



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 5

MEETING DATE: August 15, 2018

SUBJECT: Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2018

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends that the Board approve the attached Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2018.

PURPOSE

This item supports the FY 2018-19 Strategic Management Plan to maintain transparency to stakeholders by demonstrating fiscal responsibility and stewardship. This item provides the Board with information regarding the administrative expenses for the latter half of the year along with a comparison to the Final Administrative Budget for Fiscal Year 2017-2018.

DISCUSSION

Administrative expenses for the second half of the year were \$3,369,000, compared with the first six months of the fiscal year of \$3,544,000, a net decrease of \$175,000. SCERS operated well below the administrative expense limit. The administrative expense limit is calculated based on actuarial accrued liability (AAL), and this amount is then compared with total administrative expenses less information technology (IT) costs. Based on SCERS' total AAL of \$10,680,998,000 as of June 30, 2017, the calculated administrative expense limit of twenty-one hundredths of one percent (.21%) of AAL was \$22,430,000 for the 2017-2018 fiscal year. Actual administrative expenses for the year were \$6,913,000, less IT costs of \$964,000 for a net \$5,949,000, which is only six hundredths of one percent (.06%) of AAL. Total administrative expenses of \$6,913,000 compared favorably with the total annual administrative budget of \$9,018,000. SCERS continues to manage administrative expenses in a consistent and prudent manner.

BACKGROUND

Pursuant to Government Code Section 31580.2, the statutory limit for the budget year's administrative expenditures shall not exceed the greater of twenty-one hundredths of one percent (.21%) of the accrued actuarial liability of the retirement system or \$2,000,000 as adjusted annually by a specified annual cost-of-living adjustment. This statutory limit excludes the costs of administration expenditures for computer software and hardware and computer technology consulting services. The Semi-Annual Summary of Administrative Expenses presents the expenses for the six-month period ended June 30, 2018 in comparison with the prior six-month period ended on December 31, 2017 as well as fiscal year 2017-2018 adopted administrative budget.

Administrative Expenses includes amounts associated with both administrative costs and IT costs which is consistent with the presentation of the audited financial statements. Information technology (IT) expenses for computer software, computer hardware, and computer technology consulting services in support of these computer products are not considered a cost of administration of the retirement system and are excluded from the calculation of the statutory limit of administrative expenses.

Capitalized Administrative Costs related to IT Modernization Program

The IT modernization program is a multi-phase, multi-year sequence of projects to implement a new pension administration system and investment accounting system. Beginning in the 2017-2018 fiscal year, certain costs related to the IT modernization program, which totaled \$2.554 million for the year, have been capitalized. Capitalized IT costs included consulting services, project management, and data conversion costs. Although these costs will be paid as incurred, only costs for activities in the preliminary project stage are expensed as incurred. Costs related to activities in the application stage will be capitalized and amortized over the useful life of the final product. Amortization of costs will begin once the product is ready for its intended use, which is expected to be in the 2021-2022 fiscal year.

ATTACHMENT

- Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2018

/S/

Kathryn T. Regalia
Chief Operations Officer

/S/

Eric Stern
Chief Executive Officer

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM
Semi-Annual Summary of Administrative Expenses (Including IT)
January 1, 2018 - June 30, 2018
(Dollar Amounts Expressed in Thousands)

BUDGET OBJECT	Administrative Expenses January 1 - June 30, 2018	Administrative Expenses July 1 - Dec. 31, 2017	Increase/ (Decrease) Compared to Prior Six Months	Percentage Change Compared to Prior Six Months	Total Administrative Expenses FY 2017-2018	Final Administrative Budget FY 2017-2018	Percentage of Administrative Funding Expended
Budget Categories							
10 - Salaries & Benefits	\$1,959	\$2,119	(\$160)	-7.6%	\$4,078	\$5,797	70.3%
20 - Services & Supplies	1,276	1,292 ¹	(16)	-1.2%	2,568	2,829	90.8%
30 - Other Charges	134	133	1	0.8%	267	267	100.0%
Subtotal	3,369	3,544	(175)	-4.9%	6,913	8,893	77.7%
70 - Appropriation for Contingencies	-	-	-	0.0%	-	125	0.0%
Total Expenses	\$3,369	\$3,544	(\$175)	-4.9%	\$6,913	\$9,018	76.7%

Total Administrative Expenses FY 2017-2018	\$6,913
Total Computer Software and Hardware and Computer Technology Consulting Services Cost (IT Costs)	964
Administrative Expenses Excluding IT Costs	\$5,949

Total Actuarial Accrued Liability of the Retirement System as of June 30, 2017 **\$10,680,998**

Budget Limit for Administrative Expenses is Twenty-one Hundredths of One Percent	0.21%	\$22,430
Less: Administrative Expenses Excluding IT Costs	0.06%	5,949
Budget Limit in Excess of Administrative Expenses Excluding IT Costs	0.15%	\$16,481

¹Estimated expenses have been adjusted to reflect actuals