

Via Electronic Mail

January 7, 2021

Ms. Cheryl Parkman
Assistant to the City Manager
City Manager's Office of Employee Relations
200 E Santa Clara Street, 3rd Floor Wing
San José, CA 95113-1905

Re: Additional Contribution Scenarios for Retirement Stakeholders Solutions Working Group (RSSWG)

Dear Cheryl:

The purpose of this letter is to convey projections of the impact of various potential additional City contributions to each of the San José pension plans. We understand that RSSWG is exploring potential additional sources of funds to dedicate to the pension plans in an effort to reduce the ongoing pressure on the City budget and intends to use this information to assess what level of additional contribution to the pension plans would make a significant difference.

Previously we had shown the RSSWG the impact of additional contributions of \$20 million per year under current Retirement Board policies that would amortize the additional contribution over 15 and 20 years from the time of the additional contribution for the Police and Fire and Federated systems respectively. These projections, based on the 2019 actuarial valuations, did not show a significant impact.

The projections attached to this letter are based on the 2020 actuarial valuations and take a different approach to the amortization of the additional contributions that would have to be approved by each Retirement Board in order to better meet the objectives of making the additional contributions.

For Federated, the largest portion of the amortization of the Unfunded Actuarial Liability (UAL) was established in 2009 and has 18 years remaining on its amortization period. If the additional contributions are targeted to pay off this portion of the UAL, the reduction in the Actuarially Determined Contribution (ADC) will be recognized more quickly, but will not affect projected contributions after 18 years when this portion of the UAL is scheduled to be paid off. At that point, though, the ADC is already projected to be much lower. The pressure on the City's budget comes from scheduled pension contributions over the next 18 years.

To reap the rewards of the additional pension contributions in terms of reduced stress on the City's budget, the additional contributions do not need to be made for the full 18 years. Consequently, for illustration purposes, we prepared three additional contribution scenarios for the Federated System:

1. \$25 million additional contribution for 10 years
2. \$50 million additional contribution for 10 years
3. \$50 million additional contribution for 5 years

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While the Police and Fire Plan does not have the same amortization schedule, for illustrative purposes, we also prepared the same scenarios for the Police and Fire plan.

Note that the additional contribution is in addition to the ADC calculated for that year, but as additional contributions are made, future ADC's are reduced. So, compared to the current projected contributions, the actual additional amount contributed in each scenario declines each year. Also, because the additional contribution is targeted to the Tier 1 UAL, there is no impact on member contributions.

The charts in the attachment show the projected ADC from the 2020 valuation as a red line compared to the revised ADC under the scenario (gold bar) and the additional contribution (green bar). The table below the chart shows the amounts for each component of the projection as well as the net difference in City contributions for each year. These projections assume that all assumptions from the actuarial valuation are met each and every year of the projection, including an investment return of 6.625%. Deviations in experience from the assumptions or changes in assumptions will change these projections and the net difference in contributions. The valuation reports contain an assessment of the key risks to these projections. We would be happy to expand these assessments to cover the additional contributions if it would be helpful to the RSSWG.

This letter and its attachments have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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.

Future projections may differ significantly from the current projections presented in this letter due to such factors as the following: plan experience different from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

This letter was prepared exclusively for the City of San José for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron



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



Anne D. Harper, FSA, EA, MAAA
Principal Consulting Actuary

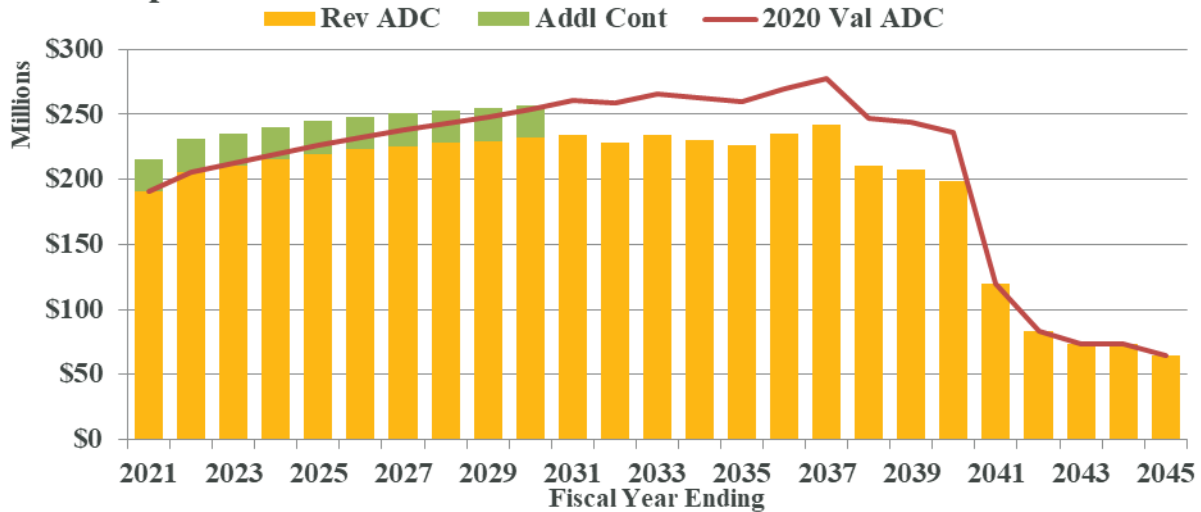
Attachment

cc: Roberto Peña



**Additional Contribution Scenarios
San José Federated City Employees Retirement System**

Impact of Additional Contribution of \$25 Million for 10 Years

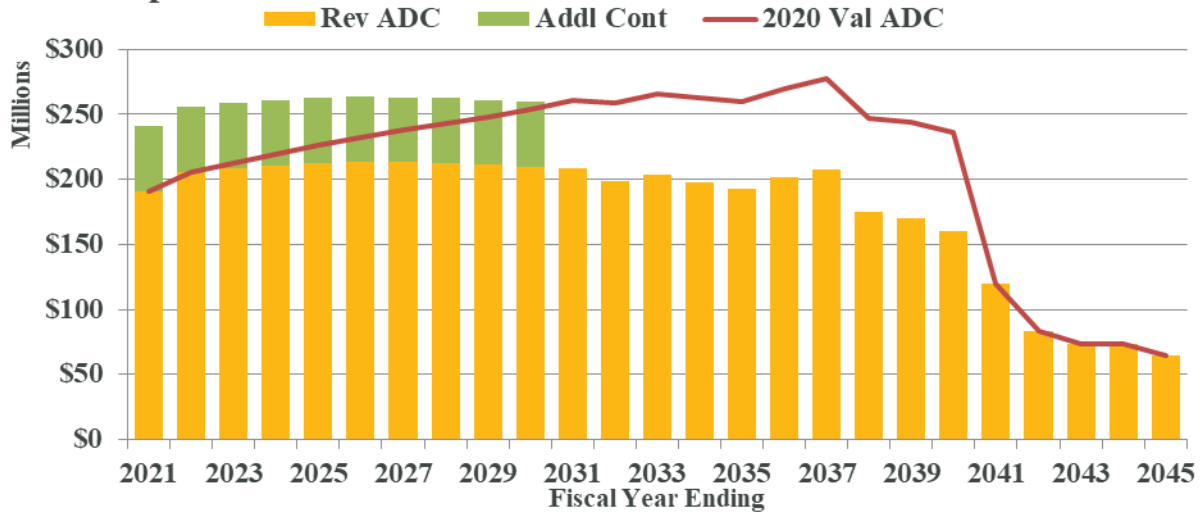


Impact of Additional Contribution of \$25 Million for 10 Years						
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference	
2021	\$ 190.9	\$ 190.9	\$ 25.0	\$ 215.9	\$ 25.0	
2022	206.0	206.0	25.0	231.0	25.0	
2023	212.8	210.6	25.0	235.6	22.8	
2024	219.8	215.4	25.0	240.4	20.6	
2025	226.6	219.8	25.0	244.8	18.2	
2026	232.5	223.1	25.0	248.1	15.6	
2027	237.8	225.5	25.0	250.5	12.7	
2028	243.2	227.9	25.0	252.9	9.7	
2029	248.3	229.7	25.0	254.7	6.4	
2030	254.2	232.0	25.0	257.0	2.8	
2031	260.4	234.3	0.0	234.3	(26.1)	
2032	259.3	228.8	0.0	228.8	(30.5)	
2033	265.8	234.5	0.0	234.5	(31.3)	
2034	262.5	230.3	0.0	230.3	(32.2)	
2035	259.4	226.3	0.0	226.3	(33.1)	
2036	269.5	235.5	0.0	235.5	(34.0)	
2037	277.4	242.4	0.0	242.4	(35.0)	
2038	246.7	210.8	0.0	210.8	(35.9)	
2039	244.4	207.5	0.0	207.5	(36.9)	
2040	236.4	198.5	0.0	198.5	(37.9)	
2041	119.6	119.6	0.0	119.6	0.0	
2042	83.3	83.3	0.0	83.3	0.0	
2043	73.3	73.3	0.0	73.3	0.0	
2044	73.2	73.2	0.0	73.2	0.0	
2045	64.7	64.7	0.0	64.7	0.0	

Amounts in millions

**Additional Contribution Scenarios
San José Federated City Employees Retirement System**

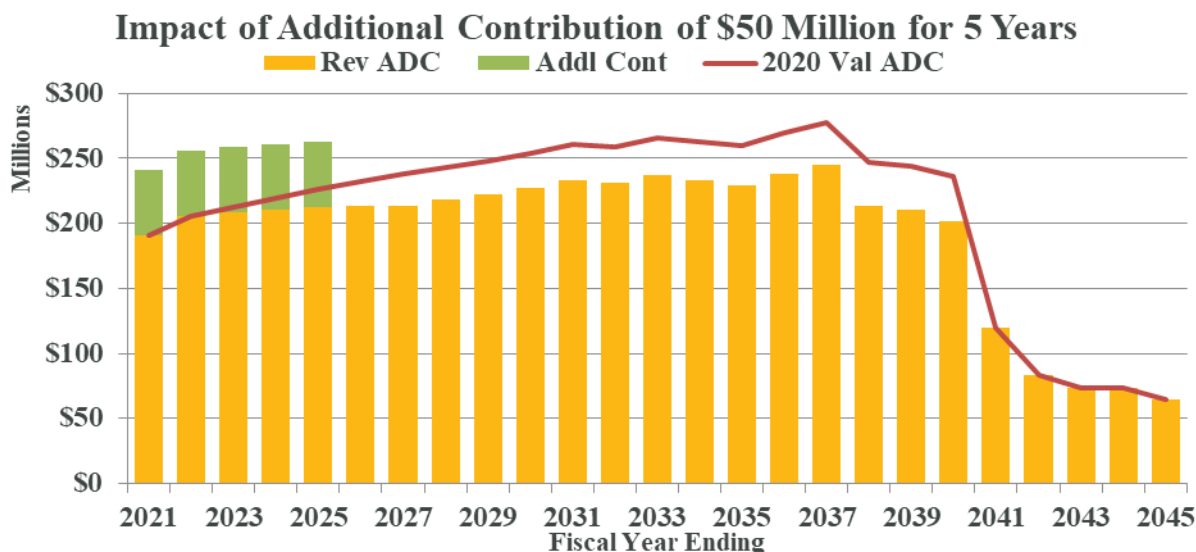
Impact of Additional Contribution of \$50 Million for 10 Years



Impact of Additional Contribution of \$50 Million for 10 Years					
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference
2021	\$ 190.9	\$ 190.9	\$ 50.0	\$ 240.9	\$ 50.0
2022	206.0	206.0	50.0	256.0	50.0
2023	212.8	208.5	50.0	258.5	45.7
2024	219.8	211.0	50.0	261.0	41.2
2025	226.6	212.9	50.0	262.9	36.3
2026	232.5	213.7	50.0	263.7	31.2
2027	237.8	213.3	50.0	263.3	25.5
2028	243.2	212.6	50.0	262.6	19.4
2029	248.3	211.1	50.0	261.1	12.8
2030	254.2	209.9	50.0	259.9	5.7
2031	260.4	208.1	0.0	208.1	(52.3)
2032	259.3	198.3	0.0	198.3	(61.0)
2033	265.8	203.2	0.0	203.2	(62.6)
2034	262.5	198.1	0.0	198.1	(64.4)
2035	259.4	193.2	0.0	193.2	(66.2)
2036	269.5	201.5	0.0	201.5	(68.0)
2037	277.4	207.5	0.0	207.5	(69.9)
2038	246.7	174.9	0.0	174.9	(71.8)
2039	244.4	170.6	0.0	170.6	(73.8)
2040	236.4	160.6	0.0	160.6	(75.8)
2041	119.6	119.6	0.0	119.6	0.0
2042	83.3	83.3	0.0	83.3	0.0
2043	73.3	73.3	0.0	73.3	0.0
2044	73.2	73.2	0.0	73.2	0.0
2045	64.7	64.7	0.0	64.7	0.0

Amounts in millions

Additional Contribution Scenarios
San José Federated City Employees Retirement System

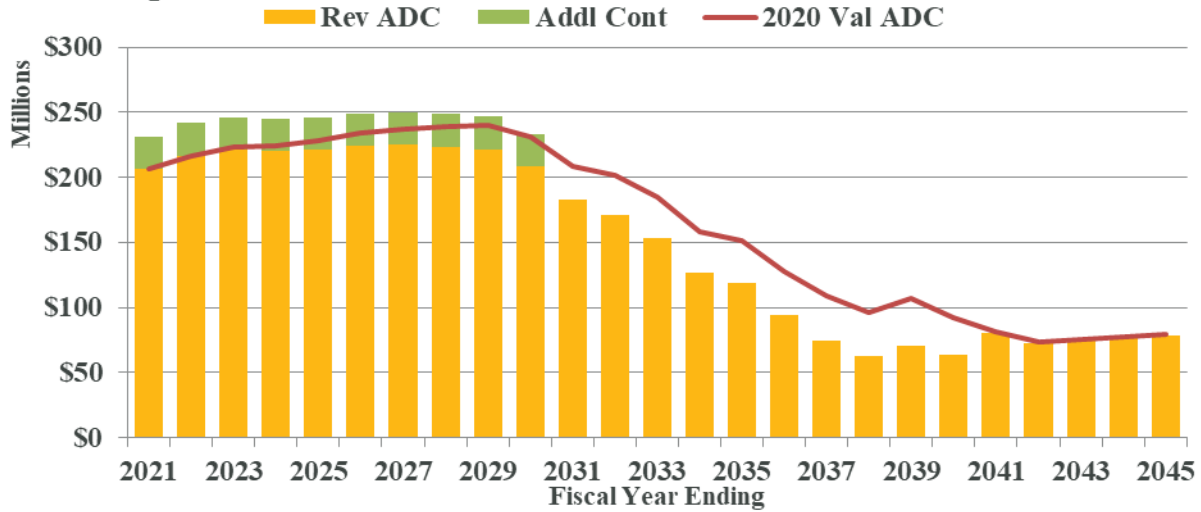


Impact of Additional Contribution of \$50 Million for 5 Years					
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference
2021	\$ 190.9	\$ 190.9	\$ 50.0	\$ 240.9	\$ 50.0
2022	206.0	206.0	50.0	256.0	50.0
2023	212.8	208.5	50.0	258.5	45.7
2024	219.8	211.0	50.0	261.0	41.2
2025	226.6	212.9	50.0	262.9	36.3
2026	232.5	213.7	0.0	213.7	(18.8)
2027	237.8	213.3	0.0	213.3	(24.5)
2028	243.2	218.0	0.0	218.0	(25.2)
2029	248.3	222.4	0.0	222.4	(25.9)
2030	254.2	227.7	0.0	227.7	(26.5)
2031	260.4	233.1	0.0	233.1	(27.3)
2032	259.3	231.2	0.0	231.2	(28.1)
2033	265.8	237.0	0.0	237.0	(28.8)
2034	262.5	232.9	0.0	232.9	(29.6)
2035	259.4	229.0	0.0	229.0	(30.4)
2036	269.5	238.2	0.0	238.2	(31.3)
2037	277.4	245.2	0.0	245.2	(32.2)
2038	246.7	213.7	0.0	213.7	(33.0)
2039	244.4	210.4	0.0	210.4	(34.0)
2040	236.4	201.5	0.0	201.5	(34.9)
2041	119.6	119.6	0.0	119.6	0.0
2042	83.3	83.3	0.0	83.3	0.0
2043	73.3	73.3	0.0	73.3	0.0
2044	73.2	73.2	0.0	73.2	0.0
2045	64.7	64.7	0.0	64.7	0.0

Amounts in millions

**Additional Contribution Scenarios
San José Police and Fire Department Retirement Plan**

Impact of Additional Contribution of \$25 Million for 10 Years

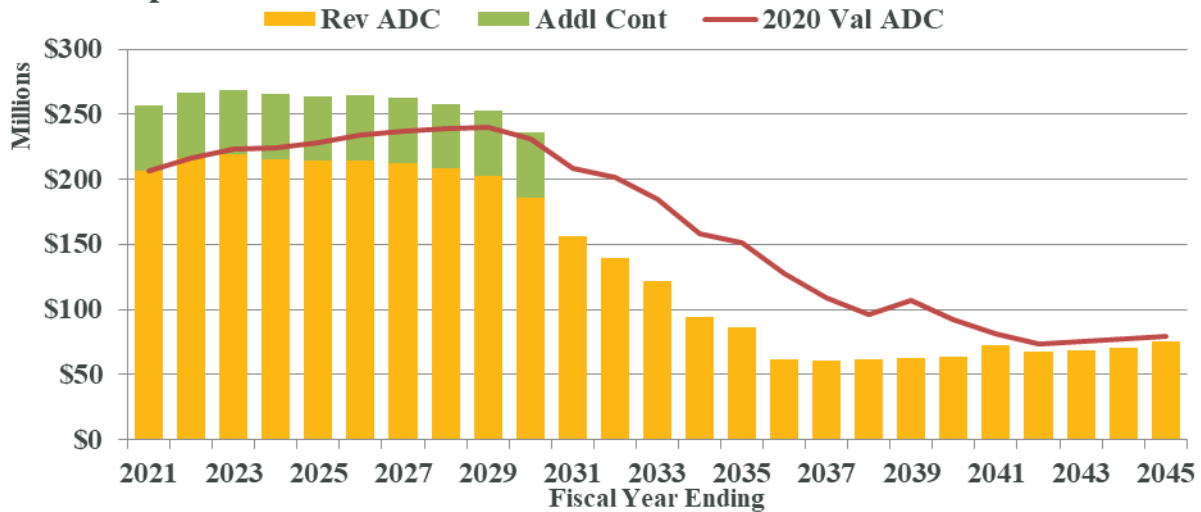


Impact of Additional Contribution of \$25 Million for 10 Years					
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference
2021	\$ 206.5	\$ 206.5	\$ 25.0	\$ 231.5	\$ 25.0
2022	216.9	216.9	25.0	241.9	25.0
2023	223.5	221.3	25.0	246.3	22.8
2024	224.8	220.3	25.0	245.3	20.5
2025	228.1	221.0	25.0	246.0	17.9
2026	233.9	224.3	25.0	249.3	15.4
2027	237.6	225.0	25.0	250.0	12.4
2028	239.4	223.8	25.0	248.8	9.4
2029	240.6	221.7	25.0	246.7	6.1
2030	230.8	208.4	25.0	233.4	2.6
2031	208.9	182.5	0.0	182.5	(26.4)
2032	201.4	170.7	0.0	170.7	(30.7)
2033	185.0	153.6	0.0	153.6	(31.4)
2034	158.4	126.3	0.0	126.3	(32.1)
2035	151.6	118.8	0.0	118.8	(32.8)
2036	127.6	94.0	0.0	94.0	(33.6)
2037	108.7	74.4	0.0	74.4	(34.3)
2038	95.8	62.6	0.0	62.6	(33.2)
2039	106.7	70.9	0.0	70.9	(35.8)
2040	92.3	63.9	0.0	63.9	(28.4)
2041	81.0	80.8	0.0	80.8	(0.2)
2042	73.8	72.7	0.0	72.7	(1.1)
2043	75.7	74.6	0.0	74.6	(1.1)
2044	77.6	76.5	0.0	76.5	(1.1)
2045	79.7	78.6	0.0	78.6	(1.1)

Amounts in millions

**Additional Contribution Scenarios
San José Police and Fire Department Retirement Plan**

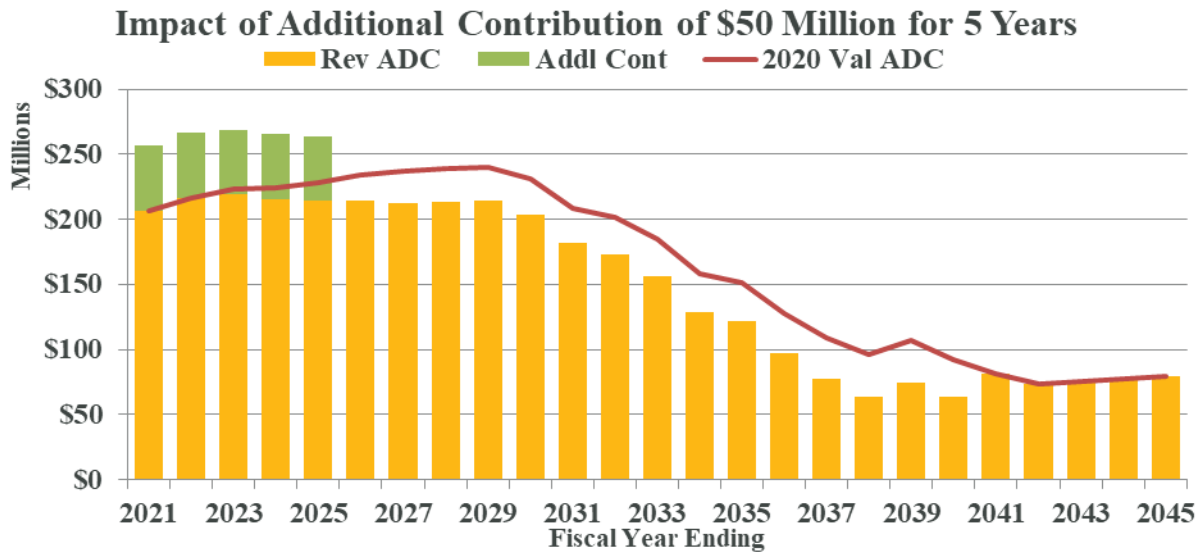
Impact of Additional Contribution of \$50 Million for 10 Years



Impact of Additional Contribution of \$50 Million for 10 Years					
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference
2021	\$ 206.5	\$ 206.5	\$ 50.0	\$ 256.5	\$ 50.0
2022	216.9	216.9	50.0	266.9	50.0
2023	223.5	219.1	50.0	269.1	45.6
2024	224.8	215.7	50.0	265.7	40.9
2025	228.1	214.0	50.0	264.0	35.9
2026	233.9	214.6	50.0	264.6	30.7
2027	237.6	212.5	50.0	262.5	24.9
2028	239.4	208.2	50.0	258.2	18.8
2029	240.6	202.8	50.0	252.8	12.2
2030	230.8	185.9	50.0	235.9	5.1
2031	208.9	156.1	0.0	156.1	(52.8)
2032	201.4	140.0	0.0	140.0	(61.4)
2033	185.0	122.2	0.0	122.2	(62.8)
2034	158.4	94.2	0.0	94.2	(64.2)
2035	151.6	86.0	0.0	86.0	(65.6)
2036	127.6	61.5	0.0	61.5	(66.1)
2037	108.7	60.7	0.0	60.7	(48.0)
2038	95.8	61.6	0.0	61.6	(34.2)
2039	106.7	62.7	0.0	62.7	(44.0)
2040	92.3	63.9	0.0	63.9	(28.4)
2041	81.0	72.1	0.0	72.1	(8.9)
2042	73.8	67.1	0.0	67.1	(6.7)
2043	75.7	69.0	0.0	69.0	(6.7)
2044	77.6	70.9	0.0	70.9	(6.7)
2045	79.7	75.4	0.0	75.4	(4.3)

Amounts in millions

**Additional Contribution Scenarios
San José Police and Fire Department Retirement Plan**



Impact of Additional Contribution of \$50 Million for 5 Years					
FYE	2020 Valuation Projected ADC	Revised ADC	Additional Contribution	Total City Contribution	Difference
2021	\$ 206.5	\$ 206.5	\$ 50.0	\$ 256.5	\$ 50.0
2022	216.9	216.9	50.0	266.9	50.0
2023	223.5	219.1	50.0	269.1	45.6
2024	224.8	215.7	50.0	265.7	40.9
2025	228.1	214.0	50.0	264.0	35.9
2026	233.9	214.6	0.0	214.6	(19.3)
2027	237.6	212.5	0.0	212.5	(25.1)
2028	239.4	213.7	0.0	213.7	(25.7)
2029	240.6	214.4	0.0	214.4	(26.2)
2030	230.8	204.0	0.0	204.0	(26.8)
2031	208.9	181.5	0.0	181.5	(27.4)
2032	201.4	173.4	0.0	173.4	(28.0)
2033	185.0	156.3	0.0	156.3	(28.7)
2034	158.4	129.1	0.0	129.1	(29.3)
2035	151.6	121.7	0.0	121.7	(29.9)
2036	127.6	97.0	0.0	97.0	(30.6)
2037	108.7	77.4	0.0	77.4	(31.3)
2038	95.8	63.9	0.0	63.9	(31.9)
2039	106.7	74.0	0.0	74.0	(32.7)
2040	92.3	63.9	0.0	63.9	(28.4)
2041	81.0	81.0	0.0	81.0	0.0
2042	73.8	73.3	0.0	73.3	(0.5)
2043	75.7	75.1	0.0	75.1	(0.6)
2044	77.6	77.0	0.0	77.0	(0.6)
2045	79.7	79.2	0.0	79.2	(0.5)

Amounts in millions