



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Flynn

SUBJECT: See Below

DATE: April 21, 2026

COUNCIL DISTRICT: # Citywide

SUBJECT: Review of the Retirement Plans' Pension and Postemployment
Healthcare Plan Actuarial Valuations as of June 30, 2025

RECOMMENDATION

It is recommended that the Council 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, 2025 [Federated 2025 Pension AVR](#); and
2. Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2025 [Federated 2025 OPEB AVR](#); and
3. Police and Fire Department Retirement Plan Actuarial Valuation (Pension) as of June 30, 2025 [Police and Fire 2025 Pension AVR](#); and
4. Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2025 [Police and Fire 2025 OPEB AVR](#) .

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, 2025 and the Police and Fire Department Retirement Plan Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2025 (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 OPEB liability of the Retirement Plans as of June 30, 2025. 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 plans, 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, 2025, the following are the key actuarial results, as compared to the results from the June 30, 2024 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>	Federated		Police and Fire	
PENSION Valuation Date	2025	2024	2025	2024
Actuarial Liability	\$5,330.0	\$5,137.9	\$6,336.5	\$6,132.8
Actuarial Value	\$3,409.9	\$3,116.8	\$5,348.8	\$5,013.6
Unfunded Actuarial Liability (UAL)	\$1,920.1	\$2,021.1	\$987.7	\$1,119.2
Funded Ratio	64.0%	60.7%	84.4%	81.8%

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.

PENSION	Federated	Police	Fire
	FY26-27	FY26-27	FY26-27
Member Contribution Rates			
Tier 1 Member	6.49%	11.47%	11.88%
Tier 2 Member	8.56%	14.64%	14.55%
City Contributions			
Tier 1 UAL Payment	\$181.5 million	\$152.1 million	\$49 thousand
Tier 1 Admin Expenses	\$5.9 million	\$4.4 million	\$3.7 million
Tier 1 Normal Cost	\$22.1 million 18.43%	\$20.7 million 31.48%	\$20.7 million 31.93%
Tier 2 Contribution	\$34.7 million 8.56%	\$18.7 million 14.64%	\$7.8 million 14.55%
Total City Contribution	\$244.2 million 46.44%	\$195.9 million 101.35%	\$32.3 million 27.24%

The funding ratio for all pension and OPEB plans increased from the Valuations as of June 30, 2024 to the Valuations as of June 30, 2025, except for the Federated OPEB plan. 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. The only exception was the Federated OPEB plan where the assets did not increase at the same rate as the actuarial liability, thus resulting in a reduced funded ratio.

<i>\$ Amounts in thousands</i>	Federated		Police		Fire	
	2025	2024	2025	2024	2025	2024
OPEB Valuation Date – Explicit Subsidy Only						
Actuarial Liability	\$722.2	\$643.6	\$524.8	\$501.9	\$308.2	\$297.8
Assets	\$461.6	\$413.5	\$250.6	\$218.9	\$146.5	\$125.3
UAL	\$260.6	\$230.1	\$274.2	\$283.0	\$161.7	\$172.5
Funded Ratio	63.9%	64.3%	47.8%	43.6%	47.5%	42.1%

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.

OPEB	Federated	Police	Fire
	FY26-27	FY26-27	FY26-27
Member Contribution Rates			
Federated Member	7.50%	N/A	N/A
Police and Fire Member	N/A	8.0%	8.0%
Explicit Subsidy Members	\$8.0 million	\$4.5 million	\$4.5 million
City Contribution Rates			
Estimated City Optional Cap (Explicit Subsidy – 14% for Fed and 11% for PF of pensionable payroll)	\$68.7 million	\$34.3 million	
Actuarially Determined Amount (Explicit Subsidy)	\$24.5 million	\$21.2 million	\$13.0 million
City's Implicit Subsidy Payment	\$7.0 million	\$4.4 million	\$2.1 million
City's Total Payment for Healthcare (Explicit + Implicit Subsidy)	\$31.5 million	\$25.6 million	\$15.1 million

EVALUATION AND FOLLOW-UP

The Office of Retirement Services staff will present the Retirement Plans' Valuations on an annual basis to the 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 Office of Employee Relations.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the April 21, 2026, 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.

BOARD, COMMISSION, COMMITTEE RECOMMENDATION AND INPUT

No board, commission, or committee 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.

HONORABLE MAYOR AND CITY COUNCIL

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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.



John Flynn,
CEO, Office of Retirement Services

For questions, please contact Benjie Chua Foy, Accounting Division Manager, Office of Retirement Services, at benjie.chua-foy@sanjoseca.gov or 408-794-1030.