



Via Electronic Mail

April 15, 2022

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 2023

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, 2023 based on the June 30, 2021 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

The City elected to prepay its Tier 1 Pension contributions and OPEB contributions at the beginning of the year. Those prepayment amounts are shown in this letter.

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.



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Fiscal Year Ending 2023 Member Contribution Rates						
	Tier 1			Tier 2		
	Retirement	COLA	Total	Retirement	COLA	Total
All Members	5.24%	2.17%	7.41%	6.88%	1.25%	8.13%
Additional Reclassified Rates						
Rehires	1.72%	1.28%	3.00%			
Classic	0.64%	0.45%	1.09%			

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 0.03% 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 2023 City Contributions						
Contributions Throughout the Year						
	Rates			Dollar Amounts		
	Retirement	COLA	Total	Retirement	COLA	Total
Tier 1						
Normal Cost	13.09%	5.18%	18.27%	\$ 17,356,037	\$ 6,868,165	\$ 24,224,202
Admin Expenses	1.28%	0.77%	2.05%	1,697,153	1,020,943	2,718,096
UAL Payment				<u>85,400,490</u>	<u>77,201,641</u>	<u>162,602,131</u>
Total Tier 1				\$ 104,453,680	\$ 85,090,749	\$ 189,544,429
Tier 2						
Normal Cost	6.41%	1.08%	7.49%	\$ 15,207,283	\$ 2,562,226	\$ 17,769,509
Admin Expenses	0.31%	0.05%	0.36%	735,454	118,621	854,075
UAL Payment	<u>0.16%</u>	<u>0.12%</u>	<u>0.28%</u>	<u>379,589</u>	<u>284,692</u>	<u>664,281</u>
Total Tier 2	6.88%	1.25%	8.13%	\$ 16,322,326	\$ 2,965,539	\$ 19,287,865
Grand Total	32.66%	23.81%	56.47%	\$ 120,776,006	\$ 88,056,288	\$ 208,832,294

For FYE 2023, we expect payroll to be \$132,590,048 for Tier 1 and \$237,243,109 for Tier 2.

We understand the City intends to make its Tier 1 pension contribution at the beginning of the fiscal year. The table below shows the total amount to be contributed for Tier 1 assuming contributions are paid as a lump sum on July 1, 2022 discounted using 85 percent of the June 30, 2021 valuation discount rate of 6.625% (5.6313%).

Federated - Fiscal Year Ending 2023 City Contributions			
	Contributions at Beginning of the Year		
	Retirement	COLA	Total
Tier 1 Pension			
Normal Cost	\$ 16,887,072	\$ 6,682,585	\$ 23,569,657
Admin Expenses	1,651,295	993,357	2,644,652
UAL Payment	<u>83,092,945</u>	<u>75,115,632</u>	<u>158,208,577</u>
Total Tier 1	\$ 101,631,312	\$82,791,574	\$ 184,422,886

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 intends to prepay its contribution for the fiscal year ending June 30, 2023. The total amount to be contributed to the 115 Trust assuming contributions are paid as a lump sum on July 1, 2022, discounted using 85 percent of the June 30, 2021 valuation discount rate of 6.00% (5.10%), is \$ 18,318,395. 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, 2021 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.

Mr. Roberto Peña

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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
Jacqui King
Heather Fantz