

**City of San Jose Police and Fire
Department Retirement Plan**

**June 30, 2011
Actuarial Valuation**

Produced by **Cheiron**

February 2012



Classic Values, Innovative Advice

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LETTER OF TRANSMITTAL

February 20, 2012

Board of Retirement
 City of San Jose Police and Fire Department Retirement Plan
 1737 North 1st Street, Suite 580
 San Jose, California 95112

Dear Members of the Board:

The purpose of this revised report is to present the June 30, 2011 actuarial valuation of the City of San Jose Police and Fire Department Retirement Plan (“Plan”) and to reflect the historical split of the administrative expenses between the members and the City. This report is for the use of the Board of Retirement and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements. Any other user of this report is not an intended user and is considered a third party.

The key results of the valuation are shown in the table below. The June 30, 2010 valuation was performed by the Segal Company.

Summary of Key Valuation Results		
Valuation Date	6/30/2011	6/30/2010
Discount Rate	7.50%	7.75%
Actuarial Liability (AL)	\$ 3,196.0	\$ 3,230.5
Actuarial Value of Assets (AVA)	\$ 2,685.7	\$ 2,576.7
Unfunded Actuarial Liability (UAL)	\$ 510.3	\$ 653.8
AVA Funded Ratio	84.0%	79.8%
Market Value of Assets (MVA)	\$ 2,627.7	\$ 2,264.1
MVA Funded Ratio	82.2%	70.1%
Fiscal Year Ending	6/30/2013	6/30/2012
Aggregate Contribution Rates		
Member		
Normal Cost Rate	11.0%	10.5%
UAL Rate	0.1%	0.1%
Total Member Rate	11.2%	10.6%
City		
Normal Cost Rate	33.4%	28.0%
UAL Rate	24.3%	22.4%
Total City Rate	57.7%	50.4%
Expected Payroll	\$ 190.7	\$ 261.7
City Contribution Amounts		
Beginning of Year	\$ 106.1	\$ 127.2
Middle of Year	\$ 110.1	\$ 132.0

Dollar amounts in millions

The City contribution rates and amounts shown above are before adjusting for the offset due to the charge to the SRBR. This charge reduces the City's contribution rate for Fiscal Year Ending (FYE) in 2012 by 0.49% and approximately \$1.3 million, and reduces the City's contribution rate for FYE 2013 by 0.46% and approximately \$0.8 million.

At its December 2011 meeting, the Board adopted a number of assumption changes based on recommendations from our experience study report. In particular, the Board reduced its investment return assumption from the 7.75% that was used in the prior valuation to 7.50%. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter. Administrative expenses and the Supplemental Retiree Benefit Reserve (SRBR), which both had been implicitly valued as part of the investment return assumption, are now explicitly valued as an addition to normal cost (\$3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR). The changes in assumptions are summarized in Appendix B of this report, and more detail is provided in our experience study report.

During the year, there were also very significant changes due to the experience of the Plan, including a 14% reduction in the number of active members and a 24% reduction in the expected payroll. The investment return for the year was 17.2%, but due to asset smoothing, prior investment losses are still being phased in and as a result the return on the actuarial value of assets was only 4.0%.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2011 valuation results can be found in the remainder of our report.

We certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and accurate and 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 report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Board of Retirement
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Finally, it's important to note that this valuation, which was prepared using census data and financial information as of June 30, 2011, does not reflect any subsequent changes in the membership profile and the investment markets.

Sincerely,
Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary



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

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the City of San Jose Police and Fire Department Retirement Plan,
- Past and expected trends in the financial condition of the Plan,
- The Members' and Employer's contribution rates for the Fiscal Year Ending June 30, 2013, and
- Information required by the Governmental Accounting Standards Board (GASB).

The principal valuation results are summarized in this section, including a brief description of the basis upon which the contributions were determined and an examination of the current financial condition of the Plan. In addition, we present a review of the key historical trends followed by the projected financial outlook for the Plan.

A. Valuation Basis

Member contribution rates are set equal to the sum of:

- A portion (3/11th) of the Entry Age Normal Cost Rate (excluding reciprocity),
- A historical share of the assumed administrative expenses, and
- A portion of the UAL Rate attributable to certain benefit improvements.

The Plan's funding policy sets the City's contribution rates equal to the sum of:

- A portion (8/11th) of the Entry Age Normal Cost Rate (excluding reciprocity),
- The Reciprocity Rate which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans,
- A historical share of the assumed administrative expenses,
- The assumed annual cost of the SRBR, and
- The remaining portion of the UAL Rate.

Beginning with this valuation, any changes in methods or assumptions are amortized over a closed 20-year period, and all other portions of the UAL are amortized over a closed 16-year period from the valuation in which they are first recognized.

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B. Current Financial Condition

On the following pages, we summarize the key results of the June 30, 2011 valuation and how they compare to the results from the June 30, 2010 valuation.

1. Membership:

As shown in Table I-1 below, total membership declined 1.6% from 2010 to 2011, but the changes between categories of membership were significant. Active membership decreased 14.2%, terminated vested membership increased 188.6% and service retiree membership increased 9.6%. Total payroll decreased by 24.0%, and the average pay per active member decreased by 11.5%.

Table I-1			
Total Membership			
Item	June 30, 2011	June 30, 2010	% Change
Active Members			
Police	1,122	1,295	-13.4%
Fire	<u>613</u>	<u>726</u>	-15.6%
Total Active Members	1,735	2,021	-14.2%
Terminated Vested	228	79	188.6%
Service Retirees	824	752	9.6%
Disabled Retirees	812	801	1.4%
Beneficiaries	<u>249</u>	<u>257</u>	-3.1%
Total Members	3,848	3,910	-1.6%
Active Member Payroll			
Police	\$ 121.7	\$ 157.6	-22.8%
Fire	<u>69.0</u>	<u>93.5</u>	-26.2%
Total Payroll	\$ 190.7	\$ 251.1	-24.0%
Average Pay per Active Member			
Police	\$ 108,499	\$ 121,703	-10.8%
Fire	\$ 112,546	\$ 128,723	-12.6%
Total Average Pay	\$ 109,929	\$ 124,225	-11.5%

Payroll amounts in millions

2. Assets and Liabilities:

Table I-2 on the following page compares the assets, liabilities, UAL, and funding ratios between June 30, 2011 and June 30, 2010. The key results shown in Table I-2 indicate that the total actuarial liability decreased by 1% and the market value of assets increased

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**SECTION I
BOARD SUMMARY**

by 16%. The Plan employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) increased by 4%. The ratio of the actuarial value of assets to the market value of assets decreased from 114% to 102%, indicating that the deferred losses are now only slightly greater than the deferred gains. Finally, the overall funding (actuarial value of assets less actuarial liabilities) deficit decreased from \$653.8 million to \$510.3 million, resulting in an increase in the funding ratio from 79.8% to 84.0%. Based on the market value of assets, the funding ratio increased from 70.1% to 82.2%.

Table I-2 Assets and Liabilities			
Item	June 30, 2011	June 30, 2010	% Change
Actuarial Liability			
Actives	\$ 1,022.0	\$ 1,322.5	-22.7%
Terminated Vesteds	26.7	22.6	17.9%
Service Retirees	1,210.1	1,053.0	14.9%
Disabled Retirees	812.6	736.7	10.3%
Beneficiaries	91.3	95.5	-4.4%
SRBR Balance	33.4	0.0	N/A
Total Actuarial Liability	<u>\$ 3,196.0</u>	<u>\$ 3,230.5</u>	-1.1%
Market Value of Assets	\$ 2,627.7	\$ 2,264.1	16.1%
Actuarial Value of Assets	\$ 2,685.7	\$ 2,576.7	4.2%
Unfunded Actuarial Liability	\$ 510.3	\$ 653.8	-21.9%
Funding Ratio – Market Value	82.2%	70.1%	17.3%
Funding Ratio – Actuarial Value	84.0%	79.8%	5.4%

Amounts in millions

3. Contributions:

Table I-3 shows sources for the change in the net employer contribution rate from the rate that was calculated in the prior report and the rate that was expected to be calculated in this report. The plan experience, including a substantial reduction in expected payroll, significantly reduced the City's contribution compared to what had been expected based on the prior valuation. The assumption changes increased the contribution rates to a level slightly higher than had been expected, but the expected dollar amount is still significantly below what was expected based on last year's valuation.

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**SECTION I
BOARD SUMMARY**

**Table I-3
Reconciliation of Changes in Contribution Rates and Amounts**

	Member Rate	City Normal Cost	City UAL Rate	City Total Rate	Projected Payroll	BOY City Contribution Amount
1. FYE 2012 Contribution	10.6%	28.0%	22.4%	50.4%	\$ 261.7 ¹	\$ 127.2 ¹
2. Expected FYE 2013 Contribution	10.6%	28.0%	27.2%	55.2%	\$ 272.9	\$ 145.1
3. Changes Due to Plan Experience						
a. Investment experience	0.0%	0.0%	-1.4%	-1.4%	\$ 272.9	\$ (3.8)
b. Demographic experience	0.3%	0.8%	-5.1%	-4.3%	\$ 198.4	\$ (46.8)
c. Subtotal	0.3%	0.8%	-6.5%	-5.7%	\$ 198.4	\$ (50.6)
4. Changes Due to Assumption Changes						
a. Demographic assumptions	0.0%	0.1%	0.4%	0.4%	\$ 198.4	\$ 0.8
b. Explicit administrative expense	0.4%	1.1%	0.0%	1.1%	\$ 198.4	\$ 2.1
c. Explicit SRBR assumption	0.0%	3.0%	0.0%	3.0%	\$ 198.4	\$ 5.8
d. Salary / Investment return assumption	-0.2%	0.4%	3.6%	4.0%	\$ 190.7	\$ 3.6
e. Amortization period	0.0%	0.0%	-0.4%	-0.4%	\$ 190.7	\$ (0.7)
f. Subtotal	0.3%	4.6%	3.6%	8.2%	\$ 190.7	\$ 11.6
5. FYE 2013 Contribution	11.2%	33.4%	24.3%	57.7%	\$ 190.7	\$ 106.1

¹ Projected payroll for FYE 2012 is based on the projected payroll in the June 30, 2010 Actuarial Valuation increased by one year of general wage inflation..

The contribution rates and amounts shown above are prior to adjustment for the offset in City contribution rates and amounts due to the charge to the SRBR. This charge reduces the City's contribution rate for FYE 2012 by 0.49% and approximately \$1.3 million, and reduces the City's contribution rate for FYE 2013 by 0.46% and approximately \$0.8 million. In Section IV of this report, we provide more detail on the development of this contribution rate.

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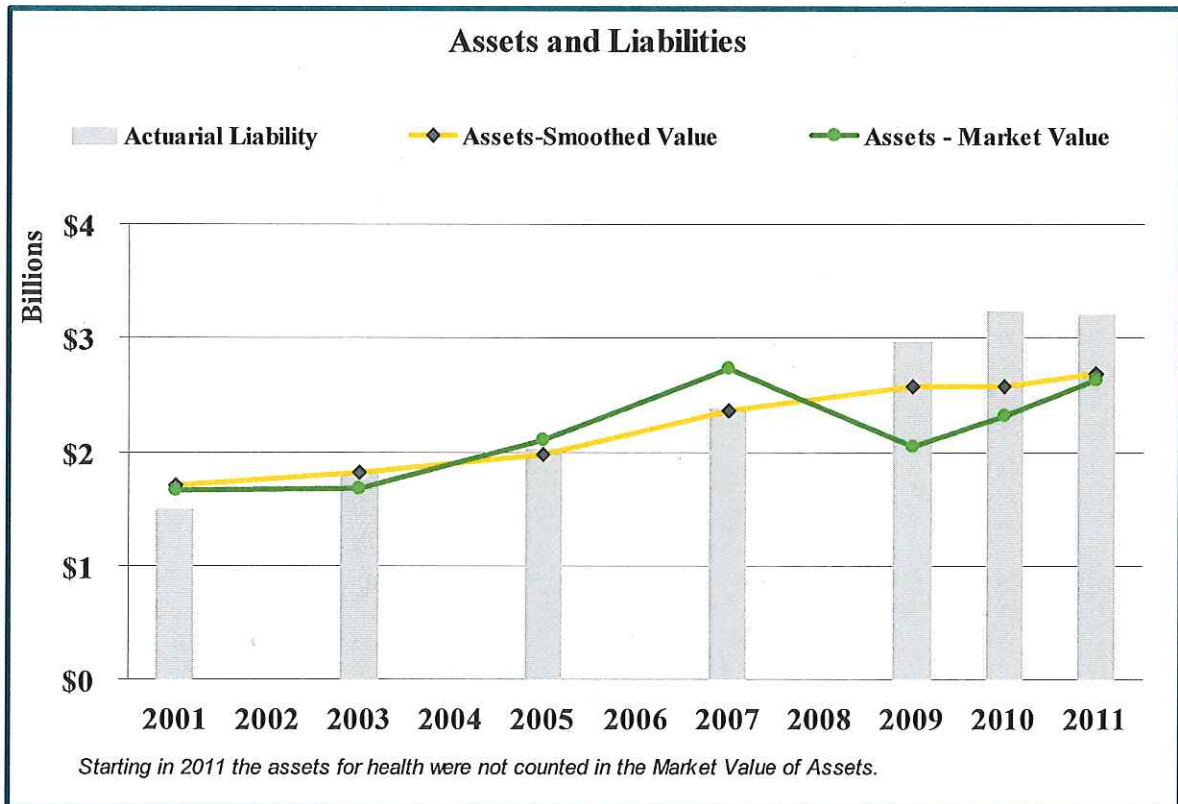
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BOARD SUMMARY

C. Historical Trends

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the Plan's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

The chart below shows the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also shows the progress of the funding ratios since 2001. From 2001 to 2010, (with the exception of 2007), the funding ratio steadily declined.

SJPF Assets and Liabilities 2001-2011



	2001	2003	2005	2007	2009	2010	2011
Funded Ratio	114.8%	100.2%	97.8%	99.7%	86.7%	79.8%	84.0%
UAL/(Surplus)	\$ (221.1)	\$ (3.1)	\$ 44.3	\$ 6.6	\$ 393.9	\$ 653.8	\$ 510.3

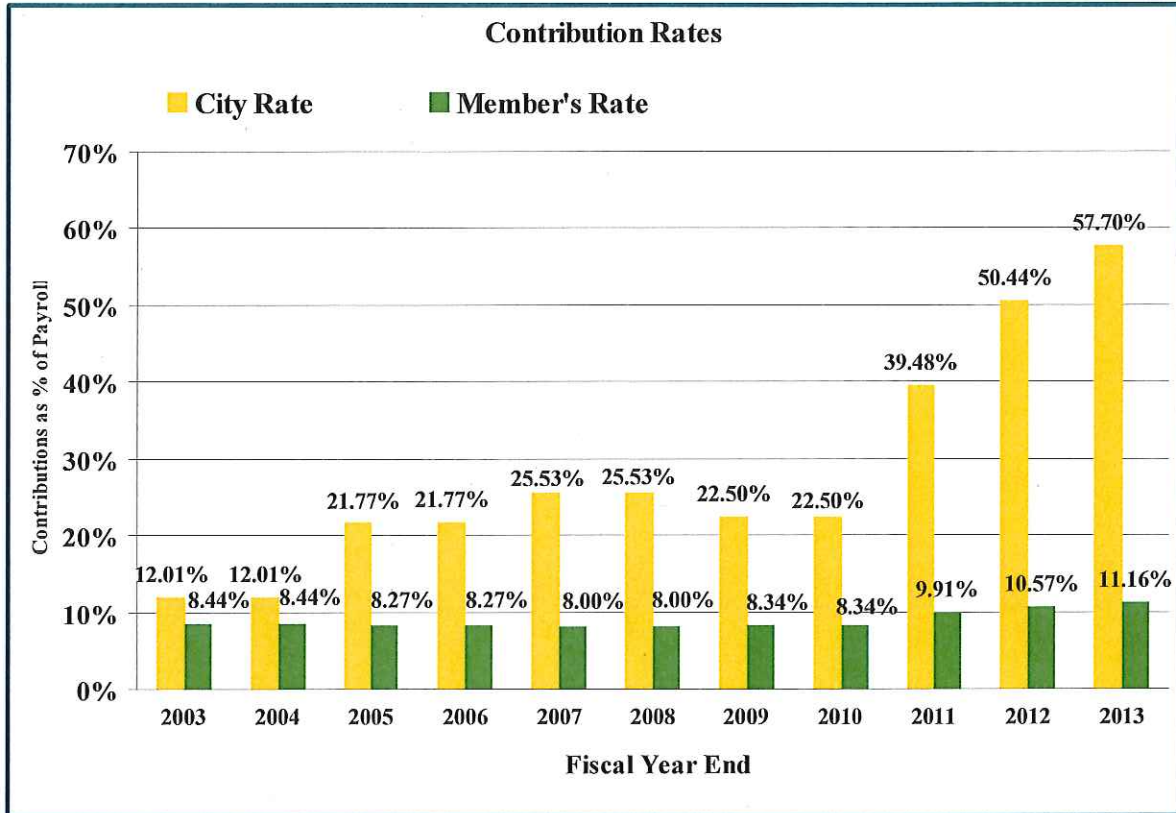
Amounts in millions

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The chart below shows the historical trends for the Plan's contribution rates since the Fiscal Year Ending June 30, 2003. All information shown prior to the Fiscal Year Ending June 30, 2013 was calculated by the prior actuary.

Employer and Member Contribution Rates for FYE 2003 - 2013



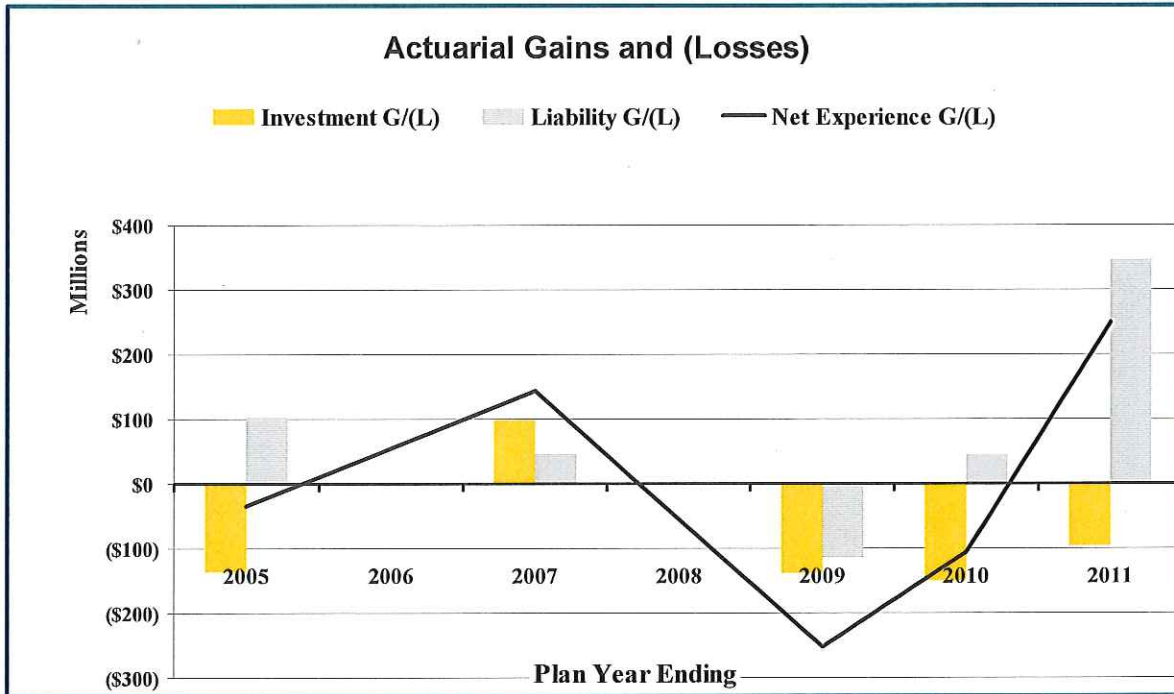
The key information in this chart is the increase in the employer contribution rate since FYE 2010. This increase is largely due to the poor investment earnings during 2008 and 2009, but lower discount rates were also adopted effective for contribution rates in FYE 2012 and 2013.

The next chart on the following page represents the pattern of the Plan's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the Plan's assets and liabilities attributable to changes to methods, procedures or assumptions.

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BOARD SUMMARY

SJPF Historical Gain/(Loss) 2005-2011



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2011, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected over the next two years followed by investment gains as the most recent market returns are fully recognized.
- On the liability side, four of the five valuations showed actuarial gains with 2009 as the only exception. The actuarial gain in 2011 is primarily due to actual salaries being less than expected.

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**SECTION I
BOARD SUMMARY**

D. Projected Financial Trends

Our analysis of projected financial trends is an important part of this valuation. In this Section, we present our assessment of the implications of the June 30, 2011 valuation results on the future outlook for the Plan in terms of benefit security (assets over liabilities) and the expected cost progression.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the Employer contributions on two different bases:

- 1) Assuming no gains or losses compared to the assumptions (i.e., 7.5% return for 2011-12 and each and every year that follows along with the assumed transfer to the SRBR in each year), and
- 2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equals on average the assumed 7.5% return. We do this in order to illustrate the impact of volatility because the Plan's returns will never be level each and every year.

FYE	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Return	20.0%	8.0%	3.0%	20.0%	-4.0%	18.0%	13.0%	9.0%	-7.0%	16.0%
FYE	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
Return	9.0%	-8.0%	8.0%	13.0%	16.0%	-8.0%	-16.0%	30.0%	25.0%	-1.0%

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and employer contribution rates. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

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BOARD SUMMARY**

Projection Set 1: Assets and Liabilities

The chart below shows projected member contribution rates (teal bars) and City contribution rates (gold bars) compared to the similar projection based on the 2010 valuation (red line). City contribution rates are expected to increase over the next several years as the 2008-09 investment losses are fully recognized, but the long-term projection is significantly lower than the projection from the 2010 valuation.

Chart 1: Projection of Assets and Liabilities, 7.5% return each year

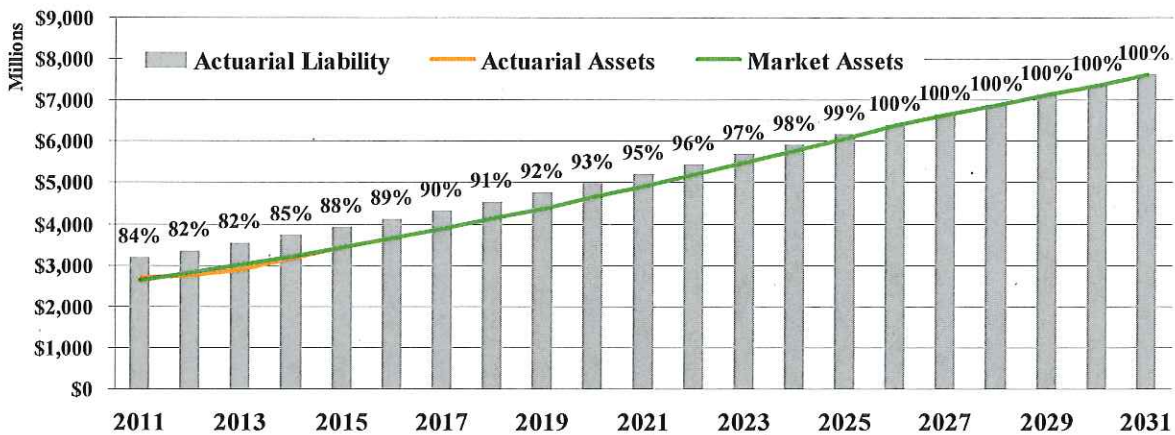
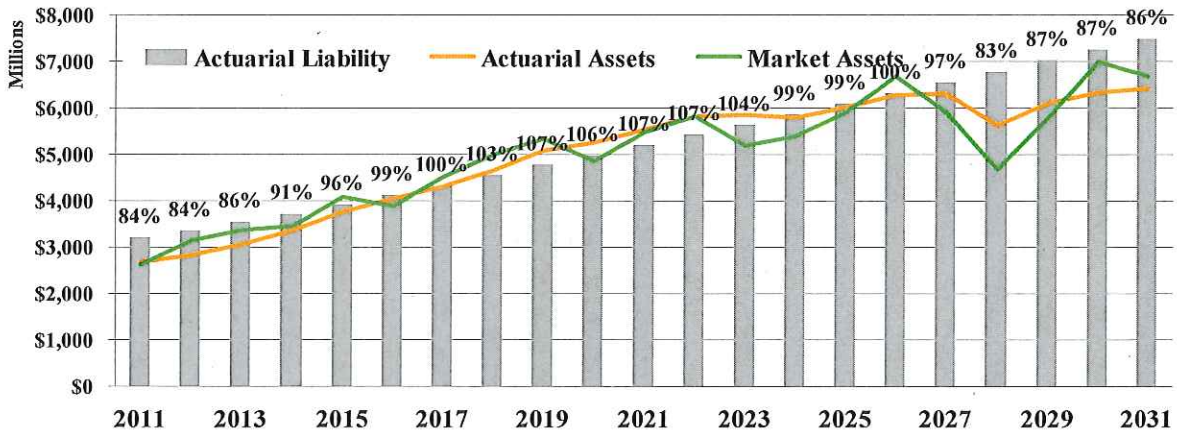


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.5% over time



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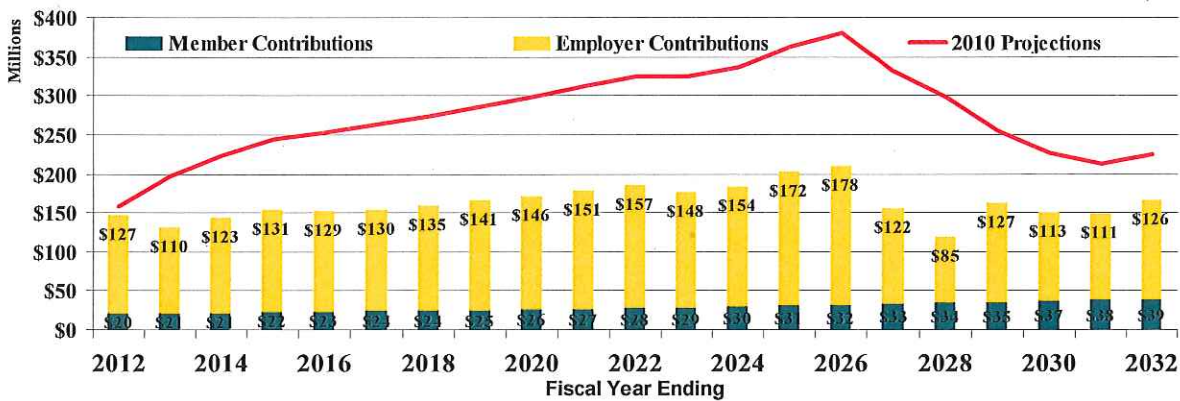
Projection Set 2: Projected Employer Contribution Rate

The chart below shows projected member contribution rates (teal bars) and City contribution rates (gold bars) compared to the similar projection based on the 2010 valuation (red line). City contribution rates are expected to increase over the next several years as the 2008-09 investment losses are fully recognized, but the long-term projection is significantly lower than the projection from the 2010 valuation.

Chart 1: 7.5% return each year – percentage of pay



Chart 2: 7.5% return each year – dollar contribution amounts



In the graph above, the City dollar contribution amount for FYE 2012 is the actual City contribution made in July, 2011, adjusted to the middle of the fiscal year with interest plus the actual amount credited back to the general reserve from the SRBR.

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Chart 3: varying returns averaging 7.5% over time – percentage of pay

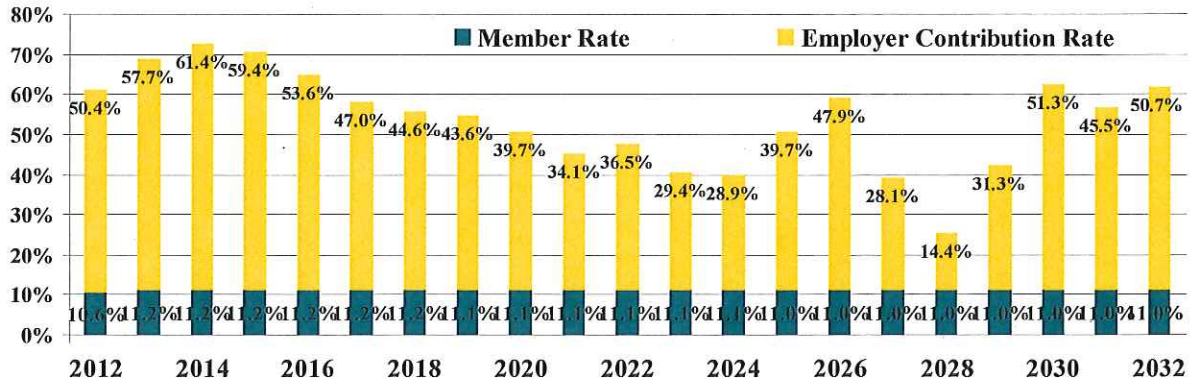
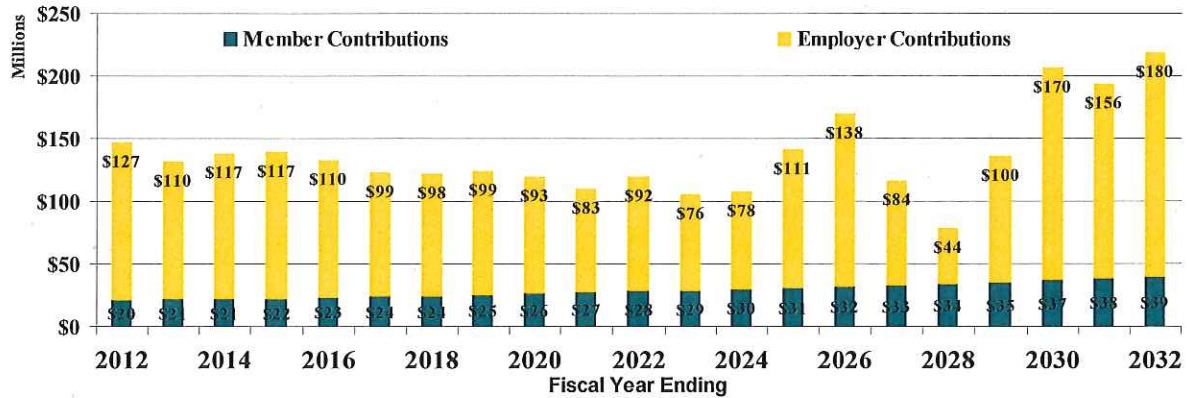


Chart 4: varying returns averaging 7.5% over time – dollar contribution amounts



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**SECTION II
ASSETS**

The Plan uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages we present detailed information on the Plan's assets:

- A. Statement of changes in the market value of assets during the year,
- B. Development of the actuarial value of assets, and
- C. Statement of changes in the Supplemental Retiree Benefit Reserve.

A. Market Value of Assets

Table II-1 shows sources for the change in the market value of assets.

Table II-1				
Change in Market Value of Assets				
	June 30, 2011			June 30, 2010
	Retirement	COLA	Total	Total
Market Value, Beginning of Year	\$ 1,537,757	\$ 726,293	\$ 2,264,050	\$ 2,001,459
Contributions				
Member	\$ 22,788	\$ 6,841	\$ 29,629	\$ 20,097
City	<u>42,100</u>	<u>35,818</u>	<u>77,918</u>	<u>52,315</u>
Total	\$ 64,888	\$ 42,659	\$ 107,547	\$ 72,412
Net Investment Earnings ¹	\$ 265,595	\$ 127,655	\$ 393,250	\$ 311,498
Benefit Payments	\$ 105,992	\$ 31,128	\$ 137,120	\$ 121,319
Market Value, End of Year	\$ 1,762,248	\$ 865,479	\$ 2,627,727	\$ 2,264,050

Amounts in thousands

¹ Gross investment earnings less investment and administrative expenses.

The net investment earnings represent approximately a 17.2% return on the market value of assets compared to an assumed return of 7.75%.

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**SECTION II
ASSETS**

B. Actuarial Value of Assets

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smoothes year-to-year market value returns in order to reduce the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 below shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

Table II-2			
Development of Actuarial Value of Assets¹			
	June 30, 2011		
	Retirement	COLA	Total
Market Value of Assets	\$ 1,762,248,000	\$ 865,479,000	\$ 2,627,727,000
Gains / (Losses)			
Current Year	\$ 146,320,079	\$ 69,514,959	\$ 215,835,038
Prior Year	102,414,358	48,370,992	150,785,350
2 nd Prior Year ²	(419,612,465)	(198,185,797)	(617,798,262)
3 rd Prior Year	(251,354,575)	(118,716,461)	(370,071,036)
Deferred Gains / (Losses)			
Current Year (80% Deferred)	\$ 117,056,063	\$ 55,611,967	\$ 172,668,030
Prior Year (60% Deferred)	61,448,615	29,022,595	90,471,210
2 nd Prior Year (40% Deferred)	(167,844,986)	(79,274,319)	(247,119,305)
3 rd Prior Year (20% Deferred)	(50,270,915)	(23,743,292)	(74,014,207)
Total	\$ (39,611,223)	\$ (18,383,049)	\$ (57,994,272)
Preliminary Actuarial Value of Assets	\$ 1,801,859,223	\$ 883,862,049	\$ 2,685,721,272
Minimum Actuarial Value of Assets (80% of Market Value)	\$ 1,409,798,400	\$ 692,383,200	\$ 2,102,181,600
Maximum Actuarial Value of Assets (120% of Market Value)	\$ 2,114,697,600	\$ 1,038,574,800	\$ 3,153,272,400
Actuarial Value of Assets	\$ 1,801,859,223	\$ 883,862,049	\$ 2,685,721,272

¹ Excludes health assets.

² Adjusted to reflect immediate recognition of amount outside temporary one year 130% corridor.

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**SECTION II
ASSETS**

On the basis of the smoothed actuarial value of assets, the return for the year ending June 30, 2011 was approximately 4.0%, significantly less than the return on the market value of assets. This difference is largely due to the recognition of the large deferred losses from 2008 and 2009 while 60% of the gains for 2010 and 80% of the gains for 2011 are still deferred.

C. Supplemental Retiree Benefit Reserve (SRBR)

The SRBR is a reserve within the Retirement Fund that is used to supplement benefits provided to retirees and beneficiaries under the Plan. As such, the balance in the SRBR is treated both as an asset and as a liability of the Plan.

Each year, ten percent of excess earnings are transferred to the SRBR. However, since the actual return on the actuarial value of assets (4.0%) was less than the expected return (7.75%), there are no excess earnings this year. The existing balance in the SRBR is credited with approximately 4.0% earnings, and because the City's contribution rate for 2010-11 had increased due to poor investment performance, a charge was made to the SRBR transferring approximately \$1.2 million to the regular retirement fund and the COLA fund. Table II-3 below summarizes the changes to the SRBR this year.

Table II-3		
Changes in Supplemental Retiree Benefit Reserve		
	June 30, 2011	June 30, 2010
SRBR Balance, beginning of year	\$ 33,343,364	\$ 32,623,622
Charge to SRBR for poor investment earnings	(1,207,958)	0
Interest credited	1,281,464	719,742
Excess earnings transferred	0	0
Benefit distributions	<u>0</u>	<u>0</u>
SRBR Balance, end of year	\$ 33,416,870	\$ 33,343,364

The Board is to make annual distributions from the SRBR, but cannot reduce the principal of the SRBR. Normally, these distributions are equal to the regular earnings credited on the SRBR principal. However, these distributions have been suspended through June 30, 2012. Table II-4 below shows the regular interest credits that have not been distributed, but potentially could be distributed once the suspension expires without reducing the principal in the SRBR.

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**SECTION II
ASSETS**

Table II-4	
SRBR Regular Interest Credits Not Yet Distributed	
Fiscal Year	Interest Credit
2008-09	\$ 296,147
2009-10	719,742
2010-11	<u>1,281,464</u>
Total	\$ 2,297,353

When the City's contribution rate increases due to poor investment earnings, there is a charge to the SRBR that partially offsets the City's rate increase. Based upon the June 30, 2010 valuation, the City's contribution rate is offset for 2011-12 by 0.49% of payroll and \$1,285,087 is transferred from the SRBR to the regular Retirement and COLA reserves. Table II-5 below shows the calculation of the charge to the SRBR and the offset to the City's contribution rate for the 2012-13 fiscal year.

Table II-5	
Calculation of Charge to SRBR for FYE 2013	
1. Increase in UAL due to investment loss in 2010-11	\$ 96,472,852
2. Amortization factor	8.794%
3. Increase in City's dollar contribution as of July 1, 2012 [1 ÷ 2]	\$ 8,483,790
4. SRBR balance as of June 30, 2011	\$ 33,416,870
5. Charge to SRBR on July 1, 2012 [minimum of 10% of 3 and 5% of 4]	\$ 848,379
6. Projected 2012-13 payroll	\$ 190,726,258
7. Decrease in City's contribution rate for 2012-13 [(5 x 1.075 ^{0.5}) ÷ 6]	0.46%

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

In this section, we present detailed information on liabilities for the Plan, including:

- Present value of future benefits,
- Normal cost
- Actuarial liability, and
- Analysis of changes in the unfunded actuarial liability during the year.

A. Present Value of Future Benefits

The present value of future benefits represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants under the current plan provisions. Table III-1 below shows the present value of future benefits as of June 30, 2011 and June 30, 2010.

Table III-1				
Present Value of Future Benefits				
	June 30, 2011			June 30, 2010
	Retirement	COLA	Total	Total
Actives				
Retirement	\$ 825,984	\$ 336,605	\$ 1,162,588	\$ 1,471,070
Termination	26,004	10,377	36,382	73,555
Death	11,121	4,546	15,668	20,078
Disability	398,173	162,834	561,008	864,529
Total Actives	\$ 1,261,283	\$ 514,362	\$ 1,775,645	\$ 2,429,232
Service Retirees	749,214	460,875	1,210,090	1,053,049
Disabled Retirees	440,412	372,147	812,559	736,707
Beneficiaries	45,773	45,511	91,285	95,532
Deferred Vested	18,493	8,200	26,694	22,642
SRBR			33,417	0 ¹
Total	\$ 2,515,175	\$ 1,401,097	\$ 3,949,689	\$ 4,337,162

Amounts in thousands

¹ Prior to this valuation, the SRBR was excluded from valuation assets and liabilities. Beginning with this valuation, it is included in both.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

B. Normal Cost

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career under the Plan as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual in the Plan. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial funding method. Table III-2 below shows the EA normal cost as of June 30, 2011 and June 30, 2010.

Table III-2				
Entry Age Normal Cost				
	June 30, 2011			June 30, 2010
	Retirement	COLA	Total	Total
Actives				
Retirement	\$ 29,508,896	\$ 12,000,974	\$ 41,509,870	\$ 54,836,258
Termination	1,479,588	519,552	1,999,140	3,609,788
Death	831,018	392,504	1,223,522	1,190,160
Disability	19,042,951	8,166,490	27,209,441	37,032,018
Reciprocity	324,524	114,001	438,525	N/A
Total Normal Cost	\$ 51,186,977	\$ 21,193,521	\$ 72,380,498	\$ 96,668,224
Expected payroll for current actives	\$ 182,035,530	\$ 182,035,530	\$ 182,035,530	\$ 251,058,473
EA Normal Cost Rate	28.12%	11.64%	39.76%	38.50%

Table III-3 below shows the EA normal cost as of June 30, 2011 separated between Police and Fire members.

Table III-3			
Entry Age Normal Cost by Group			
	June 30, 2011		
	Police	Fire	Total
Actives			
Retirement	\$ 28,968,807	\$ 12,541,063	\$ 41,509,870
Termination	1,252,822	746,318	1,999,140
Death	760,337	463,185	1,223,522
Disability	14,754,323	12,455,118	27,209,441
Reciprocity	292,623	145,902	438,525
Total Actives	\$ 46,028,912	\$ 26,351,586	\$ 72,380,498
Expected payroll for current actives	\$ 116,151,839	\$ 65,883,691	\$ 182,035,530
EA Normal Cost Rate	39.63%	40.00%	39.76%

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

In addition to the EA normal cost, administrative expenses and the expected annual cost of the SRBR are added to get the total normal cost. Table III-4 below develops these additions to the EA normal cost rate.

Table III-4	
Administrative Expense and SRBR Normal Cost	
1. Assumed administrative expenses for FYE 2013	\$ 3,000,000
2. SRBR normal cost [0.22% of market value of assets]	\$ 5,993,868
3. Projected payroll for FYE 2013	\$ 190,726,258
4. Administrative expense and SRBR normal cost rate [(1 + 2) ÷ 3]	4.72%
5. EA normal cost rate	39.76%
6. Total normal cost rate [4 + 5]	44.48%

C. Actuarial Liability

The actuarial liability represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date under the EAN method. It is the difference between the present value of future benefits and the present value of future normal costs. Table III-5 below shows the actuarial liability as of June 30, 2011 and June 30, 2010.

	Table III-5			
	Actuarial Liability			
	June 30, 2011			
	Retirement	COLA	Total	Total
Actives				
Retirement	\$ 510,861	\$ 208,314	\$ 719,175	\$ 833,321
Termination	7,819	4,061	11,880	31,474
Death	3,087	765	3,851	6,598
Disability	206,181	80,877	287,057	451,133
Total Actives	\$ 727,947	\$ 294,016	\$ 1,021,963	\$ 1,322,526
Service Retirees	749,214	460,875	1,210,090	1,053,049
Disabled Retirees	440,412	372,147	812,559	736,707
Beneficiaries	45,773	45,511	91,285	95,532
Deferred Vested	18,493	8,200	26,694	22,642
SRBR			33,417	0 ¹
Total Actuarial Liability	\$ 1,981,839	\$ 1,180,751	\$ 3,196,007	\$ 3,230,456

Amounts in thousands

¹ Prior to this valuation, the SRBR was excluded from valuation assets and liabilities. Beginning with this valuation, it is included in both.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

Table III-6 below shows the actuarial liability as of June 30, 2011 separated between Police and Fire members.

Table III-6			
Actuarial Liability by Group			
	June 30, 2011		
	Police	Fire	Total
Actives			
Retirement	\$ 520,332	\$ 198,842	\$ 719,175
Termination	7,610	4,269	11,880
Death	2,303	1,549	3,851
Disability	<u>151,515</u>	<u>135,542</u>	<u>287,057</u>
Total Actives	\$ 681,761	\$ 340,202	\$1,021,963
Service Retirees	845,549	364,541	1,210,090
Disabled Retirees	45,817	45,468	91,285
Beneficiaries	371,997	440,562	812,559
Deferred Vested	21,327	5,366	26,694
SRBR			<u>33,417</u>
Total Actuarial Liability	<u>\$1,966,450</u>	<u>\$1,196,140</u>	<u>\$3,196,007</u>

Amounts in thousands

The difference between the actuarial liability and the actuarial value of assets is the unfunded actuarial liability.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

D. Analysis of Change in Unfunded Actuarial Liability (UAL)

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Table III-7 below develops the expected UAL and identifies the primary sources for changes in the UAL since the last valuation.

Table III-7		
Development of Experience Gain / (Loss)		
Item		Amount
1. Unfunded actuarial liability, June 30, 2010		\$ 653,751,471
2. Adjustment for actual timing of City UAL payment		33,719,537
3. Expected unfunded actuarial liability payment		(33,903,745)
4. Interest		50,656,690
5. Change in assumptions		<u>55,685,109</u>
6. Expected unfunded actuarial liability, June 30, 2011 (1 + 2 - 3 + 4 + 5)		\$ 759,909,062
7. Actual unfunded actuarial liability, June 30, 2011		<u>510,285,510</u>
8. Difference (6 - 7)		\$ 249,623,552
a. Portion due to investment experience	\$ (96,472,852)	
b. Portion due to salary experience	227,009,942	
c. Portion due to retirement experience	(7,728,771)	
d. Portion due to termination, mortality and disability experience	30,247,092	
e. Portion due to benefit service data	28,522,777	
f. Portion due to other experience ¹	<u>68,045,364</u>	
g. Total	\$ 249,623,552	

¹ Includes change in actuary, change in child beneficiary valuation, and other items.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

Under the method employed for the Plan, there are two components to the total contribution: the normal cost and the unfunded actuarial liability contribution. The normal cost rate was developed in Section III. This section develops the UAL contribution rate and divides the contributions between the members and the City.

The UAL is composed of experience gains and losses, assumption changes and plan provision changes. Each component is amortized from the valuation date in which it was first recognized. Table IV-1 below shows the outstanding balance, remaining period and amortization payments for each component of the UAL as of June 30, 2011.

Table IV-1						
UAL Amortization						
Source	Date	Outstanding Balance		Remaining Period	Amortization Payment	
		Retirement	COLA		Retirement	COLA
1996 Ben Improvement	6/30/1996	\$ (1,680,208)	\$ 2,562,055	6.0	\$ (330,278)	\$ 503,623
UAL	6/30/2003	5,660,595	(8,631,529)	6.0	1,112,703	(1,696,700)
Experience Loss	6/30/2005	(79,224,826)	120,805,557	10.0	(10,041,613)	15,311,901
Police Ben Improvement	6/30/2005	24,552,576	9,506,628	10.0	3,111,998	1,204,949
Rate Increase Delay	12/17/2006	162,470	62,907	10.5	19,848	7,685
Fire Ben Improvement	6/30/2007	23,272,944	8,846,460	12.0	2,546,472	967,959
Experience Gain	6/30/2007	(92,525,774)	(41,531,461)	12.0	(10,123,957)	(4,544,277)
Assumption Change	6/30/2007	20,278,353	10,887,244	12.0	2,218,811	1,191,257
Experience Loss	6/30/2009	156,111,099	82,823,188	14.0	15,159,859	8,042,912
Assumption Change	6/30/2009	91,783,953	50,828,327	14.0	8,913,087	4,935,909
Experience Loss	6/30/2010	102,575,604	55,388,308	15.0	9,458,571	5,107,396
Assumption Change	6/30/2010	65,883,224	37,545,811	15.0	6,075,140	3,462,126
Experience Gain	6/30/2011	(152,895,559)	(96,727,994)	16.0	(13,445,583)	(8,506,227)
Assumption Change	6/30/2011	22,976,619	32,708,490	20.0	1,728,938	2,461,239
7/1/2011 UAL Payment		26,465,484	31,814,963			
Total		\$ 213,396,555	\$ 296,888,955		\$ 16,403,996	\$ 28,449,752

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION IV
CONTRIBUTIONS**

Table IV-2 below shows the division of the UAL payments between Police and Fire and between the members and the City.

Table IV-2						
UAL Amortization Payments						
Source	Member	Police City	Total	Member	Fire City	Total
1996 Ben Improvement	\$ 110,642	\$ 0	\$ 110,642	\$ 62,703	\$ 0	\$ 62,703
UAL	0	(372,750)	(372,750)	0	(211,247)	(211,247)
Experience Loss	0	3,363,891	3,363,891	0	1,906,397	1,906,397
Police Ben Improvement	0	4,316,947	4,316,947	0	0	0
Rate Increase Delay	27,533	0	27,533	0	0	0
Fire Ben Improvement	0	0	0	0	3,514,431	3,514,431
Experience Gain	0	(9,362,361)	(9,362,361)	0	(5,305,873)	(5,305,873)
Assumption Change	0	2,176,560	2,176,560	0	1,233,508	1,233,508
Experience Loss	0	14,809,739	14,809,739	0	8,393,032	8,393,032
Assumption Change	0	8,839,462	8,839,462	0	5,009,534	5,009,534
Experience Loss	0	9,297,086	9,297,086	0	5,268,881	5,268,881
Assumption Change	0	6,087,394	6,087,394	0	3,449,872	3,449,872
Experience Gain	0	(14,011,282)	(14,011,282)	0	(7,940,528)	(7,940,528)
Assumption Change	0	2,674,483	2,674,483	0	1,515,694	1,515,694
Total	\$ 138,175	\$ 27,819,169	\$ 27,957,344	\$ 62,703	\$ 16,833,701	\$ 16,896,404

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

In addition to the UAL payments shown above, members pay 3/11ths of the EA normal cost (excluding reciprocity normal cost) plus their historical share of administrative expenses. Table IV-3 below shows the contribution rates for the 2011-12 and 2012-13 fiscal years for members and the City split between Police and Fire groups. These rates are prior to the reduction of 0.49% for 2011-12 and 0.46% for 2012-13 due to the charge to the SRBR.

Table IV-3						
Contribution Rates						
Source	Fiscal Year 2012-13			Fiscal Year 2011-12		
	Retirement	COLA	Total	Retirement	COLA	Total
<u>Police - Member</u>						
Normal Cost	7.76%	3.25%	11.01%	7.28%	3.10%	10.38%
UAL	<u>-0.16%</u>	<u>0.28%</u>	<u>0.12%</u>	<u>-0.11%</u>	<u>0.19%</u>	<u>0.08%</u>
Total	7.60%	3.53%	11.13%	7.17%	3.29%	10.46%
<u>Police - City</u>						
Normal Cost	23.50%	9.84%	33.33%	19.42%	8.27%	27.69%
UAL	<u>8.66%</u>	<u>15.03%</u>	<u>23.69%</u>	<u>9.94%</u>	<u>12.15%</u>	<u>22.09%</u>
Total	32.16%	24.87%	57.03%	29.36%	20.42%	49.78%
<u>Fire - Member</u>						
Normal Cost	7.91%	3.21%	11.12%	7.55%	3.15%	10.70%
UAL	<u>-0.18%</u>	<u>0.27%</u>	<u>0.09%</u>	<u>-0.12%</u>	<u>0.18%</u>	<u>0.06%</u>
Total	7.73%	3.48%	11.21%	7.43%	3.33%	10.76%
<u>Fire - City</u>						
Normal Cost	23.89%	9.70%	33.59%	20.13%	8.40%	28.53%
UAL	<u>9.84%</u>	<u>15.46%</u>	<u>25.30%</u>	<u>10.61%</u>	<u>12.40%</u>	<u>23.01%</u>
Total	33.73%	25.16%	58.89%	30.74%	20.80%	51.54%

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

Table IV-4 below shows the estimated dollar amounts of the City's contributions assuming contributions are made at the beginning of the fiscal year. These amounts are prior to the reduction of \$1,285,087 for FYE 2012 and \$848,379 for FYE 2013 due to the charge to the SRBR. To the extent the City's contributions are made after the beginning of the fiscal year, the amounts should be increased at the assumed valuation interest rate (7.75% for 2011-12 and 7.50% for 2012-13).

Table IV-4						
Estimated City Contribution Amounts						
Beginning of Year						
Source	Fiscal Year 2012-13			Fiscal Year 2011-12		
	Retirement	COLA	Total	Retirement	COLA	Total
<u>Police</u>						
Normal Cost	\$ 27,587,645	\$ 11,550,768	\$ 39,138,412	\$ 30,738,831	\$ 13,090,120	\$ 43,828,952
UAL	<u>10,168,734</u>	<u>17,650,436</u>	<u>27,819,169</u>	<u>15,733,470</u>	<u>19,231,555</u>	<u>34,965,025</u>
Total	\$ 37,756,378	\$ 29,201,203	\$ 66,957,582	\$ 46,472,301	\$ 32,321,675	\$ 78,793,977
<u>Fire</u>						
Normal Cost	\$ 15,898,903	\$ 6,454,762	\$ 22,353,665	\$ 18,893,197	\$ 7,883,897	\$ 26,777,094
UAL	<u>6,545,692</u>	<u>10,288,008</u>	<u>16,833,701</u>	<u>9,958,113</u>	<u>11,638,134</u>	<u>21,596,247</u>
Total	\$ 22,444,595	\$ 16,742,770	\$ 39,187,366	\$ 28,851,310	\$ 19,522,031	\$ 48,373,341
<u>Total</u>						
Normal Cost	\$ 43,486,548	\$ 18,005,530	\$ 61,492,077	\$ 49,632,028	\$ 20,974,018	\$ 70,599,291
UAL	<u>16,714,426</u>	<u>27,938,444</u>	<u>44,652,870</u>	<u>25,691,583</u>	<u>30,869,689</u>	<u>56,580,289</u>
Total	\$ 60,200,974	\$ 45,943,974	\$ 106,144,947	\$ 75,323,611	\$ 51,843,707	\$ 127,179,580

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The basic GASB No. 25 disclosure compares the actuarial liability to the actuarial value of assets to determine a funded ratio. The relevant amounts as of June 30, 2010 and June 30, 2011 are presented in Table V-1.

Table V-1			
GASB No. 25 Liability			
	June 30, 2011	June 30, 2010	% Change
1. Actuarial Liability			
a. Members currently receiving payments	\$ 2,113,933,225	\$ 1,885,288,429	12.1%
b. Vested terminated and inactive members	26,693,705	22,641,877	17.9%
c. Active members	1,021,962,982	1,322,525,728	-22.7%
d. SRBR	33,416,870	0	N/A
e. Total actuarial liability	<u>\$ 3,196,006,782</u>	<u>\$ 3,230,456,034</u>	-1.1%
2. Actuarial value of assets	\$ 2,685,721,272	\$ 2,576,704,563	4.2%
3. Unfunded actuarial liability	\$ 510,285,510	\$ 653,751,471	-21.9%
4. Ratio of actuarial value of assets to actuarial liability (2 ÷ 1.d)	84.03%	79.76%	5.4%

¹ Prior to this valuation, the SRBR was excluded from valuation assets and liabilities. Beginning with this valuation, it is included in both.

Tables V-2 through V-5 are exhibits for use in the Plan's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information. Table V-3 presents an analysis of financial experience for the valuation year; Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets; and Table V-5 presents the Schedule of Funding Progress.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2
City of San Jose Police and Fire Department Retirement Plan
Notes to Required Supplementary Information

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2011
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	13.6 Years
Asset valuation method	5 year smoothing of return
Actuarial assumptions:	
Investment rate of return	7.50%
Wage inflation ¹	0.00% for two years and 3.50% thereafter
Cost-of-living adjustments ²	3.0% per year

The actuarial assumptions used have been recommended by the actuary and adopted by the City of San Jose Police and Fire Department Plan Board based on the most recent review of plan experience completed in 2011.

The rate of employer contributions is composed of the normal cost and amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, is expected to pay for projected benefits at retirement for each individual plan member. The actuarial liability is that portion of the present value of projected benefits that is not expected to be paid by future employer normal costs or member contributions. The difference between this liability and the assets accumulated as of the same date is the unfunded actuarial liability.

¹ Excludes merit increases.

² Cost-of-living adjustments are fixed at 3.0% by the plan provision and do not fluctuate with actual inflation.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
Analysis of Financial Experience
Gain or (Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain or (Loss) for Year Ending June 30, 2011
Investment income	\$ (96,473)
Combined liability experience	<u>278,051</u>
Gain or (loss) during year from financial experience	\$ 181,578
Non-recurring gain or (loss) items	<u>12,360</u>
Composite gain or (loss) during year	\$ 193,938

Amounts in thousands

Table V-4
Solvency Test¹

Valuation Date June 30,	Active Member Contributions (A)	Actuarial Liability For		Reported Assets	Portion of Actuarial Liability Covered by Reported Assets		
		Retirees, Beneficiaries and Other Inactives (B)	Remaining Active Members' Liability (C)		(A)	(B)	(C)
2011	\$ 260,172	\$ 2,174,044	\$ 761,791	\$ 2,685,721	100%	100%	33%
2010	246,356	1,907,931	1,076,169	2,576,705	100%	100%	39%
2009	243,302	1,630,914	1,089,266	2,569,569	100%	100%	64%
2007	227,191	1,240,126	905,069	2,365,790	100%	100%	99%
2005	194,008	1,062,247	771,177	1,983,090	100%	100%	94%
2003	167,203	881,064	774,934	1,826,287	100%	100%	100%

Amounts in thousands

¹ Amounts prior to June 30, 2011 calculated by prior actuary.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
 JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
 ACCOUNTING STATEMENT INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
6/30/2003	\$ 1,826,287	\$ 1,823,200	\$ (3,087)	100.2%	\$ 202,222	-1.5%
6/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21.1%
6/30/2007	2,365,790	2,372,386	6,596	99.7%	227,734	2.9%
6/30/2009	2,569,569	2,963,482	393,913	86.7%	255,223	154.3%
6/30/2010	2,576,705	3,230,456	653,751	79.8%	251,058	260.4%
6/30/2011	2,685,721	3,196,007	510,286	84.0%	190,726	267.5%

Amounts in thousands

¹ Amounts prior to June 30, 2011 calculated by prior actuary.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**APPENDIX A
MEMBERSHIP INFORMATION**

Table A-1			
City of San Jose Police and Fire Department Retirement Plan			
Active Member Data			
	June 30, 2011	June 30, 2010	% Change
Total			
Count	1,735	2,021	-14.2%
Average Current Age	41.3	40.2	2.7%
Average Vesting Service	13.5	12.3	9.8%
Annual Expected Pensionable Earnings	\$ 190,726,258	\$ 251,058,473	-24.0%
Average Expected Pensionable Earnings	\$ 109,929	\$ 124,225	-11.5%

Table A-2						
City of San Jose Police and Fire Department Retirement Plan						
Non-Active Member Data						
	Count			Average Age		
	June 30, 2011	June 30, 2010	%Change	June 30, 2011	June 30, 2010	%Change
Total						
Retired & Disabled Beneficiaries	1,636	1,553	5.3%	64.3	64.3	0.0%
Payee Total	249	257	-3.1%	63.7	64.8	-1.7%
Inactives	1,885	1,810	4.1%	64.2	64.3	-0.2%
	228	79	188.6%	37.3	44.2	-15.6%

Table A-3						
City of San Jose Police and Fire Department Retirement Plan						
Non-Active Member Data						
	Total Annual Benefit*			Average Annual Benefit*		
	June 30, 2011	June 30, 2010	%Change	June 30, 2011	June 30, 2010	%Change
Total						
Retired & Disabled Beneficiaries	\$ 136,002,610	\$ 123,026,070	10.5%	\$ 83,131	\$ 79,218	4.9%
Payee Total	8,136,035	7,987,452	1.9%	32,675	31,080	5.1%
Inactives**	\$ 144,138,645	\$ 131,013,522	10.0%	\$ 76,466	\$ 72,383	5.6%
	\$ 1,985,944	\$ 2,594,125	-23.4%	\$ 8,710	\$ 32,837	-73.5%

* Benefits provided in June 30 valuation data

** For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-4
City of San Jose Police and Fire Department Retirement Plan
Distribution of Active Members as of June 30, 2011**

Age	Years of Benefit Service								Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 and Up	
Under 25	-	-	-	-	-	-	-	-	-
25 to 29	-	73	13	-	-	-	-	-	86
30 to 34	-	113	85	20	-	-	-	-	218
35 to 39	-	51	104	173	19	-	-	-	347
40 to 44	-	28	58	221	174	30	-	-	511
45 to 49	-	2	17	75	133	137	27	-	391
50 to 54	-	-	3	23	41	67	14	-	148
55 to 59	-	-	-	2	9	13	3	-	27
60 to 64	-	-	1	-	4	2	-	-	7
65 to 69	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-
Total Count	-	267	281	514	380	249	44	-	1,735

**Table A-5
City of San Jose Police and Fire Department Retirement Plan
Distribution of Active Members as of June 30, 2011**

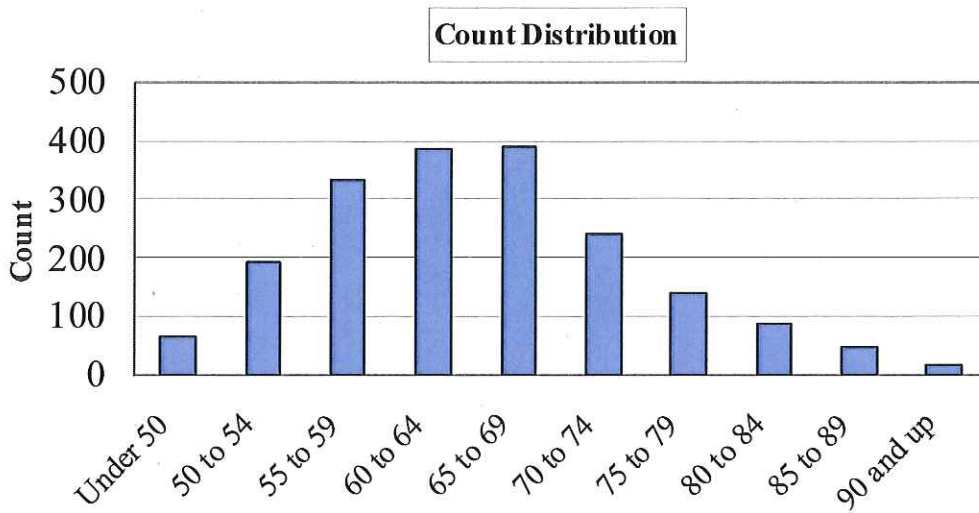
Age	Average Expected Salary Years of Benefit Service								Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 and Up	
Under 25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25 to 29	-	92,507	101,937	-	-	-	-	-	93,932
30 to 34	-	93,840	104,942	106,899	-	-	-	-	99,367
35 to 39	-	97,432	105,331	109,569	120,462	-	-	-	107,111
40 to 44	-	94,632	109,038	111,445	114,844	117,185	-	-	111,745
45 to 49	-	103,238	109,125	110,939	115,049	118,783	131,044	-	116,356
50 to 54	-	-	103,869	112,558	114,895	117,549	131,318	-	117,063
55 to 59	-	-	-	108,029	110,834	111,857	135,233	-	113,830
60 to 64	-	-	98,680	-	110,128	141,907	-	-	117,572
65 to 69	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-
Avg. Salary	\$ -	\$ 94,315	\$ 106,012	\$ 110,599	\$ 115,057	\$ 118,083	\$ 131,417	\$ -	\$ 109,929

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

Age	Count
Under 50	64
50 to 54	191
55 to 59	331
60 to 64	386
65 to 69	391
70 to 74	238
75 to 79	137
80 to 84	86
85 to 89	45
90 and up	16
Total	1,885

Chart A-1

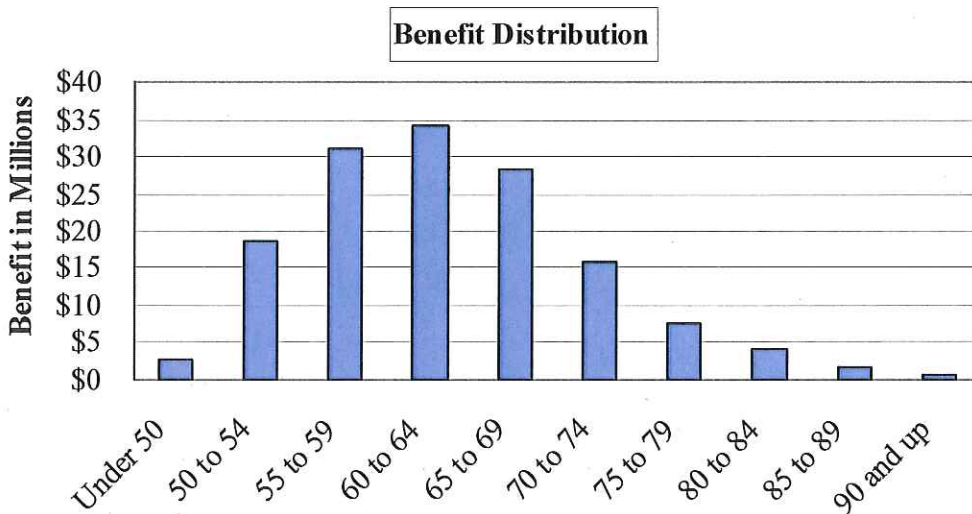


CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
 JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
 MEMBERSHIP INFORMATION

Age	Annual Benefit
Under 50	\$2,523,536
50 to 54	\$18,728,764
55 to 59	\$31,024,422
60 to 64	\$34,256,429
65 to 69	\$28,326,483
70 to 74	\$15,684,231
75 to 79	\$7,398,850
80 to 84	\$4,013,977
85 to 89	\$1,687,416
90 and up	\$494,536
Total	\$144,138,645

Chart A-2



CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.5% net of investment expenses.

2. Salary Increase Rate

Wage inflation component is assumed to be 0.00% for FYE 2013 and 2014, and 3.50% thereafter.

In addition, the following merit component is added based on an individual member's years of service:

Years of Service	Merit/ Longevity
0	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

3. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Gender	Percentage
Males	85%
Females	85%

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
 JUNE 30, 2011 ACTUARIAL VALUATION

**APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS**

4. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3 Rates of Termination	
Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

* Termination rates do not apply once a member is eligible for retirement

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increases per year.

5. Rates of Disability

Sample disability rates of active participants are provided in Table B-4.

Table B-4 Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

6. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

It is assumed that 50% of active deaths are service related.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
JUNE 30, 2011 ACTUARIAL VALUATION

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

7. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Table B-6 Rates of Mortality for Disabled Lives at Selected Ages	
Age	Mortality
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

8. Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-7.

Table B-7 Rates of Retirement by Age				
Age	Police		Fire	
	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

9. Administrative Expenses

\$3.0 million added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to $\frac{3}{11}$ ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

10. SRBR

0.22% of the market value of assets is added to the normal cost as the assumed average annual transfer of excess earnings to the SRBR.

11. Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study that were adopted by the Board in December 2011. The changes affected the investment return, wage inflation, salary merit increase, termination rates, disability rates, retirement rates, and healthy and disabled mortality assumptions. For a complete description of these changes, please refer to the experience study report dated October 28, 2011.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

Prior to this valuation, the actuarial value of assets was reduced by the SRBR and no liability was reported for the SRBR. With this valuation, the SRBR remains a part of the actuarial value of assets and is also added to the actuarial liability.

3. Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

1. Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San Jose as a police officer or fire fighter except for the following:

- Independent contractors,
- Person in City service principally for training or educational purposes,
- Auxiliary or voluntary police officers or fire fighters,
- Part-time or non-salaried employees, and
- Employees receiving credit in any other retirement or pension system.

2. Final Compensation

The highest twelve consecutive months of compensation in covered employment. However, in determining Final Compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately preceding the last 12 month shall be considered. Compensation excludes overtime pay and expense allowances.

3. Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4. Contributions

a. Member:

The amount needed to fund 3/11 of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5. Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit

Police: 2.5% of Final Compensation for each year of credited service up to 20 years plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 2.5% of Final Compensation for each year of credited service. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final compensation.

6. Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of Final Compensation plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 50% of Final Compensation. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final Compensation.

7. Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of Final Compensation plus 1% of Final Compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

8. Non-Service-Connected Death

Less than 2 Years of Service:

Lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

Disabled retirees or members ineligible for service retirement:

Spouse receives 24% of Final Compensation plus 0.75% of Final Compensation for each year of service in excess of two, subject to a maximum of 37.5% of Final Compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25% of Final Compensation
2 Children:	37.5% of Final Compensation
3+ Children:	50% of Final Compensation

The total benefit payable to a family is limited to 75% of Final Compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

Service retirees or members eligible for service retirement:

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75% of Final Compensation.

9. Service-Connected Death

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% of Final Compensation.

10. Termination Benefits

Less than 10 Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest at 2% per annum.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

10 or more years of credited service:

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12. Supplemental Retiree Benefit Reserve

Annual transfer:	10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets are transferred to the SRBR and added to its principal.
Interest credit:	Interest on the SRBR balance equal to the actual rate of earnings on the actuarial value of assets, but not less than zero.
Benefit:	Board shall make annual distributions from the SRBR to provide supplemental benefits to retirees and beneficiaries except that no distributions can be made during calendar years 2010, 2011 and 2012, prior to June 30, 2012. In addition, distributions may not reduce the principal of the SRBR.
Charge to Principal:	If the City's contribution rate increases due to poor investment earnings, 10% of the increased contribution for a one-year period is deducted from the SRBR principal, subject to a maximum deduction of 5% of the SRBR principal.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

**APPENDIX D
GLOSSARY OF TERMS**

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future Plan benefits and the present value of total future normal costs. This is also referred to by some actuaries as the “accrued liability” or “actuarial liability”.

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the Plan which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement Plan benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

**APPENDIX D
GLOSSARY OF TERMS**

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SJPF Employer computed contribution rate for FYE 2013 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement Plan benefits allocated to the current year by the actuarial funding method.

11. Set back/Set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A Plan would use set backs or set forwards to compensate for mortality experience in their work force.

12. Unfunded Actuarial Liability (UAL)

The unfunded actuarial liability represents the difference between actuarial liability and the actuarial value of assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

Most retirement Plans have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).

February 21, 2012

VIA ELECTRONIC MAIL

Mr. Russell Crosby, Director of Retirement Services
 City of San Jose
 Police & Fire Department Retirement Plan
 1737 North 1st Street, Suite 580
 San Jose, California 95112

Re: 5-Year Budget Projections for Police & Fire

Dear Russell:

As requested, based on our recently completed June 30, 2011 valuations, we have estimated the future contributions expected to be required of the City of San Jose to the City of San Jose Police & Fire Department Retirement Plan (Pension Plan) and the Police & Fire Department Retiree Medical and Dental Insurance Plan (OPEB Plan) for the next five years. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year and that all assumptions in the valuations are exactly realized each year, since June 30, 2011. Please refer to those reports for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in each of the valuations.

City of San Jose Police & Fire Department Plans							
Projected City Contributions*							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	190.7	110.1	57.7%	15.5	8.1%	125.6	65.8%
2014	190.7	122.6	64.3%	18.0	9.5%	140.6	73.8%
2015	197.4	131.1	66.4%	20.5	10.4%	151.6	76.8%
2016	204.3	129.1	63.2%	22.2	10.9%	151.3	74.1%
2017	211.5	130.1	61.5%	23.3	11.0%	153.4	72.5%

** In preparing these projections, we requested the most recent investment earnings for the fiscal year-to-date and whether there were any additional layoffs, pay reductions, or significant events since June 30, 2011 that could materially affect these projections. We were informed that while earnings through 12/31/2011 were well below the assumed return for that period, that January and early February returns are likely to be very positive, and the remaining four and a half months of fiscal year 2012 offers more opportunity to realize the assumed return. In addition, we were informed by the City that there were no significant changes to the workforce or payroll since June 30, 2011.*



For the OPEB projections, the valuation has not been finalized, but the preliminary results indicate that the City's contributions would be in excess of the annual increase caps established in the MOAs. These projections apply the caps in the MOAs to the projected payroll, and it is assumed that the ultimate cap on the City's contribution rate of 11.0% remains in effect for the duration of the projection. In addition, these OPEB projections do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 and related legislation and regulations. Finally, the reality will be that experience will deviate from the assumptions which could have a significant impact on these projections in the short term. However, over the long term, the expectation is that overall favorable deviations will be offset by unfavorable deviations.

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

City of San Jose Police & Fire Department Plans							
Police Only							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	121.7	69.4	57.0%	10.9	9.0%	80.3	66.0%
2014	121.7	77.4	63.6%	12.6	10.3%	90.0	73.9%
2015	126.0	82.8	65.7%	13.9	11.0%	96.7	76.7%
2016	130.4	81.5	62.5%	14.3	11.0%	95.8	73.5%
2017	135.0	82.1	60.8%	14.8	11.0%	96.9	71.8%

City of San Jose Police & Fire Department Plans							
Fire Only							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	69.0	40.6	58.9%	4.6	6.6%	45.2	65.5%
2014	69.0	45.2	65.5%	5.5	8.0%	50.7	73.5%
2015	71.4	48.3	67.6%	6.7	9.3%	55.0	76.9%
2016	73.9	47.6	64.4%	7.9	10.7%	55.5	75.1%
2017	76.5	48.0	62.8%	8.4	11.0%	56.4	73.8%

Also as requested, we have attached 20-year projections of City pension contributions.

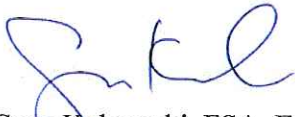
We hereby certify that, to the best of our knowledge, this letter and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of

Mr. Russell Crosby
February 21, 2012
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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.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,
Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



Margaret Tempkin, FSA, EA, MAAA
Principal Consulting Actuary

Attachment

cc: Bill Hallmark
Carmen Racy-Choy
Joshua Davis

**CITY OF SAN JOSE POLICE & FIRE DEPARTMENT RETIREMENT PLAN
20-YEAR PROJECTED PENSION CONTRIBUTIONS**

City of San Jose							
Police and Fire Department Retirement Plan							
20-Year Projections of City Pension Contributions							
Fiscal Year Ending	Projected Total City Contribution Amount (Middle of Year)	Projected Total City Contribution Rate (% of Payroll)	Projected Police City Contribution Amount (Middle of Year)	Projected Police City Contribution Rate (% of Payroll)	Projected Fire City Contribution Amount (Middle of Year)	Projected Fire City Contribution Rate (% of Payroll)	
2013	\$ 110,053,000	57.7%	\$ 69,423,000	57.0%	\$ 40,630,000	58.9%	
2014	\$ 122,599,000	64.3%	\$ 77,406,000	63.6%	\$ 45,193,000	65.5%	
2015	\$ 131,089,000	66.4%	\$ 82,795,000	65.7%	\$ 48,294,000	67.6%	
2016	\$ 129,140,000	63.2%	\$ 81,521,000	62.5%	\$ 47,620,000	64.4%	
2017	\$ 130,118,000	61.5%	\$ 82,113,000	60.8%	\$ 48,005,000	62.8%	
2018	\$ 134,910,000	61.6%	\$ 85,139,000	60.9%	\$ 49,771,000	62.9%	
2019	\$ 140,614,000	62.1%	\$ 88,745,000	61.4%	\$ 51,868,000	63.3%	
2020	\$ 145,759,000	62.2%	\$ 91,995,000	61.5%	\$ 53,765,000	63.4%	
2021	\$ 151,112,000	62.3%	\$ 95,374,000	61.6%	\$ 55,737,000	63.5%	
2022	\$ 156,656,000	62.4%	\$ 98,875,000	61.7%	\$ 57,780,000	63.6%	
2023	\$ 148,375,000	57.1%	\$ 91,268,000	55.0%	\$ 57,108,000	60.7%	
2024	\$ 153,827,000	57.2%	\$ 94,627,000	55.1%	\$ 59,200,000	60.8%	
2025	\$ 171,563,000	61.6%	\$ 109,337,000	61.5%	\$ 62,226,000	61.8%	
2026	\$ 177,779,000	61.7%	\$ 113,299,000	61.6%	\$ 64,480,000	61.9%	
2027	\$ 122,052,000	40.9%	\$ 77,724,000	40.8%	\$ 44,328,000	41.1%	
2028	\$ 84,686,000	27.4%	\$ 53,868,000	27.3%	\$ 30,819,000	27.6%	
2029	\$ 127,196,000	39.8%	\$ 80,994,000	39.7%	\$ 46,202,000	40.0%	
2030	\$ 113,430,000	34.3%	\$ 72,201,000	34.2%	\$ 41,229,000	34.5%	
2031	\$ 110,506,000	32.3%	\$ 70,327,000	32.2%	\$ 40,178,000	32.4%	
2032	\$ 126,089,000	35.6%	\$ 80,267,000	35.5%	\$ 45,822,000	35.8%	

Based on 6/30/11 actuarial valuation. The contribution rates and amounts shown above are prior to adjustment for the offset in City contribution rates and amounts due to the change to the SRBR.

