



Memorandum

**TO: Board of Administration for the
Police and Fire Department
Retirement Plan**

FROM: Benjie Chua Foy

SUBJECT: Contributions Resolutions

DATE: March 22, 2024

Approved

Date

03/25/24

INFORMATIONAL

Attached are the contributions resolutions for the Police and Fire members for the Board’s approval. The contribution rates and amounts are taken from the letter provided by Cheiron (Exhibit A), which is prepared after they have received the prefunding letter from the City (Exhibit B) and the Board has approved the discount rate to use should the City decide to prefund. In this case, the City decided to prefund Police Tier 1, Fire Tier 1 and the healthcare (OPEB) contributions for fiscal year 2024-2025, like fiscal year 2023-2024.

Cheiron’s letter, which contains the contribution rates and amounts, was based on the June 30, 2023 actuarial valuations. The Board approved these actuarial valuations at their December 2023 and February 2024 meetings. The approval of the resolutions is merely a formality.

A comparison of the member contribution rates from the prior year to the new year are presented for informational purposes. Please refer to the resolutions for a description of the various tiers.

	FY 2023-2024	Increase (Decrease)	FY 2024-2025
FIRE			
Members – Pension			
Tier 1	11.99%	(0.18%)	11.81%
Tier 1 – rehired	13.95%	(0.18%)	13.77%
Tier 1 – rehired Fed	12.86%	(0.18%)	12.68%
Tier 1 – Classic	12.14%	(0.20%)	11.94%
Tier 2	15.11%	(0.21%)	14.90%
Members – OPEB	8.00%	0.00%	8.00%
POLICE			
Members – Pension			
Tier 1	11.06%	(0.47%)	10.59%
Tier 1 – rehired	13.02%	(0.47%)	12.55%
Tier 1 – rehired Fed	11.93%	(0.47%)	11.46%
Tier 1 – Classic	11.21%	(0.49%)	10.72%
Tier 2	14.35%	(0.70%)	13.65%
Members – OPEB	8.00%	0.00%	8.00%

***Via Electronic Mail***

March 19, 2024

Mr. Roberto Peña
 Chief Executive Officer
 City of San José
 Department of Retirement Services
 1737 North 1st Street, Suite 580
 San José, CA 95112

***Re: City of San José Police and Fire Department Retirement Plan and Postemployment
 Healthcare Plan Contribution Rates and Amounts for FYE 2025***

Dear Roberto:

The purpose of this letter is to provide the Board with the contribution rates and amounts for the fiscal year ending June 30, 2025 based on the June 30, 2023 actuarial valuations. Contributions are structured as a normal cost (representing the benefits attributed to the current year of service), plus administrative expenses, plus a payment on the Unfunded Actuarial Liability (UAL). Member contributions are administered as a contribution rate that is applied to pensionable compensation each pay period. Based on the Board's policy, some City contributions are administered as a contribution rate with a minimum dollar amount based on expected payroll and some are administered as a contribution amount that does not vary based on actual payroll. The table below summarizes the basis for City contributions.

City Contribution Type	Contribution Basis
Pension	
Tier 1 Normal Cost	Rate of Pay with Minimum Dollar Amount
Tier 1 Administrative Expenses	Rate of Pay with Minimum Dollar Amount
Tier 1 UAL	Dollar Amount
Tier 2	Rate of Pay
OPEB	Dollar Amount

The City elected to prepay its Tier 1 Pension contributions and OPEB contributions at the beginning of the year. Those prepayment amounts are shown in this letter.

Member Contribution Rates

The table on the following page provides the member contribution rates for each rate group. Separate rates are provided for the Retirement Fund and the COLA Fund, for Fire and Police, and for Tier 1 and Tier 2. In addition to the rates shown for all Tier 1 members, certain Tier 1 members pay an additional rate due to the reclassification of members under Measure F.

Fiscal Year Ending 2025 Member Contribution Rates						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
Tier 1						
All Members	8.02%	3.79%	11.81%	7.22%	3.37%	10.59%
Additional Reclassified Rates						
Rehires	1.04%	0.92%	1.96%	1.04%	0.92%	1.96%
Fed Service	0.22%	0.65%	0.87%	0.22%	0.65%	0.87%
Classic	0.06%	0.07%	0.13%	0.06%	0.07%	0.13%
Tier 2						
All Members	11.76%	3.14%	14.90%	10.76%	2.89%	13.65%

City Pension Contributions

The Tier 1 City contributions for normal cost and administrative expenses are shown in the table on the next page both as a rate to be applied to Tier 1 pensionable payroll and a minimum dollar amount. The Tier 1 UAL payment does not depend on payroll, so it is only shown as a dollar amount. The Tier 2 City contribution rate is separated into the normal cost rate, administrative expense rate, and the UAL rate. The dollar amount shown on the next page for the total Tier 2 rate is the estimated amount that will be collected by applying the rate to actual Tier 2 pensionable payroll during the year.

Fiscal Year Ending 2025 City Contributions Contributions Throughout the Year						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
Tier 1						
Normal Cost	21.58%	10.15%	31.73%	19.97%	9.23%	29.20%
	\$ 13,907,350	\$ 6,538,364	\$ 20,445,714	\$ 14,831,111	\$ 6,854,789	\$ 21,685,900
Admin Expenses	2.76%	2.08%	4.84%	2.96%	2.30%	5.26%
	\$ 1,776,457	\$ 1,339,910	\$ 3,116,367	\$ 2,195,728	\$ 1,713,575	\$ 3,909,303
UAL Payment	\$ 37,521,692	\$ 31,164,505	\$ 68,686,197	\$ 43,374,355	\$ 36,048,963	\$ 79,423,318
Total Tier 1	\$53,205,499	\$39,042,779	\$92,248,278	\$60,401,194	\$44,617,327	\$105,018,521
Tier 2						
Normal Cost	11.76%	3.14%	14.90%	10.76%	2.89%	13.65%
Admin Expenses	0.06%	0.01%	0.07%	0.07%	0.01%	0.08%
UAL Payment	-0.06%	-0.01%	-0.07%	-0.07%	-0.01%	-0.08%
Total Tier 2	11.76%	3.14%	14.90%	10.76%	2.89%	13.65%
	\$ 4,850,137	\$ 1,295,020	\$ 6,145,157	\$10,770,587	\$ 2,892,844	\$ 13,663,431
Grand Total	54.94%	38.17%	93.11%	40.82%	27.25%	68.06%
	\$58,055,636	\$40,337,799	\$98,393,435	\$71,171,781	\$47,510,171	\$118,681,952

The estimated FYE 2025 payroll for each group is shown in the following table. This expected payroll was used to develop the minimum amounts for the Tier 1 City normal cost and administrative expense contributions and the estimated amount of Tier 2 contributions.

Fiscal Year 2024-25 Expected Payroll			
	Fire		Police
			Total
Tier 1	\$ 64,434,692	\$ 74,273,718	\$ 138,708,410
Tier 2	<u>41,242,665</u>	<u>100,098,394</u>	<u>141,341,059</u>
Total	\$ 105,677,357	\$ 174,372,112	\$ 280,049,469

We understand the City intends to make its Tier 1 pension contribution at the beginning of the fiscal year. The table on the following page shows the total amount to be contributed for Tier 1 assuming contributions are paid as a lump sum on July 1, 2024 discounted using the full June 30, 2023 valuation discount rate of 6.625%.

Fiscal Year Ending 2025 Estimated City Pension Contribution Amounts						
Tier 1 Contributions at the Beginning of the Year						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
Contribution at the Beginning of the Year						
Tier 1 Pension						
Normal Cost	\$ 13,468,365	\$ 6,331,980	\$ 19,800,345	\$ 14,362,966	\$ 6,638,419	\$ 21,001,385
Admin Expenses	1,720,383	1,297,616	3,017,999	2,126,420	1,659,486	3,785,906
UAL	<u>36,337,320</u>	<u>30,180,797</u>	<u>66,518,117</u>	<u>42,005,244</u>	<u>34,911,077</u>	<u>76,916,321</u>
Total	\$ 51,526,068	\$ 37,810,393	\$ 89,336,461	\$ 58,494,630	\$ 43,208,982	\$ 101,703,612

City OPEB Contribution Amounts

Member contributions to the OPEB plans are fixed in the San José Municipal Code at 8.0% of pay, so they are not addressed in this letter. City contributions are only determined as a dollar amount and not as a rate of pay.

We understand the City intends to prepay its contribution for the fiscal year ending June 30, 2025. The table below shows the total amount to be contributed to the 115 Trust assuming contributions are paid as a lump sum on July 1, 2024 discounted using the full June 30, 2023 valuation discount rate of 6.00%. In addition, the City pays the implicit subsidy as a part of its active employee medical premiums.

Fiscal Year Ending 2025 City OPEB Contribution Amounts	
Lump Sum Payment at Beginning of Year	
Fire	\$ 11,917,287
Police	<u>17,975,575</u>
Total	\$ 29,892,862

The figures in the above exhibits reflect the results of the June 30, 2023 Actuarial Valuations of the City of San José Police and Fire Department Retiree Medical and Dental Insurance Plan and the City of San José Police and Fire Department Retirement Plan. We refer you to the full valuation reports for a description of the data, assumptions, methodology, and plan provisions applicable to these calculations.

This letter has 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

Mr. Roberto Peña

March 19, 2024

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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.

This letter was prepared exclusively for the Board of Administration of the City of San José Police and Fire Department Retirement Plan 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 would like to discuss these calculations, please call Bill at (703) 893-1456, extension 1113 or Taylor at extension 1155.

Sincerely,
Cheiron

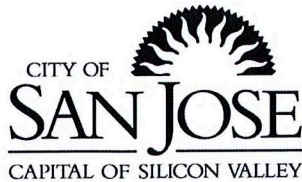


William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary



B. Taylor Stevens, ASA, MAAA
Associate Actuary

cc: Barbara Hayman
Benjie Chua-Foy
Anne Harper
Tim Doyle
Jacqui King



Memorandum

TO: BOARD OF ADMINISTRATION,
POLICE AND FIRE DEPARTMENT
RETIREMENT PLAN

FROM: Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: March 11, 2024

**SUBJECT: LUMP SUM PAYMENT OF EMPLOYER PENSION AND OPEB
CONTRIBUTIONS AND ESTABLISHMENT OF THE PREPAYMENT
AMOUNT FOR FISCAL YEAR 2024-2025**

RECOMMENDATION

The City elects to make a single lump-sum contribution towards the Police and Fire Department Retirement Plan (Plan) Tier 1 pension and Postemployment Healthcare Plan (OPEB) for Fiscal Year 2024-2025 on July 1, 2024. The City asks the Board of Administration (Board) request the Plan's actuary to calculate discounted contribution amounts using the current assumed rates of returns for Tier 1 pension payments and OPEB.

Additionally, the City request the Board provide estimated Tier 1 pension and OPEB contribution amounts for FY 2025-2026 through and including FY 2028-2029, assuming the City will prepay either a single lump-sum contribution or a semi-annual contribution at the beginning of the period for future planning purposes.

BACKGROUND

Prior to fiscal year 2008-2009, the City made biweekly contributions to the Plan in conjunction with each payroll distribution. In some years after, the City has elected to pre-fund employer retirement contributions at the beginning of the fiscal year and has indicated the City's intent to make future lump-sum contributions as resources permit.

In September 2014, the Chief Investment Officer (CIO) for Retirement Services expressed concerns on behalf of the Boards' Investment Committees, to City staff, of potential investment risks associated with the prefunding, and created a framework for the retirement plans to

“incentivize the City to prefund contributions when market valuations are low and the economic cycle is in the early stages of expansion and create a disincentive for the City to prefund contributions when market valuations and/or economic expansions are beyond historic norms.”

The Plan's legal counsel opined that, while Municipal Code Section 3.36.1590(C) allowed the City to elect the lump sum contribution option, the Board decides how to determine what is "actuarially equivalent" to the monthly or biweekly payment that would otherwise have been required. Subsequently, the Board adopted an incremental approach to reduce the discount rate by 15% to 45% to determine the actuarially equivalent on the basis of market valuation and the stage of economic cycle. The incremental approach was updated in February 2022 to include a third metric, Cyclically Adjusted Price/Earnings (CAPE) ratio.

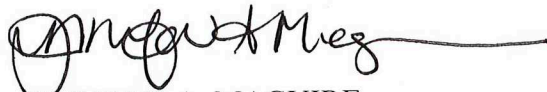
ANALYSIS

Assessing metrics in the discount methodology framework, the City expects the Board to approve the City to pre-pay based on the full discount of 6.625% for Tier 1 pension contribution and 6.0% for OPEB contribution. Adjusted for an average life of one-half year, the prepayment values are discounted approximately by 3.3125% on Tier 1 contributions (based on the current Discount Rate of 6.625%) and 3.0% on OPEB contributions (based on the current Discount Rate of 6.0%). Receipt of the contribution letters will allow the City to proceed with available funds for the timely prepayment on July 1, 2024.

In order to assess potential risks and continued prefunding financial feasibility and to manage investment liquidity for potential future prepayment dates, the City further requests a multi-year actuarial calculation, comparing regular contributions throughout the year and prefunding options of pension and OPEB for FY 2025-2026 through and including FY 2028-2029.

CONCLUSION

As stated in Section 3.28.940 of the San José Municipal Code, as amended by Ordinance No. 28332, the City Manager may opt to select the periodic basis on which City contributions to the retirement funds will be paid. A notice of intent to exercise this option, including the periodic basis selected and the payment date(s), is required to be provided to the Board on or before April 30 of the fiscal year prior to the fiscal year in which the City wishes to exercise the option. This memorandum serves as the City's "notice of intent" to pay a lump-sum contribution towards the Tier 1 Pension and OPEB costs for FY 2024-2025 on July 1, 2024. The City requests this be placed on the next available Board agenda.



JENNIFER A. MAGUIRE
City Manager

For questions, please contact Qianyu Sun, Deputy Director of Finance, Debt & Treasury Management at (408) 535-7832.