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January 30, 2013

VIA ELECTRONIC MAIL

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st 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. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year.

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
2014	\$ 188.0	\$ 132.6	70.55%	\$ 17.7	9.42%	\$ 150.3	79.97%
2015	194.5	147.0	75.57%	20.2	10.36%	167.2	85.93%
2016	201.3	150.4	74.67%	21.9	10.87%	172.2	85.54%
2017	208.4	156.5	75.10%	22.9	11.00%	179.4	86.10%
2018	215.7	166.7	77.31%	23.7	11.00%	190.5	88.31%

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 both Police and Fire are projected to reach this level in the 5-year projection period. For the purposes of these projections, we have shown a maximum City contribution rate of 11% of payroll.

Additionally, please note that these projections are based on the June 30, 2012 actuarial valuations for the pension and OPEB plans, and assume that all assumptions were exactly met since June 30, 2012 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. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. The pension contribution rates and amounts shown in the tables are prior to adjustment



for the offset in city contribution rates and amounts due to the charge to the Supplemental Retiree Benefit Reserve (SRBR). No changes to the SRBR provisions are reflected. Finally, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2012. 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.

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 José Police & Fire Department Plans								
Police Only								
(Dollar Amounts in millions)								
FYE	Payroll	Pension		OPEB		Total		
		Amount	Rate	Amount	Rate	Amount	Rate	
2014	\$ 116.5	\$ 81.5	69.99%	\$ 12.0	10.31%	\$ 93.5	80.30%	
2015	120.5	90.4	75.01%	13.3	11.00%	103.7	86.01%	
2016	124.7	92.4	74.11%	13.7	11.00%	106.2	85.11%	
2017	129.1	96.2	74.54%	14.2	11.00%	110.4	85.54%	
2018	133.6	102.6	76.75%	14.7	11.00%	117.3	87.74%	

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	
2014	\$ 71.5	\$ 51.1	71.47%	\$ 5.7	7.97%	\$ 56.8	79.43%	
2015	74.0	56.6	76.49%	6.9	9.32%	63.5	85.80%	
2016	76.6	57.9	75.59%	8.2	10.66%	66.1	86.25%	
2017	79.3	60.3	76.02%	8.7	11.00%	69.0	87.02%	
2018	82.1	64.2	78.23%	9.0	11.00%	73.2	89.23%	

Also as requested, we have attached 20-year projections of City pension contributions. In addition, we have also included 20-year projections of City pension contributions assuming the SRBR is eliminated. Measure B, which voters approved on June 5, 2012, provides for the elimination of the SRBR, and we understand the City has taken steps to adopt an ordinance implementing this provision of Measure B. The other tables in this letter assume the SRBR continues, but since that valuation is used to set contribution rates for the Fiscal

Year Ending June 30, 2014, we have also calculated the projected contribution rates assuming the SRBR is eliminated.

Finally, the tables below provide separate projections of the full contribution rates for the OPEB plan separated between Police and Fire and 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 tables below show the combined employee and City amounts and rates.

City of San José Police & Fire Department Plans							
Police Only							
(Dollar Amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2014	\$ 116.5	\$ 28.3	24.29%	\$ 2.8	2.40%	\$ 31.1	26.69%
2015	120.5	30.0	24.88%	3.0	2.46%	33.0	27.34%
2016	124.7	31.5	25.28%	3.1	2.52%	34.7	27.80%
2017	129.1	33.2	25.69%	3.3	2.55%	36.5	28.24%
2018	133.6	35.0	26.19%	3.5	2.59%	38.5	28.78%

City of San José Police & Fire Department Plans							
Fire Only							
(Dollar Amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2014	\$ 71.5	\$ 16.0	22.41%	\$ 1.7	2.32%	\$ 17.7	24.73%
2015	74.0	17.1	23.09%	1.8	2.40%	18.9	25.48%
2016	76.6	18.1	23.62%	1.9	2.47%	20.0	26.09%
2017	79.3	19.1	24.06%	2.0	2.53%	21.1	26.59%
2018	82.1	20.0	24.41%	2.1	2.59%	22.1	26.99%

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.

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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.

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
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cc: Donna Busse
Gene Kalwarski
Joshua Davis

**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 (No Change to the SRBR Program)										
Fiscal Year Ending	Projected Total City		Projected Total City		Projected Police		Projected Police		Projected Fire City	
	Contribution Amount (Middle of Year)	Contribution Rate (% of Payroll)	Contribution Amount (Middle of Year)	Contribution Rate (% of Payroll)	City Contribution Amount (Middle of Year)	City Contribution Rate (% of Payroll)	City Contribution Amount (Middle of Year)	City Contribution Rate (% of Payroll)	Contribution Amount (Middle of Year)	Contribution Rate (% of Payroll)
2014	\$ 132,603,000	70.5%	\$ 81,501,000	70.0%	\$ 51,103,000	71.5%				
2015	\$ 147,014,000	75.6%	\$ 90,406,000	75.0%	\$ 56,608,000	76.5%				
2016	\$ 150,350,000	74.7%	\$ 92,449,000	74.1%	\$ 57,901,000	75.6%				
2017	\$ 156,507,000	75.1%	\$ 96,240,000	74.5%	\$ 60,268,000	76.0%				
2018	\$ 166,749,000	77.3%	\$ 102,560,000	76.7%	\$ 64,189,000	78.2%				
2019	\$ 173,588,000	77.8%	\$ 106,770,000	77.2%	\$ 66,818,000	78.7%				
2020	\$ 179,891,000	77.9%	\$ 110,648,000	77.3%	\$ 69,243,000	78.8%				
2021	\$ 186,487,000	78.0%	\$ 114,707,000	77.4%	\$ 71,780,000	78.9%				
2022	\$ 193,323,000	78.1%	\$ 118,913,000	77.5%	\$ 74,410,000	79.0%				
2023	\$ 186,554,000	72.8%	\$ 112,316,000	70.8%	\$ 74,238,000	76.2%				
2024	\$ 193,406,000	72.9%	\$ 116,447,000	70.9%	\$ 76,959,000	76.3%				
2025	\$ 212,423,000	77.4%	\$ 131,474,000	77.3%	\$ 80,949,000	77.5%				
2026	\$ 220,151,000	77.5%	\$ 136,258,000	77.4%	\$ 83,894,000	77.6%				
2027	\$ 166,991,000	56.8%	\$ 103,316,000	56.7%	\$ 63,675,000	56.9%				
2028	\$ 131,998,000	43.4%	\$ 81,630,000	43.3%	\$ 50,368,000	43.5%				
2029	\$ 175,542,000	55.7%	\$ 108,603,000	55.7%	\$ 66,939,000	55.9%				
2030	\$ 161,071,000	49.4%	\$ 99,632,000	49.3%	\$ 61,439,000	49.6%				
2031	\$ 150,171,000	44.5%	\$ 92,873,000	44.4%	\$ 57,298,000	44.6%				
2032	\$ 159,028,000	45.5%	\$ 98,355,000	45.5%	\$ 60,673,000	45.7%				
2033	\$ 155,053,000	42.9%	\$ 95,886,000	42.8%	\$ 59,167,000	43.0%				



**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 (Assuming the SRBR Program is Eliminated)											
Fiscal Year	Projected Total		Projected Police		Projected Fire		Projected Police		Projected Fire		Projected Fire City Contribution Rate
	City Contribution Amount	City Contribution Rate	City Contribution Amount	City Contribution Rate	City Contribution Amount	City Contribution Rate	City Contribution Amount	City Contribution Rate	City Contribution Amount	City Contribution Rate	
Ending	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)	(Middle of Year)	(% of Payroll)	(% of Payroll)
2014	\$ 123,819,000	65.9%	\$ 76,058,000	65.3%	\$ 47,761,000	66.8%					
2015	\$ 137,405,000	70.6%	\$ 84,453,000	70.1%	\$ 52,952,000	71.5%					
2016	\$ 140,096,000	69.6%	\$ 86,096,000	69.0%	\$ 54,000,000	70.5%					
2017	\$ 145,744,000	69.9%	\$ 89,571,000	69.4%	\$ 56,173,000	70.9%					
2018	\$ 155,422,000	72.1%	\$ 95,542,000	71.5%	\$ 59,880,000	73.0%					
2019	\$ 161,599,000	72.4%	\$ 99,343,000	71.8%	\$ 62,257,000	73.3%					
2020	\$ 167,236,000	72.4%	\$ 102,807,000	71.8%	\$ 64,428,000	73.3%					
2021	\$ 173,089,000	72.4%	\$ 106,406,000	71.8%	\$ 66,683,000	73.3%					
2022	\$ 179,147,000	72.4%	\$ 110,130,000	71.8%	\$ 69,017,000	73.3%					
2023	\$ 171,566,000	67.0%	\$ 103,030,000	64.9%	\$ 68,536,000	70.3%					
2024	\$ 177,570,000	67.0%	\$ 106,636,000	64.9%	\$ 70,935,000	70.3%					
2025	\$ 195,740,000	71.3%	\$ 121,138,000	71.2%	\$ 74,602,000	71.5%					
2026	\$ 202,593,000	71.3%	\$ 125,379,000	71.3%	\$ 77,214,000	71.5%					
2027	\$ 148,503,000	50.5%	\$ 91,861,000	50.4%	\$ 56,642,000	50.6%					
2028	\$ 112,548,000	37.0%	\$ 69,580,000	36.9%	\$ 42,969,000	37.1%					
2029	\$ 155,241,000	49.3%	\$ 96,026,000	49.2%	\$ 59,216,000	49.4%					
2030	\$ 145,038,000	44.5%	\$ 89,699,000	44.4%	\$ 55,340,000	44.6%					
2031	\$ 134,072,000	39.7%	\$ 82,899,000	39.7%	\$ 51,173,000	39.9%					
2032	\$ 142,438,000	40.8%	\$ 88,076,000	40.7%	\$ 54,362,000	40.9%					
2033	\$ 137,674,000	38.1%	\$ 85,118,000	38.0%	\$ 52,555,000	38.2%					

