City of San Jose 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, 2015. 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 2015, the Defined Benefit Pension Plan returned (0.8%) gross of fees and (1.0%) net of fees, while the Custom Benchmark return for the same time period was (1.0)%. The Plan's fiscal year performance was below the actuarial rate of return of 7.0%, which has occurred in two of the past six fiscal years. For fiscal year 2015, the Postemployment Healthcare Plan returned (1.1%) net of fees.

The Plan engages an independent actuary to conduct annual actuarial valuations. The June 30, 2014 actuarial valuations show that the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are 79% and 13% funded, respectively. The Defined Benefit Pension Plan sponsor paid 100 percent of the Actuarially Determined Contribution in fiscal year 2015, while the Postemployment Healthcare Plan sponsor paid 63% of the Annual Required Contributions.

This report is not intended to replace the CAFR, which provides a more complete overview of the Plan's financial position and operating results. For more in-depth information, we encourage you to read the CAFR by visiting **www.sjretirement.com** and clicking on the Reports tab.

Board of Administration

The Plan's Board of Administration oversees the Chief Executive Officer of the Office of Retirement Services and staff in the performance of their duties. The Plan's Board Members as of June 30, 2015 were:

Net Position Held in Trust

As of June 30, 2015, the Plan's total plan net position for the Defined Benefit Pension Plan totaled $3.1 billion, while the Postemployment Healthcare Plan net position totaled $109.6 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan was 79% and 13%, respectively, as of June 30, 2014, 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, 2015 and 2014 (In Thousands)

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 12,467	$ 9,393	$ 3,074	32.7 %
Investments at fair value	3,101,629	3,212,863	(111,234)	(3.5)%
Capital assets	58	-	58	- %
Total Assets	**3,114,154**	**3,222,256**	**(108,102)**	**(3.4)%**
Current liabilities	4,089	54,083	(49,994)	(92.4)%
Total Liabilities	**4,089**	**54,083**	**(49,994)**	**(92.4)%**
Plan Net Position	**$ 3,110,065**	**$ 3,168,173**	**$ (58,108)**	**(1.8)%**

NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN
As of June 30, 2015 and 2014 (In Thousands)

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 1,055	$ 1,851	$ (796)	(43.0)%
Investments at fair value	109,016	96,825	12,191	12.6 %
Capital assets	1	-	1	- %
Total Assets	**110,072**	**98,676**	**11,396**	**11.5 %**
Current liabilities	446	1,034	(588)	(56.9)%
Total Liabilities	**446**	**1,034**	**(588)**	**(56.9)%**
Plan Net Position	**$ 109,626**	**$ 97,642**	**$ 11,984**	**12.3 %**

Changes in Net Position **for the years ended June 30, 2015 and 2014**

As of June 30, 2015, the net position restricted for pension benefits decreased by $58.1 million or 1.8% over 2014, primarily due to changes in the fair market value of investments. Net investment loss for the year ended June 30, 2015, totaled $27,690,000.

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN
For the Fiscal Years Ended June 30, 2015 and 2014 (In Thousands)

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	$ 20,747	$ 21,115	$ (368)	(1.7)%
Employer contributions	129,279	123,583	5,696	4.6 %
Net investment (loss)/income*	(28,228)	404,340	(432,568)	(107.0)%
Net securities lending income	538	638	(100)	(15.7)%
Total Additions	**122,336**	**549,676**	**(427,340)**	**(77.7)%**
Retirement benefits	166,331	157,635	8,696	5.5 %
Death benefits	9,220	8,738	482	5.5 %
Refund of contributions	702	1,024	(322)	(31.4)%
Administrative expenses	4,191	3,631	560	15.4 %
Total Deductions	**180,444**	**171,028**	**9,416**	**5.5 %**
Net (Decrease)/Increase in Plan Net Position	**(58,108)**	**378,648**	**(436,756)**	**(115.3)%**
Beginning Net Position	**3,168,173**	**2,789,525**	**378,648**	**13.6 %**
Ending Net Position	**$ 3,110,065**	**$ 3,168,173**	**$ (58,108)**	**(1.8)%**

** Net of investment expenses of $15,920 and $13,710 in 2015 and 2014, respectively.*

As of June 30, 2015, the net position restricted for postemployment healthcare benefits increased by 5.5% over 2014, primarily due to an increase in employee and employer contributions of $1,343,000 and $3,643,000, respectively.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
For the Fiscal Years Ended June 30, 2015 and 2014 (In Thousands)

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	$ 17,017	$ 15,674	$ 1,343	8.6 %
Employer contributions	20,910	17,267	3,643	21.1 %
Net investment (loss)/income*	(1,625)	12,582	(14,207)	(112.9)%
Net securities lending income	10	13	(3)	(23.1)%
Total Additions	**36,312**	**45,536**	**(9,224)**	**(20.3)%**
Healthcare insurance premiums	24,205	22,510	1,695	7.5 %
Administrative expenses	123	103	20	19.4 %
Total Deductions	**24,328**	**22,613**	**1,715**	**7.6 %**
Net Decrease in Plan Net Position	**11,984**	**22,923**	**(10,939)**	**(47.7)%**
Beginning Net Position	**97,642**	**74,719**	**22,923**	**30.7 %**
Ending Net Position	**$ 109,626**	**$ 97,642**	**$ 11,984**	**12.3 %**

** Net of investment expenses of $339 and $231 in 2015 and 2014, respectively.*

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, 2015)**

PENSION	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Total
Retirees and beneficiaries currently receiving benefits*	1,271	-	837	-	2,108
Terminated and/or vested members not yet receiving benefits	218	32	40	-	290
Active members	841	88	626	22	1,577
Total	**2,330**	**120**	**1,503**	**22**	**3,975**
HEALTHCARE					
Retirees and beneficiaries currently receiving benefits*	1,199	-	793	-	1,992
Terminated vested members not yet receiving benefits	7	-	2	-	9
Active members	842	87	626	22	1,577
Total	**2,048**	**87**	**1,421**	**22**	**3,578**

** The number of combined domestic relations orders 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 beneftis paid to retirees and survivors. All tiers are combined in the calculation. The chart includes all members who have retired through June 30, 2015.

PENSION	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Average monthly benefit*	$2,477	$3,462	$4,004	$5,051	$7,004	$8,940	$9,657
Average final average monthly salary**	$4,014	$4,222	$6,433	$7,649	$8,124	$7,765	$7,206
Number of retired members**	10	51	113	151	403	774	168
Average monthly benefits* (No FAS)	$-	$1,933	$1,523	$3,009	$4,478	$6,858	$7,794
Number of retired members	-	3	4	9	31	110	24

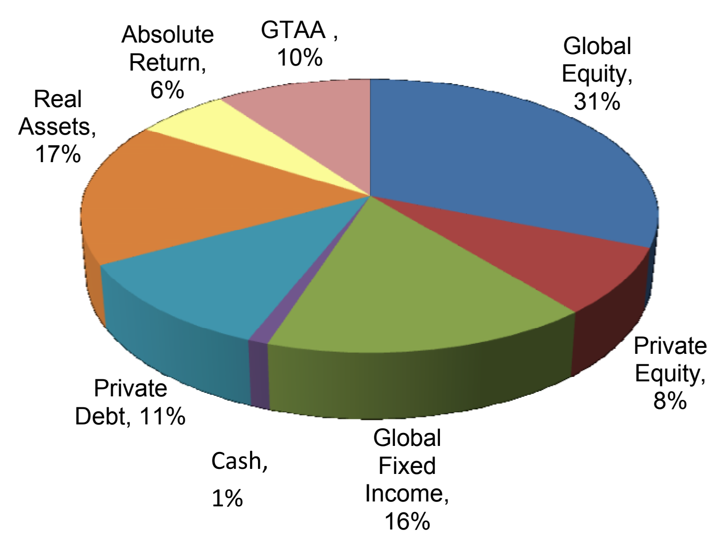
HEALTHCARE	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Average health subsidy	$899	$811	$985	$860	$894	$857	$727
Number of health participants	7	42	83	124	407	874	178
Average dental subsidy	$89	$101	$112	$108	$107	$105	$99
Number of dental participants	8	50	91	132	424	899	181

** Includes cost of living increases*
***Does not include survivors and ex-spouses*

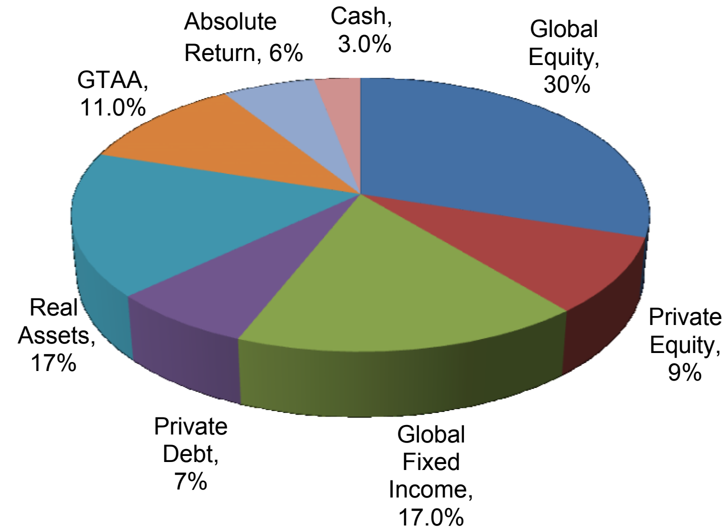
Asset Allocation (as of June 30, 2015)

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 the Plan's 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.

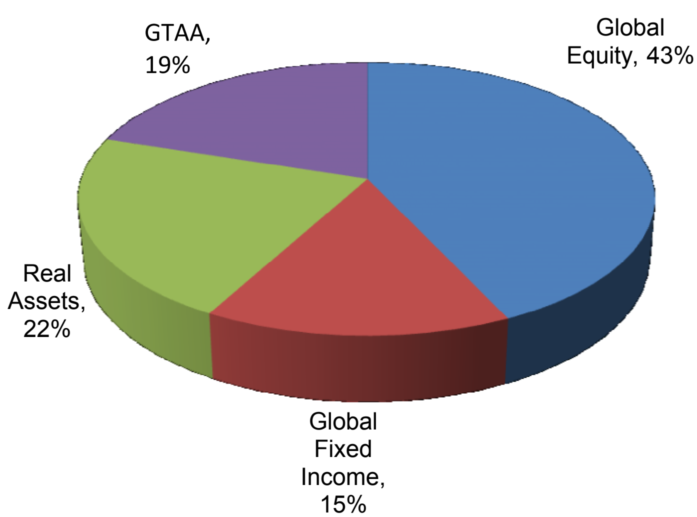
PENSION - TARGET ASSET ALLOCATION



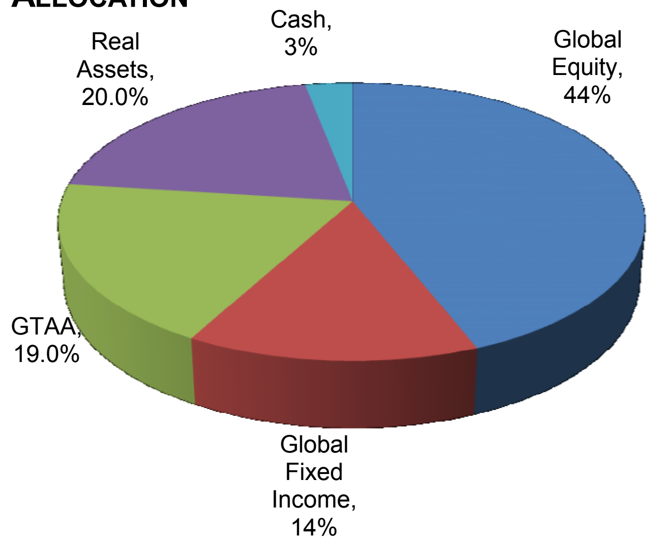
PENSION - ACTUAL ASSET ALLOCATION



HEALTHCARE - TARGET ASSET ALLOCATION



HEALTHCARE - ACTUAL ASSET ALLOCATION



Investment Returns Based on Fair Value* **(as of June 30, 2015)**

PENSION	One Year	Three Years	Five Years	Ten Years
Global equity	1.3%	13.0%	11.9%	N/A
Real estate	7.1%	9.7%	10.0%	7.3%
Private equity	20.0%	12.1%	14.5%	N/A
Absolute return	2.4%	N/A	N/A	N/A
Inflation-linked assets	-20.2%	-6.6%	N/A	N/A
Global fixed income	-1.7%	4.1%	6.0%	N/A
Global tactical asset allocation	(1.7)%	N/A	N/A	N/A
Total fund	**-0.8%**	**7.5%**	**8.0%**	**5.7%**

HEALTHCARE	Three Months	One Year	Since Inception
Global equity	0.7%	N/A	13.7%
Global Fixed income	(1.8)%	N/A	1.3%
Real Estate	-10.5%	N/A	8.2%
Inflation-linked composite	2.4%	N/A	-9.6%
Global tactical asset allocation	(0.6)%	N/A	(9.6)%
Total Fund	**(1.0)%**	**5.9%**	**5.9%**

** 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. 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." In order to achieve this objective, the Investment Policy further states that "the Plan's fund 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 risks 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 asset classes, issues, issuers, geographics, 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, 2015, the Defined Benefit Pension Plan returned (0.8%) gross of fees and (1.0%) net of fees, while the Custom Benchmark return for the same period was (1.0%).

Funding Status

In order to determine whether the Net Position for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan 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 to determine what future contributions by the members and by the employers need to be budgeted to pay all expected future benefits.

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)
(*Amounts in thousands*)

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, 2014	$3,025,101	$3,813,825	$788,724	79%	$188,189	419%
June 30, 2013	$2,771,924	$3,578,031	$806,107	77%	$184,645	437%
June 30, 2012	$2,703,539	$3,397,792	$694,253	80%	$187,959	369%
June 30, 2011	$2,685,721	$3,196,007	$510,286	84%	$190,726	268%
June 30, 2010	$2,576,705	$3,230,456	$653,751	80%	$251,058	260%

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)
(*Amounts in thousands*)

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, 2014	$93,605	$706,709	$613,104	13%	$188,189	326%
June 30, 2013	$75,035	$700,525	$625,490	11%	$184,645	339%
June 30, 2012	$66,385	$997,321	$930,936	7%	$172,626	539%
June 30, 2011	$60,709	$1,003,795	$943,086	6%	$190,726	494%
June 30, 2010	$58,586	$946,308	$887,722	6%	$222,699	399%

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.

(In Thousands)	PENSION		HEALTHCARE	
Year Ended	Employer Contributions	Employee Contributions	Employer Contributions	Employee Contributions
June 30, 2015	$129,279	$20,747	$20,910	$17,017
June 30, 2014	$123,583	$21,115	$17,267	$15,674
June 30, 2013	$105,234	$20,227	$15,808	$13,498
June 30, 2012	$121,009	$19,345	$21,205	$11,474
June 30, 2011	$77,918	$29,629	$17,001	$11,229

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 over 100 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.

In December 2014, Measure G became effective and modified the Board of Administration's governance structure. The Office of Retirement Services also kicked off the upgrade of its pension administration system in March 2015, the implementation of which is expected to last approximately 42 months and is estimated at $9 million.

In January 2015, the City added a new tier to the sworn officer's of the fire department. The new tier is referred to as Fire Tier 2 members which were any new hires, rehires or reinstated on or after January 2, 2015.

During the year from July 1, to June 30, 2015, the Office of Retirement Services provided services to approximately 263 new retired members and processed 106 deaths, approximately 210 active employee separations, 62 disability applications, along with approximately 170 pending and approximately 500 health enrollments and changes. Retirement Services provides assistance to many retirees through an average 70 walk in's and average 1,000 phone calls per month.

Awards for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the Plan the Certificates of Achievement for Excellence in Financial Reporting for our CAFR for every year from 2000 through 2014. 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 2014. 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.