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**POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
City of San José, California  
RESOLUTION NO. 3625**

**RESOLUTION OF THE BOARD OF ADMINISTRATION OF THE  
POLICE AND FIRE DEPARTMENT DECLARING EXCESS  
EARNINGS AS OF JUNE 30, 2009 FOR THE PURPOSE OF  
TRANSFER TO THE SUPPLEMENTAL RETIREE BENEFIT  
RESERVE.**

**BE IT RESOLVED BY THE BOARD OF ADMINISTRATION FOR THE POLICE  
AND FIRE DEPARTMENT RETIREMENT PLAN:**

**WHEREAS**, pursuant to Section 3.36.580 A of the San José Municipal Code, there has been established the Supplemental Retiree Benefit Reserve ("SRBR") in the Police and Fire Department Retirement Plan (the "Board"); and

**WHEREAS**, Section 3.36.580 B required that the Board shall determine, declare, by written resolution, the excess earnings of the retirement fund for each fiscal year as of June 30 in such year, and shall transfer ten percent (10%) of such excess earnings to the SRBR; and

**WHEREAS**, for the purposes of SRBR calculation, "excess earnings" means the earnings of the retirement fund that remain after interest has been credited to SRBR as provided in Section 3.36.580 B.2 and the actuarial assumed earnings rate adopted by the Board has been credited to other reserves;

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF ADMINISTRATION  
FOR THE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN:**

The Board of Administration hereby determines and declares that there are no excess earnings of the Police and Fire Department Retirement Fund for the Fiscal Year 2008-2009 and, therefore, the amount to be transferred to the Supplemental Retiree Benefit Reserve for the twelve (12) months ending June 30, 2009 is zero (0).

**ADOPTED** this 5<sup>th</sup> day of November 2009 by the following vote:

**AYES:** Bacigalupi, Taylor, Brill, Herrera, Johnson, Keesling, Liccardo

**NOES:** None

**ABSENT:** None

\_\_\_\_\_  
**CONRAD TAYLOR, VICE CHAIR  
BOARD OF ADMINISTRATION**

**ATTEST:**

\_\_\_\_\_  
**RUSSELL U. CROSBY, SECRETARY  
BOARD OF ADMINISTRATION**



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VIA E-MAIL and USPS

October 27, 2009

Mr. Russell Crosby  
Director/Retirement Services  
San Jose City Police and Fire Department Retirement Plan  
1737 N First Street, Suite 580  
San Jose, CA 95112-4505

**Re: Supplemental Retiree Benefit Program – June 30, 2009**

Dear Russell:

We have calculated the value of the Supplemental Retiree Benefit Reserve (SRBR) as of June 30, 2009. The calculations are based on the final financial statements for the year ending June 30, 2009, provided by the System on October 8, 2009. If there are any changes to the net asset value of \$2,044,242,000 as of June 30, 2009 or to the income statement, we may need to revise the calculations.

The SRBR program provides additional benefits to the System's current retirees based upon the System's current smoothed earnings on the balance in the SRBR. Also, 10 percent of the System's excess smoothed earnings on the non-SRBR assets (earnings in excess of 8 percent per annum), if any, will be added to the SRBR principal amount.

**SRBR Value as of June 30, 2009**

For the plan year ending June 30, 2009, there are no regular interest earnings or excess interest earnings (i.e., 10% allocation of new excess earnings) that can be credited to the SRBR. This results in a preliminary SRBR value of \$32,327,475 as of June 30, 2009 before any transfers to the non-SRBR assets that may be required to "buydown" a portion of the City's contribution rate. That buydown will be determined in the upcoming June 30, 2009 actuarial valuation. Please refer to Exhibit 1 for the details of the calculation.

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**The final SRBR balance will be \$32,327,475 minus any transfer that may be required to the non-SRBR assets to “buydown” the City’s contribution rate; this transfer, if any, will be determined in the upcoming June 30, 2009 actuarial valuation.**

### **Methodology**

The following is a description of how the value of SRBR is determined as of June 30, 2009:

1. In each plan year, the amount allocated to the SRBR will be increased with interest at the “smoothed” market rate of return earned by the System, but only to the extent such returns are positive<sup>1</sup>, except under the circumstance described in 3. The principal portion of the SRBR on which interest will be applied is equal to the average monthly remaining balance in the SRBR after the payment of supplemental benefits.
2. At the end of each plan year, 10 percent of the System’s “excess” earnings (earnings remaining after interest has been credited to the SRBR and other reserves) is credited to the SRBR. This excess earnings allocation is added to the SRBR principal and is not available for distribution (Municipal Code section 3.36.580.B.4). No reductions to the SRBR can occur from “negative excess” earnings, except under circumstance described in 3.
3. The SRBR will generally be credited with positive regular and excess returns described in items 1 and 2. However, if the City’s contribution rate is going to increase in any biennial valuation because of poor market/investment returns of the Fund, then the SRBR accrued principal amount would be charged with 10 percent of the City’s increased contribution rate. The charge may not exceed 5 percent of the accrued principal balance of the SRBR fund.

The benefit disbursements will be based on the SRBR regular interest earnings in each plan year (see item 1. above) after 2000-2001, leaving the principal balance untouched, although that balance may increase per item 2 and decrease per item 3.

In 2008-2009, the SRBR paid the amount of \$2,889,186 to the retirees based upon regular interest earnings on the SRBR balance from July 1, 2007 through June 30, 2008.

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<sup>1</sup> The return for the year ended June 30, 2009 was -6.7618%. Since the SRBR would only be credited with positive returns, a loss of about \$2.3 million calculated by applying that return to the average SRBR balance was added to the non-SRBR assets. The loss on the SRBR decreases the rate of return on the non-SRBR assets by about 0.09%.

Mr. Russell Crosby  
October 27, 2009  
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### Special Note on Excess Earnings

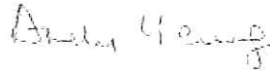
As we point out earlier in this letter, there are no excess earnings available for transfer to the SRBR for the plan year ending June 30, 2009. In determining the amount of excess earnings available for transfer to the SRBR, we have continued to use the definition applied since the inception of the SRBR, which is to include all earnings in excess of the current assumed rate of return on all the non-SRBR assets. The non-SRBR assets include (1) the Regular Retirement Fund, (2) the Cost-of-Living Retirement Fund and (3) the Postemployment Healthcare Benefits Fund.

Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, EA, MAAA  
Senior Vice President & Actuary



Andy Yeung, ASA, EA, MAAA  
Vice President & Associate Actuary

CZI/bqb  
Enclosure

EXHIBIT

Exhibit 1 - Calculation of Smoothed Market Return on Investments  
(Using Only Deferred Returns After June 30, 1999)

12 Months Ending:	June 30, 2009	June 30, 2008
1. Market Value	\$ 2,044,242,000	\$ 2,560,221,000
2. Investment gain (loss) for plan year ending:		
a. Third Prior Plan Year	64,952,360	51,992,440
b. Second Prior Plan Year	262,870,000	64,952,360
c. First Prior Plan Year	(377,679,440)	262,870,000
d. Most Recent Plan Year	(687,215,335)	(377,679,440)
3. Total Deferred Return (Unallocated market Gain (Loss)) (2a.*0.2 + 2b.*0.4 + 2c.* 0.6 + 2d.*0.8)	\$ (658,241,460)	\$ (108,042,120)
4. Preliminary Smoothed Market Value (1.-3.)	\$ 2,702,483,460	\$ 2,668,263,120
5. Corridor Limit		
a. 80% of Net Market Value	\$ 1,635,393,600	\$ 2,048,176,800
b. 120% of Net Market Value	\$ 2,453,090,400	\$ 3,072,265,200
6. Smoothed market Value (Item 4. but no less than 5a. or greater than 5b.))	\$ 2,453,090,400	\$ 2,668,263,120
7. BOY Market Value	\$ 2,560,221,000	\$ 2,735,649,000
8. BOY Smoothed Value	\$ 2,668,263,120	\$ 2,441,323,088
9. Contributions	\$ 92,532,000 (2)	\$ 95,351,000 (1)
10. Benefits	\$ 126,747,000 (1)	\$ 111,313,000 (1)
11. Investment Income on Smoothed Market Value of Assets (6.-8.-9.+10.)	\$ (180,957,720)	\$ 242,902,032
12. Investment Income on Market Value of Assets (1.-7.-9.+10.)	\$ (481,764,000)	\$ (159,466,000)
13. Unallocated Market gains (losses) for year (12.-11.)	\$ (300,806,280)	\$ (402,368,032)
14. Rate of Return - Smoothed Market Basis (11./(8.+(9.*weighted average)-(10.*0.5)))	-6.7618%	9.9822%
15. Investment Income based on 8% (8%*(6.+8.)/208%)	\$ 196,975,135	\$ 196,522,546
16. SRBR Average Monthly Remaining Balance during year	\$ 33,772,068	\$ 28,943,377
17. SRBR Interest credited in excess of 8% ((14.-8%)*16., if greater than \$0)	-	\$ 573,716
18. Excess Interest (11.-15.-17.)	\$ (377,932,855)	\$ 45,805,770
19. 10% of excess interest (not less than \$0)	\$ -	\$ 4,580,577
20. SRBR "Regular Interest" rate (greater of 14. or 0%)	0.0000%	9.9822%
21. Total SRBR Interest Credited (16.*20.+19.)	\$ -	\$ 7,469,763
22. SRBR Benefit Distributed during year	\$ 2,889,186 (1)	\$ 2,392,958 (1)
23. SRBR balance as of June 30 before distribution	\$ 32,327,475	\$ 35,216,661
24. Portion of Total SRBR Interest Available for Distribution (21.-19.)	\$ -	\$ 2,889,186
25. Charge to SRBR Due to Increase in City's Contributions	To Be Determined (3)	\$ -

Year Ending	Total SRBR Interest Credits	SRBR Benefit Distributed During Year	Charge to SRBR Due to An Increase In City Contributions	SRBR Balance As of June 30 Before Distribution
06/30/2000	\$ 1,498,840	\$ -	\$ -	\$ 20,609,140
06/30/2001	1,265,731	-	-	21,874,871
06/30/2002	827,383	2,762,713	-	19,939,541
06/30/2003	585,006	829,241	-	19,695,306
06/30/2004	871,399	585,006	-	19,981,699
06/30/2005	1,112,194	871,399	955,515 (4)	19,266,979
06/30/2006	2,475,887	1,112,194	-	20,630,672
06/30/2007	11,941,763	1,583,352	849,227 (4)	30,139,856
06/30/2008	7,469,763	2,392,958	-	35,216,661
06/30/2009	-	2,889,186	To Be Determined (3)	32,327,475

- (1): Contributions and benefit payments were assumed to be received or made on the average around the middle of the plan year.
- (2): The assumed timing of contributions received has been adjusted to recognize the prepayment of the City's contributions received on August 1, 2008 and the reconciliation of contributions paid at the end of the 2008/2009 plan year. Member contributions were assumed to be received on the average around the middle of the plan year.
- (3): This amount will be calculated in the June 30, 2009 actuarial valuation.
- (4): Assuming transfer made at the beginning of the plan year.