

***Via Electronic Mail***

January 9, 2026

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	
2027	\$ 525.8	\$ 244.2	46.44%	\$ 24.5	4.67%	\$ 268.7	51.10%	
2028	541.6	251.2	46.38%	25.4	4.70%	276.6	51.08%	
2029	557.8	252.3	45.23%	27.1	4.85%	279.4	50.08%	
2030	574.6	254.9	44.37%	27.4	4.77%	282.3	49.14%	
2031	591.8	258.9	43.74%	27.7	4.69%	286.6	48.43%	

*Dollar amounts in millions*

Please note that these projections are based on the June 30, 2025 actuarial valuations and assume that all assumptions were exactly met since June 30, 2025, 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 13.35%. 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						
	25 <sup>th</sup>		50 <sup>th</sup>		75 <sup>th</sup>	
FYE		Percentile		Percentile		Percentile
2027	\$	244.2	\$	244.2	\$	244.2
2028		246.6		251.2		255.5
2029		240.2		252.3		263.0
2030		233.4		254.9		273.9
2031		225.8		258.9		287.6

*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, 2025. Please let us know if the Board or the City is aware of any significant event since June 30, 2025 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
2027	\$	120.1	\$	405.7	\$ 525.8
2028		108.8		432.8	541.6
2029		97.2		460.6	557.8
2030		85.8		488.8	574.6
2031		75.1		516.7	591.8

*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
2027	\$ 181.6	\$ 5.8	\$ 22.1	18.43%	\$ 34.7	8.56%	\$ 244.2	46.44%
2028	188.3	6.0	20.0	18.34%	36.9	8.53%	251.2	46.38%
2029	189.9	6.2	17.8	18.28%	38.4	8.33%	252.3	45.23%
2030	192.3	6.4	15.7	18.26%	40.5	8.29%	254.9	44.37%
2031	195.9	6.6	13.7	18.27%	42.7	8.26%	258.9	43.74%

*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 who are 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	
2027	\$ 106.1	\$ 525.8	\$ 68.7	\$ 24.5	
2028	96.1	541.6	70.8	25.4	
2029	85.7	557.8	72.9	27.1	
2030	75.2	574.6	75.1	27.4	
2031	65.2	591.8	77.4	27.7	

*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 6.25% 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	
2027	\$ 202.8	\$ 206.1	\$ 23.8	\$ 24.2	\$ 226.6	\$ 230.3	
2028	207.5	210.9	24.7	25.0	232.2	235.9	
2029	207.2	210.5	26.3	26.7	233.5	237.2	
2030	207.6	211.0	26.6	27.0	234.2	238.0	
2031	209.4	212.7	26.9	27.3	236.3	240.0	

*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, 2025 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 9, 2026

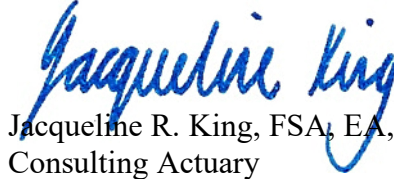
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If you have any questions or need any additional information, please let us know.

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)	
2027	\$ 525,827,000	\$ 244,169,000	46.44%	
2028	541,602,000	251,216,000	46.38%	
2029	557,850,000	252,288,000	45.23%	
2030	574,585,000	254,916,000	44.37%	
2031	591,823,000	258,862,000	43.74%	
2032	609,578,000	257,401,000	42.23%	
2033	627,865,000	264,092,000	42.06%	
2034	646,701,000	260,362,000	40.26%	
2035	666,102,000	254,905,000	38.27%	
2036	686,085,000	264,414,000	38.54%	
2037	706,668,000	271,947,000	38.48%	
2038	727,868,000	240,915,000	33.10%	
2039	749,704,000	238,400,000	31.80%	
2040	772,195,000	230,205,000	29.81%	
2041	795,361,000	113,165,000	14.23%	
2042	819,221,000	76,779,000	9.37%	
2043	843,798,000	76,491,000	9.07%	
2044	869,112,000	78,050,000	8.98%	
2045	895,185,000	70,097,000	7.83%	
2046	922,041,000	73,136,000	7.93%	