

Via Electronic Mail

January 13, 2021

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
2022	\$ 351.8	\$ 206.0	58.56%	\$ 19.9	5.67%	\$ 226.0	64.23%
2023	362.4	212.8	58.72%	19.8	5.47%	232.6	64.18%
2024	373.2	219.8	58.89%	20.7	5.54%	240.5	64.43%
2025	384.4	226.6	58.94%	20.9	5.44%	247.5	64.39%
2026	396.0	232.5	58.73%	21.1	5.34%	253.7	64.07%

Dollar amounts in millions

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 discount rate of 6.625% for pension and 6.25% for OPEB throughout the five-year projection. 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	
2022	\$ 182.5	\$ 185.5	\$ 19.3	\$ 19.6	\$ 201.9	\$ 205.1	
2023	187.4	190.4	19.2	19.5	206.6	209.9	
2024	192.5	195.6	20.1	20.4	212.5	215.9	
2025	197.4	200.5	20.3	20.6	217.7	221.1	
2026	201.5	204.7	20.5	20.8	222.0	225.5	

Dollar amounts in millions

Please note that these projections are based on the June 30, 2020 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2020, 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, 2020. If the Board or the City is aware of any significant event since June 30, 2020 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
2022	\$	137.2	\$	214.6	\$ 351.8
2023		126.7		235.7	362.4
2024		116.6		256.7	373.2
2025		106.8		277.6	384.4
2026		97.9		298.1	396.0

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	Tier 1				Tier 2		Total	
	UAL \$	Admin Exp \$	NC \$	NC Rate	Amount	Rate	Amount	Rate
2022	\$ 160.7	\$ 2.7	\$ 25.1	18.30%	\$ 17.5	8.17%	\$ 206.0	58.56%
2023	167.7	2.8	23.0	18.16%	19.3	8.19%	212.8	58.72%
2024	174.8	2.9	21.0	18.03%	21.0	8.20%	219.8	58.89%
2025	181.7	3.0	19.1	17.88%	22.8	8.21%	226.6	58.94%
2026	187.6	3.1	17.3	17.71%	24.5	8.21%	232.5	58.73%

Dollar amounts in millions

5-Year OPEB Plan Contribution Projections

The table on the following page 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			
2022	\$ 121.0	\$ 351.8	\$ 46.6	\$ 19.9	
2023	111.8	362.4	48.0	19.8	
2024	103.3	373.2	49.4	20.7	
2025	95.0	384.4	50.9	20.9	
2026	87.1	396.0	52.4	21.1	

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.

Board of Administration

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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)
2022	\$ 351,799,000	\$	206,015,000	58.56%
2023	362,353,000		212,762,000	58.72%
2024	373,223,000		219,787,000	58.89%
2025	384,420,000		226,590,000	58.94%
2026	395,953,000		232,536,000	58.73%
2027	407,831,000		237,757,000	58.30%
2028	420,066,000		243,224,000	57.90%
2029	432,668,000		248,302,000	57.39%
2030	445,648,000		254,238,000	57.05%
2031	459,018,000		260,401,000	56.73%
2032	472,788,000		259,264,000	54.84%
2033	486,972,000		265,843,000	54.59%
2034	501,581,000		262,535,000	52.34%
2035	516,628,000		259,432,000	50.22%
2036	532,127,000		269,526,000	50.65%
2037	548,091,000		277,362,000	50.61%
2038	564,534,000		246,674,000	43.70%
2039	581,470,000		244,361,000	42.02%
2040	598,914,000		236,386,000	39.47%
2041	616,881,000		119,561,000	19.38%