City of San José
Police and Fire Department Retirement Plan

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
Police and Fire Department Retirement Plan

Roberto L. Peña
Chief Executive Officer

Office 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

Pension Trust and Postemployment Healthcare Trust Funds of the City of San José, California
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and June 30, 2017

Board Chair Letter

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

November 7, 2018

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San José
San José, California

Dear Mayor, Council Members, and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (the Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.

The Pension Plan earned a time-weighted gross of investment fees rate of return of 7.3% and net of investment fees rate of return of 6.9% on investments for the fiscal year ended. This was in line with net rate of return of 6.875% assumed by the Board and Plan's actuary for fiscal year 2017-2018.

The net of investment fees Plan return; however, trailed the 7.6% return for its policy benchmark and an 8.0% return for the InvestorForce universe net median of public funds greater than $1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 5.2% and 5.6% for the three-year and five-year periods ending June 30, 2018, respectively, while the InvestorForce net median earned a time-weighted rate of return of 6.7% and 7.5% for the same periods.

The Healthcare Plans earned a time-weighted gross of investment fees rate of return of 3.7% and net of investment fees rate of return of 3.6% on investments for the fiscal year, compared to a 7.4% return for its policy benchmark. Additionally, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 3.6% and 4.6% for the three-year and five-year periods ending June 30, 2018, respectively.

The Plan's net position increased from $3,442,939,000 to $3,658,711,000 (see the Financial Section beginning on page 14). The net increase in the Plan's net position for fiscal year 2017-2018 was $215,772,000.

In March 2018, the Plan hired a new Chief Investment Officer after a 10-month vacancy. The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year through the leadership of our CEO and an Interim-CIO. The implementation of the risk analytics system and risk advisory work continues, as does a group of process improvements and governance-related projects across the Investment Program. In addition, during fiscal year 2017-2018, the Investment Program completed comprehensive reviews across asset classes.

Board Chair Letter *(continued)*

The Board believes that the professional services rendered by the staff, 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.

Sincerely,

Vincent Sunzeri, Chairman
Board of Administration

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City of San José
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Letter of Transmittal

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

November 7, 2018

Board of Administration
San José Police and Fire Department Retirement Plan
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 San José Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Plan'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) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). Transactions of the Plan are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2018 and 2017, please refer to the Management's Discussion and Analysis (MD&A) on page 19.

Grant Thornton LLP, the Plan'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 Plan's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The Plan 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 Plan continuously reviews internal controls to ensure that the Plan'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 Plan's assets.

I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2017. This was the 18th consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Plan must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The Plan 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 Plan will find this CAFR helpful in understanding the Plan.

Funding

The Plan'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 the most recent funding valuation dated June 30, 2017, the funding ratio of the defined benefit pension plan and the defined benefit OPEB plans was 77.1% and 21.0%, respectively, 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 Plan is currently 6.875%. The impact of the difference between the actual net rate of return earned by the Plan and the 6.875% assumption will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in Plan net position for fiscal year 2017-2018 was $215,772,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 33. The defined benefit pension plan's funding progress is presented on page 133 and the defined benefit OPEB plan's funding progress is presented on page 152.

Investment Summary

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

Over the past fiscal year, the Pension Plan's time-weighted gross of investment fees rate of return was 7.3%, and the net of investment fees rate of return was 6.9% for the fiscal year, compared to a 7.6% return for its policy benchmark and an 8.0% return for the InvestorForce universe net median of public funds greater than $1 billion. Additionally, the Pension Plan earned a time-weighted net of investment fees rate of return of 5.2% and 5.6% for the three-year and five-year periods ending June 30, 2018, respectively, while the InvestorForce universe net median earned a time-weighted rate of return of 6.7% and 7.5% for the same periods.

The Healthcare Plans' time-weighted gross of investment fees rate of return of 3.7% and net of investment fees rate of return was 3.6% on investments for the fiscal year, compared to a 7.4% return for its policy benchmark. In addition, the Healthcare Plans earned a time-weighted net of investment fees rate of return of 3.6% and 4.6% for the three-year and five-year periods ending June 30, 2018, respectively.

The net position of the Plan increased from $3,442,939,000 to $3,658,711,000 (see the Financial Section beginning on page 14).

Major Initiatives

In March 2018, the Plan hired a new Chief Investment Officer. The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The implementation of the risk analytics system and risk advisory work continues, as does a group of process improvements and governance related projects across the Investment Program. In addition, during fiscal year 2017-2018, the Investment Program completed comprehensive reviews across asset classes.

The Office of Retirement Services (ORS) kicked off the upgrade of its pension administration system in March 2015. The implementation process, which was initially expected to last approximately 42 months and estimated at a cost of $9 million, is now entering its final phase as ORS has completed the user acceptance testing for Software Deliverable 5 (the last planned deliverable) and is currently training staff on the new system, as well as starting the parallel processing phase of the implementation. The project completion was extended to the summer of 2019 for the implementation of Measure F-related calculations in the system.

ORS continued to implement the pensionable pay correction project (PPC) for the members of the Plan. The purpose is to correct retirement benefits paid to some retirees, due to errors in the City's reporting to ORS of pensionable pay information that was then used in the member's benefit calculation. The project was completed in December 2017, after the corrections to the ongoing benefit payments and the remittance of the past total underpayments for the non-FLSA (Fair Labor Standards Act) group were made.

In November 2016, Measure F passed, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan. The provisions of the Framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power (GPP) benefit for Tier 1 retirees. The VEBA is being administered by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

During this fiscal year, ORS completed most of the implementation of Measure F, with the transfer of the contributions of members who opted in to the VEBA. In addition, ORS made the first payments to those affected by the GPP and included the retiree healthcare in-lieu premium credit as part of the open enrollment process for retirees. Retirees who are eligible for medical insurance and/or dental insurance but who opt not to take it, can elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan. There are still a few aspects of Measure F that are outstanding such as the medical panel and the refinement of the Municipal Code to be consistent with the current procedures of the City.

In October 2017, the City Auditor issued report 17-06, *Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration.* This audit was a result of a request from the Mayor's Office, in which concern was expressed that although ORS' administrative budget has increased since fiscal year 2005-2006, the plans had seen losses in the two fiscal years prior to fiscal year 2017. The report was published with five separate findings which are covered in 25 different recommendations and four of the 25 recommendations are addressed to the City. ORS has addressed and completed most of the findings over which they have control. In addition to this audit, the City Auditor conducted a pensionable earnings audit but the result was favorable, and no recommendations to ORS came out of it.

In January 2018, the City began offering a new health plan, the Kaiser High-Deductible Plan with or without a Health Savings Account, which became the new lowest cost plan for retirees. The last open enrollment also allowed retirees to suspend and enroll in retiree health coverage, which means surviving spouses can take medical coverage through the Plan even if the retiree was not enrolled at the time of their death.

Conclusion

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

Respectfully Submitted,

Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department

Retirement Plan, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2017

Presented to

City of San Jose Police and Fire Department
Retirement Plan

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

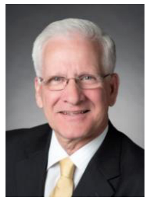
BOARD OF ADMINISTRATION

The Retirement System is administered by a nine-member Board of Administration composed of two City employees elected by members of the Plan, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San Jose Municipal Code.

As of June 30, 2018, the members of the Board were as follows:

VINCENT SUNZERI, CHAIR
Public member appointed to the Board in December 2010. His current term expires November 30, 2020.

ANDREW GARDANIER, VICE CHAIR
Employee representative for the Fire Department appointed to the Board in December 2015. His current term expires December 2019.

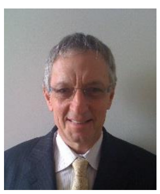


NICK MUYO, TRUSTEE
Retired Plan member appointed to the Board in November 2012. His current term expires November 30,2020.

FRANCO VADO, TRUSTEE
Employee representative for the Police Department appointed to the Board in February 2016. His current term expires November 30, 2021.

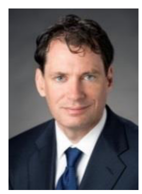
ANDREW LANZA, TRUSTEE
Public member appointed to the Board in April 2011. His current term expires April 30, 2019.

RICHARD SANTOS, TRUSTEE
Retired Plan member appointed to the Board in March 2011. His current term expires November 30, 2018.



JEREMY EVNINE, TRUSTEE
Public member appointed to the Board in November 2014. His current term expires November 30, 2018.

GHIA GRIARTE, TRUSTEE
Public member appointed to the Board in November 2014. Her current term expires November 30, 2018.



STEPHEN BRENNAN, TRUSTEE
Public member appointed to the Board in April 2014. His current term expires November 30, 2018.

JOHNNY KHAMIS, NON-VOTING BOARD MEMBER

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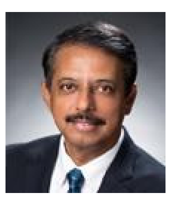
OFFICE OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA, DIRECTOR
CHIEF EXECUTIVE OFFICER

DONNA BUSSE, DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER



PRABHU PALANI, CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

Board Meetings: First 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/PF/meetings/agendas.asp or they can be obtained from the Retirement Office at 1737 North First Street, Suite 600, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

Board of Administration, Administration, and Outside Consultants *(continued)*

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

Hanson Bridgett LLP	Reed Smith LLP
San Francisco, CA	San Francisco, CA

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

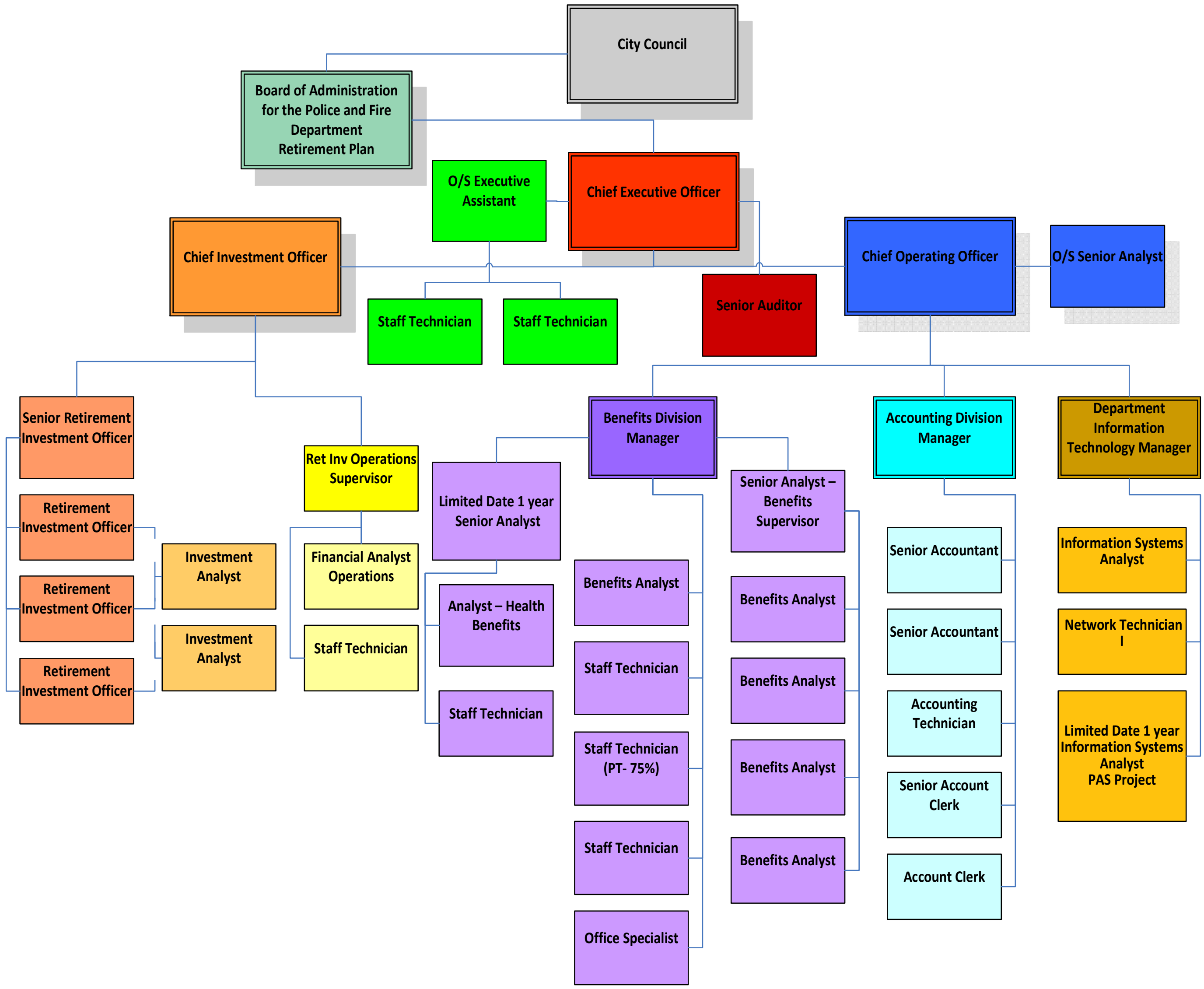
Meketa Investment Group, Inc – General Consultant
Carlsbad, CA

Verus Advisory Inc. – Risk Advisory
Seattle, WA

AUDITOR
Grant Thornton LLP
San Francisco, CA

A list of investment professionals who provide services to the Pension and Postemployment Healthcare benefits can be found on page 110 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 118 and 119-122, respectively.

2018 Office of Retirement Services Organizational Chart



Office of Retirement Services
1737 North First Street Suite 600, San Jose, CA 95112
(408) 794-1000 I (800) 732-6477 I (408) 392-6732 Fax
www.sjretirement.com

Financial Section

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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2018 and June 30, 2017

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
101 California Street, Suite 2700
San Francisco, CA 94111
T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Board of Administration of the City of San José
Police and Fire Department Retirement Plan
San José, California

Report on the financial statements

We have audited the accompanying financial statements of the City of San José Police and Fire Department Retirement Plan (the "Plan"), 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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic 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 Plan'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 Plan'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 plan net position of the Plan as of June 30, 2018 and 2017, and the changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios – defined benefit pension, schedule of investment returns – defined benefit pension plan, schedule of employer contributions – defined benefit pension plan, notes to schedule, schedule of changes in the employers net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plan, and schedule of employer contributions – postemployment healthcare plan, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Management has consolidated the schedule of changes in the employer's net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plans, and schedule of employer contributions – postemployment healthcare plans that accounting principles generally accepted in the United States of America require to be presented separately for each plan to supplement the basic financial statements. Such missing 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. Our opinion on the financial statements is not affected by this consolidated information.

Other supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The combining schedule of defined benefit pension plan net position as of June 30, 2018, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2018, and the schedules of administrative expenses and other, schedules of payments to consultants, and schedules of investment expenses for the years ended June 30, 2018 and 2017 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory, investment, actuarial, and statistical sections of the Comprehensive Annual Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

GrantThornton

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 7, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely 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 the effectiveness of the Plan's 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 Plan's internal control over financial reporting and compliance.

Grant Thornton LLP

San Francisco, California
November 7, 2018

November 7, 2018

Board of Administration
San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

The Office of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2018 and 2017. The Plan, consisting of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans, was established to provide retirement benefits for sworn employees of the Police and Fire Departments 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 5 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2018

- As of June 30, 2018, the Plan had $3,658,711,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $3,496,191,000 restricted for pension benefits is available to meet the Plan’s ongoing obligations to plan participants and their beneficiaries. The Postemployment Healthcare Plans’ net position of $162,520,000 is only available for the exclusive use of retiree medical benefits.

- The Plan’s total net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2018 by approximately $215,772,000 or 6.3% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by favorable market conditions during the fiscal year.

- Additions to plan net position during fiscal year ended June 30, 2018 were $463,608,000, which includes employer and employee contributions of $183,094,000 and $39,968,000, respectively, and net investment income of $240,546,000. This represents a decrease of $(37,899,000) of total additions from the prior fiscal year amount of $501,507,000 .

- Deductions from plan net position for fiscal year ended June 30, 2018 increased from $225,648,000 to $247,836,000 over the prior fiscal year, or approximately 6.3%, due to an increase in retirement benefit payments and healthcare insurance premiums, as well as the transfer of Voluntary Employee Beneficiary Association (VEBA) assets this fiscal year. The increase in retirement benefits payments was attributable to an increased number of retired members and beneficiaries.

Overview of the Financial Statements

The Plan's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2018, were prepared in conformity with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). In fiscal year 2016-2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74, applies to Other Postemployment Employee Benefit (OPEB) plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans. There was no material impact to the Plan's financial statements as a result of the implementation of GASB Statement No. 74, other than increased disclosures. The following discussion and analysis are intended to serve as an introduction to the Plan'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 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 Plan.

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 state and local government pension plans and postemployment benefit plan reports to use the full accrual method of accounting and make certain disclosures. The Plan complies with all significant requirements of these pronouncements.

The Statements of Plan Net Position and the Statements of Changes in Plan Net Position report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which recognizes contributions as revenue when currently due pursuant to legal requirements and benefits and refunds of contributions when due and payable under the provisions of the Plan. All of the fiscal year's additions and deductions are taken into account regardless of when cash is received or paid. All 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 Plan's net position held in trust for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and liabilities. Over time, increases and decreases in the Plan'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 net OPEB liability, should also be considered in measuring the Plan'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 35 of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 75 of this report). The Schedule of Changes in the Employer's Net Pension Liability and Related Ratios of the Defined Benefit Pension Plan was prepared using the Plan's net position.

Other Supplemental Information. The Combining Schedules of Defined Benefit Pension Plan Net Position and Changes in Defined Benefit Pension Plan Net Position, Schedules of Administrative Expenses and Other, Payments to Consultants, and Investment Expenses 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 Plan's financial position (see Tables 1a and 1c on page 22). At the close of fiscal years 2018 and 2017, the Plan's total assets exceeded the Plan's total liabilities. The Plan's financial statements do not include the total pension liability or the total OPEB liability for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans, respectively.

The Pension Plan's net position as a percentage of the total pension liability and the Postemployment Healthcare Plan's total OPEB liability should also be considered when evaluating the Plan's financial health. Based on the June 30, 2017 valuation rolled forward to June 30, 2018, the net position of the Defined Benefit Pension Plan was 75.4% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 22.8%. For more information on the results and impact of the June 30, 2017 valuations, please see Notes 4 and 5 to the financial statements beginning on page 64.

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1a)

As of June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 9,900	$ 19,014	$ (9,114)	(47.9)%
Investments at fair value	3,491,602	3,277,084	214,518	6.5 %
Capital assets	1,726	1,488	238	16.0 %
Total Assets	**3,503,228**	**3,297,586**	**205,642**	**6.2 %**
Current liabilities	7,037	4,329	2,708	62.6 %
Total Liabilities	**7,037**	**4,329**	**2,708**	**62.6 %**
Plan Net Position	**$ 3,496,191**	**$ 3,293,257**	**$ 202,934**	**6.2 %**

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1b)

As of June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 19,014	$ 35,066	$ (16,052)	(45.8)%
Investments at fair value	3,277,084	3,010,391	266,693	8.9 %
Capital assets	1,488	920	568	61.7 %
Total Assets	**3,297,586**	**3,046,377**	**251,209**	**8.2 %**
Current liabilities	4,329	2,724	1,605	58.9 %
Total Liabilities	**4,329**	**2,724**	**1,605**	**58.9 %**
Plan Net Position	**$ 3,293,257**	**$ 3,043,653**	**$ 249,604**	**8.2 %**

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 1c)

As of June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase Amount	Increase Percent
Receivables	$ 18,295	$ 3,859	$ 14,436	374.1 %
Investments at fair value	152,091	145,935	6,156	4.2 %
Capital assets	29	25	4	16.0 %
Total Assets	**170,415**	**149,819**	**20,596**	**13.7 %**
Current liabilities	7,895	137	7,758	5,662.8 %
Total Liabilities	**7,895**	**137**	**7,758**	**5,662.8 %**
Plan Net Position	**$ 162,520**	**$ 149,682**	**$ 12,838**	**8.6 %**

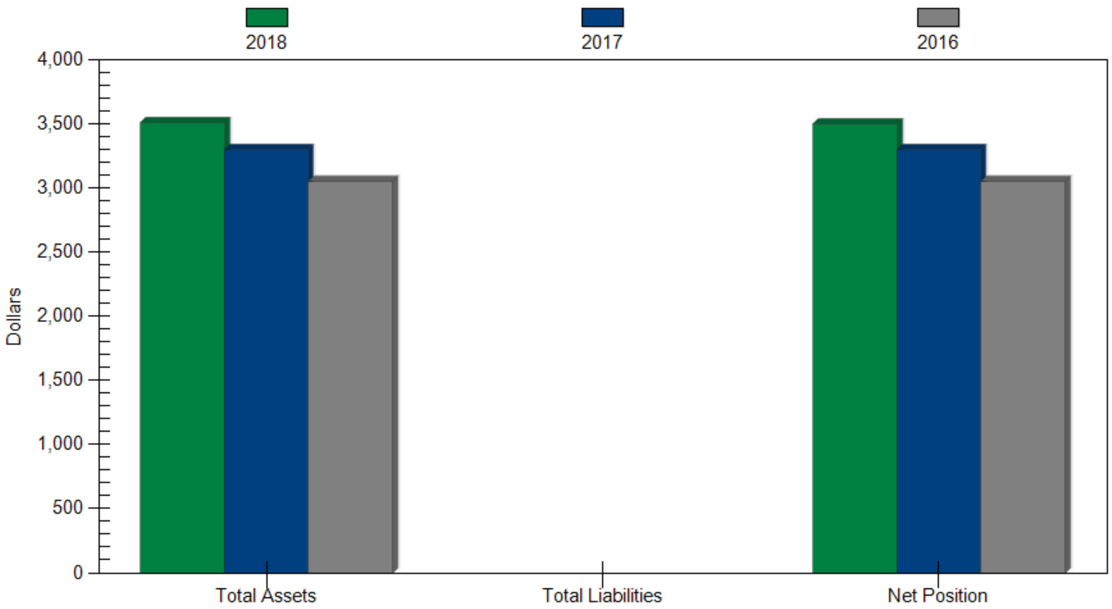
NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 1d)

As of June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase Amount	Increase Percent
Receivables	$ 3,859	$ 3,687	$ 172	4.7 %
Investments at fair value	145,935	119,806	26,129	21.8 %
Capital assets	25	16	9	56.3 %
Total Assets	**149,819**	**123,509**	**26,310**	**21.3 %**
Current liabilities	137	82	55	67.1 %
Total Liabilities	**137**	**82**	**55**	**67.1 %**
Plan Net Position	**$ 149,682**	**$ 123,427**	**$ 26,255**	**21.3 %**

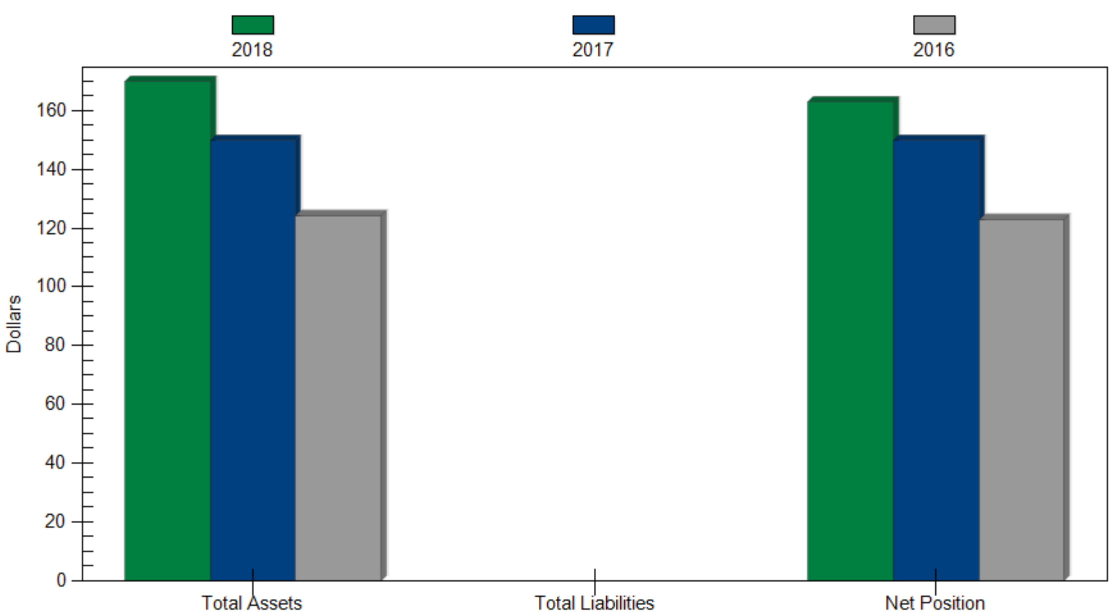
DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)

As of June 30, 2018 , 2017 and 2016
(Dollars in Millions)



POSTEMPLOYMENT HEALTHCARE PLANS NET POSITION (Tables 1c and 1d)

As of June 30, 2018 , 2017 and 2016
(Dollars in Millions)



As of June 30, 2018, $3,496,191,000 and $162,520,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 22). Plan net position restricted for pension benefits of $3,496,191,000 is available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of $162,520,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2018, total net position restricted for pension benefits increased by 6.2% and increased by 8.6% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of $214,898,000 and $4,100,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 52.

As of June 30, 2017, $3,293,257,000 and $149,682,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 22). Plan net position restricted for pension benefits of $3,293,257,000 was available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of $149,682,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2017, total net position restricted for pension benefits increased by 8.2% and increased by 21.3% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of $286,973,000 and $10,574,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 52.

As of June 30, 2018, receivables decreased by $(9,114,000) or (47.9)% and increased by $14,436,000 or 374.1% in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Receivables in the Defined Benefit Pension Plan decreased mainly due to a decrease in accrued investment income receivable and employer contributions receivables, while the receivables for the Postemployment Healthcare Plans increased mainly due to an increase in receivables from brokers and other and accrued investment income receivables. In the previous year, receivables for the Defined Benefit Pension Plan decreased by $(16,052,000) or (45.8)% due to a decrease in receivables from brokers and others for year-end investment trades and increased by $172,000 or 4.7% in the Postemployment Healthcare Plans due to an increase in employee and employer contributions receivables.

As of June 30, 2018, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by $2,708,000, or 62.6% and $7,758,000 or 5,662.8%, respectively, compared with June 30, 2017, mainly due to an increase in payables to brokers and others for year-end investment trades as a result of the timing of investment transactions. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by $1,605,000, or 58.9% and $55,000 or 67.1%, respectively, compared with June 30, 2016, due to an increase in payables to brokers and others for year-end investment trades.

POLICE AND FIRE PLAN ACTIVITIES

In the fiscal year ended 2018, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plans net position increased by $215,772,000, or 6.3%, primarily due to the favorable market conditions during the fiscal year. Key elements of the Plan'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 along with earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plans for the fiscal year ended June 30, 2018, were $415,028,000 and $48,580,000, respectively (see Tables 2a and 2c on pages 26-27).

For the fiscal year ended June 30, 2018, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans decreased by $(35,243,000) and $(2,656,000), or (7.8)% and (5.2)%, respectively. The primary cause of the decrease from prior year was a combination of the decrease in net investment income of $(59,259,000) and $(5,382,000) and the increase in City contributions of $20,755,000 and $4,715,000, in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. The decrease in investment income was due to less than favorable market conditions during the fiscal year as compared to prior year, and the increase in employer contributions is due to the increase in City contribution rates of around 15% for Tier 1 and 5% for Tier 2. While the City contributions increased, employee contributions decreased for the Postemployment Healthcare Plans as a result of the implementation of the VEBA, which stopped contributions for those who opted in to the VEBA. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2018 for the Defined Benefit Pension Plan, was 7.3% compared to 10.3% for fiscal year 2017. On a net of investment fee basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2018, was 6.9% compared to 9.7% for fiscal year 2017.

For the fiscal year ended June 30, 2017, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by $325,489,000 and $13,847,000, or 260.8% and 37.0%, respectively. The primary cause of the increase from the prior year was net investment income of $321,940,000 and $14,136,000, in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due to the favorable market conditions during the fiscal year. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2017, for the Defined Benefit Pension Plan was 10.3% compared to (0.4)% for fiscal year 2016. On a net of investment fee basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2018, was 9.7% compared to (0.6%) for fiscal year 2016.

Deductions from Plan Net Position

The Plan 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 Plan.

Deductions for the fiscal year ended June 30, 2018, totaled $212,094,000 and $35,742,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.7% from the previous year due to an increase in benefit payments (see Table 2a on page 26). The increase in benefit payments is 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 Plans increased by 43.1% from the previous year due to the net result of a decrease in the healthcare insurance premiums from the implementation of a new lowest cost health plan for the year and the increase in the transfer of VEBA assets for the fiscal year. The IRS approved allowing eligible employees who are rehired into the City from calendars years 2018 through 2022 to opt-in to the VEBA if they were not employed during the initial opt-in period. As this represents a limited number of eligible employees who could potentially opt-in to the VEBA, it is estimated that there will be minimal additional amounts transferred from the Postemployment Healthcare Plan to the individual VEBA accounts (see Table 2c on page 27).

Deductions for the fiscal year ended June 30, 2017, totaled $200,667,000 and $24,981,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.0% from the previous year due to an increase in benefit payments resulting from the increase in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments (see Table 2b on page 26). Deductions for the Postemployment Healthcare Plans increased by 5.9% from the previous year due to an increase in healthcare insurance premiums for retirees and beneficiaries, as well as the increase in number of retirees and beneficiaries. (see Table 2d on page 27).

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2a)

For the Fiscal Years Ended June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 23,841	$ 20,580	$ 3,261	15.8 %
Employer contributions	157,712	136,957	20,755	15.2 %
Net investment income*	233,475	292,734	(59,259)	(20.2)%
Total Additions	**415,028**	**450,271**	**(35,243)**	**(7.8)%**
Retirement benefits	194,139	184,596	9,543	5.2 %
Death benefits	12,102	11,072	1,030	9.3 %
Refund of contributions	389	364	25	6.9 %
Administrative expenses	5,464	4,635	829	17.9 %
Total Deductions	**212,094**	**200,667**	**11,427**	**5.7 %**
Net Increase in Plan Net Position	**202,934**	**249,604**	**(46,670)**	**(18.7)%**
Beginning Net Position	**3,293,257**	**3,043,653**	**249,604**	**8.2 %**
Ending Net Position	**$ 3,496,191**	**$ 3,293,257**	**$ 202,934**	**6.2 %**

** Net of investment expenses of $18,845 and $19,288 in 2018 and 2017, respectively.*

CHANGES IN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2b)

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 20,580	$ 21,508	$ (928)	(4.3)%
Employer contributions	136,957	132,480	4,477	3.4 %
Net investment income (loss)*	292,734	(29,206)	321,940	1,102.3 %
Total Additions	**450,271**	**124,782**	**325,489**	**260.8 %**
Retirement benefits	184,596	176,029	8,567	4.9 %
Death benefits	11,072	10,083	989	9.8 %
Refund of contributions	364	828	(464)	(56.0)%
Administrative expenses	4,635	4,254	381	9.0 %
Total Deductions	**200,667**	**191,194**	**9,473**	**5.0 %**
Net Increase (Decrease) in Plan Net Position	**249,604**	**(66,412)**	**316,016**	**475.8 %**
Beginning Net Position	**3,043,653**	**3,110,065**	**(66,412)**	**(2.1)%**
Ending Net Position	**$ 3,293,257**	**$ 3,043,653**	**$ 249,604**	**8.2 %**

** Net of investment expenses of $19,288 and $21,081 in 2017 and 2016, respectively.*

CHANGES IN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2c)

For the Fiscal Years Ended June 30, 2018 and 2017 (Dollars in Thousands)

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 16,127	$ 18,116	$ (1,989)	(11.0)%
Employer contributions	25,382	20,667	4,715	22.8 %
Net investment income *	7,071	12,453	(5,382)	43.2 %
Total Additions	**48,580**	**51,236**	**(2,656)**	**(5.2)%**
Healthcare insurance premiums	27,686	24,799	2,887	11.6 %
Administrative expenses	159	182	(23)	(12.6)%
VEBA transfer	7,897	-	7,897	100.0 %
Total Deductions	**35,742**	**24,981**	**10,761**	**43.1 %**
Net Increase in Plan Net Position	**12,838**	**26,255**	**(13,417)**	**(51.1)%**
Beginning Net Position	**149,682**	**123,427**	**26,255**	**21.3 %**
Ending Net Position	**$ 162,520**	**$ 149,682**	**$ 12,838**	**8.6 %**

** Net of investment expenses of $405 and $434 in 2018 and 2017, respectively.*

CHANGES IN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2d)

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 18,116	$ 18,007	$ 109	0.6 %
Employee contributions	20,667	21,065	(398)	(1.9)%
Net investment income (loss) *	12,453	(1,683)	14,136	(839.9)%
Total Additions	**51,236**	**37,389**	**13,847**	**37.0 %**
Healthcare insurance premiums	24,799	23,449	1,350	5.8 %
Administrative expenses	182	139	43	30.9 %
Total Deductions	**24,981**	**23,588**	**1,393**	**5.9 %**
Net Increase in Plan Net Position	**26,255**	**13,801**	**12,454**	**90.2 %**
Beginning Net Position	**123,427**	**109,626**	**13,801**	**12.6 %**
Ending Net Position	**$ 149,682**	**$ 123,427**	**$ 26,255**	**21.3 %**

** Net of investment expenses of $434 and $438 in 2017 and 2016, respectively.*

Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan's net position. The Plan'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 Plans (which include the Postemployment Healthcare 401(h) Plan, the Police Department Postemployment 115 Healthcare Subtrust and the Fire Department Postemployment 115 Healthcare Subtrust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Cost-of-Living Fund both have a General Reserve and an Employee Contributions Reserve. The Postemployment Healthcare 401(h) and 115 Subtrust Funds have a General Reserve only (see table on page 54 for a complete listing and year-end balances of the Plan's reserves).

The Plan'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.

With the implementation of Measure F, a medical in-lieu component of the General Reserves was created to account for those members who elected to be into the medical in-lieu credit program. These members are retirees who are eligible for medical insurance and/or dental insurance but who opt not to take it and instead elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan.

The Plan's Fiduciary Responsibilities

The Plan's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plans. Under the California Constitution and the San José Municipal Code, Plan 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 City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which was approved in 2012. On July 15, 2015, the City and sworn Police and Fire bargaining units reached an Alternative Pension Reform Settlement Framework (Framework) which was approved by the City Council and the bargaining units' memberships. A ballot measure (Measure F) was presented to the public for voting in the November 2016 election, which determined whether or not the terms of the Framework will be implemented. Measure F passed, and on March 31, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the Plan. The provisions of the Framework included, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees were eligible to opt-in to the VEBA and rehired employees with healthcare contributions willl also have the option through calendar year 2022. The VEBA is being administered by the City, not ORS and therefore it is also not under the jurisdiction of the Retirement Board.

ORS completed most of the implementation of Measure F, with the transfer of the contributions of members who opted in to the VEBA, as well as making the first payments to those affected by the GPP and including the retiree healthcare in-lieu premium credit as part of the open enrollment process for retirees. There are still a few aspects of Measure F that are outstanding such as the medical panel and the refinement of the Municipal Code to be consistent with the current procedures of the City.

The Plan's actuarial valuations as of June 30, 2017, were used to determine the contribution rates and dollar amounts effective July 1, 2018, for fiscal year 2018-2019. The annual determined contribution rates and dollar amounts were adopted by the Board. The June 30, 2017 actuarial valuations include Board adopted actuarial assumption changes recommended by the Plan's actuary in the June 30, 2017 Preliminary Valuation Results and Economic Assumption Review presented in November 2017.

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation for funding purposes 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 liability (UAL) of $1,024.5 million, as of June 30, 2017, does not include the impact of approximately $146.7 million of net deferred investment losses yet to be recognized, primarily resulting from unfavorable investment returns during fiscal years 2015 and 2016. It is anticipated that future actuarial valuations will recognize these remaining deferred net investment losses as described above and the smoothing of any new gains or losses over a five-year period.

The Plan 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 6.875%, net of investment expenses, in the actuarial valuation as of June 30, 2017. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAL and decrease the funded status of the Plan, thereby increasing required contributions to the Plan.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of termination, retirement, disability and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these actuarial assumptions cause the Plan to experience actuarial gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every two years, the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the 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 Board approved to make changes to the June 30, 2017 actuarial valuation as a result of the demographic experience study presented in November 2017. The next experience study is scheduled to be conducted in late 2019. See Actuarial section for the effects of these changes.

The June 30, 2017 actuarial valuation contained changes on the actuarial assumptions and methods since the last valuation. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. Merit salary increases, termination rates, retirement rates, administrative expenses, and the mortality improvement projection scale have been changed based on the recent experience study covering demographic experience from July 1, 2009 through June 30, 2017. Tier 1 members who were rehired into Tier 2 and then rehired to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 services. Tier 2 member UAL rate cannot increase by more than 0.33% of pay.

Contribution rates for fiscal year 2018-2019, as determined by the June 30, 2017 actuarial valuation, included the impact of the changes stated above and the recognition of smoothed deferred investment gains and losses.

Postemployment Healthcare Plans

With the passage of Measure F, the Framework became effective as of March 31, 2017. A VEBA for retiree healthcare was created and Tier 1 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan, while Tier 2 members were required to move out of the defined benefit retiree healthcare plan and into the VEBA. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018.

Historically, members and City contributions to the Plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. With the implementation of Measure F, member contributions were fixed at 8.0% of pay; the City's contribution toward the explicit subsidy (or premium subsidy) will be actuarially determined separately for Police and Fire; and, the City will also pay the implicit subsidy (difference between the expected claims cost for a retiree or spouse and the total (retiree plus City premium) on pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire payroll.

During the year ended June 30, 2017, the Plan adopted GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which applies to OPEB plans and replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The OPEB valuation as of June 30, 2017, was prepared by Cheiron, Inc., the Plan's actuary. A summary of the results is presented in Note 5 to the Financial Statements, which reflects changes as a result of GASB Statement No. 74.

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 Plan'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:

Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,

Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

STATEMENTS OF PLAN NET POSITION

As of June 30, 2018 and 2017 (In Thousands)

	2018				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ASSETS					
Receivables					
Employee contributions	$ 961	$ 515	$ -	$ -	$ 1,476
Employer contributions	3,362	-	480	38	3,880
Brokers and others	1,855	1,839	4,877	2,835	11,406
Accrued investment income / loss	3,722	(16)	4,887	2,840	11,433
Total Receivables	**9,900**	**2,338**	**10,244**	**5,713**	**28,195**
Investments, at fair value					
Securities and other:					
Global equity	1,196,314	8,792	29,234	19,578	1,253,918
Private equity	291,070	4,055	-	-	295,125
Global fixed income	935,299	13,029	20,965	12,185	981,478
Collective short term investments	204,745	2,852	1,368	795	209,760
Private debt	206,384	2,875	-	-	209,259
Real assets	446,299	6,217	9,500	5,521	467,537
International currency contracts, net	(2,845)	(40)	-	-	(2,885)
Global tactical asset allocation	-	-	7,702	4,477	12,179
Absolute return	214,336	2,986	-	-	217,322
Total Investments	**3,491,602**	**40,766**	**68,769**	**42,556**	**3,643,693**
Capital Assets	1,726	29	-	-	1,755
TOTAL ASSETS	**3,503,228**	**43,133**	**79,013**	**48,269**	**3,673,643**
LIABILITIES					
Payable to brokers	4,811	81	4,877	2,835	12,604
Other liabilities	2,226	38	38	26	2,328
TOTAL LIABILITIES	**7,037**	**119**	**4,915**	**2,861**	**14,932**
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,496,191	-	-	-	3,496,191
Postemployment healthcare benefits	-	43,014	74,098	45,408	162,520
TOTAL PLAN NET POSITION	**$ 3,496,191**	**$ 43,014**	**$ 74,098**	**$ 45,408**	**$ 3,658,711**

See accompanying notes to basic financial statements *(continued)*

STATEMENTS OF PLAN NET POSITION (continued)

As of June 30, 2018 and 2017 (In Thousands)

	2017				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ASSETS					
Receivables					
Employee contributions	$ 880	$ 734	$ -	$ -	$ 1,614
Employer contributions	7,855	-	534	421	8,810
Brokers and others	8,031	2,195	-	-	10,226
Accrued investment income / loss	2,248	(37)	8	4	2,223
Total Receivables	**19,014**	**2,892**	**542**	**425**	**22,873**
Investments, at fair value					
Securities and other:					
Global equity	1,081,165	9,316	20,382	13,319	1,124,182
Private equity	168,202	2,584	-	-	170,786
Global fixed income	524,699	8,059	10,541	5,755	549,054
Collective short term investments	265,986	4,085	11,376	6,211	287,658
Private debt	216,443	3,325	-	-	219,768
Real assets	472,987	7,265	10,073	5,500	495,825
International currency contracts, net	(902)	(14)	-	-	(916)
Global tactical asset allocation	300,766	4,620	12,764	6,969	325,119
Absolute return	247,738	3,805	-	-	251,543
Total Investments	**3,277,084**	**43,045**	**65,136**	**37,754**	**3,423,019**
Capital Assets	1,488	25	-	-	1,513
TOTAL ASSETS	**3,297,586**	**45,962**	**65,678**	**38,179**	**3,447,405**
LIABILITIES					
Payable to brokers	2,803	61	-	-	2,864
Other liabilities	1,526	27	25	24	1,602
TOTAL LIABILITIES	**4,329**	**88**	**25**	**24**	**4,466**
PLAN NET POSITION - RESTRICTED FOR					
Pension benefits	3,293,257	-	-	-	3,293,257
Postemployment healthcare benefits	-	45,874	65,653	38,155	149,682
TOTAL PLAN NET POSITION	**$ 3,293,257**	**$ 45,874**	**$ 65,653**	**$ 38,155**	**$ 3,442,939**

See accompanying notes to basic financial statements *(concluded)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2018 and 2017 (In Thousands)

	2018				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ADDITIONS					
Contributions					
Employee	$ 23,841	$ 16,127	$ -	$ -	$ 39,968
Employer	157,712	5,716	11,265	8,401	183,094
Total Contributions	**181,553**	**21,843**	**11,265**	**8,401**	**223,062**
Investment income					
Net appreciation in fair value of investments	214,898	2,798	801	501	218,998
Interest income	20,993	294	87	51	21,425
Dividend income	16,374	228	1,717	998	19,317
Net rental income	55	1	-	-	56
Less: investment expense	(18,845)	(263)	(94)	(48)	(19,250)
Net Investment Income	**233,475**	**3,058**	**2,511**	**1,502**	**240,546**
TOTAL ADDITIONS	**415,028**	**24,901**	**13,776**	**9,903**	**463,608**
DEDUCTIONS					
Retirement benefits	194,139	-	-	-	194,139
Healthcare insurance premiums	-	27,686	-	-	27,686
Death benefits	12,102	-	-	-	12,102
Refund of contributions	389	-	-	-	389
Administrative expenses and other	5,464	75	55	29	5,623
VEBA transfer	-	-	5,276	2,621	7,897
TOTAL DEDUCTIONS	**212,094**	**27,761**	**5,331**	**2,650**	**247,836**
NET INCREASE / (DECREASE)	**202,934**	**(2,860)**	**8,445**	**7,253**	**215,772**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	**3,293,257**	**45,874**	**65,653**	**38,155**	**3,442,939**
END OF YEAR	**$ 3,496,191**	**$ 43,014**	**$ 74,098**	**$ 45,408**	**$ 3,658,711**

See accompanying notes to basic financial statements *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

For the Fiscal Years Ended June 30, 2018 and 2017 (In Thousands)

	2017				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
ADDITIONS					
Contributions					
Employee	$ 20,580	$ 18,116	$ -	$ -	$ 38,696
Employer	136,957	1,599	10,905	8,163	157,624
Total Contributions	**157,537**	**19,715**	**10,905**	**8,163**	**196,320**
Investment income					
Net appreciation in fair value of investments	286,973	4,182	4,054	2,338	297,547
Interest income	9,895	163	48	26	10,132
Dividend income	12,774	199	1,197	642	14,812
Net rental income	2,380	38	-	-	2,418
Less: investment expense	(19,288)	(304)	(79)	(51)	(19,722)
Net Investment Income	**292,734**	**4,278**	**5,220**	**2,955**	**305,187**
TOTAL ADDITIONS	**450,271**	**23,993**	**16,125**	**11,118**	**501,507**
DEDUCTIONS					
Retirement benefits	184,596	-	-	-	184,596
Healthcare insurance premiums	-	24,799	-	-	24,799
Death benefits	11,072	-	-	-	11,072
Refund of contributions	364	-	-	-	364
Administrative expenses and other	4,635	69	71	42	4,817
TOTAL DEDUCTIONS	**200,667**	**24,868**	**71**	**42**	**225,648**
NET INCREASE / (DECREASE)	**249,604**	**(875)**	**16,054**	**11,076**	**275,859**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS					
BEGINNING OF YEAR	**3,043,653**	**46,749**	**49,599**	**27,079**	**3,167,080**
END OF YEAR	**$ 3,293,257**	**$ 45,874**	**$ 65,653**	**$ 38,155**	**$ 3,442,939**

See accompanying notes to basic financial statements *(concluded)*

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the City of San José Police and Fire Department Retirement Plan (the Plan) is provided for financial reporting purposes only. Readers should refer to the City of San José Municipal Code for more complete information.

(a) General

The Plan was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). The current Plan consists of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans. On January 27, 2011, the Plan requested a compliance statement and favorable determination letter from the Internal Revenue Service (IRS) under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans. The most recent favorable determination letter from the IRS is dated August 26, 2016.

The Postemployment Healthcare 401(h) Plan, which was established under Internal Revenue Code (IRC) Section 401(h), is an account within the pension plan which is used for the funding and payment of the retiree healthcare benefits. As a 401(h) plan, the healthcare benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if, when ignoring contributions for past service benefit, the contributions for medical benefits are no greater than 25% of the actual contributions to both the pension and medical benefits. Periodic reviews and projections of the IRC 25% subordination test are performed by the Plan's actuary.

A new IRC Section 115 Trust was established on May 22, 2012 by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account. The healthcare trust was clarified by the San José City Council (Ordinance number 29260) on June 12, 2013, which declared that the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may be structured as two wholly separate sub-trusts of one trust. Employer contributions to the new trust funds began in fiscal year 2013. On August 6, 2013, the City obtained a private letter ruling from the IRS assuring the pre-tax treatment of employee contributions to the new trust funds. On July 9, 2014, the Plan received a private letter ruling from the IRS on the tax qualification of the new Section 115 Trust. As of this date, it has not been determined if or when employee contributions will begin to go into the Section 115 subtrusts.

The City and the bargaining units representing sworn Police and Fire members engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which passed in 2012. On August 25, 2015, the City Council approved the terms of the Alternative Pension Reform Settlement Framework (Public Safety Framework) for the two sworn bargaining units, the San Jose Police Officers' Association (SJPOA) and the San Jose Firefighters International Association of Fire Fighters, Local 230 (IAFF). The Public Safety Framework included an agreement that a ballot measure would be placed on the November 8, 2016 election for the voters to replace Measure B. On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements. The City Council approved Ordinance number 29879 on February 14, 2017, amending the San Jose Municipal Code to reflect the terms of Measure F and the Public Safety Framework, and the changes to the Municipal Code became effective thirty (30) days after February 14, 2017. Most terms of Measure F and the Public Safety Framework were implemented on June 18, 2017, which is the first pay period of fiscal year 2017-2018. The provisions of the Public Safety Framework include, but are not limited to,

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(a) General (continued)

revising Tier 2 benefits; allowing rehired Tier 1 employees to remain in Tier 1; creating a defined contribution Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare (medical and dental) and a one-time irrevocable election to opt in to the defined contribution VEBA from the defined benefit retiree healthcare plan for eligible employees; defining the qualifications for members of the independent medical panel; and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees were eligible to opt-in to the VEBA, while all Tier 2 employees and Tier 1 employees who enter the Plan after June 18, 2017, with “Classic” membership in California Public Employees' Retirement System (CalPERS) were required to move in to the defined contribution VEBA.

The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the Internal Revenue Service issued favorable private letter rulings to each of the Section 115 Trusts on February 7, 2018. The IRS ruled that allowing the contributions to the VEBA to be made from the Sections 115 Trusts is consistent with Code Section 115(1) and will not compromise the Section 115 Trusts' status under Code Section 115. The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred in March 2018. The VEBA is being administered by the City, not the Office of Retirement Services, and therefore it is also not under the jurisdiction of the Retirement Board.

The Plan is considered to be a part of the City’s financial reporting entity and is included in the City’s basic financial statements as a pension and postemployment healthcare trust fund. The Plan is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Police and Fire Department Plan Board of Administration (Board of Administration). The nine-member Board of Administration is composed of two City employees elected by members of the Plan, two retired Plan members elected by the retiree associations, four 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 eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided and funded directly by the City. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

All sworn officers of the City’s Police and Fire departments are required to be members of the Plan. Participants of the Postemployment Healthcare Plans are also participants of the Defined Benefit Pension Plan.

With the passage of Measure F, rehires with prior Tier 1 City service who were in Tier 2 became part of the Tier 1 membership Defined Benefit Pension Plan effective June 18, 2017. In addition, employees in Tier 2 who have "Classic" membership with CalPERS may be moved to Tier 1 subject to the identification of these employees and confirmation of "Classic" membership with CalPERS. The Plan members are categorized into four membership types based on when they entered the Plan. Police Tier 1 members are those members who entered the Plan prior to August 4, 2013, Tier 1 rehires who did not take a return of contributions, or "Classic" CalPERS members. Fire Tier 1 members are those members who entered the Plan prior to January 2, 2015, Tier 1 rehires who did not take a return of contributions, or "Classic" CalPERS members. Police Tier 2 members are those employees who were newly hired on or after August 4, 2013. Fire Tier 2 members are those employees who were newly hired on or after January 2, 2015.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(a) General (continued)

The following table summarizes the Plan members as of June 30, 2018 and 2017, respectively.

As of June 30, 2018	Retirees and Beneficiaries[(1)]		Terminated Vested Members not Yet Receiving Benefits		Active Members		
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Total**
Police							
Pension & Medical [(2)]	1,272	-	16	-	684	-	1,972
Pension only [(3)]	101	-	211	53	33	258	656
Police Total	1,373	-	227	53	717	258	2,628
Fire							
Pension & Medical [(2)]	830	-	-	-	534	-	1,364
Pension only [(3)]	47	-	39	4	27	103	220
Fire Total	877	-	39	4	561	103	1,584
Total	**2,250**	**-**	**266**	**57**	**1,278**	**361**	**4,212**
Postemployment Healthcare Plans	**Tier 1[(4)]**		**Tier 1**		**Tier 1**		**Total**
Police	1,272		16		684		1,972
Fire	830		-		534		1,364
Total	**2,102**		**16**		**1,218**		**3,336**

(1) Retiree counts do not include combined DROs
(2) Members are eligible for full retiree medical benefits
(3) Includes members that are eligible for catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare Plan
(4) Payees that have health and/or dental coverage

As of June 30, 2017	Retirees and Beneficiaries [(1)]		Terminated Vested Members not Yet Receiving Benefits		Active Members		
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Total**
Police	1,336	-	239	49	747	150	2,521
Fire	856	-	39	6	586	61	1,548
Total	**2,192**	**-**	**278**	**55**	**1,333**	**211**	**4,069**
Postemployment Healthcare Plans	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Total**
Police	1,251	-	12	-	747	150	2,160
Fire	810	-	1	-	586	61	1,458
Total	**2,061**	**-**	**13**	**-**	**1,333**	**211**	**3,618**

(1) 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.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits

Effective September 30, 1994, the Plan entered into an agreement with CalPERS that extends reciprocal retirement benefits to members. In certain situations, this agreement could result in improved retirement benefits for members who move from one eligible retirement system to another.

The following table summarizes the pension, disability and healthcare benefits for Police members. Please consult the Municipal Code for complete information.

	Police Tier 1	Police Tier 1 Classic	Police Tier 2
Contributions			
Employee	20.39% (Pension: 10.88%, Retiree Healthcare: 9.51%) As of 06/18/17	20.39% (Pension: 10.88%, Retiree Healthcare: 9.51%) As of 06/18/17	15.17% (Pension: 15.17%, Retiree Healthcare: 0.00%) As of 7/30/17
City	105.62% (Pension: 95.31%, Retiree Healthcare: 10.31%) As of 06/18/17	105.62% (Pension: 95.31%, Retiree Healthcare: 10.31%) As of 06/18/17	25.48% (Pension: 15.17%, Retiree Healthcare: 10.31%) As of 7/30/17
Service required to leave contributions in retirement plan	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	5 years service with the City in the Police and Fire Department Plan (Years of Service = 2080 hours worked within applicable 12-month period)
Service Retirement			
Age / years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan A reduction factor of 7.0% per year for each year between age 57 and Tier 2 member's age at retirement, prorated to the closest month.
Early retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Police Tier 1	Police Tier 1 Classic	Police Tier 2
Allowance	First 20 years of service: 50% of Final compensation (2.5% per year) Next 21-30 years service: 4% per year of service X Final compensation (90% max) Years of service (year of service = 2080 hours worked)	First 20 years of service: 50% of Final compensation (2.5% per year) Next 21-30 years service: 4% per year of service X Final compensation (90% max) Years of service (year of service = 2080 hours worked)	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final compensation Beginning of 26th year of service: 3.4% per year of service x Final compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of Final compensation
Disability Retirement (Service Connected)			
Minimum service	None	None	None
Allowance	<20 years of service: 50% of Final compensation Next 21-30 years of service: 4% per year of service X Final compensation (90% max)	<20 years of service: 50% of Final compensation Next 21-30 years of service: 4% per year of service X Final compensation (90% max)	An individual who is granted a service-connected disability retirement is entitled to a monthly allowance equal to the greater of: 50% of Final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by number of years of service subject to the applicable formula, if not qualified for a service retirement.
Disability Retirement (Non-Service Connected)			
Minimum service	2 years of service	2 years of service	5 years of service

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Police Tier 1	Police Tier 1 Classic	Police Tier 2
Allowance	<20 years of service: 32% of Final compensation plus 1% for each full year in excess of 2 years. (50% max) >20 years of service: 2.5% x first 20 years of service x Final compensation Next 21-30 years of service: 4% per year of service X Final compensation (90% max)	<20 years of service: 32% of Final compensation plus 1% for each full year in excess of 2 years. (50% max) >20 years of service: 2.5% x first 20 years of service x Final compensation Next 21-30 years of service: 4% per year of service X Final compensation (90% max)	An individual who is granted a non service-connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or if older than age 50: The amount of service pension benefit as calculated based upon the service pension formula.
Medical Benefits / Voluntary Employees' Beneficiary Association (VEBA)			
Eligibility	Retired for disability or service directly from active service with either 15 years of San Jose service or receive allowance that is at least 37.5% of Final compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years San Jose service and leaves contributions and former member receives allowance. (i.e., applies & qualifies for retirement).	Defined Contribution Plan - All Tier 1 Classic employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)	Defined Contribution Plan - All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)
Premiums	Retirement System pays 100% of lowest cost plan that is available to active City employees. If member does not choose the lowest cost plan, member pays the difference between that premium and the premium of the lowest cost plan.	None	None
Medicare Eligibility	At age 65, members will be required to enroll in Medicare parts A & B. If a member does not meet this requirement within 6 months of the date member turns 65, health care benefits will cease until such requirement are met.	None	None

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Police Tier 1	Police Tier 1 Classic	Police Tier 2
Dental Benefits / Voluntary Employees' Beneficiary Association (VEBA)			
Eligibility	Retired for disability or service directly from active service with either 15 years of San Jose service or receive allowance that is at least 37.5% of final comp. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years San Jose service and leaves contributions and former member receives allowance. (i.e., applies & qualifies for retirement).	All Tier 1 Classic employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)	All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)
Premiums	Fully paid by retirement fund	None	None
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
Cost-of-Living Adjustments (COLA)			
Cost-of-living adjustment	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per fiscal year. The first COLA will be prorated based on the number of months retired.

The following table summarizes the pension, disability and healthcare benefits for Fire members. Please consult the Municipal Code for complete information.

	Fire Tier 1	Fire Tier 1 Classic	Fire Tier 2
Contributions			
Employee	21.12% of Base Salary (Pension: 11.38%, Retiree Healthcare: 9.74%) As of 06//18/2017	11.38% of Base Salary (Pension: 11.38%) As of 6/18/2017	16.26% of base salary (Pension: 16.26%, Retiree Healthcare: 0.00%) As of 7/30/2017
City	106.68% of Base Salary (Pension: 96.06%, Retiree Healthcare: 10.62%) As of 06/18/2017	96.06% of Base Salary (Pension : 96.06%) As of 6/18/2017	26.88% of base salary (Pension: 16.26%, Retiree Healthcare: 10.62%) As of 7/30/2017

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Fire Tier 1	Fire Tier 1 Classic	Fire Tier 2
Service required to leave contributions in retirement system	10 years (20 years must have elasped from date of entry into system to collect pension)	10 years (20 years must have elasped from date of entry into system to collect pension)	5 years of service with the City in the Plan (Year of Service = 2080 hours worked in the applicable 12-month period)
Service Retirement			
Age/ years of service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan. A reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Early retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 5 years of service with the City in the Plan. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of Final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X Final compensation (90% max) – All years convert to 3% after 20 years of service. Years of service (year of service = 2080 hours worked)	First 20 years of service: 50% of Final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X Final compensation (90% max) – All years convert to 3% after 20 years of service. Years of service (year of service = 2080 hours worked)	First 20 years of service: 2.4% per year of service x Final compensation Beginning of 21st year of service: 3.0% per year of service x Final compensation Beginning of 26th year of service: 3.4% per year of service x Final compensation Final compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of Final compensation
Final compensation	Highest one-year average	Highest one-year average	Highest three-year average

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Fire Tier 1	Fire Tier 1 Classic	Fire Tier 2
Disability Retirement (Service Connected)			
Minimum service	None	None	None
Allowance	< 20 yrs of service: 50% of Final compensation Beginning of 21st year of service: 3% per year of service X Final compensation (90% max)	< 20 yrs of service: 50% of Final compensation Beginning of 21st year of service: 3% per year of service X Final compensation (90% max)	An individual who is granted a service connected disability retirement is entitled to monthly allowance equal to the greater of : 50% of Final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by the number of years of service subject to the applicable formula, if not qualified for a service retirement
Disability Retirement (Non-Service Connected)			
Minimum service	2 years of service	2 years of service	5 years of service
Allowance	<20 years service: 32% of Final compensation plus 1% for each full year in excess of 2 years. (50% max) Beginning of 21st year of service: 3% per year of service X Final compensation (90% max)	<20 years service: 32% of Final compensation plus 1% for each full year in excess of 2 years. (50% max) Beginning of 21st year of service: 3% per year of service X Final compensation (90% max)	An individual who is granted a non service-connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or If older than age 50: the amount of service pension benefit as calculated based upon the service pension formula
Medical Benefits / Voluntary Employees' Beneficiary Association (VEBA)			
Eligibility	Retired for disability or service directly from active service with 15 years of San Jose service or receive allowance that is at least 37.5% of Final compensation. Also eligible if member separates from service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Defined Contribution Plan: All Tier 1 Classic employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)	Defined Contribution Plan: All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA).

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Fire Tier 1	Fire Tier 1 Classic	Fire Tier 2
Premiums	Retirement system pays 100% of lowest cost plan that is available to active City employees. If member does not choose the lowest cost plan, member pays the difference between that premium and the premium of the lowest cost plan.	N/A	N/A
Dental Benefits / Voluntary Employees' Beneficiary Association (VEBA)			
Eligibility	Retired for disability or service directly from active service with 15 years of service or receive allowance that is at least 37.5% of Final compensation. Also eligible if member leaves City service after 7/5/92 but prior to retirement with 20 years of San Jose service and leaves contributions in retirement plan and former member receives allowance (i.e., applies for retirement).	Defined Contribution Plan: All Tier 1 Classic employees will make madatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA)	Defined Contribution Plan: All Tier 2 employees will make mandatory contributions of 4% into the Voluntary Employees' Beneficiary Association (VEBA).
Premiums	Fully paid by retirement system	N/A	N/A
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
Cost-of-Living Adjustment (COLA)			
Cost of living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per year. The first COLA will be prorated based on the number of months retired.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits

The following table summarizes the survivorship pension and health benefits for Police Tier 1. Please consult the Municipal Code for complete information.

<table>
<tr><th></th><th>Police Tier 1 / Tier 1 Classic</th></tr>
<tr><th colspan="2">Death Before Retirement</th></tr>
<tr><td>Nonservice-connected death with less than 2 years of service</td><td>Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater</td></tr>
<tr><td>Nonservice-connected death with more than 2 years of service, but not eligible for a service retirement</td><td>To surviving spouse/domestic partner :
24% + 0.75% for each year in excess of 2 years x Final compensation (37.5% maximum)

And to surviving children:
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50.0%

If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or $1,000 whichever is greater</td></tr>
<tr><td>Death before retirement, but while eligible for service retirement – Nonservice-connected death</td><td>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final compensation depending on the years of service

For example:
Member's benefit = 76.0% Survivorship benefit = 38.0% of Final compensation
Member's benefit = 80.0% Survivorship benefit = 40.0% of Final compensation
Member's benefit = 82.0% Survivorship benefit = 41.0% of Final compensation
Member's benefit = 85.0% Survivorship benefit = 42.5% of final compensation

And to surviving children:
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50.0%

If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or $1,000, whichever is greater</td></tr>
<tr><td>Service-connected
death regardless of years of service</td><td>To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final compensation depending on years of service

And to surviving children :
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 50.0%
3 Children: Final compensation x 75.0%

If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or $1,000, whichever is greater</td></tr>
</table>

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

	Police Tier 1 / Tier 1 Classic
Death After Retirement	
Service-connected disability	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final compensation depending on years of service And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Nonservice-connected disability	To surviving spouse/domestic partner: Final compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

The following table summarizes the survivorship pension and health benefits for Police Tier 2. Please consult the Municipal Code for complete information.

	Police Tier 2
Death Before Retirement	
Nonservice-connected death not eligible for retirement and less than two years of service	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate or (2) $1000, whichever is greater

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

Police Tier 2	
Nonservice-connected death not eligible for retirement and two or more years of service	To surviving spouse/domestic partner: 24% of Final compensation + 0.75% of Final compensation for each year in excess of 2 compensation (37.5% maximum) There is an 80% cap on Final compensation that can be paid to survivors. And to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children : Final compensation x 37.5% If 3 or more Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1000 whichever is greater
Death before retirement, but while eligible for service retirement - Non-service connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final compensation depending on the years of service For example: Member's benefit = 76.0% survivorship benefit = 38.0% of Final compensation Member's benefit = 80.0% survivorship benefit = 40.0% of Final compensation Member's benefit = 82.0% survivorship benefit = 41.0% of Final compensation Member's benefit = 85.0% survivorship benefit = 42.5% of Final compensation And to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 37.5% If 3 or more Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1,000, whichever is greater
Service-Connected Death	
Service-connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final compensation depending on years of service There is an 80.0% cap on Final compensation that can be paid to survivors And the children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 50.0% If 3 or more Children: Final compensation x 75.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or $1,000 whichever is greater
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the plan's actuaries.
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

	Police Tier 2
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

The following table summarizes the survivorship pension and health benefits for Fire Tier 1. Please consult the Municipal Code for complete information.

	Fire Tier 1 / Tier 1 Classic
Death Before Retirement	
Service-connected death regardless of years of service	To surviving spouse/domestic partner 37.5% to 45.0% of member's Final compensation depending on the years of service And to surviving children : 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 50.0% 3 Children: Final compensation x 75.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater
Nonservice-connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater
Nonservice-connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner : 24.0% + 0.75% for each year in excess of 2 years x Final compensation (45.0% maximum) And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater
Death before retirement, but while eligible for service retirement nonservice-connected death	To surviving spouse/domestic partner 37.5% to 45.0% of member's Final compensation depending on years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of Final compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of Final compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of Final compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of Final compensation And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

	Fire Tier 1 / Tier 1 Classic
Death After Retirement	
Service retirees service-connected disability	To surviving spouse/domestic partner: 37.5% to 45.0% of member’s Final compensation depending on years of service And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Nonservice-connected disability	To surviving spouse/domestic partner: Final compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) And to surviving children: 1 Child: Final compensation x 25.0% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

The following table summarizes the survivorship pension and health benefits for Fire Tier 2. Please consult the Municipal Code for complete information.

	Fire Tier 2
Death Before Retirement	
Service-connected death regardless of years of service	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final compensation depending on the years of service And to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 50.0% If 3 or more surviving Children: Final compensation x 75.0% There is an 80.0% cap on Final compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1,000, whichever is greater.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

Fire Tier 2	
Nonservice-connected death not eligible for retirement and less than two years of service	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate, or (2)$1,000, whichever is greater
Nonservice-connected death not eligible for retirement and two or more years of service	To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 years x Final compensation (45% maximum) And the surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 37.5% If 3 or more children: Final compensation x 50.0% There is an 80.0% cap on Final compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children to the estate: Return contributions, plus interest, or $ 1,000 whichever is greater
Nonservice-connected death eligible for retirement	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final compensation depending on the years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of Final compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of Final compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of Final compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of Final compensation And to surviving children: If 1 Child: Final compensation x 25.0% If 2 Children: Final compensation x 37.5% If 3 or more Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or $1,000, whichever is greater
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries.
Nonservice-connected disability retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

Fire Tier 2	
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial activities of the Plan in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the Plan are intended to present only the plan net position and changes in plan net position of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The Plan is reported in a pension and postemployment healthcare trust fund in the City of San José's basic financial statements.

(b) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to legal requirements. 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 Plans are 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 Section 3.36.530 delegates authority to the Board of Administration to invest the monies of the Plan as provided in Section 3.36.540. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.36.540.

For the year ended June 30, 2018, the Defined Benefit Pension Plan investment policy was updated, as shown in the following table, which the Board reviewed and approved on April 5, 2018. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the Plan's adopted actuarial assumed rate of return as utilized in the June 30, 2017 valuations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

The Plan's investment allocation is as follows:

PENSION	As of June 30, 2018			As of June 30, 2017		
Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	34%	50%	25%	31%	50%
Global fixed income	10%	28%	30%	10%	16%	30%
Real assets	12%	16%	25%	12%	17%	25%
Private debt	5%	8%	15%	5%	11%	15%
Private equity	3%	8%	13%	3%	8%	13%
Absolute return	2%	6%	12%	2%	6%	12%
Global tactical asset allocation	-	-	10%	-	10%	10%
Cash	-	-	10%	-	1%	10%

The real assets category includes allocations to real estate, commodities, and other infrastructure assets. The absolute return category includes allocations to relative value and global macro hedge funds.

On August 7, 2014, the Board approved a new long-term asset allocation for the Healthcare Trust Plans.

HEALTHCARE	As of June 30, 2018			As of June 30, 2017		
Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	43%	50%	25%	43%	50%
Real assets	12%	22%	25%	12%	22%	25%
Global tactical asset allocation	-	20%	25%	-	20%	25%
Global fixed income	5%	15%	25%	5%	15%	25%
Cash	-	-	5%	-	-	5%

The real assets category includes allocations to commodities, real estate, and other infrastructure assets. The global tactical asset category is currently comprised of two global tactical asset allocation managers who run unconstrained global portfolios.

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. See Note 3 starting on page 55 for more detailed information on the fair value of investments.

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

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 based on 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 is based on annual independent appraisals. As of June 30, 2017, the Plan no longer owned any assets that were separate real estate properties. On June 2, 2017, the Plan sold the Progress Point building located in O'Fallon Missouri for $12,959,000 before closing costs. The sale resulted in a net realized loss of $10,165,000.

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

Investment expenses presented within the accompanying financial statements consist of management and performance fees and other investment-related fees. Other investment-related fees include expenses for shared investment-related administration, consultants, custody, and legal services. These fees are disclosed within the Investment Expenses in the Statement of Changes in Plan Net Position and detailed in the Investment Expenses Schedule in the Other Supplemental Information section.

The investment expenses do not include the commissions and fees paid to transact public securities. Partnership management fees paid for the private equity program are drawn from the committed capital and reported as an increase in the cost basis. These fees and costs are included within the net asset value (NAV) or public securities cost and are also reported in the net appreciation/(depreciation) in fair value of investments line items on the financial statements.

For the years ended June 30, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.89% and 9.68%, respectively. For the year ended June 30, 2018 and 2017, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 3.56% and 7.17%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(d) Capital Assets

Capital assets are recorded at cost and comprise of all costs related to the development of a new pension administration system. The development of the new pension administration system is expected to be completed by the spring of 2019. It will be amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* over a period of 10 years, once it has been placed into service.

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

The Plan 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 Plans (which include the 401(h) and the two 115 Subtrusts).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

As of June 30, 2018 and 2017, plan net position totaling $3,658,711,000 and $3,442,939,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Subtrust	Fire Department Healthcare Subtrust	Total
June 30, 2018							
Employee contributions reserve	$ 333,878	$ 81,764	$ 415,642	$ -	$ -	$ -	$ 415,642
General reserve	1,787,391	1,293,158	3,080,549	42,936	74,098	45,408	3,242,991
Retiree healthcare in-lieu premium credit	-	-	-	78	-	-	78
Total	**$ 2,121,269**	**$ 1,374,922**	**$ 3,496,191**	**$ 43,014**	**$ 74,098**	**$ 45,408**	**$ 3,658,711**
June 30, 2017							
Employee contributions reserve	$ 331,100	$ 77,545	$ 408,645	$ -	$ -	$ -	$ 408,645
General reserve	1,696,268	1,188,344	2,884,612	45,874	65,653	38,155	3,034,294
Total	**$ 2,027,368**	**$ 1,265,889**	**$ 3,293,257**	**$ 45,874**	**$ 65,653**	**$ 38,155**	**$ 3,442,939**

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. No employee contributions are paid out of the healthcare plans.

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

(f) 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 semi-annually 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 2%, as specified by the City of San José Municipal Code.

(g) Implementation of Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 85, *Omnibus 2017*, was issued in March 2017. This Statement addresses practice issues that have been identified during implementation and application of such issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for periods beginning after June 15, 2017. The Plan implemented the provisions of this Statement which pertained to accounting and financial reporting for OPEB, particulary the payroll-related measures as presented in the required supplementary information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Implementation of Governmental Accounting Standards Board (GASB) Statements (continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017. The Statement's primary objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt and prepaid insurance related to extinguished debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement is not applicable to the Plan.

GASB Statement No. 87, *Leases*, was issued in June 2017. The objective of this Statement is to improve accounting and financial reporting for leases by governments to better meet the information needs of financial statement users. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also established a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Plan will adopt the provisions of Statement No. 87 for the fiscal year beginning with July 1, 2020.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, was issued in March 2018. The primary objective of this Statement is to improve financial reporting for notes related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting period beginning after June 15, 2018. This Statement is not applicable to the Plan.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. This Statement is not applicable to the Plan.

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 fluctuates 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 Plan does not have a policy regarding interest rate risk. However, the Plan does settle on a transaction plus one day basis (T+1), therefore limiting the Plan's exposure to counterparty risk.

NOTE 3 - INVESTMENTS (continued)

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2018 and 2017.

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2018 (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								
Global Fixed Income:								
Commingled funds	$ 100,296	$ -	$ -	$ 164,491	$ 583,027	$ 48,719	$ 896,533	$ 842,622
Corporate bonds	-	-	-	53	-	-	53	189
Mortgage - backed securities	-	-	-	-	1,163	53,366	54,529	55,698
Other debt securities	-	-	-	-	16,115	14,248	30,363	30,517
Total Global Fixed Income	**100,296**	**-**	**-**	**164,544**	**600,305**	**116,333**	**981,478**	**929,026**
Collective Short Term Investments	**209,760**	**-**	**-**	**-**	**-**	**-**	**209,760**	**209,580**
TOTAL FIXED INCOME	**$ 310,056**	**$ -**	**$ -**	**$ 164,544**	**$ 600,305**	**$ 116,333**	**$1,191,238**	**$1,138,606**

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2017 (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								
Global Fixed Income:								
Commingled funds	$ 25,522	$ -	$ 69,270	$ 182,550	$ 56,392	$ 150,139	$ 483,873	$ 440,730
Mortgage - backed securities	-	-	-	-	1,894	41,477	43,371	43,796
Corporate bonds	-	-	-	84	-	-	84	58
Other debt securities	-	-	-	1,431	8,943	11,352	21,726	21,648
Total Global Fixed Income	**25,522**	**-**	**69,270**	**184,065**	**67,229**	**202,968**	**549,054**	**506,232**
Collective Short Term Investments	**287,658**	**-**	**-**	**-**	**-**	**-**	**287,658**	**287,658**
TOTAL FIXED INCOME	**$ 313,180**	**$ -**	**$ 69,270**	**$ 184,065**	**$ 67,229**	**$ 202,968**	**$ 836,712**	**$ 793,890**

Custodial Credit Risk – Custodial credit risk is the risk that the Plan 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 Plan does not have a policy regarding custodial credit risk. As of June 30, 2018 and 2017, all of the Plan's investments are held in the Plan's name and/or are not exposed to custodial credit risk.

Credit Quality Risk – The Plan'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.

NOTE 3 - INVESTMENTS (continued)

The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan'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.

The following tables provide information for the portfolio as of June 30, 2018 and 2017 concerning credit risk. These tables reflect only securities held in the Plan's name.

RATINGS OF FIXED INCOME INVESTMENTS
As of June 30, 2018 and 2017 (Dollars in Thousands)

	2018		2017	
S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 278	0.02 %	$ 363	0.04 %
AA+	8,480	0.71 %	4,627	0.55 %
A+	1,307	0.11 %	1,724	0.21 %
A	3,811	0.32 %	428	0.05 %
BBB+	1,158	0.10 %	1,832	0.22 %
BBB	5,710	0.48 %	6,333	0.76 %
BBB-	3,156	0.26 %	503	0.06 %
BB+	-	-	1,431	0.17 %
BB	2,895	0.24 %	749	0.09 %
BB-	1,173	0.10 %	499	0.06 %
B+	511	0.04 %	527	0.06 %
B	1,984	0.17 %	1,554	0.19 %
B-	392	0.03 %	476	0.06 %
CCC	2,024	0.17 %	3,556	0.42 %
CC	1,797	0.15 %	760	0.09 %
D	3,243	0.27 %	6,821	0.82 %
Not Rated	1,153,319	96.83 %	804,529	96.15 %
TOTAL	**$ 1,191,238**	**100.00 %**	**$ 836,712**	**100.00 %**

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2018 and 2017, the Plan's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan's commitments relating to international currency contracts are settled on a net basis.

NOTE 3 - INVESTMENTS (continued)

The following tables provide information as of June 30, 2018 and 2017, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS
As of June 30, 2018 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contract, Net	Real Assets	Total Exposure
Australian dollar	$ (10)	$ 7,440	$ (120)	$ -	$ 7,310
Canadian dollar	(30)	17,124	(209)	-	16,885
China yuan renminbi	-	-	231	-	231
Denmark krone	-	9,374	-	-	9,374
Euro currency	816	37,221	(824)	21,550	58,763
Hong Kong dollar	55	7,603	-	-	7,658
Japanese yen	293	25,225	(1,620)	-	23,898
Korea (South) won	-	13,624	-	-	13,624
New Zealand dollar	-	267	-	-	267
Norwegian krone	-	1,999	-	-	1,999
Singapore dollar	-	247	(93)	-	154
Swedish krona	8	3,865	(47)	-	3,826
Swiss franc	-	24,302	(50)	-	24,252
United Kingdom pound	222	37,584	(153)	-	37,653
TOTAL	**$ 1,354**	**$ 185,875**	**$ (2,885)**	**$ 21,550**	**$ 205,894**

FOREIGN CURRENCY RISK ANALYSIS
As of June 30, 2017 (In Thousands)

Currency name	Cash	Global Equity	International Currency Contract, Net	Real Assets	Total Exposure
Australian dollar	$ -	$ 3,679	$ (59)	$ -	$ 3,620
Canadian dollar	-	5,868	(151)	-	5,717
Chilean peso	-	-	(94)	-	(94)
Danish krone	-	5,266	-	-	5,266
Euro currency	182	17,956	(545)	15,080	32,673
Hong Kong dollar	19	1,659	-	-	1,678
Japanese yen	-	13,317	328	-	13,645
Korea (South) won	-	7,957	-	-	7,957
Norwegian krone	-	1,795	-	-	1,795
Singapore dollar	-	81	-	-	81
Swedish krona	-	3,022	(16)	-	3,006
Swiss franc	-	14,310	(104)	-	14,206
United Kingdom pound	-	30,428	(275)	-	30,153
TOTAL	**$ 201**	**$ 105,338**	**$ (916)**	**$ 15,080**	**$ 119,703**

NOTE 3 - INVESTMENTS (continued)

Investment Concentration Risk – The Plan'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 asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 10% of the Plan's assets without Board approval, with the exception of passive management where the Plan's assets are not held in the Plan's name at the Plan's custody bank. In such cases, the investment management firm can manage no more than 20% of the Plan's assets without Board approval. As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without prior Board approval. As of June, 30, 2018 and 2017, the Plan 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 Plan's investment policy allows for investments in derivative instruments that comply with the Plan's objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Plan 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 Plan's internal derivative policies, it is understood that the mandates of certain investment managers retained by the Plan may use derivatives.

Derivative investments are reported at fair value. Derivative instruments 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. 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, 2018 or 2017. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on 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, 2018 and 2017, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2018 and 2017 financial statements are as follows (amounts in thousands):

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2018		Fair Value at June 30, 2018		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/Shares**
Foreign currency forwards	Investment income	$(3,542)	International currency contracts, net	$(2,885)	$360,253
Futures options bought/written	Investment income	(5)	Fixed income - collective short-term investments	-	$57,113
Rights / Warrants	Investment income	(34)	Global equity	-	-
Total Derivative Instruments		**$(3,581)**		**$(2,885)**	

NOTE 3 - INVESTMENTS (continued)

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2017		Fair value at June 30, 2017		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/Shares**
Foreign currency forwards	Investment income	$(976)	International currency contracts, net	$(916)	$136,293
Futures long/short (domestic and foreign)	Investment income	11,732	Fixed income (domestic and foreign)	-	$27,005
Rights / Warrants	Investment income	(16)	Global equity	24	$73
Total Derivative Instruments		**$10,740**		**$(892)**	

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2018 and 2017 .

Counterparty Credit Risk - The Plan is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Plan'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, 2018, total commitments in forward currency contracts to purchase and sell international currencies were $360,253,000, with fair values of $357,111,000 and $359,996,000, respectively, held by counterparties with S&P rating of at least AA-. As of June 30, 2017, total commitments in forward currency contracts to purchase and sell international currencies were $136,293,000 and $136,293,000 respectively, with fair values of $136,393,000 and $137,308,000, respectively, held by counterparties with S&P rating of at least AA-.

Fair Value Measurements - The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

NOTE 3 - INVESTMENTS (continued)

The Plan has the following recurring fair value measurements as of June 30, 2018 and June 30, 2017:

Investments Measured At Fair Value As of June 30, 2018		**Fair Value Measurement Using**			
(In Thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Investments by fair value level					
Global equity	$ 1,253,918	$ 412,732	$ -	$ -	$ 841,186
Private equity	295,125	-	-	2,737	292,388
Global fixed income	981,478	33,754	83,654	500	863,570
Collective short term investments	209,760	209,760	-	-	-
Private debt	209,259	-	10,268	17,001	181,990
Real assets	467,537	7,142	-	-	460,395
International currency contracts, net	(2,885)	(2,885)	-	-	-
Global tactical asset allocation	12,179	12,179	-	-	-
Absolute return	217,322	-	-	-	217,322
Total investments measured at fair value	**$ 3,643,693**	**$ 672,682**	**$ 93,922**	**$ 20,238**	**$ 2,856,851**

Investment Measured at Fair Value As of June 30, 2017		**Fair Value Measurement Using**			
(In Thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Investments by fair value level					
Global equity	$ 1,124,182	$ 286,088	$ -	$ -	$ 838,094
Private equity	170,786	-	-	4,519	166,267
Global fixed income	549,054	16,380	65,098	-	467,576
Collective short term investments	287,658	287,658	-	-	-
Private debt	219,768	-	-	17,559	202,209
Real assets	495,825	6,982	-	-	488,843
International currency contract, net	(916)	(916)	-	-	-
Global tactical asset allocation	325,119	207,125	-	-	117,994
Absolute return	251,543	-	-	-	251,543
Total investments measured at fair value	**$ 3,423,019**	**$ 803,317**	**$ 65,098**	**$ 22,078**	**$ 2,532,526**

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices for similar securities that are observable in the market place. Debt and equity securities classified in Level 3 are securities whose inputs to valuation techniques are unobservable by the market place. Many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

NOTE 3 - INVESTMENTS (continued)

Alternative Investments

Alternative investments include global equity, private equity, real assets, global fixed income, private debt, global tactical asset allocation and absolute return investments. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner (GP) of each investment firm retained by the Plan. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the alternative investment program are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB Statement No. 72, *Fair Value Measurements*, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments). Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value/latest 12 months EBITDA or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

The determination of fair value using these methodologies should take into consideration a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading value on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Because of the subjective nature of estimated fair value of the private investments, such value may differ significantly from the values that would have been used had a ready market existed for these investments. These financial instruments have been classified as Level 3 or NAV in the fair value hierarchy provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within the fair value hierarchy.

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2018 and 2017:

Investments Measured at the NAV As of June 30, 2018 (In Thousands)	Fair Value	Unfunded Commit-ments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	$ 841,186	$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	292,388	245,295	N/A	N/A
Global fixed income	863,570	-	Daily, Monthly, Quarterly	1 - 60 Days
Private debt	181,990	156,854	N/A	N/A
Real assets	460,395	126,108	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A (Closed-end funds)
Absolute return	217,322	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investments measured at NAV	**$ 2,856,851**	**$ 528,257**		

NOTE 3 - INVESTMENTS (continued)

Investments Measured at the NAV As of June 30, 2017 (In Thousands)	Fair Value	Unfunded Commit-ments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	$ 838,094	$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	166,267	81,527	N/A	N/A
Real estate	467,576	-	N/A	N/A
Global fixed income	467,576	-	Daily, Monthly, Quarterly	1 - 65 Days
Private debt	202,209	123,778	N/A	N/A
Real assets	488,843	115,469	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A, (Closed-end funds)
Global tactical asset allocation	117,994	-	Monthly	5 Days
Absolute return	251,543	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investment measured at NAV	**$ 3,000,102**	**$ 320,774**		

Global equity - This type includes investments in six commingled investment funds and three long/short limted partnership funds. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Five commingled funds offer daily liquidity with one day notice, one is monthly with two weeks' notice. One long/short fund offers monthly redemptions with three months notice. The remaining two long/short funds offer quarterly liquidity with notice periods ranging from one to two months.

Private equity - This type includes investments in one commingled investment fund and seventeen private equity limited partnership funds, which generally invest in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The commingled investment offers daily liquidity with one day notice.

Global fixed income - This type includes investments in six commingled investment funds and five limited partnership funds. Global fixed income funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations and derivatives thereof. Five commingled funds offer daily liquidity with notice periods of one to two days and one offers monthly liquidity with five days' notice. The five limited partnership funds offer quarterly redemptions with notice periods of one to two months.

Private debt - This type includes investments in eight private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

Real assets - This type includes twelve limited partnership real estate funds, two limited partnership infrastructure funds, one open-end real estate fund, and two limited partnership commodities funds. Real Assets are physical or tangible assets that have value due to their substance and properties. The goal of Real Assets is to help the portfolio maintain purchasing power through periods of inflation. The closed-end real estate and Infrastructure funds cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The open-end real estate fund offers quarterly redemptions with a two week notice period. One commodities fund offers daily liquidity with three business days' notice. The other commodities fund offers annual redemptions with 180 days' notice after a 3-year soft lock. Early redemptions are available on a quarterly basis with 90 days' notice and are subject to a 5% fee. This restriction will be in effect until July 31, 2018, at which point the redemptions occur without fees.

NOTE 3 - INVESTMENTS (continued)

Global tactical asset allocation (GTAA) - This type includes investments in two mutual funds and one commingled fund. GTAA captures directional market movements or relative market mispricing. The funds generally invest long, but can short, in a wide array of securities, including listed and OTC derivatives and typically uses modest leverage. The mutual funds offer daily liquidity and the commingled fund has monthly liquidity with five days' notice.

Absolute return - This type includes investments in eleven limited partnership hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives, and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from weekly to quarterly with notice periods of two weeks to 75 days. Three funds have 25% investor-level redemption gates, one fund has a 20% fund level redemption gate, one fund has a fund-level gate of 8.33%, and one fund has a 2-year lock that is in effect until September 30, 2018, at which point the redemptions occur without fees.

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

Net Pension Liability. The components of the net pension liability (i.e., the total pension liability determined in accordance with GASB Statement No. 67 less the plan net position) as of June 30, 2018 and 2017, were as follows (dollars in thousands):

	2018	2017
Total pension liability	$ 4,635,937	$ 4,533,776
Plan fiduciary net position	$ 3,496,191	$ 3,293,257
Net pension liability	$ 1,139,746	$ 1,240,519
Plan fiduciary net position as a percentage of the total pension liability	75.4 %	72.6 %

Actuarial Assumptions. 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 revision 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 November 2017 and the next experience study is scheduled to be conducted in 2019.

The total pension liability as of June 30, 2018 and 2017 is based on results of an actuarial valuation date of June 30, 2017 and 2016, respectively, and rolled-forward to June 30, 2018 and 2017 using standard roll forward procedures. A summary of the actuarial assumptions used to determine the total pension liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Inflation rate	2.75%	2.75%
Discount rate	6.875% per annum (net of investment expenses)	6.875% per annum (net of investment expenses)
Post-retirement mortality		
(a) Service	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2017 on a generational basis from the base year of 2009.	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2015 on a generational basis from the base year of 2009.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Actuarial Assumptions		
(b) Disability	CALPERS 2009 Industrial Disability Mortality Table for males and females multiplied by 0.903 and projected using SOA MP-2017 on a generational basis from the base year of 2009.	CALPERS 2009 Industrial Disability Mortality Table for males and females multiplied by 0.903 and projected using SOA MP-2015 on a generational basis from the base year of 2009.
Rate of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2017, actuarial experience analysis	Based upon the June 30, 2015, actuarial experience analysis
Salary increase		
Wage inflation	3.25% per annum (.50% real wage growth).	3.25% for all years
Merit increase	Merit component added based on an individual year's of service ranging from 6.00% to .50%	Merit component added based on an individual year's of service ranging from 6.75% to 1.00%
Cost-of-living adjustment	Tier 1 - 3% per year Tier 2 - 2% per year	Tier 1 - 3% per year Tier 2 - 2% per year

The assumption for the long-term expected rate of return on pension plan investments of 6.875% for the valuation years ended June 30, 2017 and 2016, respectively, 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 geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 and 2017, (see the discussion of the Plan's investment policy) are summarized in the following table:

	2018		**2017**	
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Global equity	34%	7.0%	31%	5.0%
Global fixed income	28%	1.5%	16%	1.0%
Real assets	16%	4.7%	17%	3.0%
Private debt	8%	5.5%	11%	4.0%
Private equity	8%	10.2%	8%	7.0%
Absolute return	6%	3.3%	6%	3.0%
Global tactical asset allocation	-	-	10%	2.0%
Cash	-	-	1%	-

Discount Rate. The discount rate used to measure the total pension liability was 6.875% for the measurement years ended June 30, 2018 and 2017. It is assumed that Plan 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 Plan's net position is expected to be available to make all

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

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.

Sensitivity of the Net Pension Liability to Changes in Discount Rate. 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, as of June 30, 2018 and 2017, calculated using the discount rate of 6.875%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.0% lower (5.875%) or 1.0% higher (7.875%) than the current rate (in thousands):

	2018			2017		
	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total pension liability	$ 5,310,175	$ 4,635,937	$ 4,090,473	$ 5,213,524	$ 4,533,776	$ 3,986,598
Plan fiduciary net position	3,496,191	3,496,191	3,496,191	3,293,257	3,293,257	3,293,257
Net pension liability	$ 1,813,984	$ 1,139,746	$ 594,282	$ 1,920,267	$ 1,240,519	$ 693,341
Plan fiduciary net position as a percentage of the total pension liability	**65.8 %**	**75.4 %**	**85.5 %**	**63.2 %**	**72.6 %**	**82.6 %**

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 3.36 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 Plan (referred to as prefunding).

In January 2011, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount 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.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the prefunding when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the Plan reduces the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2018.

In February 2016, the Board approved the City's request that the floor methodology for Tier 1 be used only for the annual employer Normal Cost contribution (which includes administrative expenses) and that the annual employer Unfunded Actuarial Liability (UAL) contribution be set at the dollar amount recommended by the actuary and adopted by the Board in the annual actuarial valuation report beginning fiscal year 2016-2017.

San Jose City Council Ordinance No. 29266 and Ordinance No. 29511 implemented the terms of a stipulated arbitration award for Police Tier 2 and Fire Tier 2 pension benefits, respectively. Police Tier 2 members are any new Plan members hired on or after August 4, 2013; Fire Tier 2 members are any new

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Plan members hired on or after January 2, 2015. The new tiers include significant benefit changes from the existing Police Tier 1 and Fire Tier 1 plans as described in Note 1. In addition, the contribution rates for Police Tier 2 and Fire Tier 2 members include a change in the cost sharing between the City and active Police Tier 2 and Fire Tier 2 members which is a 50/50 split of all costs, including UAL. Currently, Police Tier 1 and Fire Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Police Tier 1 and Fire Tier 1 members. The responsibility for funding the UAL is generally not shared with the Police Tier 1 and Fire Tier 1 employees.

Beginning September 2014, the Board approved the City's request to exclude Tier 2 from the floor methodology to ensure that the City does not pay more than the actuarially determined contribution (ADC). Therefore, the contribution rate determined by the actuary multiplied by the actual payroll will be used to determine the contribution.

The City's contributions for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2018 and 2017 were as follows. Tier 1 was calculated using the floor methodology.

Fiscal Year	2018				
Actuarial Valuation Year	**2016**				
(In Thousands)	**Police Tier 1**	**Fire Tier 1**	**Police Tier 2**	**Fire Tier 2**	**Total**
Actual payroll	$ 101,849	$ 74,046	$ 19,736	$ 7,533	$ 203,164
Actuarial payroll	91,421	75,647	-	-	167,068
Actual payroll in excess of actuarial payroll	10,428	-	-	-	10,428
Normal cost rate for pension and COLA portion of total City rate	30.20%	-	-	-	-
Additional contributions due to the floor methodology	3,149	-	-	-	3,149
Prefunded contributions amount (BOY)*	85,531	71,330	-	-	156,861
Regular contributions paid throughout the year	-	-	2,948	1,230	4,178
Adjustments and accruals	(3,808)	(2,768)	69	31	(6,476)
Total contributions for the fiscal year	**$ 84,872**	**$ 68,562**	**$ 3,017**	**$ 1,261**	**$ 157,712**

** Beginning of year*

Fiscal Year	2017				
Actuarial Valuation Year	**2015**				
(In Thousands)	**Police Tier 1**	**Fire Tier 1**	**Police Tier 2**	**Fire Tier 2**	**Total**
Actual payroll	$ 96,552	$ 74,738	$ 11,873	$ 5,014	$ 188,177
Actuarial payroll	94,977	72,350	-	-	167,327
Actual payroll in excess of actuarial payroll	1,575	2,388	-	-	3,963
Normal cost rate for pension and COLA portion of total City rate	29.48%	30.33%	-	-	-
Additional contributions due to the floor methodology	464	697	-	-	1,161
Prefunded contributions amount (BOY)*	74,554	57,648	-	-	132,202
Regular contributions paid throughout the year	-	-	1,279	530	1,809
Adjustments and accruals	1,047	678	47	13	1,785
Total contributions for the fiscal year	**$ 76,065**	**$ 59,023**	**$ 1,326**	**$ 543**	**$ 136,957**

** Beginning of year*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The contribution rates for fiscal years ended June 30, 2018 and 2017 were based on the actuarial valuations performed as of June 30, 2016 and 2015, respectively.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2018 and 2017 were as follows:

	City-Board Adopted *				Member			
Period	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
06/18/2017 - 06/30/2018	95.31 %	15.17 %	96.06 %	16.26 %	10.88 %	15.17 %	11.38 %	16.26 %
07/01/2016 - 06/17/2017	80.40 %	10.97 %	81.61 %	10.61 %	10.59 %	10.97 %	11.07 %	10.61 %

** The actual contribution rates paid by the City for fiscal years ended June 30, 2018 and June 30, 2017 differed from what is above for Tier 1 due to the City funding the actuarially determined 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: NET OPEB LIABILITY AND CONTRIBUTIONS

Net OPEB Liability. The components of the net Other Postemployment Benefit (OPEB) liability of the Plan, including all of the healthcare sub-trusts, (i.e., the Plan's liability determined in accordance with GASB Statement No. 74 less the plan fiduciary net position) as of June 30, 2018 and 2017, were as follows (dollars in thousands):

	2018	2017
Total OPEB liability	$ 711,832	$ 714,517
Plan fiduciary net position	162,520	149,682
Net OPEB liability	$ 549,312	$ 564,835
Plan fiduciary net position as a percentage of the total OPEB liability	**22.83%**	**20.95 %**

Actuarial Assumptions. 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 November 2017, and the next experience study is scheduled to be conducted in 2019.

The total OPEB liability as of June 30, 2018 and 2017 is based on results of an actuarial valuation date of June 30, 2017 and 2016, and rolled-forward to June 30, 2018 and 2017 using generally accepted actuarial procedures.

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

A summary of the actuarial assumptions used to determine the total OPEB liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry age normal, level of percentage of pay	Entry age normal, level of percentage of pay
Discount rate	6.875%	6.875%
Inflation rate	2.75%	2.75%
Projected payroll increases		
Wage inflation rate	3.25% for FY 2018 and for all years.	3.25% for FY 2017 and for all years.
Merit increase	Merit component added based on an individual's years of service ranging from 6.00% to .50%.	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%.
Rates of Mortality	Mortality is projected from 2009 on a generational basis using the MP-2017 scale	Mortality is projected from 2009 on generational basis using the MP-2015 scale
Healthy annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table for males and 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table for females	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table for males and 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table for females
Healthy non-annuitant	0.948 times the CALPERS 2009 Employee Mortality Table for males and 1.048 times the CalPERS 2009 Employee Mortality Table for females	0.948 times the CALPERS 2009 Employee Mortality Table for males and 1.048 times the CalPERS 2009 Employee Mortality Table for females
Disabled annuitant	0.903 times the CalPERS 2009 Industrial Disability Mortality Table for males and females	0.903 times the CalPERS 2009 Industrial Disability Mortality Table for males and females
HEATHCARE COST TREND RATE		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.00% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.00% 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 8.50% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical post-age 65.
Dental	Dental inflation is assumed to be 3.50%	Dental inflation is assumed to be 4.00%

The expected long-term return on assets changed from 7.00% to 6.875% between the June 30, 2015 and June 30, 2016 valuation dates. The discount rate changed from 6.0% to 6.875% between the June 30, 2015 and June 30, 2016 measurement dates as a result of the adoption of GASB Statement No. 74. The discount rate used at the June 30, 2018 and June 30, 2017 measurement dates were 6.875%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for both the valuation years ended June 30, 2017 and 2016, was selected by estimating the median nominal rate

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

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 geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 and 2017, are summarized in the following table. The assets are invested in both a 401(h) within the pension plan and in 115 subtrusts. The table refers only to the 115 subtrusts. The allocation for the 401(h) is described above in Note 4 (see the discussion of the Plan's investment policy).

	2018		2017	
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate Return**	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Global equity	43.0%	6.7%	43.0%	5.3%
Fixed income	15.0%	1.0%	15.0%	1.0%
Real assets	22.0%	5.2%	22.0%	2.8%
GTAA / Opportunistic	20.0%	2.7%	20.0%	2.1%
Cash	-	-	-	0.2%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.875% for the measurement years ended June 30, 2018 and 2017 and is based on the long-term expected rate of return on investments. It is assumed that Plan member contributions are 8.0% of pay for employees eligible to participate in the postemployment healthcare plan and City contributes the actuarially determined contribution toward the explicit subsidy up to maximum of 11.0% of the total Police and FIre payroll and also contributes the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the Plan'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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate. In accordance with GASB Statement No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, as of June 30, 2018 and 2017, calculated using the discount rate of 6.875%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (5.875%) or 1.00% higher (7.875%) than the current rate:

	2018			2017		
	1% Decrease (5.875%)	**Current Discount Rate (6.875%)**	**1% Increase (7.875%)**	**1% Decrease (5.875%)**	**Current Discount Rate (6.875%)**	**1% Increase (7.875%)**
Total OPEB liability	$ 815,278	$ 711,832	$ 628,112	$ 824,501	$ 714,517	$ 626,078
Plan fiduciary net position	162,520	162,520	162,520	149,682	149,682	149,682
Net OPEB liability	$ 652,758	$ 549,312	$ 465,592	$ 674,819	$ 564,835	$ 476,396
Plan fiduciary net position as a percentage of the total OPEB liability	**19.9 %**	**22.8 %**	**25.9 %**	**18.2 %**	**21.0 %**	**23.9 %**

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.0% decreasing to 3.25%) or 1.0% higher (9.0% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	2018			2017		
	1% Decrease (7.0% decreasing to 3.25%)	Healthcare Cost Trend Rates (8.0% decreasing to 4.25%)	1% Increase (9.0% decreasing to 5.25%)	1% Decrease (7.5% decreasing to 3.25%)	Healthcare Cost Trend Rates (8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	$ 617,228	$ 711,832	$ 829,268	$ 615,232	$ 714,517	$ 839,004
Plan fiduciary net position	162,520	162,520	162,520	149,682	149,682	149,682
Net OPEB liability	$ 454,708	$ 549,312	$ 666,748	$ 465,550	$ 564,835	$ 689,322
Percentage of the total OPEB liability	**26.33 %**	**22.83 %**	**19.60 %**	**24.3%**	**20.9%**	**17.8%**

For the fiscal year ended June 30, 2018, Police Department and Fire Department employer contributions were made to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan, respectively. Employee postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) Plan. It is unknown at this time when employee contributions to the Police Department Postemployment 115 Healthcare Plan and the Fire Department Postemployment 115 Healthcare Plan will begin, even though the Plan received an IRS private letter ruling on the tax qualification of the Section 115 Trust on July 9, 2014. Healthcare contributions of members who opted in to the VEBA were transferred out of the Section 115 Subtrusts in March 2018, after the IRS issued a favorable private letter ruling to the Trusts allowing this. The Postemployment Healthcare Plan is comprised of the 401(h) Plan and the two 115 Subtrusts, which are combined in the actuarial valuations and thus the disclosures throughout this note.

In January 2011, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount 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.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the prefunding when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the Plans reduce the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2018.

Historically, member and City contributions to the Plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. On February 24, 2015, the City and the Police bargaining units agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of 11.0% to 10.31%, effective March 15, 2015 and through fiscal year 2016-2017. These were the rates in effect for the year ended June 30, 2014, which remained frozen until new agreements were made. For the Fire members, the contribution rates for the year ended June 30, 2016 remained frozen until new agreements were made.

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

With the passage of Measure F, the Framework became effective as of June 16, 2017. A VEBA for retiree healthcare was created and Tier 1 members were eligible for a irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018. The VEBA is being implemented by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

With the implementation of Measure F, Tier 1 member contributions became fixed at 8.0% of pay effective March 25, 2018, when the VEBA was implemented. In fiscal year 218-2019, the City's contribution toward the explicit subsidy will be actuarially determined separately for Police and Fire, and the City will also pay the implicit subsidy on a pay-as-you-go basis as a part of the active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11.0% of Police and Fire payroll. The explicit subsidy (or premium subsidy) is paid by the Plan and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy if the difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium.

In September 2014, the Board approved the City's request to exclude all forms of Tier 2 from the floor methodology to ensure that the City does not pay more than the actuarially determined contribution (ADC) and the contributions are based on the ADC percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll is what will be used.

With the implementation of Measure F and VEBA, Tier 2 members were automatically placed into the VEBA. The City and the bargaining units agreed that the City Manager should, pursuant to Municipal Code section 3.36.576(C), terminate the existing Tier 2 retiree medical benefits plan effective July 30, 2017, such that Tier 2 members shall not be provided benefits or make contributions to the Healthcare Plan. The City will, however, continue to make the same retiree healthcare contributions that it was already making in order to ensure that payment towards the unfunded liability would continue and to ensure that the healthcare plan receives its full annual required contribution each year.

The City's contributions for the Postemployment Healthcare Plan during the fiscal years ended June 30, 2018 and 2017 were as follows. Tier 1 was calculated using the floor methodology.

Fiscal Year			**2018**		
Actuarial Valuation Year			**2016**		
(In Thousands)	**Police Tier 1**	**Fire Tier 1**	**Police Tier 2**	**Fire Tier 2**	**Total**
Actual payroll**	$ 100,590	$ 73,092	$ 19,736	$ 7,533	$ 200,951
Actuarial payroll	91,421	75,647	-	-	167,068
Actual payroll in excess of actuarial payroll	9,169	-	-	-	9,169
Normal cost rate for pension and COLA portion of total City rate	4.09%	-	-	-	-
Additional Contributions due to the floor methodology	375	-	-	-	375
Prefunded contributions amount (BOY)*	9,252	7,886	-	-	17,138
Regular contributions paid throughout the year	-	-	2,004	804	2,808
Implicit subsidy	3,699	2,017	-	-	5,716
Adjustments and accruals	(412)	(307)	46	18	(655)
Total contributions for the fiscal year	**$ 12,914**	**$ 9,596**	**$ 2,050**	**$ 822**	**$ 25,382**

** Beginning of year*

*** Actual Payroll represents Tier 1 which does not include members participating in the VEBA.*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Fiscal Year	2017				
Actuarial Valuation Year	**2015**				
(In Thousands)	**Police Tier 1**	**Fire Tier 1**	**Police Tier 2**	**Fire Tier 2**	**Total**
Actual payroll**	$ 96,552	$ 74,647	$ 11,873	$ 5,014	$ 188,086
Actuarial payroll	94,977	72,350	-	-	167,327
Actual payroll in excess of actuarial payroll	1,575	2,297	-	-	3,872
Normal cost rate for pension and COLA portion of total City rate	3.97%	4.11%	-	-	-
Additional Contributions due to the floor methodology	63	94	-	-	157
Prefunded contributions amount (BOY)*	9,561	7,502	-	-	17,063
Regular contributions paid throughout the year	-	-	1,202	529	1,731
Implicit subsidy	796	803	-	-	1,599,000
Adjustments and accruals	57	34	22	2	115
Total contributions for the fiscal year	**$ 10,477**	**$ 8,433**	**$ 1,224**	**$ 531**	**$ 20,665**

** Beginning of year*

*** Actual Payroll represents Tier 1 which does not include members participating in the VEBA.*

Contributions to the Postemployment Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. Beginning in fiscal year ended 2010 for Police members and fiscal year ended 2012 for Fire members, actual contributions were intended to phase in to the full annual required contributions (ARC) as defined in the bargaining agreements and consistent with the parameters of GASB Statement No. 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB Statement No. 45. No amount has been determined on an actuarial basis to fund the Plan. With the implementation of Measure F, Actuarially Determined Contributions will be calculated beginning with the fiscal year ending June 30, 2019. The Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations.

The City and the participating member's contribution rates in effect for the Postemployment Healthcare Plans during the fiscal years ended June 30, 2018 and 2017 were as follows:

	City-Board Adopted		Member			
Period	**Police Tier 1 / Tier 2**	**Fire Tier 1 / Tier 2**	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**
03/25/2018 - 06/30/2018	10.31 %	10.62 %	8.00 %	0.00 %	8.00 %	0.00 %
07/30/2017 - 03/24/2018	10.31 %	10.62 %	9.51 %	0.00 %	9.74 %	0.00 %
07/01/2016 - 07/29/2017	10.31 %	10.62 %	9.51 %	9.51 %	9.74 %	9.74 %

NOTE 6 - COMMITMENTS

Commitments – As of June 30, 2018, the Plan had unfunded commitments to contribute capital for private debt investments in the amount of $156,854,000, private equity investments in the amount of $245,295,000 and real assets investments in the amount $126,108,000.

As of June 30, 2017, the Plan had unfunded commitments to contribute capital for private debt investments in the amount of $123,778,000, private equity investments in the amount of $81,527,000 and real asset investments in the amount $115,469,000.

Pensionable Pay Corrections (PPC) – On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act (FLSA) earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. As of February 2009, the City has corrected the transmittal error on a go-forward basis. The City's FLSA overstatement correction amounts were reviewed by the City's internal auditor and the Plan's external accountants at the time. The Plan's external accountants identified variances in the estimated overstatements. In addition, in December 2009, the City Auditor issued their report entitled, *Audit of Pensionable Earnings and Time Reporting*, which identified other pensionable earnings discrepancies that impacted members of the Plan. In fiscal year 2012, the City's Finance Department reviewed and prepared revised overstatement amounts. On June 1, 2012, the City's Finance Department refunded approximately $252,000 of overstated contributions to active members.

After the last correction file was received from the City in August 2016, ORS was able to begin their recalculation process. In February 2017, corrections to the ongoing benefit payments were made to the overpaid members affected by FLSA. In March 2017, corrections to ongoing benefit payments were made to the underpaid members affected by the FLSA. In June 2017, the Board approved collecting three years of overpayments without interest from the beneficiaries, excluding deceased, survivors and terminated beneficiaries. In September 2017, the Board voted to send the City a letter seeking the balance of the monies owed but not recovered from the retirees. This amount, plus interest, is approximately $1.2 million and is still outstanding but is not recorded in the financial statements.

Adjustments to start collecting the cumulative retro-active overpayments for the FLSA beneficiaries were made beginning with the August 2017 monthly benefit payments, while adjustments to pay the lump-sum cumulative retro-active underpayments for the FLSA beneficiaries were made in the October 2017 benefit payments. Total cumulative overpayments were approximately $1,136,000, while total cumulative underpayments were $642,000.

The remaining members that were not affected by FLSA but had other pensionable pay corrections were corrected starting with their September 2017 ongoing monthly benefit payments. The adjustments for the collection of their cumulative retro-active overpayments started in their November 2017 monthly benefit payments, while the adjustments to pay the lump-sum cumulative retro-active underpayments were made in the December 2017 benefit payments. This completes the corrections for the pensionable pay corrections project.

NOTE 7 - LITIGATION

The Plan 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 Plan's financial position as a whole.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in Thousands)

Total Pension Liability	2018	2017	2016	2015	2014
Service cost (middle of year)	$ 75,481	$ 72,760	$ 74,531	$ 74,895	$ 75,030
Interest (includes interest on service cost)	300,378	290,961	274,487	262,738	251,701
Changes of benefit terms	178	5,752	-	-	-
Differences between expected and actual experience	33,082	67,557	(8,673)	21,457	-
Change of assumptions	(100,328)	72,680	90,179	56,311	-
Benefit payments, including refunds of member contributions	(206,630)	(196,032)	(186,939)	(176,253)	(167,397)
Net Change in Total Pension Liability	**102,161**	**313,678**	**243,585**	**239,148**	**159,334**
Total Pension Liability - Beginning	**4,533,776**	**4,220,098**	**3,976,513**	**3,737,365**	**3,578,031**
Total Pension Liability - Ending	**$ 4,635,937**	**$ 4,533,776**	**$ 4,220,098**	**$ 3,976,513**	**$ 3,737,365**

Plan Fiduciary Net Position	2018	2017	2016	2015	2014
Contributions - employer	$ 157,712	$ 136,957	$ 132,480	$ 129,279	$ 123,583
Contributions - employee	23,841	20,580	21,508	20,747	21,115
Net investment income	233,475	292,734	(29,206)	(27,690)	404,978
Benefit payments, including refunds of member contributions	(206,630)	(196,032)	(186,940)	(176,253)	(167,397)
Administrative expense	(5,464)	(4,635)	(4,254)	(4,191)	(3,631)
Net Change in Plan Fiduciary Net Position	**$ 202,934**	**$ 249,604**	**$ (66,412)**	**$ (58,108)**	**$ 378,648**
Plan Fiduciary Net Position - Beginning	**3,293,257**	**3,043,653**	**3,110,065**	**3,168,173**	**2,789,525**
Plan Fiduciary Net Position - Ending	**$ 3,496,191**	**$ 3,293,257**	**$ 3,043,653**	**$ 3,110,065**	**$ 3,168,173**
Net Pension Liability - Ending	**$ 1,139,746**	**$ 1,240,519**	**$ 1,176,445**	**$ 866,448**	**$ 569,192**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**75.41 %**	**72.64 %**	**72.12 %**	**78.21 %**	**84.77 %**
Covered Payroll	**$ 203,164**	**$ 188,177**	**$ 186,874**	**$ 180,226**	**$ 180,083**
Net Pension Liability as a Percentage of Covered Payroll	**561.00 %**	**659.23 %**	**629.54 %**	**480.76 %**	**316.07 %**

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)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.89%	9.68%	(0.85)%	(0.85)%	13.0%

The rate shown above is based on the Defined Benefit and 401(h) only and does not include the 115 subtrusts. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in Thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 157,712	$ 136,957	$ 132,480	$ 129,279	$ 123,583	$ 105,234	$ 121,008	$ 77,918	$ 52,315	$ 53,103
Contributions in relation to actuarially determined contribution	157,712	136,957	132,480	129,279	123,583	105,234	121,008	77,918	52,315	53,103
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 203,164	$ 188,177	$ 186,874	$ 180,226	$ 180,083	$ 180,333	$ 184,750	$ 222,464	$ 239,570	$ 243,196
Contributions as a percentage of covered payroll	77.63%	72.78%	70.89%	71.73%	68.63%	58.36%	65.50%	35.02%	21.84%	21.84%

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Fiscal Year	2018	2017	2016	2015	2014	2013	2012	2011	2010-2009
Valuation date	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007****
Actuarial cost method	Entry Age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation 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	5-year smoothed market	5-year smoothed market
Amorti-zation method	Actuarial gains and losses and plan changes are amortized over closed 15-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 16-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 16-years periods. All amortiza-tions are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-years periods. Method and assump-tion changes are amortized over closed 20-year periods. All amortiza-tions are a level percent of payroll.
Discount rate	6.875%	7.0%	7.0%	7.125%	7.25	7.5%	7.75%	8.0%	8.0%

NOTES TO SCHEDULE (continued)

Fiscal Year	2018	2017	2016	2015	2014	2013	2012	2011	2010-2009
Valuation date	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007****
Salary increases	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	2.00% for FY 2015, and 3.50% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	0.00% for FY 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service	4.0% plus merit component based on length of service ranging from 4.0% for new hires to 1.0% for members with 8 or more years of service
Amortization growth rate	3.25%	3.25%	3.25%	3.5%	3.5%	4.25%	4.25%	4.25%	4.00%
COLA	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police Tier 1 & Fire	3% for Police Tier 1 and Fire	3% for Police and Fire
Mortality	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years,	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years,are set forward one year.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.

*** Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the Plan transitioned to annual actuarial valuations.*

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)
(Dollars in Thousands)

Total OPEB Liability	**2018**	**2017**
Service cost (middle of year)	$ 13,001	$ 16,112
Interest (includes interest on service cost)	45,314	46,774
Changes of benefit terms	(69,434)	-
Differences between expected and actual experience	14,877	-
Change of assumptions	21,243	-
Benefit payments, including refunds of member contributions	(27,686)	(24,799)
Net Change in Total OPEB Liability	**$ (2,685)**	**$ 38,087**
Total OPEB Liability - Beginning	**714,517**	**676,430**
Total OPEB Liability - Ending	**$ 711,832**	**$ 714,517**
Plan Fiduciary Net Position		
Contributions - employer	25,382	20,667
Contributions - employee	16,127	18,116
Net investment income	7,070	12,453
Benefit payments, including refunds of member contributions	(27,686)	(24,799)
Administrative expense	(158)	(182)
VEBA Transfer	(7,897)	-
Net Change in Plan Fiduciary Net Position	**$ 12,838**	**$ 26,255**
Plan Fiduciary Net Position - Beginning	**149,682**	**123,427**
Plan Fiduciary Net Position - Ending	**$ 162,520**	**$ 149,682**
Net Pension Liability - Ending	**$ 549,312**	**$ 564,835**
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	**22.83 %**	**20.95 %**
Covered Payroll	**$ 203,164**	**$ 188,177**
Net OPEB Liability as a Percentage of Covered Payroll	**270.38 %**	**300.16 %**

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

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

	2018	**2017**
Annual money-weighted rate of return, net of investment expense	3.56%	7.17%

The rate shown above is based on the 115 subtrusts only and does not include the 401(h). Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)

Beginning in FYE 2010 for Police members and FYE 2012 for Fire members, actual contributions were intended to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB Statement No. 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB Statement No. 45. No amount has been determined on an actuarial basis to fund the plan, and consequently the schedule of employer contributions is not provided. With the implementation of Measure F, Actuarially Determined Contributions will be calculated beginning with the fiscal year ending June 30, 2019.

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION
As of June 30, 2018 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	$ 661	$ 300	$ 961
Employer contributions	2,345	1,017	3,362
Brokers and others	1,765	90	1,855
Accrued investment income / loss	2,697	1,025	3,722
Total Receivables	**7,468**	**2,432**	**9,900**
Investments, at fair value			
Securities and other:			
Global equity	704,960	491,354	1,196,314
Private equity	179,187	111,883	291,070
Global fixed income	575,782	359,517	935,299
Collective short term investments	126,043	78,702	204,745
Private debt	127,053	79,331	206,384
Real assets	274,747	171,552	446,299
International currency contracts, net	(1,751)	(1,094)	(2,845)
Absolute return	131,948	82,388	214,336
Total Investments	**2,117,969**	**1,373,633**	**3,491,602**
Capital Assets	1,094	632	1,726
TOTAL ASSETS	**2,126,531**	**1,376,697**	**3,503,228**
LIABILITIES			
Payable to brokers	3,897	914	4,811
Other liabilities	1,365	861	2,226
TOTAL LIABILITIES	**5,262**	**1,775**	**7,037**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,121,269	1,374,922	3,496,191
TOTAL PLAN NET POSITION	**$ 2,121,269**	**$ 1,374,922**	**$ 3,496,191**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For Fiscal Year Ended June 30, 2018 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	$ 16,280	$ 7,561	$ 23,841
Employer	82,097	75,615	157,712
Total Contributions	**98,377**	**83,176**	**181,553**
Investment income			
Net appreciation in fair value of investments	131,234	83,664	214,898
Interest income	12,924	8,069	20,993
Dividend income	10,080	6,294	16,374
Net rental income	34	21	55
Less: investment expense	(11,607)	(7,238)	(18,845)
Net Investment Income	**142,665**	**90,810**	**233,475**
TOTAL ADDITIONS	**241,042**	**173,986**	**415,028**
	-	-	-
DEDUCTIONS			
Retirement benefits	136,986	57,153	194,139
Death benefits	6,471	5,631	12,102
Refund of contributions	316	73	389
Administrative expenses and other	3,368	2,096	5,464
TOTAL DEDUCTIONS	**147,141**	**64,953**	**212,094**
NET INCREASE	**93,901**	**109,033**	**202,934**
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	**2,027,368**	**1,265,889**	**3,293,257**
END OF YEAR	**$ 2,121,269**	**$ 1,374,922**	**$ 3,496,191**

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2018 and 2017

	2018			2017
	Original Budget	Actual	Under Budget	Actual
Personnel services	$ 3,911,800	$ 3,193,583	$ 718,217	$ 3,065,147
Non-personnel/equipment*	1,364,300	1,221,538	142,762	577,909
Professional services	1,600,700	1,207,464	393,236	1,174,270
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 6,876,800**	**$ 5,622,585**	**$ 1,254,215**	**$ 4,817,326**

** $671,500 of investment-related expenses for data processing were included in the budget approved by the Board for FY 16-17. The actual amounts spent for those items are included in the Schedule of Investment Expenses - Other Investment Fees. The total actual amount spent was $463,755.*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2018 and 2017

Firm	Nature of Service	2018	2017
Cheiron, Inc.	Actuarial consultant	$ 292,748	$ 275,673
Cortex	Governance consultant	141,858	19,235
Grant Thornton LLP	External auditors	62,232	59,097
Ice Miller, LLC	Tax counsel	13,546	13,755
Levi, Ray, & Shoup	Web development and maintenance	17,424	15,252
Levi, Ray, & Shoup	Programming changes and business continuance services	22,137	6,950
Medical Director/Other Medical	Medical consultants	211,450	279,175
Pension Benefit Information	Reports on deceased benefit recipients	2,288	2,428
Reed Smith, LLP	Legal counsel	166,014	208,353
Saltzman & Johnson	Legal counsel	103,731	102,882
Segal Company	Actuarial auditors	-	100,000
Josephine's Professional Staffing	Temporary staff	21,753	39,897
Trendtec, Inc	Temporary staff	145,133	43,159
Other consultants	Miscellaneous professional services	7,150	8,414
TOTAL		**$ 1,207,464**	**$ 1,174,270**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2018 and 2017

Investment Managers' Fees	2018	2017
Global equity	$ 2,576,021	$ 2,290,836
Private equity	2,192,788	2,548,451
Real assets	5,244,373	5,392,038
Global fixed income	3,188,866	2,725,692
Private debt	1,787,532	1,922,976
Absolute return	3,084,235	3,205,379
Total investment managers' fees	**18,073,815**	**18,085,372**

Other Investment Fees		
Investment consultants	612,611	823,722
Custodian bank	375,913	515,893
Investment legal fees	137,732	172,472
Other investments fees	50,418	124,296
Total other investment fees	**1,176,674**	**1,636,383**

TOTAL INVESTMENT EXPENSES	**$ 19,250,489**	**$ 19,721,755**

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Investment Section

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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2018 and June 30, 2017

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

Boston MA
Chicago IL
Miami FL
Portland OR
San Diego CA
London UK

September 17, 2018

Mr. Roberto L. Peña
Director
The City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San Jose, CA 95112-4505

Dear Mr. Peña:

Please find below a summary of the market environment and Plan performance for the 2018 fiscal year.

2018 Fiscal Year Market Environment Overview[1,2]

The fiscal year was largely a story of two environments. In 2017, we saw synchronized global growth, low volatility, tax cuts in the U.S. at year-end, and a weak U.S. dollar. During the last two quarters of 2017 most asset classes were up, particularly riskier ones. Emerging markets equity lead the way in Q3 (+7.9%) and Q4 (+7.4%). U.S. and international equities also posted strong returns over both quarters, while fixed income assets were largely up but with more modest returns in the risk on environment.

The trends of 2017 persisted into early 2018, but the environment quickly changed. In 2018, we have seen volatility increase from its very low levels, interest rates and inflation rise, the U.S. dollar rebound, and trade tensions between the U.S. and others heat up. In this environment, U.S. equities were one of the few asset classes to post positive performance, while international equities and most fixed income asset classes fell. High yield bonds did post a modest gain (+0.2%) in the first two quarters of 2018.

The net result of the two environments on the fiscal year returns ending June 2018 was that equities increased, particularly in the U.S, while in fixed income, TIPS and high yield bonds posted relatively modest returns and the broad U.S. bond market slightly declined. Emerging market bonds fell.

For the fiscal year, U.S. equities, as represented by the Russell 3000, rose +14.8%. The trend of U.S. growth stocks outperforming value stocks persisted, and small capitalization stocks (+17.6%) outperformed large capitalization (+14.5%) and mid-capitalization (+12.3%) stocks. The MSCI EAFE, representing foreign developed markets, increased at less than half the rate of U.S. equities, up +6.8%. Emerging market equities' strong returns in 2017 were balanced by an 8.0%

1 Relevant market reference benchmark: domestic equity (Russell 3000), international developed equity (MSCI EAFE), emerging markets (MS,CI Emerging Markets), and high yield (Barclays High Yield).
2 Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

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decline in the second quarter of 2018, as a stronger dollar and trade tensions weighed on results. The MSCI Emerging Markets Equity index gained +8.2% for the full fiscal year.

Within fixed income, positive returns in the final two quarters of 2017 moved to concerns over rising interest rates and inflation creating headwinds in 2018. In the U.S., the Federal Reserve increased interest rates for the seventh time in June, to a range of 1.75% to 2.00%, and continued to reduce its balance sheet. The rate increases contributed to the flattening of the U.S. yield curve during the fiscal year. Over the trailing year, TIPS (+2.1%) and high yield bonds (+2.6%) increased, while the broad U.S. bond market, represented by the Barclays Aggregate Index, fell 0.4%. Similar to emerging market equities, returns for emerging market bonds in the second quarter of 2018 weighed on the fiscal year results. In this case, the 10.4% decline in the second quarter for emerging market bonds (as represented by JPM GBI-EM Global Diversified - Local Currency) led to a -2.3% return for the trailing year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) rose +24.8%, commodities (Bloomberg Commodity Index) gained +7.4%, and REITS (MSCI U.S. REIT Index) gained +3.6%. Oil prices finished the fiscal year at over $60/barrel, representing a dramatic increase from recent lows. Cuts from OPEC and strong growth globally contributed to the rise in oil prices.

Fiscal 2019 Outlook[1]

Looking forward, there are several issues that we continue to monitor. First, there is the potential for major central banks to tighten monetary policy at the same time. Second, in the U.S., equity markets remain extended and the latest economic cycle has been long. Also in the U.S., trade policy remains another key issue. Next, there is the declining growth in China and the impact of trade tensions with the U.S. Finally, political uncertainty and ongoing structural issues remain a concern in Europe.

After an extended period of monetary support through low interest rates and bond purchases from banks (i.e., quantitative easing), we could be moving into a period where central banks pull back support at the same time. The U.S. is further along in that process with the Federal Reserve increasing interest rates and reducing its balance sheet. It is also largely expected that the European Central Bank (ECB) will end its quantitative easing by year-end. If central banks begin pulling back support, this could put further upward pressure on rates, weigh on economic growth, and tighten liquidity.

The U.S. economy and equity markets have experienced a long period of growth since the Global Financial Crisis, due in part to central bank support. Late cycle

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[1] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

September 17, 2018
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dynamics of low unemployment and rising inflation are in place, and valuations are stretched for equites. It is inevitable that growth will eventually slow and equity markets pull back, but the question is when. Other key issues in the U.S. include policy uncertainty related to tariffs, immigration, and strategic alliances.

China has the second largest economy behind the U.S.. After a long period of growth through government investment, it continues to manage a repositioning of its economy to one of consumption. This has led to a slowing of its economy and has hurt countries that depend on its trade. The recent trade tariffs between the U.S. and China are another key issue, which could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations. Another key issue in China remains the high debt levels, particularly in the corporate sector.

Europe continues to have the structural issue of having a single currency and central bank, with fiscal policy resting with each individual country. Consequently, countries that are experiencing financial difficulties are unable to use the traditional tools of lowering interest rates and devaluing their currencies to stimulate growth. This has caused tensions within the Eurozone, as highlighted by the recent elections in Italy and the prior elections in Germany, as well as the ongoing issues in Greece. Given the size of Italy's bond market and economy within the euro area, a sovereign debt crisis or departure from the euro would have significant consequences.

We will continue to monitor these issues and others.

Plan Investment Results and Asset Allocation for the Pension Plan[1,2]

The City of San Jose Police and Fire Department Retirement Plan had $3,523.5 million in assets at the end of the 2018 fiscal year. For the fiscal year, the Retirement Plan returned +6.9% net of fees, underperforming the Policy Benchmark (+7.6%) and matching the Allocation Index. The Retirement Plan's return exceeded the 6.875% assumed actuarial rate of return, and has now exceeded that rate in four of the past six fiscal years. The Retirement Plan's standard deviation of returns was 3.9%, exhibiting lower volatility than the peer median (4.5%).

Key factors for the Retirement Plan's performance for the fiscal year, relative to the Policy Benchmark[3]:

- *Allocation Differences*: The Retirement Plan's investment manager roster continued to expand throughout the fiscal year as new commitments were made in various asset classes. However, the

[1] Performance figures calculated by custodian bank are the basis of presentation for the data in the investment section.
[2] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.
[3] Attribution calculated with Brinson-Fachler Model using custodian data.

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actual asset allocation and composition of the Retirement Plan differed from policy targets. For example, the Retirement Plan has targeted a 0% allocation to Total Cash. We estimate that holding cash detracted approximately 0.2% to the Retirement Plan's return, relative to the Policy Benchmark.

- *Global Equity*: The Retirement Plan's equity allocation returned +10.3% for the fiscal year, slightly underperforming the custom benchmark return of +11.1% over the same period. We estimate that global equity performance detracted 0.3% to the Retirement Plan's return, relative to the Policy Benchmark.

- *Global Fixed Income:* The Retirement Plan's fixed income allocation returned +3.0% for the fiscal year, outperforming the custom benchmark's return of 1.2% over the same period. Each component of Global Fixed Income outperformed its respective benchmark. Global Core returned +1.9% vs. a +1.4% return from the Bloomberg Barclays Global Aggregate. Non-Investment Grade Credit returned +5.2% vs. a +3.1% return from the 50% Bank of America Global High Yield/50% S&P Global Leveraged Loan. Emerging Market Debt returned +1.3% vs. a -1.9% return for the San Jose Custom Emerging Markets Debt Benchmark. We estimate that global fixed income added approximately 0.3% to the Retirement Plan's return, relative to the Policy Benchmark.

- *Absolute Return*: The absolute return allocation for the Retirement Plan returned +4.4% for the fiscal year, outperforming the HFRI Macro (Total) Index's return of +1.2%. Over the fiscal year, we estimate that absolute return added approximately 0.1% to the Retirement Plan's return, relative to the Policy Benchmark.

Plan Investment Results and Asset Allocation for the Health Care Trust[1,2]

The City of San Jose Police and Fire Department Retirement Plan Health Care Trust had $119.0 million in assets at the end of the 2018 fiscal year. For the 2018 fiscal year, the Health Care Trust returned +3.6% net of fees, underperforming the Policy Benchmark (+7.4%) and Allocation Index (+4.8%). The Trust's underperformance was primarily driven by asset allocation variance from Policy targets and performance within the GTAA Composite. The Trust was generally underweight most asset class targets due to the heavy overweight allocation to cash. We estimate that the allocation effect of cash detracted 1.2% from the Health Care Trust's return, relative to the Policy Benchmark. The GTAA Composite returned +0.8% vs. the 60% MSCI World & 40% Citigroup WGBI

[1] Performance figures calculated by custodian bank are the basis of presentation for the data in the investment section.
[2] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

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return of +7.4%. We estimate that the GTAA Composite performance detracted 1.1% from the Health Care Trust's return, relative to the Policy Benchmark.

Summary[1]

Performance for the City of San Jose Police and Fire Department Retirement Plan over the 2018 fiscal year exceeded the assumed actuarial rate of return while underperforming the Policy Benchmark and matching the Allocation Index. We believe that the Retirement Plan's portfolio has recently been enhanced and has a high probability of achieving the actuarial rate over the long-term, while exhibiting lower volatility than peers. We are looking forward to continuing our work with Staff and the Board of Administration to progress further toward the targeted asset allocation so that the Retirement Plan can continue to meet its obligations to participants.

Sincerely,

Laura Wirick, CFA, CAIA
Principal

Hannah Schriner
Consultant

Larry Witt, CFA
Consultant

Chris Theordor
Investment Analyst

LBW/HS/LW/CT/nca

[1] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

Statement of Investment Policy

PENSION – INCLUDES THE 401(H) INVESTMENTS

1) This investment policy statement governs investments for the City of San José Police and Fire Department Retirement Plan (the Plan). The Plan is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the Plan are described in the San José Municipal Code Chapter 3.36.1961 Police and Fire Department Retirement Plan.

2) The Plan's fund ("the Fund") will be managed as a going concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries.

FIDUCIARY STANDARDS

3) The Board of Administration is subject to the following duties under law:

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

   b) The Board shall discharge its duties with respect to the Plan solely in the interest of, and for the exclusive purposes of, providing benefits to members of the Plan and their beneficiaries, maintaining the actuarial soundness of the Plan, and defraying reasonable expenses of administering the Plan. 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.

4) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Plan'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

5) The governance structure of the Plan 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.

INVESTMENT OBJECTIVES

6) 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.

7) The investment portfolio also seeks to achieve a risk-adjusted long-term net rate of return that exceeds the return of a composite benchmark of the respective long-term asset allocation targets. Please see Appendix A for the composition of the composite benchmark.

8) The Plan will take into consideration the actuarial investment return assumption, which is developed by the Plan's actuary, with the goal of choosing an assumed rate that the Plan can be expected to achieve with a probability greater than 50%.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

9) A range of risks will be managed in connection with the Plan, with an emphasis on the following:
   a) Risk of loss of Plan assets;
   b) The impact of the investment program on the funded status of the Plan and the resulting volatility of contributions.

10) In developing the investment policies of the Plan, various factors will be considered, including, but not limited to:
    a) The structure and duration of the Plan's liabilities;
    b) The liquidity needs of the Plan;
    c) Modern Portfolio Theory.

INVESTMENT PHILOSOPHY

11) Markets are inefficient over various time frames and there are opportunities to capture excess returns ("alpha"). The investment program seeks to add value over time through careful selection of active and passive investment managers as well as tactically adjusting portfolio risk factor exposures.

12) The CIO shall prepare and present to the Board for approval an Annual Investment Work Plan to help ensure consistency among investment decisions and clarity of investment direction. The Work Plan should include capital market views, consensus economic environment views, and the subsequent investment program approach to asset classes in the coming year.

ASSET ALLOCATION

13) The long-term strategic asset allocation of the Plan will be determined based on the results of an asset allocation study.

14) The current long-term strategic asset allocation of the Plan (at market value) is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	25%	31%	50%
Private equity	3%	8%	13%
Global fixed income	10%	16%	30%
Private debt	5%	11%	15%
Real assets	12%	17%	25%
Absolute return	2%	6%	12%
GTAA	0%	10%	10%
Cash	0%	1%	10%
Total		**100%**	

Interim Asset Allocation as approved at the April 5, 2018 Board Meeting.

Broad Asset Class	Minimum	Target	Maximum
Global equity	25%	34%	50%
Private equity	3%	8%	13%
Global fixed income	10%	28%	30%
Private debt	5%	8%	15%
Real assets	12%	16%	25%
Absolute return	2%	6%	12%
GTAA	0%	0%	10%
Cash	0%	0%	10%
Total		**100%**	

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

15) The Board is committed to implementing and maintaining the above long-term strategic 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 private equity, private debt, private real estate, hedge funds, and private real assets. In such circumstance, the Board will monitor the status of the long-term strategic asset allocation and seek to comply with the policy when it is possible and prudent to do so.

16) The long-term strategic asset allocation of the Plan will be reviewed at a minimum every five years based on the results of an asset liability study. However, since projected liability and risk/return expectations may change, such studies may also be performed on an interim basis, as necessary. In addition, the Board may review the current asset allocation targets at any time in light of market conditions and make changes as it deems necessary.

17) 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 strategic asset allocation. The Investment Structure and any changes thereto do not require that an asset allocation study be performed.

18) The CIO may utilize the following portfolio components to fulfill the Board's strategic asset allocation and to diversify across risk factors and return sources.

Global Equity - *Growth, Inflation, Currency*
The purpose of Global Equity is to provide the Plan exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth.
Private Equity - *Growth, Other (liquidity)*
The purpose of Private Equity is to provide similar exposures as Global Equity while systematically capturing an illiquidity premium.
Global Fixed Income - *Rates, Credit, Inflation, Currency*
The primary purpose of Global Fixed Income is to provide exposure to rates and credit risk, providing a combination of capital preservation and return-seeking assets.
Private Debt - *Credit, Other (liquidity)*
The purpose of Private Debt is to provide similar exposures as Global Fixed Income while opportunistically capturing an illiquidity premium.
Real Assets - *Inflation, Rates, Currency, Other (liquidity)*
The purpose of Real Assets is to provide a positive real rate of return in all environments, with an emphasis on maintaining purchasing power in periods of high or increasing inflation.
Absolute Return - *No traditional factor exposures*
The purpose of Absolute Return is to achieve consistent positive returns while reducing overall Plan volatility and increasing Sharpe ratio. This is accomplished by low correlation and beta to factor exposures, and producing alpha-based returns.
GTAA - *Variable exposure to Growth, Inflation, Rates, Credit, Currency, Other*
The purpose of GTAA allocation is to provide diversification, while producing an asymmetric return profile and limiting coincident downside relative to equities and credit.
Cash - *No traditional factor exposures*
The purpose of Cash is to maintain sufficient liquidity for Plan expenses and tactical portfolio positioning.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

REBALANCING

19) The strategic asset allocation of the Plan will be monitored on a monthly basis and the assets of the Plan 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.

20) 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 market conditions, liquidity, transaction costs, as well as any other relevant factors. The Retirement Plan will be rebalanced to tactical rather than long-term target allocations in circumstances where the Board of Trustees have approved a tactical allocation. An asset allocation overlay service may be engaged to monitor the allocations and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines.

DIVERSIFICATION

21) 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 asset classes, issues, issuers, geographies, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

22) Consistent with paragraph 21 above:

   a) No single investment management firm shall be authorized to manage more than 10% of the Plan's assets without Board approval:

      i) with the exception of passive management where the Plan's assets are not held in the Plan's name at the Plan's custody bank;

      ii) in which cases can manage no more than 20% of the Plan's assets without Board approval.

   b) As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

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

24) The CIO is entrusted with ensuring that sufficient monies are available to meet pension benefits, member refunds, administrative payments, manager funding and other cash flow requirements. As such, liquidation of assets is required at times to meet these obligations. The CIO shall have the authority to determine the most appropriate asset class to liquidate to provide the cash needed. The CIO will present a quarterly written report to the Investment Committee which includes any liquidation action taken.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

PROXY VOTING

25) Proxies must be voted in the best interest of shareholders in this case the Plan and its members and beneficiaries. The Plan may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Plan and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Plan's proxies. Any third parties retained to vote the proxies of the Plan shall provide periodic reports to the Plan on their activities.

26) 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

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

    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 Plan.

28) 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.

29) The procedures noted in paragraph 28 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

30) The CIO shall have the authority to terminate any manager prior to the next scheduled Investment Committee meeting when in his/her estimation imminent impairment to assets could occur. Termination may result from any unanticipated events including; changes in organizational structure or personnel, compliance issues, changes in strategy or style, uncharacteristic performance. The CIO will present a written report to the Investment Committee for any termination at the next scheduled Investment Committee meeting.

31) In addition to the aforementioned, the Board has delegated authority to the Investment Committee to hire/terminate any manager with Plan assets of less than $75 million with a unanimous vote of the Investment Committee.

MONITORING INVESTMENT MANAGERS

32) The Plan's investment managers will be monitored on an ongoing basis and may be terminated by the Plan 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 Plan.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

33) The CIO shall have the authority to increase/decrease allocations to previously approved manager provided it is consistent with house views presented in the Annual Investment Work Plan, or subsequent update, provided that no allocation be increased/decreased more than 50% from the initial manager funding amount without prior Investment Committee approval. The CIO will present a quarterly written report to the Investment Committee which includes any increase/decrease to manager allocations.

34) The CIO shall have the authority to reallocate among previously approved managers between sub-asset classes provided it is consistent with house views presented in the Annual Investment Program Work Plan or subsequent update. The CIO will present a quarterly written report to the Investment Committee which includes any reallocations among managers between sub-asset classes.

35) 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.

36) 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 Plan;

    b) Loss of an investment professional(s) directly responsible for managing the Plan'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 Plan's assets at undue risk of loss.

DERIVATIVE SECURITIES

37) 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;

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

38) 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.

39) Additional derivatives strategies must be authorized by this Investment Policy Statement prior to being utilized within the Plan.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

40) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Plan may use derivatives that are contrary to paragraphs 37 and 38 above.

INVESTMENT RESTRICTIONS

41) Investment management agreements will be established for each investment manager retained by the Plan. 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

42) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Plan.

43) The Board will be provided reports on investment costs of the Plan at least annually.

VALUATION OF INVESTMENTS

44) The Plan'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. To the extent possible, market values shall be obtained on a daily basis, based on public prices or quotations from investment firms. For certain investments, however, valuations will be prepared or reviewed on at least an annual basis (e.g. private instruments and real estate).

45) 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

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

47) Appendices B-H contain additional policy guidelines concerning each asset class.

48) Exceptions to this Investment Policy Statement must be approved in writing by the Board.

POLICY REVIEW & HISTORY

49) This policy will be reviewed at least annually.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix A LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target (%)
Equity		
Global equity	MSCI ACWI IMI (Net)	31%
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
Fixed Income		
Global fixed income	80% Barclays Global Aggregate 5% BAML Global High Yield 5% S&P Global Leveraged Loan Index 5% JP Morgan GBI-EM Global Diversified Index 5% JP Morgan EMBI Global Diversified Index	16%
Private debt	S&P Global Leveraged Loan Index + 2%	11%
Real Assets		
Real estate	NCREIF Property Index	7%
Commodities	Bloomberg Commodities Index	7%
Infrastructure	Dow Jones Brookfield Global Infrastructure Index	3%
Absolute return	Hedge Fund Research, Inc. All Macro Index	6%
Global tactical asset allocation (GTAA)	60% MSCI World/40% Citi WGBI	10%
Cash	91 day T-Bills	1%

Interim Asset Allocation targets as approved at the April 5, 2018 Board Meeting.

Asset Class	Benchmark	Target (%)
Equity		
Global equity	MSCI ACWI IMI (Net)	34%
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
Fixed Income		
Global fixed income	80% Barclays Global Aggregate 5% BAML Global High Yield 5% S&P Global Leveraged Loan Index 5% JP Morgan GBI-EM Global Diversified Index 5% JP Morgan EMBI Global Diversified Index	28%
Private debt	S&P Global Leveraged Loan Index + 2%	8%
Real Assets		
Real estate	NCREIF Property Index	8%
Commodities	Bloomberg Commodities Index	6%
Infrastructure	Dow Jones Brookfield Global Infrastructure Index	2%
Absolute return	Hedge Fund Research, Inc. All Macro Index	6%
Global tactical asset allocation (GTAA)	60% MSCI World/40% Citi WGBI	0%
Cash	91 day T-Bills	0%

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix B PUBLIC EQUITY

ASSET CLASS PHILOSOPHY

The Public Equity asset class invests in publicly listed shares of companies to generate returns. The asset class uses a combination of passive and active strategies to target drivers of return globally, with the ability to vary exposures across regions, market capitalizations and styles. The performance of the constituent strategies must be primarily driven by price changes in equities.

The exposures of the asset class will be allocated across the aforementioned dimensions according to an assessment of the factor's relative risk-adjusted return potential in the context of the Plan's aggregate exposures. Most assessments rely upon the Program's belief that valuations mean revert over time. Some exposures may be more opportunistic, or not tied to the mean reversion of a risk premium; such exposures will be presented with a specific investment thesis and time horizon for re-evaluation.

The aggregate exposures of the Public Equity asset class must be aligned with the goals of the Plan at large, and correspondingly should be viewed in context of the exposures held across the Plan.

OBJECTIVES

1) The Public Equity asset class will be structured to help the Plan achieve its long-term risk-adjusted return objective.
2) The policy benchmark of the Public Equity asset class is MSCI ACWI IMI (Net Dividends). The benchmark is not currency hedged.

CHARACTERISTIC AND CONSTRAINTS

3) The portfolio will be structured:
   a) To be a diversified, global portfolio with superior risk return characteristics;
   b) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation.
4) The Public Equity asset class will be subject to the following constraints:
   a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
   b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement;
   c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board. The asset class will normally be fully invested in equity related strategies, although individual strategies may hold cash;
   d) Strategies may hedge currency to manage risk-adjusted returns;
   e) Strategies may have variable net exposures, including hedge fund strategies.
5) Any breach of above target allocations or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix C PRIVATE EQUITY

OBJECTIVE

The private equity portfolio seeks to achieve superior risk-adjusted returns and outperformance relative to a public equity benchmark plus an illiquidity premium, with a defensive risk profile achieved through diversification and bottom-up due diligence. The Plan seeks to invest in private equity funds that are expected to be in the top quartile of the private equity fund universe, opportunistically invest in private equity fund secondaries, and strategically co-invest alongside private equity funds, in order to achieve this objective.

The policy benchmark of the private equity portfolio is:

a) Cambridge Associates Private Equity Index

Additional benchmarks that may be considered include the following:

b) Burgiss Private iQ All Private Equity, All Regions

c) MSCI ACWI IMI Public Market Equivalent +300 bps

PORTFOLIO CHARACTERISTICS

The asset class should include the following characteristics:

a) Global core private equity program focused on investments across regions and diversification across vintage years and investment strategies;

b) Portfolio of leading private equity managers seeking to generate superior performance through operational improvements within their portfolio companies;

c) Active portfolio management through opportunistic direct co-investments and secondary purchases seeking to reduce the "J-curve", improve IRR performance, and the private equity portfolio's cash-flow profile.

TARGET ALLOCATION

Investment Type	Target	Geography (Primaries Only)	Target	Strategy (Primaries Only)	Target
Primaries	0-80%	North America	40-55%	Buyout[1] (includes growth equity)	0-80%
Direct Co-Investments & Secondaries	0-40%	Europe	35-45%	Special Situations	0-30%
		Rest of world	0-15%	Venture Capital	0-20%

[1] Buyout includes growth and special situations includes natural resources/energy; and other strategies

PACING PLAN

The Net Asset Value ("NAV") of the private equity portfolio represents the actual allocation relative to the long-term policy target allocation. The NAV will be monitored and projected on a regular basis to confirm the trajectory is consistent with the target allocation. A cash flow model incorporating each investments' characteristics (vintage, type, strategy, etc.) will be used to calibrate the NAV projection. This projection will reflect the "run-off" of mature investments, and the "ramp-up" of new investments.

A pacing plan will be conducted on an annual basis, providing a directional guideline for future commitments based on market conditions. In addition, the Plan may allocate to new investments more or less than the pacing plan implies, based on the attractiveness of market conditions and market opportunities.

Appendix D GLOBAL FIXED INCOME

ASSET CLASS PHILOSOPHY

The Global Fixed Income asset class invests in securities and portfolio management strategies that utilize contractual obligations of governments, corporations, and structured products globally. The Global Fixed Income asset class provides exposures to rates and credit risk factors across traditional and hedge fund investment vehicles.

Fixed income has historically been included in asset allocations because (i) it has historically exhibited low correlation with equity markets - enhancing expected risk-adjusted return in a diversified portfolio; and (ii) it has historically generated moderate current income as a component of total return - providing cash flow to meet liabilities and insulate against market value fluctuations. These traits - low correlation and current income as a component of total return - may not exhibit their historical tendencies in times of extremely high or extremely low interest rates, though over the long term they are expected to revert to their traditional characteristics.

The purpose of Global Fixed Income is to maintain the historical fixed income benefits of low correlation and total return across all market environments. To accomplish this objective across various market environments, exposure to rates, credit, and other risk factors can deviate materially from those of the benchmark according to asset allocation at the Plan level, phases in the economic/credit cycle, and tactical positioning informed by staff views on macroeconomic fundamentals, valuation, and market technicals. Implementation may be achieved predominantly through active management because benchmark construction can be sub-optimal and the over-the-counter nature of fixed income securities can create technical imbalances.

OBJECTIVES

1) The Global Fixed Income asset class will be managed to achieve the following long-term portfolio objectives:
   a) Return: To earn an annualized return net of expenses that exceeds the annualized total rate of return of the blended benchmark over a market cycle;
   b) Risk: To exhibit forecasted and realized annualized volatility over a market cycle similar to or less than the benchmark;
   c) Income: To provide current coupon income similar to that of the Global Fixed Income policy benchmark;
   d) Liquidity: To be a source of liquidity for rebalancing, changes in asset allocation, and operational liquidity requirements.
2) The policy benchmark of the Global Fixed Income asset class is a blend of several indices:
   80% Bloomberg Barclays Global Aggregate - unhedged
   5% S&P Global Leveraged Loan
   5% Bank of America Merrill Lynch Global High Yield
   5% JP Morgan GBI-EM Global Diversified
   5% JP Morgan EMBI Global Diversified.

PORTFOLIO CHARACTERISTICS

3) The portfolio will be structured:
   a) To be a diversified, global portfolio with superior risk-adjusted return characteristics;
   b) To include multiple fixed income strategies;

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

c) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation;

d) To exclude direct allocations to private fund structures.

TARGET ALLOCATION

Sub-Asset Class	Targeted Exposures (% of Net Asset Value)
Global Core	25% - 100%
Non-Investment Grade Credit	0% - 50%
Emerging Market Debt	0% - 50%

PORTFOLIO CONSTRAINTS

4) The Global Fixed Income asset class will be subject to the following constraints:

   a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;

   b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;

   c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.

5) Any breach of target allocations, above, or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

Appendix E PRIVATE DEBT

ASSET CLASS PHILOSOPHY

The Private Debt asset class invests in securities and portfolio management strategies that provide similar exposures and risk factors as the Global Fixed Income asset class, but have characteristics that make them suitable only for illiquid, private fund structures.

The Private Debt asset class is managed in a style reminiscent of private equity, with annual pacing plans to guide commitments to drawdown structures. Performance is evaluated on the basis of net-of-fees IRR and multiples on invested capital compared with public market equivalents.

Private Debt is an opportunistic asset class whose attractiveness varies significantly with changes in the liquidity of fixed income markets. Consequentially, the NAV and the aggregate commitments, as a percentage of Plan, may substantially deviate from target asset class weights.

OBJECTIVES

1) The Private Debt portfolio will be managed to achieve the following long-term portfolio objectives:

   a) Return: To earn an annualized return that exceeds the annualized total rate of return of the S&P Global Leveraged Loan Index by 2%;

   b) Risk: To exhibit a forecast and realized annualized volatility similar to the benchmark;

   c) Income: To provide current coupon income in excess of that of the Global Fixed Income policy benchmark;

   d) Liquidity: To generate annual income through realizations of portfolio investments that equal or exceed annual capital calls by managers to fund fees and investments once the program is fully mature.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix E PRIVATE DEBT *(continued)*

2) The policy benchmark of the private debt portfolio is the S&P Global Leveraged Loan Index plus 2%.

PORTFOLIO CHARACTERISTICS

3) The portfolio will be structured:
   a) To be a diversified, global portfolio with superior risk return characteristics;
   b) To include multiple private debt strategies;
   c) To emphasize strategies that provide high levels of contractual income;
   d) To exclude direct allocations to private equity strategies, and target limited exposure on a look through basis, as defined by no more than 30% of return derived from equity securities.

TARGET ALLOCATION

Strategy	Targeted Exposures (% of Committed Capital)
Senior Loans / Direct Lending	25% - 100%
Mezzanine / Subordinated Debt	0 % - 25%
Distressed (for control and non-control)	0% - 25%
Niche strategies	0% - 75%

PORTFOLIO CONSTRAINTS

4) The private debt portfolio will be subject to the following constraints:
   a) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 30% of the private debt portfolio;
   b) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 4% of the total Plan;
   c) Aggregate commitments (without regard to their investment period) should not represent more than 10% of investment manager's total capital commitments under management.

5) In such circumstance where it is not possible or practical to timely implement or maintain the policy, the Investment Committee will monitor the status of the Private Debt asset class and seek to comply with the policy when it is possible and prudent to do so.

Appendix F REAL ASSETS

ASSET CLASS PHILOSOPHY

The Real Asset allocation is intended to be a diversifier to the total investment portfolio. Real Assets have traditionally provided diversification benefits through low correlations to other asset classes. A secondary benefit of investing in real assets is that Real Assets are tangible assets, with intrinsic value, that often offer a reasonable expectation of inflation protection. The purpose of Real Assets is to maintain purchasing power in periods of high or increasing inflation.

Implementation of the Real Assets allocation is through the construction, over time, of a well-diversified portfolio of Real Assets utilizing public, private, passive and active managers dependent on market characteristics. Real assets encompass an array of investment strategies and include commodities, commodities-linked stocks and bonds, commodities-oriented hedge funds and hedge funds of funds, and direct and/or fund investments in real estate, energy, farmland, timber, and infrastructure.

Appendix F **REAL ASSETS *(continued)***

OBJECTIVES

The Real Assets asset class will be constructed in a manner to help the plan achieve its long-term risk-adjusted return objective. Exposure to Real Assets can be achieved through allocations to commodities, infrastructure, natural resources and real estate.

Commodities sectors include, but are not limited to: agriculture, energy, livestock, industrial metals, and precious metals. The portfolio may gain exposure to commodities through long only beta managers, intermittent beta managers, and alpha managers. Beta exposure can be achieved via pure beta or risk parity portfolios. Intermittent beta and/or alpha mandates can be achieved via portfolios with exposure to long/short, directional, and/or relative value managers. Since delivery and storage of a physical commodity poses challenges, economic exposure is usually achieved for commodities through the use of derivatives including futures, total return swaps, options and forward contracts.

The Infrastructure asset class consists of a wide range of physical assets and businesses that provide essential services to communities. Infrastructure asset class strategies include core, value-added, and opportunistic investment strategies. The infrastructure asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in infrastructure related assets or liquid securities of infrastructure related businesses. Infrastructure investments may consist of equity or debt investment in a single asset, business, or infrastructure projects.

Natural Resources include tangible commodities such as crude oil, copper, timber and agricultural products. Natural Resources funds focus on opportunities among a wide array of relevant economic activities, from extraction to transportation to refining, that are tied to the underlying value of commodities. The Natural Resources asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in natural resources related assets, or liquid securities of natural resources related businesses. Natural Resources investments may consist of equity or debt investment in a single asset, business, or project.

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 (i.e. REITs). Private core real estate funds can be either open-ended or close-ended. Non-core strategies generally encompass greater risk, whether through increased use of leverage, greater reliance on renovation or development, 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 allocation can include strategies such as value-added, opportunistic, or real estate debt. Real Estate asset class shall be invested by purchasing interests in real estate funds/fund-of-funds that invest in real estate assets, direct property holdings, or publicly traded real estate securities.

The policy benchmarks for the Real Assets asset class are as follows:

Commodities:	Bloomberg Commodity Index
Infrastructure:	Dow Jones Brookfield Global Infrastructure Index
Natural Resources:	S&P Global Natural Resources Index
Inflation-Linked Assets:	CPI +5%
Real Estate:	NCREIF Property Index

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix F REAL ASSETS *(continued)*

CHARACTERISTICS AND CONSTRAINTS

1) The Real Assets asset class will be subject to the following constraints:
   a) Diversification requirements as it relates to concentration of plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
   b) Adherence to the strategic asset allocation ranges described in the full Investment Policy Statement;
   c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or the Board.
2) Any breach of the target allocations above, or portfolio constraints, requires notification to the Investment Committee to discuss appropriate action.
3) Private investments shall be structured with pacing plans to guide commitments to drawdown structures, and shall focus on net-of-fees internal rate of returns and multiples.
4) Due to the nature of drawdown private market structures, investments in liquid alternatives such as index funds or proxies of the sub-asset class may be used to gain interim exposures.

Appendix G ABSOLUTE RETURN PORTFOLIO

(For purposes of this Appendix the "Absolute Return" portfolio refers to the hedge fund strategies allocation within the Absolute Return asset class.)

OBJECTIVES

1) The absolute return portfolio will be managed to achieve the following long-term portfolio objectives:
   a) Return: To earn an annualized return that exceeds the annualized rate of return of the three-month Libor by 5%;
   b) Risk: To exhibit a forecast and realized annualized volatility between 4% and 8%;
   c) Beta: To achieve an absolute value Beta to MSCI World <= 0.2.
2) The policy benchmark of the absolute return portfolio is the Hedge Fund Research, Inc. All Macro Index.

PORTFOLIO CHARACTERISTICS

3) The portfolio will be structured:
   a) To be a diversified, global portfolio with superior risk return characteristics;
   b) To include multiple absolute return strategies;
   c) To exclude direct allocations to equity and credit strategy classified funds, and target limited exposure on a look through basis;
   d) To have low correlation to traditional market indices, lowering overall portfolio risk; and
   e) To reduce downside participation in severe bear markets.

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix G **ABSOLUTE RETURN PORTFOLIO *(continued)***

(For purposes of this Appendix the "Absolute Return" portfolio refers to the hedge fund strategies allocation within the Absolute Return asset class.)

TARGET ALLOCATION

Strategy	Targeted Exposure
Relative Value	25%-50%
Macro / Directional	35%-75%
	Residual Exposures via Multi-Strategy Funds
Equity Long/Short	0-10%
Event Driven	0-15%

PORTFOLIO CONSTRAINTS

4) The absolute return portfolio will be subject to the following constraints:

   a) No aggregate investment with any single investment manager should represent more than 15% of the absolute return 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 investment manager should exceed 10% of the manager's total assets under management;

   d) No single fund should contribute more than 20% to the expected risk of the absolute return portfolio, as measured by the fund's contribution to the 3 year standard deviation of the Current Systematic series as generated by Albourne, and illustrated in their monthly reports. The Current Systematic Series represents "forecast risk" and is a return series constructed from the portfolio's aggregate systematic exposures at the end of the month held static while the factor performance is varied going back in time.

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

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix H GLOBAL TACTICAL ASSET ALLOCATION (GTAA)

ASSET CLASS PHILOSOPHY

The GTAA allocation seeks exposure to multi-asset strategies through investment managers. The allocation can gain exposure to a wide array of securities on and off exchange, in both long and short capacities, can use modest levels of leverage and can hedge or short market beta and/or undesirable market exposures.

The allocation can be tactically managed; rotating capital among GTAA strategies based on market views and strategy specific characteristics. Market views can be formed through third party research, proprietary research, and the investment program. The GTAA allocation is benchmark unconstrained.

The policy benchmark of the GTAA allocation is a global 60/40 portfolio, consisting of 60% MSCI World (Net) and 40% CITI WGBI.

OBJECTIVES

1) Provide diversification to the overall portfolio, positive asymmetry in returns, and attractive risk adjusted returns while reducing coincident downside relative to equities and credit.

CHARACTERISTICS AND CONTRAINTS

2) The portfolio will be structured:
   a) To be a diversified portfolio, which may be accomplished with one or more investment managers, with superior risk return characteristics;
   b) To maintain risk levels that are consistent with the characteristics envisioned in the asset allocation.
3) The GTAA allocation will be subject to the following constraints:
   a) Diversification requirements as it relates to concentration of Plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
   b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;
   c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.

Statement of Investment Policy

HEALTHCARE - 115 SUBTRUSTS

1) This investment policy statement governs investments for the City of San José Police and Fire Department Retiree Health Care Trust Fund (the "Health Care Trust"). The Health Care Trust is an Internal Revenue Code Section 115 trust that was established on June 24, 2012. The Health Care Trust is separate from the City of San José Police and Fire Department Retirement Plan (the "Plan"), and contributed assets are to be used for the sole purpose of providing healthcare benefits to Plan beneficiaries. The Health Care Trust was established to provide an alternative to the existing 401(h) account, which is included within the Plan.

2) The Fund will be managed as an ongoing concern with a long-term investment time horizon.

INVESTMENT OBJECTIVES

3) The Health Care Trust's sole and exclusive objective is to provide a funding source for the health and welfare benefits for retirees and dependents of the City of San José Police and Fire Department Retirement Plan.

4) To achieve the goal detailed above, the Health Care Trust's assets will be managed:
   a) To achieve a high level of return with a prudent level of risk;
   b) To provide sufficient liquidity to meet all cash needs;
   c) To provide sufficient diversification in an effort to avoid significant losses and preserve capital.

FIDUCIARY STANDARDS

5) The Board of Administration is subject to the following duties under law:
   a) The assets of the Health Care Trust are trust funds and shall be held for the exclusive purposes of providing benefits to members of the Plan and their beneficiaries and defraying reasonable expenses of administering the Health Care Trust;
   b) The Board shall discharge their duties with respect to the Health Care Trust solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and their beneficiaries, and defraying reasonable expenses of administering the Health Care Trust. The Board's duties to the members and their beneficiaries shall take precedence over any other duty;
   c) The Board 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.

6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Health Care Trust'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 Health Care Trust 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;

HEALTHCARE - 115 SUBTRUSTS (continued)

d) Policy on the Role of the Chief Investment Officer;

e) Policy on Roles in Vendor Selection.

ASSET ALLOCATION

8) The long-term asset allocation of the Health Care Trust will be determined based on the results of an asset allocation study.

9) The current asset allocation policy of the Health Care Trust (at market value) as of August 1, 2014 is set out below:

Broad Asset Class	Minimum	Target	Maximum
Equity	25%	43%	50%
Fixed income	5%	15%	25%
Inflation-linked	12%	22%	25%
Absolute return / Global tactical asset allocation	0%	20%	25%
Cash	0%	0%	5%
Total		**100%**	

10) The Board is 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.

11) The long-term asset allocation of the Health Care Trust 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. The Board may review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary.

12) 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 asset allocation policy. The Investment Structure and any changes thereto do not necessarily require that an asset allocation study be performed.

REBALANCING

13) The asset allocation of the Health Care Trust will be monitored on a monthly basis and the assets of the Health Care Trust are to be rebalanced to within the target ranges when fluctuations in fair 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.

14) 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 the allocation is within the guideline ranges.

DIVERSIFICATION

15) 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.

HEALTHCARE - 115 SUBTRUSTS (continued)

16) Consistent with paragraph 15 above:

a) No single investment management firm shall be authorized to manage more than 15% of the Health Care Trust's actively managed assets without Board approval. There is no limit on the amount of passively managed assets that an investment management firm shall be authorized to managed;

b) As a general rule, Health Care Trust assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

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

PROXY VOTING

18) Proxies must be voted in the best interest of shareholders in this case the Health Care Trust and its members and beneficiaries. The Health Care Trust may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Health Care Trust and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Health Care Trust's proxies. Any third parties retained to vote the proxies of the Health Care Trust shall provide periodic reports to the Health Care Trust on their activities.

19) 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

20) 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 Health Care Trust.

21) 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.

22) The procedures noted in paragraph 21 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

HEALTHCARE - 115 SUBTRUSTS (continued)

MONITORING INVESTMENT MANAGERS

23) The Health Care Trust's investment managers will be monitored on an ongoing basis and may be terminated by the Health Care Trust 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 Health Care Trust.

24) The majority of the Health Care Trust'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.

25) 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 Health Care Trust;

b) Loss of an investment professional(s) directly responsible for managing the Health Care Trust'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 Health Care Trust's assets at undue risk of loss.

DERIVATIVES SECURITIES

26) 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.

27) 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.

28) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Health Care Trust may use derivatives that are contrary to paragraphs 26 and 27 above.

HEALTHCARE - 115 SUBTRUSTS (continued)

29) This policy allows for the use of derivatives within the specific portfolios being managed by the investment managers retained by the Health Care Trust. Use of derivatives at the Health Care Trust level (i.e. Total Fund) must be authorized by this Investment Policy Statement prior to being utilized within the Health Care Trust.

INVESTMENT RESTRICTIONS

30) Health Care Trust assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Health Care Trust. The type of investment vehicles utilized by the Health Care Trust will be revisited as the asset size of the portfolio increases. In instances when the Health Care Trust invests through a commingled fund or separate account, investment management agreements will be established for each investment manager retained by the Health Care Trust. 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

31) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Health Care Trust.

32) The Board will be provided reports on investment costs of the Health Care Trust at least annually.

VALUATION OF INVESTMENTS

33) The Health Care Trust's investments shall be valued using fair values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.

34) 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

35) Appendix A contains the Long-term Policy Benchmark.

36) Exceptions to this Investment Policy Statement must be approved by the Board of Administration of the Health Care Trust.

POLICY REVIEW & HISTORY

37) This policy will be reviewed at least annually.

38) This policy was most recently reviewed by the Investment Committee on June 6, 2013.

Appendix A

LONG-TERM BENCHMARK

Asset Class	Benchmark	Target (%)
Equity	MSCI ACWI IMI (Net)	43%
Fixed Income	BC Aggregate	15%
Inflation-Linked	MSCI U.S. REIT	10%
	Bloomberg Commodity Index	12%
Absolute Return/GTAA	60% MSCI World / 40% CITI WGBI	20%

Investment Professionals

As of June 30, 2018

GLOBAL EQUITY		
Artisan Partners	GQG Partners	Russell Investments
Comgest	Marshall Wace LLC	Sandler Investment Group
Cove Street Capital	Northern Trust	Senator Investment Group
Dimensional Fund Advisors	Oberweis Asset Management	Vanguard Group
PRIVATE EQUITY		
57 Stars LLC	Industry Ventures	Portfolio Advisors LLC
CCMP Capital Investors	Innovation Endeavors	Siguler Guff & Company, LP
Crescent Capital Group	Neuberger Berman	TCW
Francisco Partners	Northern Trust	TPG Capital
HarbourVest Partners	Pantheon Ventures	Warburg Pincus LLC
GLOBAL FIXED INCOME		
Beach Point Capital Management	Colchester Global Investors Limited	Symphony Asset Management LLC
BlackRock	Davidson Kempner Capital Mgt LLC	Vanguard Group
Blue Bay Asset Management	Franklin Templeton Investments	Voya Investment Management
Claren Road Asset Management	Russell Investments	Wellington Management
PRIVATE DEBT		
Arrowmark Partners	Marathon Asset Management	Shoreline Capital
Blackstone Group	Medley Capital LLC	White Oak Global Advisors
Crestline Investors	Park Square Capital, LLP	
Cross Ocean Partners	Russell Investments	
REAL ASSETS		
American Realty Advisors	Global Infrastructure Partners	Russell Investments
Blackstone Group	KSL Capital Partners, LLC	TA Associates Realty
Brookfield Asset Management	Och-Ziff Capital Mgt Group LLC	Torchlight Investors
Credit Suisse	Orion Capital Manager LLP	Tristan Capital Partners
DRA Advisors LLC	Pinnacle Asset Management, L.P.	Vanguard Group
Gem Realty Capital	Rhumbline Advisers	
ABSOLUTE RETURN		
AHL Partners LLP	JD Capital	Systematica Investments, Ltd
D.E. Shaw & Co., LP	Kepos Capital LP	Wadhwani Asset Management LLP
Dymon Asia Capital, Ltd	Pharo Management LLC	
Hudson Bay Capital Management	Pine River Capital Management LP	
GLOBAL TACTICAL ASSET ALLOCATION (GTAA)		
Grantham, Mayo, Van Otterloo & Co.	PIMCO	
CONSULTANTS		
Albourne America LLC (Absolute Return)	Meketa Investment Group (General Consultant)	Verus Advisory Inc. (Risk Advisory Services)
CUSTODIAN		
	State Street Bank & Trust Company	
PORTFOLIO OVERLAY SERVICES		
	Russell Investments	

Schedule of Investment Results for Pension Trust Including 401(h)

NET PERFORMANCE SUMMARY BY ASSET CLASS
For Period Ended June 30, 2018

	One Year	Three Years	Five Years	Ten Years
Total Fund with Overlay (net of manager fees)	**6.9%**	**5.2%**	**5.6%**	**4.6%**
Policy Benchmark	7.6%	6.0%	6.2%	4.9%
InvestorForce Public DB > $1B Median	8.0%	6.7%	7.5%	6.1%
Total Global Equity	**10.3%**	**8.2%**	**9.3%**	**6.2%**
San Jose Custom Total Equity Benchmark	11.1%	8.3%	9.6%	6.6%
eV All Global Equity Net Median	10.4%	7.6%	9.4%	6.8%
Total Private Equity	**13.6%**	**10.4%**	**11.9%**	**8.9%**
San Jose Custom Total Private Equity Index	18.3%	12.1%	13.3%	8.4%
Total Global Fixed Income	**3.0%**	**3.7%**	**3.6%**	**6.1%**
Fixed Income Blended Benchmark	1.2%	2.1%	2.2%	4.8%
BBgBarc Global Aggregate TR	1.4%	2.6%	1.5%	2.6%
Total Real Assets	**9.2%**	**4.5%**	**N/A**	**N/A**
Real Assets Benchmark	6.6%	3.2%	N/A	N/A
Total Private Debt	**1.2%**	**N/A**	**N/A**	**N/A**
S&P Global Leveraged Loan + 2%	6.2%	N/A	N/A	N/A
Total Absolute Return	**4.4%**	**1.9%**	**2.6%**	**N/A**
San José Custom Absolute Return Benchmark	1.2%	0.2%	1.5%	N/A

Basis of Calculation: Time-Weighted Rate of Return
Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2018

Schedule of Investment Results of Healthcare Trust - 115 Subtrusts

NET PERFORMANCE SUMMARY BY ASSET CLASS
For Period Ended June 30, 2018

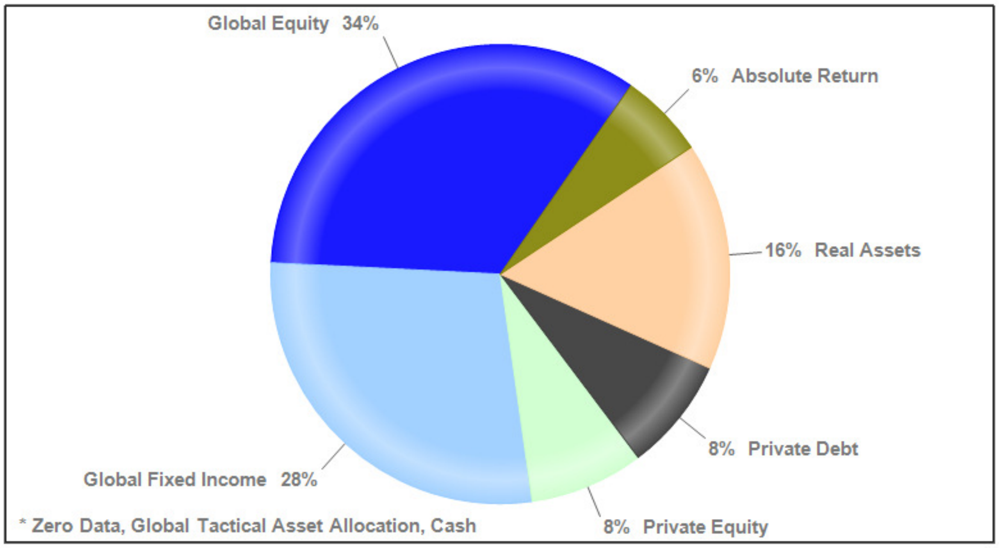
	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	**3.6%**	**3.6%**	**4.6%**	**N/A**
Policy Benchmark	7.4%	6.0%	6.1%	N/A
Total Global Equity	**11.1%**	**8.5%**	**9.8%**	**N/A**
MSCI ACWI IMI (net)	11.1%	8.3%	9.6%	N/A
Total Global Fixed Income	**(0.4)%**	**1.7%**	**2.2%**	**N/A**
BBgBarc US Aggregate TR	(0.4)%	1.7%	2.3%	N/A
Total Real Assets	**4.9%**	**3.9%**	**N/A**	**N/A**
Real Assets Custom Benchmark	5.2%	3.7%	N/A	N/A
Total Global Tactical Asset Allocation	**0.8%**	**1.5%**	**N/A**	**N/A**
60% MSCI World (Net) / 40% CITI WGBI	7.4%	6.3%	N/A	N/A

Basis of Calculation Time-Weighted Rate of Return
Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2018

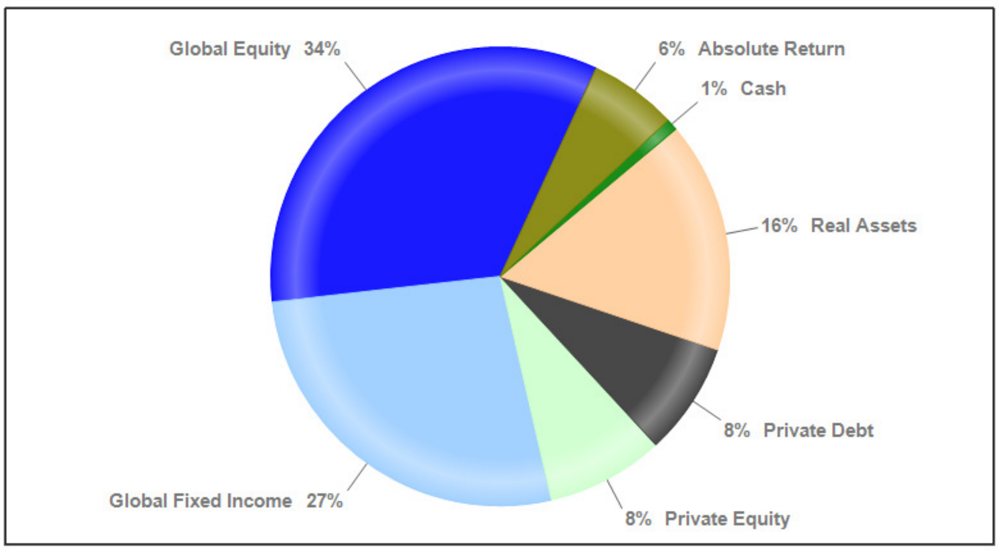
Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION *As of June 30, 2018*



ACTUAL ASSET ALLOCATION *As of June 30, 2018*
Non-GAAP Basis

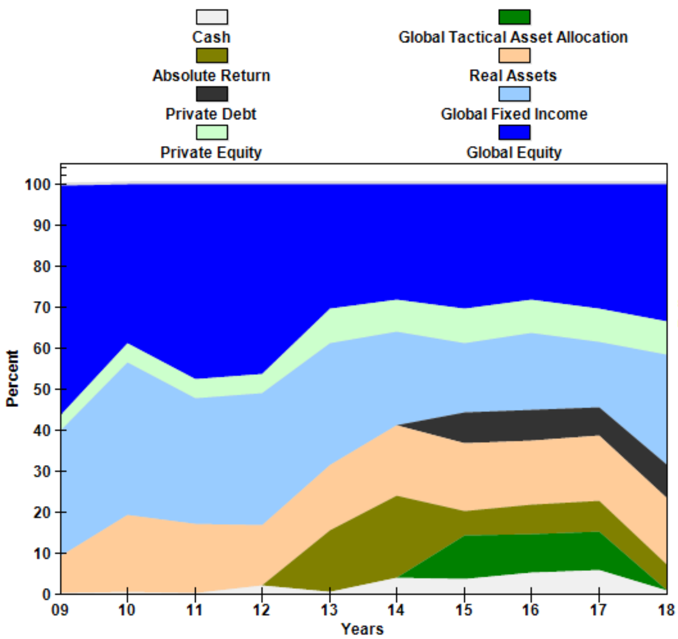


Asset Class	$ Millions
Global Equity	$1,177.2
Private Equity	293.8
Global Fixed Income	947.5
Private Debt	281.9
Real Assets	577.1
Absolute Return	218.0
Cash	27.9
TOTAL	**$3,523.4**

INCLUDES THE 401(H) INVESTMENTS

HISTORICAL ASSET ALLOCATION (Actual)

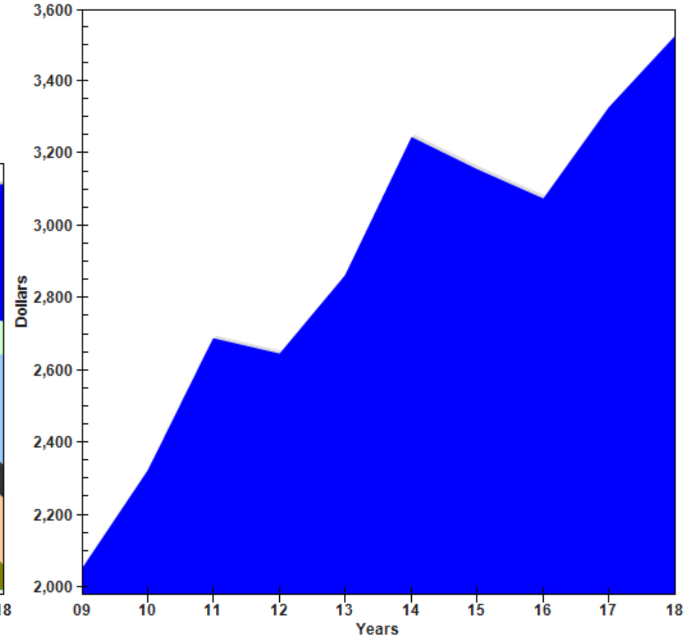
As of June 30, 2009 - June 30, 2018



MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2018

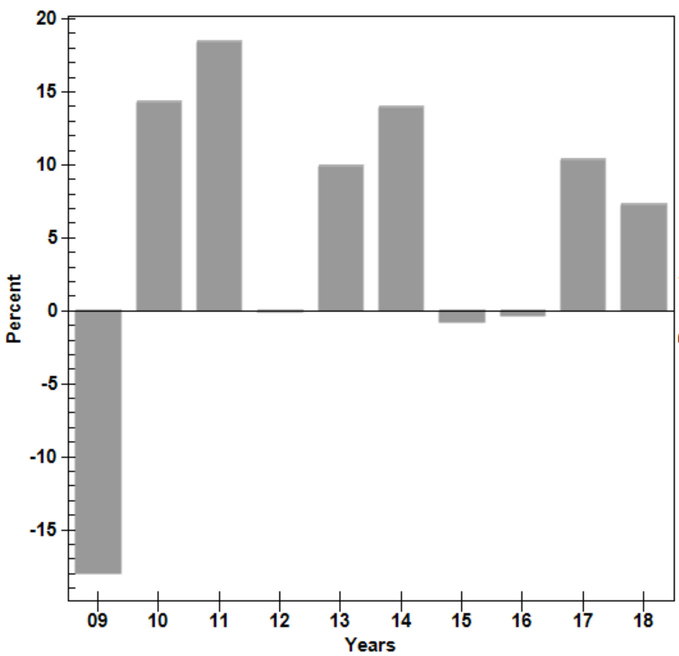
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2009 - 2018

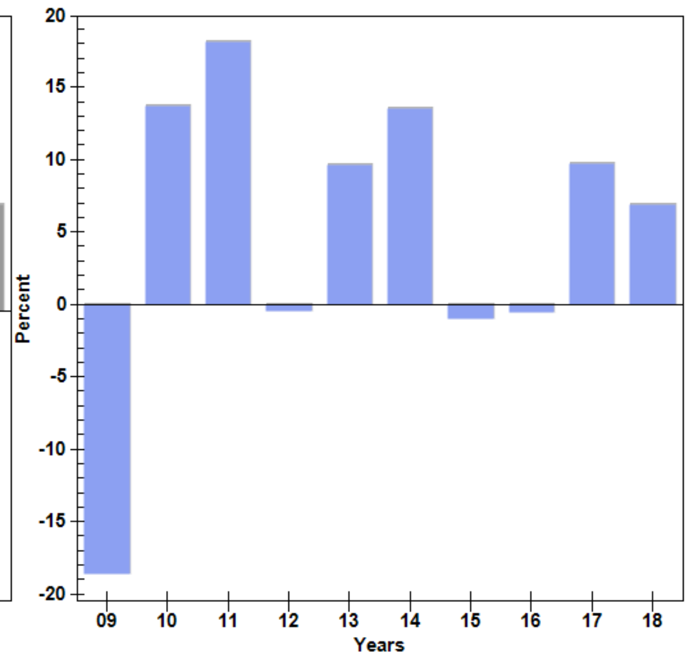
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2009 - 2018

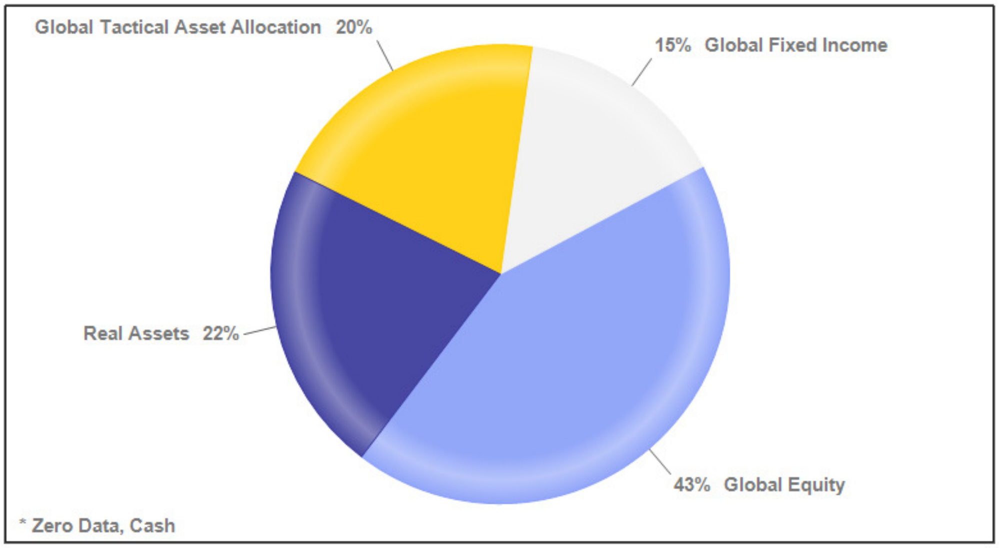
(Based on Fair Value)



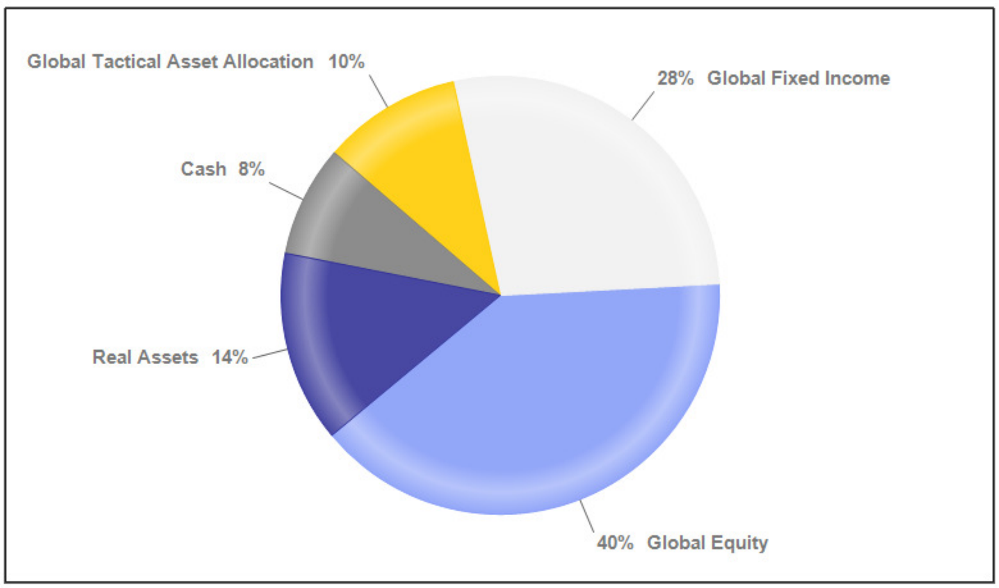
Healthcare Investment Review

115 SUBTRUSTS

TARGET ASSET ALLOCATION *As of June 30, 2018*



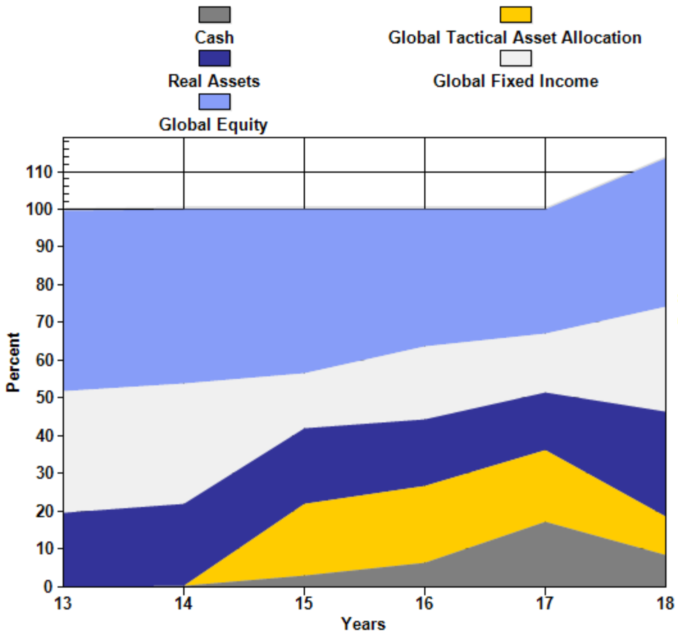
ACTUAL ASSET ALLOCATION *As of June 30, 2018*
Non-GAAP Basis



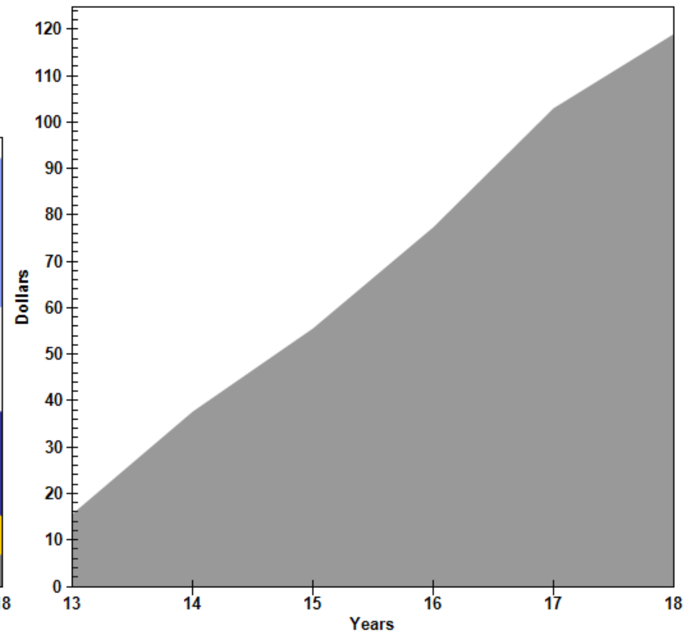
Asset Class		$ In Millions
Global Equity	$	46.8
Global Fixed Income		33.1
Real Assets		17.0
Global Tactical Asset Allocation		12.2
Cash		9.9
TOTAL	**$**	**119.0**

115 SUBTRUSTS (continued)

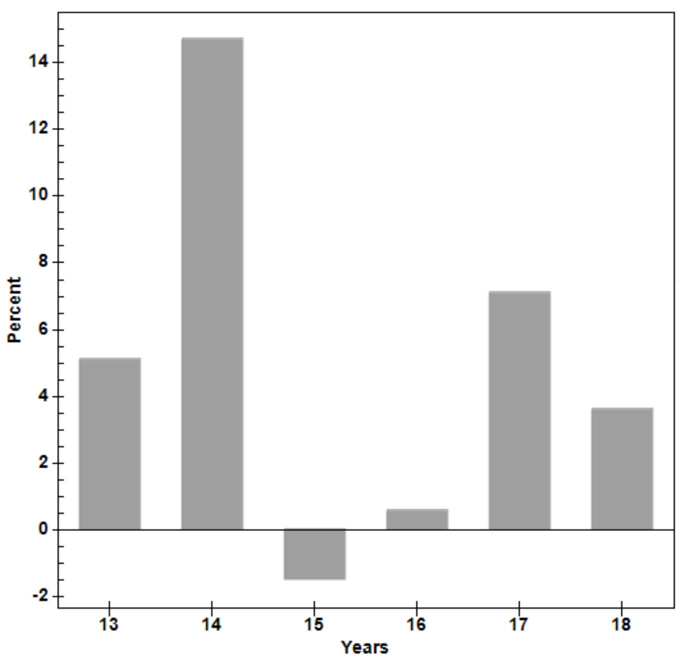
HISTORICAL ASSET ALLOCATION (Actual)
As of June 30, 2013 - June 30, 2018



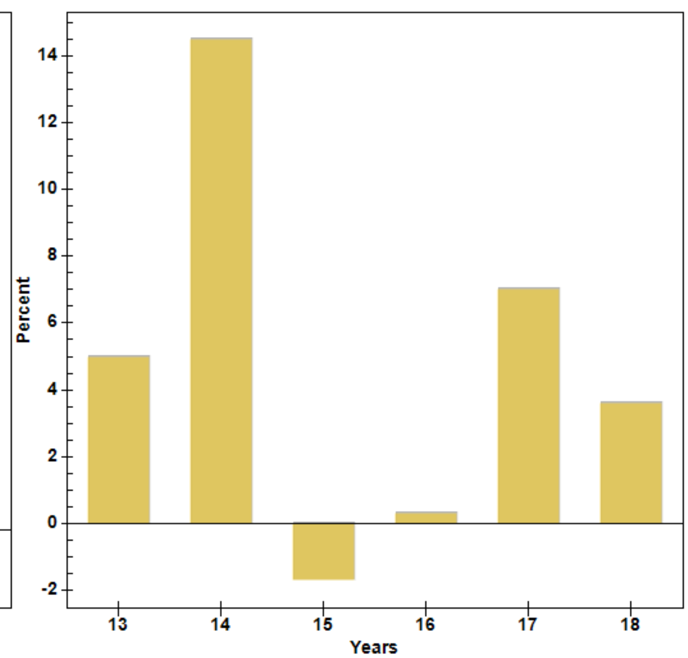
MARKET VALUE GROWTH OF PLAN ASSETS
For Six Years Ended June 30, 2018
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2013 - 2018
(Based on Fair Value)



HISTORY OF NET PERFORMANCE
For Fiscal Years 2013 - 2018
(Based on Fair Value)



List of Largest Asset Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension
As of June 30, 2018

Description	Country	Shares	Fair Value ($US)
SAMSUNG ELECTRONICS CO LTD	Republic of Korea	232,011	$9,711,362
BANK OF NEW YORK MELLON CORP	United States	140,978	$7,602,944
BAIDU INC SPON ADR	United States	28,161	$6,843,123
CITIGROUP INC	United States	101,657	$6,802,886
MARSH + MCLENNAN COS	United States	81,130	$6,650,226
ORACLE CORP	United States	145,596	$6,414,960
QUALCOMM INC	United States	113,336	$6,360,416
TESCO PLC	United Kingdom	1,816,273	$6,155,500
MEDTRONIC PLC	Ireland	69,286	$5,931,574
LLOYDS BANKING GROUP PLC	United Kingdom	7,031,304	$5,852,984

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension
As of June 30, 2018

Security Name	Country	Maturity Date	Interest Rate	Par Value	Fair Value ($US)
PFP III	United States	7/14/2035	6.92%	$1,170,000	$ 1,206,469
FHLMC MULTIFAMILY STRUCTURED P	United States	12/25/2041	1.85%	$15,000,000	$ 1,193,508
FREDDIE MAC STACR	United States	4/25/2030	4.44%	$1,096,720	$ 1,121,435
JP MORGAN MORTGAGE TRUST	United States	7/25/2035	4.21%	$1,237,511	$ 1,112,012
DEUTSCHE BANK COMMERCIAL MORTG	United States	9/10/2049	4.38%	$1,568,131	$ 1,101,488
MORGAN STANLEY BAML TRUST	United States	4/15/2047	5.05%	$1,120,000	$ 1,083,342
BLUEMOUNTAIN CLO LTD	United States	4/15/2025	5.50%	$1,043,290	$ 1,043,408
MORGAN STANLEY CAPITAL I TRUST	United States	6/12/2047	5.78%	$1,043,957	$ 1,026,693
MERRILL LYNCH MORTGAGE TRUST	United States	10/12/2041	5.17%	$1,008,759	$ 1,008,275
JP MORGAN MORTGAGE TRUST	United States	8/25/2047	3.87%	$1,005,030	$ 993,964

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2018

Includes the 401(h) and 115 Subtrusts

	Assets Under Management at Fair Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	$ 1,224,044,755	$ 2,576,021	21
Private equity	293,823,927	2,192,788	75
Global fixed income	980,614,906	3,188,866	33
Private debt	281,888,887	1,787,532	63
Real assets	594,123,611	5,244,373	88
Absolute return / GTAA	230,217,463	3,084,235	134
Cash	37,813,050	-	-
TOTAL INVESTMENT MANAGERS' FEES	**$ 3,642,526,599**	**$ 18,073,815**	**50**

**Includes cash in managers' accounts, non-GAAP Basis*

	Fees
Other Investment Fees	
Investment consultants	$ 612,611
Custodian bank	375,913
Investment legal fees	137,732
Other investment fees	50,418
TOTAL OTHER INVESTMENT FEES	**$ 1,176,674**

Schedule of Commissions
For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
A			
APEX CLEARING CORPORATION	3,186	$ 31.86	$ 0.0100
B			
B.RILEY & CO., LLC	2,500	75.00	0.0300
BAADER BANK AG	46,690	55.04	0.0012
BANCO SANTANDER CENTRAL HISPANO	56,186	211.75	0.0038
BARCLAYS CAPITAL	11,796,700	2,569.50	0.0002
BARCLAYS CAPITAL INC	314,245	844.40	0.0027
BARCLAYS CAPITAL INC. LE	7,248	283.07	0.0391
BLOOMBERG TRADEBOOK LLC	13,500	270.00	0.0200
BMO CAPITAL MARKETS CORP	4,795	95.90	0.0200
BNP PARIBAS SECURITIES SERVICES	7,273,914	1,085.23	0.0001
BNP PARIBAS SECURITIES SERVICES AUSTR BR	1,710,660	1,233.97	0.0007
BNP PARIBAS SECURITIES SERVICES SA	333,742,326	3,542.21	0.0000
BNP PARIBAS SECURITIES SERVICES, FRANCE	242,031	21.58	0.0001
BTIG LLC	119,831	2,396.62	0.0200
C			
CANACCORD ADAMS INC	267,138	134.80	0.0005
CANACCORD GENUITY CORP.	1,199,881	761.81	0.0006
CANACCORD GENUITY INC	3,100	62.00	0.0200
CANACCORD GENUITY LIMITED	223,914	266.32	0.0012
CANTOR FITZGERALD & CO	134,168	2,683.36	0.0200
CARNEGIE A S	1,322,247	243.74	0.0002
CARNEGIE INVESTMENTS BANK AB	27,040,233	5,202.45	0.0002
CARNEGIE SECURITIES FINLAND	431,055	1,455.86	0.0034
CHINA INTERNATIONAL CAPITAL CO	13,638,741	4,648.39	0.0003
CIBC WORLD MKTS INC	411,913	154.49	0.0004
CITIGROUP GLBL MARKET KOREA SECS LTD	116,267,567	233.74	0.0000
CITIGROUP GLOBAL MARKETS INC	613,852	1,072.91	0.0017
CITIGROUP GLOBAL MARKETS LIMITED	616,084	147.70	0.0002
CLSA SECURITIES KOREA LTD.	235,594,935	1,349.23	0.0000
CLSA SINGAPORE PTE LTD.	141,534,217	2,445.87	0.0000
COWEN AND COMPANY, LLC	1,207	24.14	0.0000
COWEN EXECUTION SERVICES LLC	34,171,092	5,722.07	0.0000
CRAIG - HALLUM	900	18.00	0.0200
CREDIT LYONNAIS SECURITIES (USA) INC	3,569	121.86	0.0341
CREDIT LYONNAIS SECURITIES (ASIA)	5,380,415	3,027.30	0.0006
CREDIT SUISSE SECURITIES (EUROPE) LTD	4,900,225	2,895.07	0.0006

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
CREDIT SUISSE SECURITIES (USA) LLC	272,714,879	17,270.24	0.0001
D			
DAIWA SECURITIES AMERICA INC	1,809,012,876	44,231.22	0.0000
DAIWA SECURITIES COMPANY LTD	275,426,851	303.21	0.0000
DANSKE BANK A.S.	17,163,812	3,944.42	0.0002
DEUTSCHE BANK SECURITIES INC	39,964,685	3,593.35	0.0001
DEUTSCHE SECURITIES ASIA LIMITED	1,004,291,256	1,672.10	0.0000
DOWLING & PARTNERS	25,739	1,046.32	0.0407
E			
ESN NORTH AMERICA INC	1,240,278	3,310.37	0.0027
EXANE S.A.	172,799	525.07	0.0030
F			
FIDELITY CAPITAL MARKETS	15,674	105.29	0.0067
FOKUS BANK ASA	1,369,250	245.99	0.0002
G			
GABELLI & COMPANY	179,500	5,385.00	0.0300
GMP SECURITIES LTD	358,061	127.51	0.0004
GOLDMAN SACHS & CO	-381,907,403	14,014.95	0.0000
GOLDMAN SACHS INTERNATIONAL	5,272	105.44	0.0200
H			
HSBC BANK PLC	1,695,219	1,671.77	0.0010
HSBC SECURITIES (USA) INC.	95,127,471	378.80	0.0000
I			
ICHIYOSHI SECURITIES CO LTD	592,982,984	12,379.54	0.0000
ING BANK NV	499,507	837.68	0.0017
INSTINET	1,568,586	15,794.71	0.0101
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	86,016	27.14	0.0003
INSTINET PACIFIC LIMITED	17,039,957	4,005.31	0.0002
INSTINET SINGAPORE SERVICES PT	1,263,382	1,733.69	0.0014
INSTINET U.K. LTD	686,416,318	12,484.03	0.0000
INVESTEC BANK PLC	120,610	123.50	0.0010
INVESTMENT TECHNOLOGY GROUP INC	3,792	58.96	0.0155
INVESTMENT TECHNOLOGY GROUP LTD	3,209,755	615.95	0.0002
ITAU USA SECURITIES INC	6,334	253.36	0.0400
J			
J. P. MORGAN SECURITIES INC	15,193,161	5,742.75	0.0004
J.P. MORGAN SECURITIES LLC	174,557	1,736.04	0.0099
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	4,590,608,079	2,118.47	0.0000
JEFFERIES & COMPANY INC.	652,102,554	38,986.17	0.0001

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
JEFFERIES HONG KONG LIMITED	13,600,644	2,936.72	0.0002
JEFFERIES INTERNATIONAL LTD	1,262,243	2,357.51	0.0019
JOH BERENBERG GOSSLER AND CO KG	2,535,340	4,349.14	0.0017
JONES TRADING INSTITUTIONAL SERVICES LLC	1,498,243	3,460.98	0.0023
JP MORGAN SECURITIES PLC	101,510,351	26,400.90	0.0003
K			
KCG AMERICAS LLC	43,665	830.13	0.0190
KEPLER EQUITIES PARIS	2,137,485	4,588.23	0.0021
KOREA INVESTMENT AND SECURITIES CO LTD	2,413,541,368	3,643.10	0.0000
L			
LIQUIDNET CANADA INC	6,481,673	3,274.22	0.0005
LIQUIDNET EUROPE LIMITED	4,042,111	3,748.66	0.0009
LIQUIDNET INC	115,334	1,486.68	0.0129
LOOP CAPITAL MARKETS	319,820	3,198.20	0.0100
M			
MACQUARIE BANK LIMITED	2,689,806	2,202.69	0.0008
MACQUARIE CAPITAL (EUROPE) LTD	38,726	42.04	0.0011
MERRILL LYNCH INTERNATIONAL	13,181,515	10,932.82	0.0008
MERRILL LYNCH PIERCE FENNER & S	755,869,805	71,957.46	0.0001
MIRAE ASSET DAEWOO CO., LTD.	69,760,645	76.55	0.0000
MITSUBISHI UFJ SECRITIES (USA)	825,015,890	12,710.01	0.0000
MIZUHO SECURITIES USA INC	1,221,539,804	18,767.24	0.0000
MORGAN STANLEY AND CO. INTERNATIONAL	-70,463,029	757.44	0.0000
MORGAN STANLEY CO INCORPORATED	295,195,517	19,239.20	0.0001
N			
NATIONAL FINANCIAL SERVICES CORPORATION	3,337	1.55	0.0005
NEEDHAM & COMPANY LLC	4,100	82.00	0.0200
NESBITT BURNS	21,181	7.11	0.0003
NUMIS SECURITIES INC	2,955,322	6,190.79	0.0021
O			
OPPENHEIMER & CO INC	5,958	229.17	0.0385
P			
PAREL	2,210,922	2,464.95	0.0011
PEEL HUNT LLP	920,530	1,657.46	0.0018
PERSHING LLC	9,911,158	190.52	0.0000
PERSHING SECURITIES LIMITED	1,258,281	326.92	0.0003
PIPER JAFFRAY & HOPWOOD	3,191	127.64	0.0400

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2018

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
R			
RAYMOND JAMES AND ASSOCIATES INC	14,332	578.08	0.0403
RAYMOND JAMES LTD	1,188,710	371.47	0.0003
RBC CAPITAL MARKETS, LLC	266,300	7,989.00	0.0300
RBC DOMINION SECURITIES INC	452,502	172.78	0.0004
REDBURN (EUROPE) LIMITED	872,625	1,465.46	0.0017
ROBERT W. BAIRD CO. INCORPORATE	126,890	2,602.18	0.0205
ROYAL BANK OF CANADA EUROPE LTD	-29,090	50.46	-0.0017
S			
SAMSUNG SECURITIES CO LTD	89,679,839	264.71	0.0000
SANFORD C BERNSTEIN & CO LLC	58,059	1,396.27	0.0240
SANFORD C BERNSTEIN LTD	488,009	182.47	0.0004
SANTANDER SECURITIES SERVICES SA	211,894	310.52	0.0015
SCOTIA CAPITAL (USA) INC	7,711	308.44	0.0400
SCOTIA CAPITAL INC	118,659	102.80	0.0009
SIDOTI & COMPANY LLC	17,534	557.36	0.0318
SKANDINAVISKA ENSKILDA BANKEN	23,797,119	4,992.46	0.0002
SKANDINAVISKA ENSKILDA BANKEN LONDON	3,655,896	2,038.16	0.0006
SMBC SECURITIES INC	869,661,745	13,369.67	0.0000
SOCIETE GENERALE LONDON BRANCH	73,842,622	31,285.69	0.0004
STEPHENS, INC	3,350	134.00	0.0400
STIFEL NICOLAUS & CO INC	6,180	177.20	0.0287
SUNTRUST CAPITAL MARKETS, INC.	1,100	22.00	0.0200
SVENSKA HANDELSBANKEN	12,838,395	3,492.92	0.0003
T			
THE HONGKONG AND SHANGHAI BANK	81,279,619	29.09	0.0000
TORONTO DOMINION SECURITIES INC	1,903,833	1,029.20	0.0005
U			
UBS AG	1,090,265,776	61.35	0.0000
UBS LIMITED	195,270	863.73	0.0044
UBS SECURITIES ASIA LTD	9,106,743	172.49	0.0000
UBS SECURITIES LLC	4,496	75.84	0.0169
UBS SECURITIES PTE.LTD., SEOUL	261,893,535	533.72	0.0000
W			
WEEDEN & CO	116,341	2,526.18	0.0217
WELLS FARGO BANK N.A.	17,291	691.64	0.0400
WELLS FARGO SECURITIES LLC	5,524	91.76	0.0166
WILLIAM BLAIR & T COMPANY LLC	337	13.48	0.0400
TOTAL	**18,836,502,158 $**	**526,406.20 $**	**0.0000**

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS
As of June 30, 2018 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Global equity	$	1,177,219	33.4 %
Private equity	$	293,824	8.3 %
Global fixed income	$	947,465	26.9 %
Private debt	$	281,889	8.0 %
Real assets	$	577,110	16.4 %
Absolute return	$	218,039	6.2 %
Collective short term investments*	$	27,940	0.8 %
TOTAL FAIR VALUE	**$**	**3,523,486**	**100.0 %**

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 - 115 SUBTRUSTS
As of June 30, 2018 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Global equity	$	46,826	39.4 %
Global fixed income	$	33,150	27.8 %
Real assets	$	17,013	14.3 %
Global tactical asset allocation	$	12,179	10.2 %
Collective short term investments	$	9,873	8.3 %
TOTAL FAIR VALUE	**$**	**119,041**	**100.0 %**

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.

Actuarial Section

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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2018 and June 30, 2017

CHEIRON Classic Values, Innovative Advice

October 4, 2018

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
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 Police and Fire Department Retirement Plan (Plan) 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, 2017. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2017 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

- 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 Provisions

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the Plan. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. The actuarial cost method and the actuarial

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Board of Administration
October 4, 2018
Page 2

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, 2017 actuarial valuation updated to the measurement date of June 30, 2018. The Board changed some of the demographic assumptions used in the June 30, 2017 valuation based on an experience study. These changes are reflected effective July 1, 2017 for financial reporting purposes. There were no significant events between the valuation date and the measurement date, so the update procedures only include the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 67/68 report as of June 30, 2018 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2018, GASB 67/68 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 Plan 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 No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

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.

CHEIRON

Board of Administration
October 4, 2018
Page 3

This letter and the schedules named above were prepared for the Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron

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

Timothy S. Doyle, ASA, EA, MAAA
Associate Actuary

Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The discount rate used in this report was adopted by the Board of Administration with our input at the December 7, 2017 Board meeting. All other assumptions were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the experience study for the rationale for each of the assumptions.

1) Discount Rate

6.875% net of investment expenses. The long-term expected return on assets based on Meketa's capital market assumptions for a 20-year time horizon is 7.1%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2) Wage Inflation 3.25% per annum (0.50% real wage growth).

3) Price Inflation 2.75% per annum.

4) Salary Increase Rate

The following merit component is added to wage inflation, based on an individual member's years of services:

Table B-1 Salary Merit Increases

Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	6.00%	4	4.00%	8	1.50%
1	5.50%	5	3.50%	9	1.00%
2	5.00%	6	2.75%	10	0.75%
3	4.50%	7	2.00%	11 +	0.50%

5) Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2 Percentage Married

	Males	Females
Percentage	85%	85%

6) Rates of Termination

Sample rates of termination are shown in the following Table B-3. 75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

Table B-3 Rates of Termination

Service	Police	Fire	Service	Police	Fire	Service	Police	Fire
0	16.00%	25.00%	6	4.75%	0.90%	12	3.00%	0.50%
1	11.75%	7.00%	7	4.00%	0.80%	13	2.50%	0.50%
2	9.85%	3.50%	8	3.50%	0.70%	14	2.00%	0.50%
3	8.35%	1.75%	9	3.50%	0.60%	15+	2.00%	0.50%
4	7.00%	1.25%	10	3.50%	0.50%			
5	5.75%	1.00%	11	3.50%	0.50%			

** Termination rates do not apply once a member is eligible for unreduced retirement*

7) Rates of Disability

For Police, disability rates are equal to the CalPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older. For Fire, disability rates are equal to the CalPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older. Sample disability rates of active participants are provided in Table B-4.

Table B-4 Rates of Disability at Selected Ages									
Age	25	30	35	40	45	50	55	60	65
Police	0.16%	0.45%	0.74%	1.03%	1.32%	2.70%	6.88%	8.71%	10.47%
Fire	0.03%	0.08%	0.15%	0.28%	0.50%	5.08%	7.54%	10.77%	14.84%

100% of disabilities are assumed to be duty related.

8) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

Base Mortality Table		
Category	Male	Female
Healthy Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Employee Mortality Table (Male)	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female)
Disabled Annuitant	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)

It is assumed that 50% of active deaths are service related.

9) Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-6, B-7, and B-8. Tier 1 rates only apply when the member is eligible for unreduced benefits.

Table B-6 Tier 1 Rates of Retirement by Age and Service				
	Police		Fire	
Age	Tier 1 <30 Years	Tier 1 30+ Years	Tier 1 <30 Years	Tier 1 30+ Years
50	55.00%	100.00%	35.00%	100.00%
51	45.00%	100.00%	35.00%	100.00%
52	40.00%	100.00%	35.00%	100.00%
53 - 55	35.00%	100.00%	35.00%	100.00%
56 - 57	35.00%	100.00%	27.50%	100.00%
58 - 61	50.00%	100.00%	27.50%	100.00%
62+	100.00%	100.00%	100.00%	100.00%

Table B-7 Police Tier 2 Rates of Retirement by Age and Service				
Age	**<20 Years**	**20 - 24 Years**	**25 - 29 Years**	**30+ Years**
50 - 56	2.00%	2.00%	2.00%	5.00%
57 - 59	7.50%	10.00%	20.00%	100.00%
60 - 61	10.00%	20.00%	35.00%	100.00%
62 - 64	25.00%	50.00%	75.00%	100.00%
65+	100.00%	100.00%	100.00%	100.00%

Table B-8 Fire Tier 2 Rates of Retirement by Age and Service				
Age	**<20 Years**	**20 - 24 Years**	**25 - 29 Years**	**30+ Years**
50 - 56	1.00%	1.00%	1.00%	2.50%
57 - 59	5.00%	7.50%	15.00%	100.00%
60 - 61	7.50%	15.00%	25.00%	100.00%
62 - 64	20.00%	35.00%	50.00%	100.00%
65+	100.00%	100.00%	100.00%	100.00%

Tier 1 vested terminated members are assumed to retire at age 55 and Tier 2 vested terminated members are assumed to retire at age 60.

10) Administrative Expenses

For FYE 2018, administrative expenses are assumed to equal $1,175 per member and are assumed to increase at the wage inflation assumption of 3.25% per annum. Historically, the administrative expenses were assumed to reduce the investment return assumption by 10 basis points which resulted in a higher normal cost. To maintain the same historic division of Tier 1 member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in normal cost that a 10 basis point reduction in the investment return assumption would cause. Tier 2 members pay 50 percent of administrative expenses.

11) Changes Since Last Valuation

Merit salary increases, termination rates, retirement rates, administrative expenses, and the mortality improvement projection scale have been changed based on an experience study covering demographic experience from June 30, 2009 through June 30, 2017. Please refer to the experience study report for the details of the assumption changes and the rationale.

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, 2011 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 cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2) Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (6.875% for 2016-2017, 7.00% for 2015-16, 7.00% for 2014-15, 7.125% for 2013-14, and 7.25% for 2012-13) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

3) Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 15-year period beginning with the valuation date in which they first arise. In previous valuations, actuarial gains and losses and plan changes were amortized over a 16-year period. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.25% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA

Valuation Date as of June 30,	Active Count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay*
2017	1,544	$ 203,816,469	$11,000	7.61%
2016	1,582	194,072,093	10,223	4.72
2015	1,577	184,733,063	9,762	2.96
2014	1,654	188,188,712	9,481	5.19
2013	1,707	184,645,250	9,014	-1.13
2012	1,718	187,958,523	9,117	-0.48
2011	1,735	190,726,258	9,161	-11.51
2010	2,021	251,058,473	10,352	1.38
2009	2,083	255,222,552	10,211	14.92
2007	2,136	227,734,449	8,885	1.68

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

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

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
2016-2017	2,149	$ 190,897	87	$ 11,816	44	$ 2,516	2,192	$ 200,197	4.87 %	$ 91,331
2015-2016	2,108	182,185	72	10,843	31	2,131	2,149	190,897	4.78	88,831
2014-2015	2,032	170,872	115	13,700	39	2,387	2,108	182,185	6.62	86,426
2013-2014	1,994	162,716	73	10,142	35	1,986	2,032	170,872	5.01	84,091
2012-2013	1,942	154,381	91	10,259	39	1,924	1,994	162,716	5.40	81,603
2011-2012	1,885	144,139	88	11,583	31	1,341	1,942	154,381	7.11	79,496
2010-2011	1,810	131,014	133	15,384	58	2,259	1,885	144,139	10.02	76,466
2009-2010	1,700	115,573	152	17,238	42	1,797	1,810	131,014	13.36	72,383
2007-2009	1,477	90,061	276	27,537	53	2,025	1,700	115,573	28.33	67,984
2005-2007	1,385	76,071	143	15,913	51	1,923	1,477	90,061	18.39	60,976

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

Annual allowances in thousands

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE					
	Gain (or Loss) for Year(s) Ending on Valuation Date Due To:				
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
June 30, 2017	$(50,882)	$(57,971)	$(108,853)	$127,571	$18,718
June 30, 2016	(106,785)	(54,528)	(161,313)	(72,680)	(233,993)
June 30, 2015	2,806	7,291	10,097	(90,004)	(79,907)
June 30, 2014	78,462	(14,678)	63,784	(55,787)	7,997
June 30, 2013	(92,499)	11,115	(81,384)	(28,233)	(109,617)
June 30, 2012	(172,759)	39,432	(133,327)	(75,220)	(208,547)
June 30, 2011	(96,473)	278,051	181,578	12,360	193,938
June 30, 2010	(149,621)	43,880	(105,741)	(104,240)	(209,981)
June 30, 2009	(138,383)	(113,495)	(251,878)	(145,351)	(397,229)
June 30, 2007	97,135	47,735	144,870	(93,343)	51,527

Amounts prior to June 30, 2011 calculated by prior actuary *Dollar amounts in thousands*

Schedule of Funded Liabilities by Type

The table below was previously referred to as the solvency test by the Government Finance Officers Association (GFOA). It should be noted, however, that it doesn't test the solvency of the plan in the sense understood by financial economists that a 100 percent ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100 percent ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments. Consequently, we understand that the new GFOA checklist refers to the exhibit providing funded liabilities by type information.

DEFINED BENEFIT PENSION

SCHEDULE OF FUNDED LIABILITIES BY TYPE							
	Actuarial Liability for:						
Valuation Date June 30,*	Active Member Contributions (A)	Retirees, Beneficiaries and Other Inactives (B)	Remaining Active Members' Liabilities (C)	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets (A)	(B)	(C)
2017	$299,933	$3,050,871	$1,113,598	$3,439,922	100%	100%	8%
2016	294,535	2,999,773	1,061,682	3,303,550	100	100	1
2015	285,538	2,819,410	953,462	3,212,776	100	100	11
2014	288,227	2,585,611	939,987	3,025,110	100	100	16
2013	280,727	2,452,728	844,576	2,771,924	100	100	5
2012	276,047	2,310,295	811,450	2,703,539	100	100	14
2011	260,172	2,174,044	761,791	2,685,721	100	100	33
2010	246,356	1,907,931	1,076,169	2,576,705	100	100	39
2009	243,302	1,630,914	1,089,266	2,569,569	100	100	64
2007	227,191	1,240,126	905,069	2,365,790	100	100	99

** Actuarial Value of Assets* *Dollars amounts in thousands*

Schedule of Funding Progress

The funding ratios shown in the schedule of funding progress are ratios compared to the actuarial liability that is intended to be a funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of Plan assets to cover the estimated costs of settling the Plan's benefit obligations.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date as of June 30,	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
2017	$3,439,922	$4,464,402	$1,024,480	77.1%	$203,816	502.6%
2016	3,303,550	4,355,990	1,052,440	75.8	194,072	542.3
2015	3,212,776	4,058,410	845,634	79.2	184,733	457.8
2014	3,025,101	3,813,825	788,724	79.3	188,189	419.1
2013	2,771,924	3,578,031	806,107	77.5	184,645	436.6
2012	2,703,539	3,397,792	694,253	79.6	187,959	369.4
2011	2,685,721	3,196,007	510,286	84.0	190,726	267.5
2010	2,576,705	3,230,456	653,751	79.8	251,058	260.4
2009	2,569,569	2,963,482	393,913	86.7	255,223	154.3
2007	2,365,790	2,372,386	6,596	99.7	227,734	2.9

Amounts prior to June 30, 2011 were calculated by the prior actuary *Dollar amounts in thousands*

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San José as a police officer or fire fighter except for the following:

a. Independent contractors;
b. Person in City service principally for training or educational purposes;
c. Auxiliary or voluntary police officers or fire fighters;
d. Part-time or non-salaried employees; and
e. Employees receiving credit in any other retirement or pension system.

Persons eligible for Tier 1 membership include:

a. Any police officer hired prior to August 4, 2013 or any firefighter hired prior to January 2, 2015;

b. Any person who was a member of this plan as an employee of the police department prior to August 4, 2013, and terminated employment with the city, and returned to employment with the city in a position covered by this plan on or after August 4, 2013;

c. Any person who was a member of this plan as an employee of the fire department prior to January 2, 2015, and terminated employment with the city, and returned to employment with the city in a position covered by this plan on or after January 2, 2015;

d. Any person accepting employment in the police department or fire department of the city on or after January 1, 2013, who is otherwise eligible for this plan and who was an active member in another California public retirement system with which this plan has reciprocity under Part 16, and who has a break in service of less than six months from the covered employment and employment with the city.

2) Final Compensation

The highest 12 consecutive months of compensation in covered employment. However, in determining final compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately preceding the last 12 months shall be considered. Compensation excludes overtime pay and expense allowances.

3) Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4) Contributions

a. Member:

The amount needed to fund 3/11ths of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5) Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

Benefit

Police: 2.5% of final compensation for each year of credited service up to 20 years plus 4.0% of final compensation for each year of credited service in excess of 20, subject to a maximum of 90% of final compensation.

Fire: For members with less than 20 years of service, 2.5% of final compensation for each year of credited service. For members with 20 or more years of service, 3.0% of final compensation for each year of service, subject to a maximum of 90% of final compensation.

6) Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of final compensation plus 4.0% of final compensation for each year of credited service in excess of 20, subject to a maximum of 90% of final compensation.

Fire: For members with less than 20 years of service, 50% of final compensation. For members with 20 or more years of service, 3.0% of final compensation for each year of service, subject to a maximum of 90% of final compensation.

7) Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of final compensation plus 1% of final compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

8) Non-Service Connected Death

Less than 2 years of service:

Lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Disabled retirees or members ineligible for service retirement:

Spouse receives 24.0% of final compensation plus 0.75% of final compensation for each year of service in excess of two, subject to a maximum of 37.5% of final compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25.0% of final compensation
2 Children:	37.5% of final compensation
3+ Children:	50.0% of final compensation

The total benefit payable to a family is limited to 75.0% of final compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Service retirees or members eligible for service retirement:

Spouse receives the greater of 37.5% of final compensation or 50.0% of the member's service retirement benefit, subject to a maximum of 42.5% of final compensation for Police and 45% of final compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75.0% of final compensation.

9) Service-Connected Death

Spouse receives the greater of 37.5% of final compensation or 50.0% of the member's service retirement benefit, subject to a maximum of 42.5% of final compensation for Police and 45.0% of final compensation for Fire. If a member has eligible dependent children, an additional benefit of 25.0% of final compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75.0% of final compensation.

10) Termination Benefits

Less than 10 years of service:

Lump sum benefit equal to the accumulated employee contributions with interest at 2.0% per annum.

10 or more years of credited service:

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11) Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12) Changes Since Last Valuation

Membership requirements were changed by Measure F to allow former members and certain hires with reciprocity to enter Tier 1.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any police officer who is hired by the City on or after August 4, 2013, or any fire fighter who is hired by the City on or after January 2, 2015, and who does not meet the eligibility requirement for Tier 1.

2) Final Compensation

The highest average monthly compensation of the member during any thirty-six consecutive months of covered employment. Compensation excludes overtime pay and expense allowances.

3) Credited Service

One year of service credit is given for 2,080 or more hours of 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

50.0% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability. Increases in members' unfunded actuarial liability contribution are limited to one-third of one percent of compensation each year. Contributions cannot be less than 50% of normal cost.

5) Unreduced Service Retirement

Eligibility:

Age 57 with 5 years of service.

Benefit - Member:

2.4% of final compensation for each year of credited service up to 20 years, plus 3.0% of final compensation for each year of credited service between 20 years and 25 years, plus 3.4% of final compensation for each year of credited service in excess of 25 years, subject to a maximum of 80.0% of final compensation.

Benefit - Survivor:

50.0% joint and survivor annuity.

6) Early Service Retirement

Eligibility:

Age 50 with 5 years of service.

Benefit - Member:

Reduced 7.0% per year for each year between age 57 and the member's age at retirement.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

7) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

The greater of:

- Monthly benefit equivalent to 50% of final compensation.
- The service retirement benefit, if eligible for service retirement.
- A service retirement benefit actuarially reduced from age 50, if not eligible for service retirement.

8) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

1.8% of final compensation for each year of credited service if less than age 50, or the service pension benefit if older than age 50.

9) Death Before Retirement

If death occurs before retirement eligibility is reached and after two years of service:

Monthly benefit equal to 24% of final compensation plus 0.75% of final compensation for each year of service in excess of two, up to a maximum of 37.5% of final compensation.

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 equal to the greater of:

- 37.5% of final compensation or
- 50.0% of what the employee would have received if retired at the time of death.

10) Withdrawal Benefits

Less than five years of credited 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

Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.

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 2.0%. The first COLA after retirement shall be prorated based on the number of months retired.

13) Changes Since Last Valuation

Membership requirements, benefit eligibility, benefit amounts, and the COLA were all changed by Measure F.

CHEIRON Classic Values, Innovative Advice

October 4, 2018

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San Jose, 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 Police and Fire Department Retirement Plan with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Police and Fire Department Postemployment Healthcare Plan ("Plan").

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, 2017. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2017 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

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

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the Plan or the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

Historically, member and City contributions to the plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. With the implementation of Measure F, member contributions are fixed at 8.0% of pay; the City's contribution toward the explicit subsidy is actuarially determined separately for Police and Fire;

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Members of the Board
October 4, 2018
Page ii

and, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire payroll.

The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. 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 OPEB Liability is based on the June 30, 2017 actuarial valuation updated to the measurement date of June 30, 2018. Voters approved Measure F on November 8, 2016; the City Council adopted implementing ordinances; the IRS granted approval for the changes; and, the City conducted elections for members eligible to transfer to the VEBA. Consequently, the update was based upon the Total OPEB Liability as of the valuation date reflecting the changes in benefit provisions and transfers to the VEBA under Measure F that became effective after June 30, 2017. The update also included the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 74/75 report as of June 30, 2018 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR as shown in the June 30, 2018, GASB 74/75 report.

- Change in Net OPEB Liability
- Sensitivity of Net OPEB Liability to Changes in Discount Rate and Healthcare Cost Trend Rates
- Schedule of Changes in Net OPEB Liability and Related Ratios
- Schedule of Employer Contributions

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 No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

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Members of the Board
October 4, 2018
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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 Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

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, EA, FCA, MAAA	Michael W. Schionning, FSA, MAAA
Consulting Actuary	Principal Consulting Actuary

Attachments

CHEIRON

Actuarial Assumptions and Methods
POSTEMPLOYMENT HEALTHCARE

Economic Assumptions

The expected return on plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the February 1, 2018 Board meeting.

1) Expected Return on Plan Assets

6.875% per year. The Board expects a long-term rate of return of 7.1% for the 401(h) account and 6.7% for the 115 subtrusts based on Meketa's 20-year capital market assumptions and the System's current investment policy.

2) Per Person Cost Trends

	Annual Increase			
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental	Part B Premiums
2019	8.00%	6.00%	3.50%	0.00%
2020	7.73	5.88	3.50	3.73
2021	7.46	5.75	3.50	4.82
2022	7.20	5.63	3.50	3.98
2023	6.93	5.50	3.50	5.74
2024	6.66	5.38	3.50	5.62
2025	6.39	5.25	3.50	4.79
2026	6.13	5.13	3.50	7.28
2027	5.86	5.00	3.50	7.03
2028	5.59	4.88	3.50	6.79
2029	5.32	4.75	3.50	6.54
2030	5.05	4.63	3.50	6.30
2031	4.79	4.50	3.50	6.05
2032	4.52	4.38	3.50	5.81
2033	4.25	4.25	3.50	5.56
2034	4.25	4.25	3.50	5.32
2035	4.25	4.25	3.50	5.07
2036	4.25	4.25	3.50	4.83
2037	4.25	4.25	3.50	4.58
2038	4.25	4.25	3.50	4.34
2039	4.25	4.25	3.50	4.09
2040	4.25	4.25	3.50	3.85
2041	4.25	4.25	3.50	3.60
2042+	4.25	4.25	3.50	3.60

Actual premium increases for 2018 were reflected in the valuation. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

3) Changes Since Last Valuation

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per-person cost trends were updated.

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the February 1, 2018 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Retirement Rates

Rates of retirement are based on age and service according to following Tables. Tier 1 rates only apply when the member is eligible for unreduced pension benefits.

Tier 1 Rates of Retirement by Age and Service				
	Police Tier 1		Fire Tier 1	
Age	**< 30 years**	**30 + years**	**< 30 years**	**30 + years**
50	55.00%	100.00%	35.00%	100.00%
51	45.00	100.00	35.00	100.00
52	40.00	100.00	35.00	100.00
53 - 55	35.00	100.00	35.00	100.00
56 - 57	35.00	100.00	27.50	100.00
58 - 61	50.00	100.00	27.50	100.00
62+	100.00	100.00	100.00	100.00

Police Tier 2 Rates of Retirement by Age and Service				
Age	**5 - 19 years**	**20 - 24 years**	**25 - 29 years**	**30 + years**
50 - 56	2.00%	2.00%	2.00%	5.00%
57 - 59	7.50	10.00	20.00	100.00
60 - 61	10.00	20.00	35.00	100.00
62 - 64	25.00	50.00	75.00	100.00
65+	100.00	100.00	100.00	100.00

Fire Tier 2 Rates of Retirement by Age and Service				
Age	**5 - 19 years**	**20 - 24 years**	**25 - 29 years**	**30 + years**
50 - 56	1.00%	1.00%	1.00%	2.00%
57 - 59	5.00	7.50	15.00	100.00
60 - 61	7.50	15.00	25.00	100.00
62 - 64	20.00	35.00	50.00	100.00
65+	100.00	100.00	100.00	100.00

Tier 1 terminated vested members are assumed to retire at age 55 and Tier 2 terminated vested members are assumed to retire at age 60.

2) Disability Rates

Police: Disability rates are equal to the CalPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older.

Fire: Disability rates are equal to the CalPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older.

POSTEMPLOYMENT HEALTHCARE

Sample disability rates of active participants are provided in the table below:

Rates of Disability at Selected Ages									
Age	**25**	**30**	**35**	**40**	**45**	**50**	**55**	**60**	**65**
Police	0.16 %	0.45 %	0.74 %	1.03 %	1.32 %	2.70 %	6.88 %	8.71 %	10.47 %
Fire	0.03 %	0.08 %	0.15 %	0.28 %	0.50 %	5.08 %	7.54 %	10.77 %	14.84 %

100% of disabilities are assumed to be duty related.

3) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

Base Mortality Table		
Category	**Male**	**Female**
Healthy Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CALPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	0.903 times the CALPERS 2009 Industrial Disability Mortality Table (Male)	0.903 times the CALPERS 2009 industrial Disability Mortality Table (Male)

4) Termination Rates

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

Rates of Termination					
Service	**Police**	**Fire**	**Service**	**Police**	**Fire**
0	16.00%	25.00%	**8**	3.50%	0.70%
1	11.75%	7.00%	**9**	3.50%	0.60%
2	9.85%	3.50%	**10**	3.50%	0.50%
3	8.35%	1.75%	**11**	3.50%	0.50%
4	7.00%	1.25%	**12**	3.00%	0.50%
5	5.75%	1.00%	**13**	2.50%	0.50%
6	4.75%	0.90%	**14**	2.00%	0.50%
7	4.00%	0.80%	**15 +**	2.00%	0.50%

Termination rates do not apply once a member is eligible for unreduced retirement.

5) Salary Increase Rate

Wage inflation component: 3.25%

The following merit component is added to wage inflation based on an individual member's years of service.

Salary Merit Increases					
Years of Service	**Merit/ Longevity**	**Years of Service**	**Merit/ Longevity**	**Years of Service**	**Merit/ Longevity**
0	6.00%	**4**	4.00%	**8**	1.50%
1	5.50%	**5**	3.50%	**9**	1.00%
2	5.00%	**6**	2.75%	**10**	0.75%
3	4.50%	**7**	2.00%	**11 +**	0.50%

6) Percent of Retirees Electing Coverage

100% of active members are assumed to elect coverage at retirement. Retirees are assumed to continue coverage in their current plan.

A new Kaiser High Deductible plan will be offered as of 1/1/2018.

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 and assuming that no one elects the retiree healthcare in-lieu premium credit benefit. Future retirees are assumed to elect plans in the proportion shown in the following table.

Assumed Plan Elections For Future Retirees					
Pre-Medicare Medical Plans	**% Electing**	**Medicare-Eligible Medical Plans**	**% Electing**	**Dental Plans (All Retirees)**	**% Electing**
Kaiser DHMO	8 %	Kaiser Senior Advantage	41 %	Delta Dental PPO	99 %
Kaiser $25 Co-pay	53	BS Medicare HMO	6	DeltaCare HMO	1
Kaiser HDHP	5	BS Medicare PPO	53		
Sutter Health DHMO	1				
Sutter Health $20 Co-pay	5				
PPO $25 Co-pay	28				

7) Family Composition

80% of married males and 50% 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.

Pre-Medicare, 47% of males and 35% of females will cover children.

8) Enrollment by Rating Tier

For current retirees, their actual enrollment by rating tier is used to value the explicit subsidy. For future retirees, the following assumptions are used:

Assumed Rating Tier Elections for Future Retirees				
	Single	Employee / Spouse	Employee / Child	Family
Pre-Medicare Medical Plans				
Males	19%	34%	7%	40%
Females	51%	13%	21%	14%
Medicare Medical Plans				
Males	26%	74%	0%	0%
Females	72%	28%	0%	0%

9) Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

10) Married Percentage

Percentage Married		
	Males	Females
Percentage	85%	85%

11) Administrative Expenses

Included in the average monthly premiums

12) Changes Since Last Valuation

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

Merit salary increases, termination rates, retirement rates, administrative expenses, and the mortality improvement projection scale have been changed based on an experience study covering demographic experience from June 30, 2009 through June 30, 2017. Please refer to the experience study report for the details of the assumption changes and the rationale.

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the February 1, 2018 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 2017 and 2018. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren), and retiree plus family) were blended based on enrollment data for the 2017 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the Kaiser $25 Co-pay and Kaiser HMO deductible plans were assumed to transition to the Kaiser $25 Co-pay, Kaiser HMO Deductible, and Kaiser High Deductible plans based on the actual 1/1/2018 elections. The resulting per person per month (PPPM) cost was then adjusted using age curves. The Pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

POSTEMPLOYMENT HEALTHCARE

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, 2017 based on the premiums for 2017 and 2018. 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		PPO $25 Co-pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 6,398	$ 7,850	$ 10,732	$ 13,198	$ 6,331	$ 7,776
45	6,528	7,649	10,981	12,885	6,468	7,584
50	6,883	7,795	11,611	13,161	6,829	7,736
55	7,601	8,244	12,859	13,952	7,551	8,191
60	8,866	8,644	15,036	14,659	8,817	8,597
64	10,423	8,484	17,705	14,409	10,374	8,443

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	Sutter DHMO		Sutter $20 Co-Pay		PPO $25 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 7,324	$ 9,068	$ 12,118	$ 14,906	$ 11,600	$ 14,480
45	7,553	8,900	12,402	14,556	12,078	14,302
50	8,053	9,148	13,118	14,870	13,002	14,810
55	8,989	9,761	14,533	15,768	14,646	15,921
60	10,581	10,315	16,997	16,571	17,374	16,934
64	12,511	10,181	20,017	16,291	20,639	16,792

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		BS Med HMO		BS Med PPO	
Age	Male	Female	Male	Female	Male	Female
65	$ 3,351	$ 2,956	$ 6,903	$ 6,090	$ 5,640	$ 4,975
70	3,558	3,014	7,331	6,209	5,989	5,073
75	4,090	3,389	8,426	6,983	6,884	5,705
80	4,644	3,843	9,568	7,919	7,817	6,469
85	5,015	4,200	10,333	8,653	8,442	7,070

SAMPLE CLAIMS COSTS - DENTAL				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	$ 750	$ 750	$ 318	$ 318

2) Medicare Part D Subsidy

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

3) Medicare Part B Premiums

All Medicare eligible retirees are assumed to 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.

9) Changes Since Last Valuation

All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San Jose.

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.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

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, 2017 is amortized as a level percent of payroll over a closed 25-year period. All future amortization based will be amortized over 25-year periods with a 3-year phase-in and phase-out.

4) Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 11% of total payroll.

Active members that are eligible for full benefits will contribute 8.00% of pay.

5) Changes Since Last Valuation

Member contributions were changed due to Measure F.

The asset valuation method was changed.

The amortization method described above was established for this valuation and future valuations.

Schedule of Active Member Data

SCHEDULE OF ACTIVE MEMBER DATA						
	Active Member Counts					
Valuation Date as of June 30,	Under Age 65	Age 65+	Age 65+	Annual Payroll	Average Annual Pay	Average Annual Pay
2017	1,543	0	1,543	$ 203,670,038	$ 131,996	7.1 %
2016	1,582	0	1,582	194,072,092	122,675	4.9 %
2015	1,577	0	1,577	184,481,838	116,983	2.8 %
2014	1,654	0	1,654	188,188,712	113,778	5.2 %
2013	1,707	0	1,707	184,645,250	108,169	7.7 %
2012	1,718	0	1,718	172,625,503	100,481	(8.6)%
2011	1,735	0	1,735	190,726,258	109,929	(11.5)%
2010	2,020	1	2,021	251,058,473	124,225	1.4 %
2009	N/A	N/A	2,063	255,222,552	122,526	14.9 %
2007	N/A	N/A	2,136	227,734,449	106,617	N/A

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Count	Beginning of Period Annual Subsidy	Added to Rolls Count	Removed from Rolls Count	Count	End of Period Annual Subsidy	Count	Net Change Annual Subsidy	% Increase in Annual Subsidy	Average Annual Subsidy
Medical										
2016-17	1,921	$ 19,013,844	98	45	1,974	$ 20,173,930	53	$ 1,160,086	6.1%	$ 10,220
2015-16	1,899	18,605,787	88	66	1,921	19,013,844	22	408,057	2.2%	9,898
2014-15	1,849	18,994,780	106	56	1,899	18,605,787	50	(388,993)	-2.0%	9,798
2013-14	1,832	19,538,587	79	62	1,849	18,994,780	17	(543,807)	-2.8%	10,273
2012-13	1,789	21,488,930	94	51	1,832	19,538,587	43	(1,950,343)	-9.1%	10,665
2011-12	1,736	21,104,972	107	54	1,789	21,488,930	53	383,958	1.8%	12,012

POSTEMPLOYMENT HEALTHCARE

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Count	Beginning of Period Annual Subsidy	Added to Rolls Count	Removed from Rolls Count	Count	End of Period Annual Subsidy	Count	Net Change Annual Subsidy	% Increase in Annual Subsidy	Average Annual Subsidy
2010-11	1,676	19,632,008	119	59	1,736	21,104,972	60	1,472,964	7.5%	12,157
2009-10	1,555	16,584,591	N/A	N/A	1,676	19,632,008	121	3,047,417	18.4%	11,714
2007-09	1,362	13,277,469	N/A	N/A	1,555	16,584,591	193	3,307,122	24.9%	10,665
Dental										
2016-17	2,018	$ 2,403,048	80	42	2056	$ 2,547,592	38	$ 144,544	6.0%	$ 1,239
2015-16	1,992	2,388,385	65	39	2,018	2,403,048	26	14,663	0.6%	1,191
2014-15	1,917	2,303,884	108	33	1,992	2,388,385	75	84,501	3.7%	1,199
2013-14	1,890	2,301,504	68	41	1,917	2,303,884	27	2,380	0.1%	1,202
2012-13	1,855	2,398,735	71	33	1,890	2,301,504	35	(97,231)	-4.1%	1,218
2011-12	1,798	2,325,033	70	18	1,855	2,398,735	57	73,702	3.2%	1,293
2010-11	1,707	2,267,352	104	24	1,798	2,325,033	91	57,681	2.5%	1,293
2009-10	1,519	1,794,454	N/A	N/A	1,707	2,267,352	188	472,898	26.4%	1,328
2007-09	1,375	1,629,777	N/A	N/A	1,519	1,794,454	144	164,677	10.1%	1,181

** Annual subsidies are explicit amounts*

Member Benefit Coverage Information

The table below was previously referred to as the solvency test by the Government Finance Officers Association (GFOA). It should be noted, however, that it does not test the solvency of the plan in the sense understood by financial economists that a 100% ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100% ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments. Consequently, we understand that the new GFOA checklist refers to the exhibit providing member benefit coverage information.

MEMBER BENEFIT COVERAGE INFORMATION					
	Actuarial Liability				
Actuarial Valuation Date as of June 30,	Retirees, Beneficiaries and Other Inactives (A)	Active Members (B)	Reported Assets	Portion of Liability Covered by Market Value of Assets* (A)	(B)
2017	$ 427,750	$ 252,496	$ 142,517	33%	0%
2016	472,004	306,867	135,207	29%	0%
2015	451,735	288,018	114,565	25%	0%
2014	429,034	277,676	93,605	22%	0%
2013	421,999	278,526	75,035	18%	0%
2012	600,869	396,452	66,385	11%	0%
2011	622,691	381,104	60,709	10%	0%
2010	568,611	377,697	58,586	10%	0%
2009	436,249	325,355	55,618	13%	0%
2007	336,899	329,328	45,393	13%	0%

** Actuarial Value of Assets for 6/30/2016 and earlier* *Dollar amounts in thousands*

Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain or (Loss) for Year Ending on Valuation Date Due to:					
Actuarial Valuation Date as of June 30,	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
2017	$ 2,647	$ (15,108)	$ (12,461)	$ 29,245	$ 16,784
2016	(2,914)	(2,728)	(5,642)	4,864	(778)
2015	582	7,990	8,572	(3,449)	5,123
2014	2,802	16,222	19,024	13,689	32,713
2013	2,437	(4,536)	(2,099)	258,939	256,840
2012	(6,011)	4,760	(1,251)	58,173	56,922
2011	(2,661)	5,967	3,306	1,146	4,452
2010	(3,067)	(11,242)	(14,309)	(122,599)	(136,908)

Dollar amounts in thousands

Schedule of Funding Progress

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date as of June 30,	Market Value of Assets* (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAL as a Percentage of Covered Payroll ((b-a)/d)
2017	$ 142,517	$ 680,246	$ 537,729	21.0 %	$ 203,816	264 %
2016	135,207	778,871	643,664	17.4 %	194,072	332 %
2015	114,565	739,753	625,188	15.5 %	184,733	338 %
2014	93,605	706,710	613,105	13.2 %	188,189	326 %
2013	75,035	700,525	625,490	10.7 %	184,645	339 %
2012	66,385	997,321	930,936	6.7 %	172,626	539 %
2011	60,709	1,003,795	943,086	6.0 %	190,726	494 %
2010	58,586	946,308	887,722	6.2 %	222,699	399 %
2009	55,618	761,604	705,986	7.3 %	243,196	290 %
2007	45,393	666,227	620,834	6.8 %	227,734	273 %

** Actuarial Value of Assets for 6/30/2016 and earlier*

Dollar amounts in thousands

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility

Employees hired before July 2013 that did not elect to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Medical/Dental:

Employees who retire (include deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before August 4, 2013) are eligible for unreduced service retirement at age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced service retirement is available at age 50 with 20 years of service. Tier 2 employees (hired on or after August 4, 2013) are eligible for unreduced service retirement at age 60 with 10 years of service or reduced service retirement at age 50 with 10 years of service. Service credited through reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits.

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.

Employees who separate from service after July 5, 1992, with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

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.

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

Dental:

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

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE (continued)

Premiums:

Monthly premiums before adjustments for 2017 and 2018 are as follows.

2017 MONTHLY PREMIUMS				
Plan	**Single**	**Employee/ Spouse**	**Employee/ Child**	**Family**
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 490.20	$ 980.40	$ 857.86	$ 1,470.62
Kaiser $25 Co-pay	598.66	1,197.32	1,047.62	1,795.94
Blue Shield PPO $25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Sutter Health $20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 289.12	$ 578.24	$ 578.24	$ 867.36
Blue Shield Medicare PPO/POS	509.21	1,018.42	1,018.42	1,771.26
Blue Shield Medicare HMO	598.82	1,197.64	1,197.64	1,824.90
Dental				
Delta Dental PPO	$ 50.88	$ 111.92	$ 122.12	$ 157.72
DeltaCareHMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay HMO

2018 MONTHLY PREMIUMS				
Plan	**Single**	**Employee/ Spouse**	**Employee/ Child**	**Family**
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 486.24	$ 972.48	$ 850.92	$ 1,458.72
Kaiser $25 Co-pay	593.84	1,187.68	1,039.22	1,781.52
Kaiser HDHP	409.70	819.40	716.98	1,229.10
Blue Shield PPO $25 Co-pay	1,104.14	2,208.26	1,932.26	3,312.40
Sutter Health $20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 306.28	$ 612.56	$ 612.56	$ 918.84
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,885.26
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,205.12
Dental				
Delta Dental PPO	$ 50.88	$ 111.92	$ 122.12	$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay HMO

POSTEMPLOYMENT HEALTHCARE (continued)

SUMMARY OF 2018 BENEFIT PLANS						
Non-Medicare Plans:	Kaiser $25 Co-Pay	Kaiser DHMO	Kaiser High Deductible	Sutter Health Plus $20 Co-pay HMO	Sutter Health Plus $1,500 Deductible	BS PPO $25 Co-Pay (In Network)
Annual out-of-pocket maximum	$1,500/$3,000	$4,000/$8,000	$5,950/$11,900	$1,500/$3,000	$4,000/$8,000	$2,100/$4,200
Annual deductible	None	$1,500/$3,000	$3,000/$6,000	None	$1,500/$3,000	$100/$200
Office visit co-pay	$25	$40	30%*	$20	$20	$25
Emergency room co-pay	$100	30%*	30%*	$100	30%*	$100
Hospital care co-pay	$100	30%*	30%*	$100	30%*	$100
Prescription Drug retail co-pay (30-day supply):						
Generic	$10	$10	$10	$10	$10	$10
Brand	$25	$30	$30	$30	$30	$25
Non-formulary	N/A	N/A	N/A	$60	$60	$40

* *After deductible is paid*

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual out-of-pocket maximum	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000
Annual deductible	None	None	$100/$200
Office visit copay	$25	$25	$25
Emergency room copay	$50	$100	$100
Hospital care copay	$250	$100	$100 + 10%
Prescription Drug Retail Copay (30-day supply):			
Generic	$10	$10	$10
Brand	$10	$25	$25
Non-formulary	N/A	$40	$40

Cost Sharing Provisions

It is assumed for the purpose of this valuation that the City of San Jose 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.

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: Employees hired after June 2013 or employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Contributions: Employees are required to make mandatory contributions in the VEBA on a pre-tax basis.

Medical: VEBA funds can be used to reimburse members for eligible healthcare expenses.

VEBA members on service-connected disability will receive benefits from the Postemployment Healthcare Plan only up to age 65 once VEBA funds exhausted.

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 covers Pension Plan and Postemployment Healthcare Plans, including 401(h) and 115. 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 Plan'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.

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

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2018 and June 30, 2017

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2009 - 2018 *(In Thousands)*

DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Additions										
Employee contributions	$ 23,841	$ 20,580	$ 21,508	$ 20,747	$ 21,115	$ 20,227	$ 19,345	$ 29,629	$ 20,097	$ 20,323
Employer contributions	157,712	136,957	132,480	129,279	123,583	105,234	121,009	77,918	52,315	53,103
Investment income / (loss)*	233,475	292,734	(29,206)	(27,690)	404,978	248,725	(34,341)	396,377	314,453	(469,235)
Total additions to plan net position	**415,028**	**450,271**	**124,782**	**122,336**	**549,676**	**374,186**	**106,013**	**503,924**	**386,865**	**(395,809)**
Deductions										
Benefit payments	194,139	184,596	176,029	166,331	157,635	150,811	142,314	129,472	114,604	102,363
Death benefits	12,102	11,072	10,083	9,220	8,738	8,005	7,480	7,213	6,519	5,982
Refunds	389	364	828	702	1,024	886	1,926	435	196	363
Administrative expenses and other	5,464	4,635	4,254	4,191	3,631	3,423	3,556	3,127	2,955	2,669
Total deductions from plan net position	**212,094**	**200,667**	**191,194**	**180,444**	**171,028**	**163,125**	**155,276**	**140,247**	**124,274**	**111,377**
Changes in Plan Net Position	**$ 202,934**	**$ 249,604**	**$ (66,412)**	**$ (58,108)**	**$ 378,648**	**$ 211,061**	**$ (49,263)**	**$ 363,677**	**$ 262,591**	**$(507,186)**

*Net of expenses

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2009 - 2018 *(In Thousands)*

POSTEMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2018			2017			2016			2015		
	Post-employment Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust
Additions												
Employee contributions	$16,127	$ -	$ -	$18,116	$ -	$ -	$18,007	$ -	$ -	$17,017	$ -	$ -
Employer contributions	5,716	11,265	8,401	1,599	10,905	8,163	1,389	11,576	8,100	-	13,073	7,837
Investment income / (loss)*	3,058	2,511	1,502	4,278	5,220	2,955	(465)	(798)	(420)	(499)	(753)	(363)
Total additions	**24,901**	**13,776**	**9,903**	**23,993**	**16,125**	**11,118**	**18,931**	**10,778**	**7,680**	**16,518**	**12,320**	**7,474**
Deductions												
Healthcare insurance premiums	27,686	-	-	24,799	-	-	23,449	-	-	24,205	-	-
Administrative expenses and other	75	55	29	69	71	42	74	44	21	82	24	17
VEBA transfer	-	5,276	2,621	-	-	-	-	-	-	-	-	-
Total deductions	**27,761**	**5,331**	**2,650**	**24,868**	**71**	**42**	**23,523**	**44**	**21**	**24,287**	**24**	**17**
Change in Plan Net Position	**$ (2,860)**	**$ 8,445**	**$ 7,253**	**$ (875)**	**$16,054**	**$11,076**	**$ (4,592)**	**$10,734**	**$ 7,659**	**$ (7,769)**	**$12,296**	**$ 7,457**

	2014			2013			2012	2011	2010	2009
	Post-employement Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Sub-trust	Fire Dept Healthcare Sub-trust	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)	Post-employment Healthcare 401(h)
Additions										
Employee contributions	$ 15,674	$ -	$ -	$ 13,498	$ -	$ -	$ 11,474	$ 11,229	$ 10,650	$ 9,218
Employer contributions	-	11,712	5,555	-	11,074	4,734	21,205	17,001	11,284	9,888
Investment income / (loss)*	7,942	3,210	1,443	5,613	588	246	(805)	8,966	6,870	(9,800)
Total additions	**23,616**	**14,922**	**6,998**	**19,111**	**11,662**	**4,980**	**31,874**	**37,196**	**28,804**	**9,306**
Deductions										
Healthcare insurance premiums	22,510	-	-	23,934	-	-	28,479	28,273	20,701	18,039
Administrative expenses and other	73	15	15	78	-	-	87	73	66	60
Total deductions	**22,583**	**15**	**15**	**24,012**	**-**	**-**	**28,566**	**28,346**	**20,767**	**18,099**
Change in Plan Net Position	**$ 1,033**	**$ 14,907**	**$ 6,983**	**$ (4,901)**	**$ 11,662**	**$ 4,980**	**$ 3,308**	**$ 8,850**	**$ 8,037**	**$ (8,793)**

**Net of expenses*

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Age and Service Benefits										
Retirees - service	$ 101,338	$ 96,317	$ 90,944	$ 86,672	$ 83,664	$ 80,902	$ 77,239	$ 68,780	$ 59,455	$ 49,004
Retirees - deferred vested	4,983	4,352	3,730	3,056	2,873	2,522	2,184	1,948	1,481	1,337
Survivors - service	3,321	2,815	2,537	2,201	1,826	1,566	1,402	1,301	986	826
Survivors - deferred vested	110	105	97	78	62	60	59	51	32	33
Death in Service Benefits	**1,722**	**1,713**	**1,606**	**1,493**	**1,396**	**1,502**	**1,366**	**1,246**	**1,155**	**1,193**
Disability Benefits										
Retirees - duty	81,874	78,801	76,440	71,980	66,865	63,410	59,108	55,998	51,218	49,100
Retirees - non-duty	1,130	973	928	903	903	748	770	674	680	698
Survivors - duty	6,567	6,076	5,532	5,135	5,022	4,587	4,328	3,888	3,634	3,784
Survivors - non-duty	312	266	230	235	274	265	266	124	136	146
Ex-Spouse Benefits	4,884	4,249	4,068	3,798	3,488	3,254	3,072	2,675	2,346	2,224
Total Benefits	**206,241**	**195,667**	**186,112**	**175,551**	**166,373**	**158,816**	**149,794**	**136,685**	**121,123**	**108,345**
Type of Refund										
Separation	389	364	828	702	1,024	886	1,926	435	196	363
Total Refunds	**$ 389**	**$ 364**	**$ 828**	**$ 702**	**$ 1,024**	**$ 886**	**$ 1,926**	**$ 435**	**$ 196**	**$ 363**

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Age and Service Benefits										
Retirees - service										
Medical	$ 9,300	$ 9,892	$ 9,258	$ 9,450	$ 8,318	$ 10,090	$ 10,361	$ 9,468	$ 8,274	$ 6,843
Dental	1,215	1,162	1,099	988	1,005	1,013	1,031	968	855	684
*Retirees -deferred vested**										
Medical	319	369	315	275	245	264	250	236	180	146
Dental	49	45	39	30	31	29	27	26	21	17
Survivors - service										
Medical	289	268	235	238	205	231	214	229	165	110
Dental	35	30	27	24	33	44	42	41	31	19
*Survivors- deferred vested**										
Medical	16	17	16	13	9	11	10	11	-	-
Dental	2	2	2	1	2	2	3	3	1	1
Death in Service Benefits										
Medical	165	184	176	185	170 *	243	(38)	252	213	208
Dental	25	25	24	22	28	41	59	42	37	33
Disability Benefits										
Retirees - duty										
Medical	8,402	9,033	8,809	8,985	7,794	9,673	9,604	9,852	8,897	8,177
Dental	1,151	1,128	1,116	992	993	1,038	1,043	1,068	977	856
Retirees - non-duty										
Medical	183	228	202	210	192	206	221	201	199	172
Dental	25	25	24	23	22	23	25	25	26	21
Survivors - duty										
Medical	668	679	615	623	560	650	667	715	643	603
Dental	89	83	78	69	105	152	159	169	154	119
Survivors - non-duty										
Medical	32	26	21	23	31	41	40	21	24	24
Dental	5	5	4	4	8	11	11	7	7	6
Implicit Subsidy										
Medical	5,716	1,598	1,389	2,050	2,759	172	4,750	4,939	-	-
Total Benefits	**$ 27,686**	**$ 24,799**	**$ 23,449**	**$ 24,205**	**$ 22,510**	**$ 23,934**	**$ 28,479**	**$ 28,273**	**$ 20,704**	**$ 18,039**

**Amount includes credits from the State of California for medical benefits to the surviving spouse and family of sworn officers that died in the line of duty.*

Source: Pension Administration System

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2009-2018 (Schedule 3)

	Police Department Rate				Fire Department Rate			
	Tier 1		Tier 2		Tier 1		Tier 2	
Fiscal Year Ended	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%	%	%
2018	18.88	105.62	15.17	25.48	19.38	106.68	16.26	26.88
2017	20.10	90.71	20.48	21.28	20.81	92.23	20.35	21.23
2016	20.77	83.32	20.78	21.58	21.57	85.57	20.90	21.79
2015	21.26	83.14	20.80	21.80	20.13	82.75	19.43	20.21
2014	21.15	75.63	20.49	21.29	19.07	74.75	N/A	N/A
2013	19.39	65.53	N/A	N/A	17.32	65.05	N/A	N/A
2012	17.47	56.90	N/A	N/A	15.62	56.32	N/A	N/A
2011	15.57	44.58	N/A	N/A	13.70	44.16	N/A	N/A
2010	12.96	26.89	N/A	N/A	12.40	28.31	N/A	N/A
2009	11.96	25.80	N/A	N/A	12.40	28.31	N/A	N/A

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2018

		Type of Retirement*								Option Selected **				
Monthly Benefit Amount	**Number of Retirees & Beneficiaries**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Unmodified**	**A**	**B**	**C**	**Total**
$1 - 500	5	0	0	2	0	0	0	1	2	3	0	2	0	5
$501 - 1,000	28	0	0	0	0	0	2	1	25	14	0	12	2	28
$1,001 - 1,500	38	0	0	1	0	9	3	4	21	18	3	17	0	38
$1,501 - 2,000	52	0	0	1	0	5	4	10	32	26	1	20	5	52
$2,001 - 2,500	71	4	0	4	1	14	16	8	24	49	0	21	1	71
$2,501 - 3,000	85	18	0	0	1	12	24	10	20	62	1	20	2	85
$3,001 - 3,500	82	15	0	1	3	13	29	9	12	59	1	17	5	82
$3,501 - 4,000	78	14	1	1	1	13	33	4	11	60	3	13	2	78
$4,001 - 4,500	91	42	1	0	9	4	26	4	5	71	9	6	5	91
$4,501 - 5,000	73	36	4	5	9	4	8	3	4	58	3	8	4	73
$5,001 - 5,500	120	71	4	1	20	1	18	2	3	71	10	20	19	120
$5,501 - 6,000	130	77	2	3	30	0	12	3	3	80	12	23	15	130
$6,001 - 6,500	127	70	5	1	39	1	8	3	0	89	7	18	13	127
$6,501 - 7,000	92	45	0	0	37	2	6	1	1	56	8	13	15	92
$7,001 - 7,500	131	54	3	2	64	3	4	0	1	90	7	14	20	131
$7,501 - 8,000	141	59	0	1	80	0	0	0	1	105	7	15	14	141
$8,001 - 8,500	130	57	1	0	70	0	1	1	0	92	9	15	14	130
$8,501 - 9,000	110	35	3	1	71	0	0	0	0	84	5	11	10	110
$9,001 - 9,500	109	39	1	0	66	0	1	2	0	67	3	19	20	109
$9,501 - 10,000	99	46	0	0	50	0	1	2	0	60	11	10	18	99
$10,001 - 10,500	103	33	0	0	68	0	0	2	0	68	5	16	14	103
$10,501 - 11,000	99	39	0	0	59	0	0	1	0	56	11	11	21	99
Over $11,000	369	134	3	0	218	0	2	12	0	226	28	50	65	369
TOTAL	**2,363**	**888**	**28**	**24**	**896**	**81**	**198**	**83**	**165**	**1,564**	**144**	**371**	**284**	**2,363**

***Retirement Codes**

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

****Option Description**

Unmodified. Unmodified with Beneficiary (default for married)

A. Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)

B. Unmodified with No Beneficiary (default for unmarried)

C. Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, person goes back to original pension calculation)

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2018

	Type of Subsidy	
Average Monthly Benefit	**Health**	**Dental**
Ineligible/Deferred	$ 325	$ 261
$1 - 60	-	564
$61 - 250	45	1,538
$251 - 500	638	-
$501 - 1,000	1,043	-
Over $1,000	312	-
Totals	**$ 2,363**	**$ 2,363**

Source : Pension Administration System

Retired Members by Type of Benefit *(continued)*

PENSION BENEFITS BY FAMILY UNIT

As of June 30, 2018

		Type of Retirement*							
Monthly Benefit Amount	**Number of Retirees & Beneficiaries**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
$0 - 999	9	0	0	3	0	0	2	2	2
$1,000 - 1,999	22	0	0	2	0	4	4	10	2
$2,000 - 2,999	110	23	0	2	1	7	58	17	2
$3,000 - 3,999	132	26	1	2	5	13	69	16	0
$4,000 - 4,999	151	79	5	6	12	3	38	8	0
$5,000 - 5,999	231	147	6	5	39	2	27	5	0
$6,000 - 6,999	202	112	5	2	61	3	14	5	0
$7,000 - 7,999	259	107	3	3	137	2	6	1	0
$8,000 - 8,999	233	85	4	1	138	1	3	0	1
$9,000 - 9,999	225	91	1	0	124	1	4	4	0
$10,000 - 10,999	219	80	0	0	135	0	1	3	0
$11,000 - 11,999	159	75	0	0	79	0	2	3	0
$12,000 - 12,999	113	40	1	0	67	0	0	5	0
$13,000 - 13,999	70	28	2	0	37	0	0	3	0
$14,000 - 14,999	29	9	0	0	19	0	0	1	0
$15,000 - 15,999	22	7	0	0	15	0	0	0	0
$16,000 - 16,999	25	4	0	0	19	0	0	2	0
$17,000 - 17,999	10	1	0	0	9	0	0	0	0
$18,000 - 18,999	4	0	0	0	4	0	0	0	0
$19,000 - 19,999	2	0	0	0	2	0	0	0	0
$20,000 - 20,999	2	1	0	0	1	0	0	0	0
$21,000 - 23,999	3	0	0	0	3	0	0	0	0
TOTAL	**2,232**	**915**	**28**	**26**	**907**	**36**	**228**	**85**	**7**

***Retirement Codes**

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

Source : Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS
As of June 30, 2018

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2018							
Average monthly benefit*	$ 2,595	$ 3,902	$ 4,487	$ 5,630	$ 7,934	$10,174	$10,961
Average final average salary (FAS)**	$ 6,169	$ 5,522	$ 7,284	$ 8,701	$ 9,285	$ 9,262	$ 8,558
Number of retired members***	12	49	122	183	461	791	160
Average monthly benefit* (No FAS)	$ -	$ 2,112	$ 1,747	$ 3,290	$ 5,030	$ 7,580	$ 8,683
Number of retired members***	-	3	2	8	27	101	21
As of June 30, 2017							
Average monthly benefit*	$ 2,514	$ 3,724	$ 4,359	$ 5,451	$ 7,703	$ 9,851	$10,627
Average final average salary**	$ 5,836	$ 4,876	$ 7,204	$ 8,414	$ 9,110	$ 9,103	$ 8,482
Number of retired numbers***	12	50	121	170	436	788	161
Average monthly benefit* (No FAS)	$ -	$ 2,050	$ 1,696	$ 3,192	$ 4,778	$ 7,303	$ 8,374
Number of retired members***	-	3	2	9	29	105	22
As of June 30, 2016							
Average monthly benefit*	$ 2,308	$ 3,631	$ 4,203	$ 5,271	$ 7,469	$ 9,546	$10,280
Average final average salary**	$ 4,623	$ 4,620	$ 6,694	$ 8,302	$ 8,940	$ 8,979	$ 8,416
Number of retired members***	10	51	114	166	422	773	166
Average monthly benefit* (No FAS)	$ -	$ 1,991	$ 1,348	$ 3,099	$ 4,618	$ 7,080	$ 8,043
Number of retired members***	-	3	3	9	30	107	23
As of June 30, 2015							
Average monthly benefit (incl. COLA)	$ 2,477	$ 3,462	$ 4,004	$ 5,051	$ 7,004	$ 8,940	$ 9,657
Average final average 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 benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,933	$ 1,523	$ 3,009	$ 4,478	$ 6,858	$ 7,794
Number of retired members***	-	3	4	9	31	110	24
As of June 30, 2014							
Average monthly benefit (incl. COLA)	$ 4,060	$ 3,383	$ 3,904	$ 4,897	$ 6,763	$ 8,671	$ 9,392
Average final average 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
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ 2,852	$ 3,187	$ 3,706	$ 4,725	$ 6,511	$ 8,399	$ 9,011
Number of retired members**	1	3	4	9	32	115	25
As of June 30, 2013							
Average monthly benefit (incl. COLA)	$ 2,852	$ 3,187	$ 3,706	$ 4,725	$ 6,511	$ 8,399	$ 9,011
Average final average salary**	$ 3,993	$ 3,758	$ 5,746	$ 6,988	$ 7,620	$ 7,552	$ 7,006
Number of retired members***	11	47	98	125	344	755	150
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,822	$ 1,321	$ 3,233	$ 4,197	$ 6,486	$ 7,398
Number of retired members***	-	3	5	11	32	117	27

Average Benefit Payment Amounts *(continued)*

PENSION BENEFITS
As of June 30, 2018

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2012							
Average monthly benefit (incl. COLA)	$ 2,304	$ 3,101	$ 3,395	$ 4,465	$ 6,248	$ 8,101	$ 8,676
Average final average salary**	$ 1,540	$ 3,368	$ 4,931	$ 6,555	$ 7,431	$ 7,398	$ 6,940
Number of retired members***	6	44	81	115	341	749	154
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,769	$ 1,282	$ 3,023	$ 4,075	$ 6,302	$ 7,020
Number of retired members***	-	3	5	12	32	120	28
As of June 30, 2011							
Average monthly benefit (incl. COLA)	$ 2,199	$ 3,028	$ 3,310	$ 4,509	$ 5,872	$ 8,035	$ 8,573
Average final average salary**	$ 1,540	$ 3,402	$ 4,695	$ 6,818	$ 7,309	$ 8,344	$ 8,094
Number of retired members***	6	44	74	102	278	714	157
Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 1,688	$ 1,455	$ 2,989	$ 3,956	$ 6,051	$ 6,766
Number of retired members***	-	3	5	12	36	129	30
As of June 30, 2010							
Average monthly benefit*	$ 2,152	$ 2,915	$ 3,184	$ 4,223	$ 5,372	$ 7,622	$ 8,242
Average final average salary**	$ 1,585	$ 3,248	$ 4,532	$ 6,515	$ 6,599	$ 7,942	$ 7,938
Number of retired members***	6	46	70	96	242	653	157
Average monthly benefit (for those whose FAS was unavailable)	-	1,639	1,419	2,854	3,779	5,886	6,570
Number of retired members***	0	3	5	12	36	129	30
As of June 30, 2009							
Average monthly benefit*	$ 2,170	$ 2,779	$ 3,101	$ 3,937	$ 4,904	$ 7,158	$ 7,811
Average final average salary**	$ 1,778	$ 3,087	$ 4,498	$ 6,066	$ 6,072	$ 7,492	$ 7,600
Number of retired members***	7	46	68	86	220	575	153
Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 1,591	$ 1,381	$ 2,712	$ 3,675	$ 5,710	$ 6,327
Number of retired members***	0	3	5	13	36	132	32

* *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 average monthly benefit.

*** Does not include survivors and ex-spouses

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS
As of June 30, 2018

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2018							
Average health subsidy	$ 600	$ 693	$ 797	$ 701	$ 759	$ 749	$ 654
Number of health participants	7	39	88	154	465	890	173
Average dental subsidy	$ 93	$ 105	$ 116	$ 112	$ 109	$ 109	$ 103
Number of dental participants	8	44	92	157	476	906	175
As of June 30, 2017							
Average health subsidy	$ 910	$ 878	$ 1,060	$ 940	$ 949	$ 901	$ 743
Number of health participants*	7	42	83	140	437	869	169
Average dental subsidy	$ 93	$ 103	$ 117	$ 113	$ 109	$ 110	$ 102
Number of dental participants*	8	47	93	150	455	905	173
As of June 30, 2016							
Average health subsidy	$ 934	$ 865	$ 991	$ 903	$ 909	$ 861	$ 719
Number of health participants*	6	39	81	138	427	862	172
Average dental subsidy	$ 95	$ 102	$ 111	$ 108	$ 105	$ 105	$ 98
Number of dental participants	7	46	89	147	441	894	179
As of June 30, 2015							
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
As of June 30, 2014							
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
As of June 30, 2013							
Average health subsidy	$ 519	$ 783	$ 769	$ 785	$ 924	$ 932	$ 844
Number of health participants*	8	44	81	118	366	855	174
Average dental subsidy	$ 84	$ 96	$ 85	$ 92	$ 101	$ 101	$ 102
Number of dental participants*	9	47	86	124	375	872	177
As of June 30, 2012							
Average health subsidy	$ 776	$ 850	$ 839	$ 865	$ 1,018	$ 1,055	$ 928
Number of health participants*	6	42	66	110	357	850	177
Average dental subsidy	$ 109	$ 106	$ 88	$ 97	$ 107	$ 108	$ 108
Number of dental participants*	6	46	70	114	372	869	182

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS
As of June 30, 2018

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2011							
Average health subsidy	$ 730	$ 918	$ 1,050	$ 1,019	$ 1,052	$ 1,086	$ 1,029
Number of health participants*	6	40	59	96	273	709	29
Average dental subsidy	$ 110	$ 110	$ 110	$ 110	$ 109	$ 109	$ 110
Number of dental participants*	6	43	63	98	278	714	30
As of June 30, 2010							
Average health subsidy	$ 702	$ 853	$ 991	$ 951	$ 978	$ 1,023	$ 985
Number of health participants*	42	56	91	236	649	157	-
Average dental subsidy*	$ 104	$ 104	$ 105	$ 104	$ 104	$ 104	$ 104
Number of dental participants*	6	45	60	93	239	652	157
As of June 30, 2009							
Average health subsidy	$ 711	$ 807	$ 939	$ 898	$ 910	$ 963	$ 927
Number of health participants	7	42	56	91	236	649	157
Average dental subsidy	$ 94	$ 94	$ 94	$ 94	$ 91	$ 94	$ 94
Number of dental participants	$ 7	$ 45	$ 60	$ 83	$ 220	$ 575	$ 153

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

Source : Pension Administration System

Retirements During Fiscal Year 2017-2018

SERVICE RETIREMENTS		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
Angel, Steven C	Payne, Robert	Alvarado, Daniel J.
Blahut, Bridgitte A	Perez, Joe A	Belton, Todd
Boyer, Max	Phan, Eric	Dupree, Vincent
Carr, Graydon	Phelan, Daniel	George, Kevin
Hamilton, George	Porter, Tim	Griffith, William H.
Harsany, Andrew	Reinert, John	Herrero, Scott T.
Hoskin, Wendy	Strunk, David	Holston, Kevin
Hunt, James	Sullivan, Michael	Igno, Michael G.
Ibarra, Miguel	Sun, Wei	Kouns, Scott
Ichige, Hideaki D	Tiphayachan, Natasha	La Blanc, Julie
Jeglum, Teresa	West, Dondi	Larson, Eric
Lira, Richard	Zarate, Christine	Munoz, Fernando
Lonero Bidinost, Jacqueline		Nibbi, Raymond
Luu, Linh		Patterson, Michael
Melloch, Steven T		Pianto, Anthony
Miller, Martin		Stallard, Barry
Nguyen, Khanh D		Tapia Sr., Michael T
Parente, Sandra J		Toffey, Elizabeth
EARLY RETIREMENTS		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
West, John		None
DEFERRED VESTED		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
Bonillas, Dave G	Ortiz, Leanard D	Cardoza, Jeffrey
Hattey, Anthony	Panholzer, Christoph	Jacobson, Curtis
Luisi, Anthony	Sims, Thomas	
McGill, John P		
SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
Hardie, Timothy	La, Hieu T	Orozco, Anthony
Kimbrel, Tammy D	Marquez, Enrique	Stevens, Dwight
Kondo, Grant		
NON SERVICE-CONNECTED DISABILITY RETIREMENTS		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
Hoag, James		Benavides, Ruben
Petrakovitz, Gary		Emhoff, Troy
		Nores, Laura

Deaths During Fiscal Year 2017-2018

DEATHS AFTER RETIREMENT		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
Ballard, Gordon	Smolinski, Darrin	Anastacio, Oliver
Bennett, William G.	Utz, Ronald A.	Bohn, Theodore M.
Bradshaw, Robert V.	Valencia, Carlos A.	Bourbon, Daniel T.
Brown, Michael P.	Weesner, Steven L.	Currall, Robert W.
Camarena, Raul G.	Wien, William	Davis, Tom
De La Cruz, Jose		Davis, Dale D.
Duey, Dennis A.		Earnest, James E.
Heckel, Rick J.		Gianastacio, Thomas A.
Hill, Richard		Granoski, Nicklas
Kasich, Robert C.		Hubbard, Gerald
Lail, Harold A.		Hutchison, Jack
Lopez, Relles		Lovier, Peter D.
Mc Teague, Daniel C.		Mayer, Nick S.
O'Beirne, Raymond J.		Minford, Robert I.
Reinert, John		Murtha, William J.
Roy, Charles D.		Newman, Terry
Schriefer, Henry		Ragsdale, Elwin G.
Smith, William R.		Schultz, Thomas G.
Smith, Lewis B.		Silva, Edward N.
DEATHS BEFORE RETIREMENT		
POLICE DEPARTMENT		**FIRE DEPARTMENT**
None		None

CITY OF
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CAPITAL OF SILICON VALLEY

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