

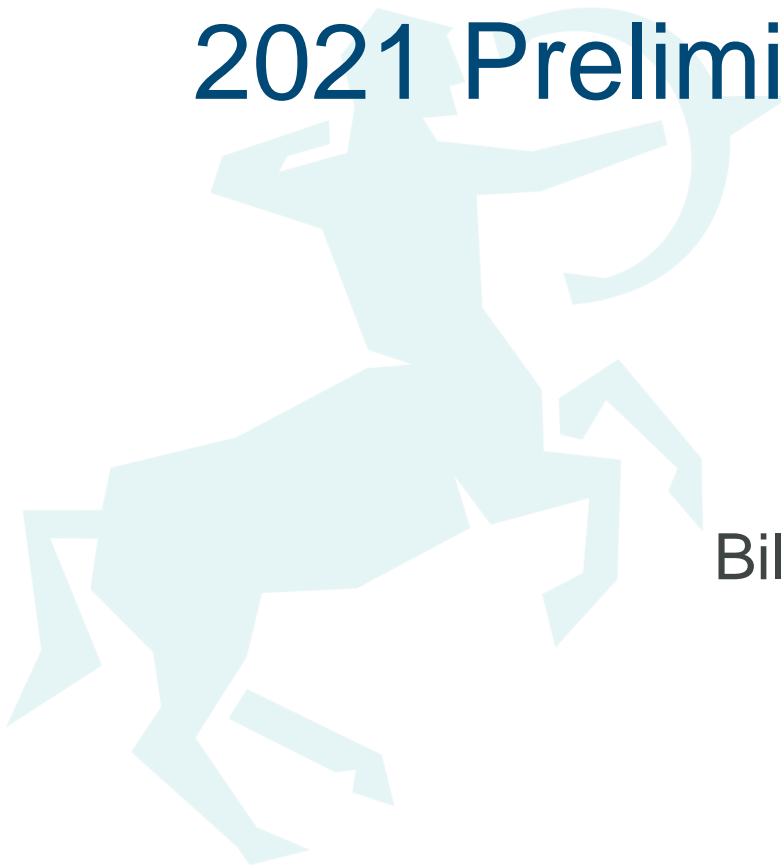
San José Police & Fire Department Retirement Plan



2021 Preliminary Pension Valuation Results

December 2, 2021

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Anne Harper, FSA, EA, MAAA





- Schedule
- Background
- Summary of Preliminary Results
- Changes in UAL
- Tier 1 vs. Tier 2
- Appendix

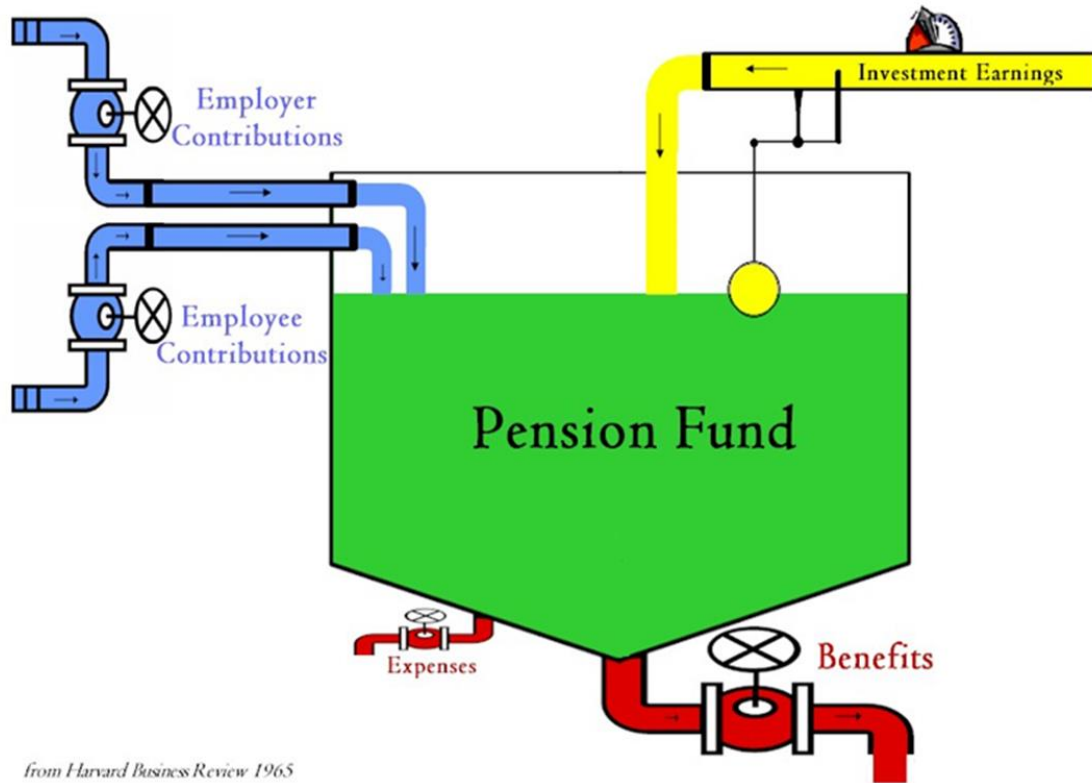


- October Board Meeting
 - Pension Economic Assumption Review
- November Board Meeting
 - Demographic Experience Study
 - Final Decisions on Pension Assumptions
- **December Board Meeting**
 - **Draft Pension Valuation Results**
 - **Review OPEB Assumptions**
 - **Final Decisions on OPEB Assumptions**
- January Board Meeting
 - Final Pension Valuation Report
 - Draft OPEB Valuation Results
- February Board Meeting
 - Segal Pension Audit Results
 - Segal OPEB Audit Results
 - Final OPEB Valuation Report

A Dynamic System



Contributions + Investments =



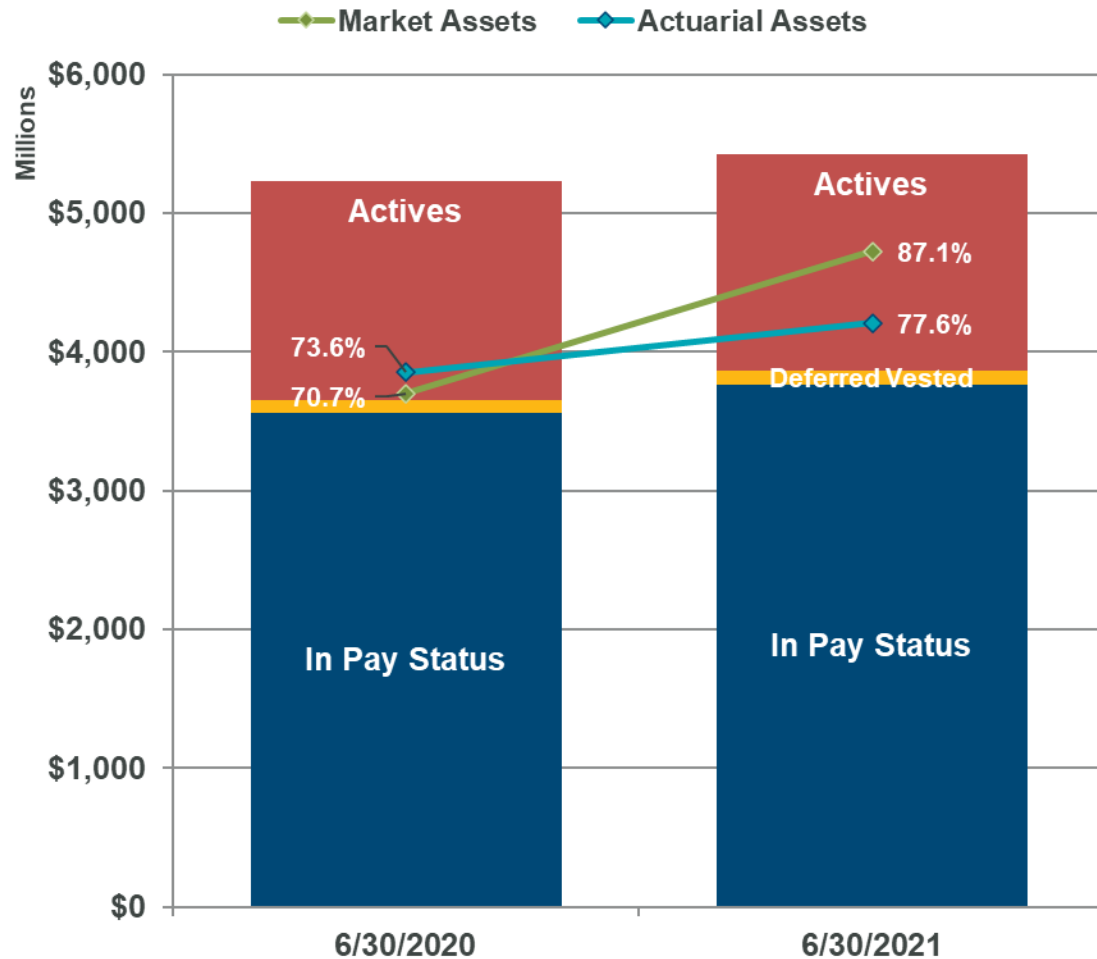
Expenses + Benefits

- Primary purpose of valuation is to set member and City contributions
 - 2021 valuation develops contributions for FYE 2023
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set member and City contributions
 - Plan provisions, actuarial methods, and discount rate

Preliminary Funded Status



Funded Status

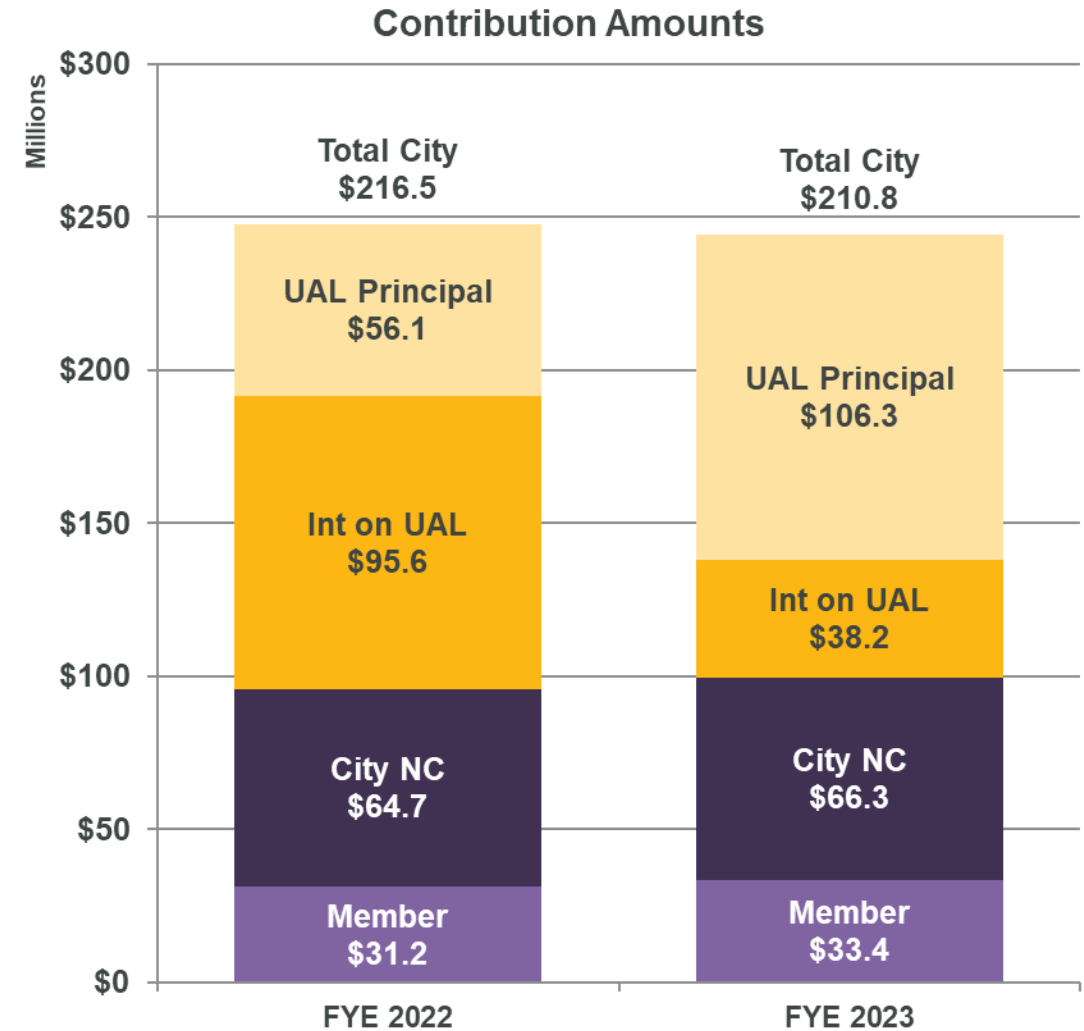
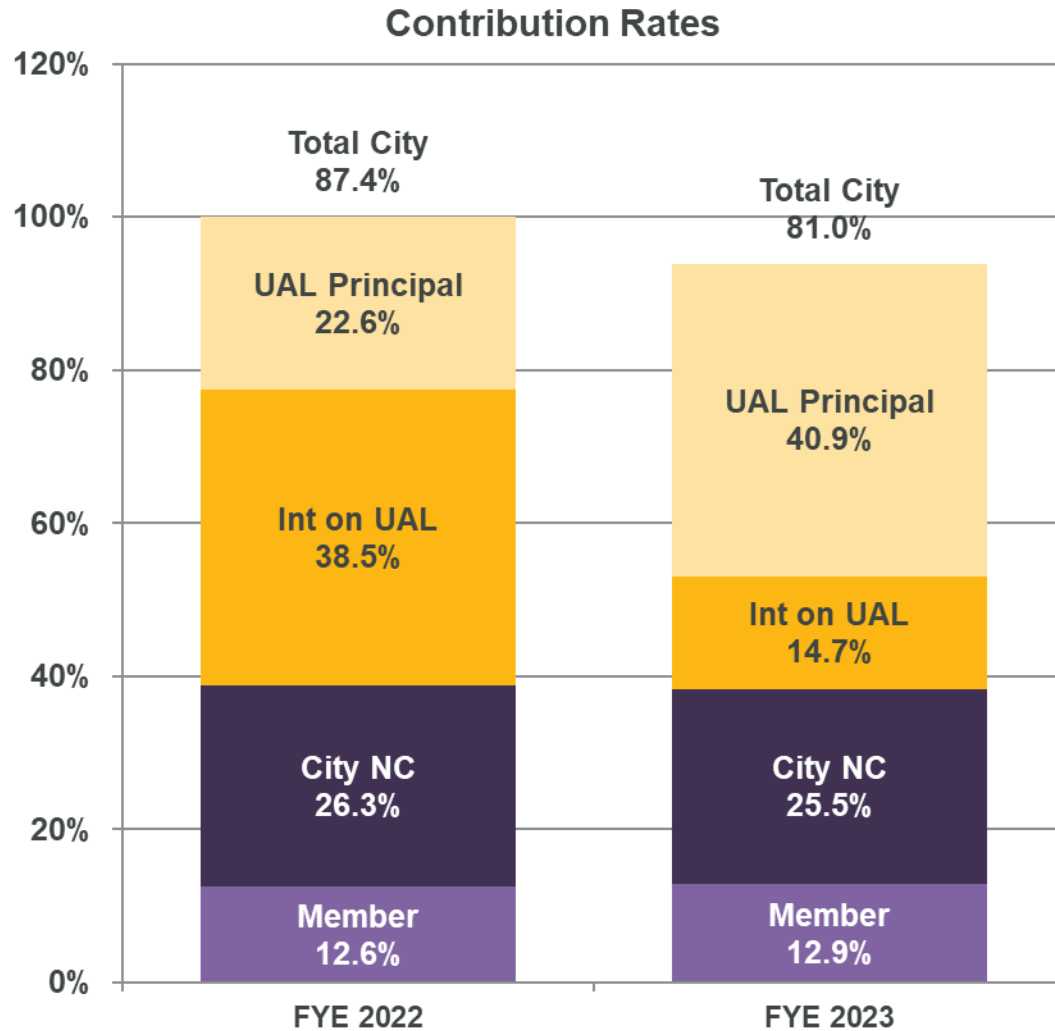


Funded Status By Tier

	6/30/2020	6/30/2021	Change
Tier 1			
Actuarial Liability	\$ 5,187.9	\$ 5,358.9	3.3%
Market Assets	3,653.9	4,641.4	27.0%
UAL - Market Basis	\$ 1,534.1	\$ 717.5	-53.2%
Funding Ratio	70.4%	86.6%	16.2%
Actuarial Assets	3,802.5	4,134.3	8.7%
UAL - Actuarial Basis	\$ 1,385.5	\$ 1,224.5	-11.6%
Funding Ratio	73.3%	77.1%	3.9%
Tier 2			
Actuarial Liability	\$ 47.4	\$ 68.5	44.5%
Market Assets	48.2	85.3	77.1%
UAL - Market Basis	\$ (0.8)	\$ (16.8)	2125.7%
Funding Ratio	101.6%	124.5%	22.9%
Actuarial Assets	49.5	76.1	53.8%
UAL - Actuarial Basis	\$ (2.1)	\$ (7.6)	264.7%
Funding Ratio	104.4%	111.2%	6.7%

Amounts in millions

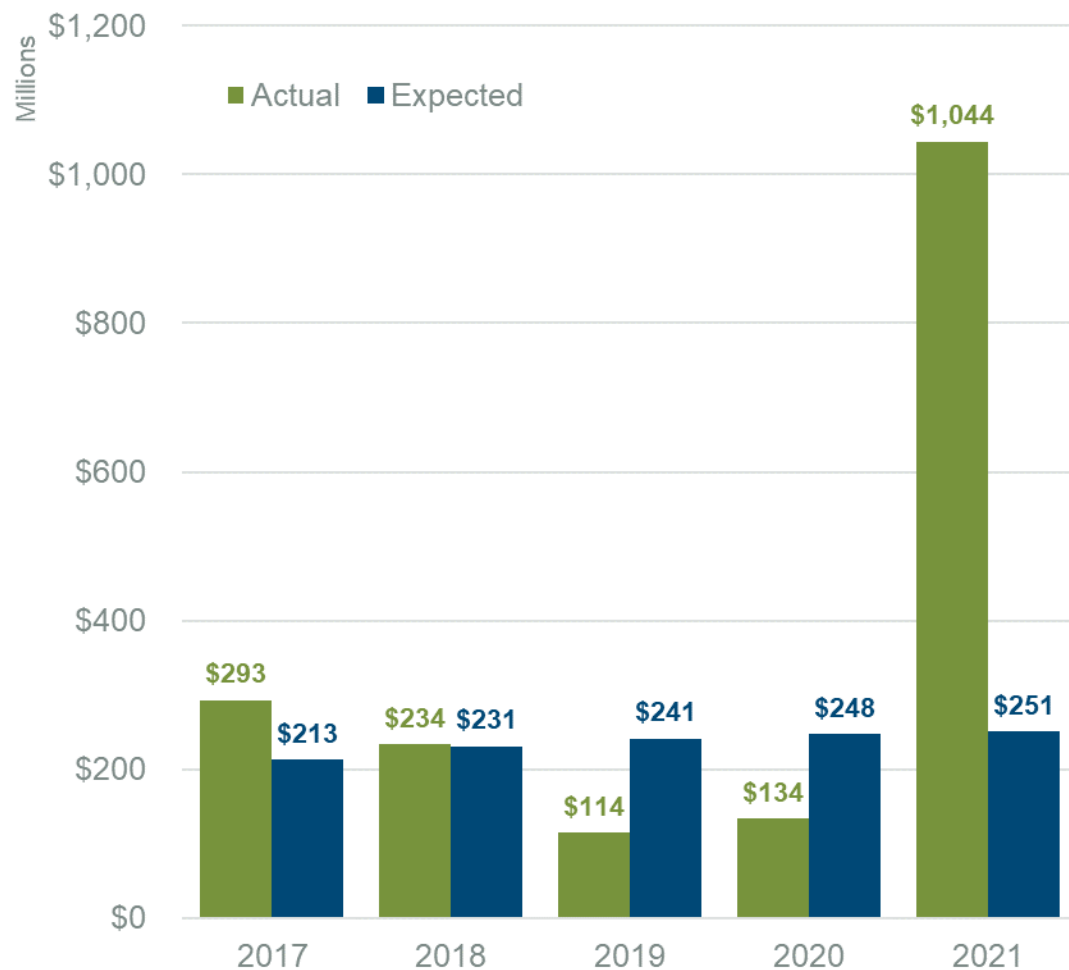
Preliminary Contributions



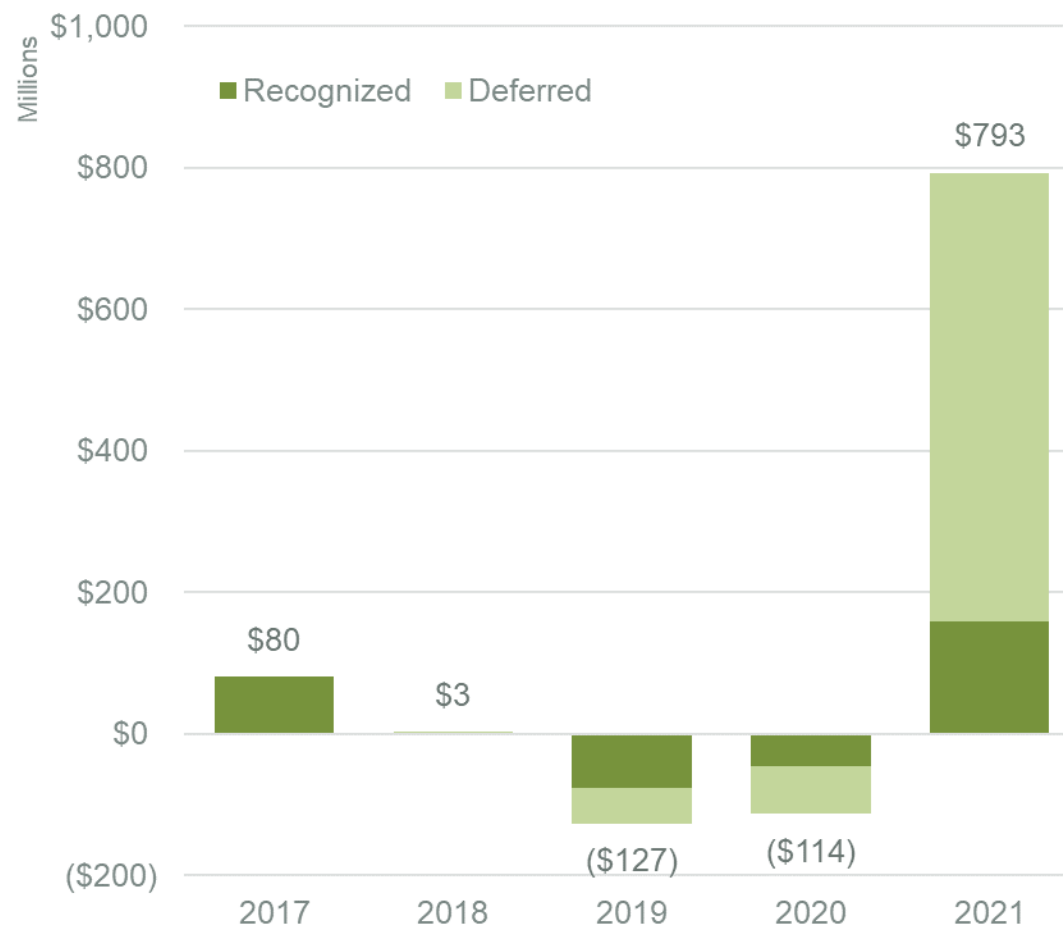
Development of Actuarial Value of Assets



Actual vs. Expected Investment Earnings



Recognized and Deferred Investment Gains and Losses



Development of Actuarial Value of Assets

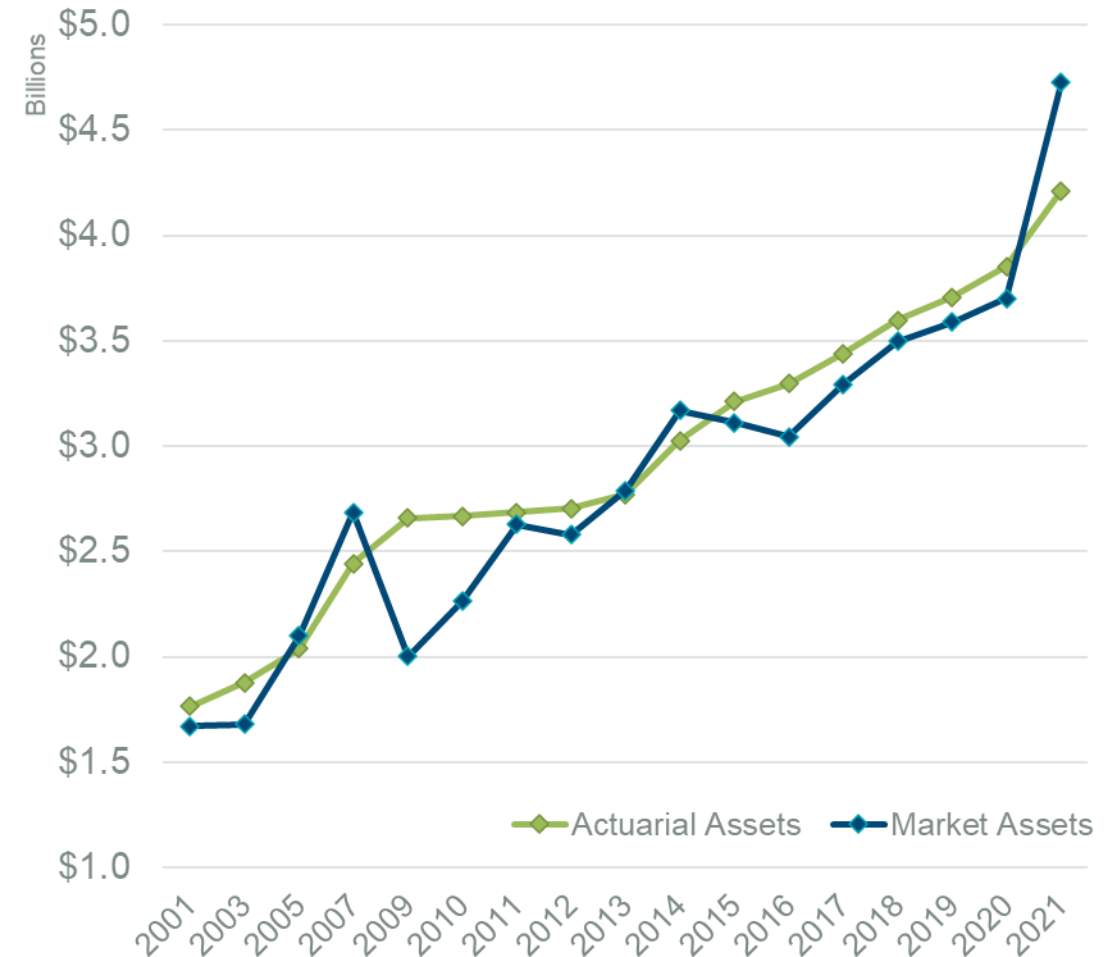


Development of Actuarial Value of Assets

	Tier 1	Tier 2	Total
Market Value	\$ 4,641.4	\$ 85.3	\$ 4,726.6
FYE 2021			
Investment Gain or (Loss)	780.6	12.7	793.2
Portion Deferred (80%)	624.5	10.1	634.6
FYE 2020			
Investment Gain or (Loss)	(112.5)	(1.1)	(113.6)
Portion Deferred (60%)	(67.5)	(0.7)	(68.2)
FYE 2019			
Investment Gain or (Loss)	(126.1)	(0.8)	(126.9)
Portion Deferred (40%)	(50.5)	(0.3)	(50.8)
FYE 2018			
Investment Gain or (Loss)	2.7	0.0	2.7
Portion Deferred (20%)	0.5	0.0	0.5
FYE 2017			
Investment Gain or (Loss)	80.1	0.2	80.2
Portion Deferred (0%)	0.0	0.0	0.0
Total Deferred Gain or (Loss)	\$ 507.1	9.1	\$ 516.2
Actuarial Value	\$ 4,134.3	\$ 76.1	\$ 4,210.4

Amounts in millions

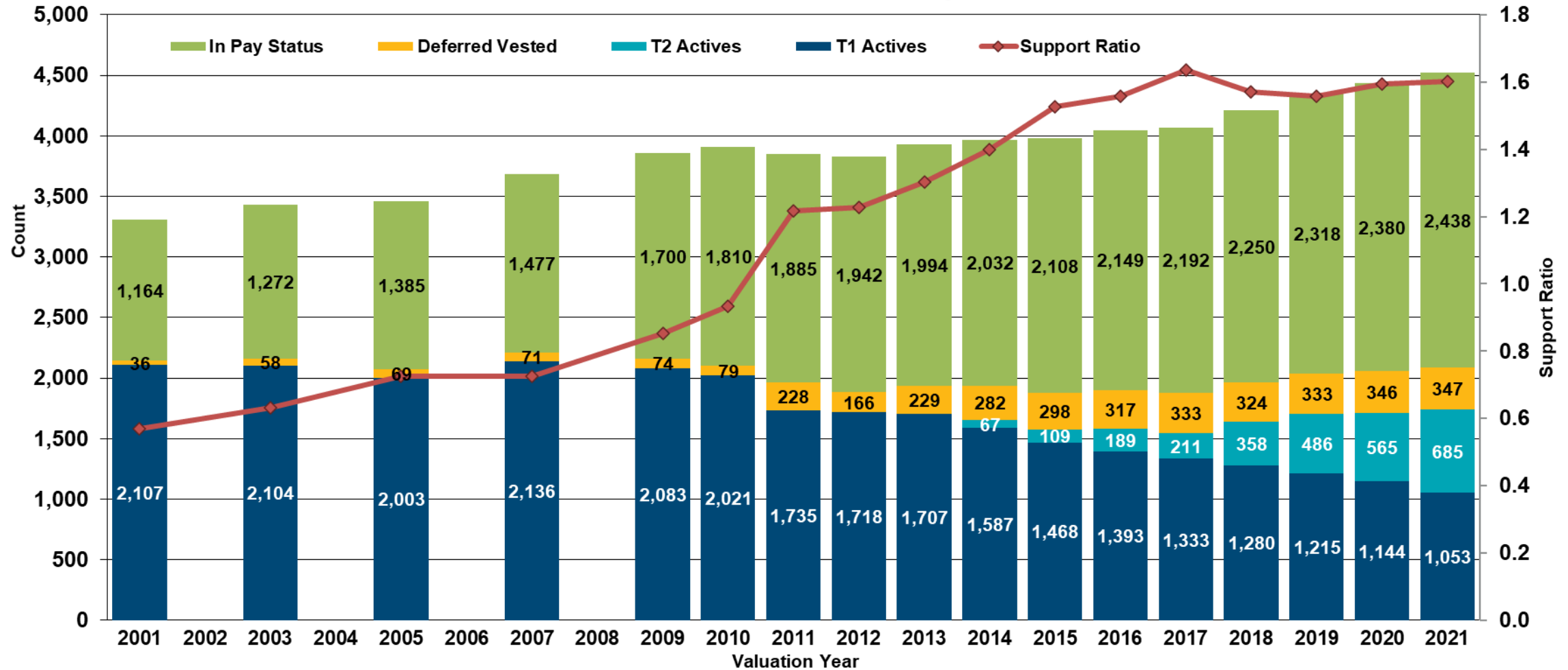
Market vs. Actuarial Assets



Membership Trends



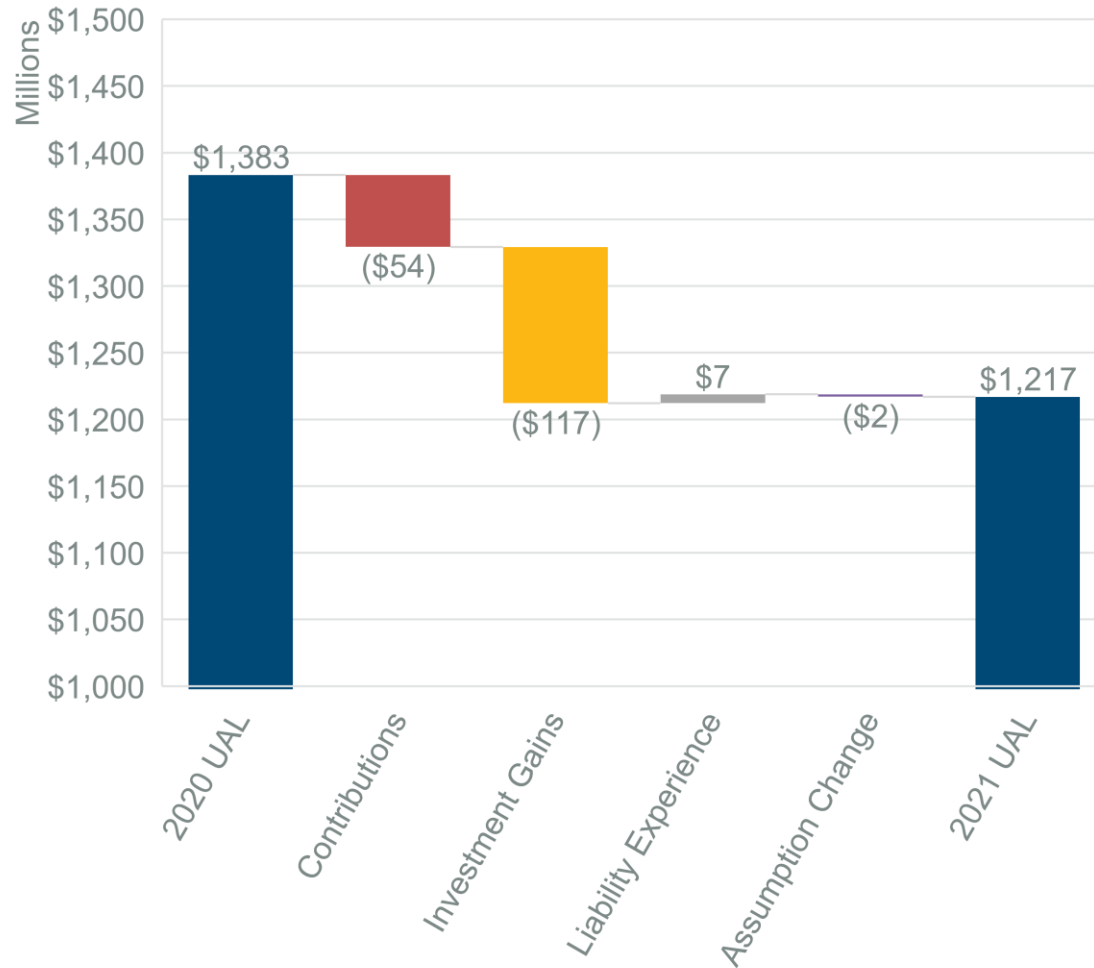
Police & Fire Historical Membership Counts



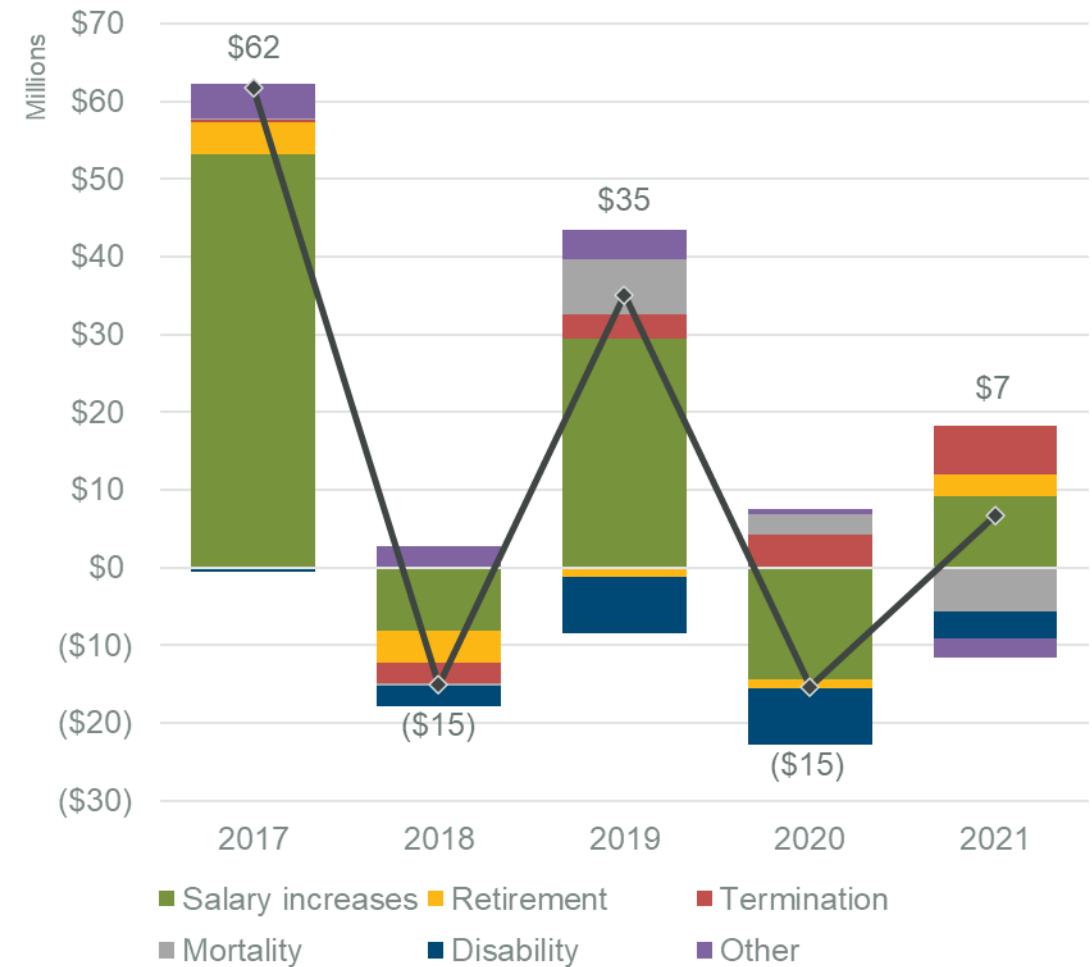
Changes in UAL Based on Actuarial Assets



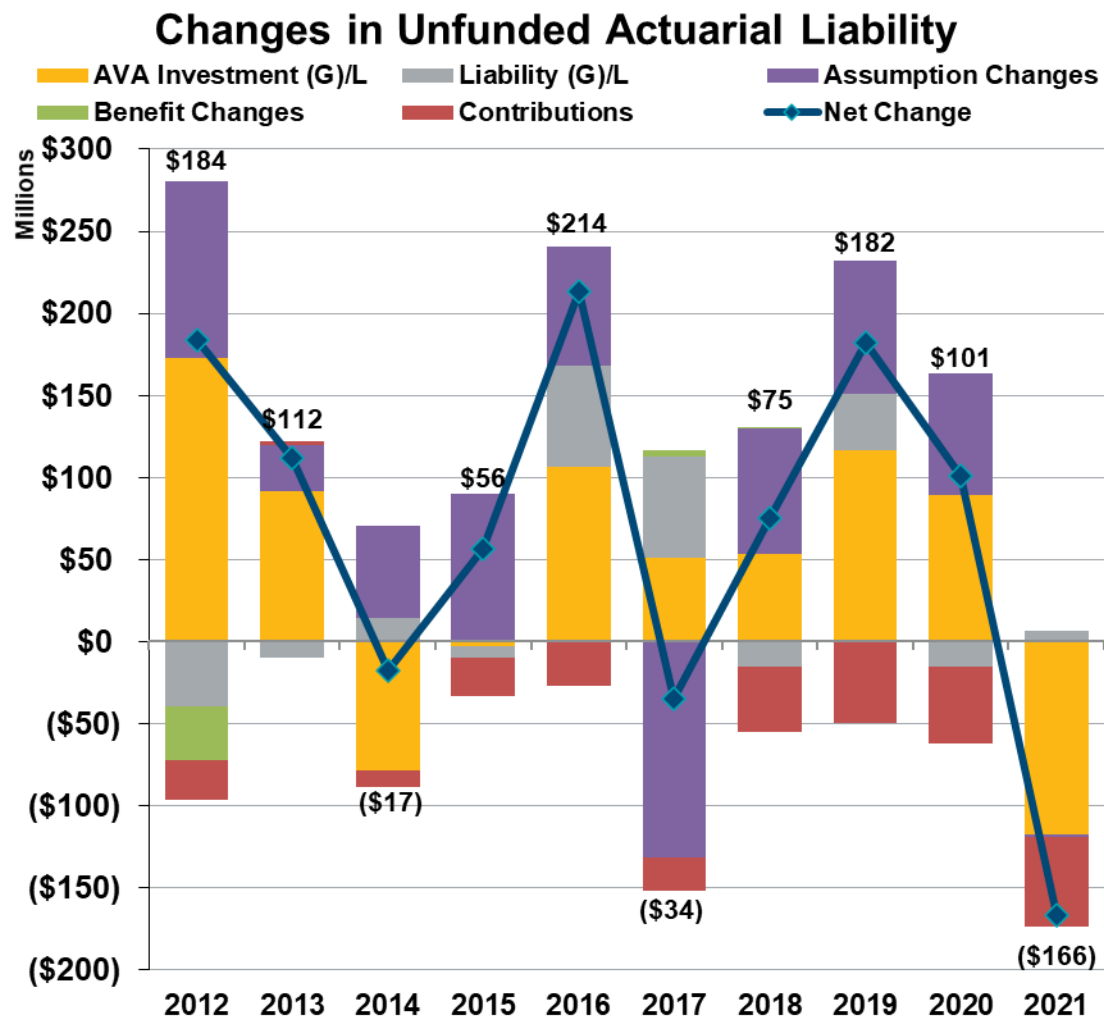
Change in UAL Based on Actuarial Assets



Liability (Gains) and Losses



Historical Changes in UAL Based on Actuarial Assets



- Over the last decade, the UAL increased about \$706.6 million
 - \$482.6 million due to investment returns on actuarial value
 - \$452.0 million due to assumption changes
 - \$92.5 million due to liability experience
 - (\$28.1) million due to benefit changes
 - (\$292.4) million due to contributions less than the tread water amount

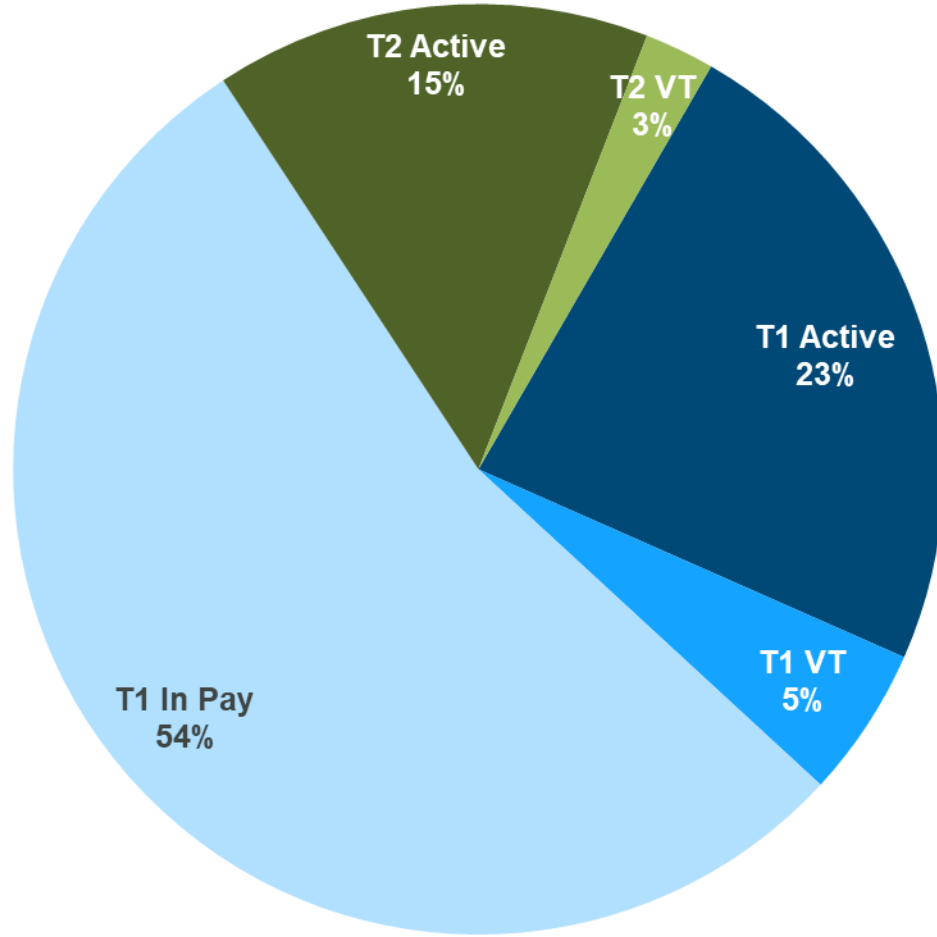


Tier 1 vs. Tier 2

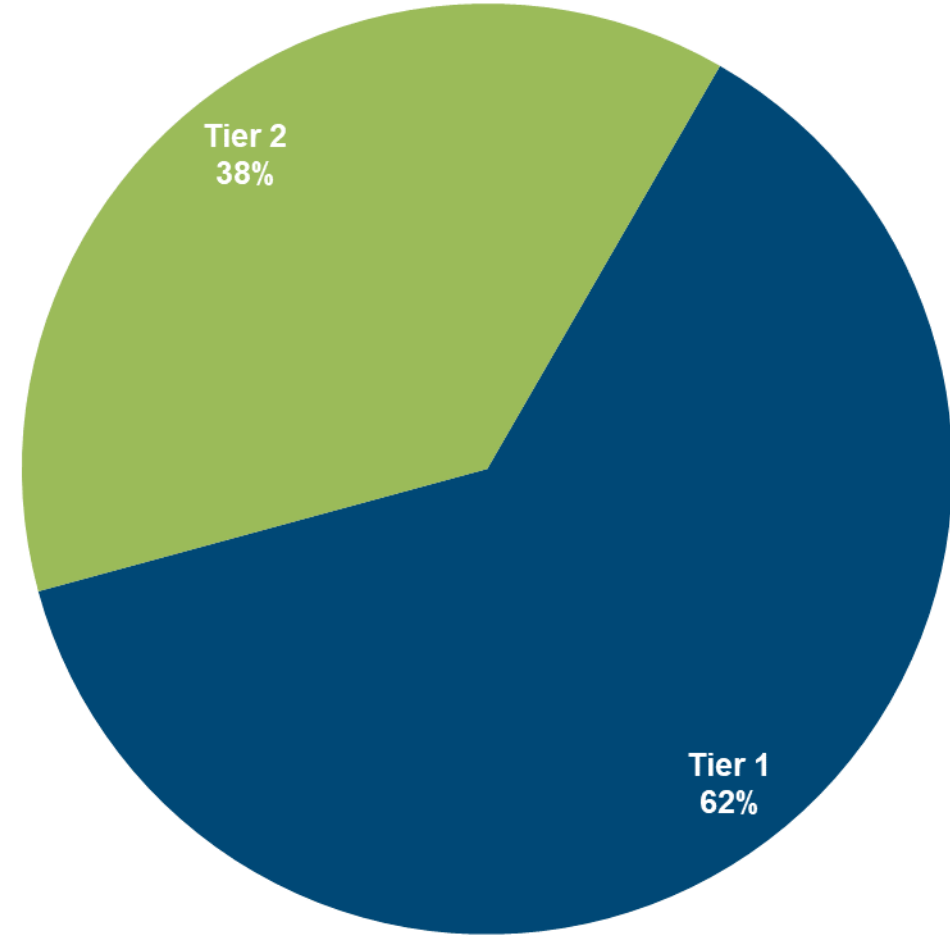
Tier 1 vs. Tier 2



Member Counts



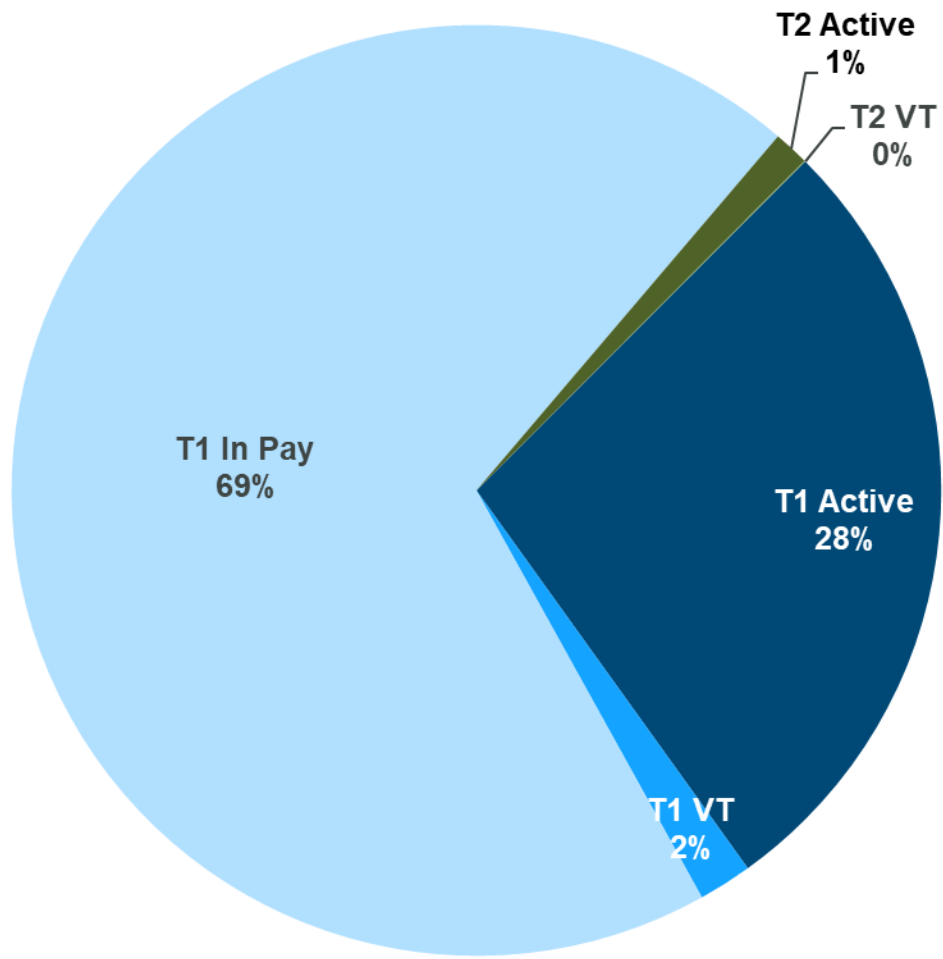
Payroll



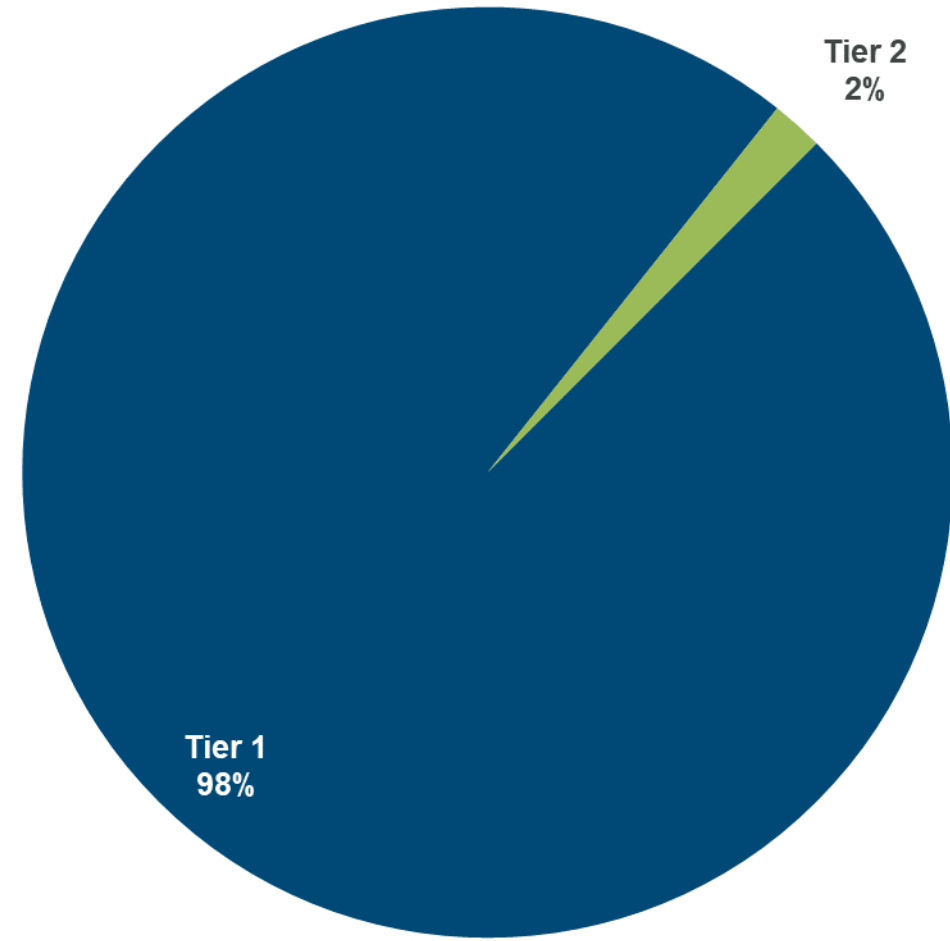
Tier 1 vs. Tier 2



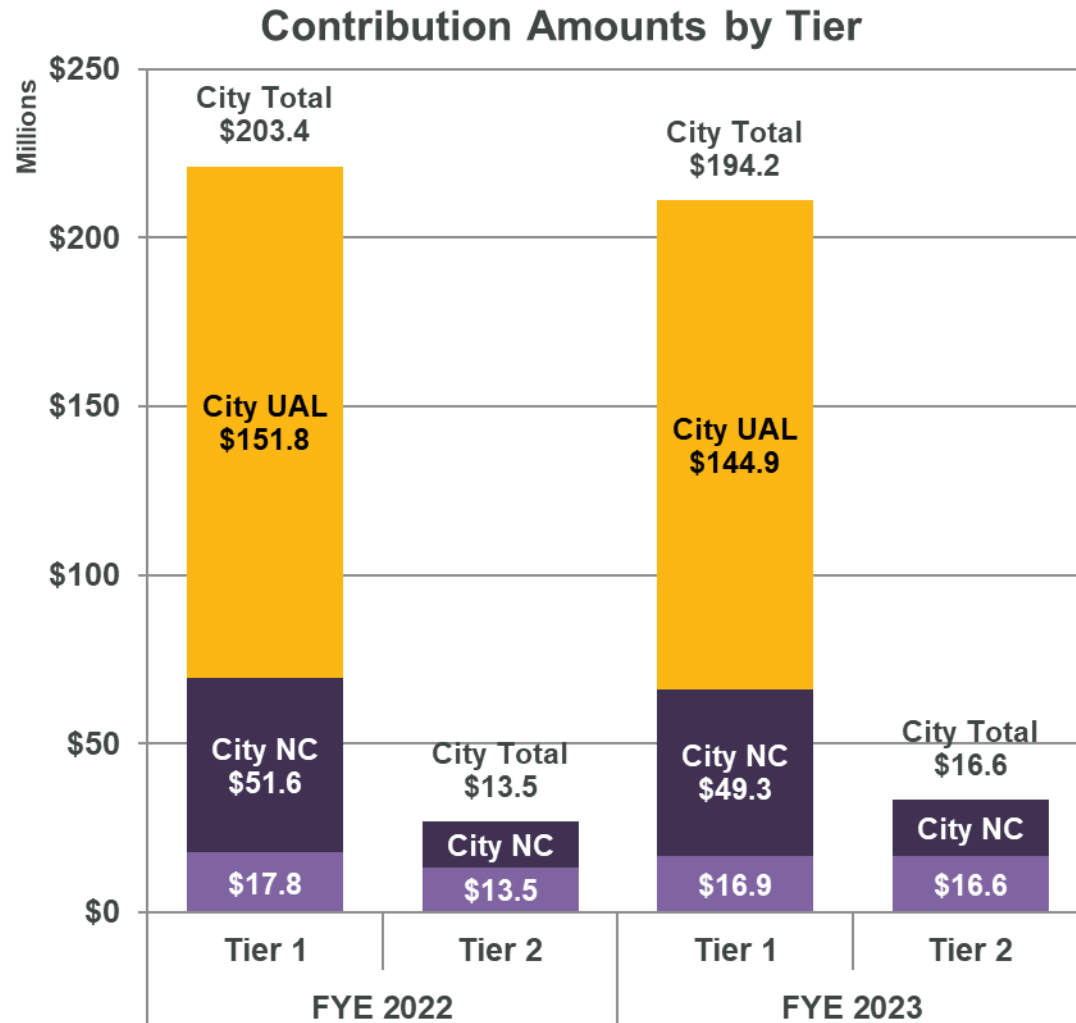
Actuarial Liability



Market Value of Assets



Tier 1 vs. Tier 2 Contributions



- Tier 1
 - Member rates increased slightly from 11.36% in FYE 2022 to 11.53% in FYE 2023
 - City normal cost contributions declined slightly as Tier 1 members retire
 - Tier 1 City UAL payments decreased about \$6.9 million
- Tier 2
 - City and member contribution amounts increased, reflecting the growth of Tier 2
 - City and member contribution rates decreased slightly from 14.66% in FYE 2022 to 14.57% in FYE 2023

5-Year Contribution Projection



Contribution Rates and Amounts (Throughout the Year)					
Fiscal Year Ending					
	2023	2024	2025	2026	2027
Member Rates					
Police Tier 1	10.98%	10.93%	10.92%	10.93%	10.95%
Police Tier 2	14.36%	14.21%	14.20%	14.20%	14.20%
Fire Tier 1	12.10%	12.09%	12.09%	12.10%	12.09%
Fire Tier 2	15.16%	15.11%	15.09%	15.08%	15.05%
City Contributions					
Police					
Tier 1 UAL	\$ 75,749	\$ 64,019	\$ 57,991	\$ 50,662	\$ 42,669
Tier 1 Normal Cost	33.19% 25,735	33.60% 23,525	34.08% 21,678	34.77% 19,874	35.67% 18,076
Tier 2	14.36% 12,088	14.21% 13,719	14.20% 15,330	14.20% 16,975	14.20% 18,649
Total Police	70.23% \$ 113,573	60.80% \$ 101,264	55.37% \$ 94,999	49.52% \$ 87,511	43.62% \$ 79,394
Fire					
Tier 1 UAL	\$ 69,156	\$ 63,443	\$ 54,174	\$ 49,224	\$ 43,346
Tier 1 Normal Cost	34.30% 23,590	34.54% 22,164	34.84% 20,789	35.14% 19,619	35.50% 18,391
Tier 2	15.16% 4,495	15.11% 5,622	15.09% 6,752	15.08% 7,799	15.05% 8,875
Total Fire	98.80% \$ 97,241	89.99% \$ 91,229	78.26% \$ 81,715	71.26% \$ 76,642	63.74% \$ 70,612
Aggregate	81.04% \$ 210,814	71.84% \$ 192,493	64.03% \$ 176,714	57.75% \$ 164,153	51.23% \$ 150,006

Numbers may not add due to rounding

Dollar amounts in thousands



- The purpose of this presentation is to present the preliminary results of the June 30, 2021 Actuarial Valuation for the City of San José Police and Fire Department Retirement Plan.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. A summary of the data, assumptions, methods, and plan provisions used to prepare the valuation can be found in the June 30, 2021 actuarial valuation report.
- 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 presentation 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 presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.
- This presentation was prepared exclusively for the City of San José Police and Fire Department Retirement Plan for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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Consulting Actuary

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Principal Consulting Actuary

Appendix – Contribution Detail



Preliminary Contribution Rates and Amounts (Middle of Year)						
	Fire		Police		Total	
	FYE 2022	FYE 2023	FYE 2022	FYE 2023	FYE 2022	FYE 2023
Member Rates						
Tier 1	11.9%	12.0%	10.9%	10.9%	11.4%	11.4%
Tier 2	<u>15.3%</u>	<u>15.1%</u>	<u>14.4%</u>	<u>14.3%</u>	<u>14.7%</u>	<u>14.5%</u>
Aggregate	12.8%	12.9%	12.5%	12.7%	12.6%	12.8%
City Contributions						
Tier 1 UAL	\$ 70,887	\$ 69,156	\$ 80,921	\$ 75,749	\$ 151,808	\$ 144,905
Tier 1 Normal Cost	\$ 24,192 33.7%	\$ 23,590 34.3%	\$ 27,395 32.5%	\$ 25,735 33.2%	\$ 51,587 33.0%	\$ 49,326 33.7%
Tier 2 Contribution	\$ 3,749 15.3%	\$ 4,495 15.2%	\$ 9,711 14.4%	\$ 12,088 14.4%	\$ 13,460 14.7%	\$ 16,583 14.6%
Aggregate	\$ 98,828 102.6%	\$ 97,241 98.8%	\$ 118,027 77.8%	\$ 113,573 70.2%	\$ 216,855 87.4%	\$ 210,814 81.0%

Numbers may not add due to rounding

Dollar amounts in thousands

Appendix – Tier 1 Beginning of Year Contributions



Tier 1 City Contribution Amounts (Beginning of Year Assuming Full Discount)

	Fiscal Year Ending				
	2023	2024	2025	2026	2027
Police					
Tier 1 UAL Payment	\$ 73,358	\$ 61,999	\$ 56,160	\$ 49,063	\$ 41,322
Tier 1 Normal Cost and Administrative Expenses	<u>24,923</u>	<u>22,783</u>	<u>20,993</u>	<u>19,247</u>	<u>17,506</u>
Total Police	\$ 98,281	\$ 84,781	\$ 77,154	\$ 68,310	\$ 58,827
Fire					
Tier 1 UAL Payment	\$ 66,973	\$ 61,441	\$ 52,464	\$ 47,670	\$ 41,978
Tier 1 Normal Cost and Administrative Expenses	<u>22,846</u>	<u>21,464</u>	<u>20,133</u>	<u>18,999</u>	<u>17,811</u>
Total Fire	\$ 89,819	\$ 82,905	\$ 72,597	\$ 66,670	\$ 59,789
Tier 1 Total	\$ 188,100	\$ 167,686	\$ 149,751	\$ 134,979	\$ 118,616

Numbers may not add due to rounding

Dollar amounts in thousands