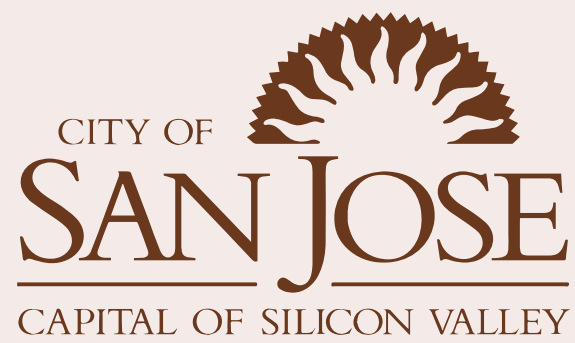


City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended
June 30, 2019 and June 30, 2018







City of San José Police and Fire Department Retirement Plan

Roberto L. Peña
Chief Executive Officer

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, 2019 and June 30, 2018

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



Office of Retirement Services

Police and Fire Department Retirement Plan

November 12, 2019

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

Dear Mayor, Council Members, and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (the Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019.

The Pension Plan earned a time-weighted net of investment fees rate of return of 4.3% on investments, underperforming the net rate of return of 6.75% assumed by the Board and Plan's actuary for the fiscal year ended June 30, 2019.

The net of investment fees Plan return was consistent with the 4.4% return for its policy benchmark but trailed the 5.4% return for the Investment Metrics universe net median of public funds greater than \$1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 6.9% and 3.8% for the three-year and five-year periods ending June 30, 2019, respectively, while the Investment Metrics net median earned a time-weighted rate of return of 8.7% and 5.6% for the same periods.

The Healthcare Plans earned a time-weighted net of investment fees rate of return of 4.8% on investments for the fiscal year, compared to a 4.7% return for its policy benchmark. Additionally, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 5.1% and 2.8% for the three-year and five-year periods ending June 30, 2019, respectively.

The Plan's net position increased from \$3,658,711,000 to \$3,774,379,000 (see the Financial Section beginning on page 12). The net increase in the Plan's net position for fiscal year 2018-2019 was \$115,668,000.

The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year through the leadership of our CEO and an CIO. During fiscal year 2018-19, the Board implemented a comprehensive investment-governance framework as well as a revised strategic asset allocation program.

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,

Vincent Sunzeri, Chairman
Board of Administration

This page intentionally left blank

Table Contents

	PAGE
I. INTRODUCTORY SECTION	
Letter of Transmittal	4
Certificate of Achievement for Excellence in Financial Reporting	7
Certificate of Meeting Professional Standards in Public Pensions	8
Board of Administration, Administration and Outside Consultants	9
Office of Retirement Services Organizational Chart	11
II. FINANCIAL SECTION	
Independent Auditor's Report	13
Management's Discussion and Analysis	16
Basic Financial Statements	
Statements of Plan Net Position	28
Statements of Changes in Plan Net Position	30
Notes to the Basic Financial Statements	32
Required Supplementary Information	
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Defined Benefit Pension Plan	75
Schedule of Investment Returns - Defined Benefit Pension Plan	75
Schedule of Employer Contributions - Defined Benefit Pension Plan	76
Notes to Schedule - Defined Benefit Pension Plan	76
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios - Postemployment Healthcare Plans	78
Schedule of Investment Returns - Postemployment Healthcare Plans	78
Schedule of Employer Contributions - Postemployment Healthcare Plans	79
Notes to Schedule - Postemployment Healthcare Plans	79
Other Supplemental Information	
Combining Schedule of Defined Benefit Pension Plan Net Position	80
Combining Schedule of Changes in Defined Benefit Pension Plan Net Position	81
Schedules of Administrative Expenses and Other	82
Schedules of Payments to Consultants	82
Schedules of Investment Expenses	83
III. INVESTMENT SECTION	
Report of Investment Activity	84
Statement of Investment Policy	89
Investment Professionals	118
Schedule of Investment Results	119
Investment Review	
Target Asset Allocation / Actual Asset Allocation - Defined Benefit Pension Plan	121
Historical Asset Allocation (Actual) / Market Value Growth of Plan Assets - Defined Benefit Pension Plan	122
History of Gross and Net Performance - Defined Benefit Pension Plan	123
Target Asset Allocation / Actual Asset Allocation - Postemployment Healthcare Plans	124

Table Contents *(continued)*

	PAGE
Historical Asset Allocation (Actual) / Market Value Growth of Plan Assets	
- Postemployment Healthcare Plans	125
History of Gross and Net Performance - Postemployment Healthcare Plans	126
List of Largest Assets Held	127
Schedule of Investment Fees	128
Schedule of Commissions	129
Investment Summary	133
 IV. ACTUARIAL SECTION	
Defined Benefit Pension Plan	
Actuary's Certification Letter	134
Actuarial Assumptions and Methods	137
Schedule of Active Member Data	140
Schedule of Retirees and Beneficiaries Added to and Removed from Rolls	141
Analysis of Financial Experience	141
Schedule of Funded Liabilities by Type	142
Schedule of Funding Progress	142
Summary of Pension Plan Provisions	143
 Postemployment Healthcare Plans - Police and Fire	
Actuary's Certification Letter - Police / Fire	148 / 164
Actuarial Assumptions and Methods - Police / Fire	151 / 167
Schedule of Active Member Data - Police / Fire	157 / 174
Schedule of Retirees and Beneficiaries Added to and Removed From Rolls - Police / Fire	158 / 174
Member Benefit Coverage information - Police / Fire	158 / 175
Analysis of Financial Experience - Police / Fire	159 / 175
Schedule of Funding Progress - Police / Fire	159 / 176
Summary of Key Substantive Plan Provisions - Police / Fire	160 / 177
 V. STATISTICAL SECTION	
Statistical Review	
Changes in Plan Net Position - Defined Benefit Pension Plan	182
Changes in Plan Net Position - Postemployment Healthcare Plans	183
Benefit and Refund Deductions from Plan Net Position by Type - Defined Benefit Pension Plan	184
Benefit and Refund Deductions from Plan Net Position by Type - Postemployment Healthcare Plans	185
Employer and Employee Contribution Rates	186
Retired Members by Type of Benefit	187
Average Benefit Payment Amounts	189
 Retirements During Fiscal Year	
Retirements	193
 Deaths During Fiscal Year	
Deaths	194

This page intentionally left blank

Introductory Section



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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2018

2
0
1
9

Letter of Transmittal



Office of Retirement Services

Police and Fire Department Retirement Plan

November 12, 2019

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

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San José Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2019. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Plan's management.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). Transactions of the Plan are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2019 and 2018, please refer to the Management's Discussion and Analysis (MD&A) on page 16.

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

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

I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2018. This was the 19th consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Plan 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 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Letter of Transmittal *(continued)*

The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

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

Funding

The Plan's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of the most recent actuarial valuation dated June 30, 2018, the funding ratio of the defined benefit pension plan and the defined benefit Police and Fire OPEB plans were 76.6%, 23.7% and 18.5%, respectively, based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the Plan is currently 6.75%. The impact of the difference between the actual net rate of return earned by the Plan and the 6.75% assumption will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in Plan net position for fiscal year 2018-2019 was \$115,668,000. Details of the components of this increase are included in the *Statement of Changes in Plan Net Position* on page 30. The defined benefit pension plan's funding progress is presented on page 142 and the defined benefit OPEB plan's funding progress is presented on pages 159 for Police and 176 for Fire.

Investment Summary

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

Over the past fiscal year, the Pension Plan's time-weighted net of investment fees rate of return was 4.3% for the fiscal year, compared to a 4.4% return for its policy benchmark and a 5.4% return for the Investment Metrics universe net median of public funds greater than \$1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 6.9% and 3.8% for the three-year and five-year periods ending June 30, 2019, respectively, while the Investment Metrics universe net median earned a time-weighted rate of return of 8.7% and 5.6% for the same periods.

The Healthcare Plans' time-weighted net of investment fees rate of return was 4.8% on investments for the fiscal year, compared to a 4.7% return for its policy benchmark. In addition, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 5.1% and 2.8% for the three-year and five-year periods ending June 30, 2019, respectively.

The net position of the Plan increased from \$3,658,711,000 to \$3,774,379,000 (see the Financial Section beginning on page 12).

Major Initiatives

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 investment team filled open positions, worked on an investment governance framework, and worked with our general consultant Meketa in implementing a revised strategic asset allocation.

Letter of Transmittal *(continued)*

In November 2016, a charter amendment to alter the pension system for public employees, known as Measure F, was approved, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan. The provisions of the Framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power (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 fiscal year 2017-2018, ORS completed most of the implementation of Measure F. For fiscal year 2018-2019, ORS issued a request for proposal (RFP) for a 3-doctor Board panel to address Measure F changes but the response was poor, which leaves this aspect of Measure F still outstanding. In addition, ORS worked with the City to implement the reclassification of some members back to Tier 1.

The Office of Retirement Services (ORS) implemented a new pension administration system that went live in February 2019; the implementation of the system started in March 2015. The implementation process spanned approximately 44 months and cost approximately \$9 million. The project completion was extended to the fall of 2019 to allow for the implementation of Measure F-related calculations in the system.

In March 2019, the Chief Operations Officer/Deputy Director, Donna Busse, retired. The Office of Retirement Services conducted a recruitment for the position and subsequently, Barbara Hayman was promoted to Chief Operations Officer/Deputy Director effective May 2019.

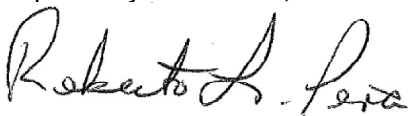
In October 2017, the City Auditor issued report 17-06, *Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration*. The report was published with five separate findings which are covered in 25 different recommendations and five of the 25 recommendations are addressed to the City. ORS has addressed and completed all but 3 of the recommendations over which they have control, including preparing a comprehensive annual budget report through the Manager's Budget Addendum Process (MBA) for the City Council.

Enrollment audits were conducted for dental, vision and life insurance benefits to ensure that enrollments in the retirement plan matched the enrollments in the vendor systems. In addition, ORS began the Medicare Mandate Compliance initiative which ensures that all members aged 65 and older are compliant with the Medicare mandates in the retirement plan. Staff also participated in the City's medical vendor RFP, which resulted in a new medical insurance vendor for the plan year 2020.

Conclusion

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

Respectfully Submitted,



Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

This page intentionally left blank



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO



Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2018

Presented to

City of San Jose Police and Fire Department
Retirement Plan

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in black ink, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

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

As of June 30, 2019, the members of the Board were as follows:



**VINCENT SUNZERI,
CHAIR**

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



**ANDREW GARDANIER,
VICE CHAIR**

Employee representative for the Fire Department appointed to the Board in December 2015. His term ends November 2019.



NICK MUYO, TRUSTEE

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



**FRANCO VADO,
TRUSTEE**

Employee representative for the Police Department appointed to the Board in February 2016. His term expires November 30, 2021.



**ANDREW LANZA,
TRUSTEE**

Public member appointed to the Board in April 2011. His current term expires April 30, 2023.



**RICHARD SANTOS,
TRUSTEE**

Retired Plan member appointed to the Board in March 2011. His current term expires November 30, 2022.



**VIKAS OSWAL,
TRUSTEE**

Public member appointed to the Board in November 2018. His current term expires November 30, 2022.



**GHIA GRIARTE,
TRUSTEE**

Public member appointed to the Board in November 2014. Her current term expires December 31, 2019.



**ESWAR MENON,
TRUSTEE**

Public member appointed to the Board in November 2018. His current term expires November 30, 2022.



**PAM FOLEY, CITY
COUNCIL LIAISON TO
THE BOARD**

Non-voting member appointed to the Board January 2019.

OFFICE OF RETIREMENT SERVICES ADMINISTRATION



**ROBERTO L. PEÑA,
DIRECTOR
CHIEF EXECUTIVE
OFFICER**



**BARBARA HAYMAN,
DEPUTY DIRECTOR
CHIEF OPERATIONS
OFFICER**



**PRABHU PALANI,
CHIEF INVESTMENT
OFFICER**

STANDING PUBLIC MEETINGS

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

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

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

OUTSIDE CONSULTANTS

ACTUARY

Cheiron, Inc.
Encinitas, CA

AUDITOR

Grant Thornton LLP
San Francisco, CA

DOMESTIC RELATIONS ORDER AND DISABILITY COUNSEL

Saltzman & Johnson Law Corporation
Alameda, CA

GENERAL & FIDUCIARY COUNSEL

Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

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

INVESTMENT CONSULTANTS

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investment Group, Inc – General Consultant
Carlsbad, CA

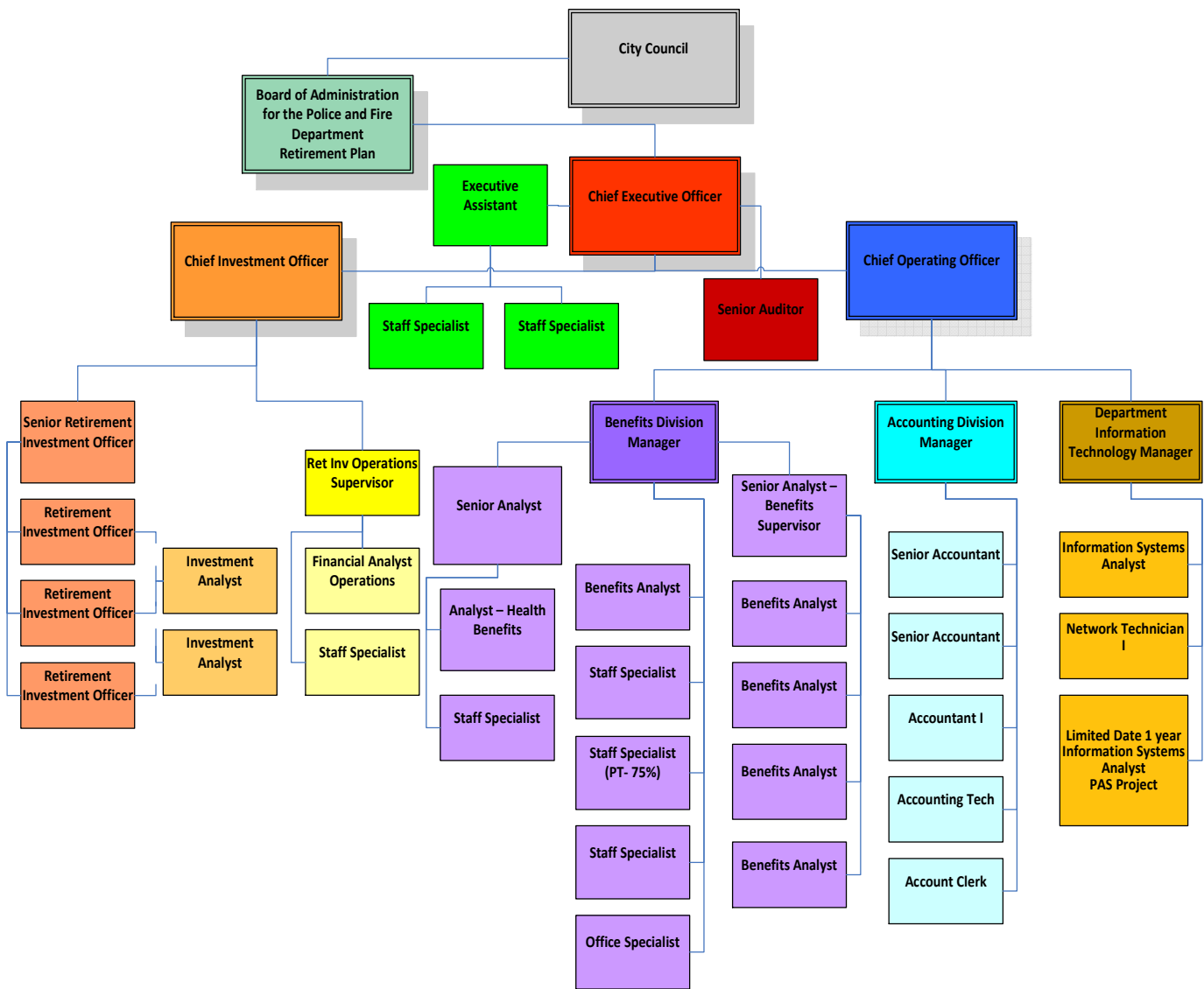
Verus Advisory Inc. – Risk Advisory
Seattle, WA

TAX COUNSEL

Ice Miller LLP
Indianapolis, IN

A list of investment professionals who provide services to the Pension and Postemployment Healthcare benefits can be found on page 118 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 128 and 129, respectively.

2019 Office of Retirement Services Organizational Chart



Office of Retirement Services

1737 North First Street Suite 600, San Jose, CA 95112
 (408) 794-1000 | (800) 732-6477 | (408) 392-6732 Fax
www.sjretirement.com

Financial Section



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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2018

Independent Auditor's Report



GRANT THORNTON LLP
101 California Street, Suite 2700
San Francisco, CA 94111

D +1 415 986 3900
F +1 415 986 3916

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying financial statements of City of San José Police and Fire Department Retirement Plan (the "Plan"), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

GT.COM

Grant Thornton LLP is the U.S. member firm of Grant Thornton International Ltd (GTIL). GTIL and each of its member firms are separate legal entities and are not a worldwide partnership.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Plan as of June 30, 2019 and 2018, and the changes in plan net position for the year 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 pension 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Plan's basic financial statements. The combining schedule of defined benefit pension plan net position as of June 30, 2019, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2019, schedules of payments to consultants, and schedules of investment expenses for the years ended June 30, 2019 and 2018 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.

Independent Auditor's Report *(continued)*



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 12, 2019, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Grant Thornton LLP

San Francisco, California
November 12, 2019

Management's Discussion and Analysis (unaudited)



November 12, 2019

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

The Office of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2019 and 2018. The Plan, consisting of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans, was established to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 4 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2019

- As of June 30, 2019, the Plan had \$3,774,379,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of \$3,588,422,000 restricted for pension benefits is available to meet the Plan's ongoing obligations to plan participants and their beneficiaries. The Postemployment Healthcare Plans' net position of \$185,957,000 is available for the exclusive use of retiree medical benefits.
- The Plan's total net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2019 by approximately \$115,668,000 or 3.2% 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, as well as the increase in contributions during the fiscal year.
- Additions to plan net position during fiscal year ended June 30, 2019 were \$365,574,000, which includes employer and employee contributions of \$205,362,000 and \$38,126,000, respectively, and net investment income of \$122,086,000. This represents a decrease of \$(98,034,000) or (21.1)% of total additions from the prior fiscal year amount of \$463,608,000.
- Deductions from plan net position for fiscal year ended June 30, 2019 increased from \$247,836,000 to \$249,906,000 over the prior fiscal year, or approximately 0.8%, due to a combination of an increase in retirement benefit payments, a decrease in healthcare insurance premiums and a decrease in the transfer of Voluntary Employee Beneficiary Association (VEBA) assets. The increase in retirement benefits payments was attributable to an increased number of retired members and beneficiaries, while the decrease in healthcare insurance premiums was due to lower insurance rates. The one-time election for the VEBA occurred for most of the eligible employees last fiscal year. Any transfers for the VEBA are expected to be minimal from then on.

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

Overview of the Financial Statements

The Plan's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2019, 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). The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which are comprised of these components:

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

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

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

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

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

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

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

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 32 of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 75 of this report). *The Schedule of Changes in the Employer's Net Pension Liability and Related Ratios of the Defined Benefit Pension Plan* was prepared using the Plan's net position.

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

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

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the Plan's financial position (see Tables 1a and 1c on pages 18 - 19). At the close of fiscal years 2019 and 2018, the Plan's total assets exceeded the Plan's total liabilities. The Plan's financial statements do not include the total pension liability or the total OPEB liability for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans, respectively.

The Pension Plan's net position as a percentage of the total pension liability and the Postemployment Healthcare Plan's total OPEB liability should also be considered when evaluating the Plan's financial health. Based on the June 30, 2018 actuarial valuation rolled forward to June 30, 2019, the net position of the Defined Benefit Pension Plan was 73.6% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 25.4% for Police and 21.0% for Fire. For more information on the results and impact of the June 30, 2018 actuarial valuations. Please see Notes 4 and 5 to the financial statements beginning on page 64.

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

As of June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 46,864	\$ 9,900	\$ 36,964	373.4 %
Investments at fair value	3,544,827	3,491,602	53,225	1.5 %
Capital assets, net	3,031	1,726	1,305	75.6 %
Total Assets	3,594,722	3,503,228	91,494	2.6 %
Current liabilities	6,300	7,037	(737)	(10.5)%
Total Liabilities	6,300	7,037	(737)	(10.5)%
Plan Net Position	\$ 3,588,422	\$ 3,496,191	\$ 92,231	2.6 %

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

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

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 9,900	\$ 19,014	\$ (9,114)	(47.9)%
Investments at fair value	3,491,602	3,277,084	214,518	6.5 %
Capital assets, net	1,726	1,488	238	16.0 %
Total Assets	3,503,228	3,297,586	205,642	6.2 %
Current liabilities	7,037	4,329	2,708	62.6 %
Total Liabilities	7,037	4,329	2,708	62.6 %
Plan Net Position	\$ 3,496,191	\$ 3,293,257	\$ 202,934	6.2 %

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

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

As of June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	\$ 4,775	\$ 18,295	\$ (13,520)	(73.9)%
Investments at fair value	182,307	152,091	30,216	19.9 %
Capital assets, net	46	29	17	58.6 %
Total Assets	187,128	170,415	16,713	9.8 %
Current liabilities	1,171	7,895	(6,724)	(85.2)%
Total Liabilities	1,171	7,895	(6,724)	(85.2)%
Plan Net Position	\$ 185,957	\$ 162,520	\$ 23,437	14.4 %

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

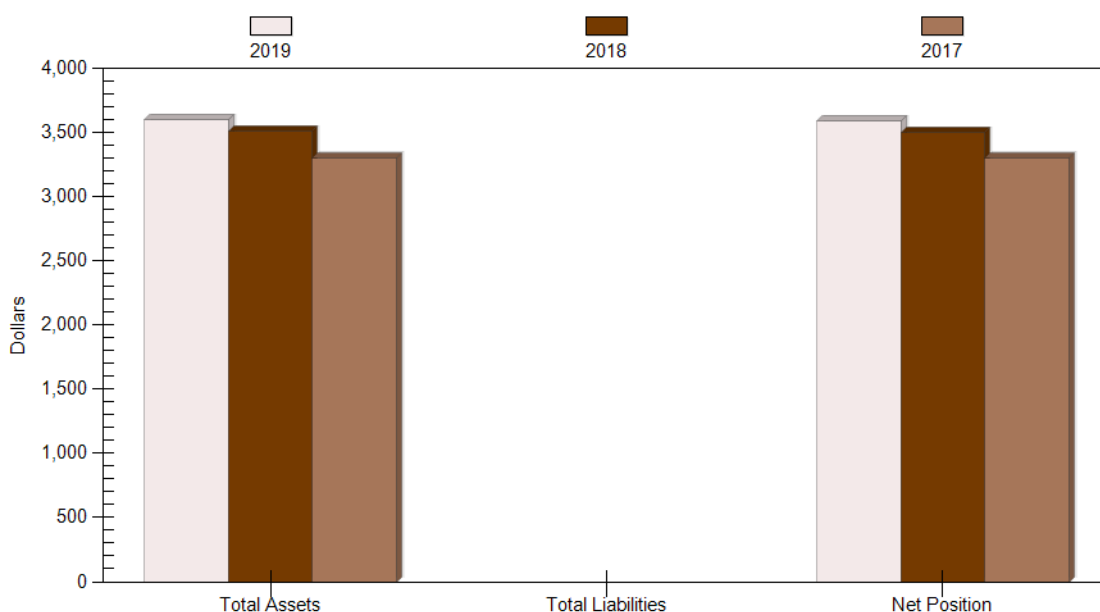
As of June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase Amount	Increase Percent
Receivables	\$ 18,295	\$ 3,859	\$ 14,436	374.1 %
Investments at fair value	152,091	145,935	6,156	4.2 %
Capital assets, net	29	25	4	16.0 %
Total Assets	170,415	149,819	20,596	13.7 %
Current liabilities	7,895	137	7,758	5,662.8 %
Total Liabilities	7,895	137	7,758	5,662.8 %
Plan Net Position	\$ 162,520	\$ 149,682	\$ 12,838	8.6 %

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

As of June 30, 2019, 2018 and 2017

(Dollars in Millions)

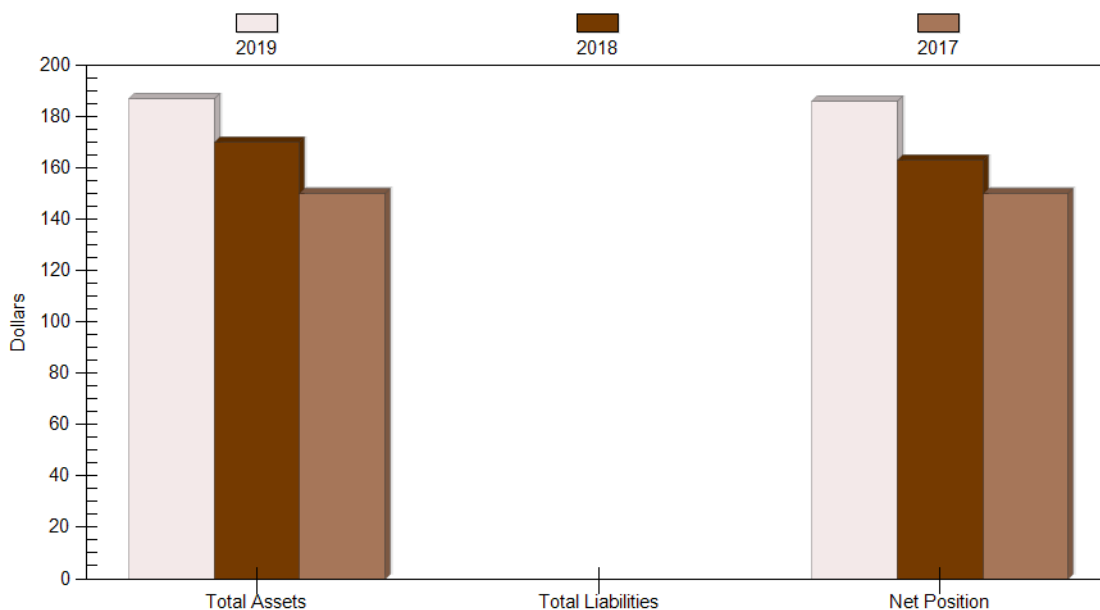


Management's Discussion and Analysis (unaudited) (continued)

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

As of June 30, 2019, 2018 and 2017

(Dollars in Millions)



As of June 30, 2019, \$3,588,422,000 and \$185,957,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on pages 18 - 19). Plan net position restricted for pension benefits of \$3,588,422,000 is available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$185,957,000 is available for the exclusive use of retiree medical benefits.

As of June 30, 2019, total net position restricted for pension benefits and for the postemployment healthcare benefits increased by 2.6% and 14.4% from the prior year, primarily due to the net appreciation in the fair value of investments of \$101,239,000 and \$5,034,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 49.

As of June 30, 2018, \$3,496,191,000 and \$162,520,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on pages 18 - 19). Plan net position restricted for pension benefits of \$3,496,191,000 was available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$162,520,000 was available for the exclusive use of retiree medical benefits.

As of June 30, 2018, total net position restricted for pension benefits increased by 6.2% and increased by 8.6% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of \$214,898,000 and \$4,100,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 49.

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

As of June 30, 2019, receivables increased by \$36,964,000 or 373.4% in the Defined Benefit Pension Plan and decreased by \$(13,520,000) or (73.9)% in the Postemployment Healthcare Plans. Receivables in the Defined Benefit Pension Plan increased while receivables in the Postemployment Healthcare Plans decreased mainly due to pending investment trades at year end, causing either an increase or decrease in receivables from brokers and other and accrued investment income receivables. In the previous year, receivables for the Defined Benefit Pension Plan decreased by \$(9,114,000) or (47.9)% due to a decrease in receivables from brokers and others for year-end investment trades and increased by \$14,436,000 or 374.1% in the Postemployment Healthcare Plans due to an increase in receivables from brokers and others for year-end investment trades.

As of June 30, 2019, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by \$(737,000), or (10.5)% and \$(6,724,000) or (85.2)%, respectively, compared with June 30, 2018, mainly due to decrease in payables to brokers and others for year-end investment trades as a result of the timing of investment transactions. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by \$2,708,000, or 62.6% and \$7,758,000 or 5,662.8%, respectively, compared with June 30, 2017, due to an increase in payables to brokers and others for year-end investment trades.

POLICE AND FIRE PLAN ACTIVITIES

In the fiscal year ended 2019, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plans net position increased by \$115,668,000, or 3.2%, primarily due to the favorable market conditions during the fiscal year. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions along with earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plans for the fiscal year ended June 30, 2019, were \$315,608,000 and \$49,966,000, respectively (see Tables 2a and 2c on pages 23 - 24).

For the fiscal year ended June 30, 2019, total additions for the Defined Benefit Pension Plan decreased by \$(99,420) or (24.0)% but increased by \$1,386,000 or 2.9%, for the Postemployment Healthcare Plans. The primary cause of the decrease from prior year in the Defined Benefit Pension Plan was a combination of the decrease in net investment income of \$(119,296,000) and the increase in contributions of \$19,876,000. The primary cause of the increase from prior year in the Postemployment Healthcare Plans is the increase in employer contributions of \$3,362,000.

The decrease in investment income was due to less than favorable market conditions during the fiscal year as compared to prior year, and the increase in employer contributions is due to the increase in City contribution rates of about 2% for Tier 1. While the City contributions increased, employee contributions decreased for the Postemployment Healthcare Plans as a result of the implementation of the VEBA, which stopped contributions for those who opted in to the VEBA.

The Plan's time-weighted net rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2019 for the Defined Benefit Pension Plan, was 4.3% compared to 6.9% for fiscal year 2018.

For the fiscal year ended June 30, 2018, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans decreased by \$(35,243,000) and \$(2,656,000), or (7.8)% and (5.2)%, respectively. The primary cause of the decrease from the prior year was combination of the decrease in net investment income of \$(59,259,000) and \$(5,382,000) and the increase in City contributions of \$20,755,000 and \$4,715,000 in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively.

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

The decrease in investment income was due to less than favorable market conditions during the fiscal year as compared to prior year, and the increase in employer contributions is due to the increase in City contribution rates of around 15% for Tier 1 and 5% for Tier 2. While the City contributions increased, employee contributions decreased for the Postemployment Healthcare Plans as a result of the implementation of the VEBA, which stopped contributions for those who opted in to the VEBA.

The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2018, for the Defined Benefit Pension Plan was 7.3% compared to 10.3% for fiscal year 2017. On a net of investment fee basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2018, was 6.9% compared to 9.7% for fiscal year 2017.

Deductions from Plan Net Position

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

Deductions for the fiscal year ended June 30, 2019, totaled \$223,377,000 and \$26,529,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.3% from the previous year due to an increase in benefit payments (see Table 2a on page 23). The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plans decreased by (25.8)% from the previous year mainly due to the elimination of the transfer of VEBA assets for the 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. Since last fiscal year was the initial transfer of the VEBA assets, it had the most amount whereas the following five years will expect little to no transfer of the VEBA assets. (see Table 2c on page 24).

Deductions for the fiscal year ended June 30, 2018, totaled \$212,094,000 and \$35,742,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.7% from the previous year due to an increase in benefit payments. 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 (see Table 2b on page 23). Deductions for the Postemployment Healthcare Plans increased by 43.1% from the previous year due to the net result of a decrease in 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. (see Table 2d on page 24).

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

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

For the Fiscal Years Ended June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 24,811	\$ 23,841	\$ 970	4.1 %
Employer contributions	176,618	157,712	18,906	12.0 %
Net investment income ¹	114,179	233,475	(119,296)	(51.1)%
Total Additions	315,608	415,028	(99,420)	(24.0)%
Retirement benefits	204,652	194,139	10,513	5.4 %
Death benefits	13,162	12,102	1,060	8.8 %
Refund of contributions	194	389	(195)	(50.1)%
Administrative expenses	5,369	5,464	(95)	(1.7)%
Total Deductions	223,377	212,094	11,283	5.3 %
Net Increase in Plan Net Position	92,231	202,934	(110,703)	(54.6)%
Beginning Net Position	3,496,191	3,293,257	202,934	6.2 %
Ending Net Position	\$ 3,588,422	\$ 3,496,191	\$ 92,231	2.6 %

¹ Net of investment expenses of \$17,661 and \$18,845 in 2019 and 2018, respectively.

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

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

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 23,841	\$ 20,580	\$ 3,261	15.8 %
Employer contributions	157,712	136,957	20,755	15.2 %
Net investment income ¹	233,475	292,734	(59,259)	(20.2)%
Total Additions	415,028	450,271	(35,243)	(7.8)%
Retirement benefits	194,139	184,596	9,543	5.2 %
Death benefits	12,102	11,072	1,030	9.3 %
Refund of contributions	389	364	25	6.9 %
Administrative expenses	5,464	4,635	829	17.9 %
Total Deductions	212,094	200,667	11,427	5.7 %
Net Increase in Plan Net Position	202,934	249,604	(46,670)	(18.7)%
Beginning Net Position	3,293,257	3,043,653	249,604	8.2 %
Ending Net Position	\$ 3,496,191	\$ 3,293,257	\$ 202,934	6.2 %

¹ Net of investment expenses of \$18,845 and \$19,288 in 2018 and 2017, respectively.

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

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

For the Fiscal Years Ended June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 13,315	\$ 16,127	\$ (2,812)	(17.4)%
Employer contributions	28,744	25,382	3,362	13.2 %
Net investment income ¹	7,907	7,071	836	11.8 %
Total Additions	49,966	48,580	1,386	2.9 %
Healthcare insurance premiums	26,403	27,686	(1,283)	(4.6)%
Administrative expenses	126	159	(33)	(20.8)%
VEBA transfer	-	7,897	(7,897)	(100.0)%
Total Deductions	26,529	35,742	(9,213)	(25.8)%
Net Increase in Plan Net Position	23,437	12,838	10,599	82.6 %
Beginning Net Position	162,520	149,682	12,838	8.6 %
Ending Net Position	\$ 185,957	\$ 162,520	\$ 23,437	14.4 %

¹ Net of investment expenses of \$347 and \$405 in 2019 and 2018, respectively.

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

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

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 16,127	\$ 18,116	\$ (1,989)	(11.0)%
Employee contributions	25,382	20,667	4,715	22.8 %
Net investment income ¹	7,071	12,453	(5,382)	(43.2)%
Total Additions	48,580	51,236	(2,656)	(5.2)%
Healthcare insurance premiums	27,686	24,799	2,887	11.6 %
Administrative expenses	159	182	(23)	(12.6)%
VEBA transfer	7,897	-	7,897	100.0 %
Total Deductions	35,742	24,981	10,761	43.1 %
Net Increase in Plan Net Position	12,838	26,255	(13,417)	(51.1)%
Beginning Net Position	149,682	123,427	26,255	21.3 %
Ending Net Position	\$ 162,520	\$ 149,682	\$ 12,838	8.6 %

¹ Net of investment expenses of \$405 and \$434 in 2018 and 2017, respectively.

Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan's net position. The Plan's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plans (which include the Postemployment Healthcare 401(h) Plan, the Police Department Postemployment 115 Healthcare Subtrust and the Fire Department Postemployment 115 Healthcare Subtrust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Cost-of-Living Fund both have a General Reserve and an Employee Contributions Reserve. The Postemployment Healthcare 401(h) and 115 Subtrust Funds have a General Reserve only (see table on page 52 for a complete listing and year-end balances of the Plan's reserves).

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

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

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 in 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 Plan's Fiduciary Responsibilities

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

Economic Factors and Rates Affecting Next Year

The City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which was approved in 2012. On July 15, 2015, the City and sworn Police and Fire bargaining units reached an Alternative Pension Reform Settlement Framework (Framework) which was approved by the City Council and the bargaining units' memberships. A ballot measure (Measure F) was presented to the public for voting in the November 2016 election, which determined whether the terms of the Framework will be implemented. Measure F passed, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan.

The provisions of the Framework 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.

The Plan's actuarial valuations as of June 30, 2018, were used to determine the contribution rates and dollar amounts effective July 1, 2019, for fiscal year 2019-2020. The annual determined contribution rates and dollar amounts were adopted by the Board. The June 30, 2018 actuarial valuations include Board adopted actuarial assumption changes recommended by the Plan's actuary in the June 30, 2017 Preliminary Valuation Results and Economic Assumption Review presented in November 2017.

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation for funding purposes uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial liability (UAL) of \$1,099.8 million, as of June 30, 2018, does not include the impact of approximately \$100.4 million of net deferred investment losses yet to be recognized, primarily resulting from unfavorable investment returns during fiscal years 2015 and 2016. It is anticipated that future actuarial valuations will recognize these remaining deferred net investment losses as described above and the smoothing of any new gains or losses over a five-year period.

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

The Plan is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 6.75%, net of investment expenses, in the actuarial valuation as of June 30, 2018. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAL and decrease the funded status of the Plan, thereby increasing required contributions to the Plan. Conversely, with all other actuarial variables being equal, overperforming the assumed rate of return would decrease the UAL and increase the funded status of the Plan, thereby decreasing required contributions to the Plan.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of termination, retirement, disability, and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these actuarial assumptions cause the Plan to experience actuarial gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every two years, the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the actuarial assumptions.

The actuarial assumptions may be adjusted where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future. The Board approved to make changes to the June 30, 2018 actuarial valuation as a result of the demographic experience study presented in November 2017. The next experience study is scheduled to be conducted in late 2019. See Actuarial section for the effects of these changes.

The June 30, 2018 actuarial valuation contained changes on the actuarial assumptions and methods since the last valuation. The discount rate was reduced from 6.875% to 6.75%. Membership requirements were changed by Measure F to allow former members and certain hires with reciprocity to enter Tier 1.

Contribution rates for fiscal year 2019-2020, as determined by the June 30, 2018 actuarial valuation, included the impact of the changes stated above and the recognition of smoothed deferred investment gains and losses.

Postemployment Healthcare Plans

With the passage of Measure F, the Framework became effective as of March 31, 2017. A VEBA for retiree healthcare was created and Tier 1 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan, while Tier 2 members were required to move out of the defined benefit retiree healthcare plan and into the VEBA. 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, members and City contributions to the Plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. With the implementation of Measure F, member contributions were fixed at 8.0% of pay; the City's contribution toward the explicit subsidy (or premium subsidy) will be actuarially determined separately for Police and Fire; 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 pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire payroll.

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

Requests for Information

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

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

Respectfully Submitted,

A handwritten signature in black ink, reading "Roberto L. Peña". The signature is written in a cursive style with a large initial 'R' and a stylized 'P'.

Roberto L. Peña

**Chief Executive Officer
Office of Retirement Services**

This page intentionally left blank

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

As of June 30, 2019 and 2018 (In Thousands)

	2019				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ASSETS					
Receivables					
Employee contributions	\$ 1,058	\$ 541	\$ -	\$ -	\$ 1,599
Employer contributions	9,767	-	615	349	10,731
Brokers and others	29,443	3,052	-	-	32,495
Accrued investment income / loss	6,596	17	126	75	6,814
Total Receivables	46,864	3,610	741	424	51,639
Investments, at fair value					
Securities and other:					
Public equity	1,092,126	10,509	51,431	31,714	1,185,780
Short-term investment grade bonds	674,084	6,486	25,850	15,940	722,360
Private equity	456,024	4,388	-	-	460,412
Market neutral strategies	260,702	2,509	-	-	263,211
Private debt	187,398	1,803	-	-	189,201
Bonds (immunized cash flows)	177,270	1,706	-	-	178,976
Core real estate	134,038	1,290	8,261	5,094	148,683
Emerging market bonds	115,169	1,108	-	-	116,277
Sovereign bonds ex US	101,880	980	-	-	102,860
Growth real estate	100,609	968	-	-	101,577
Commodities	72,144	694	4,328	2,669	79,835
Treasury inflation-protected securities	73,493	707	-	-	74,200
Cash and cash equivalents	47,968	464	1,799	1,109	51,340
Private real assets	34,348	331	-	-	34,679
High yield debt	17,510	168	-	-	17,678
International currency contracts, net	64	1	-	-	65
Total Investments	3,544,827	34,112	91,669	56,526	3,727,134
Capital Assets, net	3,031	46	-	-	3,077
TOTAL ASSETS	3,594,722	37,768	92,410	56,950	3,781,850
LIABILITIES					
Payable to brokers	4,613	888	124	76	5,701
Other liabilities	1,687	30	31	22	1,770
TOTAL LIABILITIES	6,300	918	155	98	7,471
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,588,422	-	-	-	3,588,422
Postemployment healthcare benefits	-	36,850	92,255	56,852	185,957
TOTAL PLAN NET POSITION	\$ 3,588,422	\$ 36,850	\$ 92,255	\$ 56,852	\$ 3,774,379

See accompanying notes to basic financial statements

(continued)

Basic Financial Statements *(continued)*

STATEMENTS OF PLAN NET POSITION *(continued)*

As of June 30, 2019 and 2018 (In Thousands)

	2018				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ASSETS					
Receivables					
Employee contributions	\$ 961	\$ 515	\$ -	\$ -	\$ 1,476
Employer contributions	3,362	-	480	38	3,880
Brokers and others	1,855	1,839	4,877	2,835	11,406
Accrued investment income / loss	3,722	(16)	4,887	2,840	11,433
Total Receivables	9,900	2,338	10,244	5,713	28,195
Investments, at fair value					
Securities and other:					
Public equity	1,196,314	8,792	29,234	19,578	1,253,918
Global fixed income	606,094	8,443	20,965	12,185	647,687
Private equity	291,070	4,055	-	-	295,125
Commodities	215,479	3,002	4,983	2,896	226,360
Market neutral strategies	214,336	2,986	-	-	217,322
Cash and cash equivalents	204,745	2,852	1,368	795	209,760
Private debt	206,384	2,875	-	-	209,259
High yield debt	166,775	2,323	-	-	169,098
Emerging market bonds	162,430	2,263	-	-	164,693
Core real estate	128,524	1,790	4,517	2,625	137,456
Growth real estate	83,566	1,164	-	-	84,730
Private real assets	18,730	261	-	-	18,991
Global tactical asset allocation	-	-	7,702	4,477	12,179
International currency contracts, net	(2,845)	(40)	-	-	(2,885)
Total Investments	3,491,602	40,766	68,769	42,556	3,643,693
Capital Assets	1,726	29	-	-	1,755
TOTAL ASSETS	3,503,228	43,133	79,013	48,269	3,673,643
LIABILITIES					
Payable to brokers	4,811	81	4,877	2,835	12,604
Other liabilities	2,226	38	38	26	2,328
TOTAL LIABILITIES	7,037	119	4,915	2,861	14,932
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,496,191	-	-	-	3,496,191
Postemployment healthcare benefits	-	43,014	74,098	45,408	162,520
TOTAL PLAN NET POSITION	\$ 3,496,191	\$ 43,014	\$ 74,098	\$ 45,408	\$ 3,658,711

See accompanying notes to basic financial statements

Comprehensive Annual Financial Report 2018-2019 San Jose Police & Fire Retirement Plan

(concluded)

Basic Financial Statements *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2019 and 2018 (In Thousands)

	2019				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ADDITIONS					
Contributions					
Employee	\$ 24,811	\$ 13,315	\$ -	\$ -	\$ 38,126
Employer	176,618	5,716	14,086	8,942	205,362
Total Contributions	201,429	19,031	14,086	8,942	243,488
Investment income					
Net appreciation in fair value of investments	101,239	1,120	2,408	1,506	106,273
Interest income	23,063	300	48	29	23,440
Dividend income	7,538	97	1,716	1,030	10,381
Less: investment expense	(17,661)	(229)	(73)	(45)	(18,008)
Net Investment Income	114,179	1,288	4,099	2,520	122,086
TOTAL ADDITIONS	315,608	20,319	18,185	11,462	365,574
DEDUCTIONS					
Retirement benefits	204,652	-	-	-	204,652
Healthcare insurance premiums	-	26,403	-	-	26,403
Death benefits	13,162	-	-	-	13,162
Refund of contributions	194	-	-	-	194
Administrative expenses and other	5,369	80	28	18	5,495
TOTAL DEDUCTIONS	223,377	26,483	28	18	249,906
NET INCREASE / (DECREASE)	92,231	(6,164)	18,157	11,444	115,668
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	3,496,191	43,014	74,098	45,408	3,658,711
END OF YEAR	\$ 3,588,422	\$ 36,850	\$ 92,255	\$ 56,852	\$ 3,774,379

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, 2019 and 2018 *(In Thousands)*

	2018				
	Defined Benefit Pension Plan	Post- employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ADDITIONS					
Contributions					
Employee	\$ 23,841	\$ 16,127	\$ -	\$ -	\$ 39,968
Employer	157,712	5,716	11,265	8,401	183,094
Total Contributions	181,553	21,843	11,265	8,401	223,062
Investment income					
Net appreciation in fair value of investments	214,898	2,798	801	501	218,998
Interest income	20,993	294	87	51	21,425
Dividend income	16,374	228	1,717	998	19,317
Net rental income	55	1	-	-	56
Less: investment expense	(18,845)	(263)	(94)	(48)	(19,250)
Net Investment Income	233,475	3,058	2,511	1,502	240,546
TOTAL ADDITIONS	415,028	24,901	13,776	9,903	463,608
DEDUCTIONS					
Retirement benefits	194,139	-	-	-	194,139
Healthcare insurance premiums	-	27,686	-	-	27,686
Death benefits	12,102	-	-	-	12,102
Refund of contributions	389	-	-	-	389
Administrative expenses and other	5,464	75	55	29	5,623
VEBA transfer	-	-	5,276	2,621	7,897
TOTAL DEDUCTIONS	212,094	27,761	5,331	2,650	247,836
NET INCREASE / (DECREASE)	202,934	(2,860)	8,445	7,253	215,772
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	3,293,257	45,874	65,653	38,155	3,442,939
END OF YEAR	\$ 3,496,191	\$ 43,014	\$ 74,098	\$ 45,408	\$ 3,658,711

See accompanying notes to basic financial statements

Comprehensive Annual Financial Report 2018-2019 San Jose Police & Fire Retirement Plan

(concluded)

Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE PLAN

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

(a) General

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

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

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

The City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which passed in 2012. On August 25, 2015, the City Council approved the terms of the Alternative Pension Reform Settlement Framework (Public Safety Framework) for the two sworn bargaining units, the San Jose Police Officers' Association (SJPOA) and the San Jose Firefighters International Association of Fire Fighters, Local 230 (IAFF). The Public Safety Framework included an agreement that a ballot measure would be placed on the November 8, 2016 election for the voters to replace Measure B.

On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements. The City Council approved Ordinance number 29879 on February 14, 2017, amending the San Jose Municipal Code to reflect the terms of Measure F and the Public Safety Framework, and the changes to the Municipal Code became effective thirty (30) days after February 14, 2017. Most terms of Measure F and the Public Safety Framework were implemented on June 18, 2017. The provisions of the Public Safety Framework include, but are not limited to, revising Tier 2 benefits; allowing rehired Tier 1 employees to remain in Tier 1; creating a defined contribution Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare (medical and dental) and a one-time irrevocable election to opt in to the defined contribution VEBA from the defined benefit retiree healthcare plan for eligible employees; defining the qualifications

Notes to the Basic Financial Statements *(continued)*

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

(a) General *(continued)*

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, while all Tier 2 employees and Tier 1 employees who enter the Plan after June 18, 2017, with "Classic" membership in California Public Employees' Retirement System (CalPERS) were required to move in to the defined contribution VEBA.

The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the Internal Revenue Service issued favorable private letter rulings to each of the Section 115 Trusts on February 7, 2018. The IRS ruled that allowing the contributions to the VEBA to be made from the Sections 115 Trusts is consistent with Code Section 115(1) and will not compromise the Section 115 Trusts' 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 for the initial opt-in period. The IRS approved allowing eligible employees who are rehired into the City from calendars years 2018 through 2022 to opt-in to the VEBA if they were not employed during the initial opt-in period. 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 Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension and postemployment healthcare trust fund. The Plan is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Police and Fire Department Plan Board of Administration (Board of Administration). The nine-member Board of Administration is composed of two City employees elected by members of the Plan, two retired Plan members elected by the retiree associations, four public members who are not connected with the City and have significant banking or investment experience, and another public member who is selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided and funded directly by the City. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

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

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

Notes to the Basic Financial Statements *(continued)*

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

(a) General *(continued)*

The following table summarizes the Plan members as of June 30, 2019 and 2018, respectively.

As of June 30, 2019	Retirees and Beneficiaries ¹		Terminated Vested Members Entitled to Future Benefits		Active Members		
Defined Benefit Pension Plan	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Total
Police							
Pension & Medical ²	1,322	-	14	-	630	-	1,966
Pension only ³	110	-	200	74	41	367	792
Police Total	1,432	-	214	74	671	367	2,758
Fire							
Pension & Medical ²	831	-	2	-	512	-	1,345
Pension only ³	55	-	38	5	29	121	248
Fire Total	886	-	40	5	541	121	1,593
Total	2,318	-	254	79	1,212	488	4,351
Postemployment Healthcare Plans							
	Tier 1 ⁴		Tier 1		Tier 1		Total
Police	1,322		14		630		1,966
Fire	831		2		512		1,345
Total	2,153		16		1,142		3,311

As of June 30, 2018	Retirees and Beneficiaries ¹		Terminated Vested Members Entitled to Future Benefits		Active Members		
Defined Benefit Pension Plan	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Total
Police							
Pension & Medical ²	1,272	-	16	-	684	-	1,972
Pension only ³	101	-	211	53	33	258	656
Police Total	1,373	-	227	53	717	258	2,628
Fire							
Pension & Medical ²	830	-	-	-	534	-	1,364
Pension only ³	47	-	39	4	27	103	220
Fire Total	877	-	39	4	561	103	1,584
Total	2,250	-	266	57	1,278	361	4,212
Postemployment Healthcare Plans							
	Tier 1 ⁴		Tier 1		Tier 1		Total
Police	1,272		16		684		1,972
Fire	830		-		534		1,364
Total	2,102		16		1,218		3,336

¹ Retiree counts do not include combined domestic relations orders

² Members are eligible for full retiree medical benefits

³ Includes members that are eligible for catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare Plan

⁴ 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 September 30, 1994, the Plan entered into an agreement with CalPERS that extends reciprocal retirement benefits to members. In certain situations, this agreement could result in improved retirement benefits for members who move from one eligible retirement system to another.

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

	Police Tier 1 ¹	Police Tier 1 Classic ²	Police Tier 2 ³
Contributions			
Employee	18.28% of base salary (Pension: 10.28%, Retiree Healthcare: 8.00%) As of 7/1/2018	14.88% of base salary (Pension: 10.88%, VEBA: 4.00%) As of 7/29/2018	17.71% of base salary (Pension: 13.71%, VEBA: 4.00%) As of 7/1/2018
City	97.55% of base salary (Pension: 97.55%, Retiree Healthcare: dollar amount, not rate of pay) As of 07/01/2018	97.55% (Pension: 97.55%) As of 7/1/2018	13.71% of base salary (Pension: 13.71%) As of 7/1/2018
Service required to leave contributions in retirement plan	10 years of service (20 years must have elapsed from date of entry into retirement plan to collect pension)	10 years of service (20 years must have elapsed from date of entry into retirement plan to collect pension)	5 years service with the City in the Police and Fire Department Plan (Years of Service = 2080 hours worked within applicable 12-month period)
Service Retirement			
Age / years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan A reduction factor of 7.0% per year for each year between age 57 and Tier 2 member's age at retirement, prorated to the closest month
Early retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month

Notes to the Basic Financial Statements *(continued)*

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

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

	Police Tier 1 ¹	Police Tier 1 Classic ²	Police Tier 2 ³
Allowance	<p>First 20 years of City service: 50% of Final Compensation (2.5% per year)</p> <p>Next 21-30 years of City service: 4% per year of service X Final Compensation (90% max)</p>	<p>First 20 years of City service: 50% of Final Compensation (2.5% per year)</p> <p>Next 21-30 years of City service: 4% per year of service X Final Compensation (90% max)</p>	<p>First 20 years of service: 2.4% per year of service x Final Compensation</p> <p>Beginning of 21st year of service: 3.0% per year of service x Final Compensation</p> <p>Beginning of 26th year of service: 3.4% per year of service x Final Compensation</p> <p>Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service</p> <p>Maximum benefit is 80% of Final Compensation</p>
Disability Retirement (Service Connected)			
Minimum service	None	None	None
Allowance	<p><20 years of service: 50% of Final Compensation</p> <p>Next 21-30 years of service: 4% per year of service X Final Compensation (90% max)</p>	<p><20 years of service: 50% of Final Compensation</p> <p>Next 21-30 years of service: 4% per year of service X Final Compensation (90% max)</p>	<p>An individual who is granted a service-connected disability retirement is entitled to a monthly allowance equal to the greater of:</p> <ul style="list-style-type: none"> i. 50% of Final Compensation ii. A service retirement allowance, if he or she qualified for such or iii. An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by number of years of service subject to the applicable formula, if not qualified for a service retirement
Disability Retirement (Non-Service Connected)			
Minimum service	2 years of service	2 years of service	5 years of service

Notes to the Basic Financial Statements *(continued)*

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

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

	Police Tier 1¹	Police Tier 1 Classic²	Police Tier 2³
Allowance	<p><20 years of service: 32% of Final Compensation plus 1% for each full year in excess of 2 years. (50% max)</p> <p>>20 years of service: 2.5% x first 20 years of service x Final Compensation</p> <p>Next 21-30 years of service: 4% per year of service X Final Compensation (90% max)</p>	<p><20 years of service: 32% of Final Compensation plus 1% for each full year in excess of 2 years. (50% max)</p> <p>>20 years of service: 2.5% x first 20 years of service x Final Compensation</p> <p>Next 21-30 years of service: 4% per year of service X Final Compensation (90% max)</p>	<p>An individual who is granted a non service-connected disability retirement is entitled to a monthly allowance equal to the greater of:</p> <p>i. If less than age 50: 1.8% per year of service or</p> <p>ii. if older than age 50: The amount of service pension benefit as calculated based upon the service pension formula</p>
Medical Benefits⁴			
Eligibility	Retired for disability or service directly from active service with either 15 years of San Jose service or receive allowance that is at least 37.5% of Final Compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years San Jose service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement)	All Police Tier 1 Classic employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA	All Police Tier 2 members are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA
Premiums	Retirement Plan pays 100% of lowest cost plan that is available to active City employees. If member does not choose the lowest cost plan, member pays the difference between that premium and the premium of the lowest cost plan	N/A	N/A
Medicare Eligibility	At age 65, members 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 requirement are met	N/A	N/A

Notes to the Basic Financial Statements *(continued)*

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

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

	Police Tier 1 ¹	Police Tier 1 Classic ²	Police Tier 2 ³
Dental Benefits⁴			
Eligibility	Retired for disability or service from active service with either 15 years of service or receive allowance that is at least 37.5% of Final Compensation. Also eligible if member leaves City service after 7/5/92 but prior to retirement with 20 years San Jose service and leaves contributions in retirement plan and former member receives allowance. (i.e., applies for retirement)	All Police Tier 1 Classic employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA	All Police Tier 2 employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA
Premiums	Fully paid by retirement fund	N/A	N/A
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement
Cost-of-Living Adjustments (COLA)			
COLA	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA	Retirees are eligible for an annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per year. The first COLA will be prorated based on the number of months retired

¹ Police Tier 1 employees are those hired before August 4, 2013.

² Employees with "Classic" membership from a CalPERS or reciprocal agency. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013. 2. AND is hired by the City of San Jose after a break in service of less than six months. 3 AND did not have concurrent (overlapping) service with the other agency. City of San Jose Reciprocity election form must be submitted within thirty days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

³ Police Tier 2 employees are those hired after August 4, 2013.

⁴ Employees who opted-in to the VEBA are not eligible for the Defined Benefit Retiree Healthcare Plan (Medical or Dental Benefits.)

Notes to the Basic Financial Statements *(continued)*

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

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

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

	Fire Tier 1 ¹	Fire Tier 1 Classic ²	Fire Tier 2 ³
Contributions			
Employee	19.09% of base salary (Pension: 11.09%, Retiree Healthcare: 8.00%) As of 7/1/2018	15.69% of base salary (Pension: 11.69% VEBA: 4.00%) As of 7/29/2018	19.13% of base salary (Pension: 15.13%, VEBA: 4.00%) As of 7/1/2018
City	98.49% of base salary (Pension: 98.49%, Retiree Healthcare: dollar amount, not rate of pay) As of 7/1/2018	98.49% of base salary (Pension : 98.49%) As of 7/1/2018	15.13% of base salary (Pension: 15.13%) As of 7/1/2018
Service required to leave contributions in retirement plan	10 years (20 years must have elapsed from date of entry into plan to collect pension)	10 years (20 years must have elapsed from date of entry into plan to collect pension)	5 years of service with the City in the Plan (Year of Service = 2080 hours worked in the applicable 12- month period)
Service Retirement			
Age/ years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan. A reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month
Early retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with at least 25 years of service)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with at least 25 years of service)	At least 5 years of service with the City in the Plan. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month

Notes to the Basic Financial Statements *(continued)*

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

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

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

Notes to the Basic Financial Statements *(continued)*

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

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

	Fire Tier 1 ¹	Fire Tier 1 Classic ²	Fire Tier 2 ³
Medical Benefits⁴			
Eligibility	Retired for disability or service directly from active service with either 15 years of San Jose service or receive allowance that is at least 37.5% of Final Compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement)	All Fire Tier 1 Classic employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA	All Fire Tier 2 employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA
Premiums	Retirement plan pays 100% of lowest cost plan that is available to active City employees. If member does not choose the lowest cost plan, member pays the difference between that premium and the premium of the lowest cost plan	N/A	N/A
Medicare Eligibility	At age 65, members will be required to enroll in Medicare Part 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	N/A
Dental Benefits⁴			
Eligibility	Retired for disability or service directly from active service with either 15 years of service or receive allowance that is at least 37.5% of Final Compensation. Also eligible if member leaves City service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions in retirement plan and former member receives allowance (i.e., applies for retirement)	All Fire Tier 1 Classic employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA	All Fire Tier 2 employees are mandated to contribute 4.00% of base salary to the VEBA. The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs on a pre-tax basis. There is no "vesting period" for the VEBA
Premiums	Fully paid by retirement fund	N/A	N/A

Notes to the Basic Financial Statements *(continued)*

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

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

	Fire Tier 1 ¹	Fire Tier 1 Classic ²	Fire Tier 2 ³
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement
Cost-of-Living Adjustment (COLA)			
COLA	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA	Retirees are eligible for an annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per year. The first COLA will be prorated based on the number of months retired

¹ Fire Tier 1 are those hired before January 2, 2015.

² Employees with "Classic" membership from a CalPERS or reciprocal agency. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San Jose after a break in service of less than six months, 3. AND did not have concurrent (overlapping) service with the other agency. City of San Jose Reciprocity Election Form must be submitted within thirty days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

³ Fire Tier 2 Employees are those hired after January 2, 2015.

⁴ Employees who opted-in to the VEBA are not eligible for the Defined Benefit Retiree Healthcare Plan (Medical or Dental Benefits).

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits

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

Police Tier 1 / Tier 1 Classic	
Death Before Retirement	
Non-service connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	<p>To surviving spouse/domestic partner : $24\% + 0.75\%$ for each year in excess of 2 years x Final Compensation (37.5% maximum)</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 whichever is greater</p>
Non-service connected death before retirement, but while eligible for service retirement	<p>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service</p> <p>For example: Member's benefit = 76.0% Survivorship benefit = 38.0% of Final Compensation Member's benefit = 80.0% Survivorship benefit = 40.0% of Final Compensation Member's benefit = 82.0% Survivorship benefit = 41.0% of Final Compensation Member's benefit = 85.0% Survivorship benefit = 42.5% of Final Compensation</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater</p>
Service connected death regardless of years of service	<p>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service</p> <p>And to surviving children : 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 50.0% 3 Children: Final Compensation x 75.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater</p>
Death After Retirement	
Service retirement and service connected disability retirees	<p>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate</p>

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits *(continued)*

Police Tier 1 / Tier 1 Classic	
Non-service connected disability retirees	<p>To surviving spouse/domestic partner:</p> <p>Final Compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum)</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate</p>
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 75% of final compensation. If necessary, the children's survivorship allowance will be reduced so that the total benefit does not exceed 75% of final compensation.

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

Police Tier 2	
Death Before Retirement	
Non-service connected death with less than 2 years of services	<p>Greater of:</p> <p>(1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate or</p> <p>(2) \$1000, whichever is greater</p>
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	<p>To surviving spouse/domestic partner:</p> <p>24% of Final Compensation + 0.75% of Final Compensation for each year in excess of 2 years of service (37.5% maximum)</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children : Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>There is an 80% cap on Final Compensation that can be paid to survivors.</p> <p>If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1000 whichever is greater</p>

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits *(continued)*

Police Tier 2	
Non-service connected death before retirement, but while eligible for service retirement	<p>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service</p> <p>For example: Member's benefit = 76.0% Survivorship benefit = 38.0% of Final Compensation Member's benefit = 80.0% Survivorship benefit = 40.0% of Final Compensation Member's benefit = 82.0% Survivorship benefit = 41.0% of Final Compensation Member's benefit = 85.0% Survivorship benefit = 42.5% of Final Compensation</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1,000, whichever is greater</p>
Service Connected Death	
Service connected death regardless of years of service	<p>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 50.0% 3 Children: Final Compensation x 75.0%</p> <p>There is an 80.0% cap on Final Compensation that can be paid to survivors</p> <p>If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or \$1,000 whichever is greater</p>
Death After Retirement	
Service retirees	<p>To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the plan's actuaries</p>
Optional Settlements	
Optional settlements	<p>Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner</p>
Post-Retirement Marriage	
Post-retirement marriage	<p>If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner</p>

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 80% of final compensation. If necessary, children's survivorship allowance will be reduced so that the total benefit does not exceed 80% of final compensation.

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits *(continued)*

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

Fire Tier 1 / Tier 1 Classic	
Death Before Retirement	
Non-service connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	<p>To surviving spouse/domestic partner: 24% to 75% for each year in excess of 2 x Final Compensation (45% maximum)</p> <p>And to surviving children :</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater</p>
Non-service connected death before retirement, but while eligible for service retirement	<p>To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on years of service</p> <p>For example:</p> <p>Member's benefit = 81.0% Survivorship benefit = 40.5% of Final Compensation</p> <p>Member's benefit = 84.0% Survivorship benefit = 42.0% of Final Compensation</p> <p>Member's benefit = 87.0% Survivorship benefit = 43.5% of Final Compensation</p> <p>Member's benefit = 90.0% Survivorship benefit = 45.0% of Final Compensation</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater</p>
Service connected death regardless of years of service	<p>To surviving spouse/domestic partner : 37.5% to 45% for member's Final Compensation depending on the years of service</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater</p>
Death After Retirement	
Service retirees and service connected disability retirees	<p>To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on years of service</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 37.5%</p> <p>3 Children: Final Compensation x 50.0%</p> <p>If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate</p>

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits *(continued)*

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

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 75% of final compensation. If necessary, the children's survivorship allowance will be reduced so that the total benefit does not exceed 75% of final compensation.

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

Fire Tier 2	
Death Before Retirement	
Service connected death regardless of years of service	<p>To surviving spouse/domestic partner:</p> <p>37.5% to 45.0% of member's Final Compensation depending on the years of service</p> <p>And to surviving children:</p> <p>1 Child: Final Compensation x 25.0%</p> <p>2 Children: Final Compensation x 50.0%</p> <p>3 Children: Final Compensation x 75.0%</p> <p>There is an 80.0% cap on Final Compensation that can be paid to survivors</p> <p>If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1,000, whichever is greater</p>
Non-service connected death with less than 2 years of service	<p>Greater of:</p> <p>(1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate, or</p> <p>(2) \$1,000, whichever is greater</p>

Notes to the Basic Financial Statements *(continued)*

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

(c) Death Benefits *(continued)*

Fire Tier 2	
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	<p>To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 years x Final Compensation (45% maximum)</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0%</p> <p>There is an 80.0% cap on Final Compensation that can be paid to survivors</p> <p>If no surviving spouse/domestic partner nor surviving children to the estate: Return of contributions, plus interest, or \$ 1,000 whichever is greater</p>
Non-service connected death before retirement, but while eligible for service retirement	<p>To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on the years of service</p> <p>For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of Final Compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of Final Compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of Final Compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of Final Compensation</p> <p>And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50%</p> <p>If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or \$1,000, whichever is greater</p>
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Non-service connected disability retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 80% of final compensation. If necessary, the children's survivorship allowance will be reduced so that the total benefit does not exceed 80% of final compensation.

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial activities of the Plan in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the Plan are intended to present only the plan net position and changes in plan net position of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The Plan is reported in a pension and postemployment healthcare trust fund in the City of San José's basic financial statements.

(b) Basis of Accounting

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

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

(c) Investments

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

For the year ended June 30, 2019, the Defined Benefit Pension Plan investment policy was updated, as shown in the following table, which the Board reviewed and approved on April 4, 2019. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the Plan's adopted actuarial assumed rate of return as utilized in the June 30, 2018 valuations.

The Plan's investment allocation is as follows:

PENSION			
As of June 30, 2019			
Asset Class	Target Asset Allocation	Asset Class	Target Asset Allocation
Public equity	31%	Emerging market bonds	3%
Short-term investment grade bonds	20%	Growth real estate	3%
Private equity	8%	Private real assets	3%
Market neutral strategies	7%	Sovereign bonds ex US	3%
Bonds (immunized cash flows)	5%	Commodities	2%
Core real estate	5%	Treasury inflation-protected securities	2%
Private debt	4%	Cash and cash equivalents	-
Venture / growth capital	4%		

Notes to the Basic Financial Statements *(continued)*

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

(c) Investments *(continued)*

The *Statements of Plan Net Position* for 2019 and 2018 have been updated to reflect the current asset allocation. The presentation of investments throughout the financial statements for 2019 and 2018 have also been updated to reflect the current asset allocation. However, the 2018 asset allocation that follows was the asset allocation as of June 30, 2018.

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 reviewed and approved on April 5, 2018.

The Plan's investment allocation was as follows:

PENSION			
As of June 30, 2018			
Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	34%	50%
Global fixed income	10%	28%	30%
Real assets	12%	16%	25%
Private debt	5%	8%	15%
Private equity	3%	8%	13%
Absolute return	2%	6%	12%
Global tactical asset allocation	-	-	10%
Cash and cash equivalents	-	-	10%

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

On April 4, 2018, the Board adopted the following asset allocation for the 115 healthcare trusts. The Postemployment Healthcare plan investment policy was originally approved August 7, 2014. While the investment policy has not been updated, the presentation of investments throughout the financial statements for 2019 and 2018 have been reclassified to reflect the pension's asset allocation for easier presentation and comparison. The asset classes in the healthcare policy are broad classifications which were further broken down to more specific allocation to align with the pension asset classification.

HEALTHCARE						
Asset Class	As of June 30, 2019			As of June 30, 2018		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	43%	50%	25%	43%	50%
Real assets	12%	22%	25%	12%	22%	25%
Global tactical asset allocation	-	20%	25%	-	20%	25%
Global fixed income	5%	15%	25%	5%	15%	25%
Cash and cash equivalents	-	-	5%	-	-	5%

The real assets category includes allocations to commodities, real estate, and other infrastructure assets. The global tactical asset category is currently comprised of two global tactical asset allocation managers who run unconstrained global portfolios.

Notes to the Basic Financial Statements *(continued)*

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

(c) Investments *(continued)*

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 54 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 Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

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

Investment expenses presented within the accompanying financial statements consist of management and performance fees and other investment-related fees. Other investment-related fees include expenses for shared investment-related administration, consultants, custody, and legal services. These fees are disclosed within the Investment Expenses 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, 2019 and 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.00% and 6.89%, respectively. For the year ended June 30, 2019 and 2018, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 4.86% and 3.56%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(d) Capital Assets

Capital assets are recorded at cost and comprise of all costs related to the development of a new pension administration system. The capital asset went into production on February 1, 2019 and is being amortized using the straight line method of amortization over a 10 year period ending 2029. For fiscal year 2019, the amortization expense was \$133,809. It is being amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Notes to the Basic Financial Statements *(continued)*

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

(d) Capital Assets *(continued)*

Capital asset and accumulated amortization	As of June 30, 2018	Additions	Deletions	As of June 30, 2019
Capital assets, amortizable:				
Pension administration system	\$ 1,755	\$ 1,456	\$ -	\$ 3,211
Total capital asset, cost	1,755	1,456	-	3,211
Less accumulated amortization for:				
Pension administration system	-	(134)	-	(134)
Total accumulated amortization	-	(134)	-	(134)
Capital assets, net of accumulated amortization	\$ 1,755	\$ 1,322	\$ -	\$ 3,077

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

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

As of June 30, 2019 and 2018, plan net position totaling \$3,774,379,000 and \$3,658,711,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of- Living Fund	Total Defined Benefit Pension Plan	Post- employ- ment Health - care 401(h)	Police Depart- ment Health - care Subtrust	Fire Depart- ment Health - care Subtrust	Total OPEB	Grand Total
June 30, 2019								
Employee contributions reserve	\$ 344,518	\$ 84,510	\$ 429,028	\$ -	\$ -	\$ -	\$ -	\$ 429,028
General reserve	1,801,715	1,357,679	3,159,394	36,508	92,255	56,852	185,615	3,345,009
Retiree healthcare in-lieu premium credit	-	-	-	342	-	-	342	342
Total	\$2,146,233	\$1,442,189	\$3,588,422	\$ 36,850	\$ 92,255	\$ 56,852	\$ 185,957	\$3,774,379

June 30, 2018								
Employee contributions reserve	\$ 333,878	\$ 81,764	\$ 415,642	\$ -	\$ -	\$ -	\$ -	\$ 415,642
General reserve	1,787,391	1,293,158	3,080,549	42,936	74,098	45,408	162,442	3,242,991
Retiree healthcare in-lieu premium credit	-	-	-	78	-	-	78	78
Total	\$2,121,269	\$1,374,922	\$3,496,191	\$ 43,014	\$ 74,098	\$ 45,408	\$ 162,520	\$3,658,711

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

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

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

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

(f) Allocation of Investment Income

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

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This Statement is not applicable to the Plan.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. It clarifies the criteria for identifying fiduciary activities, with the focus on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Activities meeting certain criteria should be reported in a fiduciary fund in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. This Statement is not applicable to the Plan.

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 Plan 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

Notes to the Basic Financial Statements *(continued)*

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

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

of this Statement are effective for reporting period beginning after June 15, 2018. This Statement is not applicable to the Plan.

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 Plan.

GASB Statement No. 90, *Majority Equity Interest - an Amendment of GASB Statements No. 14 and No. 61*, was issued in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. This Statement is not applicable to the Plan.

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. This Statement is not applicable to the Plan.

(h) Reclassifications and Presentation

Certain reclassifications of prior year's balances have been made to conform with the current year presentation.

NOTE 3 - INVESTMENTS

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

Interest Rate Risk – The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Plan

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

does not have a policy regarding interest rate risk. However, the Plan does settle on a transaction plus one day basis (T+1), therefore limiting the Plan's exposure to counterparty risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2019 and 2018.

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2019 (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
Short-term investment grade bonds	\$ 722,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 722,360	\$ 722,342
Treasury inflation-protected securities	2,171	-	9,312	62,717	-	-	74,200	73,190
Sovereign bonds ex US	-	-	-	35,724	27,602	39,534	102,860	103,681
Emerging market bonds	-	-	-	-	116,277	-	116,277	91,077
High yield debt	90	-	-	17,588	-	-	17,678	2,555
Bonds (immunized cash flows)	5,802	9,320	15,209	148,645	-	-	178,976	178,363
Cash and cash equivalents	51,340	-	-	-	-	-	51,340	51,340
TOTAL FIXED INCOME	\$ 781,763	\$ 9,320	\$ 24,521	\$ 264,674	\$ 143,879	\$ 39,534	\$ 1,263,691	\$ 1,222,548

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	\$ -	\$ -	\$ -	\$ 27,369	\$ 486,654	\$ 48,719	\$ 562,742	\$ 559,240
Corporate bonds	-	-	-	53	-	-	53	189
Mortgage-backed securities	-	-	-	-	1,163	53,366	54,529	55,698
Other debt securities	-	-	-	-	16,115	14,248	30,363	30,517
Total Global Fixed Income	-	-	-	27,422	503,932	116,333	647,687	645,644
High yield debt	100,296	-	-	68,802	-	-	169,098	131,606
Emerging market bonds	-	-	-	68,320	96,373	-	164,693	151,776
Cash and cash equivalents	209,760	-	-	-	-	-	209,760	209,580
TOTAL FIXED INCOME	\$ 310,056	\$ -	\$ -	\$ 164,544	\$ 600,305	\$ 116,333	\$ 1,191,238	\$ 1,138,606

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2019 and 2018, all of the Plan's investments are held in the Plan's name and/or are not exposed to custodial credit risk.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

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

The following tables provide information for the portfolio as of June 30, 2019 and 2018 concerning credit risk. These tables reflect only securities held in the Plan’s name.

RATINGS OF FIXED INCOME INVESTMENTS

As of June 30, 2019 and 2018 (Dollars in Thousands)

S&P Quality Rating	2019		2018	
	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	\$ 16,917	1.34 %	\$ 278	0.02 %
AA+	297,773	23.56	8,480	0.71
AA	703,117	55.64	-	-
A+	1,008	0.08	1,307	0.11
A	34,080	2.70	3,811	0.32
A-	841	0.07	-	-
BBB+	-	-	1,158	0.10
BBB	10,171	0.80	5,710	0.48
BBB-	-	-	3,156	0.26
BB+	716	0.06	-	-
BB	34	-	2,895	0.24
BB-	-	-	1,173	0.10
B+	-	-	511	0.04
B	-	-	1,984	0.17
B-	-	-	392	0.03
CCC	-	-	2,024	0.17
CC	-	-	1,797	0.15
D	-	-	3,243	0.27
Not Rated	199,034	15.75	1,153,319	96.83
TOTAL	\$ 1,263,691	100.00 %	\$ 1,191,238	100.00 %

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan’s investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan’s investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2019 and 2018, the Plan’s net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan’s commitments relating to international currency contracts are settled on a net basis.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

The following tables provide information as of June 30, 2019 and 2018, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2019 (In Thousands)

Currency Name	Cash	Public Equity	Global Fixed Income	International Currency Contracts, Net	Growth Real Estate	Total Exposure
Australian dollar	\$ 8	\$ 7,183	\$ 2,827	\$ -	\$ -	\$ 10,018
Canadian dollar	40	8,446	2,743	-	-	11,229
Chinese yuan renminbi	-	-	-	65	-	65
Danish krone	2	722	757	-	-	1,481
Euro member countries	81	22,005	54,538	-	23,096	99,720
Hong Kong dollar	-	2,176	-	-	-	2,176
Japanese yen	46	8,368	32,877	-	-	41,291
Korean (South) won	-	13,461	-	-	-	13,461
Mexican peso	42	-	1,059	-	-	1,101
Norwegian krone	14	911	350	-	-	1,275
Poland zloty	22	-	878	-	-	900
Singapore dollar	2	-	1,216	-	-	1,218
South African rand	9	-	785	-	-	794
Swedish krona	7	3,035	506	-	-	3,548
Swiss franc	-	25,031	-	-	-	25,031
United Kingdom pound	32	27,714	9,017	-	-	36,763
TOTAL	\$ 305	\$ 119,052	\$ 107,553	\$ 65	\$ 23,096	\$ 250,071

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2018 (In Thousands)

Currency name	Cash	Public Equity	International Currency Contracts, Net	Growth Real Estate	Total Exposure
Australian dollar	\$ (10)	\$ 7,440	\$ (120)	\$ -	\$ 7,310
Canadian dollar	(30)	17,124	(209)	-	16,885
Chinese yuan renminbi	-	-	231	-	231
Danish krone	-	9,374	-	-	9,374
Euro member countries	816	37,221	(824)	21,550	58,763
Hong Kong dollar	55	7,603	-	-	7,658
Japanese yen	293	25,225	(1,620)	-	23,898
Korea (South) won	-	13,624	-	-	13,624
New Zealand dollar	-	267	-	-	267
Norwegian krone	-	1,999	-	-	1,999
Singapore dollar	-	247	(93)	-	154
Swedish krona	8	3,865	(47)	-	3,826
Swiss franc	-	24,302	(50)	-	24,252
United Kingdom pound	222	37,584	(153)	-	37,653
TOTAL	\$ 1,354	\$ 185,875	\$ (2,885)	\$ 21,550	\$ 205,894

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

Investment Concentration Risk – The Plan's investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 15% of the Plan's assets without Board approval, with the exception of passive management where the Plan's assets are not held in the Plan's name at the Plan's custody bank. In such cases, there is no concentration limit. As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without prior Board approval. As of June, 30, 2019 and 2018, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented five percent or more of the total plan net position or total investments.

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

Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. 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, 2019 or 2018. 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, 2019 and 2018, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2019 and 2018 financial statements are as follows (amounts in thousands):

Net Appreciation / (Depreciation) in Fair Value of Investments through June 30, 2019			Fair Value at June 30, 2019		
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Notional Amount / Shares
Fixed income futures long	Investment income	\$ (51)	Futures	-	-
Fixed income futures short	Investment income	28	Futures	-	-
FX forwards	Investment income	(4,770)	Long term instruments	\$ 65	\$ 6,244
Index futures long	Investment income	2,892	Futures	-	10
Index futures short	Investment income	(1,112)	Futures	-	-
Rights	Investment income	3	Common stock	-	-
Total Derivative Instruments		\$ (3,010)		\$ 65	

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

Net Appreciation / (Depreciation) in Fair Value of Investments through June 30, 2018			Fair value at June 30, 2018		
Investment					Notional Amount / Shares
Derivative Instruments	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ (3,542)	International currency contracts, net	\$ (2,885)	\$ 360,253
Futures options bought/written	Investment income	(5)	Fixed income - collective short term investments	-	57,113
Rights / Warrants	Investment income	(34)	Public equity	-	-
Total Derivative Instruments		\$ (3,581)		\$ (2,885)	

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, 2019 and 2018 .

Counterparty Credit Risk - The Plan is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Plan's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2019, total commitments in forward currency contracts to purchase and sell international currencies were \$6,244,000, with fair values of \$6,262,000 and \$6,197,000, respectively, held by counterparties with S&P rating of at least AA-. As of June 30, 2018, total commitments in forward currency contracts to purchase and sell international currencies were \$360,253,000 with fair values of \$357,111,000 and \$359,996,000, respectively, held by counterparties with S&P rating of at least AA-.

Fair Value Measurements - The Plan 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.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

The Plan has the following recurring fair value measurements as of June 30, 2019 and June 30, 2018:

Investments Measured At Fair Value As of June 30, 2019		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	\$ 1,185,780	\$ 341,883	\$ -	\$ -	\$ 843,897
Short-term investment grade bonds	722,360	722,360	-	-	-
Private equity	460,412	-	-	2,580	457,832
Market neutral strategies	263,211	-	-	-	263,211
Private debt	189,201	-	10,332	8,493	170,376
Bonds (immunized cash flows)	178,976	96,983	81,993	-	-
Core real estate	148,683	6,304	-	-	142,379
Emerging market bonds	116,277	-	-	-	116,277
Sovereign bonds ex US	102,860	-	102,860	-	-
Growth real estate	101,577	-	-	-	101,577
Commodities	79,835	-	-	-	79,835
Treasury inflation-protected securities	74,200	74,200	-	-	-
Cash and cash equivalents	51,340	51,340	-	-	-
Private real assets	34,679	-	-	-	34,679
High yield debt	17,678	89	-	-	17,589
International currency contracts, net	65	65	-	-	-
Total investments measured at fair value	\$ 3,727,134	\$ 1,293,224	\$ 195,185	\$ 11,073	\$ 2,227,652

Investments Measured at Fair Value As of June 30, 2018		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	\$ 1,253,918	\$ 412,732	\$ -	\$ -	\$ 841,186
Global fixed income	647,687	33,754	83,654	500	529,779
Private equity	295,125	-	-	2,737	292,388
Commodities	226,360	-	-	-	226,360
Market neutral strategies	217,322	-	-	-	217,322
Cash and cash equivalents	209,760	209,760	-	-	-
Private debt	209,259	-	10,268	17,001	181,990
High yield debt	169,098	-	-	-	169,098
Emerging market bonds	164,693	-	-	-	164,693
Core real estate	137,456	7,142	-	-	130,314
Growth real estate	84,730	-	-	-	84,730
Private real assets	18,991	-	-	-	18,991
Global tactical asset allocation	12,179	12,179	-	-	-
International currency contracts, net	(2,885)	(2,885)	-	-	-
Total investments measured at fair value	\$ 3,643,693	\$ 672,682	\$ 93,922	\$ 20,238	\$ 2,856,851

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

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 date of the period. These prices are obtained from various pricing sources by the custodian bank.

Alternative Investments

Alternative investments include public equity, private equity, core real estate, growth real estate, high yield debt, market neutral strategies, emerging market bonds, commodities, private debt, and private real assets. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner (GP) of each investment firm retained by the Plan. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the alternative investment program are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB Statement No. 72, *Fair Value Measurement and Application*, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments). Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value / latest 12 months EBITDA or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

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

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS *(continued)*

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, 2019 and 2018:

Investments Measured at the NAV				
As of June 30, 2019				
(In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	\$ 843,897	\$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	457,832	-	Daily, N/A	30 Day, N/A
Market neutral strategies	263,211	-	Weekly, Monthly, Quarterly	14 - 75 Days
Private debt	170,376	88,855	N/A	N/A
Core real estate	142,379	14,880	Quarterly, N/A	14 - 60 Days, N/A
Emerging market bonds	116,277	-	Daily, Quarterly	45 - 60 days
Growth real estate	101,577	77,123	N/A	N/A
Commodities	79,835	-	Daily	3 Days
High yield debt	17,589	-	Quarterly	60 Days
Private real assets	34,679	15,188	N/A	N/A
Total investments measured at NAV	\$ 2,227,652	\$ 196,046		

Investments Measured at the NAV				
As of June 30, 2018				
(In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	\$ 841,186	\$ -	Daily, Monthly, Quarterly	1 - 90 Days
Global fixed income	529,779	-	Daily, Monthly	1 - 5 Days
Private equity	292,388	245,295	Daily, N/A	30 Days, N/A
Commodities	226,360	-	Daily	3 Days
Market neutral strategies	217,322	-	Weekly, Monthly, Quarterly	14 - 75 Days
Private debt	181,990	156,854	N/A	N/A
High yield debt	169,098	-	Quarterly	60 Days
Emerging market bonds	164,693	-	Daily, Quarterly	45 - 60 days
Core real estate	130,314	-	Quarterly, N/A	14 - 60 Days, N/A
Growth real estate	84,730	104,411	N/A	N/A
Private real assets	18,991	21,697	N/A	N/A
Total investments measured at NAV	\$ 2,856,851	\$ 528,257		

Public equity - This type includes investments in eight commingled investment funds, three long/short limited partnership funds and three separate accounts. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Five 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 months' notice. The remaining two long / short funds offer quarterly liquidity with notice periods ranging from one to two months.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

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

Short-term investment grade bonds - This type includes investments in one commingled investment fund. Short-term investment grade bond funds typically invest in contractual cash flows of US governments and corporations with maturities less than 3 years and a credit rating of greater than BBB-. The commingled funds offer daily liquidity with notice periods of one to two days.

Market neutral strategies - 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 75 days. Three funds were 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 2-year lock that is in effect until August 31, 2020.

Private debt - This type includes investments in ten 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.

Bonds (immunized cash flows) - This type includes one separate account. Bonds (immunized cash flows) are investments in cash flows of US governments and corporations where the payout of cash flows are matched against a forecasted liability stream. The goal of an immunized cash flow portfolio is to ensure the Plan has adequate liquidity to meet cash outflows.

Core real estate - This type includes investments in one open-end real estate funds, one closed-end real estate fund and two real estate limited partnership funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce the Plan price appreciation and income while maintaining a low correlation to stocks and bonds held by the Plan. 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 both the closed end fund and the limited partnership fund is through a sale in a secondary market. The open-end real estate funds offer quarterly redemptions with notice periods of two weeks and three months.

Emerging market bonds - This type includes investments in two limited partnership funds. Emerging market bonds funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof in emerging market countries with a sovereign rating less than BBB-. One partnership has quarterly redemption period with a notice period of 45 days; the other has a daily redemption period with a 1 day notice period.

Growth real estate - This type includes thirteen limited partnership real estate funds which generally invests in physical properties. The goal of growth real estate is to produce the Plan price appreciation and income while maintaining a low correlation to stocks and bonds. The only way to exit these funds is through a sale in a secondary market held by the Plan.

Notes to the Basic Financial Statements (continued)

NOTE 3 - INVESTMENTS (continued)

Sovereign bonds ex US - This type includes investments in one commingled fund. Foreign bond funds typically invest in contractual cash flows of governments and other sovereign entities in developed market countries with a sovereign rating greater than BBB-. The commingled fund offers daily liquidity with notice periods of one day.

Commodities - This type includes investments in one limited partnership commodities fund. Commodities are physical or tangible assets that have value due to their substance and properties. The goal of commodities is to help the portfolio maintain purchasing power through periods of inflation. The commodities fund offers daily liquidity with three business days' notice.

Treasury inflation-protected securities (TIPS) - This type includes investments in one commingled investment fund. TIPS funds typically invest in contractual cash flows of US governments where the amount of principal outstanding is index to inflation. The goal of TIPS is to help the portfolio maintain purchasing power through periods of inflation. The commingled fund offers daily liquidity with notice periods of one day.

Private real assets - This type includes three limited partnership real asset funds. Private 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 only way to exit these funds is through a sale in a secondary market.

High yield debt - This type includes investments in one commingled investment fund. High yield debt funds typically invest in contractual cash flows of corporations, securitizations, and derivatives thereof with a credit rating less than BBB-. The commingled fund has a quarterly redemption period with notice periods of 60 days.

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, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, less the plan net position) as of June 30, 2019 and 2018, were as follows (dollars in thousands):

	2019	2018
Total pension liability	\$ 4,872,791	\$ 4,635,937
Plan fiduciary net position	3,588,422	3,496,191
Net pension liability	\$ 1,284,369	\$ 1,139,746
Plan fiduciary net position as a percentage of the total pension liability	73.6 %	75.4 %

Actuarial Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revision to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2017 and the next experience study is scheduled to be conducted in late 2019.

Notes to the Basic Financial Statements *(continued)*

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

The total pension liability as of June 30, 2019 and 2018 is based on results of an actuarial valuation date of June 30, 2018 and 2017, respectively, and rolled-forward to June 30, 2019 and 2018 using standard roll forward procedures. A summary of the actuarial assumptions used to determine the total pension liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018
Inflation rate	2.75%	2.75%
Discount rate	6.75% per annum (net of investment expenses)	6.875% per annum (net of investment expenses)
Post-retirement mortality		
(a) Service	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using SOA MP-2017 on a generational basis from the base year of 2009.	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using SOA MP-2017 on a generational basis from the base year of 2009.
(b) Disability	CALPERS 2009 Industrial Disability Mortality Table for males and females multiplied by 0.903 and projected using SOA MP-2017 on a generational basis from the base year of 2009.	CALPERS 2009 Industrial Disability Mortality Table for males and females multiplied by 0.903 and projected using SOA MP-2017 on a generational basis from the base year of 2009.
Rate of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2017, actuarial experience analysis	Based upon the June 30, 2017, actuarial experience analysis
Salary increase		
Wage inflation	3.25% per annum (.50% real wage growth).	3.25% per annum (.50% real wage growth)
Merit increase	Merit component added based on an individual year's of service ranging from 6.00% to .50%	Merit component added based on an individual year's of service ranging from 6.00% to .50%
Cost-of-living adjustment	Tier 1 - 3% per year Tier 2 - 2% per year	Tier 1 - 3% per year Tier 2 - 2% per year

The assumption for the long-term expected rate of return on pension plan investments of 6.75% and 6.875% for the valuation years ended June 30, 2018 and 2017, respectively, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2019 and 2018, (see the discussion of the Plan's investment policy) are summarized in the following table:

Notes to the Basic Financial Statements *(continued)*

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

Asset Class	2019		2018	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	31%	6.2%	34%	4.8%
Short-term investment grade bonds	20%	0.8%	N/A	N/A
Private equity	8%	7.3%	8%	6.4%
Market neutral strategies	7%	2.7%	6%	2.9%
Bonds (immunized cash flows)	5%	0.8%	N/A	N/A
Core real estate	5%	3.1%	N/A	N/A
Private debt	4%	4.6%	8%	3.9%
Venture / growth capital	4%	7.2%	N/A	N/A
Emerging market bonds	3%	2.6%	4%	2.4%
Private real assets	3%	6.7%	2%	3.8%
Growth real estate	3%	5.3%	N/A	N/A
Sovereign bonds ex US	3%	(0.3)%	20%	0.6%
Commodities	2%	2.3%	6%	1.9%
Treasury inflation-protected securities	2%	1.0%	N/A	N/A
High yield debt	-	N/A	4%	2.6%
Real estate	-	N/A	8%	3.9%
Cash and cash equivalents	-	N/A	-	0.2%

Discount Rate. The discount rate used to measure the total pension liability was 6.75% and 6.875% for the measurement years ended June 30, 2019 and 2018, respectively. It is assumed that Plan member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the Plan's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in Discount Rate. In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, as of June 30, 2019 and 2018, calculated using the discount rate of 6.75%, 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 (5.750% / 5.875%) or 1.0% higher (7.750% / 7.875%) than the current rate (in thousands):

	2019			2018		
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)	1% Decrease (5.875%)	Discount Rate (6.875%)	1% Increase (7.875%)
Total pension liability	\$ 5,582,819	\$ 4,872,791	\$ 4,298,441	\$ 5,310,175	\$ 4,635,937	\$ 4,090,473
Plan fiduciary net position	3,588,422	3,588,422	3,588,422	3,496,191	3,496,191	3,496,191
Net pension liability	\$ 1,994,397	\$ 1,284,369	\$ 710,019	\$ 1,813,984	\$ 1,139,746	\$ 594,282
Plan fiduciary net position as a percentage of the total pension liability	64.3 %	73.6 %	83.5 %	65.8 %	75.4 %	85.5 %

Notes to the Basic Financial Statements *(continued)*

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

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Plan (referred to as prefunding).

In January 2011, 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 Plan 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, 2019.

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 2017.

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

The City's contributions for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2019 and 2018 were as follows. Tier 1 was calculated using the floor methodology.

Notes to the Basic Financial Statements *(continued)*

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

Fiscal Year	2019				
Actuarial Valuation Year	2017				
(In Thousands)	Police Tier 1	Fire Tier 1	Police Tier 2	Fire Tier 2	Total
Actual payroll	\$100,809	\$74,542	\$32,807	\$10,461	\$218,619
Actuarial payroll	92,624	74,845	N/A	N/A	N/A
Actual payroll in excess of actuarial payroll	8,185	-	N/A	N/A	N/A
Normal cost rate for pension and COLA portion of total City rate	30.28%	-	N/A	N/A	N/A
Additional contributions due to the floor methodology	2,478	-	N/A	N/A	2,478
Prefunded contributions amount (BOY) ¹	88,684	72,363	N/A	N/A	161,047
Regular contributions paid throughout the year	-	-	4,449	1,570	6,019
Adjustments and accruals	4,047	2,944	69	14	7,074
Total contributions for the fiscal year	\$95,209	\$75,307	\$4,518	\$1,584	\$176,618

¹ Beginning of year

Fiscal Year	2018				
Actuarial Valuation Year	2016				
(In Thousands)	Police Tier 1	Fire Tier 1	Police Tier 2	Fire Tier 2	Total
Actual payroll	\$101,849	\$74,046	\$19,736	\$7,533	\$203,164
Actuarial payroll	91,421	75,647	N/A	N/A	N/A
Actual payroll in excess of actuarial payroll	10,428	-	N/A	N/A	N/A
Normal cost rate for pension and COLA portion of total City rate	30.20%	-	N/A	N/A	N/A
Additional contributions due to the floor methodology	3,149	-	N/A	N/A	3,149
Prefunded contributions amount (BOY) ¹	85,531	71,330	N/A	N/A	156,861
Regular contributions paid throughout the year	-	-	2,948	1,230	4,178
Adjustments and accruals	(3,808)	(2,768)	69	31	(6,476)
Total contributions for the fiscal year	\$84,872	\$68,562	\$3,017	\$1,261	\$157,712

¹ Beginning of year

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The contribution rates for fiscal years ended June 30, 2019 and 2018 were based on the actuarial valuations performed as of June 30, 2017 and 2016, respectively.

Notes to the Basic Financial Statements *(continued)*

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

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2019 and 2018 were as follows:

Period	City-Board Adopted ¹				Member ²			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
07/01/2018-06/30/2019	97.55%	13.71%	98.49%	15.13%	10.28%	13.71%	11.09%	15.13%
07/01/2017-06/30/2018	95.31%	15.17%	96.06%	16.26%	10.88%	15.17%	11.38%	16.26%

¹ The actual contribution rates paid by the City for fiscal years ended June 30, 2019 and June 30, 2018 differed from what is above 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.

² Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30145, which became effective October 12, 2018, amended the Municipal Code to reflect these changes. Effective 3/24/2019, reclassified Tier 1 members paid an additional 1.96% in contributions, members with prior Federated Service reclassified to Tier 1 paid an additional 0.87% in contributions, and Classic Tier 1 members paid an additional 0.47% in contributions.

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

Net OPEB Liability. The components of the net Other Postemployment Benefit (OPEB) liability of the Plan, including all of the healthcare sub-trusts, (i.e., the Plan's liability determined in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, less the plan fiduciary net position) as of June 30, 2019 and 2018, were as follows (dollars in thousands):

	Police		Fire	
	2019	2018	2019	2018
Total OPEB liability	\$ 493,128	\$ 450,507	\$ 290,954	\$ 261,325
Plan fiduciary net position	124,990	111,659	60,967	50,861
Net OPEB liability	\$ 368,138	\$ 338,848	\$ 229,987	\$ 210,464
Plan fiduciary net position as a percentage of the total OPEB liability	25.4 %	24.8 %	21.0 %	19.5 %

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 2017, and the next experience study is scheduled to be conducted in late 2019.

The total OPEB liability as of June 30, 2019 and 2018 is based on results of an actuarial valuation date of June 30, 2018 and 2017, and rolled-forward to June 30, 2019 and 2018 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.

Actuarial Assumptions		
Valuation date	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018
Actuarial cost method	Entry age normal, level of percentage of pay	Entry age normal, level of percentage of pay
Discount rate	6.50%	6.875%
Inflation rate	2.75%	2.75%
Projected payroll increases		
Wage inflation rate	3.25% for FY 2019 and for all years.	3.25% for FY 2018 and for all years.
Merit increase	Merit component added based on an individual's years of service ranging from 6.00% to .50%.	Merit component added based on an individual's years of service ranging from 6.00% to 0.50%.
Rates of Mortality	Mortality is projected from 2009 on a generational basis using the SOA MP-2017	Mortality is projected from 2009 on generational basis using the MP-2017 scale
Healthy annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table for males and 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table for females	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table for males and 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table for females
Healthy non-annuitant	0.948 times the CALPERS 2009 Employee Mortality Table for males and 1.048 times the CalPERS 2009 Employee Mortality Table for females	0.948 times the CALPERS 2009 Employee Mortality Table for males and 1.048 times the CalPERS 2009 Employee Mortality Table for females
Disabled annuitant	0.903 times the CalPERS 2009 Industrial Disability Mortality Table for males and females	0.903 times the CalPERS 2009 Industrial Disability Mortality Table for males and females
Healthcare Cost Trend Rates		
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 8.00% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.00% 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 assumption for the long-term expected rate of return on OPEB plan investments of 6.50% and 6.875% for the valuation years ended June 30, 2018 and 2017, respectively, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2019 and 2018, are summarized in the following table. The assets are invested in both a 401(h) within the pension plan and in 115 subtrusts. The table refers only to the 115 subtrusts. The allocation for the 401(h) is described above in Note 4 (see the discussion of the Plan's investment policy).

Notes to the Basic Financial Statements *(continued)*

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

Asset Class	2019		2018	
	Target Asset Allocation	Long-Term Expected Real Rate Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	6.1%	43.0%	4.7%
Short-term investment grade bonds	29.0%	0.8%	N/A	N/A
Core real estate	10.0%	4.3%	10.0%	3.9%
Commodities	5.0%	2.3%	9.0%	1.9%
Cash and cash equivalents	-	0.3%	-	0.2%
Global fixed income	N/A	N/A	15.0%	0.9%
Infrastructure	N/A	N/A	3.0%	3.8%
Global tactical asset allocation	N/A	N/A	20.0%	2.3%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.5% and 6.875% for the measurement years ended June 30, 2019 and 2018, respectively, and is based on the long-term expected rate of return on investments. It is assumed that Plan member contributions are 8.0% 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 maximum of 11.0% of the total Police and Fire payroll and also contributes the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate. In accordance with GASB Statement 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, 2019 and 2018, calculated using the discount rate of 6.5% and 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 or 1.00% higher than the current rate:

	Police					
	2019			2018		
	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)	1% Decrease (5.875%)	Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	\$ 567,205	\$ 493,128	\$ 433,426	\$ 516,663	\$ 450,507	\$ 397,087
Plan fiduciary net position	124,990	124,990	124,990	111,659	111,659	111,659
Net OPEB liability	\$ 442,215	\$ 368,138	\$ 308,436	\$ 405,004	\$ 338,848	\$ 285,428
Plan fiduciary net position as a percentage of the total OPEB liability	22.0 %	25.3 %	28.8 %	21.6 %	24.8 %	28.1 %

Notes to the Basic Financial Statements *(continued)*

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

Fire						
2019			2018			
1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)	1% Decrease (5.875%)	Discount Rate (6.875%)	1% Increase (7.875%)	
Total OPEB liability	\$ 333,050	\$ 290,954	\$ 256,838	\$ 298,615	\$ 261,325	\$ 231,025
Plan fiduciary net position	60,967	60,967	60,967	50,861	50,861	50,861
Net OPEB liability	\$ 272,083	\$ 229,987	\$ 195,871	\$ 247,754	\$ 210,464	\$ 180,164
Plan fiduciary net position as a percentage of the total OPEB liability						
	18.3 %	21.0 %	23.7 %	17.0 %	19.5 %	22.0 %

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.0% decreasing to 3.25%) or 1.0% higher (9.0% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

Police						
2019			2018			
1% Decrease	Healthcare Cost Trend Rates	1% Increase	1% Decrease	Healthcare Cost Trend Rates	1% Increase	
Total OPEB liability	\$ 427,512	\$ 493,128	\$ 574,712	\$ 390,667	\$ 450,507	\$ 524,725
Plan fiduciary net position	124,990	124,990	124,990	111,659	111,659	111,659
Net OPEB liability	\$ 302,522	\$ 368,138	\$ 449,722	\$ 279,008	\$ 338,848	\$ 413,066
Percentage of the total OPEB liability						
	29.2 %	25.3 %	21.7 %	28.6 %	24.8 %	21.3 %

Fire						
2019			2018			
1% Decrease	Healthcare Cost Trend Rates	1% Increase	1% Decrease	Healthcare Cost Trend Rates	1% Increase	
Total OPEB liability	\$ 252,507	\$ 290,954	\$ 338,863	\$ 226,562	\$ 261,325	\$ 304,543
Plan fiduciary net position	60,967	60,967	60,967	50,861	50,861	50,861
Net OPEB liability	\$ 191,540	\$ 229,987	\$ 277,896	\$ 175,701	\$ 210,464	\$ 253,682
Percentage of the total OPEB liability						
	24.1 %	21.0 %	18.0 %	22.4%	19.5%	16.7%

For the fiscal year ended June 30, 2019, Police Department and Fire Department employer contributions were made to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan, respectively. Employee postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) Plan. It is unknown at this time when employee contributions to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan will begin, even though the Plan received an IRS private letter ruling on the tax qualification of the Section 115 Trust on July 9, 2014. The Postemployment Healthcare Plan is comprised of the 401(h) Plan and the two 115 Subtrusts.

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

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Plan (referred to as prefunding).

In January 2011, 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 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 actuarially determined contribution (ADC) and the contributions are based on the ADC percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll is what will be used.

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 Plans reduce 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, 2019.

Historically, member and City contributions to the Plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. No amount was determined on an actuarial basis for the Trusts prior to fiscal year 2019.

With the passage of Measure F, the Alternative Pension Reform Settlement Framework became effective as of June 16, 2017. A Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare was created and Tier 1 members were eligible for a 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, after the IRS issued a private letter ruling to the Trusts allowing this. 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, Tier 1 member contributions became fixed at 8.0% of pay effective March 25, 2018, when the VEBA was implemented. Beginning with fiscal year 2018-2019, the City's contribution toward the explicit subsidy became actuarially determined separately for Police and Fire, and the City also paid the implicit subsidy on a pay-as-you-go basis as a part of the active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11.0% of Police and Fire payroll. The explicit subsidy (or premium subsidy) is paid by the Plan 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.

With the implementation of Measure F and VEBA, Tier 2 members were automatically placed into the VEBA. The City and the bargaining units agreed that the City Manager should, pursuant to Municipal Code section 3.36.576(c), terminate the existing Tier 2 retiree medical benefits plan effective July 30, 2017, such that Tier 2 members shall not be provided benefits or make contributions to the Healthcare Plan. The City will, however, continue to make the same retiree healthcare contributions that it was already making in order to ensure that payment towards the unfunded liability would continue and to ensure that the healthcare plan receives its full annual required contribution each year.

Notes to the Basic Financial Statements *(continued)*

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

In March 2018, the Board approved the contribution policy that sets the City health care contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2019, was \$28,744,000.00. This consisted of prefunded City contributions in the amount of \$22,062,000, \$5,716,000 in implicit subsidy, and \$966,000 in adjustments and accruals.

The City's contributions for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2018 were as follows in the table below:

Fiscal Year	2018				
Actuarial Valuation Year	2016				
(In Thousands)	Police Tier 1 ²	Fire Tier 1 ²	Police Tier 2	Fire Tier 2	Total
Actual payroll	\$100,590	\$75,305	\$19,736	\$7,533	\$203,164
Actuarial payroll	91,421	75,647	N/A	N/A	N/A
Actual payroll in excess of actuarial payroll	9,169	-	N/A	N/A	N/A
Normal cost rate for healthcare portion of total City rate	4.09%	-	N/A	N/A	N/A
Additional contributions due to the floor methodology	375	-	N/A	N/A	375
Prefunded contributions amount (BOY) ¹	9,252	7,886	N/A	N/A	17,138
Regular contributions paid throughout the year	-	-	2,004	804	2,808
Implicit subsidy	3,699	2,017	-	-	5,716
Adjustments and accruals	(412)	(307)	46	18	(655)
Total contributions for the fiscal year	\$12,914	\$9,596	\$2,050	\$822	\$25,382

¹ Beginning of year

² Actual payroll represents Tier 1 which does not include members participating in the VEBA.

The City and the participating member's contribution rates in effect for the Postemployment Healthcare Plans during the fiscal years ended June 30, 2019 and 2018 were as follows:

Period	City-Board Adopted		Member			
	Police Tier 1/Tier 2	Fire Tier 1/Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
07/01/2018-06/30/2019	\$13,471,000 ¹	\$8,591,000 ¹	8.00 %	0.00 %	8.00 %	0.00 %
03/25/2018-06/30/2018	10.31 %	10.62 %	8.00 %	0.00 %	8.00 %	0.00 %
07/30/2017-03/24/2018	10.31 %	10.62 %	9.51 %	0.00 %	9.74 %	0.00 %
07/01/2017-07/29/2017	10.31 %	10.62 %	9.51 %	9.51 %	9.74 %	9.74 %

¹ Beginning of year, explicit subsidy amount

NOTE 6 - COMMITMENTS

Commitments – As of June 30, 2019 and June 30, 2018, the Plan had unfunded commitments to contribute capital for investments in the amount of \$196,046,000 and \$528,257,000, respectively.

NOTE 7 - LITIGATION

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

Notes to the Basic Financial Statements *(continued)*

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

(Dollars in Thousands)

Total Pension Liability	2019	2018	2017	2016	2015	2014
Service cost (middle of year)	\$ 81,883	\$ 75,481	\$ 72,760	\$ 74,531	\$ 74,895	\$ 75,030
Interest (includes interest on service cost)	313,565	300,378	290,961	274,487	262,738	251,701
Changes of benefit terms	-	178	5,752	-	-	-
Differences between expected and actual experience	(17,011)	33,082	67,557	(8,673)	21,457	-
Change of assumptions	76,425	(100,328)	72,680	90,179	56,311	-
Benefit payments, including refunds of member contributions	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)	(167,397)
Net Change in Total Pension Liability	236,854	102,161	313,678	243,585	239,148	159,334
Total Pension Liability - Beginning	4,635,937	4,533,776	4,220,098	3,976,513	3,737,365	3,578,031
Total Pension Liability - Ending	\$ 4,872,791	\$ 4,635,937	\$ 4,533,776	\$ 4,220,098	\$ 3,976,513	\$ 3,737,365
Plan Fiduciary Net Position						
Contributions - employer	\$ 176,618	\$ 157,712	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583
Contributions - employee	24,811	23,841	20,580	21,508	20,747	21,115
Net investment income	114,179	233,475	292,734	(29,206)	(27,690)	404,977
Benefit payments, including refunds of member contributions	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)	(167,397)
Administrative expense	(5,369)	(5,464)	(4,635)	(4,254)	(4,191)	(3,631)
Net Change in Plan Fiduciary Net Position	\$ 92,231	\$ 202,934	\$ 249,604	\$ (66,411)	\$ (58,108)	\$ 378,647
Plan Fiduciary Net Position - Beginning	3,496,191	3,293,257	3,043,653	3,110,064	3,168,172	2,789,525
Plan Fiduciary Net Position - Ending	\$ 3,588,422	\$ 3,496,191	\$ 3,293,257	\$ 3,043,653	\$ 3,110,064	\$ 3,168,172
Net Pension Liability - Ending	\$ 1,284,369	\$ 1,139,746	\$ 1,240,519	\$ 1,176,445	\$ 866,449	\$ 569,193
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.64 %	75.41 %	72.64 %	72.12 %	78.21 %	84.77 %
Covered Payroll	\$ 218,619	\$ 203,164	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083
Net Pension Liability as a Percentage of Covered Payroll	587.49 %	561.00 %	659.23 %	629.54 %	480.76 %	316.07 %

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

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

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	4.00%	6.89%	9.68%	(0.85)%	(0.85)%	13.0%

The rate shown above is based on the Defined Benefit and 401(h) only and does not include the 115 subtrusters. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information

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

(Dollars in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 176,618	\$ 157,712	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583	\$ 105,234	\$ 121,008	\$ 77,918	\$ 52,315
Contributions in relation to actuarially determined contribution	176,618	157,712	136,957	132,480	129,279	123,583	105,234	121,008	77,918	52,315
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 218,619	\$ 203,164	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083	\$ 180,333	\$ 184,750	\$ 222,464	\$ 239,570
Contributions as a percentage of covered payroll	80.79%	77.63%	72.78%	70.89%	71.73%	68.63%	58.36%	65.50%	35.02%	21.84%

Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contributions 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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Valuation Date	2017	2016	2015	2014	2013	2012	2011	2010	2009	2007 ¹
Actuarial cost method	Entry age	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	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over closed 15-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll increase 3.25% per year to be level percent of total payroll	Actuarial gains and losses and plan changes are amortized over closed 15-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll
Discount rate	6.875%	6.875%	7.0%	7.0%	7.125%	7.25%	7.5%	7.75%	8.0 %	8.0 %

Required Supplementary Information (continued)

NOTES TO SCHEDULE (continued)

Fiscal Year	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Valuation Date	2017	2016	2015	2014	2013	2012	2011	2010	2009	2007 ¹
Salary increases	3.25% plus merit component based on length of service ranging from 6.00% for new hires to 0.50% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	2.00% for FY 2015, and 3.50% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	0.00% for FY 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service	4.0% plus merit component based on length of service ranging from 4.01% for new hires to 1.0% for members with 8 or more years of service
Amortization growth rate	3.25%	3.25%	3.25%	3.25%	3.5%	3.5%	4.25%	4.25%	4.25 %	4.00 %
Mortality	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2015 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using SOA MP-2015 on a generational basis	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years, are set forward one year	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year

¹ Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the Plan transitioned to annually.

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	2019		2018		2017	
	Police	Fire	Police	Fire	Police	Fire
Service cost (middle of year)	\$ 8,168	\$ 6,835	\$ 6,970	\$ 6,031	\$ 9,218	\$ 6,894
Interest (includes interest on service cost)	30,378	17,830	28,805	16,509	29,674	17,100
Changes of benefit terms	-	-	(43,208)	(26,226)	-	-
Differences between expected and actual experience	(3,712)	311	7,881	6,996	-	-
Change of assumptions	25,022	13,821	13,450	7,793	-	-
Benefit payments, including refunds of member contributions	(17,235)	(9,168)	(17,113)	(10,573)	(14,931)	(9,868)
Net Change in Total OPEB Liability	\$ 42,621	\$ 29,629	\$ (3,215)	\$ 530	\$ 23,961	\$ 14,126
Total OPEB Liability - Beginning	450,507	261,325	453,722	260,795	429,761	246,669
Total OPEB Liability - Ending	\$ 493,128	\$ 290,954	\$ 450,507	\$ 261,325	\$ 453,722	\$ 260,795
Plan Fiduciary Net Position						
Contributions - employer	17,785	10,959	14,964	10,418	11,701	8,966
Contributions - employee	7,635	5,680	9,294	6,833	10,344	7,772
Net investment income	5,232	2,675	5,148	1,923	8,844	3,610
Benefit payments, including refunds of member contributions	(17,235)	(9,168)	(17,113)	(10,573)	(14,931)	(9,868)
Administrative expense	(86)	(40)	(115)	(44)	(123)	(58)
VEBA Transfer	-	-	(5,276)	(2,621)	-	-
Net Change in Plan Fiduciary Net Position	\$ 13,331	\$ 10,106	\$ 6,902	\$ 5,936	\$ 15,835	\$ 10,422
Plan Fiduciary Net Position - Beginning	\$ 111,659	\$ 50,861	\$ 104,757	\$ 44,925	\$ 88,922	\$ 34,503
Plan Fiduciary Net Position - Ending	\$ 124,990	\$ 60,967	\$ 111,659	\$ 50,861	\$ 104,757	\$ 44,925
Net OPEB Liability - Ending	\$ 368,138	\$ 229,987	\$ 338,848	\$ 210,464	\$ 348,965	\$ 215,871
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	25.35 %	20.95 %	24.79 %	19.46 %	23.09 %	17.23 %
Covered Payroll	\$ 133,617	\$ 85,002	\$ 121,585	\$ 81,579	\$ 108,424	\$ 79,752
Net OPEB Liability as a Percentage of Covered Payroll	275.52 %	270.57 %	278.69 %	257.99 %	321.85 %	270.68 %

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)

	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	4.86%	3.56%	7.17%

The rate shown above is based on the 115 subtrusts 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.

Required Supplementary Information *(continued)*

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)

Beginning in FYE 2010 for Police and FYE 2012 for Fire members, actual contributions were intended to phase in to the full Annual Required Contribution (ARC) as defined in the bargaining agreements and consistent with the parameters of GASB Statement No. 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 Statement No. 45. No amount has been determined on an actuarial basis to fund the plan, and consequently, the schedule of employer contributions was not provided in prior years.

With the implementation of Measure F, fiscal year ending June 30, 2019 is the first year for which an Actuarially Determined Contribution was determined.

2019			
		Police	Fire
Actuarially determined contributions (ADC)	\$	17,785	\$ 10,959
Contributions in relation to ADC		17,785	10,959
Contribution deficiency (excess)	\$	-	\$ -
Covered employee payroll	\$	133,617	\$ 85,002
Contributions as a percentage of covered employee payroll		13.31%	12.89%

(Dollars in thousands)

NOTES TO SCHEDULE

Fiscal Year	2019
Valuation Date	2017
Timing	Actuarially determined contributions are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Key Methods and Assumptions used to Determine Contribution Rates:	
Actuarial cost method	Individual entry age
Asset valuation method	Market value of assets
Amortization method	25-year layered amortizations with 3-year phase-in and phase-out
Discount rate	6.875%
Amortization growth rate	3.25%
Ultimate rate of medical inflation	4.25%
Salary increases	3.25% plus merit component based on years of service
Rates of mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ending June 30, 2019 can be found in the June 30, 2017 actuarial valuation report.

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2019 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	\$ 760	\$ 298	\$ 1,058
Employer contributions	5,525	4,242	9,767
Brokers and others	23,258	6,185	29,443
Accrued investment income / loss	4,430	2,166	6,596
Total Receivables	33,973	12,891	46,864
Investments, at fair value			
Securities and other:			
Public equity	653,116	439,010	1,092,126
Short-term investment grade bonds	403,118	270,966	674,084
Private equity	272,712	183,312	456,024
Market neutral strategies	155,906	104,796	260,702
Private debt	112,068	75,330	187,398
Bonds (immunized cash flows)	106,011	71,259	177,270
Core real estate	80,158	53,880	134,038
Emerging market bonds	68,874	46,295	115,169
Sovereign bonds ex US	60,927	40,953	101,880
Growth real estate	60,166	40,443	100,609
Commodities	43,144	29,000	72,144
Treasury inflation-protected securities	43,951	29,542	73,493
Cash and cash equivalents	28,685	19,283	47,968
Private real assets	20,541	13,807	34,348
High yield debt	10,471	7,039	17,510
International currency contracts, net	38	26	64
Total Investments	2,119,886	1,424,941	3,544,827
Capital Assets, net	1,893	1,138	3,031
TOTAL ASSETS	2,155,752	1,438,970	3,594,722
LIABILITIES			
Payable to brokers	8,496	(3,883)	4,613
Other liabilities	1,024	663	1,687
TOTAL LIABILITIES	9,520	(3,220)	6,300
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,146,232	1,442,190	3,588,422
TOTAL PLAN NET POSITION	\$ 2,146,232	\$ 1,442,190	\$ 3,588,422

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For Fiscal Year Ended June 30, 2019 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	\$ 17,746	\$ 7,065	\$ 24,811
Employer	92,246	84,372	176,618
Total Contributions	109,992	91,437	201,429
Investment income			
Net appreciation in fair value of investments	60,887	40,352	101,239
Interest income	14,073	8,990	23,063
Dividend income	4,598	2,940	7,538
Less: investment expense	(10,781)	(6,880)	(17,661)
Net Investment Income	68,777	45,402	114,179
TOTAL ADDITIONS	178,769	136,839	315,608
DEDUCTIONS			
Retirement benefits	143,428	61,224	204,652
Death benefits	6,943	6,219	13,162
Refund of contributions	160	34	194
Administrative expenses and other	3,275	2,094	5,369
TOTAL DEDUCTIONS	153,806	69,571	223,377
NET INCREASE	24,963	67,268	92,231
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	2,121,269	1,374,922	3,496,191
END OF YEAR	\$ 2,146,232	\$ 1,442,190	\$ 3,588,422

Other Supplemental Information *(continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2019 and 2018

	2019		2018	
	Original Budget	Actual	Under Budget	Actual
Personnel services	\$ 3,778,000	\$ 3,334,302	\$ 443,698	\$ 3,193,583
Non-personnel/equipment ¹	1,312,000	1,026,381	285,619	1,221,538
Professional services	1,169,000	1,000,776	168,224	1,207,464
Amortization expense ²	-	133,809	-	-
TOTAL ADMINISTRATIVE EXPENSES & OTHER	\$ 6,259,000	\$ 5,495,268	\$ 897,541	\$ 5,622,585

¹ \$416,715 and \$671,500 of investment-related expenses including data processing, travel, and supplies were included in the budget approved by the Board for FY 18-19 and FY 17-18, respectively. The actual amounts spent for those items are included in the Schedule of Investment Expenses - Other Investment Fees.

² Amortization expense is excluded from the budget totals since it is a non-cash item.

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2019 and 2018

Firm	Nature of Service	2019	2018
Cheiron, Inc.	Actuarial consultant	\$ 247,484	\$ 292,748
Cortex	Governance consultant	35,869	141,858
Grant Thornton LLP	External auditors	101,343	62,232
Ice Miller, LLC	Tax counsel	4,356	13,546
Levi, Ray, & Shoup	Web development and maintenance	16,832	17,424
Levi, Ray, & Shoup	Programming changes and business continuance services	8,739	22,137
Medical Director/Other Medical	Medical consultants	180,789	211,450
Pension Benefit Information	Reports on deceased benefit recipients	2,100	2,288
Reed Smith, LLP	Legal counsel	121,776	166,014
Saltzman & Johnson	Legal counsel	95,501	103,731
Josephine's Professional Staffing	Temporary staff	-	21,753
Trendtec, Inc	Temporary staff	185,687	145,133
Other Consultants	Miscellaneous professional services	300	7,150
TOTAL		\$ 1,000,776	\$ 1,207,464

Other Supplemental Information *(continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2019 and 2018

Investment Managers' Fees	2019	2018
Public equity	\$ 3,165,499	\$ 2,576,021
Market neutral strategies	1,896,557	3,084,236
Private equity	2,188,269	2,192,788
Private debt	1,292,738	1,787,532
Commodities	428,715	50,463
Global fixed income	527,819	542,888
Core real estate	5,166,700	5,193,909
Private real assets	1,058,508	-
High yield debt / Emerging market bonds	1,263,210	2,645,978
Total investment managers' fees	16,988,015	18,073,815

Other Investment Fees		
Investment consultants	592,500	612,611
Custodian bank	316,824	375,913
Investment legal fees	93,828	137,732
Other investments fees	17,328	50,418
Total other investment fees	1,020,480	1,176,674

TOTAL INVESTMENT EXPENSES	\$ 18,008,495	\$ 19,250,489
----------------------------------	----------------------	----------------------

This page intentionally left blank

Investment Section



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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2018

Report of Investment Activity



MEKETA INVESTMENT GROUP

BOSTON MA
CHICAGO IL
MIAMI FL
NEW YORK NY
PORTLAND OR
SAN DIEGO CA
LONDON UK

August 29, 2019

Mr. Roberto L. Peña
Director

The City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San Jose, CA 95112-4505

Dear Mr. Peña:

Please find below a summary of the market environment and Plan performance for the 2019 fiscal year.

2019 FISCAL YEAR MARKET ENVIRONMENT OVERVIEW^{1,2}

While the early start of 2019 may have been characterized by worries of rising interest rates globally, this quickly shifted throughout the year as increasing concerns of a slowing global growth – made worse by trade tensions between the U.S. and China – prompted major central banks to consider more accommodative policies. In the U.S., the Federal Reserve held federal funds rate steady at its June meeting, while signaling the potential for future interest rate cuts. The European Central Bank (ECB) for its part also held rates steady with a potential for further reduction, and the Bank of Japan showed no signs of pulling back from its unprecedented monetary stimulus. Of all the central banks, the U.S. has the most room to lower rates, while Japan and Europe are already in negative territory. With growth revisions for 2019 and 2020 (IMF forecast of 3.2% and 3.5% respectively) down by 0.1%, key risks to monitor will not only be continued trade tensions between U.S. and China, but the declining growth in China, political uncertainty in Europe, and risks related to Brexit dealings.

While global equities rebounded significantly from December lows to close out fiscal year 2019, the past twelve months certainly saw heightened volatility, with the VIX reaching 36 in December before re-tracing to 25 and further retreating to more muted levels by the June 30 fiscal year end. Nonetheless, for much of the fiscal year, most markets embraced a “risk on” appetite. The following table illustrates the volatility experienced, using VIX as a proxy:

U.S. equities, as represented by the Russell 3000 Index, closed out the fiscal year with a 9.0% return. Non-US equity markets, however, did not fare as well. Emerging markets delivered negative returns in the first half of the year, to close out the fiscal year with a 1.2% return. Trade tensions and a strong U.S. dollar strength continued to weigh down on results. The MSCI EAFE Index, representing foreign developed markets, followed closely behind returning 1.1%. Overall growth has declined in

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.

5796 ARMADA DRIVE SUITE 110 CARLSBAD CA 92008
760 795 3450 fax 760 795 3445 www.meketagroup.com

Report of Investment Activity *(continued)*

August 29, 2019

Page 2 of 5

Europe given the slowdown in Germany, uncertainties related to Brexit, and trade tensions.

The trend of U.S. growth stocks outperforming value stocks persisted throughout the year, with growth holding a 3.3% lead over value, as the Russell 3000 Growth closed out the year with a 10.6% return, versus 7.3% for the Russell 3000 Value.

Within fixed income, investment grade markets closed out the year on a strong note. Throughout the first half of FY 2019, concerns over rising interest rates and inflation created headwinds. In the U.S., the Federal Reserve increased short-term interest rates to a range of 2.3% to 2.5% by December but this hawkish stance turned dovish in the second half as central banks abruptly shifted to a more accommodative policy by early January. Investment grade credit and high yield rebounded alongside the equity markets as a result, with the high yield market posting one of the strongest returns in nearly 10 years (7.3% for the quarter ending March 31, 2019). Despite this, the deterioration of U.S. and Chinese trade talk in May prompted a temporary drop in global equity prices and U.S. Treasury yields. The 3mo-10yr segment of the yield curve inverted for the second time in 2019, causing investors to question whether this might be a sign of worse things to come. Historically, the yield curve has been relied on as a barometer of economic strength and potential recession indicator. Inversions in the yield curve have historically preceded recessions, with a few exceptions.

Over the trailing year, the broad U.S. bond market, represented by the Bloomberg Barclays Aggregate Index, returned 7.8%, high yield bonds returned 7.5% and TIPS returned 4.8% while emerging market bonds (as represented by JPM GBI-EM Global Diversified Index) posted a 9.0% return for the year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) returned -4.0%, commodities (Bloomberg Commodity Index) lost -6.8%, and REITs (MSCI U.S. REIT Index) gained 11.1%. U.S. crude settled at \$58.52/ barrel, down roughly 10% from prior fiscal year end levels, but well above the December 31 value of \$47.84. OPEC-led production cuts along with sanctions on Iran and Venezuela drove the higher prices though tempered by the slowing global economy.

Report of Investment Activity *(continued)*

August 29, 2019

Page 3 of 5

FISCAL 2020 OUTLOOK¹

Looking forward, there are several issues that we will continue to monitor. First is the slowing global growth. After increasing rates over the last several years from record lows, major central banks have shifted to a more accommodative stance. With little room for a reduction in rates outside the U.S., there is speculation of other policy measures being implemented such as negative rates and/or further quantitative easing implemented. Outside of the U.S., European economic conditions appear bleak as we continue to witness political uncertainty and ongoing structural issues. Brexit negotiations remain a concern. Within emerging markets, and China specifically, growth has slowed. Second, in the U.S., equity markets remain extended despite the volatility spike in the fourth quarter, and the current economic cycle has been one of the longest on record now going into the tenth year. Also in the U.S., trade policy remains a key issue. We also see declining growth in China and the impact of trade tensions with the U.S.

Given slowing global growth, compounded by trade tensions, major central banks have pivoted to a more dovish tone. The U.S. and ECB are expected to start cutting rates and could move back to quantitative easing, while the BOJ maintains its massive monetary support. These policies have been a major boost to the markets and could support global growth. The key questions remain whether or not they are pivoting too early and if this rally in risk assets is short-lived or more sustainable. *Note: following the close of fiscal year 2019, the Federal Reserve did cut rates by 25 basis points.*

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, despite the recent pullback witnessed in December 2018. With the long economic and market expansions, and the many unresolved political and trade issues, we could see heightened volatility in the remainder of 2019. Other key issues in the U.S. will be 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 driven by government investment and exports, it continues to manage a repositioning of its economy to one based increasingly on domestic consumption. This rebalancing process has led to a slowing of the economy which has hurt countries that have become reliant on its trade. The recent focus on tariffs between the U.S. and China is another key issue that could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations (18% of exports). Another core issue in China remains its high debt levels, particularly in the corporate sector.

¹ 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)*

August 29, 2019

Page 4 of 5

Europe continues to have the structural problem of maintaining a single currency and central bank, while fiscal policy rests 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 currency 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 on-going issues in Greece. Given the size of Italy's bond market and economy within the euro area, an Italian sovereign debt crisis or its departure from the euro would have significant consequences. Further, Brexit uncertainty continues to affect the Eurozone. In March 2019, Theresa May's withdrawal proposal was rejected by Members of Parliament for a third time, increasing the likelihood of a no-deal Brexit when the current extension expires in October 2019. *Note: following the close of fiscal year 2019, Boris Johnson became UK Prime Minister in July, increasing the likelihood of a no-deal Brexit.* We will continue to monitor these issues and others.

PLAN INVESTMENT RESULTS AND ASSET ALLOCATION FOR THE RETIREMENT PLAN^{1,2}

The City of San Jose Police and Fire Department Retirement Plan had \$3.6 billion in assets at the end of the 2019 fiscal year. For the fiscal year, the Retirement Plan returned +4.3% net of fees, slightly underperforming the Policy Benchmark (+4.4%) while slightly outperforming the Investable Benchmark (+4.2). The Retirement Plan's return fell short of the 6.75% assumed actuarial rate of return, though it has exceeded that rate in four of the past seven fiscal years. The Retirement Plan's standard deviation of returns was 7.1%, exhibiting lower volatility than the peer median (8.8%).

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

- *Private Markets:* The Retirement Plan's Private Markets Program continued to expand throughout the fiscal year as new commitments were made in various asset classes. As of the end of the 2019 fiscal year, Private Markets represented 21.6% of the Retirement Plan. Private Markets returned +6.6% for the fiscal year, outperforming the Private Markets Benchmark return of +5.9%.
- *Global Equity:* The Retirement Plan's Global Equity allocation returned +6.9% for the fiscal year, outperforming the MSCI ACWI IMI Net USD return of +4.6% over the same period. The Retirement Plan's two Global Equity managers each outperformed their respective benchmarks over the 2019 fiscal year period.
- *Zero Beta:* The Retirement Plan's Zero Beta aggregate returned +3.8% for the fiscal year, outperforming the Zero Beta Benchmark by 170 basis points. As of the end of the 2019 fiscal year, Zero Beta represented 31.9% of the Retirement Plan. Over the fiscal year, we estimate that Zero Beta added approximately

¹ Performance figures calculated by custodian bank are the basis of presentation for the data in the investment section.

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)*

August 29, 2019

Page 5 of 5

0.5% to the Retirement Plan's return, relative to the Policy Benchmark, driven by benchmark outperformance within Absolute Return, Macro, and Relative Value.

PLAN INVESTMENT RESULTS AND ASSET ALLOCATION FOR THE HEALTH CARE TRUST^{1,2}

The City of San Jose Police and Fire Department Retirement Plan Health Care Trust had \$148.3 million in assets at the end of the 2019 fiscal year. For the 2019 fiscal year, the Health Care Trust returned +4.8% net of fees, outperforming the Policy Benchmark (+4.7%). The Trust's outperformance was primarily due to the Growth aggregate, driven by Public Equity outperformance. The Trust experienced strong returns in its Other aggregate, returning 5.3% for the fiscal year and outperforming the Other Benchmark by 50 basis points while the Zero Beta aggregate (+2.1%) underperformed its benchmark, the ICE Bank of America Merrill Lynch 91 Days Treasury Bills TR, by 20 basis points.

SUMMARY³

Performance for the City of San Jose Police and Fire Department Retirement Plan over the 2019 fiscal year were mostly in-line with its benchmarks. We believe that the Retirement Plan'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 Plan 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/LSW/CJT/jls

¹ Performance figures calculated by custodian bank are the basis of presentation for the data in the investment section.

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

³ 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

EXECUTIVE SUMMARY

The purpose of this document is to set forth the goals and objectives of the San Jose Police and Fire Department Retirement Plan, and to establish guidelines for the implementation of investment strategy.

This document will be reviewed at least annually by the Board of Administration of the San Jose Police and Fire Department Retirement Plan ("Board"). Any revisions to this document may be made only with the approval of the Board.

The Board of Administration recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the Plan. As such, the Board members have developed this Investment Policy Statement with the following goals in mind.

- To clearly and explicitly establish the objectives and constraints that govern the investment of the Plan's assets,
- To establish a long-term asset allocation with a high likelihood of meeting the Plan's objectives given the explicit constraints, and
- To protect the financial health of the Plan through the implementation of this stable long-term investment policy.

This document includes detail on the Plan's adopted asset allocation policy (summarized in Appendix A) and process, including the selected Functional asset class structure and the Plan benchmarks approved by the Board. It also includes the Plan's policy on manager selection, retention, evaluation, and termination, as well as the Plan's adopted risk policy, with specific risk parameters summarized in Appendix B.

Throughout this document, expected returns and volatilities were based on capital market assumptions from the general consultant.

I. SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN GOALS

The San Jose Police and Fire Department Retirement Plan was established to provide retirement income for San Jose Police and Fire Department Retirement Plan employees and their families. The Plan's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments.

II. INVESTMENT OBJECTIVES

The investment strategy of the San Jose Police and Fire Department Retirement Plan is designed to ensure the prudent investment of Plan assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

A. Risk Objectives

1. To accept the optimal level of risk required to achieve the Plan's return objective as stated immediately below.
2. To target total portfolio investment risk consistent with the investment beliefs and strategic goals set forth by the San Jose Police and Fire Department Retirement Board.
3. To consider the financial health of the Sponsor when assuming investment risks.
4. To use diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

Statement of Investment Policy *(continued)*

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

B. Return Objective

1. In a manner consistent with the goals stated in Section I above, to manage the Plan's assets as to achieve the highest, reasonably prudent return possible.

III. INVESTMENT CONSTRAINTS

A. Legal and Regulatory

The San Jose Police and Fire Department Retirement Plan is a defined benefit retirement program for certain employees of the Police and Fire departments of the City of San Jose in the State of California. The terms of the Plan are described in the San Jose Municipal Code.

B. Time Horizon

The Plan will be managed on a going-concern basis. The assets of the Plan will be invested with a long-term time horizon (ten to twenty years or more), consistent with the participant demographics and the purpose of the Plan.

C. Liquidity

The Board members intend to maintain sufficient liquidity to meet at least five years of anticipated beneficiary payments, net of plan sponsor and member contributions.

D. Tax Considerations

The Plan is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

IV. RISK AND RETURN CONSIDERATIONS

The Board members accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the Plan is unlikely to be compensated (non-market or diversifiable risks).

V. DIVERSIFICATION

The Board members of the San Jose Police and Fire Department Retirement Plan recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility.

The specific degrees of diversification within asset classes will be addressed in each separate account manager's investment guidelines, or in each commingled manager's fund documents.

The purpose of the functional classifications and major asset classes are defined in the language and table below.

A. Functional Sub-portfolios

The investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the sub-portfolios is assessed at least annually and is based on projected capital market assumptions. The Chief Investment Officer ("CIO") shall review the relative size and composition of these sub-portfolios and advise the Investment Committee ("IC") of any necessary revisions to the allocation among the sub-portfolios.

Statement of Investment Policy *(continued)*

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

- 1. Growth Sub-portfolio:** The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets. The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.
- 2. Zero Beta Sub-Portfolio:** The purpose of the Zero Beta Sub-portfolio is to ensure that the overall (total portfolio) a) is relatively immune from market fluctuations while providing a source of alpha, b) is a source of capital for purchasing undervalued assets in the Growth sub-portfolio, and c) has adequate assets available to pay benefits over an extended timeframe (the immunized cash portfolio). It will contain an “absolute return” program that invests in risk assets in isolation but whose combined long and short betas are relatively neutral to market movements, an immunized cash portfolio, as well as cash and cash-like assets such as short-term bonds, derivatives, and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. For the immunized cash portfolio, the Board has established a target allocation amount of up to 60 months’ worth of projected benefit payments in the Zero Beta Sub-portfolio, which will be drawn down and replenished annually. The Zero Beta portfolio is expected to provide a stable offset to the rest of the portfolio during periods of severe market stress and to effectively dampen the market volatility across the entire portfolio. The success of the Zero Beta Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.
- 3. Other Sub-Portfolio:** The purpose of the Other Sub-portfolio is to ensure that the overall portfolio is specifically protected against inflation risks while also providing for further diversification. The success of the Other sub-portfolio will be measured by its ability to protect the portfolio from inflation risk while also providing an additional source of return and diversification.

B. Interaction between the Functional Sub-Portfolios

The allocations to the Growth, Zero Beta, and Other sub-portfolios will vary over time. When Growth assets are undervalued, the Zero Beta Sub-portfolio will act as a source of funds and when Growth assets are overvalued the Zero Beta sub-portfolio will act as a use for harvested growth portfolio returns. The Growth and Other sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the CIO and the General Consultant will conduct an annual capital review to assess the relative value and risks associated with each asset class and deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program’s assets effectively in the upcoming year. While considering changes to the allocation to each functional sub-portfolio, the CIO will view the totality of all functional portfolios, and consider the impact of changes to the overall risk and return profile of the total portfolio.

Statement of Investment Policy *(continued)*

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

Public Equity - Growth

The purpose of Public Equity is to provide the Plan exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth, while managing volatility relative to the equity market.

Private Markets - Growth

The purpose of Private Markets is to provide the Plan exposure to asset growth and income while diversifying the portfolio and capturing an illiquidity premium.

Emerging Market Bonds - Growth

The primary purpose of Emerging Market Bonds is to provide the Plan exposure to rates and credit risk within emerging markets.

Cash - Zero Beta

The purpose of Cash is to maintain sufficient liquidity for Plan benefit payments and expenses.

Short-Term Investment Grade Bonds - Zero Beta

The purpose of Short-Term Investment Grade Bonds is to provide the Plan a return while mitigating risk.

Market Neutral Strategies - Zero Beta

The purpose of Market Neutral Strategies is to produce alpha based returns while reducing overall Plan volatility and increasing Sharpe ratio.

Bonds (Immunized Cash Flows) - Zero Beta

The purpose of Bonds (Immunized Cash Flows) is to provide liquid funds for expected outflows and allow for other assets to be invested in an illiquid fashion.

Treasury Inflation - Protected Securities (TIPS) - Other

The purpose of TIPS is to provide exposure to inflation in addition to interest rates.

Core Real Estate - Other

The purpose of Core Real Estate is to produce the Plan income and price appreciation while maintaining a low correlation to both stocks and bonds.

Commodities - Other

The purpose of Commodities is to increase the Plan's portfolio diversification and provide a hedge against unexpected inflation.

Core Bonds - Other

The purpose of Core Bonds is to produce returns and income for the Plan by providing exposure to rates and credit risk.

Statement of Investment Policy *(continued)*

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

VI. ASSET ALLOCATION POLICY

Asset Allocation and Portfolio Construction

- A. The Board recognizes that establishing an appropriate strategic asset allocation (SAA) portfolio is critical to the long-term success of the investment program, as asset allocation is the single biggest determinant of the expected risk and return of the Plan.
- B. In arriving at the SAA, the Board shall follow a building block approach whereby it approves a series of benchmark portfolios, each offering expected risk and return characteristics that are preferable to the one before it. This building block approach is further explained below:
 - 1. *Liability Benchmark Portfolio (LBP)*. As the first step in the portfolio construction process, the Board shall approve a LBP. The LBP is the portfolio that offers the lowest possible expected funding risk, where funding risk is defined as the risk that assets will grow at a slower rate than the system's liabilities. The LBP is expected to consist solely of bonds that match the duration of the liabilities.
 - 2. *Low-Cost Passive Portfolio (LCPP)*. If the Board believes a portfolio can be constructed that offers expected return/risk characteristics that are preferable to those of the LBP, but does not wish to invest significant resources in staff and consultants, the Board would then approve a LCPP. The LCPP would be simple to construct and implement and would consist only of public market asset classes managed on a passive basis. It would exclude private market asset classes and hedge funds, which are complex and costlier to implement.
 - 3. *Strategic Asset Allocation Portfolio (SAAP)*. If the Board believes an even more diversified portfolio would enhance the risk-adjusted return characteristics of the Plan and justify a meaningful investment in staff and consulting resources, the Board would then develop and approve an SAAP. The SAAP would be more complex than the LCPP because it would likely include private market asset classes and/or hedge funds. The staff and consulting resources required to manage such a portfolio would significantly increase the cost and administrative complexity of the Plan.
 - 4. *Investable Benchmark Portfolio (IBP)*. The Benchmark Portfolio would include the same underlying benchmarks as the SAAP, but would use an actual invested weight for each asset class. This will account for weighting differences to the SAAP in asset classes that take more than one year to invest (private markets asset classes).
- C. The Board believes the above building-block approach represents a thoughtful way of approaching its asset allocation decisions, as it makes each step in the portfolio construction process clear and explicit. It also requires the Board to consider and confirm the rationale for accepting the potential incremental risk, complexity and cost introduced by moving from one portfolio model to the next. Their relative merits would include evaluation on a net-of-expenses basis.
- D. The benchmarks approved by the Board as of the date of this document, and the expected return of each, are described below:
 - 1. A LBP consisting of a market benchmark with a duration profile similar to the Plan's liabilities. The expected return for the LBP is 3.1% (20 years/geometric mean) as of the date of this document.
 - 2. A LCPP consisting of the following asset classes and targets, and the broad, commonly-used market indices that could be used for each asset class, are shown in Appendix A. The expected return for the LCPP is 6.3% (20 years/geometric mean) as of the date of this document.

Statement of Investment Policy *(continued)*

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

3. A SAAP consisting of the following asset classes and targets shown in Appendix A. The expected return of the SAAP is 7.1% (20 years/geometric mean) as of the date of this document.

Asset Allocation Tools & Methods

- A. The LBP will be re-evaluated annually following the results of the annual actuarial study. LCPP and SAPP shall be established and modified based on the results of formal asset allocation studies performed approximately every three years or when a significant market correction occurs. The capital market assumptions (CMA) used in such studies shall be reviewed and updated annually or when the S&P 500 experiences a decrease of more than 20% from peak. The Board shall consult with the general investment consultant in connection with such asset allocation studies and CMA reviews.
- B. Asset allocation studies shall be designed to ensure rigorous and objective analysis, and minimize decision-making bias by:
 1. Requiring the use of a portfolio construction engine ("Engine"); and
 2. Requiring that the Board and IC always focus first on establishing the most reasonable and defensible inputs to the Engine. That is, if the Board is uncomfortable with the results of the Engine, it shall respond by reviewing the reasonableness of the inputs to the Engine, rather than simply modifying the results.
- C. When arriving at the LCPP and the SAAP, asset allocation studies shall include the four basic steps outlined below:
 1. Step 1: Inputs
 - a. For each study, the Board shall approve the inputs to the Engine including:
 - Permitted asset classes (Permitted asset classes for the LCPP shall include only public markets and permitted asset classes for the SAA Portfolio shall include both public and private markets);
 - CMAs; and
 - Material constraints (e.g. maximum allocations to certain asset classes), along with supporting rationale.
 - b. The CIO shall propose the inputs to the IC, with prior input from the Board's general investment consultant, and work with the investment consultant throughout the process to make subsequent revisions to inputs, based on feedback from the IC.
 - c. The Board, IC, CIO and investment consultant are expected to reach a consensus regarding the above inputs and the Board shall formally approve them. Staff shall document the process by which it arrives at its recommended inputs.
 2. Step 2: Modeling and Analysis
 - a. The investment consultant will incorporate the approved inputs into the Engine to be used to identify and analyze potential asset allocation choices for each study and present the results to the CIO.
 - b. The Board expects that the Engine will rely on mean-variance optimization ("MVO").

Statement of Investment Policy *(continued)*

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

- c. The Board shall also consider the results of the MVO analysis under additional constraints to ensure adherence with approved risk limits including:
 - Stress testing, including historical scenario analysis and factor-specific testing;
 - Liquidity analysis under normal and stressed conditions; and
 - Cash flow management requirements for the immunization of certain projected benefits and expenses.
3. Step 3: Recommendations
 - a. The CIO will present the current asset allocation and a number of reasonable alternatives along the so-called "efficient frontier" for the Board to consider.
 - b. In presenting the alternatives, the CIO initially will present only the return/risk characteristics of each alternative and will not reveal the underlying asset class allocations (i.e. "blind" format). This will allow the Board/IC to focus initially on the return/risk implications of each alternative, rather than the underlying asset allocations.
 - c. After the Board has engaged in a preliminary discussion and analysis of the alternatives, the underlying asset allocations of each alternative will be revealed for further consideration.
 - d. The Board/IC may provide feedback to the CIO and investment consultant, which may require further analysis and a request for revised recommendations for the Board/IC to consider.
4. Step 4: Approvals
 - a. The Board/IC will review the final analyses and recommendation from the CIO and general consultant and approve:
 - Low Cost Portfolio Benchmark weights; and
 - Strategic Asset Allocation Portfolio weights, target and ranges (maximum-minimum).

Rebalancing

- A. The CIO shall adhere to the SAAP asset and sub-asset class "targets" approved by the Board and shall rebalance to within the approved range at least quarterly if the actual weights at the sub-asset class levels are not within 10% of the approved target, considering the cost of more frequent rebalancing. For example, if the target allocation for an asset class is 20%, re-balancing will be triggered quarterly when the actual allocation for the asset class deviates by +/- 2% (i.e. 10% x 20%, reaching 18% or 22%). The CIO may use discretion to rebalance to within the approved range at more frequent intervals than quarterly, and when actual weights are within 10% of the approved target, subject to an assessment of market risk, active risk, and transactions costs. Synthetic rebalancing through an overlay provider may also be used when appropriate. The Immunized Cash Flows portfolio is exempt from this rebalancing provision, as it is amortizing by design.
- B. Total plan active risk (i.e. tracking error) is to be maintained below 3%. While asset class exposures may fall within acceptable capital allocation ranges as noted above, total plan tracking error is not to exceed this 3% threshold.

Statement of Investment Policy *(continued)*

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

Evaluating Asset Allocation Decisions

- A. The Board shall periodically evaluate the effectiveness of its asset allocation decisions using the above portfolio benchmarks (i.e. Liability Portfolio Benchmark, Low-Cost Passive Portfolio, and Strategic Asset Allocation Portfolio).
- B. The following table uses hypothetical returns to illustrate how the above benchmarks shall be used to evaluate the Board's asset allocation decisions.

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Liability Benchmark Portfolio	3.1%	n/a	
B. Low Cost Passive Portfolio	6.3%	3.2% (B-A)	By deviating from a portfolio with modest funding risk to a low-cost, passive portfolio that does not require significant staff or consulting resources, the Board shall have added net value of 3.2%
C. SAA Portfolio	7.1%	0.8% (C-B)	By enhancing the passive portfolio with investments in private markets and hedge funds, the Board added net value of 0.8%

- C. The Board will evaluate two additional benchmarks in order to assess the value added by the CIO, investment staff, and the investment consultants:
1. **Actual Portfolio:** This is the actual portfolio implemented by the CIO and investment staff with support from investment consultants. The Actual Portfolio includes private markets and hedge funds and reflects any active management exercised by the CIO and the underlying investment managers, subject to Board-approved policies and CIO-approved procedures.
 2. **Investable Benchmark Portfolio:** The Investable Benchmark Portfolio is identical to the SAAP but is adjusted for the fact that the SAAP is not constantly "investable" with respect to private market asset classes. For private markets, the Investable Benchmark Portfolio would apply the best available private market benchmarks and, for weighting purposes, would reflect the pacing plans for private markets (assuming the pacing plans are reasonable). For example, if the private equity pacing plan called for 12% to be invested in private equity by the end of the performance measurement period, then the Investable Benchmark Portfolio would reflect a 12% allocation to private equity, even though the SAA Portfolio calls for 22% to be invested in private equity.

The following table illustrates how the performance of the CIO would be evaluated. Again, the returns are hypothetical and for illustration purposes only.

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Actual Portfolio	7.5	0.5% (A-B)	CIO outperformed the Benchmark Portfolio from these sources: i) manager selection (including security selection effects) and ii) other effects
B. Benchmark Portfolio	7.0	n/a	

Statement of Investment Policy *(continued)*

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

- D. For the benefit of stakeholders, the Board shall also measure and report for comparison purposes, on a quarterly basis, the actual portfolio return relative to the return of the LCPP and relative to commonly cited benchmarks, including:
 - 1. A 60% equity and 40% fixed income portfolio ("60/40 Portfolio") comprised of 60% MSCI ACWI IMI (net, unhedged) and 40% Bloomberg Barclays Global Aggregate Bond Index; and
 - 2. A peer group benchmark consisting of other U.S. public pension plans similar in size to the system, as reported in the InvestorForce Public DB > \$1B Net.

VII. MANAGER SELECTION, RETENTION, EVALUATION & TERMINATION POLICY

Background

- A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the Plan subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures ("Procedures"), approved by the CIO, that provide more detailed constraints and parameters.
- B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration risk of co-investments). The Venture Capital program shall be approved by the Investment Committee and the Board prior to its implementation. These exceptions do not pertain to funds where an external manager has discretion.
- C. Accordingly, the CIO shall have the authority to:
 - 1. Manage the Investment Personnel of the Plan, including:
 - a. Recommending to the CEO the appointment and duties of all professional, technical, and clerical employees of the Investment Division;
 - b. Directing and supervising all Investment Personnel on a day-to-day basis; and
 - c. Evaluating all Investment Personnel and managing their professional development.
 - 2. Select and terminate investment consultants to assist in the selection, retention, evaluation, and termination of investment managers.
 - a. The CIO may use the services of the general investment consultant appointed by the Board. Alternatively, if the services of the general consultant can be unbundled to separate manager research services, the CIO may select a consultant(s) of his or her choice to carry out manager research services that would otherwise have been included in the general investment consultant scope of services.
 - b. The CIO shall ensure that the total fees and expenses associated with the consultants he or she selects are reasonable and shall provide a report of such fees and expenses to the Investment Committee and the Board on at least a quarterly basis.
 - c. While the CIO shall have the authority to select and terminate investment consultants to assist staff in selecting, retaining, evaluating and terminating investment managers, the Board shall approve all contracts with investment consultants selected by the CIO to ensure such contracts reflect fair and reasonable value for the Plan.

Statement of Investment Policy *(continued)*

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

3. Delegation of authority to the CIO to select and terminate investment managers reflects the Board's desire to:
 - a. Promote efficiency and effectiveness in the manager selection and termination processes;
 - b. Focus the Board's time and attention on investment policy, asset allocation, and oversight, rather than manager selection and termination; and
 - c. Establish clear accountability on the part of the CIO and investment staff for manager selection, retention, evaluation, and termination.

General Constraints and Parameters

- A. The CIO's authority to select and terminate investment managers shall be subject to the following general constraints and parameters:
 1. Investment managers shall meet the following minimum qualifications to be selected to manage any assets of the fund:
 - a. Be registered as an investment advisor under the Investment Advisor's Act of 1940 or comparable legislation, unless the manager represent and warrants that it is exempt from such registration under applicable law.
 - b. Agree to enter into a contract with the Plan requiring them to perform their services consistent with the fiduciary services established under (a) the Investment Advisor's Act of 1940; (b) California law applicable to fiduciaries of public employee retirement systems, which includes the California State Constitution, Art. XVI sec. 17 and the San Jose Municipal Code and/or (c) terms and conditions substantially comparable to the foregoing that are satisfactory to the Plan.
 2. The nature and size of the manager's mandate shall be consistent with:
 - a. The asset allocation policy of the Plan;
 - b. Applicable constraints (e.g. **manager or strategy concentrations**) contained in this Investment Policy Statement; and the total Plan **active risk limit(s)**¹ contained in the risk section of this IPS.
 3. Notwithstanding paragraph 2) b) above, the CIO shall not approve the selection of an investment management firm for mandates that exceed the following limits:
 4. When a market movement is the cause of a breach in the following limits, it should be reported to the IC at the earliest of a mutually agreed-upon time during which the Investment Committee could convene with a quorum, or at the next regularly scheduled Investment Committee meeting, along with a report on how the breach was addressed, or a recommendation to address the breach.

Statement of Investment Policy *(continued)*

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

Basis*	Description	Management Firm Concentration Limit ²
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit ³
	Commingled funds (public, active)	15%
	Commingled funds (hedge funds)	15%
	Commingled funds (private strategies)	15% ⁴
Public Markets⁵	Passive strategies	No limit
	Active strategies (excluding hedge funds)	10%
	Hedge funds	10%
		Transaction Limit ⁶
Public Markets (excluding venture capital)	Total \$ commitment to asset class (e.g. Private Debt)	150% of Board-approved pacing plan (cumulative) ⁷
	Primary fund commitment (1st allocation to mgr.)	2%**
	Primary fund commitment (follow-on)	3%**
	Secondary fund investment	1%**

¹ Active risk or tracking error limits may apply at the total fund level, or another aggregation (e.g. public markets)

² Percentage (%) of total Plan assets allowable per investment manager

³ Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing

⁴ For private strategies, limit applied to the capital invested plus future callable commitments

⁵ Some of these limits related to public markets may be "interim", to be replaced by risk-based limits for example

⁶ Percentage (%) of total Plan assets allowable per investment manager.

⁷ This would allow, for example, a commitment that in Year 1 that is 50% above "plan". The "cumulative" provision would allow for a "catch-up" for any slower-than-planned investments in prior years

* To be selected, the manager must satisfy the "Vehicle" constraint and the appropriate "Public Markets" or "Private Markets" constraints

** Percentage (%) of total plan assets

Manager Selection

A. The process used to select an investment manager shall, at a minimum, include the following elements:

1. Imposition of a Quiet Period/No Contact policy. Board members and staff shall not have contact with individuals or entities who are seeking engagement by the Plan in response to an RFP, RFI, purchase order, or other solicitation or contracting process, except in accordance with the published terms of the contracting process or except for, and limited to, contact necessary in connection with ongoing Plan business with an individual or entity. The Plan's RFPs, RFIs, and other contract solicitations shall include notice that a "quiet period" will be in place from the beginning of the contracting process until the selection of the successful party such that these communications shall not occur, except as provided above. As part of the contracting process, potential contracting parties shall be required to disclose potential conflicts of interest. Board members and staff shall not use or attempt to use influence, outside of the individual authority to cause the organization to enter into a contract with any individual or entity. Board members and staff may refer individuals or entities for consideration for contracting to the appropriate Plan staff member(s) responsible for the particular procurement or contract process.

Statement of Investment Policy *(continued)*

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

2. Identification of a mandate to implement the Board's SAA Policy Portfolio.
 3. Comprehensive **operational due diligence** performed by the investment staff, qualified investment consultant, or qualified quasi-discretionary investments manager;
 4. In the case of private markets, comprehensive operational due diligence performed by the investment staff, qualified investment consultant, or qualified quasi-discretionary investment manager;
 5. **Legal review** by qualified investment counsel of the manager agreement and related documentation;
 6. **An internal meeting of investment officers, including the CIO** and the officer responsible for the asset class in question, during which staff's due diligence analysis is reviewed and debated and a staff recommendation is made;
 7. **Approval by the CIO;**
 8. **Concurrence by a qualified investment consultant** or quasi-discretionary investment manager as to the reasonableness of the selection decision; and
 9. Written affirmation to the Investment Committee by the CIO that the process used to select the manager complied with applicable policies and the procedures. Such affirmation shall be submitted to the Investment Committee at the next regularly scheduled Investment Committee meeting following the selection of the manager.
- B. The procedures shall include any checklists and templates to be used in the due diligence process. Such procedures shall be presented to the Investment Committee for review and input at least every three years, or sooner upon request of the Investment Committee or any member of the Board.
- C. Whenever amendments are made to the procedures, a copy shall be provided to the Investment Committee at its next regularly scheduled meeting.
- D. Should any Investment Officer responsible for performing manager due diligence and preparing manager selection and termination recommendations to the CIO cease to be employed by the City for any reason, the CIO shall inform the Investment Committee immediately.
- E. The selection of an investment manager that would contravene a provision of this policy or the procedures shall require Investment Committee approval.
- F. A file or files shall be established to serve as a permanent record of the due diligence process for each investment manager hired and shall contain a summary of the due diligence information and analysis generated during the search process, as well as the legal documentation.
- G. The **internal audit plan** of the internal auditor shall include a review of a random sample of investment manager selection decisions at least once per year to confirm compliance with this policy and the procedures approved by the CIO, the scope of which shall not include the investment performance of such selection decisions. The results of such review shall be reported to the Audit Committee and the Investment Committee.
- H. A "Watch List" will be established for underperforming managers and managers under extraordinary review for qualitative reasons, and will be maintained by the General Consultant.

Statement of Investment Policy *(continued)*

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

1. 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.
 2. 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.
 3. Investment staff will identify underperforming managers in conjunction with consultants.
 4. As necessary, nuanced investment strategies or fund types may require customized review.
- I. 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.
- J. 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.
- K. 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, waterfall, hurdles, floors and caps. The Plan may also incorporate multi-year performance periods with clawbacks as needed.

Manager Termination Procedures

- A. City of San Jose Office of Retirement Services investment staff is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the investment manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the CIO's discretion to take corrective action by terminating and/or replacing an investment manager if it is deemed appropriate at any time for any reason.

The CIO, in agreement with the appropriate consultant for the manager/asset class in question, may terminate an investment manager or product due to a variety of reasons. These reasons can include but are not limited to the following:

1. Plan asset allocation change
2. limited market opportunity
3. style drift
4. violation of policies and guidelines
5. key personnel turnover
6. failure to achieve performance or risk objectives
7. legal or regulatory action
8. any change deemed likely to impact or impair investment performance

Statement of Investment Policy *(continued)*

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

9. any other material adverse events, whether reputational or financial, that could be expected to cause significant headline risk.

Termination of private funds is typically not possible. If the CIO wishes to exit a private fund, they may evaluate opportunities for secondary market sales of fund interests.

The CIO will report any termination actions at the next Committee meeting, detailing the rationale for action.

XIII. RISK POLICY

Purpose and Scope

The purpose of this Risk Policy is to ensure that the total portfolio investment risk is consistent with the investment beliefs and strategic goals set forth by the San Jose Police and Fire Retirement Board. This document defines the roles and responsibilities for maintaining this Risk Policy, management of the investment risks of the Plan, and monitoring the results. It also articulates the Board's philosophy towards investment risk. The Plan intends to use risk management to make more informed decisions and improve the likelihood of achieving its strategic goals and objectives within the appendix, specific risk targets and limits are established.

The Risk Policy will cover investment risk, liquidity risk, credit risk, and funding risk. The Risk Policy will not cover enterprise risk concepts such as operational risk, regulatory risk, legal risk, and counterparty risks.

Objectives

The objective of the risk management program are:

- A. To communicate the Plan's commitment to risk management and the central role in achieving Plan goals and objectives;
- B. To formalize and communicate a consistent approach for managing risk;
- C. To ensure the investment risks assumed by the Plan are appropriate given the financial health of the Sponsor;
- D. To ensure the Plan operates within the agreed risk tolerance and risk limits.

Definitions

To aid with the interpretation of this policy, a glossary of terms is included in the Appendix D, which defines all the technical terms use in this policy.

Governance

Consistent with the Board's governance model, which delegates specific authority, responsibility, and accountability to others based on areas of expertise, this Risk Policy defines the following roles and responsibilities. The Board retains sole responsibility of governing the Plan, setting investment policy and risk policy, and monitoring the Investment Program. The Board delegates specific areas of responsibility while retaining appropriate oversight of the delegated activity.

Board of Administration

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

Statement of Investment Policy *(continued)*

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

- A.** Engaging Board consultants and service providers
- B.** The governance model of the Investment Program
- C.** Monitoring the Investment Program
- D.** Establishing and maintaining investment policy, including:
 - 1.** The Investment Policy Statement (“IPS”)
 - 2.** This Risk Policy
 - 3.** Investment objectives
 - 4.** Strategic asset allocation
 - 5.** Allocation-level performance benchmarks
 - 6.** Risk philosophy

Investment Committee

The Investment Committee (“IC”) is a subset of the Board assigned to review investment related matters in greater detail. The IC has been assigned authority to assist the Board in its duties by meeting on at least a quarterly basis regarding matters of investment policy, risk management, portfolio structure, vendor selection, real estate operations, human resources, reporting, and monitoring. Please refer to the IC Charter for specific detail.

Staff

San Jose Retirement Services Staff (“Staff”), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CIO has been delegated authority to execute specific elements of the Investment Program as outlined herein. Staff risk operating zones are defined in Appendix C.

General Investment Consultant

The General Investment Consultant (“GC”) is appointed by the Board to provide independent, objective investment advice. The GC is a fiduciary to the Plan under California law. The GC works with Staff and specialty consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The GC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the GC contributes to the following:

- A.** Asset allocation recommendations among classes and subclasses
- B.** Investment manager selection, evaluation and termination
- C.** Investment performance monitoring
- D.** Investment risk monitoring
- E.** Capital markets projections
- F.** Coordination with the Plan’s actuary in conducting periodic asset/liability studies and other required reporting
- G.** Recommend changes to the actual portfolio to achieve compliance with this Risk Policy
- H.** Board education

Statement of Investment Policy *(continued)*

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

Specialty Investment Consultants

A. Absolute Return Consultant

The Absolute Return Consultant (“AC”) is appointed by the Board to provide independent, objective investment advice. The AC is a fiduciary to the Plan under California law. The AC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The AC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the AC contributes to the following:

1. Assists with providing transparency into the absolute return investment strategies, including recent holdings and transactions.
2. Assists with the analysis of recommended investment strategies that have not yet been incorporated into the Plan including recent holdings and transactions.
3. Board education

B. Risk Advisory Consultant

The Risk Advisory Consultant (“RC”) is appointed by the Board to provide independent, objective investment advice. The RC is a fiduciary to the Plan under California law. The RC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The RC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the RC contributes to the following:

1. Asset allocation recommendations among classes and subclasses
2. Investment manager evaluation
3. Risk policy development and maintenance
4. Investment risk monitoring
5. Recommend changes to the actual portfolio to achieve compliance with this Risk Policy
6. Board education

Investment Managers

Investment Managers are delegated the responsibility of investing and managing Plan assets in accordance with the IPS, Risk Policy, and all other applicable laws and the terms of the applicable investment documents evidencing the Plan’s acquisition of an interest in an investment vehicle, and other controlling documents. Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

Custodian Bank

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by the Plan in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of Plan assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

Statement of Investment Policy *(continued)*

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

Philosophy

An institutional investment program is inherently exposed to many types of risk. This Risk Policy focuses primarily on the investment risks caused by the markets to which the Plan is exposed (e.g. domestic equities, real estate, domestic fixed income, and others). Related risks such as counterparty, geo-political, and fraudulent or unethical behavior, among others, are not addressed in this Risk Policy.

This Risk Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of fiduciary obligations. The statements below set forth the Board's Risk Philosophy, in order of importance:

Investment risk policy should consider the financial health of the sponsor

Contribution volatility (i.e. the volatility of annual contributions made to the Plan by the Sponsor) represents a significant budgetary constraint on the Sponsor's financial planning with important implications for taxpayers. The Investment Program shall, therefore, assume a level of volatility that can be tolerated by the Sponsor in both normal as well as stressed market conditions.

The funded status (i.e. funded ratio), viewed as a general proxy for the health of the Plan, is reviewed on both actuarial and market value of assets bases. While a higher funded ratio is always preferred, the Investment Program shall not accept a level of risk that for a given probability could cause the funded ratio to fall below the limit identified in Appendix B.

The Plan will manage funding risk in three main ways:

- A.** Actuarial review: The actuary will periodically review the Plan's liabilities
- B.** Asset/Liability studies: The general consultant will periodically perform this study to identify changes in the relationship between assets and liabilities
- C.** Asset Allocation: The Plan will periodically conduct asset allocation studies to ensure:
 - 1.** portfolio diversification
 - 2.** expected portfolio returns over the long-term (i.e. 10 years or more) in combination with projected contributions are sufficient to meet expected liabilities

Volatility and drawdown are the primary measures of investment risk

Because the Plan must satisfy long-term liabilities and receives regular contributions from the Sponsor, the Investment Program invests for the long-term appreciation of assets. It is, therefore, able to withstand short-term volatility spikes without undue impairment of capital. For this reason, long-term volatility (i.e. 8 years or more) is considered the appropriate timeframe. Volatility is forecasted through the Plan's strategic asset allocation and risk reporting processes and is measured and monitored as outlined in Appendix B and C.

Market corrections due to economic recession, geo-political instability, and other causes have historically proven detrimental to the funded status of the Plan. Drawdown and tail-risk metrics are designed to assess potential investment returns during such periods of market stress. Historical drawdown scenario analysis provides insight into how the portfolio would respond if it were exposed to prior stressed market conditions. Tail-risk analysis provides insight into the probabilities of experiencing a negative investment return with a small (e.g. 5%) probability. These metrics provide insight into how much may be lost during a stressed market environment. Because market corrections are statistically infrequent and typically caused by unforeseen events, neither approach can be used with certainty, but each provides insight into the potential impact a worst-case scenario may represent to the Plan and Sponsor.

Statement of Investment Policy *(continued)*

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

Active risk, factor exposures, and liquidity must be monitored

Implementation of any strategic asset allocation introduces deviations between the Plan's actual portfolio and its policy index. While it is generally desired to minimize these differences to achieve efficiency, deviations from the policy index may be desirable for various reasons. To ensure the actual portfolio is appropriately adhering to the policy index, active risk must be measured and monitored through tracking error statistics.

Factor exposures capture the underlying economic drivers supporting asset class returns. While the policy index and actual portfolio are constructed primarily through asset class forecasts, factor exposures provide important insight into the underlying economic drivers supporting the Investment Program. Each security owned within each investment strategy has some exposure to various economic drivers. The Investment Program's total exposure to the economic drivers is, therefore, driven by the exposures inherent in those securities as well as the correlations across the factor exposures. To understand better the Plan's exposure to the economic drivers and anticipate how the Investment Program will perform under various economic environments, factor exposures must be measured and monitored.

In addition to benefit payments, the Plan must meet its obligations to pay its expenses and satisfy capital calls. Generally, these cash outflows are predictable and can be met through the normal administration of the Plan. Under stressed market conditions, however, liquidity within the Investment Program can change significantly and with little advance notice while the Plan must continue to meet its obligations. Liquidity must, therefore, be monitored and measured to ensure that the Plan can continue to meet its financial obligations during periods of market stress without being forced to sell assets at stressed prices.

Monitoring

Reporting processes are designed to provide the Board with the information needed to execute its oversight function. As such, the Board has developed the following monitoring structure.

The Investment Committee, CIO and RC will monitor the Investment Program's risk exposures quarterly. This detailed review process will include security-level exposure analysis of the Investment Program's factor exposures; asset class exposures; tracking error; tail-risk and drawdown scenario analysis, and geographic exposures.

The Board, Staff, and RC will monitor the Investment Program's adherence to this Risk Policy on a quarterly basis. This review process will summarize the detailed reporting used by the Investment Committee and also include the ranges and targets outlined in **Appendix B**.

Management

Aside from liquidity management responsibilities assigned to the CIO in the Plan's IPS, the Board retains full authority and responsibility for ensuring adherence of the Investment Program to this Risk Policy.

The Plan's risk management function is expected to evolve through time. The objective of the risk management function is to ensure the Plan operates within the Board's agreed risk tolerance and limits. The main goals of the risk management function are:

- A.** Identify: risks that will impact the Plan's ability to meet its goals and objectives;
- B.** Estimate the significant risks to which the Plan is exposed;
- C.** Manage: risk must be managed and should be commensurate with the rewards;
- D.** Communicate: risks must be reported and monitored on a regular basis.

Statement of Investment Policy *(continued)*

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

To a large extent, many factors that impact future benefits and contributions are uncontrollable, however, the potential impacts are considered in strategy development. The Plan uses three approaches (actuarial valuation, asset/liability studies, and asset allocation studies, as discussed above) to address and manage risk.

The Board may delegate authority to the CIO and Staff for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. The Board shall be notified timely of all investment decisions made by the CIO and their implications to the Plan.

A. Rebalancing

Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.

B. Relative Risk

While the Board recognizes that the majority of investment risk over the long term is dependent on the asset allocation decision, it recognizes the cost of precisely matching the strategic asset allocation is considerable and not always optimal. In addition to asset class weightings versus policy, annualized tracking error will be used to measure the disparity of returns between the actual positions in the Investment Program compared to the strategic asset allocation. Annualized tracking error, as measured quarterly by the RC, shall adhere to the targets and ranges outlined in **Appendix C**.

IX. INVESTMENT COSTS

The Board members intend to monitor and control investment costs at every level of the San Jose Police and Fire Department Retirement Plan.

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 Plan restructurings to eliminate unnecessary turnover expenses.

D. Managers will be instructed to minimize brokerage and execution costs.

Statement of Investment Policy *(continued)*

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

Appendix A

ASSET ALLOCATION TARGETS ⁸

	Target (%)	SAAP Asset Class Benchmarks	LCPP Asset Class Benchmarks	Tracking Error Target Range (basis points)
Growth	56			
Public Equity	31	Custom Public Equity Benchmark ⁹	LCPP Custom Public Equity Benchmark ¹⁰	0-400
Total Private Markets	22	Actual Return		N/A
Private Equity	8		Russell 3000	
Venture/Growth Capital	4		Russell 3000	
Private Debt	4		Bloomberg Barclays Aggregate	
Growth Real Estate	3		Global NAREIT	
Private Real Assets	3		S&P Global Natural Resources	
Emerging Market Bonds	3	50/50 JPM EMBI GD/JPM GBI-EM GD	50/50 JPM EMBI GD/JPM GBI-EM GD	0-300
Zero Beta	32			
Cash	0	ICE BofAML 3-Month T-Bills	ICE BofAML 3-Month T-Bills	0 - 100
Short-term IG Bonds	20	ICE BofAML 3-Month T-Bills	ICE BofAML 3-Month T-Bills	0 - 100
Market Neutral Strategies	7	LIBOR 3-Month	LIBOR 3-Month + 1%	0 - 1,000
Bonds (Immunized Cash Flows)	5	Actual Return	ICE BofAML 3-Month T-Bills	NA
Other	12			
TIPS	2	Bloomberg Barclays 0-5 Year TIPS	Bloomberg Barclays 0-5 Year TIPS	0 - 100
Core Real Estate	5	NCREIF ODCE Equal Weighted	Global NAREIT	0 - 400
Commodities	2	Bloomberg Commodity Index	Bloomberg Commodity Index	0 - 700
Sovereign Bonds ex US	3	FTSE WGBI ex US	FTSE WGBI ex US	0 - 200

LIABILITY BENCHMARK PORTFOLIO: Bloomberg Barclays U.S. Long Treasury Index

⁸ Approved by the Board of Administration in August 2018.

⁹ 13% MSCI US IMI, 8% MSCI World ex US IMI, 10% MSCI EM IMI.

Statement of Investment Policy *(continued)*

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

Appendix B SCHEDULE OF OPERATING RANGES AND LIMIT TARGETS

Characteristic	Measurement	Operating Range		Board Approved
		Min.	Max.	Limit
Funded ratio	Probability that the Actuarial funded ratio will fall below the Board Approved Limit	80%	n.m.	5% probability of falling below 60%
Sponsor contributions	Probability that Sponsor contributions in a single year will exceed a specified limit	\$160mm	\$220mm	5% probability of exceeding \$150mm
Interest on UAL	Probability that the Interest cost of unfunded actuarial liability will increase above a specified limit	\$35 mm	\$80mm	5% probability of exceeding \$150mm
Total fund absolute volatility	Forecast Annualized standard deviation of returns of the actual portfolio	8%	10%	12%
Total fund relative volatility	Forecast Tracking error of the actual portfolio vs. the strategic asset allocation policy index	1%	2%	4%
Drawdown exposure	Average of three worst historical scenario drawdown events	n/a	n/a	-30%
Liquidity	Liquidity Coverage Ratio (LCR) 5-yr projection	2.0	3.0	1.2

Appendix C FORECASTED RISK OPERATING ZONES

Risk Guideline	CIO	IC	Board
Total Portfolio	8 - 11%	<8%; 11-12%	>12%
Total Portfolio Forecast Beta	0.5 - 0.8%	0.3-0.5; 0.8-1	<0.3; >1
Total Portfolio Duration	0-3 years	3-5 years	> 5 years
Total Portfolio Credit Spread Duration	0-3 years	3-5 years	> 5 years
Total Portfolio Relative Risk	< 10%	10% - 20%	> 20%
Equity Factor Relative Risk	< 10%	10% - 20%	> 20%
Interest Rate Factor Relative Risk	< 10%	10% - 20%	> 20%
Credit Factor Relative Risk	< 10%	10% - 20%	> 20%
Currency Factor Relative Risk	< 10%	10% - 20%	> 20%
Portfolio Active Risk	0.5 - 3%	0-0.5%; 3-4%	> 4%
Average Drawdown Risk	0 - 25%	25-30%	<-30%

Statement of Investment Policy *(continued)*

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

Appendix D DEFINITIONS

Actuarial Assumptions: Assumptions made by the actuary that influence the valuation of liabilities

Active Risk: Measures the volatility of an investment strategy versus its benchmark.

Concentration Risk: Lack of diversification in exposure to markets or managers.

Confidence Interval: A range of values so defined that there is a specified probability that the value of a parameter lies within it.

Counterparty Risk: The risk that a party in a transaction does not fulfill its contractual obligation. Both sides of a contract are exposed to this risk

Credit Risk: Also referred to as default risk. This is the risk the borrower fails to repay a loan or meet a contractual obligation.

Currency Risk: The potential loss on the price of an asset due to fluctuating foreign currency exchange rates.

Drawdown: A measure of both returns and time over which an investment experienced a decline in value from a peak to a trough. It is based on actual historical results.

Duration: Measures how long (in years) it takes to be repaid the bond's price by the bond's total cash flows. This measure is used to determine the interest rate sensitivity of the portfolio.

Funded Ratio: The ratio of assets to liabilities. Assets can be defined in terms of the market value of assets or the actuarial value of assets. Liabilities are defined as all future benefit payments discounted at the actuarial assumed return,

Funding Risk: Also referred to as surplus risk, this is the risk of assets and liabilities not matching
Inflation Risk: The risk that general prices of goods and services are rising, which erodes the purchasing power of money.

Interest Rate Risk: The risk that an investment will decline in value as a result of a change in interest rates. This risk is measured by its duration.

Investment Risk: The risk associated with investing in capital markets

Liquidity: Is comprised of both the time required to complete the transaction and the impact that the transaction has on the price of the asset. There are two types of liquidity risk: Market liquidity risk and funding liquidity risk. Market liquidity risk refers to the risk that an asset cannot be sold without loss of value. Funding liquidity risk refers to the risk that the plan will not be able to meet financial obligations as they come due.

Liquidity Coverage Ratio: The ratio of liquidity available to liquidity needs.

Statement of Investment Policy *(continued)*

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

Portfolio Construction Engine: A software program relying on mean-variance optimization. Portfolio optimization requires inputs of asset class returns, standard deviations, and correlations in order to develop an output of total portfolio expected returns and standard deviations, which can be compared along with their Sharpe Ratios.

Risk: The uncertainty of an event occurring

Standard Deviation: The square root of the average squared deviation of the returns from its mean

Strategic Asset Allocation: The asset classes and weights that are targeted for the policy benchmark

Tail Risk: Tail-risk measures both the probability and expected returns of a significant loss. When assuming normally distributed returns, tail-risk is the left tail of the return distribution. The normal distribution used for mean-variance optimization underestimates the risk of rare events when markets exhibit fat tails (for example, during the Global Financial Crisis).

Volatility: The standard deviation of returns. Standard deviation (SD) is the square root of the average squared deviation of the returns from its mean.

Statement of Investment Policy

HEALTHCARE - 115 SUBTRUSTS

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

INVESTMENT OBJECTIVES

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

FIDUCIARY STANDARDS

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

FUND GOVERNANCE

- 7) The governance structure of the Health Care Trust is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

- a) Policy on the Role of the Board of Administration;
- b) Policy on the Role of the Investment Committee;
- c) Policy on the Role of the Director of Retirement Services;
- d) Policy on the Role of the Chief Investment Officer;
- e) Policy on Roles in Vendor Selection.

ASSET ALLOCATION

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

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

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

REBALANCING

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

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

DIVERSIFICATION

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

LIQUIDITY MANAGEMENT

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

PROXY VOTING

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

HIRING & TERMINATING INVESTMENT MANAGERS

- 20) Investment managers should meet the following criteria in order to be considered to manage the assets of the Fund.
- a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity;
 - b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time;
 - c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Health Care Trust.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

- 21) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.
- 22) The procedures noted in paragraph 21 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

MONITORING INVESTMENT MANAGERS

- 23) The Health Care Trust's investment managers will be monitored on an ongoing basis and may be terminated by the Health Care Trust at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Health Care Trust.
- 24) The majority of the Health Care Trust's assets are currently passively managed, in which case the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.
- 25) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
 - a) Failure to adhere to the terms of a contract between the manager and the Health Care Trust;
 - b) Loss of an investment professional(s) directly responsible for managing the Health Care Trust's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process;
 - c) The sale of the investment management firm to another entity, or other change in ownership;
 - d) The purchase of another entity by the investment management firm;
 - e) Significant account losses and/or extraordinary addition of new accounts;
 - f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations;
 - g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Health Care Trust's assets at undue risk of loss.

DERIVATIVE SECURITIES

- 26) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index, or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
 - a) Equitizing cash during portfolio transitions until "physical" securities are in place;
 - b) Managing asset allocation on a temporary basis;
 - c) Hedging foreign currency risk, subject to approved limits.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

- 27) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board. Speculative positions in derivatives, however, are not authorized under any circumstances.
- 28) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Health Care Trust may use derivatives that are contrary to paragraphs 26 and 27 above.
- 29) This policy allows for the use of derivatives within the specific portfolios being managed by the investment managers retained by the Health Care Trust. Use of derivatives at the Health Care Trust level (i.e. Total Fund) must be authorized by this Investment Policy Statement prior to being utilized within the Health Care Trust.

INVESTMENT RESTRICTIONS

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

INVESTMENT COSTS

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

VALUATION OF INVESTMENTS

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

OTHER

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

POLICY REVIEW & HISTORY

- 37) This policy will be reviewed at least annually.
- 38) This policy was most recently reviewed by the Investment Committee on June 6, 2013.

Statement of Investment Policy *(continued)*

HEALTHCARE - 115 SUBTRUSTS (continued)

Appendix A LONG-TERM BENCHMARK

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

Investment Professionals

As of June 30, 2019

PUBLIC 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		
57 Stars LLC	Industry Ventures	Portfolio Advisors LLC
CCMP Capital Investors	Innovation Endeavors	Siguler Guff & Company, LP
Crescent Capital Group	Neuberger Berman	TCW
Francisco Partners	Northern Trust	TPG Capital
HarbourVest Partners	Pantheon Ventures	Warburg Pincus LLC
GROWTH REAL ESTATE		
Blackstone Group	KSL Capital Partners, LLC	Torchlight Investors
Brookfield Asset Management	Och-Ziff Capital Management Group LLC	Tristan Capital Partners
DRA Advisors LLC	Orion Capital Managers LLP	
GEM Realty Capital	TA Associates Realty	
PRIVATE DEBT		
Arrowmark Partners	Marathon Asset Management	Shoreline Capital
Blackstone Group	Medley Capital LLC	White Oak Global Advisors
Crestline Investors	Octagon Credit Investors	
Cross Ocean Partners	Park Square Capital, LLP	
PRIVATE REAL ASSETS		
Global Infrastructure Partners	Lime Rock Partners	
EMERGING MARKET BONDS		
Blue Bay Asset Management	Wellington Management	
HIGH YIELD DEBT		
	Beach Point Capital Management	
SHORT-TERM INVESTMENT GRADE BONDS		
	BlackRock Financial Management Inc	
MARKET NEUTRAL STRATEGIES		
AHL Partners LLP	JD Capital	Systematica Investments, Ltd
D.E. Shaw & Co., L.P.	Kepos Capital LP	Wadhvani Asset Management LLP
Dymon Asia Capital, Ltd	Pharo Management LLC	
Hudson Bay Capital Management	Pine River Capital Management LP	
BONDS (IMMUNIZED CASH FLOWS)		
	Insight Investment	
TREASURY INFLATION-PROTECTED SECURITIES (TIPS)		
	Northern Trust	
CORE REAL ESTATE		
American Realty Advisors		Clarion Partners
BlackRock Financial Management Inc.		Vanguard Group
COMMODITIES		
	Credit Suisse Asset Management	
SOVEREIGN BONDS EX US		
	Northern Trust	
CONSULTANTS		
Albourne America LLC (Absolute Return)	Meketa Investment Group (General Consultant)	Verus Advisory Inc. (Risk Advisory Services)
CUSTODIAN		
	State Street Bank & Trust Company	
PORTFOLIO OVERLAY SERVICES		
	Russell Investments	

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

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2019

	One Year	Three Years	Five Years	Ten Years
Total Fund with Overlay (net of manager fees)	4.3%	6.9%	3.8%	7.2%
Policy Benchmark	4.4%	7.2%	4.2%	7.7%
InvMetrics Public DB > \$1B Net Median	5.4%	8.7%	5.6%	9.0%
Total Public Equity	4.2%	11.2%	6.0%	10.2%
Public Equity Benchmark	5.2%	11.6%	6.2%	10.7%
Total Private Equity	10.3%	12.7%	10.0%	12.1%
San Jose Custom Total Private Equity Benchmark	11.1%	15.5%	11.8%	11.4%
Total Short-Term Investment Grade Bonds	N/A	N/A	N/A	N/A
Total Market Neutral Strategies	7.1%	4.2%	3.0%	N/A
Absolute Return Benchmark	1.9%	0.2%	1.3%	N/A
Total Private Debt	0.8%	3.8%	N/A	N/A
S&P Global Leveraged Loan + 2%	5.2%	7.3%	N/A	N/A
Total Bonds (Immunized Cash Flows)	N/A	N/A	N/A	N/A
Total Core Real Estate	7.3%	7.3%	8.2%	N/A
NCREIF ODCE Equal Weighted (Net)	6.0%	7.0%	9.1%	N/A
Total Emerging Market Bonds	8.9%	5.2%	2.9	N/A
eV All Emg Mkts Fixed Inc Net Median	10.1%	5.2%	3.1%	6.8%
Total Growth Real Estate	8.8%	10.5%	N/A	N/A
NCREIF ODCE Equal Weighted	6.9%	7.9%	N/A	N/A
Total Sovereign Bonds ex US	N/A	N/A	N/A	N/A
Total Commodities	(4.8)%	0.6%	(6.0)%	N/A
Bloomberg Commodity Index TR USD	(6.8)%	(2.2)%	(9.1)%	N/A
Treasury Inflation-Protected Securities (TIPS)	N/A	N/A	N/A	N/A
Total Private Real Assets	7.8%	5.7%	N/A	N/A
Total Cash and Cash Equivalents	2.0%	1.4%	0.9%	0.8%
ICE BofAML 91 Days T-Bills TR	2.3%	1.4%	0.9%	0.5%
Total High Yield Debt	7.6%	7.8%	N/A	N/A

Basis of Calculation : Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2019

Schedule of Investment Results of Healthcare Trust - 115 Subtrusts

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2019

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	4.8%	5.1%	2.8%	N/A
Policy Benchmark	4.7%	7.2%	4.3%	N/A
Total Public Equity	6.2%	12.0%	6.6%	N/A
Public Equity Benchmark	5.4%	11.7%	6.2%	N/A
Total Short-Term Investment Grade Bonds	N/A	N/A	N/A	N/A
ICE BofAML 91 Days T-Bills TR	N/A	N/A	N/A	N/A
Total Core Real Estate	10.7%	3.6%	7.4%	N/A
MSCI US REIT Gross	11.1%	4.1%	7.8%	N/A
Total Commodities	(5.2)%	1.0%	(6.0)%	N/A
Bloomberg Commodity Index TR USD	(6.8)%	(2.2)%	(9.1)%	N/A
Total Cash and Cash Equivalents	1.8%	1.2%	0.7%	N/A
ICE BofAML 91 Days T-Bills TR	2.3%	1.4%	0.9%	N/A

Basis of Calculation: Time-Weighted Rate of Return

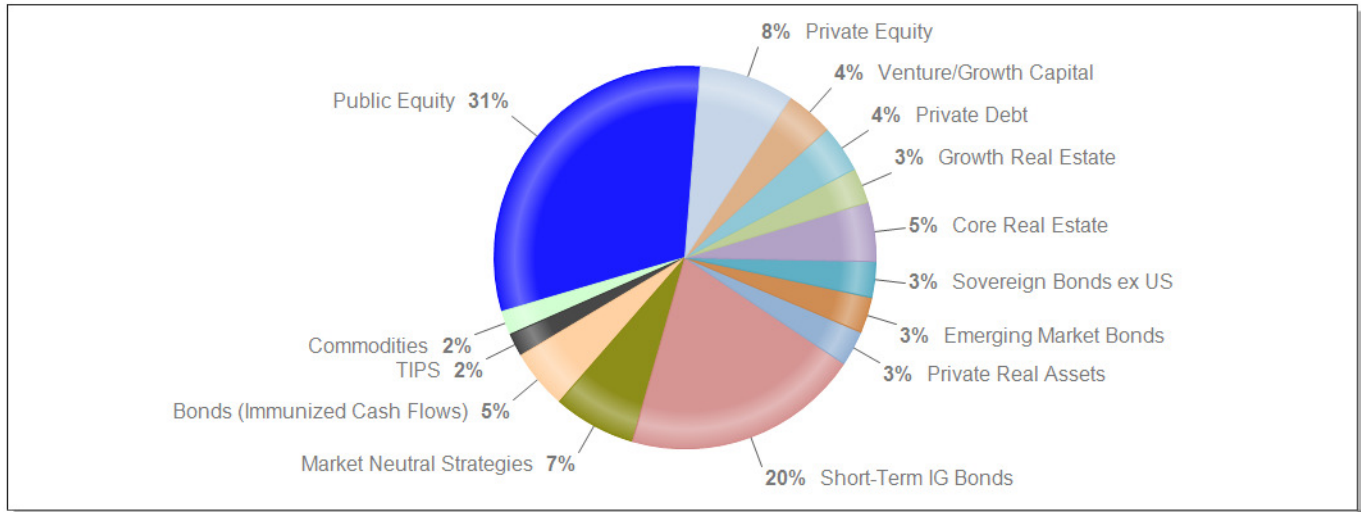
Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2019

Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION

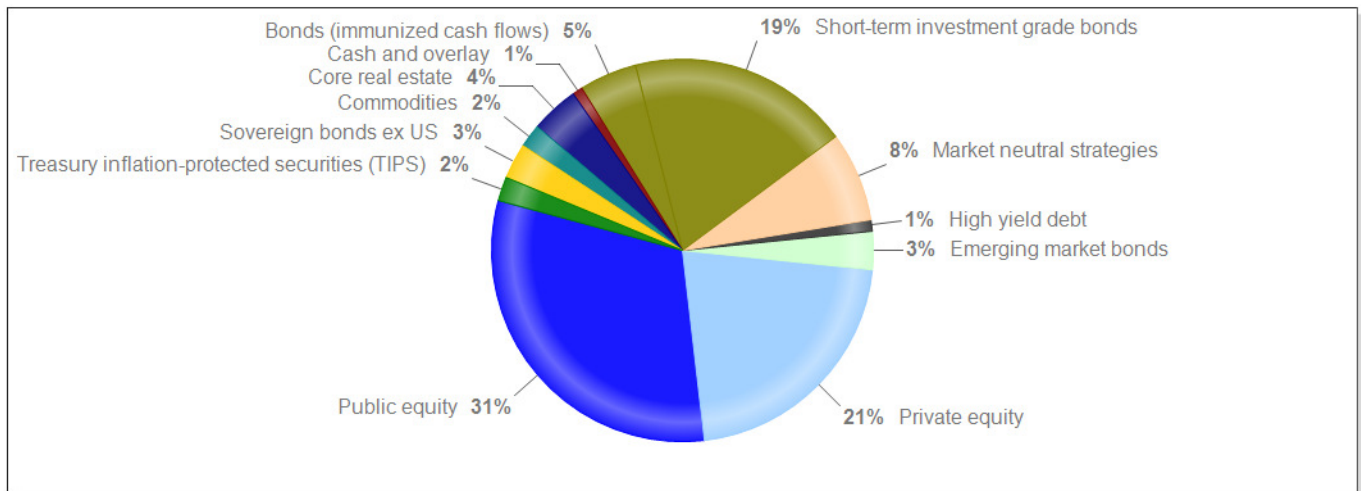
As of June 30, 2019



ACTUAL ASSET ALLOCATION

As of June 30, 2019

Non-GAAP Basis



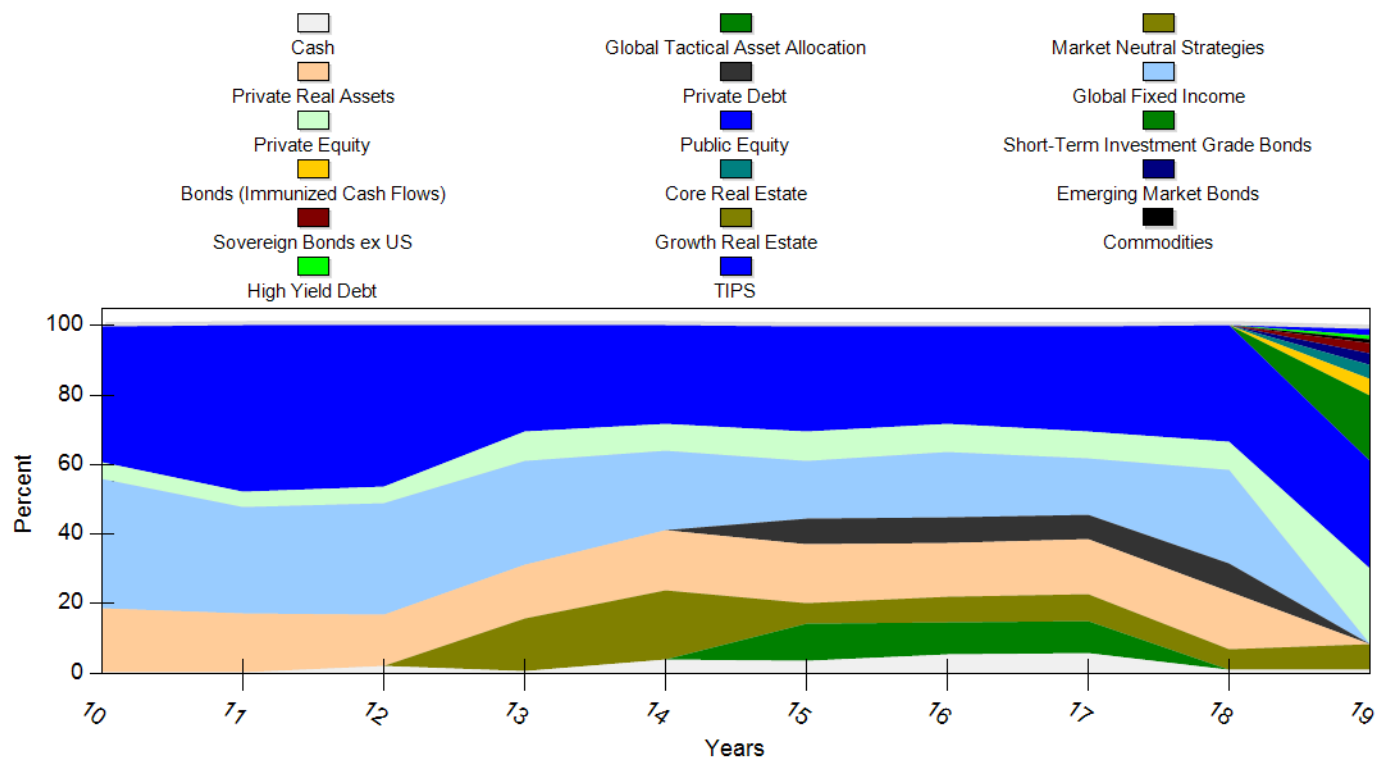
Asset Class	\$ Millions
Public equity	\$1,128.6
Private equity	785.8
Emerging market bonds	116.3
High yield debt	35.2
Market neutral strategies	271.2
Short-term investment grade bonds	683.8
Bonds (immunized cash flows)	179.0
Cash and overlay	32.0
Core real estate	147.2
Commodities	72.8
Sovereign bonds ex US	108.5
Treasury inflation-protected securities (TIPS)	74.4
TOTAL	\$3,634.8

Pension Investment Review (continued)

INCLUDES THE 401(H) INVESTMENTS (continued)

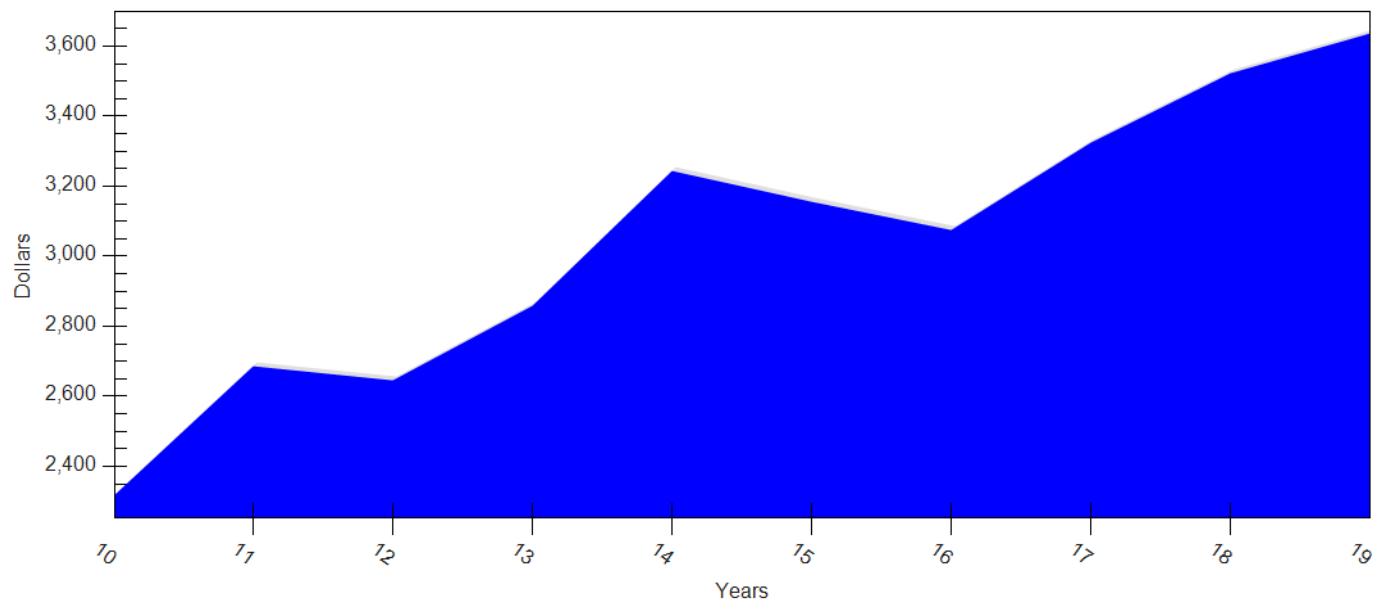
HISTORICAL ASSET ALLOCATION (Actual)

As of June 30,2010 - June 30,2019



MARKET VALUE GROWTH OF PLAN ASSETS

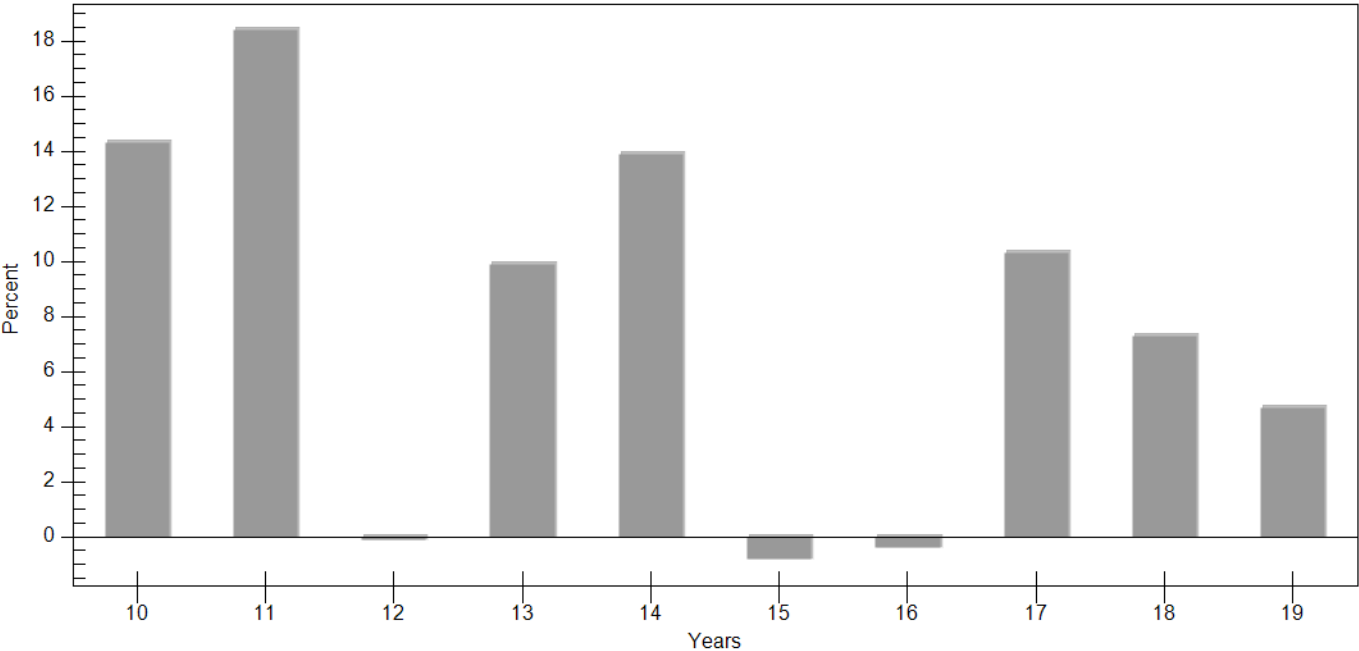
For Ten Years Ended June 30, 2019
(Dollars in Millions)



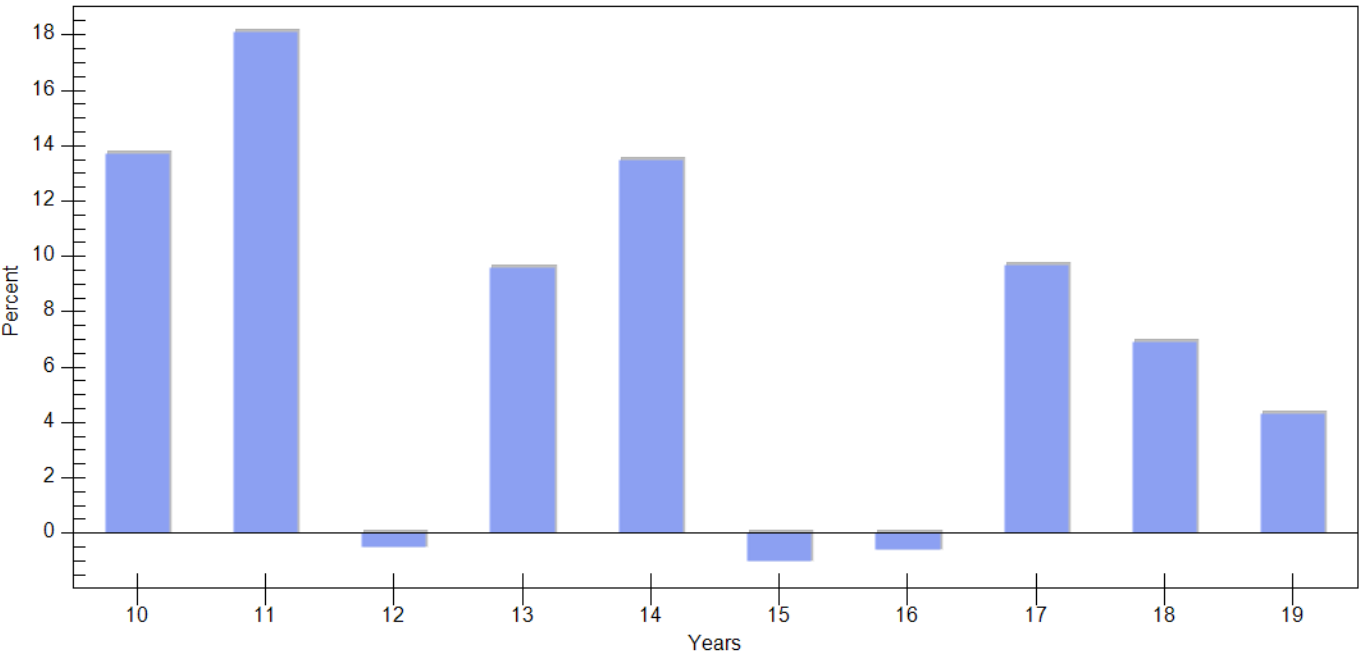
Pension Investment Review *(continued)*

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

HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2010 - 2019
(Based on Fair Value)



HISTORY OF NET PERFORMANCE
For Fiscal Years 2010 - 2019
(Based on Fair Value)

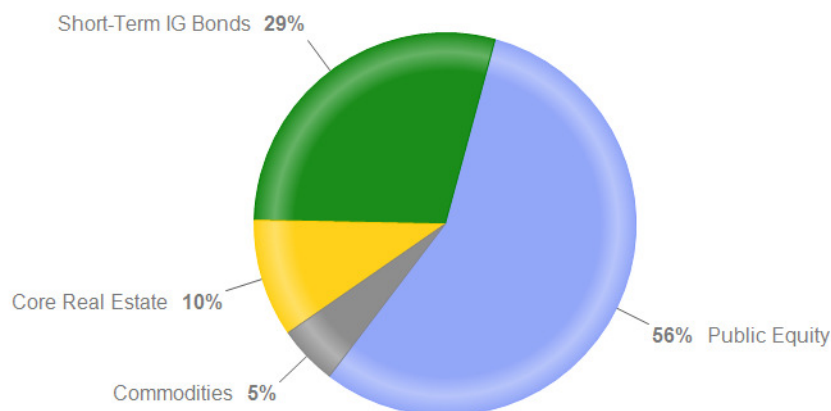


Healthcare Investment Review

115 SUBTRUSTS

TARGET ASSET ALLOCATION

As of June 30, 2019

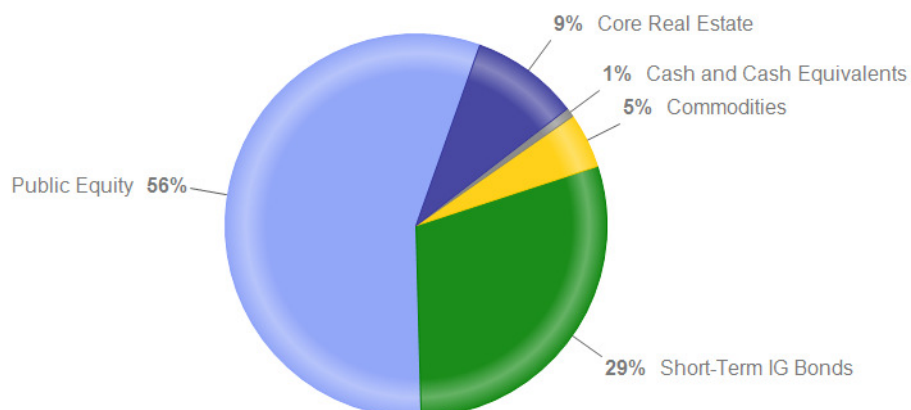


* Zero Data, Cash

ACTUAL ASSET ALLOCATION

As of June 30, 2019

Non-GAAP Basis



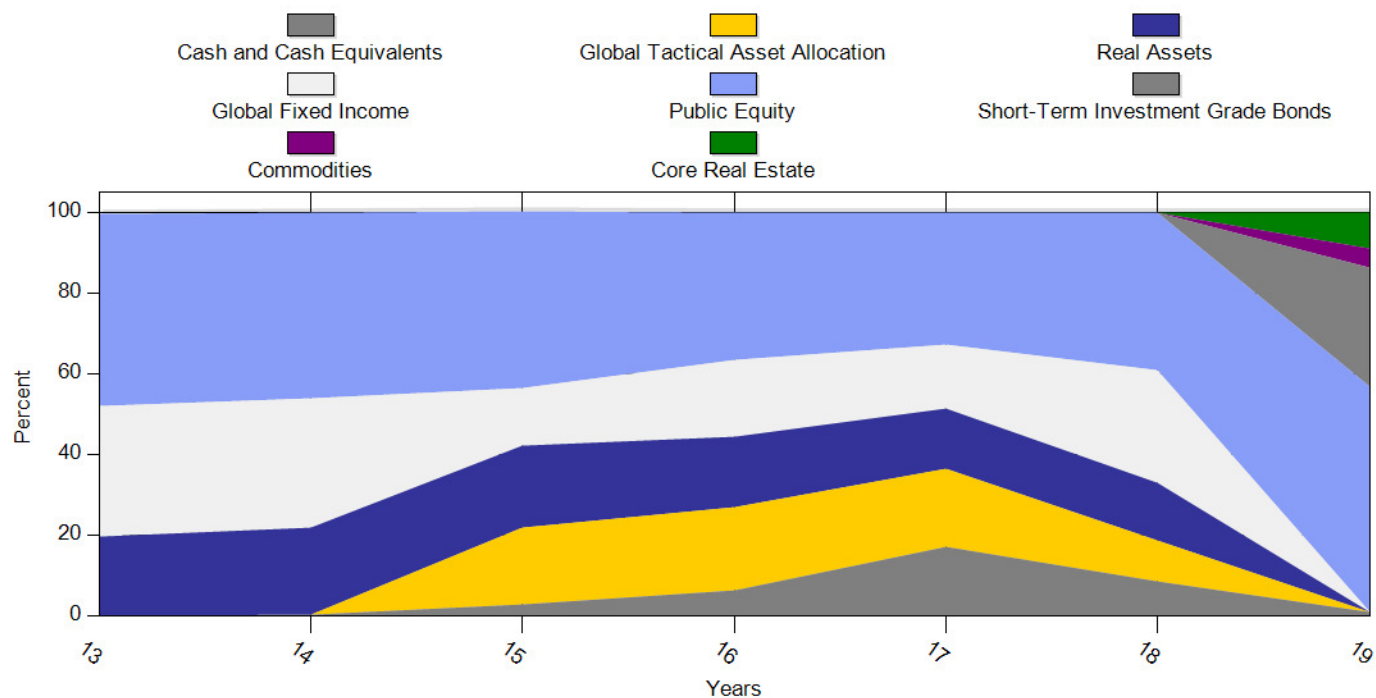
Asset Class	\$ Millions
Public equity	\$83.0
Short-term investment grade bonds	43.6
Core real estate	13.4
Commodities	7.0
Cash and cash equivalents	1.1
TOTAL	\$148.2

Healthcare Investment Review *(continued)*

115 SUBTRUSTS *(continued)*

HISTORICAL ASSET ALLOCATION (Actual)

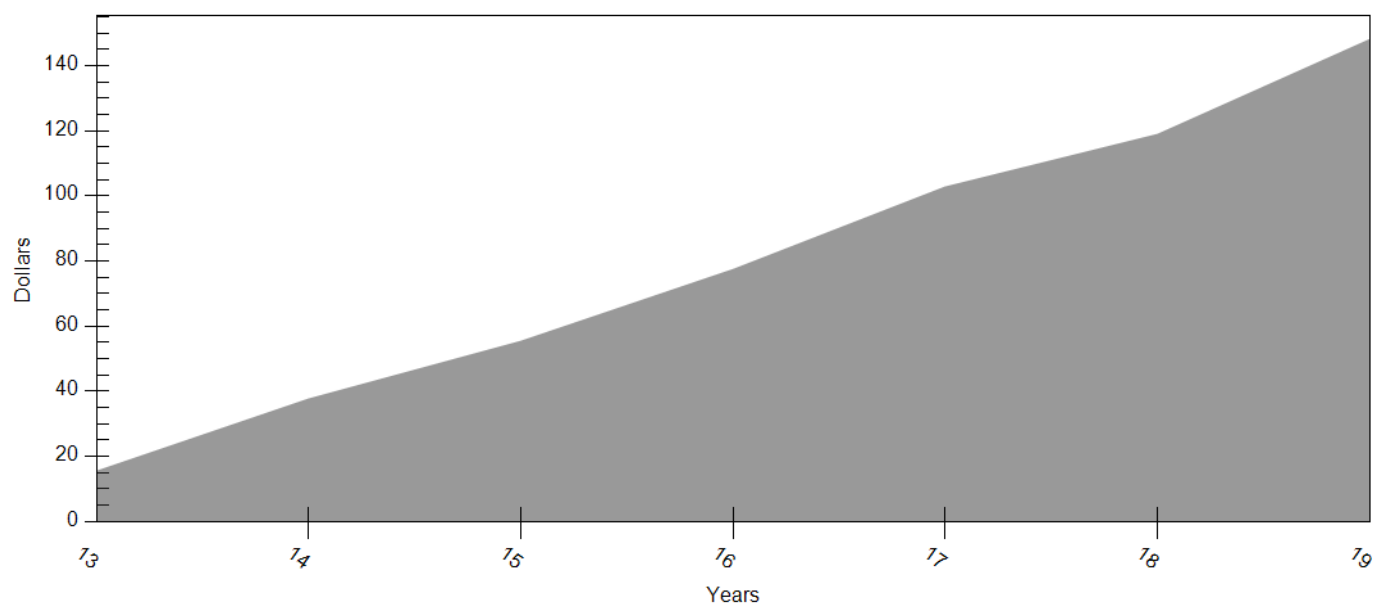
As of June 30, 2013 - June 30, 2019



MARKET VALUE GROWTH OF PLAN ASSETS

For Seven Years Ended June 30, 2019

(Dollars in Millions)



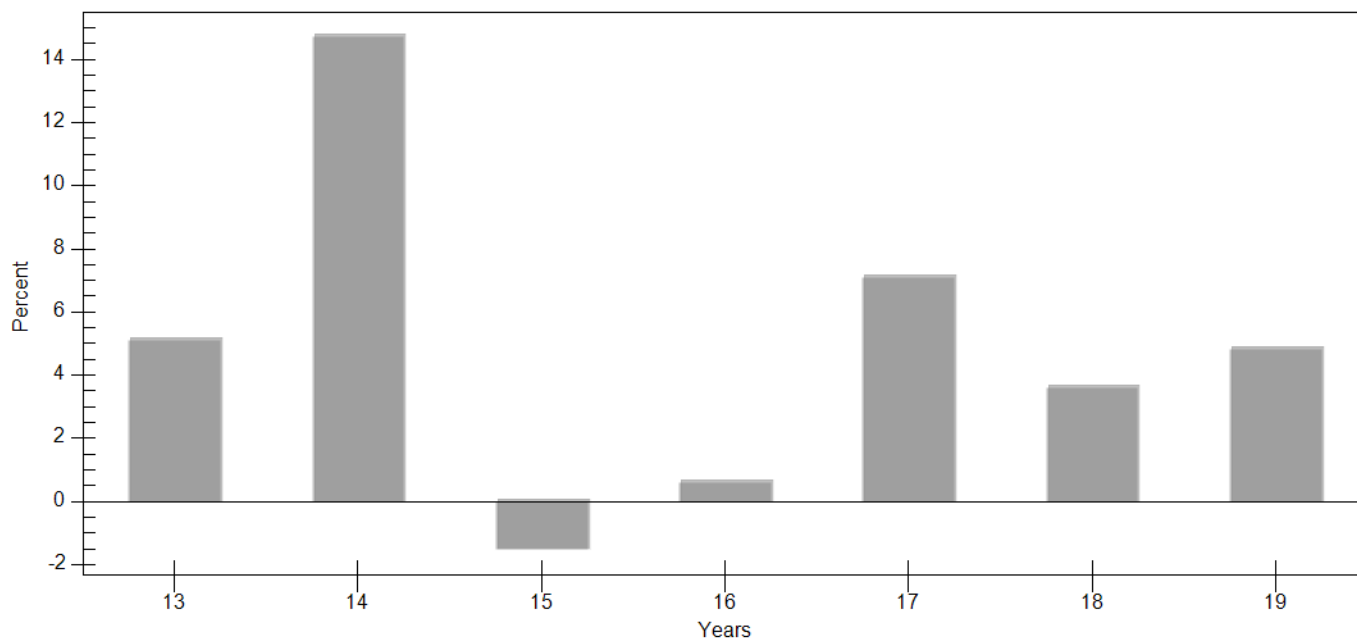
Healthcare Investment Review *(continued)*

115 SUBTRUSTS *(continued)*

HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2013 - 2019

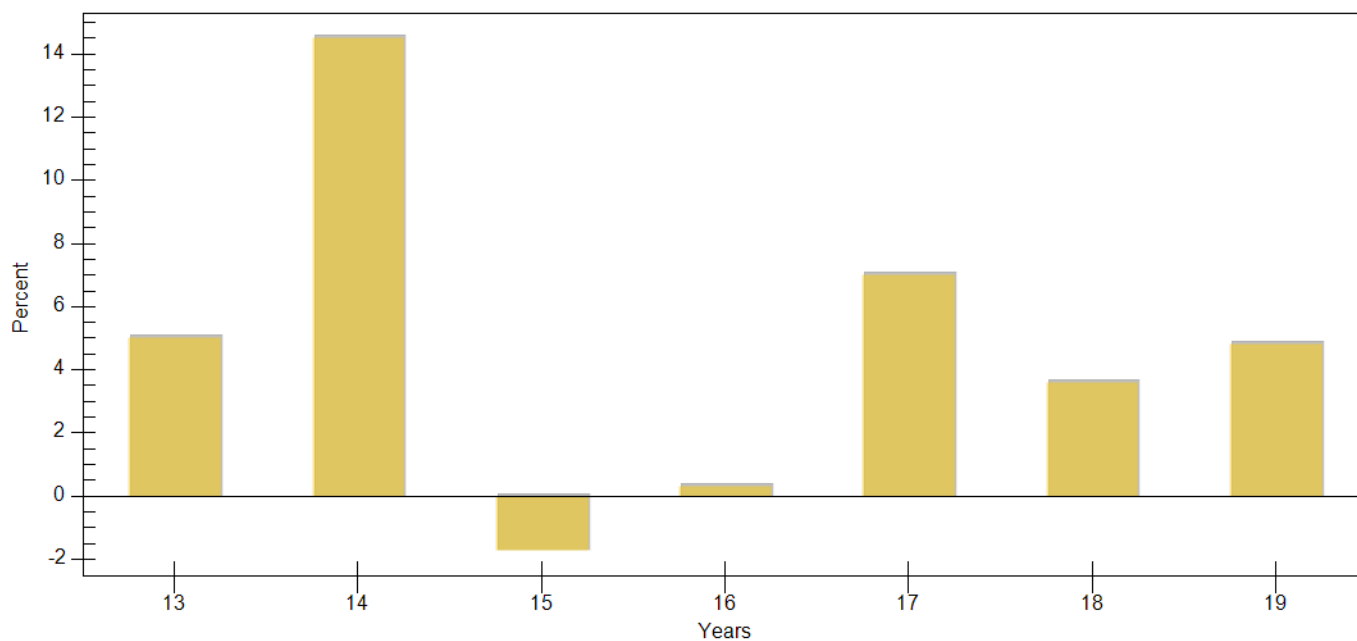
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2013 - 2019

(Based on Fair Value)



List of Largest Asset Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2019

Description	County	Shares	Fair Value (\$US)
SAMSUNG ELECTRONICS CO LTD	Korea, Republic of	250,307	\$ 10,188,740
ARCH CAPITAL GROUP LTD	United States	195,586	\$ 7,252,329
NXP SEMICONDUCTORS NV	Netherlands	73,996	\$ 7,222,750
CITIGROUP INC	United States	102,430	\$ 7,173,173
EXPEDIA GROUP INC.	United States	53,845	\$ 7,163,000
ABB LTD REG	Switzerland	356,168	\$ 7,156,237
CIE FINANCIERE RICHEMONT REG	Switzerland	83,324	\$ 7,079,549
FACEBOOK INC CLASS A	United States	36,427	\$ 7,030,411
ALLERGAN PLC	Ireland	41,622	\$ 6,968,771
DENTSPLY SIRONA INC	United States	117,136	\$ 6,836,057

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2019

Security Name	Country	Maturity Date	Interest Rate	Par Value	Fair Value (\$US)
FEDERAL HOME LOAN BANK	United States	9/8/2023	3.375%	\$ 6,835,000	\$ 7,269,159
US TREASURY N/B	United States	8/15/2023	2.500%	\$ 6,879,000	\$ 7,086,746
US TREASURY N/B	United States	6/30/2023	1.375%	\$ 6,892,000	\$ 6,796,408
TSY INFL IX N/B	United States	4/15/2020	0.125%	\$ 6,753,600	\$ 6,682,754
US TREASURY N/B	United States	9/30/2022	1.875%	\$ 6,589,000	\$ 6,621,418
US TREASURY N/B	United States	3/31/2023	1.500%	\$ 6,625,000	\$ 6,569,880
US TREASURY N/B	United States	1/31/2023	1.750%	\$ 6,563,000	\$ 6,567,594
FEDERAL HOME LOAN BANK	United States	3/10/2023	2.125%	\$ 6,485,000	\$ 6,559,513
STRIPS	United States	11/15/2022	-	\$ 6,667,000	\$ 6,282,381
STRIPS	United States	5/15/2023	-	\$ 6,681,000	\$ 6,235,444

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2019

Includes the 401 (h) and 115 Subtrusts

	Assets Under Management at Fair Value ¹	Fees	Basis Points
Investment Managers' Fees			
Public equity	\$ 1,211,791,023	\$ 3,165,499	26
Market neutral strategies	271,169,069	1,896,557	70
Private equity	785,798,527	2,188,269	28
Private debt	35,177,179	1,292,738	367
Commodities	79,834,202	428,715	54
Global fixed income	107,440,126	527,819	49
Core real estate	160,634,360	5,166,700	322
Private real assets	1,014,907,691	1,058,508	10
High yield debt / Emerging market bonds	116,277,599	1,263,210	109
TOTAL INVESTMENT MANAGERS' FEES	\$ 3,783,029,776	\$ 16,988,015	45

¹ Includes cash in managers' accounts, non-GAAP Basis

	Fees
Other Investment Fees	
Investment consultants	\$ 592,500
Custodian bank	316,824
Investment legal fees	93,828
Other investment fees	17,328
TOTAL OTHER INVESTMENT FEES	\$ 1,020,480

Schedule of Commissions

For the Fiscal Year Ended June 30, 2019

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
A			
ABG SECURITIES LIMITED	3,623 \$	87.23 \$	0.0241
APEX CLEARING CORPORATION	22,394	527.60	0.0236
B			
BANCO SANTANDER CENTRAL HISPANO	4,648	185.92	0.0400
BANK J. VONTOBEL UND CO. AG	13,569	889.46	0.0656
BANK OF AMERICA CORPORATION	2,010	17.41	0.0087
BARCLAYS CAPITAL INC	58,832	2,000.60	0.0340
BLOOMBERG TRADEBOOK LLC	8,500	170.00	0.0200
BMO CAPITAL MARKETS CORP	2,681	53.62	0.0200
BNP PARIBAS SECURITIES SERVICES	1,338,600	1,573.50	0.0012
BNP PARIBAS SECURITIES SERVICES AUSTR BR	298,445	1,678.28	0.0056
BNP PARIBAS SECURITIES SERVICES SA	309,600	2,719.34	0.0088
BOF A SECURITIES, INC	130,393	1,749.06	0.0134
C			
CACEIS BANK DEUTSCHLAND GMBH	27,665	545.96	0.0197
CANACCORD GENUITY (AUSTRALI) LIMITED	5,400	9.36	0.0017
CANACCORD GENUITY CORP.	60,892	931.78	0.0153
CANTOR CLEARING SERVICES	100	2.00	0.0200
CARNEGIE A S	44,547	779.72	0.0175
CARNEGIE INVESTMENT BANK AB	104,872	4,195.97	0.0400
CARNEGIE SECURITIES FINLAND	2,800	39.16	0.0140
CHINA INTERNATIONAL CAPITAL CO	417,400	1,500.85	0.0036
CIBC WORLD MKTS INC	18,071	289.72	0.0160
CICC US SECURITIES	4,492	179.68	0.0400
CITIBANK N.A.	2,818	38.74	0.0137
CITIBANK N.A. SPAIN	6,800	34.57	0.0051
CITIGROUP GLOBAL MARKET INC.	55,228	1,209.04	0.0219
CITIGROUP GLOBAL MARKETS LIMITED	17,512	190.65	0.0109
CLSA SECURITIES KOREA LTD	774	175.39	0.2266
CLSA SINGAPORE PRE LTD.	200,000	7,702.55	0.0385
COWEN AND COMPANY, LLC	4,384	175.36	0.0400
COWEN EXECUTION SERVICES LLC	23,215	24.02	0.0010
CRAIG - HALLUM	6,000	120.00	0.0200
CREDIT INDUSTRIEL ET COMMERCIA	22,800	922.00	0.0404
CREDIT LYONNAIS SECURITIES (USA) INC	11,377	398.90	0.0351
CREDIT LYONNAIS SECURITIES (ASIA) INC	463,600	1,526.48	0.0033
CREDIT MUTUEL-CIC BANQUES	17,000	856.29	0.0504
CREDIT SUISSE FIRST BOSTON (EUROPE)	911	93.40	0.1025

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2019

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
CREDIT SUISSE SECURITIES (EUROPE) LTD	596,491	4,400.67	0.0074
CREDIT SUISSE SECURITIES (USA) LLC	957,767	11,172.17	0.0117
D			
DAIWA SECURITIES AMERICA INC	601,300	17,622.92	0.0293
DANSKE BANK A.S.	74,233	2,254.79	0.0304
DEN NORSKE BANK	7,113	41.40	0.0058
DEUTSCHE BANK AG LONDON	2,431	10.39	0.0043
DEUTSCHE BANK SECURITIES INC	155,207	1,029.81	0.0066
DOWLING & PARTNERS	547	10.94	0.0200
E			
ELECTRONIC BROKERAFF SYSTEMS LLC	2,310	23.10	0.0100
EXANE S.A.	15,592	454.44	0.0291
F			
FOKUS BANK ASA	14,200	259.60	0.0183
G			
GABELLI & COMPANY, INC	68,723	2,061.69	0.0300
GMP SECURITIES LTD	11,300	129.04	0.0114
GOLDMAN SACHS & CO LLC	1,782,132	12,093.34	0.0068
GOLDMAN SACHS INTERNATIONAL	19,716	167.98	0.0085
H			
HSBC BANK PLC	152,860	1,416.34	0.0093
HSBC SECURITIES (USA) INC.	40,800	47.12	0.0012
I			
ICHIYOSHI SECURITIES CO LTD	281,700	11,024.93	0.0391
INSTINET	988,178	10,042.40	0.0102
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	57,078	161.51	0.0028
INSTINET PACIFIC LIMITED	1,481,123	3,621.65	0.0024
INSTINET SINGAPORE SERVICES PT	11,591	1.62	0.0001
INSTINET U.K. LTD	443,566	8,154.55	0.0184
INVESTMENT TECHNOLOGY GROUP INC	4,000	60.00	0.0150
INVESTMENT TECHNOLOGY GROUP LTD	19,352	164.57	0.0085
ITAU USA SECURITIES INC	11,658	398.00	0.0341
ITG CANADA	93	0.70	0.0075
J			
J.P. MORGAN SECURITIES INC	68,933	1,496.03	0.0217
J.P. MORGAN CLEARING CORP.	32,087	256.72	0.0080
J.P. MORGAN SECURITIES LIMITED	18,043	297.14	0.0165
J.P. MORGAN SECURITIES LLC	31,453	310.85	0.0099
J.P. MORGAN SECURITIES PLC	935,883	17,862.49	0.0191

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2019

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	13,851	1,982.78	0.1432
JEFFERIES & COMPANY INC.	4,933,432	22,764.36	0.0046
JEFFERIES HONG KONG LIMITED	573,200	759.84	0.0013
JEFFERIES INTERNATIONAL LTD	498,158	1,828.61	0.0037
JOH BERENBERG GOSSLER AND CO KG	349,921	4,902.95	0.0140
JONES TRADING INSTITUTIONAL SERVICES LLC	72,229	974.68	0.0135
K			
KEPLER EQUITIES PARIS	31,900	1,443.71	0.0453
KOREA INVESTMENT AND SECURITIES CO LTD	8,029	745.92	0.0929
L			
LIQUIDNET CANADA INC	468,872	7,091.72	0.0151
LIQUIDNET EUROPE LIMITED	11,961	887.20	0.0742
LIQUIDNET INC	132,476	2,649.52	0.0200
LOOP CAPITAL MARKETS	33,515	502.73	0.0150
M			
MACQUARIE BANK LIMITED	680,600	5,772.53	0.0085
MACQUARIE CAPITAL (EUROPE) LTD	5,653	48.21	0.0085
MACQUARIE CAPITAL (USA) INC	4,837	193.48	0.0400
MACQUARIE SECURITIES KOREA LIMITED	128	123.87	0.9677
MERRILL LYNCH INTERNATIONAL	1,775,081	15,519.78	0.0087
MILLA E. CO. SIM SPA	3,279	65.58	0.0200
MITSUBISHI UFJ SECURITIES (USA)	186,500	6,658.41	0.0357
MIZUHO SECURITIES USA INC	256,800	9,689.50	0.0377
MORGAN STANLEY AND CO INTERNATIONAL	349	266.11	0.7625
MORGAN STANLEY CO INCORPORATED	1,828,399	11,243.58	0.0061
N			
NATIONAL FINANCIAL SERVICES CORPORATION	21,725	86.61	0.0040
NEEDHAM & COMPANY LLC	2,200	44.00	0.0200
NOMURA FINANCIAL INVESTMENT KOREA CO LTD	1,088	213.19	0.1959
NUMIS SECURITIES INC	207,700	2,311.05	0.0111
O			
ODDO ET CIE	17,510	319.88	0.0183
P			
PAREL	34,500	1,189.01	0.0345
PARIBAS	3,100	6.78	0.0022
PEEL HUNT LLP	51,900	552.50	0.0106
PERSHING SECURITIES LIMITED	27,068	216.72	0.0080

Schedule of Commissions (continued)

For the Fiscal Year Ended June 30, 2019

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
R			
RAYMOND JAMES LTD	8,200	122.41	0.0149
RBC CAPITAL MARKETS, LLC	10,900	327.00	0.0300
RBC DOMINION SECURITIES INC	4,300	172.00	0.0400
REDBURN (EUROPE) LIMITED	249,787	1,601.34	0.0064
ROBERT W. BAIRD CO. INCORPORATE	86,093	2,191.82	0.0255
ROYAL BANK OF CANADA EUROPE LTD	17,356	79.50	0.0046
S			
SAMSUNG SECURITIES CO LTD	31	47.41	1.5294
SANFORD C BERNSTEIN & CO LLC	109,516	3,293.79	0.0301
SANFORD C BERNSTEIN LTD	14,959	372.64	0.0249
SANTANDER SECURITIES SERVICES SA	3,253	37.69	0.0116
SCOTIA CAPITAL (USA) INC	8,120	162.40	0.0200
SIDOTI & COMPANY LLC	15,700	438.00	0.0279
SIX SIS AG	1,000	58.48	0.0585
SKANDINAVISKA ENSKILDA BANKEN	125,323	4,985.70	0.0398
SKANDINAVISKA ENSKILDA BANKEN LONDON	79,853	1,169.35	0.0146
SMBC SECURITIES INC	438,300	12,199.89	0.0278
SOCIETE GENERALE LONDON BRANCH	3,031,546	25,369.28	0.0084
STIFEL, NICOLAUS AND COMPANY, INC	15,182	483.56	0.0319
SUNTRUST CAPITAL MARKETS, INC.	2,800	56.00	0.0200
SVENSKA HANDELSBANKEN	59,949	1,738.44	0.0290
T			
THE HONGKONG AND SHANGHAI BANK	5,718	131.03	0.0229
TORONTO DOMINION SECURITIES INC	54,366	825.98	0.0152
TOURMALINE PARTNERS	122,100	1,221.00	0.0100
U			
UBS AG	21,911	536.04	0.0245
UBS LIMITED	12,036	282.69	0.0235
UBS SECURITIES PTE.LTD., SEOUL	6,795	659.05	0.0970
W			
WEEDEN & CO	11,300	339.00	0.0300
WELLS FARGO BANK N.A.	31,829	1,004.16	0.0315
WILLIAM BLAIR & T COMPANY LLC	4,308	172.32	0.0400
WILLIAMS CAPITAL GROUP LP (THE)	2,000	30.00	0.0150
WOLFE TRAHAN SECURITIES	15,600	468.00	0.0300
TOTAL	29,405,505 \$	302,273.29 \$	0.0103

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS

As of June 30, 2019 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Public equity	\$ 1,128,645	31.0%
Private equity	466,106	12.7
Short-term investment grade bonds	683,814	18.8
Market neutral strategies	271,169	7.5
Private debt	184,266	5.1
Bonds (immunized cash flows)	178,976	4.9
Core real estate	147,209	4.1
Emerging market bonds	116,278	3.2
Growth real estate	100,748	2.8
Sovereign bonds ex US	108,460	3.0
Commodities	72,838	2.0
Treasury inflation-protected securities (TIPS)	74,351	2.0
Private real assets	34,679	1.0
Cash and cash equivalents	32,045	0.9
High yield debt	35,177	1.0
TOTAL FAIR VALUE	\$ 3,634,761	100.0%

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

Includes cash to support synthetic exposure.

HEALTHCARE - 115 SUBTRUSTS

As of June 30, 2019 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Public equity	\$ 83,146	56.1%
Short-term investment grade bonds	43,658	29.4
Core real estate	13,425	9.1
Commodities	6,996	4.7
Cash and cash equivalents	1,044	0.7
TOTAL FAIR VALUE	\$ 148,269	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.

This page intentionally left blank

Actuarial Section



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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2018



July 25, 2019

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

Dear Members of the Board:

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

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2018. 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, 2018 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

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

The funding ratios shown in the schedule of funded liabilities by type and the schedule of funding progress exhibits 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 sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the Plan. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. 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

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

Board of Administration
July 25, 2019
Page 2

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 Pension Liability is based on the June 30, 2018 actuarial valuation updated to the measurement date of June 30, 2019. The Board reduced the discount rate used in the June 30, 2018 valuation from 6.875% to 6.75%. This change is reflected effective July 1, 2018 for financial reporting purposes. There were no significant events between the valuation date and the measurement date, so the update procedures only include 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, 2019 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2019, GASB 67/68 report.

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

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

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Office 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.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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
July 25, 2019
Page 3

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

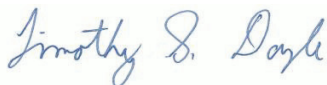
Sincerely,
Cheiron



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



Anne D. Harper, FSA, EA, MAAA
Consulting Actuary



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



Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The discount rate used in this report was adopted by the Board of Administration with our input at the November 1, 2018 Board meeting. All other assumptions were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the experience study for the rationale for each of the assumptions.

1) Discount Rate

6.75% net of investment expenses. The long-term expected return on assets based on Meketa's capital market assumptions for a 20-year time horizon is 7.0%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2) Wage Inflation 3.25% per annum (0.50% real wage growth).

3) Price Inflation 2.75% per annum.

4) Salary Increase Rate

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

Table B-1 Salary Merit Increases					
Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	6.00%	4	4.00%	8	1.50%
1	5.50%	5	3.50%	9	1.00%
2	5.00%	6	2.75%	10	0.75%
3	4.50%	7	2.00%	11 +	0.50%

5) Family Composition

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

Table B-2 Percentage Married		
	Males	Females
Percentage	85%	85%

6) Rates of Termination

Sample rates of termination are shown in the following Table B-3. 75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

Table B-3 Rates of Termination								
Service	Police	Fire	Service	Police	Fire	Service	Police	Fire
0	16.00%	25.00%	6	4.75%	0.90%	12	3.00%	0.50%
1	11.75%	7.00%	7	4.00%	0.80%	13	2.50%	0.50%
2	9.85%	3.50%	8	3.50%	0.70%	14	2.00%	0.50%
3	8.35%	1.75%	9	3.50%	0.60%	15+	2.00%	0.50%
4	7.00%	1.25%	10	3.50%	0.50%			
5	5.75%	1.00%	11	3.50%	0.50%			

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

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

7) Rates of Disability

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

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

100% of disabilities are assumed to be duty related.

8) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

Table B-5 Base Mortality Table		
Category	Male	Female
Healthy Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Employee Mortality Table (Male)	1.048 times the CALPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)

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

9) Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-6, B-7, and B-8. Tier 1 rates only apply when the member is eligible for unreduced benefits.

Table B-6 Tier 1 Rates of Retirement by Age and Service				
Age	Police		Fire	
	<30 Years	30+ Years	<30 Years	30+ Years
50	55.0%	100.0%	35.0%	100.0%
51	45.0%	100.0%	35.0%	100.0%
52	40.0%	100.0%	35.0%	100.0%
53 - 55	35.0%	100.0%	35.0%	100.0%
56 - 57	35.0%	100.0%	27.5%	100.0%
58 - 61	50.0%	100.0%	27.5%	100.0%
62+	100.0%	100.0%	100.0%	100.0%

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

Table B-7 Police Tier 2 Rates of Retirement by Age and Service				
Age	5-19 Years	20 - 24 Years	25 - 29 Years	30+ Years
50 - 56	2.0%	2.0%	2.0%	5.0%
57 - 59	7.5%	10.0%	20.0%	100.0%
60 - 61	10.0%	20.0%	35.0%	100.0%
62 - 64	25.0%	50.0%	75.0%	100.0%
65+	100.0%	100.0%	100.0%	100.0%

Table B-8 Fire Tier 2 Rates of Retirement by Age and Service				
Age	5-19 Years	20 - 24 Years	25 - 29 Years	30+ Years
50 - 56	1.0%	1.0%	1.0%	2.5%
57 - 59	5.0%	7.5%	15.0%	100.0%
60 - 61	7.5%	15.0%	25.0%	100.0%
62 - 64	20.0%	35.0%	50.0%	100.0%
65+	100.0%	100.0%	100.0%	100.0%

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

10) Administrative Expenses

For FYE 2018, administrative expenses are assumed to equal \$1,175 per member and are assumed to increase at the wage inflation assumption of 3.25% per annum. Historically, the administrative expenses were assumed to reduce the investment return assumption by 10 basis points which resulted in a higher normal cost. To maintain the same historic division of Tier 1 member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in normal cost that a 10 basis point reduction in the investment return assumption would cause. Tier 2 members pay 50 percent of administrative expenses.

11) Changes Since Last Valuation

The discount rate was reduced from 6.875% to 6.75%.

Contribution Allocation Procedure

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

1) Actuarial Cost Method

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

2) Asset Valuation Method

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

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (6.875% for fiscal year 2018 and 2017, 7.00% for fiscal 2016 and 2015, and 7.125% for fiscal 2014) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

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

3) Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 15-year period (16 years for gains and losses prior to June 30, 2016) beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Year	Active Count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay
2018	1,638	\$ 218,429,298	\$ 11,113	1.02%
2017	1,544	203,816,439	11,000	12.69%
2016	1,577	184,733,063	9,762	2.96%
2015	1,654	188,188,712	9,481	5.19%
2014	1,707	184,645,250	9,014	(1.13)%
2013	1,718	187,958,523	9,117	(0.48)%
2012	1,735	190,726,258	9,161	(11.51)%
2011	2,021	251,058,473	10,352	1.38%
2010	2,083	255,222,552	10,211	14.92%
2009	2,136	227,734,449	8,885	1.68% ¹

¹ Increase over a two-year period.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rols		Removed from Rols		End of Period		% Increase In Annual Allowances*	Average Annual Allowances
	Count	Annual Allowances	Count	Annual Allowance	Count	Annual Allowances	Count	Annual Allowances		
2017-2018	2,192	\$ 200,197	120	\$ 15,558	62	\$ 4,535	2,250	\$ 211,220	5.50%	\$ 93,876
2016-2017	2,149	190,897	87	11,816	44	2,516	2,192	200,197	4.90	91,331
2015-2016	2,108	182,185	72	10,843	31	2,131	2,149	190,897	4.80	88,831
2014-2015	2,032	170,872	115	13,700	39	2,387	2,108	182,185	6.60	86,426
2013-2014	1,994	162,716	73	10,142	35	1,986	2,032	170,872	5.00	84,091
2012-2013	1,942	154,381	91	10,259	39	1,924	1,994	162,716	5.40	81,603
2011-2012	1,885	144,139	88	11,583	31	1,341	1,942	154,381	7.10	79,496
2010-2011	1,810	131,014	133	15,384	58	2,259	1,885	144,139	10.00	76,466
2009-2010	1,700	115,573	152	17,238	42	1,797	1,810	131,014	13.40	72,383
2007-2009	1,477	90,061	276	27,537	53	2,025	1,700	115,573	28.30	67,984

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

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain (or Loss) for Year(s) Ending on Valuation Date Due To:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
June 30, 2018	\$ (53,615)	\$ 13,448	\$ (40,167)	\$ (76,425)	(116,592)
June 30, 2017	(50,882)	(57,971)	(108,853)	127,571	18,718
June 30, 2016	(106,785)	(54,528)	(161,313)	(72,680)	(233,993)
June 30, 2015	2,806	7,291	10,097	(90,004)	(79,907)
June 30, 2014	78,462	(14,678)	63,784	(55,787)	7,997
June 30, 2013	(92,499)	11,115	(81,384)	(28,233)	(109,618)
June 30, 2012	(172,759)	39,432	(133,327)	(75,220)	(208,548)
June 30, 2011	(96,473)	278,051	181,578	12,360	193,938
June 30, 2010	(149,621)	43,880	(105,741)	(104,240)	(209,981)
June 30, 2009	(138,383)	(113,495)	(251,878)	(145,351)	(397,229)

Amounts prior to June 30, 2011 calculated by prior actuary

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

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 ¹	Portion of Actuarial Liabilities Covered by Reported Assets		
June 30,	(A)	(B)	(C)		(A)	(B)	(C)
2018	\$304,454	\$3,227,859	\$1,164,115	\$3,596,590	100%	100%	6%
2017	299,933	3,050,871	1,113,598	3,439,922	100	100	8
2016	294,535	2,999,773	1,061,682	3,303,550	100	100	1
2015	285,538	2,819,410	953,462	3,212,776	100	100	11
2014	288,227	2,585,611	939,987	3,025,101	100	100	16
2013	280,727	2,452,728	844,576	2,771,924	100	100	5
2012	276,047	2,310,295	811,450	2,703,539	100	100	14
2011	260,172	2,174,044	761,791	2,685,721	100	100	33
2010	246,356	1,907,931	1,076,169	2,576,705	100	100	39
2009	243,302	1,630,914	1,089,266	2,569,569	100	100	64

Amounts prior to June 30, 2011 calculated by prior actuary

Dollar amounts in thousands

¹ Actuarial value of assets

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
6/30/2018	\$3,596,590	\$4,696,428	\$1,099,838	76.6%	\$218,429	503.5%
6/30/2017	3,439,922	4,464,402	1,024,480	77.1	203,816	502.6
6/30/2016	3,303,550	4,355,990	1,052,440	75.8	194,072	542.3
6/30/2015	3,212,776	4,058,410	845,634	79.2	184,733	457.8
6/30/2014	3,025,101	3,813,825	788,724	79.3	188,189	419.1
6/30/2013	2,771,924	3,578,031	806,107	77.5	184,645	436.6
6/30/2012	2,703,539	3,397,792	694,253	79.6	187,959	369.4
6/30/2011	2,685,721	3,196,007	510,286	84.0	190,726	267.5
6/30/2010	2,576,705	3,230,456	653,751	79.8	251,058	260.4
6/30/2009	2,569,569	2,963,482	393,913	86.7	255,223	154.3

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

Dollar amounts in thousands

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

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

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

Persons eligible for Tier 1 membership include:

- a. Any police officer hired prior to August 4, 2013 or any firefighter hired prior to January 2, 2015;
- b. Any person who was a member of this plan as an employee of the police department prior to August 4, 2013, and terminated employment with the city, and returned to employment with the city in a position covered by this plan on or after August 4, 2013;
- c. Any person who was a member of this plan as an employee of the fire department prior to January 2, 2015, and terminated employment with the city, and returned to employment with the city in a position covered by this plan on or after January 2, 2015;
- d. Any person accepting employment in the police department or fire department of the city on or after January 1, 2013, who is otherwise eligible for this plan and who was an active member in another California public retirement system with which this plan has reciprocity under Part 16, and who has a break in service of less than six months from that covered employment and employment with the city.

2) Final Compensation

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

3) Credited Service

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

4) Contributions

a. Member:

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

b. Employer:

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

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

5) Service Retirement

Eligibility

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

Benefit

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

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

6) Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

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

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

7) Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

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

8) Non-Service Connected Death

Less than 2 years of service:

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

Disabled retirees or members ineligible for service retirement:

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

1 Child: 25.0% of final compensation

2 Children: 37.5% of final compensation

3+ Children: 50.0% of final compensation

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

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

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

Service retirees or members eligible for service retirement:

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

9) Service-Connected Death

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

10) Termination Benefits

Less than 10 years of service:

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

10 or more years of credited service:

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

11) Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12) Changes Since Last Valuation

Membership requirements were changed by Measure F to allow former members and certain hires with reciprocity to enter Tier 1.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any police officer who is hired by the City on or after August 4, 2013, or any fire fighter who is hired by the City on or after January 2, 2015, and who does not meet the eligibility requirement for Tier 1.

2) Final Compensation

The highest average monthly compensation of the member during any thirty-six consecutive months of covered employment. Compensation excludes overtime pay and expense allowances.

3) Credited Service

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

4) Member Contributions

50.0% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability. Increases in members' unfunded actuarial liability contribution are limited to one-third of one percent of compensation each year. Contributions cannot be less than 50% of normal cost.

5) Unreduced Service Retirement

Eligibility:

Age 57 with 5 years of service.

Benefit - Member:

2.4% of final compensation for each year of credited service up to 20 years, plus 3.0% of final compensation for each year of credited service between 20 years and 25 years, plus 3.4% of final compensation for each year of credited service in excess of 25 years, subject to a maximum of 80.0% of final compensation.

Benefit - Survivor:

50.0% joint and survivor annuity.

6) Early Service Retirement

Eligibility:

Age 50 with 5 years of service.

Benefit - Member:

Reduced 7.0% per year for each year between age 57 and the member's age at retirement.

7) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

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

The greater of:

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

8) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

1.8% of final compensation for each year of credited service if less than age 50, or the service pension benefit if older than age 50.

9) Death Before Retirement

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

Monthly benefit equal to 24% of final compensation plus 0.75% of final compensation for each year of service in excess of two, up to a maximum of 37.5% of final compensation.

If death occurs after retirement eligibility is reached:

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

Employees killed in the line of duty:

Monthly benefit equal to the greater of:

- 37.5% of final compensation or
- 50.0% of what the employee would have received if retired at the time of death.

10) Withdrawal Benefits

Less than five years of credited 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.

11) Benefit Forms

Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.

12) Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap of 2.0%. The first COLA after retirement shall be prorated based on the number of months retired.

13) Changes Since Last Valuation

There have been no changes in plan provisions since the last valuation.

Actuary's Certification Letter - Police OPEB



Classic Values, Innovative Advice

July 26, 2019

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

Dear Members of the Board:

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

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2018. 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, 2018 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

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

The funding ratios shown in the member benefit coverage information and the schedule of funding progress exhibits 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 sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

Historically, member and City contributions to the plan had been negotiated through collective bargaining and have not been actuarially determined. With the implementation of Measure F, member contributions are fixed at 8.0% 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

www.cheiron.us 1.877.CHEIRON (243.4766)

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

Board of Administration
July 26, 2019
Page 2

basis as a part of active health premiums. In addition, the City has the option to limit its contribution for the explicit subsidy to 11% of total Police and Fire 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, 2018 actuarial valuation updated to the measurement date of June 30, 2019. The Board reduced the discount rate and updated plan enrollment assumptions for the June 30, 2018 valuation. These changes are detailed in the actuarial assumptions and methods attachment of this letter. These changes are reflected effective July 1, 2018 for financial reporting purposes. Consequently, the update was based upon the Total OPEB 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 74/75 report as of June 30, 2019 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, 2019, 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 Office 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 letter 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.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of



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

Board of Administration
July 26, 2019
Page 3

Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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



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



Actuarial Assumptions and Methods

POLICE 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 February 7, 2019 Board meeting.

1) Expected Return on Plan Assets

6.50% per year. The Board expects a long-term rate of return of 6.8% based on Meketa's 20-year capital market assumptions and the Plan's current investment policy.

2) Per Person Cost Trends

Police Department - Annual Increase %												
To Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
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
Medicare Eligible	6.00	5.88	5.75	5.63	5.50	5.38	5.25	5.13	5.00	4.88	4.75	4.63
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
Part B Premiums	4.13	5.24	4.04	5.70	6.06	5.37	4.66	6.13	5.96	5.79	5.62	5.45
To Calendar Year	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043+
Pre-Medicare	4.79	4.52	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Medicare Eligible	4.50	4.38	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	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
Part B Premiums	5.28	5.12	4.95	4.78	4.61	4.44	4.27	4.11	3.94	3.77	3.60	3.60

Actual premium increases for 2019 were reflected in the valuation 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

The expected return on Plan assets was reduced from 6.875% to 6.50%. The per-person cost trends were updated.

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the January 10, 2019 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Retirement Rates

Rates of retirement are based on age and service according to following Tables. Tier 1 rates only apply when the member is eligible for unreduced pension benefits.

Police Tier 1 Rates of Retirement by Age and Service							
Age	50	51	52	53-55	56-57	58-61	62+
<30 years	55.0%	45.0%	40.0%	35.0%	35.0%	50.0%	100.0%
30+ years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE *(continued)*

Police Tier 2 Rates of Retirement by Age and Service					
Age	50-56	57-59	60-61	62-64	65+
5-19 years	2.0%	7.5%	10.0%	25.0%	100.0%
20-24 years	2.0%	10.0%	20.0%	50.0%	100.0%
25-29 years	2.0%	20.0%	35.0%	75.0%	100.0%
30+ years	5.0%	100.0%	100.0%	100.0%	100.0%

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

2) Disability Rates

Disability rates are equal to the CalPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older.

Sample disability rates of active participants are provided in the table below:

Police Department - Rates of Disability at Selected Ages									
Age	25	30	35	40	45	50	55	60	65
Police	0.16%	0.45%	0.74%	1.03%	1.32%	2.70%	6.88%	8.71%	10.47%

100% of disabilities are assumed to be duty related.

3) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

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

4) Termination Rates

Sample rates of refund/termination are shown in the following table.

Police Department - Rates of Termination							
Service	Police	Service	Police	Service	Police	Service	Police
0	16.00%	4	7.00%	8	3.50%	12	3.00%
1	11.75%	5	5.75%	9	3.50%	13	2.50%
2	9.85%	6	4.75%	10	3.50%	14	2.00%
3	8.35%	7	4.00%	11	3.50%	15+	2.00%

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

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

5) Salary Increase Rate

Wage inflation component is assumed to be 3.25% annually.

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

Police Department - Salary Merit Increase					
Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	6.00%	4	4.00%	8	1.50%
1	5.50%	5	3.50%	9	1.00%
2	5.00%	6	2.75%	10	0.75%
3	4.50%	7	2.00%	11+	0.50%

6) Percent of Retirees Electing Coverage

80% of active members are assumed to elect coverage upon retirement and 20% are assumed to enter the In-Lieu credit program. 50% of term vested members are assumed to elect coverage upon retirement and 50% are assumed to enter the In-Lieu credit program. Retirees are assumed to continue in their current plan.

Members who elect to receive the In-Lieu credits are assumed to remain in the In-Lieu credit program for 5 years, after which they are assumed to elect coverage and use their In-Lieu credits.

A new Sutter Health Vista High Deductible plan will be offered as of 1/1/2019.

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 following table.

Police Department - Assumed Plan Elections For Future Retirees*			
Pre-Medicare Medical Plans	% Electing	Medicare-Eligible Medical Plans	% Electing
Kaiser DHMO	8%	Kaiser Senior Advantage	41%
Kaiser \$25 Co-pay	56%	BS Medicare HMO	6%
Kaiser HDHP	5%	BS Medicare PPO	53%
Sutter Health DHMO	1%		
Sutter Health \$20 Co-pay	7%	Dental Plans (All Retirees)	
Sutter Health Vista	0%	Delta Dental PPO	99%
PPO \$25 Co-pay	23%	DeltaCare HMO	1%

* Eligible for coverage

Police Department - Assumed Elections For Future Retirees			
Medical Coverage	% Electing	In-Lieu	% Electing
Active Members	80%	Active Members	20%
Terminated Vested Members	50%	Terminated Vested Members	50%

* Eligible for coverage and elect coverage

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

7) Family Composition

80% of married males and 50% 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, 47% of males and 35% of females will cover children.

8) Enrollment by Rating Tier

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

Police Department - Assumed Rating Tier Elections for Future Retirees				
	Single	Employee/Spouse	Employee/Child	Family
Pre-Medicare Medical Plans				
Males	19%	34%	7%	40%
Females	52%	13%	21%	14%
Medicare Medical Plans				
Males	26%	74%	0%	0%
Females	73%	27%	0%	0%

9) Dependent Age

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

10) Married Percentage

Police Department - Percentage Married		
	Males	Females
Percentage	85%	85%

11) Administrative Expenses

For FYE 2020, trust administrative expenses are assumed to equal \$53.69 per full benefit member and are assumed to increase at the wage inflation assumption of 3.25% per annum.

12) Changes Since Last Valuation

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

The trust administrative expense assumption was added.

In-Lieu election and period coverage assumptions were added.

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

Claim and Health Plan Benefit Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 10, 2019 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 2018 and 2019. 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 2018 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed 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, 2018 based on the premiums for 2018 and 2019. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

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

POLICE DEPARTMENT - SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE							
Age	Kaiser DHMO		Kaiser \$25 Co-Pay		Kaiser HDHP		
	Male	Female	Male	Female	Male	Female	
40	\$ 6,708	\$ 8,154	\$ 11,215	\$ 13,820	\$ 13,599	\$ 16,675	
45	6,770	7,886	11,502	13,514	13,866	16,241	
50	7,055	7,963	12,193	13,830	14,609	16,541	
55	7,702	8,342	13,536	14,690	16,123	17,485	
60	8,894	8,673	15,860	15,462	18,794	18,324	
64	10,390	8,459	18,698	15,217	22,088	17,978	

POLICE DEPARTMENT - SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE							
Age	Sutter DHMO		Sutter \$20 Co-Pay		PPO \$100 Co-Pay		
	Male	Female	Male	Female	Male	Female	
40	\$ 5,751	\$ 7,032	\$ 8,591	\$ 10,656	\$ 14,001	\$ 17,484	
45	5,844	6,833	8,879	10,474	14,585	17,276	
50	6,135	6,939	9,486	10,783	15,709	17,897	
55	6,746	7,313	10,610	11,525	17,705	19,248	
60	7,840	7,644	12,512	12,196	21,012	20,480	
64	9,196	7,485	14,809	12,050	24,967	20,313	

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

POLICE DEPARTMENT - SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE							
Age	Kaiser Senior Adv		BS Med HMO		Blue Shield Med PPO		
	Male	Female	Male	Female	Male	Female	
65	\$ 3,401	\$ 3,000	\$ 3,401	\$ 3,000	\$ 5,742	\$ 5,066	
70	3,611	3,059	3,611	3,059	6,098	5,165	
75	4,151	3,440	4,151	3,440	7,009	5,808	
80	4,713	3,901	4,713	3,901	7,959	6,587	
85	5,090	4,263	5,090	4,263	8,595	7,198	

POLICE DEPARTMENT - SAMPLE CLAIMS COSTS - DENTAL							
Age	Delta Dental PPO		DeltaCare HMO				
	Male	Female	Male	Female	Male	Female	
All	\$ 729	\$ 729	\$ 317	\$ 317			

2) Medicare Part D Subsidy

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

3) Medicare Part B Premiums

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.

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 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

None.

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.

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE *(continued)*

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

2) Asset Valuation Method

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 was amortized as a level percent of payroll over a closed 25-year period. All future amortization based will be amortized over 25-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, administrative expenses and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 11% of total payroll.

Active members that are eligible for full benefits will contribute 8.00% of pay.

5) Changes Since Last Valuation

None.

POLICE DEPARTMENT - SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date as of June 30,	Active Member Counts			Annual Payroll	Average Annual Pay	Percent Change in Average Pay
	Under Age 65	Age 65+	Total			
2018	974	0	974	\$ 131,888,184	\$ 135,409	1.0%
2017	897	0	897	120,299,327	134,113	10.0
2016	911	0	911	111,028,782	121,876	3.1
2015	929	0	929	109,868,577	118,265	4.4
2014	997	0	997	112,946,895	113,287	6.1
2013	1,028	0	1,028	109,783,295	106,793	6.5
2012	1,076	0	1,076	107,929,300	100,306	(7.6)
2011	1,122	0	1,122	121,735,722	108,499	(10.8)
2010	1,295	0	1,295	157,605,258	121,703	
2009	N/A	N/A	N/A	N/A	N/A	N/A

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE *(continued)*

POLICE DEPARTMENT - 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		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy			Count	Count	Count	Annual Subsidy		
Medical										
2017-18	1,198	\$ 12,718,518	73	38	1,233	\$ 10,632,870	35	\$ (2,085,648)	(16.4)%	\$ 8,624
2016-17	1,169	12,037,441	56	27	1,198	12,718,518	29	681,078	5.7%	10,616
2015-16	1,141	11,640,679	60	32	1,169	12,037,441	28	396,761	3.4%	10,297
2014-15	1,106	11,899,604	71	36	1,141	11,640,679	35	(258,925)	(2.2)%	10,202
2013-14	1,083	11,801,848	50	27	1,106	11,899,604	23	97,756	0.8%	10,759
2012-13	1,037	12,823,451	66	20	1,083	11,801,848	46	(1,021,603)	(8.0)%	10,897
2011-12	991	12,266,722	77	31	1,037	12,823,451	46	556,729	4.5%	12,366
2010-11	N/A	N/A	N/A	N/A	991	12,266,722	N/A	N/A	N/A	N/A
2009-10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007-09	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dental										
2017-18	1,248	\$ 1,605,396	59	38	1,269	\$ 1,625,889	21	\$ 20,493	1.3%	\$ 1,281
2016-17	1,220	1,509,608	50	22	1,248	1,605,396	28	95,789	6.3%	1,286
2015-16	1,199	1,497,139	42	21	1,220	1,509,608	21	12,468	0.8%	1,237
2014-15	1,139	1,428,059	79	19	1,199	1,497,139	60	69,081	4.8%	1,249
2013-14	1,111	1,352,967	45	17	1,139	1,428,059	28	75,092	5.6%	1,254
2012-13	1,070	1,384,063	53	10	1,111	1,352,967	41	(31,096)	(2.2)%	1,218
2011-12	1,028	1,330,289	50	11	1,070	1,384,063	42	53,774	4.0%	1,294
2010-11	N/A	N/A	N/A	N/A	1,028	1,330,289	N/A	N/A	N/A	N/A
2009-10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007-09	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Annual subsidies are explicit amounts

POLICE DEPARTMENT - MEMBER BENEFIT COVERAGE INFORMATION						
Actuarial Valuation Date	Actuarial Liability		Market Value of Assets ¹	Portion of Liability Covered by Actuarial Value of Assets		
	Retirees and Vested Terminated	Active Members				
	(A)	(B)		(A)	(B)	
6/30/2018	\$ 305,606	\$ 166,211	\$ 111,659	37%	0%	
6/30/2017	280,546	150,792	99,926	36%	0%	
6/30/2016	307,941	188,002	97,412	32%	0%	
6/30/2015	290,354	179,969	85,322	29%	0%	
6/30/2014	275,902	180,568	70,102	25%	0%	
6/30/2013	268,633	183,266	57,832	22%	0%	
6/30/2012	374,949	268,590	49,797	13%	0%	
6/30/2011	381,819	262,855	43,108	11%	0%	
6/30/2010	658,073	252,508	N/A	N/A	N/A	
6/30/2009	N/A	N/A	N/A	N/A	N/A	

¹ Actuarial value of assets for 6/30/2016 and earlier

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE *(continued)*

POLICE DEPARTMENT - ANALYSIS OF FINANCIAL EXPERIENCE						
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Changes	Total Experience	
6/30/2018	\$ (2,442)	\$ 3,712	\$ 1,270	\$ (22,819)	\$ (21,549)	
6/30/2017	2,647	(15,108)	(12,461)	29,245	16,784	
6/30/2016	(2,914)	(2,728)	(5,642)	4,864	(778)	
6/30/2015	582	7,990	8,572	(3,449)	5,123	
6/30/2014	2,802	16,222	19,024	13,689	32,713	
6/30/2013	2,437	(4,536)	(2,099)	258,939	256,840	
6/30/2012	(6,011)	4,760	(1,251)	58,173	56,922	
6/30/2011	(2,661)	5,967	3,306	1,146	4,452	
6/30/2010	(3,067)	(11,242)	(14,309)	(122,599)	(136,908)	
6/30/2009	N/A	N/A	N/A	N/A	N/A	

The analysis was combined for Police and Fire for 6/30/2017 and earlier

Dollar amounts in thousands

POLICE DEPARTMENT - SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Market Value of Assets ¹	Actuarial Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a / b)	(d)	((b-a) / d)
6/30/2018	\$ 111,659	\$ 471,817	\$ 360,158	23.7 %	\$ 131,888	273 %
6/30/2017	99,926	431,338	331,412	23.2 %	120,299	275 %
6/30/2016	97,412	495,943	398,531	19.6 %	111,029	359 %
6/30/2015	85,322	470,323	385,001	18.1 %	109,783	351 %
6/30/2014	70,102	456,470	386,368	15.4 %	112,947	342 %
6/30/2013	57,832	451,899	394,067	12.8 %	109,783	359 %
6/30/2012	49,797	643,539	593,742	7.7 %	107,929	550 %
6/30/2011	43,108	644,674	601,566	6.7 %	121,736	494 %
6/30/2010	N/A	610,581	N/A	N/A	N/A	N/A
6/30/2009	N/A	N/A	N/A	N/A	N/A	N/A

¹ Actuarial value of assets for 6/30/2016 and earlier

Dollar amounts in thousands

Summary of Key Substantive Plan Provisions

POLICE POSTEMPLOYMENT HEALTHCARE

Eligibility

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

Medical/Dental:

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

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

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

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

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

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

Benefits for Retirees

Medical:

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

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

Dental:

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

Summary of Key Substantive Plan Provisions *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

Premiums:

Monthly premiums before adjustments for 2018 and 2019 are as follows.

POLICE DEPARTMENT - 2018 MONTHLY PREMIUMS				
Plan	Single	Employee / Spouse	Employee / Child	Family
Medical				
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/POS	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 HMO Medicare family rates assume the children are on the Non-Medicare \$20 Co-pay HMO

POLICE DEPARTMENT - 2019 MONTHLY PREMIUMS				
Plan	Single	Employee / Spouse	Employee / Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 528.20	\$ 1,056.40	\$ 924.36	\$ 1,584.60
Kaiser \$25 Co-pay	645.08	1,290.16	1,128.88	1,935.24
Kaiser HDHP	445.04	890.08	778.82	1,335.12
Blue Shield PPO \$25 Co-pay	1,435.38	2,870.74	2,511.94	4,306.12
Sutter Health \$20 Co-pay	652.28	1,304.56	1,141.44	1,956.78
Sutter Health DHMO	534.06	1,068.12	934.56	1,602.12
Sutter Health Vista	445.74	891.50	780.04	1,337.22
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 300.80	\$ 601.60	\$ 601.60	\$ 902.40
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,585.71
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,807.68
Dental				
Delta Dental PPO	\$ 50.88	\$ 111.92	\$ 122.12	\$ 157.72
DeltaCare HMO	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

Summary of Key Substantive Plan Provisions *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE (continued)

POLICE DEPARTMENT - SUMMARY OF 2019 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	Sutter Health Plus Vista \$2,500 Deductible	Blue Shield PPO \$25 Co-Pay (In Network)
Annual out-of-pocket maximum (one person/family)	\$1,500 / \$3,000	\$4,000 / \$8,000	\$5,950 / \$11,900	\$1,500 / \$3,000	\$4,000 / \$8,000	\$4,000 / \$8,000	\$2,100 / \$4,200
Annual deductible (one person /family)	None	\$1,500 / \$3,000	\$3,000 / \$6,000	None	\$1,500 / \$3,000	\$2,500 / \$5,000	\$100 / \$200
Office visit Co-pay	\$25	\$40	30% ¹	\$20	\$20	20% ¹	\$25
Emergency room co-pay	\$100	30% ¹	30% ¹	\$100	30% ¹	20% ¹	\$100
Hospital care Co-pay	\$100	30% ¹	30% ¹	\$100	30% ¹	20% ¹	\$100
Prescription Drug Retail Co-pay (30-day supply):							
Generic	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$30	\$30	\$25
Non-formulary	N/A	N/A	N/A	\$60	\$60	\$60	\$40

¹ After deductible is paid

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual out-of-pocket maximum (one person/family)	\$1,500 / \$3,000	\$1,000 / \$2,000	\$2,000 / \$4,000
Annual deductible (one person/family)	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 Co-pay (30-day supply):			
Generic	\$10	\$10	\$10
Brand	\$10	\$25	\$25
Non-formulary	N/A	\$40	\$40

Summary of Key Substantive Plan Provisions *(continued)*

POLICE POSTEMPLOYMENT HEALTHCARE *(continued)*

Cost Sharing Provisions

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

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

- Eligibility:** Employees hired after June 2013 or employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).
- Contributions:** Employees are required to make mandatory contributions in 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.

Actuary's Certification Letter - Fire OPEB



Classic Values, Innovative Advice

July 26, 2019

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

Dear Members of the Board:

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

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2018. 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, 2018 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

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

The funding ratios shown in the member benefit coverage information and the schedule of funding progress exhibits 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 sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

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, member contributions are fixed at 8.0% 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

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

Board of Administration
July 26, 2019
Page 2

basis as a part of active health premiums. In addition, the City has the option to limit its contribution for the explicit subsidy to 11% of the total Police and Fire 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, 2018 actuarial valuation updated to the measurement date of June 30, 2019. The Board reduced the discount rate and updated plan enrollment assumptions for the June 30, 2018 valuation. These changes are detailed in the actuarial assumptions and methods attachment of this letter. These changes are reflected effective July 1, 2018 for financial reporting purposes. Consequently, the update was based upon the Total OPEB 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 74/75 report as of June 30, 2019 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, 2019, 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 Office 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 letter 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.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of



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

Board of Administration

July 26, 2019

Page 3

Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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



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



Actuarial Assumptions and Methods

FIRE 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 February 7, 2019 Board meeting.

1) Expected Return on Plan Assets

6.50% per year. The Board expects a long-term rate of return of 6.8% based on Meketa's 20-year capital market assumptions and the Plan's current investment policy.

2) Per Person Cost Trends

Fire Department - Annual Increase %												
To Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
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
Medicare Eligible	6.00	5.88	5.75	5.63	5.50	5.38	5.25	5.13	5.00	4.88	4.75	4.63
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
Part B Premiums	4.13	5.24	4.04	5.70	6.06	5.37	4.66	6.13	5.96	5.79	5.62	5.45
To Calendar Year	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043+
Pre-Medicare	4.79	4.52	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Medicare Eligible	4.50	4.38	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	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
Part B Premiums	5.28	5.12	4.95	4.78	4.61	4.44	4.27	4.11	3.94	3.77	3.60	3.60

Actual premium increases for 2019 were reflected in the valuation. 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

The expected return on Plan assets was reduced from 6.875% to 6.50%. The per-person cost trends were updated.

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the January 10, 2019 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the full experience study report for details, including the rationale for each assumption.

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

1) Retirement Rates

Rates of retirement are based on age and service according to following Tables. Tier 1 rates only apply when the member is eligible for unreduced pension benefits.

Fire Department Tier 1 - Rates of Retirement by Age and Service							
Age	50	51	52	53-55	56-57	58-61	62+
<30 years	35.0%	35.0%	35.0%	35.0%	27.5%	27.5%	100.0%
30+ years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fire Department Tier 2 - Rates of Retirement by Age Service					
Age	50-56	57-59	60-61	62-64	65+
5-19 years	1.0%	5.0%	7.5%	20.0%	100.0%
20-24 years	1.0%	7.5%	15.0%	35.0%	100.0%
25-29 years	1.0%	15.0%	25.0%	50.0%	100.0%
30+ years	2.5%	100.0%	100.0%	100.0%	100.0%

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

2) Disability Rates

Disability rates are equal to the CalPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older.

Sample disability rates of active participants are provided in the table below:

Fire Department - Rates of Disability at Selected Ages									
Age	25	30	35	40	45	50	55	60	65
Fire	0.03%	0.08%	0.15%	0.28%	0.50%	5.08%	7.54%	10.77%	14.84%

100% of disabilities are assumed to be duty related.

3) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

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

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

4) Termination Rates

Sample rates of refund/termination are shown in the following table.

Fire Department - Rates of Termination							
Service	Fire	Service	Fire	Service	Fire	Service	Fire
0	25.00%	4	1.25%	8	0.70%	12	0.50%
1	7.00%	5	1.00%	9	0.60%	13	0.50%
2	3.50%	6	0.90%	10	0.50%	14	0.50%
3	1.75%	7	0.80%	11	0.50%	15+	0.50%

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

5) Salary Increase Rate

Wage inflation component is assumed to be 3.25% annually.

The following merit component is added based on an individual member's years of service.

Fire Department - Salary Merit Increases					
Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity
0	6.00%	4	4.00%	8	1.50%
1	5.50%	5	3.50%	9	1.00%
2	5.00%	6	2.75%	10	0.75%
3	4.50%	7	2.00%	11+	0.50%

6) Percent of Retirees Electing Coverage

80% of active members are assumed to elect coverage upon retirement and 20% are assumed to enter the in-lieu credit program. 50% of term vested members are assumed to elect coverage upon retirement and 50% are assumed to enter the in-lieu credit program. Retirees are assumed to continue in their current plan.

Members who elect to receive the in-lieu credits are assumed to remain in the in-lieu credit program for 5 years, after which they are assumed to elect coverage and use their in-lieu credits.

A new Sutter Health Vista High Deductible plan will be offered as of 1/1/2019.

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 following table.

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

Fire Department - Assumed Plan Elections for Future Retirees ¹			
Pre-Medicare Medical Plans	% Electing	Medicare - Eligible Medical Plans	% Electing
Kaiser DHMO	8%	Kaiser Senior Advantage	41%
Kaiser \$25 Co-pay	56%	BS Medicare HMO	6%
Kaiser HDHP	5%	BS Medicare PPO	53%
Sutter Health DHMO	1%		
Sutter Health \$20 Co-pay	7%	Dental Plans (All Retirees)	% Electing
Sutter Health Vista	-%	Delta Dental PPO	99%
PPO \$25 Co-pay	23%	DeltaCare HMO	1%

¹ Eligible for coverage

Fire Department - Assumed Elections for Future Retirees ¹			
Medical Coverage	% Electing	In-Lieu	% Electing
Active Members	80%	Active Members	20%
Terminated Vested	50%	Terminated Vested	50%

¹ Eligible for coverage and elect coverage

7) Family Composition

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

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

Pre-Medicare, 47% of males and 35% of females will cover children.

8) Enrollment by Rating Tier

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

Fire Department - Assumed Rating Tier Elections for Future Retirees				
Pre-Medicare Medical Plans	Single	Employee / Spouse	Employee / Child	Family
Males	19%	34%	7%	40%
Females	52%	13%	21%	14%
Medicare Medical Plans				
Males	26%	74%	0%	0%
Females	73%	27%	0%	0%

9) Dependent Age

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

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

10) Married Percentage

Fire Department - Percentage Married		
	Males	Females
Percentage	85%	85%

11) Administrative Expenses

For FYE 2020, trust administrative expenses are assumed to equal \$53.69 per full benefit member and are assumed to increase at the wage inflation assumption of 3.25% per annum.

12) Changes Since Last Valuation

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

The trust administrative expense assumption was added.

In-Lieu election and period coverage assumptions were added.

Claim and Health Plan Benefit Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 10, 2019 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 2018 and 2019. 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 2018 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed 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, 2018 based on the premiums for 2018 and 2019. 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)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

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

FIRE DEPARTMENT - SAMPLE CLAIMS COSTS - NON- MEDICARE ELIGIBLE						
Kaiser DHMO			Kaiser \$25 Co-Pay		Kaiser HDHP	
Age	Male	Female	Male	Female	Male	Female
40	\$ 6,708	\$ 8,154	\$ 11,215	\$ 13,820	\$ 13,599	\$ 16,675
45	6,770	7,886	11,502	13,514	13,866	16,241
50	7,055	7,963	12,193	13,830	14,609	16,541
55	7,702	8,342	13,536	14,690	16,123	17,485
60	8,894	8,673	15,860	15,462	18,794	18,324
64	10,390	8,459	18,698	15,217	22,088	17,978

FIRE DEPARTMENT - SAMPLE CLAIMS COSTS-NON-MEDICARE ELIGIBLE						
Sutter DHMO			Sutter \$20 Co-Pay		PPO \$100 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	\$ 5,751	\$ 7,032	\$ 8,591	\$ 10,656	\$ 14,001	\$ 17,484
45	5,844	6,833	8,879	10,474	14,585	17,276
50	6,135	6,939	9,486	10,783	15,709	17,897
55	6,746	7,313	10,610	11,525	17,705	19,248
60	7,840	7,644	12,512	12,196	21,012	20,480
64	9,196	7,485	14,809	12,050	24,967	20,313

FIRE DEPARTMENT - SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
Kaiser Senior Adv			BS Med HMO		BS Med PPO	
Age	Male	Female	Male	Female	Male	Female
65	\$ 3,401	\$ 3,000	\$ 3,401	\$ 3,000	\$ 5,742	\$ 5,066
70	3,611	3,059	3,611	3,059	6,098	5,165
75	4,151	3,440	4,151	3,440	7,009	5,808
80	4,713	3,901	4,713	3,901	7,959	6,587
85	5,090	4,263	5,090	4,263	8,595	7,198

FIRE DEPARTMENT - SAMPLE CLAIMS COSTS - DENTAL				
Delta Dental PPO			DeltaCare HMO	
Age	Male	Female	Male	Female
All	\$ 729	\$ 729	\$ 317	\$ 317

2) Medicare Part D Subsidy

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

3) Medicare Part B Premiums

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.

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

5) Annual Limits

Assumed to increase at the same rate as trend.

6) Lifetime Maximums

Are not assumed to have any financial impact.

7) Geography

Implicitly assumed to remain the same as current retirees.

8) Retiree Contributions

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

9) Changes Since Last Valuation

None.

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 postretirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal 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 Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

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 was amortized as a level percent of payroll over a closed 25-year period. All future amortization based will be amortized over 25-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, administrative expenses and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 11% of total payroll.

Active members that are eligible for full benefits will contribute 8.00% of pay.

5) Changes Since Last Valuation

None.

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

FIRE DEPARTMENT - SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date as of June 30,	Active Member Counts			Annual Payroll	Average Annual Pay	Percent Change in Average Pay
	Under Age 65	Age 65+	Total			
2018	664	-	664	\$ 86,541,114	\$ 130,333	1.0%
2017	646	-	646	83,370,711	129,057	4.3%
2016	671	-	671	83,043,310	123,761	7.5%
2015	648	-	648	74,613,261	115,144	0.5%
2014	657	-	657	75,241,817	114,523	3.9%
2013	679	-	679	74,861,955	110,253	9.4%
2012	642	-	642	64,696,203	100,773	(10.5)%
2011	613	-	613	68,990,536	112,546	(12.6)%
2010	725	1	726	93,453,215	128,723	N/A
2009	N/A	N/A	N/A	N/A	N/A	N/A

FIRE DEPARTMENT - 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		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy		
Medical										
2017-18	776	\$ 7,455,411	47	20	803	\$ 6,518,064	27	\$ (937,347)	(12.6)%	\$ 8,117
2016-17	752	6,976,403	42	18	776	7,455,411	24	479,008	6.9%	9,607
2015-16	758	6,965,107	28	34	752	6,976,403	(6)	11,296	0.2%	9,277
2014-15	743	7,095,176	35	20	758	6,965,107	15	(130,068)	(1.8)%	9,189
2013-14	749	7,736,739	29	35	743	7,095,176	(6)	(641,564)	(8.3)%	9,549
2012-13	752	8,665,479	28	31	749	7,736,739	(3)	(928,740)	(10.7)%	10,329
2011-12	745	8,838,250	30	23	752	8,665,479	7	(172,771)	(2.0)%	11,523
2010-11	N/A	N/A	N/A	N/A	745	8,838,250	N/A	N/A	N/A	N/A
2009-10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007-09	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dental										
2017-18	808	\$ 942,196	39	19	828	\$ 961,884	20	\$ 19,688	2.1%	\$ 1,162
2016-17	798	893,441	30	20	808	942,196	10	48,756	5.5%	1,166
2015-16	793	891,245	23	18	798	893,441	5	2,195	0.2%	1,120
2014-15	778	875,826	29	14	793	891,245	15	15,420	1.8%	1,124
2013-14	779	948,537	23	24	778	875,826	(1)	(72,711)	(7.7)%	1,126
2012-13	785	1,014,672	18	23	779	948,537	(6)	(66,135)	(6.5)%	1,218
2011-12	770	994,744	20	7	785	1,014,672	15	19,928	2.0%	1,293
2010-11	N/A	N/A	N/A	N/A	770	994,744	N/A	N/A	N/A	N/A
2009-10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007-09	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Annual subsidies are explicit amounts

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE *(continued)*

FIRE DEPARTMENT - MEMBER BENEFIT COVERAGE INFORMATION					
Actuarial Valuation Date as of June 30,	Actuarial Liability		Market Value of Assets ¹	Portion of Liability Covered by Actuarial Value of Assets	
	Retirees and			(A)	(B)
	Vested	Active Members			
	Terminated				
(A)	(B)				
2018	\$ 161,946	\$ 113,510	\$ 50,861	31%	0%
2017	147,204	101,704	42,591	29%	0%
2016	164,063	118,866	37,795	23%	0%
2015	161,381	108,049	29,243	18%	0%
2014	153,132	97,108	23,503	15%	0%
2013	153,366	95,261	17,203	11%	0%
2012	225,919	127,862	16,587	7%	0%
2011	240,872	118,249	17,600	7%	0%
2010	210,538	125,189	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

¹ Actuarial value of assets for 6/30/2016 and earlier

Dollar amounts in thousands

FIRE DEPARTMENT - ANALYSIS OF FINANCIAL EXPERIENCE					
Actuarial Valuation Date as of June 30,	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Change	Total Experience
2018	\$ (1,548)	\$ (311)	\$ (1,859)	\$ (13,568)	\$ (15,427)
2017	2,647	(15,108)	(12,461)	29,245	16,784
2016	(2,914)	(2,728)	(5,642)	4,864	(778)
2015	582	7,990	8,572	(3,449)	5,123
2014	2,802	16,222	19,024	13,689	32,713
2013	2,437	(4,536)	(2,099)	258,939	256,840
2012	(6,011)	4,760	(1,251)	58,173	56,922
2011	(2,661)	5,967	3,306	1,146	4,452
2010	(3,067)	(11,242)	(14,309)	(122,599)	(136,908)
2009	N/A	N/A	N/A	N/A	N/A

The analysis was combined for Police and Fire for 6/30/2017 and earlier

Dollar amount in thousands

Actuarial Assumptions and Methods *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE *(continued)*

FIRE DEPARTMENT - SCHEDULE OF FUNDING PROGRESS							
Actuarial Valuation Date	Market Value of Assets ¹	Actuarial Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll	
	(a)	(b)	(b-a)	(a / b)	(d)	((b-a) / d)	
6/30/2018	\$ 50,861	\$ 275,456	\$ 224,595	18.5%	\$ 86,541	260%	
6/30/2017	42,591	248,908	206,317	17.1%	83,517	247%	
6/30/ 2016	37,795	282,929	245,134	13.4%	83,043	295%	
6/30/2015	29,243	269,430	240,187	10.9%	74,950	320%	
6/30/2014	23,503	250,240	226,737	9.4%	75,242	301%	
6/30/2013	17,203	248,626	231,423	6.9%	74,862	309%	
6/30/2012	16,587	353,781	337,194	4.7%	64,696	521%	
6/30/2011	17,600	359,121	341,521	4.9%	68,991	495%	
6/30/2010	N/A	335,727	N/A	N/A	N/A	N/A	
6/30/2009	N/A	N/A	N/A	N/A	N/A	N/A	

¹ Actuarial value of assets for 6/30/2016 and earlier

Dollar amounts in thousands

Summary of Key Substantive Plan Provisions

FIRE POSTEMPLOYMENT HEALTHCARE

Eligibility

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

Medical/Dental:

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

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

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

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

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

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

Benefits for Retirees

Medical:

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

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

Dental:

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

Summary of Key Substantive Plan Provisions *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE *(continued)*

Premiums:

Monthly premiums before adjustments for 2018 and 2019 are as follows.

FIRE DEPARTMENT - 2018 MONTHLY PREMIUMS				
Plan	Single	Employee / Spouse	Employee / Child	Family
Medical				
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/POS	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 HMO Medicare family rates assume the children are on the Non-Medicare \$20 Co-pay HMO.

FIRE DEPARTMENT - 2019 MONTHLY PREMIUMS				
Plan	Single	Employee / Spouse	Employee / Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 528.20	\$ 1,056.40	\$ 924.36	\$ 1,584.60
Kaiser \$25 Co-pay	645.08	1,290.16	1,128.88	1,935.24
Kaiser HDHP	445.04	890.08	778.82	1,335.12
Blue Shield PPO \$25 Co-pay	1,435.38	2,870.74	2,511.94	4,306.12
Sutter Health \$20 Co-pay	652.28	1,304.56	1,141.44	1,956.78
Sutter Health DHMO	534.06	1,068.12	934.56	1,602.12
Sutter Health Vista	445.74	891.50	780.04	1,337.22
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 300.80	\$ 601.60	\$ 601.60	\$ 902.40
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,585.71
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,807.68
Dental				
Delta Dental PPO	\$ 50.88	\$ 111.92	\$ 122.12	\$ 157.72
DeltaCare HMO	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

Summary of Key Substantive Plan Provisions *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE (continued)

FIRE DEPARTMENT - SUMMARY OF 2019 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	Sutter Health Plus Vista \$2,500 Deductible	Blue Shield PPO \$25 Co-pay (In Network)
Annual out-of-pocket maximum (one person/family)	\$1,500 / \$3,000	\$4,000 / \$8,000	\$5,950 / \$11,900	\$1,500 / \$3,000	\$4,000 / \$8,000	\$4,000 / \$8,000	\$2,100 / \$4,200
Annual deductible (one person/family)	None	\$1,500 / \$3,000	\$3,000 / \$6,000	None	\$1,500 / \$3,000	\$2,500 / \$5,000	\$100 / \$200
Office visit co-pay	\$25	\$40	30% ¹	\$20	\$20	20% ¹	\$25
Emergency room co-pay	\$100	30% ¹	30% ¹	\$100	30% ¹	20% ¹	\$100
Hospital care co-pay	\$100	30% ¹	30% ¹	\$100	30% ¹	20% ¹	\$100
Prescription Drug retail co-pay (30-day supply):							
Generic	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$30	\$30	\$25
Non-formulary	N/A	N/A	N/A	\$60	\$60	\$60	\$40

¹ After deductible is paid

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual out-of-pocket maximum (one person/family)	\$1,500 / \$3,000	\$1,000 / \$2,000	\$2,000 / \$4,000
Annual deductible (one person/family)	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 co-pay (30-day supply)			
Generic	\$10	\$10	\$10
Brand	\$10	\$10	\$25
Non-formulary	N/A	\$40	\$40

Summary of Key Substantive Plan Provisions *(continued)*

FIRE POSTEMPLOYMENT HEALTHCARE *(continued)*

Cost Sharing Provisions

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

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

- Eligibility:** Employees hired after June 2013 or employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).
- Contributions:** Employees are required to make mandatory contributions in 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
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2018

2019

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2010-2019 *(In Thousands)*

DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Additions										
Employee contributions	\$ 24,811	\$ 23,841	\$ 20,580	\$ 21,508	\$ 20,747	\$ 21,115	\$ 20,227	\$ 19,345	\$ 29,629	\$ 20,097
Employer contributions	176,618	157,712	136,957	132,480	129,279	123,583	105,234	121,009	77,918	52,315
Investment income / (loss) ¹	114,179	233,475	292,734	(29,206)	(27,690)	404,978	248,725	(34,341)	396,377	314,453
Total additions to plan net position	315,608	415,028	450,271	124,782	122,336	549,676	374,186	106,013	503,924	386,865
Deductions										
Benefit payments	204,652	194,139	184,596	176,029	166,331	157,635	150,811	142,314	129,472	114,604
Death benefits	13,162	12,102	11,072	10,083	9,220	8,738	8,005	7,480	7,213	6,519
Refunds	194	389	364	828	702	1,024	886	1,926	435	196
Administrative expenses and other	5,369	5,464	4,635	4,254	4,191	3,631	3,423	3,556	3,127	2,955
Total deductions from plan net position	223,377	212,094	200,667	191,194	180,444	171,028	163,125	155,276	140,247	124,274
Changes in Plan Net Position	\$ 92,231	\$ 202,934	\$ 249,604	\$ (66,412)	\$ (58,108)	\$ 378,648	\$ 211,061	\$ (49,263)	\$ 363,677	\$ 262,591

¹Net of Expenses

Statistical Review *(continued)*

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2010-2019 *(In Thousands)*

POST EMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2019			2018			2017			2016		
	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust
Additions												
Employee contributions	\$13,315	\$ -	\$ -	\$16,127	\$ -	\$ -	\$18,116	\$ -	\$ -	\$18,007	\$ -	\$ -
Employer contributions	5,716	14,086	8,942	5,716	11,265	8,401	1,599	10,905	8,163	1,389	11,576	8,100
Investment income / (loss) ¹	1,288	4,099	2,520	3,058	2,511	1,502	4,278	5,220	2,955	(465)	(798)	(420)
Total additions	20,319	18,185	11,462	24,901	13,776	9,903	23,993	16,125	11,118	18,931	10,778	7,680
Deductions												
Healthcare insurance premiums	26,403	-	-	27,686	-	-	24,799	-	-	23,449	-	-
Administrative expenses and other	80	28	18	75	55	29	69	71	42	74	44	21
VEBA transfer	-	-	-	-	5,276	2,621	-	-	-	-	-	-
Total deductions	26,483	28	18	27,761	5,331	2,650	24,868	71	42	23,523	44	21
Change in Plan Net Position	\$ (6,164)	\$18,157	\$11,444	\$ (2,860)	\$ 8,445	\$ 7,253	\$ (875)	\$16,054	\$11,076	\$ (4,592)	\$10,734	\$ 7,659

	2015			2014			2013			2012	2011	2010
	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Fire Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Police Dept Health-care Sub-trust	Post-employment Health-care 401(h)	Post-employment Health-care 401(h)	Post-employment Health-care 401(h)	Post-employment Health-care 401(h)
Additions												
Employee contributions	\$17,017	\$ -	\$ -	\$15,674	\$ -	\$ -	\$13,498	\$ -	\$ -	\$11,474	\$11,229	\$10,650
Employer contributions	-	13,073	7,837	-	11,712	5,555	-	11,074	4,734	21,205	17,001	11,284
Investment income / (loss) ¹	(499)	(753)	(363)	7,942	3,210	1,443	5,613	588	246	(805)	8,966	6,870
Total additions	16,518	12,320	7,474	23,616	14,922	6,998	19,111	11,662	4,980	31,874	37,196	28,804
Deductions												
Healthcare insurance premiums	24,205	-	-	22,510	-	-	23,934	-	-	28,479	28,273	20,701
Administrative expenses and other	82	24	17	73	15	15	78	-	-	87	73	66
Total deductions	24,287	24	17	22,583	15	15	24,012	-	-	28,566	28,346	20,767
Change in Plan Net Position	\$ (7,769)	\$12,296	\$ 7,457	\$ 1,033	\$14,907	\$ 6,983	\$ (4,901)	\$11,662	\$ 4,980	\$ 3,308	\$ 8,850	\$ 8,037

¹Net of expenses

Statistical Review *(continued)*

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

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Age and Service Benefits										
Retirees - service	\$ 109,078	\$ 101,338	\$ 96,317	\$ 90,944	\$ 86,672	\$ 83,664	\$ 80,902	\$ 77,239	\$ 68,780	\$ 59,455
Retirees - deferred vested	5,499	4,983	4,352	3,730	3,056	2,873	2,522	2,184	1,948	1,481
Survivors - service	3,870	3,321	2,815	2,537	2,201	1,826	1,566	1,402	1,301	986
Survivors - deferred vested	99	110	105	97	78	62	60	59	51	32
Death in Service Benefits	1,721	1,722	1,713	1,606	1,493	1,396	1,502	1,366	1,246	1,155

Disability Benefits										
Retirees - duty	84,239	81,874	78,801	76,440	71,980	66,865	63,410	59,108	55,998	51,218
Retirees - non-duty	1,876	1,130	973	928	903	903	748	770	674	680
Survivors - duty	7,072	6,567	6,076	5,532	5,135	5,022	4,587	4,328	3,888	3,634
Survivors - non-duty	318	312	266	230	235	274	265	266	124	126
Ex-Spouse Benefits	4,042	4,884	4,249	4,068	3,798	3,488	3,254	3,072	2,675	2,346
Total Benefits	217,814	206,241	195,667	186,112	175,551	166,373	158,816	149,794	136,685	121,113

Type of Refund										
Separation	194	389	364	828	702	1,024	886	1,926	435	196
Total Refunds	\$ 194	\$ 389	\$ 364	\$ 828	\$ 702	\$ 1,024	\$ 886	\$ 1,926	\$ 435	\$ 196

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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Age and Service Benefits										
<i>Retirees - service</i>										
Medical	\$ 8,703	\$ 9,300	\$ 9,892	\$ 9,258	\$ 9,450	\$ 8,318	\$ 10,090	\$ 10,361	\$ 9,468	\$ 8,274
Dental	1,251	1,215	1,162	1,099	988	1,005	1,013	1,031	968	855
<i>Retirees -deferred vested¹</i>										
Medical	261	319	369	315	275	245	264	250	236	180
Dental	49	49	45	39	30	31	29	27	26	21
<i>Survivors - service</i>										
Medical	266	289	268	235	238	205	231	214	229	165
Dental	38	35	30	27	24	33	44	42	41	31
<i>Survivors- deferred vested¹</i>										
Medical	54	16	17	16	13	9	11	10	11	-
Dental	2	2	2	2	1	2	2	3	3	1
<i>Death in Service Benefits</i>										
Medical	139	165	184	176	185	170 *	243	(38)	252	213
Dental	23	25	25	24	22	28	41	59	42	37
Disability Benefits										
<i>Retirees - duty</i>										
Medical	7,757	8,402	9,033	8,809	8,985	7,794	9,673	9,604	9,852	8,897
Dental	1,137	1,151	1,128	1,116	992	993	1,038	1,043	1,068	977
<i>Retirees - non-duty</i>										
Medical	199	183	228	202	210	192	206	221	201	199
Dental	30	25	25	24	23	22	23	25	25	26
<i>Survivors - duty</i>										
Medical	654	668	679	615	623	560	650	667	715	643
Dental	92	89	83	78	69	105	152	159	169	154
<i>Survivors - non-duty</i>										
Medical	27	32	26	21	23	31	41	40	21	24
Dental	5	5	5	4	4	8	11	11	7	7
Implicit Subsidy										
Medical	5,716	5,716	1,598	1,389	2,050	2,759	172	4,750	4,939	-
Total Benefits	\$ 26,403	\$ 27,686	\$ 24,799	\$ 23,449	\$ 24,205	\$ 22,510	\$ 23,934	\$ 28,479	\$ 28,273	\$ 20,704

¹ Amount includes credits from the State of California for medical benefits to the surviving spouse and family of sworn officers that died in the line of duty.

Source: Pension Administration System

Statistical Review *(continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2010-2019 (Schedule 3)

Fiscal Year Ended	Police Tier 1 Employee Rate %	Police Tier 2 Employee Rate %	Fire Tier 1 Employee Rate %	Fire Tier 2 Employee Rate %
2019	18.28%	13.71%	19.09%	15.13%

Fiscal Year Ended	Police Tier 1 Employer Rate Pension %	Police Tier 2 Employer Rate Pension %	Police Tier 1 / Tier 2 Employer Rate OPEB \$	Fire Tier 1 Employer Rate Pension %	Fire Tier 2 Employer Rate Pension %	Fire Tier 1 / Tier 2 Employer Rate OPEB \$
2019	97.55%	13.71%	\$13,471,000	98.49%	15.13%	\$8,591,000

Beginning fiscal year 2019, the Board approved the contribution policy that sets the City OPEB contributions as a flat dollar amount.

Fiscal Year Ended	Police Department Rate				Fire Department Rate			
	Tier 1		Tier 2		Tier 1		Tier 2	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%	%	%
2018	18.88	105.62	15.17	25.48	19.38	106.68	16.26	26.88
2017	20.10	90.71	20.48	21.28	20.81	92.23	20.35	21.23
2016	20.77	83.32	20.78	21.58	21.57	85.57	20.90	21.79
2015	21.26	83.14	20.80	21.80	20.13	82.75	19.43	20.21
2014	21.15	75.63	20.49	21.29	19.07	74.75	N/A	N/A
2013	19.39	65.53	N/A	N/A	17.32	65.05	N/A	N/A
2012	17.47	56.90	N/A	N/A	15.62	56.32	N/A	N/A
2011	15.57	44.58	N/A	N/A	13.70	44.16	N/A	N/A
2010	12.96	26.89	N/A	N/A	12.40	28.31	N/A	N/A

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2019

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement ¹								Option Selected ²				
		1	2	3	4	5	6	7	8	Unmodified	A	B	C	Total
\$1 - 500	7	0	0	3	0	0	0	1	3	4	0	3	0	7
\$501 - 1,000	27	0	0	0	0	0	2	2	23	14	0	11	2	27
\$1,001 - 1,500	43	0	0	1	0	9	3	6	24	20	4	19	0	43
\$1,501 - 2,000	50	0	0	0	0	5	4	9	32	24	1	18	7	50
\$2,001 - 2,500	70	4	0	5	1	11	16	9	24	49	0	19	2	70
\$2,501 - 3,000	75	13	0	0	1	8	20	9	24	55	1	17	2	75
\$3,001 - 3,500	80	16	0	0	2	13	28	9	12	59	0	16	5	80
\$3,501 - 4,000	79	15	1	0	1	13	34	5	10	58	3	15	3	79
\$4,001 - 4,500	85	29	1	1	10	5	28	4	7	64	8	6	7	85
\$4,501 - 5,000	74	32	4	3	8	5	15	2	5	58	2	11	3	74
\$5,001 - 5,500	100	59	2	3	16	1	15	4	0	56	10	16	18	100
\$5,501 - 6,000	141	79	4	5	26	0	17	3	7	91	11	23	16	141
\$6,001 - 6,500	123	71	4	1	35	1	9	2	0	83	7	19	14	123
\$6,501 - 7,000	93	44	1	1	39	0	7	1	0	63	8	12	10	93
\$7,001 - 7,500	113	52	1	1	48	3	6	1	1	71	8	13	21	113
\$7,501 - 8,000	142	55	2	2	80	2	1	0	0	102	6	16	18	142
\$8,001 - 8,500	145	58	1	0	85	0	0	0	1	108	9	12	16	145
\$8,501 - 9,000	123	51	2	0	68	0	1	1	0	87	8	14	14	123
\$9,001 - 9,500	111	34	4	1	69	0	1	2	0	80	2	16	13	111
\$9,501 - 10,000	99	36	0	0	62	0	0	1	0	59	8	14	18	99
\$10,001 - 10,500	96	39	0	0	53	0	1	3	0	58	8	12	18	96
\$10,501 - 11,000	100	32	0	0	68	0	0	0	0	62	9	14	15	100
Over \$11,000	455	166	3	0	268	0	3	15	0	280	35	59	81	455
TOTAL	2,431	885	30	27	940	76	211	89	173	1,605	148	375	303	2,431

¹ Retirement Codes

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

² Option Descriptions

- Unmodified. Unmodified with Beneficiary (default for married)
- A. Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)
 - B. Unmodified with No Beneficiary (default for unmarried)
 - C. Joint & Survivorship Pop-Up (same as option A but if spouse predeceases member, person goes back to original pension calculation)

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2019

Average Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	\$ 390	\$ 278
\$1 - 60	-	587
\$61 - 250	59	1,566
\$251 - 500	665	-
\$501 - 1,000	1,033	-
Over \$1,000	284	-
Totals	\$ 2,431	\$ 2,431

Source : Pension Administration System

Retired Members by Type of Benefit *(continued)*

PENSION BENEFITS BY FAMILY UNIT

As of June 30, 2019

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement ¹							
		1	2	3	4	5	6	7	8
\$0 - 999	32	0	0	3	0	0	2	3	24
\$1,000 - 1,999	72	0	0	1	0	3	1	12	55
\$2,000 - 2,999	142	17	0	3	1	6	47	20	48
\$3,000 - 3,999	153	29	1	2	2	12	72	14	21
\$4,000 - 4,999	152	59	5	5	15	5	44	6	13
\$5,000 - 5,999	223	131	6	8	32	1	30	8	7
\$6,000 - 6,999	212	114	5	2	73	2	14	2	0
\$7,000 - 7,999	255	109	3	3	126	3	9	1	1
\$8,000 - 8,999	269	106	3	0	155	0	4	0	1
\$9,000 - 9,999	221	76	3	1	132	2	3	4	0
\$10,000 - 10,999	209	74	0	0	129	0	2	4	0
\$11,000 - 11,999	187	83	0	0	97	0	1	6	0
\$12,000 - 12,999	119	44	0	0	69	0	2	4	0
\$13,000 - 13,999	59	17	2	0	38	0	0	2	0
\$14,000 - 14,999	39	15	1	0	22	0	0	1	0
\$15,000 - 15,999	11	1	0	0	10	0	0	0	0
\$16,000 - 16,999	27	5	0	0	20	0	0	2	0
\$17,000 - 17,999	9	3	0	0	6	0	0	0	0
\$18,000 - 18,999	8	0	0	0	8	0	0	0	0
\$19,000 - 19,999	1	0	0	0	1	0	0	0	0
\$20,000 - 20,999	3	1	0	0	2	0	0	0	0
\$21,000 - 23,999	3	0	0	0	3	0	0	0	0
\$24,000 +	0	0	0	0	0	0	0	0	0
TOTAL	2,406	884	29	28	941	34	231	89	170

¹Retirement Codes

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

Source : Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2019

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2019							
Average monthly benefit ¹	\$ 2,268	\$ 3,922	\$ 4,587	\$ 5,922	\$ 8,193	\$ 10,502	\$ 11,396
Average final average salary ²	\$ 7,038	\$ 5,624	\$ 7,384	\$ 8,987	\$ 9,499	\$ 9,428	\$ 8,657
Number of retired members ³	15	50	122	192	487	814	134
Average monthly benefit (No FAS) ¹	\$ -	\$ 2,175	\$ 1,799	\$ 3,421	\$ 5,324	\$ 7,858	\$ 8,943
Number of retired members ²	-	3	2	9	25	98	21
As of June 30, 2018							
Average monthly benefit ¹	\$ 2,595	\$ 3,902	\$ 4,487	\$ 5,630	\$ 7,934	\$ 10,174	\$ 10,961
Average final average salary ²	\$ 6,169	\$ 5,522	\$ 7,284	\$ 8,701	\$ 9,285	\$ 9,262	\$ 8,558
Number of retired numbers ³	12	49	122	183	461	791	160
Average monthly benefit (No FAS) ¹	\$ -	\$ 2,112	\$ 1,747	\$ 3,290	\$ 5,030	\$ 7,580	\$ 8,683
Number of retired members ²	-	3	2	8	27	101	21
As of June 30, 2017							
Average monthly benefit ¹	\$ 2,514	\$ 3,724	\$ 4,359	\$ 5,451	\$ 7,703	\$ 9,851	\$ 10,627
Average final average salary ²	\$ 5,836	\$ 4,876	\$ 7,204	\$ 8,414	\$ 9,110	\$ 9,103	\$ 8,482
Number of retired members ³	12	50	121	170	436	788	161
Average monthly benefit (No FAS) ¹	\$ -	\$ 2,050	\$ 1,696	\$ 3,192	\$ 4,778	\$ 7,303	\$ 8,374
Number of retired members ²	-	3	2	9	29	105	22
As of June 30, 2016							
Average monthly benefit ¹	\$ 2,308	\$ 3,631	\$ 4,203	\$ 5,271	\$ 7,469	\$ 9,546	\$ 10,280
Average final average salary ²	\$ 4,623	\$ 4,620	\$ 6,694	\$ 8,302	\$ 8,940	\$ 8,979	\$ 8,416
Number of retired members ³	10	51	114	166	422	773	166
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,991	\$ 1,348	\$ 3,099	\$ 4,618	\$ 7,080	\$ 8,043
Number of retired members ²	-	3	3	9	30	107	23
As of June 30, 2015							
Average monthly benefit ¹	\$ 2,477	\$ 3,462	\$ 4,004	\$ 5,051	\$ 7,004	\$ 8,940	\$ 9,657
Average final average salary ²	\$ 4,014	\$ 4,222	\$ 6,433	\$ 7,649	\$ 8,124	\$ 7,765	\$ 7,206
Number of retired members ³	10	51	113	151	403	774	168
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,933	\$ 1,523	\$ 3,009	\$ 4,478	\$ 6,858	\$ 7,794
Number of retired members ²	-	3	4	9	31	110	24
As of June 30, 2014							
Average monthly benefit ¹	\$ 4,060	\$ 3,383	\$ 3,904	\$ 4,897	\$ 6,763	\$ 8,671	\$ 9,392
Average final average salary ²	\$ 4,166	\$ 4,097	\$ 6,123	\$ 7,384	\$ 7,846	\$ 7,637	\$ 7,151
Number of retired members ³	23	47	103	132	365	755	145
Average monthly benefit (No FAS) ¹	\$ 2,852	\$ 3,187	\$ 3,706	\$ 4,725	\$ 6,511	\$ 8,399	\$ 9,011
Number of retired members ²	1	3	4	9	32	115	25

Average Benefit Payment Amounts *(continued)*

PENSION BENEFITS

As of June 30, 2019

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2013							
Average monthly benefit ¹	\$ 2,852	\$ 3,187	\$ 3,706	\$ 4,725	\$ 6,511	\$ 8,399	\$ 9,011
Average final average salary ²	\$ 3,993	\$ 3,758	\$ 5,746	\$ 6,988	\$ 7,620	\$ 7,552	\$ 7,006
Number of retired members ³	11	47	98	125	344	755	150
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,822	\$ 1,321	\$ 3,233	\$ 4,197	\$ 6,486	\$ 7,398
Number of retired members ²	-	3	5	11	32	117	27
As of June 30, 2012							
Average monthly benefit ¹	\$ 2,304	\$ 3,101	\$ 3,395	\$ 4,465	\$ 6,248	\$ 8,101	\$ 8,676
Average final average salary ²	\$ 1,540	\$ 3,368	\$ 4,931	\$ 6,555	\$ 7,431	\$ 7,398	\$ 6,940
Number of retired members ³	6	44	81	115	341	749	154
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,769	\$ 1,282	\$ 3,023	\$ 4,075	\$ 6,302	\$ 7,020
Number of retired members ²	-	3	5	12	32	120	28
As of June 30, 2011							
Average monthly benefit ¹	\$ 2,199	\$ 3,028	\$ 3,310	\$ 4,509	\$ 5,872	\$ 8,035	\$ 8,573
Average final average salary ²	\$ 1,540	\$ 3,402	\$ 4,695	\$ 6,818	\$ 7,309	\$ 8,344	\$ 8,094
Number of retired members ³	6	44	74	102	278	714	157
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,688	\$ 1,455	\$ 2,989	\$ 3,956	\$ 6,051	\$ 6,766
Number of retired members ²	-	3	5	12	36	129	30
As of June 30, 2010							
Average monthly benefit ¹	\$ 2,152	\$ 2,915	\$ 3,184	\$ 4,223	\$ 5,372	\$ 7,622	\$ 8,242
Average final average salary ²	\$ 1,585	\$ 3,248	\$ 4,532	\$ 6,515	\$ 6,599	\$ 7,942	\$ 7,938
Number of retired members ³	6	46	70	96	242	653	157
Average monthly benefit (No FAS) ¹	\$ -	\$ 1,639	\$ 1,419	\$ 2,854	\$ 3,779	\$ 5,886	\$ 6,570
Number of retired members ²	-	3	5	12	36	129	30

¹ Includes cost-of-living increases

² Final average salary not available for those that retired prior to April 1998, except for service-connected disability retirees. Those without final average salary are not included in average monthly benefit.

³ Does not include survivors and ex-spouses

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2019

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2019							
Average health subsidy	\$ 683	\$ 738	\$ 848	\$ 757	\$ 785	\$ 778	689
Number of health participants ¹	7	38	81	143	471	922	155
Average dental subsidy	\$ 93	\$ 107	\$ 115	\$ 111	\$ 108	\$ 109	102
Number of dental participants ¹	8	43	93	156	494	952	159
As of June 30, 2018							
Average health subsidy	\$ 600	\$ 693	\$ 797	\$ 701	\$ 759	\$ 749	654
Number of health participants ¹	7	39	88	154	465	890	173
Average dental subsidy	\$ 93	\$ 105	\$ 116	\$ 112	\$ 109	\$ 109	103
Number of dental participants ¹	8	44	92	157	476	906	175
As of June 30, 2017							
Average health subsidy	\$ 910	\$ 878	\$ 1,060	\$ 940	\$ 949	\$ 901	743
Number of health participants ¹	7	42	83	140	437	869	169
Average dental subsidy	\$ 93	\$ 103	\$ 117	\$ 113	\$ 109	\$ 110	102
Number of dental participants ¹	8	47	93	150	455	905	173
As of June 30, 2016							
Average health subsidy	\$ 934	\$ 865	\$ 991	\$ 903	\$ 909	\$ 861	719
Number of health participants ¹	6	39	81	138	427	862	172
Average dental subsidy	\$ 95	\$ 102	\$ 111	\$ 108	\$ 105	\$ 105	98
Number of dental participants ¹	7	46	89	147	441	894	179
As of June 30, 2015							
Average health subsidy	\$ 899	\$ 811	\$ 985	\$ 860	\$ 894	\$ 857	727
Number of health participants ¹	7	42	83	124	407	874	178
Average dental subsidy	\$ 89	\$ 101	\$ 112	\$ 108	\$ 107	\$ 105	99
Number of dental participants ¹	8	50	91	132	424	899	181
As of June 30, 2014							
Average health subsidy	\$ 549	\$ 779	\$ 845	\$ 779	\$ 896	\$ 879	746
Number of health participants ¹	19	44	87	121	384	843	166
Average dental subsidy	\$ 67	\$ 97	\$ 96	\$ 97	\$ 106	\$ 106	99
Number of dental participants ¹	21	47	91	128	396	865	169
As of June 30, 2013							
Average health subsidy	\$ 519	\$ 783	\$ 769	\$ 785	\$ 924	\$ 932	844
Number of health participants ¹	8	44	81	118	366	855	174
Average dental subsidy	\$ 84	\$ 96	\$ 85	\$ 92	\$ 101	\$ 101	102
Number of dental participants ¹	9	47	86	124	375	872	177

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2019

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2012							
Average health subsidy	\$ 776	\$ 850	\$ 839	\$ 865	\$ 1,018	\$ 1,055	\$ 928
Number of health participants ¹	6	42	66	110	357	850	177
Average dental subsidy	\$ 109	\$ 106	\$ 88	\$ 97	\$ 107	\$ 108	\$ 108
Number of dental participants ¹	6	46	70	114	372	869	182
As of June 30, 2011							
Average health subsidy	\$ 730	\$ 918	\$ 1,050	\$ 1,019	\$ 1,052	\$ 1,086	\$ 1,029
Number of health participants ¹	6	40	59	96	273	709	29
Average dental subsidy	\$ 110	\$ 110	\$ 110	\$ 110	\$ 109	\$ 109	\$ 110
Number of dental participants ¹	6	43	63	98	278	714	30
As of June 30, 2010							
Average health subsidy	\$ 702	\$ 853	\$ 991	\$ 951	\$ 978	\$ 1,023	\$ 985
Number of health participants ¹	42	56	91	236	649	157	-
Average dental subsidy	\$ 104	\$ 104	\$ 105	\$ 104	\$ 104	\$ 104	\$ 104
Number of dental participants ¹	6	45	60	93	239	652	157

¹ Does not include Survivors and Ex-Spouses.

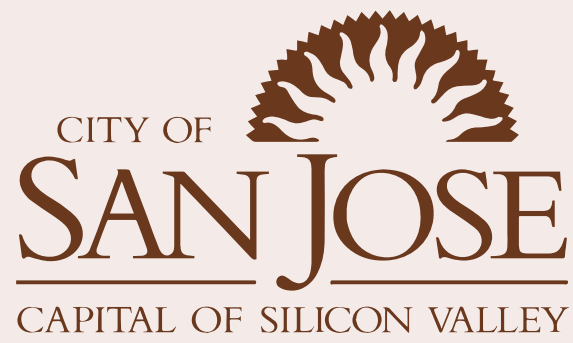
Source: Pension Administration System

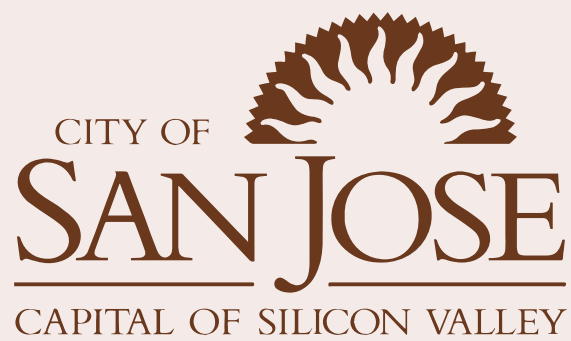
Retirements During Fiscal Year 2018-2019

SERVICE RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Ah Yo, Todd C.	Neumann, William D.	Aquino, Bryan M.
Anjari, Michael A.	Nguyen, Annie	Biddle, Douglas B.
Buell, Christopher B.	Parente, Christopher M.	Chavez, Jose
Carley, Daniel T.	Payne, Steven E.	Constantine, Richard A.
Chen, Derek C.	Perea, Peter M.	Endicott, Charlotte L.
Chew, Joel R.	Phelps, Kurt A.	Froisland, James E.
Christian, Matthew E.	Proft, Christopher D.	Kahn, Michael K.
Corral, Raul	Raya, Orlando R.	Kersten, Kelly H.
Day, Lawrence T.	Riles, Mark D.	Lee, Ivan D.
Duquite, Gregory G.	Rodriguez, Alfonso	Markel, Clayton D.
Epp, Michael T.	Smith, Wayne E.	Moore, David R.
Fong, Johnson	Spagnoli, Paul E.	Mulcahy, Patrick D.
France, Kermit S.	Stephens, Timothy R.	O'Regan, Brian
Hagele, John R.	Swenson, Steven P.	Perez, Tina D.
Harris, Robert	Tovar, Juan De Dios	Peters, Eric C.
Jungling, Gary R.	Tran, Hoa M.	Sperrer, Michael F.
King, Michael A.	Trujillo, Ted	Tapia, Patricia
Knox, Michael G.	Weger, Richard E.	
Lacap, Llorente V.	Wentling, Michael L.	
Lopez, Salvador	Wilson, Christopher A.	
Martinez, Raul	Wilson, Steven G.	
McEwan, Steven J.	Wolfe, William A.	
Montonye, Michael J.	Young, Paula A.	
Mosto, Salvatore J.	Yu, Rick	
Murphy, Troy F.		
EARLY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
None		McCarthy, Kenneth S.
		Paiss, Matthew D.
DEFERRED VESTED		
POLICE DEPARTMENT		FIRE DEPARTMENT
Bokavich, Casey T.	Rosengren, Eric C.	D'Amico, Kristine A
Garcia, Nicholas R.	Ryan, Laurence F.	
Kinsworthy, Loyd W	Werner, Bradley D.	
Nishita, Kevin		
SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Davis, Kenneth L.		Alviso, John M.
Niemeyer, Kirk J.		Link, James M.
		Wells, Sandra I.
NON SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		FIRE DEPARTMENT
Hayward, Matthew D.		None
Natwick, Mark P.		

Deaths During Fiscal Year 2018-2019

DEATHS AFTER RETIREMENT		
POLICE DEPARTMENT		FIRE DEPARTMENT
Ferguson, Jacob T.		Albericci, Jerry L.
Hensen, Russell T.		Avery, Roderick
Martinez, Raul		Benson, Lloyd L.
Mattos, William E.		Boyer, Jerry
Mitchell, John		Edwards, Donald E.
Roach, James P.		Geimer, John M.
Smoke, William R.		Guerin, Peter T.
Wilson, Leland O.		Jost, Franklin D.
Wininger, Stephen T.		Kaminsky, Glenn F.
		King, Paul J.
		Lilly, Robert R.
		Norton, Phillip O.
		Perez, Bernardo R.
		Reeder, Mauri K.
		Reek, Patrick S.
		Rice, Phillip K.
		Rizzo, Ronald J.
		Struthers, Richard M.
		Taylor, John L.
		Tennant, Edward E.
		Williams, Jerry
DEATHS BEFORE RETIREMENT		
POLICE DEPARTMENT		FIRE DEPARTMENT
Dunson, Lemar A.		None





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