

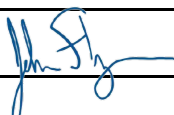
# Memorandum

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

**SUBJECT: Consideration of Proposed Budget for Fiscal Year 2025-2026**

**DATE: April 17, 2025**

Approved



Date

April 9, 2025

## **RECOMMENDATION**

Discussion and action on the proposed administrative budget for fiscal year 2025-2026.

## **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 \$231,452,000.

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 FY26 contribution amounts assume the Board's adoption in May, as shown in the June 30, 2024 actuarial reports for pension and healthcare, using the throughout the year amounts, similar to FY25.

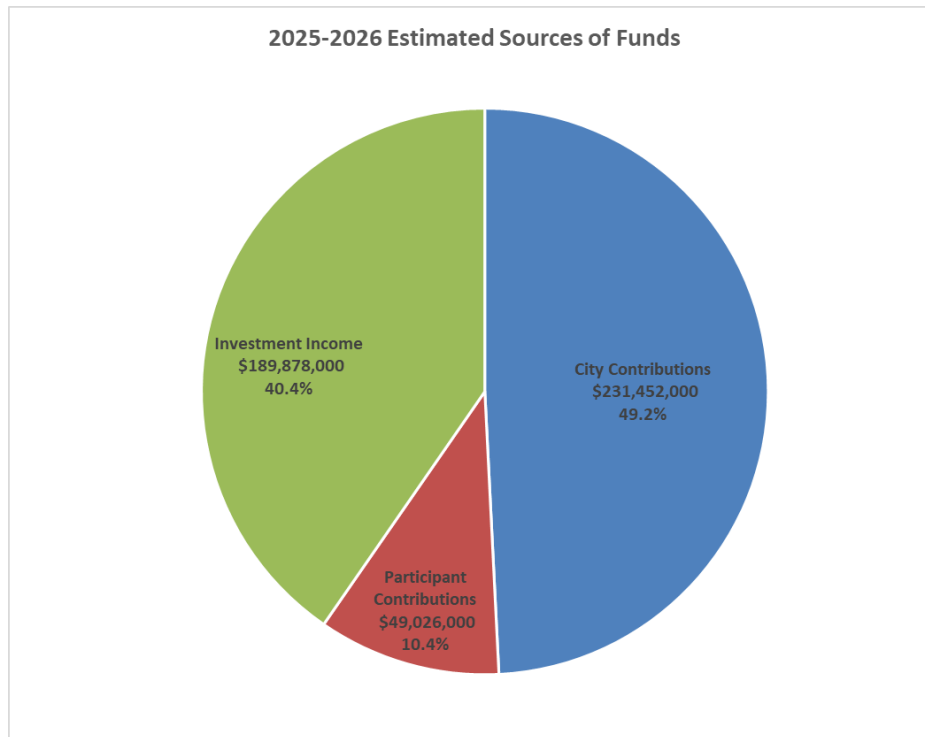
#### **PARTICIPANT CONTRIBUTIONS**

Total member contributions are estimated at \$49,026,000, a 10.44% increase from the 2024-2025 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension decreased slightly from 6.61% to 6.55% while their covered payroll decreased from \$130.1 million to \$127.2 million. Tier 2 contribution rates for pension increased from 8.49% to 8.62%, while covered payroll increased from \$319.3 million to \$373.6 million. Healthcare contribution

rates remain at 7.5% per the Municipal Code for Tier 1 members and eligible Tier 2 members, while the City's contribution is a flat dollar amount of approximately \$21.9 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 \$273,782,000, an increase of \$10,129,000 over the forecast, or 3.84%, 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 \$36,576,000, an increase of \$989,000 over the forecast, or 2.78%, which is the average change for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

### ***ADMINISTRATIVE EXPENSE BUDGET***

The proposed administrative expenses budget of \$7,377,000 is a net increase of \$115,000 or 1.58% from the prior year adopted budget of \$7,262,000.

## PERSONNEL SERVICES

The budget for personnel services was reduced to \$4,981,000, a decrease of \$130,000, or 2.54% below the prior year adopted budget of \$5,111,000. 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 headcount at Retirement Services will remain the same despite the proposals. The proposed personnel changes for FY25-26 are to 1) add a Program Manager and 2) delete the Senior Internal Auditor position, which will result in \$8,000 in savings. In addition, Staff is continuing funding for an overstrength position for one year for Staff Specialist in the Administrative division and continuing the funding for 50% of the Cybersecurity IT Specialist. The decrease for this fiscal year was due to the removal of an overstrength position in the Benefits division for four months and the removal of one month funding for a CEO for the transition, and the reduction in the annual compensation for the CEO, all totaling \$147,000. Netting against the decreases are increased benefit rates. In addition, there are four re-employed retirees in Benefits that are included in the budget for the maximum time allowed per the Municipal Code.

## NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was reduced to \$870,000, a decrease of \$24,000, or 2.68% from the prior year adopted budget of \$894,000. This category includes rent, insurance, information technology hardware/software (other than pension administration system-related expenses), postage and printing, training, travel, and other office expenses. The decrease is primarily due to the reallocation of approximately \$123,000 in pension administration system-related expenses to professional services, a reduction of \$20,000 for postage and printing due to planned electronic distribution of quarterly newsletters, a reduction of \$20,000 in insurance premiums, offset by an additional \$60,000 for the expansion of the 5th floor, a \$25,000 increase in travel, and additional \$15,000 for an upgrade to the document management system, as well as CPI-driven cost increases.

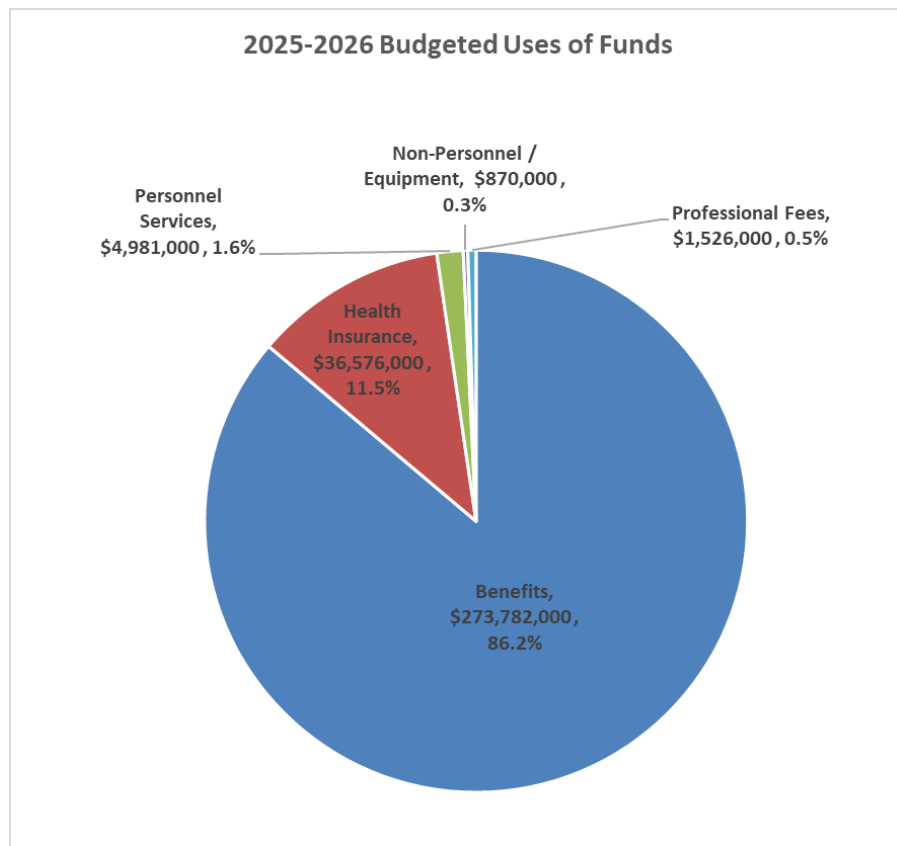
## PROFESSIONAL SERVICES

The budget for professional services was increased to \$1,381,000, an increase of \$269,000, or 24.19% from the prior year adopted budget of \$1,112,000. Professional services comprise of actuarial services, financial audit services, legal services, governance services, and temporary staffing services. The increase from the prior year adopted budget is mainly due to the reallocation of \$123,000 in pension administration system-related expenses, an addition for the outsourced internal audit of \$90,000, an increase of \$50,000 for governance services, an increase of \$37,000 in legal services, an increase of \$29,000 for other services, offset by a reduction in actuarial services and temporary staffing agencies totaling \$60,000. Governance services was increased to account for the strategic planning support. The internal audit position is planned on being outsourced since the personnel position is being deleted. Legal services was increased to account for the proposed costs in the requests for proposals. There is no experience study this fiscal year which reduced the budget, and temporary staffing budget was reduced since the office is nearly fully staffed. A budget for temporary staffing is still included since one analyst is planning on retiring mid-year and for other contingencies. Other services include the Cybersecurity IT specialist consultant, CEM benchmarking and CPI increases.

## MEDICAL SERVICES

The budget for medical services remained steady at \$145,000. This category is for expenses related to the processing of disability applicants, which include costs for medical services from independent medical

examiners (IME). The contract with the medical advisor has been terminated so all services will be from the independent medical examiners.



Attachment: Proposed Budget for Fiscal Year 2025-2026