Federated City Employees' Retirement System

June 30, 2010 Actuarial Valuation

Produced by Cheiron

December 2010

CHEIRON Classic Values, Innovative Advice

Table of Contents

LETTER OF TRANSMITTAL

December 3, 2010

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

At your request, we performed the June 30, 2010 actuarial valuation of the Federated City Employees' Retirement System of the City of San Jose ("System"). The valuation results with respect to the System are contained in this report. The prior valuation was performed by Gabriel, Roeder, Smith and Company.

The table below presents the key results of the 2010 valuation.

Table I-1
Summary of Key Valuation Results

Valuation Date	**6/30/2010**	**6/30/2009**
Actuarial Liability (AL)	$ 2,510,358	$ 2,486,155
Actuarial Value of Assets (AVA)	1,729,414	1,756,588
Unfunded Actuarial Liability (UAL)	$ 780,944	$ 729,567
Funding Ratio - AVA	69%	71%
Market Value of Assets (MVA)*	$ 1,512,802	$ 1,356,638
Funding Ratio - MVA	60%	55%
Fiscal Year Ending	**6/30/2012**	**6/30/2011**
Member Contribution Rate	4.68%	4.88% **
City Contribution Rate		
Normal Cost Rate	12.76%	13.28% **
UAL Rate	15.58%	12.47% **
Total City Rate	28.34%	25.75% **
Total Contribution Rate	33.02%	30.63% **
Total Contribution Amount		
-if paid at the beginning of the year	$ 86,888	$ 84,787 **
-if paid at the end of the year	$ 93,795	$ 91,359 **

Amounts in thousands

* Includes SRBR of $28,331 and $19,786 as of June 30, 2010 and 2009 respectively

** Without phase-in of contribution rates

At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. For example, based on this valuation report, the Annual Required Contribution for the fiscal year ending June 30, 2012 is the greater of $93,795,312 (if paid 6/30/2012) and 28.34% of actual payroll for the period from July 1, 2011 through June 30, 2012.

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL has increased by $51.4 million. The primary cause of this increase is the investment experience during the 12 months ended June 30, 2010.

- *Funding Ratio:* The ratio of the actuarial value of assets to actuarial liabilities declined since the last valuation from 71% to 69%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to actuarial liabilities increased from 55% to 60%.

- *Member Contribution Rate:* The member contribution rate is a proportion of the normal cost rate. In the prior valuation, this rate was calculated using a discount rate of 7.75%, and the increase was phased-in over a five-year period. The member contribution rate was 4.88%, while the phased-in member contribution rate was 4.54%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the member contribution rate increases from 4.54% to 4.68%. Under GRS' phase-in method, the rate was anticipated to increase from 4.54% to 4.65%.

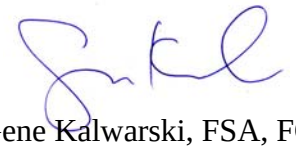
- *City Contribution Rate:* Like the member contribution rate, the prior valuation report calculated a city contribution rate using a discount rate of 7.75%, but the increase in contribution rate was phased-in over a five-year period. So, while the valuation calculated a city contribution rate of 25.75%, the phased-in city contribution rate was 23.18%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the city contribution rate increases from 23.18% to 28.34%. Under GRS' phase-in method, the rate was anticipated to increase from 23.18% to 23.96%. The additional increase to 28.34% is primarily attributable to the investment experience. Because assets are smoothed and the full investment losses from the last fiscal year have not been recognized yet, the contribution rate is expected to increase for the next three years assuming investment returns are 7.95% per year and all other actuarial assumptions are met.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2010 valuation results can be found in our report which follows.

We certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as Members of the American Academy of Actuaries, we meet the Qualification Standards to render the opinion contained in this report. In preparing our report, we relied without audit, on information supplied by the Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information.

Finally, it's important to note that this valuation, which was prepared using census data and financial information as of June 30, 2010, does not reflect any subsequent changes in the membership profile and the investment markets.

Sincerely,
Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA
Consulting Actuary

William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

SECTION I
BOARD SUMMARY

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the Federated City Employees' Retirement System
- Past and expected trends in the financial condition of the System
- The Employer's contribution rate for the Fiscal Year Ending June 30, 2011, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section, we present a summary of the principal valuation results. This includes the basis upon which the June 30, 2010 valuation was completed and an examination of the current financial condition of the System. In addition, we present a review of the key historical trends followed by the projected financial outlook for the System.

A. Valuation Basis

The System's funding policy sets city contributions equal to the sum of:

- A portion ($8/11^{th}$) of the Service Normal Rate (Regular Current Service Rate).
- The Reciprocity Rate which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans.
- The Deficiency Rate which is the amortization of the funding deficiency.
- The Golden Handshake Rate which is the cost for funding the additional benefits granted in the past to certain retiring employees.

Member contributions equal $3/11^{th}$ of the Service Normal Rate.

In the prior valuation, the discount rate was changed from 8.25% to 7.75%, but the impact of the change on contributions was phased-in over a five-year period. We understand that the Board had instead intended that the discount rate be phased-in over a five-year period. This year, the Board adopted a faster phase-in of the discount rate, 7.95% in 2010 and 7.75% in 2011. As a result, this valuation report shows a change in the discount rate from 7.75% to 7.95%, but the contribution rates calculated in the report apply to the next fiscal year and are not phased in. In addition, the changes in the wage inflation assumptions are similarly phased-in. The wage inflation assumption is 3.90% for the 2010 valuation and is scheduled to be 3.83% for the 2011 valuation (as it was for the 2009 valuation).

SECTION I
BOARD SUMMARY

B. Current Financial Condition

On the following pages, we summarize the key results of the June 30, 2010 valuation and how they compare to the results from the June 30, 2009 valuation.

1. Membership:

As shown in Table I-2 below, total membership in Federated remained relatively level from 2009 to 2010. Active membership decreased 6.4%, terminated vested membership increased 1.8% and retiree membership increased 6.2%. Total payroll decreased by 6.9%, and the average pay per active member decreased by 0.5%.

Table I-2
Total Membership

Item	June 30, 2010	June 30, 2009	% Change
Active Counts	3,818	4,079	-6.4%
Terminated Vesteds	732	719	1.8%
Retirees	2,472	2,308	7.1%
Beneficiaries	428	412	3.9%
Disabled	211	210	0.5%
Total City Members	7,661	7,728	-0.9%
Active Member Payroll	$ 300,811,165	$ 323,020,387	-6.9%
Average Pay per Active Member	78,788	79,191	-0.5%

2. Assets and Liabilities:

Table I-3 on the following page presents a comparison between the June 30, 2010 and June 30, 2009 assets, liabilities, UAL, and funding ratios.

The key results shown in Table I-3 indicate that the total actuarial liability increased 1.0% and the market value of assets increased by 11.5%. The System employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) decreased by 1.5%. Finally, the overall funding (actuarial value of assets less actuarial liabilities) deficit increased from $729.6 million to $780.9 million, resulting in a decrease in the funding ratio from 70.7% to 68.9%. Based on the market value of assets, the funding ratio increased from 54.6% to 60.3%.

SECTION I
BOARD SUMMARY

Table I-3
Assets & Liabilities

Item (EAN)	June 30, 2010	June 30, 2009	% Change
Actives	$ 1,005,659	$ 1,093,041	-8.0%
Terminated Vesteds	85,904	92,348	-7.0%
Retirees	1,271,310	1,159,499	9.6%
Beneficiaries	81,931	77,423	5.8%
Disabled	65,554	63,844	2.7%
Total Actuarial Liability	2,510,358	2,486,155	1.0%
Market Value Assets	$ 1,512,802	$ 1,356,638	11.5%
Actuarial Value Assets	$ 1,729,414	$ 1,756,588	-1.5%
Unfunded Actuarial Liability	$ 780,944	$ 729,567	7.0%
Funding Ratio - Market Value	60.3%	54.6%	5.7%
Funding Ratio - Actuarial Value	68.9%	70.7%	-1.8%

Amounts in thousands

3. Contributions:

Table I-4 shows sources for the change in the net employer contribution rate from the rate (prior to phase-in) that was calculated in the prior report. The contribution rate increase is primarily attributable to the additional amount recognized in the actuarial value of assets due to the 2008-09 investment experience. The phase-in and 1-year lag of contribution rates also causes an increase under the assumptions and methods used in the prior valuation. The reduction in rates due to the assumption changes is also a reflection of changing from phasing in the contribution rates in the last valuation report to phasing in the change in discount rate in this valuation report.

Table I-4
Contribution Rate Reconciliation

Item	Member	City			Total
		Normal	UAL	Total	
1 FY 2011 Contribution Rate	4.88%	13.28%	12.47%	25.75%	30.63%
2 Change due to investment loss	0.00%	0.00%	3.03%	3.03%	3.03%
3 Change due to actual vs. expected contributions*	0.00%	0.00%	0.81%	0.81%	0.81%
4 Change due to demographic experience	-0.02%	-0.04%	0.49%	0.45%	0.43%
5 Change due to assumption change	-0.18%	-0.48%	-1.22%	-1.70%	-1.88%
6 FY 2012 Contribution Rate	4.68%	12.76%	15.58%	28.34%	33.02%

* *The change due to contributions is composed of 0.73% due to the one-year lag between the valuation date and effective date of contribution rates plus 0.08% due to the difference between actual and expected payroll*

In Section IV of this report, we provide more detail on the development of this contribution rate.

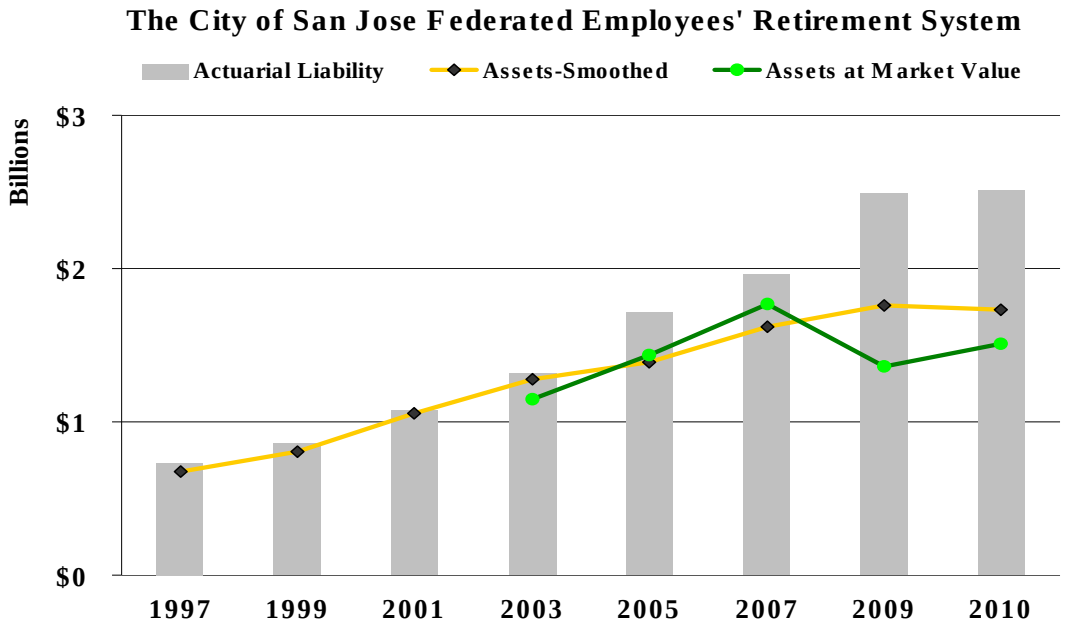
SECTION I
BOARD SUMMARY

C. Historical Trends

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the System's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of the funding ratios since 1997.

Federated Assets and Liabilities 1997-2010



* *Market Value of Assets prior to 2003 were not reported separately for the Retirement Benefits*

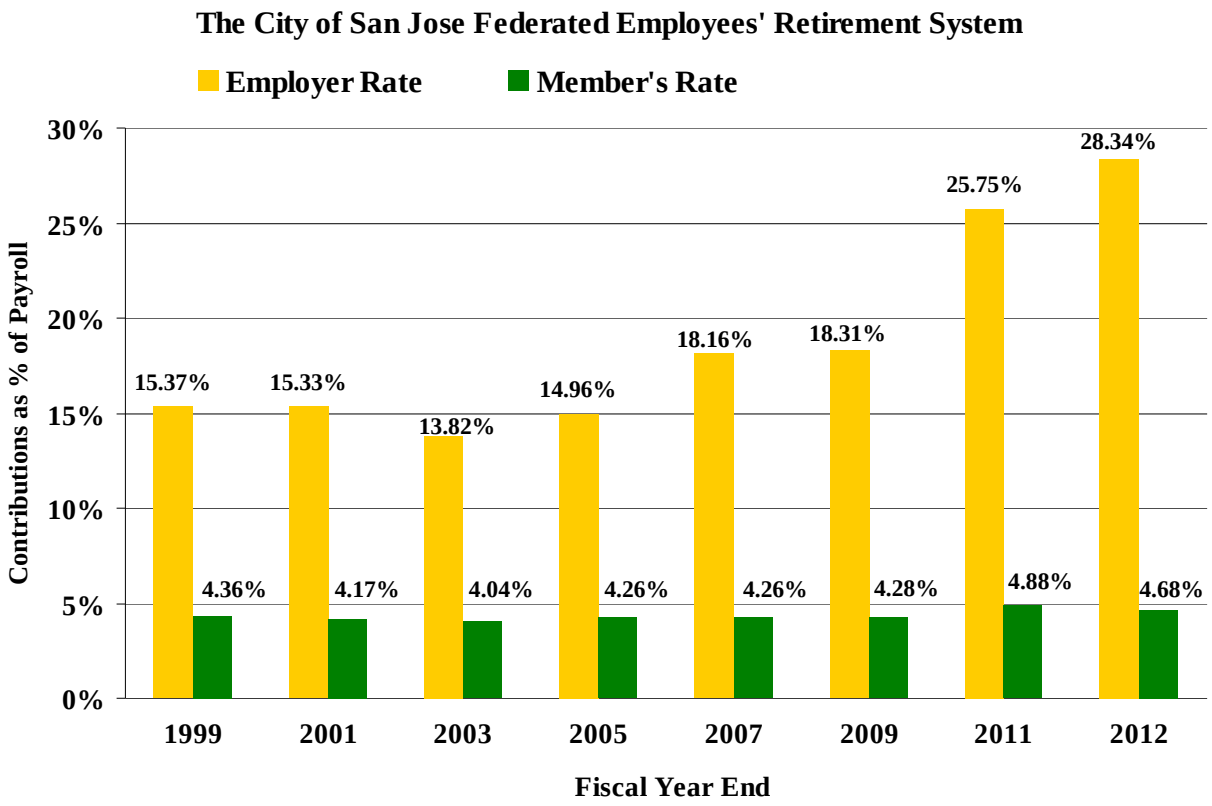
	1997	1999	2001	2003	2005	2007	2009	2010
Funded Ratio	92.3%	93.3%	98.9%	97.6%	80.9%	82.8%	70.7%	68.9%
UAL/(Surplus) *(in millions)*	$ 56.8	$ 57.4	$ 12.2	$ 31.0	$ 326.9	$ 338.1	$ 729.6	$ 780.9

SECTION I
BOARD SUMMARY

The previous chart indicates that from 1997 to 2001, SJFCERS' funding ratio improved, but was still in deficit status. Then, from 2001 to 2010 (with the exception of 2007), the funding ratio steadily declined. The decline is due primarily to investment experience. Based on the current difference between the market value of assets and the actuarial value of assets, a further decline in the funded status is expected over the next few years.

In the chart below, we present the historical trends for the System's contribution rates since the Fiscal Year Ending June 30, 1999. All information shown prior to the Fiscal Year Ending June 30, 2012 was calculated by the prior actuary. Also, please note that the Fiscal Year 2011 rates shown do not reflect the phase-in of contribution rates that was adopted. The phased-in rates were 4.54% and 23.18% for the Members and City respectively.

Employer and Member Contribution Rates 1999-2012

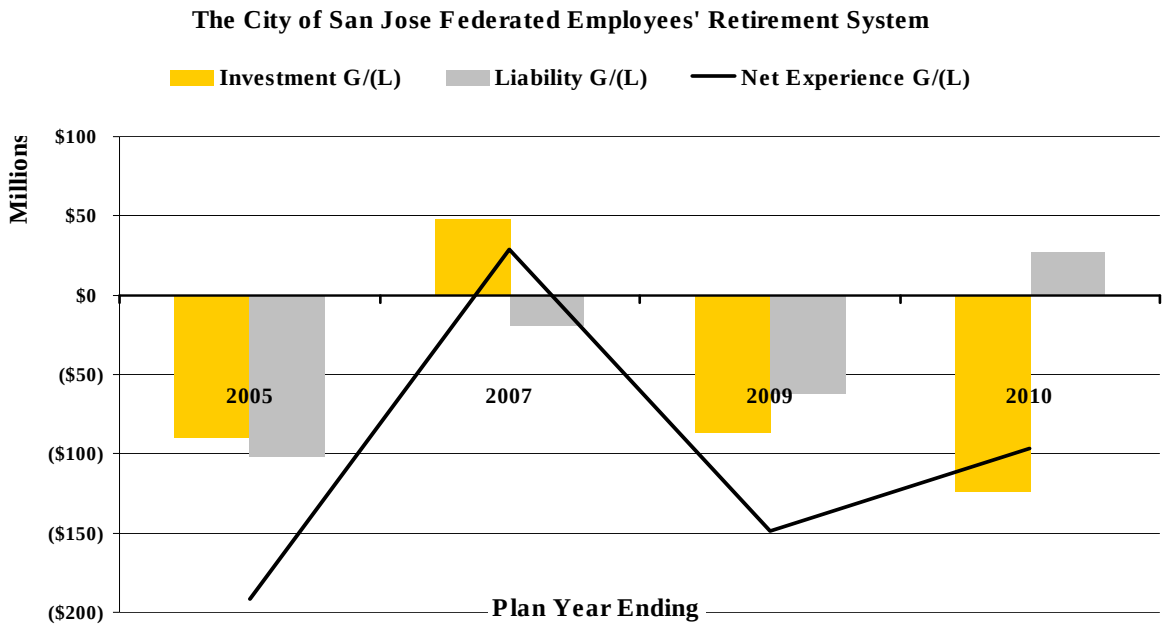


The key information in this chart is the increase in the employer contribution rate since 2003. The increase scheduled for the Fiscal Year Ending in 2012 is primarily due to recent investment experience. Employer contribution rate increases are expected for the next few years as the balance of the market value investment losses are recognized under the asset smoothing method and as the discount rate is decreased to 7.75%.

SECTION I
BOARD SUMMARY

The next chart below represents the pattern of the System's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the System's assets and liabilities attributable to changes to methods, procedures or assumptions.

SJFCERS Historical Gain/(Loss) 2005-2010



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2010, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected over the next few years.

- On the liability side, three of the four valuations showed actuarial losses with 2010 as the only exception. The actuarial gain in 2010 is primarily due to actual salaries being less than expected.

SECTION I
BOARD SUMMARY

D. Projected Financial Trends

Our analysis of projected financial trends is an important part of this valuation. In this Section, we present our assessment of the implications of the June 30, 2010 valuation results on the future outlook for the System in terms of benefit security (assets over liabilities) and the expected cost progression.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the Employer contributions as a percent of payroll on two different bases:

1) Assuming 7.95% return for 2010 and each and every year after that, and

2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equals on average the assumed 7.95% return. We do this in order to illustrate the impact of volatility because the System's returns will never be level each and every year.

July 1,	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return	29.00%	8.00%	3.00%	20.00%	-4.00%	18.00%	13.00%	9.00%	-7.00%	16.00%
July 1,	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Return	9.00%	-8.00%	8.00%	13.00%	17.00%	-8.00%	-16.00%	30.00%	25.00%	-1.00%

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and employer contribution rates. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

SECTION I
BOARD SUMMARY

Projection Set 1: Assets and Liabilities

The chart below shows asset measures (green and gold lines) compared to liabilities (grey bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the projected declines in funded ratios over the next several years, as recent market losses become fully recognized, and how varying investment returns can impact the funding ratios.

Chart 1: Projection of Assets and Liabilities, 7.95% return each year

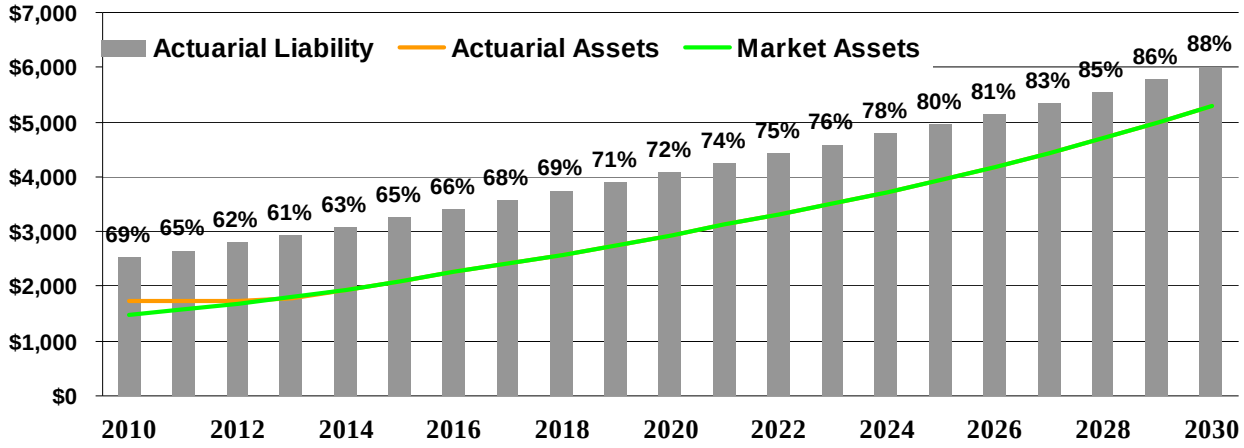
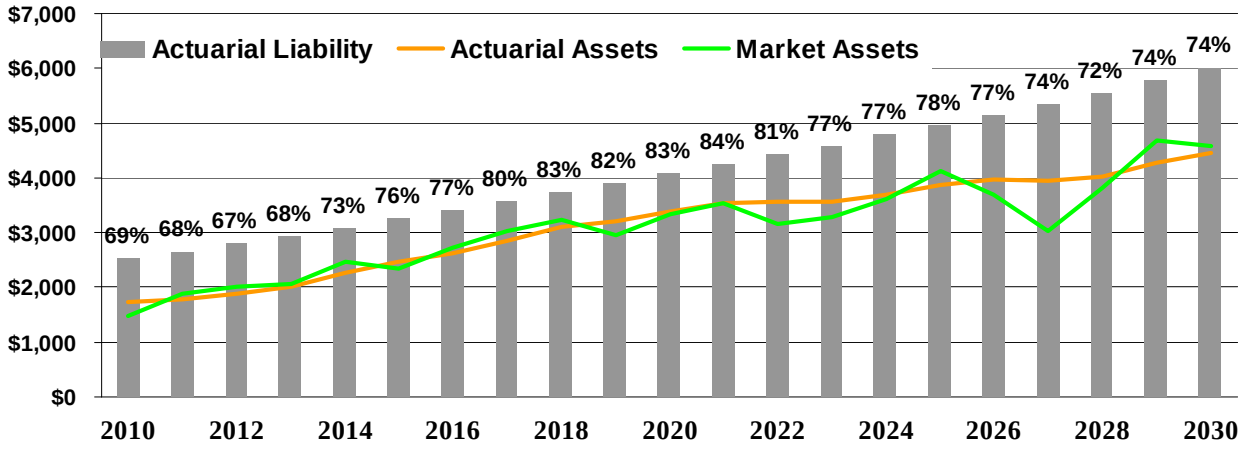


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.95% over time



SECTION I
BOARD SUMMARY

Projection Set 2: Projected Employer Contribution Rate

As seen in the chart below, employer contribution rates are expected to increase over the next several years as the 2008-09 investment losses are fully recognized.

Chart 1: 7.95% return each year

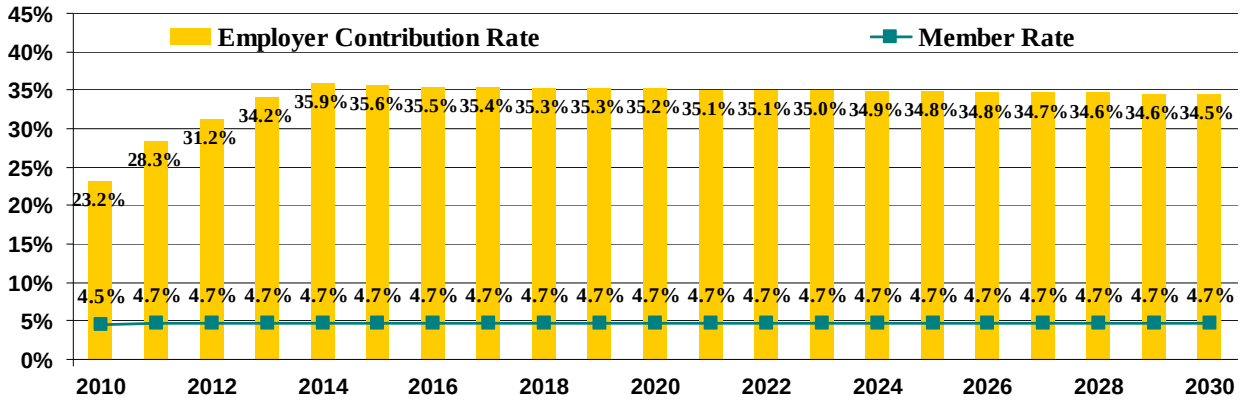
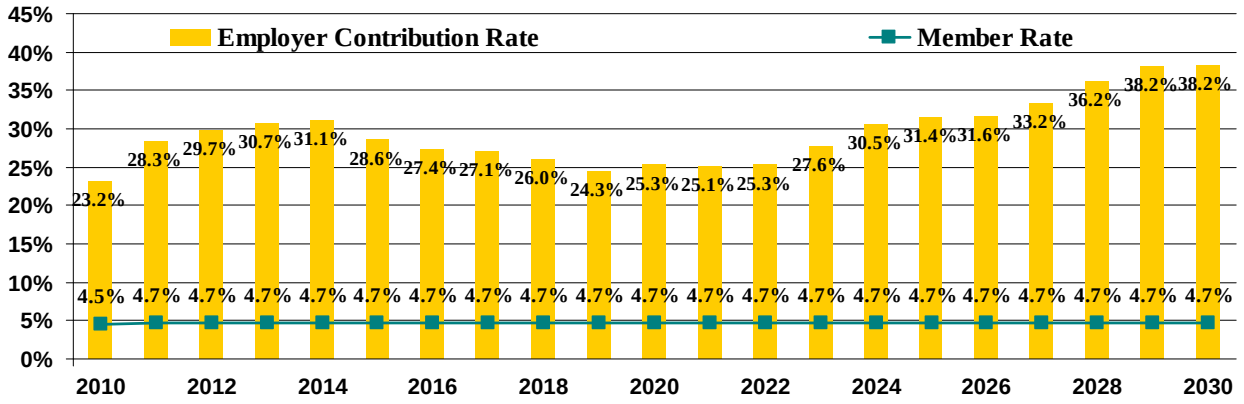


Chart 2: varying returns averaging 7.95% over time



SECTION II
ASSETS

The System uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages we present detailed information on the System's assets:

A. Statement of cash flows during the year,

B. Development of the actuarial value of assets,

C. Discussion of investment performance for the year.

A. Cash Flows

Table II-1 shows sources for the change in the market value of assets.

Table II-1
Change in Market Value of Assets

	June 30, 2010			June 30, 2009
	Basic**	Cost of Living	Total Retirement	Total Retirement
Market Value, Beginning of Year	$ 990,811	$ 365,827	$ 1,356,638	$ 1,681,736
Contributions				
Member	10,336	3,060	13,396	13,848
City	42,053	12,513	54,566	57,020
Total	$ 52,389	$ 15,573	$ 67,962	$ 70,868
Net Investment Earnings*	$ 148,152	$ 46,962	$ 195,114	$ (297,881)
Benefit Payments	$ 83,030	$ 23,882	$ 106,912	$ 98,085
Market Value, End of Year	**$ 1,108,322**	**$ 404,480**	**$ 1,512,802**	**$ 1,356,638**

Amounts in thousands

* Gross investment earnings less investment and administrative expenses

** Includes SRBR of $28,331 and $19,786 as of End of Year and Beginning of Year respectively

SECTION II
ASSETS

Table II-2 shows the development of excess earnings.

Table II-2
Development of Excess Earnings as of June 30, 2010

	Retirement Fund Reserve			
	Employee	SRBR	General	Total
1. Total Earnings				$ 148,152
2. Balance, July 1, 2009	$ 195,351	$ 19,786	$ 775,674	$ 990,811
3. Net Cashflow	$ (11,704)	$ -	$ (18,937)	$ (30,641)
4. Crediting Rate	3.00%	7.75%	7.75%	
5. Primary Interest Crediting	$ 5,906	$ 1,595	$ 71,147	$ 78,648
6. Balance, June 30, 2010	$ 189,553	$ 21,381	$ 827,884	$ 1,038,818
7. Excess Earnings		$ 6,950	$ 62,554	$ 69,504
8. Balance, July 1, 2010	$ 189,553	$ 28,331	$ 890,438	$ 1,108,322

Amounts in thousands

B. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets that differs from the market value of assets. The actuarial value of assets is based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return on the actuarial asset value (7.75% for 2009-10, 8.25% for prior years). The expected return on the actuarial value of assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years. (See Appendix B for further explanation of the asset valuation method).

SECTION II
ASSETS

Table II-3
Development of Actuarial Value of Assets

	June 30, 2010		
	Basic	Cost of Living	Total Retirement
Market Value of Assets	$ 1,108,322	$ 404,480	$ 1,512,802
Gains/(Losses)			
Current Year	72,530	18,926	91,456
Prior Year	(343,205)	(89,559)	(432,764)
2nd Prior Year	(162,625)	(42,436)	(205,061)
3rd Prior Year	93,484	24,394	117,878
Deferred Gains/(Losses)			
Current Year (80% deferred)	58,024	15,141	73,165
Prior Year (60% deferred)	(205,924)	(53,735)	(259,659)
2nd Prior Year (40% deferred)	(65,049)	(16,975)	(82,024)
3rd Prior Year (20% deferred)	18,697	4,879	23,576
Total	$ (194,253)	$ (50,690)	$ (244,943)
SRBR Reserve	$ 28,331	$ -	$ 28,331
Actuarial Value of Assets	$ 1,274,244	$ 455,170	$ 1,729,414

Amounts in thousands

C. Investment Performance

The market value of assets internal rate of return, net of investment expenses, was 14.6% for the year ending June 30, 2010. This is compared to an assumed return of 7.75%.

On an actuarial value of assets basis, the return for the year ending June 30, 2010 was 0.7%. The difference is largely due to the recognition of deferred losses from prior years while 80% of the gain for 2010 is deferred to future years. This return produced an overall investment loss of $124.1 million for the year ending June 30, 2010.

SECTION III
LIABILITIES

In this section, we present detailed information on liabilities for the System, including:

- Disclosure of liabilities at June 30, 2009 and June 30, 2010, and
- Statement of changes in the unfunded actuarial liabilities during the year.

A. Disclosure

Two types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of all Future Benefits:** Used for measuring all future obligations, represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.
- **Actuarial Liability-Entry Age Normal (EAN):** Used for determining employer contributions and GASB accounting disclosures. This liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EAN actuarial funding method. It represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date.

Table III-1 and Table III-2 on the following page disclose the liabilities for the current and prior year's valuations. By subtracting the actuarial value of assets from the actuarial liability, the net surplus or an unfunded actuarial liability (UAL) is determined.

Table III-3 shows the Entry Age Normal Cost as a percentage of pay. The Entry Age Normal Cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the EAN actuarial funding method.

SECTION III
LIABILITIES

Table III-1
Present Value of Future Benefits

	June 30, 2010			June 30, 2009
	Basic	Cost of Living	Total Retirement	Total Retirement
Actives				
Retirement	$ 892,594	$ 296,688	$ 1,189,282	$ 1,308,642
Termination	77,573	20,126	97,699	109,640
Death	26,287	8,073	34,360	37,193
Disability	50,875	15,341	66,216	71,629
Total Actives	$ 1,047,329	$ 340,228	$ 1,387,557	$ 1,527,104
Retirees	980,508	290,802	1,271,310	1,159,499
Beneficiaries	65,033	16,898	81,931	77,423
Disabled	51,027	14,527	65,554	63,844
Deferred Vested	63,964	21,940	85,904	92,348
Total	**$ 2,207,861**	**$ 684,396**	**$ 2,892,256**	**$ 2,920,218**

Amounts in thousands

Table III-2
Actuarial Liability

	June 30, 2010			June 30, 2009
	Basic	Cost of Living	Total Retirement	Total Retirement
Actives				
Retirement	$ 679,851	$ 226,488	$ 906,339	$ 986,710
Termination	33,110	9,208	42,318	46,903
Death	15,744	4,696	20,440	21,590
Disability	28,433	8,129	36,562	37,838
Total Actives	$ 757,138	$ 248,521	$ 1,005,659	$ 1,093,041
Retirees	980,508	290,802	1,271,310	1,159,499
Beneficiaries	65,033	16,898	81,931	77,423
Disabled	51,027	14,527	65,554	63,844
Deferred Vested	63,964	21,940	85,904	92,348
Total	**$ 1,917,670**	**$ 592,689**	**$ 2,510,358**	**$ 2,486,155**

Amounts in thousands

SECTION III
LIABILITIES

Table III-3
Entry Age Normal Cost

	June 30, 2010			June 30, 2009
	Basic	Cost of Living	Total Retirement	Total Retirement
Retirement	9.85%	3.23%	13.08%	13.63%
Termination	1.67%	0.39%	2.06%	2.14%
Death	0.50%	0.16%	0.66%	0.67%
Disability	1.05%	0.33%	1.38%	1.44%
Reciprocity	0.20%	0.06%	0.26%	0.28%
Total	**13.27%**	**4.17%**	**17.44%**	**18.16%**

B. Changes in Unfunded Actuarial Liabilities

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Below we present key changes in liabilities since the last valuation.

Table III-4
Development of 2010 Experience Gain/(Loss)

	Item		Amount
1	Unfunded Actuarial Liability at June 30, 2009		$ 729,567
2	Expected unfunded accrued liability payment		39,555
3	Interest accrued ((1-2) x 0.0775)		53,476
4	Decrease due to change in assumptions		(59,363)
5	Expected Unfunded Actuarial Liability at June 30, 2010 (1-2+3+4)		684,126
6	Actual Unfunded Liability at June 30, 2010		780,944
7	Difference: (5 - 6)		(96,819)
	a. Portion of (7) due to change in actuary	$ 14,635	
	b. Portion of (7) due to investment gain or loss	(124,137)	
	c. Portion of (7) due to salary increases	45,018	
	d. Portion of (7) due to actual vs. expected contributions*	(33,102)	
	e Portion of (7) due to other experience	767	
	f Total	$ (96,819)	

Amounts in thousands

* *The change due to contributions is composed of $29.9 million due to the one-year lag between the valuation date and effective date of contribution rates plus $3.2 million due to the difference between actual and expected payroll*

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

The actuarial funding methodology employed is the Entry Age Normal actuarial funding method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL is made up of the unamortized UAL as of June 30, 2009 plus the impact of the 2010 experience and assumption change.

Table IV-1 provides the payment schedules to amortize the unfunded liability as of June 30, 2009 over 30 years, and any additional actuarial gains/(losses), assumption or method changes after June 30, 2009 over 20 years.

Table IV-2 shows how the employer's contribution rate for FYE 2012 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

Table IV-3 shows the employer' contribution dollar amounts for FY 2012 assuming contributions are made at the beginning of the fiscal year. To the extent contributions are made after the beginning of the fiscal year, the amounts should be increased at an annual rate of 7.95 percent.

SECTION IV
CONTRIBUTIONS

Table IV-1
UAL Amortization

	Outstanding Balance	Remaining Period	Payment	
			$ Amount	% of Pay
Basic Retirement Benefit				
Golden Handshake	$ 16,216	29	$ 980	0.32%
2009 UAL	581,040	29	35,118	11.45%
2010 (Gain) or Loss	84,340	20	6,390	2.08%
2010 Assumption Change	(38,172)	20	(2,892)	-0.94%
Total	**$ 643,425**		**$ 39,596**	**12.91%**
Cost of Living Benefit				
Golden Handshake	$ 3,943	29	$ 238	0.08%
2009 UAL	142,289	29	8,600	2.81%
2010 (Gain) or Loss	12,478	20	945	0.31%
2010 Assumption Change	(21,190)	20	(1,605)	-0.52%
Total	**$ 137,520**		**$ 8,178**	**2.67%**
Total	**$ 780,944**		**$ 47,774**	**15.58%**

Table IV-2
Contribution Rates

	Fiscal Year 2011-12			Fiscal Year 2010-11		
	Basic	COLA	Total	Basic	COLA	Total
Member Contribution Rate	**3.56%**	**1.12%**	**4.68%**	**3.69%**	**1.19%**	**4.88%**
City Service Normal Rate	9.51%	2.98%	12.49%	9.84%	3.16%	13.00%
City Reciprocity Normal Rate	0.20%	0.07%	0.27%	0.21%	0.07%	0.28%
Total City Normal Rate	**9.71%**	**3.05%**	**12.76%**	**10.05%**	**3.23%**	**13.28%**
City Deficiency Rate	12.59%	2.59%	15.18%	9.19%	2.95%	12.14%
City Golden Handshake Rate	0.32%	0.08%	0.40%	0.26%	0.08%	0.34%
Total City UAL Rate	**12.91%**	**2.67%**	**15.58%**	**9.45%**	**3.03%**	**12.48%**
City ARC Rate	**22.62%**	**5.72%**	**28.34%**	**19.49%**	**6.25%**	**25.75%**

SECTION IV
CONTRIBUTIONS

Table IV-3
City Contribution Amounts (BOY)

	July 1, 2011			July 1, 2010		
	Basic	**COLA**	**Total**	**Basic**	**COLA**	**Total**
City Service Normal Cost	$ 29,148	$ 9,146	$ 38,294	$ 32,390	$ 10,404	$ 42,794
City Reciprocity Normal Cost	608	212	820	691	230	922
Total City Normal Cost	**$ 29,756**	**$ 9,358**	**$ 39,114**	**$ 33,081**	**$ 10,634**	**$ 43,715**
City Deficiency Cost	$ 38,616	$ 7,940	$ 46,555	$ 30,240	$ 9,712	$ 39,953
City Golden Handshake Cost	980	238	1,218	856	263	1,119
Total City UAL Cost	**$ 39,596**	**$ 8,178**	**$ 47,774**	**$ 31,096**	**$ 9,976**	**$ 41,072**
City Annual Required Contribution	**$ 69,352**	**$ 17,536**	**$ 86,888**	**$ 64,177**	**$ 20,610**	**$ 84,787**

Amounts in thousands

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The GASB No. 25 disclosure presents the actuarial liability computed for funding purposes to the actuarial value of assets to determine a funded ratio. The actuarial liability is determined assuming that members continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.95% per annum.

GASB Statement No. 25 requires the actuarial liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2009 and June 30, 2010 are presented in Table V-1.

Table V-1
Federated City Employees' Retirement System

Item	June 30, 2010	June 30, 2009*	% Change
GASB No. 25 Basis			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	$ 1,418,794	$ 1,300,766	9.1%
b. Vested Terminated and Inactive Members	85,904	92,348	-7.0%
c. Active Members	1,005,660	1,093,041	-8.0%
d. Total Actuarial Liability	$ 2,510,358	$ 2,486,155	1.0%
2. Actuarial Value of Assets	$ 1,729,414	$ 1,756,588	-1.5%
3. Unfunded Actuarial Liability	$ 780,944	$ 729,567	7.0%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	68.89%	70.65%	-1.8%

* Results prior to 7/1/2010 calculated by prior actuary

Amounts in thousands

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-2 through V-5 are exhibits for use in the System's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information. Table V-3 presents an analysis of financial experience for the valuation year; Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets; and Table V-5 presents the Schedule of Funding Progress.

Table V-2
Federated City Employees' Retirement System
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2010
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	28.4 Years
Asset valuation method	5 year smoothing of return over or under expected returns
Actuarial assumptions:	
Investment rate of return	7.95%
Projected salary increases due to wage inflation [1]	3.90%
Cost-of-living adjustments	3.0% per year

The actuarial assumptions used have been recommended by the actuary and adopted by the Federated Board based on the most recent review of Federated experience, completed in 2009.

The rate of employer contributions to Federated is composed of the normal cost, reciprocity normal cost, amortization of the unfunded actuarial liability and the golden handshake rate. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

1 Additional merit salary increases of 1.00% to 5.75% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
City of San Jose Federated City Employees' Retirement System
ANALYSIS OF FINANCIAL EXPERIENCE
Gain (or Loss) in Actuarial Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain (or Loss) for Year Ending June 30, 2010
Investment Income	($124,137)
Combined Liability Experience	45,785
Gain (or Loss) During Year from Financial Experience	($78,352)
Non-Recurring Gain (or Loss) Items	(18,467)
Composite Gain (or Loss) During Year	($96,819)

Amounts in thousands

Table V-4
City of San Jose Federated City Employees' Retirement System
GASB SOLVENCY TEST
Actuarial Liabilities For

Valuation Date June 30, **	(A) Active Member Contributions	(B) Retirees, Beneficiaries and Other Inactives	(C) Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets (A)	(B)	(C)
2010	$ 242,944	$ 1,504,698	$ 762,716	$ 1,729,414	100%	99%	0%
2009	$ 228,967	$ 1,393,114	$ 864,074	$ 1,756,588	100%	100%	16%
2007	$ 214,527	$ 1,003,001	$ 743,415	$ 1,622,851	100%	100%	55%
2005	$ 230,027	$ 824,043	$ 657,300	$ 1,384,454	100%	100%	50%
2003	$ 224,875	$ 635,092	$ 451,724	$ 1,280,719	100%	100%	93%
2001	$ 210,377	$ 529,853	$ 332,103	$ 1,060,144	100%	100%	96%

* Actuarial Value of Assets

Amounts in thousands

** Results prior to 7/1/2010 calculated by prior actuary

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2001	$1,060,144	$1,072,333	$12,189	99%	$252,696	5%
June 30, 2003	$1,280,719	$1,311,691	$30,972	98%	$292,961	11%
June 30, 2005	$1,384,454	$1,711,370	$326,916	81%	$286,446	114%
June 30, 2007	$1,622,851	$1,960,943	$338,092	83%	$291,405	116%
June 30, 2009*	$1,756,588	$2,486,155	$729,567	71%	$323,020	226%
June 30, 2010	$1,729,414	$2,510,358	$780,944	69%	$300,811	260%

* Amounts for June 30, 2009 and earlier were calculated by the prior actuary

Amounts in thousands

APPENDIX A
MEMBERSHIP INFORMATION

Table A-1
San Jose Federated City Employees' Retirement System
Active Member Data

	June 30, 2010	June 30, 2009	% Change
Total			
Count	3,818	4,079	-6.4%
Average Current Age	45.9	45.5	0.9%
Average Service	12.1	11.6	4.3%
Annual Expected Pensionable Earnings	$ 300,811,165	$ 323,020,387	-6.9%
Average Expected Pensionable Earnings	$ 78,788	$ 79,191	-0.5%

Table A-2
San Jose Federated City Employees' Retirement System
Non-Active Member Data

	Count			Average Age		
	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change
Total						
Retired & Disabled	2,683	2,518	6.6%	68.2	68.3	-0.1%
Beneficiaries	428	412	3.9%	72.7	72.6	0.1%
Payee Total	3,111	2,930	6.2%	68.9	68.9	0.0%
Inactives	734	719	2.1%	45.6	45.3	0.7%

Table A-3
San Jose Federated City Employees' Retirement System
Non-Active Member Data

	Total Annual Benefit*			Average Annual Benefit*		
	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change
Total						
Retired & Disabled	$ 104,841,445	$ 93,987,905	11.5%	$ 39,076	$ 37,326	4.7%
Beneficiaries	7,818,669	7,205,802	8.5%	18,268	17,490	4.4%
Payee Total	$ 112,660,114	$ 101,193,707	11.3%	$ 36,213	$ 34,537	4.9%
Inactives**	$ 9,611,703	$ 9,498,067	1.2%	$ 13,095	$ 13,210	-0.9%

* Benefits provided in June 30 valuation data
** For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2010

	Years of Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	5	29	-	-	-	-	-	-	-	-	34
25 to 29	17	184	21	1	-	-	-	-	-	-	223
30 to 34	10	195	123	36	-	-	-	-	-	-	364
35 to 39	10	118	165	161	20	-	-	-	-	-	474
40 to 44	2	110	137	177	70	46	1	-	-	-	543
45 to 49	4	101	108	159	95	164	41	-	-	-	672
50 to 54	3	94	93	123	95	171	96	7	-	-	682
55 to 59	1	63	87	118	55	107	36	6	1	-	474
60 to 64	6	21	46	69	38	51	20	2	1	1	255
65 to 69	-	7	15	33	6	10	5	-	-	-	76
70 and up	-	2	-	12	4	2	1	-	-	-	21
Total Count	58	924	795	889	383	551	200	15	2	1	3,818

Table A-5
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2010

	Average Expected Salary Years of Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	$ 43,640	$ 48,460	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 47,751
25 to 29	49,543	60,177	57,009	58,011	-	-	-	-	-	-	59,058
30 to 34	65,672	64,684	72,273	71,019	-	-	-	-	-	-	67,902
35 to 39	70,385	69,904	75,691	81,107	77,591	-	-	-	-	-	76,058
40 to 44	51,854	73,145	79,368	79,685	84,774	82,289	100,942	-	-	-	79,094
45 to 49	79,004	73,189	82,513	83,559	91,004	83,766	81,959	-	-	-	82,810
50 to 54	57,651	74,193	81,415	81,227	90,661	86,072	89,194	72,051	-	-	83,736
55 to 59	139,600	80,029	89,033	83,464	86,914	91,184	82,735	75,899	81,723	-	86,136
60 to 64	103,903	76,214	74,925	80,755	86,307	82,705	101,326	80,558	132,506	84,614	82,921
65 to 69	-	69,389	89,540	78,567	82,742	88,140	67,729	-	-	-	80,763
70 and up	-	83,096	-	67,867	67,101	68,588	47,986	-	-	-	68,293
Avg. Salary	$ 65,115	$ 68,232	$ 78,576	$ 80,857	$ 87,647	$ 85,725	$ 87,077	$ 74,725	$ 107,115	$ 84,614	$ 78,788

APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
San Jose Federated City Employees' Retirement System
Retirees and Disabled by Attained Age and Benefit Effective Date
As of June 30, 2010

Benefit Effective	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
Pre-1991	-	1	3	6	7	20	125	137	126	48	473
1991	-	-	-	2	1	10	16	9	4	-	42
1992	-	-	1	1	1	15	8	8	2	-	36
1993	1	-	2	1	16	61	31	21	10	1	144
1994	-	1	1	2	10	32	7	4	3	-	60
1995	1	1	2	1	1	16	10	9	-	1	42
1996	2	1	1	-	10	14	9	1	1	-	39
1997	1	-	-	2	34	17	15	2	-	-	71
1998	1	-	3	2	30	15	13	-	-	-	64
1999	-	1	1	6	48	13	9	4	1	-	83
2000	-	-	1	11	54	17	6	1	-	-	90
2001	-	1	3	13	46	20	4	2	-	-	89
2002	1	2	3	66	36	35	7	3	1	-	154
2003	1	1	6	62	29	18	4	2	-	-	123
2004	4	1	18	79	24	15	4	-	-	-	145
2005	-	2	12	95	39	22	6	2	-	-	178
2006	6	5	34	70	30	15	1	-	-	-	161
2007	1	8	61	48	26	10	1	3	-	-	158
2008	4	7	72	53	26	8	3	-	-	-	173
2009	3	17	68	36	17	6	-	-	-	-	147
2010	1	21	107	54	22	2	1	-	-	-	208
Unknown	-	1	1	-	1	-	-	-	-	-	3
Total	27	71	400	610	508	381	280	208	148	50	2,683

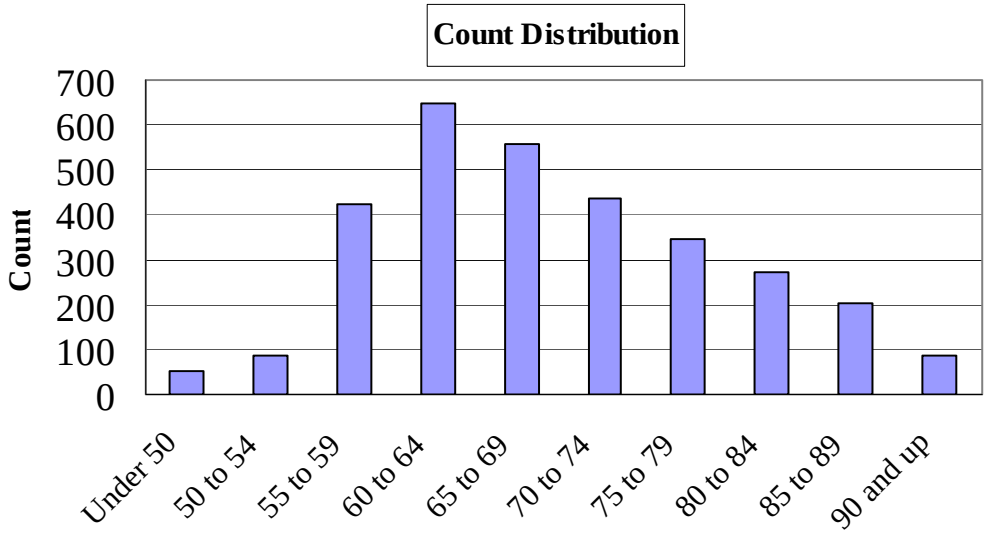
Average Age at Retirement/Disability	68.3
Average Current Age	68.9
Average Annual Pension	$ 36,213

APPENDIX A
MEMBERSHIP INFORMATION

Table A-7
San Jose Federated City Employees' Retirement System
Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2010

Age	Count
Under 50	51
50 to 54	85
55 to 59	425
60 to 64	650
65 to 69	557
70 to 74	436
75 to 79	347
80 to 84	273
85 to 89	202
90 and up	85
Total	3,111

Chart A-1

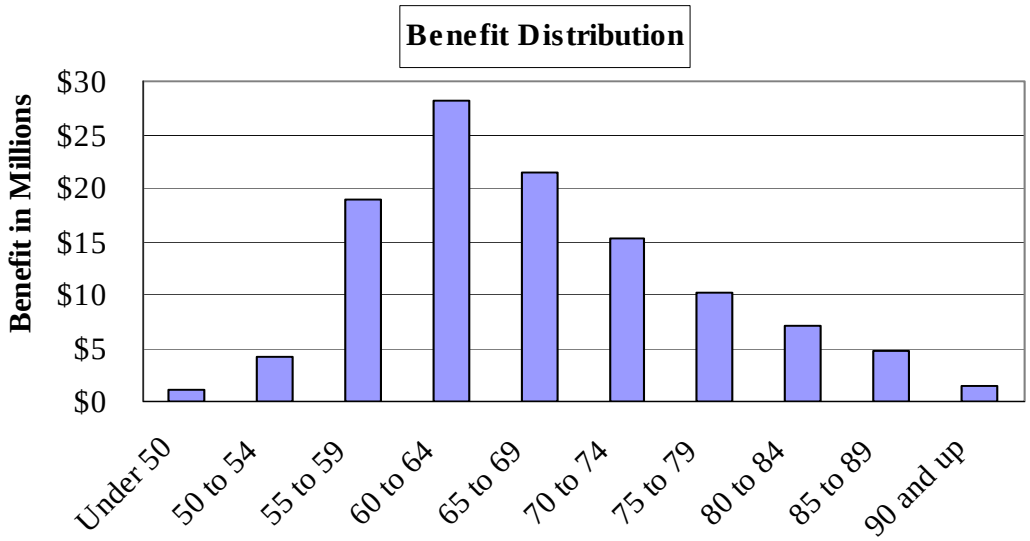


APPENDIX A
MEMBERSHIP INFORMATION

Table A-8
San Jose Federated City Employees' Retirement System
Distribution of Retirees, Disabled Members, and Beneficiaries as of Jume 30, 2010

Age	Annual Benefit
Under 50	$1,116,659
50 to 54	$4,200,736
55 to 59	$18,922,135
60 to 64	$28,173,529
65 to 69	$21,493,942
70 to 74	$15,297,510
75 to 79	$10,231,195
80 to 84	$7,033,543
85 to 89	$4,728,885
90 and up	$1,461,981
Total	$112,660,114

Chart A-2



APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Methods

In preparing our data, we relied without audit on information supplied by the Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Records on the "Active" data file are considered to be Active if they do not have a reason for termination.

- Records on any of the data files are considered to be Inactive if they have a reason for termination of deferred vested or leave of absence/inactive.

- Records on the "Retiree" and "Beneficiary/QDRO" files are considered in pay status if they do not have a date of death, are not inactive and have not withdrawn from the plan.

- Service for actives that have no service amount is calculated to be the time from date of hire to the valuation date.

- Service for inactives that have no service amount is calculated to be the time from date of hire to date of termination.

- The most recent annual salary for actives is calculated to be "compensation rate 2" multiplied by 26. If the annualized rate is less than $23,400, a minimum annual salary of $39,000 is used.

- The annual benefit for inactives is equal to 2.5% of final compensation per year of service, up to a maximum of 75% of final compensation. Members who terminated prior to June 30, 2001 have their final compensation adjusted for a three-year average rather than a 12-month average.

- We assume any member found in last year's "Retiree" file and not in this year's file has deceased without a beneficiary and should be removed from the valuation data.

- We assume all deceased members with payments continuing to a beneficiary have already been accounted for in the "Retiree" file.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.95% net of investment and administrative expenses.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Salary Increase Rate

Wage inflation component 3.90%

In addition, the following merit component is added based on an individual member's years of service:

Table B-1
Salary Merit Increases

Years of Service	Merit/ Longevity
0	5.75%
1	3.75
2	2.25
3	1.75
4	1.00
5+	0.25

4. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2
Percentage Married

Gender	Percentage
Males	75%
Females	55%

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

5. Rates of Withdrawal/Termination

Sample rates of withdrawal/termination are show in the following Table B-3.

Table B-3
Rates of Termination/Withdrawal

Age	Withdrawal	Vested Termination
20	11.00%	0.00%
25	7.00	3.00
30	5.00	3.00
35	2.50	2.75
40	1.50	2.00
45	1.25	2.00
50	1.25	1.50
55	1.00	0.00
60	1.00	0.00
65	0.00	0.00

* Withdrawal/termination rates do not apply once a member is eligible for retirement

30% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.9% pay increases per year.

6. Rates of Disability

Sample disability rates of active participants are provided in Table B-4.

Table B-4
Rates of Disability at Selected Ages

Age	Disability
20	0.04%
25	0.06
30	0.07
35	0.09
40	0.15
45	0.25
50	0.40
55	0.50
60	1.00
65	2.00
70	0.00

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

7. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct 1994 Group Annuity Mortality Tables setback three years for males and one year for females.

Table B-5
Rates of Mortality for Active and Retired Healthy Lives at Selected Ages

Age	Male	Female
20	0.043%	0.028%
25	0.056	0.029
30	0.073	0.033
35	0.084	0.045
40	0.089	0.065
45	0.125	0.092
50	0.190	0.131
55	0.321	0.208
60	0.558	0.386
65	1.015	0.762
70	1.803	1.271
75	2.848	2.038
80	4.517	3.536

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

8. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the 1981 Disability Mortality Table.

Table B-6
Rates of Mortality for Disabled Lives at Selected Ages

Age	Male	Female
20	0.660%	0.660%
25	0.960	0.960
30	1.220	1.220
35	1.480	1.480
40	1.760	1.760
45	2.080	2.080
50	2.440	2.440
55	2.840	2.840
60	3.300	3.300
65	3.790	3.790
70	4.370	4.370
75	5.530	5.530
80	8.740	8.740

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Retirement

Rates of retirement are based on age according to the following Table B-7.

Table B-7
Rates of Retirement by Age

Age	Retirement
50	0.00%
51	0.00
52	0.00
53	0.00
54	0.00
55	15.00
56	7.50
57	7.50
58	7.50
59	7.50
60	7.50
61	7.50
62	20.00
63	10.00
64	10.00
65	25.00
66	25.00
67	25.00
68	25.00
69	25.00
70 & over	100.00

The probability of retirement increased to 50% each year after completion of 30 years of service and attainment of age 50.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

10. Deferred Member Benefit

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

11. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

12. Changes Since Last Valuation

The assumption for the expected rate of return on investments was changed from 7.75% to 7.95%. The payroll growth/wage inflation assumption was changed from 3.83% to 3.90%.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial accrued liability as of June 30, 2009 is amortized as a level percentage of pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of pay over a 20-year period beginning with the valuation date in which they first arise.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return (7.75% for 2009-10 and 8.25% for prior years) on the actuarial asset value. The expected return on market assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years.

3. Annual Required Contribution

At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Participation in the plan is immediate upon the first day of full-time employment.

2. Final Compensation

Members who separated from city service prior to June 30, 2001:
The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001:
The highest average annual compensation earnable during any period of twelve consecutive months.

3. Credited Service

One year of service credit is given for one thousand seven hundred thirty-nine or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to one thousand seven hundred thirty-nine) is given for each calendar year with less than one thousand seven hundred thirty-nine hours worked.

4. Member Contributions

a. Member:

The amount needed to fund 3/11 of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

b. Employer:

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5. Service Retirement

Eligibility

Age 55 with 5 years of service, or any age with 30 years of service.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit - Survivor

50% of the service retirement benefit paid to a qualified survivor.

6. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

7. Non-Service Connected Disability Retirement

Eligibility

5 years of service.

Benefit - Member

Members who were hired prior to September 1, 1998:
The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded fifty-five.

Members who were hired on or after September 1, 1998:
20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between 6 and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

8. Death while an Active Employee

Less than 5 Years of Service, or No Qualified Survivor:
Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of 6 years.

5 or more Years of Service:
2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9. Withdrawal Benefits

Less than 5 Years of Service:
Lump sum benefit equal to the accumulated employee contributions with interest.

5 or more years of credited service:
The amount of the service retirement benefit, payable at age 55.

10. Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to $500 will be paid to a qualified survivor upon the member's death.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, without banking.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

APPENDIX D
GLOSSARY OF TERMS

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial liability".

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the System which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

APPENDIX D
GLOSSARY OF TERMS

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SJFCERS Employer computed contribution rate for FY 2011 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method.

11. Set back/Set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

12. Unfunded Actuarial Liability (UAL)

The unfunded actuarial liability represents the difference between actuarial liability and valuation assets. This value is sometimes referred to as "unfunded actuarial accrued liability".

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding, Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).