

San José Federated City Employees' Retirement System

2024 Final Pension Valuation Results

December 19, 2024

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Steven Hastings, FSA, EA, MAAA, FCA
Jacqui King, FSA, EA, MAAA

Agenda



Schedule

Summary of Valuation Results

Baseline Projections

Tier 1 vs. Tier 2

Plan Maturity and Sensitivity

Projection Scenarios

Appendix



- October Board Meeting
 - ASOP 4 Updates
 - Pension Economic Assumption Review
- November Board Meeting
 - Preliminary Pension Valuation Results
 - OPEB Assumptions Review
- **December Board Meeting**
 - **Final Pension Valuation Presentation**
 - **Final Pension Valuation Report**
 - **Preliminary OPEB Valuation Results**
- January Board Meeting
 - Final OPEB Valuation Presentation
 - Final OPEB Valuation Report

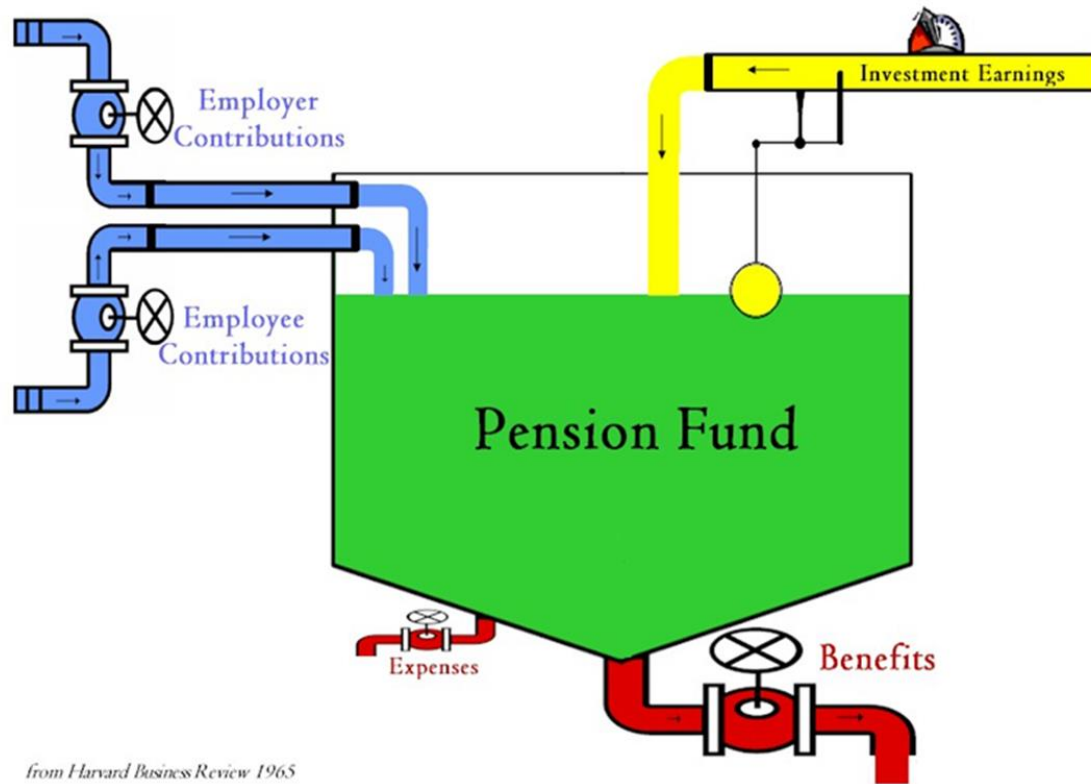
Final Results



A Dynamic System



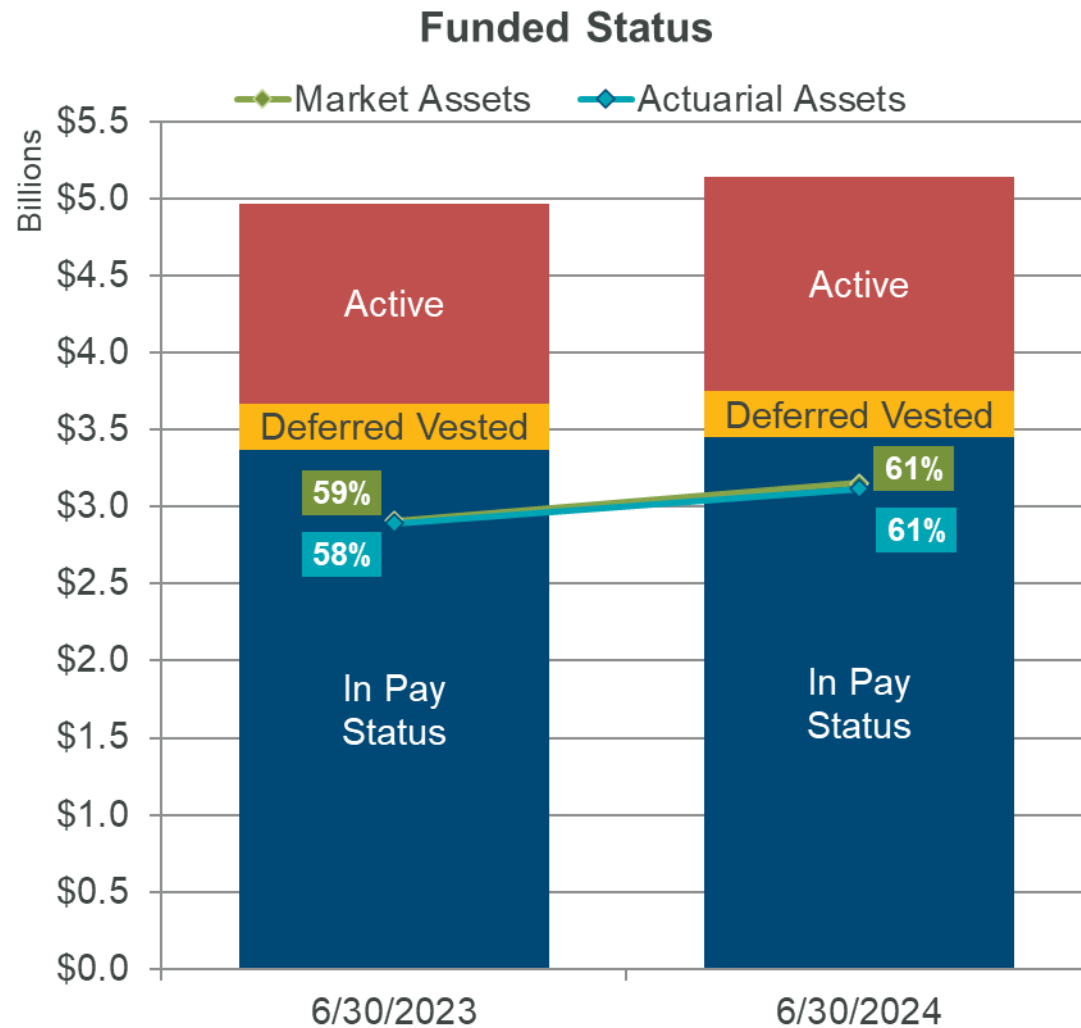
Contributions + Investments =



Expenses + Benefits

- Primary purpose of valuation is to set member and City contributions
 - 2024 valuation develops contributions for FYE 2026
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set member and City contributions
 - Plan provisions, actuarial methods, and discount rate

Funded Status



Funded Status By Tier

06/30/2023 06/30/2024 Change

Tier 1

Actuarial Liability	\$ 4,694.5	\$ 4,797.6	2.2%
AVA	2,650.9	2,813.5	6.1%
UAL-AVA Basis	2,043.5	1,984.1	-2.9%
AVA Funded Ratio	56.5%	58.6%	2.2%
MVA	2,668.1	2,847.6	6.7%
UAL-MVA Basis	2,026.4	1,950.0	-3.8%
MVA Funded Ratio	56.8%	59.4%	2.5%

Tier 2

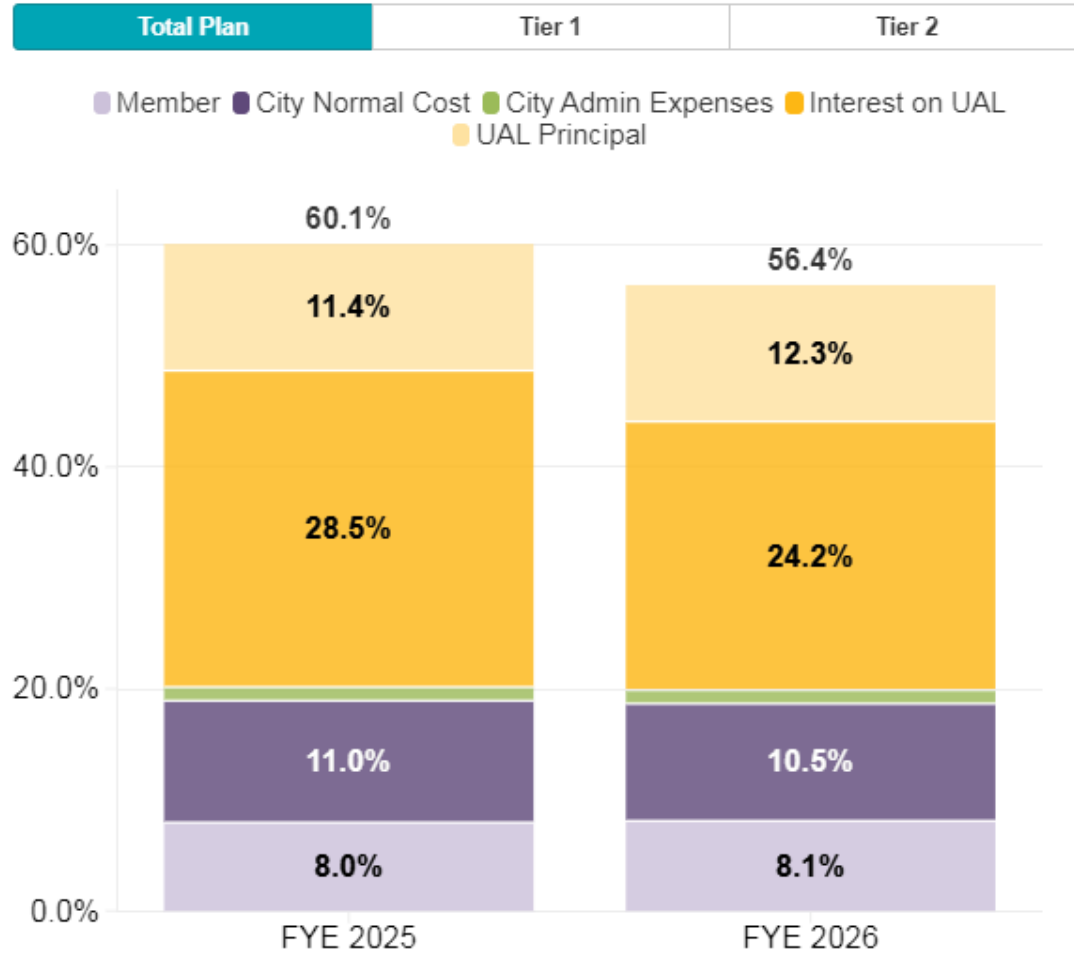
Actuarial Liability	\$ 271.2	\$ 340.3	25.5%
AVA	239.0	303.3	26.9%
UAL-AVA Basis	32.2	37.0	14.9%
AVA Funded Ratio	88.1%	89.1%	1.0%
MVA	239.3	306.8	28.2%
UAL-MVA Basis	32.0	33.5	4.8%
MVA Funded Ratio	88.2%	90.2%	1.9%

Amounts in millions

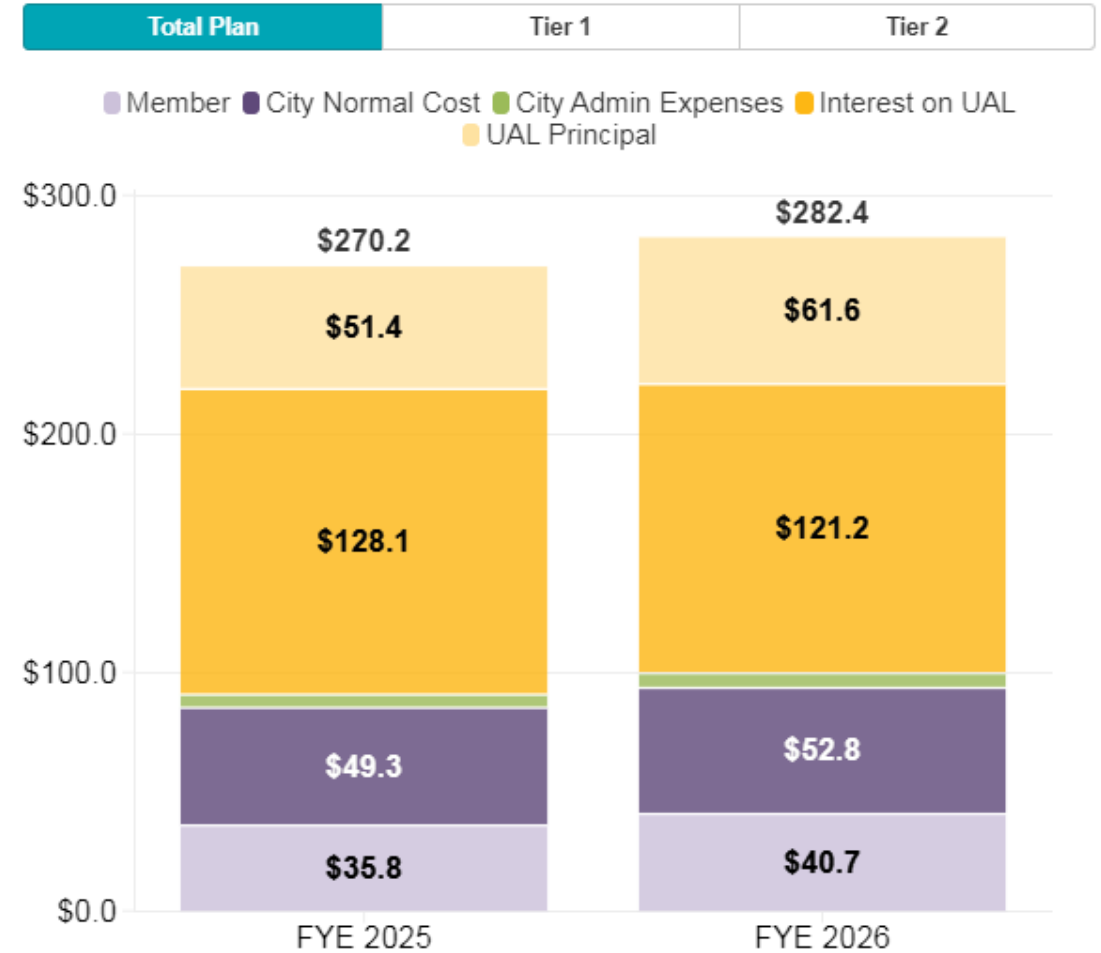
Final FYE 2026 Contributions



Contribution Rates



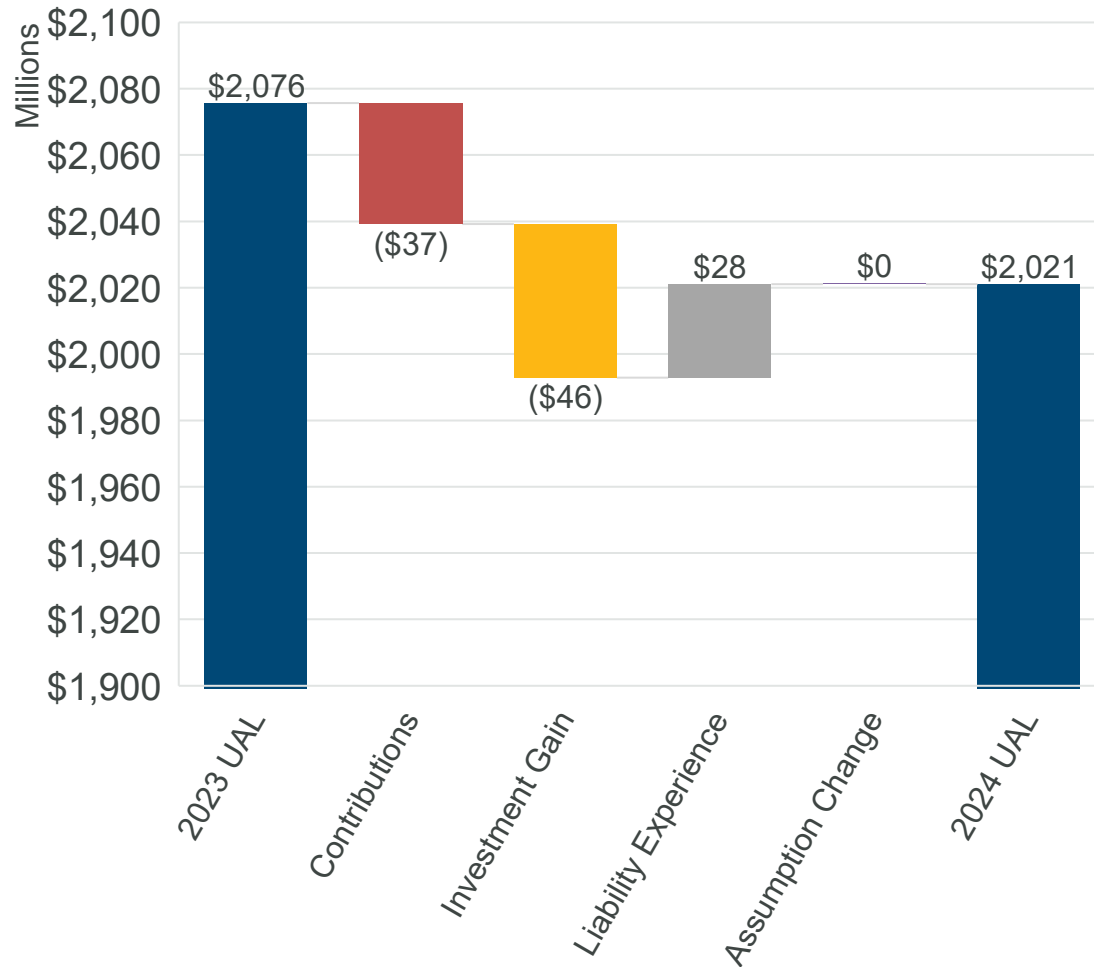
Contribution Amounts



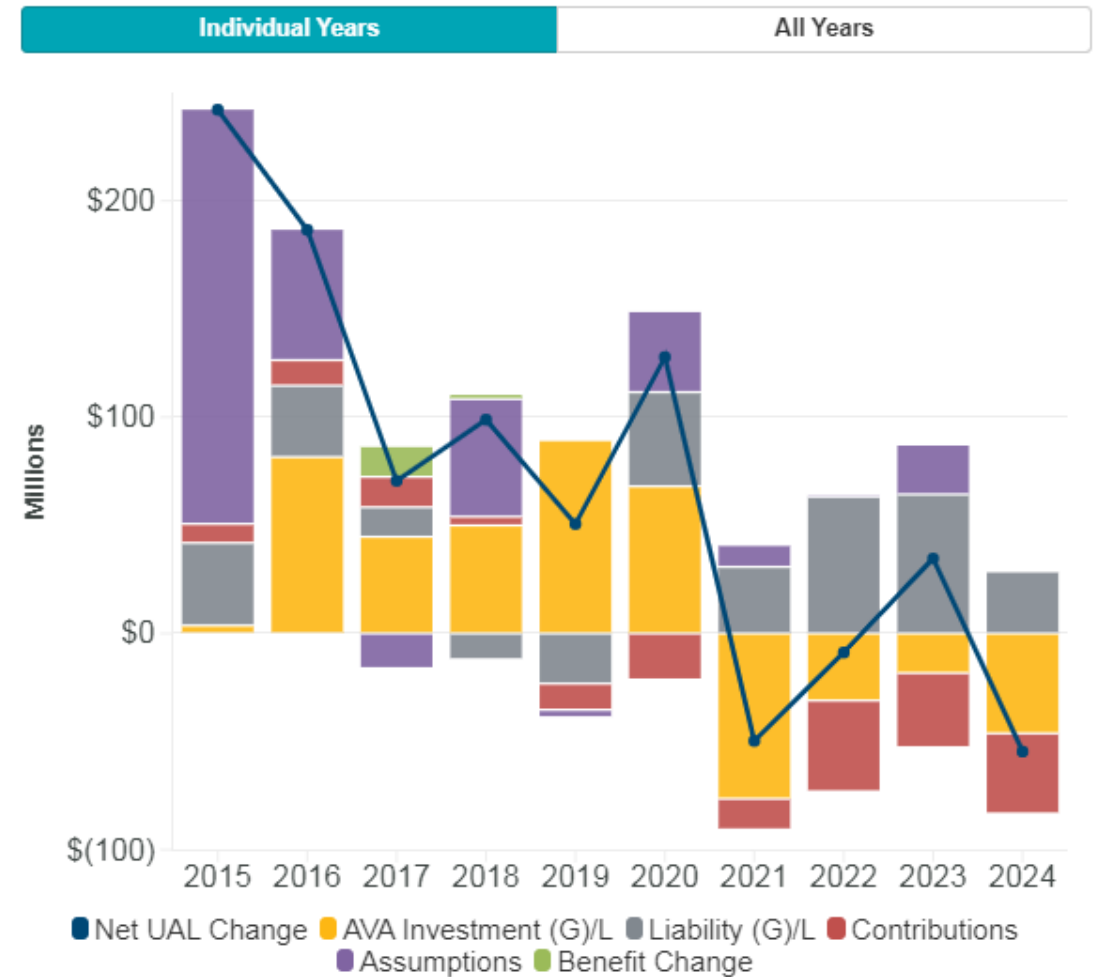
Current and Historical Changes in UAL



Change in UAL Based on Actuarial Assets



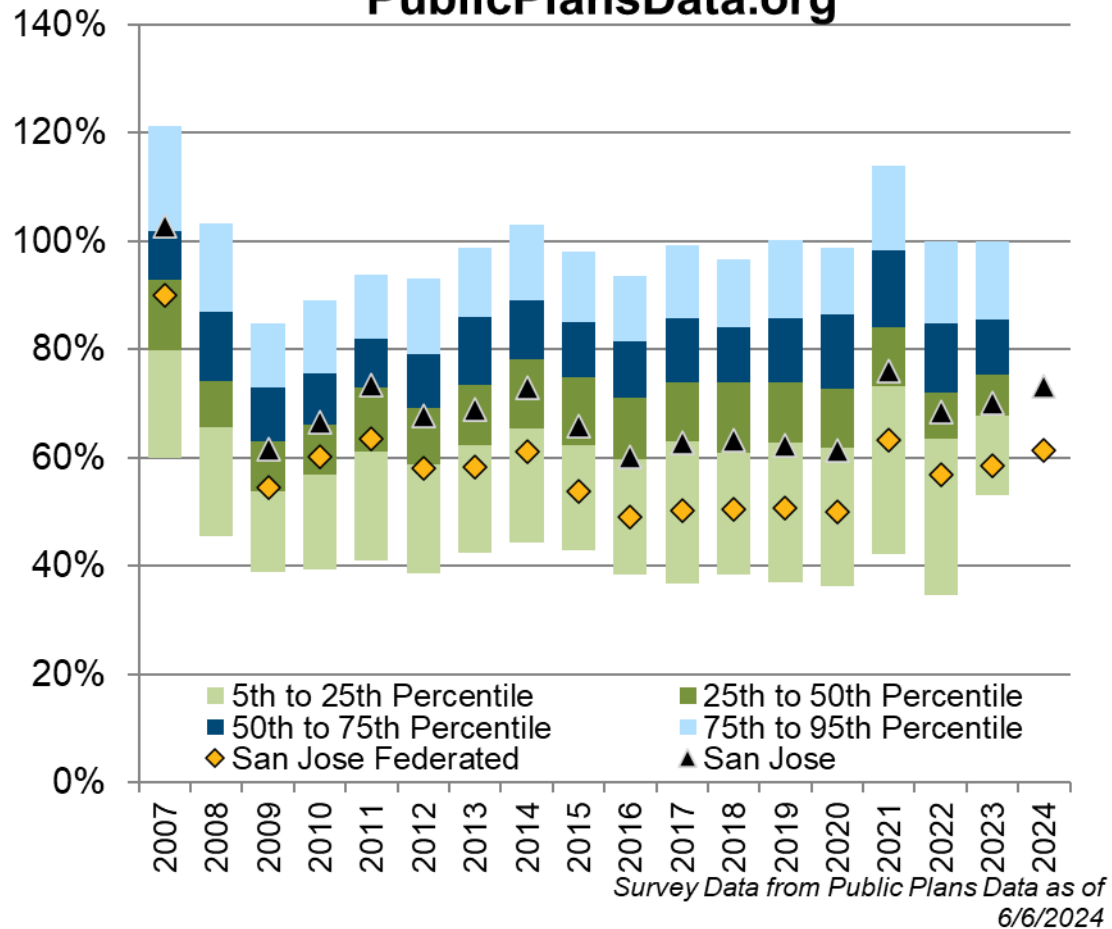
Changes in UAL



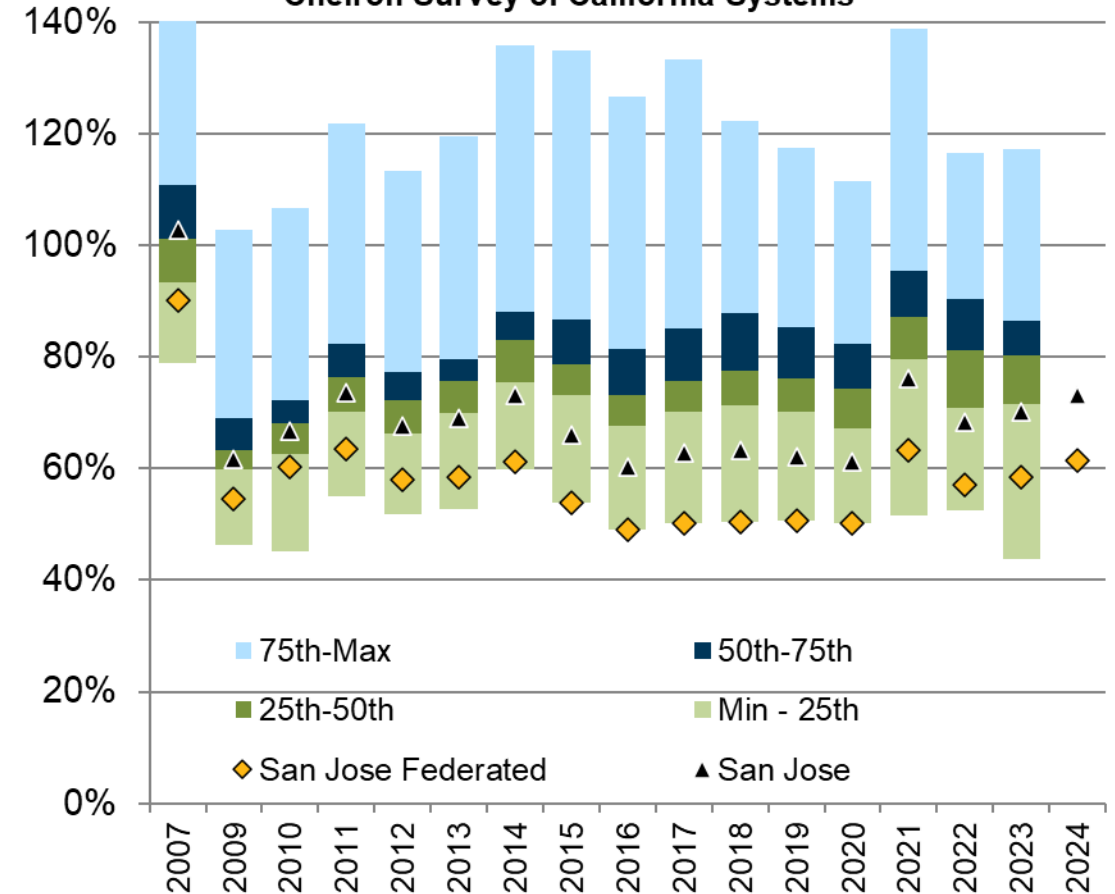
Comparison of Funded Ratio (Market Value of Assets)



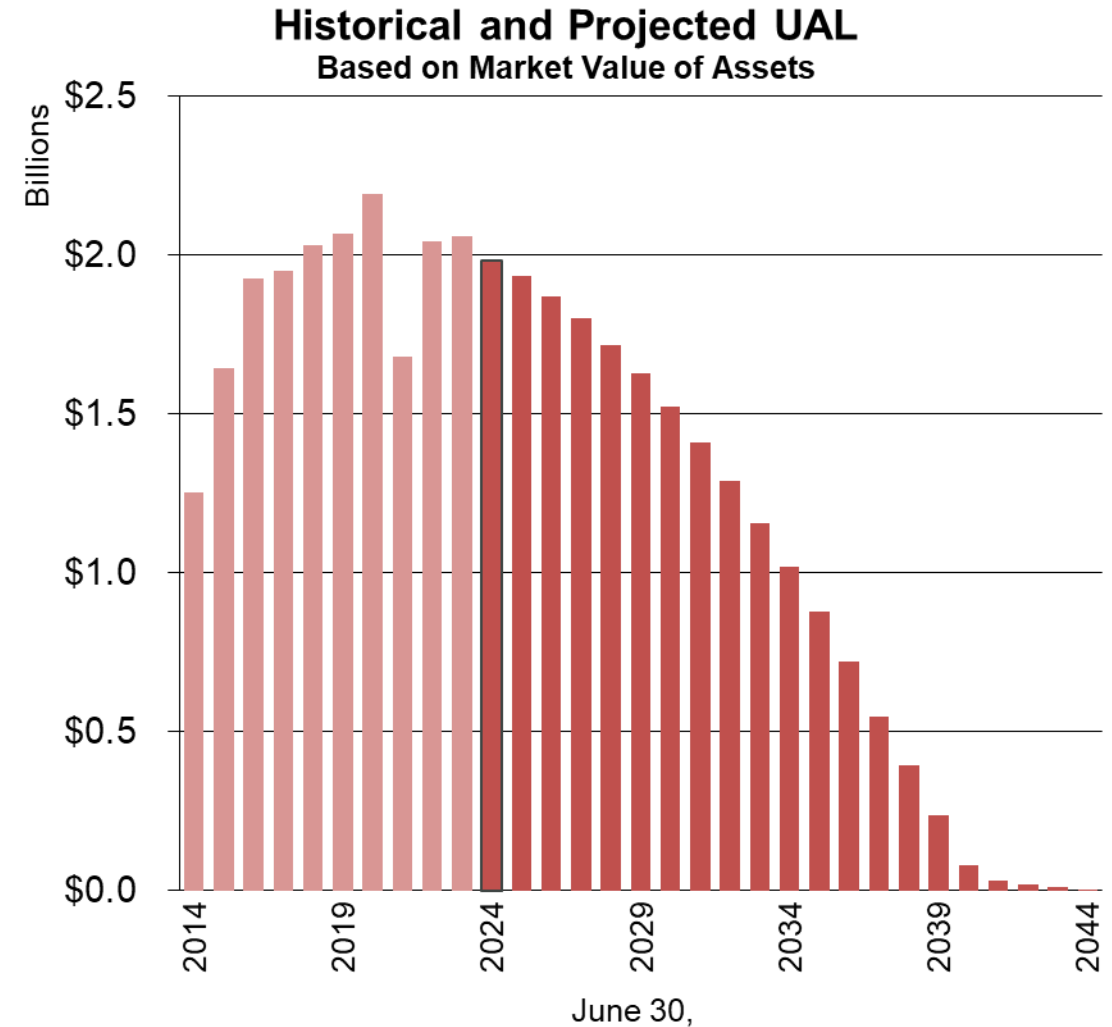
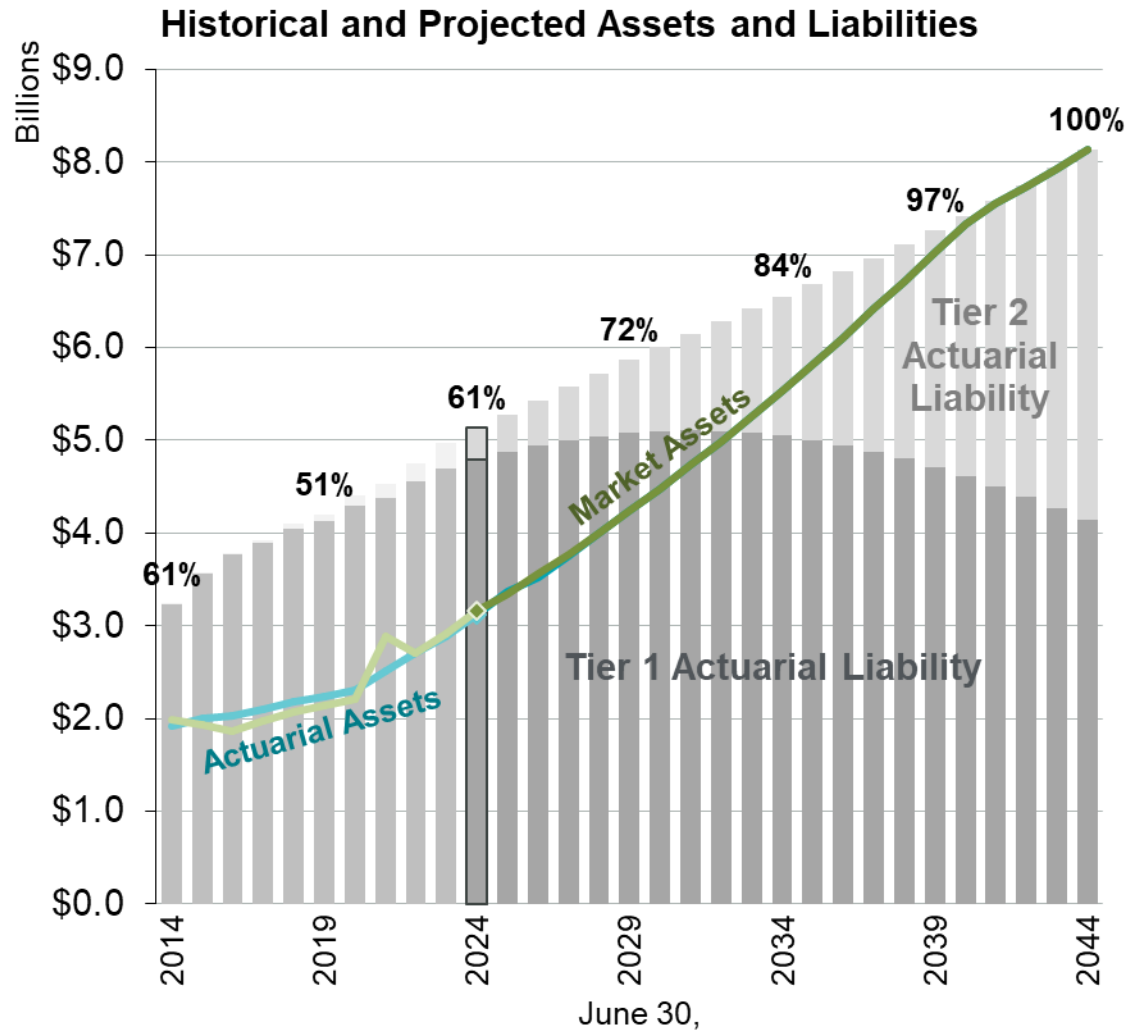
National Survey Data from PublicPlansData.org



Funded Status - Market Value of Assets
Cheiron Survey of California Systems



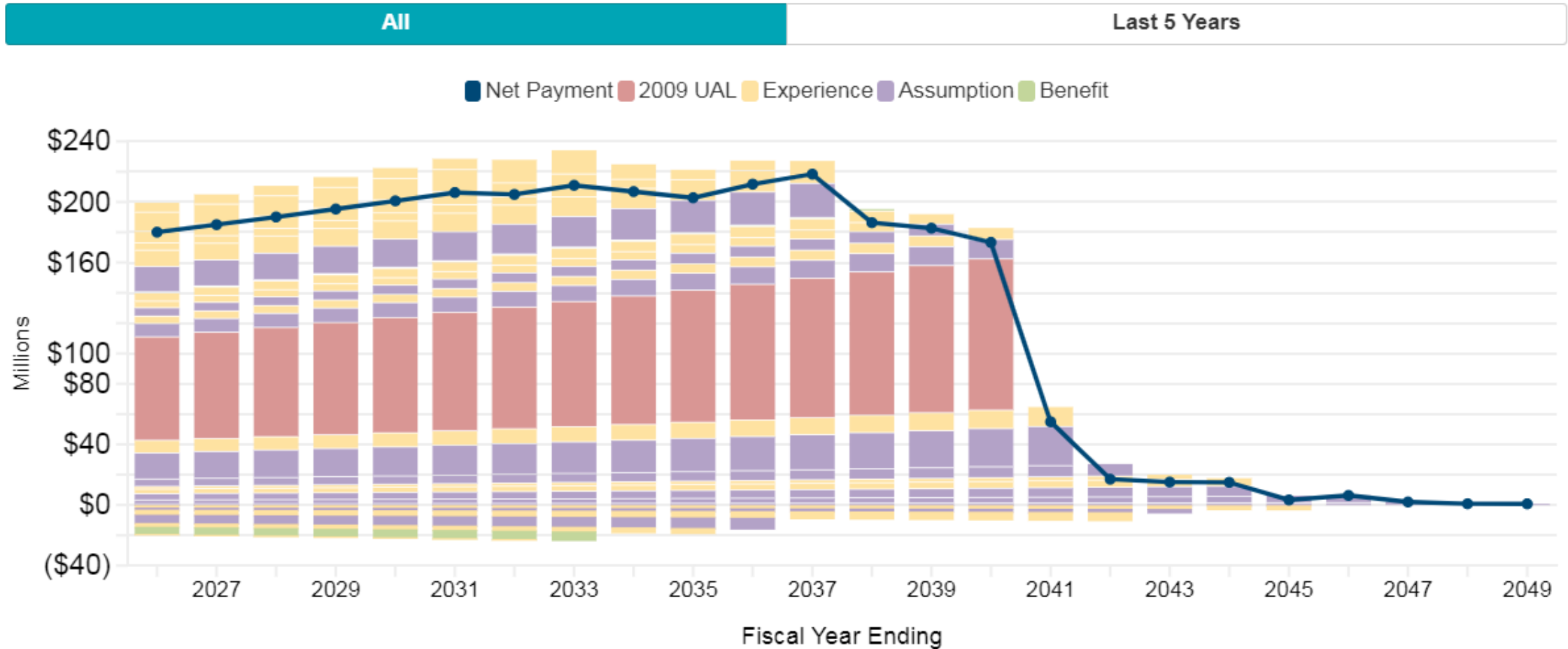
Baseline Projections – Funded Status and UAL



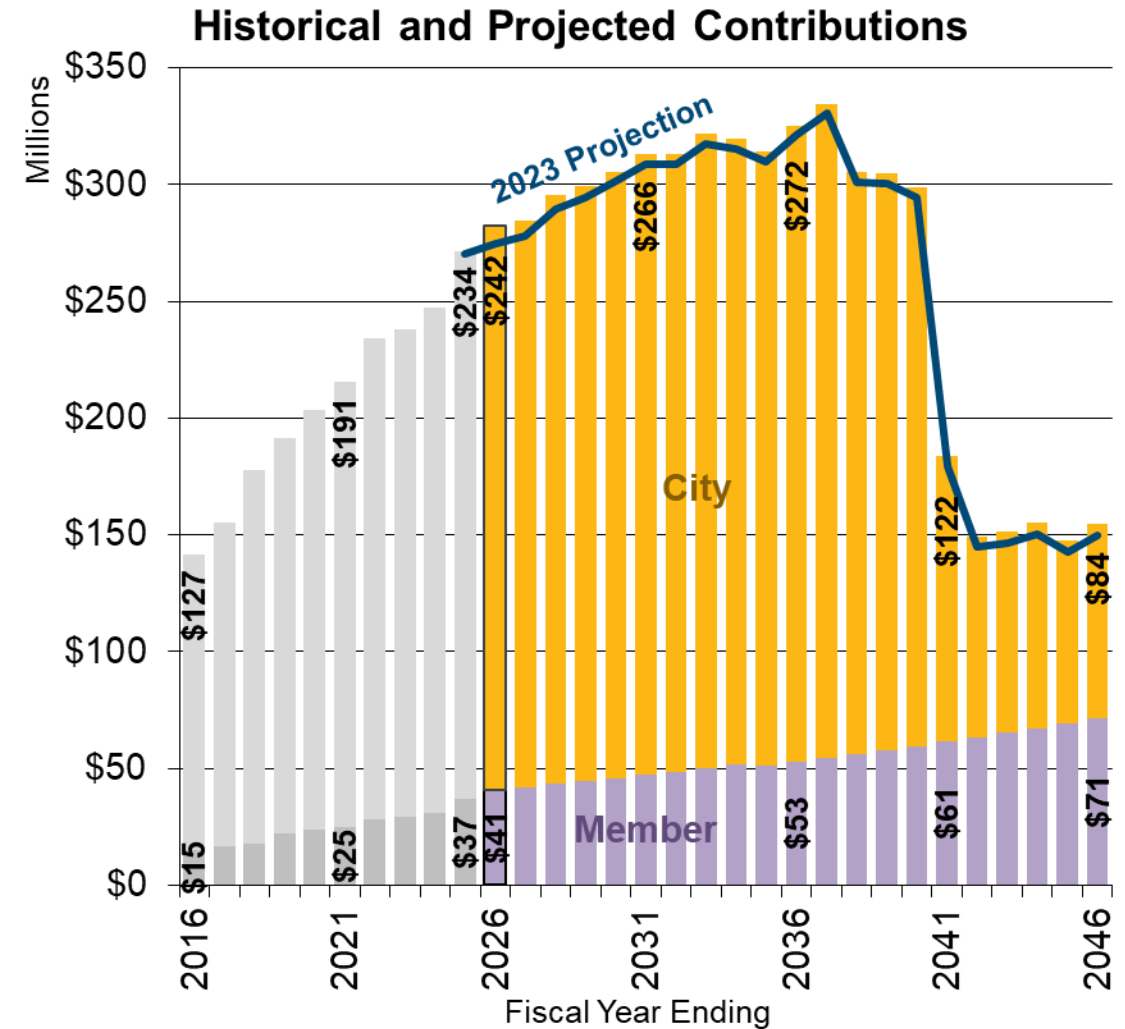
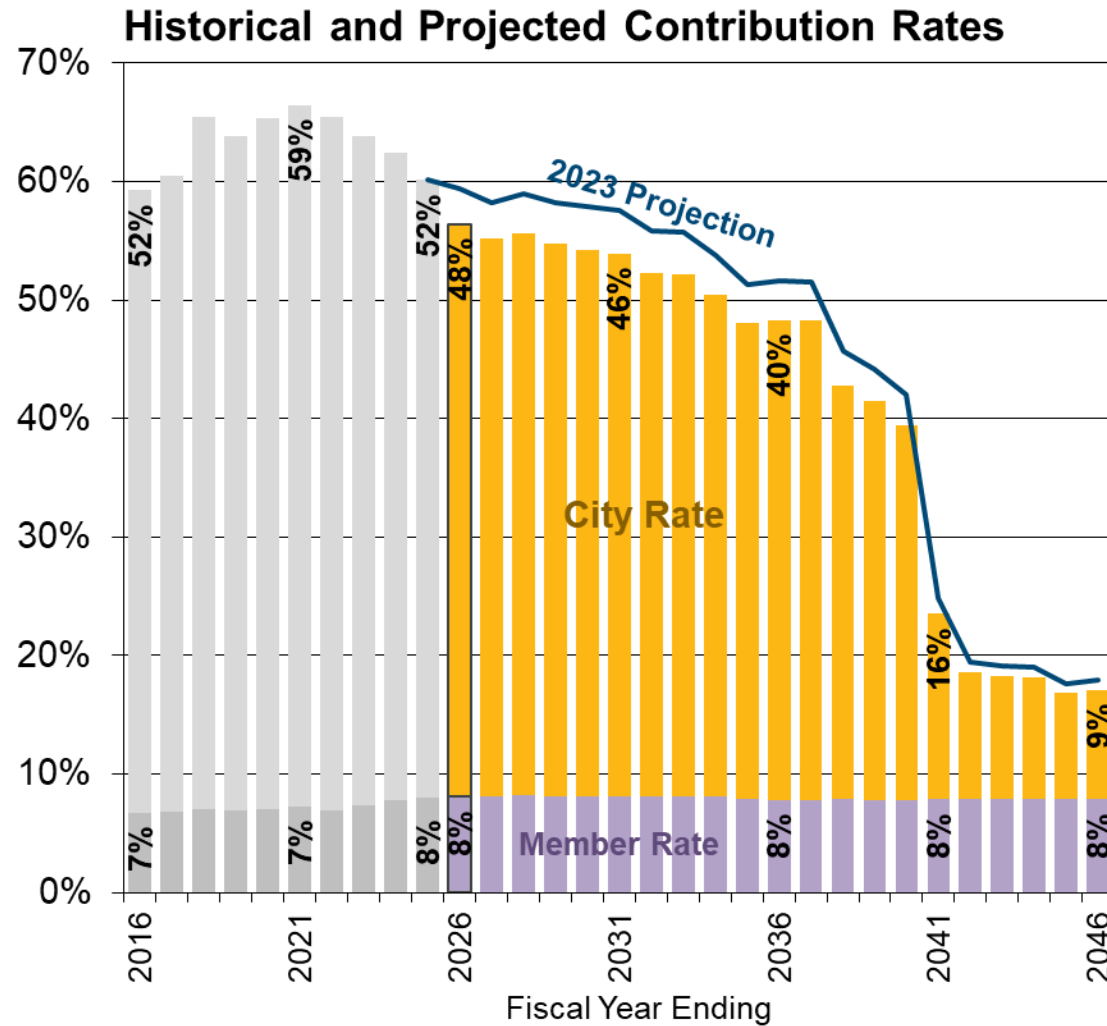
Schedule of Tier 1 Amortization Payments



Tier 1 City Amortization Payment Layers



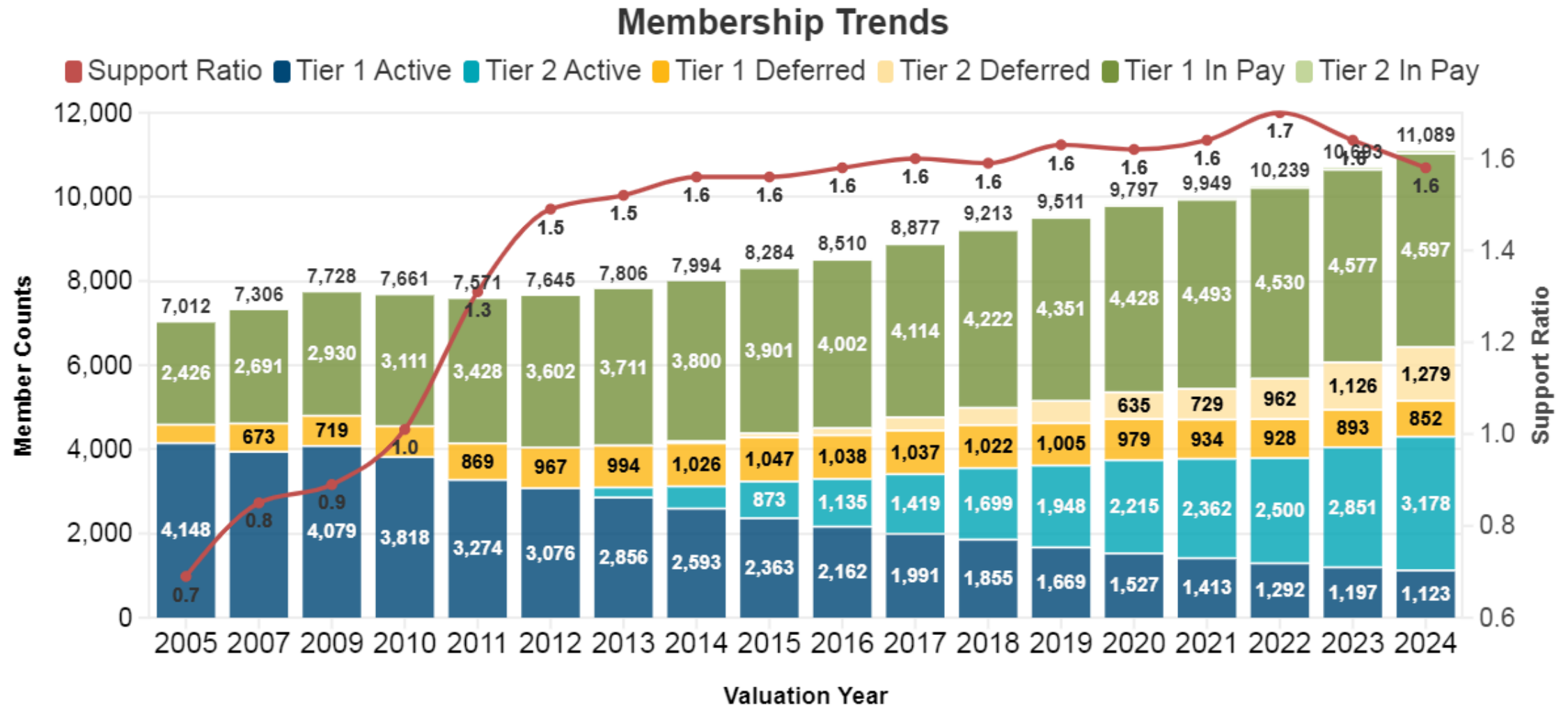
Baseline Projections – Contributions





Mature Pension Plans Are More Sensitive to Risk

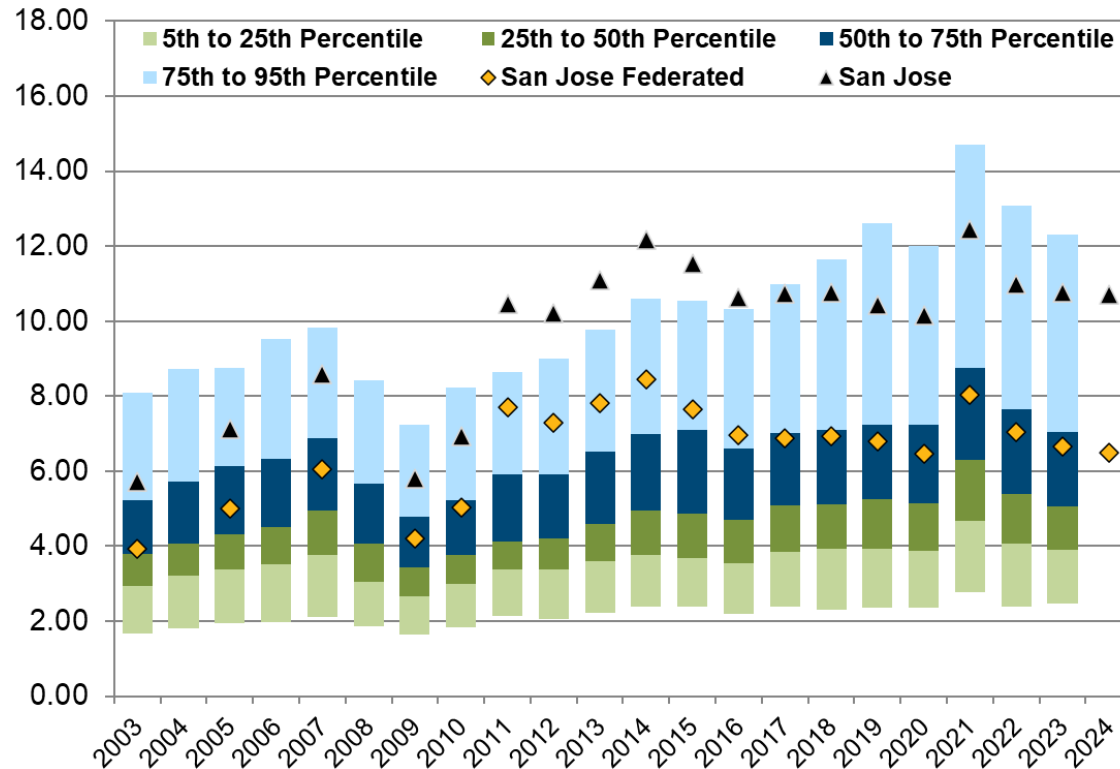
Membership Trends



Leverage Ratios

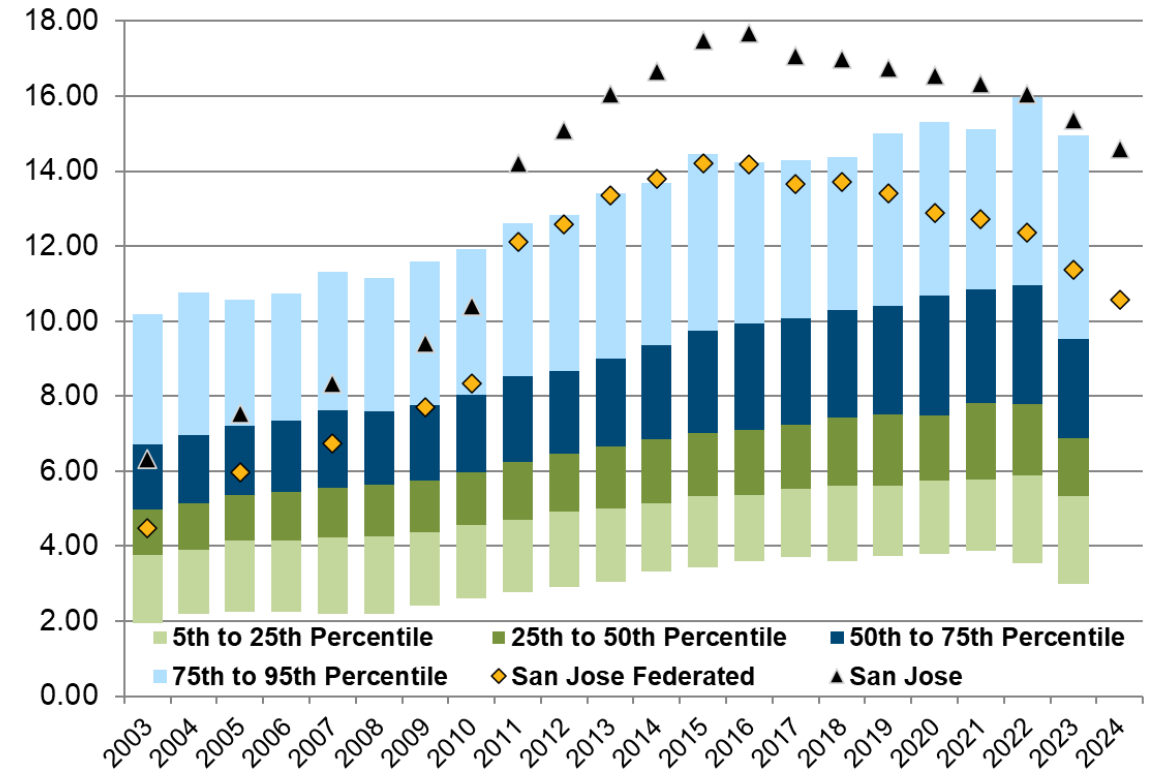


Asset Leverage Ratio



Survey Data from Public Plans Data as of 6/6/2024

Liability Leverage Ratio

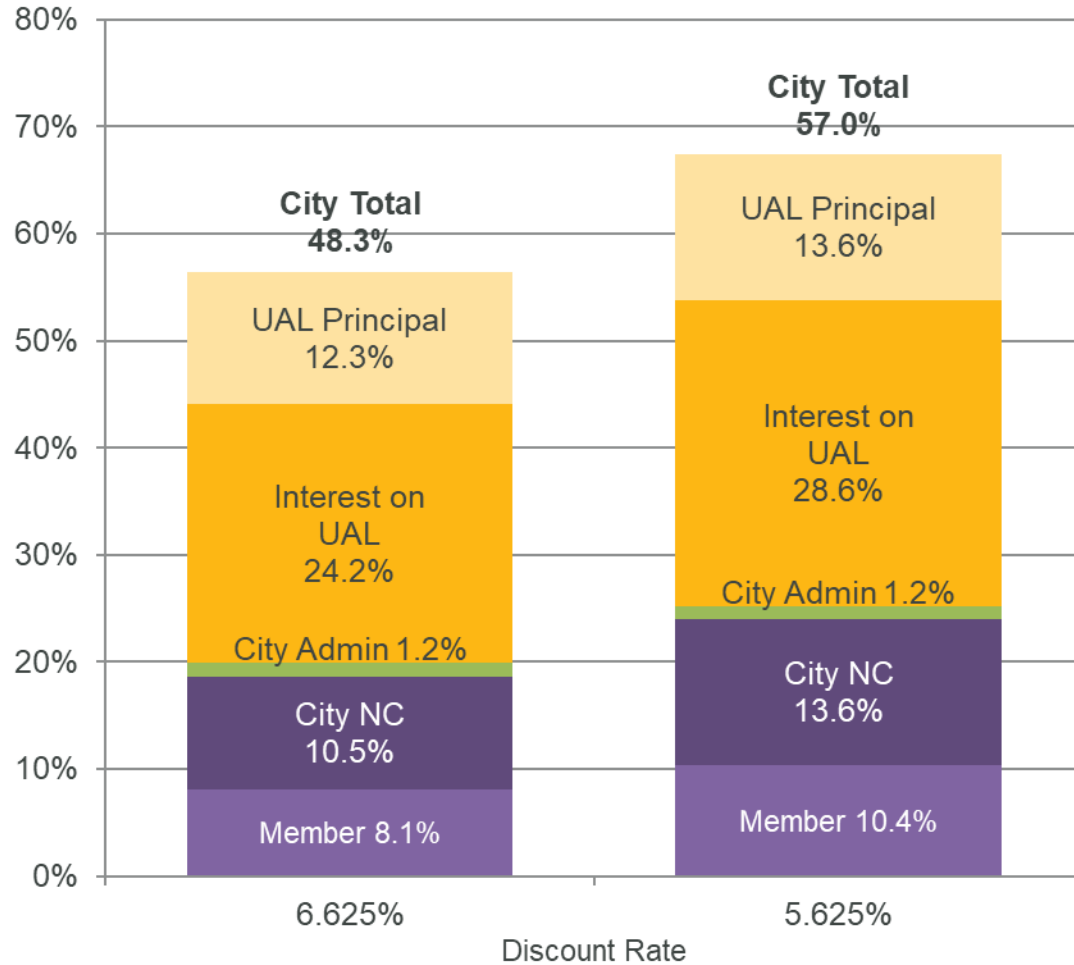


Survey Data from Public Plans Data as of 6/6/2024

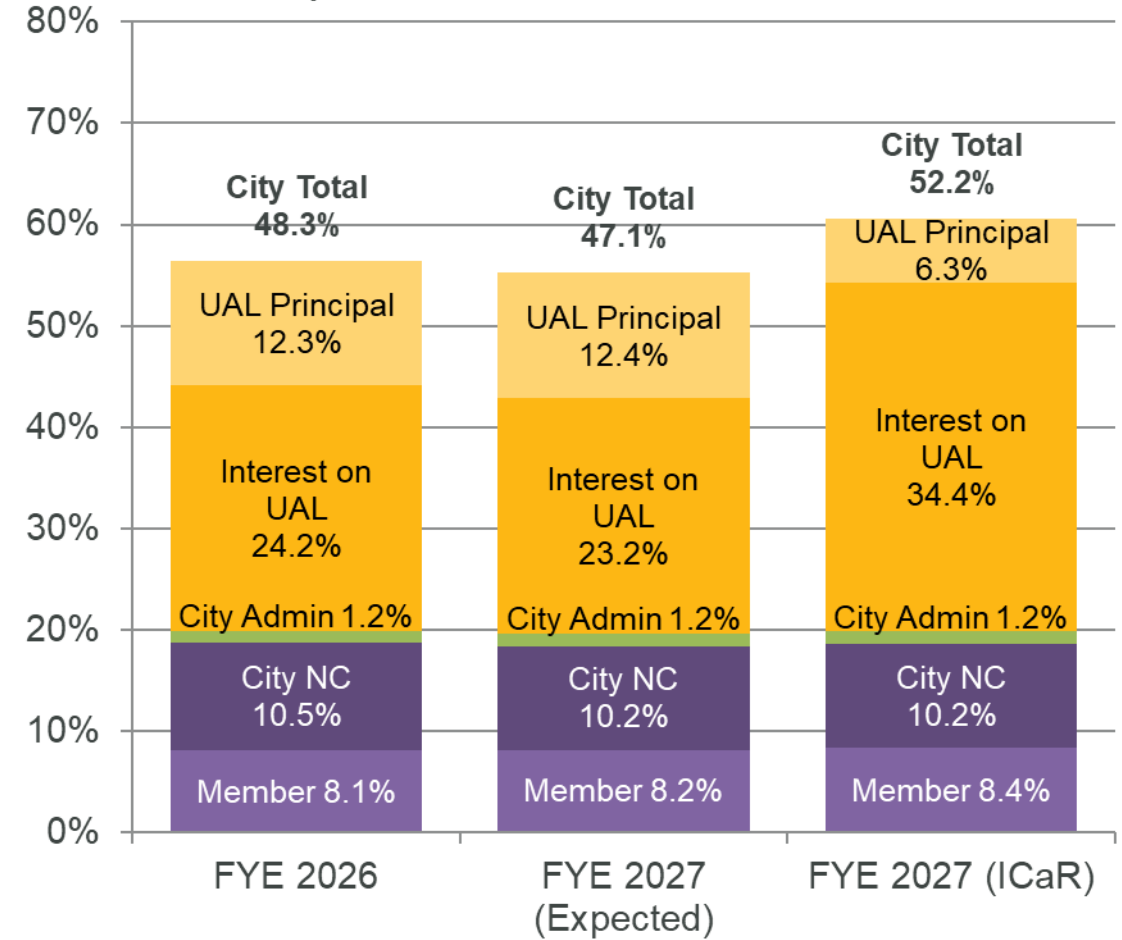
Illustration of Sensitivity



Discount Rate Change Impact



Interest Cost at Risk Impact of a -20.155% Investment Return



Projection Scenarios



Deterministic Scenarios



- Scenarios are intended to illustrate the range of potential contributions
 - Based on Meketa's 10-year capital market assumptions
 - Impact of asset smoothing and amortization
 - Volatility due to plan maturity
- Not intended to be realistic economic scenarios

Annual Average Investment Return

Percentile	1 Year	5 Years
95 th	31.5%	17.5%
75 th	16.6%	11.4%
25 th	-1.2%	3.4%
5 th	-12.4%	-2.0%

Deterministic Scenarios

FYE	1-Year Shock		5-Year Moderate	
2025	-12.4%	31.5%	3.4%	11.4%
2026	6.625%	6.625%	3.4%	11.4%
2027	6.625%	6.625%	3.4%	11.4%
2028	6.625%	6.625%	3.4%	11.4%
2029	6.625%	6.625%	3.4%	11.4%
2030+	6.625%	6.625%	6.625%	6.625%

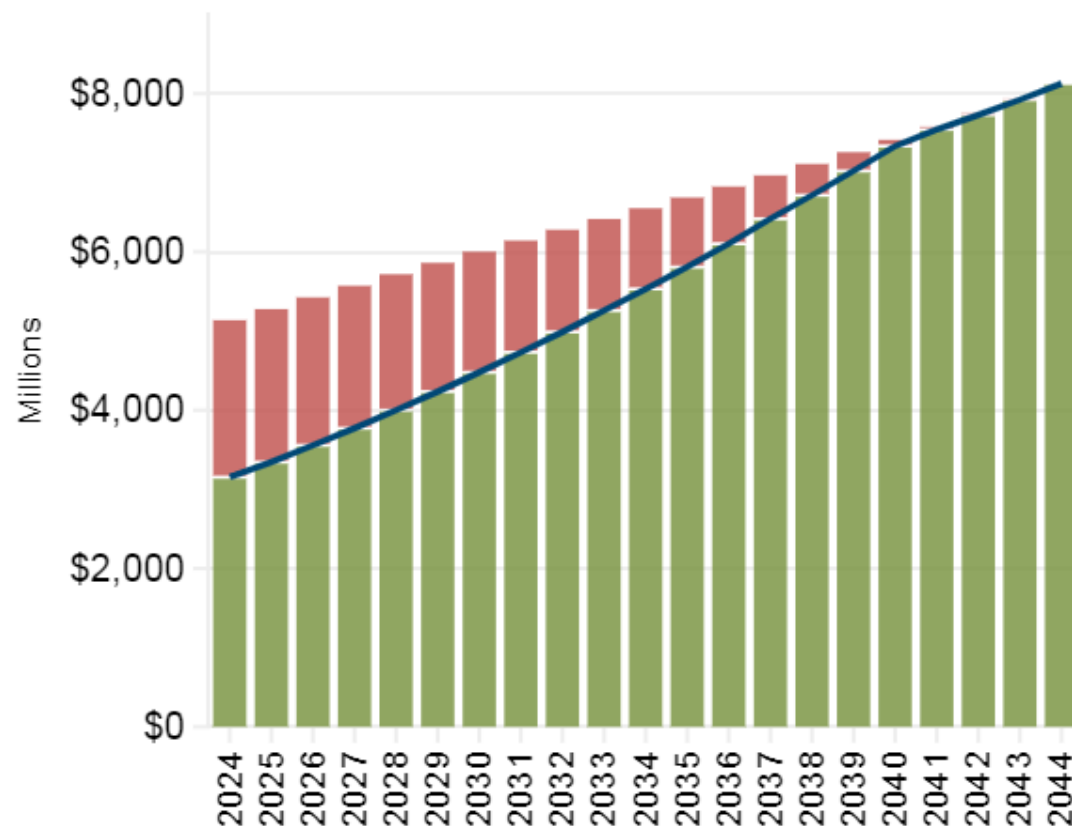
Deterministic Projections



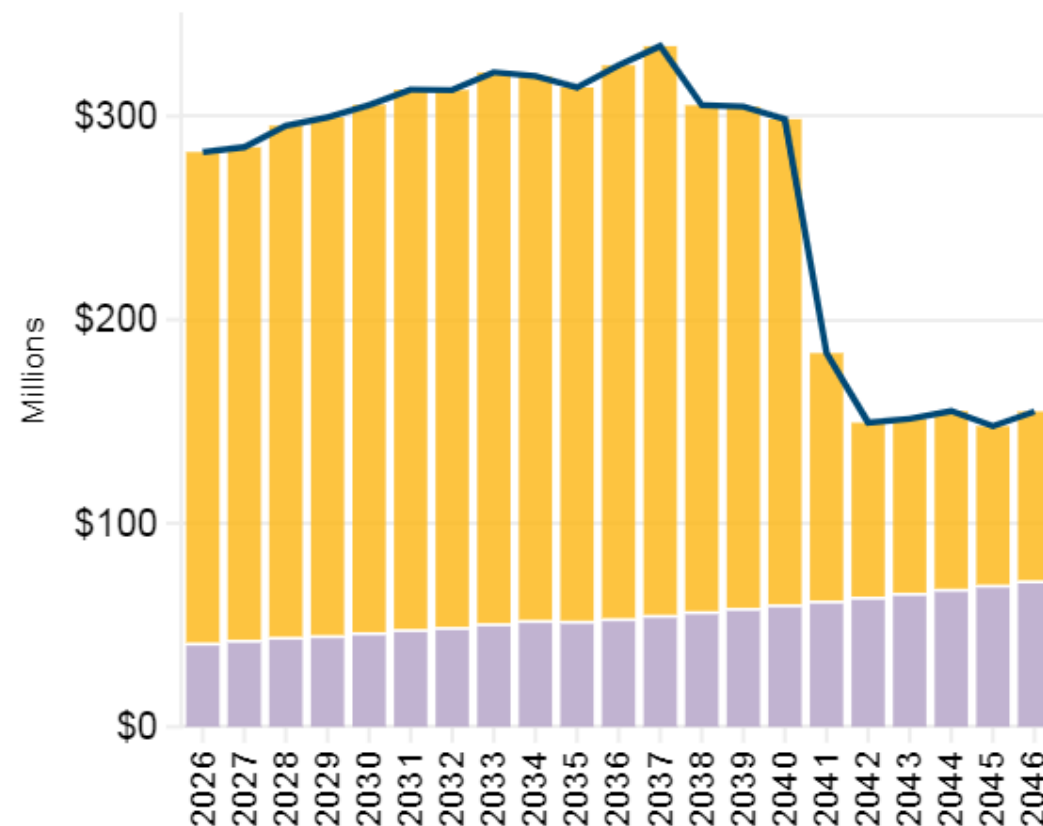
Scenario **Baseline** 1-Yr Shock Neg 1-Yr Shock Pos 5-Yr Moderate Neg 5-Yr Moderate Pos

Baseline Assets UAL Member City

Assets and Liabilities



Contribution



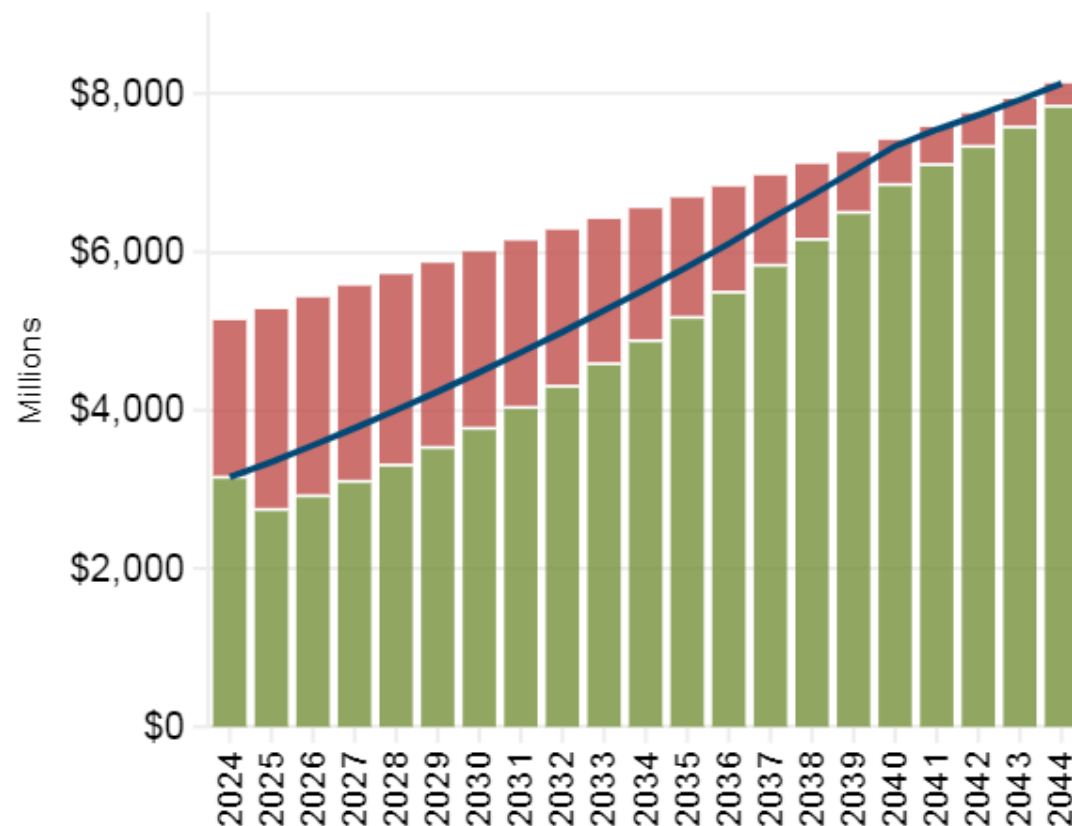
Deterministic Projections



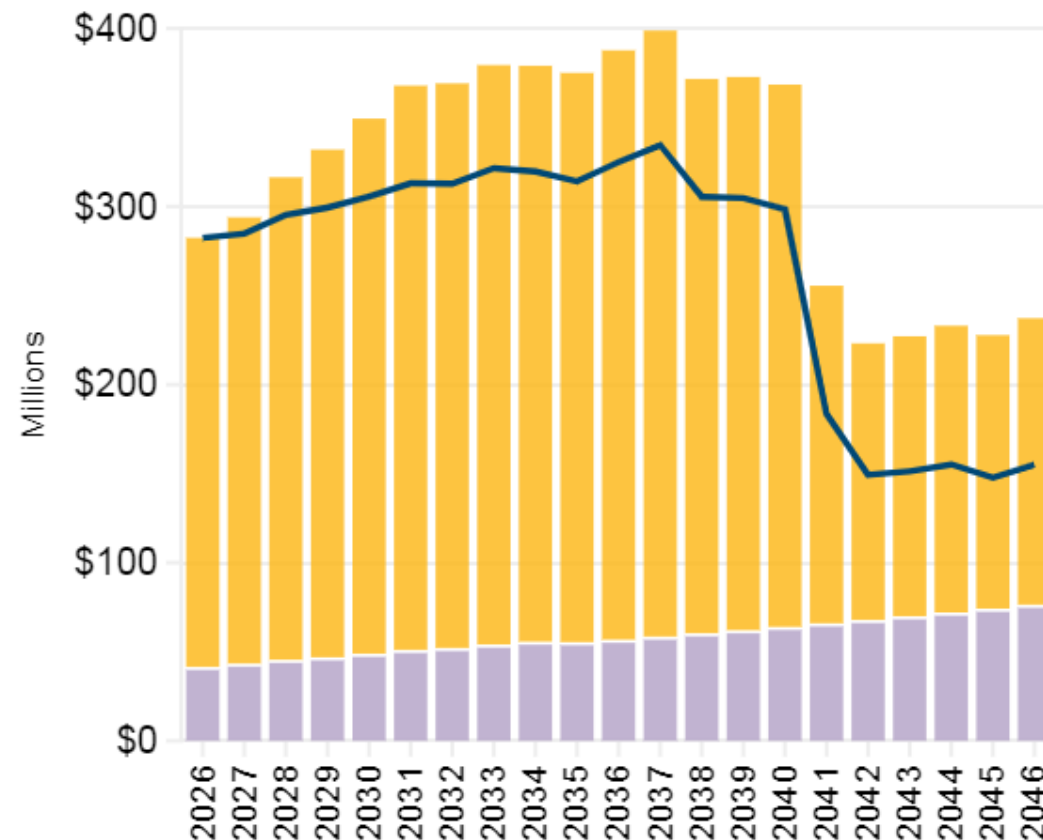
Scenario **Baseline** **1-Yr Shock Neg** 1-Yr Shock Pos 5-Yr Moderate Neg 5-Yr Moderate Pos

■ Baseline ■ Assets ■ UAL ■ Member ■ City

Assets and Liabilities



Contribution



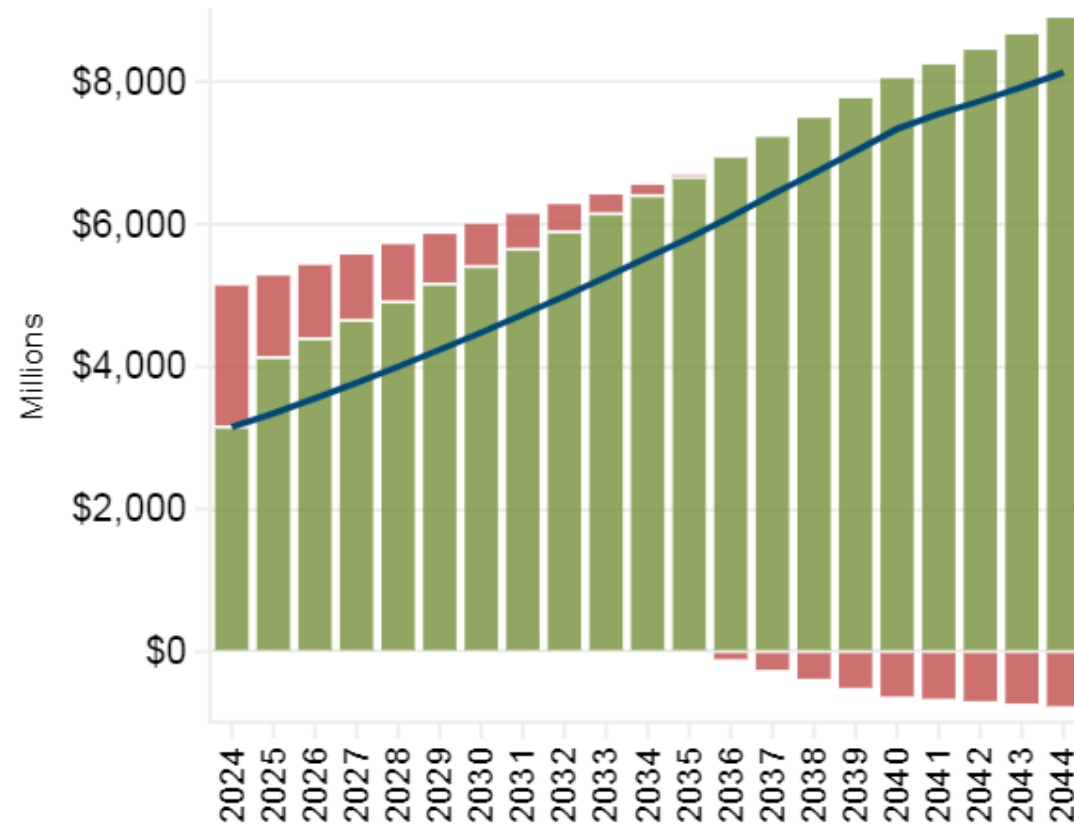
Deterministic Projections



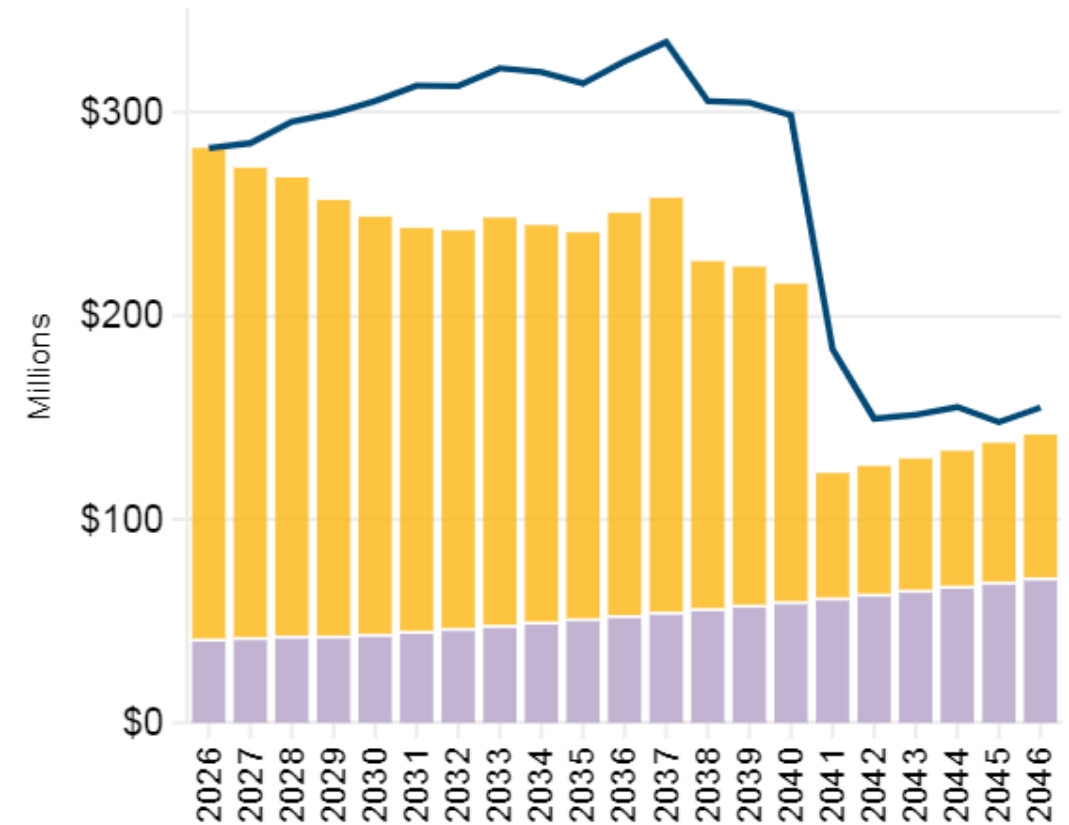
Scenario **Baseline** 1-Yr Shock Neg **1-Yr Shock Pos** 5-Yr Moderate Neg 5-Yr Moderate Pos

■ Baseline ■ Assets ■ UAL ■ Member ■ City

Assets and Liabilities



Contribution



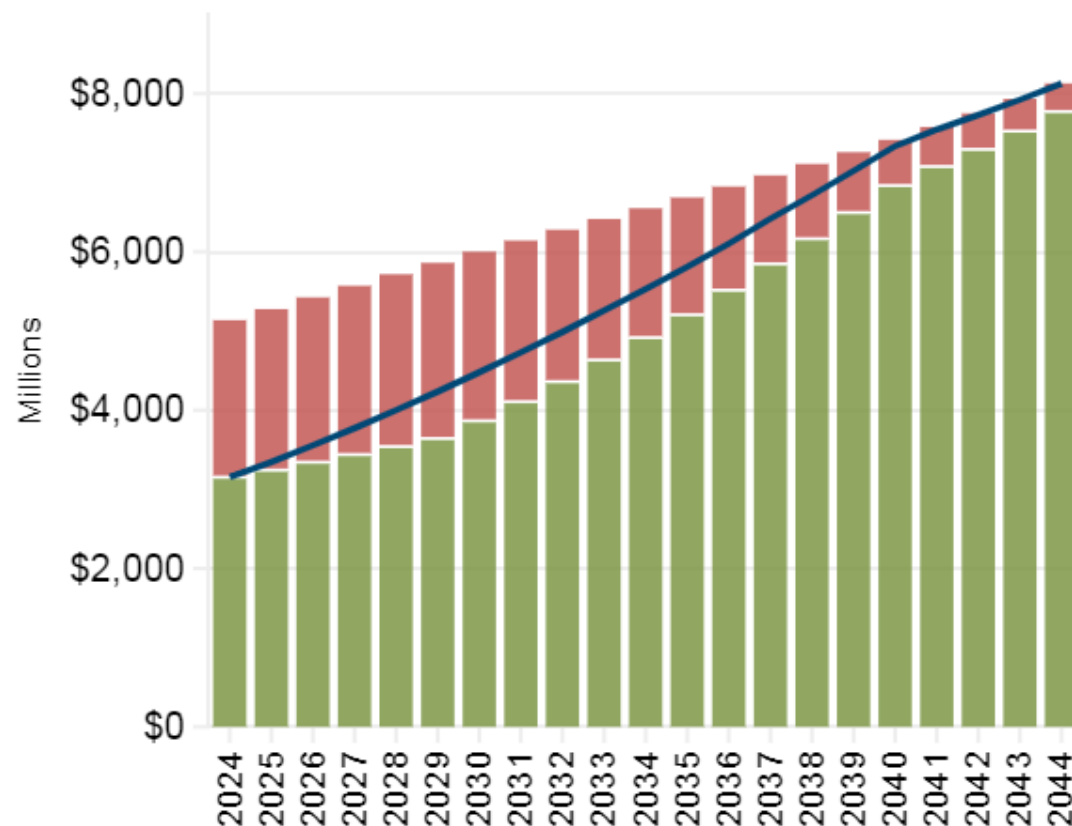
Deterministic Projections



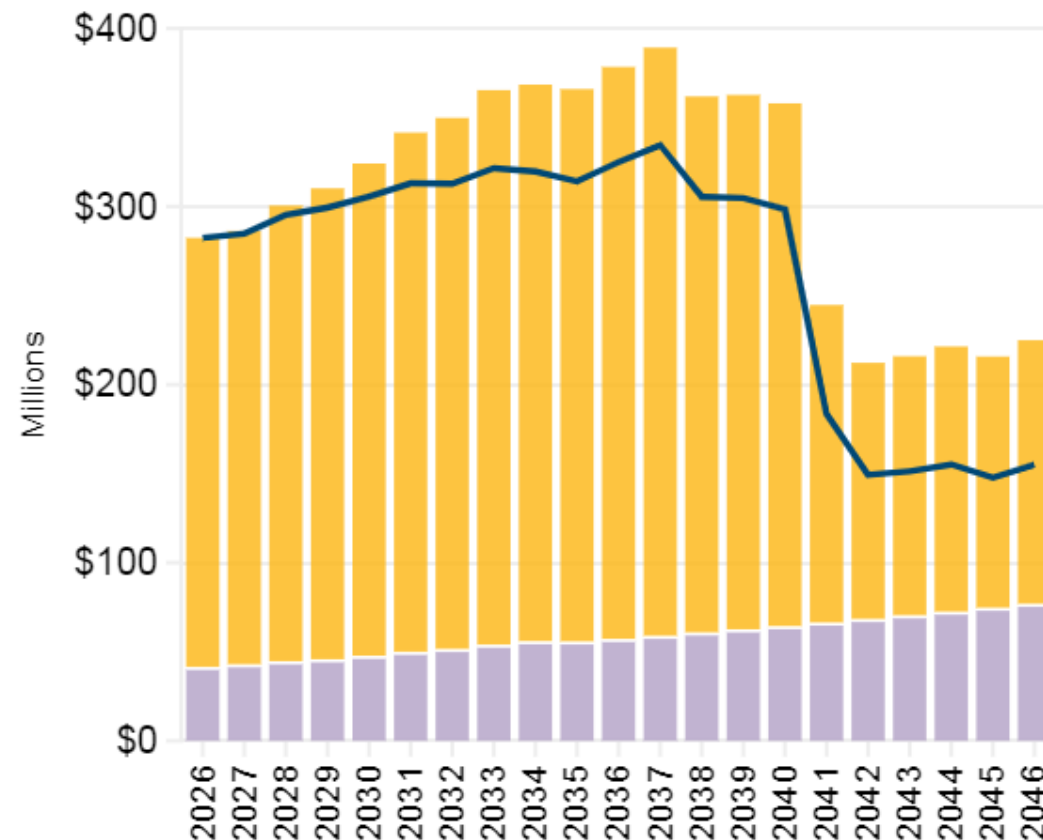
Scenario **Baseline** 1-Yr Shock Neg 1-Yr Shock Pos **5-Yr Moderate Neg** 5-Yr Moderate Pos

■ Baseline ■ Assets ■ UAL ■ Member ■ City

Assets and Liabilities



Contribution

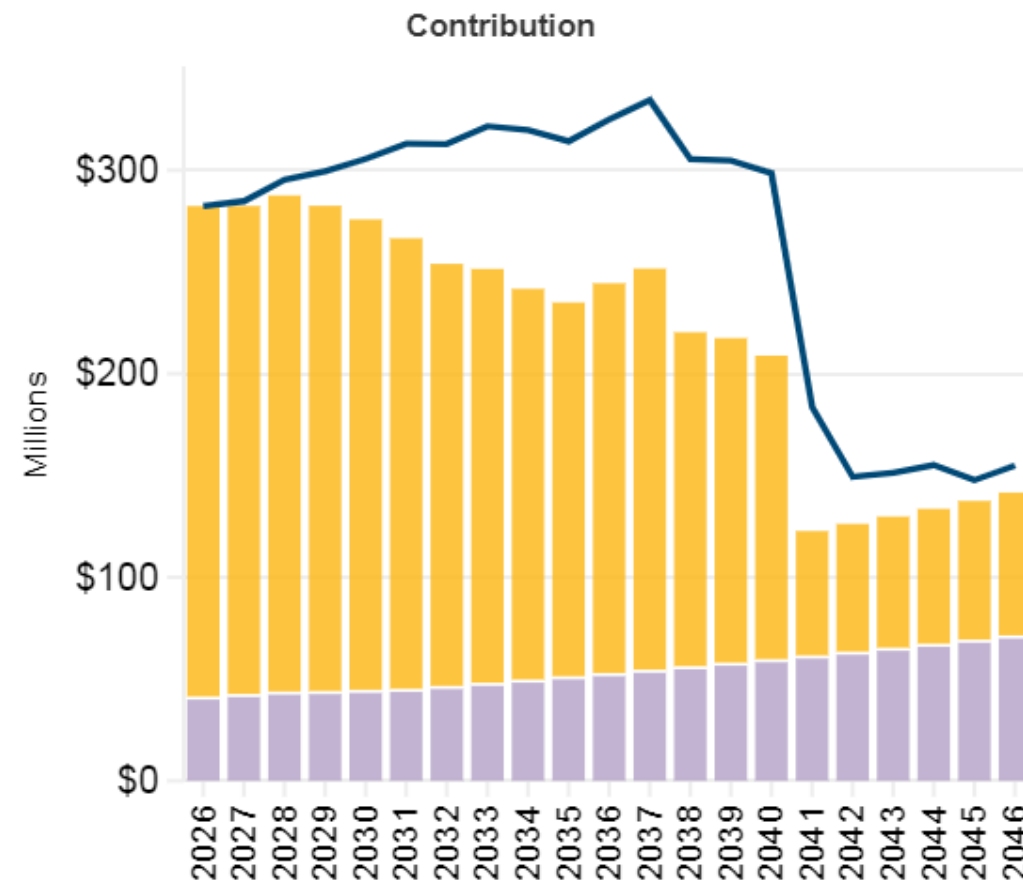
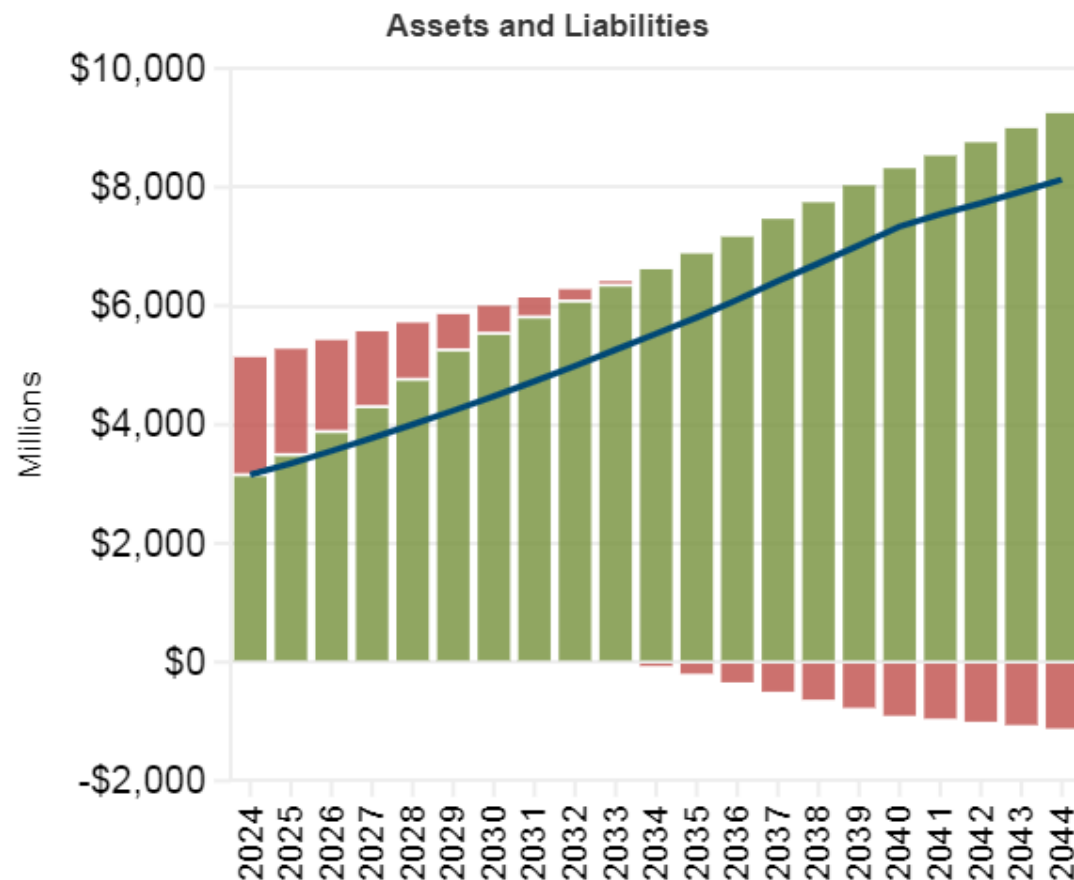


Deterministic Projections



Scenario **Baseline** 1-Yr Shock Neg 1-Yr Shock Pos 5-Yr Moderate Neg **5-Yr Moderate Pos**

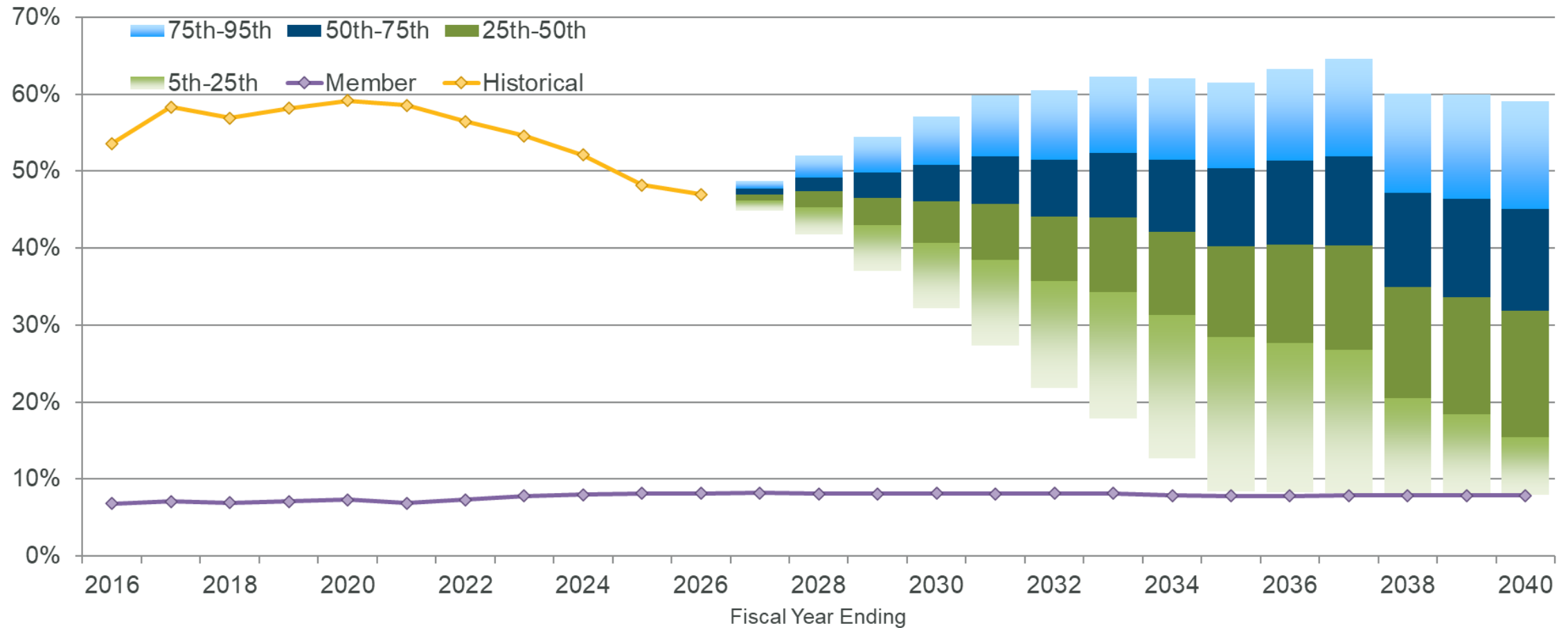
■ Baseline ■ Assets ■ UAL ■ Member ■ City



Stochastic Contributions – Contribution Rates



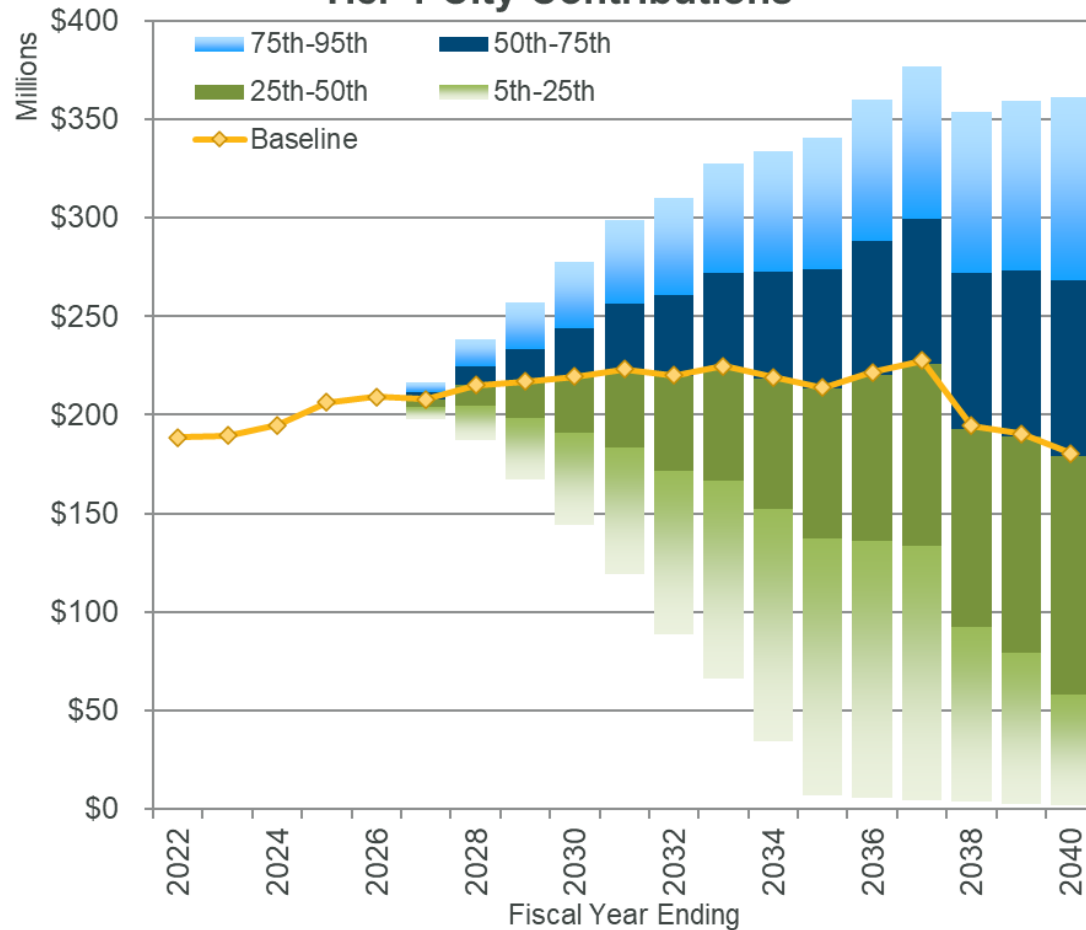
Historical and Projected Employer Contribution Rates



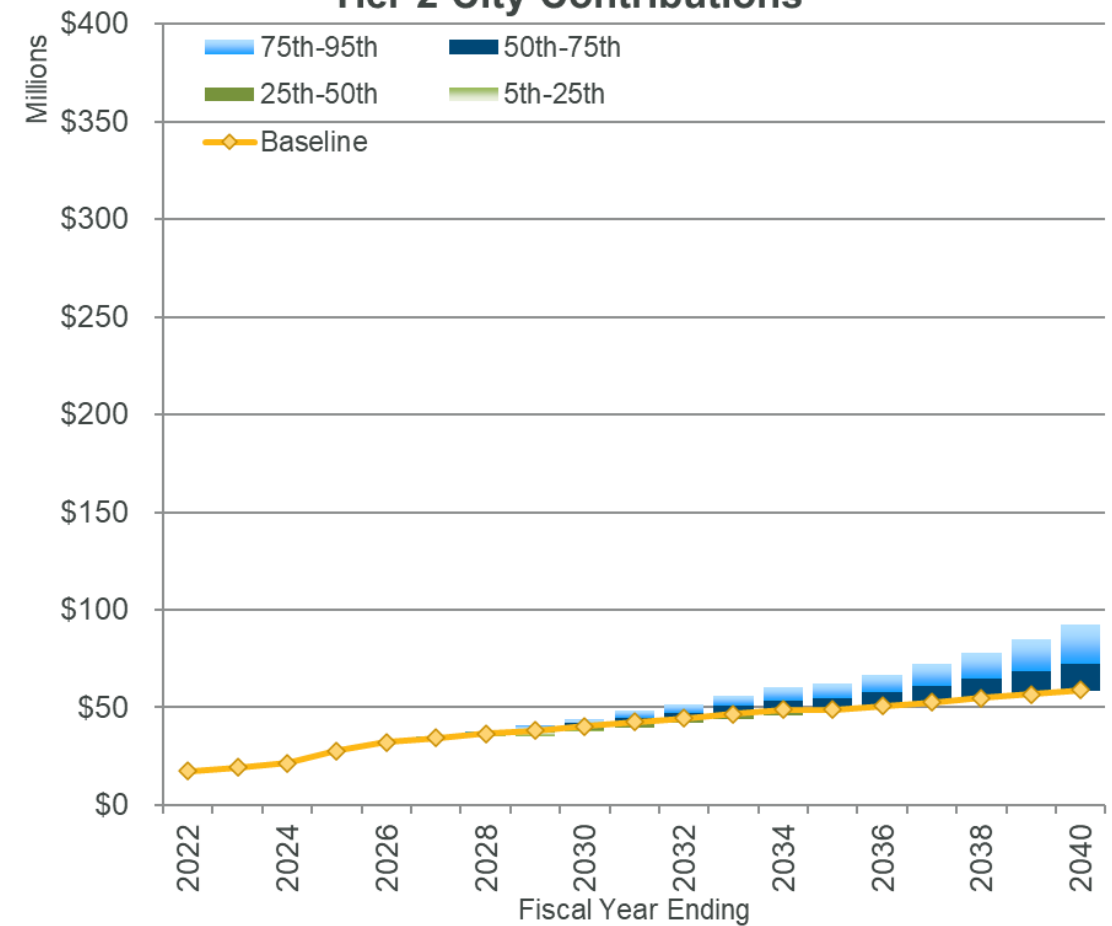
Stochastic Projections – Contributions by Tier



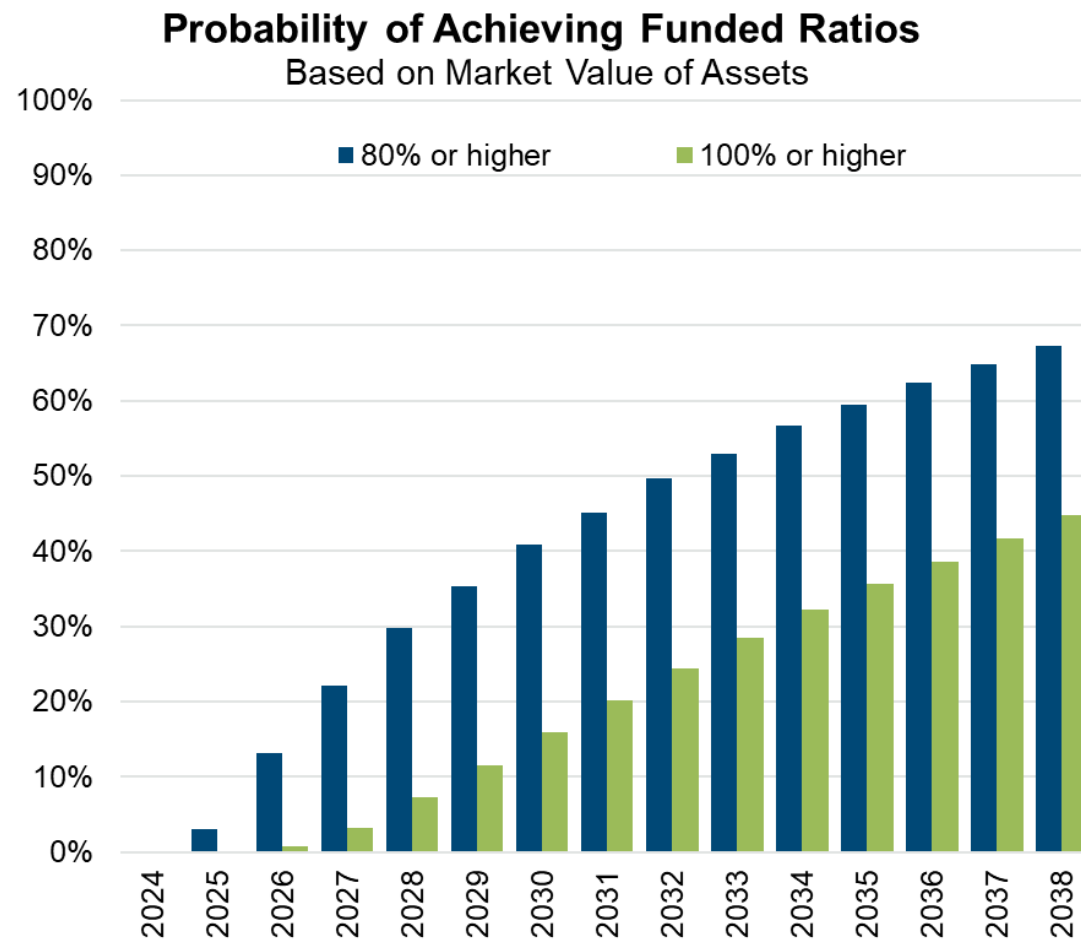
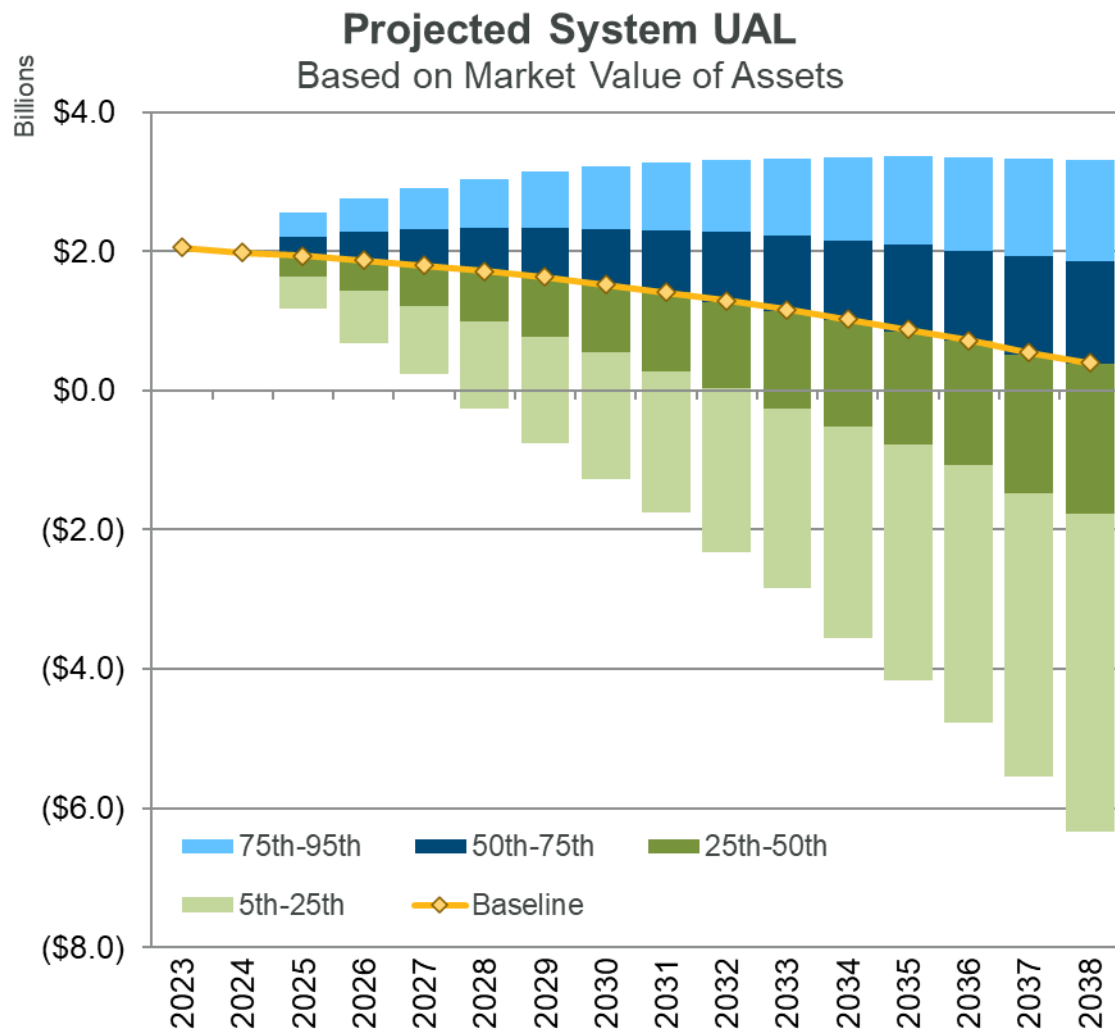
Historical and Stochastically Projected Tier 1 City Contributions



Historical and Stochastically Projected Tier 2 City Contributions



Stochastic Projections – UAL and Funded Ratio





- The purpose of this presentation is to present the results of the June 30, 2024 Actuarial Valuation for the City of San José Federated City Employees' Retirement System.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. A summary of the data, assumptions, methods, and plan provisions used to prepare the valuation can be found in the June 30, 2024 actuarial valuation report.
- 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 presentation 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 meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.
- This presentation was prepared exclusively for the City of San José Federated City Employees' Retirement System for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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Consulting Actuary

Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary



- Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.
- Deterministic projections in this valuation report were developed using P-Scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the System.
- P-Scan uses standard roll-forward techniques that implicitly assume a stable active population. Because P-Scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.
- Stochastic projections in this valuation report were developed using R-Scan, our proprietary tool for assessing the probability of different outcomes based on a range of potential investment returns. We relied on Cheiron colleagues for the development of the model. The stochastic projections of investment returns assume that each future year's investment return is independent from all other years and is identically distributed according to a lognormal distribution. The standard deviation used in the stochastic projection of investment returns was provided by the System's investment consultant.

Appendix – 5-Year Contribution Projection



Contribution Rates and Amounts (Throughout the Year)

	Fiscal Year Ending					
	2025	2026	2027	2028	2029	2030
Member Rates (including reclassification rates)						
Tier 1	6.75%	6.68%	6.66%	6.64%	6.65%	6.65%
Tier 2	8.49%	8.62%	8.60%	8.59%	8.41%	8.39%
City Rates and Amounts						
Tier 1 UAL Payment	\$ 176,758	\$ 180,067	\$ 180,845	\$ 189,737	\$ 193,357	\$ 197,697
Tier 1 Administrative Expenses	\$ 5,314	\$ 5,877	\$ 6,053	\$ 6,235	\$ 6,422	\$ 6,614
Tier 1 Normal Cost	\$ 24,376 18.73%	\$ 23,608 18.55%	\$ 21,406 18.50%	\$ 19,265 18.41%	\$ 17,122 18.35%	\$ 15,098 18.33%
Tier 2 Contribution	\$ 27,878 8.73%	\$ 32,205 8.62%	\$ 34,410 8.60%	\$ 36,650 8.59%	\$ 38,176 8.41%	\$ 40,381 8.39%
Aggregate City Contribution	\$ 234,326 52.13%	\$ 241,757 48.27%	\$ 242,714 47.05%	\$ 251,887 47.41%	\$ 255,077 46.61%	\$ 259,790 46.09%

Dollar amounts in thousands

Appendix – Tier 1 Beginning of Year Contributions



Tier 1 City Contribution Amounts (beginning of year assuming full discount)												
	2025		2026		Fiscal Year Ending 2027		2028		2029		2030	
Tier 1 UAL Payment	\$	171,178	\$	174,383	\$	175,137	\$	183,748	\$	187,254	\$	191,457
Tier 1 Administrative Expenses		5,146		5,691		5,862		6,038		6,219		6,405
Tier 1 Normal Cost		23,608		22,863		20,730		18,657		16,582		14,621
Tier 1 Total	\$	199,932	\$	202,937	\$	201,729	\$	208,443	\$	210,055	\$	212,483

Dollar amounts in thousands