City of San Jose

Retirement - Pension

May 13, 2009

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Agenda

- Pension Benefits
- Recent Retirement Fund Investment Performance
- Key Factors Impacting Contribution Rates
- Projected Increases in Pension Contributions
- Best Practices
- Next Steps

Pension Benefits

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Federated City Employees' Retirement System

Effective Date	**July 1975**
Max Benefit	75%
Formula	Yrs. 0-30: 2.5% per year

Police Retirement Formulas

Effective Date	Sept 1970	Feb 1996	Feb 2000	Jul 2006
Max. Benefit	75%	80%	85%	90%
Formula	Yrs 0-30: 2.5% per yr	Yrs 0-20: 2.5% per yr Yrs 21-30: 3.0% per yr	Yrs 0-20: 2.5% per yr Yrs 21-25: 3.0% per yr Yrs 25-30: 4.0% per yr	Yrs 0-20: 2.5% per yr Yrs 21-30: 4.0% per yr

Fire Retirement Formulas

Effective Date	Sept 1970	Feb 1996	Feb 2000	Jul 2007
Max. Benefit	75%	80%	85%	90%
Formula	Yrs 0-30: 2.5% per yr	Yrs 0-20: 2.5% per yr Yrs 21-30: 3.0% per yr	Yrs 0-20: 2.5% per yr Yrs 21-25: 3.0% per yr Yrs 25-30: 4.0% per yr	Yrs 0-20: 2.5% per yr At 20 Yrs, 3% per year

Additional Retirement Benefits

- 13th Paycheck (SRBR)
- Retiree Health – 100% of lowest priced plan
- Retiree Dental – 100% of lowest priced plan
- Reciprocity
- Guaranteed 3% Annual Cost of Living Adjustment

Cost of Retirement Benefits

	Cost Split	Source
Pension – Normal Cost	Ratio 8 (City) 3 (Employee)	City Charter
Pension – Prior Service Costs (Unfunded Liability)	100% City Paid*	Municipal Code

*** This means that the City bears all risk including investment and mortality risks.**

Current Contribution Rates

	Federated		Police		Fire	
	City	Employee	City	Employee	City	Employee
Pension	18.31%	4.28%	21.61%	8.18%	24.12%	8.62%
Health	5.25%	4.65%	4.19%	3.78%	4.19%	3.78%
TOTAL	23.56%	8.93%	25.80%	11.96%	28.31%	12.40%

Recent Retirement Fund Investment Performance

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Recent Retirement Performance

- Total market value of the assets in the two retirement plans has declined by approximately $1.146 billion since the beginning of FY 08-09

	Police & Fire Department Retirement Plan		Federated City Employees' Retirement System	
	Market Value	**Net Rate of Return**	**Market Value**	**Net Rate of Return**
June 30, 2008	$2.561 Billion	-27.3%	$1.774 Billion	-25.6%
March 31, 2009	$1.867 Billion		$1.322 Billion	
Total Decline in Market Value	$694 Million		$452 Million	
Grand Total	**$1.146 Billion**			

Funding Ratio

- Assets/Liabilities

- Example

  - A funding ratio of 100% is equivalent to the Plan having $1 in assets for every $1 of benefits earned up to the valuation date by current members

Funding Status

	P&F	Federated
Pension Funding Ratio @ June 30, 2007	99.7%[1]	82.8%[1]
Pension Projected Funding Ratio @ June 30, 2009	76.0%[2]	Roughly 60%[3]

Source:

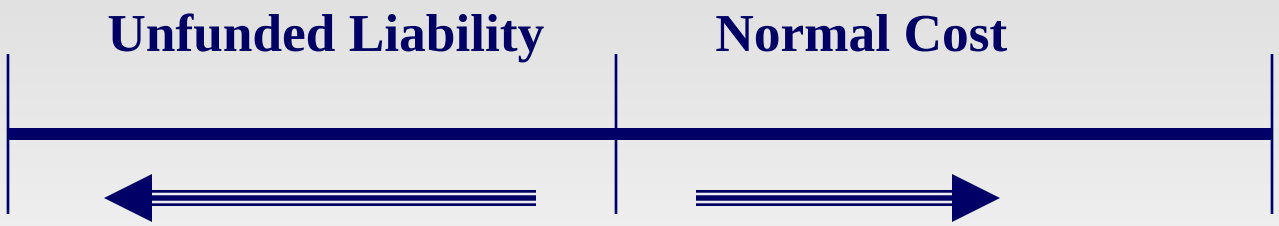
[1] June 30, 2007 Segal and Gabriel, Roeder, Smith & Co. valuation reports

[2] June 30, 2009 Segal projection

[3] Staff estimate

Retirement Contribution Rates

Total Contribution = Normal Cost + Unfunded Liability Amortization



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Key Factors Impacting Contribution Rates

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Key Factors that have an impact on the contribution rates

- Benefit Enhancements
- Actuarial Assumptions:
  - Assumed Rates of Return
  - Mortality Rates
  - Salary Inflation
- Asset smoothing period

Key Factors - Difference between Actuarial Rate of Return Assumption and Realized Investment Return

	Actuarial Rate of Return (Net)	Actuarial Rate of Return (Gross)	Investment Consultant Rate of Return (Gross)
P&F	8.00%	8.90%	7.50%
Federated	8.25%	9.15%	7.25%

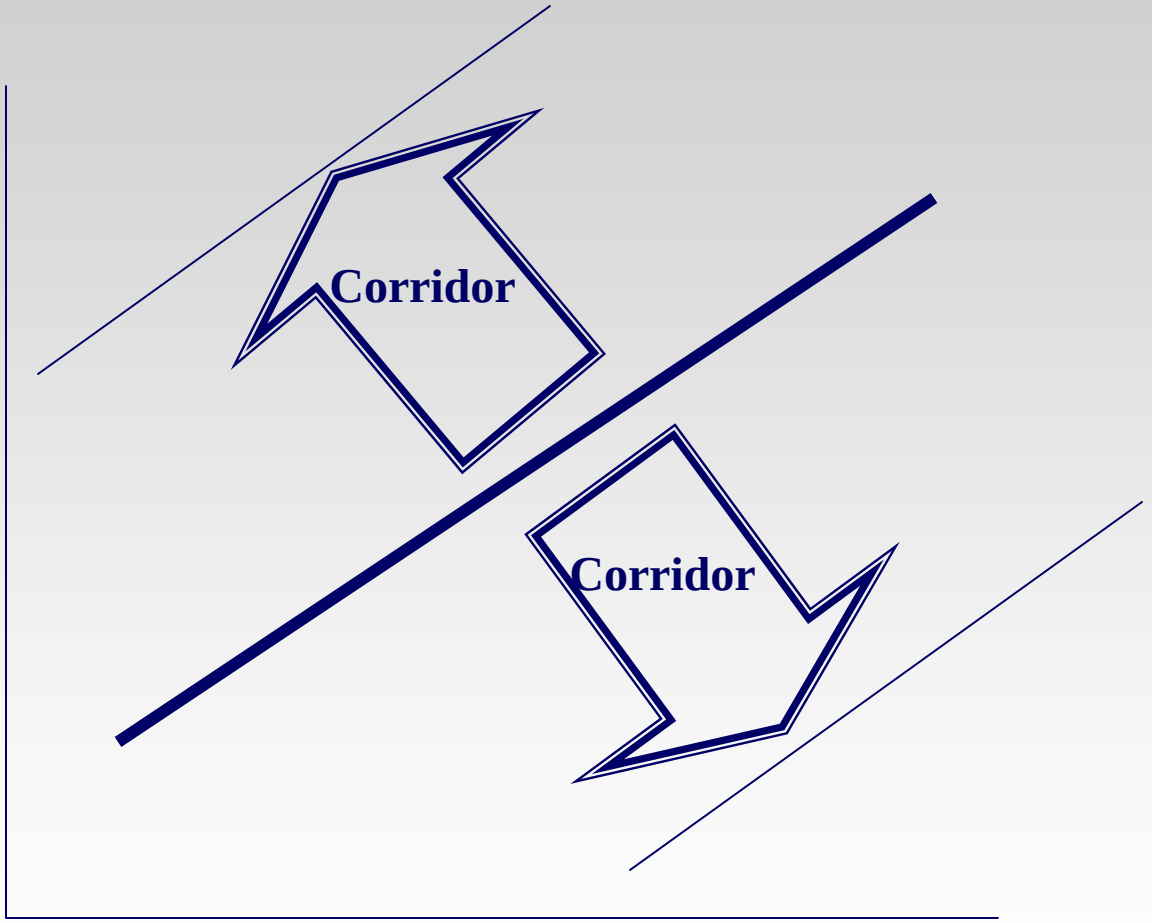
Key Factors - Difference between Actuarial Rate of Return Assumption and Realized Investment Return

- When returns are lower than assumed:
  - Results in unfunded liability
  - City responsible for 100% of unfunded liability

Key Factors – Asset Smoothing

- Reduces the contribution rate volatility
- City has 5 year smoothing period

Key Factors – “Corridor”



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Key Factors – "Corridor"

Pro	Con
If "corridor" is removed or its level increased and the asset smoothing period increased, contribution levels could be decreased	Increasing the smoothing period shifts the cost of current benefits to future generations

Police & Fire Pension Contribution Rate Projections

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Costs of 1% Retirement Contribution Rate

	Cost of 1% Retirement Contribution Rate
Police & Fire	$2.426 Million
Federated	$3.145 Million
TOTAL	**$5.571 Million**

P&F Pension Contribution Rate Projections

	City Contribution Rate					Funding Ratio in FY 13/14
	FY 09/10	**FY 10/11**	**FY 11/12**	**FY 13/14**	**FY 14/15**	
Baseline: Assumed Rate of Investment Return at 8% per year, 120% MVA corridor applied -5.89% Net Return 07/08 -30% Net Return 08/09 8% Net Return Thereafter	22.5%	44.6%	46.8%	54.2%	60.9%	71%
Optimistic: Assumed Rate of Investment Return at 8% per year, 120% MVA corridor applied -5.89% Net Return 07/08 -30% Net Return 08/09 20.00% Net Return 10/11 20.00% net Return 11/12 8% Net Return Thereafter	23%	45%	45% [1]	47% [1]	50% [1]	n/a

[1] **Estimated contribution rates**

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Best Practices

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Best Practices

Top 12 Clients	Qtr Ending 12/31/08	1 Yr Ending 12/31/08	3 Yr ending 12/31/08	5 Yrs ending 12/31/08	10 Yrs ending 12/31/08
Plan #1	15.22%	9.06%	9.03%	9.07%	7.11%
Plan #2	8.55%	(3.97%)	6.24%	7.75%	6.01%
Plan #3	6.59%	(1.08%)	6.21%	7.44%	6.36%
Plan #4	6.15%	(7.53%	5.93%	7.67%	6.29%
Plan #5	4.82%	(8.03%)	3.42%	6.17%	
Plan #6	4.27%	(10.40%)	4.31%	6.43%	6.46%
Plan #7	4.18%	(6.50%	6.47%	8.45%	6.39%
Plan #8	1.74%	(4.41%)	4.31%	5.40%	
Plan #9	0.13%	(7.49%)	3.80%	6.45%	
Plan #10	(0.70%)	(10.85%)	(0.46%)		
Plan #11	(3.01%)	(14.94%)	1.52%	4.39%	5.06%
Plan #12	(4.47%)	(16.18%)	0.99%	4.34%	5.43%
Avg. Performance	**3.62%**	**(6.86%)**	**4.31%**		
San Jose Police & Fire	**(13.30%)**	**(27.30%)**	**(2.70%)**	**2.40%**	**4.20%**
San Jose Federated	**(11.80%)**	**(23.80%)**	**(2.10%)**	**2.20%**	**4.20%**

Investment Results from Top Performing New England Pension Consultants' Clients Compared to San Jose Police & Fire and Federated Plans

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Best Practices

- Investment Strategies
- Actuarial Assumed Rate of Return
- Asset Smoothing

Next Steps

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Next Steps

- RFP's for actuarial consultants
  - Select actuary to perform work
- Actuaries complete valuation reports
  - 6 – 8 months
- Approval of retirement contribution rates
  - Spring 2010
- Retirement contribution rates effective July 2010

Conclusion

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