



Via Electronic Mail

January 15, 2020

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 table below 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
2021	\$ 322.7	\$ 190.9	59.16%	\$ 21.0	6.49%	\$ 211.9	65.66%
2022	332.4	198.7	59.78%	20.2	6.08%	218.9	65.85%
2023	342.4	204.1	59.63%	19.4	5.66%	223.5	65.29%
2024	352.6	210.0	59.55%	19.6	5.56%	229.6	65.11%
2025	363.2	215.7	59.38%	19.8	5.46%	235.5	64.83%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2019 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2019, 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.

Finally, except as noted above, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2019. If the Board or the City is aware of any significant event since June 30, 2019 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
2021	\$	142.1	\$	180.6	\$ 322.7
2022		130.9		201.5	332.4
2023		120.5		221.8	342.4
2024		110.8		241.8	352.6
2025		101.6		261.6	363.2

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
2021	\$ 148.5	\$ 2.6	\$ 25.5	17.97%	\$ 14.3	7.92%	\$ 190.9	59.16%
2022	156.8	2.7	23.3	17.83%	15.8	7.86%	198.7	59.78%
2023	162.5	2.9	21.4	17.72%	17.5	7.87%	204.1	59.63%
2024	168.5	3.0	19.5	17.59%	19.0	7.87%	210.0	59.55%
2025	174.2	3.1	17.7	17.46%	20.6	7.88%	215.7	59.38%

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			
2021	\$ 124.7	\$ 322.7	\$ 43.1	\$	21.0
2022	114.9	332.4	44.4		20.2
2023	106.1	342.4	45.7		19.4
2024	98.0	352.6	47.1		19.6
2025	90.2	363.2	48.5		19.8

Dollar amounts in millions

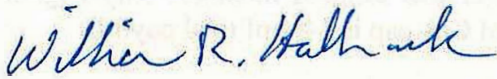
This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable 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.

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 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 Ending	Payroll	Projected City Contribution (Middle of Year)	Projected City Contribution Rate (% of Payroll)
2021	\$ 322,709,000	\$ 190,926,000	59.16%
2022	332,391,000	198,694,000	59.78%
2023	342,362,000	204,148,000	59.63%
2024	352,633,000	210,000,000	59.55%
2025	363,212,000	215,663,000	59.38%
2026	374,109,000	220,443,000	58.92%
2027	385,332,000	225,427,000	58.50%
2028	396,892,000	230,640,000	58.11%
2029	408,799,000	235,429,000	57.59%
2030	421,063,000	241,075,000	57.25%
2031	433,694,000	246,932,000	56.94%
2032	446,705,000	245,994,000	55.07%
2033	460,106,000	252,460,000	54.87%
2034	473,910,000	248,834,000	52.51%
2035	488,127,000	245,343,000	50.26%
2036	502,771,000	255,136,000	50.75%
2037	517,854,000	262,628,000	50.71%
2038	533,389,000	231,150,000	43.34%
2039	549,391,000	228,358,000	41.57%
2040	565,873,000	219,824,000	38.85%

