



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Roberto L. Peña

**SUBJECT:** SEE BELOW

**DATE:** January 17, 2023

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**SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' ANNUAL  
COMPREHENSIVE FINANCIAL REPORTS FOR FISCAL YEARS  
ENDING JUNE 30, 2022 AND JUNE 30, 2021.**

## **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, 2022 and June 30, 2021; and
- b. Federated City Employees' Retirement System Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2022 and June 30, 2021.

## **SUMMARY AND OUTCOME**

To provide an overview of the Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for the fiscal years ended June 30, 2022 and June 30, 2021 and the Federated City Employees' Retirement System Annual Comprehensive Financial Report ("ACFRs") for the fiscal years ended June 30, 2022 and June 30, 2021. 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, 2021 through June 30, 2022 compared to the period of July 1, 2020 through June 30, 2021, 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, 2022; 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/1f7f8589-6358-4264-af17-36324392a6e0/2021-2022.pdf>

Federated: <https://www.sjretirement.com/Resources/36fa1e4e-2827-4377-aa1b-8ff262fc3373/2021-2022.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 2021-2022 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, 2022, the following are the key financial results:

- Total net positions on June 30, 2022 were \$4.675 billion, comprised of \$4.410 billion of Pension and \$265.3 million of OPEB assets for the Police and Fire Plan and \$3.057 billion, comprised of \$2.708 billion of Pension and \$349.1 million of OPEB assets for the Federated System, which represents a decrease of \$328 million or 6.55% and \$212 million or 6.48%, respectively. The primary reason for the decrease was due to the investment losses realized during the fiscal year. The fiscal year resulted in a net of investment fees rate of return of (5.0)% and (4.4)% for both the pension plans of the Police and Fire Plan and Federated System, respectively.

- Total contributions of \$286.6 million for the Police and Fire Plan show an increase of \$15.3 million or 5.6% compared to fiscal year 2021. Total contributions of \$269.7 million for the Federated System show an increase of \$23.5 million or 9.6% compared to fiscal year 2021. City rates increased slightly for all tiers in both plans.
- The increase in contributions and decrease in investment returns resulted in a decrease in additions or sources of funds of about \$1.404 billion for Police and Fire and \$959.9 million for Federated. Deductions increased by \$16.4 million to \$292.5 million for Police and Fire, which includes \$259.8 million in pension benefits, \$26.5 million in health insurance premiums, and \$6.2 million in administrative expenses. Deductions increased by \$9.6 million to \$274.1 million for Federated, which includes \$237.3 million in pension benefits, \$31.1 million in health insurance premiums, and \$5.7 million in administrative expenses.
- The actuarial funded status for the Pension plans increased from 73.6% to 77.4% for the Police and Fire Plan, with an Unfunded Accrued Liability (“UAL”) of \$1.231 billion; while the actuarial funded status increased from 52.3% to 55.1% for the Federated System with a UAL of \$2.050 billion as of the June 30, 2021 actuarial valuations.
- The actuarial funded status for the Healthcare (OPEB) trusts increased from 29.4% to 37.4% for the Police Plan with a UAL of \$301.7 million and from 26.1% to 34.8% for the Fire Plan with a UAL of \$180.2 million and increased from 46.6% to 58.0% for the Federated System with an UAL of \$278.2 million as of the June 30, 2021 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.

### **COORDINATION**

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

### **PUBLIC OUTREACH**

☒ This memorandum will be posted on the City’s Council Agenda website for the February 7, 2023 Council meeting.

☒ Outreach was undertaken for this item in addition to the agenda posting described above. These outreach efforts are described below.

These ACFRs were presented to the Federated System and Police and Fire Boards at their November 2022 meetings, which were open to the public.

### **COMMISSION RECOMMENDATION AND INPUT**

- ☒ No commission recommendation or input is associated with this action.
- ☐ A commission has taken action on this item. The action is described below.

### **CEQA**

Not a Project, File No. PP17 009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

### **PUBLIC SUBSIDY REPORTING**

- ☒ This item does not include a public subsidy.
- ☐ This item includes a public subsidy of \$100,000 or more as defined in California Government Code section 53083. The Director of the Office of Economic Development has been informed of this subsidy to ensure that it is tracked appropriately. Required information is provided below.
- ☐ This item includes a public subsidy of \$100,000 or more to a warehouse distribution center as defined in California Government Code section 53083.1. The Director of the Office of Economic Development has been informed of this subsidy to ensure that it is tracked appropriately. Required information is provided below.
- ☐ This item includes a public subsidy as defined in the City's Sunshine Resolution section 2.2.10 and is in the amount of \$1 million or more. An Informational Memorandum as described in Sunshine Resolution section 2.3.2.6.C was/will be released at least 28 calendar days prior to the City Council meeting at which the subsidy will be considered. The Director of the Office of Economic Development has been informed of this subsidy to ensure that it is tracked appropriately.



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Office of Retirement Services

For questions, please contact Benjie Chua Foy, Accounting Division Manager at [Benjie.chua-foy@sanjoseca.gov](mailto:Benjie.chua-foy@sanjoseca.gov).