



Via Electronic Mail

March 28, 2018

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

Re: 5-Year Budget Projections for the Police and Fire Department OPEB Plan

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 and Fire Department Postemployment Health Care Plan (OPEB Plan) for the next five years. We provided projections for the pension plan on February 15, 2018. This letter shows the projection amounts both if the contributions are made throughout the year and if the contribution amounts are made at the beginning of the year. Unlike the pension contributions, the City contributions for the OPEB Plan are strictly payments toward the Unfunded Actuarial Liability (UAL). Consequently, there is no separate breakout of normal cost.

The table on the following page summarizes the estimated OPEB payroll and Actuarially Determined Contribution (ADC) amounts. The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. The estimated optional City cap is 11% of total payroll. The beginning of year ADC amount is discounted for half a year of interest at 55 percent of the discount rate, in accordance with Board policy. This reduction in the discount rate is applied throughout the five-year projection. The projections are shown for the Police and Fire members separately as well as combined.

5-Year OPEB Budget Projections									
FYE	Payroll		Estimated City Cap	Actuarially Determined Contribution					
	Full Benefit	Total		Throughout Year	Beginning of Year				
Police									
2018	\$	86,133	\$124,209	\$	13,663	\$	13,723	\$	13,471
2019		79,733	128,246		14,107		14,352		14,088
2020		73,206	132,414		14,566		14,994		14,719
2021		66,435	136,717		15,039		15,656		15,368
2022		58,651	141,161		15,528		16,385		16,084
Fire									
2025	\$	68,985	\$ 86,231	\$	9,485	\$	8,752	\$	8,591
2026		67,126	89,034		9,794		9,121		8,953
2027		64,707	91,928		10,112		9,512		9,337
2028		61,434	94,915		10,441		9,927		9,745
2029		57,493	98,000		10,780		10,359		10,168
Total									
2032	\$	155,118	\$210,440	\$	23,148	\$	22,475	\$	22,061
2033		146,859	217,280		23,901		23,473		23,041
2034		137,913	224,342		24,678		24,506		24,056
2035		127,869	231,632		25,480		25,583		25,113
2036		116,144	239,161		26,308		26,744		26,252

Dollar Amounts in Thousands

Please note that these projections are based on the June 30, 2017 actuarial valuation, and assume that all assumptions were exactly met since June 30, 2017, and are exactly met each and every year into the future. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, except as noted above, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2017. If the Board or the City is aware of any significant event since June 30, 2017 that could alter these projections, please let us know. 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 the valuation, and additional disclosures that also apply to the projections reported in this letter.

Board of Administration
March 28, 2018
Page 3

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.

This letter was prepared exclusively for the Board of Administration and 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.

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

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

cc: Roberto Peña
Donna Busse
Jacqui King