



Memorandum

**TO: Board of Administration for the
Federated City Employees'
Retirement System**

FROM: Benjie Chua Foy

SUBJECT: Contributions Resolutions

DATE: April 8, 2024

Approved

B Hayman

Date 4/8/2024

INFORMATIONAL

Attached are the contributions resolutions for the Federated members for the Board's approval. The contribution rates and amounts are taken from the letter provided by Cheiron (Exhibit A), which was prepared based on the City's email that they will not be prefunding Federated (Exhibit B). The City decided not to prefund the Federated pension and the healthcare (OPEB) contributions for fiscal year 2024-2025, which is consistent with the City's decision in 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 January 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
Members – Pension			
Tier 1	7.34%	(0.73%)	6.61%
Tier 1 – rehired	10.34%	(0.73%)	9.61%
Tier 1 – Classic	8.36%	(0.72%)	7.64%
Tier 2	8.01%	0.48%	8.49%
Members – OPEB	7.50%	0.00%	7.50%

***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 Federated City Employees' Retirement System 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

We understand the City has elected not to prepay its Tier 1 Pension and OPEB contributions at the beginning of the year. Consequently, all amounts shown assume payments throughout the year.

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, and for Tier 1 and Tier 2. However, Tier 1 members with more than 30 years of service contribute 0.0% if they are unrepresented or are represented by a bargaining unit that has adopted this provision. The contributions these members would have made have been added to the City's contributions. 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						
	Tier 1			Tier 2		
	Retirement	COLA	Total	Retirement	COLA	Total
All Members	4.75%	1.86%	6.61%	7.26%	1.23%	8.49%
Additional Reclassified Rates						
Rehires	1.72%	1.28%	3.00%			
Classic	0.60%	0.43%	1.03%			

City Pension Contributions

The Tier 1 City contributions for normal cost and administrative expenses are shown in the table below as a rate to be applied to Tier 1 pensionable payroll and a minimum dollar amount. The City's normal cost rate includes an additional 0.04% of payroll for the member contributions that would have been made by members with more than 30 years of service who no longer make contributions. 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 following 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						
	Rates			Dollar Amounts		
	Retirement	COLA	Total	Retirement	COLA	Total
<u>Tier 1</u>						
Normal Cost	13.42%	5.31%	18.73%	\$ 17,465,972	\$ 6,910,902	\$ 24,376,874
Admin Expenses	2.46%	1.62%	4.08%	3,196,763	2,117,423	5,314,186
UAL Payment				93,604,408	83,153,146	176,757,554
Total Tier 1				\$114,267,143	\$92,181,471	\$206,448,614
<u>Tier 2</u>						
Normal Cost	6.66%	1.15%	7.81%	\$ 21,267,605	\$ 3,672,334	\$ 24,939,939
Admin Expenses	0.06%	0.01%	0.07%	191,600	31,933	223,533
UAL Payment	0.54%	0.31%	0.85%	1,724,400	989,934	2,714,334
Total Tier 2	7.26%	1.47%	8.73%	\$ 23,183,605	\$ 4,694,201	\$ 27,877,806
Grand Total	30.58%	21.55%	52.13%	\$137,450,748	\$96,875,672	\$234,326,420

For FYE 2025, we expect payroll to be \$130,148,822 for Tier 1 and \$319,333,408 for Tier 2.



Mr. Roberto Peña

March 19, 2024

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City OPEB Contribution Amounts

Member contribution rates for those who remain in the OPEB plan are fixed in the San José Municipal Code at 7.5% of pay. The member contributions exceed the normal cost, so the City contributions are entirely UAL contributions. Consequently, City contributions are only determined as a dollar amount and not as a rate of pay.

We understand the City does not intend to prepay its contribution for the fiscal year ending June 30, 2025. The total amount to be contributed to the 115 Trust assuming contributions are paid throughout the year is **\$20,351,611**. In addition, the City pays the implicit subsidy as a part of its active employee medical premiums.

The figures in this letter reflect the results of the June 30, 2023 Actuarial Valuations of the City of San José Federated City Employees' Health Care Plan and the City of San José Federated City Employees' Retirement System. 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 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 Federated City Employees' Retirement System 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
Steven Hastings
Jacqui King



EXHIBIT B

Chua-Foy, Benjie

Subject: Lump Sum Employer Contribution towards Police and Fire Retirement Plan (Pension and OPEB) for FY 2024-25

From: Sun, Qianyu <Qianyu.Sun@sanjoseca.gov>

Sent: Monday, March 11, 2024 11:16 PM

To: Pena, Roberto <roberto.pena@sanjoseca.gov>; Palani, Prabhu <Prabhu.Palani@sanjoseca.gov>; Alexander, Linda <Linda.Alexander@sanjoseca.gov>

Cc: Bruneau, Rick <rick.bruneau@sanjoseca.gov>; Cofresi-Howe, Luz <Luz.Cofresi-Howe@sanjoseca.gov>; Shannon, Jim <jim.shannon@sanjoseca.gov>

Subject: Lump Sum Employer Contribution towards Police and Fire Retirement Plan (Pension and OPEB) for FY 2024-25

Roberto and Prabhu,

The City elects to make a single lump sum contribution towards the Police and Fire Department Retirement Plan Tier 1 pension and OPEB for Fiscal Year 2024-25. Please see the memorandum to the Board of Administration from the City Manager (attached). We request the Board of Administration of the Police and Fire Department Retirement Plan discuss and approve the City's election on April 4.

Please note the City will not prefund the employer contribution towards the Federated Retirement Plan in FY 2024-25.

Thanks,



Qianyu Sun, CFA

Pronouns: She/Her/Hers

Deputy Director

Debt and Treasury Management

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San Jose, CA 95113

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