



City of San José Federated City Employees' Retirement System

INTRODUCTION

The Federated City Employees' Retirement System (System) 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 System's financial position, investment performance and key accomplishments throughout the fiscal year. The System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

For fiscal year 2014, the Defined Benefit Pension Plan returned 14.3% gross of fees and 14.2% net of fees, while the Custom Benchmark return for the same time period was 13.2%. The 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. For fiscal year 2014, the Postemployment Healthcare Plan returned 16.2% net of fees.

The System 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 59% and 18% 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 37% 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 FCERS' 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 System's Board of Administration oversees the Director of Retirement Services and staff in the performance of their duties. The System's Board Members as of June 30, 2014 were:

Matt Loesch	Chair	Employee representative
Lara Druyan	Vice Chair	Public member
Martin Dirks	Trustee	Public member
Michael Armstrong	Trustee	Public member
Edward F. Overton	Trustee	Retired plan member
Stuart Odell	Trustee	Public member
Vacant	Trustee	Employee representative



Net Position Held in Trust

As of June 30, 2014, the System's total plan net position totaled \$2.2 billion, which means that total assets of \$2.19 billion exceed total accounting liabilities of \$4.2 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan is 59% and 18%, respectively, as of June 30, 2013, the date of the System's most recent actuarial valuation.

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN *(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 POSTEMPLOYMENT HEALTHCARE PLAN *(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%

As of June 30, 2014, the net position restricted for pension benefits increased by 12.8% over 2013, primarily due to changes in the fair market value of investments. Net investment income for the year ended June 30, 2014, totaled \$263,688,000.

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

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN

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%

As of June 30, 2014, the net position restricted for postemployment healthcare benefits increased by 23.7% over 2013, primarily due to changes in the fair market value of investments. Net investment income for the year ended June 30, 2014, totaled \$28,737,000.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

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%

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

Membership (as of June 30, 2014)

PENSION	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

HEALTHCARE				
Retirees and beneficiaries currently receiving benefits	3,331	-	-	3,331
Terminated and/or vested members not yet receiving benefits	133	-	-	133
Active members***	2,592	272	-	2,864
Total	6,056	272	-	6,328

* 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 Tier 1.

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.

PENSION	Years of Service Credit						
	Time Periods	0-5	6-10	11-15	16-20	21-25	26-30
Average monthly benefit*	\$ 965	\$ 1,444	\$ 2,379	\$ 3,202	\$ 4,459	\$ 5,649	\$ 6,284
Average final average monthly 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

HEALTHCARE							
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

* Includes cost of living increases

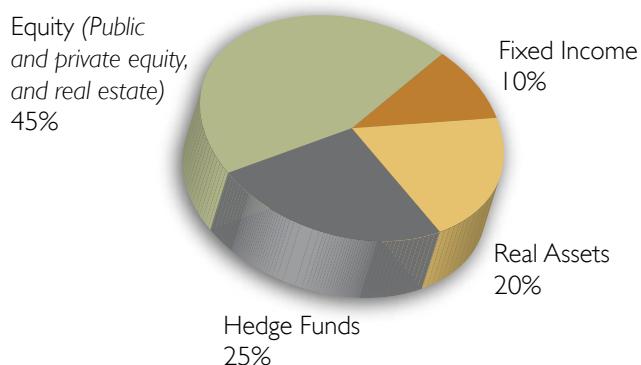
** Does not include survivors and ex-spouses

Asset Allocation (as of June 30, 2014)

The allocation of the System's assets is an integral part of the System's investment policy. As such, the System 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 System. In addition the asset allocation is intended to minimize the volatility of System assets and mitigate the risk of large investment losses during times of prolonged market stress. The System's Chief Investment Officer and investment consultant, Meketa, assist the Board in designing the asset allocation and strategic diversification strategies within asset classes.

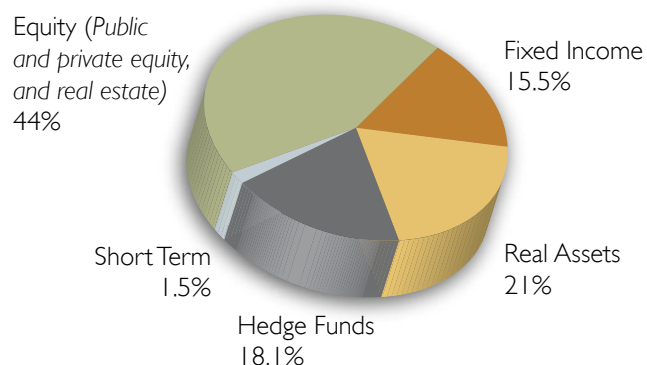
PENSION - TARGET ASSET ALLOCATION

As of June 30, 2014



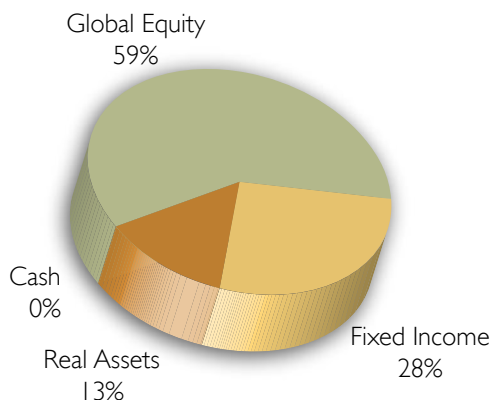
PENSION - ACTUAL ASSET ALLOCATION

As of June 30, 2014



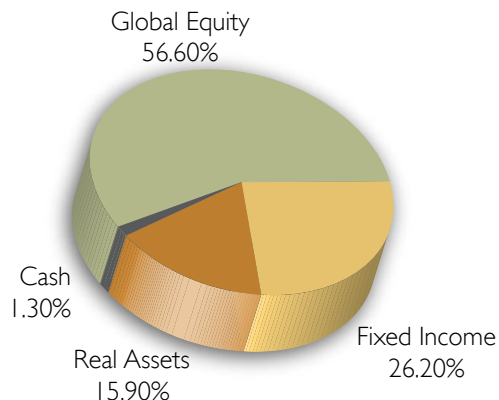
HEALTHCARE - TARGET ASSET ALLOCATION

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	22.6%	10.3%	NA	NA
Real estate	13.4%	11.7%	4.3%	5.6%
Private equity	19.3%	12.8%	13.7%	NA
Hedge fund	4.9%	NA	NA	NA
Real assets	19.4%	-1.5%	NA	NA
Fixed income	1.6%	3.1%	5.9%	5.4%
Private debt	10.2%	10.4%	NA	NA
Total fund	14.3%	6.2%	10.2%	6.2%

HEALTHCARE	One Year	Three Years	Since Inception
Global equity	23.1%	NA	18.3%
Fixed income	4.3%	NA	2.0%
Real assets	14.8%	NA	-4.5%
Total fund	16.2%	8.4%	8.4%

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

As stated in the System's Investment Policy "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.” In order to achieve this objective, the Investment Policy further states that “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 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 14.3% gross of fees and 14.2% net of fees, while the Custom Benchmark return for the same period was 13.2%.

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 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	\$ 1,756,588	\$ 2,486,155	\$ 729,567	71%	\$ 323,020	226%
June 30, 2010	\$ 1,729,414	\$ 2,510,358	\$ 780,944	69%	\$ 300,811	260%
June 30, 2011	\$ 1,788,660	\$ 2,770,227	\$ 981,567	65%	\$ 228,936	429%
June 30, 2012	\$ 1,762,973	\$ 2,841,000	\$ 1,078,027	62%	\$ 225,859	477%
June 30, 2013	\$ 1,782,629	\$ 3,013,763	\$ 1,231,134	59%	\$ 225,779	545%

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	\$ 85,564	\$ 796,448	\$ 710,884	11%	\$ 308,697	230%
June 30, 2010	\$ 108,011	\$ 926,371	\$ 818,360	12%	\$ 300,069	297%
June 30, 2011	\$ 135,454	\$ 1,145,359	\$ 1,009,905	12%	\$ 228,936	441%
June 30, 2012	\$ 137,798	\$ 1,096,620	\$ 958,822	13%	\$ 225,859	425%
June 30, 2013	\$ 157,695	\$ 870,872	\$ 713,177	18%	\$ 226,098	315%

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	\$ 54,566	\$ 13,396	\$ 17,027	\$ 15,815
2011	\$ 59,180	\$ 24,602	\$ 17,146	\$ 16,041
2012	\$ 87,082	\$ 10,555	\$ 25,834	\$ 14,995
2013	\$ 103,109	\$ 12,652	\$ 21,251	\$ 15,979
2014	\$ 107,544	\$ 13,596	\$ 19,298	\$ 17,494

Dollars in Thousands

The System'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.

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 System *Certificates of Achievement for Excellence in Financial Reporting* for our 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 System 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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Department of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone 408-794-1000 Fax 408-392-6732
www.sjretirement.com



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