

City of San Jose Police and Fire Department
Retirement Plan (Pension Plan Only)

*Actuarial Valuation and Review
as of June 30, 2007*

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January 31, 2008

*Board of Retirement
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112-4505*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2007, for the Pension Plan only. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2008-2009 and analyzes the preceding two years' experience.


The census information on which our calculations were based and the financial information were prepared by the City of San Jose Police and Fire Department Retirement Plan. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Retirement are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

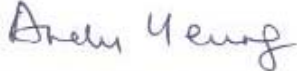
Sincerely,

THE SEGAL COMPANY

By: 

*Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary*

CZI/hy

By: 

*Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary*

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SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Purpose

This report has been prepared by The Segal Company to present a valuation of the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2007. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Retirement Plan, as administered by the Board of Retirement including the recently approved Police and Fire benefit improvements, even though the Fire benefit improvement will not become effective until July 1, 2008;
- The characteristics of covered active members, inactive vested members, retired members and beneficiaries as of June 30, 2007, provided by the Retirement Plan;
- The assets of the Plan as of June 30, 2007, provided by the Retirement Plan;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

The City of San Jose Police and Fire Department Retirement Plan's basic financial goal is to establish contributions that fully fund the Plan's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Biennial actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the Plan's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the Plan's staff. This information has not been audited by us, but it has been reviewed and found to be reasonably consistent, both internally and with prior period's information.

The contribution requirements are determined as a percentage of payroll. The Plan's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. Our calculations reflect the Board's funding policy to amortize the Plan's unfunded actuarial accrued liability as follows: (1) outstanding balance of the unfunded actuarial accrued liability established as of June 30, 2003 amortized over the next 10 years; (2) prior service cost for the February 4, 1996 benefit improvement amortized over the next 10 years; and (3) future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

The rates calculated in this report may be adopted by the Board for the fiscal years that extend from July 1, 2008 through June 30, 2009 and July 1, 2009 through June 30, 2010.

Significant Issues in This Valuation

The following key findings were the result of this actuarial valuation:

- Reference: pg. 27
 - As of July 1, 2006, the benefit for Police members was changed. The City has also approved a benefit change for Fire members that will be effective July 1, 2008. Since the rates developed in this valuation will not be effective until July 1, 2008, we have reflected both of these plan amendments in our calculations.
 - The ratio of the valuation value of assets to actuarial accrued liabilities increased from 97.8% as determined in the June 30, 2005 valuation to 99.7% as determined in the June 30, 2007 valuation. The Plan's unfunded actuarial accrued liability has decreased from \$44.3 million as of June 30, 2005 to \$6.6 million as of June 30, 2007. Please note that the June 30, 2005 funded ratio and UAAL were both determined before the recent Police and Fire benefit improvements. The change to the UAAL was primarily the result of favorable investment return during the last two years. A complete reconciliation of the Plan's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- Reference: pg. 16
 - The aggregate employer rate calculated in this valuation has decreased from 25.53% (after reflecting the recent Police and Fire benefit improvements but based on the June 30, 2005 valuation) to 22.48%. There was an increase in the employer rate as a result of the change in actuarial assumptions adopted for this valuation. However, the increase in rate was more than offset by favorable investment return during the last two years and salary increases lower than assumed. A complete reconciliation of the employer contribution rate is in Chart 14.
- Reference: pg. 17
 - The individual member rates are changing as a result of the new assumptions that were adopted based on the June 30, 2007 experience study. The average member rate calculated in this valuation has increased from 8.00% of payroll (after reflecting the recent Police and Fire benefit improvements but based on the June 30, 2005 valuation) to 8.33% of payroll. A complete reconciliation of the Plan's average member rate is provided in Section 2, Subsection D (see Chart 15).
- Reference: pg. 7
 - As indicated in Section 2, Subsection B (see Chart 7b) of this report, the total unrecognized investment gain as of June 30, 2007 was \$294.3 million (versus an unrecognized gain of \$61.4 million in the June 30, 2005 valuation). This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes over the next few years, to the extent it is not offset by recognition of investment losses derived from future experience. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a **market value** basis will result in investment gains on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would decrease in each of the next few years. As those gains are recognized, they are used by the Board to increase the return on the valuation value of assets.

Impact of Future Experience on Contribution Rates

Future contribution requirements may differ from those determined in the valuation because of:

- difference between actual experience and anticipated experience;
- changes in actuarial assumptions or methods;
- changes in statutory provisions; and
- difference between the contribution rates determined by the valuation and those adopted by the Board.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Results

	June 30, 2007		June 30, 2005	
City Contribution Rates:				
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate ⁽²⁾	Estimated Annual Amount ⁽¹⁾
Police	21.61%	\$32,178,423	24.71%	\$36,794,486
Fire	24.12%	19,013,604	27.07%	21,339,066
All categories combined	22.48%	51,192,027	25.53%	58,133,552
Member Contribution Rates:				
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate ⁽²⁾	Estimated Annual Amount ⁽¹⁾
Police	8.18%	\$12,180,449	7.89%	\$11,748,624
Fire	8.62%	6,795,077	8.22%	6,479,761
All categories combined	8.33%	18,975,526	8.00%	18,228,385
Funded Status:				
Actuarial accrued liability	\$2,372,385,616		\$2,027,432,021 ⁽³⁾	
Valuation value of pension assets	2,365,789,857		1,983,090,069	
Funded percentage	99.7%		97.8%	
Unfunded (overfunded) actuarial accrued liability	\$6,595,759		\$44,341,952 ⁽³⁾	
Key Assumptions:				
Interest rate	8.00%		8.00%	
Inflation rate	3.50%		3.00%	
Across the board salary increases	0.50%		1.00%	

⁽¹⁾ Based on June 30, 2007 projected annual payroll.

⁽²⁾ Includes the cost of Police or Fire benefit improvements. The costs excluding the benefit improvements were 21.42% for the City and 7.48% for all members. In addition, these rates do not reflect the one year rate reduction from the transfer made from the SRBR as a result of the investment loss during 2003-2005.

⁽³⁾ Before the Police and Fire benefit improvements.

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Demographic and Financial Data

	June 30, 2007	June 30, 2005	Percentage Change
Active Members:			
Police:			
Number of members	1,401	N/A	N/A
Average age	40.3	N/A	N/A
Average service	13.1	N/A	N/A
Projected total compensation	\$148,905,245	N/A	N/A
Average projected compensation	\$106,285	N/A	N/A
Fire:			
Number of members	735	N/A	N/A
Average age	41.6	N/A	N/A
Average service	13.2	N/A	N/A
Projected total compensation	\$78,829,204	N/A	N/A
Average projected compensation	\$107,251	N/A	N/A
Total:			
Number of members	2,136	2,003	6.6%
Average age	40.8	41.0	N/A
Average service	13.1	13.4	N/A
Projected total compensation	\$227,734,449	\$210,018,219	8.4%
Average projected compensation	\$106,617	\$104,852	1.7%

SECTION 1: Valuation Summary for the City of San Jose Police and Fire Department Retirement Plan

Summary of Key Valuation Demographic and Financial Data (continued)

	June 30, 2007	June 30, 2005	Percentage Change
Retired Member and Beneficiaries:			
Number of members:			
Service retired	508	439	15.7%
Disability retired	758	750	1.1%
Beneficiaries	211	196	7.7%
Total	1,477	1,385	6.6%
Average age	64.5	63.9	N/A
Average monthly benefit	\$5,081	\$4,577	11.0%
Vested Terminated Members:			
Number of terminated vested members	71	69	2.9%
Average age	43.5	42.2	N/A
Summary of Financial Data (dollar amounts in thousands):			
Market value of pension and health assets	\$2,735,649	\$2,099,778	30.3%
Return on market value of pension and health assets ⁽¹⁾	15.2%	N/A	N/A
Actuarial value of pension and health assets	\$2,441,323	\$2,038,353	19.8%
Return on actuarial value of pension and health assets ⁽¹⁾	10.5%	N/A	N/A
Valuation value of pension assets ⁽²⁾	\$2,365,790	\$1,983,090	19.3%
Return on valuation value of pension assets ⁽¹⁾	10.3%	N/A	N/A

(1) Annualized return over a two-year period.

(2) Excludes assets for health benefits and the SRBR.

SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, vested terminated members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation period and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

A historical perspective of how the member population has changed over the past 3 valuations can be seen in this chart.

CHART 1
Member Population: 2003 – 2007

Period Ended June 30	Active Members	Vested Terminated Members	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2003	2,104	58	1,271	0.63
2005	2,003	69	1,385	0.73
2007	2,136	71	1,477	0.72

SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

Active Members

Plan costs are affected by the age, years of service and compensation of active members. In the current valuation, there were 2,136 active members with an average age of 40.8, average years of service of 13.1 years and average projected compensation of \$106,617. The 2,003 active members in the prior valuation had an average age of 41.0, average service of 13.4 years and average projected compensation of \$104,852.

Among the active members, there were none with unknown age.

Inactive Members

In the current valuation, there were 71 members with a vested right to a deferred or immediate vested benefit or entitled to a return of their member contributions versus 69 in the prior valuation.

These graphs show a distribution of active members by age and by years of service.

CHART 2
Distribution of Active Members by Age as of June 30, 2007

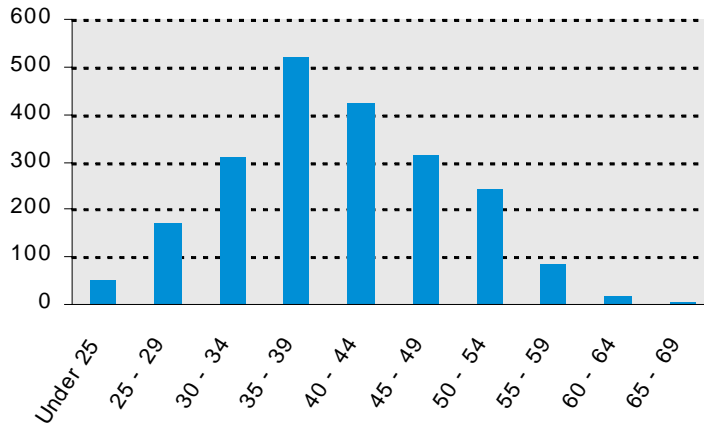
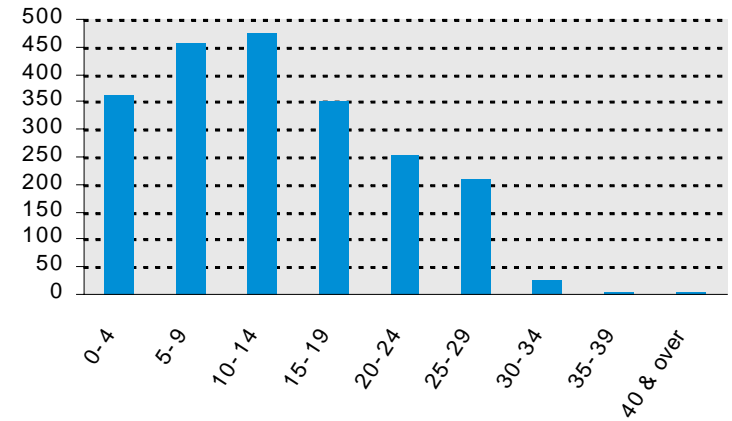


CHART 3
Distribution of Active Members by Years of Service as of June 30, 2007



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

Retired Members and Beneficiaries

As of June 30, 2007, 1,266 retired members and 211 beneficiaries were receiving total monthly benefits of \$7,505,094. For comparison, in the previous valuation, there were 1,189 retired members and 196 beneficiaries receiving monthly benefits of \$6,339,240.

These graphs show a distribution of the current retired members based on their monthly amount and age, by type of pension.

CHART 4
Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2007 (Excluding Beneficiaries)

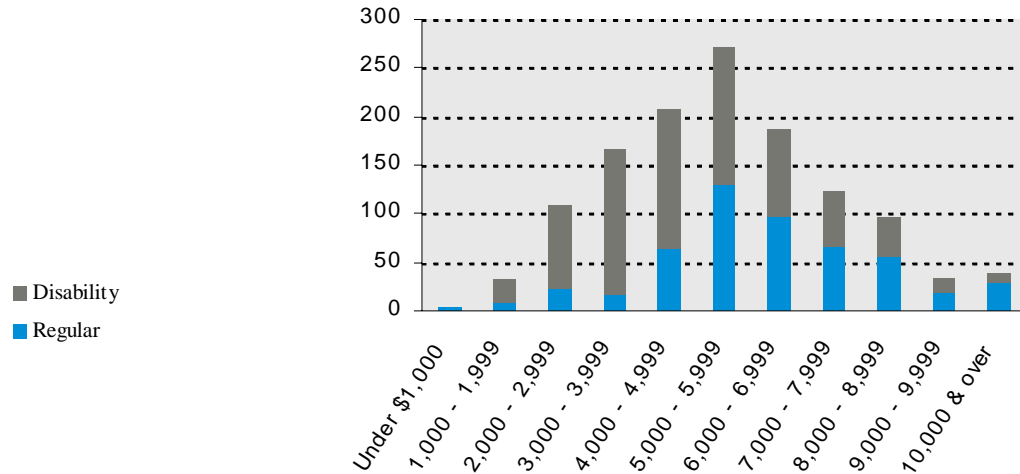
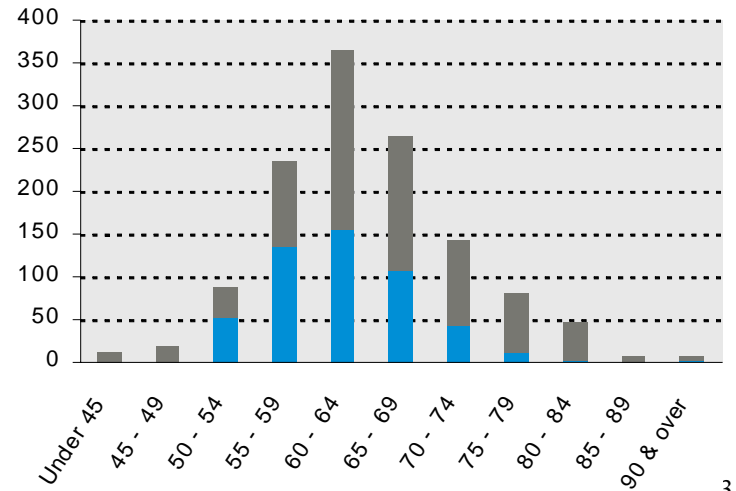


CHART 5
Distribution of Retired Members by Type and by Age as of June 30, 2007 (Excluding Beneficiaries)



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

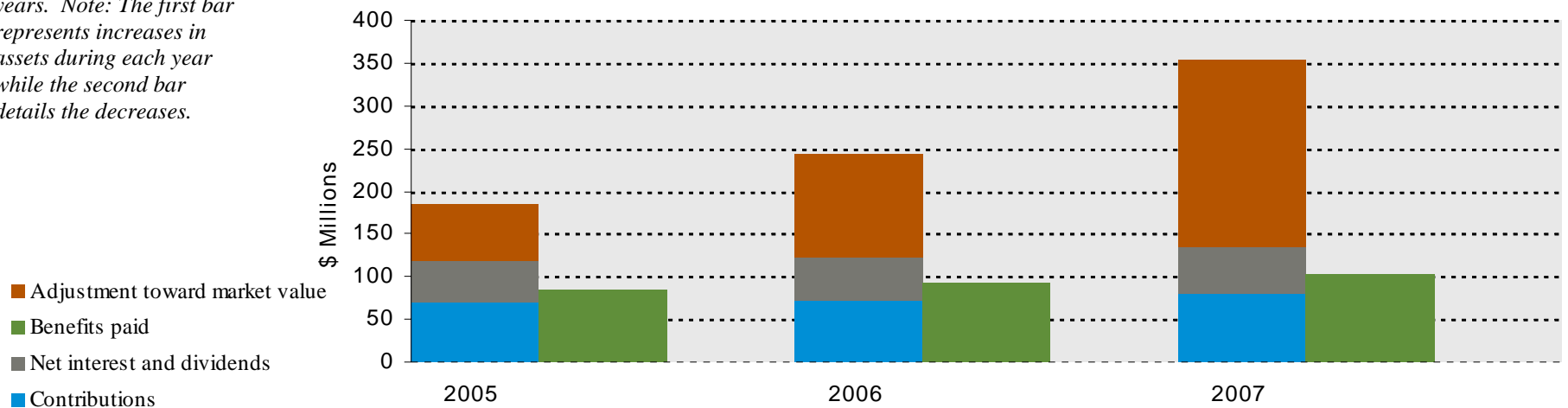
B. FINANCIAL INFORMATION

Retirement plan funding anticipates that, over the long term, both contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. The adjustment toward market value shown in the chart is the “non-cash” earnings on investments implicitly included in the actuarial value of assets. Additional financial information, including a summary of these transactions for the valuation period, is presented in Section 3, Exhibits D, E and F.

The chart depicts the components of changes in the actuarial value of assets over the last three years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6
Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2005 – 2007



SECTION 2: Valuation Results for the City of San Jose Police and Fire Department Retirement Plan

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The determination of the actuarial value of assets is provided on the following pages.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The chart shows the determination of the actuarial value of assets as of June 30, 2006.

CHART 7a

Determination of the Actuarial Value of Assets for Year Ended June 30, 2006

Plan Year Ending		Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain (Loss)	Deferred Factor	Deferred Return
From	To					
7/1/2001	6/30/2002			(\$167,152,360)	0	0
7/1/2002	6/30/2003			(\$48,808,400)	0.2	(\$9,761,680)
7/1/2003	6/30/2004			121,307,600	0.4	48,523,040
7/1/2004	6/30/2005			51,992,440	0.6	31,195,464
7/1/2005	6/30/2006	\$232,101,000	\$167,148,640	64,952,360	0.8	51,961,888
1.	Total deferred return					\$ 121,918,712
2.	Net market value of pension and health assets					2,311,039,000
3.	Actuarial value of pension and health assets (item 2 – item 1)					2,189,120,288
4.	Non-valuation assets (end of year)					
a.	Valuation value of assets for health (market value of \$40,519,000 x item 3 ÷ item 2)					\$38,381,423
b.	SRBR					<u>20,630,672</u>
c.	Subtotal					\$59,012,095
5.	Valuation value of pension assets (Item 3 – Item 4c)					\$2,130,108,193

Note: Results may not add due to rounding.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The chart shows the determination of the actuarial value of assets as of the valuation date.

CHART 7b

Determination of the Actuarial Value of Assets for Year Ended June 30, 2007

Plan Year Ending		Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain (Loss)	Deferred Factor	Deferred Return
From	To					
7/1/2002	6/30/2003			(48,808,400)	0	0
7/1/2003	6/30/2004			121,307,600	0.2	\$24,261,520
7/1/2004	6/30/2005			51,992,440	0.4	20,796,976
7/1/2005	6/30/2006	\$232,101,000	\$167,148,640	64,952,360	0.6	38,971,416
7/1/2006	6/30/2007	446,863,000	183,993,000	262,870,000	0.8	210,296,000
1.	Total deferred return					\$294,325,912
2.	Net market value of pension and health assets					2,735,649,000
3.	Actuarial value of pension and health assets (item 2 – item 1)					2,441,323,088
4.	Non-valuation assets (end of year)					
a.	Valuation value of assets for health (market value of \$50,866,000 x item 3 ÷ item 2)					45,393,375
b.	SRBR					<u>30,139,856</u>
c.	Subtotal					\$75,533,231
5.	Valuation value of pension assets (Item 3 – Item 4c)					\$2,365,789,857

Note: Results may not add due to rounding.

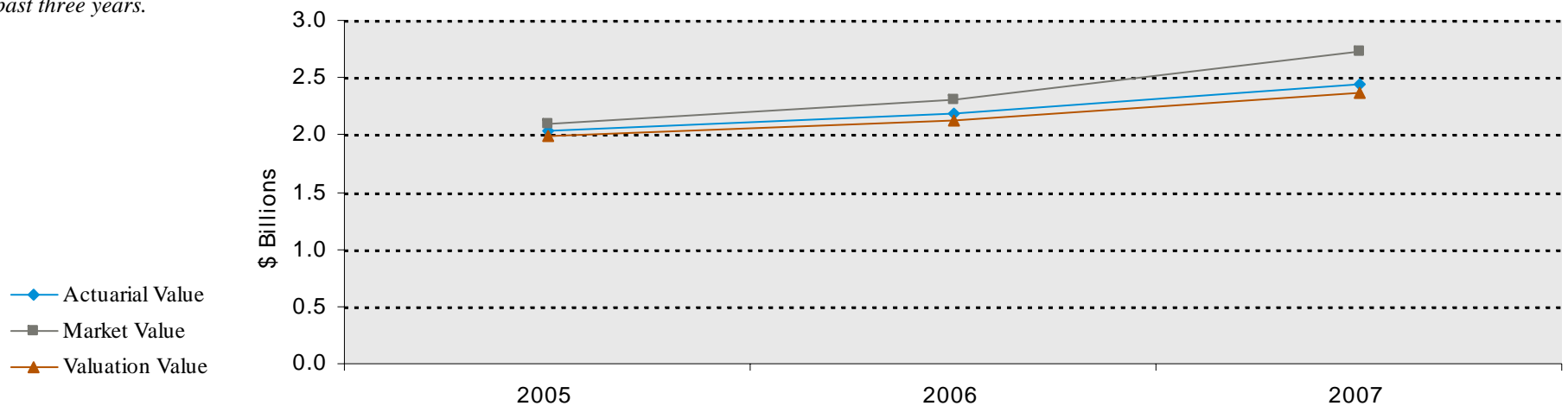
SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The market value, actuarial value and valuation value of assets are representations of the Plan's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets, but with less volatility. The valuation value of assets is the actuarial value, excluding the valuation value of health assets and the SRBR. The valuation asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the change in market value, actuarial value and valuation value over the past three years.

CHART 8

Market Value, Actuarial Value and Valuation Value of Assets as of June 30, 2005 –2007



SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each period actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the prior period. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one period without making a change in assumptions reflects the belief that the single period's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total experience gain was \$142.4 million, a gain of \$97.1 million from investments and a gain of \$45.2 million from all other sources. The gain from all other sources was 1.9% of the actuarial accrued liability. These gains do not include changes in the actuarial accrued liability due to benefit improvements and assumption changes. Those changes, along with the experience gain, are further detailed in Section 3, Exhibit G. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past two years.

CHART 9

Actuarial Experience for the Two-Year Period Ended June 30, 2007

1. Net gain from investments on valuation value of assets ⁽¹⁾	\$97,135,191
2. Net gain from other experience	<u>45,233,114</u>
3. Net experience gain: (1) + (2)	\$142,368,305

⁽¹⁾ Details in Chart 10

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Plan's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets was 8.00% (based on June 30, 2005 valuation). The actual annualized rate of return on an actuarial basis from June 30, 2005 to June 30, 2007 was 10.51%.

Since the actual return for the valuation period was greater than the assumed return, the Plan experienced an actuarial gain during the two-year period ended June 30, 2007 with regard to its investments.

CHART 10

Investment Experience for Period Ended June 30, 2007 – Market Value, Actuarial Value and Valuation Value of Assets

This chart shows the gain/(loss) due to investment experience.

	Market Value	Actuarial Value	Valuation Value
Year ended June 30, 2006			
1. Actual return	\$ 232,101,000	\$ 171,606,968	\$ 166,136,930
2. Average value of assets	2,089,358,000	2,027,933,320	1,973,530,666
3. Actual rate of return: (1) ÷ (2)	11.11%	8.46%	8.42%
4. Assumed rate of return	8.00%	8.00%	8.00%
5. Expected return: (2) x (4)	167,148,640	162,234,666	157,882,453
6. Actuarial gain/(loss): (1) – (5)	<u>\$64,952,360</u>	<u>\$9,372,302</u>	<u>\$8,254,477</u>
Year ended June 30, 2007			
1. Actual return	\$ 446,863,000	\$ 274,455,800	\$ 257,779,083
2. Average value of assets	2,299,912,500	2,177,993,788	2,119,484,097
3. Actual rate of return: (1) ÷ (2)	19.43%	12.60%	12.16%
4. Assumed rate of return	8.00%	8.00%	8.00%
5. Expected return: (2) x (4)	183,993,000	174,239,503	169,558,728
6. Actuarial gain/(loss): (1) – (5)	<u>\$262,870,000</u>	<u>\$100,216,297</u>	<u>\$88,220,355</u>

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on a market, actuarial and valuation basis for the last three years.

Based upon this experience, future expectations and discussions with the Board, we have maintained the assumed rate of return at 8.00%.

CHART 11

Investment Return – Market Value, Actuarial Value and Valuation Value: 2005 – 2007 (dollar amount in thousands)

Year Ended June 30	Market Value Investment Return		Actuarial Value Investment Return		Valuation Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent
2005	\$204,224	10.73%	\$115,478	5.98%	\$111,439	5.93%
2006	232,101	11.11%	171,607	8.46%	166,137	8.42%
2007	446,863	19.43%	274,456	12.60%	257,779	12.16%
Total	\$883,188		\$561,541		\$535,355	
Average Last 3 Years		13.69%		8.98%		8.81%

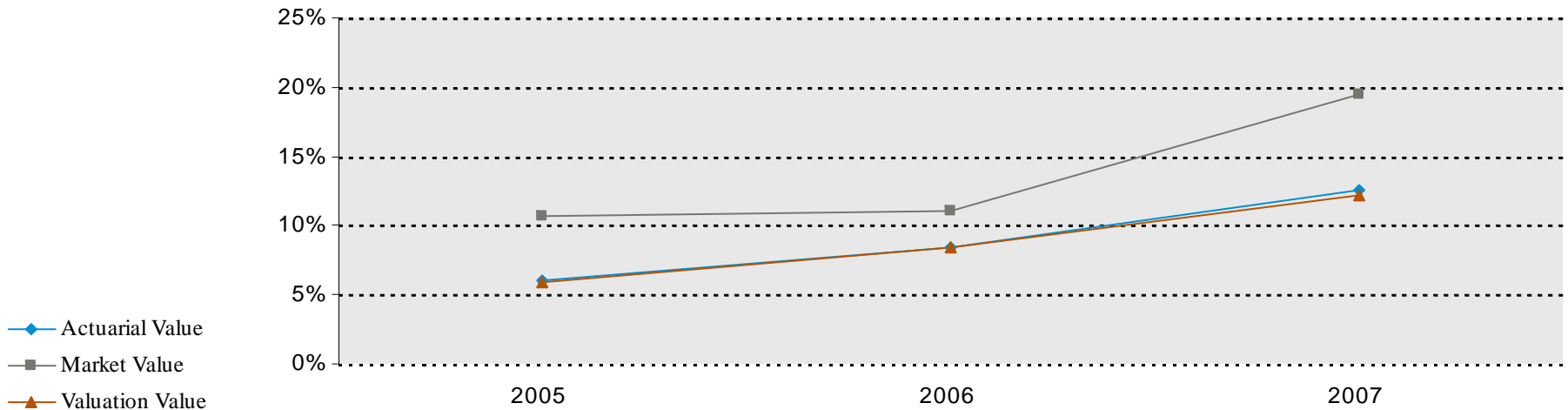
SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

This chart illustrates how this leveling effect has actually worked over the years 2005 - 2007.

CHART 12

Market, Actuarial and Valuation Rates of Return for Years Ended June 30, 2005 - 2007



SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation.

These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),

- the number of disability retirements,
- salary increases different than assumed, and
- data adjustments for retiree benefits and active pay for performance.

The net gain from this other experience for the year ended June 30, 2007 amounted to \$43.0 million, which was 1.8% of the actuarial accrued liability. See Exhibit G for a detailed development of the Unfunded Actuarial Accrued Liability.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

D. CITY AND MEMBER CONTRIBUTIONS

Employer contributions consist of two components:

Normal Cost

The annual contribution rate that, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement-related benefits. Accumulation includes annual crediting of interest at the assumed investment earning rate. The contribution rate is expressed as a level percentage of the member's compensation.

Contribution to the Unfunded

Actuarial Accrued Liability (UAAL)

The annual contribution rate that, if paid annually over the UAAL amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earning rate. The contribution (or rate credit in the case of a negative unfunded actuarial accrued liability) is calculated to remain as a level percentage of future active member payroll (including payroll for new members as they enter the Plan) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments (credits) are scheduled to increase at the combined annual inflation and across the board salary increase rate of 4.00%. The Board's funding policy is to amortize the Plan's unfunded actuarial accrued liability as follows: (1) outstanding balance of the unfunded actuarial accrued liability established as of June 30, 2003 amortized over the next 10 years; (2) prior service cost for the February 4, 1996 benefit improvement amortized over the next 10 years; and (3) future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event effective, beginning with the June 30, 2005 valuation.

The recommended employer contributions are provided on Chart 13.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

CHART 13

Recommended Contribution Rates

	June 30, 2007 Actuarial Valuation		June 30, 2005 Including Benefit Improvement		June 30, 2005 Excluding Benefit Improvement	
	Rate	Estimated Annual Amount ⁽¹⁾	Rate	Estimated Annual Amount ⁽¹⁾	Rate	Estimated Annual Amount ⁽¹⁾
Police Members						
Normal Cost – City	21.60%	\$32,163,533	20.83%	\$31,016,963	19.79%	\$29,468,348
Normal Cost – Member	8.10%	12,061,325	7.81%	11,629,500	7.42%	11,048,769
UAAL – City – Ben. Improvement	2.40% ⁽²⁾	3,573,726	2.25%	3,350,368	0.00%	0
UAAL – City – Other	-2.39%	(3,558,835)	1.63%	2,427,155	1.63%	2,427,155
UAAL – Member	0.08%	119,124	0.08%	119,124	0.06%	89,343
Fire Members						
Normal Cost – City	22.82%	\$17,988,824	21.75%	\$17,145,352	19.79%	\$15,600,299
Normal Cost – Member	8.56%	6,747,780	8.16%	6,432,463	7.42%	5,849,127
UAAL – City – Ben. Improvement	3.69%	2,908,798	3.69%	2,908,798	0.00%	0
UAAL – City – Other	-2.39%	(1,884,018)	1.63%	1,284,916	1.63%	1,284,916
UAAL – Member	0.06%	47,298	0.06%	47,298	0.06%	47,298
Total						
Required Contribution – City	22.48%	\$51,192,027	25.53%	\$58,133,552	21.42%	\$48,780,718
Required Contribution – Member	8.33%	18,975,526	8.00%	18,228,385	7.48%	17,034,536
Required Contribution – Total	30.81%	70,167,553	33.53%	76,361,937	28.90%	65,815,254

⁽¹⁾ Amounts are based on June 30, 2007 projected annual payroll of \$148,905,245 for Police and \$78,829,204 for Fire.

⁽²⁾ Adjusted to reflect the delay in the payment of the employer contribution rate for the Police benefit improvement until December 17, 2006.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The contribution rates as of June 30, 2007 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Recommended Contribution

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 14

Reconciliation of Recommended Contribution from June 30, 2005 to June 30, 2007 (Dollar Amounts in Thousands)

	<u>Contribution Rate</u>	<u>Estimated Annual Dollar Cost ⁽¹⁾</u>
Recommended Average Employer Contribution Rate as of June 30, 2005	21.42%	\$48,781
Effect of Benefit Improvement	4.11%	\$9,353
Recommended Average Employer Contribution Rate as of June 30, 2005 With Benefit Improvement	25.53%	\$58,134
1. Effect of changes in procedures and methods	0.33%	\$742
2. Effect of investment gain ⁽²⁾	-3.63%	-\$8,274
3. Effect of differences in actual versus expected total and individual salary increases	-1.96%	-\$4,465
4. Effect of assumption changes	1.76%	\$4,028
5. Effect of demographic changes on normal cost and unfunded actuarial accrued liabilities ⁽³⁾	0.45%	\$1,027
Subtotal	-3.05%	-\$6,942
Recommended Average Employer Contribution Rate as of June 30, 2007	22.48%	\$51,192

(1) Based on June 30, 2007 projected annual payroll of \$227,734,449.

(2) Annualized return on valuation assets for the two-year period ended June 30, 2007 was 10.27% and greater than the 8.00% assumed in the valuation.

(3) Other differences in actual versus expected actuarial experience.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The member contribution rates as of June 30, 2007 have been recalculated based on the new actuarial assumptions adopted by the Board for the June 30, 2007 experience study.

Reconciliation of Recommended Contribution Rate
The chart below details the changes in the aggregate member contribution rate from the prior valuation to the current year's valuation.

The chart reconciles the member contribution from the prior valuation to the amount determined in this valuation.

CHART 15
Reconciliation of Recommended Member Contribution from June 30, 2005 to June 30, 2007
(Dollar Amounts in Thousands)

	Contribution Rate	Estimated Annual Dollar Cost*
Recommended Contribution Rate as of June 30, 2005	7.48%	\$17,035
Effect of Benefit Improvement	0.52%	\$1,193
Recommended Contribution Rate as of June 30, 2005 With Benefit Improvement	8.00%	\$18,228
1. Effect of changes in procedures and methods	0.25%	\$569
2. Effect of assumption changes	0.20%	\$455
3. Effect of demographic changes on normal cost	-0.12%	-\$276
Subtotal	0.33%	\$748
Recommended Contribution Rate as of June 30, 2007	8.33%	\$18,976

*Based on June 30, 2007 projected annual payroll of \$227,734,449.

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

E. INFORMATION REQUIRED BY GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contributions to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan’s financial status is the funded ratio. This ratio compares the valuation value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits I, II, and III.

These graphs show key GASB factors.

CHART 16
Required Versus Actual Contributions

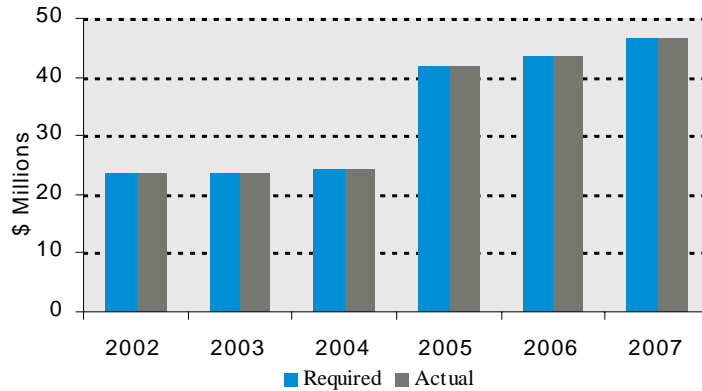
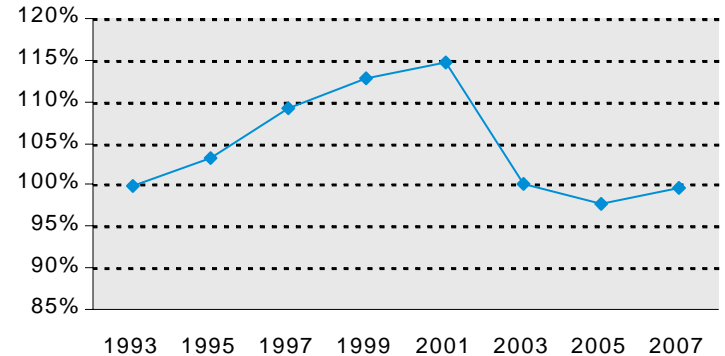


CHART 17
Funded Ratio



SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT A

Table of Plan Coverage

i. Active Members

Category	Period Ended June 30		Change From Prior Valuation
	2007	2005	
Police			
Number	1,401	N/A	N/A
Average age	40.3	N/A	N/A
Average service	13.1	N/A	N/A
Projected total compensation	\$148,905,245	N/A	N/A
Projected average compensation	\$106,285	N/A	N/A
Account balances	\$147,221,042	N/A	N/A
Total active vested members	885	N/A	N/A
Fire			
Number	735	N/A	N/A
Average age	41.6	N/A	N/A
Average service	13.2	N/A	N/A
Projected total compensation	\$78,829,204	N/A	N/A
Projected average compensation	\$107,251	N/A	N/A
Account balances	\$79,970,360	N/A	N/A
Total active vested members	433	N/A	N/A
Combined			
Number	2,136	2,003	6.6%
Average age	40.8	41.0	N/A
Average service	13.1	13.4	N/A
Projected total compensation	\$227,734,449	\$210,018,219	8.4%
Projected average compensation	\$106,617	\$104,852	1.7%
Account balances	\$227,191,402	N/A	N/A
Total active vested members	1,318	N/A	N/A

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT A

Table of Plan Coverage

ii. Nonactive Members

Category	Year Ended June 30		Change From Prior Valuation
	2007	2005	
Vested terminated members	71	69	2.9%
Retired members			
Number in pay status	508	439	15.7%
Average age	62.1	61.3	N/A
Average monthly benefit	\$6,334	\$5,762	9.9%
Disabled members			
Number in pay status	758	750	1.1%
Average age	65.6	64.5	N/A
Average monthly benefit	\$5,018	\$4,532	10.7%
Beneficiaries			
Number in pay status	211	196	7.7%
Average age	66.4	67.5	N/A
Average monthly benefit	\$2,292	\$2,096	9.4%

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT B

**Members in Active Service and Projected Average Compensation as of June 30, 2007
By Age and Years of Service**

i. Police

Age	Total	Years of Service								
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	37	37	--	--	--	--	--	--	--	--
	\$75,127	\$75,127	--	--	--	--	--	--	--	--
25 - 29	114	95	19	--	--	--	--	--	--	--
	82,136	78,651	\$99,562	--	--	--	--	--	--	--
30 - 34	218	62	128	28	--	--	--	--	--	--
	99,949	89,130	103,800	\$106,297	--	--	--	--	--	--
35 - 39	336	24	94	178	40	--	--	--	--	--
	106,024	86,418	105,088	108,288	\$109,909	--	--	--	--	--
40 - 44	288	5	34	84	134	31	--	--	--	--
	110,482	74,700	104,092	108,897	111,935	\$121,278	--	--	--	--
45 - 49	208	4	10	25	47	81	41	--	--	--
	114,931	91,158	104,634	103,040	109,968	117,589	\$127,451	--	--	--
50 - 54	152	--	3	12	17	48	69	3	--	--
	119,441	--	102,765	103,462	111,812	116,331	125,327	\$157,632	--	--
55 - 59	41	--	1	3	5	9	20	3	--	--
	115,198	--	95,295	110,364	106,704	123,342	114,965	117,939	--	--
60 - 64	6	--	--	--	2	--	4	--	--	--
	106,704	--	--	--	106,704	--	106,704	--	--	--
65 - 69	1	--	--	--	--	--	1	--	--	--
	106,323	--	--	--	--	--	106,323	--	--	--
70 & over	--	--	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--	--	--
Total	1,401	227	289	330	245	169	135	6	--	--
	\$106,285	\$81,893	\$103,963	\$107,720	\$111,069	\$118,215	\$123,744	\$137,786	--	--

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT B

**Members in Active Service and Projected Average Compensation as of June 30, 2007
By Age and Years of Service**

ii. Fire

Age	Total	Years of Service								
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	13	13	--	--	--	--	--	--	--	--
	\$76,001	\$76,001	--	--	--	--	--	--	--	--
25 - 29	56	51	5	--	--	--	--	--	--	--
	83,594	82,401	\$95,759	--	--	--	--	--	--	--
30 - 34	94	40	48	6	--	--	--	--	--	--
	96,774	86,702	103,548	\$109,734	--	--	--	--	--	--
35 - 39	186	25	82	67	12	--	--	--	--	--
	103,892	85,099	103,769	109,493	\$112,619	--	--	--	--	--
40 - 44	134	5	28	48	43	10	--	--	--	--
	111,428	108,341	104,918	110,424	115,586	\$118,141	--	--	--	--
45 - 49	106	--	4	23	34	33	12	--	--	--
	118,779	--	108,203	111,230	115,412	125,060	\$129,043	--	--	--
50 - 54	90	--	1	--	13	37	36	3	--	--
	118,284	--	107,696	--	111,469	117,493	122,018	\$116,308	--	--
55 - 59	43	--	--	--	3	4	21	15	--	--
	119,064	--	--	--	110,897	124,494	115,329	124,478	--	--
60 - 64	10	--	--	1	--	--	6	2	1	--
	112,013	--	--	106,323	--	--	107,990	122,473	\$120,924	--
65 - 69	3	--	--	--	--	--	--	--	1	2
	110,575	--	--	--	--	--	--	--	105,401	\$113,163
70 & over	--	--	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--	--	--
Total	735	134	168	145	105	84	75	20	2	2
	\$107,251	\$84,535	\$103,788	\$110,065	\$114,547	\$120,876	\$120,147	\$123,052	\$113,163	\$113,163

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT C

Reconciliation of Member Data – June 30, 2005 to June 30, 2007

	Active Members	Vested Terminated Members	Disabled Pensioners	Retired Members	Beneficiaries	Total
Number as of June 30, 2005	2,003	69	750	439	196	3,457
New members	261	0	N/A	N/A	N/A	261
Terminations – with vested rights	-5	5	0	0	0	0
Contribution refunds	-12	0	N/A	N/A	N/A	-12
Retirements	-87	-2	N/A	89	N/A	0
New disabilities	-21	0	37	-16	N/A	0
Return to work	2	-2	0	0	N/A	0
Died with or without beneficiary	-5	0	-29	-4	15*	-23
Data adjustments	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Number as of June 30, 2007	2,136	71	758	508	211	3,684

*Net increase in the number of beneficiaries.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT D

Summary Statement of Income and Expenses on an Actuarial Value Basis

	Two-Year Period Ended June 30, 2007	
Contribution income:		
Employee contributions	\$46,213,000	
Employer contributions	<u>105,709,000</u>	
Net contribution income		\$151,922,000
Investment income*		<u>450,526,768</u>
Total income available for benefits		<u>\$602,448,768</u>
Less benefit payments:		
Retirement benefits	-\$157,142,000	
Healthcare insurance premiums	-27,674,000	
Death benefits	-9,845,000	
Refund of contributions	<u>-354,000</u>	
Net benefit payments		-\$195,015,000
Less administrative expenses		-\$4,464,000
Change in assets held for future benefits		<u>\$402,969,768</u>

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT E

Summary Statement of Plan Assets

	As of June 30, 2007	As of June 30, 2005
Cash equivalents	\$399,214,000	\$182,870,000
Accounts receivable:		
Employee contributions	\$1,111,000	\$745,000
Employer contributions	2,458,000	1,641,000
Brokers and others	41,255,000	28,779,000
Accrued income/other liabilities	<u>7,955,000</u>	<u>8,533,000</u>
Total accounts receivable	\$52,779,000	\$39,698,000
Investments:		
Domestic equity securities and cash	\$1,040,458,000	\$802,826,000
International equity securities and cash	795,480,000	536,210,000
Private equity securities	37,715,000	0
Fixed income – governmental	176,460,000	315,020,000
Fixed income – corporate	245,263,000	199,205,000
Real estate	195,273,000	113,150,000
Other investments	<u>10,000</u>	<u>-61,000</u>
Total investments at market value	<u>\$2,490,659,000</u>	<u>\$1,966,350,000</u>
Total assets	<u>\$2,942,652,000</u>	<u>\$2,188,918,000</u>
Less accounts payable:		
Payable to brokers	-\$200,801,000	-\$84,529,000
Other liabilities	<u>-6,202,000</u>	<u>-4,611,000</u>
Total accounts payable	-\$207,003,000	-\$89,140,000
Net assets at market value	<u>\$2,735,649,000</u>	<u>\$2,099,778,000</u>
Net assets at actuarial value	<u>\$2,441,323,088</u>	<u>2,038,353,320</u>
Net assets at valuation value (pension benefits)	<u>\$2,365,789,857</u>	<u>1,983,090,069</u>

Note: Results may not add due to rounding.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT F

Actuarial Balance Sheet

An overview of the Plan’s funding is given by an Actuarial Balance Sheet. In this approach, we first determine the amount and timing of all future payments that are anticipated to be made by the Plan for current participants. We then discount these payments at the valuation interest rate to the date of the valuation, thereby determining their present value. We refer to this present value as the “liability” of the Plan.

Second, we determine how this liability will be met. These actuarial “assets” include the net amount of assets already accumulated by the Plan, the present value of future member contributions, the present value of future employer normal cost contributions, and the present value of future employer amortization payments.

Actuarial Balance Sheet (Dollar Amounts in Thousands)

Assets		
1	Total valuation assets	\$2,365,790
2	Present value of future contributions by members	\$186,001
3	Present value of future employer contributions for:	
	a Entry age normal cost	\$492,229
	b Unfunded actuarial accrued liability	<u>\$5,180</u>
4	Total current and future assets	\$3,049,200
Liabilities		
5	Present value of benefits for retirees and beneficiaries	\$1,224,919
6	Present value of benefits for terminated vested members	\$15,207
7	Present value of benefits for active members	<u>\$1,809,074</u>
8	Total liabilities	\$3,049,200

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT G

Development of Unfunded Actuarial Accrued Liability for the Two-Year Period Ended June 30, 2007

1	Unfunded actuarial accrued liability as of June 30, 2005		\$44,341,952
2	Changes in procedures and methods		-10,408,021
3	Revised unfunded actuarial accrued liability as of June 30, 2005		33,933,931
4	Normal cost from July 1, 2005 to June 30, 2006		58,782,723
5	Normal cost from July 1, 2006 to June 30, 2007		61,134,032
6	Total employer and member contributions from July 1, 2005 to June 30, 2006		-59,905,000
7	Total employer and member contributions from July 1, 2006 to June 30, 2007		-62,675,000
8	Charge to SRBR		-849,227
9	Police benefit improvement (valued at June 30, 2005)		36,542,591
10	Fire benefit improvement (valued at June 30, 2007)		34,110,693
11	Interest		16,444,227
12	Expected unfunded actuarial accrued liability*		117,518,970
13	Changes due to:		
	(a) Investment return	-\$97,135,191	
	(b) Lower than expected salary increase	-52,419,125	
	(c) Assumption change	33,097,752	
	(d) Other experience	<u>5,533,353</u>	
	(e) Total changes		<u>-110,923,211</u>
14	Unfunded actuarial accrued liability as of June 30, 2007		\$6,595,759

*Includes approximately \$1.7 million increase in UAAL due to difference between expected and actual payment to UAAL.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT H

Section 415 Limitations

Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar indexed for inflation. That limit is \$180,000 for 2007 and \$185,000 for 2008. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

Contributions rates determined in this valuation have not been reduced for the Section 415 limitations. Actual limitations will result in gains as they occur.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT I

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial Assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age; and
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost:

The amount of contributions required to fund the level cost allocated to the current year of service.

Actuarial Accrued Liability For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued Liability:

The extent to which the actuarial accrued liability of the Plan exceeds (or is exceeded by) the assets of the Plan. There are many approaches to recognizing the unfunded or overfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 3: Supplemental Information for the City of San Jose Police and Fire Department Retirement Plan

**Amortization of the Unfunded
(Overfunded) Actuarial
Accrued Liability:**

Payments made over a period of years equal in value to the Plan's unfunded or overfunded actuarial accrued liability.

Investment Return:

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the market gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT I

Supplementary Information Required by GASB – Schedule of Employer Contributions (Dollar Amounts in Thousands)

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2002	\$23,748	\$23,748	100.0%
2003	23,511	23,511	100.0%
2004	24,412	24,412	100.0%
2005	41,835	41,835	100.0%
2006	43,473	43,473	100.0%
2007	46,625	46,625	100.0%

Source: City of San Jose Comprehensive Annual Financial Report for the plan year ended June 30, 2007.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT II

Supplementary Information Required by GASB – Schedule of Funding Progress (Dollar Amounts in Thousands)

Actuarial Valuation Date	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
06/30/1993	\$714,592	\$716,123	\$1,531	99.8%	\$98,831	1.5%
06/30/1995	854,414	828,739	(25,675)	103.1%	109,196	(23.5%)
06/30/1997	1,124,294	1,030,168	(94,126)	109.1%	129,850	(72.0%)
06/30/1999	1,440,117	1,276,364	(163,753)	112.8%	144,125	(113.6%)
06/30/2001	1,713,812	1,492,732	(221,080)	114.8%	171,779	(128.7%)
06/30/2003	1,826,287	1,823,200	(3,087)	100.2%	202,222	(1.5%)
06/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21.1%
06/30/2007	2,365,790	2,372,386	6,596	99.7%	227,734	2.9%

Source for results prior to June 30, 2007: City of San Jose Comprehensive Annual Financial Report for the plan year ended June 30, 2007.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT III

Supplementary Information Required by GASB

Valuation date	June 30, 2007
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level percent of payroll for total unfunded liability (assuming a 4.00% total payroll increase)
Remaining amortization period	For unfunded liabilities calculated through the June 30, 2003 actuarial valuation, the amortization period ends June 30, 2017 (10 years). For the prior service cost of the benefit improvement effective July 1, 1996, the amortization period also ends June 30, 2017 (10 years). Gains and losses, changes in actuarial assumptions, and benefit improvements are amortized over separate 16-year periods.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on market value and is recognized over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves and designations.
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	3.50%
Across the board salary increase	0.50%
Projected salary increases (8+ years of service)	5.00%*
Cost of living adjustments	3.00% of retirement income
Plan membership:	
Retired members and beneficiaries receiving benefits	1,477
Terminated members entitled to, but not yet receiving benefits	71
Active members	<u>2,136</u>
Total	3,684

* Includes inflation at 3.50%, across the board increase of 0.50%, plus merit and longevity increases. See Exhibit IV for salary increases.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

**EXHIBIT IV
Actuarial Assumptions and Actuarial Cost Method**

Post-Retirement Mortality Rates:

Healthy: RP-2000 combined healthy mortality table (separate table for males and females) with no collar adjustment, projected 10 years. The male table is set back three years and the female table is set forward one year.

Disabled: RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years.

Termination Rates Before Retirement:

Mortality Rate (%)			Disability (Service Connected)		Turnover	
Age	Service Connected	Non-Service Connected	Age	Rate (%)	Years of Service	Rate (%)
25	0.0000	0.0125	20	0.0640	< 1	8.00
35	0.0200	0.0150	25	0.0930	1 – 4	1.20
45	0.0300	0.0250	30	0.1340	5 – 9	0.40
55	0.0600	0.0525	35	0.1990	10 +	0.40
			40	0.3140		
			45	0.5050		
			50	2.1375		
			55	9.0750		
			60	15.0000		

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Retirement Rates:*

Age	Rate (%)
50 – 64	17.00
65 – 69	35.00
70	100.00

** Applies to active members eligible for unreduced benefits.*

Retirement Age and Benefit for Deferred Vested Members:

For current deferred vested members, the retirement assumption is age 55. It is assumed that 75% of future deferred vested members will work for a reciprocal employer. For these members, we assume 4.00% compensation increases per annum.

Future Benefit Accruals:

1.0 year of service per year.

Inclusion of Deferred Vested Members:

All deferred vested members are included in the valuation.

Percent Married:

85%

Age of Spouse:

Wives are 3 years younger than their husbands.

Net Investment Return:

8.00%, net of administration and investment expenses.

Consumer Price Index:

Increase of 3.50% per year.

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.50% per year;
 plus 0.50% real across-the-board salary increase;
 plus the following Merit and Promotion increases based on completed years of service.

Years of Service	Annual Increase
0 – 5	5.00%
6 – 7	2.00
8 +	1.00

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Actuarial Value of Assets: The Actuarial Value of Assets is determined by phasing in any difference between actual and expected return on market value of assets over 5 years.

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation.

Changes in Assumptions: Based on the June 30, 2007 review of economic assumptions and the actuarial experience study, the following actuarial assumptions were changed:

Post-retirement mortality rates: Healthy – UP-94 mortality table (separate tables for males and females). For males, the table is set back four years and for females, the table is set forward one year.

Termination rates before retirement:

Turnover	
Years of Service	Rate (%)
< 1	5.00
1 – 4	1.50
5 – 9	0.50
10 +	0.60

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Changes in Assumptions (prior assumptions continued):

Consumer Price Index: Increase of 3.00% per year.

Salary increases:

Annual Rate of Compensation Increase	
Years of Service	Annual Increase
0 – 5	6.00%
6 – 7	3.00
8 +	0.75

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

EXHIBIT V

Summary of Plan Provisions

This exhibit summarizes the major provisions of the City of San Jose Police and Fire Department Retirement Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Membership Eligibility:

Any person employed as a police officer or fire fighter in the City of San Jose, except the following:

- Independent contractors
 - Person in city service for training/educational purposes
 - Auxiliary or voluntary police officers or fire fighters
 - Part-time or non-salaried employees
 - Receiving credit in any other retirement or pension system
-

Final Compensation (FAS) for Benefit Determination:

The highest 12 consecutive months of compensation earnable, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. FAS excludes overtime pay and expense allowances.

Service:

Years of service (Yrs).

Service Retirement Eligibility:

Normal Retirement

Age 55 with 20 years of service, or age 50 with 25 years of service, or age 70 with no service requirement, or 30 years of service regardless of age.

Early Retirement

Age 50 with 20 years of service.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Benefit Formula:

<i>Police</i>	2.5% of FAS per year of service up to 20 years of service, and 4.0% of FAS per year of service over 20, not to exceed 90% of FAS.
<i>Fire</i>	Less than 20 years of service: 2.5% of FAS per year of service. 20 or more years of service: 3.0% of FAS per year of service, not to exceed 90% of FAS. For early retirement for Police and Fire groups, the Service Retirement Benefit accrued to date of termination, then reduced pursuant to Municipal Code 3.36.810.

Deferred Vested Benefit:

<i>Eligibility</i>	Age 55 with 10 years of service and 20 years have elapsed from date of membership.
<i>Benefit</i>	The Service Retirement Benefit accrued to date of termination.

Service Connected Disability:

<i>Eligibility</i>	No age or service requirements.
<u><i>Benefit Formula</i></u>	
<i>Police</i>	50% of FAS for the first 20 years of service, and 4.0% of FAS per year of service over 20 years, not to exceed 90% of FAS.
<i>Fire</i>	Less than 20 years of service: 50% of FAS. 20 or more years of service: 3.0% of FAS per year of service, not to exceed 90% of FAS.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Members Eligible for Service Retirement

Eligibility Death after 2 years of service and eligible for Service Retirement

Benefit Spouse receives greater of 37.5% of FAS or 50% of the member's Service Retirement Benefit, with a maximum continuance benefit of 42.5% of FAS for Police and 45% of FAS for Fire.

Eligible dependent children will receive the same benefit as defined for Disabled Retirees or Members Ineligible for Service Retirement. The total benefits payable to a family shall not exceed 75% of FAS.

Service-Connected Death:

Eligibility Death in the course of employment with the City.

Benefit Spouse receives the greater of 50% of the member's benefit and 37.5% of FAS, with a maximum continuance benefit of 42.5% of FAS for Police and 45% of FAS for Fire. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

Refund of Contributions:

Refund of accumulated employee contributions plus 2% interest per annum.

Post-Retirement

Cost-of-Living Benefits: The increase in retirement allowance is subject to a maximum of 3% per year.

Member Contribution Rate:

Equals 3/11 of the Normal Cost plus the amortization payment on the prior service cost for a February 4, 1996 benefit improvement. For Police members, there is also an additional amortization payment for the member contributions not made between July 2006 and December 2006.

City Contribution Rate:

Equals 8/11 of the Normal Cost plus any amortization payments or credits on the unfunded liability.

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

Supplemental Retiree Benefits

Reserve (SRBR):

<i>Annual Transfer</i>	10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets.
<i>Benefit</i>	Interest on the principal equal to the rate of earnings on the actuarial value of assets (but not less than 0) distributed by the Board to retirees and beneficiaries to provide supplemental benefits.
<i>Charge to Principal</i>	If the City's contribution rate increases due to poor investment returns, 10% of the increased contribution for a one-year period is deducted from the SRBR principal. However, this deduction cannot be more than 5% of the total SRBR principal.

NOTE: *The summary of major plan provisions is designed to outline principal plan benefits as interpreted for purposes of the actuarial valuation. If the Retirement Plan should find the plan summary not in accordance with the actual provisions, the Retirement Plan should alert the actuary so they can both be sure the proper provisions are valued.*

SECTION 4: Reporting Information for the City of San Jose Police and Fire Department Retirement Plan

APPENDIX A

Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule as of June 30, 2007

Date Established	Description	Initial Amount	Outstanding Balance	Years Remaining	Payment
June 30, 1996	2/4/1996 benefit improvement (paid by all members)	N/A	\$1,167,641	10	\$143,416
June 30, 2003	UAAL	N/A	-3,933,770	10	-483,166
June 30, 2005	Experience loss	\$47,304,922	46,326,903	14	4,358,205
June 30, 2005	Benefit improvement (Police)	36,542,591	37,946,841 ⁽¹⁾	14 ⁽²⁾	3,569,850
December 17, 2006	Rate increase delay (paid by Police members only)	258,900	248,004	14.5 ⁽³⁾	22,768
June 30, 2007	Benefit improvement (Fire)	34,110,693 ⁽¹⁾	34,110,693 ⁽¹⁾	16 ⁽⁴⁾	2,905,529
June 30, 2007	Experience gain	-142,368,305	-142,368,305	16	-12,126,847
June 30, 2007	Assumption change	33,097,752	<u>33,097,752</u>	16	<u>2,819,247</u>
			\$6,595,759		\$1,209,002

⁽¹⁾ These amounts have been recalculated based on the June 30, 2007 payroll so as to maintain the same unfunded Actuarial Accrued Liability contribution rate determined in the Police and Fire benefit improvement studies. For the Police benefit improvement the rate has been further adjusted to reflect the delay in the payment of the employer contribution rate until December 17, 2006.

⁽²⁾ The UAAL associated with the Police benefit improvement is amortized over 16 years effective July 1, 2006. There are 14 years remaining in the amortization period as of July 1, 2008.

⁽³⁾ The rate increase as a result of the Police benefit improvement was not paid by the members until December 17, 2006. There are 14.5 years remaining in the amortization period as of July 1, 2008 for the member contribution shortfall.

⁽⁴⁾ The UAAL associated with the Fire benefit improvement is amortized over 16 years effective July 1, 2008. There are 16 years remaining in the amortization period as of July 1, 2008.

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