

January 26, 2022

Via Electronic Mail

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

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

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 5-year 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 administrative expenses) and payments toward the Unfunded Actuarial Liability (UAL). The amounts for Tier 1 are shown both assuming payments are made throughout the year and at the beginning of the year. We have also included 20-year projections of total contribution amounts and rates assuming payments are made throughout the year 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									
	Police			Fire			Total		
FYE	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2023	\$ 161.7	\$ 114.2	70.63%	\$ 98.4	\$ 97.8	99.38%	\$ 260.1	\$ 212.0	81.51%
2024	166.5	101.9	61.19%	101.4	91.8	90.58%	267.9	193.7	72.31%
2025	171.6	95.7	55.75%	104.4	82.3	78.84%	276.0	178.0	64.49%
2026	176.7	88.1	49.89%	107.6	77.3	71.85%	284.3	165.4	58.20%
2027	182.0	80.0	43.98%	110.8	71.3	64.35%	292.8	151.3	51.69%

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
2023	\$ 162.3	\$ 18.0	11.09%	\$ 98.7	\$ 11.2	11.33%	\$ 261.0	\$ 29.2	11.18%
2024	167.2	18.9	11.28%	101.7	11.4	11.22%	268.9	30.3	11.26%
2025	172.2	19.0	11.02%	104.7	11.3	10.79%	276.9	30.3	10.94%
2026	177.4	19.8	11.14%	107.9	11.7	10.88%	285.3	31.5	11.04%
2027	182.7	20.6	11.25%	111.1	12.2	10.95%	293.8	32.8	11.14%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2021 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2021, 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 13.1%. The table shows the 25th and 75th 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 25th and 75th percentiles.

Pension Contribution Sensitivity			
FYE	25th	50th	75th
	Percentile	Percentile	Percentile
2023	\$ 212.0	\$ 212.0	\$ 212.0
2024	185.6	193.7	201.3
2025	156.8	178.0	196.8
2026	127.6	165.4	198.5
2027	93.6	151.3	201.9

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, 2021. If the Board or the City is aware of any significant event since June 30, 2021 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	
2023	\$ 77.5	\$ 84.2	\$ 161.7	\$ 68.7	\$ 29.7	\$ 98.4	\$ 260.1
2024	70.0	96.5	166.5	64.2	37.2	101.4	267.9
2025	63.6	108.0	171.6	59.7	44.7	104.4	276.0
2026	57.2	119.5	176.7	55.9	51.7	107.6	284.3
2027	50.7	131.3	182.0	51.8	59.0	110.8	292.8

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 table below and on the following page provide the additional detail that may be needed for budgeting purposes. 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
2023	\$ 76.3	\$ 25.8	33.24%	\$ 12.1	14.37%	\$ 114.2	70.63%
2024	64.6	23.6	33.74%	13.7	14.23%	101.9	61.19%
2025	58.7	21.7	34.31%	15.3	14.21%	95.7	55.75%
2026	51.2	19.9	35.02%	17.0	14.21%	88.1	49.89%
2027	43.2	18.1	35.92%	18.7	14.21%	80.0	43.98%

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	
2023	\$ 69.7	\$ 23.6	34.34%	\$ 4.5	15.18%	\$ 97.8	99.38%	
2024	64.0	22.2	34.60%	5.6	15.14%	91.8	90.58%	
2025	54.7	20.8	34.91%	6.8	15.11%	82.3	78.84%	
2026	49.9	19.6	35.21%	7.8	15.10%	77.3	71.85%	
2027	44.0	18.4	35.57%	8.9	15.08%	71.3	64.35%	

Dollar amounts in millions

The City also has an option to pre-pay its Tier 1 contribution for the year. The table below provides the projected contributions for Tier 1 assuming the contributions are made at the beginning of the year and that the Board elects to discount the contribution amount using the full discount rate of 6.625%.

5-Year City Pension Contribution Projections							
Tier 1 Pension Only							
Payment at the Beginning of the Year							
FYE	Police Tier 1			Fire Tier 1			Total Tier 1
	UAL	NC	Total	UAL	NC	Total	
2023	\$ 73.9	\$ 25.0	\$ 98.9	\$ 67.5	\$ 22.9	\$ 90.4	\$ 189.3
2024	62.6	22.8	85.4	62.0	21.5	83.5	168.9
2025	56.8	21.0	77.8	53.0	20.2	73.2	151.0
2026	49.6	19.3	68.9	48.3	19.0	67.3	136.2
2027	41.9	17.5	59.4	42.6	17.8	60.4	119.8

Dollar amounts in millions

5-Year OPEB Plan Contribution Projections

The table on the following page summarizes the Actuarially Determined Contribution (ADC) amounts compared to the optional City cap on contributions equal to 11% of projected payroll. It also shows the ADC amounts as of the beginning of the year assuming the Board elects to discount the contribution amount using the full discount rate of 6.00%.

Unlike the pension contributions, the City contributions for the OPEB Plan are predominantly payments toward the Unfunded Actuarial Liability (UAL). Consequently, there is no separate breakout of normal cost.

5-Year City OPEB Contribution Projections									
FYE	ADC Throughout the Year			Optional City Cap			ADC Beginning of Year		
	Police	Fire	Total	Payroll	Est. Cap	Difference	Police	Fire	Total
2023	\$ 18.0	\$ 11.2	\$ 29.2	\$ 261.0	\$ 28.7	\$ 0.5	\$ 17.5	\$ 10.9	\$ 28.4
2024	18.9	11.4	30.3	268.9	29.6	0.7	18.3	11.1	29.4
2025	19.0	11.3	30.3	276.9	30.5	(0.2)	18.4	11.0	29.4
2026	19.8	11.7	31.5	285.3	31.4	0.1	19.2	11.4	30.6
2027	20.6	12.2	32.8	293.8	32.3	0.5	20.0	11.8	31.8

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.

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.


Board of Administration

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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			
2023	\$	212,026	81.5%	\$	114,216	70.6%	\$	97,810	99.4%
2024		193,744	72.3%		101,918	61.2%		91,826	90.6%
2025		177,975	64.5%		95,647	55.8%		82,328	78.8%
2026		165,441	58.2%		88,162	49.9%		77,279	71.9%
2027		151,326	51.7%		80,043	44.0%		71,283	64.3%
2028		151,071	50.1%		79,048	42.2%		72,023	63.1%
2029		150,115	48.3%		77,802	40.3%		72,313	61.5%
2030		138,249	43.2%		71,185	35.8%		67,064	55.4%
2031		114,123	34.6%		59,705	29.1%		54,418	43.6%
2032		104,498	30.8%		55,429	26.3%		49,069	38.2%
2033		85,789	24.5%		47,277	21.8%		38,512	29.1%
2034		59,560	16.5%		34,807	15.5%		24,753	18.2%
2035		59,676	16.1%		35,010	15.2%		24,666	17.6%
2036		60,197	15.8%		35,537	15.0%		24,660	17.1%
2037		61,122	15.5%		36,342	14.9%		24,780	16.6%
2038		62,367	15.4%		37,437	14.9%		24,930	16.3%
2039		63,820	15.3%		38,522	14.8%		25,298	16.0%
2040		65,319	15.2%		39,580	14.8%		25,739	15.8%
2041		67,084	15.2%		40,731	14.8%		26,353	15.7%
2042		69,039	15.1%		41,989	14.8%		27,050	15.7%

Dollar amounts in thousands