

***Via Electronic Mail***

January 8, 2024

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
2025	\$ 449.5	\$ 234.3	52.13%	\$ 20.4	4.53%	\$ 254.7	56.66%
2026	463.0	237.1	51.21%	22.9	4.95%	260.0	56.16%
2027	476.9	238.9	50.09%	24.4	5.12%	263.3	55.21%
2028	491.2	249.2	50.73%	24.7	5.03%	273.9	55.76%
2029	505.9	253.3	50.08%	25.0	4.94%	278.3	55.02%

*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 14.01%. 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
2025	\$	234.3	\$ 234.3	\$ 234.3
2026		232.9	237.1	240.8
2027		228.1	238.9	248.5
2028		230.0	249.2	266.0
2029		223.7	253.3	278.9

*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, 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 Tier 1 and Tier 2 members as shown in the table below.

5-Year Pension Payroll Projections				
FYE		Tier 1	Tier 2	Total
2025	\$	130.1	\$ 319.3	\$ 449.5
2026		120.6	342.4	463.0
2027		109.8	367.1	476.9
2028		99.2	392.0	491.2
2029		88.3	417.6	505.9

*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								
FYE	UAL \$	Tier 1			Tier 2		Total	
		Admin Exp \$	NC \$	NC Rate	Amount	Rate	Amount	Rate
2025	\$ 176.7	\$ 5.3	\$ 24.4	18.73%	\$ 27.9	8.73%	\$ 234.3	52.13%
2026	179.5	5.5	22.5	18.64%	29.6	8.65%	237.1	51.21%
2027	181.3	5.6	20.4	18.55%	31.6	8.60%	238.9	50.09%
2028	191.4	5.8	18.3	18.47%	33.7	8.61%	249.2	50.73%
2029	196.0	6.0	16.2	18.41%	35.1	8.41%	253.3	50.08%

*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	Estimated Contribution	
	Full Benefit	Total			
2025	\$ 115.8	\$ 449.5	\$ 59.0	\$ 20.4	
2026	106.8	463.0	60.7	22.9	
2027	97.1	476.9	62.6	24.4	
2028	88.0	491.2	64.4	24.7	
2029	78.4	505.9	66.4	25.0	

*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>.

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	
2025	\$ 199.9	\$ 203.1	\$ 19.8	\$ 20.1	\$ 219.7	\$ 223.2	
2026	200.9	204.1	22.3	22.6	223.2	226.7	
2027	200.8	204.0	23.7	24.1	224.5	228.1	
2028	208.6	212.0	24.0	24.3	232.6	236.3	
2029	211.3	214.7	24.3	24.6	235.6	239.3	

*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, 2023 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



B. Taylor Stevens, ASA, MAAA  
Associate Actuary

Attachment

cc: Roberto Peña  
Barbara Hayman  
Jacqui King  
Steven Hastings

20-Year Projections of City Pension Contributions				
Fiscal Year			Projected City	Projected City
Ending	Payroll		Contribution	Contribution Rate
			(Middle of Year)	(% of Payroll)
2025	\$ 449,482,000	\$	234,326,000	52.13%
2026	462,967,000		237,074,000	51.21%
2027	476,856,000		238,878,000	50.09%
2028	491,161,000		249,175,000	50.73%
2029	505,896,000		253,347,000	50.08%
2030	521,073,000		259,086,000	49.72%
2031	536,705,000		265,099,000	49.39%
2032	552,806,000		263,897,000	47.74%
2033	569,391,000		270,825,000	47.56%
2034	586,472,000		267,379,000	45.59%
2035	604,067,000		262,159,000	43.40%
2036	622,189,000		272,169,000	43.74%
2037	640,854,000		279,969,000	43.69%
2038	660,080,000		249,173,000	37.75%
2039	679,882,000		246,892,000	36.31%
2040	700,279,000		239,024,000	34.13%
2041	721,287,000		122,254,000	16.95%
2042	742,926,000		86,131,000	11.59%
2043	765,213,000		86,117,000	11.25%
2044	788,170,000		87,966,000	11.16%