



## City of San José Police and Fire Department Retirement Plan

### INTRODUCTION

The Police and Fire Department Retirement Plan (Plan) is pleased to present the Popular Annual Financial Report (PAFR) which summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. The financial data presented in the PAFR is derived from the CAFR and is consistent with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). The PAFR provides a concise summary of the Plan's financial position, investment performance and key accomplishments throughout the fiscal year. The Plan consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

For fiscal year 2014, the Defined Benefit Pension Plan returned 13.9% gross of fees and 13.5% net of fees, while return on policy benchmark was 14.6%. The Plan's fiscal year performance exceeded the actuarial rate of return of 7.125%, which it has done in four of the past five fiscal years. For fiscal year 2014, the Postemployment Healthcare Plan returned 14.7%, gross of fees and 14.5% net of fees.

The Plan engages an independent actuary to conduct annual actuarial valuations. The June 30, 2013 actuarial valuations show that the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are 77.5% and 10.7% funded, respectively. The Defined Benefit Pension Plan sponsor paid 100 percent of the Actuarially Determined Contribution in fiscal years 2013 and 2014, while the Postemployment Healthcare Plan sponsor paid 28% and 53%, respectively, of the Annual Required Contributions in fiscal years 2013 and 2014.

This report is not intended to replace the CAFR, which provides a more complete overview of Police and Fire Department Retirement Plan financial position and operating results. For more in-depth information, we encourage you to read the CAFR by visiting [www.sjretirement.com](http://www.sjretirement.com) and clicking on the Reports tab.

## Board of Administration

The Plan's Board of Administration oversees the Director of Retirement Services and staff in the performance of their duties. The Plan's Board Members as of June 30, 2014 were:

<b>Sean Kaldor</b>	Chair	Employee representative
<b>Vincent Sunzeri</b>	Vice Chair	Public member
<b>Richard Santos</b>	Trustee	Retired plan member
<b>Nick Muyo</b>	Trustee	Retired plan member
<b>Sean Bill</b>	Trustee	Public member
<b>Stephen Brennan</b>	Trustee	Public member
<b>Andrew Lanza</b>	Trustee	Public member
<b>James Mason</b>	Trustee	Employee representative
<b>Elizabeth Rounds</b>	Trustee	Public member



## Net Position Held in Trust

As of June 30, 2014, the Plan's total plan net position totaled \$3.3 billion, which means that total assets of \$3.3 billion exceed total accounting liabilities of \$55.1 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan is 77.5% and 10.7%, respectively, as of June 30, 2013, the date of the Plan's most recent actuarial valuation.

### NET POSITION FOR THE POLICE AND FIRE DEFINED BENEFIT PENSION PLAN

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

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 9,393	\$ 8,911	\$ 482	5.4%
Investments at fair value	3,212,863	3,222,359	(9,496)	-0.3%
<b>Total Assets</b>	<b>3,222,256</b>	<b>3,231,270</b>	<b>(9,014)</b>	<b>-0.3%</b>
Current liabilities	54,083	441,745	(387,662)	-87.8%
<b>Total Liabilities</b>	<b>54,083</b>	<b>441,745</b>	<b>(387,662)</b>	<b>-87.8%</b>
<b>Net Position</b>	<b>\$ 3,168,173</b>	<b>\$ 2,789,525</b>	<b>\$ 378,648</b>	<b>13.6%</b>

### NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN

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

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 1,851	\$ 913	\$ 938	102.7%
Investments at fair value	96,825	83,010	13,815	16.6%
<b>Total Assets</b>	<b>98,676</b>	<b>83,923</b>	<b>14,753</b>	<b>17.6%</b>
Current liabilities	1,034	9,204	(8,170)	-88.8%
<b>Total Liabilities</b>	<b>1,034</b>	<b>9,204</b>	<b>(8,170)</b>	<b>-88.8%</b>
<b>Net Position</b>	<b>\$ 97,642</b>	<b>\$ 74,719</b>	<b>\$ 22,923</b>	<b>30.7%</b>

As of June 30, 2014, the net position restricted for pension benefits increased by 13.6% over 2013, primarily due to changes in the fair market value of investments. Net investment income for the year ended June 30, 2014, totaled \$404,978,000.

## Changes in Net Position for the years ended June 30, 2014 and 2013

### CHANGES IN NET POSITION FOR POLICE AND FIRE DEFINED BENEFIT POSITION PLAN

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

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 21,115	\$ 20,227	\$ 888	4.4%
Employer contributions	123,583	105,234	18,349	17.4%
Net investment income*	404,340	245,526	158,814	64.7%
Net securities lending income	638	3,199	(2,561)	-80.1%
<b>Total Additions</b>	<b>549,676</b>	<b>374,186</b>	<b>175,490</b>	<b>46.9%</b>
<i>* Net of investment expenses of \$13,710 and \$9,784 in 2014 and 2013, respectively.</i>				
Retirement benefits	157,635	150,811	\$6,824	4.5%
Death benefits	8,738	8,005	733	9.2%
Refund of contributions	1,024	886	138	15.6%
Administrative	3,631	3,423	208	6.1%
<b>Total Deductions</b>	<b>171,028</b>	<b>163,125</b>	<b>7,903</b>	<b>4.8%</b>
<b>Net Increase in Plan Net Position</b>	<b>378,648</b>	<b>211,061</b>	<b>167,587</b>	<b>79.4%</b>
<b>Beginning Net Position</b>	<b>2,789,525</b>	<b>2,578,464</b>	<b>211,061</b>	<b>8.2%</b>
<b>Ending Net Position</b>	<b>\$3,168,173</b>	<b>\$2,789,525</b>	<b>\$ 378,648</b>	<b>13.6%</b>

As of June 30, 2014, the net position restricted for postemployment healthcare benefits increased by 30.7% over 2013, primarily due to changes in the fair market value of investments. Net investment income for the year ended June 30, 2014, totaled \$12,595,000.

### CHANGES IN NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLANS

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

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 15,674	\$ 13,498	\$ 2,176	16.1%
Employer contributions	17,267	15,808	1,459	9.2%
Net investment income*	12,582	6,374	6,208	97.4%
Net securities lending income	13	73	(60)	-82.2%
<b>Total Additions</b>	<b>45,536</b>	<b>35,753</b>	<b>9,783</b>	<b>27.4%</b>
<i>* Net of investment expenses of \$302 and \$231 in 2014 and 2013, respectively.</i>				
Healthcare insurance premiums	22,510	23,934	(1,424)	-5.9%
Administrative	103	78	25	32.1%
<b>Total Deductions</b>	<b>22,613</b>	<b>24,012</b>	<b>(1,399)</b>	<b>-5.8%</b>
<b>Net Increase in Plan Net Position</b>	<b>22,923</b>	<b>11,741</b>	<b>11,182</b>	<b>95.2%</b>
<b>Beginning Net Position</b>	<b>74,719</b>	<b>62,978</b>	<b>11,741</b>	<b>18.6%</b>
<b>Ending Net Position</b>	<b>\$ 97,642</b>	<b>\$ 74,719</b>	<b>\$ 22,923</b>	<b>30.7%</b>

The primary sources (additions) used to fund benefits provided by the Plan are accumulated through employee and employer contributions and by investment earnings (net of investment expenses). The primary uses (deductions) of the Plan's assets include benefit payments to retirees and beneficiaries, contribution refunds to terminated employees and the costs of administering the Plan.

## Membership (as of June 30, 2014)

<b>PENSION</b>	<b>Tier 1</b>	<b>Tier 2</b>	<b>Fire</b>	<b>Total</b>
Retirees and beneficiaries currently receiving benefits*	1,216	-	818	2,034
Terminated and/or vested members not yet receiving benefits	218	22	42	282
Active members	930	67	657	1,654
<b>Total</b>	<b>2,364</b>	<b>89</b>	<b>1,517</b>	<b>3,970</b>

<b>HEALTHCARE</b>				
Retirees and beneficiaries currently receiving benefits*	1,144	-	779	1,923
Terminated and/or vested members not yet receiving benefits	6	-	3	9
Active members	930	67	657	1,654
<b>Total</b>	<b>2,080</b>	<b>67</b>	<b>1,439</b>	<b>3,586</b>

\*The number of combined domestic relations order recipients is not included in the count above as their benefit payment is included in the member's count.

## Average Benefit Payments

The Average Benefit Payment chart is a broad representation of average benefits paid to retirees and survivors. All tiers are combined in this calculation. The chart includes all members who have retired through June 30, 2014.

<b>PENSION</b>	<b>Years of Service Credit</b>						
	<b>0-5</b>	<b>6-10</b>	<b>11-15</b>	<b>16-20</b>	<b>21-25</b>	<b>26-30</b>	<b>31+</b>
Average monthly benefit*	\$ 4,060	\$ 3,383	\$ 3,904	\$ 4,897	\$ 6,763	\$ 8,671	\$ 9,392
Average final average monthly salary**	\$ 4,166	\$ 4,097	\$ 6,123	\$ 7,384	\$ 7,846	\$ 7,637	\$ 7,151
Number of retired members***	23	47	103	132	365	755	145

<b>HEALTHCARE</b>							
Average health subsidy	\$ 549	\$ 779	\$ 845	\$ 779	\$ 896	\$ 879	\$ 746
Number of health participants***	19	44	87	121	384	843	166
Average dental subsidy	\$ 67	\$ 97	\$ 96	\$ 97	\$ 106	\$ 106	\$ 99
Number of dental participants***	21	47	91	128	396	865	169

\* Includes cost of living increases

\*\* Final Average Salary not available for those that retired prior to April 1998, except for service connected disability retirees. Those without Final Average Salary are not included in the Average Monthly Benefit.

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

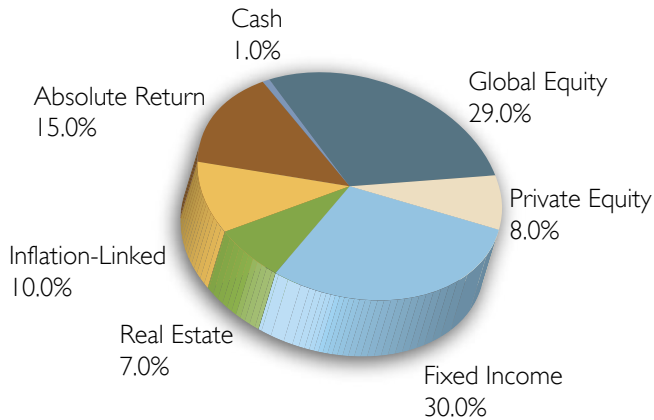


## Asset Allocation (as of June 30, 2014)

The allocation of the Plan's assets is an integral part of the Plan's investment policy. As such, the Plan engages in frequent reviews of its asset allocation policy to ensure that assets are diversified in a manner which achieves the best risk adjusted returns for the Plan. In addition, the asset allocation is intended to minimize the volatility of plan assets and mitigate the risk of large investment losses during times of prolonged market stress. The Plan's Chief Investment Officer and investment consultant, NEPC, assist the Board in designing the asset allocation and strategic diversification strategies within asset classes.

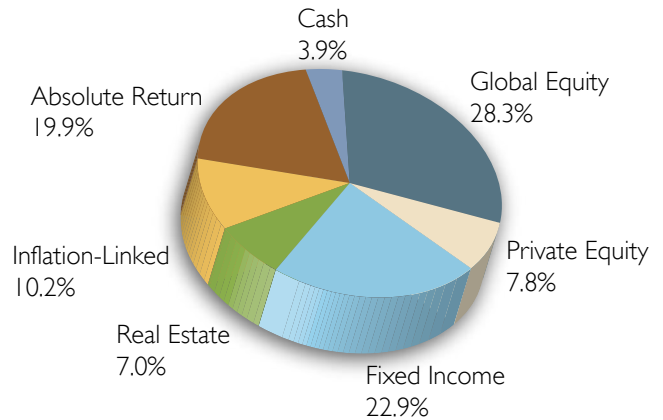
### PENSION - TARGET ASSET ALLOCATION

As of June 30, 2014



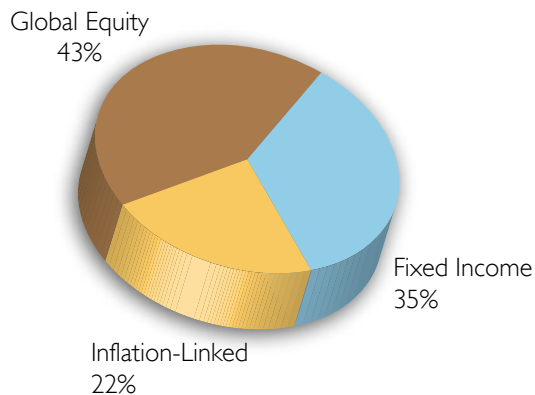
### PENSION - ACTUAL ASSET ALLOCATION

As of June 30, 2014



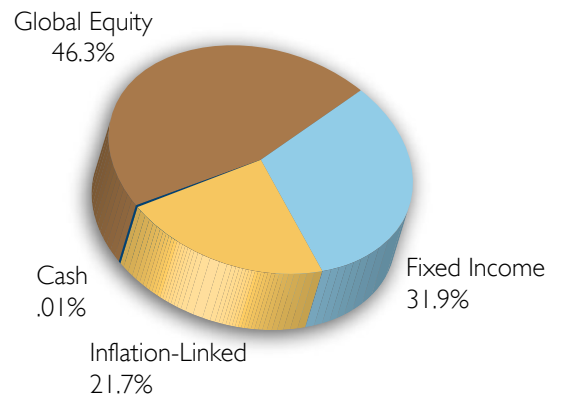
### HEALTHCARE - TARGET ASSET ALLOCATION

As of June 30, 2014



### HEALTHCARE - ACTUAL ASSET ALLOCATION

As of June 30, 2014



## Investment Returns Based on Fair Value\* (as of June 30, 2014)

PENSION	One Year	Three Years	Five Years	Ten Years
Global equity	22.2%	10.6%	15.0%	NA
Private equity	20.0%	12.1%	14.5%	NA
Fixed income	8.6%	8.5%	9.6%	NA
Real estate	13.0%	11.0%	9.1%	8.1%
Inflation-linked assets	14.3%	-2.8%	NA	NA
Hedge fund*	4.9%	NA	NA	NA
Global asset allocation*	8.0%	NA	NA	NA
<b>Total fund</b>	<b>13.9%</b>	<b>7.8%</b>	<b>11.1%</b>	<b>6.9%</b>

\*Absolute return asset class

HEALTHCARE	One Year	Three Years	Since Inception
Global equity	23.8%	21.1%	18.3%
Fixed income	4.4%	1.1%	2.0%
Inflation-linked composite	13.7%	3.1%	-4.5%
<b>Total fund</b>	<b>14.7%</b>	<b>9.8%</b>	<b>8.4%</b>

\*Using time-weighted rate of return based on the market rate of return.

As stated in the Plan's Investment Policy "the primary objective of the investment portfolio is to satisfy the Plan's obligations to pay benefits to members of the Plan and their beneficiaries." In order to achieve this objective, the

Investment Policy further states that “the Plan will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the Plan’s members and beneficiaries.” As such “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.” For the year ended June 30, 2014, the Defined Benefit Pension Plan returned 13.9% gross of fees and 13.5% net of fees, while return on policy benchmark was 14.6%.

## Funding Status

In order to determine whether the Net Position for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans will be sufficient to meet future obligation, the actuarial funding status needs to be calculated. An actuarial valuation is similar to a budgeting process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member.

The purpose of the valuation is determining what future contributions by the members and employers need to be budgeted to pay all expected future benefits.

### SCHEDULE OF FUNDING PROGRESS - DEFINED PENSION PLAN (Unaudited)

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, 2009	\$ 2,569,569	\$ 2,963,482	\$ 393,913	86.7%	\$ 255,223	154.3%
June 30, 2010	\$ 2,576,705	\$ 3,230,456	\$ 653,751	79.8%	\$ 251,058	260.4%
June 30, 2011	\$ 2,685,721	\$ 3,196,007	\$ 510,286	84.0%	\$ 190,726	267.5%
June 30, 2012	\$ 2,703,539	\$ 3,397,792	\$ 694,253	79.6%	\$ 187,959	369.4%
June 30, 2013	\$ 2,771,924	\$ 3,578,031	\$ 806,107	77.5%	\$ 184,645	436.6%

### SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
June 30, 2009	\$ 55,618	\$ 761,604	\$ 705,986	7%	\$ 243,196	290%
June 30, 2010	\$ 58,586	\$ 946,308	\$ 887,722	6%	\$ 222,699	399%
June 30, 2011	\$ 60,709	\$ 1,003,795	\$ 943,087	6%	\$ 190,726	494%
June 30, 2012	\$ 66,385	\$ 997,321	\$ 930,936	7%	\$ 187,959	495%
June 30, 2013	\$ 75,035	\$ 700,525	\$ 625,490	11%	\$ 184,645	339%

## Schedule of Employer and Employee Contributions

Employer and employee basic and COLA (Cost of Living Adjustment) contributions are based on statute and rates recommended by an independent actuary and adopted by the Retirement Board. The rates are set to provide a retirement benefit equal to a fractional part of the highest year(s) salary, depending on membership and tier.

Year Ended June 30,	PENSION		HEALTHCARE	
	Employer Contributions	Employee Contributions	Employer Contributions	Employee Contributions
2010	\$ 52,315	\$ 20,097	\$ 11,284	\$ 10,650
2011	\$ 77,918	\$ 29,629	\$ 17,001	\$ 11,229
2012	\$ 121,009	\$ 19,345	\$ 21,205	\$ 11,474
2013	\$ 105,297	\$ 20,227	\$ 15,808	\$ 13,498
2014	\$ 123,583	\$ 21,115	\$ 17,267	\$ 15,674

*Dollars in Thousands*

The Plan's actuarial valuations are calculated as of June 30 of each year. Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

## Noteworthy Accomplishments

The Plan held its first Annual Stakeholders' Meeting in September 2014, with many attendees receiving first-hand information about their retirement fund investments, the financial outlook and overall health of the Plan, and the impact of new legislation on retiree benefits.

Our Call Center was reorganized to increase operational efficiencies and improve response times for our members.

During the year from July 1, to June 30, 2014, the Department of Retirement Services provided services to approximately 435 new retired members and processed approximately 160 deaths, approximately 240 active employee separations, 34 disability applications, along with approximately 100 pending and over 600 health enrollments and changes. Retirement Services provides assistances to many retirees through an average 70 walk in's and average 1000 phone calls per month.

Successful recruitments were completed for the Chief Investment Officer and Retirement Investment Officer positions.

## Awards for Excellence in Financial Reporting

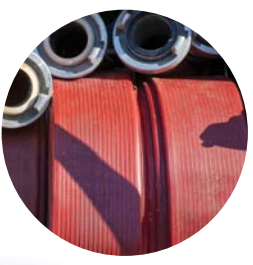
The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the *Plan Certificates of Achievement for Excellence in Financial Reporting* of the CAFR for every year from 2000 through 2013. This certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports.

The Plan has also earned the Public Pension Coordinating Council's (PPCC) Public Standards Award for 2003, 2007, and 2009 through 2012. The Public Pensions Standards are intended to reflect the minimum expectations for public retirement system management and administration, and to serve as a benchmark by which all defined benefit public plans should be measured.



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