



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: January 15, 2021

SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' COMPREHENSIVE ANNUAL FINANCIAL REPORTS FOR FISCAL YEARS ENDING JUNE 30, 2020 AND JUNE 30, 2019.

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, 2020 and June 30, 2019; and
- b. Federated City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2020 and June 30, 2019

OUTCOME

To provide an overview of the Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the fiscal years ended June 30, 2020 and June 30, 2019 and the Federated City Employees' Retirement System Comprehensive Annual Financial Report ("CAFRs") for the fiscal years ended June 30, 2020 and June 30, 2019. 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, 2019 through

June 30, 2020 compared to the period of July 1, 2018 through June 30, 2019, 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, 2019; and
- A Statistical Section which contains current and historical information on plan beneficiaries.

The CAFRs can be viewed at the following links:

Police and Fire: <https://www.sjretirement.com/PF/Plan/CAFR.asp>

Federated: <https://www.sjretirement.com/Fed/Plan/CAFR.asp>

ANALYSIS

The CAFRs are prepared by the Accounting Division 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 2019-2020 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, 2020, the following are the key financial results:

- Total net positions at June 30, 2020 were \$3.911 billion, comprised of \$3.702 billion of Pension and \$208.5 million of OPEB assets for the Police and Fire Plan and \$2.511 billion, comprised of \$2.208 billion of Pension and \$303.3 million of OPEB assets for the Federated System, which represents an increase of \$136 million or 3.6% and \$85 million or 3.5%, respectively. The primary reason for the increase was due to total additions being greater than total deductions. The fiscal year resulted in a net of

investment fees rate of return of 3.6% and 3.1% for both the pension plans of the Police and Fire Plan and Federated System, respectively.

- Total contributions of \$256.6 million for the Police and Fire Plan show an increase of \$13.1 million or 5.4% compared to fiscal year 2019. Total contributions of \$243.6 million for the Federated System show an increase of \$11.0 million or 4.7% compared to fiscal year 2019. 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 \$32.4 million for Police and Fire and \$18.7 million for Federated. Deductions increased by \$11.9 million to \$261.8 million for Police and Fire, which includes \$231.0 million in pension benefits, \$25.0 million in health insurance premiums, and \$5.7 million in administrative expenses. Deductions increased by \$14.1 million to \$252.9 million for Federated, which includes \$216.7 million in pension benefits, \$30.8 million in health insurance premiums, and \$5.4 million in administrative expenses.
- The actuarial funded status for the Pension plans decreased from 76.6% to 74.3% for the Police and Fire Plan, with an Unfunded Accrued Liability (“UAL”) of \$1.282 billion; while the actuarial funded status remained steady at 53.1% for the Federated System with a UAL of \$1.972 billion as of the June 30, 2019 actuarial valuations.
- The actuarial funded status for the Healthcare (OPEB) trusts increased from 21.7% to 26.8% for the Police and Fire Plan with an UAL of \$507.4 million and increased from 42.6% to 46.6% for the Federated System with an UAL of \$337.3 million as of the June 30, 2019 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

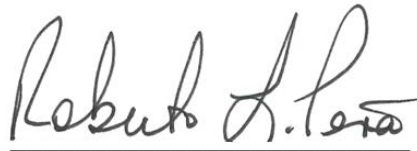
These CAFRs were presented to the Federated System and Police and Fire Boards at their November meetings, which were open to the public. This memorandum will be posted on the City’s Council Agenda Website for their January 26, 2021, Council Meeting.

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.

A handwritten signature in black ink, appearing to read "Roberto L. Peña", written over a horizontal line.

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.