CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Police and Fire Department Retirement Plan

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

A Pension Trust Fund of the City of San José, California

City of San José Police and Fire Department Retirement Plan

Roberto L. Peña
Director




Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

Department of Retirement Services
1737 North First Street, Suite 580
San Jose, California 95112-4505
Phone 408-794-1000
Fax 408-392-6732
www.sjretirement.com

A Pension Trust Fund of the City of San José, California

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

December 5, 2013

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San José
San Jose, 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, 2013.

The Plan earned a time-weighted gross of investment fees rate of return of 9.9% and net of investment fees rate of return of 9.6% on investments for the fiscal year, compared to a 8.1% return for its policy benchmark and a 12.0% return for the Independent Consultants Cooperative's (ICC) Public Funds Median. Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 9.1% and 4.0% for the three-year and five-year periods ending June 30, 2013, respectively, while the ICC Public Fund Median earned a time-weighted rate of return of 11.3% and 5.0% for the same periods. In contrast, the net rate of return assumed by the Plan's actuary for FY 2012-13 was 7.25%. The net position of the Plan increased from $2,641,442,000 to $2,864,244,000, net of pending purchases and sales (see the Financial Section beginning on page 21). The net increase in Plan net position for fiscal year 2012-2013 was $222,802,000.

During fiscal year 2012-13, the Board continued to implement changes in its governance structure. The Board engaged governance consultant Cortex Applied Research to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol.

The Plan saw the departures of its Director of Retirement Services, Chief Investment Officer, and Accounting Division Manager during the fiscal year. Donna Busse, Chief Operations Officer, was appointed as the Acting Director to lead the Retirement Services Department. In the interim, the Boards of Administration for Federated City Employees' Retirement System and the Plan engaged an executive recruiting firm to search for a Director and subsequently in February 2013, Roberto L. Peña was appointed as the Director of Retirement Services. Mr. Peña is working closely in a collaborative process with the City and the Boards of Administration for this Plan and the Federated City Employees' Retirement System to select highly qualified candidates to fill the CIO, Investment Officer, and Accounting Division Manager positions.

As a result of a new asset allocation that was adopted by the Board during the third quarter of calendar year 2012, the Plan completed a significant and complex portfolio transition in the fourth quarter of calendar year 2012, with the help of transition manager Russell Investments. The new asset allocation policy aims to better position the Plan for potential future market environments. During fiscal year 2012-13, the Plan hired 12 absolute return managers with the help of its hedge fund consultant, Albourne America, LLC. Other hiring consisted of managers across multiple asset classes, such as global equity, private equity, global fixed

1737 N. First St. Suite 580, San Jose, CA 95112-4504 ***tel*** (408) 794-1000 ***fax*** (408) 392-6732 www.sjretirement.com

income, real estate, and global tactical allocation, as well as equity and foreign-exchange transaction cost analysis providers.

In light of the volatility of global investment markets and the Plan's changing asset allocation policy, the Board has focused recently on risk management and is considering hiring an outside risk consultant. Staff is working closely with the Trustees with the intention of issuing a Request for Proposals for a risk consultant during fiscal year 2013-14. Finally, with the guidance of Cortex Applied Research and NEPC, the Plan's investment consultant, the Plan adopted new investment policy statements for both the Pension Plan as well as the Healthcare Trust.

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,

Sean Kaldor, Chairman

Board of Administration

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK

Introductory Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

December 5, 2013

Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2013. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, 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. 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 2012 and 2013 refer to the Management's Discussion and Analysis on page 24.

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, 2012. 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, 2013. 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.

1737 N. First St. Suite 580, San Jose, CA 95112-4504 ***tel*** (408) 794-1000 ***fax*** (408) 392-6732 www.sjretirement.com

I encourage you to review this report carefully. I trust that you and 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 healthcare (OPEB) plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2012, the funded ratio of the defined benefit pension plan was 79.6% and for the Postemployment Healthcare 401(h) plan was 7.1% 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 7.25% and 4.40%, respectively. The impact of the difference between the actual net rate of return earned by the Plan and the 7.25% and 4.40% assumptions will result in an investment loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in Plan assets for fiscal year 2012-2013 was $222,802,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 36. The defined benefit pension plan's funding progress is presented on page 62 and the Postemployment Healthcare 401(h) plan's funding progress is presented on page 63.

Financial and Economic Summary

Fiscal Year 2013 posted surprisingly strong returns for investors seeking risk despite a myriad of macroeconomic concerns. The year was largely dominated by headline risks related to the European debt crisis, the U.S. fiscal cliff, reports of slowed economic growth in China and the emerging markets, and the slowing of the Fed's quantitative easing program.

During the first half of the 2012-13 fiscal year, domestic equities benefited from improved fundamentals and a more robust housing market, which resulted in gains despite uncertainty surrounding the presidential election and the fiscal cliff. International equity markets, buoyed by positive news flow within the Euro zone and stronger economic data from China, outperformed their domestic counterparts. The first half of the fiscal year also saw risky fixed income assets continue their relentless march toward the finish line. Emerging market debt and high yield bonds benefitted the most as investors seeking yield sought higher returns in the low interest rate environment. In the third quarter of the fiscal year, the Fed continued to drive equity markets with stimulative policy as market volatility was suppressed and markets shrugged off worries of fiscal tightening. Global equities surged, with domestic equities posting the strongest quarter for equity returns over the fiscal year as depressed yields for investment grade bonds pushed investors into riskier segments of the market. The final quarter of the fiscal year proved to be a challenging environment in which virtually all markets were down, leaving investors no safe haven. Markets were roiled by indications the Fed would taper its stimulative policy earlier than expected and concerns of slowing growth in China and the emerging markets.

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 gross of fees rate of return was 9.9% and net of investment fees rate of return was 9.6%, compared to a 8.1% return for its policy benchmark and a 12.0% return for the Independent

Consultants Cooperative's (ICC) Public Funds Median. Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 9.1% and 4.0% for the three-year and five-year periods ending June 30, 2013, respectively, while the ICC Public Fund Median earned a time-weighted rate of return of 11.3% and 5.0% for the same periods. The net position of the Plan increased from $2,641,442,000 to $2,864,244,000, net of pending purchases and sales (see the Financial Section beginning on page 21).

As a result of a new asset allocation that was adopted by the Board during the third quarter of calendar year 2012, the Plan completed a significant and complex plan transition in the fourth quarter of calendar year 2012, with the help of transition manager Russell Investments. The new asset allocation aims to better position the Plan for potential future market environments.

Major Initiatives

The Plan saw the departures of its Director of Retirement Services, Chief Investment Officer, and Accounting Division Manager during the fiscal year. Donna Busse, Chief Operations Officer, was appointed as the Acting Director to lead the Retirement Services Department. In the interim, the Boards of Administration for Federated City Employees' Retirement System and the Plan, working in conjunction with the City Manager's Office, engaged an executive recruiting firm to search for a Director and subsequently in February 2013, Roberto L. Peña was appointed as the Director of Retirement Services. Mr. Peña is working closely in a collaborative process with the City and the Boards of Administration for this Plan and the Federated City Employees' Retirement System to select highly qualified candidates to fill the CIO, Investment Officer, and Accounting Division Manager positions.

The Board continued implementation of its new governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol.

During fiscal year 2012-2013, the Plan hired 12 absolute return managers with the help of its hedge fund consultant, Albourne America, LLC. Other hiring consisted of managers across multiple asset classes, such as global equity, private equity, global fixed income, real estate, and global tactical allocation, as well as equity and foreign-exchange transaction cost analysis providers.

In light of the volatility of global investment markets and the Plan's changing asset allocation policy, the Board has focused recently on risk management and the Plan is considering hiring an outside risk consultant. Staff is working closely with the Trustees with the intention of issuing a Request for Proposals for a risk consultant during fiscal year 2013-2014. Finally, with the guidance of Cortex Applied Research and NEPC, the Plan adopted new investment policy statements for both the Pension Plan as well as the Healthcare Trust.

Effective fiscal year 2012-13, a new Internal Revenue Code Section 115 trust was established by the San Jose City Council to provide an alternative to the existing 401(h) account within the pension fund for retiree healthcare benefits funding. The 115 Trust consists of two sub-trusts, one for Fire members and one for Police members. Also, the City of San José eliminated the Supplemental Retirees Benefit Reserve (SRBR) effective first quarter of calendar year 2013, and the Board set the 2013-2014 contribution rates from the 6/30/2012 valuations, excluding the SRBR. Following a Request for Proposal, Sagitec Solutions was awarded a contract for the new Pension and Business Administration System. Additionally, Electronic Board packets were deployed.

City Administration introduced high deductible medical plans for calendar year 2013, which greatly impacted the retiree population. Retirement Services staff coordinated a staff training session, 10 educational sessions for retirees, and communication pieces with the vendors. Over 200 retirees attended the Health Fair and all 10 educational sessions were overflowing with attendance. In excess of 600 open enrollment changes were processed.

The Pension Protection and Affordable Care Act (PPACA) and the Health Care and Educational Reconciliation

Act (HCERA) were enacted in March 2010. The Supreme Court upheld the constitutionality of the health care reform law on June 28, 2013. One of the near-term implications that affected the City group plans was the distribution of Summary of Benefits and Coverage (SBC) before the Fall open enrollment. Retirement Services staff, Human Resources and Buck Consultants worked closely with the providers to ensure that the SBCs were available for Open Enrollment. Since not all retirees have access to the internet, Retirement Services mailed hardcopies to all members eligible for medical coverage.

Kaiser Permanente informed Retirement Services that the Medicare Out-of-Area plan will not to be available starting December 31, 2012. Retirement Services staff coordinated with Kaiser communication pieces and the transition of those affected to eligible plans. A special Open Enrollment letter was mailed to ensure everyone affected had the opportunity to change medical plans.

Prudential informed the City of its intention to leave the group Long Term Care (LTC) insurance market effective June 30, 2013. Human Resources conducted a Request for Information and discovered that there are no other insurance companies willing to offer group LTC policies to the City. Retirement Services staff conducted a mass mailing to all retirees informing them of this change and posted a flyer on its websites. Blue Shield of California pledged to limit their annual net income to 2% of revenue collected and give back any excess to its customers. In 2012, Retirement Services received a total of $178,453, of which $20,397 was refunded to the retirees. Last but not least, Vision Service Plan (VSP) partnered with TruHearing to provide a discount for hearing aids to members enrolled in VSP. This is a pilot program scheduled to end on December 31, 2013.

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 thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

Roberto L. Peña

Roberto L. Peña
Director

THIS PAGE INTENTIONALLY LEFT BLANK

Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Jose Police and Fire Department Retirement Plan California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

City of San Jose 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

Alan H. Winkle
Program Administrator

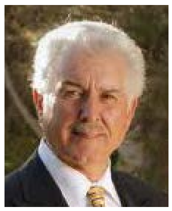
Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

The Retirement Plan is administered by a nine-member Board of Administration composed of two City employees elected by members of the system, 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 Jose Municipal Code.

As of June 30, 2013, the members of the Board were as follows:

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



RICHARD SANTOS, VICE CHAIR
Retired Plan member appointed to the Board in February 2011. His current term expires November 30, 2014.

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

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

SEAN BILL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

DAMON KRYTZER, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

ANDREW LANZA, TRUSTEE
Public member appointed to the Board in April 2011. His current term expires April 30, 2015.

JAMES MASON, TRUSTEE
Employee Representative for the Police Department appointed to the Board in May 2012. His current term expires November 30, 2013.

ELIZABETH ROUNDS, TRUSTEE
Public member appointed to the Board in September 2011. Her current term expires November 30, 2014.

PETE CONSTANT,
NON-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA,
DIRECTOR OF RETIREMENT SERVICES

DONNA BUSSE,
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Position vacant as of July 31, 2012)

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 580, 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
Reed Smith LLP
Falls Church, VA

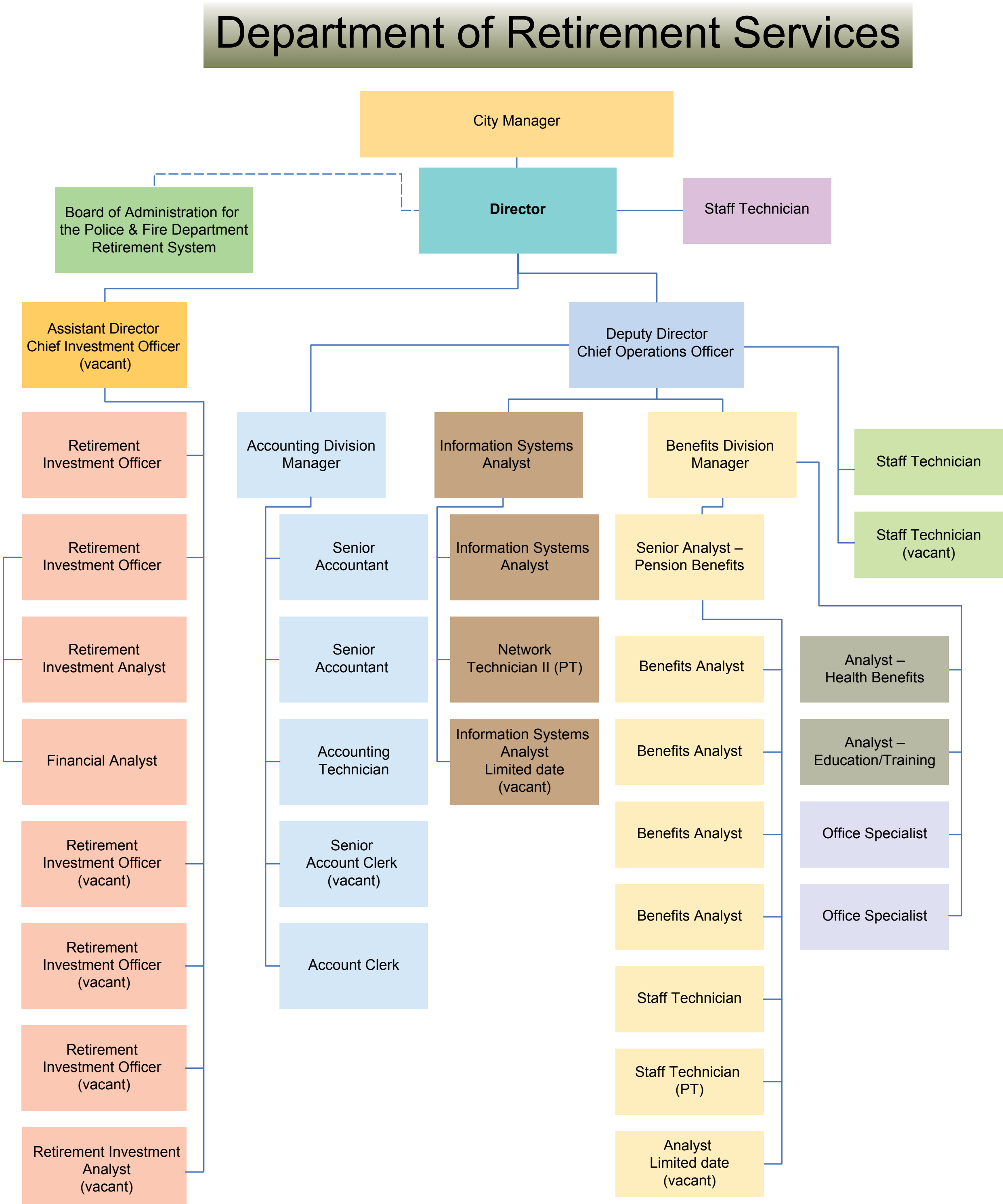
INVESTMENT CONSULTANTS
Albourne America LLC – Absolute Return
San Francisco, CA

NEPC, LLC – General Consultant
Redwood City, CA

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

A list of Investment Professionals begins on page 87 of the Investment Section of this report.

2013 Department of Retirement Services Organizational Chart



DEPARTMENT OF RETIREMENT SERVICES
1737 North First Street, Suite 580
San Jose, CA 95112

(408) 794-1000
(800) 732-6477
(408) 392-6732 FAX

www.sjretirement.com

THIS PAGE INTENTIONALLY LEFT BLANK

Financial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

Independent Auditor's Report

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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 and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2013 and 2012, 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.

Emphasis of Matters

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2012, the Plan's independent actuaries determined that, at June 30, 2012, the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $694 million. The most recent actuarial value of assets as of June 30, 2012 does not reflect the impact of deferred investment losses of $125 million that will be recognized in future valuations.

As described in Note 6, based on the most recent actuarial valuation as of June 30, 2012, the Plan's independent actuaries determined that, at June 30, 2012, the Postemployment Healthcare 401(h) Plan's actuarial accrued liability exceeded the actuarial value of its assets by $931 million. The June 30, 2012 actuarial valuation of the Postemployment Healthcare

www.mgocpa.com

401(h) Plan does not reflect the new Section 115 subtrusts (the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan) as those plans had no financial activity as of the most recent valuation date.

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 and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the schedules of funding progress and employer contributions for the Section 115 subtrusts (the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan) that accounting principles generally accepted in the United State of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic 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 basic 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 December 4, 2013 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, 2013. 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
December 4, 2013

Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112-4505

We are 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, 2013 and 2012. 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 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2013

- As of June 30, 2013, the Plan had $2,864,244,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $2,789,525,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. The postemployment healthcare plans' net position of $74,719,000 is only available for the exclusive use of retiree medical benefits.
- The Plan's total net position held in trust for pension benefits and postemployment healthcare benefits increased by approximately $222,802,000 or 8.4%, primarily as a result of investment gains experienced in the first three quarters of the fiscal year. During the fiscal year 2012-13, the Board adopted a new asset allocation which reduced the allocation to total equity and increased the allocation to absolute return. The Board used Russell Investments to provide asset overlay services to rebalance the Plan's assets to the long-term targets.
- Additions to plan net position for the year were $409,939,000, which includes member and employer contributions of $33,725,000 and $121,042,000, respectively, net investment income before securities lending income of $251,900,000, and net securities lending income of $3,272,000.
- Deductions from plan net position increased slightly from $183,842,000 to $187,137,000 over the prior year, or approximately 1.8% due primarily to increased retirement benefit payments and refunds of contributions while healthcare insurance premiums decreased.

Overview of the Financial Statements

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 generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires state and local government pension plan and postemployment benefit plan reports to use full accrual 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 formal commitments as well as statutory and contractual commitments and benefits and refunds of contributions when due and payable under the provisions of the Plan. All of the fiscal year's additions and deductions are taken into account regardless of when cash is received or paid. All realized 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 Plan's funding progress and funded status, should also be considered in measuring the Plan's overall health (see the Schedules of Funding Progress and Schedules of Employer Contributions on pages 62-63 of this report).

Notes to 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 38-61 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 62 of this report).

The schedule of funding progress of the Defined Benefit Pension Plan was prepared using the actuarial value of plan assets. The combining schedules of Defined Benefit Pension Plan net position and changes in plan net position, schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants 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 Table 1a on page 26). The assets of the Plan exceeded its current liabilities at the close of fiscal years 2013 and 2012.

The funded status of the Plan should also be considered when evaluating the Plan's financial health. As of June 30, 2012, the Plan's most recent valuation date, the actuarial funded status of the Plan decreased from 84.0% to 79.6% for the Defined Benefit Pension Plan. The decrease in the Plan's funded status was primarily due to a change in the actuarially assumed earnings rate from 7.50% to 7.25% and investment losses. Reflecting these events, the unfunded actuarial accrued liability (UAAL) increased from $510.3 million to $694.3 million. The UAAL was also impacted by the elimination of the Supplemental Retiree Benefit Reserve (SRBR). In January 2013, the City Council approved an Ordinance to eliminate the SRBR (Ordinance #29198). Due to the prior suspension of SRBR payments and eventual elimination of the SRBR, the Board acted to reflect the elimination of the SRBR in the June 30, 2012 Valuation. This resulted in a reduction in the AAL of approximately $32.5 million. The Postemployment Healthcare Plan's actuarial funded status increased from 6% to 7% as of June 30, 2012. This was mainly due to assumption changes made due to a new Kaiser $1500 Deductible HMO, which became the "lowest cost plan" available to active City employees and therefore the basis for the retiree premium subsidy.

As of June 30, 2013, $2,789,525,000 and $74,719,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 26). Net position increased by 8.2% and 18.6% for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans, respectively. The increase in the Defined Benefit Pension Plan from the prior year was due to the net investment gains experienced by the Plan as the result of appreciation in the fair value of investments of $165,889,000 which was led by the global equity markets. The increase in the Postemployment Healthcare Plans was due to both the appreciation in the fair value of investments of $4,180,000 and the $4,545,000 or 16% reduction in healthcare insurance premiums (see note 6 of the financial statements on pages 57-60 for more information).

As of June 30, 2012, $2,578,464,000 and $62,978,000 in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 26). Net position decreased by 1.9% and increased by 5.5% for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan respectively. The decrease in the Defined Benefit Pension Plan from the prior year was due to the net investment losses experienced by the Plan as the result of depreciation in the fair value of investments of $108,807,000. While the Plan's asset allocation remained constant the Plan terminated five active global equity managers and transitioned the assets to passive management. The increase in the Postemployment Healthcare Plan was primarily due to the $4,204,000 or 24.7% increase in employer contributions as a result of the Board's contribution funding policy (see note 6 of the financial statements on page 57 for more information).

As of June 30, 2013, receivables decreased by $7,534,000 or 45.8% and $64,000 or 6.6% in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due to a decrease in receivables from brokers and others for year-end investment trades and accrued investment income. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $7,878,000 or 32.4% and $642,000 or 39.7%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2013, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by $187,641,000, or 73.8% and $2,993,000 or 48.2%, respectively, compared with June 30, 2012, due mainly to securities lending collateral due to borrowers. The plan strategy changed from a passive to active investing resulting in hiring additional equity managers. The decrease in securities lending balance in the prior year was due to a decline in market demand for securities as of June 30, 2012. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $104,246,000, or 29.1% and $1,809,000 or 22.6%, respectively, compared with June 30, 2011, due mainly to a decrease in payables to brokers and others for year-end investment trades and securities lending collateral due to borrowers.

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

As of June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 8,911	$ 16,445	$ (7,534)	(45.8)%
Investments at Fair Value	3,222,359	2,816,123	406,236	14.4%
Total Assets	**3,231,270**	**2,832,568**	**398,702**	**14.1%**
Current Liabilities	441,745	254,104	187,641	73.8%
Total Liabilities	**441,745**	**254,104**	**187,641**	**73.8%**
Net Position	**$ 2,789,525**	**$2,578,464**	**$ 211,061**	**8.2%**

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

As of June 30, 2012 and 2011 (In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 16,445	$ 24,323	$ (7,878)	(32.4)%
Investments at Fair Value	2,816,123	2,961,754	(145,631)	(4.9)%
Total Assets	**2,832,568**	**2,986,077**	**(153,509)**	**(5.1)%**
Current Liabilities	254,104	358,350	(104,246)	(29.1)%
Total Liabilities	**254,104**	**358,350**	**(104,246)**	**(29.1)%**
Net Position	**$ 2,578,464**	**$ 2,627,727**	**$ (49,263)**	**(1.9)%**

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

As of June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 913	$ 977	$ (64)	(6.6)%
Investments at Fair Value	83,010	68,212	14,798	21.7%
Total Assets	**83,923**	**69,189**	**14,734**	**21.3%**
Current Liabilities	9,204	6,211	2,993	48.2%
Total Liabilities	**9,204**	**6,211**	**2,993**	**48.2%**
Net Position	**$ 74,719**	**$ 62,978**	**$ 11,741**	**18.6%**

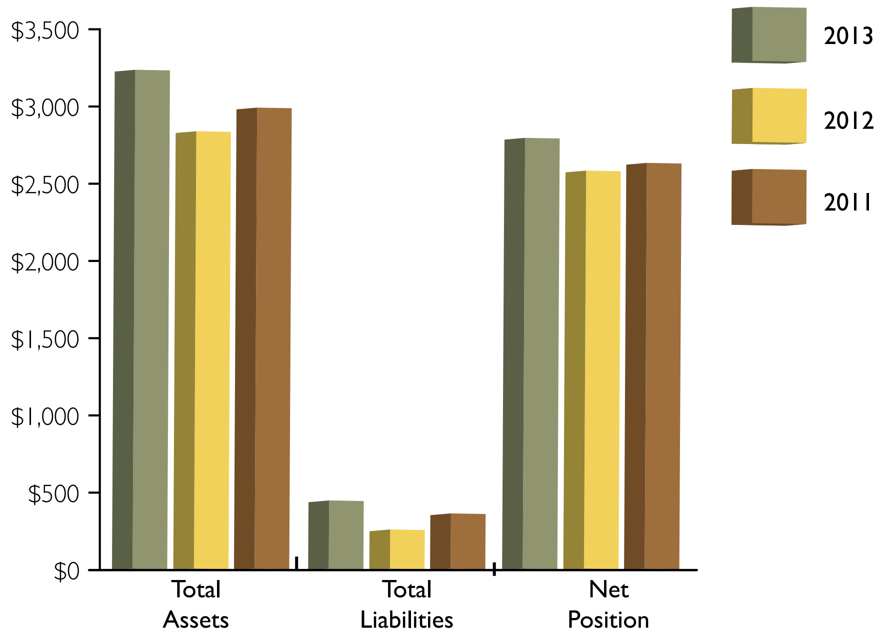
PLAN NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE (Table 1d)

As of June 30, 2012 and 2011 (In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 977	$ 1,619	$ (642)	(39.7)%
Investments at Fair Value	68,212	66,071	2,141	3.2%
Total Assets	**69,189**	**67,690**	**1,499**	**2.2%**
Current Liabilities	6,211	8,020	(1,809)	(22.6)%
Total Liabilities	**6,211**	**8,020**	**(1,809)**	**(22.6)%**
Net Position	**$ 62,978**	**$ 59,670**	**$ 3,308**	**5.5%**

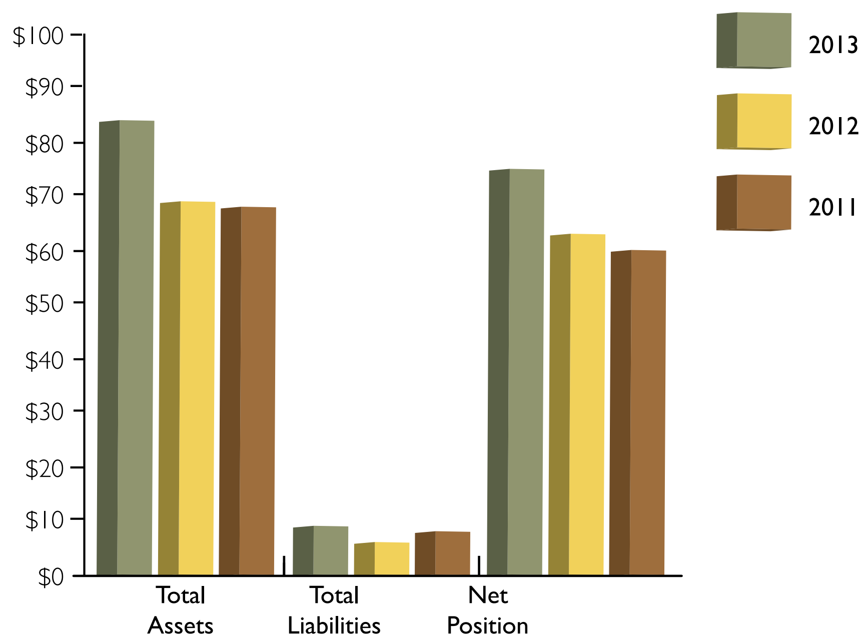
POLICE AND FIRE DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)

As of June 30, 2013, 2012 and 2011
Dollars in Millions



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

As of June 30, 2013, 2012 and 2011



THE POLICE AND FIRE PLAN ACTIVITIES

In fiscal year 2013, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plans' net position increased by $222,802,000, thereby accounting for an 8.4% increase from the prior year. Investment gains were the main driver of the increase in the Defined Benefit Pension Plan and Postemployment Healthcare Plans. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through 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, 2013, were $374,186,000 and $35,753,000, respectively (see Tables 2a and 2c on pages 30-31).

For the fiscal year ended June 30, 2013, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by $268,173,000 and $3,879,000, or 253.0% and 12.2%, respectively, from the prior year primarily due to increases of $282,011,000 and $7,231,000, respectively, in net investment income excluding securities lending income, which was primarily a result of the large gains experienced by the Plan in the first three quarters of 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, 2013, was 9.9% compared to -0.1% for the fiscal year ended June 30, 2012. On a net of management fee basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2013, was 9.6% compared to -0.5% for the fiscal year ended June 30, 2012.

For the fiscal year ended June 30, 2012, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $397,911,000 and $5,322,000, or 79.0% and 14.3%, respectively, from the prior year primarily due to decreases of $430,377,000 and $9,766,000, respectively, in net investment income excluding securities lending income, which was a result of the large losses experienced by the Plan in the first two quarters of 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, 2012, was -0.1% compared to 18.4% for the fiscal year ended June 30, 2011. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2012, was -0.5% compared to 18.1% for the fiscal year ended June 30, 2011.

Deductions from Plan Net Position

The Plan was created to provide lifetime retirement annuities, 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, 2013, totaled $163,125,000 and $24,012,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased by 5.1% from the previous year due to an increase in the number of retirees and beneficiaries, and benefit amounts (see Table 2a on page 30). Deductions for the Postemployment Healthcare Plans, decreased by 15.9% over the previous year due to a $4,545,000 decrease in health insurance premiums from the prior year, primarily caused by a decrease in the maximum subsidy amount in 2013 of approximately 14% from 2012 due to a lower cost plan offered to active employees in 2013.

Deductions for the fiscal year ended June 30, 2012, totaled $155,276,000 and $28,566,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by 10.7% from the previous year due to an increase in retirees and beneficiaries, and final average salaries (see Table 2a on page 30). Deductions for the Postemployment Healthcare Plan, increased by 0.80% over the previous year due to a $206,000 increase in health insurance premiums from the prior year due to increases in healthcare insurance premiums.

THIS PAGE INTENTIONALLY LEFT BLANK

Management's Discussion and Analysis (Unaudited) *(Continued)*

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

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 20,227	$ 19,345	$ 882	4.6%
Employer Contributions	105,234	121,009	(15,775)	-13.0%
Net Investment Income/(Loss)*	245,526	(36,485)	282,011	773.0%
Net Securities Lending Income	3,199	2,144	1,055	49.2%
Total Additions	**374,186**	**106,013**	**268,173**	**253.0%**
* Net of Investment Expenses of $9,784 and $10,122 in 2013 and 2012, respectively.				
Retirement Benefits	150,811	142,314	8,497	6.0%
Death Benefits	8,005	7,480	525	7.0%
Refund of Contributions	886	1,926	(1,040)	-54.0%
Administrative	3,423	3,556	(133)	-3.7%
Total Deductions	**163,125**	**155,276**	**7,849**	**5.1%**
Net Increase (Decrease) in Net Plan Position	**211,061**	**(49,263)**	**260,324**	**528.4%**
Beginning Net Position	**2,578,464**	**2,627,727**	**(49,263)**	**-1.9%**
Ending Net Position	**$ 2,789,525**	**$ 2,578,464**	**$ 211,061**	**8.2%**

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

For the Fiscal Years Ended June 30, 2012 and 2011(In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 19,345	$ 29,629	$ (10,284)	-34.7%
Employer Contributions	121,009	77,918	43,091	55.3%
Net Investment Income/(Loss)*	(36,485)	393,892	(430,377)	-109.3%
Net Securities Lending Income	2,144	2,485	(341)	-13.7%
Total Additions	**106,013**	**503,924**	**(397,911)**	**-79.0%**
* Net of Investment Expenses of $10,122 and $9,604 in 2012 and 2011, respectively.				
Retirement Benefits	142,314	129,472	12,842	9.9%
Death Benefits	7,480	7,213	267	3.7%
Refund of Contributions	1,926	435	1,491	342.8%
Administrative	3,556	3,127	429	13.7%
Total Deductions	**155,276**	**140,247**	**15,029**	**10.7%**
Net Increase (Decrease) in Net Plan Position	**(49,263)**	**363,677**	**(412,940)**	**-113.5%**
Beginning Net Position	**2,627,727**	**2,264,050**	**363,677**	**16.1%**
Ending Net Position	**$ 2,578,464**	**$ 2,627,727**	**$ (49,263)**	**-1.9%**

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

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	$ 13,498	$ 11,474	$ 2,024	17.6%
Employer Contributions	15,808	21,205	(5,397)	-25.5%
Net Investment Income/(Loss)*	6,374	(857)	7,231	843.8%
Net Securities Lending Income	73	52	21	40.4%
Total Additions	**35,753**	**31,874**	**3,879**	**12.2%**
* *Net of Investment Expenses of $231 and $244 in 2013 and 2012, respectively.*				
Healthcare Insurance Premiums	23,934	28,479	(4,545)	-16.0%
Administrative	78	87	(9)	-10.3%
Total Deductions	**24,012**	**28,566**	**(4,554)**	**-15.9%**
Net Increase (Decrease) in Net Plan Position	**11,741**	**3,308**	**8,433**	**254.9%**
Beginning Net Position	**62,978**	**59,670**	**3,308**	**5.5%**
Ending Net Position	**$ 74,719**	**$ 62,978**	**$ 11,741**	**18.6%**

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

For the Fiscal Years Ended June 30, 2012 and 2011(In Thousands)

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	$ 11,474	$ 11,229	$ 245	2.2%
Employer Contributions	21,205	17,001	4,204	24.7%
Net Investment Income/(Loss)*	(857)	8,909	(9,766)	-109.6%
Net Securities Lending Income	52	57	(5)	-8.8%
Total Additions	**31,874**	**37,196**	**(5,322)**	**-14.3%**
* *Net of Investment Expenses of $244 and $220 in 2012 and 2011, respectively.*				
Healthcare Insurance Premiums	28,479	28,273	206	0.7%
Administrative	87	73	14	19.2%
Total Deductions	**28,566**	**28,346**	**220**	**0.8%**
Net Increase (Decrease) in Net Plan Position	**3,308**	**8,850**	**(5,542)**	**-62.6%**
Beginning Net Position	**59,670**	**50,820**	**8,850**	**17.4%**
Ending Net Position	**$ 62,978**	**$ 59,670**	**$ 3,308**	**5.5%**

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 there are three reserves: the general reserve, the employee contributions reserve, and the Supplemental Retiree Benefit Reserve (SRBR). However, effective March 1, 2013, the City Council eliminated the SRBR and transferred remaining funds into the general reserve. The Postemployment Healthcare 401(h) Plan has a general reserve and employee contributions reserve. See the reserve table on page 42 for a complete listing and year-end balances of the Plan's reserves.

The Plan's reserves are established from 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 promised benefits to plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The Plan's actuarial valuation as of June 30, 2012, was used to determine the contribution rates effective June 23, 2013, for fiscal year 2013-2014. The annual required contribution rates and dollar amounts calculated in the June 30, 2012, valuation were adopted by the Board and became effective in fiscal year 2013-2014.

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation 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 UAAL of $694.3 million, as of June 30, 2012, does not include the impact of approximately $124.6 million of deferred investment losses primarily resulting from unfavorable investment returns in the fiscal years 2009 and 2012. It is anticipated that future actuarial valuations will recognize these remaining deferred investment losses as described above and the smoothing of any new gains or losses over a five year period.

The Plan is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 7.25%, net of investment expenses, in the actuarial valuation as of June 30, 2012. With all other things being equal, underperforming the assumed rate of return would decrease the funded status of the Plan and increase the City's 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 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 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.

Additionally, the Plan's financial reporting will be impacted in fiscal year ending June 30, 2014 as a result of the implementation of Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plans*. GASB Statement No. 67 will replace GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution,* and No. 50, *Pension Disclosures*. This statement establishes standards of financial reporting and specifies the required approach to measuring the pension liability of employers. The statement relates to accounting and financial reporting and does not apply to how pension plans approach funding.

Postemployment Healthcare Plans

During the year ended June 30, 2013, the Postemployment Healthcare 401(h) Plan completed its GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2012. A summary of the results is presented in Note 6 to the Financial Statements. The June 30, 2013 OPEB valuations, which will include the new Internal Revenue Code Section 115 Subtrusts, the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, described in the paragraph below, 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 43 annual required contribution as a result of the Memorandum of Agreement (MOA) entered into by the Fire 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 to the existing 401(h) account located within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. This heath 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. It is anticipated that the Plan will seek a private letter ruling from the Internal Revenue Service on the tax qualification of the new Section 115 Trust. Following receipt of that letter ruling, employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may commence.

Requests for Information

This financial report is designed to provide 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 580
San José, California 95112-4505

Respectfully Submitted,

Roberto L. Peña
Director

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

June 30, 2013 and 2012 (In Thousands)

	2013				
	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
Assets					
Receivables:					
Employee contributions	$ 456	$ 341	$ -	$ -	$ 797
Employer contributions	3,088	-	234	189	3,511
Brokers and others	669	44	-	-	713
Accrued investment income	4,698	105	-	-	4,803
Total receivables	**8,911**	**490**	**234**	**189**	**9,824**
Investments, at fair value:					
Securities and other:					
Domestic fixed income	151,906	3,100	-	-	155,006
International fixed income	5,447	111	-	-	5,558
Collective short term investments	385,584	7,869	10	4	393,467
Global Equity	1,536,611	32,261	10,369	4,348	1,583,589
Private equity	128,184	2,616	-	-	130,800
Opportunistic	232,455	4,744	-	-	237,199
Real assets	237,863	4,854	1,049	439	244,205
Real estate	127,367	2,599	-	-	129,966
International currency contracts, net	(1,297)	(26)	-	-	(1,323)
Securities lending cash collateral investment pool	418,239	8,663	-	-	426,902
Total investments	**3,222,359**	**66,791**	**11,428**	**4,791**	**3,305,369**
TOTAL ASSETS	**3,231,270**	**67,281**	**11,662**	**4,980**	**3,315,193**
Liabilities					
Payable to brokers	19,044	427	-	-	19,471
Securities lending collateral due to borrowers	418,690	8,673	-	-	427,363
Other liabilities	4,011	104	-	-	4,115
TOTAL LIABILITIES	**441,745**	**9,204**	**-**	**-**	**450,949**
Plan Net Position - Restricted For:					
Pension benefits	2,789,525	-	-	-	2,789,525
Postemployment healthcare benefits	-	58,077	11,662	4,980	74,719
TOTAL PLAN NET POSITION	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**

See accompanying notes to basic financial statements.

(Continued)

STATEMENTS OF PLAN NET POSITION (continued)

June 30, 2013 and 2012 (In Thousands)

	2012		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Assets			
Receivables:			
Employee contributions	$ 397	$ 263	$ 660
Employer contributions	2,521	355	2,876
Brokers and others	4,149	126	4,275
Accrued investment income	9,378	233	9,611
Total receivables	**16,445**	**977**	**17,422**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	598,612	14,499	613,111
International fixed income	15,282	370	15,652
Pooled fixed income bond funds	18,218	442	18,660
Collective short term investments	81,974	1,985	83,959
Corporate convertible bonds	71,340	1,728	73,068
Domestic equity	603,761	14,623	618,384
International equity	504,291	12,214	516,505
Private equity	122,496	2,967	125,463
Opportunistic	189,421	4,588	194,009
Real assets	273,756	6,630	280,386
Real estate	102,764	2,489	105,253
International currency contracts, net	477	12	489
Securities lending cash collateral investment pool	233,731	5,665	239,396
Total investments	**2,816,123**	**68,212**	**2,884,335**
TOTAL ASSETS	**2,832,568**	**69,189**	**2,901,757**
Liabilities			
Payable to brokers	14,119	370	14,489
Securities lending collateral due to borrowers	236,151	5,724	241,875
Other liabilities	3,834	117	3,951
TOTAL LIABILITIES	**254,104**	**6,211**	**260,315**
Plan Net Position - Restricted For:			
Pension benefits	2,578,464	-	2,578,464
Postemployment healthcare benefits	-	62,978	62,978
TOTAL PLAN NET POSITION	**$ 2,578,464**	**$ 62,978**	**$ 2,641,442**

See accompanying notes to basic financial statements.

(Concluded)

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013				
	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
Additions					
Contributions:					
Employee	$ 20,227	$ 13,498	$ -	$ -	$ 33,725
Employer	105,234	-	11,074	4,734	121,042
Total contributions	**125,461**	**13,498**	**11,074**	**4,734**	**154,767**
Investment income:					
Net appreciation in fair value of investments	165,889	3,750	303	127	170,069
Interest income	43,509	979	(30)	(13)	44,445
Dividend income	42,281	950	322	135	43,688
Net rental income	3,631	82	-	-	3,713
Less investment expense	(9,784)	(221)	(7)	(3)	(10,015)
Net investment income before securities lending income	**245,526**	**5,540**	**588**	**246**	**251,900**
Securities lending income:					
Earnings	3,845	87	-	-	3,932
Rebates	(91)	(2)	-	-	(93)
Fees	(555)	(12)	-	-	(567)
Net securities lending income	**3,199**	**73**	**-**	**-**	**3,272**
Net investment Income	**248,725**	**5,613**	**588**	**246**	**255,172**
TOTAL ADDITIONS	**374,186**	**19,111**	**11,662**	**4,980**	**409,939**
Deductions					
Retirement benefits	150,811	-	-	-	150,811
Healthcare insurance premiums	-	23,934	-	-	23,934
Death benefits	8,005	-	-	-	8,005
Refund of contributions	886	-	-	-	886
Administrative expenses and other	3,423	78	-	-	3,501
TOTAL DEDUCTIONS	**163,125**	**24,012**	**-**	**-**	**187,137**
NET INCREASE / (DECREASE)	**211,061**	**(4,901)**	**11,662**	**4,980**	**222,802**
Plan Net Position - Restricted For Pension and Postemployment Healthcare Benefits:					
BEGINNING OF YEAR	**2,578,464**	**62,978**	**-**	**-**	**2,641,442**
END OF YEAR	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**

See accompanying notes to basic financial statements. *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2012		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 19,345	$ 11,474	$ 30,819
Employer	121,009	21,205	142,214
Total contributions	**140,354**	**32,679**	**173,033**
Investment income:			
Net depreciation in fair value of investments	(108,807)	(2,552)	(111,359)
Interest income	43,194	1,017	44,211
Dividend income	33,337	784	34,121
Net rental income	5,913	138	6,051
Less investment expense	(10,122)	(244)	(10,366)
Net investment loss before securities lending income	**(36,485)**	**(857)**	**(37,342)**
Securities lending income:			
Earnings	2,943	71	3,014
Rebates	(277)	(7)	(284)
Fees	(522)	(12)	(534)
Net securities lending income	**2,144**	**52**	**2,196**
Net investment loss	**(34,341)**	**(805)**	**(35,146)**
TOTAL ADDITIONS	**106,013**	**31,874**	**137,887**
Deductions			
Retirement benefits	142,314	-	142,314
Healthcare insurance premiums	-	28,479	28,479
Death benefits	7,480	-	7,480
Refund of contributions	1,926	-	1,926
Administrative expenses and other	3,556	87	3,643
TOTAL DEDUCTIONS	**155,276**	**28,566**	**183,842**
NET INCREASE (DECREASE)	**(49,263)**	**3,308**	**(45,955)**
Plan Net Position - Restricted For Pension and Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**2,627,727**	**59,670**	**2,687,397**
END OF YEAR	**$ 2,578,464**	**$ 62,978**	**$ 2,641,442**

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

Notes to Financial Statements

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 current Plan, consisting of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans, was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). On January 27, 2011, the Plan submitted a request for compliance statement and favorable determination letter from the IRS under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans. To date the request with the IRS is still pending.

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

On June 22, 2012, a new Internal Revenue Code Section 115 Trust was established by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account located within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. This heath care trust was further clarified by the San Jose City Council (Ordinance #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 subtrusts of one trust. Employer contributions to the new trust funds were made 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 115 Trust. It is anticipated that employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan will commence following the receipt of a private letter ruling from the Internal Revenue Service on the tax qualification status of the new 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 fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of the City Manager and the Plan's Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $3,501,000 and $3,643,000 for 2013 and 2012, respectively. These costs are financed through investment earnings.

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.

As of June 30, 2013 and 2012, employee membership data related to the Plan was as follows:

	2013			2012
Defined Benefit Pension Plan:	**Police**	**Fire**	**Total**	
Retirees and beneficiaries currently receiving benefits*	1,178	817	1,995	1,943
Terminated vested members not yet receiving benefits	188	41	229	166
Active members	1,028	679	1,707	1,718
Total	**2,394**	**1,537**	**3,931**	**3,827**

	2013			2012
Postemployment Healthcare Plans:	**Police**	**Fire**	**Total**	
Retirees and beneficiaries currently receiving benefits*	1,113	780	1,893	1,855
Terminated vested members not yet receiving benefits	6	1	7	5
Active members	1,028	679	1,707	1,718
Total	**2,147**	**1,460**	**3,607**	**3,578**

**The combined domestic relations orders are not included in the count above as their benefit payment is included in the member count*

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

(b) Pension Benefits

An employee with 10 or more years of service who resigns and leaves his/her contributions in the Plan; an employee

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final average salary multiplied by 2.5% multiplied by years of service up to 30 years (maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. For members retiring on or after February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service plus final average salary multiplied by 3% for the next ten years (maximum benefit, 80% of final average salary). For members retiring on or after February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next 5 years of service and 4% for the next 5 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance, for Police members only, consists of final average salary multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only, the monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. If Fire members have more than 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

Final average salary is the average monthly salary during the highest 12 consecutive months of service. However, if any of the highest periods are within the last 12 months of work, that highest year's salary will be capped at 108% of the 12 months immediately preceding the last 12 months of service. If none of the highest 12 months are in the last 12 months of service, there is no such cap. In addition, retirement benefits are adjusted by an annual cost-of-living allowance (COLA). The current COLA increase is 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions are forfeited; however, an employee's accumulated contributions plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan.

(c) Death Benefits

Subject to a maximum of 42.5% of final average salary, the spouse or domestic partner receives the greater of 50% of the member's benefit or 37.5% to 42.5% of the final average salary if: (1) an active employee's death is service related; or (2) an active employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service related disability. Optional retirement allowances are available. Effective July 1, 2008, subject to a maximum of 45%, the surviving spouse or surviving registered domestic partner of Fire members only that retired after the effective date, receives the greater of 50% of the member's benefit or 37.5% to 45% (percentage dependent on the Years of Service) of the member's final average salary if 1) an employee's death is service related regardless of Years of Service; or 2) an employee's death is non-service related and occurs with at least 20 years of service; or 3) a retiree dies who was retired from service or who received a service related disability.

Additionally, an annual benefit for dependent children up to 18 years of age, or up to 22 years of age if a full-time student, is paid at a rate of 25% of final average salary per child with a maximum family benefit of 75% of final average salary if death is service related.

If an active employee's death is non-service related and the employee has at least two years of service, the Plan allows for an annual annuity of 24% of the employee's final average salary for the first two years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse or registered domestic partner until remarriage to a maximum of 37.5% of final average salary, if the employee had less than 20 years of service. The benefit for an employee with at least 20 years of service is 50% of what the member's benefit would have been up to a 45% maximum for fire members or a maximum of 42.5%, for police members. These benefits are also paid to the surviving spouse or registered domestic partner of a either a fire or police retiree on a non-service related disability with a max of 37.5%, regardless of the number of years of service.

Additionally, for situations other than for a service-related death, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

- One child - 25% of final average salary
- Two children - 37.5% of final average salary
- Three or more children - 50% of final average salary

The maximum annual benefit paid to a family under any circumstance is 75% of final average salary. If the employee has no spouse or registered domestic partner or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000 is paid to his/her estate.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final average salary. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retired prior to February 4, 1996 (maximum benefit, 75% of final

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

average salary). For members retiring after February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). For members retiring after February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 up to 30 years of service (maximum benefit, 85% of final average salary).

Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only with service of 20 years or greater, the monthly allowance consists of final average salary multiplied by 3% for each full year (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service not to exceed 50% of final average salary. For members retiring on or after February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). For members retiring on or after February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only with 20 years of service or greater, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final average salary are entitled to payment of 100% of the lowest cost medical insurance plan available to an active police and fire employee, as defined in the Municipal Code. However, the Plan pays the entire premium cost for dental insurance coverage.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Plan is reported in a pension 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 formal commitments as well as statutory and contractual commitments (at the end of the pay period). Benefits and refunds of contributions are recognized when 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 generally accepted accounting principles 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 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 August 2, 2012, the Board approved a long-term asset allocation based on the results of an asset allocation study. The new asset allocation increased the Fixed Income strategies and reduced the allocation to Equity and Real Estate, Absolute Return and Real Assets. The new asset allocation was prepared to align with the expected returns of the Plan as determined

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the June 30, 2012 valuations. The Plan's investment asset allocation is as follows:

Pension:
Total Equity – Target 37%
(Minimum 25%/Maximum 50%)
Total Fixed Income – Target 30%
(Minimum 20%/Maximum 40%)
Total Inflation-linked Asset – Target 17%
(Minimum 12%/Maximum 25%)
Total Absolute Return – Target 15%
(Minimum 5%/Maximum 25%)
Cash – Target 1%
(Minimum 0%/Maximum 5%)

Health Care Trust:
Total Equity – Target 43%
(Minimum 25%/Maximum 50%)
Total Fixed Income – Target 35%
(Minimum 20%/Maximum 40%)
Total Inflation-linked Asset – Target 22%
(Minimum 12%/Maximum 25%)
Cash – Target 0%
(Minimum 0%/Maximum 5%)

The Plan's prior asset allocation was as follows:

Equity – Target of 40%, minimum 30% and maximum 50% of the fair value of the aggregate portfolio.

U.S. Large Cap – Target 18%

U.S. Small Cap – Target 5%

Non U.S. Developed Markets – Target 12%

Non U.S. Emerging Markets – Target 5%

Fixed Income – Target of 25%, minimum 15% and maximum 35% of the fair value of the aggregate portfolio.

Core Fixed Income – Target 5%

U.S. Treasury Inflation Protected Securities (TIPS) – Target 10%

Long Duration Fixed Income – Target 5%

Opportunistic Credit – Target 5%

Alternative Assets – Target of 35%, minimum of 10% and maximum 60% of the fair value of the aggregate portfolio. Under allocated asset classes have been temporarily invested in other asset classes.

Private Equity – Target 5%

Real Estate – Target 10%

Inflation-Linked Assets – Target 10%

Absolute Return – Target 5%

Opportunistic – Target 5%

The Plan's investment policy authorizes the Plan to invest in domestic equity, international equity, emerging market equity, domestic fixed income, global (international) fixed income, long duration fixed income, U.S. Treasury Inflation Protected Securities (TIPS), high yield/credit opportunities, international currency contracts, private equity, real estate, derivatives, securities lending, and short-term investment funds. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds.

The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. 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 as 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, 2013, the separate real estate properties include: office buildings in O'Fallon, MO and San José, CA. As of June 30, 2013, the office building in O'Fallon, MO had a mortgage payable with a fair value of $8,752,000. As of June 30, 2012, the office buildings in O'Fallon, MO had mortgage loans payable with combined fair values of approximately $9,212,000. The outstanding mortgage loans payable do not exceed 50% of the assets as allowed in the Plan's Real Estate Investment Guidelines.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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. As of June 30, 2013 and 2012, plan net position, totaling $2,864,244,000 and $2,641,442,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Postemployment Healthcare 401(k)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
June 30, 2013:							
Employee contributions	$ 203,257	$ 61,327	$ 264,584	$ 41,325	$ -	$ -	$ 305,909
General reserve	1,614,863	910,078	2,524,941	16,752	11,662	4,980	2,558,335
TOTAL	**$ 1,818,120**	**$ 971,405**	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**
June 30, 2012:							
Employee contributions	$ 195,770	$ 56,884	$ 252,654	$ 28,008	$ -	$ -	$ 280,662
Supplemental retiree benefit	33,417	-	33,417	-	-	-	33,417
General reserve	1,475,639	816,754	22,924	34,970	-	-	2,327,363
TOTAL	**$ 1,704,826**	**$ 873,638**	**$ 2,578,464**	**$ 62,978**	**$ -**	**$ -**	**$ 2,641,442**

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.

The *Supplemental Retiree Benefit Reserve* (SRBR) was a reserve that represented funds permitted by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The SRBR was established in December 2001, upon adoption of Ordinance number 26536 of the City of San José Municipal Code. SRBR excess earnings and interest transfers were calculated by the Plan's actuary per Ordinance number 26536 and were based on all of the Plan's assets (including the Retirement Fund, the Cost-of-Living Fund, and the Postemployment Healthcare Plans). However, excess earnings and interest transfers to SRBR were funded only by the Retirement Fund and not the COLA or Postemployment Healthcare reserves.

Additionally, if the City's contribution rate, as determined by the Board's actuary during any actuarial valuation, would have increased as a result of poor investment earnings in the retirement fund, the SRBR reserve off-set the City's contributions in an amount equal to ten percent of the City's increased contributions for the first twelve months following the increase in the contribution rates, but not to exceed five percent of the accrued balance in the SRBR reserve as of the date of the actuarial valuation.

On January 29, 2013, the City adopted Ordinance # 29198 to eliminate the SRBR. This ordinance will affect all members. The Plan's actuary, Cheiron Inc. (Cheiron), prepared a supplemental report to the June 30, 2012 valuation showing the effect of the SRBR elimination. On June 30, 2013, the funds held in the SRBR were credited to the General Reserve. In fiscal year 2012, Cheiron prepared the excess earnings, SRBR interest credit, and charge to the SRBR for poor investment earnings amounts based on the audited June 30, 2011 financial statements. Cheiron prepared and the Board

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

adopted and declared that there were no excess earnings for 2012. The SRBR was also charged $848, 000, effective July 1, 2012, for poor investment earnings as determined in the June 30, 2011 valuation where actual investment earnings on an actuarial value of assets were below the assumed investment return of 7.75%. In addition, Cheiron computed an interest transfer to the SRBR reserve in the amount of approximately $1.3 million for 2011. An SRBR distribution of approximately $1.3 million to eligible retirees and beneficiaries as per San Jose Municipal Code was calculated for fiscal year ended June 30, 2011. However, SRBR distributions continued to be suspended through fiscal year 2012 by the City Council resolution number 28915 adopted on May 17, 2011.

General Reserve is a reserve that represents net earnings resulting from investment earnings, employer contributions, and realized and unrealized investment gains and losses.

(e) 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. For fiscal years 2012 and 2011, there were no excess earnings declared.

(f) Implementation of Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting net assets as net position. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. As of July 1, 2011, the Plan adopted the above GASB standards, which did not have a significant impact on its financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. As of June 30, 2013 and 2012, the Plan's derivative instruments are considered investments and not hedges for accounting purposes. The implementation of Statement No. 64 does not have a significant impact on the financial statements for the fiscal years ended June 30, 2013, and 2012. Disclosure details for investment derivative instruments can be found in the Derivatives subsection of Note 3.

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. As of June 30, 2012, $12,215,000 of bank loan securities were floating rate securities tied to one and three month London Interbank Offered Rate (LIBOR).

NOTE 3 – INVESTMENTS (Continued)

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in years) as of June 30, 2013 and 2012, concerning the fair value of investments and interest rate risk:

INVESTMENT MATURITIES AT FAIR VALUE

as of June 30, 2013 (Dollars 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								
Domestic Fixed Income:								
Asset Backed Securities	$ -	$ -	$ -	$ -	$ -	$ 5,070	$ 5,070	$ 5,495
Bank Loan	-	-	3,397	-	-	-	3,397	3,397
Collateralized Mortgage Obligations	-	-	-	-	553	8,440	8,993	8,813
Corporate Bonds	591	427	3,417	14,620	9,639	6,437	35,131	37,473
FHLMC	-	-	-	-	-	12,754	12,754	12,998
FNMA	-	-	-	-	242	23,494	23,736	23,405
Guaranteed Investment Contracts	-	-	3,279	2,406	5,378	376	11,439	10,925
U.S. Treasury Inflation Protection	5,783	-	-	34,280	8,946	5,477	54,486	55,606
Total Domestic Fixed Income	**6,374**	**427**	**10,093**	**51,306**	**24,758**	**62,048**	**155,006**	**158,112**
Collective Short Investment	**393,467**	**-**	**-**	**-**	**-**	**-**	**393,467**	**403,875**
International Fixed Income	**-**	**-**	**446**	**1,916**	**2,527**	**669**	**5,558**	**5,440**
TOTAL FIXED INCOME	**$ 399,841**	**$ 427**	**$ 10,539**	**$ 53,222**	**$ 27,285**	**$ 62,717**	**$ 554,031**	**$ 567,427**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE *as of June 30, 2012*
(Dollars 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								
Domestic Fixed Income:								
Asset Backed Securities	$ 2,025	$ -	$ -	$ 2,020	$ 1,249	$ 4,650	$ 9,944	$ 11,781
Bank Loans	-	1,142	1,094	10,280	-	-	12,516	10,987
Collateralized Mortgage Obligations	-	-	-	-	12,534	13,522	26,056	24,019
Corporate Bonds	-	2,789	4,305	31,476	26,037	111,685	176,292	155,145
FHLMC	-	-	-	-	4,688	11,159	15,847	15,585
FNMA	-	-	-	-	1,092	21,344	22,436	22,116
GNMA	-	-	-	-	-	3,301	3,301	3,086
State and Local Obligations	-	-	-	-	739	10,535	11,274	9,639
U.S. Treasury Inflation Protected Securities	-	-	-	130,289	137,528	-	267,817	249,484
U.S. Treasury Securities	5,799	-	-	31,878	2,605	27,346	67,628	65,306
Total Domestic Fixed Income	**7,824**	**3,931**	**5,399**	**205,943**	**186,472**	**203,542**	**613,111**	**567,148**
International Corporate Bonds	**40**	**-**	**917**	**4,290**	**4,645**	**5,760**	**15,652**	**15,422**
Pooled Fixed Income Bond Funds	**-**	**-**	**-**	**18,660**	**-**	**-**	**18,660**	**18,295**
Corporate Convertible Bonds	**-**	**-**	**13,437**	**38,725**	**9,809**	**11,097**	**73,068**	**72,789**
Collective Short Term Investment Fund	**12,791**	**-**	**-**	**-**	**-**	**71,168**	**83,959**	**83,976**
TOTAL FIXED INCOME	**$ 20,655**	**$ 3,931**	**$ 19,753**	**$ 267,618**	**$ 200,926**	**$ 291,567**	**804,450**	**$ 757,630**

NOTE 3 – INVESTMENTS (Continued)

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. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2013 and 2012, 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 are invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

Credit Quality Risk – 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 Plan's investment policy dictates that all domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's (S&P), Moody's Investors' Service (Moody's), or Fitch Ratings (Fitch). In the event that ratings are provided by only two agencies and the third is non-rated, the more conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, the security shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from the Plan, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the Plan's investment policy at the time of purchase, the investment manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. 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.

The following tables provide information as of June 30, 2013 and 2012 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $54,486,000 and $338,746,000 as of June 30, 2013 and 2012, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS

June30, 2013 (Dollars in Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 1,254	0.3%
AA	43,936	8.8%
A	14,369	2.9%
BBB	13,295	2.7%
BB	1,551	0.3%
Not Rated	425,141	85.0%
TOTAL	**$ 499,546**	**100.0%**

RATINGS OF FIXED INCOME INVESTMENTS

June 30, 2012 (Dollars In Thousands)

AAA	$ 15,541	3.3%
AA	74,524	16.0%
A	90,989	19.6%
BBB	79,742	17.1%
BB	19,300	4.1%
B	10,109	2.2%
CCC & Below	1,726	0.4%
Not Rated	173,773	37.3%
TOTAL	**$ 465,704**	**100.0%**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

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.

The following tables provide information as of June 30, 2013 and 2012, concerning the fair value of investments and foreign currency risk:

FORIEGN CURRENCY RISK ANALYSIS

June 30, 2013 (Dollars In Thousands)

Currency Name	Cash	Equity	International Currency Contracts, Net	Total Exposure
Australian Dollar	$ 29	$ 20,310	$ (39)	$ 20,300
Brazilian Real	32	-	-	32
Canadian Dollar	20	34,708	(46)	34,682
Chilean Peso	1	-	-	1
Danish Krone	14	3,585	-	3,599
Euro Currency	1,963	70,446	(465)	71,944
Hong Kong Dollar	102	7,370	-	7,472
Indian Rupee	10	-	-	10
Israeli Shekel	18	1,094	-	1,112
Japanese Yen	1,513	61,050	(407)	62,156
New Zealand Dollar	1	246	-	247
Norwegian Krone	72	3,601	-	3,673
Pound Sterling	137	63,613	(353)	63,397
Singapore Dollar	280	5,096	-	5,376
South Korean Won	-	971	-	971
Swedish Krona	276	8,204	(15)	8,465
Swiss Franc	366	23,641	-	24,007
TOTAL	**$ 4,834**	**$ 303,935**	**$ (1,325)**	**$ 307,444**

NOTE 3 – INVESTMENTS (Continued)

FORIEGN CURRENCY RISK ANALYSIS

June 30, 2012 (Dollars In Thousands)

Currency Name	Cash	Equity	Fixed income	International Currency Contracts, Net	Total Exposure
Austalian Dollar	$ 144	$ 26,277	$ -	$ 79	$ 26,500
Brazilian Dollar	186	8,896	35	-	9,117
British Pound Sterling	594	95,834	-	94	96,522
Canadian Dollar	82	41,626	-	24	41,732
Chilean Peso	41	1,985	-	-	2,026
Colombian Peso	47	789	-	-	836
Danish Krone	3	3,057	-	-	3,060
Euro Currency	2,764	103,118	7,489	352	113,723
Hong Kong Dollar	230	22,282	125	-	22,637
Indonesian Rupiah	36	2,341	-	-	2,377
Israeli Shekel	1	300	-	-	301
Japanese Yen	1,102	87,316	7,806	(128)	96,096
Malaysian Ringgit	17	1,363	-	-	1,380
Mexican Peso	5	541	-	-	546
New Taiwan Dollar	-	-	-	16	16
Norwegian Krone	80	3,789	-	61	3,930
Philippine Peso	-	480	-	-	480
Polish Zloty	-	703	-	-	703
Singapore Dollar	126	8,704	2,651	-	11,481
South African Rand	8	4,644	-	-	4,652
South Korean Won	154	16,798	-	-	16,952
Swedish Krona	125	7,989	1,556	(9)	9,661
Swiss Franc	166	23,077	-	-	23,243
Thailand Baht	21	1,619	-	-	1,640
Turkish Lira	21	2,438	-	-	2,459
TOTAL	**$ 5,953**	**$ 465,966**	**$ 19,662**	**$ 489**	**$ 492,070**

NOTE 3 – INVESTMENTS (Continued)

Concentration of Credit Risk – The Plan's investment policy does not limit the amount that can be invested in a single issuer. However, it limits the aggregate amount that can be invested in each class of investments, limits the portion of the total Plan assets that a manager can hold in a single security with the exception of government backed securities and real estate equity to 5%, and limits the Plan assets placed with an investment manager to represent no more than 10% of that manager's total assets.

As of June, 30, 2013 and 2012, 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 basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the Plan specifically prohibits investment managers from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are leveraged, or whose marketability may become severely limited. 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, 2013 or 2012. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as 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 of derivative instruments outstanding as of June 30, 2013 and 2012, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2013 and 2012 financial statements are as follows (amounts in thousands):

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2013		Fair Value at June 30, 2013		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
International currency forwards	Investment income	$ (2,773)	International currency contracts, net	$ (1,323)	$ 51,021
Futures long/short (domestic and foreign)	Investment income	(3,470)	Fixed income (domestic and foreign)	-	$155,879
Index futures long/short (domestic and foreign)	Investment income	28,670	Equity income (domestic and foreign)	-	$939
Rights	Investment loss	(93)	Global equity	4	2
Warrants	Investment income	29	Global equity	-	-
		$ 22,363		**$ (1,318)**	

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
International currency forwards	Investment income	$ 668	International currency contracts, net	$ 489	$ 62,324
Futures long/short (domestic and foreign)	Investment income	1,318	Fixed income (domestic and foreign)	-	30,300
Index futures long/short (domestic and foreign)	Investment income	2,361	Equity income (domestic and foreign)	-	768
Rights	Investment loss	(4)	Global equity	5	8
Warrants	Investment income	7	Global equity	36	18
		$ 4,350		**$ 530**	

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, 2013 and 2012:

Counterparty Credit Risk – The Plan is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2013, the Plan held rights with fair values of approximately $4,000 with notional shares of 2 held by unrated counterparties. The Plan is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2012, the Plan held rights and warrants with fair values of approximately $5,000 and $36,000 with notional shares of 8 and 18 held by unrated counterparties.

The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2013, total commitments in forward currency contracts to purchase and sell international currencies were $51,021,000 and $51,021,000 respectively, with fair values of $49,586,000 and $50,909,000, respectively, held by counterparties with an S&P rating of at least AA-. As of June 30, 2012, total commitments in forward currency contracts to purchase and sell international currencies were $62,324,000 and $62,324,000 respectively, with fair values of $62,574,000 and $62,085,000, 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, 2013 and 2012, 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.

NOTE 3 – INVESTMENTS (Continued)

The following tables provide information as of June 30, 2013 and 2012, concerning the fair value of forward currency contracts and foreign currency risk (dollars in thousands)::

2013

Currency Name	International currency contracts, net
Austalian Dollar	$ (39)
Canadian Dollar	(60)
Euro Currency	(500)
Japanese Yen	(407)
British Pound Sterling	(302)
Swedish Krona	(15)
TOTAL	**$ (1,323)**

2012

Currency Name	International currency contracts, net
Austalian dollar	$ 79
British pound sterling	94
Canadian dollar	24
Euro currency	352
Japanese yen	(128)
New Taiwan dollar	16
Norwegian krone	61
Swedish krona	(9)
TOTAL	**$ 489**

NOTE 4 – SECURITIES LENDING PROGRAM

The Plan has a custodial agreement with State Street Corporation (State Street), which authorizes State Street to lend the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the lent securities to be transferred into the name of the borrowers. The Plan does not have a threshold for securities lending. As of June 30, 2013, the Plan had no exposure to borrower credit risk related to the securities lending transactions as State Street is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned lent securities if the lent securities are not returned by the borrower. The Plan receives a fee from the borrower for the use of the lent securities.

Securities lending collateral represents investments in State Street's Quality D Short-term Investment Fund purchased with cash collateral, as well as securities collateral that the Plan may not pledge or sell without a borrower default. Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of plan net position. The Plan does not match the maturities of investments made with cash collateral with the securities on loan.

The loaned securities as of June 30, 2013 and 2012 consisted of U.S. Treasury securities, domestic corporate bonds, domestic equity securities, international corporate bonds, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 101% for domestic and 106% for international of the transferred securities plus accrued interest for reinvestment of the collateral.

The Plan authorized State Street to invest and reinvest cash collateral in State Street's Quality D Short-term Investment Fund, which, effective December 3, 2010, consists of a liquidity pool and a liquidating account known as the duration pool. The duration pool was established and allocated the asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each Quality D Fund investor owns a specified percentage interest in the duration pool, which is redeemable only in-kind, not cash. The Quality D duration pool will not make additional investments.

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

The liquidity pool investment policy guidelines provides that the State Street Investment Manager shall maintain the dollar-weighted average maturity of the fund in a manner that the Investment Manager believes is appropriate to the objective of the fund; provided (a) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (b) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the fund not to exceed 75 calendar days and (c) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of the Quality D Fund not to exceed 180 days. At the time of purchase, all securities with maturities of 13 months or less shall be rated at least A1, P1 or F1 by at least any two nationally recognized statistical rating organizations (NRSROs), or be determined by the Investment Manager to be of comparable quality. Securities with maturities in excess of 13 months shall be rated at least A-, A3 or A- by at least any two of S&P, Moody's, or Fitch, or be determined by the Investment Manager to be of comparable quality. The fund may invest up to 10% of its assets at time of purchase in commingled vehicles that conform with the State Street Investment Policy Guidelines. Investments made prior to December 3, 2010, shall continue to be permissible to the extent they complied at the time of purchase.

As of June 30, 2013, the cash collateral pool for the duration and liquidity pools totaled $903 million and $13.3 billion, respectively. The weighted average maturities for the duration and liquidity pools were 43.89 and 28.78 days, respectively. The cash collateral duration pool included asset backed securities (99.38%) and other securities (0.62%). The liquidity pool included asset backed securities (13.68%), certificates of deposit (45.94%), bank notes (2.78%), commercial paper (13.51%), repurchase agreements (repos) (19.41%) and other securities (4.68%).

As of June 30, 2012, the cash collateral pool for the duration and liquidity pools totaled $1.4 billion and $15.1 billion, respectively. The weighted average maturities for the duration and liquidity pools were 40.32 and 35.93 days, respectively. The cash collateral duration pool included asset backed securities (99.54%) and other securities (0.46%). The liquidity pool included asset backed securities (17.84%), certificates of deposit (34.33%), bank notes (2.49%), commercial paper (19.70%), repurchase agreements (repos) (22.62%) and other securities (3.02%).

As of June 30, 2013, the underlying securities loaned by the Plan as a whole amounted to approximately $421,790,000. The Plan received cash collateral and non-cash collateral totaling $427,363,000 and $588,000, respectively, at carrying cost. The Plan's share of the cash collateral pool at June 30, 2013 was at $1.01 or $416,399,000 and $0.9545 or $10,503,000 for the liquidity and duration pools, respectively on a mark to market basis. The NAV of less than $1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9545 of the duration cash collateral pool results in an unrealized loss of approximately $501,000 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 $426,902,000. The unrealized loss of $459,000 for the duration pool 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 pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

As of June 30, 2012, the underlying securities loaned by the Plan as a whole amounted to approximately $257,596,000. The Plan received cash collateral and non-cash collateral totaling $241,875,000 and $18,572,000, respectively, at carrying cost. The Plan's share of the cash collateral pool at June 30, 2012 was at $1.01 or $211,526,000 and $0.9177 or $27,870,000 for the liquidity and duration pools, respectively on a mark to market basis. The NAV of less than $1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9177 of the duration cash collateral pool results in an unrealized loss of approximately $2,499,000 for the Plan. The Plan's investment in the liquidity and duration cash collateral investment pools are presented in the statement of plan net position at their respective NAV or $239,396,000. The unrealized loss of $2,479,000 for the duration pool 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 pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

Notes to Financial Statements *(Continued)*

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING – INVESTMENT AND COLLATERAL RECEIVED (*at Fair Value in thousands*)

	2013	2012
Type of Investment Lent		
For Cash Collateral		
Domestic corporate bonds	$ 444	$ 45,050
Domestic equity securities	410,429	95,501
U.S. treasury securities	-	58,421
International equity securities	10,340	40,541
Total Lent for Cash Collateral	421,213	239,513
For Non-Cash Collateral:		
Domestic equity securities	569	805
U.S. treasury securities	8	17,278
Total Lent for Non-Cash Collateral	577	18,083
Total Securities Lent	**$ 421,790**	**$ 257,596**
Type of Collateral Received		
Cash Collateral *	$ 426,902	$ 239,396
Non-cash Collateral		
For lent domestic equity securities	588	821
For lent US treasury securities	-	17,751
Total Non-cash collateral	588	18,572
Total Collateral Received	**$ 427,490**	**$ 257,968**

* *Amount represents the mark-to-market value of the cash collateral pool at a 100.00% for the liquidity portfolio and 95.45% for the duration portfolio for fiscal year 2013. In 2012, the net asset values were 100.00% and 91.77%.*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Department Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. 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 setting the annual required 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, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year.

The annual required contribution determined in the June 30, 2011 valuation for the fiscal year ended June 30, 2013 was the greater of $105,297,000 (if paid at the beginning of the fiscal year) or 58.43% for fire members and 56.57% for police members of actual payroll for the fiscal year. The total actuarial payroll for police and fire for the fiscal year was $190,726,000 ($121,735,000 for police members and $68,991,000 for fire members). The actual payroll for fire

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

members in the fiscal year of $70,031,000 was more than the actuarial payroll of $68,991,000, so the City paid an additional $608,000 in pension contributions for fire members over the prepaid required annual contribution of $105,297,000 as of July 1, 2012 for a total of $105,905,000, excluding year end contributions receivable and prior year contribution adjustments.

In fiscal year 2011-12, the annual required contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $121,008,000 (if paid at the beginning of the fiscal year) or 51.05% for fire members and 49.29% for police members of actual payroll for the fiscal year. The actual payroll for the fiscal year of $184,746,000 was less than the actuarial payroll of $251,058,000 resulting in the required annual contribution of $121,008,000 as of July 1, 2011, excluding year end contributions receivable and prior year contribution adjustments.

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, 2013 and 2012 were based on the actuarial valuations performed on June 30, 2011 and June 30, 2010, respectively, except for the period of June 23 through June 30, 2013, which were based on the June 30, 2012 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, 2013 and 2012 were as follows:

Period	City – Board Adopted *		Member	
	Police	Fire	Police	Fire
06/23/13 – 06/30/13	65.32%	66.79%	11.64%	11.72%
06/24/12 – 06/22/13	56.57%	58.43%	11.13%	11.21%
06/26/11 – 06/23/12	49.29%	51.05%	10.46%	10.76%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2013 and June 30, 2012 differed due to the City funding the annual required 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.*

The funded status of the Defined Benefit Pension Plan as of June 30, 2012, 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)
06/30/2012	$2,703,539	$3,397,792	$694,253	79.6%	$187,959	369%

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS FUNDED STATUS AND FUNDING PROGRESS (Continued)

The UAAL of $694,253,000 does not reflect the impact of approximately $124.6 million of deferred investment losses. Deferred losses of $314.4 million resulting from unfavorable investment returns in fiscal years 2009 and 2012 are offset by deferred gains of $189.8 million relating to fiscal years 2010 and 2011. 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, as calculated at year-end, are smoothed with the results from the prior four years. It is anticipated that future actuarial valuations will recognize the remaining net deferred investment losses of approximately $124.6 million as described above. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2012, the Plan's most recent valuation, the Plan's AAL increased by approximately $201.8 million due primarily to the earning of additional benefits, interest and a change in actuarially assumed earnings rate assumption from 7.50% to 7.25%. No other assumption changes were made. The Plan's UAAL increased from $510.3 million as of June 30, 2011 to $694.3 million as of June 30, 2012. The increase in the UAAL was primarily due to the change in the actuarially assumed earnings rate and to investment losses. In January 2013, the City Council approved an Ordinance to eliminate the SRBR (Ordinance #29198). The Board approved taking the elimination of the SRBR into consideration for the June 30, 2012 valuation. This resulted in a reduction in the AAL of approximately $32.5 million.

As of June 30, 2011, the Plan's AAL decreased by $34.5 million due to favorable demographic experience and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2011 experience study. The Plan's UAAL decreased from $653.8 million as of June 30, 2010 to $510.3 million as of June 30, 2011. The decrease in the UAAL was primarily due to a 14% reduction in the number of active members and a 24% reduction in expected payroll.

The June 30, 2011 valuation also included a reduction in actuarially assumed earnings rate from 7.75% (net of investment expenses) as of June 30, 2010 to 7.50% (net of investment expenses) as of June 30, 2011. The Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at $3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter.

In addition, the June 30, 2011 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.

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 continual revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future.

Projections for plan benefits are based on plan provisions as adopted and incorporated into the San José Municipal Code at the time of the valuation. 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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Plan transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for the period July 1, 2011 through June 23, 2012 were based on the June 30, 2010 valuation; contribution rates for the period June 24, 2012 through June 23, 2013 were based on the June 30, 2011 valuation; and contribution rates for the period June 24, 2013 through June 30, 2013 were based on the June 30, 2012 valuation.

Notes to Financial Statements *(Continued)*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS FUNDED STATUS AND FUNDING PROGRESS (Continued)

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, 2012	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of pay, closed, layered; equivalent single amortization period 14.0 years	Level percentage of pay, closed, layered; equivalent single amortization period 13.6 years	Level percentage of payroll (assuming a 4.25% total payroll increase), closed, layered: equivalent single amortization period of 15 years
Remaining amortization period	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 6 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 6 years; and (3) Actuarial gains and losses and plan changes are amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation. (4) Actuarial methods and assumption changes are amortized over 20 years from the date of each such event, beginning with the June 30, 2011 valuation.	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 5 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 5 years; (3) Actuarial gains and losses and plan changes are amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation; and (4) Actuarial methods and assumption changes are amortized over 20 years from the date of each such event, beginning with the June 30, 2011 valuation	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 7 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 7 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation
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:			
Assumed rate of return on investments	7.25% per annum (net of investment expenses)	7.5% per annum (net of investment expenses)	7.75% per annum (net of administrative, SRBR and 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)	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 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.	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.	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 1 year.

Notes to Financial Statements *(Continued)*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS FUNDED STATUS AND FUNDING PROGRESS (Continued)

Description	Method/Assumption		
Valuation date	June 30, 2012	June 30, 2011	June 30, 2010
ACTUARIAL ASSUMPTIONS: (continued)			
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2011 actuarial experience analysis	Based upon the June 30, 2011 actuarial experience analysis	Based upon the June 30, 2009 Actuarial Experience Analysis
Salary increases			
Wage Inflation	0.00% for FY 2013 and 2014, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.	4.25% is for the combined inflation and real across-the-board salary increase.
Merit Increase	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	0-5 years of service - 9.75% 6-7 years of service - 6.75% 8+ years of service - 6.00% Of the total salary increase,

The schedules presented as required supplementary information following the notes to the basic financial statements present multiyear trend information. The Schedule of Funding Progress for the Defined Benefit Pension 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 Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC). 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 6 – POSTEMPLOYMENT HEALTHCARE PLANS: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Through the fiscal year ended June 30, 2012, employer postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) Plan. For the fiscal year ended June 30, 2013, 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 in both years. It is anticipated that employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan will commence upon the Plan's receipt of an IRS private letter ruling on the tax qualification of the new Section 115 Trust. 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 2012-2013 was the second 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 2012-2013 was the fourth 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 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% or 11%.

In January 2011, the Board adopted a funding policy setting the 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, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year. The funding policy contribution amount determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013 was the greater of $15,739,000 (if paid at the beginning of the fiscal year) or 8.96% for police members and 6.62% for fire members of actual payroll for the fiscal

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLANS: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

year. The total actuarial payroll for police and fire for the fiscal year was $190,726,000 ($121,735,000 for police members and $68,991,000 for fire members). The actual payroll for fire members in the fiscal year of $70,031,000 was more than the actuarial payroll of $68,991,000, so the City paid an additional $69,000 in postemployment healthcare contributions for fire members over the required annual contribution of $14,925,000 as of July 1, 2012, excluding year end contributions receivable and prior year contribution adjustments, for a total of $14,994,000 or $10,520,000 for the Police Department Postemployment Healthcare Plan and $4,474,000 for the Fire Postemployment Department Healthcare Plan.

The funding policy contribution amount determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $16,299,000 (if paid at the beginning of the fiscal year) or 5.27% for fire members and 7.61% for police members of actual payroll for the fiscal year. The actual payroll for the fiscal year of $184,746,000 was less than the actuarial payroll of $251,058,000 resulting in an annual contribution of $16,299,000 as of July 1, 2011, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The contributions for Fire and Police members are not sufficient to meet the ARC in accordance with the requirements of GASB Statement No. 43.

The City and the participating member's contribution rates in effect during the fiscal years ended June 30, 2013 and 2012 for the Postemployment Healthcare Plans were as follows:

Period	City – Board Adopted *		Member	
	Police	Fire	Police	Fire
06/23/13 – 06/30/13	10.31%	7.96%	9.51%	7.35%
06/24/12 – 06/22/13	8.96%	6.62%	8.26%	6.11%
06/26/11 – 06/23/12	7.61%	5.27%	7.01%	4.86%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2013 and June 30, 2012 differed due the City funding the annual required 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.*

The funded status of the Postemployment Healthcare 401(h) Plan as of June 30, 2012, 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))
06/30/2012	$ 66,385	$ 997,321	$ 930,936	7%	$ 187,959	495%

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLANS: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

As of June 30, 2012, the Plan's most recent actuarial valuation, the Postemployment Healthcare 401(h) Plan's UAAL decreased by $12.2 million primarily due to changes in the medical plans offered and assumptions as recommended by the Board's actuary. The OPEB actuarially assumed earnings rate decreased from 5.70% used in the June 30, 2011 OPEB valuation to 4.40% used in the June 30, 2012 OPEB valuation. The Postemployment Healthcare 40(h) 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 plan. In addition, 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. These medical plan changes greatly 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 401(h) Plan does not reflect the new Section 115 subtrusts, the Police Department Postemployment Healthcare Plan or the Fire Department Postemployment Healthcare Plan, as those plans had no financial activity as of the most recent valuation date.

As of June 30, 2011, the Plan's most recent valuation, the Plan's UAAL increased by $55 million primarily due to the accumulation of interest for another year net of the payment of benefits and the accrual of benefits by active members. The Plan's OPEB discount rate is 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 discount 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 Plan's expected rate of return from 7.75% to 7.50%. The expected rate of return of 7.5% is now 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 trend assumptions for per person costs and demographic assumptions changes as determined in the June 30, 2011 experience study. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the $25 co-pay plans offered for the first time by the City.

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 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 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 Plan presents 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 6 – POSTEMPLOYMENT HEALTHCARE PLANS: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The Postemployment Healthcare Plans' contribution rates for the period July 1, 2011 through June 23, 2012 were based on the June 30, 2010 valuation; contribution rates for the period June 24, 2012 through June 23, 2013 were based on the June 30, 2011 valuation; and contribution rates for the period June 24, 2013 through June 30, 2013 were based on the June 30, 2012 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, 2012	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent 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, 2012, open	30 years as of June 30, 2011, open	30 years as of June 30, 2010, 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	4.40% †	5.70% †	6.3% †
Projected payroll increases			
Wage Inflation	0.00% for FY 2013 and 2014, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.	4.25% and 0.75% across-the-board increases
Merit Increase	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	
HEALTH CARE COST TREND RATE:			
Medical	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.	The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.50% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5%per annum graded down over a 15 year period for medical-post age 65.	Projected premiums for FY 2010-2011 and 9.75% beginning FY11-12, decreasing by 0.50% for each year for ten years until it reaches an ultimate rate of 5%
Dental	4.5%	Dental inflation is assumed to be 4.50% graded down to 4% over a three year period.	5%

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the portion of the ARC contributed by the City for fiscal year.

Notes to Financial Statements *(Continued)*

NOTE 7 – CONTINGENCY

Commitments – As of June 30, 2013, the Plan had unfunded commitments to contribute capital for private market investments in the amount of $123,440,000.

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 and Plan are currently working with legal counsel 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

Private Letter Ruling – 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 Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan established as part of the Section 115 Trust. It is anticipated that the Plan will seek a private letter ruling from the Internal Revenue Service on the tax qualification of the new Section 115 Trust. Following receipt of that letter ruling, employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may commence.

Tier 2 for Police – On June 18, 2013 the San Jose City Council adopted an Ordinance creating a second tier of benefits applicable to police plan members hired, rehired, or reinstated on or after August 4, 2013 (Ordinance #29266). The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year for the first 20 years of service and 4% per year from 21 to 30 years of service to 2.0% per year; an increase from 55 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%; a single life annuity compared to a 50% joint survivorship, and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year; and excluding premium pay from pensionable compensation.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[1]	Entry Age Actuarial Accrued Liability (AAL) [2]	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll [2]	(OAAL)/UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2007[3]	$ 2,365,790	$ 2,372,386	$ 6,596	99.7%	$ 227,734	3%
06/30/2009	2,569,569	2,963,482	393,913	86.7%	243,196	162%
06/30/2010	2,576,705	3,230,456	653,751	79.8%	222,699	294%
06/30/2011	2,685,721	3,196,007	510,286	84.0%	190,726	268%
06/30/2012	2,703,539	3,397,792	694,253	79.6%	187,959	369%

[1] *Excludes accounts payable.*

[2] *Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2012, 2011 and the 2007 valuation. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll.*

[3] *After reflection of benefit improvements effective July 1, 2006 for Police members and July 1, 2008 for Fire.*

As of June 30, 2012, the Plan's most recent valuation, the Plan's AAL increased by approximately $201.8 million due primarily to the earnings of additional benefits, interest and a change in actuarially assumed earnings rate assumption from 7.50% to 7.25%. No other assumption changes were made. The Plan's UAAL increased from $510.3 million as of June 30, 2011 to $694.3 million as of June 30, 2012. The increase in the UAAL was primarily due to the change in actuarially assumed earnings rate assumption and to investment losses. In January 2013, the City Council approved an Ordinance to eliminate the SRBR (Ordinance #29198). The Board approved taking the elimination of the SRBR into consideration for the June 30, 2012 valuation. This resulted in a reduction in the AAL of approximately $32.5 million.

As of June 30, 2011, the Plan's AAL decreased by $34.5 million due to favorable demographic experience and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2011 experience study. The Plan's UAAL decreased from $653.8 million as of June 30, 2010 to $510.3 million as of June 30, 2011. The decrease in the UAAL was primarily due to a 14% reduction in the number of active members and a 24% reduction in expected payroll. The June 30, 2011 valuation also included a reduction in the actuarially assumed earnings rate from 7.75% (net of expenses) as of June 30, 2010 to 7.50% (net of investment expenses only) as of June 30, 2011. The Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at $3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter.

The amortization period for changes in methods and assumptions is a closed 20-year period beginning with the valuation date in which they are effective. Prior to the June 30, 2011 valuation it was a closed 16-year period. 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.

As of June 30, 2010, the Plan's AAL increased by $267 million due to experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Plan's UAAL increased from $393.9 million as of June 30, 2009 to $653.8 million as of June 30, 2010. The increase in the UAAL was primarily due to the net impact of unfavorable investment returns, lower than expected salary increases, more deaths than expected among retirees/beneficiaries, more service retirements offset by fewer disability retirements, other actuarial experience, and a reduction in the 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. The market value of assets corridor limits the smoothing of assets to be no greater than 120% and no less than 80% of the market value of assets as of June 30, 2010. Under this practice, investment gains or losses are recognized immediately if necessary to maintain the smoothed assets within 80-120% market value corridor. The total unrecognized investment losses, for pension and health assets, were $353.8 million before and after the application of the 120% market value of assets corridor.

As of June 30, 2009, the Plan's AAL increased by $591.0 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $6.6 million as of June 30, 2007 to $393.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of (a) unfavorable investment returns during the last two years, (b) higher than expected salary increases, (c) earlier than expected retirements, (d) data corrections, and (e) 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 - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars In Thousands)

Fiscal year ended June 30,	Annual required employer contributions	Percentage contributed
2008	$ 56,372	100%
2009	53,103	100%
2010	52,315	100%
2011	77,918	100%
2012	121,009	100%
2013	105,234	100%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ARC has been reduced to reflect the additional employee contributions.*

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE 401(h) PLAN (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	(OAAL)/UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2007	$ 45,393	$ 666,228	$ 620,835	7%	$ 227,734	273%
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	943,087	6%	190,726	494%
06/30/2012	66,385	997,321	930,936	7%	187,959	495%

Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 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, 2012, the Plan's most recent actuarial valuation, the Postemployment Healthcare 401(h) 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 OPEB actuarially assumed earnings rate decreased from 5.70% used in the June 30, 2011 OPEB valuation to 4.40% used in the June 30, 2012 OPEB valuation. The Postemployment Healthcare

401(h) 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 $1500 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 401(h) 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 Plan's UAAL increased by $55 million primarily due to the passage of time and accrual of benefits by active members. The Plan's OPEB 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 4.75% to 4.00% and the 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 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 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 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 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 401(h) PLAN (Unaudited)

(Dollars iIn Thousands)

Fiscal Year Ended	Annual required employer contributions[1]	Actual Contributions [2]		Percentage contributed
06/30/2008	$ 61,344	$10,618		17%
06/30/2009	50,119	9,888	(1)	20%
06/30/2010	50,438	11,284	(1)	22%
06/30/2011	62,322	17,001	(1)	27%
06/30/2012	62,079	21,205	(1)	34%
06/30/2013	55,824	0[3]	(1)	0%

(1) 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; and $172 for 2013. 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.

(2) Actual contributions for the fiscal years ended June 30, 2008 through 2012 were made to the Postemployment Healthcare 401(h) Plan.

(3) All employer contributions to the Postemployment Healthcare Plans were made to the new Section 115 subtrusts in fiscal year 2012-2013. Actual contributions for the fiscal year ended June 30, 2013 include contributions of $11,074 and $4,734 to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, respectively.

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

June 30, 2013 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Assets			
Receivables:			
Employee contributions	$ 311	$ 145	$ 456
Employer contributions	1,719	1,369	3,088
Brokers and others	1,398	(729)	669
Accrued investment income	3,302	1,396	4,698
Total receivables	**6,730**	**2,181**	**8,911**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	99,204	52,702	151,906
International fixed income	3,557	1,890	5,447
Collective short term investments	251,810	133,774	385,584
Global equity	1,000,643	535,968	1,536,611
Private equity	83,712	44,472	128,184
Opportunistic	151,807	80,648	232,455
Real assets	155,339	82,524	237,863
Real estate	83,178	44,189	127,367
International currency contracts, net	(847)	(450)	(1,297)
Securities lending cash collateral investment pool	272,521	145,718	418,239
Total investments	**2,100,924**	**1,121,435**	**3,222,359**
TOTAL ASSETS	**2,107,654**	**1,123,616**	**3,231,270**
Liabilities			
Payable to brokers	13,444	5,600	19,044
Securities lending collateral due to borrowers	272,815	145,875	418,690
Other liabilities	3,275	736	4,011
TOTAL LIABILITIES	**289,534**	**152,211**	**441,745**
Plan Net Position - Restricted For:			
Pension benefits	1,818,120	971,405	2,789,525
TOTAL PLAN NET POSITION	**$ 1,818,120**	**$ 971,405**	**$ 2,789,525**

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For the Fiscal Year Ended June 30, 2013 (Dollars In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Additions			
Contributions			
Employee	$ 13,865	$ 6,362	$ 20,227
Employer	59,020	46,214	105,234
Total contributions	**72,885**	**52,567**	**125,461**
Investment income:			
Net depreciation in fair value of investments	109,091	56,798	165,889
Interest income	28,493	15,016	43,509
Dividend income	27,655	14,626	42,281
Net rental income	2,373	1,258	3,631
Less investment expense	(6,419)	(3,365)	(9,784)
Net investment loss before securities lending income	**161,193**	**84,333**	**245,526**
Securities lending income:			
Earnings	2,536	1,309	3,845
Rebates	(60)	(31)	(91)
Fees	(363)	(192)	(555)
Net securities lending income	**2,113**	**1,086**	**3,199**
Net investment loss	**163,306**	**85,419**	**248,725**
TOTAL ADDITIONS	**236,191**	**137,995**	**374,186**
Deductions			
Retirement benefits	115,303	35,508	150,811
Death benefits	4,612	3,393	8,005
Refund of contributions	703	183	886
Administrative expenses and other	2,279	1,144	3,423
TOTAL DEDUCTIONS	**122,897**	**40,228**	**163,125**
NET INCREASE	**113,294**	**97,767**	**211,061**
Plan Net Position - Restricted for Pension and Postemployment Healthcare Benefits			
BEGINNING OF YEAR	**1,704,826**	**873,638**	**2,578,464**
END OF YEAR	**$ 1,818,120**	**$ 971,405**	**$ 2,789,525**

Other Supplementary Information *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2013 and 2012

	2013			2012
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services	$ 2,491,862	$ 1,899,844	$ 592,018	$ 1,917,061
Non-personnel/equipment	772,765	654,351	118,414	652,551
Professional services	1,026,676	947,370	79,306	1,072,925
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 4,291,303**	**$ 3,501,565**	**$ 789,738**	**$ 3,642,537**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Investment Managers' Fees		
Global equity	**$ 571,193**	**$ 2,049,915**
Global fixed income	**2,749,035**	**2,464,925**
Private equity	**1,188,930**	**2,054,643**
Real assets	**1,085,184**	**1,012,624**
Opportunistic	**2,118,931**	**845,000**
Real estate	**916,604**	**867,565**
TOTAL INVESTMENT MANAGERS' FEES	**8,629,877**	**9,294,671**
Other Investment Fees		
Investment consultant	975,841	767,504
Proxy voting	18,748	35,486
Real estate appraisals	-	3,382
Investment legal fees	184,483	63,983
Custodian	206,669	200,000
Total other investment service fees	**1,385,741**	**1,070,355**
TOTAL INVESTMENT EXPENSES	**$ 10,015,618**	**$ 10,365,026**

Other Supplementary Information *(Continued)*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2013 and 2012

Firm	Nature of Service	2013	2012
Alliance Resource Consulting LLC	Executive recruitment	$ 31,704	$ -
Center for Executive Solutions	Executive training	3,170	-
Cheiron, Inc.	Actuarial consultant	160,175	319,258
Cortex	Governance consultant	53,487	95,313
Financial Knowledge/Peter Sepsis	Educational services	11,404	11,348
Ice Miller, LLC	Tax counsel	17,986	2,357
L.R. Wechsler, LTD	Pension administration selection consulant	31,738	145,478
Levi, Ray, & Shoup	Web development and maintenance	13,350	11,720
Levi, Ray, & Shoup	Programing changes and business continuance services	6,680	18,891
Macias Gini & O'Connell LLP	External auditors	28,360	52,497
Medical Director/Other Medical	Medical consultants	159,968	152,886
Pension Benefit Information	Reports on deceased benefit recipients	2,476	2,083
ReedSmith, LLP	Legal counsel	295,301	101,429
Robert Half Mangement Resources	Temporary staff	1,688	50,579
Saltzman & Johnson	Legal counsel	24,940	59,570
The Segal Company	Actuarial consultant	-	3,180
Silicon Valley Professonals	Temporary staff	66,863	15,090
Trendtec, Inc.	Temporary staff	38,080	31,246
TOTAL		**$ 947,370**	**$ 1,072,925**

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK

Investment Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

NEPC, LLC

ALLAN MARTIN
PARTNER

October 24, 2013

Mr. Roberto L. Peña
Director of Retirement Services
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Mr. Peña,

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 survivor benefits for current and future Plan participants. To insure 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, the accrued liabilities, and the investment outlook. Following is a report on the performance of the Plan for the fiscal year ended June 30, 2013.

Although investment manager performance is key in 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 and 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 at the same time be prepared for "uncertain" future benefits. This balancing of short-term versus long-term needs is a key tenant in the overall construction of the portfolio. To facilitate this demand balance of short-term versus long-term, 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, inflation-linked assets, and opportunistic investment strategies such as senior secured direct lending.

The Board of Administration continues to work diligently on expanding the alternative investment program, which will further assist in the diversification of the portfolio. Asset classes such as hedge funds are designed to lower the overall volatility of the program, while private equity is designed to provide higher long-term performance above what is expected from traditional equity markets. As the allocation strategy evolves year after year, diversification and risk mitigation will continue to be the pillars of the asset allocation structure.

NEPC provides the Plan with quarterly economic and investment market updates and 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.

900 Veterans Blvd. | Ste. 340 | Redwood City, CA 94063-1741 | TEL: 650.364.7000 | www.nepc.com
CAMBRIDGE | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. Performance results are calculated using a time-weighted return methodology. The Plan's goal of achieving market rates of returns, while mitigating unwarranted risk, is measured against appropriate benchmarks and comparative universes on a quarterly basis. Performance is measured on a most recent quarter, year-to-date, and accumulated trailing annual periods, as well as three- and five-year periods (full market cycle). Risk-adjusted performance on an absolute basis and a comparative basis is also measured. This review process allows the Plan to evaluate and determine whether established goals and objectives are being achieved.

NEPC will recommend termination and replacement when individual manager goals and objectives are not being met, when there are significant changes to an investment management firm's organizational structure, departures of key investment professionals, or when a manager deviates from the investment style for which they were hired.

Fiscal Year 2013 Market Review

Fiscal Year 2013 posted surprisingly strong returns for investors seeking risk despite a myriad of macroeconomic concerns. The year was largely dominated by headline risks related to the European debt crisis, the U.S. fiscal cliff, reports of slowed economic growth in China and the emerging markets, and the eventual winding down of the Fed's quantitative easing program.

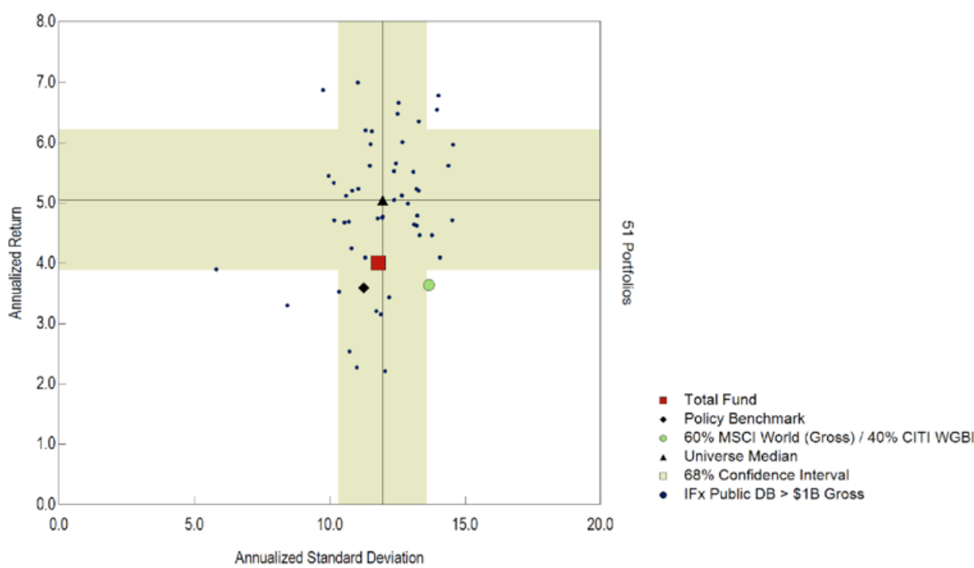
During the first half of the fiscal year (July 2012 – December 2012), domestic equities benefited from improved fundamentals and a more robust housing market, which resulted in gains despite uncertainty surrounding the presidential election and the fiscal cliff. International equity markets, buoyed by positive news flow within the Euro zone and stronger economic data from China, outperformed their domestic counterparts. The latter half of the calendar year also saw risky fixed income assets continue their relentless march toward the finish line. Emerging market debt and high yield bonds benefitted the most as investors seeking yield sought higher returns in the low interest rate environment. In the first quarter of 2013, the Fed continued to drive equity markets with stimulative policy as market volatility was suppressed and markets shrugged off worries of fiscal tightening. Global equities surged, with domestic equities posting the strongest quarter for equity returns over the fiscal year as depressed yields for investment grade bonds pushed investors into riskier segments of the market. The final quarter of the fiscal year proved to be a challenging environment in which virtually all markets were down, leaving investors no safe haven. Markets were roiled by indications the Fed would taper its stimulative policy earlier than expected and concerns of slowing growth in China and the emerging markets.

The broad domestic equity market, as measured by the S&P 500 Index, produced a +20.6% return for fiscal year 2013. The domestic bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned -0.7% in fiscal year 2013. The global equity market, as measured by the MSCI All Country World Index (net of dividends), returned +16.6% in fiscal year 2013, a significant increase from the -5.0% experienced in fiscal year 2012.

The investment performance reported in this letter is in conformance with the presentation standards of the CFA Institute's Global Investment Performance Standards (GIPS). The Plan returned +9.9% gross of fees for the fiscal year ending June 30, 2013, which ranked in the 83rd percentile of the InvestorForce Public Funds Greater than $1 Billion Universe. By comparison, the median fund in the universe returned 12.0% for the period[1]. Contributing to the poor relative performance for the fiscal year was the Plan's overweight to commodities relative to peers in a year when commodity markets posted returns of -8.0% as measured by the Dow Jones-UBS Commodity Index Total Return. Additionally, the Plan's allocation to public equities is significantly lower than many of its peers, which is consistent with our recommendation to reduce the volatility of the Plan's performance by reducing its dependence on equities for returns. Contributing positively to performance during the fiscal year was the Plan's allocation to opportunistic credit strategies, which exhibited strong performance, returning 31.9% for the year vs. investment grade returns of -0.7% as measured by the Barclays Capital U.S. Aggregate Index and non-investment grade returns of 9.5% as measured by the Barclays Capital U.S. High Yield Index.

For the five-year period ending June 30, 2013, the Plan returned 4.0% gross of fees per annum, below the actuarial target of 7.25%. On a relative basis, the Plan ranked in the 83rd percentile of the InvestorForce Public Funds Greater than $1 Billion peer group universe. The Plan's five-year volatility, as measured by standard deviation, ranked in the 45th percentile of its peers, while the risk-adjusted return of the portfolio as measured by the Sharpe Ratio, ranks in the 81st percentile of the universe.

ICC Public Funds Greater than $1 Billion Universe
Risk-Return Comparison (Gross of Fees)
5 Years Ending June 30, 2013



[1]As of June 30, 2013, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 48 total funds with approximately $362 billion in assets. Universe rankings are based on gross of fee performance. The Plan's net of fee performance was 9.6% and 3.7% for the one- and five-year annualized periods ending June 30, 2013, respectively.

In July 2012, the City of San Jose Police and Fire Department Health Care Section 115 Trust received the first of its contributions from the City of San Jose, receiving $11.1 million for the police department's portion of the Health Care Trust, and $4.7 million for the fire department's portion. The newly established Health Care Trust is constrained by a city ordinance which requires the assets be invested in liquid asset classes according to the Police and Fire Department Retirement Plan's Statement of Investment Policy until a separate policy is developed and approved for the Health Care Trust. As a result, the asset allocation of the Health Care Trust will be similar to that of the broad asset class buckets that were approved by the Police and Fire Department Retirement Plan in August 2012. The Health Care Trust returned +5.1% gross of fees for the fiscal year ending June 30, 2013, which ranked in the 44th percentile of the InvestorForce Health and Welfare Funds universe.

In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with uncorrelated return patterns. Over the past several years, we have been working with the Department of Retirement Services to reduce the Plan's exposure to public equity markets, thereby reducing the overall volatility of the Plan, by diversifying into several new asset classes, including inflation-linked assets and opportunistic credit strategies. The Board of Administration adopted new long-term asset allocation targets in August 2012, and we have been and will continue to work with the Department of Retirement Services Staff to implement the new asset allocation in the coming months with the goal of further diversifying the portfolio, resulting in lower risk while maximizing the potential for capital appreciation.

Sincerely,

Allan Martin
Managing Partner

Statement of Investment Policy

PENSION - INCLUDES THE 401(H) INVESTMENTS

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

2) The Plan 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 target asset mix weighting of the major asset classes. 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) The impact of the investment program on the funded status of the Plan and the resulting volatility of contributions.
   b) Risk of loss of Plan assets.

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.
   d) The portfolio management practices followed by other institutional investors.

FIDUCIARY STANDARDS

8) The Board of Administration is subject to the following duties under law:[1]
   a) The assets of the retirement 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.

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.

[1]Per section 540 of Chapter 3.36, 1961 Police and Fire Department Retirement Plan

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

12) The current long-term asset allocation of the Plan (at market value) as of 08/02/2012 is set out below:

Police and Fire Department Retirement Plan

Asset Class	Min (%)	Target (%)	Max (%)
Total Equity	25%	37%	50%
Total Fixed Income	20%	30%	40%
Total Inflation-Linked Asset	12%	17%	25%
Total Absolute Return	5%	15%	25%
Cash	0%	1%	5%

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 real estate, hedge funds, and private debt. 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, 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.

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 necessarily 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. An asset allocation overlay service may be engaged to monitor allocation 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 issues, issuers, 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 15% 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.

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.

Statement of Investment Policy *(Continued)*

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

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) Must disclose past or outstanding legal judgments against them; and should not have any judgments against them, that reflect negatively upon the firm or call into question the ongoing 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.

MONITORING INVESTMENT MANAGERS

26) 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.

27) 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.

28) 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 material 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

29) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index or security. Examples include futures, swaps, 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.

30) 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.

31) The Plan is currently authorized to use derivatives 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. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Plan.

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

32) 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

33) 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

34) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness.[2] 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.

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

VALUATION OF INVESTMENTS

36) 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).

37) 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.

[2]Monitor all costs of alternative investments, given that many alternative investments report performance net of fees.

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

Appendix A LONG-TERM POLICY BENCHMARK

City of San Jose Police and Fire Department Retirement Plan

Asset Class	Benchmark	Target (%)
TOTAL EQUITY		
Global Equity	MSCI ACWI IMI (Net)	29%
Private Equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
TOTAL FIXED INCOME		
U.S. Core Fixed Income	Barclays Capital U.S. Aggregate Bond Index	5%
Global Core Fixed Income	Barclays Capital Global Aggregate ex-U.S. (Hedged)	5%
High Yield Fixed Income	Barclays Capital High Yield Index	5%
Opportunistic Credit	50% CSFB Levered Loan Index 50% BofA Merrill Lynch U.S. High Yield BB/B-2% Constrained	10%
Emerging Markets Debt	JP Morgan GBI – EM Global Diversified (Unhedged)	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 Funds	HFRI Fund of Funds Composite	10%
Global Asset Allocation	60% MSCI World/40% Citi WGBI	5%
CASH	90 day T-Bills	1%

Appendix B

HEDGE FUNDS

Objectives

1) The hedge fund portfolio will be managed to achieve the following portfolio objectives:
   a) Policy benchmark:
      Hedge Fund Research, Inc. Fund of Funds Composite
   b) Risk:
      Target annualized volatility between 5% and 11%
   c) Beta:
      Target beta to MSCI World <= 0.25

Portfolio Characteristics

2) The portfolio will be structured:
   a) To be a broadly diversified, global portfolio with superior risk return characteristics;
   b) To include multiple hedge fund managers and strategies;
   c) To have low correlation to traditional market indices, lowering overall portfolio risk; and
   d) To reduce downside participation in severe bear markets.

Target Allocation

Strategy	Target	Range
Relative Value	35%	25-40%
Event Driven	20%	15-25%
Equity Long/Short	15%	10-20%
Macro/Directional	30%	25-40%

Portfolio Constraints

3) The hedge fund portfolio will be subject to the following constraints:
   a) No aggregate investment with any single investment manager should represent more than 10% of the HF 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 15% to the hedge fund portfolio risk, as measured by the Plan's hedge fund consultant.

4) Any breach of paragraph 3 above requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy

HEALTHCARE 115 TRUST

1) This investment policy statement governs investments for the City of San Jose Police and Fire Department Retiree Health Care Trust Fund (the "Health Care Trust"). The Health Care Trust is comprised of two subtrusts, the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, is in Internal Revenue Code Section 115 trust that was established on June 24, 2012. The Health Care Trust is separate from the City of San Jose Police and Fire Department Pension Plan as the 115 trust is part of the retirement 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 pension 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 Jose 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:[1]
   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
   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 Jose Police and Fire Retiree Health Care Trust Fund

Broad Asset Class	Minimum (%)	Target (%)	Maximum (%)
Equity	25%	43%	50%
Fixed Income	20%	35%	40%

[1]Per section 540 of Chapter 3.36, 1961 Police and Fire Department Retirement Plan

HEALTHCARE 115 TRUST (continued)

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

HEALTHCARE 115 TRUST (continued)

dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

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

   a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.

   b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.

   c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Health Care Trust.

21) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.

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

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.

DERIVATIVE 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.

HEALTHCARE 115 TRUST (continued)

27) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board. Speculative positions in derivatives, however, are not authorized under any circumstances.

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

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.[2] 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.

[2]Monitor all costs of alternative investments, given that many alternative investments report performance net of fees.

HEALTHCARE

Appendix A LONG-TERM POLICY BENCHMARK

City of San Jose Police and Fire Department Retirement Plan 115 Trust

Asset Class	Benchmark	Target (%)
Equity	MSCI ACWI IMI (Net)	43%
Fixed Income	BC Aggregate	35%
Inflation-Linked	MSCI U.S. REIT	10%
	Credit Suisse Custom Risk Parity Commodity Index	12%

Investment Professionals

As of June 30, 2013

Global Equity

Aberdeen Asset Management
Frontier Markets
Philadelphia, PA

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

Russell Investments
Emerging Markets
MSCI EAFE + CAD
MSCI EAFE + CAD Small Cap
Russell 1000
Russell 3000
Seattle, WA

RS Investments
Small Cap Value
San Francisco, CA

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

Vontobel
Global Emerging Markets
New York, NY

Private Equity

HarbourVest Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Portfolio Advisors, LLC
Darien, CT

Siguler Guff & Company, LP
New York, NY

TCW/Crescent Capital
Los Angeles, CA

TPG Opportunities Partners
San Francisco, CA

Warburg Pincus
New York, NY

Global Core Fixed Income

Seix Investment Advisors LLC
Domestic Core
Upper Saddle River, NJ

Russell Investments
Barclays Global Aggregate ex U.S.
Seattle, WA

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

Private Debt, Credit, High Yield

GSO Capital Partners
Direct Lending Account
New York, NY

Marathon Asset Management
European Credit Opportunities
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

PIMCO
Opportunistic Credit II
Newport Beach, CA

Russell Investments
Barclays Capital High Yield
JP Morgan Emerging Market Bond Index Plus
Seattle, WA

White Oak Global Advisors, LLC
Direct Lending Account
San Francisco, CA

Inflation Linked Assets

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

Credit Suisse (Pension & Healthcare Trusts)
Compound Risk Parity Commodity Index
San Francisco, CA

First Quadrant (Pension & Healthcare Trusts)
Risk Parity Commodity Index
Pasadena, CA

TA Realty
Value-Added
Boston, MA

Vanguard (Healthcare Trust)
REIT Index
Valley Forge, PA

Absolute Return

Arrowgrass Capital Partners
International Fund
New York, NY

BlackRock
Global Ascent
San Francisco, CA

BlueCrest Capital Management
BlueTrend Fund
New York, NY

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

Cantab Capital
Quantitative Fund
Cambridge, UK

Davidson Kempner Capital Management
Institutional Partners Fund
New York, NY

DE Shaw Group
Composite International Fund
New York, NY

Grantham, Mayo, Van Otterloo & Co.
Global Asset Allocation
Boston, MA

Kepos Capital
Alpha Fund
New York, NY

Pine River Capital Management
Pine River Fund
Minnetonka, MN

Investment Professionals *(Continued)*

As of June 30, 2013

Absolute Return *(continued)*

PIMCO
Global Asset Allocation
Newport Beach, CA

Porter Orlin
Amici Fund
New York, NY

Sandler Associates
Sandler Plus Fund
New York, NY

Senator Investment Group
Global Opportunity Fund
New York, NY

Standard Life
Global Asset Allocation
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

THIS PAGE INTENTIONALLY LEFT BLANK

Gross and Net Performance Summary by Asset Class

PENSION *For Periods ending June 30, 2013*

	One Year	Three Years	Five Years	Ten Years
TOTAL FUND WITH OVERLAY (gross of fees)	**9.9%**	**9.1%**	**4.0%**	**7.1%**
TOTAL FUND WITH OVERLAY (net of manager fees)	**9.6%**	**8.8%**	**3.7%**	**6.8%**
Policy Benchmark	8.1%	9.7%	3.6%	6.8%
ICC Public DB > $1B Median	12.0%	11.3%	5.0%	7.1%
TOTAL EQUITY	**17.2%**	**12.7%**	**3.6%**	**N/A**
MSCI ACWI (Net)	17.1%	12.6%	2.8%	8.0%
eA All Global Equity Gross Median	18.6%	14.3%	3.9%	9.6%
TOTAL PRIVATE EQUITY	**13.6%**	**12.0%**	**6.9%**	**N/A**
Cambridge PE 1 Qtr Lag	12.8%	15.1%	7.5%	15.7%
Venture Economics All Private Equity Lag	12.7%	13.7%	3.8%	13.7%
TOTAL FIXED INCOME	**6.7%**	**8.1%**	**8.9%**	**N/A**
Barclays Aggregate	-0.7%	3.5%	5.2%	4.5%
eA All US Fixed Inc Gross Median	0.8%	4.4%	5.8%	4.9%
TOTAL REAL ESTATE	**10.1%**	**10.8%**	**3.7%**	**6.6%**
NCREIF Property Index	10.7%	13.1%	2.8%	8.6%
TOTAL INFLATION-LINKED ASSETS	**-10.3%**	**0.3%**	**N/A**	**N/A**
Custom Commodity Risk Parity Index	-7.8%	N/A	N/A	N/A
Dow Jones-UBS Commodity Index TR	-8.0%	-0.3%	-11.6%	2.4%
TOTAL HEDGE FUND	**3-Months**	**Year to Date**	**One Year**	**Three Years**
San Jose Custom Hedge Fund Index	-1.0%	0.5%	N/A	N/A
HFRI FOF Composite	-0.3%	0.9%	7.3%	3.0%

Basis of Calculation: *Time-Weighted Rate of Return*
Source: NEPC LLC's Investment Performance Analysis Report dated June 30, 2013

Net Performance Summary by Asset Class

HEALTHCARE *For Periods ending June 30, 2013*
115 TRUST

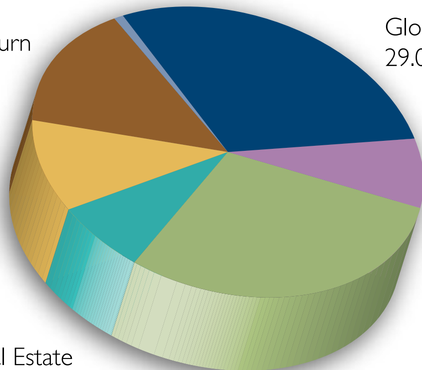
	3-Month	Calendar YTD	One Year	Since Inception
TOTAL FUND (net of manager fees)	**-2.1%**	**1.0%**	**5.0%**	**5.0%**
Policy Benchmark	-2.0%	1.1%	5.3%	5.3%
TOTAL EQUITY	**-0.4%**	**5.9%**	**N/A**	**16.3%**
MSCI ACWI IMI (net)	-0.5%	6.4%	17.1%	15.7%
TOTAL FIXED INCOME	**-2.4%**	**-2.5%**	**N/A**	**-2.2%**
Barclays Aggregate	-2.3%	-2.4%	-0.7%	-2.0%
TOTAL INFLATION-LINKED COMPOSITE	**-5.4%**	**-4.3%**	**N/A**	**-6.9%**
MSCI US REIT Gross	-1.6%	6.4%	9.0%	6.9%
Commodities Composite	-9.1%	-13.5%	N/A	-16.3%
Custom Commodity Risk Parity Index	-7.5%	-11.4%	-7.8%	-14.1%

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC LLC's Investment Performance Analysis Report dated June 30, 2013

Pension Investment Review

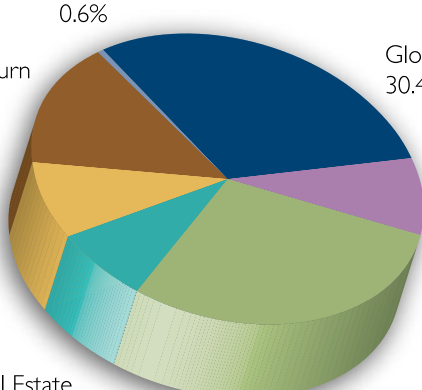
INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION *As of June 30, 2013*



Global Equity	29.0%
Private Equity	8.0%
Fixed Income	30.0%
Real Estate	7.0%
Inflation-Linked	10.0%
Absolute Return	15.0%
Cash	1.0%
TOTAL	100.0%

ACTUAL ASSET ALLOCATION *As of June 30, 2013*



	$ in millions	
Global Equity	$ 868.50	30.4%
Private Equity	$ 244.49	8.5%
Fixed Income	$ 853.36	29.8%
Real Estate	$ 208.59	7.3%
Inflation-Linked	$ 242.72	8.5%
Absolute Return	$ 426.16	14.9%
Cash	$ 15.84	0.6%
TOTAL	$ 2,859.66	100.0%

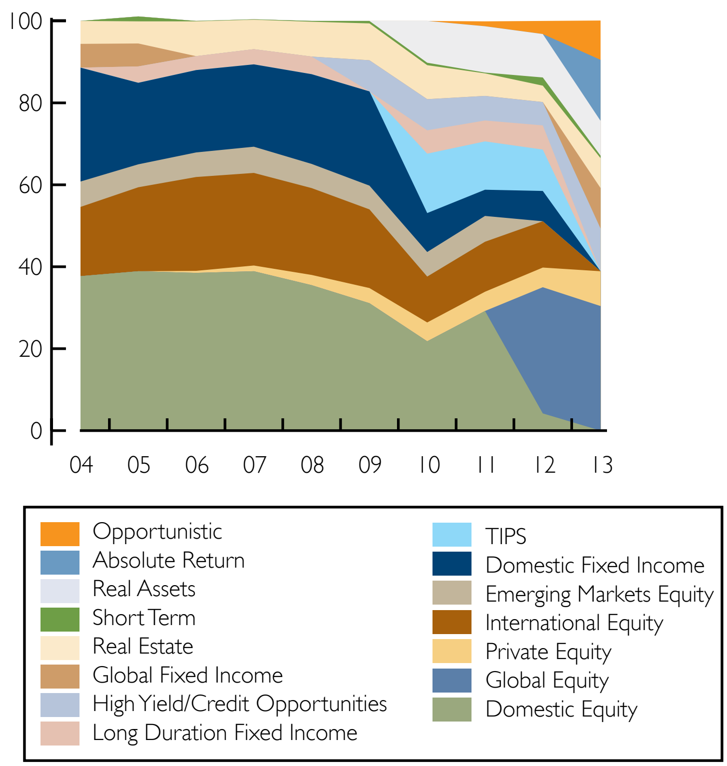
Non-GAAP basis.

Pension Investment Review *(Continued)*

INCLUDES THE 401(H) INVESTMENTS

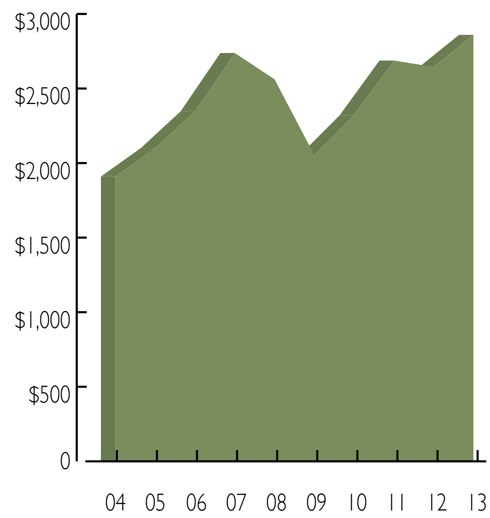
HISTORICAL ALLOCATION (Actual)

June 30, 2004 - June 30, 2013



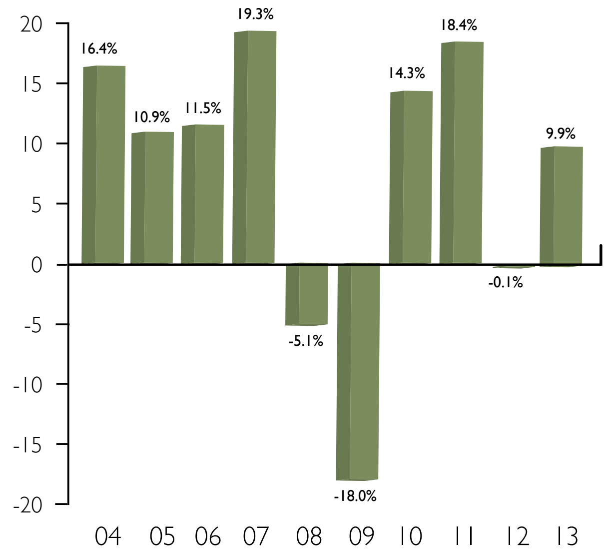
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2013 (Dollars in Millions)



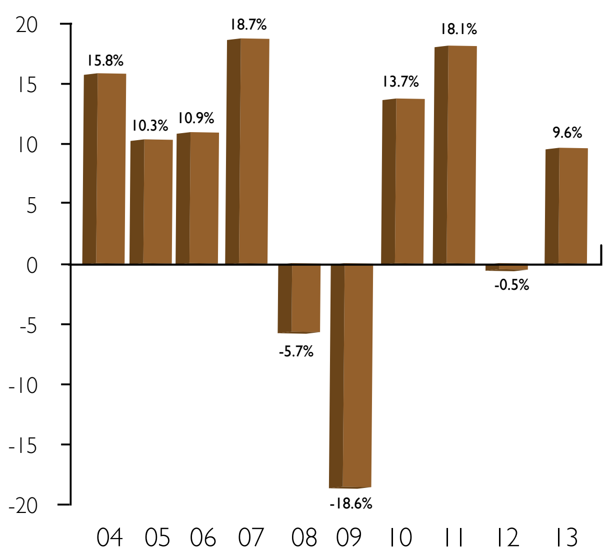
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2004 - 2013

(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2004 - 2013

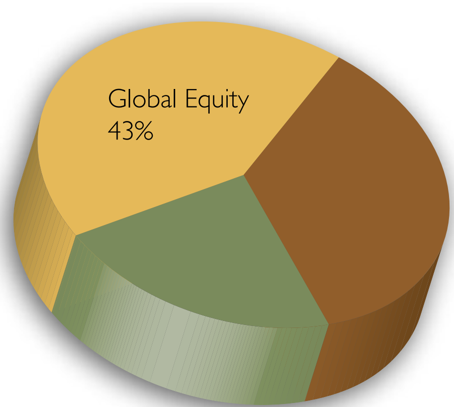
(Based on Market Net Value)



Healthcare Investment Review

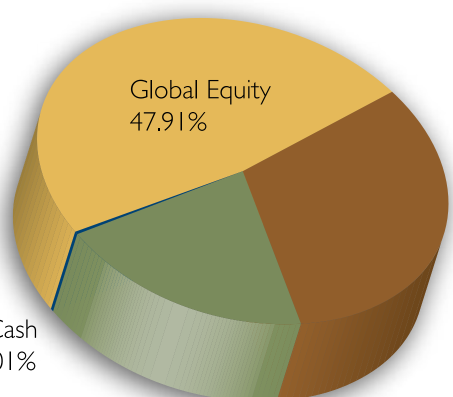
115 TRUST

TARGET ASSET ALLOCATION *As of June 30, 2013*



	Global Equity	43%
	Fixed Income	35%
	Inflation-Linked	22%
	Cash	0%
	TOTAL	100.0%

ACTUAL ASSET ALLOCATION *As of June 30, 2013*



		$in millions		
	Global Equity	$	7.5	47.91%
	Fixed Income	$	5.1	32.46%
	Real Assets	$	3.1	19.62%
	Cash	$	0.0	.01%
	TOTAL	**$**	**15.7**	**100%**

Non-GAAP basis.

List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value) For both Pension and Healthcare Trusts

June 30, 2013

Description	Country	Shares	Market Value ($US)
EXXON MOBIL CORP	United States	99,893	$ 9,025,333
APPLE INC	United States	19,978	$ 7,912,886
VANGUARD TOTAL WORLD STOCK INDEX (VTWIX) *	United States	71,556	$ 7,727,446
MICROSOFT CORP	United States	213,764	$ 7,381,271
JOHNSON & JOHNSON	United States	78,825	$ 6,767,915
GOOGLE INC CL A	United States	7,669	$ 6,751,558
GENERAL ELECTRIC CO	United States	226,336	$ 5,248,732
CHEVRON CORP	United States	42,141	$ 4,986,966
PROCTER & GAMBLE CO/THE	United States	58,536	$ 4,506,687
PFIZER INC	United States	159,960	$ 4,480,480

A complete list of portfolio holdings is available upon request.

** Represents investments in the Healthcare Section 115 Trust portfolio*

LARGEST BOND HOLDINGS (By Market Value) For both Pension and Healthcare Trusts

June 30, 2013

Security Name	Country	Maturity Date	Interest Rate	Par Value	Market Value ($US)
US TREASURY N/B	United States	11/15/2015	0.38	13,977,000	$ 13,946,390
US TREASURY N/B	United States	03/31/2017	1.00	10,588,000	$ 10,597,953
US TREASURY N/B	United States	08/31/2017	0.63	9,598,000	$ 9,400,761
US TREASURY N/B	United States	05/15/2023	1.75	8,759,000	$ 8,203,329
US TREASURY N/B	United States	08/31/2013	0.13	5,782,000	$ 5,782,463
US TREASURY N/B	United States	02/15/2043	3.13	5,868,000	$ 5,477,426
FNMA CONV.15YR (DWARFS) AGGREG	United States	12/01/2099	2.00	5,498,000	$ 5,354,536
VANGUARD TOTAL BOND MARKET INDEX (VBTIX) *	United States	VARIOUS	VARIOUS	N/A	$ 5,085,000
BOWIE RESOURCES, LLC	United States	01/28/2016	14.00	4,545,320	$ 3,965,578
RELATIVITY MEDIA LLC	United States	01/02/2014	1.00	3,396,505	$ 3,396,505

A complete list of portfolio holdings is available upon request.

** Represents investments in the Healthcare Section 115 Trust portfolio*

Schedule of Investment Fees

PENSION *For the Fiscal Year Ended June 30, 2013*
INCLUDES THE 401(H) INVESTMENTS

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Global Equity	$ 866,282,641	$ 1,668,305	19
Private Equity	242,286,919	974,438	40
Global Fixed Income	711,545,321	3,698,569	52
Real Estate	196,100,314	916,604	47
Real Assets	242,717,806	1,085,185	45
Absolute Return	425,956,829	240,768	6
Short Term	177,848,225	96,007	5
TOTAL INVESTMENT MANAGERS' FEES	**$ 2,862,738,056**	**$ 8,679,877**	**30**

**Includes Cash in Managers' Accounts; Non-GAAP Basis*

	Fees
Other Investment Service Fees	
Investment Consultant	$ 975,841
Proxy Voting	18,749
Custodian	206,669
Investment Legal Fees	184,483
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 1,385,741**

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
ALLEN & COMPANY LLC	3,787.00	$ 189.35	$ 0.0500
AQUA SECURITIES LP	50,504.00	1,010.08	0.0200
AVONDALE PARTNERS LLC	11,790.00	471.60	0.0400
B			
B.RILEY &CO., LLC	400.00	16.00	0.0400
BANQUE NATIONALE DU CANADA	28,400.00	1,113.53	0.0392
BARCLAYS CAPITAL	10,313.00	218.29	0.0212
BARCLAYS CAPITAL INC. LE	107.00	5.35	0.0500
BARCLAYS CAPITAL LE	900.00	36.00	0.0400
BMO CAPITAL MARKETS	44,651.00	1,786.04	0.0400
BTIG, LLC	109,712.00	2,194.24	0.0200
BUCKINGHAM RESEARCH GROUP INC	3,700.00	148.00	0.0400
C			
CANACCORDGENUITY CORP.	2,900.00	112.98	0.0390
CANADIAN DEPOSITORY FOR SECURITIES	19,000.00	768.26	0.0404
CANTOR FITZGERALD & CO.	36,626.00	1,098.78	0.0300
CANTOR FITZGERALD EUROPE	2,570.00	51.40	0.0200
CHARLES RIVER BROKERAGE	219.00	2.74	0.0125
CIBC WORLD MARKETS CORP	16,373.00	654.92	0.0400
CIBC WORLD MKTS INC	121,800.00	4,630.34	0.0380
CITATION GROUP	270,917.00	10,836.68	0.0400
CITIGROUPGLOBAL MARKETS INC	328,196.00	13,127.84	0.0400
CITIGROUPGLOBAL MARKETS INC.	32,612.00	15.88	0.0005
CITIGROUPGLOBAL MARKETS LIMITED	685.00	23.43	0.0342
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	1,300.00	98.85	0.0760
CONVERGEXEXECUTION SOLUTIONS LLC	11,600.00	464.00	0.0400
COWEN ANDCOMPANY, LLC	28,973.00	1,158.92	0.0400
CRAIG HALLUM	6,100.00	244.00	0.0400
CREDIT SUISSE FIRST BOSTON (EUROPE)	1,285.00	159.87	0.1244
CREDIT SUISSE SECURITIES (EUROPE) LTD	18,031.00	157.13	0.0087
CREDIT SUISSE SECURITIES (USA) LLC	29,689.00	621.64	0.0209
CREDIT SUISSE USA LLC	800.00	32.14	0.0402
D			
DAIWA SECURITIES (HK) LTD.	1,100.00	45.27	0.0412
DAVIDSON D.A. & COMPANY INC.	33,500.00	1,340.00	0.0400
DEUTSCHE BANK SECURITIES INC	101,561.00	3,695.47	0.0364
DOWLING &PARTNERS	48,453.00	1,938.12	0.0400
DOWLING &PARTNERS SECURITIES, LLC.	1,491.00	74.55	0.0500
E			
EVERCORE GROUP LLC	7,400.00	296.00	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
F			
FIDELITY CLEARING CANADA	74,810.00	$ 2,910.88	$ 0.0389
FIRST ENERGY CAPITAL	13,200.00	517.02	0.0392
G			
G TRADE SERVICES LTD	10,210.00	61.76	0.0060
GMP SECURITIES L.P.	6,910.00	276.40	0.0400
GOLDMAN SACHS & CO	94,503.00	3,733.46	0.0395
GOLDMAN SACHS INTERNATIONAL	832,312.00	8,323.12	0.0100
GUGGENHEIM CAPITAL MARKETS LLC	92,098.00	3,683.92	0.0400
I			
INSTINET	17,656.00	590.63	0.0335
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	453,175.00	2,915.51	0.0064
INSTINET FRANCE S.A.	1,142,156.00	11,306.04	0.0099
INSTINET PACIFIC LIMITED	25,554,036.00	30,854.68	0.0012
INSTINET U.K. LTD	40,460,575.00	214,059.34	0.0053
INVESTEC BANK PLC	1,063.00	24.25	0.0228
INVESTMENT TECHNOLOGY GROUP INC.	15,363,981.00	200,751.14	0.0131
INVESTMENT TECHNOLOGY GROUP LTD	8,879.00	137.81	0.0155
ISI GROUPINC	38,527.00	1,541.08	0.0400
ISLAND TRADER SECURITIES INC	31,307.00	1,252.28	0.0400
ITG CANADA	1,370,037.00	13,917.00	0.0102
ITG INC	7,170.00	71.70	0.0100
ITG SECURITIES (HK) LTD	16,580.00	405.62	0.0245
J			
J.P. MORGAN CLEARING CORP	262,448.00	5,346.87	0.0204
J.P. MORGAN SECURITIES INC.	754.00	30.16	0.0400
JANNEY MONTGOMERY, SCOTT INC	22,644.00	905.76	0.0400
JEFFERIES& COMPANY INC	775,383.00	7,930.43	0.0102
JMP SECURITIES	34,628.00	1,385.12	0.0400
JONES & ASSOCIATES INC	2,827.00	56.54	0.0200
JONESTRADING INSTITUTIONAL SERVICES LLC	31,441.00	943.23	0.0300
JP MORGANSECURITIES PLC	11,042.00	532.67	0.0482
K			
KEEFE BRUYETTE & WOODS INC	174,941.00	6,997.64	0.0400
KEYBANC CAPITAL MARKETS INC	19,251.00	770.04	0.0400
KING, CL & ASSOCIATES, INC	900.00	36.00	0.0400
KNIGHT EQUITY MARKETS L.P.	16,539.00	661.56	0.0400
KNIGHT EXECUTION AND CLEARING	3,100.00	120.63	0.0389
L			
LAZARD CAPITAL MARKETS LLC	5,447.00	217.88	0.0400
LEERINK SWANN AND COMPANY	44,842.00	1,793.68	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
L (continued)			
LEK SECURITIES CORP	75.00	$ 1.50	$ 0.0200
LIQUIDNET INC	26,512.00	547.78	0.0207
M			
MACQUARIEBANK LIMITED	9,527,699.00	2,765.23	0.0003
MACQUARIESECURITIES (SINGAPORE)	468,700.00	1,256.63	0.0027
MACQUARIESECURITIES (USA) INC	5,789.00	231.56	0.0400
MACQUARIESECURITIES LIMITED	1,811,600.00	435.60	0.0002
MACQUARIESECURITIES LTD SEOUL	365,783.00	10,097.01	0.0276
MERRILL LYNCH CANADA INC	3,400.00	99.62	0.0293
MERRILL LYNCH INTERNATIONAL	3,934.00	59.81	0.0152
MERRILL LYNCH PIERCE FENNER & SMITH INC	5,620,440.00	56,378.52	0.0100
MERRILL LYNCH PIERCE FENNER	8,842,415.00	1,592.34	0.0002
MERRILL LYNCH PROFESSIONAL CLEARING CORP	11,820.00	472.80	0.0400
MITSUBISHI UFJ SECURITIES (USA)	3,900.00	138.85	0.0356
MORGAN STANLEY CO INCORPORATED	193,554.00	5,697.27	0.0294
N			
NBCN CLEARING INC.	8,964.00	358.56	0.0400
NEEDHAM &COMPANY	5,319.00	212.76	0.0400
NESBITT BURNS	5,600.00	219.75	0.0392
NOMURA SECURITIES INTERNATIONAL INC	4,900.00	196.00	0.0400
O			
OPPENHEIMER & CO. INC.	37,546.00	1,501.84	0.0400
P			
PACIFIC CREST SECURITIES	11,400.00	456.00	0.0400
PENSON FINANCIAL SERVICES CANADA INC	30,800.00	1,237.34	0.0402
PERSHING LLC	619,794.00	7,226.17	0.0117
PERSHING SECURITIES LIMITED	5,315.00	39.22	0.0074
PICKERINGENERGY PARTNERS, INC	61,062.00	2,442.48	0.0400
PIPER JAFFRAY	1,497,401.00	15,259.04	0.0102
PIPER JAFFRAY & HOPWOOD	3,639.00	181.95	0.0500
PIPER JAFFREY	21,800.00	211.03	0.0097
PULSE TRADING LLC	19,968.00	599.04	0.0300
R			
RAYMOND JAMES AND ASSOCIATES	15,550.00	123.66	0.0080
RAYMOND JAMES AND ASSOCIATES INC	41,146.00	1,645.84	0.0400
RBC CAPITAL MARKETS	39,069.00	1,562.76	0.0400
RBC DOMINION SECURITIES INC.	82,800.00	3,283.92	0.0397
REDBURN PARTNERS LLP	20,953.00	370.18	0.0177
ROBERT W.BAIRD CO.INCORPORATE	82,307.00	3,292.28	0.0400
ROSENBLATT SECURITIES LLC	1,300.00	52.00	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
R (continued)			
ROYAL BANK OF CANADA	800.00	$ 32.14	$ 0.0402
ROYAL BANK OF CANADA EUROPE LTD	6,481.00	227.70	0.0351
S			
SANFORD CBERNSTEIN CO LLC	65,071.00	2,602.84	0.0400
SCOTIA CAPITAL (USA) INC	1,498.00	59.92	0.0400
SIMMONS &COMPANY INTERNATIONAL	1,841.00	73.64	0.0400
SMBC SECURITIES INC	3,400.00	105.05	0.0309
SOCIETE GENERALE LONDON BRANCH	7,205.00	309.36	0.0429
STEPHENS, INC.	800.00	32.00	0.0400
STERNE AGEE & LEACH INC.	23,968.00	958.72	0.0400
STIFEL NICOLAUS & CO INC	64,519.00	2,580.76	0.0400
SUNTRUST CAPITAL MARKETS, INC.	4,100.00	164.00	0.0400
T			
TD SECURITIES (USA) LLC	7,905.00	316.20	0.0400
TD WATERHOUSE CDA	22,800.00	882.56	0.0387
THINKPANMURE LLC	1,200.00	48.00	0.0400
U			
UBS AG	1,376,027.00	5,394.62	0.0039
UBS SECURITIES LLC	209,049.00	2,272.18	0.0109
W			
WEDBUSH MORGAN SECURITIES INC	30,784.00	1,231.36	0.0400
WEEDEN & CO.	7,050.00	211.50	0.0300
WELLS FARGO SECURITIES, LLC	122,078.00	4,883.12	0.0400
WILLIAM BLAIR & COMPANY L.L.C	108,677.00	2,796.54	0.0257
WUNDERLICH SECURITIES INC.	151,428.00	6,057.12	0.0400
TOTAL	**120,101,752.00**	**$ 725,385.21**	**$ 0.0060**

Investment Summary

PENSION *As of June 30, 2013*
INCLUDES THE 401(H) INVESTMENTS

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Global Equity	$	866,282,641	30.26%
Private Equity		$242,286,919	8.46%
Total Equities	**$**	**1,108,569,561**	**38.72%**
Total Fixed Income			
Global Fixed Income	$	711,545,321	24.86%
Total Fixed Income	**$**	**711,545,321**	**24.86%**
Total Inflation-Linked			
Real Estate	$	196,100,314	6.85%
Real Assets		242,717,806	8.48%
Total Inflation-Linked	**$**	**438,818,120**	**15.33%**
Total Absolute Return			
Hedge Funds	$	293,082,205	10.24%
Global Asset Allocation		132,874,623	4.64%
Total Absolute Return	**$**	**425,956,829**	**14.88%**
Short Term*	**$**	**177,848,225**	**6.21%**
TOTAL FAIR VALUE	**$**	**2,862,738,056**	**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 *As of June 30, 2013*
SECTION 115 TRUST

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Equities	$	7,527,002	47.87%
Total Equities	**$**	**7,527,002**	**47.87%**
Total Fixed Income			
Fixed Income	$	5,099,967	32.43%
Total Fixed Income	**$**	**5,099,967**	**32.43%**
Total Inflation-Linked			
Real Estate	$	1,594,849	10.14%
Commodities		1,488,502	9.47%
Total Inflation-Linked	**$**	**3,083,351**	**19.61%**
Short Term	**$**	**13,723**	**0.09%**
TOTAL FAIR VALUE	**$**	**15,724,042**	**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.

Investment Properties

FIRST AMERICAN OFFICE PLAZA

82,596 square-foot six-story office building located in San José, 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.

THIS PAGE INTENTIONALLY LEFT BLANK

Actuarial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2013
and June 30, 2012

CHEIRON Classic Values, Innovative Advice

August 20, 2013

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San José, CA 95112

At your request, we performed the June 30, 2012 actuarial valuation of the City of San José Police and Fire Department Retirement Plan ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued December 21, 2012, including the alternative valuation results reflecting elimination of the Supplemental Retiree Benefit Reserve (SRBR). The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2014; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 25 and 27. Historically, actuarial valuations were performed every two years. Beginning June 30, 2009, actuarial valuations have been performed annually.

On June 5, 2012, voters in San José approved Measure B, which among other things called for the elimination of the Supplemental Retiree Benefit Reserve (SRBR). The City adopted an enabling ordinance eliminating the SRBR effective March 1, 2013. Since the June 30, 2012 actuarial valuation is used to determine contribution rates for the 2013-14 fiscal year, the Board opted to reflect the elimination of the SRBR in the June 30, 2012 actuarial valuation. All of the information presented as of June 30, 2012 reflects the elimination of the SRBR.

The funding methods adopted by the Plan 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. Variations in the expected cost of the plan are amortized as a level percentage of expected payroll over closed 16-year periods (except assumption changes are amortized over a closed 20-year period).

At its December 2012 meeting, the Board reduced the investment return assumption from the 7.50% that was used in the prior valuation to 7.25%. The reduction in the assumption increased the measure of actuarial liability by approximately $108 million and the total normal cost rate by approximately 2.5% of payroll. Other key results from the valuation are as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL increased by $184.0 million from $510.3 million to $694.3 million. The Actuarial Liability increased by $201.8 million and assets increased by $17.8 million.

- *Funding Ratio:* The ratio of the actuarial value of assets to the actuarial liability decreased since the last valuation from 84.0% to 79.6%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to the actuarial liability decreased from 82.2% to 75.9%.

- *Member Contribution Rate:* The member contribution rate is a proportion (3/11ths) of the service normal cost rate plus a rate to amortize a portion of some benefit improvements. In aggregate, the Member contribution rate increased from 11.2% to 11.7%.

- *City Contribution Rate:* City contributions are a proportion (8/11ths) of the service normal cost rate plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us increased significantly from 57.7% of payroll to 65.9% of payroll. The beginning of year contribution amount increased from $106.1 million to $119.6 million.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2012 valuation results can be found in our full actuarial valuation report, including the alternative valuation results letter reflecting elimination of the SRBR. In preparing our report, we relied without audit, 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 #23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2012 actuarial valuation:

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

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

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 Company.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

To the best of our knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which 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. 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.

Sincerely,
Cheiron

Gene Kalwarski, FSA, FCA, EA, MAAA	William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary	*Consulting Actuary*

Attachment

Actuarial Assumptions and Methods

Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.25% net of investment expenses.

2. Salary Increase Rate

Wage inflation component is assumed to be 0.00% for FYE 2014, and 3.50% thereafter.

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	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

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
Males	85%
Females	85%

4. Rates of Termination

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

Table B-3
Rates of Termination

Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

** 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 increases 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	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

6. Rates of Mortality for 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 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**
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

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 are based on age and service according to the following Table B-7.

Table B-7				
Rates of Retirement by Age				
	Police		**Fire**	
Age	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

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

9. Administrative Expenses

$3.0 million 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 7.50% to 7.25% as adopted by the Board in December 2012.

The addition of 0.22% of the market value of assets to the normal cost was eliminated. This addition had represented the assumed average annual transfer of excess earnings to the Supplemental Retiree Benefit Reserve (SRBR). With the elimination of the SRBR, this addition to the normal cost is no longer appropriate.

Actuarial Methods

1. Actuarial Funding Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2. Asset Valuation Method

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

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.50% for 2011-12, 7.75% for 2010-11, 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 3.5% 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 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay*
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*

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
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	$ 5,384,000	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*

Solvency Test

GASB SOLVENCY TEST							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
	Actuarial Liabilities for:						
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2012	$ 276,047	$ 2,310,295	$ 811,450	$ 2,703,539	100%	100%	14%
2011	$ 260,172	$ 2,174,044	$ 761,791	$ 2,685,721	100%	100%	33%
2010	$ 246,356	$ 1,907,931	$ 1,076,169	$ 2,576,705	100%	100%	39%
2009	$ 243,302	$ 1,630,914	$ 1,089,266	$ 2,569,569	100%	100%	64%
2007	$ 227,191	$ 1,240,126	$ 905,069	$ 2,365,790	100%	100%	99%
2005	$ 194,008	$ 1,062,247	$ 771,177	$ 1,983,090	100%	100%	94%

Amounts in thousands

** Actuarial Value of Assets*

*** Results prior to June 30, 2011 were calculated by the prior actuary*

ANALYSIS OF FINANCIAL EXPERIENCE Gain (or Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience						
	Gain (or Loss) for Year(s) Ending					
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009*	June 30, 2007*	June 30, 2005*
Investment Income	$ (172,759)	$ (96,473)	$ (149,621)	$ (138,383)	$ 97,135	$ (136,013)
Combined Liability Experience	39,432	278,051	43,880	(113,495)	47,735	101,668
Gain (or Loss) During Year from Financial Experience	$ (133,327)	$ 181,578	$ (105,741)	$ (251,878)	$ 144,870	$ (34,345)
Non-Recurring Gain (or Loss) Items	(75,220)	12,360	(104,240)	(145,351)	(93,343)	(12,960)
Composite Gain (or Loss) During Year	$ (208,548)	$ 193,938	$ (209,981)	$ (397,229)	$ 51,527	$ (47,305)

Amounts in thousands

** Two-year period*

Summary of Pension Plan Provisions

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:

- Independent contractors,
- Person in City service principally for training or educational purposes,
- Auxiliary or voluntary police officers or fire fighters,
- Part-time or non-salaried employees, and
- 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 proceeding 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 3/11 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% of Final Compensation

2 Children: 37.5% of Final Compensation

3+ Children: 50% of Final Compensation

Summary of Pension Plan Provisions *(Continued)*

The total benefit payable to a family is limited to 75% 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% 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% of Final Compensation.

9. Service Connected Death

Spouse receives the greater of 37.5% of Final Compensation or 50% 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. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% 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% per annum.

10 or more years of credited service:

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

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12. Changes Since Prior Valuation

On June 5, 2012, voters in San José approved Measure B, which among other things called for the elimination of the Supplemental Retiree Benefit Reserve (SRBR). The City adopted an enabling ordinance eliminating the SRBR effective March 1, 2013. Since the June 30, 2012 actuarial valuation is used to determine contribution rates for the 2013-14 fiscal year, the Board opted to reflect the elimination of the SRBR in the June 30, 2012 actuarial valuation.

THIS PAGE INTENTIONALLY LEFT BLANK

CHEIRON Classic Values, Innovative Advice

September 24, 2013

VIA ELECTRONIC MAIL

Board of Retirement
City of San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112

Dear Members of the Board:

At your request, we performed the June 30, 2012 actuarial valuation of the City of San José Police and Fire Department Postemployment Healthcare Plan (401(h)) ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued January 30, 2013. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2014; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 43 and 45. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted in collective bargaining and reflected in this 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 2009-10 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 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. During the phase-in period, 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.

The discount rate on a funding basis decreased from 7.50% to 7.25% while the discount rate on a GASB basis decreased from 5.7% to 4.4% in this valuation. There were also changes in other assumptions and changes to the plan since the prior valuation. The changes in assumptions are summarized in the Actuarial Assumptions and Methods exhibit.

A summary of the key results from the valuation are as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* On a financial reporting basis, the UAL decreased $12.2 million from $943.1 million to $930.9 million. The Actuarial Liability decreased $6.5 million and assets increased $5.7 million.

- *Funding Ratio:* The ratio of the actuarial value of assets to the Actuarial Liability increased from 6.0% to 6.7% since the last valuation.

- *Member Contribution Rate:* The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five-year transition to full actuarially determined contributions to fund the explicit subsidy with caps on annual increases and the ultimate cost. 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 contributing 3/4 of the total contribution. For the Police

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

Department, the member contribution rate increased from 8.26% to 9.51% of payroll. For the Fire Department, the member contribution rate increased from 6.11% to 7.36%.

- *City Contribution Rate:* The City contribution rate for the Police Department increased from 8.96% to 10.31% of payroll for the fiscal year ending June 30, 2014. The City contribution rate for the Fire Department increased from 6.62% to 7.97% of payroll for the fiscal year ending June 30, 2014.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2012 valuation results can be found in our full report. In preparing our report, we relied without audit, 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 Standards of Practice #23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2012 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

Valuations prior to 2011 were performed by The Segal Group, Inc., and all exhibits showing historical information are based on information reported by the prior actuary.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and these exhibits were prepared for the City of San José Department of Retirement Services for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This letter and these exhibits are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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

William R. Hallmark, ASA, FCA, EA, MAAA	Michael W. Schionning, FSA, MAAA
Consulting Actuary	*Principal Consulting Actuary*

Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Economic Assumptions

1. Expected Return on Plan Assets: 7.25% per year

2. Expected Return on Employer Assets: 3.50% per year

3. Blended Discount Rate: 4.40% per year

4. Per Person Cost Trends:

Date	Annual Increase		
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2013	8.80%	6.63%	4.50%
2014	8.47	6.47	4.50
2015	8.14	6.30	4.50
2016	7.81	6.14	4.50
2017	7.48	5.97	4.50
2018	7.15	5.81	4.50
2019	6.82	5.65	4.50
2020	6.48	5.48	4.50
2021	6.15	5.32	4.50
2022	5.82	5.16	4.50
2023	5.49	4.99	4.50
2024	5.16	4.83	4.50
2025	4.83	4.66	4.50
2026+	4.50	4.50	4.50

Part B Premiums are assumed to increase at ultimate Medicare-Eligible trend of 4.50%.

The above trends are applied in the valuation by applying one half of the increase for 2013 for the fiscal year ending June 30, 2013 and the average of the increases for the applicable calendar years for each fiscal year thereafter. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

Rates of Retirement by Age				
	Police		Fire	
Age	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

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

Eligible deferred vested members are assumed to retire at age 55.

2. Termination Rates

Sample rates of termination are shown in the following table.

Rates of Termination	
Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

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

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 set back three years for males and no setback for females.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Demographic Assumptions (continued)

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

4. Disability Rates:

Sample rates of disability 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	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

5. Salary Increase Rate:

Wage inflation component is assumed to be 3.50% annually beginning in fiscal year ending June 30, 2014 (0% for the fiscal year ending June 30, 2013). 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	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

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 2012 plan. Retirees who are not yet age 65 are

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

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 below.

<table>
<tr><th colspan="3">Assumed Plan Elections for Future Retirees</th></tr>
<tr><th>Plan</th><th>Pre-Medicare</th><th>Medicare Eligible</th></tr>
<tr><td colspan="3">Medical</td></tr>
<tr><td>• Kaiser DHMO</td><td>5%</td><td rowspan="2">40%</td></tr>
<tr><td>• Kaiser $25 Co-pay</td><td>45%</td></tr>
<tr><td>• HMO $30 Co-pay</td><td>5%</td><td rowspan="2">7%</td></tr>
<tr><td>• HMO $25 Co-pay</td><td>20%</td></tr>
<tr><td>• PPO / POS $45 Co-pay</td><td>5%</td><td rowspan="2">50%</td></tr>
<tr><td>• PPO / POS $25 Co-pay</td><td>20%</td></tr>
<tr><td>• UHC Med Adv</td><td>N/A</td><td>2%</td></tr>
<tr><td>• UHC Senior Supp</td><td>N/A</td><td>1%</td></tr>
<tr><td colspan="3">Dental</td></tr>
<tr><td>• Delta Dental PPO</td><td colspan="2">97%</td></tr>
<tr><td>• DeltaCare HMO</td><td colspan="2">3%</td></tr>
</table>

7. Family Composition:

95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement.

8. 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.

9. Married Percentage:

Percentage Married	
Gender	**Percentage**
Males	85%
Females	85%

10. Administrative Expenses:

Included in the average monthly premiums.

Changes Since Last Valuation

The expected return on plan assets was reduced from 7.5% to 7.25% and the expected return on employer assets was reduced from 4.0% to 3.5%. The blended discount rate was reduced from 5.70% to 4.40%. Plan election rates were also updated based on recent plan enrollment data and updated plan options.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of January 1, 2012 based on the premiums in effect on that date. Each valuation years' costs are based on the trended first year cost adjusted with trends listed above, so for the year beginning July 1, 2012 the starting values are increased by a half-year of the 2012 trend rates. 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, but will decrease effective January 1, 2013.

Future Retirees: The following table shows the premiums, claims costs, and resulting implicit subsidies for future retirees. All values are as of January 1, 2012 and reflect the assumed plan election assumptions described above.

Future Retirees								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
40	$ 6,900	$ 10,582	$ 3,153	$ (3,747)	$ (7,429)	$ 5,604	$ (1,296)	$ (4,978)
45	6,900	10,582	3,948	(2,952)	(6,634)	5,933	(967)	(4,649)
50	6,900	10,582	5,229	(1,671)	(5,353)	7,037	137	(3,545)
55	6,900	10,582	6,872	(28)	(3,710)	8,386	1,486	(2,196)
60	6,900	10,582	8,932	2,032	(1,650)	10,011	3,111	(571)
64	6,900	10,582	11,537	4,637	955	12,369	5,469	1,787
65	5,368	5,368	4,712	(656)	(656)	5,026	(342)	(342)
70	5,368	5,368	5,533	166	166	5,549	182	182
75	5,368	5,368	6,187	820	820	5,984	617	617
80	5,368	5,368	6,573	1,206	1,206	6,177	810	810

Current Retirees: The following tables show the premiums, claims costs, and resulting implicit subsidies for each medical plan as of January 1, 2012.

Kaiser $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	$ 6,241	$ 9,300	$ 3,728	$ (2,513)	$ (5,572)	$ 5,603	$ (638)	$ (3,697)
50	6,241	9,300	4,938	(1,303)	(4,362)	6,645	404	(2,655)
55	6,241	9,300	6,489	248	(2,811)	7,919	1,678	(1,381)
64	6,241	9,300	10,895	4,654	1,595	11,680	5,439	2,380
65	2,959	2,959	2,660	(299)	(299)	2,838	(121)	(121)
70	2,959	2,959	3,124	165	165	3,133	174	174
75	2,959	2,959	3,493	534	534	3,379	420	420
80	2,959	2,959	3,711	752	752	3,487	528	528

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Claim and Expense Assumptions (continued):

HMO $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	$ 6,669	$ 10,462	$ 4,152	$ (2,517)	$ (6,310)	$ 6,240	$ (429)	$ (4,222)
50	6,669	10,462	5,499	(1,170)	(4,963)	7,400	731	(3,062)
55	6,669	10,462	7,226	557	(3,236)	8,819	2,150	(1,643)
64	6,669	10,462	12,132	5,463	1,670	13,007	6,338	2,545
65	5,569	5,569	5,721	152	152	6,102	533	533
70	5,569	5,569	6,718	1,149	1,149	6,738	1,169	1,169
75	5,569	5,569	7,512	1,943	1,943	7,265	1,696	1,696
80	5,569	5,569	7,981	2,412	2,412	7,499	1,930	1,930

PPO $25 Copay Plan								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
45	$ 8,449	$ 13,264	$ 4,184	$ (4,265)	$ (9,080)	$ 6,288	$ (2,161)	$ (6,976)
50	8,449	13,264	5,542	(2,907)	(7,722)	7,457	(992)	(5,807)
55	8,449	13,264	7,282	(1,167)	(5,982)	8,887	438	(4,377)
64	8,449	13,264	12,226	3,777	(1,038)	13,108	4,659	(156)
65	7,231	7,231	6,223	(1,008)	(1,008)	6,637	(594)	(594)
70	7,231	7,231	7,307	76	76	7,329	98	98
75	7,231	7,231	8,171	940	940	7,903	672	672
80	7,231	7,231	8,681	1,450	1,450	8,157	926	926

UHC Medicare Advantage								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
65	$ 5,831	$ 5,831	$ 4,393	$ (1,438)	$ (1,438)	$ 4,685	$ (1,146)	$ (1,146)
70	5,831	5,831	5,158	(673)	(673)	5,174	(657)	(657)
75	5,831	5,831	5,768	(63)	(63)	5,579	(252)	(252)
80	5,831	5,831	6,128	297	297	5,758	(73)	(73)

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Current Retirees, continued

UHC Senior Supplement								
			Male			Female		
Age	Retiree Premium	Spouse Premium	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Implicit Subsidy-Retiree	Implicit Subsidy - Spouse
65	$ 6,021	$ 6,021	$ 4,805	$ (1,216)	$ (1,216)	$ 5,125	$ (896)	$ (896)
70	6,021	6,021	5,643	(378)	(378)	5,659	6,037	6,037
75	6,021	6,021	6,310	289	289	6,102	5,813	5,813
80	6,021	6,021	6,704	683	683	6,299	5,616	5,616

Dental	
Plan	Annual Premium (every age)
Delta Dental PPO	$ 1,304
DeltaCare HMO	562

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:

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.

Current retirees are assumed to pay the difference between their current plan and the lowest cost plan for active members. Future retirees are assumed to pay the difference between the blended premium based on the assumed plan elections and the lowest cost plan for active members.

Actuarial Methods

1. Actuarial Cost Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment 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.

The funding valuation does not include the value of the implicit subsidy.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2012. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2012 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. Dental costs were based directly on the rates in effect for 2012. 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.

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

Claim and Expense Assumptions (continued):

2. Asset Valuation Method

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.75% for 2010-11, 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. Table 4 on the following page shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

3. Amortization Method

The UAL as of June 30, 2011 is amortized over an open 30-year period as a level percentage of payroll.

4. Changes Since Last Valuation:

The estimated amount of implicit subsidy payments reflects the aggregation of the Federated plan population with the Police and Fire plan population in the development of the insurance premiums paid by both populations.

DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date *as of June 30,*	Active Member Counts			Annual Payroll
	Under Age 65	Age 65+	Total	
2012	1,718	0	1,718	$ 172,625,503
2011	1,735	0	1,735	190,726,258
2010	2,021	1	2,022	251,058,473
2009	N/A	N/A	2,083	255,222,552
2007	N/A	N/A	2,136	N/A
2006	N/A	N/A	1,967	N/A

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy		
Medical										
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*										
2011-12	1,798	$ 2,325,033	70	18	1,855	$ 2,398,735	57	$ 73,702	3.2%	$ 1,293
2010-11	1,707	2,267,352	104	24	1,798	2,325,033	91	57,681	2.5%	1,293
2009-10	1,519	1,794,454	N/A	N/A	1,707	2,267,352	188	472,898	26.4%	1,328
2007-09	1,375	1,629,777	N/A	N/A	1,519	1,794,454	144	164,677	10.1%	1,181

* *Annual subsidies are explicit amounts*

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN - DATA SCHEDULES *(Continued)*

SOLVENCY TEST					
	Actuarial Liabilities				
Valuation Date	Retirees, Beneficiaries and Other Inactives	Remaining Active Members	Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets	
June 30,	(A)	(B)		(A)	(B)
2012	$ 600,869	$ 396,452	$ 66,385	11%	0%
2011	622,691	381,104	60,709	10%	0%
2010	568,611	377,697	58,586	10%	0%
2009	436,249	325,355	55,618	13%	0%
2007	336,899	329,328	45,393	13%	0%
2006	422,457	428,761	38,381	9%	0%

** Amounts for June 30, 2009 and earlier were calculated by the prior actuary*

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE			
	Gain (or Loss) for Year Ending June 30th		
Type of Activity	6/30/2012	6/30/2011	6/30/2010
Investment Income	$ (6,011)	$ (2,661)	$ (3,067)
Liability Experience	$ 4,760	$ 5,967	$ (11,242)
Gain (or Loss) During Year from Financial Experience	$ (1,251)	$ 3,305	$ (14,309)
Non-Recurring Gain (or Loss) Items	$ 58,173	$ 1,146	$ (122,599)
Composite Gain (or Loss) During Year	**$ 56,922**	**$ 4,452**	**$ (136,908)**

Amounts in thousands

Summary of Key Substantive Plan Provisions:

Eligibility:

Employees who retire at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical and/or dental coverage upon retirement.

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 and/or dental coverage upon retirement.

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.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical and/or dental plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 19 (24 if a full-time student).

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 and/or dental plans immediately before death; and
3. The survivor will receive a monthly pension benefit.

Summary of Plan Provisions *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

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.

Effective January 1, 2012, the lowest cost health plan is the Kaiser $25 Co-pay plan. The single coverage amount is $531.58 per month, and the family coverage amount is $1,323.66 per month. Effective January 1, 2013, the lowest cost health plan is the Kaiser $1500 Deductible HMO plan. The single coverage amount is $457.70 per month, and the family coverage amount is $1,139.70 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

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.

Premiums:

MONTHLY PREMIUMS FOR 2012				
	Single	% Increase	Family	% Increase
Medical				
Non-Medicare Monthly Rates				
Kaiser $25 Co-pay Plan	$ 531.58	7.0%	$ 1,323.66	7.0%
Blue Shield HMO $25 Co-pay	574.82	0%	1,476.60	8.0%
Blue Shield PPO or POS $25 Co-pay	736.78	0%	1,893.48	0%
Medicare Monthly Rates				
Kaiser – Senior Advantage	$ 246.58	-47%	$ 493.16	-47%
UHC Medicare Advantage	485.95	-1%	971.90	-1%
Blue Shield Medicare PPO	602.56	-1%	1,205.14	-1%
Blue Shield Medicare HMO	464.06	8%	928.14	8%
UHC Senior Supplement	501.78	16%	1,003.56	16%
Dental				
Delta Dental PPO	$ 108.66	0%	$ 108.66	0%
DeltaCare HMO	46.82	0%	46.82	0%

Summary of Plan Provisions *(Continued)*

POSTEMPLOYMENT HEALTHCARE 401(H) PLAN

SUMMARY OF 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

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 José 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% of the health premium subsidy and 25% 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.

City's Contribution: Contribute 50% of the health premium subsidy and 75% 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

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 cover Pension Plan and Postemployment Healthcare. 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.

Statistical Section

Statistical Review

CHANGES IN NET POSITION FOR FISCAL YEARS 2003-2012 *(In Thousands)*
DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employee contributions	$ 17,233	$ 16,240	$ 16,432	$ 16,050	$ 19,210	$ 20,323	$ 20,097	$ 29,629	$ 19,345	$ 20,227
Employer contributions	24,412	41,835	43,473	46,625	56,372	53,103	52,315	77,918	121,009	105,234
Investment Income / (loss)*	252,431	202,320	230,225	440,999	(153,711)	(469,235)	314,453	396,377	(34,341)	248,725
Total additions to plan net position	**294,076**	**260,395**	**290,130**	**503,674**	**(78,129)**	**(395,809)**	**386,865**	**503,924**	**106,013**	**374,186**
Deductions										
Benefit payments	61,449	69,102	75,189	81,953	89,704	102,363	114,604	129,472	142,314	150,811
Death benefits	3,976	4,226	4,803	5,042	5,467	5,982	6,519	7,213	7,480	8,005
Refunds	132	426	144	210	168	363	196	435	1,926	886
Administrative expenses and other	2,053	1,617	2,171	2,206	2,670	2,669	2,955	3,127	3,556	3,423
Total deductions from plan net position	**67,610**	**75,371**	**82,307**	**89,411**	**98,009**	**111,377**	**124,274**	**140,247**	**155,276**	**163,125**
Change in Net Position	**$ 226,466**	**$ 185,024**	**$ 207,823**	**$ 414,263**	**$ (176,138)**	**$ (507,186)**	**$ 262,591**	**$ 363,677**	**$ (49,263)**	**$ 211,061**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employee contributions	$ 3,696	$ 5,673	$ 5,742	$ 7,989	$ 9,151	$ 9,218	$ 10,650	$ 11,229	$ 11,474	$ 13,498
Employer contributions	4,492	6,418	6,529	9,082	10,618	9,888	11,284	17,001	21,205	15,808
Investment Income / (loss)*	4,414	3,554	4,089	8,115	(3,029)	(9,800)	6,870	8,966	(805)	6,447
Total additions to plan net position	**12,602**	**15,645**	**16,360**	**25,186**	**16,740**	**9,306**	**28,804**	**37,196**	**31,874**	**35,753**
Deductions										
Healthcare insurance premiums	9,528	11,093	12,880	14,794	15,974	18,039	20,701	28,273	28,479	23,934
Administrative expenses and other	36	33	42	45	56	60	66	73	87	78
Total deductions from plan net position	**9,564**	**11,126**	**12,922**	**14,839**	**16,030**	**18,099**	**20,767**	**28,346**	**28,566**	**24,012**
Change in Net Position	**$ 3,038**	**$ 4,519**	**$ 3,438**	**$ 10,347**	**$ 710**	**$ (8,793)**	**$ 8,037**	**$ 8,850**	**$ 3,308**	**$ 11,741**

**Net of Expenses*

BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE *(In Thousands)*
PENSION BENEFITS (Schedule 2a)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013
Age and Service Benefits								
Retirees – Service	$ 30,828	$ 34,772	$ 39,354	$ 49,004	$ 59,455	$ 68,780	$ 77,239	$ 80,902
Retirees – Deferred Vested	892	946	1,030	1,337	1,481	1,948	2,184	2,522
Survivors – Service	741	606	713	826	986	1,301	1,402	1,566
Survivors – Deferred Vested	22	23	30	33	32	51	59	60
Death in Service Benefits	1,031	1,093	1,121	1,193	1,155	1,246	1,366	1,502
Disability Benefits								
Retirees – Duty	41,134	43,713	46,654	49,100	51,218	55,998	59,108	63,410
Retirees – Non-Duty	610	646	697	698	680	674	770	748
Survivors – Duty	2,876	3,184	3,459	3,784	3,634	3,888	4,328	4,587
Survivors – Non-Duty	133	135	144	146	136	124	266	265
Ex-Spouse Benefits	1,725	1,877	1,969	2,224	2,346	2,675	3,072	3,254
Total Benefits	**$ 79,992**	**$ 86,995**	**$ 95,171**	**$ 108,345**	**$ 121,123**	**$ 136,685**	**$149,794**	**$ 158,816**
Type of Refund								
Separation	$ 144	$ 210	$ 168	$ 363	$ 196	$ 435	$ 1,926	$ 886
Total Refunds	**$ 144**	**$ 210**	**$ 168**	**$ 363**	**$ 196**	**$ 435**	**$ 1,926**	**$ 886**

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

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE *(In Thousands)*
POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013
Age and Service Benefits								
Retirees – Service								
Medical	$ 3,871	$ 4,750	$ 5,366	$ 6,843	$ 8,274	$ 9,468	$ 10,361	$ 10,090
Dental	492	550	589	684	855	968	1,031	1,013
Retirees – Deferred Vested*								
Medical	119	131	137	146	180	236	250	264
Dental	15	16	17	17	21	26	27	29
Survivors – Service								
Medical	78	76	89	110	165	229	214	231
Dental	23	20	21	19	31	41	42	44
Survivors – Deferred Vested*								
Medical	4	3	1	-	-	11	10	11
Dental	1	1	-	1	1	3	3	2
Death in Service Benefits								
Medical	165	186	190	208	213	252	(38)*	243
Dental	35	36	34	33	37	42	59	41
Disability Benefits								
Retirees – Duty								
Medical	6,503	7,324	7,757	8,177	8,897	9,852	9,604	9,673
Dental	854	881	885	856	977	1,068	1,043	1,038
Retirees – Non-Duty								
Medical	147	162	173	172	199	201	221	206
Dental	21	21	22	21	26	25	25	23
Survivors – Duty								
Medical	408	483	527	603	643	715	667	650
Dental	118	127	137	119	154	169	159	152
Survivors – Non-Duty								
Medical	19	20	22	24	24	21	40	41
Dental	7	7	7	6	7	7	11	11
Implict Subsidy	-	-	-	-	-	4,939	4,750	172
Total Benefits	**$ 12,880**	**$ 14,794**	**$ 15,974**	**$ 18,039**	**$ 20,701**	**$ 28,273**	**$ 28,479**	**$ 23,934**

** 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 2004-2013 (Schedule 3)

	Police Department Rate		Fire Department Rate	
Fiscal Year	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2003-04	10.25	14.22	10.25	14.22
2004-05	11.16	24.59	11.16	24.59
2005-06	11.16	25.04	11.16	25.04
2006-07	11.67	28.51	11.26	25.22
2007-08*	11.67	28.90	11.26	25.61
2008-09	11.96	25.80	12.40	28.31
2009-10	12.96	26.89	12.40	28.31
2010-11	15.57	44.58	13.70	44.16
2011-12	17.47	56.90	15.62	56.32
2012-13	19.39%	65.53%	17.32%	65.05%

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

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2013

		Type of Retirement*								Option Selected**				
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	8	Unmodified	Option 1	Option 2	Option 3	Total
$1 - 500	5	0	0	1	0	0	0	1	3	3	0	2	0	5
$501 - 1000	28	0	0	0	0	1	7	4	16	16	5	4	3	28
$1001 - 1500	44	0	0	0	0	6	3	6	29	25	0	17	2	44
$1501 - 2000	68	1	0	3	0	15	17	6	26	41	1	20	6	68
$2001 - 2500	95	20	0	3	2	17	22	9	22	67	1	26	1	95
$2501 - 3000	94	25	0	1	4	21	24	7	12	69	1	22	2	94
$3001 - 3500	90	26	0	0	2	12	32	5	13	75	2	13	0	90
$3501 - 4000	101	64	1	2	6	6	17	2	3	82	7	7	5	101
$4001 - 4500	67	43	3	5	5	2	4	3	2	54	3	6	4	67
$4501 - 5000	115	72	2	0	24	0	11	1	5	79	5	18	13	115
$5001 - 5500	131	84	3	3	35	1	5	0	0	88	8	16	19	131
$5501 - 6000	99	54	0	0	38	2	2	2	1	70	6	9	14	99
$6001 - 6500	125	59	1	0	59	2	3	0	1	98	6	8	13	125
$6501 - 7000	119	59	0	0	58	1	0	0	1	95	7	5	12	119
$7001 - 7500	133	60	0	0	73	0	0	0	0	100	9	11	13	133
$7501 - 8000	109	35	4	1	67	0	1	1	0	77	1	15	16	109
$8001 - 8500	113	49	0	0	62	0	0	2	0	72	6	15	20	113
$8501 - 9000	103	30	0	0	72	0	0	1	0	72	5	13	13	103
$9001 - 9500	104	39	0	0	65	0	0	0	0	64	9	13	18	104
$9501 - 10000	83	32	0	0	49	0	0	2	0	47	4	18	14	83
$10001 - 10500	70	28	0	0	40	0	1	1	0	47	4	10	9	70
$10501 - 11000	61	16	1	0	42	0	0	2	0	39	5	9	8	61
Over $11000	137	36	2	0	97	0	0	2	0	90	10	9	28	137
TOTAL	**2,094**	**832**	**17**	**19**	**800**	**86**	**149**	**57**	**134**	**1,470**	**105**	**286**	**233**	**2,094**

***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 Descriptions**

Unmodified *Unmodified Joint & Survivorship (standard default for married)*
1 *Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)*
2 *Unmodified/No Survivor (standard default for unmarried)*
3 *Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, pension goes back to original pension calculation)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2013

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	261	201
$1 - 100	0	24
$101 - 250	0	1,869
$251 - 500	496	0
$501 - 1,000	158	0
$1,001 - 1,250	1,179	0
TOTAL	**2,094**	**2,094**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2013

	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2013							
Average Monthly Benefit*	$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* (No FAS)	$ -	$ 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
Period 7/1/2010 to 6/30/2011							
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***	0	3	5	12	33	124	30
Period 7/1/2009 to 6/30/2010							
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***	0	3	5	12	36	129	30
Period 7/1/2008 to 6/30/2009							
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 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***	0	3	5	13	36	132	32
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit (Incl. COLA)	$ 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 (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,549	$ 1,319	$ 2,642	$ 3,639	$ 5,560	$ 6,123
Number of Retired Members***	0	3	5	13	36	134	32
Period 7/1/2006 to 6/30/2007							
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***	0	3	6	13	36	137	32
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$ 889	$ 1,424	$ 1,822	$ 2,633	$ 3,073	$ 5,092	$ 5,411
Average Final Average Salary**	$ 1,778	$ 2,934	$ 3,716	$ 5,290	$ 5,164	$ 6,674	$ 6,725
Number of Retired Members***	7	47	61	76	189	462	129
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 414	$ 735	$ 1,741	$ 2,405	$ 3,835	$ 4,103
Number of Retired Members***	0	3	6	14	36	137	32

* *Includes Cost of Living Increases*

** *Final Average Salary not available for those that retired prior to April 1998, except for service connected disability retirees. Those without Final Average Salary are not included in Average Monthly Benefit.*

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

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2013

	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2013							
Average Health Subsidy	$ 519	$ 783	$ 769	$ 785	$ 924	$ 932	$ 844
Number of Health Participants*	8	44	81	118	366	855	174
Average Dental Subsidy	$ 84	$ 96	$ 85	$ 92	$ 101	$ 101	$ 102
Number of Dental Participants*	9	47	86	124	375	872	177
As of June 30, 2012							
Average Health Subsidy	$ 776	$ 850	$ 839	$ 865	$ 1,018	$ 1,055	$ 928
Number of Health Participants*	6	42	66	110	357	850	177
Average Dental Subsidy	$ 109	$ 106	$ 88	$ 97	$ 107	$ 108	$ 108
Number of Dental Participants*	6	46	70	114	372	869	182
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*	6	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	82	216	572	153
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	225	487	134
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
Number of Dental Participants*	7	49	60	83	230	491	134
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 571	$ 662	$ 722	$ 735	$ 731	$ 772	$ 742
Number of Health Participants*	7	45	56	79	216	453	129
Average Dental Subsidy	$ 95	$ 96	$ 95	$ 94	$ 94	$ 95	$ 95
Number of Dental Participants*	7	49	59	80	222	461	129

** Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Retirements During Fiscal Year 2012-2013

SERVICE RETIREMENTS

Police Department

ABALDAL, RON
BARNER, BARRY
BENCE, RUSSELL
CHRISTIAN, BRIAN
COOKE, CYNTHIA
CRADER, GREGORY
DULONG, DAVID
ENOS, WILLIAM
GOEDE, RICHELLE
GUNSKY, GREGORY
HERNANDEZ, JOE
HICKS, JEROME
HUDSON, KIMBERLY
LO CICERO, ANDREW
MITCHELL, JOHN
MOORE, CHRISTOPHER
QUEZADA, LOUIS
ROSE, JOHN
SEAMAN, JOHN
SOLIDAY, CHARLES
SWARINGEN, FRANK
TORTORICI, THOMAS

Fire Department

ACABRAL, ALLISON
DAWSON, ROBERT
GALASSO, GARY
MATHEWS, ERVIN
MORPHIS, JAMES
TALLERICO, MICHAEL

EARLY RETIREMENTS

Police Department

BEATTIE, GEORGE
SPOULOS, DAVID

Fire Department

NONE

DEFERRED VESTED RETIREMENTS

Police Department

BALLARD, ROBERT
DRAFFONE, THERESA
FONG, RICHARD
GAMEZ, MEYNARD
SAVAGE, SCOTT
WRIGHT, TORAN

Fire Department

NONE

Source: Pension Administration System

Retirements During Fiscal Year 2012-2013 *(Continued)*

SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

ALBIN, MICHAEL
BOALES, TINA
COLANDONE, ERIK
CREIGHTON, DEVLIN
DEMARIA, MARK
FLEMING, JOSEPH
GRANBERG, SHANE
MENDIA, BRET
MOORE, JEFFREY
PAZ, ALEJANDRO
RAWSON, KENNETH
RUFFNER, JOHN
SOROKA, ALAN
WHITE, KEVIN
WILLEY, KENNETH

Fire Department

MARTINEZ, JOSE
WILLIAMS, MARC

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

NONE

Fire Department

YSSELSTEIN, JOSEPH

Deaths During Fiscal Year 2012-2013

DEATHS AFTER RETIREMENT

Police Department

BOND, WILLIAM
EMERY, LOUIS
FINTON, ROGER
GARRINGER, ESTIEL
JOHNSON, THOMAS
NAVIN, ANN
RANADA, ANTHONY
WRIGHT, DOUGLAS

Fire Department

ANDERSON, ERNEST
BOGUE, GARY
BOOZEL, BENJAMIN
BRADFORD, GEORGE
CAINES, JAMES
CAMPBELL, LAWRENCE
COLE, VERNON
CONYERS, FRANCIS
DE LISE, JOSEPH
DYE, DONALD
FORD, CHARLES
GAILLARD, GEORGE
GURLEY, EDWARD
JOHNSON, GERALD
MALECH, KEITH
MARTINEZ, JOSE
MCDONALD, GERALD
NELSON, ROBERT
NEWTON, JACK
SORENSEN, THEODORE
WILSON, ROGER

DEATHS BEFORE RETIREMENT

Police Department

NONE

Fire Department

NONE

Source: Pension Administration System

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services
1737 North First Street, Suite 580
San José, California 95112-4505
Phone 408-794-1000 Fax 408-392-6732
www.sjretirement.com