

## RETIREMENT SERVICES

The mission of the Retirement Services Department is to provide quality services in the delivery of pension and related benefits and maintain financially sound pension plans.

## RETIREMENT SERVICES

The Retirement Services Department administers two pension plans (the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan) and retirement benefit programs for City employees. In 2012-13, Department operating expenditures totaled \$3.8 million\* and staff included 36 authorized positions (up from \$2 million and 24 positions ten years ago).

In 2012-13, the City and its employees contributed 100 percent of its Annual Required Contribution (ARC) to the retirement funds; and 28 percent and 43 percent of the ARC for Police and Fire and Federated retiree health and dental benefits.\*\* The City's contributions were more than triple what they were ten years ago; for employees, the contributions were more than one and a half times greater. Contributions decreased to \$245.4 million in 2012-13, but are projected to increase to \$275.6 million in 2013-14.

In June 2012, San José voters approved a comprehensive pension reform measure (Measure B) that established parameters for a new pension benefit structure for new City employees ("Tier 2"), established higher employee retirement contributions for current City employees who choose to stay in the existing plan ("Tier 1"), and provided current City employees the choice to opt in to a lower cost retirement plan with a reduced benefit structure. Significant portions of Measure B are currently subject to legal challenges. As of June 30, 2013, there were 238 active Federated members in Tier 2.

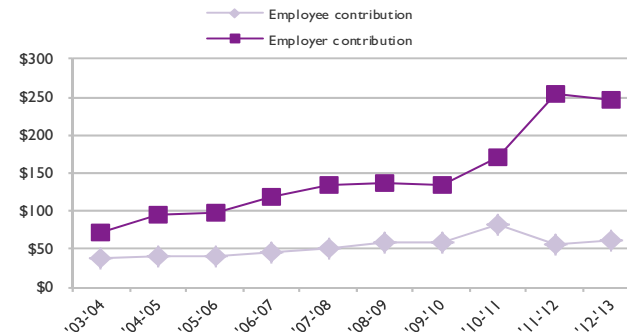
\* In addition, Retirement Services spent \$178,000 of Citywide expenses.

\*\* The Annual Required Contribution is an amount that actuaries calculate is necessary to be contributed to a retirement plan during the current year for the benefits to be fully funded over time.

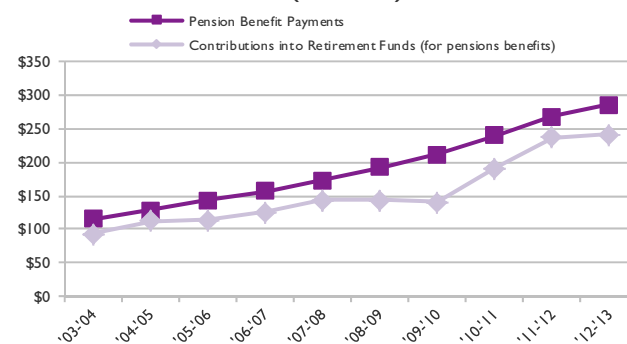
### KEY FACTS (2012-13)

Pension plan net assets (\$billions):	
Federated City Employees' Retirement System	\$1.9
Police and Fire Department Retirement Plan	\$2.9
Total	\$4.8
Total retirees and beneficiaries:	
Federated City Employees' Retirement System	3,711
Police and Fire Department Retirement Plan	1,995
Total	5,706
Pension and retiree health and dental contributions (\$millions):	
City	\$245.4
Employees	\$62.4

**Total Annual Contributions for Pension and Retiree Health and Dental Benefits**

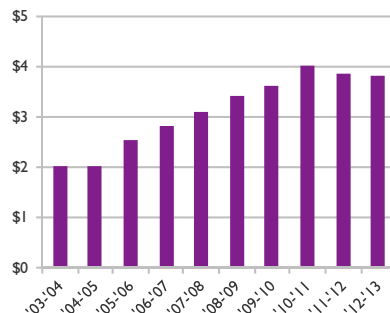


**Pension Benefit Payments and Contributions (\$millions)**

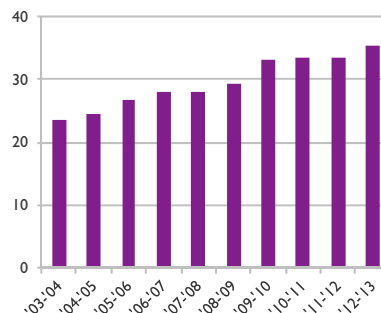


Sources for above charts: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Annual Financial Reports

**Retirement Services Operating Expenditures (\$millions)**



**Retirement Services Authorized Positions**



## RETIREMENT SERVICES

As of June 30, 2013, there were 5,706 beneficiaries of the plans, up from 3,695 ten years ago. Over that same period, the number of active members (i.e., current employees contributing to the plans) has decreased by about a quarter. The ratio of active members to beneficiaries has declined from 1.7:1 to less than 1:1 over that time. Thirty years ago the ratio was nearly 5:1.

During 2012-13, both plans had positive rates of return on plan assets. Federated's gross rate of return was 8.1 percent and Police and Fire's return was 9.9 percent. Over the past ten years, the Federated and Police and Fire annualized gross returns have been 6.4 and 7.1 percent, respectively. Because of the positive investment returns, total plan assets increased from \$4.4 billion to \$4.8 billion from the prior year.

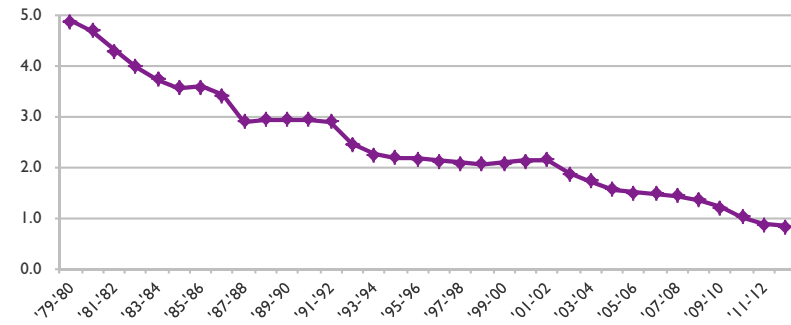
According to the most recent actuarial valuations as of June 30, 2012, both of the City's retirement plans had funded ratios below 100 percent (i.e., pension liabilities were greater than plan assets). This was because of the large investment losses suffered by both plans during the recent economic downturn, past retroactive benefit enhancements, and actuarial assumptions not holding true.\* The funded ratios are expected to remain below 100 percent for the near future because of the size of the past investment losses as well as the other factors noted above.

As of June 30, 2012, the Police and Fire and Federated independent actuaries determined that the defined benefit and postemployment health care plans' actuarial accrued liabilities exceeded the actuarial value of assets by \$1.6 billion and \$2.1 billion respectively.

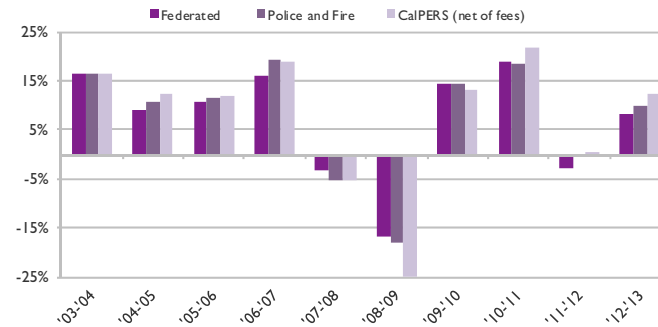
\* Actuarial assumptions represent expectations about future events such as investment returns, member mortality and retirement rates, salary increases, and others. Actuaries use those assumptions to calculate pension liabilities and contribution rates. When assumptions do not hold true, or need to be adjusted, estimated pension liabilities can change.

Sources for above charts: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations; CalPERS Annual Investment Reports (through FY 2012-13), CalPERS Facts at a Glance from the CalPERS website

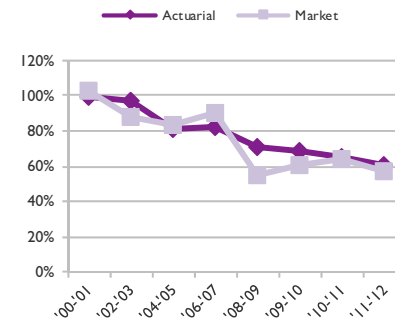
Ratio of Active Members to Retirees and Beneficiaries



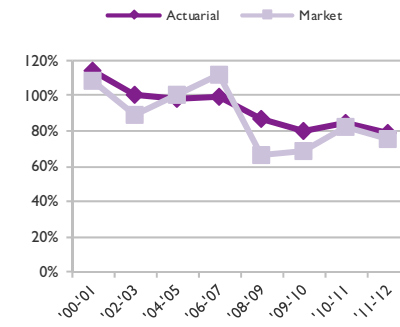
Gross Rate of Return on Plan Assets



Federated Funded Status



Police and Fire Funded Status



Note: Funded ratios represent the percentage of plan assets to plan liabilities. (i.e., a funded ratio below 100% means there are more liabilities than assets). The funded ratio using the actuarial value of assets differs from that calculated using the market value because, for actuarial purposes, market gains/losses are recognized over five years to minimize the effect of market volatility on contribution rates.

