



December 21, 2012

VIA ELECTRONIC MAIL

Board of Administration
City of San José Police & Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112

Re: FYE 2014 Contribution Rates Assuming the SRBR is Eliminated

Dear Members of the Board:

The purpose of this letter is to provide, as requested by the Board at its December meeting, alternative June 30, 2012 actuarial valuation results assuming the Supplemental Retiree Benefit Reserve (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 June 30, 2012 actuarial valuation assumes the SRBR continues, but since that valuation is used to set contribution rates for the Fiscal Year Ending June 30, 2014, the Board requested that we also calculate the contribution rates assuming the SRBR is eliminated.

If the SRBR is eliminated, the actuarial liability (AL) and the unfunded actuarial liability (UAL) would be reduced by the amount held in the SRBR, approximately \$32.5 million. There is no change to the assets held by the Plan, but the portion in the SRBR would no longer be used to provide additional retirement benefits. The table below shows a summary of the key valuation results with and without the SRBR.

Summary of Key Valuation Results		
	Without SRBR	With SRBR
Valuation Date	6/30/2012	6/30/2012
Discount Rate	7.25%	7.25%
Actuarial Liability (AL)	\$ 3,397.8	\$ 3,430.3
Actuarial Value of Assets (AVA)	\$ 2,703.5	\$ 2,703.5
Unfunded Actuarial Liability (UAL)	\$ 694.3	\$ 726.8
AVA Funded Ratio	79.6%	78.8%
Market Value of Assets (MVA)	\$ 2,578.9	\$ 2,578.9
MVA Funded Ratio	75.9%	75.2%

Dollar amounts in millions



Under the current funding policy, this reduction in UAL would be amortized over 16 years as a level percentage of projected payroll, reducing the City's contribution rate by approximately 1.5% of payroll. In addition to the reduction in UAL, the normal cost charge for the expected amount transferred to the SRBR each year (0.22% of assets) would no longer apply, reducing the City's contribution rate by an additional 3.1% of payroll. In aggregate, these changes reduce the City's contribution as of the beginning of the year by approximately \$8.4 million. The table below summarizes the contribution rates and amounts for the Fiscal Year Ending June 30, 2014 both with and without the SRBR.

Summary of Key Valuation Results		
Fiscal Year Ending	Without SRBR 6/30/2014	With SRBR 6/30/2014
Aggregate Contribution Rates		
Member		
Normal Cost Rate	11.6%	11.6%
UAL Rate	0.1%	0.1%
Total Member Rate	11.7%	11.7%
City		
Normal Cost Rate	31.6%	34.7%
UAL Rate	34.3%	35.8%
Total Member Rate	65.9%	70.5%
Expected Payroll	\$ 188.0	\$ 188.0
City Contribution Amounts		
Beginning of Year	\$ 119.6	\$ 128.0
Middle of Year	\$ 123.8	\$ 132.6

Dollar amounts in millions

The table below provides additional detail of the contribution rates separately for Police and Fire both with and without the SRBR. It should be noted that there is no impact to employee contribution rates.

Summary of Contribution Rates						
	Without SRBR			With SRBR		
	Fiscal Year 2013-14			Fiscal Year 2013-14		
	Member	City	Total	Member	City	Total
Police						
Normal Cost	11.53%	31.54%	43.06%	11.53%	34.66%	46.19%
UAL	0.12%	33.78%	33.90%	0.12%	35.32%	35.45%
Total	11.65%	65.31%	76.96%	11.65%	69.99%	81.63%
Fire						
Normal Cost	11.62%	31.75%	43.37%	11.62%	34.87%	46.49%
UAL	0.10%	35.05%	35.14%	0.10%	36.59%	36.69%
Total	11.72%	66.79%	78.51%	11.72%	71.47%	83.18%

In preparing this letter, 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 #23. This information is summarized in the full actuarial valuation report along with a summary of the methods, assumptions and plan provisions used in this analysis.

I hereby certify that, to the best of my 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 a credentialed actuary, I 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. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the City of San José Police & Fire Department Retirement Plan for the purpose described herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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

Sincerely,
Cheiron



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

cc: Donna Busse
Gene Kalwarski
Joshua Davis