CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Federated City Employees' Retirement System

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and June 30, 2012

A Pension Trust Fund of the City of San José, California

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Federated City Employees' Retirement System

Roberto L. Peña
Director





Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

Department of Retirement Services
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San Jose, California 95112-4505
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www.sjretirement.com

A Pension Trust Fund of the City of San José, California

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

December 5, 2013

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

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013.

The System earned a time-weighted gross of investment fees rate of return of 8.1% and net of investment fees rate of return of 8.0% on investments for the fiscal year, compared to a 9.1% return for its policy benchmark. Additionally, the System earned a time-weighted gross of investment fees rate of return of 7.6% and 3.4% for the three-year and five-year periods ending June 30, 2013, respectively, while the policy benchmark earned a time-weighted rate of return of 9.1% and 4.3% for the same periods. In contrast, the net rate of return assumed by the System's actuary is 7.50%. The net position value of the System increased from $1,787,047,000 to $1,919,241,000 net of pending purchases and sales (see the Financial Section beginning on page 21). The net increase in System net position for fiscal year 2012-2013 was $132,194,000.

During fiscal year 2012-13, the Board continued to implement changes in its governance structure. The Board engaged governance consultant Cortex Applied Research to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol.

The System saw the departures of its Director of Retirement Services, Chief Investment Officer, and Accounting Division Manager during the fiscal year. Donna Busse, Chief Operations Officer, was appointed as the Acting Director to lead the Retirement Services Department. In the interim, the Boards of Administration for Federated City Employees' Retirement System and Police and Fire Department Retirement Plan engaged an executive recruiting firm to search for a Director and subsequently in February 2013, Roberto L. Peña was appointed as the Director of Retirement Services. Mr. Peña is working closely in a collaborative process with the City and the Boards of Administration for this System and the Police and Fire Department Retirement Plan to select highly qualified candidates to fill the CIO, Investment Officer, and Accounting Division Manager positions.

As a result of a new asset allocation that was adopted by the Board during the fourth quarter of calendar year 2011, the System completed a significant and complex portfolio transition in the fourth quarter of calendar year 2012, with the help of transition manager Russell Investments. The new asset allocation aims to better position the System for potential future market environments. During fiscal year 2012-2013, the System hired 12 absolute return managers with the help of its hedge fund consultant, Albourne America, LLC. Other hiring consisted of emerging market equity and fund of funds private equity managers as well as equity and foreign-exchange transaction cost analysis providers.

1737 N. First St. Suite 580, San Jose, CA 95112-4504 ***tel*** (408) 794-1000 ***fax*** (408) 392-6732 www.sjretirement.com

In light of the volatility of global investment markets and the System's changing asset allocation policy, the Board has focused recently on risk management and is considering hiring an outside risk consultant. Staff is working closely with the Trustees with the intention of issuing a Request for Proposals for a risk consultant during fiscal year 2013-14. Finally, with the guidance of Cortex Applied Research and Meketa Investment Group, the System's investment consultant, the System adopted new investment policy statements for both the Pension Trust as well as the Healthcare Trust.

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

Sincerely,

Matt Loesch, Chairman
Board of Administration

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

December 5, 2013

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2013. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2012 and 2013 refer to the Management's Discussion and Analysis on page 24.

Macias Gini & O'Connell LLP, the System's independent auditor, has audited the accompanying financial statements. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. Management believes sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

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

I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2013. The System also received the Public Pension

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

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

Funding

The System's funding objective for both its defined benefit pension plan and its defined benefit other post-employment healthcare (OPEB) plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2012, the funded ratio of the defined benefit pension plan was 62% and for the defined benefit OPEB plan was 13% based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 7.50% and 4.80%, respectively. The impact of the difference between the actual net rate of return earned by the System and the 7.50% and 4.80% assumptions will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in System position for fiscal year 2012-2013 was $132,194,000. Details of the components of this increase are included in the System's net position on page 36. The defined benefit pension plan's funding progress is presented on page 58 and the defined benefit OPEB plan's funding progress is presented on page 58.

Financial and Economic Summary

As fiscal year 2013 began, investors were focused on the European debt crisis and its potential impact on global capital markets. In late June 2012, Eurozone leaders agreed that rescue funds could be used to recapitalize troubled banks. In July, European Central Bank president Mario Draghi pledged to do "whatever it takes" to preserve the Euro, adding to investor optimism and sparking another rally in the capital markets during the third quarter of calendar year 2012. Relative stability in Europe during the fourth quarter of calendar year 2012 drove the MSCI EAFE Index up another 6.6%.

In the United States, the headlines were dominated by the Presidential election and the pending fiscal cliff. Seemingly paralyzed by political banter during the quarter, domestic markets were essentially flat in the last quarter of the calendar year. With the elections in the rear-view mirror and the fiscal cliff averted, the domestic markets rose dramatically during the first quarter of calendar year 2013, due to better economic data and assurance from the Federal Reserve that monetary policy would remain accommodative for as long as necessary. Comments by Federal Reserve President Ben Bernanke dominated headlines and the capital markets during the second quarter of calendar year 2013. Bernanke stated that the Federal Reserve may trim its bond buying if officials saw sustained improvement in the economy and labor markets. With the prospect of lower demand for Treasuries, investors sold bonds in anticipation of higher interest rates sooner than expected.

Four issues of primary concern remain over the next year: continued economic sluggishness and financial risk in Europe, increasing real interest rates globally, the potential for a rapid slowdown in China impacting other emerging economies, and increased geopolitical tensions around the world. Meketa Investment Group ("Meketa"), the System's investment consultant, believes economic growth will continue to be slow for developed economies due to an increase in yields, government austerity, and high unemployment while emerging economies will experience higher, but volatile, economic growth. Slower growth in China and the recent increase in real interest rates and reduction in global liquidity will likely cause growth in emerging markets to be lower than in recent years.

Investment Summary

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

Over the past fiscal year, the System's gross of fees rate of return was 8.1% and net of investment fees rate of return was 8.0%, compared to a 9.1% return for its policy benchmark. Additionally, the System's gross of fees rate of return was 7.6% and 3.4% for the three-year and five-year periods ending June 30, 2013 respectively, while the policy benchmark earned a time-weighted rate of return of 9.1% and 4.3% for the same periods. The net position value of the System increased from $1,787,047,000 to $1,919,241,000 net of pending purchases and net position sales (see the Financial Section beginning on page 21).

As a result of a new asset allocation that was adopted by the Board during the fourth quarter of calendar year 2011, the System completed a significant and complex portfolio transition in the fourth quarter of calendar year 2012, with the help of transition manager Russell Investments. The new asset allocation aims to better position the System for potential future market environments.

Major Initiatives

The System saw the departures of its Director of Retirement Services, Chief Investment Officer, and Accounting Division Manager during the fiscal year. Donna Busse, Chief Operations Officer, was appointed as the Acting Director to lead the Retirement Services Department. In the interim, the Boards of Administration for Federated City Employees' Retirement System and Police and Fire Department Retirement Plan, working in conjunction with the City Manager's Office, engaged an executive recruiting firm to search for a Director and subsequently in February 2013, Roberto L. Peña was appointed as the Director of Retirement Services. Mr. Peña is working closely in a collaborative process with the City and the Boards of Administration for this System and the Police and Fire Department Retirement Plan to select highly qualified candidates to fill the CIO, Investment Officer, and Accounting Division Manager positions.

The Board continued implementation of its new governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol.

During fiscal year 2012-2013, the System hired 12 absolute return managers with the help of its hedge fund consultant, Albourne America, LLC. Other hiring consisted of emerging market equity and fund of funds private equity managers as well as equity and foreign-exchange transaction cost analysis providers.

In light of the volatility of global investment markets and the System's changing asset allocation policy, the Board has focused recently on risk management and is considering hiring an outside risk consultant. Staff is working closely with the Trustees with the intention of issuing a Request for Proposals for a risk consultant during fiscal year 2013-14. Finally, with the guidance of Cortex Applied Research and Meketa Investment Group, the System's investment consultant, the System adopted new investment policy statements for both the Pension Trust as well as the Healthcare Trust.

During the fiscal year 2012-13, Tier 2 was implemented starting in the fourth quarter of calendar year 2012, for employees hired, rehired, or reinstated. In addition, the City of San Jose eliminated the Supplemental Retirees Benefit Reserve (SRBR) effective first quarter of calendar year 2013, and the Board set the 2013-2014 contribution rates based on the 6/30/2012 valuations, excluding the SRBR. While Sagitec Solutions was awarded a contract for the new Pension and Business Administration System, the new Federated Tier 2 plan was implemented in PensionGold. Additionally, Electronic Board packets were deployed.

City Administration introduced high deductible medical plans for calendar year 2013, which greatly impacted the retiree population. Retirement Services staff coordinated a staff training session, 10 educational sessions for retirees, and communication pieces with the vendors. Over 200 retirees attended the Health Fair and all 10 educational sessions were overflowing with attendance. In excess of 600 open enrollment changes were processed.

The Pension Protection and Affordable Care Act (PPACA) and the Health Care and Educational Reconciliation Act (HCERA) were enacted in March 2010. The Supreme Court upheld the constitutionality of the health care reform law on June 28, 2013. One of the near-term implications that affected the City group plans was the distribution of Summary of Benefits and Coverage (SBC) before the Fall open enrollment. Retirement Services staff, Human Resources and Buck Consultants worked closely with the providers to ensure that the SBCs were available for Open Enrollment. Since not all retirees have access to the internet, Retirement Services mailed hardcopies to all members eligible for medical coverage.

Kaiser Permanente informed Retirement Services that the Medicare Out-of-Area plan will not to be available starting December 31, 2012. Retirement Services staff coordinated with Kaiser communication pieces and the transition of those affected to eligible plans. A special Open Enrollment letter was mailed to ensure everyone affected had the opportunity to change medical plans.

San Jose City Council adopted Ordinance 29174 implementing the Medicare Mandate for the Federated City Employees' Retirement System retirees effective January 4, 2013. Retirement Services staff mobilized its resources to identify those affected by the mandate and mailed out certified letters in an urgency to ensure that members contacted Social Security Administration prior to the end of their general open enrollment period which ended March 31, 2013.

Prudential informed the City of its intention to leave the group Long Term Care (LTC) insurance market effective June 30, 2013. Human Resources conducted a Request for Information and discovered that there are no other insurance companies willing to offer group LTC policies to the City. Retirement Services staff conducted a mass mailing to all retirees informing them of this change and posted a flyer on its websites.

Blue Shield of California pledged to limit their annual net income to 2% of revenue collected and give back any excess to its customers. In 2012, Retirement Services received a total of $178,453, of which $20,397 was refunded to the retirees. Last but not least, Vision Service Plan (VSP) partnered with TruHearing to provide a discount for hearing aids to members enrolled in VSP. This is a pilot program scheduled to end on December 31, 2013.

Conclusion

I would like to take this opportunity to thank the members of the System for their confidence in the plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the System and for their diligent work to assure the System's continued successful operation.

Respectfully Submitted,

Roberto L. Peña

Roberto L. Peña
Director

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Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City Employees' Retirement System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

City of San Jose Federated City Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

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

As of June 30, 2013, the members of the Board were as follows:

MATT LOESCH, CHAIR, CHAIR
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2015.

LARA DRUYAN, VICE CHAIR
Public member appointed to the Board in December 2010. Her current term expires November 30, 2014.

ARN ANDREWS, TRUSTEE
Employee Representative appointed to the Board in December 2009. His current term expires November 30, 2013.

MARTIN DIRKS, TRUSTEE
Public member appointed to the Board in February 2011. His current term expires February 28, 2015.

MICHAEL ARMSTRONG, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

EDWARD F. OVERTON, TRUSTEE
Retired Plan member appointed in January 2009. His current term expires November 30, 2016.

STUART ODELL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2016.

PETE CONSTANT,
NON-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA,
DIRECTOR OF RETIREMENT SERVICES

DONNA BUSSE,
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Position vacant as of July 31, 2012)

STANDING PUBLIC MEETINGS

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

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at http://sjretirement.com/fed/meetings/agendas.asp or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Reed Smith LLP
Falls Church, VA

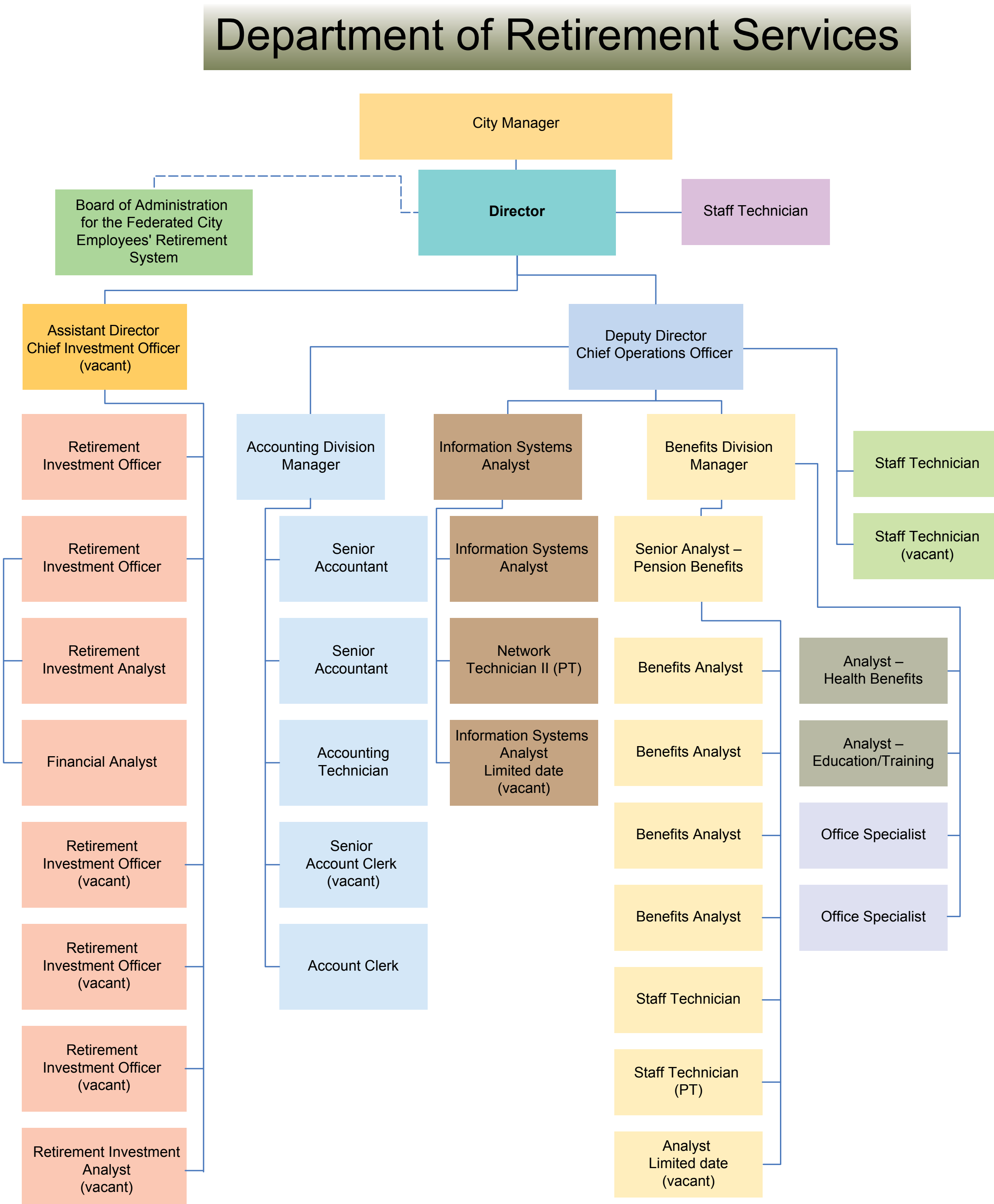
INVESTMENT CONSULTANTS
Albourne America LLC - Absolute Return
San Francisco, CA

Meketa Investment Group, Inc. - General Consultant
Carlsbad, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 84 of the Investment Section of this report.

2013 Department of Retirement Services Organizational Chart



DEPARTMENT OF RETIREMENT SERVICES

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Financial Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

Independent Auditor's Report

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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

San José, California

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of San José Federated Employees' Retirement System (System), a pension and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2012, the System's independent actuaries determined that, at June 30, 2012, the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $1.1 billion. The most recent actuarial value of assets as of June 30, 2012 does not reflect the impact of deferred investment losses of $113.7 million that will be recognized in future valuations.

As described in Note 6, based on the most recent actuarial valuation as of June 30, 2012, the System's independent actuaries determined that, at June 30, 2012, the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $959 million.

Our opinion is not modified with respect to these matters.

www.mgocpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, other supplementary information in the financial section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information in the financial section 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 4, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2013. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 4, 2013

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

Roberto Peña
Director, Retirement Services

The Department of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2013, and 2012. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2013

- As of June 30, 2013, the System had $1,919,241,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $1,761,546,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. Plan net position of $157,695,000 restricted for postemployment healthcare benefits is only available for the exclusive use of retiree medical benefits.
- The System's total plan net position restricted for pension benefits and postemployment healthcare benefits increased by $132,194,000 or 7.4% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by an increase in the equity markets.
- Additions to plan net position for the year were $313,175,000, which includes employer and employee contributions of $124,360,000 and $28,631,000, respectively, and net investment income of $160,184,000. This represents an increase from $64,423,000 in the prior fiscal year.
- Deductions in plan net position increased from $173,448,000 to $180,981,000 from the prior fiscal year, or approximately 4.3%, due to an increase in retirement benefits, which was attributable to an increased number of retired members and beneficiaries.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's financial statements, which are comprised of these components:

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

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

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

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

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and that state and local government pension plans and other postemployment benefit plans use the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

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

These two statements report the System's net position restricted for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and current liabilities. Over time, increases and decreases in the System's net position is one indicator of whether its financial health is improving or deteriorating. Other factors, such as the System's funding progress and funded status, should also be considered in measuring the System's overall health (see the schedules of funding progress and schedules of employer contributions on pages 58-59 of this report).

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 38 of this report).

Other Information: In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's employer contribution and progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 57 of this report).

The schedule of funding progress of the Defined Benefit Pension Plan was prepared using the actuarial value of plan assets. Combining schedules of net position and changes in net position for the Defined Benefit Pension Plan and the Other Postemployment Benefit Plan, schedules of administrative expenses and other, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 26). At the close of fiscal years 2013 and 2012, the System's total assets exceeded the System's total liabilities. The System's financial statements do not include the actuarial accrued liability for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan.

The funded status of the System should also be considered when evaluating the System's financial health. As of June 30, 2012, the System's most recent valuation, the funded status of the System decreased from 65% to 62% for the Defined Benefit Pension Plan and increased from 12% to 13% for the other Postemployment Healthcare Plan. The decrease in pension funded status and increase in the unfunded actuarial accrued liability (UAAL) was primarily due to investment losses. For more information on the results and impact of the June 30, 2012 valuations, please see Notes 5 and 6 to the financial statements on pages 50-56.

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN

(Table 1a) *As of June 30, 2013, and 2012 (In Thousands)*

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 5,514	$ 6,715	$ (1,201)	-17.9%
Investments at Fair Value	1,764,749	1,649,987	114,762	7.0%
Total Assets	**1,770,263**	**1,656,702**	**113,561**	**6.9%**
Current Liabilities	8,717	7,453	1,264	17.0%
Total Liabilities	**8,717**	**7,453**	**1,264**	**17.0%**
Plan Net Position	**$ 1,761,546**	**$ 1,649,249**	**$ 112,297**	**6.8%**

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN

(Table 1b) *As of June 30, 2012 and 2011 (In Thousands)*

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 6,715	$ 18,714	$ (11,999)	-64.1%
Investments at Fair Value	1,649,987	1,894,775	(244,788)	-12.9%
Total Assets	**1,656,702**	**1,913,489**	**(256,787)**	**-13.4%**
Current Liabilities	7,453	152,871	(145,418)	-95.1%
Total Liabilities	**7,453**	**152,871**	**(145,418)**	**-95.1%**
Plan Net Position	**$ 1,649,249**	**$ 1,760,618**	**$ (111,369)**	**-6.3%**

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN

(Table 1c) *As of June 30, 2013 and 2012 (In Thousands)*

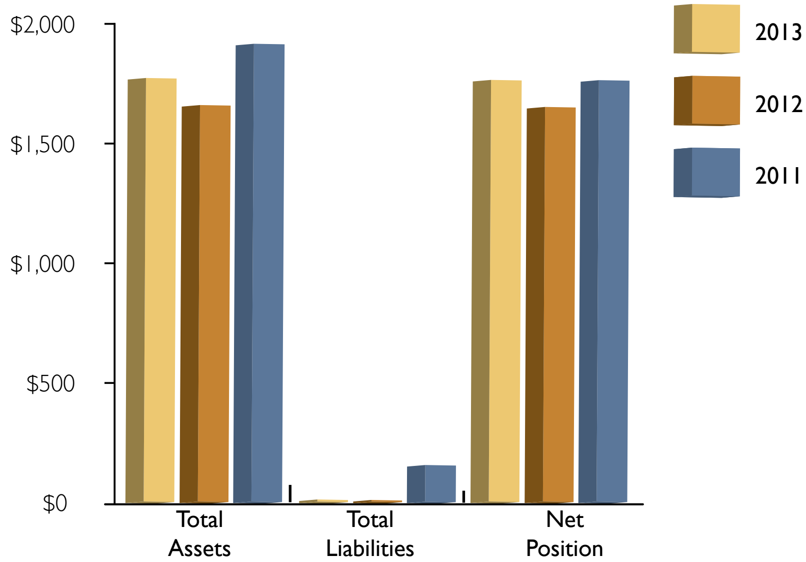
	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 876	$ 960	$ (84)	-8.8%
Investments at Fair Value	157,439	137,425	20,014	14.6%
Total Assets	**158,315**	**138,385**	**19,930**	**14.4%**
Current Liabilities	620	587	33	5.6%
Total Liabilities	**620**	**587**	**33**	**5.6%**
Plan Net Position	**$ 157,695**	**$ 137,798**	**$ 19,897**	**14.4%**

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN

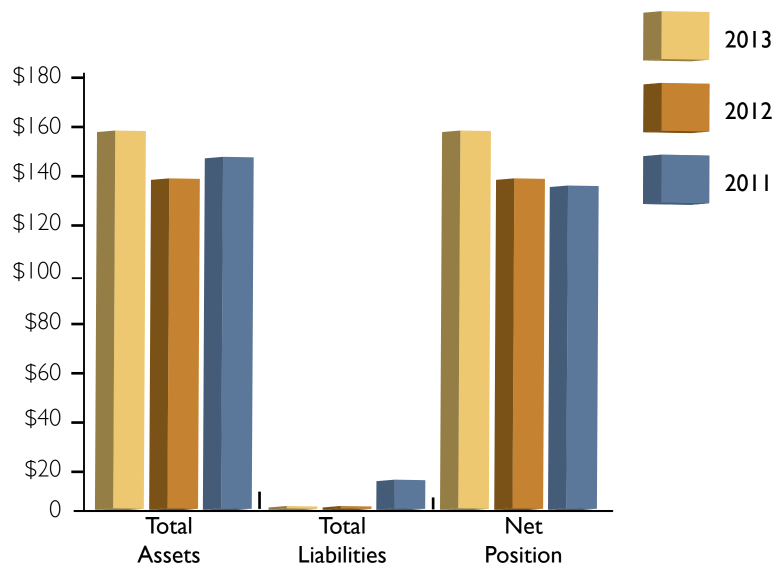
(Table 1d) *As of June 30, 2012 and 2011 (In Thousands)*

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 960	$ 2,507	$ (1,547)	-61.7%
Investments at Fair Value	137,425	144,820	(7,395)	-5.1%
Total Assets	**138,385**	**147,327**	**(8,942)**	**-6.1%**
Current Liabilities	587	11,873	(11,286)	-95.1%
Total Liabilities	**587**	**11,873**	**(11,286)**	**-95.1%**
Plan Net Position	**$ 137,798**	**$ 135,454**	**$ 2,344**	**1.7%**

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN NET POSITION
June 30, 2013, 2012 and 2011
(Dollars in Millions)



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION
June 30, 2013, 2012 and 2011
(Dollars in Millions)



As of June 30, 2013, $1,761,546,000 and $157,695,000, of total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 26). Plan net position of $1,761,546,000 is available to meet the System's ongoing obligations to plan participants and their beneficiaries. The San Jose City Council eliminated SRBR (Ordinance #29174) effective January 4, 2013. Postemployment healthcare plan net position of $157,695,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2013, total net position restricted for pension benefits increased by 6.8% and increased by 14.4% for the postemployment healthcare benefits plan from the prior year primarily due to the net appreciation in the fair value of investments of $129,549,000 and $11,584,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the increase in the equity markets. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 41.

As of June 30, 2012, $1,649,249,000 and $137,798,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 26). Plan net position restricted for pension benefits of $1,649,249,000 was available to meet the System's ongoing obligations to plan participants and their beneficiaries except assets held in the Supplemental Retiree Benefit Reserve (a reserve in the defined benefit pension plan), of $43,109,000, which was used to provide supplemental benefits to retirees on a discretionary basis. Postemployment healthcare plan net position of $137,798,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2012, plan net position restricted for pension benefits decreased by 6.3% and increased by 1.7% for the postemployment healthcare benefits plan from the prior year primarily due to the net depreciation in the fair value of investments of $98,855,000 and $7,811,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The depreciation in the fair value of investments was caused by the decline in the international equity commodities markets. During the transition to the new asset allocation, the Board hired Russell Investments to provide asset overlay services to rebalance the System's assets to the Board approved long-term targets.

As of June 30, 2013, receivables decreased by $1,201,000 or 17.9% and $84,000 or 8.8% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in receivables from the City for contributions and brokers and others for year-end investment trades. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $11,999,000 or 64.1% and $1,547,000 or 61.7% ,also due to receivables for contributions and brokers and others for year-end investment trades.

As of June 30, 2013, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by $1,264,000 or 17% and $33,000 or 5.6%, respectively, compared with June 30, 2012, due to an increase in payables to brokers. In the previous year, liabilities decreased by $145,418,000 or 95.1% for the Defined Benefit Pension Plan and $11,286,000 or 95.1% for the Postemployment Healthcare Plan from the fiscal year ended June 30, 2011 due to the System's exit from securities lending activity.

Federated System Activities

In fiscal year ended June 30, 2013, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by $132,194,000 or 7.4%, primarily due to the increase in the equity markets experienced in the fiscal year. Key elements of the System's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2013, were $262,128,000 and $51,047,000, respectively (see Tables 2a and 2c on pages 30-31).

For fiscal year ended June 30, 2013, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $233,394,000 and $15,358,000, or 812.3% and 43.0%, respectively. The primary cause of the increase from the prior year was net investment income of $146,367,000 and $13,817,000, respectively, compared to investment income before securities lending income of ($69,032,000) and ($5,150,000) in 2012. The net investment gains were primarily a result of the increase in the equity markets during the fiscal year. The System's time-weighted gross rate of return, as determined by the System's Investment Consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2013, was 8.1% compared to -3.0% for fiscal year 2012. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2013, was 8.0% compared to -3.2% for fiscal year 2012.

For fiscal year ended June 30, 2012, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $342,227,000 and $19,340,000, or 92.3% and 35.1%, respectively. The primary cause of the decrease from the prior year was net investment losses, excluding securities lending income, of $69,032,000 and $5,150,000, respectively, compared to investment income of $286,726,000 and $21,808,000 in 2011. The net investment losses were primarily a result of the decline in the equity markets during the first half of the fiscal year. The System's time-weighted gross rate of return, as determined by the System's Investment Consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2012, was -3.0% compared to 19.0% for fiscal year 2011. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2012, was -3.2% compared to 18.8% for fiscal year 2011.

Deductions from Plan Net Position

The System was created to provide lifetime retirement annuities, 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 Jose Municipal Code, refunds of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2013, totaled $149,831,000 and $31,150,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 6.9% from the previous year due to an increase in benefit payments (see Table 2a on page 30). The increases in benefit payments are primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. The Deductions for the Postemployment Healthcare Plan, decreased by 6.6% from the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2c on page 31).

Deductions for the fiscal year ended June 30, 2012, totaled $140,103,000 and $33,345,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 13.8% from the previous year due to an increase in benefit payments and administrative costs (see Table 2b on page 30). The increases in benefit payments are primarily due to the same reasons as in 2013. The increases in administrative costs are primarily due to additional professional fees for legal, actuarial and external staffing services. The Deductions for the Postemployment Healthcare Plan, increased by 20.9% from the previous year due to continued increases in healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 31).

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN

(Table 2a)

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 12,652	$ 10,555	$ 2,097	19.9%
Employer Contributions	103,109	87,082	16,027	18.4%
Net Investment Income/(Loss)*	146,367	(69,032)	215,399	312.0%
Net Securities Lending Income	-	129	(129)	-100.0%
Total Additions	**262,128**	**28,734**	**233,394**	**812.3%**
* *Net of Investment Expenses of $7,558 and $7,073 in 2013 and 2012, respectively.*				
Retirement Benefits	136,075	126,001	10,074	8.0%
Death Benefits	9,187	8,601	586	6.8%
Refund of Contributions	1,545	2,195	(650)	-29.6%
Administrative	3,024	3,306	(282)	-8.5%
Total Deductions	**149,831**	**140,103**	**9,728**	**6.9%**
Net Increase/(Decrease) in Plan Net Position	**112,297**	**(111,369)**	**223,666**	**200.8%**
Beginning Net Position	**1,649,249**	**1,760,618**	**(111,369)**	**-6.3%**
Ending Net Position	**$ 1,761,546**	**$ 1,649,249**	**$ 112,297**	**6.8%**

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN

(Table 2b)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 10,555	$ 24,602	$ (14,047)	-57.1%
Employer Contributions	87,082	59,180	27,902	47.1%
Net Investment Income/(Loss)*	(69,032)	286,726	(355,758)	-124.1%
Net Securities Lending Income	129	453	(324)	-71.5%
Total Additions	**28,734**	**370,961**	**(342,227)**	**-92.3%**
* *Net of Investment Expenses of $7,073 and $3,387 in 2012 and 2011, respectively.*				
Retirement Benefits	126,001	110,415	15,586	14.1%
Death Benefits	8,601	7,883	718	9.1%
Refund of Contributions	2,195	1,980	215	10.9%
Administrative	3,306	2,867	439	15.3%
Total Deductions	**140,103**	**123,145**	**16,958**	**13.8%**
Net Increase/(Decrease) in Plan Net Position	**(111,369)**	**247,816**	**(359,185)**	**-144.9%**
Beginning Net Position	**1,760,618**	**1,512,802**	**247,816**	**16.4%**
Ending Net Position	**$ 1,649,249**	**$ 1,760,618**	**$ (111,369)**	**-6.3%**

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

(Table 2c)

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 15,979	$ 14,995	$ 984	6.6%
Employer Contributions	21,251	25,834	(4,583)	-17.7%
Net Investment Income/(Loss)*	13,817	(5,150)	18,967	368.3%
Net Securities Lending Income	-	10	(10)	-100.0%
Total Additions	**51,047**	**35,689**	**15,358**	**43.0%**
* *Net of Investment Expenses of $542 and $547 in 2013 and 2012, respectively.*				
Healthcare Insurance Premiums	30,943	33,077	(2,134)	-6.5%
Administrative	207	268	(61)	-22.8%
Total Deductions	**31,150**	**33,345**	**(2,195)**	**-6.6%**
Net Increase in Plan Net Position	**19,897**	**2,344**	**17,553**	**748.8%**
Beginning Net Position	**137,798**	**135,454**	**2,344**	**1.7%**
Ending Net Position	**$ 157,695**	**$ 137,798**	**$ 19,897**	**14.4%**

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

(Table 2d)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 14,995	$ 16,041	$ (1,046)	-6.5%
Employer Contributions	25,834	17,146	8,688	50.7%
Net Investment Income*	(5,150)	21,808	(26,958)	-123.6%
Net Securities Lending Income	10	34	(24)	-70.6%
Total Additions	**35,689**	**55,029**	**(19,340)**	**-35.1%**
* *Net of Investment Expenses of $547 and $256 in 2012 and 2011, respectively.*				
Healthcare Insurance Premiums	33,077	27,370	5,707	20.9%
Administrative	268	216	52	24.1%
Total Deductions	**33,345**	**27,586**	**5,759**	**20.9%**
Net Increase in Plan Net Position	**2,344**	**27,443**	**(25,099)**	**-91.5%**
Beginning Net Position	**135,454**	**108,011**	**27,443**	**25.4%**
Ending Net Position	**$ 137,798**	**$ 135,454**	**$ 2,344**	**1.7%**

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net position. The System's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 401(h) and 115 Trust). Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the General Reserve, the Employee Contributions Reserve, and the Supplemental Retiree Benefit Reserve (SRBR). However, effective January 4, 2013, the City Council eliminated the SRBR and the funds were transferred into the general reserve. The Defined Benefit Pension Plan Cost-of-Living Fund and the Postemployment Healthcare Plan both have a General Reserve and Employee Contributions Reserve (see table on page 42 for a complete listing and year-end balances of the System's reserves).

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

The System's Fiduciary Responsibilities

The System's Board of Administration is the fiduciary trustee of the defined benefit pension and other postemployment healthcare trust funds. Under the California Constitution and the San José Municipal Code, the assets may only be used for the exclusive benefit of providing promised benefits to plan participants and their beneficiaries, and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The System's most recent actuarial valuation as of June 30, 2012, was used to determine the contribution rates effective June 23, 2013, for fiscal year 2013-2014. The annual required contribution rates and dollar amounts calculated in the June 30, 2012, valuation were adopted by the Board and become effective in fiscal year 2013-2014.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuarial valuation uses a five year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability of $1,078 million, as of June 30, 2012, does not include the impact of approximately $113.7 million of deferred investment losses primarily resulting from unfavorable investments returns in fiscal years 2009 and 2012. It is anticipated that future actuarial valuations will recognize the remaining deferred net investment losses of approximately $113.7 million as described above and the smoothing of any new gains or losses over a five year period. As of June 30, 2012, the System's most recent valuation, the funded status of the pension plan decreased from 65% to 62%. The decrease in the pension plan funded status was due primarily to investment losses.

The System is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 7.50%, net of investment expenses, in the actuarial valuation as of June 30, 2012. With all other things being equal, underperforming the assumed rate of return would decrease the funded status of the Plan and increase the City's required contributions to the System.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of retirement, disability and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these long term actuarial assumptions cause the Plan to experience 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 long-term 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 June 30, 2012 valuation contains the Board adopted 30/20 layered amortization methodology which includes the level amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2012 valuation is 27.2 years.

Contribution rates for fiscal year 2013-2014, as determined by the June 30, 2012 valuation included the impact of the continued effect of the layered 20-year closed amortization period, and the recognition of smoothed deferred investment gains and losses.

The valuation for June 30, 2012 and beyond will include the impact of only the implemented sections of *The Sustainable Retirement Benefits and Compensation Act (Pension Act)* enacted by the voters of San Jose on June 5, 2012. The Pension Act amended the City Charter to change benefits for current employees to establish different benefits for new employees and to place other limitations on benefits.

Section 1508-A of the Pension Act applicable to new employees was adopted on August 28, 2012 by San Jose City

Council Ordinance No. 29120 to provide Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year to 2.0% per year, an increase from 55 years to 65 years of age for retirement eligibility at full benefits, a consumer price index driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase, a decrease in maximum benefit to 65% of final average salary from 75%, a single life annuity compared to a 50% joint survivorship, and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the System.

Additionally, the System's financial reporting will be impacted in fiscal year ending June 30, 2014 as a result of the implementation of Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plans.* GASB Statement No. 67 will replace GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution,* and No. 50, *Pension Disclosures.* This statement establishes standards of financial reporting and specifies the required approach to measuring the pension liability of employers. The statement relates to accounting and financial reporting and does not apply to how pension plans approach funding.

Postemployment Healthcare Plan

During the fiscal year ended June 30, 2013, the System's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2012, was prepared by Cheiron, Inc., the System's actuary. A summary of the results is presented in Note 6 to the Financial Statements. The year ended June 30, 2013 was the fourth year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five period. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions, in the first four years of the agreement. In the fifth year of the phase-in, the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The year ended June 30, 2013, marked the end of the 0.75% cap and per the MOA the employees and the City will be required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. The June 30, 2012 valuation establishes, for the fiscal year ended June 30, 2014, the City's annual required contribution rate as a percentage of pay to be 25.38% compared to 8.66% on a phase-in funded basis.

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

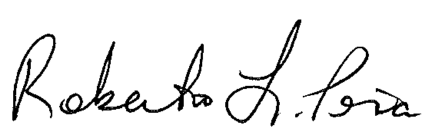
On June 24, 2011 a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) to provide an alternative to the existing 401(h) outside of the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. Employer contributions to the new trust were made in fiscal year 2012. Employee contributions continue to be made into the 401(h) account and will continue until the System is in receipt of a private letter ruling from the Internal Revenue Service on the tax qualified status of the new trust, the pre-tax treatment of employee contributions to the trust, and other assurances. On August 6, 2013, the City obtained a private letter ruling from the Internal Revenue Service confirming the pre-tax treatment of employee contributions to the 115 Trust. It has not been determined when employee contributions will begin to go into the 115 Trust.

Requests for Information

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

Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

Respectfully Submitted,



Roberto L. Peña
Director

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

June 30, 2013 and 2012 (In Thousands)

	2013		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Assets:			
Receivables:			
Employee contributions	$ 1,466	$ 184	$ 1,650
Employer contributions	860	479	1,339
Brokers and others	501	35	536
Accrued investment income	2,687	178	2,865
Total receivables	**5,514**	**876**	**6,390**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	226,293	14,444	240,737
International fixed income	3	-	3
Collective short-term investments	126,723	8,164	134,887
Global equity	1,009,521	104,966	1,114,487
Private equity	65,341	4,171	69,512
Forward international currency contracts	649	41	690
Opportunistic investments	143,328	9,149	152,477
Real assets	84,846	9,607	94,453
Real estate	108,045	6,897	114,942
Total investments	**1,764,749**	**157,439**	**1,922,188**
TOTAL ASSETS	**1,770,263**	**158,315**	**1,928,578**
Liabilities:			
Payable to brokers	5,111	337	5,448
Other liabilities	3,606	283	3,889
TOTAL LIABILITIES	**8,717**	**620**	**9,337**
Plan Net Position - Restricted for:			
Pension benefits	1,761,546	-	1,761,546
Postemployment healthcare benefits	-	157,695	157,695
TOTAL PLAN NET POSITION	**$ 1,761,546**	**$ 157,695**	**$ 1,919,241**

See accompanying notes to basic financial statements.

(Continued)

STATEMENTS OF PLAN NET POSITION (continued)

June 30, 2013 and 2012 (In Thousands)

	2012		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Assets:			
Receivables:			
Employee contributions	$ 1,659	$ 304	$ 1,963
Employer contributions	369	318	687
Brokers and others	1,611	117	1,728
Accrued investment income	3,076	221	3,297
Total receivables	**6,715**	**960**	**7,675**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	153,150	12,756	165,906
International fixed income	2,013	167	2,180
Collective short-term investments	230,176	19,171	249,347
Corporate convertible bonds	47,294	3,940	51,234
Pooled fixed income	32,886	2,739	35,625
Global equity	326,054	27,157	353,211
Pooled global equity	451,236	37,583	488,819
Private equity	88,137	7,341	95,478
Forward international currency contracts	418	34	452
Opportunistic investments	77,427	6,449	83,876
Real assets	154,547	12,872	167,419
Real estate	86,649	7,216	93,865
Total investments	**1,649,987**	**137,425**	**1,787,412**
TOTAL ASSETS	**1,656,702**	**138,385**	**1,795,087**
Liabilities:			
Payable to brokers	4,089	295	4,384
Other liabilities	3,364	292	3,656
TOTAL LIABILITIES	**7,453**	**587**	**8,040**
Plan Net Position - Restricted for:			
Pension benefits	1,649,249		1,649,249
Postemployment healthcare benefits	-	137,798	137,798
TOTAL PLAN NET POSITION	**$ 1,649,249**	**$ 137,798**	**$ 1,787,047**

See accompanying notes to basic financial statements. *(Concluded)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions:			
Contributions:			
Employee	$ 12,652	$ 15,979	$ 28,631
Employer	103,109	21,251	124,360
Total contributions	**115,761**	**37,230**	**152,991**
Investment income:			
Net appreciation in fair value of investments	129,549	11,584	141,133
Interest income	13,623	907	14,530
Dividend income	10,753	1,868	12,621
Less investment expense	(7,558)	(542)	(8,100)
Net investment income	**146,367**	**13,817**	**160,184**
TOTAL ADDITIONS	**262,128**	**51,047**	**313,175**
Deductions:			
Retirement benefits	136,075	-	136,075
Healthcare insurance premiums	-	30,943	30,943
Death benefits	9,187	-	9,187
Refund of contributions	1,545	-	1,545
Administrative expenses and other	3,024	207	3,231
TOTAL DEDUCTIONS	**149,831**	**31,150**	**180,981**
NET INCREASE	**112,297**	**19,897**	**132,194**
Plan Net Position - Restricted for Pension and Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**1,649,249**	**137,798**	**1,787,047**
END OF YEAR	**$ 1,761,546**	**$ 157,695**	**$ 1,919,241**

See accompanying notes to basic financial statements.

(Continued)

STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2012		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions:			
Contributions:			
Employee	$ 10,555	$ 14,995	$ 25,550
Employer	87,082	25,834	112,916
Total contributions	**97,637**	**40,829**	**138,466**
Investment income:			
Net appreciation in fair value of investments	(98,855)	(7,811)	(106,666)
Interest income	27,026	2,031	29,057
Dividend income	9,350	1,138	10,488
Net rental income	520	39	559
Less investment expense	(7,073)	(547)	(7,620)
Net investment loss before securities lending income	**(69,032)**	**(5,150)**	**(74,182)**
Securities lending income:			
Earnings	88	7	95
Rebates	84	6	90
Fees	(43)	(3)	(46)
Net securities lending income	**129**	**10**	**139**
Net investment loss	**(68,903)**	**(5,140)**	**(74,043)**
TOTAL ADDITIONS	**28,734**	**35,689**	**64,423**
Deductions:			
Retirement benefits	126,001	-	126,001
Healthcare insurance premiums	-	33,077	33,077
Death benefits	8,601	-	8,601
Refund of contributions	2,195	-	2,195
Administrative expenses and other	3,306	268	3,574
TOTAL DEDUCTIONS	**140,103**	**33,345**	**173,448**
NET INCREASE/(DECREASE)	**(111,369)**	**2,344**	**(109,025)**
Plan Net Position - Restricted for Pension and Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**1,760,618**	**135,454**	**1,896,072**
END OF YEAR	**$ 1,649,249**	**$ 137,798**	**$ 1,787,047**

See accompanying notes to basic financial statements. *(Concluded)*

Notes to Basic Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

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

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

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

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

On June 24, 2011, a new Internal Revenue Code Section 115 trust was established by the San José City Council under the provisions of San Jose Municipal Code Chapter 3.52 (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling was filed with the Internal Revenue Service on October 17, 2011 on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust. It was anticipated that employee contributions to the 115 Trust will commence following receipt of a private letter ruling from the Internal Revenue Service on the pre-tax treatment of employee contributions to the Trust. On August 6, 2013, the City obtained a private letter ruling from the Internal Revenue Service confirming the pre-tax treatment of employee contributions to the 115 Trust. As of this date, it has not been determined when employee contributions will begin to go into the 115 Trust.

On August 18, 2012, the System received a favorable tax determination letter from the Internal Revenue Service for the Pension Trust, which includes the Defined Benefit Pension Plan and the 401(h) portion of the Postemployment Healthcare Plan.

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

Effective January 20, 2013, pursuant to City of San Jose Ordinance #29184, unclassified executive management and professional employees in Unit 99 who are first hired after on or after that date, may make a one-time irrevocable election to participate in either a newly created Defined Contribution Plan or become a Tier 2 participant in the Federated City Employees' Retirement System. The System does not administer or hold the assets of the Defined Contribution Plan.

All full-time and eligible part-time employees of the City are required to be members of the System, except unclassified executive management and professional employees in Unit 99 who are first hired on or after January 20, 2013 and have made an irrevocable election to participate in the Defined Contribution Plan, pursuant to San Jose Municipal Code Chapter 3.49 instead of Tier 2 of the Defined Benefit Plan. Also excluded are employees who are members of the City's Police and Fire Department Retirement Plan.

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, and by the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided and funded directly by the City.

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2013 and 2012, employee membership data related to the System was as follows:

Defined Benefit Pension Plan:	2013 Tier I	2013 Tier 2	2012 Tier I
Retirees and beneficiaries currently receiving benefits *	3,711	0	3,602
Terminated and/or vested members not yet receiving benefits	994	7	969
Active members	2,856	238	3,076
Total	**7,561**	**245**	**7,647**
Postemployment Healthcare Plan:	**2013 Tier I**	**2013 Tier 2**	**2012 Tier I**
Retirees and beneficiaries currently receiving benefits	3,125	0	3,062
Terminated vested members not yet receiving benefits	121	0	111
Active members	2,856	238	3,076
Total	**6,102**	**238**	**6,249**

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

(b) Pension Benefits

A Tier 1 employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service, not to exceed 108% of compensation paid to the member during the second highest consecutive 12 month period, excluding the months used to calculate the highest 12 months. Final average salary excludes overtime pay and expense allowances. In addition, retirement benefits are adjusted by an annual cost-of-living allowance (COLA) of 3% per year.

Members hired or rehired on or after September 30, 2012, as a Tier 2 employee, with five or more years of service and who reach the normal retirement age of 65 are entitled to annual pension benefits equal to 2% of final average annual salary for each year of service up to a maximum benefit of 65% of final compensation. Final compensation is the average annual salary during the highest 3 years of consecutive service. Final average salary is base pay only, excluding premium pays or other additional compensation. However, a Tier 2 employee with five or more years of service who reaches age 55 may retire with an actuarial equivalent reduction. In addition, Tier 2 retirement benefits are adjusted for an annual cost-of-living allowance (COLA), which is 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 1.5% per fiscal year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions are forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, a member with less than five years of service may leave contributions in the System.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

(c) Death Benefits

If a Tier 1 employee's death before retirement is service related, or is non-service related (and the employee has at least five years of service), a surviving spouse or registered domestic partner is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse or registered domestic partner remarries if the member was a least 55 years old and had at least 20 years of service. If there is no surviving spouse or registered domestic partner, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal or registered domestic partner benefit such that no one child shall receive more than 25% of the spousal or registered domestic partner benefit and the sum for all eligible children shall not exceed 75% of the spousal or registered domestic partner benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

If a Tier 1 employee dies after retirement, $500 is paid to the employee's beneficiary or estate. In addition, the employee's eligible surviving spouse or eligible registered domestic partner continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse or registered domestic partner, 25% of the spouse or registered domestic partner's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse or registered domestic partner. An optional retirement allowance is available.

If the Tier 2 employee's death before retirement is service related, a surviving spouse or registered domestic partner is paid a monthly benefit equal to 50% of final compensation until he or she remarries or dies. If a Tier 2 employee's death before retirement is non-service related and they are not eligible to retire, the Tier 2 employee's retirement contributions, plus interest will be paid to their surviving spouse or surviving registered domestic partner. If there is no surviving spouse or domestic partner the Tier 2 employee's estate will receive the Tier 2 employee's retirement contributions, plus interest. If a Tier 2 employee's death before retirement is not service related and the Tier 2 employee would have been eligible to retire, a surviving spouse or registered domestic partner is paid the retirement allowance that would have been payable to the Tier 2 employee, until the surviving spouse or registered domestic partner dies. If there is no surviving spouse or domestic partner, the Tier 2 employee's estate shall be entitled to receive the Tier 2 employee's accumulated contributions, plus interest.

If a Tier 2 employee dies after retirement there will only be a survivorship payment paid if at the time of retirement the Tier 2 employee elected to receive a lower pension benefit to provide a survivorship benefit to a spouse, registered domestic partner, child or children. The survivorship allowance is calculated by the Board's actuary for a 50%, 75% or 100% continuance that is actuarially equivalent to the spouse, registered domestic partner, child or children designated at the time of retirement. No additional survivorship benefits are provided.

(d) Disability Benefits

If a Tier 1 employee suffers a service related disability before retirement, the annual disability benefit paid is 40% of the final average salary. For members with more than 16 years of service, the annual disability benefit is the final average salary multiplied by 40% plus the final average salary multiplied by 2.5% for each year over 16. The maximum benefit is 75% of the final average salary.

If a Tier 1 employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

If a Tier 1 employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of six but less than 16, plus 2.5% of final compensation for years of service in excess of 16.

If a Tier 2 employee suffers a service related disability before retirement, the annual disability benefit paid is 50% of the final average salary.

If a Tier 2 employee with at least five years of service suffers a non-service related disability before retirement, the annual disability benefit paid is 2% of final compensation multiplied by the number of years of service (minimum of 20% of final compensation and up to a maximum 50% of final compensation).

For Tier 1 recipients of a disability retirement allowance who are under 55 years of age, the amount of the allowance is subject to reduction for outside employment as set forth in the San Jose Municipal Code.

Tier 2 recipients of a disability retirement allowance who are under 65 years of age receive an allowance that is subject to reduction for outside employment as set forth in the San Jose Municipal Code.

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired Tier 1 and Tier 2 employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active System City employee, as defined in the Municipal Code. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage if the member retires directly from City service.

Effective September 30, 2012 for Tier 2 members and effective January 4, 2013 for Tier 1 members, a member and/or dependent and/or survivor who is eligible for retiree healthcare benefits and who is eligible for Medicare coverage shall be required to enroll in Medicare Part A and B within six months of reaching the age of 65, or before July 1, 2013 if already age 65 on September 30, 2012 for Tier 2 or January 4, 2013 for Tier 1, and enroll in a Medicare medical plan provided by the System.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The System is reported in a pension trust fund in the City of San José's basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as additions when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period). Benefits and refunds of contributions are recognized when due and payable under the provisions of the plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required by the municipal code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

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

(c) Investments

The City of San José Municipal Code Charter 3.28.355 delegates authority to the Board of Administration to invest the monies of the System as provided in Section 3.28.355. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.28.355.

In fiscal year 2012, the board approved an asset allocation that increases the level of allocation to absolute return strategies and real assets and reduces the allocation to equity and fixed income. The asset allocation was prepared to align the expected returns of the System to the liabilities as determined in the June 30, 2011 valuations. The System's investment asset allocation is as follows:

Pension:

Equity and Real Estate – Target of 45%
    (Minimum 38% / Maximum 52%)
Fixed Income – Target of 10%
    (Minimum 5% / Maximum 20%)
Absolute Return Strategies – Target 25%
    (Minimum 20% / Maximum 30%)
Real Assets – Target 20%
    (Minimum 15% / Maximum 25%)

Healthcare:

Global Equity – Target of 59%
    (Minimum 53% / Maximum 65%)
Fixed Income – Target of 28%
    (Minimum 23% / Maximum 33%)
Real Assets – Target 13%
    (Minimum 8% / Maximum 18%)

The System's investment policy authorizes the System to invest in global equity; global fixed income; alternatives including real estate, real assets (infrastructure, timber, natural resources, and commodities), hedge funds (absolute return), private equity, and opportunistic assets; short-term investments; and securities lending. 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. Derivative investments are reported at fair value. 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 as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals.   Per the System's Real Estate Investment Guidelines, mortgage

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value.

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.

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

The System is required by the City of San José Municipal Code to establish various reserves in the plan net position. The Plan Net Position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan, which includes the 401(h) and 115 Trust. As of June 30, 2013 and 2012, plan net position, totaling $1,919,241,000 and $1,787,047,000, respectively, is allocated as follows (In Thousands):

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.

Supplemental Retiree Benefit Reserve (SRBR) was a reserve that represented funds permitted by statute to be set aside from the Retirement Fund's net investment earnings to provide supplemental benefits to eligible retirees and beneficiaries. The reserve represents the accumulation of 10% of total accumulated excess earnings of the Retirement Fund plus credited interest on the reserve balance at the lesser of the Plan's actual rate of return or the actuarial rate of return for the fiscal year, but never less than 0%, minus distributions to eligible retirees and beneficiaries from the reserve. Transfer amounts to the SRBR were prepared by the System's actuary

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Postemployment Healthcare Plan 401(h)	Postemployment Healthcare (115)	Postemployment Healthcare Plan	Total
June 30, 2013:							
Employee contributions	$ 184,878	$ 41,370	$ 226,248	$ 61,613	$ -	$ 61,613	$ 287,861
General reserve	1,107,482	427,816	1,535,298	52,324	43,758	96,082	1,631,380
TOTAL	**$1,292,360**	**$ 469,186**	**$ 1,761,546**	**$ 113,937**	**$ 43,758**	**$ 157,695**	**$ 1,919,241**
June 30, 2012:							
Employee contributions	$ 183,840	$ 40,331	$ 224,171	$ 46,270	$ -	$ 46,270	$ 270,441
Supplemental retiree benefit	43,109	-	43,109	-	-	-	43,109
General reserve	980,853	401,116	1,381,969	69,707	21,821	91,528	1,473,497
TOTAL	**$ 1,207,802**	**$ 441,447**	**$ 1,649,249**	**$ 115,977**	**$ 21,821**	**$ 137,798**	**$ 1,787,047**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

from the fiscal year ended June 30, 2009 onward. Interest on the SRBR balance is calculated and transferred at the end of the fiscal year. Excess earnings transfers were computed based on audited financial statements and if applicable the transfer was made effective on the first day of the next fiscal year by Board Resolution.

On December 4, 2012 the City adopted Ordinance # 29174 to discontinue the SRBR. This ordinance will affect all members. The System's actuary, Cheiron, Inc. (Cheiron) prepared an additional schedule in the June 30, 2012 valuation showing the effect of the SRBR elimination. In the fiscal year ended June 30, 2013, the funds held in the SRBR were credited to the General Reserve.

Cheiron prepared the excess earnings and SRBR primary interest amounts in 2012 based on the audited June 30, 2011 financial statements. Cheiron prepared and the Board adopted and declared an excess earnings transfer amount of $12.53 million from the pension general reserve to the SRBR reserve effective July 1, 2011. In addition, Cheiron computed the SRBR distribution amounts in accordance with Board policy of approximately $6.6 million to eligible retirees and beneficiaries as per San Jose Municipal Code for fiscal year ended June 30, 2011. However, due to Council Resolution number 76235, distribution of funds from the SRBR were continued to be suspended for fiscal year ended June 30, 2012.

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

e) Implementation of Governmental Accounting Standards Board Statement

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure of net assets as net position. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. As of July 1, 2011, the System adopted the above GASB standards, which did not have a significant impact on its financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. As of June 30, 2013 and 2012, the System's derivative instruments are considered investments and not hedges for accounting purposes. The implementation of Statement No. 64 does not have a significant impact on the financial statements for the fiscal years ended June 30, 2013, and 2012. Disclosure details for investment derivative instruments can be found in the Derivatives subsection of Note 3.

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 fluctuate 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. As of June 30, 2012, $12,215,000 of bank loan securities were floating rate securities tied to the one and three month London Interbank Offered Rate (LIBOR).

The system also had exposure to interest rate risk on its fully collateralized infrastructure swaps. The System invested in infrastructure swaps with a notional amount of $92,292,000 at June 30, 2013, in which it receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The System used to be invested in commodities swaps that received the total return United States three month treasury bill rate plus 10 to 12 basis

NOTE 3 – INVESTMENTS (Continued)

points, however, the investment was terminated in August 2012 as part of the plan transition. As of June 30, 2012, the System invested in infrastructure swaps with a notional amount of $74,041,000 in which it received the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 55 basis points. The System also invested in commodities swaps with a notional amount of $226,788,000 at June 30, 2012, in which it receives the total return United States three month treasury bill rate plus 10 to 12 basis points.

The System does not have a policy regarding interest rate risk, however, the System does settle swap activity on a transaction plus one day basis (T+1), therefore limiting the System'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, 2013 and 2012, concerning the fair value of investments and interest rate risk:

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2013 and 2012, all of the System's investments are held in the System's name, and/or not exposed to custodial credit risk.

Credit Quality Risk – 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 System's investment policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). "Yankee" bonds issued by foreign countries and denominated in U.S. dollars are allowed so long as they are rated Baa/BBB or better by Moody's or S&P. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used.

INVESTMENT MATURITIES AT FAIR VALUE AS OF JUNE 30, 2013

(Dollars In Thousands)

	Maturities							
	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								
Domestic fixed income								
Asset Backed Securities	$ -	$ -	$ -	$ -	$ -	$ 1,835	$ 1,835	$ 2,449
Bank Loans	-	3,397	-	-	-	-	3,397	3,397
Guaranteed Invesment Contracts	-	-	-	5,684	119,082	376	125,142	125,895
U.S. Treasury Inflation Protected Securities	-	-	67,290	-	43,073	-	110,363	111,555
Total Domestic fixed income	**-**	**3,397**	**67,290**	**5,684**	**162,155**	**2,211**	**240,737**	**243,296**
Collective short term investments	**134,887**	**-**	**-**	**-**	**-**	**-**	**134,887**	**135,228**
International Fixed Income	**-**	**-**	**-**	**-**	**3**	**-**	**3**	**3**
TOTAL FIXED INCOME	**$ 134,887**	**$ 3,397**	**$ 67,290**	**$ 5,684**	**$ 162,158**	**$ 2,211**	**$ 375,627**	**$ 378,535**

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE AS OF JUNE 30, 2012

(Dollars In Thousands)

	Maturities							
	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								
Domestic fixed income								
Asset backed securities	$ 2,025	$ -	$ -	$ 2,020	$ -	$ -	$ 4,045	$ 6,042
Bank loans	-	1,142	-	11,375	-	-	12,517	11,036
Corporate bonds	-	636	-	15,073	5,367	3,799	24,875	20,602
TIPS	-	-	-	82,931	41,538	-	124,469	120,522
Total Domestic fixed income	**2,025**	**1,778**	**-**	**111,399**	**46,905**	**3,799**	**165,906**	**158,202**
International fixed income	**-**	**-**	**-**	**2,176**	**4**	**-**	**2,180**	**1,987**
Collective short-term investments	**249,347**	**-**	**-**	**-**	**-**	**-**	**249,347**	**249,701**
Corporate convertible bonds	**-**	**-**	**4,369**	**32,015**	**3,601**	**11,249**	**51,234**	**50,560**
Pooled fixed income	**-**	**-**	**-**	**-**	**2,672**	**32,953**	**35,625**	**29,216**
TOTAL FIXED INCOME	**$ 251,372**	**$ 1,778**	**$ 4,369**	**$ 145,590**	**$ 53,182**	**$ 48,001**	**$ 504,292**	**$ 489,666**

Should a current holding fall below this standard, the manager shall notify the System of the downgrade and confer with the System staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control.

The System may hedge against the possible adverse effects of currency fluctuations on the System's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

The following table provides information as of June 30, 2012 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $110,363,000 and $124,470,000 as of June 30, 2013 and 2012, respectively, are not considered to have credit risk and are excluded from the table on the right.

Although some investments overlap from fiscal year 2012 to fiscal year 2013, the managers who bear credit risk from fiscal year 2012 were terminated fiscal year 2013 as part of the plan transition. As of June 30, 2013, the System only held TIPS and Intermediate Government Bonds, both of which were U.S. government-issued instruments hence no credit risk.

There is no table providing information as of June 30, 2013 concerning credit risk because the fixed-income investments that carried such risk were terminated in October 2012 as part of a plan transition.

RATINGS OF FIXED INCOME INVESTMENTS

as of June 30, 2012 (Dollars In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 2,696	0.7%
A	8,844	2.3%
BBB	15,559	4.1%
BB	15,186	4.0%
B	10,083	2.6%
CCC & Below	1,718	0.5%
Not Rated	325,736	85.8%
TOTAL	**$ 379,822**	**100.0%**

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the System's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

Notes to Basic Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

The following tables provide information as of June 30, 2013 and 2012, concerning the fair value of investments and foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

as of June 30, 2013 (Dollars In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Austalian Dollar	$ (23)	$ -	$ 6,297	$ -	$ (63)	$ 6,211
Canadian Dollar	(3)	-	20,506	-	(44)	20,459
Euro Currency	126	8,773	10,192	-	(88)	19,003
Hong Kong Dollar	800	-	1,958	-	12	2,770
Hungarian Forint	5	-	42	-	-	47
Indian Rupee	-	-	-	-	331	331
Indonesian Rupiah	3	-	622	-	-	625
Israeli Shekel	19	-	627	-	-	646
Japanese Yen	490	-	3,628	-	137	4,255
Malaysian Ringgit	4	-	1,388	-	-	1,392
Mexican Peso	9	-	561	-	-	570
Moroccan Dirham	1	-	9	-	-	10
Norwegian Krone	6	-	2,652	-	-	2,658
Philippine Peso	-	-	28	-	-	28
Polish Zloty	11	-	303	-	-	314
Pound Sterling	(168)	-	28,228	-	(80)	27,980
Singapore Dollar	1	-	1,063	-	-	1,064
South African Rand	134	-	1,174	-	485	1,793
South Korean Won	-	-	2,233	-	-	2,233
Swedish Krona	(24)	-	53	-	-	29
Swiss Franc	152	-	9,148	-	-	9,300
Thailand Baht	5	-	251	-	-	256
TOTAL	**$ 1,548**	**$ 8,773**	**$ 90,963**	**$ 0**	**$ 690**	**$ 101,974**

NOTE 3 – INVESTMENTS (Continued)

FOREIGN CURRENCY RISK ANALYSIS

as of June 30, 2012 (Dollars In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed Income	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 19	$ -	$ 10,014	$ -	$ 39	$ 10,072
British Pound Sterling	685	-	43,257	-	82	44,024
Canadian Dollar	(26)	-	5,757	-	31	5,762
Danish Krone	245	-	3,203	-	-	3,448
Euro Currency	640	9,252	36,405	5,016	285	51,598
Hong Kong Dollar	93	-	4,526	125	-	4,744
Israeli Shekel	2	-	384	-	-	386
Japanese Yen	405	-	38,855	5,536	(31)	44,765
New Taiwan Dollar	-	-	-	-	11	11
Norwegian Krone	91	-	4,371	-	43	4,505
Polish Zloty	-	-	-	-	-	-
Singapore Dollar	30	-	3,389	1,835	-	5,254
Swedish Krona	114	-	4,594	1,100	(8)	5,800
Swiss Franc	236	-	15,536	-	-	15,772
Turkish Lira	1	-	-	-	-	1
TOTAL	**$ 2,535**	**$ 9,252**	**$ 170,291**	**$ 13,612**	**$ 452**	**$ 196,142**

Concentration of Credit Risk – The System's investment policy limits investment managers to no more than 10% of the System's assets under their management to be invested in securities of any single issuer with exception of the U.S. Government and its agencies. As of June 30, 2013 and 2012, the System did not hold investments in any one issuer, excluding investments issued by or explicitly guaranteed by the U.S. Government that represented five percent or more of the total System net position or total investments.

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the System specifically prohibits investment managers from using derivative or synthetic securities that expose the System to potentially high price volatility or are leveraged, or whose marketability may become severely limited. Derivative 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 are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2013 or 2012. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

NOTE 3 – INVESTMENTS (Continued)

The fair values and notional amounts of derivative instruments outstanding as of June 30, 2013 and 2012, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2013 and 2012 financial statements are as follows (In Thousands):

DERIVATIVE INSTRUMENTS

as of June 30, 2013 (Dollars In Thousands)

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2013		Fair Value at June 30, 2013		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Shares**
Total Return Swaps	Investment Income	$ 28,383	Real Assets	$ (3,510)	92,292
Foreign Currency Forwards	Investment Income	(3,137)	Foreign Currency Contracts, net	690	271,575
Futures Options Bought/Written	Investment Income	(9,364)	Fixed Income - collective short-term investments	-	83
Rights/Warrants	Investment Income	(342)	Global equity	-	17
Total Derivative Instruments		**$ 15,540**		**$ (2,820)**	

DERIVATIVE INSTRUMENTS

as of June 30, 2012 (Dollars In Thousands)

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Shares**
Total Return Swaps	Investment Income	$ (7,849)	Real Assets	$ 13,552	300,829
Foreign Currency Forwards	Investment Income	(421)	Foreign Currency Contracts, net	445	46,207
Futures Options Bought/Written	Investment Income	(4,951)	Fixed Income - collective short-term investments	-	38,650
Rights/Warrants	Investment Income	99	Global equity	39	22
Total Derivative Instruments		**$ (13,122)**		**$ 14,036**	

NOTE 3 – INVESTMENTS (Continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2013 and 2012:

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. As of June 30, 2013, the System entered into infrastructure swaps with a notional amount of $92,292,000 held by counterparties with an S&P rating of A or higher. The System's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2013, total commitments in forward currency contracts to purchase and sell international currencies were $271,575,000 and $271,575,000 respectively, with fair values of $ 271,948,000 and $271,258,000, respectively, held by counterparties with S&P rating of A and above. As of June 30, 2012, the System entered into infrastructure and commodity swaps with notional amounts of $74,041,000 and $226,788,000, respectively, held by counterparties with A ratings. The System's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2012, total commitments in forward currency contracts to purchase and sell international currencies were $46,207,000 and $46,207,000 respectively, with fair values of $46,424,000 and $45,979,000, respectively, held by counterparties with S&P rating of A and above.

Interest Rate Risk – The System had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, net values are adjusted with unrealized gains and losses and are collateralized to minimize counterparty risk. As of June 30, 2013, the System invested in infrastructure swaps with notional amounts of $92,292,000. The System receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The infrastructure swaps were executed in April 2010, December 2011 and August 2012 and mature in October 2013, December 2013, and August 2013, respectively, with a quarterly rate reset frequency. The System used to be invested in commodities swaps that received the total return United States three month treasury bill rate plus 10 to 12 basis points, however, the investment was terminated in August 2012 as part of the plan transition. The System does not have a policy regarding interest rate risk, however, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk.

As of June 30, 2012, the System invested in infrastructure and commodity swaps with notional amounts of $74,041,000 and $ 226,788,000, respectively. The system receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The system also receives the total return United States three month Treasury bill rate plus 10 to 12 basis points for the commodities swaps. The System executed the infrastructure swap in April 2011, which matured in April 2012 with a quarterly rate reset frequency. As of June 30, 2013 and 2012, the System's derivative investments had maturity dates of less than one year.

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2013 and 2012 the System's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The System's commitments relating to forward currency contracts are settled on a net basis.

NOTE 3 – INVESTMENTS (Continued)

The following tables provide information as of June 30, 2013 and 2012, concerning the fair value of forward currency contracts and foreign currency risk:

FAIR VALUE OF FORWARD CURRENCY CONTRACTS AND FOREIGN CURRENCY RISK

as of June 30, 2013 (In Thousands):

2013

Currency Name	Pending Foreign Currency Exchanges
Australian Dollar	$ (63)
Britich Pound Sterling	(80)
Canadian Dollar	(44)
Euro Currency	(88)
Hong Kong Dollar	12
Japanese Yen	137
South African Rand	485
Indian Rupee	331
TOTAL	**$ 690**

FAIR VALUE OF FORWARD CURRENCY CONTRACTS AND FOREIGN CURRENCY RISK

as of June 30, 2012 (In Thousands):

2012

Currency Name	Pending Foreign Currency Exchanges	Rights
Australian Dollar	$ 39	$ -
British Pound Sterling	82	-
Canadian Dollar	32	-
Euro Currency	279	39
Japanese Yen	(31)	-
New Taiwan Dollar	11	-
Norwegian Krone	41	-
Swedish Krona	(8)	-
TOTAL	**$ 445**	**$ 39**

NOTE 4 – SECURITIES LENDING PROGRAM

The San José Municipal Code and the investment policy adopted by the Board permit the use of a securities lending program with its principal custodian bank. The System does not have a threshold for securities lending activity. The investment policy requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The System had a custodial agreement with the Northern Trust Company, which authorized the Northern Trust Company to lend securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deemed advisable and to permit the lent securities to be transferred into the name of the borrowers. As of August 15, 2011, the System exited the Northern Trust securities lending program. The System exited Northern Trust custodian bank services; State Street acquired the custodian bank services for the System. The System decided not to participate in State Street's securities lending program.

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

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 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

In November 2010, the Board adopted a funding policy setting the annual required contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The annual required contribution determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013 was the greater of $102,971,000 (if paid at the beginning of the fiscal year) or 44.45% of actual payroll for the fiscal year. The actual payroll for the fiscal year of $217,375,000 was less than the actuarial payroll of $240,187,000 resulting in an annual required contribution of $102,971,000 as of July 2, 2011, excluding year end contributions receivable and prior year contribution adjustments.

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

San Jose City Council Ordinance No. 29120 provides Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan as described in Note 1. In addition, the contribution rate for Tier 2 members includes a change in the cost sharing between the City and active Tier 2 members which is a 50/50 split of all costs, including UAL. Currently, Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the unfunded actuarial accrued liability (UAAL) is generally not shared with the Tier 1 employees. The prepayment made by the City on July 2, 2012 was not adjusted when Tier 2 became effective.

The annual required contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $86,888,000 (if paid at the beginning of the fiscal year) or 28.34% of actual payroll for the fiscal year. The actual payroll for the fiscal year of $224,742,000 was less than the actuarial payroll of $318,544,000 resulting in an annual required contribution of $86,888,000 as of July 1, 2011, excluding year end contributions receivable and prior year contribution adjustments.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funded Status for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2013 and 2012 were as follows:

Period	City Tier I	City Tier 2	Employee Tier I	Employee Tier 2
06/23/13- 06/30/13	50.85%	6.68%	5.97%	6.68%
09/30/12- 06/22/13		6.68%		6.68%
06/24/12- 06/22/13	44.45%		5.74%	
06/26/11- 06/23/12	28.34%		4.68%	

** The actual contribution rates paid by the City for fiscal years ended June 30, 2013 and June 30, 2012 differed due to the City funding the annual required 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.*

The funded status of the Defined Benefit Pension Plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (In Thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2012	$1,762,973	$2,841,000	$1,078,026	62%	$225,859	477%

The UAAL of $1,078.0 million does not include the impact of approximately $113.7 million of accumulated deferred investment losses resulting primarily from unfavorable investment losses in fiscal years 2009 and 2012, which are offset by deferred gains relating to fiscal years 2010 and 2011. The System's actuarial valuation uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. It is anticipated that future actuarial valuations will recognize the remaining net deferred investment losses of approximately $113.7 million as described above.

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The June 30, 2012 valuation did not change any assumptions from the 2011 valuation. However, the System's AAL increased by approximately $71 million due primarily to the earning of additional benefits and interest, offset by benefit payments.

The System's UAAL increased from $981.6 million as of June 30, 2011 to $1,078.0 million as of June 30, 2012. The increase in the UAAL was primarily due to investment losses. On December 4, 2012 the City Council approved an Ordinance to eliminate the Supplemental Retiree Benefit Reserve.

The Board approved taking the elimination of the SRBR into consideration for the June 30, 2012 Valuation. The increase in the UAAL would have been approximately $43.1 million higher without this action.

The June 30, 2011 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over a closed period of 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2012 valuation is 27.2 years.

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 continual revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future.

The contribution rates for fiscal years ended June 30, 2013 and 2012, were based on the actuarial valuations performed on June 30, 2011 and 2010, respectively, except for the period June 23 through June 30, 2013, which were based on the June 30, 2012 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	Method/Assumption		
Valuation date	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. SRBR elimination to be amortized over 20 years.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Assumed rate of return on investments (net)	7.50% per annum	7.50% per annum	7.95% per annum
Postretirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.	The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.

Notes to Basic Financial Statements *(Continued)*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

Description	Method/Assumption		
Valuation date	June 30, 2012	June 30, 2011	June 30, 2010
Actuarial assumptions (continued):			
Active service, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience	Tables based on current experience
Salary increases	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.	The base annual rate of salary increase is 3.90%wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.
Projected total payroll increases	3.25%	3.25%	3.90%
Cost of Living Adjustment	Tier 1 – 3% per year; Tier 2 – fluctuates with actual inflation and capped at 1.5%	Tier 1 – 3%	Tier 1 – 3%

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The Schedule of Funding Progress for the Defined Benefit Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the employer in comparison to the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating employees. Contribution rates for fiscal years ended June 30, 2013 and 2012 were based on the actuarial valuation performed as of June 30, 2011 and 2010, respectively. The contribution rates for the majority of fiscal year ended June 30, 2013 (through period ended June 22, 2013) were based on the actuarial valuation performed on June 30, 2011. The System's most recent valuation as of June 30, 2012, was used to determine the contribution rates effective June 23, 2013.

Prior to July 1, 2009, annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions were not sufficient to meet the requirements of an annual required contribution under GASB Statement No. 43. Effective June 28, 2009, the bargaining units representing the Federated members of the System entered into a Memorandum of Agreement (MOA) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions over the next five years; fiscal year ended June 30, 2013 was the fourth year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the MOA further provides that by the end of the five-year phase-in the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the Federated members entered into an amendment to the MOA that extended the incremental increase limitation of not more than 0.75% of pensionable pay for fiscal year ending June 30, 2014. In addition, the 0.75% limitation is extended to December 20, 2014; beginning on December 21, 2014, the contribution rates will be based on the full ARC for the remainder of the fiscal year ending June 30, 2015 and all subsequent fiscal years.

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

In addition, in November 2010, the Board adopted a funding policy setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The annual contribution determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013 was the greater of $18,033,000 (if paid on 07/02/2012) or 7.91% of actual payroll for the fiscal year.

The actual payroll for the fiscal year of $217,375,000 was less than the actuarial payroll of $240,187,000 resulting in an annual contribution of $18,033,000 as of July 1, 2012, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The annual contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $21,471,000 (if paid on 07/01/2011) or 7.16% of actual payroll for the fiscal year. The actual payroll for the fiscal year of $224,742,000 was less than the actuarial payroll of $318,544,000 resulting in an annual contribution of $21,471,000 as of July 1, 2011, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2013 and 2012 for the Postemployment Healthcare Plan were as follows:

Period	City* (Tier 2 eff. 9/30/12)	Employee (Tier 2 eff. 9/30/12)
06/23/13 – 06/30/13	8.66%	8.01%
06/24/12 – 06/22/13	7.91%	7.26%
06/26/11 – 06/23/12	7.16%	6.52%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2013 and June 30, 2012 differed due to the City funding the annual required 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.*

The funded status of the Postemployment Healthcare Plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (In Thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2012	$ 137,798	$ 1,096,620	$ 958,822	13%	$ 225,859	425%

As of June 30, 2012, the System's most recent valuation, the System's UAAL decreased by $51.1 million primarily due to changes in the health plans offered and assumptions as recommended by the Board's actuary. The OPEB discount rate decreased from 6.10% used in the June 30, 2011 OPEB valuation to 4.80% used in the June 30, 2012 OPEB valuation. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.30%) and the expected return on the Plan's invested assets (7.50%) resulting in a blended discount rate of 4.80%.

Medical plan changes were effective January 1, 2012 eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plans. In addition, medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to actives and therefore the basis for

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. These medical plan changes greatly affected the medical plan election assumption used by the actuary as more retirees selected the lower cost medical plans.

As of June 30, 2011, the System's UAAL increased by approximately $192 million from the prior year primarily due to the decrease in the blended GASB discount rate of return from 6.71% to 6.10% and changes in actuarial assumptions as recommend by the Board's actuary in the June 30, 2010 experience study. The System's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 6.10%. The June 30, 2011 valuation included a reduction in expected return on City assets from 4.5% to 4.0% and in the System's expected return from 7.95% to 7.5%. Actuarial assumption changes in the June 30, 2011 valuation also included changes in the wage inflation, salary merit increases, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rates assumptions. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the $25 co-pay plans offered for the first time by the City.

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 the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The contribution rates for fiscal years ended June 30, 2013 and 2012, were based on the actuarial valuations performed on June 30, 2011 and 2010, respectively, except for the period June 23 through June 30, 2013, which were based on the June 30, 2012 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**		
Valuation date	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	Market value	Market value	Market value
Actuarial assumptions:			
Assumed rate of return on investments (net)	7.50% per annum	7.50% per annum	7.95% per annum
Discount rate (net)	4.80% †	6.10% †	6.71% †
Wage inflation rate	3.25%	3.25%	3.90%
Salary increases	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 14+ ranging from 4.50% to 0.25% at the 15th year of service.	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.
Projected total payroll increases	3.25%	3.25%	3.90%

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

Description	Method/Assumption		
Valuation date	June 30, 2012	June 30, 2011	June 30, 2010
Healthcare cost trend rate:			
Medical	The valuation assumes that future medical inflation will be at a rate of 8.8% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.63% to 4.5%per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5%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 9.50% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 7.0% to 4.5%per annum graded down over a 15 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.50% in the first year and 4% thereafter.	Dental inflation is assumed to be 4.50% graded down to 4% over a three year period.	Dental inflation is assumed to be 5% graded down to 4% over a four year period.

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Benefit Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Benefit Plan presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 – COMMITMENTS

As of June 30, 2013, the System had unfunded commitments to contribute capital for private market fund investments in the amount of $ 99,210,000.

NOTE 8 – SUBSEQUENT EVENTS

New Benefit Tier – On August 27, 2013, the City Council approved an ordinance eliminating retiree medical and dental benefits for Tier 2 employees hired on or after September 27, 2013 (Ordinance #29283). The ordinance also stated that the City shall bear and pay an amount equal to the additional costs incurred by the retirement system for that portion of the unfunded liability as determined by the actuary of the retirement system that the city and the new employees hired on or after September 27, 2013, would have otherwise paid as contributions had those employees been eligible for retiree healthcare. The additional payment by the City shall be for a period of time and under the terms and conditions set forth by the City Council. At their September19, 2013 meeting, the Board of Administration for the system, approved the additional contribution rate to be paid by the City in compliance with the ordinance. The rate was based on the Tier 2 contribution rates from the June 30, 2012 actuarial valuation approved by the board.

Required Supplementary Information (Unaudited)

SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (b)	Unfunded AAL as a % of Annual Covered Payroll
June 30, 2007	$ 1,622,851	$ 1,960,943	$ 338,092	83%	$ 291,405	116%
June 30, 2009	1,756,588	2,486,155	729,567	71%	308,697	236%
June 30, 2010	1,729,414	2,510,358	780,944	69%	275,869	283%
June 30, 2011	1,788,660	2,770,227	981,567	65%	228,936	429%
June 30, 2012	1,762,973	2,841,000	1,078,026	62%	225,859	477%

(a) *Reported at "smoothed market" value determined using a technique that smooths the effect of short-term volatility in the market value of investments over a five-year period.*

(b) *Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2012 and the 2011. The amount presented for the June 30, 2007, 2009, and 2010 valuations represents actual annual covered payroll.*

As of June 30, 2012, the System's most recent valuation, the System's funded ratio declined from 65% to 62%, the AAL increased by $70.8 million and the UAAL increased by $96.5 million. The increase in the UAAL was primarily due to investment losses. On December 4, 2012 the City Council approved an Ordinance to eliminate the Supplemental Retiree Benefit Reserve. The Board approved taking the elimination of the SRBR into consideration for the June 30, 2012 valuation. The increase in the AAL would have been approximately $43.1 million higher without this action.

Beginning with the June 30, 2011 valuation, the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2012 valuation is 27.2 years compared to 25.2 years for the June 30, 2011 valuation.

In the June 30, 2011 valuation, the System's funded ratio declined from 69% to 65%, the AAL increased by $259.9 million, and the UAAL increased by $200.6 million. The increase in the UAAL was primarily due to the assumption changes. The June 30, 2011 valuation included a change in the expected rate of return from 7.95% to 7.50% and a change in the payroll wage inflation assumption from 3.90% to 3.25%. In addition, the Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at 0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees.

As of the June 30, 2010, the System's funded ratio declined from 71% to 69%, the AAL increased by $24 million, and the UAAL increased by $51.4 million primarily due to recognition of deferred investment losses in accordance with the System's actuarial valuation method. The June 30, 2010, valuation also included assumption changes for the expected rate of return from 7.75% to 7.95% and a change in the payroll wage inflation assumption from 3.83% to 3.90%. The increase in the discount rate and payroll wage inflation rate assumptions are due to the transition to phasing in the discount and wage inflation rate over two-years ending June 30, 2011 instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period, which was originally adopted by the Federated Board for fiscal year 2010-2011 contributions. However, the City elected to fund the annual required contribution amount for fiscal year 2010-2011 and not fund the phase-in impact of the assumption change.

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

For the six fiscal years ended June 30, 2013
(Dollars In Thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions*	Percentage Contributed
2008	$ 54,958	100%
2009	57,020	100%
2010	54,566	100%
2011	59,180	100%
2012	87,082	100%
2013	103,109	100%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ARC has been reduced to reflect the additional employee contributions pursuant to MOAs with certain bargaining units.*

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll[1]	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2007	$96,601	$616,749	$520,148	16%	$271,833	191%
06/30/2009	85,564	796,448	710,884	11%	308,697	230%
06/30/2010	108,011	926,371	818,360	12%	275,869	297%
06/30/2011	135,454	1,145,359	1,009,905	12%	228,936	441%
06/30/2012	137,798	1,096,620	958,822	13%	225,859	425%

(1) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2012 and the 2011.The amount presented for the June 30, 2007, 2009, and 2010 valuations represents actual annual covered payroll.

As of June 30, 2012, the System's most recent valuation, the System's UAAL decreased by from $1,009.9 million to $958.8 million. The System's UAAL decreased by approximately $51.0 million primarily due to changes in the health plans offered and assumptions as recommended by the Board's actuary. The Board also approved a change in methodology in developing the blended discount rate to eliminate the one-year lag between when changes are reflected in the valuation by using the ARC based on the current valuation rather than the prior valuation. The System's discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.30%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 4.80%. This resulted in a decrease in the blended GASB discount rate from 6.10% to 4.80%. The June 30, 2012 valuation included a reduction in the expected return on the City assets from 4.0% to 3.30%., medical plan changes effective January 1, 2012 eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plans. In addition, medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to actives and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-

Medicare eligible members. These medical plan changes greatly affected the medical plan election assumption used by the actuary as more retirees selected the lower cost medical plans.

The June 30, 2012 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2012 valuation is 24.8 years compared to 25.1 years for the June 30, 2011 valuation.

As of June 30, 2011, the System's UAAL increased from $818.4 million to $1,009.9 million. The System's UAAL increased by approximately $191.5 million due to the decrease in the blended GASB discount rate from 6.71% to 6.10% and changes in actuarial assumptions as recommend by the Board's actuary in the June 30, 2010 experience study. The System's discount rate is based on a blended rate that ranged between the expected return on the City's unrestricted assets (4.0%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 6.10%. The June 30, 2011 valuation included a reduction in the expected return on the City assets from 4.5% to 4.0% and in the System's expected return from 7.95% to 7.50%. Actuarial assumption changes in the June 30, 2011 valuation also included changes in the wage inflation, salary merit increases, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rates assumptions. In addition, the Board approved the actuary's recommendation to explicitly include administrative expenses valued at 0.70% of payroll as an addition to normal cost in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the $25 co-pay plans offered for the first time by the City.

As of the June 30, 2010 valuation, the System's UAAL increased from $710.9 million as of June 30, 2009 to $818.4 million as of June 30, 2010. Changes to the UAAL were primarily the result of interest on the UAAL and changes in the actuarial assumptions including the following: increases in claims costs, the extension of the select period for healthcare trends from 9 years to 15 years, and the increase in the payroll wage inflation assumption from 3.83% to 3.90%. The System's OPEB discount rate was based on the blended rate between the expected return on City assets (4.5%) and the expected return on System's assets (7.95%) resulting in a blended discount rate of 6.71% in the June 30, 2010 valuation. The lengthening of the healthcare trend assumption select period was recommended by the Board's actuary due to the System's current retiree experience and the actuary's expectation for the future.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars In Thousands)

Fiscal Year Ended	Annual Required Contributions*	Actual Contributions	Percentage Contributed
06/30/2008	$38,526	$11,560	30%
06/30/2009	33,381	16,368	49%
06/30/2010	38,599	17,027	44%
06/30/2011	47,593	17,146	36%
06/30/2012	67,583	25,834	39%
06/30/2013	57,331	21,251	37%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of $1.6 million for 2009; $4.0 million for 2010; $3.9 million for 2011; $4.4 million for 2012; and $3.1 million for 2013. The actual contributions include year-end contributions receivable and prior year contribution adjustments.*

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

June 30, 2013 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living	Total
Assets			
Receivables:			
Employee contributions	$ 1,428	$ 38	$ 1,466
Employer contributions	-	860	860
Brokers and others	390	111	501
Accrued investment income	2,017	670	2,687
Total receivables	**3,835**	**1,679**	**5,514**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	166,109	60,184	226,293
International fixed income	2	1	3
Collective short-term investments	93,020	33,703	126,723
Global equity	741,189	268,332	1,009,521
Private equity	47,963	17,378	65,341
Forward international currency contracts	476	173	649
Opportunistic investments	105,209	38,119	143,328
Real assets	62,281	22,565	84,846
Real estate	79,310	28,735	108,045
Total investments	**1,295,559**	**469,190**	**1,764,749**
TOTAL ASSETS	**1,299,394**	**470,869**	**1,770,263**
Liabilities			
Payable to brokers	3,825	1,286	5,111
Other liabilities	3,209	397	3,606
TOTAL LIABILITIES	**7,034**	**1,683**	**8,717**
Plan Net Position - Restricted For:			
Pension benefits	1,292,360	469,186	1,761,546
TOTAL NET POSITION	**$ 1,292,360**	**$ 469,186**	**$ 1,761,546**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For Fiscal Year Ended June 30, 2013 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living	Total
Additions			
Contributions			
Employee	$ 9,579	$ 3,073	$ 12,652
Employer	81,372	21,737	103,109
Total contributions	**90,951**	**24,810**	**115,761**
Investment income:			
Net appreciation in fair value of investments	96,975	32,574	129,549
Interest income	10,171	3,452	13,363
Dividend income	8,028	2,725	10,753
Less investment expense	(5,622)	(1,936)	(7,558)
Net investment Income	**109,552**	**36,815**	**146,367**
TOTAL ADDITIONS	**200,503**	**61,625**	**262,128**
Deductions			
Retirement benefits	106,885	29,190	136,075
Death benefits	5,472	3,715	9,187
Refund of contributions	1,339	206	1,545
Administrative expenses and other	2,250	774	3,024
TOTAL DEDUCTIONS	**115,946**	**33,885**	**149,831**
NET INCREASE	**84,557**	**27,740**	**112,297**
Plan Net Position - Restricted For Pension Benefits			
BEGINNING OF YEAR	**1,207,803**	**441,446**	**1,649,249**
END OF YEAR	**$ 1,292,360**	**$ 469,186**	**$ 1,761,546**

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET POSITION

June 30, 2013 (Dollars in Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Postemployment Healthcare Plan
Assets:			
Receivables:			
Employee contributions	$ 184	$ -	$ 184
Employer contributions	-	479	479
Brokers and others	35	-	35
Accrued investment income	178	-	178
Total receivables	**397**	**479**	**876**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	14,444	-	14,444
Collective short-term investments	8,089	75	8,164
Global equity	65,953	39,013	104,966
Private equity	4,171	-	4,171
Forward international currency contracts	41	-	41
Opportunistic investments	9,149	-	9,149
Real assets	5,416	4,191	9,607
Real estate	6,897	-	6,897
Total investments	**114,160**	**43,279**	**157,439**
TOTAL ASSETS	**114,557**	**43,758**	**158,315**
Liabilities:			
Payable to brokers	337	-	337
Other liabilities	283	-	283
TOTAL LIABILITIES	**620**	**-**	**620**
Plan Net Position - Restricted For:			
Postemployment healthcare benefits	113,937	43,758	157,695
TOTAL NET POSITION	**$ 113,937**	**$ 43,758**	**$ 157,695**

Other Supplemental Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT PLAN NET POSITION

For Fiscal Year Ended June 30, 2013 (Dollars in Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Postemployment Healthcare Plan
Additions:			
Contributions:			
Employee	$ 15,979	$ -	$ 15,979
Employer	-	21,251	21,251
Total contributions	**15,979**	**21,251**	**37,230**
Investment income:			
Net appreciation in fair value of investments	8,918	2,666	11,584
Interest income	935	(28)	907
Dividend income	738	1,130	1,868
Less investment expense	(517)	(25)	(542)
Net investment income	**10,074**	**3,743**	**13,817**
TOTAL ADDITIONS	**26,053**	**24,994**	**51,047**
Deductions:			
Healthcare insurance premiums	27,886	3,057	30,943
Administrative expenses and other	207	-	207
TOTAL DEDUCTIONS	**28,093**	**3,057**	**31,150**
NET INCREASE/(DECREASE)	**(2,040)**	**21,937**	**19,897**
Plan Net Position - Restricted For Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**115,977**	**21,821**	**137,798**
END OF YEAR	**$ 113,937**	**$ 43,758**	**$ 157,695**

Other Supplementary Information *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2013 and 2012

	2013			2012
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services	$ 2,491,862	$ 1,897,542	$ 594,320	$ 1,931,311
Non-personnel/equipment	770,265	683,101	87,164	693,031
Professional services	903,526	650,465	253,061	949,233
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 4,165,653**	**$ 3,231,107**	**$ 934,546**	**$ 3,573,575**

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2013 and 2012

Firm	Nature of Service	2013	2012
Alliance Resource Consulting LLP	Executive Recruitment	$ 30,157	$ -
Center for Executive Solutions	Executive Training	3,170	-
Cheiron Inc	Actuarial Consultant	96,188	306,144
Cortex Applied Research, Inc.	Temporary Staff	48,698	92,888
Financial Knowledge/Peter Sepsis	Educational Services	11,404	11,348
Ice Miller	Legal Tax Counsel	1,942	469
L.R. Wechsler, LTD	Pension System Consultant	31,738	145,478
Legal - City Attorney's Office	Legal Counsel	-	48,740
Levi, Ray, & Shoup	Web Development and Maintenance	13,350	11,595
Levi, Ray, & Shoup	Programing Changes and Business Continuance Services	6,679	7,474
Macias Gini & O'Connell LLP	External Auditors	42,432	55,186
Medical Director/Other Medical	Medical Consultant	60,476	59,843
Pension Benefit Information	Reports on Deceased Benefit Recipients	2,476	1,999
Reed Smith LLC	Fiduciary and General Counsel	126,360	75,463
Robert Half Mangement Resources	Temporary Staff	1,688	50,579
Saltzman & Johnson	Legal Counsel	67,580	35,691
Silicon Valley Professional Staffing	Temporary Staff	69,740	15,090
Trendtec Inc.	Temporary Staff	36,386	31,246
TOTAL		**$ 650,465**	**$ 949,233**

Other Supplementary Information *(Continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Investment Managers' fees		
Equity:		
Global Equity:	$ 1,855,603	$ 2,480,131
Private equity	782,525	1,050,762**
Total equity	**2,638,128**	**3,530,893**
Fixed Income:		
Global fixed income	336,463	582,779
Total fixed income	**336,463**	**582,779**
Real estate	1,206,881	1,367,162
Real assets	847,433	463,684
Opportunistic	2,054,243	1,026,055
TOTAL INVESTMENT MANAGERS' FEES	**7,083,148**	**6,970,573**
Other Investment Fees		
Investment consultant	508,750	410,000
Custodian bank	323,193	198,607
Proxy voting	18,748	14,495
Real estate legal fees	13,710	1,097
Investment legal fees	152,617	25,289
Total other investment service fees	**1,017,018**	**649,488**
TOTAL INVESTMENT EXPENSES	**$ 8,100,166**	**$ 7,620,061**

*** In fiscal year 2012 the System transitioned custodian banks and began incurring fees. Also, in fiscal year 2012 the System sold its only separately held real estate property and no longer incurred real estate appraisal fees.*

Investment Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

MEKETA INVESTMENT GROUP

BOSTON MIAMI SAN DIEGO

August 23, 2013

Mr. Roberto Peña
Director
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Peña:

As fiscal year 2013 began, investors were focused on the European debt crisis and its potential impact on global capital markets. In late June 2012, Eurozone leaders agreed that rescue funds could be used to recapitalize troubled banks. In July, European Central Bank president Mario Draghi pledged to do "whatever it takes" to preserve the Euro, adding to investor optimism and sparking another rally in the capital markets during the third quarter of calendar 2012. The MSCI EAFE Index, a proxy for the developed international equity market, returned 6.9% during the third quarter, while the Russell 3000 Index climbed 6.2% during the quarter. The MSCI Emerging Markets Index also rose on the renewed hopes in Europe, up 7.7% for the quarter.

Relative stability in Europe during the fourth quarter of calendar 2012 drove the MSCI EAFE Index up another 6.6%. Investors felt a stronger Europe would help export demand in emerging markets, helping the MSCI Emerging Markets Index to rise 5.6%. In the United States, the headlines were dominated by the Presidential election and the pending fiscal cliff. Seemingly paralyzed by political banter during the quarter, domestic markets were essentially flat in the last quarter of the calendar year.

With the elections in the rear-view mirror and the fiscal cliff averted, the domestic markets rose dramatically during the first quarter of calendar 2013, due to better economic data and assurance from the Fed that monetary policy would remain accommodative for as long as necessary. The Russell 3000 Index rose 11.1% during the quarter. On the other hand, concerns over demand for raw materials in China led to a 1.1% decline in commodities, as proxied by the Dow Jones-UBS Commodity Index. The MSCI Emerging Markets Index declined as well (down 1.6%), as a number of countries in the emerging market index rely upon commodity exports to drive economic output.

Comments by Fed President Ben Bernanke dominated headlines and the capital markets during the second quarter of calendar 2013. Bernanke stated that the Fed may trim its bond buying if officials saw sustained improvement in the economy and labor markets. With the prospect of lower demand for Treasuries, investors sold bonds in anticipation of higher interest rates sooner

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than expected. This situation caused the yield on the 10-year Treasury to rise from a low of 1.7% on May 2nd to 2.5% by quarter end; the Barclays Aggregate Index declined 2.3% during the quarter. Investors also assumed that less government stimulus would lead to lower inflationary pressures, causing the Barclays TIPS Index to fall 7.1% during the quarter. The potential for less government stimulus and higher interest rates also led to equity market declines in the U.S. during June, though the Russell 3000 posted a 2.7% return for the quarter. Slowing growth in China led to further declines in the MSCI Emerging Markets Index (-8.1%) and the Dow Jones-UBS Commodity Index (-9.5%).

Over the full fiscal year, developed market equities performed very well. The Russell 3000 Index and the MSCI EAFE Index were up 21.5% and 18.6%, respectively. In contrast, the MSCI Emerging Markets Index was up just 2.9% due to reduced growth expectations, the slowdown in China, and currency depreciation versus the U.S. dollar. Due to the selloff in the second quarter of calendar 2013, the Barclays Aggregate index declined 0.7% for the fiscal year, while the Barclays U.S. TIPS Index fell 4.8%.

In the alternative assets space, the Dow Jones-UBS Commodity Index fell 8.1% for the fiscal year. The Hedge Fund Research Institute Fund of Funds Composite rose 7.4% for the fiscal year. Private market assets were positive as well. The National Council of Real Estate Fiduciaries Property Index returned 10.7%, and the Venture Economics Private Equity Composite returned 13.2%. Returns for both private market indexes are lagged by one quarter due to the availability of data.

Fiscal 2014 Outlook

Meketa Investment Group believes that four issues remain of primary concern over the next year: continued economic sluggishness and financial risk in Europe, increasing real interest rates globally, the potential for a rapid slowdown in China impacting other emerging economies, and increased geopolitical tensions around the world. We believe economic growth will continue to be slow for developed economies due to an increase in yields, government austerity, and high unemployment. We believe emerging economies will experience higher, but volatile, economic growth. Slower growth in China and the recent increase in real interest rates and reduction in global liquidity will likely cause growth in emerging markets to be lower than in recent years.

Subdued growth in developed economies and slowing growth in developing economies coupled with higher interest rates should keep inflation at moderate levels. If central banks begin to reduce their historic monetary stimulus, inflationary pressures may decline further, while if they continue their current

August 23, 2013
Page **3** of **4**

course, the risk remains for inflation to pick up. A small risk of deflation also exists in developed economies.

Plan Investment Results and Asset Allocation for Pension Trust

For fiscal year 2013, the San Jose Federated City Employees' Retirement System returned 8.1% gross of fees and 8.0% net of fees[1], while the Custom Benchmark return for the same time period was 9.0%. The Retirement System underperformed the median fund in the InvestMetrics universe of public funds greater than $1 billion, which returned 12.4% gross of fees for the fiscal year. Although the Retirement System underperformed the InvestMetrics universe, fiscal year performance exceeded the actuarial rate of return of 7.5%, which it has done in three of the past four fiscal years.

The underperformance relative to other public pension funds is related to three main factors.

- *Lower allocation to Domestic Equities:* Because of the strong performance of domestic equities during the fiscal year period, funds with lower than average allocations to the asset class generally had less robust returns, while funds with higher than average allocations to this asset class exceeded the norm.
- *Higher allocation to Emerging Market Equities:* The Retirement System's asset allocation includes a higher-than-average allocation to emerging market stocks. Over the long-term, emerging market equities have significantly outperformed U.S. equities, and are expected to do so over long-term periods in the future. However, for fiscal year 2013, U.S. stocks outperformed emerging market stocks by approximately 19%, creating a significant short-term drag on portfolios with higher emerging market allocations. This difference was particularly acute during the last two quarters of the fiscal year.
- *Higher Allocation to Inflation-Protected Assets:* The Retirement System's asset allocation policy includes a 20% allocation to real assets (commodities, natural resources, and infrastructure) that are designed to protect the Plan from periods of rising inflation. The Plan's allocation to these areas is somewhat higher than other public funds. During fiscal year 2013, U.S. inflation and inflationary expectations remained low, so inflation-protected assets underperformed assets like U.S. equities, which can be expected to perform better during periods of low inflation.

[1] Meketa Investment Group uses the Global Investment Performance Standards (GIPS) developed by the CFA Institute as a guide to calculating performance.

August 23, 2013
Page **4** of **4**

Partially offsetting the headwinds described above, factors benefiting the Retirement System during the fiscal year were a lower allocation to fixed income, shorter duration fixed income exposure, and outperformance by the System's active equity managers.

Plan Investment Results and Asset Allocation for Health Care Trust

For fiscal year 2013, the San Jose Federated Retiree Health Care Trust Fund returned 9.0% net of fees. The Board of Trustees evaluated the Health Care Trust's asset allocation during the fiscal year, and determined that it is expected to support the Trust's long-term expected rate of return.

Summary

Performance for the San Jose Federated City Employees' Retirement System during fiscal year 2013 exceeded the actuarial rate of return. We believe that the Retirement System's portfolio is diversified in a way that provides for achieving long-term returns to meet the Retirement System's obligations and objectives. During fiscal year 2014, Meketa Investment Group looks forward to working with Staff and the Board of Trustees to further implement the target asset allocation and enhance the investment manager roster, so that the Retirement System can continue to meet its obligations to participants.

Sincerely,

Laura Wirick, CFA, CAIA
Senior Vice President

Stephen P. McCourt, CFA
Managing Principal

Brad Regier, CFA, CAIA
Vice President

LBW/cds

Statement of Investment Policy

PENSION - INCLUDES THE 401(H) INVESTMENTS

1) This investment policy statement governs investments for the City of San Jose Federated City Employees' Retirement System. The System is a defined benefit retirement program for certain employees of the City of San Jose in the State of California. The terms of the System are described in the San Jose Municipal Code Chapter 3.28.1975 Federated Employees Retirement Plan.

2) The System's fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the System's members and beneficiaries.

INVESTMENT OBJECTIVES

3) The primary objective of the investment portfolio is to satisfy the System's obligations to pay benefits to members of the System and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.

4) The investment portfolio also seeks to achieve a long-term rate of return that exceeds the return of a composite benchmark of the respective long-term normal asset mix weighting of the major asset classes.

5) A range of risks will be monitored in connection with the Fund, with an emphasis on the following:
   - a) The impact of the investment program on the funded status of the System and the resulting volatility of contributions.
   - b) Risk of loss of System assets.

6) In developing the investment policies of the System, various factors will be considered including, but not limited to:
   - a) The structure and duration of the System's liabilities.
   - b) Modern Portfolio Theory.
   - c) The portfolio management practices followed by other institutional investors.
   - d) The liquidity needs of the System.

FIDUCIARY STANDARDS

7) The Board of Administration is subject to the following duties under law:[1]
   - a) The assets of the retirement System are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the System.
   - b) The Board shall discharge its duties with respect to the System solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the System. The Board's duty to the members and their beneficiaries shall take precedence over any other duty.
   - c) The Board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

8) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the System's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

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

ASSET ALLOCATION

10) The long-term asset allocation of the Fund will be determined based on the results of an asset allocation study.

[1]Per section 350 of Chapter 3.28, 1975 Federated Employees Retirement Plan.

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

11) The current long-term asset allocation of the Fund (at market value) as of 12/15/2011 is set out below:

Federated City Employees' Retirement System

Broad Asset Class	Minimum	Target	Maximum
Equity (public & private equity, & real estate)	38%	45%	52%
Fixed Income (including private debt)	5%	10%	20%
Hedge Funds	20%	25%	30%
Real Assets	15%	20%	25%
Total		**100%**	

12) The Board is committed to implementing and maintaining the above long-term asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy, particularly with respect to illiquid asset classes such as real estate, hedge funds, and private debt. In such circumstance, the Board will monitor the status of the long-term asset allocation and seek to comply with the policy when it is possible and prudent to do so.

13) The long-term asset allocation of the Fund 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.

14) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the long-term asset allocation. The Investment Structure and any changes thereto do not necessarily require that an asset allocation study be performed.

REBALANCING

15) The asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund are to be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.

16) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges, also taking into account liquidity and transactional cost considerations. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines. The Retirement System will be rebalanced to tactical rather than long-term target allocations in circumstances where the Board of Trustees have approved a tactical allocation.

DIVERSIFICATION

17) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

LIQUIDITY MANAGEMENT

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

PROXY VOTING

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

20) 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

21) Investment managers should meet the following criteria in order to be considered to manage the assets of the System.

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

a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.

b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.

c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the System.

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

23) 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.

MONITORING INVESTMENT MANAGERS

24) The System's investment managers will be monitored on an ongoing basis and may be terminated by the System at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the System.

25) Quarterly performance of investment managers will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

26) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:

a) Failure to adhere to the terms of the contract between the manager and the System.

b) Loss of an investment professional(s) directly responsible for managing the System's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.

c) The sale of the investment management firm to another entity, or other change in ownership.

d) The purchase of another entity by the investment management firm.

e) Significant account losses and/or extraordinary addition of new accounts.

f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.

g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the System's assets at undue risk of loss.

DERIVATIVE SECURITIES

27) 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.

28) 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.

29) The Fund is currently authorized to use derivatives strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board-approved policy benchmark. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Fund.

30) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Fund may use derivatives that are contrary to paragraphs 28 and 29 above.

Statement of Investment Policy *(Continued)*

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

INVESTMENT RESTRICTIONS

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

INVESTMENT COSTS

32) The Board intends to monitor and control investment costs at every level of the System.
    - i) Professional fees will be negotiated whenever possible.
    - ii) Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
    - iii) If possible, assets will be transferred in-kind during manager transitions and Fund restructurings to eliminate unnecessary turnover expenses.
    - iv) Managers will be instructed to minimize brokerage and execution costs.

33) The Board will be provided reports on investment costs of the Fund at least annually.

VALUATION OF INVESTMENTS

34) The Fund's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.

35) 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

36) Appendix A contains additional policy guidelines concerning hedge funds.

37) Appendix B contains the long-term Policy Benchmark.

38) Appendix C contains language on private real estate.

39) Exceptions to this Investment Policy Statement must be approved by the Board.

POLICY REVIEW & HISTORY

40) This policy will be reviewed at least annually.

41) This policy was most recently reviewed on May 16, 2013.

Appendix A

HEDGE FUNDS

Objectives

1) The hedge fund portfolio will be managed to achieve the following portfolio objectives:
   a) Policy benchmark:
      Hedge Fund Research, Inc. Fund of Funds Composite
   b) Risk:
      Forecast annualized volatility between 5% and 11%
   c) Beta:
      Forecast beta to MSCI World <= 0.25

Portfolio Characteristics

2) The portfolio will be structured:
   a) To be a broadly diversified, global portfolio with superior risk return characteristics;
   b) To include multiple hedge fund managers and strategies;
   c) To have low correlation to traditional market indices, lowering overall portfolio risk; and
   d) To reduce downside participation in severe bear markets.

Target Allocation

Strategy	Target	Range
Relative Value	35%	25-40%
Event Driven	20%	15-25%
Equity Long/Short	15%	10-20%
Macro/Directional	30%	25-40%

Portfolio Constraints

3) The hedge fund portfolio will be subject to the following constraints:
   a) No aggregate investment with any single investment manager should represent more than 10% of the HF portfolio
   b) No initial investment with any single investment manager should represent more than 2.5% of the total plan
   c) No investment with any single manager should exceed 10% of the manager's total assets under management
   d) No single fund should contribute more than 15% to the hedge fund portfolio risk

4) Any breach of paragraph 3 above requires notification to the Investment Committee to discuss appropriate action.

Definition and use of Leverage

Leverage is a condition where the net potential monetary exposure of an obligation exceeds the value of the underlying assets, which support the obligation.

The underlying funds in the hedge fund portfolio shall use leverage in a prudent manner that is consistent with leverage applied in similar hedge fund strategies.

Staff and hedge fund consultant will monitor leverage levels at both the fund and total portfolio level.

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

Appendix B LONG-TERM POLICY BENCHMARK

Federated City Employees' Retirement System

Asset Class	Benchmark	Target (%)
Equity		
Global Equity	MSCI ACWI IMI	31%
Private Equity	Venture Economics Private Equity	9%
Real Estate	NCREIF Property Index	5%
Fixed Income		
Intermediate	Barclays Intermediate Government	2.5%
TIPS	Barclays US TIPS	1.25%
	Barclays US TIPS 1-5 Years	1.25%
Opportunistic	3-Month LIBOR + 5%	5%
Absolute Return		
	HFRI FoF Composite	25%
Real Assets		
	Risk Parity Commodities	10%
	CPI-U + 5% (Private Real Assets – Infrastructure, Natural Resources, Agriculture, and Timber)	10%

Appendix C PRIVATE REAL ESTATE

Definitions

Private Real Estate Funds are defined as interests in Real Estate Funds or Fund of Funds that invest in real estate assets ("Real Estate Funds"). Real estate assets are properties, including land and/or structures, designed for commercial or residential use.

Core real estate investments include both private and public investments. Private core real estate funds can be either open-ended or closed-ended, with the former being more common and typically providing additional liquidity options to investors.

Non-Core strategies generally encompass greater risk, whether through increased use of leverage, greater reliance on renovation or development, a focus on secondary markets, or a number of other factors. In return for taking on greater risk, investors in non-core real estate strategies expect to be compensated via higher returns. Non-core allocations can include strategies such as value-added, opportunistic, or real estate debt.

Investment Types

1) Examples of real estate assets in which Private Real Estate Funds may invest include, but are not limited to, the following types of properties:

   a) Apartment/multi-family

   b) Industrial

   c) Office

   d) Retail

   e) Residential

   f) Hotel

Direct Real Estate Investments

The San Jose Federated Employees' Retirement System previously maintained a separate set of Real Estate guidelines which were intended to govern direct investments in real estate assets. The Retirement System does not currently hold any direct real estate investments, so the prior guidelines are not applicable to the current portfolio. Should the Retirement System evaluate a direct real estate investment in the future, the prior guidelines will be updated.

Statement of Investment Policy

HEALTHCARE

1) This investment policy statement governs investments for the City of San Jose Federated City Employees' Retiree Health Care Trust Fund ("the Fund"). The Fund is an Internal Revenue Code Section 115 trust which was established on June 24, 2011. The Fund is outside of the Federated City Employees' Retirement System ("System") for the payment of retiree healthcare benefits in order to provide an alternative to the existing 401(h) account, which is within the System.

2) The Fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the members and beneficiaries of the System.

INVESTMENT OBJECTIVES

3) The primary objective of the investment portfolio is to provide a funding source for the subsidizing of postretirement healthcare benefits to members of the San Jose Federated City Employees' Retirement System and their beneficiaries.
   a) A range of risks will be monitored in connection with the Fund, with an emphasis on the risk of loss of Fund assets.

4) In developing the investment policies of the Fund, various factors will be considered including, but not limited to:
   a) The structure and duration of the Fund's liabilities.
   b) Modern Portfolio Theory.
   c) The portfolio management practices followed by other institutional investors.
   d) The liquidity needs of the Fund.

FIDUCIARY STANDARDS

5) The Trustees are subject to the following duties under law:[1]
   a) The assets of the Fund are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the Fund.
   b) The Trustees shall discharge their duties with respect to the Fund solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the Fund. The Trustees' duties to the members and their beneficiaries shall take precedence over any other duty.
   c) The Trustees shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
   d) The Trustees shall diversify the investments of the Fund so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Fund's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

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

ASSET ALLOCATION

8) The current asset allocation policy of the Fund (at market value) as of 12/31/2012 is set out below:

Federated City Employees' Retiree Health Care Trust Fund

Broad Asset Class	Minimum	Target	Maximum
Global Equity	53%	59%	65%
Fixed Income	23%	28%	33%
Real Assets	8%	13%	18%
Total		**100%**	

[1]Per section 350 of Chapter 3.28, 1975 Federated Employees Retirement Plan.

HEALTHCARE (continued)

9) The Trustees are committed to implementing and maintaining the above asset allocation policy, but also recognize that circumstances may arise where it is not possible or practical to timely implement or maintain the policy. In such circumstance, the Trustees will monitor the status of the asset allocation policy and seek to comply with the policy when it is possible and prudent to do so.

10) The asset allocation policy of the Fund will be reviewed at a minimum every five years.

11) The Trustees will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the asset allocation policy.

REBALANCING

12) The asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund are to be rebalanced, by Staff, to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.

13) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges, also taking into account liquidity and transactional cost considerations. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines. The Fund will be rebalanced to tactical rather than long-term target allocations in circumstances where the Trustees have approved a tactical allocation.

DIVERSIFICATION

14) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

LIQUIDITY MANAGEMENT

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

PROXY VOTING

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

HIRING & TERMINATING INVESTMENT MANAGERS

17) Investment managers should meet the following criteria in order to be considered to manage the assets of the Fund.

    a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.

    b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.

    c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the System.

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

HEALTHCARE (continued)

MONITORING INVESTMENT MANAGERS

19) The Fund's investment managers will be monitored on an ongoing basis and may be terminated by the Fund at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Fund.

20) The majority of the Fund's assets are currently passively managed, in which case the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

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

DERIVATIVE SECURITIES

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

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

24) The Fund is currently authorized to use derivatives strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board-approved policy benchmark. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Fund.

25) Given the nature of many commodity manager mandates, it is recognized and understood that commodity managers retained by the Fund may use derivatives that are contrary to paragraphs 23 and 24 above.

INVESTMENT RESTRICTIONS

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

INVESTMENT COSTS

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

Statement of Investment Policy *(Continued)*

VALUATION OF INVESTMENTS

28) The Fund's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.

29) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

OTHER

30) Appendix A contains the long-term Policy Benchmark.

31) Exceptions to this Investment Policy Statement must be approved by the Trustees.

POLICY REVIEW & HISTORY

32) This policy will be reviewed at least annually.

33) This policy was most recently reviewed on March 21, 2013.

Appendix A

LONG-TERM POLICY BENCHMARK

Federated City Employees' Retiree Health Care Trust Fund

Asset Class	Benchmark	Target (%)
Global Equity		
	Russell 3000	26.5%
	MSCI EAFE	26.5%
	MSCI Emerging Markets	6.0%
Fixed Income		
Investment Grade	Barclays Aggregate Float Adjusted	16.0%
TIPS	Barclays US TIPS	12.0%
Real Assets	Risk Parity Commodities	13.0%

Investment Professionals

As of June 30, 2013

Global Equity

Artisan Partners LP
Global Value Equity
San Francisco, CA

Eagle Asset Management
Small Cap Growth
St. Petersburg, FL

Northern Trust Global Investments
MSCI ACWI IMI Index
MSCI EAFE Index
MSCI EAFE Small Cap Index
MSCI Emerging Markets Index
Russell 3000 Index
Chicago, IL

RS Investments
Small Cap Value
San Francisco, CA

Vanguard (Healthcare Trust)
Developed Markets Index
Emerging Markets Stock Index
Russell 3000 Index
Valley Forge, PA

Vontobel
Global Emerging Markets
New York, NY

Private Equity

Great Hill Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Partners Group (US) LP
New York, NY

Pathway Capital Management, LLC
Irvine, CA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

Prudential Real Estate Investors
Newark, NJ

Public Fixed Income

Northern Trust Global Investments
Intermediate Government Bond Index
Chicago, IL

Russell Investments
Barclays U.S. TIPS
Seattle, WA

Vanguard (Healthcare Trust)
Inflation-Protected Securities
Total Bond Market Index
Valley Forge, PA

Private Debt

GSO Capital Partners
Direct Lending Account
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

White Oak Global Advisors, LLC
Direct Lending Account
San Francisco, CA

Real Assets

First Quadrant (Pension &
Healthcare Trusts)
Risk Parity Commodity Index
Pasadena, CA

Credit Suisse (Pension &
Healthcare Trusts)
Compound Risk Parity Commodity Index
San Francisco, CA

Northern Trust Global Investments
Global LargeMid Natural Resources
Chicago, IL

Russell Investments
S&P Global Infrastructure Swap
Seattle, WA

Absolute Return

Arrowgrass Capital Partners
International Fund
New York, NY

BlackRock
Global Ascent
San Francisco, CA

BlueCrest Capital Management
BlueTrend Fund
New York, NY

Brevan Howard Asset Management
Multi-Strategy Fund
New York, NY

Cantab Capital
Quantitative Fund
Cambridge, UK

Davidson Kempner Capital Management
Institutional Partners Fund
New York, NY

DE Shaw Group
Composite International Fund
New York, NY

Investment Professionals *(Continued)*

As of June 30, 2013

Absolute Return *(continued)*

Kepos Capital
Alpha Fund
New York, NY

Pine River Capital Management
Pine River Fund
Minnetonka, MN

Porter Orlin
Amici Fund
New York, NY

Sandler Associates
Sandler Plus Fund
New York, NY

Senator Investment Group
Global Opportunity Fund
New York, NY

Consultants

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investment Group – General Consultant
Carlsbad, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Co. LLC
San Francisco, CA

Portfolio Overlay Services

Russell Investments
Seattle, WA

Schedule of Investment Results for Pension Trust

GROSS AND NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods ending June 30, 2013

	One Year	Three Years	Five Years	Ten Years
Total Fund (gross of fees)	**8.1%**	**7.6%**	**3.4%**	**6.4%**
Total Fund (net of manager fees)	**8.0%**	**7.5%**	**3.2%**	**6.2%**
Total Fund Without Overlay (gross of fees)	**7.2%**	**7.6%**	**3.4%**	**6.4%**
Total Fund Without Overlay (net of manager fees)	**7.1%**	**7.4%**	**3.2%**	**6.2%**
Policy Benchmark	8.8%	9.1%	4.3%	6.5%
Master Trust Public Funds > $1 Billion (Median)	12.4%	11.6%	5.2%	7.5%
Total Global Equity	**17.8%**	**13.0%**	**N/A**	**N/A**
MSCI ACWI IMI	17.1%	12.6%	2.8%	8.0%
Total Real Estate	**9.7%**	**12.4%**	**-3.8%**	**6.5%**
NCREIF Property Index (lagged one quarter)	10.7%	13.1%	2.8%	8.6%
Total Private Equity	**9.6%**	**12.2%**	**3.9%**	**N/A**
Venture Economics PE Composite (lagged one quarter)	13.2%	13.9%	7.0%	13.4%
Total Hedge Fund	**N/A**	**N/A**	**N/A**	**N/A**
HFRI Fund of Funds Compositeter)	7.4%	3.0%	-0.6%	3.5%
Total Real Assets	**-10.1%**	**0.8%**	**N/A**	**N/A**
Custom Risk Parity Benchmark	-7.8%	N/A	N/A	N/A
S&P Global Infrastructure Index	8.9%	11.3%	0.1%	N/A
Dow Jones Commodities U.S. Index	-8.1%	-0.3%	-11.8%	1.2%
CPI-U + 5%	6.8%	7.4%	6.4%	7.6%
Total Public Fixed Income	**0.0%**	**4.6%**	**6.3%**	**5.5%**
Barclays U.S. TIPS	-4.8%	4.6%	4.4%	5.2%
Barclays U.S. TIPS 1-5 Year	-0.9%	2.3%	2.4%	N/A
Barclays Intermediate Government Bond Index	-0.6%	2.3%	3.8%	3.7%
Total Private Debt	**11.5%**	**N/A**	**N/A**	**N/A**
3-month LIBOR + 5%	5.4%	5.4%	5.8%	N/A

Basis of Calculation: *Time-Weighted Rate of Return*

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2013

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods ending June 30, 2013

	2Q2013	Calendar YTD	One Year	Since Inception
Total Fund (net of manager fees)	**-2.2%**	**1.2%**	**9.0%**	**4.7%**
Policy Benchmark	-2.2%	1.2%	8.7%	3.1%
Total Global Equity	**-0.1%**	**6.5%**	**19.1%**	**15.4%**
Global Equity HC Policy Benchmark	0.0%	7.0%	18.3%	15.2%
MSCI ACWI IMI	-0.5%	6.4%	17.1%	14.2%
Total Fixed Income	**-4.5%**	**-4.7%**	**-2.8%**	**0.5%**
Fixed Income HC Policy Benchmark	-4.4%	-4.6%	-2.4%	0.8%
Barclays Aggregate	-2.3%	-2.4%	-0.7%	1.8%
Barclays U.S. TIPS	-7.1%	-7.4%	-4.8%	-0.6%
Total Real Assets	**-9.5%**	**-13.9%**	**-11.2%**	**-13.2%**
Custom Risk Parity Benchmark	-7.5%	-11.4%	-7.8%	-10.4%

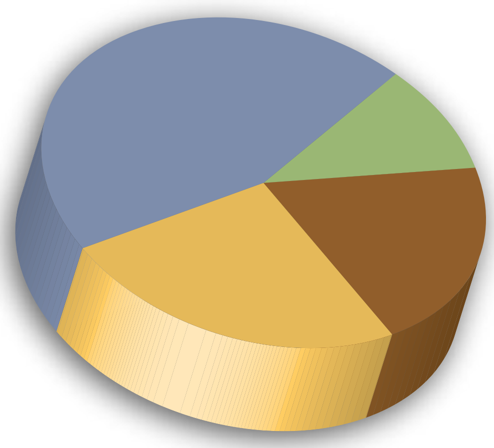
Basis of Calculation: *Time-Weighted Rate of Return*

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2013

Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

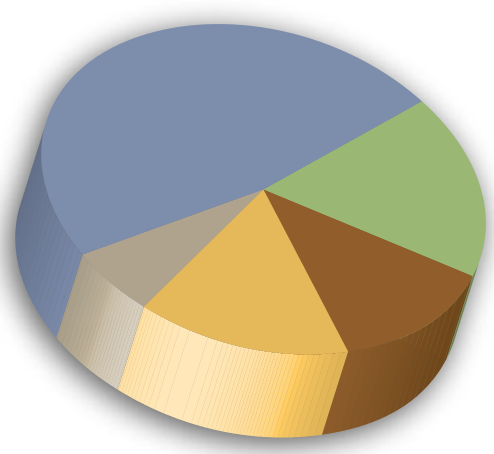
TARGET ASSET ALLOCATION *As of June 30, 2013*



Equity *(Public and private equity, and real estate)*	45%
Fixed Income	10%
Real Assets	20%
Hedge Funds	25%
	100%

ACTUAL ASSET ALLOCATION (Dollars in Millions)

As of June 30, 2013



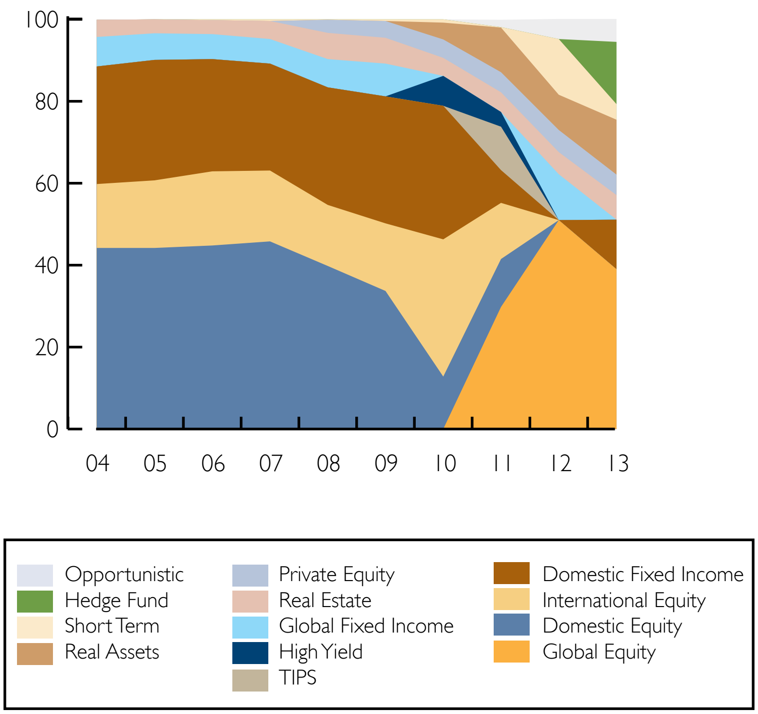
		$ in millions
Equity *(Public and private equity, and real estate)*	47.68%	$895.00
Fixed Income	17.60%	$330.78
Real Assets	13.51%	$253.85
Hedge Funds	15.13%	$284.33
Short Term	6.08%	$114.17
TOTAL	100.00%	$1,879.03

Non-GAAP basis

INCLUDES THE 401(H) INVESTMENTS (continued)

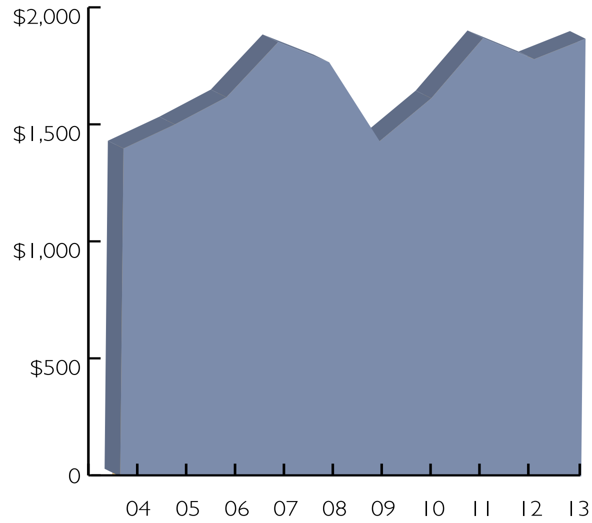
HISTORICAL ASSET ALLOCATION (Actual)

June 30, 2004- June 30, 2013



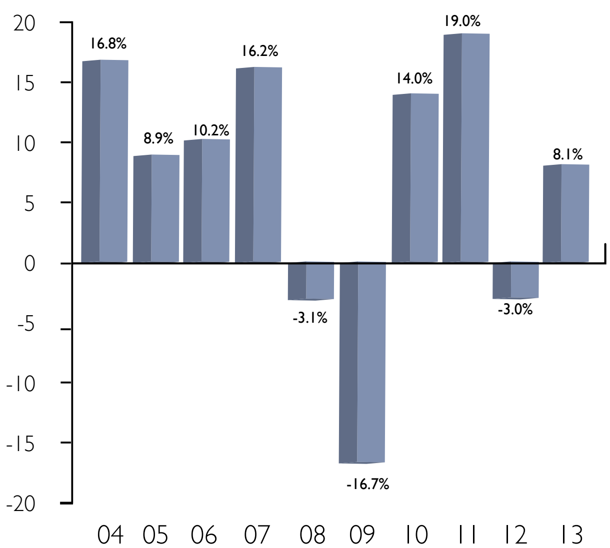
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2013 (Dollars in Millions)



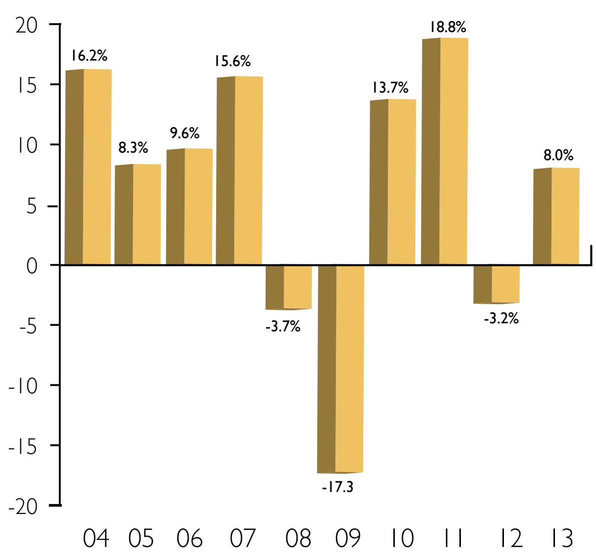
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2004 - 2013

(Based on Fair Value, Net)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2004 - 2013

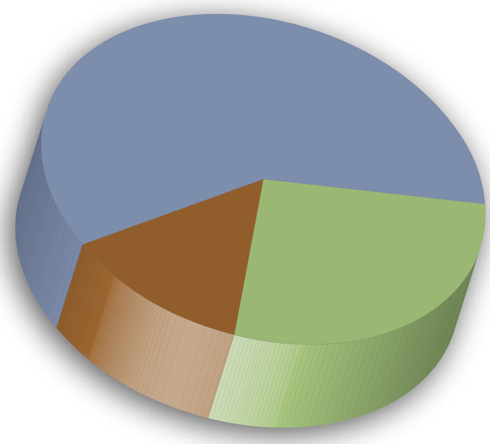
(Based on Fair Value, Net)



Healthcare Investment Review

115 TRUST

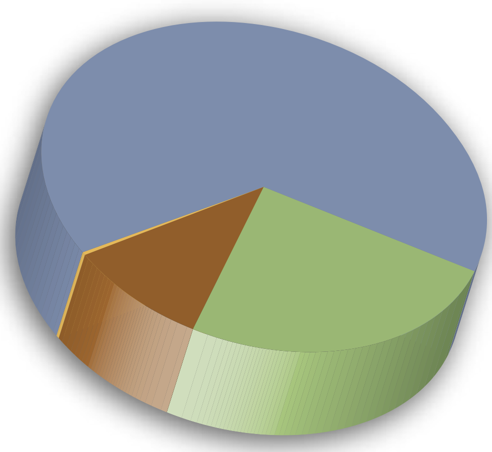
TARGET ASSET ALLOCATION *As of June 30, 2013*



	Global Equity	59%
	Fixed Income	28%
	Real Assets	13%
	Cash	0%
		100%

ACTUAL ASSET ALLOCATION (Dollars in Millions)

As of June 30, 2013

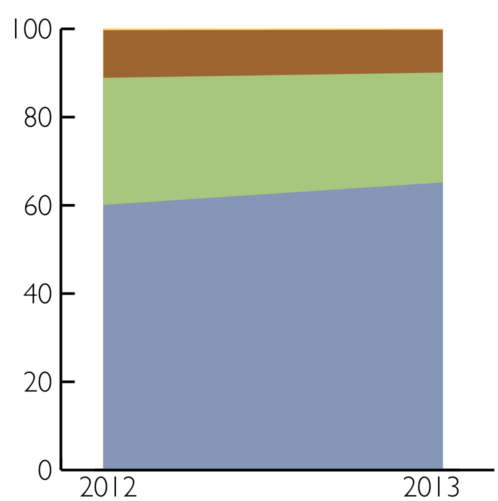


			$ in millions
	Global Equity	65.23%	$28.15
	Fixed Income	24.88%	$10.74
	Real Assets	9.71%	$4.19
	Cash	0.17%	$0.07
	TOTAL	100.00%	$43.16

Non-GAAP basis

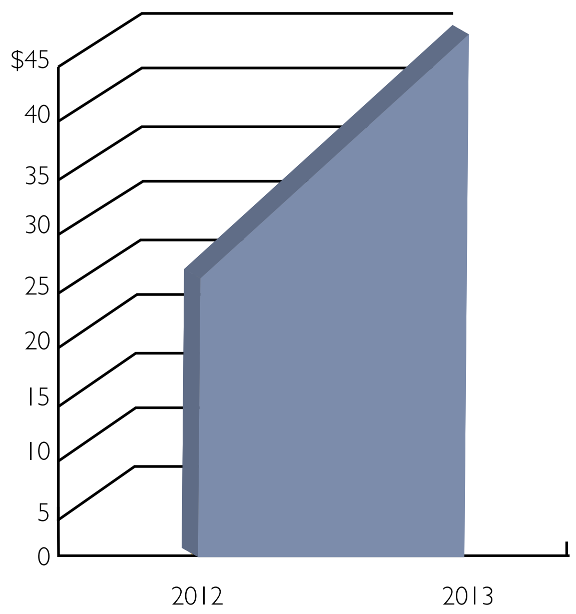
HISTORICAL ASSET ALLOCATION (Actual)

June 30, 2012- June 30, 2013

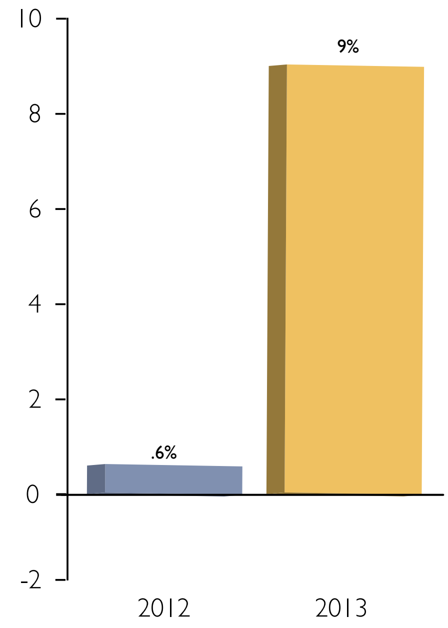


115 TRUST (continued)

MARKET VALUE GROWTH OF PLAN ASSETS
For Two Years Ended June 30, 2013 (Dollars in Millions)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2012 - 2013
(Based on Market Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Fair Value) For both Pension and Healthcare 115 Trusts

June 30, 2013

Description	Country	Shares	Market Value ($US)
VANGUARD RUSSELL 3000 INDEX (VRTTX) *	United States	90,741	$ 12,982,244
VANGUARD DEVELOPED MARKETS INDEX (VIDMX) *	Various Countries	1,274,508	$ 12,745,080
MONSANTO CO	United States	56,700	$ 5,601,960
TE CONNECTIVITY LTD	United States	102,785	$ 4,680,829
EXXON MOBIL CORP	United States	51,400	$ 4,643,990
POTASH CORP OF SASKATCHEWAN	United States	115,000	$ 4,373,477
AON PLC	United States	65,303	$ 4,202,248
BHP BILLITON LTD	United States	144,175	$ 4,139,918
GOOGLE INC CL A	United States	4,587	$ 4,038,257
COMPASS GROUP PLC	United States	306,153	$ 3,900,476

A complete list of portfolio holdings is available upon request.

** Represents investments in the Healthcare 115 Trust portfolio*

LARGEST BOND HOLDINGS (By Fair Value) For both Pension and Healthcare 115 Trusts

June 30, 2013

Security Name	Country	Maturity Date	Interest Rate	Par Value	Market Value ($US)
NT COL 1 10YR INT GOV BD IDX N	United States	12/31/2022	0.00	4,001,703	$ 114,560,748
TSY INFL IX N/B	United States	04/15/2014	1.25	66,531,129	$ 67,440,610
TSY INFL IX N/B	United States	01/15/2020	1.38	39,395,081	$ 42,922,122
VANGUARD TOTAL BOND MARKET INDEX (VBTIX) *	United States	VARIOUS	VARIOUS	N/A	$ 6,237,523
VANGUARD INFLATION-PROTECTED (VAIPX) *	United States	VARIOUS	VARIOUS	N/A	$ 4,668,455
BOWIE RESOURCES, LLC	United States	01/28/2016	14.00	4,545,320	$ 3,965,578
RELATIVITY MEDIA LLC	United States	01/02/2014	1.00	3,396,505	$ 3,396,505
NORTHERN BEEF PACKERS	United States	09/10/2014	0.00	3,277,571	$ 3,277,571
MONOSOL	United States	12/04/2022	5.00	2,425,722	$ 2,425,722
SELLING SOURCE PROTECTIVE AD	United States	01/31/2017	12.50	2,406,309	$ 2,406,309

A complete list of portfolio holdings is available upon request.

** Represents investments in the Healthcare 115 Trust portfolio*

Schedule of Investment Fees

For the Pension Trust for Fiscal Year Ended June 30, 2013

	Assets Under Management at Fair Value*	Fees	Basis Points
Investment Managers' Fees			
Global Equity	$ 686,373,547	$ 1,627,205	24
Private Equity	94,550,075	782,525	83
Real Estate	114,977,598	1,206,881	105
Global Fixed Income	225,559,466	160,568	7
Private Debt	105,225,215	2,054,243	195
Real Assets	253,849,726	960,277	38
Hedge Funds	284,326,612	196,344	7
Short Term	114,168,494	95,105	8
TOTAL INVESTMENT MANAGERS' FEES	**$ 1,879,030,734**	**$ 7,083,148**	**38**

** Includes Cash in Managers' Accounts; Non-GAAP Basis*

	Fees
Other Investment Service Fees	
Investment Consultant	$ 508,750
Custodian Bank	323,193
Proxy Voting	18,748
Real Estate Legal Fees	13,710
Investment Legal Fees	152,617
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 1,017,018**

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
ABG SECURITIES LIMITED	6,580.00	$ 38.97	$ 0.0059
ALLEN & COMPANY LLC	34,378.00	1,462.78	0.0425
AQUA SECURITIES LP	28,997.00	579.94	0.0200
AUTREPAT DIV RE	77,158.00	730.32	0.0095
AVONDALE PARTNERS LLC	7,500.00	300.00	0.0400
B			
B.RILEY & CO., LLC	300.00	12.00	0.0400
BANQUE NATIONALE DU CANADA	17,500.00	686.30	0.0392
BARCLAYS BANK PLC	37,307,542.47	11.46	0.0000
BARCLAYS CAPITAL	59,263.00	1,025.13	0.0173
BARCLAYS CAPITAL INC. LE	41,566.00	665.08	0.0160
BARCLAYS CAPITAL LE	93,604.00	333.68	0.0036
BLOOMBERG TRADEBOOK LLC	426,865.00	8,518.20	0.0200
BMO CAPITAL MARKETS	31,264.00	1,229.08	0.0393
BNP PARIBAS SECURITIES CORPORATION	18,423.00	736.92	0.0400
BTIG, LLC	76,823.00	1,536.46	0.0200
BUCKINGHAM RESEARCH GROUP INC	2,500.00	100.00	0.0400
C			
CANACCORDADAMS INC.	4,853.00	97.06	0.0200
CANACCORDGENUITY CORP.	1,700.00	66.23	0.0390
CANACCORDGENUITY LIMITED	894.00	17.88	0.0200
CANADIAN DEPOSITORY FOR SECURITIES	13,400.00	541.34	0.0404
CANTOR FITZGERALD & CO.	71,341.00	1,876.51	0.0263
CANTOR FITZGERALD EUROPE	5,578.00	111.56	0.0200
CHARLES RIVER BROKERAGE	153.00	1.91	0.0125
CIBC WORLD MARKETS CORP	10,115.00	404.60	0.0400
CIBC WORLD MKTS INC	72,300.00	2,886.21	0.0399
CITATION GROUP	163,539.00	6,541.56	0.0400
CITIGROUPGLBL MARKTET KOERA SECS LTD	200.00	57.61	0.2881
CITIGROUPGLOBAL MARKETS INC	375,709.00	9,179.70	0.0244
CITIGROUPGLOBAL MARKETS INC.	44,093,836.00	7,334.87	0.0002
CITIGROUPGLOBAL MARKETS LIMITED	1,653,827.00	4,749.89	0.0029
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	272,605.00	1,015.03	0.0037
COLLINS STEWART LLC	1,687.00	50.61	0.0300
CONVERGEXEXECUTION SOLUTIONS LLC	21,976.00	441.62	0.0201
COWEN ANDCOMPANY, LLC	26,229.00	976.31	0.0372
CRAIG HALLUM	3,700.00	148.00	0.0400
CREDIT AGRICOLE INVESTOR SERVICES BANK	10,088.00	741.40	0.0735
CREDIT LYONNAIS SECURITIES (USA) INC	11,540.00	114.50	0.0099
CREDIT SUISSE FIRST BOSTON (EUROPE)	2,755.00	342.75	0.1244
CREDIT SUISSE SECURITIES (EUROPE) LTD	330,619.00	772.01	0.0023

Non-GAAP Basis

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
C (continued)			
CREDIT SUISSE SECURITIES (USA) LLC	2,122,198.00	$ 651.71	$ 0.0003
CREDIT SUISSE USA LLC	400.00	16.07	0.0402
D			
DAIWA SECURITIES (HK) LTD.	1,061.00	43.36	0.0409
DAVIDSON D.A. & COMPANY INC.	31,086.00	941.42	0.0303
DEN NORSKE BANK	5,151.00	27.84	0.0054
DEUTSCHE BANK SECURITIES INC	177,718.00	3,558.53	0.0200
DIRECT ACCESS PARTNERS LLC	798.00	15.96	0.0200
DOWLING & PARTNERS	27,376.00	1,095.04	0.0400
E			
EVERCORE GROUP LLC	4,800.00	192.00	0.0400
F			
FIDELITY CLEARING CANADA	46,610.00	1,819.95	0.0390
FINANCIAL INDUSTRIES SECURITIES	290.00	2.90	0.0100
FIRST ENERGY CAPITAL	7,600.00	297.73	0.0392
FRIEDMAN BILLINGS & RAMSEY	20,027.00	341.62	0.0171
G			
G TRADE SERVICES LTD	69,752.00	172.68	0.0025
GMP SECURITIES L.P.	4,748.00	189.92	0.0400
GOLDMAN SACHS & CO	297,459,040.55	6,424.29	0.0000
GOLDMAN SACHS INTERNATIONAL	2,460,988.00	4,758.44	0.0019
GUGGENHEIM CAPITAL MARKETS LLC	50,794.00	2,031.76	0.0400
H			
HONGKONG AND SHANGHAI BANKING CORP	291,808.00	401.69	0.0014
HSBC BANKPLC	20,257.00	80.31	0.0040
HSBC BROKERAGE (USA) INC.	2,533.00	25.33	0.0100
HSBC SECURITIES (USA) INC.	455,354.00	1,849.78	0.0041
I			
ING BANK NV	83.00	9.42	0.1135
INSTINET	10,275.00	343.25	0.0334
INSTINET FRANCE S.A.	228,387.00	2,403.49	0.0105
INSTINET PACIFIC LIMITED	15,195,731.00	18,015.17	0.0012
INSTINET U.K. LTD	25,985,465.00	119,437.11	0.0046
INVESTEC BANK PLC	5,161.00	117.99	0.0229
INVESTMENT TECHNOLOGY GROUP INC.	3,080,530.00	59,820.05	0.0194
INVESTMENT TECHNOLOGY GROUP LTD	75,009.00	901.90	0.0120
ISI GROUPINC	40,266.00	1,341.45	0.0333
ISLAND TRADER SECURITIES INC	20,855.00	834.20	0.0400
ITG CANADA	966,548.00	9,756.11	0.0101
ITG INC	14,943.00	166.37	0.0111
ITG SECURITIES (HK) LTD	368,266.00	1,494.03	0.0041

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J			
JP MORGAN SECURITIES INC	924,993.00	$ 2,698.32	$ 0.0029
JP MORGAN CLEARING CORP	50,344,672.00	4,470.30	0.0001
JANNEY MONTGOMERY, SCOTT INC	15,409.00	587.12	0.0381
JEFFERIES & COMPANY INC	2,711,561.00	14,911.57	0.0055
JMP SECURITIES	22,700.00	908.00	0.0400
JONES & ASSOCIATES INC	9,409.00	188.18	0.0200
JONES TRADING INSTITUTIONAL SERVICES LLC	24,196.00	650.88	0.0269
JP MORGAN SECURITIES PLC	50,146.00	1,496.42	0.0298
JP MORGAN SECURITIES(ASIA PACIFIC)LTD	2,000.00	36.43	0.0182
K			
KEEFE BRUYETTE & WOODS INC	107,841.00	4,285.72	0.0397
KEYBANC CAPITAL MARKETS INC	28,252.00	951.12	0.0337
KING, CL & ASSOCIATES, INC	600.00	24.00	0.0400
KNIGHT EQUITY MARKETS L.P.	9,301.00	372.04	0.0400
KNIGHT EXECUTION AND CLEARING	1,900.00	73.97	0.0389
L			
LAZARD CAPITAL MARKETS LLC	23,313.00	252.55	0.0108
LEERINK SWANN AND COMPANY	47,852.00	1,628.33	0.0340
LEK SECURITIES CORP	7,045.00	140.90	0.0200
LIQUIDNET INC	100,876.00	1,740.07	0.0172
M			
MACQUARIE BANK LIMITED	152,202.00	48.89	0.0003
MACQUARIE CAPITAL (EUROPE) LTD	34,744.00	117.67	0.0034
MACQUARIE EQUITIES LIMITED (SYDNEY)	28,940.00	180.39	0.0062
MACQUARIE SECURITIES (SINGAPORE)	34,450.00	147.61	0.0043
MACQUARIE SECURITIES (USA) INC	3,858.00	154.32	0.0400
MACQUARIE SECURITIES LIMITED	3,288,600.00	1,756.19	0.0005
MACQUARIE SECURITIES LTD SEOUL	63.00	11.90	0.1889
MERRILL LYNCH CANADA INC	1,900.00	55.67	0.0293
MERRILL LYNCH INTERNATIONAL	610,379.00	5,024.64	0.0082
MERRILL LYNCH PIERCE FENNER & SMITH INC	742,506.00	189,655.11	0.2554
MERRILL LYNCH PIERCE FENNER	156,495.00	454.44	0.0029
MERRILL LYNCH PROFESSIONAL CLEARING CORP	7,068.00	282.72	0.0400
MITSUBISHI UFJ SECURITIES (USA)	8,600.00	306.19	0.0356
MIZUHO SECURITIES USA INC	4,600.00	123.39	0.0268
MONNESS, CRESPI, HARDT & CO. INC	5,793.00	147.04	0.0254
MORGAN STANLEY CO INCORPORATED	955,445.21	7,517.24	0.0079
N			
NBCN CLEARING INC.	5,470.00	218.80	0.0400
NEEDHAM & COMPANY	3,320.00	132.80	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
N (continued)			
NESBITT BURNS	3,300.00	$ 129.49	$ 0.0392
NOMURA INTERNATIONAL PLC	528,296.00	194.17	0.0004
NOMURA SECURITIES INTERNATIONAL INC	3,400.00	136.00	0.0400
O			
OPPENHEIMER & CO. INC.	30,057.00	1,126.79	0.0375
P			
PACIFIC CREST SECURITIES	7,600.00	304.00	0.0400
PENSON FINANCIAL SERVICES CANADA INC	22,000.00	883.73	0.0402
PERSHING LLC	593,230,007.43	59,574.68	0.0001
PERSHING SECURITIES LIMITED	15,424.00	120.91	0.0078
PICKERINGENERGY PARTNERS, INC	35,992.00	1,439.68	0.0400
PIPER JAFFRAY	847,505.00	9,454.25	0.0112
PIPER JAFFRAY & HOPWOOD	18,153.00	839.83	0.0463
PIPER JAFFREY	12,300.00	119.03	0.0097
PULSE TRADING LLC	12,524.00	375.72	0.0300
R			
RAYMOND JAMES AND ASSOCIATES	39,893.00	317.25	0.0080
RAYMOND JAMES AND ASSOCIATES INC	31,193.00	1,087.46	0.0349
RBC CAPITAL MARKETS	42,835.00	1,167.25	0.0272
RBC DOMINION SECURITIES INC.	47,200.00	1,871.23	0.0396
REDBURN PARTNERS LLP	146,565.00	1,972.86	0.0135
RETURN OFCAPITAL	118,787,057.33	5.16	0.0000
ROBERT W.BAIRD CO. INCORPORATE	66,952.00	2,475.70	0.0370
ROCHDALE SEC CORP.(CLS THRU 443)	2,041.00	40.82	0.0200
ROSENBLATT SECURITIES LLC	700.00	28.00	0.0400
ROYAL BANK OF CANADA EUROPE LTD	13,575.00	485.81	0.0358
S			
SANFORD C. BERNSTEIN LTD	33,128.00	1,602.94	0.0484
SANFORD CBERNSTEIN CO LLC	93,203.00	2,666.80	0.0286
SCOTIA CAPITAL (USA) INC	1,608.00	64.32	0.0400
SIMMONS & COMPANY INTERNATIONAL	1,283.00	51.32	0.0400
SMBC SECURITIES INC	9,700.00	299.72	0.0309
SOCIETE GENERALE LONDON BRANCH	62,264.00	1,434.88	0.0230
STATE STREET GLOBAL MARKETS, LLC	713,872.00	14,245.49	0.0200
STEPHENS,INC.	500.00	20.00	0.0400
STERNE AGEE & LEACH INC.	21,152.00	782.59	0.0370
STIFEL NICOLAUS & CO INC	44,811.00	1,743.40	0.0389
SUNTRUST CAPITAL MARKETS, INC.	4,413.00	136.26	0.0309
T			
TD SECURITIES (USA) LLC	4,515.00	180.60	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
T (continued)			
TD WATERHOUSE CDA	15,330.00	$ 599.59	$ 0.0391
THE HONGKONG AND SHANGHAI BANK	356.00	92.46	0.2597
THINKPANMURE LLC	900.00	36.00	0.0400
U			
UBS AG	171,791.00	181.67	0.0011
UBS SECURITIES ASIA LTD	520,200.00	116.37	0.0002
UBS SECURITIES LLC	16,555,704.80	1,072.91	0.0001
W			
WEDBUSH MORGAN SECURITIES INC	20,150.00	806.00	0.0400
WEEDEN & CO.	163,733.00	469.09	0.0029
WELLS FARGO SECURITIES, LLC	3,155,218.00	2,931.52	0.0009
WILLIAM BLAIR & COMPANY L.L.C	77,486.00	1,946.95	0.0251
WUNDERLICH SECURITIES INC.	75,586.00	3,023.44	0.0400
TOTAL	**1,230,842,519**	**$ 658,290.49**	**$ 0.0005**

Investment Summary

PENSION *As of June 30, 2013*
This includes the 401(h) investments

Type of Investments		Fair Value	% of Portfolio
Total Equities			
Global Equity	$	686,373,547	36.53%
Private Equity	$	94,550,075	5.03%
Real Estate	$	114,977,598	6.12%
Total Equities	**$**	**895,901,220**	**47.68%**
Total Fixed Income			
Global Fixed Income	$	225,559,466	12.00%
Opportunistic	$	105,225,215	5.60%
Total Fixed Income	**$**	**330,784,682**	**17.60%**
Total Real Assets			
Real Assets	$	253,849,726	13.51%
Total Real Assets	**$**	**253,849,726**	**13.51%**
Total Hedge Fund			
Hedge Fund	$	284,326,612	15.13%
Total Hedge Fund	**$**	**284,326,612**	**15.13%**
Short Term*	**$**	**114,168,494**	**6.08%**
TOTAL FAIR VALUE	**$**	**1,879,030,734**	**100.00%**

Note: 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 *As of June 30, 2013*
115 Trust

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Equities	$	28,152,298	65.23%
Total Equities	**$**	**28,152,298**	**65.23%**
Total Fixed Income			
Fixed Income	$	10,739,144	24.88%
Total Fixed Income	**$**	**10,739,144**	**24.88%**
Total Real Assets			
Real Asset	$	4,191,423	9.71%
Total Real Assets	**$**	**4,191,423**	**9.71%**
Short Term	**$**	**74,528**	**0.17%**
TOTAL FAIR VALUE	**$**	**43,157,394**	**100.00%**

Note: 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.

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Actuarial Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

CHEIRON Classic Values, Innovative Advice

September 9, 2013

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

At your request, we performed the June 30, 2012 actuarial valuation of the City of San José Federated City Employees' Retirement System ("System"). The detailed valuation results with respect to the System are contained in our actuarial valuation report issued December 13, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the System as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2014; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 25 and 27. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted by the System are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the System compared to the amount targeted by the funding method as of the valuation date. Variations in the expected cost of the plan are amortized as a level percentage of expected payroll over closed 20-year periods (except the entire unfunded actuarial liability as of June 30, 2009 is amortized over a closed 30-year period).

On June 5, 2012, voters approved Measure B which would make a number of changes to the System. We understand that the City does not intend to implement many of the changes until a court rules on the legality of the changes. Consequently, the provisions of Measure B are not reflected in this valuation unless explicitly disclosed. The City Council has adopted implementing ordinances for Tier 2 for members hired on or after September 30, 2012 and to eliminate the Supplemental Retiree Benefit Reserve (SRBR). Since the June 30, 2012 actuarial valuation is used to determine contribution rates for the 2013-14 fiscal year, the Board opted to reflect the establishment of Tier 2 and the elimination of the SRBR in the June 30, 2012 actuarial valuation. All of the information presented as of June 30, 2012 reflects the establishment of Tier 2 and the elimination of the SRBR.

A summary of the key results of the June 30, 2012 valuation is as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL increased by approximately $96 million primarily due to the investment loss of the System ($119 million).

- *Funding Ratio:* The ratio of the actuarial value of assets to the actuarial liability decreased since the last valuation from 65% to 62%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to the actuarial liability decreased from 64% to 58%.

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

- *Member Contribution Rate:*

  Tier 1: The member contribution rate is a proportion (3/11ths) of the service normal cost rate (including administrative expenses). The Member contribution rate increased from 5.74% to 5.97% due to demographic experience.

  Tier 2: The member contribution rate is 50% of the total contribution rate for Tier 2 pension benefits. Since there are no Tier 2 members as of June 30, 2012, the Board approved the continuation of the member rate of 6.68% set for FYE 2013 to FYE 2014 as well.

- *City Contributions:*

  Tier 1: City contributions are a proportion (8/11ths) of the service normal cost rate (including administrative expenses) plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll increased from 44.45% of payroll to 50.85% of Tier 1 payroll. The contribution amount if paid on July 1, 2014 decreased from $103.0 million to $100.7 million. The large increase in the contribution rate is mainly due to a decreasing Tier 1 payroll which causes the UAL rate to increase. The expected Tier 1 payroll decreased 15%, from $240 million for FYE 2013 before Tier 2 was created to $205 million for FYE 2014. However, the normal cost is paid on the lower Tier 1 payroll so the dollar amount is less.

  The policy for determining the City's ARC for Tier 1 is the greater of: (1) the dollar amount determined in the actuarial valuation or (2) the percentage of payroll determined in the actuarial valuation multiplied by actual payroll throughout the year.

  Tier 2: The city contribution rate is 50% of the total contribution rate for Tier 2 pension benefits. Since there are no Tier 2 members as of June 30, 2012, the Board approved the continuation of the City rate of 6.68% set for FYE 2013 to FYE 2014 as well.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2012 valuation results can be found in our full valuation report.

In preparing our report, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

We have prepared the following information for inclusion in this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2012 actuarial valuation:

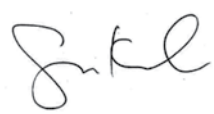
- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Notes to Required Supplementary Information
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary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

All historical information prior to the June 30, 2010 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company. This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

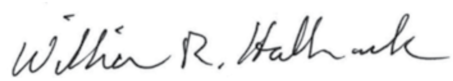
Sincerely,

Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA

Consulting Actuary



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

Consulting Actuary

Actuarial Assumptions and Methods

Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.5% net of investment expenses.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Administrative Expenses

0.70% of payroll is added to the normal cost of the system for expected administrative expenses.

4. Salary Increase Rate

Wage inflation component: 3.25%

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

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

5. Family Composition

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

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

6. Rates of Withdrawal/Termination

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

Table B-3			
Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

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

20% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

7. Rates of Refund

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

Table B-4	
Rates of Refund	
Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0

8. Rates of Disability

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

Table B-5	
Rates of Disability at Selected Ages	
Age	**Disability**
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

9. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Table B-6		
Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

10. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

Table B-7		
Rates of Mortality for Disabled Lives at Selected Ages		
Age	**Male**	**Female**
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

11. Rates of Retirement

Rates of retirement are based on age according to the following Table B-8.

Table B-8 Tier 1		
Rates of Retirement by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

Rates of retirement for Tier 2 members are based on age according to the following Table B-8 – Tier 2.

Table B-8 Tier 2		
Rates of Retirement by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

12. Deferred Member Benefit

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

13. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated Retirement System will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

14. Changes Since Last Valuation

Due to the elimination of the SRBR, 0.35% of the Market Value of Assets is no longer added to the employer normal cost to estimate the average net transfer to the SRBR.

Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding 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 and represents the target amount of assets the System should have as of the valuation date to fund the benefits as a level percentage of payroll.

2. Asset Valuation Method

For the purpose of determining the employer's contribution, an actuarial value of assets is used. The asset smoothing method dampens the volatility in asset values that occur because of fluctuations in market conditions, resulting in a smoother pattern of contribution rates.

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

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 and Tier 2 pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of Tier 1 and Tier 2 pay over 20-year periods beginning with the valuation date in which they first arise. To remain a level percentage of expected future payroll, each annual amortization payment increases by the payroll growth assumption of 3.25%.

4. Contributions

At its November 2010 meeting, the Board adopted a policy setting the City's contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

At its November 15, 2012 meeting, the Board adopted a policy that in order to maintain the equal cost-sharing between Tier 2 members and the City, the City's Tier 2 contribution will be the contribution rate adopted by the Board multiplied by actual Tier 2 payroll throughout the year. That is, there is no option or requirement to pay the dollar amount estimated in the valuation.

The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA

Valuation Date	Active count	Annual Payroll	Average Annual Pay	Percentage Change in Average Pay*
2012	3,076	$ 225,859,144	$ 73,426	5.0%
2011	3,274	228,936,398	69,926	-11.2%
2010	3,818	300,811,165	78,788	-0.5%
2009	4,079	323,020,387	79,191	7.1
2007	3,942	291,404,606	73,923	7.0
2005	4,148	286,445,861	69,056	5.6
2003	4,479	292,961,371	65,408,	15.6
2001	4,466	252,696,000	56,582	7.9
1999	3,694	193,650,000	52,423	8.3
1997	3,642	176,284,000	48,403	6.8

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

Changes in Retirees (Including Beneficiaries)

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls		Removed from Rolls		End of Period			
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	% Increase in Annual Allowances*	Average Annual Allowances
2011-12	3,428	$ 129,869,000	250	$ 14,158,000	76	$ 1,964,000	3,602	$ 142,063,000	9.4%	$ 39,440
2010-11	3,111	112,660,000	398	16,830,000	81	2,406,000	3,428	129,869,000	15.3%	37,885
2009-10	2,930	101,194,000	206	10,700,373	79	2,203,960	3,111	112,660,000	11.3%	36,213
2007-09	2,691	84,723,000	376	14,890,021	137	3,450,015	2,930	101,194,000	19.4	34,537
2005-07	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	22.0	31,484
2003-05	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0	28,634
2001-03	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,587,000	21.0	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8	20,360
1995-1997	1,636	29,029,000	190	4,143,000	81	946,000	1,745	32,630,000	12.4	18,699

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

Solvency Test

GASB SOLVENCY TEST Actuarial Liabilities for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2012	$ 234,619	$ 2,001,498	$ 604,883	$ 1,762,973	100%	76%	0%
2011	234,574	1,848,254	687,400	1,788,660	100%	84%	0%
2010	242,944	1,504,698	762,716	1,729,414	100%	99%	0%
2009	228,967	1,393,114	864,074	1,756,588	100%	100%	16%
2007	214,527	1,003,001	743,415	1,622,851	100%	100%	55%
2005	230,027	824,043	657,300	1,384,454	100%	100%	50%
2003	224,875	635,092	451,724	1,280,719	100%	100%	93%
2001	210,377	529,853	332,103	1,060,144	100%	100%	96%

Amounts in thousands

* *Actuarial Value of Assets*

** *Results prior to June 30, 2010 were calculated by the prior actuary*

Actuarial Analysis of Financial Experience

For the Ten-Year Period Ending June 30, 2012

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE TIER 1

For Plan Year Ended June 30, 2012	Change in Contribution Rate
Investment Performance	3.83%
Liability Experience	7.28%
Change in Assumptions	0.00%
Change in Benefit Provision	-4.48%
TOTAL	**6.63%**

For Plan Year Ended June 30, 2011	
Investment Performance	2.69%
Liability Experience	1.93%
Change in Assumptions	12.55%
Change in Benefit Provision	0.00%
TOTAL	**17.17%**

For Plan Year Ended June 30, 2010	
Phase-in of Contribution Rates	2.91 %
Investment Performance	3.03 %
Liability Experience	1.24 %
Change in Assumptions	-1.88 %
Change in Benefit Provision	0.00%
TOTAL	**5.30%**

For Plan Year Ended June 30, 2009	
Investment Performance	1.63 %
Liability Experience	1.19 %
Change in Assumptions	5.22 %
Change in Benefit Provision	0.00 %
TOTAL	**8.04 %**

For Plan Year Ended June 30, 2007*	Change in Contribution Rate
Investment Performance	(0.99)%
Liability Experience	1.14 %
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**0.15 %**

For Plan Year Ended June 30, 2005	
Investment Performance	1.77%
Liability Experience	2.37 %
Change in Assumptions	(0.59)%
Change in Benefit Provision	0.00 %
TOTAL	**3.55 %**

For Plan Year Ended June 30, 2003	
Investment Performance	2.78 %
Liability Experience	2.60 %
Change in Asset Valuation Method	(2.48)%
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**2.90 %**

For Plan Year Ended June 30, 2001	
Investment Performance	(0.46)%
Liability Experience	(1.62)%
Change in Assumptions	0.00 %
Change in Benefit Provision	1.51 %
TOTAL	**(0.57)%**

** Change in employer contribution rate for retirement only*

1. Membership Requirement

Participation in the Plan is immediate upon the first day of full-time employment for members hired before September 30, 2012.

2. Final Compensation

Members who separated from city service prior to June 30, 2001:

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

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

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

3. Credited Service

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

4. Member Contributions

Member:

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

Employer:

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

5. Service Retirement

Eligibility:

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

Benefit - Member:

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

Benefit - Survivor:

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

6. Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

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

Benefit - Survivor:

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

7. Non-Service Connected Disability Retirement

Eligibility:

5 years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

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

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

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

Benefit - Survivor:

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

8. Death while an Active Employee

Less than five Years of Service, or No Qualified Survivor:

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

Five or more Years of Service:

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

9. Withdrawal Benefits

Less than five Years of Service:

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

Five or more years of credited service:

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

10. Additional Post-retirement Death Benefit

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

11. Post-retirement Cost-of-Living Benefit

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

12. Changes in Tier 1 Plan Provisions

The Supplemental Retiree Benefit Reserve (SRBR) was eliminated.

SUMMARY OF PENSION PLAN PROVISIONS - TIER 2

1. Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012.

2. Final Compensation

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

3. Credited Service

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

4. Member Contributions

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability

5. Unreduced Service Retirement

Eligibility:

Age 65 with five years of service

Benefit - Member:

2.0% of Final Compensation for each year of credited service, subject to a maximum of 65% of Final Compensation.

Benefit - Survivor:

Single life annuity

6. Early Service Retirement

Eligibility:

Age 55 with five years of service.

Benefit - Member:

Reduced benefit actuarially equivalent to the unreduced service retirement benefit commencing at age 65. The early retirement reduction is applied to the benefit after the application of the maximum of 65% of final compensation.

7. Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

Monthly benefit equivalent to 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

8. Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9. Death Before Retirement

If death occurs before retirement eligibility is reached:

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

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 equivalent to 50% of Final Compensation.

10. Withdrawal Benefits

Less than five Years of Service:

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

Five or more years of credited service:

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

11. Benefit Forms

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

12. Post-retirement Cost-of-Living Benefit

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

13. Changes in Tier 2 Plan Provisions

None.

CHEIRON Classic Values, Innovative Advice

September 18, 2013

VIA ELECTRONIC MAIL

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San José, California 95112

Dear Members of the Board:

At your request, we performed the June 30, 2012 actuarial valuation of the City of San José Federated Postemployment Healthcare Plan ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued January 9, 2013. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2014; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 43 and 45. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted in collective bargaining and reflected in this valuation are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Because the effort to pre-fund the Plan was started relatively recently with the entire unfunded actuarial liability as of June 30, 2009 being amortized over 30 years, the current funded status is relatively low. Variations in the expected cost of the Plan since June 30, 2009 are amortized as a level percentage of expected payroll over closed 20-year periods.

A summary of the key results from the valuation are as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* On a financial reporting basis, the UAL decreased $51.1 million from $1,009.9 million to $958.8 million. The Actuarial Liability decreased $48.8 million and assets increased $2.3 million.
- *Funding Ratio:* The ratio of the actuarial value of assets to the Actuarial Liability increased from 12% to 13% since the last valuation.
- *Member Contribution Rate:* The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of eight to three with the City contributing 8/11 of the total contribution. The agreements call for a five-year transition to contributing the full Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method with a limit of an annual increase of 0.75% of payroll for the member and the City rate. The fiscal year ending June 30, 2014, the fiscal year for which the 2012 valuation determines contributions, marks the end of the transition period. The member contribution rate increased from 7.26% to 10.74% of payroll for the fiscal year ending June 30, 2014. However, subsequent to the issuance of the valuation, the City and its labor unions reached agreement to extend the phase-in period for an additional 18 months. Consequently, the member contribution rate for the fiscal year ending June 30, 2014 is limited to 8.01%.
- *City Contribution Rate:* The City contribution rate increased from 7.91% to 11.93% of payroll for the fiscal year ending June 30, 2014. However, subsequent to the issuance of the valuation, the City and its labor unions reached agreement to extend the phase-in period for an additional 18 months. Consequently, the City contribution rate for the fiscal year ending June 30, 2014 is limited to 8.66%.

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Other Postemployment Benefits (OPEB)

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2012 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice #23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2012 actuarial valuation:

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

In addition, we have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information
- Schedule of Funding Progress
- Schedule of Employer Contributions

All historical information prior to the June 30, 2010 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and these exhibits were prepared for the City of San José Department of Retirement Services for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This letter and these exhibits are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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, FCA, EA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachment

Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions:

1. Expected Return on Plan Assets: 7.50% per year

2. Expected Return on Employer Assets: 3.30% per year

3. Blended Discount Rate: 4.80% per year

4. Per Person Cost Trends:

Date	Annual Increase		
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2013	8.80%	6.63%	4.50%
2014	8.47	6.47	4.00
2015	8.14	6.30	4.00
2016	7.81	6.14	4.00
2017	7.48	5.97	4.00
2018	7.15	5.81	4.00
2019	6.82	5.65	4.00
2020	6.48	5.48	4.00
2021	6.15	5.32	4.00
2022	5.82	5.16	4.00
2023	5.49	4.99	4.00
2024	5.16	4.83	4.00
2025	4.83	4.66	4.00
2026+	4.50	4.50	4.00

The above trends are applied in the valuation by applying one half of the increase for 2013 for the fiscal year ending June 30, 2013 and the average of the increases for the applicable calendar years for each fiscal year thereafter. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

Retirements by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

Term vested members are assumed to retire at age 58.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions (Continued):

2. Termination / Refund Rates:

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

Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

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

Rates of Refund	
Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions (Continued):

Disabled Lives:

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees

Rates of Mortality for Disabled Lives at Selected Ages		
Age	**Male**	**Female**
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

4. Disability Rates:

Sample rates of disability are shown in the following table

Rates of Disability at Selected Ages	
Age	**Disability**
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

5. Salary Increase Rate:

Wage inflation component 3.25%

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

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

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions (Continued):

6. Percent of Retirees Electing Coverage:

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their 2012 plan. Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table below.

Assumed Plan Elections for Future Retirees		
Plan	**Pre-Medicare**	**Medicare Eligible**
Medical		
• Kaiser DHMO	15%	50%
• Kaiser $25 Co-pay	53%	
• HMO $30 Co-pay	4%	8%
• HMO $25 Co-pay	14%	
• PPO / POS $45 Co-pay	1%	38%
• PPO / POS $25 Co-pay	13%	
• UHC Med Adv	N/A	2%
• UHC Senior Supp	N/A	2%
Dental		
• Delta Dental PPO	97%	
• DeltaCare HMO	3%	

7. Family Composition:

90% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.

8. Dependent Age:

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

9. Married Percentage:

Percentage Married	
Gender	**Percentage**
Males	80%
Females	60%

10. Administrative Expenses:

Included in the average monthly premiums.

Changes Since Last Valuation

The expected return on employer assets was reduced from 4.0 percent to 3.3 percent, and the blended discount rate was reduced from 6.1 percent to 4.8 percent. Plan election rates were also updated based on recent plan enrollment data and updated plan options.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of January 1, 2012 based on the premiums in effect on that date. Each valuation years' costs are based on the trended first year cost adjusted with trends listed above, so for the year beginning July 1, 2012 the starting values are increased by a half-year of the 2012 trend rates. 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.

Future Retirees: The following table shows the premiums, claims costs, and resulting implicit subsidies for future retirees. All values are as of January 1, 2012 and reflect the assumed plan election assumptions described above. ("Active Employees")

Future Retirees								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
40	6,545	9,944	3,047	(3,498)	(6,897)	5,416	(1,129)	(4,528)
45	6,545	9,944	3,816	(2,729)	(6,128)	5,734	8,463	11,862
50	6,545	9,944	5,054	(1,491)	(4,890)	6,800	8,291	11,690
55	6,545	9,944	6,641	96	(3,303)	8,104	8,008	11,407
60	6,545	9,944	8,632	2,087	(1,312)	9,674	7,587	10,986
64	6,545	9,944	11,149	4,604	1,205	11,953	7,349	10,748
65	4,910	4,910	4,337	(573)	(573)	4,625	5,198	5,198
70	4,910	4,910	5,092	182	182	5,107	4,925	4,925
75	4,910	4,910	5,694	784	784	5,507	4,723	4,723
80	4,910	4,910	6,050	1,140	1,140	5,684	4,544	4,544

Current Retirees: The following tables show the premiums, claims costs, and resulting implicit subsidies for each medical plan as of January 1, 2012.

Kaiser $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	6,075	9,052	3,629	(2,446)	(5,423)	5,454	(621)	(3,598)
50	6,075	9,052	4,807	(1,268)	(4,245)	6,468	7,736	10,713
55	6,075	9,052	6,316	241	(2,736)	7,708	7,467	10,444
64	6,075	9,052	10,605	4,530	1,553	11,369	6,839	9,816
65	2,959	2,959	2,660	(299)	(299)	2,838	3,137	3,137
70	2,959	2,959	3,124	165	165	3,133	2,968	2,968
75	2,959	2,959	3,493	534	534	3,379	2,845	2,845
80	2,959	2,959	3,711	752	752	3,487	2,735	2,735

POSTEMPLOYMENT HEALTHCARE

Current Retirees, continued

HMO $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	6,643	10,422	4,136	(2,507)	(6,286)	6,216	(427)	(4,206)
50	6,643	10,422	5,478	(1,165)	(4,944)	7,372	8,537	12,316
55	6,643	10,422	7,199	556	(3,223)	8,785	8,229	12,008
64	6,643	10,422	12,086	5,443	1,664	12,958	7,515	11,294
65	5,569	5,569	5,721	152	152	6,102	5,950	5,950
70	5,569	5,569	6,718	1,149	1,149	6,738	5,589	5,589
75	5,569	5,569	7,512	1,943	1,943	7,265	5,322	5,322
80	5,569	5,569	7,981	2,412	2,412	7,499	5,087	5,087

PPO $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	8,701	13,660	4,309	(4,392)	(9,351)	6,476	(2,225)	(7,184)
50	8,701	13,660	5,707	(2,994)	(7,953)	7,680	10,674	15,633
55	8,701	13,660	7,500	(1,201)	(6,160)	9,152	10,353	15,312
64	8,701	13,660	12,591	3,890	(1,069)	13,499	9,609	14,568
65	7,231	7,231	6,223	(1,008)	(1,008)	6,637	7,645	7,645
70	7,231	7,231	7,307	76	76	7,329	7,253	7,253
75	7,231	7,231	8,171	940	940	7,903	6,963	6,963
80	7,231	7,231	8,681	1,450	1,450	8,157	6,707	6,707

UHC Medicare Advantage								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
65	5,831	5,831	4,393	(1,438)	(1,438)	4,685	6,123	6,123
70	5,831	5,831	5,158	(673)	(673)	5,174	5,847	5,847
75	5,831	5,831	5,768	(63)	(63)	5,579	5,642	5,642
80	5,831	5,831	6,128	297	297	5,758	5,461	5,461

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Current Retirees, continued

UHC Senior Supplement								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
65	6,021	6,021	4,805	(1,216)	(1,216)	5,125	6,341	6,341
70	6,021	6,021	5,643	(378)	(378)	5,659	6,037	6,037
75	6,021	6,021	6,310	289	289	6,102	5,813	5,813
80	6,021	6,021	6,704	683	683	6,299	5,616	5,616

Dental	
Plan	Annual Premium (every age)
Delta Dental PPO	$ 1,304
DeltaCare HMO	562

2. Medicare Part D Subsidy:

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

3. Medicare Part B Premiums:

Assumed that Medicare eligible retirees participate in Medicare Part B

4. Medicare Eligibility:

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

5. Annual Limits:

Assumed to increase at the same rate as trend.

6. Lifetime Maximums:

Are not assumed to have any financial impact.

7. Geography:

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions:

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

Current retirees are assumed to pay the difference between their current plan and the lowest cost plan for active members. Future retirees are assumed to pay the difference between the blended premium based on the assumed plan elections and the lowest cost plan for active members.

Actuarial Methods

1. Actuarial Cost Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment 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.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2012. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment

POSTEMPLOYMENT HEALTHCARE

data for the 2012 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. Dental costs were based directly on the rates in effect for 2012. All claims costs are developed jointly for the Federated and 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.

2. Asset Valuation Method

The Actuarial Value of Assets is equal to the Market Value of Assets.

3. Amortization Method

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change.

DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA

Valuation Date *as of June 30,*	Active Member Counts			Annual Payroll
	Under Age 65	Age 65+	Total	
2012	3,017	59	$ 3,076	$ 225,859,144
2011	3,201	73	3,274	228,936,398
2010	3,721	97	3,818	300,811,165
2009	3,988	91	4,079	323,020,387
2007	3,853	66	3,919	N/A
2006	3,734	75	3,809	N/A

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										
2011-12	2,557	$ 25,518,761	203	80	2,680	$ 25,223,474	123	$ (295,287)	-1.2%	$ 9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4%	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9%	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3%	8,523
2006-07	1,891	10,864,081	N/A	N/A	1,976	14,970,264	85	4,106,183	37.8%	7,576
Dental										
2011-12	2,906	$ 3,744,833	203	65	3,044	$ 3,924,332	138	$ 3,921,426	4.8%	$ 1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	3,742,245	24.1%	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	3,015,098	25.2%	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	2,408,313	2.7%	1,015
2006-07	2,220	1,955,377	N/A	N/A	2,248	2,346,934	28	2,344,714	20.0%	1,044

* *Annual subsidies are explicit amounts*

POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES *(Continued)*

SOLVENCY TEST					
	Actuarial Liabilities				
Valuation Date	**Retirees, Beneficiaries and Other Inactives**	**Remaining Active Members**	**Reported Assets**	**Portion of Actuarial Liabilities Covered by Reported Assets**	
June 30,	(A)	(B)		(A)	(B)
2012	$ 611,267	$ 485,353	$ 137,798	23%	0%
2011	652,157	493,203	135,454	21%	0%
2010	515,284	411,087	108,011	21%	0%
2009	421,367	375,081	85,564	20%	0%
2007	335,798	280,951	96,601	29%	0%
2006	370,886	332,052	81,288	22%	0%

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE			
Type of Activity	**Gain (or Loss) for Year Ending June 30, 2012**	**Gain (or Loss) for Year Ending June 30, 2011**	**Gain (or Loss) for Year Ending June 30, 2010**
Investment Income	$ (14,897)	$ 10,131	$ 6,705
Liability Experience	(27,919)	(35,166)	(43,746)
Gain (or Loss) During Year from Financial Experience	(42,816)	(25,035)	(37,041)
Non-Recurring Gain (or Loss) Items	136,154	(131,537)	(36,785)
Composite Gain (or Loss) During Year	**$ 93,338**	**$ (156,592)**	**$ (73,826)**

Amounts in thousands

Summary of Key Substantive Plan Provisions:

Eligibility:

Medical:

Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

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.

Summary of Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Dental:

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

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

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

Benefits for Retirees:

Medical:

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

Effective January 1, 2012, the lowest cost health plan is the Kaiser $25 Co-pay plan. The single coverage amount is $531.58 per month, and the family coverage amount is $1,323.66 per month. Effective January 1, 2013, the lowest cost health plan is the Kaiser $1500 Deductible HMO plan. The single coverage amount is $457.70 per month, and the family coverage amount is $1,139.70 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental:

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

Premiums:

Monthly premiums before adjustments for 2012 are as follows:

2012 MONTHLY PREMIUMS				
	Single	% Increase	Family	% Increase
Medical				
Non-Medicare Monthly Rates				
Kaiser $25 Co-pay Plan	$ 531.58	7.0%	$ 1,323.66	7.0%
Blue Shield HMO $25 Co-pay	574.82	8.0%	1,476.60	8.0%
Blue Shield PPO or POS $25 Co-pay	736.78	0%	1,893.48	0%
Medicare Monthly Rates				
Kaiser – Senior Advantage	$ 246.58	-47%	$ 493.16	-47%
UHC Medicare Advantange	485.95	-1%	971.90	-1%
Blue Shield Medicare PPO	602.56	-1%	1,205.14	-1%
Blue Shield Medicare HMO	464.06	8.0%	928.14	8%
UHC Senior Supplement	501.78	16%	1,003.56	16%
Dental				
Delta Dental PPO	$ 108.66	0%	$ 108.66	0%
DeltaCare HMO	46.82	0%	46.82	0%

POSTEMPLOYMENT HEALTHCARE

SUMMARY OF BENEFIT PLANS						
Non-Medicare Plans:	**Kaiser $25 Co-Pay**	**Kaiser DHMO**	**BS HMO $25 Co-Pay**	**BS HMO $45 Co-Pay**	**BS PPO $25 Co-Pay**	**BS PPO $30 Co-Pay**
Annual Out-of-Pocket Maximum	$1,500/$3,000	$4,000/$8,000	$1,000/$2,000	$3,500/$7,000	$2,000/$4,000	$7,000/$14,000
Annual Deductible	None	$1,500/$3,000	None	Rx only*	$100/$200	$3,500/$7,000
Office Visit	$25	$40	$25	$45	$25	$30
Emergency Room	$100	30% coinsurance	$100	$200	$100	$100 + 20%
Hospital Care	$100	30% coinsurance	$100	50% coinsurance	Tier 1 – $100 + 10% Tier 2 – 30%	Tier 1 – $250 + 20% Tier 2 – 40%
Prescription Drug (30-day supply):						
Generic	$10	$10	$10	$15	$10	$15
Brand	$25	$30	$25	$30*	$25	$30*
Non-Formulary	N/A	N/A	$40	50%* *$250 deductible	$40	50%* *$250 deductible

Medicare-Eligible Plans:	**Kaiser**	**BS HMO**	**BS PPO**	**UHC Medicare Advantage**	**UHC Senior Supplement**
Annual Out-of-Pocket Maximum	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000	$6,700	None
Annual Deductible	None	None	$100/$200	None	$250 outside US only
Office Visit	$25	$25	$25	$25	No charge
Emergency Room	$50	$100	$100	$50	No charge
Hospital Care	$250	$100	$100 + 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	$10	$10	$10	$15	$5
Brand	$10	$25	$25	$20	$10
Non-Formulary	N/A	$40	$40	$20	Not covered

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.

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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 cover Pension Plan, and Postemployment Healthcare Benefits. 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 System'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.

Statistical Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

Statistical Review

CHANGES IN NET POSITION FOR FISCAL YEARS 2004-2013 *(In Thousands)*
PENSION BENEFITS (Schedule 1a)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employee contributions	$ 12,394	$ 12,393	$ 12,395	$ 12,370	$ 13,366	$ 13,848	$ 13,396	$ 24,602	$ 10,555	$ 12,652
Employer contributions	39,534	41,552	41,267	51,004	54,958	57,020	54,566	59,180	87,082	103,109
Investment income/ (loss)*	192,373	115,618	132,873	244,210	(60,101)	(295,773)	197,755	287,179	(68,903)	146,367
Total additions to plan net position	**244,301**	**169,563**	**186,535**	**307,584**	**8,223**	**(224,905)**	**265,717**	**370,961**	**28,734**	**262,128**
Deductions										
Benefit payments	53,578	60,438	68,438	75,135	83,291	89,767	98,110	110,415	126,001	136,075
Death benefits	5,454	5,437	5,721	5,867	6,263	6,923	7,583	7,883	8,601	9,187
Refunds	1,188	927	1,246	1,008	972	1,395	1,219	1,980	2,195	1,545
Administrative expenses and other	1,799	1,588	1,790	1,845	2,358	2,108	2,641	2,867	3,306	3,024
Total deductions from plan net position	**62,019**	**68,390**	**77,195**	**83,855**	**92,884**	**100,193**	**109,553**	**123,145**	**140,103**	**149,831**
Change in Plan Net Position	**$ 182,282**	**$ 101,173**	**$ 109,340**	**$ 223,729**	**$ (84,661)**	**$ (325,098)**	**$ 156,164**	**$ 247,816**	**$(111,369)**	**$ 112,297**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employee contributions	$ 3,191	$ 5,219	$ 5,226	$ 9,612	$ 10,403	$ 15,076	$ 15,815	$ 16,041	$ 14,995	$ 15,979
Employer contributions	3,948	5,996	5,961	10,728	11,560	16,368	17,027	17,146	25,834	21,251
Investment income/ (loss)*	11,066	6,539	7,273	13,343	(3,715)	(18,485)	13,852	21,842	(5,140)	13,817
Total additions to plan net position	**18,205**	**17,754**	**18,460**	**33,683**	**18,248**	**12,959**	**46,694**	**55,029**	**35,689**	**51,047**
Deductions										
Healthcare insurance premiums	11,438	13,393	15,904	18,265	20,195	21,725	24,066	27,370	33,077	30,943
Administrative expenses and other	114	95	103	105	134	132	181	216	268	207
Total deductions from plan net position	**11,552**	**13,488**	**16,007**	**18,370**	**20,329**	**21,857**	**24,247**	**27,586**	**33,345**	**31,150**
Change in Plan Net Position	**$ 6,653**	**$ 4,266**	**$ 2,453**	**$ 15,313**	**$ (2,081)**	**$ (8,956)**	**$ 22,447**	**$ 27,443**	**$ 2,344**	**$ 19,897**

**Net of Expenses*

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE *(In Thousands)*
PENSION BENEFITS (Schedule 2a)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013
Age and Service Benefits								
Retirees – Service	$ 59,391	$ 64,978	$ 71,849	$ 77,444	$ 84,606	$ 95,562	$ 109,662	$ 118,178
Retirees – Deferred Vested	4,134	4,860	5,730	6,219	6,996	8,047	9,261	10,692
Survivors – Service	3,195	3,320	3,561	3,867	4,207	4,425	4,791	5,089
Survivors – Deferred Vested	87	108	122	126	138	130	161	232
Death in Service Benefits	1,750	1,722	1,815	2,032	2,161	2,202	2,349	2,413
Disability Benefits								
Retirees – Duty	2,702	2,920	3,102	3,256	3,498	3,493	3,609	3,505
Retirees – Non-Duty	1,640	1,737	1,835	1,884	1,899	2,039	2,011	2,164
Survivors – Duty	187	197	218	263	338	356	402	437
Survivors – Non-Duty	502	519	547	635	739	770	827	903
Ex-Spouse Benefits	571	640	775	964	1,111	1,274	1,529	1,649
Total Benefits	**$ 74,159**	**$ 81,002**	**$ 89,554**	**$ 96,690**	**$105,693**	**$118,298**	**$134,602**	**$ 145,262**
Type of Refund								
Separation	$ 1,246	$ 1,008	$ 972	$ 1,395	$ 1,219	$ 1,980	$ 2,195	$ 1,545
Total Refunds	**$ 1,246**	**$ 1,008**	**$ 972**	**$ 1,395**	**$ 1,219**	**$ 1,980**	**$ 2,195**	**$ 1,545**

Fiscal Year 2004-05 data not available due to system limitations.

Source: Pension Administration System

Statistical Review *(Continued)*

BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE *(In Thousands)*
POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2013	2012	2011	2010	2009	2008	2007	2006
Age and Service Benefits								
Retirees – Service								
Medical	$ 19,493	$ 20,262	$ 18,971	$ 16,344	$ 14,772	$ 13,524	$ 12,029	$ 10,341
Dental	3,089	3,083	2,840	2,474	2,150	2,148	2,022	1,870
Retirees – Deferred Vested*								
Medical	1,436	1,418	1,241	1,180	1,063	949	767	652
Dental	21	23	24	27	26	29	35	-
Survivors – Service								
Medical	874	954	1,024	938	862	800	730	628
Dental	333	339	329	308	268	269	251	235
Survivors – Deferred Vested*								
Medical	32	24	18	16	11	10	9	11
Dental	5	2	-	-	1	-	-	-
Death in Service Benefits								
Medical	361	389	412	366	335	327	313	293
Dental	78	78	79	74	67	69	72	71
Disability Benefits								
Retirees – Duty								
Medical	1,133	1,217	1,253	1,241	1,166	1,113	1,098	956
Dental	146	157	162	161	142	143	145	131
Retirees – Non-Duty								
Medical	413	462	530	513	510	483	478	433
Dental	89	87	92	84	79	81	78	73
Survivors – Duty								
Medical	124	125	125	100	80	75	69	59
Dental	33	32	30	27	20	19	18	17
Survivors – Non-Duty								
Medical	178	192	195	171	139	123	119	103
Dental	44	45	45	42	34	33	32	31
Ex-Spouse Benefits								
Medical	3	4	-	-	-	-	-	-
Dental	1	1	-	-	-	-	-	-
Implicit Subsidy Medical	3,057	4,383						
Total Benefits	**$ 30,943**	**$ 33,077**	**$ 27,370**	**$ 24,066**	**$ 21,725**	**$ 20,195**	**$ 18,265**	**$ 15,904**

Fiscal Year 2004-05 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2004-2013 (Schedule 3)

FED Tier 1		
Fiscal Year	Employee Rate (%)	Employer Rate (%)
2004	5.08	15.20
2005	6.06	17.12
2006	6.06	17.12
2007	7.58	21.98
2008	7.58	21.98
2009	8.93	23.56
2010	9.35	24.01
2011	10.30*	29.59**
2012	11.20	35.50
2013	13	52.36

FED Tier 2		
Fiscal Year	Employee Rate (%)	Employer Rate (%)
2012-13	13.94	14.59

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

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2013

		Type of Retirement*							Option Selected**			
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	A	B	C	Total
$1-500	136	30	3	1	0	31	50	21	83	19	34	136
501-1000	276	84	8	3	3	74	79	25	186	21	69	276
1001-1500	384	137	5	8	12	100	99	23	248	43	93	384
1501-2000	387	168	10	39	25	81	51	13	244	37	106	387
2001-2500	371	224	12	17	13	44	49	12	214	32	125	371
2501-3000	335	230	5	23	11	35	26	5	210	34	91	335
3001-3500	342	269	6	11	12	10	32	2	191	39	112	342
3501-4000	288	246	7	8	4	5	16	2	162	29	97	288
4001-4500	282	240	3	5	1	8	23	2	178	24	80	282
4501-5000	224	208	4	2	0	1	8	1	145	23	56	224
5001-5500	186	171	2	1	0	1	11	0	115	23	48	186
5500-6000	159	152	1	0	0	1	5	0	95	17	47	159
6000-6500	142	134	1	2	0	0	5	0	96	11	35	142
6501-7000	77	73	0	0	0	0	4	0	42	7	28	77
Over $7000	210	202	0	0	0	1	7	0	158	15	37	210
TOTAL	**3,799**	**2,568**	**67**	**120**	**81**	**392**	**465**	**106**	**2,367**	**374**	**1,058**	**3,799**

***Retirement Codes**

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

****OPTION DESCRIPTIONS**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2013

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	1,135	674
$1 - 60	0	94
$61 - 250	0	3,031
$251 - 500	1,273	0
$501 - 750	275	0
$751 -1000	49	0
Over $1,000	1,067	0
TOTAL	**3,799**	**3,799**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2013

	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of 6/30/2013							
Average Monthly Benefit*	$ 948	$ 1,366	$ 2,232	$ 3,070	$ 4,213	$ 5,420	$ 5,895
Average Final Average Salary	$ 3,724	$ 5,000	$ 5,189	$ 5,343	$ 6,127	$ 6,019	$ 6,638
Number of Retired Members**	117	413	454	629	608	854	159
As of 6/30/2012							
Average Monthly Benefit*	$ 914	$ 1,329	$ 2,140	$ 2,982	$ 4,080	$ 5,255	$ 5,722
Average Final Average Salary	$ 3,516	$ 4,803	$ 4,975	$ 5,280	$ 5,975	$ 5,920	$ 6,513
Number of Retired Members**	113	402	433	619	586	831	159
Period 7/1/2010 to 6/30/2011							
Average Monthly Benefit*	$ 842	$ 1,267	$ 2,036	$ 2,835	$ 3,851	$ 5,036	$ 5,577
Average Final Average Salary	$ 4,303	$ 4,570	$ 4,580	$ 4,991	$ 5,360	$ 5,544	$ 6,056
Number of Retired Members**	131	371	388	566	465	726	139
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit*	$ 838	$ 1,179	$ 1,980	$ 2,700	$ 3,714	$ 4,852	$ 5,410
Average Final Average Salary	$ 4,203	$ 4,221	$ 4,393	$ 4,778	$ 5,129	$ 5,311	$ 5,929
Number of Retired Members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit*	$ 778	$ 1,139	$1,899	$ 2,585	$ 3,545	$ 4,671	$ 5,281
Average Final Average Salary	$ 3,898	$ 4,045	$4,201	$ 4,629	$ 4,898	$ 5,151	$ 5,807
Number of Retired Members**	120	329	359	529	392	624	123
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit*	$ 765	$ 1,133	$ 1,856	$ 2,550	$ 3,470	$ 4,600	$ 5,231
Average Final Average Salary	$ 3,828	$ 3,963	$ 4,144	$ 4,585	$ 4,796	$ 5,099	$ 5,761
Number of Retired Members**	119	325	355	524	382	611	120
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$ 732	$ 1,049	$ 1,728	$ 2,398	$ 3,129	$ 4,253	$ 4,947
Average Final Average Salary	$ 3,455	$ 3,627	$ 3,867	$ 4,316	$ 4,263	$ 5,030	$ 5,505
Number of Retired Members**	115	307	344	476	342	564	105
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$ 665	$ 981	$ 1,638	$ 2,252	$ 2,971	$ 4,142	$ 4,679
Average Final Average Salary	$ 3,073	$ 3,413	$ 3,704	$ 4,123	$ 4,067	$ 4,755	$ 5,324
Number of Retired Members**	116	294	337	449	322	536	100

* *Includes Cost of Living Increases*

** *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2013

	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of 6/30/2013							
Average Health Subsidy	$ 582	$ 380	$ 589	$ 712	$ 778	$ 790	$ 680
Number of Health Participants*	27	64	226	576	562	817	148
Average Dental Subsidy	$ 100	$ 101	$ 101	$ 102	$ 100	$ 101	$ 100
Number of Dental Participants*	65	243	341	544	558	818	151
As of 6/30/2012							
Average Health Subsidy	$ 698	$ 426	$ 645	$ 797	$ 873	$ 902	$ 768
Number of Health Participants*	27	66	218	580	547	800	150
Average Dental Subsidy	$ 107	$ 107	$ 107	$ 108	$ 107	$ 107	$ 106
Number of Dental Participants*	63	245	325	540	542	800	151
Period 7/1/2010 to 6/30/2011							
Average Health Subsidy	$ 866	$ 773	$ 764	$ 855	$ 898	$ 928	$ 848
Number of Health Participants*	21	39	191	544	448	711	138
Average Dental Subsidy	$ 108	$ 110	$ 109	$ 110	$ 110	$ 109	$ 108
Number of Dental Participants*	64	233	300	500	430	708	139
Period 7/1/2009 to 6/30/2010							
Average Health Subsidy	$ 587	$ 461	$ 650	$ 797	$ 828	$ 867	$ 816
Number of Health Participants*	28	65	212	515	402	649	128
Average Dental Subsidy	$ 103	$ 104	$ 103	$ 103	$ 103	$ 103	$ 103
Number of Dental Participants*	61	218	289	474	384	646	130
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$ 596	$ 449	$ 636	$ 757	$ 779	$ 817	$ 764
Number of Health Participants*	26	65	209	505	377	608	121
Average Dental Subsidy	$ 94	$ 93	$93	$ 94	$ 93	$ 93	$ 93
Number of Dental Participants*	61	212	286	467	360	608	122
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$ 761	$ 674	$ 681	$ 727	$ 738	$ 785	$ 738
Number of Health Participants*	20	42	192	492	356	582	114
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98
Number of Dental Participants*	59	206	286	456	339	580	115
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$ 728	$ 683	$ 654	$ 678	$ 679	$ 736	$ 700
Number of Health Participants*	23	45	195	459	331	555	104
Average Dental Subsidy	$ 97	$ 97	$ 97	$ 97	$97	$ 97	$ 97
Number of Dental Participants*	62	202	286	431	318	552	105
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 616	$ 635	$ 613	$ 614	$ 615	$ 670	$ 641
Number of Health Participants*	24	49	189	416	305	520	98
Average Dental Subsidy	$ 95	$ 94	$ 94	$ 94	$ 94	$94	$ 94
Number of Dental Participants*	62	191	280	397	297	521	99

* *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Retirements During Fiscal Year 2012-2013

SERVICE RETIREMENTS

AGUILAR, MARIA
ANACLETO, CYNTHIA
BACKMAN, ELENA
BLUM, STEVEN
BOWLES, CONNIE
BOWMAN, LESLIE
BRISCOE, JAMES
BROWN, MICHAEL
BURNETT, WILLIAM
CAPOSSELE, ROCCO
CASEM, PURINIO
CHENG, JOE
COVEAU, MICHELE
CROSBY, RUSSELL
DAQUINA, REYNALDO
D'ARCY, MICHAEL
DAWSON, JAMES
DELANEY, PAMELA
DERRELL, KENNETH
DO, HAO-NHU
DOYLE, BRIAN
DUNLAP, ROBERTA
EKSTER, ALEXANDER
ENDERBY, MICHAEL
FARRELL, MATTHEW
FONG, RODNEY
GAILO, ADORA
GILL, JANIS
GOLDSTEIN, BARBARA
GOMES, STEVE
GONZALES, RICHARD
GONZALEZ, JOSE
GRADY, DAVID
GRANDCHAMP, DONNA
GRIFFIN, SALLY
GRIZZLE, JODY
HALLENBECK, LESLIE
HANSON, SHIRLEY
HAWKINS, DENNIS
HAYES, THERESA
HEIKKILA, RONALD
HUANG, QIMING
ILANO, ELENLEY
JARNAGIN, CLEVE
JASZKA, CYNTHIA
JONES, KENNETH
KIM, ANDREW
LAM, TUAN
LEHMAN, ROBERT
LEHMAN, DAWN
LENI, PRISCILA
LEON, GERMAN
LEUNG, RONALD
LIGHT, JAMES
LUTY, JULITA
LYKINS, HUBERT
MALABUYO, DANIEL
MARTINEZ, MARGARET
MARTINEZ, PAULA
MAXWELL, SHERRY
MC CLINTOCK, MICHAEL
MCLIN, RONALD
MENDEZ, DEBORAH
MERCADO, SIMEON
METZGER-SCHULZ, JENNIFER
MOORE-GIROUARD, DIANA
MORRISON, CARLA
MUNOZ, ZARAGOZA
NELSON, EDWARD
OKAMOTO, DARRYL
OKEKE, KINGSLEY
OLOW, FELIX
PEAK, RICHARD
POOL, KATHERINE
PORCHE, ORDRA
POWER, JUDITH
RANDOLPH, MICHAEL
RODARTE, ANDREW
RODRIGUEZ, JUAN
SCHOLPP, PAULA
SCHULZ, PHYLLIS
SCHUSTER, NANCY
SERVIN, HENRY
SHIDELER, STEVEN
SIFUENTES, MANUEL
SMITH, DAVID
SOLTERO, PAUL
SOTO, EILEEN
ST. JACQUES, LISA
STANDING-ELK, JENNIFER
SUTHERLAND, KATHY
SVINDAL, JERRY
TEMPLEMAN, HENRY
THORSTENSEN, JAY
TONG, BERNARD
TOUMI, MOHSEN
VARGAS, AGUSTIN
VASQUEZ, YOLANDA
VELEZ-ROSARIO, FRANCES
WALTON, SUSAN
WEBSTER, DANA
WITKOVSKI, MICHAEL

DEFERRED VESTED RETIREMENTS

ABOUJUDOM, YVONNE
ADELMAN, ANDREW
BABAKHAN, RONDA
BARAONA, KATHIE
BLOMBERG, LORETTA
CADY, GEOFFREY
COMBS, RENEE
CYPHER, PATRICIA
DE CASTRO, MARK
DE LEON, SERGIO
DESMOND, RICHARD
DODSON, MICHAEL
DURAN-OLIVAS, LAURA
EMSLIE, STEPHEN
GRIMLEY, STEVE
HAHS, CHERYL
HASHIMOTO, RAYMOND
JOHNSON, MARK
JUNG, COLIN
KERR, MARK
KINNON, KILEY
KRAVITZ, DAVID
LONGORIA, JERONIMO
MARTINELLI, CHRISTOPHER
MEEKS, GLORIA
NASSER, MANSOUR
OBOS, CHERYL
OLKER, SEDARA
ORTEGA, MICHAEL
RODRIGUEZ, LIZANIN
ROLLO, DAVID
SALANDANAN, JAIME
SCHNEIDER, ANN
SCHROETER, JEAN
SHANTZ, DIANE
SMITH, CAMERON
STEELE, TIMOTHY
TOMASSO, PEGGY ANN
TORREY-LEMOS, RENE
VAN AKEN, CORNELIA
WAGENET – BOOHER, MARGARET
WOJCIK, GREG

SERVICE CONNECTED DISABILITY RETIREMENTS

NONE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

CROTHERS, DAVID
DOERING, LINDA
IMANAKA, MIKE

Source: Pension Administration System

Deaths During Fiscal Year 2012-2013

DEATHS AFTER RETIREMENT

AULD, MARGARET
BEGGS, CORNELIUS
BENEVICH, WILLIAM
BESERRA, SALVADOR
BOHNET, NEAL
BOLENDER, ROBERT
BROWN, ELIZABETH
CANDELARIA, GIL
COLLINS, FLORENCE
CRESCINI, FRANCISCO
CUNEO, JOSEPH
DEMPSEY, CARL
DIAL, LESTER
EASTUS, JOHN
FERRALES, MANUEL
FLEMING, HOWARD
FUNK, PATRICIA
GARDIN, GEORGE
GINNE, CARROLL
GRAYSON, RUTH
GRIEHSHAMMER, EMMA
HENDERSON, JOSEPH
HUDSON, ELLEN CLARE
JARNAGIN, CLEVE
JONES, AMOS
KAWABATA, YUKIO
LARA, JOE
LAWRENCE, EUGENE
LEIGH, DOROTHY
LOO, DOROTHY
MAROTZ, ROBERT
MARTIN, ROBERT
MARTINEZ, ROBERT
MASSEN, JOHN
MASTORAKIS, PAUL
MC DONALD, MELVIN
MC GREEN, ARLINE
MC LAIN, RONALD
MOORE, DAVID
NACU, MARY
NAVARRETE, RAY
NEUFELD, MARLIN
OEHLERT, JOE
OTTENS, STEPHEN
PETRY, NELL
PFENDT, SIEGFRIED
ROBERTS, RICHARD
ROBINSON, JOSEPH
RODRIGUEZ, VICTOR
ROJAS, ROSALIE
RUZYLO, SCOTT
SANTOS, DANIEL
SHERMAN, JAMES
STAUDENMAIER, ROBERT
STEPHAN, DOROTHY
STORER, ROY
TALERICO, SAM
TANUSKA, PETER
TAYLOR, SHIRLEY
THISSEN, SHIRLEY
VOGEL, KATHLEEN
WAGNER, ALICE
ZAPIEN, DONALD

DEATHS BEFORE RETIREMENT

BILYCIA, STEVEN
CORDERO, RENE
FORD, JEFFREY
GARCIA, ASUNCION
LOCKETT, JAMES
ROOSENBOOM, HUYEN

Source: Pension Administration System

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