

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Flynn

**SUBJECT:** See Below

**DATE:** March 14, 2025

**COUNCIL DISTRICT:** Citywide

**SUBJECT: Review of the Retirement Plans' Pension and Postemployment  
Healthcare Plan Actuarial Valuations as of June 30, 2024**

## **RECOMMENDATION**

Review the following actuarial valuation reports (links to the reports are included):

1. Federated City Employees' Retirement System Actuarial Valuation (Pension) as of June 30, 2024 <https://www.sjretirement.com/Resources/8a68e7ee-a272-4781-b71b-c86ec0df008d/2024.pdf>; and
2. Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2024 <https://www.sjretirement.com/Resources/5f7b704e-9de3-4d64-a401-6a18e1c9577e/2024.pdf>; and
3. Police and Fire Department Retirement Plan Actuarial Valuation (Pension) as of June 30, 2024 <https://www.sjretirement.com/Resources/34e18047-1ca7-4b13-bc3d-fabe9940ed29/2024.pdf>; and
4. Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2024 <https://www.sjretirement.com/Resources/cd6aa067-7621-4fcb-8df9-3d1ebe9d2217/2024.pdf>.

## **SUMMARY AND OUTCOME**

Council review of the Federated City Employees' Retirement System Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2024 and the Police and Fire Department Retirement Plan Actuarial Valuations for the

Pension Plan and Postemployment Healthcare Plan as of June 30, 2024 (collectively "Valuations") will provide relevant financial information to the Council for the two retirement plans and ensure the Council is properly informed on the retirement plans' funding status and retirement benefit costs for the City.

## **BACKGROUND**

The Valuations provide detailed information regarding the actuarial value of the assets and pension and Other Postemployment Employee Benefit ("OPEB") liability of the Retirement Plans as of June 30, 2024. The information is used to determine the employee and employer's contribution rates in the next fiscal year and are generally divided into the following sections:

- A Summary Section intended to recap the most important information of the report;
- Risk and Certification Sections to identify, explain and assess the risks to the plan, as well as certify the report;
- An Asset Section that details the calculation of the actuarial value of the plans' assets;
- A Liability Section that discloses the present value of all future benefits, normal cost and changes in unfunded actuarial liabilities;
- A Contribution Section that details the effects of assumption changes on the contribution rates and amortization of unfunded liabilities; and
- An Actuarial Section of the Annual Comprehensive Financial Report ("ACFR") which contains schedules that are required reporting by the Governmental Accounting Standards Board for the ACFR.

## **ANALYSIS**

The Valuations were prepared by the Boards' Actuarial Consultant, Cheiron Inc. The report 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. The credentialed actuaries who prepared the reports meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in the reports.

For the Pension Valuations as of June 30, 2024, the following are the key actuarial results, as compared to the results from the June 30, 2023 Valuations. Funding ratio on an actuarial valuation basis increased for both plans for pension. The increase in the funded status is mainly due to the increases in the actuarial value, which is due to the asset smoothing method recognizing 20% of the gains from the most recent fiscal year.

<i>\$ Amounts in millions</i>	<b>Federated</b>		<b>Police and Fire</b>	
<b>PENSION Valuation Date</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Actuarial Liability	\$5,137.9	\$4,965.7	\$6,132.8	\$5,908.6
Actuarial Value	\$3,116.8	\$2,890.0	\$5,013.6	\$4,739.7
UAL	\$2,021.1	\$2,075.7	\$1,119.2	\$1,168.8
<b>Funded Ratio</b>	<b>60.7%</b>	<b>58.2%</b>	<b>81.8%</b>	<b>80.2%</b>

The following is a summary of the contribution rates shown in the pension actuarial valuations. Both Boards will approve contribution rates at their May meetings. Amounts shown below are contribution amounts throughout the year.

<b>PENSION</b>	<b>Federated</b>	<b>Police</b>	<b>Fire</b>
	<b>FY25-26</b>	<b>FY25-26</b>	<b>FY25-26</b>
<b>Member Contribution Rates</b>			
Tier 1 Member	6.55%	10.43%	12.00%
Tier 2 Member	8.62%	13.55%	15.01%
<b>City Contributions</b>			
Tier 1 UAL Payment	\$180.1 million	\$143.2 million	\$10.1 million
Tier 1 Admin Expenses	\$5.9 million	\$4.4 million	\$3.6 million
Tier 1 Normal Cost	\$23.6 million 18.56%	\$19.4 million 28.67%	\$20.8 million 32.23%
Tier 2 Contribution	\$32.2 million 8.62%	\$15.5 million 13.55%	\$7.1 million 15.01%
<b>Total City Contribution</b>	<b>\$241.8 million 48.27%</b>	<b>\$182.5 million 100.26%</b>	<b>\$41.6 million 37.19%</b>

The funding ratio for all pension and OPEB plans increased from the Valuations as of June 30, 2023 to the Valuations as of June 30, 2024. While the actuarial liability for all plans increased, the asset sizes increased at a greater rate, thus resulting in a decrease in UAL and an increase in the funded ratios.

<i>\$ Amounts in thousands</i>	<b>Federated</b>		<b>Police</b>		<b>Fire</b>	
<b>OPEB Valuation Date – Explicit Subsidy Only</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Actuarial Liability	\$643.6	\$634.0	\$501.9	\$495.3	\$297.8	\$296.2
Assets	\$413.5	\$374.6	\$218.9	\$191.7	\$125.3	\$107.7
UAL	\$230.1	\$259.4	\$283.0	\$303.6	\$172.5	\$188.5
<b>Funded Ratio</b>	<b>64.3%</b>	<b>59.1%</b>	<b>43.6%</b>	<b>38.7%</b>	<b>42.1%</b>	<b>36.4%</b>

With the implementation of Measure F in 2017, health contribution rates were fixed at 7.5% of pensionable pay for Federated members and 8.0% of pensionable pay for Police and Fire members. The City's contribution toward the explicit subsidy is actuarially determined on an annual basis; and the City will also pay the implicit subsidy based on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution to 14% of pensionable payroll for Federated and 11% of pensionable payroll for Police and Fire.

<b>OPEB</b>	<b>Federated</b>	<b>Police</b>	<b>Fire</b>
	<b>FY25-26</b>	<b>FY25-26</b>	<b>FY25-26</b>
<b>Member Contribution Rates</b>			
Federated Member	7.50%	N/A	N/A
Police and Fire Member	N/A	8.0%	8.0%
Explicit Subsidy Members	\$8.5 million	\$4.8 million	\$4.5 million
<b>City Contribution Rates</b>			
Estimated City Optional Cap (Explicit Subsidy – 14% for Fed and 11% for PF of pensionable payroll)	\$65.5 million	\$32.3 million	
Actuarially Determined Amount (Explicit Subsidy)	\$21.9 million	\$19.4 million	\$12.7 million
City's Implicit Subsidy Payment	\$7.0 million	\$4.1 million	\$1.8 million
City's Total Payment for Healthcare (Explicit + Implicit Subsidy)	\$28.9 million	\$23.5 million	\$14.5 million

## **EVALUATION AND FOLLOW-UP**

The Office of Retirement Services staff will present the Retirement Plans' Valuations on an annual basis to the City Council per the recommendation of the City Auditor's report on Pension Sustainability (Audit #10-10) to update the Council on the financial status of the Retirement Plans.

## **COORDINATION**

Production of the Valuations was coordinated with the Board of Administration for the Federated City Employees Retirement System, the Board of Administration for the Police and Fire Department Retirement Plan, the City Manager's Office, and the City Manager's Office of Employee Relations.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the March 11, 2025 City Council meeting.

Outreach was undertaken for this item in addition to the agenda posting described above. These outreach efforts are described below.

These Valuations and audits of the Valuations were presented to the Federated System and Police and Fire Boards at their meetings from October through February, which were open to the public.

### **COMMISSION RECOMMENDATION AND INPUT**

No commission recommendation or input is associated with this action.

### **CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

### **PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

A handwritten signature in blue ink, appearing to read "John Flynn", with a stylized flourish at the end.

John Flynn  
Chief Executive Officer,  
Office of Retirement Services

For questions, please contact Benjie Chua Foy, Accounting Division Manager, Office of Retirement Services, at email [benjie.chua-foy@sanjoseca.gov](mailto:benjie.chua-foy@sanjoseca.gov).