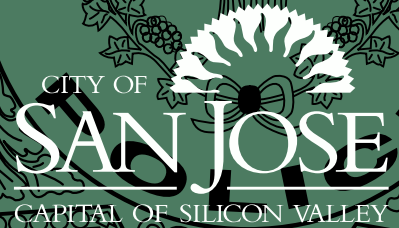


City of San José
Police and Fire Department Retirement Plan



Comprehensive Annual Financial Report for the Fiscal Years
ended June 30, 2017 and June 30, 2016

Photo Credits:

Cover Top Row, Left to Right: © 2014 Jamie West, *San José Fire Department Truck 2*; © 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2009 Bruce Dembecki, *Fire Department Training Drill*

Cover Middle Row, Left to Right: © 2013 San Francisco Examiner, *Fire File Photo*; © 2015 Thomas Hawk/Flickr, *San José Police Department, San José Police Car*

Cover Bottom Row, Left to Right: © 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2014 Craig Allyn Rose Photography, *San José Fire Department People*; © 2017 City of San José Police Department, *911 Dispatch*

Title Page, Left to Right: © 2014 Jamie West, *San José Fire Department Truck 2*; © 2013 San Francisco Examiner, *Fire File Photo*;

© 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2015 Thomas Hawk/Flickr, *San José Police Department, San José Police Car*; © 2009 Bruce Dembecki, *Fire Department Training Drill*

Introductory: © 2013 Craig Allyn Rose Photography/sjfd.blogspot.com, *San José Fire Department Firefighter Recruit Forum*

Financial: © 2015 Greg Ramar, *San José police officers led a funeral procession to honor the life of San José Police Officer Michael Johnson*

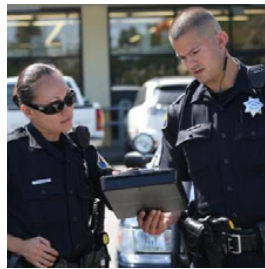
Investment: © 2014 Craig Allyn Rose Photography/sjfd.blogspot.com/, *San José firefighters participate in wildland fire drill*.

Actuarial: © 2013 Patrick Tehán, *SJPD Graduation*

Statistical: © 2014 Craig Allyn Rose Photography, *San José Fire Department Recruit Training*



City of San José Police and Fire Department Retirement Plan



Roberto L. Peña
Chief Executive Officer

Office of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone 408-794-1000
Fax 408-392-6732
www.sjretirement.com

Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Board Chair Letter



November 1, 2017

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San José
San José, California

Dear Mayor, Council Members, and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (the Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017.

The Pension Plan earned a time-weighted gross of investment fees rate of return of 10.3% and net of investment fees rate of return of 9.7% on investments for the fiscal year, compared to a 9.5% return for its policy benchmark and a 12.7% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 2.6% and 6.1% for the three-year and five-year periods ending June 30, 2017, respectively, while the InvestorForce net median earned a time-weighted rate of return of 4.9% and 8.6% for the same periods.

The Healthcare Plans earned a time-weighted gross of investment fees rate of return of 7.1% and net of investment fees rate of return of 7.0% on investments for the fiscal year, compared to a 9.5% return for its policy benchmark. In addition, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 1.8% and 4.9% for the three-year and five-year periods ending June 30, 2017.

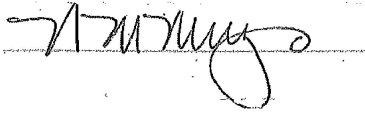
In contrast, the net rate of return assumed by the Plan's actuary for fiscal year 2016-2017 was 6.875%. The Plan's net position increased from \$3,167,080,000 to \$3,442,939,000 (see the Financial Section beginning on page 14). The net increase in Plan net position for fiscal year 2016-2017 was \$275,859,000.

In May 2017, the Plan's Chief Investment Officer resigned. Despite the change, the Investment Program continued to manage portfolio investments and move initiatives forward. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The implementation of the risk analytics system and risk advisory work continues, as does a group of process improvements and governance related projects across the Investment Program. In addition, during fiscal year 2016-2017, the Investment Program completed comprehensive reviews across asset classes as well as a number of other projects.

Board Chair Letter *(continued)*

The Board believes that the professional services rendered by the staff, investment consultant, actuary, and counsel have produced a sound fund capable of sustained growth over the long term. The Board of Administration and its staff are available to provide additional information as requested.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Muyo", written over a horizontal line.

Nick Muyo, Chairman
Board of Administration

Table Contents

	PAGE
I. INTRODUCTORY SECTION	
Letter of Transmittal	5
Certificate of Achievement for Excellence in Financial Reporting	9
Certificate of Meeting Professional Standards in Public Pensions	10
Board of Administration, Administration and Outside Consultants	11
Office of Retirement Services Organizational Chart	13
II. FINANCIAL SECTION	
Independent Auditor's Report	15
Management's Discussion and Analysis	18
Basic Financial Statements	
Statements of Plan Net Position	30
Statements of Changes in Plan Net Position	32
Notes to the Basic Financial Statements	34
Required Supplemental Information	
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios	
- Defined Benefit Pension Plan	77
Schedule of Investment Returns - Defined Benefit Pension Plan	77
Schedule of Employer Contributions - Defined Benefit Pension Plan	78
Notes to Schedule	78
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Postemployment Healthcare Plans	81
Schedule of Investment Returns - Postemployment Healthcare Plans	81
Schedule of Employer Contributions - Postemployment Healthcare Plans	81
Other Supplemental Information	
Combining Schedule of Defined Benefit Pension Plan Net Position	82
Combining Schedule of Changes in Defined Benefit Pension Plan Net Position	83
Schedules of Administrative Expenses and Other	84
Schedules of Payments to Consultants	84
Schedules of Investment Expenses	85
III. INVESTMENT SECTION	
Report of Investment Activity	86
Statement of Investment Policy	92
Investment Professionals	119
Schedule of Investment Results	120
Investment Review	
Target Asset Allocation / Actual Asset Allocation - Defined Benefit Pension Plan	122
Historical Asset Allocation (Actual) / Market Value Growth of Plan Assets	
- Defined Benefit Pension Plan	123
History of Gross and Net Performance - Defined Benefit Pension Plan	123
Target Asset Allocation / Actual Asset Allocation - Postemployment Healthcare Plans	124

Table Contents *(continued)*

	PAGE
Historical Asset Allocation (Actual) / Market Value Growth of Plan Assets	
- Postemployment Healthcare Plans	125
History of Gross and Net Performance - Postemployment Healthcare Plans	125
List of Largest Assets Held	126
Schedule of Investment Fees	127
Schedule of Commissions	128
Investment Summary	132
 IV. ACTUARIAL SECTION	
Defined Benefit Pension Plan	
Actuary's Certification Letter - Pension	134
Actuarial Assumptions and Methods	137
Member Valuation Data - Schedule of Active Member Data	142
Schedule of Retirees and Beneficiaries Added to and Removed from Rolls	143
Actuarial Analysis of Financial Experience	143
Solvency Test	144
Schedule of Funding Progress	144
Summary of Pension Plan Provisions	145
 Postemployment Healthcare Plans	
Actuary's Certification Letter - OPEB	151
Actuarial Assumptions and Methods	154
Schedule of Active Member Data	163
Schedule of Retirees and Beneficiaries Added to and Removed From Rolls	163
Solvency Test	164
Analysis of Financial Experience	164
Schedule of Funding Progress	165
Summary of Key Substantive Plan Provisions	166
 V. STATISTICAL SECTION	
Statistical Review	
Changes in Plan Net Position - Defined Benefit Pension Plan	170
Changes in Plan Net Position - Postemployment Healthcare Plans	171
Benefit and Refund Deductions from Plan Net Position by Type - Defined Benefit Pension Plan	172
Benefit and Refund Deductions from Plan Net Position by Type - Postemployment Healthcare Plans	173
Employer and Employee Contribution Rates	174
Retired Members by Type of Benefit	175
Average Benefit Payment Amounts	177
 Retirements During Fiscal Year	
Retirements	181
 Deaths During Fiscal Year	
Deaths	182

This page intentionally left blank

Introductory Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Letter of Transmittal



November 1, 2017

Board of Administration
San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San José Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Plan's management.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers Association of the United States and Canada (GFOA). In fiscal year 2016-2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses accounting and financial reporting requirements for other post-employment benefit (OPEB) plans and replaces GASB Statement No. 43. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 74, other than increased disclosures. Transactions of the Plan are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2017 and 2016, please refer to the Management's Discussion and Analysis (MD&A) on page 18.

Grant Thornton LLP, the Plan's independent auditor, has audited the accompanying financial statements. Because the cost of a control should not exceed the benefits to be derived, management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The financial audit provides reasonable assurance that the Plan's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The Plan recognizes that even sound and well-designed internal controls have their inherent limitations in that errors may still occur as a result of factors such as carelessness, faulty judgment, communication breakdowns, and/or that internal controls can be circumvented by internal or external collusion. The Plan continuously reviews internal controls to ensure that the Plan's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard the Plan's assets.

Letter of Transmittal *(continued)*

I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2017. The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

I encourage you to review this report carefully. I trust that you and the members of the Plan will find this CAFR helpful in understanding the Plan.

Funding

The Plan's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of the most recent funding valuation dated June 30, 2016, the funding ratio of the defined benefit pension plan and the defined benefit OPEB plans was 75.7% and 17.4%, respectively, based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the Plan is currently 6.875%. The impact of the difference between the actual net rate of return earned by the Plan and the 6.875% assumption will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in Plan net position for fiscal year 2016-2017 was \$275,859,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position Assets on page 32. The defined benefit pension plan's funding progress is presented on page 144 and the defined benefit OPEB plan's funding progress is presented on page 165.

Financial and Economic Summary

The 2017 fiscal year started with solid returns across most risk assets, including equities and credit. Following the U.S. Presidential election in November 2016, risk assets and inflation expectations surged on hopes for President Trump led initiatives which included decreased regulation, tax reform, infrastructure spending, and elimination of the Affordable Care Act. As the new Administration faced challenges in 2017, inflation expectations waned contributing to weakness in the commodity complex, while equity markets continued to grind higher. Levels of market volatility remained compressed on both realized and implied bases. For the US Dollar, the fiscal year told two very different stories, with the first half of the fiscal year seeing US Dollar strength, which reversed in January 2017 to a strong trend of US Dollar weakness. US Dollar weakness in the second half of the fiscal year supported foreign asset prices. Through the fiscal year, the global economic backdrop was resilient, and the U.S. Federal Reserve continued a modest rate hiking initiative and began setting the stage for reducing the central bank's balance sheet that had built-up over nearly 10 year of quantitative easing.

Domestic equities, as measured by the S&P 500 index, posted a 17.9% return for the fiscal year. Despite strong US equity returns, the US underperformed international developed market equities and emerging market equities, which produced returns of 20.3% and 23.7%, as reflected by the MSCI EAFE and MSCI Emerging Markets indices. Credit markets were also strong up, with the Bloomberg Barclays High Yield index up 12.7%. Global fixed income produced modest negative returns for the year with the Bloomberg Barclays Aggregate down 0.3%. Commodities was one of the worst performing asset classes, with the Bloomberg Commodity Index down 6.5% for the year.

Letter of Transmittal *(continued)*

As the Investment Program transitions into fiscal year 2017-2018, the financial and economic backdrop is similar to last year. Market valuations are increasingly elevated, the US economy has likely moved into late cycle, and a number of global risks persist; at the same time moderate global economic growth and loose central bank policy continues to be supportive of markets.

Investment Summary

The Board of Administration has exclusive control of all investments of the Plan and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and defraying the reasonable cost of administration.

Over the past fiscal year, the Pension Plan's time-weighted gross of investment fees rate of return was 10.3% and net of investment fees rate of return was 9.7%, compared to a 9.5% return for its policy benchmark and a 12.7% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 2.6% and 6.1% for the three-year and five-year periods ending June 30, 2017, respectively, while the InvestorForce universe net median earned a time-weighted rate of return of 4.9% and 8.6% for the same periods.

The Healthcare Plans' time-weighted gross of investment fees rate of return of 7.1% and net of investment fees rate of return was 7.0% on investments for the fiscal year, compared to a 9.5% return for its policy benchmark. In addition, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 1.8% and 4.9% for the three-year and five-year periods ending June 30, 2017.

The net asset value of the Plan increased from \$3,167,080,000 to \$3,442,939,000 (see the Financial Section beginning on page 14).

Major Initiatives

The Plan continued to hold its annual stakeholders' meeting for its members in the Fall. Feedback from the attendees continue to be positive and help enhance communication with the Plan's members.

In May 2017, the Plan's Chief Investment Officer resigned. Despite the change, the Investment Program continued to manage portfolio investments and move initiatives forward. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The implementation of the risk analytics system and risk advisory work continues, as does a group of process improvements and governance related projects across the Investment Program. In addition, during fiscal year 2016-2017, the Investment Program completed comprehensive reviews across asset classes as well as a number of other projects.

The Office of Retirement Services (ORS) kicked off the upgrade of its pension administration system in March 2015. The implementation process is expected to last approximately 42 months and is estimated at \$9 million. ORS has completed the user acceptance testing for Software Deliverable 3 (out of 4 planned deliverables) and is currently in the design phase of Software Deliverable 4.

Letter of Transmittal *(continued)*

ORS staff, in conjunction with City of San Jose (City) Administration, participated in the Request For Proposal (RFP) for Long-Term Disability, Life and Accidental Death and Dismemberment Services. Proposals by vendors are being reviewed for a final decision for implementation in 2018. ORS staff also collaborated with the Human Resources department of the City to implement the self-funded Blue Shield PPO for active and pre-65 retirees. ORS and the Human Resources department held a Wellness Summit with the City's current insurance vendors to reinforce the City's ongoing initiative to assist employees and retirees with managing their health by highlighting the resources that our vendors provide and encouraging participation in wellness programs.

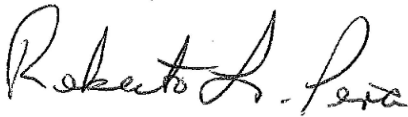
ORS made significant progress in the pensionable earnings correction project for the members of the Plan by holding informational meetings, inviting the membership to the Board meetings to discuss the correctional plan and implementing the correctional plan. In February 2017, corrections to the ongoing benefit payments were made to the overpaid members affected by the Fair Labor Standards Act (FLSA). Cumulative retro-active adjustments were made in the August benefit payments for the same overpaid members.

In November 2016, Measure F passed, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan. The provisions of the framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. ORS has been collaborating with City Administration to ensure that these changes are implemented as necessary.

Conclusion

I would like to take this opportunity to thank the members of the Plan for their confidence in the Plan management during the past year. I also want to express my gratitude to the Board of Administration for its dedicated effort in supporting the staff through this past year. Finally, I would like to thank the City staff for their support and the consultants and ORS staff for their dedication, commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Roberto L. Peña". The signature is fluid and cursive, with the first name "Roberto" being the most prominent part.

Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**San Jose Police and Fire Department
Retirement Plan, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO



Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2016

Presented to

City of San José Police and Fire Department
Retirement Plan

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

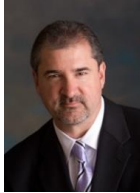
BOARD OF ADMINISTRATION

The Retirement System is administered by a nine-member Board of Administration composed of two City employees elected by members of the Plan, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San Jose Municipal Code.

As of June 30, 2017, the members of the Board were as follows:



NICK MUYO, CHAIR
Retired Plan member appointed to the Board in November 2012. His current term expires November 30, 2020.



VINCENT SUNZERI, VICE CHAIR
Public member appointed to the Board in December 2010. His current term expires November 30, 2020.



FRANCO VADO, TRUSTEE
Employee representative for the Police Department appointed to the Board in February 2016. His current term expires November 30, 2017.



ANDREW LANZA, TRUSTEE
Public member appointed to the Board in April 2011. His current term expires April 30, 2019.



RICHARD SANTOS, TRUSTEE
Retired Plan member appointed to the Board in March 2011. His current term expires November 30, 2018.



ANDREW GARDANIER, TRUSTEE
Employee representative for the Fire Department appointed to the Board in December 2015. His current term expires December 2019.



JEREMY EVNINE, TRUSTEE
Public member appointed to the Board in November 2014. His current term expires November 30, 2018.



GHIA GRIARTE, TRUSTEE
Public member appointed to the Board in November 2014. Her current term expires November 30, 2018.



STEPHEN BRENNAN, TRUSTEE
Public member appointed to the Board in April 2014. His current term expires November 30, 2018.



JOHNNY KHAMIS, NON-VOTING BOARD MEMBER

OFFICE OF RETIREMENT SERVICES ADMINISTRATION



ROBERTO L. PENA, DIRECTOR
CHIEF EXECUTIVE OFFICER



DONNA BUSSE, DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

VACANT, ASSISTANT DIRECTOR
CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

Board Meetings: First Thursday of the Month, 8:30 AM

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at <http://sjretirement.com/PF/meetings/agendas.asp> or they can be obtained from the Retirement Office at 1737 North First Street, Suite 600, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

Board of Administration, Administration, and Outside Consultants *(continued)*

OUTSIDE CONSULTANTS

ACTUARY

Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL

Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

Hanson Bridgett LLP	Reed Smith LLP
San Francisco, CA	San Francisco, CA

INVESTMENT CONSULTANTS

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investment Group, Inc – General Consultant
Carlsbad, CA

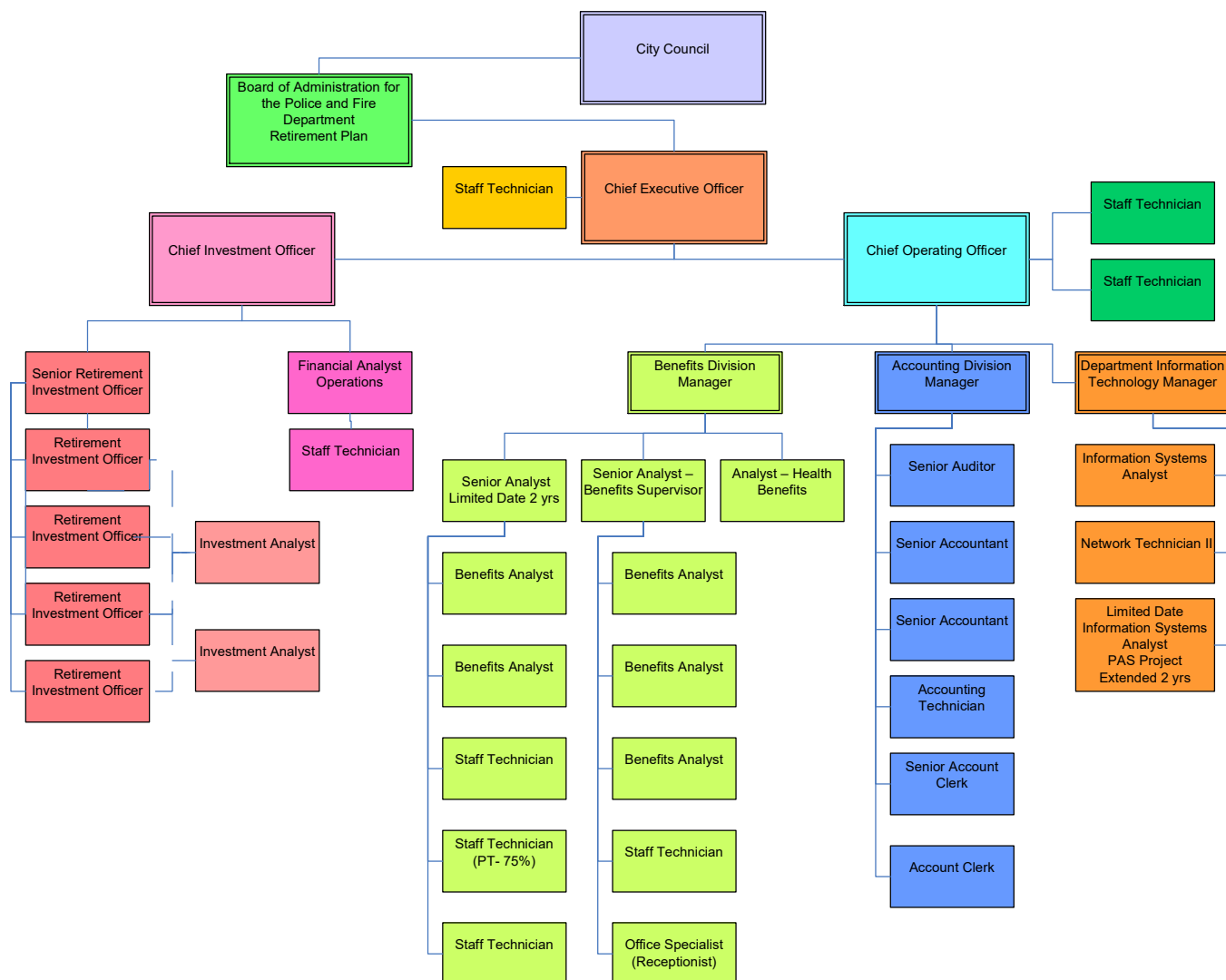
Verus Advisory Inc. – Risk Advisory
Seattle, WA

AUDITOR

Grant Thornton LLP
San Francisco, CA

A list of investment professionals begins on page 119 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 127 and 128, respectively.

2017 Office of Retirement Services Organizational Chart



Office of Retirement Services

1737 North First Street Suite 600, San Jose, CA 95112

(408) 794-1000 | (800) 732-6477 | (408) 392-6732 Fax

www.sjretirement.com

Financial Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Administration of the City of San José
Police and Fire Department Retirement Plan
San José, California

Grant Thornton LLP
101 California Street, Suite 2700
San Francisco, CA 94111
T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying financial statements of the City of San José Police and Fire Department Retirement Plan (the "Plan"), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

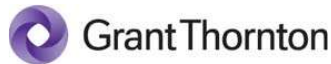
Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Plan as of June 30, 2017 and 2016, and the changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios – defined benefit pension, schedule of investment returns – defined benefit pension plan, schedule of employer contributions – defined benefit pension plan, notes to schedule, schedule of changes in the employers net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plan, and schedule of employer contributions – postemployment healthcare plan, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has consolidated the schedule of changes in the employer's net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plans and schedule of employer contributions – postemployment healthcare plans that accounting principles generally accepted in the United States of America require to be presented separately for each plan to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this consolidated information.



Other supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The combining schedule of defined benefit pension plan net position as of June 30, 2017, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2017, and the schedules of administrative expenses and other, schedules of payments to consultants and schedules of investment expenses for the years ended June 30, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory, investment, actuarial and statistical sections of the Comprehensive Annual Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 1, 2017, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Grant Thornton LLP".

San Francisco, California
November 1, 2017

Management's Discussion and Analysis (unaudited)



November 1, 2017

Board of Administration
San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

The Office of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2017 and 2016. The Plan, consisting of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans, was established to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 5 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2017

- As of June 30, 2017, the Plan had \$3,442,939,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of \$3,293,257,000 restricted for pension benefits is available to meet the Plan's ongoing obligations to plan participants and their beneficiaries. The postemployment healthcare plans' net position of \$149,682,000 is only available for the exclusive use of retiree medical benefits.
- The Plan's total net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2017 by approximately \$275,859,000 or 8.1% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by favorable market conditions during the fiscal year.
- Additions to plan net position during fiscal year ended June 30, 2017 were \$501,507,000, which includes member and employer contributions of \$38,696,000 and \$157,624,000, respectively, and net investment income of \$305,187,000. This represents an increase of \$339,336,000 of total additions from the prior fiscal year.
- Deductions from plan net position for fiscal year ended June 30, 2017 increased from \$214,782,000 in the prior year to \$225,648,000, or approximately 4.9%, due to an increase in retirement benefit payments and healthcare insurance premiums, which was attributable to an increased number of retired members and beneficiaries.

Management's Discussion and Analysis (unaudited) (continued)

Overview of the Financial Statements

The Plan's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2017, were prepared in conformity with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). In fiscal year 2016-2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 applies to Other Postemployment Employee Benefit (OPEB) plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans. There was no material impact to the Plan's financial statements as a result of the implementation of GASB 74, other than increased disclosures. The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which are comprised of these components:

- 1) Statements of Plan Net Position
- 2) Statements of Changes in Plan Net Position
- 3) Notes to Basic Financial Statements

Please note, however, that this report also contains required supplementary information and other supplemental information in addition to the basic financial statements themselves.

The **Statements of Plan Net Position** are a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The **Statements of Changes in Plan Net Position**, on the other hand, provide a view of current year additions to and deductions from the Plan.

Both statements are in compliance with accounting principles generally accepted in the United States of America (GAAP) as set forth by the GASB. GAAP requires state and local government pension plan and postemployment benefit plan reports to use the full accrual method of accounting and make certain disclosures. The Plan complies with all significant requirements of these pronouncements.

The *Statements of Plan Net Position* and the *Statements of Changes in Plan Net Position* report information about the Plan's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which recognizes contributions as revenue when currently due pursuant to legal requirements and benefits and refunds of contributions when due and payable under the provisions of the Plan. All of the fiscal year's additions and deductions are taken into account regardless of when cash is received or paid. All realized gains and losses are reported at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses on investments are reported.

These two statements report the Plan's net position held in trust for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and liabilities. Over time, increases and decreases in the Plan's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the net pension liability and the net OPEB liability, should also be considered in measuring the Plan's overall health.

Management's Discussion and Analysis (unaudited) (continued)

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements beginning on page 34 of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 77 of this report). The *Schedule of Changes in the Employer's Net Pension Liability and Related Ratios of the Defined Benefit Pension Plan* was prepared using the Plan's net position.

Other Supplemental Information. The *Combining Schedules of Defined Benefit Pension Plan Net Position and Changes in Defined Benefit Pension Plan Net Position, Schedules of Administrative Expenses and Other, Payments to Consultants, and Investment Expenses* are presented immediately following the *Required Supplementary Information*.

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the Plan's financial position (see Tables 1a and 1c on page 21). At the close of fiscal years 2017 and 2016, the Plan's total assets exceeded the Plan's total liabilities. The Plan's financial statements do not include the total pension liability or the total OPEB liability for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans, respectively.

The Pension Plan's net position as a percentage of the total pension liability and the Postemployment Healthcare Plan's total OPEB liability should also be considered when evaluating the Plan's financial health. Based on the June 30, 2016 valuation rolled forward to June 30, 2017, the net position of the Defined Benefit Pension Plan was 72.6% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 20.9%. For more information on the results and impact of the June 30, 2016 valuations, please see Notes 4 and 5 to the financial statements beginning on page 65.

Management's Discussion and Analysis (unaudited) (continued)

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1a)

As of June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 19,014	\$ 35,066	\$ (16,052)	(45.8)%
Investments at fair value	3,277,084	3,010,391	266,693	8.9 %
Capital assets	1,488	920	568	61.7 %
Total Assets	3,297,586	3,046,377	251,209	8.2 %
Current liabilities	4,329	2,724	1,605	58.9 %
Total Liabilities	4,329	2,724	1,605	58.9 %
Plan Net Position	\$ 3,293,257	\$ 3,043,653	\$ 249,604	8.2 %

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1b)

As of June 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 35,066	\$ 12,467	\$ 22,599	181.3 %
Investments at fair value	3,010,391	3,101,629	(91,238)	(2.9)%
Fixed assets	920	58	862	1,486.2 %
Total Assets	3,046,377	3,114,154	(67,777)	(2.2)%
Current liabilities	2,724	4,089	(1,365)	(33.4)%
Total Liabilities	2,724	4,089	(1,365)	(33.4)%
Plan Net Position	\$ 3,043,653	\$ 3,110,065	\$ (66,412)	(2.1)%

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 1c)

As of June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 3,859	\$ 3,687	\$ 172	4.7 %
Investments at fair value	145,935	119,806	26,129	21.8 %
Capital assets	25	16	9	56.3 %
Total Assets	149,819	123,509	26,310	21.3 %
Current liabilities	137	82	55	67.1 %
Total Liabilities	137	82	55	67.1 %
Plan Net Position	\$ 149,682	\$ 123,427	\$ 26,255	21.3 %

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 1d)

As of June 30, 2016 and 2015 (Dollars in Thousands)

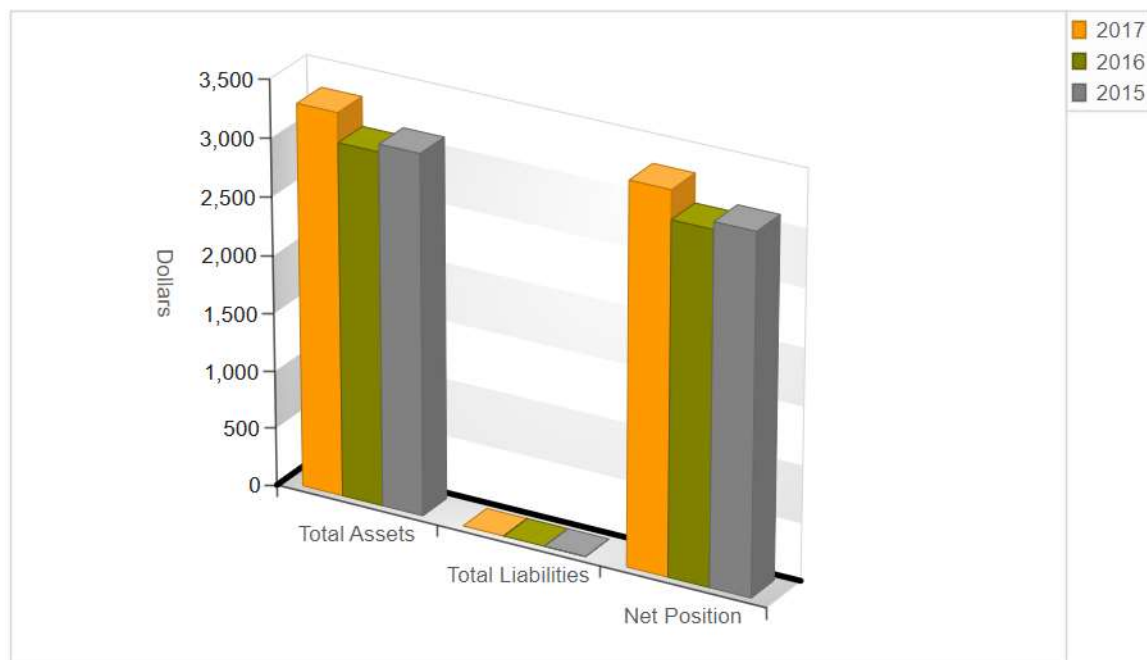
	2016	2015	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 3,687	\$ 1,055	\$ 2,632	249.5 %
Investments at fair value	119,806	109,016	10,790	9.9 %
Fixed assets	16	1	15	1,500.0 %
Total Assets	123,509	110,072	13,437	12.2 %
Current liabilities	82	446	(364)	(81.6)%
Total Liabilities	82	446	(364)	(81.6)%
Plan Net Position	\$ 123,427	\$ 109,626	\$ 13,801	12.6 %

Management's Discussion and Analysis (unaudited) (continued)

DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)

As of June 30, 2017, 2016 and 2015

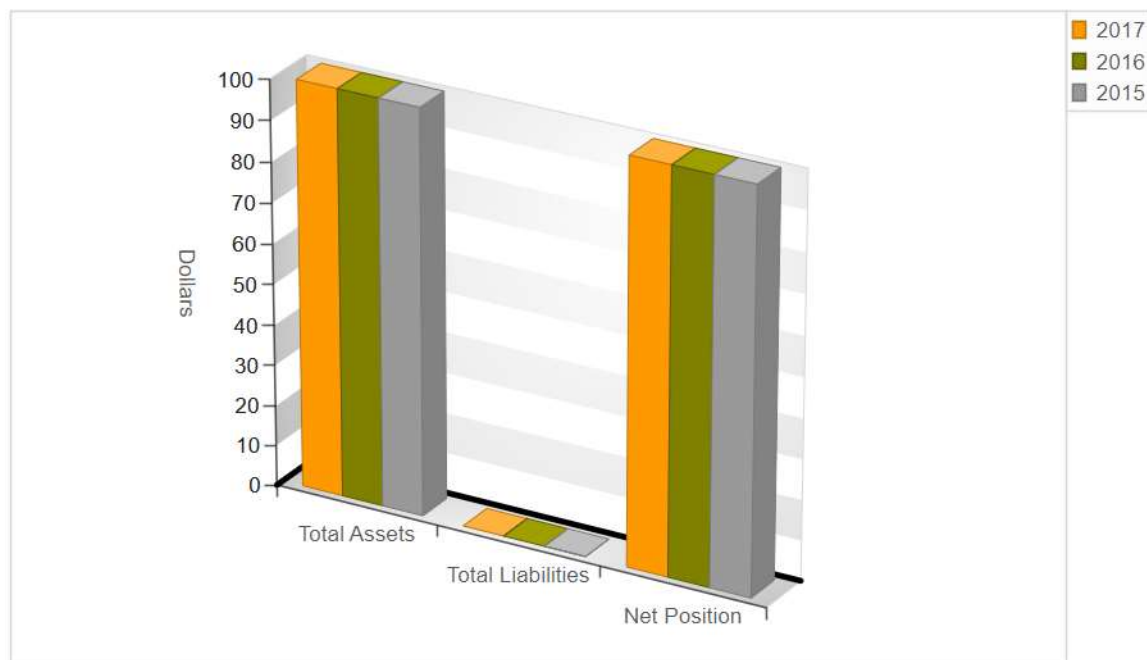
(Dollars in Millions)



POSTEMPLOYMENT HEALTHCARE PLANS NET POSITION (Tables 1c and 1d)

As of June 30, 2017, 2016 and 2015

(Dollars in Millions)



Management's Discussion and Analysis (unaudited) (continued)

As of June 30, 2017, \$3,293,257,000 and \$149,682,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 21). Plan net position of \$3,293,257,000 is available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$149,682,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2017, total net position restricted for pension benefits increased by 8.2% and increased by 21.3% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of \$286,973,000 and \$10,574,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 53.

As of June 30, 2016, \$3,043,653,000 and \$123,427,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 21). Plan net position restricted for pension benefits of \$3,043,653,000 was available to meet Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$123,427,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2016, total net position restricted for pension benefits decreased by 2.1% and increased by 12.6% for the postemployment healthcare benefits plan from the prior year, primarily due to the net depreciation in the fair value of investments for the Defined Benefit Pension Plan caused by unfavorable investment returns during the fiscal year. The increase in the postemployment healthcare benefits is due to the increase in contributions from the prior fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 53.

As of June 30, 2017, receivables decreased by \$16,052,000 or (45.8)% and increased by \$172,000 or 4.7% in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Receivables in the Defined Benefit Pension Plan decreased mainly due to a decrease in receivables from brokers and others for year-end investment trades, while the receivables for the Postemployment Healthcare Plans increased mainly due to an increase in employee and employer contributions receivables. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by \$22,599,000 or 181.3% and \$2,632,000 or 249.5%, respectively, due to an increase in receivables from brokers and others for year-end investment trades.

As of June 30, 2017, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by \$1,605,000, or 58.9% and \$55,000 or 67.1%, respectively, from the prior year, mainly due to an increase in payables to brokers and others for year-end investment trades. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by \$1,365,000, or (33.4)% and \$364,000 or (81.6)%, respectively, compared with June 30, 2015, due to a reduction in securities lending collateral due to borrowers.

POLICE AND FIRE PLAN ACTIVITIES

In the fiscal year ended 2017, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plans net position increased by \$275,859,000, or 8.7% primarily due to the favorable market conditions during the fiscal year. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions along with earnings on investments (net of investment expense).

Management's Discussion and Analysis (unaudited) (continued)

Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plans for the fiscal year ended June 30, 2017, were \$450,271,000 and \$51,236,000, respectively (see Tables 2a and 2c on pages 25 - 26).

For the fiscal year ended June 30, 2017, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by \$325,489,000 and \$13,847,000, or 260.8% and 37.0%, respectively. The primary cause of the increase from prior year was the increase in net investment income of \$321,940,000 and \$14,136,000, in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due to the favorable market conditions during the fiscal year. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2017 for the Defined Benefit Pension Plan, was 10.3% compared to (0.4)% for the previous fiscal year. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2016, was 9.7% compared to (0.6)% for fiscal year 2016.

For the fiscal year ended June 30, 2016, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by \$2,446,000 and \$1,077,000, or 2.0% and 3.0%, respectively. The primary cause of the increase from prior year was the increase in contributions due to the increase in contribution rates. See Notes 4 and 5 for the contribution rates in the *Notes to the Financial Statements* for more details. Investment losses for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by 3.5% and 3.6%, respectively, due to unfavorable investment returns during the fiscal year. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2016, for the Defined Benefit Pension Plan was (0.4)% compared to (0.8)% for the previous fiscal year. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2016, was (0.6)% compared to (1.0)% for fiscal year 2015.

Deductions from Plan Net Position

The Plan was created to provide a monthly pension allowance, survivor benefits, permanent disability benefits, and postemployment healthcare benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments and healthcare premium payments, as designated by the San José Municipal Code, refunds of contributions to terminated employees, and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2017, totaled \$200,667,000 and \$24,981,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.0% from the previous year due to an increase in benefit payments (see Table 2a on page 25). The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plans increased by 5.9% from the previous year due to an increase in the healthcare insurance premiums for retirees and beneficiaries, as well as the increase in number of retirees and beneficiaries. (see Table 2c on page 26).

Deductions for the fiscal year ended June 30, 2016, totaled \$191,194,000 and \$23,588,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 6.0% from the previous year due to an increase in benefit payments resulting from the increase in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments (see Table 2b on page 25). Deductions for the Postemployment Healthcare Plans decreased by (3.0)% from the previous year due to a decrease in the implicit subsidy from \$2.8 million to \$2.0 million for the actuarial valuations at June 30, 2014 to June 30, 2015, respectively. (see Table 2d on page 26).

Management's Discussion and Analysis (unaudited) (continued)

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2a)

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 20,580	\$ 21,508	\$ (928)	(4.3)%
Employer contributions	136,957	132,480	4,477	3.4 %
Net investment gain / (loss)*	292,734	(29,206)	321,940	1,102.3 %
Total Additions	450,271	124,782	325,489	260.8 %
Retirement benefits	184,596	176,029	8,567	4.9 %
Death benefits	11,072	10,083	989	9.8 %
Refund of contributions	364	828	(464)	(56.0)%
Administrative expenses	4,635	4,254	381	9.0 %
Total Deductions	200,667	191,194	9,473	5.0 %
Net Increase (Decrease) in Plan Net Position	249,604	(66,412)	316,016	475.8 %
Beginning Net Position	3,043,653	3,110,065	(66,412)	(2.1)%
Ending Net Position	\$ 3,293,257	\$ 3,043,653	\$ 249,604	8.2 %

* Net of investment expenses of \$19,288 and \$21,081 in 2017 and 2016, respectively.

CHANGES IN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2b)

For the Fiscal Years Ended June 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 21,508	\$ 20,747	\$ 761	3.7 %
Employer contributions	132,480	129,279	3,201	2.5 %
Net investment loss*	(29,206)	(28,228)	978	3.5 %
Net securities lending income	-	538	(538)	(100.0)%
Total Additions	124,782	122,336	2,446	2.0 %
Retirement benefits	176,029	166,331	9,698	5.8 %
Death benefits	10,083	9,220	863	9.4 %
Refund of contributions	828	702	126	17.9 %
Administrative expenses	4,254	4,191	63	1.5 %
Total Deductions	191,194	180,444	10,750	6.0 %
Net Decrease in Plan Net Position	(66,412)	(58,108)	8,304	14.3 %
Beginning Net Position	3,110,065	3,168,173	(58,108)	(1.8)%
Ending Net Position	\$ 3,043,653	\$ 3,110,065	\$ (66,412)	(2.1)%

* Net of investment expenses of \$21,081 and \$15,920 in 2016 and 2015, respectively.

Management's Discussion and Analysis (unaudited) (continued)

CHANGES IN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2c)

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 18,116	\$ 18,007	\$ 109	0.6 %
Employer contributions	20,667	21,065	(398)	(1.9)%
Net investment income (loss)*	12,453	(1,683)	14,136	839.9 %
Total Additions	51,236	37,389	13,847	37.0 %
Healthcare insurance premiums	24,799	23,449	1,350	5.8 %
Administrative expenses	182	139	43	30.9 %
Total Deductions	24,981	23,588	1,393	5.9 %
Net Increase in Plan Net Position	26,255	13,801	12,454	90.2 %
Beginning Net Position	123,427	109,626	13,801	12.6 %
Ending Net Position	\$ 149,682	\$ 123,427	\$ 26,255	21.3 %

* Net of investment expenses of \$434 and \$438 in 2017 and 2016, respectively.

CHANGES IN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2d)

For the Fiscal Years Ended June 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 18,007	\$ 17,017	\$ 990	5.8 %
Employee contributions	21,065	20,910	155	0.7 %
Net investment loss*	(1,683)	(1,625)	(58)	3.6 %
Net securities lending income	-	10	(10)	(100.0)%
Total Additions	37,389	36,312	1,077	3.0 %
Healthcare insurance premiums	23,449	24,205	(756)	(3.1)%
Administrative expenses	139	123	16	13.0 %
Total Deductions	23,588	24,328	(740)	(3.0)%
Net Increase in Plan Net Position	13,801	11,984	1,817	15.2 %
Beginning Net Position	109,626	97,642	11,984	12.3 %
Ending Net Position	\$ 123,427	\$ 109,626	\$ 13,801	12.6 %

* Net of investment expenses of \$438 and \$339 in 2016 and 2015, respectively.

Management's Discussion and Analysis (unaudited) (continued)

Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan's net position. The Plan's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plans (which include the Postemployment Healthcare 401(h) Plan, the Police Department Postemployment 115 Healthcare Trust and the Fire Department Postemployment 115 Healthcare Trust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Cost-of-Living Fund both have a General Reserve and an Employee Contributions Reserve. The Postemployment Healthcare 401(h) and 115 Trust Funds have a General Reserve only (see table on page 55 for a complete listing and year-end balances of the Plan's reserves).

The Plan's reserves are established from employer and employee contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation or depreciation in the fair value of investments is held in the unrealized gain/loss account, a component of each Plan's General Reserve.

The Plan's Fiduciary Responsibilities

The Plan's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plans. Under the California Constitution and the San José Municipal Code, Plan assets may only be used for the exclusive benefit of providing benefits to plan participants and their beneficiaries and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which was approved in 2012. On July 15, 2015, the City and sworn Police and Fire bargaining units reached an Alternative Pension Reform Settlement Framework (Framework) which was approved by the City Council and the bargaining units' memberships. A ballot measure (Measure F) was presented to the public for voting in the November 2016 election, which determined whether or not the terms of the Framework will be implemented. Measure F passed, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan. The provisions of the framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees will be eligible to opt-in to the VEBA. The VEBA Opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending the receipt of a Private Letter Ruling from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

The Plan's actuarial valuations as of June 30, 2016, were used to determine the contribution rates effective June 18, 2017, for fiscal year 2017-2018. The annual determined contribution rates and dollar amounts calculated in the June 30, 2016 valuations were adopted by the Board and became effective in fiscal year 2017-2018. The June 30, 2016 actuarial valuations include Board adopted actuarial assumption changes recommended by the Plan's actuary in the June 30, 2016 Preliminary Valuation Results and Economic Assumption Review presented in November 2016.

Management's Discussion and Analysis (unaudited) (continued)

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation for funding purposes uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability (UAAL) of \$1,058.9 million, as of June 30, 2016, does not include the impact of approximately \$253.4 million of net deferred investment losses yet to be recognized, primarily resulting from unfavorable investment returns during fiscal years 2015 and 2016. It is anticipated that future actuarial valuations will recognize these remaining deferred net investment losses as described above and the smoothing of any new gains or losses over a five-year period.

The Plan is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 6.875%, net of investment expenses, in the actuarial valuation as of June 30, 2016. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAAL and decrease the funded status of the Plan, thereby increasing required contributions to the Plan.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of termination, retirement, disability and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these actuarial assumptions cause the Plan to experience actuarial gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every two years, the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the actuarial assumptions. The actuarial assumptions may be adjusted where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future. The Board approved to make changes to the June 30, 2015 actuarial valuation as a result of the demographic experience study presented in November 2015. The next experience study is scheduled to be conducted in late 2017.

The June 30, 2016 actuarial valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year periods beginning with the valuation date in which they are effective. Actuarial gains and losses and plan changes continue to be amortized as a level percentage of pay assuming a 3.25% annual growth in payroll over a 15-year period beginning with the valuation date in which they first arise.

Contribution rates for fiscal year 2017-2018, as determined by the June 30, 2016 actuarial valuation, included the impact of the continued effect of the layered 20-year closed amortization period and the recognition of smoothed deferred investment gains and losses.

The valuation for June 30, 2016, which was prepared in January 2017, does not include changes in plan provisions arising from Measure F which became effective March 31, 2017. However, supplemental reports provided by the actuary contained correct contribution rates reflecting the changes from Measure F.

Postemployment Healthcare Plans

During the year ended June 30, 2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The OPEB valuation as of June 30, 2016, which includes the 401(h) and the Internal Revenue Code Section 115 Subtrusts: the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, was prepared by Cheiron, Inc., the Plan's actuary.

Management's Discussion and Analysis (unaudited) (continued)

A summary of the results is presented in Note 5 to the Financial Statements, which reflects changes as a result of GASB Statement No. 74.

In 2009 and 2011, the Police and Fire members, respectively, entered into Memoranda of Agreements (MOA's) with the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five-year period. The first year of the phase-in for the Police members was fiscal year 2010, while fiscal year 2012 was the first year for the Fire members of the Plan. The Police and Fire members entered into separate MOA's with the City; however, both agreements contained incremental increase caps of 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceeded 10% for members and 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11% of pensionable pay.

Fiscal year 2013-2014 was the fifth year of the phase-in for the Police members, while 2015-2016 was the fifth year of the phase-in for the Fire members. The fiscal year ending 2014 contribution rates for Police and the fiscal year ending 2016 contribution rates for Fire are frozen for all future years unless the ARC is less than those contribution rates and/or new agreements are made.

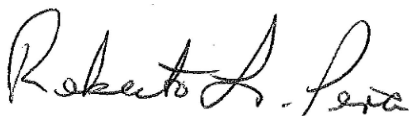
With the passage of Measure F, the Framework became effective as of March 31, 2017. A VEBA for retiree healthcare was created and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees will be happening. The VEBA Opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending the receipt of a Private Letter Ruling from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and stakeholders, with a general overview of the Plan's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,



Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

This page intentionally left blank

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

As of June 30, 2017 and 2016 (In Thousands)

	2017				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ASSETS					
Receivables					
Employee contributions	\$ 880	\$ 734	\$ -	\$ -	\$ 1,614
Employer contributions	7,855	-	534	421	8,810
Brokers and others	8,031	2,195	-	-	10,226
Accrued investment income / loss	2,248	(37)	8	4	2,223
Total Receivables	19,014	2,892	542	425	22,873
Investments, at fair value					
Securities and other:					
Global equity	1,081,165	9,316	20,382	13,319	1,124,182
Private equity	168,202	2,584	-	-	170,786
Global fixed income	524,699	8,059	10,541	5,755	549,054
Collective short term investments	265,986	4,085	11,376	6,211	287,658
Private debt	216,443	3,325	-	-	219,768
Real assets	472,987	7,265	10,073	5,500	495,825
International currency contracts, net	(902)	(14)	-	-	(916)
Global tactical asset allocation	300,766	4,620	12,764	6,969	325,119
Absolute return	247,738	3,805	-	-	251,543
Total Investments	3,277,084	43,045	65,136	37,754	3,423,019
Capital Assets	1,488	25	-	-	1,513
TOTAL ASSETS	3,297,586	45,962	65,678	38,179	3,447,405
LIABILITIES					
Payable to brokers	2,803	61	-	-	2,864
Other liabilities	1,526	27	25	24	1,602
TOTAL LIABILITIES	4,329	88	25	24	4,466
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,293,257	-	-	-	3,293,257
Postemployment healthcare benefits	-	45,874	65,653	38,155	149,682
TOTAL PLAN NET POSITION	\$ 3,293,257	\$ 45,874	\$ 65,653	\$ 38,155	\$ 3,442,939

See accompanying notes to basic financial statements

(continued)

Basic Financial Statement *(continued)*

STATEMENTS OF PLAN NET POSITION *(continued)*

As of June 30, 2017 and 2016 *(In Thousands)*

	2016				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ASSETS					
Receivables					
Employee contributions	\$ 705	\$ 627	\$ -	\$ -	\$ 1,332
Employer contributions	4,910	-	391	291	5,592
Brokers and others	23,431	2,355	-	-	25,786
Accrued investment income / loss	6,020	22	1	-	6,043
Total Receivables	35,066	3,004	392	291	38,753
Investments, at fair value					
Securities and other:					
Global equity	835,709	7,894	20,882	12,637	877,122
Private equity	256,877	4,241	-	-	261,118
Real estate	5,814	96	-	-	5,910
Global fixed income	548,468	9,054	9,917	4,955	572,394
Collective short term investments	220,115	3,634	3,243	1,620	228,612
Private debt	216,853	3,580	-	-	220,433
Real assets	419,656	6,928	9,057	4,526	440,167
International currency contracts, net	497	8	-	-	505
Global tactical asset allocation	284,283	4,693	6,117	3,057	298,150
Absolute return	222,119	3,667	-	-	225,786
Total Investments	3,010,391	43,795	49,216	26,795	3,130,197
Capital Assets	920	16	-	-	936
TOTAL ASSETS	3,046,377	46,815	49,608	27,086	3,169,886
LIABILITIES					
Payable to brokers	1,578	42	-	-	1,620
Other liabilities	1,146	24	9	7	1,186
TOTAL LIABILITIES	2,724	66	9	7	2,806
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,043,653	-	-	-	3,043,653
Postemployment healthcare benefits	-	46,749	49,599	27,079	123,427
TOTAL PLAN NET POSITION	\$ 3,043,653	\$ 46,749	\$ 49,599	\$ 27,079	\$ 3,167,080

See accompanying notes to basic financial statements

(concluded)

Basic Financial Statement *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2017 and 2016 (In Thousands)

	2017				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ADDITIONS					
Contributions					
Employee	\$ 20,580	\$ 18,116	\$ -	\$ -	\$ 38,696
Employer	136,957	1,599	10,905	8,163	157,624
Total Contributions	157,537	19,715	10,905	8,163	196,320
Investment income					
Net appreciation in fair value of investments	286,973	4,182	4,054	2,338	297,547
Interest income	9,895	163	48	26	10,132
Dividend income	12,774	199	1,197	642	14,812
Net rental income	2,380	38	-	-	2,418
Less: investment expense	(19,288)	(304)	(79)	(51)	(19,722)
Net Investment Income	292,734	4,278	5,220	2,955	305,187
TOTAL ADDITIONS	450,271	23,993	16,125	11,118	501,507
DEDUCTIONS					
Retirement benefits	184,596	-	-	-	184,596
Healthcare insurance premiums	-	24,799	-	-	24,799
Death benefits	11,072	-	-	-	11,072
Refund of contributions	364	-	-	-	364
Administrative expenses and other	4,635	69	71	42	4,817
TOTAL DEDUCTIONS	200,667	24,868	71	42	225,648
NET INCREASE / (DECREASE)	249,604	(875)	16,054	11,076	275,859
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	3,043,653	46,749	49,599	27,079	3,167,080
END OF YEAR	\$ 3,293,257	\$ 45,874	\$ 65,653	\$ 38,155	\$ 3,442,939

See accompanying notes to basic financial statements

(continued)

Basic Financial Statement *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION *(continued)*

For the Fiscal Years Ended June 30, 2017 and 2016 *(In Thousands)*

	2016				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ADDITIONS					
Contributions					
Employee	\$ 21,508	\$ 18,007	\$ -	\$ -	\$ 39,515
Employer	132,480	1,389	11,576	8,100	153,545
Total Contributions	153,988	19,396	11,576	8,100	193,060
Investment income / (loss)					
Net depreciation in fair value of investments	(45,378)	(775)	(1,829)	(935)	(48,917)
Interest income	22,011	410	4	2	22,427
Dividend income	13,494	242	1,071	535	15,342
Net rental income	1,748	30	-	-	1,778
Less: investment expense	(21,081)	(372)	(44)	(22)	(21,519)
Net Investment Loss	(29,206)	(465)	(798)	(420)	(30,889)
TOTAL ADDITIONS	124,782	18,931	10,778	7,680	162,171
DEDUCTIONS					
Retirement benefits	176,029	-	-	-	176,029
Healthcare insurance premiums	-	23,449	-	-	23,449
Death benefits	10,083	-	-	-	10,083
Refund of contributions	828	-	-	-	828
Administrative expenses and other	4,254	74	44	21	4,393
TOTAL DEDUCTIONS	191,194	23,523	44	21	214,782
NET (DECREASE) / INCREASE	(66,412)	(4,592)	10,734	7,659	(52,611)
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	3,110,065	51,341	38,865	19,420	3,219,691
END OF YEAR	\$ 3,043,653	\$ 46,749	\$ 49,599	\$ 27,079	\$ 3,167,080

See accompanying notes to basic financial statements

(concluded)

Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the City of San José Police and Fire Department Retirement Plan (the Plan) is provided for financial reporting purposes only. Readers should refer to the City of San José Municipal Code for more complete information.

(a) General

The Plan was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). The current Plan consists of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans. On January 27, 2011, the Plan requested a compliance statement and favorable determination letter from the Internal Revenue Service (IRS) under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans. The most recent favorable determination letter from the IRS is dated August 26, 2016.

The Postemployment Healthcare 401(h) Plan, which was established under Internal Revenue Code (IRC) Section 401(h), is an account within the pension plan which is used for the funding and payment of the retiree healthcare benefits. As a 401(h) plan, the healthcare benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if, when ignoring contributions for past service benefit, the contributions for medical benefits are no greater than 25% of the actual contributions to both the pension and medical benefits. Periodic reviews and projections of the IRC 25% subordination test are performed by the Plan's actuary.

A new IRC Section 115 Trust was established on May 22, 2012 by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account. The healthcare trust was clarified by the San José City Council (Ordinance number 29260) on June 12, 2013, which declared that the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may be structured as two wholly separate sub-trusts of one trust. Employer contributions to the new trust funds began in fiscal year 2013. On August 6, 2013, the City obtained a private letter ruling from the IRS assuring the pre-tax treatment of employee contributions to the new trust funds. On July 9, 2014, the Plan received a private letter ruling from the IRS on the tax qualification of the new Section 115 Trust. As of this date, it has not been determined if or when employee contributions will begin to go into the Section 115 trust.

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(a) General *(continued)*

The City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which passed in 2012. On August 25, 2015, the City Council approved the terms of the Alternative Pension Reform Settlement Framework (Public Safety Framework) for the two sworn bargaining units, the San Jose Police Officers' Association (SJPOA) and the San Jose Firefighters International Association of Fire Fighters, Local 230 (IAFF). The Public Safety Framework included an agreement that a ballot measure would be placed on the November 8, 2016 election for the voters to replace Measure B. On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements. The City Council approved Ordinance number 29879 on February 14, 2017, amending the San Jose Municipal Code to reflect the terms of Measure F and the Public Safety Framework, and the changes to the Municipal Code became effective thirty (30) days after February 14, 2017. Most terms of Measure F and the Public Safety Framework were implemented on June 18, 2017, which is the first pay period of fiscal year 2017-2018. The provisions of the Public Safety Framework include, but are not limited to, revising Tier 2 benefits; allowing rehired Tier 1 employees to remain in Tier 1; creating a defined contribution Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare (medical and dental) and a one-time irrevocable election to opt in to the defined contribution VEBA from the defined benefit retiree healthcare plan for eligible employees; defining the qualifications for members of the independent medical panel; and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees will be eligible to opt-in to the VEBA, while all Tier 2 employees and Tier 1 employees who enter the Plan after June 18, 2017, with "Classic" membership in California Public Employees' Retirement System (CalPERS) are required to move in to the defined contribution VEBA. The VEBA opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending approval from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension and postemployment healthcare trust fund. The Plan is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Police and Fire Department Plan Board of Administration (Board of Administration). The nine-member Board of Administration is composed of two City employees elected by members of the Plan, two retired Plan members elected by the retiree associations, four public members who are not connected with the City and have significant banking or investment experience, and another public member who is selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided and funded directly by the City. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

All sworn officers of the City's Police and Fire departments are required to be members of the Plan. Participants of the Postemployment Healthcare Plans are also participants of the Defined Benefit Pension Plan.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(a) General *(continued)*

With the passage of Measure F, rehires with prior Tier 1 City service who were in Tier 2 became part of the Tier 1 membership Defined Benefit Pension Plan effective June 18, 2017. In addition, employees in Tier 2 who have "Classic" membership with CalPERS may be moved to Tier 1 subject to the identification of these employees and confirmation of "Classic" membership with CalPERS. The Plan members are categorized into four membership types based on when they entered the Plan. Police Tier 1 members are those members who entered the Plan prior to August 4, 2013, Tier 1 rehires who did not take a return of contributions, or "Classic" CalPERS members. Fire Tier 1 members are those members who entered the Plan prior to January 2, 2015, Tier 1 rehires who did not take a return of contributions, or "Classic" CalPERS members. Police Tier 2 members are those employees who were newly hired on or after August 4, 2013. Fire Tier 2 members are those employees who were newly hired on or after January 2, 2015.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(a) General *(continued)*

The following table summarizes the Plan members as of June 30, 2017 and 2016, respectively.

<i>As of June 30, 2017</i>	Police		Fire		
	Tier 1 Members	Tier 2 Members	Tier 1 Members	Tier 2 Members	Total
Defined Benefit Pension Plan					
Retirees and beneficiaries currently receiving benefits*	1,336	-	856	-	2,192
Terminated vested members not yet receiving benefits	239	49	39	6	333
Active members	747	150	586	61	1,544
Total	2,322	199	1,481	67	4,069
Postemployment Healthcare Plans					
Retirees and beneficiaries currently receiving benefits*	1,251	-	810	-	2,061
Terminated vested members not yet receiving benefits	12	-	1	-	13
Active members	747	150	586	61	1,544
Total	2,010	150	1,397	61	3,618

<i>As of June 30, 2016</i>	Police		Fire		
	Tier 1 Members	Tier 2 Members	Tier 1 Members	Tier 2 Members	Total
Defined Benefit Pension Plan					
Retirees and beneficiaries currently receiving benefits*	1,304	-	845	-	2,149
Terminated vested members not yet receiving benefits	234	37	44	2	317
Active members	789	122	604	67	1,582
Total	2,327	159	1,493	69	4,048
Postemployment Healthcare Plans					
Retirees and beneficiaries currently receiving benefits*	1,222	-	798	-	2,020
Terminated vested members not yet receiving benefits	10	-	1	-	11
Active members	790	121	604	67	1,582
Total	2,022	121	1,403	67	3,613

* The number of combined domestic relations order recipients is not included in the count above, as their benefit payment is included in the member's count.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(b) Pension, Disability and Healthcare Benefits

Effective September 30, 1994, the Plan entered into an agreement with CalPERS that extends reciprocal retirement benefits to members. In certain situations, this agreement could result in improved retirement benefits for members who move from one eligible retirement system to another.

The following table summarizes the pension, disability and healthcare benefits for Police members. Please consult the Municipal Code for complete information.

Police Tier 1		Police Tier 2
Contributions		
Employee	20.39% (Pension: 10.88%, Retiree Healthcare: 9.51%) As of 06/18/17	15.17% (Pension: 15.17%, Retiree Healthcare: 0.00%) As of 7/30/17
City	105.62% (Pension: 95.31%, Retiree Healthcare: 10.31%) As of 06/18/17	25.48% (Pension: 15.17%, Retiree Healthcare: 10.31%) As of 7/30/17
Service required to leave contributions in retirement plan	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	5 years service with the City in the Police and Fire Department Plan (Years of Service = 2080 hours worked within applicable 12-month period)
Service Retirement		
Age / years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan A reduction factor of 7.0% per year for each year between age 57 and Tier 2 member's age at retirement, prorated to the closest month.
Early retirement	50-54 with 20 years of service (Discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction fact of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

Police Tier 1		Police Tier 2
Allowance	First 20 years of service: 50% of final compensation (2.5% per year) Next 21-30 years service: 4% per year of service X final compensation (90% max) Years of service (year of service = 2080 hours worked)	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final compensation Beginning of 26th year of service: 3.4% per year of service x Final compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of Final compensation
Disability Retirement (Service Connected)		
Minimum service	None	None
Allowance	<20 years of service: 50% of final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	An individual who is granted a service-connected disability retirement is entitled to a monthly allowance equal to the greater of: 50% of Final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by number of years of service subject to the applicable formula, if not qualified for a service retirement.
Disability Retirement (Non-Service Connected)		
Minimum service	2 years of service	5 years of service
Allowance	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2 years. (50% max) >20 years of service: 2.5% x first 20 years of service x final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	An individual who is granted a non service-connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or if older than age 50: The amount of service pension benefit as calculated based upon the service pension formula.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(b) Pension, Disability and Healthcare Benefits *(continued)*

Police Tier 1		Police Tier 2
Medical Benefits / Voluntary Employees' Beneficiary Association (VEBA)		
Eligibility	Retired for disability or service directly from active service with either 15 years of City service or receives allowance that is at least 37.5% of final compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Defined Contribution Plan - All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)
Premiums	Retirement system pays 100% of lowest cost plan that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.	None
Dental Benefits / Voluntary Employees' Beneficiary Association (VEBA)		
Eligibility	Retired for disability or service from active service with either 15 years of service or receives retirement allowance of at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of City service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)
Premiums	Fully paid by Retirement plan	None
Reciprocity		
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
Cost-of-Living Adjustments (COLA)		
Cost-of-living adjustment	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per fiscal year. The first COLA will be prorated based on the number of months retired.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(b) Pension, Disability and Healthcare Benefits *(continued)*

The following table summarizes the pension, disability and healthcare benefits for Fire members. Please consult the Municipal Code for complete information.

Fire Tier 1		Fire Tier 2
Contributions		
Employee	21.12% of Base Salary (Pension: 11.38%, Retiree Healthcare: 9.74%) As of 06/18/2017	16.26% of base salary (Pension: 16.26%, Retiree Healthcare: 0.00%) As of 7/30/2017
City	106.68% of Base Salary (Pension: 96.06%, Retiree Healthcare: 10.62%) As of 06/18/2017	26.88% of base salary (Pension: 16.26%, Retiree Healthcare: 10.62%) As of 7/30/2017
Service required to leave contributions in retirement system	10 years (20 years must have elapsed from date of entry into system to collect pension)	5 years of service with the City in the Plan (Year of Service = 2080 hours worked in the applicable 12-month period)
Service Retirement		
Age/ years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan. A reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Early retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 5 years of service with the City in the Plan. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X final compensation (90% max) – All years convert to 3% after 20 years of service. Years of service (year of service = 2080 hours worked)	First 20 years of service: 2.4% per year of service x final compensation Beginning of 21st year of service: 3.0% per year of service x final compensation Beginning of 26th year of service: 3.4% per year of service x final compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of final compensation
Final compensation	Highest one-year average	Highest three-year average

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

Fire Tier 1		Fire Tier 2
Disability Retirement (Service Connected)		
Minimum service	None	None
Allowance	< 20 yrs of service: 50% of final compensation Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	An individual who is granted a service connected disability retirement is entitled to monthly allowance equal to the greater of : 50% of final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by the number of years of service subject to the applicable formula, if not qualified for a service retirement
Disability Retirement (Non-Service Connected)		
Minimum service	2 years of service	5 years of service
Allowance	<20 years service: 32% of final compensation plus 1% for each full year in excess of 2 years. (50% max) Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	An individual who is granted a non service-connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or If older than age 50: the amount of service pension benefit as calculated based upon the service pension formula
Medical Benefits / Voluntary Employees' Beneficiary Association (VEBA)		
Eligibility	Retired for disability or service directly from active service with 15 years of San Jose service or receive allowance that is at least 37.5% of final compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Defined Contribution Plan: All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA).
Premiums	Retirement system pays 100% of lowest cost plan that is available to active City employees. If member does not choose the lowest cost plan, member pays the difference between that premium and the premium of the lowest cost plan.	N/A

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

Fire Tier 1		Fire Tier 2
Dental Benefits / Voluntary Employees' Beneficiary Association (VEBA)		
Eligibility	Retired for disability or service directly from active service with 15 years of service or receive allowance that is at least 37.5% of final compensation. Also eligible if member leaves City service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions in retirement plan and former member receives allowance (i.e., applies for retirement).	Defined Contribution Plan: All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA).
Premiums	Fully paid by retirement system	N/A
Reciprocity		
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
Cost-of-Living Adjustment (COLA)		
Cost of living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per year. The first COLA will be prorated based on the number of months retired.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits

The following table summarizes the survivorship pension and health benefits for Police Tier 1. Please consult the Municipal Code for complete information.

Police Tier 1	
Death Before Retirement	
Nonservice-connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater
Nonservice-connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner : $24\% + 0.75\%$ for each year in excess of 2 years x final compensation (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 whichever is greater
Death before retirement, but while eligible for service retirement – Nonservice-connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on the years of service For example: Member's benefit = 76% Survivorship benefit = 38.0% of final compensation Member's benefit = 80% Survivorship benefit = 40.0% of final compensation Member's benefit = 82% Survivorship benefit = 41.0% of final compensation Member's benefit = 85% Survivorship benefit = 42.5% of final compensation and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater
Service-connected death regardless of years of service	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on years of service and to surviving children : 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 50.0% 3 Children: Final compensation x 75.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

Police Tier 1	
Death After Retirement	
Service-connected disability	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate
Nonservice-connected disability	To surviving spouse/domestic partner: Final compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

The following table summarizes the survivorship pension and health benefits for Police Tier 2. Please consult the Municipal Code for complete information.

Police Tier 2	
Death Before Retirement	
Nonservice-connected death not eligible for retirement and less than two years of service	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate or (2) \$1000, whichever is greater
Nonservice-connected death not eligible for retirement and two or more years of service	To surviving spouse/domestic partner: 24% of final compensation + 0.75% of final compensation for each year in excess of 2 compensation (37.5% maximum) There is an 80% cap on final compensation that can be paid to survivors. and to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children : Final compensation x 37.5% If 3 or more Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1000 whichever is greater
Death before retirement, but while eligible for service retirement - Non-service connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on the years of service For example: Member's benefit = 76.0% survivorship benefit = 38.0% of final compensation Member's benefit = 80.0% survivorship benefit = 40.0% of final compensation Member's benefit = 82.0% survivorship benefit = 41.0% of final compensation Member's benefit = 85.0% survivorship benefit = 42.5% of final compensation and to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final Compensation x 37.5% If 3 or more Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1,000, whichever is greater

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

Police Tier 2	
Service-Connected Death	
Service-connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final Compensation depending on years of service There is an 80.0% cap on final compensation that can be paid to survivors and the children: If 1 Child: Final compensation x 25.0% If 2 Children: Final Compensation x 50.0% If 3 or more Children: Final compensation x 75.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or \$1,000 whichever is greater
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the plan's actuaries.
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

The following table summarizes the survivorship pension and health benefits for Fire Tier 1. Please consult the Municipal Code for complete information.

Fire Tier 1	
Death Before Retirement	
Service-connected death regardless of years of service	To surviving spouse/domestic partner 37.5% to 45.0% of member's final compensation depending on the years of service and to surviving children : 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 50.0% 3 Children: Final compensation x 75.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater
Nonservice-connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater
Nonservice-connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner : 24.0% + 0.75% for each year in excess of 2 years x final compensation (45.0% maximum) and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater
Death before retirement, but while eligible for service retirement nonservice-connected death	To surviving spouse/domestic partner 37.5% to 45.0% of member's final compensation depending on years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of final compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of final compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of final compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of final compensation and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

Fire Tier 1	
Death After Retirement	
Service retirees service-connected disability	To surviving spouse/domestic partner: 37.5% to 45.0% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate
Nonservice-connected disability	To surviving spouse/domestic partner: Final compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

The following table summarizes the survivorship pension and health benefits for Fire Tier 2. Please consult the Municipal Code for complete information.

Fire Tier 2	
Death Before Retirement	
Service-Connected Death regardless of years of service	To surviving spouse/domestic partner: 37.5% to 45.0% of member's final compensation depending on the years of service and to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 50.0% If 3 or more surviving Children: Final compensation x 75.0% There is an 80.0% cap on final compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1,000, whichever is greater.
Nonservice-connected death not eligible for retirement and less than two years of service	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate, or (2)\$1,000, whichever is greater
Nonservice-connected death not eligible for retirement and two or more years of service	To surviving spouse/domestic partner: 24.0% + .75% for each year in excess of 2 years x final compensation and the surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 37.5% If 3 or more children: Final compensation x 50.0% There is an 80.0% cap on final compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children to the estate: Return contributions, plus interest, or \$ 1,000 whichever is greater

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits *(continued)*

Fire Tier 2	
Nonservice-connected death eligible for retirement	To surviving spouse/domestic partner: 37.5% to 45.0% of member's final compensation depending on the years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of final compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of final compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of final compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of final compensation and to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 37.5% If 3 or more Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or \$1,000, whichever is greater
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries.
Non-service connected disability retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner
Post-Retirement Marriage	
	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial activities of the Plan in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the Plan are intended to present only the plan net position and changes in plan net position of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The Plan is reported in a pension and postemployment healthcare trust fund in the City of San José's basic financial statements.

(b) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to legal requirements. Benefits and refunds of contributions are recognized when currently due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plans are accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

The City of San José Municipal Code Charter Section 3.36.530 delegates authority to the Board of Administration to invest the monies of the Plan as provided in Section 3.36.540. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.36.540.

For the year ended June 30, 2017, there was no change to the Defined Benefit Pension Plan investment policy, which the Board reviewed and approved on January 5, 2017. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the Plan's adopted actuarial assumed rate of return as utilized in the June 30, 2016 valuations.

Notes to the Basic Financial Statements (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

The Plan's investment allocation is as follows:

PENSION	As of June 30, 2017			As of June 30, 2016		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Asset Class						
Global equity	25%	31%	50%	25%	31%	50%
Real assets	12%	17%	25%	12%	17%	25%
Global fixed income	10%	16%	30%	10%	16%	30%
Private debt	5%	11%	15%	5%	11%	15%
Global tactical asset allocation	-%	10%	10%	-%	10%	10%
Private equity	3%	8%	13%	3%	8%	13%
Absolute return	2%	6%	12%	2%	6%	12%
Cash	-%	1%	10%	-%	1%	10%

The real assets category includes allocations to real estate, commodities, and other inflation-linked assets. The absolute return category includes allocations to relative value and global macro hedge funds.

In addition, on August 7, 2014, the Board approved a new long-term asset allocation for the Healthcare Trust Plans. Recommended changes included utilizing more active management, decreasing fixed income strategies and increasing absolute return strategies.

HEALTHCARE	As of June 30, 2017			As of June 30, 2016		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Asset Class						
Global equity	25%	43%	50%	25%	43%	50%
Global fixed income	5%	15%	25%	5%	15%	25%
Global tactical asset allocation	-%	20%	25%	-%	20%	25%
Real assets	12%	22%	25%	12%	22%	25%
Cash	-%	-%	5%	-%	-%	5%

The real assets category includes allocations to commodities, real estate, and other inflation-linked assets. The absolute return/global tactical asset category is currently comprised of three global tactical asset allocation managers who run unconstrained global portfolios.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. See Note 3 starting on page 56 for more detailed information on the fair value of investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2017, the Plan no longer owned any assets that were separate real estate properties. On June 2, 2017, the Plan sold the Progress Point building located in O'Fallon Missouri for \$12,959,000 before closing costs. The sale resulted in a net realized loss of \$10,165,000. As of June 30, 2016, the office building in O'Fallon, Missouri had a mortgage payable with a fair value of \$7,836,000. On January 28, 2016, the Plan sold the First American Title building located in San Jose, California for \$23,300,000 before closing costs. The sale resulted in a net realized loss of \$1,556,000.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

Investment expenses presented within the accompanying financial statements consist of management and performance fees and other investment-related fees. Other investment-related fees include expenses for shared investment-related administration, consultants, custody, and legal services. These fees are disclosed within the Investment Expenses within the Statement of Changes in Plan Net Position and detailed in the Investment Expenses Schedule in the Other Supplemental Information section.

The investment expenses do not include the commissions and fees paid to transact public securities. Partnership management fees paid for the private equity program are drawn from the committed capital and reported as an increase in the cost basis. These fees and costs are included within the net asset value (NAV) or public securities cost and are also reported in the net appreciation/(depreciation) in fair value of investments line items on the financial statements.

For the years ended June 30, 2017 and 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.68% and (0.85%), respectively. For the year ended June 30, 2017, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 7.17%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(d) Capital Assets

Capital assets are recorded at cost and comprise of all costs related to the development of a new pension administration system. The development of the new pension administration system is expected to be completed in four years, by the fall of 2018. It will be amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, over a period of 10 years, once it has been placed into service.

Notes to the Basic Financial Statements (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits

The Plan is required by the City of San José Municipal Code to establish various reserves in the plan net position. The plan net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plans (which include the 401(h) and the two 115 Trusts).

As of June 30, 2017 and 2016, plan net position totaling \$3,442,939,000 and \$3,167,080,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of- Living Fund	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
June 30, 2017							
Employee contributions reserve	\$ 331,100	\$ 77,545	\$ 408,645	\$ -	\$ -	\$ -	\$ 408,645
General reserve	1,696,268	1,188,344	2,884,612	45,874	65,653	38,155	3,034,294
Total	\$ 2,027,368	\$ 1,265,889	\$ 3,293,257	\$ 45,874	\$ 65,653	\$ 38,155	\$ 3,442,939
June 30, 2016							
Employee contributions reserve	\$ 310,980	\$ 73,896	\$ 384,876	\$ -	\$ -	\$ -	\$ 384,876
General reserve	1,593,480	1,065,297	2,658,777	46,749	49,599	27,079	2,782,204
Total	\$ 1,904,460	\$ 1,139,193	\$ 3,043,653	\$ 46,749	\$ 49,599	\$ 27,079	\$ 3,167,080

Employee Contributions Reserve represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of a return of accumulated employee contributions, plus credited interest, to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only. No employee contributions are paid out of the healthcare plans.

General Reserve is a reserve that represents net earnings resulting from interest earnings, employer contributions, and realized and unrealized investment gains and losses. It also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(f) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of plan net position. An allocation is made semi-annually from the general reserve category to the employee contributions category of plan net position based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Implementation of Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2017, the Plan implemented the following GASB Statements:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans and is effective for financial statements for fiscal years beginning after June 15, 2016. This Statement essentially updated all of Note 5 with new disclosures and added additional disclosures in the Required Supplementary Information section. In addition, the total OPEB liability under the new GASB standards will be equal to the actuarial accrued liability for the plan, calculated under the GASB-specified entry age actuarial cost method. Since the actuary was already using the entry age actuarial cost method, there is no material impact to the Plan.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73, that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The application of Statement No. 82, did not have a material effect on the Plan's financial statements.

The Plan is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which is effective for fiscal years beginning after June 15, 2017. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. This statement improves the accounting and financial reporting for leases by governments.

NOTE 3 - INVESTMENTS

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks.

Interest Rate Risk – The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate risk. However, the Plan does settle on a transaction plus one day basis (T+1), therefore limiting the Plan's exposure to counterparty risk.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2017 and 2016.

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2017 (In Thousands)

	0-3 Months	3-6 Months	6 Months -1 year	1-5 Years	5-10 Years	More than 10 Years	Total Fair Value	Cost
Fixed Income								
Global Fixed Income:								
Commingled funds	\$ 25,522	\$ -	\$ 69,270	\$ 182,550	\$ 56,392	\$ 150,139	\$ 483,873	\$ 440,730
Mortgage - backed securities	-	-	-	-	1,894	41,477	43,371	43,796
Corporate bonds	-	-	-	84	-	-	84	58
Other debt securities	-	-	-	1,431	8,943	11,352	21,726	21,648
Total Global Fixed Income	25,522	-	69,270	184,065	67,229	202,968	549,054	506,232
Collective Short Term Investments	287,658	-	-	-	-	-	287,658	287,658
TOTAL FIXED INCOME	\$ 313,180	\$ -	\$ 69,270	\$ 184,065	\$ 67,229	\$ 202,968	\$ 836,712	\$ 793,890

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2016 (In Thousands)

	0-3 Months	3-6 Months	6 Months -1 year	1-5 Years	5-10 Years	More than 10 Years	Total Fair Value	Cost
Fixed Income								
Global Fixed Income:								
Commingled funds	\$ 23,446	\$ -	\$ 75,877	\$ 107,874	\$ 264,303	\$ 41,888	\$ 513,388	\$ 498,820
Mortgage - backed securities	-	-	-	-	3,882	46,172	50,054	49,194
Corporate bonds	8	-	-	95	-	-	103	58
Other debt securities	-	-	-	2,278	3,972	2,599	8,849	8,596
Total Global Fixed Income	23,454	-	75,877	110,247	272,157	90,659	572,394	556,668
Collective Short Term Investments	228,612	-	-	-	-	-	228,612	229,483
TOTAL FIXED INCOME	\$ 252,066	\$ -	\$ 75,877	\$ 110,247	\$ 272,157	\$ 90,659	\$ 801,006	\$ 786,151

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2017 and 2016, all of the Plan's investments are held in the Plan's name and/or are not exposed to custodial credit risk.

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

Credit Quality Risk – The Plan's investment policy allows for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The following tables provide information for the portfolio as of June 30, 2017 and 2016 concerning credit risk. These tables reflect only securities held in the Plan's name.

RATINGS OF FIXED INCOME INVESTMENTS

As of June 30, 2017 and 2016 (Dollars in Thousands)

S&P Quality Rating	2017		2016	
	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	\$ 363	0.04 %	\$ 537	0.07 %
AA+	4,627	0.55 %	3,385	0.42 %
A+	1,724	0.21 %	2,010	0.25 %
A	428	0.05 %	515	0.06 %
A-	-	- %	239	0.03 %
BBB+	1,832	0.22 %	1,214	0.15 %
BBB	6,333	0.76 %	2,703	0.34 %
BBB-	503	0.06 %	-	- %
BB+	1,431	0.17 %	1,437	0.18 %
BB	749	0.09 %	362	0.05 %
BB-	499	0.06 %	1,533	0.19 %
B+	527	0.06 %	2,726	0.34 %
B	1,554	0.19 %	2,461	0.31 %
B-	476	0.06 %	1,777	0.22 %
CCC	3,556	0.42 %	4,249	0.53 %
CCC-	-	- %	1,310	0.16 %
CC	760	0.09 %	-	- %
D	6,821	0.82 %	9,961	1.24 %
Not Rated	804,529	96.15 %	764,587	95.46 %
TOTAL	\$ 836,712	100.00 %	\$ 801,006	100.00 %

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2017 and 2016, the Plan's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan's commitments relating to international currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2017 and 2016, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2017 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contract, Net	Real Assets	Total Exposure
Australian dollar	\$ -	\$ 3,679	\$ (59)	\$ -	\$ 3,620
Canadian dollar	-	5,868	(151)	-	5,717
China yuan renminbi	-	-	(94)	-	(94)
Denmark krone	-	5,266	-	-	5,266
Euro currency	182	17,956	(545)	15,080	32,673
Hong Kong dollar	19	1,659	-	-	1,678
Japanese yen	-	13,317	328	-	13,645
Korea (South) won	-	7,957	-	-	7,957
Norwegian krone	-	1,795	-	-	1,795
Singapore dollar	-	81	-	-	81
Swedish krona	-	3,022	(16)	-	3,006
Swiss franc	-	14,310	(104)	-	14,206
United Kingdom pound	-	30,428	(275)	-	30,153
TOTAL	\$ 201	\$ 105,338	\$ (916)	\$ 15,080	\$ 119,703

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2016 (In Thousands)

Currency name	Cash	Global Equity	International Currency Contract, Net	Real Assets	Total Exposure
Australian dollar	\$ 29	\$ 3,791	\$ 19	\$ -	\$ 3,839
British pound sterling	(183)	20,316	284	-	20,417
Canadian dollar	396	5,241	106	-	5,743
Chilean peso	-	-	22	-	22
Danish krone	-	8,238	-	-	8,238
Euro currency	(863)	13,672	64	12,306	25,179
Hong Kong dollar	19	1,226	-	-	1,245
Japanese yen	(388)	15,583	(44)	-	15,151
New Israeli shekel	-	5,471	-	-	5,471
Norwegian krone	-	1,296	-	-	1,296
Swedish krona	(34)	2,343	(43)	-	2,266
Swiss franc	-	8,389	97	-	8,486
TOTAL	\$ (1,024)	\$ 85,566	\$ 505	\$ 12,306	\$ 97,353

NOTE 3 - INVESTMENTS *(continued)*

Investment Concentration Risk – The Plan's investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 10% of the Plan's assets without Board approval, with the exception of passive management where the Plan's assets are not held in the Plan's name at the Plan's custody bank. In such cases, the investment management firm can manage no more than 20% of the Plan's assets without Board approval. As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without prior Board approval. As of June, 30, 2017 and 2016, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented five percent or more of the total plan net position or total investments.

Derivatives – The Plan's investment policy allows for investments in derivative instruments that comply with the Plan's objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Plan is currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board approved policy benchmark. In addition to the Plan's internal derivative policies, it is understood that the mandates of certain investment managers retained by the Plan may use derivatives.

Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2017 or 2016. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2017 and 2016, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2017 and 2016 financial statements are as follows (amounts in thousands):

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

		Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2017		Fair Value at June 30, 2017	
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Notional Amount/Shares
Foreign currency forwards	Investment income	\$ (976)	International currency contracts, net	\$ (916)	\$ 136,293
Futures long/short (domestic and foreign)	Investment income	11,732	Fixed income (domestic and foreign)	-	27,005
Rights / Warrants	Investment income	(16)	Global equity	24	73
Total Derivative Instruments		\$ 10,740		\$ (892)	

		Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2016		Fair value at June 30, 2016	
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Notional Amount/Shares
Foreign currency forwards	Investment income	\$ 672	International currency contracts, net	\$ 505	\$ 129,400
Futures long/short (domestic and foreign)	Investment income	1,125	Fixed income (domestic and foreign)	-	11,594
Rights / Warrants	Investment income	5	Global equity	5	7
Total Derivative Instruments		\$ 1,802		\$ 510	

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2017 and 2016.

Counterparty Credit Risk - The Plan is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Plan's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2017, total commitments in forward currency contracts to purchase and sell international currencies were \$136,293,000 and \$136,293,000, respectively, with fair values of \$136,393,000 and \$137,308,000, respectively, held by counterparties with S&P rating of at least AA-. As of June 30, 2016, total commitments in forward currency contracts to purchase and sell international currencies were \$129,400,000 and \$129,400,000 respectively, with fair values of \$128,766,000 and \$128,261,000, respectively, held by counterparties with S&P rating of at least AA-.

Fair Value Measurements - In fiscal year 2016, the Plan adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

The Plan has the following recurring fair value measurements as of June 30, 2017 and June 30, 2016:

Investments Measured At Fair Value As of June 30, 2017		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by fair value level					
Global equity	\$ 1,124,182	\$ 286,088	\$ -	\$ -	\$ 838,094
Private equity	170,786	-	-	4,519	166,267
Global fixed income	549,054	16,380	65,098	-	467,576
Collective short term investments	287,658	287,658	-	-	-
Private debt	219,768	-	-	17,559	202,209
Real assets	495,825	6,982	-	-	488,843
International currency contracts, net	(916)	(916)	-	-	-
Global tactical asset allocation	325,119	207,125	-	-	117,994
Absolute return	251,543	-	-	-	251,543
Total investments measured at fair value	\$ 3,423,019	\$ 803,317	\$ 65,098	\$ 22,078	\$ 2,532,526

Investment Measured at Fair Value As of June 30, 2016		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by fair value level					
Global equity	\$ 877,122	\$ 254,308	\$ -	\$ -	\$ 622,814
Private equity	261,118	7	-	14,995	246,116
Real estate	5,910	-	-	5,910	-
Global fixed income	572,394	14,872	57,785	1,118	498,619
Collective short term investments	228,612	228,288	103	221	-
Private debt	220,433	-	-	15,691	204,742
Real assets	440,167	7,119	-	-	433,048
International currency contract, net	505	505	-	-	-
Global tactical asset allocation	298,150	186,046	-	-	112,104
Absolute return	225,786	-	-	-	225,786
Total investments measured at fair value	\$ 3,130,197	\$ 691,145	\$ 57,888	\$ 37,935	\$ 2,343,229

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place. Many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

NOTE 3 - INVESTMENTS (continued)

Alternative Investments

Alternative investments include global equity, private equity, real assets, global fixed income, private debt, global tactical asset allocation and absolute return investments. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner (GP) of each investment firm retained by the Plan. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the alternative investment program are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB 72, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments).

Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value/latest 12 months EBITDA or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

The determination of fair value using these methodologies should take into consideration a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading value on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Because of the subjective nature of estimated fair value of the private investments, such value may differ significantly from the values that would have been used had a ready market existed for these investments. These financial instruments have been classified as Level 3 or NAV in the fair value hierarchy.

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2017 and 2016:

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

Investments Measured at the NAV As of June 30, 2017 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	\$ 838,094	\$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	166,267	81,527	Daily, N/A	1 Day, N/A
Global fixed income	467,576	-	Daily, Monthly, Quarterly	1 - 60 Days
Private debt	202,209	123,778	N/A	N/A
Real assets	488,843	115,469	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A (Closed-end funds)
Global tactical asset allocation	117,994	-	Monthly	1 - 5 Days
Absolute return	251,543	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investments measured at the NAV	\$ 2,532,526	\$ 320,774		

Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	\$ 622,814	\$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	246,116	63,900	Daily, N/A	1 Day, N/A
Global fixed income	498,619	-	Daily, Monthly, Quarterly	1 - 65 Days
Private debt	204,742	116,650	N/A	N/A
Real assets	433,048	112,950	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A, (Closed-end funds)
Global tactical asset allocation	112,104	-	Monthly	5 Days
Absolute return	225,786	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investment measured at the NAV	\$ 2,343,229	\$ 293,500		

Global equity - This type includes investments in five commingled investment funds and four long/short funds. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Three commingled funds offer daily liquidity with one day notice, one is monthly with a one month notice and one is monthly with two weeks' notice. One long/short fund offers monthly redemptions with quarterly notice. The remaining three long/short funds offer quarterly liquidity with notice periods ranging from one to two months.

Private equity - This type includes investments in one commingled investment fund and fifteen private equity limited partnership funds, which generally invest in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The commingled investment offers daily liquidity with one day notice.

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

Global fixed income - This type includes investments in nine commingled investment funds. Global fixed income funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations and derivatives thereof. Three commingled funds offer daily liquidity with notice periods of one to two days and one offers monthly liquidity with five days' notice. The remaining five funds offer quarterly redemptions with notice periods of one to two months.

Private debt - This type includes investments in eight private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

Real assets - This type includes ten closed-end real estate funds, two closed-end infrastructure funds, one open-end real estate funds, one commingled infrastructure funds, and two commingled commodities funds. Real assets are physical or tangible assets that have value due to their substance and properties. The goal of real assets is to help the portfolio maintain purchasing power through periods of inflation. The closed-end real estate and infrastructure funds cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The open-end real estate fund offer quarterly redemptions with a two week notice period. One commodities fund offers monthly liquidity with three business days' notice. The other commodities fund offers annual redemptions with 180 days' notice after a 3-year soft lock. Early redemptions are available on a quarterly basis with 90 days' notice and are subject to a 5% fee. This restriction will be in effect until August 2018.

Global tactical asset allocation (GTAA) - This type includes investments in two mutual funds and one commingled fund. GTAA captures directional market movements or relative market mispricing. The funds generally invest long, but can short, in a wide array of securities, including listed and OTC derivatives and typically uses modest leverage. The mutual funds offer daily liquidity and the commingled fund has monthly liquidity with five days' notice.

Absolute return - This type includes investments in twelve hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from one week to one quarter with notice periods of two weeks to one quarter. Two funds have 25% per quarter maximum investor-level redemption gates, one of which can be overcome by a 3% redemption fee. Another fund has a fund-level gate of 8.33%.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

Net Pension Liability. The components of the net pension liability (i.e., the total pension liability determined in accordance with GASB Statement No. 67 less the plan net position) as of June 30, 2017 and 2016, were as follows (dollars in thousands):

	2017	2016
Total pension liability	\$ 4,533,776	\$ 4,220,098
Plan fiduciary net position	\$ 3,293,257	\$ 3,043,653
Net pension liability	\$ 1,240,519	\$ 1,176,445
Plan fiduciary net position as a percentage of the total pension liability	72.6 %	72.1 %

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Actuarial Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revision to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2015 and the next experience study is scheduled to be conducted in 2017.

The total pension liability as of June 30, 2017 and 2016, is based on results of an actuarial valuation date of June 30, 2016 and 2015, respectively, and rolled-forward to June 30, 2017 and 2016 using standard roll forward procedures. A summary of the actuarial assumptions used to determine the total pension liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Inflation rate	2.75%	3.00%
Discount rate	6.875% per annum (net of investment expenses)	7.0% per annum (net of investment expenses)
Post-retirement mortality		
(a) Service	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2015 on a generational basis from the base year of 2009.	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2015 on a generational basis from the base year of 2009.
(b) Disability	CALPERS 2009 Industrial Disability Mortality Table for males multiplied by 0.903 and projected using SOA MP-2015 on a generational basis from the base year of 2009.	CALPERS 2009 Industrial Disability Mortality Table for males multiplied by 0.903 and projected using SOA MP-2015 on a generational basis from the base year of 2009.
Rate of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2015, actuarial experience analysis	Based upon the June 30, 2015, actuarial experience analysis
Salary increase		
Wage inflation	3.25% for all years	3.25% for all years
Merit increase	Merit component added based on an individual year's of service ranging from 6.75% to 1.00%	Merit component added based on an individual year's of service ranging from 6.75% to 1.00%
Cost-of-living adjustment	Tier 1 - 3% per year Tier 2 - 2% per year	Tier 1 - 3% per year Tier 2 - 1.5% per year

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

The assumption for the long-term expected rate of return on pension plan investments of 6.875% and 7.0% for the valuation years ending June 30, 2016 and 2015, respectively, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2017 and 2016, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	2017		2016	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	31%	5.1%	31%	5.0%
Private equity	8%	7.0%	8%	6.3%
Global fixed income	16%	1.3%	16%	1.8%
Private debt	11%	4.3%	11%	4.8%
Real assets	17%	3.3%	17%	3.6%
Absolute return	6%	3.1%	6%	3.3%
Global tactical asset allocation	10%	2.1%	10%	3.5%
Cash	1%	0.2%	1%	-

Discount Rate. The discount rate used to measure the total pension liability was 6.875% and 7.0% for the measurement years ending June 30, 2017 and 2016, respectively. It is assumed that Plan member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the Plan's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in Discount Rate. In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, as of June 30, 2017 and 2016, respectively, calculated using the discount rate of 6.875% and 7.0% for the fiscal years of 2017 and 2016, respectively, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.0% lower (5.875% and 6.00%) or 1.0% higher (7.875% and 8.00%) than the current rate (in thousands):

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS
(continued)

	2017			2016		
	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Total pension liability	\$ 5,213,524	\$ 4,533,776	\$ 3,986,598	\$ 4,848,735	\$ 4,220,098	\$ 3,713,368
Plan fiduciary net position	3,293,257	3,293,257	3,293,257	3,043,653	3,043,653	3,043,653
Net pension liability	\$ 1,920,267	\$ 1,240,519	\$ 693,341	\$ 1,805,082	\$ 1,176,445	\$ 669,715
Plan fiduciary net position as a percentage of the total pension liability	63.2 %	72.6 %	82.6 %	62.8 %	72.1 %	82.0 %

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due. On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City contributions to the Plan.

In January 2011, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the floor methodology when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the Plans reduce the incentive for the City to prefund its contributions. The incremental reduction to the discount is 15% per year, up to a maximum of 45%. Since fiscal year June 30, 2017 was the third year of this type of economic environment, the reduction was 45%.

In February 2016, the Board approved the City's request that the floor methodology for Tier 1 be used only for the annual employer Normal Cost contribution (which includes administrative expenses) and that the annual employer Unfunded Accrued Liability (UAL) contribution be set at the dollar amount recommended by the actuary and adopted by the Board in the annual actuarial valuation report beginning fiscal year 2016-2017.

The employer contribution for Tier 1 determined in the June 30, 2015 valuation for the fiscal year ended June 30, 2017 was the greater of \$132,202,212 (if paid at the beginning of the fiscal year) or 80.40% for Police Tier 1 members and 81.61% for Fire Tier 1 members of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$171,199,000 was greater than the actuarial payroll of \$167,327,000, (\$94,977,000 for Police Tier 1 and \$72,350,000 for Fire Tier 1), resulting in an annual contribution of \$135,088,000, for the fiscal year ending June 30, 2017, including current and prior year contribution accruals and the additional amount based on the floor methodology.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

The employer contribution for Tier 1 determined in the June 30, 2014 valuation for the fiscal year ended June 30, 2016 was the greater of \$129,769,000 (if paid at the beginning of the fiscal year) or 73.01% for Police Tier 1 members and 74.95% for Fire Tier 1 members of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for fiscal year ended June 30, 2016 of \$175,506,000 was less than the actuarial payroll of \$181,851,000, (\$105,928,000 for Police Tier 1 and \$75,923,000 for Fire Tier 1), resulting in an annual contribution of \$129,769,000, as of July 1, 2015.

San Jose City Council Ordinance No. 29266 and Ordinance No. 29511 implemented the terms of a stipulated arbitration award for Police Tier 2 and Fire Tier 2 pension benefits, respectively. Police Tier 2 members are any new Plan members hired on or after August 4, 2013; Fire Tier 2 members are any new Plan members hired on or after January 2, 2015. The new tiers include significant benefit changes from the existing Police Tier 1 and Fire Tier 1 plans as described in Note 1. In addition, the contribution rates for Police Tier 2 and Fire Tier 2 members include a change in the cost sharing between the City and active Police Tier 2 and Fire Tier 2 members which is a 50/50 split of all costs, including unfunded actuarial accrued liability (UAAL). Currently, Police Tier 1 and Fire Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Police Tier 1 and Fire Tier 1 members. The responsibility for funding the UAAL is generally not shared with the Police Tier 1 and Fire Tier 1 employees.

On May 5, 2016, the Board approved a funding policy for Police Tier 2 and Fire Tier 2 setting the Police Tier 2 annual determined contribution (ADC) to be 10.97% of actual payroll and Fire Tier 2 annual determined contribution to be 10.61% of actual payroll for the fiscal year ended June 30, 2017. The actual payroll for Police Tier 2 of \$11,873,000 resulted in an annual contribution of \$1,326,000 for the fiscal year ended June 30, 2017, including year end accruals, contributions receivable and other adjustments. The actual payroll for Fire Tier 2 of \$5,014,000 resulted in an annual contribution of \$543,000 for the fiscal year ended June 30, 2017, including year end accruals, contributions receivable and prior year contribution adjustments.

Beginning September 2014, the Board approved the City's request to exclude Tier 2 from the floor methodology to ensure that the City does not pay more than the ADC and that contributions are based on the annual determined contribution percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll will be used, setting the annual determined contribution to be 11.27% for Police Tier 2 members and 11.17% for Fire Tier 2 members of actual payroll for the fiscal year ended June 30, 2016. The actual payroll for Police Tier 2 and Fire Tier 2 for the fiscal year ended June 30, 2016 was \$8,928,000 and \$2,143,000, respectively, resulting in annual contributions of \$1,024,000 for Police Tier 2 and \$253,000 for Fire Tier 2, including year end accruals, contributions receivable and prior year contribution adjustments.

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The contribution rates for fiscal years ended June 30, 2017 and 2016 were based on the actuarial valuations performed as of June 30, 2015 and 2014, respectively, except for the period of June 18 through June 30, 2017, which were based on the June 30, 2016 valuation.

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2017 and 2016 were as follows:

Period	City-Board Adopted *				Member			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
06/18/2017 - 06/30/2017	95.31 %	15.17 %	96.06 %	16.26 %	10.88 %	15.17 %	11.38 %	16.26 %
06/19/2016 - 06/17/2017	80.40 %	10.97 %	81.61 %	10.61 %	10.59 %	10.97 %	11.07 %	10.61 %
07/1/2015 - 06/18/2016	73.01 %	11.27 %	74.95 %	11.17 %	11.26 %	11.27 %	11.83 %	11.16 %

* The actual contribution rates paid by the City for fiscal years ended June 30, 2017 and June 30, 2016 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS

Net OPEB Liability. The components of the net Other Postemployment Benefit (OPEB) liability of the Plan (i.e., the Plan's liability determined in accordance with GASB No. 74, which 2016-2017 is the first year of implementation and thus only one year of presentation is required, less the plan fiduciary net position) as of June 30, 2017, were as follows (dollars in thousands):

	2017
Total OPEB liability	\$ 714,517
Plan fiduciary net position	\$ 149,681
Net OPEB liability	\$ 564,836
Plan fiduciary net position as a percentage of the total OPEB liability	20.9%

Actuarial Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2015, and the next experience study is scheduled to be conducted in 2017.

The total OPEB liability as of June 30, 2017 is based on results of an actuarial valuation date of June 30, 2016, and rolled-forward to June 30, 2017 using generally accepted actuarial procedures.

A summary of the actuarial assumptions used to determine the total OPEB liability is shown below.

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Description	Method/Assumption
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal, level of percentage of pay
ACTUARIAL ASSUMPTIONS	
Discount rate	6.875%
Inflation rate	2.75%
Projected payroll increases	
Wage inflation rate	3.25% for FY 2017 and for all years.
Merit increase	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%.
Rates of Mortality	
Healthy annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table for males and 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table for females
Healthy non-annuitant	0.948 times the CalPERS 2009 Employee Mortality Table for males and 1.048 times the CalPERS 2009 Employee Mortality Table for females
Disabled annuitant	0.903 times the CalPERS 2009 Industrial Disability Mortality Table for males and females
HEALTHCARE COST TREND RATE	
Medical	The valuation assumes that future medical inflation will be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical post-age 65.
Dental	Dental inflation is assumed to be 4.00%

The expected long-term return on assets changed from 7.00% to 6.875% between the June 30, 2015 and June 30, 2016 valuation dates. The discount rate changed from 6.0% to 6.875% between the June 30, 2015 and June 30, 2016 measurement dates as a result of the adoption of GASB 74. The discount rate used at the June 30, 2017 measurement date was also 6.875%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for the valuation year ending June 30, 2016 was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2017, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	2017	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	43.0%	5.3%
Fixed income	15.0%	1.0%
Real assets	22.0%	2.8%
GTAA / Opportunistic	20.0%	2.1%
Cash	-%	0.2%

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Discount Rate. In addition to the disclosure requirements in GASB 74, the new standard also narrowed the definition of a discount rate from methods that were previously allowed. Therefore, in accordance with GASB 74, the discount rate used to measure the total OPEB liability was 6.875% for the measurement year ending June 30, 2017 and is based on the long-term expected rate of return on investments. It is assumed that Plan member contributions and City contributions will continue at the current contribution rates and that the City will contribute the implicit subsidy. Based on those assumptions, the Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate. In accordance with GASB No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, calculated using the discount rate of 6.875%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (5.875%) or 1.00% higher (7.875%) than the current rate:

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	\$ 824,501	\$ 714,517	\$ 626,078
Plan fiduciary net position	149,682	149,682	149,682
Net OPEB liability	\$ 674,819	\$ 564,835	\$ 476,396
Plan fiduciary net position as a percentage of the total OPEB liability	18.2 %	20.9 %	23.9 %

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.5% decreasing to 3.25%) or 1.0% higher (9.5% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	1% Decrease (7.5% decreasing to 3.25%)	Healthcare Cost Trend Rates (8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	\$ 615,232	\$ 714,517	\$ 839,004
Plan fiduciary net position	149,682	149,682	149,682
Net OPEB liability	\$ 465,550	\$ 564,835	\$ 689,322
Percentage of the total OPEB liability	24.3%	20.9%	17.8%

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

For the fiscal year ended June 30, 2017, Police Department and Fire Department employer contributions were made to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan, respectively. Employee postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) Plan. It is unknown at this time when employee contributions to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan will begin, even though the Plan received an IRS private letter ruling on the tax qualification of the Section 115 Trust on July 9, 2014. Contributions to the Plan prior to June 26, 2011 for Fire members and June 28, 2009 for Police members, were based on the Board's 10-year cash flow funding policy.

Effective June 28, 2009, the Police members of the Plan entered into a Memorandum of Agreement (MOA) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the annual required contribution (ARC) over the next five years; fiscal year 2013-2014 was the fifth year of the phase-in.

Effective June 26, 2011, the Fire members entered into a MOA with the City to phase-in to fully contributing the GASB Statement No. 43 ARC over a five year period; fiscal year 2015-2016 was the fifth year of the phase-in.

In both MOAs, the City and members of the Plan agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. However, the fifth year of both agreements passed, the full funding of retiree medical and dental benefits has not been reached, and no new agreements were made, so the medical and dental contribution rates remained frozen.

On February 24, 2015, the City and the Police bargaining units agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of 11.0% to 10.31%, effective March 15, 2015 and through fiscal year 2016-2017. These were the rates in effect for the year ended June 30, 2014, which shall remain frozen until new agreements are made. For the Fire members, the contribution rates for the year ended June 30, 2016, the last year of the phase-in, will remain frozen until new agreements are made.

In January 2011, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In September 2014, the Board approved the City's request to exclude all forms of Tier 2 from the floor methodology to ensure that the City does not pay more than the ARC and the contributions are based on the annual required contribution percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll is what will be used.

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the floor methodology when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the Plans reduce the incentive for the City to prefund its contributions. The incremental reduction is 15% per year, up to a maximum of 45%. Since fiscal year June 30, 2017 was the third year of this type of economic environment, the reduction was 45%.

The contribution amount for the City for Police Tier 1 and Fire Tier 1 members determined in the June 30, 2015 valuation for fiscal year ending June 30, 2017, was the greater of \$17,063,000 (if paid at the beginning of the fiscal year), or 10.31% for Police Tier 1 members and 10.62% for Fire Tier 1 members, of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1 and Fire Tier 1 members for the fiscal year was \$167,327,000 (\$94,977,000 for Police Tier 1 and \$72,350,000 for Fire Tier 1 members). The actual payroll for the fiscal year of \$171,199,000 was greater than the actuarial payroll of \$167,327,000, resulting in an annual contribution of \$18,910,000, as of June 30, 2017, including the implicit subsidy, current and prior year contribution accruals and the additional accrual based on the floor methodology.

On May 7, 2015, the Board approved a funding policy for Police Tier 2 and Fire Tier 2, setting the Police Tier 2 annual required contribution to be 10.31% based on actual payroll, and Fire Tier 2 annual required contribution to be 10.62% based on actual payroll. The actual payroll for Police Tier 2 for the fiscal year 2016-2017 was \$11,873,000 resulting in an annual contribution of \$1,224,000, including year end accrual, contributions receivables and prior year contribution adjustments. The actual payroll for Fire Tier 2 for the fiscal year 2016-2017 was \$5,014,000, resulting in an annual contribution of \$533,000, including year end accruals, contributions receivables and prior year contribution adjustments.

Contributions to the Postemployment Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. Beginning in fiscal year ended 2010 for Police members and fiscal year ended 2012 for Fire members, actual contributions were intended to phase in to the full annual required contributions (ARC) as defined in the bargaining agreements and consistent with the parameters of GASB 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB 45. No amount has been determined on an actuarial basis to fund the Plan. The Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations.

The City and the participating member's contribution rates in effect for the Postemployment Healthcare Plans during the fiscal years ended June 30, 2017 and 2016 were as follows:

Period	City-Board Adopted		Member	
	Police	Fire	Police	Fire
07/01/2015 - 06/30/17	10.31 %	10.62 %	9.51 %	9.74 %

Notes to the Basic Financial Statements (continued)

NOTE 6 - COMMITMENTS

Commitments – As of June 30, 2017, the Plan had unfunded commitments to contribute capital for private debt investments in the amount of \$123,778,000, private equity investments in the amount of \$81,527,000 and real assets investments in the amount \$115,469,000.

As of June 30, 2016, the Plan had unfunded commitments to contribute capital for private debt investments in the amount of \$116,650,000, private equity investments in the amount of \$63,900 and real asset investments in the amount \$112,950,000.

Pensionable Earnings Corrections – On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act (FLSA) earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. As of February 2009, the City has corrected the transmittal error on a go-forward basis. The City's FLSA overstatement correction amounts were reviewed by the City's internal auditor and the Plan's external accountants at the time. The Plan's external accountants identified variances in the estimated overstatements. In addition, in December 2009, the City Auditor issued their report entitled, *Audit of Pensionable Earnings and Time Reporting*, which identified other pensionable earnings discrepancies that impacted members of the Plan.

In fiscal year 2012, the City's Finance Department reviewed and prepared revised overstatement amounts. On June 1, 2012, the City's Finance Department refunded approximately \$252,000 of overstated contributions to active members.

After the last correction file was received from the City in August 2016, ORS was able to begin their recalculation process. ORS made significant progress during the fiscal year by holding informational meetings, inviting the membership to the Board meetings to discuss the correctional plan and implementing the correctional plan. In February 2017, corrections to the ongoing benefit payments were made to the overpaid members affected by FLSA. In March 2017, corrections to ongoing benefit payments were made to the underpaid members affected by the FLSA. In June 2017, the Board approved collecting three years of overpayments without interest from the beneficiaries, excluding deceased, survivors and terminated beneficiaries. In September 2017, the Board voted to send the City a letter seeking the balance of the monies owed but not recovered from the retirees. This amount, plus interest, is approximately \$1.2 million.

Adjustments to start collecting the cumulative retro-active overpayments for the FLSA beneficiaries were made beginning with the August 2017 benefit payments, while adjustments to pay the lump-sum cumulative retro-active underpayments for the FLSA beneficiaries will be made in the October 2017 benefit payment. Total cumulative overpayments were approximately \$1,136,000, while total cumulative underpayments were \$642,000. The remaining members that were not affected by FLSA but had other pensionable earnings corrections are currently being reviewed and is estimated at \$1,000,000 for the overpaid members while the underpayments have not been determined at this time.

NOTE 7 - LITIGATION

The Plan handles various claims and legal actions in the ordinary course of its business. In the opinion of management and independent legal counsel, the ultimate disposition of these matters is not likely to have a material adverse effect on the Plan's financial position as a whole.

NOTE 8 - SUBSEQUENT EVENTS

Measure F – On February 14, 2017, the City Council approved the ordinance implementing the Alternative Pension Reform Settlement Framework and Measure F which became effective thirty (30) days after on March 31, 2017. The implementation of the terms of the Alternative Pension Reform Settlement Framework and Measure F were effective June 18, 2017 for employees in the Plan. Both the City and the Plan are still waiting for the approval from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare. In addition, further discussions regarding the implementation of the Alternative Pension Reform Settlement Framework and Measure F are being held between the City and the bargaining units, which may result in additional modifications to the framework.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in Thousands)

Total Pension Liability	2017	2016	2015	2014
Service cost (middle of year)	\$ 72,760	\$ 74,531	\$ 74,895	\$ 75,030
Interest (includes interest on service cost)	290,961	274,487	262,738	251,701
Changes of benefit terms	5,752	-	-	-
Differences between expected and actual experience	67,557	(8,673)	21,457	-
Change of assumptions	72,680	90,179	56,311	-
Benefit payments, including refunds of member contributions	(196,032)	(186,939)	(176,253)	(167,397)
Net Change in Total Pension Liability	313,678	243,585	239,148	159,334
Total Pension Liability - Beginning	4,220,098	3,976,513	3,737,365	3,578,031
Total Pension Liability - Ending	\$ 4,533,776	\$ 4,220,098	\$ 3,976,513	\$ 3,737,365
Plan Fiduciary Net Position				
Contributions - employer	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583
Contributions - employee	20,580	21,508	20,747	21,115
Net investment income	292,734	(29,206)	(27,690)	404,978
Benefit payments, including refunds of member contributions	(196,032)	(186,940)	(176,253)	(167,397)
Administrative expense	(4,635)	(4,254)	(4,191)	(3,631)
Net Change in Plan Fiduciary Net Position	\$ 249,604	\$ (66,412)	\$ (58,108)	\$ 378,648
Plan Fiduciary Net Position - Beginning	3,043,653	3,110,065	3,168,173	2,789,525
Plan Fiduciary Net Position - Ending	\$ 3,293,257	\$ 3,043,653	\$ 3,110,065	\$ 3,168,173
Net Pension Liability - Ending	\$ 1,240,519	\$ 1,176,445	\$ 866,448	\$ 569,192
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.64 %	72.12 %	78.21 %	84.77 %
Covered Employee Payroll	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083
Net Pension Liability as a Percentage of Covered Employee Payroll	659.23 %	629.54 %	480.76 %	316.07 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF INVESTMENT RETURNS - DEFINED BENEFIT PENSION PLAN (unaudited)

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	9.68%	(0.85)%	(0.85)%	13.0%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information (continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (unaudited) (Dollars in Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008**
Actuarially determined contribution	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583	\$ 105,234	\$ 121,008	\$ 77,918	\$ 52,315	\$ 53,103	\$ 56,372
Contributions in relation to actuarially determined contribution	136,957	132,480	129,279	123,583	105,234	121,008	77,918	52,315	53,103	56,372
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083	\$ 180,333	\$ 184,750	\$ 222,464	\$ 239,570	\$ 243,196	\$ 240,503
Contributions as a percentage of covered employee payroll	72.78%	70.89%	71.73%	68.63%	58.36%	65.50%	35.02%	21.84%	21.84%	23.44%

**Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09	2008-07
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**	June 30, 2005
Actuarial cost method	Entry Age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.

Required Supplementary Information *(continued)*

NOTES TO SCHEDULE *(continued)*

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09	2008-07
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**	June 30, 2005
Discount rate	7.0%	7.0%	7.125%	7.125%	7.25%	7.5%	7.75%	8.0%	8.0%
Salary increases	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	2.00% for one year and 3.5% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	0.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	0.5% plus merit component based on length of service ranging from 9% for new hires to 5% for members with 8 or more years of service
Amortization growth rate	3.25%	3.25%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Required Supplementary Information *(continued)*

NOTES TO SCHEDULE *(continued)*

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09	2008-07
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**	June 30, 2005
COLA	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police Tier 1 & Fire	3% for Police Tier 1 & Fire	3% for Police and Fire	3% for Police and Fire
Mortality	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.	1994 Group Annuity Mortality Table. Male rates are set back four years and female rates are set forward one year.

** Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the Plan transitioned to annual actuarial valuations.

Required Supplementary Information *(continued)*

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)

(Dollars in Thousands)

Total OPEB Liability	2017
Service cost (middle of year)	\$ 16,112
Interest (includes interest on service cost)	46,774
Benefit payments, including refunds of member contributions	(24,799)
Net Change in Total OPEB Liability	\$ 38,087
Total OPEB Liability - Beginning	676,430
Total OPEB Liability - Ending	\$ 714,517
Plan Fiduciary Net Position	
Contributions - employer	20,667
Contributions - employee	18,116
Net investment income	12,453
Benefit payments, including refunds of member contributions	(24,799)
Administrative expense	(182)
Net Change in Plan Fiduciary Net Position	\$ 26,255
Plan Fiduciary Net Position - Beginning	123,427
Plan Fiduciary Net Position - Ending	\$ 149,682
Net Pension Liability - Ending	\$ 564,835
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	20.95 %
Covered Employee Payroll	\$ 188,177
Net OPEB Liability as a Percentage of Covered Employee Payroll	300.16 %

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

	2017
Annual money-weighted rate of return, net of investment expense	7.17%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)

Beginning in FYE2010 for Police members and FYE 2012 for Fire members, actual contributions were intended to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB 45. No amount has been determined on an actuarial basis to fund the plan, and consequently the schedule of employer contributions is not provided.

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2017 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	\$ 596	\$ 284	\$ 880
Employer contributions	4,245	3,610	7,855
Brokers and others	6,244	1,787	8,031
Accrued investment income / loss	1,790	458	2,248
Total Receivables	12,875	6,139	19,014
Investments, at fair value			
Securities and other:			
Global equity	643,503	437,662	1,081,165
Private equity	105,247	62,955	168,202
Global fixed income	328,312	196,387	524,699
Collective short term investments	166,431	99,555	265,986
Private debt	135,432	81,011	216,443
Real assets	295,956	177,031	472,987
International currency contracts, net	(564)	(338)	(902)
Global tactical asset allocation	188,194	112,572	300,766
Absolute return	155,013	92,725	247,738
Total Investments	2,017,524	1,259,560	3,277,084
Capital Assets	947	541	1,488
TOTAL ASSETS	2,031,346	1,266,240	3,297,586
LIABILITIES			
Payable to brokers	3,011	(208)	2,803
Other liabilities	967	559	1,526
TOTAL LIABILITIES	3,978	351	4,329
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,027,368	1,265,889	3,293,257
TOTAL PLAN NET POSITION	\$ 2,027,368	\$ 1,265,889	\$ 3,293,257

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For Fiscal Year Ended June 30, 2017 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	\$ 13,977	\$ 6,603	\$ 20,580
Employer	69,011	67,946	136,957
Total Contributions	82,988	74,549	157,537
Investment income			
Net depreciation in fair value of investments	177,967	109,006	286,973
Interest income	6,275	3,620	9,895
Dividend income	8,018	4,756	12,774
Net rental income	1,498	882	2,380
Less: investment expense	(12,127)	(7,161)	(19,288)
Net Investment Income	181,631	111,103	292,734
TOTAL ADDITIONS	264,619	185,652	450,271
DEDUCTIONS			
Retirement benefits	132,499	52,097	184,596
Death benefits	5,995	5,077	11,072
Refund of contributions	296	68	364
Administrative expenses and other	2,921	1,714	4,635
TOTAL DEDUCTIONS	141,711	58,956	200,667
NET INCREASE	122,908	126,696	249,604
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	1,904,460	1,139,193	3,043,653
END OF YEAR	\$ 2,027,368	\$ 1,265,889	\$ 3,293,257

Other Supplemental Information *(continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2017 and 2016

	2017		2016	
	Original Budget	Actual	(Over) Under Budget	Actual
Personnel services	\$ 3,496,700	\$ 3,065,147	\$ 431,553	\$ 2,930,849
Non-personnel/equipment*	1,494,000	577,909	916,091	639,287
Professional services	1,488,500	1,174,270	314,230	823,565
TOTAL ADMINISTRATIVE EXPENSES & OTHER	\$ 6,479,200	\$ 4,817,326	\$ 1,661,874	\$ 4,393,701

* \$671,500 of investment-related expenses for data processing were included in the budget approved by the Board for FY16-17. The actual amounts spent for those items are included in the Schedule of Investment Expenses - Other Investment Fees. The total actual amount spent was \$463,755.

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2017 and 2016

Firm	Nature of Service	2017	2016
Cheiron, Inc.	Actuarial consultant	\$ 275,673	\$ 239,279
Cortex	Governance consultant	19,235	24,724
Grant Thornton LLP	External auditors	59,097	-
Ice Miller, LLC	Tax counsel	13,755	13,025
Levi, Ray, & Shoup	Web development and maintenance	15,252	16,235
Levi, Ray, & Shoup	Programming changes and business continuance services	6,950	11,424
Macias Gini & O'Connell LLP	External auditors	-	59,851
Medical Director/Other Medical	Medical consultants	279,175	76,902
Pension Benefit Information	Reports on deceased benefit recipients	2,428	816
Reed Smith, LLP	Legal counsel	208,353	153,409
Saltzman & Johnson	Legal counsel	102,882	71,445
Segal Company	Actuarial auditors	100,000	-
Silicon Valley Professionals	Temporary staff	39,897	18,850
Trendtec, Inc	Temporary staff	43,159	93,496
Other consultants	Various	8,414	44,109
TOTAL		\$ 1,174,270	\$ 823,565

Other Supplemental Information *(continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2017 and 2016

Investment Managers' Fees	2017	2016
Global equity	\$ 2,290,836	\$ 1,289,299
Private equity	2,548,451	3,462,558
Real estate	5,350,196	3,786,419
Global fixed income	2,725,692	3,175,213
Private debt	1,922,976	3,076,141
Real assets	41,842	1,077,142
Global tactical asset allocation	-	849,111
Absolute return	3,205,379	2,937,646
Total investment managers' fees	18,085,372	19,653,529

Other Investment Fees		
Custodian bank	515,893	373,333
Investment consultants	823,722	957,188
Investment legal fees	172,472	217,453
Other investments fees	124,296	304,931
Proxy voting	-	12,500
Total other investment fees	1,636,383	1,865,405

TOTAL INVESTMENT EXPENSES	\$ 19,721,755	\$ 21,518,934
----------------------------------	----------------------	----------------------

This page intentionally left blank

Investment Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Report of Investment Activity



MEKETA INVESTMENT GROUP

BOSTON MA

CHICAGO IL

MIAMI FL

PORTLAND OR

SAN DIEGO CA

LONDON UK

September 20, 2017

Mr. Roberto L. Peña

Director

The City of San Jose Police and Fire Department Retirement Plan

1737 North First Street, Suite 600

San Jose, CA 95112-4505

Dear Mr. Peña:

Fiscal 2017 Recap¹

Meketa Investment Group was engaged as the Investment Consultant to The City of San Jose Police and Fire Department Retirement Plan in March of 2017 and we look forward to working with the Board and on behalf of the stakeholders going forward. The 2017 fiscal year started off strong for most risk assets as global equity markets rebounded and investment losses incurred in the wake of Brexit were quickly recovered. The British Pound, however, continued its slide to new historic lows. Emerging markets and high yield bonds outperformed in response to the continued quantitative easing from the foreign central banks (the level of central bank asset purchases surpassed the level directly following the Global Financial Crisis) and record low interest rates. During the third quarter 2016, domestic equity markets gained 4.4%, international developed equity markets gained 6.4%, and emerging markets posted a solid gain of 9.0%. Most fixed income asset classes continued to experience positive performance during the third quarter, benefiting from accommodative central bank policy. The Barclays Aggregate Bond Index gained 0.5%, the Barclays High Yield Index was up 5.6%, and the Barclays TIPS Index increased 1.0%.

The fourth quarter of 2016 was more eventful than the third. In a stunning upset, Donald Trump won the United States Presidential election and the markets responded. Mr. Trump's pro-growth policies, including lower taxes, higher infrastructure spending, and less regulation led to a stronger U.S. dollar and higher inflation expectations (10-year U.S. Treasury jumped from 1.8% to 2.4%). This environment generally benefited U.S. equities, while hurting U.S. bonds and foreign assets. For the quarter, domestic equity markets gained 4.2%, international developed equity markets lost -0.7%, and emerging markets declined -4.2%. Most fixed income asset classes experienced negative performance. The Barclays Aggregate Bond Index lost -3.0%, the Barclays High Yield Index was up 1.8%, and the Barclays TIPS Index decreased -2.4%. As 2016 came to an end, it was clear that monetary policy was moving in different directions globally. In the U.S., the Federal Reserve (Fed) had started tightening, electing in December to make their only Federal Funds rate increase in 2016

¹ Relevant market reference benchmark: domestic equity (Russell 3000), international developed equity (MSCI EAFE), and emerging markets (MSCI Emerging Markets).

Report of Investment Activity *(continued)*

September 20, 2017

Page 2 of 6

(0.50% to 0.75%). In Europe, the European Central Bank (ECB) had pledged to extend its bond-buying program until the end of 2018, while lowering monthly purchases starting in April 2017 from 80 billion euros to 60 billion euros. The ECB continued to keep interest rates at record lows with the deposit rate at -0.4% and its key interest rate close to 0%. In Japan, the Bank of Japan (BOJ) made no changes at the year-end meeting. The Bank of Japan maintained the scale of their asset purchase program, kept bank deposit rates negative (-0.1%), and continued to target a 0% yield on the 10-year Japanese government bond.

The first quarter of 2017 was stronger than the fourth quarter of 2016, with nearly all major asset classes producing positive returns. For the quarter, domestic equity markets gained 5.7%, international developed equity markets gained 7.2%, and emerging markets gained 11.4%. All major fixed income asset classes experienced positive performance as well. The Barclays Aggregate Bond Index gained 0.8%, the Barclays High Yield Index was up 2.7%, and the Barclays TIPS Index increased 1.3%. It seemed that global growth was finally moving in the right direction as the International Monetary Fund (IMF) increased their outlook, citing improvements in manufacturing, trade, and investment. This was the first increase in the IMF's forecast in six years. In the U.S., the Fed continued to tighten, electing to make its third 0.25% rate increase in March (0.75% to 1.00%), while the ECB and BOJ maintained the status quo. Near the end of the quarter, the United Kingdom triggered Article 50 of the Lisbon Treaty, officially starting the clock on the U.K.'s formal exit from the European Union. The U.K. will have up to two years to complete the process.

The final three months of the fiscal year presented a strong backdrop for foreign equity markets, somewhat of a reversal from the prior quarters. For the quarter, domestic equity markets gained 3.0%, international developed equity markets gained 6.1%, and emerging markets gained 6.3%. Most fixed income asset classes were slightly positive, with the exception of TIPS. The Barclays Aggregate Bond Index was up 1.4%, the Barclays High Yield Index was up 2.2%, and the Barclays TIPS Index decreased -0.4%. The IMF once again increased the global growth forecast, although the growth drivers had changed. In the U.S., despite softening data, the Fed raised rates by another 0.25% (1.00% to 1.25%). The ECB and BOJ elected not to make any changes to interest rates. However, improving economic conditions and recent statements by Mario Draghi have led to some speculation that the ECB could begin reducing its bond-purchasing program next year. The ECB has committed to continuing purchases through the end of calendar year 2017 and beyond, if needed, and to keeping interest rates low until their bond buying is done. Inflation levels remain below the ECB's target though, and are projected to stay there, which could lead to continual support.

September 20, 2017

Page 3 of 6

Fiscal 2017 Market Returns

Equity markets were very strong throughout the fiscal year with most major equity indexes posting returns in the high teens to low twenties. The Russell 3000 returned +18.5%, while the MSCI ACWI (ex. U.S.) and MSCI Emerging Markets returned +20.5% and +23.7%, respectively. Fixed income was mixed by credit quality as investment grade credits were slightly negative but lower-grade credits were positive. For the full fiscal year: Barclays Aggregate Bond Index returned -0.3%, Barclays TIPS Index returned -0.6%, Credit Suisse Leveraged Loans returned +7.5%, Barclays High Yield Index returned +12.7%, and JPM GBI-EM Global Diversified (unhedged emerging market bonds) returned +6.7%.

Alternative asset classes were also mixed for the fiscal year. NAREIT Equity returned -1.7%, Bloomberg Commodity Index returned -6.5%, Dow Jones Brookfield Global Infrastructure returned +8.0%, and S&P Global Natural Resources returned +15.3%. Private real estate and private equity continued to provide strong returns, as the National Council of Real Estate Fiduciaries (NCREIF) Property Index returned +7.0%, and the Cambridge Associates Private Equity Composite returned +12.0% for the fiscal year¹.

Fiscal 2018 Outlook

Looking forward, Meketa Investment Group believes that four key issues are of primary concern:

1) The potential for simultaneous monetary tightening globally:

After the Global Financial Crisis, major central banks injected massive amounts of liquidity into the market by purchasing bonds from banks (i.e., quantitative easing). They also reduced short term interest rates to record lows. Already the U.S. central bank has ended its bond-buying program, started to increase interest rates, and started to discuss reducing its balance sheet. Although other central banks, like Japan (BOJ) and Europe (ECB), continue to stimulate their respective economies, discussions have started about reducing stimulus in the near term. If major central banks start to tighten their policies at the same time it could lead to higher rates, less liquidity, and lower overall economic activity.

2) Uncertainty related to the U.S. economy and policies:

Post U.S. presidential election, hopes have been high for new policies lowering taxes, increasing infrastructure spending, and reducing regulations. Investors have placed their bets based on the assumption that these policies would come to fruition creating the potential for disappointment. The recent failed attempt to pass revised healthcare legislation illustrates that there could be some bumps with moving forward with the new administration's agenda.

¹ Returns for real estate and private equity benchmarks are lagged one quarter due to the availability of data.

Report of Investment Activity *(continued)*

September 20, 2017

Page 4 of 6

3) Declining growth in China, along with uncertain fiscal and monetary policies:

The process of transitioning from a growth model based on fixed asset investment by the government, to a model of consumption-based growth will be difficult. Similar policies as China's decision to unexpectedly devalue their currency or to support stock prices could prove disruptive and decrease confidence in China's government. Capital outflows remain a key issue in China. They have made some efforts to tighten regulations to stem outflows, but higher rates and growth in the U.S., and elsewhere, could add to outflow pressures. China's abandonment of its support of the yuan, and a resulting major devaluation of the currency, could prove particularly disruptive to global markets and trade. The hot property market and the growing mountain of debt in the corporate sector remain other key risks.

4) Risks related to the U.K.'s exit from the European Union:

European imbalances are rooted in structural issues in the Eurozone related to the combination of a single currency combined with 17 fiscal authorities. In the broader European Union, tensions exist, as highlighted in the U.K. referendum (Brexit) last year, related to policies on immigration, laws, and budgetary contributions. Additional countries leaving either group, particularly the Eurozone, could set a dangerous precedent, especially if they ultimately experience growth. The massive influx of refugees into Europe from the Middle East and North Africa exacerbates economic stress. Furthermore, the votes last year in the U.S. presidential election and Brexit highlight a growing populist/antitrade sentiment. Stagnant wages, growing inequality, and the perception of jobs being lost abroad are key contributors. Reducing trade and imposing tariffs would likely lead to inflation, reduced efficiencies, and heightened tensions between countries.

Plan Investment Results and Asset Allocation for the Pension Plan¹

The City of San Jose Police and Fire Department Retirement Plan had \$3,324.8 million in assets at the end of the 2017 fiscal year. For the fiscal year, the Retirement Plan returned +9.7% net of fees, outperforming the Policy Benchmark (+9.5%) and Allocation Index (+9.0%). The Retirement Plan's return exceeded the 6.875% assumed actuarial rate of return, and has now exceeded that rate in three of the past five fiscal years. The Retirement Plan's standard deviation of returns was 2.2%, exhibiting lower volatility than the peer median (3.2%).

¹ Performance figures calculated by custodian bank.

Report of Investment Activity (continued)

September 20, 2017

Page 5 of 6

Key factors for the Retirement Plan's performance for the fiscal year, relative to the Policy Benchmark¹:

- *Allocation Differences:* The Retirement Plan's investment manager roster continued to expand throughout the fiscal year as new commitments were made in various asset classes. However, allocating assets requires a significant amount of time and due diligence, resulting in the actual allocation and composition of the Retirement Plan differing from Policy targets. For example, the Retirement Plan has targeted an 11% allocation to Private Debt, but the actual allocation ended the fiscal year at just under 7%.
- *Global Equity:* The Retirement Plan's equity allocation returned +19.7% for the fiscal year, slightly outperforming the custom benchmark return of +19.0% over the same period. Global equity was boosted by strong performance across the board in global (+25.0%), U.S. (+18.7%), international (+19.4%), and emerging markets (+23.4%).
- *Global Fixed Income:* The Retirement Plan's fixed income allocation returned +6.0% for the fiscal year, significantly outperforming the custom benchmark's return of -0.2% over the same period. Global fixed income's relative return was boosted by its global core component (securitized credit and government bonds). Global core's outperformance (+3.0% vs -2.2%) combined with slight outperformance from non-investment grade credit (+10.6% vs. +10.2%) outweighed the underperformance from emerging markets debt (+5.7% vs. +6.3%). We estimate that global fixed income added approximately 1.0% to the Retirement Plan's return, relative to the Policy Benchmark.
- *Absolute Return:* The absolute return allocation for the Retirement Plan returned +1.3% for the fiscal year, outperforming the HFRI Macro (Total) Index's return of -2.4%. Over the fiscal year, we estimate that absolute return added approximately 0.1% to the Retirement Plan's return, relative to the Policy Benchmark.

¹ Attribution calculated with Brinson-Fachler Model using custodian data.

Report of Investment Activity *(continued)*

September 20, 2017
Page 6 of 6

Plan Investment Results and Asset Allocation for the Health Care Trust¹

The City of San Jose Police and Fire Department Retirement Plan Health Care Trust had \$102.9 million in assets at the end of the 2017 fiscal year. For the 2017 fiscal year, the Health Care Trust returned +7.0% net of fees, underperforming the Policy Benchmark (+9.5%) and Custom Benchmark (+7.1%). The Trust's underperformance was primarily driven by asset allocation variance from Policy targets. The Trust was generally underweight most asset class targets due to the heavy overweight allocation to cash. We estimate that the allocation effect of cash detracted 1.2% from the Health Care Trust's return, relative to the Policy Benchmark.

Summary

Performance for the City of San Jose Police and Fire Department Retirement Plan over the 2017 fiscal year exceeded the assumed actuarial rate of return and outperformed the Policy and Allocation Index benchmarks. We believe that the Retirement Plan's portfolio is well diversified and has a high probability of achieving the actuarial rate over the long-term, while exhibiting lower volatility than peers. We are looking forward to continuing our work with Staff and the Board of Administration to progress further toward the targeted asset allocation so that the Retirement Plan can continue to meet its obligations to participants.

Sincerely,



Laura Wirick, CFA, CAIA
Principal



Hannah Schriner
Consultant



Larry Witt, CFA
Consultant

LBW/HS/LW/nca

¹ Performance figures calculated by custodian bank.

Statement of Investment Policy

PENSION – INCLUDES THE 401(H) INVESTMENTS

- 1) This investment policy statement governs investments for the City of San José Police and Fire Department Retirement Plan (the Plan). The Plan is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the Plan are described in the San José Municipal Code Chapter 3.36.1961 Police and Fire Department Retirement Plan.
- 2) The Plan's fund ("the Fund") will be managed as a going concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries.

FIDUCIARY STANDARDS

- 3) The Board of Administration is subject to the following duties under law:
 - a) The assets of the Plan are trust funds and shall be held for the exclusive purposes of providing benefits to members of the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan.
 - b) The Board shall discharge its duties with respect to the Plan solely in the interest of, and for the exclusive purposes of, providing benefits to members of the Plan and their beneficiaries, maintaining the actuarial soundness of the Plan, and defraying reasonable expenses of administering the Plan. The Board's duty to the members and their beneficiaries shall take precedence over any other duty.
 - c) The Board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- 4) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Plan's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

- 5) The governance structure of the Plan is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
 - a) Policy on the Role of the Board of Administration
 - b) Policy on the Role of the Investment Committee
 - c) Policy on the Role of the Director of Retirement Services
 - d) Policy on the Role of the Chief Investment Officer
 - e) Policy on Roles in Vendor Selection

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

INVESTMENT OBJECTIVES

- 6) The primary objective of the investment portfolio is to satisfy the Plan's obligations to pay benefits to members of the Plan and their beneficiaries.
- 7) The investment portfolio also seeks to achieve a risk-adjusted long-term net rate of return that exceeds the return of a composite benchmark of the respective long-term asset allocation targets. Please see Appendix A for the composition of the composite benchmark.
- 8) The Plan will take into consideration the actuarial investment return assumption, which is developed by the Plan's Actuary, with the goal of choosing an assumed rate that the Plan can be expected to achieve with a probability greater than 50%.
- 9) A range of risks will be managed in connection with the Plan, with an emphasis on the following:
 - a) Risk of loss of Plan assets.
 - b) The impact of the investment program on the funded status of the Plan and the resulting volatility of contributions.
- 10) In developing the investment policies of the Plan, various factors will be considered including, but not limited to:
 - a) The structure and duration of the Plan's liabilities.
 - b) The liquidity needs of the Plan.
 - c) Modern Portfolio Theory.

INVESTMENT PHILOSOPHY

- 11) Markets are inefficient over various time frames and there are opportunities to capture excess returns ("alpha"). The investment program seeks to add value over time through careful selection of active and passive investment managers as well as tactically adjusting portfolio risk factor exposures.
- 12) The CIO shall prepare and present to the Board for approval an Annual Investment Work Plan to help ensure consistency among investment decisions and clarity of investment direction. The Work Plan should include capital market views, consensus economic environment views, and the subsequent investment program approach to asset classes in the coming year.

ASSET ALLOCATION

- 13) The long-term strategic asset allocation of the Plan will be determined based on the results of an asset allocation study.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

14) The current long-term strategic asset allocation of the Plan (at market value) is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	25%	31%	50%
Private equity	3%	8%	13%
Global fixed income	10%	16%	30%
Private debt	5%	11%	15%
Real assets	12%	17%	25%
Absolute return	2%	6%	12%
GTAA	0%	10%	10%
Cash	0%	1%	10%
Total		100%	

- 15) The Board is committed to implementing and maintaining the above long-term strategic asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy, particularly with respect to illiquid asset classes such as private equity, private debt, private real estate, hedge funds, and private real assets. In such circumstance, the Board will monitor the status of the long-term strategic asset allocation and seek to comply with the policy when it is possible and prudent to do so.
- 16) The long-term strategic asset allocation of the Plan will be reviewed at a minimum every five years based on the results of an asset liability study. However, since projected liability and risk/return expectations may change such studies may also be performed on an interim basis, as necessary. In addition, the Board may review the current asset allocation targets at any time in light of market conditions and make changes as it deems necessary.
- 17) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the long-term strategic asset allocation. The Investment Structure and any changes thereto do not require that an asset allocation study be performed.
- 18) The CIO may utilize the following portfolio components to fulfill the Board's strategic asset allocation and to diversify across risk factors and return sources.

Global Equity - Growth, Inflation, Currency

The purpose of Global Equity is to provide the Plan exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth.

Private Equity - Growth, Other (liquidity)

The purpose of Private Equity is to provide similar exposures as Global Equity while systematically capturing illiquidity premium.

Global Fixed Income - Rates, Credit, Inflation, Currency

The primary purpose of Global Fixed Income is to provide exposure to rates and credit risk, providing a combination of capital preservation and return-seeking assets.

Private Debt - Credit, Other (liquidity)

The purpose of Private Debt is to provide similar exposures as Global Fixed Income while opportunistically capturing an illiquidity premium.

Real Assets - Inflation, Rates, Currency, Other (liquidity)

The purpose of real assets is to provide a positive real rate of return in all environments, with an emphasis on maintaining purchasing power in periods of high or increasing inflation.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Absolute Return - No traditional factor exposures

The purpose of Absolute Return is to achieve consistent positive returns while reducing overall Plan volatility and increasing Sharpe ratio. This is accomplished by low correlation and beta to factor exposures, and producing alpha-based returns.

GTAA - Variable exposure to Growth, Inflation, Rates, Credit, Currency, Other

The purpose of GTAA allocation is to provide diversification, while producing an asymmetric return profile and limiting coincident downside relative to equities and credit.

Cash - No traditional factor exposures

The purpose of Cash is to maintain sufficient liquidity for Plan expenses and tactical portfolio positioning.

REBALANCING

- 19) The strategic asset allocation of the Plan will be monitored on a monthly basis and the assets of the Plan are to be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.
- 20) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges, also taking into account market conditions, liquidity, transaction costs, as well as any other relevant factors. The Retirement Plan will be rebalanced to tactical rather than long-term target allocations in circumstances where the Board of Trustees have approved a tactical allocation. An asset allocation overlay service may be engaged to monitor the allocations and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines.

DIVERSIFICATION

- 21) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.
- 22) Consistent with paragraph 21 above:
 - a) No single investment management firm shall be authorized to manage more than 10% of the Plan's assets without Board approval.
 - i) with the exception of passive management where the Plan's assets are not held in the Plan's name at the Plan's custody bank.
 - ii) in which cases can manage no more than 20% of the Plan's assets without Board approval.
 - b) As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

- 23) The projected cash flow needs of the Plan are to be reviewed at least quarterly and the custodian and investment managers of the Plan are to be informed in writing in a timely manner of the liquidity needs of the Plan. If necessary, cash flow needs will be coordinated through the Plan's rebalancing provisions contained herein or through liquidation of other assets.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

- 24) The CIO is entrusted with ensuring that sufficient monies are available to meet pension benefits, member refunds, administrative payments, manager funding and other cash flow requirements. As such, liquidation of assets is required at times to meet these obligations. The CIO shall have the authority to determine the most appropriate asset class to liquidate to provide the cash needed. The CIO will present a quarterly written report to the Investment Committee which includes any liquidation action taken.

PROXY VOTING

- 25) Proxies must be voted in the best interest of shareholders — in this case the Plan and its members and beneficiaries. The Plan may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Plan and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Plan's proxies. Any third parties retained to vote the proxies of the Plan shall provide periodic reports to the Plan on their activities.
- 26) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic securities to a dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

- 27) Investment managers should meet the following criteria in order to be considered to manage the assets of the Plan.
- a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.
 - b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.
 - c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Plan.
- 28) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.
- 29) The procedures noted in paragraph 28 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.
- 30) The CIO shall have the authority to terminate any manager prior to the next scheduled Investment Committee meeting when in his/her estimation imminent impairment to assets could occur. Termination may result from any unanticipated events including; changes in organizational structure or personnel, compliance issues, changes in strategy or style, uncharacteristic performance. The CIO will present a written report to the Investment Committee for any termination at the next scheduled Investment Committee meeting.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

- 31) In addition to the aforementioned the Board has delegated authority to the Investment Committee to hire/terminate any manager with Plan assets of less than \$75 million with a unanimous vote of the Investment Committee.

MONITORING INVESTMENT MANAGERS

- 32) The Plan's investment managers will be monitored on an ongoing basis and may be terminated by the Plan at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Plan.
- 33) The CIO shall have the authority to increase/decrease allocations to previously approved manager provided it is consistent with house views presented in the Annual Investment Work Plan, or subsequent update, provided that no allocation be increased/decreased more than 50% from the initial manager funding amount without prior Investment Committee approval. The CIO will present a quarterly written report to the Investment Committee which includes any increase/decrease to manager allocations.
- 34) The CIO shall have the authority to reallocate among previously approved managers between sub-asset classes provided it is consistent with house views presented in the Annual Investment Program Work Plan or subsequent update. The CIO will present a quarterly written report to the Investment Committee which includes any reallocations between sub-asset classes.
- 35) Quarterly performance of investment managers will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.
- 36) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
- a) Failure to adhere to the terms of the contract between the manager and the Plan.
 - b) Loss of an investment professional(s) directly responsible for managing the Plan's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
 - c) The sale of the investment management firm to another entity, or other change in ownership.
 - d) The purchase of another entity by the investment management firm.
 - e) Significant account losses and/or extraordinary addition of new accounts.
 - f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.
 - g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Plan's assets at undue risk of loss.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

DERIVATIVE SECURITIES

- 37) Derivative securities are financial instruments that “derive” their value from an underlying commodity, index or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
- a) Equitizing cash during portfolio transitions until “physical” securities are in place.
 - b) Managing asset allocation.
 - c) Hedging foreign currency risk, subject to approved limits.
- 38) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board.
- 39) Additional derivatives strategies must be authorized by this Investment Policy Statement prior to being utilized within the Plan.
- 40) Given the nature of many investment managers’ mandates, it is recognized and understood that investment managers retained by the Plan may use derivatives that are contrary to paragraphs 37 and 38 above.

INVESTMENT RESTRICTIONS

- 41) Investment management agreements will be established for each investment manager retained by the Plan. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

- 42) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Plan.
- 43) The Board will be provided reports on investment costs of the Plan at least annually.

VALUATION OF INVESTMENTS

- 44) The Plan’s investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset. To the extent possible, market values shall be obtained on a daily basis, based on public prices or quotations from investment firms. For certain investments, however, valuations will be prepared or reviewed on at least an annual basis (e.g. private instruments and real estate).
- 45) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

OTHER

- 46) Appendix A contains long-term Policy Benchmark.
- 47) Appendix B-H contain additional policy guidelines concerning each asset class.
- 48) Exceptions to this Investment Policy Statement must be approved in writing by the Board.

POLICY REVIEW & HISTORY

- 49) This policy will be reviewed at least annually.

Appendix A LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target Allocation (%)
Equity		
Global equity	MSCI ACWI IMI (Net)	31%
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
Fixed Income		
Global fixed income	80% Barclays Global Aggregate 5% BAML Global High Yield 5% S&P Global Leveraged Loan Index 5% JP Morgan GBI-EM Global Diversified Index 5% JP Morgan EMBI Global Diversified Index	16%
Private debt	S&P Global Leveraged Loan Index + 2%	11%
Real Assets		
Real estate	NCREIF Property Index	7%
Commodities	Bloomberg Commodities Index	7%
Infrastructure	Dow Jones Brookfield Global Infrastructure Index	3%
Absolute return	Hedge Fund Research, Inc. All Macro Index	6%
GTAA	60% MSCI World/40% Citi WGBI	10%
Cash	91 day T-Bills	1%

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix B PUBLIC EQUITY

ASSET CLASS PHILOSOPHY

The Public Equity asset class invests in publicly listed shares of companies to generate returns. The asset class uses a combination of passive and active strategies to target drivers of return globally, with the ability to vary exposures across regions, market capitalizations and styles. The performance of the constituent strategies must be primarily driven by price changes in equities.

The exposure of the asset class will be allocated across the aforementioned dimensions according to an assessment of the factor's relative risk-adjusted return potential in the context of the Plan's aggregate exposures. Most assessments rely upon the Program's belief that valuations mean revert over time. Some exposures may be more opportunistic, or not tied to the mean reversion of a risk premium; such exposures will be presented with a specific investment thesis and time horizon for re-evaluation.

The aggregate exposures of the Public Equity asset class must be aligned with the goals of the Plan at large, and correspondingly should be viewed in context of the exposures held across the Plan.

OBJECTIVES

- 1) The Public Equity asset class will be structured to help the Plan achieve its long-term risk-adjusted return objective.
- 2) The policy benchmark of the Public Equity asset class is MSCI ACWI IMI (Net Dividends). The benchmark is not currency hedged.

CHARACTERISTIC AND CONSTRAINTS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation;
- 4) The Public Equity asset class will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board. The asset class will normally be fully invested in equity related strategies, although individual strategies may hold cash;
 - d) Strategies may have hedge currency to manage risk-adjusted returns;
 - e) Strategies may have variable net exposures, including hedge fund strategies.
- 5) Any breach of above target allocations or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix C PRIVATE EQUITY

OBJECTIVE

The private equity portfolio seeks to achieve superior risk-adjusted returns and outperformance relative to a public equity benchmark plus an illiquidity premium, with a defensive risk profile achieved through diversification and bottom-up due diligence. The Plan seeks to invest in private equity funds that are expected to be in the top quartile of the private equity fund universe, opportunistically invest in private equity fund secondaries, and strategically co-invest alongside private equity funds, in order to achieve this objective.

The policy benchmark of the private equity portfolio is:

- a) Cambridge Associates Private Equity Index

Additional benchmarks that may be considered include the following:

- b) Burgiss Private iQ All Private Equity, All Regions
- c) MSCI ACWI IMI Public Market Equivalent +300 bps

PORTFOLIO CHARACTERISTICS

The asset class should include the following characteristics:

- a) Global core private equity program focused on investments across regions and diversification across vintage years and investment strategies;
- b) Portfolio of leading private equity managers seeking to generate superior performance through operational improvements within their portfolio companies;
- c) Active portfolio management through opportunistic direct co-investments and secondary purchases seeking to reduce the "J-curve", improve IRR performance, and the private equity portfolio's cash-flow profile.

TARGET ALLOCATION

Investment Type	Target
Primaries	0-80%
Direct Co-Investments & Secondaries	0-40%
Geography (Primaries Only)	Target
North America	40-55%
Europe	35-45%
Rest of World	0-15%
Strategy (Primaries Only) ¹	Target
Buyout (includes growth equity)	0-80%
Special Situations	0-30%
Venture Capital	0-20%

¹ Buyout includes growth and special situations includes natural resources/energy; and other strategies

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

PACING PLAN

The Net Asset Value ("NAV") of the private equity portfolio represents the actual allocation relative to the long-term policy target allocation. The NAV will be monitored and projected on a regular basis to confirm the trajectory is consistent with the target allocation. A cash flow model incorporating each investments' characteristics (vintage, type, strategy, etc.) will be used to calibrate the NAV projection. This projection will reflect the "run-off" of mature investments, and the "ramp-up" of new investments.

A pacing plan will be conducted on an annual basis, providing a directional guideline for future commitments based on market conditions. In addition, the Plan may allocate to new investments more or less than the pacing plan implies, based on the attractiveness of market conditions and market opportunities.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix D GLOBAL FIXED INCOME

ASSET CLASS PHILOSOPHY

The Global Fixed Income asset class invests in securities and portfolio management strategies that utilize contractual obligations of governments, corporations, and structured products globally. The Global Fixed Income asset class provides exposures to rates and credit risk factors across traditional and hedge fund investment vehicles.

Fixed income has historically been included in asset allocations because (i) it has historically exhibited low correlation with equity markets - enhancing expected risk-adjusted return in a diversified portfolio; and (ii) it has historically generated moderate current income as a component of total return - providing cash flow to meet liabilities and insulate against market value fluctuations. These traits - low correlation and current income as a component of total return - may not exhibit their historical tendencies in times of extremely high or extremely low interest rates, though over the long term they are expected to revert to their traditional characteristics.

The purpose of Global Fixed Income is to maintain the historical fixed income benefits of low correlation and total return across all market environments. To accomplish this objective across various market environments, exposure to rates, credit, and other risk factors can deviate materially from those of the benchmark according to asset allocation at the Plan level, phases in the economic/credit cycle, and tactical positioning informed by staff views on macroeconomic fundamentals, valuation, and market technicals. Implementation may be achieved predominantly through active management because benchmark construction can be sub-optimal and the over-the-counter nature of fixed income securities can create technical imbalances.

OBJECTIVES

- 1) The Global Fixed Income asset class will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return net of expenses that exceeds the annualized total rate of return of the blended benchmark over a market cycle;
 - b) Risk: To exhibit forecasted and realized annualized volatility over a market cycle similar to or less than the benchmark;
 - c) Income: To provide current coupon income similar to that of the Global Fixed Income policy benchmark;
 - d) Liquidity: To be a source of liquidity for rebalancing, changes in asset allocation, and operational liquidity requirements.
- 2) The policy benchmark of the Global Fixed Income asset class is a blend of several indices:
 - 80% Bloomberg Barclays Global Aggregate - unhedged
 - 5% S&P Global Leveraged Loan
 - 5% Bank of America Merrill Lynch Global High Yield
 - 5% JP Morgan GBI-EM Global Diversified
 - 5% JP Morgan EMBI Global Diversified.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

PORTFOLIO CHARACTERISTICS

3) The portfolio will be structured:

- a) To be a diversified, global portfolio with superior risk-adjusted return characteristics;
- b) To include multiple fixed income strategies;
- c) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation;
- d) To exclude direct allocations to private fund structures.

TARGET ALLOCATION

Sub-Asset Class	Targeted Exposures (% of Net Asset Value)
Global Core	25% - 100%
Non-Investment Grade Credit	0% - 50%
Emerging Market Debt	0% - 50%

4) The Global Fixed Income asset class will be subject to the following constraints:

- a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
- b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;
- c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.

5) Any breach of target allocations, above, or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix E PRIVATE DEBT

ASSET CLASS PHILOSOPHY

The Private Debt asset class invests in securities and portfolio management strategies that provide similar exposures and risk factors as the Global Fixed Income asset class, but have characteristics that make them suitable only for illiquid, private fund structures.

The Private Debt asset class is managed in a style reminiscent of private equity, with annual pacing plans to guide commitments to drawdown structures. Performance is evaluated on the basis of net-of-fees IRR and multiples on invested capital compared with public market equivalents.

Private Debt is an opportunistic asset class whose attractiveness varies significantly with changes in the liquidity of fixed income markets. Consequentially, the NAV and the aggregate commitments, as a percentage of Plan, may substantially deviate from target asset class weights.

OBJECTIVES

- 1) The Private Debt portfolio will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return that exceeds the annualized total rate of return of the S&P Global Leveraged Loan Index by 2%;
 - b) Risk: To exhibit a forecast and realized annualized volatility similar to the benchmark;
 - c) Income: To provide current coupon income in excess of that of the Global Fixed Income policy benchmark;
 - d) Liquidity: To generate annual income through realizations of portfolio investments that equal or exceed annual capital calls by managers to fund fees and investments once the program is fully mature.
- 2) The policy benchmark of the private debt portfolio is the S&P Global Leveraged Loan Index plus 2%.

PORTFOLIO CHARACTERISTICS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To include multiple private debt strategies;
 - c) To emphasize strategies that provide high levels of contractual income;
 - d) To exclude direct allocations to private equity strategies, and target limited exposure on a look through basis, as defined by no more than 30% of return derived from equity securities.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

TARGET ALLOCATION

Strategy	Targeted Exposures (% of Committed Capital)
Senior Loans / Direct Lending	25% - 100%
Mezzanine / Subordinated Debt	0 % - 25%
Distressed (for control and non-control)	0% - 25%
Niche strategies	0% - 75%

PORTFOLIO CONSTRAINTS

- 4) The private debt portfolio will be subject to the following constraints:
- a) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 30% of the private debt portfolio;
 - b) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 4% of the total Plan;
 - c) Aggregate commitments (without regard to their investment period) should not represent more than 10% of investment manager's total capital commitments under management.
- 5) In such circumstance where it is not possible or practical to timely implement or maintain the policy, the Investment Committee will monitor the status of the Private Debt asset class and seek to comply with the policy when it is possible and prudent to do so.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix F REAL ASSETS

ASSET CLASS PHILOSOPHY

The Real Asset allocation is intended to be a diversifier to the total investment portfolio. Real Assets have traditionally provided diversification benefits through low correlations to other asset classes. A secondary benefit of investing in real assets is that Real Assets are tangible assets, with intrinsic value, that often offer a reasonable expectation of inflation protection. The purpose of Real Assets is to maintain purchasing power in periods of high or increasing inflation.

Implementation of the Real Assets allocation is through the construction, over time, of a well-diversified portfolio of Real Assets utilizing public, private, passive and active managers dependent on market characteristics. Real assets encompass an array of investment strategies and include commodities, commodities-linked stocks and bonds, commodities-oriented hedge funds and hedge funds of funds, and directed and/or fund investments in real estate, energy, farmland, timber, and infrastructure.

OBJECTIVES

The Real Assets asset class will be constructed in a manner to help the plan achieve its long-term risk-adjusted return objective. Exposure to Real Assets can be achieved through allocations to commodities, infrastructure, natural resources and real estate.

Commodities sectors include, but are not limited to: agriculture, energy, livestock, industrial metals, and precious metals. The portfolio may gain exposure to commodities through long only beta managers, intermittent beta managers, and alpha managers. Beta exposure can be achieved via pure beta or risk parity portfolios. Intermittent beta and/or alpha mandates can be achieved via portfolios with exposure to long/short, directional, and/or relative value managers. Since delivery and storage of a physical commodity poses challenges, economic exposure is usually achieved for commodities through the use of derivatives including futures, total return swaps, options and forward contracts.

The Infrastructure asset class consists of a wide range of physical assets and businesses that provide essential services to communities. Infrastructure asset class strategies include core, value-added, and opportunistic investment strategies. The infrastructure asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in infrastructure related assets or liquid securities of infrastructure related businesses. Infrastructure investments may consist of equity or debt investment in a single asset, business, or infrastructure projects.

Natural Resources include tangible commodities such as crude oil, copper, timber and agricultural products. Natural Resources funds focus on opportunities among a wide array of relevant economic activities, from extraction to transportation to refining, that are tied to the underlying value of commodities. The Natural Resources asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in natural resources related assets, or liquid securities of natural resources related businesses. Natural Resources investments may consist of equity or debt investment in a single asset, business, or project.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Real Estate assets are properties, including land and/or structures, designed for commercial or residential use. Core real estate investments include both private and public investments (i.e. REITs). Private core real estate funds can be either open-ended or close-ended. Non-core strategies generally encompass greater risk, whether through increased use of leverage, greater reliance on renovation or development, focus on secondary markets, or a number of other factors. In return for taking on greater risk, investors in non-core real estate strategies expect to be compensated via higher returns. Non-core allocation can include strategies such as value-added, opportunistic, or real estate debt. Real Estate asset class shall be invested by purchasing interests in real estate funds/fund-of-funds that invest in real estate assets, direct property holdings, or publicly traded real estate securities.

The policy benchmarks for the Real Assets asset class are as follows:

- Commodities: Bloomberg Commodity Index
- Infrastructure: Dow Jones Brookfield Global Infrastructure Index
- Natural Resources: S&P Global Natural Resources Index
- Inflation-Linked Assets: CPI +5%
- Real Estate: NCREIF Property Index

CHARACTERISTICS AND CONSTRAINTS

- 1) The Real Assets asset class will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy Statement;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or the Board.
- 2) Any breach of the target allocations above, or portfolio constraints, requires notification to the Investment Committee to discuss appropriate action.
- 3) Private investments shall be structured with pacing plans to guide commitments to drawdown structures, and shall focus on net-of-fees internal rate of returns and multiples.
- 4) Due to the nature of drawdown private market structures, investments in liquid alternatives such as index funds or proxies of the sub-asset class may be used to gain interim exposures.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix G ABSOLUTE RETURN PORTFOLIO

(For purposes of this Appendix the "Absolute Return" portfolio refers to the hedge fund strategies allocation within the Absolute Return asset class.)

OBJECTIVES

- 1) The absolute return portfolio will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return that exceeds the annualized rate of return of the three-month *Libor* by 5%;
 - b) Risk: To exhibit a forecast and realized annualized volatility between 4% and 8%
 - c) Beta: To achieve an absolute value Beta to MSCI World ≤ 0.2
- 2) The policy benchmark of the absolute return portfolio is the *Hedge Fund Research, Inc. All Macro Index*.

PORTFOLIO CHARACTERISTICS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To include multiple absolute return strategies;
 - c) To exclude direct allocations to equity and credit strategy classified funds, and target limited exposure on a look through basis;
 - d) To have low correlation to traditional market indices, lowering overall portfolio risk; and
 - e) To reduce downside participation in severe bear markets.

TARGET ALLOCATION

Strategy	Targeted Exposure
Relative value	25%-50%
Macro / directional	35%-75%
Residual exposures via multi-strategy funds	
Equity long/short	0-10%
Event driven	0-15%

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

PORTFOLIO CONSTRAINTS

- 4) The absolute return portfolio will be subject to the following constraints:
 - a) No aggregate investment with any single investment manager should represent more than 15% of the absolute return portfolio.
 - b) No initial investment with any single investment manager should represent more than 2.5% of the total plan.
 - c) No investment with any single investment manager should exceed 10% of the manager's total assets under management.
 - d) No single fund should contribute more than 20% to the expected risk of the absolute return portfolio, as measured by the fund's contribution to the 3 year standard deviation of the Current Systematic series as generated by Albourne, and illustrated in their monthly reports. The Current Systematic Series represents "forecast risk" and is a return series constructed from the portfolio's aggregate systematic exposures at the end of the month held static while the factor performance is varied going back in time.
- 5) Any breach of paragraph 4 above requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix H GLOBAL TACTICAL ASSET ALLOCATION (GTAA)

ASSET CLASS PHILOSOPHY

The GTAA allocation seeks exposure to multi-asset strategies through investment managers. The allocation can gain exposure to a wide array of securities on and off exchange, in both long and short capacities, can use modest levels of leverage and can hedge or short market beta and/or undesirable market exposures.

Implementation of the GTAA allocation is exclusively through active managers. The allocation can be tactically managed; rotating capital among GTAA strategies based on market views and strategy specific characteristics. Market views can be formed through third party research, proprietary research, and the investment program. The GTAA allocation is benchmark unconstrained.

The policy benchmark of the GTAA allocation is a global 60/40 portfolio, consisting of 60% MSCI World (Net) and 40% CITI WGBI.

OBJECTIVES

- 1) Provide diversification to the overall portfolio, positive asymmetry in returns, and attractive risk adjusted returns while reducing downside relative to equities and credit.

CHARACTERISTICS AND CONSTRAINTS

- 2) The portfolio will be structured:
 - a) To be a diversified portfolio, which may be accomplished with one or more investment managers, with superior risk return characteristics;
 - b) To maintain risk levels that are consistent with the characteristics envisioned in the asset allocation.
- 3) The GTAA allocation will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.

Statement of Investment Policy

HEALTHCARE - 115 SUBTRUSTS

- 1) This investment policy statement governs investments for the City of San José Police and Fire Department Retiree Health Care Trust Fund (the “Health Care Trust”). The Health Care Trust is an Internal Revenue Code Section 115 trust that was established on June 24, 2012. The Health Care Trust is separate from the City of San José Police and Fire Department Retirement Plan (the “Plan”), and contributed assets are to be used for the sole purpose of providing healthcare benefits to Plan beneficiaries. The Health Care Trust was established to provide an alternative to the existing 401(h) account, which is included within the Plan.
- 2) The Fund will be managed as an ongoing concern with a long-term investment time horizon.

INVESTMENT OBJECTIVES

- 3) The Health Care Trust’s sole and exclusive objective is to provide a funding source for the health and welfare benefits for retirees and dependents of the City of San José Police and Fire Department Retirement Plan.
- 4) To achieve the goal detailed above, the Health Care Trust’s assets will be managed:
 - a) To achieve a high level of return with a prudent level of risk;
 - b) To provide sufficient liquidity to meet all cash needs;
 - c) To provide sufficient diversification in an effort to avoid significant losses and preserve capital.

FIDUCIARY STANDARDS

- 5) The Board of Administration is subject to the following duties under law:
 - a) The assets of the Health Care Trust are trust funds and shall be held for the exclusive purposes of providing benefits to members of the Plan and their beneficiaries and defraying reasonable expenses of administering the Health Care Trust.
 - b) The Board shall discharge their duties with respect to the Health Care Trust solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and their beneficiaries, and defraying reasonable expenses of administering the Health Care Trust. The Board’s duties to the members and their beneficiaries shall take precedence over any other duty.
 - c) The Board shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- 6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Health Care Trust’s assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS *(continued)*

FUND GOVERNANCE

- 7) The governance structure of the Health Care Trust is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
- a) Policy on the Role of the Board of Administration
 - b) Policy on the Role of the Investment Committee
 - c) Policy on the Role of the Director of Retirement Services
 - d) Policy on the Role of the Chief Investment Officer
 - e) Policy on Roles in Vendor Selection

ASSET ALLOCATION

- 8) The long-term asset allocation of the Health Care Trust will be determined based on the results of an asset allocation study.
- 9) The current asset allocation policy of the Health Care Trust (at market value) as of August 1, 2014 is set out below:

Broad Asset Class	Minimum	Target	Maximum
Equity	25%	43%	50%
Fixed income	5%	15%	25%
Inflation-linked	12%	22%	25%
Absolute return / Global tactical asset allocation	0%	20%	25%
Cash	0%	0%	5%
Total		100%	

- 10) The Board is committed to implementing and maintaining the above asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy. In such circumstance, the Trustees will monitor the status of the asset allocation policy and seek to comply with the policy when it is possible and prudent to do so.
- 11) The long-term asset allocation of the Health Care Trust will be reviewed at a minimum every five years, also based on the results of an asset allocation study. Such studies may also be performed on an interim basis, as necessary. The Board may review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary.
- 12) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the asset allocation policy. The Investment Structure and any changes thereto do not necessarily require that an asset allocation study be performed.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

REBALANCING

- 13) The asset allocation of the Health Care Trust will be monitored on a monthly basis and the assets of the Health Care Trust are to be rebalanced to within the target ranges when fluctuations in fair values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.
- 14) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until the allocation is within the guideline ranges.

DIVERSIFICATION

- 15) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.
- 16) Consistent with paragraph 15 above:
 - a) No single investment management firm shall be authorized to manage more than 15% of the Health Care Trust's actively managed assets without Board approval. There is no limit on the amount of passively managed assets that an investment management firm shall be authorized to managed.
 - b) As a general rule, Health Care Trust assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

- 17) The projected cash flow needs of the Health Care Trust are to be reviewed at least quarterly and the custodian and investment managers of the Health Care Trust are to be informed in writing in a timely manner of the liquidity needs of the Health Care Trust Fund. If necessary, cash flow needs will be coordinated through the Health Care Trust's rebalancing provisions contained herein.

PROXY VOTING

- 18) Proxies must be voted in the best interest of shareholders — in this case the Health Care Trust and its members and beneficiaries. The Health Care Trust may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Health Care Trust and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Health Care Trust's proxies. Any third parties retained to vote the proxies of the Health Care Trust shall provide periodic reports to the Health Care Trust on their activities.
- 19) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic securities to a dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS *(continued)*

HIRING & TERMINATING INVESTMENT MANAGERS

- 20) Investment managers should meet the following criteria in order to be considered to manage the assets of the Fund.
- a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.
 - b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.
 - c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Health Care Trust.
- 21) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.
- 22) The procedures noted in paragraph 21 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

MONITORING INVESTMENT MANAGERS

- 23) The Health Care Trust's investment managers will be monitored on an ongoing basis and may be terminated by the Health Care Trust at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Health Care Trust.
- 24) The majority of the Health Care Trust's assets are currently passively managed, in which case the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS *(continued)*

- 25) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
- a) Failure to adhere to the terms of a contract between the manager and the Health Care Trust.
 - b) Loss of an investment professional(s) directly responsible for managing the Health Care Trust's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
 - c) The sale of the investment management firm to another entity, or other change in ownership.
 - d) The purchase of another entity by the investment management firm.
 - e) Significant account losses and/or extraordinary addition of new accounts.
 - f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.
 - g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Health Care Trust's assets at undue risk of loss.

DERIVATIVES SECURITIES

- 26) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index, or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
- a) Equitizing cash during portfolio transitions until "physical" securities are in place.
 - b) Managing asset allocation on a temporary basis.
 - c) Hedging foreign currency risk, subject to approved limits.
- 27) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board. Speculative positions in derivatives, however, are not authorized under any circumstances.
- 28) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Health Care Trust may use derivatives that are contrary to paragraphs 26 and 27 above.
- 29) This policy allows for the use of derivatives within the specific portfolios being managed by the investment managers retained by the Health Care Trust. Use of derivatives at the Health Care Trust level (i.e. Total Fund) must be authorized by this Investment Policy Statement prior to being utilized within the Health Care Trust.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

INVESTMENT RESTRICTIONS

- 30) Health Care Trust assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Health Care Trust. The type of investment vehicles utilized by the Health Care Trust will be revisited as the asset size of the portfolio increases. In instances when the Health Care Trust invests through a commingled fund or separate account, investment management agreements will be established for each investment manager retained by the Health Care Trust. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

- 31) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Health Care Trust.
- 32) The Board will be provided reports on investment costs of the Health Care Trust at least annually.

VALUATION OF INVESTMENTS

- 33) The Health Care Trust's investments shall be valued using fair values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.
- 34) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

OTHER

- 35) Appendix A contains the Long-term Policy Benchmark.
- 36) Exceptions to this Investment Policy Statement must be approved by the Board of Administration of the Health Care Trust.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

POLICY REVIEW & HISTORY

37) This policy will be reviewed at least annually.

38) This policy was most recently reviewed by the Investment Committee on June 6, 2013.

Appendix A LONG-TERM BENCHMARK

Asset Class	Benchmark	Target (%)
Equity	MSCI ACWI IMI (Net)	43%
Fixed Income	BC Aggregate	15%
Inflation-Linked	MSCI U.S. REIT	10%
	Bloomberg Commodity Index	12%
Absolute Return/GTAA	60% MSCI World / 40% CITI WGBI	20%

Investment Professionals

As of June 30, 2017

GLOBAL EQUITY		
Aberdeen Asset Management	Horizon Portfolio Limited	Russell Investments
Artisan Partners	Marshall Wace LLC	Sandler Capital Management
Comgest	Northern Trust	Senator Investment Group
Dimensional Fund Advisors	Oberweis Asset Management	Vanguard Group
GQG Partners	Royal Bank of Canada	
PRIVATE EQUITY		
57 Stars LLC	HarbourVest Partners	Portfolio Advisors LLC
CCMP Capital Investors	Industry Ventures	Siguler Guff & Company, LP
Crescent Capital Group	Northern Trust	TPG Capital
Francisco Partners	Pantheon Ventures	Warburg Pincus LLC
GLOBAL FIXED INCOME		
Beach Point Capital Management	Colchester Global Investors Limited	Vanguard Group
BlackRock	Davidson Kempner Capital Mgt LLC	Voya Investment Management
Blue Bay Asset Management	Franklin Templeton Investments	Wellington Management
Claren Road Asset Management	Symphony Asset Management LLC	
PRIVATE DEBT		
Cross Ocean Partners	Medley Capital LLC	Shoreline Capital
GSO Capital Partners	Octagon Partners	White Oak Global Advisors
Marathon Asset Management	Park Square Capital, LLP	
REAL ASSETS		
American Realty Advisors	Global Infrastructure Partners	Russell Investments
Blackstone Group	KSL Capital Partners, LLC	TA Associates Realty
Brookfield Asset Management	Och-Ziff Capital Mgt Group LLC	Tristan Capital Partners
Credit Suisse	Orion Capital Manager LLP	Vanguard Group
DRA Advisors LLC	Pinnacle Asset Management, L.P.	Wellington Trust Company
ABSOLUTE RETURN		
AHL Partners LLP	Dymon Asia Capital, Ltd	Systematica Investments, Ltd
Arrowgrass Capital Partners LLP	Kepos Capital LP	Tempo JD Capital
Brevan Howard Capital Mgt, LP	Pharo Management LLC	Wadhvani Asset Management LLP
D.E. Shaw & Co., LP	Pine River Capital Management LP	
GLOBAL TACTICAL ASSET ALLOCATION (GTAA)		
Grantham, Mayo, Van Otterloo & Co.	PIMCO	Standard Life
CONSULTANTS		
Albourne America LLC (Absolute Return)	Meketa Investment Group (General Consultant)	Verus Advisory Inc. (Risk Advisory Services)
CUSTODIAN		
	State Street Bank & Trust Company	
PORTFOLIO OVERLAY SERVICES		
	Russell Investments	

Schedule of Investment Results for Pension Trust including 401(h)

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2017

	One Year	Three Years	Five Years	Ten Years
Total Fund with Overlay (net of manager fees)	9.7%	2.6%	6.1%	3.2%
Policy Benchmark	9.5%	3.1%	6.3%	3.7%
InvestorForce Public DB > \$1B Median	12.7%	4.9%	8.6%	4.8%
Total Global Equity	19.7%	5.2%	10.6%	N/A
San Jose Custom Total Equity Benchmark	19.0%	4.9%	10.6%	N/A
eA All Global Equity Net Median	17.6%	5.0%	11.0%	4.1%
Total Private Equity	14.4%	8.8%	11.9%	9.6%
San Jose Custom Total Private Equity Index	17.0%	8.8%	N/A	N/A
San Jose Custom Blended Private Equity Benchmark	12.3%	6.7%	10.1%	7.5%
Total Global Fixed Income	6.0%	2.4%	4.3%	6.2%
Fixed Income Blended Benchmark	(0.2)%	0.6%	2.3%	5.3%
BBgBarc US Aggregate TR	(0.3)%	2.5%	2.2%	4.5%
Total Real Assets	3.2%	N/A	N/A	N/A
Real Assets Benchmark	3.5%	N/A	N/A	N/A
Total Private Debt	9.5%	N/A	N/A	N/A
S&P Global Leveraged Loan + 2%	10.1%	N/A	N/A	N/A
Total Absolute Return	1.3%	1.2%	N/A	N/A
San José Custom Absolute Return Benchmark	(2.3)%	(0.1)%	N/A	N/A
Total Global Tactical Asset Allocation	7.6%	0.8%	N/A	N/A
60% MSCI World (Net)/40% CITI WGBI	8.8%	2.9%	N/A	N/A

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa's Investment Group's Evaluation Analysis Report dated June 30, 2017

Schedule of Investment Results of Healthcare Trust - 115 Subtrusts

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2017

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	7.0%	1.8%	4.9%	N/A
Policy Benchmark	9.5%	3.2%	5.7%	N/A
Total Global Equity	19.1%	5.2%	N/A	N/A
MSCI ACWI IMI (net)	19.0%	4.9%	N/A	N/A
Total Global Fixed Income	(0.4)%	2.4%	N/A	N/A
US Aggregate TR	(0.3)%	2.5%	N/A	N/A
Total Real Assets	(0.1)%	N/A	N/A	N/A
Real Assets Custom Benchmark	(0.4)%	N/A	N/A	N/A

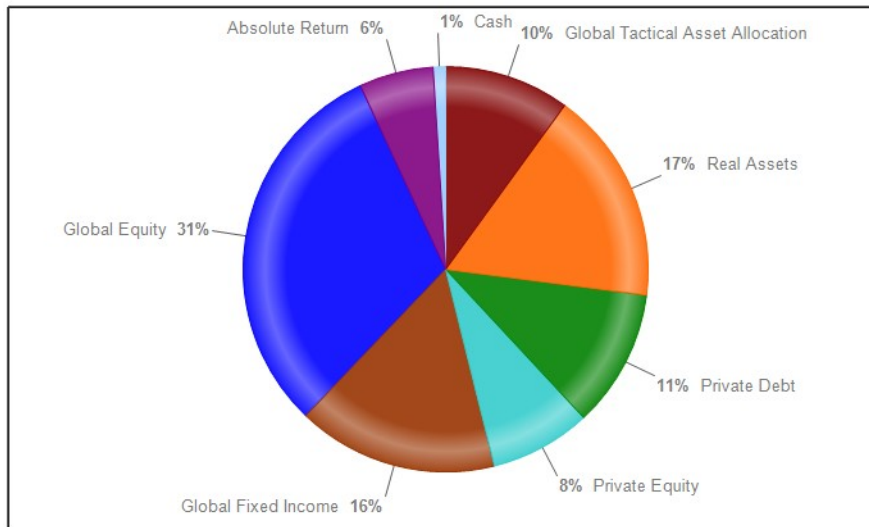
Basis of Calculation Time-Weighted Rate of Return

Source: Meketa's Investment Group's Evaluation Analysis Report dated June 30, 2017

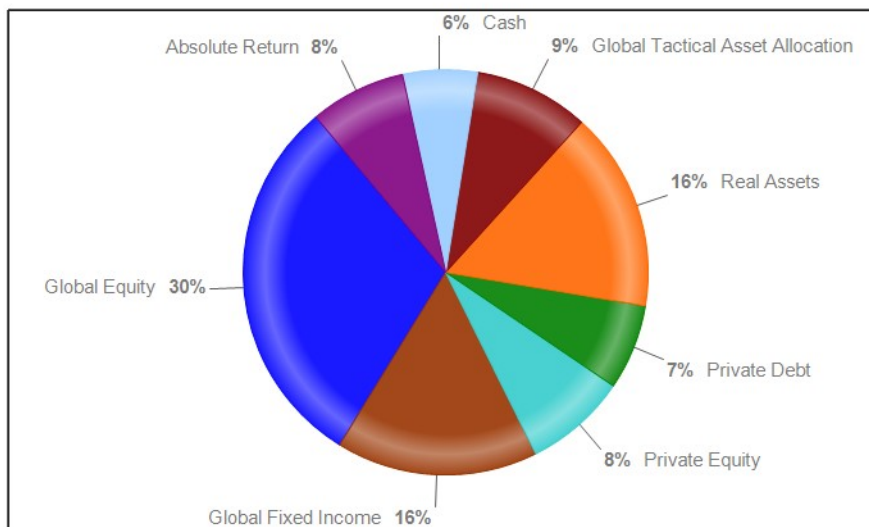
Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION *As of June 30, 2017*



ACTUAL ASSET ALLOCATION *As of June 30, 2017* *Non-GAAP Basis*



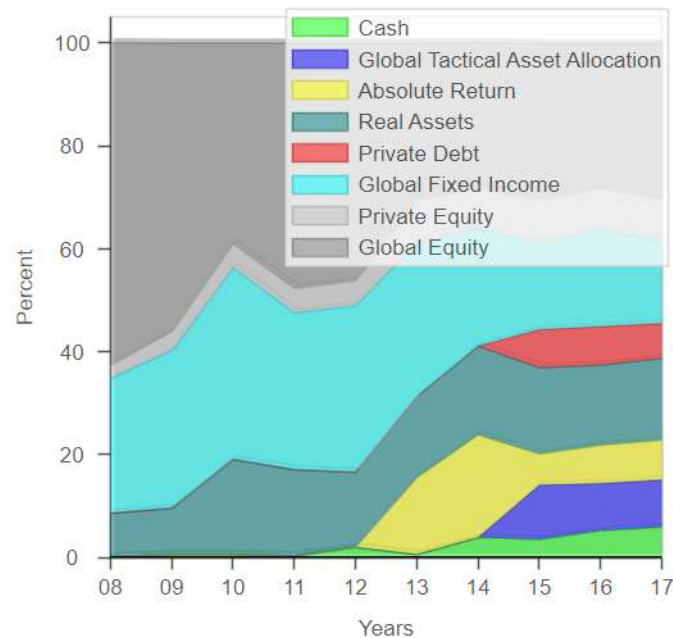
Asset Class	\$ Millions
Global Equity	\$ 1,004.3
Private Equity	269.2
Global Fixed Income	535.1
Private Debt	226.3
Real Assets	530.1
Absolute Return	256.6
Global Tactical Asset Allocation	305.4
Cash	197.8
TOTAL	\$ 3,324.8

Pension Investment Review (continued)

INCLUDES THE 401(H) INVESTMENTS

HISTORICAL ASSET ALLOCATION (Actual)

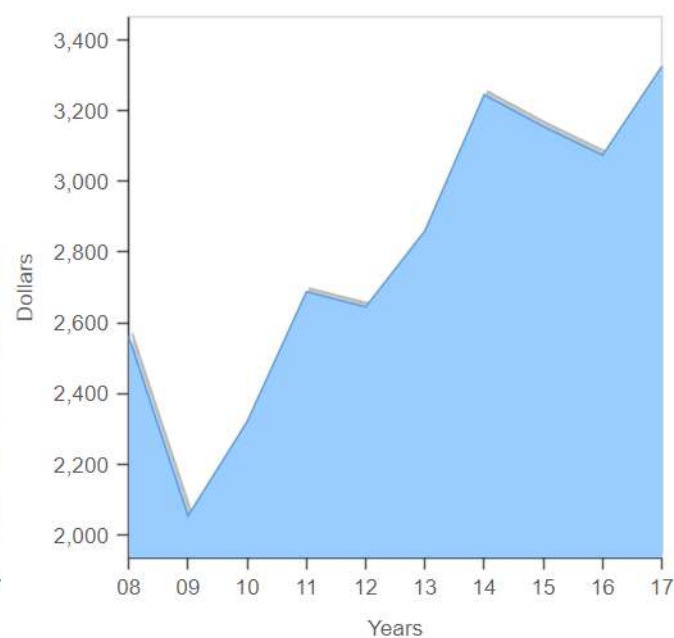
As of June 30, 2008 - June 30, 2017



MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2017

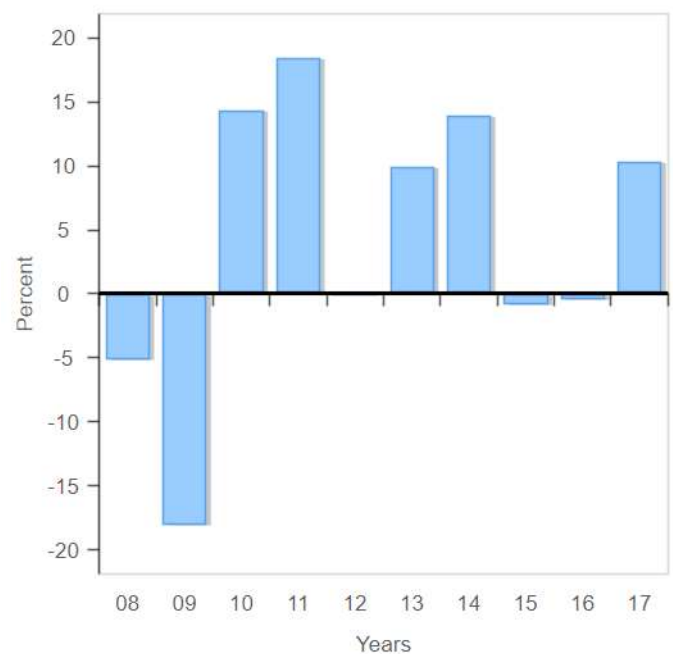
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2008 - 2017

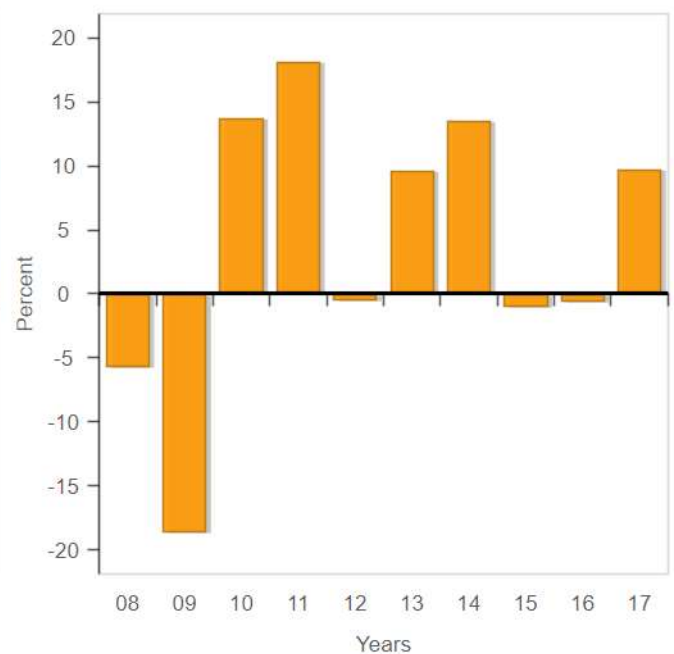
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2008 - 2017

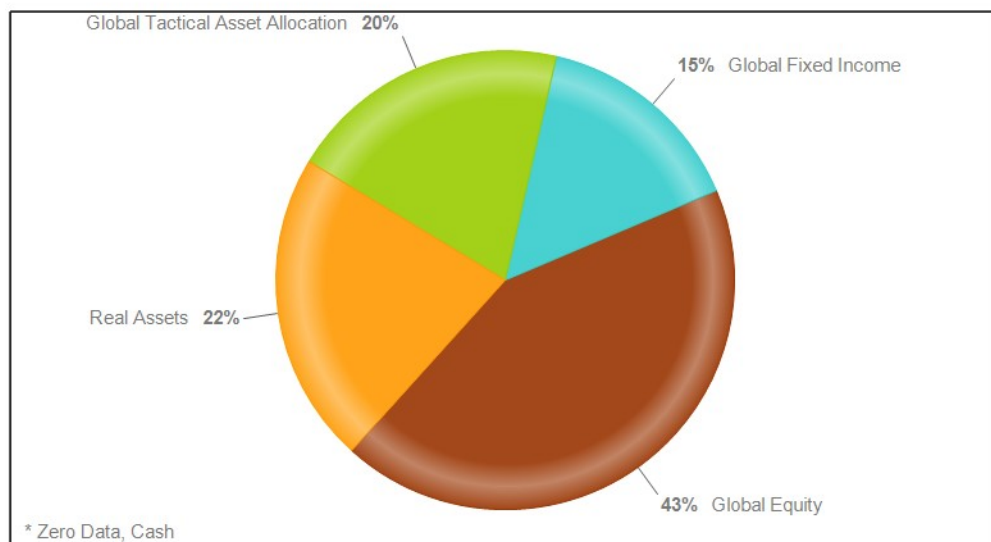
(Based on Fair Value)



Healthcare Investment Review

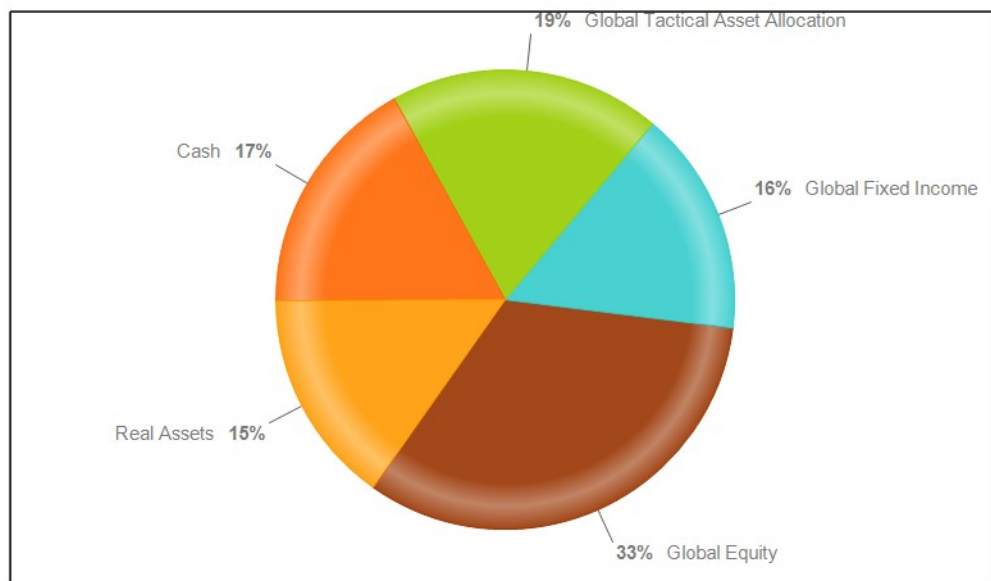
115 SUBTRUSTS

TARGET ASSET ALLOCATION *As of June 30, 2017*



ACTUAL ASSET ALLOCATION *As of June 30, 2017*

Non-GAAP Basis



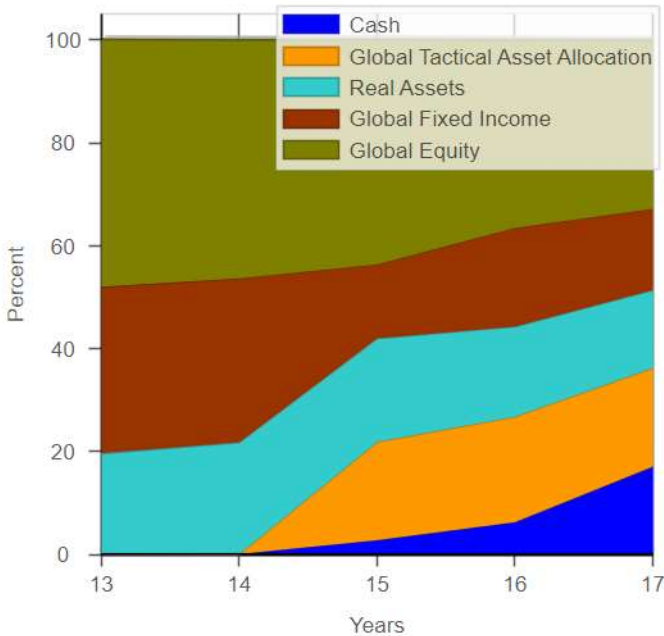
Asset Class	\$ In Millions	
Global Equity	\$	33.7
Global Fixed Income		16.3
Real Assets		15.6
Global Tactical Asset Allocation		19.7
Cash		17.6
TOTAL	\$	102.9

Healthcare Investment Review (continued)

115 SUBTRUSTS (continued)

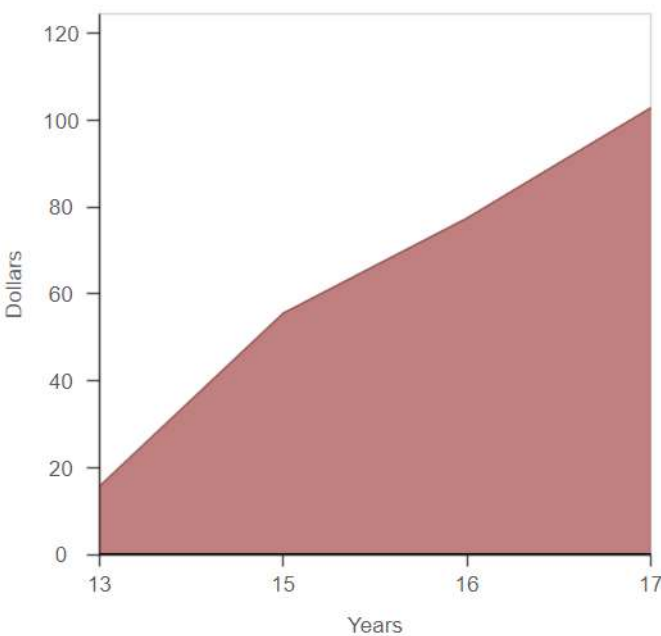
HISTORICAL ASSET ALLOCATION (Actual)

As of June 30, 2013 - June 30, 2017



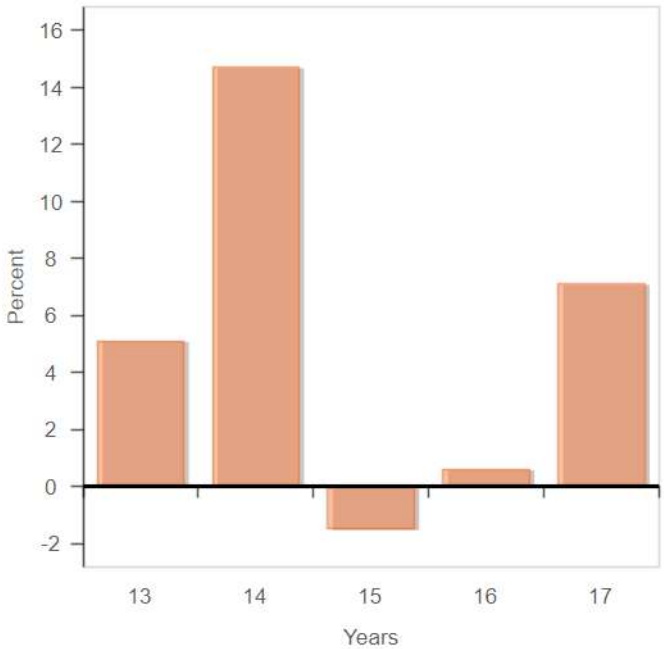
MARKET VALUE GROWTH OF PLAN ASSETS

For Four Years Ended June 30, 2017
(Dollars in Millions)



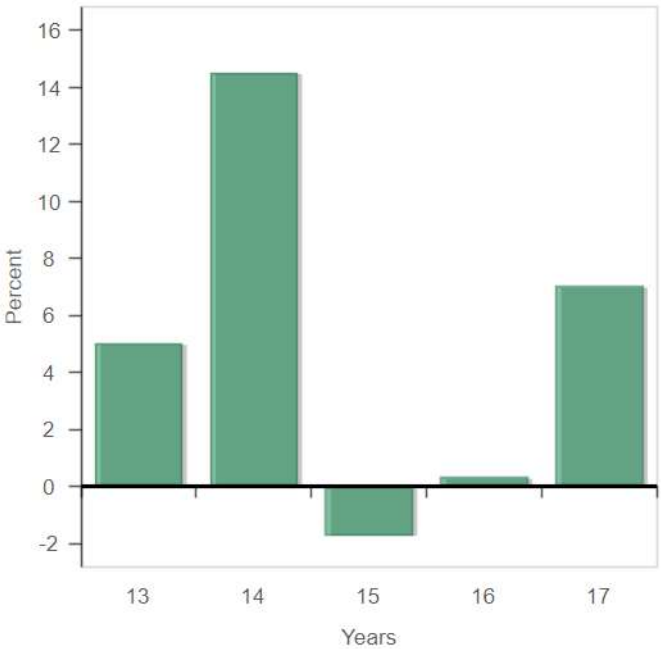
HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2013 - 2017
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2013 - 2017
(Based on Fair Value)



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2017

Description	Country	Shares	Fair Value (\$US)
SAMSUNG ELECTRONICS CO LTD	Republic of Korea	3,225 \$	6,700,017
CITIGROUP INC	United States	79,597 \$	5,323,447
BANK OF NEW YORK MELLON CORP	United States	98,158 \$	5,008,021
ORACLE CORP	United States	97,857 \$	4,906,550
ARCH CAPITAL GROUP LTD	United States	51,006 \$	4,758,350
ABB LTD REG	Switzerland	179,212 \$	4,431,410
MARSH & MCLENNAN COS	United States	56,060 \$	4,370,438
MEDTRONIC PLC	Ireland	48,067 \$	4,265,946
BAIDU INC SPON ADR	United States	23,843 \$	4,264,559
MICROSOFT CORP	United States	56,290 \$	3,880,070

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2017

Security Name	Country	Maturity Date	Interest Rate	Par Value	Fair Value (\$US)
JP MORGAN CHASE COMMERCIAL MORTGAGE	United States	6/12/2041	5.51%	1,473,373\$	1,359,877
JP MORGAN MORTGAGE TRUST	United States	7/25/2035	3.27%	1,288,223\$	1,144,138
DEUTSCHE BANK COMMERCIAL MORTG	United States	9/10/2049	4.39%	1,568,131\$	1,061,782
BELLEMEADE RE LT	United States	7/25/2025	5.52%	1,036,515\$	1,060,682
WASHINGTON MUTUAL MORTGAGE PASS-THROUGH	United States	7/25/2046	1.67%	1,527,617\$	1,047,170
BLUEMOUNTAIN CLO LTD	United States	4/15/2025	4.31%	1,043,290\$	1,043,290
JIMMY JOHN'S FUNDING LLC	United States	7/30/2047	3.61%	1,043,000\$	1,043,000
MORGAN STANLEY CAPITAL I TRUST	United States	6/12/2047	5.77%	1,043,957\$	1,041,293
MERRILL LYNCH MORTGAGE TRUST	United States	10/12/2041	5.17%	1,043,506\$	1,041,066
MORGAN STANLEY CAPITAL I TRUST	United States	12/15/2044	5.93%	1,043,480\$	1,039,549

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2017

Includes the 401(h) and 115 Trusts

	Assets Under Management at Fair Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	\$ 1,038,023,070	\$ 2,290,836	22
Private equity	269,195,415	2,548,451	95
Global fixed income	551,426,848	2,725,692	49
Private debt	226,316,827	1,922,976	85
Real assets	545,654,623	5,392,038	99
Absolute return	256,550,340	3,205,379	125
Global tactical asset allocation	325,118,069	-	-
Cash	215,432,223	-	-
TOTAL INVESTMENT MANAGERS' FEES	\$ 3,427,717,415	\$ 18,085,372	53

*Includes cash in managers' accounts, non-GAAP Basis

	Fees
Other Investment Fees	
Investment consultants	\$ 823,722
Custodian bank	515,893
Investment legal fees	172,472
Other investment fees	124,296
TOTAL OTHER INVESTMENT FEES	\$ 1,636,383

Schedule of Commissions

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
B			
BAADER BANK AG	389,995 \$	578.82 \$	0.0015
BARCLAYS CAPITAL	1,670,357	2,745.67	0.0016
BARCLAYS CAPITAL INC. LE	5,686	255.57	0.0449
BLOOMBERG TRADEBOOK LLC	66,300	1,326.00	0.0200
BNP PARIBAS SECURITIES SERVICES	3,420,938	435.87	0.0001
BNP PARIBAS SECURITIES SERVICES AUSTR BR	376,464	253.27	0.0007
BNP PARIBAS SECURITIES SERVICES SA	117,008,948	1,102.33	0.0000
BTIG LLC	23,590	471.80	0.0200
C			
CACEIS BANK DEUTSCHLAND GMBH	85,866	123.20	0.0014
CANACCORD ADAMS INC	1,193,291	1,162.29	0.0010
CANACCORD GENUITY INC	7,400	148.00	0.0200
CANTOR CLEARING SERVICES	2,200	44.00	0.0200
CANTOR FITZGERALD & CO	30,399	473.28	0.0156
CANTOR FITZGERALD CANTOR CLEARING SERV	409	8.18	0.0200
CARNEGIE A S	5,659,519	1,230.17	0.0002
CARNEGIE BANK A.S.	3,755,775	1,091.17	0.0003
CARNEGIE INVESTMENTS BANK AB	12,104,394	2,264.22	0.0002
CARNEGIE SECURITIES FINLAND	1,640,204	2,681.55	0.0016
CHINA INTERNATIONAL CAPITAL CO	3,938,880	1,457.75	0.0004
CIBC WORL MKTS INC	202,036	181.58	0.0009
CITIBANK CANADA	13,557	5.18	0.0004
CITIGROUP GLBL MARKET KOREA SECS LTD	160,214,837	173.60	0.0000
CITIGROUP GLOBAL MARKETS INC	7,692	300.49	0.0391
CITIGROUP GLOBAL MARKETS LIMITED	76,717	115.76	0.0015
CLSA SECURITIES KOREA LTD.	949,538	1.93	0.0000
CLSA SINGAPORE PTE LTD.	1,050,218	7.66	0.0000
CREDIT LYONNAIS SECURITIES (ASIA)	3,477,423	1,074.43	0.0003
CREDIT LYONNAIS SECURITIES (USA) INC	12,299	614.95	0.0500
CREDIT SUISSE SECURITIES (EUROPE) LTD	598,705	369.13	0.0006
CREDIT SUISSE SECURITIES (USA) LLC	246,453,211	12,905.65	0.0001
D			
DAIWA SECURITIES (HK) LTD.	29,236,563	144.13	0.0000
DAIWA SECURITIES AMERICA INC	1,151,375,865	25,088.37	0.0000
DANSKE BANK A.S.	6,284,142	1,722.47	0.0003
DEUTSCHE BANK SECURITIES INC	45,218,914	3,016.91	0.0001

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
DNB NOR MARKETS CUSTODY DNB NORBANK	812,259	85.05	0.0001
DOWLING & PARTNERS	36,117	1,805.85	0.0500
E			
ESN NORTH AMERICA INC	742,605	2,093.34	0.0028
F			
FIDELITY CAPITAL MARKETS	117,091	1,700.57	0.0145
FOKUS BANK ASA	1,600,516	280.63	0.0002
G			
GMP SECURITIES LTD	745,616	297.41	0.0004
GOLDMAN SACHS & CO	25,753,871	9,429.41	0.0004
H			
HSBC BANK PLC	7,310	150.28	0.0206
I			
ICHIYOSHI SECURITIES CO LTD	218,059,603	6,438.73	0.0000
ING BANK NV	323,176	490.61	0.0015
INSTINET	17,700	354.00	0.0200
INSTINET PACIFIC LIMITED	9,666,695	2,606.08	0.0003
INSTINET SINGAPORE SERVICES PT	40,896	35.35	0.0009
INSTINET U.K. LTD	811,582,124	12,284.28	0.0000
INVESTEC BANK PLC	98,388	57.12	0.0006
INVESTMENT TECHNOLOGY GROUP INC	1,018	39.58	0.0389
INVESTMENT TECHNOLOGY GROUP LTD	127,574	135.80	0.0011
ITAU USA SECURITIES INC	8,564	428.20	0.0500
ITG CANADA	283,875	22.88	0.0001
J			
J. P. MORGAN SECURITIES INC	22,159,291	7,853.12	0.0004
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	67,392,675	588.22	0.0000
JEFFERIES & COMPANY INC.	296,518,913	6,070.23	0.0000
JEFFERIES HONG KONG LIMITED	11,704,189	2,299.54	0.0002
JOH BERENBERG GOSSLER AND CO	1,665,478	2,923.50	0.0018
JONES & ASSOCIATES INC	1,003,048	451.46	0.0005
JONES TRADING INSTITUTIONAL SERVICES LLC	1,347,325	916.84	0.0007
JP MORGAN CHASE BANK N.A. LONDON	52,505	29.66	0.0006
JP MORGAN SECURITIES PLC	9,100,227	18,630.10	0.0020
K			
KCG AMERICAS LLC	149,994	2,890.83	0.0193
KEPLER EQUITIES PARIS	1,431,636	4,128.56	0.0029
KOREA INVESTMENT AND SECURITIES CO LTD	100,095,675	107.03	0.0000

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
L			
LIQUIDNET CANADA INC	1,555,347	1,578.45	0.0010
LIQUIDNET EUROPE LIMITED	1,058,279	718.68	0.0007
LIQUIDNET INC	37,773	772.86	0.0205
M			
MACQUARIE BANK LIMITED	3,806,983	2,417.47	0.0006
MERRILL LYNCH & CO INC	41,154	30.68	0.0007
MERRILL LYNCH PIERCE FENNER & S	189,954,535	73,019.19	0.0004
MITSUBISHI UFJ SECURITIES (USA)	189,029,058	2,955.55	0.0000
MIZUHO SECURITIES USA INC	1,118,575,620	15,832.51	0.0000
MORGAN STANLEY AND CO. INTERNATIONAL	142,361,145	291.96	0.0000
MORGAN STANLEY CO INCORPORATED	230,576,950	18,508.13	0.0001
N			
NEEDHAM & COMPANY LLC	900	18.00	0.0200
NUMIS SECURITIES INC	2,665,883	6,440.72	0.0024
O			
OPPENHEIMER & CO INC	505,963	664.10	0.0013
P			
PAREL	983,351	1,971.31	0.0020
PEEL HUNT LLP	860,687	1,180.06	0.0014
PERSHING LLC	2,250,375	791.55	0.0004
PERSHING SECURITIES LIMITED	9,019	6.31	0.0007
PIPER JAFFRAY & HOPWOOD	7,099	354.95	0.0500
R			
RAYMOND JAMES AND ASSOCIATES INC	16,766	701.97	0.0419
RAYMOND JAMES LTD	620,150	962.14	0.0016
RBC DOMINION SECURITIES INC	1,848,434	236.62	0.0001
REDBURN PARTNERS LLP	667,081	1,046.25	0.0016
ROBERT W. BAIRD CO. INCORPORATE	753,222	91.38	0.0001
ROTH CAPITAL PARTNERS LLC	4,100	82.00	0.0200
ROYAL BANK OF CANADA EUROPE LTD	322,560	182.64	0.0006
S			
SANFORD C BERNSTEIN & CO LLC	2,915	145.75	0.0500
SANFORD C BERNSTEIN LTD	227,015	349.29	0.0015
SANTANDER SECURITIES SERVICES SA	116,051	63.47	0.0005
SCOTIA CAPITAL (USA) INC	11,549	577.45	0.0500
SCOTIA CAPITAL INC	12,435	11.71	0.0009
SIDOTI & COMPANY LLC	9,770	378.95	0.0388
SKANDINAVISKA ENSKILDA BANKEN	10,233,862	1,954.83	0.0002

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
SKANDINAVISKA ENSKILDA BANKEN LONDON	16,586,779	5,651.33	0.0003
SOCIETE GENERALE LONDON BRANCH	42,596,653	17,569.13	0.0004
STATE STREET GLOBAL MARKETS	901	36.04	0.0400
STEPHENS, INC	14,024	547.66	0.0391
STIFEL NICOLAUS & CO INC	590,437	1,018.42	0.0017
SUNTRUST CAPITAL MARKETS, INC.	500	10.00	0.0200
T			
TORONTO DOMINION SECURITIES INC	3,197,150	1,528.15	0.0005
U			
UBS LIMITED	324,182	681.54	0.0021
UBS SECURITIES ASIA LTD	33,579,486	237.74	0.0000
UBS SECURITIES CANADA INC	51,414	9.64	0.0002
UBS SECURITIES LLC	63,974	1,574.15	0.0246
W			
WEEDEN & CO	616,036	19,022.94	0.0309
WELLS FARGO SECURITIES LLC	2,612	104.48	0.0400
TOTAL	5,375,948,465 \$	331,527.79 \$	0.0001

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS

As of June 30, 2017 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 1,004,323	30.2 %
Private equity	\$ 269,196	8.1 %
Global fixed income	\$ 535,130	16.1 %
Private debt	\$ 226,317	6.8 %
Real assets	\$ 530,082	15.9 %
Absolute return	\$ 256,550	7.7 %
Global tactical asset allocation	\$ 305,386	9.3 %
Collective short term investments*	\$ 197,796	5.9 %
TOTAL FAIR VALUE	\$ 3,324,780	100.0 %

The amounts presented above may vary from the amounts presented in the financial statements, due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

* Includes cash to support synthetic exposure.

HEALTHCARE - 115 SUBTRUSTS

As of June 30, 2017 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 33,700	32.8 %
Global fixed income	\$ 16,297	15.8 %
Real assets	\$ 15,573	15.1 %
Global tactical asset allocation	\$ 19,732	19.2 %
Collective short term investments	\$ 17,636	17.1 %
TOTAL FAIR VALUE	\$ 102,938	100.0 %

The amounts presented above may vary from the amounts presented in the financial statements, due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

Actuarial Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016



September 19, 2017

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Police and Fire Department Retirement Plan (Plan) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2016. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Provisions

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the Plan. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuary's Certification Letter - Pension

Board of Administration
September 19, 2017
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. The Board changed its assumption for the long-term expected return on assets for the June 30, 2016 actuarial valuation from 7.0 percent to 6.875 percent. This change is reflected effective July 1, 2016 for financial reporting purposes. In addition, voters approved Measure F on November 8, 2016, and the City Council has adopted implementing ordinances. Consequently, update procedures include the addition of service cost and interest cost offset by actual benefit payments, as well as the changes in pension benefit provisions under Measure F that became effective on or before June 30, 2017.

Please refer to our GASB 67/68 report as of June 30, 2017 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2017, GASB 67/68 report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to the Schedule of Employer Contributions

Reliance on the Information Provided by the Plan and Compliance with ASOPs and GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. 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.



Actuary's Certification Letter - Pension

Board of Administration
September 19, 2017
Page 3

This letter and the schedules named above were prepared for the Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron



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



Timothy S. Doyle, ASA, EA, MAAA
Associate Actuary



Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The discount rate, wage inflation, and price inflation assumptions shown below were adopted by the Board of Administration with our input at the January 5, 2017 Board meeting. All other assumptions were adopted at the December 3, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2015. Please refer to the experience study for the rationale for each of the assumptions.

1) Discount Rate

6.875% net of investment expenses. The long-term expected return on assets based on NEPC's capital market assumptions for a 30-year time horizon is 7.7%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2) Wage Inflation

3.25% per annum.

3) Price Inflation

2.75% per annum.

4) Salary Increase Rate

The following merit component is added to wage inflation, based on an individual member's years of services:

Table B-1		
Salary Merit Increases		
Years of Service	Merit / Longevity	
0	6.75	%
1	6.00	
2	5.25	
3	4.50	
4	3.75	
5	3.25	
6	2.75	
7	2.25	
8	1.75	
9	1.25	
10+	1.00	

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

5) Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2	
Percentage Married	
Gender	Percentage
Male	85%
Female	85%

6) Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3		
Rates of Termination		
Service	Police	Fire
0	13.75%	20.00%
1	11.75	20.00
2	9.85	3.50
3	8.35	2.00
4	7.00	1.30
5	5.75	1.10
6	4.60	1.00
7	3.80	0.90
8	3.10	0.80
9	2.65	0.70
10	2.20	0.60
11	2.00	0.50
12	1.85	0.50
13	1.70	0.50
14	1.65	0.50
15+	1.60	0.50

** Termination rates do not apply once a member is eligible for retirement*

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increase per year.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

7) Rates of Disability

For Police, disability rates are equal to the CALPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older. For Fire, disability rates are equal to the CALPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older. Sample disability rates of active participants are provided in Table B-4.

Table B-4		
Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.16%	0.03%
30	0.45	0.08
35	0.74	0.15
40	1.03	0.28
45	1.32	0.50
50	2.70	5.08
55	6.88	7.54
60	8.71	10.77
65	10.47	14.84

100% of disabilities are assumed to be duty related.

8) Rates of Mortality

Mortality rates for actives, retirees, and beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

Base Mortality Table		
Category	Male	Female
Healthy Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male), projected using Scale MP-2015 on a generational basis.	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female), projected using Scale MP-2015 on a generational basis.
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Employee Mortality Table (Male), projected using Scale MP-2015 on a generational basis.	1.048 times the CALPERS 2009 Employee Mortality Table (Female), projected using Scale MP-2015 on a generational basis.
Disabled Annuitant	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male), projected using Scale MP-2015 on a generational basis.	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male), projected using Scale MP-2015 on a generational basis.

It is assumed that 50% of active deaths are service related.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

9) Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-5.

Table B-5						
Rates of Retirement by Age						
Police				Fire		
Age	Tier 1	Tier 2 < 30 years	Tier 2 30+ years	Tier 1	Tier 2 < 30 years	Tier 2 30+ years
50	60.00%	0.00%	0.00%	35.00%	0.00%	0.00%
51-55	50.00%	0.00%	0.00%	35.00%	0.00%	0.00%
56-59	40.00%	0.00%	0.00%	27.50%	0.00%	0.00%
60-61	50.00%	50.00%	100.00%	27.50%	25.00%	50.00%
62-64	100.00%	50.00%	100.00%	100.00%	25.00%	50.00%
65-69	100.00%	50.00%	100.00%	100.00%	35.00%	100.00%
70+	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

In valuing the Tier 2 provisions after the changes made by Measure F for GASB 67 reporting as of June 30, 2017, Tier 2 retirement rates were changed to those shown in the table below.

Table B-6				
Police Tier 2 Rates of Retirement by Age				
Age	<20 Years	20 - 24 Years	25 - 29 Years	30+ Years
50 - 56	2.00%	2.00%	2.00%	5.00%
57 - 59	7.50%	10.00%	20.00%	100.00%
60 - 61	10.00%	20.00%	35.00%	100.00%
62 - 64	25.00%	50.00%	75.00%	100.00%
65+	100.00%	100.00%	100.00%	100.00%

Table B-7				
Fire Tier 2 Rates of Retirement by Age				
Age	<20 Years	20 - 24 Years	25 - 29 Years	30+ Years
50 - 56	1.00%	1.00%	1.00%	2.50%
57 - 59	5.00%	7.50%	15.00%	100.00%
60 - 61	7.50%	15.00%	25.00%	100.00%
62 - 64	20.00%	35.00%	50.00%	100.00%
65+	100.00%	100.00%	100.00%	100.00%

These retirement rates apply only to those eligible for unreduced benefits.

Tier 1 vested terminated members are assumed to retire at age 55 and Tier 2 vested terminated members are assumed to retire at age 60.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

10) Administrative Expenses

1.90% of valuation payroll is added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

11) Changes Since Last Valuation

The discount rate was changed from 7.000% net of investment expenses to 6.875% net of investment expenses.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below. All components of the contribution allocation procedure were established prior to the June 30, 2011 actuarial valuation except as specifically noted below.

1) Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2) Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.00% for 2015-16, 7.00% for 2014-15, 7.125% for 2013-14, 7.25% for 2012-13, and 7.50% for 2011-12) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

3) Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 15-year period beginning with the valuation date in which they first arise. In previous valuations, actuarial gains and losses and plan changes were amortized over a 16-year period. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active Count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay*
June 30, 2016	1,582	\$ 194,072,093	\$ 10,223	4.72 %
June 30, 2015	1,577	184,733,063	9,762	2.96
June 30, 2014	1,654	188,188,712	9,481	5.19
June 30, 2013	1,707	184,645,250	9,014	-1.13
June 30, 2012	1,718	187,958,523	9,117	-0.48
June 30, 2011	1,735	190,726,258	9,161	-11.51
June 30, 2010	2,021	251,058,473	10,352	1.38
June 30, 2009	2,083	255,222,552	10,211	14.92
June 30, 2007	2,136	227,734,449	8,885	1.68 %

Years prior to 2009 are increases over a two-year period, not an annual increase

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Changes in Retirees and Beneficiaries

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS											
Beginning of Period		Added to Rols		Removed from Rols		End of Period					
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances	
2015-2016	2,108	\$ 182,185	72	\$ 5,450	31	\$ (3,262)	2,149	\$ 190,897	4.78 %	\$ 88,831	
2014-2015	2,032	170,872	115	13,700	39	2,387	2,108	182,185	6.62	86,426	
2013-2014	1,994	162,716	73	10,142	35	1,986	2,032	170,872	5.01	84,091	
2012-2013	1,942	154,381	91	10,259	39	1,924	1,994	162,716	5.40	81,603	
2011-2012	1,885	144,139	88	11,583	31	1,341	1,942	154,381	7.11	79,496	
2010-2011	1,810	131,014	133	15,384	58	2,259	1,885	144,139	10.02	76,466	
2009-2010	1,700	115,573	152	17,238	42	1,797	1,810	131,014	13.36	72,383	
2008-2009	1,477	90,061	276	27,537	53	2,025	1,700	115,573	28.33	67,984	
2005-2007	1,385	76,071	143	15,913	51	1,923	1,477	90,061	18.39	60,976	

Years prior to 2009-2010 are increases over a two-year period, not an annual increase

Annual allowances in thousands

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain (or Loss) for Year(s) Ending on Valuation Date Due To:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
June 30, 2016	\$ (106,785)	\$ (54,528)	\$ (161,313)	\$ (72,680)	(233,993)
June 30, 2015	2,806	7,291	10,097	(90,004)	(79,907)
June 30, 2014	78,462	(14,678)	63,784	(55,787)	7,997
June 30, 2013	(92,499)	11,115	(81,384)	(28,233)	(109,617)
June 30, 2012	(172,759)	39,432	(133,327)	(75,220)	(208,547)
June 30, 2011	(96,473)	278,051	181,578	12,360	193,938
June 30, 2010	(149,621)	43,880	(105,741)	(104,240)	(209,981)
June 30, 2009	(138,383)	(113,495)	(251,878)	(145,351)	(397,229)
June 30, 2007	97,135	47,735	144,870	(93,343)	51,527

Amounts prior to June 30, 2011 calculated by prior actuary

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Solvency Test

GASB SOLVENCY TEST							
Valuation Date	Actuarial Liability For			Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities		(A)	(B)	(C)
June 30,	(A)	(B)	(C)		(A)	(B)	(C)
2016	\$ 294,535	\$ 2,999,773	\$ 1,061,682	\$ 3,297,068	100 %	100 %	- %
2015	285,538	2,819,410	953,462	3,212,776	100	100	11
2014	288,227	2,585,611	939,987	3,025,101	100	100	16
2013	280,727	2,452,728	844,576	2,771,924	100	100	5
2012	276,047	2,310,295	811,450	2,703,539	100	100	14
2011	260,172	2,174,044	761,791	2,685,721	100	100	33
2010	246,356	1,907,931	1,076,169	2,576,705	100	100	39
2009	243,302	1,630,914	1,089,266	2,569,569	100	100	64
2007	227,191	1,240,126	905,069	2,365,790	100	100	99

Amounts prior to June 30, 2011 calculated by prior actuary

Dollar amounts in thousands

Schedule of Funding Progress

The funding ratios shown in the schedule of funding progress are ratios compared to the actuarial liability that is intended to be a funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of Plan assets to cover the estimated costs of settling the Plan's benefit obligations.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2016	\$ 3,297,068	\$ 4,355,990	\$ 1,058,922	75.7 %	\$ 194,072	545.6 %
June 30, 2015	3,212,776	4,058,410	845,634	79.2	184,733	457.8
June 30, 2014	3,025,101	3,813,825	788,724	79.3	188,189	419.1
June 30, 2013	2,771,924	3,578,031	806,107	77.5	184,645	436.6
June 30, 2012	2,703,539	3,397,792	694,253	79.6	187,959	369.4
June 30, 2011	2,685,721	3,196,007	510,286	84.0	190,726	267.5
June 30, 2010	2,576,705	3,230,456	653,751	79.8	251,058	260.4
June 30, 2009	2,569,569	2,963,482	393,913	86.7	255,223	154.3
June 30, 2007	\$ 2,365,790	\$ 2,372,386	\$ 6,596	99.7	\$ 227,734	2.9

Amounts prior to June 30, 2011 were calculated by the prior actuary

Dollar amounts in thousands

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San José as a police officer or fire fighter except for the following:

- a. Independent contractors,
- b. Person in City service principally for training or educational purposes,
- c. Auxiliary or voluntary police officers or fire fighters,
- d. Part-time or non-salaried employees, and
- e. Employees receiving credit in any other retirement or pension system.

For GASB 67 reporting as of June 30, 2017, the Measure F change allowing members who originally participated in Tier 1 to return to Tier 1 upon rehire was valued, resulting in the movement of eight members from Tier 2 to Tier 1.

2) Final Compensation

The highest 12 consecutive months of compensation in covered employment. However, in determining final compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately preceding the last 12 months shall be considered. Compensation excludes overtime pay and expense allowances.

3) Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4) Contributions

a. Member:

The amount needed to fund 3/11ths of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5) Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

Benefit

Police: 2.5% of final compensation for each year of credited service up to 20 years plus 4.0% of final compensation for each year of credited service in excess of 20, subject to a maximum of 90% of final compensation.

Fire: For members with less than 20 years of service, 2.5% of final compensation for each year of credited service. For members with 20 or more years of service, 3.0% of final compensation for each year of service, subject to a maximum of 90% of final compensation.

Summary of Pension Plan Provisions - Tier 1 *(continued)*

6) Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of final compensation plus 4.0% of final compensation for each year of credited service in excess of 20, subject to a maximum of 90% of final compensation.

Fire: For members with less than 20 years of service, 50% of final compensation. For members with 20 or more years of service, 3.0% of final compensation for each year of service, subject to a maximum of 90% of final compensation.

7) Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of final compensation plus 1% of final compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

8) Non-Service Connected Death

Less than 2 years of service:

Lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

Disabled retirees or members ineligible for service retirement:

Spouse receives 24.0% of final compensation plus 0.75% of final compensation for each year of service in excess of two, subject to a maximum of 37.5% of final compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25.0% of final compensation
2 Children:	37.5% of final compensation
3+ Children:	50.0% of final compensation

The total benefit payable to a family is limited to 75.0% of final compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

Service retirees or members eligible for service retirement:

Spouse receives the greater of 37.5% of final compensation or 50.0% of the member's service retirement benefit, subject to a maximum of 42.5% of final compensation for Police and 45% of final compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75.0% of final compensation.

Summary of Pension Plan Provisions - Tier 1 *(continued)*

9) Service-Connected Death

Spouse receives the greater of 37.5% of final compensation or 50.0% of the member's service retirement benefit, subject to a maximum of 42.5% of final compensation for Police and 45.0% of final compensation for Fire. If a member has eligible dependent children, an additional benefit of 25.0% of final compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75.0% of final compensation.

10) Termination Benefits

Less than 10 years of service:

Lump sum benefit equal to the accumulated employee contributions with interest at 2.0% per annum.

10 or more years of credited service:

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11) Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any police officer who is hired, rehired, or reinstated by the City on or after August 4, 2013, or any fire fighter who is hired, rehired, or reinstated by the City on or after January 2, 2015.

For GASB 67 reporting as of June 30, 2017, the Measure F change allowing members who originally participated in Tier 1 to return to Tier 1 upon rehire was valued, resulting in the movement of eight members from Tier 2 to Tier 1.

2) Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

3) Credited Service

One year of service credit is given for 2,080 or more hours of City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 2,080) is given for each calendar year with less than 2,080 hours worked.

4) Member Contributions

50.0% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

5) Unreduced Service Retirement

Eligibility:

Age 60 with 10 years of service. For GASB 67 reporting as of June 30, 2017, eligibility is changed under Measure F to age 57 with five years of service.

Benefit - Member:

2.0% of final compensation for each year of credited service attributable to Tier 2 plus the applicable Tier 1 multiplier for each year of credited service attributable to Tier 1, subject to a maximum of 65.0% of final compensation.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to 2.4% of final compensation for each year of credited service up to 20 years, plus 3.0% of final compensation for each of credited service between 20 years and 25 years, plus 3.4% of final compensation for each year of credited service in excess of 25 years, subject to a maximum of 80% of final compensation.

Benefit - Survivor:

Single life annuity. For GASB 67 reporting as of June 30, 2017, the automatic form of payment is changed under Measure F to a 50% joint and survivor annuity.

6) Early Service Retirement

Eligibility:

Age 50 with 10 years of service. For GASB 67 reporting as of June 30, 2017, the eligibility is changed under Measure F to age 50 and five years of service.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

Benefit - Member:

Reduced benefit actuarially equivalent to the unreduced service retirement benefits commencing at age 60. The early retirement reduction is applied to the benefit after the application of the maximum of 65.0% of final compensation.

For GASB 67 reporting as of June 30, 2017, the reduction is changed under Measure F to 7% per year the member's retirement precedes age 57.

7) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

Monthly benefit equivalent to 50.0% of final compensation.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to the greater of:

- Monthly benefit equivalent to 50% of final compensation.
- The service retirement benefit, if eligible for service retirement.
- A service retirement benefit actuarially reduced from age 50, if not eligible for service retirement.

8) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of final compensation for each year of credited service attributable to Tier 2 plus the applicable Tier 1 multiplier for each year of credited service attributable to Tier 1, subject to a minimum of 20.0% of final compensation and a maximum of 50.0% of final compensation.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to 1.8% of final compensation for each year of credited service if less than age 50, or the service pension benefit if older than age 50.

9) Death Before Retirement

If death occurs before retirement eligibility is reached and after two years of service:

Monthly benefit equal to the greater of:

- 10.0% of final compensation or
- 2.0% of final compensation for each year of service up to a maximum of 30.0% of final compensation.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to a monthly benefit equal to 24% of final compensation plus 0.75% of final compensation for each year of service in excess of two, up to a maximum of 37.5% of final compensation.

If death occurs after retirement eligibility is reached:

Benefit equivalent to what the employee would have received if retired at the time of death.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

Employees killed in the line of duty:

Monthly benefit equal to the greater of:

- 50.0% of final compensation or
- Benefit equivalent to what the employee would have received if retired at the time of death.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to the greater of:

- 37.5% of final compensation or
- 50% of what the employee would have received if retired at the time of death.

10) Withdrawal Benefits

Less than ten years of service (five years for GASB 67 reporting as of June 30, 2017):

Lump sum benefit equal to the accumulated employee contributions with interest.

Ten or more years of credited service (five or more years for GASB 67 reporting as of June 30, 2017):

The amount of the service retirement benefit, actuarially reduced for early retirement, and payable when retirement eligibility is reached.

11) Benefit Forms

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50.0%, 75.0% or 100.0% continuance to a survivor.

12) Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap of 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

For GASB 67 reporting as of June 30, 2017, the cap is changed under Measure F to 2.0%.



September 21, 2017

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Police and Fire Department Retirement Plan with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Police and Fire Department Postemployment Healthcare Plan ("Plan").

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2016. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary of Key Substantive Plan Provisions

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

The City and the bargaining units have historically negotiated the contributions to the plan. Voters approved Measure F on November 8, 2016, and the City Council has enacted implementation ordinances. However, the effective dates for provisions affecting the OPEB plan depend on the receipt of IRS approval for the changes. Once Measure F is fully implemented, the

Members of the Board
September 21, 2017
Page ii

members who remain under the Plan will contribute a fixed percentage of pay and the City will pay a contribution determined by the Board, subject to a cap. Prior to the time that Measure F is implemented, we understand the City and members will continue paying the current contributions rates. We understand that none of the changes have been implemented as of June 30, 2017, and consequently, none of the changes are reflected in our reports.

The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total OPEB Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. There were no significant events between the valuation date and the measurement date so the update procedures only included the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 74/75 report as of June 30, 2017 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR as shown in the June 30, 2017, GASB 74/75 report.

- Change in Net OPEB Liability
- Sensitivity of Net OPEB Liability to Changes in Discount Rate and Healthcare Cost Trend Rates
- Schedule of Changes in Net OPEB Liability and Related Ratios
- Schedule of Employer Contributions

Reliance on the Information Provided by the System and Compliance with GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that 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



Actuary's Certification Letter - OPEB *(continued)*

Members of the Board
September 21, 2017
Page iii

Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. 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 and the schedules named above were prepared for the Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

This letter and the exhibits named above 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, related legislation, or regulations.

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachments



Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the January 5, 2017 Board meeting.

1) Expected Return on Plan Assets

6.875% per year net of investment expenses. The long-term expected return on assets based on NEPC's capital market assumptions for a 30-year time horizon is 7.92%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2) Per Person Cost Trends

Annual Increase				
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental	Part B Premiums
2018	8.50%	6.50%	4.00%	(7.16)%
2019	8.20	6.34	4.00	5.79
2020	7.89	6.18	4.00	5.55
2021	7.59	6.02	4.00	4.18
2022	7.29	5.86	4.00	4.28
2023	6.98	5.70	4.00	5.77
2024	6.68	5.54	4.00	5.14
2025	6.38	5.38	4.00	5.07
2026	6.07	5.21	4.00	4.97
2027	5.77	5.05	4.00	4.87
2028	5.46	4.89	4.00	4.77
2029	5.16	4.73	4.00	4.67
2030	4.86	4.57	4.00	4.58
2031	4.55	4.41	4.00	4.48
2032	4.25	4.25	4.00	4.38
2033	4.25	4.25	4.00	4.28
2034	4.25	4.25	4.00	4.19
2035	4.25	4.25	4.00	4.09
2036	4.25	4.25	4.00	3.99
2037	4.25	4.25	4.00	3.89
2038	4.25	4.25	4.00	3.80
2039	4.25	4.25	4.00	3.70
2040	4.25	4.25	4.00	3.60
2041+	4.25	4.25	4.00	3.60

Actual premium increases for 2017 were reflected with the above rates applying after Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

3) Changes Since Last Valuation

The expected return on assets decreased from 7.00% to 6.875%. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were moved forward one year.

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the January 5, 2017 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted by the Board of Administration at the December 3, 2015 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2009 through June 30, 2015.

1) Retirement Rates

The following rates of retirement apply only to those eligible for unreduced benefits.

Rates of Retirement by Age						
Police				Fire		
Age	Tier1	Tier 2 < 30 years	Tier 2 30+ years	Tier 1	Tier 2 < 30 years	Tier 2 30+ years
50	60.00%	0.00%	0.00%	35.00%	0.00%	0.00%
51 - 55	50.00	0.00	0.00	35.00	0.00	0.00
56 - 59	40.00	0.00	0.00	27.50	0.00	0.00
60 - 61	50.00	50.00	100.00	27.50	25.00	50.00
62 - 64	100.00	50.00	100.00	100.00	25.00	50.00
65 - 69	100.00	50.00	100.00	100.00	35.00	100.00
70+	100.00	100.00	100.00	100.00	100.00	100.00

Tier 1 vested terminated members are assumed to retire at age 55 and Tier 2 vested terminated members are assumed to retire at age 60.

2) Disability Rates

Police: Non-Industrial plus Industrial CALPERS Public Agency disability rates for Police multiplied by 90% prior to age 50 and 140% for ages 50+.

Fire: Non-Industrial plus Industrial CALPERS Public Agency disability rates for Fire multiplied by 90% prior to age 50 and 180% for ages 50+.

Rates of Disability at Selected Ages		
Age	Police	Fire
30	0.446 %	0.076 %
40	1.026	0.279
50	2.696	5.080
60	8.714	10.769

100% of disabilities are assumed to be duty related.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

3) Rate of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

Base Mortality Table		
Category	Male	Female
Healthy Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Employee Mortality Table (Male)	1.048 times the CALPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)

4) Termination Rates

Sample rates of termination are shown in the following table.

Rates of Termination		
Service	Police	Fire
0	13.75%	20.00%
1	11.75	20.00
2	9.85	3.50
3	8.35	2.00
4	7.00	1.30
5	5.75	1.10
6	4.60	1.00
7	3.80	0.90
8	3.10	0.80
9	2.65	0.70
10	2.20	0.60
11	2.00	0.50
12	1.85	0.50
13	1.70	0.50
14	1.65	0.50
15	1.60	0.50

Termination rates do not apply once a member is eligible for retirement.

5) Salary Increase Rate

Wage inflation component is assumed to be 3.25% annually.

In addition, the following merit component is added based on an individual member's years of service.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

Salary Merit Increases	
Years of Service	Merit/Longevity
0	6.75%
1	6.00
2	5.25
3	4.50
4	3.75
5	3.25
6	2.75
7	2.25
8	1.75
9	1.25
10+	1.00

6) Percent of Retirees Electing Coverage

100% of future retirees are assumed to elect coverage at retirement. Retirees are assumed to continue coverage in their current plan.

The HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans will discontinue as of 1/1/2017. Sutter Health Plus \$20 Co-pay and Sutter Health Plus \$1,500 Deductible plans will be offered as of 1/1/2017.

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportions shown in the following table.

Assumed Plan Elections for Future Retirees	% Electing
Pre-Medicare Medical Plans	
Kaiser DHMO	12 %
Kaiser \$25 Co-pay	54
Sutter Health DHMO	1
Sutter Health \$20 Co-pay	5
PPO \$25 Co-pay	28
Medicare-Eligible Medical Plans	
Kaiser Senior Advantage	41
BS Medicare HMO	6
BS Medicare PPO	53
Dental Plans (All Retirees)	
Delta Dental PPO	99
DeltaCare HMO	1

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

7) Family Composition

80% of married males and 50% of married females will elect spouse coverage in a medical plan at retirement.

100% of married employees will elect spouse coverage in a dental plan at retirement.

Pre-Medicare: 48% of males and 42% of females will cover children.

8) Enrollment by Rating Tier

For current retirees, their actual enrollment by rating tier is used to value the explicit subsidy. For future retirees, the following assumptions are used:

Assumed Rating Tier Elections for Future Retirees				
	Single	Employee / Spouse	Employee / Child	Family
Pre-Medicare Medical Plans				
Males	19%	34%	7%	40%
Females	39%	22%	19%	20%
Medicare Medical Plans				
Males	26%	74%	0%	0%
Females	58%	42%	0%	0%

9) Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

10) Married Percentage

Percentage Married	
Gender	Percentage
Male	85%
Female	85%

11) Administrative Expenses

Included in the average monthly premiums

12) Changes Since Last Valuation

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 5, 2017 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2016 and 2017. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren), and retiree plus family) were blended based on enrollment data for the 2016 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans were assumed to transition to the Sutter Plus \$20 Co-pay and Sutter Health Plus \$1,500 Deductible (DHMO) plans based on the actual 1/1/2017 elections. The resulting per person per month (PPPM) cost was then adjusted using age curves. The Pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José; the combined population participates in the same health insurance plans and pays the same premiums.

This report does 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 related legislation and regulations.

1) Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2016 based on the premiums for 2016 and 2017. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

The following tables show the claims costs for each medical plan as of the valuation date:

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE							
Age	Kaiser DHMO		Kaiser \$25 Co-Pay		PPO \$25 Co-pay		
	Male	Female	Male	Female	Male	Female	
40	\$ 5,125	\$ 7,213	\$ 6,467	\$ 9,242	\$ 7,585	\$ 11,311	
45	5,311	7,001	6,783	9,031	8,231	11,247	
50	5,909	7,449	7,649	9,696	9,614	12,361	
55	6,816	8,105	8,925	10,639	11,547	13,848	
60	8,078	8,997	10,673	11,894	14,114	15,754	
64	9,428	9,857	12,523	13,095	16,774	17,541	

Actuarial Assumptions and Methods *(continued)*
POSTEMPLOYMENT HEALTHCARE

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE				
Age	Sutter DHMO		Sutter \$20 Co-pay	
	Male	Female	Male	Female
40	\$ 6,846	\$ 9,534	\$ 7,934	\$ 11,070
45	7,035	9,211	8,165	10,705
50	7,755	9,737	9,018	11,330
55	8,872	10,532	10,333	12,270
60	10,446	11,629	12,182	13,562
64	12,144	12,697	14,172	14,818

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
Age	Kaiser Senior Adv		BS Med HMO		BS Med PPO	
	Male	Female	Male	Female	Male	Female
65	\$ 2,831	\$ 3,020	\$ 6,567	\$ 7,004	\$ 5,924	\$ 6,318
70	3,324	3,334	7,711	7,735	6,956	6,977
75	3,717	3,595	8,623	8,340	7,778	7,523
80	3,950	3,711	9,162	8,609	8,264	7,765
85	4,003	3,673	9,284	8,519	8,375	7,685

SAMPLE CLAIMS COSTS - DENTAL				
Age	Delta Dental PPO		DeltaCare HMO	
	Male	Female	Male	Female
All	\$ 717	\$ 717	\$ 311	\$ 311

2) Medicare Part D Subsidy

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3) Medicare Part B Premiums

Assumed that Medicare eligible retirees participate in Medicare Part B.

4) Medicare Eligibility

All retirees who turn age 65 are assumed to be eligible for Medicare.

5) Annual Limits

Assumed to increase at the same rate as trend.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

6) Lifetime Maximums

Are not assumed to have any financial impact.

7) Geography

Implicitly assumed to remain the same as current retirees.

8) Retiree Contributions

Retirees pay the difference between the actual premium for the elected plan and the lowest cost plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

9) Changes Since Last Valuation

There was no change to the claims cost process other than reflecting that different options are available to retirees beginning January 1, 2017.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1) Actuarial Cost Method

The Entry Age Normal actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postretirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.000% for 2015-16 and 2014-15, 7.125% for 2013-14, 7.25% for 2012-13, 7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80% and 120% of the market value of assets.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. Current contribution rates are fixed, so no specific amortization method is applied.

4) Contributions

The City negotiates contracts with its labor unions that require both employee and City contributions to fund the Plan.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 3 to 1 with the City contributing 3/4ths of the total contribution. In addition, the City contributes the implicit subsidy amount on a pay-as-you-go basis.

5) Changes Since Last Valuation

None.

Actuarial Assumptions and Methods *(continued)*
POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date	Active Member Counts			Annual Payroll	Average	Percent Change
as of June 30,	Under Age 65	Age 65+	Total		Annual Pay	in Average Pay
2016	1,582	0	1,582	\$ 194,072,092	\$ 122,675	4.9 %
2015	1,577	0	1577	184,481,838	116,983	2.8 %
2014	1,654	0	1654	188,188,712	113,778	5.2 %
2013	1,707	0	1707	184,645,250	108,169	7.7 %
2012	1,718	0	1718	172,625,503	100,481	(8.6)%
2011	1,735	0	1735	190,726,258	109,929	(11.5)%
2010	2020	1	2021	251,058,473	124,225	1.4 %
2009	N/A	N/A	2083	255,222,552	122,526	14.9 %
2007	N/A	N/A	2136	227,734,449	106,617	N/A

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to	Removed	End of Period		Net Change		% Increase	Average
	Count	Annual Subsidy	Rolls Count	from Rolls Count	Count	Annual Subsidy	Count	Annual Subsidy	in Annual Subsidy	Annual Subsidy
Medical										
2015-16	1,899	\$ 18,605,787	88	66	1,921	\$ 19,013,844	22	\$ 408,057	2.2%	\$ 9,898
2014-15	1,849	18,994,780	106	56	1,899	18,605,787	50	(388,993)	-2.0%	9,798
2013-14	1,832	19,538,587	79	62	1,849	18,994,780	17	(543,807)	-2.8%	10,273
2012-13	1,789	21,488,930	94	51	1,832	19,538,587	43	(1,950,343)	-9.1%	10,665
2011-12	1,736	21,104,972	107	54	1,789	21,488,930	53	383,958	1.8%	12,012
2010-11	1,676	19,632,008	119	59	1,736	21,104,972	60	1,472,964	7.5%	12,157
2009-10	1,555	16,584,591	N/A	N/A	1,676	19,632,008	121	3,047,417	18.4%	11,714
2007-09	1,362	13,277,469	N/A	N/A	1,555	16,584,591	193	3,307,122	24.9%	10,665
Dental										
2015-16	1,992	\$ 2,388,385	65	39	2018	\$ 2,403,048	26	\$ 14,663	0.6%	\$ 1,191
2014-15	1,917	2,303,884	108	33	1,992	2,388,385	75	84,501	3.7%	1,199
2013-14	1,890	2,301,504	68	41	1,917	2,303,884	27	2,380	0.1%	1,202
2012-13	1,855	2,398,735	71	33	1,890	2,301,504	35	(97,231)	-4.1%	1,218
2011-12	1,798	2,325,033	70	18	1,855	2,398,735	57	73,702	3.2%	1,293
2010-11	1,707	2,267,352	104	24	1,798	2,325,033	91	57,681	2.5%	1,293
2009-10	1,519	1,794,454	N/A	N/A	1,707	2,267,352	188	472,898	26.4%	1,328
2007-09	1,375	1,629,777	N/A	N/A	1,519	1,794,454	144	164,677	10.1%	1,181

* Annual subsidies are explicit amounts

Actuarial Assumptions and Methods *(continued)*
POSTEMPLOYMENT HEALTHCARE - FINANCIAL SCHEDULES

SOLVENCY TEST					
Actuarial Liability					
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives	Active Members	Reported Assets	Portion of Liability Covered by Reported Assets	
	(A)	(B)		(A)	(B)
6/30/16	\$ 472,004	\$ 306,868	\$ 135,207	29%	0%
6/30/15	451,735	288,019	114,565	25%	0%
6/30/14	429,034	277,676	93,605	22%	0%
6/30/13	421,999	278,526	75,035	18%	0%
6/30/12	600,869	396,452	66,385	11%	0%
6/30/11	622,691	381,104	60,709	10%	0%
6/30/10	568,611	377,697	58,586	10%	0%
6/30/09	436,249	325,355	55,618	13%	0%
6/30/07	336,899	329,328	45,393	13%	0%
6/30/06	422,457	428,761	38,381	9%	0%

Dollar amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain or (Loss) for Year Ending on Valuation Date Due to:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/16	\$ (2,914)	\$ (2,728)	\$ (5,642)	\$ 4,864	\$ (778)
6/30/15	582	7,990	8,572	(3,449)	5,123
6/30/14	2,802	16,222	19,024	13,689	32,713
6/30/13	2,437	(4,536)	(2,099)	258,939	256,840
6/30/12	(6,011)	4,760	(1,251)	58,173	56,922
6/30/11	(2,661)	5,967	3,306	1,146	4,452
6/30/10	(3,067)	(11,242)	(14,309)	(122,599)	(136,908)

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*
POSTEMPLOYMENT HEALTHCARE - FINANCIAL SCHEDULES

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as % of Covered Payroll
6/30/16	\$ 135,207	\$ 778,871	\$ 643,664	17.4 %	\$ 194,072	332 %
6/30/15	114,565	739,753	625,188	15.5 %	184,733	338 %
6/30/14	93,605	706,710	613,105	13.2 %	188,189	326 %
6/30/13	75,035	700,525	625,490	10.7 %	184,645	339 %
6/30/12	66,385	997,321	930,936	6.7 %	172,626	539 %
6/30/11	60,709	1,003,795	943,086	6.0 %	190,726	494 %
6/30/10	58,586	946,308	887,722	6.2 %	222,699	399 %
6/30/09	55,618	761,604	705,986	7.3 %	243,196	290 %
6/30/07	45,393	666,227	620,834	6.8 %	227,734	273 %
6/30/06	38,381	851,218	812,837	4.5 %	218,521	372 %

Dollar amounts in thousands

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility

Employees who retire (include deferred vested members) with at least 15 years of service with the City ("OPEB benefit service"), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before August 4, 2013) are eligible for unreduced service retirement at age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced service retirement is available at age 50 with 20 years of service. Tier 2 employees (hired on or after August 4, 2013) are eligible for unreduced service retirement at age 60 with 10 years of service or reduced service retirement at age 50 with 10 years of service. Service credited through reciprocity agreements counts towards an employee's required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 26.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage if the following conditions are met:

- 1) the employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation and;
- 2) both the member and the survivors were enrolled in the active medical plan immediately before death; and,
- 3) the survivor will receive a monthly pension benefit.

Employees who separate from service after July 5, 1992, with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

Benefits for Retirees

Medical:

The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference, if another plan is elected.

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

Dental:

The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Summary of Key Substantive Plan Provisions *(continued)*
POSTEMPLOYMENT HEALTHCARE *(continued)*

Premiums:

Monthly premiums before adjustments for 2016 and 2017 are as follows.

2016 MONTHLY PREMIUMS				
Plan	Single	Employee/ Spouse	Employee/ Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 466.92	\$ 933.84	\$ 817.12	\$ 1,400.78
Kaiser \$25 Co-pay	570.24	1,140.48	997.88	1,710.66
Blue Shield HMO \$45 Co-pay	722.04	1,444.06	1,263.54	2,166.06
Blue Shield HMO \$45 SaveNet	628.34	1,256.64	1,099.56	1,884.96
Blue Shield HMO \$25 Co-pay	811.48	1,622.94	1,420.10	2,434.42
Blue Shield HMO \$25 SaveNet	706.18	1,412.34	1,235.82	2,118.52
Blue Shield PPO \$25 Co-pay	945.26	1,890.50	1,654.20	2,835.74
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 272.34	\$ 544.68	\$ 544.68	\$ 817.02
Blue Shield Medicare HMO	707.14	1,414.28	1,414.28	2,123.24
Blue Shield Medicare PPO	673.36	1,346.72	1,346.72	1,955.36
Dental				
Delta Dental PPO	\$ 48.92	\$ 107.62	\$ 117.42	\$ 151.66
DeltaCareHMO	24.44	48.86	42.74	73.30

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

2017 MONTHLY PREMIUMS				
Plan	Single	Employee/ Spouse	Employee/ Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 490.20	\$ 980.40	\$ 857.86	\$ 1,470.62
Kaiser \$25 Co-pay	598.66	1,197.32	1,047.62	1,795.94
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Blue Shield PPO \$25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 289.12	\$ 578.24	\$ 578.24	\$ 867.36
Blue Shield Medicare PPO	509.21	1,018.42	1,018.42	1,771.26
Blue Shield Medicare HMO	598.82	1,197.64	1,197.64	1,824.90
Dental				
Delta Dental PPO	\$ 50.88	\$ 111.92	\$ 122.12	\$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

Summary of Key Substantive Plan Provisions *(continued)*
POSTEMPLOYMENT HEALTHCARE *(continued)*

SUMMARY OF 2017 BENEFIT PLANS					
Non-Medicare Plans:	Kaiser \$25 Co-Pay	Kaiser DHMO	Sutter Health Plus \$20 Co-pay HMO	Sutter Health Plus \$1,500 Deductible	BS PPO \$25 Co-Pay (In Network)
Annual out-of-pocket maximum	\$1,500/\$3,000	\$4,000/\$8,000	\$1,500/\$3,000	\$4,000/\$8,000	\$2,100/\$4,200
Annual deductible	None	\$1,500/\$3,000	None	\$1,500/\$3,000	\$100/\$200
Office visit co-pay	\$25	\$40	\$20	\$20	\$25
Emergency room co-pay	\$100	30%*	\$100	30%*	\$100
Hospital care co-pay	\$100	30%*	\$100	30%*	\$100
Prescription Drug retail co-pay (30-day supply):					
Generic	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$25
Non-formulary	N/A	N/A	\$60	\$60	\$40

*After deductible is paid

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual out-of-pocket maximum	\$1,500/\$3,000	\$1,000/\$2,000	\$2,000/\$4,000
Annual deductible	None	None	\$100/\$200
Office visit copay	\$25	\$25	\$25
Emergency room copay	\$50	\$100	\$100
Hospital care copay	\$250	\$100	\$100 + 10%
Prescription Drug Retail Copay (30-day supply):			
Generic	\$10	\$10	\$10
Brand	\$10	\$25	\$25
Non-formulary	N/A	\$40	\$40

Cost Sharing Provisions

It is assumed for the purpose of this valuation that the City of San Jose will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which covers Pension Plan and Postemployment Healthcare Plans, including 401(h) and 115. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.



**Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California**

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2008 - 2017 (In Thousands)

DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Additions										
Employee contributions	\$ 20,580	\$ 21,508	\$ 20,747	\$ 21,115	\$ 20,227	\$ 19,345	\$ 29,629	\$ 20,097	\$ 20,323	\$ 19,210
Employer contributions	136,957	132,480	129,279	123,583	105,234	121,009	77,918	52,315	53,103	56,372
Investment income / (loss)*	292,734	(29,206)	(27,690)	404,978	248,725	(34,341)	396,377	314,453	(469,235)	(153,711)
Total additions to plan net position	450,271	124,782	122,336	549,676	374,186	106,013	503,924	386,865	(395,809)	(78,129)
Deductions										
Benefit payments	184,596	176,029	166,331	157,635	150,811	142,314	129,472	114,604	102,363	89,704
Death benefits	11,072	10,083	9,220	8,738	8,005	7,480	7,213	6,519	5,982	5,467
Refunds	364	828	702	1,024	886	1,926	435	196	363	168
Administrative expenses and other	4,635	4,254	4,191	3,631	3,423	3,556	3,127	2,955	2,669	2,670
Total deductions from plan net position	200,667	191,194	180,444	171,028	163,125	155,276	140,247	124,274	111,377	98,009
Changes in Plan Net Position	\$ 249,604	\$ (66,412)	\$ (58,108)	\$ 378,648	\$ 211,061	\$ (49,263)	\$ 363,677	\$ 262,591	\$ (507,186)	\$ (176,138)

*Net of expenses

Statistical Review *(continued)*

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2008 - 2017 *(In Thousands)*

POSTEMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2017			2016			2015		
	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust
Additions									
Employee contributions	\$ 18,116	\$ -	\$ -	\$ 18,007	\$ -	\$ -	\$ 17,017	\$ -	\$ -
Employer contributions	1,599	10,905	8,163	1,389	11,576	8,100	-	13,073	7,837
Investment income / (loss)*	4,278	5,220	2,955	(465)	(798)	(420)	(499)	(753)	(363)
Total additions	23,993	16,125	11,118	18,931	10,778	7,680	16,518	12,320	7,474
Deductions									
Healthcare insurance premiums	24,799	-	-	23,449	-	-	24,205	-	-
Administrative expenses and other	69	71	42	74	44	21	82	24	17
Total deductions	24,868	71	42	23,523	44	21	24,287	24	17
Change in Plan Net Position	\$ (875)	\$ 16,054	\$ 11,076	\$ (4,592)	\$ 10,734	\$ 7,659	\$ (7,769)	\$ 12,296	\$ 7,457

	2014			2013			2012	2011	2010	2009	2008
	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)
Additions											
Employee contributions	\$ 15,674	\$ -	\$ -	\$ 13,498	\$ -	\$ -	\$ 11,474	\$ 11,229	\$ 10,650	\$ 9,218	\$ 9,151
Employer contributions	-	11,712	5,555	-	11,074	4,734	21,205	17,001	11,284	9,888	10,618
Investment income / (loss)*	7,942	3,210	1,443	5,613	588	246	(805)	8,966	6,870	(9,800)	(3,029)
Total additions	23,616	14,922	6,998	19,111	11,662	4,980	31,874	37,196	28,804	9,306	16,740
Deductions											
Healthcare insurance premiums	22,510	-	-	23,934	-	-	28,479	28,273	20,701	18,039	15,974
Administrative expenses and other	73	15	15	78	-	-	87	73	66	60	56
Total deductions	22,583	15	15	24,012	-	-	28,566	28,346	20,767	18,099	16,030
Change in Plan Net Position	\$ 1,033	\$ 14,907	\$ 6,983	\$ (4,901)	\$ 11,662	\$ 4,980	\$ 3,308	\$ 8,850	\$ 8,037	\$ (8,793)	\$ 710

*Net of expenses

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Age and Service Benefits										
Retirees - service	\$ 96,317	\$ 90,944	\$ 86,672	\$ 83,664	\$ 80,902	\$ 77,239	\$ 68,780	\$ 59,455	\$ 49,004	\$ 39,354
Retirees - deferred vested	4,352	3,730	3,056	2,873	2,522	2,184	1,948	1,481	1,337	1,030
Survivors - service	2,815	2,537	2,201	1,826	1,566	1,402	1,301	986	826	713
Survivors - deferred vested	105	97	78	62	60	59	51	32	33	30
Death in Service										
Benefits	1,713	1,606	1,493	1,396	1,502	1,366	1,246	1,155	1,193	1,121
Disability Benefits										
Retirees - duty	78,801	76,440	71,980	66,865	63,410	59,108	55,998	51,218	49,100	46,654
Retirees - non-duty	973	928	903	903	748	770	674	680	698	697
Survivors - duty	6,076	5,532	5,135	5,022	4,587	4,328	3,888	3,634	3,784	3,459
Survivors - non-duty	266	230	235	274	265	266	124	136	146	144
Ex-Spouse Benefits	4,249	4,068	3,798	3,488	3,254	3,072	2,675	2,346	2,224	1,969
Total Benefits	195,667	186,112	175,551	166,373	158,816	149,794	136,685	121,123	108,345	95,171
Type of Refund										
Separation	364	828	702	1,024	886	1,926	435	196	363	168
Total Refunds	\$ 364	\$ 828	\$ 702	\$ 1,024	\$ 886	\$ 1,926	\$ 435	\$ 196	\$ 363	\$ 168

Source: Pension Administration System

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Age and Service Benefits										
<i>Retirees - service</i>										
Medical	\$ 9,892	\$ 9,258	\$ 9,450	\$ 8,318	\$ 10,090	\$ 10,361	\$ 9,468	\$ 8,274	\$ 6,843	\$ 5,366
Dental	1,162	1,099	988	1,005	1,013	1,031	968	855	684	589
<i>Retirees -deferred vested*</i>										
Medical	369	315	275	245	264	250	236	180	146	137
Dental	45	39	30	31	29	27	26	21	17	17
<i>Survivors - service</i>										
Medical	268	235	238	205	231	214	229	165	110	89
Dental	30	27	24	33	44	42	41	31	19	21
<i>Survivors- deferred vested*</i>										
Medical	17	16	13	9	11	10	11	-	-	1
Dental	2	2	1	2	2	3	3	1	1	-
<i>Death in Service Benefits</i>										
Medical	184	176	185	170	243 *	(38)	252	213	208	190
Dental	25	24	22	28	41	59	42	37	33	34
Disability Benefits										
<i>Retirees - duty</i>										
Medical	9,033	8,809	8,985	7,794	9,673	9,604	9,852	8,897	8,177	7,757
Dental	1,128	1,116	992	993	1,038	1,043	1,068	977	856	885
<i>Retirees - non-duty</i>										
Medical	228	202	210	192	206	221	201	199	172	173
Dental	25	24	23	22	23	25	25	26	21	22
<i>Survivors - duty</i>										
Medical	679	615	623	560	650	667	715	643	603	527
Dental	83	78	69	105	152	159	169	154	119	137
<i>Survivors - non-duty</i>										
Medical	26	21	23	31	41	40	21	24	24	22
Dental	5	4	4	8	11	11	7	7	6	7
Implicit Subsidy										
Medical	1,598	1,389	2,050	2,759	172	4,750	4,939	-	-	-
Total Benefits	\$ 24,799	\$ 23,449	\$ 24,205	\$ 22,510	\$ 23,934	\$ 28,479	\$ 28,273	\$ 20,704	\$ 18,039	\$ 15,974

*Amount includes credits from the State of California for medical benefits to the surviving spouse and family of sworn officers that died in the line of duty.

Source: Pension Administration System

Statistical Review *(continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2008-2017 (Schedule 3)

Fiscal Year	Police Department Rate				Fire Department Rate			
	Tier 1		Tier 2		Tier 1		Tier 2	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%	%	
2017	20.10	90.71	20.48	21.28	20.81	92.23	20.35	21.23
2016	20.77	83.32	20.78	21.58	21.57	85.57	20.90	21.79
2015	21.26	83.14	20.80	21.80	20.13	82.75	19.43	20.21
2014	21.15	75.63	20.49	21.29	19.07	74.75	-	-
2013	19.39	65.53	-	N/A	17.32	65.05	-	-
2012	17.47	56.90	-	N/A	15.62	56.32	-	-
2011	15.57	44.58	-	N/A	13.70	44.16	-	-
2010	12.96	26.89	-	N/A	12.40	28.31	-	-
2009	11.96	25.80	-	N/A	12.40	28.31	-	-
2008	11.67	28.90	-	N/A	11.26	25.61	-	-

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2017

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*								Option Selected **				Total
		1	2	3	4	5	6	7	8	Unmodified	A	B	C	
\$1 - 500	6	0	0	2	0	0	0	1	3	3	0	3	0	6
\$501 - 1,000	23	0	0	0	0	0	2	1	20	13	0	8	2	23
\$1,001 - 1,500	41	0	0	1	0	9	3	6	22	22	3	16	0	41
\$1,501 - 2,000	51	0	0	1	0	7	4	8	31	26	1	20	4	51
\$2,001 - 2,500	69	7	0	4	1	12	19	7	19	51	0	17	1	69
\$2,501 - 3,000	93	24	0	0	1	14	22	11	21	67	1	22	3	93
\$3,001 - 3,500	85	12	0	1	5	15	35	7	10	63	1	19	2	85
\$3,501 - 4,000	75	18	1	0	3	8	28	6	11	60	4	9	2	75
\$4,001 - 4,500	89	49	1	1	9	7	16	2	4	68	7	9	5	89
\$4,501 - 5,000	77	45	6	5	7	1	7	3	3	59	6	6	6	77
\$5,001 - 5,500	134	78	2	0	32	1	14	0	7	86	8	22	18	134
\$5,501 - 6,000	133	84	2	2	32	1	9	3	0	85	9	24	15	133
\$6,001 - 6,500	106	56	4	1	33	0	9	2	1	76	8	9	13	106
\$6,501 - 7,000	107	52	0	0	45	3	5	1	1	67	9	14	17	107
\$7,001 - 7,500	135	54	3	1	74	2	1	0	0	99	6	14	16	135
\$7,501 - 8,000	138	60	0	0	77	0	0	0	1	102	10	12	14	138
\$8,001 - 8,500	115	50	2	0	62	0	0	1	0	82	7	13	13	115
\$8,501 - 9,000	111	35	3	1	69	0	1	2	0	78	1	16	16	111
\$9,001 - 9,500	104	45	0	0	58	0	0	1	0	66	8	12	18	104
\$9,501 - 10,000	98	38	0	0	57	0	1	2	0	63	6	15	14	98
\$10,001 - 10,500	103	36	0	0	67	0	0	0	0	60	10	13	20	103
\$10,501 - 11,000	95	46	0	0	46	0	0	3	0	54	6	20	15	95
Over \$11,000	309	103	3	0	192	0	2	9	0	195	25	33	56	309
TOTAL	2,297	892	27	20	870	80	178	76	154	1,545	136	346	270	2,297

*Retirement Codes

**Option Description

- | | |
|---|--|
| 1. Service Connected Disability | Unmodified. Unmodified with Beneficiary (default for married) |
| 2. Early Service | A. Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member) |
| 3. Non-Service Connected Disability | B. Unmodified with No Beneficiary (default for unmarried) |
| 4. Service | C. Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, person goes back to original pension calculation) |
| 5. Survivor (survivor of active employee) | |
| 6. Continuance (survivor of retired employee) | |
| 7. Deferred Vested | |
| 8. Ex-Spouse | |

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Average Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	\$ 344	\$ 238
\$1 - 60	-	534
\$61 - 250	-	1,525
\$251 - 500	562	-
\$501 - 1,000	1,038	-
\$1,001 - 1,500	353	-
Totals	\$ 2,297	\$ 2,297

Source : Pension Administration System

Retired Members by Type of Benefit *(continued)*

PENSION BENEFITS BY FAMILY UNIT

As of June 30, 2017

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*							
		1	2	3	4	5	6	7	8
\$0 - 999	6	0	0	2	0	0	1	2	1
\$1,000 - 1,999	32	0	0	2	0	3	16	11	0
\$2,000 - 2,999	110	29	0	2	1	10	49	19	0
\$3,000 - 3,999	128	30	1	1	6	9	68	13	0
\$4,000 - 4,999	150	92	7	8	12	3	21	7	0
\$5,000 - 5,999	243	161	4	2	52	3	19	2	0
\$6,000 - 6,999	204	107	4	3	71	3	11	5	0
\$7,000 - 7,999	264	113	3	1	143	2	2	0	0
\$8,000 - 8,999	221	77	5	1	130	2	3	2	1
\$9,000 - 9,999	214	87	0	1	120	0	3	3	0
\$10,000 - 10,999	213	93	0	0	116	0	1	3	0
\$11,000 - 11,999	143	58	0	0	79	0	1	5	0
\$12,000 - 12,999	86	29	1	0	54	0	0	2	0
\$13,000 - 13,999	53	22	2	0	27	0	0	2	0
\$14,000 - 14,999	22	5	0	0	17	0	0	0	0
\$15,000 - 15,999	31	8	0	0	22	0	0	1	0
\$16,000 - 16,999	14	2	0	0	12	0	0	0	0
\$17,000 - 17,999	7	1	0	0	6	0	0	0	0
\$18,000 - 18,999	4	0	0	0	4	0	0	0	0
\$19,000 - 19,999	2	1	0	0	1	0	0	0	0
\$20,000 - 20,999	1	0	0	0	1	0	0	0	0
\$21,000 - 23,999	3	0	0	0	3	0	0	0	0
TOTAL	2,151	915	27	23	877	35	195	77	2

*Retirement Codes

1. Service Connected Disability
2. Early Service
3. Non-Service Connected Disability
4. Service
5. Survivor (survivor of active employee)
6. Continuance (survivor of retired employee)
7. Deferred Vested
8. Ex-Spouse

Source : Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2017							
Average monthly benefit*	\$ 2,514	\$ 3,724	\$ 4,359	\$ 5,451	\$ 7,703	\$ 9,851	\$ 10,627
Average final average salary (FAS)**	\$ 5,836	\$ 4,876	\$ 7,204	\$ 8,414	\$ 9,110	\$ 9,103	\$ 8,482
Number of retired members***	12	50	121	170	436	788	161
Average monthly benefit* (No FAS)	\$ -	\$ 2,050	\$ 1,696	\$ 3,192	\$ 4,778	\$ 7,303	\$ 8,374
Number of retired members***	-	3	2	9	29	105	22
As of June 30, 2016							
Average monthly benefit*	\$ 2,308	\$ 3,631	\$ 4,203	\$ 5,271	\$ 7,469	\$ 9,546	\$ 10,280
Average final average salary**	\$ 4,623	\$ 4,620	\$ 6,694	\$ 8,302	\$ 8,940	\$ 8,979	\$ 8,416
Number of retired numbers***	10	51	114	166	422	773	166
Average monthly benefit* (No FAS)	\$ -	\$ 1,991	\$ 1,348	\$ 3,099	\$ 4,618	\$ 7,080	\$ 8,043
Number of retired members***	-	3	3	9	30	107	23
As of June 30, 2015							
Average monthly benefit*	\$ 2,477	\$ 3,462	\$ 4,004	\$ 5,051	\$ 7,004	\$ 8,940	\$ 9,657
Average final average salary**	\$ 4,014	\$ 4,222	\$ 6,433	\$ 7,649	\$ 8,124	\$ 7,765	\$ 7,206
Number of retired members***	10	51	113	151	403	774	168
Average monthly benefit* (No FAS)	\$ -	\$ 1,933	\$ 1,523	\$ 3,009	\$ 4,478	\$ 6,858	\$ 7,794
Number of retired members***	-	3	4	9	31	110	24
As of June 30, 2014							
Average monthly benefit (incl COLA)	\$ 4,060	\$ 3,383	\$ 3,904	\$ 4,897	\$ 6,763	\$ 8,671	\$ 9,392
Average final average salary**	\$ 4,166	\$ 4,097	\$ 6,123	\$ 7,384	\$ 7,846	\$ 7,637	\$ 7,151
Number of retired members***	23	47	103	132	365	755	145
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	\$ 2,852	\$ 3,187	\$ 3,706	\$ 4,725	\$ 6,511	\$ 8,399	\$ 9,011
Number of retired members***	1	3	4	9	32	115	25
As of June 30, 2013							
Average monthly benefit (incl. COLA)	\$ 2,852	\$ 3,187	\$ 3,706	\$ 4,725	\$ 6,511	\$ 8,399	\$ 9,011
Average final average salary**	\$ 3,993	\$ 3,758	\$ 5,746	\$ 6,988	\$ 7,620	\$ 7,552	\$ 7,006
Number of retired members***	11	47	98	125	344	755	150
Average monthly benefit (incl COLA) (for those whose FAS was unavailable)	\$ -	\$ 1,822	\$ 1,321	\$ 3,233	\$ 4,197	\$ 6,486	\$ 7,398
Number of retired members**	-	3	5	11	32	117	27
As of June 30, 2012							
Average monthly benefit (incl. COLA)	\$ 2,304	\$ 3,101	\$ 3,395	\$ 4,465	\$ 6,248	\$ 8,101	\$ 8,676
Average final average salary**	\$ 1,540	\$ 3,368	\$ 4,931	\$ 6,555	\$ 7,431	\$ 7,398	\$ 6,940
Number of retired members***	6	44	81	115	341	749	154
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	\$ -	\$ 1,769	\$ 1,282	\$ 3,023	\$ 4,075	\$ 6,302	\$ 7,020
Number of retired members***	-	3	5	12	32	120	28

Average Benefit Payment Amounts *(continued)*

PENSION BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2011							
Average monthly benefit (incl. COLA)	\$ 2,199	\$ 3,028	\$ 3,310	\$ 4,509	\$ 5,872	\$ 8,035	\$ 8,573
Average final average salary**	\$ 1,540	\$ 3,402	\$ 4,695	\$ 6,818	\$ 7,309	\$ 8,344	\$ 8,094
Number of retired members***	6	44	74	102	278	714	157
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	\$ -	\$ 1,688	\$ 1,455	\$ 2,989	\$ 3,956	\$ 6,051	\$ 6,766
Number of retired members***	-	3	5	12	36	129	30
As of June 30, 2010							
Average monthly benefit (incl. COLA)	\$ 2,152	\$ 2,915	\$ 3,184	\$ 4,223	\$ 5,372	\$ 7,622	\$ 8,242
Average final average salary**	\$ 1,585	\$ 3,248	\$ 4,532	\$ 6,515	\$ 6,599	\$ 7,942	\$ 7,938
Number of retired members***	6	46	70	96	242	653	157
Average monthly benefit (for those whose FAS was unavailable)	\$ -	\$ 1,639	\$ 1,419	\$ 2,854	\$ 3,779	\$ 5,886	\$ 6,570
Number of retired members***	-	3	5	12	36	129	30
As of June 30, 2009							
Average monthly benefit*	\$ 2,170	\$ 2,779	\$ 3,101	\$ 3,937	\$ 4,904	\$ 7,158	\$ 7,811
Average final average salary**	\$ 1,778	\$ 3,087	\$ 4,498	\$ 6,066	\$ 6,072	\$ 7,492	\$ 7,600
Number of retired members***	7	46	68	86	220	575	153
Average monthly benefit (for those whose FAS was unavailable)	-	1,591	1,381	2,712	3,675	5,710	6,327
Number of retired members***	0	3	5	13	36	132	32
As of June 30, 2008							
Average monthly benefit*	\$ 2,120	\$ 2,717	\$ 3,068	\$ 3,743	\$ 4,563	\$ 6,776	\$ 7,319
Average final average salary**	\$ 1,778	\$ 3,060	\$ 4,097	\$ 5,713	\$ 5,644	\$ 7,129	\$ 7,147
Number of retired members***	7	47	64	79	204	521	140
Average monthly benefit (for those whose FAS was unavailable)	\$ -	\$ 1,549	\$ 1,319	\$ 2,642	\$ 3,639	\$ 5,560	\$ 6,123
Number of retired members***	\$ -	\$ 3	\$ 5	\$ 13	\$ 36	\$ 134	\$ 32

* Includes cost of living increases

** Final average salary not available for those that retired prior to April 1998, except for service-connected disability retirees. Those without final average salary are not included in average monthly benefit.

*** Does not include survivors and ex-spouses

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2017							
Average health subsidy	\$ 910	\$ 878	\$ 1,060	\$ 940	\$ 949	\$ 901	\$ 743
Number of health participants	7	42	83	140	437	869	169
Average dental subsidy	\$ 93	\$ 103	\$ 117	\$ 113	\$ 109	\$ 110	\$ 102
Number of dental participants	8	47	93	150	455	905	173
As of June 30, 2016							
Average health subsidy	\$ 934	\$ 865	\$ 991	\$ 903	\$ 909	\$ 861	\$ 719
Number of health participants*	6	39	81	138	427	862	172
Average dental subsidy	\$ 95	\$ 102	\$ 111	\$ 108	\$ 105	\$ 105	\$ 98
Number of dental participants*	7	46	89	147	441	894	179
As of June 30, 2015							
Average health subsidy	\$ 899	\$ 811	\$ 985	\$ 860	\$ 894	\$ 857	\$ 727
Number of health participants*	7	42	83	124	407	874	178
Average dental subsidy	\$ 89	\$ 101	\$ 112	\$ 108	\$ 107	\$ 105	\$ 99
Number of dental participants	8	50	91	132	424	899	181
As of June 30, 2014							
Average health subsidy	\$ 549	\$ 779	\$ 845	\$ 779	\$ 896	\$ 879	\$ 746
Number of health participants*	19	44	87	121	384	843	166
Average dental subsidy	\$ 67	\$ 97	\$ 96	\$ 97	\$ 106	\$ 106	\$ 99
Number of dental participants*	21	47	91	128	396	865	169
As of June 30, 2013							
Average health subsidy	\$ 519	\$ 783	\$ 769	\$ 785	\$ 924	\$ 932	\$ 844
Number of health participants*	8	44	81	118	366	855	174
Average dental subsidy	\$ 84	\$ 96	\$ 85	\$ 92	\$ 101	\$ 101	\$ 102
Number of dental participants	9	47	86	124	375	872	177
As of June 30, 2012							
Average health subsidy	\$ 776	\$ 850	\$ 839	\$ 865	\$ 1,018	\$ 1,055	\$ 928
Number of health participants*	6	42	66	110	357	850	177
Average dental subsidy	\$ 109	\$ 106	\$ 88	\$ 97	\$ 107	\$ 108	\$ 108
Number of dental participants*	6	46	70	114	372	869	182
As of June 30, 2011							
Average health subsidy	\$ 730	\$ 918	\$ 1,050	\$ 1,019	\$ 1,052	\$ 1,086	\$ 1,029
Number of health participants*	6	40	59	96	273	709	29
Average dental subsidy	\$ 110	\$ 110	\$ 110	\$ 110	\$ 109	\$ 109	\$ 110
Number of dental participants*	6	43	63	98	278	714	30

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2010							
Average health subsidy	\$ 702	\$ 853	\$ 991	\$ 951	\$ 978	\$ 1,023	\$ 985
Number of health participants*	42	56	91	236	649	157	-
Average dental subsidy	\$ 104	\$ 104	\$ 105	\$ 104	\$ 104	\$ 104	\$ 104
Number of dental participants*	6	45	60	93	239	652	157
As of June 30, 2009							
Average health subsidy	\$ 711	\$ 807	\$ 939	\$ 898	\$ 910	\$ 963	\$ 927
Number of health participants*	7	42	56	91	236	649	157
Average dental subsidy*	\$ 94	\$ 94	\$ 94	\$ 94	\$ 91	\$ 94	\$ 94
Number of dental participants*	7	45	60	83	220	575	153
As of June 30, 2008							
Average health subsidy	\$ 676	\$ 778	\$ 888	\$ 866	\$ 870	\$ 916	\$ 885
Number of health participants	7	45	58	82	234	516	139
Average dental subsidy	\$ 99	\$ 99	\$ 99	\$ 98	\$ 98	\$ 98	\$ 99
Number of dental participants	\$ 7	\$ 49	\$ 61	\$ 83	\$ 239	\$ 520	\$ 139

* Does not include Survivors and Ex-Spouses.

Source : Pension Administration System

Retirements During Fiscal Year 2016-2017

SERVICE RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Abruzzini, Kevin L	Lopez, Kathleen F	Bishop, Glenn P
Bindi, Cristiano	Marquez, Rebecca	Blean, James R
Cordova, Mark A	McCollum, Daniele T	De Groen, Francois P
Cusimano, Janet L	Millard, Robert J	Durk, Gerald L
Dela Cruz, Marie Y	Monahan, Chris	Engler, Trent N
Dziuba, Michael E	Ngo, Phan S	Kleszyk, Stephen A
Ford, James A	Perea, Edward S	Lake, Edward
Goldfinger, David H	Randol, James F	Lopez, Nestor H
Grothaus, Gregory J	Rockwell, Neal	Primrose, Brent A
Hagan, James C	Siegel, Kenneth J	Rangel, Charles
Hansen, Deborah L	Tang, William C	Remer, Christopher R
Horn, Randall C	Thompson, Lindsay R	Teeple, Sandra L
Jepson, Cliff S	Unger, Darrell D	Toledo, Richard John
Johnson, Howard	Valcarel, Albert E	Valle, Javier G
Kirby, Patrick	Wong, Andrew K	Ward, Debra L
Knudson, Barry	Wrenn, Kevin L	Willcox, Mike J
EARLY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Reyes, Jose A	Marozick, Jeffrey W	None
DEFERRED VESTED		
POLICE DEPARTMENT		FIRE DEPARTMENT
Abi-Chahine, Faysal	Obujen, Michael J	Davis, Peter
Mongarro, Richard J	Rosenbrook, Edward	
SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Allan, Kevin J	Guzman, Jesse	Miller, Jason Eric
Bridges, Jodi E	Humphreys, Douglas A	Mitchell, Stacey H
Ordaz, Francisco J	Marsh, Stephen	
Pifferini, Michael J	Mauldin, Teresa D	
NON SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Castillo, Neri Omar		None

Deaths During Fiscal Year 2016-2017

DEATHS AFTER RETIREMENT		
POLICE DEPARTMENT		FIRE DEPARTMENT
Baggott, James	Lisius, James D.	Arnaz, John
Becerra, Manuel	Lowry, Michael	Baxter, Joseph
Bennett, Mark R.	Malcolm, Roger	Caines, James
Bondi, Ronald	McDonald, Melvin	Curcio, Michael
Cates, Lowell	McNamara, Brian	Cypert, Charles
Ciraulo, James	Moore, Dewey	Herold, Milton R
Cressa, Joseph	Neibaur, Richard	Jangrus, Vincent A
Earnshaw, Jr., Joseph W.	Nelson, Robert	Knutzen, Emmett
Garcia, Samuel	Royal, Russell K.	Lowe, William
Garringer, Estiel	San Filippo, Roy F.	Nelson, Richard
Gurley, Edward	Scarantino, James	Newgren, Guy D
Hunt, Lyle	Stengel, David	Nufer, Joseph M
Johnson, Thomas	Stuefloten, Larry	Rhodes, James
Keeney, William	Turnage, Gordon	Smith, James
Kelsey, Bert E.	Tush, Richard M.	Spinelli, Michael T
Kinney, Thomas	Walker, William	Swanson, Francis
Ledford, Robert	Ward, Raymond	Tyson, Donald
DEATHS BEFORE RETIREMENT		
POLICE DEPARTMENT		FIRE DEPARTMENT
Lewandowski, Michael		None

Photo Credits:

Cover Top Row, Left to Right: © 2014 Jamie West, *San José Fire Department Truck 2*; © 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2009 Bruce Dembecki, *Fire Department Training Drill*

Cover Middle Row, Left to Right: © 2013 San Francisco Examiner, *Fire File Photo*; © 2015 Thomas Hawk/Flickr, *San José Police Department, San José Police Car*

Cover Bottom Row, Left to Right: © 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2014 Craig Allyn Rose Photography, *San José Fire Department People*; © 2017 City of San José Police Department, *911 Dispatch*

Title Page, Left to Right: © 2014 Jamie West, *San José Fire Department Truck 2*; © 2013 San Francisco Examiner, *Fire File Photo*;

© 2015 Jim Gensheimer/Bay Area News Group, *San José Police Officer*; © 2015 Thomas Hawk/Flickr, *San José Police Department, San José Police Car*; © 2009 Bruce Dembecki, *Fire Department Training Drill*

Introductory: © 2013 Craig Allyn Rose Photography/sjfd.blogspot.com, *San José Fire Department Firefighter Recruit Forum*

Financial: © 2015 Greg Ramar, *San José police officers led a funeral procession to honor the life of San José Police Officer Michael Johnson*

Investment: © 2014 Craig Allyn Rose Photography/sjfd.blogspot.com/, *San José firefighters participate in wildland fire drill*.

Actuarial: © 2013 Patrick Tehán, *SJPD Graduation*

Statistical: © 2014 Craig Allyn Rose Photography, *San José Fire Department Recruit Training*



Office of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone 408-794-1000 Fax 408-392-6732
www.sjretirement.com

