

Federated City Employees' Retirement System



Measure F Implementation Tier 2 Pension Contribution Rates for FYE 2018

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- Tier 2 Key Benefit Changes
- Potential Changes to Tier 2 Assumptions
- Revised Tier 2 Rates for FYE 2018
 - Normal Cost Rate Change
 - UAL Rate Change

Tier 2 Key Benefit Changes



| Plan Provision | Measure B | Measure F |
|--|---|--|
| Member Contributions | 50% of total contribution | 50% of total contribution, but UAL rate can't increase more than 0.33% of pay each year Minimum = 50% of normal cost rate |
| Eligibility for Unreduced Service Retirement | Age 65 with 5 years of service | Age 62 with 5 years of service |
| Maximum Multiplier | 65% | 70% |
| Reduction for Early Retirement | Actuarial equivalence | 5% per year |
| Automatic Form | Life annuity | 50% Joint & Survivor Annuity |
| Service-Connected Disability | 50% of final compensation minus offsets | 2.0% of final compensation for each year of service (minimum = 40%, maximum = 70%) minus offsets |

Tier 2 Key Benefit Changes



| Plan Provision | Measure B | Measure F |
|----------------------|--|--|
| Pre-Retirement Death | <p>Before retirement eligibility = Refund of contributions with interest</p> <p>After retirement eligibility = Service retirement benefit if had retired at time of death</p> <p>Service connected = 50% of final compensation</p> | <p>Less than 5 years of service or no qualified survivor = Refund of contributions with interest + one month of salary for each year of service</p> <p>2.5% of final compensation for each year of service (minimum = 40%, maximum = 70%). Benefit is only payable until spouse remarries unless member was age 55 with 20 years of service at time of death</p> |
| COLA | CPI-U, up to 1.50% | <p>CPI-U, up to:</p> <ul style="list-style-type: none"> • 1.25%, < 11 years of service* • 1.50%, 11 – 20 years of service • 1.75%, 21 – 25 years of service • 2.00%, 26 + years of service |

*Current Tier 2 members have a minimum cap of 1.50%

Tier 2 Retirement Rates



- The revised benefit structure will affect retirement rates
- We have no directly applicable experience on which to base an assumption, so we considered the following factors and applied professional judgment
 - Tier 1 retirement rates and experience
 - CalPERS 2.0% at 62 formula retirement rates
 - CalPERS multiplier increases after 62 to 2.5% at 67
 - CalPERS' COLAs range from 2% to 5% depending on employer election
 - CalPERS maximum multiplier is 100% vs. 70% for Federated

Tier 2 Retirement Rates



| Age | Years of Service | | | | |
|---------|------------------|---------|---------|---------|--------|
| | 5 – 10 | 11 – 20 | 21 – 25 | 26 – 34 | 35 + |
| 55 | 3.0% | 5.0% | 7.0% | 10.0% | 15.0% |
| 56 | 2.0% | 3.5% | 4.0% | 7.0% | 10.5% |
| 57 | 2.5% | 4.5% | 5.0% | 8.5% | 12.75% |
| 58 | 3.0% | 5.5% | 7.0% | 11.0% | 16.5% |
| 59 | 3.5% | 7.0% | 9.0% | 13.5% | 20.25% |
| 60 – 61 | 4.0% | 8.5% | 10.0% | 14.5% | 21.75% |
| 62 | 7.5% | 12.5% | 17.5% | 25.0% | 100.0% |
| 63 – 69 | 5.0% | 10.0% | 15.0% | 25.0% | 100.0% |
| 70 + | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

- Primarily used CalPERS rates prior to age 70
 - Simplified based on service ranges corresponding to Tier 2 COLA levels and for ages over 62
 - Reduced rates at lower COLA levels
 - Increased rates at 35 years of service
- Assumed 100% retirement when maximum multiplier (70%) reached and at age 70

Tier 2 Contribution Rates – FYE 2018



| Tier 2 Contribution Rates | | | |
|---------------------------|---------------|---------------|--------------|
| | Old | New | Change |
| Actuarial Liability | \$ 17,569 | \$ 20,664 | \$ 3,095 |
| Actuarial Assets | 16,780 | 15,914 | (866) |
| UAL | \$ 789 | \$ 4,750 | \$ 3,961 |
| Normal Cost | 11.46% | 14.12% | 2.66% |
| Expense | 1.00% | 1.00% | 0.00% |
| UAL | 0.04% | 0.32% | 0.28% |
| Total | 12.50% | 15.44% | 2.94% |
| Member Rate | 6.25% | 7.72% | 1.47% |
| City Rate | 6.25% | 7.72% | 1.47% |

Dollar amounts in thousands

- 35 current Tier 2 members who are Tier 1 rehires are assumed to be transferred to Tier 1 along with assets equal to their Tier 2 Actuarial Liability
- Also reduces expected FYE 2018 Tier 2 payroll from \$112 million to \$109 million
- Funded ratio declines
 - Market assets 89.5% → 71.9%
 - Actuarial assets 95.5% → 77.0%



Appendix – Certification



- The purpose of this presentation is to present recommended changes to Tier 2 contribution rates for FYE 2018 reflecting the provisions of Measure F. These recommendations are based on the same data, assumptions, and methods as the June 30, 2016 Actuarial Valuation for the City of San José Federated City Employees' Retirement System.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. A summary of the data, assumptions, methods, and plan provisions used to prepare the valuation results can be found in the June 30, 2016 Actuarial Valuation Report.
- To the best of our knowledge, this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.
- This presentation was prepared exclusively for the City of San José Federated City Employees' Retirement System for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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