



August 3, 2023

Jennifer Schembri
Director of Employee Relations and Human Resources
City Manager’s Office
200 E. Santa Clara Street
San Jose, CA 95113

Re: City of San Jose – Estimated Impact of Wage Increase Proposal

Dear Ms. Schembri:

This letter provides our analysis of the impact that the conversion of a 5% non-pensionable wage increase to a 5% pensionable wage increase would have on the Federated City Employees Retirement System (Federated) liabilities and contribution rates for the AEA, AMSP, CAMP, and MEF bargaining units, and does not contemplate any other pensionable increases that differ from those assumed by the Federated Board in FY 2022/2023, or later.

Analysis

The following table shows the estimated impact that a 5% pensionable wage increase on January 1, 2023 would have on the Federated retirement plan’s June 30, 2022 Actuarial Accrued Liability (AAL) and 2023/2024 contributions for each of the four bargaining units listed above.

Estimated Impact of Pensionable Wage Increase for AEA, AMSP, CAMP, and MEF							
Unit	Fiscal Year of Wage Increase	Date of Wage Increase	Wage Increase	Increase to Unfunded Actuarial Accrued Liability (\$M)	Estimated Contribution Impact		
					Fiscal Year Impact to Contribution	Increase to City Dollar Contribution Amount (\$M)	Increase to Total Dollar Contribution Amount (\$M)
AEA	2022/2023	1/1/2023	5.00% Pensionable	\$1.9	2023/2024	\$0.2	\$0.3
AMSP				\$1.7		\$0.19	\$0.25
CAMP				\$5.2		\$0.6	\$0.8
MEF				\$8.5		\$1.0	\$1.2

Please note:

- The estimates above are based on the City of San José Federated City Employees’ Retirement System Actuarial Valuation Report as of June 30, 2022 produced by Cheiron and dated December 2022, as well as additional detailed valuation information provided by Cheiron.
- To estimate the impacts on the four specific bargaining units, we first calculated the impact on the total Federated valuation results, then allocated the increased costs based on the Actuarial Accrued Liability by bargaining unit provided by Cheiron.
- If the 5% wage increase was a non-pensionable increase, there would be no impact on the Federated plan valuation liabilities or contribution amounts. Only pensionable wage increases that differ from the valuation assumption impact the valuation results.



- Converting a current 5% non-pensionable pay increase into a 5% pensionable pay increase results in a 5% increase in pensionable pay and produces the increase in Unfunded Actuarial Accrued Liability (Unfunded AAL) and contributions shown above.
- The column titled “Increase to Unfunded Actuarial Accrued Liability (\$M)” shows the estimated impact of the 5% pensionable wage increase on the 6/30/22 Unfunded AAL. The Unfunded AAL is a measure of the present value of plan obligations for benefits earned (on an actuarial cost method basis) for past service as of the valuation date that are not covered by plan assets. The Unfunded AAL is the initial unamortized present value: it will be paid off, or amortized, as described below.
- The increase in the Unfunded AAL is amortized over the prescribed number of years for gains and losses as shown in the valuation report and, when added to the increase in the normal cost resulting from the 5% pensionable wage increase, totals to the annual contribution increase amount shown in the column “Increase to Total Dollar Contribution Amount (\$M)”.
- The annual amount shown in the column “Increase in City Dollar Contribution Amount (\$M)” is an estimate of the City’s portion of the total contribution increase for the fiscal year. The difference between the “Increase in Total Dollar Contribution Amount (\$M)” and the “Increase in City Dollar Contribution Amount (\$M)” is the estimated annual increase to be paid by the employees during the fiscal year.

Actuarial Certification

The estimates above are based on the City of San José Federated City Employees’ Retirement System Actuarial Valuation Report as of June 30, 2022 produced by Cheiron and dated December 2022, as well as the additional detailed valuation information provided by Cheiron. The estimates assume all valuation actuarial assumptions will be realized exactly with the exception of the 2022/2023 payroll increases. The estimates also assume there will be no change in plan provisions or actuarial methodology. We are Members of the American Academy of Actuaries and meet the Qualification Standards to issue this Statement of Actuarial Opinion.

Sincerely,

Mary Beth Redding, FSA, MAAA
Senior Consulting Actuary

Cathy Wandro, ASA, MAAA
Consulting Actuary

Drew Ballard, ASA, MAAA
Senior Consulting Actuary