

## RETIREMENT SERVICES

The mission of the Retirement Services Department is to provide quality services in the delivery of pension and related benefits and maintain financially sound pension plans.

# RETIREMENT SERVICES

The Office of Retirement Services administers two pension plans, the Federated City Employees' Retirement System (Federated) and the Police and Fire Department Retirement Plan (Police and Fire), as well as Other Post-Employment Benefits (OPEB) for City employees and retirees.\*

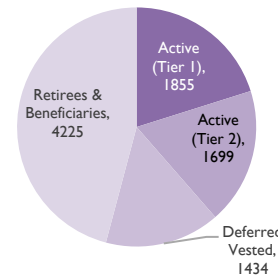
The Office is responsible for administering retirement benefits, including providing retirement planning and counseling; supervising the investment of plan assets; managing contracts; and producing financial reports.

In 2017-18, the Office's personal expenses totaled \$6.1 million, and there were 40 authorized positions (up from 29 positions ten years ago). About \$4.5 million in additional administrative costs, such as professional fees, were paid out of the retirement funds. A comprehensive report by the Office put total investment fees at \$68.6 million for calendar year 2017.

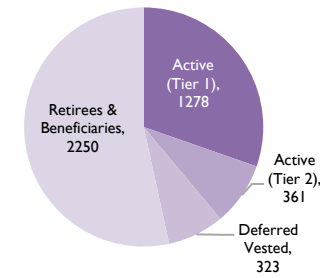
The City's total contributions to the two plans included \$314 million for pension benefits and \$58 million for OPEB, along with contributions from City employees of \$76 million for pension and OPEB. This totals to \$448 million in contributions from the City and its employees. The City's contributions have grown dramatically since the early 2000s and are expected to continue to grow in the coming years.

\*The City also offers a Tier 3 defined contribution plan for new executive and professional employees that is managed by the Human Resources Department. See the Human Resources chapter for more information.

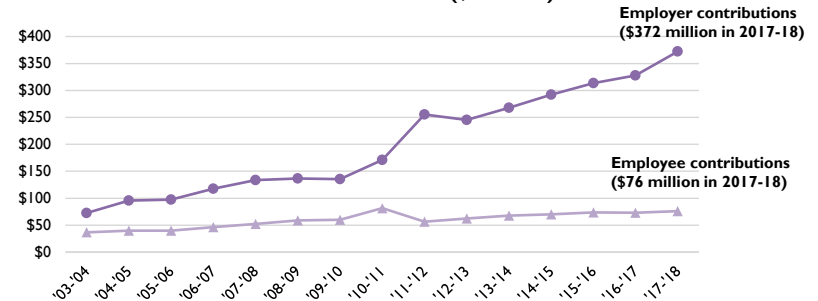
Federated Plan Membership



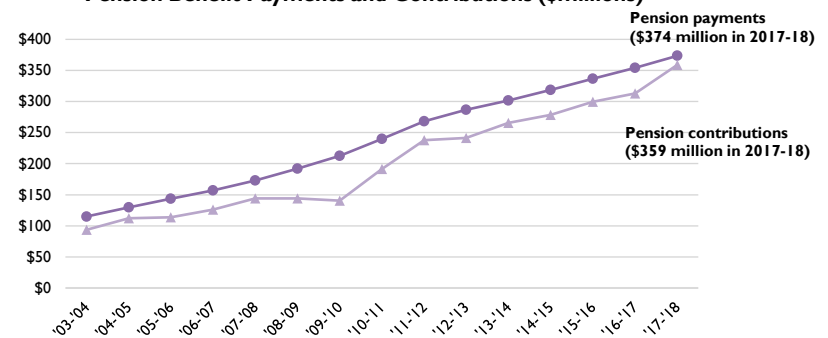
Police and Fire Plan Membership



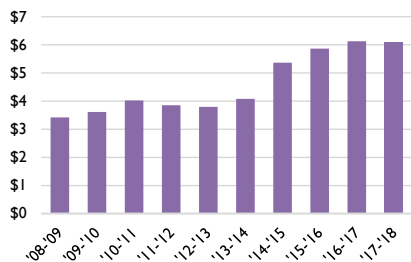
Total Annual Contributions for Pension and Retiree Health and Dental Benefits (\$millions)



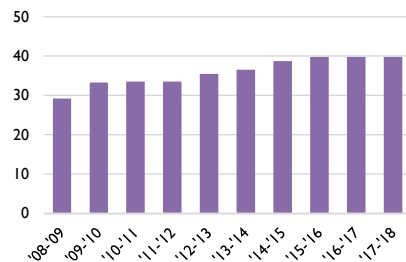
Pension Benefit Payments and Contributions (\$millions)



Retirement Services Personal Services Expenditures (\$millions)



Retirement Services Authorized Positions



Note: The Retirement Services chapter of the City's Operating Budget, as of June 30, 2018, only includes personal services. Additional administrative expenses and investment expenses are included in the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan Comprehensive Financial Reports.

Sources for above charts: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System](#) Comprehensive Annual Financial Reports

# RETIREMENT SERVICES

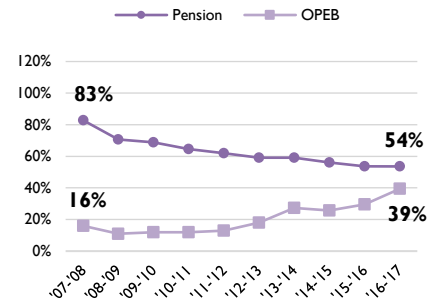
As of June 30, 2018, there were 6,475 retirees or beneficiaries of the plans, up from 4,658 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined to less than 1:1. In 1980, the ratio was nearly 5:1.

The pension and OPEB plans' total liabilities exceeded the values of their assets by \$2.4 billion for Federated and \$1.7 billion for Police and Fire respectively. These net liabilities totaled about \$260,000 per Federated member and over \$400,000 per Police and Fire member.

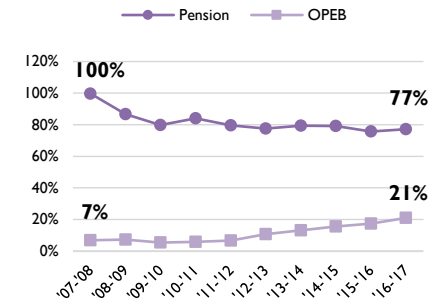
As of June 30, 2017, the Federated and Police and Fire independent actuaries determined that the funded ratios (or percent of liabilities covered by plan assets) were 54 percent for the Federated pension plan and 77 percent for the Police and Fire pension plan.

In 2016, San José voters passed Measure F, as part of a settlement between the City and its bargaining units, to supersede a previous retirement reform measure passed in 2012 (Measure B), which had been subject to legal challenges. Measure F was intended to preserve certain retirement benefits while maintaining some reduction in the growth of plan liabilities. Among other things, it improved Tier 2 benefits and closed retiree healthcare to new members.

**Federated Funded Status**



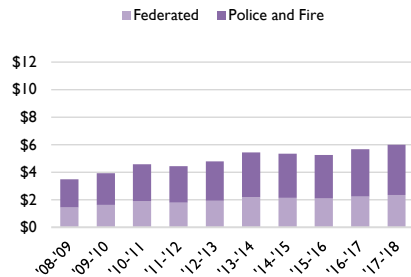
**Police and Fire Funded Status**



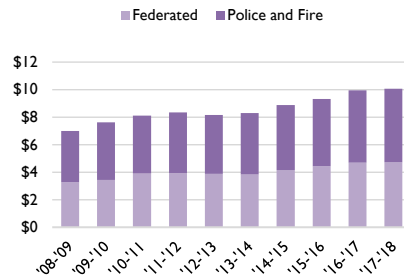
Sources: Federated City Employees' Retirement System and Police and Fire Department Retirement Plan Actuarial Valuations

Note: Funded status calculated using the actuarial value of assets, which differs from the market value as gains/losses are recognized over five years to minimize the effect of market volatility on contributions. For '16-'17, OPEB funded status reflects changes to asset and liability calculations based on newly implemented guidance from the Government Accounting Standards Board.

**Retirement Plan Net Assets (\$billions)**

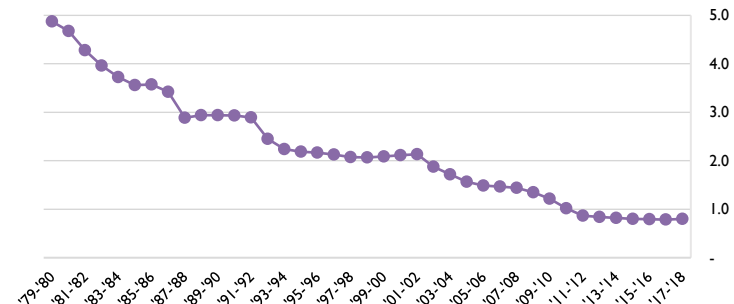


**Retirement Plan Total Liabilities (\$billions)**



Source: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations](#)

**Ratio of Active Members to Retirees and Beneficiaries**



Source: [Police and Fire Department Retirement Plan](#) and [Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations](#)

# RETIREMENT SERVICES

The retirement plans' assets are distributed among various types of investments, according to each board's investment policies. As of June 30, 2018, both pension plans held the largest portions of their assets in "alternatives," which are generally investments outside of traditional stocks, bonds, or cash.

During 2017-18, Federated had a net rate of return on pension plan assets of 5.9 percent and Police and Fire earned 6.9 percent. Over the past five years, the Federated and Police and Fire pensions' annualized net returns have been 5.0 and 5.6 percent, respectively. The assumed rate of return, or discount rate\*, for both plans was 6.875 percent as of June 30, 2018.

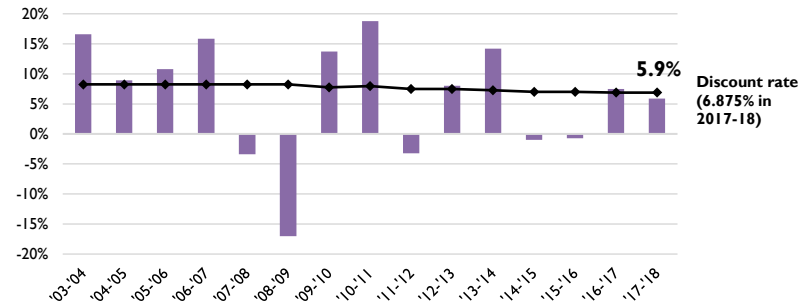
As a result of the positive investment returns, as well as payments for retirement benefits and health care premiums, total plan assets increased from \$5.68 billion last year to \$6.01 billion on June 30, 2018.

\*The assumed rate of return, or discount rate, is the annual rate used to discount pensions expected to be paid in the future to current dollars. For pension plans, it is often based on expected investment returns.

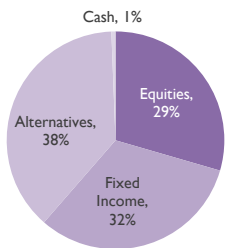
## Retirement Plan Oversight

The Office of Retirement Services is overseen by two separate Boards of Administration: one for Federated, and one for Police and Fire. Each board is comprised of active employee and retiree representatives, as well as City Council-appointed public members with financial experience. For more information, refer to our [2017 Audit of Retirement Services](#).

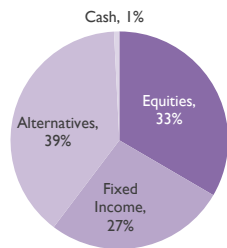
Federated Rate of Return, Net of Fees



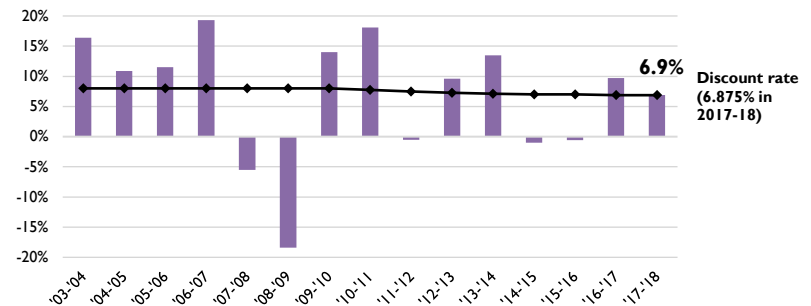
Federated Pension Actual Asset Allocation



Police and Fire Pension Actual Asset Allocation



Police and Fire Rate of Return, Net of Fees



Source: Auditor-generated categories based on retirement plans' June 30, 2018 investment reports.

Note: The "alternatives" category consists of the following asset classes: real assets, private equity, private debt, and absolute return.