

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.

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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 2013-14, Department operating expenditures for personnel totaled \$4.1 million* and staff included 37 authorized positions (up from \$2 million and 25 positions ten years ago).

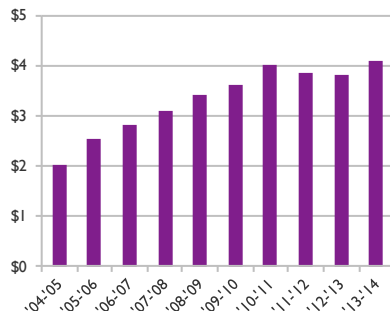
In 2013-14, the City and its employees contributed 100 percent of its Annual Required Contribution (ARC) to the retirement funds for pension benefits; and 53 percent and 37 percent of the ARC for Police and Fire and Federated retiree health and dental benefits.** The City's total contributions were more than two and a half times what they were ten years ago; for employees, the contributions were more than one and a half times greater. The City's contributions were \$267.7 million in 2013-14, but are projected to be \$295.6 million in 2014-15.

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, 2014, there were 528 active Federated members and 67 active Police members in the plans' respective tier 2s.

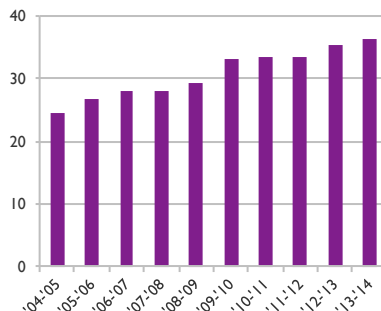
* Additional administrative costs totaling about \$3 million were paid out of the retirement funds, including \$1.9 million for professional services. Retirement Services also spent \$203,000 of Citywide expenses.

** 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.

Retirement Services Operating Expenditures (\$millions)



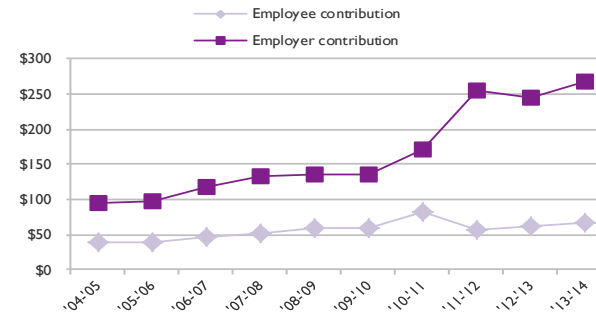
Retirement Services Authorized Positions



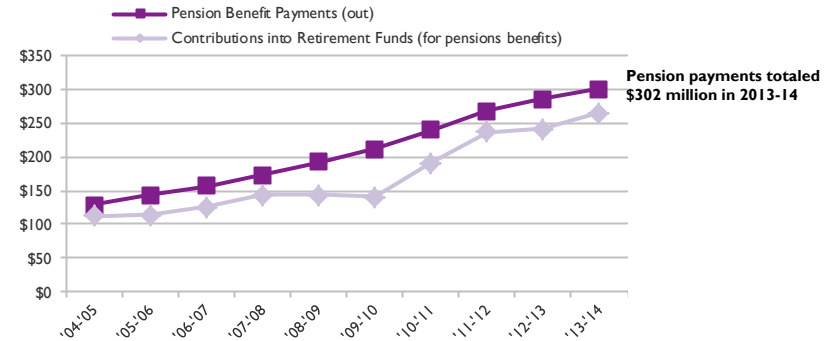
KEY FACTS (2013-14)

Pension plan net assets (\$billions):	
Federated City Employees' Retirement System	\$2.18
Police and Fire Department Retirement Plan	<u>\$3.27</u>
Total	\$5.45
Total retirees and beneficiaries:	
Federated City Employees' Retirement System	3,800
Police and Fire Department Retirement Plan	<u>2,034</u>
Total	5,834
Pension and retiree health and dental contributions (\$millions):	
City	\$267.7
Employees	\$67.9

Total Annual Contributions for Pension and Retiree Health and Dental Benefits (\$millions)



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

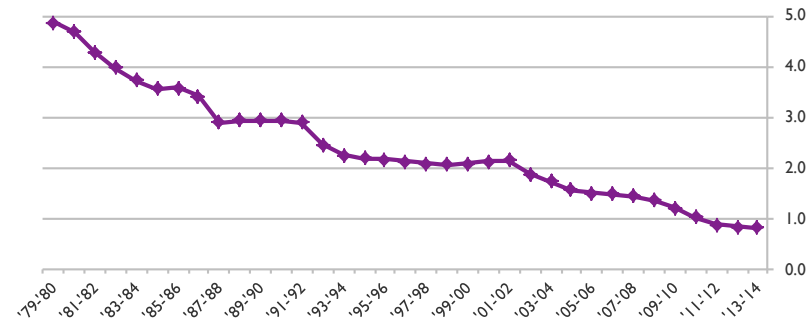
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As of June 30, 2014, there were 5,834 beneficiaries of the plans, up from 3,930 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined from 1.6:1 to less than 1:1. In 1980, the ratio was nearly 5:1.

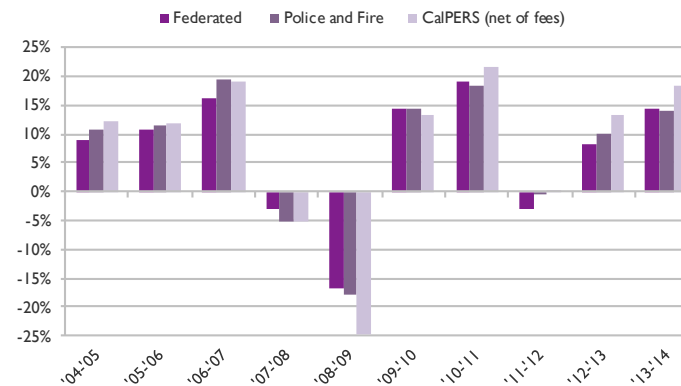
During 2013-14, both plans had positive rates of return on plan assets. Federated's gross rate of return was 14.3 percent and Police and Fire's return was 13.9 percent. Over the past ten years, the Federated and Police and Fire annualized gross returns have been 6.2 and 6.9 percent, respectively. As a result of the positive investment returns, total plan assets increased from \$4.8 billion to \$5.4 billion from the prior year.

As of June 30, 2013, the Federated and Police and Fire independent actuaries determined that both of the City's retirement plans had funded ratios below 100 percent (i.e., pension liabilities were greater than plan assets). The Federated plan's funded ratio was 59 percent and the Police and Fire plan's ratio was 78 percent on an actuarial basis.* The independent actuaries determined that the defined benefit pension and postemployment health care plans' actuarial accrued liabilities exceeded the actuarial value of assets by \$1.4 billion and \$1.9 billion respectively. These unfunded liabilities totaled more than \$240,000 per Federated member and more than \$350,000 per Police and Fire member.

Ratio of Active Members to Retirees and Beneficiaries



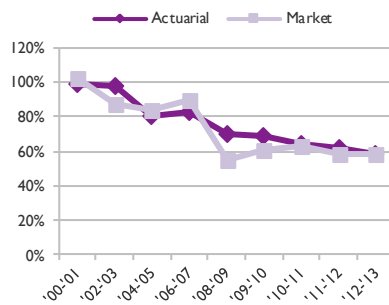
Gross Rate of Return on Plan Assets



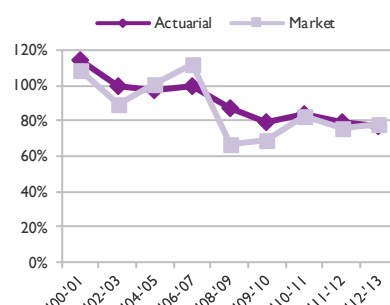
Note: As of June 30, 2013, the actuarial assumed or expected rates of returns for the Federated and Police and Fire plans were 7.25 and 7.125 percent respectively.

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, CalPERS Facts at a Glance from the CalPERS website

Federated Funded Status (Pension only)



Police and Fire Funded Status (Pension only)



Sources: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Actuarial Valuations

* 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. The reason the two plans funded ratios are below 100 percent is because of the large investment losses from the economic downturn in the late 2000s, past retroactive benefit enhancements, and expectations about future events such as investment returns, member mortality and retirement rates, salary increases, and others which differed from actual experience. 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.

