

FEDERATED  
CITY  
EMPLOYEES'  
RETIREMENT  
SYSTEM

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2000

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

**CITY OF SAN JOSE**  
**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM,**  
A pension Trust Fund of the City of San Jose, California

**Comprehensive Annual  
Financial Report**  
**For the Fiscal Year Ended June 30, 2000**

**Edward F. Overton**  
**Director**

City of San Jose  
Department of Retirement Services  
1737 N. First Street, Suite 580  
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[www.ci.san-jose.ca.us/retire/retirement.htm](http://www.ci.san-jose.ca.us/retire/retirement.htm)

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October 5, 2000

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 Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal year ended June 30, 2000. Some significant events worthy of note during this fiscal year were as follows:

- Investments earned 7.6 percent, increasing the market value of the portfolio by \$79.9 million (net of pending purchases and sales). Investments contributed 61.8 percent of the Fund's income.
- The Board and City Council approved a new Department of Retirement Services structure and staffing plan. The Board still remains committed to complying with the Pension Protection Act.
- A new large cap value manager was hired in August 1999, Paradigm Asset Management Company and a new domestic fixed income manager was hired in October 1999, Dodge and Cox.
- The Board hired Independent Fiduciary Services to study the organizational structure of the System and conduct a fiduciary audit. The Board accepted their report.
- The Board with the Police and Fire Board co-hired Deloitte and Touche to formalize and document the Department of Retirement's business processes, with emphasis on the pension administration system.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, and the Fund performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

  
BRADLEY IMAMURA, Chair  
Board of Administration

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I.  
INTRODUCTORY  
SECTION



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## LETTER OF TRANSMITTAL

*Department of Retirement Services*FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 12, 2000

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Federated City Employees' Retirement System ("Plan") for the year ending June 30, 2000. The Plan was established in 1951 and this is the first year the System is using a CAFR format. The change in format provides a more complete and accurate financial review of the year's operations and is the responsibility of the Plan's management.

**Structure of the Report**

This report is presented in five sections:

- ◆ The Introductory Section describes the Plan's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- ◆ The Financial Section contains the opinion of the independent auditors, Macias, Gini and Company LLP, and the financial statements of the Plan.
- ◆ The Investment Section contains the Investment Consultant's statement produced by the Bank of New York, the Plan's investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification and history of performance.
- ◆ The Actuarial Section includes the certification letter produced by the independent actuary, Watson Wyatt, along with supporting schedules and information.
- ◆ The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

I trust that you and the members of the Plan will find this CAFR helpful in understanding the Federated Retirement System -- a plan that continues to maintain a strong and positive financial future.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of

## LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal  
10/12/00 Page 2 of 4

Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

### Major Initiatives

The Board of Administration and City Council approved the new organizational structure and staffing plan for the Department of Retirement Services. The new structure adds a Deputy Director dedicated to the Federated City Employees' Retirement System as well as additional staffing in the investment and banking, benefits and accounting groups shared with the Police and Fire Department Retirement Plan. Implementation of the new structure and staffing plan began in the last quarter of FY2000.

### Additions to Plan Net Assets

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for FY2000 totaled \$126,402,000.

ADDITIONS	2000	1999	Increase (Decrease)	Change
Employer Contributions	\$ 35,825,000	\$ 32,387,000	\$ 3,438,000	11%
Employee Contributions	12,400,000	10,733,000	1,667,000	16%
Investment Income	78,177,000	99,907,000	(21,730,000)	(22%)
<b>TOTAL</b>	<b>\$126,402,000</b>	<b>\$143,027,000</b>	<b>\$(16,625,000)</b>	<b>(12%)</b>

The decrease in investment income was attributable mainly to lower net appreciation in fair value of investments. The increase in employer and employee contributions was attributed to higher active payroll.

### Deductions from Plan Net Assets

The principle purpose for which the Plan was created is to provide retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes benefit payments as designated by the Plan, return of contributions and interest to employees who have terminated their membership, Healthcare Insurance Premiums and the cost of administering the Plan.

**LETTER OF TRANSMITTAL (Continued)**

Letter of Transmittal  
10/12/00 Page 3 of 4

DEDUCTIONS	2000	1999	Increase (Decrease)	Change
Retirement Benefits	\$44,655,000	\$34,846,000	\$9,809,000	28%
Death Benefits	20,000	47,000	(27,000)	(57%)
Return of Contributions	1,386,000	646,000	740,000	115%
Healthcare Insurance Premiums	5,236,000	4,711,000	525,000	11%
Administrative Expenses	1,342,000	726,000	616,000	85%
<b>TOTAL</b>	<b>\$52,639,000</b>	<b>\$40,976,000</b>	<b>\$11,663,000</b>	<b>28%</b>

The increase in administrative expenses was mainly due to increase staff cost, the IFS Study and increased professional services.

**Changes in Plan Memberships**

Plan membership changes for FY2000 were as follows:

	2000	1999	Increase (Decrease)	Change
Active Members*	4,462	4,034	428	11%
Retired Members	1,555	1,496	59	4%
Survivors**	318	310	8	3%
<b>TOTAL</b>	<b>6,335</b>	<b>5,840</b>	<b>495</b>	<b>8%</b>

\* Active members include deferred vested members, members who have left City service but remain a member of the Plan.

\*\* Survivor total includes ex-spouses.

**Financial and Economic Summary**

To head off potential inflationary excesses, the Federal Reserve has been trying to slow down the economy by increasing the federal funds rate. During the first half of 2000, bond prices reacted favorably to some hints of a slowing in economic activity and to the Federal budget surpluses, a phenomenon very few market participants have ever witnessed before.

The technology-driven stock market continued to race ahead until late in the first quarter of 2000, when many technology stocks, typically with heady valuations, began to experience dramatic reversals.

The outlook for the next few years, as the Federal Reserve tries to steer the economy towards a period of less robust economic growth while trying to avoid a recession, investment returns can be expected to be considerably less than were evident in the late 1990's. The Plan is well structured to meet its investment objectives as defined in the Investment Policy Statement.

## LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal  
10/12/00 Page 4 of 4

### Investment Summary

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

The total return of the Plan during the 12 months ended June 30, 2000 was 7.60%, slightly below the actuarial assumed rate of 8.25%. During the past 3 and 5 years, the annualized total returns were 11.46% and 12.58%, well in excess of the actuarial assumed rate. Over long periods, it can be expected that the total returns of the Plan will be less volatile than that of many other plans due to the Plan's low risk characteristic. On a fair value basis, the total market value grew from \$1,037,968,000 to \$1,109,637,000 (net of pending purchases and sales).

### Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 1999, the funding ratio of the Plan was approximately at 93%. A seven-year history of the Plan's funding progress is presented on page 30. The net increase in Plan assets for FY2000 was \$73,763,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on pages 18.

### Conclusion

I would like to take this opportunity to thank the members of the Plan for their confidence in the plan management during the past year. I also want to express my 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 Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

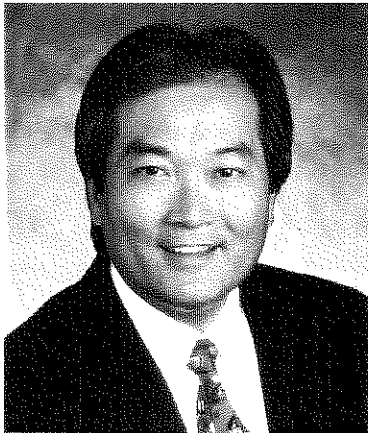


Edward F. Overton  
Director, Retirement Services

## BOARD OF ADMINISTRATION

The Retirement Plan is administered by a five-member Board of Administration composed of a City Council member, a member of from the Civil Service Commission, two City employees elected by members of the system, and a public member who is not connected with the City and has significant banking or investment experience selected by the four 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, 2000, the members of the Board were as follows:

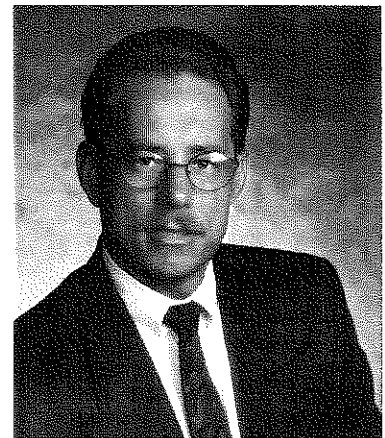


**Bradley Imamura, Chairman**

Employee Representative elected to the Board in November 1993. His current term expires November 30, 2001.

**Jeffrey Perkins, Vice Chairman**

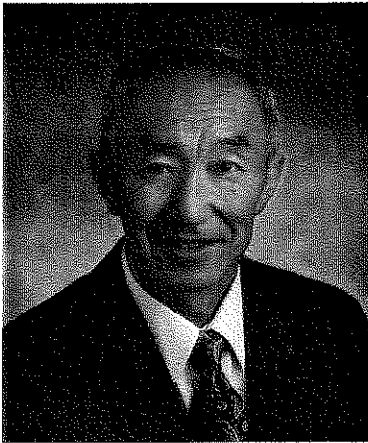
Public member appointed to the Board in June 1996. His current term expires November 30, 2002.



**Linda LeZotte**

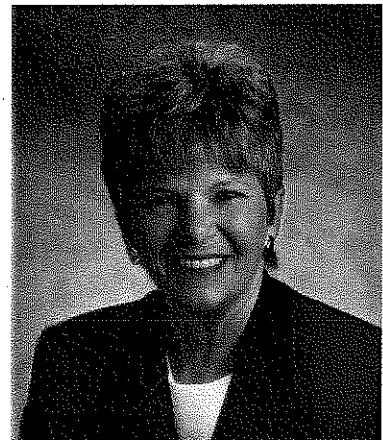
City Council member appointed to the Board in January 1999.

## BOARD OF ADMINISTRATION (Continued)



**Mike Yoshimoto**

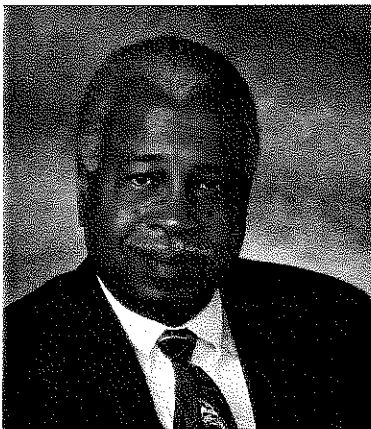
Employee Representative appointed to the Board in December 1999. His current term expires November 30, 2003.



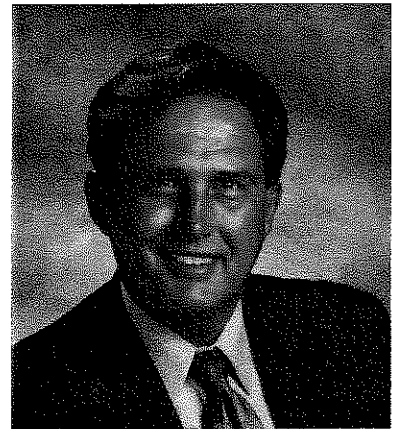
**Sharon Hightower**

Civil service commission member appointed in December 1999. Her current term expires December 1, 2003.

## DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION



**Edward F. Overton**  
Retirement Administrator



**Thomas J. Webster**  
Senior Retirement Officer

## OUTSIDE CONSULTANTS

ACTUARY	Watson Wyatt & Company Seattle, WA
ATTORNEY, CONFLICTS	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	McCutchen, Doyle, Brown & Enersen Palo Alto, CA
AUDITOR	Macias, Gini & Company, LLP Walnut Creek, CA

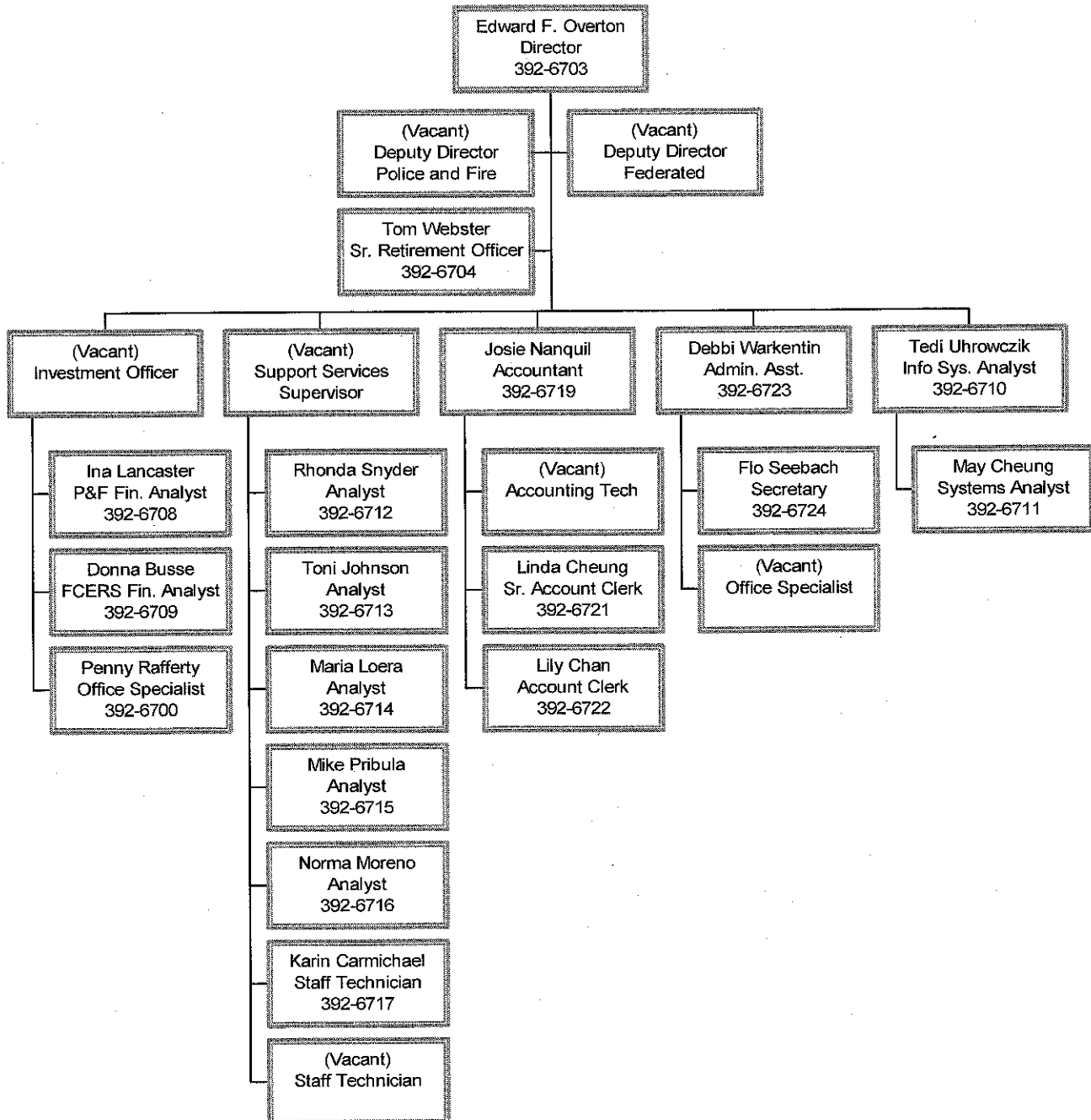
## STANDING PUBLIC MEETINGS

Board Meetings:	Second Thursday of the Month 8:30 AM - City Hall Council Chambers
Subcommittee for Investments:	Quarterly
Real Estate Subcommittee:	Quarterly

Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at [www.ci.san-jose.ca.us/retire/retirement.htm](http://www.ci.san-jose.ca.us/retire/retirement.htm) or they can be obtained in 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 408-392-6700 for current information.**



## DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



### DEPARTMENT OF RETIREMENT SERVICES

1737 North First Street, Suite 580

San Jose, CA 95112

(408) 392-6700

(800) 732-6477

(408) 392-0771 FAX

[www.ci.san-jose.ca.us/retire/retirement.htm](http://www.ci.san-jose.ca.us/retire/retirement.htm)

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS**

### **MEMBERSHIP**

Mandatory for all full-time non-safety employees.

### **MEMBER CONTRIBUTION**

All members contribute 4.76% of base salary.

### **CITY'S CONTRIBUTION**

The City contributes 16.09% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

### **RETIREMENT**

Members may retire at age 55 with five or more years of service or at any age with 30 years of service.

### **RETIREMENT ANNUITY**

The retirement annuity payable is the Final Average Salary multiplied by 2 1/2% per year of service (75% of the Final Average Salary maximum).

### **FINAL AVERAGE SALARY**

The average monthly salary for the highest thirty-six (36) consecutive months.

### **DISABILITY RETIREMENT**

#### **Non-Service Connected**

A non-service connected disability annuity is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service connected disability annuity is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary X 2 1/2% X Number of Years of Service). The annuity will be reduced by .5% for each year of age under 55.

For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Average Salary for 6 years of service but less than 16 years;  
add 2% for each year of service in excess of 6 years but less than 16 years;  
add 2 1/2% for each year of service in excess of 16 years of service.

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)**

### **Service-Connected**

A service connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability annuity is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments.

### **TERMINATION BENEFITS**

Upon termination, the member will be paid all of his or her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement System except that a member terminating with at least five (5) years of service may elect to leave the accumulated contributions and interest on deposit.

### **DEFERRED RETIREMENT**

Contributions left on deposit by a member terminating with at least five (5) years of service (vesting) entitle the employee to a retirement annuity upon attaining age 55.

### **RECIPROCITY**

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

### **COST OF LIVING**

The Board of Administration determines the change in the cost of living (COL) each year using the most current December Consumer Price Index. This Index is in accordance with San Jose Municipal Code "for all urban consumers (CPI-U) San Francisco-Oakland Metropolitan Area" as published by the Bureau of Labor Statistics of the United States Department of Labor. The Board determines the change to be effective beginning April first each year. A maximum of 3% is granted with any excess accumulated for use in future years. A retiree receives no COL adjustment for the first year, then receives a pro-rated adjustment for the months before the next April first. Survivors will be paid their next COL adjustment at the same time it would have been paid to the retiree. There is no break in the COL schedule.

### **DEATH BEFORE RETIREMENT**

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance determined by the years of service times 2 1/2% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

- 1 child receives 25% of the spousal benefit
- 2 children share 50% of the spousal benefit
- 3+ children share 75% of the spousal benefit

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)**

The beneficiary, in the event that no family members are eligible for a monthly allowance, is entitled to a return of the member's contributions and interest plus a death benefit of one month's salary for each year of service (up to six).

If the employee is 55 and has 20 or more years of service at the time of death, his/her spouse will retain the survivorship allowance for life. If not, the spouse loses the allowance upon a remarriage.

### **DEATH AFTER RETIREMENT**

The surviving spouse receives one-half\* of the member's retirement allowance until death and a \$500 death benefit (\* At the time of retirement, the member may select an alternative option allowing for a survivorship allowance of up to 100% of the member's allowance). If there is no surviving spouse, dependant children are eligible for an allowance. The allowance is:

- 1 child receives 25% of spousal benefit
- 2 children share 50% of spousal benefit
- 3+ children share 75% of spousal benefit

### **MANAGEMENT**

The System is under the management of a five (5) member Board of Administration consisting of a City Council person, a Civil Service Commissioner, a public member with significant banking or investment experience, and two elected employees who are members of the Retirement System.

### **ADMINISTRATION**

A full-time Director is employed by the Board. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The Fund pays the cost of the personnel who are employed for the purpose of managing the Retirement Plan. It also pays any directly related administrative costs.

Bank of New York is employed as custodian of fund assets and collector of investment income.

### **ACTUARIAL SOUNDNESS**

Watson Wyatt and Company is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to assure continuing soundness.

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)**

### **INVESTMENT AUTHORITY AND POLICY**

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services including Scudder Kemper; Dodge and Cox; Bank of Ireland; Julius Baer; Atlanta Capital Management; Brandywine Asset Management; Eagle Asset Management; Northern Trust; Paradigm Asset Management; MIG Realty Advisors; TimeSquare Real Estate Investors (Formerly Cigna Investment Management) and DRA Advisors, Inc. are retained for full-time investment counsel. Callan Associates and Bank of New York are retained as the pension consultants.

## II.

# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT



*Partners*  
 Kenneth A. Macias, Managing Partner  
 Ernest J. Gini  
 Kevin J. O'Connell  
 Richard A. Green  
 Jan A. Rosati  
 James V. Godsey

Mt. Diablo Plaza  
 2175 N. California Boulevard  
 Suite 620  
 Walnut Creek, CA 94596-3565  
 925•274•0190  
 925•274•3819 FAX  
[www.maciasgini.com](http://www.maciasgini.com)

The Board of Administration  
 City of San Jose Federated Employees'  
 Retirement System

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San Jose Federated Employees' Retirement System (the System), as of June 30, 2000, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System as of June 30, 1999, were audited by other auditors, whose report dated August 31, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2000, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

The required supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data designated as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on such data.

*Macias, Gini & Company LLP*  
 Certified Public Accountants  
 Walnut Creek, California  
 August 25, 2000

#### OFFICE LOCATIONS

Sacramento • Los Angeles • Fresno • San Francisco Bay Area



**STATEMENT OF PLAN NET ASSETS**  
**As of June 30, 2000 and 1999**  
**(In Thousands)**

	2000			
	Pension	Post-employment	Total	1999
	benefits	healthcare		
	benefits	benefits		
<b>ASSETS</b>				
Receivables:				
Employee contributions	\$ 179	\$ 26	\$ 205	\$ 563
Employer contributions	665	33	698	1,677
Brokers and others	10,609	701	11,310	7,939
Accrued investment income	6,675	442	7,117	6,955
Total receivables	18,128	1,202	19,330	17,134
Investments, at fair value:				
Securities and other	941,237	61,485	1,002,722	933,086
Real estate	89,516	5,933	95,449	82,433
Loaned securities for cash and noncash collateral	75,439	5,000	80,439	87,755
Securities lending collateral	77,004	5,104	82,108	77,237
Total investments	1,183,196	77,522	1,260,718	1,180,511
Total assets	1,201,324	78,724	1,280,048	1,197,645
<b>LIABILITIES:</b>				
Payable to brokers	12,041	798	12,839	9,920
Securities lending collateral, due to borrowers	77,004	5,104	82,108	77,237
Other liabilities	2,642	213	2,855	2,005
Total liabilities	91,687	6,115	97,802	89,162
<b>NET ASSETS HELD IN TRUST FOR:</b>				
Pension benefits	1,109,637	-	1,109,637	1,037,968
Postemployment healthcare benefits	-	72,609	72,609	70,515
Total net assets (A schedule of funding progress is presented on page 30.)	\$ 1,109,637	\$ 72,609	\$ 1,182,246	\$ 1,108,483

See accompanying notes to financial statements.

**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**For the Fiscal Years Ended June 30, 2000 and 1999**  
**(In Thousands)**

	2000			
	Pension	Post-employment	Total	1999
	benefits	healthcare		
	benefits	benefits		
<b>ADDITIONS:</b>				
Contributions:				
Employer	\$ 34,146	\$ 1,679	\$ 35,825	\$ 32,387
Employee	10,804	1,596	12,400	10,733
Total contributions	44,950	3,275	48,225	43,120
Investment income:				
Net appreciation in				
fair value of investments	36,544	1,626	38,170	59,675
Interest income	26,487	1,776	28,263	29,524
Dividend income	7,706	517	8,223	6,469
Net rental income	6,196	417	6,613	6,874
Less investment expense	(3,094)	(204)	(3,298)	(2,635)
Net investment income	73,839	4,132	77,971	99,907
Total additions	118,789	7,407	126,196	143,027
<b>DEDUCTIONS:</b>				
Retirement benefits	44,655	-	44,655	34,846
Healthcare insurance premiums	-	5,236	5,236	4,711
Death benefits	20	-	20	47
Refund of contributions	1,386	-	1,386	646
Administrative expenses and other	1,059	77	1,136	726
Total deductions	47,120	5,313	52,433	40,976
Net increase	71,669	2,094	73,763	102,051
<b>NET ASSETS HELD IN TRUST</b>				
<b>FOR PENSION BENEFITS</b>				
<b>AND POSTEMPLOYMENT</b>				
<b>HEALTHCARE BENEFITS:</b>				
Beginning of year	1,037,968	70,515	1,108,483	1,006,432
End of year	\$ 1,109,637	\$ 72,609	\$ 1,182,246	\$ 1,108,483

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### For the Fiscal Years Ended June 30, 2000 and 1999

#### NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San Jose Federated City Employees' Retirement System (the System) is provided for general information purposes only. Employees and members should refer to the City of San Jose 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 and last amended December 9, 1994, to provide retirement benefits for certain employees of the City of San Jose (the City). The System is considered to be a part of the City's financial reporting entity and is included in the City's general purpose financial statements as a pension trust fund. The System is administered by the Retirement Administrator, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (the 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 except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately \$228,146,000 and \$206,214,000 for 2000 and 1999, respectively. Covered payroll amounted to approximately \$212,310,000 and \$196,178,000 for 2000 and 1999, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2000 and 1999, employee membership data related to the System was as follows:

	2000	1999
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	1,873	1,797
Terminated vested members not yet receiving benefits	266	100
Active members	4,196	3,934
Total	<u>6,335</u>	<u>5,831</u>
Post-employment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,718	1,349
Terminated vested members not yet receiving benefits	37	36
Active members	4,196	3,874
Total	<u>5,951</u>	<u>5,259</u>

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

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **For the Fiscal Years Ended June 30, 2000 and 1999**

#### **NOTE 1 – DESCRIPTION OF THE PLAN (Continued)**

**(b) *Pension Benefits***

An employee with 5 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 2-1/2% 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 years of consecutive service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment before completing five years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is 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.

**(c) *Death Benefits***

If an employee's death before retirement is service related, or is nonservice related and the employee has at least 5 years of service, a surviving spouse is paid an annual annuity benefit equal to 2-1/2% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation). If there is no surviving spouse, 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 benefit such that no one child shall receive more than 25% of the spousal benefit and the sum for all eligible children shall not exceed 75% of the spousal 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 6 years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, \$500 is paid to the employee's beneficiary or estate. In addition, the employee's surviving spouse continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse, 25% of the spouse'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.

**(d) *Disability Benefits***

If an employee suffers a service related disability before retirement, the employee may retire regardless of length of service. The annual disability benefit paid for a service related disability is 2-1/2% of final compensation multiplied by the number of years of service. The maximum benefit is 75% and the minimum benefit is 40% of final compensation. The disability benefit is offset by certain workers' compensation payments.

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **For the Fiscal Years Ended June 30, 2000 and 1999**

#### **NOTE 1 – DESCRIPTION OF THE PLAN (Continued)**

If an employee with at least 5 years of service suffers a nonservice related disability, the annual disability benefit is equal to the greater of: (1) 2-1/2% 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 1/2% of final compensation for each year an employee's age is under 55.

**(e) *Postemployment Healthcare Benefits***

The City of San Jose Municipal Code provides that retired 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 federated City employee. 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.

**(f) *Plan Termination***

In the event the System is terminated, there is no provision for the distribution of net assets.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Basis of Accounting***

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed. 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 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 generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the disclosed amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**(b) *Investments***

Investments are reported at fair value. Securities traded on a national or international ex-

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2000 and 1999

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

change 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. The fair value of real estate investments is based on independent appraisals.

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.

(c) *Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits*

The System is required by the City of San Jose Municipal Code to establish various reserves in the plan net assets. The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund and the Cost-of-Living Fund (see page 34). As of June 30, 2000, the net assets, totaling \$1,182,246,000 on a combined basis for both the Retirement Fund and the Cost-of-Living Fund, is allocated as follows (in thousands):

	Retirement Fund	Cost-of- Living Fund	2000	Total 1999
Employee contributions	\$ 160,780	\$ 43,882	\$ 204,662	\$ 196,887
Employer contributions	240,600	125,463	366,063	316,181
Retired employees' annuity	159,970	(1,660)	158,310	169,306
Benefits payable	274,119	-	274,119	191,739
Supplemental retiree benefits	17,111	-	17,111	15,052
Contingency reserve	19,941	-	19,941	94,717
Unrealized gains on investments held	30,536	27,071	57,607	44,626
General reserve	-	84,433	84,433	79,975
Total	<u>\$ 903,057</u>	<u>\$ 279,189</u>	<u>\$1,182,246</u>	<u>\$1,108,483</u>

(d) *Interest Crediting/Allocation of the Contingency Reserve and General Reserve Accounts*

Realized earnings on investments and gains and losses on the sale of investments are recorded in the contingency reserve category of net assets for the Retirement Fund and in the general reserve category of net assets for the Cost-of-Living Fund.

Except for the contingency reserve and general reserve accounts, interest is credited to the other reserve accounts of both the Retirement and Cost-of-Living funds based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 7.25% during fiscal 2000 and 1999. For the Retirement Fund, interest is allocated

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2000 and 1999

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

from the contingency reserve category of net assets and is credited to the following net assets categories: employee contributions, employer contributions, retired employees' annuity, benefits payable, and supplemental retiree benefits. For the Cost-of-Living Fund, interest is allocated from the general reserve account and is credited to the following fund balance categories: employee contributions, employer contributions, and the retired employees' annuity.

(e) *“Excess Earnings” in the Contingency Reserve*

Within 90 days of completion of the annual audit of the System's financial statements, any excess earnings as defined by the San Jose Municipal Code remaining in the contingency reserve category of net assets are to be transferred 90% to the benefit payable and 10% to the supplemental retiree benefits categories of net assets. Based on fiscal year 1999/2000 allocation of the net increase in plan net assets, as described above, the contingency reserve incurred a decrease. As of June 30, 2000, there were no “excess earnings” to transfer.

#### NOTE 3 – INVESTMENTS

The System's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualified financial institution's trust department or agent, in the System's name, where the financial institution acts as the System's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualified financial institution's trust department or agent, but not in the System's name. There were no investments in Categories 2 or 3, as of June 30, 2000 and 1999.

The categorization of the System's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2000 and 1999, was as follows (in thousands):

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2000 and 1999

#### NOTE 3 – INVESTMENTS (Continued)

	Fair Value	
	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Category 1:		
U.S. government securities		
Not on securities loan	\$ 138,049	\$ 120,670
Loaned securities for non cash collateral	1,117	15,159
Foreign government bonds	53,140	42,365
Domestic corporate bonds:		
Not on securities loan	138,057	141,982
Loaned securities for non cash collateral	-	964
Foreign corporate bonds	7,211	15,678
Domestic equity securities	228,908	156,995
Foreign equity securities	121,536	97,638
Uncategorized:		
Investments held by broker-dealers under securities		
loans with cash collateral:		71,632
U.S. Treasury bonds and notes	47,718	
Foreign government bonds	1,815	
Domestic corporate bonds	10,974	
Domestic equity securities	18,815	
Short-term foreign currency investments	323	4,792
Collective short-term investment funds	315,498	352,966
Real estate investments	95,449	82,433
Securities lending collateral investment pool	82,108	77,237
<b>Total investments</b>	<b><u>\$ 1,260,718</u></b>	<b><u>\$ 1,180,511</u></b>



## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2000 and 1999

#### NOTE 3 – INVESTMENTS (Continued)

Of the System's total investments, the following table presents the allocation as presented on the accompanying statements of defined benefit pension plan net assets and postemployment healthcare plan net assets as of June 30, 2000 and 1999 (in thousands):

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Investments:		
Defined Benefit Pension Plan	\$ 1,183,196	\$ 1,105,487
Postemployment Healthcare Plan	<u>77,522</u>	<u>75,024</u>
	<u><u>\$ 1,260,718</u></u>	<u><u>\$ 1,180,511</u></u>

The collective short-term investment fund is used for overnight investment of all excess cash in the System's funds. It is invested by the System Custodian, and held in the System Custodian's name. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

The loaned securities represent securities on loan to brokers or dealers or other borrowers. The custodial agreement with the System Custodian authorizes such custodian to loan securities in the System's investment portfolio under such terms and conditions as the System Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the System Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the System Custodian is required to credit the System's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

The loaned securities as of June 30, 2000, consisted of U.S. Treasury bonds and notes, foreign government bonds, domestic corporate bonds, and domestic equity securities. In return, the System receives collateral in the form of cash or securities at 102% to 107% of the principal plus accrued interest for reinvestment.

Securities lent at year-end for cash collateral are presented as unclassified in the preceding categoriza-

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **For the Fiscal Years Ended June 30, 2000 and 1999**

tion of the Plan's investments, securities lent for noncash collateral are classified according to the category of the related collateral.

Securities lending collateral represents investments in a securities lending collateral investment pool purchased with cash collateral, as well as securities collateral that the Plan may not pledge or sell without a borrower default. The Plan does not match the maturities of cash collateral with the securities on loan.

As of June 30, 2000, the underlying securities loaned by the System as a whole amounted to approximately \$80,439,000. The cash collateral and the noncash collateral as a whole totaled \$82,108,000 and \$1,156,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2000.

Real estate investments include a warehouse, retail center, and office building located in Northern California; an industrial complex, office building, and retail center in Southern California, apartment complexes in Florida; and an interest in a real estate fund managed by a third party. The properties located in California are jointly owned with the City's other retirement fund. The properties have leases with various terms.

The System has made investments in forward currency contracts, which are unrecorded commitments to purchase or sell stated amounts of foreign currency. Gains or losses on the disposition of the commitments are recorded at the time of settlement. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2000, total commitments in forward currency contracts to purchase and sell foreign currencies were \$12,247,000 and \$12,247,000, respectively, with market values of \$11,906,000 and \$12,229,000, respectively. As of June 30, 1999, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of \$11,545,000 and \$29,810,000, respectively, with market values of \$11,406,000 and \$29,223,000, respectively.

#### **NOTE 4 – CONTRIBUTIONS - FUNDING POLICY**

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 15 years. 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 Funding Progress for the Defined Benefit Pension Plan (see page 30).

Contribution rates for the City and the participating employees for 2000 and 1999 were established in accordance with actuarially determined requirements computed through actuarial valuations performed

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **For the Fiscal Years Ended June 30, 2000 and 1999**

#### **NOTE 4 – CONTRIBUTIONS - FUNDING POLICY (Continued)**

as of June 30, 1997 and 1999, and approved by the Board of Administration. For the period from January 11, 1998 through June 24, 2000, pursuant to the requirements of the June 30, 1997 actuarial valuation, the City contributed 15.37% and 1.15% of annual covered payroll for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, and the participating employees were required to contribute 4.36% and 0.95%, respectively, of their annual covered payroll. For the period from June 25, 2000 through June 30, 2000, pursuant to the requirements of the June 30, 1999 actuarial valuation, the City contributed 15.33% and .76% of annual covered payroll for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, and participating employees were required to contribute 4.17% and 0.59%, respectively, of their annual covered payroll. Contributions to the Defined Benefit Pension Plan and the Postemployment Healthcare Plan by the City and the participating employees totaled \$44,950,000 and \$3,275,000, respectively, for 2000 and \$38,951,000 and \$4,169,000, respectively, for 1999.

#### **NOTE 5 – CONCENTRATIONS**

No investments in any one organization represent 5% of fund net assets.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**  
**DEFINED BENEFIT PENSION PLAN**  
**(Unaudited - See accompanying independent auditor's report)**  
**(In Thousands)**

**Funding Progress – GASB No 25**

Actuarial valuation date	Actuarial value of assets <sup>(d)</sup>	Actuarial Accrued liability (AAL)	Unfunded (Overfunded) AAL	Funded ratio	Annual Covered payroll	Unfunded (Overfunded) AAL as a Percentage of annual covered payroll
June 30, 1994 <sup>(a)</sup>	527,984	620,647	92,663	85%	149,850	62%
→ June 30, 1995	566,102	658,175	92,073	86%	153,918	60%
June 30, 1996 <sup>(b)</sup>	622,528	696,974	74,446	89%	165,101	45%
→ June 30, 1997	678,954	735,772	56,818	92%	176,284	32%
June 30, 1998 <sup>(c)</sup>	741,907	798,999	57,092	93%	182,842	31%
→ June 30, 1999	804,860	862,226	57,366	93%	196,178	29%

Actuarial valuations have been performed biennially (through June 30, 1999).

- (a) Average of the June 30, 1993 and June 30, 1995 results.
- (b) Average of the June 30, 1995 and June 30, 1997 results.
- (c) Average of the June 30, 1997 and June 30, 1999 results.
- (d) Reported at "smoothed market" value determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**DEFINED BENEFIT PENSION PLAN**  
**(Unaudited - See accompanying independent auditor's report)**  
**(In Thousands)**

Fiscal year ended June 30,	Annual required employer contributions	Percentage Contributed
1995	\$ 22,546	100%
1996	23,756	100%
1997 <sup>(a)</sup>	29,455	92%
1998 <sup>(a)</sup>	30,367	96%
1999	30,139	100%
2000	34,146	100%

- (a) The difference between the annual required employer contributions and the actual contributions for the fiscal years ended June 30, 1997 and 1998, was due to the System's selection of lower contribution rates from among allowable alternatives.

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
DEFINED BENEFIT PENSION PLAN**

**(Unaudited - See accompanying independent auditor's report)**

**Year Ended June 30, 2000**

<b>Description</b>	<b>Method/Assumption</b>
Valuation date	June 30, 1999
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	19 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8.25% per annum
Post-retirement mortality	The 1983 Group Annuity Mortality Table for males, with one year setback is used for male members. The 1983 Group Annuity Mortality Table for females, with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Tables based on current experience
Salary increases	In general, merit and longevity increases plus assumed general wage increase of 4.5% per year
Cost-of-living adjustments	3.0% a year

**OTHER SUPPLEMENTAL INFORMATION**



# **COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS**

**June 30, 2000**

**(In Thousands)**

	Retirement Fund	Cost-of-Living Fund	Total
<b>ASSETS</b>			
Receivables:			
Employee contributions	\$ 130	\$ 49	\$ 179
Employer contributions	513	152	665
Brokers and others	8,019	2,590	10,609
Accrued investment income	5,060	1,615	6,675
Total receivables	<u>13,722</u>	<u>4,406</u>	<u>18,128</u>
Investments, at fair value:			
Securities and other	703,244	237,993	941,237
Real estate	67,860	21,656	89,516
Loaned securities for cash and noncash collateral	57,188	18,251	75,439
Securities lending collateral	58,375	18,629	77,004
Total investments	<u>886,667</u>	<u>296,529</u>	<u>1,183,196</u>
Total assets	<u>900,389</u>	<u>300,935</u>	<u>1,201,324</u>
<b>LIABILITIES:</b>			
Payable to brokers	9,128	2,913	12,041
Securities lending collateral, due to borrowers	58,375	18,629	77,004
Other liabilities	2,438	204	2,642
Total liabilities	<u>69,941</u>	<u>21,746</u>	<u>91,687</u>
Plan net assets held in trust for pension benefits	<u>\$ 830,448</u>	<u>\$ 279,189</u>	<u>\$ 1,109,637</u>

**COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT  
PENSION PLAN NET ASSETS  
For the Fiscal Year Ended June 30, 2000  
(In Thousands)**

	Retirement Fund	Cost-of-Living Fund	Total
<b>ADDITIONS:</b>			
Contributions:			
Employer	\$ 26,361	\$ 7,785	\$ 34,146
Employee	8,141	2,663	10,804
Total contributions	34,502	10,448	44,950
Investment income:			
Interest income	20,081	6,406	26,487
Dividend income	5,843	1,863	7,706
Net appreciation in fair value of investments	18,382	18,162	36,544
Net rental income	4,713	1,483	6,196
Less investment expense	(2,154)	(748)	(2,902)
Total investment income	46,865	27,166	74,031
Total additions	81,367	37,614	118,981
<b>DEDUCTIONS:</b>			
Retirement benefits	36,434	8,221	44,655
Death benefits	20	-	20
Refund of contributions	1,095	291	1,386
Administrative expenses and other	1,026	225	1,251
Total deductions	38,575	8,737	47,312
Net increase	42,792	28,877	71,669
<b>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b>			
Beginning of year	787,656	250,312	1,037,968
End of year	\$ 830,448	\$ 279,189	\$ 1,109,637

## SCHEDULE OF ADMINISTRATIVE EXPENSES AND OTHER

### For Years Ending June 30, 2000 and 1999

	2000		1999	
	Original Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>Personnel Services:</b>				
Permanent Staff Expense	\$ 582,000	\$ 562,089	\$ 19,911	\$ 479,367
<b>Total Personnel Services</b>	<b>582,000</b>	<b>562,089</b>	<b>19,911</b>	<b>479,367</b>
<b>Professional Services:</b>				
Actuarial Services	60,000	34,058	25,942	30,839
Independent Fiduciary	197,500	197,500	0	0
Strategic Investment Solutions	11,211	11,211	0	0
Medical Services	35,000	34,433	567	31,929
Audit	15,000	11,999	3,001	14,627
Legal Counsel	12,500	12,336	164	3,415
Network Consultant	14,400	7,354	7,046	9,818
Software Development Consultant	57,100	53,029	4,071	457
Pension Benefit Information	800	449	351	427
<b>Total Professional Services</b>	<b>403,511</b>	<b>362,369</b>	<b>41,142</b>	<b>91,512</b>
<b>Communication:</b>				
Postage	12,500	9,755	2,745	8,808
Printing	13,000	6,253	6,747	6,682
Duplicating	7,000	5,793	1,207	3,801
Data Processing	6,000	2,803	3,197	4,083
Travel	88,500	38,200	50,300	47,737
<b>Total Communication</b>	<b>127,000</b>	<b>62,804</b>	<b>64,196</b>	<b>71,111</b>
<b>Structure and Equipment:</b>				
Copier Lease	3,000	2,484	516	2,874
Copier Maintenance	2,000	1,764	236	1,507
Equipment	6,500	6,104	396	4,660
Equipment Repair & Miscellaneous Services	3,000	2,598	402	0
Software Enhancements	58,750	54,000	4,750	0
Computer Hardware/Software	7,000	6,647	353	8,122
<b>Total Structure and Equipment</b>	<b>80,250</b>	<b>73,597</b>	<b>6,653</b>	<b>17,163</b>
<b>Miscellaneous:</b>				
Office Expense	24,000	15,793	8,207	15,326
Dues/Subscriptions	3,000	2,913	87	2,296
Training	26,000	25,693	307	19,238
Rent on Building	35,000	31,080	3,920	30,108
<b>Total Miscellaneous</b>	<b>88,000</b>	<b>75,479</b>	<b>12,521</b>	<b>66,968</b>
<b>Total Administrative Expenses and Other</b>	<b>\$ 1,280,761</b>	<b>\$ 1,136,338</b>	<b>\$ 144,423</b>	<b>\$ 726,121</b>

## SCHEDULE OF INVESTMENT EXPENSES

### For Years Ending June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<b>EQUITY</b>		
Domestic Equity	\$ 994,917	\$ 865,054
International Equity	410,150	377,814
<b>TOTAL EQUITY</b>	<u>1,405,067</u>	<u>1,242,868</u>
<b>FIXED INCOME</b>		
Domestic Fixed Income	408,508	318,161
Global Fixed Income	225,945	219,884
<b>TOTAL FIXED INCOME</b>	<u>634,453</u>	<u>538,045</u>
<b>REAL ESTATE</b>	808,864	742,645
 <b>Total Investment Managers' Fees</b>	 <u>2,848,384</u>	 <u>2,523,558</u>
<b>OTHER INVESTMENT SERVICE FEES</b>		
Investment Consultant	197,871	0
Proxy Voting	7,868	4,570
Custodian	244,449	106,619
 <b>Total Other Investment Service Fees</b>	 <u>450,188</u>	 <u>111,189</u>
 <b>TOTAL INVESTMENT EXPENSES</b>	 <u><u>\$ 3,298,572</u></u>	 <u><u>\$ 2,634,747</u></u>

**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
**For Years Ending June 30, 2000 and 1999**

<b>FIRM</b>	<b>NATURE OF SERVICE</b>	<b>FEEES</b>	
		<b>2000</b>	<b>1999</b>
Independent Fiduciary Services	Organizational/Fiduciary Consultant	\$ 197,500	N/A
Levi, Ray & Shoup	PensionGold Software Developers	53,029	457
KPMG Peat Marwick	External Auditors	11,999	14,627
LanMinds	Network Maintenance/Consultant	7,354	9,818
Palo Alto Medical/Other Medical	Medical Consultant	34,433	31,929
Pension Benefit Information	Reports on Beneficiary Deaths	449	427
Saltzman & Johnson	Legal Counsel	12,336	3,415
Strategic Investment Solutions	One Time Search Consultant	11,211	N/A
Watson Wyatt	Actuarial Consultant	34,058	30,839
<b>TOTAL</b>		<b>\$ 362,369</b>	<b>\$ 91,512</b>

III.  
INVESTMENT  
SECTION

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## REPORT ON INVESTMENT ACTIVITY

### THE BANK OF NEW YORK

NEW YORK'S FIRST BANK - FOUNDED 1784 BY ALEXANDER HAMILTON

ONE WALL STREET, NEW YORK, N. Y. 10286

September 5, 2000

Mr. Edward F. Overton  
Director, Retirement Services  
Federated City Employees' Retirement System of San Jose  
777 N. First Street, Suite 750  
San Jose, California 95112-6311

Dear Mr. Overton:

This letter reviews the investment activity of the Federated City Employees' Retirement System of San Jose during the fiscal year ended June 30, 2000 for the Comprehensive Annual Financial Report.

#### Background

The objectives of the System, as indicated in the Investment Policy Statement, are to assure sufficient funding for disbursements; to attempt to insure that investment earnings are sufficiently high, along with employee and City contributions, to offset liabilities in perpetuity; to strive for the highest total returns consistent with safety in accordance with accepted investment practices; to maintain an appropriate asset allocation; and to control costs. The Board has established an investment structure and process that effectively meets these goals.

The Board has established an asset allocation policy that provides for a mix of domestic and international equities, domestic and international fixed income investments, and real estate, with targets for each asset class. The portfolio is reviewed periodically to determine that the asset classes are within established ranges.

Quarterly performance reports are provided by The Bank of New York, the System's custodian, based on plan accounting data. The Bank of New York adheres to the Association for Investment Management and Research (AIMR) performance presentation standards and also assists the Board in a consultative capacity in monitoring the performance of the investment managers.

#### The Capital Markets

The buoyant stock market that was evident during the last several years, at least until the first half of 2000, has reflected an unusually favorable economic environment in the United



## REPORT ON INVESTMENT ACTIVITY (Continued)

### THE BANK OF NEW YORK

States, as well as dramatic advances in technology. During the 12 months ending June 30, 2000, real gross domestic product rose 6.0%, well in excess of the economy's long term growth rate. At the same time, except for a sharp rise in energy prices, inflation has been relatively well contained. During the 12 months ending June 2000, the consumer price index rose 3.7%, while the increase was 2.4% excluding food and energy. The robust economic growth has led to a favorable employment situation, with the unemployment rate falling to 4.0% as of June 2000, the lowest rate in 30 years.

To head off potential inflationary excesses, the Federal Reserve has been trying to slow down the economy by increasing the federal funds rate. As of June 30, 2000, the target fed funds rate was 6.50%, compared to 4.75% for most of the first half of 1999. Bond yields rose from mid-1999 through early 2000. During the first half of 2000, bond prices reacted favorably to some hints of a slowing in economic activity and to the Federal budget surpluses, a phenomenon very few market participants have ever witnessed before. The net result was a 4.56% increase in the Lehman Brothers Aggregate Bond Index during the 12 months ending June 30, 2000.

The technology-driven stock market continued to race ahead until late in the first quarter of 2000, when many technology stocks, typically with heady valuations, began to experience dramatic reversals. During the 12 months ending June 30, the S&P 500 rose 7.32%, while the broader Russell 3000 index rose 9.59%. The Russell 2000, an index of small capitalization stocks that are part of the Russell 3000, rose 14.33%. As for international equities, the Morgan Stanley Capital International EAFE (Europe, Australia, and the Far East) index rose 17.17%.

### Investment Results

The total return of the System during the 12 months ended June 30, 2000 was 7.60%, slightly below the actuarial assumed rate of 8.25%. During the past 3 and 5 years, the annualized total returns were 11.46% and 12.58%, well in excess of the actuarial assumed rate. The System's peer group rankings on a 1-year and 3-year basis were in the third quartile compared to a large group of master trusts and a large group of public funds. The ranking was in the fourth quartile on a 5-year basis, but in recent years the peer group ranking has been rising and was in the second quartile in the first half of 2000. This ranking is partly the result of the System's somewhat smaller exposure to equities compared to many other plans. Over long periods, it can be expected that the total returns of the System will display less volatility than that of many other plans. In this regard, the risk of the System has consistently been in the lowest quartile (least risk) of all master trusts and public funds.

The total returns of the System have been somewhat below the policy benchmark on a 1-, 3-, and 5-year basis. These results are not unusual, as many plans have had difficulty meeting their policy benchmarks, since the gains in the stock market have been concentrated in a relatively few issues that are favored by particular investment styles. The System's large capitalization growth manager selects from stocks that have a strong earnings history, while the small capitalization growth manager's orientation is growth at a reasonable price. While both of these approaches are valid in terms of long-term investment results and have sound fundamental underpinnings, they have not been at the forefront of the styles driving the market during the last

## REPORT ON INVESTMENT ACTIVITY (Continued)

### THE BANK OF NEW YORK

several years and consequently have lagged in performance. The small capitalization value manager also did not meet the policy benchmark. Towards the end of the fiscal year, however, the stock market seemed to be experiencing a change in leadership in favor of the System's more conservative orientation. In addition to its active managers, the System has a significant exposure to domestic equities through a Russell 3000 index fund, which has been achieving very close to benchmark performance.

The international equity manager has had very strong performance, comfortably beating the benchmark on a 1-year and 3-year basis and ranking second quartile on a 1-year basis and first quartile on a 3-year basis. The manager focuses on relatively large capitalization stocks with a value perspective.

The domestic fixed income managers have been delivering close to benchmark performance. Although their performance rankings basically have been slightly below median, peer group rankings for fixed income managers are within very narrow bands. The performance of the international fixed income manager has been negatively affected by the depreciation of the euro, which has proved to be a source of consternation for many investors in foreign securities.

The System's relatively large exposure to real estate has provided steady, solid returns compared to the relatively volatile equity market. The real estate exposure is well diversified in that it includes both direct investments and commingled funds.

In summary, the System has been achieving higher peer group rankings in recent years, while still maintaining a relatively conservative risk profile. In terms of the outlook for the next few years, as the Federal Reserve tries to steer the economy towards a period of less robust economic growth while also trying to avoid a recession, investment returns can be expected to be considerably less than were evident in the late 1990s. In conclusion, the System is well structured to meet its investment objectives as defined in the Investment Policy Statement.

Yours truly,



Bernard Schoenfeld  
Vice President

**INVESTMENT POLICY STATEMENT  
BOARD OF ADMINISTRATION  
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board ("Board") and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

- \* Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- \* Setting forth an investment structure for managing all the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- \* Providing guidelines for the investment System that control the level of overall risk and liquidity assumed in that System, so that all the System's assets are managed in accordance with stated objectives.
- \* Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- \* Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- \* Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

- (1) Require that the Retirement System be sufficiently funded to assure that all disbursement obligations will be met.
- (2) Attempt to insure that the investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

## INVESTMENT POLICY STATEMENT (Continued)

- (3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.
- (4) Control costs of administering the System's assets and managing the investments.

### Asset Allocation Policy

The following policy has been identified by the Board as having the greatest expected investment return and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the Policy of the System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

Asset Class	Minimum	Target	Maximum
Domestic Equity	37%	42%	47%
• Large Cap Equity		32%	
• Small Cap Equity		10%	
International Equity	6%	10%	14%
Domestic Bonds	29%	34%	39%
International Bonds	3%	6%	9%
Real Estate	5%	8%	11%

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Investment Objectives" section which preceded this section.

### (Procedure 453)

The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change, the policy needs to be modified to compensate for those changes so that the Retirement System remains sufficiently funded to meet all distribution needs.

## INVESTMENT POLICY STATEMENT (Continued)

### Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Administrator will review the asset mix of the Plan on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 454. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

### Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

### Rebalancing of Strategic Allocation

#### (Procedure 454)

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

General guidelines for re-balancing the portfolio are as follows:

- (1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the fund will be re-balanced to the target over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. **If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.**
- (2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient,

## INVESTMENT POLICY STATEMENT (Continued)

then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.

- (3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.
- (4) Transfers to or from the Domestic Stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.
- (5) Since the Domestic Equity Class represents a large part of the Fund, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

<b>Asset Allocation Model Secondary Targets Within the Domestic Equity Class</b>			
<i>Portfolio Category: Form of Investment Management</i>	<i>As a Percentage of the Domestic Equity Portfolio</i>	<i>As the Equivalent Percentage of the Total Portfolio</i>	<i>Allowable Variation from the Percentage of Total Portfolio</i>
Index Fund	50%	21%	+/- 4.5%
Large Cap Value	18%	7.5%	+/- 2.5%
Large Cap Growth	18%	7.5%	+/- 2.5%
Small Cap Value	7%	3.0%	+/- 1.5%
Small Cap Growth	7%	3.0%	+/- 1.5%

- (6) All transfers should be made in accordance with the cash management policy.

### Liquidity

The Board has authorized the Plan administrator to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Administrator will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

## INVESTMENT POLICY STATEMENT (Continued)

### Diversification

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.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager will not represent more than 10% of that manager's assets.

### Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities as they should deem advisable.

(This section is currently under consideration and is subject to change.)

### Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the System assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The Plan's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the Plan's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft Dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal,

## INVESTMENT POLICY STATEMENT (Continued)

accounting, education, management, etc.) and approved by the Board.

### Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

### Total Fund Investments

The total fund's performance, in aggregate, will be expected to achieve a rate of return which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

Russell 1000	32%
Russell 2000	10%
Morgan Stanley Capital International EAFE	10%
Lehman Aggregate Bond Index	34%
Salomon Brother World Govt. Non-Dollar Bond Index	6%
NCREIF Property Index	8%

### (Procedure 452)

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception. Their performance in any period should not be below the 62nd percentile.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.
- If a manager fails to meet investment objectives for three consecutive quarters, they merit probationary status.



## INVESTMENT POLICY STATEMENT (Continued)

- If a manager fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

### Fixed-Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

- (1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad fixed-income manager data base.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### Domestic Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are :

- (1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, NASDAQ, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve returns that will rank in the top half of a broad database of domestic equity managers.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

### International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

- (1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling

## INVESTMENT POLICY STATEMENT (Continued)

five year periods.

- (2) Achieve returns that rank in the top half of a broad international equity manager database.
- (3) Achieve performance results in the top half of investment managers which utilize a similar style of investment.

### International Fixed-Income Investments

The objective for the investment managers of the international fixed-income component of the total portfolio are :

- (1) Achieve rates of return which exceed the Salomon Brothers World Government Non-Dollar Bond Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad international fixed-income manager database.
- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

### Real Estate Investments

- (1) Achieve returns which exceed an appropriate index , (i.e. NCRIF) net of fees over a market cycle
- (2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

## INVESTMENT PROFESSIONALS

### INVESTMENT MANAGERS

#### DOMESTIC EQUITIES:

Atlanta Capital Management  
Large Cap Growth  
Atlanta, GA

Brandywine Asset Management  
Small Cap Value  
Wilmington, DE

Eagle Asset Management, Inc.  
Small Cap Growth  
St. Petersburg, FL

Northern Trust Quantitative Advisors  
Russell 3000 Index  
Chicago, IL

Paradigm Asset Management Co.  
Large Cap Value  
New York, NY

#### INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management  
Dublin, Ireland

#### DOMESTIC FIXED INCOME:

Dodge & Cox  
San Francisco, CA

Scudder Kemper Investments, Inc.  
Chicago, IL

#### INTERNATIONAL FIXED INCOME:

Julius Baer  
Los Angeles, CA

#### REAL ESTATE:

DRA Advisors, Inc.  
New York, NY

MIG Realty Advisors  
Cleveland, OH

TimeSquare Real Estate Investors  
(Formerly CIGNA)  
Hartford, CT

### CONSULTANT

Callan Associates  
San Francisco, CA

The Bank of New York  
New York, NY

### CUSTODIAN

The Bank of New York  
New York, NY

### PROXY VOTING

Investor Responsibility Research Center  
Washington, DC

## GROSS PERFORMANCE SUMMARY BY ASSET CLASS

### Periods Ending June 30, 2000

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<b>TOTAL FUND</b>	<b>7.6%</b>	<b>11.5%</b>	<b>12.6%</b>
Benchmark	9.2%	13.1%	13.7%
TUCS All Master Trust Median	10.0%	13.4%	15.8%
TUCS Public Fund Universe Median	9.4%	12.4%	14.7%
 <b>TOTAL DOMESTIC FIXED INCOME</b>	 <b>4.4%</b>	 <b>6.0%</b>	 <b>6.3%</b>
Lehman Brothers Aggregate Bond Index	4.6%	6.0%	6.2%
TUCS Domestic Fixed Income Median	4.6%	6.1%	6.6%
 <b>TOTAL INTERNATIONAL FIXED INCOME</b>	 <b>0.5%</b>	 <b>3.4%</b>	 <b>3.4%</b>
Salomon Brothers World Gov't Non-US Bond	2.4%	2.7%	1.7%
TUCS International Fixed Income Median	2.3%	4.7%	4.4%
 <b>TOTAL DOMESTIC EQUITY</b>	 <b>6.1%</b>	 <b>15.7%</b>	 <b>19.4%</b>
S&P 500 Index	7.3%	19.7%	23.8%
TUCS Equity Median	9.0%	17.9%	21.6%
 <b>TOTAL INTERNATIONAL EQUITY</b>	 <b>24.5%</b>	 <b>14.9%</b>	 <b>14.5%</b>
EAFE Index	17.2%	10.2%	11.3%
TUCS International Equity Median	19.0%	11.0%	14.4%
 <b>TOTAL REAL ESTATE</b>	 <b>13.6%</b>	 <b>13.1%</b>	 <b>11.3%</b>
NCREIF Property Index	10.8%	13.7%	12.0%
TUCS Real Estate Median	8.1%	11.1%	10.7%

## NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

### Periods Ending June 30, 2000

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed. Source: Mercer Investment Performance Evaluation Report June 30, 2000.

	<u>One Year</u>	<u>Three Years</u>	<u>5 Years</u>
<b>DOMESTIC FIXED INCOME</b>			
Scudder Kemper	4.4%	6.0%	6.3% +
Lehman Brothers Aggregate Bond Index	4.6%	6.0%	6.2%
TUCS Fixed Income Core Median	4.6%	6.1%	6.6%
Dodge and Cox	*3.6%	N/A	N/A
Lehman Brothers Aggregate Bond Index	*3.9%	6.0%	6.2%
TUCS Fixed Income Core Median	*3.9%	6.1%	6.6%
<b>INTERNATIONAL FIXED INCOME</b>			
Julius Baer	0.5%	3.4% +	N/A
Salomon Brothers World Gov't Non-US Bond	2.4%	2.7%	1.7%
TUCS International Fixed Income Median	2.3%	4.7%	4.4%
<b>DOMESTIC EQUITY</b>			
Northern Trust (Index)	9.5% +	20.8% +	24.6% ++
Russell 3000	9.6%	20.8%	24.5%
TUCS Equity Median	9.0%	17.9%	21.6%
Atlanta Capital (Large Cap Growth)	17.7% ++	N/A	N/A
S&P 500	7.3%	19.7%	23.8%
TUCS Large Cap Growth Median	17.9%	24.6%	26.0%
TUCS Equity Median	9.0%	17.9%	21.6%
Paradigm (Large Cap Value)	*-0.8%	N/A	N/A
Russell 1000 Value Index	*1.0%	10.9%	17.8%
TUCS Large Cap Value Median	*0.9%	7.3%	15.1%
TUCS Equity Median	*16.1%	17.9%	21.6%
Eagle Asset Management (Small Cap Growth)	11.4% +	N/A	N/A
Russell 2000 Growth	28.4%	16.3%	10.3%
TUCS Small Cap Growth Median	38.6%	21.1%	23.7%
TUCS Equity Median	9.0%	17.9%	21.6%
Brandywine (Small Cap Value)	-17.7%	N/A	N/A
Russell 2000 Value	-1.0%	3.8%	11.7%
TUCS Small Cap Value Universe Median	-1.8%	5.8%	13.7%
TUCS Equity Median	9.0%	17.9%	21.6%

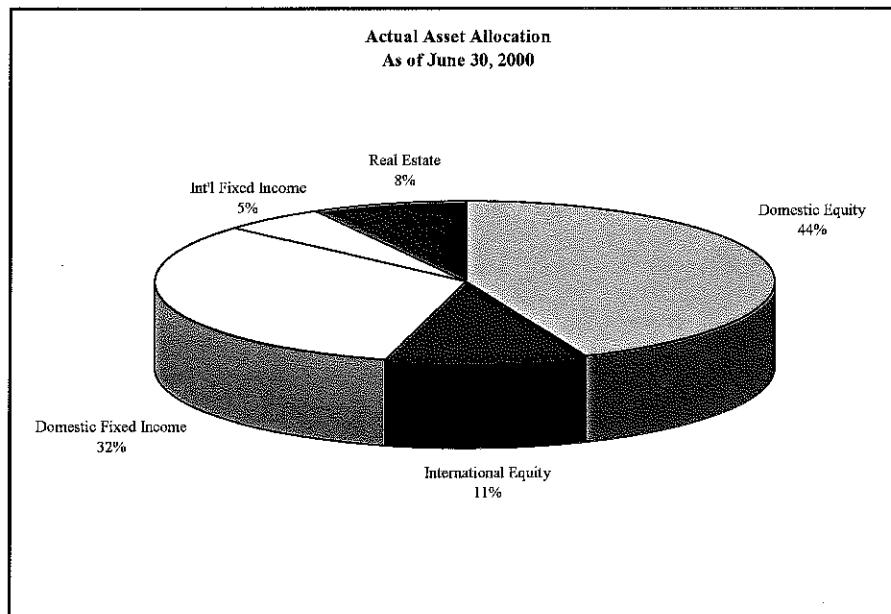
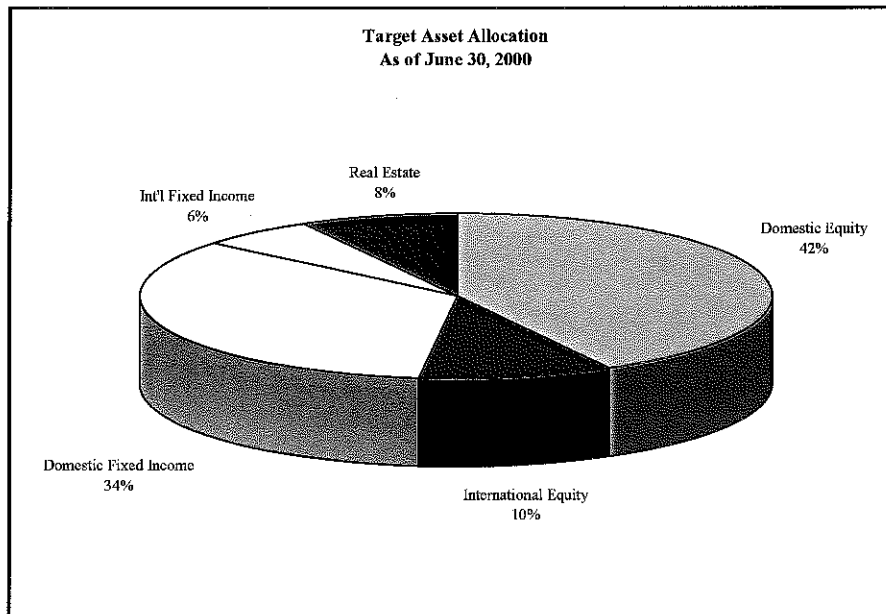
## NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<b>INTERNATIONAL EQUITY</b>			
Bank of Ireland Asset Management	24.5% ++	14.9% ++	14.5% ++
EAFE Index	17.2%	10.2%	11.3%
TUCS International Equity Median	19.0%	11.0%	14.4%
<b>REAL ESTATE</b>			
MIG Realty Advisors	14.6% ++	13.4% +	11.5% +
Timesquare (Formally, CIGNA)	12.7% ++	N/A	N/A
DRA	9.0% +	N/A	N/A
NCREIF Property Index	10.8%	13.7%	12.0%
TUCS Real Estate Median	8.1%	11.1%	10.7%

\* 3 Quarters

## ASSET ALLOCATION

### Target Vs. Actual



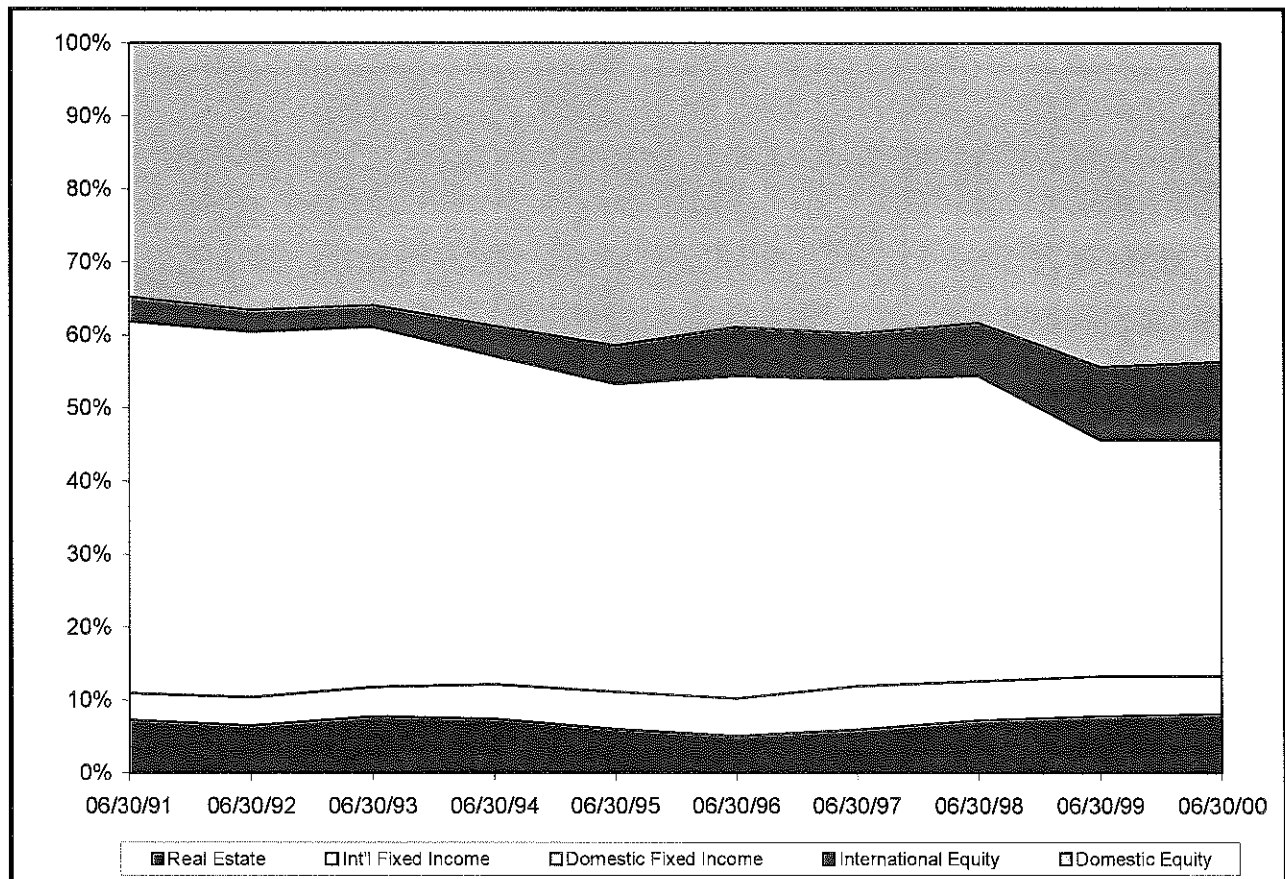
### ACTUAL ASSET ALLOCATION

#### As of June 30, 2000 (In Millions)

Domestic Equity	\$ 516.78
International Equity	126.55
Domestic Fixed Income	383.72
Global Fixed Income	61.36
Real Estate	95.91
<b>TOTAL</b>	<b>\$ 1,184.32</b>

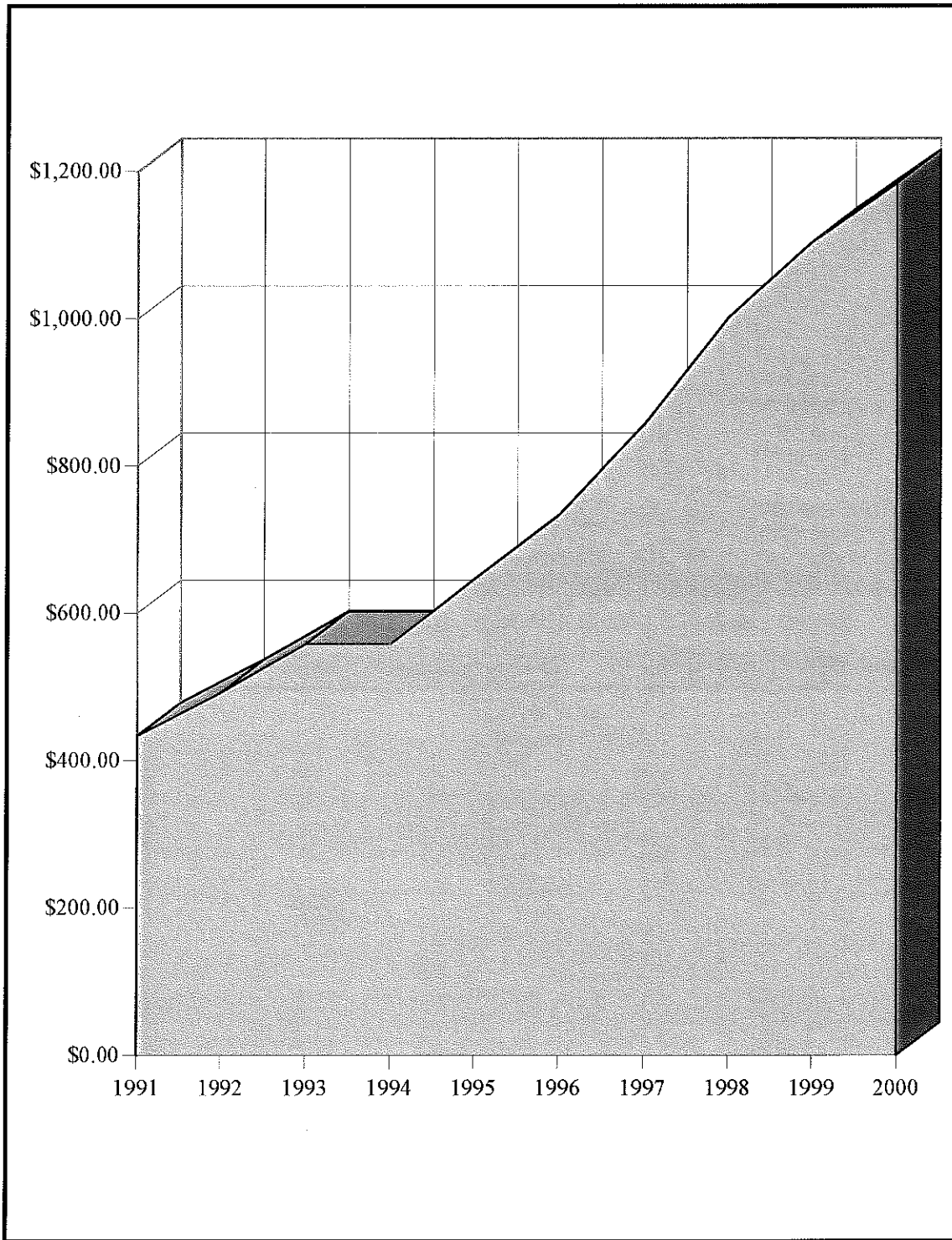
## HISTORICAL ASSET ALLOCATION (Actual)

June 1991 - June 2000

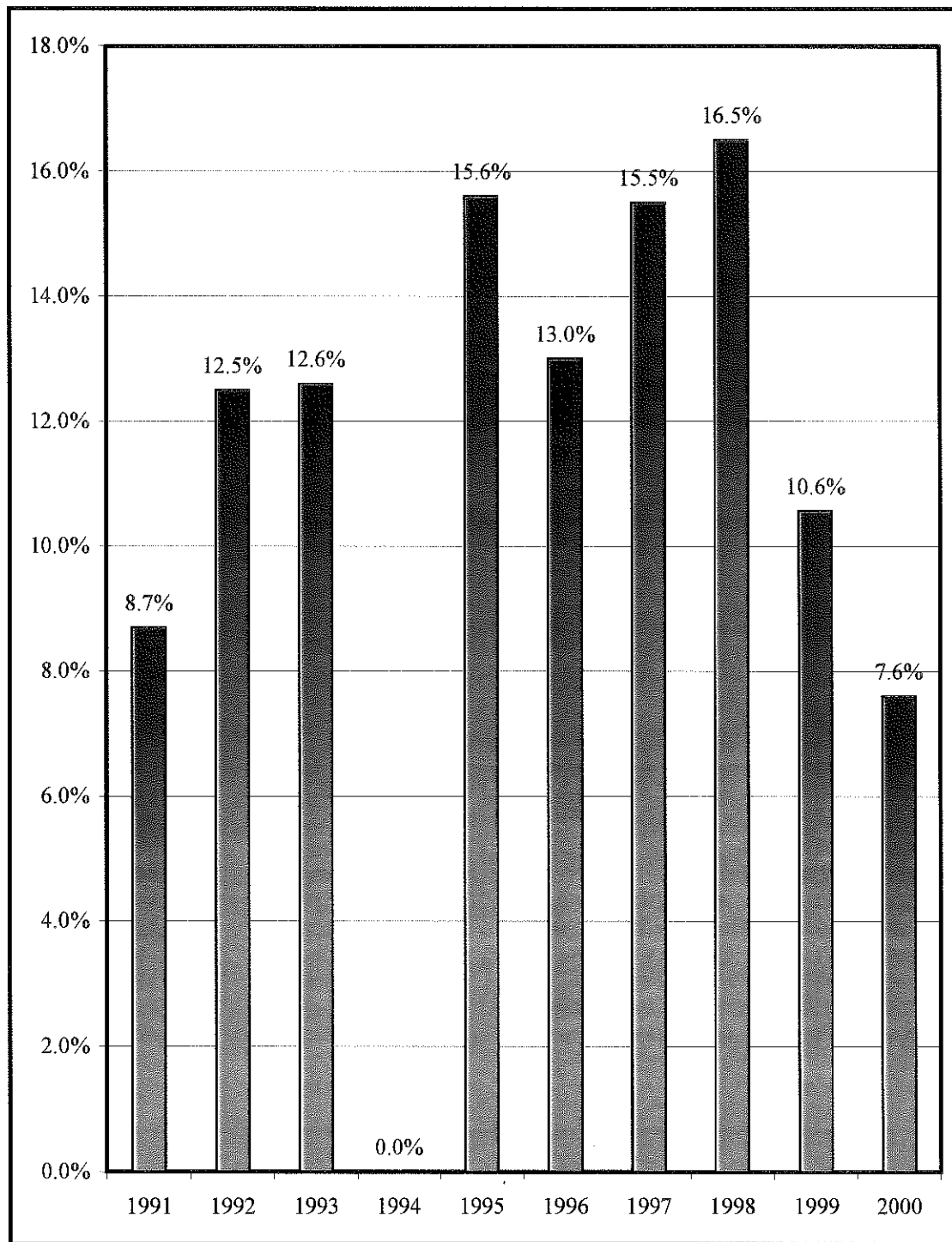




**MARKET VALUE GROWTH OF PLAN ASSETS**  
**For Ten Years Ended June 30, 2000**  
**(In Millions of Dollars)**



**HISTORY OF PERFORMANCE**  
**(Based on Market Value)**  
**For Fiscal Years 1991 - 2000**



**LIST OF LARGEST ASSETS HELD****LARGEST STOCK HOLDINGS (By Market Value)**

June 30, 2000

	<u>Shares</u>	<u>Country</u>	<u>Description</u>	<u>Market Value</u>
1)	1,499,684	United Kingdom	VODAFONE GROUP PLC ORD	\$6,063,229
2)	67,775	Netherland	ING GROEP NV NLGIORD	\$4,600,201
3)	26,600	United States	INTEL CORPORATION	\$3,556,088
4)	70,950	United States	PFIZER INC COM	\$3,405,600
5)	37,892	France	VIVENDI EUR	\$3,358,370
6)	54,000	United States	CITIGROUP INCCOM	\$3,253,500
7)	38,600	United States	ORACLE CORPORATION	\$3,244,813
8)	49,700	United States	CISCO SYS INC	\$3,159,056
9)	19,462	United Kingdom	AXA EUR	\$3,078,545
10)	61,000	Japan	CANON INC	\$3,044,810

**LARGEST BOND HOLDINGS (By Market Value)**

June 30, 2000

	<u>Description</u>	<u>Country</u>	<u>Maturity Date</u>	<u>Par Value</u>	<u>Market Value</u>
1)	U S TREASURY BONDS	U.S.	02/15/27	22,081,000	\$23,412,760
2)	U S TREASURY BONDS	U.S.	05/15/16	11,985,000	\$13,187,245
3)	FEDERAL NAT'L MTGE ASSN POOL # 479193	U.S.	01/01/29	12,877,500	\$10,907,844
4)	FED'L HOME LOAN MTGE CORP GRP # C00921	U.S.	02/01/30	8,295,829	\$8,095,573
5)	FEDERAL NAT'L MTGE ASSN POOL # 535400	U.S.	07/01/30	7,900,000	\$7,446,985
6)	JAPAN(GOVT)3.1 SER189 20SEP2006	JAPAN	09/20/06	653,300,000	\$6,797,334
7)	FEDERAL HM LN MTG CO 5.75 15MAR2009	U.S.	03/15/09	7,040,000	\$6,391,000
8)	FEDERAL NAT'L MTGE ASSN POOL # 535200	U.S.	03/01/15	5,600,161	\$5,326,090
9)	FEDERAL HOME LN MTG CORP REMIC	U.S.	07/15/21	5,000,000	\$4,946,857
10)	U S TREASURY NOTES	U.S.	11/30/00	4,900,000	\$4,886,219

A complete list of portfolio holdings is available upon request.

## SCHEDULE OF FEES AND COMMISSIONS

### For the Year Ended June 30, 2000

#### INVESTMENT FEES

	Assets Under Mgt. at Market Value *	Fees	Basis Points
Investment Managers' Fees:			
Domestic Equity Managers	\$ 516,779,800	\$ 994,917	19
International Equity Managers	126,548,900	410,150	32
Domestic Fixed Income Managers	383,721,000	408,508	11
International Fixed Income Managers	61,355,800	225,945	37
Real Estate Managers	95,915,300	808,864	84
<b>Total Investment Managers' Fees</b>	<b>\$ 1,184,320,800</b>	<b>\$ 2,848,384</b>	<b>24</b>
Other Investment Service Fees:			
Investment Consultant	N/A	\$ 197,871	N/A
Proxy Voting	N/A	7,868	N/A
Custodian	N/A	244,449	N/A
<b>Total Investment Managers' Fees</b>		<b>\$ 450,188</b>	

\* Includes Cash in Managers' Accounts

#### COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
ABN AMRO EQUITIES	87,276	\$3,542.68	0.04059
B-TRADE SERVICES LLC	51,620	\$1,504.60	0.02915
BANCO BILBAO VIZCAYA, MADRID	8,950	\$148.54	0.01660
BANK OF NEW YORK	1,787,164	\$106,890.37	0.05981
BANQUE NSM, PARIS	1,100	\$195.31	0.17755
BBMB SEC SDN KUALA LUMPUR	132,000	\$3,360.81	0.02546
BEAR STEARNS	15,700	\$942.00	0.06000
BOSTON INSTITUTIONAL SVCS INC	3,200	\$192.00	0.06000
BROCKHOUSE AND COOPER MONTREAL CANA	33,626	\$421.96	0.01255
BT ALEX BROWN INCORPORATED	1,400	\$84.00	0.06000
CANTOR, FITZGERALD & CO., INC	224,107	\$12,868.92	0.05742
CAPITAL INSTITUTIONAL SVCS, INC	75,900	\$4,554.00	0.06000
CAZENOVE AND CO	139,867	\$2,308.84	0.01651
CIBC WORLD MARKETS CORP	790,833	\$39,656.65	0.05015

**SCHEDULE OF FEES AND COMMISSIONS (Continued)****COMMISSIONS**

<b>BROKERAGE FIRM</b>	<b>NUMBER OF SHARES TRADED</b>	<b>TOTAL COMMISSIONS</b>	<b>COMMISSION PER SHARE</b>
CREDIT LYONNAIS	141,000	\$19,076.99	0.13530
CREDIT SUISSE	256,185	\$15,805.20	0.06169
CSFP (EUROPE) LIMITED	4,125	\$281.01	0.06812
DAIN RAUSCHER INC BK NYC/	11,000	\$550.00	0.05000
DEUTSCHE BANK	28,207	\$71,092.85	2.52040
DONALDSON LUFKIN & JENRETTE	139,430	\$7,508.62	0.05385
DRESDNER BANK	16,618	\$88,195.75	5.30724
ESI SECURITIES COMPANY	70,400	\$2,034.00	0.02889
FIRST UNION SECURITIES INC	55,500	\$3,293.00	0.05933
GOLDMAN SACHS	297,016	\$215,437.26	0.72534
GOODBODY STOCKBROKERS	18,375	\$240.81	0.01311
HSBC INVESTMENT BANK	114,560	\$373,030.94	3.25621
ING BARING SECURITIES HK LTD, HK	40,400	\$263,327.00	6.51800
INSTINET CORPORATION	928,935	\$25,695.05	0.02766
INVESTMENT TECHNOLOGY GROUP,	306,000	\$6,120.00	0.02000
JB WERE AND SON, MELBOURNE	12,560	\$336.16	0.02676
JANNEY MONTGOMERY SCOTT INC.	102,180	\$6,130.80	0.06000
JARDINE FLEMING SECS LTD HONG KONG	10,000	\$1,229.10	0.12291
JEFFERIES & COMPANY, INC.	198,200	\$11,583.00	0.05844
JONES & ASSOCIATES	247,501	\$8,676.95	0.03506
JP MORGAN	3,960	\$369.60	0.09333
KAS ASSOCIATIE, AMSTERDAM	490	\$132.17	0.26973
KLEINWORT BENSON	85,844	\$68,403.44	0.79683
LEHMAN BROTHERS	24,805	\$987.73	0.03982
LEWCO SECS A/C WERTHEIM SCHROD	25,200	\$1,512.00	0.06000
MAGNA SECURITIES CORPORATION	643,434	\$32,171.70	0.05000
MEESPIERSON NV/AMSTERDAM	5,075	\$183.61	0.03618
MERRILL LYNCH INTL LTD/LONDON	155,318	\$1,413.21	0.00910
MORGAN GRENFELL	415,222	\$234,254.22	0.56417
MORGAN STANLEY	313,035	\$168,741.63	0.53905
ORD MINNETT LTD SYDNEY AUSTRALIA	5,300	\$163.90	0.03092
PACIFIC AMERICAN SECURITIES	19,900	\$1,194.00	0.06000
PAINE, WEBBER, JACKSON & CURTIS	7,300	\$365.00	0.05000
PRUDENTIAL SECURITIES INC	400	\$24.00	0.06000
RAYMOND, JAMES & ASSOC., INC.	3,800	\$228.00	0.06000
RESULT OF AN ODD LOT SALE	16	\$5,288.00	330.50000
RESULT OF BONUS RIGHTS SALE	34	\$9,407.00	276.67647
RESULT OF RIGHTS SALE	21	\$0.04	0.00190
ROBERT FLEMING	70,586	\$524.36	0.00743
ROBINSON HUMPHREY	19,700	\$1,075.00	0.05457

**SCHEDULE OF FEES AND COMMISSIONS (Continued)****COMMISSIONS**

<b>BROKERAGE FIRM</b>	<b>NUMBER OF SHARES TRADED</b>	<b>TOTAL COMMISSIONS</b>	<b>COMMISSION PER SHARE</b>
SALOMON BROS	132,057	\$9,367.37	0.07093
SBC WARBURG SECURITIES MELBOURNE	43,294	\$1,612.68	0.03725
SCHRODER SECS LIMITED, LONDON	178,673	\$1,456.97	0.00815
SK SECURITIES LLC	13,200	\$792.00	0.06000
SOUNDVIEW TECHNOLOGY GROUP	12,000	\$720.00	0.06000
STANDARD & POOR'S SEC INC	3,600	\$180.00	0.05000
STANDARD CHARTERED BANK SINGAPORE	9,000	\$440.78	0.04898
UBS	647,695	\$286,031.46	0.44161
UNION BANK OF SWITZERLAND, ZURICH	73	\$315.36	4.32000
WARBURG DILLON READ	152,400	\$85,187.54	0.55897
WILLIAMS CAPITAL GROUP, L.P.	94,500	\$5,208.00	0.05511
<b>TOTAL</b>	<b>9,436,867</b>	<b>\$2,214,065.94</b>	<b>0.23462</b>

## INVESTMENT SUMMARY

### As of June 30, 2000

	<u>Market Value</u>	<u>% of Portfolio</u>
<b>Equities</b>		
Consumer Non-Durables	82,861,836.34	6.96%
Consumer Durables	7,180,866.62	0.60%
Materials & Services	52,757,402.68	4.43%
Capital Goods & Services	12,262,921.88	1.03%
Technology	77,359,326.23	6.50%
Energy	20,780,568.36	1.74%
Transportation	3,827,083.77	0.32%
Utilities	26,791,748.20	2.25%
Financial	85,322,577.01	7.16%
Miscellaneous	67,232.35	0.01%
Real Estate Investment Trusts	45,500.00	0.00%
Commingled Equity Funds	262,771,360.59	22.06%
<b>Total Equities</b>	<b>632,028,424.03</b>	<b>53.07%</b>
<b>Fixed Income</b>		
Corporate Bonds	137,685,267.04	11.56%
US Treasuries	53,855,501.84	4.52%
US Agencies	133,027,532.25	11.17%
Other Bonds	14,005,136.53	1.18%
International Bonds	59,832,902.45	5.02%
Commingled High Yield Inv Trust	252,088.49	0.02%
<b>Total Fixed Income</b>	<b>398,658,428.60</b>	<b>33.47%</b>
<b>Real Estate</b>		
Separate Account	58,824,994.68	4.94%
Commingled Funds	36,623,976.58	3.07%
<b>Total Real Estate</b>	<b>95,448,971.26</b>	<b>8.01%</b>
<b>Short Term Investments</b>	<b>59,826,769.31</b>	<b>5.02%</b>
<b>Pendings</b>	<b>(963,707.68)</b>	<b>-0.08%</b>
<b>Accrued Income</b>	<b>6,035,647.34</b>	<b>0.51%</b>
<b>Total Portfolio</b>	<b>1,191,034,532.86</b>	<b>100.00%</b>

## INVESTMENT PROPERTIES



### **Airport Commercenter**

278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Police and Fire Retirement Plan in April 1989.



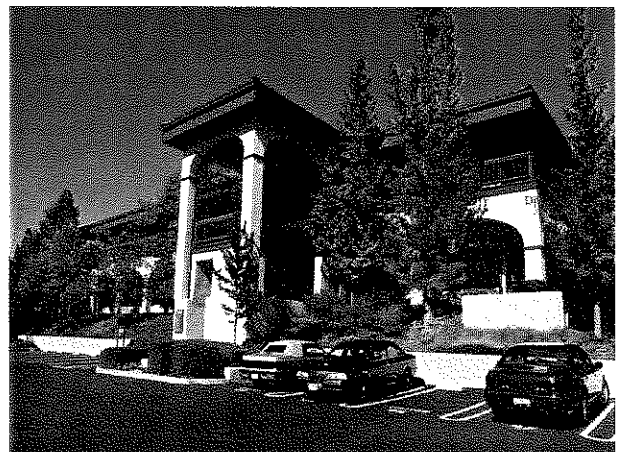
### **Copperwood Square Shopping Center**

138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Police and Fire Retirement Plan in June 1987.



### **Milpitas Warehouse**

145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police and Fire Retirement Plan in February 1986.



### **Pine Grove Office Complex**

85,956 s.f. five-building office complex located in Orinda, CA. Acquired jointly with the Police and Fire Retirement Plan in September 1990.





**Plaza Paseo Real**

147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Police and Fire Retirement Plan in May 1993.



**Saddleback Financial Center**

72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Police and Fire Retirement Plan in January 1988.



**The Manors at Providence Lakes**

266,236 s.f. apartment complex with 260 luxury apartments located in Brandon (Tampa), Florida. Acquired in September 1997

IV.  
ACTUARIAL  
SECTION

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## ACTUARY CERTIFICATION LETTER



**Watson Wyatt & Company**

Suite 2100  
701 Fifth Avenue  
Seattle, WA 98104-7053  
Telephone 206 625 1125  
Fax 206 447 8867

October 3, 2000

Board of Administration  
City of San Jose  
Federated City Employees' Retirement System  
777 N. First Street, Suite 750  
San Jose, CA 95112-6311

**Re: Actuarial Valuation Certification**

**Members of the Board:**

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 1999, reveals that the Federated Retirement System is an actuarially sound system based on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation
- The source and degree of verification of the data used in the actuarial valuation
- Supporting schedules that we have prepared and attached
- The extent of our responsibility for the trend data schedules in the financial section of the report
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 25
- Other disclosure information.

**The Funding Objective of the Plan**

Chapters 3.28 and 3.44 of the San Jose Municipal Code and related ordinances establish that the required annual contribution to the plan, shared by the city and members is such that contribution rates, over time, shall remain level as a percentage of payroll.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 20 years and the present value of future salaries.

## ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration  
City of San Jose  
October 3, 2000  
Page 2



### **The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation**

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 1999.

### **The Source and Degree of Verification of the Data Used in the Actuarial Valuation**

Computer files containing data on System membership of June 30, 1999 were provided by the City of San Jose Retirement Department. While we did not audit the participant data, we did check the data we received thoroughly, reconciling last year's data with the new data. This reconciliation accounted for all changes to the covered population. All data was checked for internal consistency and for consistency with last year's data.

Asset-related data were also received from the City of San Jose Retirement Department and were used without further audit in the development of the actuarial value of assets.

### **Supporting Schedules**

We have prepared and attached the following supporting schedules:

- Summary of actuarial assumptions and methods
- Schedule of active member valuation data
- Schedule of retirants and beneficiaries added to and removed from rolls
- Solvency test
- Analysis of financial experience.

### **The Extent of Our Responsibility for the Trend Data Schedules in the Financial Section**

All of the trend data information in the financial section of the report was calculated and summarized by Watson Wyatt Worldwide.

### **Actuarial Assumptions and Methods Used for Funding Purposes**

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and*

## ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration  
City of San Jose  
October 3, 2000  
Page 3



*Note Disclosures for Defined Contribution Plans.* In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

\* \* \*

I am a Fellow of the Society of Actuaries and an Enrolled Actuary. I am a Member of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Valerie A. Paganelli, FSA, EA, MAAA  
Consulting Actuary

VAP/set  
(30548/04CS)

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## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

**Interest Rate:** 8.25% per year. The rate credited to Member contributions is 1% less than this valuation interest rate.

**Salary Increases:** Total System payroll is assumed to increase 4.5% per year.

Annual salary increases for individuals vary by age reflecting 4.5% inflation and merit and longevity. Sample rates are shown below.

<i>Age</i>	<i>Annual Salary Increase</i>
25	8.0%
35	7.0%
45	6.0%
55	5.0%
65	5.0%

**Cost-of-Living Increases:** 3.0% per year.

**Mortality:** A. For Pensioners on Service Retirement and Beneficiaries

The 1983 Group Annuity Mortality Table for males with one year setback is used for male Members. The 1983 Group Annuity Mortality Table for females, with a one-year set forward, is used for female Members.

### Sample Rates

<i>Age</i>	<i>Deaths per 1,000</i>	
	<i>Males</i>	<i>Females</i>
45	1.9	1.1
50	3.5	1.8
55	5.7	2.8
60	8.4	4.7
65	13.9	7.8
70	24.8	14.1
75	40.4	27.2

**SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)***B. For Pensioners on Disability Retirement:**1981 Disability Mortality Table**Sample Rates*

<i>Age</i>	<i>Deaths per 1,000</i>
45	20.8
50	24.4
55	28.4
60	33.0
65	37.9
70	43.7
75	55.3

Rehire for Former Employees:

All former employees are assumed not to be rehired.

Disability:

Valuation of disability benefits are assumed to not be offset by Worker's Compensation.

Prior Service Benefits:

The liability for benefits attributed to pre-1975 service is assumed in proportion to its liability as of June 30, 1997.

Proportion of Members  
with Spouses at Retirement:

85% of male employees and 60% of female employees are assumed married at retirement. Wives are assumed three years younger than husbands.

Funding Method:

For retirement benefits: The Entry Age Normal Cost Method.

Asset Valuation Method:

The Actuarial Value of Assets recognized 20% of unrealized and realized gains and losses each year. The Actuarial Value of Assets cannot be less than 80% of the Market Value of Assets or greater than 120% of the Market Value of Assets.



## **SUMMARY OF ASSUMPTIONS AND FUNDING METHOD**

### **Used For Valuation of Health Subsidy Benefits**

Increase in Retiree Population:	The covered Retiree population is assumed to increase according to the demographic assumptions used to value retirement benefits.
Covered Payroll Increase	4.5% per year.
Initial Health Subsidy:	\$2,803 per year.
Initial Dental Subsidy:	\$670 per year.

**RATES OF SEPARATION FROM ACTIVE SERVICE - MALES**

AGE	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Death While Eligible	Service Disability	Deferred Vested
20	0.0820	0.0003	0.0000	0.0000	0.0000	0.0005	0.0150
21	0.0740	0.0003	0.0000	0.0000	0.0000	0.0005	0.0160
22	0.0700	0.0003	0.0000	0.0000	0.0000	0.0005	0.0170
23	0.0660	0.0003	0.0000	0.0000	0.0000	0.0005	0.0180
24	0.0620	0.0003	0.0000	0.0000	0.0000	0.0005	0.0190
25	0.0580	0.0003	0.0002	0.0000	0.0002	0.0005	0.0243
26	0.0540	0.0003	0.0002	0.0000	0.0002	0.0005	0.0236
27	0.0500	0.0003	0.0002	0.0000	0.0002	0.0005	0.0230
28	0.0460	0.0003	0.0002	0.0000	0.0002	0.0006	0.0226
29	0.0420	0.0004	0.0002	0.0000	0.0002	0.0006	0.0223
30	0.0380	0.0004	0.0002	0.0000	0.0002	0.0006	0.0219
31	0.0348	0.0004	0.0002	0.0000	0.0002	0.0006	0.0214
32	0.0324	0.0004	0.0002	0.0000	0.0002	0.0006	0.0209
33	0.0308	0.0004	0.0003	0.0000	0.0003	0.0006	0.0201
34	0.0292	0.0005	0.0003	0.0000	0.0003	0.0007	0.0194
35	0.0224	0.0005	0.0004	0.0000	0.0003	0.0007	0.0187
36	0.0211	0.0005	0.0004	0.0000	0.0004	0.0007	0.0170
37	0.0198	0.0005	0.0005	0.0000	0.0004	0.0007	0.0153
38	0.0185	0.0006	0.0005	0.0000	0.0004	0.0008	0.0137
39	0.0172	0.0006	0.0006	0.0000	0.0005	0.0008	0.0121
40	0.0159	0.0006	0.0006	0.0000	0.0005	0.0008	0.0103
41	0.0148	0.0007	0.0007	0.0000	0.0006	0.0009	0.0105
42	0.0137	0.0007	0.0007	0.0000	0.0006	0.0009	0.0100
43	0.0133	0.0007	0.0008	0.0000	0.0007	0.0009	0.0096
44	0.0129	0.0007	0.0008	0.0000	0.0009	0.0009	0.0092
45	0.0125	0.0008	0.0009	0.0000	0.0011	0.0009	0.0091
46	0.0116	0.0008	0.0010	0.0000	0.0013	0.0010	0.0089
47	0.0107	0.0008	0.0011	0.0000	0.0015	0.0011	0.0087
48	0.0098	0.0009	0.0012	0.0000	0.0017	0.0012	0.0082
49	0.0089	0.0009	0.0014	0.0000	0.0019	0.0013	0.0074
50	0.0087	0.0010	0.0016	0.0100	0.0021	0.0015	0.0065
51	0.0085	0.0011	0.0019	0.0050	0.0023	0.0018	0.0055
52	0.0083	0.0012	0.0022	0.0050	0.0025	0.0022	0.0043
53	0.0082	0.0013	0.0027	0.0050	0.0027	0.0027	0.0030
54	0.0079	0.0014	0.0033	0.0100	0.0029	0.0033	0.0015
55	0.0084	0.0015	0.0039	0.1700	0.0031	0.0040	0.0000
56	0.0084	0.0015	0.0046	0.0800	0.0033	0.0047	0.0000
57	0.0084	0.0016	0.0054	0.0800	0.0035	0.0056	0.0000
58	0.0084	0.0017	0.0063	0.0800	0.0037	0.0068	0.0000
59	0.0084	0.0018	0.0074	0.0800	0.0040	0.0084	0.0000
60	0.0000	0.0019	0.0085	0.1000	0.0043	0.0104	0.0000
61	0.0000	0.0020	0.0098	0.1300	0.0046	0.0124	0.0000
62	0.0000	0.0021	0.0112	0.2000	0.0049	0.0149	0.0000
63	0.0000	0.0022	0.0127	0.1700	0.0052	0.0181	0.0000
64	0.0000	0.0023	0.0143	0.2200	0.0055	0.0220	0.0000
65	0.0000	0.0024	0.0160	0.2500	0.0058	0.0260	0.0000
66	0.0000	0.0025	0.0000	0.4000	0.0061	0.0000	0.0000
67	0.0000	0.0026	0.0000	0.4000	0.0064	0.0000	0.0000
68	0.0000	0.0027	0.0000	0.4500	0.0067	0.0000	0.0000
69	0.0000	0.0028	0.0000	0.5000	0.0070	0.0000	0.0000
70	0.0000	0.0029	0.0000	1.0000	0.0000	0.0000	0.0000

**RATES OF SEPARATION FROM ACTIVE SERVICE - FEMALES**

AGE	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Death While Eligible	Service Disability	Deferred Vested
20	0.0820	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
21	0.0740	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
22	0.0700	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
23	0.0660	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
24	0.0620	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
25	0.0580	0.0001	0.0002	0.0000	0.0001	0.0003	0.0210
26	0.0540	0.0001	0.0002	0.0000	0.0001	0.0003	0.0214
27	0.0500	0.0001	0.0002	0.0000	0.0001	0.0003	0.0220
28	0.0460	0.0001	0.0002	0.0000	0.0001	0.0003	0.0228
29	0.0420	0.0002	0.0002	0.0000	0.0001	0.0004	0.0238
30	0.0380	0.0002	0.0002	0.0000	0.0001	0.0004	0.0246
31	0.0348	0.0002	0.0002	0.0000	0.0001	0.0004	0.0249
32	0.0324	0.0002	0.0002	0.0000	0.0001	0.0004	0.0250
33	0.0308	0.0002	0.0002	0.0000	0.0001	0.0004	0.0249
34	0.0292	0.0003	0.0002	0.0000	0.0001	0.0004	0.0248
35	0.0224	0.0003	0.0002	0.0000	0.0001	0.0004	0.0247
36	0.0211	0.0003	0.0002	0.0000	0.0002	0.0005	0.0246
37	0.0198	0.0003	0.0002	0.0000	0.0002	0.0005	0.0245
38	0.0185	0.0004	0.0002	0.0000	0.0002	0.0005	0.0246
39	0.0172	0.0004	0.0002	0.0000	0.0002	0.0005	0.0247
40	0.0159	0.0004	0.0002	0.0000	0.0002	0.0005	0.0237
41	0.0148	0.0004	0.0002	0.0000	0.0003	0.0005	0.0212
42	0.0137	0.0005	0.0002	0.0000	0.0004	0.0005	0.0187
43	0.0133	0.0005	0.0003	0.0000	0.0005	0.0005	0.0162
44	0.0129	0.0005	0.0003	0.0000	0.0006	0.0005	0.0137
45	0.0125	0.0006	0.0003	0.0000	0.0007	0.0005	0.0111
46	0.0116	0.0006	0.0004	0.0000	0.0008	0.0006	0.0115
47	0.0107	0.0006	0.0004	0.0000	0.0009	0.0006	0.0120
48	0.0098	0.0007	0.0005	0.0000	0.0010	0.0007	0.0125
49	0.0089	0.0007	0.0005	0.0000	0.0011	0.0007	0.0130
50	0.0087	0.0010	0.0006	0.0025	0.0012	0.0008	0.0135
51	0.0085	0.0011	0.0008	0.0025	0.0013	0.0009	0.0130
52	0.0083	0.0012	0.0011	0.0025	0.0014	0.0010	0.0125
53	0.0081	0.0013	0.0015	0.0050	0.0015	0.0012	0.0120
54	0.0079	0.0014	0.0020	0.0050	0.0016	0.0015	0.0115
55	0.0084	0.0009	0.0026	0.1000	0.0018	0.0018	0.0050
56	0.0084	0.0009	0.0033	0.0400	0.0020	0.0022	0.0000
57	0.0084	0.0016	0.0041	0.0600	0.0022	0.0027	0.0000
58	0.0084	0.0017	0.0050	0.0600	0.0024	0.0033	0.0000
59	0.0084	0.0018	0.0060	0.0600	0.0026	0.0040	0.0000
60	0.0000	0.0019	0.0071	0.0700	0.0028	0.0018	0.0000
61	0.0000	0.0020	0.0083	0.0800	0.0030	0.0060	0.0000
62	0.0000	0.0021	0.0096	0.1500	0.0032	0.0073	0.0000
63	0.0000	0.0022	0.0110	0.0750	0.0034	0.0089	0.0000
64	0.0000	0.0023	0.0125	0.0750	0.0036	0.0120	0.0000
65	0.0000	0.0024	0.0140	0.2500	0.0038	0.0160	0.0000
66	0.0000	0.0025	0.0000	0.2500	0.0040	0.0000	0.0000
67	0.0000	0.0026	0.0000	0.3500	0.0042	0.0000	0.0000
68	0.0000	0.0027	0.0000	0.3500	0.0045	0.0000	0.0000
69	0.0000	0.0028	0.0000	0.4000	0.0048	0.0000	0.0000
70	0.0000	0.0029	0.0000	1.0000	0.0000	0.0000	0.0000

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
June 30, 1999	3,694	\$193,650,000	\$52,423	8.3%
June 30, 1997	3,642	\$176,284,000	\$48,403	6.8%
June 30, 1995	3,397	\$153,918,000	\$45,310	4.4%
June 30, 1993	3,360	\$145,781,000	\$43,387	-

## RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

<u>Two-Year Period</u>	<u>Beginning of Period</u>		<u>Added to Rolls</u>		<u>Removed from Rolls <sup>1</sup></u>		<u>End of Period</u>		<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowances</u>
	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>		
1997-1999	1,745	\$32,630,000	202	\$4,642,000	123	\$1,514,000	1,824	\$35,758,000	9.6%	\$19,604
1995-1997	1,636	\$29,029,000	190	\$4,143,000	81	\$946,000	1,745	\$32,226,000	11.0%	\$18,468
1993-1995	1,497	\$25,642,000	210	\$4,420,000	71	\$801,000	1,636	\$29,261,000	14.1%	\$17,886

<sup>1</sup> This column consists of the following categories:

- (a) Retirees and disabled retirees who die during the period and have no survivor benefits
- (b) Expiration of certain period benefits for deceased retirees.

**ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE**

	<u>Change in Contribution Rate</u>
<b>For Plan Year Ended June 30, 1999</b>	
Investment Performance	-2.75%
Liability Experience	0.98%
Change in Assumptions	<u>0.79%</u>
Total	-0.98%
<b>For Plan Year Ended June 30, 1997</b>	
Investment Performance	-1.55%
Liability Experience	-1.04%
Change in Assumptions	<u>-2.23%</u>
Total	-4.82%

**SOLVENCY TEST**

Year Ended	(1) Active Members Contributions	(2) Retirants and Beneficiaries Accrued Liability	(3) Active Members Accrued Liability (Employer Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
1999	\$196,887,000	\$441,573,000	\$223,766,000	\$804,860,000	100%	100%	74%
1997	\$167,837,000	\$383,574,000	\$184,361,000	\$678,954,000	100%	100%	69%
1995	\$133,805,000	\$364,159,000	\$160,211,000	\$566,102,000	100%	100%	43%
1993	\$104,098,000	\$308,922,000	\$170,099,000	\$489,865,000	100%	100%	45%

## SUMMARY OF RETIREMENT BENEFITS

1. Eligibility: Members are eligible on their first day of City employment.
2. Final Compensation: Highest 36-month average salary.
3. Service Retirement:
  - A) Eligibility: Age 55 with 5 years of service, or any age with 30 years of service.
  - B) Benefit: 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.
  - C) Form of Payment: Monthly benefit payable for the life of the member.
4. Disability Retirement:
  - A) Eligibility: Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.
  - B) Benefit:

2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system.

If the disability was not service-connected, then the benefit is reduced by .5% of Final Compensation for each year of age under 55. For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Compensation for 6 years of service but less than 16 years;  
add 2% for each year of service in excess of 6 years but less than 16 years;  
add 2 1/2% for each of service in excess of 16 years of service.
  - C) Form of Payment: Monthly benefit payable for the life of the member.

## SUMMARY OF RETIREMENT BENEFITS (Continued)

5. Deferred Service Retirement:
  - A) Eligibility: Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.
  - B) Benefit: Same as Service Retirement, payable anytime after age 55.
  - C) Form of Payment: Same as Service Retirement.
6. Pre-Retirement Death Benefits:
  - A) Non-Service Connected with less than 5 years of service, or No Family Members Eligible for Allowance: Member's beneficiary or estate receives (i), and (ii) where:
 

(i) = Accumulated contributions with interest.

(ii) = Lump sum benefit of one month's salary for each year of service, up to 6 years.
  - B) Service-Connected, or Non-Service Connected with 5 years of service: Member's eligible survivor receives 100% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable until the spouse remarries. 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.
7. Post-Retirement Death Benefits: Member's eligible survivor receives (i) and (ii), where:
 

(i) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.

(ii) = \$500 death benefit allowance for burial expenses at death of retired member.
8. Post-retirement Cost-of-Living Benefits:
 

Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If the benefit has been paid less than 12 months, the 3% increase is proportionately decreased.
9. Employee Contributions: The Members' contribution rates are recalculated on an actuarial basis at each actuarial study.



## SUMMARY OF HEALTH SUBSIDY BENEFITS

1. Eligibility:

A) Medical

Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan of retirement.

B) Dental

Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.

2. Benefit

A) Medical

The Retirement System pays the premium for the lowest cost medical plan offered by the City. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System.

B) Dental

The Retirement System pays the entire cost of dental insurance coverage.

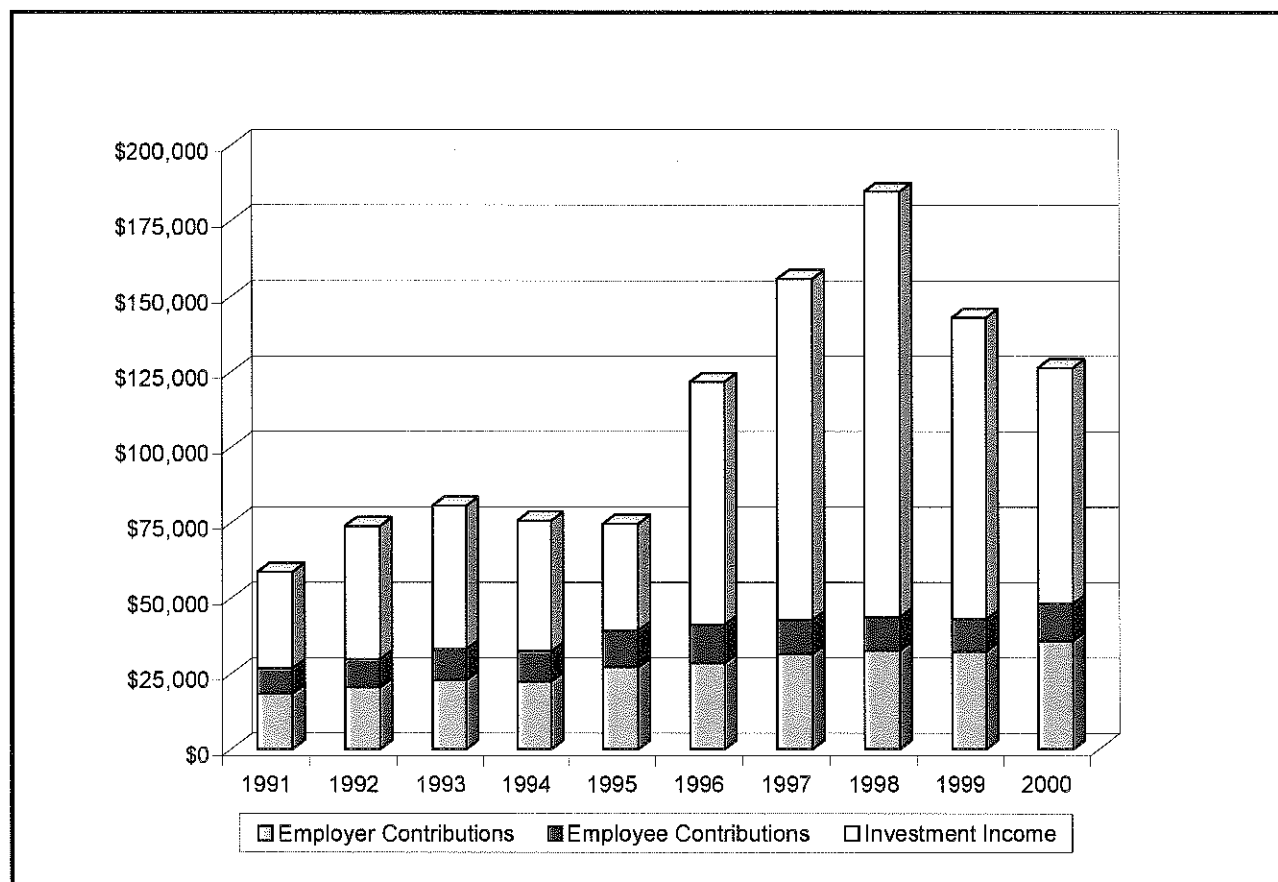
3. Contributions

Both the City and the Members contribute towards the Retirement System fund for medical and dental insurance benefits.

V.  
STATISTICAL  
SECTION

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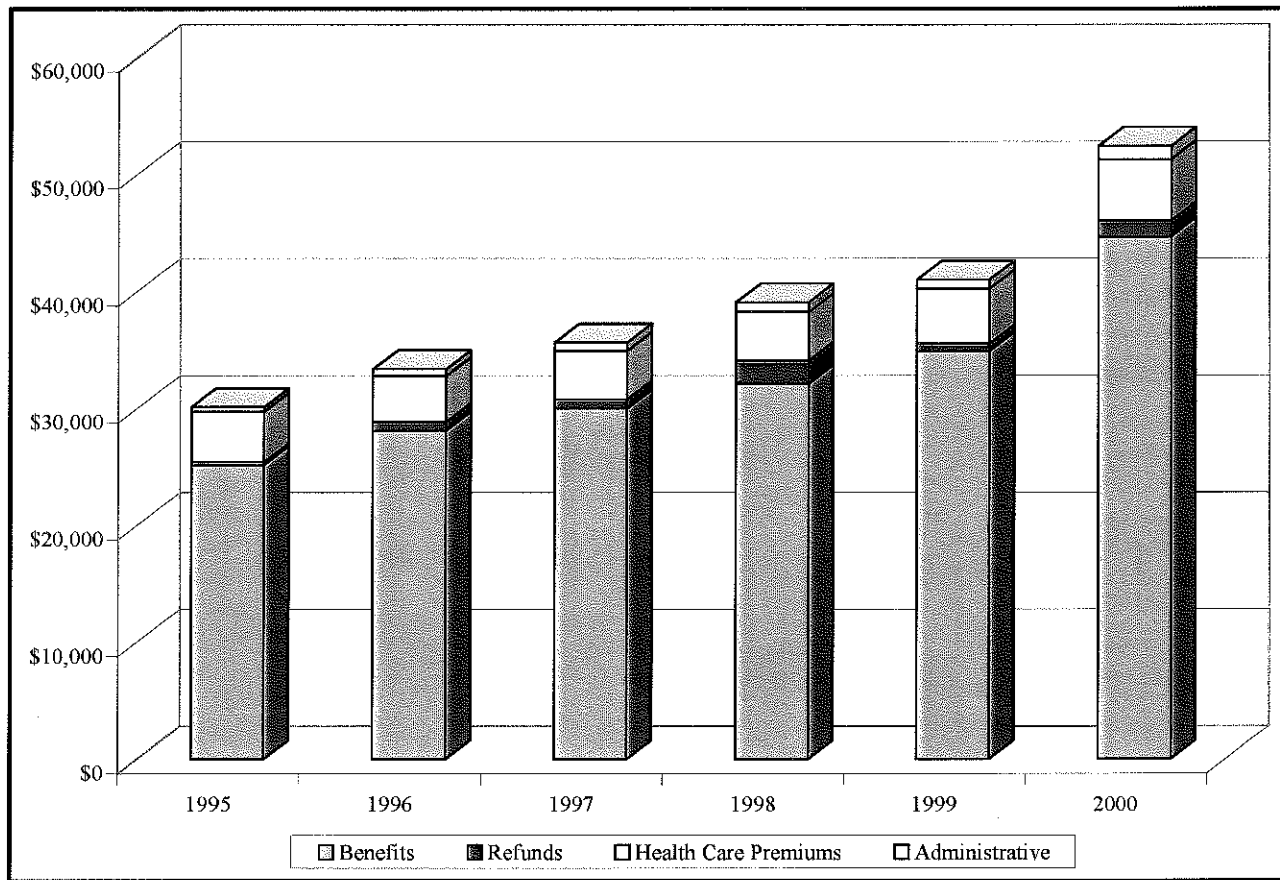
**REVENUES BY SOURCE**  
**For Fiscal Years 1991 - 2000**  
(In Thousands)



Year Ending	Employer Contributions	% of Annual Payroll	Employee Contributions	% of Annual Payroll	Investment Income *	Total
1991	\$18,307	13.92%	\$8,433	6.37%	\$32,010	\$58,750
1992	\$20,454	14.68%	\$9,423	6.88%	\$44,086	\$73,963
1993	\$22,801	14.68%	\$10,391	6.88%	\$47,498	\$80,690
1994	\$22,348	18.01%	\$10,086	8.12%	\$43,362	\$75,796
1995	\$27,111	18.01%	\$12,269	8.12%	\$35,353	\$74,733
1996	\$28,411	18.59%	\$12,876	6.70%	\$80,420	\$121,707
1997	\$31,441	19.22%	\$11,376	6.70%	\$113,039	\$155,856
1998	\$32,693	16.52%	\$11,129	5.31%	\$140,928	\$184,750
1999	\$32,387	16.52%	\$10,733	5.31%	\$99,907	\$143,027
2000	\$35,825	16.09%	\$12,400	4.76%	\$78,177	\$126,402

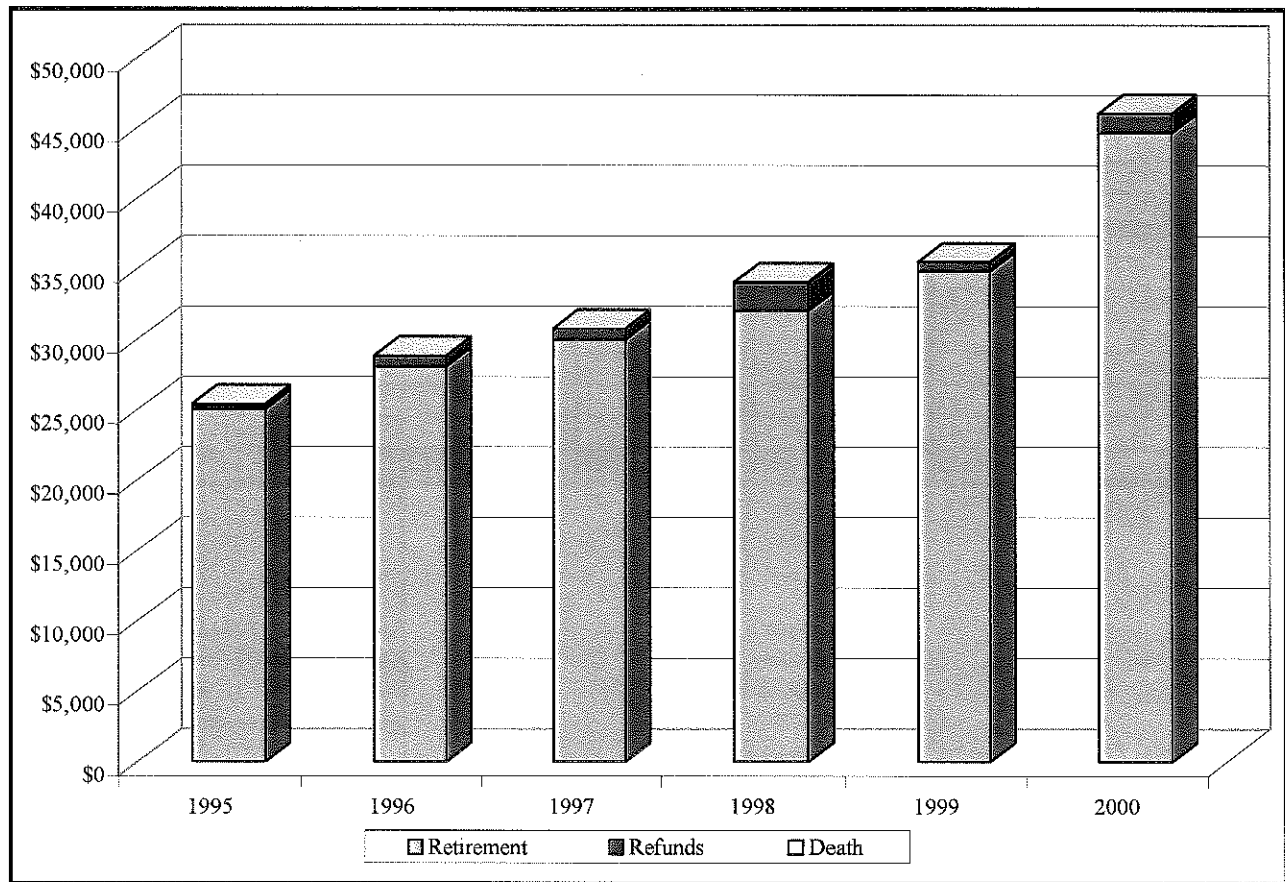
\* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

**EXPENSES BY TYPE**  
**For Fiscal Years 1995 - 2000**  
(In Thousands)



	1995	1996	1997	1998	1999	2000
Benefits	\$25,175	\$28,112	\$29,999	\$32,119	\$34,893	\$44,675
Refunds	\$252	\$758	\$789	\$1,980	\$646	\$1,386
Health Care Premiums	\$4,317	\$3,920	\$4,145	\$4,161	\$4,711	\$5,236
Administrative	\$395	\$599	\$726	\$841	\$778	\$1,136
<b>TOTAL</b>	<b>\$30,139</b>	<b>\$33,389</b>	<b>\$35,659</b>	<b>\$39,101</b>	<b>\$41,028</b>	<b>\$52,433</b>

**BENEFIT EXPENSES BY TYPE**  
**For Fiscal Years 1995 - 2000**  
**(In Thousands)**



	1995	1996	1997	1998	1999	2000
Retirement	\$25,036	\$28,071	\$29,979	\$32,035	\$34,846	\$44,655
Refunds	\$252	\$758	\$789	\$1,980	\$646	\$1,386
Death	\$139	\$41	\$20	\$84	\$47	\$20
<b>TOTAL</b>	<b>\$25,427</b>	<b>\$28,870</b>	<b>\$30,788</b>	<b>\$34,099</b>	<b>\$35,539</b>	<b>\$46,061</b>

## RETIRED MEMBERS BY TYPE OF BENEFIT

### As of June 30, 2000

Amount Monthly Benefit	Number of Retirants	Type of Retirement						Option Selected			
		1	2	3	4	5	6	Unmod.	Option 1	No Surv.	Total
\$1 - 500	207	109	52	1		8	37	150	17	40	207
501 - 1000	289	131	91	15	13	12	27	229	17	43	289
1001 - 1500	402	219	83	49	24	4	23	325	20	57	402
1501 - 2000	296	208	43	22	11	1	11	254	9	33	296
2001 - 2500	222	185	11	14	4		8	206	7	9	222
2501 - 3000	139	125	4	2	2	1	5	123	4	12	139
3001 - 3500	126	118	5	2			1	114	4	8	126
3501 - 4000	72	68	2	1			1	64	3	5	72
4001 - 4500	62	61	1					57	1	4	62
4501 - 5000	17	17						15	0	2	17
Over \$5000	41	40		1				40	1	0	41
<b>Total</b>	<b>1873</b>	<b>1281</b>	<b>292</b>	<b>107</b>	<b>54</b>	<b>26</b>	<b>113</b>	<b>1577</b>	<b>83</b>	<b>213</b>	<b>1873</b>

1 Service  
 2 Survivor  
 3 SCD  
 4 NSCD  
 5 Ex-Spouse  
 6 Deferred Vested

Unmodified - 50% Continuance  
 Option 1: 100% Continuance/  
                     reduced pension  
 Single/No Survivor - No Continuance

## AVERAGE BENEFIT PAYMENT AMOUNTS

Age	Survivor Single Life Annuity		Disabled Retiree Joint and Survivor Annuity		Disabled Retiree Single Life Annuity		Retiree Joint and Survivor Annuity		Retiree Single Life Annuity		Total Count
	Count	Average	Count	Average	Count	Average	Count	Average	Count	Average	
Under 25	3	3,792	-	-	-	-	-	-	-	-	3
30 to 34	1	15,785	3	12,198	-	-	-	-	-	-	4
35 to 39	-	-	5	11,543	-	-	-	-	-	-	5
40 to 44	6	16,226	7	12,291	3	19,662	-	-	1	-	17
45 to 49	8	18,819	15	13,915	2	20,933	-	-	-	-	25
50 to 54	15	13,165	17	16,111	1	31,846	3	43,442	5	43,611	41
55 to 59	27	16,667	20	20,711	3	25,214	144	29,026	51	26,832	245
60 to 64	34	13,113	17	16,778	1	12,621	236	27,452	11	21,558	299
65 to 69	48	13,201	25	19,163	3	13,208	259	23,420	16	18,653	351
70 to 74	55	12,728	15	16,325	3	12,826	265	21,657	7	6,604	345
75 to 79	51	10,368	10	14,853	1	13,681	216	17,487	4	9,835	282
80 to 84	48	9,302	5	13,050	3	10,261	89	15,831	10	14,106	155
85 to 89	9	11,221	1	16,337	-	-	24	13,586	10	13,040	44
90 and Up	2	7,248	-	-	-	-	2	14,091	4	17,720	8
Summary	307	12,355	140	\$ 16,546	20	\$ 17,176	1,238	\$ 22,725	119	\$ 21,429	1,824

Average Annual Benefit \$ 20,360



**RETIREMENTS DURING THE YEAR ENDED JUNE 30, 2000****SERVICE RETIREMENTS**

ATHEARN	IRENE	GUY	HOWARD	ORTEGA	MARCOS
BACA	LARRY	HASHII	WILMA	OXONIAN	ALBERTO
BANSAL	NIRMLA	HEINZL	GLORIA	PANIS	CLARK
BERRY	SYLVIA	HOLLEY	PATRICIA	PERNICK	JOAN
BLAYLOCK	DANIEL	IWAI	PATRICIA	PLETSCH	JOHN
BOWERS	RUTH	JEWETT	DONNA	PROUDFOOT	ANNE
BRAMBILL	GLENNA	JOHN	RICHARD	RAWSON	PATRICIA
BRIDGEN	RODGER	KHOUZAM	ABDULAZIZ	RIVERA	HIRAM
BRODERICK	A LORENE	KRISTOFFERSON	JUDY	ROTH	JAMES
BURNS	BARBARA	LARRABEE	JOAN	SEYMOUR	RONALD
CHATMAN	MARY	LELAND	EVE	SILVA	DORIS
CONSTANTIN	CHRIS	LENAHAN	PATRICIA	STARK	MARY
CORDES	MARILYN	LU	ELBA	STOUKY	HELENE
CORREIA	RICHARD	MAC DOUGALL	JOANNE	TANAKA	LEONARD
DAVIS	JOAN	MANN	DONALD	TANNER	JAMES
ERNEST	WILLIAM	MARKIEWICZ	KARENN	TAYLOR	FRANK
FORSBERG	JAMES	MARTARANO	CHARLES	TERRA	PHYLLIS
FUTAMASE	DENNIS	MC CARTNEY	BYRON	TOLENTINO	JANE
GALLO	JOAN	MC GOWAN-	BETT	VALENZUELA	ERNESTO
GALVEZ	RAY	MIRABELLA		VENEGAS	MANUEL
GARCIA	LAWRENCE	NAWOJSKI	LAURETTA	WALLACE	CARLLEN
GARCIA	MARIO	NICHOLS	FRED	WHITTLE	JERREE
GASSER	LORETTA	NICHOLS	PAULINE	WIRT	DIANA
GLENN	ROBERT	NINOMIYA	LANA	WOEHL	JEROME
GREEN	JUDY	ORR	ROBERT	WOLNER	ROBERTA
GUTING	ANDRES				

**DEFERRED VESTED RETIREMENTS**

DOBYNS	WYNNE	MOIR	JERRIE	SANDBERG	JANET
FLORES	RUBEN	OVERSTREET	ROBERT	TAFT	MICHAEL
JELSCH	TIMOTHY	PEARSON	BRADLEY	VAN SAMBEEK	JOHN
LUCHESSI	ROBERT	RANDOLPH	CHARLES	VARGAS	GERALDINE
MAYNARD	ELDEN	REGALADO	RAUL	ZAGEL	CHRISTINA

**SERVICE-CONNECTED DISABILITY RETIREMENTS**

MONTIJO	RAYMOND	PRYOR	RAYMOND	TERMENAL	DAVID
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**NON-SERVICE CONNECTED DISABILITY RETIREMENTS**

JONES	BYRON
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**DEATHS DURING THE YEAR ENDED JUNE 30, 2000****DEATHS AFTER RETIREMENT**

ALLEN	PHILLIP	HARWOOD	JAMES	MORENO	MUCIO
ALLISON	WILLIAM	HODGE	BETTYE	MYERS	DONALD
BOWERS	RUTH	JACKLICH	STANLEY	NICHOLSON	ROBERT
BREEDING	MARVIN	JOHNSON	CATHERINE	PAPPAS	PHILLIP
COLE	NAT	LAINE	WILLIS	PATRON	JOSEPHINE
COX	LILLIE	LOYST	GERALDINE	ROUNDY	LARRY
DENNING	DALE	MANN	SHARON	SAITO	HASHIME
GILOVICH	MARALYN	MARSH	RICHARD	SCOTT	ALFORD
GIULI	VINCENT	MARZLUFT	JACK	TORRANCE	FAY
HALLA	THOMAS	MC COY	RICHARD	WILSON	VIRGINIA
HANSEN	PAUL	MC CREADY	JACK		

**DEATHS BEFORE RETIREMENT**

DINNEEN	PEGGY	RAVENSTEIN	CONSTANCE	CONRAD	DAVID
JOHNSON	ROBERT	APANA	CLIFFORD		

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