

MFP #4  
April 20, 2009

## MEMORANDUM

April 16, 2009

TO: Management and Fiscal Policy Committee  
FROM: <sup>CHS</sup> Charles H. Sherer, Legislative Analyst  
SUBJECT: County retirement budgets: Employees' Retirement System (ERS), Retirement Savings Plan (RSP) and Deferred Compensation Plan (DCP)

Those expected to attend this worksession include:

Linda Herman, Executive Director, Board of Investment Trustees  
Alex Espinosa, Lori J. O'Brien, OMB  
Wes Girling, Employee Benefits Manager, OHR

**Background** The Board of Investment Trustees is responsible for overseeing the investment programs and the Office of Human Resources oversees benefit administration for the following plans.

1. Employees' Retirement System (ERS) — defined benefit plan
2. Retirement Savings Plan (RSP) — defined contribution plan
3. Guaranteed Retirement Income Plan (GRIP) — guaranteed annual income at annual rate of 7.25%, an alternative to the RSP
4. Deferred Compensation Plan (DCP) — optional plan in addition to the above
5. Retiree Health Benefits Trust (RHBT) — to fund the costs of retiree health benefits, referred to as "other post employment benefits" or OPEB

The Board of Investment Trustees incurs administrative expenses overseeing the investment programs and approves an annual budget. In addition, three County Government departments/offices provide administrative and accounting services to the plans and charge each of the plans for this

support: County Attorney, Office of Human Resources (OHR) and Finance. The CAO approves the charges to the plans for the services from the three departments/offices every year.

The total administrative expenses of administering the retirement plans is the sum of the Board’s own expenses plus the charges from the three County Government departments/offices the CAO approved, as summarized in the table below.

Additional information about the three plans is on ©A, followed by the Annual Budget Review (©2).

**The purpose of this discussion is to review the County expenses to administer the retirement plans.**

### Overview

At the request of Council staff, OMB provided the following table that summarizes the County expenses to administer the plans. **These are the expenses the Committee is reviewing.**

	FY09 Budget	FY10 Request	\$ Change	% Change
Board of Investment Trustees	\$1,031,090	\$1,347,670	\$316,580	30.7%
Charges from Montgomery County Government:				
Human Resources	\$2,074,930	\$2,223,850	\$148,920	7.2%
Finance	\$89,400	\$132,720	\$43,320	48.5%
County Attorney	\$74,170	\$90,290	\$16,120	21.7%
Subtotal - County Government	\$2,238,500	\$2,446,860	\$208,360	9.3%
Total	\$3,269,590	\$3,794,530	\$524,940	16.1%

Why are administrative charges for the retirement plans increasing? OMB and BIT staff provided the following explanation of the changes from FY09 to FY10:

**Board of Investment Trustees:** The increase is primarily due to new costs associated with recordkeeping for the new Guaranteed Retirement Income Plan (GRIP) and the Retirement Savings Plan.

**Office of Human Resources:** The increase is mostly due to the cost of getting an annual actuarial analysis and report for the new Retiree Health Benefits Trust (RHBT).

**Finance:** The increase is mostly due to the cost for an additional 0.3 workyear to service the RHBT.

**County Attorney:** The small increase is mostly due to the reallocation of the charge from the Board’s budget.

PROPOSED OPERATING BUDGET DEFERRED COMPENSATION MANAGEMENT						
ITEM	FY08 ACT	FY09 APPR	FY09 EST	FY10 REC	\$ Change	% Change
<b>EXPENSES</b>						
Salaries and Benefits	81,660	91,310	78,790	94,840	3,530	3.9%
Professional Services	4,480	6,870	5,800	5,900	(970)	(14.1%)
Due Diligence/Education	1,460	3,500	1,500	1,000	(2,500)	(71.4%)
Office Management	5,360	6,800	6,300	7,110	310	4.6%
Investment Management	26,710	17,000	20,300	20,900	3,900	22.9%
<b>TOTAL EXPENSES</b>	<b>\$119,670</b>	<b>\$125,480</b>	<b>\$112,690</b>	<b>\$129,750</b>	<b>\$4,270</b>	<b>3.4%</b>

Amounts shown above are not charged to the Deferred Compensation Plan trust but are instead appropriated and charged to the General Fund Compensation and Employee Benefits Adjustments Non-Departmental Account.

PROPOSED OPERATING BUDGET RETIREE HEALTH BENEFIT TRUST						
ITEM	FY08 ACT	FY09 APPR	FY09 EST	FY10 REC	\$ Change	% Change
<b>EXPENSES</b>						
Salaries and Benefits	0	0	30,000	68,710	37,710	-
Professional Services	0	0	0	75,000	75,000	-
Office Management	0	0	1,500	1,700	1,700	-
Investment Management	0	0	41,000	60,000	60,000	-
<b>TOTAL EXPENSES</b>	<b>\$0</b>	<b>\$0</b>	<b>\$72,500</b>	<b>\$205,410</b>	<b>\$174,410</b>	<b>-</b>

PROPOSED OPERATING BUDGET EMPLOYEES' RETIREMENT SYSTEM						
ITEM	FY08 ACTUAL	FY09 APPR	FY09 EST	FY10 REC	FY10 vs. FY09 Appr.	
					\$	%
<b>REVENUE</b>						
County Contributions	117,686,380	110,000,000	110,000,000	115,000,000	5,000,000	4.5%
Employee Contributions	18,850,880	17,500,000	18,000,000	18,900,000	1,400,000	8.0%
Investment Income	(68,895,930)	243,000,000	(415,000,000)	170,000,000	(73,000,000)	(30.0%)
Miscellaneous Income	1,756,770	800,000	0	720,000	(80,000)	(10.0%)
<b>TOTAL REVENUE</b>	<b>69,398,100</b>	<b>371,300,000</b>	<b>(287,000,000)</b>	<b>304,620,000</b>	<b>(66,680,000)</b>	<b>(18.0%)</b>
<b>EXPENSES</b>						
<b>OPERATING EXPENSES</b>						
Retirement Benefits	147,699,950	164,720,000	165,700,000	180,700,000	15,980,000	9.7%
Investment Management	14,606,890	11,055,000	9,448,000	11,666,400	611,400	5.5%
<b>SUBTOTAL</b>	<b>162,306,840</b>	<b>175,775,000</b>	<b>175,148,000</b>	<b>192,366,400</b>	<b>16,591,400</b>	<b>9.4%</b>
<b>ADMINISTRATIVE EXPENSES</b>						
Salaries and Benefits	1,310,790	1,363,050	1,342,430	1,498,980	135,930	10.0%
Professional Services	727,550	788,930	748,930	934,430	145,500	18.4%
Benefit Processing	460,350	375,000	375,000	375,000	0	0.0%
Due Diligence/Education	28,880	51,500	48,500	78,000	26,500	51.5%
Office Management	202,590	242,660	244,300	251,030	8,370	3.4%
<b>SUBTOTAL</b>	<b>2,730,160</b>	<b>2,821,140</b>	<b>2,759,160</b>	<b>3,137,440</b>	<b>316,300</b>	<b>11.2%</b>
<b>TOTAL EXPENSES</b>	<b>\$165,037,000</b>	<b>\$178,596,140</b>	<b>\$177,907,160</b>	<b>\$195,503,840</b>	<b>\$16,907,700</b>	<b>9.5%</b>
<b>NET REVENUE</b>	<b>(\$95,638,900)</b>	<b>\$192,703,860</b>	<b>(\$464,907,160)</b>	<b>\$109,116,160</b>	<b>(\$83,587,700)</b>	<b>(43.4%)</b>

PROPOSED OPERATING BUDGET RETIREMENT SAVINGS PLAN						
ITEM	FY08 ACTUAL	FY09 APPR	FY09 EST	FY10 REC	Change: FY10 vs. FY09 Appr.	
					\$	%
<b>REVENUE</b>						
Investment Income	34,980	24,000	16,000	12,000	(12,000)	(50.0%)
Miscellaneous Income	550,430	300,000	300,000	100,000	(200,000)	(66.7%)
<b>TOTAL REVENUE</b>	<b>585,410</b>	<b>324,000</b>	<b>316,000</b>	<b>112,000</b>	<b>(212,000)</b>	<b>(65.4%)</b>
<b>EXPENSES</b>						
<b>OPERATING EXPENSES</b>						
Investment Management	26,710	17,000	20,300	20,900	3,900	22.9%
<b>SUBTOTAL</b>	<b>26,710</b>	<b>17,000</b>	<b>20,300</b>	<b>20,900</b>	<b>3,900</b>	<b>22.9%</b>
<b>ADMINISTRATIVE EXPENSES</b>						
Salaries and Benefits	151,410	190,620	178,100	188,010	(2,610)	(1.4%)
Professional Services	75,430	114,100	120,500	193,500	79,400	69.6%
Due Diligence/Education	1,700	4,500	2,500	2,000	(2,500)	(55.6%)
Office Management	23,830	14,890	12,300	25,230	10,340	69.4%
<b>SUBTOTAL</b>	<b>252,370</b>	<b>324,110</b>	<b>313,400</b>	<b>408,740</b>	<b>84,630</b>	<b>26.1%</b>
<b>TOTAL EXPENSES</b>	<b>\$279,080</b>	<b>\$341,110</b>	<b>\$333,700</b>	<b>\$429,640</b>	<b>\$88,530</b>	<b>26.0%</b>

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# Board of Investment Trustees

Annual Budget Review – FY09 Projected & FY10 Requested



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Employees' Retirement System  
Retirement Savings Plan  
Deferred Compensation Plan  
Retiree Health Benefits Trust

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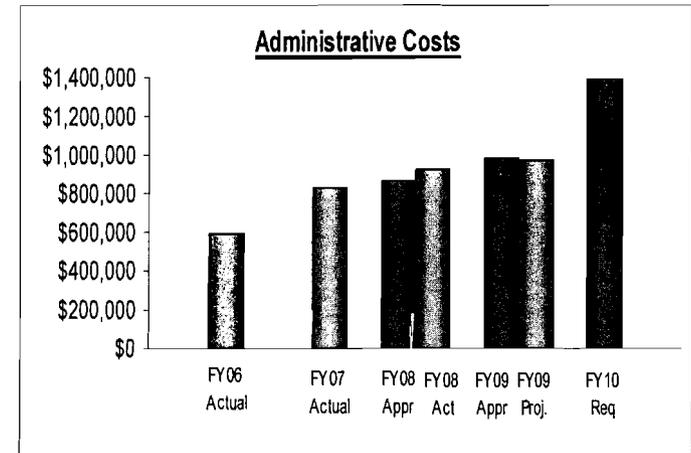
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# Overview

- The Board of Investment Trustees oversees the Board (BIT) related expenses, primarily investment management related expenses, for the:
  - Employees' Retirement System (ERS) – defined benefit plan
  - Retirement Savings Plan (RSP) – defined contribution plan
  - Deferred Compensation Plan (DCP) – 457 plan
  - Retiree Health Benefits Trust – OPEB Trust

- During FY 08 actual Board related administrative costs for all Plans were 7.4% higher than the approved budget. The increase was primarily due to higher salary and benefit expenses.



- Salaries and benefits for the Board staff are allocated between the trust funds for FY 09 based on the analysis of the prior fiscal year's work effort and the projected FY 09 workplan. All non-Plan specific costs are allocated as follows.

ERS 80%, RSP 10%, and DCP 10% with the RHBT only charged for office related expenses. 50% of the Board counsel's salary and benefits are charged to Board operations and allocated as follows: ERS 60%, RSP 20%, and DCP 20%.

- Estimated FY 09 administrative expenses are projected to be slightly less, 0.6% in total, with lower costs for outside legal and due diligence than anticipated. Salary costs are projected to be slightly higher than the approved budget (5%).
- Preliminary FY 10 expenses for administration are projected at \$1,391,300, an increase of 42.1% or \$412,000, from the FY 09 approved budget level. Listed below are the primary sources of the increase in the FY 10 requested versus the FY 09 approved budget:
  - Recordkeeping costs for the GRIP and the RSP estimated at \$287,500.
  - Salaries/benefits for 5.0 full workyears (+\$146,000). FY08 had a lapse of 5 months for one staff member and FY09 is projected to have a lapse for one staff member of approximately 6 months. Office expenses (+\$7,600).

# Overview - Administrative Expenses (BIT Only)

	FY07 <u>Actual</u>	FY 08 <u>Approved</u>	FY 08 <u>Actual</u>	FY 09 <u>Approved</u>	FY 09 <u>Projected</u>	FY 10 <u>Requested</u>
<b><i>Administrative Expenses</i></b>						
Salaries & Benefits	\$ 571,267	\$ 570,400	\$ 642,553	\$ 649,000	\$ 683,000	\$ 795,000
Professional Services	197,046	213,900	209,376	238,000	203,700	499,400
Due Diligence/Education	20,187	34,400	28,452	45,000	38,000	42,000
Office Management	40,172	45,100	47,440	47,300	49,100	54,900
<b><i>Total Administrative Exp</i></b>	<b>\$ 828,672</b>	<b>\$ 863,800</b>	<b>\$ 927,821</b>	<b>\$ 979,300</b>	<b>\$ 973,800</b>	<b>\$ 1,391,300</b>

## Assumptions/Considerations in construction of the FY 10 Requested Budget:

<b><i>Salaries &amp; Benefits</i></b>	<i>22.5% - reflects 5.0 workyears for Board staff, and 50% of county attorney's salary and benefits.</i>
<b><i>Professional Services</i></b>	<i>110% - increase from FY09 approved amount due to projected costs (estimated at \$287,500) associated with recordkeeping expenses for the GRIP and RSP.</i>
<b><i>Due Diligence/Education</i></b>	<i>(6.7%) - decrease from FY09 approved due to projected work efforts related to the RSP &amp; DCP.</i>
<b><i>Office Management</i></b>	<i>16.1% - increase reflects costs of reference materials.</i>

# Overview – FY 08 Approved vs. Actual

	<u>ERS</u>		<u>RSP</u>		<u>DCP</u>		<u>RHBT</u>
	<u>Approved</u>	<u>Actual</u>	<u>Approved</u>	<u>Actual</u>	<u>Appropriated</u>	<u>Actual</u>	<u>Actual</u>
<b><i>Operating Expenses</i></b>							
Retirement Benefits	\$ 150,720,000	\$ 147,699,948	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Mgt. Fees	<u>9,349,300</u>	<u>14,606,891</u>	<u>32,000</u>	<u>26,705</u>	<u>32,000</u>	<u>26,705</u>	<u>135</u>
<b><i>Total Operating Exp</i></b>	160,069,300	162,306,839	32,000	26,705	32,000	26,705	135
<b><i>Administrative Expenses</i></b>							
Salaries & Benefits	450,000	507,045	60,200	65,017	60,200	61,561	8,930
Professional Services	111,700	129,018	92,000	75,430	10,200	4,928	-
Due Diligence/Education	25,000	25,456	4,700	1,498	4,700	1,498	-
Office Management	<u>34,900</u>	<u>36,666</u>	<u>5,100</u>	<u>5,321</u>	<u>5,100</u>	<u>5,453</u>	<u>-</u>
<b><i>Total Administrative Exp</i></b>	\$ 621,600	\$ 698,185	\$ 162,000	\$ 147,266	\$ 80,200	\$ 73,440	\$ 8,930

# Overview – FY 09 Approved vs. Projected Expenditures

	<u>ERS</u>		<u>RSP</u>		<u>DCP</u>		<u>RHBT</u>
	<u>Approved</u>	<u>Proj. Exp.</u>	<u>Approved</u>	<u>Proj. Exp.</u>	<u>Appropriated</u>	<u>Proj. Exp.</u>	<u>Projected</u>
<b><i>Operating Expenses</i></b>							
Retirement Benefits	\$ 164,720,000	\$ 165,700,000	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Mgt. Fees	<u>11,055,000</u>	<u>9,178,000</u>	<u>17,000</u>	<u>20,300</u>	<u>17,000</u>	<u>20,300</u>	<u>41,000</u>
<b><i>Total Operating Exp</i></b>	<b>175,775,000</b>	<b>174,878,000</b>	<b>17,000</b>	<b>20,300</b>	<b>17,000</b>	<b>20,300</b>	<b>41,000</b>
<b><i>Administrative Expenses</i></b>							
Salaries & Benefits	534,000	538,000	57,500	57,500	57,500	57,500	30,000
Professional Services	145,000	105,000	88,000	94,400	5,000	4,300	-
Due Diligence/Education	38,000	35,000	3,500	1,500	3,500	1,500	-
Office Management	<u>35,000</u>	<u>37,000</u>	<u>6,500</u>	<u>5,300</u>	<u>5,800</u>	<u>5,300</u>	<u>1,500</u>
<b><i>Total Administrative Exp</i></b>	<b>\$ 752,000</b>	<b>\$ 715,000</b>	<b>\$ 155,500</b>	<b>\$ 158,700</b>	<b>\$ 71,800</b>	<b>\$ 68,600</b>	<b>\$ 31,500</b>

# Overview – FY09 Proj. Exp. vs. FY10 Requested

	<u>ERS</u>		<u>RSP</u>		<u>DCP</u>		<u>RHBT</u>	
	<u>FY 09 Proj.</u>	<u>FY10 Req</u>	<u>FY 09 Proj.</u>	<u>FY10 Req</u>	<u>FY 09 Proj.</u>	<u>FY10 Req</u>	<u>FY 09 Proj.</u>	<u>FY 10 Req</u>
<b><i>Operating Expenses</i></b>								
Retirement Benefits	\$ 165,700,000	\$ 180,700,000	\$ -	\$ -	\$ -	\$ -		
Investment Mgt. Fees	9,178,000	11,196,400	20,300	20,900	20,300	20,900	41,000	60,000
<b><i>Total Operating Exp</i></b>	174,878,000	191,896,400	20,300	20,900	20,300	20,900	41,000	60,000
<b><i>Administrative Expenses</i></b>								
Salaries & Benefits	538,000	674,000	57,500	45,000	57,500	45,000	30,000	31,000
Professional Services	105,000	315,000	94,400	180,000	4,300	4,400	-	-
Due Diligence/Education	35,000	40,000	1,500	1,000	1,500	1,000	-	-
Office Management	37,000	42,000	5,300	5,600	5,300	5,600	1,500	1,700
<b><i>Total Administrative Exp</i></b>	\$ 715,000	\$ 1,071,000	\$ 158,700	\$ 231,600	\$ 68,600	\$ 56,000	\$ 31,500	\$ 32,700

# ERS - Highlights FY 2008 Approved vs. Actual

	<u>Approved</u>	<u>Proj. Exp.</u>	<u>Actual</u>	<u>Variance* %</u>
<b><i>Operating Revenues</i></b>				
County Contribution	\$ 113,000,000	\$ 113,000,000	\$ 117,686,375	
Employee Contributions	16,000,000	16,000,000	18,850,881	
Investment Income	200,000,000	200,000,000	(68,895,932)	
Securities Lending	690,000	690,000	1,756,767	
<b><i>Total Operating Revenues</i></b>	<b>329,690,000</b>	<b>329,690,000</b>	<b>69,398,091</b>	
<b><i>Operating Expenses</i></b>				
Retirement Benefits	150,720,000	150,720,000	147,699,948	(2.0)
Investment Mgt Fees	9,349,300	9,349,300	14,606,891	56.2
<b><i>Total Operating Expenses</i></b>	<b>160,069,300</b>	<b>160,069,300</b>	<b>162,306,839</b>	<b>1.4</b>
<b><i>Administrative Expenses</i></b>				
Salaries & Benefits	450,000	447,000	507,045	12.7
Professional Services	111,700	111,700	129,018	15.5
Due Diligence/Education	25,000	25,000	25,456	1.8
Office Management	34,900	37,900	36,666	5.1
<b><i>Total Adm Exp</i></b>	<b>\$ 621,600</b>	<b>\$ 621,600</b>	<b>\$ 698,185</b>	<b>12.3</b>

\* Approved versus actual

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# ERS-Explanations of Variances-FY 08 Appr vs. Actual

## ■ *Revenues*

- *County Contributions* – actual contributions were on target with the amount projected by County's actuary.
- *Employee Contributions* – actual contributions based on salary levels.
- *Investment Income* – projections assumed an 8.0% return on investments. Actual gross investment return was a loss of 2.26%.
- *Securities Lending Income* – income higher than projected due to greater demand.

## ■ *Expenses*

- *Investment Mgt. Fees* – 56.2% – actual fees are higher due to higher market values than projected for first 6 months of FY08 and payments of performance based fees.
- *Salaries & Benefits* – 12.7% - higher than projected due to positions being upgraded.
- *Professional Services* – 15.5% - actual fees for outside legal services were higher than the approved budget due to increased use of outside legal counsel for private equity/real estate agreements.
- *Due Diligence/Education* – 1.8% –slightly higher than anticipated.
- *Office Management* – 5.1% – slightly higher than anticipated.

# ERS - FY 2009 Approved & Projected Expenditures

	<u>Approved</u>	<u>Proj. Exp.</u>	<u>Variance %</u>
<b><i>Operating Revenues</i></b>			
County Contribution	\$ 110,000,000	\$ 110,000,000	
Employee Contributions	17,500,000	18,000,000	
Investment Income (loss)	243,000,000	(415,000,000)	
Securities Lending	800,000	0	
<b><i>Tl Operating Revenues</i></b>	<b>371,300,000</b>	<b>(287,000,000)</b>	
<b><i>Operating Exp</i></b>			
Retirement Benefits	164,720,000	165,700,000	0.6
Investment Mgt. Fees	11,055,000	9,448,000	(14.5)
<b><i>Tl Operating Exp</i></b>	<b>175,775,000</b>	<b>175,148,000</b>	<b>(0.4)</b>
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	534,000	538,000	0.7
Professional Services	145,000	105,000	(27.6)
Due Diligence/Education	38,000	35,000	(7.9)
Office Management	35,000	37,000	5.7
<b><i>Tl Adm Expenses</i></b>	<b>\$ 752,000</b>	<b>\$ 715,000</b>	<b>(4.9)</b>

# ERS - FY 2009 Proj. Exp.-Explanations & Assumptions

<u>Category</u>	<u>FY 09 Projected Exp.</u>	<u>% Chg</u>		
<ul style="list-style-type: none"> <li>■ <b>Investment Income</b> <ul style="list-style-type: none"> <li>□ Assumes total return for the fund of (16%) based on 4% gain from 12/31/08 asset level. Wilshire's return assumptions for 2008 are:                             <table style="margin-left: 20px; border: none;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• 8.25% – Equities, domestic &amp; international</li> <li>• 5.00% – Core Bonds</li> <li>• 7.00% – High Yield Bonds</li> </ul> </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• 4.00% – TIPS</li> <li>• 11.25% – Private Equity</li> <li>• 6.50% – Private Real Estate</li> </ul> </td> </tr> </table> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 8.25% – Equities, domestic &amp; international</li> <li>• 5.00% – Core Bonds</li> <li>• 7.00% – High Yield Bonds</li> </ul>	<ul style="list-style-type: none"> <li>• 4.00% – TIPS</li> <li>• 11.25% – Private Equity</li> <li>• 6.50% – Private Real Estate</li> </ul>	<b>(\$415,000,000)</b>	
<ul style="list-style-type: none"> <li>• 8.25% – Equities, domestic &amp; international</li> <li>• 5.00% – Core Bonds</li> <li>• 7.00% – High Yield Bonds</li> </ul>	<ul style="list-style-type: none"> <li>• 4.00% – TIPS</li> <li>• 11.25% – Private Equity</li> <li>• 6.50% – Private Real Estate</li> </ul>			
<ul style="list-style-type: none"> <li>■ <b>Securities Lending Income</b> <ul style="list-style-type: none"> <li>□ All income (projected at \$2.5m) will be used to offset \$3.5m receivable.</li> </ul> </li> </ul>	<b>\$0</b>			
<ul style="list-style-type: none"> <li>■ <b>Retirement Benefits</b> <ul style="list-style-type: none"> <li>□ Amount based on current level of benefit payments and historical increase in number of participants and cost-of-living.</li> </ul> </li> </ul>	<b>\$165,700,000</b>	<b>0.6%</b>		
<ul style="list-style-type: none"> <li>■ <b>Investment Mgt. Fees</b> <ul style="list-style-type: none"> <li>□ Amount based on investment return assumptions, with a total fee of 34.6 basis points, plus performance based fees. Custodian bank, investment consultant, and Bloomberg services based on contract amounts.</li> </ul> </li> </ul>	<b>\$9,448,000</b>	<b>(14.5)%</b>		
<ul style="list-style-type: none"> <li>■ <b>Salaries &amp; Benefits</b> <ul style="list-style-type: none"> <li>□ Reflects five workyears (added one workyear in FY09. The estimated payroll includes a six month lapse for one position) and 60% of 50% of the County attorney's salary and benefits.</li> </ul> </li> </ul>	<b>\$538,000</b>	<b>0.7%</b>		
<ul style="list-style-type: none"> <li>■ <b>Professional Services</b> <ul style="list-style-type: none"> <li>□ Reflects anticipated use of outside legal services for reviewing complex manager agreements and use of temporary administrative services.</li> </ul> </li> </ul>	<b>\$105,000</b>	<b>(27.6)%</b>		
<ul style="list-style-type: none"> <li>■ <b>Due Diligence/Education</b> <ul style="list-style-type: none"> <li>□ Based on projected work effort.</li> </ul> </li> </ul>	<b>\$35,000</b>	<b>(7.9)%</b>		
<ul style="list-style-type: none"> <li>■ <b>Office Management</b> <ul style="list-style-type: none"> <li>□ Reflects slightly higher office related expenses.</li> </ul> </li> </ul>	<b>\$37,000</b>	<b>5.7%</b>		

# ERS - FY 2010 – Requested Budget

	<u>FY09 Proj. Exp.</u>	<u>FY10 Requested</u>	<u>Variance %</u>
<b><i>Operating Revenues</i></b>			
County Contribution	\$ 110,000,000	\$ 115,000,000	
Employee Contributions	18,000,000	18,900,000	
Investment Income	(415,000,000)	170,000,000	
Securities Lending	0	720,000	
<b><i>Total Operating Revenues</i></b>	<b>(287,000,000)</b>	<b>304,620,000</b>	
<b><i>Operating Expenses</i></b>			
Retirement Benefits	165,700,000	180,700,000	9.1
Investment Mgt. Fees	9,448,000	11,666,400	23.5
<b><i>Total Operating Expenses</i></b>	<b>175,148,000</b>	<b>192,366,400</b>	<b>9.8</b>
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	538,000	674,000	25.3
Professional Services	105,000	315,000	200.0
Due Diligence/Education	35,000	40,000	14.3
Office Management	37,000	42,000	13.5
<b><i>Total Administrative Exp</i></b>	<b>\$ 715,000</b>	<b>\$ 1,071,000</b>	<b>49.8</b>

# ERS - FY 2010 - Explanations & Assumptions

<u>Category</u>	<u>FY 10 Requested</u>	<u>% Chg</u>
<ul style="list-style-type: none"> <li>■ <b>Investment Income</b> <ul style="list-style-type: none"> <li>Assumes 8% return on \$2.13B ending market value at 6/30/09. Wilshire's return assumptions for 2008 are:               <ul style="list-style-type: none"> <li>• 8.25% – Equities, domestic &amp; international</li> <li>• 5.00% – US Bonds</li> <li>• 7.00% – High Yield Bonds</li> <li>• 4.00% – TIPS</li> <li>• 11.25% – Private Equity</li> <li>• 6.50% – Private Real Estate</li> </ul> </li> </ul> </li> </ul>	<b>\$170,000,000</b>	
<ul style="list-style-type: none"> <li>■ <b>Securities Lending Income</b> <ul style="list-style-type: none"> <li>□ Based on projected lending levels.</li> </ul> </li> </ul>	<b>\$720,000</b>	
<ul style="list-style-type: none"> <li>■ <b>Retirement Benefits</b> <ul style="list-style-type: none"> <li>□ Amount based on the historical increase in the number of retirees and projected cost-of-living.</li> </ul> </li> </ul>	<b>\$180,700,000</b>	<b>9.1%</b>
<ul style="list-style-type: none"> <li>■ <b>Investment Mgt. Fees</b> <ul style="list-style-type: none"> <li>□ Amount based on investment return assumptions, with a total fee of 34.6 basis points, plus projections of performance based fees. Custodian bank, investment consultant and Bloomberg services all based on contractual amounts.</li> </ul> </li> </ul>	<b>\$11,666,400</b>	<b>23.5%</b>
<ul style="list-style-type: none"> <li>■ <b>Salaries &amp; Benefits</b> <ul style="list-style-type: none"> <li>□ Reflects approximately 4.4 workyears and 60% of 50% of the County attorney's salary and benefits.</li> </ul> </li> </ul>	<b>\$674,000</b>	<b>25.3%</b>
<ul style="list-style-type: none"> <li>■ <b>Professional Services</b> <ul style="list-style-type: none"> <li>□ Includes recordkeeper fees, estimated at \$187,500, for the GRIP and an increase of \$22,000 in the use of outside legal to review of complex manager contracts.</li> </ul> </li> </ul>	<b>\$315,000</b>	<b>200%</b>
<ul style="list-style-type: none"> <li>■ <b>Due Diligence/Education</b> <ul style="list-style-type: none"> <li>□ Amount based on projected work effort.</li> </ul> </li> </ul>	<b>\$40,000</b>	<b>14.3%</b>
<ul style="list-style-type: none"> <li>■ <b>Office Management</b> <ul style="list-style-type: none"> <li>□ Amount reflects additional expenses for reference materials.</li> </ul> </li> </ul>	<b>\$42,000</b>	<b>13.5%</b>

# Retirement Savings Plan

## Highlights FY 2008 Approved vs. Actual

	<u>Approved</u>	<u>Proj. Exp.</u>	<u>Actual</u>	<u>Variance %</u>
<b><i>Operating Revenues</i></b>				
Investment Income	32,000	\$ 32,000	\$ 34,984	
Misc. Income	300,000	450,000	550,434	
<b><i>Total Operating Revenues</i></b>	332,000	482,000	585,418	
<b><i>Operating Expenses</i></b>				
Investment Mgt. Fees	32,000	32,000	26,705	(16.5)
<b><i>Administrative Expenses</i></b>				
Salaries & Benefits	60,200	60,200	65,017	8.0
Professional Services	92,000	92,000	75,430	(18.0)
Due Diligence/Education	4,700	4,700	1,498	(68.1)
Office Management	5,100	5,100	5,321	4.3
<b><i>Total Administrative Exp</i></b>	\$ 162,000	\$ 162,000	\$ 147,266	(9.1)

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# Retirement Savings Plan FY 08

## Explanations of Variances – Approved vs. Actual

### ■ *Revenues*

- *Investment Income* – amount represents income earned on funds invested by the County.
- *Misc. Income* – amount represents forfeiture of employer contribution and earnings from employees who terminate and are not vested. Forfeited amounts totaled \$550,434 in FY08.

### ■ *Expenses*

- *Investment Mgt. Fees* – (16.5)% – reflects new investment consultant contract.
- *Salaries & Benefits* – 8.0% - higher than projected due to positions being upgraded.
- *Professional Services* – (18.0)% - lower than approved budget due to projected use of investment counseling service. (Participants have been scheduling meetings with Fidelity representatives at no fee.)
- *Due Diligence/Education* – (68.1)% – due diligence efforts and educational seminar attendance were lower than anticipated.
- *Office Management* – 4.3% – general office expenses were slightly higher than anticipated.

# Retirement Savings Plan

## FY 2009 Approved & Projected Expenditures

	<u>FY09 Approved</u>	<u>FY09 Proj. Exp.</u>	<u>Variance %</u>
<b><i>Operating Revenues</i></b>			
Investment Income	\$ 24,000	\$ 16,000	
Misc. Income	300,000	300,000	
<b><i>TI Operating Revenues</i></b>	324,000	316,000	
<b><i>Operating Exp</i></b>			
Investment Mgt. Fees	17,000	20,300	19.4
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	57,500	57,500	0.0
Professional Services	88,000	94,400	7.3
Due Diligence/Education	3,500	1,500	(57.1)
Office Management	6,500	5,300	(18.5)
<b><i>TI Adm Expenses</i></b>	\$ 155,500	158,700	2.1

# RSP-FY 2009 Proj. Exp. -Explanations & Assumptions

<u>Category</u>	<u>FY 09 Proj. Exp.</u>	<u>% Chg</u>
■ <b>Investment Income</b>	<b>\$16,000</b>	
□ <i>Assumes average fund balance of \$400,000.</i>		
■ <b>Misc. Income</b>	<b>\$300,000</b>	
□ <i>Amount represents the projected forfeiture of employer contributions and earnings for employees who terminate and are not vested.</i>		
■ <b>Investment Mgt. Fees</b>	<b>\$20,300</b>	<b>19.4%</b>
□ <i>Reflects revised split for Wilshire's Compass software (cost split equally between the retirement plans).</i>		
■ <b>Salaries &amp; Benefits</b>	<b>\$57,500</b>	<b>.0%</b>
□ <i>No change.</i>		
■ <b>Professional Services</b>	<b>\$94,400</b>	<b>7.3%</b>
□ <i>Reflects anticipated increase in the usage of the investment counseling service due to employee elections related to the GRIP.</i>		
■ <b>Due Diligence/Education</b>	<b>\$1,500</b>	<b>(57.1)%</b>
□ <i>Based on projected work effort .</i>		
■ <b>Office Management</b>	<b>\$5,300</b>	<b>(18.5)%</b>
□ <i>Reflects estimated office related expenses.</i>		

# Retirement Savings Plan

## FY 2010 Requested

	<u>FY 09 Proj. Exp.</u>	<u>FY10 Requested</u>	<u>Variance %</u>
<b><i>Operating Revenues</i></b>			
Investment Income	\$ 16,000	\$ 12,000	
Misc. Income	300,000	100,000	
<b><i>Total Operating Revenues</i></b>	316,000	112,000	
<b><i>Operating Expenses</i></b>			
Investment Mgt. Fees	20,300	20,900	3.0
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	57,500	45,000	(21.7)
Professional Services	94,400	180,000	90.7
Due Diligence/Education	1,500	1,000	(33.3)
Office Management	5,300	5,600	5.7
<b><i>Total Administrative Exp</i></b>	158,700	231,600	45.9

# RSP-FY 2010 Requested-Explanations & Assumptions

<u>Category</u>	<u>FY 10 Requested</u>	<u>% Chg</u>
■ <b>Investment Income</b>	<b>\$12,000</b>	
□ <i>Assumes average fund balance of \$200,000.</i>		
■ <b>Misc. Income</b>	<b>\$100,000</b>	
□ <i>Amount represents forfeiture of employer contributions and earnings based on experience and projected lower participation levels due to the GRIP.</i>		
■ <b>Investment Mgt. Fees</b>	<b>\$20,900</b>	<b>3.0%</b>
□ <i>Reflects cost-of-living increase for investment consultant's contract.</i>		
■ <b>Salaries &amp; Benefits</b>	<b>\$45,000</b>	<b>(21.7)%</b>
□ <i>Represents 0.2 of a work year and 20% of 50% of the County attorney's salary and benefits.</i>		
■ <b>Professional Services</b>	<b>\$180,000</b>	<b>90.7%</b>
□ <i>Amount reflects estimate of fees for recordkeeping, \$100,000, and decreased use of investment counseling service.</i>		
■ <b>Due Diligence/Education</b>	<b>\$1,000</b>	<b>(33.3)%</b>
□ <i>Amount based on projected work effort.</i>		
■ <b>Office Management</b>	<b>\$5,600</b>	<b>5.7%</b>
□ <i>Amount reflects slightly higher office related expenses.</i>		

# Deferred Compensation Plan

## Highlights FY 2008 Appropriated vs. Actual

	Appropriated	Actual	Variance %
<b><i>Operating Expenses</i></b>			
Investment Mgt Fees	\$ 32,000	26,705	(16.5)
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	60,200	61,561	2.3
Professional Services	10,200	4,928	(51.7)
Due Diligence/Education	4,700	1,498	(68.1)
Office Management	5,100	5,453	6.9
<b><i>Total Administrative Exp</i></b>	<b>\$ 80,200</b>	<b>\$ 73,440</b>	<b>(8.4)</b>

### Explanations of Variances

***Investment Management Fees*** – (16.5)% - reflects revised investment consultant contract.

***Salaries & Benefits*** – 2.3% – on target.

***Professional Services*** – (51.7)% - lower than projected due to no outside legal costs being incurred.

***Due Diligence/Education*** – (68.1)% - due diligence efforts and educational seminar attendance was lower than anticipated.

***Office Management*** – 6.9% - actual expenses were slightly higher than anticipated.

# Deferred Compensation Plan

## FY 2009 Appropriated & Projected Expenditures

	<u>FY09 Appropriated</u>	<u>FY 09 Proj. Exp.</u>	<u>Variance %</u>
<b><i>Operating Expenses</i></b>			
Investment Mgt Fees	\$ 17,000	\$ 20,300	19.4
<b><i>Administrative Expenses</i></b>			
Salaries & Benefits	57,500	57,500	0.0
Professional Services	5,000	4,300	(14.0)
Due Diligence/Education	3,500	1,500	(57.1)
Office Management	5,800	5,300	(8.6)
<b><i>Total Administrative Exp</i></b>	<b>\$ 71,800</b>	<b>\$ 68,600</b>	<b>(4.5)</b>

### Explanations of Variances

***Investment Mgt. Fees*** – 19.4% - Reflects revised split for Wilshire’s Compass software (cost split equally between the 3 plans).

***Salaries & Benefits*** – .0% - on target.

***Professional Services*** – (14.0)% - reflects anticipated use of temporary administrative services.

***Due Diligence/Education*** – (57.1)% - amount based on projected work effort .

***Office Management*** – (8.6)% - Reflects lower than projected office related expenses.

# Deferred Compensation Plan

## FY 09 Projected Expenditures vs. FY 10 Requested

	<u>FY09 Proj. Exp.</u>	<u>FY10 Requested</u>	<u>Variance %</u>
<i>Operating Expenses</i>			
Investment Mgt Fees	\$ 20,300	\$ 20,900	3.0
<i>Administrative Expenses</i>			
Salaries & Benefits	57,500	45,000	(21.7)
Professional Services	4,300	4,400	2.3
Due Diligence/Education	1,500	1,000	(33.3)
Office Management	5,300	5,600	5.7
<b>Total Administrative Exp</b>	<b>\$ 68,600</b>	<b>\$ 56,000</b>	<b>(18.4)</b>

### Explanations of Variances

*Investment Mgt. Fees* – 3.0% - amount reflects cost of living adjustment for investment consultant contract.

*Salaries & Benefits* – (21.7)% - Represents .2 of a work year and 20% of 50% of the County attorney's salary and benefits.

*Professional Services* – 2.3% - represents use of temporary administrative services.

*Due Diligence/Education* – (33.3)% – based on projected work effort.

*Office Management* – 5.7% - amount reflects higher office related expenses.

# Retiree Health Benefits Trust

## FY 2009 Projected vs. 2010 Requested

	<u>FY09 Proj. Exp.</u>	<u>FY10 Requested</u>	<u>Variance %</u>
<i>Operating Expenses</i>			
Investment Mgt Fees	\$ 41,000	\$ 60,000	46.3
<i>Administrative Expenses</i>			
Salaries & Benefits	30,000	31,000	3.3
Professional Services	-	-	-
Due Diligence/Education	-	-	-
Office Management	1,500	1,700	13.3
<i>Total Administrative Exp</i>	\$ 31,500	\$ 32,700	3.8

### Explanations of Variances

*Investment Mgt. Fees* – 46.3% - reflects investment management and custodian bank fees.

*Salaries & Benefits* – 3.3% - estimate of staff time.

*Office Management* – 13.3% - amount reflects higher office related expenses.