

January 24, 2024

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 assuming the Board allows the full discount. 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									
FYE	Payroll	Police		Payroll	Fire		Payroll	Total	
		Amount	Rate		Amount	Rate		Amount	Rate
2025	\$ 174.3	\$ 118.7	68.06%	\$ 105.7	\$ 98.4	93.11%	\$ 280.0	\$ 217.1	77.51%
2026	179.7	119.3	66.43%	108.8	101.6	93.36%	288.5	220.9	76.59%
2027	185.0	119.9	64.85%	112.1	105.0	93.63%	297.1	224.9	75.71%
2028	190.5	119.5	62.75%	115.5	107.4	92.99%	306.0	226.9	74.16%
2029	196.3	118.5	60.35%	118.9	109.8	92.33%	315.2	228.3	72.42%

Dollar amounts in millions

5-Year City OPEB Contribution Projections Payment Throughout Year									
FYE	Payroll	Police		Payroll	Fire		Payroll	Total	
		Amount	Rate		Amount	Rate		Amount	Rate
2025	\$ 174.4	\$ 18.5	10.61%	\$ 105.7	\$ 12.3	11.64%	\$ 280.1	\$ 30.8	11.00%
2026	179.6	20.2	11.25%	108.8	13.4	12.32%	288.4	33.6	11.65%
2027	185.0	22.0	11.89%	112.1	14.5	12.93%	297.1	36.5	12.29%
2028	190.5	22.8	11.97%	115.5	14.9	12.90%	306.0	37.7	12.32%
2029	196.3	23.6	12.02%	118.9	15.4	12.95%	315.2	39.0	12.37%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2023 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2023, 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 13.2%. 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				
	25th		50th	
FYE	Percentile	Percentile	Percentile	Percentile
2025	\$ 217.1	\$ 217.1	\$ 217.1	
2026	213.0	220.9	228.3	
2027	204.4	224.9	243.3	
2028	190.4	226.9	259.5	
2029	171.9	228.3	277.4	

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, 2023. If the Board or the City is aware of any significant event since June 30, 2023 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	
2025	\$ 74.2	\$ 100.1	\$ 174.3	\$ 64.5	\$ 41.2	\$ 105.7	\$ 280.0
2026	68.4	111.3	179.7	61.3	47.5	108.8	288.5
2027	61.8	123.2	185.0	57.5	54.6	112.1	297.1
2028	55.3	135.2	190.5	53.4	62.1	115.5	306.0
2029	49.3	147.0	196.3	49.6	69.3	118.9	315.2

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), including administrative expenses, and the Normal Cost (NC).

5-Year City Pension Contribution Projections							
Police Pension Only							
Payment Throughout Year							
FYE	Tier 1 UAL \$	Tier 1 NC \$	Tier 1 NC Rate	Tier 2 Amount	Tier 2 Rate	Total Amount	Total Rate
2025	\$ 83.3	\$ 21.7	29.20%	\$ 13.7	13.65%	\$ 118.7	68.06%
2026	84.2	19.9	29.16%	15.2	13.65%	119.3	66.43%
2027	85.1	18.0	29.16%	16.8	13.65%	119.9	64.85%
2028	84.9	16.1	29.15%	18.5	13.65%	119.5	62.75%
2029	84.0	14.4	29.14%	20.1	13.65%	118.5	60.35%

Dollar amounts in millions

5-Year City Pension Contribution Projections Fire Pension Only Payment Throughout Year							
FYE	Tier 1 UAL \$	Tier 1 NC \$	Tier 1 NC Rate	Tier 2 Amount	Tier 2 Rate	Total Amount	Total Rate
2025	\$ 71.9	\$ 20.4	31.73%	\$ 6.1	14.90%	\$ 98.4	93.11%
2026	75.1	19.4	31.70%	7.1	14.90%	101.6	93.36%
2027	78.7	18.2	31.69%	8.1	14.90%	105.0	93.63%
2028	81.2	16.9	31.69%	9.3	14.90%	107.4	92.99%
2029	83.8	15.7	31.70%	10.3	14.90%	109.8	92.33%

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	
2025	\$ 80.7	\$ 21.0	\$ 101.7	\$ 69.5	\$ 19.8	\$ 89.3	\$ 191.0
2026	81.5	19.3	100.8	72.8	18.8	91.6	192.4
2027	82.5	17.4	99.9	76.2	17.6	93.8	193.7
2028	82.3	15.6	97.9	78.6	16.4	95.0	192.9
2029	81.4	13.9	95.3	81.1	15.2	96.3	191.6

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 OPEB Budget Projections						
FYE	Payroll		Estimated City Cap	Actuarially Determined Contribution		
	Full Benefit	Total		Throughout Year	Beginning of Year	
Police						
2025	\$	65,646	\$ 174,372	\$ 19,181	\$ 18,507	\$ 17,976
2026		59,973	179,603	19,756	20,207	19,627
2027		53,578	184,991	20,349	21,965	21,335
2028		47,240	190,541	20,960	22,752	22,099
2029		41,408	196,257	21,588	23,565	22,888
Fire						
2025	\$	56,861	\$ 105,677	\$ 11,625	\$ 12,270	\$ 11,917
2026		53,621	108,848	11,973	13,351	12,968
2027		49,513	112,113	12,332	14,469	14,054
2028		45,052	115,477	12,702	14,920	14,491
2029		41,647	118,941	13,083	15,378	14,937
Total						
2025	\$	122,507	\$ 280,049	\$ 30,805	\$ 30,777	\$ 29,893
2026		113,595	288,451	31,730	33,559	32,595
2027		103,092	297,104	32,681	36,434	35,389
2028		92,292	306,018	33,662	37,672	36,590
2029		83,055	315,198	34,672	38,943	37,825

Dollar Amounts in Thousands

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



B. Taylor Stevens, ASA, MAAA
Associate 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		
Ending	Amount	Rate	Amount	Rate	Amount	Rate	
2025	\$ 217,075	77.5%	\$ 118,682	68.1%	\$ 98,393	93.1%	
2026	220,928	76.6%	119,311	66.4%	101,617	93.4%	
2027	224,933	75.7%	119,960	64.8%	104,973	93.6%	
2028	226,949	74.2%	119,566	62.8%	107,383	93.0%	
2029	228,261	72.4%	118,441	60.3%	109,820	92.3%	
2030	218,193	67.2%	111,412	55.1%	106,781	87.2%	
2031	195,785	58.6%	99,044	47.6%	96,741	76.7%	
2032	188,013	54.6%	94,637	44.1%	93,376	71.8%	
2033	170,817	48.2%	86,324	39.1%	84,493	63.1%	
2034	143,388	39.2%	72,921	32.1%	70,467	51.1%	
2035	135,570	36.0%	69,116	29.5%	66,454	46.8%	
2036	110,311	28.5%	57,686	23.9%	52,625	36.0%	
2037	90,030	22.6%	48,971	19.7%	41,059	27.3%	
2038	96,359	23.4%	52,589	20.5%	43,770	28.2%	
2039	114,653	27.1%	62,007	23.5%	52,646	32.9%	
2040	95,679	21.9%	53,453	19.7%	42,226	25.6%	
2041	86,848	19.3%	49,232	17.6%	37,616	22.2%	
2042	78,740	17.0%	45,091	15.6%	33,649	19.3%	
2043	78,398	16.4%	45,019	15.2%	33,379	18.6%	
2044	79,814	16.3%	45,919	15.0%	33,895	18.3%	

Dollar amounts in thousands