



***Via Electronic Mail***

April 5, 2023

Mr. Roberto Peña  
Chief Executive Officer  
City of San José  
Department of Retirement Services  
1737 North 1<sup>st</sup> 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 2024***

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, 2024 based on the June 30, 2022 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 2024 Member Contribution Rates |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Tier 1       |              |              | Tier 2       |              |              |
|   | Retirement   | COLA         | Total        | Retirement   | COLA         | Total        |
| <b>All Members</b>                                | <b>5.17%</b> | <b>2.17%</b> | <b>7.34%</b> | <b>6.78%</b> | <b>1.23%</b> | <b>8.01%</b> |
| <b>Additional Reclassified Rates</b>              |              |              |              |              |              |              |
| Rehires   | 1.72%        | 1.28%        | 3.00%        |              |              |              |
| Classic   | 0.60%        | 0.42%        | 1.02%        |              |              |              |

### 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 0.05% 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 2024 City Contributions<br>Contributions Throughout the Year |               |               |               |                      |                     |                      |
|---|---------------|---------------|---------------|----------------------|---------------------|----------------------|
|   | Rates         |               |               | Dollar Amounts       |                     |                      |
|   | Retirement    | COLA          | Total         | Retirement           | COLA                | Total                |
| <b><u>Tier 1</u></b>  |               |               |               |                      |                     |                      |
| Normal Cost   | 12.89%        | 5.12%         | 18.01%        | \$ 16,612,476        | \$ 6,598,594        | \$ 23,211,070        |
| Admin Expenses  | 1.32%         | 0.83%         | 2.15%         | 1,701,200            | 1,069,694           | 2,770,894            |
| UAL Payment   |               |               |               | 88,586,199           | 80,175,807          | 168,762,006          |
| <b>Total Tier 1</b>   |               |               |               | <b>\$106,899,875</b> | <b>\$87,844,095</b> | <b>\$194,743,970</b> |
| <b><u>Tier 2</u></b>  |               |               |               |                      |                     |                      |
| Normal Cost   | 6.30%         | 1.06%         | 7.36%         | \$ 16,811,150        | \$ 2,828,542        | \$ 19,639,692        |
| Admin Expenses  | 0.32%         | 0.05%         | 0.37%         | 853,900              | 133,421             | 987,321              |
| UAL Payment   | 0.16%         | 0.12%         | 0.28%         | 426,950              | 320,212             | 747,162              |
| <b>Total Tier 2</b>   | <b>6.78%</b>  | <b>1.23%</b>  | <b>8.01%</b>  | <b>\$ 18,092,000</b> | <b>\$ 3,282,175</b> | <b>\$ 21,374,175</b> |
| <b>Grand Total</b>  | <b>31.59%</b> | <b>23.03%</b> | <b>54.61%</b> | <b>\$124,991,875</b> | <b>\$91,126,270</b> | <b>\$216,118,145</b> |

For FYE 2024, we expect payroll to be \$128,878,787 for Tier 1 and \$266,843,645 for Tier 2.

## 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, 2024. The total amount to be contributed to the 115 Trust assuming contributions are paid throughout the year is **\$19,095,058**. In addition, the City pays the implicit subsidy as a part of its active employee medical premiums.

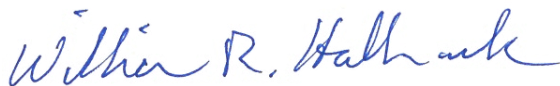
The figures in this letter reflect the results of the June 30, 2022 Actuarial Valuations of the City of San José Federated City Employees' Health Care Plan and the City of San José Federated City Employees' Retirement System. We refer you to the full valuation reports for a description of the data, assumptions, 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 Michael at extension 1135.

Sincerely,  
Cheiron



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



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary

cc: Barbara Hayman  
Benjie Chua-Foy  
Steven Hastings  
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