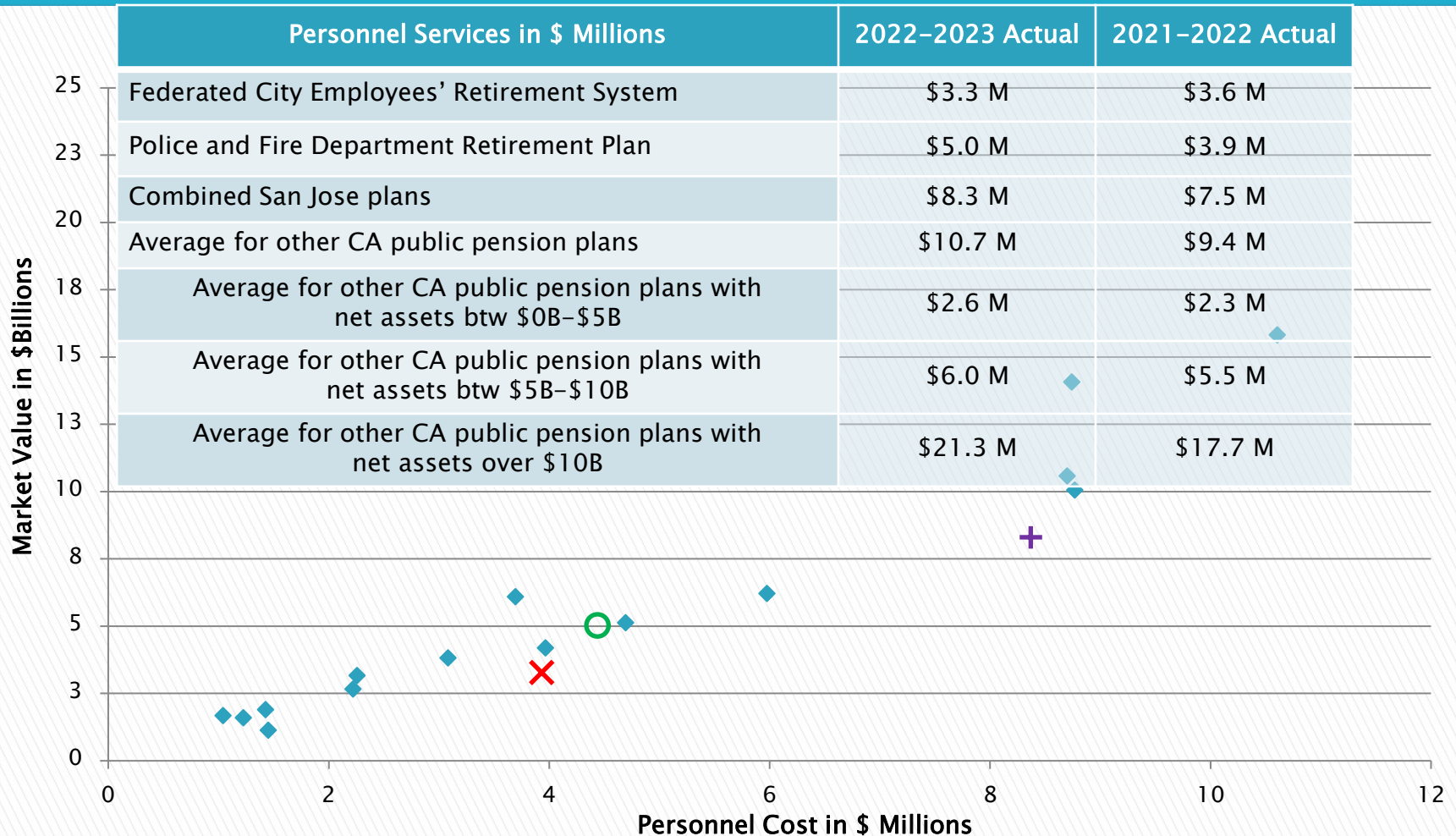
Personnel Services Analysis – in \$

Personnel Expense in \$ Millions – Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$3,282,000

“O” below represents the Police and Fire Plan, \$5,021,000

“+” below represents the combined San Jose plans, \$8,303,000



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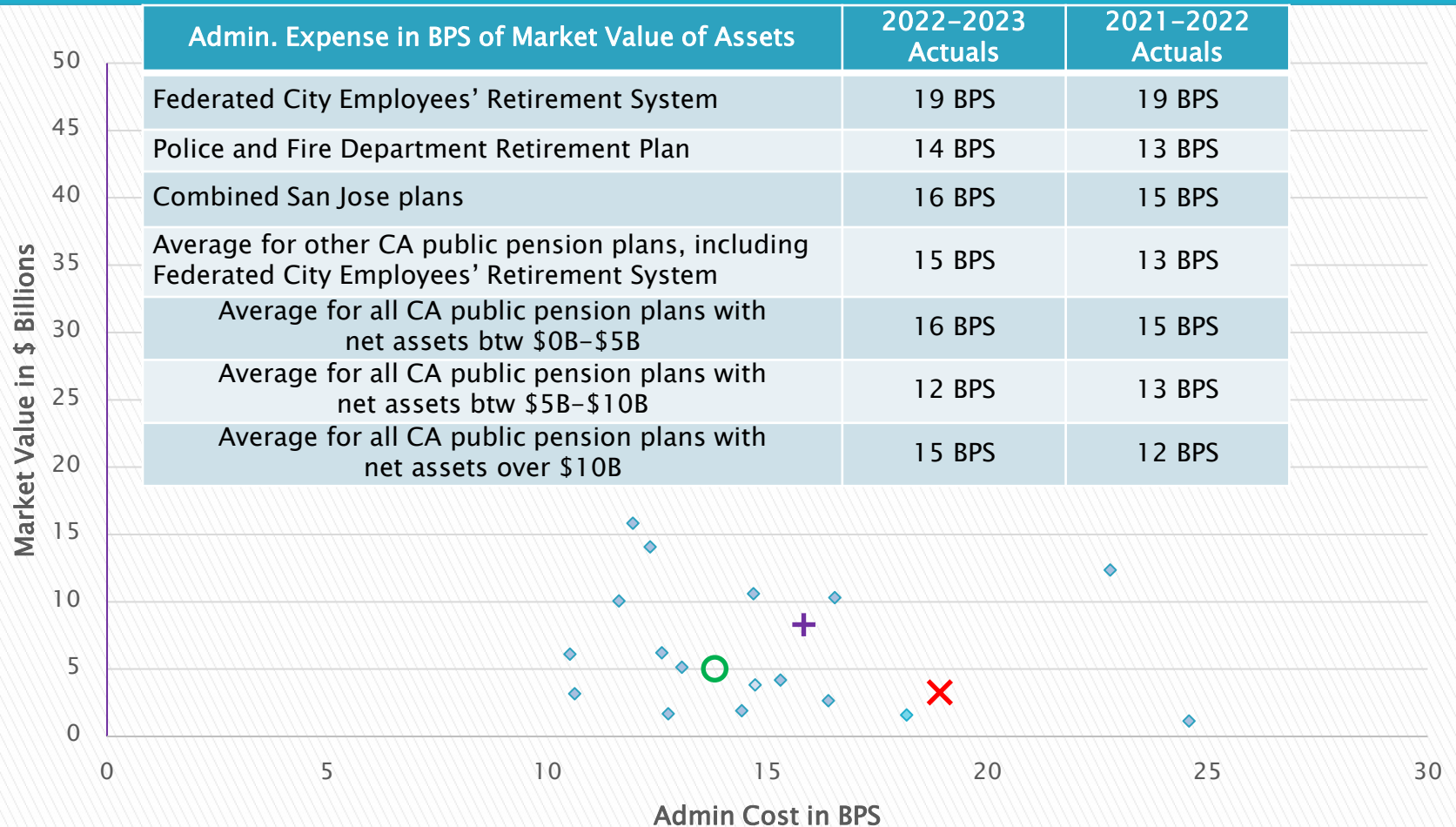
Administrative Cost Comparison – in BPS

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$6,208,000

“O” below represents the Police and Fire Plan, \$6,934,000

“+” below represents the combined San Jose plans, \$13,142,000



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

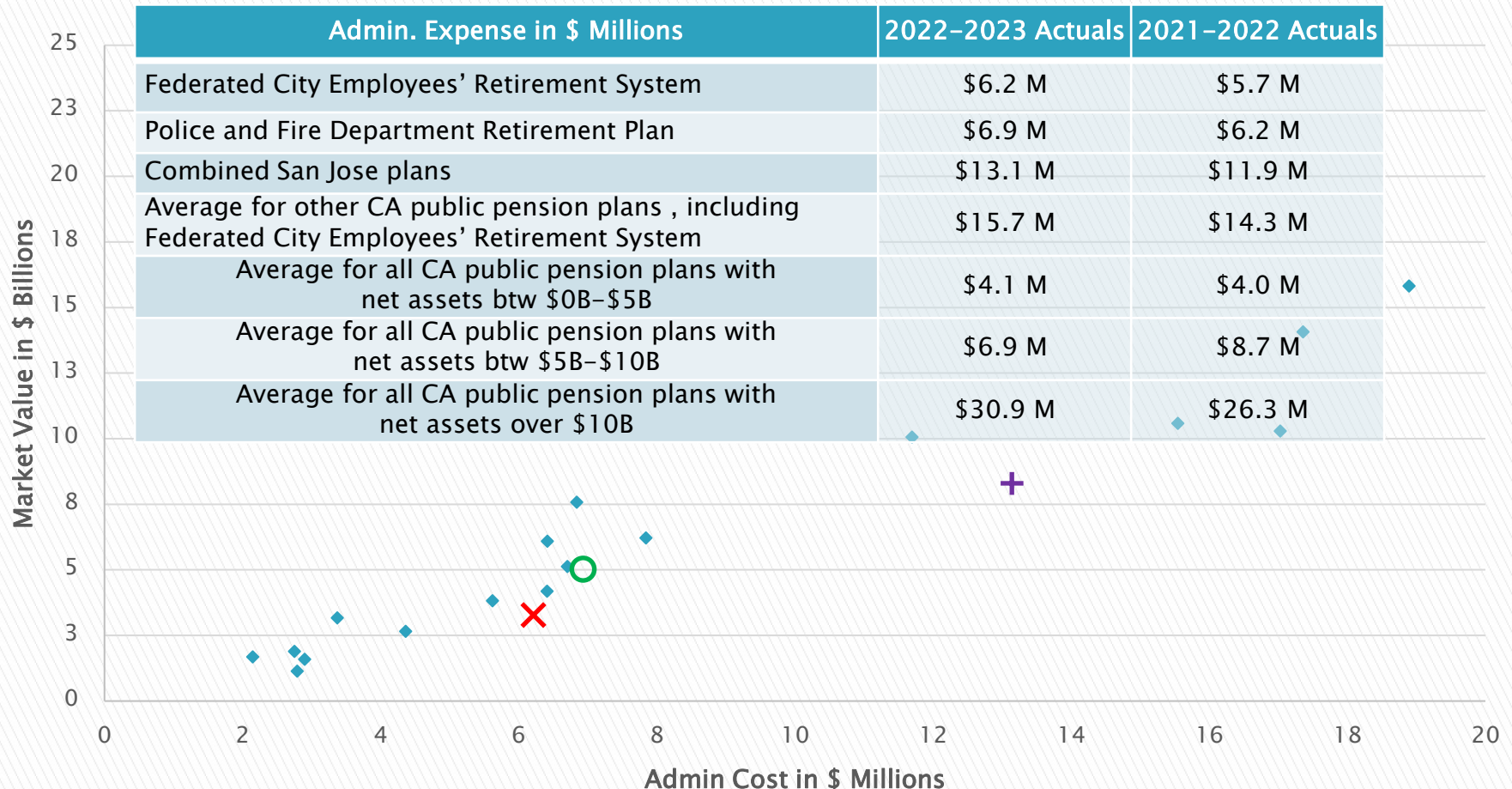
Administrative Cost Comparison – in \$

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

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“O” below represents the Police and Fire Plan, \$6,934,000

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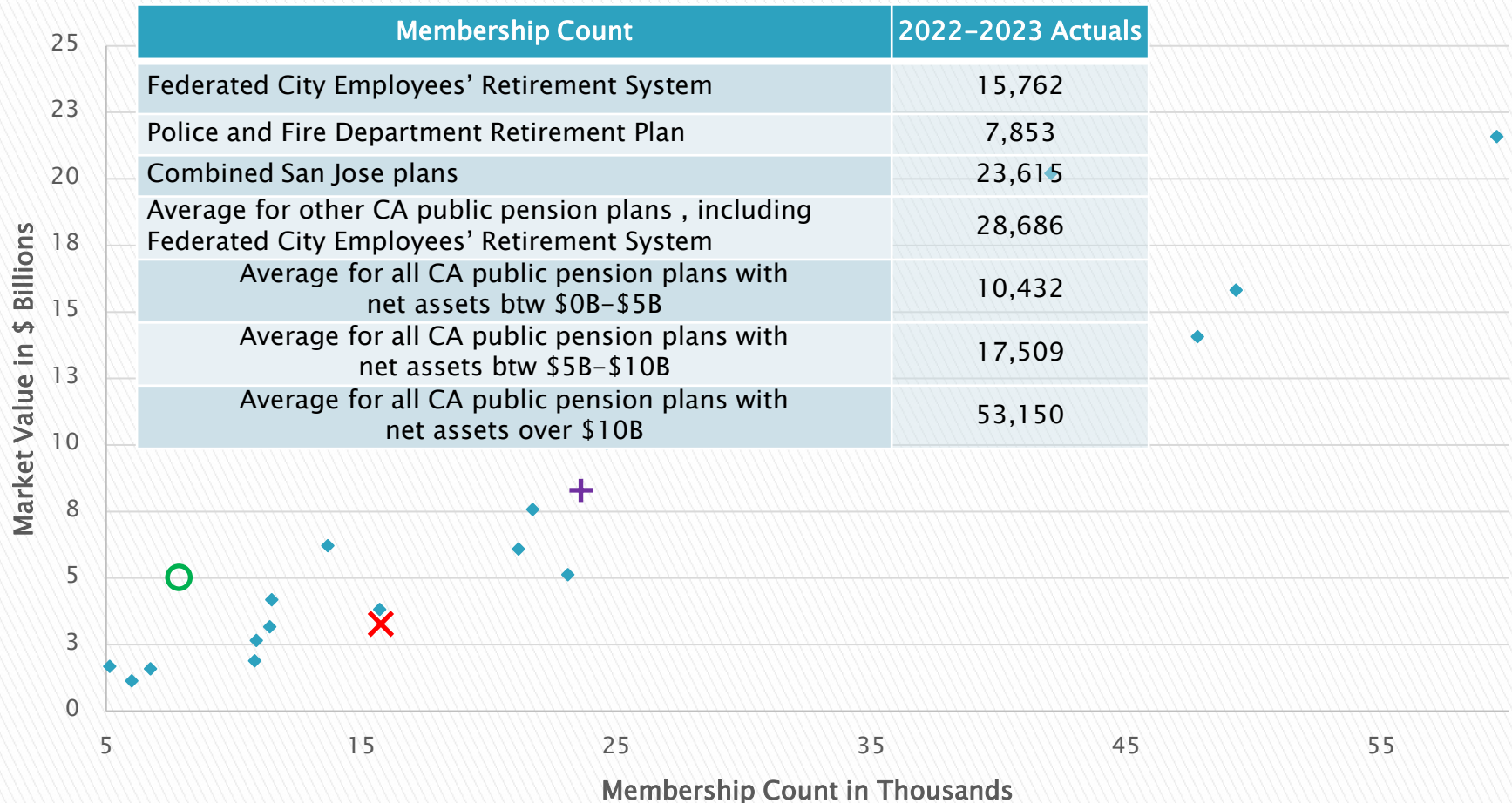
Membership Count Comparison

Membership Count of Market Value of Assets – Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, 15,762

“O” below represents the Police and Fire Plan, 7,853

“+” below represents the combined San Jose plans, 23,615



¹ Retirement Services gathered and compiled most recent financial information from 23 public pension plans' ACFRs; LACERA's membership count is not shown – 190,353

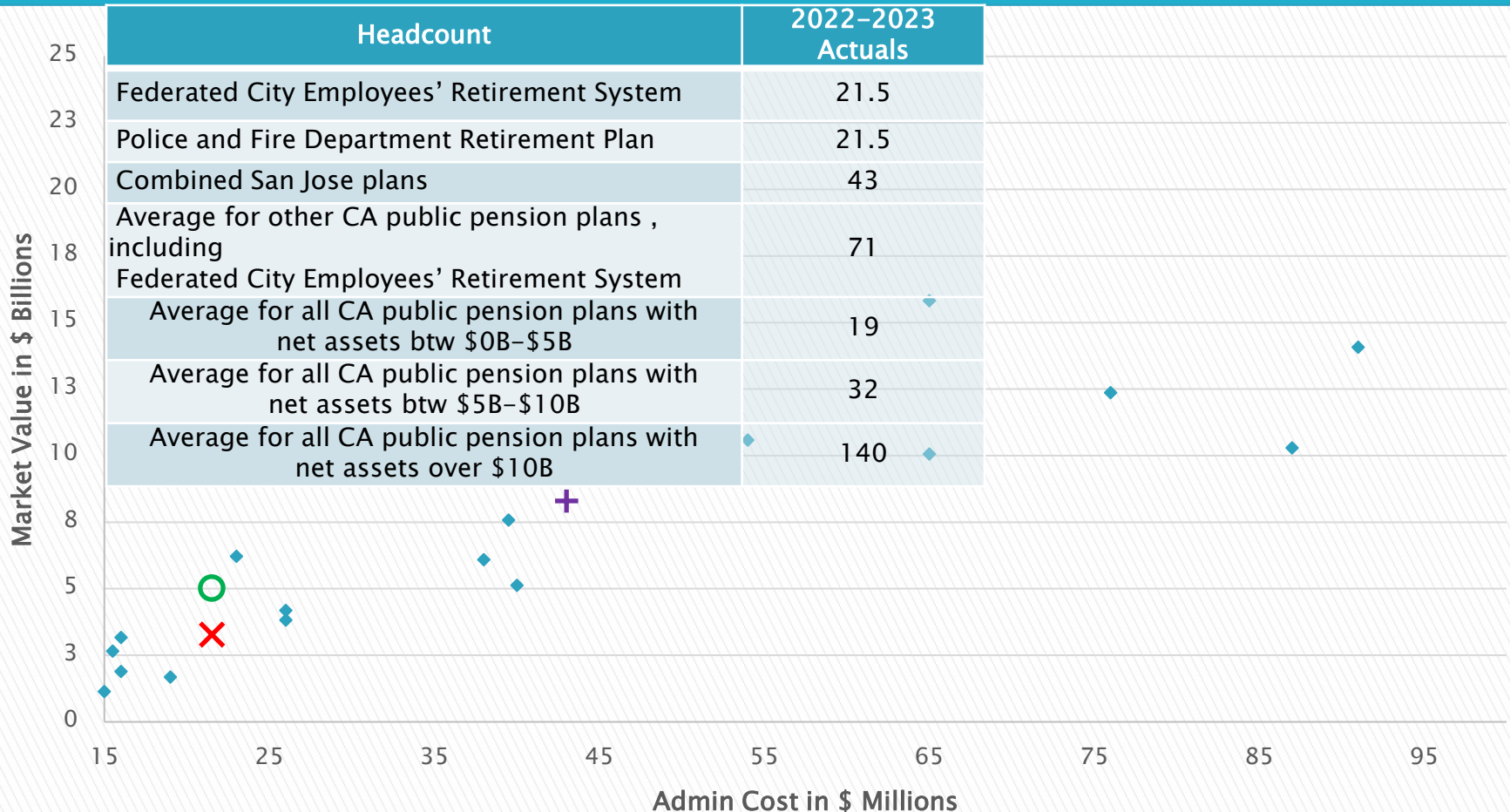
Headcount Comparison

Budgeted Headcount of Market Value of Assets –
Actual as of 6/30/23 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, 21.5

“O” below represents the Police and Fire Plan, 21.5

“+” 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)