CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Board of Administration for the Police and Fire Department Retirement Plan

FROM: Prabhu Palani

SUBJECT: Annual Pre-Funding Contributions by the City

DATE: February 11, 2021

RECOMMENDATION

Discussion and action on the City's prefunding option for fiscal year 2021-22.

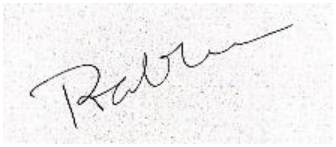
ANALYSIS

The attached memorandum from the Plans' legal counsel entitled, "Board Discretion Regarding the Discount Rate Used for Determining Actuarial Equivalence of the City's Pre-Funding Option", dated April 20th, 2015, states that the Municipal Code reserves the exclusive right for the City to elect to pre-fund its contributions. However, the Boards do have the discretion to determine the "actuarial equivalence" when calculating the pre-funding amount.

In practice, staff has recommended implementing an incremental reduction approach to determining "actuarial equivalence" predicated on the average duration of business expansions and the absolute returns of broad indices (please see detailed methodology in the attached memo, "Prefunding Risk Mitigation Process Recommendation", dated September 15th, 2014), which has been approved by both Boards.

CONCLUSION

Staff recommends continuing the practice outlined in the above-mentioned memo and provide the City with the full Discount Rate for determining actuarial equivalence.



Prabhu Palani, CFA
Chief Investment Officer