



Office of Retirement Services

Police and Fire Department Retirement Plan

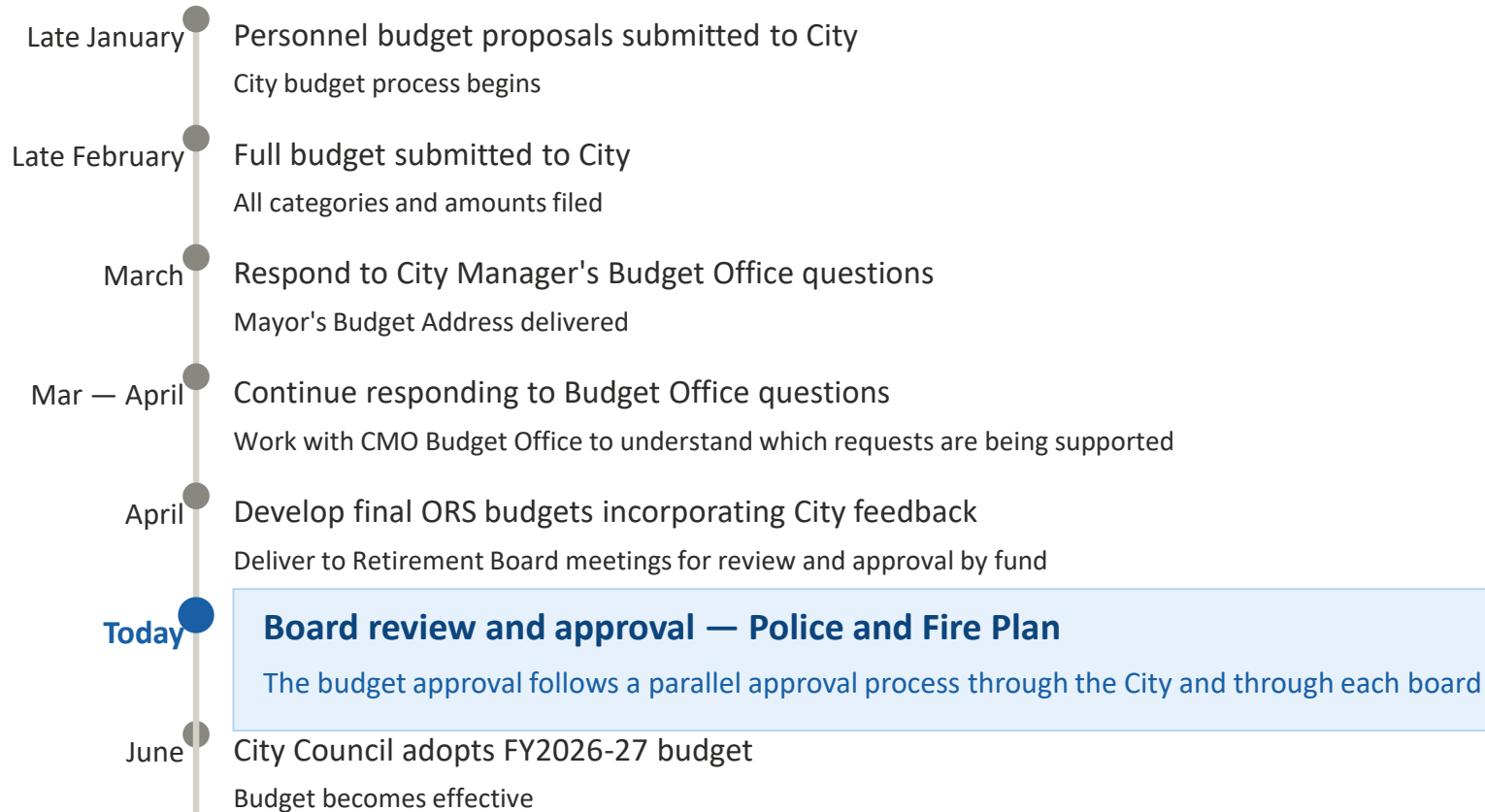
Proposed Administrative Expense Budget
Fiscal Year 2026-27

John Flynn, Chief Executive Officer
April 15, 2026

Presented to the Board of Administration for Review and Approval

FY2027 Budget Approval Process

The budget follows a parallel approval process through the City and each board.



Sources and Uses of Funds - Overview

The plan is funded by three sources and pays out through three categories of uses.

SOURCES OF FUNDS

● Investment Income

Net of fee returns generated by the plan's investment program. The largest and most variable source, fluctuating with market conditions each year.

● Participant Contributions

Estimated contributions made by active members based on contribution rates and total covered payroll shown in the actuarial reports for June 30, 2025.

● City Contributions

Contributions made by the City of San José as the plan's sponsor, based on contribution rates and total covered payroll shown in the actuarial reports for June 30, 2025.

USES OF FUNDS

● Pension Benefits

Return of contributions and retirement, disability, and survivorship payments to plan members and beneficiaries. Estimated based on 5-year average year over year increase.

● Health Insurance

Retiree healthcare premiums paid on behalf of eligible members. Estimated based on 5-year average year over year increase.

● Administrative Expenses

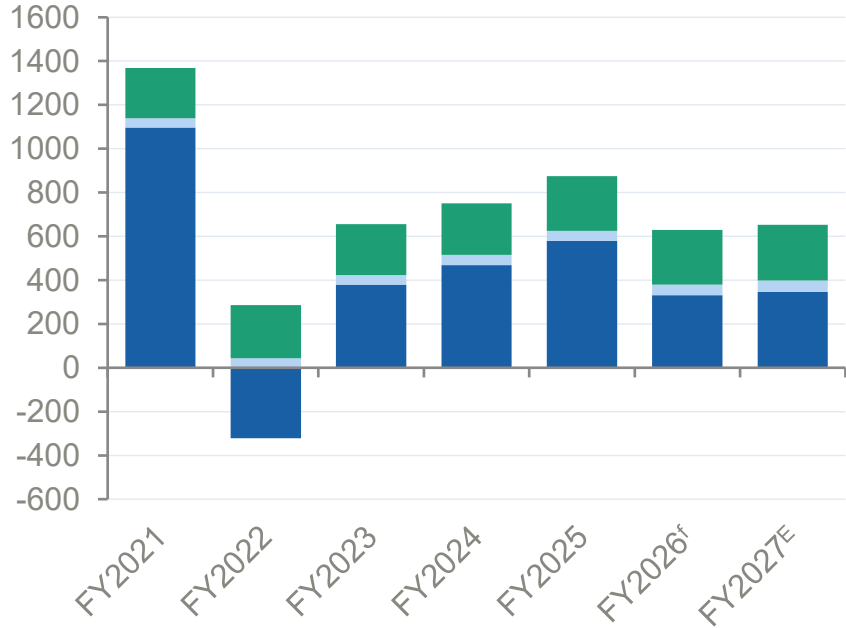
The cost of operating the plan, including staff, equipment, expenses, professional services, and technology. This is the budget the board is asked to approve today.

NOTE: investment professional services, consultants, and investment manager fees and capitalized costs not included in administrative expense.

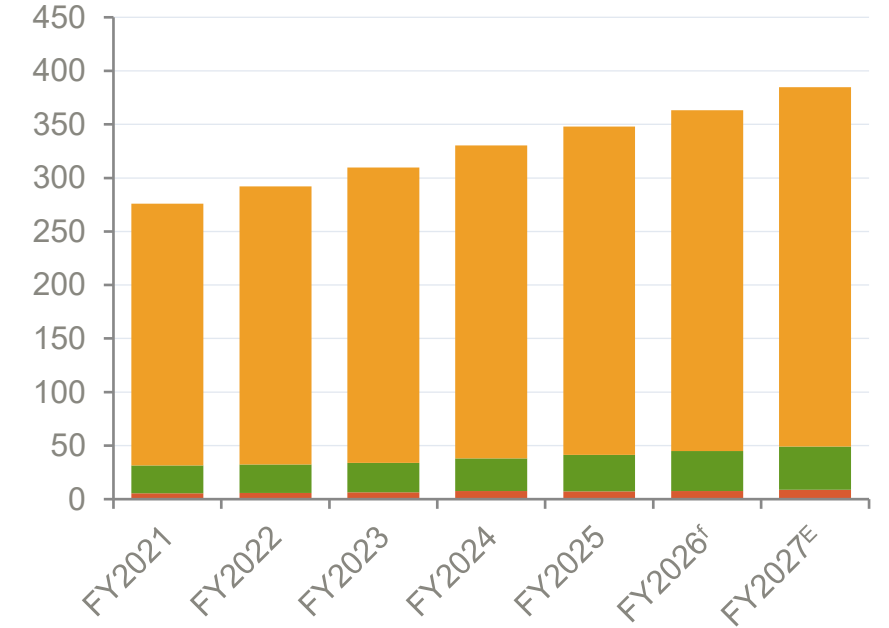
Sources and Uses – Seven Year Trend

Police and Fire Department Retirement Plan. Amounts in millions.

SOURCES OF FUNDS



USES OF FUNDS

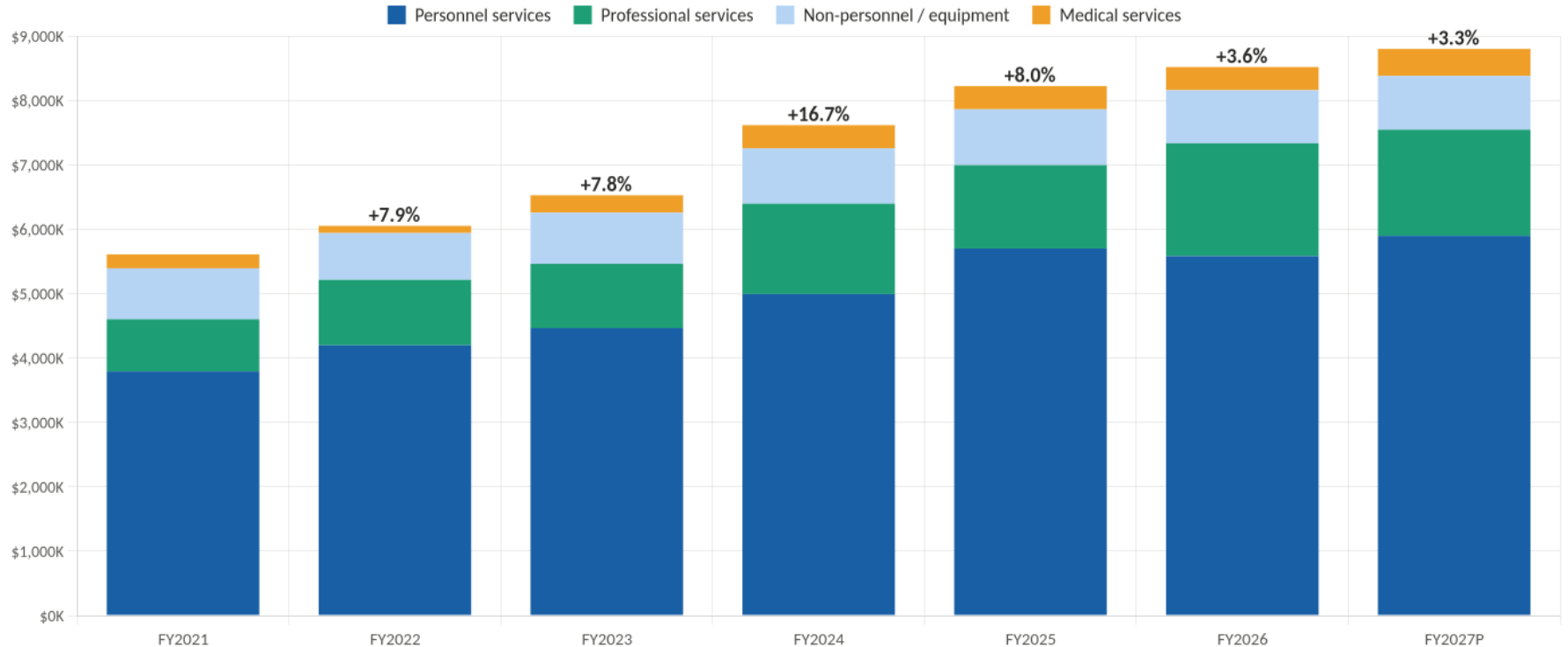


■ Investment
 ■ Member contributions
 ■ City contributions
 ■ Admin expenses
 ■ Health insurance
 ■ Pension benefits

^f Forecast ^E Estimated | Amounts in millions.

Administrative Budget – Seven Year Trend

Budget to budget comparison.



P Proposed | Amounts in thousands. Five year average year over year increase (FY2022 through FY2026): +8.80%

FY2027 Administrative Budget – Board Discussion

PROPOSED BUDGET

\$8,799,000

FY2026 adopted: \$8,517,000

YEAR OVER YEAR INCREASE

+3.31%

\$282,000 over FY2026 adopted

THIS BUDGET INCLUDES

- Adds two positions and eliminates one to sustain business need and support succession planning.
- Adjusts Professional Services budgets to align with new major contracts now in place.
- Continues overstrength Admin Staff Specialist and Retiree Rehire support.
- Continues cybersecurity testing and support program.

For context: the five year average year over year budget increase (FY2022 through FY2026) was 8.80%.

This budget does not include or estimate needs for strategic planning initiatives. Those will be defined through the strategic planning process and may be addressed separately.

Personnel services

FY2027 PROPOSED

\$5,895,000

FY2026 adopted: \$5,581,000

YEAR OVER YEAR CHANGE

+5.63%

\$314,000 over FY2026 adopted

NEW THIS YEAR

● Deputy Chief Investment Officer

Replaces a Senior Investment Officer position. Strengthens investment program leadership, supports succession planning, and most importantly, reflects the organization's current operation.

● Benefits Program Manager converted to permanent

Makes the overstrength position permanent. This position will manage the Disability Program, Front Desk, and PG Modernization.

● Items outside the Labor Distribution Report

Includes vacation sell-backs, MPP, rehired retirees, intern, etc.

CONTINUED SUPPORT

- Overstrength Admin Staff Specialist and Retiree Rehire support continued.
- 50% funding for Cybersecurity IT Specialist continued.

Non-Personnel / Equipment

FY2027 PROPOSED

\$835,000

FY2026 adopted: \$824,000

YEAR OVER YEAR CHANGE

+1.33%

\$11,000 over FY2026 adopted

SAVINGS

-\$74K 5th floor build-out

Net reduction reflecting completion of one-time build-out costs, offset by planned 6th floor refurbishments.

-\$13K Payroll remittance to electronic distribution

Estimated savings from planned transition, reducing printing and postage costs.

NEW AND INCREASED COSTS

+\$69K IT-related expenses

ACFR software, Boardroom AV upgrades, Penetration testing, web AI-enabled search, and bank transition.

+\$20K New lease

Increase in rent based on the new lease.

+\$10K Educational travel

Increase in the projected educational travel budget.

Professional Services

FY2027 PROPOSED

\$1,649,000

FY2026 adopted: \$1,752,000

YEAR OVER YEAR CHANGE

-5.88%

\$103,000 below FY2026 adopted

SAVINGS

- \$40K** Reduction in legal services based on three-year average.
- \$40K** Reduction in temporary staffing costs due to a planned full vacancy.
- \$64K** Reduction for cybersecurity consultant support of audit. Death audit vendor contract updates.
- \$30K** Reduction in actuarial services — no experience study scheduled.

NEW AND INCREASED COSTS

- +\$35K** Addition for outsourced internal audit services under contract.
- +\$21K** Addition for executive search firm to support planned senior management recruitment.
- +\$15K** Other costs, including CPI-related increases across current services.

Professional Services - Detail

SERVICE	FY2026	FY2027	\$ CHG	% CHG
Legal General, fiduciary, DRO, disability, and tax legal services (excludes investments).	\$841,000	\$801,000	-\$40,000	-4.76%
Actuary Annual valuation and GASB reports, benefit calculations, and other consultations.	\$290,000	\$260,000	-\$30,000	-10.34%
Audit Annual financial audit and outsourced internal audit.	\$185,000	\$222,000	+\$37,000	+20.00%
Pension admin system PensionGold annual maintenance, ad hoc changes, disaster recovery, enhancements, and web hosting.	\$131,500	\$140,000	+\$8,500	+6.46%
Temp agencies Temporary staffing to fill vacant positions and assist with open enrollment.	\$115,000	\$75,000	-\$40,000	-34.78%
Governance services Governance services, CEO/CIO metrics, policy review, and strategic planning support.	\$75,000	\$75,000	--	0.00%
Other services Death Audit, cybersecurity IT specialist consultant, and communications consultant.	\$114,500	\$76,000	-\$38,500	-33.62%
Total	\$1,752,000	\$1,649,000	-\$103,000	-5.88%

Capitalized pension administration system costs are excluded from the administrative budget.

Medical Services

FY2027 PROPOSED

\$420,000

FY2026 adopted: \$360,000

YEAR OVER YEAR CHANGE

+16.67%

\$60,000 over FY2026 adopted

WHAT CHANGED

- +\$60K** Following a competitive procurement, ORS entered new contracts with the retained incumbent Independent Medical Examiner (IME) vendor and a newly selected IME vendor, both at updated rates. Independent medical examiners evaluate disability applicants for members.

Note on case volume

This budget supports a number of cases based on staff capacity and the allocation ratio between the Police and Fire Plan and the Federated System. Recent Police and Fire disability applications are running at approximately twice the monthly average for this time of year.

Artificial Intelligence at the Office of Retirement Services

AI literacy is an investment. ORS is building the foundational knowledge and skills that will allow staff to identify opportunities for efficiency, cost savings, and improved member services. The return is not yet defined, but without the investment it will not come.

WHAT WE HAVE DONE

● **City Digital Privacy Officer presentation**

Presented at the ORS quarterly all-staff meeting on practical uses and risks of AI, building awareness with appropriate safeguards from the start.

● **Advanced AI upskilling for senior staff**

Senior staff enrolled in the City's multi-month advanced ChatGPT certification program. ORS has secured enrollment to develop deeper capability in supervisors and managers.

● **Member website AI-enabled search**

A member-facing priority identified through website user surveys. Deferred in FY2026 for WCAG 2.1 AA compliance. Now a dedicated FY2027 budget line.

THE INVESTMENT AHEAD

● **AI literacy for all staff**

Leverage the City's new learning management system to provide AI courses across the organization, building comfort with AI vocabulary and practical everyday applications.

● **Prompt engineering workshop**

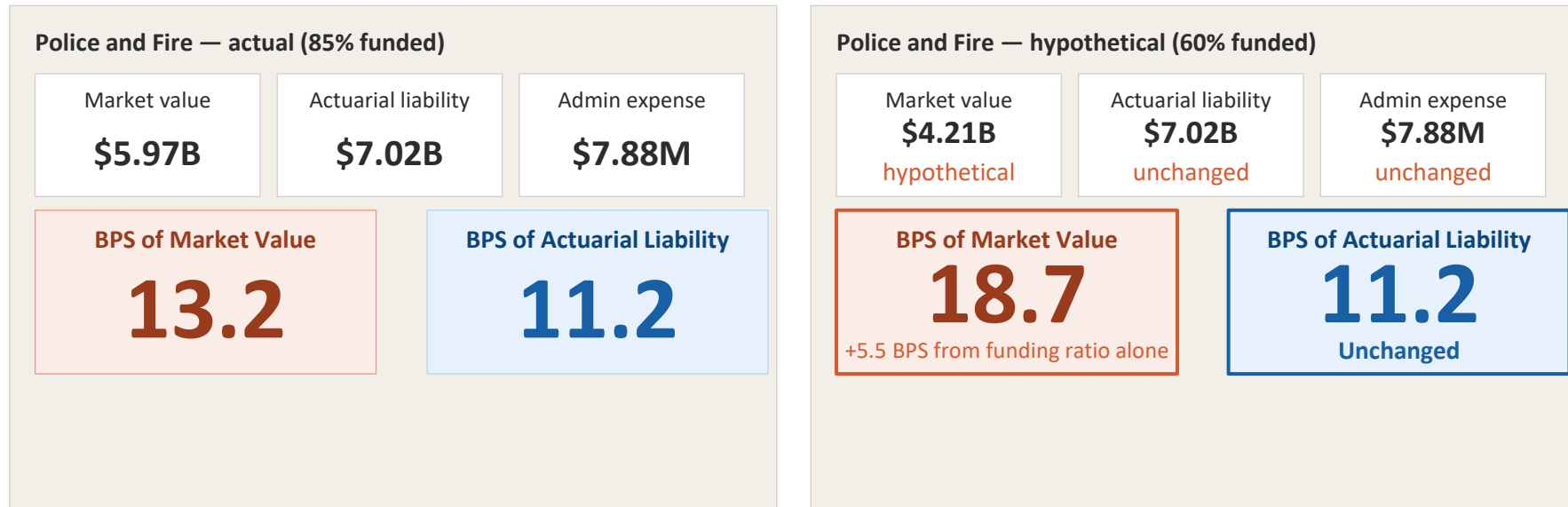
Exploring engagement of an external trainer or professor to deliver hands-on prompt engineering training, moving supervisors and managers from awareness to applied skill.

● **Staff-driven opportunity identification**

Once staff have the foundation, challenging supervisors and managers to identify where AI can improve efficiency, reduce costs, or enhance member services.

Why Actuarial Liability is a Better Benchmark

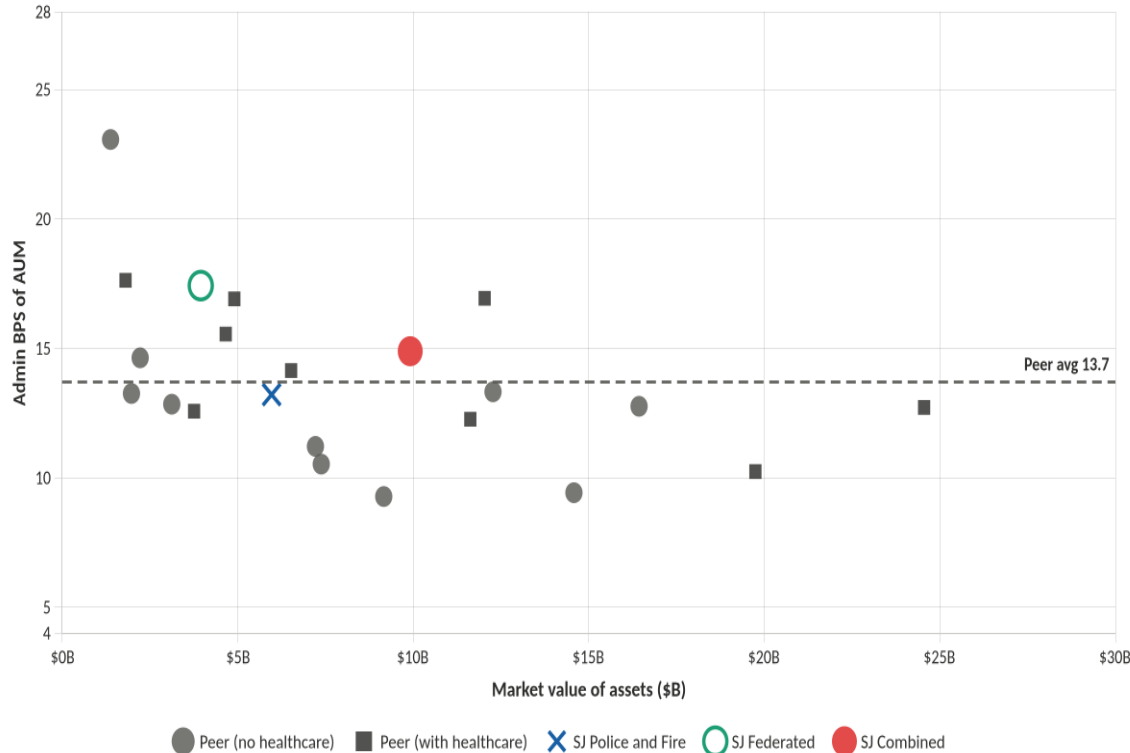
Using market value of assets introduces noise from funding status. Actuarial liability (“AL”) reflects what the plan actually owes members.



The same plan, with the same administrative costs, serving the same members, but AUM-based BPS swings by 5.5 basis points simply because of a lower assumed funding ratio. Actuarial liability removes this distortion entirely. All peer comparisons in this presentation use actuarial liability as the denominator.

Administrative Expense – Basis Points of Market Value of Assets

Retained for historical continuity. Sensitive to funding status — see prior slide. FY2025* data.
LA Co ERA excluded for scale.

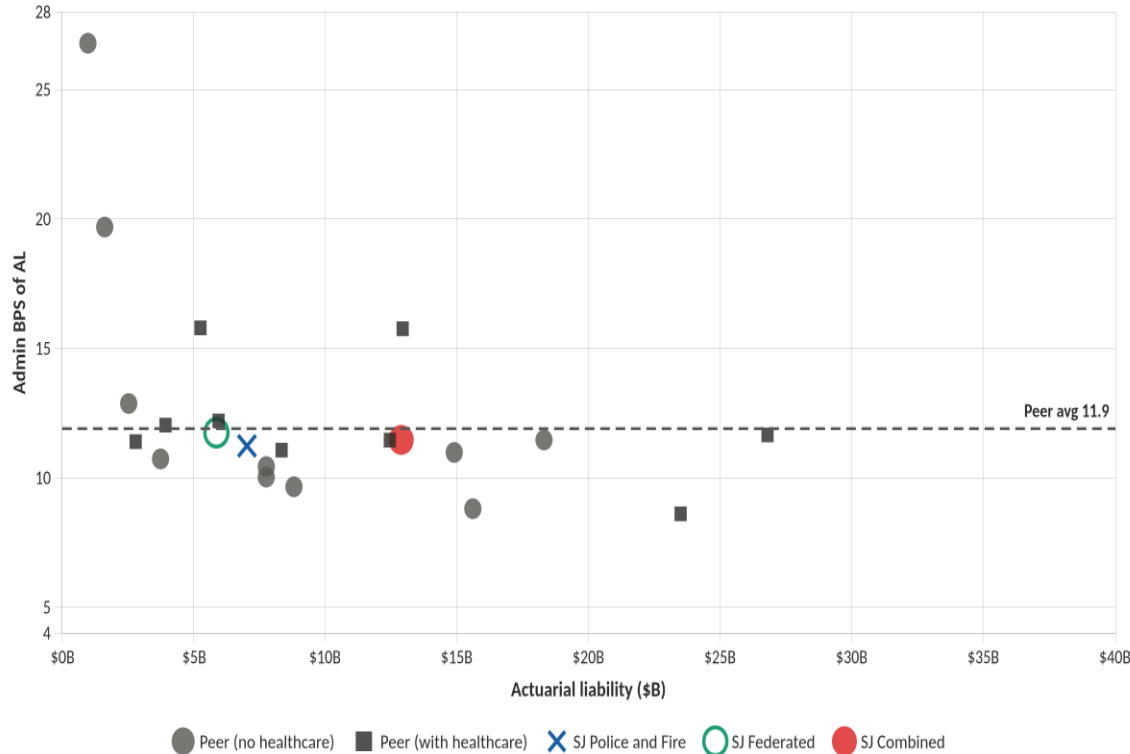


	BPS	ADMIN \$M	AUM \$B
SJ Police and Fire	13.2	\$7.88	\$5.97
SJ Federated	17.4	\$6.88	\$3.95
SJ Combined	14.9	\$14.76	\$9.91
<i>5-15B AL peer avg</i>	13.7	\$10.44	\$7.79

*CY2024 data used for funds where FY2025 data not available. Peer average includes 9 funds with AL between \$5B and \$15B, plus SJ PF and FED.

Administrative Expense – Basis Points of Actuarial Liability

Primary comparison metric. Lower basis points indicate lower cost relative to plan obligations. FY2025*.
LA Co ERA excluded for scale.

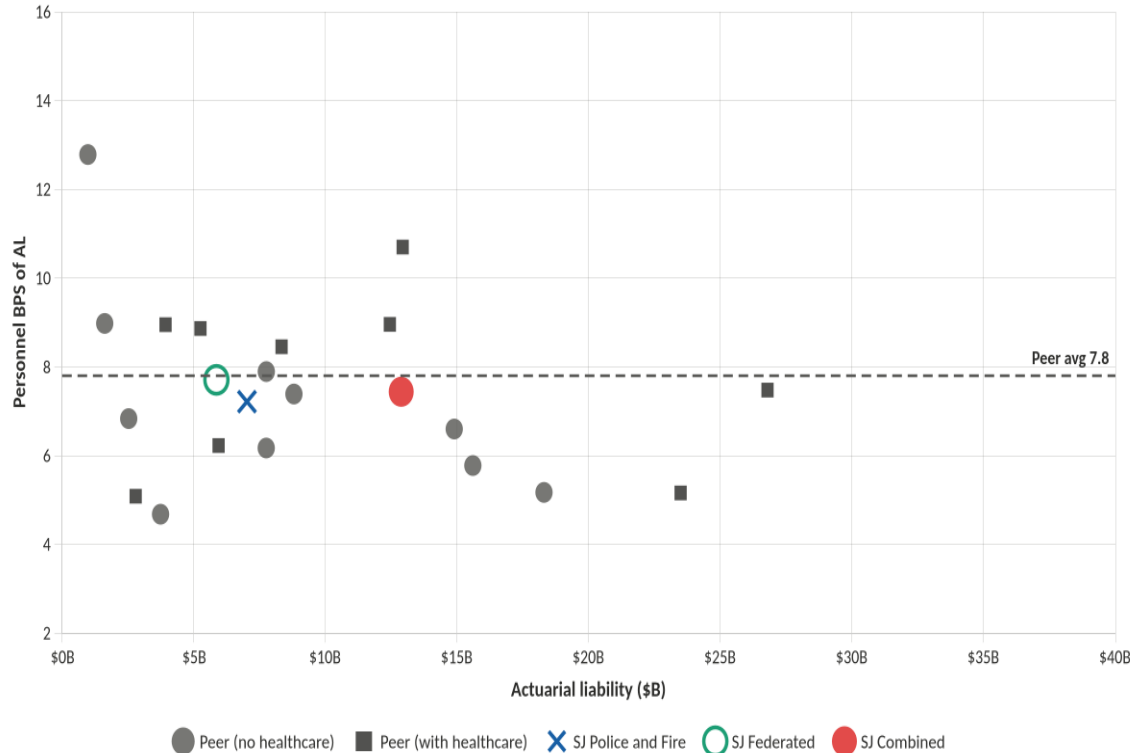


	BPS	ADMIN \$M	AL \$B
SJ Police and Fire	11.2	\$7.88	\$7.02
SJ Federated	11.7	\$6.88	\$5.86
SJ Combined	11.5	\$14.76	\$12.88
<i>5-15B AL peer avg</i>	11.9	\$10.44	\$8.81

*CY2024 data used for funds where FY2025 data not available. Peer average includes 9 funds with AL between \$5B and \$15B, plus SJ PF and FED.

Personnel Expense – Basis Points of Actuarial Liability

Personnel services is the largest component of administrative expense. FY2025*.
LA Co ERA excluded for scale.

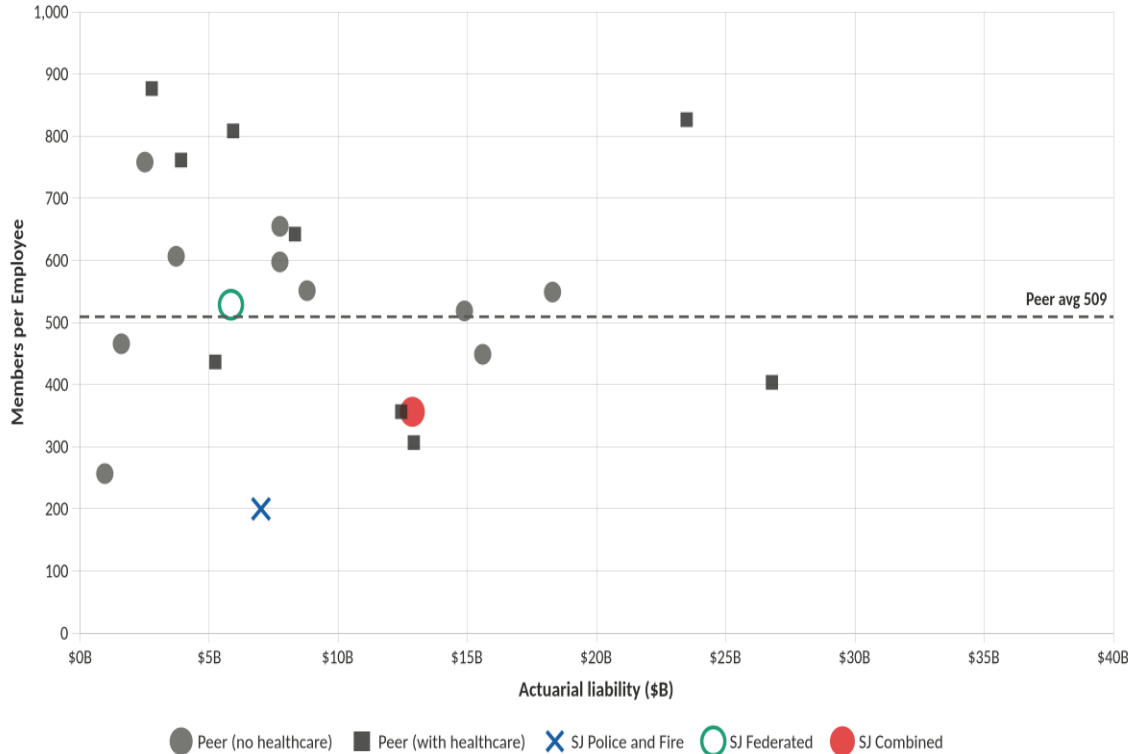


	BPS	PERS \$M	AL \$B
SJ Police and Fire	7.2	\$5.06	\$7.02
SJ Federated	7.7	\$4.52	\$5.86
SJ Combined	7.4	\$9.58	\$12.88
<i>5-15B AL peer avg</i>	7.8	\$7.02	\$8.81

*CY2024 data used for funds where FY2025 data not available. Peer average includes 9 funds with AL between \$5B and \$15B, plus SJ PF and FED.

Members per Employee

Higher ratios indicate more members served per staff FTE. FY2025*.



	MPE	MEMBERS	FTE
SJ Police and Fire	200.0	4,719	23.6
SJ Federated	528.6	11,312	21.4
SJ Combined	356.2	16,031	45.0
<i>5-15B AL peer avg</i>	509.2	19,237	40.9

*CY2024 data used for funds where FY2025 data not available. Peer average includes 9 funds with AL between \$5B and \$15B, plus SJ PF and FED.

Questions and Action

QUESTIONS

The board is invited to ask questions on any aspect of the proposed budget before taking action.

ACTION REQUESTED

Approve the proposed administrative expense budget for fiscal year 2026-2027 in the total amount of \$8,799,000.

BUDGET CATEGORY	FY2026 ADOPTED	FY2027 PROPOSED	CHANGE
Personnel services	\$5,581,000	\$5,895,000	+\$314,000 +5.63%
Non-personnel / equipment	\$824,000	\$835,000	+\$11,000 +1.33%
Professional services	\$1,752,000	\$1,649,000	-\$103,000 -5.88%
Medical services	\$360,000	\$420,000	+\$60,000 +16.67%
Total administrative budget	\$8,517,000	\$8,799,000	+\$282,000 +3.31%