

January 27, 2021

Via Electronic Mail

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San José, CA 95112

Re: 5-Year and 20-Year Budget Projections for Police & Fire Pension and OPEB

Dear Members of the Board:

The purpose of this letter is to provide the estimated future contributions expected to be required of the City of San José to the City of San José Police & Fire Department Retirement Plan (Pension Plan) and the City of San José Police and Fire Department Postemployment Health Care Plan (OPEB Plan) for the next five years for City budgeting purposes. This letter shows the 5-year projection amounts separately for Police and Fire and for Tier 1 and Tier 2 and also provides the projected City pension contributions for Tier 1 separately for normal cost (including administrative expenses) and payments toward the Unfunded Actuarial Liability (UAL). The amounts for Tier 1 are shown both assuming payments are made throughout the year and at the beginning of the year. We have also included 20-year projections of total contribution amounts and rates assuming payments are made throughout the year in the attached exhibit.

The following tables summarize the estimated pension and OPEB contribution amounts and contribution rates as a percent of payroll assuming City contributions are made throughout the fiscal year.

5-Year City Pension Contribution Projections Payment Throughout Year									
FYE	Payroll	Police Amount	Rate	Payroll	Fire Amount	Rate	Payroll	Total Amount	Rate
2022	\$ 151.7	\$ 118.0	77.81%	\$ 96.3	\$ 98.8	102.59%	\$ 248.0	\$ 216.8	87.43%
2023	156.2	119.7	76.61%	99.2	103.8	104.58%	255.4	223.5	87.48%
2024	160.9	117.1	72.77%	102.2	107.7	105.40%	263.1	224.8	85.44%
2025	165.8	120.0	72.42%	105.3	108.0	102.62%	271.1	228.0	84.15%
2026	170.7	121.1	70.94%	108.4	112.9	104.07%	279.1	234.0	83.81%

Dollar amounts in millions.



5-Year City OPEB Contribution Projections Payment Throughout Year									
FYE	Payroll	Police Amount	Rate	Payroll	Fire Amount	Rate	Payroll	Total Amount	Rate
2022	\$ 151.7	\$ 17.2	11.37%	\$ 96.3	\$ 11.0	11.45%	\$ 248.0	\$ 28.2	11.40%
2023	156.2	18.4	11.80%	99.2	11.6	11.73%	255.4	30.0	11.77%
2024	160.9	19.9	12.38%	102.2	12.4	12.13%	263.1	32.3	12.28%
2025	165.8	20.7	12.51%	105.3	12.9	12.23%	271.1	33.6	12.40%
2026	170.7	21.5	12.59%	108.4	13.4	12.32%	279.1	34.9	12.49%

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 Police and Fire members and for Tier 1 and Tier 2 members as shown in the table below.

5-Year Pension Payroll Projections							
FYE	Tier 1	Police Tier 2	Total	Tier 1	Fire Tier 2	Total	Total Payroll
2022	\$ 84.4	\$ 67.3	\$ 151.7	\$ 71.8	\$ 24.5	\$ 96.3	\$ 248.0
2023	76.2	80.0	156.2	67.8	31.4	99.2	255.4
2024	68.1	92.8	160.9	63.4	38.8	102.2	263.1
2025	61.5	104.3	165.8	59.1	46.2	105.3	271.1
2026	55.0	115.7	170.7	55.3	53.1	108.4	279.1

Since pension contributions are made separately for Police and Fire members and for Tier 1 and Tier 2 members within each group, the tables on the following page provide the additional detail that may be needed for budgeting purposes. Amounts are shown separately for the payment on the

Tier 1 Unfunded Actuarial Liability (UAL) and the Normal Cost (NC), including administrative expenses.

5-Year City Pension Contribution Projections Police Pension Only Payment Throughout Year							
FYE	Tier 1 UAL \$	Tier 1 NC \$	Tier 1 NC Rate	Tier 2 Amount	Tier 2 Rate	Total Amount	Total Rate
2022	\$ 80.9	\$ 27.4	32.46%	\$ 9.7	14.43%	\$ 118.0	77.81%
2023	83.2	25.0	32.91%	11.5	14.39%	119.7	76.61%
2024	81.0	22.7	33.52%	13.4	14.42%	117.1	72.77%
2025	84.1	20.8	34.15%	15.1	14.45%	120.0	72.42%
2026	85.3	19.1	34.92%	16.7	14.47%	121.1	70.94%

Dollar amounts in millions

5-Year City Pension Contribution Projections Fire Pension Only Payment Throughout Year							
FYE	Tier 1 UAL \$	Tier 1 NC \$	Tier 1 NC Rate	Tier 2 Amount	Tier 2 Rate	Total Amount	Total Rate
2022	\$ 70.9	\$ 24.2	33.69%	\$ 3.7	15.28%	\$ 98.8	102.59%
2023	76.0	23.0	33.90%	4.8	15.30%	103.8	104.58%
2024	80.1	21.6	34.16%	6.0	15.33%	107.7	105.40%
2025	80.6	20.3	34.47%	7.1	15.36%	108.0	102.62%
2026	85.5	19.2	34.77%	8.2	15.38%	112.9	104.07%

Dollar amounts in millions

The City also has an option to pre-pay its Tier 1 contribution for the year. The table on the following page provides the projected contributions for Tier 1 assuming the contributions are made at the beginning of the year and that the Board elects to discount the contribution amount using the full discount rate of 6.625%.

5-Year City Pension Contribution Projections							
Tier 1 Pension Only							
Payment at the Beginning of the Year							
FYE	Police Tier 1			Fire Tier 1			Total Tier 1
	UAL	NC	Total	UAL	NC	Total	
2022	\$ 78.4	\$ 26.5	\$ 104.9	\$ 68.6	\$ 23.4	\$ 92.0	\$ 196.9
2023	80.6	24.2	104.8	73.6	22.2	95.8	200.6
2024	78.5	22.0	100.5	77.6	20.9	98.5	199.0
2025	81.5	20.2	101.7	78.1	19.7	97.8	199.5
2026	82.6	18.5	101.1	82.8	18.6	101.4	202.5

Dollar amounts in millions

5-Year OPEB Plan Contribution Projections

The table below summarizes the Actuarially Determined Contribution (ADC) amounts compared to the optional City cap on contributions equal to 11% of projected payroll. It also shows the ADC amounts as of the beginning of the year assuming the Board elects to discount the contribution amount using the full discount rate of 6.25%.

Unlike the pension contributions, the City contributions for the OPEB Plan are predominantly payments toward the Unfunded Actuarial Liability (UAL). Consequently, there is no separate breakout of normal cost.

5-Year City OPEB Contribution Projections									
FYE	ADC Throughout the Year			Optional City Cap			ADC Beginning of Year		
	Police	Fire	Total	Payroll	Est. Cap	Difference	Police	Fire	Total
2022	\$ 17.2	\$ 11.0	\$ 28.2	\$ 248.0	\$ 27.3	\$ 0.9	\$ 16.7	\$ 10.7	\$ 27.4
2023	18.4	11.6	30.0	255.4	28.1	1.9	17.9	11.3	29.2
2024	19.9	12.4	32.3	263.1	28.9	3.4	19.3	12.0	31.3
2025	20.7	12.9	33.6	271.1	29.8	3.8	20.1	12.5	32.6
2026	21.5	13.4	34.9	279.1	30.7	4.2	20.9	13.0	33.9

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,



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachment

cc: Roberto Peña
Barbara Hayman
Anne Harper
Tim Doyle
Jacqui King

City of San José Police and Fire Department Retirement Plan 20-Year Projections of City Pension Contributions							
Fiscal Year	Total		Police		Fire		
Ending	Amount	Rate	Amount	Rate	Amount	Rate	
2022	\$ 216,856	87.4%	\$ 118,028	77.8%	\$ 98,828	102.6%	
2023	223,469	87.5%	119,697	76.6%	103,772	104.6%	
2024	224,823	85.4%	117,105	72.8%	107,718	105.4%	
2025	228,061	84.2%	120,032	72.4%	108,029	102.6%	
2026	233,946	83.8%	121,108	70.9%	112,838	104.1%	
2027	237,579	82.6%	120,638	68.6%	116,941	104.7%	
2028	239,361	80.8%	119,726	66.1%	119,635	104.0%	
2029	240,561	78.9%	118,261	63.4%	122,300	103.2%	
2030	230,835	73.5%	111,253	57.9%	119,582	98.0%	
2031	208,886	64.6%	99,793	50.4%	109,093	86.8%	
2032	201,430	60.4%	95,712	47.0%	105,718	81.7%	
2033	184,963	53.9%	88,044	41.9%	96,919	72.7%	
2034	158,391	44.8%	75,797	35.0%	82,594	60.1%	
2035	151,637	41.6%	72,943	32.7%	78,694	55.6%	
2036	127,604	34.0%	63,268	27.6%	64,336	44.2%	
2037	108,681	28.1%	56,018	23.7%	52,663	35.1%	
2038	95,797	24.1%	52,063	21.4%	43,734	28.3%	
2039	106,745	26.0%	57,362	22.9%	49,383	31.0%	
2040	92,307	21.9%	51,859	20.1%	40,448	24.7%	
2041	80,990	18.6%	47,008	17.7%	33,982	20.1%	

Dollar amounts in thousands