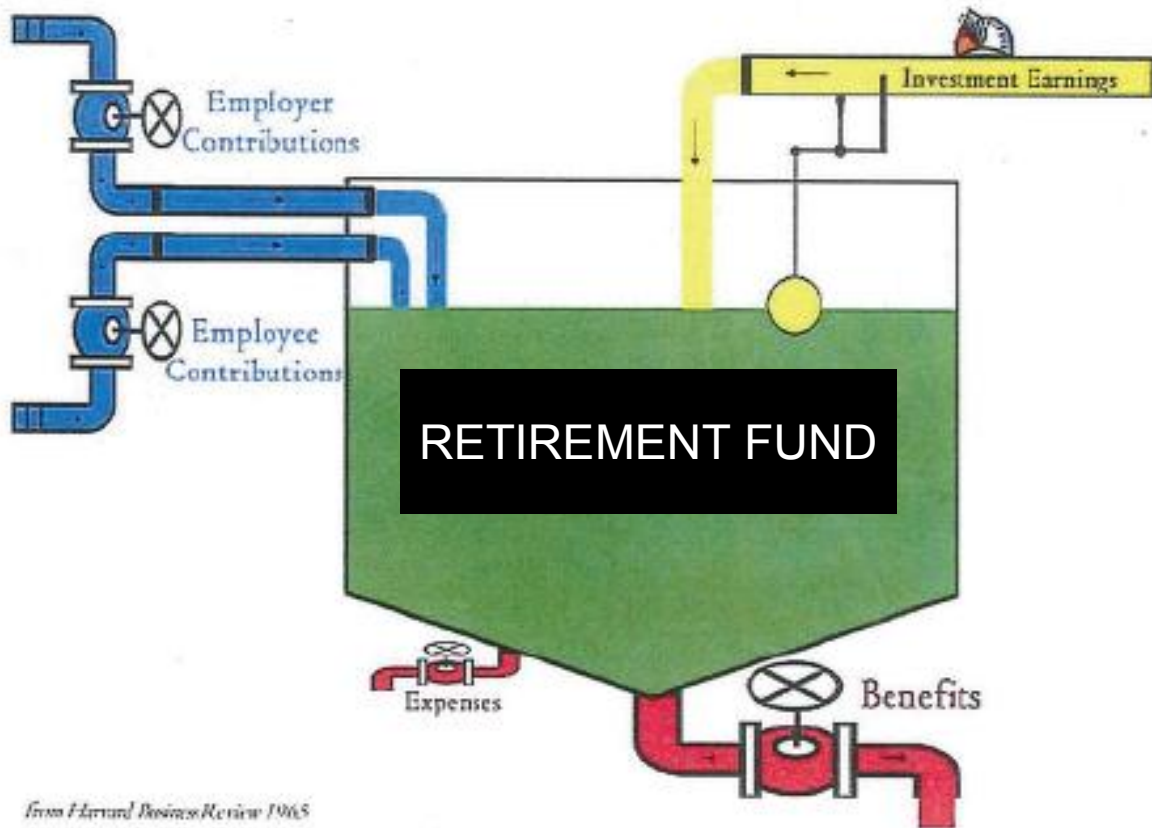


How Are Defined Benefit Retirement Costs Determined?

“The actuarial assumptions do not determine the ‘actual cost’ of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received.”

- The Segal Company

Actuarial Valuation Overview



From Harvard Business Review 1965

“The use of realistic actuarial assumptions is important to maintain adequate funding, while fulfilling benefit commitments to participants already retired and to those near retirement... it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.”

- The Segal Company

THE ROLE OF THE ACTUARY

Ron Seeling, Former Chief Actuary, California Public Employees' Retirement System, July 12, 2007:

“You hire some new employee..., and you've got to worry about when is this person going to leave? What will I owe them? How much service will they have? What will their salary be?... [You] make assumptions about all of that. And you do these studies, and you make your best assumption about the future. And the fact that it doesn't work out on a year-by-year basis is no great surprise. And the question is, how is the actuary going to respond to that and change employers' contributions?”

City of San Jose Police and Fire
Department Retirement Plan
2001 Supplemental Retiree Benefits Reserve Study

Table B1 – Projected City Contribution Rate (SRBR on Smoothed Market Basis)

Including Medical and Dental Contributions

Fiscal Year Ending:	Most Probable			Worst Case		
	Without SRBR	With SRBR	Difference	Without SRBR	With SRBR	Difference
1999	18.9%	18.9%	0.0%	18.9%	18.9%	0.0%
2000	20.8%	20.8%	0.0%	20.8%	20.8%	0.0%
2001	15.6%	15.6%	0.0%	15.6%	15.6%	0.0%
2002	11.1%	12.2%	1.1%	11.1%	12.2%	1.1%
2003	9.9%	11.0%	1.1%	9.9%	11.0%	1.1%
2004	11.2%	12.2%	1.0%	14.0%	15.0%	1.0%
2009	15.8%	17.0%	1.2%	40.8%	41.4%	0.6%
2014	16.8%	18.7%	1.9%	50.9%	51.2%	0.3%
2019	20.3%	22.6%	2.3%	59.1%	59.2%	0.1%
2024	24.5%	27.0%	2.5%	71.3%	71.3%	0.0%

William M. Mercer, Incorporated

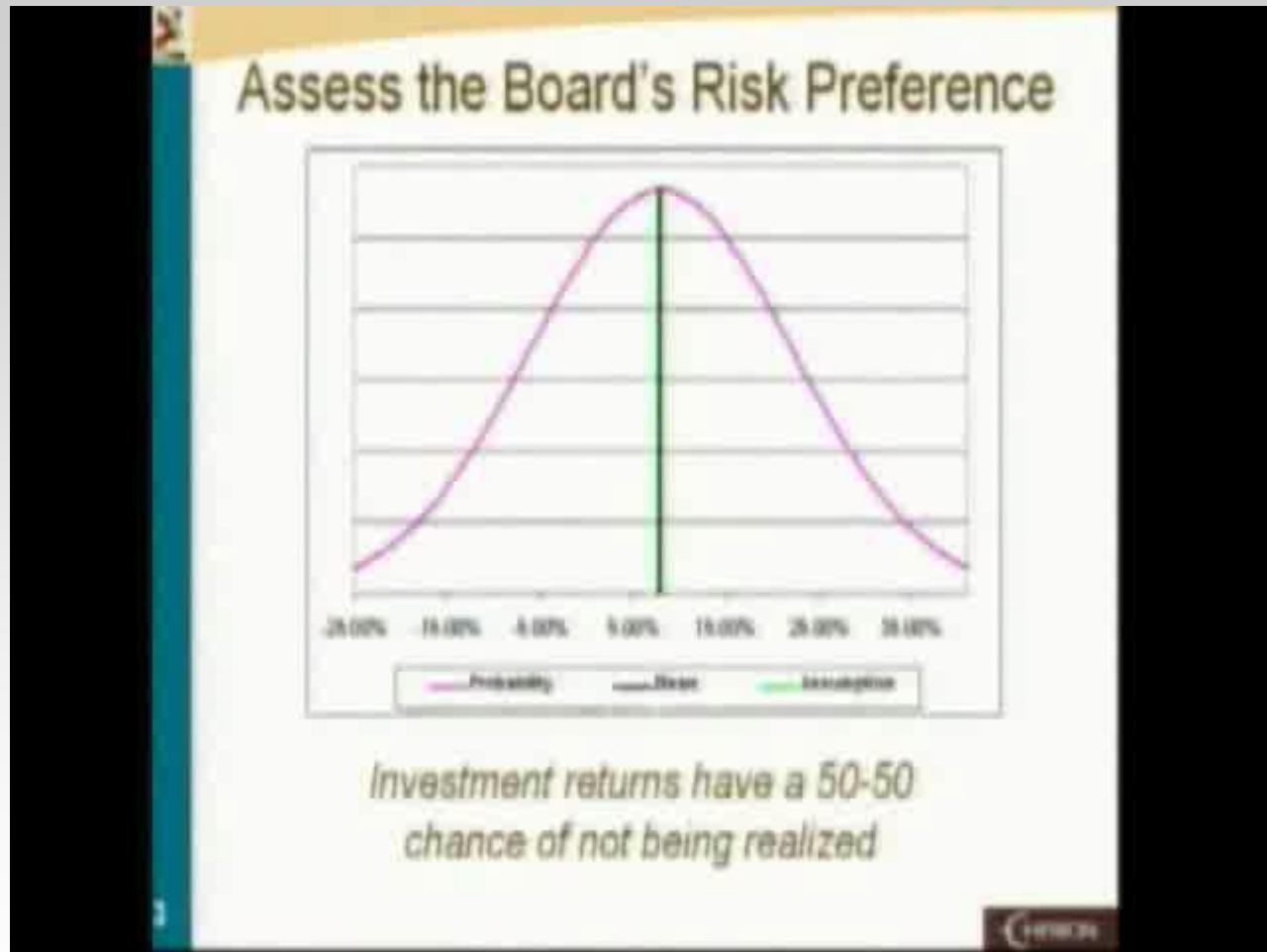
2012 - Police	56.90%
2012 - Fire	56.32%

May 18, 2011- Key Questions:

- How much risk is the City/taxpayers willing to take in defined benefit retirement plans for City employees?
- How confident would the City Council like to be that the cost estimates of the new or revised benefits will be accurate?

25%
50%
75%
100%

Video 1



Video 2



Do Valuations Use Current Data?

- Data is current as of the valuation date (June 30 of the valuation year)
- Data includes payroll, demographics, investment earnings/losses
- Valuations were previously performed every two years in both of the City's retirement plans
- Now performed annually to allow updates and adjustments to contribution rates more frequently

Do Valuations Use Current Data?

- The most current valuations use data as of June 30, 2011
- They do not reflect what has happened from July 1, 2011, to now nor what will happen between now and June 30, 2012
- This year's contribution rates are based upon the **June 30, 2010** valuations
- The 2012-2013 contribution rates will be based on the **June 30, 2011** valuations

Cheiron June 30, 2011 Projections

Please note that these projections are based on the June 30, 2011 Actuarial Valuations for the Plans, and assume that all assumptions are exactly met since June 30, 2011 and are exactly met each and every year into the future.

In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, we have not adjusted the projections for any events, transactions or experience, and including investment returns, after June 30, 2011.

Demographic Changes

	Police and Fire		
Item	June 30, 2010 Valuation	June 30, 2011 Valuation	% Change
Active Employees	2,021	1,735	-14.2%
Retirees and Survivors	1,810	1,885	4.1%
Active Payroll	251,058,473	190,769,996	-24.0%
Average Pay per Active	124,225	109,929	-11.5%

Source: Cheiron June 30, 2011 Valuation

Demographic Changes

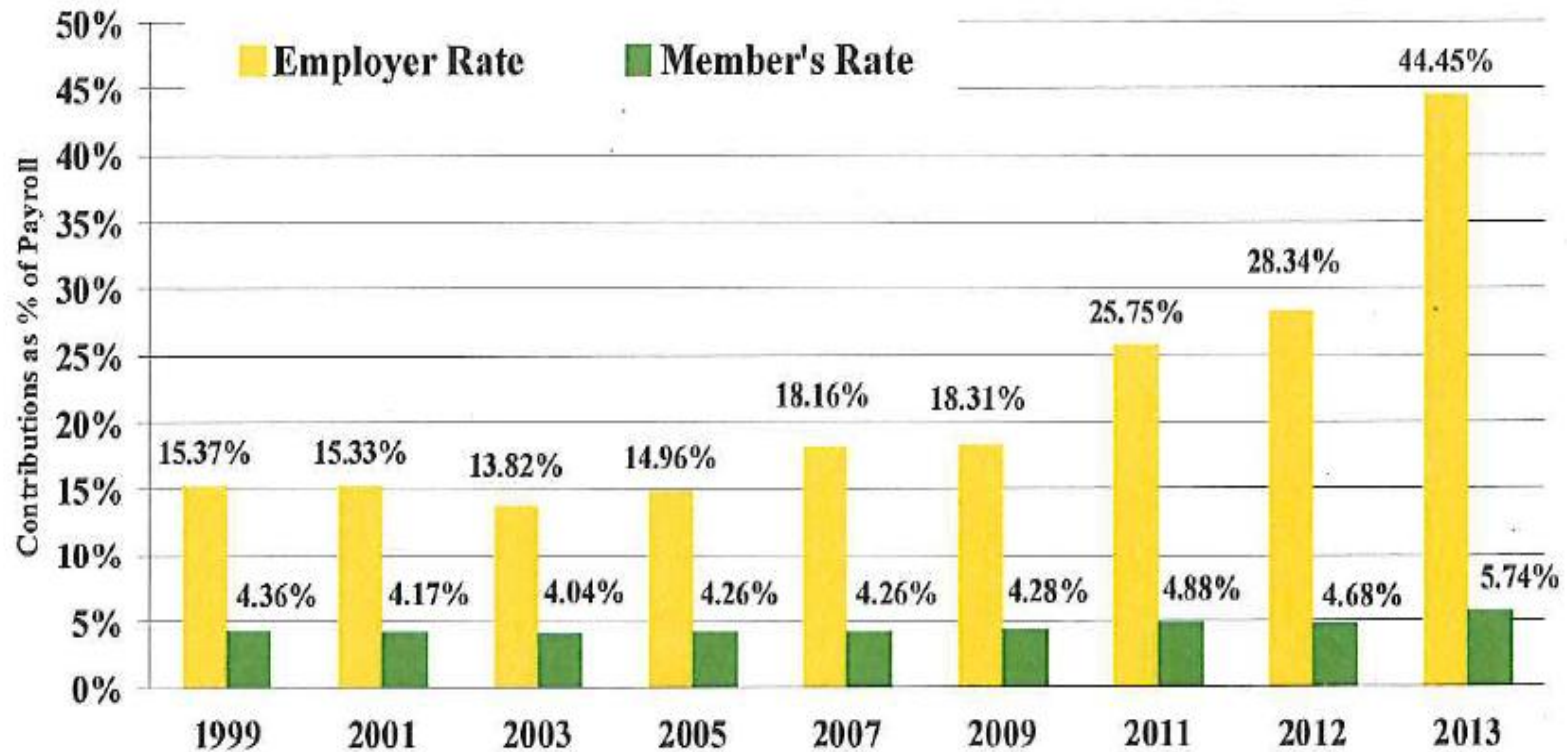
	Federated		
Item	June 30, 2010 Valuation	June 30, 2011 Valuation	% Change
Active Employees	3,818	3,274	-14.2%
Retirees and Survivors	3,111	3,428	10.2%
Active Payroll	300,811,165	228,936,398	-23.9%
Average Pay per Active	78,788	69,926	-11.2%

Source: Cheiron June 30, 2011 Valuation

Federated Pension Contribution Rates

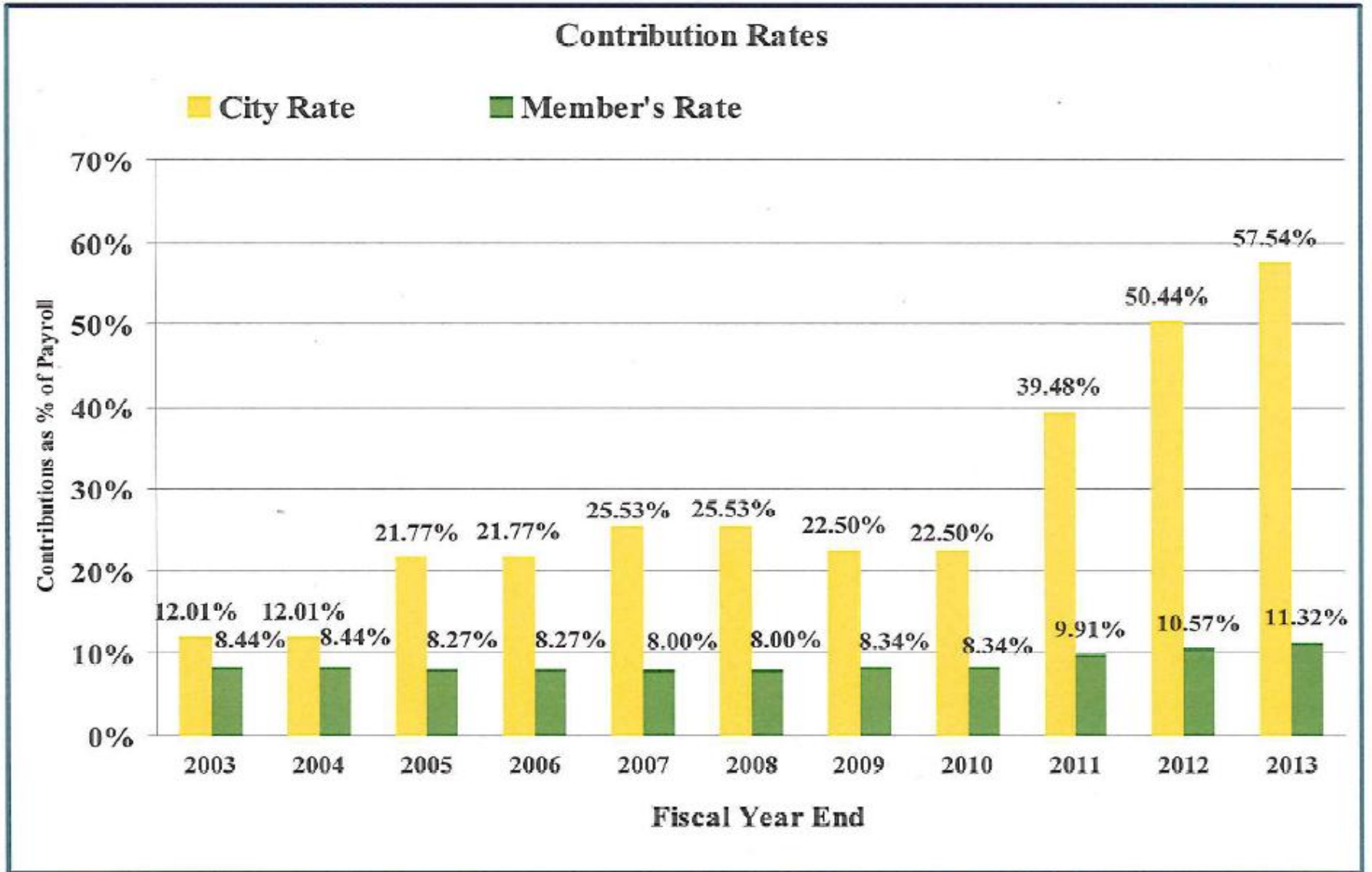
Employer and Member Contribution Rates 1999-2013

The City of San Jose Federated Employees' Retirement System



Source: Cheiron Actuarial Valuation Report for Federated City Employees' Retirement System- June 30, 2011

Police and Fire Pension Contribution Rates



Source: Cheiron Actuarial Valuation Report for Police and Fire Department Retirement Plan- June 30, 2011

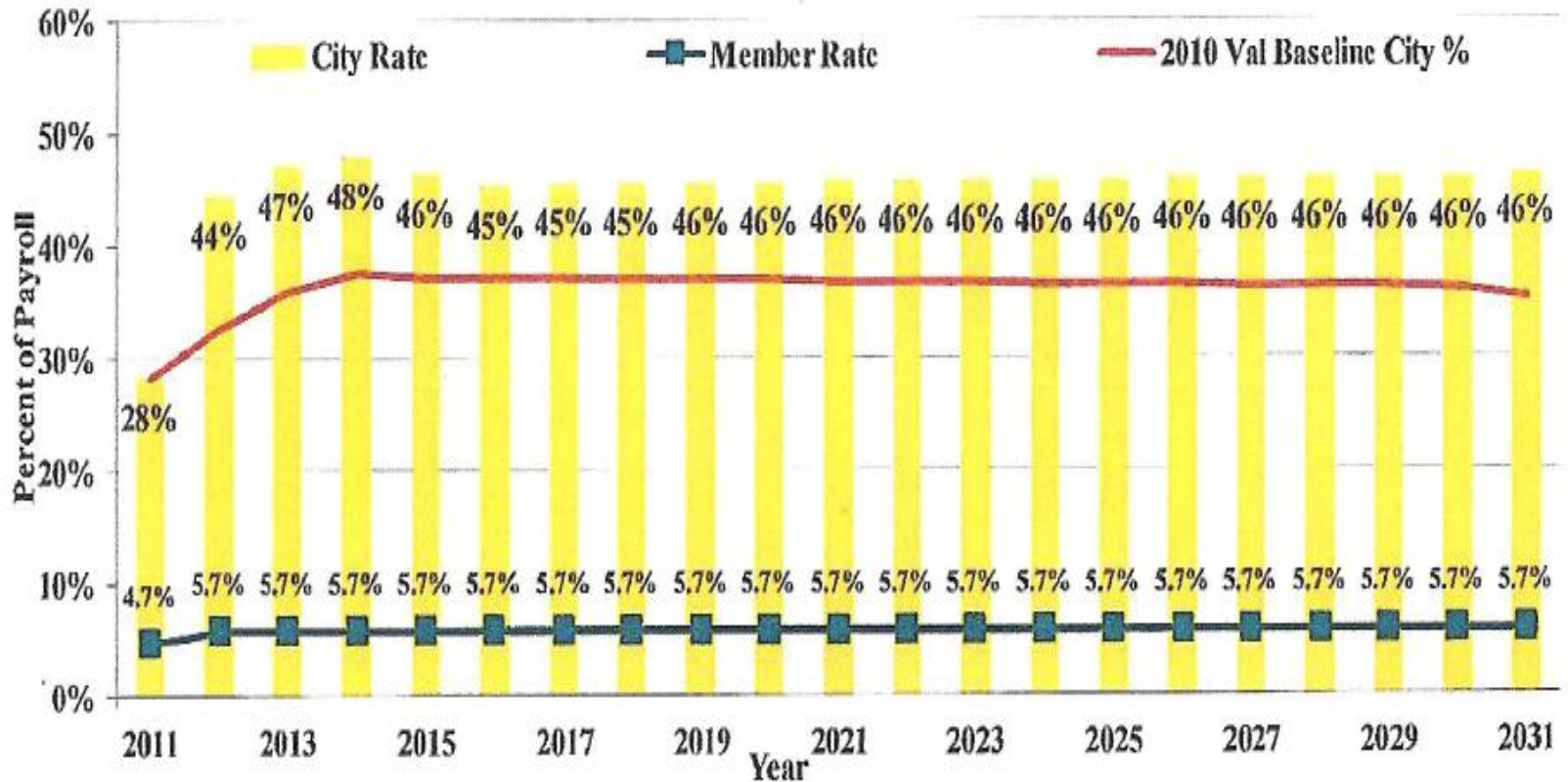
Federated Retiree Healthcare Annual Required Contribution Phase-In

Fiscal Year	Employee	City	Total
2008-09	4.65%	5.25%	9.90%
2009-10	5.07%	5.70%	10.77%
2010-11	5.76%	6.41%	12.17%
2011-12	6.51%	7.16%	13.67%
2012-13	7.26%	7.91%	15.17%
2013-14	15.50%	16.84%	32.34%

Source: Cheiron Retiree Healthcare Plan Valuation as of June 30, 2011

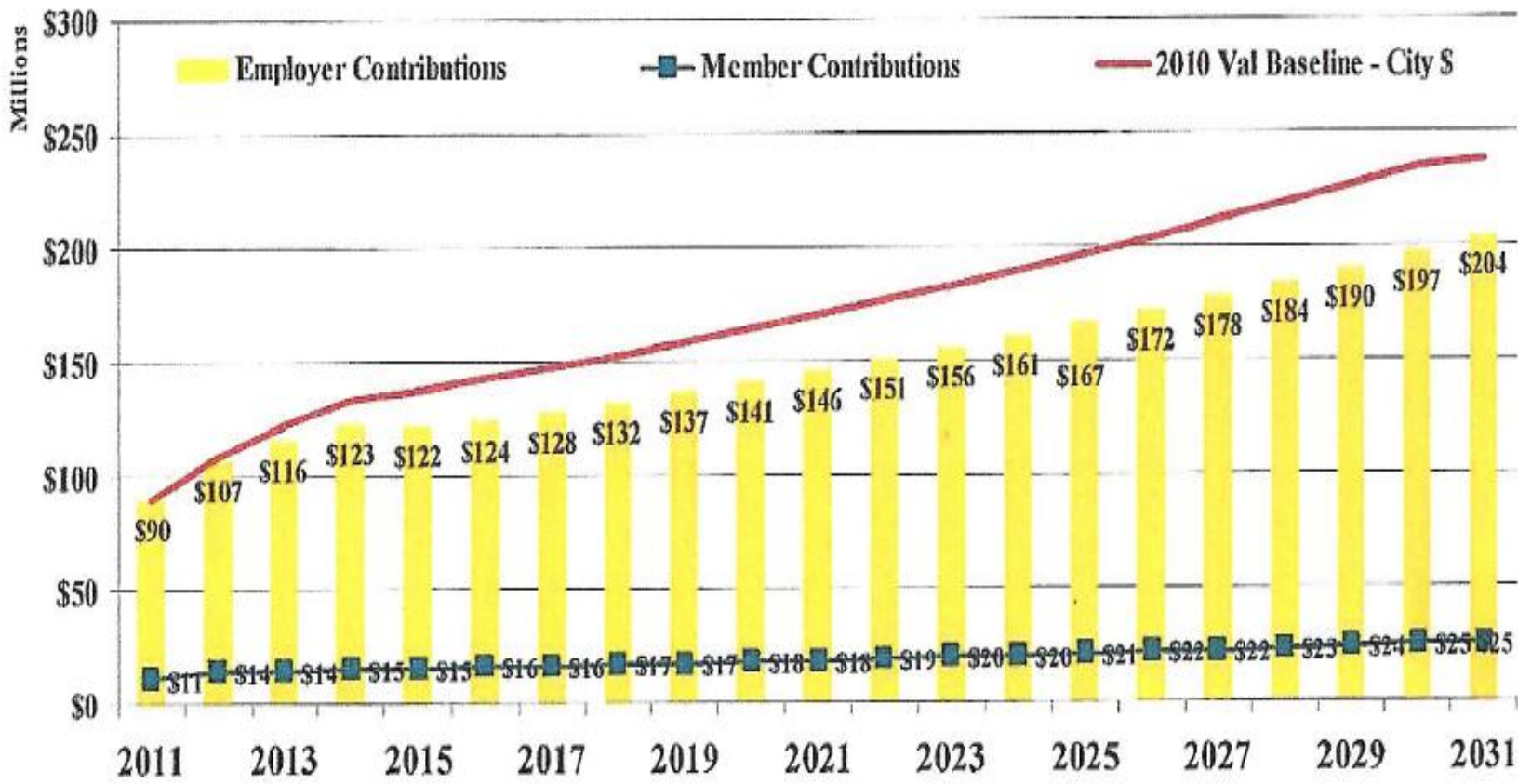
Federated Pension 20-Year Projections (Rates)

Chart 1: 7.5% return each year – Percentage of Pay



Federated Pension 20-Year Projections (Dollars)

Chart 2: 7.5% return each year – Dollar Contributions



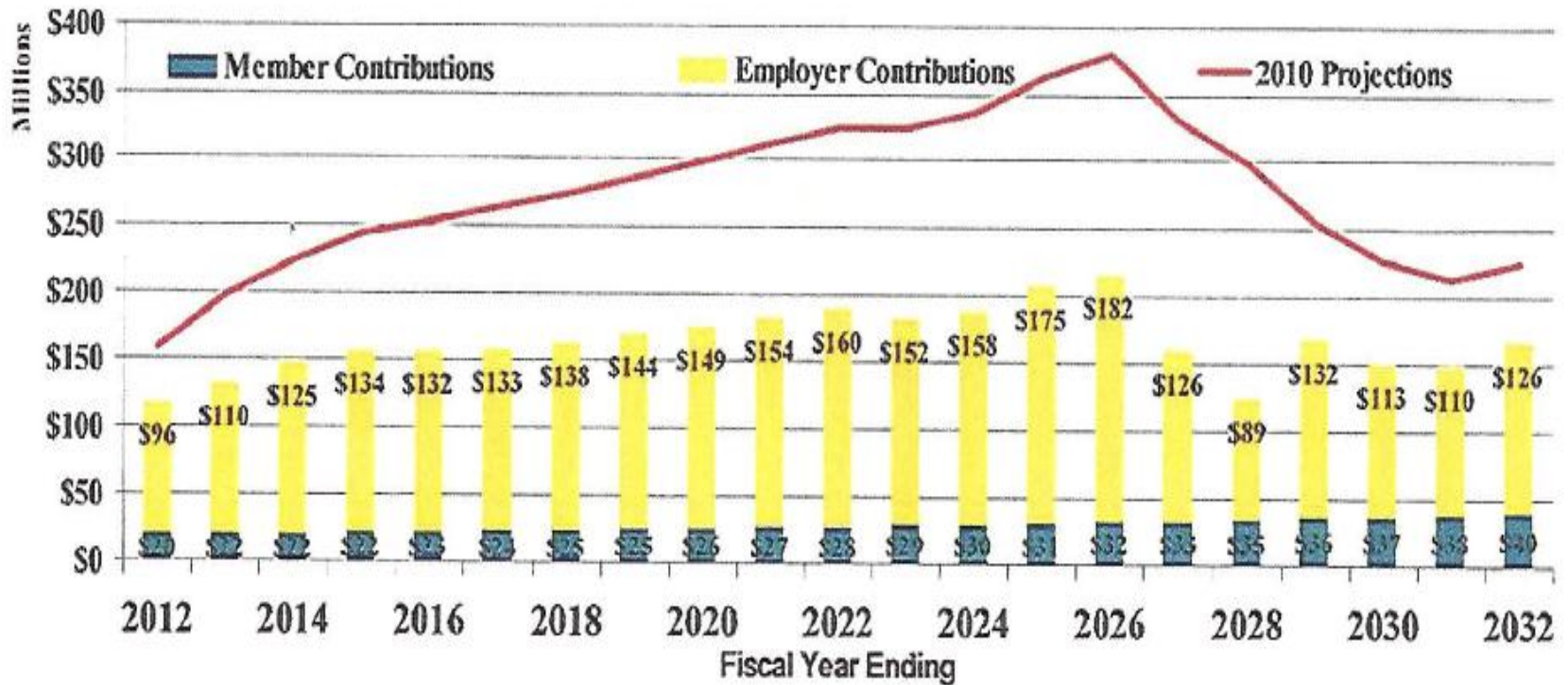
Police/Fire Pension 20-Year Projections (Rates)

Chart 1: 7.5% return each year – percentage of pay



Police/Fire Pension 20-Year Projections (Dollars)

Chart 2: 7.5% return each year – dollar contribution amounts



Questions/Discussion