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January 30, 2015

VIA ELECTRONIC MAIL

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San Jose, California 95112

Re: 5-Year Budget Projections for Police & Fire

Dear Members of the Board:

The purpose of this letter is to provide the estimated future contributions expected to be required of the City of San José to the City of San José Police & Fire Department Retirement Plan (Pension Plan) and the Police & Fire Department Postemployment Healthcare Plan (OPEB Plan) for the next five years. This letter shows the projections with the cap applied to OPEB contributions and shows amounts separately for Police and Fire and for Tier 1 and Tier 2. The table below summarizes our estimated contribution amounts and contribution rates as a percent of payroll assuming City contributions are made throughout the fiscal year. In addition, as requested, we have attached 20-year projections of City pension contributions.

City of San José Police & Fire Department Retirement and Postemployement Healthcare Plan
Projected City Contributions
(Dollar Amounts in millions)

		Pension		OPEB		Total	
FYE	**Payroll**	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
2016	$ 194.3	$ 135.6	69.81%	$ 21.2	10.85%	$ 156.8	80.66%
2017	200.6	133.7	66.65%	22.1	11.00%	155.8	77.65%
2018	207.0	135.7	65.54%	22.8	11.00%	158.5	76.54%
2019	213.9	134.2	62.72%	23.5	11.00%	157.7	73.72%
2020	220.9	132.9	60.15%	24.3	11.00%	157.2	71.15%

Please note that the City has negotiated agreements with its labor unions regarding the OPEB plan funding policy, including a provision that if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. The rates for Police and Fire are projected to exceed this level in the 5-year projection period. For the purposes of these projections, we have limited the City contribution rate to this limit.

Since pension and OPEB contributions are made separately for Police and Fire members and pension contributions are made separately for Tier 1 and Tier 2 members within each group, the tables below provide the additional detail that may be needed.

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City of San José Police & Fire Department Retirement Plan
Police Pension Only
(Dollar Amounts in millions)

	Tier 1			Tier 2			Total		
FYE	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2016	$ 105.9	$ 77.3	73.01%	$ 10.7	$ 1.2	11.25%	$ 116.6	$ 78.5	67.35%
2017	105.0	75.0	71.42%	15.4	1.8	11.41%	120.4	76.8	63.76%
2018	103.2	74.9	72.48%	21.0	2.4	11.38%	124.2	77.3	62.17%
2019	100.8	72.5	71.92%	27.6	3.2	11.36%	128.4	75.7	58.91%
2020	97.6	70.2	71.91%	35.0	4.0	11.34%	132.6	74.2	55.93%

City of San José Police & Fire Department Postemployment Healthcare Plan
Police OPEB Only
(Dollar Amounts in millions)

	Tier 1			Tier 2			Total		
FYE	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2016	$ 105.9	$ 11.7	11.00%	$ 10.7	$ 1.2	11.00%	$ 116.6	$ 12.9	11.00%
2017	105.0	11.6	11.00%	15.4	1.7	11.00%	120.4	13.3	11.00%
2018	103.2	11.4	11.00%	21.0	2.3	11.00%	124.2	13.7	11.00%
2019	100.8	11.1	11.00%	27.6	3.0	11.00%	128.4	14.1	11.00%
2020	97.6	10.7	11.00%	35.0	3.8	11.00%	132.6	14.5	11.00%

City of San José Police & Fire Department Retirement Plan
Fire Pension Only
(Dollar Amounts in millions)

	Tier 1			Tier 2			Total		
FYE	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2016	$ 75.9	$ 56.9	74.96%	$ 1.8	$ 0.2	11.17%	$ 77.7	$ 57.1	73.51%
2017	77.3	56.6	73.26%	2.9	0.3	11.17%	80.2	56.9	70.99%
2018	78.1	57.9	74.20%	4.7	0.5	11.17%	82.8	58.4	70.60%
2019	78.6	57.7	73.48%	6.9	0.8	11.17%	85.5	58.5	68.43%
2020	78.6	57.6	73.29%	9.7	1.1	11.17%	88.3	58.7	66.50%

City of San José Police & Fire Department Postemployment Healthcare Plan
Fire OPEB Only
(Dollar Amounts in millions)

	Tier 1			Tier 2			Total		
FYE	Payroll	Amount	Rate	Payroll	Amount	Rate	Payroll	Amount	Rate
2016	$ 75.9	$ 8.1	10.62%	$ 1.8	$ 0.2	10.62%	$ 77.7	$ 8.3	10.62%
2017	77.3	8.5	11.00%	2.9	0.3	11.00%	80.2	8.8	11.00%
2018	78.1	8.6	11.00%	4.7	0.5	11.00%	82.8	9.1	11.00%
2019	78.6	8.6	11.00%	6.9	0.8	11.00%	85.5	9.4	11.00%
2020	78.6	8.7	11.00%	9.7	1.1	11.00%	88.3	9.8	11.00%

Please note that these projections are based on the June 30, 2014 actuarial valuations for the pension and OPEB plans, and assume that all assumptions were exactly met since June 30, 2014, and are exactly met each and every year into the future. In addition, the projections assume that the active population headcount remains level and the plan provisions remain unchanged. The projected pension contribution amounts are based on an estimate of the proportion of future payroll that is attributable to members in Tier 2. Because there was no change to the OPEB benefits for Tier 2 members, the OPEB projections do not include the potential impact of later retirement dates for Tier 2 members. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time.

Finally, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2014. If the Board or the City is aware of any circumstance that would make this assumption questionable, we would want to obtain such information and make any appropriate adjustments to these projections. Please refer to the valuation reports for a description of the plan provisions, a summary of the data, a summary of the methods and assumptions used in each of the valuations, and additional disclosures that also apply to the projections reported in this letter.

We hereby certify that, to the best of our knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we 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.

This letter was prepared exclusively for the Board of Administration and the City of San José for the purpose described herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

If you have any questions or need any additional information, please let us know.

Sincerely,
Cheiron

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Consulting Actuary

Michael W. Schionning, FSA, MAAA
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cc: Roberto Peña
Donna Busse
Gene Kalwarski

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
20-YEAR PROJECTED PENSION CONTRIBUTIONS

City of San José
Police and Fire Department Retirement Plan
20-Year Projections of City Pension Contributions

Fiscal Year Ending	Projected Total City Contribution Amount (Middle of Year)	Projected Total City Contribution Rate (% of Payroll)	Projected Police City Contribution Amount (Middle of Year)	Projected Police City Contribution Rate (% of Payroll)	Projected Fire City Contribution Amount (Middle of Year)	Projected Fire City Contribution Rate (% of Payroll)
2016	$ 135,650,000	69.8%	$ 78,539,000	67.3%	$ 57,111,000	73.5%
2017	$ 133,720,000	66.7%	$ 76,777,000	63.8%	$ 56,943,000	71.0%
2018	$ 135,759,000	65.5%	$ 77,287,000	62.2%	$ 58,472,000	70.6%
2019	$ 134,138,000	62.7%	$ 75,622,000	58.9%	$ 58,516,000	68.4%
2020	$ 132,831,000	60.2%	$ 74,120,000	55.9%	$ 58,711,000	66.5%
2021	$ 135,155,000	59.3%	$ 74,682,000	54.6%	$ 60,473,000	66.3%
2022	$ 137,124,000	58.2%	$ 75,021,000	53.1%	$ 62,103,000	66.0%
2023	$ 125,145,000	51.5%	$ 64,898,000	44.5%	$ 60,247,000	62.0%
2024	$ 126,242,000	50.3%	$ 64,481,000	42.8%	$ 61,761,000	61.6%
2025	$ 139,216,000	53.7%	$ 72,804,000	46.8%	$ 66,412,000	64.1%
2026	$ 141,121,000	52.7%	$ 72,803,000	45.3%	$ 68,318,000	63.9%
2027	$ 83,631,000	30.3%	$ 43,986,000	26.5%	$ 39,645,000	35.9%
2028	$ 43,881,000	15.4%	$ 24,607,000	14.4%	$ 19,274,000	16.9%
2029	$ 80,282,000	27.3%	$ 41,736,000	23.6%	$ 38,546,000	32.7%
2030	$ 65,545,000	21.6%	$ 34,667,000	19.0%	$ 30,878,000	25.4%
2031	$ 53,382,000	17.0%	$ 29,107,000	15.4%	$ 24,275,000	19.3%
2032	$ 62,446,000	19.3%	$ 33,136,000	17.0%	$ 29,310,000	22.6%
2033	$ 62,792,000	18.8%	$ 33,225,000	16.5%	$ 29,567,000	22.1%
2034	$ 48,220,000	14.0%	$ 27,078,000	13.1%	$ 21,142,000	15.3%
2035	$ 51,854,000	14.5%	$ 28,636,000	13.4%	$ 23,218,000	16.3%

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