

***Via Electronic Mail***

April 29, 2021

Mr. Roberto Peña
 Chief Executive Officer
 City of San José
 Department of Retirement Services
 1737 North 1st Street, Suite 580
 San José, CA 95112

Re: City of San José Police and Fire Department Retirement Plan and Postemployment Healthcare Plan Contribution Rates and Amounts for FYE 2022

Dear Roberto:

The purpose of this letter is to provide the Board with the contribution rates and amounts for the fiscal year ending June 30, 2022 based on the June 30, 2020 actuarial valuations. Contributions are structured as a normal cost (representing the benefits attributed to the current year of service), plus administrative expenses, plus a payment on the Unfunded Actuarial Liability (UAL). Member contributions are administered as a contribution rate that is applied to pensionable compensation each pay period. Based on the Board's policy, some City contributions are administered as a contribution rate with a minimum dollar amount based on expected payroll and some are administered as a contribution amount that does not vary based on actual payroll. The table below summarizes the basis for City contributions.

City Contribution Type	Contribution Basis
Pension	
Tier 1 Normal Cost	Rate of Pay with Minimum Dollar Amount
Tier 1 Administrative Expenses	Rate of Pay with Minimum Dollar Amount
Tier 1 UAL	Dollar Amount
Tier 2	Rate of Pay
OPEB	Dollar Amount

The City elected to prepay its Tier 1 Pension contributions and OPEB contributions at the beginning of the year. Those prepayment amounts are shown in this letter.

Member Contribution Rates

The following table provides the member contribution rates for each rate group. Separate rates are provided for the Retirement Fund and the COLA Fund, for Fire and Police, and for Tier 1 and Tier 2. In addition to the rates shown for all Tier 1 members, certain Tier 1 members pay an additional rate due to the reclassification of members under Measure F.

Fiscal Year Ending 2022 Member Contribution Rates						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
<u>Tier 1</u>						
All Members	8.11%	3.80%	11.91%	7.44%	3.41%	10.85%
Additional Reclassified Rates						
Rehires	1.04%	0.92%	1.96%	1.04%	0.92%	1.96%
Fed Service	0.22%	0.65%	0.87%	0.22%	0.65%	0.87%
Classic	0.10%	0.12%	0.22%	0.10%	0.12%	0.22%
<u>Tier 2</u>						
All Members	12.00%	3.28%	15.28%	11.29%	3.14%	14.43%

City Pension Contributions

The Tier 1 City contributions for normal cost and administrative expenses are shown in the table on the next page both as a rate to be applied to Tier 1 pensionable payroll and a minimum dollar amount. The Tier 1 UAL payment does not depend on payroll, so it is only shown as a dollar amount. The Tier 2 City contribution rate is separated into the normal cost rate, administrative expense rate, and the UAL rate. The dollar amount shown on the next page for the total Tier 2 rate is the estimated amount that will be collected by applying the rate to actual Tier 2 pensionable payroll during the year.

Fiscal Year Ending 2022 City Contributions Contributions Throughout the Year						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
Tier 1						
Normal Cost	21.28%	9.95%	31.23%	20.02%	9.03%	29.05%
	\$15,277,438	\$ 7,144,614	\$22,422,052	\$16,894,325	\$ 7,619,746	\$ 24,514,071
Admin Expense	1.68%	0.79%	2.47%	2.71%	0.71%	3.42%
	\$ 1,205,965	\$ 564,223	\$ 1,770,188	\$ 2,286,026	\$ 596,176	\$ 2,882,202
UAL Payment	\$35,681,017	\$35,205,700	\$70,886,717	\$40,136,680	\$40,784,450	\$ 80,921,130
Total Tier 1	\$52,164,420	\$42,914,537	\$95,078,957	\$59,317,031	\$49,000,372	\$ 108,317,403
Tier 2						
Normal Cost	11.78%	3.17%	14.95%	11.03%	2.99%	14.02%
Admin Expense	0.32%	0.08%	0.40%	0.42%	0.11%	0.53%
UAL Payment	-0.10%	0.03%	-0.07%	-0.16%	0.04%	-0.12%
Total Tier 2	12.00%	3.28%	15.28%	11.29%	3.14%	14.43%
	\$ 2,944,384	\$ 804,799	\$ 3,749,183	\$ 7,597,673	\$ 2,113,081	\$ 9,710,754
Grand Total	57.21%	45.38%	102.59%	44.11%	33.70%	77.81%
	\$55,108,804	\$43,719,336	\$98,828,140	\$66,914,704	\$51,113,453	\$ 118,028,157

The estimated FYE 2022 payroll for each group is shown in the following table. This expected payroll was used to develop the minimum amounts for the Tier 1 City normal cost and administrative expense contributions and the estimated amount of Tier 2 contributions.

Fiscal Year 2021-22 Expected Payroll			
	Fire	Police	Total
Tier 1	\$ 71,798,607	\$ 84,391,070	\$ 156,189,677
Tier 2	24,536,535	67,295,595	91,832,130
Total	\$ 96,335,142	\$ 151,686,665	\$ 248,021,807

We understand the City intends to make its Tier 1 pension contribution at the beginning of the fiscal year. The table on the following page shows the total amount to be contributed for Tier 1 assuming contributions are paid as a lump sum on July 1, 2021 discounted using the June 30, 2020 valuation discount rate of 6.625%.

Fiscal Year Ending 2022 Estimated City Pension Contribution Amounts						
Tier 1 Contributions at the Beginning of the Year						
	Fire			Police		
	Retirement	COLA	Total	Retirement	COLA	Total
Tier 1 Pension						
Normal Cost	\$ 14,795,206	\$ 6,919,094	\$ 21,714,300	\$ 16,361,056	\$ 7,379,228	\$ 23,740,284
Admin Expense	1,167,899	546,413	1,714,312	2,213,868	577,357	2,791,225
UAL	<u>34,554,745</u>	<u>34,094,433</u>	<u>68,649,178</u>	<u>38,869,765</u>	<u>39,497,090</u>	<u>78,366,855</u>
Total	\$ 50,517,850	\$ 41,559,940	\$ 92,077,790	\$ 57,444,689	\$ 47,453,675	\$ 104,898,364

City OPEB Contribution Amounts

Member contributions to the OPEB plans are fixed in the San José Municipal Code at 8.0% of pay, so they are not addressed in this letter. City contributions are only determined as a dollar amount and not as a rate of pay.

We understand the City intends to prepay its contribution for the fiscal year ending June 30, 2022. The table below shows the total amount to be contributed to the 115 Trust assuming contributions are paid as a lump sum on July 1, 2021 discounted using the June 30, 2020 valuation discount rate of 6.50%. In addition, the City pays the implicit subsidy as a part of its active employee medical premiums.

Fiscal Year Ending 2022 City OPEB Contribution Amounts	
Lump Sum Payment at Beginning of Year	
Fire	\$ 10,697,404
Police	<u>16,729,848</u>
Total	\$ 27,427,252

The figures in the above exhibits reflect the results of the June 30, 2020 Actuarial Valuations of the City of San José Police and Fire Department Retiree Medical and Dental Insurance Plan and the City of San José Police and Fire Department Retirement Plan. We refer you to the full valuation reports for a description of the data, assumptions, methodology, and plan provisions applicable to these calculations.

This letter has 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.

Mr. Roberto Peña

April 29, 2021

Page 5

This letter was prepared exclusively for the Board of Administration of the City of San José Police and Fire Department Retirement Plan 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 would like to discuss these calculations, please call Bill at (703) 893-1456, extension 1113 or Michael at extension 1135.

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

cc: Barbara Hayman
Benjie Chua-Foy
Anne Harper
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