

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 2015-16, the Office's operating budget totaled \$6.3 million* and staff included 40 authorized positions (up from 28 positions ten years ago).

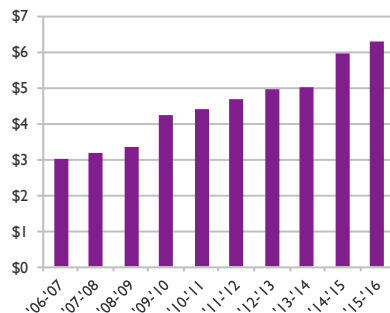
In 2015-16, the City's total contributions to the two plans included \$262 million for pension benefits and \$52 million for OPEB. Combined pension and OPEB contributions from City employees totaled \$73 million. The City's contributions have grown dramatically since the early 2000s and are expected to continue to grow in the coming years.

As of June 30, 2016, there were 2,162 and 1,135 active Federated members in Tiers 1 and 2 respectively. For Police and Fire, there were 1,393 active members in Tier 1 and 189 in tier 2. In addition, there were 47 members in the City's Tier 3 plan administered by the Human Resources Department

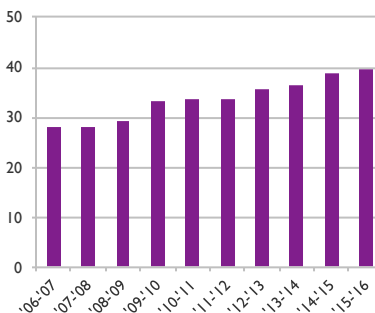
In June 2012, San José voters approved a comprehensive pension reform measure (Measure B) that was subsequently subject to legal challenges. The City and its eleven bargaining units negotiated the provisions of a ballot measure, known as Measure F, to amend the City Charter to supersede the provisions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

* Additional administrative costs totaling about \$2.7 million were paid out of the retirement funds, including \$1.4 million for professional services. Retirement Services was also responsible for \$204,000 in actual Citywide expenses in 2015-16.

Retirement Services Operating Budget (\$millions)



Retirement Services Authorized Positions

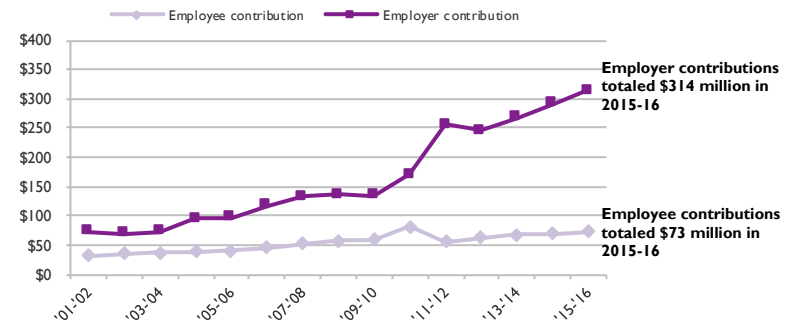


KEY FACTS (2015-16)

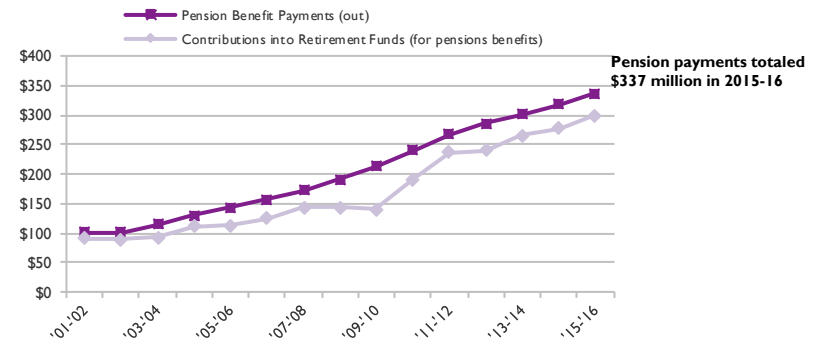
Total members:**	Federated	Police and Fire
Active (Tier 1)	2,162	1,393
Active (Tier 2)	1,135	189
Deferred vested	1,206	317
Retirees/beneficiaries	<u>4,003</u>	<u>2,149</u>
Total	8,506	4,048

** Pension plan only. The Federated Plan has Tiers 2a, 2b, and 2c.

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 Annual Financial Reports

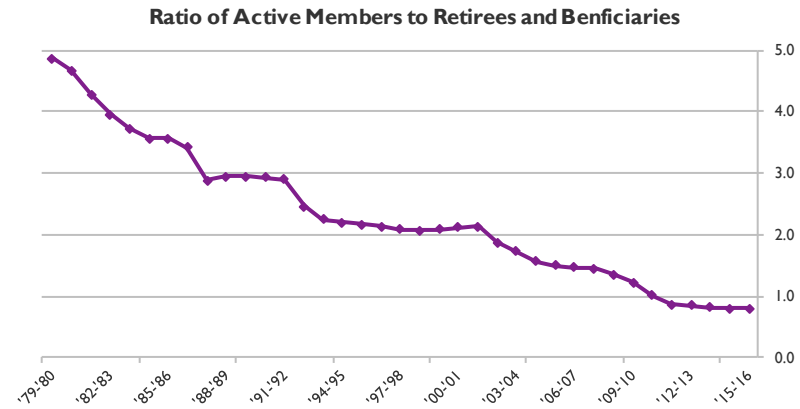
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As of June 30, 2016, there were 6,152 retirees or beneficiaries of the plans, up from about 4,300 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined from 1.5:1 to less than 1:1. In 1980, the ratio was nearly 5:1.

During 2015-16, both plans had negative rates of return on plan assets. Federated's gross rate of return was -0.3 percent and Police and Fire's return was -0.4 percent. Over the past five years, the Federated and Police and Fire annualized gross returns have been 3.4 and 4.4 percent, respectively. As a result of the negative investment returns, as well as payments for retirement benefits and health care premiums, total plan assets decreased from \$5.36 billion last year to \$5.25 billion on June 30, 2016.

As of June 30, 2015, the Federated and Police and Fire independent actuaries determined that the funded ratios (or percent of liabilities covered by plan assets) were 56 percent for the Federated plan and 79 percent for Police and Fire plan.

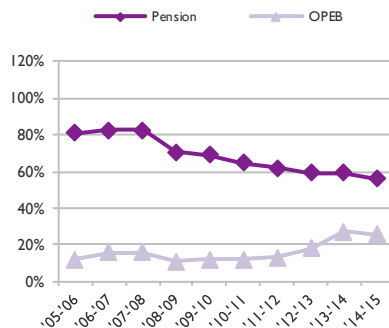
The independent actuaries also determined that the pension and OPEB plans' liabilities exceeded the values of their assets by \$2.2 billion for Federated and \$1.5 billion for Police and Fire respectively. These unfunded liabilities totaled more than \$260,000 per Federated member and more than \$370,000 per Police and Fire member.



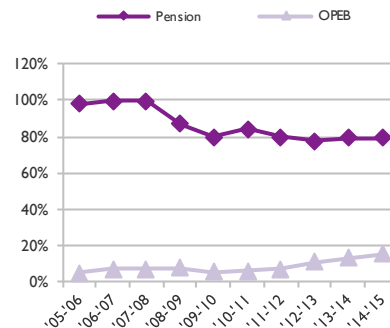
Note: As of June 30, 2015, the actuarial assumed or expected rate of return for both the Federated and Police and Fire plans was 7 percent.

Sources for above charts: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System](#) Comprehensive Financial Reports and Actuarial Valuations; CalPERS Annual Investment Reports, CalPERS Facts at a Glance from the CalPERS website

Federated Funded Status



Police and Fire Funded Status



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.

