

February 21, 2012

VIA ELECTRONIC MAIL

Mr. Russell Crosby, Director of Retirement Services
 City of San Jose
 Police & Fire Department Retirement Plan
 1737 North 1st Street, Suite 580
 San Jose, California 95112

Re: 5-Year Budget Projections for Police & Fire

Dear Russell:

As requested, based on our recently completed June 30, 2011 valuations, we have estimated the future contributions expected to be required of the City of San Jose to the City of San Jose Police & Fire Department Retirement Plan (Pension Plan) and the Police & Fire Department Retiree Medical and Dental Insurance Plan (OPEB Plan) for the next five years. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year and that all assumptions in the valuations are exactly realized each year, since June 30, 2011. Please refer to those reports for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in each of the valuations.

City of San Jose Police & Fire Department Plans							
Projected City Contributions*							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	190.7	110.1	57.7%	15.5	8.1%	125.6	65.8%
2014	190.7	122.6	64.3%	18.0	9.5%	140.6	73.8%
2015	197.4	131.1	66.4%	20.5	10.4%	151.6	76.8%
2016	204.3	129.1	63.2%	22.2	10.9%	151.3	74.1%
2017	211.5	130.1	61.5%	23.3	11.0%	153.4	72.5%

** In preparing these projections, we requested the most recent investment earnings for the fiscal year-to-date and whether there were any additional layoffs, pay reductions, or significant events since June 30, 2011 that could materially affect these projections. We were informed that while earnings through 12/31/2011 were well below the assumed return for that period, that January and early February returns are likely to be very positive, and the remaining four and a half months of fiscal year 2012 offers more opportunity to realize the assumed return. In addition, we were informed by the City that there were no significant changes to the workforce or payroll since June 30, 2011.*



For the OPEB projections, the valuation has not been finalized, but the preliminary results indicate that the City's contributions would be in excess of the annual increase caps established in the MOAs. These projections apply the caps in the MOAs to the projected payroll, and it is assumed that the ultimate cap on the City's contribution rate of 11.0% remains in effect for the duration of the projection. In addition, these OPEB projections do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 and related legislation and regulations. Finally, the reality will be that experience will deviate from the assumptions which could have a significant impact on these projections in the short term. However, over the long term, the expectation is that overall favorable deviations will be offset by unfavorable deviations.

Since contributions are made separately for Police and Fire members, the tables below provide the additional detail that may be needed for these projections.

City of San Jose Police & Fire Department Plans							
Police Only							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	121.7	69.4	57.0%	10.9	9.0%	80.3	66.0%
2014	121.7	77.4	63.6%	12.6	10.3%	90.0	73.9%
2015	126.0	82.8	65.7%	13.9	11.0%	96.7	76.7%
2016	130.4	81.5	62.5%	14.3	11.0%	95.8	73.5%
2017	135.0	82.1	60.8%	14.8	11.0%	96.9	71.8%

City of San Jose Police & Fire Department Plans							
Fire Only							
(Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	69.0	40.6	58.9%	4.6	6.6%	45.2	65.5%
2014	69.0	45.2	65.5%	5.5	8.0%	50.7	73.5%
2015	71.4	48.3	67.6%	6.7	9.3%	55.0	76.9%
2016	73.9	47.6	64.4%	7.9	10.7%	55.5	75.1%
2017	76.5	48.0	62.8%	8.4	11.0%	56.4	73.8%

Also as requested, we have attached 20-year projections of City pension contributions.

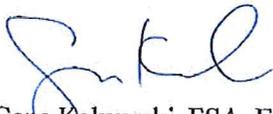
We hereby certify that, to the best of our knowledge, this letter and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of

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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.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,
Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



Margaret Tempkin, FSA, EA, MAAA
Principal Consulting Actuary

Attachment

cc: Bill Hallmark
Carmen Racy-Choy
Joshua Davis