

San José Police & Fire Department Retirement Plan



Measure F Implementation Tier 2 Pension Contribution Rates for FYE 2018

May 4, 2017

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Agenda



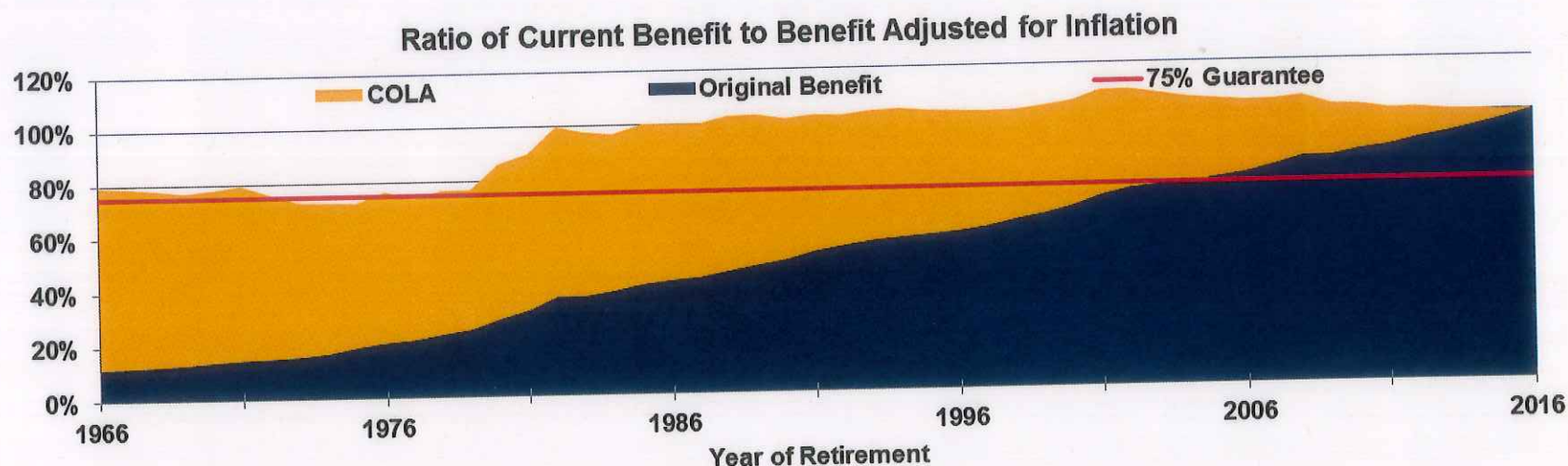
- Purchasing Power Protection
- Tier 1 Rehires and Classic Employees
- Tier 2 Key Benefit Changes
- Potential Changes to Tier 2 Assumptions
- Revised Tier 2 Rates for FYE 2018
 - Normal Cost Rate Change
 - UAL Rate Change

Guaranteed Purchasing Power



- Tier 1 members only
- Retirement benefit paid must be at least 75% of original retirement benefit adjusted for inflation (CPI-U for San Francisco-Oakland-San Jose)
 - Effective January 1, 2016
 - Any difference is paid February 1, 2016 and each February 1 thereafter

Guaranteed Purchasing Power



- Very few members currently affected by this provision
- Chart based on original benefit and COLA benefit reported in valuation data
- Matched COLA calculations in data for retirements since 1981. Earlier retirements appear to include some ad hoc COLAs

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Tier 1 Rehires and Classic Employees



- Tier 1 members who are rehired or reinstated now remain in Tier 1
- New hires are Tier 1 members if they were:
 - Active members in another California public retirement system with which San Jose has reciprocity
 - Incurred no more than a 6-month break in service
 - “Classic” members – i.e., not “new” under PEPRA
- Rehired and “Classic” members that were put into Tier 2 are returned to Tier 1

Cost of Returning to Tier 1



Subsection 3.36.410.A.1

- “Any cost, including but not limited to any unfunded actuarial accrued liability, associated with benefit changes adopted on for such members and any amounts associated with moving such members from tier 2 status to non-tier 2 status, will be amortized as a separate liability over sixteen years or other period determined by the board. Notwithstanding the cost sharing ratio for non-tier 2 members described in the first paragraph of Section 3.36.410.A above, the costs described in this Subsection 3.36.410.A.1. Shall at all times be shared in the ratio of one for the city and one for the affected member (1:1) and will be reflected as soon as practicable in the monthly contribution rates for such members.”

Cost of Returning to Tier 1



Key questions:

- Who are the current “classic” members in Tier 2?
- What is the cost of moving the member to Tier 1?
- Are the amortizations of this cost separate for each individual or shared by the entire affected group?
- What happens to the amortization if the affected member does not continue working for the full length of the amortization period?

Rehire Issues and Options



- Does the cost of moving a rehire back to Tier 1 include:
 - The cost of the benefits they lost on their Tier 1 service when they were put into Tier 2?
 - Eligibility for unreduced benefits was changed from 50/25 or 55/20 to 60/10
 - COLA was reduced from 3% to CPI capped at 1.5%
 - Final compensation was changed from 12 months to three-year average and the definition of covered compensation was changed
 - The impact of salary increases on benefits attributable to prior Tier 1 service?

Rehire Issues and Options



	Employee A	Employee B	Employee C
Age at Rehire	47	38	31
Service at Rehire	17	12	4
Salary Before Rehire	\$ 104,000	\$ 54,000	\$ 85,000
Salary After Rehire	\$ 104,000	\$ 104,000	\$ 92,000
Liability Before Rehire	\$ 510,000	\$ 120,000	\$ 53,000
Liability After Rehire into Tier 2	\$ 404,000	\$ 229,000	\$ 65,000
Liability After Return to Tier 1	\$ 767,000	\$ 586,000	\$ 139,000

- In 2015, we developed some samples based on actual rehires to illustrate some of the issues
 - Samples assume no Tier 2 service (i.e., return to Tier 1 occurs immediately after rehire into Tier 2)
- Observations
 - Impacts vary significantly by individual
 - The appropriate measure of the cost to return the member to Tier 1 depends on the intent of Measure F
 - What should a member owe if they are rehired into Tier 2 the day before the effective date returning them to Tier 1?

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Tier 2 Key Benefit Changes



Plan Provision	Measure B	Measure F
Member Contributions	50% of total contribution	50% of total contribution, but UAL rate can't increase more than 0.33% of pay each year
Eligibility for Unreduced Service Retirement	Age 60 with 10 years of service	Age 57 with 5 years of service
Benefit Multiplier	2.0%	2.4% up to 20 years, 3.0% for years 21 to 25, and 3.4% for years 26+
Maximum Multiplier	65%	80%
Eligibility for Early Retirement	Age 50 with 10 years of service	Age 50 with 5 years of service
Reduction for Early Retirement	Actuarial equivalence	7% per year
Automatic Form of Payment	Life annuity	50% Joint & Survivor Annuity where survivor benefit also ceases upon re-marriage

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Tier 2 Key Benefit Changes



Plan Provision	Measure B	Measure F
Service-Connected Disability	50% of final compensation	<p>Greater of:</p> <ul style="list-style-type: none"> • 50% of final compensation • If eligible for service retirement, service retirement benefit • If not eligible for service retirement, multiplier times years of service actuarial reduced for commencement prior to age 50 <p>Benefit is offset by portion of workers compensation benefit with a number of limitations</p>
Non-Service-Connected Disability	Service retirement benefit multiplier times service (minimum 20%, maximum 50%) times final compensation	<p>Age 50+: Service retirement benefit</p> <p>Under age 50: 1.8% of final compensation times service</p>
COLA	CPI-U, up to 1.5%	CPI-U, up to 2.0%

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Tier 2 Retirement Rates



- The revised benefit structure will affect retirement rates
- We have no directly applicable experience on which to base an assumption, so we considered the following factors and applied professional judgment
 - Tier 1 retirement rates and experience
 - CalPERS 2.5% at 57 formula retirement rates for Police Officers and Firefighters
 - Larger benefits at younger ages,
 - Similar benefits at age 57+, and
 - Larger cap (90%) reached after 36 years of service
 - Annual accrual factors at all age and service combinations after first eligible to retire

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Tier 2 Retirement Rates



Police Retirement Rates

Age	Years of Service			
	5 – 19	20 – 24	25 – 29	30 +
50 – 56	2.0%	2.0%	2.0%	5.0%
57 – 59	7.5%	10.0%	20.0%	100.0%
60 – 61	10.0%	20.0%	35.0%	100.0%
62 – 64	25.0%	50.0%	75.0%	100.0%
65 +	100.0%	100.0%	100.0%	100.0%

Fire Retirement Rates

Age	Years of Service			
	5 – 19	20 – 24	25 – 29	30 +
50 – 56	1.0%	1.0%	1.0%	2.5%
57 – 59	5.0%	7.5%	15.0%	100.0%
60 – 61	7.5%	15.0%	25.0%	100.0%
62 – 64	20.0%	35.0%	50.0%	100.0%
65 +	100.0%	100.0%	100.0%	100.0%

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Tier 2 Contribution Rates – FYE 2018



Police Tier 2 Contribution Rates			
	Old	New	Change
Actuarial Liability <i>(Thousands)</i>	\$ 3,623	\$ 4,018	\$ 394
Normal Cost Rate	20.76%	28.22%	7.46%
Expense Rate	1.90%	1.90%	0.00%
UAL Rate	-0.04%	0.22%	0.26%
Total	22.62%	30.34%	7.62%
Member Rate	11.31%	15.17%	3.86%
City Rate	11.31%	15.17%	3.86%

Fire Tier 2 Contribution Rates			
	Old	New	Change
Actuarial Liability <i>(Thousands)</i>	\$ 633	\$ 848	\$ 215
Normal Cost Rate	21.64%	30.42%	8.78%
Expense Rate	1.90%	1.90%	0.00%
UAL Rate	0.00%	0.20%	0.20%
Total	23.54%	32.52%	8.98%
Member Rate	11.77%	16.26%	4.49%
City Rate	11.77%	16.26%	4.49%

Figures assume rehires are transferred to Tier 1, and assets equal to their Actuarial Liability are transferred from Tier 2 to Tier 1

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Questions



Appendix – Certification



- The purpose of this presentation is to present recommended changes to Tier 2 contribution rates for FYE 2018 reflecting the provisions of Measure F. These recommendations are based on the same data, assumptions, and methods as the June 30, 2016 Actuarial Valuation for the City of San José Police and Fire Department Retirement Plan.
- In preparing our 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. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. A summary of the data, assumptions, methods, and plan provisions used to prepare the valuation results can be found in the June 30, 2016 Actuarial Valuation 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 that 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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Appendix – Tier 2 Multipliers



Tier 2									
Age	50	51	52	53	54	55	56	57	
ERF	0.51	0.58	0.65	0.72	0.79	0.86	0.93	1.00	
Service	Percentage of Final Compensation								
5	6.12%	6.96%	7.80%	8.64%	9.48%	10.32%	11.16%	12.00%	
6	7.34%	8.35%	9.36%	10.37%	11.38%	12.38%	13.39%	14.40%	
7	8.57%	9.74%	10.92%	12.10%	13.27%	14.45%	15.62%	16.80%	
8	9.79%	11.14%	12.48%	13.82%	15.17%	16.51%	17.86%	19.20%	
9	11.02%	12.53%	14.04%	15.55%	17.06%	18.58%	20.09%	21.60%	
10	12.24%	13.92%	15.60%	17.28%	18.96%	20.64%	22.32%	24.00%	
11	13.46%	15.31%	17.16%	19.01%	20.86%	22.70%	24.55%	26.40%	
12	14.69%	16.70%	18.72%	20.74%	22.75%	24.77%	26.78%	28.80%	
13	15.91%	18.10%	20.28%	22.46%	24.65%	26.83%	29.02%	31.20%	
14	17.14%	19.49%	21.84%	24.19%	26.54%	28.90%	31.25%	33.60%	
15	18.36%	20.88%	23.40%	25.92%	28.44%	30.96%	33.48%	36.00%	
16	19.58%	22.27%	24.96%	27.65%	30.34%	33.02%	35.71%	38.40%	
17	20.81%	23.66%	26.52%	29.38%	32.23%	35.09%	37.94%	40.80%	
18	22.03%	25.06%	28.08%	31.10%	34.13%	37.15%	40.18%	43.20%	
19	23.26%	26.45%	29.64%	32.83%	36.02%	39.22%	42.41%	45.60%	
20	24.48%	27.84%	31.20%	34.56%	37.92%	41.28%	44.64%	48.00%	
21	26.01%	29.58%	33.15%	36.72%	40.29%	43.86%	47.43%	51.00%	
22	27.54%	31.32%	35.10%	38.88%	42.66%	46.44%	50.22%	54.00%	
23	29.07%	33.06%	37.05%	41.04%	45.03%	49.02%	53.01%	57.00%	
24	30.60%	34.80%	39.00%	43.20%	47.40%	51.60%	55.80%	60.00%	
25	32.13%	36.54%	40.95%	45.36%	49.77%	54.18%	58.59%	63.00%	
26	33.86%	38.51%	43.16%	47.81%	52.46%	57.10%	61.75%	66.40%	
27	35.60%	40.48%	45.37%	50.26%	55.14%	60.03%	64.91%	69.80%	
28	37.33%	42.46%	47.58%	52.70%	57.83%	62.95%	68.08%	73.20%	
29	39.07%	44.43%	49.79%	55.15%	60.51%	65.88%	71.24%	76.60%	
30	40.80%	46.40%	52.00%	57.60%	63.20%	68.80%	74.40%	80.00%	

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