

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.

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The Retirement Services Department 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 retirement benefit programs for City employees. In 2014-15, Department operating expenditures for personnel totaled \$5.4 million,* and staff included 39 authorized positions (up from \$2.5 million and 27 positions ten years ago).

In 2014-15, the City and its employees contributed 100 percent of its Annual Required Contribution (ARC) to the retirement funds for pension benefits; and 76 percent and 63 percent of the ARC for Federated and Police and Fire retiree health and dental benefits (also known as Other Post Employment Benefits or OPEB).** The City's total contributions included \$244 million for pension benefits and \$48 million for OPEB.

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"). As of June 30, 2015, there were 2,363, and 873 active Federated members in Tiers 1 and 2 respectively. For Police and Fire, there were 1,467 active members in Tier 1 and 110 in tier 2.

Some portions of Measure B also impacted members of both Tier 1 plans. Those changes are currently subject to legal challenges and/or are part of ongoing negotiations between the City and its bargaining units.

* Additional administrative costs totaling about \$3.1 million were paid out of the retirement funds, including \$1.6 million for professional services. Retirement Services also spent \$184,000 of Citywide expenses.

** The Annual Required Contribution is an amount that actuaries calculate is necessary to be contributed to a retirement plan during the current year for the benefits to be fully funded over time.

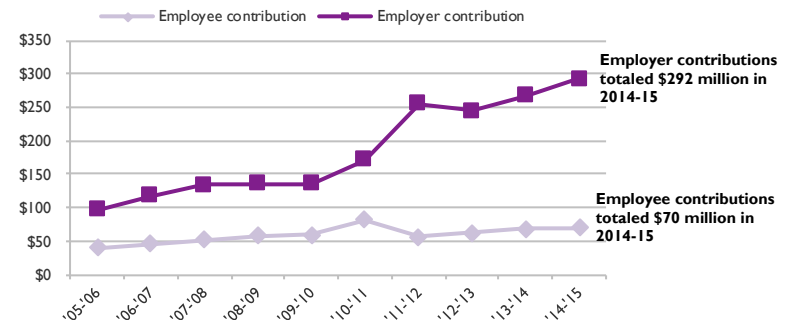
KEY FACTS (2014-15)

Plan net assets (\$billions):	Pension	OPEB	Total
Federated	\$1.93	\$0.21	\$2.14
Police and Fire	\$3.11	\$0.11	\$3.22
Total	\$5.04	\$0.32	\$5.36

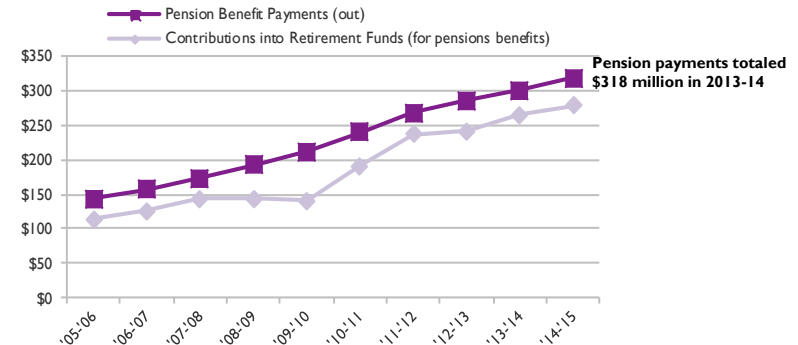
Total members:*	Active	Deferred vested	Retirees/beneficiaries
Federated (8,282 members)	3,236	1,145	3,901
Police and Fire (3,975 members)	1,577	290	2,108
Total	4,813	1,435	6,009

* Pension plan only. Includes members of both Tiers 1 and 2.

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

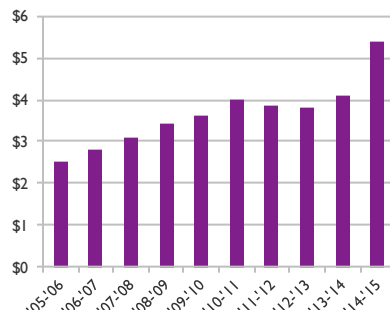


Pension Benefit Payments and Contributions (\$millions)

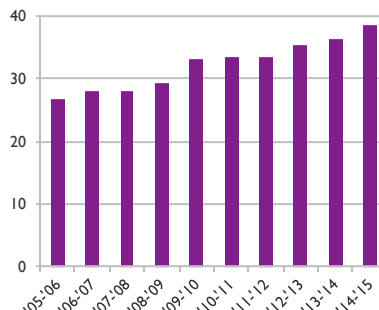


Sources for above charts: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System](#) Comprehensive Annual Financial Reports

Retirement Services Operating Expenditures (\$millions)



Retirement Services Authorized Positions



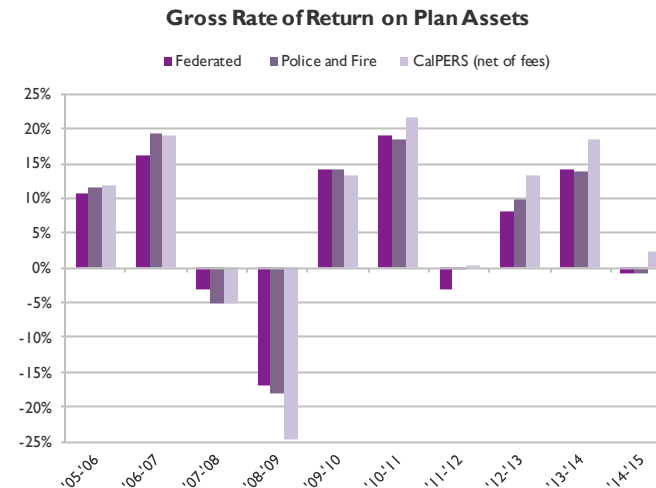
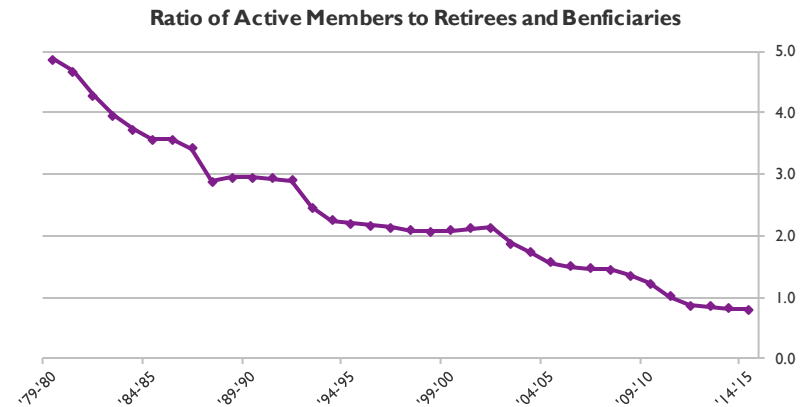
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As of June 30, 2015, there were 6,009 retirees or beneficiaries of the plans, up from 4,100 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined from 1.5:1 to less than 1:1. In 1980, the ratio was nearly 5:1.

During 2014-15, both plans had negative rates of return on plan assets. Federated's gross rate of return was -0.9 percent and Police and Fire's return was -0.8 percent. Over the past ten years, the Federated and Police and Fire annualized gross returns have been 5.2 and 5.7 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 \$5.45 billion last year to \$5.36 billion on June 30, 2015.

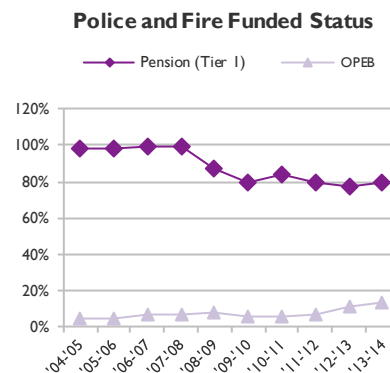
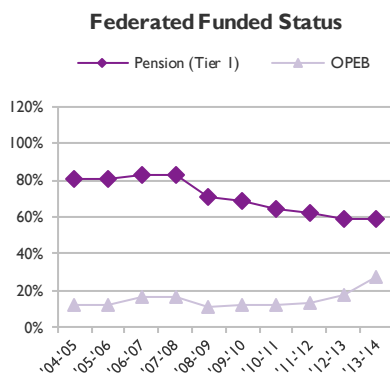
As of June 30, 2014, the Federated and Police and Fire independent actuaries determined that the funded ratios (or percent of liabilities covered by plan assets) were 59 percent for Federated's Tier 1 plan and 79 percent for Police and Fire Tier 1 plan. The funded ratios for the respective Tier 2 plans were 113 percent and 107 percent for Federated and Police and Fire.

The independent actuaries also determined that the pension and OPEB plans' liabilities exceeded the values of their assets by \$1.9 billion for Federated and \$1.4 billion for Police and Fire respectively. These unfunded liabilities totaled more than \$230,000 per Federated member and more than \$350,000 per Police and Fire member.



Note: As of June 30, 2014, 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



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.

