

City of San Jose
An Overview of the June 30, 2017 CAFR for:

Federated City Employees' Retirement System
Police and Fire Department Retirement Plan

February 6, 2018
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Agenda

- ▶ Highlights
- ▶ Schedules Required by GASB 67 (Pension)
 - Changes in Employer's Net Pension Liability
 - Schedule of Employer Contributions
 - Sensitivity of Net Pension Liability to Changes in Discount Rate
- ▶ Member Statistics
- ▶ Target and Asset Allocation of Investments
- ▶ History of Investment Performance

Highlights

- ▶ Total net position increased by:
 - \$148 million or 7.1%, for Federated
 - \$276 million or 8.7%, for Police & Fire

- ▶ Contributions:
 - Federated: Increased \$10.7 million or 5.5% to \$204.4 million, including \$170.4 million of City contributions
 - Police & Fire: Increased \$3.3 million or 1.7% to \$196.3 million, including \$157.6 million of City contributions

- ▶ Deductions (benefit payments and admin expenses):
 - Federated: Increased \$12.0 million or 5.8% to \$219.1 million, including \$214.4 million in benefits
 - Police & Fire: Increased \$10.9 million or 5.1% to \$225.6 million, including \$220.8 million in benefits

Highlights

- ▶ Investment rate of return (net of fees):
 - Federated: 7.5% compared to a 8.1% for policy benchmark
 - Police & Fire: 9.7% compared to a 9.5% for policy benchmark
- ▶ Funded status as of June 30, 2016 actuarial valuations:
 - Federated: Pension down from 56.1% to 53.7%; OPEB up from 25.7% to 29.6%
 - Police & Fire: Pension down from 79.2% to 75.7%; OPEB up from 15.5% to 17.4%
- ▶ Implemented GASB 74 for healthcare plans; equivalent to GASB 67 for pension plans = added disclosures
- ▶ Conclusion – Unmodified “clean” opinion from auditors

CHANGES IN EMPLOYER'S NET PENSION LIABILITY

As required by GASB 67

| Plan Fiduciary Net Position (\$ in thousands) | FEDERATED | | POLICE AND FIRE | |
|---|-------------|-------------|-----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net change in plan fiduciary net position | \$113,910 | \$(71,625) | \$249,604 | \$(66,412) |
| Plan fiduciary net position – beginning | 1,858,882 | 1,930,507 | 3,043,653 | 3,110,065 |
| Plan fiduciary net position – ending (b) | \$1,972,792 | \$1,858,882 | \$3,293,257 | \$3,043,653 |
| | | | | |
| Net change in total pension liability | 231,063 | 350,897 | 313,678 | 243,585 |
| Total pension liability – beginning | 3,692,147 | 3,341,250 | 4,220,098 | 3,976,513 |
| Total pension liability – ending (a) | 3,923,210 | 3,692,147 | 4,533,776 | 4,220,098 |
| | | | | |
| Net pension liability – ending (a) – (b) | \$1,950,418 | \$1,833,265 | \$1,240,519 | \$1,176,445 |
| | | | | |
| Plan fiduciary net position as a % of the total pension liability | 50.29% | 50.35% | 72.64% | 72.12% |
| Covered employee payroll | \$271,153 | \$257,771 | \$188,177 | \$186,874 |
| Net pension liability as a % of covered employee payroll | 719.31% | 711.20% | 659.23% | 629.54% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS (in thousands)

As required by GASB 67

| PENSION | FED | | PF | |
|--|-----------|-----------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| As of June 30, | | | | |
| Actuarially determined contributions (ADC) | \$138,483 | \$129,456 | \$136,957 | \$132,480 |
| Contributions in relation to ADC | 138,483 | 129,456 | 136,957 | 132,480 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 |
| Covered employee payroll | 271,153 | 257,771 | 188,177 | 186,874 |
| Contributions as a % of covered employee payroll | 51.07% | 48.39% | 72.78% | 70.89% |

SENSITIVITY OF NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE

| | Federated | | | Police and Fire | | |
|---|-------------------------|---|-------------------------|-------------------------|---|-------------------------|
| <i>In Thousands</i> | 1% Decrease (5.875%) | Current Discount Rate (6.875%) | 1% Increase (7.875%) | 1% Decrease (5.875%) | Current Discount Rate (6.875%) | 1% Increase (7.875%) |
| Total pension liability (TPL) | \$4,480,433 | \$3,923,210 | \$3,470,615 | \$5,213,524 | \$4,533,776 | \$3,986,598 |
| Plan fiduciary net position | 1,972,792 | 1,972,792 | 1,972,792 | 3,293,257 | 3,293,257 | 3,293,257 |
| Net pension liability | 2,507,641 | 1,950,418 | 1,497,823 | 1,920,267 | 1,240,519 | 693,341 |
| Plan fiduciary net position as a % of TPL | 44.0% | 50.3% | 56.8% | 63.2% | 72.6% | 82.6% |

STATISTICS – Federated

| | 2017 | | | | |
|----------------------------|---------------|---------------|----------------|----------------|--------------|
| Pension | Tier 1 | Tier 2 | Tier 2B | Tier 2C | Total |
| Retirees and beneficiaries | 4,114 | 0 | 1 | 0 | 4,115 |
| Terminated and/or vested | 1,037 | 65 | 250 | 0 | 1,352 |
| Active members | 1,991 | 164 | 1,255 | 0 | 3,297 |
| Total | 7,142 | 229 | 1,506 | 0 | 8,877 |
| | | | | | |
| OPEB | Tier 1 | Tier 2 | Tier 2B | Tier 2C | Total |
| Retirees and beneficiaries | 3,535 | 0 | 0 | 0 | 3,535 |
| Terminated and/or vested | 158 | 0 | 0 | 0 | 158 |
| Active members | 1,991 | 164 | 0 | 0 | 2,155 |
| Total | 5,684 | 164 | 0 | 0 | 5,848 |

STATISTICS – Police and Fire

| | 2017 | | | | |
|----------------------------|---------------|---------------|-------------|-------------|-------|
| Pension | Police Tier 1 | Police Tier 2 | Fire Tier 1 | Fire Tier 2 | Total |
| Retirees and beneficiaries | 1,336 | 0 | 856 | 0 | 2,192 |
| Terminated and/or vested | 239 | 49 | 39 | 6 | 333 |
| Active members | 747 | 150 | 586 | 61 | 1,544 |
| Total | 2,322 | 199 | 1,481 | 67 | 4,069 |
| | | | | | |
| OPEB | Police Tier 1 | Police Tier 2 | Fire Tier 1 | Fire Tier 2 | Total |
| Retirees and beneficiaries | 1,251 | 0 | 810 | 0 | 2,061 |
| Terminated and/or vested | 12 | 0 | 1 | 0 | 13 |
| Active members | 747 | 150 | 586 | 61 | 1,544 |
| Total | 2,010 | 150 | 1,397 | 61 | 3,618 |

Target and Asset Allocation – Federated Pension as of June 30, 2017

| | Target | Actual | Variance |
|---|-------------|-------------|----------|
| Global equity | 28% | 34% | 6% |
| Real assets | 23% | 23% | – |
| Global fixed income | 19% | 19% | – |
| Absolute return | 11% | 13% | 2% |
| Private equity | 9% | 3% | –6% |
| Private debt | 5% | 4% | –1% |
| Global Tactical Asset Allocation/ Opportunistic | 5% | – | –5% |
| Cash | 0% | 4% | 4% |
| Total | 100% | 100% | – |

Target and Asset Allocation – P&F Pension as of June 30, 2017

| | Target | Actual | Variance |
|----------------------------------|-------------|-------------|----------|
| Global equity | 31% | 30% | –1% |
| Real assets | 17% | 16% | –1% |
| Global fixed income | 16% | 16% | – |
| Private debt | 11% | 7% | –4% |
| Global Tactical Asset Allocation | 10% | 9% | –1% |
| Private equity | 8% | 8% | – |
| Absolute return | 6% | 8% | 2% |
| Cash | 1% | 6% | 5% |
| Total | 100% | 100% | – |

PERFORMANCE SUMMARY – 6/30/17

| | PENSION | | | | 115 TRUST | | |
|--------------------------|----------|-------------|------------|-----------|-----------|-------------|------------|
| | One Year | Three Years | Five Years | Ten Years | One Year | Three Years | Five Years |
| Federated | | | | | | | |
| Net of Fees | 7.5% | 1.9% | 5.4% | 3.2% | 8.7% | 0.9% | 5.4% |
| Policy Benchmark | 8.1% | 1.9% | 6.1% | 3.9% | 9.2% | 2.0% | 6.1% |
| | | | | | | | |
| Police & Fire | | | | | | | |
| Net of Fees | 9.7% | 2.6% | 6.1% | 3.2% | 7.0% | 1.8% | 4.9% |
| Policy Benchmark | 9.5% | 3.1% | 6.3% | 3.7% | 9.5% | 3.2% | 5.7% |