



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: January 22, 2024

**SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' ANNUAL
COMPREHENSIVE FINANCIAL REPORTS FOR FISCAL YEARS
ENDING JUNE 30, 2023 AND JUNE 30, 2022**

RECOMMENDATION

- (a) Accept the Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2023 and June 30, 2022; and
- (b) Federated City Employees' Retirement System Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2023 and June 30, 2022.

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, 2023 and June 30, 2022 and the Federated City Employees' Retirement System Annual Comprehensive Financial Report (ACFRs) for the fiscal years ended June 30, 2023 and June 30, 2022. The ACFRs provide relevant financial information to the City Council of the two retirement plans and ensure the City 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, 2022 through June 30, 2023, compared to the period of July 1, 2021 through June 30, 2022, 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, 2023; 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/597a5d19-9342-40c8-93a8-48f605a0b494/2022-2023.pdf>

Federated: <https://www.sjretirement.com/Resources/70cb4629-7b4a-4c06-b597-8287f6969eff/2022-2023.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 City Council for consideration and acceptance and to provide relevant financial information to the City Council, as well as the active, non-active, and retired members of the System and Plan and other interested parties.

The ORS contracted with Macias Gini & O'Connell LLP (MGO), 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 2022-2023 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, 2023, the following are the key financial results:

- Total net positions on June 30, 2023 were \$5.021 billion, comprised of \$4.721 billion of Pension and \$299.4 million of OPEB assets for the Police and Fire Plan and \$3.282 billion, comprised of \$2.907 billion of Pension and \$374.6 million of OPEB assets for the Federated System, which represents an increase of \$346 million or 7.3% and \$225 million or 7.4%, respectively. The primary reason for the increase was due to the investment gains realized during the fiscal year. The fiscal year resulted in a net of

investment fees rate of return of 7.7% and 7.4% for both the pension plans of the Police and Fire Plan and Federated System, respectively.

- Total contributions of \$276.5 million for the Police and Fire Plan show a decrease of \$10.1 million or 3.5% compared to fiscal year 2022. Total contributions of \$262.8 million for the Federated System show a decrease of \$6.9 million or 2.5% compared to fiscal year 2022. The decrease in contributions is attributed to numerous factors, including a decrease in covered payroll for Tier 1, a decrease in prefunding and healthcare contributions, as well as the timing for the accruals.
- The decrease in contributions and increase in investment returns resulted in an increase in additions or sources of funds of about \$691.3 million for Police and Fire and \$446.9 million for Federated. Deductions increased by \$17.7 million to 310.3 million for Police and Fire, which includes \$275.8 million in pension benefits, \$27.5 million in health insurance premiums, and \$6.9 million in administrative expenses. Deductions increased by \$10.3 million to \$284.4 million for Federated, which includes \$247.4 million in pension benefits, \$30.9 million in health insurance premiums, and \$6.2 million in administrative expenses.
- The actuarial funded status for the Pension plans increased from 77.4% to 79.6% for the Police and Fire Plan, with an Unfunded Accrued Liability (UAL) of \$1.155 billion; while the actuarial funded status increased from 55.1% to 57.0% for the Federated System with a UAL of \$2.041 billion as of the June 30, 2022 actuarial valuations.
- The actuarial funded status for the Healthcare (OPEB) trusts decreased from 37.4% to 36.0% for the Police Plan with a UAL of \$304.4 million and from 34.8% to 34.0% for the Fire Plan with a UAL of \$182.4 million and decreased from 58.0% to 53.7% for the Federated System with an UAL of \$301.5 million as of the June 30, 2022 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 City 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.

HONORABLE MAYOR AND CITY COUNCIL

January 22, 2024

Subject: Acceptance of the Retirement Plans' Annual Comprehensive Financial Reports for Fiscal Years Ending June 30, 2023 and June 30, 2022

Page 4 of 4

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the February 13, 2024 City 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 2023 through January 2024 meetings, which were open to the public.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

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

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

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.