

February 18, 2016

***Via Electronic Mail***

Board of Administration  
 City of San José Police and Fire Department Retirement Plan  
 1737 North 1<sup>st</sup> Street, Suite 580  
 San Jose, California 95112

***Re: 5-Year Budget Projections for Police & Fire - Revised***

Dear Members of the Board:

The purpose of this letter is to provide the estimated future contributions expected to be required of the City of San José to the City of San José Police & Fire Department Retirement Plan (Pension Plan) and the Police & Fire Department Postemployment Healthcare Plan (OPEB Plan) for the next five years. This letter shows the projections with the current frozen OPEB contributions and shows amounts separately for Police and Fire and for Tier 1 and Tier 2. This letter is a revision to our January 27, 2016 letter. The revision provides the projected City pension contributions for Tier 1 separately for normal cost (including expenses) and payments toward the Unfunded Actuarial Liability (UAL).

The table below summarizes our estimated contribution amounts and contribution rates as a percent of payroll assuming City contributions are made throughout the fiscal year. In addition, as requested, we have attached 20-year projections of City pension contributions.

City of San José Police & Fire Department Retirement and Postemployment Healthcare Plan Projected City Contributions (Dollar Amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2017	\$ 190.8	\$ 137.9	72.33%	\$ 19.9	10.44%	\$ 157.8	82.76%
2018	196.9	144.4	73.35%	20.6	10.44%	165.0	83.78%
2019	203.2	147.8	72.71%	21.1	10.44%	168.9	83.14%
2020	210.0	151.6	72.21%	21.9	10.44%	173.5	82.65%
2021	216.7	159.0	73.36%	22.5	10.44%	181.5	83.80%



Since pension and OPEB contributions are made separately for Police and Fire members and pension contributions are made separately for Tier 1 and Tier 2 members within each group, the tables below provide the additional detail that may be needed.

City of San José Police & Fire Department Retirement Plan									
Police Pension Only									
(Dollar Amounts in millions)									
FYE	Payroll	Tier 1		Tier 2			Total		
		Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2017	\$ 95.0	\$ 76.4	80.40%	\$ 18.4	\$ 2.0	10.97%	\$ 113.4	\$ 78.4	69.14%
2018	90.2	77.9	86.35%	26.8	2.9	10.96%	117.0	80.8	69.07%
2019	84.5	77.3	91.38%	36.2	4.0	10.97%	120.7	81.3	67.26%
2020	79.2	76.9	97.15%	45.6	5.1	10.97%	124.8	82.0	65.68%
2021	74.1	78.7	106.29%	54.7	6.0	10.97%	128.8	84.7	65.79%

City of San José Police & Fire Department Postemployment Healthcare Plan									
Police OPEB Only									
(Dollar Amounts in millions)									
FYE	Payroll	Tier 1		Tier 2			Total		
		Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2017	\$ 95.0	\$ 9.8	10.31%	\$ 18.4	\$ 1.9	10.31%	\$ 113.4	\$ 11.7	10.31%
2018	90.2	9.3	10.31%	26.8	2.8	10.31%	117.0	12.1	10.31%
2019	84.5	8.7	10.31%	36.2	3.7	10.31%	120.7	12.4	10.31%
2020	79.2	8.2	10.31%	45.6	4.7	10.31%	124.8	12.9	10.31%
2021	74.1	7.6	10.31%	54.7	5.6	10.31%	128.8	13.2	10.31%

City of San José Police & Fire Department Retirement Plan									
Fire Pension Only									
(Dollar Amounts in millions)									
FYE	Payroll	Tier 1		Tier 2			Total		
		Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2017	\$ 72.4	\$ 59.0	81.61%	\$ 5.0	\$ 0.5	10.61%	\$ 77.4	\$ 59.5	76.99%
2018	71.9	62.8	87.33%	8.0	0.8	10.57%	79.9	63.6	79.61%
2019	71.0	65.3	92.03%	11.5	1.2	10.57%	82.5	66.5	80.68%
2020	69.8	68.0	97.46%	15.4	1.6	10.57%	85.2	69.6	81.78%
2021	67.9	72.2	106.27%	20.0	2.1	10.57%	87.9	74.3	84.46%

City of San José Police & Fire Department Postemployment Healthcare Plan									
Fire OPEB Only									
(Dollar Amounts in millions)									
FYE	Tier 1			Tier 2			Total		
	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2017	\$ 72.4	\$ 7.7	10.62%	\$ 5.0	\$ 0.5	10.62%	\$ 77.4	\$ 8.2	10.62%
2018	71.9	7.6	10.62%	8.0	0.9	10.62%	79.9	8.5	10.62%
2019	71.0	7.5	10.62%	11.5	1.2	10.62%	82.5	8.7	10.62%
2020	69.8	7.4	10.62%	15.4	1.6	10.62%	85.2	9.0	10.62%
2021	67.9	7.2	10.62%	20.0	2.1	10.62%	87.9	9.3	10.62%

The tables below separate the estimated Tier 1 contribution rates and amounts between normal cost (including administrative expenses) and unfunded actuarial liability (UAL) contribution rates for Police and Fire.

City of San José Police & Fire Department Retirement Plan							
Police Pension Tier 1 Only							
(Dollar Amounts in millions)							
FYE	Payroll	Normal Cost		UAL		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2017	\$ 95.0	\$ 28.0	29.48%	\$ 48.4	50.92%	\$ 76.4	80.40%
2018	90.2	26.6	29.48%	51.3	56.88%	77.9	86.35%
2019	84.6	24.9	29.48%	52.4	61.90%	77.3	91.38%
2020	79.2	23.3	29.48%	53.6	67.68%	76.9	97.15%
2021	74.1	21.8	29.48%	56.9	76.81%	78.7	106.29%

City of San José Police & Fire Department Retirement Plan							
Fire Pension Tier 1 Only							
(Dollar Amounts in millions)							
FYE	Payroll	Normal Cost		UAL		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2017	\$ 72.4	\$ 21.9	30.33%	\$ 37.1	51.28%	\$ 59.0	81.61%
2018	71.9	21.8	30.33%	41.0	56.99%	62.8	87.33%
2019	71.0	21.5	30.33%	43.8	61.70%	65.3	92.03%
2020	69.8	21.2	30.33%	46.8	67.13%	68.0	97.46%
2021	67.9	20.6	30.33%	51.6	75.94%	72.2	106.27%

Please note that these projections are based on the June 30, 2015 actuarial valuations for the pension and OPEB plans, and assume that all assumptions were exactly met since June 30, 2015, and are exactly met each and every year into the future. In addition, the projections assume that the active population headcount remains level and the plan provisions remain unchanged. The projected pension contribution amounts are based on an estimate of the proportion of future payroll that is attributable to members in Tier 2. Because there was no change to the OPEB benefits for Tier 2 members, the OPEB projections do not include the potential impact of later retirement dates for Tier 2 members. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time.

Finally, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2015. If the Board or the City is aware of any circumstance that would make this assumption questionable, we would want to obtain such information and make any appropriate adjustments to these projections. Please refer to the valuation reports for a description of the plan provisions, a summary of the data, a summary of the methods and assumptions used in each of the valuations, and additional disclosures that also apply to the projections reported in this letter.

To the best of our knowledge, this letter 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 letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Board of Administration and the City of San José for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions or need any additional information, please let us know.

Sincerely,



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



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary

Attachment

cc: Roberto Peña  
Donna Busse  
Gene Kalwarski

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
20-YEAR PROJECTED PENSION CONTRIBUTIONS**

City of San José						
Police and Fire Department Retirement Plan						
20-Year Projections of City Pension Contributions						
Fiscal Year	Projected Total City Contribution Amount	Projected Total City Contribution Rate	Projected Police City Contribution Amount	Projected Police City Contribution Rate	Projected Fire City Contribution Amount	Projected Fire City Contribution Rate
Ending	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)
2017	\$ 137,952,000	72.3%	\$ 78,374,000	69.1%	\$ 59,578,000	77.0%
2018	\$ 144,443,000	73.3%	\$ 80,833,000	69.1%	\$ 63,610,000	79.6%
2019	\$ 147,838,000	72.7%	\$ 81,282,000	67.3%	\$ 66,556,000	80.7%
2020	\$ 151,608,000	72.2%	\$ 81,947,000	65.7%	\$ 69,661,000	81.8%
2021	\$ 159,026,000	73.4%	\$ 84,749,000	65.8%	\$ 74,277,000	84.5%
2022	\$ 161,564,000	72.2%	\$ 84,742,000	63.7%	\$ 76,822,000	84.6%
2023	\$ 150,368,000	65.1%	\$ 74,313,000	54.1%	\$ 76,055,000	81.1%
2024	\$ 152,522,000	63.9%	\$ 73,644,000	51.9%	\$ 78,878,000	81.5%
2025	\$ 166,759,000	67.7%	\$ 81,225,000	55.5%	\$ 85,534,000	85.6%
2026	\$ 170,058,000	66.9%	\$ 81,059,000	53.6%	\$ 88,999,000	86.2%
2027	\$ 114,091,000	43.4%	\$ 54,856,000	35.1%	\$ 59,235,000	55.6%
2028	\$ 75,923,000	28.0%	\$ 37,560,000	23.3%	\$ 38,363,000	34.9%
2029	\$ 113,953,000	40.7%	\$ 52,835,000	31.8%	\$ 61,118,000	53.8%
2030	\$ 100,927,000	34.9%	\$ 46,559,000	27.1%	\$ 54,368,000	46.4%
2031	\$ 90,513,000	30.3%	\$ 41,866,000	23.6%	\$ 48,647,000	40.2%
2032	\$ 101,341,000	32.9%	\$ 45,344,000	24.8%	\$ 55,997,000	44.8%
2033	\$ 96,232,000	30.2%	\$ 42,807,000	22.6%	\$ 53,425,000	41.4%
2034	\$ 75,089,000	22.9%	\$ 34,806,000	17.8%	\$ 40,283,000	30.2%
2035	\$ 71,421,000	21.1%	\$ 33,156,000	16.4%	\$ 38,265,000	27.8%
2036	\$ 62,376,000	17.8%	\$ 30,143,000	14.5%	\$ 32,233,000	22.7%