

Via Electronic Mail

January 11, 2022

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 and also 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
2023	\$ 369.8	\$ 208.8	56.46%	\$ 18.3	4.94%	\$ 227.1	61.39%
2024	380.9	205.0	53.82%	17.5	4.59%	222.5	58.41%
2025	392.4	201.4	51.33%	16.1	4.10%	217.5	55.43%
2026	404.1	197.2	48.79%	16.3	4.04%	213.5	52.83%
2027	416.3	192.6	46.27%	16.5	3.97%	209.1	50.24%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2021 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2021, 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.

The following table illustrates the sensitivity of pension contributions to investment returns over the next five years based on our stochastic projections. The stochastic projections assume a geometric return of 6.625% and a standard deviation of 14.1%. 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
2023	\$	208.8	\$	208.8	\$	208.8
2024		200.8		205.0		209.0
2025		190.3		201.4		211.2
2026		177.9		197.2		214.1
2027		163.4		192.6		217.8

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, 2021. If the Board or the City is aware of any significant event since June 30, 2021 that could alter these projections, please let us know. 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 projected payroll for Tier 1 and Tier 2 members as shown in the table below.

5-Year Pension Payroll Projections						
FYE		Tier 1		Tier 2		Total
2023	\$	132.6	\$	237.2	\$	369.8
2024		122.2		258.7		380.9
2025		112.3		280.1		392.4
2026		103.0		301.1		404.1
2027		93.9		322.4		416.3

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
2023	\$ 162.6	\$ 2.7	\$ 24.2	18.24%	\$ 19.3	8.13%	\$ 208.8	56.46%
2024	159.6	2.8	22.1	18.08%	20.5	7.92%	205.0	53.82%
2025	156.6	2.9	20.1	17.91%	21.8	7.78%	201.4	51.33%
2026	152.8	3.0	18.3	17.75%	23.1	7.66%	197.2	48.79%
2027	148.5	3.2	16.5	17.59%	24.4	7.56%	192.6	46.27%

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 City Cap	Contribution	
	Full Benefit	Total			
2023	\$ 117.4	\$ 369.8	\$ 49.0	\$ 18.3	
2024	108.7	380.9	50.4	17.5	
2025	100.1	392.4	51.9	16.1	
2026	91.9	404.1	53.5	16.3	
2027	84.0	416.3	55.1	16.5	

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. Please note that the Board has not made a decision on the discount for contributions made as of the beginning of the year and may not approve use of the full discount rate. We expect the Board to make a decision at its March meeting. 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	
2023	\$ 183.5	\$ 186.5	\$ 17.7	\$ 18.0	\$ 201.3	\$ 204.5	
2024	178.7	181.6	17.0	17.2	195.7	198.8	
2025	173.9	176.7	15.6	15.9	189.6	192.6	
2026	168.6	171.3	15.8	16.1	184.5	187.4	
2027	162.9	165.5	16.1	16.3	179.0	181.8	

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 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.

The information in this letter is based on the June 30, 2021 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.

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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.

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

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachment

cc: Roberto Peña
Barbara Hayman
Jacqui King
Steven Hastings

20-Year Projections of City Pension Contributions				
Fiscal Year			Projected City	Projected City
Ending	Payroll		Contribution	Contribution Rate
			(Middle of Year)	(% of Payroll)
2023	\$ 369,833,000	\$	208,793,000	56.46%
2024	380,928,000		205,028,000	53.82%
2025	392,356,000		201,389,000	51.33%
2026	404,127,000		197,191,000	48.79%
2027	416,250,000		192,579,000	46.27%
2028	428,738,000		196,800,000	45.90%
2029	441,600,000		200,746,000	45.46%
2030	454,848,000		205,194,000	45.11%
2031	468,494,000		209,850,000	44.79%
2032	482,548,000		207,752,000	43.05%
2033	497,025,000		213,038,000	42.86%
2034	511,936,000		208,591,000	40.75%
2035	527,294,000		204,543,000	38.79%
2036	543,112,000		213,662,000	39.34%
2037	559,406,000		220,472,000	39.41%
2038	576,188,000		188,152,000	32.65%
2039	593,474,000		184,276,000	31.05%
2040	611,278,000		174,641,000	28.57%
2041	629,616,000		56,114,000	8.91%
2042	648,505,000		51,684,000	7.97%