



January 29, 2020

*Via Electronic Mail*

Board of Administration  
 City of San José Police and Fire Department Retirement Plan  
 1737 North 1<sup>st</sup> Street, Suite 580  
 San José, CA 95112

**Re: 5-Year and 20-Year Budget Projections for Police & Fire Pension**

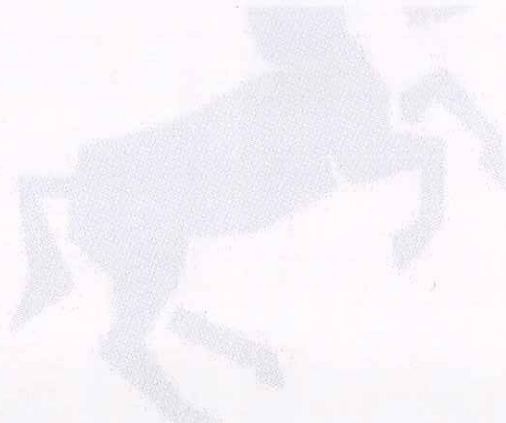
Dear Members of the Board:

The purpose of this letter is to provide the estimated future contributions expected to be required of the City of San José to the City of San José Police & Fire Department Retirement Plan (Pension Plan) and the City of San José Police and Fire Department Postemployment Health Care Plan (OPEB Plan) for the next five years for City budgeting purposes. This letter shows the projection amounts separately for Police and Fire and for Tier 1 and Tier 2 and also provides the projected City pension contributions for Tier 1 separately for normal cost (including expenses) and payments toward the Unfunded Actuarial Liability (UAL). We have also included 20-year projections in the attached exhibit.

The following tables summarize the estimated pension and OPEB contribution amounts and contribution rates as a percent of payroll assuming City contributions are made throughout the fiscal year.

5-Year City Pension Contribution Projections Payment Throughout Year									
FYE	Police			Fire			Total		
	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2021	\$ 151.7	\$ 117.9	77.76%	\$ 91.8	\$ 88.0	95.87%	\$ 243.5	\$ 205.9	84.59%
2022	156.5	121.7	77.74%	94.8	94.0	99.16%	251.3	215.7	85.82%
2023	161.7	112.3	69.46%	97.9	94.6	96.66%	259.6	206.9	79.72%
2024	166.9	113.4	67.92%	101.1	99.3	98.32%	268.0	212.7	79.39%
2025	172.3	115.1	66.80%	104.4	98.7	94.57%	276.7	213.8	77.28%

*Dollar amounts in millions.*



5-Year City OPEB Contribution Projections Payment Throughout Year									
FYE	Police			Fire			Total		
	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2021	\$ 151.6	\$ 15.3	10.10%	\$ 91.8	\$ 10.1	10.96%	\$ 243.4	\$ 25.4	10.42%
2022	156.6	16.1	10.26%	94.8	10.6	11.14%	251.4	26.6	10.59%
2023	161.7	16.6	10.27%	97.9	10.9	11.11%	259.6	27.5	10.58%
2024	166.9	17.4	10.40%	101.1	11.3	11.19%	268.0	28.7	10.70%
2025	172.3	18.1	10.47%	104.4	11.7	11.25%	276.7	29.8	10.77%

*Dollar amounts in millions.*

Please note that these projections are based on the June 30, 2019 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2019, 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, 2019. If the Board or the City is aware of any significant event since June 30, 2019 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.

#### 5-Year Pension Contribution Projections

The projections of contributions to the pension plan are based on projected payroll for Police and Fire members and for Tier 1 and Tier 2 members as shown in the table below.

5-Year Pension Payroll Projections							
FYE	Police			Fire			Total Payroll
	Tier 1	Tier 2	Total	Tier 1	Tier 2	Total	
2021	\$ 93.3	\$ 58.4	\$ 151.7	\$ 71.2	\$ 20.6	\$ 91.8	\$ 243.5
2022	85.4	71.1	156.5	68.2	26.6	94.8	251.3
2023	77.0	84.7	161.7	64.6	33.3	97.9	259.6
2024	68.5	98.4	166.9	60.6	40.5	101.1	268.0
2025	61.8	110.5	172.3	56.8	47.6	104.4	276.7

*Dollar amounts in millions*

Since pension contributions are made separately for Police and Fire members and for Tier 1 and Tier 2 members within each group, the tables on the following page provide the additional detail that may be needed. Amounts are shown separately for the payment on the



Tier 1 Unfunded Actuarial Liability (UAL) and the Normal Cost (NC), including administrative expenses.

5-Year City Pension Contribution Projections							
Police Pension Only							
Payment Throughout Year							
FYE	Tier 1	Tier 1		Tier 2		Total	
	UAL \$	NC \$	NC Rate	Amount	Rate	Amount	Rate
2021	\$ 80.0	\$ 29.6	31.79%	\$ 8.3	14.18%	\$ 117.9	77.76%
2022	84.2	27.4	32.15%	10.1	14.15%	121.7	77.74%
2023	75.3	25.0	32.66%	12.0	14.17%	112.3	69.46%
2024	76.7	22.7	33.30%	14.0	14.19%	113.4	67.92%
2025	78.6	20.8	33.95%	15.7	14.21%	115.1	66.80%

*Dollar amounts in millions*

5-Year City Pension Contribution Projections							
Fire Pension Only							
Payment Throughout Year							
FYE	Tier 1	Tier 1		Tier 2		Total	
	UAL \$	NC \$	NC Rate	Amount	Rate	Amount	Rate
2021	\$ 61.2	\$ 23.6	33.19%	\$ 3.2	15.53%	\$ 88.0	95.87%
2022	67.2	22.7	33.36%	4.1	15.57%	94.0	99.16%
2023	67.8	21.6	33.59%	5.2	15.58%	94.6	96.66%
2024	72.6	20.4	33.86%	6.3	15.59%	99.3	98.32%
2025	72.0	19.3	34.17%	7.4	15.60%	98.7	94.57%

*Dollar amounts in millions*

### 5-Year OPEB Plan Contribution Projections

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 projections are shown for the Police and Fire members separately as well as combined.

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.

5-Year OPEB Contribution Projections Payment Throughout Year					
FYE	Payroll		Estimated City Cap	Contribution	
	Full Benefit	Total			
<b>Police</b>					
2021	\$ 83.3	\$ 151.6	\$ 16.7	\$ 15.3	
2022	75.9	156.6	17.2	16.1	
2023	67.2	161.7	17.8	16.6	
2024	59.9	166.9	18.4	17.4	
2025	53.6	172.3	19.0	18.1	
<b>Fire</b>					
2028	\$ 64.9	\$ 91.8	\$ 10.1	\$ 10.1	
2029	61.6	94.8	10.4	10.6	
2030	57.8	97.9	10.8	10.9	
2031	53.8	101.1	11.1	11.3	
2032	50.3	104.4	11.5	11.7	
<b>Total</b>					
2035	\$ 148.3	\$ 243.4	\$ 26.8	\$ 25.4	
2036	137.5	251.4	27.7	26.6	
2037	124.9	259.6	28.6	27.5	
2038	113.8	268.0	29.5	28.7	
2039	103.9	276.7	30.4	29.8	

*Dollar amounts in millions*

This letter and its contents 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 collectively 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 actuarial measurements may differ significantly from the current measurements due to such factors as the following: Plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in Plan provisions or applicable law.

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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,



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



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary

Attachment

cc: Roberto Peña  
Barbara Hayman  
Anne Harper  
Tim Doyle  
Jacqui King



City of San José									
Police and Fire Department Retirement Plan									
20-Year Projections of City Pension Contributions									
Fiscal Year	Total		Police		Fire		Rate		
	Ending	Amount	Rate	Amount	Rate	Amount			
2021	\$	205,963	84.6%	\$	117,912	77.8%	\$	88,051	95.9%
2022		215,744	85.8%		121,712	77.7%		94,032	99.2%
2023		206,923	79.7%		112,284	69.5%		94,639	96.7%
2024		212,762	79.4%		113,363	67.9%		99,399	98.3%
2025		213,835	77.3%		115,120	66.8%		98,715	94.6%
2026		217,686	76.2%		115,196	64.7%		102,490	95.1%
2027		221,585	75.1%		114,921	62.6%		106,664	95.9%
2028		223,651	73.4%		114,207	60.2%		109,444	95.3%
2029		225,050	71.6%		112,935	57.7%		112,115	94.5%
2030		215,347	66.3%		105,993	52.4%		109,354	89.3%
2031		193,121	57.6%		94,464	45.2%		98,657	78.0%
2032		185,610	53.6%		90,408	41.9%		95,202	72.9%
2033		168,878	47.3%		82,637	37.1%		86,241	64.0%
2034		141,693	38.4%		70,102	30.5%		71,591	51.4%
2035		134,761	35.4%		67,120	28.3%		67,641	47.1%
2036		109,971	28.0%		57,171	23.3%		52,800	35.6%
2037		90,560	22.3%		49,767	19.7%		40,793	26.6%
2038		81,053	19.3%		46,803	17.9%		34,250	21.7%
2039		96,063	22.2%		53,882	20.0%		42,181	25.8%
2040		84,644	18.9%		49,519	17.8%		35,125	20.8%

*Dollar amounts in thousands*