

Via Electronic Mail

January 7, 2025

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. Also, it 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
2026	\$ 500.8	\$ 241.8	48.27%	\$ 21.9	4.38%	\$ 263.7	52.65%
2027	515.8	242.7	47.05%	22.7	4.41%	265.5	51.46%
2028	531.3	251.9	47.41%	22.4	4.21%	274.3	51.62%
2029	547.2	255.1	46.61%	22.7	4.15%	277.8	50.76%
2030	563.7	259.8	46.09%	23.0	4.09%	282.8	50.18%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2024 actuarial valuations and assume that all assumptions were exactly met since June 30, 2024, 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.

Based on our stochastic projections, the following table illustrates the sensitivity of pension contributions to investment returns over the next five years. The stochastic projections assume a geometric return of 6.625% and a standard deviation of 13.39%. 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			
	25 th	50 th	75 th
FYE	Percentile	Percentile	Percentile
2026	\$ 241.8	\$ 241.8	\$ 241.8
2027	238.5	242.7	246.6
2028	240.9	251.9	261.7
2029	235.4	255.1	272.5
2030	229.4	259.8	286.2

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, 2024. Please let us know if the Board or the City is aware of any significant event since June 30, 2024 that could alter these projections. 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 the projected payroll of Tier 1 and Tier 2 members, as shown in the table below.

5-Year Pension Payroll Projections			
FYE	Tier 1	Tier 2	Total
2026	\$ 127.2	\$ 373.6	\$ 500.8
2027	115.7	400.1	515.8
2028	104.6	426.7	531.3
2029	93.3	453.9	547.2
2030	82.4	481.3	563.7

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
2026	\$ 180.1	\$ 5.9	\$ 23.6	18.56%	\$ 32.2	8.62%	\$ 241.8	48.27%
2027	180.8	6.1	21.4	18.50%	34.4	8.60%	242.7	47.05%
2028	189.8	6.2	19.3	18.41%	36.6	8.59%	251.9	47.41%
2029	193.4	6.4	17.1	18.35%	38.2	8.41%	255.1	46.61%
2030	197.7	6.6	15.1	18.33%	40.4	8.39%	259.8	46.09%

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	
	Full Benefit	Total	City Cap	Contribution	
2026	\$ 113.2	\$ 500.8	\$ 65.5	\$ 21.9	
2027	102.6	515.8	67.5	22.7	
2028	93.0	531.3	69.5	22.4	
2029	83.0	547.2	71.6	22.7	
2030	73.1	563.7	73.7	23.0	

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 1st and half on January 1st.

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	
2026	\$ 202.9	\$ 206.2	\$ 21.3	\$ 21.6	\$ 224.2	\$ 227.8	
2027	201.7	205.0	22.1	22.4	223.8	227.4	
2028	208.4	211.8	21.7	22.0	230.1	233.8	
2029	210.1	213.4	22.0	22.4	232.1	235.8	
2030	212.5	215.9	22.4	22.7	234.9	238.6	

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 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, 2024 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.

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

January 7, 2025

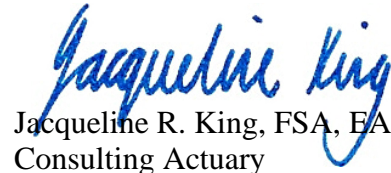
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If you have any questions or need any additional information, please let us know.

Sincerely,
Cheiron



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



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

Attachment

cc: John Flynn
Barbara Hayman
John Colberg
Steven Hastings

20-Year Projections of City Pension Contributions

Fiscal Year Ending	Payroll	Projected City Contribution (Middle of Year)	Projected City Contribution Rate (% of Payroll)
2026	\$ 500,803,000	\$ 241,757,000	48.27%
2027	515,827,000	242,714,000	47.05%
2028	531,302,000	251,887,000	47.41%
2029	547,241,000	255,077,000	46.61%
2030	563,658,000	259,790,000	46.09%
2031	580,568,000	265,755,000	45.78%
2032	597,985,000	264,533,000	44.24%
2033	615,924,000	271,388,000	44.06%
2034	634,402,000	267,949,000	42.24%
2035	653,434,000	262,712,000	40.20%
2036	673,037,000	272,353,000	40.47%
2037	693,228,000	280,130,000	40.41%
2038	714,025,000	249,350,000	34.92%
2039	735,446,000	247,031,000	33.59%
2040	757,509,000	239,108,000	31.57%
2041	780,235,000	122,323,000	15.68%
2042	803,642,000	86,217,000	10.73%
2043	827,751,000	86,212,000	10.42%
2044	852,584,000	88,052,000	10.33%
2045	878,161,000	78,538,000	8.94%