

RETIREMENT SERVICES

The mission of the Retirement Services Department is to provide quality services in the delivery of pension and related benefits and maintain financially sound pension plans.

RETIREMENT SERVICES

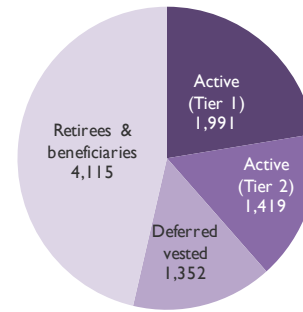
The Office of Retirement Services administers two pension plans, the Federated City Employees' Retirement System (Federated) and the Police and Fire Department Retirement Plan (Police and Fire), as well as Other Post Employment Benefits (OPEB) for City employees and retirees.

In 2016-17, the Office's budgeted personal expenses totaled \$6.6 million including 40 authorized positions (up from 28 positions ten years ago). Additional administrative costs, such as professional fees, of about \$3.3 million were paid out of the retirement funds. A comprehensive report by the Office puts investment fees at \$60.2 million for calendar year 2016. For more information, refer to our recent [Audit of Retirement Services](#).

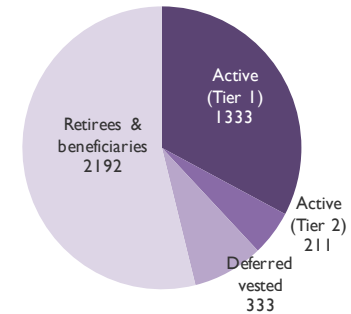
The City's total contributions to the two plans included \$275 million for pension benefits and \$53 million for OPEB, along with contributions from City employees of \$73 million for pension and OPEB. This totals to \$401 million in contributions from the City and its employees. The City's contributions have grown dramatically since the early 2000s and are expected to continue to grow in the coming years.

In 2012, San José voters approved a retirement reform measure (Measure B) that was subsequently subject to legal challenges. The City and its eleven bargaining units negotiated the provisions of a ballot measure (Measure F) to amend the City Charter to supersede the provisions implemented by Measure B. Measure F was passed by San José voters in November 2016.

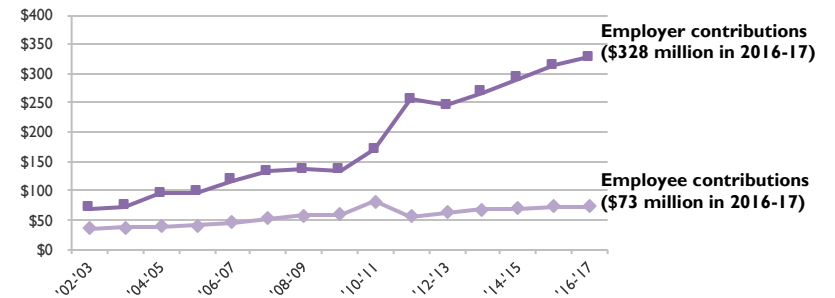
Federated Plan Membership



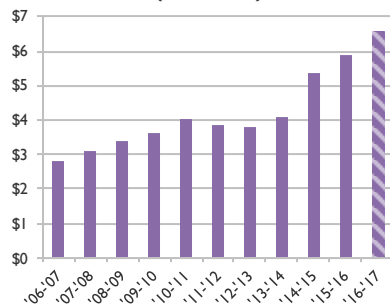
Police and Fire Plan Membership



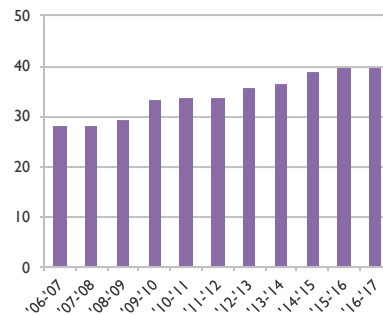
Total Annual Contributions for Pension and Retiree Health and Dental Benefits (\$millions)



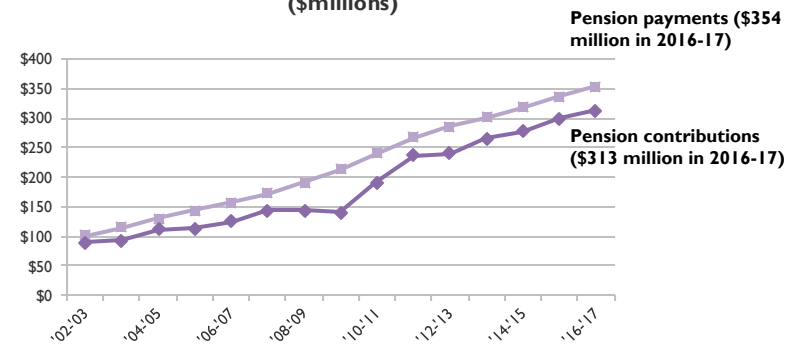
Retirement Services Personal Services Expenditures (\$millions)



Retirement Services Authorized Positions



Pension Benefit Payments and Contributions (\$millions)



Note: FY 2016-17 is adopted budget data. All other years are actual expenses. The Retirement Services chapter of the City's Operating Budget, as of June 30, 2017, only includes personal services. Additional administrative expenses and investment expenses are included in the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan Comprehensive Financial Reports.

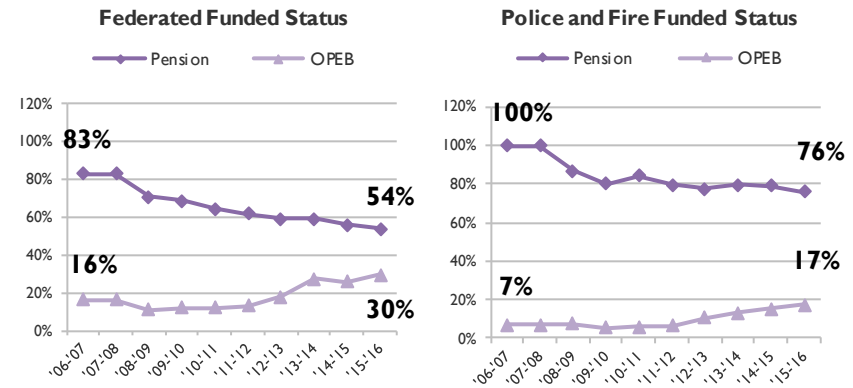
Sources for above charts: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System](#) Comprehensive Annual Financial Reports

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As of June 30, 2017, there were 6,307 retirees or beneficiaries of the plans, up from 4,480 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined from 1.4:1 to less than 1:1. In 1980, the ratio was nearly 5:1.

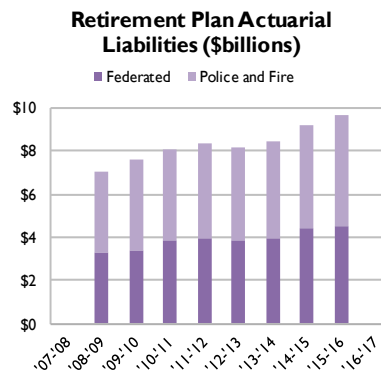
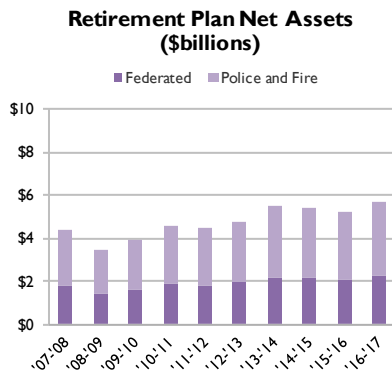
As of June 30, 2016, the Federated and Police and Fire independent actuaries determined that the funded ratios (or percent of liabilities covered by plan assets) were 54 percent for the Federated plan and 76 percent for the Police and Fire plan.

The independent actuaries also determined that the pension and OPEB plans' liabilities exceeded the values of their assets by \$2.3 billion for Federated and \$1.7 billion for Police and Fire respectively. These unfunded liabilities totaled nearly \$270,000 per Federated member and nearly \$420,000 per Police and Fire member.

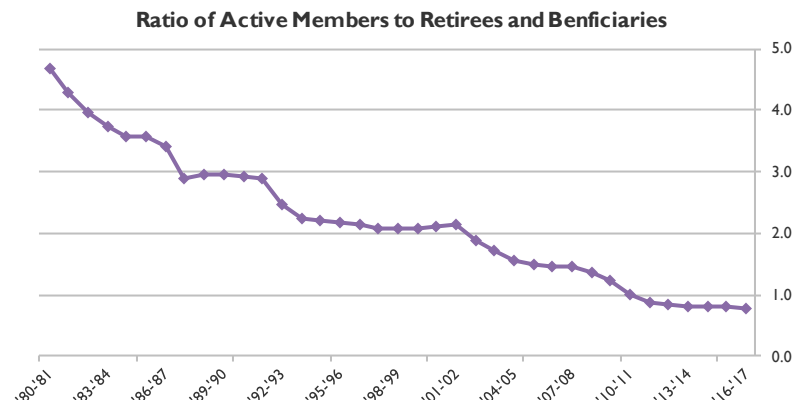


Sources: Federated City Employees' Retirement System and Police and Fire Department Retirement Plan Actuarial Valuations

Note: Funded status calculated using the actuarial value of assets, which differs from the market value as gains/losses are recognized over five years to minimize the effect of market volatility on contributions.



Note: 2015-16 data is the most recently available. Actuarial valuations were performed every two years prior to 2008-09



Source: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations

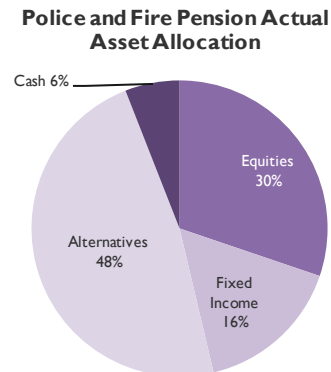
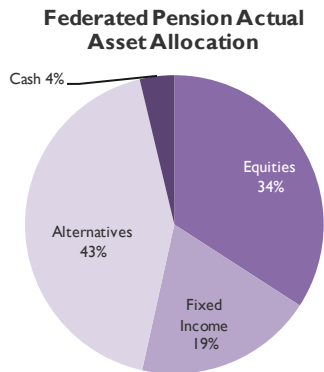
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During 2016-17, Federated had a net rate of return on pension plan assets of 7.5 percent and Police and Fire earned 9.7 percent. Over the past five years, the Federated and Police and Fire pensions' annualized net returns have been 5.4 and 6.1 percent, respectively. The assumed rate of return, or discount rate*, for both plans was 6.875 percent as of June 30, 2017.

As a result of the positive investment returns, as well as payments for retirement benefits and health care premiums, total plan assets increased from \$5.25 billion last year to \$5.68 billion on June 30, 2017.

The retirement plans' assets are distributed among various types of investments, according to each board's investment policies. As of June 30, 2017, both pension plans held the largest portions of their assets in "alternatives," which are generally investments outside of traditional stocks, bonds, or cash.

*The assumed rate of return, or discount rate, is the annual rate used to discount pensions expected to be paid in the future to current dollars. For pension plans, it is often based on expected investment returns.

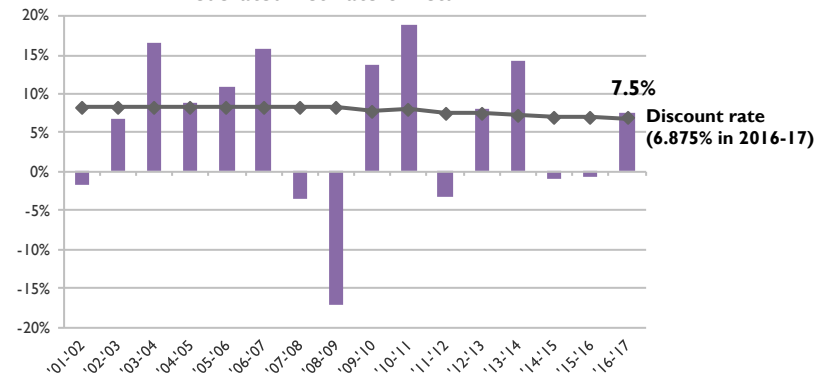


Source: Auditor-generated categories based on retirement plans' Comprehensive Annual Financial Reports
 Note: The "alternatives" category consists of the following pension plan asset classes: real assets, private equity, private debt, absolute return, and global tactical asset allocation.

Retirement Plan Oversight

The Office of Retirement Services is overseen by two separate Boards of Administration: one for Federated, and one for Police and Fire. Each board is comprised of active employee and retiree representatives, as well as City Council-appointed public members with financial experience.

Federated Net Rate of Return



Police and Fire Net Rate of Return

