

# City of San José Police & Fire Department Retirement Plan



Classic Values, Innovative Advice.

## Fire Tier 2 Contribution Rates

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# Agenda



- Comparison of Key Plan Provisions
- Proposed Tier 2 Assumptions
- FY 2014-15 Contribution Rates for Fire Tier 2
- Discussion
- Appendix

# Comparison of Key Plan Provisions: Fire Members



	Tier 1	Tier 2
Eligibility for Retirement Benefits	<ul style="list-style-type: none"> <li>• Age 55 with 20 years</li> <li>• Age 50 with 25 years</li> <li>• Age 70</li> <li>• 30 years of service</li> <li>• Age 50 with 20 years (reduced benefits)</li> </ul>	<ul style="list-style-type: none"> <li>• Age 60 with 10 years</li> <li>• Age 50 with 10 years (reduced benefits)</li> </ul>
Benefit Multiplier	2.5% if less than 20 years, 3.0% if 20 or more years	2.0% per year
Maximum Benefit	90% of Final Compensation	65% of Final Compensation
Final Compensation	12 months	3 years (Base pay only)
COLA	3.0% fixed	CPI-U, maximum 1.5%
Normal Benefit Form	Joint & Survivor	Single Life Annuity
Other changes to benefits including disability, withdrawal, etc.		

# Comparison of Key Plan Provisions: Fire Members Cost Sharing



	Tier 1	Tier 2
<b>Normal Cost Rate</b>		
Member	3/11	50%
City	8/11	50%
<b>Reciprocity Rate</b>		
Member	0%	50%
City	100%	50%
<b>UAL Rate</b>		
Member	0%*	50%
City	100%	50%

- Initially, there is no Tier 2 UAL rate, so the rates developed in this presentation for Tier 2 are normal cost rates
- While assets can be commingled for investment purposes, they will need to be tracked separately so that separate UAL rates can be developed for Tier 1 and Tier 2

\*Fire Tier 1 members make a small UAL contribution for the 2/4/96 benefit improvement

# Proposed Assumptions for Tier 2



- Change in benefit structure is likely to affect rates of retirement
- No direct experience on which to base these assumptions
- Adjusting Tier 1 retirement assumptions for the eligibility provisions of Tier 2 provides a reasonable initial estimate
  - No retirement assumed before eligible for unreduced retirement benefits at age 60 and 10 years of service
  - 25% annual probability of retirement once eligible for unreduced retirement benefits from ages 60 to 64, 35% from ages 65 to 69, and 100% probability at age 70
  - 50% annual probability at ages 60 to 64 with 30 years of service, 100% at age 65 with 30 years of service
- All other assumptions can be the same as Tier 1 assumptions

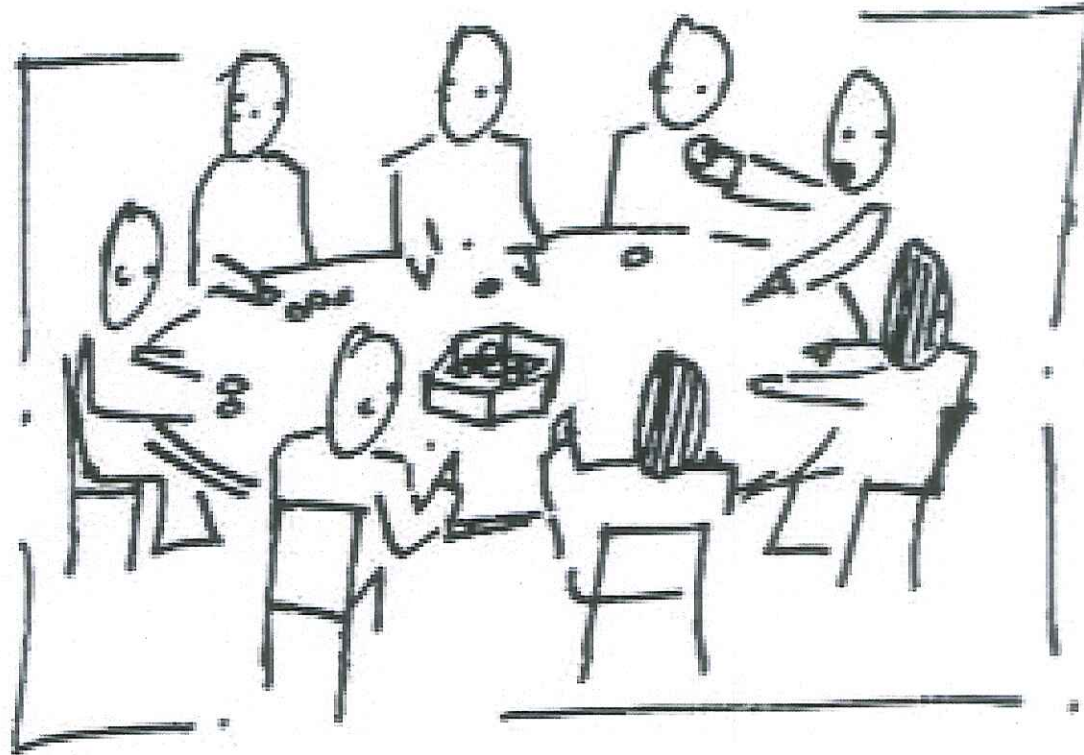
# Fiscal Year 2014-15 Contribution Rates



	Tier 1	Tier 2
Normal Cost <sup>1</sup>	41.57%	20.08%
Administrative Expenses	1.80%	1.80%
UAL	41.76%	0.00%
<b>Total</b>	<b>85.13%</b>	<b>21.88%</b>
Member Rate	11.65% <sup>2</sup>	10.94%
City Rate <sup>3</sup>		
Tier 1 Payroll	73.48%	0.00%
Tier 2 Payroll	41.66%	10.94%

- 1 Includes reciprocity. Normal cost rates vary depending on the member's demographics. As a result, it is likely that the Tier 2 normal cost rate will vary for the first few years depending on the age of the members hired into Tier 2.
- 2 Includes 0.10% toward the UAL for the 2/4/96 benefit improvement
- 3 The City's contribution for 2014-15 has already been made. At the end of the year, 10.924% of Tier 2 payroll plus earnings will be transferred from Tier 1 to Tier 2.

# Discussion



# Appendix - Certification



- The purpose of this presentation is to present proposed assumptions for Tier 2 Fire members and proposed Fire contribution rates for Fiscal Year 2014-15 reflecting the implementation of Tier 2. This presentation is for the use of the Police and Fire Department Retirement Plan and the City of San José.
- In preparing this presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. The information related to Tier 1 contained in this presentation is based on our June 30, 2013 actuarial valuation of the Police and Fire Department Retirement Plan and is subject to the disclosures contained in that report.
- To the best of our knowledge, this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices 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.
- This presentation was prepared exclusively for the City of San José Police and Fire Department Retirement Plan for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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Principal Consulting Actuary



# Appendix: Summary of Tier 2 Plan Provisions



Membership	Hired or re-hired after effective date of Tier 2 ordinance for Fire.
Final Compensation	Highest average annual compensation during any period of three consecutive years. Compensation is base pay only.
Credited Service	One year of service is credited for 2080 hours of regular time worked in a calendar year.
Contributions	Members and the City each contribute 50% of the cost of Tier 2 benefits (including UAL).
Service Retirement Eligibility	Age 60 with 10 years of service. Actuarially reduced benefits are available at age 50 with 10 years of service.
Service Retirement Benefit	2.0% of Final Compensation for each year of Credited Service, subject to a maximum of 65% of Final Compensation. Benefit amount is payable as a life annuity.

# Appendix: Summary of Tier 2 Plan Provisions



Service-Connected Disability Benefit	50% of Final Compensation commencing immediately
Non-Service-Connected Disability Benefit	After 5 years of service, immediate commencement of accrued retirement benefit, but not less than 20% and not more than 50% of Final Compensation
Service-Connected Death	Greater of amount of retirement benefit or 50% of Final Compensation payable to the surviving spouse or domestic partner
Non-Service Connected Death	If eligible for retirement, the amount of the retirement benefit is payable to the surviving spouse or domestic partner. If not eligible for retirement and more than 2 years of service, the amount of the retirement benefit (minimum 10%, maximum 30% of final compensation) is payable to the surviving spouse or domestic partner. If less than 2 years of service, refund of contributions with interest.
Termination Benefit	Refund of contributions with interest up to 2% per year, or with 10 years of service, the choice of a refund or the retirement benefit deferred until the member is eligible to retire
Post-Retirement COLA	CPI-U for San Jose-San Francisco-Oakland, subject to a cap of 1.5%



Count:	272
Average Entry Age:	30.0

- Data is based on current active Fire members hired after 6/30/2003
- Additional information can be found in the appendix of the June 30, 2013 actuarial valuation report