



Classic Values, Innovative Advice

February 26, 2014

**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**

Dear Members of the Board:

The purpose of this letter is to provide 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. Our prior letter dated January 29, 2014 did not apply the 11% of pay cap to City OPEB contributions. As requested by the Board, this letter shows the projections with the cap applied and shows amounts separately for Police Tier 1 and Tier 2. 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 Plans							
Projected City Contributions							
(Dollar Amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2015	\$ 188.4	\$ 133.3	70.79%	\$ 19.4	10.30%	\$ 152.7	81.09%
2016	192.1	133.5	69.48%	20.9	10.85%	154.4	80.32%
2017	198.8	136.9	68.83%	21.7	10.89%	158.6	79.72%
2018	205.8	144.0	69.97%	22.5	10.89%	166.5	80.87%
2019	213.0	147.5	69.28%	23.2	10.89%	170.7	80.17%

Please note that the City has negotiated agreements with its labor unions regarding the OPEB plan funding policy, including a provision that if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. The rates for Police are projected to exceed this level in the 5-year projection period. For the purposes of these projections, we have limited the City contribution rate to this limit.



Since contributions are made separately for Police and Fire members, the tables below provide the additional detail that may be needed for these projections. There are also separate tables for Police Tiers 1 and 2.

City of San José Police & Fire Department Plans								
Police Tier 1 Only								
(Dollar Amounts in millions)								
FYE	Payroll	Pension		OPEB		Total		
		Amount	Rate	Amount	Rate	Amount	Rate	
2015	\$ 106.2	\$ 76.6	72.14%	\$ 11.7	11.00%	\$ 88.3	83.14%	
2016	107.9	76.5	70.91%	11.9	11.00%	88.4	81.91%	
2017	107.5	77.0	71.61%	11.8	11.00%	88.8	82.61%	
2018	106.2	79.2	74.61%	11.7	11.00%	90.9	85.61%	
2019	104.1	79.0	75.90%	11.4	11.00%	90.4	86.90%	

City of San José Police & Fire Department Plans								
Police Tier 2 Only								
(Dollar Amounts in millions)								
FYE	Payroll	Pension		OPEB		Total		
		Amount	Rate	Amount	Rate	Amount	Rate	
2015	\$ 5.8	\$ 0.6	10.80%	\$ 0.6	11.00%	\$ 1.2	21.80%	
2016	6.3	0.7	10.80%	0.7	11.00%	1.4	21.80%	
2017	10.7	1.2	10.80%	1.2	11.00%	2.4	21.80%	
2018	16.2	1.8	10.80%	1.8	11.00%	3.6	21.80%	
2019	22.5	2.4	10.80%	2.5	11.00%	4.9	21.80%	

City of San José Police & Fire Department Plans								
Fire Only								
(Dollar Amounts in millions)								
FYE	Payroll	Pension		OPEB		Total		
		Amount	Rate	Amount	Rate	Amount	Rate	
2015	\$ 76.4	\$ 56.1	73.48%	\$ 7.1	9.27%	\$ 63.2	82.75%	
2016	77.9	56.3	72.25%	8.3	10.62%	64.6	82.87%	
2017	80.6	58.7	72.78%	8.7	10.74%	67.4	83.52%	
2018	83.4	63.0	75.55%	9.0	10.74%	72.0	86.29%	
2019	86.4	66.1	76.56%	9.3	10.74%	75.4	87.30%	

Finally, the tables below provide separate projections of the full contribution amounts and rates for the OPEB plan separated between Police and Fire, and further separated between the explicit medical subsidy and the dental subsidy. The full contribution rates disregard the phase-in from the prior funding policy as well as both the annual increase and ultimate rate caps. Since contributions have been split in different proportions, and it is not clear how the collective bargaining agreement would be modified to address contributions in excess of the current caps, the table included as an attachment shows the combined employee and City amounts and rates.

<b>City of San José Police &amp; Fire Department Plans - Police Only</b> <b>Full Combined OPEB Employee and City Contribution Amounts and Rates</b> (Dollar Amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2015	\$ 112.0	\$ 23.0	20.53%	\$ 2.1	1.88%	\$ 25.1	22.41%
2016	114.2	23.8	20.83%	2.2	1.91%	26.0	22.74%
2017	118.2	24.6	20.82%	2.3	1.91%	26.9	22.73%
2018	122.4	25.5	20.84%	2.3	1.91%	27.8	22.75%
2019	126.6	26.4	20.81%	2.4	1.91%	28.8	22.72%

<b>City of San José Police &amp; Fire Department Plans - Fire Only</b> <b>Full Combined OPEB Employee and City Contribution Amounts and Rates</b> (Dollar Amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2015	\$ 76.4	\$ 14.0	18.28%	\$ 1.3	1.72%	\$ 15.3	20.00%
2016	77.9	14.5	18.68%	1.4	1.76%	15.9	20.44%
2017	80.6	15.2	18.81%	1.4	1.77%	16.6	20.58%
2018	83.4	15.7	18.83%	1.5	1.77%	17.2	20.60%
2019	86.4	16.2	18.81%	1.5	1.77%	17.7	20.58%

Please note that these projections are based on the June 30, 2013 actuarial valuations for the pension and OPEB plans, and assume that all assumptions were exactly met since June 30, 2013 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 for police 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, 2013. 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.

We hereby certify that, 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. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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

Sincerely,  
Cheiron



William R. Hallmark, ASA, FCA, EA, 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 Ending	Projected Total City Contribution		Projected Police City Contribution		Projected Fire City Contribution	
	Amount (Middle of Year)	Rate (% of Payroll)	Amount (Middle of Year)	Rate (% of Payroll)	Amount (Middle of Year)	Rate (% of Payroll)
2015	\$ 133,333,000	70.8%	\$ 77,222,000	69.0%	\$ 56,111,000	73.5%
2016	\$ 133,466,000	69.5%	\$ 77,196,000	67.6%	\$ 56,270,000	72.2%
2017	\$ 136,847,000	68.8%	\$ 78,181,000	66.1%	\$ 58,666,000	72.8%
2018	\$ 143,999,000	70.0%	\$ 80,965,000	66.2%	\$ 63,034,000	75.5%
2019	\$ 147,550,000	69.3%	\$ 81,437,000	64.3%	\$ 66,113,000	76.6%
2020	\$ 151,434,000	68.7%	\$ 81,860,000	62.5%	\$ 69,574,000	77.8%
2021	\$ 155,367,000	68.1%	\$ 82,018,000	60.5%	\$ 73,349,000	79.3%
2022	\$ 159,191,000	67.4%	\$ 81,566,000	58.1%	\$ 77,625,000	81.1%
2023	\$ 149,094,000	61.0%	\$ 70,578,000	48.6%	\$ 78,516,000	79.2%
2024	\$ 152,329,000	60.2%	\$ 68,749,000	45.7%	\$ 83,580,000	81.5%
2025	\$ 167,720,000	64.1%	\$ 74,129,000	47.6%	\$ 93,591,000	88.2%
2026	\$ 171,886,000	63.4%	\$ 72,106,000	44.8%	\$ 99,780,000	90.8%
2027	\$ 115,509,000	41.2%	\$ 48,123,000	28.9%	\$ 67,386,000	59.3%
2028	\$ 77,127,000	26.6%	\$ 33,352,000	19.3%	\$ 43,775,000	37.2%
2029	\$ 116,674,000	38.8%	\$ 44,097,000	24.7%	\$ 72,577,000	59.6%
2030	\$ 103,802,000	33.4%	\$ 38,553,000	20.9%	\$ 65,249,000	51.8%
2031	\$ 93,667,000	29.1%	\$ 34,668,000	18.1%	\$ 58,999,000	45.2%
2032	\$ 101,990,000	30.6%	\$ 35,450,000	17.9%	\$ 66,540,000	49.3%
2033	\$ 96,772,000	28.1%	\$ 33,197,000	16.2%	\$ 63,575,000	45.5%
2034	\$ 76,711,000	21.5%	\$ 28,739,000	13.6%	\$ 47,972,000	33.2%

