CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

ACTUARIAL VALUATION REPORT

As of June 30, 1995

Prepared by
William M. Mercer, Incorporated

October, 1995

WILLIAM M. MERCER
INCORPORATED

October 19, 1995

Board of Administration
City of San Jose
Police and Fire Department Retirement Plan
801 North First Street, Room 216
San Jose, CA 95110

Dear Members of the Board:

We are pleased to present the actuarial valuation for the City of San Jose Police and Fire Department Retirement Plan prepared as of June 30, 1995 by William M. Mercer, Incorporated. The report includes:

(1) a determination of the city contribution rates under the current and recommended actuarial methods and assumptions;

(2) a determination of the employee contribution rates under the current and recommended actuarial methods and assumptions.

This report conforms with the requirements of the governing state and local statutes, accounting rules, and generally accepted actuarial principles and practices.

We look forward to presenting this report to the Board at your earliest convenience.

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VALUATION RESULTS

SUMMARY OF RECOMMENDATIONS

City Contribution Rates	June 30, 1993	June 30, 1995	Increase/ (Decrease)
Normal Cost Rate:	19.98%	21.35%	7%
Rate of Contribution to Unfunded Actuarial Accrued Liability:	.09%	(1.43%)	
Medical Insurance:	1.72%	1.24%	(28%)
Dental Insurance:	.45%	.45%	0%
Total City Rate:	22.24%	21.61%	(3%)
Estimated Annual Amount:*	$24,285,000	23,597,000	(3%)

Employee Contribution Rates	June 30, 1993	June 30, 1995	Increase/ (Decrease)
Normal Cost Rate:	7.49%	8.01%	7%
Rate of Contribution to Unfunded Actuarial Accrued Liability:	0.00%	0.00%	0%
Medical Insurance:	1.72%	1.24%	(28%)
Dental Insurance:	.15%	.15%	0%
Total Employee Rate:	9.36%	9.40%	0%
Estimated Annual Amount:*	$10,221,000	$10,264,000	0%

* Based on July 1, 1995 payroll of $109,196,000.

Actuarial Assumptions	June 30, 1993	June 30, 1995	Increase/ (Decrease)
Annual Inflation Rate:	5.0%	5.0%	0%
Annual Investment Return:	8.0%	8.0%	0%
Annual Salary Increases:			
First 5 years of service	10.0%	11.0%	10%
After 5 years of service			
Ages 25-29	8.5%	9.5%	12%
Ages 30-34	7.0%	8.0%	14%
Ages 35-39	6.5%	6.5%	0%
Ages 40-44	6.0%	6.1%	2%
Ages 45-49	6.0%	5.9%	(2%)
Ages 50-55	5.5%	5.7%	4%
Ages 55-59	5.5%	5.5%	0%
Ages 60 and over	5.0%	5.1%	2%

Other assumptions are based upon the June 30, 1995 experience analysis.

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

	June 30, 1993	June 30, 1995	Increase/ (Decrease)
Association Membership			
Active Members			
1. Number of Members	1,785	1,812	2%
2. Total Active Payroll	$98,831,000	$109,196,000	10%
3. Average Monthly Salary	$4,614	$5,022	9%
Retired Members			
1. Number of Members:			
Service Retirement	115	159	38%
Disability Retirement	468	514	10%
Beneficiaries	117	151	29%
2. Total Retired Payroll	$19,390,000	$25,582,000	32%
3. Average Monthly Pension	$2,308	$2,587	12%
Inactive Vested Members			
1. Number of Members	28	29	4%
Asset Values			
Market Value	$792,354,000	$949,453,000	20%
Actuarial Value	$721,229,000	$864,823,000	20%
Book Value	$730,149,000	$866,826,000	19%
Liability Values			
Actuarial Accrued Liability	$722,760,000	$839,148,000	16%
Unfunded Actuarial Accrued Liability (UAAL)	$1,531,000	($25,675,000)	19%
Pension Benefit Obligation	$719,519,000	$853,397,000	
Unfunded Pension Benefit Obligation	($10,630,000)	($13,429,000)	
Funding Ratios			
GASB No. 5	101.5%	101.6%	0%
Actuarial Assets/Actuarial Accrued Liability	99.8%	103.1%	3%

EXPLANATION OF CHANGES IN ACTUARIAL VALUES

City Contribution Rates

The components of the change in city contribution rates are approximately as follows:

Current Rate	22.24%
Assumption Changes	
• Salary Scale Change	.42%
• Other Pre-retirement Assumptions	(.64%)
Post-retirement Assumptions	.63%
Subtotal	22.65%
Actuarial Experience	
• Investment (gains)/losses	(.15%)
• Salary (gains)/losses	(.46%)
• Change in medical trends	(.48%)
• Other miscellaneous changes	.05%
Revised Rate:	21.61%

Employee Contribution Rates

Current Rate	9.36%
• Salary Scale Change	.15%
• Other Pre-retirement Assumptions	(.12%)
• Post-retirement Assumptions	.11%
Subtotal	9.50%
Actuarial Experience	
• Change in medical trends	(.48%)
• Interest adjustment	.30%
• Other miscellaneous changes	.08%
Revised Rate:	9.40%

Actuarial Assumptions: The following assumptions were modified as a result of the experience investigation.

- Salary increase assumption - about 1% per year higher increases
- Withdrawal - slightly higher rates of withdrawal
- Service retirement - substantially higher rates of retirement
- Vested termination - somewhat higher rates of termination
- Duty disability - substantially lower rates of disability
- Ordinary disability - somewhat higher rates of disability
- Post-disability retirement mortality - somewhat higher rates of death

More detail on these changes is provided in the various sections of the report dealing with each of the above items.

ACTUARIAL ASSUMPTIONS

ECONOMIC ACTUARIAL ASSUMPTIONS

A. Introduction

The economic actuarial assumptions were recommended to the Board in our experience analysis dated September 26, 1995, and were adopted by the Board on October 5, 1995. Economic actuarial assumptions are of three types:

1. *Inflation.* Results in increases in future prices of goods and services. Inflationary increases are closely tied to member salary increases, retiree cost-of-living increases and the returns that investors demand from securities markets and other investments. For those reasons the inflation assumption underlies all economic actuarial assumptions. This assumption also determines the rate at which payments to the Unfunded Actuarial Accrued Liability increase each year.

2. *Investment Return.* Has a powerful influence on a retirement system's cost to employers and members. The more money earned from investments, the less needs to be contributed. Assuming a typical new member's pension is funded over a 25-year career and that the member receives pension checks for 20 years after retirement, a 1% higher rate of investment return will reduce required contributions by about 20% (all else remaining equal). For this reason, setting the investment return assumption is an important decision.

3. *Salary Increases.* Have a significant impact on determining the benefit that members will receive at retirement. This assumption contains two components -- cost-of-living (inflation) plus pay raises that members receive as a result of promotions and step increases.

B. Setting Economic Assumptions

The Actuarial Standards Board recently issued an exposure draft entitled "Selection of Economic Assumptions for Measuring Pension Obligations". This proposed Actuarial Standard of Practice (SOP) is designed to provide pension actuaries guidance in their setting of economic assumptions. Section 5.4 provides the following general steps for selecting economic assumptions for a specific measurement:

1. Identify components, if any, of each assumption and evaluate relevant data;

2. Develop a best-estimate range for each economic assumption required for the measurement;

3. Evaluate additional measurement-specific factors and provide for adverse deviation, if appropriate; and

4. Select a specific point, ordinarily within the best-estimate range, where needed, based on 2. and 3. above.

After completing these steps for each assumption, the actuary should review the set of economic assumptions for reasonableness and consistency and make any needed changes.

The relevant data referred to in step 1 should consist of appropriate historical and current economic data. In Section 5.3, the proposed SOP recommends that the actuary consider current economic data, "however, the actuary should emphasize appropriate future long-term expectations rather than to give undue weight to recent past experience."

The remainder of this Section provides the analytical development of the economic assumptions.

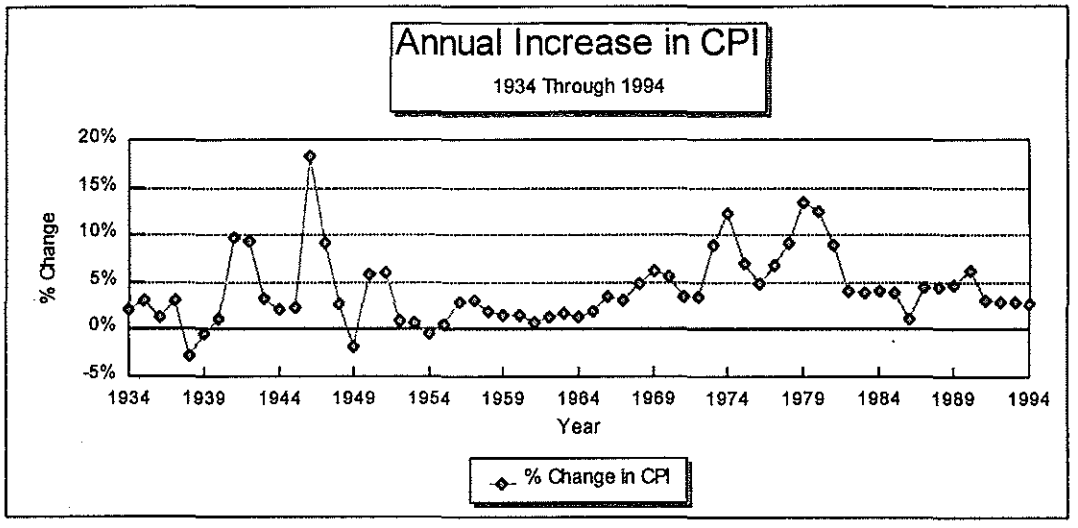
C. Inflation

Recommendation

We recommend and the Board has adopted a long-term inflation assumption of 5%.

Setting the assumption

The rate of inflation has varied significantly over time. The following chart shows the annual increases in the Consumer Price Index over the last 50 years:



Inflation is difficult to predict, even in the short-term. To accurately pinpoint this or any other assumption is impossible. In general, the lower the inflation assumption (with certain limits) the more conservative the resulting set of economic assumptions will be, all else remaining equal. The following guideline is therefore established for setting the inflation assumption:

> The recommended inflation assumption will be set by giving consideration to long term historical averages, recent trends, surveys of economic forecasts, and assumptions used by similarly situated public and private retirement systems. In order to maximize stability, recent trends will generally receive lesser weight in the process. No margin will be included for conservatism.

The proposed actuarial SOP specifies the following data to be considered in setting the inflation assumption (Section 5.5.1):

- Consumer Price Indices (CPI)
- The Gross Domestic Product Implicit Price Deflator (IPD)
- Forecasts of inflation
- Yields on government securities of various maturities

There is not a significant difference between the CPI and IPD data over the last 50 years, so we will focus on the CPI increases in our analysis.

CPI Data

Table 1 provides the annualized increases in the Consumer Price Index for consecutive ten years periods over the last 60 years. The CPI measures price increases in consumer goods.

Table 1
History of CPI and IPD Increases
Ten Year Annualized Averages (1)

Ten Years Ending:	CPI
12/31/44	2.86%
12/31/54	4.17%
12/31/64	1.58%
12/31/74	5.20%
12/31/84	7.34%
12/31/94	3.58%

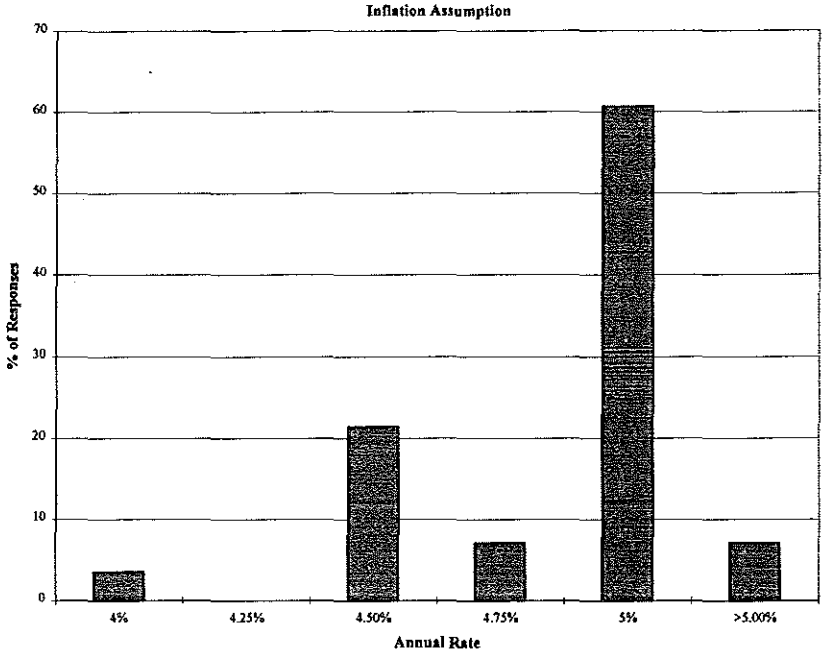
(1) CPI data is based upon US All City Average, CPI-U for years after 1979.

CPI increases over the last 60 years have produced an average annual inflation rate of 4.1%. Over the most recent 30 years, the average annual rate is 5.4%. Note that the ten-year period ending December 31, 1984 appears somewhat anomalous. Table 1 data indicates that, with the exception of the ten years ending December 31, 1984, inflation has typically ranged between about 3.0% and 5.0%. The last ten years has produced an inflation rate in this range. Therefore, we conclude that considering both long-term historical economic data (last 60 years) and recent trends (last 30 years and recent 10-year increases), an appropriate inflation rate range is 4% to 5%. It is clear, however, that in the short term, inflation will likely be lower.

Forecasts of Inflation

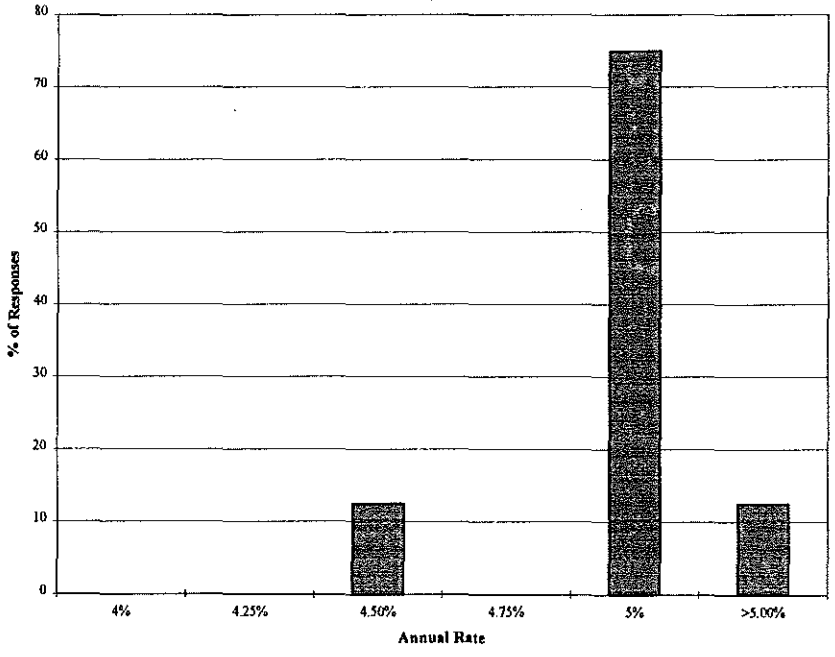
Inflation assumptions used by similarly situated public retirement systems provide a proxy for inflation forecasts. Charts 2 and 3 provide the inflation assumptions used by the 28 California public retirement systems who responded to Mercer's 1994 survey of the economic actuarial assumptions, and the eight chartered city system respondents, respectively.

CHART 2
28 California Public Retirement Systems
Inflation Assumption



Average Rate 4.87%
25th Percentile 4.69%
50th Percentile 5.00%
75th Percentile 5.00%

CHART 3
8 Chartered City Systems
Inflation Assumption



Average Rate 5.00%
25th Percentile 5.00%
50th Percentile 5.00%
75th Percentile 5.00%

The average inflation rates from the survey for both of these groups is about 5%.

A recent Society of Actuaries study of public member retirement systems reported that over 75% of Police and Fire retirement systems in the U.S. are using inflation rates of 5% or higher.

Treasury Yield Curves

Inflation expectations implicit in Treasury yield curves can vary widely over a relatively short period of time. For example, compare the following yield curve data as of December 31, 1993, December 27, 1994, and September 22, 1995.

Table 2
Treasury Yield Curve

	December 31, 1993	December 27, 1994	September 22, 1995
Maturity	Yield	Yield	Yield
90 days	3.01%	5.58%	5.28%
1 year	3.63%	7.23%	5.60%
5 years	5.21%	7.77%	6.00%
10 years	5.83%	7.89%	6.32%
20 years	6.48%	7.87%	6.65%
30 years	6.35%	7.75%	6.56%

Considering that ten to twenty-year Treasury bonds historically have generated 90 to 110 basis points above inflation and that the duration of liabilities under a typical retirement system is 10 to 20 years, we can conclude that annualized inflation expectations over the next 10 to 20 years has increased from a range of 4.75% to 5.5% in December 1993 up to about 6.8% in December 1994 then down to a range of 5.2% to 5.7% in September 1995. This demonstrates that relying too heavily upon such volatile data for setting inflation assumptions for retirement systems can create instability. One might average Treasury yield data over some period of time, however, we question whether utilizing inflation expectations implicit in two- to three-year-old Treasury yields would be meaningful. Also, the usefulness of this data is hampered by the Federal Reserve's use of interest rates as a means of controlling the economy.

Summary

We conclude from our analysis that:

1. Historical inflation data can generally support an assumption in the range of 4% to 5%;

2. Inflation forecasts inherent in inflation assumptions adopted by similarly situated retirement systems are 5.00%; and

3. Future inflation expectations implicit in recent Treasury yield curves have been fluctuating significantly over the last 21 months.

Based on this analysis, we are recommending and the Board has adopted no change from the system's current inflation assumption of 5%.

D. Investment Return

Recommendations

Based on the following analysis, we recommend and the Board has adopted an investment return assumption of 8.00%.

Setting the Assumption

The proposed actuarial SOP specifies the following data be considered in setting the investment return assumption (Section 5.6):

- Forecasts of inflation
- Historical risk-free returns
- Real return or risk premium for each asset class
- Yields to maturity on government securities

The first item has already been addressed in detail. The second item is the historical return on short term Treasury bills, such as 30 days, and is used to develop risk premiums for other asset classes. Our analysis will focus on the third item with some consideration of the fourth.

Section 5.6.3 of the proposed actuarial SOP sets forth the following relevant measurement-specific factors that should be considered in selecting the investment return assumption:

- Investment policy or asset allocation
- Expenses
- Investment manager performance

Each of these items will be addressed in the context of our analysis.

Real Rate of Return on Investments

The real rate of return on investments is a function of:

- The real rates of return on individual classes of assets within the investment portfolio;
- The relative proportion of the fund's total investments held in each class of securities (the "Asset Allocation");
- Expenses to be paid from earnings; and
- Reasonable risk (variability) adjustments.

Each of these four components are addressed separately.

Real Returns on Classes of Securities

Empirical studies of total real rates of return are available on most classes of securities in which the System invested. These studies are used as a resource upon which to develop historical average real rates of return. These historical averages are adjusted considering any fundamental changes in the economy, changes in government regulation, and any other factors which might affect the continued applicability of the historical averages.

Many empirical studies have been carried out to measure historical real rates of return on various types of investment. One most frequently referenced is that by Roger Ibbotson and Rex A. Sinquefield, titled, *Stocks, Bonds and Inflation: Simulations of the Future*. Table 3 provides the Ibbotson-Sinquefield measure of the real rates of return between 1926 and 1994. Investment consulting firms utilize this and other studies to derive expected long-term real rates of return for use in asset allocation models. These models serve as an aid to retirement plan fiduciaries in determining what proportion of the plans' investment portfolio to place in various classes of securities.

Table 3
Ibbotson - Sinquefield
Real Rates of Return of Investments
(Geometric Mean)

	(1926 - 1994)
Common Stocks	6.9%
Small Stocks	8.8%
Long-term government bonds	1.7%
Long-term corporate bonds	2.2%
Intermediate government bonds	1.9%
Treasury bills	0.5%

Because this data does not cover some types of investment common in the System's portfolio, Mercer has developed the following more detailed real rate of return assumptions by asset class:

Table 4
Expected Asset Class Returns Net of Inflation (Real)

Asset Class	Total Real Return
Large Stocks (LS)[1]	6.53%
Small Stocks (SS)[2]	8.88%
Int'l Stocks (IS)[3]	6.85%
Long Bonds (LTB)[4]	2.31%
Intermediate Bonds (ITB)[5]	2.19%
Real Estate (RE)[6]	4.82%
Money Market (MM)[7]	0.94%

[1] Large Stocks — S&P 500.
[2] Small Stocks — 1926-1981 — fifth capitalization quintile of the NYSE; 1981-1991 DF Small Company Fund.
[3] International Stocks — Morgan Stanley Capital International Europe, Australia & Far East Index (EAFE).
[4] Long Bonds — a one-government bond portfolio with a maturity near twenty years.
[5] Intermediate Bonds — a one-government bond portfolio with a maturity near five years.
[6] Real Estate — Study assumption by Mercer Asset Planning, Inc.
[7] Money Market — rolling 30-Day U.S. Treasury Bill.

Asset Allocation

The System employs a third-party investment consultant to assist in establishing its target asset allocation and investment policy. The target asset allocation reflects the consultant's professional opinion on expected returns, the System's risk profile, prudent diversification, asset/liability matching, cash flow needs and other investment considerations. This target allocation is designed as a guidepost for balancing investments among asset classes. As such, it is the best indicator for the System's actual long-term asset allocation. The target asset allocation will be combined with the real rates of return on classes of securities to develop the expected gross real rate of return assumption for the fund's portfolio.

The current asset allocation utilized by the System is shown in Table 5.

Table 5
City of San Jose
Police and Fire Department Retirement Plan
Asset Allocation At Market Value

	June 30, 1995	Target
Bonds	49%	35%
Bonds - International	6%	10%
Stocks - U.S.	33%	35%
Stocks - International	6%	10%
Real Estate	6%	10%

Applying the target asset allocation (Table 5) to the information in Table 4 results in a real return of approximately 4.5%. There are a number of additional factors which must be considered before arriving at an appropriate level for actuarial valuation purposes. These are discussed below.

Expenses to be Paid from Earnings

The expected gross real rate of return must be reduced to reflect expenses to be charged against investment earnings. To the extent such charges are expected to be made in the future, the expense margin will be sufficient to cover:

a) Administrative expenses;
b) Investment expenses;
c) The cost of actuarial valuations; and
d) The cost of legal counsel.

An expense percentage of 0.50% was used to estimate future expenses as a percentage of the Actuarial Value of Assets.

Risk Adjustment

The net real rate of return assumption will reflect the risk associated with not achieving expectations. This is developed by considering:

- The probability that actual future returns within assets classes will deviate statistically from historical averages;
- The effect that asset diversification will have on dampening statistical fluctuations of future returns; and
- The expectation that fund managers will underperform or outperform the general market indices upon which the real rates of return on individual classes of securities are measured.

Annual real rates of return have varied substantially over the years. For example, even if we expect the averages displayed in Table 4 to be a reasonable estimate of real returns in the future, we know there is some likelihood that future real rates will be more or less than historical averages. The risk lies in setting too high an investment earnings assumption, which leads to future losses and higher employer contributions. The risk adjustment helps protect against such an occurrence.

As an aid in setting an appropriate risk adjustment, Chart 4 presents a distribution diagram developed from Mercer's survey of economic assumptions of 28 California public retirement systems. From this survey we are able to identify implicit risk adjustments incorporated within a system's investment return assumption versus a measure of the system's risk level based upon their current asset allocation. The diagram in Chart 4 provides that relationship. The chart also includes a regression line which, given a system's risk level, can be used to identify a risk adjustment consistent with the survey data. As you can see from the chart, the System's risk adjustment so calculated would be 0.9%.

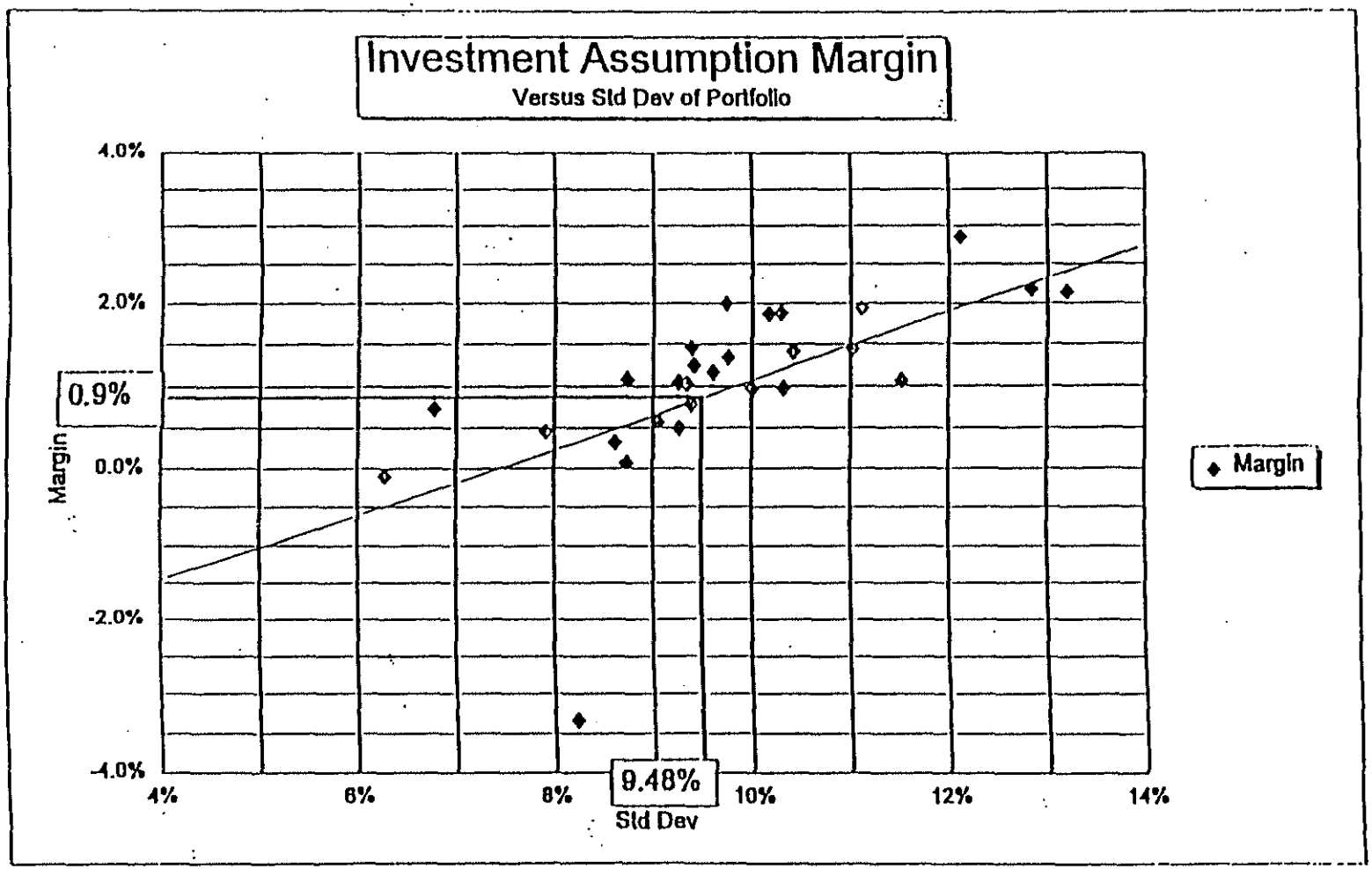
Investment Manager Performance

Section 5.6.3.h. of the proposed actuarial SOP states that:

> Few investment managers consistently achieve significant above-market returns net of expenses over long periods. And managers who consistently underperform market indices may be replaced by the (plan fiduciary). Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic).

We concur with this statement, thus do not make any provision within our investment return assumption for superior or inferior performance relative to the market.

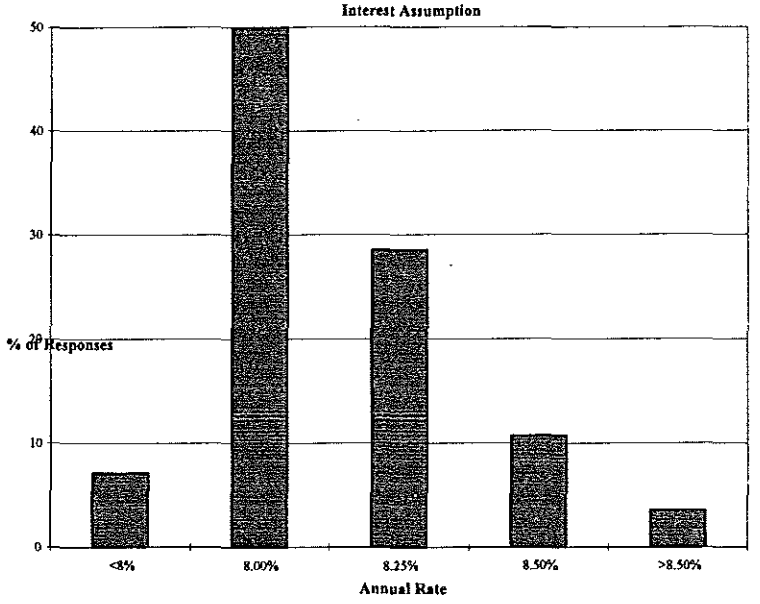
Chart 4


Investment Assumption Margin
Versus Std Dev of Portfolio
4.0%
2.0%
0.9%
0.0%
-2.0%
-4.0%
Margin
4%
6%
8%
9.48%
10%
12%
14%
Std Dev
Margin

Comparison with Similarly Situated Systems

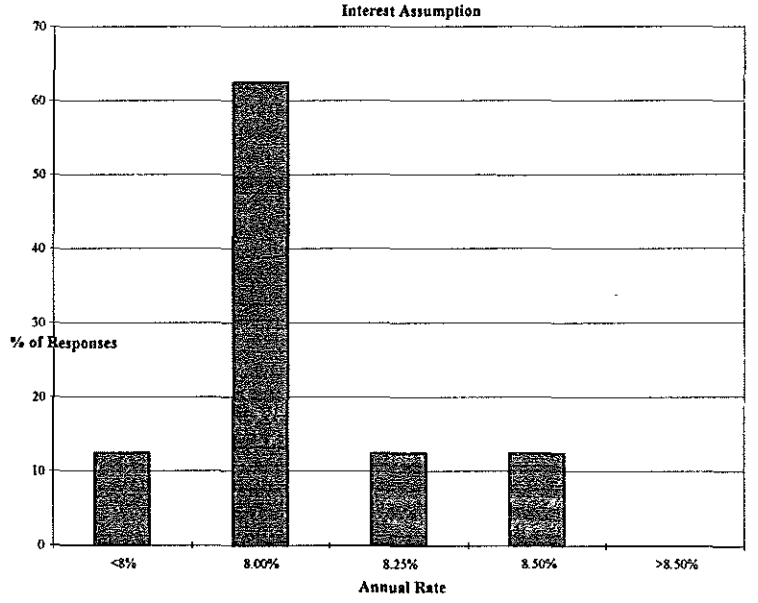
Charts 5 and 6 provide the investment return assumptions used by the 28 California public retirement systems who responded to Mercer's recent survey of the economic actuarial assumptions, and the eight Chartered City respondents, respectively.

CHART 5
28 California Public Retirement Systems
Interest Assumption



Average Rate 8.10%
25th Percentile 8.00%
50th Percentile 8.00%
75th Percentile 8.25%

CHART 6
8 Chartered City Systems
Interest Assumption



Average Rate 7.97%
25th Percentile 8.00%
50th Percentile 8.00%
75th Percentile 8.04%

The average investment return rates from the survey for both of these groups is approximately 8.0%.

A recent Society of Actuaries study of public member retirement systems reported that over 62% of police and five retirement systems in the U.S. are using an interest rate assumption of either 7.75% or 8.00%, with about 18% using a rate higher than 8.00%

Summary

Based on the above analysis, we arrive at an investment return assumption of 8.1% (using the inflation assumption of 5%). Accordingly, we recommend and the Board has adopted no change from the system's current investment return assumption of 8%..

E. Salary Increase Assumption

Recommendations

Based upon the following analysis, we recommend and the Board has adopted that the salary increase assumption will be structured by combining the inflation assumption of 5% with the following real salary increase assumptions:

	Real Salary Increase Assumption
First 5 years of service	6.0%
After 5 years of service	
Age 25-29	4.5%
Age 30-34	3.0%
Age 35-39	1.5%
Age 40-44	1.1%
Age 45-49	0.9%
Age 50-54	0.7%
Age 55-59	0.5%
Age 60 and Over	0.1%

Setting the Assumption

The proposed actuarial SOP specifies the following data be considered in setting the salary increase assumption (Section 5.7):

- Employer's current compensation practice and any anticipated changes in this practice;
- Current compensation distributions by service or age;
- Historical compensation increases of employer and other employers in the same industry or geographic area; and
- Historical national wage and productivity increases.

In addition, the proposed SOP states that the actuary should consider employer-specific compensation data, but the actuary must carefully weigh the credibility of this data when selecting the salary increase assumption.

The methodology used to construct the assumption is to utilize the inflation assumption as a base salary increase assumption. There is a sound economic reason for doing this. This is a long term assumption and represents the expected annual increases in the cost of goods and services. In order for an member to maintain the same standard of living in the future as he or she does today, wages must at least keep up with inflation. If they do not, members will suffer a continuously eroding standard of living, which in turn will increase member turnover as workers seek jobs elsewhere that offer more competitive salaries. This creates obvious instability, which may occur for a short while, but eventually will have to return to equilibrium if the City is to continue as an ongoing operating entity.

Once the inflation component of the salary increase assumption is set, the process turns to the selection of the real (inflation-free) salary increase assumption component.

Real Salary Increases

In addition to inflation, member salaries are expected to increase due to:

- General increases which exceed inflation ("Real Across-the-Board Salary Increases"); and
- Merit and longevity increases.

Real Across-the-Board Salary Increases

These are generally categorized as productivity increases because, in theory, they are generated from any activity that allows workers to produce goods and services more efficiently, thus cheaper. If these efficiencies result in increased revenues to the employer and are passed along as salary increases, Real Across-the-Board Salary Increases will result.

Because of the general nature of governmental employment and the foreseeable budgetary outlook for California governmental employers, there is currently no Real Across-the Board Salary Increase assumption for the System.

We should note that the average salary for active members has increased at an annual rate of 4.3% over the two years ending June 30, 1995. This is about 6% above the annual CPI increase of 2.7% over that period. However, considering our recommended inflation assumption is 5%, we are comfortable maintaining a 0% Real Across-the-Board Salary Increase assumption.

Merit and Longevity Salary Increases

Merit and longevity increases reflect the promotional grade increase an individual member is expected to receive over his or her career. This assumption is based on observed experience of real salary increases by category of member by age and/or service group. This assumption is reviewed at the time of the triennial experience investigation.

Following are the nominal annual salary increases received by members over the two years ending June 30, 1995.

Members with less than 5 years of service: 10.85%
Members with 5 or more years of service:

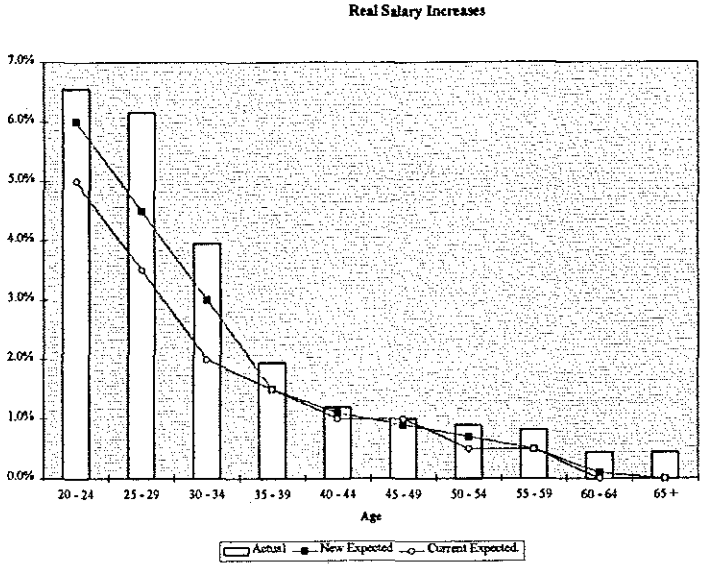
Age Bracket	Annual Increase
25-29	10.45%
30-34	8.25%
35-39	6.24%
40-44	5.49%
45-49	5.30%
50-54	5.20%
55-59	5.11%
60-64	4.74%

The average annual salary increase for active members over this two year period was 4.30%. Netting this from the above nominal increases yields the following real wage increases:

Members with less than 5 years of service: 6.55%
Members with 5 or more years of service:

Age Bracket	Annual Increase
25-29	6.15%
30-34	3.95%
35-39	1.94%
40-44	1.19%
45-49	1.00%
50-54	0.90%
55-59	0.81%
60-64	0.44%

In light of this experience, the merit and longevity assumption was modified as detailed at the beginning of this section. The following graph summarizes the current, actual and recommended merit and longevity assumptions.



Using the above assumptions results in about a 2% "spread" between the investment return and salary scale assumption. A recent Society of Actuaries study on public member retirement systems found that this spread was typical of police and fire retirement systems in the U.S.

F. Medical and Dental Premium Increases

Coverage

After retirement, members receive both medical and dental coverage through the following plans:

Medical Plan Choices
- Kaiser
- Lifeguard
- City of San Jose Plan

Dental Plan
- Delta Dental
- Dental Benefit Providers

Payment for this coverage is made from the Police and Fire Retirement Fund. The responsibility for funding the medical benefit is equally shared by the City and the members. For dental, the City contributes 75% of the cost and the member contributes 25%.

Premium Increase Assumptions

Contribution rates are calculated to provide prefunding for the next 10 years expected premium requirements. This requires a projection of the expected premium increases over the next 10 years.

Setting premium increase assumptions is difficult due to the complexities of the U.S. health care economy and the rapid change being experienced in the health care industry. However, guidelines for the establishment of future health care cost trends have evolved primarily from the application of Financial Accounting Standard No. 106. Although this standard does not apply to public entities some of its principles are directly applicable to prefunding arrangements like the Police and Fire's.

We recommend and the Board has adopted the following assumptions, which were developed in consultation with Mercer's retiree health care actuarial practice:

Fiscal Year	Medical	Dental
1996-1997	8.5%	8.0%
1997-1998	8.0%	7.5%
1998-1999	7.5%	7.0%
1999-2000	7.0%	6.5%
2000-2001	6.5%	6.0%
2001-2002	6.0%	5.5%
2002-2003	6.0%	5.5%
2003-2004	6.0%	5.5%
2004-2005	6.0%	5.5%
2005-2006	6.0%	5.5%

NONECONOMIC ACTUARIAL ASSUMPTIONS

General

Noneconomic assumptions are based on observed experience by category of employment by age and/or service group.

A biennial experience study was carried out as of July 1, 1995 and the following assumption changes were adopted by the Board:

- Introduction of service based withdrawal assumptions along with a slightly increase in withdrawal rates;
- Adjustment to service retirement rates; change in the application of service retirement rates (now applied only to members eligible for service retirement) along with an increase in those rates;
- Introduction of vested termination rates;
- Decrease in duty disability rates;
- Increase in ordinary disability rates
- Increased life expectancies after disability retirement.

The experience study was provided to the Board in a separate report, dated September 26, 1995.

Components

1. Nonvested withdrawal
2. Service retirement
3. Disability retirement (service and nonservice connected)
4. Pre-retirement death benefits (before service retirement eligibility; service and nonservice connected)
5. Deferred retirement
6. Post-retirement mortality

Components 1 through 5 represent the probabilities of separation from active service due to various causes. Component 6 represents the length of time members will live after retirement.

Separation from Active Service

The probabilities for each noneconomic assumption component are listed in Appendix B. Each of the probabilities depends on the others. For example, if there is more turnover, there will be fewer retirements.

Post-Retirement Mortality

The life expectancies based are on our July 1, 1995 experience study of post-retirement mortality are shown in Appendix B.

ACTUARIAL VALUATION METHODS

ACTUARIAL FUNDING METHOD

Responsibility of the Actuary

A retirement system is a long term proposition. It contains benefit promises that extend many decades into the future. The fiduciaries responsible for funding the System cannot wait until these promises become due before seeking out the money needed to pay for them. The actuary's primary responsibility is to assist the Board to structure a financial plan to advance fund the benefit promises of the System and to monitor its performance. This financial plan is more commonly referred to as an actuarial funding method.

City Contributions

City contributions consist of two components:

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

2. *Contribution to the Unfunded Actuarial Accrued Liability (UAAL)* - That annual contribution rate which, if paid annually over the UAAL amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earnings rate. The contribution is calculated to remain as a level percentage of future active member payroll (including payroll of new members as they enter the System) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments are scheduled to increase at the annual inflation rate of along with expected payroll. The UAAL is being funded over the 40-year period beginning in 1977, with 22 years remaining from the July 1, 1995 valuation date.

A more complete definition of the Unfunded Actuarial Accrued Liability and other actuarial terms is provided in the Glossary of Actuarial Terms which can be found in Appendix E.

The actuarial funding method, which has been adopted by the Board, is called the Entry Age normal Funding Method.

Employee Contributions

The members' contribution rates are recalculated on an actuarial basis at each actuarial study. The members presently contribute at the rate of 9.36% of pay. This rate includes costs resulting from studies performed by the plan's prior actuary in 1993.

ACTUARIAL VALUE OF ASSETS

Actuarial Standards

In 1993 the Actuarial Standards Board issued Standard of Practice (SOP) No. 4 entitled Measuring Pension Obligations. Section 5.2.6 of SOP No. 4 states, in part, that the Actuarial Value of Assets should generally reflect some function of market value; however, it may be appropriate to use methods which smooth out the effects of short-term volatility in market value.

In Mercer's opinion, the use of smoothing methods are especially important for City with limited budgetary flexibility, such as governmental entities.

Determination of Actuarial Value of Assets

The Board has adopted a method which includes the smoothing of both realized and unrealized gains and losses over four years. In other words, only a portion of total capital gains and losses will be recognized during the first four years from when they occur. Under this method, actuarial asset values will tend to be more stable than market value, and yet will not be affected by investment decisions whether a security is held or sold.

The Actuarial Value of Assets as of June 30, 1995 was determined as follows:

Calculation of Actuarial Value of Assets

1. Gains (Losses)

Final Year	Total Gains (Losses) Unrealized	Realized	Total x 20%	Number of Years Remaining in Deferred Period as of 6/30/95	Amount of Gain (Loss) Deferred as of 6/30/95
Through 6/91	($3,278,000)	$44,195,000	$8,183,000	0	$0
7/91- 6/92	23,464,000	$14,695,000	$7,632,000	1	7,632,000
7/92 - 6/93	7,671,000	$46,679,000	$10,870,000	2	21,740,000
7/93 - 6/94	($64,910,000)	$29,362,000	($7,110,000)	3	(21,330,000)
7/94 - 6/95	$85,332,000	$10,404,000	$19,147,000	4	76,588,000

2.	Total Gain/Loss Deferred as of June 30, 1995	$84,630,000
3.	Market Value of Investments as of June 30, 1995	$941,786,000
4.	Actuarial Value of Investments (3.-2.)	$857,156,000
5.	Net Book Value of Assets	$866,826,000
6.	Investments:	
	a. Cost Value	$859,159,000
	b. Actuarial Value (4)	$857,156,000
7.	Net Actuarial Value of Assets (5. - 6.a. + 6.b.)	$864,823,000
8.	Retiree Health Insurance Reserves at Actuarial Value:	
	a. Medical	$9,282,000
	b. Dental	$1,127,000
9.	Actuarial Value of Assets Used for Pension Contribution Rates (7. - 8a. - 8b.)	$854,414,000

ACTUARIAL VALUATION RESULTS

CITY AND EMPLOYEE CONTRIBUTION RATES

The following Table 6 provides a comparison of the City and Employee contribution rates and estimated annual contribution amounts under the recommended actuarial assumptions. The estimated annual contribution amounts are based upon a projected annual payroll as of July 1, 1995.

Table 6
Contribution Rates and Estimated Annual Contributions

Valuation Basis	City Contributions		Employee Contributions	
(Inflation/Investment Return)	Rate	Annual Amount*	Rate	Annual Amount*
Current Rates (5%/8%)	22.24%	$24,285,000	9.36%	$10,221,000
New Rates (5%/8%)	21.61%	$23,597,000	9.40%	$10,265,000

The component parts of the above city and employee contribution rates broken down among the various member categories can be found in Table 7 and Table 8.

Details supporting the medical and dental rate calculations can be found on Table 9 and 10.

* Based on 7/1/95 annual payroll of $109,196,000.

Explanation of Contribution Rate Changes

City Contribution Rates

The components of the change in city contribution rates are approximately as follows:

Current Rate	22.24%
Assumption Changes	
• Salary Scale Change	.42%
• Pre-retirement Assumptions	(.64%)
• Post-retirement Assumptions	.63%
Subtotal	22.65%
Actuarial Experience	
• Investment (gains)/losses	(.15%)
• Salary (gains)/losses	(.46%)
• Change in medical trends	(.48%)
• Other miscellaneous changes	.05%
Revised Rate:	21.61%

Employee Contribution Rates

Current Rate	9.36%
Assumption Changes	
• Salary Scale Change	.15%
• Pre-retirement Assumptions	(.12%)
• Post-retirement Assumptions	.11%
Subtotal	9.50%
Actuarial Experience	
• Change in medical trends	(.48%)
• Interest adjustment	.30%
• Other miscellaneous changes	.08%
Revised Rate:	9.40%

Table 7

Employee Contribution Rate Detail
8% interest and 5% inflation assumptions

TOTAL EMPLOYEE CONTRIBUTION RATES

	Current		New	
	% of Payroll	Annual Amount*	% of Payroll	Annual Amount*
Recommended Rates @ 8% interest and 5% inflation				
a. Basic				
Normal Cost	5.43%	$5,929,000	5.86%	$6,399,000
UAL	0.00%	0	0.00%	0
b. COL				
Normal Cost	2.06%	2,249,000	2.15%	2,348,000
UAL	0.00%	0	0.00%	0
c. Medical Insurance	1.72%	1,878,000	1.24%	1,354,000
d. Dental Insurance	0.15%	164,000	0.15%	164,000
e. Total	9.36%	$10,220,000	9.40%	$10,255,000

*Based on July 1, 1995 total payroll of $109,196,000.

Table 8

City Contribution Rate Detail
8% interest and 5% inflation assumptions

For comparative purposes, below we show the current employer contributions rates and those recalculated as of June 30, 1995

TOTAL CITY CONTRIBUTION RATES

	Current		New	
	% of Payroll	Annual Amount*	% of Payroll	Annual Amount
Recommended Rates @ 8% interest and 5% inflation				
a. Basic				
Normal Cost	14.49%	$15,823,000	15.63%	$17,067,000
UAL	(2.80%)	(3,057,000)	(2.72%)	(2,970,000)
b. COL				
Normal Cost	5.49%	5,995,000	5.72%	6,246,000
UAL	2.89%	3,156,000	1.29%	1,409,000
c. Medical Insurance	1.72%	1,878,000	1.24%	1,354,000
d. Dental Insurance	0.45%	491,000	0.45%	491,000
e. Total	22.24%	$24,286,000	21.61%	$23,597,000

*Based on July 1, 1995 total payroll of $109,196,000

Table 9

Retiree Health Insurance 10 Year Cost Projection
Medical Benefits

Year	(1) Annual Cost Per Retiree	(2) Number of Insured Retiree	(3) Annual Cost (1) x (2)	(4) Total Covered Payroll	(5) Cost as a Percentage of Payroll Actual Percentage (3) / (4)	(6) Cost as a Percentage of Payroll Level Percentage [(7) - (8)]/(9)
7/1/95	$3,272	770	$2,519,000	$109,196,000	2.31%	2.48%
7/1/96	$3,550	824	$2,925,000	$114,656,000	2.55%	2.48%
7/1/97	$3,834	882	$3,380,000	$120,389,000	2.81%	2.48%
7/1/98	$4,122	943	$3,888,000	$126,408,000	3.08%	2.48%
7/1/99	$4,411	1,009	$4,452,000	$132,728,000	3.35%	2.48%
7/1/00	$4,698	1,080	$5,074,000	$139,364,000	3.64%	2.48%
7/1/01	$4,980	1,156	$5,755,000	$146,332,000	3.93%	2.48%
7/1/02	$5,279	1,236	$6,527,000	$153,649,000	4.25%	2.48%
7/1/03	$5,596	1,323	$7,404,000	$161,331,000	4.59%	2.48%
7/1/04	$5,932	1,416	$8,397,000	$169,398,000	4.96%	2.48%

(7) Present Value of Future Benefits:	32,306,000
(8) Estimated Reserve of Assets Available for Medical Premiums:	9,282,000
(9) Present Value for Future Salaries:	928,665,000

Actuarial assumptions

Investment Yield:	8.00%
Growth in Covered Payroll	5.00%
Growth in Retiree Payroll	7.00%
Funding:	10 years

Table 10

Retiree Health Insurance 10 Year Cost Projection
Dental Benefits

Year	(1) Annual Cost Per Retiree	(2) Number of Insured Retiree	(3) Annual Cost (1) x (2)	(4) Total Covered Payroll	(5) Cost as a Percentage of Payroll Actual Percentage (3) / (4)	(6) Cost as a Percentage of Payroll Level Percentage [(7) - (8)]/(9)
7/1/95	$695	766	$532,000	$109,196,000	0.49%	0.60%
7/1/96	$751	820	$616,000	$114,656,000	0.54%	0.60%
7/1/97	$807	877	$708,000	$120,389,000	0.59%	0.60%
7/1/98	$863	938	$810,000	$126,408,000	0.64%	0.60%
7/1/99	$919	1,004	$923,000	$132,728,000	0.70%	0.60%
7/1/00	$974	1,074	$1,046,000	$139,364,000	0.75%	0.60%
7/1/01	$1,028	1,150	$1,182,000	$146,332,000	0.81%	0.60%
7/1/02	$1,085	1,230	$1,335,000	$153,649,000	0.87%	0.60%
7/1/03	$1,145	1,316	$1,507,000	$161,331,000	0.93%	0.60%
7/1/04	$1,208	1,408	$1,701,000	$169,398,000	1.00%	0.60%

(7) Present Value of Future Benefits:	6,671,000
(8) Estimated Reserve of Assets Available for Medical Premiums:	1,127,000
(9) Present Value for Future Salaries:	928,665,000

Actuarial assumptions

Investment Yield:	8.00%
Growth in Covered Payroll	5.00%
Growth in Retiree Payroll	7.00%
Funding:	10 years

FUNDING STATUS

EVALUATION OF FUNDING STATUS

Background

The evaluation of the System's funding status is simply the comparison of its actual value of assets to a target value of assets. There are two funding status measures calculated for the System:

Funding Status Measure:	Target Assets	Actual Assets	Purpose
GASB No. 5	Accrued benefits with projected salary	Accounting value	Ongoing comparative funding measure
Funding Method Progress	Actuarial Accrued Liability	Actuarial Value of Assets	Progress toward funding UAAL

This section of the report provides the System's funding status under each of these measures, followed by an exhibit which summarizes the System's funding history.

GASB No. 5 - "Ongoing Plan" Assumption With Future Salary Increases

Financial reporting requirements promulgated by the Governmental Accounting Standards Board (GASB) under Statement No. 5 are in effect for plan fiscal years starting after December 15, 1986. The GASB No. 5 liabilities assume an ongoing plan, that is, they include future withdrawals, deaths and disability retirements. In addition, *future projected salary increases* are included in these figures. The Pension Benefit Obligation includes all liabilities of the System for benefits granted to members and beneficiaries already on the pension roll, including future cost of living increases. All basic and cost of living liabilities of active and vested inactive members are included for every year of service already earned at the valuation date, whether vested or not vested.

The GASB Statement No. 5 liabilities based on the 8% interest rate and graded salary scale assumptions calculated as of June 30, 1993 and 1995 based on their respective interest rate and salary scale assumptions are as follows:

	June 30, 1993 Investment Return 8% and Graded Salary Scale	June 30, 1995 Investment Return 8% and Graded Salary Scale
(1) Pension Benefit Obligation		
a. Current Retirees and Beneficiaries	$256,266,000	$345,293,000
b. Terminated Vested Members	4,060,000	6,034,000
c. Active Members' Accumulated Contributions	85,915,000	100,010,000
d. Active Members' Employer Financed Portion:		
Vested	322,832,000	318,789,000
Non-Vested	43,809,000	72,862,000
e. Other	6,637,000	10,409,000
f. Total Pension Benefit Obligation	$719,519,000	$853,397,000
(2) Net Assets at Book Value*	730,149,000	866,826,000
(3) Funding Ratio at Book Value	101.5%	101.6%

* Excludes accounts payable.

This ratio is expected to reach 100% on or before the end of the amortization period over which the UAAL is being funded.

Funding Method Progress

The GASB has issued two proposed statements; Accounting for Pensions by State and Local Government Employers; and Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans. Both of these proposals, scheduled to become effective for 1997 and 1996 fiscal years, respectively, require funding status to be measured based upon the actuarial funding method adopted by the Board of Retirement, i.e., the Entry Age Normal Funding Method. Thus, the target value of assets is equal to the Actuarial Accrued Liability (AAL) and the actual value of assets is the Actuarial Value of Assets developed earlier in this report. These new GASB standards will supersede GASB No. 5 in its entirety.

		June 30, 1993 Investment Return 8% and Graded Salary Scale	June 30, 1995 Investment Return 8% and Graded Salary Scale
1.	Actuarial Accrued Liability (AAL)		
	a. Current Retirees and Beneficiaries	$256,266,000	$345,293,000
	b. Terminated Vested Members	4,060,000	6,034,000
	c. Active Members' Accumulated Contributions	85,915,000	100,010,000
	d. Active Members City Financed Portion	369,882,000	377,402,000
	e. Other	6,637,000	10,409,000
	f. Total	$722,760,000	$839,148,000
2.	Net Assets at Actuarial Value*	$721,229,000	$864,823,000
3.	Funding Ratio at Actuarial Value	99.8%	103.1%

* Excludes accounts payable

This ratio is expected to reach 100% on or before the end of the amortization period over which the UAAL is being funded.

ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET

The purpose of the Actuarial Balance Sheet is to compare assets with liabilities in order to define the portion of the liabilities which need to be funded by the City and Employee in the future.

System liabilities equal the present value of all future benefits expected to be paid to current and future pensioners and beneficiaries of the System.

System assets are equal to the sum of:

- the assets currently available to pay benefits,
- the present value of future contributions expected to be made by current active members, and
- the present value of future contributions expected to be made by the city.

The last item, the present value of future city contributions, is made up of two parts:

1. The Present Value of Future City Normal Costs: Using the Entry Age Normal Cost Method, the City budgets a certain percentage of payroll which will be sufficient to fund benefits for members from their entry into the Plan. The Normal Cost is the level percentage of salary each year that is necessary to fund Members' benefits under the current benefit provisions. Normal Cost is funded from a Member's date of employment to the expected retirement date. An adjustment is made for the deductions which will be made from the future salaries of Plan members. For this valuation, the Normal Cost percentage is 21.35%.

2. The Unfunded Actuarial Accrued Liability: The portion of the present value of future city contributions which will not be funded by the future Entry Age Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were less than the current Normal Cost. This usually results from benefits and assumption changes and the net effect of prior gains and losses. If the city had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all benefits and there would be no UAAL. The UAAL percentage is (1.43%).

ACTUARIAL BALANCE SHEET
As of June 30, 1995

ASSETS

	BASIC	COL	TOTAL
1. Total Actuarial Value of Assets	$643,544,000	$220,866,000	$864,410,000
2. Present Value of Future Contributions by Member			
a) Retirement	69,739,000	25,480,000	95,219,000
b) Medical and Dental	17,820,000	0	17,820,000
3. Present Value of Future Contributions by the City:			
a) Normal Cost	185,970,000	67,949,000	253,919,000
b) Unfunded Actuarial Accrued Liability	(48,825,000)	23,150,000	(25,675,000)
c) Medical and Dental	21,156,000	0	21,156,000
4. Total Actuarial Assets	$889,404,000	$337,445,000	$1,226,849,000

LIABILITIES

	BASIC	COL	TOTAL
5. Present Value of Retirement Allowances Payable to Present Retired Members	$228,087,000	$117,206,000	$345,293,000
6. Present Value of Retirement Allowances to be Granted for:			
a) Service Retirement	263,049,000	94,797,000	357,846,000
b) Disability Retirement	339,564,000	121,497,000	461,061,000
7. Present Value of Death Benefits to be Granted	8,922,000	3,809,000	12,731,000
8. Present Value of Members' Contributions to be Returned Upon Withdrawal Before Retirement	809,000	136,000	945,000
9. Present Value of Medical and Dental Benefits**	38,977,000	0	38,977,000
10. Accounts Payable	9,996,000	0	9,996,000
11. Total Actuarial Liabilities	$889,404,000	$337,445,000	$1,226,849,000

* Based on 8% interest and 5% inflation plus graded merit and longevity.
** Includes $10,409,000 of estimated medical and dental reserves.

SYSTEM ASSETS

SYSTEM ASSETS

The following asset information was provided to us by the Plan staff. We have not audited or verified these figures. These assets are at book value, market value, and actuarial value.

	June 30, 1994	June 30, 1993	Percent Change
Net Book Value	$805,966,000	$730,149,000	10.4%
Net Market Value	803,261,000	$792,354,000	1.4%

The approximate rates of return on plan assets are shown below, based on the following analysis.

	Book Value	Market Value	Actuarial Value
Value of Assets at 6/30/93	**$730,149,000**	**$792,354,000**	**$721,229,000**
Contributions: City Members	 22,826,065 9,354,510	 22,826,065 9,354,510	 22,826,065 9,354,510
Benefits Paid to Participants	23,997,769	23,997,769	23,997,769
Expenses Paid	4,193,809	4,193,809	4,193,809
Investment Earnings	71,828,003	6,918,003	57,533,003
Value of Assets at 6/30/94	**$805,966,000**	**$803,261,000**	**$782,751,000**
NET RATE OF RETURN (Net of Expenses)	**9.24%**	**0.34%**	**7.38%**

	June 30, 1995	June 30, 1994	Percent Change
Net Book Value	$866,826,000	$805,966,000	7.6%
Net Market Value	$949,453,000	$803,261,000	18.2%

The approximate rates of return on plan assets are shown below, based on the following analysis.

	Book Value	Market Value	Actuarial Value
Value of Assets at 6/30/94	**$805,966,000**	**$803,261,000**	**$782,751,000**
Contributions: City Members	 25,297,512 10,689,508	 25,297,512 10,689,508	 25,297,512 10,689,508
Benefits Paid to Participants	26,625,580	26,625,580	26,625,580
Expenses Paid	4,853,425	4,853,425	4,853,425
Investment Earnings	56,351,985	141,683,985	77,562,048
Value of Assets at 6/30/95	**$866,826,000**	**$949,453,000**	**$864,821,000**
NET RATE OF RETURN (Net of Expenses)	**6.37%**	**16.94%**	**9.23%**

The 8.30% average rate of return on the actuarial value of assets over the two years ending June 30, 1995 is more than the 8% rate assumed for the prior year. This resulted in an actuarial gain which reduced the budgeted contribution for the System.

SYSTEM ACCOUNTING ASSETS, RESERVES AND OTHER LIABILITIES

As of June 30, 1995

ASSETS:

	Retirement Fund	Cost-of-Living Fund	Total
Investments of retirement plans:			
In securities	$606,873,000	$13,559,000	$20,432,000
In real estate	30,981,000	7,745,000	38,726,000
Receivable from City of San Jose:			
Employee contributions	307,000	87,000	394,000
Employer contributions	581,000	351,000	932,000
Accrued investment income	5,736,000	2,174,000	7,910,000
Due from brokers	7,900,000	323,000	8,223,000
Other	169,000	36,000	205,000
	$652,547,000	$224,275,000	$876,822,000

LIABILITIES:

Refunds payable to terminated employees	$33,000	$9,000	$42,000
Due to brokers	8,567,000	0	8,567,000
Advances, deposit, and reimbursable credits	102,000	25,000	127,000
Other liabilities	1,092,000	168,000	1,260,000
	9,794,000	202,000	9,996,000
Net Assets available for benefits	$642,753,000	$224,073,000	$866,826,000

FUND BALANCE:

Employee contributions	$75,706,000	$24,622,000	$100,328,000
Undistributed earnings	567,047,000	199,451,000	766,498,000
	$642,753,000	$224,073,000	$866,826,000

APPENDICES

APPENDIX A

MAJOR PROVISIONS OF THE RETIREMENT PLAN

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through July 1, 1995.

Final Average Salary (FAS)

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

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus 2% interest per annum will be refunded.

Service Retirement Benefit

Members with 20 years of service who have attained age 55 are eligible to retire. Members age 70 (no service requirement) and members with 30 years of service, regardless of age, are also eligible to retire.

The normal service retirement benefit is 2.5% of FAS per year of service, not to exceed 75% of FAS.

A special study was performed by the plan's prior actuary in 1992 (and subsequently adopted by the Board) which allows members with 25 years of service to retire at age 50 with unreduced benefits. Otherwise, members age 50 with 20 years of service receive their accrued service retirement benefit, reduced for interest below age 55.

Ten years of service are required for vesting purposes.

Disability Benefit

Nonservice-connected

Members with 2 years of service, regardless of age, are eligible for nonservice-connected disability. The benefit is 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. The maximum benefit is 50% of FAS.

Members with more than 20 years of service receive 2.5% of FAS per year of service, not to exceed 75% of FAS.

Service-connected

Members may retire regardless of length of service, and the benefit is the greater of 2.5% of FAS per year of service (maximum 75% of FAS) or 50% of FAS.

Death Benefit (before and after retirement)

Nonservice-connected

Eligibility is based on 2 years of service, regardless of age. The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year. The maximum benefit is 37.5% of FAS.

If a member has eligible dependent children (under age 18, or age 22 if a full time student), the benefits are as follows:

1 child	25% of FAS
2 children	37.5% of FAS
3 or more children	50% of FAS

The total benefits payable to a family shall not exceed 75% of FAS.

If a member does not have a spouse nor dependent children at death, a lump sum equal to the greater of the member's contributions or $1,000 is paid to the estate.

These benefits are payable for active member deaths and deaths after nonservice-connected disability retirement.

Service-connected

The spouse receives 37.5% of FAS. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

These benefits are payable for active member deaths and deaths after service-connected disability retirement and service retirement.

Death Benefit - Inactive Members (after retirement)

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS. Eligible dependent children receive the following:

1 child	1.25% of FAS per year of service
2 children	1.875% of FAS per year of service
3 or more children	2.5% of FAS per year of service

The total benefits payable to a family shall not exceed 75% of FAS.

Cost of Living

The maximum increase in retirement allowance is 3% a year. The increases are based on the annual change in the Consumer Price Index.

Post-Retirement Health and Dental

Retirees and survivors with 15 years of service, or receiving a benefit of at least 37.5% of FAS, receive the same medical coverage that the City pays for an active member. Members must have retired from active service to be eligible.

Members' Retirement Contributions

The members' contribution rates are recalculated on an actuarial basis at each actuarial study. The members presently contribute at the rate of 9.36% of pay. This rate includes costs resulting from study performed by the plan's prior actuary in 1993.

City's Retirement Contributions

The City presently contributes at a rate of 22.24% of pay for all members. This rate includes costs resulting from study performed by the plan's prior actuary in 1993. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

APPENDIX B

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

Assumptions

Valuation Interest Rate	8%
Post-Retirement Mortality	
(a) Service	
Males	1983 Male Group Annuity Mortality Table
Females	1983 Female Group Annuity Mortality Table
(b) Disability	1981 Disability Mortality Table for Safety Members
Pre-Retirement Mortality	Based upon the 6/30/95 Experience Analysis
Withdrawal Rates	Based upon the 6/30/95 Experience Analysis
Disability Rates	Based upon the 6/30/95 Experience Analysis
Service Retirement Rates	Based upon the 6/30/95 Experience Analysis
Salary Scales	11.0% for the first five years of service. Graded increases thereafter ranging from 9.5% at age 25 to 5.1% at ages 60 and over. Of the total salary increases, 5.0% is for inflation.
Assets	Five-year smoothed recognition of realized and unrealized capital gains and losses.

Funding Method

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized over a period of 40 years beginning in 1977, with 22 years remaining on the July 1, 1995 valuation date.

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT
San Jose Police and Fire

Age	0<Service<1 Withdrawal	1<=Service<10 Withdrawal	10<=Service Withdrawal	Ordinary Death	Ordinary Disability	Service	Duty Death	Duty Disability	Terminated Vested
20	.150000	.008500	.001500	.000400	.000000	.000000	.000100	.000000	.007000
21	.150000	.008500	.001500	.000400	.000000	.000000	.000100	.000050	.007000
22	.150000	.008500	.001500	.000400	.000000	.000000	.000100	.000100	.007000
23	.150000	.008500	.001500	.000500	.000000	.000000	.000100	.000150	.007000
24	.150000	.008500	.001500	.000500	.000000	.000000	.000100	.000200	.007000
25	.150000	.008500	.001500	.000500	.000000	.000000	.000100	.000250	.007000
26	.150000	.008500	.001500	.000500	.000050	.000000	.000200	.000300	.007000
27	.150000	.008500	.001500	.000500	.000050	.000000	.000200	.000350	.007000
28	.150000	.008500	.001500	.000500	.000050	.000000	.000200	.000400	.007000
29	.150000	.008500	.001500	.000500	.000050	.000000	.000200	.000450	.007000
30	.150000	.008500	.001500	.000500	.000050	.000000	.000300	.001480	.007000
31	.150000	.008500	.001500	.000500	.000100	.000000	.000300	.001925	.007000
32	.150000	.008500	.001500	.000500	.000100	.000000	.000300	.002369	.007000
33	.150000	.008500	.001500	.000600	.000100	.000000	.000400	.002813	.007000
34	.150000	.008500	.001500	.000600	.000150	.000000	.000400	.003257	.007000
35	.150000	.008500	.001500	.000600	.000150	.000000	.000400	.001873	.007000
36	.150000	.008500	.001500	.000600	.000150	.000000	.000500	.002161	.007000
37	.150000	.008500	.001500	.000600	.000200	.000000	.000500	.002521	.007000
38	.150000	.008500	.001500	.000700	.000200	.000000	.000600	.002881	.007000
39	.150000	.008500	.001500	.000700	.000250	.000000	.000600	.003241	.007000
40	.150000	.008500	.001500	.000700	.001386	.000000	.000700	.002870	.007000
41	.150000	.008500	.001500	.000800	.001664	.000000	.000700	.004018	.007000
42	.150000	.008500	.001500	.000800	.001941	.000000	.000800	.005453	.007000
43	.150000	.008500	.001500	.000900	.001941	.000000	.000900	.007175	.007000
44	.150000	.008500	.001500	.001000	.002218	.000000	.000900	.009183	.007000
45	.150000	.008500	.001500	.001000	.001025	.000000	.001000	.013967	.007000
46	.150000	.008500	.001500	.001100	.001153	.000000	.001100	.017458	.007000
47	.150000	.008500	.001500	.001200	.001153	.000000	.001100	.021648	.007000
48	.150000	.008500	.001500	.001200	.001281	.000000	.001200	.027235	.007000
49	.150000	.008500	.001500	.001300	.001281	.000000	.001300	.034218	.007000
50	.150000	.000000	.000000	.001400	.000600	.100000	.001400	.056863	.000000
51	.150000	.000000	.000000	.001500	.000500	.060000	.001400	.066340	.000000
52	.150000	.000000	.000000	.001600	.000350	.065000	.001500	.075817	.000000
53	.150000	.000000	.000000	.001800	.000200	.070000	.001600	.085295	.000000
54	.150000	.000000	.000000	.001900	.000050	.100000	.001700	.094772	.000000
55	.150000	.000000	.000000	.002100	.000000	.150000	.001800	.130737	.000000
56	.150000	.000000	.000000	.002300	.000000	.150000	.001900	.161498	.000000
57	.150000	.000000	.000000	.002500	.000000	.150000	.002000	.192260	.000000
58	.150000	.000000	.000000	.002800	.000000	.150000	.002100	.223022	.000000
59	.150000	.000000	.000000	.003100	.000000	.200000	.002200	.246093	.000000
60	.150000	.000000	.000000	.003500	.000000	.250000	.002300	.254788	.000000
61	.150000	.000000	.000000	.003900	.000000	.300000	.002400	.269776	.000000
62	.150000	.000000	.000000	.004400	.000000	.300000	.002500	.281016	.000000
63	.150000	.000000	.000000	.004900	.000000	.400000	.002700	.290758	.000000
64	.150000	.000000	.000000	.005600	.000000	.500000	.002800	.299751	.000000
65	.000000	.000000	.000000	.000000	.000000	1.000000	.000000	.000000	.000000

YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT
San Jose Police and Fire

Age	Member	Beneficiary	Age	Member	Beneficiary
50	29.18	34.91	80	7.64	10.20
51	28.30	33.97	81	7.21	9.63
52	27.42	33.03	82	6.81	9.09
53	26.55	32.10	83	6.43	8.57
54	25.68	31.16	84	6.07	8.06
55	24.82	30.23	85	5.73	7.58
56	23.97	29.31	86	5.41	7.11
57	23.13	28.39	87	5.10	6.66
58	22.29	27.48	88	4.82	6.23
59	21.46	26.57	89	4.54	5.81
60	20.64	25.67	90	4.28	5.40
61	19.83	24.78	91	4.04	5.02
62	19.02	23.89	92	3.80	4.66
63	18.23	23.01	93	3.58	4.31
64	17.45	22.15	94	3.37	3.98
65	16.69	21.28	95	3.16	3.67
66	15.95	20.43	96	2.98	3.37
67	15.23	19.59	97	2.80	3.10
68	14.52	18.76	98	2.62	2.84
69	13.84	17.94	99	2.45	2.59
70	13.18	17.13	100	2.28	2.36
71	12.54	16.34	101	2.11	2.14
72	11.92	15.56	102	1.95	1.93
73	11.31	14.81	103	1.78	1.74
74	10.72	14.08	104	1.61	1.55
75	10.15	13.37	105	1.43	1.37
76	9.60	12.69	106	1.26	1.19
77	9.08	12.03	107	1.09	1.03
78	8.57	11.39	108	.92	.87
79	8.10	10.78	109	.74	.71

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YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT
San Jose Police and Fire

Age	Member	Age	Member	Age	Member
20	54.84	50	26.93	80	7.61
21	53.86	51	26.07	81	7.23
22	52.89	52	25.22	82	6.87
23	51.92	53	24.39	83	6.51
24	50.95	54	23.56	84	6.16
25	49.98	55	22.75	85	5.82
26	49.02	56	21.94	86	5.48
27	48.05	57	21.16	87	5.15
28	47.09	58	20.38	88	4.81
29	46.13	59	19.62	89	4.48
30	45.18	60	18.88	90	4.16
31	44.22	61	18.15	91	3.86
32	43.27	62	17.44	92	3.57
33	42.32	63	16.75	93	3.30
34	41.38	64	16.08	94	3.04
35	40.43	65	15.43	95	2.79
36	39.49	66	14.80	96	2.56
37	38.56	67	14.18	97	2.35
38	37.63	68	13.58	98	2.15
39	36.71	69	13.00	99	1.95
40	35.79	70	12.43	100	1.77
41	34.88	71	11.87	101	1.61
42	33.98	72	11.33	102	1.45
43	33.08	73	10.81	103	1.30
44	32.18	74	10.30	104	1.17
45	31.30	75	9.80	105	1.04
46	30.41	76	9.32	106	.92
47	29.53	77	8.86	107	.81
48	28.66	78	8.42	108	.71
49	27.79	79	8.00	109	.61

88' - 92' PERS Industrial Disability

APPENDIX C

SUMMARY OF MEMBERSHIP AND BENEFIT STATISTICS

System Membership and Benefit Statistics

Active Members			
	June 30, 1995	June 30, 1993	Percent Change
A. Number	1,812	1,785	1.5%
B. Average Age	40.25	40.25	0%
C. Average Years of Service	13.50	13.50	0%
D. Annual Salary			
i. Total	$109,196,000	$98,831,000	10.5%
ii. Average	$60,263	$55,368	8.8%

Retired and Inactive Vested Members			
	June 30, 1995	June 30, 1993	Percent Change
Retired Members			
A. Service Retirement			
i. Number	159	115	38.3%
ii. Annual Allowance			
Basic Only	$5,869,000	$3,203,000	83.2%
COLA	$615,000	$481,000	27.9%
Total	$6,484,000	$3,684,000	76.0%
Average Monthly Amount	$3,398	$2,670	27.3%
B. Disability Retirement			
i. Number	514	468	9.8%
ii. Annual Allowance			
Basic Only	$12,864,000	$10,622,000	21.1%
COLA	$3,673,000	$3,127,000	17.5%
Total	$16,537,000	$13,749,000	20.3%
Average Monthly Amount	$2,681	$2,448	9.5%
C. Beneficiaries			
i. Number	151	117	29.1%
ii. Annual Allowance			
Basic Only	$1,647,000	$1,219,000	35.1%
COLA	$915,000	$738,000	24.0%
Total	$2,562,000	$1,957,000	30.9%
Average Monthly Amount	$1,414	$1,394	1.4%
Inactive Vested Members			
A. Number	29	28	3.6%

Annual Salary and Membership Distribution of Active Members as of June 30, 1995

AGE GROUP	YEARS OF SERVICE									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	TOTAL
20-24	12									12
	42,601									24,601
25-29	158	44								202
	46,007	53,954								47,738
30-34	116	162	48							326
	48,439	57,218	60,927							54,640
35-39	35	70	170	35	1					311
	49,464	58,781	62,540	64,370	59,933					60,420
40-44	10	34	107	128	46					325
	51,075	59,291	61,940	65,173	67,139					63,338
45-49	2	8	41	84	159	65				359
	42,610	58,618	62,101	64,745	66,986	66,620				65,515
50-54			2	33	60	104	14			213
			59,933	62,804	64,748	66,254	71,466			65,579
55-59				9	6	27	14	1		57
				65,154	62,507	67,294	74,261	80,321		68,392
60-64				1	1	3		2		7
				72,718	59,933	63,082		72,718		66,762
65-69										0
70-74										0
75+										0
TOTAL	333	318	368	290	273	199	28	3	0	1,812
	47,227	57,367	62,092	64,708	66,370	66,467	72,864	75,252		60,263

TOTAL SALARY	$109,196,274
AVERAGE AGE	40.27
AVERAGE YEARS OF SERVICE	13.42

Annual Benefit and Membership Distribution of Retired Members

SERVICE RETIREMENT

AGE GROUP	YEARS OF RETIREMENT									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	TOTAL
BELOW 30										0
35-39										0
40-44										0
45-49										0
50-54	39									39
	49,256									49,256
55-59	61	4								65
	42,033	43,560								42,127
60-64	10	17	1							28
	47,330	30,702	31,453							36,667
65-69		1	4	3						8
		39,734	44,981	17,869						34,158
70-74				4						4
				22,215						22,215
75-79				2	6					8
				48,157	27,922					32,980
80-84					2	2				4
					25,604	28,109				26,857
85-89					1		2			3
					25,761		19,416			21,531
90+										0
TOTAL	110	22	5	9	9	2	2	0	0	159
	45,076	33,450	42,276	26,531	27,167	28,109	19,416			40,779

TOTAL PENSION BENEFITS	6,483,936
AVERAGE AGE	59.53
AVERAGE YEARS RETIRED	5.16

Annual Benefit and Membership Distribution of Retired Members

DISABLED RETIREES

AGE GROUP	YEARS OF RETIREMENT									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	TOTAL
30-34	2	1								3
	26,983	23,094								25,687
35-39	5	1	1							7
	28,343	25,927	16,650							26,327
40-44	3	3		1						7
	26,999	25,421		15,526						24,684
45-49	12	10	2	4	1					29
	31,514	24,622	21,614	17,737	18,243					26,097
50-54	45	9	10	11	4	1				80
	40,587	29,508	22,466	18,155	16,032	14,342				32,435
55-59	58	34	19	7	6					124
	44,356	35,249	26,556	18,465	17,298					36,361
60-64	15	47	16	5	11	5				99
	47,840	39,137	28,791	20,559	19,088	15,486				34,423
65-69	1	16	33	22	3	2	1			78
	39,876	38,686	33,541	25,220	17,782	14,482	12,750			30,969
70-74	1	1	8	25	13	1				49
	58,511	25,319	30,182	28,029	25,342	16,803				28,005
75-79				8	13	3	1			25
				27,715	29,898	16,552	15,096			27,006
80-84				1	10	1		1		13
				25,509	31,844	14,500		12,837		28,560
85-89										0
										0
90+										0
										0
TOTAL	142	122	89	84	61	13	2	1	0	514
	41,338	35,404	29,192	24,060	24,361	15,515	13,923	12,837	0	32,173

TOTAL PENSION BENEFITS	16,536,702
AVERAGE AGE	60.58
AVERAGE YEARS RETIRED	10.50

Annual Benefit and Membership Distribution of Retired Members

BENEFICIARIES

AGE GROUP	YEARS OF RETIREMENT									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	TOTAL
0-19	2	1	5	1						9
	11,114	12,803	9,387	6,662						9,847
20-24	1		1	1						3
	14,392		5,959	6,662						9,004
25-29										0
										0
30-34	1	1	1							3
	28,082	25,426	13,317							22,275
35-39	2									2
	30,246									30,246
40-44		3	2							5
		34,181	12,223							25,398
45-49	6	5	1	1						13
	27,551	20,690	29,447	9,870						23,698
50-54	4	8								12
	20,553	18,894								19,447
55-59	9	1	4	2						16
	17,212	8,534	12,498	11,118						14,729
60-64	5	8		2	1					16
	16,642	21,321		7,969	13,764					17,718
65-69	6	5	2	4	4					21
	19,224	14,905	13,490	17,215	17,952					17,025
70-74	6	2	3	2	3					16
	17,274	9,986	15,003	14,265	26,282					17,250
75-79	3	2	2	1	1			1		10
	16,387	24,758	10,901	15,587	15,227			11,548		16,284
80-84	4	4	5	3	1					17
	12,905	13,129	15,131	10,236	15,039					13,267
85-89		1	1	1	1	1	1			6
		33,953	10,661	10,432	10,294	10,086	14,821			15,041
90+		1			1					2
		9,323			9,772					9,548
TOTAL	49	42	27	18	12	1	1	1		151
	18,992	19,388	12,971	11,971	17,896	10,086	14,821	11,548		16,965

TOTAL PENSION BENEFITS	2,561,777
AVERAGE AGE	60.70
AVERAGE YEARS RETIRED	8.91

Summary of Monthly Allowances
As of June 30, 1995

Service	Number	Monthly Allowance		
		Basic	Cost of Living	Total
		SERVICE RETIREMENT		
A	147	$442,583	$50,431	$493,014
B	2	6,442	171	6,613
C	3	9,972	-	9,972
E	1	4,598	-	4,598
G	1	3,702	146	3,848
I	2	9,827	322	10,149
K	2	8,269	-	8,269
P	1	3,719	147	3,866
Total	159	$489,112	$51,217	$540,329
		DISABILITY		
A	501	$1,032,149	$305,380	$1,337,529
B	2	5,113	83	5,196
C	4	10,891	161	11,052
E	1	2,052	45	2,097
F	1	2,804	-	2,804
K	3	11,042	163	11,205
S	1	3,984	133	4,117
U	1	3,981	76	4,057
Total	514	$1,072,016	$306,041	$1,378,057
		BENEFICIARIES		
	151	$137,242	$76,239	$213,481
Grand Total	824	$1,698,370	$433,497	$2,131,867

APPENDIX E

GLOSSARY OF ACTUARIAL TERMINOLOGY

Glossary of Actuarial Terminology

AAL: See Actuarial (Accrued Liability)

Accrued Benefit: The amount of an individual's benefit (whether or not vested) as of a specified date, determined in accordance with the terms of a pension plan and based on compensation (if applicable) and service to that date.

Actuarial Accrued Liability: "Target assets" which would be on hand were the System's current level of benefits to have been funded by normal costs from date of entry into the System by all current members and interest at the current investment return assumption were credited each year. It also includes the actuarial present value of all retired members and beneficiaries future benefits.

Actuarial Asset Value: The value of Assets used by the actuary in the actuarial valuation. In order to reduce the impact of assets value fluctuation and to capture the long term intrinsic value of the System's assets, actuaries sometimes use smoothing methods. These methods usually reflect the current market value of assets in some manner.

Actuarial Assumptions: Those assumptions such as interest (investment return), salary increases, termination from service and mortality needed by the actuary to complete an actuarial valuation.

Actuarial Gain (Loss): The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

(a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.)

(b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and

(c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

Actuary: A business mathematician trained in mathematics, risk analysis and finance. An actuary is assigned the task of determining the contribution required to maintain financial balance as to inflow and outflow from a retirement system.

Assets: Underlying funds available to provide for the System's benefits. It reflects the accumulation of all contributions and investment earnings.

Contribution to the Unfunded Actuarial Accrued Liability (UAAL): That annual contribution rate which, if paid annually over the UAAL amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earnings rate. The contribution is calculated to remain as a level percentage of future active member payroll (including payroll of new members as they enter the System) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments are scheduled to increase at the annual inflation rate.

GASB: The Government Accounting Standards Board...which promulgates financial reporting and disclosure requirements for governmental entities, including public retirement systems.

GASB Statement No. 5: A set of disclosures promulgated by GASB to provide users of financial statements information as to the funding status of a public retirement system. GASB No. 5 specifies the Pension Benefit Obligation as a standardized target level of assets.

Investment Return Assumption: The average rate of investment earnings which is assumed will be earned by System funds.

Normal Cost: That annual contribution which, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement benefits. Accumulation includes annual crediting of interest at the assumed investment earnings rate. The contribution rate is expressed as a percentage of the member's compensation.

Pension Benefit Obligation: A standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

Projected Unit Credit Actuarial Funding Method: An actuarial method for pre-funding future retirement benefits. Under this method the member contribution stream plus the employer contribution stream is determined as a pro-rata portion of the amount necessary to finance future benefits for current members. The pro-ration is based on the pattern by which benefits accrue to member by age and service.

UAAL: (See Unfunded Actuarial Accrued Liability).

Unfunded Actuarial Accrued Liability: Actuarial Accrued Liability minus the Actuarial Value of Assets.

City of San Jose Police and Fire Department Retirement Plan Actuarial Valuation and Special Studies As of July 1, 1995

Prepared for the November 2, 1995
Board of Administration Meeting

Presented by

William M. Mercer

3 Embarcadero Center, Suite 1250
San Francisco, CA 94111

Valuation Reports

- Experience Analysis
  - To set actuarial assumptions
- Actuarial Valuation
  - To determine current plan liabilities and costs
- Special Studies
  - To determine costs of proposed benefit improvements

Experience Analysis

- Recommended Assumptions Adopted October 5, 1995
- No Change in Inflation or Investment Return
- Higher Real Salary Increases, Lower Premium Increases
- Fewer Duty Disabilities, More Service Retirements
- Longer Post Disability Life Expectancy

Experience Analysis

- "What If" Impact of Assumption Changes on 1993 Rates

	City Rate	Employee Rate
7/1/93 Valuation	22.24%	9.36%
Higher Real Salary Increases	+ 0.42%	+0.15%
Other Pre-Retirement (mainly fewer disabilities)	- 0.64%	- 0.12%
Post Retirement (fewer disability deaths, lower premium increases)	+ 0.63%	+ 0.11%
Total Effect of New Assumptions	+ 0.41%	+ 0.14%
New "What If" Contribution Rates	22.65%	9.50%

1995 Valuation Summary

(Dollar Amounts in Millions)

	1993	1995
City Rate	22.24%	21.61%
Employee Rate	9.36%	9.40%
Actuarial Accrued Liability	$722.8	$839.1
Asset Values:		
• At Market Value	$792.4	$949.5
• At Actuarial Value	$721.2	$864.8
Unfunded Actuarial Liability	$ 1.5	($ 25.7)
Funding Ratios:		
• Contribution Basis	99.8%	103.1%

Actuarial Valuation

- Actuarial Experience (Gains and Losses) Effect on Rates

	City Rate	Employee Rate
Investment Gains	- 0.15%	N/A
Salary Gains	- 0.46%	N/A
Interest Adjustment	N/A	+ 0.30%
Lower Medical Trends	- 0.48%	- 0.48%
Miscellaneous Losses	+ 0.05%	+ 0.08%
Total Effect of Actuarial Experience	- 1.04%	- 0.10%

Actuarial Valuation

- Change in Contribution Rates

	City Rate	Employee Rate
July 1, 1993 Rates	22.24%	9.36%
Effect of New Assumptions	+ 0.41%	+ 0.14%
Effect of Actuarial Experience	- 1.04%	- 0.10%
July 1, 1995 Rates	21.61%	9.40%

Early Retirement Programs

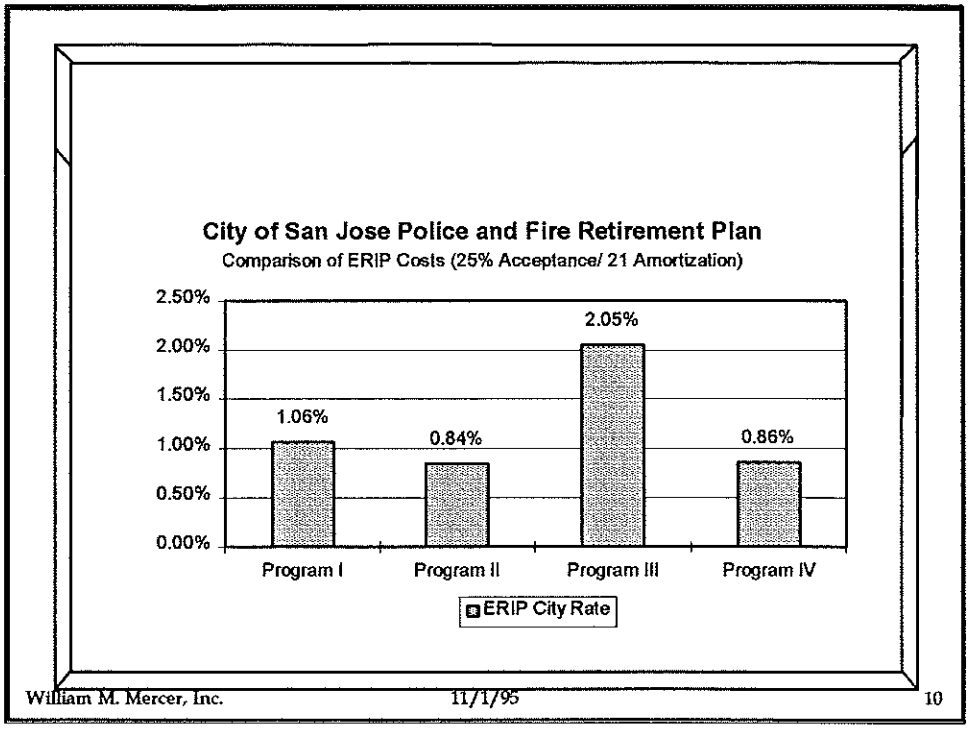
- All Programs add 2 years of service for benefits
- **Program I:** Add two years of eligibility age or service.
- **Program II:** Unreduced retirement benefits after 25 years of service, any age.
- **Program III:** Unreduced retirement benefits after 20 years of service, any age.
- **Program IV:** Unreduced benefits at age 50 with 20 years of service.

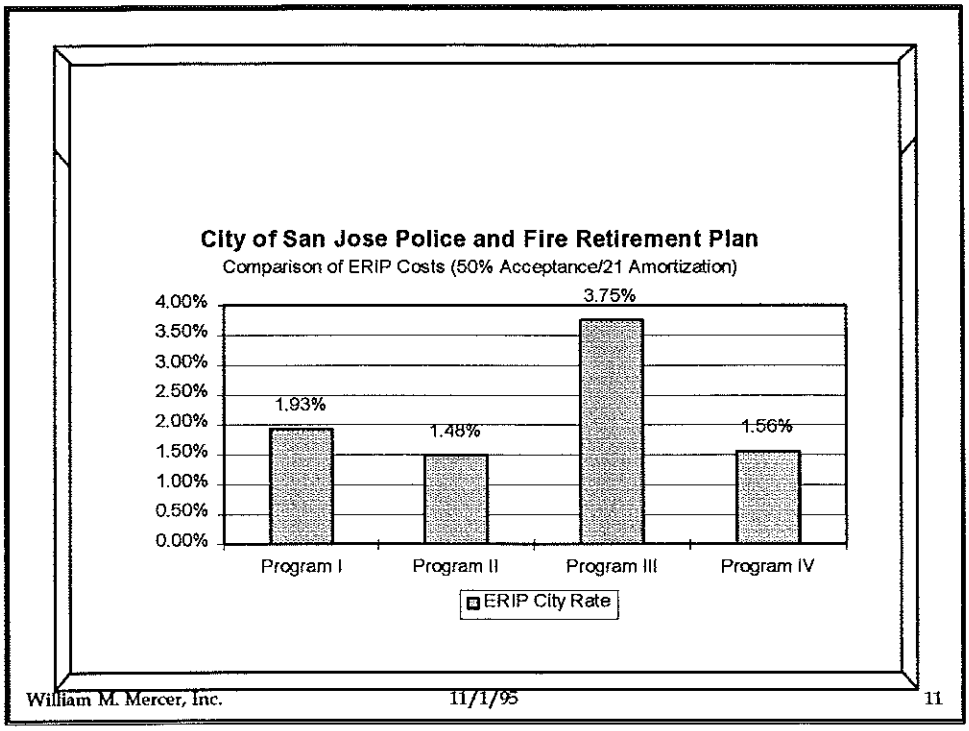
Early Retirement Programs

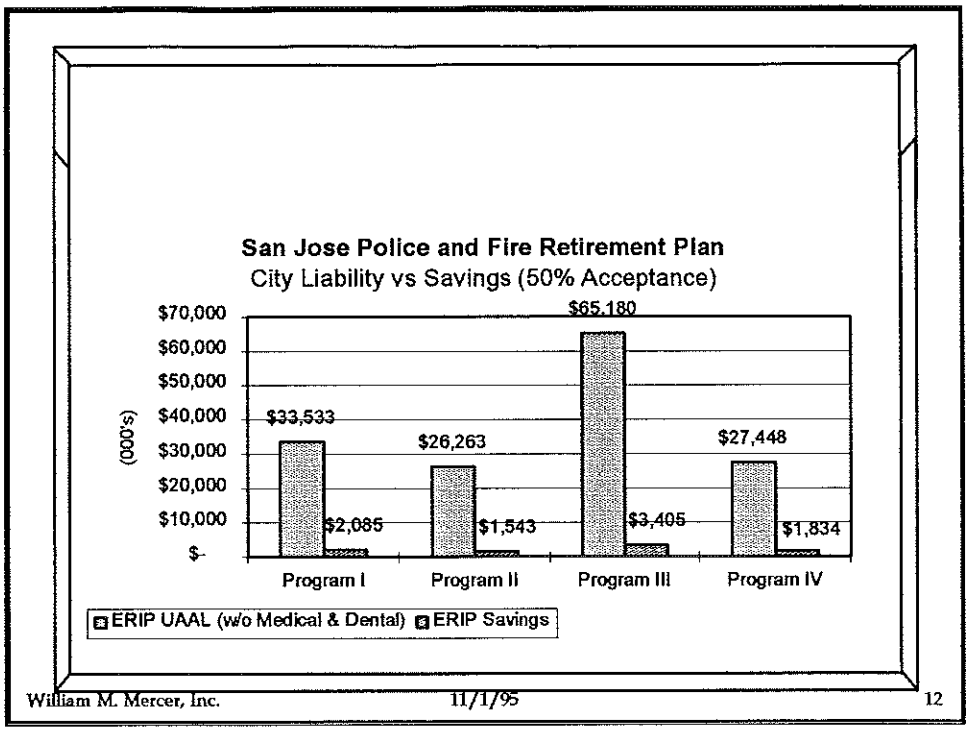
- Additional Cost Rates

	Program I (53/25 or 55/23)	Program II 25 & Out	Program III 20 & Out	Program IV (50/20)
City	1.06% to 1.93%	0.84% to 1.48%	2.05% to 3.75%	0.86% to 1.56%
Members	0.02% to 0.07%	0.01% to 0.04%	0.04% to 0.15%	0.02% to 0.05%

- 21 year amortization of additional pension cost
- 25% to 50% acceptance
- Includes medical and dental


City of San Jose Police and Fire Retirement Plan
Comparison of ERIP Costs (25% Acceptance/ 21 Amortization)
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
1.06%
0.84%
2.05%
0.86%
Program I
Program II
Program III
Program IV
ERIP City Rate


City of San Jose Police and Fire Retirement Plan
Comparison of ERIP Costs (50% Acceptance/21 Amortization)
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
1.93%
1.48%
3.75%
1.56%
Program I
Program II
Program III
Program IV
ERIP City Rate

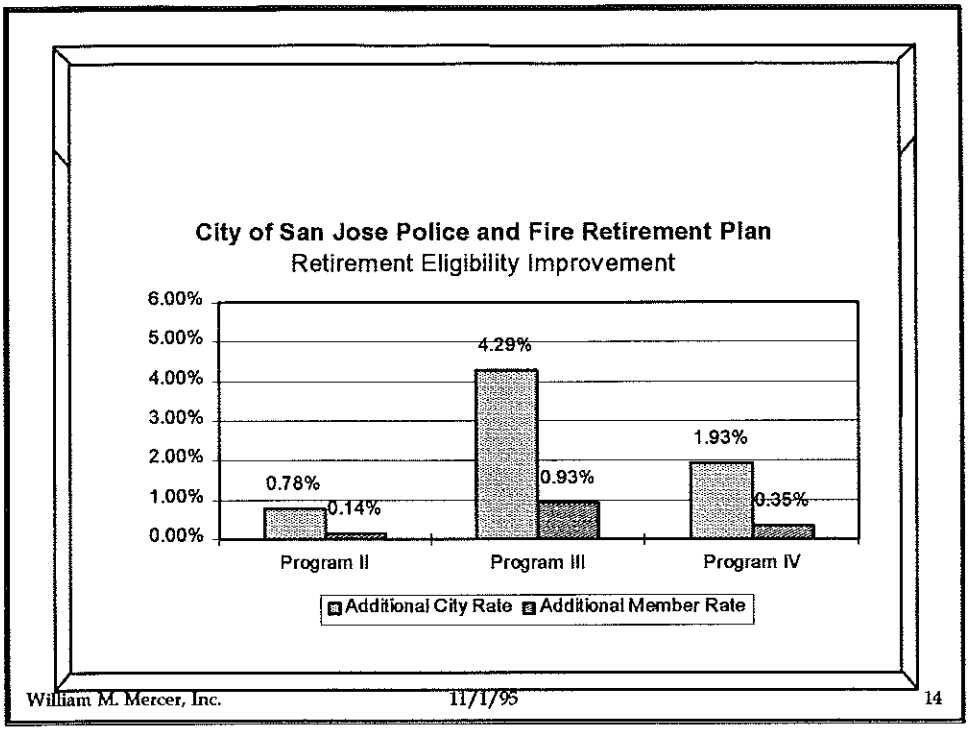

San Jose Police and Fire Retirement Plan
City Liability vs Savings (50% Acceptance)
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
(000's)
$33,533
$2,085
$26,263
$1,543
$65,180
$3,405
$27,448
$1,834
Program I
Program II
Program III
Program IV
ERIP UAAL (w/o Medical & Dental)
ERIP Savings

Retirement Eligibility Improvements

- Additional Cost Rates

	Program II 25 & Out	Program III 20 & Out	Program IV (50/20)
City	0.78%	4.29%	1.93%
Member	0.14%	0.93%	0.35%

- Permanent change in Eligibility Requirements
- Includes estimated impact on retirement rates.


City of San Jose Police and Fire Retirement Plan
Retirement Eligibility Improvement
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
0.78%
0.14%
4.29%
0.93%
1.93%
0.35%
Program II
Program III
Program IV
Additional City Rate
Additional Member Rate

80% "Purchasing Power Program"

- Additional benefit for retirees who have lost 20% of purchasing power due to inflation.

Three alternatives:

A. Ad hoc (one - time) benefit for existing retirees, for one year.

B. Ongoing basis for all current active and retired employees.

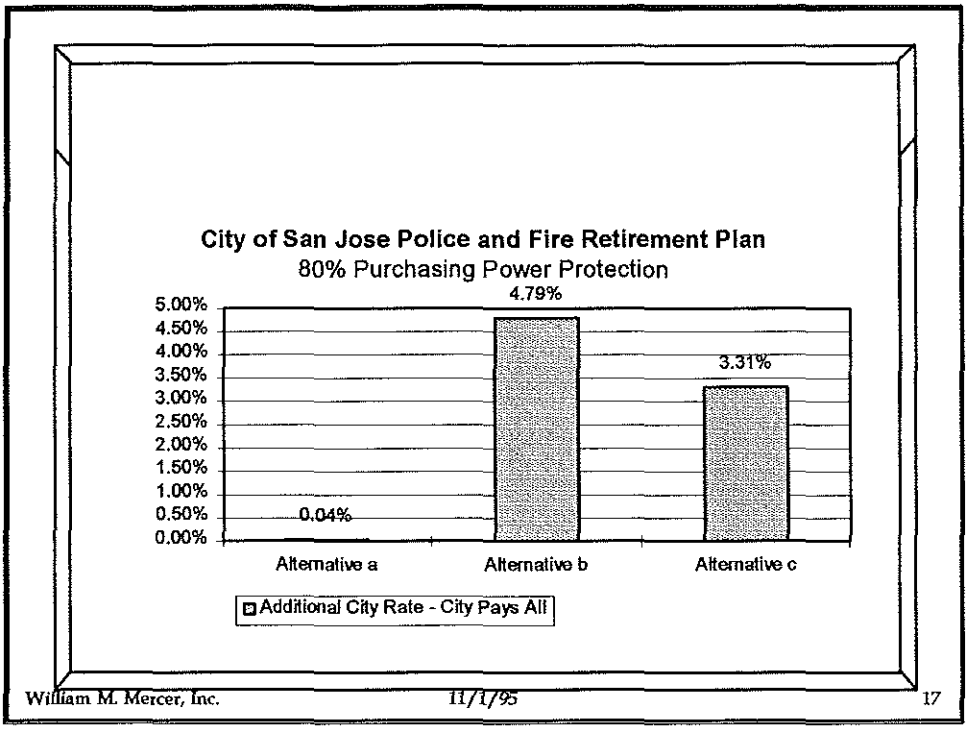
C. Ongoing basis for all current active members only, not for current retirees.

Purchasing Power Program

- Additional Rates

	Alternative A 1 Year Ad Hoc	Alternative B Actives & Retireds	Alternative C Actives Only
City	0.04%	4.79%	3.31%

- Assuming City pays entire cost


City of San Jose Police and Fire Retirement Plan
80% Purchasing Power Protection
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
0.04%
4.79%
3.31%
Alternative a
Alternative b
Alternative c
Additional City Rate - City Pays All

Full Reciprocity

- Picks up pre - 9/30/94 service for eligibility only

Additional Rates:

City	0.10% to 0.30%
Member	0.01% to 0.03%