

February 18, 2016

Via Electronic Mail

Board of Administration
 City of San José
 Federated City Employees' Retirement System
 1737 North First Street, Suite 580
 San Jose, California 95112

Re: 5-Year Budget Projections for Federated - Revised

Dear Members of the Board:

The purpose of this letter, as requested, is to provide estimated future contributions expected to be required of the City of San José to the City of San José Federated City Employees' Retirement System (Pension) and the City of San José Federated City Employees' Health Care Plan (OPEB) for the next five years. The OPEB projections assume the full Annual Required Contribution under GASB 43 and 45 is made each year of the projection. This letter is a revision to our January 13, 2016 letter. The revision provides the projected City pension contributions for Tier 1 separately for normal cost (including expenses) and payments toward the Unfunded Actuarial Liability (UAL). The table below summarizes our estimated contributions assuming contributions are made throughout the fiscal year.

San José Federated City Employees' Retirement System and Health Care Plan							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2017	\$ 258.6	\$ 138.6	53.61%	\$ 34.3	13.24%	\$ 172.9	66.85%
2018	266.0	150.0	56.40%	36.0	13.54%	186.0	69.94%
2019	273.5	158.6	57.98%	36.9	13.47%	195.5	71.46%
2020	281.3	161.8	57.51%	37.5	13.34%	199.3	70.85%
2021	289.4	167.2	57.79%	38.1	13.17%	205.3	70.96%

Dollar amounts in millions

Please note that these projections are based on the June 30, 2015 actuarial valuations, and assume that all assumptions were exactly met since June 30, 2015, and are exactly met each and every year into the future. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, except as noted above, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2015. If the Board or the City is aware of any significant event since June 30, 2015 that could alter these projections, please let us know. 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.

The tables below summarize the estimated contributions by tier assuming they are made at the beginning of the year as well as throughout the year.

San José Federated City Employees' Retirement System								
FYE	Tier 1 Contribution if Paid During the Year				Tier 2 Contribution if Paid During the Year			
	Payroll	July 1	Rate		Payroll	July 1	Rate	
2017	\$ 170.8	\$ 128.9	\$ 133.3	78.06%	\$ 87.8	\$ 5.1	\$ 5.3	6.04%
2018	158.0	138.6	143.4	90.73%	107.9	6.4	6.6	6.12%
2019	145.9	145.8	150.8	103.39%	127.7	7.5	7.8	6.12%
2020	133.7	147.7	152.8	114.30%	147.7	8.7	9.0	6.11%
2021	121.7	151.8	157.0	129.01%	167.7	9.9	10.2	6.10%

Dollar amounts in millions

San José Federated City Employees' Postemployment Health Care Plan								
FYE	Tier 1 Contribution if Paid During the Year				Tier 2A Contribution if Paid During the Year			
	Payroll	July 1	Rate		Payroll	July 1	Rate	
2017	\$ 170.79	\$ 19.58	\$ 20.26	11.86%	\$ 14.27	\$ 1.64	\$ 1.69	11.86%
2018	\$ 158.04	\$ 18.09	\$ 18.71	11.84%	\$ 13.42	\$ 1.54	\$ 1.59	11.84%
2019	\$ 145.86	\$ 16.33	\$ 16.89	11.58%	\$ 12.78	\$ 1.43	\$ 1.48	11.58%
2020	\$ 133.66	\$ 14.61	\$ 15.12	11.31%	\$ 12.41	\$ 1.36	\$ 1.40	11.31%
2021	\$ 121.69	\$ 12.99	\$ 13.43	11.04%	\$ 12.14	\$ 1.30	\$ 1.34	11.04%

FYE	Tier 2B Contribution if Paid During the Year				Tier 2C Contribution if Paid During the Year			
	Payroll	July 1	Rate		Payroll	July 1	Rate	
2017	\$ 73.23	\$ 11.84	\$ 12.25	16.73%	\$ 0.31	\$ 0.05	\$ 0.05	16.69%
2018	\$ 94.20	\$ 15.14	\$ 15.66	16.62%	\$ 0.30	\$ 0.05	\$ 0.05	16.56%
2019	\$ 114.62	\$ 17.83	\$ 18.44	16.09%	\$ 0.29	\$ 0.05	\$ 0.05	16.04%
2020	\$ 134.98	\$ 20.28	\$ 20.98	15.54%	\$ 0.28	\$ 0.04	\$ 0.04	15.50%
2021	\$ 155.26	\$ 22.51	\$ 23.29	15.00%	\$ 0.27	\$ 0.04	\$ 0.04	14.97%

Dollar amounts in millions

The table below separates the estimated Tier 1 contribution rates and amounts between normal cost (including administrative expenses) and UAL assuming contributions are made at the beginning of the year as well as throughout the year.

San José Federated City Employees' Retirement System Tier 1									
FYE	Normal Cost Contribution if Paid During the Year				Unfunded Actuarial Liability Contribution if Paid During the Year				
	Payroll	July 1	Rate	Rate	Payroll	July 1	Rate	Rate	Rate
2017	\$ 170.8	\$ 29.2	\$ 30.2	17.70%	\$ 170.8	\$ 99.7	\$ 103.1	60.36%	
2018	158.0	27.0	28.0	17.69%	158.0	111.6	115.4	73.04%	
2019	145.9	24.9	25.8	17.69%	145.9	120.8	125.0	85.70%	
2020	133.7	22.9	23.6	17.69%	133.7	124.8	129.1	96.61%	
2021	121.7	20.8	21.5	17.69%	121.7	131.0	135.5	111.32%	

Dollar amounts in millions

Finally, we have also attached 20-year projections of City pension contributions.

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.

Board of Administration

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

Sincerely,
Cheiron



William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachment

cc: Roberto Peña
Donna Busse
Gene Kalwarski
Jacqui King

City of San José
Federated City Employees' Retirement System
20-Year Projections of City Pension Contributions

Fiscal Year		Payroll	Projected City Contribution	Projected City Contribution Rate
Ending			(Middle of Year)	(% of Payroll)
2017	\$	258,595,000	\$ 138,630,000	53.61%
2018		265,965,000	150,004,000	56.40%
2019		273,545,000	158,608,000	57.98%
2020		281,342,000	161,799,000	57.51%
2021		289,360,000	167,219,000	57.79%
2022		297,606,000	170,284,000	57.22%
2023		306,088,000	173,583,000	56.71%
2024		314,812,000	177,081,000	56.25%
2025		323,784,000	180,831,000	55.85%
2026		333,012,000	184,794,000	55.49%
2027		342,503,000	188,927,000	55.16%
2028		352,264,000	193,247,000	54.86%
2029		362,303,000	197,729,000	54.58%
2030		372,629,000	202,375,000	54.31%
2031		383,249,000	207,218,000	54.07%
2032		394,172,000	213,417,000	54.14%
2033		405,406,000	193,101,000	47.63%
2034		416,960,000	187,714,000	45.02%
2035		428,843,000	173,693,000	40.50%
2036		441,065,000	167,547,000	37.99%