



## *Memorandum*

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**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Roberto L. Peña

**SUBJECT:** SEE BELOW

**DATE:** January 16, 2018

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**SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' COMPREHENSIVE ANNUAL FINANCIAL REPORTS FOR FISCAL YEARS ENDING JUNE 30, 2017 AND JUNE 30, 2016.**

### **RECOMMENDATION**

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

- a. Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2017 and June 30, 2016; and
- b. Federated City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2017 and June 30, 2016

### **OUTCOME**

To provide an overview of the Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the fiscal years ended June 30, 2017 and June 30, 2016 and the Federated City Employees' Retirement System Comprehensive Annual Financial Report ("CAFRs") for the fiscal years ended June 30, 2017 and June 30, 2016. The CAFRs 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 CAFRs provide detailed descriptions of the Retirement Plans' financial activity, for Pensions and Other Postemployment Benefits ("OPEB") for the period of July 1, 2016 through June 30, 2017 compared to the period of July 1, 2015 through June 30, 2016, 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, 2016; and
- A Statistical Section which contains current and historical information on plan beneficiaries.

The CAFRs can be viewed at the following links:

Federated:

<https://www.sjretirement.com/Uploads/Fed/2017%20Fed%20CAFR%2011.20.17.pdf>

Police and Fire:

<https://www.sjretirement.com/Uploads/PF/2017%20PF%20CAFR%2011.20.17.pdf>

## **ANALYSIS**

The CAFRs are prepared by the Accounting Group of the Office of Retirement Services ("ORS"). The CAFRs 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 2016-2017 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 CAFRs.

For the fiscal year ended June 30, 2017, the following are the key financial results:

- Total net positions at June 30, 2017 were \$3.443 billion, comprised of \$3.293 billion of Pension and \$149.7 million of OPEB assets for the Police and Fire Plan and \$2.233 billion, comprised of \$1.973 billion of Pension and \$260.4 million of OPEB assets for the Federated System, which represents an increase of \$276 million or 8.7% and \$148 million or 7.1%, respectively. The primary reason for the increase was the appreciation in the fair value of investments caused by favorable investment returns, which resulted in a net of investment fees rate of return of 9.7% and 7.5% for the Police and Fire Plan and Federated System, respectively, compared to a net of investment fees rate of return of (0.6%) and (0.7%) from the prior fiscal year.
- Total contributions of \$196.3 million for the Police and Fire Plan show an increase of \$3.3 million or 1.7% compared to fiscal year 2016. Total contributions of \$204.4 million for the Federated System show an increase of \$10.7 million or 5.5% compared to fiscal year 2016. For the Police and Fire Plan, Tier 1 City rates increased from 2016 to 2017, reflecting assumption changes, such as the rates of retirement, and the decrease in Tier 1 payroll. Tier 2 rates have decreased slightly largely due to the assumption changes, such as the merit salary scale and base mortality tables changing.
- The increase in contributions as well as the favorable investment returns resulted in an increase in additions or sources of funds of about \$339.3 million for Police and Fire and \$211.2 million for Federated. Deductions also increased slightly by \$10.9 million to \$225.6 million for Police and Fire, which includes \$196.0 million in pension benefits, \$24.8 million in insurance premiums and \$4.8 million in administrative expenses and by \$12.0 million to \$219.1 million for Federated, including \$183.4 million in pension benefits, \$31.0 million in insurance premiums and \$4.6 million in administrative expenses.
- The actuarial funded status for the Pension plans decreased from 79.2% to 75.7% for the Police and Fire Plan, with an Unfunded Actuarial Accrued Liability (“UAAL”) of \$1.059 billion; while the actuarial funded status decreased from 56.1% to 53.7% for the Federated System with a UAAL of \$1.752 billion as of the June 30, 2016 actuarial valuations.
- The actuarial funded status for the Healthcare (OPEB) trusts increased from 15.5% to 17.4% for the Police and Fire Plan with an UAAL of \$643.7 million and increased from 25.7% to 29.6% for the Federated System with an UAAL of \$538.4 million as of the June 30, 2016 actuarial valuations.

### **EVALUATION AND FOLLOW-UP**

Retirement Services staff will present the Retirement Plans’ CAFRs 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 CAFRs 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 6, 2018 Council Meeting.

**COORDINATION**

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

**CEQA**

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

/s/ Roberto L Peña  
Chief Executive Officer  
Office of Retirement Services

For questions, please contact Benjie Chua Foy, Accounting Division Manager at (408) 794-1030.