



City of San José Federated City Employees' Retirement System



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City of San José Federated City Employees' Retirement System

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, 2018 and June 30, 2017

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

Board Chair Letter



November 9, 2018

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I present the Federated City Employees' Retirement System's (the System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.

The System's Pension Plan earned a time-weighted gross of investment fees rate of return of 6.3% and net of investment fees rate of return of 5.9% on investments for the fiscal year, compared to a 7.4% return for its policy benchmark and an 8.0% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the System's Pension Plan earned a time-weighted net of investment fees rate of return of 4.2% and 5.0% for the three-year and five-year periods ending June 30, 2018, respectively; while the InvestorForce net median earned a time-weighted rate of return of 6.7% and 7.5% for the same periods.

The Healthcare Plan earned a time-weighted gross of investment fees rate of return of 5.0% and net of investment fees rate of return of 4.9% on investments for the fiscal year, compared to a 7.9% return for its policy benchmark. Additionally, the System's Healthcare Plan earned a time-weighted net of investment fees rate of return of 3.5% and 4.6% for the three-year and five-year periods ending June 30, 2018, respectively. In contrast, the net rate of return assumed by the System's actuary for fiscal year 2017-2018 is 6.875%.

The System's net position increased from \$2,233,162,000 to \$2,346,590,000 (see the Financial Section beginning on page 15). The net increase in the System's net position for fiscal year 2017-2018 was \$113,428,000.

In March 2018, the System, along with the Board of Administration for the Police & Fire Department Retirement Plan, concluded the nationwide search for a Chief Investment Officer (CIO) with the hiring of Prabhu Palani. Mr. Palani spent over 25 years in the financial markets industry with a strong cross section of asset classes. In addition, the Investment Program filled its Senior Investment Officer and analyst positions during the fiscal year and into July 2018. With the aforementioned staffing additions, the Investment Program is well poised for 2019. The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year. 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, along with process improvements and governance-related projects across the Investment Program. During fiscal year 2017-2018, the Investment Program completed comprehensive reviews across asset classes and improved fee reporting structures.

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 Retirement Services staff are available to provide additional information as requested.

Sincerely,

A handwritten signature in black ink, appearing to read 'M Loesch', written in a cursive style.

Matt Loesch, Chairman
Board of Administration

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Introductory Section



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

City of San José

Federated City Employees' Retirement System

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017

Letter of Transmittal



November 9, 2018

Board of Administration
Federated City Employees' Retirement System
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 Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System'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). Transactions of the System are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2018 and 2017, please refer to the Management's Discussion and Analysis (MD&A) on page 19.

Grant Thornton LLP, the System'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 System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The System 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 System continuously reviews internal controls to ensure that the System'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 System's assets.

I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2017. This was the eighteenth consecutive year that the System has achieved the prestigious award. In order to be awarded a Certificate of Achievement, the System must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Letter of Transmittal *(continued)*

The System 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 System will find this CAFR helpful in understanding the System.

Funding

The System'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, 2017, the funding ratio of the defined benefit pension plan and the defined benefit OPEB plan was 53.6%, and 39.4%, 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 System is currently 6.875%. The impact of the difference between the actual net rate of return earned by the System 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 System net position for fiscal year 2017-2018 was \$113,428,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 33. The defined benefit pension plan's funding progress is presented on page 134 and the defined benefit OPEB plan's funding progress is presented on page 152.

Investment Summary

The Board of Administration has exclusive control of all investments of the System 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 System and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and defraying the reasonable cost of administration.

Over the past fiscal year, the System Pension Plan's time-weighted gross of investment fees rate of return was 6.3%, and the net of investment fees rate of return was 5.9%, compared to a 7.4% return for its policy benchmark and an 8.0% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the System Pension Plan earned a time-weighted net of investment fees rate of return of 4.2% and 5.0% for the three-year and five-year periods ending June 30, 2018, respectively, while the InvestorForce universe net median earned a time-weighted rate of return of 6.7% and 7.5% for the same periods.

The Healthcare Plan's time-weighted gross of investment fees rate of return was 5.0%, and the net of investment fees rate of return was 4.9% for the fiscal year, compared to a 7.9% return for its policy benchmark. In addition, the Healthcare Plan earned a time-weighted net of investment fees rate of return of 3.5% and 4.6% for the three-year and five-year periods ending June 30, 2018, respectively.

The net position of the System increased from \$2,233,162,000 to \$2,346,590,000 (see the Financial Section beginning on page 15).

Major Initiatives

In March 2018, the System hired a new Chief Investment Officer. The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year. 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 2017-2018, the Investment Program completed comprehensive reviews across asset classes.

Letter of Transmittal (continued)

The Office of Retirement Services (ORS) kicked off the upgrade of its pension administration system in March 2015. The implementation process, which was initially expected to last approximately 42 months and estimated at a cost of \$9 million, is now entering its final phase as ORS has completed the user acceptance testing for Software Deliverable 5 (the last planned deliverable) and is currently training staff on the new system, as well as starting the parallel processing phase of the implementation. The project completion was extended to the summer of 2019 for the implementation of Measure F-related calculations in the system.

ORS has been working on a pensionable pay correction (PPC) project for several years. The purpose is to correct retirement benefits paid to some retirees, due to errors in the City's reporting to ORS of pensionable pay information that was then used in the members' benefit calculation. The correction project impacting the System includes adjustments in non-pensionable higher class pay and lump-sum retroactive payments needing to be spread to appropriate pay periods. ORS made significant progress with the PPC project for the members of the System by holding informational meetings and inviting the membership to the Board meetings to discuss the correctional plan. In August 2018, corrections to the ongoing monthly benefit payments were made to the underpaid members affected by the PPC project, as well as any past underpaid amounts, including interest. As for the overpaid members impacted by the PPC project, the Board approved at its August 2018 meeting to collect the cumulative overpaid amount from the City for these members and make the corrections to their ongoing monthly benefit payments in October 2018.

In November 2016, Measure F passed, and on June 16, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the System. 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 (GPP) benefit for Tier 1 retirees. The VEBA is being administered by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

During this fiscal year, ORS completed most of the implementation of Measure F, with the transfer of the contributions of members who opted in to the VEBA. In addition, ORS made the first payments to those affected by the GPP and included the retiree healthcare in-lieu premium credit as part of the open enrollment process for retirees. Retirees who are eligible for medical insurance and/or dental insurance but who opt not to take it, can elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan. There are still a few aspects of Measure F that are outstanding such as the medical panel and the refinement of the Municipal Code to be consistent with the current procedures of the City.

In October 2017, the City Auditor issued report 17-06, *Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration*. This audit was a result of a request from the Mayor's Office, in which concern was expressed that although ORS' administrative budget has increased since fiscal year 2005-2006, the plans had seen losses in the two fiscal years prior to fiscal year 2017. The report was published with five separate findings which are covered in 25 different recommendations. Four of the 25 recommendations are addressed to the City, and ORS has addressed and completed most of the findings over which they have control. In addition to this audit, the City Auditor conducted a pensionable earnings audit but the result was favorable, and no recommendations to ORS came out of it.

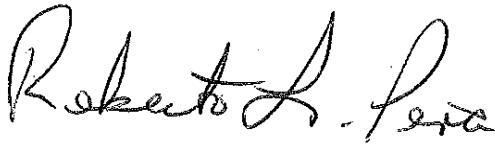
In January 2018, the City began offering a new health plan, the Kaiser High-Deductible Plan with or without a Health Savings Account, which became the new lowest cost plan for retirees. The last open enrollment also allowed retirees to suspend and enroll in retiree health coverage, which means surviving spouses can take medical coverage through the System even if the retiree was not enrolled at the time of their death.

Letter of Transmittal *(continued)*

Conclusion

I would like to take this opportunity to thank the members of the System for their confidence in the System 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 System and for their diligent work to assure the System'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



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Jose Federated City
Employees' Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2017***

Presented to

***City of San Jose Federated City Employees' Retirement
System***

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 seven-member Board of Administration composed of two City employees elected by members of the System, a Retiree Representative and three public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San Jose Municipal Code.

As of June 30, 2018, the members of the Board were as follows:



MATT LOESCH, CHAIR
Employee Representative
appointed to the Board in
December 2007. His
current term expires
November 30, 2019.



MICHAEL ARMSTRONG
VICE CHAIR
Public member appointed
to the Board in December
2010. His current term
expires November 30,
2018.



MARTIN DIRKS,
TRUSTEE
Public member appointed
to the Board in March
2011. His current term
expires February 28,
2019.



JAY CASTELLANO,
TRUSTEE
Retiree Representative
appointed to the Board in
May 2018. His current
term expires November
30, 2020.



KURT BILLICK,
TRUSTEE
Public member appointed
to the Board in March
2018. His current term
expires November 2019.



ANURAG CHANDRA,
TRUSTEE
Public member appointed
to the Board in December
2016. His current term
expires December 2020.



VACANT,
TRUSTEE



DEVORA "DEV" DAVIS
Non-voting member
appointed to the Board
March 2017

OFFICE OF RETIREMENT SERVICES ADMINISTRATION



ROBERTO L. PEÑA,
DIRECTOR
CHIEF EXECUTIVE
OFFICER



DONNA BUSSE,
DEPUTY DIRECTOR
CHIEF OPERATIONS
OFFICER



PRABU PALANI,
CHIEF INVESTMENT
OFFICER

STANDING PUBLIC MEETINGS

Board Meetings: Third 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/fed/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 Investments Group, Inc. – General Consultant
Carlsbad, CA

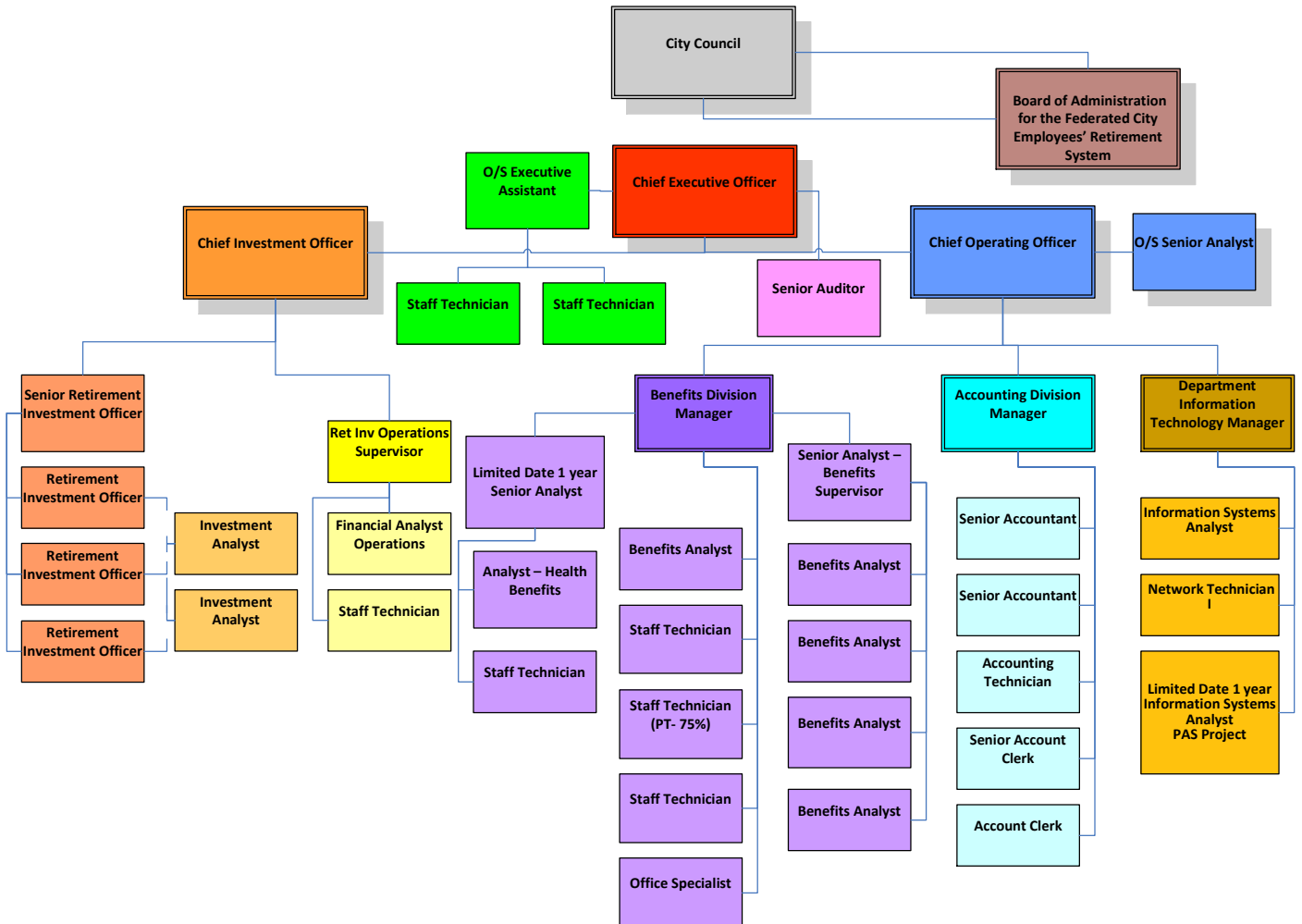
Verus Advisory Inc. – Risk Advisory
Seattle, WA

AUDITOR

Grant Thornton LLP
San Francisco, CA

A list of investment professionals who provide services for the pension and healthcare trusts can be found on page 109 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 116 and 117 through 120, respectively.

2018 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
Federated City Employees' Retirement System
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Administration of the City of San José
Federated City Employees' Retirement System
San José, California

Report on the financial statements

We have audited the accompanying financial statements of the City of San José Federated City Employees' Retirement System (the "System"), 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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System'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 System'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 System'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 System as of June 30, 2018 and 2017, 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 plan, schedule of investment returns – defined benefit pension plan, schedule of employer contributions – defined benefit pension plan, notes to schedule, schedule of changes in the employer's net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plan, and schedule of employer contributions – postemployment healthcare plans, 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 audits 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.



Other supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The combining schedule of defined benefit pension plan net position as of June 30, 2018, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2018, combining schedule of other postemployment plan net position as of June 30, 2018, combining schedule of changes in other postemployment plan net position for the year ended June 30, 2018, and the schedules of administrative expenses and other, schedules of payments to consultants, and schedules of investment expenses for the years ended June 30, 2018 and 2017 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 audits 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 9, 2018, on our consideration of the System'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 System'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 System's internal control over financial reporting and compliance.

Grant Thornton LLP

San Francisco, California
November 9, 2018

Management's Discussion and Analysis (unaudited)



November 9, 2018

Board of Administration
Federated City Employees' Retirement System
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 Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2018 and 2017. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees 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 6 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2018

- As of June 30, 2018, the System had \$2,346,590,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of \$2,069,333,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. The Postemployment Healthcare Plan's net position of \$277,257,000 is only available for the exclusive use of retiree medical benefits.
- The System's total plan net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2018 by \$113,428,000 or 5.1% 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 the fiscal year ended June 30, 2018 were \$355,042,000, which includes employer and employee contributions of \$189,167,000 and \$36,046,000, respectively, and net investment income of \$129,829,000. This represents a decrease of \$(12,451,000) of total additions from the prior fiscal year amount of \$367,493,000.
- Deductions from plan net position for fiscal year ended June 30, 2018 increased from \$219,059,000 to \$241,614,000 over the prior fiscal year, or approximately 10.3%, due to an increase in retirement benefit payments, as well as the transfer of Voluntary Employee Beneficiary Association (VEBA) assets this fiscal year. The increase in retirement benefit payments was attributable to an increased number of retired members and beneficiaries.

Overview of the Financial Statements

The System's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2018, 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 System 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 System's financial statements as a result of the implementation of GASB 74, other than increased disclosures. The following discussion and analysis is intended to serve as an introduction to the System'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 the 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 System.

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 plans and other postemployment benefit plan reports to use the full accrual method of accounting and make certain disclosures. The System 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 System'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 System. 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 System'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 System'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 System'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 35 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 System'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 68 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 System'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, Combining Schedules of Other Postemployment Plan Net Position and Changes in Other Postemployment 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 System's financial position (see Tables 1a and 1c on page 22). At the close of fiscal years 2018 and 2017, the System's total assets exceeded the System's total liabilities. The System'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 Plan, respectively.

The Pension System'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 System's financial health. Based on the June 30, 2017 valuation rolled forward to June 30, 2018, the net position of the Defined Benefit Pension Plan was 51.0% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 42.6%. For more information on the results and impact of the June 30, 2017 valuations, please see Notes 4 and 5 to the financial statements beginning on page 58.

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

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

As of June 30, 2018 and 2017 (In Thousands)

	2018	2017	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 12,416	\$ 68,585	\$ (56,169)	(81.9)%
Investments at fair value	2,062,101	1,918,487	143,614	7.5 %
Capital assets	1,684	1,448	236	16.3 %
Total Assets	2,076,201	1,988,520	87,681	4.4 %
Current liabilities	6,868	15,728	(8,860)	(56.3)%
Total Liabilities	6,868	15,728	(8,860)	(56.3)%
Plan Net Position	\$ 2,069,333	\$ 1,972,792	\$ 96,541	4.9 %

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

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

	2017	2016	Increase Amount	Increase Percent
Receivables	\$ 68,585	\$ 15,114	\$ 53,471	353.8 %
Investments at fair value	1,918,487	1,846,167	72,320	3.9 %
Capital assets	1,448	893	555	62.2 %
Total Assets	1,988,520	1,862,174	126,346	6.8 %
Current liabilities	15,728	3,292	12,436	377.8 %
Total Liabilities	15,728	3,292	12,436	377.8 %
Plan Net Position	\$ 1,972,792	\$ 1,858,882	\$ 113,910	6.1 %

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

As of June 30, 2018 and 2017 (In Thousands)

	2018	2017	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 4,211	\$ 5,944	\$ (1,733)	(29.2)%
Investments at fair value	273,442	270,727	2,715	1.0 %
Capital assets	70	66	4	6.1 %
Total Assets	277,723	276,737	986	0.4 %
Current liabilities	466	16,367	(15,901)	(97.2)%
Total Liabilities	466	16,367	(15,901)	(97.2)%
Plan Net Position	\$ 277,257	\$ 260,370	\$ 16,887	6.5 %

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

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

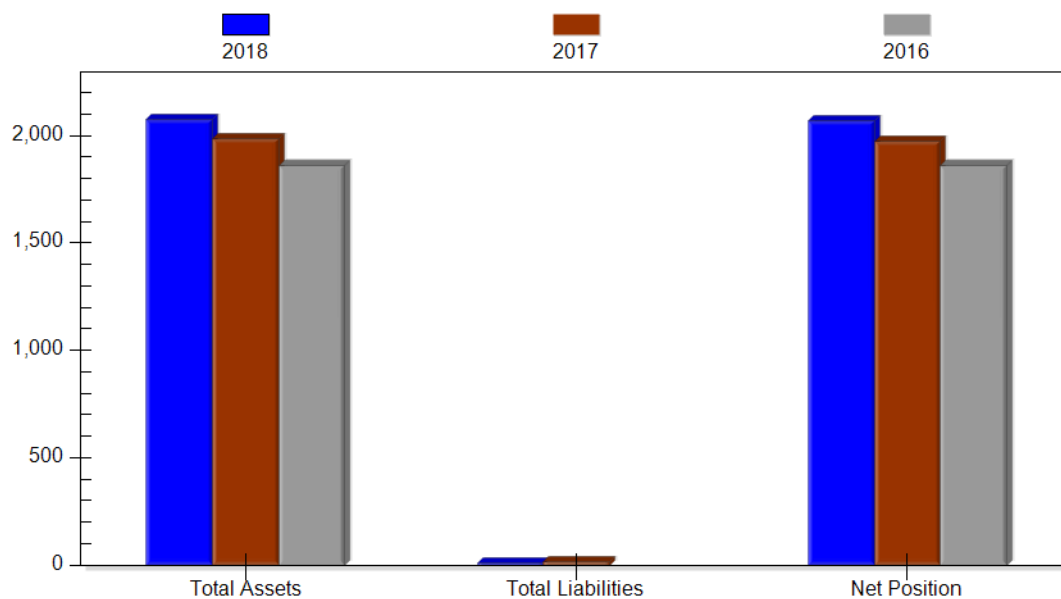
	2017	2016	Increase Amount	Increase Percent
Receivables	\$ 5,944	\$ 4,119	\$ 1,825	44.3 %
Investment at fair value	270,727	221,839	48,888	22.0 %
Capital assets	66	44	22	50.0 %
Total Assets	276,737	226,002	50,735	22.4 %
Current liabilities	16,367	156	16,211	10,391.7 %
Total Liabilities	16,367	156	16,211	10,391.7 %
Plan Net Position	\$ 260,370	\$ 225,846	\$ 34,524	15.3 %

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

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

As of June 30, 2018, 2017 and 2016

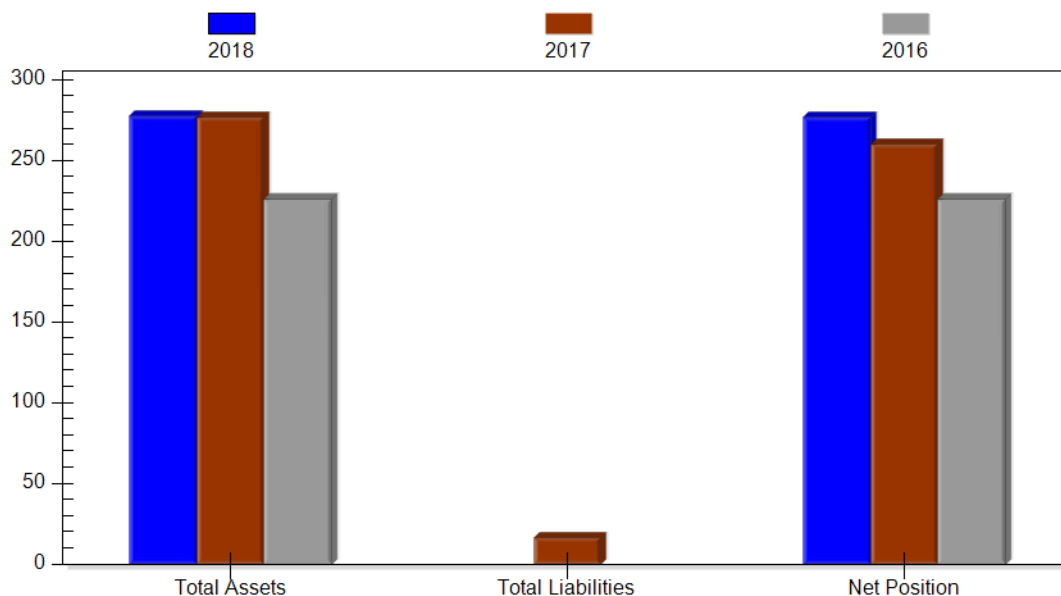
(Dollars in Millions)



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

As of June 30, 2018, 2017 and 2016

(Dollars in Millions)



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

As of June 30, 2018, \$2,069,333,000 and \$277,257,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 22). Plan net position restricted for pension benefits of \$2,069,333,000 is available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$277,257,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2018, total net position restricted for pension benefits increased by 4.9% and increased by 6.5% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of \$98,250,000 and \$6,877,000 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 System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 46.

As of June 30, 2017, \$1,972,792,000 and \$260,370,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 22). Plan net position restricted for pension benefits of \$1,972,792,000 was available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$260,370,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2017, total net position restricted for pension benefits decreased by 6.1% and increased by 15.3% for the postemployment healthcare benefits plans from the prior year, primarily due to the net appreciation in the fair value of investments of \$98,250,000 and \$6,877,000 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 System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 46.

As of June 30, 2018, receivables decreased by \$(56,169,000) or (81.9)% and by \$(1,733,000) or (29.2)% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, 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 for both Plans. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by \$53,471,000 or 353.8% and increased by \$1,825,000 or 44.3%, respectively, due mainly to an increase in receivable from brokers and others for both plans.

As of June 30, 2018, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by \$(8,860,000) or (56.3)% and by \$(15,901,000) or (97.2)%, respectively, compared with June 30, 2017, due to decreases in payable to brokers, primarily as a result of the timing of investment transactions. In the previous year, liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by \$12,436,000 or 377.8% and by \$16,211,000 or 10,391.7%, respectively, from the prior year due to increases in payables to brokers and other liabilities primarily as a result of the timing of investment transactions.

FEDERATED SYSTEM ACTIVITIES

In the fiscal year ended June 30, 2018, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by \$113,428,000 or 5.1%, primarily due to the favorable market conditions during the fiscal year. Key elements of the System'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). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2018, were \$294,764,000 and \$60,278,000, respectively (see Tables 2a and 2c on pages 26 - 27).

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

For the fiscal year ended June 30, 2018, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by \$(6,956,000) and \$(5,495,000), or (2.3)% and (8.4)%, respectively. The primary cause of the decrease from the prior year was a combination of the decrease in net investment income of \$(28,517,000) and \$(4,705,000) and the increase in City contributions of \$18,287,000 and \$492,000, in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The decrease in investment income was due to the less than favorable market conditions during the fiscal year as compared to the prior year, and the increase in employer contributions is due to the increase in City contribution rates of around 16% for Tier 1 and 2% for Tier 2. While the City contributions increased, employee contributions decreased for the Postemployment Healthcare Plan as a result of the implementation of the VEBA, which stopped contributions for those who opted in to the VEBA. The System's time-weighted gross rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2018 for the Defined Benefit Pension Plan, was 6.3% compared to 8.0% for fiscal year 2017. On a net of investment fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2018, was 5.9% compared to 7.5% for fiscal year 2017.

For fiscal year ended June 30, 2017, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by \$191,354,000 and increased by \$19,874,000, or 173.4% and 43.3%, respectively. The primary cause of the increase from the prior year was net investment income of \$146,010,000 and \$17,041,000, in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to the favorable market conditions during the fiscal year. The System's time-weighted gross rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2017 for the Defined Benefit Pension Plan, was 8.0% compared to (0.3)% for fiscal year 2016. On a net of investment fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2017, was 7.5% compared to (0.7)% for fiscal year 2016.

Deductions from Plan Net Position

The System 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 System.

Deductions for the fiscal year ended June 30, 2018, totaled \$198,223,000 and \$43,391,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 5.5% from the previous year due to an increase in benefit payments (see Table 2a on page 26). 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 Plan increased by 38.9% from the previous year due to the net result of a decrease in the healthcare insurance premiums from the implementation of a new lowest cost health plan for the year and the increase in the transfer of VEBA assets for the fiscal year. The IRS approved allowing eligible employees who are rehired into the City from calendar years 2018 through 2022 to opt-in to the VEBA if they were not employed during the initial opt-in period. As this represents a limited number of eligible employees who could potentially opt-in to the VEBA, it is estimated that there will be minimal additional amounts transferred from the Postemployment Healthcare Plan to the individual VEBA accounts. (see Table 2c on page 27).

Deductions for the fiscal year ended June 30, 2017, totaled \$187,810,000 and \$31,249,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, 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 than average salaries and added cost of living adjustments. (see Table 2b on page 26). Deductions for the

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

Postemployment Healthcare Plan increased by 4.8% from the previous year due to an increase in healthcare insurance premiums for retirees and beneficiaries, as well as the increase in number of retirees and beneficiaries (see Table 2d on page 27).

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

For the Fiscal Years Ended June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 20,501	\$ 17,227	\$ 3,274	19.0 %
Employer contributions	156,770	138,483	18,287	13.2 %
Net investment income*	117,493	146,010	(28,517)	(19.5)%
Total Additions	294,764	301,720	(6,956)	(2.3)%
Retirement benefits	179,366	169,756	9,610	5.7 %
Death benefits	12,970	12,411	559	4.5 %
Refund of contributions	1,064	1,263	(199)	(15.8)%
Administrative expenses	4,823	4,380	443	10.1 %
Total Deductions	198,223	187,810	10,413	5.5 %
Net Increase in Plan Net Position	96,541	113,910	(17,369)	(15.2)%
Beginning Net Position	1,972,792	1,858,882	113,910	6.1 %
Ending Net Position	\$ 2,069,333	\$ 1,972,792	\$ 96,541	4.9 %

* Net of investment expenses of \$10,734 and \$11,827 in 2018 and 2017, respectively.

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

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

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 17,227	\$ 15,920	\$ 1,307	8.2 %
Employer contributions	138,483	129,456	9,027	7.0 %
Net investment income/ (loss)*	146,010	(35,010)	181,020	517.1 %
Total Additions	301,720	110,366	191,354	173.4 %
Retirement benefits	169,756	160,499	9,257	5.8 %
Death benefits	12,411	11,530	881	7.6 %
Refund of contributions	1,263	1,289	(26)	(2.0)%
Administrative expenses	4,380	3,940	440	11.2 %
Total Deductions	187,810	177,258	10,552	6.0 %
Net Increase (Decrease) in Plan Net Position	113,910	(66,892)	180,802	270.3 %
Beginning Net Position	1,858,882	1,925,774	(66,892)	(3.5)%
Ending Net Position	\$ 1,972,792	\$ 1,858,882	\$ 113,910	6.1 %

* Net of investment expenses of \$11,827 and \$11,139 in 2017 and 2016, respectively.

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

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

For the Fiscal Years Ended June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	\$ 15,545	\$ 16,827	\$ (1,282)	(7.6)%
Employer contributions	32,397	31,905	492	1.5 %
Net investment income*	12,336	17,041	(4,705)	(27.6)%
Total Additions	60,278	65,773	(5,495)	(8.4)%
Healthcare insurance premiums	29,724	31,007	(1,283)	(4.1)%
Administrative expenses	170	242	(72)	(29.8)%
VEBA transfer	13,497	-	13,497	100.0 %
Total Deductions	43,391	31,249	12,142	38.9 %
Net Increase in Plan Net Position	16,887	34,524	(17,637)	(51.1)%
Beginning Net Position	260,370	225,846	34,524	15.3 %
Ending Net Position	\$ 277,257	\$ 260,370	\$ 16,887	6.5 %

* Net of investment expenses of \$403 and \$706 in 2018 and 2017, respectively.

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

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

	2017	2016	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	\$ 16,827	\$ 17,881	\$ (1,054)	(5.9)%
Employer contributions	31,905	30,465	1,440	4.7 %
Net investment income/ (loss)*	17,041	(2,447)	19,488	796.4 %
Total Additions	65,773	45,899	19,874	43.3 %
Healthcare insurance premiums	31,007	29,577	1,430	4.8 %
Administrative expenses	242	237	5	2.1 %
Total Deductions	31,249	29,814	1,435	4.8 %
Net Increase in Plan Net Position	34,524	16,085	18,439	114.6 %
Beginning Net Position	225,846	209,761	16,085	7.7 %
Ending Net Position	\$ 260,370	\$ 225,846	\$ 34,524	15.3 %

* Net of investment expenses of \$706 and \$721 in 2017 and 2016, respectively.

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net position. The System'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 Plan (which includes the 401(h) and 115 Trust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Pension Plan Cost-of-Living Fund both have a General Reserve and Employee Contributions Reserve. The Postemployment Healthcare 401(h) and 115 Funds have a General Reserve only (see table on page 48 for a complete listing and year-end balances of the System's reserves).

The System'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 System's General Reserve.

With the implementation of Measure F, a medical in-lieu component of the General Reserves was created to account for those members who elected to be into the medical-in-lieu credit program. These members are retirees who are eligible for medical insurance and/or dental insurance but who opt not to take it and instead elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan.

The System's Fiduciary Responsibilities

The System's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plan. Under the California Constitution and the San José Municipal Code, System 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 engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which was approved in 2012. On November 23, 2015, the City and the 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 the terms of the Framework will be implemented. Measure F passed, and on June 16, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the System. The provisions of the Framework included, 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 were eligible to opt-in to the VEBA and rehired employees with healthcare contributions will also have the option through calendar year 2022. The VEBA is being administered by the City, not ORS and therefore it is also not under the jurisdiction of the Retirement Board.

ORS completed most of the implementation of Measure F, with the transfer of the contributions of members who opted in to the VEBA, as well as making the first payments to those affected by the GPP and including the retiree healthcare in-lieu premium credit as part of the open enrollment process for retirees. There are still a few aspects of Measure F that are outstanding such as the medical panel and the refinement of the Municipal Code to be consistent with the current procedures of the City.

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

The System's actuarial valuations as of June 30, 2017, were used to determine the contribution rates and dollar amounts effective July 1, 2018, for fiscal year 2018-2019. The annual determined contribution rates and dollar amounts were adopted by the Board. The June 30, 2017 actuarial valuations include Board adopted actuarial assumption changes recommended by the System's actuary in the Preliminary June 30, 2017 Actuarial Valuation Results and Contribution Methodology Options presented in February 2018.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System'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 liability (UAL) of \$1,823 million, as of June 30, 2017, does not include the impact of approximately \$128.6 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 System 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, 2017. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAL and decrease the funded status of the System, thereby increasing required contributions to the System.

In addition to investment market risk, the System 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 System's provisions and the specific demographics of the System participants. Deviations from these actuarial assumptions cause the System to experience gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every three to five years, the System's actuary conducts an experience study to assess whether the experience of the System 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 wage inflation assumption, amortization payment growth rate, and mortality improvement scale were adopted by the Board of Administration with the actuary's input at the December 21, 2017 Board meeting. The discount rate assumption was adopted by the Board of Administration with the actuary's input at the November 16, 2017 Board meeting. The Tier 2 retirement rates were adopted at the May 4, 2017 Board meeting based on a special analysis presented at that meeting. All other assumptions were adopted at the November 19, 2015 Board meeting based on recommendations from the actuary's Experience Study covering plan experience during the period from July 1, 2010 through June 30, 2015. The next experience study is scheduled for fiscal year ending June 30, 2019.

The June 30, 2017 actuarial valuation contained changes on the actuarial assumptions and methods since the last valuation. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. All Tier 1 assumption amortization base periods were increased by 5 years and all future assumption amortization bases will be amortized over 25-year periods beginning with the valuation date in which they first arise. All Tier 2 amortization base periods were reset to 10 years as of June 30, 2017. All future amortization bases will be amortized over 10-year periods beginning with the valuation date in which they first arise. The annual amortization payment increase assumption was increased from 2.85% to 3.00%. The minimum contribution rate was set equal to the normal cost rate, and the Tier 2 member UAL rate cannot increase by more than 0.33% of pay.

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

Contribution rates for fiscal year 2018-2019, as determined by the June 30, 2017 actuarial valuation includes the impact of the changes stated above and the recognition of smoothed deferred investment gains and losses.

Postemployment Healthcare Plan

With the passage of Measure F, the Framework became effective as of June 16, 2017. A VEBA for retiree healthcare was created and Tier 1 and some Tier 2 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018.

Historically, member and City contributions to the System have been negotiated through collective bargaining and have not been actuarially determined. With the implementation of Measure F, member contributions were fixed at 7.5% of pay; the City's contribution toward the explicit subsidy (or premium subsidy) will be actuarially determined; and the City will also pay the implicit subsidy (difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium) on a pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contribution to 14% of payroll.

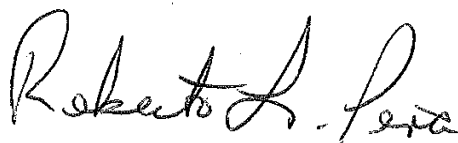
During the year ended June 30, 2017, the System adopted GASB Statement No.74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The OPEB valuation as of June 30, 2017, was prepared by Cheiron, Inc., the System's actuary. 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.

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 System'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:

Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,



Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

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Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

As of June 30, 2018 and 2017 (In Thousands)

	2018		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	\$ 800	\$ 442	\$ 1,242
Employer contributions	1,671	645	2,316
Brokers and others	3,833	2,552	6,385
Accrued investment income	6,112	572	6,684
Total Receivables	12,416	4,211	16,627
Investments, at fair value:			
Securities and other:			
Global equity	712,647	158,965	871,612
Private equity	68,143	219	68,362
Global fixed income	657,109	77,432	734,541
Collective short term investments	28,518	760	29,278
Private debt	78,532	252	78,784
Real assets	263,745	35,001	298,746
International currency contracts, net	168	1	169
Absolute return	253,239	812	254,051
Total Investments	2,062,101	273,442	2,335,543
Capital Assets	1,684	70	1,754
TOTAL ASSETS	2,076,201	277,723	2,353,924
LIABILITIES			
Payable to brokers	4,979	315	5,294
Other liabilities	1,889	151	2,040
TOTAL LIABILITIES	6,868	466	7,334
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,069,333	-	2,069,333
Postemployment healthcare benefits	-	277,257	277,257
TOTAL PLAN NET POSITION	\$ 2,069,333	\$ 277,257	\$ 2,346,590

See accompanying notes to basic financial statements.

(continued)

Basic Financial Statements *(continued)*

STATEMENTS OF PLAN NET POSITION *(continued)*

As of June 30, 2018 and 2017 *(In Thousands)*

	2017		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	\$ 761	\$ 634	\$ 1,395
Employer contributions	7,876	1,324	9,200
Brokers and others	56,982	3,738	60,720
Accrued investment income	2,966	248	3,214
Total Receivables	68,585	5,944	74,529
Investments, at fair value:			
Securities and other:			
Global equity	812,043	107,920	919,963
Private equity	59,820	1,842	61,662
Global fixed income	384,293	80,894	465,187
Collective short term investments	100,960	40,787	141,747
Private debt	73,510	2,263	75,773
Real assets	243,429	29,495	272,924
International currency contracts, net	(615)	(19)	(634)
Absolute return	245,047	7,545	252,592
Total Investments	1,918,487	270,727	2,189,214
Capital Assets	1,448	66	1,514
TOTAL ASSETS	1,988,520	276,737	2,265,257
LIABILITIES			
Payable to brokers	14,237	16,200	30,437
Other liabilities	1,491	167	1,658
TOTAL LIABILITIES	15,728	16,367	32,095
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,972,792	-	1,972,792
Postemployment healthcare benefits	-	260,370	260,370
TOTAL PLAN NET POSITION	\$ 1,972,792	\$ 260,370	\$ 2,233,162

See accompanying notes to basic financial statements.

(concluded)

Basic Financial Statements *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2018 and 2017 (In Thousands)

	2018		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	\$ 20,501	\$ 15,545	\$ 36,046
Employer	156,770	32,397	189,167
Total Contributions	177,271	47,942	225,213
Investment income			
Net appreciation in fair value of investments	98,250	6,877	105,127
Interest income	20,489	701	21,190
Dividend income	9,488	5,161	14,649
Less: investment expense	(10,734)	(403)	(11,137)
Net Investment Income	117,493	12,336	129,829
TOTAL ADDITIONS	294,764	60,278	355,042
DEDUCTIONS			
Retirement benefits	179,366	-	179,366
Healthcare insurance premiums	-	29,724	29,724
Death benefits	12,970	-	12,970
Refund of contributions	1,064	-	1,064
Administrative expenses and other	4,823	170	4,993
VEBA transfer	-	13,497	13,497
TOTAL DEDUCTIONS	198,223	43,391	241,614
NET INCREASE	96,541	16,887	113,428
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	1,972,792	260,370	2,233,162
END OF YEAR	\$ 2,069,333	\$ 277,257	\$ 2,346,590

See accompanying notes to basic financial statements.

(continued)

Basic Financial Statements *(continued)*

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

For the Fiscal Years Ended June 30, 2018 and 2017 *(In Thousands)*

	2017		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	\$ 17,227	\$ 16,827	\$ 34,054
Employer	138,483	31,905	170,388
Total Contributions	155,710	48,732	204,442
Investment income			
Net appreciation in fair value of investments	129,235	12,760	141,995
Interest income	13,617	845	14,462
Dividend income	14,985	4,142	19,127
Less: investment expense	(11,827)	(706)	(12,533)
Net Investment Income	146,010	17,041	163,051
TOTAL ADDITIONS	301,720	65,773	367,493
DEDUCTIONS			
Retirement benefits	169,756	-	169,756
Healthcare insurance premiums	-	31,007	31,007
Death benefits	12,411	-	12,411
Refund of contributions	1,263	-	1,263
Administrative expenses and other	4,380	242	4,622
TOTAL DEDUCTIONS	187,810	31,249	219,059
NET INCREASE	113,910	34,524	148,434
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	1,858,882	225,846	2,084,728
END OF YEAR	\$ 1,972,792	\$ 260,370	\$ 2,233,162

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 Federated City Employees' Retirement System (the System) is provided for financial reporting purposes only. Readers should refer to the City of San José Municipal Code (SJMC) for more complete information.

(a) General

The System was established in 1941 to provide retirement benefits for certain employees of the City of San José (City). The current System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan and includes all provisions of SJMC Chapters 3.28, 3.44, and 3.52.

The Defined Benefit Pension Plan was established pursuant to Internal Revenue Code (IRC) Section 401(a), is held and administered in the 1975 Federated City Employees' Retirement System (Pension Trust) and includes all provisions of SJMC Chapters 3.28.

The Postemployment Healthcare Plan is comprised of an IRC Section 401(h) plan and an IRC Section 115 trust and is held and administered in the 1975 Federated City Employees' Retirement System and the Federated City Employees' Healthcare Trust Fund, respectively; it includes all provisions of SJMC Chapters 3.28 and 3.52, respectively.

The Postemployment Healthcare Plan, which was established under IRC Section 401(h), is an account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. As a 401(h) plan, the healthcare plan benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if the cumulative actual contributions for medical benefits are no greater than 25% of actual contributions to both pension and medical benefits, ignoring contributions for past service benefit (normal cost only). The System's actuary performs periodic reviews and projections of the IRC 25% subordination test.

On June 24, 2011, a new IRC Section 115 trust was established by the San José City Council (City Council) under the provisions of SJMC Chapter 3.52 (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust was filed with the IRS on October 17, 2011. On August 6, 2013, the City obtained a private letter ruling from the IRS confirming the pre-tax treatment of employee contributions to the 115 Trust. Effective pay period 1 of 2014, beginning on December 23, 2013, employee contributions made for retiree healthcare are deposited into the 115 Trust.

On August 18, 2012, the System received a favorable tax determination letter from the IRS for the Pension Trust, which includes the Defined Benefit Pension Plan and the 401(h) portion of the Postemployment Healthcare Plan. A new determination letter was received on July 8, 2014.

Effective September 30, 2012, pursuant to City of San José Ordinance Number 29120, the System was amended to provide for different retirement benefits for individuals hired, rehired or reinstated by the City on and after that date but before September 27, 2013. Members subject to these new benefit provisions are referred to as Tier 2 members, whereas members hired before September 30, 2012 are referred to as Tier 1 members. Differences in benefits are noted in the appropriate sections below.

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

(a) General *(continued)*

Effective February 3, 2013, pursuant to City of San José Ordinance Number 29184, unrepresented executive management and professional employees who are hired directly into a position in Unit 99 on or after that date, may make a one-time irrevocable election to participate in either a newly created Defined Contribution Plan or become a Tier 2 participant in the System. To be eligible, an employee must not have been previously a member of the City of San José Retirement System. The System does not administer or hold the assets of the Defined Contribution Plan.

Effective September 27, 2013, pursuant to City of San José Ordinance Number 29283, the System was amended to provide for different retirement benefits for individuals hired or rehired by the City on and after that date. Members subject to these new benefits are referred to as Tier 2B members, having the same benefits as Tier 2 members in the Defined Benefit Pension Plan, except, Tier 2B members do not have Postemployment Healthcare benefits. The ordinance also stated that the City shall bear and pay an amount equal to the additional costs incurred by the Retirement System for that portion of the unfunded liability as determined by the actuary of the Retirement System that the City and the new employees hired on or after September 27, 2013, would have otherwise paid as contributions had those employees been eligible for retiree healthcare. The additional payment by the City shall be for a period of time under the terms and conditions set forth by the City Council.

Tier 2C members are former Tier 1 members who have vested in dental benefits and are re-entering the Plan as Tier 2B members but with dental benefits. In fiscal year 2018, these members were transferred to Tier 1 as rehired members.

The City and the Federated bargaining units engaged in settlement discussions concerning litigation arising out of a voter approved ballot measure, known as Measure B, which passed in 2012. On December 15, 2015, and January 12, 2016, the City and the bargaining units representing employees in Federated reached a settlement agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). The terms of the Federated Framework also applied to unrepresented employees, including unrepresented management and executive employees in Unit 99. The Federated 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 May 16, 2017, amending the San Jose Municipal Code to reflect the terms of Measure F and the Federated Framework. The changes to the Municipal Code became effective thirty (30) days after May 16, 2017. Most of the terms of Measure F and the Federated Framework were implemented on June 18, 2017, which is the first pay period of fiscal year 2017-2018. The provisions of the Federated 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 (except those who enter the Plan after June 18, 2017 with "Classic" membership in CalPERS) and Tier 2 employees who were previously making contributions into the defined benefit retiree healthcare plan (Tier 2A), were eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) were required to move in to the defined contribution VEBA.

Notes to the Basic Financial Statements *(continued)*

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

(a) General *(continued)*

The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the Internal Revenue Service issued a favorable private letter ruling to the Section 115 Trust on February 7, 2018. The IRS ruled that allowing the contributions to the VEBA to be made from the Sections 115 Trust is consistent with Code Section 115(1) and will not compromise the Section 115 Trust's status under Code Section 115. The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred in March 2018. The VEBA is being administered by the City, not the Office of Retirement Services, and therefore it is also not under the jurisdiction of the Retirement Board.

The System 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 System 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 Federated City Employees' Retirement System Board of Administration (Board of Administration). The seven-member Board of Administration is composed of two City employees elected by members of the System, a retiree representative, and three 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 six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, except for certain support services, which are provided and funded directly by the City. The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

All full-time and eligible part-time employees of the City are required to be members of the System, except unrepresented executive management and professional employees in Unit 99 who are first hired on or after February 3, 2013 and have made an irrevocable election to participate in the Defined Contribution Plan pursuant to SJMC Chapter 3.49, instead of Tier 2 of the Defined Benefit Plan. Also excluded are employees who are members of the City's Police and Fire Department Retirement Plan.

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. This includes Tier 2C members mentioned above who were converted to Tier 1C. 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. Rehires in the Tier 1 membership is broken down into the type of coverage the member had in the Postemployment Healthcare Plan prior to the passage of Measure F. The System members are categorized into three membership types based on when they entered the Plan, except for the rehires mentioned above.

Notes to the Basic Financial Statements *(continued)*

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

(a) General *(continued)*

The following table summarizes the System members as of June 30, 2018 and 2017, respectively.

<i>As of June 30,</i>		2018			
	Tier 1 Pension only**	Tier 1 Pension & Medical***	Tier 2 Pension only**	Tier 2 Pension & Medical***	Total
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits*	595	3,627	3	-	4,225
Terminated vested members not yet receiving benefits	858	164	412	-	1,434
Active members	193	1,662	1,610	89	3,554
Total	1,646	5,453	2,025	89	9,213
Postemployment Healthcare Plan:		Tier 1 ***	Tier 2A ***		Total
Retirees and beneficiaries currently receiving benefits****	-	3,627	-	-	3,627
Terminated vested members not yet receiving benefits	-	164	-	-	164
Active members	-	1,662	-	89	1,751
Total	-	5,453	-	89	5,542

As of June 30,		2017		
Defined Benefit Pension Plan:	Tier 1	Tier 2	Tier 2B	Total
Retirees and beneficiaries currently receiving benefits*	4,114	-	1	4,115
Terminated vested members not yet receiving benefits**	1,037	65	250	1,352
Active members***	1,991	164	1,255	3,410
Total	7,142	229	1,506	8,877
Postemployment Healthcare Plan				
Retirees and beneficiaries currently receiving benefits****	3,535	-	-	3,535
Terminated vested members not yet receiving benefits	158	-	-	158
Active members***	1,991	164	-	2,155
Total	5,684	164	-	5,848

* The combined combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count

** Includes members that are eligible for catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare plan

*** Eligible for full retiree medical benefits

**** Payees that have health and/or dental coverage

Notes to the Basic Financial Statements *(continued)*

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

(b) Pension, Disability and Healthcare Benefits

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement may 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 the members. Please consult the Municipal Code for complete information.

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 29, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated on or after September 27, 2013***	Employees hired, rehired, or reinstated on or after September 30, 2012	Employees hired, rehired, or reinstated on or after September 27, 2013
Contributions					
Employee contributions	15.36% of Base Salary (Pension: 6.60%, Retiree Health: 8.76%) as of 6/18/17	6.60% of Base Salary as of 6/18/2017	6.99% of Base Salary (Pension: 6.60%, Retiree Dental: 0.39%) as of 6/18/2017	16.48% (Pension: 7.72% Retiree Healthcare: 8.76%) as of 6/18/2017	7.72% of Base Salary as of 6/18/2017
City contributions	103.45% of Base Salary (Pension: 94.04%, Retiree Health: 9.41%) as of 6/18/17	94.04% of Base Salary as of 6/18/2017	95.08% of Base Salary (Pension: 94.04%, Retiree Health: 1.04%) as of 6/18/2017	17.13% (Pension: 7.72% Retiree Healthcare: 9.41%) as of 6/18/2017	7.72% of Base Salary as of 6/18/2017
Service required to leave contributions in retirement system	5 years			5 years of Federated City Service Years of Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement					
Age/years of service	55 with 5 years service 30 years service at any age			62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age fifty-five (55) and the Tier 2 member's age at retirement before age 62, 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)

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 29, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated on or after September 27, 2013***	Employees hired, rehired, or reinstated on or after September 30, 2012	Employees hired, rehired, or reinstated on or after September 27, 2013
"Deferred Vested" retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)			May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age fifty-five and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75% max) •If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months •If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months			2.0% x Years of Federated City Service x Final Compensation (70% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service. Excludes premium pay or any other forms of additional compensation	
Disability Retirement - (Service Connected)					
Minimum service	None				
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final compensation)			2% x Years of Federated City Service x Final Compensation. (Minimum of 40% and maximum of 70% of Final Compensation)	
Disability Retirement (Non-Service Connected)					
Minimum service	5 years				

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

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

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 29, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated on or after September 27, 2013***	Employees hired, rehired, or reinstated on or after September 30, 2012	Employees hired, rehired, or reinstated on or after September 27, 2013
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final compensation) If under 55 years old, subtract 0.5% for every year under age 55. **For those entering the System 9/1/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75% of Final compensation)			2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70% of Final Compensation)	
Medical Benefits					
Eligibility	Retired for disability or service with 15 years service or receive allowance that is at least 37.5% of final compensation. ("Deferred vested" members are eligible.)	N/A	N/A	Retired for disability or service with 15 years' service or receive allowance that is at least 37.5% of final compensation. (Certain "Deferred vested" members are also eligible.)	N/A
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.	N/A	N/A	Retirement System pays 100% of lowest cost single or family premium 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.	N/A

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

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

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 29, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated on or after September 27, 2013***	Employees hired, rehired, or reinstated on or after September 30, 2012	Employees hired, rehired, or reinstated on or after September 27, 2013
Medicare eligibility	N/A	N/A	N/A	At age 65, Members of FCERS will be required to enroll in Medicare Parts A & B. If a Member does not meet this requirement within 6 months of the date Member turns 65, health care benefits will cease until such requirements are met.	N/A
Dental Benefits					
Eligibility	Must be enrolled at retirement with 5 years service or receive retirement allowance of at least 37.5% of Final compensation. In addition, the employee must retire directly from City service. ("Deferred vested" members are not eligible.)	N/A	Must be enrolled at retirement with 5 years' service or receive retirement allowance of at least 37.5% of Final compensation. In addition, the employee must retire directly from City service. ("Deferred vested" members are not eligible.)	Must be enrolled at retirement with 5 years' service or receive retirement allowance of at least 37.5% of Final compensation. ("Deferred vested" members are not eligible.)	N/A
Premiums	Fully paid by retirement fund	N/A	Fully paid by retirement fund	Fully paid by retirement fund	N/A
Reciprocity					
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Please call the Retirement Department or CalPERS for more information.				

Notes to the Basic Financial Statements *(continued)*

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

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

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 29, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated on or after September 27, 2013***	Employees hired, rehired, or reinstated on or after September 30, 2012	Employees hired, rehired, or reinstated on or after September 27, 2013
Cost-of-Living Adjustments (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 April. There is no prorating of COLA.		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back-loaded 2% COLA per fiscal year. The back-loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.		

* Tier 1 applies to employees hired on or before September 29, 2012, or former Tier 1 members who were rehired on or after June 18, 2017, who did not take a return of contributions. Tier 1A applies to employees rehired on or after September 30, 2012 through September 27, 2013, and employees rehired after September 27, 2013 with 15 or more years of service, but before June 18, 2017.

** Tier 1B applies to employees rehired after September 27, 2013 with less than 5 years of service, but before June 18, 2017. Tier 1B employees are not eligible for the defined benefit retiree healthcare plan. Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San Jose on or after June 18, 2017. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

*** Tier 1C applies to employees rehired after September 27, 2013 with between 5 and 15 years of service, but before June 18, 2017. Tier 1C employees are not eligible for the defined benefit retiree medical plan.

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 Tier 1 members. Please consult the Municipal Code for complete information.

Tier 1, 1A, 1B, and 1C	
Death Before Retirement	
Non-service-connected death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)
Greater than 5 years of service or service-connected death	<p>To surviving spouse/domestic partner: Years of Service x 2.5% x Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum)</p> <p>If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)</p>
Death After Retirement	
Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	<p>To surviving spouse/domestic partner: 50% of Retiree's Allowance</p> <p>If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.</p>
Optional settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.
Special death benefit	\$500 death benefit paid to estate or designated beneficiary in addition to benefits above.

For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death.

**If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no 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 death benefits for Tier 2 members. Please consult the Municipal Code for complete information.

Tier 2 and 2B	
Death Before Retirement	
Non-service-connected death not eligible for retirement	Return of employee contributions, plus interest.
Eligible for retirement	<p>To surviving spouse/domestic partner: $2.0\% \times \text{Years of Federated City Service} \times \text{Final Compensation}$ (70% max)</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: $1/12$ of compensation in year prior to death \times years of service (benefit may not exceed 50% of the salary earned in year prior to death.)</p> <p>Employees killed in the line of duty – To surviving spouse/domestic partner: Monthly benefit equivalent to 50% of Final Compensation.</p>
Death After Retirement	
Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)	<p>To surviving spouse/domestic partner: 50% of Retiree's Allowance</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.</p>
Optional settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.

For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death, remarriage, or establishment of a domestic partnership if member was at least 65 with at least 20 years of service (or 55 with a reduction factor of 5%) at the time of death. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial statements of the System in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the System are intended to present only the plan net position and changes in plan net position of the System. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The System 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 System 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 System. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan 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 Section 3.28.355 delegates authority to the Board of Administration to invest the monies of the System as provided in Section 3.28.355. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.28.355.

For the year ended June 30, 2018, the Defined Benefit Pension Plan investment policy was updated, as shown in the following table, which the Board approved on November 16, 2017. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the System's adopted actuarial assumed rate of return as utilized in the June 30, 2017 valuations.

The System's investment asset allocation is as follows:

PENSION	As of June 30, 2018			As of June 30, 2017		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Asset Class						
Global equity	20 %	28 %	36 %	20 %	28 %	36 %
Private equity	4 %	9 %	14 %	4 %	9 %	14 %
Global fixed income	23 %	33 %	43 %	9 %	19 %	29 %
Private debt	2 %	6 %	10 %	-	5 %	10 %
Absolute return	6 %	11 %	16 %	6 %	11 %	16 %
Global tactical asset allocation/ Opportunistic	-	-	5 %	-	5 %	8 %
Real assets	8 %	13 %	18 %	15 %	23 %	30 %
Cash	-	-	10 %	-	-	10 %

The absolute return and global tactical asset allocation/opportunistic asset class includes allocations to global macro and relative value hedge fund strategies and managers with unconstrained global mandates. In addition, during times of significant market dislocations, opportunistic mandates would be allocated to this asset class.

The real assets asset class includes allocations to real estate, commodities, infrastructure and natural resources.

Notes to the Basic Financial Statements *(continued)*

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

(c) Investments *(continued)*

On April 19, 2018, the Board adopted a new asset allocation for the 115 healthcare trust. The Postemployment Healthcare Plan investment policy was originally approved on March 21, 2013.

HEALTHCARE	As of June 30, 2018			As of June 30, 2017		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Asset Class						
Global equity	40 %	55 %	54 %	40 %	47 %	54 %
Fixed income	20 %	28 %	40 %	20 %	30 %	40 %
Real assets	15 %	17 %	30 %	15 %	23 %	30 %

The real assets asset class allocates to commodities, natural resources, infrastructure, and real estate.

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 49 for more detailed information on the fair value of investments.

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the System'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.

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

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 in 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, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.03% and 7.53%, respectively. For the year ended June 30, 2018 and 2017, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 4.55% and 8.81%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Notes to the Basic Financial Statements (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 by the spring of 2019. 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.

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

The System 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 Plan (which includes the 401(h) and 115 Trust).

As of June 30, 2018 and 2017, plan net position totaling \$2,346,590,000 and \$2,233,162,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Health-care 401(h)	Post-employment Health-care (115)	Post-employment Health-care Plan	Total
June 30, 2018							
Employee contributions reserve	\$ 312,093	\$ 53,303	\$ 365,396	\$ -	\$ -	\$ -	\$ 365,396
General reserve	1,078,382	625,555	1,703,937	9,032	267,836	276,868	1,980,805
Retiree healthcare in-lieu premium credit	-	-	-	389	-	389	389
TOTAL	\$1,390,475	\$678,858	\$2,069,333	\$ 9,421	\$ 267,836	\$ 277,257	\$2,346,590
June 30, 2017							
Employee contributions reserve	\$ 308,714	\$ 50,274	\$ 358,988	\$ -	\$ -	\$ -	\$ 358,988
General reserve	1,042,461	571,343	1,613,804	34,149	226,221	260,370	1,874,174
TOTAL	\$1,351,175	\$621,617	\$1,972,792	\$ 34,149	\$ 226,221	\$ 260,370	\$2,233,162

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 into or out of the healthcare plan.

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 3%, 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 Statements

GASB Statement No. 85, *Omnibus 2017*, was issued in March 2017. This Statement addresses practice issues that have been identified during implementation and application of such issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for periods beginning after June 15, 2017. The System implemented the provisions of this Statement which pertained to accounting and financial reporting for OPEB, particularly the payroll-related measures as presented in the required supplementary information.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017. The Statement's primary objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt and prepaid insurance related to extinguished debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement is not applicable to the System.

GASB Statement No. 87, *Leases*, was issued in June 2017. The objective of this Statement is to improve accounting and financial reporting for leases by governments to better meet the information needs of financial statement users. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also established a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The System will adopt the provisions of Statement No. 87 for the fiscal year beginning with July 1, 2020.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued in March 2018. The primary objective of this Statement is to improve financial reporting for notes related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting period beginning after June 15, 2018. This Statement is not applicable to the System.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. This Statement is not applicable to the System.

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 System does not have a policy regarding interest rate risk. However, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System'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, 2018 and 2017.

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2018 (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	\$ 40,067	\$ -	\$ -	\$ 186,811	\$ 222,553	\$ 38,679	\$ 488,110	\$ 478,026
Corporate bonds	-	-	-	1	-	-	1	1
Mortgage-backed securities	-	-	-	-	703	61,052	61,755	62,770
Other debt securities	-	-	-	-	16,517	17,148	33,665	33,797
U.S. Treasury inflation-protected securities	-	-	-	151,010	-	-	151,010	154,284
Total Global Fixed Income	40,067	-	-	337,822	239,773	116,879	734,541	728,878
Collective Short Term Investments	29,278	-	-	-	-	-	29,278	29,252
TOTAL FIXED INCOME	\$ 69,345	\$ -	\$ -	\$ 337,822	\$ 239,773	\$ 116,879	\$ 763,819	\$ 758,130

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	\$ 38,283	\$ -	\$ -	\$ 125,865	\$ 47,627	\$ 95,988	\$ 307,763	\$ 294,400
Corporate bonds	-	-	-	1	-	-	1	1
Mortgage-backed securities	-	-	-	-	1,813	38,656	40,469	35,906
Other debt securities	-	-	-	1,331	8,306	10,655	20,292	20,725
U.S. Treasury inflation protected securities	-	-	-	76,494	20,168	-	96,662	98,830
Total Global Fixed Income	38,283	-	-	203,691	77,914	145,299	465,187	449,862
Collective Short Term Investments	141,747	-	-	-	-	-	141,747	141,566
TOTAL FIXED INCOME	\$ 180,030	\$ -	\$ -	\$ 203,691	\$ 77,914	\$ 145,299	\$ 606,934	\$ 591,428

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Custodial Credit Risk – Custodial credit risk is the risk that the System 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 System does not have a policy regarding custodial credit risk. As of June 30, 2018 and 2017, all of the System's investments are held in the System's name and/or not exposed to custodial credit risk.

Credit Quality Risk – The System'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 System may hedge against the possible adverse effects of currency fluctuations on the System'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, 2018 and 2017 concerning credit risk. These tables reflect only securities held in the System's name.

RATINGS OF FIXED INCOME INVESTMENTS

As of June 30, 2018 and 2017 (Dollars In Thousands)

S&P Quality Rating	2018		2017	
	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	\$ 255	0.03%	\$ 332	0.1%
AA+	159,561	20.89%	101,048	16.6%
AA-	484	0.06%	-	0.0%
A+	1,197	0.16%	1,580	0.3%
A	4,887	0.64%	392	0.1%
A-	1,962	0.26%	-	0.0%
BBB+	1,222	0.16%	1,676	0.4%
BBB	5,418	0.71%	5,652	0.9%
BBB-	2,840	0.37%	503	0.1%
BB+	-	-	1,331	0.2%
BB	2,723	0.36%	749	0.1%
BB-	1,263	0.17%	499	0.1%
B+	516	0.07%	484	0.1%
B	1,814	0.24%	1,423	0.2%
B-	359	0.05%	436	0.1%
CCC	1,860	0.24%	3,726	0.6%
CC	1,615	0.21%	720	0.1%
D	2,697	0.35%	6,310	1.0%
Not Rated	573,146	75.03%	480,073	79.0%
TOTAL	\$ 763,819	100.0%	\$ 606,934	100.0%

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2018 and 2017, the System'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 System's commitments relating to international currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2018 and 2017, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2018 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contracts, Net	Private Equity	Real Assets	Total Exposure
Australian dollar	\$ 11	\$ 3,913	\$ 26	\$ -	\$ -	\$ 3,950
Brazilian real	-	57	-	-	-	57
British pound	51	22,033	44	-	-	22,128
Canadian dollar	18	7,507	(7)	-	-	7,518
Chile peso	-	93	-	-	-	93
China yuan renminbi	-	-	135	-	-	135
Colombian peso	-	5	-	-	-	5
Danish krone	-	5,457	-	-	-	5,457
Euro currency	71	17,563	(50)	1,583	7,980	27,147
Hong Kong dollar	24	3,011	-	-	-	3,035
Hungarian forint	-	11	-	-	-	11
Indonesian rupiah	-	61	-	-	-	61
Israeli shekel	-	70	-	-	-	70
Japanese yen	113	13,479	30	-	-	13,622
Korean won	-	8,192	-	-	-	8,192
Malaysian ringgit	-	249	-	-	-	249
Mexican peso	-	74	-	-	-	74
New Zealand dollar	-	47	-	-	-	47
Norwegian krone	-	1,547	-	-	-	1,547
Philippine peso	-	3	-	-	-	3
Polish zloty	-	39	-	-	-	39
Singapore dollar	-	349	-	-	-	349
South African rand	-	48	-	-	-	48
Swedish krona	(5)	2,369	-	-	-	2,364
Swiss franc	-	14,276	(9)	-	-	14,267
Taiwanese new dollar	-	38	-	-	-	38
Thai baht	-	38	-	-	-	38
TOTAL	\$ 283	\$ 100,529	\$ 169	\$ 1,583	\$ 7,980	\$ 110,544

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2017 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contracts, Net	Private Equity	Real Assets	Total Exposure
Australian dollar	\$ 2	\$ 15,804	\$ (30)	\$ -	\$ -	\$ 15,776
Brazilian real	-	619	(65)	-	-	554
British pound	41	49,515	(131)	-	-	49,425
Canadian dollar	9	35,744	(53)	-	-	35,700
Chile peso	-	13	-	-	-	13
China yuan renminbi	-	-	(115)	-	-	(115)
Colombian peso	-	665	-	-	-	665
Danish krone	-	5,203	-	-	-	5,203
Euro currency	440	38,084	(244)	2,252	3,587	44,119
Hong Kong dollar	-	8,411	-	-	-	8,411
Hungarian forint	-	109	-	-	-	109
Indian rupee	-	1,044	-	-	-	1,044
Israeli shekel	-	819	-	-	-	819
Japanese yen	70	11,350	8	-	-	11,428
Korean won	-	7,250	-	-	-	7,250
Malaysian ringgit	-	1,846	-	-	-	1,846
Mexican peso	-	1,003	-	-	-	1,003
New Zealand dollar	-	569	-	-	-	569
Norwegian krone	-	3,832	-	-	-	3,832
Philippine peso	-	89	-	-	-	89
Polish zloty	-	546	-	-	-	546
Singapore dollar	-	2,601	-	-	-	2,601
South African rand	18	851	-	-	-	869
Swedish krona	49	2,414	(4)	-	-	2,459
Swiss franc	-	11,417	-	-	-	11,417
Taiwanese new dollar	64	257	-	-	-	321
Thai baht	-	428	-	-	-	428
TOTAL	\$ 693	\$ 200,483	\$ (634)	\$ 2,252	\$ 3,587	\$ 206,381

Investment Concentration Risk – The System’s investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. In addition, 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 System’s assets without Board approval, with the exception of passive management where the System’s assets are not held in the System’s name at the System’s custody bank. In such cases, the investment management firm can manage no more than 20% of the System’s assets without Board approval. As a general rule, System 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, 2018 and 2017, the System 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.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The System 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 System's internal derivative policies, it is understood that the mandates of certain investment managers retained by the System 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. 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, 2018 or 2017. 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, 2018 and 2017, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2018 and 2017 financial statements are as follows (amounts in thousands):

Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2018			Fair Value at June 30, 2018		
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Notional Amount/ Shares
Foreign currency forwards	Investment income	\$ 956	Foreign currency contracts, net	\$ 169	\$ 53,923
Futures options bought/written	Investment income	(5,386)	Fixed income - collective short-term investments	-	17,853
Rights/warrants	Investment Income	(37)	Global equity	-	-
Total Derivative Instruments		\$ (4,467)		\$ 169	

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	\$ (1,388)	International currency contracts, net	\$ (634)	\$ 60,007
Futures options bought/written	Investment income	9,747	Fixed income - collective short-term investments	\$ -	\$ (927)
Rights/warrants	Investment income	(39)	Global equity	24	90
Total Derivative Instruments		\$ 8,320		\$ (610)	

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

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, 2018 and 2017.

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The System'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, 2018, total commitments in forward currency contracts to purchase and sell international currencies were \$53,923,000, with fair values of \$53,926,000 and \$53,757,000, respectively, held by counterparties with S&P rating of A and above. As of June 30, 2017, total commitments in forward currency contracts to purchase and sell international currencies were \$60,007,000, with fair values of \$60,035,000 and \$60,669,000, respectively, held by counterparties with S&P rating of A and above.

Fair Value Measurements – The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

The System has the following recurring fair value measurements as of June 30, 2018 and 2017:

Investments Measured at Fair Value As of June 30, 2018		Fair Value Measurements Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Global equity	\$ 871,612	\$ 257,663	\$ -	\$ -	\$ 613,949
Private equity	68,362	-	-	2,737	65,625
Global fixed income	734,541	164,636	94,637	500	474,768
Collective short term investments	29,278	29,278	-	-	-
Private debt	78,784	-	5,134	17,001	56,649
Real assets	298,746	-	-	-	298,746
International currency contracts, net	169	169	-	-	-
Absolute return	254,051	-	-	-	254,051
Total investments measured at fair value	\$ 2,335,543	\$ 451,746	\$ 99,771	\$ 20,238	\$ 1,763,788

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Investments at Fair Value As of June 30, 2017		Fair Value Measurements Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Global equity	\$ 919,963	\$ 441,932	\$ -	\$ -	\$ 478,031
Private equity	61,662	-	-	4,519	57,143
Global fixed income	465,187	118,098	60,760	-	286,329
Collective short term investments	141,747	141,747	-	-	-
Private debt	75,773	-	-	17,559	58,214
Real assets	272,924	-	-	-	272,924
International currency contracts, net	(634)	(634)	-	-	-
Absolute return	252,592	-	-	-	252,592
Total investments measured at fair value	\$ 2,189,214	\$ 701,143	\$ 60,760	\$ 22,078	\$ 1,405,233

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 for similar securities that are observable in the market place. Debt and equity securities classified in Level 3 are securities whose inputs to valuation techniques are 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.

Alternative Investments

Alternative investments include global equity, private equity, global fixed income, private debt, real assets, 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 System. 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 our 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.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

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 values 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, provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within 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, 2018 and 2017:

Investments Measured at the NAV As of June 30, 2018				
(In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global equity	\$ 613,949	\$ -	Daily, Monthly, Quarterly	1 – 90 Days
Private equity	65,625	223,213	N/A	N/A
Global fixed income	474,768	-	Daily, Quarterly	1 – 60 Days
Private debt	56,649	72,854	N/A	N/A
Real assets	298,746	71,234	Monthly, Quarterly, Annual, N/A (Closed-end funds)	3 – 180 Days, N/A (Closed-end funds)
Absolute return	254,051	-	Weekly, Monthly, Quarterly	14 – 75 Days
Total investments measured at the NAV	\$ 1,763,788	\$ 367,301		

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	\$ 478,031	\$ -	Daily, Monthly, Quarterly	1 – 90 Days
Private equity	57,143	14,132	N/A	N/A
Global fixed income	286,329	-	Daily, Quarterly	1 – 60 Days
Private debt	58,214	51,755	N/A	N/A
Real assets	272,924	62,402	Monthly, Quarterly, Annual, N/A (Closed-end funds)	3 – 180 Days, N/A (Closed-end funds)
Absolute return	252,592	-	Weekly, Monthly, Quarterly	14 – 75 Days
Total investments measured at the NAV	\$ 1,405,233	\$ 128,289		

Global equity - This type includes investments in eight commingled investment funds and three long/short limited partnership funds. Public equities are shares of ownership of a firm listed on an exchange; the System holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Seven commingled funds offer daily liquidity with one day notice, and one is monthly with two weeks' notice. One long/short fund offers monthly redemptions with three month notice, one offers quarterly redemptions with one month notice, and one offers quarterly redemptions with two months' notice, subject to a 12.5% quarterly gate.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Private equity - This type includes investments in eight 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.

Global fixed income - This type includes investments in six commingled investment funds and two limited partnership funds. These funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof. All commingled funds offer daily liquidity with notice periods of one to two days. The two limited partnership funds have a quarterly redemption period with notice periods of forty-five and sixty days.

Private debt - This type includes investments in four 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 eight limited partnership real estate funds, and one limited partnership infrastructure fund, two open-end real estate funds, and two limited partnership 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 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 funds offer quarterly redemptions with notice periods ranging from two weeks to three months. One commodities fund offer daily liquidity with three business days' notice. The other commodities funds offer 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 December 31, 2018, at which point the redemptions occur without fees.

Absolute return - This type includes investments in eleven limited partnership 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 weekly to quarterly with notice periods of two weeks to seventy-five days. Three funds have 25% investor-level redemption gates, one fund has a 20% fund level gate, one fund has a fund level gate of 8.33%, and one fund has a two-year lock that is in effect until September 30, 2018, at which point the redemptions occur without fees.

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, 2018 and 2017, were as follows (dollars in thousands):

	2018	2017
Total pension liability	\$ 4,057,348	\$ 3,923,210
Plan fiduciary net position	\$ 2,069,333	\$ 1,972,792
Net pension liability	\$ 1,988,015	\$ 1,950,418
Plan fiduciary net position as a percentage of the total pension liability	51.0 %	50.3 %

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 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 2019.

The total pension liability as of June 30, 2018 and 2017 is based on results of an actuarial valuation date of June 30, 2017 and 2016, respectively, and rolled-forward to June 30, 2018 and 2017 using standard roll forward procedures.

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

Actuarial Assumptions		Method/Assumption
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Inflation rate	2.50%	2.50%
Discount rate	6.875% per annum	6.875% per annum
Mortality	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational basis using the MP-2017 scale.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational basis using the MP-2015 scale.
Active, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience
Salary increases	The base wage inflation assumption of 3.25% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Projected total payroll increases	For the amortization schedule, payroll is assumed to grow 3.00% per year.	For the amortization schedule, payroll is assumed to grow 2.85% per year.
Cost of Living Adjustment	Tier 1- 3% per year; Tier 2 - 1.25% to 2.00% depending on years of service	Tier 1- 3% per year; Tier 2 - 1.5% per year

The assumption for the long-term expected rate of return on pension plan investments of 6.875%, for both the valuation years ended June 30, 2017 and 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.

Notes to the Basic Financial Statements *(continued)*

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

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2018 and 2017, (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	2018		2017	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	28%	6.9%	28%	4.6%
Private equity	9%	10.2%	9%	7.0%
Global fixed income	33%	1.6%	19%	1.0%
Private debt	6%	5.5%	5%	4.3%
Absolute return	11%	3.3%	11%	3.0%
Real assets	13%	4.9%	23%	3.7%
Global tactical asset allocation/ Opportunistic	-	-	5%	2.1%
Cash	-	-	-	0.2%

Discount Rate. The discount rate used to measure the total pension liability was 6.875% for both the measurement years ended June 30, 2018 and 2017. It is assumed that System 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 System'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, 2018 and 2017, calculated using the discount rate of 6.875%, 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%) or 1.0% higher (7.875%) than the current rate (in thousands):

	2018			2017		
	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	\$ 4,619,958	\$ 4,057,348	\$ 3,598,634	\$ 4,480,433	\$ 3,923,210	\$ 3,470,615
Plan fiduciary net position	2,069,333	2,069,333	2,069,333	1,972,792	1,972,792	1,972,792
Net pension liability	\$ 2,550,625	\$ 1,988,015	\$ 1,529,301	\$ 2,507,641	\$ 1,950,418	\$ 1,497,823
Plan fiduciary net position as a percentage of the total pension liability	44.8 %	51.0 %	57.5 %	44.0 %	50.3 %	56.8 %

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.

Notes to the Basic Financial Statements *(continued)*

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

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System (referred to as prefunding).

In November 2010, the Board adopted 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 prefunding 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 System reduces the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2018.

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 Actuarial 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.

San José City Council Ordinance No. 29120 implemented the terms approved by the City Council on June 12, 2012 for Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan as described in Note 1. In addition, the contribution rate for Tier 2 members includes a change in the cost sharing between the City and active Tier 2 members which is a 50/50 split of all costs, including UAL. Currently, Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the UAL is generally not shared with the Tier 1 employees.

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 actuarially determined contribution (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.

The City's contributions for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2018 and 2017 were as follows in the table below. Tier 1 was calculated using the floor methodology.

Fiscal year	2018		
Actuarial valuation year	2016		
(In Thousands)	Tier 1	Tier 2	Total
Actuarial payroll	\$ 165,552	\$ -	\$ 165,552
Actual payroll	172,721	117,783	290,504
Actual payroll in excess of actuarial payroll	7,169	-	7,169
Normal cost rate for pension and COLA portion of total City rate	18.00 %	-	-
Additional contributions due to the Floor Methodolgy	1,290	-	1,290
Prefunded contribution amount (BOY)*	152,822	-	152,822
Regular contributions paid throughout the year	-	9,023	9,023
Adjustments and accruals	(6,437)	72	(6,365)
Total contributions for the fiscal year	\$ 147,675	\$ 9,095	\$ 156,770

*Beginning of year

Notes to the Basic Financial Statements *(continued)*

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

Fiscal year	2017		
Actuarial valuation year	2015		
(In Thousands)	Tier 1	Tier 2	Total
Actuarial payroll	\$ 170,792	\$ -	\$ 170,792
Actual payroll	177,171	93,890	271,061
Actual payroll in excess of actuarial payroll	6,379	-	6,379
Normal cost rate for pension and COLA portion of total City rate	17.70 %	-	-
Additional contributions due to the Floor Methodology	1,129	-	1,129
Prefunded contribution amount (BOY)*	130,174	-	130,174
Regular contributions paid throughout the year	-	5,592	5,592
Adjustments and accruals	1,445	143	1,588
Total contributions for the fiscal year	\$ 132,748	\$ 5,735	\$ 138,483

*Beginning of year

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2018 and 2017 were as follows:

Period	City - Board Adopted*		Member	
	City Tier 1*	City Tier 2	Employee Tier 1	Employee Tier 2
06/18/17-06/30/18	94.04%	7.72%	6.60%	7.72%
07/01/16-06/17/17	78.06%	6.04%	6.47%	6.04%

* The actual contribution rates paid by the City for fiscal years ended June 30, 2018 and June 30, 2017 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 System (i.e., the System's liability determined in accordance with GASB Statement No. 74 less the plan fiduciary net position) as of June 30, 2018 and 2017, were as follows (dollars in thousands):

	2018	2017
Total OPEB liability	\$ 651,222	\$ 766,801
Plan fiduciary net position	277,257	260,370
Net OPEB liability	\$ 373,965	\$ 506,431
Plan fiduciary net position as a percentage of the total OPEB liability	42.6 %	34.0 %

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 2019.

The total OPEB liability as of June 30, 2018 and 2017 is based on results of an actuarial valuation date of June 30, 2017 and 2016, and rolled-forward to June 30, 2018 and 2017 using generally accepted actuarial procedures.

Notes to the Basic Financial Statements *(continued)*

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

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

Description	Method/Assumption	
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry age normal, level of percentage of pay	Entry age normal, level of percentage of pay
ACTUARIAL ASSUMPTIONS		
Discount rate (net)	6.875%	6.875%
Inflation rate	2.50%	2.50%
Projected payroll increases		
Wage inflation rate	3.25%	2.85%
Merit increase	Merit component added based on an individual's years of service ranging from 4.50% to 0.25%.	Merit component added based on an individual's years of service ranging from 4.50% to 0.25%.
Rates of mortality	Mortality is projected from 2009 on a generational basis using the MP-2017 scale	Mortality is projected from 2009 on a generational basis using the MP-2015 scale
Healthy annuitant	0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table.	0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table.
Healthy non-annuitant	0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.	0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.
Disabled annuitant	1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table.	1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table.
HEALTHCARE COST TREND RATE		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.00% to 4.25% per annum graded down over a 15 year period for medical pre-age 65 and 6.00% to 4.25% per annum graded down over a 15 year period for medical post-age 65.	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 3.50%	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 6.1% 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%

Notes to the Basic Financial Statements *(continued)*

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

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for both the valuation years ended June 30, 2017 and 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 System's target asset allocation as of June 30, 2018 and 2017, (see the discussion of the System's investment policy) are summarized in the following table. The assets are invested both in a 401(h) account within the pension plan and in a 115 trust. The table below refers only to the 115 trust. The allocation for the 401(h) account is described above in Note 4.

Asset Class	2018		2017	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	55.0%	6.7%	46.0%	5.3%
Fixed income	28.0%	1.0%	30.0%	0.8%
Real assets	17.0%	4.4%	23.0%	3.4%
Cash	-	-	-	0.2%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.875% for the measurement years ended June 30, 2018 and 2017 and is based on the long-term expected rate of return on investments. It is assumed that plan member contributions remain fixed at 7.5% of pay for employees eligible to participate in the postemployment healthcare plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the System'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, as of June 30, 2018 and 2017, 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:

	2018			2017		
	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 OPEB liability	\$ 743,145	\$ 651,222	\$ 576,449	\$ 877,863	\$ 766,801	\$ 676,758
Plan fiduciary net position	277,257	277,257	277,257	260,370	260,370	260,370
Net OPEB liability	\$ 465,888	\$ 373,965	\$ 299,192	\$ 617,493	\$ 506,431	\$ 416,388
Plan fiduciary net position as a percentage of the total OPEB liability	37.3 %	42.6 %	48.1 %	29.7 %	34.0 %	38.5 %

Notes to the Basic Financial Statements *(continued)*

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

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% (7.0% decreasing to 3.25%) lower or 1.0% higher (9.0 % decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	2018			2017		
	1% Decrease (7.0% decreasing to 3.25%)	Health Care Cost Trend Rates (8.0% decreasing to 4.25%)	1% Increase (9.0% decreasing to 5.25%)	1% Decrease (7.5% decreasing to 3.25%)	Health Care Cost Trend Rates (8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	\$ 568,651	\$ 651,222	\$ 753,005	\$ 666,629	\$ 766,801	\$ 891,030
Plan fiduciary net position	277,257	277,257	277,257	260,370	260,370	260,370
Net OPEB liability	\$ 291,394	\$ 373,965	\$ 475,748	\$ 406,259	\$ 506,431	\$ 630,660
Percentage of the total OPEB liability	48.8 %	42.6 %	36.8 %	39.1 %	34.0 %	29.2 %

The Postemployment Healthcare Plan is comprised of an IRC Section 401(h) plan and an IRC Section 115 Trust, which are combined in the actuarial valuations and thus the disclosures throughout this note.

In November 2010, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the annual contribution 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 prefunding 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 System reduces the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2018.

Historically, member and City contributions to the System have been negotiated through collective bargaining and have not been actuarially determined. In December 2015, the Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the Alternative Pension Reform Framework Settlement Agreement (Framework). With the passage of Measure F, the Framework became effective as of June 16, 2017. A Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare was created and Tier 1 and some Tier 2 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018. The VEBA is being implemented by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

With the implementation of Measure F, member contributions were fixed at 7.5% of pay. The City's contribution toward the explicit subsidy will be actuarially determined, and the City will also pay the implicit subsidy on a pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contributions to 14% of payroll. The explicit subsidy (or premium subsidy) is paid by the System and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium.

Notes to the Basic Financial Statements *(continued)*

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

On August 27, 2013, San Jose City Council adopted Ordinance No. 29283 to exclude Tier 2 members hired on or after September 27, 2013 from retiree medical and dental benefits (referred to as Tier 2B members) but the City shall bear and pay an amount equal to the additional costs incurred by the System for that portion of the unfunded liability as determined by the actuary for the System that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit.

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 that 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.

The City's contributions for the Postemployment Healthcare Plan during the fiscal years ended June 30, 2018 and 2017 were as follows in the table below. Tier 1 was calculated using the floor methodology.

Fiscal year	2018		
Actuarial valuation year	2016		
(In Thousands)	Tier 1	Tier 2	Total
Actuarial payroll	\$ 165,552	\$ -	\$ 165,552
Actual payroll	\$ 166,797	\$ 117,783	\$ 284,580
Actual payroll in excess of actuarial payroll	1,245	-	1,245
Normal cost rate for healthcare portion of total City rate	2.89 %	-	-
Additional contributions due to the Floor Methodolgy	36	-	36
Prefunded contribution amount (BOY)*	15,292	-	15,292
Regular contributions paid throughout the year	-	14,372	14,372
Implicit Subsidy	3,818	-	3,818
Adjustments and accruals	(1,239)	118	(1,121)
Total Contributions for the fiscal year	\$ 17,907	\$ 14,490	\$ 32,397

* Beginning of year

**Actual Payroll represents Tier 1 which does not include members participating in the VEBA.

Fiscal Year	2017		
Actuarial Valuation Year	2015		
(In Thousands)	Tier 1	Tier 2	Total
Actuarial Payroll	\$ 170,792	\$ -	\$ 170,792
Actual Payroll	177,170	93,890	271,060
Actual payroll in excess of actuarial payroll	6,378	-	6,378
Normal cost rate for healthcare portion of total City rate	2.89 %	-	-
Additional contributions due to the Floor Methodolgy	184	-	184
Prefunded contribution amount (BOY)*	15,692	-	15,692
Regular contributions paid throughout the year	-	11,246	11,246
Implicit subsidy	4,577	-	4,577
Adjustments and accruals	46	160	206
Total Contributions for the fiscal year	\$ 20,499	\$ 11,406	\$ 31,905

*Beginning of year

**Actual Payroll represents Tier 1 which does not include members participating in the VEBA.

Notes to the Basic Financial Statements *(continued)*

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

Contributions to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. No amount has been determined on an actuarial basis to fund the System. With the implementation of Measure F, Actuarially Determined Contributions will be calculated beginning with the fiscal year ending June 30, 2019. The System 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 Plan during the fiscal years ended June 30, 2018 and 2017 were as follows:

Period	City - Board Adopted				Member		
	City Tier 1 and 2	City Tier 1B	City Tier 2B	City Tier 1C	Member Tier 1 and 2	Member Tier 1B	Member Tier 1C
03/25/18 - 06/30/18	9.41 %	8.91 %	12.66 %	12.86 %	7.50 %	7.50 %	N/A
07/01/16 - 03/24/18	9.41 %	8.91 %	12.66 %	12.86 %	8.76 %	N/A	0.39 %

NOTE 6 - COMMITMENTS

As of June 30, 2018 and 2017, the System had unfunded commitments to contribute capital for private market fund investments in the amount of \$367,301,000 and \$128,289,000, respectively.

NOTE 7 - LITIGATION

The System 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 System's financial position as a whole.

NOTE 8 - SUBSEQUENT EVENTS

Pensionable Pay Corrections (PPC) - In December 2009, the City Auditor issued their report entitled, *Audit of Pensionable Earnings and Time Reporting*, which identified pensionable pay discrepancies that impacted members of the System. ORS has been working on the PPC project for several years. The purpose is to correct retirement benefits paid to some retirees, due to errors in the City's reporting to ORS of pensionable pay information that was then used in the members' benefit calculation. The correction project impacting the System includes adjustments in non-pensionable higher class pay and lump-sum retroactive payments needing to be spread to appropriate pay periods. ORS made significant progress with the PPC project for the members of the System by holding informational meetings, inviting the membership to the Board meetings to discuss the correctional plan and implementing the correctional plan.

In August 2018, corrections to the ongoing monthly benefit payments were made to the underpaid members affected by the PPC project, as well as disbursements were made to these members for any underpaid amounts, including interest. As for the overpaid members impacted by the PPC project, the Board approved at its August 2018 meeting to collect the cumulative overpaid amounts from the City for these members and make the corrections to their ongoing monthly benefit payments starting with their October 2018 monthly benefit payments. The total cumulative amount that will be charged to the City is \$1,783,000 as of August 2018, which will be included as part of the UAL.

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	2018	2017	2016	2015	2014
Service cost (middle of year)	\$ 59,628	\$ 51,887	\$ 49,011	\$ 46,795	\$ 43,334
Interest (includes interest on service cost)	265,199	249,388	229,609	221,690	214,487
Changes of benefit terms	1,781	12,132	-	-	-
Differences between expected and actual experience	16,512	40,853	39,720	13,005	-
Changes of assumptions	(15,582)	60,233	205,875	108,674	-
Benefit payments, including refunds of member contributions	(193,400)	(183,430)	(173,318)	(164,562)	(155,936)
Net Change in Total Pension Liability	134,138	231,063	350,897	225,602	101,885
Total Pension Liability - Beginning	3,923,210	3,692,147	3,341,250	3,115,648	3,013,763
Total Pension Liability - Ending	\$ 4,057,348	\$ 3,923,210	\$ 3,692,147	\$ 3,341,250	\$ 3,115,648

Plan Fiduciary Net Position					
Contributions - employer	\$ 156,770	\$ 138,483	\$ 124,723	\$ 114,751	107,544
Contributions - employee	20,501	17,227	15,920	13,621	\$ 13,596
Net investment income	117,493	146,010	(35,010)	(16,642)	263,688
Benefit payments, including refunds of member contributions	(193,400)	(183,430)	(173,318)	(164,562)	(155,936)
Administrative expense	(4,823)	(4,380)	(3,940)	(3,898)	(3,201)
Net Change in Plan Fiduciary Net Position	\$ 96,541	\$ 113,910	\$ (71,625)	\$ (56,730)	\$ 225,691
Plan Fiduciary Net Position - Beginning	1,972,792	1,858,882	1,930,507	1,987,237	1,761,546
Plan Fiduciary Net Position - Ending	\$ 2,069,333	\$ 1,972,792	\$ 1,858,882	\$ 1,930,507	\$ 1,987,237
Net Pension Liability - Ending	\$ 1,988,015	\$ 1,950,418	\$ 1,833,265	\$ 1,410,743	\$ 1,128,411
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.00%	50.29%	50.35%	57.78%	63.78%
Covered Payroll	\$ 290,504	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434
Net Pension Liability as a Percentage of Covered Payroll	684.33%	719.31%	711.20%	586.15%	514.24 %

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)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.03%	7.53%	(0.79)%	(1.07)%	7.49%

The rate shown above is based on the Defined Benefit and 401(h) only and does not include the 115 trust.

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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contributions	\$ 156,770	\$ 138,483	\$ 129,456	\$ 114,751	\$ 102,811	\$ 103,109	\$ 87,082	\$ 59,180	\$ 54,566	\$ 57,020
Contributions in relation to actuarially determined contributions	156,770	138,483	124,723	114,751	107,544	103,109	87,082	59,180	54,566	57,020
Contribution deficiency (excess)	\$ -	\$ -	\$ 4,733	\$ -	\$ (4,733)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 290,504	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434	\$ 217,375	\$ 223,158	\$ 275,869	\$ 308,684	\$ 320,993
Contributions as a percentage of covered payroll	53.96 %	51.07 %	48.39 %	47.68 %	49.01 %	47.43 %	39.02 %	21.45 %	17.68 %	17.76 %

*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	2018	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	2016	2015	2014	2013	2012	2011	2010	2009	2007**
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
Discount rate	6.875%	7.00%	7.00%	7.25%	7.50%	7.50%	7.95%	7.75%	8.25%
Salary increases	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service
Amortization growth rate	2.85%	2.85%	2.85%	2.43%	3.25%	3.25	3.90%	3.83%	4.25%

Required Supplementary Information *(continued)*

NOTES TO SCHEDULE *(continued)*

Fiscal Year	2018	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	2016	2015	2014	2013	2012	2011	2010	2009	2007**
COLA	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table	The 1994 group annuity mortality table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table

** Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the System 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	2018	2017
Service cost (BOY)	\$ 7,889	\$ 11,109
Interest (includes interest on service cost)	42,669	49,978
Changes of benefit terms	(57,623)	-
Differences between expected and actual experience	(995)	-
Changes of assumptions	(77,795)	-
Benefit payments, including refunds of member contributions	(29,724)	(31,007)
Net Change in Total OPEB Liability	(115,579)	30,080
Total OPEB Liability - Beginning	766,801	736,721
Total OPEB Liability - Ending	\$ 651,222	\$ 766,801

Plan Fiduciary Net Position		
Contributions - employer	\$ 32,397	\$ 31,905
Contributions - employee	15,545	16,827
Net investment income	12,336	17,041
Benefit payments, including refunds of member contributions	(29,724)	(31,007)
Administrative expense	(170)	(242)
VEBA transfer	(13,497)	-
Net Change in Plan Fiduciary Net Position	\$ 16,887	\$ 34,524
Plan Fiduciary Net Position - Beginning	260,370	225,846
Plan Fiduciary Net Position - Ending	\$ 277,257	\$ 260,370
Net OPEB Liability - Ending	\$ 373,965	\$ 506,431
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	42.57 %	33.96 %
Covered Payroll	\$ 290,504	\$ 271,153
Net OPEB Liability as a Percentage of Covered Payroll	128.73 %	186.77 %

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

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

	2018	2017
Annual money-weighted rate of return, net of investment expense	4.55%	7.20%

The rate shown above is based on the 115 trust only and does not include the 401(h).

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

Beginning in FYE 2010, 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 had been determined on an actuarial basis to fund the plan, and consequently, the schedule of employer contributions is not provided. With the implementation of Measure F, Actuarially Determined Contributions will be calculated beginning with the fiscal year ending June 30, 2019.

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2018 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	\$ 625	\$ 175	\$ 800
Employer contributions	1,258	413	1,671
Brokers and others	3,642	191	3,833
Accrued investment income	4,486	1,626	6,112
Total Receivables	10,011	2,405	12,416
Investments, at fair value			
Securities and other:			
Global equity	478,457	234,190	712,647
Private equity	45,750	22,393	68,143
Global fixed income	441,173	215,936	657,109
Collective short term investments	19,146	9,372	28,518
Private debt	52,725	25,807	78,532
Real assets	177,074	86,671	263,745
International currency contracts, net	113	55	168
Absolute return	170,020	83,219	253,239
Total Investments	1,384,458	677,643	2,062,101
Capital Assets	1,196	488	1,684
TOTAL ASSETS	1,395,665	680,536	2,076,201
LIABILITIES			
Payable to brokers	3,904	1,075	4,979
Other liabilities	1,286	603	1,889
TOTAL LIABILITIES	5,190	1,678	6,868
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,390,475	678,858	2,069,333
TOTAL PLAN NET POSITION	\$ 1,390,475	\$ 678,858	\$ 2,069,333

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION For Fiscal Year Ended June 30, 2018 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	\$ 15,952	\$ 4,549	\$ 20,501
Employer	88,496	68,274	156,770
Total Contributions	104,448	72,823	177,271
Investment income			
Net appreciation in fair value of investments	66,514	31,736	98,250
Interest income	14,034	6,455	20,489
Dividend income	6,498	2,990	9,488
Less: investment expense	(7,355)	(3,379)	(10,734)
Net Investment Income	79,691	37,802	117,493
TOTAL ADDITIONS	184,139	110,625	294,764
DEDUCTIONS			
Retirement benefits	133,019	46,347	179,366
Death benefits	7,597	5,373	12,970
Refund of contributions	913	151	1,064
Administrative expenses and other	3,310	1,513	4,823
TOTAL DEDUCTIONS	144,839	53,384	198,223
NET INCREASE	39,300	57,241	96,541
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	1,351,175	621,617	1,972,792
END OF YEAR	\$ 1,390,475	\$ 678,858	\$ 2,069,333

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET POSITION

As of June 30, 2018 (In Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Total
ASSETS			
Receivables			
Employee contributions	\$ -	\$ 442	\$ 442
Employer contributions	-	645	645
Brokers and others	2,543	9	2,552
Accrued investment income	231	341	572
Total Receivables	2,774	1,437	4,211
Investments, at fair value			
Securities and other:			
Global equity	2,282	156,683	158,965
Private equity	219	-	219
Global fixed income	2,107	75,325	77,432
Collective short term investments	91	669	760
Private debt	252	-	252
Real assets	846	34,155	35,001
International currency contracts, net	1	-	1
Absolute return	812	-	812
Total Investments	6,610	266,832	273,442
Capital Assets	70	-	70
TOTAL ASSETS	9,454	268,269	277,723
LIABILITIES			
Payable to brokers	-	315	315
Other liabilities	37	114	151
TOTAL LIABILITIES	37	429	466
PLAN NET POSITION - RESTRICTED FOR			
Postemployment healthcare benefits	9,417	267,840	277,257
TOTAL PLAN NET POSITION	\$ 9,417	\$ 267,840	\$ 277,257

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT PLAN NET POSITION For Fiscal Year Ended June 30, 2018 (In Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Total
ADDITIONS			
Contributions			
Employee	\$ -	\$ 15,545	\$ 15,545
Employer	3,818	28,579	32,397
Total Contributions	3,818	44,124	47,942
Investment income			
Net appreciation in fair value of investments	936	5,941	6,877
Interest income	355	346	701
Dividend income	164	4,997	5,161
Less: investment expense	(189)	(214)	(403)
Net Investment Income	1,266	11,070	12,336
TOTAL ADDITIONS	5,084	55,194	60,278
DEDUCTIONS			
Healthcare insurance premiums	29,724	-	29,724
Administrative expenses and other	90	80	170
VEBA transfer	-	13,497	13,497
TOTAL DEDUCTIONS	29,814	13,577	43,391
NET (DECREASE) / INCREASE	(24,730)	41,617	16,887
PLAN NET POSITION - RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE			
BEGINNING OF YEAR	34,147	226,223	260,370
END OF YEAR	\$ 9,417	\$ 267,840	\$ 277,257

Other Supplemental Information *(continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2018 and 2017

	2018		2017	
	Original Budget	Actual	Under Budget	Actual
Personnel services	\$ 3,493,800	\$ 2,899,282	\$ 594,518	\$ 3,065,147
Non-personnel/equipment*	1,369,800	1,208,473	161,327	613,864
Professional services	1,381,200	884,965	496,235	941,998
TOTAL ADMINISTRATIVE EXPENSES & OTHER	\$ 6,244,800	\$ 4,992,720	\$ 1,252,080	\$ 4,621,009

*\$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 \$435,900.

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2018 and 2017

Firm	Nature of Service	2018	2017
Cheiron Inc	Actuarial consultant	\$ 174,400	\$ 197,124
Cortex Applied Research, Inc	Governance consultant	39,226	24,586
Grant Thornton LLP	External auditors	62,232	59,107
Ice Miller	Legal tax counsel	22,369	12,986
Josephine's Professional Staffing	Temporary investment staff	21,753	39,897
Levi, Ray, & Shoup	Web development and maintenance	17,424	15,252
Levi, Ray, & Shoup	Programming changes and business continuance services	22,137	6,950
Medical Director/Other Medical	Medical consultants	119,295	148,965
Pension Benefit Information	Reports on deceased benefit recipients	4,238	4,468
Reed Smith LLC	Fiduciary and general counsel	171,209	212,822
Saltzman & Johnson	Legal counsel	78,398	75,994
Segal Company	Actuarial auditors	-	100,000
Trendtec Inc	Temporary staff	145,135	43,159
Other Consultants	Miscellaneous professional services	7,149	688
TOTAL		\$ 884,965	\$ 941,998

Other Supplemental Information *(continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2018 and 2017

Investment Managers' Fees	2018	2017
Global equity	\$ 2,472,750	\$ 2,475,968
Private equity	642,901	591,023
Fixed income	1,063,466	716,145
Private debt	1,124,172	1,137,708
Real estate	1,824,508	2,583,896
Real assets	620,676	514,024
Absolute return	2,285,225	3,064,854
Total investment managers' fees	10,033,698	11,083,618
Other Investment Fees		
Investment consultants	590,000	595,000
Custodian bank	342,504	570,035
Investment legal fees	118,081	159,532
Other investment fees	53,148	124,296
Total other investment fees	1,103,733	1,448,863
TOTAL INVESTMENT EXPENSES	\$ 11,137,431	\$ 12,532,481

Investment Section



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

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017

Report of Investment Activity



BOSTON MA

CHICAGO IL

MIAMI FL

PORTLAND OR

SAN DIEGO CA

LONDON UK

MEKETA INVESTMENT GROUP

September 17, 2018

Mr. Roberto L. Peña

Director

San Jose Federated City Employees' Retirement System

1737 North First Street, Suite 600

San Jose, CA 95112-4505

Dear Mr. Peña:

Please find below a summary of the market environment and System performance for the 2018 fiscal year.

2018 Fiscal Year Market Environment Overview^{1,2}

The fiscal year was largely a story of two environments. In 2017, we saw synchronized global growth, low volatility, tax cuts in the U.S. at year-end, and a weak U.S. dollar. During the last two quarters of 2017 most asset classes were up, particularly riskier ones. Emerging markets equity lead the way in Q3 (+7.9%) and Q4 (+7.4%). U.S. and international equities also posted strong returns over both quarters, while fixed income assets were largely up but with more modest returns in the risk on environment.

The trends of 2017 persisted into early 2018, but the environment quickly changed. In 2018, we have seen volatility increase from its very low levels, interest rates and inflation rise, the U.S. dollar rebound, and trade tensions between the U.S. and others heatup. In this environment, U.S. equities were one of the few asset classes to post positive performance, while international equities and most fixed income asset classes fell. High yield bonds did post a modest gain (+0.2%) in the first two quarters of 2018.

The net result of the two environments on the fiscal year returns ending June 2018 was that equities increased, particularly in the U.S, while in fixed income, TIPS and high yield bonds posted relatively modest returns and the broad U.S. bond market slightly declined. Emerging market bonds fell.

For the fiscal year, U.S. equities, as represented by the Russell 3000, rose +14.8%. The trend of U.S. growth stocks outperforming value stocks persisted, and small capitalization stocks (+17.6%) outperformed large capitalization (+14.5%) and mid-capitalization (+12.3%) stocks. The MSCI EAFE, representing foreign developed markets, increased at less than half the rate of U.S. equities, up +6.8%. Emerging market equities' strong returns in 2017 were balanced by an 8.0% decline in the second quarter of 2018, as a stronger dollar and trade tensions weighed on results. The MSCI Emerging Markets Equity index gained +8.2% for the full fiscal year.

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

² Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

Report of Investment Activity *(continued)*

September 17, 2018

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Within fixed income, positive returns in the final two quarters of 2017 moved to concerns over rising interest rates and inflation creating headwinds in 2018. In the U.S., the Federal Reserve increased interest rates for the seventh time in June, to a range of 1.75% to 2.00%, and continued to reduce its balance sheet. The rate increases contributed to the flattening of the U.S. yield curve during the fiscal year. Over the trailing year, TIPS (+2.1%) and high yield bonds (+2.6%) increased, while the broad U.S. bond market, represented by the Barclays Aggregate Index, fell 0.4%. Similar to emerging market equities, returns for emerging market bonds in the second quarter of 2018 weighed on the fiscal year results. In this case, the 10.4% decline in the second quarter for emerging market bonds (as represented by JPM GBI-EM Global Diversified - Local Currency) led to a -2.3% return for the trailing year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) rose +24.8%, commodities (Bloomberg Commodity Index) gained +7.4%, and REITS (MSCI U.S. REIT Index) gained +3.6%. Oil prices finished the fiscal year at over \$60/barrel, representing a dramatic increase from recent lows. Cuts from OPEC and strong growth globally contributed to the rise in oil prices.

Fiscal 2019 Outlook

Looking forward, there are several issues that we continue to monitor. First, there is the potential for major central banks to tighten monetary policy at the same time. Second, in the U.S., equity markets remain extended and the latest economic cycle has been long. Also in the U.S., trade policy remains another key issue. Next, there is the declining growth in China and the impact of trade tensions with the U.S. Finally, political uncertainty and ongoing structural issues remain a concern in Europe.

After an extended period of monetary support through low interest rates and bond purchases from banks (i.e., quantitative easing), we could be moving into a period where central banks pull back support at the same time. The U.S. is further along in that process with the Federal Reserve increasing interest rates and reducing its balance sheet. It is also largely expected that the European Central Bank (ECB) will end its quantitative easing by year-end. If central banks begin pulling back support, this could put further upward pressure on rates, weigh on economic growth, and tighten liquidity.

The U.S. economy and equity markets have experienced a long period of growth since the Global Financial Crisis, due in part to central bank support. Late cycle dynamics of low unemployment and rising inflation are in place, and valuations are stretched for equities. It is inevitable that growth will eventually slow and equity markets pull back, but the question is when. Other key issues in the U.S. include policy uncertainty related to tariffs, immigration, and strategic alliances.

China has the second largest economy behind the U.S. After a long period of growth through government investment, it continues to manage a repositioning of its economy to one of consumption. This has led to a slowing of its economy and has hurt countries that depend on its trade. The recent trade tariffs between the U.S. and China are another key issue, which could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations. Another key issue in China remains the high debt levels, particularly in the corporate sector.

September 17, 2018

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Europe continues to have the structural issue of having a single currency and central bank, with fiscal policy resting with each individual country. Consequently, countries that are experiencing financial difficulties are unable to use the traditional tools of lowering interest rates and devaluing their currencies to stimulate growth. This has caused tensions within the Eurozone, as highlighted by the recent elections in Italy and the prior elections in Germany, as well as the ongoing issues in Greece. Given the size of Italy's bond market and economy within the euro area, a sovereign debt crisis or departure from the euro would have significant consequences.

We will continue to monitor these issues and others.

Plan Investment Results and Asset Allocation for the Pension Trust^{1,2}

The San Jose Federated City Employees' Retirement System had \$2,071.7 million in assets at the end of the 2018 fiscal year. For the fiscal year, the Retirement System returned +5.9% net of fees, underperforming the Policy Benchmark (+7.4%) and Allocation Index (+6.6%). The Retirement System's return fell short of the 6.875% assumed actuarial rate of return, though it has exceeded that rate in six of the past nine fiscal years. The Retirement System's standard deviation of returns was 3.8%, exhibiting lower volatility than the peer median (4.5%).

Key factors for the Retirement System's performance for the fiscal year, relative to the Policy Benchmark³:

- *Allocation Differences:* The Retirement System's investment manager roster continued to expand throughout the fiscal year as new commitments were made in various asset classes. However, the actual asset allocation and composition of the Retirement Plan differed from policy targets. For example, the Retirement System has targeted a 9% allocation target to Private Equity, yet the actual allocation stood at just under a third of that in the beginning of the fiscal year, and the underweight to Private Equity detracted from returns.
- *Absolute Return:* The absolute return allocation for the Retirement System returned +4.8% for the fiscal year, outperforming the HFRI Macro (Total) Index's return of +1.2%. Over the fiscal year, we estimate that absolute return added approximately 0.3% to the Retirement System's return, relative to the Policy Benchmark.
- *Global Fixed Income:* The Retirement System's fixed income allocation returned +1.0% for the fiscal year, slightly underperforming the custom benchmark's return of +1.2% over the same period. Emerging Markets Debt accounted for the majority of this underperformance, as it underperformed its benchmark for the fiscal year.
- *Private Debt:* Private debt returned -5.4% for the fiscal year, underperforming the S&P Global Leveraged Loan +2% by 1,160 basis points. We estimate private debt detracted 0.4% from the Retirement System's return, relative to the Policy Benchmark. Private Debt is a long-term allocation that continues to be built out.

¹ Performance figures calculated by custodian bank.

² Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

³ Attribution calculated with Brinson-Fachler Model using custodian data.

Report of Investment Activity *(continued)*

September 17, 2018
Page 4 of 4

Plan Investment Results and Asset Allocation for the Health Care Trust^{1,2}

The San Jose Federated Retiree Health Care Trust had \$266.9 million in assets at the end of the 2018 fiscal year, up from \$219.7 million at the end of the previous fiscal year. For the 2018 fiscal year, the Health Care Trust returned +4.9% net of fees, underperforming the Policy Benchmark (+7.9%) and Custom Benchmark (+6.1%). The Trust's underperformance was primarily driven by asset allocation variance from Policy targets and underperformance in Total Global Equity. 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 1.4% from the Health Care Trust's relative return. Despite strong absolute returns, Total Global Equity (+9.2%) underperformed its benchmark, the MSCI ACWI IMI Net (+11.1%). We estimate that Total Global Equity detracted 1.2% from the Health Care Trust's relative return.

Summary

Performance for the San Jose Federated City Employees' Retirement System over the 2018 fiscal year did not meet its benchmarks. We believe that the Retirement System's portfolio has recently been enhanced 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 assist the Retirement System in meeting its obligations to participants.

Sincerely,



Laura Wirick, CFA, CAIA
Principal



Hannah Schriner
Consultant



Larry Witt, CFA
Consultant



Chris Theodor
Investment Analyst

LBW/HS/LW/CT/krm

¹ Performance figures calculated by custodian bank.

² Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

Statement of Investment Policy

PENSION - INCLUDES THE 401(H) INVESTMENTS

- 1) This investment policy statement governs investments for the City of San José Federated City Employees' Retirement System (the "System"). The System is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the System are described in the San José Municipal Code Chapter 3.28.1975 Federated Employees' Retirement System.
- 2) The System'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 System's members and beneficiaries.

FIDUCIARY STANDARDS

- 3) The Board of Administration is subject to the following duties under law:
 - a) The assets of the System are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the System.
 - b) The Board shall discharge its duties with respect to the System solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the System. 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 System'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 Fund 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 System's obligations to pay benefits to members of the System and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.
- 7) The investment portfolio also seeks to achieve a 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) A range of risks will be managed in connection with the Fund with an emphasis on the following:
 - a) The impact of the investment program on the funded status of the System and the resulting volatility of contributions;
 - b) Risk of loss of System assets.
- 9) In developing the investment policies of the System, various factors will be considered including, but not limited to:
 - a) The structure and duration of the System's liabilities;
 - b) Modern Portfolio Theory;
 - c) The liquidity needs of the System.

ASSET ALLOCATION

- 10) The long-term strategic asset allocation of the Fund will be determined based on the results of an asset allocation study.
- 11) The current long-term strategic asset allocation of the Fund (at market value) is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	20 %	28 %	36 %
Private equity	4 %	9 %	14 %
Global fixed income	23 %	33 %	43 %
Private debt	2 %	6 %	10 %
Absolute return	6 %	11 %	16 %
Real assets	8 %	13 %	18 %
Opportunistic	0 %	0 %	5 %
Cash	0 %	0 %	10 %
Total		100 %	

Statement of Investment Policy *(continued)*

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

- 12) 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 real estate, private equity, hedge funds, private real assets, and private debt. 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. 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.
- 13) The long-term strategic asset allocation of the Fund 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.
- 14) 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.
- 15) The CIO may utilize the following portfolio components to fulfill the Boards 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 System 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 an 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 - Growth, 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.

Absolute Return - No traditional factor exposures

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

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

The purpose of the GTAA allocation is to provide diversification, while producing an asymmetric return profile and limiting coincident downside relative to equities and credit. The purpose of Opportunistic is to seek highly attractive risk adjusted returns.

Cash - No traditional factor exposures

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

Statement of Investment Policy *(continued)*

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

REBALANCING

- 16) The strategic asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund 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.
- 17) 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 System 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 allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines.

DIVERSIFICATION

- 18) 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, geographies, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.
- 19) Consistent with paragraph 20 above:
 - a) No single investment management firm shall be authorized to manage more than 10% of the System's assets without Board approval:
 - i. with the exception of passive management where the System's assets are not held in the System's name at the System's custody bank;
 - ii. in which cases can manage no more than 20% of the System's assets without Board approval.
 - b) As a general rule, System 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

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

Statement of Investment Policy *(continued)*

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

- 21) 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

- 22) The Board recognizes that the voting of proxies is important to the overall performance of the System. The Board has delegated the responsibility of voting all proxies to the investment managers or a third party service provider. The Board expects that the proxy voting service will execute all proxies in a timely fashion and in the best interest of System members and beneficiaries. Also, the Board expects the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.
- 23) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic and international securities to the investment managers, as well as hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

- 24) Investment managers should meet the following criteria in order to be considered to manage the assets of the System.
 - 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 System.
- 25) 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.
- 26) The procedures noted in paragraph 25 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.
- 27) 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)*

- 28) In addition to the aforementioned the Board has delegated authority to the Investment Committee to terminate any manager with System assets of less than \$50 million with a unanimous vote of the Investment Committee.

MONITORING INVESTMENT MANAGERS

- 29) The System's investment managers will be monitored on an ongoing basis and may be terminated by the System 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 System.
- 30) The CIO shall have the authority to increase/decrease allocations to previously approved manager provided it is consistent with house views adopted 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.
- 31) The CIO shall have the authority to reallocate among previously approved managers between sub-asset classes provided it is consistent with house views adopted 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 among managers between sub-asset classes.
- 32) 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.
- 33) 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 System;
 - b) Loss of an investment professional(s) directly responsible for managing the System'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 System's assets at undue risk of loss.

Statement of Investment Policy *(continued)*

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

- 34) A "Watch List" will be established for underperforming managers and managers under extraordinary review for qualitative reasons listed in item 33 above.
- a) Quantitative criteria for underperformance which would trigger placement on the Watch List includes manager underperformance versus the appropriate benchmark over a three and/or five year period;
 - b) Potential actions resulting from placement on the Watch List include finding appropriate resolution of outstanding issues, renewed confidence in the manager or strategy, or determination that the termination of the manager or strategy is appropriate;
 - c) Investment staff will identify underperforming managers in conjunction with consultants and highlight underperforming managers to trustees during each quarterly review;
 - d) As necessary, nuanced investment strategies or fund types may require customized review.

DERIVATIVE SECURITIES

- 35) 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.
- 36) 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.
- 37) Additional derivatives strategies must be authorized by this Investment Policy Statement prior to being utilized within the Fund.
- 38) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Fund may use derivatives that are contrary to paragraphs 36 and 37 above.

INVESTMENT RESTRICTIONS

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

Statement of Investment Policy *(continued)*

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

INVESTMENT FEES AND COSTS

- 40) The Plan will seek alignment of interests when negotiating fees while pursuing the best net of fees performance results. 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. The Board will be provided reports on investment costs of the Plan at least annually.
- a) The Plan's staff, in coordination with its investment consultants and legal counsel, will negotiate, monitor, and report on fees with investment managers regularly to ensure market competitiveness and appropriateness;
 - b) The Plan will seek to ensure that excessive fees are not being paid for alternative assets by reviewing manager fees at least annually. Fee structures could incorporate fixed fees, performance based fees, high water marks, waterfalls, hurdles, floors and caps. The Plan may also incorporate multi-year performance periods with clawbacks as needed.

INVESTMENT AUTHORITY

The Board of Administration has responsibility for the Plan's investment portfolios and must set investment parameters, monitor investment activities, and allocate assets and risk. Within its authority, the Board of Administration may delegate responsibilities to the Investment Committee, appropriate staff, and/or third parties such as investment consultants. When properly defined and delineated, the roles and responsibilities of the Board of Administration, investment consultants, and internal investment staff create efficiencies and checks and balances inherently necessary to optimize investment performance and to implement governance and operational best practices.

The Role of the Board of Administration

- a) Establish and approve the Plan's Investment Policy Statement;
- b) Approve investment procedures, with periodic review and approval as needed, providing guidance to the Chief Investment Officer, the investment staff and the investment consultants implementing Board of Administration decisions and ensuring compliance with the Plan's policies and guidelines;
- c) Conduct an annual strategic review of asset allocation and associated risks with the input of the investment staff, investment consultant and actuary, approving changes as necessary;
- d) Review asset performance and strategy relative to actuarial liabilities in concert with the actuarial study, or as needed;
- e) Review investment performance and compliance on a quarterly basis or as needed.
- f) Hire and terminate investment managers;
- g) Hire, monitor and terminate investment consultants as necessary to provide investment services as a complement to internal staff;
- h) Review the Plan's investment program fees and expenses and administrative costs on an annual basis.

Statement of Investment Policy *(continued)*

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

The Role of the Investment Staff

- a) Establish and manage all investment portfolios in accordance with approved asset allocation and investment policies, ensuring investment manager compliance with the Plan's policies, procedures and investment guidelines;
- b) Conduct an annual asset allocation study, working with the general investment consultant, making recommendations to the Board of Administration for approval as necessary;
- c) Manage and review all legal and tax documents required of the Plan's investment program, supported by internal and/or external legal counsel and tax advisors;
- d) Conduct investment due diligence regularly for all funded and prospective investment managers to seek to ensure that the Plan's portfolio has best-in-class investment performance and risk adjusted returns;
- e) Maintain an investment manager watch list, identifying investment managers and products that have experienced significant underperformance, a material event or a strategic failure;
- f) Monitor asset allocation, including any cash overlay programs, and rebalance assets as required to stay within approved allocation ranges, unless otherwise directed by the Board;
- g) Report and review all investment related fees and expenses, in accordance with applicable laws, with the Investment Committee at least annually;
- h) Manage cash to meet all financial obligations, benefits, expenses and capital calls in a timely manner;
- i) Provide investment related documentation as necessary to support financial reporting, actuarial studies, internal and external audits and other official forms and requests.

The Role of the Investment Consultants

- a) Conduct asset allocation studies, risk assessments, and asset class strategy studies, depending on the consulting mandate, with the Plan's staff, presenting to the Board of Administration on a quarterly basis or as needed, to strategically guide the Plan's investment portfolios;
- b) Independently review all applicable investments, incumbent or prospective, depending on mandate, providing expert opinion and/or recommendation to the Plan's staff and the Board of Administration regularly;
- c) Review investment performance and benchmarks with investment staff and the Board of Administration quarterly or as needed depending on the mandate;
- d) Provide macroeconomic data and related education to investment staff and the Board of Administration as needed;
- e) Assist with fee negotiations with investment managers as necessary;
- f) Provide support for the actuarial study as needed.

Statement of Investment Policy *(continued)*

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

VALUATION OF INVESTMENTS

- 41) The Fund'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.
- 42) 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. Financial statements audited by qualified external auditors may be used as reasonableness of valuations.

OTHER

- 43) Appendix A contains the long-term Policy Benchmark.
- 44) Appendices B-H contain additional policy guidelines concerning each asset class.
- 45) Exceptions to this Investment Policy Statement must be approved by the Board.

POLICY REVIEW & HISTORY

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

Appendix A

LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target %
Equity		
Global equity	MSCI ACWI IMI	28 %
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	9 %
Fixed income		
Global fixed income	80% Barclays Global Aggregate	33 %
	5% BAML Global High Yield	
	5% S&P Global Leveraged Loan Index	
	5% JP Morgan EMBI Global Diversified Index	
	5% JP Morgan Global Diversified Index EM-GD	
Private debt	S&P Global Leveraged Loan Index + 2%	6 %
Real assets		
Real estate	NCREIF Property Index	8 %
Commodities	Bloomberg Commodity Index	4 %
Infrastructure	Dow Jones Brookfield Global Infrastructure Index	1 %
Absolute return	HFRI All Macro Index	11 %
Opportunistic	60% MSCI ACWI IMI/40% Barclays Global Aggregate	0 %

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 exposures 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 System'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 System at large, and correspondingly should be viewed in context of the exposures held across the System.

OBJECTIVES

- 1) The Public Equity asset class will be structured to help the System 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.

CHARACTERISTICS 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 System 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 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 Federated City Employees' Retirement System ("System") 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:

- a) Burgiss Private iQ All Private Equity, All Regions
- b) 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%
Director co-investments & secondaries	0 - 40%
Geography (Primaries Only)	Target
North America	40 - 55%
Europe	35 - 45%
Rest of world	0 - 15%
Strategy (Primaries Only)*	Target
Buyout (includes growth equity)	0 - 80%
Special situations	0 - 30%
Venture capital	0 - 20%

* 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 System may allocate to new investments more or less than the pacing plan implies, based on the attractiveness of market conditions and market opportunities.

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 exposure 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 System 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;

Statement of Investment Policy *(continued)*

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

- 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

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 Exposure (% of Net Asset Value)
Global core	25% - 100%
Non-investment grade credit	0% - 50%
Emerging market debt	0% - 50%

PORTFOLIO CONSTRAINTS

- 4) The Global Fixed Income asset class will be subject to the following constraints:
- a) Diversification requirements as it relates to concentration of System 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 the 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 System, 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 System;
 - 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.

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 direct 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.

Statement of Investment Policy *(continued)*

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

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.

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 closed-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 allocations 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.

POLICY BENCHMARKS

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

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;

Statement of Investment Policy *(continued)*

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

- 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.

Appendix G

ABSOLUTE RETURN

(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 the 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;
 - e) To reduce downside participation in severe bear markets.

Statement of Investment Policy *(continued)*

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

TARGET ALLOCATION

Strategy	Targeted Exposures
Relative value	25% - 50%
Macro / directional	35% - 75%
Residual Exposures via Multi- Strategy Funds	
Equity long / short	0% - 10%
Event driven	0% - 15%

PORTFOLIO CONSTRAINTS

- 4) The absolute return portfolio will be subject to the following constraints:
- No aggregate investment with any single investment manager should represent more than 15% of the absolute return portfolio;
 - No initial investment with any single investment manager should represent more than 2.5% of the total plan;
 - No investment with any single investment manager should exceed 10% of the manager's total assets under management;
 - 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.

Any breach of paragraph 4 above requires notification to the Investment Committee to discuss appropriate action.

Appendix H

OPPORTUNISTIC

ASSET CLASS PHILOSOPHY

The Opportunistic portion of the allocation is a best ideas allocation that seeks highly attractive risk adjusted returns. Opportunistic investments are defined as tactical, short to intermediate term investments, generally a few months to a few years. Opportunistic investments consist of a broad, unconstrained opportunity set, but are expected to be implemented exclusively through active investment managers. Opportunistic investments should only expose the System to prudent levels of risk.

The asset class range for the Opportunistic allocation is 0-5%, and may remain at 0% if no Opportunistic investments have been identified. The policy benchmark of the Opportunistic allocation is a global 60/40 portfolio, consisting of 60% MSCI ACWI IMI and 40% Bloomberg Barclays Global Aggregate.

Statement of Investment Policy *(continued)*

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

OBJECTIVES

- 1) Opportunistic investments should seek highly attractive risk adjusted returns.

CHARACTERISTICS AND CONSTRAINTS

- 2) The Opportunistic allocation will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of System 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

- 1) This investment policy statement governs investments for the City of San José Federated City Employees' Retiree Health Care Trust Fund (the Fund). The Fund is an Internal Revenue Code Section 115 trust which was established on June 24, 2011. The Fund is outside of the Federated City Employees' Retirement System (the System) for the payment of retiree healthcare benefits in order to provide an alternative to the existing 401(h) account, which is within the System.
- 2) Fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the members and beneficiaries of the System.

INVESTMENT OBJECTIVES

- 3) The primary objective of the investment portfolio is to provide a funding source for the subsidizing of postretirement healthcare benefits to members of the San José Federated City Employees' Retirement System and their beneficiaries.
 - a) A range of risks will be monitored in connection with the Fund, with an emphasis on the risk of loss of Fund assets.
- 4) In developing the investment policies of the Fund, various factors will be considered including, but not limited to:
 - a) The structure and duration of the Fund's liabilities;
 - b) Modern Portfolio Theory;
 - c) The portfolio management practices followed by other institutional investors;
 - d) The liquidity needs of the Fund.

FIDUCIARY STANDARDS

- 5) The Trustees are subject to the following duties under law:
 - a) The assets of the Fund are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the Fund.
 - b) The Trustees shall discharge their duties with respect to the Fund solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the Fund. The Trustees' duties to the members and their beneficiaries shall take precedence over any other duty.
 - c) The Trustees 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.
 - d) The Trustees shall diversify the investments of the Fund so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- 6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Fund'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

- 7) The governance structure of the Fund 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 current asset allocation policy of the Fund (at market value) as of 4/19/2018 is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	40%	55%	54%
Fixed income	20%	28%	40%
Real assets	15%	17%	30%
Total		100 %	

- 9) The Trustees are 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.
- 10) The asset allocation policy of the Fund will be reviewed at a minimum every five years.
- 11) The Trustees 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.

REBALANCING

- 12) The asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund are to be rebalanced, by Staff, 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.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- 13) 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 liquidity and transactional cost considerations. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines. The Fund will be rebalanced to tactical rather than long-term target allocations in circumstances where the Trustees have approved a tactical allocation.

DIVERSIFICATION

- 14) 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.

LIQUIDITY MANAGEMENT

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

PROXY VOTING

- 16) The Trustees recognize that the voting of proxies is important to the overall performance of the System. The Trustees have delegated the responsibility of voting all proxies to the investment managers or a third party service provider. The Trustees expect that the proxy voting service will execute all proxies in a timely fashion and in the best interest of plan members and beneficiaries. Also, the Trustees expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions. The Trustees intend to review the managers' proxy voting on at least an annual basis.

HIRING & TERMINATING INVESTMENT MANAGERS

- 17) 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 System.
- 18) As a general rule, Fund assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm. Exceptions to this rule shall require the approval of the Trustees.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

MONITORING INVESTMENT MANAGERS

- 19) The Fund's investment managers will be monitored on an ongoing basis and may be terminated by the Fund 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 Fund.
- 20) The majority of the Fund'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.
- 21) 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 Fund;
 - b) Loss of an investment professional(s) directly responsible for managing the Fund'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 Fund's assets at undue risk of loss.

DERIVATIVE SECURITIES

- 22) 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.
- 23) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Trustees. Speculative positions in derivatives however are not authorized under any circumstances.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- 24) The Fund is currently authorized to use derivatives 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. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Fund.
- 25) Given the nature of many commodity manager mandates, it is recognized and understood that commodity managers retained by the Fund may use derivatives that are contrary to paragraphs 23 and 24 above.

INVESTMENT RESTRICTIONS

- 26) Fund assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Fund. The type of investment vehicles utilized by the Fund will be revisited as the asset size of the Fund increases. In instances when the Fund invests through a commingled fund or separate account, investment management agreements will be established for each investment manager retained by the Fund. 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

- 27) The Trustees intend to monitor and control investment costs at every level of the Fund.
 - a) Professional fees will be negotiated whenever possible.
 - b) Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
 - c) If possible, assets will be transferred in-kind during manager transitions and Fund restructurings to eliminate unnecessary turnover expenses.
 - d) Managers will be instructed to minimize brokerage and execution costs.

VALUATION OF INVESTMENTS

- 28) The Fund'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.
- 29) 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

- 30) Appendix A contains the long-term Policy Benchmark.
- 31) Exceptions to this Investment Policy Statement must be approved by the Trustees.

POLICY REVIEW & HISTORY

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

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

Appendix A

LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target (%)
Global equity		
	MSCI ACWI IMI	47%
Global fixed income		
	Barclays Global Aggregate	30%
Real assets		
Real estate	NCREIF ODCE Equal Weighted	7%
Commodities	Bloomberg Commodity Index	6%
Infrastructure	DJ Brookfield Global Infrastructure Index	5%
Natural resources	S&P Global Natural Resources	5%

Investment Professionals

As of June 30, 2018

GLOBAL EQUITY		
Artisan Partners	GQG Partners	Russell Investments
Comgest	Marshall Wace LLC	Sandler Capital Management
Cove Street Capital	Northern Trust	Senator Investment Group
Dimensional Fund Advisors	Oberweis Asset Management	Vanguard Group
PRIVATE EQUITY		
Great Hill Partners	Northern Trust	Pathway Capital
Innovation Endeavors	Pantheon Ventures	Russell Investments
Neuberger Berman	Partners Group	
GLOBAL FIXED INCOME		
BlackRock	Davidson Kempner Capital Management LLC	
BlueBay Asset Management	Northern Trust	Voya Investment Management
Claren Road Asset Management	Vanguard Group	
PRIVATE DEBT		
Arrowmark Partners	Crestline Investors	Medley Capital LLC
Blackstone Group	Cross Ocean Partners	White Oak Global Advisors
REAL ASSETS		
American Realty Advisors	Global Infrastructure Partners	Torchlight Investors
Credit Suisse	Pinnacle Asset Management, L.P.	Tristan Capital Partners
DRA Advisors LLC	PGIM Inc.	
GEM Realty Capital	Rhumblin Advisors	
ABSOLUTE RETURN		
AHL Partners LLP	JD Capital	Systematica Investments, Ltd
D.E. Shaw & Co, LP	Kepos Capital LP	Wadhvani Asset Management LLP
Dymon Asia Capital, Ltd	Pharo Management LLC	
Hudson Bay Capital Management	Pine River Capital Management LP	
CONSULTANTS		
Albourne America LLC (Absolute Return Advisors)	Meketa Investments 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

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2018

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	5.9%	4.2%	5.0%	4.1%
Policy Benchmark	7.4%	5.6%	5.9%	5.0%
InvestorForce Public DB > \$1 Billion (Net Median)	8.0%	6.7%	7.5%	6.1%
Global Equity	9.2%	7.2%	8.8%	N/A
MSCI ACWI IMI	11.1%	8.3%	9.6%	N/A
Private Equity	8.9%	7.1%	10.7%	7.2%
Cambridge Associates Private Equity Composite	18.3%	12.3%	12.4%	9.6%
Absolute Return	4.8%	2.0%	3.2%	N/A
HFRI Macro (Total) Index	1.2%	0.2%	1.2%	N/A
Real Assets	11.1%	4.8%	4.3%	N/A
Real Assets Benchmark	9.5%	4.4%	4.1%	N/A
Global Fixed Income	1.0%	1.8%	1.8%	N/A
Fixed Income Custom Benchmark	1.2%	2.9%	1.7%	N/A
Private Debt	-5.4%	0.2%	2.9%	N/A
S&P Global Leveraged Loan +2%	6.2%	6.5%	5.8%	N/A

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2018

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	4.9%	3.5%	4.6%	N/A
Policy Benchmark	7.9%	5.8%	6.0%	N/A
Global Equity	9.2%	7.5%	9.2%	N/A
MSCI ACWI IMI	11.1%	8.3%	9.6%	N/A
Global Fixed Income	0.1%	1.4%	1.8%	N/A
Barclays Global Aggregate	1.4%	2.6%	1.5%	N/A
Real Assets	9.6%	2.5%	-0.9%	N/A
Real Assets Benchmark	9.8%	4.7%	4.4%	N/A

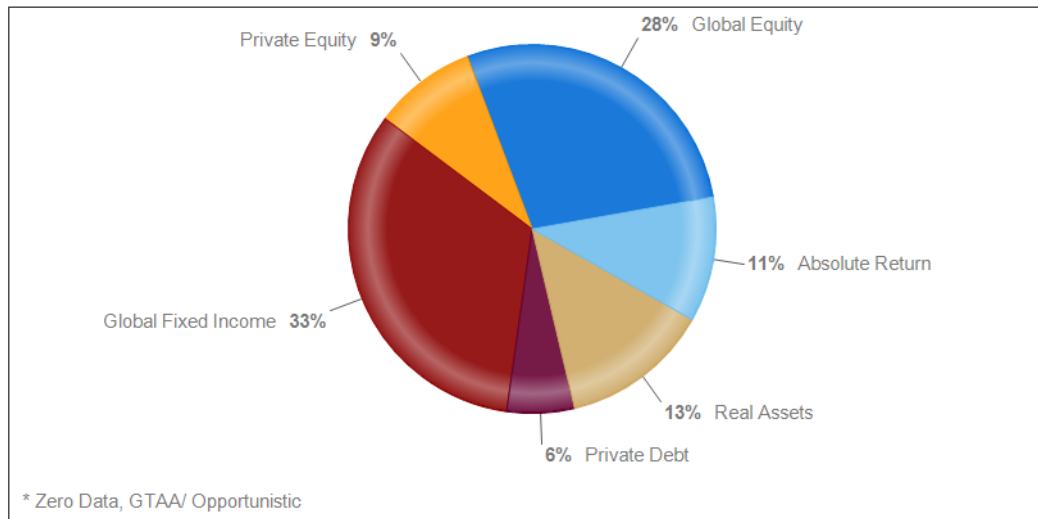
Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2018

Pension Investment Review

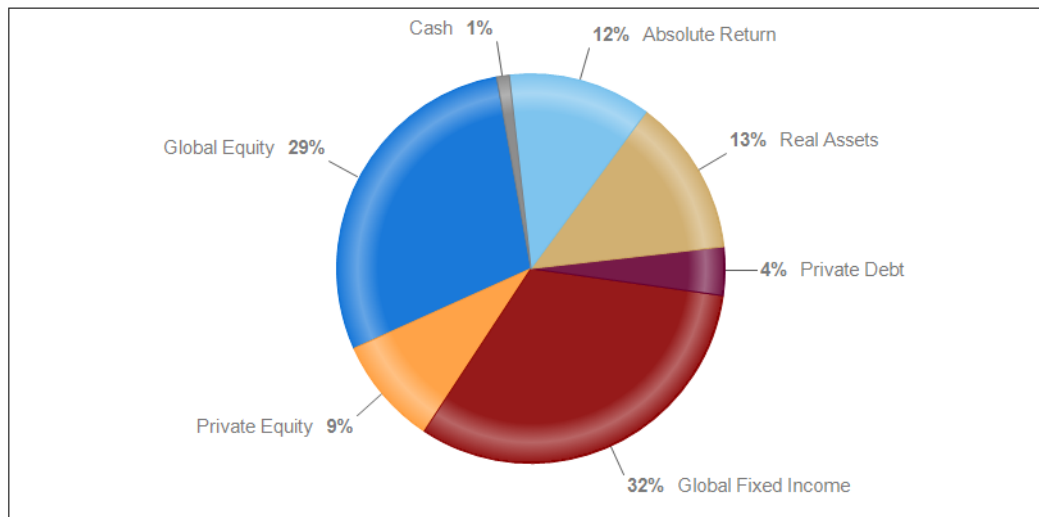
INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION As of June 30, 2018



ACTUAL ASSET ALLOCATION As of June 30, 2018

Non-GAAP Basis



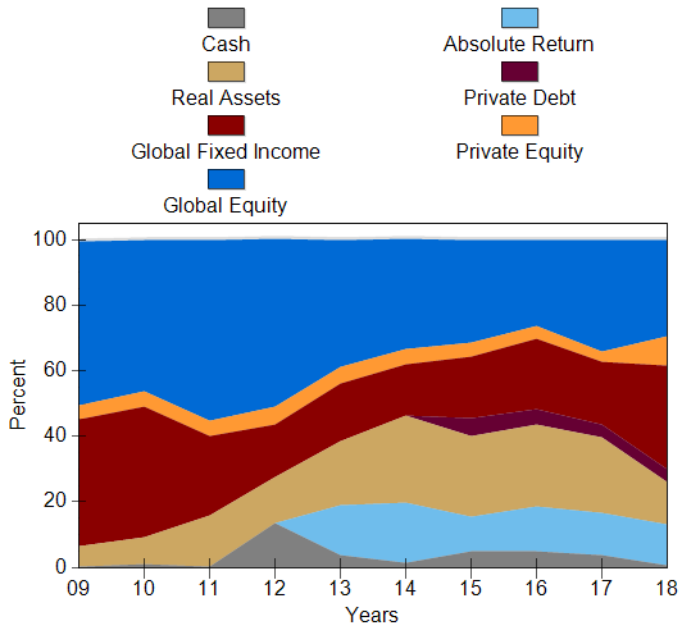
Asset Class	\$ In Million
Global Equity	\$ 610.95
Private Equity	\$ 182.53
Global Fixed Income	\$ 661.10
Private Debt	\$ 77.41
Real Assets	\$ 271.60
Absolute Return	\$ 255.43
Cash	\$ 12.68
TOTAL	\$ 2,071.71

Pension Investment Review *(continued)*

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

HISTORICAL ASSET ALLOCATION (Actual)

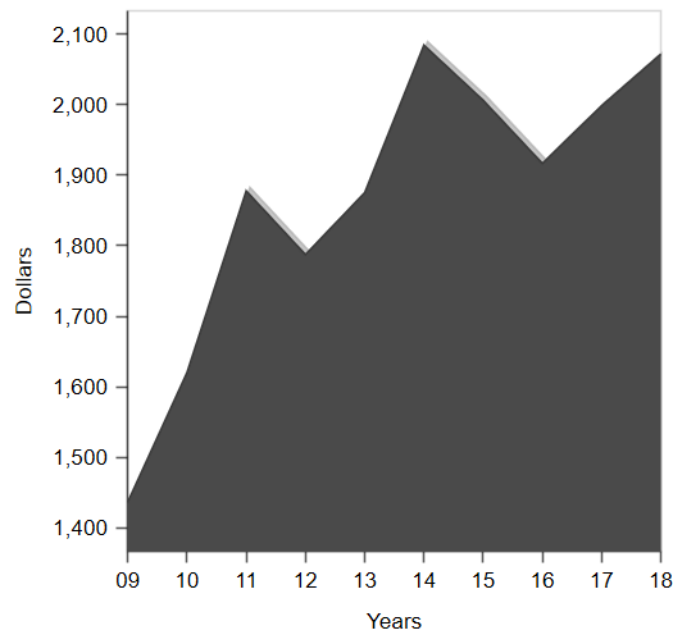
As of June 30, 2009 - June 30, 2018



MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2018

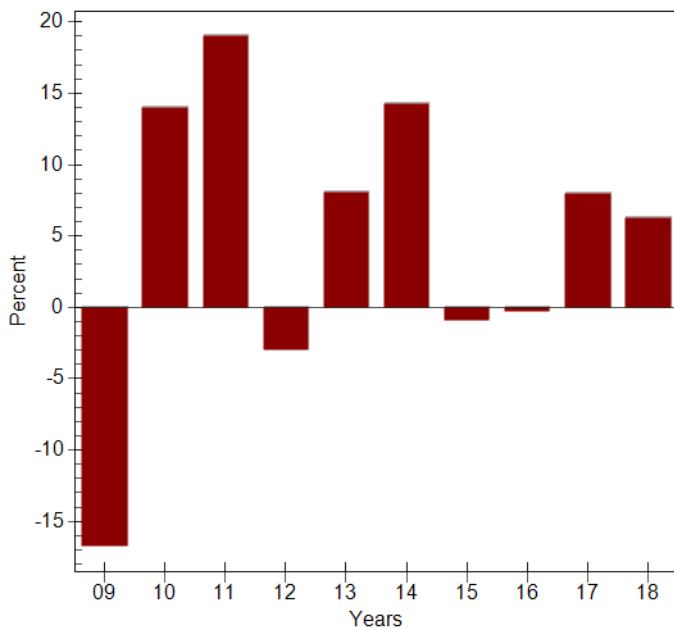
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2009 - 2018

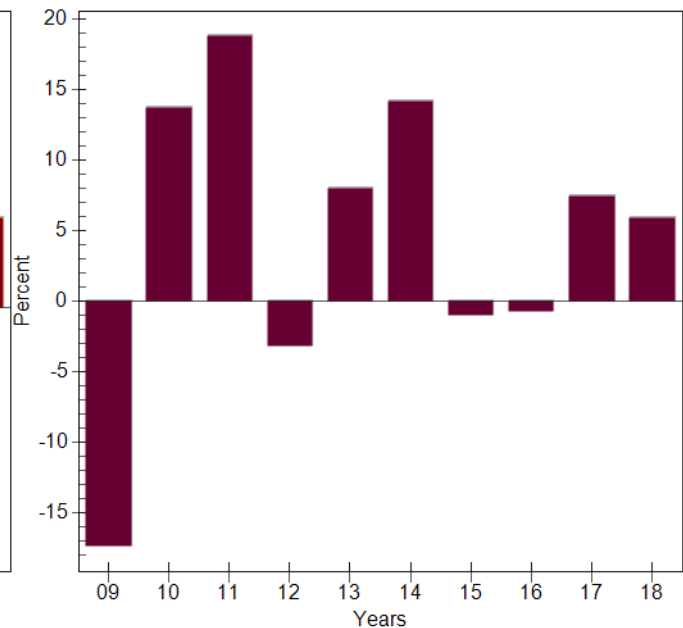
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2009 - 2018

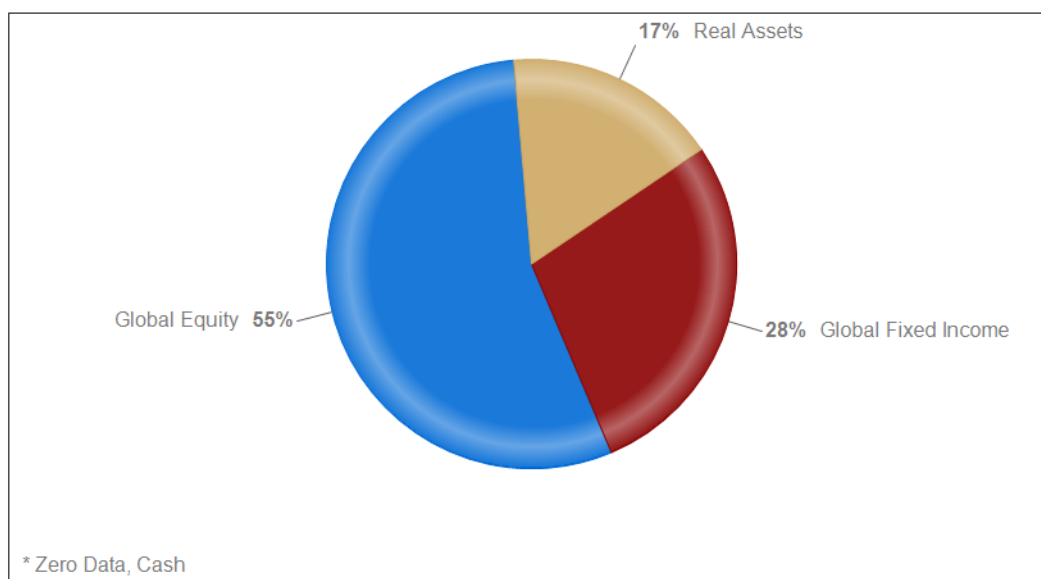
(Based on Fair Value)



Pension Investment Review

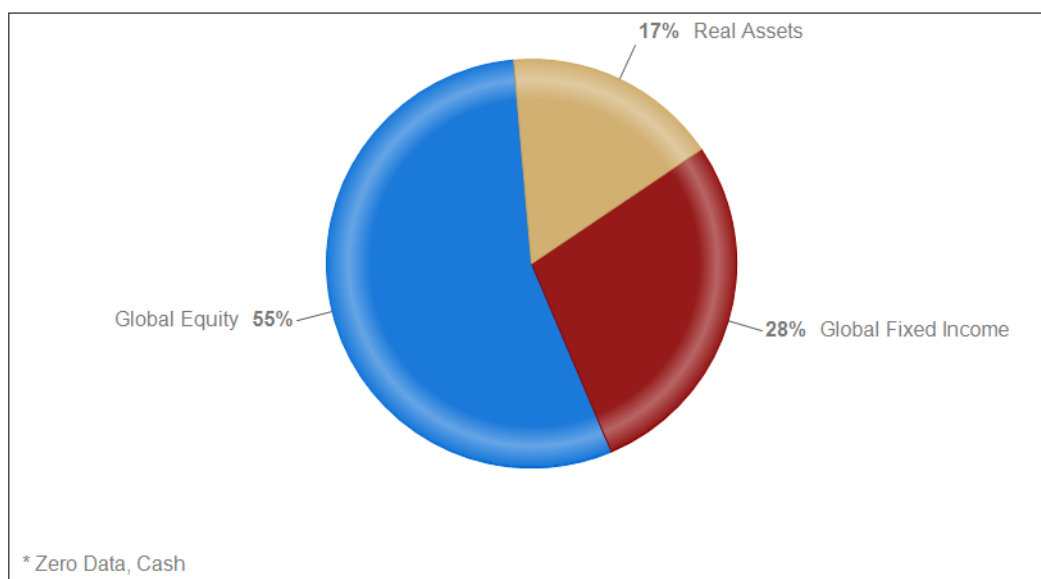
HEALTHCARE

TARGET ASSET ALLOCATION As of June 30, 2018



ACTUAL ASSET ALLOCATION As of June 30, 2018

Non-GAAP Basis



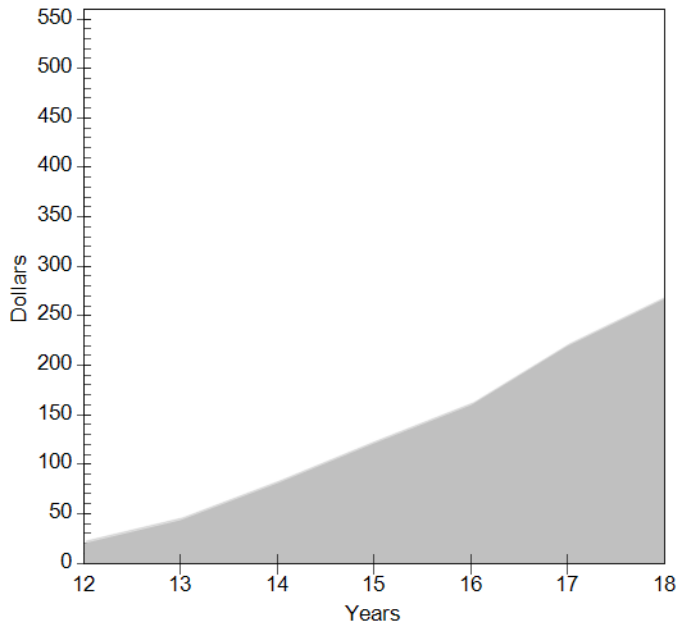
Asset Class	\$ In Millions
Global Equity	\$ 146.36
Global Fixed Income	\$ 75.32
Real Assets	\$ 44.66
Cash	\$ 0.51
TOTAL	\$ 266.85

Pension Investment Review *(continued)*

HEALTHCARE (continued)

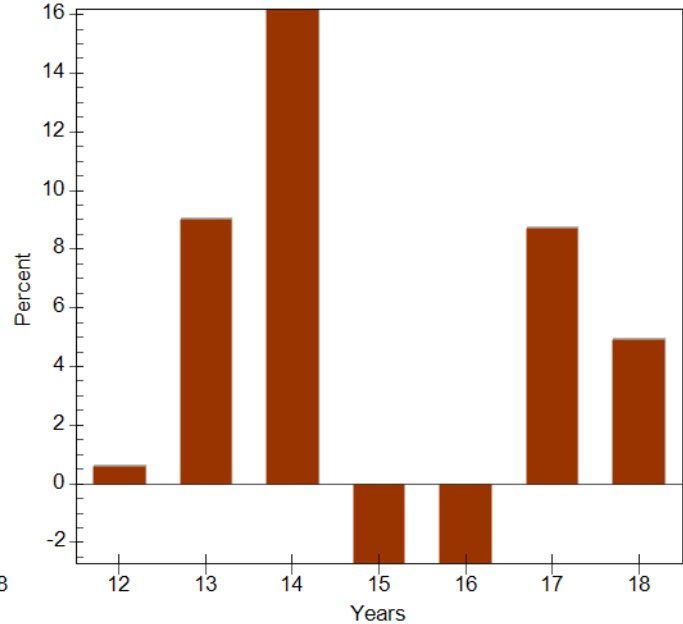
MARKET VALUE GROWTH OF PLAN ASSETS

For Seven Years Ended June 30, 2018 (Dollars in Millions)



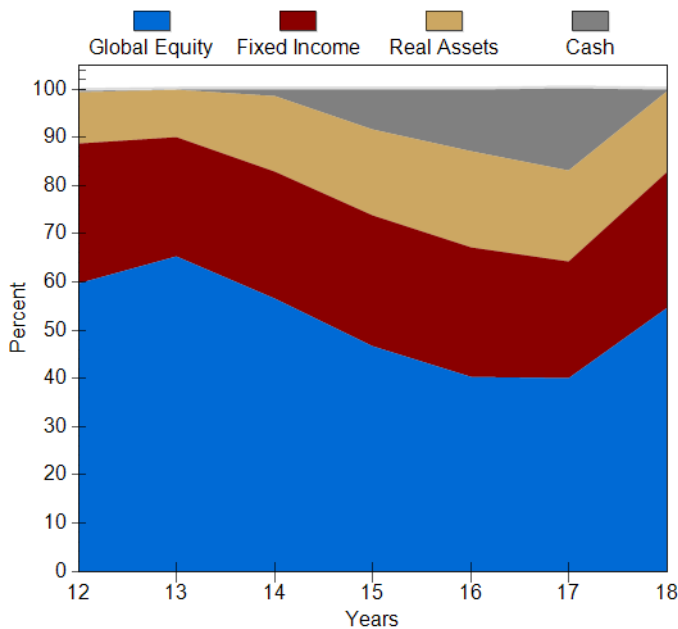
HISTORY OF NET PERFORMANCE

For Fiscal Years 2012 - 2018
(Based on Fair Value)



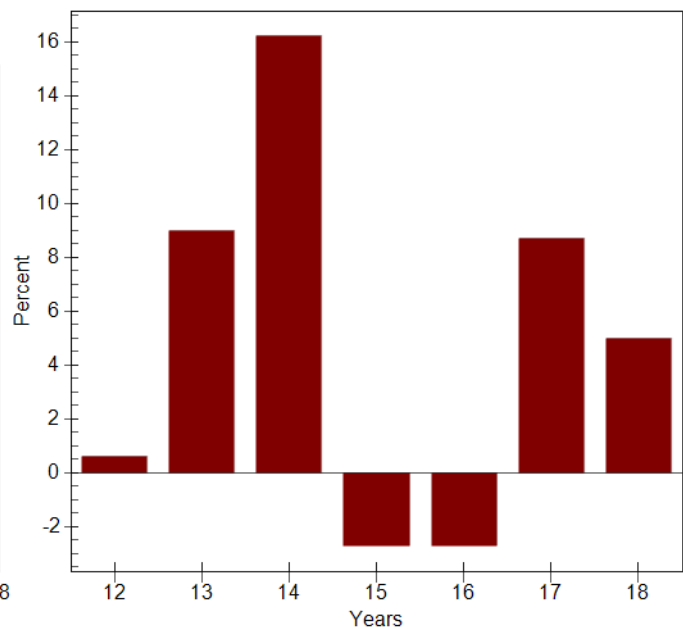
HISTORICAL ASSET ALLOCATION (Actual)

As of June 30, 2012 - June 30, 2018



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2012 - 2018
(Based on Fair Value)



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2018

Description	Country	Shares	Fair Value (\$US)
SAMSUNG ELECTRONICS CO LTD	Korea, Republic of	139,247	\$ 5,828,508
BANK OF NEW YORK MELLON CORP	United States	84,391	\$ 4,551,207
BAIDU INC SPON ADR	United States	16,937	\$ 4,115,691
CITIGROUP INC	United States	60,766	\$ 4,066,461
MARSH + MCLENNAN COS	United States	48,651	\$ 3,987,922
ORACLE CORP	United States	87,417	\$ 3,851,593
QUALCOMM INC	United States	68,402	\$ 3,838,720
TESCO PLC	United Kingdom	1,085,960	\$ 3,680,409
MEDTRONIC PLC	Ireland	41,646	\$ 3,565,314
LLOYDS BANKING GROUP PLC	United Kingdom	4,224,519	\$ 3,516,565

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2018

Security Name	Country	Maturity Date	Interest Rate	Shares	Fair Value (\$US)
TSY INFL IX N/B	United States	4/15/2019	0.13%	15,512,786	\$ 15,420,640
TSY INFL IX N/B	United States	4/15/2020	0.13%	15,527,276	\$ 15,361,755
TSY INFL IX N/B	United States	4/15/2021	0.13%	13,499,876	\$ 13,289,683
TSY INFL IX N/B	United States	4/15/2022	0.13%	13,154,249	\$ 12,883,535
TSY INFL IX N/B	United States	7/15/2022	0.13%	12,854,448	\$ 12,640,421
TSY INFL IX N/B	United States	1/15/2023	0.13%	12,909,762	\$ 12,620,067
TSY INFL IX N/B	United States	1/15/2022	0.13%	12,451,725	\$ 12,238,676
TSY INFL IX N/B	United States	7/15/2021	0.63%	11,287,181	\$ 11,329,282
TSY INFL IX N/B	United States	1/15/2021	1.13%	10,633,089	\$ 10,771,000
TSY INFL IX N/B	United States	7/15/2020	1.25%	9,298,646	\$ 9,449,935

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2018

Includes the 401 (h) and 115 Trust

	Assets Under Management at Fair Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	\$ 757,312,313	\$ 2,472,750	33
Private equity	182,532,521	642,901	35
Global fixed income	736,425,871	1,063,466	14
Opportunistic/ Private debt	77,408,163	1,124,172	145
Real assets	316,263,186	2,445,184	77
Absolute return	255,426,872	2,285,225	89
Cash	13,199,349	-	-
TOTAL INVESTMENT MANAGERS' FEES	\$ 2,338,568,275	\$ 10,033,698	43

* Includes cash in managers' accounts; non-GAAP basis

	Fees
Other Investment Fees	
Investment consultants	\$ 590,000
Custodian bank	342,504
Investment legal fees	118,081
Other investment fees	53,148
TOTAL OTHER INVESTMENT FEES	\$ 1,103,733

Schedule of Commissions

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
B			
B. RILEY & CO., LLC	2,200.00	\$ 66.00	0.0300
BAADER BANK AG	44,197.89	52.10	0.0012
BANCO SANTANDER CENTRAL HISPANO	47,484.92	143.13	0.0030
BARCLAYS CAPITAL	6,124,022.13	1,610.77	0.0003
BARCLAYS CAPITAL INC.	226,392.24	673.57	0.0030
BLOOMBERG TRADEBOOK LLC	7,300.00	146.00	0.0200
BMO CAPITAL MARKETS CORP	4,102.00	82.04	0.0200
BNP PARIBAS SECURITIES (ASIA) LTD.	590,006.00	4.19	0.0000
BNP PARIBAS SECURITIES SERVICES	4,009,638.94	638.72	0.0002
BNP PARIBAS SECURITIES SERVICES AUSTR BR	926,720.49	668.17	0.0007
BNP PARIBAS SECURITIES SERVICES SA	223,862,125.23	2,819.26	0.0000
BNP PARIBAS SECURITIES SERVICES, FRANCE	6,134,779.44	329.44	0.0001
C			
CANACCORD ADAMS INC	146,236.06	92.37	0.0006
CANACCORD GENUITY CORP.	637,733.73	407.43	0.0006
CANACCORD GENUITY INC	1,700.00	34.00	0.0200
CANACCORD GENUITY LIMITED	125,304.87	144.66	0.0012
CANTOR FITZGERALD & CO	46,300.00	1,389.00	0.0300
CARNEGIE A.S.	747,630.33	137.92	0.0002
CARNEGIE INVESTMENT BANK AB	13,147,838.17	2,889.46	0.0002
CARNEGIE SECURITIES FINLAND	234,891.23	799.81	0.0034
CHINA INTERNATIONAL CAPITAL CO	7,523,443.11	2,580.34	0.0003
CIBC WORLD MKTS INC	27,804,218.50	9,867.85	0.0004
CITIBANK OF COLOMBIA	441,511,810.61	111.96	0.0000
CITIGROUP GLBL MARKTET KOERA SECS LTD	16,845,060.00	187.71	0.0000
CITIGROUP GLOBAL MARKETS INC.	1,227,800.90	823.20	0.0007
CITIGROUP GLOBAL MARKETS LIMITED	1,237,526.77	176.94	0.0001
CL SECURITIES TAIWAN COMPANY LIMITED	2,523,631.00	65.47	0.0000
CLSA SECURITIES KOREA LTD.	287,921,920.00	1,145.65	0.0000
CLSA SINGAPORE PTE LTD.	97,989,183.92	1,415.55	0.0000
CONCORDIA SA CVMCC	262,254.83	216.15	0.0008
CONVENCAO S/A CORRETORA DE VALORES	38,897.58	14.63	0.0004
COWEN AND COMPANY, LLC	1,025.00	20.50	0.0200
COWEN EXECUTION SERVICES LLC	34,093,305.32	9,429.04	0.0003
CRAIG - HALLUM	500.00	10.00	0.0200
CREDIT LYONNAIS SECURITIES (USA) INC	2,439.00	84.92	0.0348
CREDIT LYONNAIS SECURITIES (ASIA)	3,866,278.74	1,629.48	0.0004

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
CREDIT SUISSE SECURITIES (EUROPE) LTD	4,515,541.43	2,221.80	0.0005
CREDIT SUISSE SECURITIES (USA) LLC	142,048,758.54	8,121.55	0.0001
D			
DAIWA SECURITIES AMERICA INC	946,528,883.98	23,846.60	0.0000
DAIWA SECURITIES COMPANY LTD	230,489,849.00	253.86	0.0000
DANSKE BANK AS	7,885,522.82	2,152.26	0.0003
DEUTSCHE BANK SECURITIES INC	69,202,695.52	2,356.47	0.0000
DEUTSCHE SECURITIES ASIA LIMITED	383,651,430.00	1,349.76	0.0000
DOWLING & PARTNERS	22,383.00	909.60	0.0406
E			
ESN NORTH AMERICA, INC.	672,643.77	1,814.66	0.0027
EUROCLEAR BANK SA NV	51,688.00	340.10	0.0066
EXANE S.A.	430,367.39	424.95	0.0010
F			
FLOW CORRETORA DE MERCADORIAS LTDA.	-2,726,537.11	496.87	-0.0002
FOKUS BANK ASA	780,402.50	139.03	0.0002
G			
GABELLI & COMPANY	61,600.00	1,848.00	0.0300
GMP SECURITIES LTD.	16,638.26	71.99	0.0043
GOLDMAN SACHS & CO	-272,681,484.99	8,523.80	0.0000
GOLDMAN SACHS INTERNATIONAL	4,494.00	89.88	0.0200
H			
HANWHA SECURITIES SEOUL	106,230,635.00	211.78	0.0000
HSBC BANK PLC	2,168,983.64	1,311.09	0.0006
I			
ICAP DO BRASIL DTVM LTDA	336,282.04	79.36	0.0002
ICHIYOSHI SECURITIES CO.,LTD.	290,477,125.00	6,198.05	0.0000
IM TRUST S.A. CORREDORES DE BOLSA	5,564,734.00	7.16	0.0000
ING BANK N V	437,327.15	734.69	0.0017
INSTINET	2,747,661.00	32,729.10	0.0119
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	18,223,921.78	5,843.62	0.0003
INSTINET LLC	621,625,910.64	1,330.90	0.0000
INSTINET PACIFIC LIMITED	10,789,469,246.82	8,082.22	0.0000
INSTINET SINGAPORE SERVICES PT	6,196,773.05	1,951.43	0.0003
INSTINET U.K. LTD	828,335,812.69	33,746.66	0.0000
INVESTEC BANK PLC	102,310.42	104.69	0.0010
INVESTMENT TECHNOLOGY GROUP INC.	12,161.00	135.61	0.0112
INVESTMENT TECHNOLOGY GROUP LTD	5,733,928.91	952.63	0.0002
ITAU USA SECURITIES INC	5,334.00	213.36	0.0400

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
J			
J.P. MORGAN SECURITIES INC	13,945,708.08	473.96	0.0000
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	88,514,930.00	351.39	0.0000
JEFFERIES & COMPANY INC	389,112,555.35	21,971.07	0.0001
JEFFERIES HONG KONG LIMITED	6,290,830.37	1,377.38	0.0002
JEFFERIES INTERNATIONAL LTD	718,020.80	1,284.03	0.0018
JOH. BERENBERG, GOSSLER & CO. KG	1,126,330.18	2,436.46	0.0022
JONESTRADING INSTITUTIONAL SERVICES LLC	581,447.53	465.51	0.0008
JP MORGAN SECURITIES PLC	73,121,869.66	8,920.76	0.0001
K			
KEPLER EQUITIES PARIS	1,073,090.08	2,536.74	0.0024
KING, CL, & ASSOCIATES INC	31,200.00	936.00	0.0300
KOREA INVESTMENT AND SECURITIES CO., LTD	1,481,947,394.00	2,735.93	0.0000
L			
LIQUIDNET CANADA INC	3,593,020.61	1,835.22	0.0005
LIQUIDNET EUROPE LIMITED	2,683,815.86	2,256.34	0.0008
LIQUIDNET INC	90,000.00	1,097.00	0.0122
LOOP CAPITAL MARKETS	355,672.00	3,989.64	0.0112
M			
MACQUARIE BANK LIMITED	1,476,801.36	1,215.10	0.0008
MACQUARIE CAPITAL (EUROPE) LTD	33,042.03	35.87	0.0011
MERRILL LYNCH INTERNATIONAL	9,278,367.78	6,424.91	0.0007
MERRILL LYNCH PIERCE FENNER AND S	204,978,050.36	27,344.92	0.0001
MIRAE ASSET DAEWOO CO., LTD.	59,530,578.00	65.32	0.0000
MITSUBISHI UFJ SECURITIES (USA)	387,596,912.00	6,883.51	0.0000
MIZUHO SECURITIES USA INC	682,903,839.00	10,473.22	0.0000
MORGAN STANLEY AND CO INTERNATIONAL	335,050,082.00	655.67	0.0000
MORGAN STANLEY CO INCORPORATED	179,161,827.38	12,486.18	0.0001
N			
NATIONAL FINANCIAL SERVICES CORPORATION	538.00	1.34	0.0025
NEEDHAM & COMPANY LLC	2,300.00	46.00	0.0200
NESBITT BURNS	11,687.58	3.92	0.0003
NOMURA SECURITIES CO LTD	10,665,457.30	348.41	0.0000
NUMIS SECURITIES INC	1,468,146.17	3,404.24	0.0023
P			
PAREL	1,281,881.85	1,510.94	0.0012
PEEL HUNT LLP	484,534.96	928.50	0.0019

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
PERSHING SECURITIES LIMITED	1,011,045.91	259.85	0.0003
PIPER JAFFRAY & HOPWOOD	2,728.00	109.12	0.0400
R			
RAYMOND JAMES AND ASSOCIATES LLC	6,725.00	272.86	0.0406
RAYMOND JAMES LTD	680,681.66	209.65	0.0003
RBC CAPITAL MARKETS, LLC	192,000.00	5,760.00	0.0300
RBC DOMINION SECURITIES INC.	642,371.29	148.28	0.0002
REDBURN (EUROPE) LIMITED	912,979.52	1,259.73	0.0014
ROBERT W. BAIRD CO INCORPORATE	334,360.00	10,022.20	0.0300
ROYAL BANK OF CANADA EUROPE LTD	27,906.17	42.68	0.0015
S			
SAMSUNG SECURITIES CO LTD	49,437,286.00	170.77	-
SANFORD C. BERNSTEIN AND CO. LLC	47,030.48	1,124.13	0.0239
SANFORD C BERNSTEIN LTD	410,956.75	155.20	0.0004
SANTANDER SECURITIES SERVICES, S.A	178,176.70	242.10	0.0014
SCOTIA CAPITAL (USA) INC	6,638.00	265.52	0.0400
SCOTIA CAPITAL INC	101,429.91	87.87	0.0009
SIDOTI & COMPANY LLC	11,900.00	357.00	0.0300
SKANDINAVISKA ENSKILDA BANKEN	11,031,197.18	2,672.41	0.0002
SKANDINAVISKA ENSKILDA BANKEN LONDON	1,945,141.29	1,073.36	0.0006
SMBC SECURITIES INC	423,085,132.00	7,168.09	-
SOCIETE GENERALE LONDON BRANCH	40,717,230.49	17,675.13	0.0004
STIFEL NICOLAUS & CO INC	2,768.00	72.72	0.0263
SUNTRUST CAPITAL MARKETS, INC	600.00	12.00	0.0200
SVENSKA HANDELSBANKEN	7,794,398.75	2,083.27	0.0003
T			
TORONTO DOMINION SECURITIES INC	1,384,151.80	571.76	0.0004
U			
UBS AG	72,081,001.13	52.33	-
UBS LIMITED	432,117.63	669.05	0.0015
UBS SECURITIES ASIA LTD	6,489,127.00	169.91	-
UBS SECURITIES LLC	889.00	8.89	0.0100
UBS SECURITIES PTE.LTD., SEOUL	223,734,219.00	455.95	-
W			
WEEDEN & CO.	25,860.00	775.80	0.0300
WELLS FARGO BANK N.A.	9,804.00	392.16	0.0400
WELLS FARGO SECURITIES LLC	16,215,479.06	6,332.27	0.0004
TOTAL	20,164,602,184.21	\$ 374,668.50	\$ 0.0000

Investment Summary

PENSION - INCLUDES THE 401 (H) INVESTMENTS

As of June 30, 2018 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 610,954	26.5 %
Private equity	182,533	3.8
Global fixed income	661,102	21.3
Real assets	271,599	24.9
Private debt	77,408	5.0
Absolute return	255,427	13.6
Collective short-term investments*	12,685	4.9
TOTAL FAIR VALUE	\$ 2,071,708	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 TRUST

As of June 30, 2018 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 146,359	40.5 %
Global fixed income	75,324	26.7
Real assets	44,664	20.1
Collective short-term investments	514	12.7
TOTAL FAIR VALUE	\$ 266,861	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
Federated City Employees' Retirement System
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017



October 4, 2018

Board of Administration
City of San José Federated City Employees' Retirement System
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 Federated City Employees' Retirement System (System) 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, 2017. Please refer to that report for additional information related to the funding of the System.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2017 actuarial valuation. All historical information prior to the June 30, 2010 actuarial valuation shown in these schedules is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

- 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 System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the System. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. 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 *(continued)*

Board of Administration
October 4, 2018
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2017 actuarial valuation updated to the measurement date of June 30, 2018. The Board changed its retirement assumptions for Tier 2 members due to the Measure F changes. In addition, wage inflation and payroll growth were increased, and the mortality improvement table was updated for the June 30, 2017 valuation. These changes are detailed in the actuarial assumptions and methods attachment of this letter. These changes are reflected effective July 1, 2017 for financial reporting purposes. Consequently, the update was based upon the Total Pension Liability as of the valuation date reflecting the new assumptions, and projected to the measurement date with the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 67/68 report as of June 30, 2018 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2018, 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 System 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 *(continued)*

Board of Administration
October 4, 2018
Page 3

This letter and the schedules named above were prepared for the System 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



Jacqueline R. King, ASA, EA, MAAA
Associate Actuary



Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The wage inflation assumption, amortization payment growth rate, and mortality improvement scale were adopted by the Board of Administration with our input at the December 21, 2017 Board meeting. The discount rate assumption was adopted by the Board of Administration with our input at the November 16, 2017 Board meeting. The Tier 2 retirement rates were adopted at the May 4, 2017 Board meeting based on a special analysis presented at that meeting. All other assumptions were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Discount Rate

6.875%. The Board expects a long-term rate of return of 7.1% based on Meketa's 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2) Wage Inflation and Payroll Growth

3.25%, compounded annually.

3) Amortization Payment Growth

3.00%, compounded annually.

4) Price Inflation

2.50%, compounded annually.

5) Administrative Expenses

1.0% of payroll is added to the normal cost of the system for expected administrative expenses.

6) Salary Increase Rate

In addition to the wage inflation component of 3.25% shown above, the following merit component is added based on an individual member's years of service:

Table B-1					
Salary Merit Increases					
Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity
0	4.50%	6	0.95%	12	0.35%
1	3.50%	7	0.75%	13	0.30%
2	2.50%	8	0.60%	14	0.25%
3	1.85%	9	0.50%	15+	0.25%
4	1.40%	10	0.45%		
5	1.15%	11	0.40%		

7) Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Table B-2		
Percentage Married		
	Males	Females
Percentage	80%	60%

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

8) Rates of Termination

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

Table B-3										
Rates of Termination										
Age	20	25	30	35	40	45	50	55	60	65
0 Years of Service	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	0.00%
1-4 Years of Service	17.50%	15.50%	13.50%	11.50%	9.50%	8.00%	7.00%	6.00%	5.00%	0.00%
5 or more Years of Service	9.00%	9.00%	7.00%	5.50%	4.50%	3.50%	3.00%	3.00%	0.00%	0.00%

* Withdrawal/ termination rates do not apply once a member is eligible for retirement

9) Rate of Reciprocity

25% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

10) Rates of Refund

Tier 1:

Sample rates of vested terminated and reciprocal employees electing a refund of contributions are shown in the following Table B-4.

Table B-4								
Rates of Refund								
Age	20	25	30	35	40	45	50	55
Refund	40.0 %	40.0 %	27.5 %	17.0 %	8.0 %	3.0 %	1.0 %	0.0 %

Tier 2:

Vested terminated and reciprocal employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

11) Rates of Disability

Sample disability rates of active members are provided in Table B-5.

Table B-5											
Rates of Disability at Selected Ages											
Age	20	25	30	35	40	45	50	55	60	65	70
Disability	0.014%	0.014%	0.021%	0.063%	0.136%	0.201%	0.218%	0.200%	0.181%	0.167%	0.149%

40% of disabilities are assumed to be duty-related, and 60% are assumed to be non-duty.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

12) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2009. The projection scale used for this valuation is MP-2017.

Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitar	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

13) Rates of Retirement for Tier 1 Members

Rates of retirement for Tier 1 members are based on age according to the following Table B-6 – Tier 1.

Table B-6 Tier 1							
Rates of Retirement by Age and Service							
Age	Less than 15 Years of Service	15 or more Years of Service and less than 30 years of Service	30 or more Years of Service	Age	Less than 15 Years of Service	15 or more Years of Service and less than 30 years of Service	30 or more Years of Service
50	0.0%	0.0%	70.0%	61	8.0%	30.0%	45.0%
51	0.0	0.0	70.0	62	9.0	30.0	45.0
52	0.0	0.0	70.0	63	10.0	30.0	45.0
53	0.0	0.0	70.0	64	15.0	35.0	45.0
54	0.0	0.0	70.0	65	20.0	40.0	45.0
55	8.0	35.0	50.0	66	20.0	40.0	45.0
56	8.0	22.5	50.0	67	20.0	40.0	45.0
57	8.0	22.5	50.0	68	20.0	40.0	45.0
58	8.0	22.5	50.0	69	20.0	40.0	45.0
59	8.0	22.5	50.0	70 & over	100.0	100.0	100.0
60	8.0	22.5	45.0				

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

14) Rates of Retirement for Tier 2 Members

Rates of retirement for Tier 2 members are based on age according to the following Table B-6 – Tier 2.

Table B-6 Tier 2									
Tier 2 Rates of Retirement by Age and Service									
Age									
Years of Service	55	56	57	58	59	60-61	62	63-69	70 & over
5-10	3.0%	2.0%	2.5%	3.0%	3.5%	4.0%	7.5%	5.0%	100.0%
11-20	5.0%	3.5%	4.5%	5.5%	7.0%	8.5%	12.5%	10.0%	100.0%
21-25	7.0%	4.0%	5.0%	7.0%	9.0%	10.0%	17.5%	15.0%	100.0%
26-34	10.0%	7.0%	8.5%	11.0%	13.5%	14.5%	25.0%	25.0%	100.0%
35+	15.0%	10.5%	12.75%	16.5%	20.25%	21.75%	100.0%	100.0%	100.0%

15) Deferred Member Benefit

The benefit was estimated based on information provided by the Office of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, the highest average salary was estimated.

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

16) Changes Since Last Valuation

The retirement rates for Tier 2 members were changed due to the Measure F changes to retirement eligibility and benefit amounts.

The retirement age for Tier 2 terminated vested members was decreased from 65 to 62.

The wage inflation and payroll growth was increased from 2.85% to 3.25%, and the amortization payment growth rate was increased from 2.85% to 3.00%.

The mortality improvement table was updated from MP-2015 to MP-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. All components of the contribution allocation procedure were established prior to the June 30, 2010 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 costs. 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 System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

2) Asset Valuation Method

For the purpose of determining contribution rates and amounts, an actuarial value of assets is used that dampens the volatility in the market value of assets, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The Tier 1 unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 pay over a closed 30-year period commencing June 30, 2009. Tier 1 actuarial gains and losses and plan changes are amortized over 20-year periods and Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. Effective June 30, 2017, all prior assumption amortization base periods were increased by 5 years so they have the same remaining period as if they had originally been amortized over 25 years. Amortization payments are scheduled to increase 3.00% each year while aggregate payroll is expected to grow 3.25% each year.

The Tier 2 unfunded actuarial liability as of June 30, 2017 is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments are scheduled to increase 3.00% each year while aggregate payroll is expected to grow 3.25% each year.

The amortization payment for the 2015 assumption changes was phased in over a 3-year period. The phase-in was calculated by multiplying the first year amortization payment by one third. For the second year, the amortization schedule is recalculated reflecting the one-third payment in the first year and the remaining 19-year period, and the calculated amortization payment is then multiplied by two-thirds. For the third year, the amortization schedule is again recalculated reflecting the prior payments and the remaining 18-year period. With this valuation, the phase-in period is complete.

4) Contributions

The Board adopted a policy in 2010 and modified it in 2015 setting the City's contribution to be the UAL contribution amount reported in the actuarial valuation plus the greater of the normal cost dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the normal cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date. For Tier 1, City contributions are normally made on the first day of the fiscal year. All other contributions are made on a payroll-by-payroll basis.

The total contribution rate is the sum of the normal cost rate, assumed administrative expenses, and the UAL rate. Under Measure F, the total contribution rate cannot be less than the normal cost rate. The normal cost rate is determined by dividing the total normal cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

For Tier 1, members contribute 3/11ths of the normal cost rate (including administrative expenses, but excluding reciprocity), and the City pays the remainder of the total contribution rate. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member.

5) Changes Since Last Valuation

Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service.

All Tier 1 assumption amortization base periods were increased by 5 years and all future assumption amortization bases will be amortized over 25-year periods beginning with the valuation date in which they first arise.

All Tier 2 amortization base periods were reset to 10 years as of June 30, 2017. All future amortization bases will be amortized over 10-year periods beginning with the valuation date in which they first arise.

The annual amortization payment increase assumption was increased from 2.85% to 3.00%.

The minimum contribution rate was set equal to the normal cost rate, and the Tier 2 member UAL rate cannot increase by more than 0.33% of pay.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active Count	Annual Payroll	Average Annual Pay	Percent Change in Average Pay
2017	3,410	\$ 287,339,000	\$ 84,264	4.1%
2016	3,297	266,823,000	80,929	4.2
2015	3,236	251,430,000	77,698	3.3
2014	3,121	234,677,000	75,193	3.0
2013	3,094	225,779,000	72,973	-0.6
2012	3,076	225,859,000	73,426	5.0
2011	3,274	228,936,000	69,925	-11.2
2010	3,818	300,811,000	78,788	-0.5
2009	4,079	323,020,000	79,191	7.1
2007	3,942	291,405,000	73,923	7.0
2005	4,148	286,446,000	69,056	5.6
2003	4,479	292,961,371	65,408	15.6
2001	4,466	252,696,000	56,582	7.9
1999	3,694	193,650,000	52,423	8.3
1997	3,642	176,284,000	48,403	6.8
1995	3,397	153,918,000	45,310	4.4

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		% Increase in Annual Allowances*	Average Annual Allowances
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances		
2016-2017	4,003	\$ 177,751,000	225	\$ 8,843,000	113	\$ 3,894,000	4,115	\$ 187,714,000	5.6%	\$ 45,617
2015-2016	3,901	168,917,000	212	7,907,000	110	3,904,000	4,003	177,751,000	5.2	44,404
2014-2015	3,800	159,124,000	200	8,266,000	99	3,122,000	3,901	168,917,000	6.2	43,301
2013-2014	3,711	150,934,000	194	7,274,000	105	3,405,000	3,800	159,124,000	5.4	41,875
2012-2013	3,602	142,063,000	198	7,036,000	89	2,360,000	3,711	150,934,000	6.2	40,672
2011-2012	3,428	129,869,000	250	14,158,000	76	1,964,000	3,602	142,063,000	9.4	39,440
2010-2011	3,111	112,660,000	398	19,615,000	81	2,406,000	3,428	129,869,000	15.3	37,885
2009-2010	2,930	101,194,000	206	10,700,373	79	2,203,960	3,111	112,660,000	11.3	36,213
2007-2009	2,691	84,723,000	376	14,890,021	137	3,450,015	2,930	101,194,000	19.4	34,537
2005-2007	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	22.0	31,484
2003-2005	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0	28,634
2001-2003	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,587,000	20.7	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7	22,270

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

Actuarial Analysis of Financial Experience

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
June 30, 2017	\$ (44,650)	\$ (13,819)	\$ (58,468)	\$ 1,813	\$ (56,655)
June 30, 2016	(81,539)	(29,989)	(111,528)	(60,233)	(171,761)
June 30, 2015	(3,641)	(45,998)	(49,639)	(191,527)	(241,166)
June 30, 2014	39,675	(13,600)	26,075	(103,404)	(77,329)
June 30, 2013	(76,502)	2,899	(73,603)	(63,668)	(137,271)
June 30, 2012	(119,331)	2,023	(117,308)	43,109	(74,199)
June 30, 2011	(82,166)	83,403	1,237	(187,548)	(186,311)
June 30, 2010	(124,137)	45,785	(78,352)	(18,467)	(96,819)

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Actuarial Analysis of Financial Experience

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE For Plan Year Ended June 30, 2018						
Tier 1			Tier 2			
Type of Activity	Change in Employee Rate %	Change in Employer Rate %	Total Change in Contribution Rate %	Change in Employee Rate %	Change in Employer Rate %	Total Change in Contribution Rate %
Investment Performance	0.00	-0.14	-0.14	-0.09	-0.09	-0.17
Liability Experience	-0.06	-0.84	-0.90	0.10	0.10	0.19
Change in Assumptions	0.25	-7.03	-6.78	0.43	0.43	0.86
Change in Benefit Provisions	0.06	-1.99	-1.93	1.55	1.55	3.10
TOTAL	0.25	-10.00	-9.75	1.99	1.99	3.98

Schedule of Funded Liabilities By Type

The table below was previously referred to as the Solvency Test by the Government Finance Officers Association (GFOA). It should be noted, however, that it does not test the solvency of the System in the sense understood by financial economists that a 100 percent ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100 percent ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments. Consequently, we understand that the new GFOA checklist refers to the exhibit providing funded liabilities by the type information.

SCHEDULE OF FUNDED LIABILITIES BY TYPE Actuarial Liability for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liability Covered by Reported Assets		
June 30, *	(A)	(B)	(C)		(A)	(B)	(C)
2017	\$ 236,819	\$ 2,830,143	\$ 857,004	\$ 2,101,435	100 %	66 %	0 %
2016	240,872	2,722,224	823,634	2,034,741	100	66	0
2015	243,828	2,553,892	772,178	2,004,481	100	69	0
2014	233,289	2,331,656	670,120	1,911,773	100	72	0
2013	234,217	2,164,253	615,393	1,783,270	100	72	0
2012	234,619	2,001,498	604,883	1,762,973	100	76	0
2011	234,574	1,848,254	687,400	1,788,660	100	84	0
2010	242,944	1,504,698	762,716	1,729,413	100	99	0
2009	228,967	1,393,114	864,074	1,756,588	100	100	16
2007	214,527	1,003,001	743,415	1,622,851	100	100	55

*Actuarial Value of Assets

Amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

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 System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio	Covered Payroll	UAL as a % of Covered Payroll
June 30, 2017 ⁹	\$ 2,101,435	\$ 3,923,966	\$ 1,822,531	53.6 %	\$ 287,339	634 %
June 30, 2016 ⁸	2,034,741	3,786,730	1,751,989	53.7 %	266,823	657 %
June 30, 2015 ⁷	2,004,481	3,569,898	1,565,417	56.1 %	251,430	623 %
June 30, 2014 ⁶	1,911,773	3,235,065	1,323,292	59.1 %	234,677	564 %
June 30, 2013 ⁵	1,783,270	3,013,763	1,230,493	59.2 %	225,779	545 %
June 30, 2012 ⁴	1,762,973	2,841,000	1,078,027	62.1 %	225,859	477 %
June 30, 2011 ³	1,788,660	2,770,227	981,567	64.6 %	228,936	429 %
June 30, 2010 ²	1,729,413	2,510,358	780,945	68.9 %	300,811	260 %
June 30, 2009 ¹	1,756,558	2,486,155	729,597	70.7 %	323,020	226 %
June 30, 2007	1,622,851	1,960,943	338,092	82.8 %	291,405	116 %

Amounts prior to June 30, 2010 were calculated by the prior actuary

Amounts in thousands

¹ Demographic and economic assumption changes, including reducing the discount rate from 8.25% to 7.75% increased the AL by \$229 million.

² Increasing the discount rate from 7.75% to 7.95% decreased the AL by \$59 Million.

³ Demographic and economic assumption changes, including reducing the discount rate from 7.95% to 7.5% increased the AL by \$188 million

⁴ Elimination of the Supplemental Retirement Benefit Reserve reduced the AL by \$43 million.

⁵ Reducing the discount rate from 7.5% to 7.25% and wage inflation to 2% for 5 years and 2.85% thereafter increased the AL by \$64 million.

⁶ Reducing the discount rate from 7.25% to 7.0% and eliminating the temporary 2% wage inflation increased the AL by \$103 million.

⁷ Demographic and economic assumption changes decreased the AL by \$192 million.

⁸ Reducing the discount rate from 7.00% to 6.875% increased the AL by \$60 million.

⁹ Measure F implementation increased the AL by \$16 and assumption changes decreased the AL by \$16 million.

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

Participation in the System is immediate upon the first day of full-time employment for members hired before September 30, 2012, including members that are rehired after September 30, 2012 and had prior service under Tier 1 and did not take a return of contributions. In addition, any person accepting employment on or after September 30, 2012 who is otherwise eligible for this plan and who was a "classic" member in another California public retirement system with which this system has reciprocity, and who has a break in service of less than six months from that covered employment and employment with the City, shall be a Tier 1 member of this system.

2) Final Compensation

Members who separated from City service prior to June 30, 2001

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from City service on or after June 30, 2001

The highest average annual compensation earnable during any period of twelve consecutive months.

3) Credited Service

One year of service credit is given for 1,739 or more hours of Federated City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4) Member Contributions

Member:

The amount needed to fund 3/11ths of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

Employer:

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5) Service Retirement

Eligibility:

Age 55 with five years of service, or any age with 30 years of service.

Benefit – Member:

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor:

50% of the service retirement benefit paid to a qualified survivor.

6) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

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

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

7) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

Members who were hired on or after September 1, 1998:

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

8) Death While an Active Employee

Less than five years of service, or no qualified survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more years of service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9) Withdrawal Benefits

Less than five years of service:

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

Five or more years of credited service:

The amount of the service retirement benefit, payable at age 55.

10) Additional Post-Retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11) Post-Retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12) Changes Since the Last Valuation

Membership requirements were changed by Measure F to allow former members of Tier 1 that are rehired to re-enter Tier 1.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012 except those who elect to participate in a defined contribution plan, had prior service under Tier 1 and did not take a return of contributions, or had prior service as a "classic" member in a reciprocal system with less than a six month break in service.

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 Federated 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% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member.

The member contribution rate cannot be less than 50% of the normal cost rate.

5) City Contributions

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost, and unfunded actuarial liability. In addition, the City contributes any UAL amounts in excess of the member UAL cap until the member rate covers 50% of the UAL rate.

The City contribution rate cannot be less than 50% of the normal cost rate.

6) Unreduced Service Retirement

Eligibility:

Age 62 with five years of service.

Benefit – Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2, subject to a maximum of 70% of Final Compensation.

Benefit - Survivor:

50% of the service retirement benefit paid to a qualified survivor.

7) Early Service Retirement

Eligibility:

Age 55 with five years of service.

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

Benefit - Member:

Benefit reduced by a factor of 5% for each year the member retires before age 62.

The early retirement reduction is applied to the benefit after the application of the maximum of 70% of final compensation.

8) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.0% of Final Compensation for each year of credited service, subject to a minimum of 40% of Final Compensation and a maximum of 70% of Final Compensation, less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9) 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, subject to a minimum of 20% of Final Compensation and a maximum of 70% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

10) Death Before Retirement

Less than five year of service, or no qualified survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more years of service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 70% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

11) Withdrawal Benefits

Less than five years of service:

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

Five or more years of credited service:

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

12) Benefit Forms

Annuity benefits are paid in the form of a 50% joint and survivor annuity or an actuarially equivalent annuity with 75% or 100% continuance to a survivor.

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

13) 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 based on years of service as shown in the table below.

Years of Service	Maximum COLA
At least 1, but less than 11	1.25%*
At least 11, but less than 21	1.50%
At least 21, but less than 26	1.75%
At least 26	2.00%

* 1.5% for members hired before Measure F effective date

The first COLA after retirement shall be prorated based on the number of months retired.

14) Changes Since the Last Valuation

Membership requirements were changed by Measure F to allow former members of Tier 1 that are rehired to re-enter Tier 1. This change moved 35 current Tier 2 members to Tier 1.

Measure F changed many of the terms of Tier 2, including:

- Eligibility requirements for service retirement,
- Maximum multiplier for calculating benefits,
- Early retirement reduction factors,
- Disability and death benefits, and
- Post-retirement COLAs.



October 4, 2018

Board of Administration
City of San José Federated City Employees' Retirement System
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 Federated City Employees' Retirement System (System) with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Federated 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, 2017. 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, 2017 actuarial valuation. All historical information prior to the June 30, 2010 actuarial valuation shown in these schedules is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- 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 System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

Employees hired on or after September 1, 2013 are not eligible to enter the Plan.

Historically, member and City contributions to the Plan have been negotiated through collective bargaining and have not been actuarially determined. With the implementation of Measure F,

Members of the Board

October 4, 2018

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member contributions are now fixed at 7.5% of pay; the City's contribution toward the explicit subsidy is actuarially determined; and, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution to 14% of payroll.

The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. 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, 2017 actuarial valuation updated to the measurement date of June 30, 2018. Voters approved Measure F on November 8, 2016; the City Council adopted implementing ordinances; the IRS granted approval for the changes; and, the City conducted elections for members eligible to transfer to the VEBA. Consequently, the update was based upon the Total OPEB Liability as of the valuation date reflecting the changes in benefit provisions and transfers to the VEBA under Measure F that became effective after June 30, 2017. The update also 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, 2018 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, 2018, 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.



Actuary's Certification Letter OPEB *(continued)*

Members of the Board
October 4, 2018
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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 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 and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the January 18, 2018 Board meeting.

1) Expected Return on Plan Assets:

6.875% per year. The Board expects a long-term rate of return of 7.1% for the 401(h) account and 6.7% for the 115 trust based on Meketa's 20-year capital market assumptions and the System's current investment policy.

2) Per Person Cost Trends:

Annual Increase %															
To Calendar Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033+
Pre-Medicare	8.00	7.73	7.46	7.20	6.93	6.66	6.39	6.13	5.86	5.59	5.32	5.05	4.79	4.52	4.25
Medicare Eligible	6.00	5.88	5.75	5.63	5.50	5.38	5.25	5.13	5.00	4.00	4.75	4.63	4.50	4.38	4.25
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

Actual premium increases for 2018 were reflected with the above rates applying thereafter. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

3) Changes Since Last Valuation:

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were updated.

Demographic Assumptions:

The wage inflation and mortality improvement scale were adopted by the Board of Administration at the December 21, 2017 Board meeting, and the plan election assumptions were adopted by the Board of Administration at the January 18, 2018 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015. Please refer to the full experience study report for details, including the rationale for each assumption.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

1) Retirement Rates:

Rates of retirement for Tier 1 members are based on age according to the following Table - Tier 1.

TIER 1 Rates of Retirement by Age and Service							
Age	Less than 15 years of service	15 or more years of service and less than 30 years of service	30 or more years of service	Age	Less than 15 years of service	15 or more years of service and less than 30 years of service	30 or more years of service
50	0.0%	0.0%	70.0%	61	8.0%	30.0%	45.0%
51	0.0	0.0	70.0	62	9.0	30.0	45.0
52	0.0	0.0	70.0	63	10.0	30.0	45.0
53	0.0	0.0	70.0	64	15.0	35.0	45.0
54	0.0	0.0	70.0	65	20.0	40.0	45.0
55	8.0	35.0	50.0	66	20.0	40.0	45.0
56	8.0	22.5	50.0	67	20.0	40.0	45.0
57	8.0	22.5	50.0	68	20.0	40.0	45.0
58	8.0	22.5	50.0	69	20.0	40.0	45.0
59	8.0	22.5	50.0	70 & over	100.0	100.0	100.0

Rates of retirement for Tier 2 members are based on age according to the following Table - Tier 2.

TIER 2 Rates of Retirement by Age and Service									
Age									
Years of Service	55	56	57	58	59	60-61	62	63-69	70 & over
5 - 10	3.0%	2.0%	2.5%	3.0%	3.5%	4.0%	7.5%	5.0%	100.0%
11 - 20	5.0	3.5	4.5	5.5	7.00	8.50	12.50	10.00	100.00
21 - 25	7.0	4.0	5.0	7.0	9.00	10.00	17.50	15.00	100.00
26 - 34	10.0	7.0	8.5	11.0	13.50	14.50	25.00	25.00	100.00
35+	15.0	10.5	12.75	16.5	20.25	21.75	100.00	100.00	100.00

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

2) Rates of Termination:

Sample rates of termination are shown in the following tables.

Rates of Termination										
Age	20	25	30	35	40	45	50	55	60	65
0 Years of Service	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	0.00%
1-4 Years of Service	17.50	15.50	13.50	11.50	9.50	8.00	7.00	6.00	5.00	0.00
5 or More Years of Service	9.00	9.00	7.00	5.50	4.50	3.50	3.00	3.00	0.00	0.00

**Withdrawal/termination rates do not apply once a member is eligible for retirement.*

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

3) Rates of Refund:

Tier 1:

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table.

Rates of Refund								
Age	20	25	30	35	40	45	50	55
Refund	40.00%	40.00%	27.50%	17.00%	8.00%	3.00%	1.00%	0.00%

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

4) Rates of Mortality:

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2009. The projection scale used for this valuation is MP-2017.

Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

5) Disability Rates:

Sample rates of disability are shown in the following table.

Rates of Disability at Selected Ages											
Age	20	25	30	35	40	45	50	55	60	65	70
Disability	0.014%	0.014%	0.021%	0.063%	0.136%	0.201%	0.218%	0.200%	0.181%	0.167%	0.149%

40% of disabilities are assumed to be duty related, and 60% are assumed to be non-duty.

6) Salary Increase Rate:

Wage inflation component: 3.25%

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

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

Salary Merit Increases					
Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity
0	4.50%	6	0.95%	12	0.35%
1	3.50	7	0.75	13	0.30
2	2.50	8	0.60	14	0.25
3	1.85	9	0.50	15+	0.25
4	1.40	10	0.45		
5	1.15	11	-		

7) Percent of Retirees Electing Coverage

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their current plan.

A new, lower cost Kaiser High Deductible plan (Kaiser HDHP) will be offered as of 1/1/2018.

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 proportion shown in the table below.

Assumed Plan Elections for Future Retirees					
Pre-Medicare Medical Plans	% Electing	Medicare-Eligible Medical Plans	% Electing	Dental Plans (All Retirees)	% Electing
Kaiser DHMO	14 %	Kaiser Senior Advantage	58 %	Delta Dental PPO	97 %
Kaiser \$25 Co-pay	61	BS Medicare HMO	8	DeltaCare HMO	3
Kaiser HDHP	6	BS Medicare PPO	34		
Sutter Health DHMO	1	In Lieu	-		
Sutter Health \$20 Co-pay	3				
PPO \$25 Co-pay	15				
In-Lieu	0				

8) Family Composition:

85% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement. Pre-Medicare, 35% of males and 22% of females will cover children.

9) Dependent Age:

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

10) Married Percentage:

Percentage Married		
Gender	Males	Females
Percentage	80%	60%

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.

The retirement rates for Tier 2 members were changed due to the Measure F changes to retirement eligibility and benefit amounts.

The retirement age for Tier 2 terminated vested members was decreased from 65 to 62.

The wage inflation and payroll growth was increased from 2.85% to 3.25%.

The mortality improvement table was updated from MP-2015 to MP-2017.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 18, 2018 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 2017 and 2018. 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 2017 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the Kaiser \$25 Co-pay and Kaiser HMO deductible plans were assumed to transition to the Kaiser \$25 Co-pay, Kaiser HMO Deductible, and Kaiser High Deductible plans based on the actual 1/1/2018 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 decreased 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 separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

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, 2017 based on the premiums for 2017 and 2018. 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.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

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		Kaiser HDHP	
	Male	Female	Male	Female	Male	Female
40	\$ 6,323	\$ 7,769	\$ 7,733	\$ 9,655	\$ 5,881	\$ 7,239
45	6,463	7,579	8,054	9,538	6,024	7,073
50	6,826	7,734	8,672	9,879	6,377	7,230
55	7,551	8,191	9,771	10,622	7,071	7,672
60	8,820	8,599	11,594	11,300	8,276	8,068
64	10,379	8,448	13,774	11,207	9,750	7,935

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
Age	Sutter DHMO		Sutter \$20 Co-pay		PPO \$100 Co-pay	
	Male	Female	Male	Female	Male	Female
40	\$ 9,429	\$ 11,266	\$ 7,619	\$ 9,655	\$ 8,594	\$ 11,115
45	9,325	10,743	8,074	9,647	9,327	11,274
50	9,505	10,659	8,845	10,124	10,451	12,034
55	10,145	10,959	10,125	11,027	12,206	13,322
60	11,477	11,196	12,172	11,861	14,909	14,524
64	13,233	10,778	14,575	11,855	18,020	14,652

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
Age	Kaiser Senior Adv		BS Med PPO		BS Med HMO	
	Male	Female	Male	Female	Male	Female
65	\$ 3,341	\$ 2,948	\$ 5,598	\$ 4,938	\$ 6,819	\$ 6,015
70	3,548	3,005	5,945	5,035	7,241	6,133
75	4,078	3,380	6,833	5,662	8,322	6,897
80	4,631	3,833	7,758	6,421	9,450	7,821
85	5,001	4,188	8,379	7,017	10,206	8,547

SAMPLE CLAIMS COSTS - DENTAL						
Age	Delta Dental PPO		DeltaCare HMO			
	Male	Female	Male	Female		
All	\$ 685	\$ 685	\$ 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:

All Medicare eligible retirees are assumed to 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 medical plan and the lowest cost medical 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:

All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San Jose.

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 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 costs. 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 System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

The actuarial value of assets equals the market value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2017 is amortized as a level dollar amount over a closed 20-year period. All future amortization based will be amortized over 20-year periods with a 3-year phase-in and phase-out.

4) Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 14% of total payroll.

Active members that are eligible for full benefits will contribute 7.50% of pay.

5) Changes Since Last Valuation:

Member contributions were changed due to Measure F.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

The amortization method described above was established for this valuation and future valuations.

SCHEDULE OF ACTIVE MEMBER DATA

SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date As of June 30,	Active Member Counts			Annual Payroll	Average Annual Pay	Percentage Change in Average Pay
	Under Age 65	Age 65+	Total			
2017 ²	3,321	89	3,410	\$287,339,424	\$ 84,264	-0.9 %
2016 ¹	2,310	77	2,387	202,911,153	85,007	5.8
2015 ¹	2,527	74	2,601	208,957,370	80,337	5.9
2014 ¹	2,800	64	2,864	217,167,654	75,827	3.7
2013	3,028	65	3,093	226,097,882	73,100	-0.4
2012	3,017	59	3,076	225,859,144	73,426	5.0
2011	3,201	73	3,274	228,936,398	69,926	-11.2
2010	3,721	97	3,818	300,811,165	78,788	-0.5
2009	3,988	91	4,079	323,020,387	79,191	N/A
2007	3,853	66	3,919	N/A	N/A	N/A

¹ Does not include Tier 2B active employees.

² Includes members that are eligible for catastrophic disability benefits.

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Change	Average
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy	Annual Subsidy	Annual Subsidy
Medical										
2016-17	2,821	\$ 21,844,128	210	111	2,920	\$ 23,621,494	99	\$ 1,777,366	8.1 %	\$ 8,090
2015-16	2,769	21,341,423	183	131	2,821	21,844,128	52	502,705	2.4	7,743
2014-15	2,737	21,940,885	152	120	2,769	21,341,423	32	(599,462)	-2.7	7,707
2013-14	2,718	22,656,997	151	132	2,737	21,940,885	19	(716,112)	-3.2	8,016
2012-13	2,680	25,223,474	158	120	2,718	22,656,997	38	(2,566,477)	-10.2	8,336
2011-12	2,557	25,518,761	203	80	2,680	25,223,474	123	(295,287)	-1.2	9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3	8,523
2006-07	1,891	10,864,081	N/A	N/A	1,976	14,970,264	85	4,106,183	37.8	7,576
Dental										
2016-17	3,264	\$ 3,224,133	170	112	3,322	\$ 3,414,299	58	\$ 190,166	5.9 %	\$ 1,028
2015-16	3,206	3,212,072	159	101	3,264	3,224,133	58	12,061	0.4	988
2014-15	3,133	3,130,058	160	87	3,206	3,212,072	73	82,014	2.6	1,002
2013-14	3,103	3,742,351	138	108	3,133	3,130,058	30	(612,293)	-16.4	999
2012-13	3,044	3,924,332	144	85	3,103	3,742,351	59	3,739,307	-4.6	1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	3,921,426	4.8	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	3,742,245	24.1	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	3,015,098	25.2	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	2,408,313	2.7	1,015
2006-07	2,220	1,955,377	N/A	N/A	2,248	2,346,934	28	2,344,714	20.0	1,044

Annual subsidies are explicit amounts

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

MEMBER BENEFIT COVERAGE INFORMATION

The table below was previously referred to as the Solvency Test by the Government Finance Officers Association (GFOA). It should be noted, however, that it does not test the solvency of the System in the sense understood by financial economists that a 100 percent ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100 percent ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments. Consequently, we understand that the new GFOA checklist refers to the exhibit providing member benefit coverage information.

MEMBER BENEFIT COVERAGE INFORMATION						
Actuarial Valuation Date	Actuarial Liability		Reported Assets	Portion of Liability Covered by Reported Assets		
	Retirees, Beneficiaries and Other Inactives	Active Members		Reported Assets		
	(A)	(B)		(A)	(B)	
6/30/2017	\$ 408,627	\$ 221,825	\$ 248,583	61 %		0 %
6/30/2016	450,793	313,468	225,845	50		0
6/30/2015	469,903	347,770	209,761	45		0
6/30/2014	435,826	293,580	199,776	46		0
6/30/2013	495,967	374,905	157,695	32		0
6/30/2012	611,267	485,353	137,798	23		0
6/30/2011	652,157	493,203	135,454	21		0
6/30/2010	515,284	411,087	108,011	21		0
6/30/2009	421,367	375,081	85,564	20		0
6/30/2007	335,798	280,951	96,601	29		0

Dollar amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE

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	
6/30/2017	\$ 117	\$ 5,259	\$ 5,376	\$ 123,632	\$ 129,008	
6/30/2016	(16,044)	(11,608)	(27,652)	99,545	71,893	
6/30/2015	(19,264)	6,948	(12,316)	(64,155)	(76,471)	
6/30/2014	19,767	31,177	50,944	148,417	199,361	
6/30/2013	6,847	5,834	12,681	114,786	127,467	
6/30/2012	(14,897)	(27,919)	(42,816)	136,154	93,338	
6/30/2011	10,131	(35,166)	(25,035)	(131,557)	(156,592)	
6/30/2010	6,705	(43,746)	(37,041)	(36,785)	(73,826)	

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

SCHEDULE OF FUNDING PROGRESS

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
6/30/2017	\$ 248,583	\$ 630,452	\$ 381,869	39.4 %	\$ 287,339	133.0 %
6/30/2016	225,845	764,261	538,416	29.6	266,823	202.0
6/30/2015	209,761	817,673	607,912	25.7	251,430	242.0
6/30/2014	199,776	729,406	529,630	27.4	234,677	226.0
6/30/2013	157,695	870,872	713,177	18.1	226,098	315.0
6/30/2012	137,798	1,096,620	958,822	12.6	225,859	425.0
6/30/2011	135,454	1,145,360	1,009,906	11.8	228,936	441.0
6/30/2010	108,011	926,371	818,360	11.7	300,069	273.0
6/30/2009	85,564	796,448	710,884	10.7	308,697	230.0
6/30/2007	96,601	616,749	520,148	15.7	271,833	191.0

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility: Employees hired before September 2013 that did not elect to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Medical:

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 September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible for unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five 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 retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

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 had 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.

Dental:

Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement, are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City's dental plan at the time of the member's retirement.

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

- 1) The employee has five 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 dental plan immediately before death; and,
- 3) The survivor will receive a monthly pension benefit.

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE

Benefits for Retirees:

Medical: The System, through either the 401(h) account or 115 trust, 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.

Dental: The System, through either the 401(h) account or 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for calendar years 2017 and 2018 are as follows.

2017 MONTHLY PREMIUMS				
Plan	Single	Employee/ Spouse	Employee/ Child	Family
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
Blue Shield PPO \$25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 289.12	\$ 578.24	\$ 578.24	\$ 867.36
Blue Shield Medicare PPO / POS	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
DeltaCareHMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare \$20 Co-pay HMO

2018 MONTHLY PREMIUMS				
Plan	Single	Employee /Spouse	Employee / Child	Family
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 486.24	\$ 972.48	\$ 850.92	\$ 1,458.72
Kaiser \$25 Co-pay	593.84	1,187.68	1,039.22	1,781.52
Kaiser HDHP	409.70	819.40	716.98	1,229.10
Blue Shield PPO \$25 Co-pay	1,104.14	2,208.26	1,932.26	3,312.40
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 306.28	\$ 612.56	\$ 612.56	\$ 918.84
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,885.26
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,205.12
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 \$20 Co-pay HMO or PPO.

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE

SUMMARY OF 2018 BENEFIT PLANS						
Non-Medicare Plans	Kaiser \$25 Co-Pay	Kaiser DHMO	Kaiser High Deductible	Sutter Health Plus \$20 Co- pay HMO	Sutter Health Plus \$1,500 Deductible	Blue Shield PPO \$25 Co- pay (In Network)
Annual out-of-pocket maximum	\$1,500/\$3,000	\$4,000/\$8,000	\$5,950/\$11,900	\$1,500/\$3,000	\$4,000/\$8,000	\$2,100/\$4,200
Annual deductible	None	\$1,500/\$3,000	\$3,000/\$6,000	None	\$1,500/\$3,000	\$100/\$200
Office visit co-pay	\$25	\$40	30%*	\$20	\$20	\$25
Emergency room co-pay	\$100	30%*	30%*	\$100	30%*	\$100
Hospital care co-pay	\$100	30%*	30%*	\$100	30%*	\$100
Prescription Drug retail copay (30-day supply):						
Generic	\$10	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$30	\$25
Non-formulary	N/A	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 co-pay	\$25	\$25	\$25
Emergency room co-pay	\$50	\$100	\$100
Hospital care co-pay	\$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 José 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.

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: Employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Contributions: Employees are required to make mandatory contributions into the VEBA on a pre-tax basis.

Medical: VEBA funds can be used to reimburse members for eligible healthcare expenses.

VEBA members on service-connected disability will receive benefits from the Postemployment Healthcare Plan only up to age 65 once VEBA funds exhausted.

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

Federated City Employees' Retirement System

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2009-2018 *(In Thousands)*

PENSION BENEFITS (Schedule 1a)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Additions										
Employee contributions	\$ 20,501	\$ 17,227	\$ 15,920	\$ 13,621	\$ 13,596	\$ 12,652	\$ 10,555	\$ 24,602	\$ 13,396	\$ 13,848
Employer contributions	156,770	138,483	129,456	114,751	107,544	103,109	87,082	59,180	54,566	57,020
Investment income/(loss)*	117,493	146,010	(35,010)	(16,642)	263,688	146,367	(68,903)	287,179	197,755	(295,773)
Total additions to plan net position	294,764	301,720	110,366	111,730	384,828	262,128	28,734	370,961	265,717	(224,905)
Deductions										
Benefit payments	179,366	169,756	160,499	152,119	143,921	136,075	126,001	110,415	98,110	89,767
Death benefits	12,970	12,411	11,530	10,724	9,845	9,187	8,601	7,883	7,583	6,923
Refunds	1,064	1,263	1,289	1,719	2,170	1,545	2,195	1,980	1,219	1,395
Administrative expenses and other	4,823	4,380	3,940	3,898	3,201	3,024	3,306	2,867	2,641	2,108
Total deductions from plan net position	198,223	187,810	177,258	168,460	159,137	149,831	140,103	123,145	109,553	100,193
Changes in Plan Net Position	\$ 96,541	\$ 113,910	\$ (66,892)	\$ (56,730)	\$ 225,691	\$ 112,297	\$ (111,369)	\$ 247,816	\$ 156,164	\$ (325,098)

* Net of expenses

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Additions										
Employee contributions	\$ 15,545	\$ 16,827	\$ 17,881	\$ 18,645	\$ 17,494	\$ 15,979	\$ 14,995	\$ 16,041	\$ 15,815	\$ 15,076
Employer contributions	32,397	31,905	30,465	26,959	19,298	21,251	25,834	17,146	17,027	16,368
Investment income/(loss)*	12,336	17,041	(2,447)	(5,922)	28,737	13,817	(5,140)	21,842	13,852	(18,485)
Total additions to plan net position	60,278	65,773	45,899	39,682	65,529	51,047	35,689	55,029	46,694	12,959
Deductions										
Healthcare insurance premiums	29,724	31,007	29,577	29,443	27,924	30,943	33,077	27,370	24,066	21,725
Administrative expenses and other	170	242	237	254	257	207	268	216	181	132
VEBA Transfer	13,497	-	-	-	-	-	-	-	-	-
Total deductions from plan net position	43,391	31,249	29,814	29,697	28,181	31,150	33,345	27,586	24,247	21,857
Changes in Plan Net Position	\$ 16,887	\$ 34,524	\$ 16,085	\$ 9,985	\$ 37,348	\$ 19,897	\$ 2,344	\$ 27,443	\$ 22,447	\$ (8,898)

* Net of expenses

Source: Pension Administration System

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Age and Service Benefits										
Retirees - service	\$151,977	\$144,863	\$137,392	\$ 130,512	\$124,399	\$ 118,178	\$109,662	\$ 95,562	\$ 84,606	\$ 77,444
Retirees - deferred vested	18,445	16,486	14,961	13,507	12,017	10,692	9,261	8,047	6,996	6,219
Survivors - service	7,723	7,281	6,697	6,079	5,376	5,089	4,791	4,425	4,207	3,867
Survivors - deferred vested	276	284	287	279	272	232	161	130	138	126
Deaths in Service Benefits										
	3,010	2,878	2,776	2,702	2,610	2,413	2,349	2,202	2,161	2,032
Disability Benefits										
Retirees - duty	4,235	4,241	4,017	3,980	3,624	3,505	3,609	3,493	3,498	3,256
Retirees - non-duty	2,418	2,246	2,258	2,336	2,278	2,164	2,011	2,039	1,899	1,884
Survivors - duty	537	508	456	444	448	437	402	356	338	263
Survivors - non-duty	1,197	1,168	1,132	1,072	945	903	827	770	739	635
Ex-Spouse Benefits										
	2,518	2,212	2,053	1,932	1,797	1,649	1,529	1,274	1,111	964
Total Benefits	\$192,336	\$182,167	\$172,029	\$ 162,843	\$153,766	\$ 145,262	\$134,602	\$118,298	\$105,693	\$ 96,690
Type of Refund										
Separation	\$ 1,064	\$ 1,263	\$ 1,289	\$ 1,719	\$ 2,170	\$ 1,545	\$ 2,195	\$ 1,980	\$ 1,219	\$ 1,395
Total Refunds	\$ 1,064	\$ 1,263	\$ 1,289	\$ 1,719	\$ 2,170	\$ 1,545	\$ 2,195	\$ 1,980	\$ 1,219	\$ 1,395

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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Age and Service Benefits										
Retirees - Service										
Medical	\$ 18,089	\$ 18,668	\$ 17,734	\$ 18,061	\$ 16,002	\$ 19,493	\$ 20,262	\$ 18,971	\$ 16,344	\$ 14,772
Dental	3,040	2,923	2,799	2,521	2,850	3,089	3,083	2,840	2,474	2,150
Retirees - Deferred Vested										
Medical	1,635	1,641	1,477	1,455	1,243	1,436	1,418	1,241	1,180	1,063
Dental	10	10	10	12	18	21	23	24	27	26
Survivors - Service										
Medical	955	949	890	921	737	874	954	1,024	938	862
Dental	176	174	167	148	227	333	339	329	308	268
Survivors - Deferred Vested*										
Medical	20	26	33	31	28	32	24	18	16	11
Dental	1	1	2	2	3	5	2	-	-	1
Death in Service Benefits										
Medical	262	274	272	302	281	361	389	412	366	335
Dental	48	46	45	38	59	78	78	79	74	67
Disability Benefits										
Retirees - Duty										
Medical	949	957	938	981	920	1,133	1,217	1,253	1,241	1,166
Dental	121	116	115	109	130	146	157	162	161	142
Retirees - Non-Duty										
Medical	252	268	281	340	321	413	462	530	513	510
Dental	56	55	59	58	77	89	87	92	84	79
Survivors - Duty										
Medical	93	105	100	111	97	124	125	125	100	80
Dental	16	17	16	15	22	33	32	30	27	20
Survivors - Non-Duty										
Medical	153	172	179	177	142	178	192	195	171	139
Dental	25	26	26	23	32	44	45	45	42	34
Ex-Spouse Benefits										
Medical	4	3	3	3	3	3	4	-	-	-
Dental	1	1	1	1	1	1	1	-	-	-
Implicit Subsidy Medical										
Tier 1	3,818	4,577	4,430	3,811	4,165	3,057	4,383	-	-	-
Tier 2	-	-	-	323	415	-	-	-	-	-
Tier 2B	-	-	-	-	151	-	-	-	-	-
Total Benefits	\$ 29,724	\$ 31,009	\$ 29,577	\$ 29,443	\$ 27,924	\$ 30,943	33,277 *	\$ 27,370	\$ 24,066	\$ 21,725

* Total corrected in current year, prior year amount shown was \$33,077, which was incorrect.

Statistical Review *(continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2009-2018 (Schedule 3)

Fiscal Year	Fed Tier 1		Fed Tier 2		Fed Tier 2B	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%
2018	15.36	103.45	16.48	17.13	7.72	7.72
2017	15.23	87.47	14.80	15.45	6.04	18.70
2016	15.09	75.57	14.46	15.11	5.70	18.36
2015	14.40	69.66	14.29	14.94	5.53	18.19
2014	13.98	59.51	14.69	15.34	6.68	17.27
2013	13.00	52.36	13.94	14.59	N/A	N/A
2012	11.20*	35.50	N/A	N/A	N/A	N/A
2011	10.30*	29.59 **	N/A	N/A	N/A	N/A
2010	9.35	24.01	N/A	N/A	N/A	N/A
2009	8.93	23.56	N/A	N/A	N/A	N/A

* Some bargaining units negotiated temporary higher rates.

** Some bargaining units negotiated temporary higher member contribution rates, which directly offset the City's contribution rate.

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2018

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*							Option Selected **			
		1	2	3	4	5	6	7	A	B	C	Total
\$1-500	113	18	0	0	2	20	49	24	53	18	42	113
\$501-1,000	238	52	4	0	0	48	105	29	129	27	82	238
\$1,001-1,500	354	119	4	6	7	76	115	27	184	44	126	354
\$1,501-\$2,000	369	127	7	20	13	87	95	20	191	58	120	369
\$2,001-\$2,500	369	195	10	21	14	58	55	16	198	45	126	369
\$2,501-\$3,000	366	215	12	22	7	43	56	11	186	52	128	366
\$3,001-\$4,000	352	232	3	20	13	46	32	6	194	39	119	352
\$3,501-\$4,000	324	243	4	13	11	14	36	3	177	43	104	324
\$4,001-\$4,500	321	269	5	10	3	8	24	2	182	34	105	321
\$4,501-\$5,000	300	249	6	4	1	9	30	1	160	43	97	300
\$5,001-\$5,500	249	215	4	3	2	3	20	2	159	18	72	249
\$5,501-\$6,000	215	194	0	1	0	6	14	0	120	31	64	215
\$6,001-\$6,500	173	156	2	1	1	5	8	0	105	25	43	173
\$6,501-\$7,000	156	148	1	0	0	0	7	0	94	15	47	156
Over \$7,000	434	408	1	1	0	1	23	0	303	37	94	434
TOTAL	4,333	2,840	63	122	74	424	669	141	2,435	529	1,369	4,333

* Retirement Codes

1. Service
2. Survivor (survivor of active employee)
3. Service Connected Disability
4. Non-Service Connected Disability
5. Continuance (survivor of retired employee)
6. Deferred Vested
7. Ex-Spouse

** Option Descriptions

- A. Unmodified - 50% Continuance
- B. Option 1: 100% Continuance/reduced pension
- C. No Survivor - No Continuance

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2018

Amount Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	1,330	934
\$1 - 60	0	1,603
\$61 - 250	76	1,796
\$251 - 500	1,509	0
\$501 - 750	453	0
\$751 - 1000	733	0
Over \$1,000	232	0
TOTAL	4,333	4,333

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2018

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2018							
Average monthly benefit*	\$ 1,020	\$ 1,642	\$ 2,685	\$ 3,603	\$ 5,035	\$ 6,202	\$ 6,889
Average final average salary	\$ 6,320	\$ 5,872	\$ 5,957	\$ 6,000	\$ 6,524	\$ 6,461	\$ 6,475
Number of retired members**	173	485	550	738	653	968	138
As of June 30, 2017							
Average monthly benefit*	\$ 1,024	\$ 1,588	\$ 2,605	\$ 3,488	\$ 4,870	\$ 6,039	\$ 6,730
Average final average salary	\$ 6,171	\$ 5,737	\$ 5,817	\$ 5,780	\$ 6,370	\$ 6,334	\$ 6,403
Number of retired members**	160	473	545	702	642	945	138
As of June 30, 2016							
Average monthly benefit*	\$ 1,031	\$ 1,544	\$ 2,534	\$ 3,393	\$ 4,725	\$ 5,966	\$ 6,630
Average final average salary	\$ 6,009	\$ 5,602	\$ 5,714	\$ 5,617	\$ 6,313	\$ 6,243	\$ 6,329
Number of retired members**	154	459	525	667	637	914	136
As of June 30, 2015							
Average monthly benefit*	\$ 1,005	\$ 1,506	\$ 2,459	\$ 3,291	\$ 4,591	\$ 5,801	\$ 6,464
Average final average salary	\$ 5,609	\$ 5,492	\$ 5,583	\$ 5,497	\$ 6,253	\$ 6,134	\$ 6,378
Number of retired members**	153	443	503	664	631	878	136
As of June 30, 2014							
Average monthly benefit*	\$ 965	\$ 1,444	\$ 2,379	\$ 3,202	\$ 4,459	\$ 5,649	\$ 6,284
Average final average salary	\$ 5,464	\$ 5,313	\$ 5,438	\$ 5,394	\$ 6,171	\$ 6,011	\$ 6,346
Number of retired members**	146	435	499	639	615	844	136
As of June 30, 2013							
Average monthly benefit*	\$ 948	\$ 1,366	\$ 2,232	\$ 3,070	\$ 4,213	\$ 5,420	\$ 5,895
Average final average salary	\$ 3,724	\$ 5,000	\$ 5,189	\$ 5,343	\$ 6,127	\$ 6,019	\$ 6,638
Number of retired members**	117	413	454	629	608	854	159
Period 7/1/2011 to 6/30/2012							
Average monthly benefit	\$ 914	\$ 1,329	\$ 2,140	\$ 2,982	\$ 4,080	\$ 5,255	\$ 5,722
Average final average salary	\$ 3,516	\$ 4,803	\$ 4,975	\$ 5,280	\$ 5,975	\$ 5,920	\$ 6,513
Number of retired members**	113	402	433	619	586	831	159
Period 7/1/2010 to 6/30/2011							
Average monthly benefit*	\$ 842	\$ 1,267	\$ 2,036	\$ 2,835	\$ 3,851	\$ 5,036	\$ 5,577
Average final average salary	\$ 4,303	\$ 4,570	\$ 4,580	\$ 4,991	\$ 5,360	\$ 5,544	\$ 6,056
Number of retired members**	131	371	388	566	465	726	139
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	\$ 838	\$ 1,179	\$ 1,980	\$ 2,700	\$ 3,714	\$ 4,852	\$ 5,410
Average final average salary	\$ 4,203	\$ 4,221	\$ 4,393	\$ 4,778	\$ 5,129	\$ 5,311	\$ 5,929
Number of retired members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	\$ 778	\$ 1,139	\$ 1,899	\$ 2,585	\$ 3,545	\$ 4,671	\$ 5,281
Average final average salary	\$ 3,898	\$ 4,045	\$ 4,201	\$ 4,629	\$ 4,898	\$ 5,151	\$ 5,807
Number of retired members**	120	329	359	529	392	624	123

* Includes cost of living increases

** Does not include survivors and ex-spouses

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2018

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2018							
Average health subsidy	\$ 642	\$ 472	\$ 570	\$ 563	\$ 597	\$ 654	\$ 550
Number of health participants*	18	25	266	686	618	936	133
Average dental subsidy	\$ 85	\$ 84	\$ 89	\$ 89	\$ 92	\$ 94	\$ 84
Number of dental participants*	59	244	392	623	582	933	138
As of June 30, 2017							
Average health subsidy	\$ 785	\$ 569	\$ 666	\$ 667	\$ 726	\$ 776	\$ 633
Number of health participants	18	24	260	634	595	906	131
Average dental subsidy	\$ 83	\$ 84	\$ 88	\$ 89	\$ 92	\$ 94	\$ 86
Number of dental participants	59	250	394	593	574	908	138
As of June 30, 2016							
Average health subsidy	\$ 605	\$ 354	\$ 589	\$ 629	\$ 707	\$ 741	\$ 593
Number of health participants*	24	44	260	595	594	874	130
Average dental subsidy	\$ 79	\$ 80	\$ 84	\$ 86	\$ 89	\$ 90	\$ 83
Number of dental participants	64	250	390	572	576	877	137
As of June 30, 2015							
Average health subsidy	\$ 587	\$ 337	\$ 586	\$ 635	\$ 719	\$ 725	\$ 616
Number of health participants*	26	50	241	594	584	839	133
Average dental subsidy	\$ 82	\$ 84	\$ 87	\$ 86	\$ 91	\$ 90	\$ 84
Number of dental participants	66	249	375	569	571	845	137
As of June 30, 2014							
Average health subsidy	\$ 614	\$ 338	\$ 592	\$ 666	\$ 755	\$ 760	\$ 635
Number of health participants*	24	55	247	587	580	807	130
Average dental subsidy	\$ 85	\$ 84	\$ 86	\$ 86	\$ 91	\$ 90	\$ 83
Number of dental participants	63	244	372	548	565	811	135
Period 7/1/2012 to 6/30/2013							
Average health subsidy	\$ 582	\$ 380	\$ 589	\$ 712	\$ 778	\$ 790	\$ 680
Number of health participants*	27	64	226	576	562	817	148
Average dental subsidy	\$ 100	\$ 101	\$ 101	\$ 102	\$ 100	\$ 101	\$ 100
Number of dental participants*	65	243	341	544	558	818	151
Period 7/1/2011 to 6/30/2012							
Average health subsidy	\$ 698	\$ 426	\$ 645	\$ 797	\$ 873	\$ 902	\$ 768
Number of health participants*	27	66	218	580	547	800	150
Average dental subsidy	\$ 107	\$ 107	\$ 107	\$ 108	\$ 107	\$ 107	\$ 106
Number of dental participants*	63	245	325	540	542	800	151
Period 7/1/2010 to 6/30/2011							
Average health subsidy	\$ 866	\$ 773	\$ 764	\$ 855	\$ 898	\$ 928	\$ 848
Number of health subsidy*	21	39	191	544	448	711	138
Average dental subsidy	\$ 108,103	\$ 110	\$ 109	\$ 110	\$ 110	\$ 109	\$ 108
Number of dental participants*	64	233	300	500	430	708	139
Period 7/1/2009 to 6/30/2010							
Average health subsidy	\$ 587	\$ 461	\$ 650	\$ 797	\$ 828	\$ 867	\$ 816
Number of health subsidy*	28	65	212	515	402	649	128
Average dental subsidy	\$ 103	\$ 104	\$ 103	\$ 103	\$ 103	\$ 103	\$ 103
Number of dental participants*	61	218	289	474	384	646	130

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2018

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2008 to 6/30/2009							
Average health subsidy	\$ 596	\$ 636	\$ 636	\$ 757	\$ 779	\$ 817	\$ 764
Number of health participants*	26	65	209	505	377	608	121
Average dental subsidy	\$ 94	\$ 93	\$ 93	\$ 94	\$ 93	\$ 93	\$ 93
Number of dental participants*	61	212	286	467	360	608	122

* Does not include survivors and ex-spouses

Source: Pension Administration System

Retirements During Fiscal Year 2017-2018

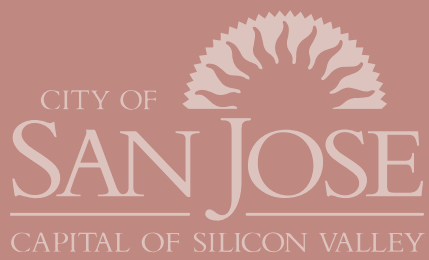
SERVICE RETIREMENTS		
ABELL, MIKE	DUENAS, NORBERTO	MINIER, LON
ACOSTA, RUDY T	DWYER, GEORGE M	MIRAMONTES, MIKE
ALAO, BRYAN	EMBRY, DESIREE	MOLICA, RALPH
ALBINI, OSVALDO	ERCOLINI, MICHAEL	MONTENEGRO, RAMON
ANAYA, LOUIE	ERVIN, JAMES B	MORALES, ALFRED J
ANDARY, ANTOINE	EVANICH, SHARYN	MORALES, DEBBIE
ANZALDO, JULIE	FALL, WILLIAM	MORALES, SONIA
APOR, ROSARIO J	FAN, SUSANNA H	MORROW, ANDRE
ARGUELLES, SUZANNE	FEDERICO, JOSE	MUNYAK, EDWARD
ARNOLD, SCOTT	FELICIANO, KEN	NAGATA, JOHN S
ASCENCIO, ROGELIO	FERRER, FLORANTE I	NG, AGATHA
AZCONA, CARL	FREEMAN, MICHAEL R	NG, BARRY
AZEVEDO, SONIA	GALLARDO, VICKY	NINO, ART
BAGGESE, DAVID	GANSER, DOUG	O'MEARA, MARY
BASHER, DEBRA	GERACI, KEN	ORTIZ, TONY
BATELLE, JEFF	GIOVANNETTI, MARK	PAGAN, STEVEN
BAUGHMAN, JAMES C	GONZALEZ, ARMANDO	PAGE, LESTER
BAUTISTA, CORAZON	GONZALEZ, LIZA G	PETERSON, JAMES
BEATON, DANIEL	GOODMAN, KAREN	PIERUCCINI, DAVID
BECKER, TAMARA	GRAYSON, NINA	QUINONEZ, JAIME
BESS, MARILYNN	GROSS, DON R	RAJBHANDARI, UDAYA
BLOOM, KARY	GUERRA, ROBERT	RIEGEL, VALERIE
BOREN, JACK	HAEBERLE, JEFFREY	RUCKER, JACQUELINE
BRADLEY, RONALD	HARASZ, MARYBETH	SANDERS, LYNN K
BRAY, JEFFREY	HERNANDEZ, NOE	SANDOVAL, GARY
BUCHANAN, DIANE	HOWARD, BARBARA	SCAGLIONE, MICHAEL
BUCKLES, NANCY	HUBBARD, PATRICIA	SHOTWELL, LISABETH
BURRIOS, DALE R	JACQUES, ROBIN	SILVERIO, ARLENE
BYBEE, DEBBIE	JUAREZ, FELIPE A	SIMS, BETTY
CARDONA, MICHAEL A	KAZEMI, JAMAL	SWINKELS, KIM
CASTRO, ROSEMARY	KELLY, STEVEN F	TAGUE, GENE
CHANG, MIGNON	KNIES, CARL	TANG, MICHAEL
CHENEY JR., VERNELL	LIU, JOYCE	TASI, JULIA
CHIEN, JOHN F	LOATFI, MORGAN	TERAJI, STEPHEN
CHIEN, MICHAEL	LUCK, SHERRILL	TOLENTINO, VALIA
CHOU, FLORENCE	MARTIN, SCOTT	TOY, SUE
CONTRERAS-TANORI, MARIA L	MC CHESNEY, STEVEN P	TRAN, THERESE V.
COTILLON, RITA	MCCARRICK, ROBERT	VILLANUEVA, JOSE
COX, JASPER C	MCEWEN, LAURA	VOSSBRINK, DAVID
CRAIN, MARK S	MENGHRAJANI, BHAVANA	WEBB JR., JAMES
DAYLEY, CHERYL	MILLER, CARMEN	WILLER, REESE D
DHILLON, INDERDEEP	MILLER, ROXANNE L	WILSON, EUNICE
DONNELLY, ELLEN	MINERVA, TOMMIE E	WILSON, JAMES

Retirements During Fiscal Year 2017-2018 *(continued)*

DEFERRED VESTED RETIREMENTS		
ALBRECHT, MELISSA	GALLOP, LAURA	RUFFING, MARK
ALFRED, CINDA	GARCIA, FLORENCE	SCARVER, CHRISTINE
ARNOLD, DON	GUERRA, JOSEPH	SEARS, LOUIS
BANTILLO, STEPHEN	GURZA, RENEE ANN	SHELTON, LESLIE
BEERMAN, DANIEL	HOGGS, GINA	SINAKI, MEDI
BLAUFUS, CHRISTINE M	HOLM, BELINDA	SUPERNAW, GERALD
BLEVINS, LISA A	HOOPER, DIRK	TAN, STANLEY P
BOYCE, TIM	HSU, PAUL	TARTER, JEFFREY
BURNS, KERRY	IPONG-GARCIA, TERESA	TRANHAM, PEGGY
CHAVEZ, DAWN	JATCZAK, ANNA L	TRICOLES, ROSANNE
CHIRBAS, MONICA	KLOPFER, STACY	TYMN, DAVID
DAPP, DALE	MCADAM, CELIA	WAX, DANIEL M
DAQUINA, OFELIA	MENTEER, JOHN W	WILLIAMS, BLYNTHIA D
DASILVA, LUIS	MODESTE, LINDA	WRIGHT, WILLIAM
DYER, ANDREW M	MUKHAR, JOHN	YATES, LISA
FREITAS, HARRY	PALMER, RAEMA A	YBARRA, GREG
FRIEDLAND, LUCILLE	PAPPALARDO, VICTOR A	
GADDIS, JAMES C	PAYNE, ELIZABETH	
SERVICE CONNECTED DISABILITY RETIREMENTS		
GIENGER, PAULA	WILLIAMS-JUNGE, ROBERT L	
NON-SERVICE CONNECTED DISABILITY RETIREMENTS		
	CHAPARRO, EDWARD	
EARLY RETIREMENTS		
	YU, CHILIN	

Deaths During Fiscal Year 2017-2018

DEATHS AFTER RETIREMENT		
ABERNATHY, DONALD L.	HAUGEN, STANLEY A.	PATRINO, GWENDOLINE L.
ABINGTON, FREDERICK J.	HERNANDEZ, RICARDO R.	PRYOR, RAYMOND E.
ALBANESE, JIM	HOLCOMB, JOHN W.	RENDLER, RICHARD E.
ASHER, ROBERT L.	INOUE, MAY	REYES, RAFAEL H.
BABYLON, ELVAN	LA POINTE, NORMAN	ROBERTS, CHARLES R.
BATDORFF, SHIRLEY A.	LEE, CURTIS O.	ROMANDIA, ERNEST J.
BELANGER, JANICE E.	LEIBOLT, JEAN H.	ROMER, FRANEY H.
BERMUDEZ, CLAYTON	LINDBERG, DIANE D.	ROUDEBUSH, MARY M. O.
BRAATELIEN, EDWIN H.	LOMBARDO, VITO J.	RUFFALO, ANTHONY
BURCH, DORRIS V.	LOPEZ, SUSANA L.	SALAZ, RICHARD F.
BURNHAM, PETER L.	LOSQUADRO, FRANK J.	SALSBURY, JANICE
BUSSE, KATHLEEN M.	LYKINS, HUBERT L.	SEGELIN, LINDA
CALLEJA, CONCEPTION T.	MADRIDEO, CONSUELO	SHANEN, ARTHUR S.
CARDOZA, JOSEPH E.	MALDONADO, JESSE	SHEELY, DORIS S.
CARNESECCA, CAROLYN D.	MANCUS, CAROLYN J.	SILVAS, ALMA C.
CARRILLO, GREG	MARIDON, LINDA L.	SILVER, ANNE M.
CASTILLO, ELIODORO S.	MC DONNELL, RICHARD D.	SMITH, JOHN E.
CLAYTON, HAROLD	MELLO, FRANK L.	SUNSERI, ANGLEO F.
COLOMBE, PATRICIA A.	MORALES, MARIA A.	TAYLOR, CHARLES
CONRAD, ANTHONY J.	MULLEN, MARGARET I.	THIELE, SHARON L.
DEE, GENIE	MYERS, FLORENCE	UNA'DIA ALICE
EDWARDS, BARBARA L.	O'HARE, ANNA M.	VANEGAS, ALBERT F.
FREITAS, CLIFFORD J.	O'KEEFE, HELEN T.	WANG, JAMES
FROMAN, MARY ANN	OLIVER, DREXEL W.	WELLS, BENJAMIN E.
GALINDO, DANIEL	PACHECO, SHERYL	WHITTLE, JEREE D.
GARCIA, MARIO A.	PAGLIARO, AMELIA C.	WINTERS, AUDREY A.
GERACI, PAUL N.	PALERMO, LORAYNE M.	ZAMBONI, LUCILLE B.
GLEICH, ELIZABETH A.	PANGILINAN, ESTRELLA R.	ZEPPENFELD, ELIZABETH O.
GUZMAN, ERNEST	PARSONS, DAVID E.	
HALL, MARY	PASCUA, INOCENCIO P.	
DEATHS BEFORE RETIREMENT		
DARBY, PATRICIA H.	TANAKA-LOZA, LESLIE	
REESE, LAURA	TSAN, JACKIE	



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