City of San José
Federated City Employees' Retirement System

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

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

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Federated City Employees' Retirement System

Roberto L. Peña
Director




Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2014 and June 30, 2013

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

Department of Retirement Services
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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

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

November 24, 2014

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

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014.

The System earned a time-weighted gross of investment fees rate of return of 14.3% and net of investment fees rate of return of 14.2% on investments for the fiscal year, compared to a 13.9% return for its policy benchmark and a 17.2% return for the InvestMetrics universe of public funds greater than $1 billion. In contrast, the net rate of return assumed by the System's actuary for fiscal year 2013-14 is 7.25%. Additionally, the System earned a time-weighted gross of investment fees rate of return of 6.2% and 10.2% for the three-year and five-year periods ending June 30, 2014, respectively, while the policy benchmark earned a time-weighted rate of return of 6.5% and 10.6% for the same periods. The net asset value of the System increased from $1,919,241,000 to $2,182,280,000 net of pending purchases and sales (see the Financial Section beginning on page 21). The net increase in System net assets for fiscal year 2013-2014 was $263,039,000.

During fiscal year 2013-14, the Board continued to implement changes in its governance structure. The main governance focus of the Board was on obtaining more authority to better fulfill their fiduciary duties and working with all stakeholders to communicate their goals and obtain feedback. The culmination of efforts can most visibly be seen by the Board adopting additional transparency measures, including the inaugural Annual Meeting, and a ballot measure for the November 2014 elections to improve Board governance by providing the Retirement Board with more autonomy.

The System, along with the Board of Administration for the Police & Fire Department Retirement Plan, concluded the nationwide search for a Chief Investment Officer (CIO) with the hiring of Arn Andrews in March 2014. Mr. Andrews previously served as the Assistant Director of Finance for the City of San José and prior to that spent 15 years in the financial markets industry. In addition, the Investment Program hired a Retirement Investment Officer during the fiscal year and another in September 2014. The Investment Program also added an additional operational position which was subsequently filled. With the aforementioned staffing additions, the Investment Program is well poised for 2015.

During fiscal year 2013-2014, the Investment Program completed an asset allocation review and liquidity analysis of the System, eventually resulting in a new asset allocation in fiscal year 2014-15. The Investment Program funded three hedge fund managers and made investments with global equity and real estate

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managers. A comprehensive review of hedge fund strategies was conducted resulting in strategies being reclassified within the asset allocation with which they are better aligned.

In addition, staff began the evaluation of responses received from the Strategic Discretionary Investment Partner Request for Proposals, which was issued during the fiscal year. The Investment Program continued to move forward with researching and preparing for the eventual procurement of a risk management system.

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

Matt Loesch, Chairman
Board of Administration

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Introductory Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

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Letter of Transmittal

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

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

November 24, 2014

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2014. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System's management.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). GASB Statement No. 67, ***Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25***, which was adopted during this fiscal year, addresses accounting and financial reporting for requirements for pension plans. Transactions of the System are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended 2013 and 2014, refer to the Management's Discussion and Analysis (MD&A) on page 26.

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

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

I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable

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legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2014. The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

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

Funding

The System's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013, the funding ratio of the defined benefit pension plan was 59% and for the defined benefit OPEB plan was 18% based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 7.25% and 5.30%, respectively. The impact of the difference between the actual net rate of return earned by the System and the 7.25% and 5.30% assumptions will result in an investment gain or loss that will be reflected in the total pension liability and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in System assets for fiscal year 2013-2014 was $263,039,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 38. The employer's net pension liability is presented on page 59 and the defined benefit OPEB plan's funding progress is presented on page 62.

Financial and Economic Summary

The year was largely dominated by headline risks related to Federal Reserve policy, the economic and political environment in the Eurozone, partisan politics within the U.S., and reports of slowed economic growth in emerging markets and China in particular. However fiscal year 2013-2014 saw financial markets post strong returns for investors who sought risk despite the myriad of macroeconomic concerns.

Domestic equities closed out the first half of the fiscal year very strongly, with market participants citing improving fundamentals and an unabated continuation of quantitative easing, which resulted in strong gains despite uncertainty surrounding the U.S. government shutdown. The first half of the fiscal year also saw increases in real interest rates and a reduction in global liquidity which stoked fears of a slowdown in emerging markets, specifically fears of slower growth in China that could reduce export demand from other emerging economies. The third quarter of fiscal year 2013-2014 showed signs of improved growth in both developed and emerging markets, as developed areas of the world were expected to have higher growth than the previous ten years, and emerging markets expected higher growth than developed markets.

The fourth fiscal quarter saw the continuation of a multi-year valuation expansion in growth assets. Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive quarterly rise, the longest streak since 1998. Emerging markets continued its recovery as investors dismissed balance of payments concerns and fixed income investments rallied with interest rate and credit assets benefiting from historically low interest rate policies.

As we look towards fiscal year 2014-2015, the U.S. economy has shown signs of improvement during the fiscal year 2013-2014 with GDP growth improving and unemployment declining. Continued stabilization in the world's largest economy should lead to improvements in employment and growth domestically, as well as increased demand for goods and services from abroad. However, geopolitical tensions from a continuation of global conflicts should continue to add volatility in the world financial markets.

Investment Summary

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

Over the past fiscal year, the System's time-weighted gross of investment fees rate of return was 14.3% and net of investment fees rate of return was 14.2%, compared to a 13.9% return for its policy benchmark and a 17.2% return for the InvestMetrics universe of public funds greater than $1 billion. Additionally, the System earned a time-weighted gross of investment fees rate of return of 6.2% and 10.2% for the three-year and five-year periods ending June 30, 2014, respectively, while the policy benchmark earned a time-weighted rate of return of 6.5% and 10.6% for the same periods. The net asset value of the System increased from $1,919,241,000 to $2,182,280,000 net of pending purchases and sales (see the Financial Section beginning on page 21).

Major Initiatives

The Board continued implementation of its new governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol. A culmination of the reforms resulted in a ballot measure for the November 2014 elections to improve board governance by providing the Retirement Board with more autonomy.

The System along with the Board of Administration for the Police & Fire Department Retirement Plan concluded the nationwide search for a Chief Investment Officer (CIO) with the hiring of Arn Andrews in March 2014. Mr. Andrews previously served as the Assistant Director of Finance for the City of San José and prior to that spent 15 years in the financial markets industry. In addition, the Investment Program hired a Retirement Investment Officer during the fiscal year and another in September 2014. The Investment Program also added an additional operational position which was subsequently filled. With the aforementioned staffing additions, the Investment Program is well poised for 2015.

During fiscal year 2013-2014, the Investment Program completed an asset allocation review and liquidity analysis of the System, eventually resulting in a new asset allocation in fiscal year 2014-15. The Investment Program hired two hedge fund managers and made investments with global equity and real estate managers. A comprehensive review of hedge fund strategies was conducted resulting in strategies being reclassified within the asset allocation with which they are better aligned.

In addition, staff began the evaluation of responses received from the Strategic Discretionary Investment Partner Request for Proposals, which was issued during the fiscal year. The Investment Program continued to move forward with researching and preparing for the eventual procurement of a risk management system.

During the fiscal year 2014, Tier 2B was implemented starting in the fourth quarter of calendar year 2013, for employees hired, rehired, or reinstated. In addition, the City of San José eliminated the Supplemental Retirees Benefit Reserve (SRBR) effective first quarter of calendar year 2013, and the Board set the 2014-2015 contribution rates based on the June 30, 2013 valuations, excluding the SRBR.

City Administration introduced four-tier rate structures for the medical and dental plans for calendar year 2014. Department of Retirement Services (DRS) staff worked closely with the vendors to ensure the transition between the tiers was seamless to the members, while ensuring proper communication amongst all involved. DRS hosted two health fairs in an effort to accommodate space limitations onsite per the request of the Retiree Associations. Over 200 retirees attended the November health fairs, in which the importance of covering only eligible dependents under the health plans was highlighted.

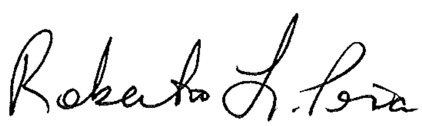
DRS staff participated in the selection process of the health and welfare benefits consultant, personal accident insurance (AD&D) provider and the medical insurance providers for coverage in calendar year 2015 for the City, in conjunction with the City's Human Resources department and labor groups.

On June 26, 2013, in the case of United States v. Windsor, the United States Supreme Court held that Section 3 of the Defense of Marriage Act (DOMA) was unconstitutional because it violated the Fifth Amendment's guarantee of equal protection of laws as applied to persons of the same sex who are legally married under the laws of their state. The Supreme Court's ruling of Section 3 of the DOMA did not affect the design and administration of the DRS benefits programs and policies because DRS currently provide health coverage to same-sex spouses.

Conclusion

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

Respectfully Submitted,



Roberto L. Peña
Director

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Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Jose Federated City Employees' Retirement System California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Certificate of Meeting Professional Standards in Public Pensions

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2013

Presented to

City of San Jose Federated City Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

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

As of June 30, 2014, the members of the Board were as follows:

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

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

Vacant, TRUSTEE
(Position vacant as of May 31, 2014) Employee representative

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

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

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

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

PETE CONSTANT,
NON-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA,
DIRECTOR OF RETIREMENT SERVICES

DONNA BUSSE,
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

ARN ANDREWS,
ASSISTANT DIRECTOR
CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

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

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

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Hanson Bridgett LLP
San Francisco, CA

Reed Smith LLP
Falls Church, VA

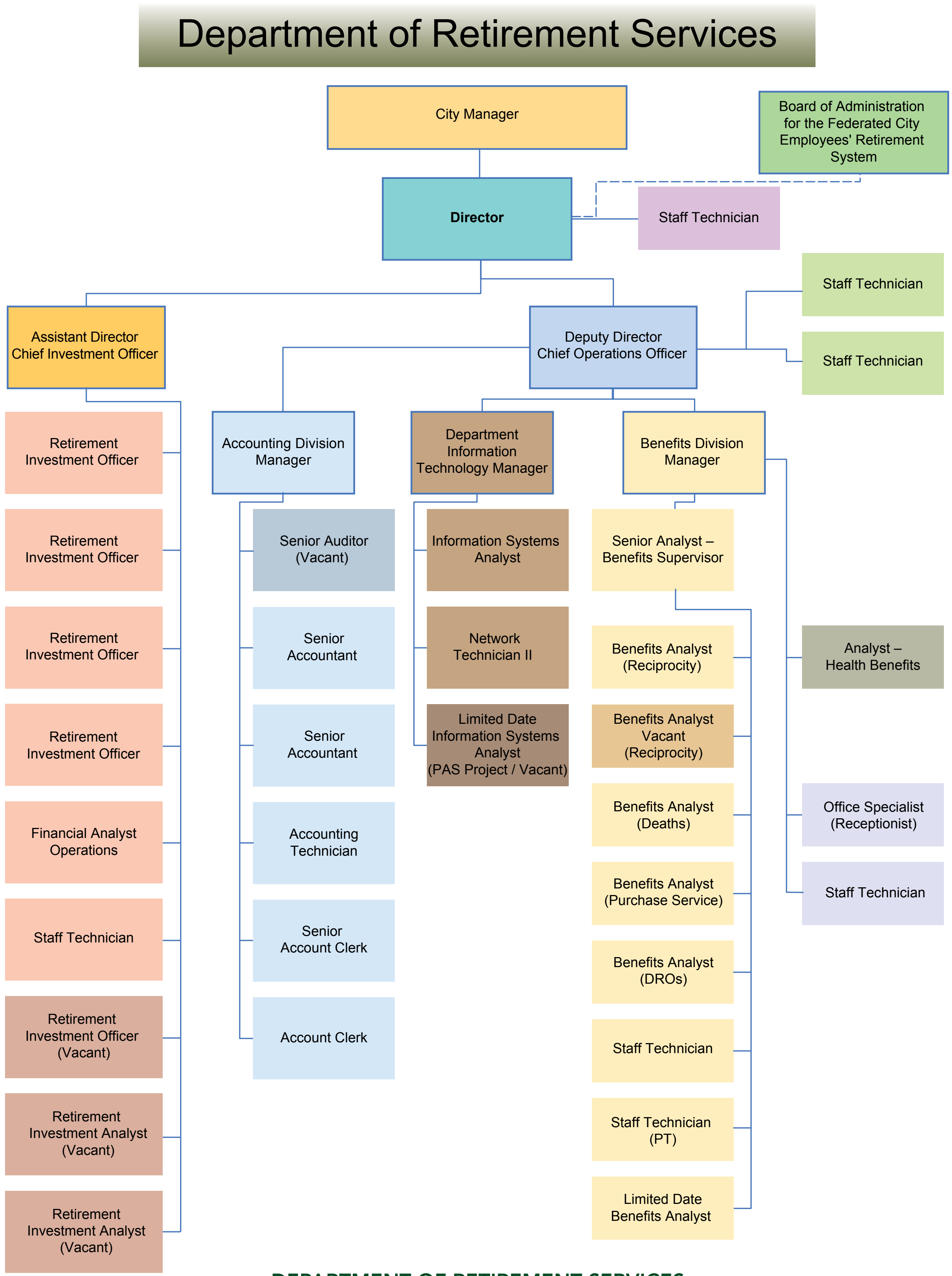
INVESTMENT CONSULTANTS
Albourne America LLC – Absolute Return
San Francisco, CA

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

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

A list of Investment Professionals begins on page 88 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 97 and 98, respectively.

2014 Department of Retirement Services Organizational Chart



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Financial Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Independent Auditor's Report

MGO Certified Public Accountants.

Walnut Creek
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Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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

San José, California

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of San José Federated Employees' Retirement System (System), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2014 and 2013, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matters

As discussed in Note 2 to the financial statements, the System implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, for the year ended June 30, 2014.

As discussed in Note 4 to the financial statements, based on the most recent actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, the System's independent actuaries determined that, at June 30, 2014, the defined benefit pension plan's total pension liability was $3.1 billion, which exceeded its fiduciary net position by $1.1 billion. The actuarial valuation is very sensitive to the underlying assumptions, including the discount rate of 7.25%, which represents the long-term expected rate of return.

As discussed in Note 5 to the financial statements, based on the most recent actuarial valuation as of June 30, 2013, the System's independent actuaries determined that, at June 30, 2013, the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $713 million.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios, the schedules of employer contributions, the schedule of investment returns, and the schedule of funding progress, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 17, 2014

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Management's Discussion and Analysis (unaudited)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

The Department of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2014, and 2013. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2014

- As of June 30, 2014, the System had $2,182,280,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $1,987,237,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. Plan net position of $195,043,000 restricted for postemployment healthcare benefits is only available for the exclusive use of retiree medical benefits.
- The System's total plan net position restricted for pension benefits and postemployment healthcare benefits increased during fiscal year ended June 30, 2014 by $263,039,000 or 13.7% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by an increase in market performance.
- Additions to plan net position during fiscal year ended June 30, 2014 were $450,357,000, which includes employer and employee contributions of $126,842,000 and $31,090,000, respectively, and net investment income of $292,425,000. This represents an increase from $313,175,000 in the prior fiscal year.
- Deductions from plan net position for fiscal year ended June 30, 2014 increased slightly from $180,981,000 to $187,318,000 over the prior fiscal year, or approximately 3.4%, due to an increase in retirement benefit payments and refund of contributions, which was attributable to an increased number of retired members and beneficiaries.

Overview of the Financial Statements

The System's financial statements, notes to the financial statements and required supplementary information for the year ended June 30, 2014, were prepared in conformity with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASBS Statement No. 25 and GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The following discussion and analysis is intended to serve as an introduction to the System's financial statements, which are comprised of these components:

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

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

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

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

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

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

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

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements beginning on page 40 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's employer contributions and progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 59 of this report). The schedule of changes in the net pension liability and related ratios of the Defined Benefit Pension Plan was prepared using the actuarial value of plan assets.

Combining schedules of net position and changes in net position for the Defined Benefit Pension Plan and the other Postemployment Healthcare Plan, schedules of administrative expenses and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 28). At the close of fiscal years 2014 and 2013, the System's total assets exceeded the System's total liabilities. During the year ended June 30, 2014, the System implemented GASB Statement No. 67, ***Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25***. The provisions of GASB Statement No. 67 separate financial reporting from funding and require changes in the notes to the financial statements and required supplementary information. The System's financial statements do not include the total pension liability or the actuarial accrued liability for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan, respectively.

The Pension Plan's fiduciary net position as a percentage of the total pension liability and the funded status of the other Postemployment Healthcare Plan should also be considered when evaluating the System's financial health. Based on the June 30, 2013 valuation rolled forward to June 30, 2014, the fiduciary net position of the Defined Benefit Pension Plan was 63.8% of the total pension liability. As of June 30, 2013, the System's most recent valuation, the funded status of the other Postemployment Healthcare Plan increased from 13% to 18%. For more information on the results and impact of the June 30, 2013 valuations, please see Notes 4 and 5 to the financial statements on pages 51-58.

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

(Table 1a) *As of June 30, 2014 and 2013 (In Thousands)*

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 5,292	$ 5,514	$ (222)	(4.0%)
Investments at fair value	1,985,929	1,764,749	221,180	12.5%
Total Assets	**1,991,221**	**1,770,263**	**220,958**	**12.5%**
Current liabilities	3,984	8,717	(4,733)	(54.3%)
Total Liabilities	**3,984**	**8,717**	**(4,733)**	**(54.3%)**
Plan Net Position	**$ 1,987,237**	**$ 1,761,546**	**$ 225,691**	**12.8%**

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

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

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

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

(Table 1c) *As of June 30, 2014 and 2013 (In Thousands)*

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 1,702	$ 876	$ 826	94.3%
Investments at fair value	193,573	157,439	36,134	23.0%
Total Assets	**195,275**	**158,315**	**36,960**	**23.3%**
Current liabilities	232	620	(388)	(62.6%)
Total Liabilities	**232**	**620**	**(388)**	**(62.6%)**
Plan Net Position	**$ 195,043**	**$ 157,695**	**$ 37,348**	**23.7%**

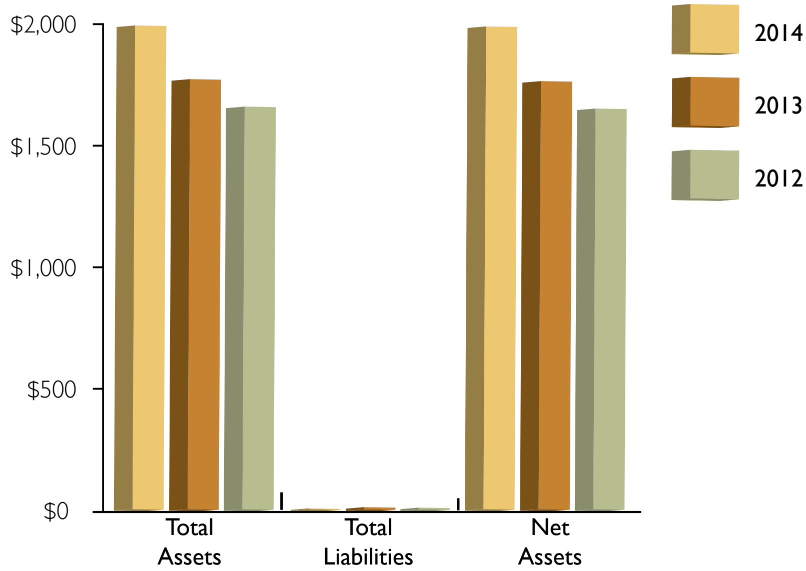
NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN

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

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 876	$ 960	$ (84)	(8.8%)
Investments at fair value	157,439	137,425	20,014	14.6%
Total Assets	**158,315**	**138,385**	**19,930**	**14.4%**
Current liabilities	620	587	33	5.6%
Total Liabilities	**620**	**587**	**33**	**5.6%**
Plan Net Position	**$ 157,695**	**$ 137,798**	**$ 19,897**	**14.4%**

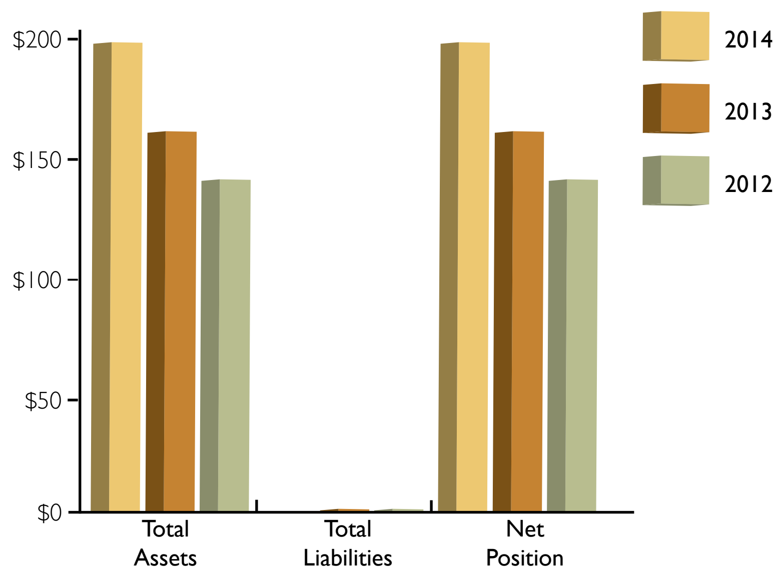
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN NET POSITION

June 30, 2014, 2013 and 2012
(Dollars in Millions)



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

June 30, 2014, 2013 and 2012
(Dollars in Millions)



As of June 30, 2014, $1,987,237,000 and $195,043,000, of total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 28). Plan net position of $1,987,237,000 is available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of $195,043,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2014, total net position restricted for pension benefits increased by 12.8% and by 23.7% for the postemployment healthcare benefits plan from the prior year primarily due to the net appreciation in the fair value of investments of $245,338,000 and $25,767,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the increase in market performance. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 44.

As of June 30, 2013, $1,761,546,000 and $157,695,000, of total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 28). Plan net position restricted for pension benefits of $1,761,546,000 was available to meet the System's ongoing obligations to plan participants and their beneficiaries. Postemployment healthcare plan net position of $157,695,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2013, total net position restricted for pension benefits increased by 6.8% and increased by 14.4% for the postemployment healthcare benefits plan from the prior year primarily due to the net appreciation in the fair value of investments of $129,549,000 and $11,584,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the increase in the equity markets. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 44.

As of June 30, 2014, receivables decreased by $222,000 or 4.0% and increased by $826,000 or 94.3% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in accrued investment income for the Defined Benefit Pension Plan and an increase in brokers and other receivables for the Postemployment Healthcare Plan. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $1,201,000 or 17.9% and $84,000 or 8.8%, respectively, due to a decrease in receivables for contributions and brokers and others for year-end investment trades.

As of June 30, 2014, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $4,733,000 or 54.3% and $388,000 or 62.6%, respectively, due to a decrease in payables to brokers and other liabilities. In the previous year, liabilities increased by $1,264,000 or 17.0% for the Defined Benefit Pension Plan and $33,000 or 5.6% for the Postemployment Healthcare Plan due to an increase in payable to brokers.

FEDERATED SYSTEM ACTIVITIES

In fiscal year ended June 30, 2014, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by $263,039,000 or 13.7%, primarily due to the increase in the market performance experienced in the fiscal year. Key elements of the System's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2014, were $384,828,000 and $65,529,000, respectively (see Tables 2a and 2c on pages 32-33).

For fiscal year ended June 30, 2014, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $122,700,000 and $14,482,000, or 46.8% and 28.4%, respectively. The primary cause of the increase from the prior year was net investment income of $263,688,000 and $28,737,000, respectively, compared to investment income of $146,367,000 and $13,817,000 in 2013. The net investment gains were primarily a result of the increase in the market performance during the fiscal year ended June 30, 2014. The System's time-weighted gross rate of return, as determined by the System's investment consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2014, was 14.3% compared to 8.1% for fiscal year 2013. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2014, was 14.2% compared to 8.0% for fiscal year 2013.

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

Deductions from Plan Net Position

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

Deductions for the fiscal year ended June 30, 2014, totaled $159,137,000 and $28,181,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 6.2% from the previous year due to an increase in benefit payments (see Table 2a on page 32). The increases in benefit payments are primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plan, decreased by 9.5% from the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2c on page 33).

Deductions for the fiscal year ended June 30, 2013, totaled $149,831,000 and $31,150,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 6.9% from the previous year due to an increase in benefit payments (see Table 2b on page 32). The increases in benefit payments are primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plan decreased by 6.6% from the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 33).

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN
(Table 2a)
For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 13,596	$ 12,652	$ 944	7.5%
Employer contributions	107,544	103,109	4,435	4.3%
Net investment income*	263,688	146,367	117,321	80.2%
Total Additions	**384,828**	**262,128**	**122,700**	**46.8%**
* *Net of investment expenses of $9,767 and $7,558 in 2014 and 2013, respectively.*				
Retirement benefits	143,921	136,075	7,846	5.8%
Death benefits	9,845	9,187	658	7.2%
Refund of contributions	2,170	1,545	625	40.5%
Administrative expenses	3,201	3,024	177	5.9%
Total Deductions	**159,137**	**149,831**	**9,306**	**6.2%**
Net Increase in Plan Net Position	**225,691**	**112,297**	**113,394**	**101.0%**
Beginning Net Position	**1,761,546**	**1,649,249**	**112,297**	**6.8%**
Ending Net Position	**$ 1,987,237**	**$ 1,761,546**	**$ 225,691**	**12.8%**

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN
(Table 2b)
For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

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

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2c)
For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 17,494	$ 15,979	$ 1,515	9.5%
Employer contributions	19,298	21,251	(1,953)	-9.2%
Net investment income*	28,737	13,817	14,920	108.0%
Total Additions	**65,529**	**51,047**	**14,482**	**28.4%**
** Net of investment expenses of $632 and $542 in 2014 and 2013, respectively.*				
Healthcare insurance premiums	27,924	30,943	(3,019)	-9.8%
Administrative expenses	257	207	50	24.2%
Total Deductions	**28,181**	**31,150**	**(2,969)**	**-9.5%**
Net Increase in Plan Net Position	**37,348**	**19,897**	**17,451**	**87.7%**
Beginning Net Position	**157,695**	**137,798**	**19,897**	**14.4%**
Ending Net Position	**$ 195,043**	**$ 157,695**	**$ 37,348**	**23.7%**

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2d)
For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

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

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net position. The System's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 401(h) and 115 Trust). The Defined Benefit Pension Plan Retirement Fund, the Defined Benefit Pension Plan Cost-of-Living Fund and the Postemployment Healthcare Plan all have a General Reserve and Employee Contributions Reserve (see table on page 45 for a complete listing and year-end balances of the System's reserves).

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

The System's Fiduciary Responsibilities

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

Economic Factors and Rates Affecting Next Year

The System's most recent actuarial valuation as of June 30, 2013, was used to determine the contribution rates effective June 22, 2014, for fiscal year 2014-2015. The annual required contribution rates and dollar amounts calculated in the June 30, 2013 valuation were adopted by the Board and become effective in fiscal year 2014-2015. The June 30, 2013 valuations include Board adopted actuarial assumption changes recommended by the System's actuary in the June 30, 2013 Preliminary Valuation Results and Economic Assumption Review presented on November 21, 2013.

Defined Benefit Pension Plan - Funding

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuarial valuation uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability (UAAL) of $1,231 million, as of June 30, 2013, does not include the impact of approximately $21.7 million of deferred investment losses primarily resulting from unfavorable investments returns in fiscal year 2012. It is anticipated that future actuarial valuations will recognize the remaining deferred net investment losses of approximately $21.7 million as previously described and the smoothing of any new gains or losses over a five year period.

The System is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 7.25%, net of investment expenses, in the actuarial valuation as of June 30, 2013. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAAL, thereby increasing the required contributions to the System.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of retirement, disability and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these long term actuarial assumptions cause the Plan to experience gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every three to five years, the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the long-term actuarial assumptions. The actuarial assumptions may be adjusted where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future.

The June 30, 2013 valuation contains the Board-adopted 30/20 layered amortization methodology which includes the level amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2013 valuation is 25.8 years.

Contribution rates for fiscal year 2014-2015, as determined by the June 30, 2013 valuation included the impact of the continued effect of the layered 20-year closed amortization period, and the recognition of smoothed deferred investment gains and losses.

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

Section 1508-A of the Pension Act applicable to new employees was adopted on August 28, 2012 by San José City Council Ordinance No. 29120 to provide Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year to 2.0% per year, an increase from 55 years to 65 years of age for retirement eligibility at full benefits, a consumer price index driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase, a decrease in maximum benefit to 65% of final average salary from 75%, a single life annuity compared to a 50% joint survivorship, and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year. However, a retiree can elect to receive a lower pension benefit to provide a survivor benefit to a spouse, registered domestic partner, child or children. The survivorship allowance is calculated by the Board's actuary for a 50%, 75% or 100% continuance that is actuarially equivalent to the spouse, registered domestic partner, child or children designated at the time of retirement. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the System.

Postemployment Healthcare Plan

During the fiscal year ended June 30, 2014, the System's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation as of June 30, 2013, was prepared by Cheiron, Inc., the System's actuary. A summary of the results is presented in Note 5 to the financial statements. The year ended June 30, 2014 was the fifth year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five year period. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions, in the first four years of the agreement. In the fifth year of the phase-in, the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the MOA, the employees and the City are required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. The June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City's annual required contribution rate as a percentage of pay to be 23.16% on a GASB basis compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2 members and 12.66% for Tier 2B members.

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

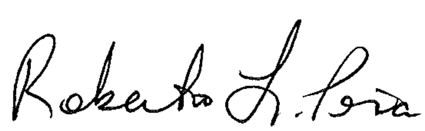
On June 24, 2011 a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) to provide an alternative source of funding from the existing 401(h) account located within the pension fund for retiree healthcare benefits. Employer contributions to the new trust were made starting fiscal year 2012. On August 6, 2013, the City obtained a private letter ruling from the Internal Revenue Service confirming the pre-tax treatment of employee contributions to the 115 Trust. Employee contributions to the new trust were made beginning December 22, 2013.

Requests for Information

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

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

Respectfully Submitted,



Roberto L. Peña
Director of Retirement Services

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

June 30, 2014 and 2013 (In Thousands)

	2014		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 1,687	$ 391	$ 2,078
Employer contributions	1,040	474	1,514
Brokers and others	293	705	998
Accrued investment income	2,272	132	2,404
Total receivables	**5,292**	**1,702**	**6,994**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	186,711	31,745	218,456
Absolute return	358,999	20,120	379,119
Collective short-term investments	30,850	5,567	36,417
Global equity	664,518	81,468	745,986
Private equity	95,770	5,367	101,137
Forward international currency contracts	356	20	376
Opportunistic investments	117,415	6,581	123,996
Real assets	414,685	36,169	450,854
Real estate	116,625	6,536	123,161
Total investments	**1,985,929**	**193,573**	**2,179,502**
TOTAL ASSETS	**1,991,221**	**195,275**	**2,186,496**
Liabilities			
Payable to brokers	2,847	166	3,013
Other liabilities	1,137	66	1,203
TOTAL LIABILITIES	**3,984**	**232**	**4,216**
Plan Net Position - Restricted For:			
Pension benefits	1,987,237	-	1,987,237
Postemployment healthcare benefits	-	195,043	195,043
TOTAL PLAN NET POSITION	**$ 1,987,237**	**$ 195,043**	**$ 2,182,280**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF PLAN NET POSITION (Continued)

June 30, 2014 and 2013 (In Thousands)

	2013		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 1,466	$ 184	$ 1,650
Employer contributions	860	479	1,339
Brokers and others	501	35	536
Accrued investment income	2,687	178	2,865
Total receivables	**5,514**	**876**	**6,390**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	226,293	14,444	240,737
International fixed income	3	-	3
Collective short-term investments	126,723	8,164	134,887
Global equity	1,009,521	104,966	1,114,487
Private equity	65,341	4,171	69,512
Forward international currency contracts	649	41	690
Opportunistic investments	143,328	9,149	152,477
Real assets	84,846	9,607	94,453
Real estate	108,045	6,897	114,942
Total investments	**1,764,749**	**157,439**	**1,922,188**
TOTAL ASSETS	**1,770,263**	**158,315**	**1,928,578**
Liabilities			
Payable to brokers	5,111	337	5,448
Other liabilities	3,606	283	3,889
TOTAL LIABILITIES	**8,717**	**620**	**450,949**
Plan Net Position - Restricted For:			
Pension benefits	1,761,546	-	1,761,546
Postemployment healthcare benefits	-	157,695	157,695
TOTAL PLAN NET POSITION	**$ 1,761,546**	**$ 157,695**	**$ 1,919,241**

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

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 13,596	$ 17,494	$ 31,090
Employer	107,544	19,298	126,842
Total contributions	**121,140**	**36,792**	**157,932**
Investment income:			
Net appreciation in fair value of investments	245,338	25,767	271,105
Interest income	17,063	1,029	18,092
Dividend income	11,054	2,573	13,627
Less investment expense	(9,767)	(632)	(10,399)
Net investment income	**263,688**	**28,737**	**292,425**
TOTAL ADDITIONS	**384,828**	**65,529**	**450,357**
Deductions			
Retirement benefits	143,921	-	143,921
Healthcare insurance premiums	-	27,924	27,924
Death benefits	9,845	-	9,845
Refund of contributions	2,170	-	2,170
Administrative expenses and other	3,201	257	3,458
TOTAL DEDUCTIONS	**159,137**	**28,181**	**187,318**
NET INCREASE	**225,691**	**37,348**	**263,039**
Plan Net Position - Restricted For Pension and Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**1,761,546**	**157,695**	**1,919,241**
END OF YEAR	**$ 1,987,237**	**$ 195,043**	**$ 2,182,280**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION (Continued)

For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

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

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

Notes to Basic Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

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

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

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

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

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

On August 18, 2012, the System received a favorable tax determination letter from the IRS for the Pension Trust, which includes the Defined Benefit Pension Plan and the 401(h) portion of the Postemployment Healthcare Plan. A new determination letter was received on July 8, 2014, which expires January 31, 2019.

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

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

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

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

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

statements as a pension trust and postemployment healthcare trust fund. The System is administered by the Director of Retirement, an employee of the City, and by the Federated City Employees' Retirement System Board of Administration (Board of Administration). The seven-member Board of Administration is composed of two City employees elected by members of the system, a Retiree Representative, and three public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided and funded directly by the City. The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

As of June 30, 2014 and 2013, employee membership data related to the System was as follows:

As of June 30, 2014	2014			
Defined Benefit Pension Plan:	**Tier 1**	**Tier 2**	**Tier 2B**	**Total**
Retirees and beneficiaries currently receiving benefits *	3,800	-	-	3,800
Terminated and/or vested members not yet receiving benefits**	1,026	45	-	1,071
Active members***	2,593	272	256	3,121
Total	**7,419**	**317**	**256**	**7,992**
Postemployment Healthcare Plan:				
Retirees and beneficiaries currently receiving benefits	3,331	-	-	3,331
Terminated vested members not yet receiving benefits	133	-	-	133
Active members****	2,592	272	-	2,864
Total	**6,056**	**272**	**-**	**6,328**

As of June 30, 2013	2013		
Defined Benefit Pension Plan:	**Tier 1**	**Tier 2**	**Total**
Retirees and beneficiaries currently receiving benefits *	3,711	-	3,711
Terminated and/or vested members not yet receiving benefits	994	7	1,001
Active members	2,856	238	3,094
Total	**7,561**	**245**	**7,806**
Postemployment Healthcare Plan:			
Retirees and beneficiaries currently receiving benefits	3,125	-	3,125
Terminated vested members not yet receiving benefits	121	-	121
Active members	2,856	238	3,094
Total	**6,102**	**238**	**6,340**

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

*** 2 deferred vested members in Tier 2 have a portion of their benefit under Tier 1*

**** 23 active members in Tier 2 have a portion of their benefit under Tier1*

***** 17 active members in Tier 2 have a portion of their benefit under Tier 1*

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(b) Pension Benefits

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

Members hired or rehired on or after September 30, 2012, as a Tier 2 or Tier 2B employee, who have five or more years of service and reach the normal retirement age of 65, are entitled to annual pension benefits equal to 2% of final average annual salary for each year of service up to a maximum benefit of 65% of final compensation. Final compensation is the average annual salary during the highest 3 years of consecutive service. A member's final average salary is comprised of base pay only; it excludes premium pays or other additional compensation. A Tier 2 or Tier 2B employee with five or more years of service who is at least age 55 may retire but will be subject to an actuarial equivalent reduction. The Tier 2 or Tier 2B retirement benefits may be adjusted for an annual cost-of-living allowance (COLA). The COLA is issued according to the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics Index, CPI-U, December to December) and is capped at 1.5% per fiscal year.

If a System member terminates employment and elects to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions are forfeited. However, the employee's accumulated contribution plus interest, is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. Employee contributions to the Healthcare Section 115 Trust are not refunded.

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

(c) Death Benefits

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

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

If the Tier 2 or Tier 2B employee's death before retirement is service related, a surviving spouse or registered domestic partner is paid a monthly benefit equal to 50% of final compensation until he or she remarries or dies. If a Tier 2 or Tier 2B employee's death before retirement is non-service related and they are not eligible to retire, the Tier 2 or Tier 2B employee's retirement contributions, excluding those made to the IRC Section 115 Trust, plus interest will be paid to their surviving spouse or surviving registered domestic partner. If there is no surviving spouse or domestic partner the Tier 2 or Tier 2B employee's estate will receive the employee's retirement contributions, excluding those made to the IRC Section 115 Trust, plus interest. If a Tier 2 or Tier 2B employee's death before retirement is not service related and the Tier 2 or Tier 2B employee would have been eligible to retire, a surviving spouse or registered domestic partner is paid the retirement allowance that would have been payable to the Tier 2 or Tier 2B employee, until the surviving spouse or registered domestic partner dies or remarries. If there is no surviving spouse or domestic partner, the Tier 2 or Tier 2B employee's estate shall be entitled to receive the Tier 2 or Tier 2B employee's accumulated contributions, except those made to the IRC Section 115 Trust, plus interest.

Notes to Basic Financial Statements *(Continued)*

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

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

(d) Disability Benefits

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

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

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

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

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

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

For Tier 2 or Tier 2B recipients of a disability retirement allowance who are under 65 years of age, the amount of the allowance is subject to reduction for outside employment as set forth in the SJMC.

(e) Postemployment Healthcare Benefits

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

Effective September 30, 2012 for Tier 2 members and January 4, 2013 for Tier 1 members, dependents and survivors who are eligible for retiree healthcare benefits and who are eligible for Medicare coverage are required to enroll in Medicare Part A and B within six months of reaching the age of 65. Tier 1 members, dependents and survivors who are already age 65 on September 30, 2012 and eligible for retiree healthcare were required to enroll in Medicare Part A and B on or before January 4, 2013. Tier 2 members, dependents and survivors who are already age 65 on September 30, 2012, and eligible for retiree healthcare, were required to enroll in Medicare Part A and B on or before July 1, 2013. In addition, Medicare eligible Tier 1 and 2 members, dependents and survivors must enroll in a Medicare medical plan provided by the System.

Tier 2B members are not eligible for postemployment healthcare benefits.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to legal requirements (at the end of the pay period). Benefits and refunds of contributions are recognized when currently due and payable under the provisions of the plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are

Notes to Basic Financial Statements *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

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

(c) Investments

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

In fiscal year 2012, the Board approved an asset allocation that increased the level of allocation to absolute return strategies and real assets and reduced the allocation to equity and fixed income. The asset allocation was prepared to align the expected returns of the System to the liabilities as determined in the June 30, 2011 valuations. The investment policy was revisited and approved by the Board on May 16, 2013 and March 21, 2013, for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, with no change to the allocation from the prior year. The System's investment asset allocation is as follows:

PENSION

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Equity and real estate	38%	45%	52%
Fixed income	5%	10%	20%
Absolute return Strategies	20%	25%	30%
Real assets	15%	20%	25%

HEALTHCARE

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	53%	59%	65%
Fixed income	23%	28%	33%
Real assets	8%	13%	18%

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Derivative investments are reported at fair value. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals.

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

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

The System is required by the City of San José Municipal Code to establish various reserves in the plan net position. The plan net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan, which includes the 401(h) and 115 Trust. As of June 30, 2014 and 2013, plan net position totaling \$2,182,280,000 and \$1,919,241,000, respectively, is allocated as follows (in thousands):

Notes to Basic Financial Statements *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Post-employment Healthcare (115)	Post-employment Healthcare Plan	Total
June 30, 2014:							
Employee contributions	$ 185,280	$ 41,984	$ 227,264	$ 69,457	$ 9,012	$ 78,469	$ 305,733
General reserve	1,252,976	506,997	1,759,973	40,758	75,816	116,574	1,876,547
TOTAL	**$ 1,438,256**	**$ 548,981**	**$ 1,987,237**	**$ 110,215**	**$ 84,828**	**$ 195,043**	**$ 2,182,280**
June 30, 2013:							
Employee contributions	$ 184,878	$ 41,370	$ 226,248	$ 61,613	$ -	$ 61,613	$ 287,861
General reserve	1,107,482	427,816	1,535,298	52,324	43,758	96,082	1,631,380
TOTAL	**$ 1,292,360**	**$ 469,186**	**$ 1,761,546**	**$ 113,937**	**$ 43,758**	**$ 157,695**	**$ 1,919,241**

Employee Contributions Reserve represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of a return of accumulated employee contributions, plus credited interest, to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only.

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

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the General Reserve category of plan net position. An allocation is made biannually from the General Reserve category to the employee contributions category of plan net position based on the balance in that account at an annual rate of 3%, as specified by the City of San José Municipal Code.

(f) Implementation of Governmental Accounting Standards Board Statement

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

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

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. As of June 30, 2014 and 2013, the System's derivative instruments are considered investments and not hedges for accounting purposes. The implementation of Statement No. 64 does not have a significant impact on the financial statements for the fiscal years ended June 30, 2013. Disclosure details for investment derivative instruments can be found in the Derivatives subsection of Note 3.

GASB Statement No. 67, ***Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25***, which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The provisions of GASB No. 67 separate financial reporting from funding and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information on pages 51 and 59, respectively. The System did not restate the financial statements for the year ended June 30, 2013 because the actuarial valuation used in the 2013 financial statements did not provide the required disclosures.

NOTE 3 – INVESTMENTS

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

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The System does not have a policy regarding interest rate risk.

The System also had exposure to interest rate risk on its fully collateralized infrastructure swaps, which is described under the Derivatives section of this note.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2014 and 2013:

INVESTMENT MATURITIES AT FAIR VALUE

as of June 30, 2014 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Guaranteed invesment contracts	$ -	$ -	$ -	$ -	$ 95,181	$ -	$ 95,181	$ 94,967
U.S. Treasury Inflation Protected Securities	-	-	21,281	101,994	-	-	123,275	122,906
Total Domestic Fixed Income	-	-	21,281	101,994	95,181	-	218,456	217,873
Collective Short Term Investments	36,417	-	-	-	-	-	36,417	36,417
TOTAL FIXED INCOME	**$ 36,417**	**$ -**	**$ 21,281**	**$ 101,994**	**$ 95,181**	**$ -**	**$ 254,873**	**$ 254,290**

Notes to Basic Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE
as of June 30, 2013 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Asset backed securities	$ -	$ -	$ -	$ -	$ -	$ 1,835	$ 1,835	$ 2,449
Bank loans	-	3,397	-	-	-	-	3,397	3,397
Guaranteed invesment contracts	-	-	-	5,684	119,082	376	125,142	125,895
U.S. Treasury Inflation Protected Securities	-	-	67,290	-	43,073	-	110,363	111,555
Total Domestic Fixed Income	**-**	**3,397**	**67,290**	**5,684**	**162,155**	**2,211**	**240,737**	**243,296**
Collective Short Term Investments	134,887	-	-	-	-	-	134,887	135,228
International Fixed Income	-	-	-	-	3	-	3	3
TOTAL FIXED INCOME	**$ 134,887**	**$ 3,397**	**$ 67,290**	**$ 5,684**	**$ 162,158**	**$ 2,211**	**$ 375,627**	**$ 378,535**

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2014 and 2013, all of the System's investments are held in the System's name and/or not exposed to custodial credit risk.

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

As of June 30, 2014 and 2013, the System's fixed income investments were not rated.

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

NOTE 3 – INVESTMENTS (Continued)

The following tables provide information as of June 30, 2014 and 2013, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

June30, 2014 (Dollars in Thousands)

Currency Name	Cash	Private Equity	Global Equity	Real Assets	Pending Foreign Currency Exchanges	Total Exposure
Australian dollar	$ (62)	$ -	$ 8,411	$ 12,758	$ 15	$ 21,122
Canadian dollar	114	-	4,445	30,516	71	35,146
Danish krone	-	-	5,846	-	-	5,846
Euro currency	675	8,773	40,469	19,285	152	69,354
Hong Kong dollar	-	-	3,193	7,149	-	10,342
Hungarian forint	-	-	-	48	-	48
Indian rupee	-	-	-	513	(7)	506
Israeli shekel	-	-	910	711	-	1,621
Japanese yen	479	-	30,451	3,745	18	34,693
Malaysian ringgit	-	-	-	1,659	-	1,659
Mexican peso	-	-	-	638	-	638
Moroccan dirham	-	-	-	17	-	17
New Zeland dollar	-	-	775	447	-	1,222
Norwegian krone	-	-	3,924	1,977	-	5,901
Peruvian nuevo sol	-	-	-	65	-	65
Philippine peso	-	-	-	22	-	22
Polish zloty	0	-	-	470	-	470
Pound sterling	136	-	48,679	30,677	126	79,618
Singapore dollar	-	-	2,404	1,423	-	3,827
South African fand	-	-	-	1,537	-	1,537
South Korean won	(3)	-	6,188	267	-	6,455
Swedish krona	156	-	4,340	61	1	4,399
Swiss franc	-	-	15,839	4,757	-	20,752
Thailand baht	5	-	-	256	-	256
TOTAL	**$ 1,495**	**$ 8,773**	**$ 175,874**	**$ 118,988**	**$ 376**	**$ 305,516**

NOTE 3 – INVESTMENTS (Continued)

FOREIGN CURRENCY RISK ANALYSIS

June30, 2013 (Dollars in Thousands)

Currency Name	Cash	Private Equity	Equity	Pending Foreign Currency Exchanges	Total Exposure
Austalian dollar	$ (23)	$ -	$ 6,297	$ (63)	$ 6,211
Canadian dollar	(3)	-	20,506	(44)	20,459
Euro currency	126	8,773	10,192	(88)	19,003
Hong Kong dollar	800	-	1,958	12	2,770
Hungarian forint	5	-	42	-	47
Indian rupee	-	-	-	331	331
Indonesian rupiah	3	-	622	-	625
Israeli shekel	19	-	627	-	646
Japanese yen	490	-	3,628	137	4,255
Malaysian ringgit	4	-	1,388	-	1,392
Mexican peso	9	-	561	-	570
Moroccan dirham	1	-	9	-	10
Norwegian krone	6	-	2,652	-	2,658
Philippine peso	-	-	28	-	28
Polish zloty	11	-	303	-	314
Pound sterling	(168)	-	28,228	(80)	27,980
Singapore dollar	1	-	1,063	-	1,064
South African rand	134	-	1,174	485	1,793
South Korean won	-	-	2,233	-	2,233
Swedish krona	(24)	-	53	-	29
Swiss franc	152	-	9,148	-	9,300
Thailand baht	5	-	251	-	256
TOTAL	**$ 1,548**	**$ 8,773**	**$ 90,963**	**$ 690**	**$ 101,974**

Investment Concentration Risk – The System's investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. As a general rule, System assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm unless receiving prior Board approval. As of June, 30, 2014 and 2013, the System did not hold investments in any one issuer, excluding U.S. government guaranteed investments that represented five percent or more of the total plan net position or total investments.

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

Derivative investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable.

NOTE 3 – INVESTMENTS (Continued)

Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2014 or 2013. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2014 and 2013, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2014 and 2013 financial statements are as follows (in thousands):

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2014		Fair Value at June 30, 2014		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount\ Shares**
Total return swaps	Investment income	$ 16,027	Real assets	$ -	-
Foreign currency forwards	Investment income	9	Foreign currency contracts, net	376	$ 44,522
Futures options bought/written	Investment income	(11,494)	Fixed income - collective short-term investments	-	30,551
Rights/warrants	Investment income	-	Global equity	7	$ 28
Total Derivative Instruments		**$ 4,542**		**$ $383**	

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2013		Fair Value at June 30, 2013		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount\ Shares**
Total return swaps	Investment income	$ 28,383	Real assets	$ (3,510)	$ 92,292
Foreign currency forwards	Investment income	(3,137)	Foreign currency contracts, net	690	$ 271,575
Futures options bought/written	Investment income	(9,364)	Fixed income - collective short-term investments	-	8,331
Rights/warrants	Investment income	(342)	Global equity	-	$ 17
Total Derivative Instruments		**$ 15,540**		**$ (2,820)**	

NOTE 3 – INVESTMENTS (Continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2014 and 2013:

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The System's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2014, total commitments in forward currency contracts to purchase and sell international currencies were $44,522,000 and $44,522,000 respectively, with fair values of $44,944,000 and $44,568,000, respectively, held by counterparties with S&P rating of A and above. As of June 30, 2013, total commitments in forward currency contracts to purchase and sell international currencies were $271,575,000 and $271,575,000 respectively, with fair values of $271,948,000 and $271,258,000, respectively, held by counterparties with S&P rating of A and above.

Interest Rate Risk – The System had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices. Net values are adjusted with unrealized gains and losses and are collateralized to minimize counterparty risk. As of June 30, 2013, the System invested in infrastructure swaps with notional amounts of $92,292,000. The System receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The infrastructure swaps were executed in April 2010, December 2011 and August 2012 and matured in October 2013, December 2013, and August 2013, respectively, with a quarterly rate reset frequency. The System does not have a policy regarding interest rate risk; however, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk. As of June 30, 2014 and 2013, the System's derivative investments had maturity dates of less than one year.

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2014 and 2013, the System's net position in these contracts is recorded at fair value as forward international currency contract investments. The fair values of forward international currency contracts are determined by quoted currency prices from national exchanges. The System's commitments relating to forward international currency contracts are settled on a net basis. Foreign currency risk on these investments as of June 30, 2014 and 2013 are disclosed in the tables on pages 48 and 49.

NOTE 4 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

The components of the City's net pension liability (i.e., the System's total pension liability determined in accordance with GASB No. 67 less the plan fiduciary net position) as of June 30, 2014, were as follows (in thousands):

Total pension liability	$	3,115,648
Plan fiduciary net position	$	(1,987,237)
City's net pension liability	$	1,128,411
Plan fiduciary net position as a percentage of the total pension liability		63.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revisions to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2015. The Total Pension Liability as of June 30, 2014 is based on results of an actuarial valuation date of June 30, 2013, and rolled-forward to June 30, 2014 using generally accepted actuarial procedures.

Notes to Basic Financial Statements *(Continued)*

NOTE 4 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

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

Description	Method/Assumption
Valuation date	**June 30, 2013**
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. SRBR elimination to be amortized over 19 years.
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments (net)	7.25% per annum
Postretirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.
Active service, withdrawal, death, disability service retirement	Tables based on current experience
Salary increases	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.
Projected total payroll increases	2.0% for five years and 2.85% thereafter. For the amortization schedule, payroll is assumed to grow 2.43% per year
Cost of Living Adjustment	Tier 1 – 3% per year; Tier 2 – 1.5% per year.

NOTE 4 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

The assumption for the long-term expected rate of return on pension plan investments of 7.25% was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014 (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Equity and real estate	45%	8.2%
Fixed income	10%	2.2%
Absolute return strategies	25%	3.8%
Real assets	20%	5.9%
Total Arithmetic Expected Return	**100%**	5.7%
Total Geometric Expected Return		5.1%

The discount rate used to measure the total pension liability was 7.25%. It is assumed that System member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the System's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2013 valuation included a change in the expected rate of return from 7.50% to 7.25% and a change in the payroll wage inflation assumption from 3.25% for all years to 2.00% for the next five years and 2.85% thereafter.

In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.25%) or 1.00% higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Total pension liability	$ 3,535,216	$ 3,115,648	$ 2,770,925
Plan fiduciary net position	1,987,237	1,987,237	1,987,237
Net pension liability	$ 1,547,979	$ 1,128,411	$ 783,688
Plan fiduciary net position as a percentage of the total pension liability	56.2%	63.8%	71.7%

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due. On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

In November 2010, the Board adopted a funding policy setting the required contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The required contribution for Tier 1 determined in the June 30, 2012 valuation for fiscal year ending June 30, 2014 was the greater of $100,671,000 (if paid at the beginning of the fiscal year) or 50.85% of actual Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of $200,439,000 was less than the actuarial payroll of $205,277,000 resulting in a required contribution of $100,671,000 as of July 1, 2013, excluding year end contributions receivable and prior year contribution adjustments. The required contribution for Tier 2 determined in the June 30, 2012 valuation for fiscal year ending June 30, 2014 was the greater of

NOTE 4 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

$1,799,000 (if paid at the beginning of the fiscal year) or 6.68% of actual Tier 2 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 2 payroll for the fiscal year of $24,233,000 was less than the actuarial payroll of $27,923,000 resulting in a required contribution of $1,799,000 as of July 1, 2013, excluding year end contributions receivable and prior year contribution adjustments.

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

The required employer contribution determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013 was the greater of $102,971,000 (if paid at the beginning of the fiscal year) or 44.45% of actual payroll for the fiscal year. The actual payroll for the fiscal year of $217,375,000 was less than the actuarial payroll of $240,187,000 resulting in a required contribution of $102,971,000 as of July 2, 2012, excluding year end contributions receivable and prior year contribution adjustments.

The contribution rates for fiscal years ended June 30, 2014 and 2013, were based on the actuarial valuations performed on June 30, 2012 and 2011, respectively, except for the period June 22 through June 30, 2014, which were based on the June 30, 2013 valuation.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2014 and 2013 were as follows:

Period	City Tier 1*	City Tier 2*	Employee Tier 1	Employee Tier 2
06/22/14- 06/30/14	60.25%	5.53%	5.64%	5.53%
06/23/13- 06/21/14	50.85%	6.68%	5.97%	6.68%
09/30/12- 06/22/13		6.68%		6.68%
06/24/12- 06/22/13	44.45%		5.74%	

** The actual contribution rates paid by the City for fiscal years ended June 30, 2013 and June 30, 2012 differed due to the City funding the required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.*

NOTE 5 – POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating employees. Contribution rates for fiscal years ended June 30, 2014 and 2013 were based on the actuarial valuation performed as of June 30, 2012 and 2011, respectively. The contribution rates for the majority of fiscal year ended June 30, 2014 (through period ended June 21, 2014) were based on the actuarial valuation performed on June 30, 2012. The System's most recent valuation as of June 30, 2013, was used to determine the contribution rates effective June 22, 2014.

Prior to July 1, 2009, annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions were not sufficient to meet the requirements of an annual required contribution under GASB Statement No. 43. Effective June 28, 2009, the bargaining units representing the Federated members of the System entered into a Memorandum of Agreement (MOA) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions over the next five years; fiscal year ended June 30, 2014 was the fifth year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the MOA further provides that by the end of the five-year phase-in, the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the Federated members entered into an amendment to the MOA that extended the incremental increase limitation of not more than 0.75% of pensionable pay for fiscal year ending June 30, 2014. The 0.75% limitation was initially extended to December 20, 2014, but in October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. Beginning June 21, 2015, the contribution rates will be based on the full ARC.

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

In addition, in November 2010, the Board adopted a funding policy setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The annual contribution determined in the June 30, 2012 valuation for fiscal year ending June 30, 2014 was the greater of $19,478,000 (if paid on 07/01/2013) or 8.66% of actual payroll for the fiscal year.

The actual payroll for the fiscal year of $200,439,000 was less than the actuarial payroll of $233,200,000 resulting in an annual contribution of $19,478,000 as of July 1, 2013, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The annual contribution determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013 was the greater of $18,033,000 (if paid on 07/02/2012) or 7.91% of actual payroll for the fiscal year. The actual payroll for the fiscal year of $217,375,000 was less than the actuarial payroll of $240,187,000 resulting in an annual contribution of $18,033,000 as of July 1, 2012, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

NOTE 5 – POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2014 and 2013 for the Postemployment Healthcare Plan were as follows:

Period	City* (Tier 1 and tier 2 eff. 9/30/12)	City* (Tier 2B eff. 9/30/13)	Employee (Tier 2 eff. 9/30/12)
06/22/14 – 06/30/14	9.41%	12.66%	8.76%
06/23/13 – 06/21/14	8.66%	10.59%	8.01%
06/24/12 – 06/30/13	7.91%		7.26%
06/26/11 – 06/23/12	7.16%		6.52%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2014 and June 30, 2013 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year*

The funded status of the Postemployment Healthcare Plan as of June 30, 2013, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b)-(a)/c))
06/30/2013	$ 157,695	$ 870,872	$ 713,177	18%	$ 226,098	315%

As of June 30, 2013, the System's most recent valuation, the System's UAAL decreased by $245 million primarily due to changes in claims cost assumptions, the change to a four-tier rate structure effective January 1, 2014, and the increase in the discount rate. The OPEB discount rate increased from 4.80% used in the June 30, 2012 OPEB valuation to 5.30% used in the June 30, 2013 OPEB valuation. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (2.50%) and the expected return on the Plan's invested assets (7.25%) resulting in a blended discount rate of 5.30%. Changes in claims cost assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

As of June 30, 2012, the System's UAAL decreased by approximately $51.1 million primarily due to changes in the health plans offered and assumptions as recommended by the Board's actuary. The OPEB discount rate decreased from 6.10% used in the June 30, 2011 OPEB valuation to 4.80% used in the June 30, 2012 OPEB valuation. The System's OPEB rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.30%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 4.80%. Medical plan changes were effective January 1, 2012 eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plans. In addition, medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to actives and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. These medical plan changes greatly affected the medical plan election assumption used by the actuary as more retirees selected the lower cost medical plans.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Notes to Basic Financial Statements *(Continued)*

NOTE 5 – POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

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

The contribution rates for fiscal years ended June 30, 2014 and 2013, were based on the actuarial valuations performed on June 30, 2012 and 2011, respectively, except for the period June 22 through June 30, 2014, which were based on the June 30, 2013 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**		
Valuation date	June 30, 2013	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level dollar	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	Market value	Market value	Market value
ACTUARIAL ASSUMPTIONS:			
Assumed rate of return on investments (net)	7.25% per annum	7.50% per annum	7.50% per annum
Discount rate (net)	5.30% †	4.80% †	6.10% †
Wage inflation rate	2.0% for five years and 2.85% thereafter	3.25%	3.25%
Salary increases	The base annual rate of salary increase is 2.0% wage inflation rate for the first five years and 2.85% thereafter plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 14+ ranging from 4.50% to 0.25% at the 15th year of service.
Projected total payroll increases	2.0% for five years and 2.85% thereafter	3.25%	3.25%

Notes to Basic Financial Statements *(Continued)*

NOTE 5 – POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

Description	Method/Assumption		
Valuation date	June 30, 2013	June 30, 2012	June 30, 2011
HEALTH CARE COST TREND RATE:			
Medical	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.5% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.8% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.63% to 4.5% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5% per annum graded down over a 15 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.0%.	Dental inflation is assumed to be 4.50% in the first year and 4% thereafter.	Dental inflation is assumed to be 4.5% graded down to 4% over a three year period.

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

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Benefit Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Benefit Plan presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 6 – COMMITMENTS

As of June 30, 2014 and 2013, the System had unfunded commitments to contribute capital for private market fund investments in the amount of $60,000,000 and $99,210,000, respectively.

NOTE 7 – LITIGATION

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

In April 2014, the Department of Retirement Services discovered that a few retired Federated members had received benefit payments in excess of the annual limits imposed by Internal Revenue Code section 415. The Department is in the process of evaluating the extent of the overpayments and appropriate remedial action to be taken.

NOTE 8 – SUBSEQUENT EVENTS

On October 2014, the City Council approved to extend the 0.75% incremental increase limitation of pensionable pay to the contribution rates of the Postemployment Healthcare Plan for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY – DEFINED BENEFIT PENSION PLAN (unaudited)

Total Pension Liability	**FYE 2014**
Service cost (middle of year)	$ 43,334
Interest (includes interest on service cost)	214,487
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(155,936)
Net change in total pension liability	**101,885**
Total pension liability - beginning	**3,013,763**
Total pension liability – ending	**$ 3,115,648**
Plan Fiduciary Net Position	
Contributions – employer	$ 107,544
Contributions – member	13,596
Net investment income	263,688
Benefit payments, including refunds of member contributions	(155,936)
Administrative expense	(3,201)
Net change in plan fiduciary net position	**$ 225,691**
Plan fiduciary net position – beginning	**1,761,546**
Plan fiduciary net position – ending	**$ 1,987,237**
Net pension liability – ending	**$ 1,128,411**
Plan fiduciary net position as a percentage of the total pension liability	**63.78%**
Covered employee payroll	**$ 233,200**
Net pension liability as a percentage of covered employee payroll	**483.88%**

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

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

	2014
Annual money-weighted rate of return, net of investment expense	7.49%

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

Required Supplementary Information *(Continued)*

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

(Dollars Amounts in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 107,544	$ 103,109	$ 87,082	$ 59,180	$ 54,566	$ 57,020	$ 54,958	$ 51,004	$ 41,267	$ 41,552
Contributions in relation to the actuarially determined contributions	107,544	103,109	87,082	59,180	54,566	57,020	54,958	51,004	41,267	41,552
Contribution deficiency (excess)	$	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 233,200	$ 240,187	$ 300,811	$ 323,020	**	$ 291,405	**	$ 286,446	**	$ 292,961
Contributions as a percentage of covered-employee payroll	46.12%	42.93%	28.95%	18.32%		19.57%		17.81%		14.18%

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

*** Actuarial valuations have been performed biennially through June 30, 2007. Effective June 30, 2009, the System transitioned to annual actuarial valuations.*

NOTE TO SCHEDULE

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	5- year smoothed market	5- year smoothed market	5- year smoothed market	5- year smoothed market	5 – year smoothed market	5- year smoothed market	5- year smoothed market
Discount rate	7.50%	7.50%	7.95%	7.75%	8.25%	8.25%	8.25%

Required Supplementary Information *(Continued)*

NOTE TO SCHEDULE (Continued)

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Salary increases	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.50% plus an added merit component for those with 0-4 years of service
Amortization payment growth rate	3.25%	3.25%	3.90%	3.83%	4.25%	4.25%	4.50%
COLA	3%	3%	3%	3%	3%	3%	3%
Mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.	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.

Required Supplementary Information *(Continued)*

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll[1]	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2007	$ 96,601	$ 616,749	$ 520,148	16%	$ 271,833	191%
06/30/2009	85,564	796,448	710,884	11%	308,697	230%
06/30/2010	108,011	926,371	818,360	12%	300,069	297%
06/30/2011	135,454	1,145,359	1,009,905	12%	228,936	441%
06/30/2012	137,798	1,096,620	958,822	13%	225,859	425%
06/30/2013	157,695	870,872	713,177	18%	226,098	315%

[1] Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2013, 2012 and 2011 valuations. The amount presented for the June 30, 2007, 2009, and 2010 valuations represents actual annual covered payroll.

As of June 30, 2013, the System's most recent valuation, the System's UAAL decreased from $958.8 million to $713.2 million. The System's UAAL decreased by approximately $245.6 million primarily due to changes in claims cost assumptions, the change to a four-tier rate structure effective January 1, 2014, and the increase in the discount rate. The System's discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (2.50%) and the expected return on the System's invested assets (7.25%) resulting in a blended discount rate of 5.30%. This resulted in an increase in the blended GASB discount rate from 4.80% to 5.30%. Changes in claims cost assumptions refers to the change in unexpected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

The June 30, 2013 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2013 valuation is 26.4 years compared to 24.8 years for the June 30, 2012 valuation.

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

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

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(In Thousands)

Fiscal Year Ended	Annual Required Contributions*	Actual Contributions*	Percentage Contributed
06/30/2009	$ 33,381	$ 16,368	49%
06/30/2010	38,599	17,027	44%
06/30/2011	47,593	17,146	36%
06/30/2012	67,583	25,834	39%
06/30/2013	57,331	21,251	37%
06/30/2014	52,364	19,298	37%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of $1.6 million for 2009; $4.0 million for 2010; $3.9 million for 2011; $4.4 million for 2012; $3.1 million for 2013; and $4.7 million for 2014. The actual contributions include year-end contributions receivable and prior year contribution adjustments, as well as the implicit subsidy amounts for years 2012 through 2014 but not for years 2008-2011.*

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

June 30, 2014 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Assets			
Receivables:			
Employee contributions	$ 1,618	$ 69	$ 1,687
Employer contributions	-	1,040	1,040
Brokers and others	228	65	293
Accrued investment income	1,715	557	2,272
Total receivables	**3,561**	**1,731**	**5,292**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	137,336	49,375	186,711
Absolute return	264,064	94,935	358,999
Collective short-term investments	22,693	8,157	30,850
Global equity	465,711	198,807	664,518
Private equity	70,444	25,326	95,770
Forward international currency contracts	262	94	356
Opportunistic investments	86,365	31,050	117,415
Real assets	305,024	109,661	414,685
Real estate	85,784	30,841	116,625
Total investments	**1,437,683**	**548,246**	**1,985,929**
TOTAL ASSETS	**1,441,244**	**549,977**	**1,991,221**
Liabilities			
Payable to brokers	2,165	682	2,847
Other liabilities	823	314	1,137
TOTAL LIABILITIES	**2,988**	**996**	**3,984**
Plan Net Position - Restricted For:			
Pension benefits	**$ 1,438,256**	**$ 548,981**	**$ 1,987,237**

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For Fiscal Year Ended June 30, 2014 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Additions			
Contributions:			
Employee	$ 10,574	$ 3,022	$ 13,596
Employer	62,960	44,584	107,544
Total contributions	**73,534**	**47,606**	**121,140**
Investment income:			
Net appreciation in fair value of investments	180,472	64,866	245,338
Interest income	12,531	4,532	17,063
Dividend income	8,119	2,935	11,054
Less investment expense	(7,191)	(2,576)	(9,767)
Net investment Income	193,931	69,757	263,688
TOTAL ADDITIONS	**267,465**	**117,363**	**384,828**
Deductions			
Retirement benefits	111,395	32,526	143,921
Death benefits	5,891	3,954	9,845
Refund of contributions	1,853	317	2,170
Administrative expenses and other	2,432	769	3,201
TOTAL DEDUCTIONS	**121,571**	**37,566**	**159,137**
NET INCREASE	**145,894**	**79,797**	**225,691**
Plan Net Position - Restricted For Pension Benefits:			
BEGINNING OF YEAR	**1,292,362**	**469,184**	**1,761,546**
END OF YEAR	**$ 1,438,256**	**$ 548,981**	**$ 1,987,237**

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET POSITION

June 30, 2014 (Dollars in Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Postemployment Healthcare Plan
Assets			
Receivables:			
Employee contributions	$ -	$ 391	$ 391
Employer contributions	-	474	474
Brokers and others	705	-	705
Accrued investment income	132	-	132
Total receivables	**837**	**865**	**1,702**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	10,464	21,281	31,745
Absolute return	20,120	-	20,120
Collective short-term investments	1,729	3,838	5,567
Global equity	35,549	45,919	81,468
Private equity	5,367	-	5,367
Forward international currency contracts	20	-	20
Opportunistic investments	6,581	-	6,581
Real assets	23,241	12,928	36,169
Real estate	6,536	-	6,536
Total investments	**109,607**	**83,966**	**193,573**
TOTAL ASSETS	**110,444**	**84,831**	**195,275**
Liabilities			
Payable to brokers	166	-	166
Other liabilities	63	3	66
TOTAL LIABILITIES	**229**	**3**	**232**
Plan Net Position - Restricted For:			
Postemployment healthcare benefits	**$ 110,215**	**$ 84,828**	**$ 195,043**

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT PLAN NET POSITION

For Fiscal Year Ended June 30, 2014 (Dollars in Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Postemployment Healthcare Plan
Additions:			
Contributions:			
Employee	$ 8,482	$ 9,012	$ 17,494
Employer	-	19,298	19,298
Total contributions	**8,482**	**28,310**	**36,792**
Investment income:			
Net appreciation in fair value of investments	14,815	10,952	25,767
Interest income	1,029	-	1,029
Dividend income	666	1,907	2,573
Less investment expense	(590)	(42)	(632)
Net investment income	**15,920**	**12,817**	**28,737**
TOTAL ADDITIONS	**24,402**	**41,127**	**65,529**
Deductions:			
Healthcare insurance premiums	27,924	-	27,924
Administrative expenses and other	200	57	257
TOTAL DEDUCTIONS	**28,124**	**57**	**28,181**
NET (DECREASE) /INCREASE	**(3,722)**	**41,070**	**37,348**
Plan Net Position - Restricted For Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**113,937**	**43,758**	**157,695**
END OF YEAR	**$ 110,215**	**$ 84,828**	**$ 195,043**

Other Supplementary Information *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2014 and 2013

	2014			2013
	Original Budget	Actual	(Over) Under Budget	Actual
Personnel services	$ 2,655,857	$ 2,038,376	$ 617,481	$ 1,897,542
Non-personnel/equipment	795,939	586,534	209,405	683,101
Professional services	1,469,161	832,918	636,243	650,465
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 4,920,957**	**$ 3,457,828**	**$ 1,463,129**	**$ 3,231,108**

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2014 and 2013

Firm	Nature of Service	2014	2013
Alliance Resource Consulting LLP	Executive recruitment	$ 7,193	$ 30,157
Center for Executive Solutions	Executive training	-	3,170
Cheiron Inc	Actuarial consultant	181,789	96,188
Cortex Applied Research, Inc.	Governance consultant	114,338	48,698
Financial Knowledge/Peter Sepsis	Educational services	11,233	11,404
Ice Miller	Legal tax counsel	53,917	1,942
L.R. Wechsler, LTD	Pension system consultant	1,545	31,738
Levi, Ray, & Shoup	Web development and maintenance	13,314	13,350
Levi, Ray, & Shoup	Programing changes and business continuance services	8,288	6,679
Macias Gini & O'Connell LLP	External auditors	51,150	42,432
Medical Director/Other Medical	Medical consultant	69,336	60,476
Pension Benefit Information	Reports on deceased benefit recipients	2,494	2,476
Reed Smith LLC	Fiduciary and general counsel	209,970	126,360
Robert Half Management Resources	Temporary staff	-	1,688
Saltzman & Johnson	Legal counsel	14,550	67,580
Silicon Valley Professional Staffing	Temporary staff	69,129	69,740
Trendtec Inc.	Temporary staff	24,672	36,387
TOTAL		**$ 832,918**	**$ 650,465**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2014 and 2013

Investment Managers' Fees	2014	2013
Equity:		
Global equity	$ 3,309,772	$ 1,855,603
Absolute return	1,494,825	-
Private equity	821,725	782,525
Total equity	**5,626,322**	**2,638,128**
Fixed income	206,266	336,463
Real estate	1,153,129	1,206,881
Real assets	695,603	847,433
Opportunistic	1,608,214	2,054,243
TOTAL INVESTMENT MANAGERS' FEES	**9,289,534**	**7,083,148**
Other Investment Fees		
Investment consultants	657,663	508,750
Custodian bank	273,138	323,193
Proxy voting	92,052	18,748
Real estate legal fees	-	13,710
Investment legal fees	87,140	152,617
Total other investment service fees	**1,109,993**	**1,017,018**
TOTAL INVESTMENT EXPENSES	**$ 10,399,527**	**$ 8,100,166**

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Investment Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Report of Investment Activity

M E K E T A   I N V E S T M E N T   G R O U P

BOSTON MA
MIAMI FL
PORTLAND OR
SAN DIEGO CA
LONDON UK

September 9, 2014

Mr. Roberto Peña
Director
San José Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, CA 95112-4505

Dear Mr. Peña:

As fiscal year 2014 began, investors were focused on continued slower growth in the developed world and its potential impact on global capital markets. Global real interest rates were markedly higher from a year prior, despite continued monetary stimulus. In June of 2013, the U.S. Federal Reserve chair Janet Yellen announced they were considering tapering their bond purchase program, but by September they backtracked slightly and stated that they would wait for signs of a sustainable economic recovery before reducing purchases. This stimulus in the U.S. contributed to continued flows into equities, with the Russell 3000 Index rising dramatically, by 6.3% and 10.1% in the third and fourth calendar quarter of 2013, respectively. Developed international equity, as represented by the MSCI EAFE Index, rose 11.6% and 5.7% in the last two quarters of 2013.

Also during the first half of the fiscal year, increases in real interest rates and a reduction in global liquidity stoked fears of a slowdown in emerging markets, specifically fears of slower growth in China that could reduce export demand from other emerging economies. Despite such fears, the MSCI Emerging Markets Index rallied 5.8% and 1.8% in the third and fourth calendar quarters of 2013. However, these concerns over export demand and raw materials caused commodity markets to be essentially flat, rising only 1.1% over the second half of 2013, as represented by the Dow Jones-UBS Commodity Index.

During the first calendar quarter of 2014, there were signs of improved growth in both developed and emerging markets, as developed areas of the world were expected to have higher growth than the previous ten years, and emerging markets expected higher growth than developed markets. Because of signs of sustained growth in the U.S., the Federal Reserve began to reduce bond purchases at the beginning of the calendar year, cutting purchases by $10 billion per month. However, Janet Yellen reiterated the central bank's commitment to keep interest rates low, citing slack in the labor market and below target inflation. Mario Draghi of the European Central Bank made similar commitments on rates, while also reiterating that the ECB stood ready to provide additional stimulus in light of the strong Euro and weak inflation. Meanwhile, Abenomics, Japan's unprecedented stimulus composed of

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monetary, fiscal and structural components, continued with an increase in the consumption tax in April. In emerging markets, Russia's annexation of Crimea caused investors some concern, as did continued conflict in the Middle East.

Over the full fiscal year, developed market equities performed very well. The Russell 3000 Index and the MSCI EAFE Index were up 25.2% and 23.6%, respectively. The MSCI Emerging Markets Index was up 14.3%, which was better than the prior fiscal year, but still lagged developed markets. Fixed income asset classes exhibited positive performance for the fiscal year as well, with the Barclays Aggregate Index returning 4.4%, the Barclays High Yield Index returning 11.7%, and the Barclays TIPS Index returning 4.4%.

In the alternative assets space, the Bloomberg Commodity Index (formerly known as the Dow Jones-UBS Commodity Index) rose 8.2% for the fiscal year, reversing the returns for the prior fiscal year. Private market assets were positive as well, as the National Council of Real Estate Fiduciaries Property Index returned 11.2% and the private equity benchmark (a combination of Venture Economics and Cambridge Associates private equity benchmarks) returned 19.6% for the fiscal year. Returns for private market indexes are lagged by one quarter due to the availability of data.

Fiscal 2015 Outlook

Meketa Investment Group believes that four issues remain of primary concern over the next year (and these issues have largely remained unchanged from last year): continued economic sluggishness and financial risk in Europe, increasing real interest rates globally, the potential for a rapid slowdown in China impacting other emerging economies, and increased geopolitical tensions around the world.

The U.S. economy has shown signs of improvement during the fiscal year with GDP growth improving and unemployment declining. Continued stabilization in the world's largest economy should lead to improvements in employment and growth domestically, as well as increased demand for goods and services from abroad. However, geopolitical tensions from the continued conflicts in Ukraine, Iraq, Syria, and Israel should continue to add volatility in the world financial markets.

Plan Investment Results and Asset Allocation for Pension Trust

For fiscal year 2014, the San José Federated City Employees' Retirement System returned 14.3% gross of fees and 14.2% net of fees[1], while the Custom Benchmark return for the same time period was 13.2%. The Retirement

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

September 9, 2014
Page 3 of 4

System's fiscal year performance exceeded the actuarial rate of return of 7.25%, which it has done in four of the past five fiscal years.

The outperformance relative to the custom benchmark is related to three main factors.

- *Real Assets:* The Retirement System's real assets allocation includes commodities, infrastructure, and natural resources. This asset class is accessed via active and passive strategies. Real assets tend to benefit when the market begins to expect an increase in inflation expectations. The Board's decision to diversify the real assets allocation into infrastructure and natural resources, instead of holding only commodities, benefitted returns.
- *Private Debt:* The Retirement System's private debt allocation is benchmarked to the three month LIBOR + 3%, and tends to be a contributor to relative performance versus the custom benchmark in positive markets. Conversely, the comparison to an absolute benchmark will be a detractor in down markets.
- *Private Real Estate managers :* Private Real Estate managers, and to a lesser extent Core Real Estate managers, performed well in fiscal year 2014, returning 15.3% and 12.1%, respectively, on a time-weighted basis.

Plan Investment Results and Asset Allocation for Health Care Trust

For fiscal year 2014, the San José Federated Retiree Health Care Trust Fund returned 16.2% net of fees. The Health Care Trust's asset levels have increased sufficiently to where it makes sense to review asset allocation during the upcoming fiscal year to determine if additional asset classes or active management may be prudent.

September 9, 2014
Page 4 of 4

Summary

Performance for the San José Federated City Employees' Retirement System during fiscal year 2014 was nearly double the actuarial rate of return. We believe that the Retirement System's portfolio is diversified in a way that provides for achieving long-term returns to meet the Retirement System's obligations and objectives. During fiscal year 2015, Meketa Investment Group looks forward to working with Staff and the Board of Trustees to further implement the target asset allocation and enhance the investment manager roster, so that the Retirement System can continue to meet its obligations to participants.

Sincerely,

Laura Wirick, CFA, CAIA
Senior Vice President

Stephen P. McCourt, CFA
Managing Principal

LBW/mah

Statement of Investment Policy

PENSION – INCLUDES THE 401(H) INVESTMENTS

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

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

INVESTMENT OBJECTIVES

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

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

5) A range of risks will be monitored in connection with the Fund, with an emphasis on the following:

   a) The impact of the investment program on the funded status of the System and the resulting volatility of contributions.

   b) Risk of loss of System assets.

6) In developing the investment policies of the System, various factors will be considered including, but not limited to:

   a) The structure and duration of the System's liabilities.

   b) Modern Portfolio Theory.

   c) The portfolio management practices followed by other institutional investors.

   d) The liquidity needs of the System.

FIDUCIARY STANDARDS

7) The Board of Administration is subject to the following duties under law:[1]

   a) The assets of the retirement System are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the System.

   b) The Board shall discharge its duties with respect to the System solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the System. The Board's duty to the members and their beneficiaries shall take precedence over any other duty.

   c) The Board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

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

FUND GOVERNANCE

9) The governance structure of the Fund is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:

   a) Policy on the Role of the Board of Administration

   b) Policy on the Role of the Investment Committee

   c) Policy on the Role of the Director of Retirement Services

   d) Policy on the Role of the Chief Investment Officer

   e) Policy on Roles in Vendor Selection

ASSET ALLOCATION

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

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

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

Statement of Investment Policy *(Continued)*

PENSION – INCLUDES THE 401(H) INVESTMENTS (Continued)

As of 12/15/2011

Federated City Employees' Retirement System

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

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

13) The long-term asset allocation of the Fund will be reviewed at a minimum every five years, also based on the results of an asset allocation study. Such studies may also be performed on an interim basis, as necessary.

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

REBALANCING

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

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

DIVERSIFICATION

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

LIQUIDITY MANAGEMENT

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

PROXY VOTING

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

20) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic securities to a dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

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

   a) Be capable of providing adequate and satisfactory information on the history of the firm, key

PENSION – INCLUDES THE 401(H) INVESTMENTS (Continued)

personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.

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

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

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

23) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.

MONITORING INVESTMENT MANAGERS

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

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

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

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

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

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

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

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

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

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

DERIVATIVE SECURITIES

27) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:

a) Equitizing cash during portfolio transitions until "physical" securities are in place.

b) Managing asset allocation on a temporary basis.

c) Hedging foreign currency risk, subject to approved limits.

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

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

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

INVESTMENT RESTRICTIONS

31) Investment management agreements will be established for each investment manager retained by the System. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting

PENSION – INCLUDES THE 401(H) INVESTMENTS (Continued)

requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

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

VALUATION OF INVESTMENTS

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

OTHER

36) Appendix A contains additional policy guidelines concerning hedge funds.
37) Appendix B contains the long-term Policy Benchmark.
38) Appendix C contains language on private real estate.
39) Exceptions to this Investment Policy Statement must be approved by the Board.

POLICY REVIEW & HISTORY

40) This policy will be reviewed at least annually.
41) This policy was most recently reviewed on May 16, 2013.

Appendix A

HEDGE FUNDS

Objectives

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

Portfolio Characteristics

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

Target Allocation

Strategy	Target	Range
Relative value	35%	25-40%
Event driven	20%	15-25%
Equity long/short	15%	10-20%
Macro/directional	30%	25-40%

Portfolio Constraints

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

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

Definition and use of Leverage

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

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

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

Appendix B LONG-TERM POLICY BENCHMARK

Federated City Employees' Retirement System

Asset Class	Benchmark	Target (%)
Equity		
Global equity	MSCI ACWI IMI	28%
Private equity	Venture Economics Private Equity	9%
Fixed Income		
Investment grade	Barclays Aggregate	5%
TIPS	Barclays US TIPS	5%
Global credit	Barclays Aggregate	14%
Absolute Return		
	HFRI FoF Composite	11%
Real Assets		
	Risk Parity Commodities	6%
	CPI-U + 5% (Private Real Assets – Infrastructure, Natural Resources, Agriculture, and Timber)	10%
	NCREIF Property Index	7%
Strategic Discretionary Investment Partner		5%

Appendix C PRIVATE REAL ESTATE

Definitions

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

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

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

Investment Types

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

   a) Apartment/multi-family

   b) Industrial

   c) Office

   d) Retail

   e) Residential

   f) Hotel

Direct Real Estate Investments

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

Statement of Investment Policy

HEALTHCARE

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

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

INVESTMENT OBJECTIVES

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

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

FIDUCIARY STANDARDS

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

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

FUND GOVERNANCE

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

ASSET ALLOCATION

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

Federated City Employees' Retiree Health Care Trust Fund

Broad Asset Class	Minimum	Target	Maximum
Global equity	53%	59%	65%
Fixed income	23%	28%	33%
Real assets	8%	13%	18%
Total		**100%**	

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

Statement of Investment Policy *(Continued)*

HEALTHCARE (Continued)

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

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

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

REBALANCING

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

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

DIVERSIFICATION

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

LIQUIDITY MANAGEMENT

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

PROXY VOTING

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

HIRING & TERMINATING INVESTMENT MANAGERS

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

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

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

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

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

MONITORING INVESTMENT MANAGERS

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

Statement of Investment Policy *(Continued)*

HEALTHCARE (Continued)

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

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

DERIVATIVE SECURITIES

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

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

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

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

INVESTMENT RESTRICTIONS

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

INVESTMENT COSTS

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

Statement of Investment Policy *(Continued)*

HEALTHCARE (Continued)

VALUATION OF INVESTMENTS

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

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

OTHER

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

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

POLICY REVIEW & HISTORY

32) This policy will be reviewed at least annually.

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

Appendix A LONG-TERM POLICY BENCHMARK

Federated City Employees' Retiree Health Care Trust Fund

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

Investment Professionals

As of June 30, 2014

Global Equity

Aberdeen
Frontier Equity
New York, NY

Artisan Partners LP
Global Value Equity
San Francisco, CA

Cove Street
Small Cap Value
El Segundo, CA

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

Northern Trust Global Investments
MSCI EAFE Index
MSCI EAFE Small Cap Index
Russell 3000 Index
Chicago, IL

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

Vontobel
Global Emerging Markets
New York, NY

Private Equity

Great Hill Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Partners Group (US) LP
New York, NY

Pathway Capital Management, LLC
Irvine, CA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

Prudential Real Estate Investors
Newark, NJ

Public Fixed Income

Northern Trust Global Investments
Inflation Protected Securities
Intermediate Government Bond Index
Chicago, IL

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

Private Debt

GSO Capital Partners
Direct Lending Account
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

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

Real Assets

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

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

Northern Trust Global Investments
Global LargeMid Natural Resources
Chicago, IL

State Street Global Assets
Northern Trust Natural Resources
Boston, MA

Absolute Return

Arrowgrass Capital Partners
International Fund
New York, NY

*BlackRock
Global Ascent
San Francisco, CA

BlueCrest Capital Management
BlueTrend Fund
New York, NY

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

Claren Road
Globe Opportunity Fund
New York, NY

Davidson Kempner Capital Management
Institutional Partners Fund
New York, NY

*Terminated in Fiscal Year 2014-15

Investment Professionals *(Continued)*

As of June 30, 2014

Absolute Return *(continued)*

DE Shaw Group
Composite International Fund
New York, NY

Horizon
Horizon Portfolio Limited
London, England

Hudson Bay
International Fund
New York, NY

Kepos Capital
Alpha Fund
New York, NY

Marshall Wace Funds PLC
MW Eureka Fund
London, England

Pine River Capital Management
Pine River Fund
Minnetonka, MN

Porter Orlin
Amici Fund
New York, NY

Sandler Associates
Sandler Plus Fund
New York, NY

Senator Investment Group
Global Opportunity Fund
New York, NY

Consultants

Albourne America LLC
– Absolute Return
San Francisco, CA

Meketa Investment Group
– General Consultant
Carlsbad, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Co. LLC
San Francisco, CA

Portfolio Overlay Services

Russell Investments
Seattle, WA

Schedule of Investment Results for Pension Trust

GROSS AND NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods ended June 30, 2014

	One Year	Three Years	Five Years	Ten Years
Total Fund (gross of fees)	**14.3%**	**6.2%**	**10.2%**	**6.2%**
Total Fund (net of manager fees)	**14.2%**	**6.0%**	**10.0%**	**6.0%**
Total Fund Without Overlay (gross of fees)	**14.1%**	**6.1%**	**10.1%**	**6.2%**
Total Fund Without Overlay (net of manager fees)	**14.0%**	**5.9%**	**10.0%**	**6.0%**
Policy Benchmark	13.9%	6.5%	10.6%	6.5%
Master Trust Public Funds > $1 Billion (Median)	17.2%	10.0%	13.1%	7.6%
Total Global Equity	**22.6%**	**10.3%**	**NA**	**NA**
MSCI ACWI IMI	23.4%	10.4%	14.8%	7.8%
Total Real Estate	**13.4%**	**11.7%**	**4.3%**	**5.6%**
NCREIF Property Index (lagged one quarter)	11.2%	11.4%	9.7%	8.7%
Total Private Equity	**19.3%**	**12.8%**	**13.7%**	**NA**
Venture Economics PE Composite (lagged one quarter)	19.6%	14.0%	16.8%	13.2%
Total Hedge Fund	**4.9%**	**NA**	**NA**	**NA**
HFRI Fund of Funds Composite	7.6%	3.3%	4.2%	3.4%
Total Real Assets	**19.4%**	**-1.5%**	**NA**	**NA**
Custom Risk Parity Benchmark	14.3%	-1.5%	NA	NA
Dow Jones Brookfield Global Infrastructure Index	28.3%	16.7%	20.4%	14.2%
S&P Global LargeMidCap Commodity and Resources	21.5%	-1.9%	8.7%	NA
CPI-U + 5%	7.2%	6.9%	7.1%	7.4%
Total Public Fixed Income	**1.6%**	**3.1%**	**5.9%**	**5.4%**
Barclays U.S. TIPS	4.4%	3.6%	5.6%	5.2%
Barclays U.S. TIPS 1-5 Year	2.5%	1.1%	3.2%	NA
Barclays Intermediate Government Bond Index	1.5%	2.0%	2.8%	3.9%
Total Private Debt	**10.2%**	**10.4%**	**NA**	**NA**
3-month LIBOR + 5%	5.3%	5.4%	5.4%	7.2%

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

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2014

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods ended June 30, 2014

	2Q2014	Calendar YTD	One Year	Three Years	Since Inception
Total Fund (net of manager fees)	**3.8%**	**5.8%**	**16.2%**	**8.4%**	**8.4%**
Policy Benchmark	4.1%	6.3%	16.8%	7.5%	7.5%
Total Global Equity	**4.8%**	**5.9%**	**23.1%**	**NA**	**18.3%**
Global Equity HC Policy Benchmark	4.7%	5.9%	23.4%	11.0%	18.3%
MSCI ACWI IMI	4.8%	6.2%	23.4%	10.4%	17.7%
Total Fixed Income	**2.7%**	**4.7%**	**4.3%**	**NA**	**2.0%**
Fixed Income HC Policy Benchmark	2.8%	4.7%	4.4%	3.7%	2.2%
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	2.8%
Barclays U.S. TIPS	3.8%	5.8%	4.4%	3.6%	1.3%
Total Real Assets	**4.1%**	**11.8%**	**14.8%**	**NA**	**-4.5%**
Custom Risk Parity Benchmark	3.9%	11.5%	14.3%	-1.5%	-2.6%

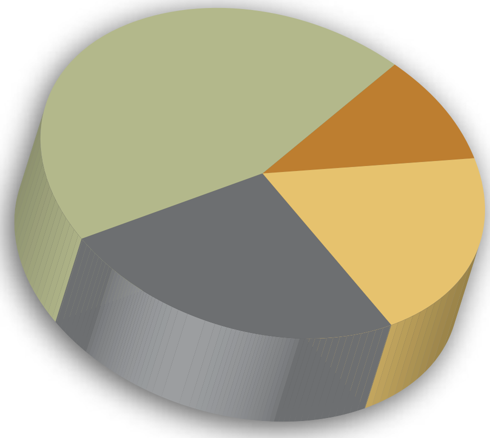
Basis of Calculation: *Time-Weighted Rate of Return*

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2014

Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

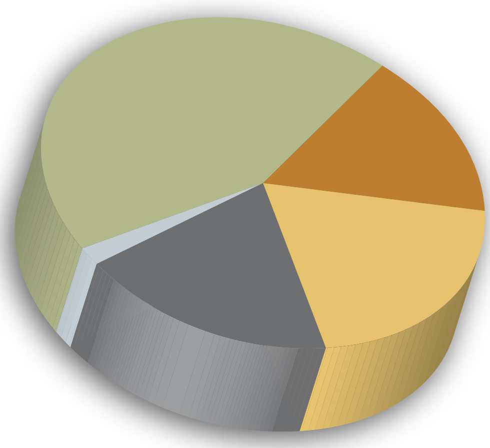
TARGET ASSET ALLOCATION *As of June 30, 2014*



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

ACTUAL ASSET ALLOCATION (Dollars in Millions)

As of June 30, 2014



	Actual Allocation	$ in millions
Equity *(Public and private equity, and real estate)*	44.00%	$916.63
Fixed Income	15.50%	$322.56
Real Assets	21.00%	$437.84
Hedge Funds	18.00%	$376.52
Short Term	1.50%	$30.84
TOTAL	100.00%	$2,084.38

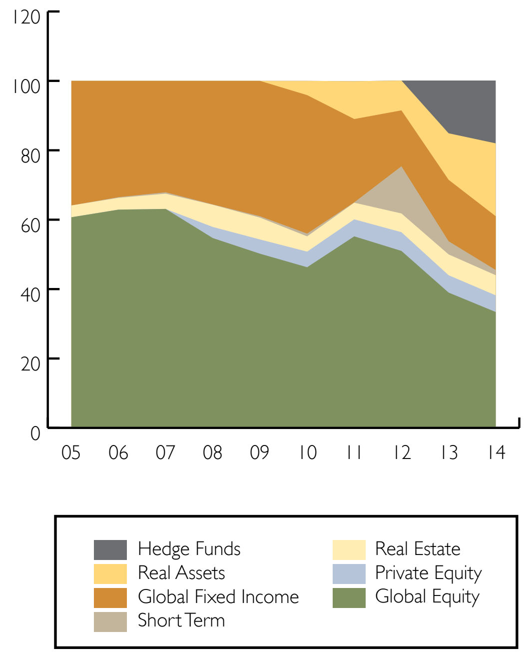
Non-GAAP basis

Pension Investment Review *(Continued)*

INCLUDES THE 401(H) INVESTMENTS (Continued)

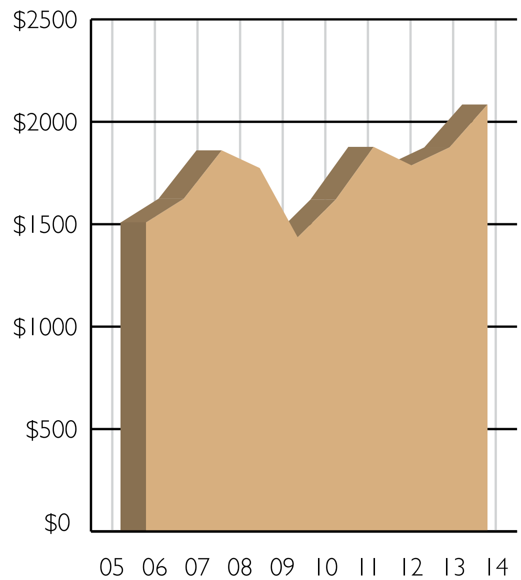
HISTORICAL ASSET ALLOCATION (Actual)

June 30, 2005- June 30, 2014



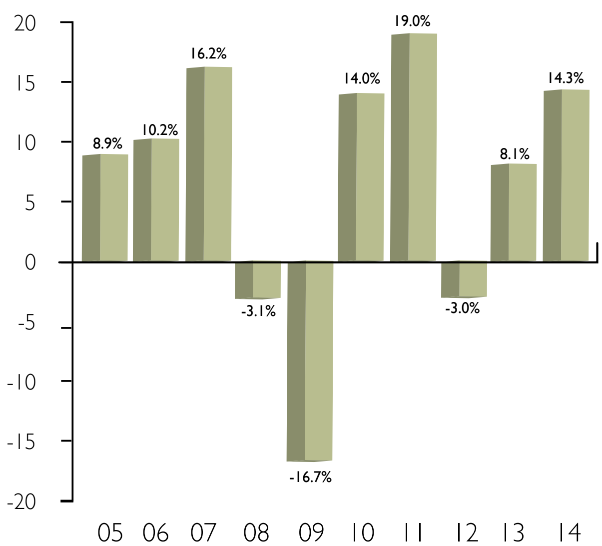
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2014 (Dollars in Millions)



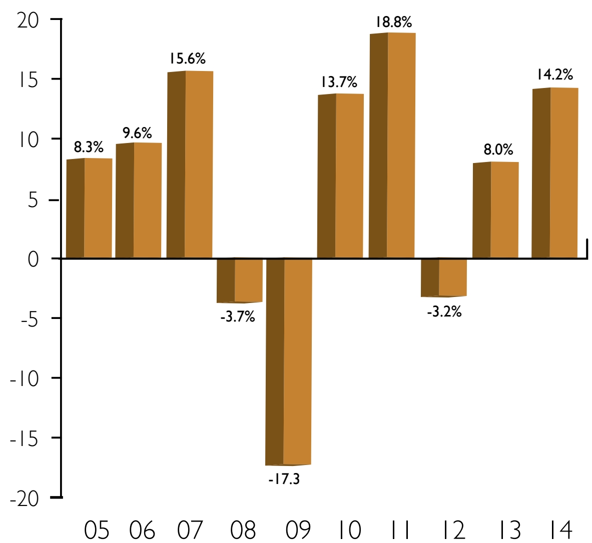
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2005 - 2014

(Based on Fair Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2005 - 2014

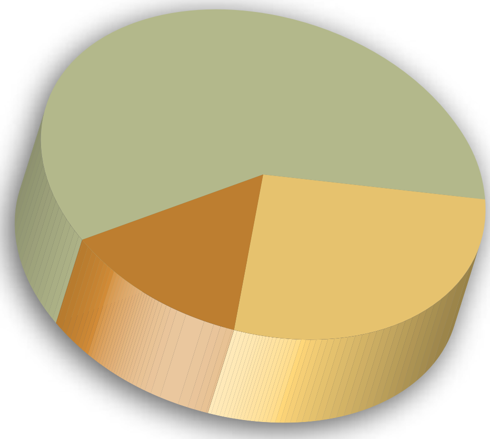
(Based on Fair Value, Net of Fees)



Pension Investment Review

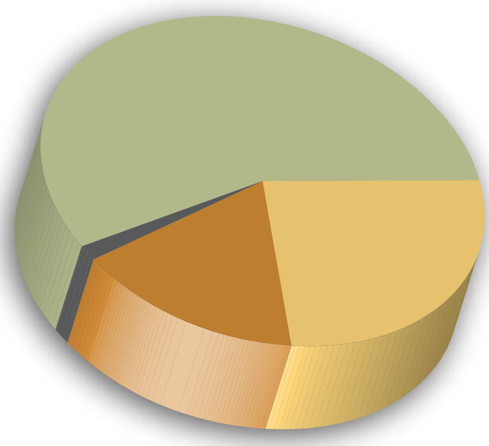
HEALTHCARE

TARGET ASSET ALLOCATION *As of June 30, 2014*



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

ACTUAL ASSET ALLOCATION (Dollars in Millions)
As of June 30, 2014

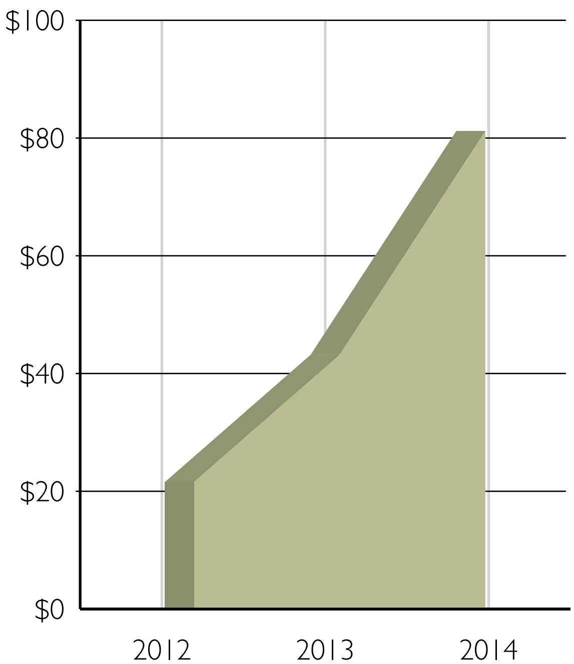


	Actual Allocation	$ in millions
Global Equity	56.60%	$45.92
Fixed Income	26.20%	$21.28
Real Assets	15.90%	$12.93
Cash	1.30%	$1.05
TOTAL	100.00%	$81.18

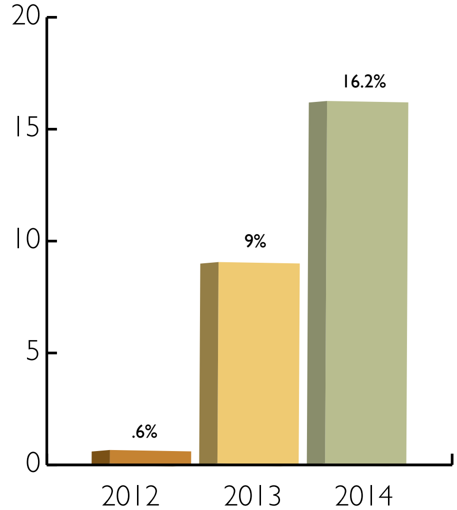
Non-GAAP basis

HEALTHCARE

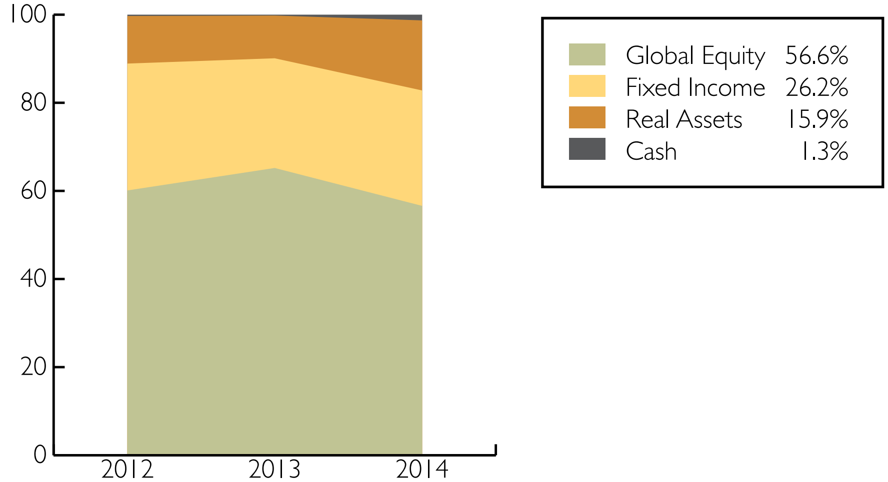
MARKET VALUE GROWTH OF PLAN ASSETS
For Three Years Ended June 30, 2014 (Dollars in Millions)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2012 - 2014
(Based on Market Value)



HISTORICAL ASSET ALLOCATION (Actual)
June 30, 2012- June 30, 2014



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (by Market Value) For Pension
June 30, 2014

Description	Country	Shares	Market Value ($US)
MONSANTO CO	United States	66,687	$ 8,318,536
ORACLE CORP	United States	197,782	$ 8,016,104
NATIONAL GRID PLC	United Kingdom	546,932	$ 7,855,437
BANK OF NEW YORK MELLON CORP	United States	165,369	$ 6,198,030
WILLIAMS COS INC	United States	104,800	$ 6,100,408
ENBRIDGE INC	Canada	118,500	$ 5,632,686
MICROSOFT CORP	United States	135,028	$ 5,630,668
BHP BILLITON LIMITED	Australia	161,506	$ 5,472,506
ROYAL BANK OF SCOTLAND GROUP	United Kingdom	932,845	$ 5,238,059
JOHNSON + JOHNSON	United States	49,110	$ 5,137,888

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Market Value) For Pension
June 30, 2014

Security Name	Country	Maturity Date	Interest Rate	Par Value	Market Value ($US)
TSY INFL IX N/B	United States	04/15/2018	0.13%	13,623,236	$ 14,072,394
TSY INFL IX N/B	United States	04/15/2017	0.13%	12,257,669	$ 12,679,088
TSY INFL IX N/B	United States	01/15/2015	1.63%	12,451,643	$ 12,655,975
TSY INFL IX N/B	United States	04/15/2016	0.13%	10,889,549	$ 11,175,399
TSY INFL IX N/B	United States	04/15/2015	0.50%	6,202,016	$ 6,291,635
TSY INFL IX N/B	United States	07/15/2016	2.50%	5,305,486	$ 5,757,301
TSY INFL IX N/B	United States	07/15/2015	1.88%	5,532,853	$ 5,746,365
TSY INFL IX N/B	United States	01/15/2016	2.00%	5,422,213	$ 5,716,639
TSY INFL IX N/B	United States	01/15/2018	1.63%	4,163,920	$ 4,541,588
TSY INFL IX N/B	United States	07/15/2017	2.63%	3,940,150	$ 4,398,650

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For the Pension Trust for Fiscal Year Ended June 30, 2014

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	$ 696,119,649	$ 3,309,772	48
Private equity	99,325,692	821,725	83
Real estate	121,181,080	1,153,129	95
Global fixed income	197,294,006	206,266	10
Private debt	125,261,109	1,608,214	128
Real assets	437,836,972	695,603	16
Hedge funds	376,524,204	1,494,825	40
Collective short term	30,841,162		0
TOTAL INVESTMENT MANAGERS' FEES	**$ 2,084,383,874**	**$ 9,289,534**	**45**

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

	Fees
Other Investment Service Fees	
Investment consultants	$ 657,663
Custodian bank	273,138
Proxy voting	92,052
Investment legal fees	87,140
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 1,109,993**

Schedule of Commissions

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
A			
ACADEMY SECURITIES INC	7,600.000	$ 152.00	$ 0.0200
AQUA SECURITIES LP	19,061.000	381.22	0.0200
B			
BANCO SANTANDER DE NEGOCIOS	313,729.340	264.61	0.0008
BARCLAYS CAPITAL	10,820,721.390	1,318.83	0.0001
BARCLAYS CAPITAL INC/LE	616,851.000	7,254.34	0.0118
BARCLAYS CAPITAL LE	48,016.000	458.95	0.0096
BB&T SECURITIES LLC	274,171.000	6,180.62	0.0225
BLOOMBERG TRADEBOOK LLC	269,180.000	5,116.63	0.0190
BMO CAPITAL MARKETS	39,422.000	1,043.22	0.0265
BNP PARIBAS SECURITIES (ASIA) LTD	192,000.000	51.84	0.0003
BNP PARIBAS SECURITIES CORPORATION	8,445.000	337.80	0.0400
BNP PARIBAS SECURITIES SERVICES	233,901.990	535.02	0.0023
BRILEY + CO LLC	19,171.000	575.13	0.0300
BTIG LLC	22,072.000	449.36	0.0204
C			
CANACCORDADAMS INC	3,236.000	64.72	0.0200
CANACCORDGENUITY INC	35,932.000	768.17	0.0214
CANTOR FITZGERALD + CO	3,369.000	94.98	0.0282
CARNEGIE BANK AS	1,057,119.520	153.68	0.0001
CIBC WORLD MKTS INC	3,780,362.040	1,043.00	0.0003
CITATION GROUP	164,275.000	5,028.90	0.0306
CITIGROUP GLOBAL MARKETS AUSTRALIA PTY	27,775.330	10.39	0.0004
CITIGROUP GLOBAL MARKETS INC	180,242.410	2,372.160	0.0132
CITIGROUP GLOBAL MARKETS INC SALOMON BRO	74,600.250	3,072.57	0.0412
CITIGROUP GLOBAL MARKETS KOERA SECS LTD	248,177,002.000	555.82	0.0000
CITIGROUP GLOBAL MARKETS LIMITED	976,259.400	1,858.03	0.0019
COMPASS POINT RESEARCH + TRADING LLC	12,500.000	500.00	0.0400
CONVERGEX EXECUTION SOLUTIONS LLC	1,100.000	44.00	0.0400
COWEN AND COMPANY LLC	20,155.000	539.50	0.0268
CRAIG - HALLUM	6,295.000	183.90	0.0292
CREDIT LYONNAIS SECURITIES (ASIA)	5,276,311.600	672.61	0.0001
CREDIT SUISSE	662,721.080	217.50	0.0003
CREDIT SUISSE FIRST BOSTON (EUROPE)	499,263,924.000	1,084.12	0.0000
CREDIT SUISSE SECURITIES (EUROPE) LTD	19,809,920.520	4,234.38	0.0002
CREDIT SUISSE SECURITIES (USA) LLC	12,062,569.580	4,197.78	0.0003
CSFB AUSTRALIA EQUITIES LTD	1,671,100.820	455.91	0.0003
D			
DAIWA SECURITIES (HK) LTD	131,270,402.000	665.42	0.0000
DAIWA SECURITIES AMERICA INC	56,931,543.000	166.64	0.0000
DANSKE BANK AS	62,629.980	9.08	0.0001

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
D (continued)			
DAVIDSON DA + COMPANY INC	9,783.000	$ 226.45	$ 0.0231
DEN NORSKE BANK	563,020.120	74.18	0.0001
DEUTSCHE BANK AG LONDON	2,906,826.020	1,006.59	0.0003
DEUTSCHE BANK SECURITIES INC	372,898,894.040	4,771.54	0.0000
DEUTSCHE MORGAN GRENFELL SECS	389,285.400	100.91	0.0003
DEUTSCHE SECURITIES ASIA LIMITED	11,339,917.240	37.82	0.0000
DNB NOR MARKETS CUSTODY DNB NORBANK ASA	50,930.760	48.99	0.0010
DOUGHERTYCOMPANY	500.000	20.00	0.0400
DOWLING & PARTNERS	11,158.000	285.16	0.0256
DOWLING & PARTNERS SECURITIES LLC	11,333.000	566.65	0.0500
E			
EVERCORE GROUP LLC	57,636.000	2,049.56	0.0356
F			
FIRST ENERGY CAPITAL	212,392.050	293.14	0.0014
FOKUS BANK ASA	331,841.510	43.10	0.0001
FRIEDMAN BILLINGS + RAMSEY	6,419.000	128.38	0.0200
G			
G TRADE SERVICES LTD	462,798.400	119.17	0.0003
GOLDMAN SACHS + CO	181,471,456.920	6,022.23	0.0000
GOLDMAN SACHS INTERNATIONAL	322,828,515.340	448.64	0.0000
GUGGENHEIM CAPITAL MARKETS LLC	44,500.000	1,422.00	0.0320
H			
HSBC BANK PLC	17,909,469.090	11,112.01	0.0006
HSBC SECURITIES (USA) INC	51,894,499.010	1,136.60	0.0000
I			
ING BANK NV	61,424.600	107.14	0.0017
INSTINET	864,771.000	8,713.11	0.0101
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	1,270,466.200	373.25	0.0003
INSTINET UK LTD	20,042,198.220	255.49	0.0000
INVESTEC BANK PLC	91,404.370	138.55	0.0015
INVESTMENT TECHNOLOGY GROUP INC	1,527,994.000	32,050.25	0.0210
INVESTMENT TECHNOLOGY GROUP LTD	3,639,833.890	2,266.83	0.0006
ISI GROUP INC	739,533.000	8,308.17	0.0112
ITG AUSTRALIA LTD	1,398,445.040	371.89	0.0003
ITG CANADA	1,801,189.130	567.04	0.0003
ITG INC	98,307.000	1,625.250	0.0165
ITG SECURITIES (HK) LTD	1,762,672,347.430	1,483.08	0.0000
J			
JANNEY MONTGOMERY SCOTT INC	10,400.000	416.00	0.0400
JEFFERIES + COMPANY INC	806,690.070	3,282.45	0.0041
JEFFERIES INTERNATIONAL LTD	3,260,030.130	1,135.99	0.0003

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J (continued)			
JMP SECURITIES	18,956.000	$ 531.86	$ 0.0281
JOHNSON RICE + CO	51,957.000	915.13	0.0176
JONES & ASSOCIATES INC	17,721.400	31.33	0.0018
JONESTRADING INSTITUTIONAL SERVICES LLC	91,859.000	2,543.77	0.0277
JP MORGAN CHASE BANK NA LONDON	-35,487.460	99.41	-0.0028
JP MORGAN CLEARING CORP	13,462,034.610	3,432.96	0.0003
JP MORGAN SECURITIES (FAR EAST)LTD SEOUL	1,277,352,104.000	2,766.55	0.0000
JP MORGAN SECURITIES AUSTRALIA LTD	1,032,200.570	292.24	0.0003
JP MORGAN SECURITIES INC	5,652,997.690	3,891.87	0.0007
JP MORGAN SECURITIES PLC	10,080,863.950	3,763.71	0.0004
K			
KEEFE BRUYETTE + WOOD LIMITED	67,324.600	122.29	0.0018
KEEFE BRUYETTE + WOODS INC	47,569.000	1,768.30	0.0372
KEYBANC CAPITAL MARKETS INC	18,975.000	575.50	0.0303
KING CL & ASSOCIATES INC	12,412.000	318.24	0.0256
KNIGHT EQUITY MARKETS LP	13,400.000	412.00	0.0307
KOREA INVESTMENT AND SECURITIES CO LTD	124,195,332.000	139.70	0.0000
L			
LEERINK SWANN AND COMPANY	16,925.000	626.55	0.0370
LEK SECURITIES CORP	3,822.000	76.44	0.0200
LIQUIDNET INC	747,678.000	9,598.07	0.0128
M			
MACQUARIE BANK LIMITED	61,424.600	107.14	0.0017
MACQUARIE CAPITAL (EUROPE) LTD	864,771.000	8,713.11	0.0101
MACQUARIE CAPITAL (USA) INC	1,270,466.200	373.25	0.0003
MACQUARIE SEC NZ LTD	20,042,198.220	255.49	0.0000
MACQUARIE SECURITIES (SINGAPORE)	91,404.370	138.55	0.0015
MACQUARIE SECURITIES (USA) INC	1,527,994.000	32,050.25	0.0210
MERRILL LYNCH INTERNATIONAL	3,639,833.890	2,266.83	0.0006
MERRILL LYNCH PIERCE FENNER + SMITH INC	739,533.000	8,308.17	0.0112
MERRILL LYNCH PIERCE FENNER AND S	61,424.600	107.14	0.0017
MERRILL LYNCH PROFESSIONAL CLEARING CORP	864,771.000	8,713.11	0.0101
MIZUHO SECURITIES USA INC	1,270,466.200	373.25	0.0003
MORGAN STANLEY AND CO INTERNATIONAL	20,042,198.220	255.49	0.0000
MORGAN STANLEY CO INCORPORATED	91,404.370	138.55	0.0015
N			
NEEDHAM + COMPANY	133,413.000	3,544.92	0.0266
NESBITT BURNS	63,548.910	59.52	0.0009
NOBLE INTERNATIONAL INVESTMENTS INC	1,829.000	36.58	0.0200
NOMURA FINANCIAL AND INVESTMENT	180,033,501.000	384.86	0.0000
NOMURA INTERNATIONAL PLC	727,505.760	754.83	0.0010

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
N (continued)			
NORTHLAND SECURITIES INC	24,920.000	$ 498.40	$ 0.0200
NUMIS SECURITIES INC	4,777.830	10.58	0.0022
O			
ODDO ET CIE	54,396.600	101.92	0.0019
OPPENHEIMER + CO INC	19,329.000	725.32	0.0375
P			
PERSHING LLC	4,284.000	128.52	0.0300
PERSHING SECURITIES LIMITED	190,650.920	48.65	0.0003
PICKERING ENERGY PARTNERS INC	4,275.000	171.00	0.0400
PIPER JAFFRAY	981,294.000	10,357.56	0.0106
PIPER JAFFRAY & CO/CONDUIT ACCOUNT	40,156.870	12.55	0.0003
PIPER JAFFRAY & HOPWOOD	12,434.000	621.70	0.0500
PIPER JAFFREY	-568,747.000	239.25	-0.0004
PULSE TRADING LLC	1,400.000	42.00	0.0300
R			
RAYMOND JAMES AND ASSOCIATES	155,425.400	2,067.39	0.0133
RBC CAPITAL MARKETS	37,657.000	967.54	0.0257
RBC DOMINION SECURITIES INC	1,403,997.420	3,024.69	0.0022
REDBURN PARTNERS LLP	547,597.570	1,261.09	0.0023
RETURN OF CAPITAL	90,531,870.560	2,180.44	0.0000
ROBERT W BAIRD CO INCORPORATE	120,683.000	3,255.20	0.0270
ROSENBLATT SECURITIES LLC	95,688.000	1,913.76	0.0200
ROYAL BANK OF CANADA EUROPE LTD	9,373.230	19.97	0.0021
S			
SANFORD C BERNSTEIN CO LLC	205,636.000	4,825.54	0.0235
SANFORD C BERNSTEIN LTD	-304,588.020	1,529.82	-0.0050
SCOTIA CAPITAL (USA) INC	12,876.000	643.80	0.0500
SCOTIA CAPITAL MKTS	3,283.520	243.74	0.0742
SIDOTI + COMPANY LLC	14,140.000	407.80	0.0288
SKANDINAVISKA ENSKILDA BANKEN LONDON	257,696.070	79.42	0.0003
SMBC SECURITIES INC	22,061,832.000	240.13	0.0000
SOCIETE GENERALE LONDON BRANCH	1,879,716.040	1,512.61	0.0008
STATE STREET BANK AND TRUST CO	11,772.000	17.23	0.0015
STATE STREET GLOBAL MARKETS LLC	402,401.000	6,246.96	0.0155
STEPHENS INC	670.000	20.10	0.0300
STERNE AGEE & LEACH INC	27,967.000	835.34	0.0299
STIFEL NICOLAUS + CO INC	63,609.000	1,325.31	0.0208
SUNTRUST CAPITAL MARKETS INC	800.000	32.00	0.0400
SVENSKA HANDELSBANKEN	1,884,653.820	579.39	0.0003

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
T			
TD WATERHOUSE CDA	13,734.000	$ 20.10	$ 0.0015
TELSEY ADVISORY GROUP LLC	15,600.000	624.00	0.0400
THE HONGKONG AND SHANGHAI BANK	550,083,941.000	207.66	0.0000
U			
UBS AG	360,178,139.500	1,890.20	0.0000
UBS SECURITIES ASIA LTD	28,627,887.840	1,365.86	0.0000
UBS SECURITIES LLC	36,664.000	1,296.76	0.0354
UBS WARBURG AUSTRALIA EQUITIES	449,916.200	102.43	0.0002
UBS WARBURG LTD	237,133.500	196.19	0.0008
W			
WEDBUSH MORGAN SECURITIES INC	1,830.000	66.60	0.0364
WEEDEN + CO	103,543.000	1,827.65	0.0177
WELLS FARGO SECURITIES LLC	253,810.000	6,327.89	0.0249
WILLIAM BLAIR & COMPANY LLC	154,166.000	3,229.14	0.0209
WUNDERLICH SECURITIES INC	34,711.000	1,250.22	0.0360
TOTAL	**$ 9,623,085,803.15**	**$ 315,848.05**	**$ 0.0000**

Investment Summary

PENSION *As of June 30, 2014*
This includes the 401(h) investments

Type of Investments		Fair Value	% of Portfolio
Total Equities			
Global equity	$	696,119,649	33.40%
Private equity	$	99,325,692	4.77%
Real estate	$	121,181,080	5.81%
Total Equities	**$**	**916,626,421**	**43.98%**
Total Fixed Income			
Global fixed income	$	197,294,006	9.47%
Private debt	$	125,261,109	6.01%
Total Fixed Income	**$**	**322,555,115**	**15.47%**
Total Real Assets			
Real assets	$	437,836,972	21.01%
Total Real Assets	**$**	**437,836,972**	**21.01%**
Total Hedge Fund			
Hedge fund	$	376,524,204	18.06%
Total Hedge Fund	**$**	**376,524,204**	**18.06%**
Collective short-term investment*	**$**	**30,841,162**	**1.48%**
TOTAL FAIR VALUE	**$**	**2,084,383,874**	**100.00%**

Note: The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.
* Includes cash to support synthetic exposure.

HEALTHCARE *As of June 30, 2014*
115 Trust

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Equities	$	45,919,156	56.57%
Total Equities	**$**	**45,919,156**	**56.57%**
Total Fixed Income			
Fixed income	$	21,281,423	26.22%
Total Fixed Income	**$**	**21,281,423**	**26.22%**
Total Real Assets			
Real asset	$	12,927,926	15.93%
Total Real Assets	**$**	**12,927,926**	**15.93%**
Collective short-term investment	**$**	**1,048,675**	**1.29%**
TOTAL FAIR VALUE	**$**	**81,177,181**	**100.00%**

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

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Actuarial Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

CHEIRON Classic Values, Innovative Advice

November 12, 2014

Board of Administration
City of San José Federated City Employees' Retirement System
1737 North 1st Street, Suite 600
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Federated City Employees' Retirement System (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2013. Please refer to that report for additional information related to the funding of the System.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2013 actuarial valuation. All historical information prior to the June 30, 2010 actuarial valuation shown in these schedules is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

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

The Board of Administration is responsible for establishing and maintaining the contribution policy for the System. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2013 actuarial valuation updated to the measurement date of June 30, 2014. There were no significant events between the valuation date and the measurement date so the update procedures only included the addition of service cost and interest cost offset by actual benefit payments.

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

Beginning of year measurements are also based on the actuarial valuation as of June 30, 2013. Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year. In future years, liability gains and losses will be reported reflecting the liability gains and losses between actuarial valuation dates as well as any significant events during the update period.

Please refer to our GASB 67 report as of June 30, 2014 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2014, GASB 67 report.

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

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

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

Future plan experience may differ significantly from the current economic and demographic assumptions. In addition, economic or demographic assumptions and plan provisions or applicable law may also change. As a result, future actuarial measurements can be significantly different from those expected under the current plan measurements.

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

This letter and the schedules named above were prepared for the System for the purposes described herein. This letter and the schedules named above are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,

Cheiron

Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary

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

Actuarial Assumptions and Methods *(Continued)*

Actuarial Assumptions

The discount rate and wage inflation assumptions shown below were adopted by the Board of Administration with our input at the November 21, 2013 Board meeting. All other assumptions were adopted at the October 20, 2011 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2005 through June 30, 2010.

1. Discount Rate

7.25%. The Board adopted a long-term expected return assumption of 7.50% based on its capital market assumptions and investment policy. A margin for adverse deviation of 0.25% was used to improve the probability of achieving the discount rate.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Administrative Expenses

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

4. Salary Increase Rate

Wage inflation component: 2.00% for five years, and 2.85% thereafter.

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

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

5. Family Composition

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

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

6. Rates of Termination

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

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

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

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

7. Rates of Refund

Tier 1:
Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

Actuarial Assumptions and Methods *(Continued)*

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

<u>Tier 2:</u>

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

8. Rates of Disability

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

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

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

9. Rates of Mortality for Healthy Lives

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

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

100% of Tier 1 active member deaths and 99% of Tier 2 active member deaths are assumed to be service connected.

10. Rates of Mortality for Retired Disabled Lives

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

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

11. Rates of Retirement

Rates of retirement for Tier 1 members are based on age according to the following Table B-8 – Tier 1.

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

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

Table B-8 Tier 2		
Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

12. Deferred Member Benefit

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

13. Changes Since Last Valuation

- The discount rate decreased from 7.50% to 7.25%.
- The wage inflation assumption decreased from 3.25% for all years of service to 2.00% for five years, and 2.85% thereafter.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below. All components of the contribution allocation procedure were established prior to the June 30, 2010 actuarial valuation except as specifically noted below.

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

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

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

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 and Tier 2 pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of Tier 1 and Tier 2 pay over 20-year periods beginning with the valuation date in which they first arise. To remain a level percentage of expected future payroll, each annual amortization payment increases by 2.43%, the equivalent single wage inflation assumption over a 20-year period (2.00% for five years and 2.85% for the following 15 years).

4. Contributions

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

The total contribution rate is the sum of the normal cost rate (including assumed administrative expenses) and the UAL rate. The normal cost rate is determined by dividing the total normal cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

For Tier 1, members contribute 3/11 of the normal cost rate (including administrative expenses, but excluding reciprocity), and the City pays the remainder of the total contribution rate. For Tier 2, the members and the City each pay half of the total contribution rate.

Changes Since Last Valuation

The rate of increase in amortization payments was decreased from 3.25% to 2.43%.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active Count	Annual Payroll	Average Annual Pay	Percentage Change in Average Pay*
2013	3,094	$ 225,779,216	$ 72,973	-0.6%
2012	3,076	225,859,144	73,426	5.0
2011	3,274	228,936,398	69,926	-11.2
2010	3,818	300,811,165	78,788	-0.5
2009	4,079	323,020,387	79,191	7.1
2007	3,942	291,404,606	73,923	7.0
2005	4,148	286,445,861	69,056	5.6
2003	4,479	292,961,371	65,408,	15.6
2001	4,466	252,696,000	56,582	7.9
1999	3,694	193,650,000	52,423	8.3
1997	3,642	176,284,000	48,403	6.8
1995	3,397	153,918,000	45,310	4.4

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

Changes in Retirees and Beneficiaries

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls		Removed from Rolls		End of Period			
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	% Increase in Annual Allowances*	Average Annual Allowances
2012-13	3,602	$ 142,063,000	198	$ 7,036,000	89	$ 2,360,000	3,711	$ 150,934,000	6.2	$ 40,672
2011-12	3,428	129,869,000	250	14,158,000	76	1,964,000	3,602	142,063,000	9.4	39,440
2010-11	3,111	112,660,000	398	16,830,000	81	2,406,000	3,428	129,869,000	15.3	37,885
2009-10	2,930	101,194,000	206	10,700,373	79	2,203,960	3,111	112,660,000	11.3	36,213
2007-09	2,691	84,723,000	376	14,890,021	137	3,450,015	2,930	101,194,000	19.4	34,537
2005-07	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	22.0	31,484
2003-05	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0	28,634
2001-03	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,587,000	21.0	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8	20,360
1995-1997	1,636	29,029,000	190	4,143,000	81	946,000	1,745	32,630,000	12.4	18,699

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

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE Gain (or Loss) in Unfunded Actuarial Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience				
	Gain (or Loss) for Years Ending June 30			
Type of Activity	**2010**	**2011**	**2012**	**2013**
Investment income	$ (124,137)	$ (82,166)	$ (119,331)	$ (76,502)
Combined liability experience	45,785	83,403	2,023	2,899
Gain (or loss) during year from financial experience	$ (78,352)	$1,237	$ (117,308)	$ (73,603)
Non-recurring gain (or loss) items	(18,467)	(187,548)	43,109	(63,668)
Composite Gain (or Loss) During Year	**$ (96,819)**	**$ (186,311)**	**$ (74,199)**	**$ (137,271)**

Actuarial Analysis of Financial Experience *(Continued)*

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE TIER I For Plan Year Ended June 30, 2013			
Type of Activity	**Change in Employee Rate %**	**Change in Employer Rate %**	**Total Change in Contribution Rate %**
Investment performance	0.00%	2.97%	2.97%
Liability experience	0.00%	2.09%	2.09%
Change in assumptions	-0.33%	4.34%	4.01%
Change in benefit provision	-0.00%	0.00%	0.00%
TOTAL	**-0.33%**	**9.40%**	**9.07%**

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE TIER 2 For Plan Year Ended June 30, 2013			
Type of Activity	**Change in Employee Rate %**	**Change in Employer Rate %**	**Total Change in Contribution Rate %**
Investment performance	0.00%	0.00%	0.00%
Liability experience	-1.13%	-1.13%	-2.26%
Change in assumptions	-0.02%	-0.02%	-0.04%
Change in benefit provision	-0.00%	0.00%	0.00%
TOTAL	**-1.15%**	**-1.15%**	**-2.30%**

Solvency Test

GASB SOLVENCY TEST Actuarial Liabilities for:							
Valuation Date	**Active Member Contributions**	**Retirees, Beneficiaries and Other Inactives**	**Remaining Active Members' Liabilities**	**Reported Assets***	**Portion of Actuarial Liabilities Covered by Reported Assets**		
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2013	$ 234,217	$ 2,164,153	$ 615,393	$ 1,782,629	100%	72%	0%
2012	234,619	2,001,498	604,883	1,762,973	100%	76%	0%
2011	234,574	1,848,254	687,400	1,788,660	100%	84%	0%
2010	242,944	1,504,698	762,716	1,729,414	100%	99%	0%
2009	228,967	1,393,114	864,074	1,756,588	100%	100%	16%
2007	214,527	1,003,001	743,415	1,622,851	100%	100%	55%
2005	230,027	824,043	657,300	1,384,454	100%	100%	50%
2003	224,875	635,092	451,724	1,280,719	100%	100%	93%
2001	210,377	529,853	332,103	1,060,144	100%	100%	96%

Amounts in thousands

** Actuarial Value of Assets*

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

Schedule of Funding Progress

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Liability (AL)**	**Unfunded AL**	**Funded Ratio**	**Covered Payroll**	**Unfunded AL as a % of Covered Payroll**
June 30, 2013	$ 1,782,629	$ 3,013,763	$ 1,231,134	59%	$ 225,779	545%
June 30, 2012[5]	$ 1,762,973	2,841,000	$ 1,078,027	62%	$ 225,859	477%
June 30, 2011[4]	$ 1,788,660	2,770,227	$ 981,567	65%	$ 228,936	429%
June 30, 2010[3]	$ 1,729,414	2,510,358	$ 780,944	69%	$ 300,811	260%
June 30, 2009[2]	$ 1,756,588	2,486,155	$ 729,567	71%	$ 323,020	226%
June 30, 2007	$ 1,622,851	1,960,943	$ 338,092	83%	$ 291,405	116%
June 30, 2005[1]	$ 1,384,454	1,711,370	$ 326,916	81%	$ 286,446	114%
June 30, 2003	$ 1,280,719	1,311,691	$ 30,972	98%	$ 292,961	11%
June 30, 2001	$ 1,060,144	1,072,333	$ 12,189	99%	$ 252,696	5%

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

Amounts in thousands

[1] Demographic assumption changes increased AL by $83 Million.
[2] Demographic and economic assumption changes, including reducing the investment return assumption from 8.25% to 7.75% increased the AL by $229 million.
[3] Increasing the investment return assumption from 7.75% to 7.95 decreased the AL by $59 million.
[4] Demographic and economic assumption changes, including reducing the investment return assumption from 7.95% to 7.5% increased the AL by $188 million.
[5] Elimination of the SRBR reduced the AL by $43 million.

SUMMARY OF PENSION PLAN PROVISIONS - TIER 1

1. Membership Requirement

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

2. Final Compensation

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

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

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

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

3. Credited Service

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

4. Member Contributions

Member:

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

Employer:

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

5. Service Retirement

Eligibility:

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

Benefit - Member:

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

Benefit - Survivor:

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

6. Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

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

Benefit - Survivor:

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

7. Non-Service Connected Disability Retirement

Eligibility:

5 years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

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

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

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

Benefit - Survivor:

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

8. Death while an Active Employee

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

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

Five or more Years of Service:

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

9. Withdrawal Benefits

Less than five Years of Service:

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

Five or more years of credited service:

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

10. Additional Post-retirement Death Benefit

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

11. Post-retirement Cost-of-Living Benefit

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

12. Changes since the last valuation

The SRBR was eliminated.

SUMMARY OF PENSION PLAN PROVISIONS - TIER 2

1. Membership Requirement

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

2. Final Compensation

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

3. Credited Service

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

4. Member Contributions

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

5. Unreduced Service Retirement

Eligibility:

Age 65 with five years of service

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a maximum of 65% of Final Compensation.

Benefit - Survivor:

Single life annuity

6. Early Service Retirement

Eligibility:

Age 55 with five years of service.

Benefit - Member:

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

7. Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

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

8. Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9. Death Before Retirement

If death occurs before retirement eligibility is reached:

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

If death occurs after retirement eligibility is reached:

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

Employees killed in the line of duty:

Monthly benefit equivalent to 50% of Final Compensation.

10. Withdrawal Benefits

Less than five Years of Service:

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

Five or more years of credited service:

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

11. Benefit Forms

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

12. Post-retirement Cost-of-Living Benefit

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

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CHEIRON Classic Values, Innovative Advice

November 12, 2014

Board of Administration
City of San José Federated City Employees' Retirement System
1737 North 1st Street, Suite 600
San José, CA 95112

Dear Members of the Board:

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

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2013. Please refer to that report for additional information related to the funding of the Plan.

Funding Objectives and Progress

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

Employees hired on or after September 27, 2013 are not eligible to enter the Plan. As a result, the payments to amortize the UAL are now level dollar amounts instead of a level percent of payroll.

A summary of the key results from the June 30, 2013 actuarial valuation are as follows:

- *Assets:* The assets of the Plan increased approximately $20 million since the prior valuation due to $37 million in contributions plus $14 million in investment earnings less $31 million in benefit payments.
- *Actuarial Liability:* On a funding basis, the actuarial liability decreased approximately $83 million from $742 million to $659 million. The decrease was primarily due to claims experience and plan changes. On a financial reporting basis, the actuarial liability decreased approximately $226 million from $1,097 million to $871 million due to claims experience, plan changes, and an increase in the discount rate.
- *Unfunded Actuarial Liability (UAL)/Surplus:* On a funding basis, the UAL decreased approximately $104 million from $605 million to $501 million. On a financial reporting basis, the UAL decreased approximately $246 million from $959 million to $713 million.
- *Funding Ratio:* On a funding basis, the ratio of assets to the Actuarial Liability increased from 19% to 24% since the last valuation. On a financial reporting basis, the ratio of assets to the Actuarial Liability increased from 13% to 18% since the last valuation.
- *Member Contribution Rate:* The City negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of eight to three with the City contributing 8/11 of the total contribution. The City also agreed to make any UAL contribution that would have been required on the payroll for employees hired on or after September 1, 2013. The agreements call for a transition (ending on December 21, 2014) to contributing the full Annual Required Contribution (ARC) under GASB 43 and 45 with a limit of an annual increase of 0.75% of payroll for the member and the City rate. The member contribution rate increased from 8.01% of payroll to 8.76% of payroll for the period from July 1, 2014 through December 21, 2014 and to 11.45% of payroll for the remainder of the fiscal year ending June 30, 2015

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Actuary's Certification Letter *(Continued)*

Other Postemployment Benefits (OPEB)

- *City Contribution Rate:* The City contribution rate increased from 8.66% to 9.41% of payroll for the period from July 1, 2014 through December 21, 2014 and to 12.46% of payroll for the remainder of the fiscal year ending June 30, 2015. In addition, the City contribution rate for employees hired on or after September 1, 2013 is 12.66% of payroll for the period from July 1, 2014 through December 21, 2014, and to 18.40% of payroll for the remainder of the fiscal year ending June 30, 2015.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2013 valuation results can be found in our full report.

Schedules Prepared by Actuary

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2013 actuarial valuation:

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

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

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

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

Reliance on the Information Provided by the System and Compliance with GAAP

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

Future plan experience may differ significantly from the current economic and demographic assumptions. In addition, economic or demographic assumptions and plan provisions or applicable law may change. As a result, future actuarial measurements can be significantly different from those expected under the current plan measurements.

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

This letter and the schedules named above were prepared for the System for the purposes described herein. This letter and the schedules named above are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party. This letter and the exhibits named above do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,
Cheiron

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

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachments

Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions:

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the November 21, 2013 Board meeting.

1. **Expected Return on Plan Assets:** 7.25% per year
2. **Expected Return on Employer Assets:** 2.50% per year
3. **Blended Discount Rate:** 5.30% per year
4. **Per Person Cost Trends:**

Date	Annual Increase		
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2015	8.50%	6.50%	4.00%
2016	8.20	6.34	4.00
2017	7.89	6.18	4.00
2018	7.59	6.02	4.00
2019	7.29	5.86	4.00
2020	6.98	5.70	4.00
2021	6.68	5.54	4.00
2022	6.38	5.38	4.00
2023	6.07	5.21	4.00
2024	5.77	5.05	4.00
2025	5.46	4.89	4.00
2026	5.16	4.73	4.00
2027	4.86	4.57	4.00
2028	4.55	4.41	4.00
2029+	4.25	4.25	4.00

Actual premium increases for 2014 were reflected with the above rates applying after. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions:

The wage inflation, participation assumptions and plan election assumptions were adopted by the Board of Administration at the November 21, 2013 Board meeting based upon our recommendations and input. The other demographic assumptions shown below were adopted by the Board of Administration at the October 20, 2011 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2005 through June 30, 2010.

1. **Retirement Rates:**

The following rates of retirement are assumed for Tier 1 active members eligible to retire:

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

Actuarial Assumptions and Methodss *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions *(Continued)*:

The following rates of retirement are assumed for Tier 2 active members eligible to retire:

Retirements by Age and Service		
	TIER 2	
Age	Less than 33 Years of Service	33 or More Years of Service
50	0.0%	0.0%
51	0.0	0.0
52	0.0	0.0
53	0.0	0.0
54	0.0	0.0
55	4.0	7.0
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

Terminated vested members are assumed to retire at age 58.

2. Termination / Refund Rates:

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

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

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

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

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions *(Continued)*:

3. Rate of Mortality:

Healthy Lives:

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

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

Disabled Lives:

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

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

4. Disability Rates:

Sample rates of disability are shown in the following table

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

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

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions *(Continued):*

5. Salary Increase Rate:

Wage inflation component for first 5 years after valuation date:	2.00%
Wage inflation component thereafter:	2.85%

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

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

6. Percent of Retirees Electing Coverage:

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their 2013 plan. Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in following table.

ASSUMED PLAN ELECTIONS FOR FUTURE RETIREES	
Plan	**% Electing**
Pre-Medicare Medical Plans	
• Kaiser DHMO	15%
• Kaiser $25 Co-pay	53%
• HMO $45 Co-pay	4%
• HMO $25 Co-pay	14%
• PPO / POS $30 Co-pay	1%
• PPO / POS $25 Co-pay	13%
Medical-Eligible Medical Plans	
• Kaiser Senior Advantage	50%
• BS Medicare HMO	8%
• BS Medicare PPO / POS	38%
• UHC Medicare Advantage	2%
• UHC Senior Supplement	2%
Dental (All Retirees)	
• Delta Dental PPO	97%
• DeltaCare HMO	3%

7. Family Composition:

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

8. Dependent Age:

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

9. Married Percentage:

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

10. Administrative Expenses:

Included in the average monthly premiums.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Changes Since Last Valuation

The expected return on trust assets were reduced from 7.5 percent to 7.25 percent and the expected return on employer assets were reduced from 3.3 percent to 2.5 percent; the blended discount rate increased from 4.8 percent to 5.3 percent.

Trend assumptions were revised slightly, including a reduction in the ultimate rate of medical cost growth from 4.5 percent to 4.25 percent.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the November 21, 2013 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2013, adjusted to reflect the actual premium increases for 2014. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2013 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The impact of children was assumed to be de minimis. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of July 1, 2013 based on the premiums in effect on that date. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

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

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	Kaiser DHMO		Kaiser $25 Co-Pay		HMO $45 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 2,526	$ 4,490	$ 3,256	$ 5,787	$ 2,972	$ 5,282
45	3,163	4,754	4,077	6,127	3,721	5,592
50	4,190	5,638	5,400	7,266	4,929	6,632
55	5,506	6,719	7,096	8,659	6,477	7,904
60	7,156	8,021	9,223	10,337	8,418	9,435
64	9,244	9,910	11,913	12,772	10,874	11,658

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	HMO $25 Co-Pay		PPO / POS $30 Co-Pay		PPO / POS $25 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 3,626	$ 6,446	$ 3,395	$ 6,035	$ 3,777	$ 6,714
45	4,541	6,824	4,252	6,389	4,730	7,108
50	6,014	8,093	5,631	7,577	6,265	8,430
55	7,903	9,644	7,400	9,030	8,233	10,047
60	10,272	11,513	9,618	10,780	10,700	11,993
64	13,268	14,225	12,423	13,319	13,822	14,818

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		BS Med HMO		BS Med PPO / POS	
Age	Male	Female	Male	Female	Male	Female
65	$ 2,697	$ 2,877	$ 5,445	$ 5,807	$ 6,007	$ 6,407
70	3,167	3,177	6,393	6,412	7,053	7,075
75	3,541	3,425	7,149	6,914	7,887	7,628
80	3,763	3,536	7,595	7,137	8,380	7,874
85	3,813	3,499	7,697	7,063	8,492	7,792

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Claim and Expense Assumptions *(Continued):*

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE				
	UHC Med Adv		UHC Senior Supp	
Age	Male	Female	Male	Female
65	$ 4,378	$ 4,669	$ 5,007	$ 5,340
70	5,141	5,156	5,879	5,897
75	5,748	5,560	6,574	6,358
80	6,108	5,739	6,985	6,563
85	6,189	5,679	7,078	6,495

SAMPLE CLAIMS COSTS - DENTAL				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	$ 616	$ 616	$ 319	$ 319

2. Medicare Part D Subsidy:

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

3. Medicare Part B:

Assumed that Medicare eligible retirees participate in Medicare Part B.

4. Medicare Eligibility:

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

5. Annual Limits:

Assumed to increase at the same rate as trend.

6. Lifetime Maximums:

Are not assumed to have any financial impact.

7. Geography:

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions:

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

Changes Since Last Valuation:

The claims cost process was modified slightly to reflect actual rates for the year following the valuation date.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

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

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level dollar amount over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level dollar amount over 20-year periods beginning with the valuation date in which they first arise.

4. Contributions

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for contributing the full Annual Required Contribution (ARC) under GASB 43 and 45 beginning on June 21, 2015, with contribution rates limited to an incremental increase to 0.75% of pay for the members and City for each fiscal year until that date.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution. In addition, the City will contribute the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan.

Changes Since Last Valuation:

The amortization method was changed from level percent of pay to level dollar.

POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Percentage Change in Average Pay*
	Under Age 65	Age 65+	Total			
2013	3,028	65	3,093	$ 225,732,461	$ 72,982	-0.6%
2012	3,017	59	3,076	225,859,144	73,426	5.0%
2011	3,201	73	3,274	228,936,398	69,926	-11.2%
2010	3,721	97	3,818	300,811,165	78,788	-0.5%
2009	3,988	91	4,079	323,020,387	79,191	0.6%
2007	3,853	66	3,919	291,404,606	74,357	6.1%
2005	N/A	N/A	4,148	286,445,861	69,056	5.6%
2003	N/A	N/A	4,479	292,961,371	65,408	15.6%
2001	N/A	N/A	4,466	252,696,000	56,582	7.9%
1999	N/A	N/A	3,694	193,650,000	52,423	8.3%

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy		
Medical										
2012-13	2,680	$ 25,223,474	158	120	2,718	$ 22,656,997	38	$ (2,566,477)	-10.2%	$ 8,336
2011-12	2,557	25,518,761	203	80	2,680	25,223,474	123	(295,287)	-1.2%	9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4%	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9%	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3%	8,523
2006-07	1,891	10,864,081	N/A	N/A	1,976	14,970,264	85	4,106,183	37.8%	7,576
Dental										
2012-13	3,044	$ 3,924,332	144	85	3,103	$ 3,742,351	59	$ 3,739,307	-4.6%	$ 1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	3,921,426	4.8%	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	3,742,245	24.1%	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	3,015,098	25.2%	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	2,408,313	2.7%	1,015
2006-07	2,220	1,955,377	N/A	N/A	2,248	2,346,934	28	2,344,714	20.0%	1,044

** Annual subsidies are explicit amounts*

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE - FINANCIAL SCHEDULES

SOLVENCY TEST					
	Actuarial Liabilities				
Valuation Date	Retirees, Beneficiaries and Other Inactives	Remaining Active Members	Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets	
June 30,	(A)	(B)		(A)	(B)
2013	$ 495,967	$ 374,905	$ 157,695	32%	0%
2012	611,267	485,353	137,798	23%	0%
2011	652,157	493,203	135,454	21%	0%
2010	515,284	411,087	108,011	21%	0%
2009	421,367	375,081	85,564	20%	0%
2007	335,798	280,951	96,601	29%	0%
2006	370,886	332,052	81,288	22%	0%

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE				
	Gain (or Loss) for Year Ending			
Type of Activity	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Investment income	$ 6,847	$ (14,897)	$ 10,131	$ 6,705
Liability experience	5,834	(27,919)	(35,166)	(43,746)
Gain (or loss) during year from financial experience	$ 12,681	$ (42,816)	$ (25,035)	$ (37,041)
Non-recurring gain (or loss) items	114,786	136,154	(131,537)	(36,785)
Composite Gain (or Loss) During Year	**$ 127,467**	**$ 93,338**	**$ (156,592)**	**$ (73,826)**

Amounts in thousands

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility (for employees hired before September 2013):

Medical:

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

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

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

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

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

Dental:

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

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

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

Benefits for Retirees:

Medical:

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

Dental:

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

Premiums:

Monthly premiums before adjustments for 2013 and 2014 are as follows.

2013 MONTHLY PREMIUMS		
Plan	**Single**	**Family**
Non-Medicare Monthly Rates		
Kaiser DHMO	$ 457.70	$ 1,139.70
Kaiser $25 Co-pay	583.80	1,453.70
HMO $45 Co-pay	520.12	1,336.08
HMO $25 Co-pay	623.56	1,601.82
PPO / POS $30 Co-pay	587.86	1,510.74
PPO / POS $25 Co-pay	755.20	1,940.82
Medicare-Eligible Monthly Rates		
Kaiser Senior Advantage	$ 256.01	$ 512.02
BS Medicare HMO	503.42	1,006.86
BS Medicare PPO / POS	617.62	1,235.28
UHC Medicare Advantage	485.95	971.90
UHC Senior Supplement	501.78	1,003.56
Dental		
Delta Dental PPO	$ 102.18	$ 102.18
DeltaCare HMO	46.84	46.84

Summary of Key Substantive Plan Provisions *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Benefits for Retirees *(Continued)*:

2014 MONTHLY PREMIUMS		
Plan	**Single**	**Emp/Sp**
Non-Medicare Monthly Rates		
Kaiser DHMO	$ 471.12	$ 942.24
Kaiser $25 Co-pay	575.34	1,150.68
HMO $45 Co-pay	561.00	1,122.00
HMO $25 Co-pay	630.50	1,261.00
PPO / POS $30 Co-pay	625.10	1,250.20
PPO / POS $25 Co-pay	764.60	1,529.20
Medicare-Eligible Monthly Rates		
Kaiser Senior Advantage	$ 278.50	$ 557.00
BS Medicare HMO	530.86	1,061.74
BS Medicare PPO / POS	616.00	1,232.00
UHC Medicare Advantage	485.95	971.90
UHC Senior Supplement	501.78	1,003.56
Dental		
Delta Dental PPO	$ 48.92	$ 107.62
DeltaCare HMO	27.16	54.30

SUMMARY OF 2013 BENEFIT PLANS						
Non-Medicare Plans:	**Kaiser $25 Co-Pay**	**Kaiser DHMO**	**BS HMO $25 Co-Pay**	**BS HMO $45 Co-Pay**	**BS PPO $25 Co-Pay**	**BS PPO $30 Co-Pay**
Annual out-of-pocket maximum	$1,500/$3,000	$4,000/$8,000	$1,000/$2,000	$3,500/$7,000	$2,000/$4,000	$7,000/$14,000
Annual deductible	None	$1,500/$3,000	None	Rx only*	$100/$200	$3,500/$7,000
Office visit	$25	$40	$25	$45	$25	$30
Emergency room	$100	30% coinsurance	$100	$200	$100	$100 + 20%
Hospital care	$100	30% coinsurance	$100	50% coinsurance	Tier 1 – $100 + 10% Tier 2 – 30%	Tier 1 – $250 + 20% Tier 2 – 40%
Prescription Drug (30-day supply):						
Generic	$10	$10	$10	$15	$10	$15
Brand	$25	$30	$25	$30*	$25	$30*
Non-formulary	N/A	N/A	$40	50%* *$250 deductible	$40	50%* *$250 deductible

Summary of Key Substantive Plan Provisions *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Benefits for Retirees *(Continued)*:

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO	UHC Medicare Advantage	UHC Senior Supplement
Annual out-of-pocket maximum	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000	$6,700	None
Annual deductible	None	None	$100/$200	None	$250 outside US only
Office visit	$25	$25	$25	$25	No charge
Emergency room	$50	$100	$100	$50	No charge
Hospital care	$250	$100	$100 + 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	$10	$10	$10	$15	$5
Brand	$10	$25	$25	$20	$10
Non-formulary	N/A	$40	$40	$20	Not covered

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

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Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, and Postemployment Healthcare Benefits. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Statistical Review

CHANGES IN NET POSITION FOR FISCAL YEARS 2005-2014 *(In Thousands)*
PENSION BENEFITS (Schedule 1a)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Employee contributions	$ 12,393	$ 12,395	$ 12,370	$ 13,366	$ 13,848	$ 13,396	$ 24,602	$ 10,555	$ 12,652	$ 13,596
Employer contributions	41,552	41,267	51,004	54,958	57,020	54,566	59,180	87,082	103,109	107,544
Investment income/ (loss)*	115,618	132,873	244,210	(60,101)	(295,773)	197,755	287,179	(68,903)	146,367	263,688
Total additions to plan net position	**169,563**	**186,535**	**307,584**	**8,223**	**(224,905)**	**265,717**	**370,961**	**28,734**	**262,128**	**384,828**
Deductions										
Benefit payments	60,438	68,438	75,135	83,291	89,767	98,110	110,415	126,001	136,075	143,921
Death benefits	5,437	5,721	5,867	6,263	6,923	7,583	7,883	8,601	9,187	9,845
Refunds	927	1,246	1,008	972	1,395	1,219	1,980	2,195	1,545	2,170
Administrative expenses and other	1,588	1,790	1,845	2,358	2,108	2,641	2,867	3,306	3,024	3,201
Total deductions from plan net position	**68,390**	**77,195**	**83,855**	**92,884**	**100,193**	**109,553**	**123,145**	**140,103**	**149,831**	**159,137**
Change in Plan Net Position	**$ 101,173**	**$ 109,340**	**$ 223,729**	**$ (84,661)**	**$ (325,098)**	**$ 156,164**	**$ 247,816**	**$ (111,369)**	**$ 112,297**	**$ 225,691**

**Net of expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Employee contributions	$ 5,219	$ 5,226	$ 9,612	$ 10,403	$ 15,076	$ 15,815	$ 16,041	$ 14,995	$ 15,979	$ 17,494
Employer contributions	5,996	5,961	10,728	11,560	16,368	17,027	17,146	25,834	21,251	19,298
Investment income/ (loss)*	6,539	7,273	13,343	(3,715)	(18,485)	13,852	21,842	(5,140)	13,817	28,737
Total additions to plan net position	**17,754**	**18,460**	**33,683**	**18,248**	**12,959**	**46,694**	**55,029**	**35,689**	**51,047**	**65,529**
Deductions										
Healthcare insurance premiums	13,393	15,904	18,265	20,195	21,725	24,066	27,370	33,077	30,943	27,924
Administrative expenses and other	95	103	105	134	132	181	216	268	207	257
Total deductions from plan net position	**13,488**	**16,007**	**18,370**	**20,329**	**21,857**	**24,247**	**27,586**	**33,345**	**31,150**	**28,181**
Change in Plan Net Position	**$ 4,266**	**$ 2,453**	**$ 15,313**	**$ (2,081)**	**$ (8,956)**	**$ 22,447**	**$ 27,443**	**$ 2,344**	**$ 19,897**	**$ 37,348**

**Net of expenses*

Source: Pension Administration System

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

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014
Age and Service Benefits									
Retirees – service	$ 59,391	$ 64,978	$ 71,849	$ 77,444	$ 84,606	$ 95,562	$ 109,662	$ 118,178	$ 124,399
Retirees – deferred vested	4,134	4,860	5,730	6,219	6,996	8,047	9,261	10,692	12,017
Survivors – service	3,195	3,320	3,561	3,867	4,207	4,425	4,791	5,089	5,376
Survivors – deferred vested	87	108	122	126	138	130	161	232	272
Death in Service Benefits	1,750	1,722	1,815	2,032	2,161	2,202	2,349	2,413	2,610
Disability Benefits									
Retirees – duty	2,702	2,920	3,102	3,256	3,498	3,493	3,609	3,505	3,624
Retirees – non-duty	1,640	1,737	1,835	1,884	1,899	2,039	2,011	2,164	2,278
Survivors – duty	187	197	218	263	338	356	402	437	448
Survivors – non-duty	502	519	547	635	739	770	827	903	945
Ex-Spouse Benefits	571	640	775	964	1,111	1,274	1,529	1,649	1,797
Total Benefits	**$ 74,159**	**$ 81,002**	**$ 89,554**	**$ 96,690**	**$105,693**	**$118,298**	**$134,602**	**$145,262**	**$153,766**
Type of Refund									
Separation	$ 1,246	$ 1,008	$ 972	$ 1,395	$ 1,219	$ 1,980	$ 2,195	$ 1,545	$ 2,170
Total Refunds	**$ 1,246**	**$ 1,008**	**$ 972**	**$ 1,395**	**$ 1,219**	**$ 1,980**	**$ 2,195**	**$ 1,545**	**$ 2,170**

Fiscal Year 2005 data not available due to system limitations.

Source: Pension Administration System

Statistical Review *(Continued)*

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

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014
Age and Service Benefits									
Retirees – Service									
Medical	$ 10,341	$ 12,029	$ 13,524	$ 14,772	$ 16,344	$ 18,971	$ 20,262	$ 19,493	$ 16,002
Dental	1,870	2,022	2,148	2,150	2,474	2,840	3,083	3,089	2,850
Retirees – Deferred Vested*									
Medical	652	767	949	1,063	1,180	1,241	1,418	1,436	1,243
Dental	-	35	29	26	27	24	23	21	18
Survivors – Service									
Medical	628	730	800	862	938	1,024	954	874	737
Dental	235	251	269	268	308	329	339	333	227
Survivors – Deferred Vested*									
Medical	11	9	10	11	16	18	24	32	28
Dental	-	-	-	1	-	-	2	5	3
Death in Service Benefits									
Medical	293	313	327	335	366	412	389	361	281
Dental	71	72	69	67	74	79	78	78	59
Disability Benefits									
Retirees – Duty									
Medical	956	1,098	1,113	1,166	1,241	1,253	1,217	1,133	920
Dental	131	145	143	142	161	162	157	146	130
Retirees – Non-Duty									
Medical	433	478	483	510	513	530	462	413	321
Dental	73	78	81	79	84	92	87	89	77
Survivors – Duty									
Medical	59	69	75	80	100	125	125	124	97
Dental	17	18	19	20	27	30	32	33	22
Survivors – Non-Duty									
Medical	103	119	123	139	171	195	192	178	142
Dental	31	32	33	34	42	45	45	44	32
Ex-Spouse Benefits									
Medical	-	-	-	-	-	-	4	3	3
Dental	-	-	-	-	-	-	1	1	1
Implicit Subsidy Medical							4,383	3,057	
Tier 1									4,165
Tier 2									415
Tier 2B									151
Total Benefits	**$ 15,904**	**$ 18,265**	**$ 20,195**	**$ 21,725**	**$ 24,066**	**$ 27,370**	**$ 33,077**	**$ 30,943**	**$ 27,924**

Fiscal Year 2005 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2005-2014 **(Schedule 3)**

FED Tier 1		
Fiscal Year	Employee Rate (%)	Employer Rate (%)
2005	6.06	17.12
2006	6.06	17.12
2007	7.58	21.98
2008	7.58	21.98
2009	8.93	23.56
2010	9.35	24.01
2011	10.30*	29.59**
2012	11.20	35.50
2013	13	52.36
2014	13.98	59.51

	FED Tier 2		FED Tier 2B	
Fiscal Year	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2013	13.94	14.59		
2014	14.69	15.34	6.68	17.27

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

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2014

		Type of Retirement*							Option Selected**			
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	A	B	C	Total
$1-500	131	26	1	1	0	29	50	24	78	20	33	131
501-1000	259	76	7	3	3	65	81	24	173	22	64	259
1001-1500	391	134	4	8	13	106	102	24	258	40	93	391
1501-2000	378	160	11	33	18	80	63	13	235	41	102	378
2001-2500	362	220	9	17	12	40	50	14	204	43	115	362
2501-3000	366	233	8	24	16	41	36	8	224	35	107	366
3001-3500	321	242	4	16	12	18	27	2	194	32	95	321
3501-4000	311	263	7	8	4	6	21	2	173	34	104	311
4001-4500	286	240	5	4	1	8	27	1	173	31	82	286
4501-5000	237	214	4	3	1	2	11	2	162	17	58	237
5001-5500	200	186	1	1	0	0	12	0	119	29	52	200
5500-6000	150	139	1	1	0	3	6	0	86	17	47	150
6000-6500	165	156	1	2	0	0	6	0	108	18	39	165
6501-7000	103	97	1	0	0	0	5	0	66	7	30	103
Over $7000	231	223	0	0	0	1	7	0	168	17	46	231
TOTAL	**3,891**	**2,609**	**64**	**121**	**80**	**399**	**504**	**114**	**2,421**	**403**	**1,067**	**3,891**

***Retirement Codes**

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

****OPTION DESCRIPTIONS**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2014

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	1,200	758
$1 - 60	0	1,433
$61 - 250	0	1,700
$251 - 500	1,317	0
$501 - 750	292	0
$751 -1000	801	0
Over $1,000	281	0
TOTAL	**3,891**	**3,891**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2014

		Years of Service Credit						
	Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of 6/30/2014	Average monthly benefit*	$ 965	$ 1,444	$ 2,379	$ 3,202	$ 4,459	$ 5,649	$ 6,284
	Average final average salary	$ 5,464	$ 5,313	$ 5,438	$ 5,394	$ 6,171	$ 6,011	$ 6,346
	Number of retired members**	146	435	499	639	615	844	136
As of 6/30/2013	Average monthly benefit*	$ 948	$ 1,366	$ 2,232	$ 3,070	$ 4,213	$ 5,420	$ 5,895
	Average final average salary	$ 3,724	$ 5,000	$ 5,189	$ 5,343	$ 6,127	$ 6,019	$ 6,638
	Number of retired members**	117	413	454	629	608	854	159
As of 6/30/2012	Average monthly benefit*	$ 914	$ 1,329	$ 2,140	$ 2,982	$ 4,080	$ 5,255	$ 5,722
	Average final average salary	$ 3,516	$ 4,803	$ 4,975	$ 5,280	$ 5,975	$ 5,920	$ 6,513
	Number of retired members**	113	402	433	619	586	831	159
Period 7/1/2010 to 6/30/2011	Average monthly benefit*	$ 842	$ 1,267	$ 2,036	$ 2,835	$ 3,851	$ 5,036	$ 5,577
	Average final average salary	$ 4,303	$ 4,570	$ 4,580	$ 4,991	$ 5,360	$ 5,544	$ 6,056
	Number of retired members**	131	371	388	566	465	726	139
Period 7/1/2009 to 6/30/2010	Average monthly benefit*	$ 838	$ 1,179	$ 1,980	$ 2,700	$ 3,714	$ 4,852	$ 5,410
	Average final average salary	$ 4,203	$ 4,221	$ 4,393	$ 4,778	$ 5,129	$ 5,311	$ 5,929
	Number of retired members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009	Average monthly benefit*	$ 778	$ 1,139	$1,899	$ 2,585	$ 3,545	$ 4,671	$ 5,281
	Average final average salary	$ 3,898	$ 4,045	$4,201	$ 4,629	$ 4,898	$ 5,151	$ 5,807
	Number of retired members**	120	329	359	529	392	624	123
Period 7/1/2007 to 6/30/2008	Average monthly benefit*	$ 765	$ 1,133	$ 1,856	$ 2,550	$ 3,470	$ 4,600	$ 5,231
	Average final average salary	$ 3,828	$ 3,963	$ 4,144	$ 4,585	$ 4,796	$ 5,099	$ 5,761
	Number of retired members**	119	325	355	524	382	611	120
Period 7/1/2006 to 6/30/2007	Average monthly benefit*	$ 732	$ 1,049	$ 1,728	$ 2,398	$ 3,129	$ 4,253	$ 4,947
	Average final average salary	$ 3,455	$ 3,627	$ 3,867	$ 4,316	$ 4,263	$ 5,030	$ 5,505
	Number of retired members**	115	307	344	476	342	564	105
Period 7/1/2005 to 6/30/2006	Average monthly benefit*	$ 665	$ 981	$ 1,638	$ 2,252	$ 2,971	$ 4,142	$ 4,679
	Average final average salary	$ 3,073	$ 3,413	$ 3,704	$ 4,123	$ 4,067	$ 4,755	$ 5,324
	Number of retired members**	116	294	337	449	322	536	100

* *Includes cost of living increases*

** *Does not include survivors and ex-spouses*

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

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2014

		Years of Service Credit						
	Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of 6/30/2014	Average health subsidy	$ 614	$ 338	$ 592	$ 666	$ 755	$ 760	$ 635
	Number of health participants*	24	55	247	587	580	807	130
	Average dental subsidy	$ 85	$ 84	$ 86	$ 86	$ 91	$ 90	$ 83
	Number of dental participants*	63	244	372	548	565	811	135
As of 6/30/2013	Average health subsidy	$ 582	$ 380	$ 589	$ 712	$ 778	$ 790	$ 680
	Number of health participants*	27	64	226	576	562	817	148
	Average dental subsidy	$ 100	$ 101	$ 101	$ 102	$ 100	$ 101	$ 100
	Number of dental participants*	65	243	341	544	558	818	151
As of 6/30/2012	Average health subsidy	$ 698	$ 426	$ 645	$ 797	$ 873	$ 902	$ 768
	Number of health participants*	27	66	218	580	547	800	150
	Average dental subsidy	$ 107	$ 107	$ 107	$ 108	$ 107	$ 107	$ 106
	Number of dental participants*	63	245	325	540	542	800	151
Period 7/1/2010 to 6/30/2011	Average health subsidy	$ 866	$ 773	$ 764	$ 855	$ 898	$ 928	$ 848
	Number of health participants*	21	39	191	544	448	711	138
	Average dental subsidy	$ 108	$ 110	$ 109	$ 110	$ 110	$ 109	$ 108
	Number of dental participants*	64	233	300	500	430	708	139
Period 7/1/2009 to 6/30/2010	Average health subsidy	$ 587	$ 461	$ 650	$ 797	$ 828	$ 867	$ 816
	Number of health participants*	28	65	212	515	402	649	128
	Average dental subsidy	$ 103	$ 104	$ 103	$ 103	$ 103	$ 103	$ 103
	Number of dental participants*	61	218	289	474	384	646	130
Period 7/1/2008 to 6/30/2009	Average health subsidy	$ 596	$ 449	$ 636	$ 757	$ 779	$ 817	$ 764
	Number of health participants*	26	65	209	505	377	608	121
	Average dental subsidy	$ 94	$ 93	$93	$ 94	$ 93	$ 93	$ 93
	Number of dental participants*	61	212	286	467	360	608	122
Period 7/1/2007 to 6/30/2008	Average health subsidy	$ 761	$ 674	$ 681	$ 727	$ 738	$ 785	$ 738
	Number of health participants*	20	42	192	492	356	582	114
	Average dental subsidy	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98
	Number of dental participants*	59	206	286	456	339	580	115
Period 7/1/2006 to 6/30/2007	Average health subsidy	$ 728	$ 683	$ 654	$ 678	$ 679	$ 736	$ 700
	Number of health participants*	23	45	195	459	331	555	104
	Average dental subsidy	$ 97	$ 97	$ 97	$ 97	$97	$ 97	$ 97
	Number of dental participants*	62	202	286	431	318	552	105
Period 7/1/2005 to 6/30/2006	Average health subsidy	$ 616	$ 635	$ 613	$ 614	$ 615	$ 670	$ 641
	Number of health participants*	24	49	189	416	305	520	98
	Average dental subsidy	$ 95	$ 94	$ 94	$ 94	$ 94	$94	$ 94
	Number of dental participants*	62	191	280	397	297	521	99

* *Does not include survivors and ex-spouses*

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

Source: Pension Administration System

Retirements During Fiscal Year 2013-2014

SERVICE RETIREMENTS

ALDERETE, TERESA
BAILEY, MICAH
BENNETT, DALE A.
BLAIR, SUSAN C.
BOHNET-NUTTALL, DEBORA M.
BRIONES, DAVID A.
BRIONES, EUGENIO
BROOKS, PATRICK
BROUGHAM, GREGORY A.
BRYSON, RICHARD
BURCIAGA, CARMEN
BUTCHER, DIANNA B.
CALLIS, EDWARD A.
CAMPOY, ELAINE T.
CANELA, RUBEN G.
CARDOZA, STACEY C.
CHUANG-HUANG, TWIGGY TH.
CIPPERLY, ANGELA F.
COGGINS, CHRIS C.
CONTE, THOMAS E.
CORNIUK, MARK S.
COSTA, TONY M.
DOMINGUEZ, ALICIA
DONATELLI, GARY P.
ESTOLANO, JESSE
FIGONE, DEBRA J.
FINLEY, STEPHEN P.
GIANCHANDANI, NISHI
GOINS, JACK A.
GONG, KENNETH L.
GONG, ROLAND
GREGORIO, MONLITA B
GUILLORY, MARK
HALTON, RUTH
HARRINGTON, BRENDA L.
HARRISON, RONNIE
HEIMGARTNER, ROBERT E.
HORWEDEL, JOSEPH A.
HOUDA, HENRY
JOHNSON, MICHAEL A.
JOHNSON, MICHAEL E.
KUZN, JOHN G.
LANE, SALLY H.
LE, TUONG
LEE, PHILIP
LEWIS, MALINDA S.
LUNA, VIRGINIA O.
MACRAE, REBECCA C.
MARINO, PAUL
MARTINEZ, RAMON R.
MC CUE, MICHAEL W.
MC DONOUGH, KAREN S.
MEDINA, MANUEL M.
MILLER, MICHAEL R.
MONAHAN, JAMES R.
MORENO, TOMASA B.
NIETO, JULIA
NORRIS, THOMAS D.
OLYMPIA, EDGAR S.
OWENS, GREGG
PAMINTUAN, CORAZON B.
PEHRSON, THOMAS J.
PERALA, DONNA N.
PERRY, DAWN D.
PHAM, LYNN LICH.
POMALES-DAWSON, PAULITA
POWELL, LOIS
PUSATERI, PAMELA E.
QUIROLO, STEPHEN J.
RANADA, LISA J.
RESTA, MARK C.
REYES, NICK D.
RHODES, HAROLD
ROCHE, JOHN J.
RODRIGUEZ, SAMUEL
RODRIGUEZ, RAFAEL G.
ROJAS, ROSA LINDA
SALAS, JESSE B.
SHEPHERD, MELVIN R.
SHERRY, WILLIAM F.
SMITH, KERRY N.
SOLOMON, LISA L.
TRAVERS, VERNON R.
TRUJILLO, MARK A.
TUCKER, DAVID W.
TURAY, CHERYL K.
VAN WEGEN, GARY
WATERS, STEVEN J.
WELSH, RALPH P.
WELSH, SUSAN B.
WILDER, GABRIELLE E.
WONG, DAVID M.
WOO, DIANE T.
YAKUBU, SALIFU

SERVICE CONNECTED DISABILITY RETIREMENTS

NONE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

NGO, DENNIS D.
FLORES, FLORENTINO P.

Source: Pension Administration System

Deaths During Fiscal Year 2013-2014

DEATHS AFTER RETIREMENT

ADAMS, ROY B.
ALDRICH, GERALD
ALESSE, PATRICIA
ALTNEU, HERBERT N.
ASHBY, JEAN
BAGNE, DEBRA J.
BEAMS, DONALD W.
BERG, R L.
BETTINGER, DALE F.
BROWN, MICHAEL L.
BRYER, ROBERT
BURNS, CONSTANCE Y.
BURYN, TED J.
CARVER, JAMES A.
CAVA, EVELYN C.
CHADSEY, MARY L.
CHATMAN, MARY A.
CLARK, ALICE J.
CLEARY, MARIAN L.
CORDES, MARILYN L.
CORREIA, ROBERT B.
CUENCA, ELEAZAR
CURREN, THOMAS J.
DEARO, RUBEN
DELGADO, MARLEY S.
DESMOND, RICHARD J.
DIANGSON, LYDIA
EDWARDS, VIVIAN C.
FARNSWORTH, DANIEL R.
FINNIGAN, DANIEL J.
FLORES, RUBEN
GARCIA, FRANK M.
GIROT, SUZANNE
GLASER, CHARLOTTE B.
GRAY, JEANNE A.
HARVEY, KENNETH D.
HAZEL, BETTY J.
HIDALGO, JOSEPH
HORNING, LEE W.
JANZEN, DULCIE
JONES, MARVENE
LOCONTE, WILLIAM M.
LOPEZ, STEVEN V.
MAURER, CLIFFORD E.
MC COY, LOVELL
MC EWEN, SCOTTY A.
MORRIS, ANNA M.
MOSLEY, DENISE M.
MUNOZ, ZARAGOZA P.
MURPHY, DOROTHY P.
OCHOA, LETICIA
OKAZAKI, GARY L.
PARISH, VERNA L.
QUIGLEY, RICHARD A.
READER, JOHN
REYES, PHILIP R.
RODRIGUES, WILLIAM J.
ROSAMOND, DOLORES T.
ROSEBLADE, ELMER W.
SAALWAECHTER, GENE G.
SALAZAR, MAURICIO G.
SANDERS, HARRY A.
SETZER, HAROLD L.
SHEEHAN, JERRY M.
SHORTT, WILLIAM H.
SIFUENTES, MANUEL
SINHA, AMALENDU
SMITH, CHARLOTTE A.
SUNYER, ELIZABETH
WADSWORTH, DON B.
WEISE, EDWIN W.
WHITE, LESLIE R.
WISEHART, LINDA J.
YASUKAWA, GEORGE
YRIBE, JOE

DEATHS BEFORE RETIREMENT

CURREN, THOMAS J.
RINGENBERG, PHILIP J.
THARALDSON, KATHRYN

Source: Pension Administration System

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