City of San José
Police and Fire Department
Retirement System

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

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

City of San José
Police and Fire Department
Retirement System

Roberto L. Peña
Chief Executive Officer

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

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

SAN JOSE
CAPITAL OF SILICON VALLEY

December 3, 2015

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 (Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015.

The Plan earned a time-weighted gross of investment fees rate of return of (0.8)% and net of investment fees rate of return of (1.0)% on investments for the fiscal year, compared to a (1.0)% return for its policy benchmark and a 3.2% return for the InvestorForce Public Defined Benefits Funds Median (IFPDB). In contrast, the net rate of return assumed by the Plan's actuary for fiscal year 2014-2015 was 7.0%. Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 7.5% and 8.0% for the three-year and five-year periods ending June 30, 2015, respectively, while the IFPDB Public Funds Median earned a time-weighted rate of return of 10.8% and 10.9% for the same periods. The net asset value of the Plan decreased from $3,265,815,000 to $3,219,691,000 (see the Financial Section beginning on page 14). The net decrease in Plan assets for fiscal year 2014-2015 was $46,124,000.

In September 2014, the Plan held its first annual stakeholders' meeting for its members. Feedback from the attendees was positive and helped enhance communication with the Plan's members.

In December 2014, Measure G became effective and modified the Board of Administration governance structure. The main governance focus of the Board was on obtaining more authority to better fulfill their fiduciary duties and working with all stakeholders to communicate their goals and obtain feedback. The Board has implemented an ad-hoc committee for Measure G to review the current structure and operations of the Office of Retirement Services and determine how best to implement Measure G in order to achieve their goals.

During fiscal year 2014-2015, the Investment Program completed comprehensive reviews of the global fixed income, global equity, commodities, absolute return, and global tactical asset allocation asset classes. These reviews in conjunction with other portfolio priorities resulted in the hiring of two fixed income managers, an emerging markets equity manager, two opportunistic real estate managers, two private equity managers, two absolute return managers, and lastly an active commodities manager. In addition, the Plan implemented its first partial currency hedging program as the equity program seeks global opportunities.

Board Chair Letter *(Continued)*

Under Board direction the Investment Program continued to develop over the past year and is poised to evolve further in FY 2015-2016. Recruitment efforts have begun for the newly created Retirement Investment Analyst positions, which will provide crucial support to our Investment Officers. This year will also see the development and recommendation of a Senior Investment Officer position to further enhance our Investment Program's retention, attraction, and development capabilities. In addition to our exceptional human capital, staff continues to research and recommend Investment Program operational best practices to continue building an institutional quality Investment Program. Efforts to date include working towards developing in-house capabilities for performance and attribution reporting, manager compliance reporting and risk analytics. It is against this backdrop that the Investment Program approaches FY 2015-2016 with a renewed vigor and culture of professionalism.

The Board believes that the professional services rendered by the staff, the auditors, investment consultant, actuary, and counsel have produced a sound fund capable of sustained growth over the long term. The Board of Administration and its staff are available to provide additional information as requested.

Sincerely,

Drew Lanza, Chairman
Board of Administration

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Introductory Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

December 3, 2015

Board of Administration
San Jose 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 Jose Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2015. 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). GASB Statement No. 67, Financial Reporting for Pension Plans, which was adopted during fiscal year 2013-2014, addresses accounting and financial reporting for requirements for pension plans. 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 2014 and 2015, please refer to the Management's Discussion and Analysis (MD&A) on page 17.

Macias Gini & O'Connell 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 Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2014. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe this report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2015. 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 June 30, 2014, the funding ratio of the defined benefit pension plan was 79% and for all three defined benefit OPEB plans was 13% 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 7.0% and 6.0%, respectively. The impact of the difference between the actual net rate of return earned by the Plan and the 7.0% and 6.0% assumptions 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 decrease in Plan assets for fiscal year 2014-2015 was $46,124,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 31. The components of the employer's net pension liability is presented on page 66 and the defined benefit OPEB plan's funding progress is presented on page 69.

Financial and Economic Summary

The multi-year valuation expansion in growth assets continued throughout fiscal year 2015. Markets were resilient to domestic and global political tensions, geopolitical conflicts in Eastern Europe and the Middle East, unsustainable debt loads in Greece and the threat of a slowing Chinese economy. Central banks continued their influence in markets, with the Federal Reserve navigating an end to unprecedented monetary stimulus in the U.S., the European Central Bank beginning expansionary monetary policy with a 1.0 trillion euro bond purchase program, the Peoples Bank of China reducing interest rates by 0.25% and the Swiss National Bank removing its Euro peg.

Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive yearly gain, returning 7.4%. Fixed income investments experienced divergent performance across debt instrument types as risk averse investors bid up higher credit quality issues, resulting in high yield bonds (-0.4%) underperforming investment grade bonds (+1.9%). International developed markets equities underperformed domestic equities by nearly 13% as the relative strength of the U.S. Dollar and sluggish economic growth weighed on the non-U.S. markets. Emerging markets equities also trailed domestic stocks by 13%, and underperformed developed non-U.S. equities markets by approximately 1%.

As the Investment Program enters FY 2015-2016 it is within the context of multiple economic and market related statistics having surpassed historic norms. According to the National Bureau of Economic Research the last economic expansion began in June of 2009. Since 1945 there have been 11 economic cycles with the average duration of the expansion phase lasting 58.4 months. As of this writing the current economic expansion is in its 76 month. It is against this backdrop that the Plan enters FY 2015-2016, and it is the primary rationale for maintaining a conservative posture towards direct equity exposures.

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 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 Plan's time-weighted gross of investment fees rate of return was (0.8)% and net of investment fees rate of return was (1.0)%, compared to a (1.0)% return for its policy benchmark and a 3.2% return for the InvestorForce Public Defined Benefits Funds Median (IFPDB). Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 7.5% and 8.0% for the three-year and five-year periods ending June 30, 2015, respectively, while the IFPDB Public Funds Median earned a time-weighted rate of return of 10.8% and 10.9% for the same periods. The net asset value of the Plan decreased from $3,265,815,000 to $3,219,691,000 (see the Financial Section beginning on page 14).

Major Initiatives

In September 2014, the Plan held its first annual stakeholders' meeting for its members. Feedback from the attendees was positive and helped enhance communication with the Plan's members.

In December 2014, Measure G became effective and modified the Board of Administration's governance structure. The main governance focus of the Board was on obtaining more authority to better fulfill their fiduciary duties and working with all stakeholders to communicate their goals and obtain feedback. The board has implemented an ad-hoc committee for Measure G to review the current structure and operations of the Office of Retirement Services and determine how best to implement Measure G in order to achieve their goals.

During fiscal year 2014-2015, the Investment Program completed comprehensive reviews of the global fixed income, global equity, commodities, absolute return, and global tactical asset allocation asset classes. These reviews in conjunction with other portfolio priorities resulted in the hiring of two fixed income managers, an emerging markets equity manager, two opportunistic real estate managers, two private equity managers, two absolute return managers, and lastly an active commodities manager. In addition, the Plan implemented its first partial currency hedging program as the equity program seeks global opportunities.

Under Board direction the Investment Program continued to develop over the past year and is poised to evolve further in FY 2015-2016. Recruitment efforts have begun for the newly created Retirement Investment Analyst positions, which will provide crucial support to our Investment Officers. This year will also see the development and recommendation of a Senior Investment Officer position to further enhance our Investment Program's retention, attraction, and development capabilities. In addition to our exceptional human capital, staff continues to research and recommend Investment Program operational best practices to continue building an institutional quality Investment Program. Efforts to date include the development of in-house capabilities for performance and attribution reporting, manager compliance reporting and risk analytics. It is against this backdrop that the Investment Program approaches FY 2015-2016 with a renewed vigor and culture of professionalism.

During the fiscal year 2015, the Plan mailed out its first annual Popular Annual Financial Report (PAFR) to all of its members thus improving communication and education. The PAFR is a condensed version of the CAFR.

Office of Retirement Services (ORS) kicked off the upgrade of its pension administration system in March 2015, the implementation process is expected to last approximately 40 months and is estimated at $9 million.

ORS staff, in conjunction with City Administration, participated in the Request For Proposal (RFP) for its medical, vision and dental providers and voluntary benefits provider. The medical providers selected were Kaiser Permanente and Blue Shield of California, while UHC, the then current out-of-state provider, declined to submit a proposal. Existing UHC plans ended effective January 1, 2015. Blue Shield of California will be the out-of-state medical provider.

Finally, during the fiscal year, an RFP was issued by ORS for a new medical service provider for the disability evaluation process.

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

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, 2014

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2014

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

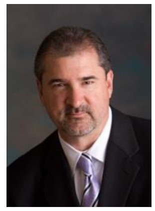
The Retirement System is administered by a nine-member Board of Administration composed of two City employees elected by members of the Plan, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment 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, 2015, the members of the Board were as follows:

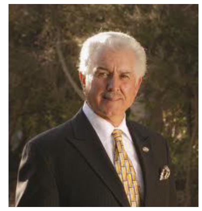
ANDREW LANZA, CHAIR
Public member appointed to the Board in April 2011. His current term expires April 30, 2019.

JAMES MASON, VICE CHAIR
Employee representative for the Police Department appointed to the Board in May 2012. His current term expires November 30, 2017.

SEAN KALDOR, TRUSTEE
Employee representative for the Fire Department appointed to the Board in May 2010. His current term expires November 30, 2015.

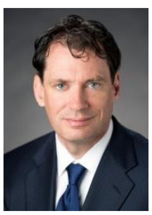


VINCENT SUNZERI, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2016.

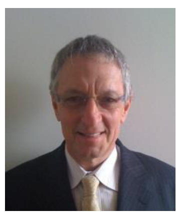


RICHARD SANTOS, TRUSTEE
Retired Plan member appointed to the Board in March 2011. His current term expires November 30, 2018.

NICK MUYO, TRUSTEE
Retired Plan member appointed to the Board in November 2012. His current term expires November 30, 2016.



STEPHEN BRENNAN, TRUSTEE
Public member appointed to the Board in April 2014. 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.

JOHNNY KHAMIS, NON-VOTING BOARD MEMBER

OFFICE OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PENA, DIRECTOR CHIEF EXECUTIVE OFFICER

DONNA BUSSE, DEPUTY DIRECTOR CHIEF OPERATIONS OFFICER

ARN ANDREWS, ASSISTANT DIRECTOR 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.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

Hanson Bridgett LLP
San Francisco, CA

Reed Smith LLP
San Francisco, CA

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

NEPC, LLC – General Consultant
Redwood City, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of investment professionals begins on page 94 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 103 and 104, respectively.

2015 Department of Retirement Services Organizational Chart

Office of Retirement Services

1737 North First Street Suite 600, San Jose, CA 95112

(408) 794-1000 | (800) 732-6477 | (408) 392-6732 Fax

www.sjretirement.com

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Financial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report

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 (Plan), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the 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 audits involve 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 entity'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 entity'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.

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

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, 2015 and 2014, and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2015 and 2014, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, the total pension liability based on the actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, exceeded the pension plan net position by $866 million. The actuarial valuation is very sensitive to the underlying assumptions, including the discount rate of 7.00%, which represents the long-term expected rate of return.

As discussed in Note 6 to the financial statements, based on the most recent actuarial valuation as of June 30, 2014, the Plan's independent actuaries determined that, as of June 30, 2014, the postemployment healthcare plans' actuarial accrued liability exceeded the actuarial value of their assets by $613 million. The actuarial valuation includes the assets and liabilities of the Postemployment Healthcare 401(h) Trust, Police Department Healthcare Trust, and the Fire Department Healthcare Trust funds.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios, schedule of investment returns – defined benefit pension plan, schedule of employer contributions - defined benefit pension plan, schedule of funding progress – postemployment healthcare plans and schedule of employer contributions – postemployment healthcare plans, as listed in the table of contents, be presented to supplement the financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 financial statements, and other knowledge we obtained during our audits of the 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 schedules of funding progress and schedules of employer contributions for its Postemployment Healthcare Plans, that accounting principles generally accepted in the United State of America require to be presented separately for each plan to supplement the 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 Information

Our audits were conducted for the purpose of forming an opinion on the Plan's financial statements. The introductory section, other supplementary information in the financial section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 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 grant agreements and other matters for the year ended June 30, 2015. The purpose of that report is 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 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2015

SAN JOSE
CAPITAL OF SILICON VALLEY

November 12, 2015

Board of Administration
San Jose 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, 2015 and 2014. 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 2015

- As of June 30, 2015, the Plan had $3,219,691,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $3,110,065,000 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 $109,626,000 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 decreased during the fiscal year ended June 30, 2015 by approximately $46,124,000 or 1.4%, primarily as a result of the depreciation in the fair value of investments caused by poor market performance during the fiscal year.

- Additions to plan net position during fiscal year ended June 30, 2015 were $158,648,000, which includes member and employer contributions of $37,764,000 and $150,189,000, respectively, and net investment losses of $29,305,000. This represents a decrease of $436,564,000 from the prior fiscal year.

- Deductions from plan net position for fiscal year ended June 30, 2015 increased slightly from $193,641,000 to $204,772,000 over the prior year, or approximately 5.7%, due to an increase in retirement benefit payments and healthcare insurance premiums, which 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 information and other supplemental information for the year ended June 30, 2015, were prepared in conformity with generally accepted accounting principles, including Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* and Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting For Postemeployment Benefit Plans Other than Pension Plans*. 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 plan 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 due pursuant to legal requirements and benefits and refunds of contributions when currently 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 investment 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 funded status of the other Postemployment Healthcare Plans, 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 on pages 33 - 65 of this report).

The ***Required Supplementary Information*** is an 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 66 of this report). The *Schedule of Changes in the Net Pension Liability and Related Ratios of the Defined Benefit Pension Plan* was prepared using the Plan's net position.

The ***Other Supplemental Information*** presents the Combining Schedules of Defined Benefit Pension Plan Net Position and Changes in Defined Benefit Pension Plan Net Position, Schedules of Administrative Expenses, 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 20). At the close of fiscal years 2015 and 2014, 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 actuarial accrued 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 funded status of the Postemployment Healthcare plans should also be considered when evaluating the Plan's financial health. Based on the June 30, 2014 valuation rolled forward to June 30, 2015, the net position of the Defined Benefit Pension Plan was 84.8% of the total pension liability. As of June 30, 2014, the most recent valuation, the funded status of the other Postemployment Healthcare Plans increased from 11% to 13%. For more information on the results and impact of the June 30, 2014 valuations, please see Notes 5 and 6 to the financial statements on pages 57 - 61.

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

As of June 30, 2015 and 2014 (Dollars in Thousands)

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

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

As of June 30, 2014 and 2013 (Dollars in Thousands)

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

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

As of June 30, 2015 and 2014 (Dollars in Thousands)

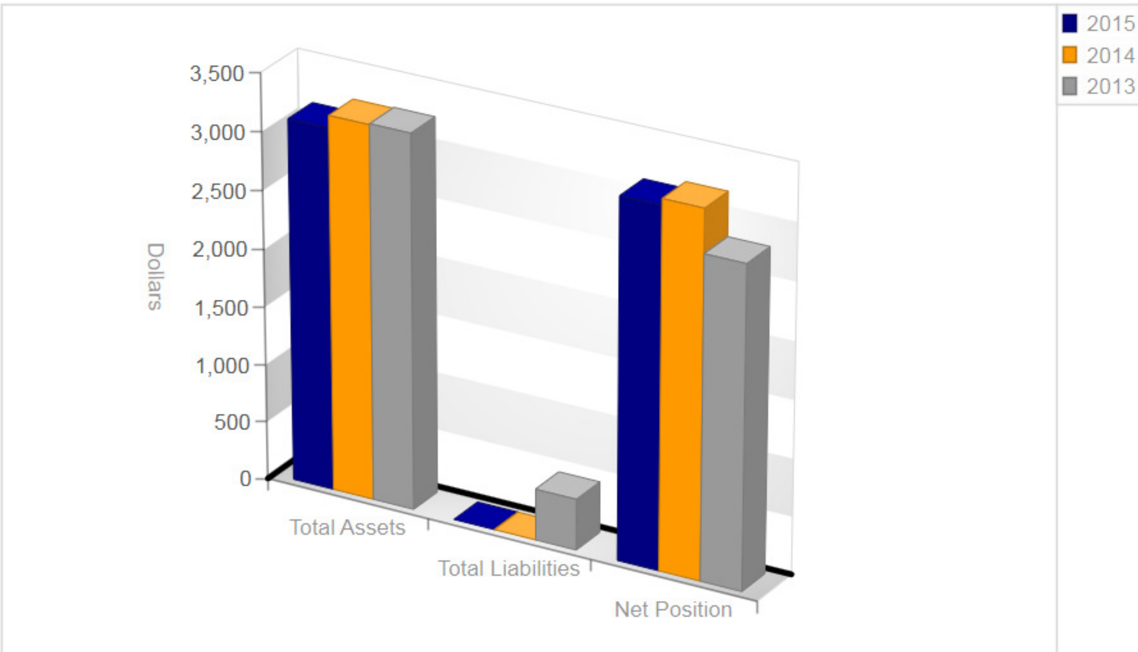
	2015	2014	Increase / (Decrease) Amount	Increase / (Decrease) Percentage
Receivables	$ 1,055	$ 1,851	$ (796)	(43.0)%
Investments at fair value	109,016	96,825	12,191	12.6 %
Capital assets	1	-	1	- %
Total Assets	**110,072**	**98,676**	**11,396**	**11.5 %**
Current liabilities	446	1,034	(588)	(56.9)%
Total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

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

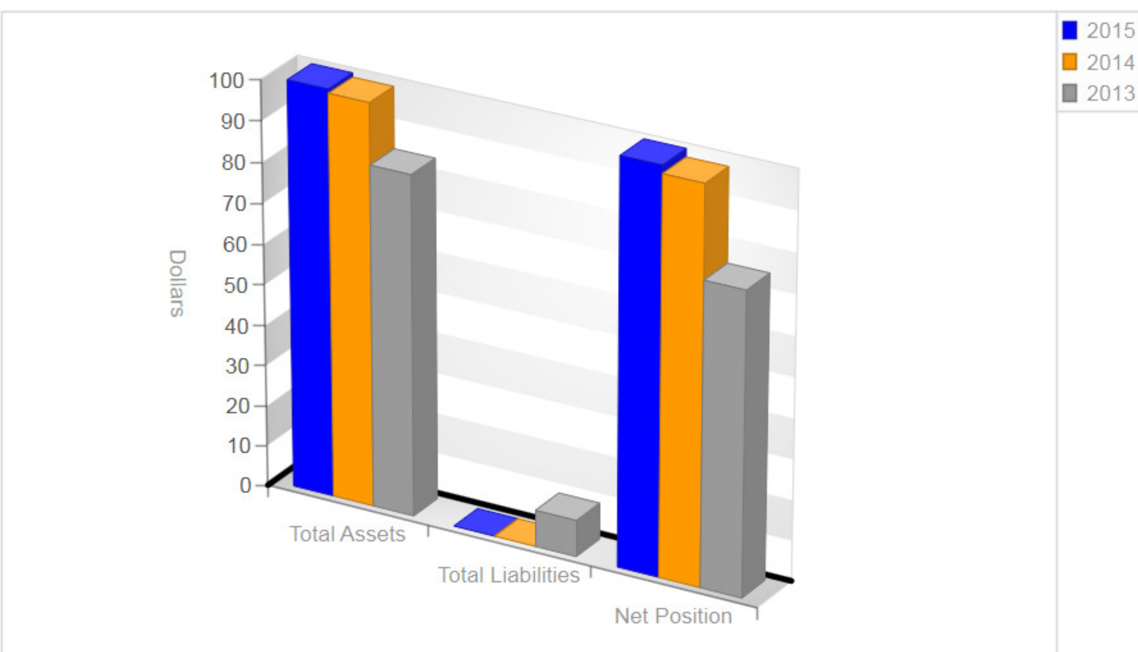
As of June 30, 2014 and 2013 (Dollars in Thousands)

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

POLICE AND FIRE DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)
As of June 30, 2015 , 2014 and 2013
Dollars in Millions



POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLANS NET POSITION (Tables 1c and 1d)
As of June 30, 2015 , 2014and 2013
Dollars in Millions



As of June 30, 2015, $3,110,065,000 and $109,626,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 20). Plan net position of $3,110,065,000 is available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of $109,626,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2015, total net position for pension benefits decreased by 1.8% and increased by 12.3% for the postemployment healthcare benefits plan from the prior year, primarily due to the net depreciation in the fair value of investments of $44,360,000 for the Defined Benefit Pension Plan. The depreciation in the fair value of investments was caused by poor market performance during the fiscal year. The increase in the postemployment healthcare beneftis is due to the increase in contributions from the prior fiscal year. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 45.

As of June 30, 2014, $3,168,173,000 and $97,642,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 20). Plan net position restricted for pension benefits of $3,168,173,000 was available to meet Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of $97,642,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2014, total net position restricted for pension benefits increased by 13.6% and increased by 30.7% for the postemployment healthcare plan from prior year primarily due to the net appreciation in the fair value of investments of $343,352,000 and $10,565,000 for the Defined Benefit Pension Plan and Postemployment Healthcare plan, respectively. The appreciation in the fair value of investment was caused by the increase in market performance. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 45.

As of June 30, 2015, receivables increased by $3,074,000 or 32.7% and decreased by $796,000 or 43.0% in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due to an increase in receivables from brokers and others for year-end investment trades and due to an decrease in contribution receivable with a decrease in the contribution rate, respectively. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by $482,000 or 5.4% and $938,000 or 102.7%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2015, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $49,994,000, or 92.4% and $588,000 or 56.9%, respectively, compared with June 30, 2014, due mainly to a reduction in securities lending collateral due to borrowers. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $387,662,000, or 87.8% and $8,170,000 or 88.8%, respectively, compared with June 30, 2013, due also to a decrease in payables to brokers and others for year-end investment trades and securities lending collateral due to borrowers.

POLICE AND FIRE PLAN ACTIVITIES

In the fiscal year ended 2015, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position decreased by $46,124,000, or 1.4% primarily due to the poor market performance experienced in 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, 2015, were $122,336,000 and $36,312,000, respectively (see Tables 2a and 2c on pages 24 - 25).

For the fiscal year ended June 30, 2015, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans decreased by $427,340,000 and $9,224,000, or 77.7% and 20.3%, respectively. The primary cause of the decrease from prior year was net investment losses of $27,690,000 and $1,615,000, respectively, compared to net investment income of $404,978,000 and $12,595,000 in 2014. The net investment losses were primarily a result of the decrease in the market performance during the fiscal year ended June 30, 2015. 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, 2015, was (0.8)% compared to 13.9% for the fiscal year ended June 30, 2014. On a net of management fee basis, the Plan’s time-weighted rate of return for the fiscal year ended June 30, 2015, was (1.0)% compared to 13.5% for the fiscal year ended June 30, 2014.

For the fiscal year ended June 30, 2014, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $175,490,000 and $9,783,000, or 46.9% and 27.4%, respectively, from the prior year primarily due to increase of $158,814,000 and $6,208,000, respectively, in net investment income excluding securities lending income, which was a result of the increase in market performance 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, 2014, was 13.9% compared to 9.9% for the fiscal year ended June 30, 2013. On a net of management fee expenses basis, the Plan’s time-weighted rate of return for the fiscal year ended June 30, 2014, was 13.5% compared to 9.6% for the fiscal year ended June 30, 2013.

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 Plan, refunds of contributions to terminated employees, and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2015, totaled $180,444,000 and $24,328,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 5.5% from the previous year due to an increase in benefit payments (see Table 2a on page 24). The increases in benefit payments are 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 7.6% over the previous year due to increases in healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 25).

Deductions for the fiscal year ended June 30, 2014, totaled $171,028,000 and $22,613,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by 4.8% from the previous year due to an increase in the number of retirees and beneficiaries and final average salaries (see Table 2b on page 24). Deductions for the Postemployment Healthcare Plan decreased by 5.8% over the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 25).

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

For the Fiscal Years Ended June 30, 2015 and 2014 (Dollars in Thousands)

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

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

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

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

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

** Net of investment expenses of $13,710 and $9,784 in 2014 and 2013, respectively.*

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

For the Fiscal Years Ended June 30, 2015 and 2014 (Dollars in Thousands)

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

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

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

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

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

** Net of investment expenses of $302 and $231 in 2014 and 2013, 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 Healthcare Plan and the Fire Department Postemployment Healthcare Plan). Within the Defined Benefit Pension Plan Retirement Fund and Postemployment Healthcare there are two reserves: the general reserve, and the employee contributions reserve. See the reserve table on page 48 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 (depreciation) in the fair value of investments is held in the unrealized gain/loss account, a component of each Plan’s general reserve.

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 Plan’s actuarial valuation as of June 30, 2014, was used to determine the contribution rates effective June 21, 2015, for fiscal year 2015-2016. The annual required contribution rates and dollar amounts calculated in the June 30, 2014, valuation were adopted by the Board and became effective in fiscal year 2015-2016.

Defined Benefit Pension Plan Funding

The Plan’s funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan’s actuarial valuation 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 accrued liability (UAAL) of $788.7 million, as of June 30, 2014, does not include the impact of approximately $143.1 million of net deferred investment gains, primarily resulting from favorable investment returns between fiscal years 2011-2014, not being fully recognized yet. It is anticipated that future actuarial valuations will recognize these remaining deferred investment gains 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 2.00%, net of investment expenses, in the actuarial valuation as of June 30, 2014. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAAL 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 long term 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 long-term 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 June 30, 2014 valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year periods beginning with the valuation date in which they are effective. Actuarial gains and losses and plan changes continue to be amortized as a level percentage of pay assuming a 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. The equivalent single amortization period for the June 30, 2014 valuation is 13.4 years.

Contribution rates for fiscal year 2015-2016, as determined by the June 30, 2014 valuation included the impact of the continued effect of the layered 20-year closed amortization period, and the recognition of smoothed deferred investment gains and losses.

The valuation for June 30, 2012 and beyond will include the impact of only the implemented sections of *The Sustainable Retirement Benefits and Compensation Act* (Pension Act) enacted by the voters of San Jose on June 5, 2012. The Pension Act amended the City Charter to a provision on additional retirement contributions and potential suspension of COLA for current employees to establish different benefits for new employees and to place other limitations on benefits.

On April 26, 2013, the City Council adopted an ordinance to implement the terms of a stipulated arbitration award on a Tier 2 for the police members in the Plan, effective for employees hired or reinstated on or after August 4, 2013. The new tier includes benefit changes from the existing Plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year (for first 20 years and 4% for years after that) for Tier 1 to 2.0% per year; an increase from 50 years to 60 years of age for retirement eligibility at full benefits; a consumer price index-driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase; a decrease in maximum benefit to 65% of final average salary from 90%; pensionable compensation to be based on base salary only rather than on base compensation plus premium pays; members to share all costs of Tier 2 equally, including the total normal cost, any accrued unfunded actuarial liability and administrative costs of the Plan; and final average compensation based on the highest consecutive three years of compensation instead of on the highest one year. Significant portions of the Pension Act applicable to existing employees and are currently subject to legal challenge by members of the Plan. On August 25, 2015, the City formally approved an Alternative Pension Reform settlement framework with the bargaining units representing sworn employees in the Police and Fire Departments. See Note 8 in the *Notes to the Financial Statements* for more details.

On September 12 , 2014, the City Council adopted Ordinance No. 29511 to implement the terms of an arbitration award and decision on Tier 2 pension benefits for Fire members hired on or after January 2, 2015. The new tier includes benefit changes from the existing Plan. See Note 1 in the *Notes to the Financial Statements* for the changes in benefits.

Postemployment Healthcare Plans

During the year ended June 30, 2015, the Postemployment Healthcare Plan, which includes the 401(h) and the Internal Revenue Code Section 115 Subtrusts: the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, completed its Other Postemployment Benefits (OPEB) funding valuation as of June 30, 2014. A summary of the results is presented in Note 6 to the Financial Statements. The funding valuation will continue to include increased rates for retiree health and dental contributions for Fire and Police members in order to phase-in to fully contributing the GASB Statement No. 43 annual required contribution as a result of the respective Memoranda of Agreements (MOA's) entered into by the Fire members, and Police members, and the City of San Jose on March 3, 2011 and June 28, 2009, respectively, over a five year period. Fiscal year 2012 was the first year of the phase-in for the Fire members of the Plan. The first year for the Police members was fiscal year 2010. The Fire and Police members entered into separate MOA's with the City; however, both agreements contain incremental increase caps of 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for members and 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11% of pensionable pay.

On May 22, 2012, a new Internal Revenue Code Section 115 Trust was established by the San José City Council (Ordinance #29065) to provide an alternative source of funding from the existing 401(h) account located within the pension fund for retiree healthcare benefits. This health care trust was further clarified by the San Jose City Council (Ordinance #29260) on June 12, 2013, which declared that the Police Department Health Care Trust Fund and the Fire Department Health Care Trust Fund may be structured as two wholly separate subtrusts of one trust. Employer contributions to the new trust funds began in fiscal year 2012-2013. On August 6, 2013, the City obtained a private letter ruling from the Internal Revenue Service 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 Internal Revenue Service 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 115 trust.

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

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STATEMENTS OF PLAN NET POSITION

June 30, 2015 and 2014 (In Thousands)

	2015				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ASSETS					
Receivables					
Employee contributions	$ 563	$ 470	$ -	$ -	$ 1,033
Employer contributions	3,467	-	297	214	3,978
Brokers and others	4,761	68	-	-	4,829
Accrued investment income	3,676	-	6	-	3,682
Total receivables	**12,467**	**538**	**303**	**214**	**13,522**
Investments, at fair value:					
Securities and other:					
Global equity	893,916	13,724	17,600	8,872	934,112
Private equity	273,157	4,643	-	-	277,800
Real estate	24,895	423	-	-	25,318
Global fixed income	518,077	8,806	5,352	2,639	534,874
Collective short term investments	268,644	4,566	1,047	516	274,773
Private debt	222,394	3,780	-	-	226,174
Real assets	434,102	7,378	7,467	3,681	452,628
International currency contracts, net	398	7	-	-	405
Global tactical assets	329,649	5,603	7,096	3,498	345,846
Absolute return	136,397	2,318	-	-	138,715
Total Investments	**3,101,629**	**51,248**	**38,562**	**19,206**	**3,210,645**
Capital Assets	**58**	**1**	**-**	**-**	**59**
TOTAL ASSETS	**3,114,154**	**51,787**	**38,865**	**19,420**	**3,224,226**
LIABILITIES					
Payable to brokers	3,081	32	-	-	3,113
Other liabilities	1,008	414	-	-	1,422
TOTAL LIABILITIES	**4,089**	**446**	**-**	**-**	**4,535**
PLAN NET POSITION - RESTRICTED FOR:					
Pension benefits	3,110,065	-	-	-	3,110,065
Postemployment healthcare benefits	-	51,341	38,865	19,420	109,626
TOTAL PLAN NET POSITION	**$ 3,110,065**	**$ 51,341**	**$ 38,865**	**$ 19,420**	**$ 3,219,691**

See accompanying notes to basic financial statements

STATEMENTS OF PLAN NET POSITION (Continued)

June 30, 2015 and 2014 (In Thousands)

	2014				
	Defined Benefit Pension Plan	**Post-employment Healthcare 401(h)**	**Police Department Healthcare Trust**	**Fire Department Healthcare Trust**	**Total**
ASSETS					
Receivables					
Employee contributions	$ 488	$ 363	$ -	$ -	$ 851
Employer contributions	3,477	-	326	176	3,979
Brokers and others	1,798	910	-	-	2,708
Accrued investment income	3,630	76	-	-	3,706
Total receivables	**9,393**	**1,349**	**326**	**176**	**11,244**
Investments, at fair value:					
Securities and other:					
Global equity	880,386	15,961	12,008	5,391	913,746
Private equity	247,291	4,541	-	-	251,832
Real estate	224,855	4,129	2,581	1,160	232,725
Global fixed income	466,028	8,557	8,269	3,717	486,571
Collective short term investments	135,267	2,481	340	153	138,241
Private debt	252,470	4,636	-	-	257,106
Real assets	223,265	4,099	3,041	1,367	231,772
International currency contracts, net	62	1	-	-	63
Global tactical assets	335,134	6,154	-	-	341,288
Absolute return	397,883	7,306	-	-	405,189
Securities lending collateral investment pool	50,222	933	-	-	51,155
Total Investments	**3,212,863**	**58,798**	**26,239**	**11,788**	**3,309,688**
TOTAL ASSETS	**3,222,256**	**60,147**	**26,565**	**11,964**	**3,320,932**
LIABILITIES					
Payable to brokers	1,956	70	-	-	2,026
Securities lending collateral due to borrowers	50,728	942	-	-	51,670
Other liabilities	1,399	25	(4)	1	1,421
TOTAL LIABILITIES	**54,083**	**1,037**	**(4)**	**1**	**55,117**
PLAN NET POSITION - RESTRICTED FOR:					
Pension benefits	3,168,173	-	-	-	3,168,173
Postemployment healthcare benefits	-	59,110	26,569	11,963	97,642
TOTAL PLAN NET POSITION	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**

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

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2015 and 2014 (In Thousands)

	2015				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ADDITIONS					
Contributions:					
Employee	$ 20,747	$ 17,017	$ -	$ -	$ 37,764
Employer	129,279	-	13,073	7,837	150,189
Total Contributions:	**150,026**	**17,017**	**13,073**	**7,837**	**187,953**
Investment income:					
Net depreciation in fair value of investments	(44,360)	(786)	(1,676)	(777)	(47,599)
Interest income	10,884	210	(13)	(6)	11,075
Dividend income	17,299	320	952	428	18,999
Net rental income	3,869	62	-	-	3,931
Less investment expense	(15,920)	(315)	(16)	(8)	(16,259)
Net depreciation in fair value of investments	**(28,228)**	**(509)**	**(753)**	**(363)**	**(29,853)**
Securities lending income:					
Earnings	553	10	-	-	563
Rebates	(4)	-	-	-	(4)
Fees	(11)	-	-	-	(11)
Net securities lending income	**538**	**10**	**-**	**-**	**548**
Net investment loss	**(27,690)**	**(499)**	**(753)**	**(363)**	**(29,305)**
TOTAL ADDITIONS	**122,336**	**16,518**	**12,320**	**7,474**	**158,648**
DEDUCTIONS					
Retirement benefits	166,331	-	-	-	166,331
Healthcare insurance premiums	-	24,205	-	-	24,205
Death benefits	9,220	-	-	-	9,220
Refund of contributions	702	-	-	-	702
Administrative expenses and other	4,191	82	24	17	4,314
TOTAL DEDUCTIONS	**180,444**	**24,287**	**24**	**17**	**204,772**
NET (DECREASE) / INCREASE	**(58,108)**	**(7,769)**	**12,296**	**7,457**	**(46,124)**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS:					
BEGINNING OF YEAR	**3,168,173**	**59,110**	**26,569**	**11,963**	**3,265,815**
END OF YEAR	**$ 3,110,065**	**$ 51,341**	**$ 38,865**	**$ 19,420**	**$ 3,219,691**

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

STATEMENTS OF CHANGES IN PLAN NET POSITION (Continued)

For the Fiscal Years Ended June 30, 2015 and 2014 (In Thousands)

	2014				
	Defined Benefit Pension Plan	Post-employment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
ADDITIONS					
Contributions:					
Employee	$ 21,115	$ 15,674	$ -	$ -	$ 36,789
Employer	123,583	-	11,712	5,555	140,850
Total Contributions	**144,698**	**15,674**	**11,712**	**5,555**	**177,639**
Investment income:					
Net appreciation in fair value of investments	343,352	6,734	2,643	1,188	353,917
Interest income	39,813	780	-	-	40,593
Dividend income	31,137	611	590	265	32,603
Net rental income	3,748	73	-	-	3,821
Less investment expense	(13,710)	(269)	(23)	(10)	(14,012)
Net appreciation in fair value of investments	**404,340**	**7,929**	**3,210**	**1,443**	**416,922**
Securities lending income:					
Earnings	861	17	-	-	878
Rebates	(6)	-	-	-	(6)
Fees	(217)	(4)	-	-	(221)
Net securities lending income	**638**	**13**	**-**	**-**	**651**
Net investment income	**404,978**	**7,942**	**3,210**	**1,443**	**417,573**
TOTAL ADDITIONS	**549,676**	**23,616**	**14,922**	**6,998**	**595,212**
DEDUCTIONS					
Retirement benefits	157,635	-	-	-	157,635
Healthcare insurance premiums	-	22,510	-	-	22,510
Death benefits	8,738	-	-	-	8,738
Refund of contributions	1,024	-	-	-	1,024
Administrative expenses and other	3,631	73	15	15	3,734
TOTAL DEDUCTIONS	**171,028**	**22,583**	**15**	**15**	**193,641**
NET INCREASE	**378,648**	**1,033**	**14,907**	**6,983**	**401,571**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS:					
BEGINNING OF YEAR	**2,789,525**	**58,077**	**11,662**	**4,980**	**2,864,244**
END OF YEAR	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**

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 (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 favorable determination letter was received from the IRS on March 24, 2014.

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 2012-2013. 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 trust.

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 trust and postemployment healthcare trust fund. It is administered by the Chief Executive Officer of the Office of Retirement Services, who is an employee of the City under the direction of the Plan's Board of Administration. The Plan 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 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/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 by the City.

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.

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. Fire Tier 1

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(a) General (Continued)

members are those members who entered the Plan prior to January 2, 2015. Police Tier 2 members are those employees who were hired, rehired or reinstated on or after August 4, 2013. Fire Tier 2 members are those employees who were hired, rehired or reinstated on or after January 2, 2015.

The following table summarizes the Plan members as of June 30, 2015 and 2014, respectively.

As of June 30, 2015	2015				
	Police		Fire		
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Total**
Retirees and beneficiaries currently receiving benefits*	1,271	-	837	-	2,108
Terminated vested members not yet receiving benefits	218	32	40	-	290
Active members	841	88	626	22	1,577
Total	**2,330**	**120**	**1,503**	**22**	**3,975**
Postemployment Healthcare Plans					
Retirees and beneficiaries currently receiving benefits*	1,199	-	793	-	1,992
Terminated vested members not yet receiving benefits	7	-	2	-	9
Active members	842	87	626	22	1,577
Total	**2,048**	**87**	**1,421**	**22**	**3,578**

As of June 30,2014	2014				
	Police		Fire		
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Total**
Retirees and beneficiaries currently receiving benefits*	1,216	-	818	-	2,034
Terminated vested members not yet receiving benefits	218	22	42	-	282
Active members	930	67	657	-	1,654
Total	**2,364**	**89**	**1,517**	**-**	**3,970**
Postemployment Healthcare Plans					
Retirees and beneficiaries currently receiving benefits*	1,144	-	779	-	1,923
Terminated vested members not yet receiving benefits	6	-	3	-	9
Active members	930	67	657	-	1,654
Total	**2,080**	**67**	**1,439**	**-**	**3,586**

** 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.*

The Plan is not subject to the provisions of the Employee Retirement Income Securitiy Act of 1974.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(b) Pension, Disability and Healthcare Benefits

Effective September 30, 1994, the Plan entered into an agreement with the California Public Employees' Retirement System (PERS) 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 sumarizes the pension, disability and healthcare benefits for Police members. Please consult the Municipal Code for complete information.

	Police Tier 1	Police Tier 2
Employee Contributions	20.77% (Pension: 11.26%, Retiree Healthcare: 9.51%) As of 06/21/15	20.78% (Pension: 11.27% Retiree Healthcare: 9.51%) As of 6/21/2015
City Contributions	83.32% (Pension: 73.01%, Retiree Healthcare: 10.31%) As of 06/21/15	21.58% (Pension: 11.27% Retiree Healthcare: 10.31%) As of 6/21/2015
Minimum Service to Leave Contributions in Plan	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	10 years of service
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	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction
Early Retirement	50-54 with 20 years of service (Discounted pension)	N/A
Deferred Vested	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 least 25 years of service.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) Can begin at age 50 with actuarial equivalent reduction
Benefit Formula	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)	2.0% x years of service x final compensation (65% max) •Years of service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year
Final Compensation	Highest one-year average	Highest three-year average
Disability Retirement (Service Connected)		
Minimum Service	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)	50% of final compensation
Disability Retirement (Non-Service Connected)		
Minimum 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 2
Allowance	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (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)	2% x years of service x final compensation. (Minimum of 20% and maximum of 50%)
Medical Benefits		
Eligibility	Retired for disability or service directly from active service with either 15 years of 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 service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Retired for disability or service directly from active service with either 15 years of 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 service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).
Premiums	Retirement System pays 100% of lowest cost single or family premium that is available to active employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.	Retirement System pays 100% of lowest cost single or family premium that is available to active employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.
Dental Benefits		
Eligibility	Retired for disability or service directly from active service with 15 years of service or receives retirement allowance of at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Retired for disability or service directly from active service with 15 years of service or receives retirement allowance of at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).
Premiums	Fully paid by Retirement System	Fully paid by Retirement System

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

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

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

	Fire Tier 1	Fire Tier 2
Employee Contributions	21.57% (Pension: 11.83%, Retiree Healthcare: 9.74%) As of 06/21/15	20.9% (Pension: 11.16%, Retiree Healthcare: 9.74%) As of 6/21/15
City Contributions	85.57% (Pension: 74.95%, Retiree Healthcare: 10.62%) As of 06/21/15	21.79% (Pension: 11.17%, Retiree Healthcare: 10.62%) As of 6/21/15
Minimum Service to Leave Contributions in System	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service
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	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction
Early Retirement	50-54 with 20 years of service (Discounted pension)	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.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) Can begin at age 50 with actuarial equivalent reduction
Benefit Formula	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)	2.0% x years of service x final compensation (65% max) • Years of service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation
Cost of Living Adjustments	3% per year	CPI up to 1.5%
Final Compensation	Highest one-year average	Highest three-year average
Disability Retirement (Service Connected)		
Minimum Service	None	None
Allowance	50% of final compensation	<20 years service: 50% of final compensation Beginning of 21st year of service: 3% per year of service X final compensation (90% max)
Disability Retirement (Non-Service Connected)		
Minimum Service	5 years of service	2 years
Allowance	2% x years of service x final compensation. (Minimum of 20% and maximum of 50%)	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) Beginning of 21st year of service: 3% per year of service X final compensation (90% max)

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

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

	Fire Tier 1	Fire Tier 2
Medical Benefits		
Eligibility	Retired for disability or service directly from active service with 15 years of service or receives allowance that is at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Retired for disability or service directly from active service with 15 years of service or receives allowance that is at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).
Premiums	Retirement System pays 100% of lowest cost single or family premium that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.	Retirement System pays 100% of lowest cost single or family premium that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.
Dental Benefits		
Eligibility	Retired for disability or service directly from active service with 15 years of service or receives retirement allowance of at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).	Retired for disability or service directly from active service with 15 years of service or receives retirement allowance of at least 37.5% of final compensation. Also eligible if member leaves service after 7/5/92 but prior to retirement with 20 years of service and leaves contributions and former member receives allowance (i.e., applies & qualifies for retirement).
Premiums	Fully paid by Retirement System	Fully paid by Retirement System

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits

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

	Police Tier 1
Death Before Retirement	
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% +.75% for each year in excess of 2 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
Death before retirement, but while eligible for service retirement – Nonservice-Connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on years of service For example: Member's benefit = 76% Survivorship benefit = 38.0% of final compensation Member's benefit = 80% Survivorship benefit = 40.0% of final compensation Member's benefit = 82% Survivorship benefit = 41.0% of final compensation Member's benefit = 85% 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

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

	Police Tier 1
Service-Connected Death regardless of years of service	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
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% + .75% for each year in excess of 2 (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	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	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.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

The following table sumarizes 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	Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate
Nonservice-Connected Death Not Eligible for Retirement and two or more years of service	To surviving spouse/domestic partner: Monthly allowance based on annual amount equal to the greater of: •2.0% x years of service x final compensation (30% max) or •10% of final compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Nonservice-Connected Death Eligible for Retirement	To surviving spouse/domestic partner: Monthly benefit equivalent to pension the employee would have received if retired at the time of death. If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Service-Connected Death	
Service-Connected Death	To surviving spouse/domestic partner: Monthly allowance based on annual benefit equal to the greater of: •50% of final compensation or •Benefit employee would have been eligible for, if member had retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Death After Retirement	
Service Retirees	At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board's actuary.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

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

	Fire Tier 1
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% +.75% for each year in excess of 2 x final compensation (45% 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% of member's final compensation depending on years of service For example: Member's benefit = 81% Survivorship benefit = 40.5% of final compensation Member's benefit = 84% Survivorship benefit = 42.0% of final compensation Member's benefit = 87% Survivorship benefit = 43.5% of final compensation Member's benefit = 90% 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
Death After Retirement	
Service Retirees Service-Connected Disability	To surviving spouse/domestic partner: 37.5% to 45% 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% + .75% for each year in excess of 2 (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	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	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.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

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

	Fire Tier 2
Death Before Retirement	
Nonservice-Connected Death Not Eligible for Retirement and less than two years of service	Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate
Nonservice-Connected Death Not Eligible for Retirement and two or more years of service	To surviving spouse/domestic partner: Monthly allowance based on annual amount equal to the greater of: •2.0% x years of service x final compensation (30% max) or •10% of final compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member’s estate will receive the accumulated employee contributions, plus interest
Nonservice-Connected Death Eligible for Retirement	To surviving spouse/domestic partner: Monthly benefit equivalent to the pension the employee would have received if retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member’s estate will receive the accumulated employee contributions, plus interest
Service-Connected Death	
Service-Connected Death	To surviving spouse/domestic partner: Monthly allowance based on annual benefit equal to the greater of: •50% of final compensation or •Benefit employee would have been eligible for, if the member had retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member’s estate will receive the accumulated employee contributions, plus interest
Service Retirees	At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board’s actuary

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Plan is reported in a pension trust and postemployement healthcare trust fund in the City of San José's basic financial statements. The financial statements of the Plan present only the financial activities of the Plan and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(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.

On June 5, 2014, the Board approved a long-term pension asset allocation which was subsequently revised on September 4, 2014. The new asset allocation made changes from the August 2, 2012, adopted asset allocation including: a decrease in fixed income strategies, an increase in the allocation to equity strategies and an increase to absolute return strategies. 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, 2014 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, 2014				As of June 30, 2015			
Asset Class	*Minimum Allocation*	*Target Asset Allocation*	*Maximum Allocation*	*Asset Class*	*Minimum Allocation*	*Target Asset Allocation*	*Maximum Allocation*
Global and private equity	25%	37%	50%	**Global equity Private equity**	25%	39%	50%
Fixed Income	15%	25%	35%	**Global Fixed Income Private Debt**	15%	27%	35%
Inflation-linked assets	12%	17%	25%	**Real asset Real estate**	12%	25%	25%
Absolute return	10%	20%	30%	**Absolute return Global tactical asset**	10%	16%	30%
Cash	0%	1%	5%	**Cash**	0%	1%	5%

Note: The Inflation-linked asset category includes allocations to real estate, commodities, and other inflation-linked assets. The absolute return category includes allocations to relative value and global macro hedge fund strategies and Global Tactical Asset managers.

In addition, on August 7, 2014, the Board approved a new long-term asset allocation for the Healthcare Trust Plans. Recommended changes included utilizing more active management, decreasing fixed income strategies and increasing absolute return strategies.

HEALTHCARE

As of June 30, 2014				As of June 30, 2015			
Asset Class	*Minimum Allocation*	*Target Asset Allocation*	*Maximum Allocation*	*Asset Class*	*Minimum Allocation*	*Target Asset Allocation*	*Maximum Allocation*
Global equity	25%	43%	50%	**Global equity**	25%	43%	50%
Fixed income	5%	15%	25%	**Global fixed income**	5%	15%	25%
Absolute return	0%	20%	25%	**Absolute return Global Tactical Asset**	0%	20%	25%
Inflation-linked assets	12%	22%	25%	**Inflation-link assets**	12%	22%	25%
Cash	0%	0%	5%	**Cash**	0%	0%	5%

Note: The inflation-linked asset category includes allocations to commodities, real estate, and other inflation-linked assets.The absolute return/global tactical asset category is currently comprised of three Global Tactical Asset 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments (Continued)

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.

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 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 are based on annual independent appraisals. As of June 30, 2015, the separate real estate properties include: office buildings in O'Fallon, MO and San Jose, CA. As of June 30, 2015 and 2014, the office building in O'Fallon, Mo had a mortgage payable with a fair value of $8,127,440 and $8,862,400, respectively.

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.

For the fiscal years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.85)% and 13.5%, respectively . 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 in four years. It is considered to have an indefinite useful life, and therefore, it will not be amortized.

(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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As of June 30, 2015 and 2014, plan net position totaling $3,219,691,000 and $3,265,815,000, 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 Trust	Fire Department Healthcare Trust	Total
June 30, 2015							
Employee contributions	$ 215,620	$ 69,652	$ 285,272	$ 72,371	$ -	$ -	$ 357,643
General reserve	1,758,071	1,066,722	2,824,793	(21,030)	38,865	19,420	2,862,048
Total	**$ 1,973,691**	**$ 1,136,374**	**$ 3,110,065**	**$ 51,341**	**$ 38,865**	**$ 19,420**	**$ 3,219,691**
June 30, 2014							
Employee contributions	$ 210,090	$ 65,713	$ 275,803	$ 56,791	$ -	$ -	$ 332,594
General reserve	1,827,228	1,065,142	2,892,370	2,319	26,569	11,963	2,933,221
Total	**$ 2,037,318**	**$ 1,130,855**	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**

Note: The fiscal year 2015 Postemployment Heatlhcare 401(h) is represented as a negative due to the investment loss incurred during the fiscal year.

Employee Contributions Reserve is a reserve that 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 their return to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only.

General Reserve is a reserve that represents net earnings resulting from investment 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 biannually 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 Statements

Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans, which was adopted during the fiscal year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. Significant changes include an actuarial calculation of the total and net pension liabilities. It also includes comprehensive footnote disclosure regarding the net pension liability, the sensitivity of the net pension liability to the discount rate and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 4 and in the Required Supplementary Information on page 74.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*. These statements are effective for state and local governmental employers that sponsor or contribute to pension plans for fiscal years beginning after June 15, 2014. Several elements required by GASB Statement No. 68 are defined in GASB Statement No. 67 and will be calculated by the Plan and the Plan's actuaries. The Plan adopted this standard, the standard did not have a significant impact on its financial statements.

The GASB recently issued Statement No. 72 , *Fair Value Measurement and Application*. GASB Statement No. 72 addresses accounting and financial reporting related to fair value measurements of assets and liabilities. Guidance is provided around valuation techniques used to measure fair value and extensive disclosures will be required around the hierarchy of inputs to valuation techniques used to measure fair value as established by the statement. Since the statement generally requires investments to be measured at fair value, the impact to the valuation of investments in the Plan's financial statements is expected to be minimal. However, the investment-related notes to the financial statements will need to be significantly enhanced to comply with this new standard. The requirements of GASB Statement No. 72 are effective for financial statements for periods beginning after June 15, 2015.

The GASB recently issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and 68*, which addresses financial reporting for assets accumulated for purposes of providing those pensions. This Statement is effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016.

The GASB recently issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which applies to OPEB plans and replaces GASB Statement No. 43*. This statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans and is effective for financial statemetns for fiscal years beginning after June 15, 2016.

The GASB recently issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement, which essentially parallels GASB Statement No. 68, applies to government employers who provide OPEB plans to their employees and replaces GASB Statement No. 45.

The GASB recently issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of the new statement are effective for reporting periods beginning after June 15, 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(h) Reclassifications and Presentation

Certain reclassifications of prior year's balances have been made to conform with the current year presentation.

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 fluctuate 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.

NOTE 3 - INVESTMENTS (Continued)

The following tables provide the segmented time distribution for a portion of fixed income investments based on expected maturity (in months and years) excluding any commingled funds based on duration as of June 30, 2015 and 2014, concerning the fair value of investments and interest rate risk:

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2015 (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	$ 22,941	$ -	$ -	$ 285,022	$ 226,820	$ 91	$ 534,874	$ 544,004
Collective Short Term Investments	**274,773**	**-**	**-**	**-**	**-**	**-**	**274,773**	**266,384**
TOTAL FIXED INCOME	**$ 297,714**	**$ -**	**$ -**	**$ 285,022**	**$ 226,820**	**$ 91**	**$ 809,647**	**$ 810,388**

INVESTMENT MATURITIES AT FAIR VALUE
as of June 30, 2014 (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								
Fixed Income:								
Asset backed securities	$ -	$ -	$ -	$ -	$ -	$ 89,724	$ 89,724	$ 86,453
Bank loans	-	-	-	-	-	53,138	53,138	50,000
Corporate bonds	-	-	1	67,522	118,057	-	185,580	182,983
FNMA	-	-	-	-	-	-	-	(14)
Guaranteed investment contracts	-	-	-	-	-	158,047	158,047	153,389
Total Fixed Income	**-**	**-**	**1**	**67,522**	**118,057**	**300,909**	**486,489**	**472,811**
Collective Short Term Investments	**138,241**	**-**	**-**	**-**	**-**	**-**	**138,241**	**131,475**
Global Fixed Income	**-**	**-**	**-**	**-**	**-**	**82**	**82**	**58**
TOTAL FIXED INCOME	**$ 138,241**	**$ -**	**$ 1**	**$ 67,522**	**$ 118,057**	**$ 300,991**	**$ 624,812**	**$ 604,344**

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, 2015 and 2014, all of the Plan's investments, excluding invested securities lending collateral, are held in the Plan's name, and/or are not exposed to custodial credit risk. Securities lending collateral is invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

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

NOTE 3 - INVESTMENTS (Continued)

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. 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, 2015 and 2014 concerning credit risk.

RATINGS OF FIXED INCOME INVESTMENTS

as of June 30, 2015 (Dollars in Thousands)

S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income
Not Rated	$ 809,647	100 %

RATINGS OF FIXED INCOME INVESTMENTS

as of June 30, 2014 (Dollars in Thousands)

S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income
Not Rated	$ 624,812	100 %

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Plan's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuations on the underlying asset value.

NOTE 3 - INVESTMENTS (Continued)

The following tables provide information for a portion of the portfolio as of June 30, 2015 and 2014, concerning the fair value of investments and foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2015 (In Thousands)

Currency Name	Cash	Global Equity	Real Assets	International Currency Contract, Net	Total Exposure
Australian dollar	$ (230)	$ 2,015	$ -	$ 10	$ 1,795
British pound sterling	(466)	20,595	-	428	20,557
Canadian dollar	(191)	6,906	-	(93)	6,622
Denmark krone	-	7,104	-	-	7,104
Euro currency	(1,424)	14,785	9,093	(370)	22,084
Hong Kong dollar	-	967	-	-	967
Japanese yen	532	13,127	-	431	14,090
Norwegian krone	-	1,095	-	-	1,095
South Korean won	-	4,184	-	-	4,184
Swedish krona	(51)	1,804	-	(1)	1,752
Swiss franc	-	8,633	-	-	8,633
TOTAL	**$ (1,830)**	**$ 81,215**	**$ 9,093**	**$ 405**	**$ 88,883**

FOREIGN CURRENCY RISK ANALYSIS

as of June 30, 2014 (In Thousands)

Currency name	Cash	Global Equity	Real Assets	International Currency Contract, Net	Total Exposure
Australian dollar	$ 15	$ 21,629	$ -	$ (8)	$ 21,636
British pound sterling	22	64,837	(37)	33	64,855
Canadian dollar	(51)	39,647	-	(26)	39,570
Chilean peso	-	2	-	-	2
Danish krone	-	8,121	-	-	8,121
Euro currency	222	83,457	2,245	63	85,987
Hong Kong dollar	-	8,093	-	-	8,093
Japanese yen	179	62,354	191	2	62,726
New Israeli shekel	-	1,283	-	-	1,283
New Zealand dollar	-	566	-	-	566
Norwegian krone	-	4,457	-	-	4,457
Singapore dollar	-	3,403	-	-	3,403
South Korean won	-	3,465	-	-	3,465
Swedish krona	17	12,835	-	(1)	12,851
Swiss franc	-	27,047	-	-	27,047
TOTAL	**$ 404**	**$ 341,196**	**$ 2,399**	**$ 63**	**$ 344,062**

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. In addition 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. 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 which cases the investment management firns can manage no more than 20% of the Plan's assets without Board approval. In addition 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. As of June, 30, 2015 and 2014, 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.

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 occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2015 or 2014. 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 a portion of derivative instruments outstanding as of June 30, 2015 and 2014, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2015 and 2014 financial statements are as follows (amounts in thousands):

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2015		Fair Value at June 30, 2015		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Foreign currency forwards	Investment income	$ (13,287)	International currency contracts, net	$ 405	$ 111,665
Futures options bought/written	Investment income	9,947	Fixed income (domestic and foreign)	-	12,085
Index futures long/short (domestic and foreign)	Investment income	-	Fixed income (domestic and foreign)	-	167
Total Derivative Instruments		**$ (3,340)**		**$ 405**	

NOTE 3 - INVESTMENTS (Continued)

	Net Appreciation in Fair Value of Investments through June 30, 2014		Fair value at June 30, 2014		
Investment Derivative Instruments	***Classification***	***Amount***	***Classification***	***Amount***	***Notional Amount\Shares***
Foreign currency forwards	Investment income	$ 827	International currency contracts, net	$ 63	$ 44,090
Futures long/short (domestic and foreign)	Investment income	4,579	Fixed income (domestic and foreign)	-	34,685
Index futures long/short (domestic and foreign)	Investment income	12,855	Equity income (domestic and foreign)	-	167
Rights	Investment Income	245	Global equity	-	2
Total Derivative Instruments		**$ 18,506**		**$ 63**	

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2015 and 2014:

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, 2015, total commitments in forward currency contracts to purchase and sell international currencies were $111,665,000 and $111,665,000, respectively, with fair values of $112,095,000 and $111,690,000, respectively, held by counterparties with an S&P rating of at least AA-. As of June 30, 2014, total commitments in forward currency contracts to purchase and sell international currencies were $44,090,000 and $44,090,000 respectively, with fair values of $260,000 and $197,000, respectively, held by counterparties with an S&P rating of at least AA-.

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, 2015 and 2014, 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 forward currency contracts are settled on a net basis. Foreign currency risk on these investments as of June 30, 2015 and 2014, are disclosed in the tables on pages 50 - 53.

NOTE 4 - SECURITIES LENDING PROGRAM

The Plan has historically participated in a securities lending program offered by the Plan's custodial bank, State Street Corporation (State Street). The program permitted State Street to lend the individual securities in the Plan's investment portfolio into a "collateral pool" under such terms and conditions as State Street deemed advisable and to permit the lent securities to be transferred into the name of the borrowers.

In exchange for participation in the collateral pool and the lent securities, the Plan would be compensated, and during the period 2003 through 2014 the program earned approximately $15.0 million in securities lending income.

Due to the 2008 financial crisis certain assets in the securities lending pool in which the Plan participated became impaired resulting in the Plan's Custodian bifurcating the collateral pool in 2010. The collateral pool was separated into a liquid pool which would maintain $1.00 per share Net Asset Value ("NAV") and a lower quality, duration pool ("Quality Pool") with a floating NAV. On August 7, 2014, the Board voted to exit the State Street securities lending program due to lower anticipated earnings as the Plan shifted a large portion of assets from separately managed accounts enrolled in the securities lending program to commingled accounts that cannot be enrolled in the program. In order to exit the securities lending program, the Plan incurred a loss of $ 507,295.75, due to the NAV of the Quality Pool being below $1.00 at the time of redemption. As of June 30, 2015, the Plan no longer participated in State Street's securities lending program.

As of June 30, 2014, the underlying securities loaned by the Plan as a whole amounted to approximately $55,109,000. The Plan received cash collateral and non-cash collateral totaling $51,670,000 and $4,699,000 respectively, at carrying cost. The Plan's share of the liquidity pool at June 30, 2014 was valued at $1.01 or $34,065,000 and $0.9706 or $17,090,000 for the Quality Pool on a mark to market basis. The NAV of less than $1.00 for the Quality Pool is due to the decline in the fair value of assets held by the pool. The NAV of $0.9706 of the Quality Pool results in an unrealized loss of approximately $518,000 for the Plan. The Plan's investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan position at their respective NAV or $51,155,000. The net unrealized loss of $514,000 is reflected in the securities lending income earnings line of the statement of changes in plan net position. The Plan is exposed to market risk including the possible loss of principal value in the cash collateral pools due to the fluctuation in the market value of the assets held by the cash collateral pools.

NOTE 4 - SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED

(at Fair Value in Thousands)

		2014
Type of Investment Lent		
For cash collateral		
Domestic equity securities	$	48,233
International equity securities		2,177
Total lent for cash collateral		50,410
For non-cash collateral:		
Domestic equity securities		4,699
Total Securities Lent	**$**	**55,109**

Type of Collateral Received		
Cash collateral *	$	51,155
Non-cash collateral		
For lent domestic equity securities		4,791
Total Collateral Received	**$**	**55,946**

** Amount represents the mark-to-market value of the cash collateral pool at 100.01% for the liquidity portfolio and 97.06% for the duration portfolio for fiscal year 2014.*

NOTE 5 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

The components of the City's 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, 2015 and 2014, were as follows (dollars in thousands):

		2015		2014
Total pension liability	$	3,976,512	$	3,737,364
Plan net position	$	3,110,065	$	3,168,173
City's net pension liability	$	866,447	$	569,191
Plan net position as a percentage of the total pension liability		78.2 %		84.8 %

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 2013 and the next experience study is scheduled to be conducted in the latter half of 2015.

The total pension liability as of June 30, 2015 and 2014, is based on results of an actuarial valuation date of June 30, 2014 and 2013, respectively, and rolled-forward to June 30, 2015 and 2014, respectively, using standard roll forward procedures.

NOTE 5 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

Actuarial Assumptions	Method/Assumption	
Valuation date	**June 30, 2014**	**June 30, 2013**
Inflation rate	3.25%	2.00% for FY 2015 and 2016, and 3.50% thereafter
Discount rate	7.0% per annum (net of investment expenses)	7.125% per annum (net of investment expenses)
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years (set back 3 years)	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years)
(a) Service	RP-2000 Female combined Healthy Mortality Table with no collar adjustment, projected 10 years	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years.
(b) Disability	RP-2000 Combined Healthy Male Mortality Table with no collar adjustment, projected 10 years, set back 2 years	RP-2000 Combined Healthy Male Mortality Table with no collar adjustment, projected 10 years, set back 2 years.
Rate of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2014, actuarial experience analysis	Based upon the June 30, 2013, actuarial experience analysis
Salary increase		
Wage inflation	3.25% for all years	2.00% for FY 2015 and 2016, and 3.50% thereafter
Merit increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%
Cost of Living Adjustment	Tier 1- 3% per year Tier 2 - 1.5% per year	Tier 1- 3% per year Tier 2 - 1.5% per year

The assumptions for the long-term expected rate of return on pension plan investments of 7.0% and 7.125% for the valuations as of June 30, 2014 and 2013, respectively, were selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the plan’s investment consultant, 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.

NOTE 5 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2015 and 2014, (see the discussion of the Plan's investment policy) are summarized in the following table:

2015			2014		
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	31%	5%	Global and private equity	37%	6%
Private equity	8%	6%		-	-
Global fixed income	16%	1%	Global fixed income	25%	3%
Private debt	11%	4%		-	-
Real assets	17%	3%	Inflation-linked assets	17%	4%
Absolute return	6%	3%	Absolute return	20%	3%
Global tactical asset allocation	10%	3%		-	-
Cash	1%	-	Cash	1%	0.50

In the June 30, 2014 and 2013 valuations, respectively, the discount rates used to measure the total pension liability were 7.0% for fiscal year 2015 and 7.125% for fiscal year 2014 . 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 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.

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, calculated using the discount rate of 7.0% and 7.125% for the fiscal years 2015 and 2014, respectively, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher as of June 30, 2015 and 2014, respectively:

	2015			2014		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% increase (8.00%)	1% Decrease (6.125%)	Current Discount Rate (7.125%)	1% Increase (8.125%).
Total pension liability	$ 4,544,353	$ 3,976,512	$ 3,512,652	$ 4,274,449	$ 3,737,364	$ 3,298,686
Plan net position	3,110,065	3,110,065	3,110,065	3,168,173	3,168,173	3,168,173
Net pension liability	1,434,288	866,447	402,587	1,106,276	569,191	130,513
Plan net position as a percentage of the total pension liability	68.4 %	78.2 %	88.5 %	74.1 %	84.8 %	96.0 %

NOTE 5 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

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, 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 Police and Fire Department Retirement Plan.

In January 2011, the Board adopted a funding policy (referred to as the floor methodology) setting the City's actuarially determined contribution 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. The actuarially determined contribution in the June 30, 2013 valuation for the fiscal year ended June 30, 2015 was the greater of $128,217,000 (if paid at the beginning of the fiscal year) or 72.14% for Police Tier 1 members, 73.48% for Fire Tier 1 and 10.94% Fire Tier 2 members of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1 and Fire Tiers 1 and 2 members for the fiscal year was $182,536,000 ($106,177,000 for Police Tier 1 and $76,359,000 for Fire Tiers 1 and 2 members). The actual payroll for the fiscal year of $174,486,000 was less than the actuarial payroll of $182,536,000, resulting in an annual contribution of $128,217,000, as of July 1, 2014, excluding year end contributions receivable and prior year contribution adjustments.

San Jose City Council Ordinance No. 29266 implemented the terms of a stipulated arbitration award for Police Tier 2 pension benefits for new Plan members hired on or after August 4, 2013. The new tier includes significant benefit changes from the existing Police Tier 1 plan as described in Note 1. In addition, the contribution rate for Police Tier 2 members includes a change in the cost sharing between the City and active Police Tier 2 members which is a 50/50 split of all costs, including UAAL. Currently, Police Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Police Tier 1 members. The responsibility for funding the unfunded actuarial accrued liability (UAAL) is generally not shared with the Police Tier 1 and Fire Tier 1 employees.

In September 2014, the Board approved a funding policy for Police Tier 2 setting the annual contribution to be 10.80% of actual payroll. The actual payroll for Police Tier 2 for the fiscal year of $5,653,000, resulting in an annual contribution of $611,000.

San Jose City Council Ordinance No. 29511 implemented the terms of an arbitration award and decision for Fire Tier 2 pension benefits for new Plan members hired on or after January 2, 2015. The new tier includes significant benefit changes from the existing Fire Tier 1 plan as described in Note 1. In addition, the contribution rate for Fire Tier 2 members includes a change in the cost sharing between the City and active Fire Tier 2 members which is a 50/50 split of all costs, including UAAL. Currently, Fire Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Fire Tier 1 members. The responsibility for funding the UAAL is generally not shared with the Police Tier 1 and Fire Tier 1 employees. The prepayment made by the City on July 1, 2014 was assumed to have included Fire Tier 2 members.

The required employer contribution determined in the June 30, 2012, valuation for the fiscal year ended June 30, 2014, was the greater of $119,561,000 (if paid at the beginning of the fiscal year) or 66.79% for Fire members and 65.31% for Police members of actual payroll for the fiscal year. The total actuarial payroll for Police and Fire for the fiscal year was $187,959,000, ($116,454,000 for Police tier 1 and tier 2 members and $71,505,000 for Fire members). The actual payroll for Fire members in the fiscal year of $72,086,000 was more than the actuarial payroll of $71,505,000, so the City paid an additional $394,000 in the next year towards pension contributions for Fire members over the Police Tier 1, Police Tier 2 and Fire prepaid required annual contribution of $119,561,000. The employer contributions for the year ended June 30, 2015 were $ 129,279,000, which includes $2,863,000 of implicit subsidy.

NOTE 5 - 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 Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for fiscal years ended June 30, 2015 and 2014 were based on the actuarial valuations performed on June 30, 2013 and June 30, 2012, respectively, except for the period of June 21 through June 30, 2015 which were based on the June 30, 2014 valuation.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2015 and 2014 were as follows:

Period	City-Board Adopted *				Member			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
06/21/2015 - 06/30/2015	73.01 %	11.27 %	74.95 %	11.17 %	11.26 %	11.27 %	11.83 %	11.16 %
07/01/2014 - 06/20/2015	72.14 %	10.80 %	73.48 %	10.94 %	11.27 %	10.80 %	11.65 %	10.94 %
06/23/2014 - 06/30/2014	72.14 %	10.80 %	73.48 %		11.27 %	10.80 %	11.65 %	
07/01/2013 - 06/22/2014	65.31 %	10.98 %	66.79 %		11.65 %	10.98 %	11.72 %	

** The actual contribution rates paid by the City for fiscal years ended June 30, 2015 and June 30, 2014 differed 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 6 - POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

For the fiscal year ended June 30, 2015, Police Department and Fire Department employer contributions were made to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, respectively. Employee postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) Plan. It is anticipated that employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan will follow the Plan's receipt of an IRS private letter ruling on the tax qualification of the new Section 115 Trust, which was received on July 9, 2014. However, as of June 30, 2015, no changes to the employee contributions have been made. Contributions to the Plan prior to June 26, 2011 for Fire members and June 28, 2009 for Police members, were based on the Board's 10-year cash flow funding policy.

Effective June 26, 2011, the Fire members entered into a Memorandum of Agreement (MOA) with the City to phase-in to fully contributing the GASB Statement No. 43 annual required contribution (ARC) over a five year period; fiscal year 2014-2015 was the fourth year of the phase-in.

Effective June 28, 2009, the Police members of the Plan entered into a MOA with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the ARC over the next five years; fiscal year 2013-2014 was the fifth year of the phase-in.

In both MOAs, the City and members of the Plan agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed

NOTE 6 - POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FU PROGRESS (Continued)

10% for the members or 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11%, respectively.

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% to 10.31%, effective March 15, 2015 and through fiscal year 2015-2016.

In January 2011, the Board adopted 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. The funding policy contribution amount for the City for Police Tier 1 and Fire Tier 1 and Tier 2 members determined in the June 30, 2013 valuation for fiscal year ending June 30, 2015, was the greater of $18,122,000 (if paid at the beginning of the fiscal year), or 10.31% for Police members and 7.97% for Fire Tier 1 members and 10.31% for Police Tier 2 members, of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1 and Fire Tiers 1 and 2 members for the fiscal year was $182,536,000 ($106,177,000 for Police Tier 1 and $76,359,000 for Fire Tiers 1 and 2 members). The actual payroll for the fiscal year of $174,486,000 was less than the actuarial payroll of $182,536,000, resulting in an annual contribution of $18,122,000, as of July 1, 2014, excluding the implicit subsidy and other contribution adjustments.

In September 2014, the Board approved a funding policy for Police Tier 2, setting the annual required contribution to be based on actual payroll. The actual payroll for Police Tier 2 for the fiscal year was $5,653,000, resulting in a annual contribution of $608,000.

The funding policy contribution amount determined in the June 30, 2012 valuation for fiscal year ending June 30, 2014, was the greater of $17,093,000 (if paid at the beginning of the fiscal year) or 11.0% for Police members and 9.27% for Fire members of actual payroll for the fiscal year.The actual payroll for Fire members in the fiscal year of $72,086,000 was more than the actuarial payroll of $71,505,000, so the City paid an additional $55,000 in postemployment healthcare contributions for Fire members over the prepayment amount of $17,093,000 as of July 1, 2013, excluding implicit subsidy and other contribution adjustments. Total contributions were $17,267,000 or $11,712,000 for the Police Department Postemployment Healthcare Plan and $5,555,000 for the Fire Postemployment Department Healthcare Plan.

NOTE 6 - POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FU PROGRESS (Continued)

The City and the participating member's contribution rates in effect during the fiscal years ended June 30, 2015 and 2014, for the Postemployment Healthcare Plans were as follows:

Period	City - Board Adopted *		Member	
	Police	Fire	Police	Fire
06/21/2015 - 06/30/2015	10.31%	10.62%	9.51%	9.74%
03/15/2015 - 06/20/2015	10.31%	9.27%	9.51%	8.49%
07/01/2014 - 03/14//2015	11.00%	9.27%	10.00%	8.49%
06/23/2014 - 06/30/2014	11.00%	9.27%	10.00%	8.49%
07/01/2013 - 06/22/2014	10.31%	7.96%	9.51%	7.35%

** The actuarial contribution rates paid by the City for fiscal years ended June 30, 2015 and June 2014, differed due to the City funding the annual required contribution amount based on the greater of the dollar amounts 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.*

The funded status of the Postemployment healthcare Plans as of June 30, 2014, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
06/30/2014	$ 93,605	$ 706,709	$ 613,104	13 %	$ 188,189	326 %

As of June 30, 2014, the Plan's most recent actuarial valuation, which combines the 401(h) and 115 Subtrusts within the valuation, shows the Postemployment Healthcare Plan's UAAL decreased by $12.4 million primarily due to the change in claims cost assumptions and the change in demographic experience. The discount rate used for financial reporting purposes remained the same at 6.00% in the June 30, 2013 OPEB valuation and in the June 30, 2014 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.00%) resulting in a blended discount rate of 6.00%. Changes in claims cost assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2014 and 2015 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

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 the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan and include the types of

NOTE 6 - POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FU PROGRESS (Continued)

benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The contribution rates for fiscal years ended June 30, 2015 and 2014, were based on the actuarial valuations performed as of June 30, 2013 and 2012, respectively, except for the period June 21 through June 30, 2015, which were based on the June 30, 2014 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	Method/Assumption		
Valuation date	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Actuarial cost method	Entry age normal, level of percentage of pay	Entry age normal, level of percentage of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2014, open	30 years as of June 30, 2013, open	30 years as of June 30, 2012, open
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
ACTUARIAL ASSUMPTIONS			
Discount rate (net)	6.00%†	6.00%†	4.40%†
Projected payroll increases			
Wage inflation rate	3.25% for FY 2015 and for all years.	2.00% for FY 2014 and 2015, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.
Merit increase	Merit component added based on an individual's years of service ranging from 9.25% to 2.00%	Merit component added based on an individual's years of service ranging from 9.25% to 2.00%	Merit component added based on an individual's years of service ranging from 8.00% to 2.25%
HEALTHCARE COST TREND RATE			
Medical	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.	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.	The valuation assumes that future medical inflation will be at a rate of 8.80% to 4.50% per annum graded down over a 14 year period for medical pre-age 65 and 6.63% to 4.5% per annum graded down over a 14 year period for medical post-age 65
Dental	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.50%

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

NOTE 6 - POSTEMPLOYMENT HEALTHCARE PLAN: CONTRIBUTIONS, FUNDED STATUS AND FU PROGRESS (Continued)

The schedules presented as *Required Supplementary Information* following the *Notes to the Financial Statements*, present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Plans present trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 - COMMITMENTS

Commitments – As of June 30, 2015, the Plan had unfunded commitments to contribute capital for real estate investments in the amount of $31,728,000, private equity investments in the amount of $79,277,000 and opportunistic credit investments in the amount $89,218,000.

Contribution overstatement - 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. The Plan's external accountants identified variances in the estimated overstatements.

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. The City is currently working to determine the overstated amounts for separated and/or retired members. The impact of the overstated pensionable earnings, due to the FLSA transmittal error, on retirement benefits is undetermined at this time.

NOTE 8 - SUBSEQUENT EVENTS

Measure B Litigations – 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. On July 15, 2015, the City and sworn Police and Fire its bargaining units reached an Alternative Pension Reform settlement framework (Framework) which was approved by the City Council and the bargaining units' memberships. This Framework is subject to a final overall global settleement with all parties related to Measure B litigation.

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	2015	2014
Service cost (middle of year)	$ 74,895	$ 75,030
Interest (includes interest on service cost)	262,738	251,701
Differences between expected and actual experience	21,457	-
Change of assumptions	56,311	-
Benefit payments, including refunds of member contributions	(176,253)	(167,397)
Net Change in Total Pension Liability	**239,148**	**159,334**
Total Pension liability - Beginning	**3,737,364**	3,578,031
Total Pension Liability - ending	**$ 3,976,512**	**$ 3,737,364**
Plan Fiduciary Net Position		
Contributions - employer	$ 129,279	$ 123,583
Contributions - member	20,747	21,115
Net investment income	(27,690)	404,978
Benefit payments, including refunds of member contributions	(176,253)	(167,397)
Administrative expense	(4,191)	(3,631)
Net change in plan fiduciary net position	**$ (58,108)**	**$ 378,648**
Plan fiduciary net position - beginning	**3,168,173**	2,789,525
Plan fiduciary net position - ending	**$ 3,110,065**	**$ 3,168,173**
Net pension liability - ending	**$ 866,447**	$ 569,191
Plan fiduciary net position as a percentage of the total pension liability	78.21 %	84.77 %
Covered Employee Payroll	**$ 180,226**	**$ 187,959**
Net pension liability as a percentage of covered employee payroll	480.75 %	302.83 %

Notes to Schedule:

Changes in assumption. In 2015, amounts reported as changes in assumptions resulted primarily from a reduction of the expected long-term return on assets from 7.25% to 7.125%.

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)

	2015	2014
Annual money-weighted rate of return, net of investment expense	(0.85)%	13.0%

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)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 129,279	$ 123,583	$ 105,297	$ 121,008	$ 77,918	$ 52,315	$ 53,103	$ 56,372	$ 51,192	$ 50,002
Contributions in relation to actuarially determined contribution	129,279	123,583	105,297	121,008	77,918	52,315	53,103	56,372	51,192	50,002
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 180,226	$ 187,959	$ 190,726	$ 251,058	$ 255,223	- **	$ 227,734	- **	$ 210,018	$ 202,222
Contributions as a percentage of covered employee payroll	71.73%	65.75%	55.21%	48.20%	30.53%		23.32%		24.38%	24.73%

***Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.*

NOTE 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.

Valuation date	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization 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
Discount rate	7.125%	7.25%	7.25%	7.5%	7.75%	8%	8%	8%
Salary increases	2.00% for one year and 3.5% 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 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.	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.	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.	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.5% plus merit component based on length of service ranging from 9% for new hires to 5% for members with 8 or more years of service	1% plus merit component based on length of service ranging from 10% for new hires to 4.75% for members with 7 or more years of service

Valuation date	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Amortization payment growth rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3%
COLA	3.0% for Police Tier 1 & Fire Tier 1, 1.5% for Police Tier 2 & Fire Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire
Mortality	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2005, set back four years.	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2004, set back three years	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2004, set back three years	The 1994 male group annuity mortality table, with four-year set back, is used for male members. The 1994 female group annuity mortality table with one year set forward is used for female members

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS (Unaudited)
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll (1)	UAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
06/30/2009	$ 55,618	$ 761,604	$ 705,986	7%	$ 243,196	290%
06/30/2010	58,586	946,308	887,722	6%	222,699	399%
06/30/2011	60,709	1,003,795	943,086	7%	190,726	494%
06/30/2012	66,385	997,321	930,936	6%	172,626	539%
06/30/2013	75,035	700,525	625,490	11%	184,645	339%
06/30/2014	93,605	706,709	613,104	13%	188,189	326%

(1) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2013, 2012, 2011 and the 2007 valuation. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll. Actuarial valuations have been performed biennially through June 30, 2009; effective June 30, 2010 the Plan transitioned to annual valuations.

As of June 30, 2014, the Plan's most recent OPEB actuarial valuation, which combines the 401(h) and 115 Subtrusts within the valuation, shows the Postemployment Healthcare Plan's UAAL decreased by $12.4 million primarily due to the change in claims cost assumptions and the change in demographic experience. The discount rate used for financial reporting purposes remained the same at 6.00% in the June 30, 2013 OPEB valuation and in the June 30, 2014 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.00%) resulting in a blended discount rate of 6.00%. Changes in claims cost assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

As of June 30, 2013, the Postemployment Healthcare Plan's UAAL decreased by $305.4 million primarily due to the increase in the discount rate and decreases in claims cost assumptions. The discount rate, used for financial reporting purposes, increased from 4.40% in the June 30, 2012 OPEB valuation to 6.00% in the June 30, 2013 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.125%) resulting in a blended discount rate of 6.00%. The medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to active employees and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. In addition, the retiree medical benefits are split evenly between the employees and the City while the retiree dental benefits are split with the City contributing 75% of the total contribution and employees contributing 25% of the total contribution.

As of June 30, 2012, the Postemployment Healthcare Plan's UAAL decreased by $12.2 million primarily due to changes in the health plans offered and assumptions as recommended by the Board's actuary. The discount rate, used for financial reporting purposes, decreased from 5.70% in the June 30, 2011 OPEB valuation to 4.40% in the June 30, 2012 OPEB valuation. The Postemployment Healthcare Plan's actuarially assumed earnings rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.25%)

resulting in a blended actuarially assumed earnings rate of 4.40%. Medical plan changes were effective January 1, 2012 eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plans. In addition, medical plan changes effective January 1, 2013 included a new Kaiser $1,500 Deductible HMO, which became the lowest cost plan available to actives and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. These medical plan changes affected the medical plan election assumption used by the actuary as more retirees selected the lower cost medical plans. The June 30, 2012 actuarial valuation of the Postemployment Healthcare Plan does not reflect the Police Department Postemployment Healthcare Plan or the Fire Department Postemployment Healthcare Plan as those plans had no financial activity as of the valuation date.

As of June 30, 2011, the Postemployment Healthcare Plan's UAAL increased by $55 million, primarily due to the passage of time and accrual of benefits by active members. The Postemployment Healthcare Plan's actuarially assumed earnings rate was based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the Plan's invested assets (7.50%) resulting in a blended actuarially assumed earnings rate of 5.70%. The June 30, 2011 valuation included a reduction in the expected return on the City's unrestricted assets from 4.75% to 4.00% and the Postemployment Healthcare Plan's expected rate from 7.75% to 7.50%. The expected rate of return of 7.5% was only net of investment manager fees. Actuarial assumption changes in the June 30, 2011 valuation also included changes in expected current and future healthcare claims and expense costs, including the addition of the $25 co-pay plans; trend assumptions for per person costs; and demographic assumptions changes as determined in the June 30, 2011 experience study.

As of June 30, 2010, the Postemployment Healthcare Plan's AAL increased by $185 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Postemployment Healthcare Plan's UAAL increased from $705.9 million as of June 30, 2009 to $887.7 million as of June 30, 2010. Changes to the UAAL were due to increased health care trend rate assumptions and a decrease in the Postemployment Healthcare Plan's actuarially assumed earnings rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation.

As of June 30, 2009, the Postemployment Healthcare Plan's AAL increased by $95.4 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $620.8 million as of June 30, 2007 to $706.0 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLANS (Unaudited)

(Dollars in Thousands)

Fiscal Year Ended	Annual Required Contributions*	Actual Contributions*	Percentage Contributed
06/30/2010	$ 50,438	$ 15,546	31%
06/30/2011	62,322	17,001	27%
06/30/2012	62,079	21,205	34%
06/30/2013	55,824	15,980	29%
06/30/2014	32,798	20,131	61%
06/30/2015	33,295	20,910	63%

**The ARC provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of $3,006 for 2008; $3,175 for 2009; $4,262 for 2010; $4,939 for 2011; $4,750 for 2012; $172 for 2013, $2,863 for 2014 and $ 2,050 for 2015. The actual contributions include year-end contributions receivable and prior year contribution adjustments. In addition, beginning with fiscal year 2011 the implicit subsidy amounts have also been included in actual contributions.*

Other Supplemental Information

Combining Schedule of Defined Benefit Pension Plan Net Position

As of June 30, 2015 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables:			
Employee contributions	$ 387	$ 176	$ 563
Employer contributions	1,876	1,591	3,467
Brokers and others	4,176	585	4,761
Accrued investment income	2,672	1,004	3,676
Total receivables	**9,111**	**3,356**	**12,467**
Investments, at fair value:			
Securities and other:	-	-	-
Global equity	567,202	326,714	893,916
Private equity	173,365	99,792	273,157
Real estate	15,800	9,095	24,895
Global fixed income	328,808	189,269	518,077
Collective short term investments	170,500	98,144	268,644
Private debt	141,147	81,247	222,394
Real assets	275,511	158,590	434,102
International currency contracts, net	253	145	398
Global tactical assets	209,219	120,431	329,649
Absolute return	86,567	49,830	136,397
Total Investments	**1,968,372**	**1,133,257**	**3,101,629**
Capital Assets	37	21	58
TOTAL ASSETS	**1,977,520**	**1,136,634**	**3,114,154**
LIABILITIES			
Payable to brokers	3,180	(99)	3,081
Other liabilities	646	362	1,008
TOTAL LIABILITIES	**3,826**	**263**	**4,089**
PLAN NET POSITION - RESTRICTED FOR:			
Pension benefits	1,973,694	1,136,371	3,110,065
TOTAL PLAN NET POSITION	**$ 1,973,694**	**$ 1,136,371**	**$ 3,110,065**

Combining Schedule of Changes in Defined Benefit Pension Plan Net Position

For the Fiscal Year ended June 30, 2015 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions:			
Employee	$ 14,237	$ 6,510	$ 20,747
Employer	71,196	58,083	129,279
Total contributions	**85,433**	**64,593**	**150,026**
Investment income:			
Net depreciation in fair value of investments	(28,287)	(16,073)	(44,360)
Interest income	6,907	3,977	10,884
Dividend income	11,041	6,258	17,299
Net rental income	2,481	1,388	3,869
Less investment expense	(10,177)	(5,743)	(15,920)
Net depreciation in fair value of investments	**(18,035)**	**(10,193)**	**(28,228)**
Securities lending income:			
Earnings	356	197	553
Rebates	(2)	(2)	(4)
Fees	(7)	(4)	(11)
Net securities lending income	**347**	**191**	**538**
Net investment loss	**(17,688)**	**(10,002)**	**(27,690)**
TOTAL ADDITIONS	**67,745**	**54,591**	**122,336**
DEDUCTIONS			
Retirement benefits	122,943	43,388	166,331
Death benefits	5,132	4,088	9,220
Refund of contributions	569	133	702
Administrative expenses and other	2,725	1,466	4,191
TOTAL DEDUCTIONS	**131,369**	**49,075**	**180,444**
NET (DECREASE) / INCREASE	**(63,624)**	**5,516**	**(58,108)**
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS:			
BEGINNING OF YEAR	**2,037,318**	**1,130,855**	**3,168,173**
END OF YEAR	**$ 1,973,694**	**$ 1,136,371**	**$ 3,110,065**

Other Supplemental Information *(Continued)*

SCHEDULES OF ADMINISTRATION EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2015 and 2014

	2015			2014
	Original Budget	Actual	(Over) Under Budget	Actual
Personnel services	$ 2,913,559	$ 2,683,129	$ 230,430	$ 2,038,376
Non-personnel/equipment	1,281,700	785,686	496,014	640,594
Professional services	1,573,230	844,311	728,919	1,054,296
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 5,768,489**	**$ 4,313,126**	**$ 1,455,363**	**$ 3,733,266**

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2015 and 2014

Firm	Nature of Service	2015	2014
Alliance Resource Consulting LLC	Executive recruitment	$ -	$ 7,194
Cheiron, Inc.	Actuarial consultant	172,850	176,925
Cortex	Governance consultant	-	77,272
Financial knowledge/Peter Sepsis	Educational services	-	11,232
Ice Miller, LLC	Tax counsel	15,174	27,536
L.R. Wechsler, LTD	Pension administration selection consultant	-	1,545
Levi, Ray, & Shoup	Web development and maintenance	14,648	15,301
Levi, Ray, & Shoup	Programming changes and business continuance services	17,722	5,912
Macias Gini & O'Connell LLP	External auditors	50,913	69,666
Medical Director/Other Medical	Medical consultants	173,957	157,801
Pension Benefit Information	Reports on deceased benefit recipients	1,729	1,848
ReedSmith, LLP	Legal counsel	169,742	265,370
Saltzman & Johnson	Legal counsel	162,458	144,372
Silicon Valley Professionals	Temporary staff	-	68,692
Trendtec, Inc	Temporary staff	56,362	23,630
Other consultants	Various	9,050	-
TOTAL		**$ 844,605**	**$ 1,054,296**

Other Supplemental Information *(Continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2015 and 2014

Investment Managers' Fees	2015	2014
Global equity	$ 2,138,648	$ 1,816,385
Private equity	3,445,827	1,929,733
Real estate	1,764,790	1,339,517
Global fixed income	2,750,423	1,311,297
Collective short term investments	**-**	**382,737**
Private debt	1,667,167	1,170,565
Real assets	511,318	2,773,626
Absolute return	1,974,812	1,355,347
Total investment managers' fees	**14,252,985**	**12,079,207**
Other Investment Fees		
Custodian	264,138	210,151
Investment consultants	1,484,812	1,367,664
Investment legal fees	94,985	323,353
Proxy voting	24,997	31,242
Other investments fees	137,793	-
Total other investment service fees	**2,006,725**	**1,932,410**
TOTAL INVESTMENT EXPENSES	**$ 16,259,710**	**$ 14,011,617**

Note: The absolute return catergory listed in the above table includes the global tactical asset catergory combine in the fiscal year 2015.

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Investment Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

NEPC, LLC

Allan Martin
Partner

December 18, 2015

Mr. Roberto Pena
Director of Retirement Services
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San Jose, CA 95112

Dear Mr. Pena,

The overall objective of the City of San Jose Police and Fire Department Retirement Plan (the "Plan') is to ensure continued access to retirement, disability and survivorship benefits for current and future Plan participants. To ensure a solid foundation for the future of the Plan, the Board of Administration carefully plans and implements an investment program designed to produce superior long-term investment returns while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, accrued liabilities, and the investment outlook. Following is a report on the performance of the Plan for the fiscal year ending June 30, 2015.

Although investment manager performance is a key component of the future "success" of the Plan, the overall asset allocation policy will be the primary determinant of such "success". Modern Portfolio Theory maintains that long-term investors, who assume prudent levels of risk, will be rewarded with incremental returns above lower returning, risk-free assets (i.e. T-Bills). The Plan, in its asset allocation policy, is required to satisfy the need to pay accumulated/earned retirement benefits today while preparing for "uncertain" future benefits. This balancing of short-term versus long-term needs is a key consideration in the overall portfolio construction process. To facilitate the balance of short-term versus long-term objectives, the Board of Administration has adopted a diversified asset allocation structure that includes traditional asset classes such as U.S. and non-U.S. equities and fixed income, as well as alternative asset classes such as private equity, absolute return strategies or hedge funds, real estate, real assets, and opportunistic investment strategies across global credit markets.

Fiscal Year 2015 Market Review

The multi-year valuation expansion in growth assets continued throughout fiscal year 2015. Markets were resilient to domestic and global political tensions, geopolitical conflicts in Eastern Europe and the Middle East, oil's precipitous price drop, unsustainable debt loads in Greece and the threat of a slowing Chinese economy. Central banks continued their influence in markets, with the Federal Reserve navigating an end to unprecedented monetary stimulus in the U.S., the European Central Bank beginning expansionary monetary policy of a €1 trillion bond-purchase program, the People's Bank of China cutting interest rates by 0.25% and the Swiss National Bank removing its Euro peg. Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive yearly gain, returning 7.4%. Fixed income investments experienced divergent performance across debt instrument types as risk averse investors bid up higher credit quality issues, resulting in high yield bonds (-0.4%) underperforming investment grade bonds (+1.9%). International developed markets equities underperformed domestic equities by nearly 13% as the relative strength of the U.S. Dollar and sluggish economic growth weighed on the non-U.S. markets. Emerging markets equities also trailed domestic stocks by 13%, and underperformed developed non-U.S. equities markets by approximately 1%.

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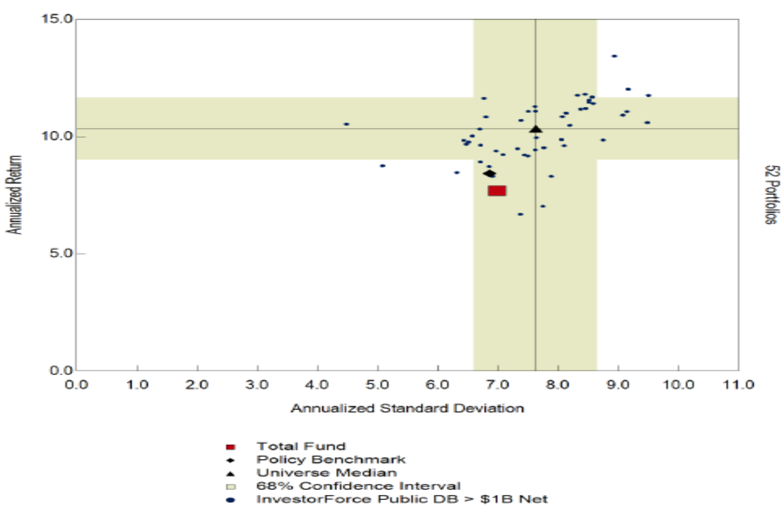
The Plan returned -0.8%, gross of fees, for the fiscal year ending June 30, 2015. By comparison, the median fund in the universe returned 3.2% for the period[1]. The Plan's allocation to public equities is significantly lower than many of its peers, which is consistent with the Board's objective to reduce the volatility of the Plan's performance. This strategy has produced returns that have achieved the actuarial assumed rate of return in four of the last six fiscal years, with less volatility than many of the Plan's peers. Contributing positively to performance during the fiscal year was the Plan's allocation to opportunistic credit, private equity and real estate strategies, which exhibited strong absolute and benchmark relative performance. The largest detractor to the Plan's performance over the past year has been the allocation to real assets, which returned -20.2% over the past year. Over the past several months, the Plan has taken steps to re-structure the allocation to real assets with the goal of diversifying exposure within the asset class.

For the five-year period ending June 30, 2015, the Plan returned 8.0% gross of fees per annum, outperforming the Plan's actuarial target of 7.0%.

Investor Force Public Funds Greater than $1 Billion Universe
Risk-Return Comparison (Gross of Fees)
5 Years Ending June 30, 2015



Health Care Trust

In July 2012, the City of San Jose Police and Fire Department Health Care Trust received the first of its contributions from the City of San Jose. The asset allocation of the Health Care Trust is designed to be similar to that of the broad asset class buckets that comprise the asset allocation of the Police and Fire Department Retirement Plan. The Health Care Trust returned -1.5%, gross of fees, for the fiscal year ending June 30, 2015.

[1] As of June 30, 2015, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 52 total funds with approximately $500 billion in assets. Universe rankings are based on gross of fee performance. The Plan's net of fee performance was -1.0% and 7.7% for the one- and five-year annualized periods ending June 30, 2015, respectively. Investment performance is calculated on a time-weighted rate of return basis using market values and transactions provided by the plan's custodian bank.

NEPC provides the Plan with quarterly economic and investment market updates, performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank and investment managers. Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. The Plan's goals are measured against stated policy objectives, appropriate benchmarks and comparative universes over multiple time periods. This review process allows the Plan to evaluate whether established goals are being achieved on an absolute, relative and risk-adjusted basis.

Sincerely,

Allan C Martin

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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 an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries.

INVESTMENT OBJECTIVES

3) 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.

4) The investment portfolio also seeks to achieve a risk-adjusted long-term 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.

5) 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%.

6) 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.

7) 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.

FIDUCIARY STANDARDS

8) 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.

Statement of Investment Policy *(Continued)*

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

9) 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

10) 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

ASSET ALLOCATION

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

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

Police and Fire Department Retirement Plan

Broad Asset Class	Minimum	Target	Maximum
Equity	25%	39%	50%
Fixed income	15%	27%	35%
Inflation-linked	12%	17%	25%
Absolute return	10%	16%	30%
Cash	0%	1%	5%
Total		**100%**	

Note: The Global Tactical Assets allocation stated on the Financial Statement is a part of the Absolute Return asset allocation listed in the above table.

13) The Board is committed to implementing and maintaining the above long-term 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 asset allocation and seek to comply with the policy when it is possible and prudent to do so.

14) The long-term 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 liablity 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.

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

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

REBALANCING

16) The 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.

17) 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 System 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

18) 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.

19) Consistent with paragraph 18 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

20) 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.

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

PROXY VOTING

21) 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.

22) 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

23) 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.

24) 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.

25) The procedures noted in paragraph 24 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.

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

MONITORING INVESTMENT MANAGERS

27) 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.

28) 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.

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

29) 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 the 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

30) 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.

31) 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.

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

33) 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 30 and 31 above.

INVESTMENT RESTRICTIONS

34) 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

35) 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.

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

VALUATION OF INVESTMENTS

Statement of Investment Policy *(Continued)*

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

37) 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).

38) 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

38) Appendix A contains long-term Policy Benchmark.

39) Appendix B contains additional policy guidelines concerning hedge funds.

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

POLICY REVIEW & HISTORY

41) This policy will be reviewed at least annually.

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

Appendix A

LONG-TERM POLICY BENCHMARK

City of San José Police and Fire Department Retirement Plan

Broad Asset Class	Benchmark	Target (%)
Total Equity		
Global equity	MSCI ACWI IMI (Net)	31%
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
Total Fixed Income		
Global core fixed income	Barclays Capital Global Aggregate ex-U.S. (Hedged)	6%
High yield fixed income	Barclays Capital High Yield Index	5%
Opportunistic / private debt	50% CSFB Levered Loan Index 50% BofA Merill Lynch U.S. High Yield BB/B-2% Constrained 50% JP Morgan GBI-EM Global Diversified	11%
Emerging markets debt	25% JP Morgan EMBI Global Diversified 25% JP Morgan Corporate Broad EMBI	5%
Total Inflation-Linked Assets		
Real estate	NCREIF ODCE (Lagged 1 Quarter)	7%
Commodities	Credit Suisse Custom Commodities Index	7%
Illiquid inflation-linked assets	CPI + 5%	3%
Total Absolute Return		
Absolute return	Hedge Fund Research, Inc. All Macro Index	10%
Global asset allocation	60% MSCI World/40% Citi WGBI	10%
Cash		
	90 day T-Bills	1%

Appendix B

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.

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 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

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

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 3 above requires notification to the Investment Committee to discuss appropriate action.

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 12/31/2012 is set out below:

San José Police and Fire Retiree Health Care Trust Fund

Broad Asset Class	Minimum	Target	Maximum
Equity	25%	43%	50%
Fixed income	5%	15%	25%
Absolute return Global asset Allocation	0%	20%	25%
Inflation-linked	12%	22%	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 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.

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.

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.

HEALTHCARE - 115 SUBTRUSTS (Continued)

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.

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

HEALTHCARE - 115 SUBTRUSTS (Continued)

investment managers retained by the Health Care Trust may use derivatives that are contrary to paragraphs 26 and 27 above.

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 market 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.

HEALTHCARE - 115 SUBTRUSTS (Continued)

Appendix A Long-term Policy Benchmark

City of San Jose Policé and Fire Department Retirement Plan
Retiree Health Care Trust Fund

Broad Asset Class	Benchmark	Target (%)
Equity	MSCI ACWI IMI (Net)	43%
Fixed income	BC Aggregate	15%
Inflation-linked	MSCI U.S. Reit	10%
	Credit Suisse Custom Risk parity Commodity Index	12%
Absolute return/GAA	HFRI Fund of Funds Composite	20%

As of June 30, 2015

GLOBAL EQUITY

Aberdeen Asset Management
Frontier Markets
Philadelphia, PA

Amici Capital
Amici Fund
New York, NY

Artisan Partners LP
Global Opportunities
Global Value Equity
San Francisco, CA

Horizon Asset Limited
Equity Long/Short
London, England

Marshall Wace
Equity Long/Short
Dublin, Ireland

Northern Trust Global Investments
NT Russell 1000 Index
Russell 3000 Index
Chicago, IL

Oberweis Asset Management
International Small Cap
Lisle, IL

Russell Investments
Emerging Markets
Seattle, WA

Sandler Associates
Sandler Plus Fund
New York, NY

Senator Investment Group
Global Opportunity Fund
New York, NY

Vanguard (Healthcare Trust)
Total World Stock Market Index
Valley Forge, PA

Vontobel
Global Emerging Markets
New York, NY

PRIVATE EQUITY

57 Stars Global Opportunity Fund
Global Opportunity Fund 3, L.P.
Washington, DC

Francisco Partners
Fund IV
San Francisco, CA

HarbourVest Partners
HarbourVest Partners VII
HarbourVest Partners VIII
Boston, MA

Industry Ventures
Partnership Holdings III, L.P.
San Francisco, CA

Northern Trust
NT Russell 3000 Index
Chicago, IL

Pantheon Ventures (US) LP
Pantheon USA Fund VI LP
San Francisco, CA

Portfolio Advisors, LLC
Private Equity Fund III, L.P.
Darien, CT

Siguler Guff & Company, LP
Distressed Opportunities Fund III
New York, NY

TCW/Crescent Capital
TCW/Crescent Mezzanine
Partners V, L.P.
Crescent Mezzzanine
Partners VI, L.P.
Los Angeles, CA

TPG Opportunities Partners
Funds II & III
San Francisco, CA

Warburg Pincus
Fund XI
New York, NY

GLOBAL FIXED INCOME

Beach Point Capital Management
Total Return Fund II
Santa Monica, CA

Blue Bay Asset Management
Emerging Markets Select Bond
London, England

Claren Road
Credit Master Fund
New York, NY

Colchester Global Investors
Global Bond Fund (unhedged)
London, England

Davidson Kempner Capital
Management
Institutional Partners Fund
New York, NY

Franklin Templeton
Global Multisector Plus
San Mateo, CA

Symphony Asset Management
Long/ Short Credit
San Francisco, CA

Vanguard (Healthcare Trust)
Total Bond Market Index
Valley Forge, PA

Wellington Hedge Management
Iguazu Partners
Boston, MA

PRIVATE DEBT

Capula Investment Management
European Special Situations Fund
London, England

GSO Capital Partners
GSO SJ Partners
New York, NY

Marathon Asset Management
European Credit Opportunity
New York, NY

As of June 30, 2015

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

Park Square Capital
Credit Opportunities II
London, England

Shoreline Capital
China Value Fund III
Guangzhou, China

White Oak Global Advisors
Direct Lending
San Francisco, CA

REAL ASSETS

American Realty Advisors
American Core Realty Fund
First American Plaza and Progress Point
Glendale, CA

Blackstone
Real Estate Debt Strategies II L.P.
Real Estate Debt
New York, NY

Brookfield Asset Management
Strategic Real Estate Partners
New York, NY

Credit Suisse Asset Management
(Pension & Healthcare Trusts)
Risk Parity Commodity Fund, LP
New York, NY

KSL Capital Partners
Fund IV
Denver, CO

Och-Ziff Real Estate
Fund III
New York, NY

Orion Capital Managers
European RE Fund IV, C.V.
London, England

TA Realty Associates
The Realty Associates Fund X, L.P.
Boston, MA
Tristan Capital Partners
EPISO 3
London, England

Vanguard (Healthcare Trust)
REIT Index
Valley Forge, PA

Wellington Trust Company (Pension and Health Care Trust)
Diversified Inflation Hedges
Boston, MA

ABSOLUTE RETURN

Arrowgrass Capital Partners
International Fund
New York, NY

Brevan Howard Asset Management
Multi-Strategy Fund
New York, NY

DE Shaw Group
Composite International Fund
New York, NY

Hudson Bay
Multi-Strat Event Driven
New York, NY

Kepos Capital
Alpha Fund
New York, NY

Pine River Capital Management
Pine River Fund
Minnetonka, MN

Systematica Investments
BlueTrend Fund
New York, NY

GLOBAL TACTICAL ASSETS ALLOCATION

Grantham, Mayo, Van Otterloo & Co.
Benchmark Free Allocation Fund
Boston, MA

PIMCO
All Asset Authority All Fund
Newport Beach, CA

Standard Life
Global Absolute Return Strategy
Boston, MA

CONSULTANTS

Albourne America LLC
Absolute Return
San Francisco, CA

NEPC, LLC
General Consultant
Redwood City, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

PORTFOLIO OVERLAY SERVICES

Russell Investments
Seattle, WA

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

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ended June 30, 2015

	One Year	Three Years	Five Years	Ten Years
Total Fund with Overlay (gross of manager fees)	**-0.8%**	**7.5%**	**8.0%**	**5.7%**
Total Fund with Overlay (net of manager fees)	**-1.0%**	**7.2%**	**7.7%**	**5.2%**
Policy Benchmark	-1.0%	7.0%	8.4%	5.6%
InvestorForce Public DB > $1B Median	3.2%	10.8%	10.9%	6.8%
Total Global Equity	**1.3%**	**13.0%**	**11.9%**	**N/A**
MSCI ACWI (Net)	0.8%	13.3%	12.2%	6.7%
eA All Global Equity Gross Median	1.8%	13.8%	13.1%	7.2%
Total Private Equity	**20.0%**	**12.1%**	**14.5%**	**N/A**
San Jose Custom Blended Private Equity Benchmark	4.9%	11.7%	12.8%	11.6%
Russell 3000 1- Quarter Lag	12.4%	16.4%	14.7%	8.4%
Total Global Fixed Income	**-1.7%**	**4.1%**	**5.9%**	**N/A**
Barclays Aggregate	1.9%	1.8%	3.3%	4.4%
eA All US Fixed Inc Gross Median	1.2%	2.4%	3.9%	4.5%
Total Real Estate	**7.1%**	**9.7%**	**10.0%**	**7.3%**
San Jose Custom Total Real Estate Benchmark	4.5%	N/A	N/A	N/A
Total Inflation-Linked Assets	**-20.2%**	**-6.6%**	**N/A**	**N/A**
San Jose Custom Inflation-Linked Asset Benchmark	-13.1%	-3.3%	N/A	N/A

	3-months	Year to Date	One Year	Since Inception
Total Absolute Return	**-0.8%**	**1.3%**	**2.4%**	**3.1%**
San José Custom Hedge Fund Benchmark	0.1%	1.2%	0.4%	3.2%
	N/A	N/A	N/A	N/A
Total Global Tactical Asset	**-0.7%**	**1.1%**	**-1.7%**	**2.9%**
60% MSCI World (Net)/40% CITI WGBI	-0.4%	0.0%	-2.8%	6.4%

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC LLC's Investment Performance Analysis
Reported dated June 30, 2015

Schedule of Investment Results of Healthcare Trust - 115 Subtrusts

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ended June 30, 2015

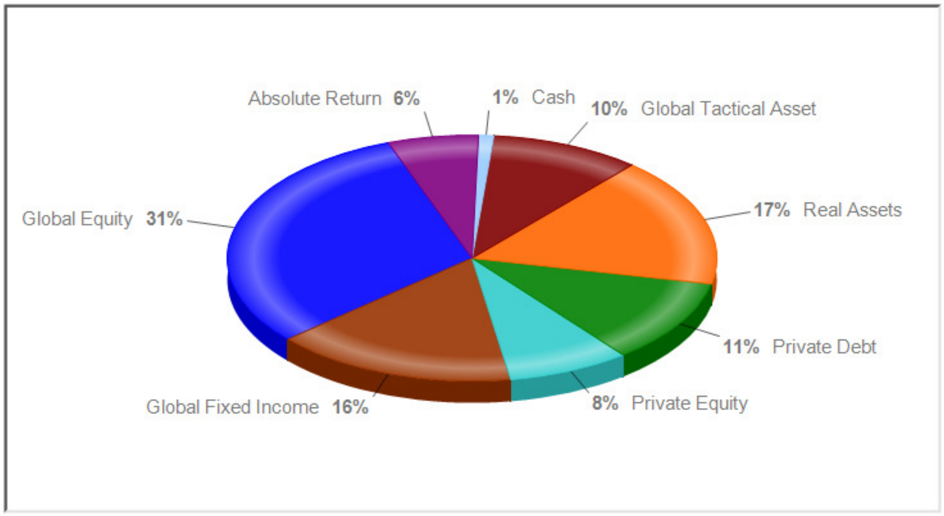
	3-Month	Calendar YTD	One Year	Since Inception
Total Fund (gross of manager fees)	**-1.0%**	**-1.5%**	**5.9%**	**5.9%**
Total Fund (net of manager fees)	**-1.1%**	**-1.7%**	**5.7%**	**5.7%**
Policy Benchmark	-0.8%	-1.0%	6.0%	6.0%
Total Global Equity	**0.7%**	**1.2%**	**N/A**	**13.7%**
MSCI ACWI IMI (net)	0.5%	0.8%	13.3%	13.3%
Total Global Fixed Income	**-1.8%**	**1.7%**	**N/A**	**1.3%**
Barclays Aggregate	-1.7%	1.9%	1.8%	1.4%
Total Real Estate	**-10.5%**	**3.8%**	**N/A**	**8.2%**
MSCI US REIT	-10.7%	2.7%	7.4%	7.0%
	-	-	-	-
Total Inflation-Linked Composite	**2.4%**	**-20.1%**	**N/A**	**-9.6%**
Custom Commodity Risk Parity Index	2.8%	-20.1%	-5.5%	-8.4%
CPI + 5% (Unadjusted)	2.3%	5.1%	6.4%	6.7%
	-	-	-	-
Total Global Tactical Asset	**-0.6%**	**N/A**	**N/A**	**-9.6%**
60% MSCI World (Net) / 40% CITI WGBI	-0.4%	-2.8%	7.4%	-2.9%

Basis of Calculation Time-Weighted Rate of Return
Source: NEPC LLC's Investment Performance
Analysis Reported dated June 30, 2015

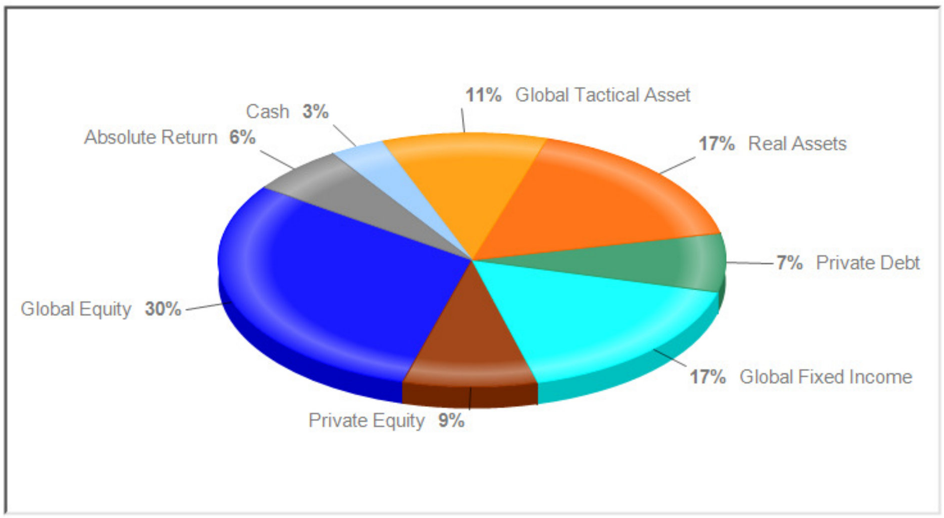
Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION *As of June 30, 2015*



ACTUAL ASSET ALLOCATION *As of June 30, 2015*



		$ in millions
Global Equity	$	959.09
Private Equity		269.50
Global Fixed Income		526.79
Private Debt		234.69
Real Assets		529.26
Absolute Return		190.06
Global Tactical Asset		335.25
Cash		110.00
TOTAL	$	3,154.64

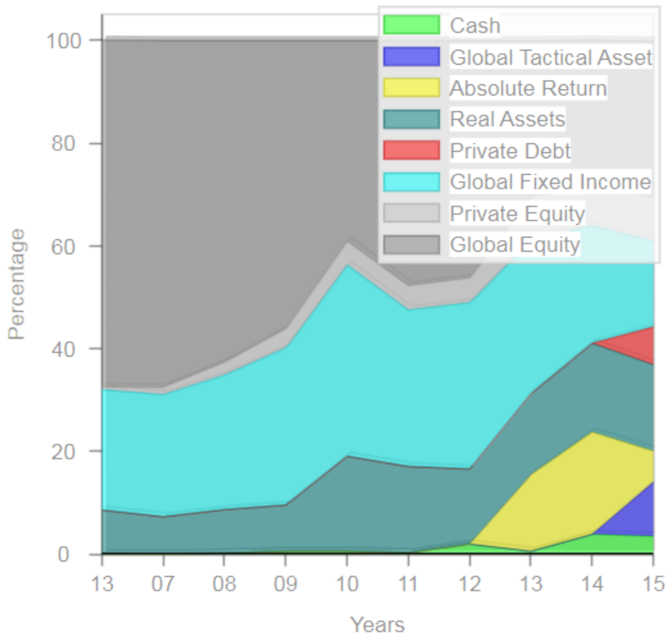
Note: The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level. This table is presented based on Non-GAAP Basis.

Pension Investment Review *(Continued)*

INCLUDES THE 401(H) INVESTMENTS

HISTORICAL ALLOCATION (ACTUAL)

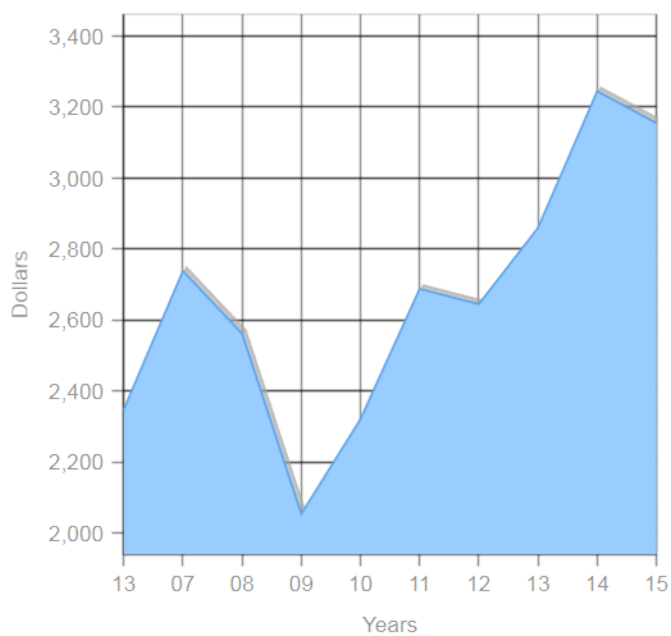
As of June 30, 2013 - June 30, 2015



MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2015

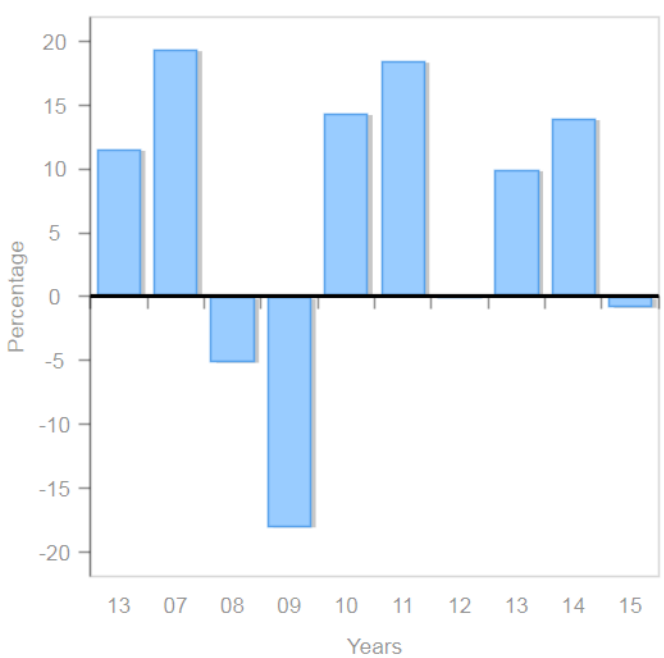
(Dollars in millions)



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2013 - 2015

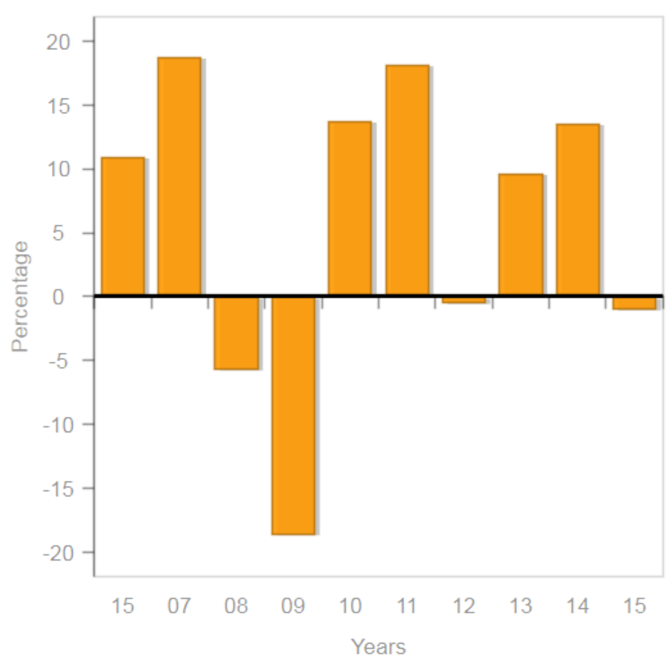
(Based on Market Value)



HISTORY OF NET PERFORMANCE

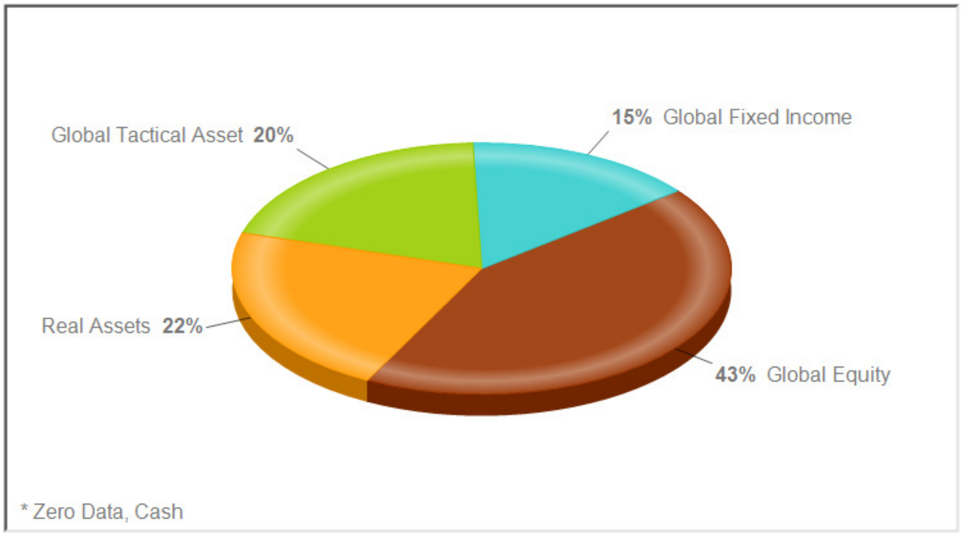
For Fiscal Years 2013 - 2015

(Based on Market Value)

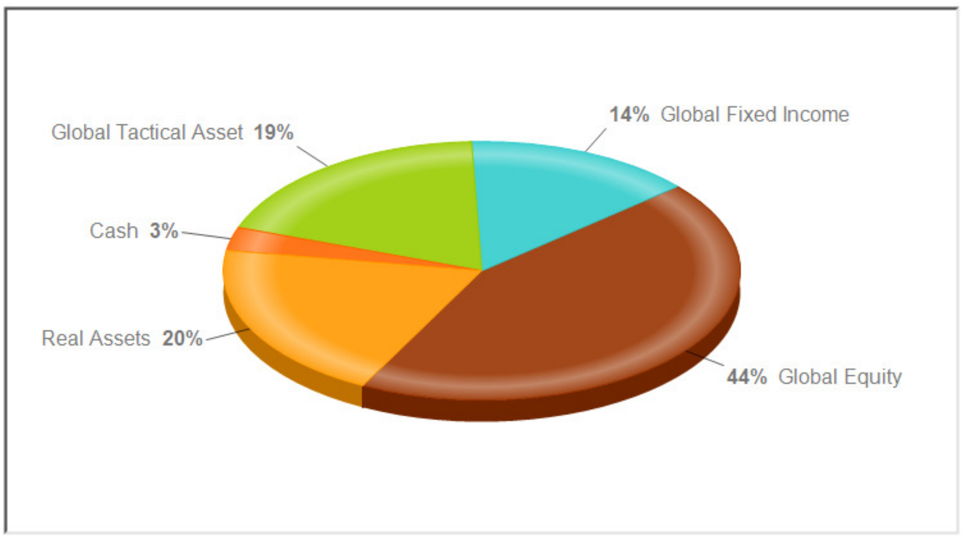


115 SUBTRUSTS

TARGET ASSET ALLOCATION
As of June 30, 2015



ACTUAL ASSET ALLOCATION
As of June 30, 2015

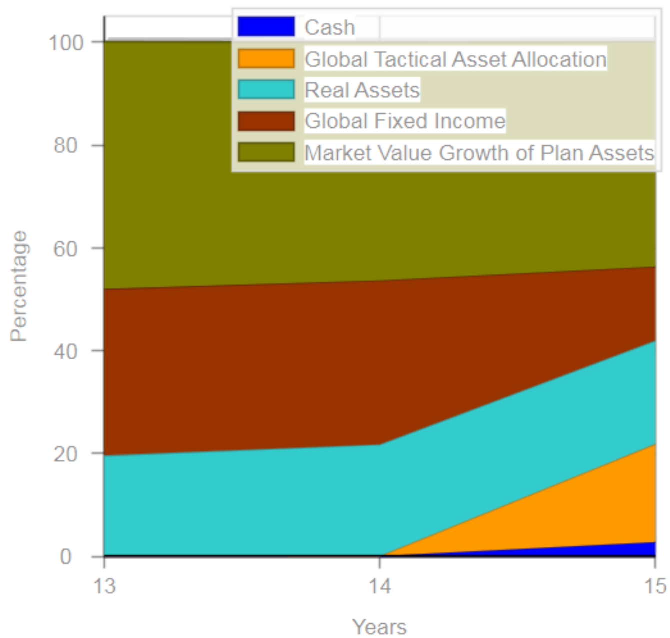


Asset Class	$ in millions
Global Equity	$ 24.3
Global Fixed Income	$ 8.0
Real Assets	$ 11.1
Global Tactical Asset	$ 10.6
Cash	$ 1.6
TOTAL	$ 55.6

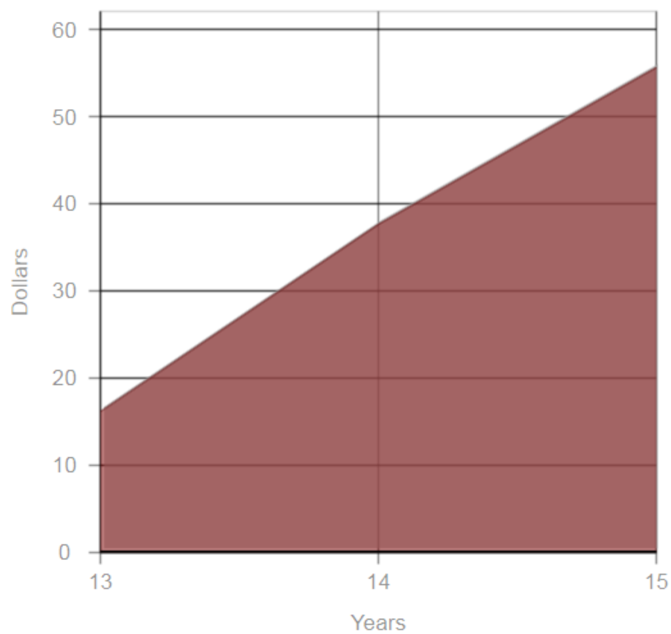
Note: The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level. This table is presented based on Non-GAAP basis.

115 SUBTRUSTS (Continued)

HISTORICAL ALLOCATION (Actual)
As of June 30, 2014 - June 30, 2015

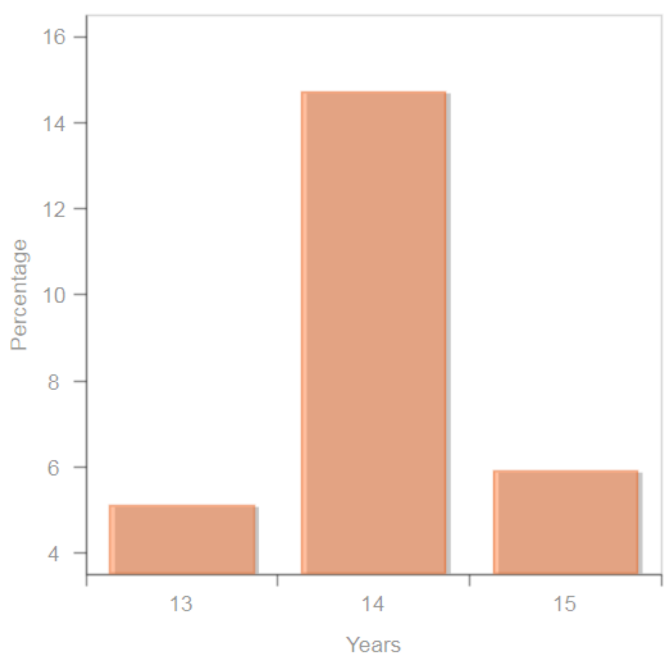


MARKET VALUE GROWTH OF PLAN ASSETS
For Three Years Ending June 30, 2015
(Dollars in Millions)

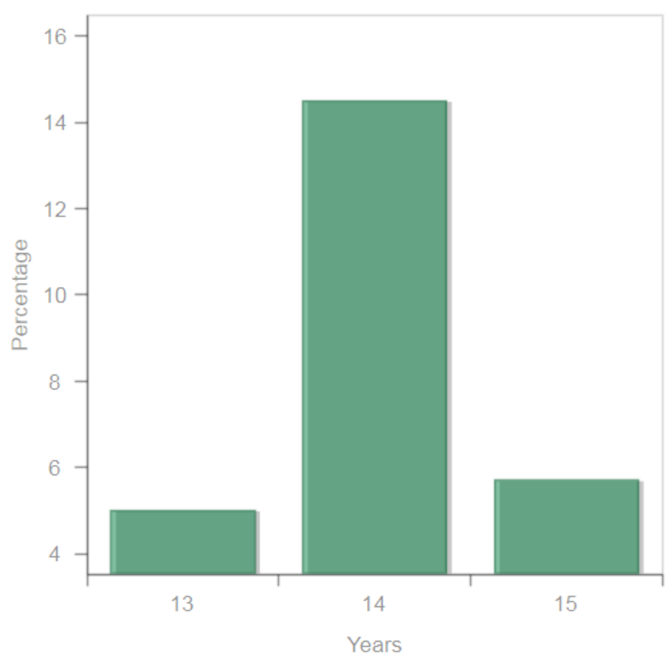


Note: The table compares the investment actual asset allocation reflective over a several fiscal years.

HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2013 - 2015
(Based on Market Value)



HISTORY OF NET PERFORMANCE
For Fiscal Years 2013 - 2015
(Based on Market Value)



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (by Market Value) For Pension

As of June 30, 2015

Description	Country	Shares	Market Value ($US)
ORACLE CORP	United States	114,373	$ 4,609,232
ROYAL BANK OF SCOTLAND GROUP	United Kingdom	705,525	$ 3,900,172
BANK OF NEW YORK MELLON CORP	United States	92,174	$ 3,868,543
CITIGROUP INC.	United States	62,239	$ 3,438,082
ARCH CAPITAL GROUP LTD	Bermuda	45,977	$ 3,078,620
MEDTRONIC PLC	Ireland	40,939	$ 3,033,580
SAMSUNG ELECTRONICS CO LTD	South Korea	2,628	$ 2,987,408
MICROSOFT CORP	United States	67,525	$ 2,981,229
QUALCOMM INC	United States	46,678	$ 2,923,443
TESCO PLC	United Kingdom	869,366	$ 2,906,095

A complete list of portfolio holdings is available upon request
**The Healthcare Subtrusts are exclusively invested in commingled funds. Therefore, the Healthcare Subtrusts do not have any individual securities listed in the chart above.*

LARGEST DISCLOSABLE BOND* MANAGER ALLOCATIONS (By Market Value) For Pension

As of June 30, 2015

Manager Name	Fund Name	Market Value ($US)
BLUEBAY ASSET MANAGEMENT	EMERGING MARKET SELECT DEBT STRATEGY	$ 107,103,115
COLCHESTER GLOBAL INVESTORS	COLCHESTER GLOBAL BOND FUND (UNHEDGED)	$ 86,693,076
BEACH POINT CAPITAL MANAGEMENT	TOTAL RETURN MASTER FUND	$ 79,933,463
SYMPHONY ASSET MANAGEMENT	LONG-SHORT CREDIT FUND	$ 79,625,931
CAPULA INVESTMENT MANAGEMENT	EUROPEAN SPECIAL SITUATIONS FUND	$ 77,474,848
FRANKLIN TEMPLETON	GLOBAL MULTISECTOR PLUS TRUST	$ 70,072,041
WELLINGTON	IGUAZU PARTNERS	$ 55,390,528
MEDLEY	OPPORTUNITY FUND II	$ 54,619,233
WHITE OAK GLOBAL ADVISORS	SEPARATELY MANAGED ACCOUNT	$ 41,328,576
CLAREN ROAD	CREDIT MASTER FUND	$ 25,032,956

A complete list of portfolio holdings is available upon request
** There are no disclosable individual bond holdings as of June 30, 2014. In lieu, the largest investments with fixed income investment managers are provided. The Healthcare Subtrusts are exclusively invested in commingled funds. Therefore, the Healthcare Subtrusts do not have any managers listed in the chart above.*

Schedule of Investment Fees

PENSION - INCLUDES THE 401(H) AND 115 SUBTRUSTS INVESTMENTS

For the Fiscal Year Ended June 30, 2015

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	$ 983,794,000	$ 2,138,648	22
Private equity	269,504,000	3,445,827	128
Global fixed income	646,343,000	2,750,423	43
Private debt	234,691,000	1,667,167	71
Real assets and Real estate	540,408,000	2,276,108	42
Absolute Return	535,905,000	1,974,812	37
TOTAL INVESTMENT MANAGERS' FEES	**$ 3,210,645,000**	**$ 14,252,985**	**44**

**Includes cash in manager's accounts, non-GAAP Basis*

	Fees
Other Investment Service Fees	
Investment Consultants	$ 1,484,812
Custodian Bank	264,138
Proxy Voting	24,997
Investment Legal Fees	94,985
Other Investment Fees	137,793
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 2,006,725**

Schedule of Commissions

For the Fiscal Year Ended June 30, 2015

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
B			
B.RILEY & T CO., LLC	$ 33,410.000	$ 1,002.30	$ 0.0300
BAADER BANK AG	3,986.000	573.28	0.1438
BANK OF NEW YORK	6,472.000	194.16	0.0300
BARCLAYS CAPITAL	215,295.000	2,397.87	0.0111
BARCLAYS CAPITAL INC. LE	4,560.000	124.78	0.0274
BARCLAYS CAPITAL LE	4,251.000	64.03	0.0151
BB & T SECURITIES, LLC	28,114.000	810.28	0.0288
BLOOMBERGTRADEBOOK LLC	19,557.000	391.14	0.0200
BMO CAPITAL MARKETS	4,502.000	57.28	0.0127
BNP PARIBAS SECURITIES CORPORATION	543.000	21.72	0.0400
BNP PARIBAS SECURITIES SERVICE	138,307.000	2,176.03	0.0157
BTIG LLC	42,025.000	1,216.37	0.0289
C			
CANACCORDADAMS INC	11,955.000	239.10	0.0200
CANACCORDGENUITY LIMITED	950.000	19.00	0.0200
CANTOR FITZGERALD + CO.	81,064.000	2,198.08	0.0271
CANTOR FITZGERALD EUROPE	5,365.000	107.30	0.0200
CITIGROUPGLOBAL MARKET KOREA SECS LTD	309.000	605.93	1.9609
CITIGROUPGLOBAL MARKETS AUSTRALIA PTY	16,535.000	33.41	0.0020
CITIGROUPGLOBAL MARKETS INC	1,099,476.000	2,850.94	0.0026
CITIGROUPGLOBAL MARKETS INC SALOMON BRO	821.000	2,617.46	3.1881
CITIGROUPGLOBAL MARKETS LIMITED	657,100.000	3,731.64	0.0057
COWEN ANDCOMPANY, LLC	4,189.000	41.89	0.0100
CRAIG - HALLUM	472.000	9.44	0.0200
CREDIT LYONNAIS SECURITIES(ASIA)	556,000.000	385.41	0.0007
CREDIT SUISSE FIRST BOSTON (EUROPE)	351.000	841.32	2.3969
CREDIT SUISSE SECURITIES (EUROPE) LTD	199,236.000	1,821.79	0.0091
CREDIT SUISSE SECURITIES (USA) LLC	923,138.000	977.75	0.0011
CSFB AUSTRALIA EQUITIES LTD	55,385.000	50.21	0.0009
D			
DAIWA SECURITIES (HK) LTD	6,500.000	183.84	0.0283
DEUTSCHE BANK AG LONDON	70,465.000	216.32	0.0031
DEUTSCHE BANK SECURITIES INC	11,586,618.000	4,173.35	0.0004
DEUTSCHE SECURITIES ASIA LIMITED	255,205.000	482.16	0.0019
DEUTSCHE MORGAN GRENFELL SECS	92,142.000	789.73	0.0086
DOWLING & PARTNERS SECURITIES LLC	51,407.000	2,570.35	0.0500
F			

Schedule of Commissions *(Continued)*

For the Fiscal Year Ended June 30, 2015

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
FIDELITY CAPITAL MARKETS	1,700.000	15.30	0.0090
FIRST ANALYSIS SECURITIES CORP	56,700.000	1,701.00	0.0300
G			
GABELLI & COMPANY	47,415.000	1,422.45	0.0300
GOLDMAN SACHS + CO	2,023,442.000	4,255.46	0.0021
GOLDMAN SACHS INTERNATIONAL	393,157.000	346.75	0.0009
H			
HIBERNIA SOUTHCOAST CAPITAL INC	25,400.000	762.00	0.0300
HSBC Bank PLC	31,090.000	443.14	0.0143
I			
ING BANK NV	12,487.000	25.09	0.0020
INSTINET	2,068,922.000	20,689.22	0.0100
INSTINET LLC	5,577.000	49.43	0.0089
INSTINET PACIFIC LIMITED	9,000.000	7.17	0.0008
INSTINET U.K. LTD	70,105.000	1,198.71	0.0171
INVESTMENT TECHNOLOGY GROUP INC	348,263.000	3,482.15	0.0100
INVESTMENT TECHNOLOGY GROUP LTD	353,548.000	4,167.57	0.0118
ISI GROUP INC	2,439.000	48.78	0.0200
ITG AUSTRALIA LTD	140,672.000	266.62	0.0019
ITG CANADA	931.000	8.36	0.0090
ITG INC	71,184.000	1,099.22	0.0154
ITG SECURITIES (HK) LTD	250,900.000	51.42	0.0002
J			
J P MORGAN SECURITIES INC	141,036.000	2,495.39	0.0177
J.P. MORGAN CLEARING CORP	166,065.000	1,254.41	0.0076
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	3,652.000	494.49	0.1354
JEFFERIES & COMPANY INC.	1,618,407.000	10,100.62	0.0062
JEFFERIES INTERNATIONAL LTD	1,841.000	45.57	0.0248
JMP SECURITIES	1,215.000	36.45	0.0300
JONES & T ASSOCIATES INC	2,462.000	49.24	0.0200
JONES TRADING INSTITUTIONAL SERVICES LLC	77,372.000	2,321.16	0.0300
J.P. MORGAN SECURITIES PLC	32,144.000	781.03	0.0243
J.P. MORGAN SECURITIES (ASIA PACIFIC) LTD	8,000.000	6.32	0.0008
K			
KEYBANC CAPITAL MARKETS INC	4,172.000	92.54	0.0222
KING CL & ASSOCIATES INC	1,880.000	56.40	0.0300
KNIGHT EQUITY MARKETS LP	6,200.000	186.00	0.0300
KOREA INVESTMENT AND SECURITIES CO LTD	193.000	291.40	1.5098

Schedule of Commissions *(Continued)*

For the Fiscal Year Ended June 30, 2015

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
L			
LARRAIN VIAL	15,215.000	201.21	0.0132
LEERINK SWANN AND COMPANY	17,335.000	520.05	0.0300
LEK SECURITIES CORP	22,260.000	445.20	0.0200
LIQUIDNET ASIA LIMITED	90,000.000	27.29	0.0003
LIQUIDNETINC	302,749.000	5,919.59	0.0196
M			
MACQUARIE BANK LIMITED	29,000.000	9.09	0.0003
MACQUARIE CAPITAL (EUROPE) LTD	432,494.000	2,109.01	0.0049
MACQUARIE CAPITAL (USA) INC	342,776.000	3,427.76	0.0100
MACQUARIESEC NZ LTD	3,006.000	3.64	0.0012
MACQUARIE SECURITIES (USA) INC	3,248.000	32.48	0.0100
MERRILL LYNCH INTERNATIONAL	4,446,916.000	3,685.46	0.0008
MERRILL LUNCH PIERCE FENNER & SMITH INC	84,955,413.500	71,252.32	0.0008
MERRILL LYNCH PIERCE FENNER AND S	471,409.000	131.99	0.0003
MITSUBISHI UFJ SECRITIES (USA)	10,500.000	504.41	0.0480
MIZUHO SECURITIES USA INC	400.000	20.17	0.0504
MORGAN STANLEY AND CO. INTERNATIONAL	8,132.000	25.76	0.0032
MORGAN STANLEY CO INCORPORATED	18,849,353.000	1,744.60	0.0001
N			
NATIONAL FINANCIAL SERVICES CORP	100.000	0.90	0.0090
NEEDHAM & COMPANY	500.000	15.00	0.0300
NOMURA FINANCIAL AND INVESTMENT	182.000	547.53	3.0084
NOMURA INTERNATIONAL PLC	7,059.000	122.61	0.0174
O			
OPPENHEIMER & CO INC	2,950.000	88.50	0.0300
P			
PERSHING LLC	5,934.000	152.27	0.0257
PERSHING SECURITIES LIMITED	95,057.000	1,102.26	0.0116
PIPER JAFFRAY	764.000	15.28	0.0200
R			
RAYMOND JAMES AND ASSOCIATES INC	16,173.000	735.12	0.0455
RBC CAPITAL MARKETS LLC	11,004.000	440.16	0.0400
RBC DOMINION SECURITIES INC	103,418.000	147.85	0.0014
REDBURN PARTNERS LLP	48,946.000	177.61	0.0036
ROBERT W BAIRD CO INCORPORATE	13,281.000	392.58	0.0296
ROYAL BANK OF CANADA EUROPE LTD	48,655.000	318.43	0.0065
S			
SAMSUNG SECURITIES CO LTD	142.000	400.18	2.8182
SANFORD C BERNSTEIN LTD	135,064.000	790.36	0.0059

Schedule of Commissions *(Continued)*

For the Fiscal Year Ended June 30, 2015

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
SANFORD C BERNSTEIN CO LLC	49,169.000	1,338.38	0.0272
SCOTIA CAPITAL (USA) INC	3,723.000	160.50	0.0431
SG AMERICAS SECURITIES LLC	462.000	23.10	0.0500
SIDOTI & COMPANY LLC	27,200.000	816.00	0.0300
SMBC SECURITIES INC	2,693.000	130.03	0.0483
SOCIETE GENERALE LONDON BRANCH	75,955.000	727.26	0.0096
STATE STREET GLOBAL MARKETS LLC	24,793.000	425.81	0.0172
STERNE AGEE & T LEACH INC	3,756.000	75.12	0.0200
STIFEL NICOLAUS & CO INC	34,942.000	1,546.00	0.0442
SUNTRUST CAPITAL MARKETS INC.	5,226.000	104.52	0.0200
SVENSKA HANDELSBANKEN	8,242.000	260.90	0.0317
U			
UBS AG	1,200.000	11.11	0.0093
UBS LIMITED	136,607.000	3,615.09	0.0265
UBS SECURITIES ASIA LTD	118,377.000	116.59	0.0010
UBS SECURITIES LLC	27,419.000	274.19	0.0100
UBS SECURITIES PTE LTD SEOUL	464.000	1,383.50	2.9817
W			
WEEDEN + CO	2,207.000	15.45	0.0070
WELLS FARGO SECURITIES LLC	13,107.000	135.18	0.0103
WILLIAM BLAIR & T COMPANY LLC	1,393.000	27.86	0.0200
TOTAL	**$ 135,179,646.500**	**$ 198,919.78**	**$ 0.0015**

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS

As of June 30, 2015 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Equities			
Global equity	$	957,322	30.4 %
Private equity		269,504	8.5 %
Total Equities	**$**	**1,226,826**	**38.9 %**
Fixed Income			
Global fixed income	$	526,792	16.7 %
Private debt		234,691	7.4 %
Total Fixed Income	**$**	**761,483**	**24.1 %**
Real Assets	**$**	**529,260**	**16.8 %**
Absolute Return	**$**	**190,059**	**6.0 %**
Global Tactical Asset Allocation	**$**	**335,252**	**10.7 %**
Collective Short Term Investments*	**$**	**109,997**	**3.5 %**
TOTAL FAIR VALUE	**$**	**3,152,877**	**100.00 %**

Note: 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, 2015 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Global Equity	**$**	**26,472**	**45.8 %**
Global Fixed income	**$**	**7,990**	**13.8 %**
Real asset	**$**	**11,148**	**19.3 %**
Global Tactical Asset Allocation	**$**	**10,594**	**18.3 %**
Collective Short Term Investments	**$**	**1,564**	**2.6 %**
TOTAL FAIR VALUE	**$**	**57,768**	**99.8 %**

Note: 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.

FIRST AMERICAN OFFICE PLAZA
82,596 square-foot six-story office building located in San Jose, CA. Invested as sole shareholder in December 1999.

PROGRESS POINT
123,055 square-foot three-story office building located in O'Fallon, MO. Invested in a joint venture with Kennedy Capital Investors, LLC, in December 2007.

Actuarial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

CHEIRON Classic Values, Innovative Advice.

August 7, 2015

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, 2014. 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, 2014 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. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

www.cheiron.us 1.877.CHEIRON (243.4766)

Board of Administration
August 7, 2015
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2014 actuarial valuation updated to the measurement date of June 30, 2015. There were no significant events between the valuation date and the measurement date so the updated 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, 2015 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, 2015, 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.

Board of Administration
August 7, 2015
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, FCA, EA, MAAA
Consulting Actuary

Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary

Actuarial Assumptions and Methods

Actuarial Assumptions

The discount rate and wage inflation assumptions shown below were adopted by the Board of Administration with our input at the December 5, 2014 Board meeting. All other assumptions were adopted at the November 7, 2013 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2007 through June 30, 2013.

1) Investment Return Assumption

Assets are assumed to earn 7.00% net of investment expenses.

2) Salary Increase Rate

Wage inflation component is assumed to be 3.25%. In addition, the following merit component is added based on an individual member's years of service:

Table B-1	
Salary Merit Increases	
Years of Service	Merit/ Longevity
0	9.25 %
1	7.55
2	6.75
3	5.75
4	5.00
5	4.25
6	3.75
7	3.25
8	2.75
9	2.25
10+	2.00

3) 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	
Gender	Percentage
Male	85%
Female	85%

4) Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3 Rates of Termination		
Service	**Police**	**Fire**
0	9.50%	9.50%
1	8.00	7.00
2	6.50	4.50
3	5.50	2.00
4	4.50	1.30
5	3.50	1.10
6	2.50	1.00
7	2.00	0.90
8	1.50	0.80
9	1.30	0.70
10	1.00	0.60
11+	1.00	0.50

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

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increase per year.

5) Rates of Disability

Sample disability rates of active participants are provided in Table B-4

Table B-4 Rates of Disability at Selected Ages		
Age	**Police**	**Fire**
25	0.09%	0.09%
30	0.13	0.13
35	0.32	0.20
40	0.52	0.31
45	0.84	0.51
50	1.96	2.50
55	6.44	6.50
60	8.04	12.70
65	8.50	19.00

100% of disabilities are assumed to be duty related.

6) Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, and beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Table B-5 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**

Table B-5 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**
20	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

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

7) Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Table B-6 Rates of Mortality for Disabled Lives at Selected Ages	
Age	**Mortality**
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

8) Rates of Retirement

Rates of retirement for Tier 1 members are based on age according to the following Table B-7.

Table B-7				
Rates of Retirement by Age				
	Police			
Age	Tier 1	Tier 2 < 30 years	Tier 2 30+ years	Fire
50	45.00%	30.00%	50.00%	27.50%
51-54	35.00%	30.00%	50.00%	22.50%
55-59	35.00%	30.00%	50.00%	22.50%
60-61	50.00%	50.00%	100.00%	22.50%
62-69	100.00%	50.00%	100.00%	100.00%
70 & over	100.00%	100.00%	100.00%	100.00%

These retirement rates apply only to those eligible for unreduced benefits.

9) Administrative Expenses

1.80% of valuation payroll added to normal cost. The administrative expenses are assumed to increase with wage inflation. 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 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.

10) Changes Since Last Valuation

The investment return assumption was reduced from 7.125% to 7.0%, and wage inflation was changed from 2.00% for FYE 2014-2015 and 3.50% thereafter to 3.25% for all years.

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.

Actuarial Assumptions and Methods *(Continued)*

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 (7.125% for 2013-14, 7.25% for 2012-13, 7.50% for 2011-12, 7.75% for 2000-11, 8.00% for prior years) 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 16-year period beginning with the valuation date in which they first arise. 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. Payroll growth was assumed to be 3.50% in the prior valuation.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active Count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay*
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%
2005	2,003	$ 210,018,219	$ 8,738	9.10%

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

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
2013-2014	1,994	$ 162,716,000	76	$ 10,142,000	36	$ 1,986,000	2,034	$ 170,872,000	5.01 %	$ 84,132
2012-2013	1,942	154,381,000	91	10,259,000	39	1,924,000	1,994	162,716,000	5.40 %	81,603
2011-2012	1,885	144,139,000	88	11,583,000	31	1,341,000	1,942	154,381,000	7.11 %	79,496
2010-2011	1,810	131,014,000	133	15,384,000	58	2,259,000	1,885	144,139,000	10.02 %	76,466
2009-2010	1,700	115,573,000	152	17,238,000	42	1,797,000	1,810	131,014,000	13.36 %	72,383
2007-2009	1,477	90,061,000	276	27,537,000	53	2,025,000	1,700	115,573,000	28.33 %	67,984
2005-2007	1,385	76,071,000	143	15,913,000	51	1,923,000	1,477	90,061,000	18.39 %	60,976
2003-2005	1,271	62,314,000	161	15,619,000	47	1,862,000	1,385	76,071,000	22.08 %	54,925

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

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE Gain (or loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience								
	Gain (or loss) for Years Ended June 30							
Type of Activity	2014	2013	2012	2011	2010	2009*	2007*	2005*
Investment income	$ 78,462	$ (92,499)	$ (172,759)	$ (96,473)	$ (149,621)	$ (138,383)	$ 97,135	$ (136,013)
Combined liability experience	(14,678)	11,115	39,432	278,051	43,880	(113,495)	47,735	101,668
Gain (or loss) during year from financial experience	63,784	(81,384)	(133,327)	181,578	(105,741)	(251,878)	144,870	(34,345)
Non-recurring gain (or loss) items	(55,787)	(28,233)	(75,220)	12,360	(104,240)	(145,351)	(93,343)	(12,960)
Composite Gain (or Loss) During Year	$ 7,997	$ (109,617)	$ (208,547)	$ 193,938	$ (209,981)	$ (397,229)	$ 51,527	$ (47,305)

** Two-year period*
Amounts in thousands

Solvency Test

The solvency test shown below is defined by the Government Finance Officers Association and uses the measure of actuarial liability that is used to determine contributions to the Plan. This measure of actuarial liability is not intended to representt the assets necessary for solvency or to cover the estimated cost of settling the Plan's benefit obligations.

GASB SOLVENCY TEST							
Actuarial Liabilities for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
June 30,**	(A)	(B)	(C)		(A)	(B)	(C)
2014	$ 288,227	$ 2,585,611	$ 939,988	$ 3,025,101	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	1,076,139	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 %
2005	194,008	1,062,247	771,177	1,983,090	100 %	100 %	94 %

**Actuarial value of assets*
Amounts in thousands
*** Results prior to June 30, 2011 were calculated by the prior actuary*

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
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 %
2005	$ 1,983,090	$ 2,027,432	$ 44,342	97.8 %	$ 210,018	21.1 %

Note: Amounts prior to June 30, 2011 were calculated by the prior actuary
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.

2) Final Compensation

The highest twelve 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 month 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% 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%.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after August 4, 2013.

2) Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

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.

5) Unreduced Service Retirement

Eligibility:

Age 60 with ten years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 plus the applicable Police Tier 1 multiplier for each year of credited service attributable to Police Tier 1, subject to a maximum of 65.0% of Final Compensation.

Benefit - Survivor:

Single life annuity.

6) Early Service Retirement

Eligibility:

Age 50 with ten years of service.

Benefit - Member:

Reduced benefit actuarially equivalent to the unreduced service retirement benefits commencing at age 60. The early retirement reduction is applied to the benefit after the application of the maximum of 65.0% of final compensation.

7) Service Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

Monthly benefit equivalent to 50.0% of Final Compensation.

8) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 plus the applicable Tier 1 multiplier for each year of credited service attributable to Tier 1, subject to a minimum of 20.0% of Final Compensation and a maximum of 50.0% of Final Compensation.

9) Death Before Retirement

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

Monthly benefit equal to the greater of:

- 10.0% of Final Compensation or
- 2.0% of Final Compensation for each year of service up to a maximum of 30.0% 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:

- 50.0% of Final Compensation or
- Benefit equivalent to what the employee would have received if retired at the time of death.

10) Withdrawal Benefits

Less than ten Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest.

Ten 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

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50.0%, 75.0% or 100.0% continuance to a survivor.

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 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

Classic Values, Innovative Advice.

September 30, 2015

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 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, 2014. Please refer to that report for additional information related to the funding of the Plan.

Funding Objectives and Progress

The funding methods adopted in the collective bargaining agreement and reflected in the valuation are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Because the effort to pre-fund the Plan was started relatively recently, the current funded status is relatively low. For the Police Department, a five-year transition to contributions aimed at pre-funding the explicit subsidies of the Plan began with the 2009-2010 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. For the Fire Department, this transition began with the 2011-2012 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. The transition has been completed for both Police and Fire.

The contribution rates for the fiscal year ending 2016 are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the annual rate increases and ultimate caps. Annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. For the 2015-2016 fiscal year, the calculated Police Department contribution rates exceeded these limits, so the actual contribution rate was limited to 11% for the City and 10% for Members.

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A summary of the key results from the June 30, 2014 actuarial valuation are as follows:

- *Assets:* The market value of assets increased approximately $23 million to $98 million since the prior valuation due to $36 million in contributions plus $12 million in investment earnings less $25 million in benefit payments. The actuarial value of assets that smooths investment gains and losses over a five-year period increased approximately $19 million to $94 million.

- *Actuarial Liability:* On a funding basis, the actuarial liability for the explicit subsidy increased approximately $44 million from $512 million to $556 million. The increase was primarily due to the continued accrual of benefits, interest, and assumption changes offset by benefit payments. On a financial reporting basis, the actuarial liability, including the implicit subsidy, increased approximately $6 million from $701 million to $707 million due to the same factors noted above, but with a different assumption change impact on the implicit subsidy and no change in discount rate.

- *Unfunded Actuarial Liability (UAL)/Surplus:* On a funding basis, the UAL increased approximately $25 million from $437 million to $462 million. On a financial reporting basis, the UAL decreased $12 million from $625 million to $613 million.

- *Funding Ratio:* On a funding basis, the ratio of actuarial value of assets to the Actuarial Liability increased from 15% to 17% since the last valuation. On a financial reporting basis, the ratio of actuarial value of assets to the Actuarial Liability increased from 11% to 13% since the last valuation. These funding ratios are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context and a financial reporting context respectively. 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.

- *Member Contribution Rate:* The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of three to one with the City contribution set at 3/4th of the total contribution. For the Police Department, the member contribution rate remained at 10.00% of payroll. For the Fire Department, the member contribution rate increased from 8.49% to 9.74%.

- *City Contribution Rate:* The City contribution rate for the Police Department remained at 11.00% of payroll for the fiscal year ending June 30, 2016. The City contribution rate for the Fire Department increased from 9.27% to 10.62% of payroll for the fiscal year ending June 30, 2016.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2014 valuation results can be found in our full report.

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Schedules Prepared by Actuary

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2014 actuarial valuation:

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

In addition, we have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information
- Schedule of Funding Progress
- Schedule of Employer Contributions

All historical information prior to the June 30, 2011 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, The Segal Group, Inc.

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.

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.

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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, FCA, EA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachments

CHEIRON

Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions:

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 4, 2014 Board meeting.

1) Expected Return on Plan Assets:

7.00% per year net of investment expenses. The long-term expected return on assets based on NEPC's capital market assumptions for a 30-year time horizon is 7.97%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2) Expected Return on Employer Assets:

3.50% per year

3) Blended Discount Rate:

6.00% per year

4) Per Person Cost Trends:

	Annual Increase			
To Calendar Year	**Pre-Medicare**	**Medicare Eligible**	**Dental**	**Part B Premiums**
2016	8.50%	6.50%	4.00%	1.53%
2017	8.20	6.34	4.00	6.29
2018	7.89	6.18	4.00	5.30
2019	7.59	6.02	4.00	5.54
2020	7.29	5.86	4.00	5.72
2021	6.98	5.70	4.00	5.41
2022	6.68	5.54	4.00	5.56
2023	6.38	5.38	4.00	5.54
2024	6.07	5.21	4.00	5.44
2025	5.77	5.05	4.00	5.35
2026	5.46	4.89	4.00	5.25
2027	5.16	4.73	4.00	5.16
2028	4.86	4.57	4.00	5.06
2029	4.55	4.41	4.00	4.96
2030	4.25	4.25	4.00	4.87
2031	4.25	4.25	4.00	4.77
2032	4.25	4.25	4.00	4.68
2033	4.25	4.25	4.00	4.58
2034	4.25	4.25	4.00	4.48
2035	4.25	4.25	4.00	4.39
2036	4.25	4.25	4.00	4.29
2037	4.25	4.25	4.00	4.20
2038	4.25	4.25	4.00	4.10
2039+	4.25	4.25	4.00	4.10

Actual premium increases for 2015 were reflected in the valuation, with the above rates applying

POSTEMPLOYMENT HEALTHCARE

thereafter. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions:

The wage inflation, participation assumptions and plan election assumptions were adopted by the Board of Administration at the November 6, 2014 and December 4, 2014 Board meetings based upon our recommendations and input. The other demographic assumptions shown below were adopted by the Board of Administration at the November 7, 2013 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2007 through June 30, 2013.

1) Retirement Rates:

The following rates of retirement apply only to those eligible for unreduced benefits.

Rates of Retirement by Age						
	Police			Fire		
Age	Tier1	Tier 2 < 30 years	Tier 2 30+ years	Tier 1	Tier 2 < 30 years	Tier 2 30+ years
50	45.00%	0.00%	0.00%	27.50%	0.00%	0.00%
51 - 54	35.00	0.00	0.00	22.50	0.00	0.00
55 - 59	35.00	0.00	0.00	22.50	0.00	0.00
60 - 61	50.00	50.00	100.00	22.50	25.00	50.00
62 - 64	100.00	50.00	100.00	100.00	25.00	50.00
65 - 69	100.00	50.00	100.00	100.00	35.00	100.00
70+	100.00	100.00	100.00	100.00	100.00	100.00

2) Termination Rates:

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

Rates of Termination		
Service	Police	Fire
0	9.50%	9.50%
1	8.00	7.00
2	6.50	4.50
3	5.50	2.00
4	4.50	1.30
5	3.50	1.10
6	2.50	1.00
7	2.00	0.90
8	1.50	0.80
9	1.30	0.70
10	1.00	0.60
11+	1.00	0.50

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

POSTEMPLOYMENT HEALTHCARE

3) Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and setback three years for males and no setback for females.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

Disabled Lives:

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Rates of Mortality for Disabled Lives at Selected Ages	
Age	**Mortality**
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

4) Disability Rates:

Sample rates of disability for active participants are shown in the following table

Rates of Disability at Selected Ages		
Age	**Police**	**Fire**
25	0.09%	0.09%
30	0.13	0.13
35	0.32	0.20
40	0.52	0.31
45	0.84	0.51
50	1.96	2.50
55	6.44	6.50
60	8.04	12.70
65	8.50	19.00

100% of disabilities are assumed to be duty related.

5) Salary Increase Rate:

Wage inflation component is assumed to be 3.25% annually. In addition, the following merit component is added based on an individual member's years of service.

Salary Merit Increases	
Years of Service	**Merit/Longevity**
0	9.25%
1	7.25
2	6.75
3	5.75
4	5.00
5	4.25
6	3.75
7	3.25
8	2.75
9	2.25
10+	2.00

POSTEMPLOYMENT HEALTHCARE

6) Percent of Retirees Electing Coverage

100% of future retirees are assumed to elect coverage at retirement. Retirees are assumed to continue coverage in their 2014 plan. 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. Future retirees' are assumed to elect plans in the proportions shown in the following table.

Assumed Plan Elections for Future Retirees	
	% Electing
Pre-Medicare Medical Plans	
Kaiser DHMO	10%
Kaiser $25 Co-pay	40%
HMO $45 Co-pay	5%
HMO $25 Co-pay	20%
PPO / POS $30 Co-pay	5%
PPO / POS $25 Co-pay	20%
Medical-Eligible Medical Plans	
Kaiser Senior Advantage	40%
BS Medicare HMO	10%
BS Medicare PPO / POS	50%
UHC Medicare Advantage	N/A
UHC Senior Supplement	N/A
Dental (All Retirees)	
Delta Dental PPO	98%
DeltaCare HMO	2%

7) Family Composition:

95.0% of married males and 70.0% of married females will elect spouse coverage in a medical plan at retirement. 100.0% of married employees will elect spouse coverage in a dental plan at retirement. Pre-Medicare, 49.0% of males and 37.0% of females will cover children.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

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	16%	35%	5%	44%
Females	45%	18%	13%	24%
Medicare Medical Plans				
Males	19%	81%	-%	-%
Females	40%	60%	-%	-%

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	
Gender	Percentage
Male	85%
Female	85%

11) Administrative Expenses:

Included in the average monthly premiums

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Changes Since Last Valuation

The expected return on plan assets were reduced from 7.125% to 7.000%

Plan elections were also updated based on recent plan enrollment data and updated plan options.

The wage inflation changed from 3.5% annually (2% for fiscal year ending June 30, 2014 and 2015) to 3.25%.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 4, 2014 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 2014 and 2015. 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 2014 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the UnitedHealthcare Senior Supplement plan were mapped to the BlueShield PPO plan since UnitedHealthcare plans will not be offered after 2014. The resulting per person per month (PPPM) cost was then adjusted using age curves. The Pre-Medicare adult claim curves were then loaded for the cost of children; the load for children decreases by retiree age since older retires have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José; the combined population participates in the same health insurance plans and pays the same premiums.

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, 2014 based on the premiums for 2014 and 2015. 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		HMO $45 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 4,879	$ 6,704	$ 7,078	$ 9,680	$ 6,381	$ 8,826
45	4,960	6,438	7,170	9,277	6,522	8,502
50	5,404	6,749	7,778	9,697	7,147	8,950
55	6,116	7,243	8,769	10,377	8,132	9,642
60	7,139	7,942	10,204	11,350	9,534	10,610
64	8,255	8,631	11,776	12,312	11,054	11,557

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	HMO $25 Co-Pay		PPO / POS $30 Co-Pay		PPO / POS $25 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	$ 8,983	$ 12,055	$ 7,188	$ 9,960	$ 7,847	$ 10,974
45	8,965	11,452	7,357	9,601	8,091	10,622
50	9,555	11,820	8,075	10,119	8,953	11,258
55	10,598	12,496	9,202	10,914	10,276	12,208
60	12,165	13,517	10,801	12,021	12,133	13,509
64	13,918	14,551	12,532	13,102	14,127	14,771

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		BS Med HMO		BS Med PPO / POS	
Age	Male	Female	Male	Female	Male	Female
65	$ 2,815	$ 3,002	$ 5,734	$ 6,115	$ 6,198	$ 6,611
70	3,305	3,315	6,733	6,753	7,278	7,300
75	3,696	3,575	7,528	7,281	8,138	7,871
80	3,927	3,690	7,999	7,516	8,646	8,125
85	3,980	3,652	8,106	7,438	8,762	8,040

SAMPLE CLAIMS COSTS - DENTAL				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	$ 695	$ 695	$ 348	$ 348

2) Medicare Part D Subsidy:

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

3) Medicare Part B Premiums:

Assumed that Medicare eligible retirees 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 plan and the lowest cost plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Changes since last Valuation:

The claims costs process was modified to add a load for children to the Pre-Medicare claim costs.

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 postretirement 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

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 (7.125% for 2013-2014, 7.25% for 2012-2013, 7.50% for 2011-2012, 7.75% for 2010-2011, 8.00% for prior years) 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 80.0% and 120.0% of the market value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. For Police Department, the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period commencing June 30, 2008. For the Fire Department, the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period commencing June 30, 2010.

POSTEMPLOYMENT HEALTHCARE

4) Contributions

Funding Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. We understand the agreements call for a five-year transition from the prior 10-year cash flow funding policy to the current policy of actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-2010 fiscal year. For the Fire Department, this transition began with the 2011-2012 fiscal year. The transition has been completed for both Police and Fire, so contribution rates are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the caps described below.

We understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. We have interpreted the bargaining agreement to apply these restrictions beyond the transition period, so they have been applied to the Police contribution rates as well as the Fire contribution rates.

Furthermore, the bargaining agreement states that City or member rates may not exceed 11.0% or 10.0% of payroll, respectively.

Accounting Policy

The Board's current policy sets the Annual Required Contribution (ARC) for the fiscal year immediately following the valuation date equal to the normal cost plus a rolling 30-year amortization of the unfunded actuarial liability (including the implicit subsidy). Once actual contributions reach that level, it is anticipated that the ARC will change to the contribution basis.

The contributions for retiree medical benefits (explicit subsidy only) are split evenly between employees and the City, and the contributions for retiree dental benefits are split with the City contributing 75.0% of the total contribution and employees contributing 25.0% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

5) Changes Since Last Valuation:

None.

POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date	Active Member Counts			Annual Payroll	Average	Percent Change in
as of June 30,	Under Age 65	Age 65+	Total		Annual Pay	Average Pay
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	2,083	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										
	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase	Average
Period	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy	in Annual Subsidy	Annual Subsidy
Medical										
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
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										
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 subsidied are explicit amounts*

POSTEMPLOYMENT HEALTHCARE - FINANCIAL SCHEDULES

The solvency test shown below is defined by the Government Finance Officers Association and uses the measure of actuarial liability that is used to determine contributions to the Plan. This measure of actuarial liability is not intended to represent the assets necessary for solvency or to cover the estimated cost of settling the Plan's benefit obligations.

SOLVENCY TEST					
	Actuarial Liability				
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives	Active Members	Reported Assets	Portion of Liability Covered by Reported Assets	
	(A)	(B)		(A)	(B)
6/30/2014	$ 429,034	$ 277,676	$ 93,605	22%	-%
6/30/2013	421,999	278,526	75,035	18%	-%
6/30/2012	600,869	396,452	66,385	11%	-%
6/30/2011	622,691	381,104	60,709	10%	-%
6/30/2010	568,611	377,697	58,586	10%	-%
6/30/2009	436,249	325,355	55,618	13%	-%
6/30/2007	336,899	329,328	45,393	13%	-%
6/30/2013	422,457	428,761	38,381	9%	-%

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE					
	Gain or (Loss) for Year Ending				
Type of Activity	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Investment income	$ 2,802	$ 2,437	$ (6,011)	$ (2,661)	$ (3,067)
Liability experience	16,222	(4,536)	4,760	5,967	(11,242)
Gain (or loss) during year from financial experience	19,024	(2,099)	(1,251)	3,306	(14,309)
Non-recurring gain (or loss) items	13,689	258,939	58,173	1,146	(122,599)
Composite Gain or (Loss) During Year	**$ 32,713**	**$ 256,840**	**$ 56,922**	**$ 4,452**	**$ (136,908)**

Amounts in thousands

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE

ELIGIBILITY

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.

Average Benefit Payment Amounts *(Continued)*

POSTEMPLOYMENT HEALTHCARE (Continued)

Premiums:

Monthly premiums before adjustments for 2014 and 2015 are as follows.

2014 MONTHLY PREMIUMS				
Plan	Single	Employee/ Spouse	Employee/ Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 471.12	$ 942.24	$ 824.46	$ 1,413.36
Kaiser $25 Co-pay	575.34	1,150.68	1,006.84	1,726.02
Blue Shield HMO $45 Co-pay	561.00	1,122.00	981.74	1,683.00
Blue Shield HMO $25 Co-pay	630.50	1,261.00	1,103.38	1,891.50
Blue Shield PPO or POS $30 Co-pay	625.10	1,250.20	1,093.94	1,875.30
Blue Shield PPO or POS $25 Co-pay	764.60	1,529.20	1,338.06	2,293.80
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 278.50	$ 557.00	$ 557.00	$ 835.50
Blue Shield Medicare HMO	530.86	1,061.74	1,006.84	1,534.62
Blue Shield Medicare PPO / POS	616.00	1,232.00	1,805.46	1,805.46
UHC Medicare Advantage	485.95	971.90	N/A	N/A
UHC Senior Supplement	501.78	1,003.56	N/A	N/A
Dental				
Delta Dental PPO	$ 48.92	$ 107.62	$ 117.42	$ 151.66
DeltaCareHMO	27.16	54.30	47.50	81.44

Blue Shield Medicare family rates assume the children are on the Non-Medicare $25 Co-pay HMO or PPO

Average Benefit Payment Amounts *(Continued)*

POSTEMPLOYMENT HEALTHCARE (Continued)

2015 MONTHLY PREMIUMS				
	Single	Employee/ Spouse	Employee/ Child	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 449.74	$ 899.48	$ 787.04	$ 1,349.20
Kaiser $25 Co-pay	549.24	1,098.44	961.14	1,647.88
Blue Shield HMO $45 Co-pay	611.73	1,223.45	1,070.51	1,835.18
Blue Shield HMO $25 Co-pay	687.51	1,375.02	1,203.15	2,062.53
Blue Shield PPO or POS $30 Co-pay	723.46	1,446.92	1,266.07	2,170.38
Blue Shield PPO or POS $25 Co-pay	884.91	1,769.82	1,548.60	2,654.72
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 284.65	$ 569.30	$ 569.30	$ 853.95
Blue Shield Medicare HMO	570.49	1,141.01	1,141.01	1,656.65
Blue Shield Medicare PPO / POS	661.99	1,323.98	1,323.98	1,987.67
Dental				
Delta Dental PPO	$ 48.92	$ 107.62	$ 117.42	$ 151.66
DeltaCare HMO	27.16	54.30	47.50	81.44

Blue Shield Medicare family rates assume the children are on the Non-Medicare $25 Co-pay HMO or PPO

SUMMARY OF 2014 BENEFIT PLANS						
Non-Medicare Plans:	**Kaiser $25 Co-Pay**	**Kaiser DHMO**	**BS HMO $25 Co-Pay**	**BS HMO $45 Co-Pay**	**BS PPO $25 Co-Pay**	**BS PPO $30 Co-Pay**
Annual out-of-pocket maximum	$1,500/$3,000	$4,000/$8,000	$1,000/$2,000	$3,500/$7,000	$2,000/$4,000	$7,000/$14,000
Annual deductible	None	$1,500/$3,000	None	Rx only*	$100/$200	$3,500/$7,000
Office visit	$25	$40	$25	$45	$25	$30
Emergency room	$100	30% coinsurance	$100	$200	$100	$100 + 20%
Hospital care	$100	30% coinsurance	$100	50% coinsurance	Tier 1 - $100 + 10% Tier 2 - 30%	Tier 1 - $250 + 20% Tier 2 - 40%
Prescription Drug (30-day supply):						
Generic	$10	$10	$10	$15	$10	$15
Brand	$25	$30	$25	$30*	$25	$30*
Non-formulary	N/A	N/A	$40	50%* *$250 deductible	$40	50%* *$250 deductible

POSTEMPLOYMENT HEALTHCARE (Continued)

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO	UHC Medicare Advantage	UHC Senior Supplement
Annual out-of-pocket maximum	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000	$6,700	None
Annual deductible	None	None	$100/$200	None	$250 outside US only
Office visit	$25	$25	$25	$25	No charge
Emergency room	$50	$100	$100	$50	No charge
Hospital care	$250	$100	$100 + 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	$10	$10	$10	$15	$5
Brand	$10	$25	$25	$20	$10
Non-formulary	N/A	$40	$40	$20	Not covered

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.

Active Plan Funding:

Member Contribution: Contribute 50.0% of the health premium subsidy and 25.0% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll. Additionally, there is a total cap on the contribution rate of 10.0%.

City's Contribution: Contribute 50.0% of the health premium subsidy and 75.0% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll. Additionally, there is a total cap on the contribution rate of 11.0%.

Changes Since Last Valuation:

None.

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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 subtrusts. 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.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2015
and June 30, 2014

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2013-2015 *(In Thousands)*

DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Additions										
Employee contributions	$ 16,432	$ 16,050	$ 19,210	$ 20,323	$ 20,097	$ 29,629	$ 19,345	$ 20,227	$ 21,115	$ 20,747
Employer contributions	43,473	46,625	56,372	53,103	52,315	77,918	121,009	105,234	123,583	129,279
Investment income / (loss)*	230,225	440,999	(153,711)	(469,235)	314,453	396,377	(34,341)	248,725	404,978	(27,690)
Total additions to plan net position	**290,130**	**503,674**	**(78,129)**	**(395,809)**	**386,865**	**503,924**	**106,013**	**374,186**	**549,676**	**122,336**
Deductions										
Benefit payments	75,189	81,953	89,704	102,363	114,604	129,472	142,314	150,811	157,635	166,331
Death benefits	4,803	5,042	5,467	5,982	6,519	7,213	7,480	8,005	8,738	9,220
Refunds	144	210	168	363	196	435	1,926	886	1,024	702
Administrative expenses and other	2,171	2,206	2,670	2,669	2,955	3,127	3,556	3,423	3,631	4,191
Total deductions from plan net position	**82,307**	**89,411**	**98,009**	**111,377**	**124,274**	**140,247**	**155,276**	**163,125**	**171,028**	**180,444**
Changes in Plan Net Position	**$ 207,823**	**$ 414,263**	**$ (176,138)**	**$ (507,186)**	**$ 262,591**	**$ 363,677**	**$ (49,263)**	**$ 211,061**	**$ 378,648**	**$ (58,108)**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2006	2007	2008	2009	2010	2011	2012
Additions							
Employee contributions	$ 5,742	$ 7,989	$ 9,151	$ 9,218	$ 10,650	$ 11,229	$ 11,474
Employer contributions	6,529	9,082	10,618	9,888	11,284	17,001	21,205
Investment income / (loss)*	4,089	8,115	(3,029)	(9,800)	6,870	8,966	(805)
Total additions to plan net position	**16,360**	**25,186**	**16,740**	**9,306**	**18,154**	**37,196**	**31,874**
Deductions							
Healthcare insurance premiums	12,880	14,794	15,974	18,039	20,701	28,273	28,479
Administrative expenses and other	42	45	56	60	66	73	87
Total deductions from plan net position	**12,922**	**14,839**	**16,030**	**18,099**	**20,767**	**28,346**	**28,566**
Changes in Plan Net Position	**$ 3,438**	**$ 10,347**	**$ 710**	**$ (8,793)**	**$ 8,037**	**$ 8,850**	**$ 3,308**

**Net of expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS *(In Thousands)*

	2013			2014			2015		
	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust	Post-employment Healthcare 401(h)	Police Dept Healthcare Trust	Fire Dept Healthcare Trust
Additions									
Employee contributions	$ 13,498	$ -	$ -	$ 15,674	$ -	$ -	$ 17,017	$ -	$ -
Employer contributions	-	11,074	4,734	-	11,712	5,555	-	13,073	7,837
Investment income	5,613	588	246	7,942	3,210	1,443	(499)	(753)	(363)
Total additions	**19,111**	**11,662**	**4,980**	**23,616**	**14,922**	**6,998**	**16,518**	**12,320**	**7,474**
Deductions									
Healthcare insurance premiums	23,934			22,510			24,205		
Administrative expenses and other	78	-	-	73	15	15	82	24	17
Total deductions	**24,012**	**-**	**-**	**22,583**	**15**	**15**	**24,287**	**24**	**17**
Change in Plan Net Position	**$ (4,901)**	**$ 11,662**	**$ 4,980**	**$ 1,033**	**$ 14,907**	**$ 6,983**	**$ (7,769)**	**$ 12,296**	**$ 7,457**

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

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Age and Service Benefits										
Retirees - service	$ 30,828	$ 34,772	$ 39,354	$ 49,004	$ 59,455	$ 68,780	$ 77,239	$ 80,902	$ 83,664	$ 86,672
Retirees - deferred vested	892	946	1,030	1,337	1,481	1,948	2,184	2,522	2,873	3,056
Survivors - service	741	606	713	826	986	1,301	1,402	1,566	1,826	2,201
Survivors - deferred vested	22	23	30	33	32	51	59	60	62	78
Death in Service Benefits	**1,031**	**1,093**	**1,121**	**1,193**	**1,155**	**1,246**	**1,366**	**1,502**	**1,396**	**1,493**
Disability Benefits										
Retirees - duty	41,134	43,713	46,654	49,100	51,218	55,998	59,108	63,410	66,865	71,980
Retirees - non-duty	610	646	697	698	680	674	770	748	903	903
Survivors - duty	2,876	3,184	3,459	3,784	3,634	3,888	4,328	4,587	5,022	5,135
Survivors - non-duty	133	135	144	146	136	124	266	265	274	235
Ex-Spouse Benefits	1,725	1,877	1,969	2,224	2,346	2,675	3,072	3,254	3,488	3,798
Total Benefits	**79,992**	**86,995**	**95,171**	**108,345**	**121,123**	**136,685**	**149,794**	**158,816**	**166,373**	**175,551**
Type of Refund										
Separation	144	210	168	363	196	435	1,926	886	1,024	702
Total Refunds	**$ 144**	**$ 210**	**$ 168**	**$ 363**	**$ 196**	**$ 435**	**$ 1,926**	**$ 886**	**$ 1,024**	**$ 702**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Age and Service Benefits										
Retirees - service										
Medical	$ 3,871	$ 4,760	$ 5,366	$ 6,843	$ 8,274	$ 9,468	$ 10,361	$ 10,090	$ 8,318	$ 9,450
Dental	492	550	589	684	855	968	1,031	1,013	1,005	988
*Retirees -deferred vested**										
Medical	119	131	137	146	180	236	250	264	245	275
Dental	15	16	17	17	21	26	27	29	31	30
Survivors - service										
Medical	78	76	89	110	165	229	214	231	205	238
Dental	23	20	21	19	31	41	42	44	33	24
*Survivors- deferred vested**										
Medical	4	3	1	-	-	11	10	11	9	13
Dental	1	1	-	1	1	3	3	2	2	1
Death in Service Benefits										
Medical	165	186	190	208	213	252	(38)*	243	170	185
Dental	35	36	34	33	37	42	59	41	28	22
Disability Benefits										
Retirees - duty										
Medical	6,503	7,324	7,757	8,177	8,897	9,852	9,604	9,673	7,794	8,985
Dental	854	881	885	856	977	1,068	1,043	1,038	993	992
Retirees - non-duty										
Medical	147	162	173	172	199	201	221	206	192	210
Dental	21	21	22	21	26	25	25	23	22	23
Survivors - duty										
Medical	408	483	527	603	643	715	667	650	560	623
Dental	118	127	137	119	154	169	159	152	105	69
Survivors - non-duty										
Medical	19	20	22	24	24	21	40	41	31	23
Dental	7	7	7	6	7	7	11	11	8	4
Implicit Subsidy										
Medical	-	-	-	-	-	4,939	4,750	172	2,759	2,050
Total Benefits	**$ 12,880**	**$ 14,804**	**$ 15,974**	**$ 18,039**	**$ 20,704**	**$ 28,273**	**$ 28,479**	**$ 23,934**	**$ 22,510**	**$ 24,205**

** 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.*

Fiscal Year 2004-05 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2005-2015 (Schedule 3)

	Police Department Rate				Fire Department Rate			
	Tier 1		Tier 2		Tier 1		Tier 2	
Fiscal Year	Employee Rate(%)	Employer Rate (%)	Employee Rate(%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2005	11.16 %	24.59 %	-	-	11.16 %	24.59 %	-	-
2006	11.16	25.04	-	-	11.16	25.04	-	-
2007	11.67	28.51	-	-	11.26	25.22	-	-
2008	11.67	28.90	-	-	11.26	25.61	-	-
2009	11.96	25.80	-	-	12.40	28.31	-	-
2010	12.96	26.89	-	-	12.40	28.31	-	-
2011	15.57	44.58	-	-	13.70	44.16	-	-
2012	17.47	56.90	-	-	15.62	56.32	-	-
2013	19.39	65.53	-	-	17.32	65.05	-	-
2014	21.15	75.63	20.49	21.29	19.07	74.75	-	-
2015	21.26 %	83.14 %	20.80 %	21.80 %	20.13 %	82.75 %	19.43 %	20.21 %

** Special rate change effective 12/17/2006*

Retired Members by Type of Benefit

Pension Benefits

As of June 30, 2015

		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	6	0	0	1	0	0	0	1	4	3	0	3	0	6
$501 - 1000	23	0	0	0	0	0	2	3	18	13	1	5	4	23
$1001 - 1500	50	0	0	0	0	11	5	7	27	25	3	21	1	50
$1501 - 2000	58	1	0	2	0	7	10	7	31	38	1	15	4	58
$2001 - 2500	72	12	0	4	2	12	15	7	20	52	0	19	1	72
$2501 - 3000	97	25	0	0	2	21	23	9	17	69	1	25	2	97
$3001 - 3500	93	20	0	1	3	14	37	6	12	72	3	16	2	93
$3501 - 4000	83	42	1	1	5	5	18	3	8	68	6	6	3	83
$4001 - 4500	81	46	3	5	7	5	7	3	5	67	3	8	3	81
$4501 - 5000	101	63	1	3	15	1	13	2	3	67	7	11	16	101
$5001 - 5500	131	85	4	2	28	0	9	1	2	84	12	19	16	131
$5501 - 6000	132	80	3	1	40	1	6	1	0	94	6	18	14	132
$6001 - 6500	100	51	0	0	40	2	5	1	1	68	9	10	13	100
$6501 - 7000	125	56	2	0	61	3	2	0	1	93	7	12	13	125
$7001 - 7500	150	69	1	0	79	0	0	0	1	112	9	15	14	150
$7501 - 8000	113	52	1	0	59	0	0	1	0	80	7	11	15	113
$8001 - 8500	112	35	3	1	70	0	1	2	0	79	1	16	16	112
$8501 - 9000	110	46	0	0	62	0	0	2	0	69	7	13	21	110
$9001 - 9500	103	37	0	0	64	0	1	1	0	72	5	13	13	103
$9501 - 10000	92	33	0	0	59	0	0	0	0	52	9	13	18	92
$10001 - 10500	94	46	0	0	47	0	0	1	0	56	4	20	14	94
$10501 - 11000	69	27	0	0	39	0	2	1	0	46	5	8	10	69
Over $11,000	220	68	3	0	143	0	0	6	0	144	17	21	38	220
TOTAL	**2,215**	**894**	**22**	**21**	**825**	**82**	**156**	**65**	**150**	**1,523**	**123**	**318**	**251**	**2,215**

***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**

Unmodifed. Unmodified joint & Survivorship (standard default for married)
A. Contingent joint & Survivorship (increased percentage to survivor/reduced pension to member)
B. Unmodified/No Survivor (standard for unmarried)
C. Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceasesmember, person goes back to original pension calculation)

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2015

	Type of Subsidy	
Average Monthly Benefit	**Health**	**Dental**
Ineligible/Deferred	$ 316	$ 223
$1 - 60	0	498
$61 - 250	0	1,494
$251 - 500	522	0
$501 - 1,000	998	0
$1,001 - 1,250	379	0
Totals	**$ 2,215**	**$ 2,215**

Retired Members by Type of Benefit

PENSION BENEFITS BY FAMILY UNIT

As of June 30, 2015

		Type of Retirement*							
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	8
$0 - 500	0	7	0	5	0	0	0	4	0
$501 - 1000	2	33	0	1	2	1	1	2	3
$1001 - 1500	3	32	0	2	1	2	1	11	5
$1501 - 2000	25	49	0	1	3	1	24	13	13
$2001 - 2500	32	60	0	2	4	2	30	5	8
$2501 - 3000	43	53	1	2	13	9	34	3	6
$3001 - 3500	42	74	1	0	38	4	38	4	1
$3501 - 4000	22	62	3	2	54	3	19	2	3
$4001 - 4500	8	81	0	3	62	1	7	1	1
$4501 - 5000	12	96	3	3	44	1	11	1	0
$5001 - 5500	10	42	1	0	41	3	7	0	0
$5501 - 6000	3	36	1	0	39	0	3	2	0
$6001 - 6500	8	40	0	0	57	2	6	0	0
$6501 - 7000	3	42	1	0	66	1	2	1	0
$7001 - 7500	0	40	3	0	64	0	0	2	0
$7501 - 8000	4	32	1	0	70	1	3	1	0
$8001 - 8500	5	18	0	0	55	1	4	1	0
$8501 - 9000	0	28	0	0	46	0	0	1	0
$9001 - 9500	0	12	0	0	43	0	0	0	0
$9501 - 10000	0	12	1	0	27	0	0	0	0
$10001 - 10500	1	13	0	0	25	0	1	2	0
$10501 - 11000	0	5	2	0	14	0	0	1	0
Over $11000	0	6	0	0	41	0	0	2	0
TOTAL	**223**	**873**	**18**	**21**	**809**	**32**	**191**	**59**	**40**

***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*

Average Benefit Payment Amounts

PENSION BENEFITS
as of June 30, 2015

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2015							
Average monthly benefit*	$ 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* (No FAS)	$ -	$ 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*	$ 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 numbers***	23	47	103	132	365	755	145
Average monthly benefit* (No FAS)	$ 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
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 (incl COLA) (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 (incl. COLA)	$ 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 (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,639	$ 1,419	$ 2,854	$ 3,779	$ 5,886	$ 6,570
Number of retired members***	-	3	5	12	36	129	30
As of June 30, 2009							
Average monthly benefit (incl. COLA)	$ 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 Benefit Payment Amounts *(Continued)*

PENSION BENEFITS
as of June 30,2015

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,591	$ 1,381	$ 2,712	$ 3,675	$ 5,710	$ 6,327
Number of retired members***	-	3	5	13	36	132	32
As of June 30, 2008							
Average monthly benefit*	$ 2,120	$ 2,717	$ 3,068	$ 3,743	$ 4,563	$ 6,776	$ 7,319
Average final average salary**	$ 1,778	$ 3,060	$ 4,097	$ 5,713	$ 5,644	$ 7,129	$ 7,147
Number of retired members***	7	47	64	79	204	521	140
Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 1,549	$ 1,319	$ 2,642	$ 3,639	$ 5,560	$ 6,123
Number of retired members***	-	3	5	13	36	134	32
As of June 30, 2007							
Average monthly benefit*	$ 2,063	$ 2,618	$ 2,853	$ 3,576	$ 4,339	$ 6,461	$ 6,962
Average final average salary**	$ 1,799	$ 3,023	$ 3,846	$ 5,567	$ 5,419	$ 6,924	$ 6,898
Number of retired members***	7	47	62	79	195	492	134
Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 1,500	$ 1,239	$ 2,561	$ 3,526	$ 5,397	$ 5,938
Number of retired members***	-	3	6	13	36	137	32

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2015

	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
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
Period 7/1/2011 to 6/30/2012							
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
Period 7/1/2010 to 6/30/2011							
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
Period 7/1/2009 to 6/30/2010							
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
Period 7/1/2008 to 6/30/2009							
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
Period 7/1/2007 to 6/30/2008							
Average health subsidy	$ 676	$ 778	$ 888	$ 866	$ 870	$ 916	$ 885
Number of health participants*	7	45	58	82	234	516	139
Average dental subsidy	$ 99	$ 99	$ 99	$ 98	$ 98	$ 98	$ 99
Number of dental participants*	7	49	61	83	239	520	139
Period 7/1/2006 to 6/30/2007							
Average health subsidy	$ 632	$ 736	$ 805	$ 813	$ 815	$ 861	$ 828
Number of health participants*	7	45	57	82	235	487	134
Average dental subsidy*	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
Number of dental participants*	$ 7	$ 49	$ 60	$ 83	$ 230	$ 491	$ 134

** Does not include Survivors and Ex-Spouses. Information presented in the above table is not readily available prior to fiscal year 2006*

Retirements During Fiscal Year 2014-2015

SERVICE RETIREMENTS

Police Department		Fire Department
ALBIN, GREGORY	LEYTEM, KENNETH	ACKEMANN, SCOTT
BARTH, GREGORY	LIGOURI, MARK	BAILEY, RICHARD
BEIDERMAN, MARJORIE	MACHEEL, DAVID	BARONE, JEFFREY
CARPENTER, TODD	MC MULLEN, WILLIAM	BLEAN, SHANNON
DALE, ROBERT	METCALF, KEVIN	EZQUERRO, RICK
DOKTER, JOHN	NAKAMURA, TOMIO	GRIMALDO, JOE
FISCHER, ROBERT	NEWTON, MERLIN	GUERRERO, JOSE
FONG, DAVID	OKUBO, MICHAEL	NEWTON, WILLIAM
FOSTER, TERRY	PATE, MARK	OLMOS, ALBERT
FRANCOIS, PAUL	PHAM, UYEN	PADILLA, RALPH
GIBSON, STEVEN	QUICK, BRAD	PEREZ, BERNARDO
GONZALEZ, BEN	RAMIREZ, OSCAR	PHELAN, JOEL
GRANADO, RICHARD	RAMIREZ, ROLAND	RAMOS, MICHAEL
HARRIS, DALE	RAPAL, KAMAL	ROCHA, CLEMENTE
HOO, BRYAN	ROBB, JOHN	TORRES, RUBEN
HUGHES, RONALD	SILVA, DAVID	VOREYER, JAMES
JIMENEZ, MARIA	SULLIVAN, MICHAEL	WILLIAMS, JAMES
JURGENS, MICHAEL	TEPOORTEN, JOHN	
KUCHAC, TIMOTHY	UNLAND, JAMES	
LE, THANG	WILSON, DAVID	

EARLY RETIREMENTS

Police Department	Fire Department
DAYSOG, JOSE	REGAN, RICHARD
MUNK, JANNA	
NASCIMENTO, MIKE	
RICKEL, JEFFREY	

DEFERRED VESTED RETIREMENTS

Police Department	Fire Department
BACKMAN, DONNA	CHRISTOPH, PANHOLZER
DAWSON, JEROME	TAYLOR, DWAYNE
HALL, ROWDY	
MONTALVO, ROBERT	
SPICER, JOHN	
VALCAZAR, DANIEL	
WOO, PAUL	

SERVICE -CONNECTED DISABILITY RETIREMENTS

Police Department		Fire Department
ARDWAN, JAMES	NGO, HAU	ALVARADO, STEVEN
BOOSE, ROBERT	NGUYEN, ALEX-DUONG	HOPP, RICHARD
CALDERON, CYNTHIA	ODONNELL, THOMAS	PETTIT, TIMOTHY
CARABARIN, SERGIO	REGALA, ERIK	SMITH, MATTHEW
GARCIA, JOSE	SALAS, GREGORY	
GHEZZI, MICHAEL	SANCHEZ, DAVID	
HERNANDEZ, LUIS	SAUAO, DENNIS	
KINKAID, KAREN	TAYLOR, CONRAD	
LAMBERT, AARON	TUELL, DUANE	
LEE, DAVID	WARREN, CHRISTOPHER	

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department	Fire Department
NONE	NONE

Deaths During Fiscal Year 2014-2015

DEATHS AFTER RETIREMENT

ALLEN, JAMES
ALVAREZ, DAVID
ASHBY, KAY
BROCKMAN, WILLIAM
COSSEY, KENT
CUNNINGHAM, LAWRENCE
DONNELLY, RALPH
EVANS, ROBERT
FARNSWORTH, FRED
FUNK, HAROLD
GUYTON, TERRY
HARMS, LESLIE
HERNANDEZ, KENNETH
HERNANDEZ, LUIS
KEFFER, FRANCIS
LARSEN, JAMES
MADIGAN, DENNIS
MATTERN, JOHN
PETERSEN, CHARLES
PIERCE, JOHN
PROPST, JAY
SALERNO, PAUL
WEBB, HARVEY
WIENS, RANDALL
WINTERS, PRESTON

DEATHS BEFORE RETIREMENT

JOHNSON, MICHAEL
WEEDEN, DARRYL

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