

CITY OF SAN JOSE  
FEDERATED EMPLOYEES' RETIREMENT PLAN  
and Funding Policy

Retirement Plan Actuarial Valuation as of June 30, 2009

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March 11, 2010



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# Agenda

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- ▶ Federated Retirement Plan 2009 valuation
- ▶ Retiree Medical Plan 2009 valuation
- ▶ Contribution rate increase phase in strategies



# Retirement Plan Valuation

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- ▶ Contribution requirements
  - Including new amortization method
- ▶ Gains/(losses)
  - Due to assumption changes
  - Due to actual economic and demographic experience
- ▶ Phase-in of retirement contribution rate changes
  - Board adopted 100% recognition of demographic assumption changes
  - Board adopted 5-year phase in of economic assumption change



# Retirement Plan Valuation

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- ◆ Prepared as of June 30, 2009, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- ◆ New assumptions recently adopted as a result of the experience study
- ◆ New amortization method recently adopted also as a result of the experience study
- ◆ Purposes:
  - ▶ Measure the actuarial accrued liabilities
  - ▶ Determine required contribution rate based on Board Funding Policy
  - ▶ Provide other information for reporting
    - GASB #s 25 and 27
    - CAFR
  - ▶ Explain changes in actuarial condition of the Plan



# Retirement Plan Highlights

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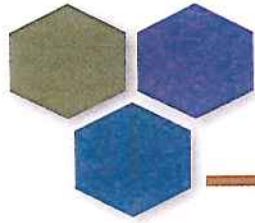
- ◆ These results are for the Federated retirement plan. Results of the retiree health valuation are presented separately.
- ◆ Assumptions have been changed in accordance with the recommendations in the recent experience study
  - ▶ Mortality table changes for pre- and post-retirement members
  - ▶ Investment return assumption change from 8.25% to 7.75%
  - ▶ Salary scale and payroll assumption changes
- ◆ Investment rates of return
  - ▶ Actuarial value of assets 2.14% in 2009, 9.35% in 2008
  - ▶ Market value of assets (17.79%) in 2009, (3.45%) in 2008



# Retirement Plan Highlights

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- ◆ Increase in unfunded actuarial accrued liability from \$338.1 M to \$729.6 M
- ◆ Funded status
  - ▶ Decrease in funded status from 82.8% to 70.7% on AVA
  - ▶ Decrease in funded status from 90.0% to 54.6% on MVA
- ◆ Increase in contribution requirement (prior to implementation of the Board's funding policy to phase-in the economic assumption rate increase) from 22.59% to 30.63%
- ◆ Board Funding Policy: 5 year phase-in for impact of economic assumption changes; immediate recognition of all other assumption changes



# Retirement Plan Highlights— Contributions

- ◆ Investment return losses: 1.63% contribution increase
- ◆ Demographic assumption changes: 1.58% contribution increase
- ◆ Economic assumption changes: 3.64% contribution increase
- ◆ Below does not reflect funding policy to phase-in economic changes over 5 years

	2005	2007	2009			Total Increase '07 to '09
	Contribution Percent	Contribution Percent	June 30 initial results	Demographic Assumption Changes	Demographic & Economic Assumption Changes	
Employer- Ret	18.16%	18.31%	21.13%	22.54%	25.75%	7.43%
Employee-Ret	4.26%	4.28%	4.28%	4.45%	4.88%	0.60%
Total	22.42%	22.59%	25.41%	26.99%	30.63%	8.04%



## Retirement Plan Highlights— Contributions

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- ◆ Current Service rate split 8 to 3, City and Members
- ◆ Current Service Deficiency rate paid 100% by the City
- ◆ Prior Service Rate split 58 to 42, City and Members
- ◆ Prior Service Deficiency rate paid 100% by the City
- ◆ Golden Handshake Rate paid 100% by the City
- ◆ Reciprocity Rate paid 100% by the City





## Contribution Rates—Breakdown between Basic and Cost-of-Living Benefits (prior to phase-in calculation)

Basic Retirement Benefits			Cost-of-Living Retirement Benefits		
	City	Members	City	Members	Total
Current Service	9.82%	3.68%	3.15%	1.19%	17.84%
Current Deficiency	8.00%	N/A	2.85%	N/A	10.85%
Prior Service	0.01%	0.01%	0.01%	0.00%	0.03%
Prior Deficiency	0.90%	N/A	0.00%	N/A	0.90%
Golden Handshake	0.26%	N/A	0.08%	N/A	0.34%
Reciprocity	0.50%	N/A	0.16%	N/A	0.66%
<b>Total</b>	<b>19.49%</b>	<b>3.69%</b>	<b>6.25%</b>	<b>1.19%</b>	<b>30.63%</b>

Total City Contributions—Retirement 25.75%

Total Member Contributions—Retirement 4.88%

Total Contributions—Retirement 30.63%



## What Caused the Rates to Increase?

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- ◆ Demographic and economic assumption changes
- ◆ Investment returns not meeting assumption
- ◆ Gains/losses due to experience not matching assumptions



# Demographic Assumption Changes

- ◆ For post-retirement mortality, added a set-back of 3 years for males and 1 year for females
- ◆ For pre-retirement mortality, set tables equal to post-retirement mortality
- ◆ Increased contribution by 1.58%
- ◆ Board's funding policy is to recognize impact fully

Post-Retirement Sample Rates –Future Life Expectancy (Years)				
	Current		Prior	
Age	Men	Women	Men	Women
50	33.5	35.8	30.7	34.9
55	28.9	31.1	26.2	30.2
60	24.4	26.5	21.8	25.6
65	20.2	22.1	17.8	21.3
70	16.4	18.1	14.3	17.3



# Economic Assumption Changes

- ◆ The following shows the current and prior economic assumptions
- ◆ Increased contribution by 3.64%
- ◆ Funding policy to phase-in over 5 years

	Nominal Rate of Return	Real Rate of Return	Inflation	Payroll Growth	Ultimate Salary Scale
Current	7.75%	4.08%	3.67%	3.83%	4.08%
Prior	8.25%	4.25%	4.00%	4.00%	4.25%



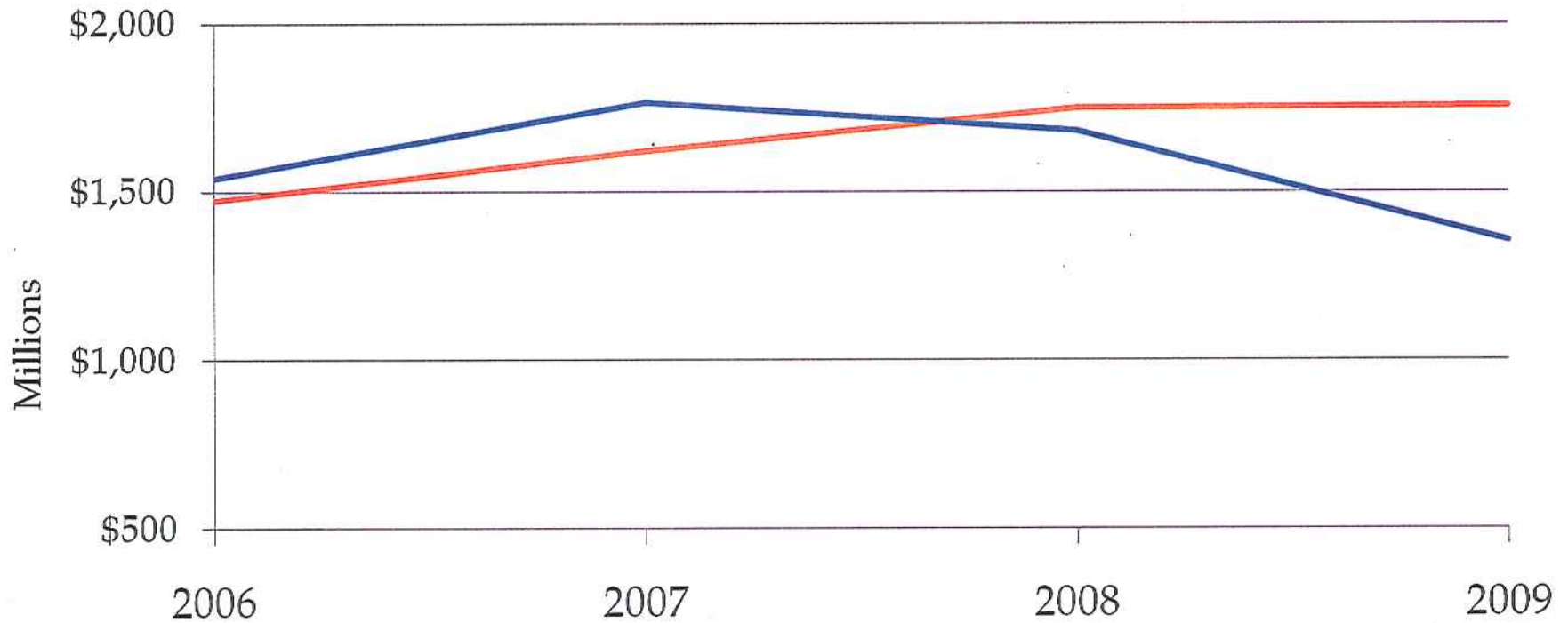
## Actuarial Value of Assets

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- ◆ All actuarial calculations are based on actuarial value of assets, not market value
- ◆ Actuarial value recognizes total return up to the assumed 8.25%
  - ▶ The method recognizes 20% of the total return in excess of (or less than the assumption)
  - ▶ This is done for each of the last five years
- ◆ Return on the actuarial value of assets was 2.14% in FY 2009 and 9.35% in FY 2008 compared to the actuarial assumption of 8.25%
- ◆ This resulted in an increase in the contribution rate of 1.63%



# Assets--Actuarial Value compared to Market Value



—AVA —MVA

- AVA 122% of MVA
- \$445 M in deferred losses yet to be recognized



# Amortization Method Change

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- ◆ Amortization was based on 4% payroll growth and a 30 year open period
- ◆ New amortization method using 3.83% payroll growth and a 30/20 layered amortization method
- ◆ The reduced payroll assumption increases the amortization payment
- ◆ No immediate impact from the 30/20 layered amortization methodology



# Summary: What Caused the Rates to Increase?

Results are prior to phase-in calculations

<b>June 30, 2007 Pension Contribution Rate</b>	<b>22.59%</b>
<b>Experience:</b>	
Increase due to investment loss	1.63%
Increase due to retirement experience	.06%
Increase due to termination experience	.10%
Decrease due to salary gain	(.03%)
Increase due to post-retirement mortality loss	.19%
<b>Methods:</b>	
Decrease due to open amortization period	(0.48)%
Contribution timing lag	0.41%
<b>Assumption Changes:</b>	
Demographic Assumption Changes	1.58%
Economic Assumption Changes	3.64%
Other miscellaneous factors	.94%
<b>Total Change in Contribution Rate</b>	<b>8.04%</b>
<b>June 30, 2009 Pension Contribution Rate</b>	<b>30.63%</b>



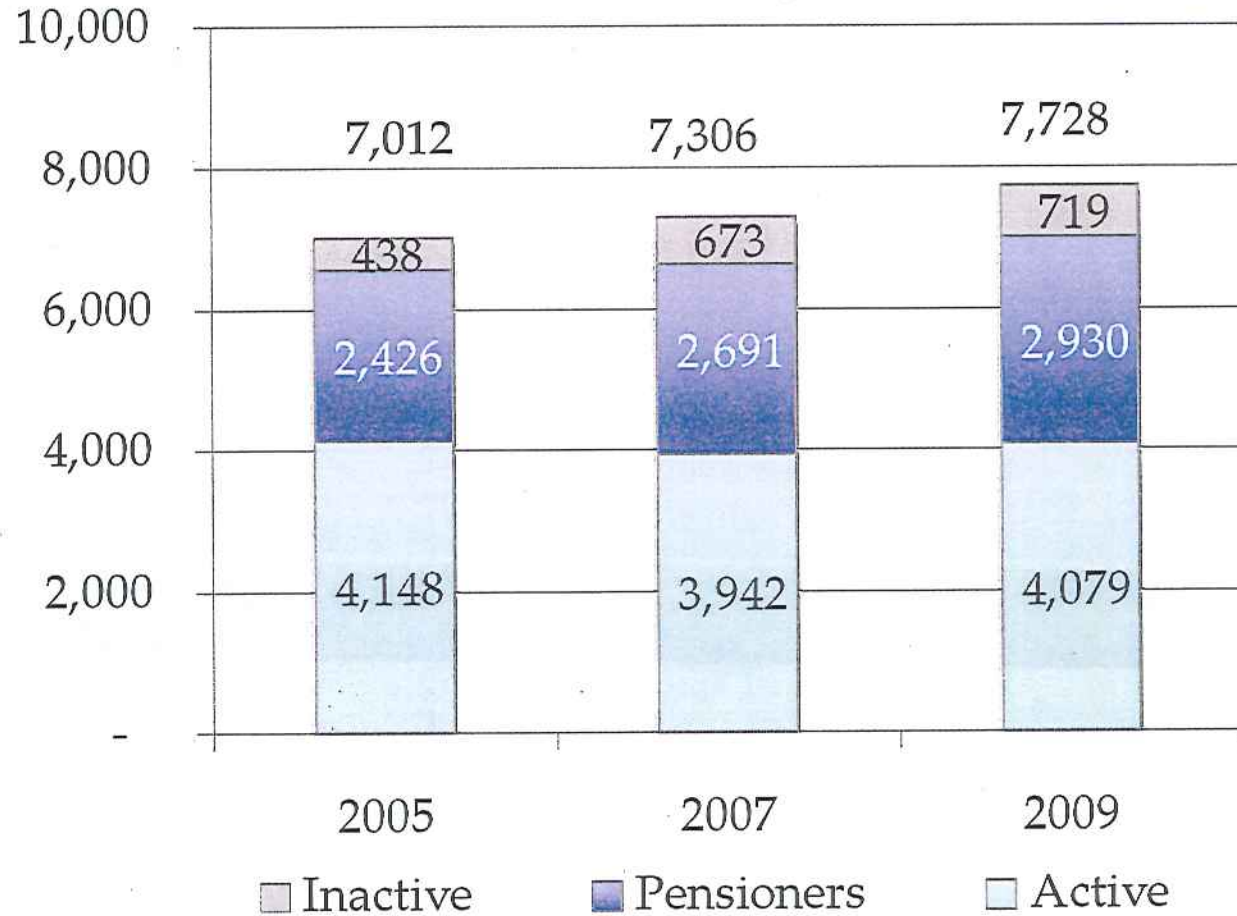


## Membership Data

	2007	2009	% change
Active--payroll	\$291 M	\$323 M	10.9%
Active--average pay	\$73,923	\$79,191	7.1%
Active—average age	45.5	45.5	0.0%
Active--average years of service	11.7	11.6	(0.9%)
Retiree—average benefits	\$33,987	\$37,326	9.8%
Active Member/ Retiree Ratio	1.46	1.39	(4.8%)



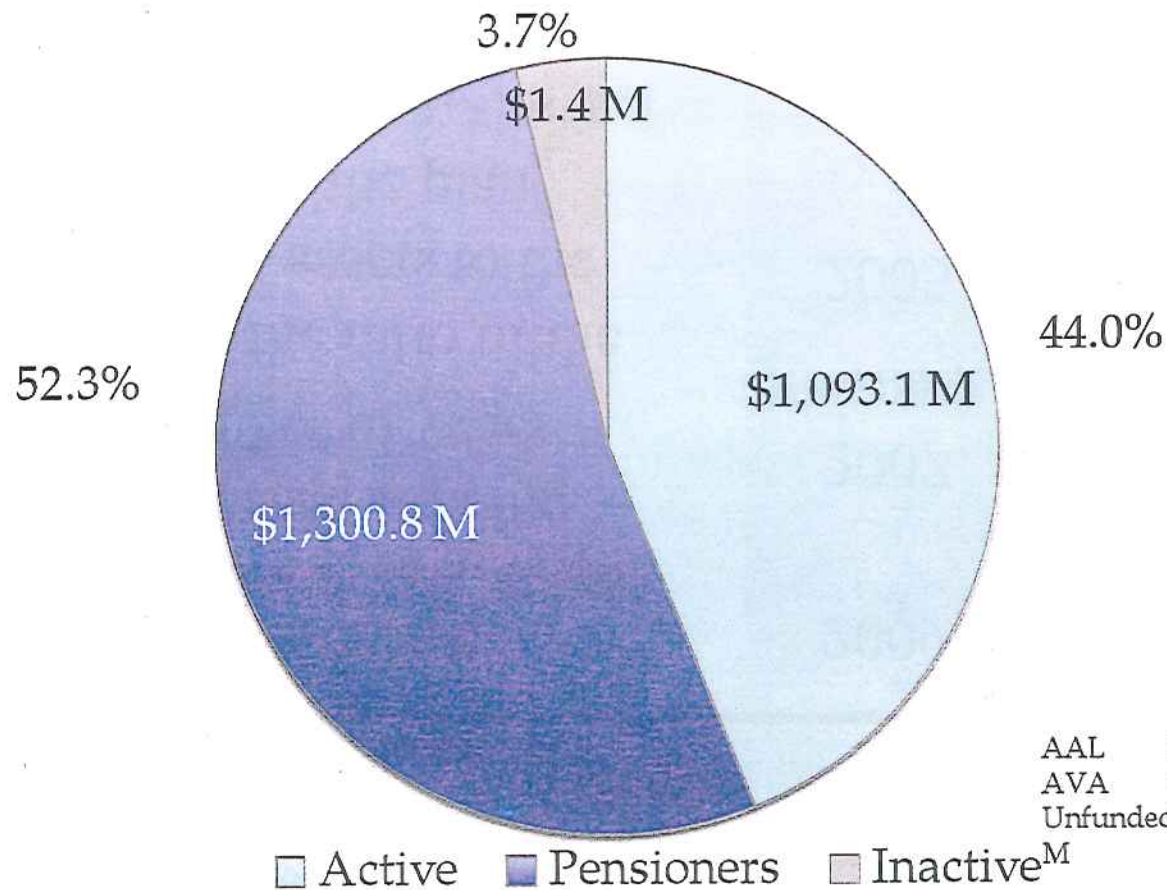
# Membership Counts





# Actuarial Accrued Liability

AAL = \$2,486.2 M



AAL \$2,486.2 M  
AVA \$1,756.6 M  
Unfunded \$ 729.6



# Actuarial Valuation—Funding Progress

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- ◆ Funding Progress- a look at the *trend* in the actuarial funding ratio over a number of years
- ◆ Funded Ratio is the ratio of the actuarial value of assets to the accrued liability of the plan
- ◆ Retirement Benefits only

2009	70.7%
2007	82.8%
2005	80.9%
2003	97.6%
2001	98.9%
1999	93.4%



# Funding Ratio Projection

- ◆ Funding ratio will continue to decline
  - ◆ Even if investment return assumption met
  - ◆ Declines until 2013 then begins to rise
  - ◆ Recognition of deferred asset losses
- ◆ Estimated using 7.75% returns for years 2010-2016

