

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 Retirement Services Department administers two pension plans (the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan) and retirement benefit programs for City employees. In 2011-12, Department operating expenditures totaled \$3.8 million* and staff included 34 authorized positions (up from \$3.1 million and 28 positions five years ago).

In 2011-12, the City contributed \$255 million and employees about \$56 million to the retirement funds for pension and retiree health and dental benefits. The City's contributions were more than triple what they were ten years ago; for employees, the contributions were more than one and a half times greater. Contributions actually went down for employees overall from 2010-11. This was partially because in the prior year some employee bargaining groups picked up a portion of the City's payments as part of negotiations surrounding efforts to balance that year's operating budget. For 2012-13, the City's contributions were projected to decrease slightly to \$250.1 million.

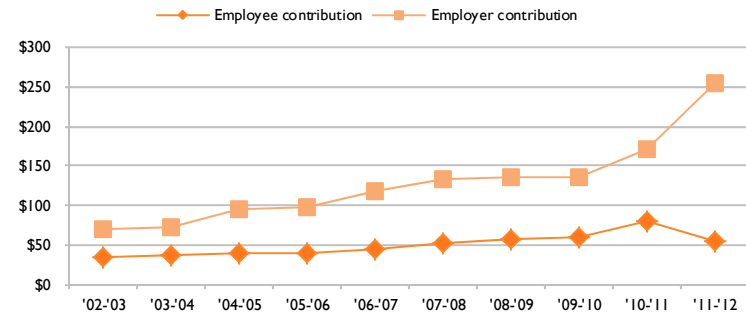
In June 2012, San José voters approved a comprehensive pension reform measure (Measure B) that established parameters for a new pension benefit structure for new City employees ("Tier 2"), established higher employee retirement contributions for current City employees who choose to stay in the existing plan ("Tier 1"), and provided current City employees the choice to opt in to a lower cost retirement plan with a reduced benefit structure from the existing plan. Measure B is in the process of being implemented (pending the outcome of legal challenges).

* In addition, Retirement Services spent \$138,000 of Citywide expenses.

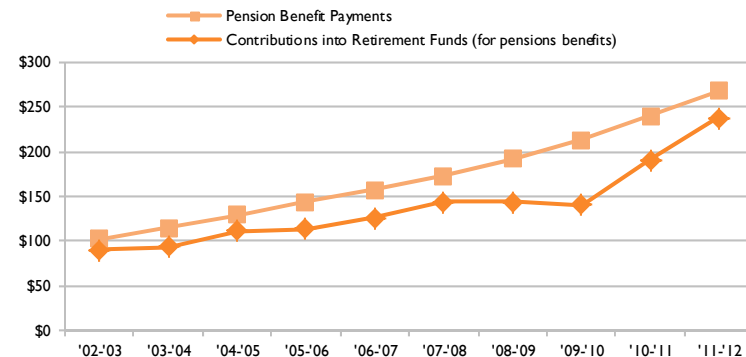
KEY FACTS (2011-12)

Pension plan net assets (\$billions):	
Federated City Employees' Retirement System	\$1.8
Police and Fire Department Retirement Plan	\$2.6
Total	\$4.4
Total retirees and beneficiaries:	
Federated City Employees' Retirement System	3,688
Police and Fire Department Retirement Plan	1,910
Total	5,598
Pension and retiree health and dental contributions (\$millions):	
City	\$255.1
Employees	\$56.4

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

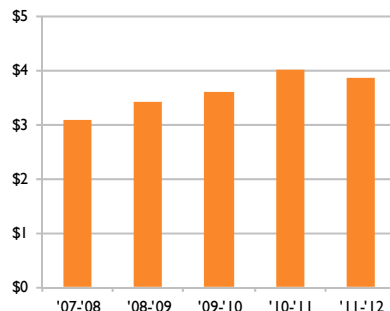


Pension Benefit Payments and Contributions (\$millions)

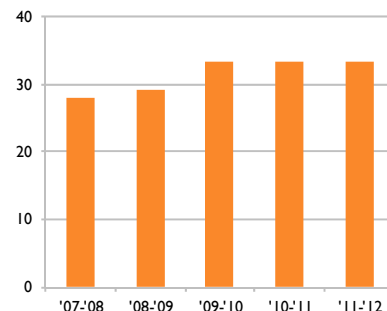


Sources for above charts: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports

Retirement Services Operating Expenditures (\$millions)



Retirement Services Authorized Positions



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As of June 30, 2012, there were 5,598 beneficiaries of the plans, nearly 60 percent more than ten years ago. Over that same period, the number of active members (i.e., current employees contributing to the plans) has decreased by about a quarter. The ratio of active members to beneficiaries has declined from nearly 2:1 to less than 1:1 over that time. Thirty years ago the ratio was 5:1.

During 2011-12, both plans had negative rates of return on plan assets. Federated's gross rate of return was negative 2.4 percent and Police and Fire's return was negative 0.2 percent. By comparison, the California Public Employees' Retirement System (CalPERS) earned a 1 percent return. Over the past ten years, the Federated and Police and Fire annualized gross returns have been 6.4 and 6.6 percent respectively (CalPERS earned 6.1 percent over the same period).

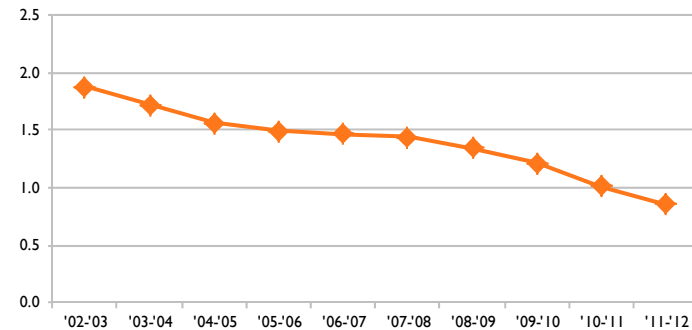
Because of the negative returns, as well as the fact that payments out of the plans were greater than contributions into the plans (see chart on previous page), total plan assets declined from \$4.6 billion to \$4.4 billion over the last fiscal year.

As of June 30, 2011, both of the City's retirement plans had funded ratios below 100 percent (i.e., pension liabilities were greater than plan assets). This was because of the large investment losses suffered by both plans during the recent economic downturn, past retroactive benefit enhancements, and actuarial assumptions not holding true.* The funded ratios are expected to remain below 100 percent for the near future because of the size of the past investment losses as well as the other factors noted above. Because of the actuarial method of smoothing market gains and losses over five years, past losses have not been fully recognized for actuarial purposes.

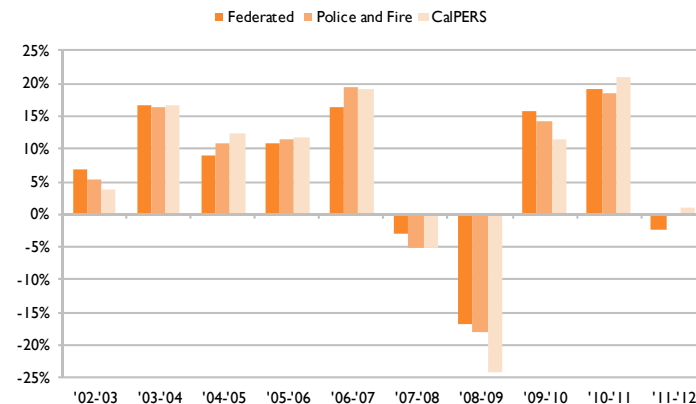
* Actuarial assumptions represent expectations about future events such as investment returns, member mortality and retirement rates, salary increases, and others. Actuaries use those assumptions to calculate pension liabilities and contribution rates. When assumptions do not hold true, or if they need to be adjusted, estimated pension liabilities can change.

Sources for all charts: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports; CalPERS Quarterly Performance Report, Quarter Ending June 30, 2012

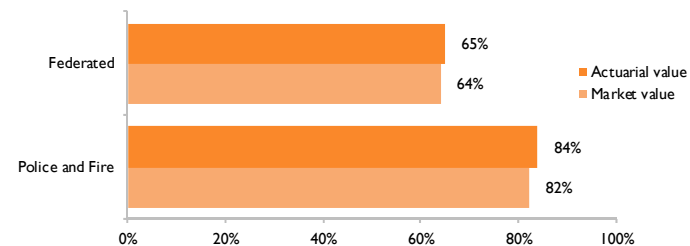
Ratio of Active Members to Retirees and Beneficiaries



Rate of Return on Plan Assets



Retirement Plan Funded Status, June 30, 2011



Funded ratios represent the percentage of plan assets to plan liabilities. (i.e., a funded ratio below 100% means there are more liabilities than assets). The funded ratio using the actuarial value of assets differs from that calculated using the market value because, for actuarial purposes, market gains and losses are recognized over a period of five years to minimize the effect of market volatility on contribution rates.

