



BUDGET POLICY

Authorizing Manager: Laura Guglielmo, Assistant Executive Officer

Original Effective Date: 05/20/2009

Last Updated: 05/30/2024

Mandatory Review: June 2025 (Annually)

Approval Level: Board of Retirement and Board of Investments

I. Purpose

This document sets forth the fiscal policy to ensure LACERA's budgeting practices are in accordance with prudent fiscal management for the allocation and utilization of resources to meet the organization's Mission and Vision and to support the goals of the Board of Retirement and Board of Investments' Strategic Plans. The policy also serves to increase the transparency of the budgeting process, which ensures stakeholders and members have insight into how LACERA manages its funds and meets its fiduciary obligations.

LACERA's budget encompasses three components: The Administrative Budget, the Retiree Healthcare (RHC) Budget, and the Other Post-Employment Benefits (OPEB) Trust.

The objective of this policy is to set out LACERA's budgeting principles, the timeline for the preparation of the budget, and the process and responsibilities for review, approval, and implementation of all three budget components.

II. Scope

This Policy applies to the development, preparation, and implementation of all three components of LACERA's budget in accordance with the County Employees Retirement Law (CERL).

Any exceptions to this Policy must be requested in writing (clearly stating the basis for the exception) and approved by the Board of Retirement and Board of Investments.

III. Legal Authority

Government Code Section 31580.2 of the County Employees Retirement Law (CERL) requires a budget covering the entire expense for the administration of the retirement system, shall be adopted by the Boards annually, and shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the retirement system.

Government Code Section 31596.1 provides that the expenses of investing its moneys, securing custodial bank services, securing actuarial services for the annual valuation and triennial experience study, and securing attorney services to assist with investment matters under Government Code Sections 31607 shall not be considered a cost of administering the system.

III. Legal Authority (Continued)

As such, these costs are not included in the Administrative Budget and are identified as “non-administrative expenses.” Section 31596.1 also provides that the cost of internal legal representation secured by the Board of Retirement and Board of Investments under Government Code Section 31529.1 for services previously performed by County Counsel are not administrative costs and under Government Code Section 31607 for services to assist the Board of Investments in carrying out its investment powers and duties. Under Section 31529.1, legal representation within the scope of that statute is limited to one-hundredth of 1 percent of system assets in any budget year; investment legal expenses under Section 31607 are not similarly limited.

Government Code Section 31580.2(b) provides that expenditures for computer software, hardware, and technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

Government Code Sections 31691 and 31694 provide that the expenses of administering the RHCBP program and OPEB Trust may not be made from assets of the retirement fund. Therefore, such costs should not be part of the pension system’s administrative budget.

IV. Definitions

Administrative Budget: LACERA’s annual Administrative Budget consists of two components: Salaries and Employee Benefits, and Services and Supplies.

Appropriation: Funds set aside for specific purposes outlined in the Adopted Budget.

Budget: The annual financial plan that outlines the resources and revenue needed to achieve LACERA’s work plan to meet its Mission and Vision and LACERA’s Board of Retirement Strategic Plan and Board of Investments Strategic Plan.

Fiscal Year: LACERA’s fiscal year begins on July 1st and concludes on June 30th. LACERA shall follow a naming convention referencing the fiscal year ending date, for example, FY23 for the fiscal year ending June 30, 2023.

Information Technology Coordination Council (ITCC): Oversight body responsible for significant technology and system recommendations for incorporation into the Proposed Budget. Established to ensure the efficient and effective use of technology, collaboration across the organization, and that the strategic plan goals are achieved.

Non-Administrative Expenses: Expenses excluded from the Administrative Budget as specified in Government Code Section 31596.1.

Other Post-Employment Benefits (OPEB) Trust: Trust funds established by Los Angeles County, LACERA, and the Superior Court to pre-fund their Retiree Healthcare Benefit Program.

IV. Definitions (Continued)

Retiree Healthcare Benefits Program (RHCBP) Budget: The RHCBP Budget reflects the resources and revenue required to administer retiree healthcare benefits to eligible members. These costs are funded through a monthly administrative fee via healthcare premiums, charged to program participants, or the plan sponsor if the member's benefit is fully subsidized.

Statutory Appropriation Limit: The limit of the Boards' authority to appropriate funds to administer the retirement system, established by Government Code Section 31580.2 - currently twenty-one hundredths (.21) of one percent of the actuarial accrued liability of the retirement fund.

Unallocated Statutory Appropriation Balance: The difference between the funds appropriated to meet the organization's operational needs and the statutory appropriation limit established by Government Code Section 31580.2.

V. Policy Statement

This policy seeks to document LACERA's budgetary practices, consistent with its fiduciary duty of prudence.

V.A. Budgetary Components

LACERA's budget encompasses three components: The Administrative Budget, the Retiree Healthcare Benefits Program (RHCBP) Budget and the Other Post-Employment Benefits (OPEB) Trust.

V.A.1. Administrative Budget

The Administrative Budget reflects the resources needed to achieve the organization's work plan, each Board's Strategic Plan and goals, and operational activities in support of pension administration and investment of plan assets required to deliver retirement benefits for LACERA members and beneficiaries. It consists of two primary components: Salaries and Employee Benefits (S&EB) and Services and Supplies (S&S).

S&EB costs consist of ongoing personnel costs for the organization, including salaries for permanent and temporary staff, overtime, and variable benefits. Variable benefits include retirement costs (pension, 457, and 401K plan costs), health insurance, OPEB contributions and other employee benefits.

S&S costs reflect the daily operational needs of the organization. Some examples include, but are not limited to, building expenses (rent, maintenance, insurance), information technology needs, professional and specialized services, legal fees, office supplies and equipment, education, travel, and insurance.

V.A.2 Retiree Healthcare (RHC) Benefits Program Budget

V. Policy Statement (Continued)

The Retiree Healthcare Benefits Program provides healthcare benefits to LACERA membership on behalf of the fund's Plan Sponsors. The insurance premiums are born solely by the participants of the plan, or the Plan Sponsor if the employee is eligible for such benefit. LACERA trust funds are not used for premium payments or for the administration of the Program. The direct costs and variable overhead costs associated with the administration of the RHC Benefits Program are charged to the plan sponsors and participating members via an administrative fee. These administrative fees are added to the monthly premium costs and are not included in the Administrative Budget.

There are four categories of expenses for the RHC Benefits Program:

- Direct Costs of Salaries and Employee Benefits
- Direct Services and Supplies
- Indirect Salaries and Employee Benefits
- Indirect Services and Supplies.

Indirect Salaries and Employee Benefits and Indirect Services and Supplies reflect the program's pro-rata share of internal LACERA support functions such as Administrative Services, Information Technology, and Human Resources.

V.A.3. Other Post-Employment Benefits (OPEB) Trust Budget

The County of Los Angeles (County), LACERA, and the Superior Court (Court) utilize an OPEB Trust to pre-fund the Retiree Healthcare Program benefits. In FY 2012-2013, the County and LACERA established a trust to fund their program and the Court established its trust in FY 2016-17. Each agency's trust funds are reported separately in their financial statements. The Board of Investments of LACERA serves as the trustee and investment manager for the trusts.

The Trust Agreements stipulate that "*... the Trustee (LACERA) shall be entitled to payment or reimbursement of all of its reasonable and appropriate expenses incurred in administering or investing the Trust...*" As such, LACERA seeks payment directly from the County and the Court to fund the OPEB Trust. To avoid the OPEB Trust assets being co-mingled with retirement fund assets, LACERA maintains separate accounting of the costs associated with administering the OPEB Trust. The costs of the OPEB Trusts are not part of LACERA's Administrative Budget.

There are four categories of expenses of the OPEB Trust: Direct Costs of Salaries and Employee Benefits; Direct Services and Supplies; Indirect Salaries and Employee Benefits; and Indirect Services and Supplies. These expenses are allocated between the County, LACERA, and the Court based on an agreed methodology. At the close of each fiscal year, actual costs are reconciled, and variances are credited or debited to each entity.

V. Policy Statement (Continued)

V.B. Process

The budget process consists of activities that encompass the development, implementation, and evaluation of the annual financial plan for the allocation of resources to support and accomplish organizational goals and strategic initiatives.

V.B.1. Budget Monitoring and Control

It is the responsibility of LACERA management to develop and prepare an annual budget in accordance with responsible fiscal management for the allocation and utilization of resources to meet the organization's Mission, Vision, and Values and each Board's Strategic Plan.

V.B.2. Criteria

LACERA Management develops the annual proposed budget reflecting the enterprise priorities established through each Board's Strategic Plan. Criteria used by the organization to prioritize resources for the budget include, but are not limited to:

- Alignment with each Board's Strategic Plan
- Mitigating risk
- Compliance with legally mandated requirements
- Technological advancements to support staff and improve service to LACERA's members
- Identifying opportunities for cost efficiencies
- Identifying opportunities to improve service to members
- Staff development and succession planning
- Direction of the LACERA Board of Retirement and/or Board of Investments

V.B.3 Alignment with Each Board's Strategic Plan

The first step in developing a budget is to consider what the organization expects to achieve in the upcoming fiscal year. Each Board's Strategic Plan lays out its strategic goals, objectives, and action plans to achieve LACERA's Mission, Vision, and Values. Those goals and objectives identify responsibilities, timelines, and the metrics that will be used to determine if the goals or objectives have been met. As part of the budget development process, it is the responsibility of LACERA Trustees and Management to ensure that the organization's budget, or financial plan allocate the appropriate resources to achieve its strategic goals and objectives within the specified time frame.

V. Policy Statement (Continued)

V.B.4 Annual Budget Development and Approval Calendar

<i>Date</i>	<i>Activity</i>
By November 30	<ul style="list-style-type: none"> Executive Office and Management review each Board's Strategic Plan initiatives for alignment with the upcoming Fiscal Year budget development cycle.
	<ul style="list-style-type: none"> Administrative Services Division provides each Division Manager a budget package with instructions for completing their proposed budget for the upcoming fiscal year, a budget preparation timetable with specific deadlines, a schedule of meeting dates with the Budget Unit, and a schedule of meeting dates with the Executive Office.
December	The Budget Unit, representatives from Human Resources and Systems meet with Division Managers and their designees to provide guidance in the development of their budget requests.
By January 15	Division Managers submit their proposed budget to the Budget Unit.
By February 15	The Executive Office meets with each Division Manager and their designees to discuss the Division's needs and provide direction to the Division Managers and Budget Unit.
March	Audit Committee review of Internal Audit Proposed Budget.
April	The Budget Unit prepares and distributes the preliminary Administrative, RHC, and OPEB Trust Budgets to all Trustees and Division Managers.
April	Present preliminary budget to JOGC for review and input
By June 30	Board of Retirement and Board of Investment review and approve final budget

V.B.5. Budget Adoption

The Board of Retirement and Board of Investments ("Boards") have the joint responsibility to approve the enterprise-wide budget and resource allocations for all funds by June 30th. The Boards have created the Joint Organizational Governance Committee (JOGC), to provide oversight of the budget preparation and planning. The Preliminary Budget is presented to the JOGC in April for its review and direction. Staff incorporates direction from the JOGC, and the JOGC's

V. Policy Statement (Continued)

recommendations are presented to both Boards. The Boards independently take action to approve and adopt a Final Adopted Budget by June 30th.

V.B.6. Budget Appropriation

The Final Adopted Budget reflects the funds appropriated, or set aside, for specific purposes. For LACERA, funds are appropriated for two primary purposes, Salaries and Employee Benefits, and Services and Supplies.

Government Code Section 31580.2 states the annual budget for administrative expenses of a retirement system established under CERL may not exceed twenty-one hundredths (.21) of one percent of the Actuarial Accrued Liability (AAL) of the retirement system. Each year, LACERA's statutory appropriation limit is identified in the Adopted Budget.

To the extent funding appropriated as part of the budget is less than the statutory appropriations limit, the Boards may take specific action at any point during the fiscal year to appropriate additional funds not to exceed the maximum amount established by statute. LACERA's budgeting process includes a Mid-Year Budget Adjustment proposal to facilitate changes in priorities, goals, or economic conditions. The difference between the funds appropriated to meet the organization's operational needs and the statutory appropriation limit shall be referred to as the "Unallocated Statutory Appropriation Balance."

Budgetary adjustments that do not fall within the authority of the Chief Executive Officer, as outlined in Section V.B.10 below, require the review and recommendation by the JOGC for approval by both Boards as outlined in Section V.B. 12.

V.B.7. Budget Monitoring and Reporting

Budget Unit staff monitors and analyzes Division and enterprise-wide expenditures throughout the year, consults with Division Managers to identify planned expenditures and project full year under/over expenditures by Division, and compares those estimates against the Adopted Budget. Significant budgetary variances are discussed and explained.

Budget Control Reports are prepared and provided to all Trustees and Management Staff on an outlined schedule within the fiscal year. These reports include year to date expenditures and projected expenditures compared to the budget. Budget adjustments impacting staffing levels or exceeding the CEO's authority referenced in Section V.B.10 shall be considered by the JOGC and approved by the Boards.

This budget monitoring and control activity occurs concurrently while the Proposed Budget for the upcoming fiscal year is being developed.

V. Policy Statement (Continued)

V.B.8. Mid-Year Budget Review

By December 1, LACERA Executive Management will assess and evaluate the adequacy of the personnel and other resources included in the Final Adopted Budget and make recommendations to the JOGC for adjustments, if necessary, as described in Section V.B.6. JOGC recommendations shall be considered for approval by the Boards. As part of the mid-year budget, Executive Management may also address the progress and status of achieving the Boards' respective Strategic Plans.

V.B.9. Mid-Year and Year-End Adjustments Within the Administrative Budget

As part of LACERA's budget monitoring and reporting activities, it may become necessary to amend the Final Adopted Budget. Amendments may take the form of transferring appropriations between line items within a major account, transferring appropriations between major accounts, or increasing total appropriations within the statutory limits established by the Government Code as discussed in Sections V.B.6 and V.B.10.

V.B.10. Transferring Appropriations

LACERA's Administrative Budget has two major accounts, Salaries and Employee Benefits (S&EB), and Services and Supplies (S&S).

Within each major account are several line items with individual appropriations. The CEO has the authority to transfer appropriations not to exceed \$1 million across major accounts and has full discretion and authority to transfer appropriations between line items within each major account. The CEO shall notify all Trustees of such actions at the next Board meeting and as part of the routine Budget Control Reporting.

V.B.11. Pre-funding OPEB

LACERA participates in the OPEB Trust as a "contributing employer" and funds its employees' program benefits on a pay-as-you-go basis, funding actual monthly premium costs. It also makes a quarterly contribution to paydown the future OPEB liability at a rate equal to that of Los Angeles County. It is LACERA's objective to fund these program benefits within the working lifetime of the program beneficiaries so as to maintain intergenerational equity. To achieve intergenerational equity more quickly, since 2022, LACERA's CEO has authorized additional OPEB contributions utilizing budgetary savings identified at year end. In order to ensure a consistent paydown of the OPEB liability, LACERA's actuary shall now calculate the additional annual pre-funding necessary to fully fund LACERA's OPEB liability over the next 30 years. The annual amount necessary shall be included as a separate line item in LACERA's budget.

V. Policy Statement (Continued)

V.B.12. Increasing Total Appropriations

Should unanticipated expenditures be required during the fiscal year beyond the total Adopted Budget amount, the Unappropriated Statutory Appropriation Balance is available. This balance represents the difference between the total statutory appropriation limit established under CERL and the Final Adopted Budget. To utilize these unappropriated funds, both Boards must approve a budget amendment, increasing the total annual appropriation. Such requests will first be considered by the JOGC for a recommendation to both Boards to take the required action.

V.C. Audit Committee Oversight of Internal Audit

LACERA's Internal Audit Division provides independent and objective assurance and consulting services to assist the organization in achieving its Mission, Vision, and Values and each Board's Strategic Plan. To protect its independence, the Internal Audit Division reports functionally to the Audit Committee of the Boards and administratively to the Chief Executive Officer. The Audit Committee reviews and approves Internal Audit's Proposed Budget by Mid-March, which is then incorporated into LACERA's Administrative Proposed Budget reviewed by the JOGC in April or May.

VI. References

The following information complements and supplements this document.

Related Policies:

- [Retirement Benefit Funding Policy](#)
- [OPEB Investment Policy Statement – OPEB Master Trust](#)

Related Internal Procedures: Budget instructions provided annually; Questica Budget Guide (Internal Document)

Related Forms/Templates: Not Applicable; Data captured in Questica Budget System

Other Related Information:

- [Joint Organizational Governance Charter](#)
- [Audit Committee Charter](#)

VII. Version History

VII.A. Approvals

Policy Issue Date: May 20, 2009

Policy Effective Date: June 12, 2024

VII. Version History (Continued)

Policy Update/Review Summary:

- Updated and approved by the Board of Retirement and the Board of Investments on June 5, 2024, and June 12, 2024, respectively. Prior versions supersede and have no effect as of the stated approval date.
- This policy was previously approved by the Board of Retirement on June 7, 2023, and the Board of Investments on June 14, 2023
- This policy was previously approved by the Board of Retirement on June 1, 2022, and Board of Investments on June 9, 2022

VIII. Review/Approval

The Joint Organizational Governance Committee shall review and recommend that the Board of Retirement and the Board of Investments approve this policy annually when they adopt the Budget for the upcoming fiscal year.