

***Via Electronic Mail***

May 12, 2023

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 and 20-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 for City budgeting purposes. This letter shows the projection amounts separately for Tier 1 and Tier 2 and also provides the projected City pension contributions for Tier 1 separately for normal cost, administrative expenses, and payments toward the Unfunded Actuarial Liability (UAL). We have also included 20-year pension projections in the attached exhibit.

The following table summarizes the estimated pension and OPEB contribution amounts and contribution rates as a percent of total Federated payroll assuming contributions are made throughout the fiscal year.

5-Year Total Pension and OPEB Contribution Projections Payment Throughout Year							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2024	\$ 395.7	\$ 216.1	54.61%	\$ 19.1	4.83%	\$ 235.2	59.44%
2025	407.6	219.6	53.88%	19.2	4.72%	238.9	58.60%
2026	419.8	222.5	52.99%	20.6	4.92%	243.1	57.91%
2027	432.4	224.8	51.98%	20.9	4.83%	245.7	56.82%
2028	445.4	235.7	52.92%	21.2	4.75%	256.9	57.67%

*Dollar amounts in millions*

Please note that these projections are based on the June 30, 2022 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2022, 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.

The following table illustrates the sensitivity of pension contributions to investment returns over the next five years based on our stochastic projections. The stochastic projections assume a geometric return of 6.625% and a standard deviation of 14.12%. The table shows the 25<sup>th</sup> and 75<sup>th</sup> percentiles of the 10,000 trials in the stochastic projections compared to the baseline projections used throughout this letter. Based solely on varying investment returns, about half of the time City contributions are expected to be between the 25<sup>th</sup> and 75<sup>th</sup> percentiles.

Pension Contribution Sensitivity						
FYE		25 <sup>th</sup> Percentile		50 <sup>th</sup> Percentile		75 <sup>th</sup> Percentile
2024	\$	216.1	\$	216.1	\$	216.1
2025		215.6		219.6		223.3
2026		212.1		222.5		231.6
2027		206.3		224.8		240.6
2028		207.0		235.7		259.4

*Dollar amounts in millions*

Finally, except as noted above, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2022. If the Board or the City is aware of any significant event since June 30, 2022 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 Tier 1 and Tier 2 members as shown in the table below.

5-Year Pension Payroll Projections						
FYE		Tier 1		Tier 2		Total
2024	\$	128.9	\$	266.8	\$	395.7
2025		118.4		289.2		407.6
2026		108.7		311.1		419.8
2027		99.0		333.4		432.4
2028		89.7		355.7		445.4

*Dollar amounts in millions*

The table below summarizes the projected pension contributions by tier assuming they are made throughout the year.

5-Year Total Pension Contribution Projections Payment Throughout Year									
	Tier 1				Tier 2			Total	
	UAL \$	Admin Exp \$	NC \$	NC Rate	Amount	Rate	Amount	Rate	
2024	\$ 168.8	\$ 2.8	\$ 23.2	18.01%	\$ 21.4	8.01%	\$ 216.1	54.61%	
2025	172.6	2.9	21.1	17.83%	23.0	7.95%	219.6	53.88%	
2026	175.6	3.0	19.2	17.65%	24.7	7.93%	222.5	52.99%	
2027	178.0	3.1	17.4	17.53%	26.4	7.91%	224.8	51.98%	
2028	188.5	3.2	15.6	17.39%	28.5	8.00%	235.7	52.92%	

*Dollar amounts in millions*

### 5-Year OPEB Plan Contribution Projections

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.

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			
2024	\$ 114.4	\$ 395.7	\$ 52.0	\$ 19.1	
2025	105.3	407.6	53.6	19.2	
2026	96.5	419.8	55.2	20.6	
2027	88.0	432.4	56.9	20.9	
2028	79.9	445.4	58.6	21.2	

*Dollar amounts in millions*

### Alternate Contribution Dates

The following table summarizes the estimated Tier 1 pension and OPEB contribution amounts assuming City contributions are made either at the beginning of the fiscal year or semi-annually. Contribution amounts are discounted for the assumed timing of contributions using the full discount rate of 6.625% for pension and 6.00% for OPEB throughout the five-year projection. For the semi-annual contributions, half of the amount shown in the table is assumed to be made on July 1<sup>st</sup> and half on January 1<sup>st</sup>. We understand the City has elected for FYE 2024 not to prepay its Tier 1 Pension and OPEB contributions at the beginning of the year or semi-annually, but to make payments throughout the year.

5-Year Tier 1 Pension and OPEB Contribution Projections							
Payment at Beginning of Year or Semi-Annual							
FYE	Tier 1 Pension		OPEB		Total		
	Beginning of Year	Semi-Annual	Beginning of Year	Semi-Annual	Beginning of Year	Semi-Annual	
2024	\$ 188.6	\$ 191.6	\$ 18.5	\$ 18.8	\$ 207.1	\$ 210.4	
2025	190.4	193.5	18.7	19.0	209.1	212.4	
2026	191.6	194.6	20.0	20.3	211.6	215.0	
2027	192.1	195.2	20.3	20.6	212.4	215.8	
2028	200.7	203.9	20.6	20.9	221.3	224.8	

*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.

The information in this letter is based on the June 30, 2022 actuarial valuations for the City of San José Federated City Employees' Retirement System and the City of San José Federated City Employees' Health Care Plan. Please refer to the valuation reports for information on the data, assumptions, methods, plan provisions and actuarial models used to develop the five-year projections.

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,  
Cheiron



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



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary

Attachment

cc: Roberto Peña  
Barbara Hayman  
Jacqui King  
Steven Hastings

20-Year Projections of City Pension Contributions				
Year			Projected City	Projected City
Ending	Payroll		Contribution	Contribution Rate
			(Middle of Year)	(% of Payroll)
2024	\$ 395,722,000	\$	216,118,000	54.61%
2025	407,594,000		219,614,000	53.88%
2026	419,822,000		222,473,000	52.99%
2027	432,417,000		224,779,000	51.98%
2028	445,389,000		235,710,000	52.92%
2029	458,751,000		240,408,000	52.40%
2030	472,513,000		246,121,000	52.09%
2031	486,689,000		251,961,000	51.77%
2032	501,289,000		250,567,000	49.98%
2033	516,328,000		257,239,000	49.82%
2034	531,818,000		253,642,000	47.69%
2035	547,772,000		250,219,000	45.68%
2036	564,206,000		260,151,000	46.11%
2037	581,132,000		267,833,000	46.09%
2038	598,566,000		236,413,000	39.50%
2039	616,523,000		233,895,000	37.94%
2040	635,018,000		225,672,000	35.54%
2041	654,069,000		108,446,000	16.58%
2042	673,691,000		71,912,000	10.67%
2043	693,902,000		71,565,000	10.31%