



January 30, 2017

Via Electronic Mail

Board of Administration
 City of San José Police and Fire Department Retirement Plan
 1737 North 1st Street, Suite 580
 San Jose, California 95112

Re: 5-Year Budget Projections for Police & Fire

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 Police & Fire Department Postemployment Healthcare Plan (OPEB Plan) for the next five years. As requested, these projections do not reflect any changes due to Measure F. This letter shows the projections with the current frozen OPEB contributions and shows amounts separately for Police and Fire and for Tier 1 and Tier 2. This letter provides the projected City pension contributions for Tier 1 separately for normal cost (including expenses) and payments toward the Unfunded Actuarial Liability (UAL).

The table below summarizes our estimated contribution amounts and contribution rates as a percent of payroll assuming City contributions are made throughout the fiscal year. In addition, as requested, we have attached 20-year projections of City pension contributions.

| City of San José Police & Fire Department Retirement and Postemployment Healthcare Plan | | | | | | | |
|---|----------|----------|--------|---------|--------|----------|---------|
| Projected City Contributions | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | |
| FYE | Payroll | Pension | | OPEB | | Total | |
| | | Amount | Rate | Amount | Rate | Amount | Rate |
| 2018 | \$ 200.4 | \$ 162.8 | 81.25% | \$ 20.9 | 10.44% | \$ 183.7 | 91.69% |
| 2019 | 207.0 | 172.8 | 83.53% | 21.6 | 10.44% | 194.4 | 93.97% |
| 2020 | 213.6 | 182.9 | 85.58% | 22.3 | 10.44% | 205.2 | 96.02% |
| 2021 | 220.6 | 196.5 | 89.08% | 23.0 | 10.44% | 219.5 | 99.52% |
| 2022 | 227.8 | 205.0 | 90.02% | 23.9 | 10.44% | 228.9 | 100.46% |

Since pension and OPEB contributions are made separately for Police and Fire members and pension contributions are made separately for Tier 1 and Tier 2 members within each group, the tables below provide the additional detail that may be needed.

| City of San José Police & Fire Department Retirement Plan | | | | | | | | | |
|---|---------|---------|---------|---------|--------|--------|----------|---------|--------|
| Police Pension Only | | | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | | | |
| FYE | Payroll | Tier 1 | | Tier 2 | | | Total | | |
| | | Amount | Rate | Payroll | Amount | Rate | Payroll | Amount | Rate |
| 2018 | \$ 90.5 | \$ 86.3 | 95.31% | \$ 24.1 | \$ 2.7 | 11.31% | \$ 114.6 | \$ 89.0 | 77.66% |
| 2019 | 84.8 | 88.9 | 104.85% | 33.6 | 3.8 | 11.34% | 118.4 | 92.7 | 78.30% |
| 2020 | 79.2 | 91.4 | 115.37% | 43.0 | 4.9 | 11.35% | 122.2 | 96.3 | 78.75% |
| 2021 | 73.9 | 96.0 | 129.81% | 52.3 | 5.9 | 11.35% | 126.2 | 101.9 | 80.75% |
| 2022 | 67.5 | 97.3 | 144.16% | 62.8 | 7.1 | 11.35% | 130.3 | 104.4 | 80.16% |

| City of San José Police & Fire Department Postemployment Healthcare Plan | | | | | | | | | |
|--|---------|--------|--------|---------|--------|--------|----------|---------|--------|
| Police OPEB Only | | | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | | | |
| FYE | Payroll | Tier 1 | | Tier 2 | | | Total | | |
| | | Amount | Rate | Payroll | Amount | Rate | Payroll | Amount | Rate |
| 2018 | \$ 90.5 | \$ 9.3 | 10.31% | \$ 24.1 | \$ 2.5 | 10.31% | \$ 114.6 | \$ 11.8 | 10.31% |
| 2019 | 84.8 | 8.7 | 10.31% | 33.6 | 3.5 | 10.31% | 118.4 | 12.2 | 10.31% |
| 2020 | 79.2 | 8.2 | 10.31% | 43.0 | 4.4 | 10.31% | 122.2 | 12.6 | 10.31% |
| 2021 | 73.9 | 7.6 | 10.31% | 52.3 | 5.4 | 10.31% | 126.2 | 13.0 | 10.31% |
| 2022 | 67.5 | 7.0 | 10.31% | 62.8 | 6.5 | 10.31% | 130.3 | 13.5 | 10.31% |

| City of San José Police & Fire Department Retirement Plan | | | | | | | | | |
|---|---------|---------|---------|---------|--------|--------|---------|---------|---------|
| Fire Pension Only | | | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | | | |
| FYE | Payroll | Tier 1 | | Tier 2 | | | Total | | |
| | | Amount | Rate | Payroll | Amount | Rate | Payroll | Amount | Rate |
| 2018 | \$ 75.6 | \$ 72.6 | 96.06% | \$ 10.2 | \$ 1.2 | 11.77% | \$ 85.8 | \$ 73.8 | 86.05% |
| 2019 | 74.6 | 78.5 | 105.28% | 14.0 | 1.6 | 11.78% | 88.6 | 80.1 | 90.52% |
| 2020 | 73.1 | 84.4 | 115.44% | 18.3 | 2.2 | 11.78% | 91.4 | 86.6 | 94.71% |
| 2021 | 70.9 | 91.8 | 129.54% | 23.5 | 2.8 | 11.78% | 94.4 | 94.6 | 100.23% |
| 2022 | 67.7 | 97.1 | 143.41% | 29.8 | 3.5 | 11.78% | 97.5 | 100.6 | 103.20% |

| City of San José Police & Fire Department Postemployment Healthcare Plan | | | | | | | | | | |
|--|---------|--------|--------|---------|--------|--------|---------|--------|--------|--|
| Fire OPEB Only | | | | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | | | | |
| FYE | Tier 1 | | | Tier 2 | | | Total | | | |
| | Payroll | Amount | Rate | Payroll | Amount | Rate | Payroll | Amount | Rate | |
| 2018 | \$ 75.6 | \$ 8.0 | 10.62% | \$ 10.2 | \$ 1.1 | 10.62% | \$ 85.8 | \$ 9.1 | 10.62% | |
| 2019 | 74.6 | 7.9 | 10.62% | 14.0 | 1.5 | 10.62% | 88.6 | 9.4 | 10.62% | |
| 2020 | 73.1 | 7.8 | 10.62% | 18.3 | 1.9 | 10.62% | 91.4 | 9.7 | 10.62% | |
| 2021 | 70.9 | 7.5 | 10.62% | 23.5 | 2.5 | 10.62% | 94.4 | 10.0 | 10.62% | |
| 2022 | 67.7 | 7.2 | 10.62% | 29.8 | 3.2 | 10.62% | 97.5 | 10.4 | 10.62% | |

The tables below separate the estimated Tier 1 contribution rates and amounts between normal cost (including administrative expenses) and Unfunded Actuarial Liability (UAL) contribution rates for Police and Fire.

| City of San José Police & Fire Department Retirement Plan | | | | | | | |
|---|---------|-------------|--------|---------|---------|---------|---------|
| Police Pension Tier 1 Only | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | |
| FYE | Payroll | Normal Cost | | UAL | | Total | |
| | | Amount | Rate | Amount | Rate | Amount | Rate |
| 2018 | \$ 90.5 | \$ 27.3 | 30.20% | \$ 59.0 | 65.11% | \$ 86.3 | 95.31% |
| 2019 | 84.8 | 25.6 | 30.20% | 63.3 | 74.65% | 88.9 | 104.85% |
| 2020 | 79.2 | 23.9 | 30.20% | 67.5 | 85.17% | 91.4 | 115.37% |
| 2021 | 73.9 | 22.3 | 30.20% | 73.7 | 99.61% | 96.0 | 129.81% |
| 2022 | 67.5 | 20.4 | 30.20% | 76.9 | 113.96% | 97.3 | 144.16% |

| City of San José Police & Fire Department Retirement Plan | | | | | | | |
|---|---------|-------------|--------|---------|---------|---------|---------|
| Fire Pension Tier 1 Only | | | | | | | |
| (Dollar Amounts in millions) | | | | | | | |
| FYE | Payroll | Normal Cost | | UAL | | Total | |
| | | Amount | Rate | Amount | Rate | Amount | Rate |
| 2018 | \$ 75.6 | \$ 23.5 | 31.11% | \$ 49.1 | 64.95% | \$ 72.6 | 96.06% |
| 2019 | 74.6 | 23.2 | 31.11% | 55.3 | 74.17% | 78.5 | 105.28% |
| 2020 | 73.1 | 22.8 | 31.11% | 61.6 | 84.33% | 84.4 | 115.44% |
| 2021 | 70.9 | 22.1 | 31.11% | 69.7 | 98.43% | 91.8 | 129.54% |
| 2022 | 67.7 | 21.1 | 31.11% | 76.0 | 112.30% | 97.1 | 143.41% |

Please note that these projections are based on the June 30, 2016 actuarial valuations for the pension and OPEB plans, and assume that all assumptions were exactly met since June 30, 2016, and are exactly met each and every year into the future. In addition, the projections assume that the active population headcount remains level and the plan provisions remain unchanged. The projected pension contribution amounts are based on an estimate of the proportion of future payroll that is attributable to members in Tier 2. The projected OPEB contribution amounts assume the current negotiated contribution rates remain constant through the projection period. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time.

Finally, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2016. As requested, changes in plan provisions arising from Measure F are not reflected either. If the Board or the City is aware of any circumstance that would make these assumptions questionable given the purpose of these projections, we would want to obtain such information and make any appropriate adjustments to these projections. 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 each of the valuations, and additional disclosures that also apply to the projections reported in this letter.

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,



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachment

cc: Roberto Peña
Donna Busse
Gene Kalwarski

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
20-YEAR PROJECTED PENSION CONTRIBUTIONS**

| City of San José | | | | | | | | | | |
|---|--|--|---|---|---|---|--|--|---|---|
| Police and Fire Department Retirement Plan | | | | | | | | | | |
| 20-Year Projections of City Pension Contributions | | | | | | | | | | |
| Fiscal Year | Projected Total City Contribution Amount (Middle of Year) | Projected Total City Contribution Rate (% of Payroll) | Projected Police City Contribution Amount (Middle of Year) | Projected Police City Contribution Rate (% of Payroll) | Projected Fire City Contribution Amount (Middle of Year) | Projected Fire City Contribution Rate (% of Payroll) | Projected Total City Contribution Amount (Middle of Year) | Projected Total City Contribution Rate (% of Payroll) | Projected Fire City Contribution Amount (Middle of Year) | Projected Fire City Contribution Rate (% of Payroll) |
| 2018 | \$ 162,808,000 | 81.3% | \$ 89,027,000 | 77.7% | \$ 73,781,000 | 86.0% | \$ 162,808,000 | 81.3% | \$ 73,781,000 | 86.0% |
| 2019 | \$ 172,814,000 | 83.5% | \$ 92,681,000 | 78.3% | \$ 80,133,000 | 90.5% | \$ 172,814,000 | 83.5% | \$ 80,133,000 | 90.5% |
| 2020 | \$ 182,812,000 | 85.6% | \$ 96,242,000 | 78.8% | \$ 86,570,000 | 94.7% | \$ 182,812,000 | 85.6% | \$ 86,570,000 | 94.7% |
| 2021 | \$ 196,484,000 | 89.1% | \$ 101,893,000 | 80.8% | \$ 94,591,000 | 100.2% | \$ 196,484,000 | 89.1% | \$ 94,591,000 | 100.2% |
| 2022 | \$ 205,006,000 | 90.0% | \$ 104,439,000 | 80.2% | \$ 100,567,000 | 103.2% | \$ 205,006,000 | 90.0% | \$ 100,567,000 | 103.2% |
| 2023 | \$ 195,219,000 | 83.0% | \$ 94,074,000 | 69.9% | \$ 101,145,000 | 100.5% | \$ 195,219,000 | 83.0% | \$ 101,145,000 | 100.5% |
| 2024 | \$ 198,810,000 | 81.9% | \$ 93,440,000 | 67.3% | \$ 105,370,000 | 101.4% | \$ 198,810,000 | 81.9% | \$ 105,370,000 | 101.4% |
| 2025 | \$ 214,474,000 | 85.6% | \$ 100,989,000 | 70.4% | \$ 113,485,000 | 105.8% | \$ 214,474,000 | 85.6% | \$ 113,485,000 | 105.8% |
| 2026 | \$ 219,283,000 | 84.7% | \$ 100,941,000 | 68.2% | \$ 118,342,000 | 106.9% | \$ 219,283,000 | 84.7% | \$ 118,342,000 | 106.9% |
| 2027 | \$ 165,200,000 | 61.8% | \$ 75,531,000 | 49.4% | \$ 89,669,000 | 78.4% | \$ 165,200,000 | 61.8% | \$ 89,669,000 | 78.4% |
| 2028 | \$ 128,861,000 | 46.7% | \$ 58,766,000 | 37.2% | \$ 70,095,000 | 59.4% | \$ 128,861,000 | 46.7% | \$ 70,095,000 | 59.4% |
| 2029 | \$ 168,293,000 | 59.1% | \$ 73,470,000 | 45.1% | \$ 94,823,000 | 77.8% | \$ 168,293,000 | 59.1% | \$ 94,823,000 | 77.8% |
| 2030 | \$ 157,128,000 | 53.4% | \$ 67,363,000 | 40.0% | \$ 89,765,000 | 71.3% | \$ 157,128,000 | 53.4% | \$ 89,765,000 | 71.3% |
| 2031 | \$ 148,632,000 | 48.9% | \$ 62,913,000 | 36.2% | \$ 85,719,000 | 66.0% | \$ 148,632,000 | 48.9% | \$ 85,719,000 | 66.0% |
| 2032 | \$ 161,256,000 | 51.4% | \$ 66,479,000 | 37.1% | \$ 94,777,000 | 70.6% | \$ 161,256,000 | 51.4% | \$ 94,777,000 | 70.6% |
| 2033 | \$ 133,957,000 | 41.4% | \$ 55,480,000 | 30.0% | \$ 78,477,000 | 56.6% | \$ 133,957,000 | 41.4% | \$ 78,477,000 | 56.6% |
| 2034 | \$ 110,713,000 | 33.1% | \$ 46,213,000 | 24.2% | \$ 64,500,000 | 45.1% | \$ 110,713,000 | 33.1% | \$ 64,500,000 | 45.1% |
| 2035 | \$ 97,710,000 | 28.3% | \$ 41,023,000 | 20.8% | \$ 56,687,000 | 38.4% | \$ 97,710,000 | 28.3% | \$ 56,687,000 | 38.4% |
| 2036 | \$ 75,206,000 | 21.1% | \$ 33,609,000 | 16.5% | \$ 41,597,000 | 27.3% | \$ 75,206,000 | 21.1% | \$ 41,597,000 | 27.3% |
| 2037 | \$ 55,829,000 | 15.2% | \$ 27,944,000 | 13.3% | \$ 27,885,000 | 17.7% | \$ 55,829,000 | 15.2% | \$ 27,885,000 | 17.7% |

