



Via Electronic Mail

January 4, 2019

Ms. Donna Busse
Deputy Director
City of San José
Office of Retirement Services
1737 N. First Street, Suite 600
San José, CA 95112

***Re: Reclassified Member Rates – Revised
San José Federated City Employees' Retirement System***

Dear Donna:

As requested, we calculated the amount members owe due to reclassification from Tier 2 membership to Tier 1 membership, and we calculated the contribution rates to pay for the amounts owed. This letter has been revised to remove three members who were determined not to be eligible for reclassification to Tier 1 and to recognize that one member is no longer an active employee. We understand that the contribution rates will go into effect for pay periods beginning on or after March 24, 2019. The table below summarizes the contribution rates for the affected groups of members.

Reclassified Member Contribution Rates			
Group	Basic	COLA	Total
Rehires	1.06%	0.79%	1.85%
Classic Members	0.85%	0.60%	1.45%

Rehires

Rehires are members who were originally employed under Tier 1, but left the City and were later rehired under Tier 2. Measure F provided that these members be reclassified as Tier 1 members and that the individual member pay 50 percent of the increase in Unfunded Actuarial Liability (UAL) attributable to reclassifying their Tier 2 service as Tier 1 service.

The increase in UAL attributable to Tier 2 service was calculated as of the reclassification date, June 17, 2017. Please refer to our letter dated July 26, 2017 for a detailed description of the methodology used. The member's portion of the UAL is charged interest at the valuation rate until it is paid off. Interest was charged at annual rates of 6.875% from June 17, 2017 to June 30, 2018 and 6.75% from June 30, 2018 to March 24, 2019.

To determine the member contribution rate, the member's portion as of March 24, 2019 was amortized over an average period of 20 years at an interest rate of 6.75% with annual amortization payments increasing 3.00% each year. Because each member is individually

responsible for the amount they owe, the actual length of time each member will be charged the contribution rate of 1.85% depends on a number of factors including:

- The amount the member owes,
- The member's current salary,
- Future salary increases granted to the member, and
- The interest rate used for future actuarial valuations.

Under the Municipal Code, the Board retains the authority to set a different amortization payment than the one specified. Because the payment for some members based on an average 20-year period is insufficient to ever pay off the amount owed and may result in an increase in the amount owed at retirement, we suggest that the Board consider setting a higher repayment rate.

The attached exhibit shows the total amount owed by each member as of March 24, 2019, and the expected time period that the contribution rate of 1.85% will apply to the member to repay the amount owed. Additional columns show the expected repayment period if the Board elects higher repayment rates of 2.5%, 3.0%, and 3.5%. The remaining amount owed and the expected remaining time period will be updated each year to reflect actual contributions made and any changes to salaries, interest rates, or expected future salary increases.

Classic Members

Classic members are members who were originally employed by another agency with which the Plan has a reciprocity agreement and whose service with the other agency entitles the member to be treated as a Tier 1 member instead of a Tier 2 member. Measure F provided that classic members in Tier 2 be reclassified as Tier 1 members and that all classic members pay 50 percent of the increase in Unfunded Actuarial Liability (UAL) attributable to reclassifying these Tier 2 members as Tier 1.

The increase in UAL attributable to Tier 2 service was calculated as of the reclassification date, June 18, 2017. Please refer to our letter dated July 11, 2018 for a detailed description of the methodology used. The classic members' portion of the UAL is charged interest at the valuation rate until it is paid off. Interest was charged at annual rates of 6.875% through June 30, 2018 and 6.75% from June 30, 2018 to March 24, 2019.

To determine the classic member contribution rate of 1.45%, the classic members' portion as of March 24, 2019 of \$1,000,510 was amortized over a period of 20 years at an interest rate of 6.75% with annual amortization payments increasing 3.00% each year. Because all classic members contribute at this rate, the actual rate will vary each year depending on:

- The amount remaining to be paid,
- Classic member payroll, and
- The interest rate used for future actuarial valuations.

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In preparing this letter, we relied on information (some oral and some written) supplied by the City of San José and its Office 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.

Future member contribution rates under these provisions of Measure F may differ from the member contribution rates calculated in this letter due to such factors as: actual contributions differing from expected, actual salaries or payroll differing from expected, and changes in actuarial assumptions.

To the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I 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. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the 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 about the calculations in this letter, please let us know.

Sincerely,
Cheiron



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

Attachment

cc: Roberto Peña
Jennifer Schembri
Cheryl Parkman
Steven Hastings
Jacqui King



ATTACHMENT

Individual Repayment Balances Under Measure F						
March 24, 2019						
Name	Amount Owed	Expected Remaining Payment Years by Contribution Rate				
		1.85%	2.50%	3.00%	3.50%	
<u>Active Rehires</u>						
BARTE	\$ 39,594	36.04	21.48	16.55	13.50	
BHANOT	\$ 612	0.62	0.46	0.38	0.33	
CASTANEDA	\$ 23,589	32.46	19.84	15.40	12.61	
CORONA	\$ 16,643	24.80	15.97	12.60	10.41	
D'ARCY	\$ 41,391	26.38	16.82	13.21	10.90	
DO	\$ 9,202	4.00	2.90	2.40	2.04	
FELIPE	\$ 27,446	24.34	15.72	12.41	10.26	
FITZGERALD	\$ 47,338	35.30	21.15	16.32	13.32	
FRITZ	\$ 32,614	46.10	25.46	19.27	15.57	
GINES	\$ 13,760	19.63	13.07	10.42	8.67	
GRIMALDO	\$ 37,357	N/A	46.97	31.69	24.33	
HARKNESS	\$ 35,331	9.38	6.62	5.40	4.57	
HARRISON	\$ 5,923	3.26	2.37	1.96	1.67	
HERBERT	\$ 8,115	4.85	3.51	2.89	2.46	
HUNT	\$ 34,932	30.94	19.12	14.88	12.21	
HUNTER	\$ 49,366	79.00	33.31	24.26	19.23	
JIMENEZ	\$ 5,208	3.99	2.90	2.39	2.04	
KINSMAN	\$ 7,365	7.85	5.59	4.57	3.87	
LE	\$ 5,057	2.58	1.89	1.56	1.34	
LUCERO	\$ 21,802	38.27	22.43	17.22	14.01	
LUECK	\$ 13,922	7.85	5.59	4.58	3.87	
MACIAS	\$ 39,116	N/A	53.40	34.61	26.22	
MAGLIO	\$ 1,499	0.98	0.72	0.60	0.51	
MARTINEZ	\$ 20,472	47.75	26.03	19.66	15.85	
NGUYEN	\$ 30,078	19.49	12.98	10.36	8.62	
PANNELL	\$ 13,385	10.67	7.48	6.08	5.13	
PENNINGTON	\$ 22,884	17.13	11.58	9.28	7.75	
PETAK	\$ 32,652	19.10	12.75	10.18	8.48	
PHAN	\$ 35,010	15.40	10.51	8.46	7.09	
PONCE	\$ 12,170	16.20	11.01	8.85	7.40	
RAYNER	\$ 34,434	50.73	27.01	20.30	16.34	
ROBLES	\$ 15,396	16.15	10.98	8.82	7.38	
SUGGS	\$ 32,811	15.74	10.73	8.63	7.22	
TORRES	\$ 10,887	11.76	8.19	6.65	5.60	
URIBE	\$ 23,319	20.84	13.77	10.95	9.10	
VICTORIO	\$ 9,694	6.49	4.65	3.82	3.24	
VILLARREAL	\$ 31,855	24.66	15.90	12.54	10.36	
WINCHESTER	\$ 10,366	3.16	2.30	1.90	1.62	
ZENK	\$ 9,504	9.24	6.53	5.33	4.50	
<u>Inactive Rehires</u>						
AZEVEDO	\$ 32,853					
BIEGANSKI	\$ 9,057					
DINOTO	\$ 16,611					
GAETA	\$ 21,858					
TULEE	\$ 681					
LAMPROS	\$ 3,672					
MOU	\$ 2,500					
ROJAS	\$ 0					
VAN DEN BROEKE	\$ 34,327					
TRAN	\$ 1,970					
<u>Classic Members</u>	\$ 1,000,510	20.00				