

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN FISCAL YEAR 2018-2019 BUDGET PROPOSAL

April 5, 2018

2018–2019 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 FY 2018-19 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, 2017
- **Participant income** – Estimated based on the contribution rates and total covered payroll shown in the actuarial reports for June 30, 2017
- **Investment income** – Calculated using the assumed rate of return based on reserve plus City's contributions for the whole year and other activities for half a 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 FY18-19

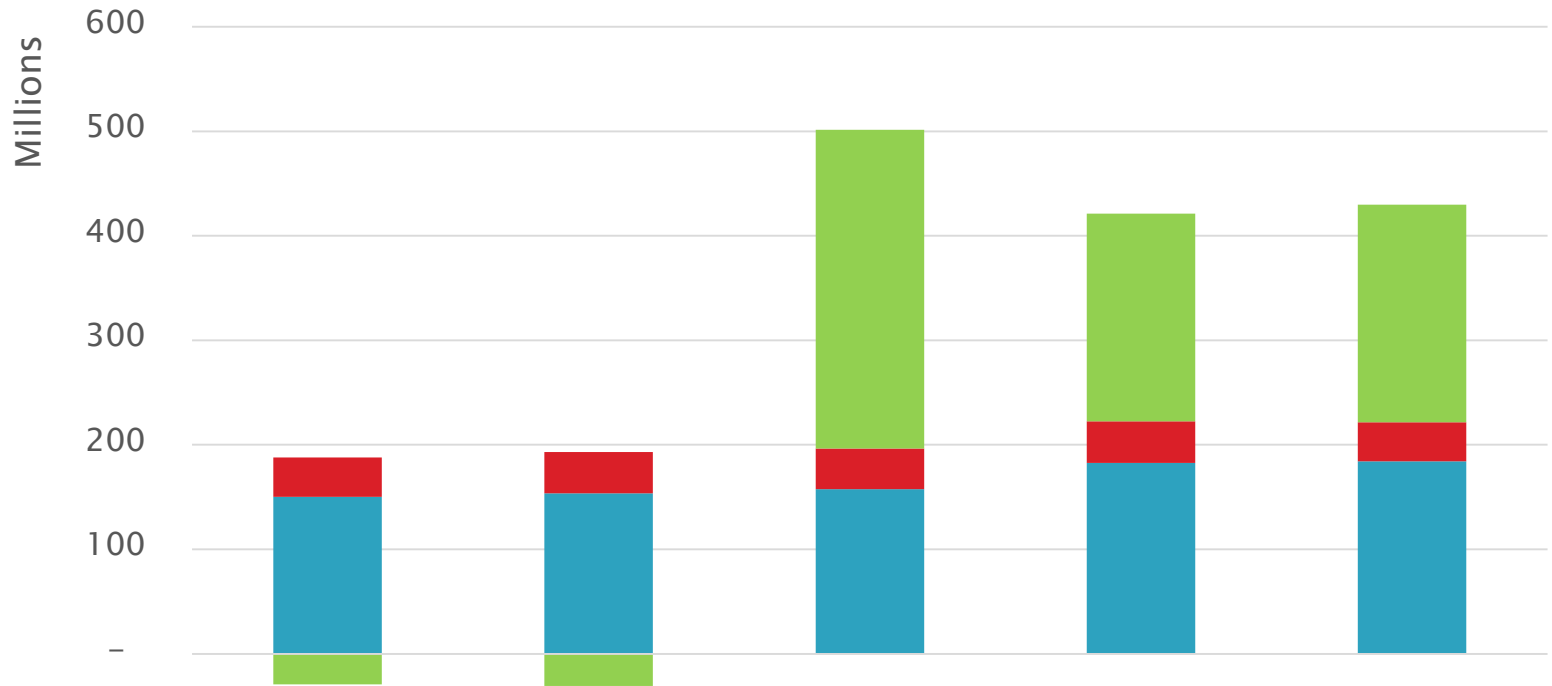
The Administrative Expense Budget portion is categorized into the following line items:

- ▶ **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.

* This was a medical director and staff prior to the FY16-17 budget.

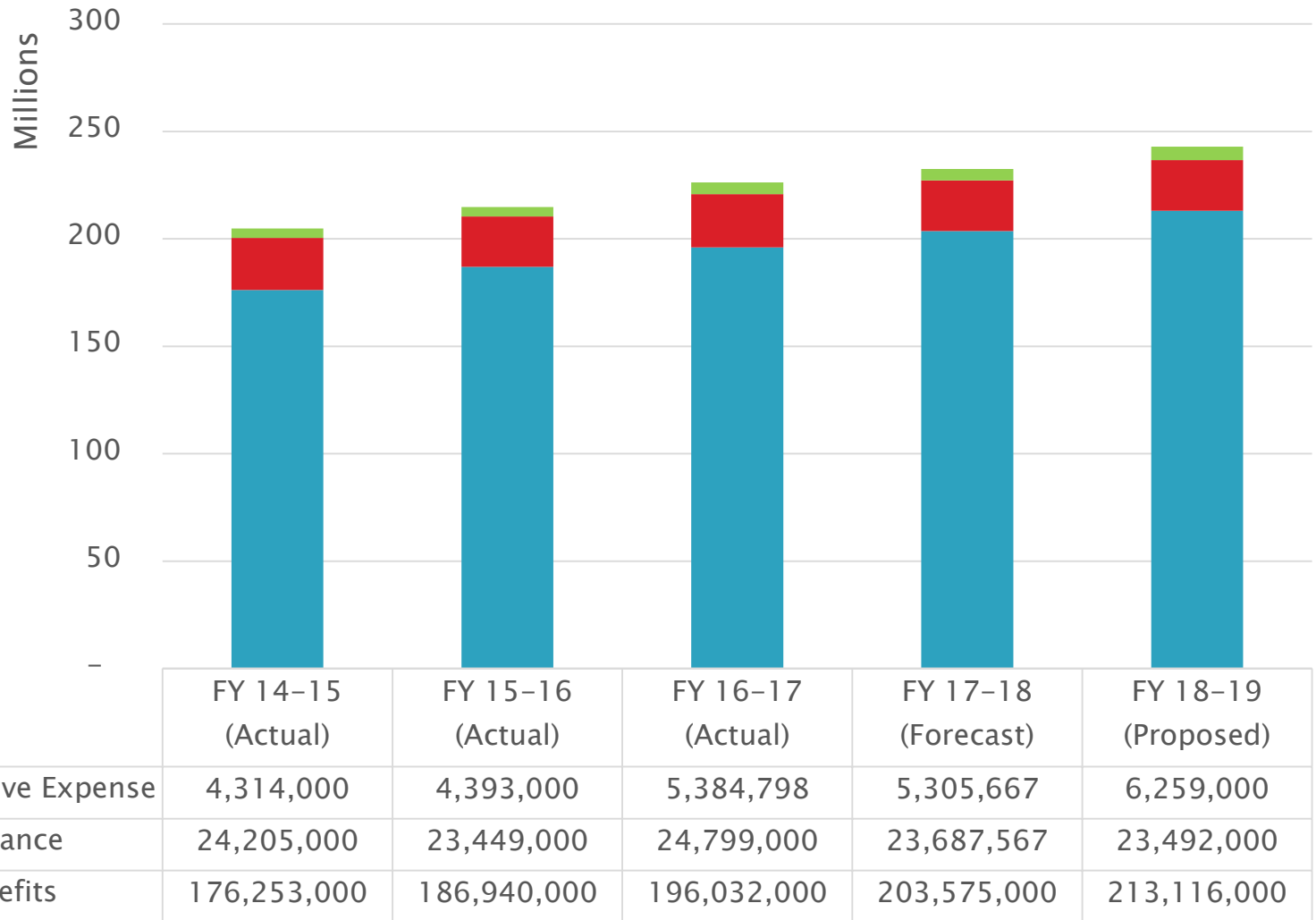
Sources of Funds



(100)

	FY 14-15 (Actual)	FY 15-16 (Actual)	FY 16-17 (Actual)	FY 17-18 (Forecast)	FY 18-19 (Proposed)
Investment Income	(29,305,000)	(30,889,000)	305,187,000	198,708,474	208,423,486
Participant Income	37,764,000	39,515,000	38,696,000	39,780,746	37,272,734
City Contributions	150,189,000	153,545,000	157,624,000	182,628,714	184,231,413

Uses of Funds



Police & Fire Proposed Administrative Budget for FY 2018–2019

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

Expenses	2016– 2017 Actual (A)	2017– 2018 Adopted (B)	2017– 2018 Forecast (C)	2018–2019 Proposed ⁽¹⁾ (D)	% Increase (Decrease) (B to D)	% Increase (Decrease) (C to D)
Personnel Services	\$3,065,147	\$3,911,800	\$3,242,214	\$3,778,000	(3.4%)	16.5%
Non-Personnel / Equipment	1,131,656	1,364,300	1,044,113	1,312,000	(3.8%)	25.7%
Professional Services	908,820	1,062,700	877,740	939,000	(11.6%)	7.0%
Medical Services	279,175	538,000	141,600	230,000	(57.3%)	62.4%
Total	\$5,384,798	\$6,876,800	\$5,305,667	\$6,259,000	(9.0%)	18.0%

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

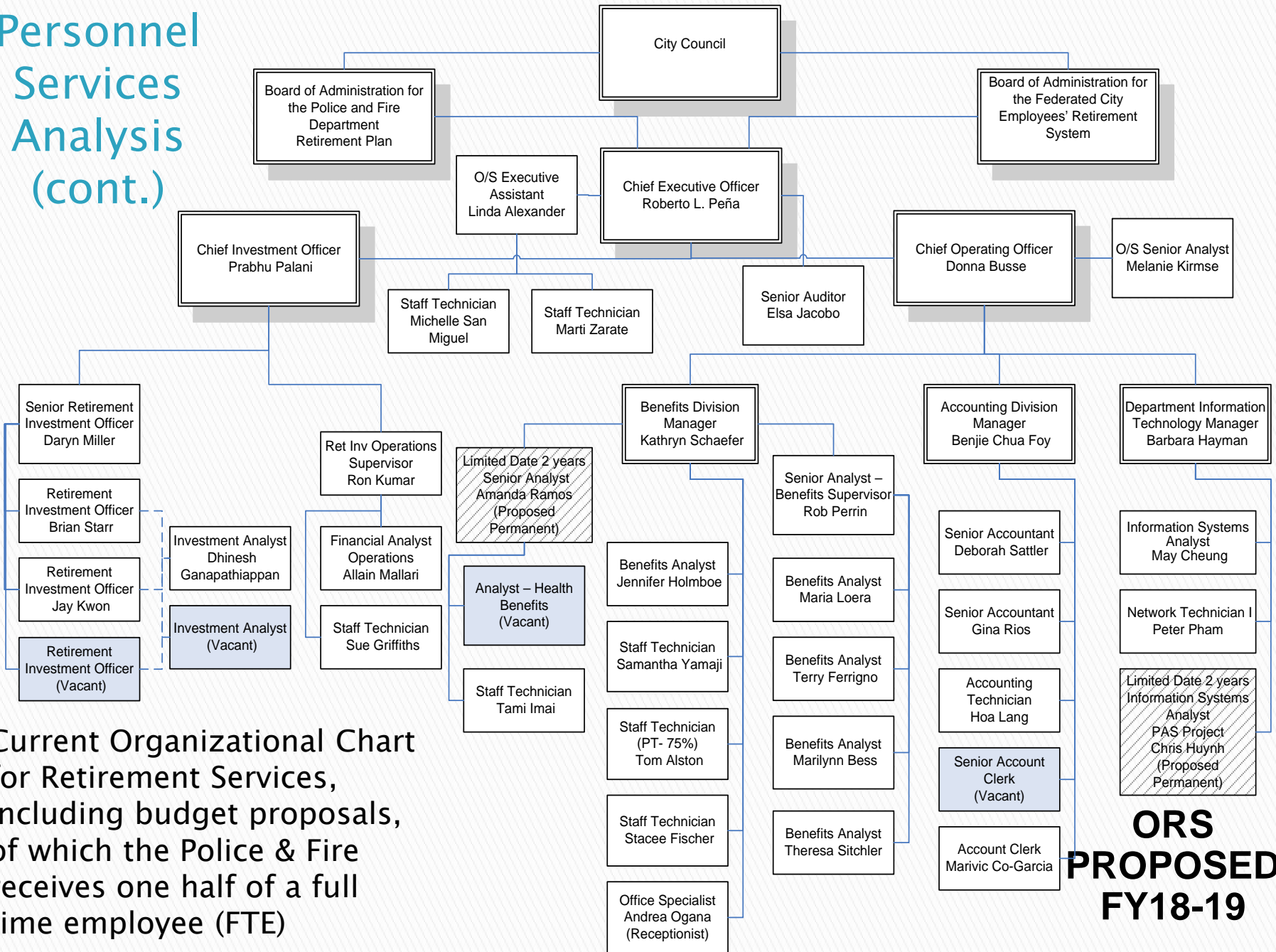
Personnel Services Analysis

Expenses	2016–2017 Actual (1)	2017–2018 Adopted (2)	2017–2018 Forecast (3)	2018–2019 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Personnel Services	\$3,065,147	\$3,911,800	\$3,242,214	\$3,778,000	(3.4%)	16.5%
Authorized positions for both plans	39.75	39.75	39.75	39.75	0	0
Full time employee (FTE) allocated to Plan	19.875	19.875	19.875	19.875	0	0
Actual filled FTEs for both plans	33.75		37.75			
FTEs allocated to Plan	16.875		18.875			

- ▶ Personnel Services decreased from last year’s budget due to:
 - Tier 2 City contributions for retirement decreased due to the implementation of the VEBA

- ▶ Proposals for FY18–19 included in budget
 - Original request was to make the limited–date Information Systems Analyst and Benefits Senior Analyst that expires 6/30/18 permanent
 - After discussions with City Manager’s and Budget Office, limited–date positions extended only for FY18–19

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
FY18-19**

Non-Personnel/Equipment Analysis

Expenses	2016-2017 Actual (1)	2017-2018 Adopted (2)	2017-2018 Forecast (3)	2018-2019 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Non-personnel/Equipment	\$1,131,656	\$1,364,300	\$1,044,113	\$1,312,000	(3.8%)	25.7%

- ▶ Non-Personnel/Equipment decreased from prior year by \$52,000 mainly to a decrease in the investment analytics and research budget
 - Investment analytics and research budget is comprised of investment-related expenses for cost-analysis, Bloomberg terminals and risk advisory services
 - Budget decreased by \$63,000 since Verus has taken over the risk advisory services from State Street

Non-Personnel/Equipment Analysis (cont.)

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

Minor Budget Category	2018-2019 Budget Basis	FY18-19 Proposed Budget Amount
Investment analytics and research	Investments data processing Abel/Noser, Barra LLC, BCA Research, Bloomberg, Dynamo, eVestments and Klarifyfx. Also includes risk advisory services and State Street services for performance analysis, compliance and attribution analytics	\$515,000
Rent	Rent for Office of Retirement Services (ORS) based on lease amount, as well as CAM and amortization of construction costs for consolidation	200,000
Insurance	Fiduciary and commercial liability Insurance	190,000
LRS - annual maintenance fee	Pension administration system annual maintenance fee based on contract amount	110,000
IT hardware / software	Includes proposed website overhaul, new scanner and server and yearly PC replacements	90,000
Postage and printing	Postage, shipping and printing costs for open enrollment, Choices mailings and other communication	90,000
Training/Travel	Board and staff travel including conferences, roundtables, due diligence, etc.	70,000
Other non-personnel and equipment	Includes lease, mileage, communication, dues and subscriptions, equipment/furniture, training, supplies, etc.	47,000
NON-PERSONNEL / EQUIPMENT TOTAL		\$1,312,000

Professional Services Analysis

Expenses	2016-2017 Actual (1)	2017-2018 Adopted (2)	2017-2018 Forecast (3)	2018-2019 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Professional Services	\$908,820	\$1,062,700	\$877,740	\$939,000	(11.6%)	7.0%

- ▶ Professional Services decreased from last year's budget due to netting of the following changes:
 - Reed Smith was reduced by \$50,000 to be in line past years' averages
 - Saltzman & Johnson was reduced by \$95,000 based on monthly average for the past year
 - Increase in temp services by \$37,000 due to implementation of PAS which will require additional manpower for running parallel systems
 - Net reduction of \$17,000 in pension administration system- related expenses due to alignment of budget with past trends
- ▶ 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	2018–19 Budget Basis	FY18–19 Budget Amount
Legal	Legal services provided by Reed Smith, Saltzman and Johnson and Ice Miller LLP – note this budget line excludes investment legal.	\$ 330,000
Actuary	Annual valuation for Pension & OPEB, possible Measure F costs, calculation for 415 matters as well as PAS consultation	230,000
Temp Agencies	Temporary staffing to fill vacant positions and to assist IT with PAS implementation	169,000
Other Professional Services	Includes CAFR design cost, retiree education, board stipends, retiree search agency, governance services, contingency amount, etc.	104,500
Audit	Annual Financial audit agreement amount plus other services	70,000
Pension Admin System (PensionGold)	Ad hoc web changes billed per hour; BCP Monthly charge; Ad hoc change request enhancements, Web Hosting Fee Monthly charge	35,500
	PROFESSIONAL SERVICES OTHER BUDGET TOTAL	\$939,000

Medical Services Analysis

Expenses	2016-2017 Actual (1)	2017-2018 Adopted (2)	2017-2018 Forecast (3)	2018-2019 Proposed (4)	% Increase (Decrease) (2 to 4)	% Increase (Decrease) (3 to 4)
Medical Services	\$279,175	\$538,000	\$141,600	\$230,000	(57.3%)	62.4%

- ▶ Medical services decreased from last year due to decreased estimate in number of cases due to the following reasons:
 - Last year's budget was in anticipation of the 3-doctor Board medical advisor panel
 - 2017 started with a backlog of approximately 30 independent medical examiner reports
 - Dr. Tierman was new and it was not known how many reports she was capable of producing per month

- ▶ Other considerations:
 - No longer having a City employee providing medical services
 - Outside advisor is more expensive
 - Based on estimate of having 2 cases per month for the medical advisor and 36 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

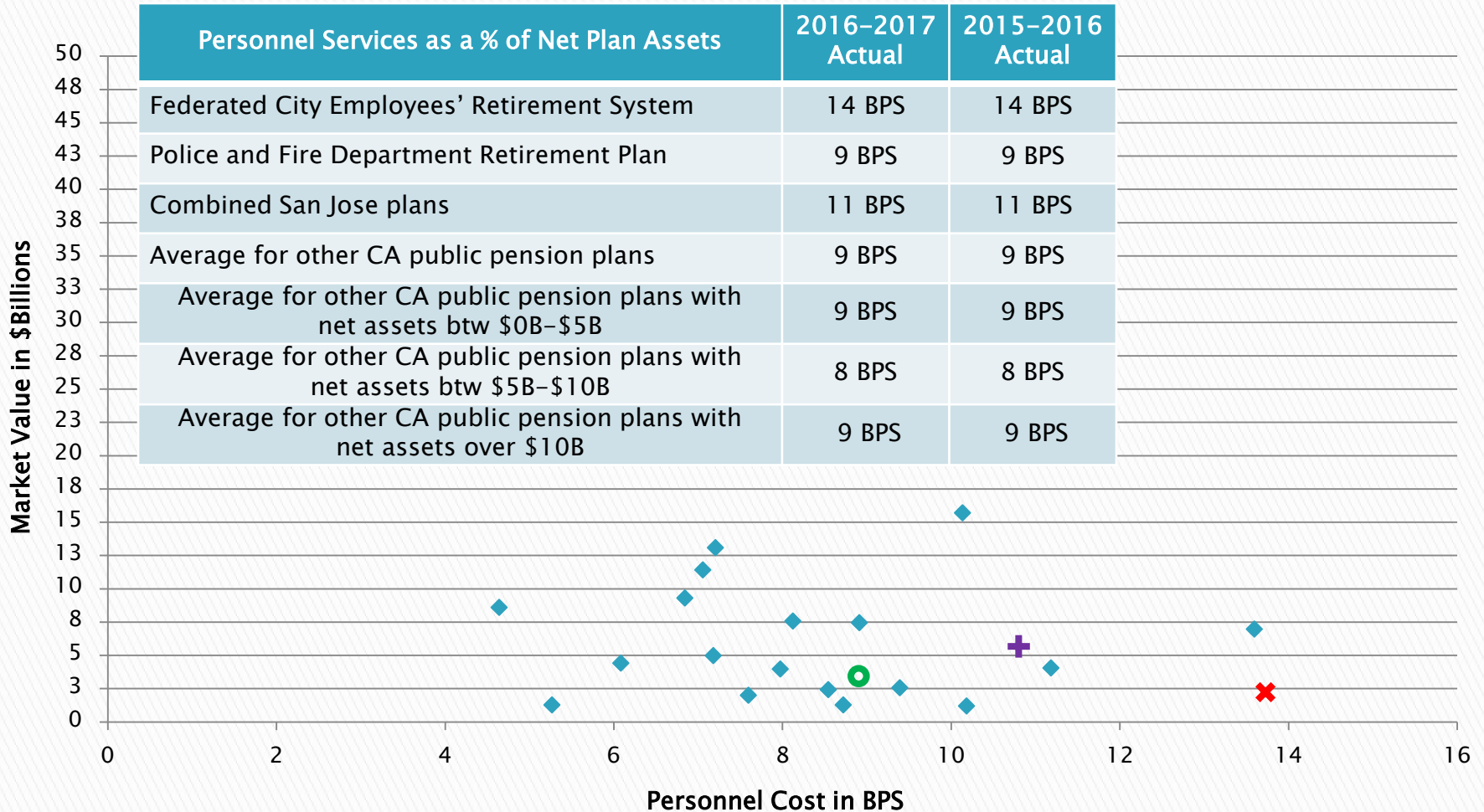
Personnel Services Analysis – in BPS (cont.)

Personnel Expense in BPS of Market Value of Assets – Actual as of 6/30/17 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$3,065,147

“O” below represents the Police and Fire Plan, \$3,065,147

“+” below represents the combined San Jose plans, \$6,130,294



¹ Retirement Services gathered and compiled most recent financial information from 21 public pension plans' CAFRs

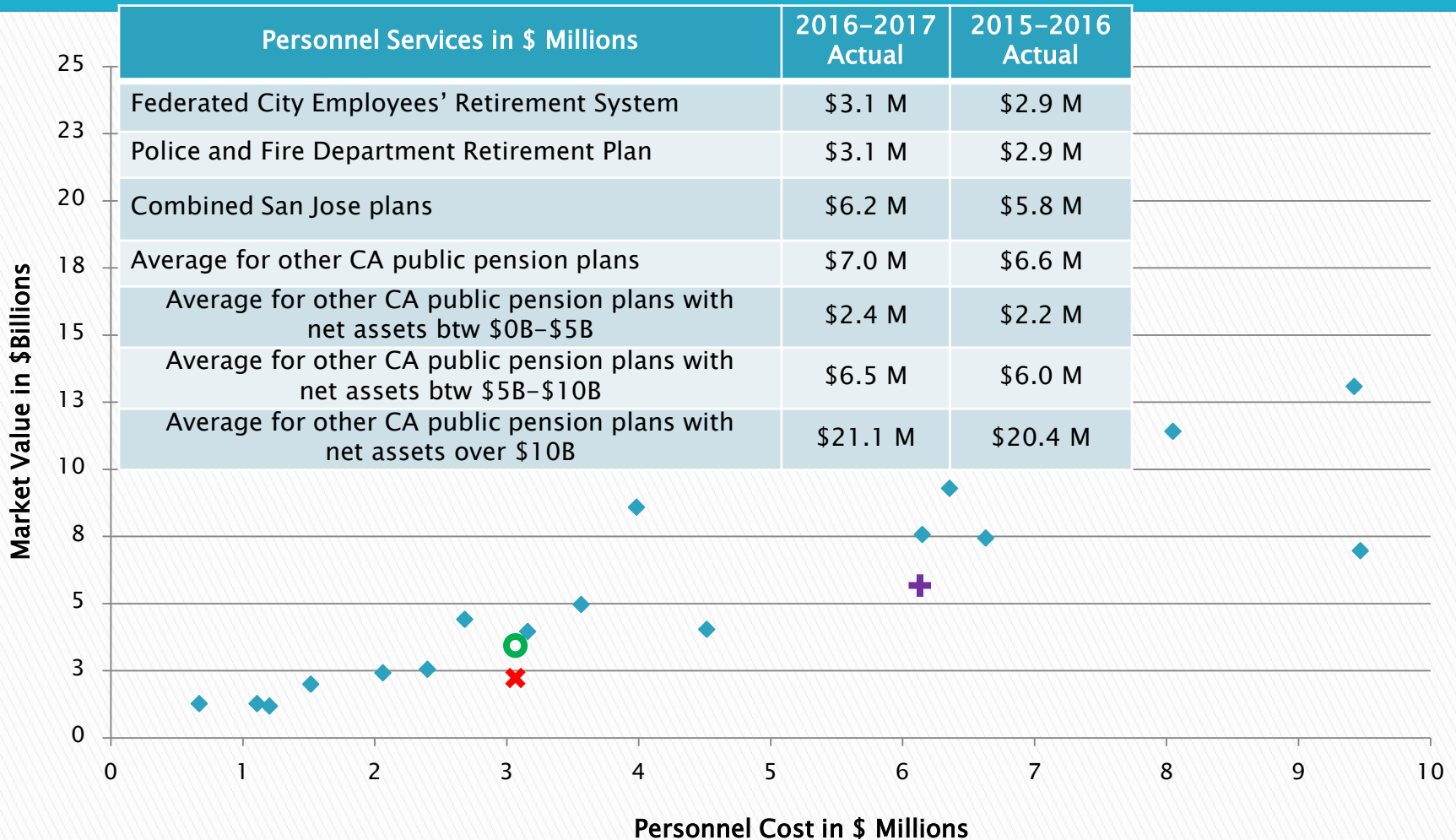
Personnel Services Analysis – in \$ (cont.)

Personnel Expense in \$ Millions – Actual as of 6/30/17 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System, \$3,065,147

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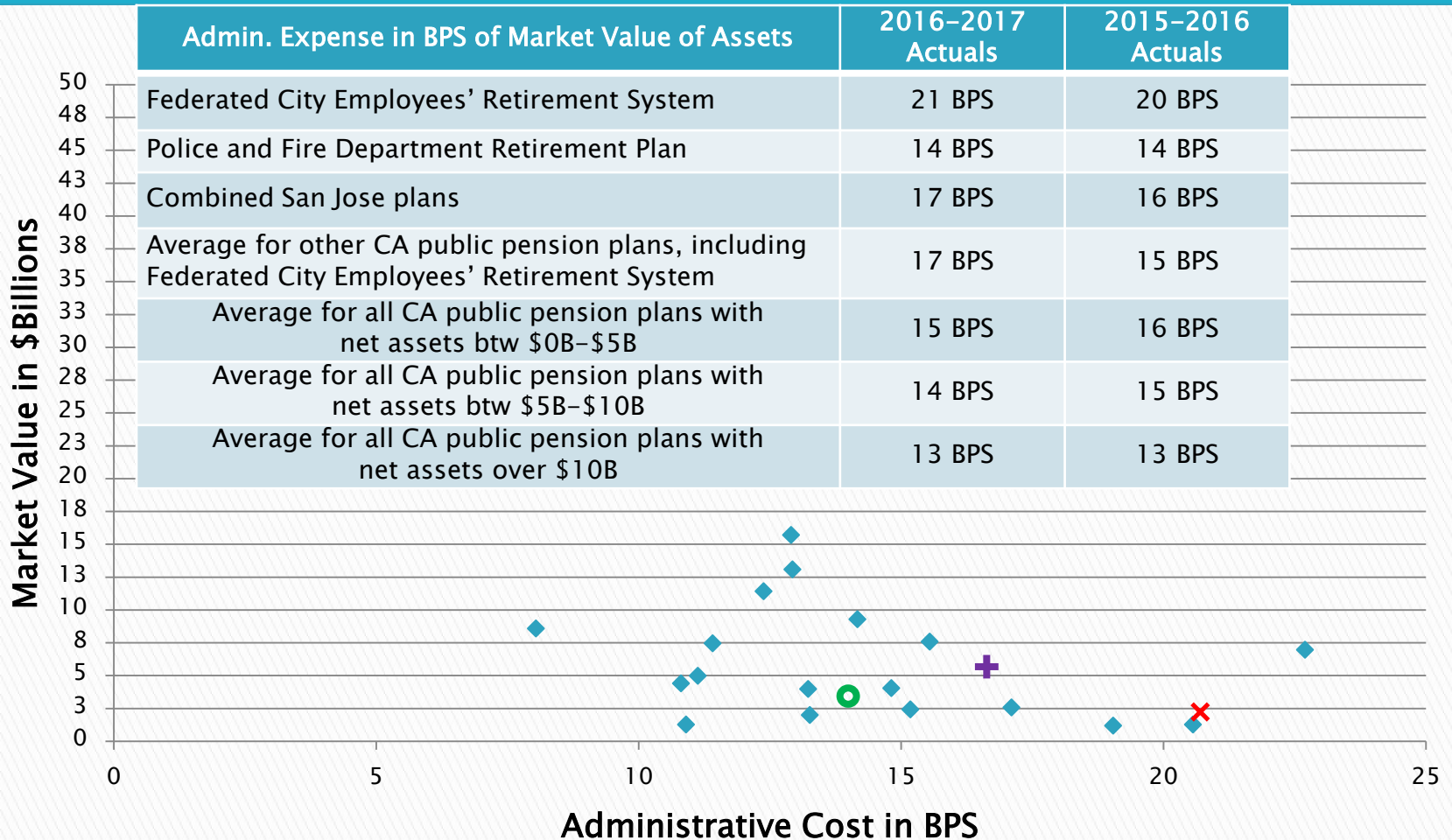
Administrative Cost Comparison – in BPS

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/17 or most recent financial statement ⁽¹⁾

“X” below represents the Federated System , \$4,622,000

“O” below represents the Police and Fire Plan, \$4,817,000

“+” below represents the combined San Jose plans, \$9,439,000



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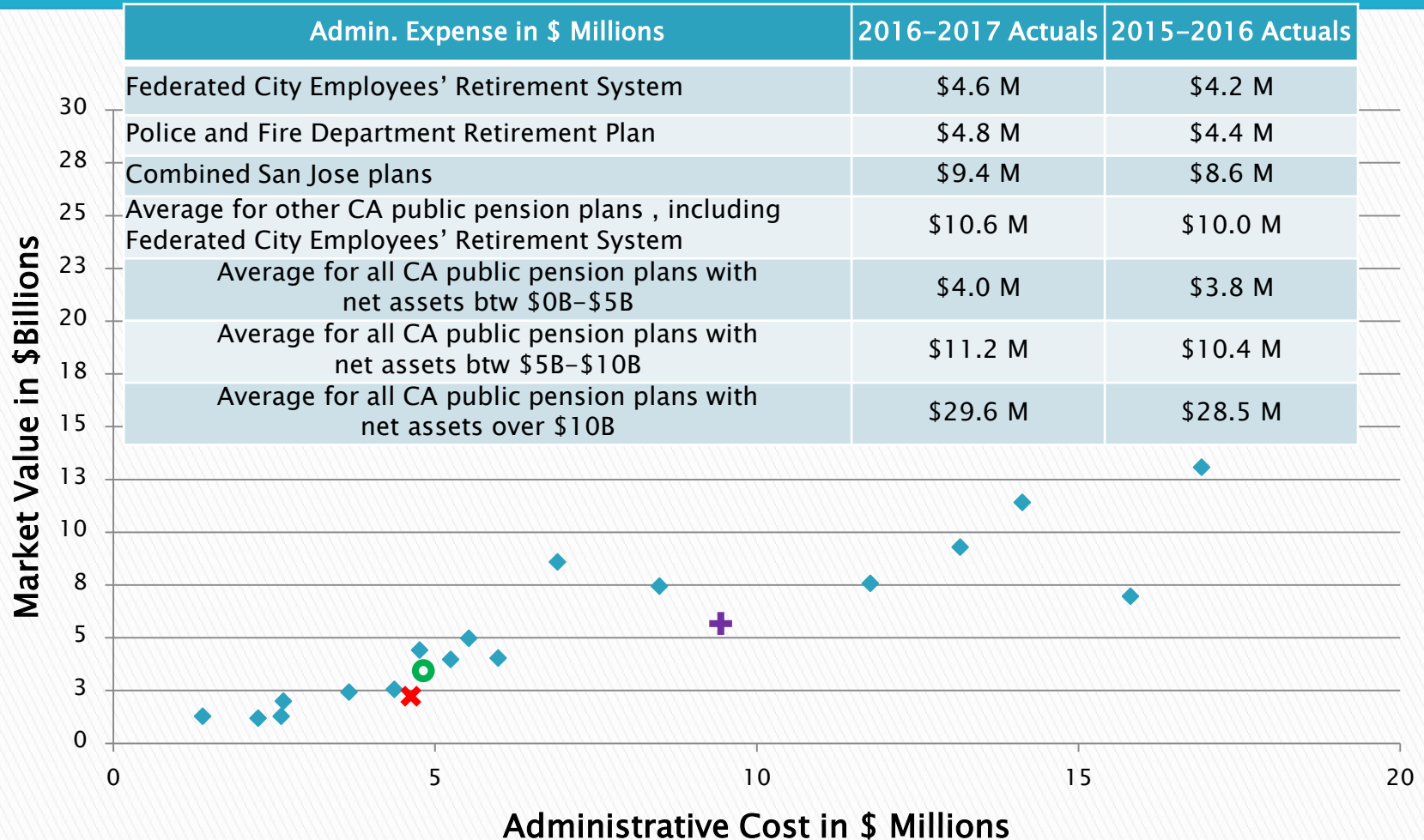
Administrative Cost Comparison – in \$

Administrative Expense in BPS of Market Value of Assets – Actual as of 6/30/17 or most recent financial statement ⁽¹⁾

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