



Via Electronic Mail

March 7, 2018

Board of Administration
 City of San José
 Federated City Employees' Retirement System
 1737 North First Street, Suite 580
 San José, CA 95112

Re: 5-Year Budget Projections for Federated 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 Federated City Employees' 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 below 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 14% 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.

| 5-Year OPEB Budget Projections | | | | | | |
|--------------------------------|--------------|------------|--------------------|-------------------------------------|-------------------|--|
| FYE | Payroll | | Estimated City Cap | Actuarially Determined Contribution | | |
| | Full Benefit | Total | | Throughout Year | Beginning of Year | |
| 2019 | \$ 143,704 | \$ 296,678 | \$ 41,535 | \$ 21,247 | \$ 20,856 | |
| 2020 | 132,117 | 306,320 | 42,885 | 21,634 | 21,236 | |
| 2021 | 120,666 | 316,275 | 44,279 | 22,005 | 21,600 | |
| 2022 | 110,503 | 326,554 | 45,718 | 22,315 | 21,905 | |
| 2023 | 101,616 | 337,167 | 47,203 | 22,559 | 22,145 | |

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.

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