

**City of San Jose Police and Fire Department
Retirement Plan (Pension Plan Only)**

*Actuarial Valuation and Review
as of June 30, 2009*

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The Segal Company
100 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

February 23, 2010

*Board of Retirement
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112-4505*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2009, for the Pension Plan only. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2010-2011 and analyzes the preceding two years' experience.


The census information on which our calculations were based and the financial information were prepared by the City of San Jose Police and Fire Department Retirement Plan. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices, including Actuarial Standards of Practice (ASOPs) Nos. 4, 27, 35, 44, and all other relevant ASOPs. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Retirement are reasonably related to the experience of and the expectations for the Plan. The undersigned are Members of the American Academy of Actuaries and meet the qualification standards to render the actuarial opinion contained herein.

We look forward to reviewing this report at your next meeting and to answering any questions.

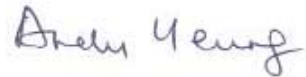
Sincerely,

THE SEGAL COMPANY

By: 

*Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary*

CZI/hy

By: 

*Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary*

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SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Purpose

This report has been prepared by The Segal Company to present a valuation of the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2009. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Retirement Plan, as administered by the Board of Retirement;
- The characteristics of covered active members, inactive vested members, retired members and beneficiaries as of June 30, 2009, provided by the Retirement Plan;
- The assets of the Plan as of June 30, 2009, provided by the Retirement Plan;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

One of the general goals of an actuarial valuation is to establish contributions that fully fund the Plan's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. An actuarial valuation measures the progress toward this goal, as well as tests the adequacy of the contribution rates.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the Plan's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the Plan's staff. This information has not been audited by us, but it has been reviewed and found to be reasonably consistent, both internally and with prior period's information.

The contribution requirements are determined as a percentage of payroll. The Plan's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. Our calculations reflect the Board's funding policy to amortize the Plan's unfunded actuarial accrued liability as follows: (1) outstanding balance of the unfunded actuarial accrued liability established as of June 30, 2003 amortized over the next 8 years; (2) prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and (3) actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.

The rates calculated in this report may be adopted by the Board for the fiscal year that extends from July 1, 2010 through June 30, 2011.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Significant Issues in This Valuation

The following key findings were the result of this actuarial valuation:

- In developing the total actuarial value of assets for the pension and health plans, we have adjusted the market value of assets (MVA) by smoothing the market returns that were either below or above the assumed rate of 8.00% over the last five years. In prior valuations, the Board’s methodology included an adjustment to the smoothed actuarial value of assets if it fell outside the range of 80% to 120% of the market value of assets (also commonly referred to as the “market value corridor”). The adjustment would be the amount necessary to keep the smoothed actuarial value of assets within the corridor.

At the February 4, 2010 meeting, the Board decided to change the market value corridor (MVA corridor) to a range of 70% to 130% of market value. This change in the corridor was made only for the June 30, 2009 valuation.

For the June 30, 2009 valuation, the preliminary actuarial value of assets before any MVA corridor was calculated at about 132% of the market value of assets. The final actuarial value of assets was limited to 130% of the market value of assets so that an additional loss equal to the difference between 132% and 130% of the market value of assets, or approximately \$45.0 million, was recognized immediately in the June 30, 2009 pension and health plan valuations.

- Reference:* pg. 27
- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 99.7% as determined in the June 30, 2007 valuation to 86.7% as determined in the June 30, 2009 valuation. The Plan’s unfunded actuarial accrued liability has increased from \$6.6 million as of June 30, 2007 to \$393.9 million as of June 30, 2009. The change to the UAAL was primarily the result of (a) unfavorable investment return during the last two years, (b) higher than expected salary increase, (c) earlier than expected retirements, (d) data corrections, and (e) change in the actuarial assumptions. A complete reconciliation of the Plan’s unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- Reference:* pg. 16
- The aggregate employer rate calculated in this valuation has increased from 22.50% to 39.45% of payroll. The 39.45% rate is before applying the charge to the SRBR (see discussion that follows). The rate after applying the charge to the SRBR is 39.00% for the 2010/2011 plan year only. The employer rate increased for the same reasons that the UAAL increased. A complete reconciliation of the employer contribution rate is provided in Section 2, Chart 14.
- Reference:* pg. 46
- As mentioned above, the City’s contribution rate determined in the June 30, 2009 valuation increased significantly, due in part to poor investment performance since the last valuation. It is our understanding that in accordance with Section 3.36.580 of the City’s Municipal Code, there would be a charge to the Supplemental Retiree Benefits Reserve (SRBR) to reduce the increase in the City’s contribution rate that is attributable to the poor investment performance between July 1, 2007 and June 30, 2009. The charge to the SRBR was determined to be \$1,207,958 and the calculation of this amount is

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

included in Section 4, Appendix B. This SRBR charge will reduce the City's contribution rate to the pension plan by 0.45% of pay for the 2010/2011 plan year only.

Reference: pg. 17

- The individual member rates are changing mainly as a result of the new assumptions that were adopted based on the June 30, 2009 experience study. The average member rate calculated in this valuation has increased from 8.34% of payroll to 9.91% of payroll. A complete reconciliation of the Plan's average member rate is provided in Section 2, Subsection D (see Chart 15).

Reference: pg. 7

- As indicated in Section 2, Subsection B (see Chart 7b) of this report, the total unrecognized investment loss as of June 30, 2009 was \$658.2 million before the application of the 130% MVA corridor and \$613.3 million after the application of the MVA corridor (versus an unrecognized gain of \$294.3 million in the June 30, 2007 valuation). This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes over the next few years, to the extent it is not offset by recognition of investment gains derived from future experience. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a **market value** basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would increase in each of the next few years.
- The deferred losses of \$613.3 million represent 30% of the market value of assets as of June 30, 2009. Unless offset by future investment gains or other favorable experience, the recognition of the \$613.3 million market losses is expected to have a significant impact on the Plan's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:
 - If the pension plan component of the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 86.7% to 66.4%.
 - If the pension plan component of the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate would increase from 39.45% to 59.17% of payroll. Again, these employer rates are before applying the charge to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.
- For more details on the impact of the deferred losses, please refer to our contribution projections study under alternative market value return and MVA corridor scenarios dated July 24, 2009.
- The actuarial valuation report as of June 30, 2009 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the plan, while increases will decrease the actuarial cost of the plan.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Impact of Future Experience on Contribution Rates

Future contribution requirements may differ from those determined in the valuation because of:

- difference between actual experience and anticipated experience;
- changes in actuarial assumptions or methods;
- changes in statutory provisions; and
- difference between the contribution rates determined by the valuation and those adopted by the Board.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Results

	June 30, 2009		June 30, 2007	
City Contribution Rates:				
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
Police	38.77% ⁽²⁾	\$63,985,432	21.61%	\$35,664,823
Fire	40.69% ⁽²⁾	36,695,885	24.12%	21,752,389
All categories combined	39.45% ⁽²⁾	100,681,317	22.50%	57,417,212
Member Contribution Rates:				
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
Police	9.81%	\$16,190,278	8.18%	\$13,500,151
Fire	10.09%	9,099,569	8.62%	7,773,864
All categories combined	9.91%	25,289,847	8.34%	21,274,015
Funded Status:				
Actuarial accrued liability	\$2,963,482,288		\$2,372,385,616	
Valuation value of pension assets	2,569,569,225		2,365,789,857	
Funded percentage	86.7%		99.7%	
Unfunded (overfunded) actuarial accrued liability	\$393,913,063		\$6,595,759	
Key Assumptions:				
Interest rate	8.00%		8.00%	
Inflation rate	3.50%		3.50%	
Across the board salary increases	0.75%		0.50%	

⁽¹⁾ Based on June 30, 2009 projected annual payroll.

⁽²⁾ Before applying the charge to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Demographic and Financial Data

	June 30, 2009	June 30, 2007	Percentage Change
Active Members:			
Police:			
Number of members	1,382	1,401	(1.4)%
Average age	40.2	40.3	N/A
Average service	12.9	13.1	N/A
Projected total compensation	\$165,038,514	\$148,905,245	10.8%
Average projected compensation	\$119,420	\$106,285	12.4%
Fire:			
Number of members	701	735	(4.6)%
Average age	40.8	41.6	N/A
Average service	12.1	13.2	N/A
Projected total compensation	\$90,184,038	\$78,829,204	14.4%
Average projected compensation	\$128,651	\$107,251	20.0%
Total:			
Number of members	2,083	2,136	(2.5)%
Average age	40.4	40.8	N/A
Average service	12.6	13.1	N/A
Projected total compensation	\$255,222,552	\$227,734,449	12.1%
Average projected compensation	\$122,526	\$106,617	14.9%

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Demographic and Financial Data (continued)

	June 30, 2009	June 30, 2007	Percentage Change
Retired Member and Beneficiaries:			
Number of members:			
Service retired	675	508	32.9%
Disability retired	776	758	2.4%
Beneficiaries	249	211	18.0%
Total	1,700	1,477	15.1%
Average age	64.4	64.5	N/A
Average monthly benefit	\$5,669	\$5,081	11.6%
Vested Terminated Members:			
Number of terminated vested members	74	71	4.2%
Average age	43.7	43.5	N/A
Summary of Financial Data (dollar amounts in thousands):			
Market value of pension and health assets	\$2,044,242	\$2,735,649	(25.3)%
Return on market value of pension and health assets ⁽¹⁾	(12.5)%	15.2%	N/A
Actuarial value of pension and health assets	\$2,657,515	\$2,441,323	8.9%
Return on actuarial value of pension and health assets ⁽¹⁾	5.3%	10.5%	N/A
Valuation value of pension assets ⁽²⁾	\$2,569,569	\$2,365,790	8.6%
Return on valuation value of pension assets ⁽¹⁾	5.2%	10.3%	N/A

(1) Annualized return over a two-year period.

(2) Excludes assets for health benefits and the SRBR.

SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, vested terminated members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation period and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

A historical perspective of how the member population has changed over the past 4 valuations can be seen in this chart.

CHART 1
Member Population: 2003 – 2009

Period Ended June 30	Active Members	Vested Terminated Members	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2003	2,104	58	1,271	0.63
2005	2,003	69	1,385	0.73
2007	2,136	71	1,477	0.72
2009	2,083	74	1,700	0.85

SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

Active Members

Plan costs are affected by the age, years of service and compensation of active members. In the current valuation, there were 2,083 active members with an average age of 40.4, average years of service of 12.6 years and average projected compensation of \$122,526. The 2,136 active members in the prior valuation had an average age of 40.8, average service of 13.1 years and average projected compensation of \$106,617.

Among the active members, there were none with unknown age.

Inactive Members

In the current valuation, there were 74 members with a vested right to a deferred or immediate vested benefit or entitled to a return of their member contributions versus 71 in the prior valuation.

These graphs show a distribution of active members by age and by years of service.

CHART 2
Distribution of Active Members by Age as of June 30, 2009

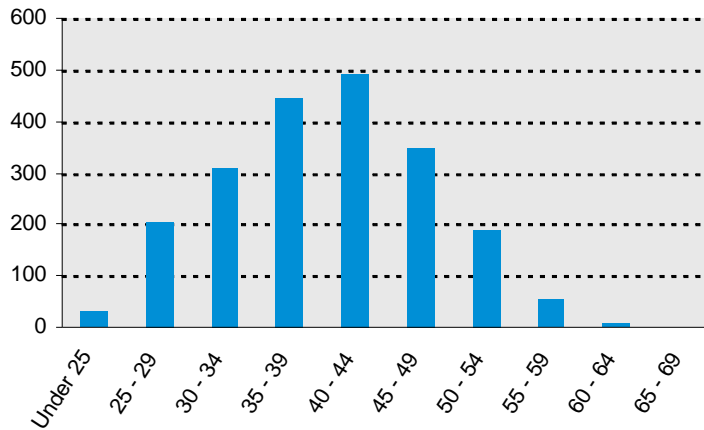
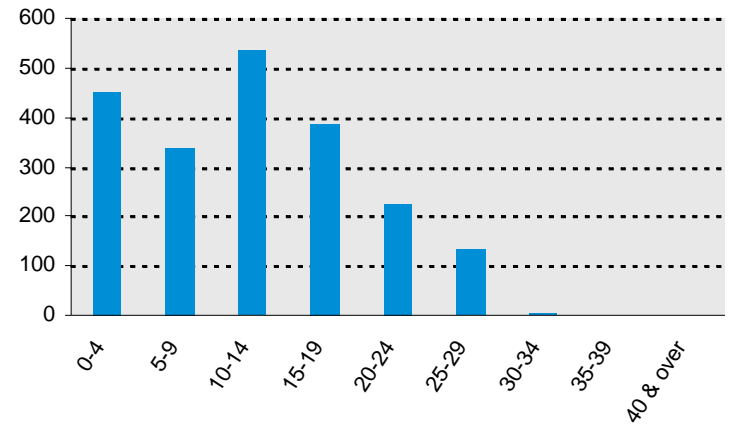


CHART 3
Distribution of Active Members by Years of Service as of June 30, 2009



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

Retired Members and Beneficiaries

As of June 30, 2009, 1,451 retired members and 249 beneficiaries were receiving total monthly benefits of \$9,631,069. For comparison, in the previous valuation, there were 1,266 retired members and 211 beneficiaries receiving monthly benefits of \$7,505,094.

These graphs show a distribution of the current retired members based on their monthly amount and age, by type of pension.

CHART 4
Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2009 (Excluding Beneficiaries)

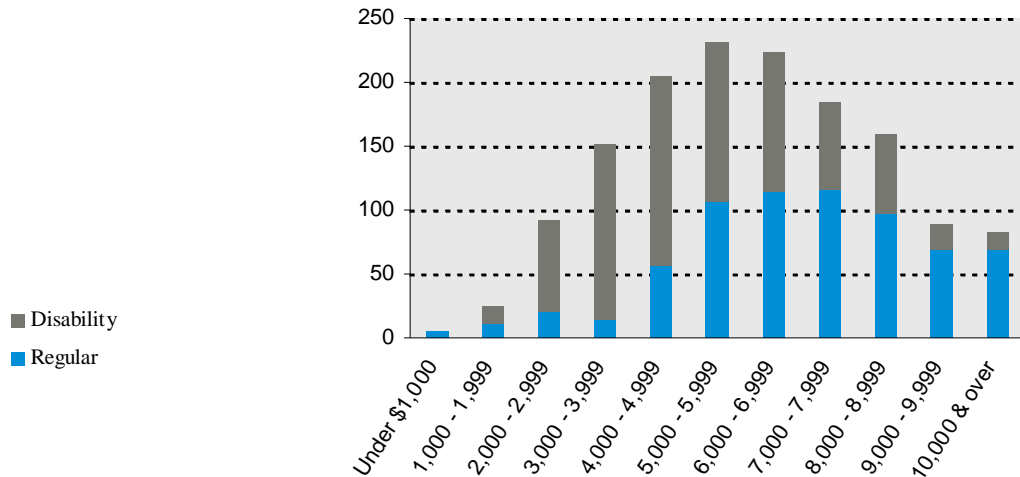
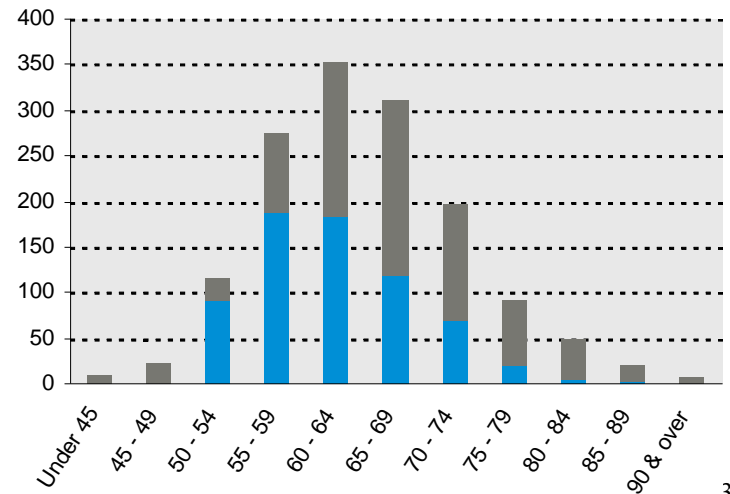


CHART 5
Distribution of Retired Members by Type and by Age as of June 30, 2009 (Excluding Beneficiaries)



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

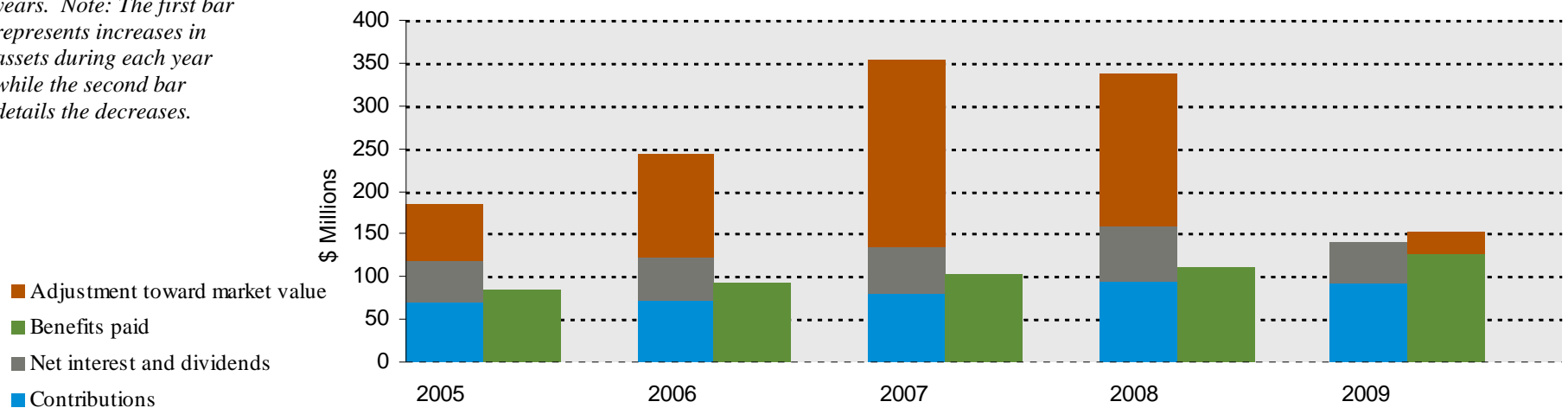
B. FINANCIAL INFORMATION

Retirement plan funding anticipates that, over the long term, both contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. The adjustment toward market value shown in the chart is the “non-cash” earnings on investments implicitly included in the actuarial value of assets. Additional financial information, including a summary of these transactions for the valuation period, is presented in Section 3, Exhibits D, E and F.

The chart depicts the components of changes in the actuarial value of assets over the last five years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6
Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2005 – 2009



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The determination of the actuarial value of assets is provided on the following pages.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The chart shows the determination of the actuarial value of assets as of June 30, 2008.

CHART 7a

Determination of the Actuarial Value of Assets for Year Ended June 30, 2008

Plan Year Ending		(net)	(net)	Investment	Deferred	Deferred
From	To	Total Actual	Expected			
		Market Return	Market Return			
7/1/2003	6/30/2004			\$121,307,600	0	\$ 0
7/1/2004	6/30/2005			51,992,440	0.2	10,398,488
7/1/2005	6/30/2006	\$232,101,000	\$167,148,640	64,952,360	0.4	25,980,944
7/1/2006	6/30/2007	446,863,000	183,993,000	262,870,000	0.6	157,722,000
7/1/2007	6/30/2008	(159,466,000)	218,213,440	(377,679,440)	0.8	<u>(302,143,552)</u>
1.	Total deferred return *					\$(108,042,120)
2.	Net market value of pension and health assets					\$2,560,221,000
3.	Actuarial value of pension and health assets (item 2 – item 1)					\$2,668,263,120
4.	Actuarial value as a percentage of market value: (item 3 ÷ item 2)					104.2%
5.	Non-valuation assets (end of year)					
a.	Valuation value of assets for health (market value of \$51,576,000 x item 3 ÷ item 2)					\$53,752,523
b.	SRBR					<u>35,216,661**</u>
c.	Subtotal					\$88,969,184
6.	Valuation value of pension assets (item 3 – item 5c)					\$2,579,293,936

Note: Results may not add due to rounding.

* The amount of deferred return that will be recognized in each subsequent year is as follows:

6/30/2009	\$427,072
6/30/2010	(9,971,416)
6/30/2011	(22,961,888)
6/30/2012	(75,535,888)

** Before netting payment of \$2,889,186 to be made in 2008/2009.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The chart shows the determination of the actuarial value of assets as of the valuation date.

CHART 7b

Determination of the Actuarial Value of Assets for Year Ended June 30, 2009

Plan Year Ending		(net)	(net)	Investment	Deferred	Deferred
From	To	Total Actual	Expected	Gain/(Loss)	Factor	Return
		Market Return	Market Return			
7/1/2004	6/30/2005			\$51,992,440	0	\$ 0
7/1/2005	6/30/2006	\$232,101,000	\$167,148,640	64,952,360	0.2	12,990,472
7/1/2006	6/30/2007	446,863,000	183,993,000	262,870,000	0.4	105,148,000
7/1/2007	6/30/2008	(159,466,000)	218,213,440	(377,679,440)	0.6	(226,607,664)
7/1/2008	6/30/2009	(481,764,000)	205,451,335	(687,215,335)	0.8	<u>(549,772,268)</u>
1.	Total deferred return *					\$(658,241,460)
2.	Net market value of pension and health assets					\$2,044,242,000
3.	Actuarial value of pension and health assets					
a.	Preliminary (item 2 – item 1)					\$2,702,483,460
b.	Adjustment to be within 30% of market value					<u>(44,968,860)</u>
c.	Final					\$2,657,514,600
4.	Actuarial value as a percentage of market value:					
a.	Preliminary (item 3a ÷ item 2)					132.2%
b.	Final (item 3c ÷ item 2)					130.0%
5.	Non-valuation assets (end of year)					
a.	Valuation value of assets for health (market value of \$42,783,000 x item 3c ÷ item 2)					\$55,617,900
b.	SRBR					<u>32,327,475</u>
c.	Subtotal					\$87,945,375
6.	Valuation value of pension assets (item 3c – item 5c)					\$2,569,569,225

Note: Results may not add due to rounding.

* The amount of deferred return (before applying the 30% corridor adjustment) that will be recognized in each subsequent year is as follows:

6/30/2010	\$(147,414,483)
6/30/2011	(160,404,955)
6/30/2012	(212,978,955)
6/30/2013	(137,443,067)

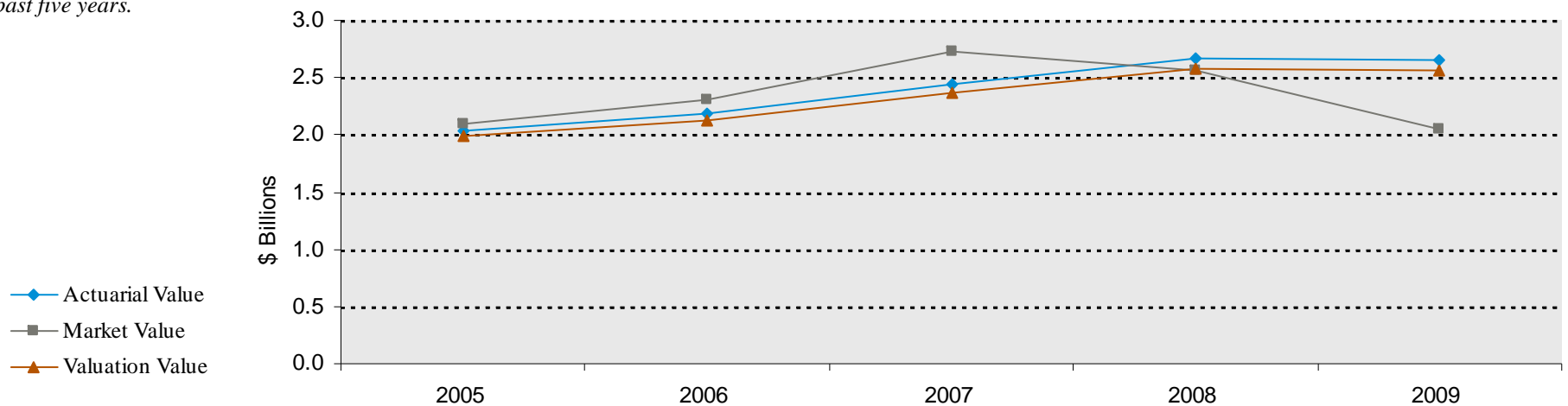
SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The market value, actuarial value and valuation value of assets are representations of the Plan's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets, but with less volatility. The valuation value of assets is the actuarial value, excluding the valuation value of health assets and the SRBR. The valuation asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the change in market value, actuarial value and valuation value over the past five years.

CHART 8

Market Value, Actuarial Value and Valuation Value of Assets as of June 30, 2005 –2009



SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each period actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the prior period. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one period without making a change in assumptions reflects the belief that the single period's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total experience loss was \$243.5 million, a loss of \$138.4 million from investments and a loss of \$105.1 million from all other sources. The loss from all other sources was 3.5% of the actuarial accrued liability. These losses do not include changes in the actuarial accrued liability due to assumption changes. Those changes, along with the experience loss, are further detailed in Section 3, Exhibit G. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past two years.

CHART 9
Actuarial Experience for the Two-Year Period Ended June 30, 2009

1. Net loss from investments on valuation value of assets ⁽¹⁾	\$ 138,383,349
2. Net loss from other experience ⁽²⁾	<u>105,140,213</u>
3. Net experience loss: (1) + (2)	\$ 243,523,562

⁽¹⁾ Details in Chart 10

⁽²⁾ Includes contribution gain of \$8,354,850 due to the normal 12-month delay in implementing contribution rates determined in the June 30, 2007 valuation until the 2008/2009 plan year. See Section 3, Exhibit G for details.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Plan's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets was 8.00% (based on June 30, 2007 valuation). The actual annualized rate of return on an actuarial basis from June 30, 2007 to June 30, 2009 was 5.33%.

Since the actual return for the valuation period was less than the assumed return, the Plan experienced an actuarial loss during the two-year period ended June 30, 2009 with regard to its investments.

CHART 10

Investment Experience for Period Ended June 30, 2009 – Market Value, Actuarial Value and Valuation Value of Assets

This chart shows the gain/(loss) due to investment experience.

	Market Value	Actuarial Value	Valuation Value
Year ended June 30, 2008			
1. Actual return	\$(159,466,000)	\$ 242,902,032	\$ 230,868,121
2. Average value of assets	2,727,668,000	2,433,342,088	2,357,107,836
3. Actual rate of return: (1) ÷ (2)	(5.85)%	9.98%	9.79%
4. Assumed rate of return	8.00%	8.00%	8.00%
5. Expected return: (2) x (4)	218,213,440	194,667,367	188,568,627
6. Actuarial gain/(loss): (1) – (5)	<u>\$(377,679,440)</u>	<u>\$ 48,234,665</u>	<u>\$42,299,494</u>
Year ended June 30, 2009			
1. Actual return	\$(481,764,000)	\$ 23,466,480	\$ 22,668,103
2. Average value of assets	2,568,141,689	2,676,183,809	2,584,181,424
3. Actual rate of return: (1) ÷ (2)	(18.76)%	0.88%	0.88%
4. Assumed rate of return	8.00%	8.00%	8.00%
5. Expected return: (2) x (4)	205,451,335	214,094,705	206,734,514
6. Actuarial gain/(loss): (1) – (5)	<u>\$(687,215,335)</u>	<u>\$(190,628,225)</u>	<u>\$(184,066,411)</u>

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on a market, actuarial and valuation basis for the last five years.

Based upon this experience, future expectations and discussions with the Board, we have maintained the assumed rate of return at 8.00%.

CHART 11

Investment Return – Market Value, Actuarial Value and Valuation Value: 2005 – 2009 (dollar amount in thousands)

Year Ended June 30	Market Value Investment Return		Actuarial Value Investment Return		Valuation Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent
2005	\$204,224	10.73%	\$115,478	5.98%	\$111,439	5.93%
2006	232,101	11.11%	171,607	8.46%	166,137	8.42%
2007	446,863	19.43%	274,456	12.60%	257,779	12.16%
2008	(159,466)	(5.85)%	242,902	9.98%	230,868	9.79%
2009	(481,764)	(18.76)%	23,466	0.88%	22,668	0.88%
Total	\$241,958		\$827,909		\$788,891	
Average Last 5 Years		2.36%		7.51%		7.37%

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

This chart illustrates how this leveling effect has actually worked over the years 2005 - 2009.

CHART 12

Market Value, Actuarial Value and Valuation Value Rates of Return for Years Ended June 30, 2005 - 2009



SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation.

These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements,

- salary increases different than assumed, and
- data adjustments for previously unreported beneficiaries, and
- contributions (more or less than expected)

The net loss from this other experience for the year ended June 30, 2009 amounted to \$105.1 million, which was 3.5% of the actuarial accrued liability. See Exhibit G for a detailed development of the Unfunded Actuarial Accrued Liability.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

D. CITY AND MEMBER CONTRIBUTIONS

Employer contributions consist of two components:

Normal Cost

The annual contribution rate that, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement-related benefits. Accumulation includes annual crediting of interest at the assumed investment earning rate. The contribution rate is expressed as a level percentage of the member's compensation.

Contribution to the Unfunded

Actuarial Accrued Liability (UAAL)

The annual contribution rate that, if paid annually over the UAAL amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earning rate. The contribution (or rate credit in the case of a negative unfunded actuarial accrued liability) is calculated to remain as a level percentage of future active member payroll (including payroll for new members as they enter the Plan) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments (credits) are scheduled to increase at the combined annual inflation and across the board salary increase rate of 4.25%. The Board's funding policy is to amortize the Plan's unfunded actuarial accrued liability as follows: (1) outstanding balance of the unfunded actuarial accrued liability established as of June 30, 2003 amortized over the next 8 years; (2) prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and (3) actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event effective, beginning with the June 30, 2005 valuation.

The recommended employer contributions are provided on Chart 13.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

CHART 13

Recommended Contribution Rates

	June 30, 2009 Actuarial Valuation		June 30, 2007 Actuarial Valuation	
	Rate	Estimated Annual Amount ⁽¹⁾	Rate	Estimated Annual Amount ⁽¹⁾
Police Members				
Normal Cost – City	25.96%	\$42,843,998	21.60%	\$35,648,319
Normal Cost – Member	9.74%	16,074,751	8.10%	13,368,120
UAAL – City – Benefit Improvement	2.31% ⁽²⁾	3,812,390	2.40% ⁽²⁾	3,960,924
UAAL – City – Other	10.50%	17,329,044	(2.39)%	(3,944,420)
UAAL – Member	0.07%	115,527	0.08%	132,031
Police Rate – City	38.77% ⁽³⁾	63,985,432	21.61%	35,664,823
Police Rate – Member	9.81%	16,190,278	8.18%	13,500,151
Fire Members				
Normal Cost – City	26.75%	\$24,124,230	22.82%	\$20,579,997
Normal Cost – Member	10.03%	9,045,459	8.56%	7,719,754
UAAL – City – Benefit Improvement	3.44%	3,102,331	3.69%	3,327,791
UAAL – City – Other	10.50%	9,469,324	(2.39)%	(2,155,399)
UAAL – Member	0.06%	54,110	0.06%	54,110
Fire Rate – City	40.69% ⁽³⁾	36,695,885	24.12%	21,752,389
Fire Rate – Member	10.09%	9,099,569	8.62%	7,773,864
Police and Fire Combined – City	39.45%⁽³⁾	\$100,681,317	22.50%	\$57,417,212
Police and Fire Combined – Member	9.91%	25,289,847	8.34%	21,274,015

⁽¹⁾ Amounts are based on June 30, 2009 projected annual payroll of \$165,038,514 for Police and \$90,184,038 for Fire.

⁽²⁾ Adjusted to reflect the delay in the payment of the employer contribution rate for the Police benefit improvement until December 17, 2006.

⁽³⁾ Before applying the charge to reduce the contribution rate by 0.45% of pay for 2010/2011 only.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The contribution rates as of June 30, 2009 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Recommended Contribution

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 14

Reconciliation of Recommended Employer Contribution from June 30, 2007 to June 30, 2009 (Dollar Amounts in Thousands)

	<u>Contribution Rate</u>	<u>Estimated Annual Dollar Cost ⁽¹⁾</u>
Recommended Average Employer Contribution Rate as of June 30, 2007	22.50%	\$57,417
1. Effect of investment losses before application of prior 120% MVA corridor ⁽²⁾	3.17%	\$8,091
2. Effect of additional investment losses due to application of prior 120% MVA corridor	8.20%	20,928
3. Effect of change in MVA corridor from 120% to 130%	(6.72)%	(17,151)
4. Effect of higher than expected salary increases	2.19%	5,589
5. Effect of earlier than expected retirements	1.33%	3,394
6. Effect of data corrections from previously unreported retirees/beneficiaries	0.23%	587
7. Effect of assumption changes	8.26%	21,081
8. Effect of other experience losses and other demographic changes and adjustments on normal cost ⁽³⁾	0.29%	745
Subtotal	16.95%	\$43,264
Recommended Average Employer Contribution Rate as of June 30, 2009⁽⁴⁾	39.45%	\$100,681

(1) Based on June 30, 2009 projected annual payroll of \$255,222,552.

(2) Annualized return on valuation assets for the two-year period ended June 30, 2009 was 5.24% and less than the 8.00% assumed in the valuation.

(3) Other differences in actual versus expected actuarial experience.

(4) Before applying the charge to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The member contribution rates as of June 30, 2009 have been recalculated based on the new actuarial assumptions adopted by the Board for the June 30, 2009 experience study.

Reconciliation of Recommended Contribution Rate
 The chart below details the changes in the aggregate member contribution rate from the prior valuation to the current year's valuation.

The chart reconciles the member contribution from the prior valuation to the amount determined in this valuation.

CHART 15
Reconciliation of Recommended Member Contribution from June 30, 2007 to June 30, 2009
(Dollar Amounts in Thousands)

	Contribution Rate	Estimated Annual Dollar Cost*
Recommended Contribution Rate as of June 30, 2007	8.34%	\$21,274
1. Effect of assumption changes	1.38%	\$3,522
2. Effect of demographic changes and adjustments on normal cost	0.19%	\$494
Subtotal	1.57%	\$4,016
Recommended Contribution Rate as of June 30, 2009	9.91%	\$25,290

**Based on June 30, 2009 projected annual payroll of \$255,222,552.*

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

E. INFORMATION REQUIRED BY GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contributions to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan’s financial status is the funded ratio. This ratio compares the valuation value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits I, II, and III.

These graphs show key GASB factors.

CHART 16
Required Versus Actual Contributions

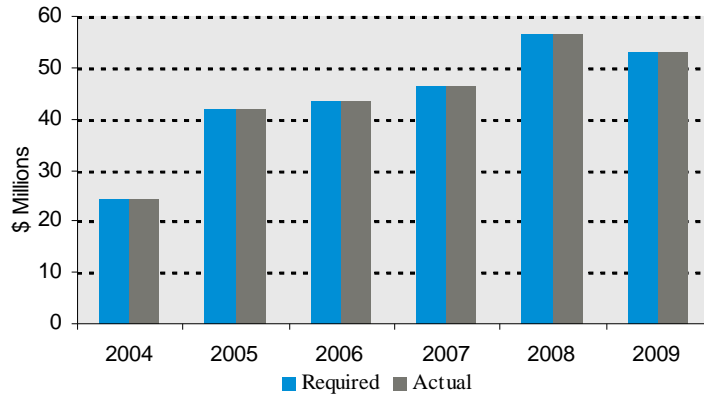
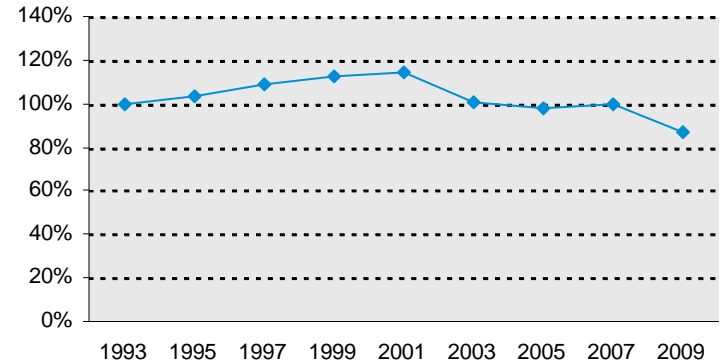


CHART 17
Funded Ratio



SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT A

Table of Plan Coverage

i. Active Members

Category	Period Ended June 30		Change From Prior Valuation
	2009	2007	
Police			
Number	1,382	1,401	(1.4)%
Average age	40.2	40.3	N/A
Average service	12.9	13.1	N/A
Projected total compensation	\$165,038,514	\$148,905,245	10.8%
Projected average compensation	\$119,420	\$106,285	12.4%
Account balances	\$161,249,195	\$147,221,042	9.5%
Total active vested members	888	885	0.3%
Fire			
Number	701	735	(4.6)%
Average age	40.8	41.6	N/A
Average service	12.1	13.2	N/A
Projected total compensation	\$90,184,038	\$78,829,204	14.4%
Projected average compensation	\$128,651	\$107,251	20.0%
Account balances	\$82,052,327	\$79,970,360	2.6%
Total active vested members	403	433	(6.9)%
Combined			
Number	2,083	2,136	(2.5)%
Average age	40.4	40.8	N/A
Average service	12.6	13.1	N/A
Projected total compensation	\$255,222,552	\$227,734,449	12.1%
Projected average compensation	\$122,526	\$106,617	14.9%
Account balances	\$243,301,522	\$227,191,402	7.1%
Total active vested members	1,291	1,318	(2.0)%

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT A

Table of Plan Coverage

ii. Nonactive Members

Category	Year Ended June 30		Change From Prior Valuation
	2009	2007	
Vested terminated members	74	71	4.2%
Retired members			
Number in pay status	675	508	32.9%
Average age	61.9	62.1	N/A
Average monthly benefit	\$7,165	\$6,334	13.1%
Disabled members			
Number in pay status	776	758	2.4%
Average age	66.5	65.6	N/A
Average monthly benefit	\$5,398	\$5,018	7.6%
Beneficiaries			
Number in pay status	249	211	18.0%
Average age	64.6	66.4	N/A
Average monthly benefit	\$2,460	\$2,292	7.3%

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT B

**Members in Active Service and Projected Average Compensation as of June 30, 2009
By Age and Years of Service**

i. Police

Age	Total	Years of Service								
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	23	23	--	--	--	--	--	--	--	--
	\$87,714	\$87,714	--	--	--	--	--	--	--	--
25 - 29	144	132	12	--	--	--	--	--	--	--
	93,899	91,965	\$115,170	--	--	--	--	--	--	--
30 - 34	209	77	107	25	--	--	--	--	--	--
	109,541	94,269	117,683	\$121,731	--	--	--	--	--	--
35 - 39	297	31	71	169	26	--	--	--	--	--
	119,814	97,670	118,409	122,747	\$130,997	--	--	--	--	--
40 - 44	315	11	19	118	150	17	--	--	--	--
	125,165	103,258	118,362	122,166	129,607	\$128,561	--	--	--	--
45 - 49	236	2	6	38	80	82	27	1	--	--
	129,063	89,384	118,657	120,877	124,249	135,386	\$140,517	\$139,352	--	--
50 - 54	119	--	2	9	22	35	48	3	--	--
	134,118	--	115,745	113,882	122,823	132,266	143,672	158,658	--	--
55 - 59	33	--	1	--	7	9	16	--	--	--
	134,925	--	111,979	--	125,799	131,968	142,014	--	--	--
60 - 64	6	--	--	1	3	2	--	--	--	--
	120,378	--	--	120,378	120,378	120,378	--	--	--	--
65 - 69	--	--	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--	--	--
70 & over	--	--	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--	--	--
Total	1,382	276	218	360	288	145	91	4	--	--
	\$119,420	\$93,326	\$117,823	\$122,060	\$127,537	\$133,413	\$142,444	\$153,831	--	--

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT B

**Members in Active Service and Projected Average Compensation as of June 30, 2009
By Age and Years of Service**

ii. Fire

Age	Total	Years of Service								
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	7	7	--	--	--	--	--	--	--	--
	\$99,808	\$99,808	--	--	--	--	--	--	--	--
25 - 29	63	58	5	--	--	--	--	--	--	--
	103,549	103,051	\$109,328	--	--	--	--	--	--	--
30 - 34	102	65	33	4	--	--	--	--	--	--
	112,220	104,500	125,506	\$128,055	--	--	--	--	--	--
35 - 39	149	34	45	63	7	--	--	--	--	--
	127,329	115,876	126,212	133,511	\$134,498	--	--	--	--	--
40 - 44	176	12	33	77	40	14	--	--	--	--
	133,344	111,499	126,541	130,870	142,370	\$155,917	--	--	--	--
45 - 49	111	--	4	24	39	30	14	--	--	--
	140,117	--	99,808	137,639	138,484	144,578	\$150,876	--	--	--
50 - 54	69	--	2	6	11	30	19	1	--	--
	143,684	--	123,694	135,785	137,294	145,584	143,780	\$242,526	--	--
55 - 59	22	--	--	--	3	8	10	1	--	--
	151,542	--	--	--	134,015	154,058	153,668	162,734	--	--
60 - 64	1	--	--	1	--	--	--	--	--	--
	128,150	--	--	128,150	--	--	--	--	--	--
65 - 69	1	--	--	--	--	--	--	--	--	1
	145,565	--	--	--	--	--	--	--	--	\$145,565
70 & over	--	--	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--	--	--
Total	701	176	122	175	100	82	43	2	--	1
	\$128,651	\$106,511	\$124,511	\$132,838	\$139,495	\$147,807	\$148,390	\$202,630	--	\$145,565

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT C

Reconciliation of Member Data – June 30, 2007 to June 30, 2009

	Active Members	Vested Terminated Members	Disabled Pensioners	Retired Members	Beneficiaries	Total
Number as of June 30, 2007	2,136	71	758	508	211	3,684
New members	200	0	N/A	N/A	N/A	200
Terminations – with vested rights	-16	16	0	0	0	0
Contribution refunds	-20	-3	N/A	N/A	N/A	-23
Retirements	-185	-9	N/A	194	N/A	0
New disabilities	-27	0	45	-18	N/A	0
Return to work	3	-2	-1	0	N/A	0
Died with or without beneficiary	-3	0	-26	-7	38*	2
Data adjustments	<u>-5</u>	<u>1</u>	<u>0</u>	<u>-2</u>	<u>0</u>	<u>-6</u>
Number as of June 30, 2009	2,083	74	776	675	249	3,857

*Net increase in the number of beneficiaries.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT D

Summary Statement of Income and Expenses on an Actuarial Value Basis

	Two-Year Period Ended June 30, 2009	
Contribution income:		
Employee contributions	\$57,902,000	
Employer contributions	<u>129,981,000</u>	
Net contribution income		\$187,883,000
Investment income		<u>271,823,512</u>
Total income available for benefits		<u>\$459,706,512</u>
Less benefit payments:		
Retirement benefits	-\$192,067,000	
Healthcare insurance premiums	-34,013,000	
Death benefits	-11,449,000	
Refund of contributions	<u>-531,000</u>	
Net benefit payments		-\$238,060,000
Less administrative expenses		-\$5,455,000
Change in assets held for future benefits		<u>\$216,191,512</u>

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT E

Summary Statement of Plan Assets

	As of June 30, 2009	As of June 30, 2007
Cash equivalents	\$224,998,000	\$399,214,000
Accounts receivable:		
Employee contributions	\$1,366,000	\$1,111,000
Employer contributions	4,413,000	2,458,000
Brokers and others	43,673,000	41,255,000
Accrued income/other liabilities	<u>8,011,000</u>	<u>7,955,000</u>
Total accounts receivable	\$57,463,000	\$52,779,000
Investments:		
Domestic equity securities and cash	\$621,868,000	\$1,040,458,000
International equity securities and cash	519,715,000	795,480,000
Private equity securities	75,905,000	37,715,000
Fixed income – governmental	43,345,000	176,460,000
Fixed income – corporate	415,513,000	245,263,000
Real estate	182,526,000	195,273,000
Other investments	<u>(71,000)</u>	<u>10,000</u>
Total investments at market value	<u>\$1,858,801,000</u>	<u>\$2,490,659,000</u>
Total assets	\$2,141,262,000	\$2,942,652,000
Less accounts payable:		
Payable to brokers	-\$81,349,000	-\$200,801,000
Net securities lending	-10,705,000	0
Other liabilities	<u>-4,966,000</u>	<u>-6,202,000</u>
Total accounts payable	-\$97,020,000	-\$207,003,000
Net assets at market value	<u>\$2,044,242,000</u>	<u>\$2,735,649,000</u>
Net assets at actuarial value	<u>\$2,657,514,600</u>	<u>\$2,441,323,088</u>
Net assets at valuation value (pension benefits)	<u>\$2,569,569,225</u>	<u>\$2,365,789,857</u>

Note: Results may not add due to rounding.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT F

Actuarial Balance Sheet

An overview of the Plan’s funding is given by an Actuarial Balance Sheet. In this approach, we first determine the amount and timing of all future payments that are anticipated to be made by the Plan for current participants. We then discount these payments at the valuation interest rate to the date of the valuation, thereby determining their present value. We refer to this present value as the “liability” of the Plan.

Second, we determine how this liability will be met. These actuarial “assets” include the net amount of assets already accumulated by the Plan, the present value of future member contributions, the present value of future employer normal cost contributions, and the present value of future employer amortization payments.

Actuarial Balance Sheet (Dollar Amounts in Thousands)

Assets	
1. Total valuation assets	\$2,569,569
2. Present value of future contributions by members	278,400
3. Present value of future employer contributions for:	
a Entry age normal cost	738,968
b Unfunded actuarial accrued liability	<u>392,627</u>
4. Total current and future assets	\$3,979,564
Liabilities	
5. Present value of benefits for retirees and beneficiaries	\$1,615,192
6. Present value of benefits for terminated vested members	15,722
7. Present value of benefits for active members	<u>2,348,650</u>
8. Total liabilities	\$3,979,564

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT G

Development of Unfunded Actuarial Accrued Liability for the Two-Year Period Ended June 30, 2009

1.	Unfunded actuarial accrued liability as of June 30, 2007		\$6,595,759
2.	Normal cost from July 1, 2007 to June 30, 2008		66,358,198
3.	Normal cost from July 1, 2008 to June 30, 2009		69,012,526
4.	Total employer and member contributions from July 1, 2007 to June 30, 2008		(75,582,000)
5.	Total employer and member contributions from July 1, 2007 to June 30, 2008		(73,426,000)
6.	Interest		3,724,695
7.	Expected unfunded actuarial accrued liability ⁽¹⁾		(3,316,822)
8.	Changes due to:		
	(a) Loss from investments before application of prior 120% MVA corridor	\$94,355,622	
	(b) Loss from investments after application of prior 120% MVA corridor	244,173,627	
	(c) Gain recognized by change in MVA corridor from 120% to 130%	(200,145,900)	
	(d) Loss due to higher than expected salary increases ⁽²⁾	65,255,919	
	(e) Loss due to earlier than expected retirements ⁽²⁾	39,566,696	
	(f) Data corrections from previously unreported retirees/beneficiaries ⁽²⁾	6,971,122	
	(g) Assumption changes	145,351,473	
	(h) Other experience losses ⁽²⁾	<u>1,701,326</u>	
	(i) Total changes		<u>397,229,885</u>
9.	Unfunded actuarial accrued liability as of June 30, 2009		\$393,913,063

⁽¹⁾ Includes an \$8,354,850 decrease in the UAAL from contribution gain due to the normal 12-month delay in implementing contribution rates determined in the June 30, 2007 valuation until the 2008/2009 plan year.

⁽²⁾ See Section 2, Chart 9. Losses from other experience in Chart 9 include losses detailed in Items 8(d), 8(e), 8(f), and 8(h), and the \$8,354,850 contribution gain discussed above.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT H

Section 415 Limitations

Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar indexed for inflation. That limit is \$195,000 for 2009 and 2010. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

Contributions rates determined in this valuation have not been reduced for the Section 415 limitations. Actual limitations will result in gains as they occur.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT I

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial Assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age; and
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost:

The amount of contributions required to fund the level cost allocated to the current year of service.

Actuarial Accrued Liability For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued Liability:

The extent to which the actuarial accrued liability of the Plan exceeds (or is exceeded by) the assets of the Plan. There are many approaches to recognizing the unfunded or overfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

**Amortization of the Unfunded
(Overfunded) Actuarial
Accrued Liability:**

Payments made over a period of years equal in value to the Plan's unfunded or overfunded actuarial accrued liability.

Investment Return:

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the market gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT I

Supplementary Information Required by GASB – Schedule of Employer Contributions (Dollar Amounts in Thousands)

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2004	\$24,412	\$24,412	100.0%
2005	41,835	41,835	100.0%
2006	43,473	43,473	100.0%
2007	46,625	46,625	100.0%
2008	56,372	56,372	100.0%
2009	53,103	53,103	100.0%

Source: City of San Jose Comprehensive Annual Financial Report for the plan year ended June 30, 2009.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT II

Supplementary Information Required by GASB – Schedule of Funding Progress (Dollar Amounts in Thousands)

Actuarial Valuation Date	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
06/30/1993	\$714,592	\$716,123	\$1,531	99.8%	\$98,831	1.5%
06/30/1995	854,414	828,739	(25,675)	103.1%	109,196	(23.5%)
06/30/1997	1,124,294	1,030,168	(94,126)	109.1%	129,850	(72.0%)
06/30/1999	1,440,117	1,276,364	(163,753)	112.8%	144,125	(113.6%)
06/30/2001	1,713,812	1,492,732	(221,080)	114.8%	171,779	(128.7%)
06/30/2003	1,826,287	1,823,200	(3,087)	100.2%	202,222	(1.5%)
06/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21.1%
06/30/2007	2,365,790	2,372,386	6,596	99.7%	227,734	2.9%
06/30/2009	2,569,569	2,963,482	393,913	86.7%	255,223	154.3%

Source for results prior to June 30, 2007: City of San Jose Comprehensive Annual Financial Report for the plan year ended June 30, 2007.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT III

Supplementary Information Required by GASB

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level percent of payroll for total unfunded liability (assuming a 4.25% total payroll increase)
Remaining amortization period	For unfunded liabilities calculated through the June 30, 2003 actuarial valuation, the amortization period ends June 30, 2017 (8 years). For the prior service cost of the benefit improvement effective July 1, 1996, the amortization period also ends June 30, 2017 (8 years). Gains and losses, changes in actuarial assumptions, and benefit improvements are amortized over separate 16-year periods.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on market value and is recognized over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves and designations.
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	3.50%
Across the board salary increase	0.75%
Projected salary increases (8+ years of service)	6.00%*
Cost of living adjustments	3.00% of retirement income
Plan membership:	
Retired members and beneficiaries receiving benefits	1,700
Terminated members entitled to, but not yet receiving benefits	74
Active members	<u>2,083</u>
Total	3,857

* Includes inflation at 3.50%, across the board increase of 0.75%, plus merit and longevity increases. See Exhibit IV for salary increases.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

**EXHIBIT IV
Actuarial Assumptions and Actuarial Cost Method**

Post-Retirement Mortality Rates:

Healthy: RP-2000 combined healthy mortality table (separate table for males and females) with no collar adjustment, projected 10 years. The male table is set back four years.

Disabled: RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back one year of age.

Termination Rates Before Retirement:

Age	Mortality			
	Rate (%)			
	Service-Connected		Non Service-Connected	
	Male	Female	Male	Female
25	0.0149	0.0090	0.0149	0.0090
35	0.0237	0.0213	0.0237	0.0213
45	0.0522	0.0478	0.0522	0.0478
55	0.1011	0.1254	0.1011	0.1254

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Service Connected Disability Rates (%)		
Age	Police	Fire
20	0.064	0.064
25	0.093	0.093
30	0.134	0.134
35	0.199	0.199
40	0.314	0.314
45	0.505	0.505
50	2.138	2.138
55	9.075	11.069
60	15.000	20.000

Turnover	
Years of Service	Rate (%)
< 1	8.00
1 – 4	1.00
5 – 9	0.50
10 +	0.40

Retirement Rates (%)*		
Age	Police	Fire
50-54	20.00	17.00
55-59	30.00	17.00
60-64	50.00	17.00
65-69	50.00	35.00
70	100.00	100.00

* Applied to active members eligible for unreduced benefits.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

**Retirement Age and Benefit for
Deferred Vested Members:**

For current deferred vested members, the retirement assumption is age 55. It is assumed that 75% of future deferred vested members will work for a reciprocal employer. For these members, we assume 4.25% compensation increases per annum.

Future Benefit Accruals:

1.0 year of service per year.

**Inclusion of Deferred
Vested Members:**

All deferred vested members are included in the valuation.

Percent Married:

85%

Age of Spouse:

Wives are 3 years younger than their husbands.

Net Investment Return:

8.00%, net of administration and investment expenses.

Consumer Price Index:

Increase of 3.50% per year.

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.50% per year;
plus 0.75% real across-the-board salary increase;
plus the following Merit and Promotion increases
based on completed years of service.

Years of Service	Annual Increase
0 – 5	5.50%
6 – 7	2.50
8 +	1.75

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Actuarial Value of Assets: The Actuarial Value of Assets is determined by phasing in any difference between actual and expected return on market value of assets over 5 years.

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation.

Changes in Assumptions: Based on the June 30, 2009 review of economic assumptions and the actuarial experience study, the following actuarial assumptions were changed:

Post-Retirement Mortality Rates:

Healthy: RP-2000 combined healthy mortality table (separate table for males and females) with no collar adjustment, projected 10 years. The male table is set back three years and the female table is set forward one year.

Disabled: RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years.

Termination Rates Before Retirement:

Age	Mortality	
	Rate (%)	
	Service-Connected	Non Service-Connected
25	0.0000	0.0125
35	0.0200	0.0150
45	0.0300	0.0250
55	0.0600	0.0525

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Changes in Assumptions (continued):

Disability (Service Connected)	
Age	Rate (%)
20	0.0640
25	0.0930
30	0.1340
35	0.1990
40	0.3140
45	0.5050
50	2.1375
55	9.0750
60	15.0000

Turnover	
Years of Service	Rate (%)
< 1	8.00
1 – 4	1.20
5 – 9	0.40
10 +	0.40

Retirement*	
Age	Rate (%)
50-64	17.00
65-69	35.00
70	100.00

* Applied to active members eligible for unreduced benefits.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Changes in Assumptions (continued):

**Retirement Age and Benefit for
Deferred Vested Members:**

For current deferred vested members, the retirement assumption is age 55. It is assumed that 75% of future deferred vested members will work for a reciprocal employer. For these members, we assume 4.00% compensation increases per annum.

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.50% per year;
plus 0.50% real across-the-board salary increase;
plus the following Merit and Promotion increases based
on completed years of service.

Years of Service	Annual Increase
0 - 5	5.00%
6 - 7	2.00
8 +	1.00

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT V

Summary of Plan Provisions

This exhibit summarizes the major provisions of the City of San Jose Police and Fire Department Retirement Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Membership Eligibility:

Any person employed as a police officer or fire fighter in the City of San Jose, except the following:

- Independent contractors
 - Person in city service for training/educational purposes
 - Auxiliary or voluntary police officers or fire fighters
 - Part-time or non-salaried employees
 - Receiving credit in any other retirement or pension system
-

Final Compensation (FAS) for Benefit Determination:

The highest 12 consecutive months of compensation earnable, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. FAS excludes overtime pay and expense allowances.

Service:

Years of service (Yrs).

Service Retirement Eligibility:

Normal Retirement

Age 55 with 20 years of service, or age 50 with 25 years of service, or age 70 with no service requirement, or 30 years of service regardless of age.

Early Retirement

Age 50 with 20 years of service.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Benefit Formula:

<i>Police</i>	2.5% of FAS per year of service up to 20 years of service, and 4.0% of FAS per year of service over 20, not to exceed 90% of FAS.
<i>Fire</i>	Less than 20 years of service: 2.5% of FAS per year of service. 20 or more years of service: 3.0% of FAS per year of service, not to exceed 90% of FAS. For early retirement for Police and Fire groups, the Service Retirement Benefit accrued to date of termination, then reduced pursuant to Municipal Code 3.36.810.

Deferred Vested Benefit:

<i>Eligibility</i>	Age 55 with 10 years of service and 20 years have elapsed from date of membership.
<i>Benefit</i>	The Service Retirement Benefit accrued to date of termination.

Service Connected Disability:

<i>Eligibility</i>	No age or service requirements.
<u><i>Benefit Formula</i></u>	
<i>Police</i>	50% of FAS for the first 20 years of service, and 4.0% of FAS per year of service over 20 years, not to exceed 90% of FAS.
<i>Fire</i>	Less than 20 years of service: 50% of FAS. 20 or more years of service: 3.0% of FAS per year of service, not to exceed 90% of FAS.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Members Eligible for Service Retirement

Eligibility Death after 2 years of service and eligible for Service Retirement

Benefit Spouse receives greater of 37.5% of FAS or 50% of the member's Service Retirement Benefit, with a maximum continuance benefit of 42.5% of FAS for Police and 45% of FAS for Fire.

Eligible dependent children will receive the same benefit as defined for Disabled Retirees or Members Ineligible for Service Retirement. The total benefits payable to a family shall not exceed 75% of FAS.

Service-Connected Death:

Eligibility Death in the course of employment with the City.

Benefit Spouse receives the greater of 50% of the member's benefit and 37.5% of FAS, with a maximum continuance benefit of 42.5% of FAS for Police and 45% of FAS for Fire. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

Refund of Contributions:

Refund of accumulated employee contributions plus 2% interest per annum.

Post-Retirement

Cost-of-Living Benefits: The increase in retirement allowance is subject to a maximum of 3% per year.

Member Contribution Rate:

Equals 3/11 of the Normal Cost plus the amortization payment on the prior service cost for a February 4, 1996 benefit improvement. For Police members, there is also an additional amortization payment for the member contributions not made between July 2006 and December 2006.

City Contribution Rate:

Equals 8/11 of the Normal Cost plus any amortization payments or credits on the unfunded liability.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Supplemental Retiree Benefits

Reserve (SRBR):

<i>Annual Transfer</i>	10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets.
<i>Benefit</i>	Interest on the principal equal to the rate of earnings on the actuarial value of assets (but not less than 0) distributed by the Board to retirees and beneficiaries to provide supplemental benefits.
<i>Charge to Principal</i>	If the City's contribution rate increases due to poor investment returns, 10% of the increased contribution for a one-year period is deducted from the SRBR principal. However, this deduction cannot be more than 5% of the total SRBR principal.

NOTE: *The summary of major plan provisions is designed to outline principal plan benefits as interpreted for purposes of the actuarial valuation. If the Retirement Plan should find the plan summary not in accordance with the actual provisions, the Retirement Plan should alert the actuary so they can both be sure the proper provisions are valued.*

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

APPENDIX A

Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule as of June 30, 2009

Date Established	Description	Initial Amount	Outstanding Balance	Years Remaining	Payment
June 30, 1996	2/4/1996 benefit improvement (paid by all members)	N/A	\$1,046,961	8	\$153,892
June 30, 2003	UAAL	N/A	(3,527,199)	8	(518,461)
June 30, 2005	Experience loss	\$47,304,922	44,464,016	12	4,656,880
June 30, 2005	Benefit improvement (Police)	36,542,591	36,420,932 ⁽¹⁾	12 ⁽³⁾	3,814,498
December 17, 2006	Rate increase delay (paid by Police members only)	258,900	239,263	12.5 ⁽⁴⁾	24,316
June 30, 2007	Benefit improvement (Fire)	34,110,693 ⁽²⁾	33,405,461 ⁽²⁾	14 ⁽⁵⁾	3,098,373
June 30, 2007	Experience gain	(142,368,305)	(139,424,869)	14	(12,931,726)
June 30, 2007	Assumption change	33,097,752	32,413,463	14	3,006,365
June 30, 2009	Experience loss	243,523,562	243,523,562	16	20,410,957
June 30, 2009	Assumption change	145,351,473	<u>145,351,473</u>	16	<u>12,182,651</u>
			\$ 393,913,063		\$ 33,897,745

⁽¹⁾ The outstanding balance calculated in the June 30, 2007 valuation reflected an adjustment to the initial amount, based on payroll for Police members as of June 30, 2007. The adjustment was made in order to maintain the same UAAL contribution rate determined in the original Police benefit improvement study. The initial amount was further adjusted at June 30, 2007 to reflect the delay in the payment of the employer contribution rate until December 17, 2006. The outstanding balance as of June 30, 2009 reflects these two adjustments to the initial amount.

⁽²⁾ The initial amount shown includes an adjustment made in the June 30, 2007 valuation to the amount originally determined in the Fire benefit improvement study, based on payroll for Fire members as of June 30, 2007. This adjustment was made in order to maintain the same UAAL contribution rate determined in the original Fire benefit improvement study. The outstanding balance as of June 30, 2009 reflects the adjustment to the initial amount that was made in the June 30, 2007 valuation.

⁽³⁾ The UAAL associated with the Police benefit improvement is amortized over 16 years effective July 1, 2006. There are 12 years remaining in the amortization period as of July 1, 2010.

⁽⁴⁾ The rate increase as a result of the Police benefit improvement was not paid by the members until December 17, 2006. There are about 12.5 years remaining in the amortization period as of July 1, 2010 for the member contribution shortfall. This payment would end on December 17, 2022.

⁽⁵⁾ The UAAL associated with the Fire benefit improvement is amortized over 16 years effective July 1, 2008. There are 14 years remaining in the amortization period as of July 1, 2010.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

APPENDIX B

Determination of Charge to SRBR

1. Calculation of investment gain/(loss) from July 1, 2007 to June 30, 2009		2. Calculation of charge to SRBR	
a. Actuarial value of assets for pension (net of the assets for the SRBR program) at June 30, 2007	\$2,365,790,000	a. Increase in UAAL due to investment loss for the period July 1, 2007 to June 30, 2009	\$138,383,349
b. Contributions for 12 months ending June 30, 2008	75,582,000	b. Amortization factor	8.382%
c. Benefits for 12 months ending June 30, 2008	(92,946,042)	c. June 30, 2009 projected payroll	255,223,000
d. Expected investment income for 12 months ending June 30, 2008 (8% * (1.a. + (1.b. + 1.c.) / 2))	188,568,638	d. Increase in City contribution rate calculated in the June 30, 2009 valuation due to investment loss only (2.a. x 2.b. / 2.c.)	4.54%*
e. Expected actuarial value of assets for pension (net of the assets for the SRBR program) as June 30, 2008 (1.a. + 1.b. + 1.c. + 1.d.)	2,536,994,596	e. Projected covered payroll for 2010/2011 (2.c. x 1.0425)	266,069,978
f. Contributions for 12 months ending June 30, 2009	73,426,000	f. Projected dollar amount of the City's increased contribution for 2010/2011 due to investment loss only (2.d. x 2.e.)	12,079,577
g. Benefits for 12 months ending June 30, 2009	(105,818,814)	g. SRBR principal as of June 30, 2009	32,327,475
h. Expected investment income for 12 months ending June 30, 2009 (8% x (1.e. + weighted average of 1.f. + 1.g. / 2))	203,350,567	h. Charge to SRBR on July 1, 2010 (minimum of 2.f. x 10% and 2.g. x 5%)	1,207,958
i. Expected actuarial value of assets for pension (net of the assets for the SRBR program) as June 30, 2009 (1.e. + 1.f. + 1.g. + 1.h.)	2,707,952,349	i. Decrease in the City's contribution rate for 2010/2011 only (2.h. / 2.e.)	0.45%
j. Actuarial value of assets for pension (net of the assets for the SRBR program) at June 30, 2009	2,569,569,000		
k. Investment gain/(loss) for the period July 1, 2007 to June 30, 2009 (1.j. - 1.i.)	(138,383,349)		

* This rate is less than the sum of the rates in items 1, 2 and 3 on page 16, as the sum of those rate increases is offset somewhat by the larger projected payroll base resulting from the higher than expected current and future salary increases experienced by the Retirement Plan (see items 4 and 7 on page 16).

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