



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: January 19, 2022

**SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' ANNUAL
COMPREHENSIVE FINANCIAL REPORTS FOR FISCAL YEARS
ENDING JUNE 30, 2021 AND JUNE 30, 2020.**

RECOMMENDATION

It is recommended that the Council accept the following annual reports:

- a. Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2021 and June 30, 2020; and
- b. Federated City Employees' Retirement System Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2021 and June 30, 2020

OUTCOME

To provide an overview of the Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for the fiscal years ended June 30, 2021 and June 30, 2020 and the Federated City Employees' Retirement System Annual Comprehensive Financial Report ("ACFRs") for the fiscal years ended June 30, 2021 and June 30, 2020. The ACFRs provide relevant financial information to the Council of the two retirement plans and ensure the Council is fully informed on the retirement plans' performance, the impact of reforms, and pension costs as recommended in the City Auditor's report on pension sustainability.

BACKGROUND

The ACFRs provide detailed descriptions of the Retirement Plans' financial activity, for Pensions and Other Postemployment Benefits ("OPEB") for the period of July 1, 2020 through

June 30, 2021 compared to the period of July 1, 2019 through June 30, 2020, and are generally divided into the following sections:

- An Introductory Section intended to familiarize the reader with the organizational structure of the retirement plans;
- A Financial Section which contains the retirement plans' audited financial statements, notes, required and other supplementary information;
- An Investment Section which contains the investment policy statement, performance, and asset allocation information in greater detail than the financial section;
- An Actuarial Section which contains information on the retirement plan's pension and other postemployment benefit actuarial valuations as of June 30, 2020; and
- A Statistical Section which contains current and historical information on plan beneficiaries.

The ACFRs can be viewed at the following links:

Police and Fire: <https://www.sjretirement.com/Resources/e4d0bcbb-73c5-4e2e-b26e-f19ecc8b5959/2020-2021.pdf>

Federated: <https://www.sjretirement.com/Resources/32acc77c-d4fd-4369-a053-4c746f950ac8/2020-2021.pdf>

ANALYSIS

The ACFRs are prepared by the Accounting Division, with the assistance of the other divisions, of the Office of Retirement Services ("ORS"). The ACFRs are submitted to the Mayor and Council for consideration and acceptance and to provide relevant financial information to the Council, as well as the active, non-active and retired members of the System and Plan and other interested parties.

The ORS contracted with Grant Thornton LLP ("GT"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the Retirement Plans' financial statements for Fiscal Year 2020-2021 are fairly stated in conformity with accounting principles generally accepted in the United States of America. This is the most favorable conclusion and is commonly known as an "unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the ACFRs.

For the fiscal year ended June 30, 2021, the following are the key financial results:

- Total net positions on June 30, 2021 were \$5.003 billion, comprised of \$4.727 billion of Pension and \$276.3 million of OPEB assets for the Police and Fire Plan and \$3.269 billion, comprised of \$2.884 billion of Pension and \$384.6 million of OPEB assets for

the Federated System, which represents an increase of \$1.092 billion or 27.9% and \$758 million or 30.2%, respectively. The primary reason for the increase was due to the tremendous investment gains during the fiscal year. The fiscal year resulted in a net of investment fees rate of return of 26.3% and 29.2% for both the pension plans of the Police and Fire Plan and Federated System, respectively.

- Total contributions of \$271.3 million for the Police and Fire Plan show an increase of \$14.7 million or 5.7% compared to fiscal year 2020. Total contributions of \$246.2 million for the Federated System show an increase of \$2.6 million or 1.1% compared to fiscal year 2020. City rates increased slightly for all tiers in both plans.
- The increase in contributions and investment returns resulted in an increase in additions or sources of funds of about \$970.6 million for Police and Fire and \$684.5 million for Federated. Deductions increased by \$14.4 million to \$276.2 million for Police and Fire, which includes \$244.3 million in pension benefits, \$26.0 million in health insurance premiums, and \$5.9 million in administrative expenses. Deductions increased by \$11.6 million to \$264.5 million for Federated, which includes \$227.2 million in pension benefits, \$31.9 million in health insurance premiums, and \$5.5 million in administrative expenses.
- The actuarial funded status for the Pension plans decreased from 74.3% to 73.6% for the Police and Fire Plan, with an Unfunded Accrued Liability (“UAL”) of \$1.383 billion; while the actuarial funded status decreased from 53.1% to 52.3% for the Federated System with a UAL of \$2.100 billion as of the June 30, 2020 actuarial valuations.
- The actuarial funded status for the Healthcare (OPEB) trusts increased from 28.7% to 29.4% for the Police Plan with a UAL of \$330.3 million and from 23.6% to 26.1% for the Fire Plan with a UAL of \$200.2 million and remained steady at 46.6% for the Federated System with an UAL of \$347.1 million as of the June 30, 2020 actuarial valuations.

EVALUATION AND FOLLOW-UP

Retirement Services staff will present the Retirement Plans’ ACFRs on an annual basis to the City Council per the recommendation of the City Auditor’s report on Pension Sustainability (Audit #10-10) to update the Council on the financial status of the Retirement Plans.

PUBLIC OUTREACH

These ACFRs were presented to the Federated System and Police and Fire Boards at their November meetings, which were open to the public. This memorandum will be posted on the City’s Council Agenda Website for their February 8, 2022, Council Meeting.

HONORABLE MAYOR AND CITY COUNCIL

January 19, 2022

Subject: Retirement ACFR Presentation

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COORDINATION

Production of the ACFRs was coordinated with the City Attorney's Office, Finance Department, City Auditor, Actuary and External Auditors.

CEQA

Not a project, File No. PP10-69(a) Annual Reports.

A handwritten signature in black ink, appearing to read "Roberto L. Peña". The signature is written in a cursive style with a horizontal line underneath the name.

Roberto L Peña
Chief Executive Officer
Office of Retirement Services

For questions, please contact Benjie Chua Foy, Accounting Division Manager at Benjie.chua-foy@sanjoseca.gov.