



*Via Electronic Mail*

February 7, 2017

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

**Re: 5-Year Budget Projections for Federated**

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' Retirement System (Pension) and the City of San José Federated City Employees' Health Care Plan (OPEB) 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 contribution rates and shows the amounts separately 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 contributions are made throughout the fiscal year. In addition, as requested, we have attached 20-year projections of City pension contributions.

San José Federated City Employees' Retirement System and Health Care Plan							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2018	\$ 274.4	\$ 160.1	58.33%	\$ 29.0	10.57%	\$ 189.1	68.90%
2019	282.2	172.4	61.08%	30.4	10.78%	202.8	71.85%
2020	290.3	179.1	61.70%	31.9	10.97%	211.0	72.68%
2021	298.6	187.9	62.95%	33.3	11.16%	221.3	74.11%
2022	307.1	194.4	63.31%	34.8	11.33%	229.2	74.63%

*Dollar amounts in millions*

Please note that these projections are based on the June 30, 2016 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2016, 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, 2016. If the Board or the City is aware of any significant event since June 30, 2016 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 each of the valuations, and additional disclosures that also apply to the projections reported in this letter.

The tables below summarize the estimated contributions by tier assuming they are made throughout the year.

San José Federated City Employees' Retirement System						
FYE	Tier 1			Tier 2		
	Payroll	Amount	Rate	Payroll	Amount	Rate
2018	\$ 162.8	\$ 153.1	94.04%	\$ 111.6	\$ 7.0	6.25%
2019	150.3	164.1	109.16%	131.9	8.3	6.29%
2020	137.7	169.5	123.14%	152.6	9.6	6.29%
2021	125.1	177.0	141.56%	173.5	10.9	6.29%
2022	113.6	182.2	160.41%	193.5	12.2	6.29%

*Dollar amounts in millions*

San José Federated City Employees' Postemployment Health Care Plan						
FYE	Tier 1			Tier 2A		
	Payroll	Amount	Rate	Payroll	Amount	Rate
2018	\$ 162.8	\$ 15.3	9.41%	\$ 14.0	\$ 1.3	9.41%
2019	150.3	14.1	9.41%	13.3	1.3	9.41%
2020	137.7	13.0	9.41%	13.0	1.2	9.41%
2021	125.1	11.8	9.41%	12.7	1.2	9.41%
2022	113.6	10.7	9.41%	12.4	1.2	9.41%
FYE	Tier 2B			Tier 2C		
	Payroll	Amount	Rate	Payroll	Amount	Rate
2018	\$ 96.6	\$ 12.2	12.66%	\$ 1.0	\$ 0.1	12.86%
2019	117.6	14.9	12.66%	1.0	0.1	12.86%
2020	138.7	17.6	12.66%	1.0	0.1	12.86%
2021	159.8	20.2	12.66%	1.0	0.1	12.86%
2022	180.1	22.8	12.66%	1.0	0.1	12.86%

*Dollar amounts in millions*

The table below separates the estimated Tier 1 contribution rates and amounts between normal cost (including administrative expenses) and UAL assuming contributions are made throughout the year.

San José Federated City Employees' Retirement System Tier 1						
FYE	Normal Cost			Unfunded Actuarial Liability		
	Payroll	Amount	Rate	Payroll	Amount	Rate
2018	\$ 162.8	\$ 29.3	18.00%	\$ 162.8	\$ 123.8	76.04%
2019	150.3	27.1	18.00%	150.3	137.0	91.16%
2020	137.7	24.8	18.00%	137.7	144.7	105.14%
2021	125.1	22.5	18.00%	125.1	154.5	123.56%
2022	113.6	20.4	18.00%	113.6	161.8	142.41%

*Dollar amounts in millions*

Finally, we have also attached 20-year projections of City pension contributions.

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.

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Sincerely,  
Cheiron



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  
Jacqui King

**City of San José**  
**Federated City Employees' Retirement System**  
**20-Year Projections of City Pension Contributions**

Fiscal Year Ending	Payroll	Projected City Contribution (Middle of Year)	Projected City Contribution Rate (% of Payroll)
2018	\$ 274,428,000	\$ 160,085,000	58.33%
2019	282,249,000	172,393,000	61.08%
2020	290,293,000	179,114,000	61.70%
2021	298,566,000	187,941,000	62.95%
2022	307,076,000	194,395,000	63.31%
2023	315,827,000	198,337,000	62.80%
2024	324,828,000	202,506,000	62.34%
2025	334,086,000	206,949,000	61.94%
2026	343,607,000	211,618,000	61.59%
2027	353,400,000	216,493,000	61.26%
2028	363,472,000	221,577,000	60.96%
2029	373,831,000	226,827,000	60.68%
2030	384,485,000	232,246,000	60.40%
2031	395,443,000	237,885,000	60.16%
2032	406,713,000	244,896,000	60.21%
2033	418,305,000	225,667,000	53.95%
2034	430,226,000	221,290,000	51.44%
2035	442,488,000	208,405,000	47.10%
2036	455,099,000	203,346,000	44.68%
2037	468,069,000	173,935,000	37.16%