

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM FISCAL YEAR 2021-2022 BUDGET PROPOSAL

March 18, 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 Federated City Employees' Retirement System FY21–22 Proposed Budget

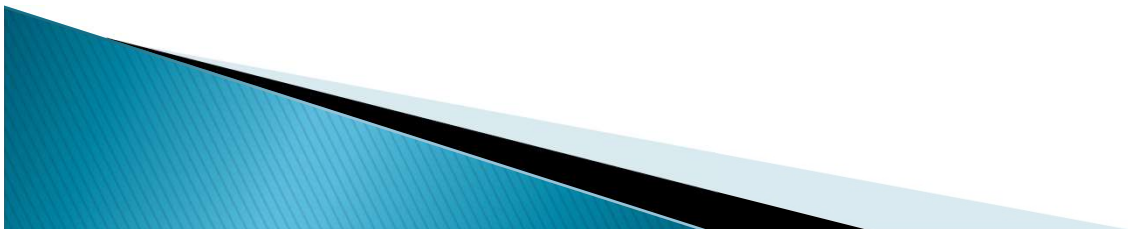
The Proposed Budget is broken down into the following categories:

► 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.

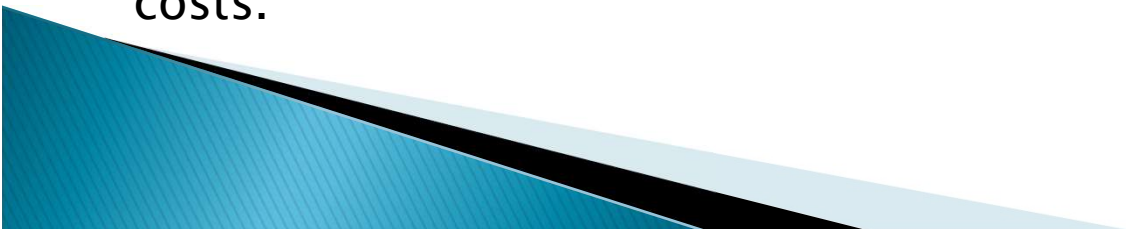


Administrative Expense Budget FY21–22

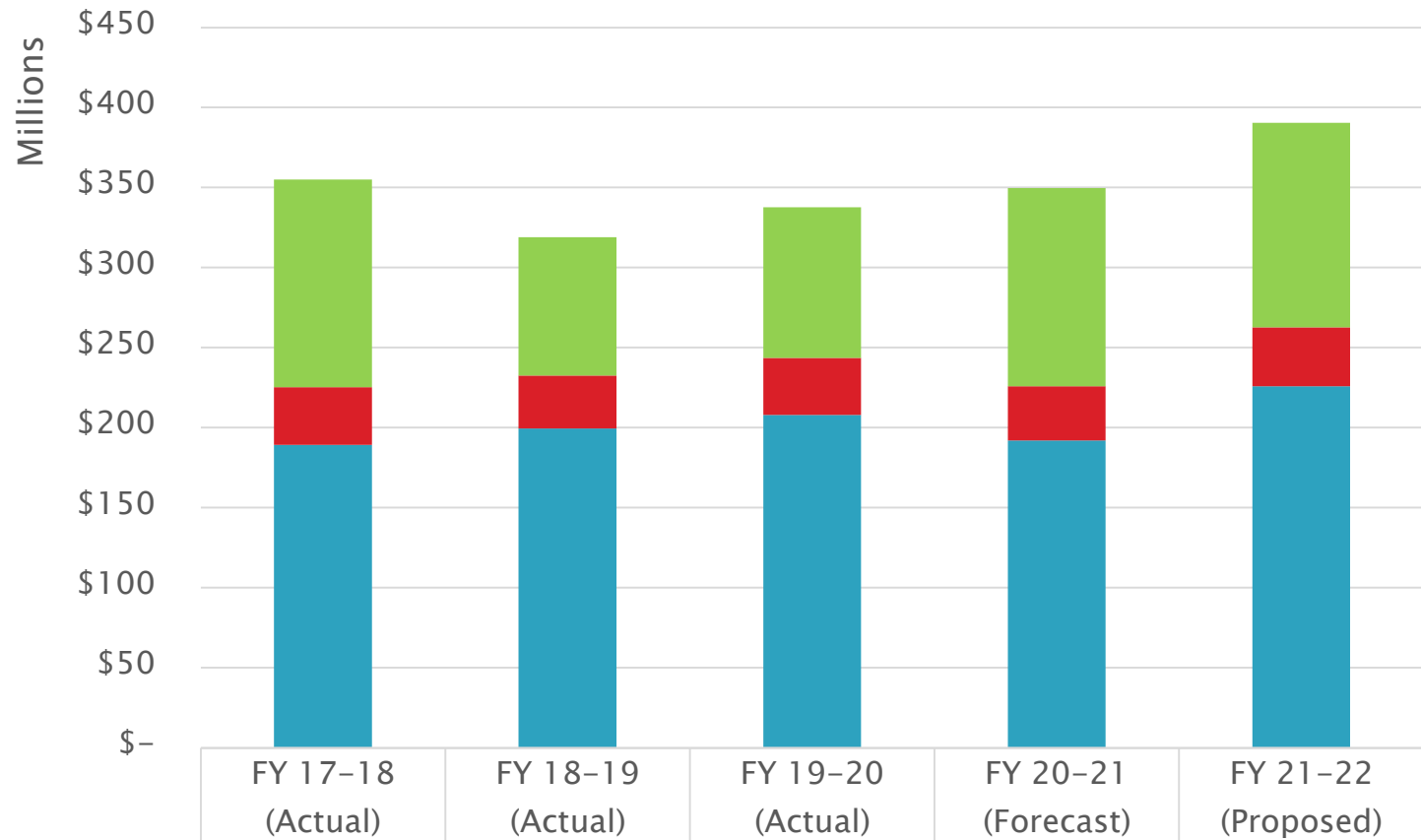
The Administrative Expense Budget portion is categorized into the following line items:

- ▶ **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 asset size (40% Fed and 60% PF).
- ▶ **Non-personnel/equipment** – administrative overhead costs 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.

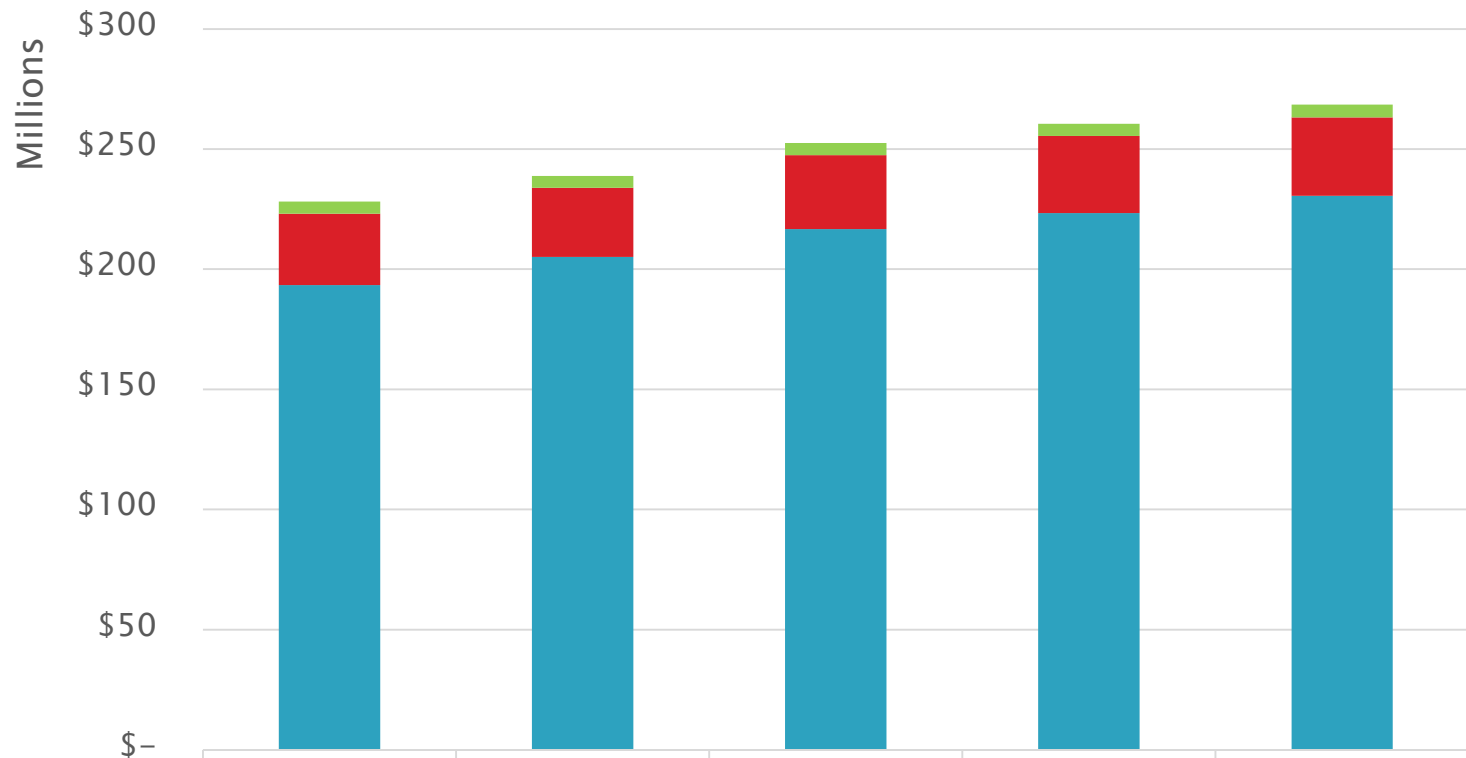


Sources of Funds



■ Investment Income	129,829,000	86,327,000	93,984,000	123,743,420	127,754,000
■ Participant Contributions	36,046,000	33,184,000	35,774,000	33,916,522	36,747,000
■ City Contributions	189,167,000	199,416,000	207,860,000	191,944,722	225,915,000

Uses of Funds



	FY 17-18 (Actual)	FY 18-19 (Actual)	FY 19-20 (Actual)	FY 20-21 (Forecast)	FY 21-22 (Proposed)
Administrative Expense	4,993,000	4,832,301	5,002,000	5,003,000	5,303,000
Health Insurance	29,724,000	28,826,000	30,779,000	32,120,000	32,740,000
Pension Benefits	193,400,000	205,066,000	216,728,000	223,345,000	230,465,000

NOTE: Amortization expense is not included in administrative expense

Federated 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– 2020 Actual (A)	2020– 2021 Adopted (B)	2020– 2021 Forecast (C)	2021–2022 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Personnel Services	\$3,275,142	\$3,357,000	\$3,131,562	\$3,684,000	9.74%	17.64%
Non-Personnel / Equipment	687,079	786,000	725,032	724,000	(7.89%)	(0.14%)
Professional Services	598,779	752,000	685,052	815,000	8.38%	18.97%
Medical Services	40,629	100,000	59,156	80,000	(20.00%)	35.24%
Total	\$4,601,629	\$4,995,000	\$4,600,802	\$5,303,000	6.17%	15.26%

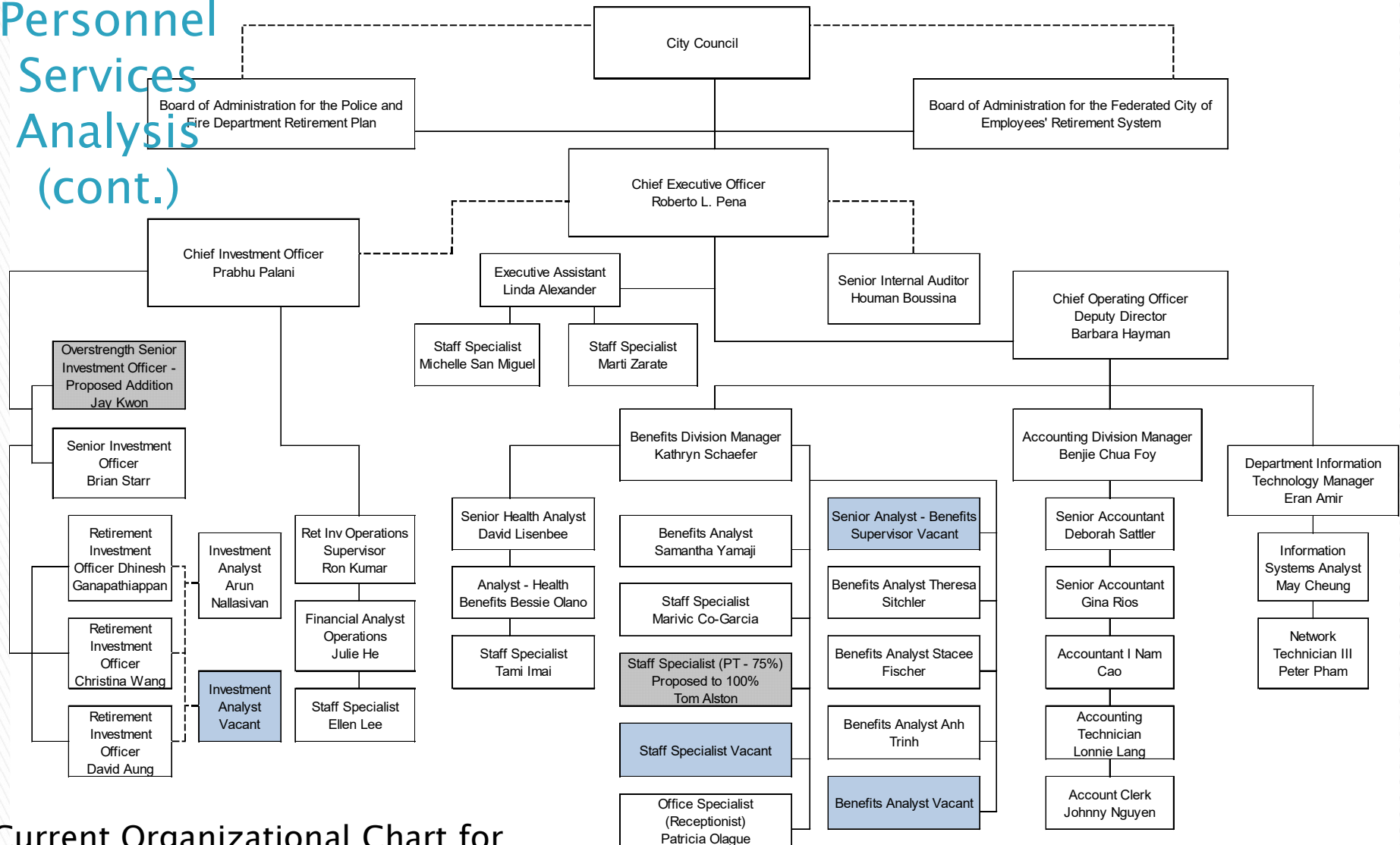
⁽¹⁾ – Detail for changes provided in the following slides

Personnel Services Analysis

Expenses	2019– 2020 Actual (1)	2020– 2021 Adopted (2)	2020– 2021 Forecast (3)	2021– 2022 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Personnel Services	\$3,275,142	\$3,357,000	\$3,131,562	\$3,684,000	9.74%	17.64%
Authorized positions for both plans	39.75	38.75	38.75	40.00	1.25	1.25
Full time employee (FTE) allocated to Plan	19.875	19.375	19.375	20.00	0.625	0.625
Actual filled FTEs for 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– 2020 Actual (1)	2020– 2021 Adopted (2)	2020– 2021 Forecast (3)	2021–2022 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Non– personnel/ Equipment	1,088,209	1,221,000	1,126,674	1,159,000	(5.08%)	2.87%
w/out Inv	687,079	786,000	725,032	724,000	(7.89%)	(0.14%)

- ▶ Non-Personnel/Equipment decreased from prior year budget by \$497,000 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 \$20,000

Non-Personnel/Equipment Analysis (cont.)

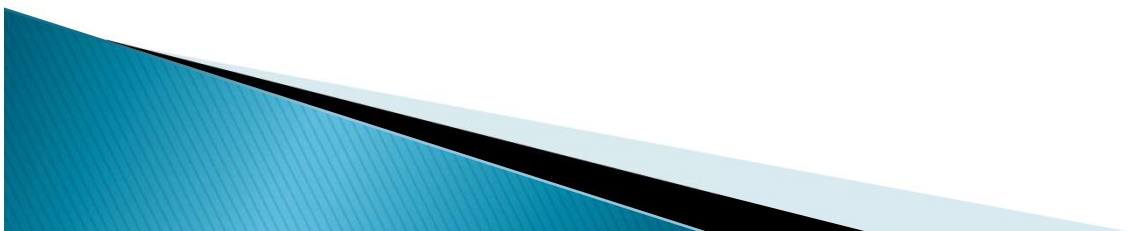
Below is a list of major non-personnel/equip. categories and budget amounts

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	213,000
IT hardware / software	Includes proposed phone center and social media projects, wireless microphone system for 5 th 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	61,000
	NON-PERSONNEL / EQUIPMENT TOTAL	\$724,000

Professional Services Analysis

Expenses	2019-2020 Actual (1)	2020-2021 Adopted (2)	2020-2021 Forecast (3)	2021-2022 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Professional Services	598,779	752,000	685,052	815,000	8.38%	18.97%

- ▶ Professional Services increased from last year's budget mainly due to the addition of \$100,000 of actuarial audit services, legal services being reduced by \$25,000, to be in line with the average annual costs for the past five years, and the decrease in temporary staffing services of \$17,000
- ▶ 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	\$220,000
Legal	Legal services provided by Reed Smith, Saltzman and Johnson and Ice Miller LLP – note this budget line excludes investment legal.	257,000
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	79,000
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		\$815,000

Medical Services Analysis

Expenses	2019– 2020 Actual (1)	2020– 2021 Adopted (2)	2020– 2021 Forecast (3)	2021– 2022 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Medical Services	40,629	100,000	59,156	80,000	(20.00%)	35.24%

- ▶ 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

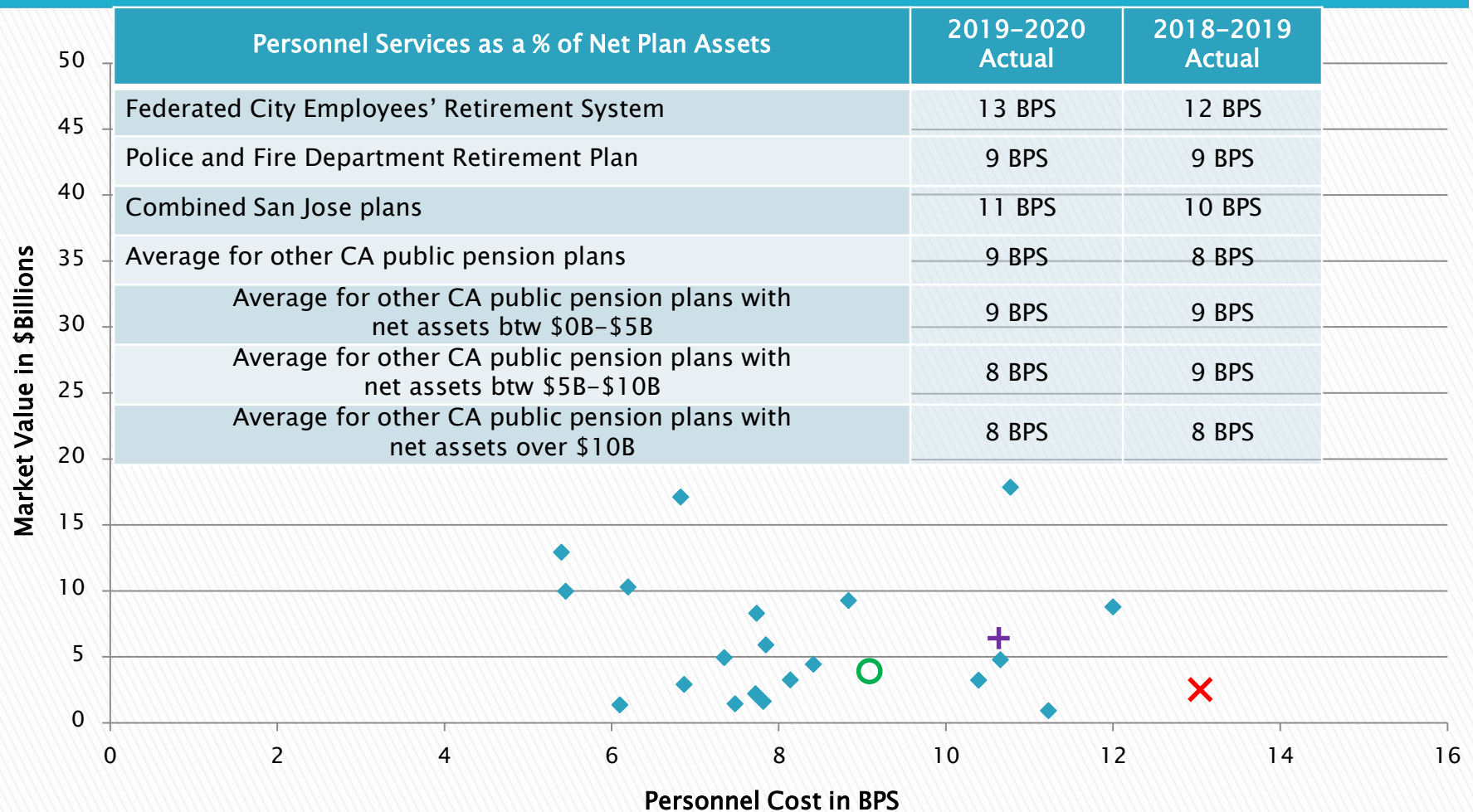
Personnel Services Analysis – in BPS

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

“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



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

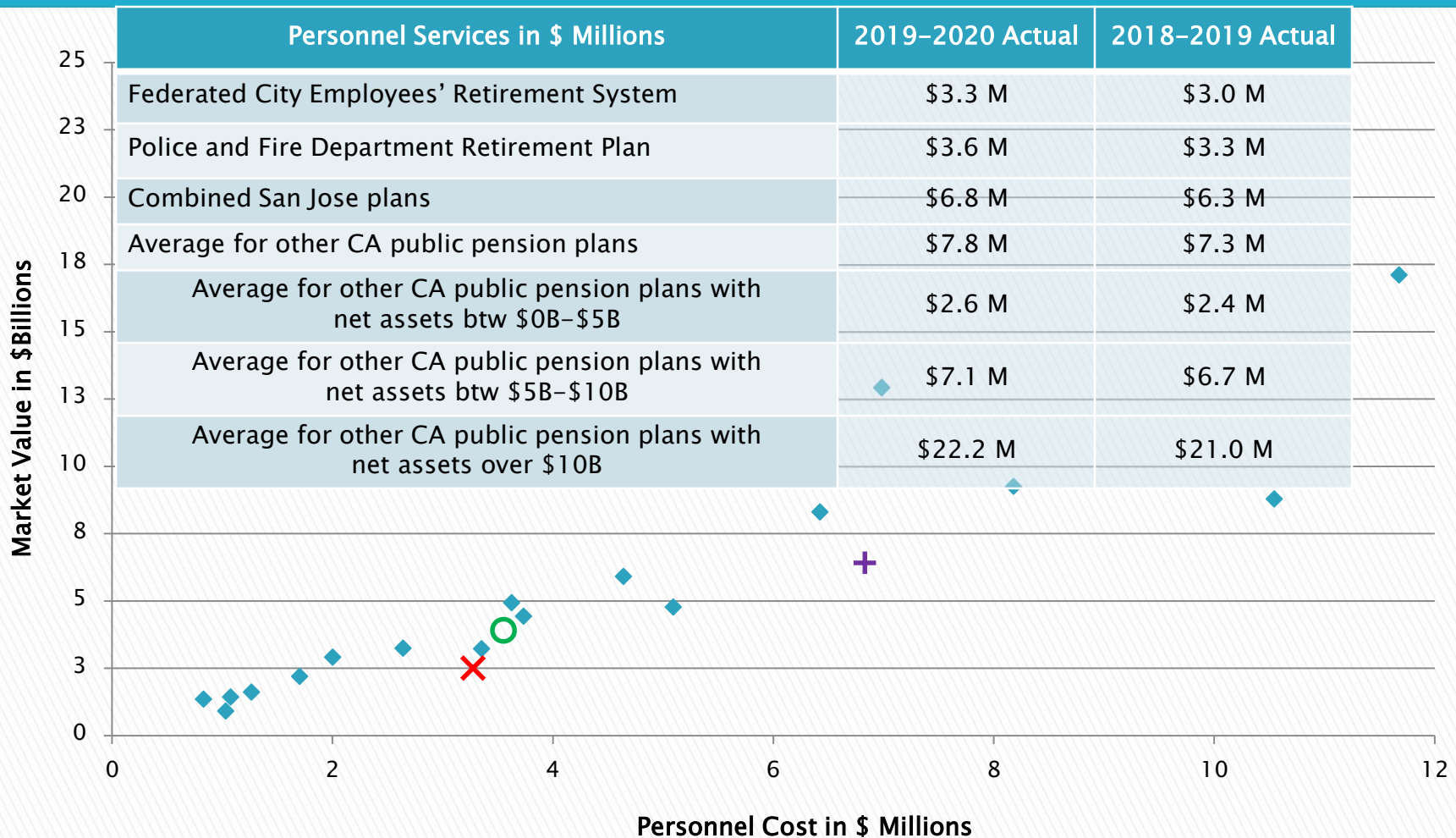
Personnel Services Analysis – in \$

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

“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



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

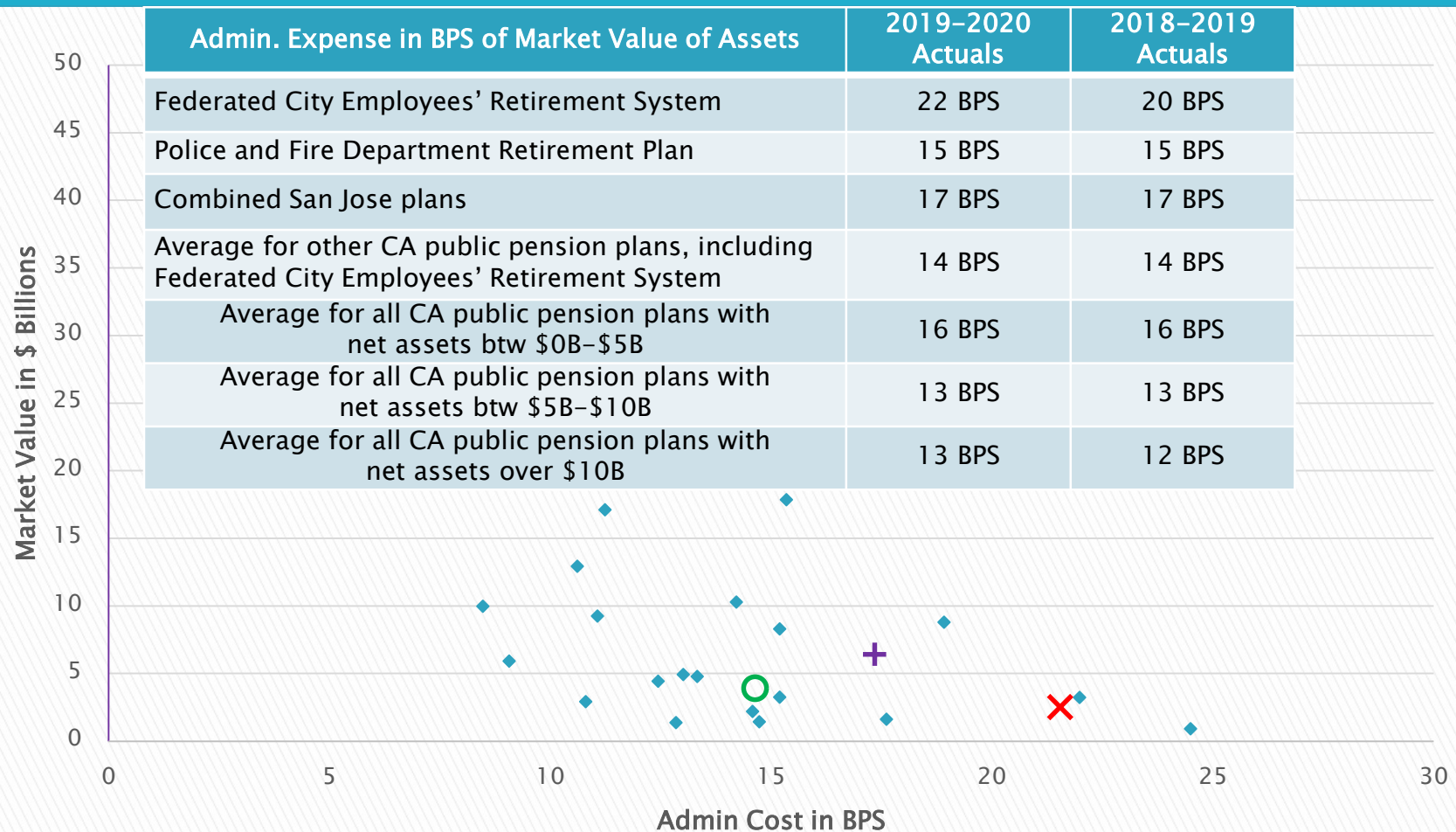
Administrative Cost Comparison – in BPS

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

“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



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

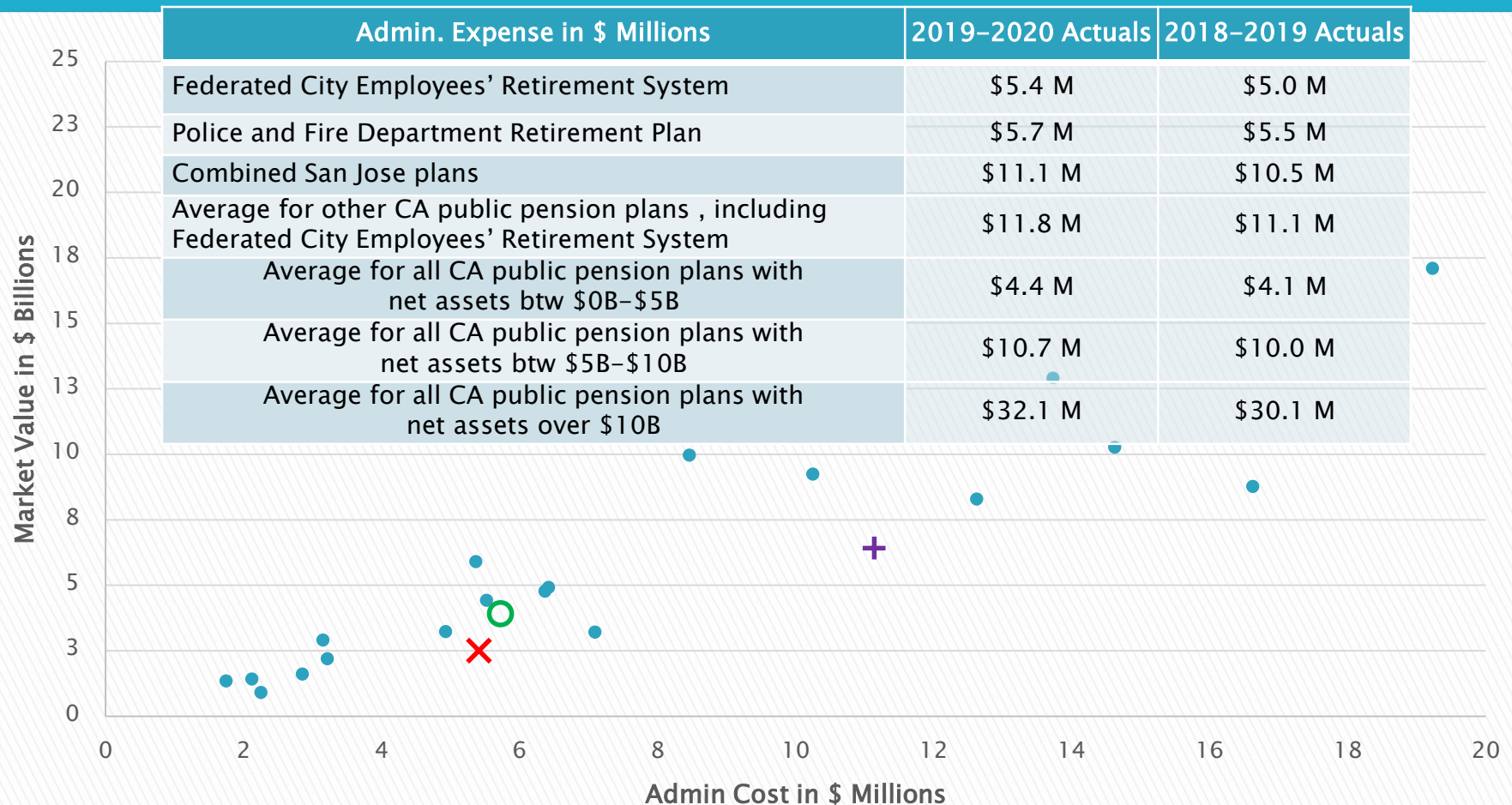
Administrative Cost Comparison – in \$

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

“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



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