



City of San Jose Police and Fire Department Retirement Plan

INTRODUCTION

The Police and Fire Department Retirement Plan (Plan) is pleased to present the Popular Annual Financial Report (PAFR) which summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. The financial data presented in the PAFR is derived from the CAFR and is consistent with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). The PAFR provides a concise summary of the Plan's financial position, investment performance and key accomplishments throughout the fiscal year. The Plan consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

For fiscal year 2016, the Defined Benefit Pension Plan returned (0.4)% gross of fees and (0.6)% net of fees, while the Policy Benchmark return for the same time period was 0.3%. The Plan's fiscal year performance was below the actuarial rate of return of 7.0%, which has occurred in three of the past six fiscal years. For fiscal year 2016, the Postemployment Healthcare Plan returned 0.3% net of fees.

The Plan engages an independent actuary to conduct annual actuarial valuations. The June 30, 2015 actuarial valuations show that the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are 79% and 15% funded, respectively. The Defined Benefit Pension Plan sponsor paid 100% of the Actuarially Determined Contribution in fiscal year 2016, while the Postemployment Healthcare Plan sponsor paid 64% of the Annual Required Contributions.

This report is not intended to replace the CAFR, which provides a more complete overview of the Plan's financial position and operating results. For more in-depth information, we encourage you to read the CAFR by visiting www.sjretirement.com and clicking on the Reports tab.

Board of Administration

The Plan's Board of Administration oversees the Chief Executive Officer of the Office of Retirement Services and staff in the performance of their duties. The Plan's Board Members as of June 30, 2016 were:

Andrew Lanza	Chair	Public member
Nick Muyo	Vice Chair	Retired plan member
Stephen Brennan	Trustee	Public member
Jeremy Evnine	Trustee	Public member
Andrew Gardanier	Trustee	Employee representative
Ghia Griarte	Trustee	Public member
Richard Santos	Trustee	Retired plan member
Vincent Sunzeri	Trustee	Public member
Franco Vado	Trustee	Employee representative



Net Position Held in Trust

As of June 30, 2016, the Plan's total plan net position for the Defined Benefit Pension Plan totaled \$3.0 billion, while the Postemployment Healthcare Plan net position totaled \$123.4 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan was 79% and 15%, respectively, as of June 30, 2015, the date of the Plan's most recent actuarial valuation.

NET POSITION FOR THE POLICE AND FIRE DEFINED BENEFIT PENSION PLAN

As of June 30, 2016 and 2015 (In Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 35,066	\$ 12,467	\$ 22,599	181.3 %
Investments at fair value	3,010,391	3,101,629	(91,238)	(2.9)%
Capital assets	920	58	862	1,486.2 %
Total Assets	3,046,377	3,114,154	(67,777)	(2.2)%
Current liabilities	2,724	4,089	(1,365)	(33.4)%
Total Liabilities	2,724	4,089	(1,365)	(33.4)%
Plan Net Position	\$ 3,043,653	\$ 3,110,065	\$ (66,412)	(2.1)%

NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN

As of June 30, 2016 and 2015 (In Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 3,687	\$ 1,055	\$ 2,632	249.5 %
Investments at fair value	119,806	109,016	10,790	9.9 %
Capital assets	16	1	15	1,500.0 %
Total Assets	123,509	110,072	13,437	12.2 %
Current liabilities	82	446	(364)	(81.6)%
Total Liabilities	82	446	(364)	(81.6)%
Plan Net Position	\$ 123,427	\$ 109,626	\$ 13,801	12.6 %

Changes in Net Position for the years ended June 30, 2016 and 2015

As of June 30, 2016, the net position restricted for pension benefits decreased by \$(66) million or (2)% over 2015, primarily due to changes in the fair market value of investments. Net investment loss for the year ended June 30, 2016, totaled \$29,206,000.

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN

For the Fiscal Years Ended June 30, 2016 and 2015 (In Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 21,508	\$ 20,747	\$ 761	3.7 %
Employer contributions	132,480	129,279	3,201	2.5 %
Net investment (loss)*	(29,206)	(28,228)	978	3.5 %
Net securities lending income	-	538	(538)	(100.0)%
Total Additions	124,782	122,336	2,446	2.0 %
Retirement benefits	176,029	166,331	9,698	5.8 %
Death benefits	10,083	9,220	863	9.4 %
Refund of contributions	828	702	126	17.9 %
Administrative expenses	4,254	4,191	63	1.5 %
Total Deductions	191,194	180,444	10,750	6.0 %
Net (Decrease) in Plan Net Position	(66,412)	(58,108)	(8,304)	14.3 %
Beginning Net Position	3,110,065	3,168,173	(58,108)	(1.8)%
Ending Net Position	\$ 3,043,653	\$ 3,110,065	\$ (66,412)	(2.1)%

* Net of investment expenses of \$21,081 and \$15,920 in 2016 and 2015, respectively.

As of June 30, 2016, the net position restricted for postemployment healthcare benefits increased by 12.6% over 2015, primarily due to an increase in employee and employer contributions of \$990,000 and \$155,000, respectively.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

For the Fiscal Years Ended June 30, 2016 and 2015 (In Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 18,007	\$ 17,017	\$ 990	5.8 %
Employer contributions	21,065	20,910	155	0.7 %
Net investment (loss)*	(1,683)	(1,625)	(58)	3.6 %
Net securities lending income	-	10	(10)	(100.0)%
Total Additions	37,389	36,312	1,077	3.0 %
Healthcare insurance premiums	23,449	24,205	(756)	(3.1)%
Administrative expenses	139	123	16	13.0 %
Total Deductions	23,588	24,328	(740)	(3.0)%
Net Increase in Plan Net Position	13,801	11,984	1,817	15.2 %
Beginning Net Position	109,626	97,642	11,984	12.3 %
Ending Net Position	\$ 123,427	\$ 109,626	\$ 13,801	12.6 %

* Net of investment expenses of \$438 and \$339 in 2016 and 2015, respectively.

The primary sources (additions) used to fund benefits provided by the Plan are accumulated through employee and employer contributions and by investment earnings (net of investment expenses). The primary uses (deductions) of the Plan's assets include benefit payments to retirees and beneficiaries, contribution refunds to terminated employees and the costs of administering the Plan.

Membership (as of June 30, 2016)

PENSION	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Total
Retirees and beneficiaries currently receiving benefits*	1,304	-	845	-	2,149
Terminated and/or vested members not yet receiving benefits	234	37	44	2	317
Active members	789	122	604	67	1,582
Total	2,327	159	1,493	69	4,048
HEALTHCARE					
Retirees and beneficiaries currently receiving benefits*	1,222	-	798	-	2,020
Terminated vested members not yet receiving benefits	10	-	1	-	11
Active members	790	121	604	67	1,582
Total	2,022	121	1,403	67	3,613

* The number of combined domestic relations orders recipients is not included in the count above, as their benefit payment is included in the member's count.

Average Benefit Payments

The Average Benefit Payment chart is a broad representation of average benefits paid to retirees and survivors. All tiers are combined in the calculation. The chart includes all members who have retired through June 30, 2016.

PENSION	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
Average monthly benefit*	\$ 2,308	\$ 3,631	\$ 4,203	\$ 5,271	\$ 7,469	\$ 9,546	\$10,280
Average final average monthly salary**	\$ 4,623	\$ 4,620	\$ 6,694	\$ 8,302	\$ 8,940	\$ 8,979	\$ 8,416
Number of retired members**	10	51	114	166	422	773	166
Average monthly benefits* (No FAS)	\$ 0	\$ 1,991	\$ 1,348	\$ 3,099	\$ 4,618	\$ 7,080	\$ 8,043
Number of retired members	0	3	3	9	30	107	23

HEALTHCARE	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
Average health subsidy	\$ 934	\$ 865	\$ 991	\$ 903	\$ 909	\$ 861	\$ 719
Number of health participants	6	39	81	138	427	862	172
Average dental subsidy	\$ 95	\$ 102	\$ 111	\$ 108	\$ 105	\$ 105	\$ 98
Number of dental participants	7	46	89	147	441	894	179

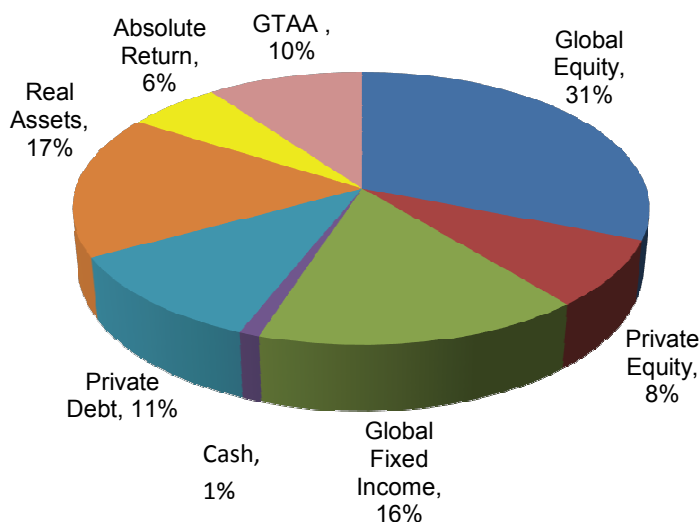
* Includes cost of living increases

**Does not include survivors and ex-spouses

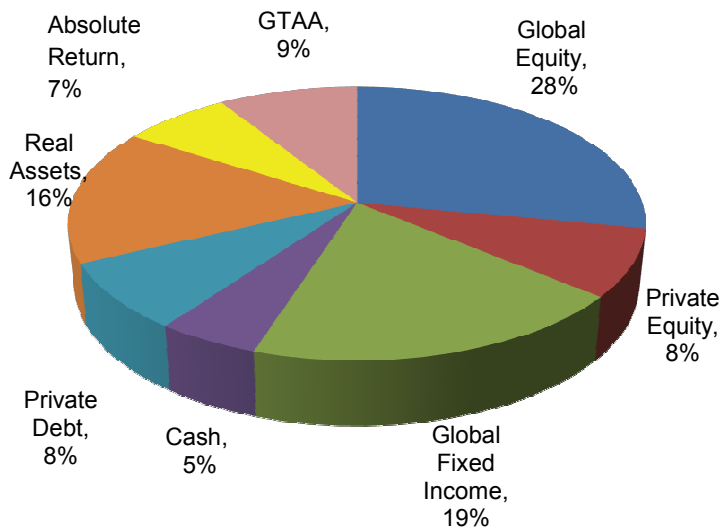
Asset Allocation (as of June 30, 2016)

The allocation of the Plan's assets is an integral part of the Plan's investment policy. As such, the Plan engages in frequent reviews of its asset allocation policy to ensure that assets are diversified in a manner which achieves the best risk adjusted returns for the Plan. In addition, the asset allocation is intended to minimize the volatility of the Plan's assets and mitigate the risk of large investment losses during times of prolonged market stress. The Plan's Chief Investment Officer and investment consultant, NEPC, assist the Board in designing the asset allocation and strategic diversification strategies within asset classes.

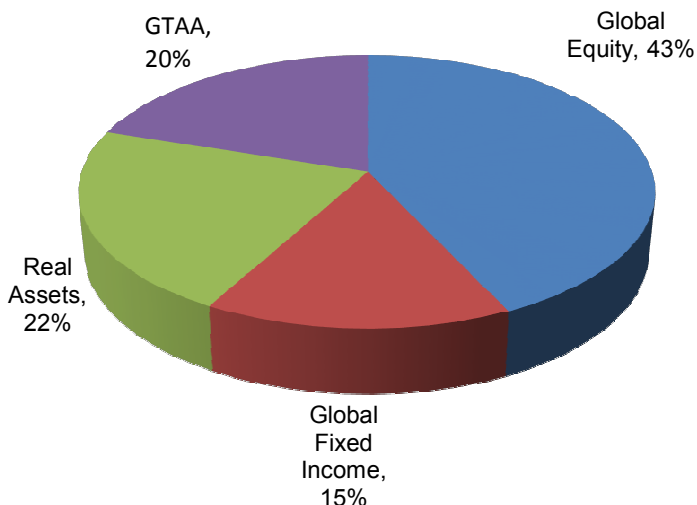
PENSION - TARGET ASSET ALLOCATION



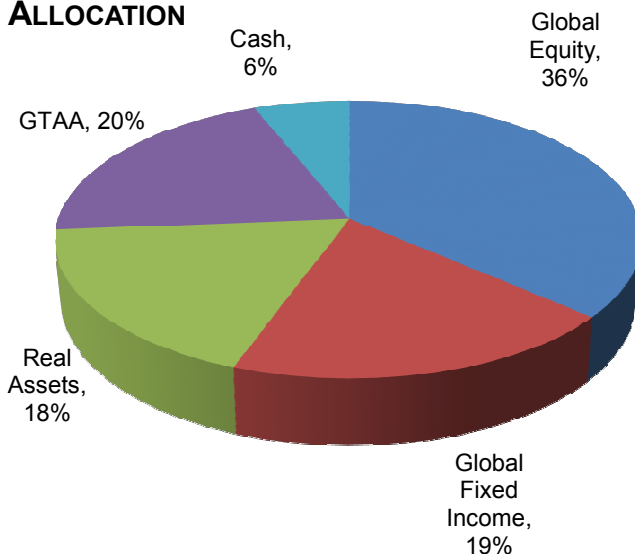
PENSION - ACTUAL ASSET ALLOCATION



HEALTHCARE - TARGET ASSET ALLOCATION



HEALTHCARE - ACTUAL ASSET ALLOCATION



Investment Returns Based on Fair Value* (as of June 30, 2016)

PENSION	One Year	Three Years	Five Years	Ten Years	HEALTHCARE	Three Months	One Year	Three Years	Since Inception
Global equity	(4.1)%	5.7%	5.4%	N/A	Global equity	1.6%	(3.3)%	6.5%	9.1%
Private equity	3.7%	10.6%	9.4%	8.9%	Global Fixed income	2.4%	6.1%	4.0%	2.5%
Global fixed income	2.3%	3.0%	5.0%	N/A	Real Estate	6.8%	23.9%	13.4%	12.0%
Real estate	12.1%	10.7%	10.1%	7.1%	Inflation-linked composite	8.4%	(10.6)%	(6.8)%	(9.9)%
Private debt	N/A	N/A	N/A	N/A	Global tactical asset allocation	1.4%	(3.3)%	N/A	(4.5)%
Inflation-linked assets	(9.4)%	(6.3)%	(8.1)%	N/A	Total Fund (gross)	2.7%	0.6%	4.4%	4.5%
Absolute return	0.0%	2.4%	N/A	N/A					
Global tactical asset allocation	(3.2)%	0.9%	N/A	N/A					
Total fund (gross)	(0.4)%	4.1%	4.4%	4.5%					

* Using time-weighted rate of return based on the market rate of return

As stated in the Plan's Investment Policy, "the primary objective of the investment portfolio is to satisfy the Plan's obligations to pay benefits to members of the Plan and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk." In order to achieve this objective, the Investment Policy further states that "the Plan's fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries." As such, "Investments shall be diversified with the intent to minimize the risks of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographics, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies." For the year ended June 30, 2016, the Defined Benefit Pension Plan returned (0.4)% gross of fees and (0.6)% net of fees, while the Policy Benchmark return for the same period was 0.3%.

Funding Status

In order to determine whether the Net Position for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan will be sufficient to meet future obligation, the actuarial funding status needs to be calculated. An actuarial valuation is similar to a budgeting process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member.

The purpose of the valuation is to determine what future contributions by the members and by the employers need to be budgeted to pay all expected future benefits.

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2015	\$3,212,776	\$4,058,410	\$845,634	79%	\$184,733	458%
June 30, 2014	\$3,025,101	\$3,813,825	\$788,724	79%	\$188,189	419%
June 30, 2013	\$2,771,924	\$3,578,031	\$806,107	77%	\$184,645	437%
June 30, 2012	\$2,703,539	\$3,397,792	\$694,253	80%	\$187,959	369%
June 30, 2011	\$2,685,721	\$3,196,007	\$510,286	84%	\$190,726	268%

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2015	\$114,565	\$739,753	\$625,188	15%	\$184,733	338%
June 30, 2014	\$93,605	\$706,709	\$613,104	13%	\$188,189	326%
June 30, 2013	\$75,035	\$700,525	\$625,490	11%	\$184,645	339%
June 30, 2012	\$66,385	\$997,321	\$930,936	6%	\$172,626	539%
June 30, 2011	\$60,709	\$1,003,795	\$943,086	7%	\$190,726	494%

Schedule of Employer and Employee Contributions

Employer and employee basic and COLA (Cost of Living Adjustment) contributions are based on statute and rates recommended by an independent actuary and adopted by the Retirement Board. The rates are set to provide a retirement benefit equal to a fractional part of the highest year(s) salary, depending on membership and tier.

(In Thousands)	PENSION		HEALTHCARE	
	Employer Contributions	Employee Contributions	Employer Contributions	Employee Contributions
Year Ended				
June 30, 2016	\$132,480	\$21,508	\$21,065	\$18,007
June 30, 2015	\$129,279	\$20,747	\$22,960	\$17,017
June 30, 2014	\$123,583	\$21,115	\$20,131	\$15,674
June 30, 2013	\$105,234	\$20,227	\$15,980	\$13,498
June 30, 2012	\$121,008	\$19,345	\$21,205	\$11,474

The Plan's actuarial valuations are calculated as of June 30 of each year. Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Noteworthy Accomplishments

The Plan held its Annual Stakeholders' meeting in September 2015, with attendees receiving first-hand information about their retirement fund investments, the financial outlook and overall health of the Plan, and the impact of new legislation on retiree benefits.

In December 2014, Measure G became effective and modified the Board of Administration's governance structure. The Board and staff of Office of Retirement Services worked together to implement Measure G. The Office of Retirement Services also kicked off the upgrade of its pension administration system in March 2015, the implementation of which is expected to last approximately 42 months and is estimated at \$9 million. The implementation continued as planned during fiscal year 2016 and will be completed by the fall of 2018.

Awards for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the Plan the Certificates of Achievement for Excellence in Financial Reporting for our CAFR for every year from 2000 through 2015. This certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports.

The Plan has also earned the Public Pension Coordinating Council's (PPCC) Public Standards Award for 2003, 2007, and 2009 through 2015. The Public Pensions Standards are intended to reflect the minimum expectations for public retirement system management and administration, and to serve as a benchmark by which all defined benefit public plans should be measured.