

# **POLICE AND FIRE DEPARTMENT RETIREMENT PLAN FISCAL YEAR 2021–2022 BUDGET PROPOSAL**

March 4, 2021

# 2021–2022 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 FY21–22 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, 2020
- **Participant income** – Estimated based on the contribution rates and total covered payroll shown in the actuarial reports for June 30, 2020
- **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.

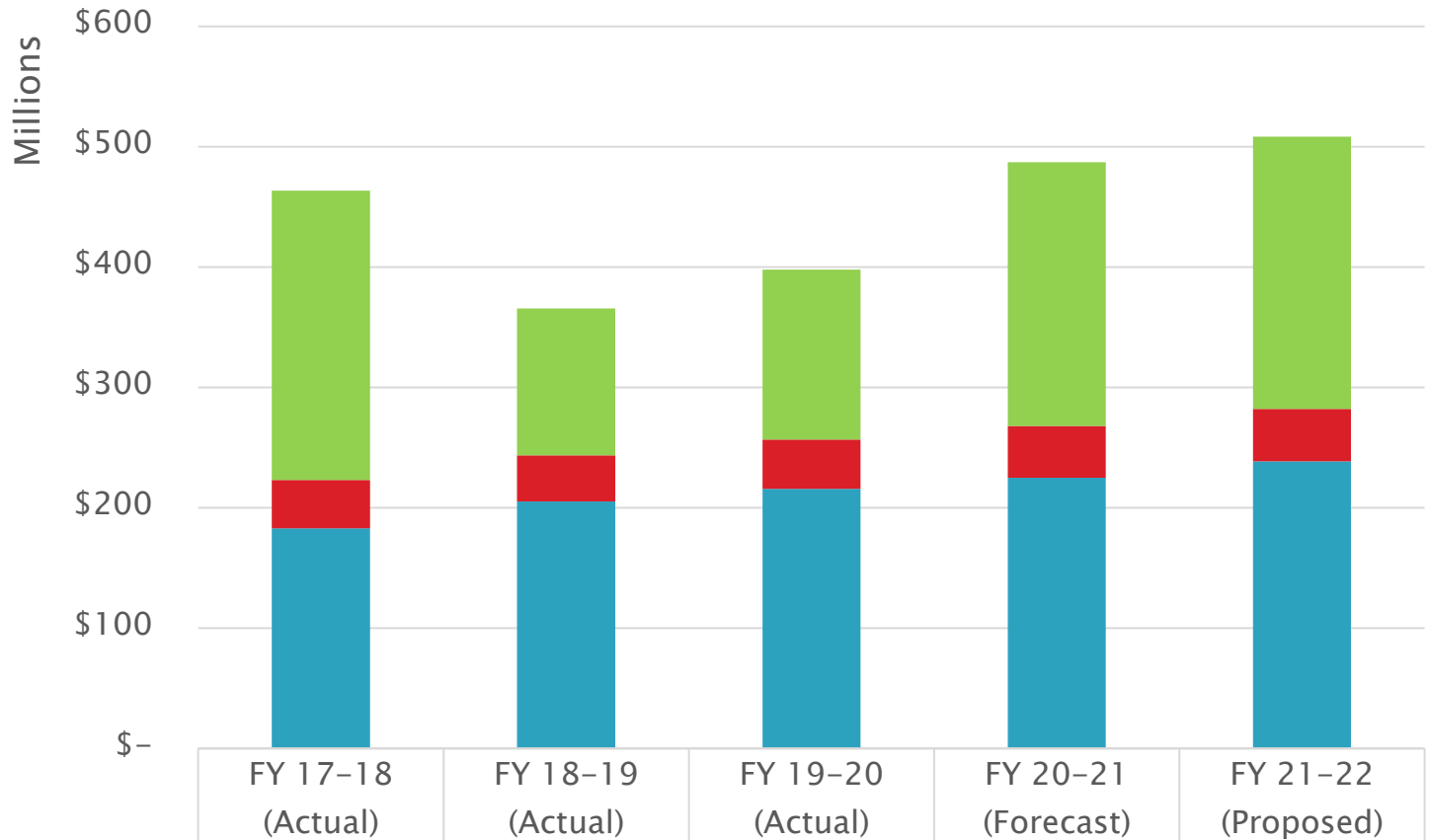
# Administrative Expense Budget FY21–22

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 a contracted medical advisor and other independent medical examiners.

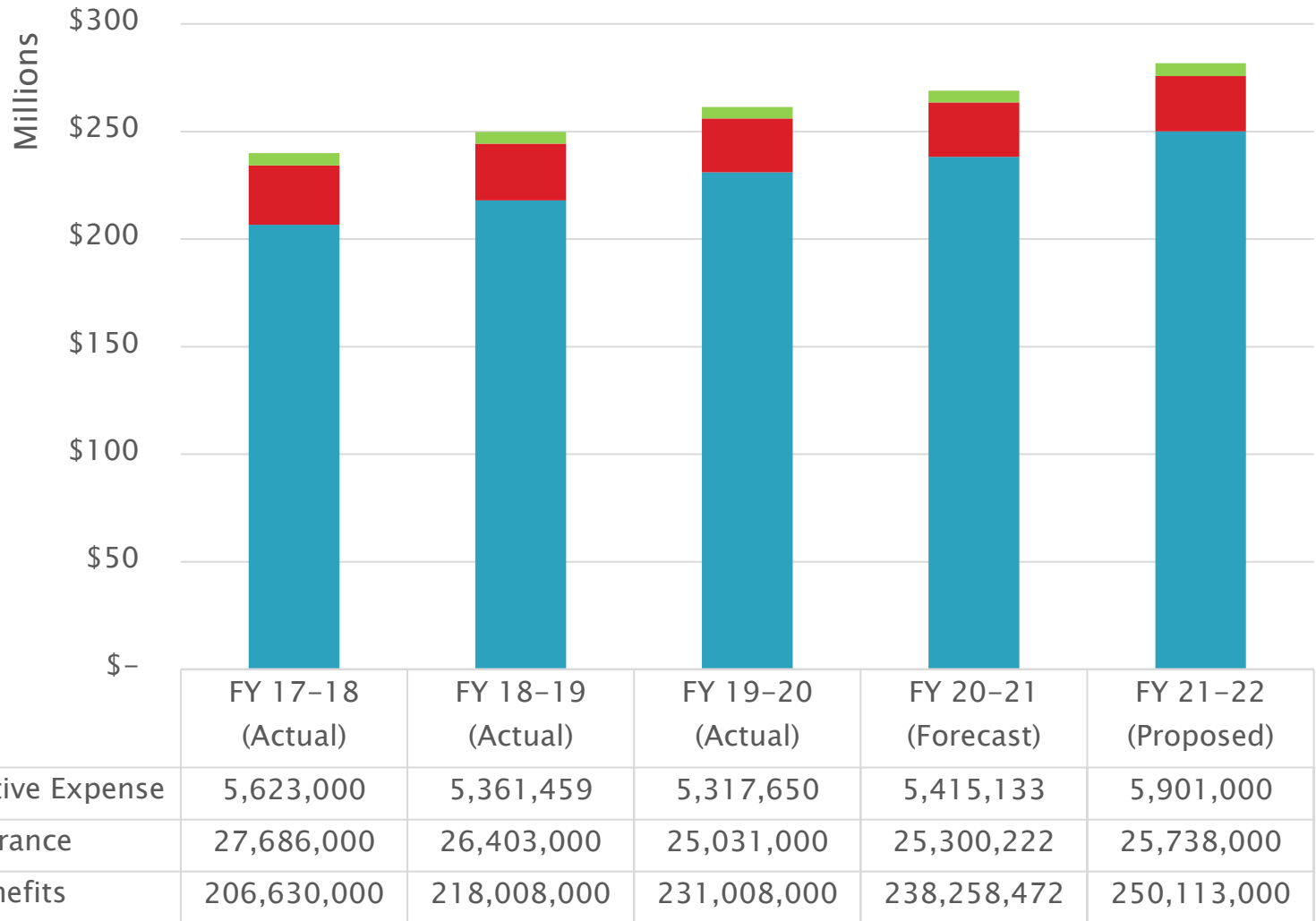
The Administrative Budget does **NOT** include investment professional services, consultants and investment manager fees and capitalized costs.

# Sources of Funds



|                           |             |             |             |             |             |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Investment Income         | 240,546,000 | 122,086,000 | 141,328,000 | 219,119,647 | 226,293,000 |
| Participant Contributions | 39,968,000  | 38,126,000  | 40,780,000  | 42,983,392  | 43,660,000  |
| City Contributions        | 183,094,000 | 205,362,000 | 215,831,000 | 225,095,358 | 238,555,000 |

# Uses of Funds



**Note: Amortization expense is not included in administrative expense**

# Police & Fire Proposed Administrative Budget for FY 2021–2022

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

| Expenses                     | 2019–<br>2020<br>Actual<br>(A) | 2020–<br>2021<br>Adopted<br>(B) | 2020–<br>2021<br>Forecast<br>(C) | 2021–2022<br>Proposed <sup>(1)</sup><br>(D) | % Increase<br>(Decrease)<br>(B to D) | % Increase<br>(Decrease)<br>(C to D) |
|------------------------------|--------------------------------|---------------------------------|----------------------------------|---|--------------------------------------|--------------------------------------|
| Personnel Services           | \$3,553,452                    | \$3,790,000                     | \$3,654,936                      | <b>\$4,196,000</b>                          | 10.71%                               | 14.80%                               |
| Non-Personnel /<br>Equipment | 662,373                        | 790,000                         | 699,630                          | <b>726,000</b>                              | (8.10%)                              | 3.77%                                |
| Professional Services        | 603,284                        | 811,000                         | 588,458                          | <b>867,000</b>                              | 6.91%                                | 47.33%                               |
| Medical Services             | 97,411                         | 218,000                         | 81,455                           | <b>112,000</b>                              | (48.62%)                             | 37.50%                               |
| Total                        | \$4,916,520                    | \$5,609,000                     | \$5,024,479                      | <b>\$5,901,000</b>                          | 5.21%                                | 17.45%                               |

<sup>(1)</sup> – Detail for changes provided in the following slides

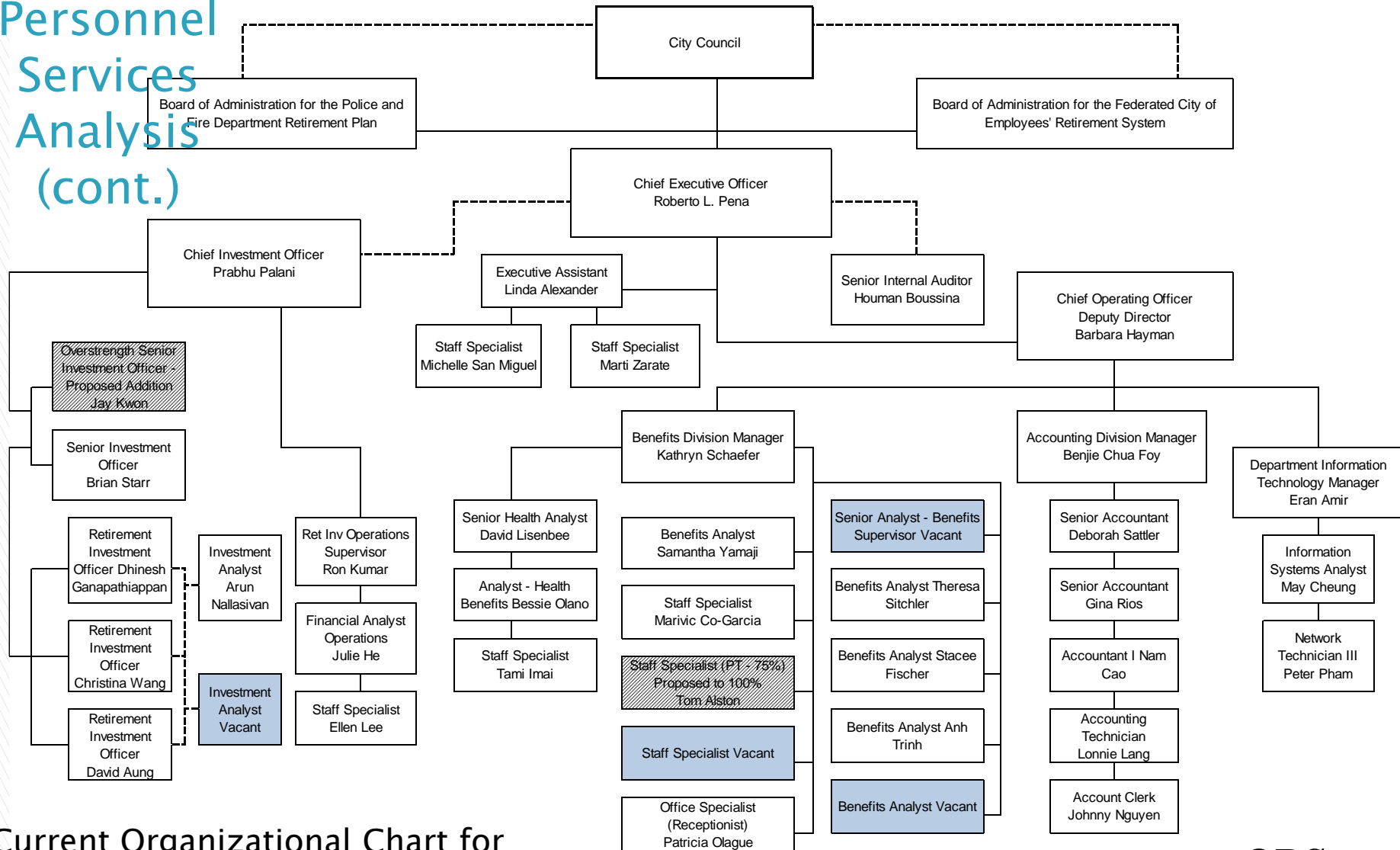
# Personnel Services Analysis

| Expenses                                      | 2019–<br>2020<br>Actual<br>(1) | 2020–<br>2021<br>Adopted<br>(2) | 2020–<br>2021<br>Forecast<br>(3) | 2021–<br>2022<br>Proposed<br>(4) | % Increase<br>(Decrease)<br>(2 to 4) | % Increase<br>(Decrease)<br>(3 to 4) |
|---|--------------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| Personnel Services                            | \$3,553,452                    | \$3,790,000                     | \$3,654,936                      | <b>\$4,196,000</b>               | 10.71%                               | 14.80%                               |
| Authorized positions<br>for both plans        | 39.75                          | 38.75                           | 38.75                            | 40.00                            | 1.25                                 | 1.25                                 |
| Full time employee<br>(FTE) allocated to Plan | 19.875                         | 19.375                          | 19.375                           | 20.00                            | 0.625                                | 0.625                                |
| Actual filled FTEs for<br>both plans          | 36.75                          |                                 | 38.75                            |                                  |                                      |                                      |
| FTEs allocated to Plan                        | 18.375                         |                                 | 19.375                           |                                  |                                      |                                      |

- ▶ Personnel Services increased from last year's budget due to:
  - Planning on having ORS fully staffed, budgeting three return to work retirees for the full year and increased benefit rates
- ▶ Proposals for FY21–22 included in budget
  - Add a Senior Investment Officer
  - Convert the part-time staff to a full-time staff specialist



# 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)

**ORS  
PROPOSED  
FY21-22**

# Non-Personnel/Equipment Analysis

| Expenses                        | 2019–<br>2020<br>Actual<br>(1) | 2020–<br>2021<br>Adopted<br>(2) | 2020–<br>2021<br>Forecast<br>(3) | 2021–2022<br>Proposed<br>(4) | % Increase<br>(Decrease)<br>(2 to 4) | % Increase<br>(Decrease)<br>(3 to 4) |
|---------------------------------|--------------------------------|---------------------------------|----------------------------------|------------------------------|--------------------------------------|--------------------------------------|
| Non–<br>personnel/<br>Equipment | 1,063,503                      | 1,225,000                       | 1,090,284                        | 752,000                      | (38.61%)                             | (31.03%)                             |
| w/out Inv                       | 662,373                        | 790,000                         | 699,630                          | 726,000                      | (8.10%)                              | 3.77%                                |

- ▶ Non-Personnel/Equipment decreased from prior year budget by \$499,000 due to the following:
  - Investment analytics and research budget of \$435,000 was removed
  - Postage and printing budget reduced by \$30,000
  - Supplies budget reduced by \$15,000
  - Travel budget reduced by \$20,000
  - Increase in fiduciary insurance by \$19,000

# Non-Personnel/Equipment Analysis (cont.)

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

| Minor Budget Category             | Budget Basis  | FY21-22 Proposed Budget Amount |
|-----------------------------------|---|--------------------------------|
| Rent                              | Rent for Office of Retirement Services (ORS) based on lease amount, as well as Common Area Maintenance costs  | 215,000                        |
| Insurance                         | Fiduciary and commercial liability Insurance  | 212,000                        |
| IT hardware / software            | Includes proposed phone center and social media projects, wireless microphone system for 5 <sup>th</sup> floor Board room and hosting service                     | 107,000                        |
| Postage and printing              | Postage, shipping and printing costs for open enrollment, contribution rate and newsletter mailings and other communication                                       | 60,000                         |
| LRS – annual maintenance fee      | Pension administration system annual maintenance fee based on contract amount   | 48,000                         |
| Training/Travel                   | Board and staff travel including conferences, roundtables, due diligence, etc.  | 20,000                         |
| 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 | 64,000                         |
|                                   | <b>NON-PERSONNEL / EQUIPMENT TOTAL</b>  | <b>\$726,000</b>               |

# Professional Services Analysis

| Expenses              | 2019-2020<br>Actual<br>(1) | 2020-2021<br>Adopted<br>(2) | 2020-2021<br>Forecast<br>(3) | 2021-2022<br>Proposed<br>(4) | % Increase<br>(Decrease)<br>(2 to 4) | % Increase<br>(Decrease)<br>(3 to 4) |
|-----------------------|----------------------------|-----------------------------|------------------------------|------------------------------|--------------------------------------|--------------------------------------|
| Professional Services | 603,284                    | 811,000                     | 588,458                      | 867,000                      | 6.91%                                | 47.33%                               |

- ▶ Professional Services increased from last year's budget mainly due to the addition of the actuarial audit services, legal services being reduced by \$57,000, to be in line with the average annual costs for the past five years, and the increase in actuarial services of \$35,000 for the cost of the experience study for this fiscal year
- ▶ 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 major professional services categories, budget basis and budget amounts.

# Professional Services – Other Analysis (cont.)

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

| Minor budget category                    | Budget Basis   | FY21–22 Budget Amount |
|--|--|-----------------------|
| Actuary                                  | Annual valuation and GASB reports for Pension & OPEB, benefit calculations, including 415 matters, and other miscellaneous consultations | \$270,000             |
| Legal                                    | Legal services provided by Reed Smith, Saltzman and Johnson and Ice Miller LLP – note this budget line excludes investment legal.        | 260,000               |
| Actuarial Audit                          | Audit of actuarial valuation – completed every five years  | 100,000               |
| Audit                                    | Annual financial audit agreement amount plus other services  | 83,000                |
| Other Professional Services              | Includes retiree search agency, governance services and communications consultant  | 78,000                |
| Temp Agencies                            | Temporary staffing to fill vacant positions and assist with open enrollment  | 60,000                |
| Pension Admin System (PensionGold)       | Ad hoc web changes billed per hour; disaster recovery; ad hoc change request enhancements; web hosting monthly charge                    | 16,000                |
| PROFESSIONAL SERVICES OTHER BUDGET TOTAL |  | \$867,000             |

# Medical Services Analysis

| Expenses         | 2019–<br>2020<br>Actual<br>(1) | 2020–<br>2021<br>Adopted<br>(2) | 2020–<br>2021<br>Forecast<br>(3) | 2021–<br>2022<br>Proposed<br>(4) | % Increase<br>(Decrease)<br>(2 to 4) | % Increase<br>(Decrease)<br>(3 to 4) |
|------------------|--------------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| Medical Services | 97,411                         | 218,000                         | 81,455                           | 112,000                          | (48.62%)                             | 37.50%                               |

- ▶ Medical services decreased compared to prior year to be in line with actual spending
- ▶ Other considerations:
  - No longer having a City employee providing medical services
  - Outside advisor is more expensive
  - Based on estimate of having 3 cases per month for the medical advisor and 24 cases annually for the other 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

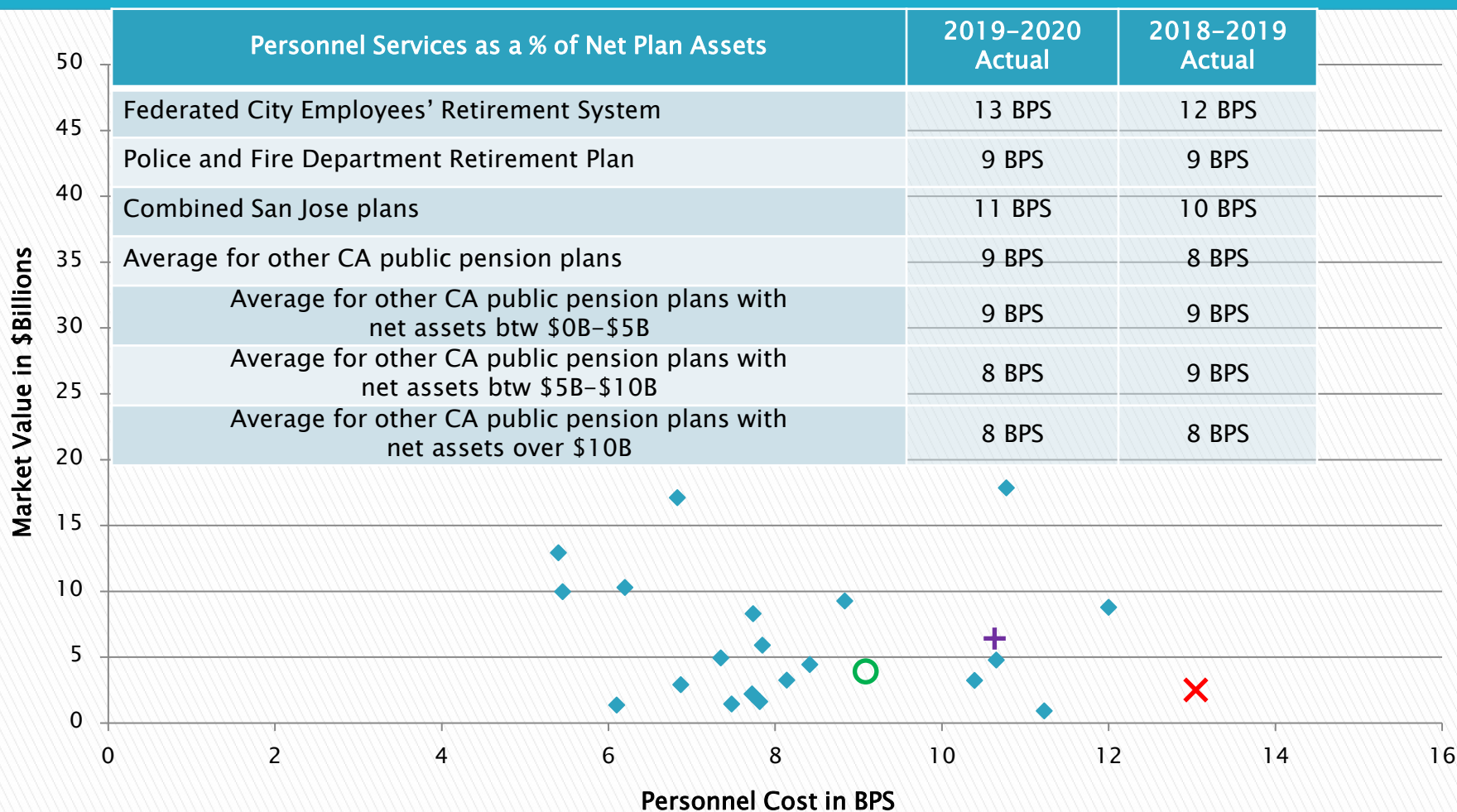
# Personnel Services Analysis – in BPS

Personnel Expense in BPS of Market Value of Assets – Actual as of 6/30/20 or most recent financial statement <sup>(1)</sup>

“X” below represents the Federated System, \$3,275,142

“O” below represents the Police and Fire Plan, \$3,553,452

“+” below represents the combined San Jose plans, \$6,828,594



<sup>1</sup> Retirement Services gathered and compiled most recent financial information from 23 public pension plans' CAFRs

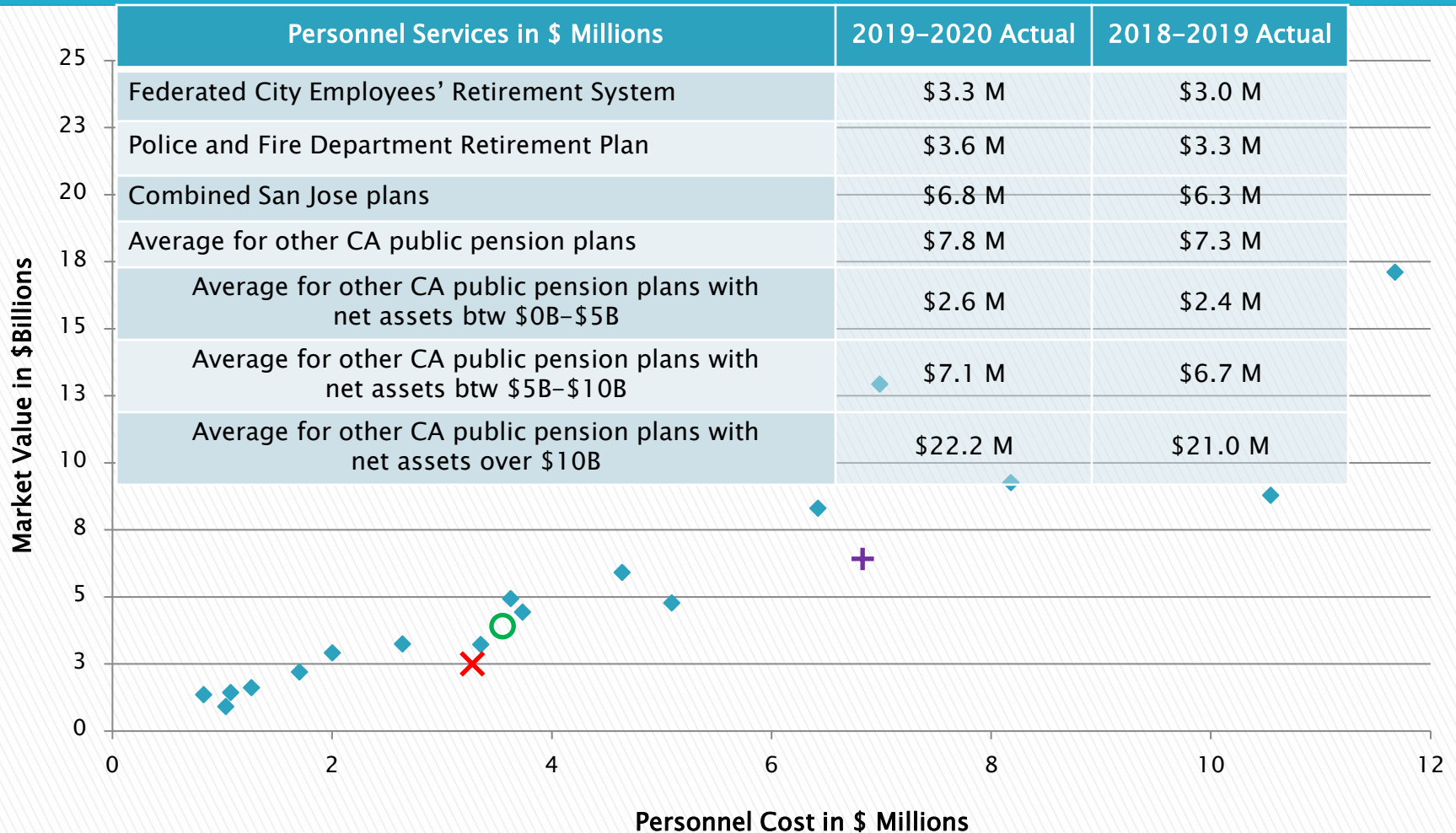
# Personnel Services Analysis – in \$

Personnel Expense in \$ Millions – Actual as of 6/30/20 or most recent financial statement <sup>(1)</sup>

“X” below represents the Federated System, \$ \$,3,275,142

“O” below represents the Police and Fire Plan, \$ 3,553,452

“+” below represents the combined San Jose plans, \$ \$6,828,594



<sup>1</sup> Retirement Services gathered and compiled most recent financial information from 23 public pension plans' CAFRs



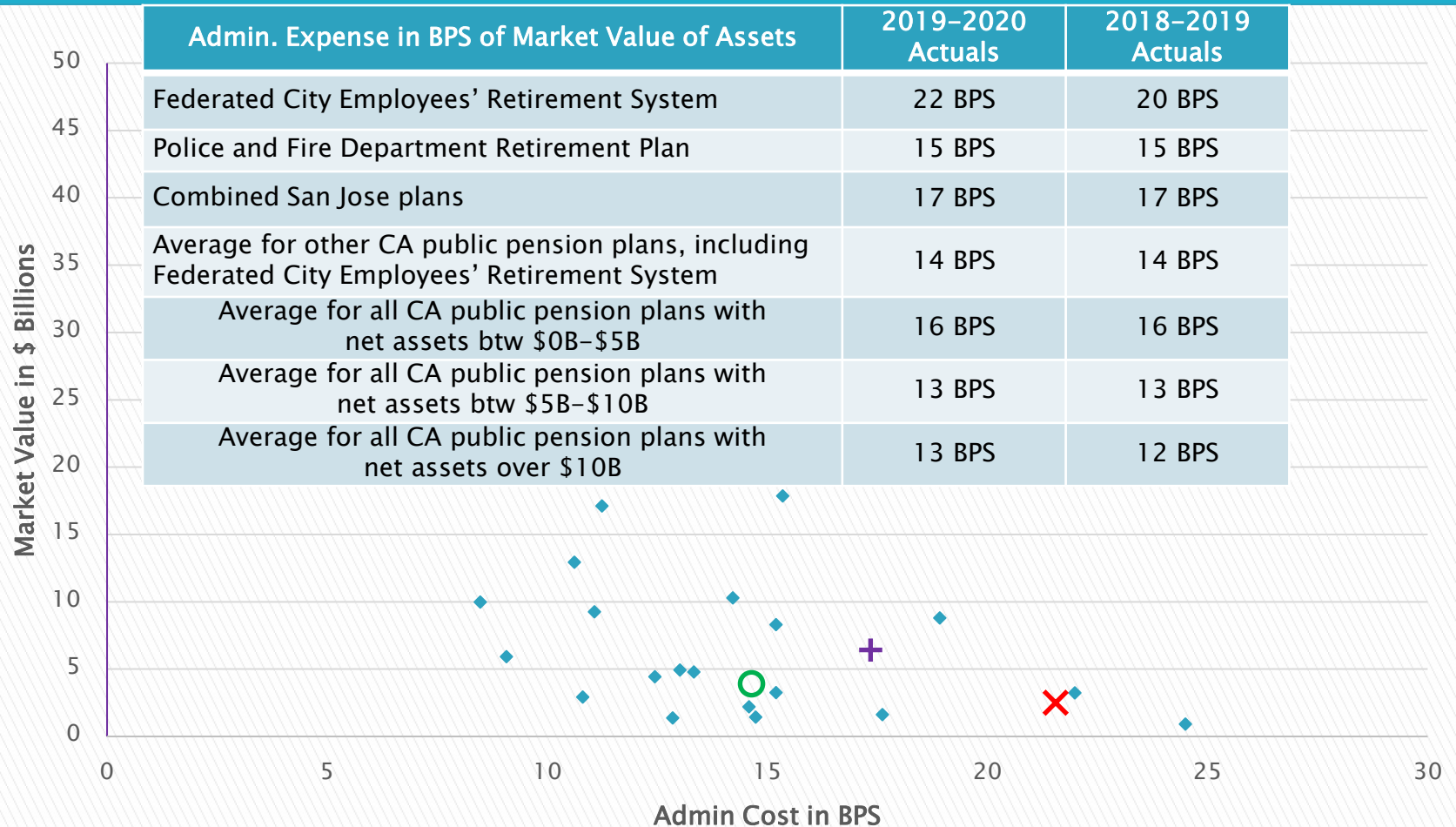
# Administrative Cost Comparison – in BPS

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/20 or most recent financial statement <sup>(1)</sup>

“X” below represents the Federated System , \$5,411,000

“O” below represents the Police and Fire Plan, \$5,727,000

“+” below represents the combined San Jose plans, \$11,138,000



<sup>1</sup> Retirement Services gathered and compiled most recent financial information from 23 public pension plans' CAFRs

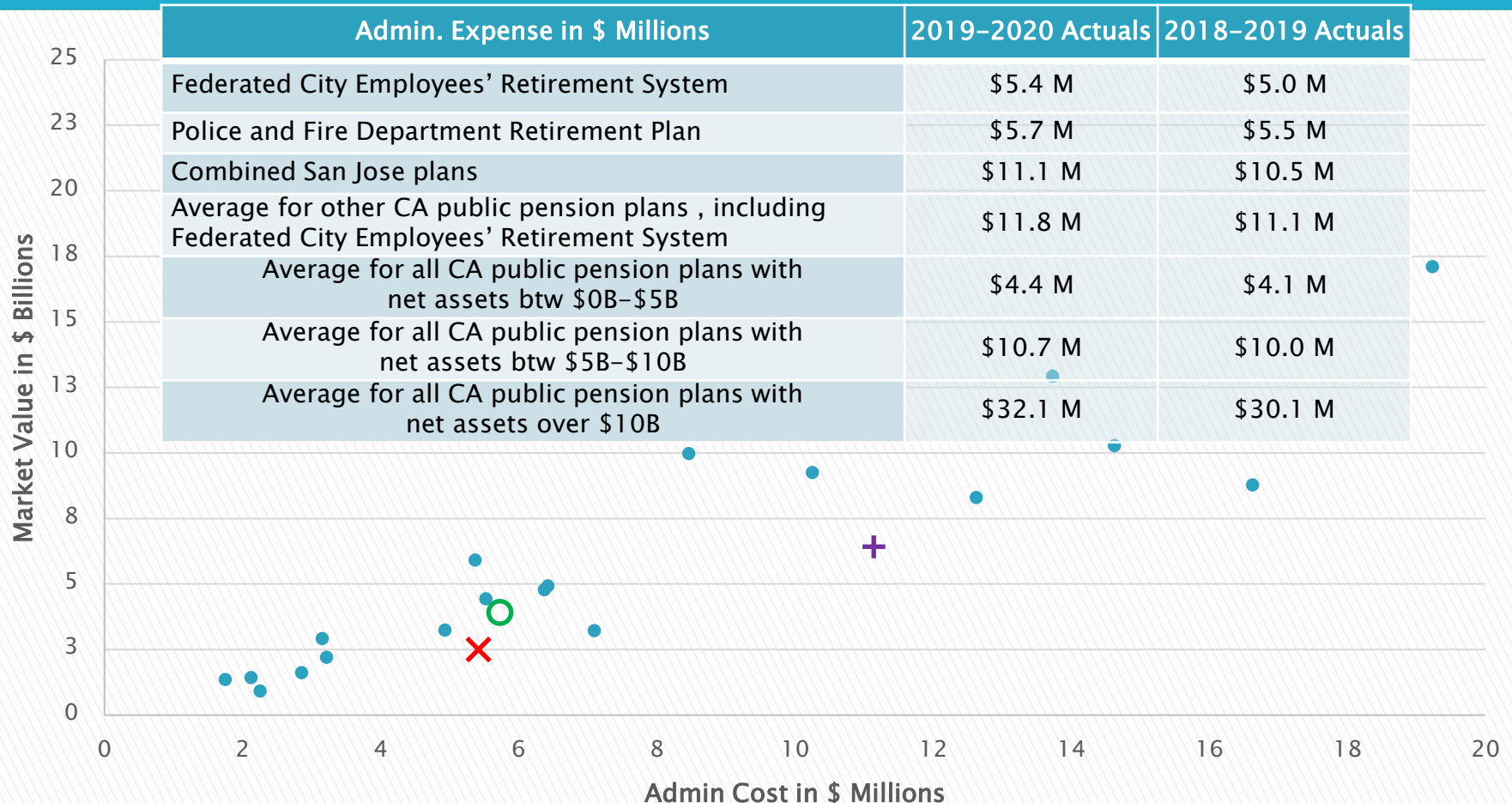
# Administrative Cost Comparison – in \$

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/19 or most recent financial statement <sup>(1)</sup>

“X” below represents the Federated System , \$5,411,000

“O” below represents the Police and Fire Plan, \$5,727,000

“+” below represents the combined San Jose plans, \$11,138,000



<sup>1</sup> Retirement Services gathered and compiled most recent financial information from 23 public pension plans public information