

San José Federated City Employees' Retirement System

4b



Contribution Strategy Tier 1 Amortization Periods

September 15, 2022

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FCERS 9-15-22

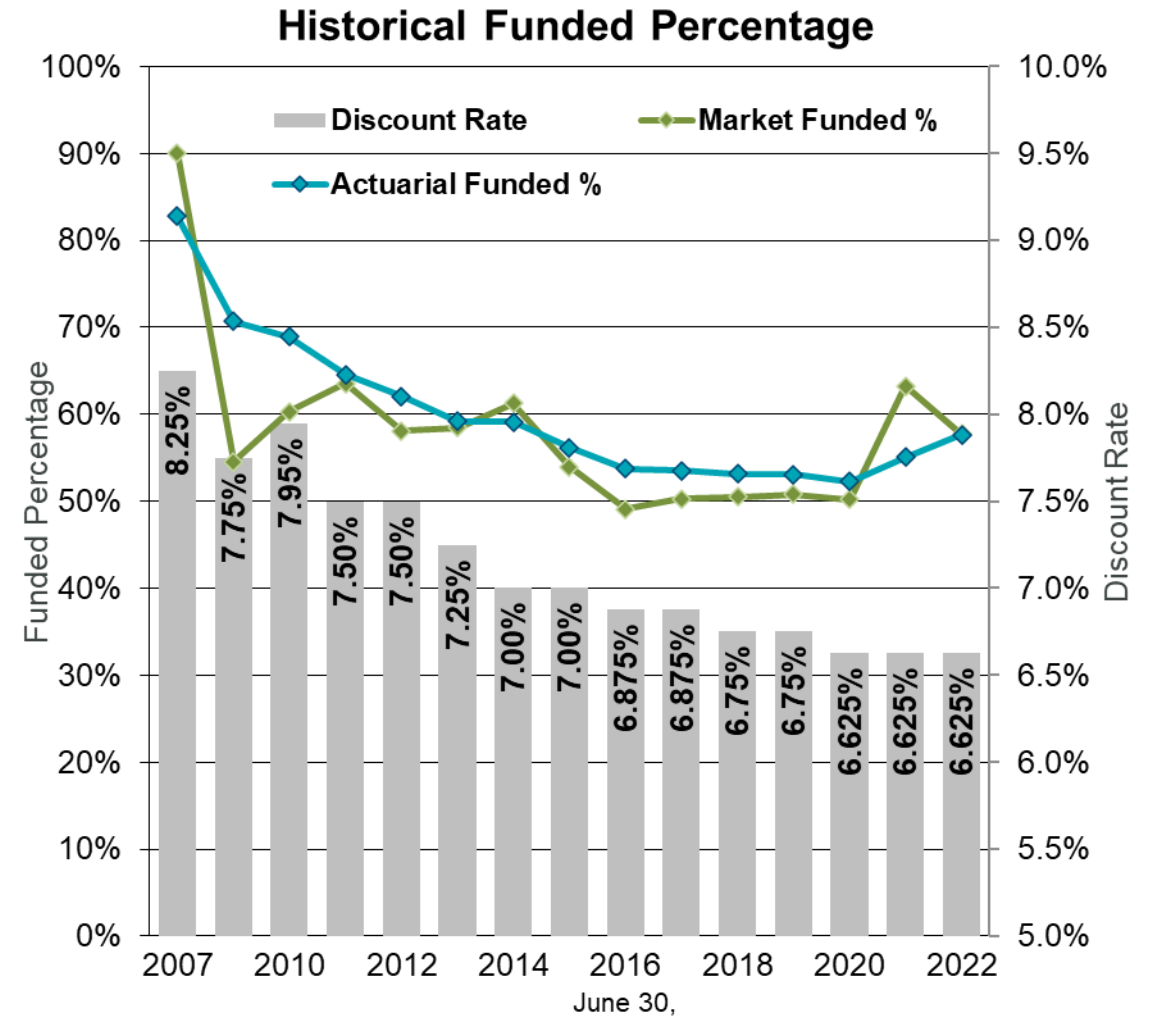
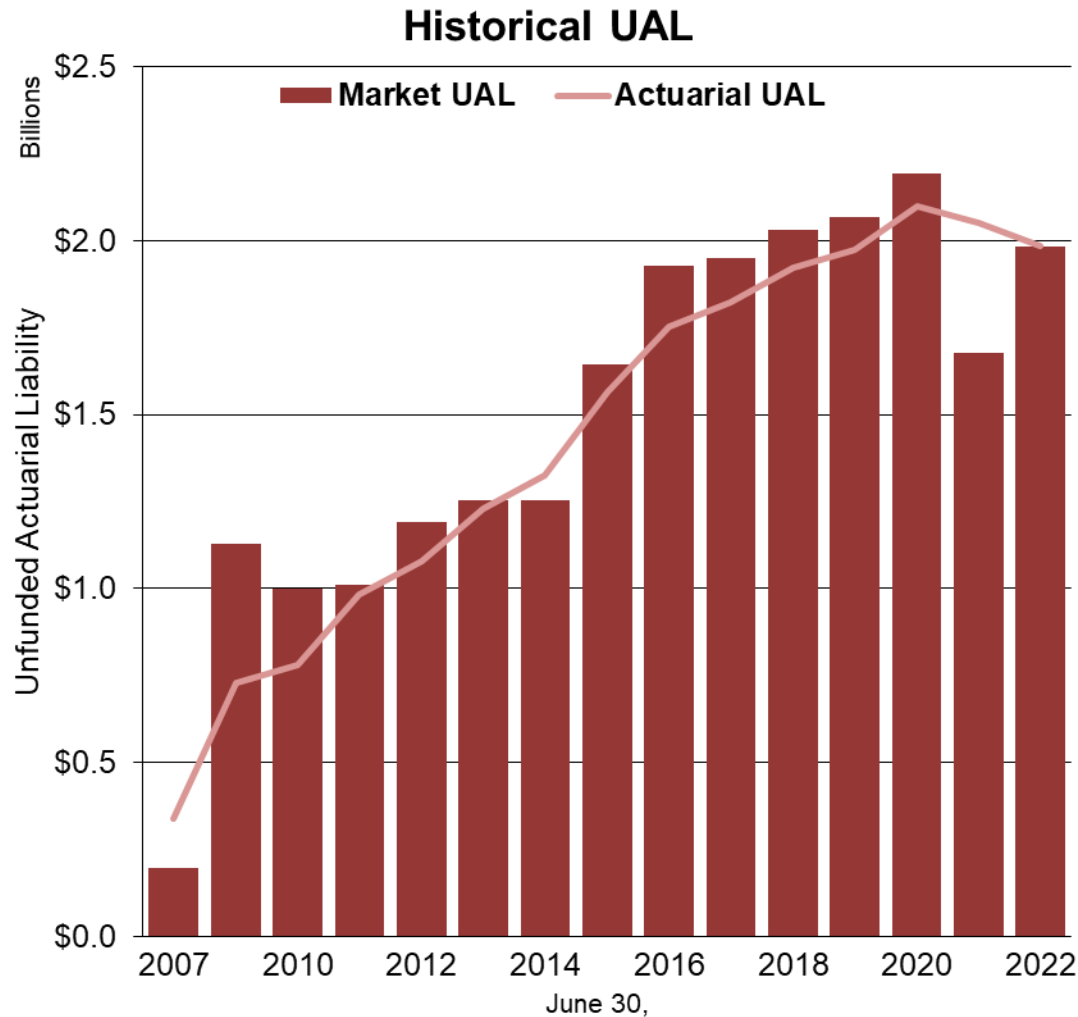


- Introduction
- How Did We Get Here?
- Preliminary Projections
- Potential Reduction in Tier 1 Amortization Periods
- Transition Options
- Discussion



- Prior meeting
 - Extensive review of actuarial funding theory and current methods
 - Challenge → Should we accelerate Federated funding, and if so, how?
- Current meeting
 - How did we get here?
 - Consider shorter amortization periods for Tier 1 UAL
 - Tier 1 UAL is by far the largest portion of the UAL and most costly
 - Amortization periods are the most powerful tool to accelerate funding

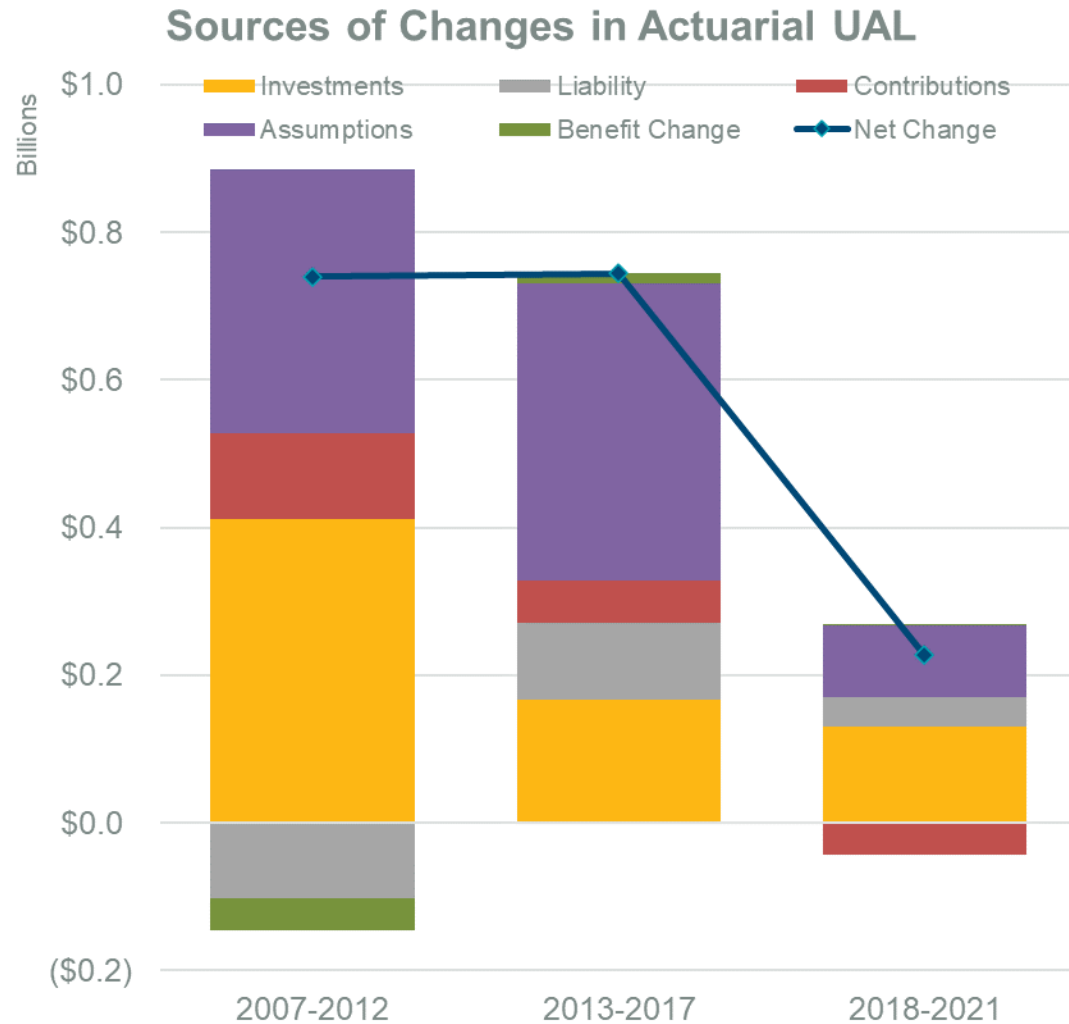
Brief History



2022 amounts are preliminary estimates

September 15, 2022

Sources of Changes in UAL



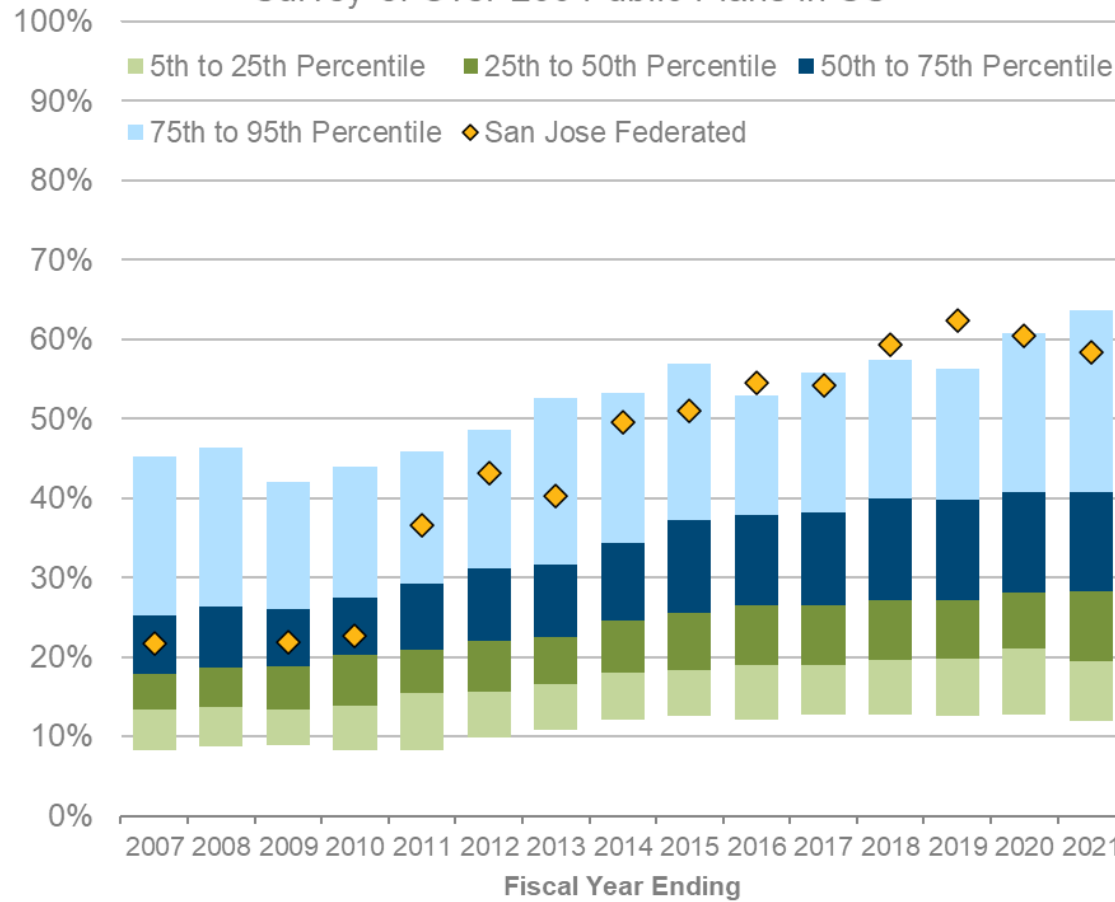
- Assumption Changes → \$858 M
 - Mostly reduction in discount rate from 8.25% to 6.625%
 - Also includes mortality and refund assumption changes
- Investment Losses → \$709 M
 - Doesn't include 80% of 2021 gain
 - Doesn't include 2022 loss
- Contributions → \$130 M
 - Contributions in early period were insufficient to reduce UAL
 - Recent contributions are large enough to reduce UAL
- Liability Experience → \$41 M
- Benefit Changes → (\$27 M)

Historical Contribution Rates



Total Employer Contribution Rates

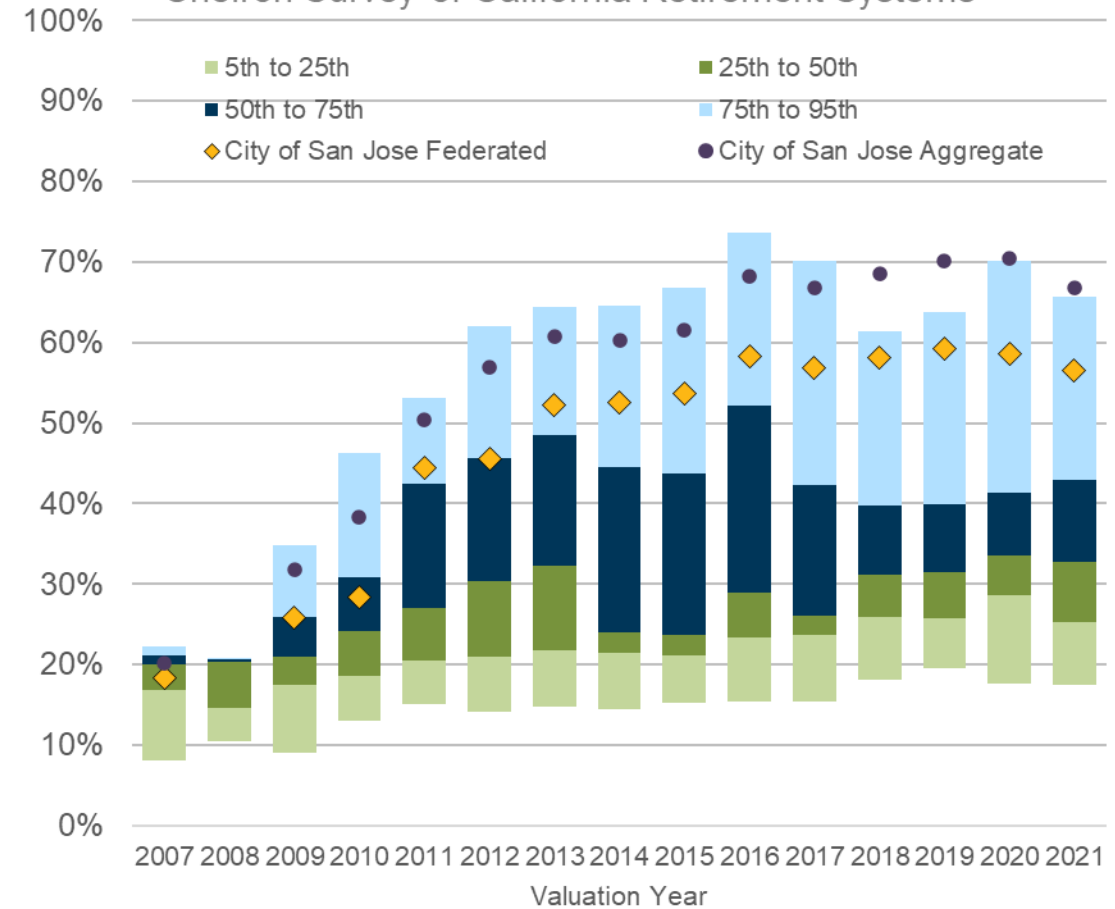
Survey of Over 200 Public Plans in US



Survey Data from Public Plans Data as of 7/21/2022

Total Employer Contribution Rates

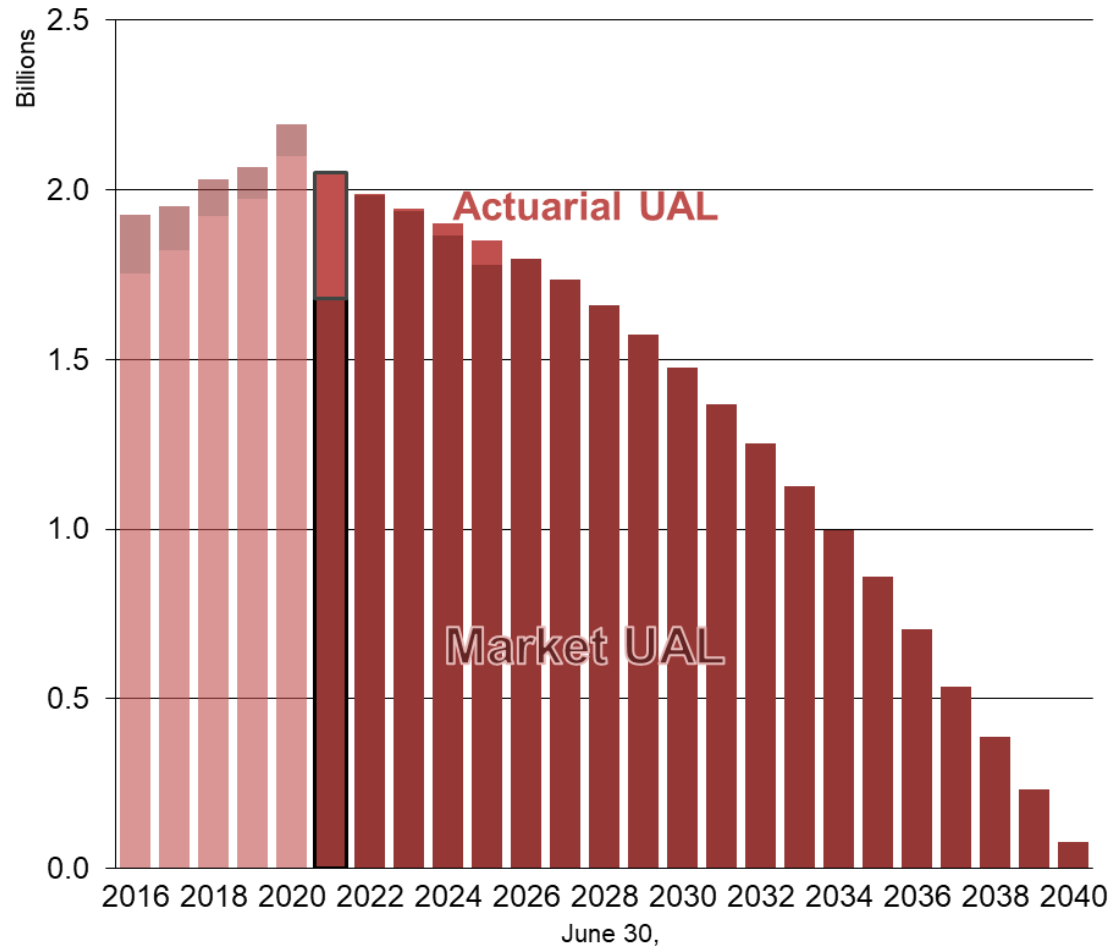
Cheiron Survey of California Retirement Systems



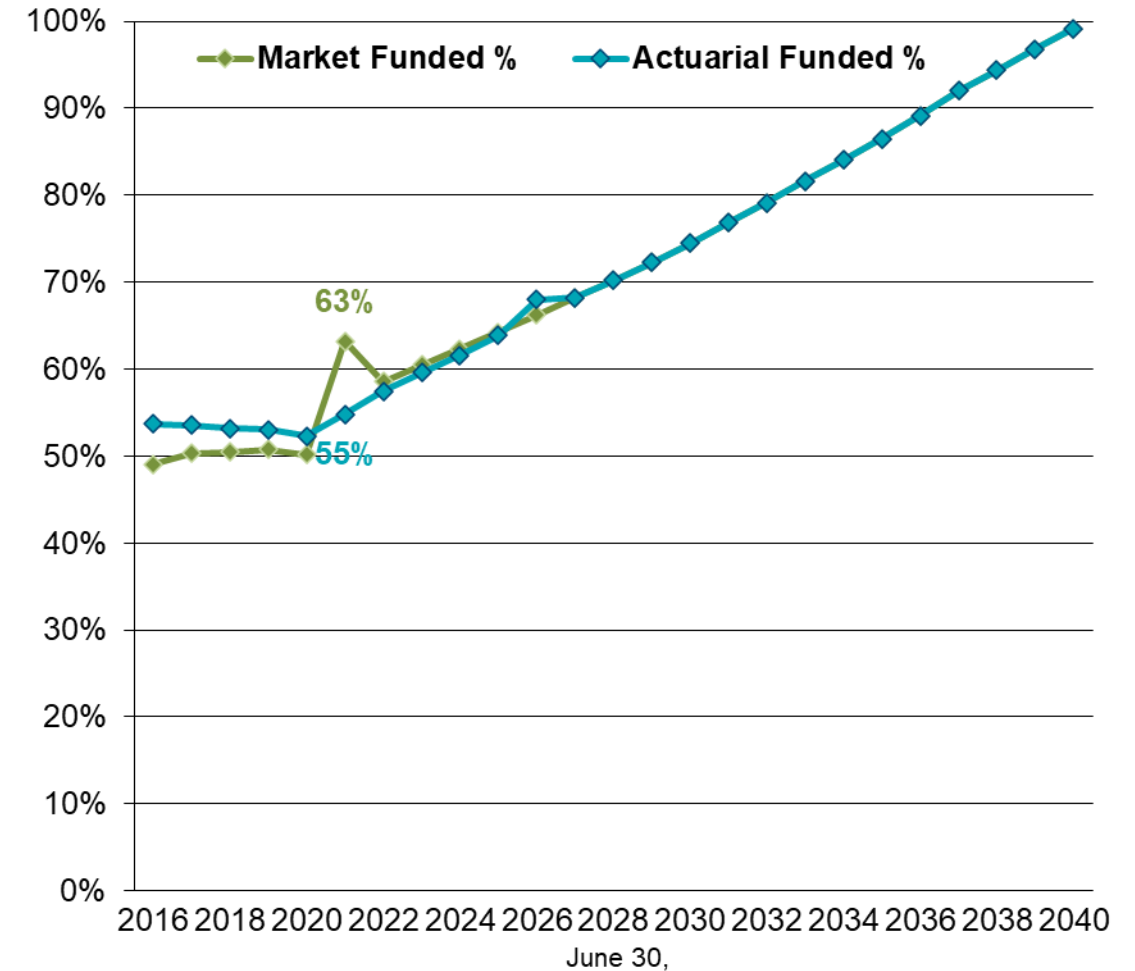
Projections with Preliminary Asset Information



Historical and Projected UAL



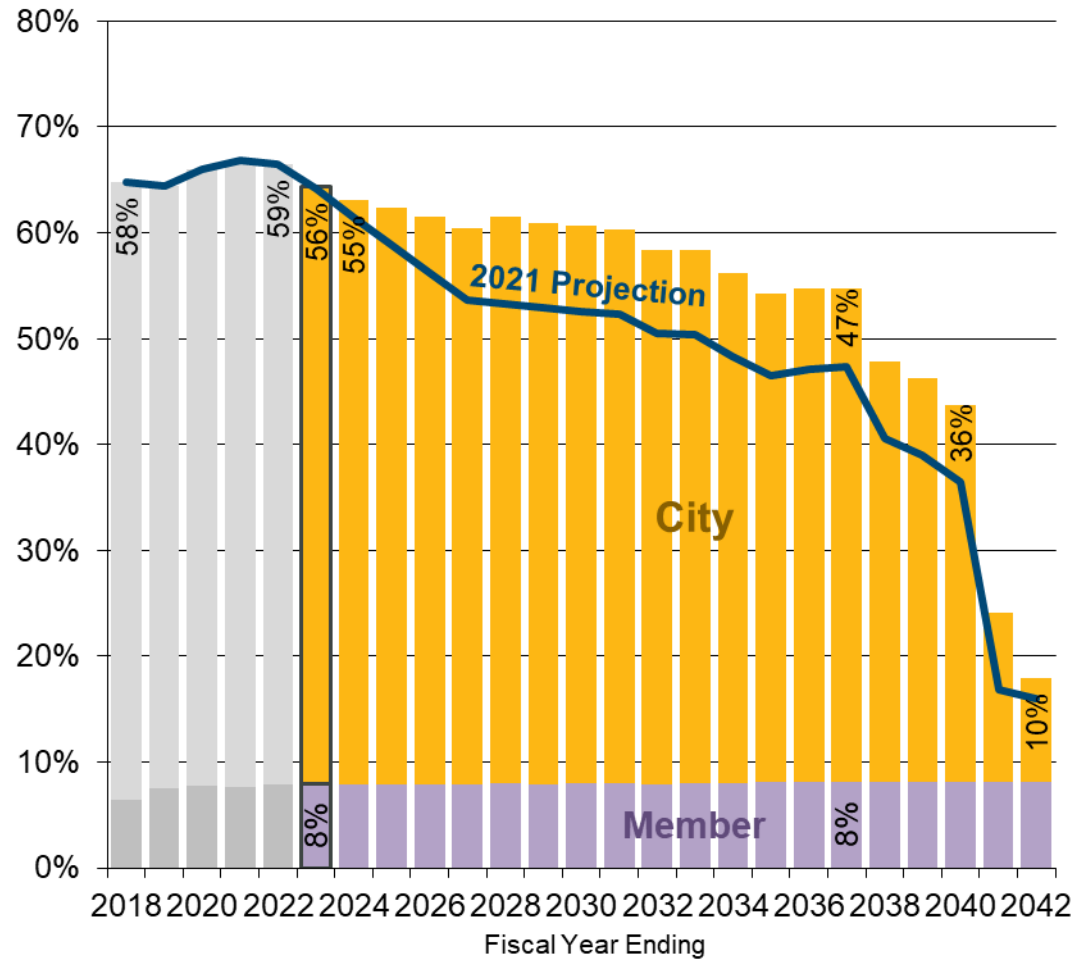
Historical and Projected Funded Percentage



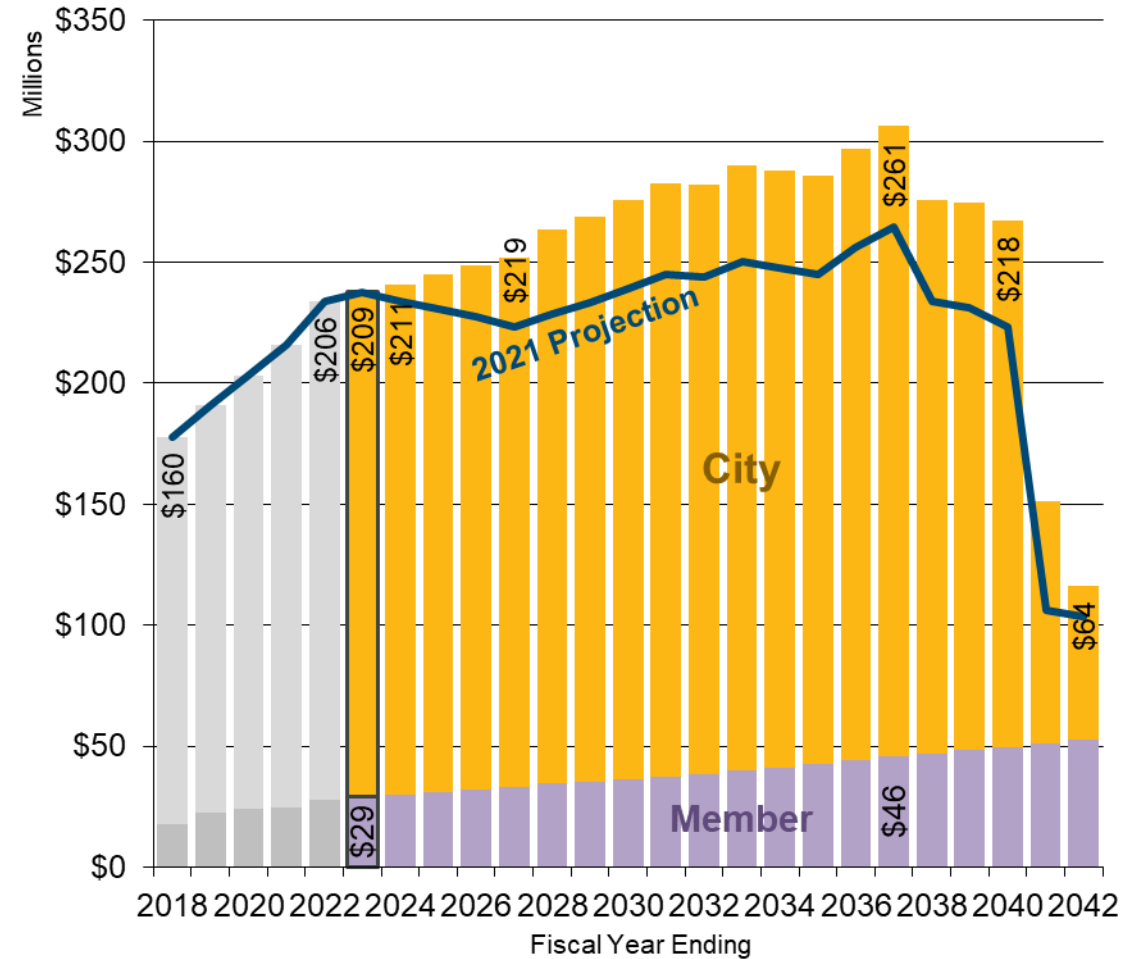
Projections with Preliminary Asset Information



Historical and Projected Contribution Rates



Historical and Projected Contribution Amounts



Current Amortization Periods for Tier 1



Source of UAL Change	General Actuarial Guideline	Current Tier 1
Experience Gains and Losses	15 – 20 Years	20 Years
Assumption Changes	15 – 25 Years	25 Years
Benefit Improvements	5 – 15 Years	20 Years

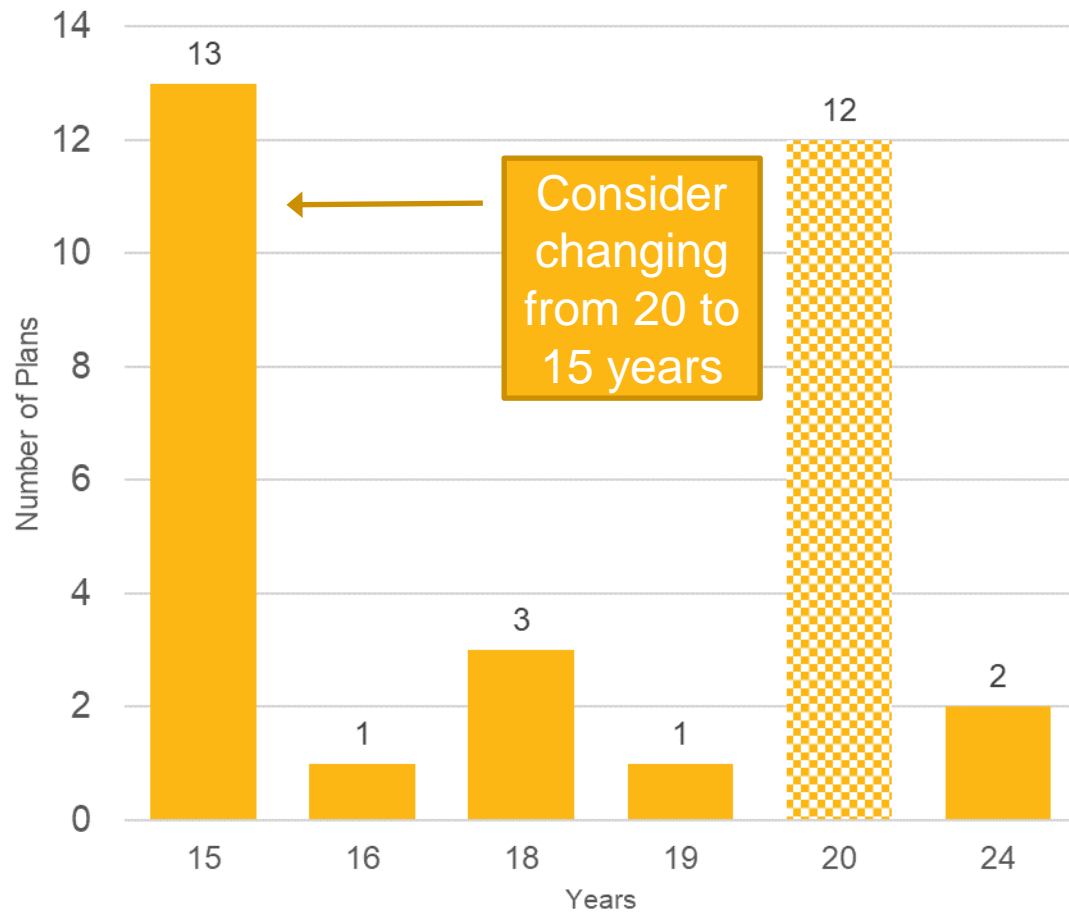
- Shorter periods
 - Accelerate funding to 100%
 - Increase contribution volatility

California Survey – Amortization Periods



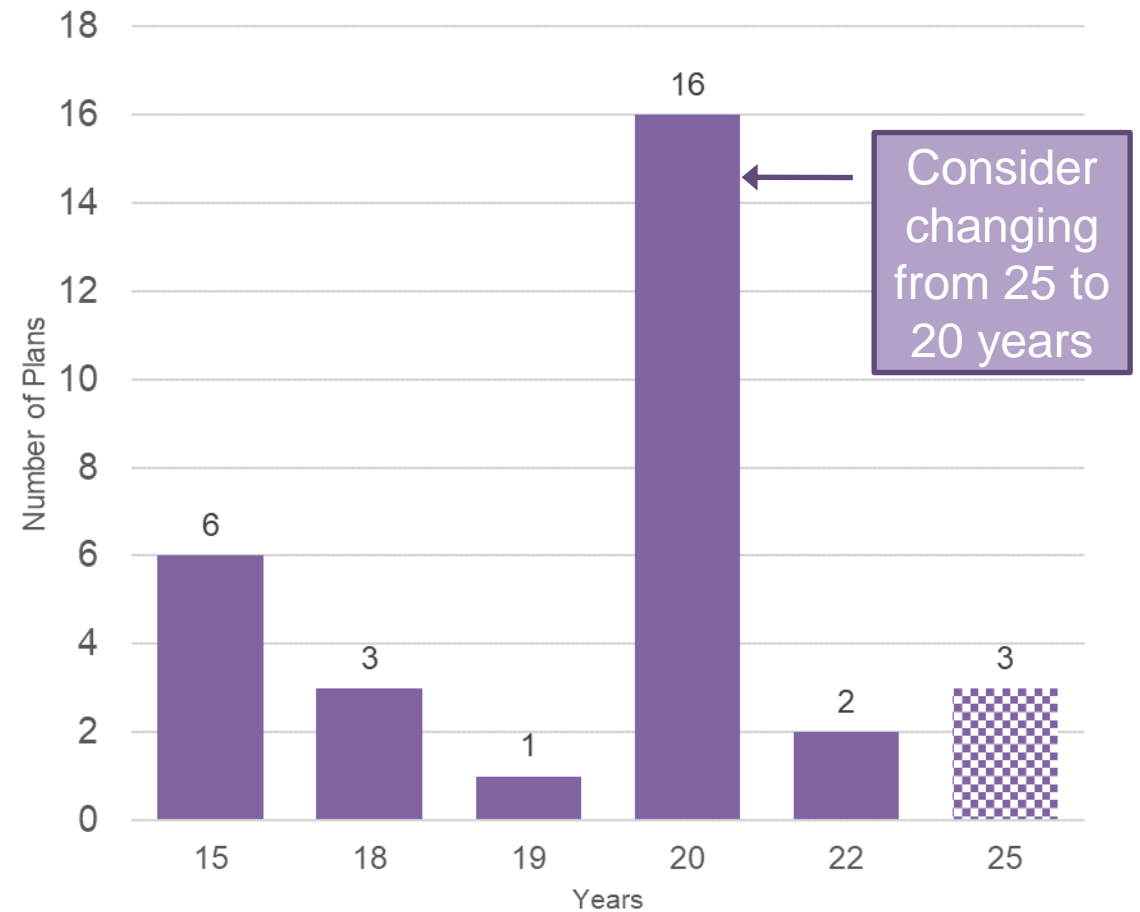
Latest Amortization Periods

Experience Gains and Losses



Latest Amortization Periods

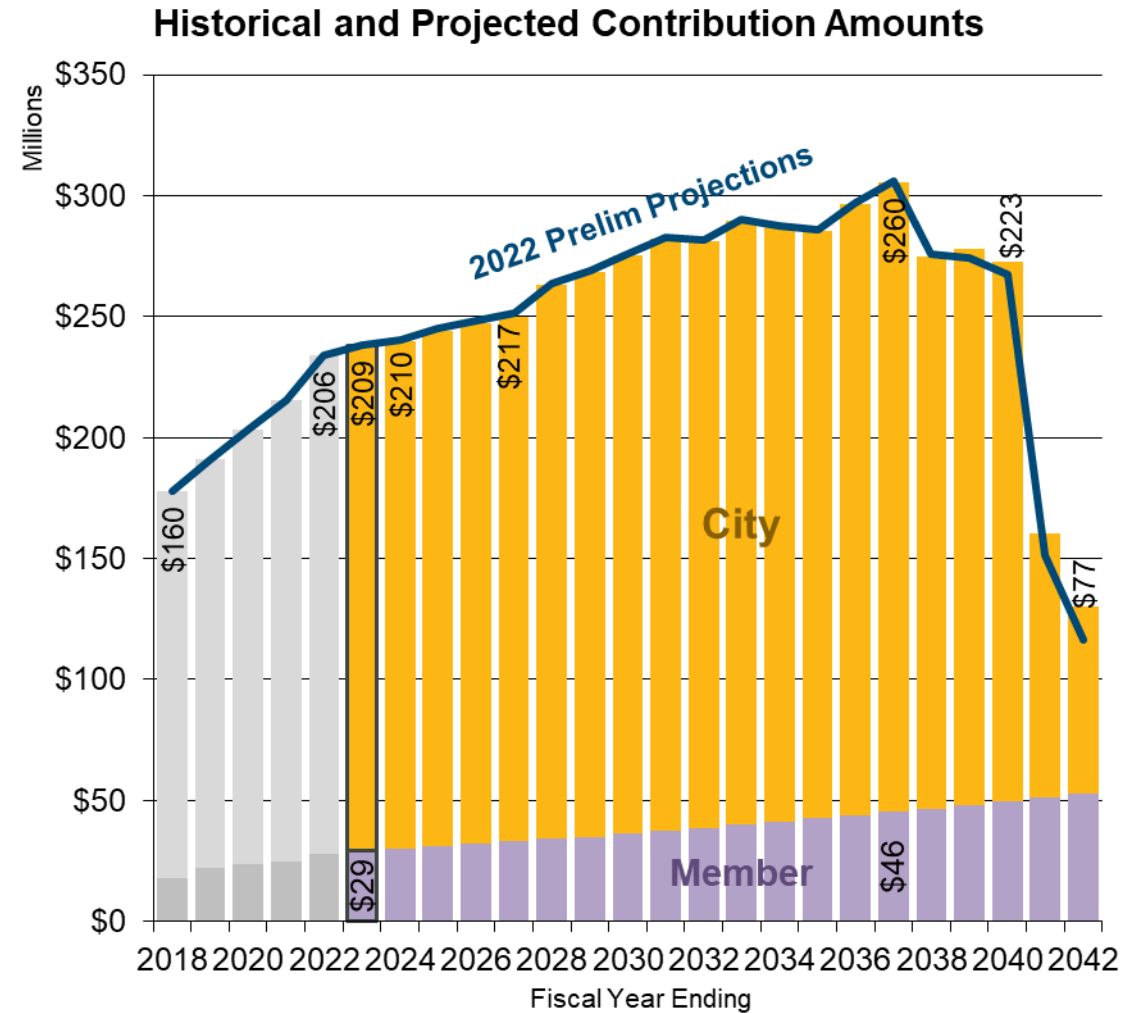
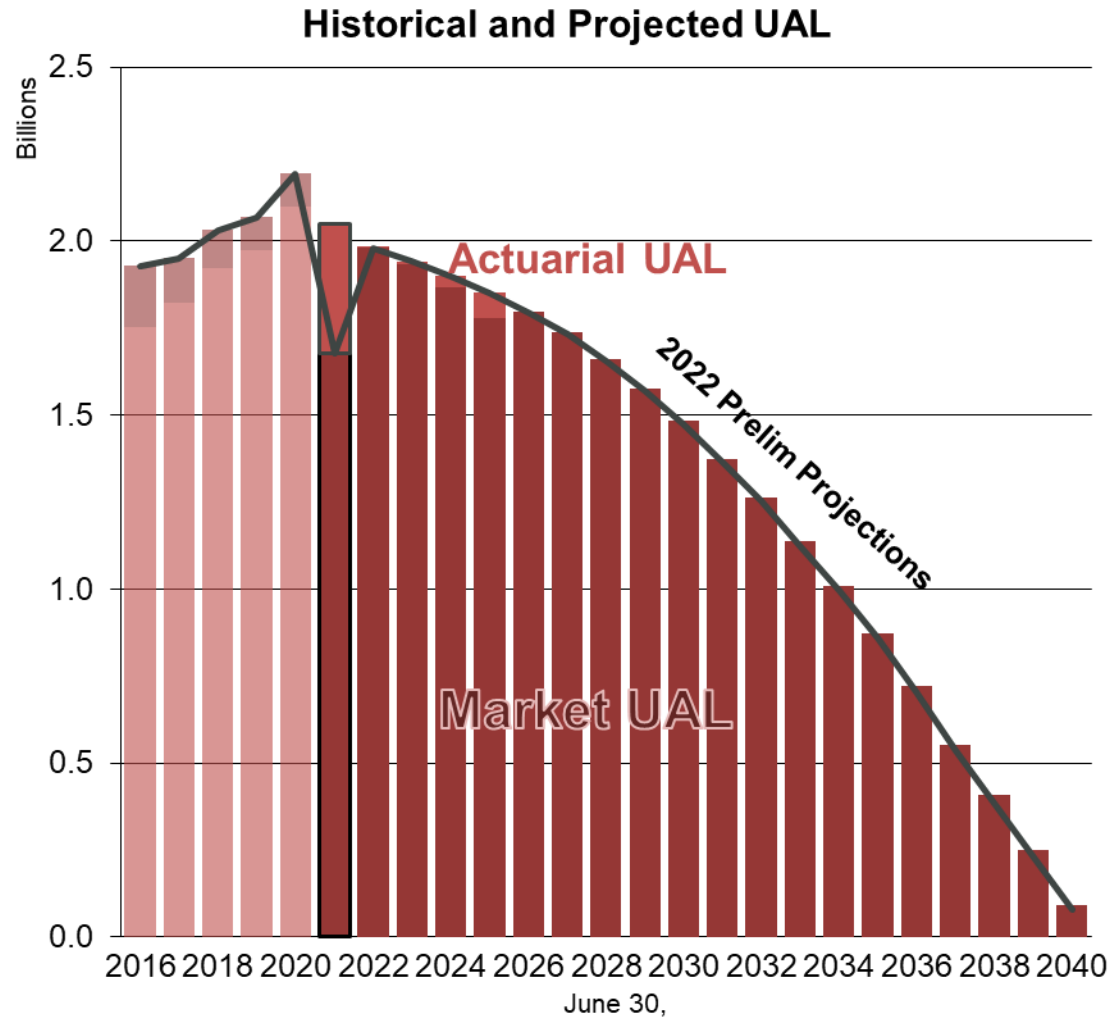
Assumption Changes



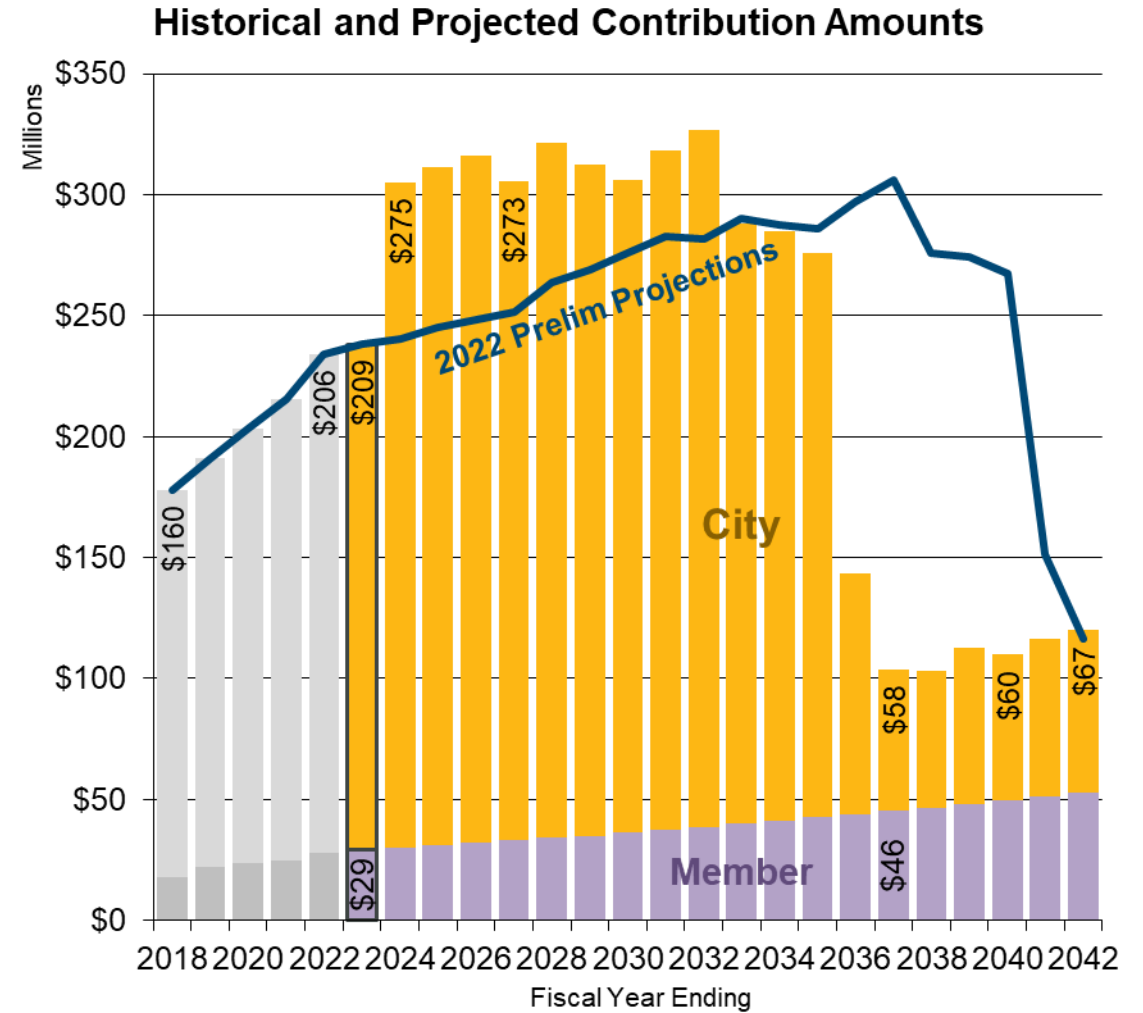
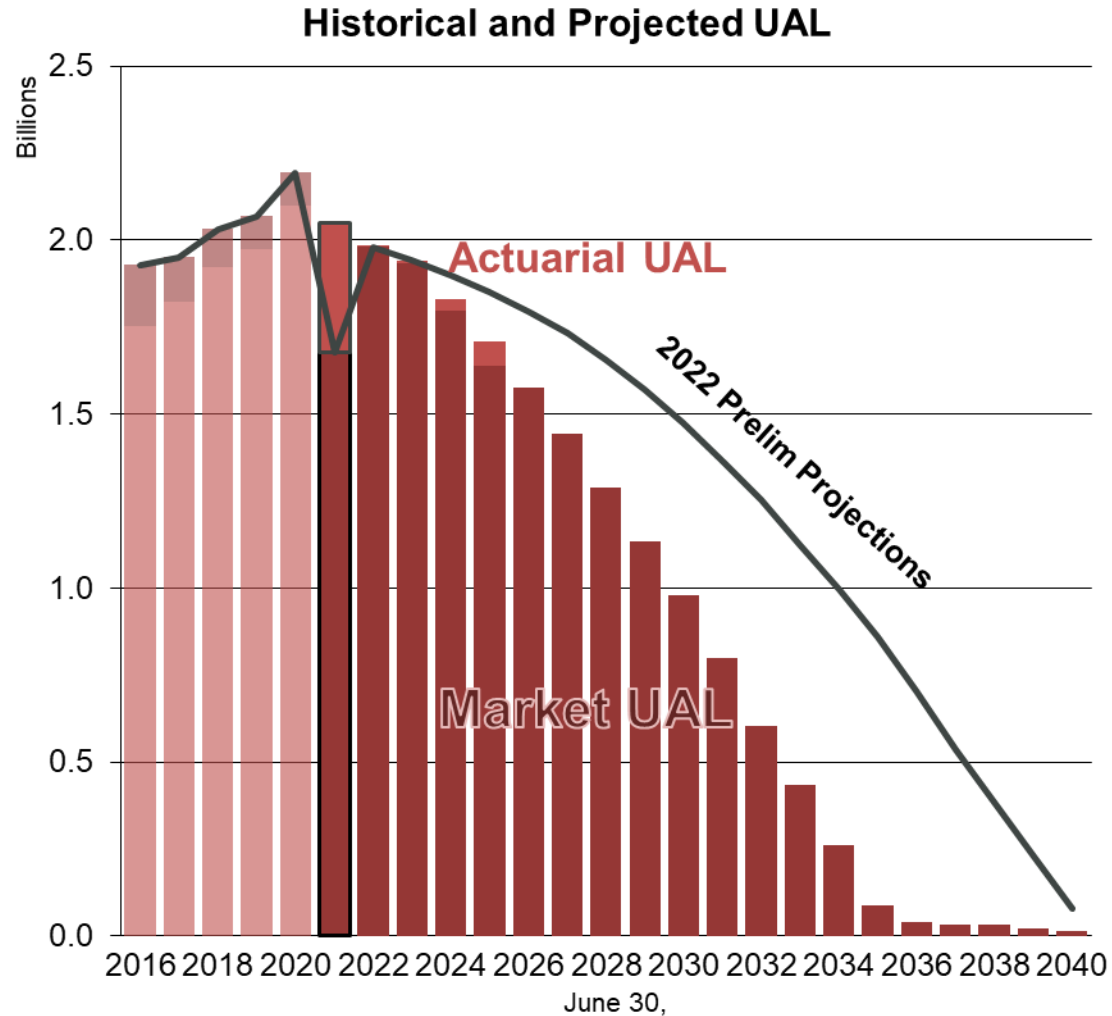


- Emerging
 - Only change periods for new amortizations
 - Limited immediate impact
 - Pays for **future** losses more rapidly
- Immediate
 - Change periods for all new amortizations
 - Reduce all existing amortization periods by five years
 - Significant immediate impact
- Shorten Long Amortizations
 - Change periods for all new amortizations
 - Reduce experience amortizations to be no more than 15 years remaining as of June 30, 2021
 - Reduce assumption change amortizations to be no more than 20 years remaining as of June 30, 2021

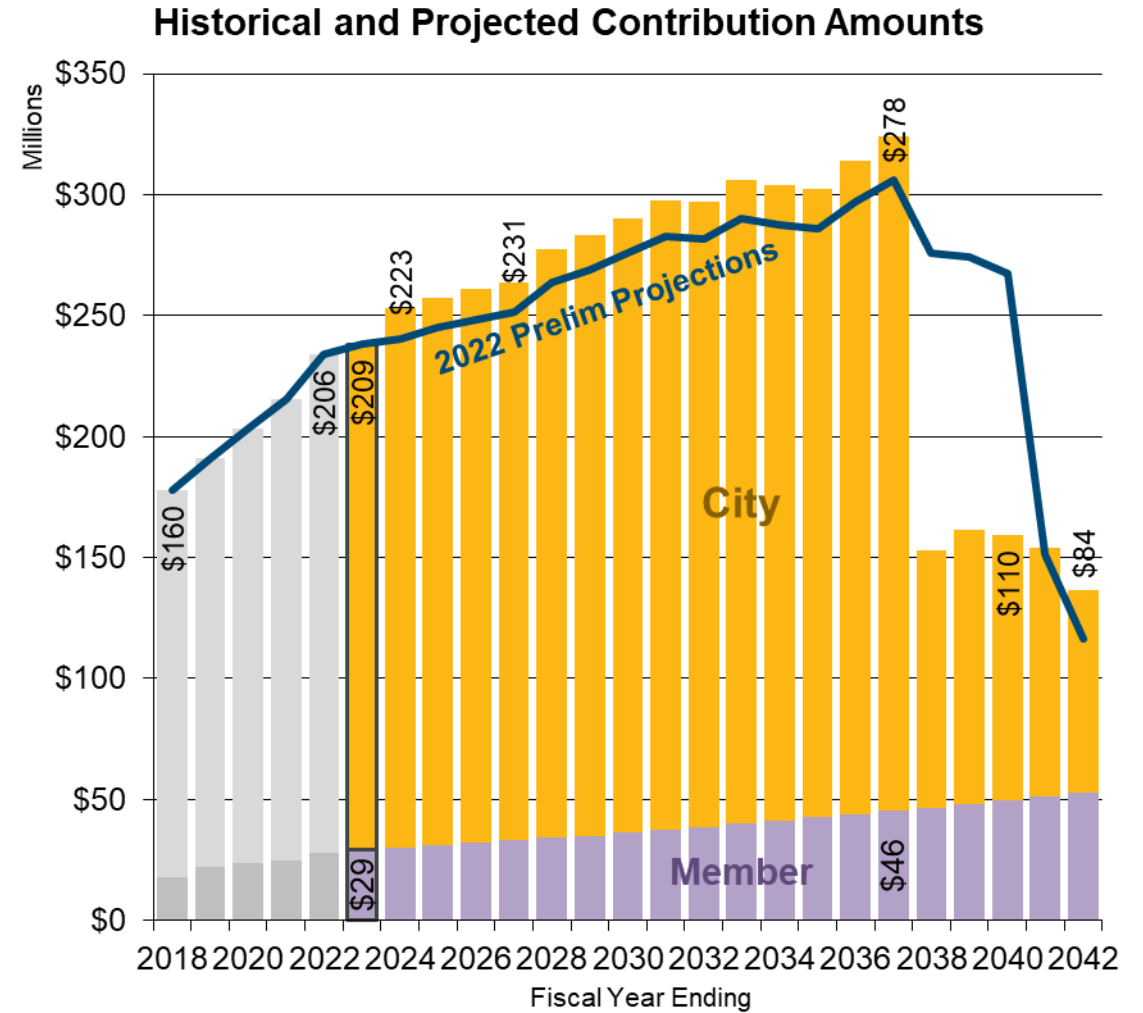
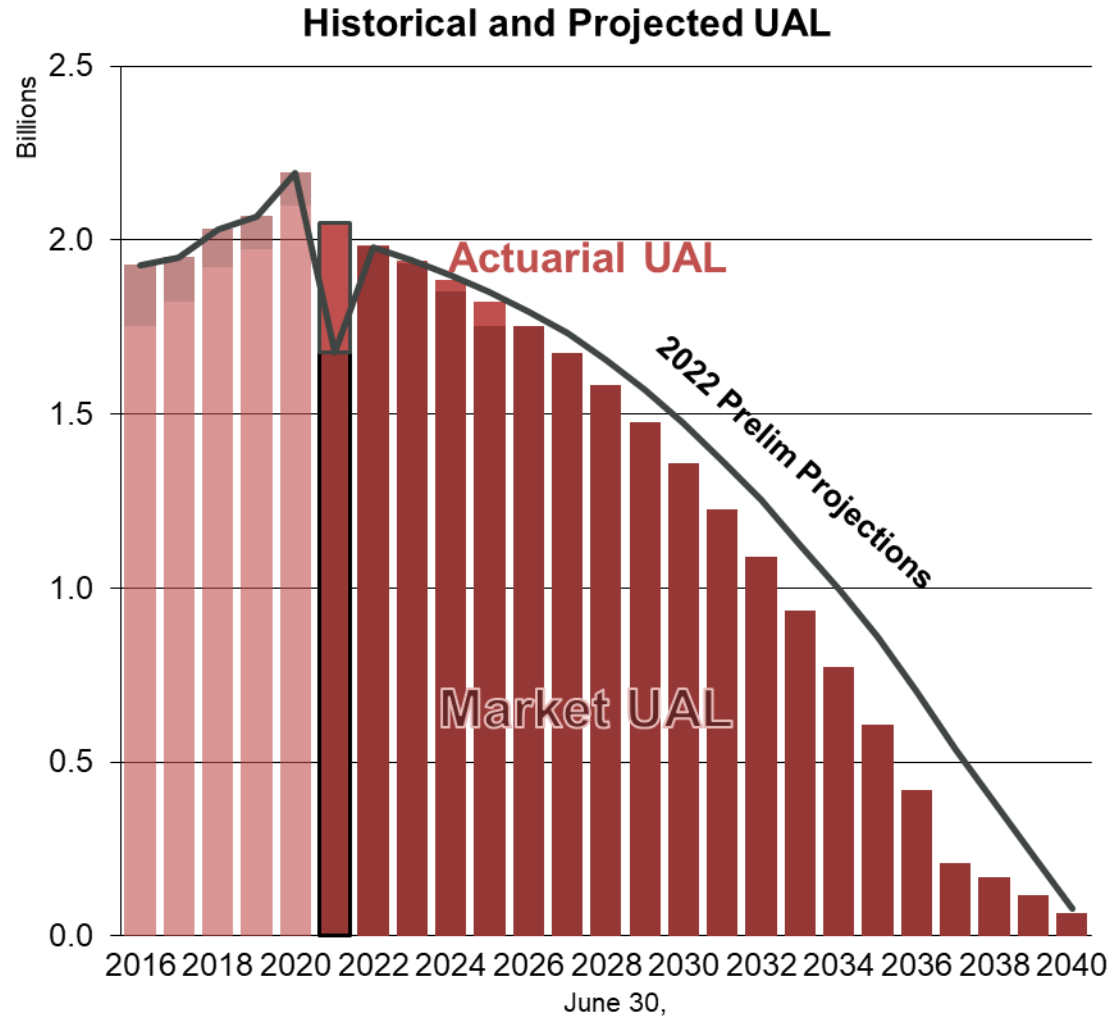
Emerging Option Only Impacts New Amortizations



Impact of Immediate Option



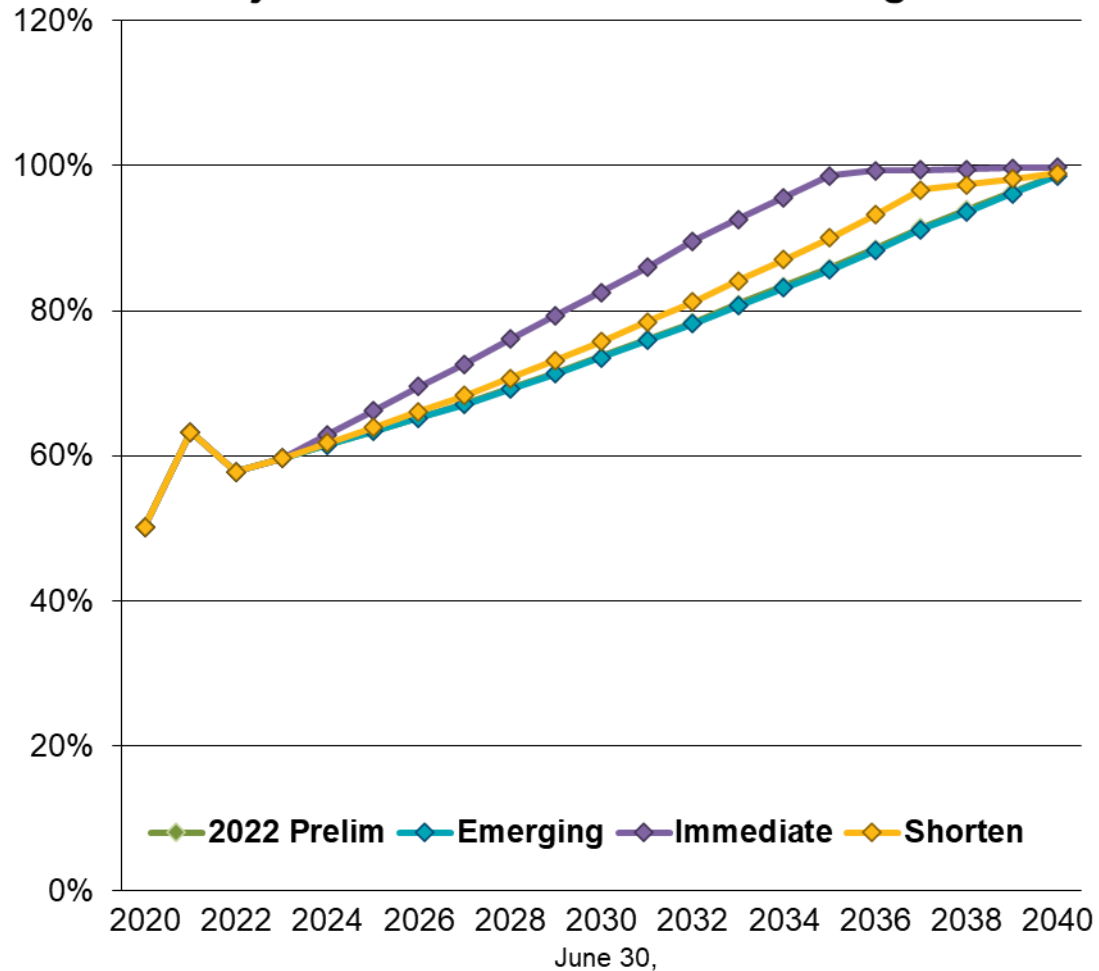
Impact of Shortening Long Amortizations



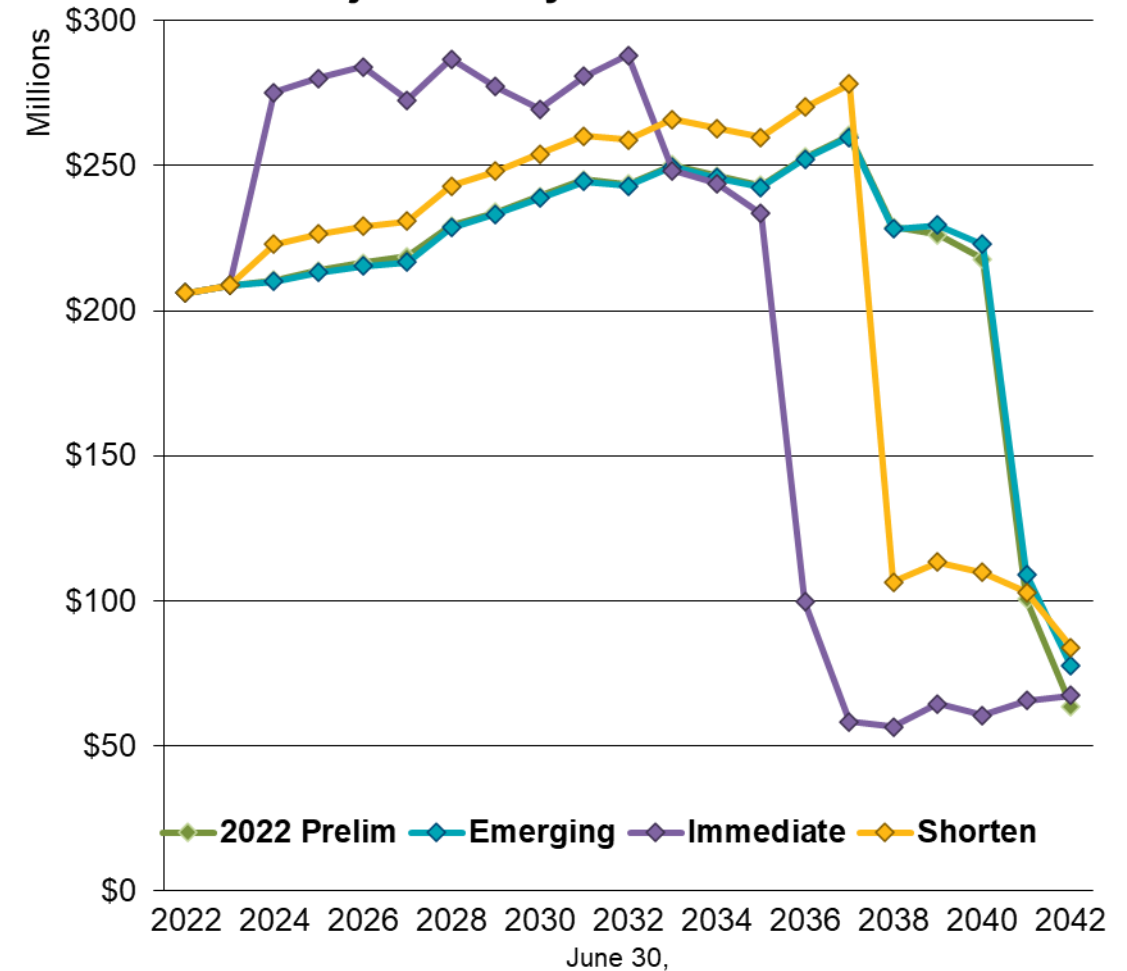
Summary of Alternatives



Projected Market Funded Percentage



Projected City Contributions





- Current amortization periods are reasonable
 - Long end of guidelines
 - More stable contributions
 - Longer to reach 100% funded
- Reducing future amortization periods pays off future losses more quickly but does not affect current amortization schedule
- Reducing current amortization periods accelerates time to reach 100% funding but can be expensive
 - More options available depending on Board objectives



Questions



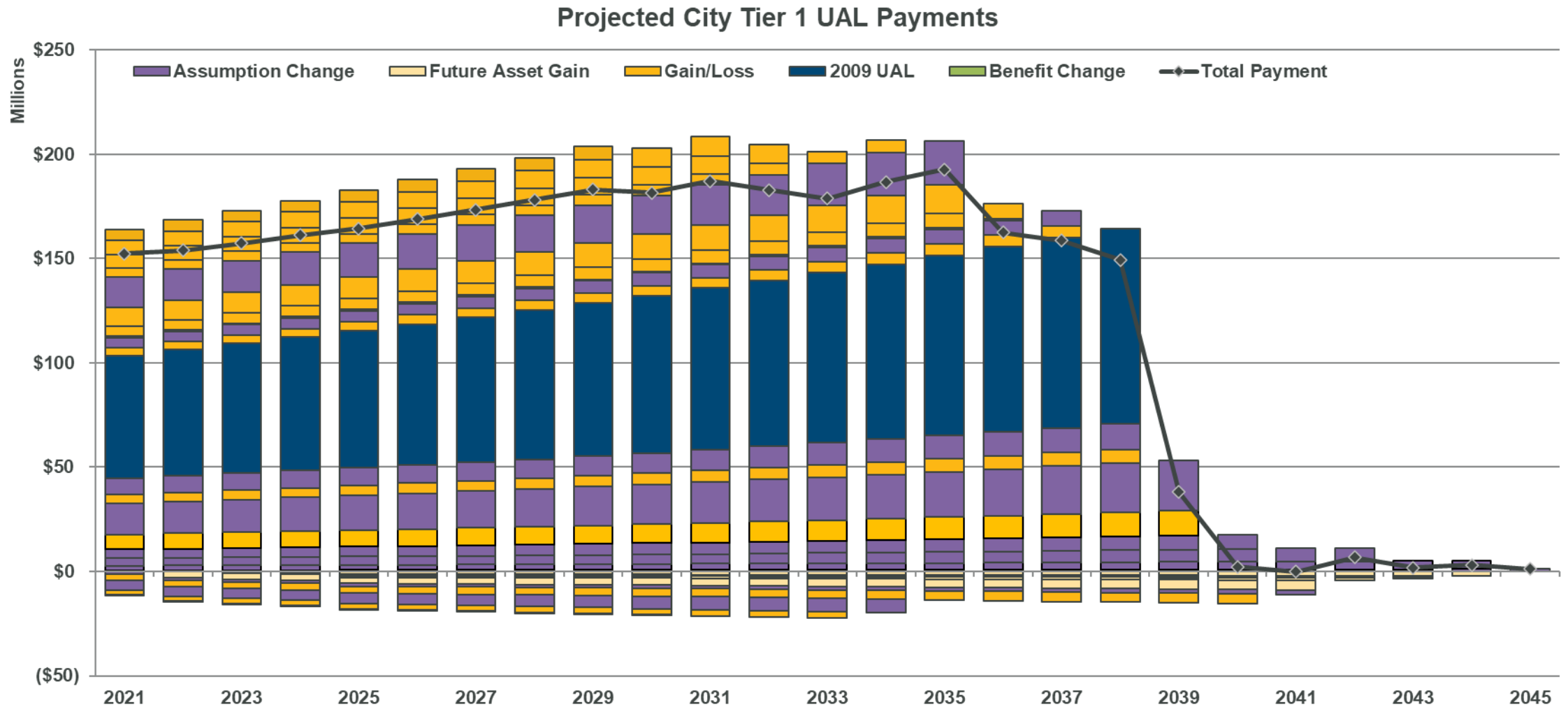
- The purpose of this presentation is to present amortization period options for Tier 1 of the City of San José Federated City Employees' Retirement System.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement 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, models, 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 Federated City Employees' Retirement System 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.

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

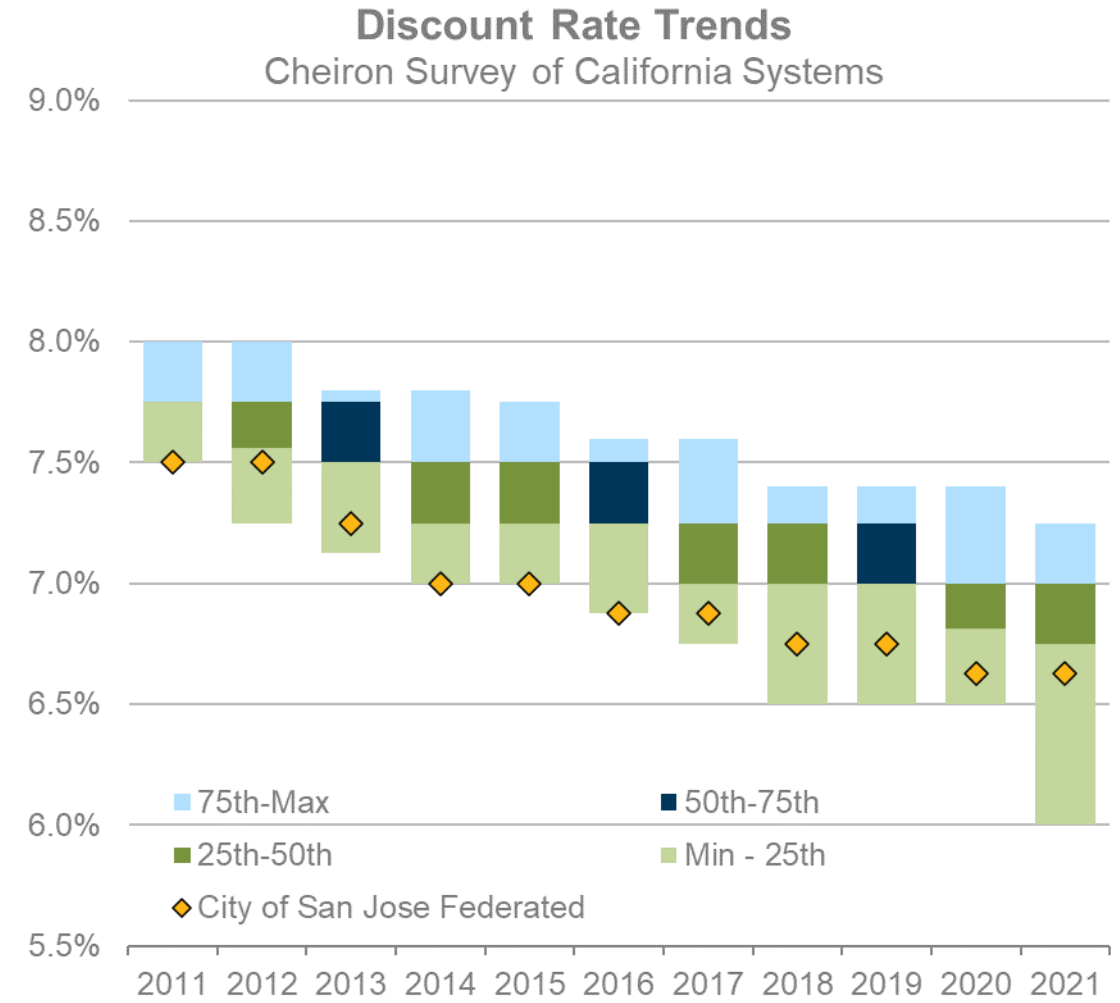
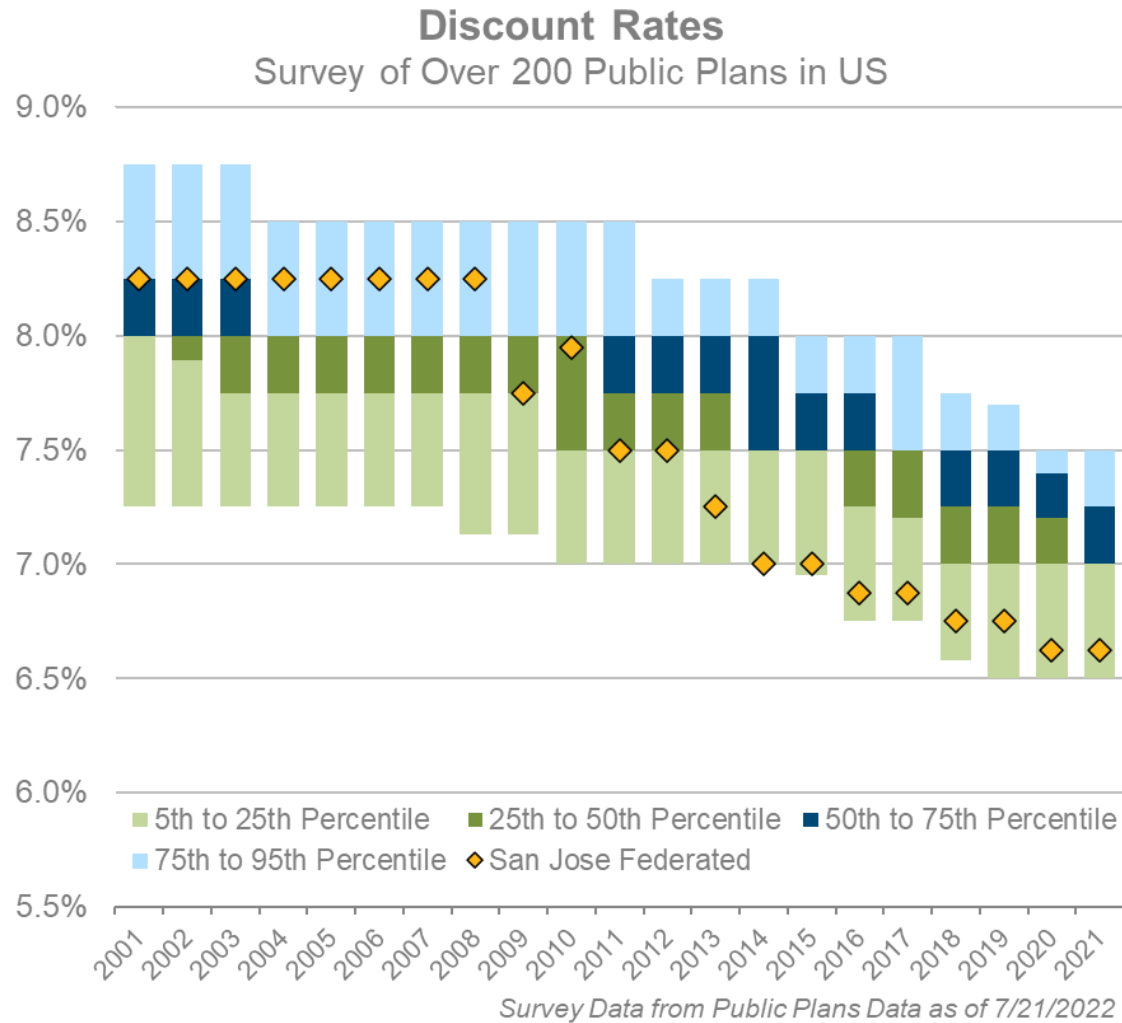
Steven M. Hastings, FSA, EA, FCA, MAAA
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Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary

Appendix - Current Amortization Schedule



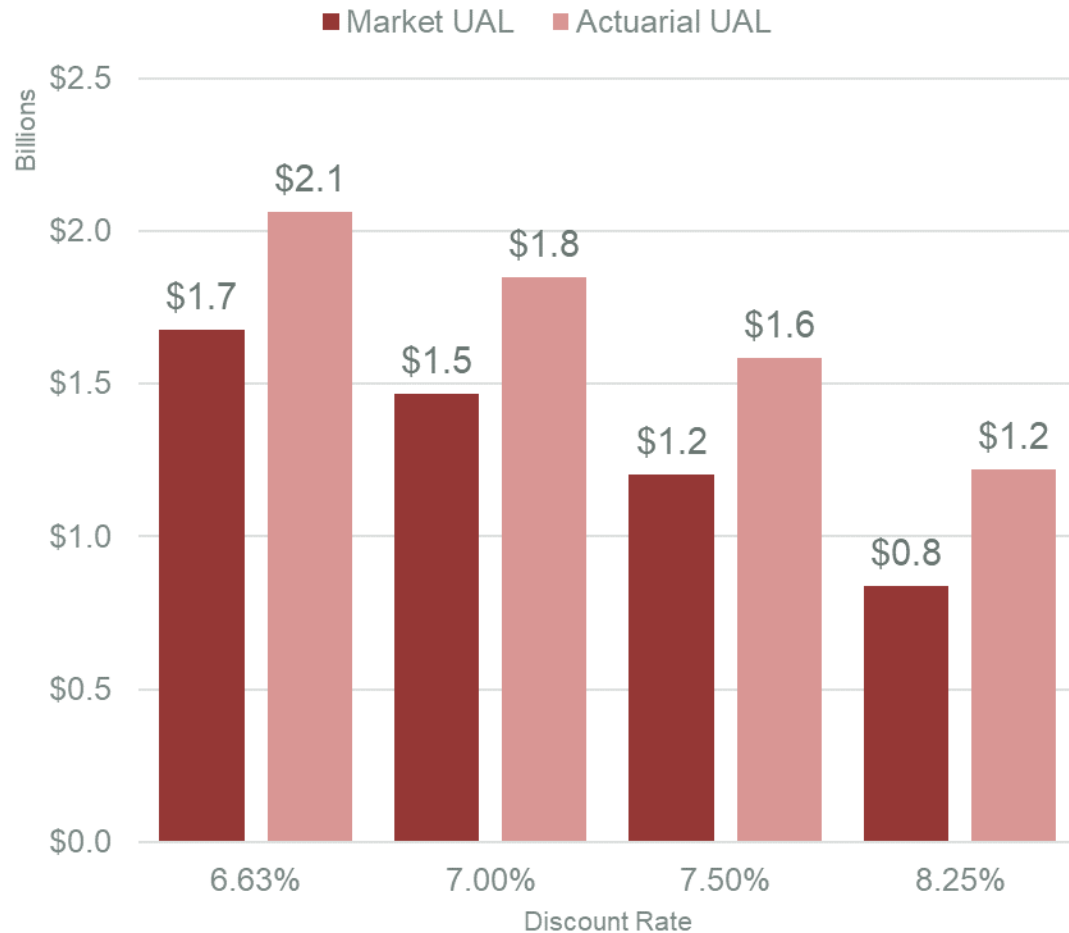
Appendix - Discount Rate Surveys



UAL and Funded Status at Various Discount Rates



2021 UAL at Different Discount Rates



2021 Funded % at Different Discount Rates

