



Memorandum

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

SUBJECT: Consideration of Proposed Budget for Fiscal Year 2024-2025

DATE: March 7, 2024

Approved

B. Hayman

Date 3/13/2024

RECOMMENDATION

Discussion and action on the proposed administrative budget for fiscal year 2024-2025.

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 \$254,726,000.

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 FY25 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2023 actuarial reports for pension and healthcare, using the throughout the year amounts, similar to FY24.

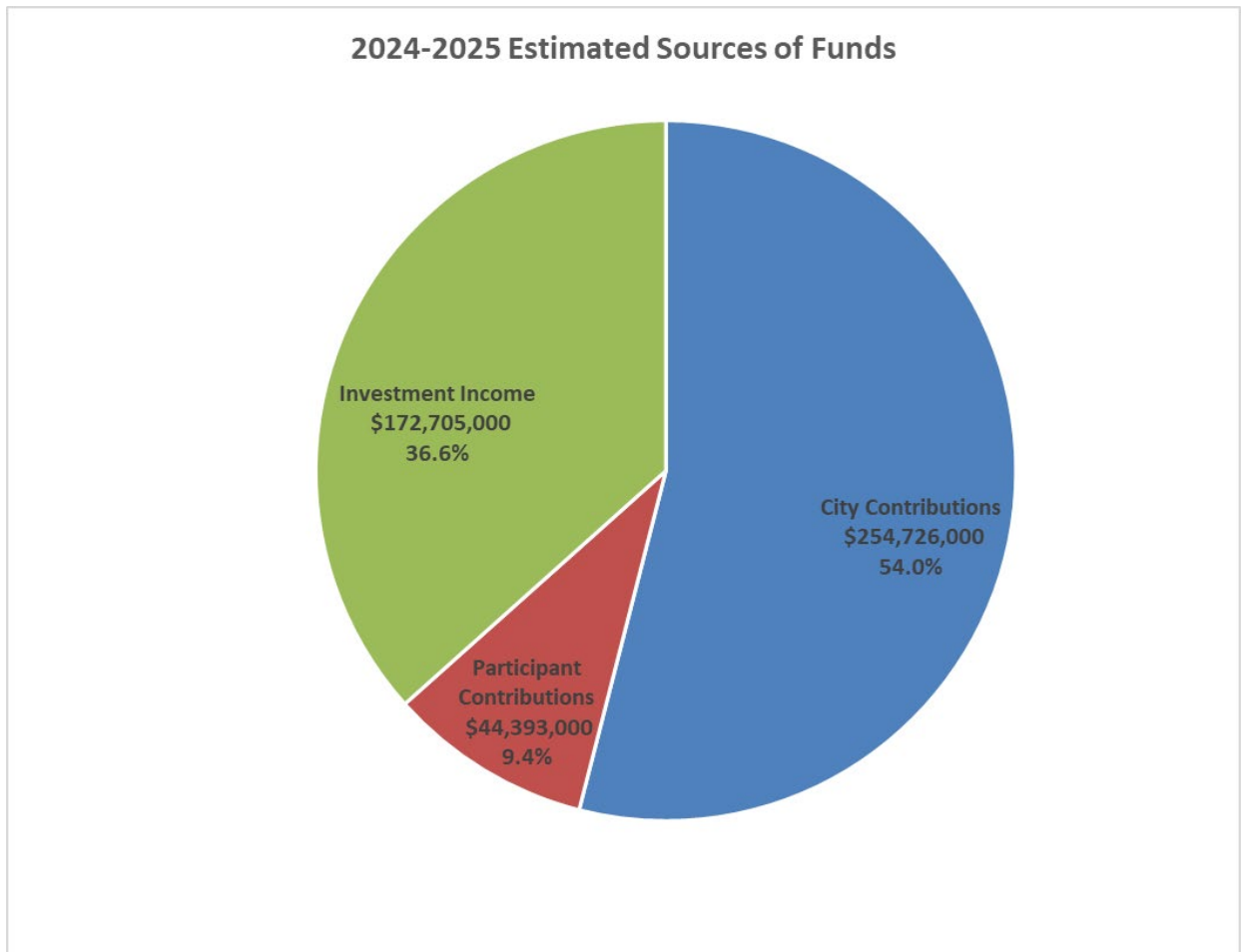
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$44,393,000, a 12.64% increase from the 2023-2024 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Tier 1 contribution rates for pension decreased from 7.34% to 6.61% while their covered payroll increased slightly from \$128.9 million to \$130.1 million. Tier 2 contribution rates for pension increased from 8.01% to 8.49%, while covered payroll increased from \$266.8 million to \$319.3 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 \$20.4 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 \$263,433,000, an increase of \$10,402,000 over the forecast, or 4.11%, 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 \$36,093,000, an increase of \$1,059,000 over the forecast, or 3.02%, which is the average change 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 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 were no VEBA withdrawals in fiscal year 2022-2023, the last year for any VEBA withdrawals.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$7,262,000 is a net increase of \$558,000 or 8.32% from the prior year modified budget of \$6,704,000 and \$1,008,000 or 16.12% from the prior year adopted budget of \$6,254,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$5,111,000, an increase of \$655,000, or 14.70% over the prior year modified budget of \$4,456,000. 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 number of positions in Retirement Services will increase to 46 from 43 due to the proposals. The proposed personnel changes for FY24-25 are to: 1) add a Compliance Senior Analyst in the Accounting division, 2) add a Medicare Analyst in the Health section of the Benefits division, and 3) add a Senior Office Specialist to the front desk in the Benefits division to address the issues that have arisen in the current fiscal year, as well as address the increasing and challenging workload. In addition, Staff is adding funding for an overstrength position for one year for Staff Specialist in the Administrative division, an overstrength position in the Benefits division for four months to transition a retiring Analyst to the new hire and 50% funding for a Cybersecurity IT Specialist. One month funding for the current CEO to train the new CEO is also being added to the budget. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having five (four in Benefits and one in Admin) reemployed retirees for the maximum time allowed per the Municipal Code.

NON-PERSONNEL / EQUIPMENT

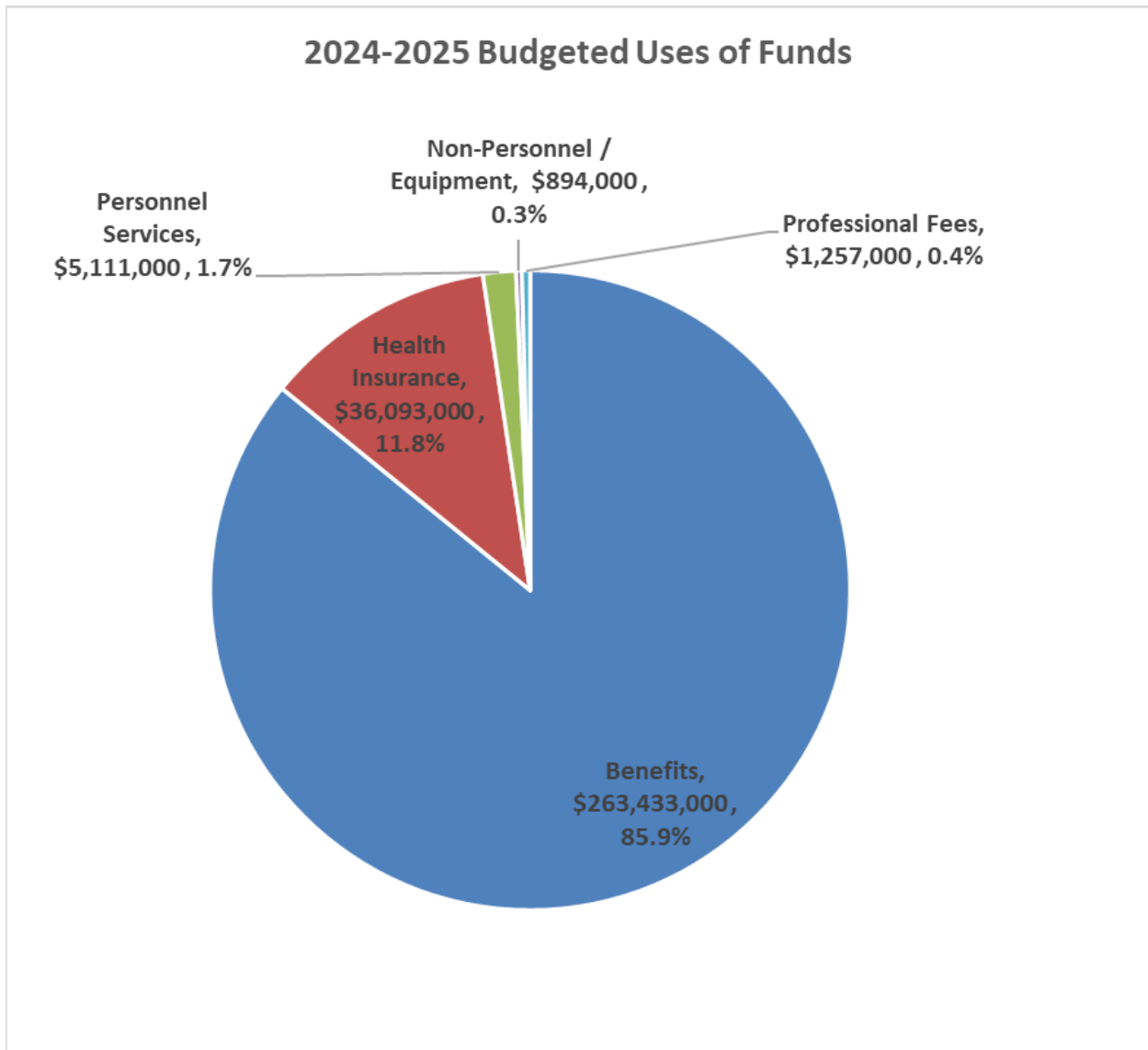
The budget for non-personnel / equipment was increased slightly to \$894,000, an increase of \$22,000, or 2.52% from the prior year adopted budget of \$872,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the removal of the proposed change in financial software in IT hardware/software and to account for general increases across the board.

PROFESSIONAL SERVICES

The budget for professional services was decreased to \$1,112,000, a decrease of \$119,000, or 9.67% from the prior year modified budget of \$1,231,000. The adopted budget was modified to increase legal services by \$300,000. If it had not been modified, current year proposed budget would be an increase of \$181,000, or 19.40% from the prior year adopted budget of \$931,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. The increase from the prior year adopted budget is mainly due to the increase in legal services to account for the rise in the need of their services, CPI increases as well as the addition of a death audit vendor and skip trace vendor for the Benefits division.

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.



PROPOSED BUDGET

FISCAL YEAR 2024-2025

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Match 21, 2024

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Proposed Budget for Fiscal Year 2024-2025

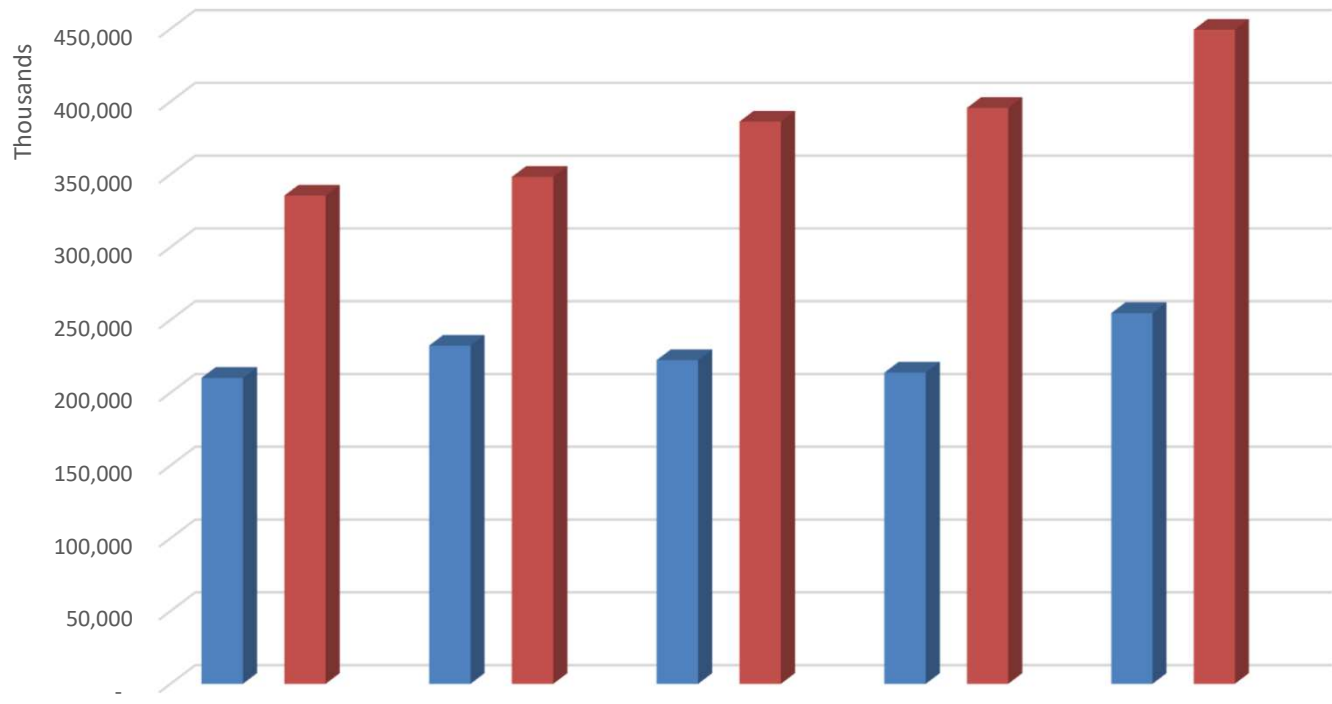
	(A) 2022-2023 Actual	(B) 2023-2024 Modified	(C) 2023-2024 Forecast	(D) 2024-2025 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
SOURCE OF FUNDS							
Beginning Fund Balance							
Claims Reserve	3,057,148,000	3,281,923,000	3,281,923,000	3,404,496,600	224,775,000	0	122,573,600
Total Beginning Fund Balance	3,057,148,000	3,281,923,000	3,281,923,000	3,404,496,600	224,775,000	0	122,573,600
Transfers							
COLAs	7,500	7,500	4,500	4,500	0	(3,000)	0
City Contributions	222,437,000	234,618,000	213,839,000	254,726,000	12,181,000	(20,779,000)	40,887,000
Total Transfers	222,444,500	234,625,500	213,843,500	254,730,500	12,181,000	(20,782,000)	40,887,000
Revenue							
Participant Contributions	40,402,000	39,410,000	39,411,600	44,393,000	(992,000)	1,600	4,981,400
Investment Income	246,369,000	157,847,000	163,813,000	172,705,000	(88,522,000)	5,966,000	8,892,000
Total Revenue	286,771,000	197,257,000	203,224,600	217,098,000	(89,514,000)	5,967,600	13,873,400
TOTAL SOURCE OF FUNDS	3,566,363,500	3,713,805,500	3,698,991,100	3,876,325,100	147,442,000	(14,814,400)	177,334,000
USE OF FUNDS							
Expenditures							
COLAs	7,500	7,500	4,500	4,500	0	(3,000)	0
Benefits	247,356,000	255,466,000	253,031,000	263,433,000	8,110,000	(2,435,000)	10,402,000
Health Insurance	30,869,000	32,401,000	35,034,000	36,093,000	1,532,000	2,633,000	1,059,000
VEBA Transfers	0	0	0	0	0	0	0
Personnel Services	3,931,000	4,456,000	4,411,000	5,111,000	525,000	(45,000)	700,000
Non-Personnel/Equipment ⁽¹⁾	1,337,000	872,000	748,000	894,000	(465,000)	(124,000)	146,000
Professional Fees	940,000	1,376,000	1,266,000	1,257,000	436,000	(110,000)	(9,000)
Total Expenditures	284,440,500	294,578,500	294,494,500	306,792,500	10,138,000	(84,000)	12,298,000
Ending Fund Balance							
Claims Reserve	3,281,923,000	3,419,227,000	3,404,496,600	3,569,532,600	137,304,000	(14,730,400)	165,036,000
Total Ending Fund Balance	3,281,923,000	3,419,227,000	3,404,496,600	3,569,532,600	137,304,000	(14,730,400)	165,036,000
TOTAL USE OF FUNDS	3,566,363,500	3,713,805,500	3,698,991,100	3,876,325,100	147,442,000	(14,814,400)	177,334,000

Amount not included in budget since no cash outlay:

Amortization expense for PG3 and GASB				
87 lease interest expenses	\$ 608,957	\$ 608,957	\$ 608,957	\$ 608,957

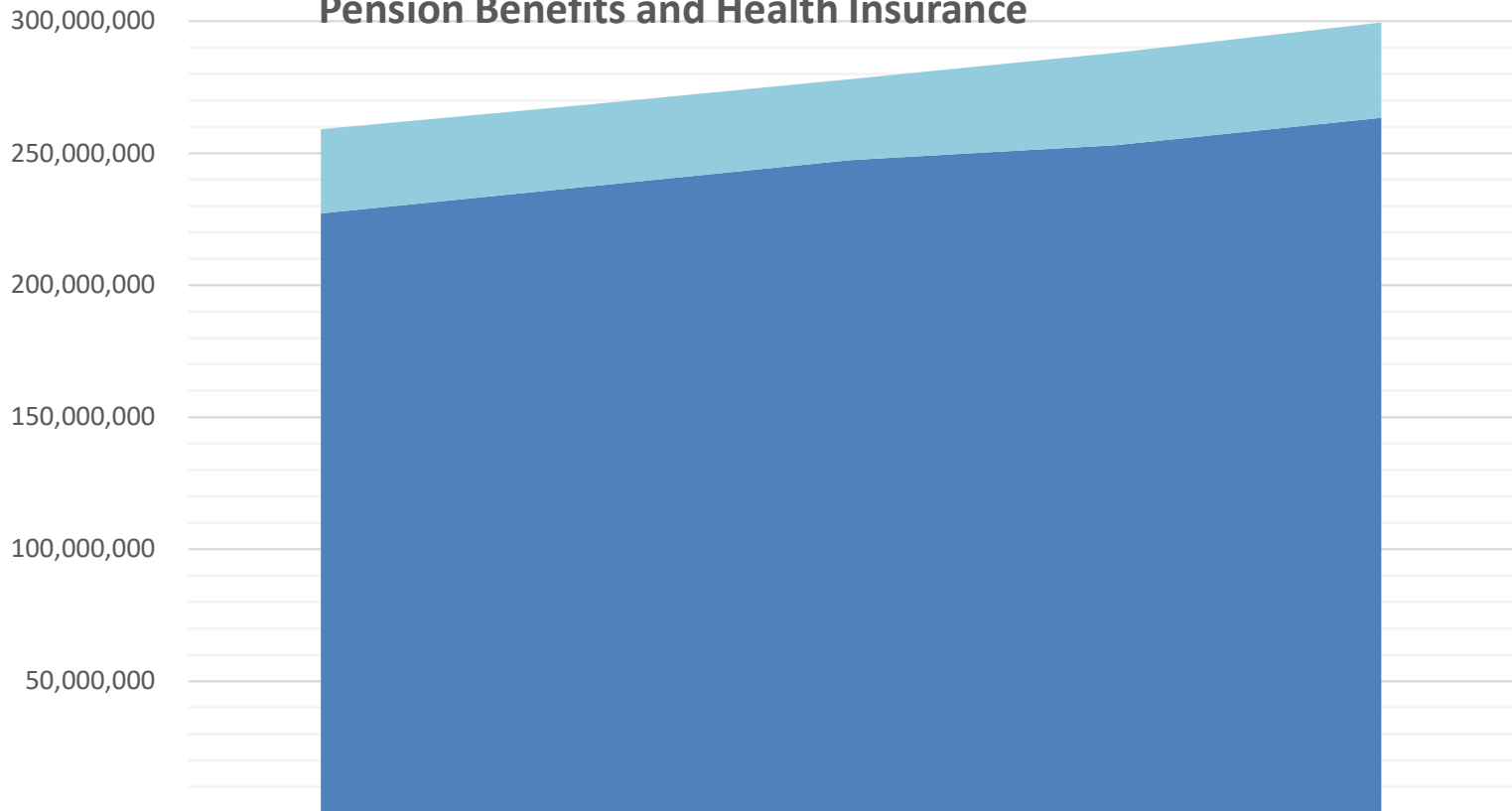
⁽¹⁾ Non-personnel equipment FY22-23	\$ 1,337,000
Rounding in ACFR	591
Amortization expense	(608,957)
As shown in Administrative Expenses	\$ 728,634

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



	FY 20-21	FY 21-22	FY 22-23	FY 23-24 (Forecast)	FY 24-25 (Proposed)
■ Total City Contributions	210,200,000	232,385,000	222,437,000	213,839,000	254,726,000
Total City Contribution % Change	1.1%	10.6%	-4.3%	-3.9%	19.1%
■ Total Covered Payroll	335,421,000	348,307,000	386,315,000	395,722,000	449,400,000
Total Covered Payroll % Change	4.8%	3.8%	10.9%	2.4%	13.6%

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Pension Benefits and Health Insurance



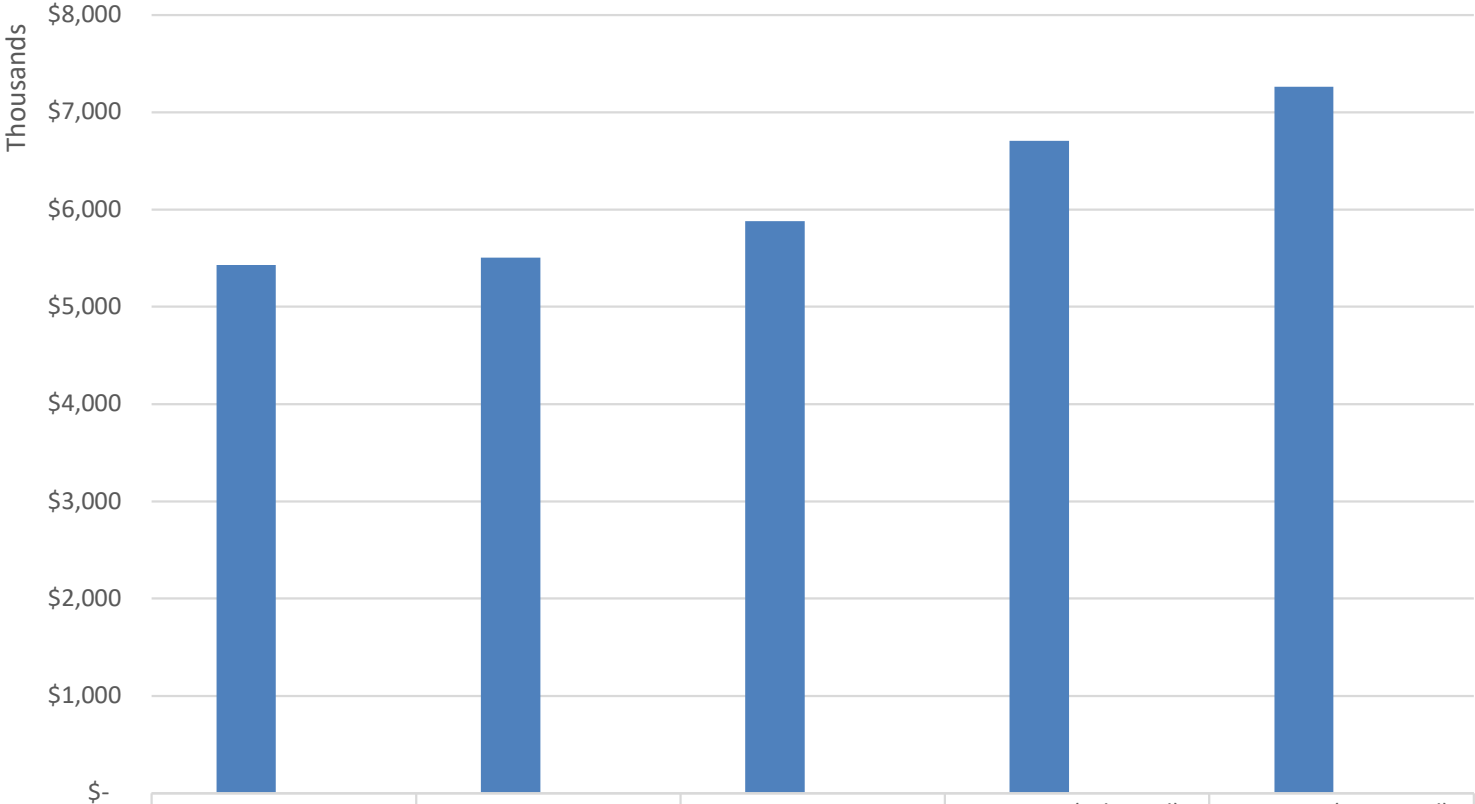
	FY 2021 - Actual	FY 2022 - Actual	FY 2023 - Actual	FY 2024 - Forecast	FY 2025 - Proposed
Total Benefits	259,077,000	268,361,000	278,225,000	288,065,000	299,526,000
Health Insurance % Change	3.5%	-2.5%	-0.7%	13.5%	3.0%
Health Insurance	31,871,000	31,088,000	30,869,000	35,034,000	36,093,000
Pension Benefits % Change	4.8%	4.4%	4.2%	2.3%	4.1%
Pension Benefits	227,206,000	237,273,000	247,356,000	253,031,000	263,433,000

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Administrative Expenses: FY 2024-2025

	(A) 2022-2023 Actual	(B) 2023-2024 Modified	(C) 2023-2024 Forecast	(D) 2024-2025 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
PERSONNEL SERVICES							
Salaries and employee benefits	3,931,413	4,456,000	4,411,000	5,111,000	524,587	(45,000)	700,000
Total Personnel Services	3,931,413	4,456,000	4,411,000	5,111,000	524,587	(45,000)	700,000
NON-PERSONNEL / EQUIPMENT							
Insurance	205,667	240,000	214,000	228,000	34,333	(26,000)	14,000
IT hardware / software	71,877	130,000	88,000	130,000	58,123	(42,000)	42,000
LRS - annual maintenance fee	52,160	55,000	55,000	58,000	2,840	-	3,000
Postage and printing	99,731	100,000	75,000	100,000	269	(25,000)	25,000
Rent	226,361	230,000	234,000	249,000	3,639	4,000	15,000
Training and travel	29,225	30,000	37,000	35,000	775	7,000	(2,000)
Office supplies and board meeting expense	12,010	15,000	23,000	25,000	2,990	8,000	2,000
Other non-personnel / equipment	31,603	72,000	22,000	69,000	40,397	(50,000)	47,000
Total Non-personnel / Equipment	728,634	872,000	748,000	894,000	143,366	(124,000)	146,000
PROFESSIONAL SERVICES							
Actuary / actuarial audit	229,457	295,000	289,000	267,000	65,543	(6,000)	(22,000)
External auditor	84,908	95,000	93,000	92,000	10,092	(2,000)	(1,000)
Legal	325,776	614,000	580,000	490,000	288,224	(34,000)	(90,000)
Pension administration system	16,755	34,000	30,000	34,000	17,245	(4,000)	4,000
Temporary staffing agencies	149,373	132,000	130,000	145,000	(17,373)	(2,000)	15,000
Other professional services	48,824	61,000	44,000	84,000	12,176	(17,000)	40,000
Total Professional Services	855,093	1,231,000	1,166,000	1,112,000	375,907	(65,000)	(54,000)
MEDICAL SERVICES							
Independent medical examiners	42,226	145,000	100,000	145,000	102,774	(45,000)	45,000
Medical consultant	42,486	0	0	0	(42,486)	-	-
Total Medical Services	84,712	145,000	100,000	145,000	60,288	(45,000)	45,000
TOTAL ADMINISTRATIVE EXPENSES							
	5,599,852	6,704,000	6,425,000	7,262,000	1,104,148	(279,000)	837,000
Amortization expense	608,957						
Rounding							
Total Admin Expenses per ACFR	6,208,809						

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM Administrative Expense Budget



	FY 20-21	FY 21-22	FY 22-23	FY 23-24 (Adopted)	FY 24-25 (Proposed)
■ Admin Exp Budget*	\$5,430,000	\$5,503,000	\$5,879,000	\$6,704,000	\$7,262,000
% Change	-6.3%	1.3%	6.8%	14.0%	8.3%

* Amount includes budget for operations only.

OFFICE OF RETIREMENT SERVICES

Departmental Position Detail

Position	2022-2023 Adopted (1)	2023-2024 Adopted (2)	2023-2024 Forecast (3)	2024-2025 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/II	1.00	2.00	2.00	2.00	-	-	
Accounting Technician	1.00	0.00	0.00	0.00	-	-	
Analyst I/II	7.00	8.00	8.00	9.00	1.00	1.00	Proposed addition of Medicare Analyst 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	0.00	0.00	0.00	-	-	
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	3.00	3.00	3.00	4.00	1.00	1.00	Proposed addition of a Compliance Senior Analyst in Accounting
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Office Specialist	0.00	1.00	1.00	2.00	1.00	1.00	Proposed addition of a Senior Office Specialist in Benefits
Senior Retirement Investment Officer	2.00	2.00	2.00	2.00	-	-	
Senior Supervisor, Administration	1.00	1.00	1.00	1.00	-	-	
Staff Specialist	7.00	6.00	6.00	6.00	-	-	
Total Positions	43.00	43.00	43.00	46.00	3.00	3.00	

OFFICE OF RETIREMENT SERVICES
Proposed Organizational Chart
Budget FY24-25

