



CLASSIC VALUES, INNOVATIVE ADVICE

San José Federated Employees' Retirement System June 30, 2013 Valuation Results

Bill Hallmark
Gene Kalwarski



December 19, 2013



Agenda

- Overview
- Key Valuation Results
- Projections



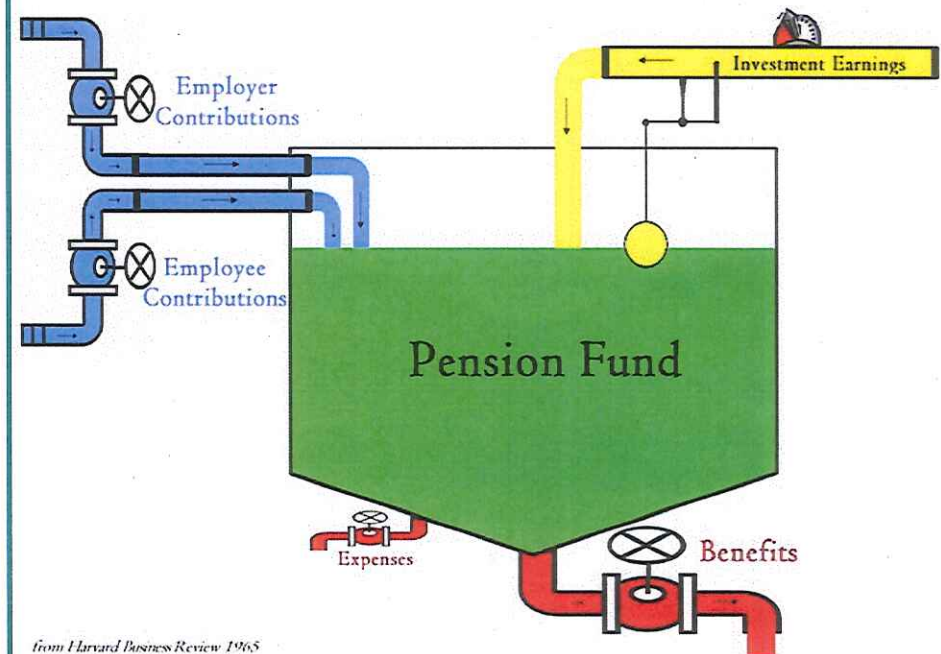
Overview

- The June 30, 2013 actuarial valuation is used to determine:
 - Member contribution rates for FYE 2015
 - City contribution rates and amounts for FYE 2015
 - Financial reporting amounts as of July 1, 2013 for the System's June 30, 2014 CAFR
- GASB 67 is effective for the System for the fiscal year ending June 30, 2014
 - Total pension liability as of June 30, 2014 can either be based on the 2013 or 2014 valuation
- GASB 68 is effective for the City for the fiscal year ending June 30, 2015



The Actuarial Valuation Process In General

1. Collect information
 - Member data
 - Plan provisions
 - Asset information
2. Apply assumptions
 - Demographic
 - Economic
3. Project all future benefit payments
4. Determine a present value of the benefits
5. Compare to assets
6. Calculate employer and employee contribution





Key Valuation Results

Current Year - Prior Year

Summary of Key Valuation Results		
	6/30/2013	6/30/2012*
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	\$ 3,013,763	\$ 2,841,000
Actuarial Value of Assets (AVA)	1,783,270	1,762,973
Unfunded Actuarial Liability (UAL)	<u>\$ 1,230,493</u>	<u>\$ 1,078,027</u>
Funding Ratio - AVA	59%	62%
Market Value of Assets (MVA)	\$ 1,761,546	\$ 1,649,249
UAL - MVA	\$ 1,252,217	\$ 1,191,751
Funding Ratio - MVA	58%	58%

Amounts in thousands

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve



Key Valuation Results

Tier 1 – Tier 2

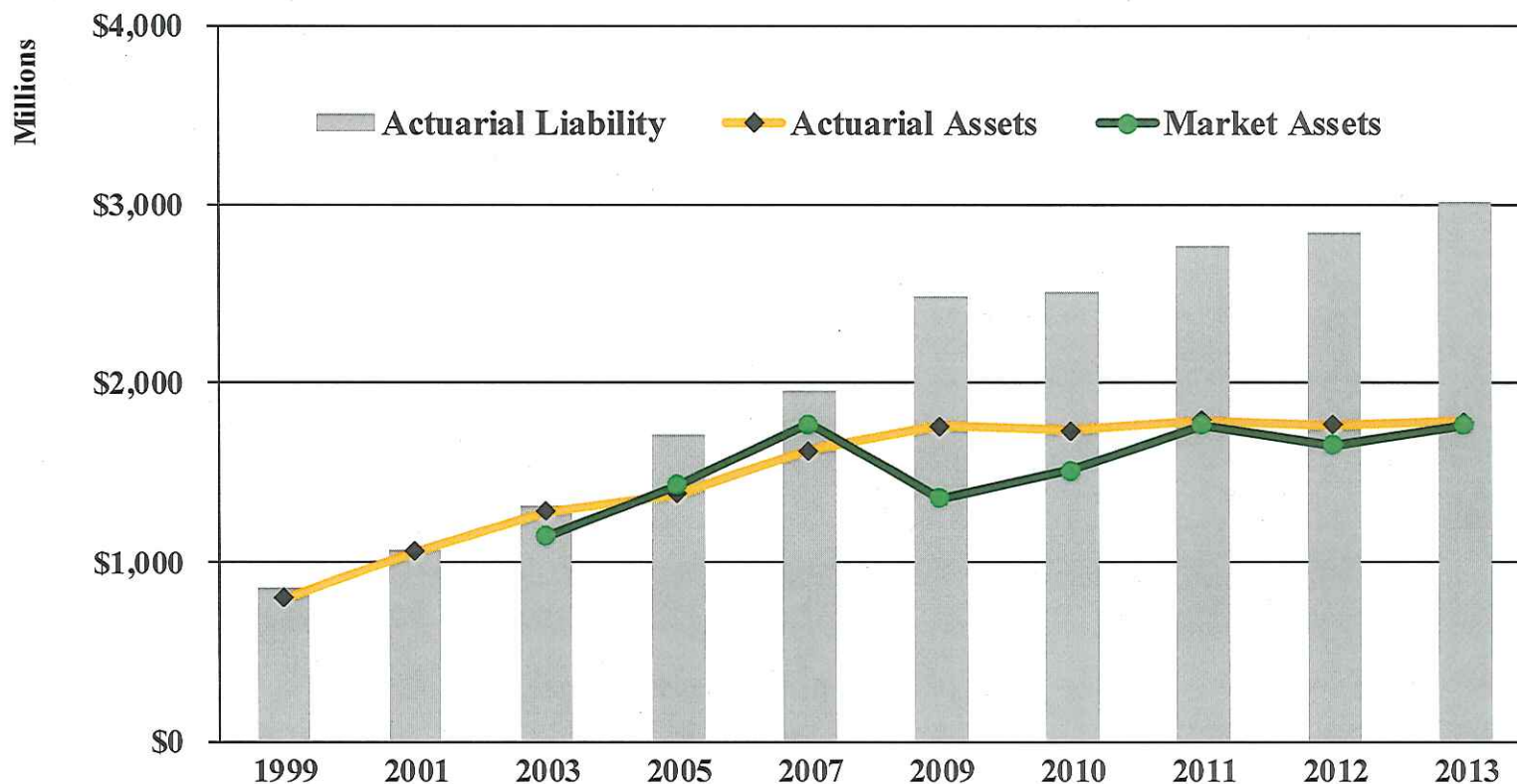
Summary of Key Valuation Results		
	Tier 1	Tier 2
Actuarial Liability (AL)	\$ 3,013,072	\$ 692
Actuarial Value of Assets (AVA)	1,782,629	641
Unfunded Actuarial Liability (UAL)	\$ 1,230,443	\$ 51
Funding Ratio - AVA	59%	93%
Market Value of Assets (MVA)	\$ 1,760,904	\$ 642
UAL - MVA	\$ 1,252,168	\$ 49
Funding Ratio - MVA	58%	93%

Amounts in thousands



Key Valuation Results

Historical Assets and Liabilities



Funded Ratio	93.3%	98.9%	97.6%	80.9%	82.8%	70.7%	68.9%	64.6%	62.1%	59.2%
UAL	57.4	12.2	31.0	326.9	338.1	729.6	780.9	981.6	1,078.0	1,230.5

* Market value of assets reported prior to 2003 included retiree health assets



Key Valuation Results

Current Year/Prior Year Contributions

Summary of Key Valuation Results (continued)		
Fiscal Year Ending	6/30/2015	6/30/2014*
Tier 1		
Member Contribution Rate	5.64%	5.97%
City Contribution Rate	60.25%	50.85%
Projected Payroll	\$ 196,895	\$ 205,277
City Contribution Amount (BOY)	\$ 114,551	\$ 100,671
Tier 2		
Member Contribution Rate	5.53%	6.68%
City Contribution Rate	5.53%	6.68%
Projected Payroll	\$ 33,399	\$ 27,922
City Contribution Amount (BOY)	\$ 1,782	\$ 1,799
Total City		
Aggregate Rate	52.31%	45.56%
Projected Payroll	\$ 230,295	\$ 233,200
Aggregate City Amount (BOY)	\$ 116,333	\$ 102,470

Amounts in thousands

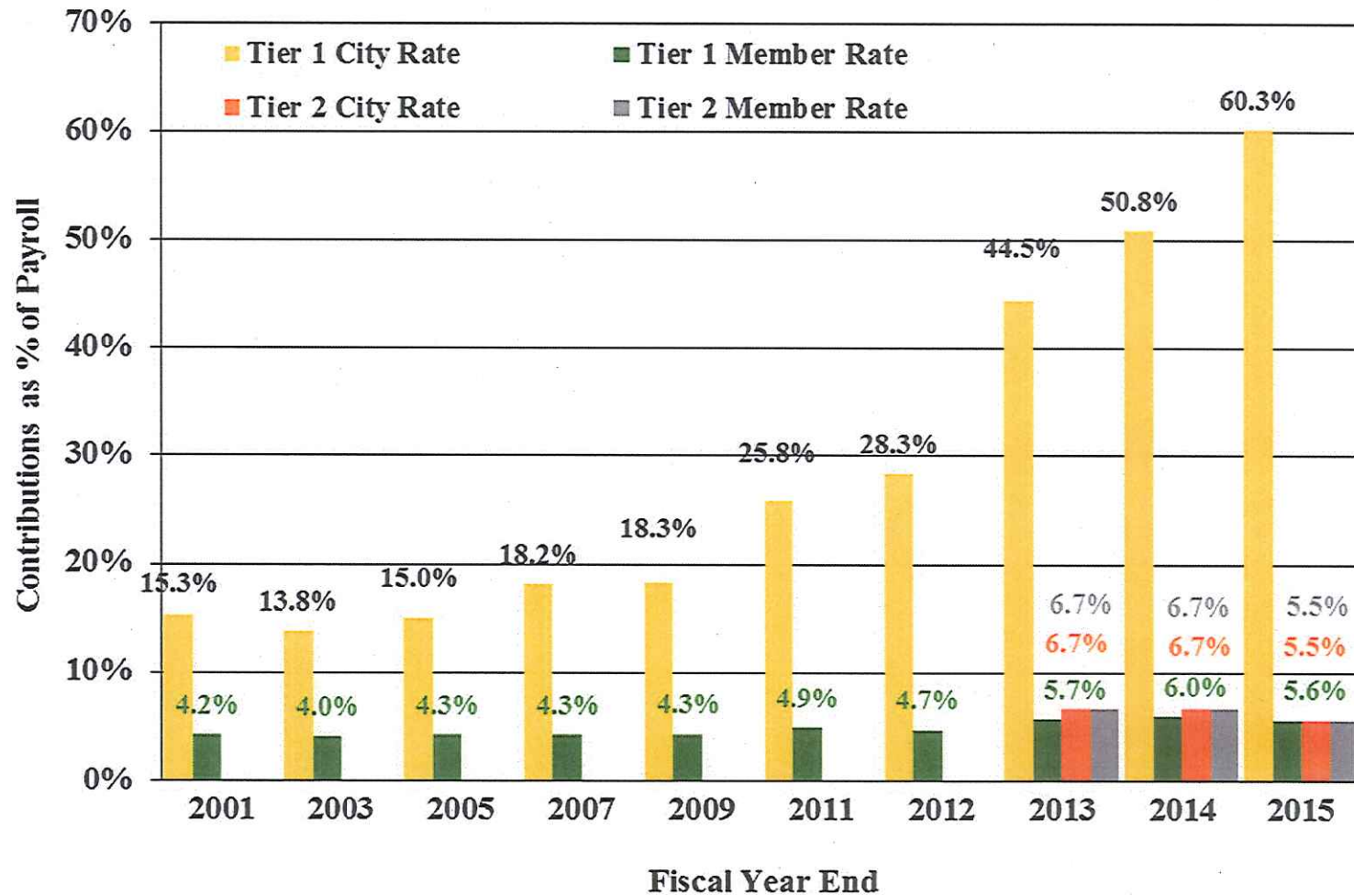
* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve





Key Valuation Results

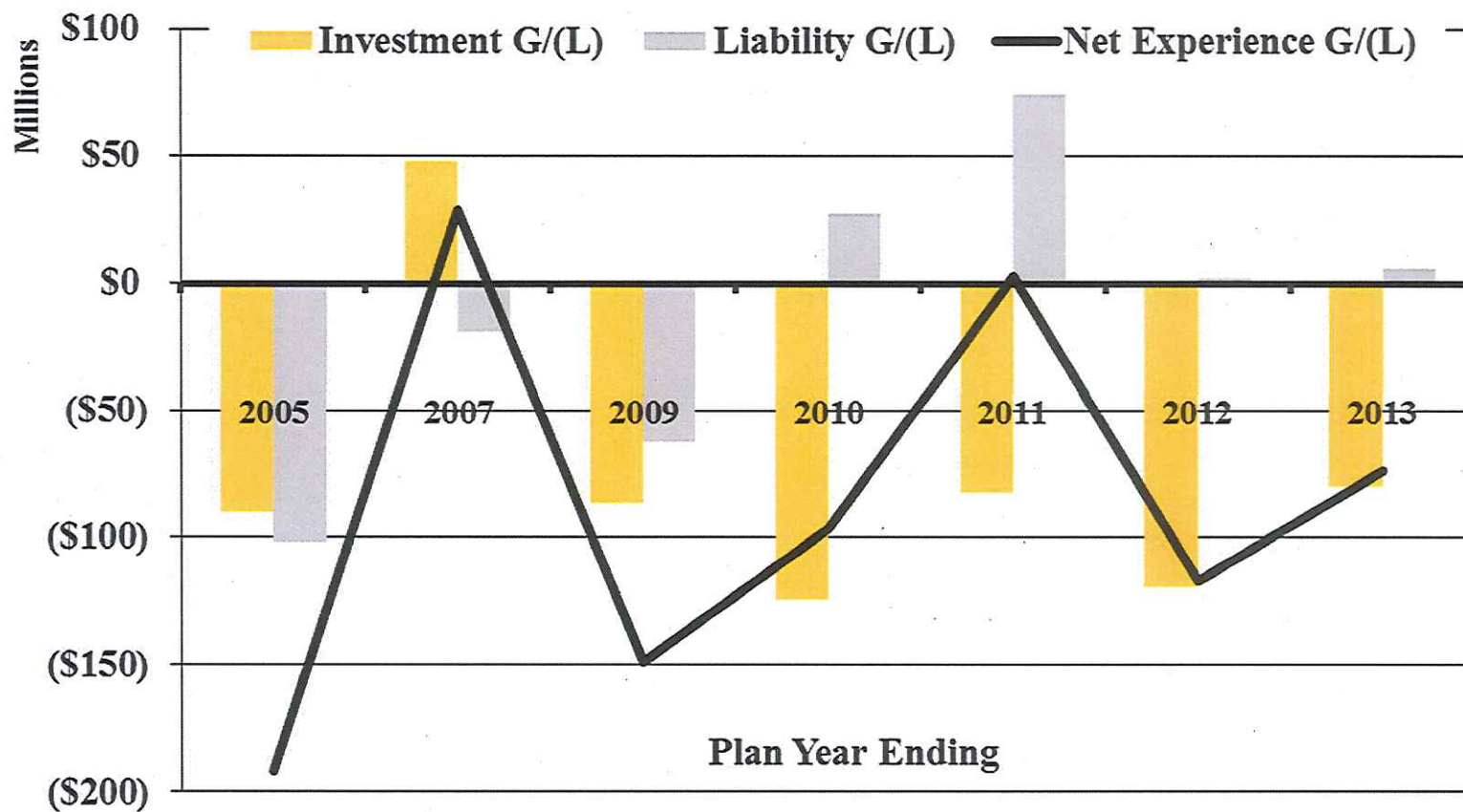
Historical Contributions





Key Valuation Results

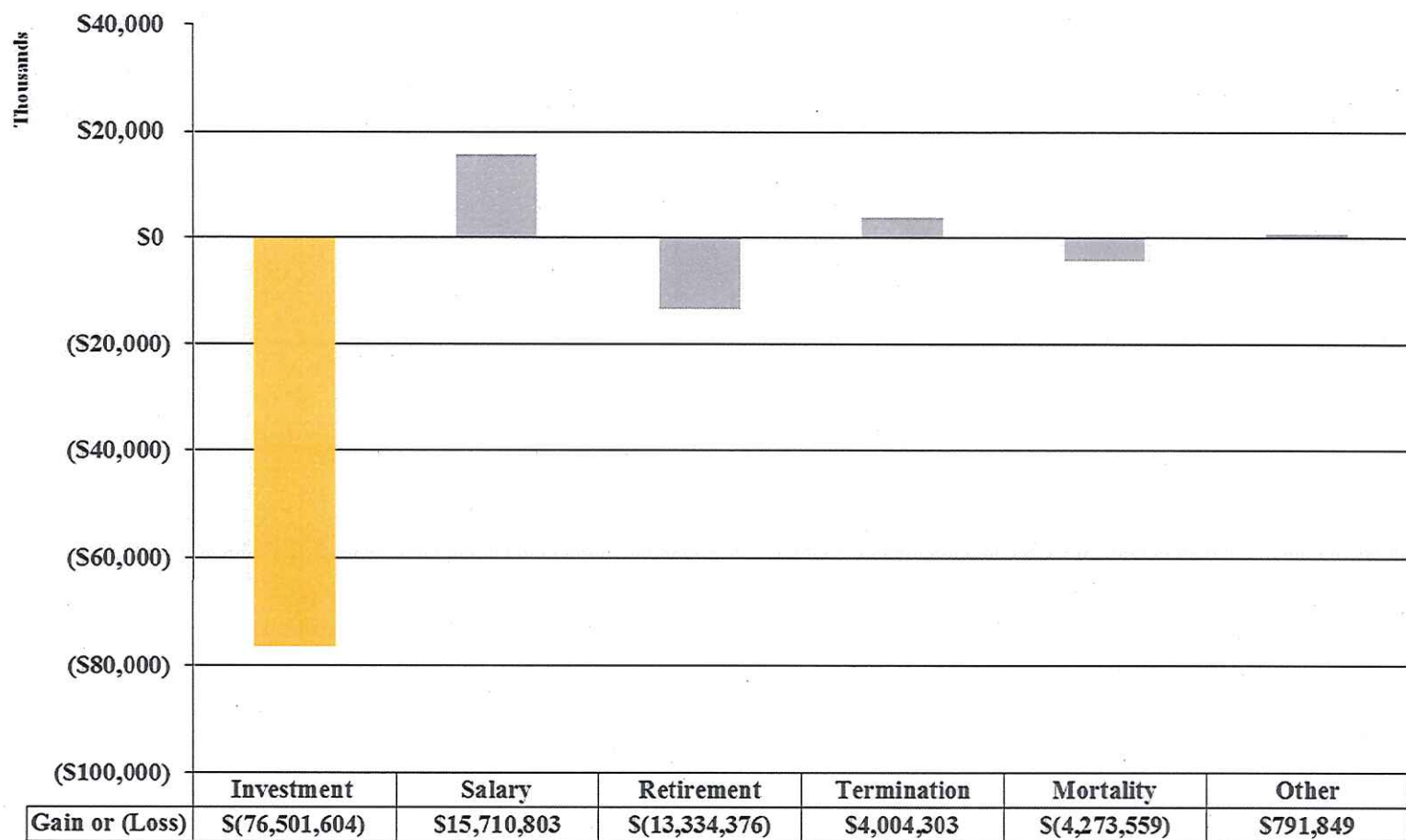
Historical Gains and Losses





Key Valuation Results

Breakdown of FYE 2013 Experience





Key Valuation Results

Assumption Changes

	New	Old	% Change
Actuarial Liability			
Actives	\$ 849,606	\$ 836,077	1.6%
Retirees	1,846,327	1,801,630	2.5%
Beneficiaries	110,478	108,069	2.2%
Disabled	72,865	71,110	2.5%
Deferred Vested	134,488	133,210	1.0%
Total	\$ 3,013,763	\$ 2,950,095	2.2%
Total Normal Cost Rate			
Tier 1	20.13%	21.40%	-5.9%
Tier 2	10.34%	10.37%	-0.3%

Amounts in thousands



Reconciling Valuation Results

Table I-5
City Contribution Reconciliation

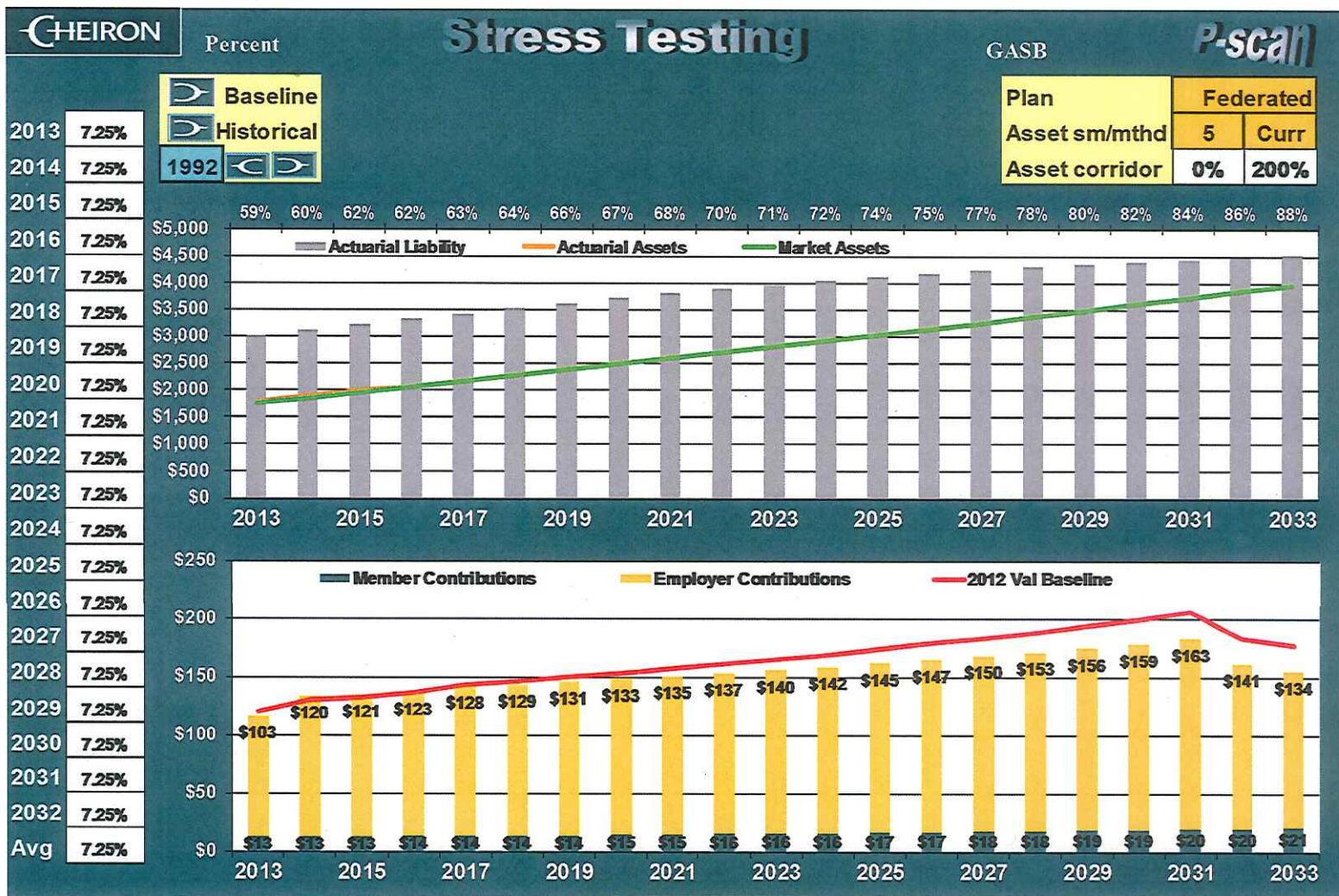
Item	Member	City			Total City \$
		Normal	UAL	Total	
Tier 1					
1. FYE 2014 Tier 1 Contribution Rate	5.97%	16.12%	34.73%	50.85%	\$100.7
2. Change due to investment loss	0.00%	0.00%	2.97%	2.97%	5.9
3. Change due to other experience	0.00%	0.01%	-0.11%	-0.10%	(0.2)
4. Change due to decreasing payroll	0.00%	0.00%	2.19%	2.19%	1.4
5. Economic Assumption Change	-0.33%	-0.94%	5.28%	4.34%	6.8
6. FYE 2015 Tier 1 Contribution Rate	5.64%	15.19%	45.06%	60.25%	\$114.6
Tier 2					
1. FYE 2014 Tier 2 Contribution Rate	6.68%	6.68%	0.00%	6.68%	\$ 1.8
2. Change due to investment gain	0.00%	0.00%	0.00%	0.00%	-
3. Change due to other experience	-1.13%	-1.14%	0.01%	-1.13%	(0.3)
4. Change due to increasing payroll	0.00%	0.00%	0.00%	0.00%	0.3
5. Economic Assumption Change	-0.02%	-0.02%	0.00%	-0.02%	(0.0)
6. FYE 2015 Tier 2 Contribution Rate	5.53%	5.52%	0.01%	5.53%	\$ 1.8

* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Dollar amounts in millions



Projections



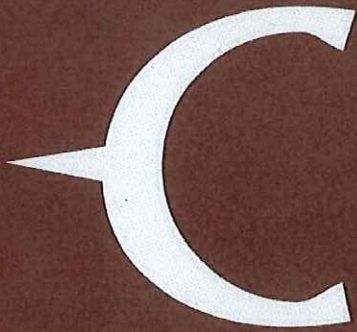


Required Disclosures

- The purpose of this presentation is to present the results of the June 30, 2013 actuarial valuation for the City of San José Federated City Employees' Retirement System.
- This presentation was prepared exclusively for the Retirement Board 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.
- This presentation is based on information provided in our full actuarial valuation report for the System, and that report should be referred to for additional information on the basis for the results presented in this presentation.
- In preparing our report, 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 #23.
- To the best of our knowledge, this presentation 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. 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.

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

Gene Kalwarski, FSA, FCA, EA, MAAA



**Federated City Employees'
Retirement System**

**June 30, 2013
Actuarial Valuation**

Produced by Cheiron

December 13, 2013



Classic Values, Innovative Advice

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LETTER OF TRANSMITTAL

December 13, 2013

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

Dear Members of the Board:

The purpose of this report is to present the June 30, 2013 actuarial valuation of the City of San José Federated City Employees' Retirement System ("System"). This report is for the use of the Retirement Board and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements.

On June 5, 2012, voters approved Measure B which would make a number of changes to the System. We understand that the City does not intend to implement most of the changes until a court rules on the legality of the changes. Consequently, the provisions of Measure B are not reflected in this valuation unless explicitly disclosed.

The table below presents the key results of the 2013 valuation compared to the 2012 valuation. The results for the current and prior valuation reflect the elimination of the Supplemental Retirement Benefit Reserve (SRBR) and include both Tier 1 and Tier 2.

Summary of Key Valuation Results		
	6/30/2013	6/30/2012*
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	\$ 3,013,763	\$ 2,841,000
Actuarial Value of Assets (AVA)	1,783,270	1,762,973
Unfunded Actuarial Liability (UAL)	\$ 1,230,493	\$ 1,078,027
Funding Ratio - AVA	59%	62%
Market Value of Assets (MVA)	\$ 1,761,546	\$ 1,649,249
UAL - MVA	\$ 1,252,217	\$ 1,191,751
Funding Ratio - MVA	58%	58%

Amounts in thousands

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve



The following table shows the same information as of June 30, 2013, but split between Tier 1 and Tier 2.

Summary of Key Valuation Results		
	Tier 1	Tier 2
Actuarial Liability (AL)	\$ 3,013,072	\$ 692
Actuarial Value of Assets (AVA)	1,782,629	641
Unfunded Actuarial Liability (UAL)	\$ 1,230,443	\$ 51
Funding Ratio - AVA	59%	93%
Market Value of Assets (MVA)	\$ 1,760,904	\$ 642
UAL - MVA	\$ 1,252,168	\$ 49
Funding Ratio - MVA	58%	93%

Amounts in thousands

There is a small unfunded liability for Tier 2 due primarily to the attribution of a full year of benefits to some members hired during the last year. We do not expect this dynamic to persist as Tier 2 continues to grow.

Summary of Key Valuation Results (continued)		
Fiscal Year Ending	6/30/2015	6/30/2014*
Tier 1		
Member Contribution Rate	5.64%	5.97%
City Contribution Rate	60.25%	50.85%
City Contribution Amount		
- if paid at beginning of the year	\$ 114,551	\$ 100,671
- if paid throughout the year	\$ 118,631	\$ 104,378
Projected Payroll	\$ 196,895	\$ 205,277
Tier 2		
Member Contribution Rate	5.53%	6.68%
City Contribution Rate	5.53%	6.68%
City Contribution Amount		
- if paid at beginning of the year	\$ 1,782	\$ 1,799
- if paid throughout the year	\$ 1,846	\$ 1,865
Projected Payroll	\$ 33,399	\$ 27,922
Total City		
Aggregate Rate	52.31%	45.56%
Aggregate Amount		
- if paid at beginning of the year	\$ 116,333	\$ 102,470
- if paid throughout the year	\$ 120,476	\$ 106,244
Projected Payroll	\$ 230,295	\$ 233,200

Amounts in thousands

* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Contribution amounts have continued to increase as investment losses from prior years are recognized in the smoothed actuarial value of assets and the discount rate is decreased further. The Tier 1 City contribution rate has also increased as the unfunded liability is amortized over a smaller payroll. We expect this rate to continue to increase as the Tier 1 payroll declines.

More details on the plan experience for the past year and their impact on these June 30, 2013 valuation results can be found in our report which follows.

In preparing our report, 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 #23.

Board of Administration
December 13, 2013
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Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

We hereby certify that, to the best of our knowledge, this report and its contents have 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. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This actuarial valuation report was prepared for the System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This actuarial valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron



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



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

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

This actuarial valuation reports, 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,
- Member and City contribution rates and amounts for the Fiscal Year Ending June 30, 2015, and
- Information required by the Governmental Accounting Standards Board (GASB).

This Section presents a summary of the principal valuation results. This includes the basis upon which the June 30, 2013 valuation was completed and an examination of the current financial condition of the System. In addition, the key historical trends are presented followed by the projected financial outlook for the System.

A. Valuation Basis

The System's funding policy sets City contributions for Tier 1 equal to the sum of:

- A portion (8/11th) of the Service Normal Rate (Regular Current Service Rate) including administrative expenses.
- 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 payment on the unfunded actuarial liability.
- The Golden Handshake Rate, which is the cost for funding the additional benefits granted in the past to certain retiring employees.

The unfunded actuarial liability as of June 30, 2009 (including the Golden Handshake) is amortized over 30 years from that date, and any subsequent gains or losses or assumption changes are amortized as part of the Deficiency Rate over 20 years from the valuation in which they are first recognized. The amortizations are a level percent of expected Tier 1 and Tier 2 payroll.

For Tier 2, City contributions equal 50% of the total contribution rate for Tier 2.

Member contributions equal 3/11th of the Service Normal Rate for Tier 1 and 50% of the total contribution rate for Tier 2.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

B. Current Financial Condition

The following pages summarize the key results of the June 30, 2013 valuation and how they compare to the results from the June 30, 2012 valuation.

1. Membership:

As shown in Table I-1 below, total membership in Federated increased slightly from 2012 to 2013, and the changes between categories of membership reflect the overall trend. Active membership increased 0.6%, terminated vested membership increased 3.5%, and payee membership (including beneficiaries) increased 3.0%. Total payroll remained fairly constant and the average pay per active member decreased by 0.6%.

Table I-1			
Total Membership Counts			
Item	June 30, 2013	June 30, 2012	% Change
Active	3,094	3,076	0.6%
Terminated Vesteds	1,001	967	3.5%
Retirees	3,033	2,936	3.3%
Beneficiaries	477	459	3.9%
Disabled	201	207	(2.9%)
Total City Members	7,806	7,645	2.1%
Active Member Payroll	\$ 225,779,215	\$ 225,859,144	(0.0%)
Average Pay per Active Member	72,973	73,426	(0.6%)

2. Assets and Liabilities:

Table I-2 on the following page presents a comparison between the June 30, 2013 and June 30, 2012 assets, liabilities, UAL, and funding ratios.

The total actuarial liability increased 3.8% and the market value of assets increased 6.8%. The System employs an asset smoothing method which dampens the impact of short-term investment market volatility on City contribution rates. The smoothed value of assets (called the actuarial value of assets) increased by 1.2%. The ratio of the actuarial value of assets to the market value of assets decreased from 107% to 101%, indicating that the deferred losses are slightly more than the deferred gains. Finally, the UAL increased from \$1,078.0 million to \$1,230.2 million, resulting in a decrease in the funding ratio from

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION**

**SECTION I
BOARD SUMMARY**

62.1% to 59.2%. Based on the market value of assets, the funding ratio increased from 58.1% to 58.5%.

Table I-2			
Assets & Liabilities			
Item (EAN)	June 30, 2013	June 30, 2012*	% Change
Actives	\$ 849,606	\$ 839,502	1.2%
Terminated Vesteds	134,488	122,674	9.6%
Retirees	1,846,327	1,707,675	8.1%
Beneficiaries	110,478	99,309	11.2%
Disabled	72,865	71,840	1.4%
Total Actuarial Liability	<u>3,013,763</u>	<u>2,841,000</u>	6.1%
Market Value of Assets	\$ 1,761,546	\$ 1,649,249	6.8%
Actuarial Value of Assets	\$ 1,783,270	\$ 1,762,973	1.2%
Unfunded Actuarial Liability	\$ 1,230,493	\$ 1,078,027	14.1%
Funding Ratio - Market Value	58.5%	58.1%	0.4%
Funding Ratio - Actuarial Value	59.2%	62.1%	(2.9%)

Amounts in thousands

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

1. Contributions:

Table I-3 shows the components of the contribution rates for both Tier 1 and Tier 2. In Section IV of this report, we provide more detail on the development of these contribution rates.

Table I-3						
Components of Contribution Rates						
	<u>FYE 2015</u>			<u>FYE 2014 *</u>		
	<u>Member</u>	<u>City</u>	<u>Total</u>	<u>Member</u>	<u>City</u>	<u>Total</u>
Tier 1						
Normal Cost	5.45%	14.68%	20.13%	5.78%	15.61%	21.39%
Administrative Expenses	0.19%	0.51%	0.70%	0.19%	0.51%	0.70%
UAL	0.00%	45.06%	45.06%	0.00%	34.73%	34.73%
Total	<u>5.64%</u>	<u>60.25%</u>	<u>65.89%</u>	<u>5.97%</u>	<u>50.85%</u>	<u>56.82%</u>
Tier 2						
Normal Cost	5.17%	5.17%	10.34%	6.33%	6.33%	12.66%
Administrative Expenses	0.35%	0.35%	0.70%	0.35%	0.35%	0.70%
UAL	0.01%	0.01%	0.01%	0.00%	0.00%	0.00%
Total	<u>5.53%</u>	<u>5.53%</u>	<u>11.05%</u>	<u>6.68%</u>	<u>6.68%</u>	<u>13.36%</u>

* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve

At its November 2013 meeting, the Board reduced the discount rate from 7.50% to 7.25% and reduced the wage inflation assumption from 3.25% for all years to 2.00% for the next five years and 2.85% thereafter. The impact of these changes is shown in Table I-4 on the following page.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION I
 BOARD SUMMARY

Table I-4			
Impact of Assumption Changes			
June 30, 2013			
	New	Old	% Change
Actuarial Liability			
Actives	\$ 849,606	\$ 836,077	1.6%
Retirees	1,846,327	1,801,630	2.5%
Beneficiaries	110,478	108,069	2.2%
Disabled	72,865	71,110	2.5%
Deferred Vested	134,488	133,210	1.0%
Total	\$ 3,013,763	\$ 2,950,095	2.2%
Total Normal Cost Rate			
Tier 1	20.13%	21.40%	-5.9%
Tier 2	10.34%	10.37%	-0.3%

Amounts in thousands

The reduction in wage inflation reduced the projected benefits for active employees. Because costs are allocated as a level percentage of pay and future pay levels are expected to be lower, this change also shifted the allocation of the liability for active employee benefits toward earlier years of service.

The reduction in the discount rate increased the measure of liability for all members. While the two changes have an offsetting impact on the measure of liability for active employees, the liability for the System is mostly for members who are no longer active employees and, consequently, the impact of the two changes is an increase in the actuarial liability of approximately 2.2%. The total normal cost rate, however, decreased by 1.27% of pay for Tier 1 members and 0.03% of pay for Tier 2 members.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION I
 BOARD SUMMARY

Table I-5 shows sources for the change in the Tier 1 and Tier 2 net contribution rates and the City's Tier 1 and Tier 2 contribution amount from the rates and amount calculated in the prior report. The increase in the City's Tier 1 contribution rate is primarily due to investment losses and the decreased payroll over which the UAL is spread. Payroll for Tier 1 is expected to decrease over time as members leave the system and new entrants join Tier 2. The decrease in the City's Tier 2 contribution rate can be attributed to the actual demographic characteristics of the new entrants into Tier 2 differing from what was previously assumed for the initial contribution rates. As of the prior valuation date, there were no Tier 2 members. These characteristics may change in the short-term as new employees are hired into Tier 2.

Item	Member	City			Total City \$
		Normal	UAL	Total	
Tier 1					
1. FYE 2014 Tier 1 Contribution Rate	5.97%	16.12%	34.73%	50.85%	\$100.7
2. Change due to investment loss	0.00%	0.00%	2.97%	2.97%	5.9
3. Change due to other experience	0.00%	0.01%	-0.11%	-0.10%	(0.2)
4. Change due to decreasing payroll	0.00%	0.00%	2.19%	2.19%	1.4
5. Economic Assumption Change	-0.33%	-0.94%	5.28%	4.34%	6.8
6. FYE 2015 Tier 1 Contribution Rate	5.64%	15.19%	45.06%	60.25%	\$114.6
Tier 2					
1. FYE 2014 Tier 2 Contribution Rate	6.68%	6.68%	0.00%	6.68%	\$ 1.8
2. Change due to investment gain	0.00%	0.00%	0.00%	0.00%	-
3. Change due to other experience	-1.13%	-1.14%	0.01%	-1.13%	(0.3)
4. Change due to increasing payroll	0.00%	0.00%	0.00%	0.00%	0.3
5. Economic Assumption Change	-0.02%	-0.02%	0.00%	-0.02%	(0.0)
6. FYE 2015 Tier 2 Contribution Rate	5.53%	5.52%	0.01%	5.53%	\$ 1.8

* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Dollar amounts in millions

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

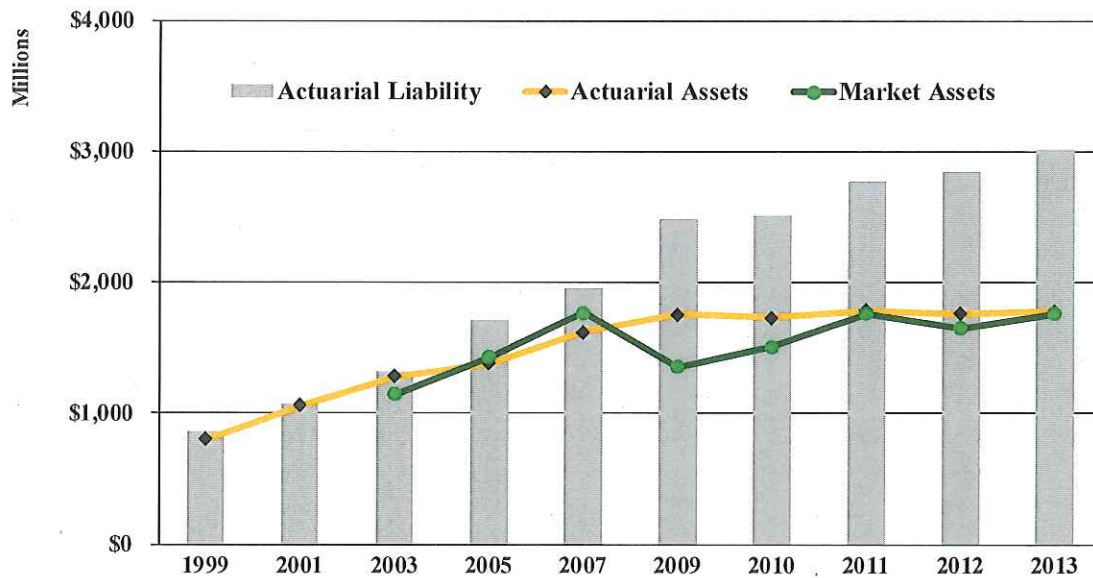
SECTION I
 BOARD SUMMARY

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. The following charts present the historical trends based on prior actuarial valuations. Please note that prior to June 30, 2009, valuations were performed every other year. Beginning June 30, 2009, valuations are performed every year.

The chart below shows the historical trends for assets (both market and smoothed) versus the actuarial liability, and also shows the general decline of the funding ratios since 2001.

Federated Assets and Liabilities 1999-2013



Funded Ratio	93.3%	98.9%	97.6%	80.9%	82.8%	70.7%	68.9%	64.6%	62.1%	59.2%
UAL	57.4	12.2	31.0	326.9	338.1	729.6	780.9	981.6	1,078.0	1,230.5

* Market value of assets reported prior to 2003 included retiree health assets

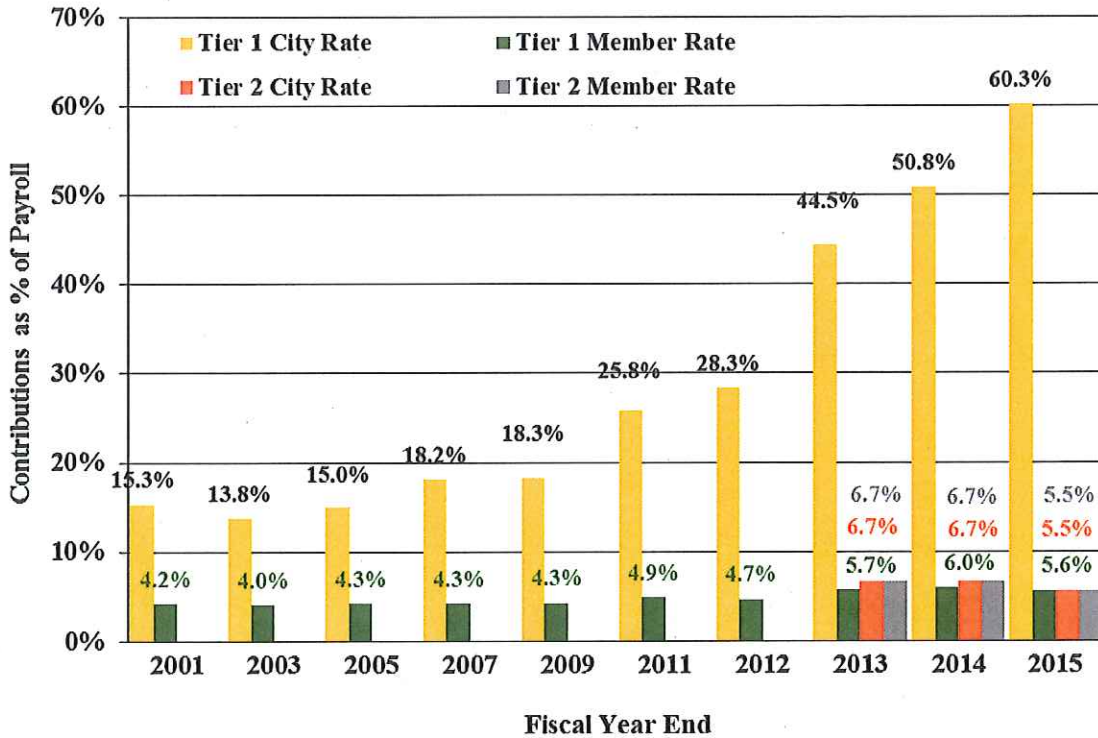
The chart above indicates that from 1999 to 2001, the System's funding ratio improved, but was still in deficit status. Then, from 2001 to 2013 (with the exception of 2007), the funding ratio steadily declined. The decline is due primarily to investment experience and changes in assumptions, including a reduction in the discount rate over the period from 8.25% to 7.25%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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The chart below shows the historical trends for the System's contribution rates since the Fiscal Year Ending June 30, 2001. Beginning with the Fiscal Year Ending 2013, contribution rates are shown for Tier 1 and Tier 2. Tier 2 rates were effective September 30, 2013. 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 Ending 2011 rates shown do not reflect the phase-in of contribution rates that was adopted for Members. The phased-in rate was 4.54%.

Employer and Member Contribution Rates 2001-2015



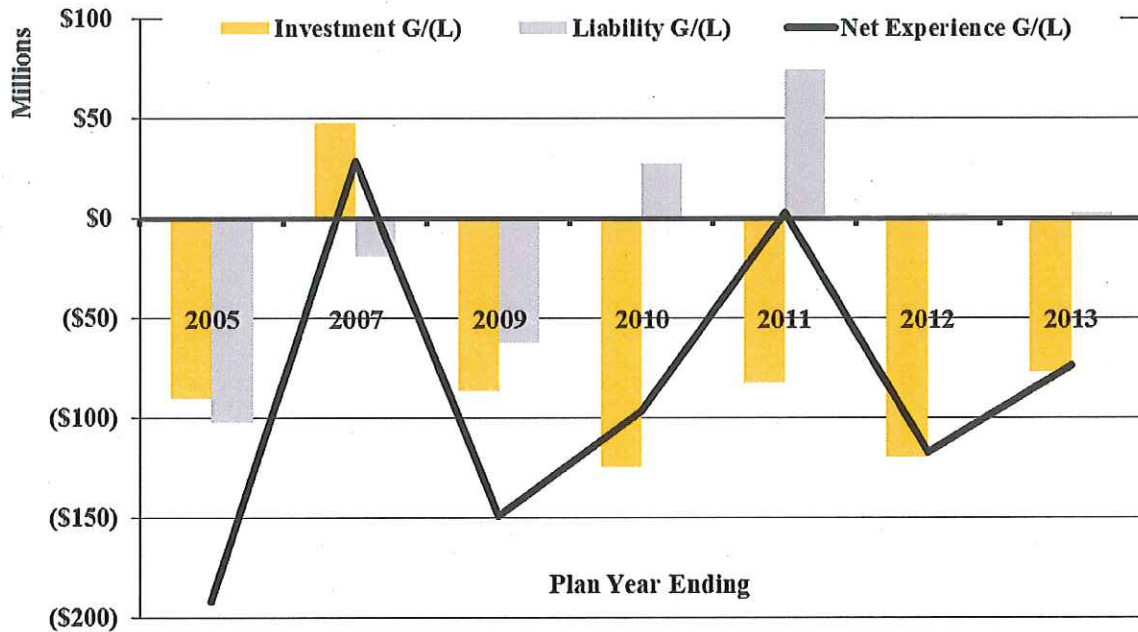
The City contribution rate has increased substantially since 2003, particularly since 2009. Rates have increased primarily due to investment losses, assumption changes, and reductions in payroll that increased the UAL rate. The increase in Tier 1 contribution rate scheduled for the Fiscal Year Ending in 2015 is primarily due to investment and assumption change losses, and the decrease in Tier 1 payroll as members leave the system and future new entrants join Tier 2.

The following chart 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. The investment gains and losses are measured on the smoothed actuarial value of assets.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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 BOARD SUMMARY

SJFCERS Historical Gain/(Loss) 2005-2013



The key insights from this chart are:

- Actuarial investment losses (gold bars) in 2005 are partially offset by actuarial investment gains from 2006 and 2007. From 2008 to 2013, there were additional actuarial investment losses largely driven by the market investment loss experienced for the year ending June 30, 2009. Since the 2009 market investment loss has now been fully recognized, we expect future actuarial investment gains and losses to largely be determined by future investment returns.
- On the liability side, half of the valuations showed actuarial losses. The actuarial gains in 2010 and 2011 are primarily due to actual salaries being less than expected. The small actuarial gains in 2012 and 2013 indicate that the demographic assumptions adopted for the June 30, 2011 valuation more accurately reflect current demographic experience.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION I
 BOARD SUMMARY

D. Projected Financial Trends

Our analysis of projected financial trends is an important part of this valuation. In this Section, the implications of the June 30, 2013 valuation results on the future outlook for the System in terms of benefit security (assets over liabilities) and expected future contributions are illustrated.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the City and Member contributions on two different bases:

- 1) Assuming all assumptions are met including a 7.25% return for 2013-14 and each and every year that follows, and
- 2) Assuming all assumptions are met except for the investment returns shown in the table below. These are rates of return that vary each year but over the projection period equal on average the assumed 7.25% return. We do this in order to illustrate the impact of volatility because the System's investment returns will never be level each and every year.

July 1, <u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Return 19.0%	8.0%	3.0%	20.0%	-4.0%	17.0%	13.0%	9.0%	-7.0%	16.0%
July 1, <u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>
Return 9.0%	-8.0%	8.0%	12.0%	16.0%	-8.0%	-17.0%	30.0%	25.0%	-2.0%

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 City and member 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.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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SECTION I
 BOARD SUMMARY

Projection Set 1: Assets and Liabilities

The chart below shows asset measures (green and orange lines) compared to the actuarial liability (gray bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the steady projected improvement in funded ratios in the first chart, and how varying investment returns can impact the progression of funding ratios.

Chart 1: Projection of Assets and Liabilities, 7.25% return each year

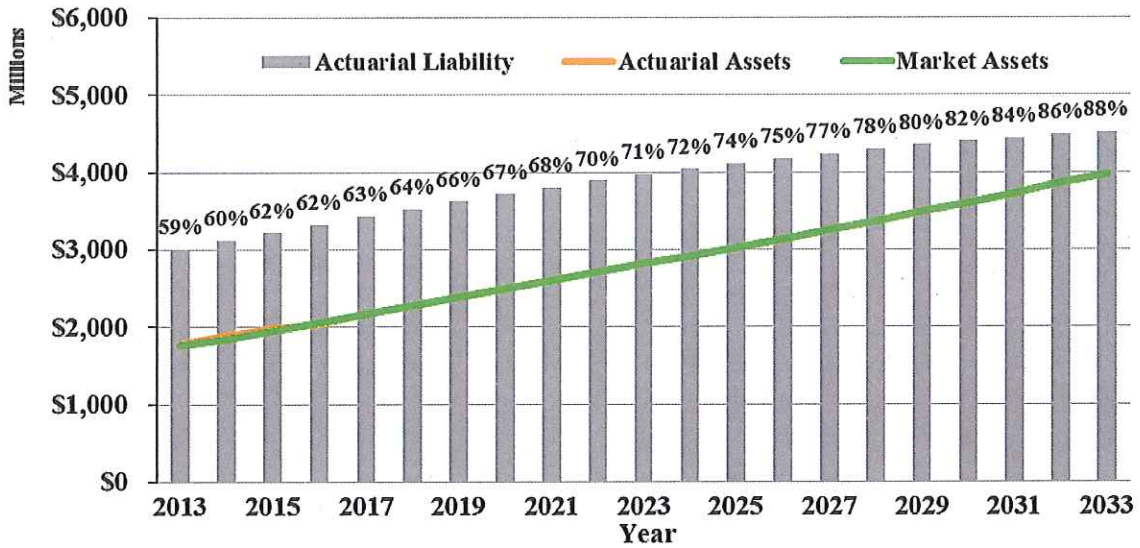
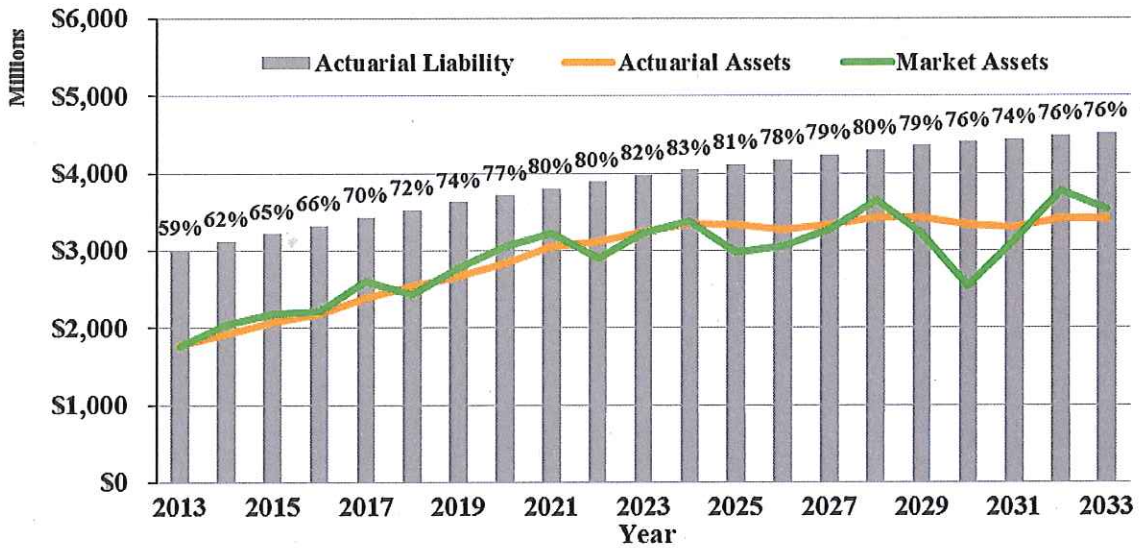


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.25% over time



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SECTION I
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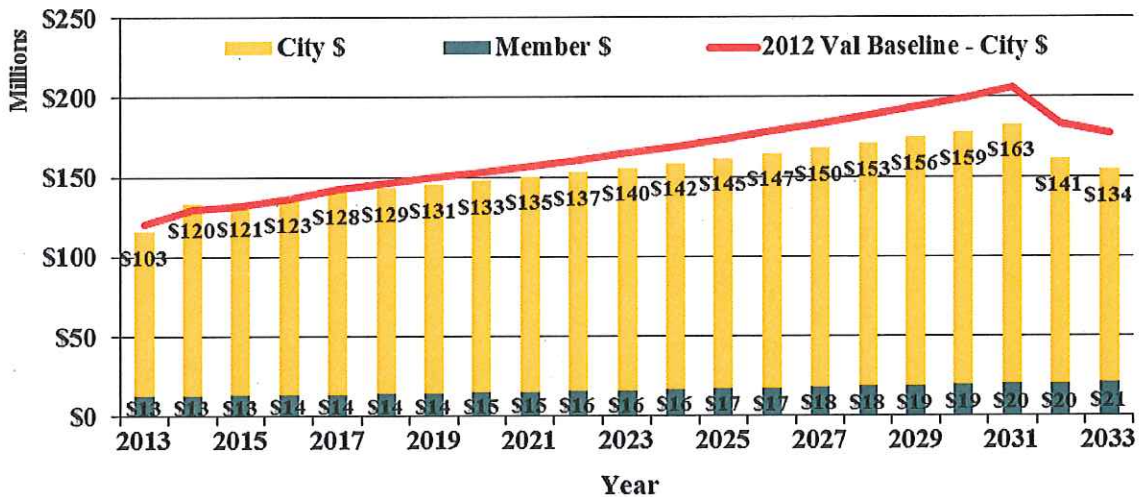
Projection Set 2: Projected Employer Contribution Rate

As shown in Chart 1 below, City contribution rates are expected to increase over the next year as investment losses are recognized, and then stabilize for a few years before gradually declining as Tier 2 becomes more significant. These contribution rates are slightly higher than those projected in the prior valuation (red line). The increase is mostly due to the investment losses for the 2012-13 plan year as well as the change in the economic assumptions as of the valuation date. As shown in Chart 2 below, the projected amount of the contribution is very similar to the prior valuation projections.

Chart 1: 7.25% return each year – Percentage of Pay



Chart 2: 7.25% return each year – Dollar Contributions



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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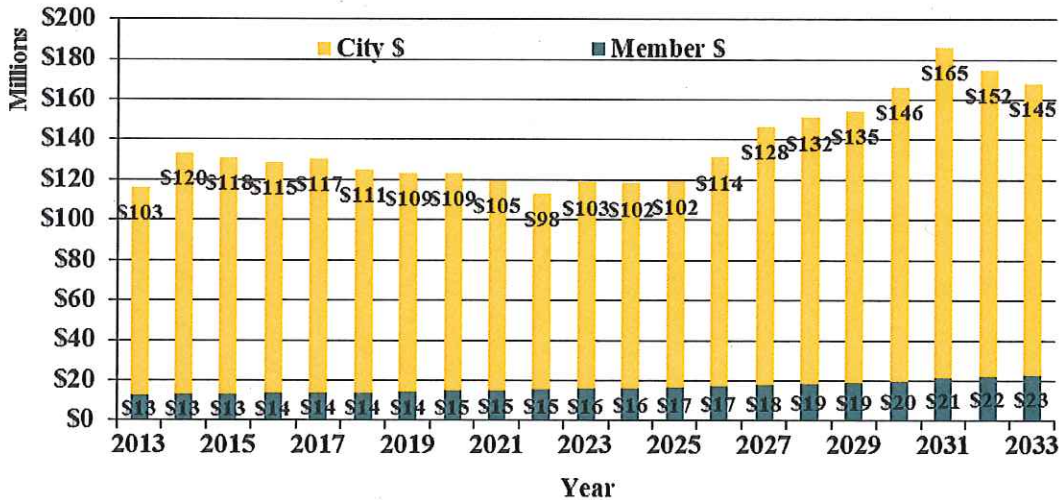
SECTION I
 BOARD SUMMARY

Varying investment returns can significantly alter the projected contribution rates and amounts. As shown in Charts 3 and 4, varying returns that average the assumed rate of return over the projection period can result in much lower (or higher) contribution rates and amounts at different points in the projection. The asset smoothing and amortizations smooth out these variations, but significant variability in contribution rates remains.

Chart 3: Varying returns averaging 7.25% over time – Percentage of Pay



Chart 4: Varying returns averaging 7.25% over time – Dollar Contributions



**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION**

**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 the value of the assets if they were liquidated on the valuation date. The actuarial value of assets is a value that smoothes annual investment returns over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages, the following information on the System's assets is presented:

- Statement of changes in the market value of assets during the year,
- Development of the Tier 1 actuarial value of assets,
- Development of the Tier 2 actuarial value of assets, and
- Discussion of investment performance for the year.

A. Statement of Change in Market Value of Assets

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, 2013			June 30, 2012
	Tier 1	Tier 2	Total	Total
Market Value, Beginning of Year	\$ 1,649,249	\$ -	\$ 1,649,249	\$ 1,760,617
Contributions				
Member	12,338	315	12,652	10,554
City	102,795	315	103,109	87,082
Total	\$ 115,133	\$ 629	\$ 115,762	\$ 97,637
Net Investment Earnings*	\$ 146,353	\$ 13	\$ 146,366	\$ (68,901)
Benefit Payments	\$ (146,807)	\$ -	\$ (146,807)	\$ (136,798)
Administrative Expenses	\$ (3,024)	\$ -	\$ (3,024)	\$ 3,306
Market Value, End of Year	\$ 1,760,904	\$ 642	\$ 1,761,546	\$ 1,649,250

* Gross investment earnings less investment expenses

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 smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION**

**SECTION II
ASSETS**

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.5% for 2011-2013, 7.95% for 2010-2011, 7.75% for 2009-2010) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 and Table II-3 below show the gains and losses for each of the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets for Tier 1 and Tier 2 respectively. These deferred amounts will be recognized in future years.

Table II-2 Development of Tier 1 Actuarial Value of Assets as of June 30, 2013			
	Basic	Cost of Living	Total
Market Value, Beginning of Year	\$ 1,207,803	\$ 441,447	\$ 1,649,249
Contributions	90,374	24,759	115,133
Net Investment Earnings	109,541	36,811	146,353
Benefit Payments	(113,696)	(33,111)	(146,807)
Administrative Expenses	(2,250)	(774)	(3,024)
Market Value, End of Year	\$ 1,291,772	\$ 469,131	\$ 1,760,904
Gains/(Losses)			
Current Year	16,755	3,243	19,999
Prior Year	(149,934)	(52,760)	(202,694)
2nd Prior Year	125,205	38,797	164,003
3rd Prior Year	72,529	18,926	91,456
Deferred Gains/(Losses)			
Current Year (80% deferred)	13,404	2,595	15,999
Prior Year (60% deferred)	(89,960)	(31,656)	(121,616)
2nd Prior Year (40% deferred)	50,082	15,519	65,601
3rd Prior Year (20% deferred)	14,506	3,785	18,291
Total	\$ (11,968)	\$ (9,757)	\$ (21,725)
Actuarial Value of Assets	\$ 1,303,741	\$ 478,888	\$ 1,782,629

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION II
ASSETS

	Basic	Cost of Living	Total
Market Value, Beginning of Year	\$ -	\$ -	\$ -
Contributions	577	52	629
Net Investment Earnings	12	1	13
Benefit Payments	-	-	-
Administrative Expenses	-	-	-
Market Value, End of Year	\$ 589	\$ 53	\$ 642
Gains/(Losses)			
Current Year	2	-	2
Prior Year	-	-	-
2nd Prior Year	-	-	-
3rd Prior Year	-	-	-
Deferred Gains/(Losses)			
Current Year (80% deferred)	1	-	1
Prior Year (60% deferred)	-	-	-
2nd Prior Year (40% deferred)	-	-	-
3rd Prior Year (20% deferred)	-	-	-
Total	\$ 1	\$ 0	\$ 1
Actuarial Value of Assets	\$ 588	\$ 53	\$ 641

Amounts in thousands

C. Investment Performance

In aggregate, the market value of assets internal rate of return, net of investment expenses, was 8.7% for the year ending June 30, 2013. This is compared to an assumed return of 7.50%.

On an actuarial value of assets basis, the aggregate return for the year ending June 30, 2013 was 3.0%. The difference is largely due to the recognition of historical investment losses that had been deferred. This return produced an overall investment loss of \$79.5 million for the year ending June 30, 2013. For Tier 2, however, no historical losses were recognized, so the return on the actuarial value of assets for Tier 2 was 7.77%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

This section presents detailed information on liabilities for the System, including:

- Disclosure of present value of all future benefits as of June 30, 2012 and June 30, 2013,
- Disclosure of actuarial liability as of June 30, 2012 and June 30, 2013,
- Disclosure of normal cost rate as of June 30, 2012 and June 30, 2013, and
- Statement of changes in the unfunded actuarial liability during the year.

A. Disclosure

Two measures of liability 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:** This measure 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 members under the current Plan provisions.
- **Actuarial Liability - Entry Age (EA):** Used for determining employer contributions and GASB accounting disclosures. This measure of 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 EA actuarial cost 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 these measures of liability for the current and prior valuations. By subtracting the actuarial value of assets from the actuarial liability, the net surplus or 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 EA actuarial cost method. Administrative expenses are explicitly valued as an addition to normal cost (0.70% of payroll).

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION III
 LIABILITIES

Table III-1
 Present Value of Future Benefits

	June 30, 2013			June 30, 2012*	
	Basic	Cost of Living	Total Retirement	Total Retirement	
Tier 1					
Actives					
Retirement	\$ 747,780	\$ 267,903	\$ 1,015,683	\$ 1,052,777	
Termination	55,322	19,110	74,432	82,671	
Death	17,110	5,684	22,794	24,639	
Disability	28,181	10,012	38,193	40,833	
Total Actives	\$ 848,393	\$ 302,709	\$ 1,151,102	\$ 1,200,920	
Retirees	1,125,476	720,851	1,846,327	1,707,675	
Beneficiaries	56,103	54,375	110,478	99,309	
Disabled	39,818	33,047	72,865	71,840	
Deferred Vested	98,506	35,978	134,484	122,674	
Tier 1 Total	\$ 2,168,296	\$ 1,146,960	\$ 3,315,256	\$ 3,202,418	
Tier 2					
Actives					
Retirement	\$ 9,058	\$ 1,206	\$ 10,264	N/A	
Termination	1,933	68	2,001	N/A	
Death	329	33	362	N/A	
Disability	1,139	162	1,301	N/A	
Total Actives	\$ 12,459	\$ 1,469	\$ 13,928	N/A	
Retirees	-	-	-	N/A	
Beneficiaries	-	-	-	N/A	
Disabled	-	-	-	N/A	
Deferred Vested	4	-	4	N/A	
Tier 2 Total	\$ 12,463	\$ 1,469	\$ 13,932	N/A	

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION III
 LIABILITIES

Table III-2						
Actuarial Liability						
June 30, 2013						
June 30, 2012*						
	Basic	Cost of Living	Total Retirement	Total Retirement		
Tier 1						
Actives						
Retirement	\$ 583,843	\$ 209,334	\$ 793,177	\$ 785,182		
Termination	13,742	8,945	22,687	21,530		
Death	10,597	3,374	13,971	14,117		
Disability	<u>14,378</u>	<u>4,705</u>	<u>19,083</u>	<u>18,673</u>		
Total Actives	\$ 622,560	\$ 226,358	\$ 848,918	\$ 839,502		
Retirees	1,125,476	720,851	1,846,327	1,707,675		
Beneficiaries	56,103	54,375	110,478	99,309		
Disabled	39,818	33,047	72,865	71,840		
Deferred Vested	<u>98,506</u>	<u>35,978</u>	<u>134,484</u>	<u>122,674</u>		
Tier 1 Total	\$ 1,942,463	\$ 1,070,609	\$ 3,013,072	\$ 2,841,000		
Tier 2						
Actives						
Retirement	\$ 410	\$ 54	\$ 464	N/A		
Termination	155	-	155	N/A		
Death	15	2	17	N/A		
Disability	<u>46</u>	<u>6</u>	<u>52</u>	<u>N/A</u>		
Total Actives	\$ 626	\$ 62	\$ 688	N/A		
Retirees	-	-	-	N/A		
Beneficiaries	-	-	-	N/A		
Disabled	-	-	-	N/A		
Deferred Vested	<u>4</u>	<u>-</u>	<u>4</u>	<u>N/A</u>		
Tier 2 Total	\$ 630	\$ 62	\$ 692	N/A		

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION III
 LIABILITIES

Table III-3 Normal Cost				
	Basic	June 30, 2013 Cost of Living	Total	June 30, 2012* Total
Tier 1				
Retirement	11.16%	3.94%	15.10%	16.13%
Termination	2.42%	0.57%	2.99%	3.09%
Death	0.45%	0.16%	0.61%	0.65%
Disability	0.92%	0.35%	1.27%	1.31%
Reciprocity	<u>0.11%</u>	<u>0.05%</u>	<u>0.16%</u>	<u>0.21%</u>
Sub-Total	15.06%	5.07%	20.13%	21.39%
Admin Expense	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.70%</u>
Total	15.76%	5.07%	20.83%	22.09%
Tier 2				
Retirement	6.86%	0.90%	7.76%	N/A
Termination	1.27%	-1.05%	0.22%	N/A
Death	0.24%	0.03%	0.27%	N/A
Disability	0.83%	0.12%	0.95%	N/A
Reciprocity	<u>0.04%</u>	<u>1.10%</u>	<u>1.14%</u>	N/A
Sub-Total	9.24%	1.10%	10.34%	12.66%
Admin Expense	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.70%</u>
Total	9.94%	1.10%	11.04%	13.36%

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

B. Changes in the Unfunded Actuarial Liability

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. Table III-4 on the following page summarizes the key changes in the UAL since the last valuation.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION III
 LIABILITIES

Table III-4
Development of 2013 Experience Gain/(Loss)

Item	Amount
1. Unfunded Actuarial Liability at June 30, 2012	\$ 1,078,027
2. Expected unfunded accrued liability payment	61,076
3. Interest	76,272
4. Expected Unfunded Actuarial Liability at June 30, 2013 (1 - 2 + 3)	\$ 1,093,223
5. Assumption Changes	63,667
6. Adjusted Expected Unfunded Liability at June 30, 2013 (4 + 5)	\$ 1,156,890
7. Actual Unfunded Liability at June 30, 2013	<u>\$ 1,230,493</u>
8. Actuarial gain or (loss): (6 - 7)	(73,603)
a. Portion of (8) due to investment gain or (loss)	\$ (76,502)
b. Portion of (8) due to salary changes	15,711
c. Portion of (8) due to retirement	(13,334)
d. Portion of (8) due to termination	4,004
e. Portion of (8) due to mortality	(4,274)
f. Portion of (8) due to other experience	<u>791</u>
g. Total	\$ (73,603)

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

Under the contribution allocation procedure employed by the System, there are two components to the contribution: the normal cost and an amortization payment on the unfunded actuarial liability. The normal cost rate was developed in Section III. This section develops the UAL contribution rate.

The difference between the 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, 2012 plus the impact of the 2013 experience, the 2013 assumption changes and the 2012 UAL payment that is made by the City on July 1, 2013.

Tables IV-1(a) provides the payment schedule to amortize the Tier 1 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. The amortizations are a level percent of expected Tier 1 and Tier 2 payroll. Table IV-1(b) provides the payment schedule to amortize the Tier 2 unfunded liability as of June 30, 2013 over 20 years.

Table IV-2 shows how the City's contribution rate for FYE 2015 is developed. The methodology and assumptions used comply with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

Table IV-3 shows the City's contribution dollar amounts for FYE 2015 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 7.25 percent.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

Table IV-1(a)
UAL Amortization - Tier 1

	Outstanding Balance	Remaining Period	Payment	
			\$ Amount	% of Pay
Basic Retirement Benefit				
Golden Handshake	\$ 16,910	26	\$ 1,169	0.61%
2009 UAL	605,901	26	41,872	22.02%
2010 (Gain) or Loss	47,139	17	4,189	2.20%
2010 Assumption Change	(37,867)	17	(3,365)	(1.77%)
2011 (Gain) or Loss	9,314	18	797	0.42%
2011 Assumption Changes	116,299	18	9,958	5.24%
2012 (Gain) or Loss	(192,125)	19	(15,895)	(8.36%)
SRBR Elimination	(43,034)	19	(3,560)	(1.87%)
2013 (Gain) or Loss	51,870	20	4,158	2.19%
2013 Assumption Changes	32,148	20	2,577	1.36%
7/1/2013 Payment	32,166		0	0.00%
Total	\$ 638,722		\$ 41,899	22.04%
Cost of Living Benefit				
Golden Handshake	\$ 4,112	26	\$ 284	0.15%
2009 UAL	148,377	26	10,254	5.39%
2010 (Gain) or Loss	3,435	17	305	0.16%
2010 Assumption Change	(21,021)	17	(1,868)	(0.98%)
2011 (Gain) or Loss	(12,297)	18	(1,053)	(0.55%)
2011 Assumption Changes	70,097	18	6,002	3.16%
2012 (Gain) or Loss	309,227	19	25,584	13.46%
2013 (Gain) or Loss	21,682	20	1,738	0.91%
2013 Assumption Changes	31,520	20	2,526	1.33%
7/1/2013 Payment	36,590		0	0.00%
Total	\$ 591,721		\$ 43,772	23.02%
Total	\$ 1,230,443		\$ 85,671	45.06%

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION IV
 CONTRIBUTIONS

Table IV-1 (b)				
UAL Amortization - Tier 2				
	Outstanding Balance	Remaining Period	Payment	
			\$ Amount	% of Pay
Basic Retirement Benefit				
2013 (Gain) or Loss	\$ 41	20	\$ 3	0.01%
Total	\$ 41		\$ 3	0.01%
Cost of Living Benefit				
2013 (Gain) or Loss	\$ 10	20	\$ 1	0.00%
Total	\$ 10		\$ 1	0.00%
Total	\$ 51		\$ 4	0.01%

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION IV
 CONTRIBUTIONS

Table IV-2
 Contribution Rates

	Fiscal Year 2014-15			Fiscal Year 2013-14		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
Member Rate	4.27%	1.37%	5.64%	4.53%	1.44%	5.97%
City Service Normal Rate	11.38%	3.65%	15.03%	12.10%	3.81%	15.91%
City Reciprocity Normal Rate	<u>0.11%</u>	<u>0.05%</u>	<u>0.16%</u>	<u>0.16%</u>	<u>0.05%</u>	<u>0.21%</u>
City Normal Rate	11.49%	3.70%	15.19%	12.26%	3.86%	16.12%
City Deficiency Rate	21.42%	22.87%	44.30%	15.71%	18.35%	34.05%
City Golden Handshake Rate	<u>0.61%</u>	<u>0.15%</u>	<u>0.76%</u>	<u>0.54%</u>	<u>0.13%</u>	<u>0.67%</u>
City UAL Rate	22.04%	23.02%	45.06%	16.25%	18.48%	34.73%
City Rate	33.53%	26.72%	60.25%	28.51%	22.34%	50.85%
Tier 2						
Member Normal Rate	4.97%	0.55%	5.52%	6.13%	0.55%	6.68%
Member UAL Rate	<u>0.01%</u>	<u>0.00%</u>	<u>0.01%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Member Rate	4.98%	0.55%	5.53%	6.13%	0.55%	6.68%
City Normal Rate	4.97%	0.55%	5.52%	6.13%	0.55%	6.68%
City UAL Rate	<u>0.01%</u>	<u>0.00%</u>	<u>0.01%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
City Rate	4.98%	0.55%	5.53%	6.13%	0.55%	6.68%

* FYE 2014 results reflect the elimination of the Supplemental Retirement Benefit Reserve

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

Table IV-3 City Contribution Amounts (BOY)						
	July 1, 2014			July 1, 2013		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
City Service Normal Cost	\$ 21,636	\$ 6,940	\$ 28,576	\$ 23,956	\$ 7,543	\$ 31,500
City Reciprocity Normal Cost	<u>209</u>	<u>95</u>	<u>304</u>	<u>317</u>	<u>99</u>	<u>416</u>
City Normal Cost	\$ 21,845	\$ 7,035	\$ 28,880	\$ 24,273	\$ 7,642	\$ 31,915
City Deficiency Cost	\$ 40,730	\$ 43,488	\$ 84,218	\$ 31,095	\$ 36,329	\$ 67,424
City Golden Handshake Cost	<u>1,169</u>	<u>284</u>	<u>1,453</u>	<u>1,071</u>	<u>261</u>	<u>1,332</u>
City UAL Cost	\$ 41,899	\$ 43,772	\$ 85,671	\$ 32,166	\$ 36,590	\$ 68,756
City Contribution	\$ 63,744	\$ 50,807	\$ 114,551	\$ 56,440	\$ 44,232	\$ 100,671
Tier 2						
City Normal Cost	\$ 1,603	\$ 177	\$ 1,780	\$ 1,651	\$ 148	\$ 1,799
City UAL Cost	<u>2</u>	<u>0</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
City Contribution	\$ 1,605	\$ 178	\$ 1,782	\$ 1,651	\$ 148	\$ 1,799

* July 1, 2013 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 25 of the Governmental Accounting Standards Board (GASB) established standards for accounting and financial reporting of pension information by public employee retirement systems through the System's June 30, 2013 reporting date. That reporting was based on the June 30, 2012 actuarial valuation. Statement 67 has replaced Statement 25 effective beginning with the System's financial reporting date of June 30, 2014. Under Statement 67, the beginning of year amounts will be based on the June 30, 2013 valuation, but the disclosures as of June 30, 2014 will be based either on the June 30, 2014 valuation or on a projection of the Total Pension Liability from the 2013 valuation reflecting actual benefit payments and any significant events since June 30, 2013. Furthermore, some information reported in the System's Comprehensive Annual Financial Report is based on guidance from the Government Finance Officers' Association (GFOA) which has yet to update their guidance to reflect Statement 67. Consequently, the reporting under this valuation is in flux.

For this year, the report includes some exhibits that will be required by GASB 67 and some exhibits that may continue to be required by the GFOA. Additional information will be provided either in a supplemental report or in next year's valuation report.

Statement 67 requires disclosure of the Net Pension Liability in the Notes of the System's financial statement. Exhibit V-1 provides this information. Because the System's methods are identical to those required by Statement 67 and under the System's contribution policy the GASB discount rate equals the expected rate of return, the Total Pension Liability as of June 30, 2013 is the same as the Actuarial Liability shown earlier in this report. The Plan Fiduciary Net Position equals the market value of assets and the Net Pension Liability equals the Unfunded Actuarial Liability based on the market value of assets.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
 ACCOUNTING STATEMENT INFORMATION

Table V-1
 Net Pension Liability

Item	June 30, 2013	June 30, 2012*	% Change
1. Total Pension Liability			
a. Members Currently Receiving Payments	\$ 2,029,669	\$ 1,878,824	8.0%
b. Vested Terminated and Inactive Members	134,488	122,674	9.6%
c. Active Members	<u>849,608</u>	<u>839,502</u>	<u>1.2%</u>
d. Total Pension Liability	\$ 3,013,763	\$ 2,841,000	6.1%
2. Plan Fiduciary Net Position	\$ 1,761,546	\$ 1,649,249	6.8%
3. Net Pension Liability	\$ 1,252,217	\$ 1,191,751	5.1%
4. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability: (2)/(1)(d)	58.45%	58.05%	0.4%

* June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-2 through V-5 are exhibits for use in the System's Comprehensive Annual Financial Report (CAFR). Table V-2 summarizes key actuarial assumptions and methods; Table V-3 shows the schedule of changes in Net Pension Liability required by GASB Statement 67; 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
SUMMARY OF KEY ASSUMPTIONS AND METHODS

The information presented in these schedules was determined as part of the actuarial valuation based on the following methods and assumptions.

Valuation date	June 30, 2013
Actuarial funding method	Entry Age
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	25.8 Years
Asset valuation method	5-year smoothing of return over or under expected returns
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases due to wage inflation*	2.00% for five years, and 2.85% thereafter
Cost-of-living adjustments**	Tier 1 - 3.0% per year; Tier 2 - 1.5% per year

The demographic assumptions were adopted by the Federated Board in October 2011 based on an experience study conducted at that time. The economic assumptions were adopted by the Federated Board in November 2013.

* Additional merit salary increases of 0.25% to 4.50% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

** Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.5%

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
 ACCOUNTING STATEMENT INFORMATION

Table V-3
Schedule of Changes in the Net Pension Liability and Related Ratios

	FYE 2013
Total Pension Liability	
Service cost	\$ 46,659
Interest	207,615
Changes of benefit terms	-
Differences between expected and actual experience	(146)
Changes of assumptions	63,669
Benefit payments (including refunds)	<u>(146,807)</u>
Net change in total pension liability	\$ 170,991
Total pension liability - beginning	<u>2,841,000</u>
Total pension liability - ending	<u>\$ 3,013,763</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 103,109
Contributions - member	12,652
Net investment income	146,366
Benefit payments (including refunds)	(146,807)
Administrative expense	<u>(3,024)</u>
Net change in plan fiduciary net position	\$ 112,297
Plan fiduciary net position - beginning	<u>1,649,249</u>
Plan fiduciary net position - ending	<u>\$ 1,761,546</u>
Net pension liability	<u>\$ 1,252,217</u>
Plan fiduciary net position as a percentage of the total pension liability	58.45%
Covered-employee payroll	\$ 225,779
Net pension liability as a percentage of covered-employee payroll	554.62%

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
 ACCOUNTING STATEMENT INFORMATION

Table V-4
 City of San Jose Federated City Employees' Retirement System
 SOLVENCY TEST

Valuation Date	Actuarial Liabilities for				Portion of Actuarial Liabilities Covered by Reported Assets		
	(A) Active Member Contributions	(B) Retirees, Beneficiaries and Other Inactives	(C) Remaining Active Members' Liabilities	Reported Assets**	(A)	(B)	(C)
June 30, *							
2013	\$ 234,217	\$ 2,164,153	\$ 615,393	\$ 1,782,629	100%	72%	0%
2012	234,619	2,001,498	604,883	1,762,973	100%	76%	0%
2011	234,574	1,848,254	687,400	1,788,660	100%	84%	0%
2010	242,944	1,504,698	762,716	1,729,413	100%	99%	0%
2009	228,967	1,393,114	864,074	1,756,558	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%

* Results prior to 6/30/2010 calculated by prior actuary

Amounts in thousands

June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

** Actuarial Value of Assets

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

SECTION V
 ACCOUNTING STATEMENT INFORMATION

Table V-5
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2013	\$ 1,782,629	\$ 3,013,763	\$ 1,231,134	59%	\$ 225,779	545%
June 30, 2012 ⁵	1,762,973	2,841,000	1,078,027	62%	225,859	477%
June 30, 2011 ⁴	1,788,660	2,770,227	981,567	65%	228,936	429%
June 30, 2010 ³	1,729,413	2,510,358	780,945	69%	300,811	260%
June 30, 2009 ²	1,756,558	2,486,155	729,597	71%	323,020	226%
June 30, 2007	1,622,851	1,960,943	338,092	83%	291,405	116%
June 30, 2005 ¹	1,384,454	1,711,370	326,916	81%	286,446	114%
June 30, 2003	1,280,719	1,311,691	30,972	98%	292,961	11%
June 30, 2001	1,060,144	1,072,333	12,189	99%	252,696	5%

Note: Results prior to 6/30/2010 were calculated by the prior actuary

Amounts in thousands

¹ Demographic assumption changes increased AL by \$83 million.

² Demographic and economic assumption changes, including reducing the investment return assumption from 8.25% to 7.75% increased the AL by \$229 million.

³ Increasing the investment return assumption from 7.75% to 7.95% decreased the AL by \$59 million.

⁴ Demographic and economic assumption changes, including reducing the investment return assumption from 7.95% to 7.5% increased the AL by \$188 million.

⁵ June 30, 2012 results reflect the elimination of the Supplemental Retirement Benefit Reserve

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

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

	June 30, 2013	June 30, 2012	% Change
<u>Tier 1</u>			
Count	2,856	3,076	-7.2%
Average Current Age	46.8	46.0	1.7%
Average Eligibility Service	13.1	12.4	5.6%
Average Benefit Service	12.9	12.2	5.7%
Annual Expected Pensionable Earnings	\$ 211,301,632	\$ 225,859,144	-6.4%
Average Expected Pensionable Earnings	\$ 73,985	\$ 73,426	0.8%
<u>Tier 2</u>			
Count	238	N/A	N/A
Average Current Age	35.8	N/A	N/A
Average Eligibility Service	0.8	N/A	N/A
Average Tier 2 Benefit Service	0.4	N/A	N/A
Average Total Benefit Service*	0.8	N/A	N/A
Annual Expected Pensionable Earnings	\$ 14,477,583	N/A	N/A
Average Expected Pensionable Earnings	\$ 60,830	N/A	N/A
<u>Total</u>			
Count	3,094	3,076	0.6%
Average Current Age	45.9	46.0	-0.2%
Average Eligibility Service	12.2	12.4	-1.6%
Average Benefit Service	11.9	12.2	-2.5%
Annual Expected Pensionable Earnings	\$ 225,779,216	\$ 225,859,144	0.0%
Average Expected Pensionable Earnings	\$ 72,973	\$ 73,426	-0.6%

* Includes service attributable to Tier 1 benefits

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-2			
San Jose Federated City Employees' Retirement System			
Payee Member Data			
	June 30, 2013	June 30, 2012	%Change
Retired & Disabled			
Count	3,234	3,143	2.9%
Average Age	68.2	68.0	0.3%
Total Annual Benefit	\$ 140,966,722	\$ 132,923,227	6.1%
Average Annual Benefit	\$ 43,589	\$ 42,292	3.1%
Beneficiaries			
Count	477	459	3.9%
Average Age	74.1	74.0	0.3%
Total Annual Benefit	\$ 9,967,125	\$ 9,140,022	9.0%
Average Annual Benefit	\$ 20,895	\$ 19,913	4.9%
Total			
Count	3,711	3,602	3.0%
Average Age	69.0	68.8	0.3%
Total Annual Benefit	\$ 150,933,848	\$ 142,063,249	6.2%
Average Annual Benefit	\$ 40,672	\$ 39,440	3.1%

Benefits provided in June 30 valuation data

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-3 San Jose Federated City Employees' Retirement System Inactive Member Data			
	Count		
	June 30, 2013	June 30, 2012	%Change
Tier 1			
Vested			
Count	708	671	5.5%
Average Age	46.6	46.7	-0.1%
Total Annual Benefit	\$ 13,364,947	\$ 12,278,202	8.9%
Average Annual Benefit	\$ 18,877	\$ 18,298	3.2%
Total Contribution Balance with Interest	\$ 41,029,193	\$ 36,470,638	12.5%
Average Contribution Balance with Interest	\$ 57,951	\$ 54,353	6.6%
Non-Vested			
Count	286	296	-3.4%
Average Age	42.3	42.2	0.2%
Total Annual Benefit	\$ 1,084,423	\$ 1,131,369	-4.1%
Average Annual Benefit	\$ 3,792	\$ 3,822	-0.8%
Total Contribution Balance with Interest	\$ 3,953,683	\$ 3,937,642	0.4%
Average Contribution Balance with Interest	\$ 13,824	\$ 13,303	3.9%
Total			
Count	994	967	2.8%
Average Age	45.4	45.3	0.1%
Total Annual Benefit	\$ 14,449,369	\$ 13,409,571	7.8%
Average Annual Benefit	\$ 14,537	\$ 13,867	4.8%
Total Contribution Balance with Interest	\$ 44,982,876	\$ 40,408,280	11.3%
Average Contribution Balance with Interest	\$ 45,254	\$ 41,787	8.3%
Tier 2 *			
Count	7	N/A	N/A
Average Age	44.4	N/A	N/A
Total Annual Benefit	\$ 419	N/A	N/A
Average Annual Benefit	\$ 60	N/A	N/A
Total Contribution Balance with Interest	\$ 4,047	N/A	N/A
Average Contribution Balance with Interest	\$ 578	N/A	N/A
Total			
Count	1,001	967	3.5%
Average Age	45.4	45.3	0.1%
Total Annual Benefit	\$ 14,449,788	\$ 13,409,571	7.8%
Average Annual Benefit	\$ 14,435	\$ 13,867	4.1%
Total Contribution Balance with Interest	\$ 44,986,923	\$ 40,408,280	11.3%
Average Contribution Balance with Interest	\$ 44,942	\$ 41,787	7.5%

For Inactives, benefit is calculated on the data assumptions and methods outlined in Appendix A if not provided in the June 30 valuation data

** All Tier 2 inactive members are non-vested of the valuation date*

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-4
 San Jose Federated City Employees' Retirement System
 Distribution of Active Members as of June 30, 2013

Age	Years of Service										Total
	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	
Under 25	20	3	0	0	0	0	0	0	0	0	23
25 to 29	59	70	30	0	0	0	0	0	0	0	159
30 to 34	55	94	114	40	0	0	0	0	0	0	303
35 to 39	44	49	128	145	15	0	0	0	0	0	381
40 to 44	19	43	106	189	81	29	0	0	0	0	467
45 to 49	15	30	77	157	107	98	35	0	0	0	519
50 to 54	16	35	81	146	92	158	104	1	0	0	633
55 to 59	10	30	65	95	48	60	24	2	0	0	334
60 to 64	6	15	38	78	33	23	8	0	1	0	202
65 to 69	0	3	15	28	9	2	1	1	1	0	60
70 and up	0	1	1	7	3	0	1	0	0	0	13
Total Count	244	373	655	885	388	370	173	4	2	0	3,094

Table A-5
 San Jose Federated City Employees' Retirement System
 Distribution of Active Members as of June 30, 2013

Age	Average Expected Salary										Total
	Years of Service										
	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	
Under 25	\$ 51,585	\$ 50,595	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,456
25 to 29	55,893	52,527	59,217	0	0	0	0	0	0	0	55,038
30 to 34	60,932	62,771	64,828	64,681	0	0	0	0	0	0	63,463
35 to 39	64,152	64,417	64,284	68,101	70,045	0	0	0	0	0	65,965
40 to 44	71,425	66,809	71,455	74,876	78,245	73,950	0	0	0	0	73,743
45 to 49	63,242	75,356	73,614	76,070	77,021	80,788	78,810	0	0	0	76,565
50 to 54	68,759	69,363	76,107	76,311	82,273	83,666	80,353	187,506	0	0	79,252
55 to 59	69,800	80,757	77,729	77,780	78,615	78,826	79,638	100,743	0	0	78,378
60 to 64	69,377	85,385	68,988	76,201	79,591	71,029	116,963	0	46,542	0	76,756
65 to 69	0	92,231	64,493	71,639	78,414	80,139	86,861	86,861	121,590	0	73,522
70 and up	0	99,650	81,151	83,796	62,120	0	92,681	0	0	0	80,493
Avg. Salary	\$ 61,572	\$ 65,755	\$ 69,504	\$ 74,150	\$ 78,585	\$ 80,553	\$ 81,743	\$ 118,963	\$ 84,066	\$ 0	\$ 72,973

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

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, 2013

Benefit Effective Fiscal Year End	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	
Prior to 1995	2	2	4	9	11	82	167	162	153	79	671
1996	2	0	1	1	0	18	9	6	1	0	38
1997	0	1	0	1	4	41	12	9	2	0	70
1998	0	1	1	3	2	35	12	8	0	0	62
1999	0	0	1	5	14	43	7	9	0	0	79
2000	0	0	0	3	44	26	11	4	1	0	89
2001	0	1	0	5	37	26	13	1	1	0	84
2002	0	2	1	7	81	28	19	5	0	0	143
2003	1	0	2	13	65	26	9	3	1	0	120
2004	2	2	3	32	70	20	11	0	0	0	140
2005	0	0	5	61	56	37	10	5	1	0	175
2006	3	4	12	65	41	29	4	0	0	0	158
2007	1	0	14	76	40	17	4	3	1	0	156
2008	1	3	14	85	42	18	4	0	0	0	167
2009	3	4	34	65	32	7	1	0	0	0	146
2010	0	8	85	63	46	10	2	1	0	0	215
2011	1	18	118	128	66	19	4	1	0	0	355
2012	1	15	101	56	32	12	2	0	0	0	219
2013	0	8	97	22	17	0	3	0	0	0	147
Total	17	69	493	700	700	494	304	217	161	79	3,234

Average Age at Retirement/Disability 57.6
 Average Current Age 68.2
 Average Annual Pension \$ 43,589

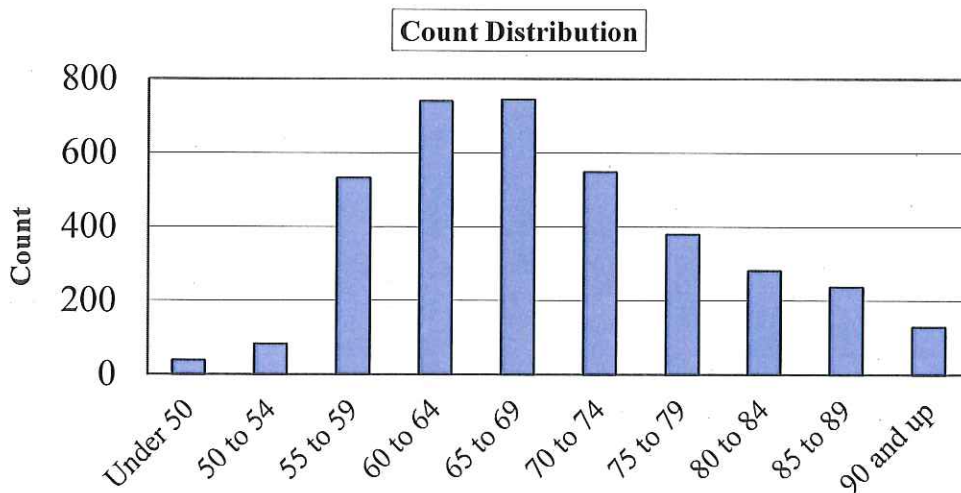
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

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, 2013

Age	Count
Under 50	38
50 to 54	82
55 to 59	532
60 to 64	740
65 to 69	744
70 to 74	548
75 to 79	380
80 to 84	281
85 to 89	237
90 and up	129
Total	3,711

Chart A-1



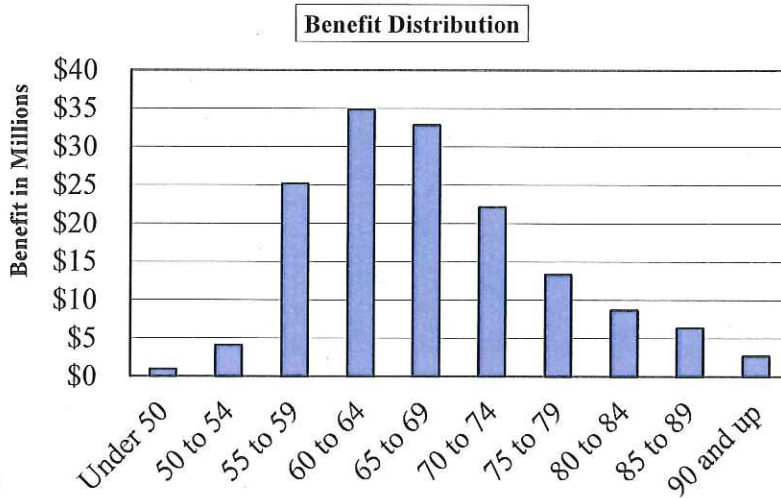
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-8
San Jose Federated City Employees' Retirement System
Distribution of Retirees, Disabled Members,
and Beneficiaries as of June 30, 2013

Age	Annual Benefit
Under 50	\$ 959,427
50 to 54	4,049,325
55 to 59	25,178,329
60 to 64	34,842,001
65 to 69	32,809,913
70 to 74	22,117,216
75 to 79	13,294,946
80 to 84	8,667,862
85 to 89	6,324,440
90 and up	2,690,388
Total	\$ 150,933,848

Chart A-2



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-9							
San Jose Federated City Employees' Retirement System							
Change in Plan Membership							
	Vested	Service	Non-Service				
	Actives	Terminations	Disabilities	Disabilities	Retirees	Beneficiaries	Total
June 30, 2012	3,076	967	128	79	2,936	459	7,645
New Entrants	273	0	0	0	0	0	273
Rehires	21	(16)	(1)	0	(2)	0	2
Vested Terminations	(122)	122	0	0	0	0	0
Return of Contributions	(30)	(39)	0	0	0	0	(69)
Service Disabilities	0	0	0	0	0	0	0
Non-Service Disabilities	(1)	(2)	0	4	(1)	0	0
Retirements	(113)	(41)	0	0	154	0	0
Deaths	(8)	(2)	(7)	(2)	(53)	41	(31)
Beneficiary Deaths	0	0	0	0	0	(24)	(24)
Miscellaneous Adjustments	(2)	12	0	0	(1)	1	10
June 30, 2013	3,094	1,001	120	81	3,033	477	7,806

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Methods

In preparing our data, we relied without audit on information supplied by the San José 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 set to be “earnable income.” If “earnable income” was not provided, then the most recent annual salary is calculated to be “compensation rate 2” multiplied by 26.
- 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.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

1. Discount Rate

7.25%. The Board adopted a long-term expected return assumption of 7.50% based on its capital market assumptions and investment policy. A margin for adverse deviation of 0.25% was used to improve the probability of achieving the discount rate.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Administrative Expenses

0.70% of payroll is added to the normal cost of the system for expected administrative expenses.

4. Salary Increase Rate

Wage inflation component: 2.00% for five years, and 2.85% thereafter.

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

Years of Service	Merit/ Longevity
0	4.50%
1	3.50
2	2.50
3	1.85
4	1.40
5	1.15
6	0.95
7	0.75
8	0.60
9	0.50
10	0.45
11	0.40
12	0.35
13	0.30
14	0.25
15+	0.25

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS

5. Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Gender	Percentage
Males	80%
Females	60%

6. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

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

20% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

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APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

7. Rates of Refund

Tier 1:

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

8. Rates of Disability

Sample disability rates of active members are provided in Table B-5.

Age	Disability
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

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

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APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Age	Male	Female
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

100% of Tier 1 active member deaths and 99% of Tier 2 active member deaths are assumed to be service connected.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

10. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

Age	Male	Female
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS

11. Rates of Retirement

Rates of retirement for Tier 1 members are based on age according to the following Table B-8 – Tier 1.

Table B-8 – Tier 1 Rates of Retirement by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

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APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS

Rates of retirement for Tier 2 members are based on age according to the following Table B-8 – Tier 2.

Table B-8 – Tier 2 Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

12. 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.

13. Changes Since Last Valuation

- The discount rate decreased from 7.50% to 7.25%.
- The wage inflation assumption decreased from 3.25% for all years of service to 2.00% for five years, and 2.85% thereafter.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
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APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1. Actuarial Cost Method

The Entry Age actuarial cost 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 costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

For the purpose of determining contribution rates and amounts, an actuarial value of assets is used that dampens the volatility in the market value of assets, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 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 Tier 1 and Tier 2 pay over 20-year periods beginning with the valuation date in which they first arise. To remain a level percentage of expected future payroll, each annual amortization payment increases by 2.43%, the equivalent single wage inflation assumption over a 20-year period (2.00% for five years and 2.85% for the following 15 years).

4. Contributions

At its November 2010 meeting, the Board adopted a policy setting the City's 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

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date. For Tier 1, City contributions are normally made on the first day of the fiscal year. All other contributions are made on a payroll-by-payroll basis.

The total contribution rate is the sum of the normal cost rate (including assumed administrative expenses) and the UAL rate. The normal cost rate is determined by dividing the total normal cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

For Tier 1, members contribute 3/11 of the normal cost rate (including administrative expenses, but excluding reciprocity), and the City pays the remainder of the total contribution rate. For Tier 2, the members and the City each pay half of the total contribution rate.

Changes Since Last Valuation

The rate of increase in amortization payments was decreased from 3.25% to 2.43%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS
TIER 1

1. Membership Requirement

Participation in the Plan is immediate upon the first day of full-time employment for members hired before September 30, 2012.

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 1,739 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 1,739) is given for each calendar year with less than 1,739 hours worked.

4. Member Contributions

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.

Employer

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

5. Service Retirement

Eligibility

Age 55 with five 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
TIER 1

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

Five 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 55.

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 six 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
TIER 1

8. Death While an Active Employee

Less than five 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 six years.

Five 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 five Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Five 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%, regardless of actual inflation.

12. Changes since the last valuation

The SRBR was eliminated.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS
TIER 2

1. Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012.

2. Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

3. Credited Service

One year of service credit is given for 2,080 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 2,080) is given for each calendar year with less than 2,080 hours worked.

4. Member Contributions

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

5. Unreduced Service Retirement

Eligibility

Age 65 with five years of service.

Benefit – Member

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a maximum of 65% of Final Compensation.

Benefit - Survivor

Single life annuity.

APPENDIX C
SUMMARY OF PLAN PROVISIONS
TIER 2

6. Early Service Retirement

Eligibility

Age 55 with five years of service.

Benefit – Member

Reduced benefit actuarially equivalent to the unreduced service retirement benefits commencing at age 65. The early retirement reduction is applied to the benefit after the application of the maximum of 65% of final compensation.

7. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

Monthly benefit equivalent to 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

8. Non-Service Connected Disability Retirement

Eligibility

Five years of service.

Benefit - Member

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

APPENDIX C
SUMMARY OF PLAN PROVISIONS
TIER 2

9. Death Before Retirement

If death occurs before retirement eligibility is reached

Lump sum benefit equal to the accumulated refund of all employee contributions with interest.

If death occurs after retirement eligibility is reached

Benefit equivalent to what the employee would have received if retired at the time of death.

Employees killed in the line of duty

Monthly benefit equivalent to 50% of Final Compensation.

10. Withdrawal Benefits

Less than five Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service

The amount of the service retirement benefit, actuarially reduced for early retirement, and payable when retirement eligibility is reached.

11. Benefit Forms

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50%, 75% or 100% continuance to a survivor.

12. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap of 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

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 accrued 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. Demographic 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 Cost 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. Normal Cost

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

10. 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 two 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.

11. 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).