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SEGAL

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November 30, 2006

Mr. Edward F. Overton
Director/Retirement Services
San Jose City Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Re: Segal's Reconciliation of the June 30, 2005 Retiree Medical and Dental Valuation Results With Those Calculated By Mercer

Dear Ed:

In our letter to the System dated October 4, 2006, we documented Segal's reconciliation of our June 30, 2005 pension valuation results with those calculated by Mercer in their actuarial report dated March 28, 2006. In this letter, we have provided the reconciliation results for the retiree medical and dental programs.

Board's Funding Policy

Under the Board's current funding policy, the City and the members share in the funding of the projected cashflows for the next 10 plan years. For the medical program, the City and the members share equally in the projected cashflows not covered by assets available for the medical program. For the dental program, the City pays 75% and the members pay 25% of the unfunded cashflows.

Cashflows and Associated Contribution Rates

Based on the cashflows underlying the liabilities for our June 30, 2006 GASB 43/45 study presented to the Board last month, we have summarized in the attached Table A the contribution rates under the current funding policy. Since our GASB 43/45 study determines the liability of the plan effective July 1, 2006, for the 2005/2006 plan year, we have used the projected cashflows calculated by Mercer.

As you can see in the attached table, our total contribution rates for the medical and dental programs for the City and the members are 3.46% and 3.13%, respectively. The rates calculated by Mercer for the City and the members are 4.19% and 3.78%, respectively.

We believe the primary reason that our rates are lower than those calculated by Mercer is that in determining the short term cashflows, Mercer applied a simplifying assumption of 7% to predict the annual increase in the number of insured members in the medical and dental programs. Since GASB 43/45 requires a long term projection of the liability, we have applied a more accurate technique to determine the number of insured members based on the actual demographics of the active and retired members. The cashflows we provide in Table A utilize that projection. They anticipate fewer insured retirees, and hence a lower cost, over the next 10 years.

If you have any questions, please let us know.

Sincerely,

Paul Angelo, FSA, EA, MAAA
Senior Vice President & Actuary

Andy Yeung, ASA, EA, MAAA
Associate Actuary

AYY/bqb
Enclosure

Table A - Determination of Contribution Rates for the Medical and Dental Programs

	Projected Cashflows and Payroll Calculated by Mercer				Projected Cashflows* and Payroll Calculated by Segal			
Plan Year Beginning July 1	Medical Only	Dental Only	Total	Projected Payroll	Medical Only	Dental Only	Total	Projected Payroll
2005	10,989,000	1,525,000	12,514,000	210,018,000	10,989,000	1,525,000	12,514,000	210,116,000
2006	13,165,000	1,746,000	14,911,000	218,419,000	12,856,000	1,710,000	14,566,000	218,521,000
2007	15,632,000	1,990,000	17,622,000	227,156,000	14,891,000	1,864,000	16,755,000	227,261,000
2008	18,395,000	2,257,000	20,652,000	236,242,000	17,075,000	2,028,000	19,103,000	236,352,000
2009	21,450,000	2,547,000	23,997,000	245,692,000	19,341,000	2,200,000	21,541,000	245,806,000
2010	24,785,000	2,861,000	27,646,000	255,520,000	21,639,000	2,382,000	24,021,000	255,638,000
2011	28,375,000	3,215,000	31,590,000	265,741,000	23,949,000	2,575,000	26,524,000	265,864,000
2012	32,183,000	3,613,000	35,796,000	276,371,000	26,212,000	2,778,000	28,990,000	276,498,000
2013	36,159,000	4,060,000	40,219,000	287,426,000	28,307,000	2,986,000	31,293,000	287,558,000
2014	40,627,000	4,561,000	45,188,000	298,923,000	30,240,000	3,205,000	33,445,000	299,061,000
Present Value As of June 30, 2005	154,283,000	18,350,000	172,633,000	1,715,290,000	133,719,000	15,410,000	149,129,000	1,716,085,000
Assets As of June 30, 2005	31,701,917	4,294,355	35,996,272		31,701,917	4,294,355	35,996,272	
Unfunded Present Value of Benefits As of June 30, 2005	122,581,083	14,055,645	136,636,728		102,017,083	11,115,645	113,132,728	
Present Value of 10-Year Future Payroll As of June 30, 2005	1,715,290,000	1,715,290,000			1,716,085,000	1,716,085,000		
Unfunded Present Value of Future Benefits As of June 30, 2005	7.15%	0.82%	7.97%		5.94%	0.65%	6.59%	
City's Contribution Rate	3.58%	0.61%	4.19%		2.97%	0.49%	3.46%	
Members' Contribution Rate	3.57%	0.21%	3.78%		2.97%	0.16%	3.13%	

* For the 2005/2006 plan year, Segal has used the projected cashflows calculated by Mercer.

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VIA E-MAIL AND U. S. MAIL

October 4, 2006

Mr. Edward F. Overton
Director/Retirement Services
San Jose City Police and Fire Department
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Re: Segal's Reconciliation of the June 30, 2005 Pension Valuation Results with those Calculated by Mercer

Dear Ed:

Pursuant to your request, we have documented Segal's reconciliation of the June 30, 2005 Pension valuation results with those calculated by Mercer in their actuarial report dated March 28, 2006 and revision in their letter dated June 29, 2006. This reconciliation was carried out as part of the transition of actuarial services to Segal to ensure that we could independently replicate the actuarial values and contribution requirements as determined by Mercer for the employer and the members using the plan provisions and actuarial assumptions adopted by the Board for the June 30, 2005 valuation.

As we discussed previously with the System, the reconciliation included in this letter is only limited to the results of the pension valuation. We anticipate the reconciliation of the retiree health valuation to be completed at the same time we complete the GASB 43/45 valuation and we anticipate delivering those results to the Board at the November Board meeting.

Salaries Used in the June 30, 2005 Reconciliation

We understand that because the bargaining groups did not reach agreement with the City on the active member salary increases after February 29, 2004, salaries reported by the System to Mercer for the June 30, 2005 valuation did not reflect any general wage increases after February 29, 2004. In order to estimate the individual active member salaries for plan year

2005-2006, Mercer made an adjustment equal to one year of the assumed wage inflation (i.e., 4%) for the plan year 2004-2005 and additional one-half year of the assumed wage inflation plus merit and longevity increase for the plan year 2005-2006. For consistency, we have continued to apply that adjustment in our reconciliation. Also, any change in benefit that became effective after June 30, 2005 has been excluded from our reconciliation.

Please note that, as instructed by your office, we have ignored the improvements to the Police member pension benefits granted as part of the December 7, 2005 negotiations, as well as any salary increase adjustments that occurred during those negotiations.

Membership Data

Membership data was provided by Mercer which corresponded almost exactly to that reported by Mercer in their June 30, 2005 valuation. We did note that there were some minor differences between the automatic continuance benefits reported by Mercer and by the System. The review of the continuance benefits was the only attempt we made to reconcile the Mercer data back to the source data supplied by the your office. A summary of the number of members included in the valuation is set forth in the table below.

	Segal	Mercer	Segal /Mercer
Membership Count			
Active Members	2,003	2,003	100.0%
Inactive Members	69	69	100.0%
Service Retired	439	439	100.0%
Disability Retired	750	750	100.0%
Beneficiaries	196	196	100.0%
Total	3,457	3,457	100.0%

Statistical Information

The statistical information was reproduced on the Segal system and compares to that presented in the actuarial report dated March 28, 2006 and letter dated June 29, 2006 letter as shown in the table below.

	Segal	Mercer	Segal/Mercer
Active Members			
Average Attained Age	41.0	41.0	100.0%
Average Service	13.4	13.4	100.0%
Estimated Payroll - For Plan Year 2005-2006	**$210,116,000**	$210,018,000	100.0%
Estimated Payroll - For Plan Year 2006-2007[(1)]	$218,521,000	$222,117,000	98.4%
Annual Benefits in Pay Status	$76,071,000	$76,071,000	100.0%

[(1)] Segal's estimated payroll for plan year 2006-2007 was calculated by adjusting the aggregate payroll for plan year 2005-2006 by the assumed wage inflation (i.e., 4%); while Mercer's estimate was calculated by adjusting the payroll for plan year 2005-2006 by the total of the assumed wage inflation and merit and longevity increase.

Actuarial Valuation Results

In our reconciliation, we compared the following actuarial values:

- The total actuarial accrued liabilities for active members (the equivalent of the accumulated normal costs allocated to the years before the valuation date) and inactive members (the single sum value of the lifetime benefits to current pensioners, beneficiaries and deferred vested members);
- The unfunded actuarial accrued liability; and
- The normal cost (the amount of future contributions required to fund the level percent of payroll cost allocated to the current years of service) for the employer and the employee.

The valuation programs used by two different actuaries rarely produce identical results. This can be due to differences in decrement timing (such as, exactly when will a member expected to retire at a given age actually retire: beginning, middle or end of that year?) or other differences in methodology. Even though there is no generally accepted actuarial principle that provides guidance on what is considered an acceptable difference, a variance of 5% or less is generally considered acceptable. The comparison of these results are set forth in the table on the following page.

	Segal	Mercer	Segal/Mercer
Actuarial Accrued Liability	$2,017,024,000	$2,010,966,000	100.3%
Actuarial Value of Assets	$1,983,090,000	$1,983,090,000	100.0%
Unfunded Actuarial Accrued Liability (UAAL)	$33,934,000	$27,876,000	121.7%[3]
Employer UAAL Rate (% of Payroll)	1.29%	1.02%	126.5%[3]
Employer Normal Cost (% of Payroll)	20.46%	19.81%	103.3%
Total Employer Rate (% of Payroll) – Before SRBR Credit	21.75%	20.83%[1]	104.4%
Employee UAAL Rate (% of Payroll)	0.06%	0.06%	100.0%
Employee Normal Cost (% of Payroll)	7.67%	7.43%	103.2%
Total Employee Rate (% of Payroll)	7.73%	7.49%[2]	103.2%

[1] This revised rate was provided in the Mercer letter dated June 29, 2006. The original rate that was calculated by Mercer in their June 30, 2005 actuarial valuation and adopted by the Board was 21.42%.

[2] This revised rate was provided in the Mercer letter dated June 29, 2006. The original rate that was calculated by Mercer in their June 30, 2005 actuarial valuation and adopted by the Board was 7.48%.

[3] These percentages are much bigger than the percentage difference in the Actuarial Accrued Liability. Leverage causes a plan with a funded ratio close to 100% to exhibit a large percentage swing in the UAAL contribution rate from a relatively small change in the Actuarial Accrued Liability.

Our actuarial valuation process produced a slightly higher UAAL rate (0.27% of payroll) and a higher total normal cost rate (0.89% of payroll) when compared to Mercer. However, since our results were within 5% of those produced by Mercer, we believe that the liabilities and contribution rates calculated by Mercer in the June 30, 2005 valuation were reasonable, accurate and in accordance with generally accepted actuarial principles. They reasonably

reflected the plan provisions and actuarial assumptions adopted by the Board for the June 30, 2005 valuation.

If you have any questions, please let us know.

Sincerely,

Paul Angelo, FSA, EA, MAAA
Senior Vice President & Actuary

Andy Yeung, ASA, EA, MAAA
Associate Actuary

AYY/dvb

March 28, 2006

City of San José
Police and Fire Department
Retirement Plan

Actuarial Valuation as of June 30, 2005

MERCER
Human Resource Consulting

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

MMC Marsh & McLennan Companies

Contents

Contents *(continued)*

Executive Summary

Mercer Human Resource Consulting has prepared this report for the City of San Jose Police and Fire Department Retirement Plan to report the results of the June 30, 2005 actuarial valuation. These results are intended to be used to set contribution rates and to prepare the disclosures required under Government Accounting Standards Board Statement No. 25 (GASB 25).

Funded Status

The funded ratio of the pension plan based on the actuarial value of assets has fallen below 100 percent for the first time since the June 30, 1993 actuarial valuation. However, based on the market value of assets the plan is 101 percent funded. Compared to other public sector retirement plans, this plan is well funded. However, with assets equal to approximately 10 times payroll, changes in funded status can create significant volatility in contribution rates.

Recommended Contribution Rates

As a result of the June 30, 2005 actuarial valuation, we are recommending slight increases in both the member and city contribution rates as summarized in the table below.

Contribution Rates	City	Member	Total
Pension	21.42%	7.48%	28.90%
Retiree Medical	3.58%	3.57%	7.15%
Retiree Dental	0.61%	0.21%	0.82%
Total	**25.61%**	**11.26%**	**36.87%**
Prior Valuation Total	25.04%	11.16%	36.20%
Net Change	**0.57%**	**0.10%**	**0.67%**

In addition, the return on the actuarial value of assets was less than the assumed 8.0 percent per year during the two-year period ending on the valuation date, increasing the city contribution rate. Consequently, the Supplemental Retirement Benefit Reserve (SRBR) is charged a portion of its reserve to reduce the increase to the city's contribution rate. The charge to the SRBR reduces the city's pension contribution rate by 0.39 percent (to 21.03 percent) for the 12-month period beginning July 1, 2006. This reduction compares to a similar reduction of 0.45 percent for the 12-month period beginning July 1, 2004.

Executive Summary *(continued)*

Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. The changes in actuarial methods and assumptions between the two valuations are described after the summary.

	Actuarial Valuation as of	
	June 30, 2005	**June 30, 2003**
Pension Valuation		
Assets, excluding the SRBR		
▪ Market value	$ 2,043,430,021	$ 1,631,511,694
▪ Actuarial value	1,983,090,069	1,826,287,000
▪ Ratio of actuarial value to market value	97%	112%
Accrued liability	2,027,432,021	1,823,200,000
Unfunded accrued liability	44,341,952	(3,087,000)
Funded status		
▪ Market value	101%	89%
▪ Actuarial value	98%	100%
Normal cost at the end of year	57,137,982	60,909,266
Valuation payroll	210,018,219	202,222,000
Normal cost percentage of payroll	27.2%	30.1%
Contribution Rates		
▪ Member	7.48%	8.27%
▪ City	21.42%	21.77%
▪ Total	28.90%	30.04%
Supplemental Retiree Benefits Reserve (SRBR)		
SRBR balance	$ 19,266,979	$ 19,695,306
SRBR excess interest	0	0
SRBR charge	963,349	849,227
Reduction in city rate due to SRBR charge	0.44%	0.39%

Executive Summary *(continued)*

Principal Valuation Results *(continued)*

	Actuarial Valuation as of	
	June 30, 2005	**June 30, 2003**
Retiree Healthcare		
Assets		
▪ Market value	37,081,000	29,524,000
▪ Actuarial value		
– Retiree medical	31,701,917	28,824,693
– Retiree dental	4,294,355	4,181,941
Present value of 10-year projected benefits		
▪ Retiree medical	154,283,000	119,836,000
▪ Retiree dental	18,350,000	16,859,000
Present value of 10-year projected payroll	1,715,290,000	1,685,290,000
Contribution Rates		
▪ Retiree medical		
– Member	3.57%	2.70%
– City	3.58%	2.70%
– Total	7.15%	5.40%
▪ Retiree dental		
– Member	0.21%	0.19%
– City	0.61%	0.57%
– Total	0.82%	0.76%
Member Data		
Number of members in valuation		
Active members	2,003	2,104
Members with deferred benefits	69	58
Service retirees	439	364
Disabled retirees	750	729
Beneficiaries	196	178
Total	**3,457**	**3,433**
Active Member Statistics		
Average age	40.98	40.00
Average years of service	13.42	12.52
Average salary	103,058	96,113

Executive Summary *(continued)*

Effect of Changes and Experience

Asset Experience

From June 30, 2003 to June 30, 2005, the fund earned an average annual return on the market value of assets of approximately 13 percent producing approximately $173 million more in earnings than expected. However, because gains and losses on investment experience are recognized over five years and the prior losses have not been fully recognized, the average annual return on the actuarial value of assets was approximately 5 percent.

Investment experience on the actuarial value of assets combined with the one year delay between the valuation date and the date contribution rates are changed resulted the actuarial value of assets being approximately $136 million less than expected for the pension plan.

Liability Experience

While the actuarial value of assets did not grow as fast as expected, neither did liabilities. From June 30, 2003 to June 30, 2005 liabilities increased from $1.8 billion to $2.0 billion. However, this increase was approximately $89 million less than expected. As of June 30, 2005, there were 101 fewer active members than expected and payroll had only grown at an average annual rate of approximately 1.0 percent compared to an assumed annual rate of growth of 4.5 percent. Average pay per member increased at an annual rate of 3.6 percent compared to an assumed annual rate of approximately 6.5 percent.

Changes in Economic Assumptions

Real Wage Growth

The real wage growth assumption represents the expected increase in wages in excess of inflation that is attributable to general productivity improvement and other factors that apply to all members. The assumption was reduced from 1.5 percent to 1.0 percent.

Merit and Longevity Wage Growth

The merit and longevity wage growth assumption was restructured to make it consistent with the pay step structure. Instead of basing the assumption primarily on age, the recommended assumption is based on service.

The change in economic assumptions reduced liabilities by approximately $3.9 million and reduced the normal cost by approximately $3.1 million.

Changes in Demographic Assumptions

Member Turnover

The expected termination rates of members were reduced to more closely match the experience of the last four years.

Executive Summary *(continued)*

Effect of Changes and Experience *(continued)*

Disability Incidence

The rates of service-connected and non-service-connected disability were combined into a single disability incidence assumption. Overall, the expected number of disabilities was reduced.

Service Retirement

The experience study shows that the vast majority of members do not retire until they are eligible for unreduced benefits. Consequently, retirement rates at the earlier ages were increased, retirement rates at the older ages were decreased, and retirement rates were extended from age 65 to age 70, but the rates were only applied to members who are eligible for unreduced benefits.

Disabled Retiree Mortality

The disability retiree mortality assumption was improved to create a margin for future improvements in mortality.

The change in demographic assumptions increased liabilities by approximately $16.9 million and reduced the normal cost by approximately $2.6 million.

Amortization method change

In prior valuations, all unfunded liabilities have been amortized over the period extending from the valuation date to June 30, 2017. When this method was initially established, the period was 40 years. The period is now only 12 years, and as the period grows shorter, new gains and losses can create tremendous swings in the contribution rate for unfunded liabilities. In order to stabilize contribution rates while maintaining a prudent plan to amortize any gains and losses, any new gains or losses experienced between valuation dates are now amortized over 16 years from the valuation date.

As a result of this change, the loss of $47 million experienced between the June 30, 2003 and June 30, 2005 actuarial valuations is now amortized over 16 years instead of 12 years resulting in an initial reduction in the amortization payment of approximately $1.0 million.

The changes made in this valuation are refinements intended to more accurately anticipate and manage future experience.

Certification

We have prepared an actuarial valuation of the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2005 to enable the Board to set future contribution rates for members and the City of San Jose and to satisfy accounting requirements under Government Accounting Standards Board Statement No. 25. The results of the valuation are set forth in this report, which reflects the provisions of the plan in effect on June 30, 2005.

The valuation is based on employee and financial data provided by the City of San Jose Police and Fire Department Retirement Plan and summarized in this report.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures. Funding calculations reflect the provisions of current federal, state and local statutes and regulations issued thereunder. Accounting calculations reported herein are consistent with our understanding of GASB Statement No. 25.

The actuarial methods and assumptions were selected by the Board. In our opinion, the actuarial methods and assumptions are reasonable and represent our best estimate of the anticipated experience under the plan. This report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

There have been changes in methods and actuarial assumptions since the last valuation of the plan. A description of those changes and their financial effects are incorporated in the report.

The trend assumptions were developed by Julie Mark, FSA, MAAA, a health actuary of Mercer Human Resource Consulting's San Francisco office.

This report has been prepared exclusively for the City of San Jose Police and Fire Department Retirement Plan to meet accounting requirements and to set contribution rates. Mercer Human Resource Consulting is not responsible for consequences arising from the use of this report for any other purposes.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. Each of the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Michelle L. Rathbun — 3/28/06

Michelle L. Rathbun, EA, MAAA — **Date**
EA No. 05-6321

William R. Hallmark — 3/28/06

William R. Hallmark, ASA, EA, MAAA — **Date**
EA No. 05-5656

Mercer Human Resource Consulting
111 SW Fifth Avenue, Suite 2800
Portland, OR 97204

503 273 5900

Plan Assets

Statement of Net Assets Available to Pay Plan Benefits

The market value of assets is summarized below. This information was provided by the City of San Jose Police and Fire Department Retirement Plan, and we did not audit or otherwise verify the information. These figures represent assets available to pay both pension and retiree healthcare benefits.

	Market Value as of	
Asset Categories	**July 1, 2005**	**July 1, 2003**
1. General investments		
– Cash and cash equivalents	$ 182,869,000	$ 236,492,000
– Fixed income		
▫ Governmental	315,020,000	179,044,000
▫ Corporate	199,205,000	288,592,000
– Domestic equities	802,826,000	563,695,000
– International equities	536,210,000	335,506,000
– Real estate	113,150,000	152,204,000
2. Receivables		
– Employee contributions	745,000	454,000
– Employer contributions	1,641,000	789,000
– Brokers and others	(55,810,000)	(81,564,000)
– Accrued income/other liabilities	3,922,000	5,519,000
3. **Net assets**	**$ 2,099,778,000**	**$ 1,680,731,000**

Plan Assets *(continued)*

Statement of Net Assets Available to Pay Plan Benefits

The market value of assets is summarized below. This information was provided by the City of San Jose Police and Fire Department Retirement Plan, and we did not audit or otherwise verify the information. These figures represent assets available to pay both pension and retiree healthcare benefits.

	Market Value as of July 1, 2005		
	Pension	Postemployment Healthcare	Total
Income			
1. General investments			
– Cash and cash equivalents	$ 179,686,000	$ 3,183,000	$ 182,869,000
– Fixed income			
▫ Governmental	309,537,000	5,483,000	315,020,000
▫ Corporate	195,738,000	3,467,000	199,205,000
– Domestic equities	788,852,000	13,974,000	802,826,000
– International equities	526,877,000	9,333,000	536,210,000
– Real estate	111,012,000	2,138,000	113,150,000
2. Receivables			
– Employee contributions	552,000	193,000	745,000
– Employer contributions	1,423,000	218,000	1,641,000
– Brokers and others	(54,837,000)	(973,000)	(55,810,000)
– Accrued income/other liabilities	3,857,000	65,000	3,922,000
3. **Net assets**	**$ 2,062,697,000**	**$ 37,081,000**	**$ 2,099,778,000**

Plan Assets *(continued)*

Statement of Changes in Net Assets

The following table summarizes the change in the market value assets over the two-year period ending June 30, 2005. During this period, the fund earned an average annual return of approximately 13 percent.

	July 1, 2003 to June 30, 2005		
	Pension	Postemployment Healthcare	Total
Income			
1. Contributions received			
– Employee	$ 33,473,000	$ 9,369,000	$ 42,842,000
– Employer	66,247,000	10,910,000	77,157,000
2. Investment earnings	454,751,000	7,968,000	462,719,000
3. **Total income**	**$ 554,471,000**	**$ 28,247,000**	**$ 582,718,000**
Disbursements			
4. Benefit payments			
– Retirement benefits	$ 130,551,000	$ 0	$ 130,551,000
– Healthcare insurance premiums		20,621,000	20,621,000
– Death benefits	8,202,000	0	8,202,000
– Refund of contributions	558,000	0	558,000
5. Administrative expenses and other	3,670,000	69,000	3,739,000
6. **Total disbursements**	**$ 142,981,000**	**$ 20,690,000**	**$ 163,671,000**
7. Net income	411,490,000	7,557,000	419,047,000
8. Net assets at beginning of year	1,651,207,000	29,524,000	1,680,731,000
9. **Net assets at end of year**	**$ 2,062,697,000**	**$ 37,081,000**	**$ 2,099,778,000**

Plan Assets *(continued)*

Development of the Actuarial Value of Assets, June 30, 2004

Investment returns greater than or less than 8.0 percent are recognized over a five-year period for purposes of determining the actuarial value of assets. While the fund earned approximately 15.3 percent on a market value basis for the year ending June 30, 2004, the return on the actuarial value of assets was only approximately 6.0 percent.

	Plan Year Ending			
	June 30, 2001	**June 30, 2002**	**June 30, 2003**	**June 30, 2004**
1. **Asset Gain/(Loss) for Prior 4 Years**				
a. Market value, BOY	$ 1,691,332,000	$ 1,671,430,000	$ 1,620,129,000	$ 1,680,731,000
b. Contributions	40,214,000	45,966,000	47,699,000	49,833,000
c. Benefit payments	(53,771,000)	(63,142,000)	(67,122,000)	(75,085,000)
d. Expected earnings *(8% × (a. + (b. + c.) ÷ 2))*	134,764,280	133,027,360	128,833,400	133,448,400
e. Expected market value, EOY *(a. + b. + c. + d.)*	1,812,539,280	1,787,281,360	1,729,539,400	1,788,927,400
f. Actual market value, EOY	1,671,430,000	1,620,129,000	1,680,731,000	1,910,235,000
g. **Gain/(loss)** *(f. – e.)*	**$ (141,109,280)**	**$ (167,152,360)**	**$ (48,808,400)**	**$ 121,307,600**

2. **Unrecognized Asset Gain/(Loss) as of June 30, 2005**	
a. June 30, 2001 unrecognized gain/(loss) *(20% × 1.g.)*	$ (28,221,856)
b. June 30, 2002 unrecognized gain/(loss) *(40% × 1.g.)*	(66,860,944)
c. June 30, 2003 unrecognized gain/(loss) *(60% × 1.g.)*	(29,285,040)
d. June 30, 2004 unrecognized gain/(loss) *(80% × 1.g.)*	97,046,080
e. Total unrecognized gain/(loss) *(a.+ b.+ c.+ d.)*	**$ (27,321,760)**

3. **Determine Actuarial Value of Assets**	
a. Market value, June 30, 2004	$ 1,910,235,000
b. Total unrecognized gain/(loss)	(27,321,760)
c. Preliminary actuarial value of assets *(a. – b.)*	1,937,556,760
d. Minimum actuarial value of assets *(80% × a.)*	1,528,188,000
e. Maximum actuarial value of assets *(120% × a.)*	2,292,282,000
f. Actuarial value of assets, June 30, 2004 *(c., but not less than d. or more than e.)*	**$ 1,937,556,760**

Plan Assets *(continued)*

Development of the Actuarial Value of Assets, June 30, 2005

Investment returns greater than or less than 8.0 percent are recognized over a five-year period for purposes of determining the actuarial value of assets. While the fund earned approximately 10.7 percent on a market value basis for the year ending June 30, 2005, the return on the actuarial value of assets was only approximately 6.0 percent.

	Plan Year Ending			
	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005
1. Asset Gain/(Loss) for Prior 4 Years				
a. Market value, BOY	$ 1,671,430,000	$ 1,620,129,000	$ 1,680,731,000	$ 1,910,235,000
b. Contributions	45,966,000	47,699,000	49,833,000	70,166,000
c. Benefit payments	(63,142,000)	(67,122,000)	(75,085,000)	(84,847,000)
d. Expected earnings *(8% × (a.+ (b.+ c.) ÷ 2))*	133,027,360	128,833,400	133,448,400	152,231,560
e. Expected market value, EOY *(a. + b. + c. + d.)*	1,787,281,360	1,729,539,400	1,788,927,400	2,047,785,560
f. Actual market value, EOY	1,620,129,000	1,680,731,000	1,910,235,000	2,099,778,000
g. Gain/(loss) *(g. – f.)*	**$ (167,152,360)**	**$ (48,808,400)**	**$ 121,307,600**	**$ 51,992,440**

2. Unrecognized Asset Gain/(Loss) as of June 30, 2005	
a. June 30, 2002 unrecognized gain/(loss) *(20% × 1.g.)*	$ (33,430,472)
b. June 30, 2003 unrecognized gain/(loss) *(40% × 1.g.)*	(19,523,360)
c. June 30, 2004 unrecognized gain/(loss) *(60% × 1.g.)*	72,784,560
d. June 30, 2005 unrecognized gain/(loss) *(80% × 1.g.)*	41,593,952
e. Total unrecognized gain/(loss) *(a.+ b.+ c.+ d.)*	**$ 61,424,680**

3. Determine Actuarial Value of Assets	
a. Market value, June 30, 2005	$ 2,099,778,000
b. Total unrecognized gain/(loss)	61,424,680
c. Preliminary actuarial value of assets *(a. – b.)*	2,038,353,320
d. Minimum actuarial value of assets *(80% × a.)*	1,679,822,400
e. Maximum actuarial value of assets *(120% × a.)*	2,519,733,600
f. Actuarial value of assets, June 30, 2005 *(c., but not less than d. or more than e.)*	**$ 2,038,353,320**

Plan Assets *(continued)*

Calculation of Supplemental Retiree Benefits Reserve (SRBR)

When earnings on the actuarial value of assets exceed the assumed earnings rate of 8.0 percent, 10 percent of the excess earnings are transferred to the SRBR to provide additional benefits to retirees and beneficiaries. When the City's contribution rate increases due to investment experience, the SRBR is charged to offset a portion of the increase.

1.	**Calculate Rate of Return on Actuarial Value of Assets**		
	a. Actuarial value of assets as of June 30, 2004	$	1,937,556,760
	b. Contributions during plan year		70,166,000
	c. Benefit payments during plan year		84,847,000
	d. Actuarial value of assets as of June 30, 2005		2,038,353,320
	e. Investment income on actuarial value of assets *(d. – a. – b. + c.)*	$	115,477,560
	f. Rate of return — actuarial value of assets *(2 × e. ÷ (a. + d. – e.))*		5.9826%
2.	**Calculate Interest on SRBR Balance at Actuarial Rate of Return**		
	a. SRBR balance as of June 30, 2004	$	19,026,184
	b. SRBR benefits distributed during plan year		871,399
	c. SRBR average monthly balance during the plan year *(a. – b. ÷ 2)*		18,590,485
	d. SRBR "regular interest" *(c. × max(1.f., 0))*	$	1,112,194
3.	**Calculate 10% of System's "Excess" Earnings**		
	a. Investment income on actuarial value of assets assuming an 8% return *(8% × (1.a. + (1.b. – 1.c.) ÷ 2.)*	$	154,417,301
	b. SRBR interest credited in excess of 8% *(2.d. – 2.c. × 8%)*		(375,044)
	c. Excess interest of actuarial value of assets *(1.e. – 3.a. – 3.b.)*		(38,564,696)
	d. SRBR "excess interest" *(10% of 3.c., but no less than $0)*		0
4.	**Reconciliation of SRBR**		
	a. SRBR balance as of June 30, 2004	$	19,026,184
	b. SRBR benefits distributed during plan year		871,399
	c. SRBR "regular interest"		1,112,194
	d. SRBR "excess interest"		0
	e. SRBR balance as of June 30, 2005 before distribution *(a. – b. + c. + d.)*	$	19,266,979

Year Ending June 30	Charge Due to Increased City Contribution Rate	Total SRBR Interest Credits	SRBR Benefit Distributed During Year	SRBR Balance as of June 30 Before Distribution
2000	–	$ 1,498,840	–	$ 20,609,140
2001	–	1,265,731	–	21,874,871
2002	–	827,383	$ 2,762,713	19,939,541
2003	–	585,006	829,241	19,695,306
2004	$ 849,227	871,399	585,006	19,026,184
2005	–	1,112,194	871,399	19,266,979

Plan Assets *(continued)*

Breakdown of Actuarial Value of Assets as of June 30, 2005

			Value as of June 30, 2005
1.	**Total Assets**		
	a. Market value of assets	$	2,099,778,000
	b. Actuarial value of assets		2,038,353,320
2.	**Pension and SRBR**		
	a. Market value of assets	$	2,062,697,000
	b. Actuarial value of assets *(2.a. × 1.b. ÷ 1.a.)*		2,002,357,048
	c. SRBR		19,266,979
	d. Actuarial value of pension assets *(2.b. – 2.c)*	**$**	**1,983,090,069**
3.	**Postemployment Healthcare**		
	a. Market value of assets	$	37,081,000
	b. Actuarial value of assets *(3.a. × 1.b. ÷ 1.a.)*		35,996,272
	c. Annual cost per retiree — medical benefit		8,376
	d. Annual cost per retiree — dental benefit		1,135
	e. Annual cost per retiree — postemployment healthcare *(3.c. + 3.d.)*	$	9,511
	f. Actuarial value of assets — medical benefits	**$**	**31,701,917**
	g. Actuarial value of assets — dental benefits	**$**	**4,294,355**

Development of Costs

Pension Plan

Unfunded Accrued Liability

The accrued liability is the present value of benefits attributable to past service by the actuarial funding method. The accrued liability is compared to the actuarial value of assets and any difference is amortized as part of the contribution rate.

		July 1, 2005
1. Accrued Liability		
a. Active members		
▪ Retirement benefits	$	598,070,888
▪ Withdrawal benefits		9,830,950
▪ Disability benefits		344,043,499
▪ Death benefits		2,732,539
▪ Total active		954,677,876
b. Members with deferred benefits		10,507,312
c. Members and beneficiaries receiving benefits		1,062,246,833
d. Total		2,027,432,021
2. Actuarial value of assets		1,983,090,069
3. Funded ratio *(2. ÷ 1.d.)*		97.81%
4. **Unfunded accrued liability** *(1.d. – 2.)*	$	**44,341,952**

Development of Costs *(continued)*

Pension Plan *(continued)*

Development of Actuarial Gain/(Loss)

The difference between the actual values as of the valuation date and the expected values based on the prior valuation is a gain or (loss) that is amortized over 16 years. The following exhibit develops the gain or loss since the last valuation. It also identifies the major components of the gain or loss including changes in plan provisions or assumptions.

1.	Expected accrued liability		
	a. Actuarial accrued liability at July 1, 2003	$	1,823,200,000
	b. Normal cost at July 1, 2003 and July 1, 2004		124,559,449
	c. Interest at 8.0% compounded annually on *a.* + *b.* to July 1, 2005		318,607,797
	d. Benefit payments for biannual period ending July 1, 2005, with interest at 8.0% compounded annually		150,226,545
	e. Expected actuarial accrued liability before change *(a. + b. + c. – d.)*		2,116,140,701
2.	Actuarial accrued liability at July 1, 2005		2,027,432,021
3.	**Liability gain/(loss)** *(1.e. – 2.)*	**$**	**88,708,680**
4.	Expected actuarial asset value		
	a. Actuarial asset value at July 1, 2003		1,826,287,108
	b. Interest at 8.0% compounded annually on *a.* to July 1, 2005		303,894,175
	c. Expected contributions made for biannual period ending July 1, 2005, with interest at 8.0% compounded annually		139,148,933
	d. Actual benefit payments for biannual period ending July 1, 2005, with interest at 8.0% compounded annually		150,226,545
	e. Expected actuarial asset value at July 1, 2005 *(a. + b. + c. – d.)*	$	2,119,103,671
5.	Actuarial asset value as of July 1, 2005		1,983,090,069
6.	**Actuarial asset gain/(loss)** *(5. – 4.e.)*	**$**	**(136,013,602)**
7.	**Actuarial gain/(loss) from July 1, 2003, to June 30, 2005** *(3. + 6.)*	**$**	**(47,304,922)**

Gain/(loss) due to:

▪ Change in economic assumptions	$	3,932,000
▪ Change in demographic assumptions		(16,892,000)
▪ Asset experience		(136,013,602)
▪ Liability experience		101,668,680
▪ **Total**	**$**	**(47,304,922)**

Development of Costs *(continued)*

Pension Plan *(continued)*

Amortization Schedule

The cost of the plan amendment effective July 1, 1996 increasing prior service benefits is amortized over the period ending June 30, 2017, and is a part of the member contribution rate. All other gains and losses through June 30, 2003, are also amortized over the period ending June 30, 2017 and are a part of the city contribution rate. Gains or losses between each valuation following the July 1, 2003 valuation are amortized over a 16-year period.

Name	Years Left	Outstanding Balance	Amortization Factor	Payment
Unfunded accrued liability at July 1, 2003	12	$ (4,213,703)	10.346%	$ (435,950)
Prior service cost for February 4, 1996 benefit improvement	12	1,250,733	10.346%	129,401
Plan experience from July 1, 2003 to June 30, 2005	16	47,304,922	8.171%	3,865,285
Total		**$ 44,341,952**		**$ 3,558,736**

Development of Costs *(continued)*

Pension Plan *(continued)*

Normal Cost

The normal cost represents the present value of the benefits attributable to the next year of service by the actuarial cost method. The normal cost and the amortization payment on the unfunded accrued liability are the primary components of the annual required contribution. The components of normal cost are as follows:

Component		July 1, 2005
1. Retirement benefits	$	27,526,583
2. Withdrawal benefits		3,468,161
3. Disability benefits		21,410,308
4. Death benefits		500,487
5. **Total normal cost at beginning of year** *(1. + 2. + 3. + 4.)*	**$**	**52,905,539**
6. Interest to end of year *(5. × 0.08)*		4,232,443
7. **Total normal cost at end of year** *(5. + 6.)*	**$**	**57,137,982**

Development of Costs *(continued)*

Postemployment Healthcare

Retiree healthcare benefits are funded based on a 10-year cash flow projection. These calculations are not intended to comply with the requirements of GASB Statement No. 43 and should not be used as such. Instead, these calculations compare current assets to the present value of the projected cash flow over the next ten years. The difference is amortized as a level percentage of projected payroll over the 10-year period.

Postemployment Health Insurance 10-Year Cost Projection — Dental Benefit

	A	B	C	D	E	F
Plan Year Beginning July 1	Projected Annual Cost Per Retiree	Projected Number of Insured Retirees	Projected Annual Cost *(A × B)*	Projected Total Covered Payroll[1]	Present Value of Projected Annual Cost	Present Value of Projected Total Covered Payroll
2005	$ 1,135	1,344	$ 1,525,000	$210,018,219	$ 1,467,000	$ 202,090,000
2006	1,214	1,438	1,746,000	218,419,000	1,556,000	194,605,000
2007	1,293	1,539	1,990,000	227,156,000	1,642,000	187,398,000
2008	1,371	1,646	2,257,000	236,242,000	1,724,000	180,457,000
2009	1,446	1,762	2,547,000	245,692,000	1,801,000	173,774,000
2010	1,518	1,885	2,861,000	255,520,000	1,874,000	167,338,000
2011	1,594	2,017	3,215,000	265,741,000	1,950,000	161,140,000
2012	1,674	2,158	3,613,000	276,371,000	2,029,000	155,172,000
2013	1,758	2,309	4,060,000	287,426,000	2,111,000	149,425,000
2014	$ 1,846	2,471	$ 4,561,000	$298,923,000	$ 2,196,000	$ 143,891,000
Total					**$18,350,000**	**$1,715,290,000**

1. Present value of projected annual cost	$18,350,000
2. Actuarial value of assets — dental benefit	4,294,355
3. **Unfunded present value of projected annual cost** *(1.– 2.)*	**$14,055,645**

[1] *Covered payroll for plan year beginning July 1, 2005 is the payroll as of June 30, 2005 increased by half a year salary scale.*

Development of Costs *(continued)*

Postemployment Healthcare *(continued)*

Postemployment Health Insurance 10-Year Cost Projection — Medical Benefit

	A	B	C	D	E	F
Plan Year Beginning July 1	Projected Annual Cost Per Retiree	Projected Number of Insured Retirees	Projected Annual Cost *(A × B)*	Projected Total Covered Payroll[1]	Present Value of Projected Annual Cost	Present Value of Projected Total Covered Payroll
2005	$ 8,376	1,312	$10,989,000	$210,018,219	$10,574,000	$202,090,000
2006	9,378	1,404	13,165,000	218,419,000	11,730,000	194,605,000
2007	10,407	1,502	15,632,000	227,156,000	12,896,000	187,398,000
2008	11,445	1,607	18,395,000	236,242,000	14,051,000	180,457,000
2009	12,473	1,720	21,450,000	245,692,000	15,171,000	173,774,000
2010	13,469	1,840	24,785,000	255,520,000	16,231,000	167,338,000
2011	14,411	1,969	28,375,000	265,741,000	17,206,000	161,140,000
2012	15,276	2,107	32,183,000	276,371,000	18,070,000	155,172,000
2013	16,041	2,254	36,159,000	287,426,000	18,798,000	149,425,000
2014	$ 16,843	2,412	$40,627,000	$298,923,000	$19,556,000	$143,891,000
Total					**$154,283,000**	**$1,715,290,000**

1. Present value of projected annual cost	$154,283,000
2. Actuarial value of assets — medical benefit	31,701,917
3. **Unfunded present value of projected annual cost** *(1.– 2.)*	**$122,581,083**

[1] *Covered payroll for plan year beginning July 1, 2005 is the payroll as of June 30, 2005 increased by half a year salary scale.*

City and Member Contribution Rates

The Annual Required Contribution under GASB Statement No. 25 consists of the normal cost plus the amortization payment on the unfunded accrued liability. Based on the City of San Jose Municipal Code, for pension benefits the members pay 3/11ths of the normal cost and the amortization payment on the amendment increasing prior service benefits as of July 1, 1996. The city pays 8/11ths of the normal cost and the remaining amortization payment on the unfunded accrued liability.

For retiree medical benefits, the contribution based on the 10-year projected cash flow is divided evenly between members and the city. For retiree dental benefits, the city pays 75 percent of the contribution based on the 10-year projected cash flow and members pay the other 25 percent.

	City	Member	Total
Pension			
1. Normal Cost	$ 41,554,896	$ 15,583,086	$ 57,137,982
2. Amortization payment			
a. Unfunded accrued liability at July 1, 2003	(435,950)		(435,950)
b. Prior service cost for February 4, 1996 benefit improvement		129,401	129,401
c. Plan experience from July 1, 2003 to June 30, 2005	3,865,285		3,865,285
d. Total *(a. + b. + c.)*	3,429,335	129,401	3,558,736
3. **Annual required contribution** *(1. + 2.d.)*	**$ 44,984,231**	**$ 15,712,487**	**$ 60,696,718**
4. Covered Payroll[1]	$ 210,018,219	$ 210,018,219	$ 210,018,219
5. **Pension contribution rate — pension** *(3. ÷ 4.)*	**21.42%**	**7.48%**	**28.90%**
Postemployment Health Insurance — 10-Year Cost Projection			
6. Unfunded present value of projected annual cost — medical benefit	$ 61,290,542	$ 61,290,541	$ 122,581,083
7. Unfunded present value of projected annual cost — dental benefit	10,541,734	3,513,911	14,055,645
8. Present value of covered payroll	1,715,290,000	1,715,290,000	1,715,290,000
9. **Medical contribution rate** *(6. ÷ 8.)*	**3.58%**	**3.57%**	**7.15%**
10. **Dental contribution rate** *(7. ÷ 8.)*	**0.61%**	**0.21%**	**0.82%**
11. Total contribution rate at July 1, 2005 *(5. + 9. + 10.)*	25.61%	11.26%	36.87%
12. Total contribution rate at July 1, 2003	25.04%	11.16%	36.20%
13. Net change *(11. – 12.)*	0.57%	0.10%	0.67%

[1] *Covered payroll for plan year beginning July 1, 2005 is the payroll as of June 30, 2005 increased by half a year salary scale.*

City and Member Contribution Rates *(continued)*

Determination of Charge to SRBR

1. Calculation of investment gain/(loss) from July 1, 2003 to June 30, 2005

a. Actuarial value of assets for pension after allowing for the SRBR program at June 30, 2003	$	$1,826,287,000
b. Contributions for 12 months ending June 30, 2004		41,645,000
c. Benefits for 12 months ending June 30, 2004		(67,610,000)
d. Expected investment income for 12 months ending June 30, 2004 *(8% × (1.a. + (1.b. + 1.c) ÷ 2))*		145,064,360
e. Expected actuarial value of assets for pension after allowing for the SRBR program at June 30, 2004 *(1.a. + 1.b. + 1.c. + 1.d.)*		1,945,386,360
f. Contributions for 12 months ending June 30, 2005		58,075,000
g. Benefits for 12 months ending June 30, 2005		(75,371,000)
h. Expected investment income for 12 months ending June 30, 2005 *(8% × (1.e. + (1.f. + 1.g.) ÷ 2))*		154,939,069
i. Expected actuarial value of asset for pension after allowing for the SRBR program at June 30, 2005 *(1.e. + 1.f. + 1.g. + 1.h.)*		2,083,029,429
j. Actuarial value of assets for pension after allowing for the SRBR program at June 30, 2005		1,983,090,069
k. Investment gain/(loss) for the period June 30, 2003 to June 30, 2005 *(1.j. – 1.i.)*		(99,939,360)

2. Calculation of Charge to SRBR

a. Increase in Unfunded Accrued Liability due to investment loss for the period June 30, 2003 to June 30, 2005		99,939,360
b. Amortization factor		8.171%
c. Covered payroll as of July 1, 2005[1]		210,018,000
d. Increase in City contribution rate effective July 1, 2005 due to investment loss *(2.a. × 2.b. ÷ 2.c.)*		3.888%
e. Projected covered payroll as of July 1, 2006 *(2.c. × 1.04)*		218,418,720
f. Projected dollar amount of the City's increased contribution rate for 12 months effective July 1, 2006 *(2.d. × 2.e.)*		8,492,271
g. SRBR Principal as of July 1, 2005		19,266,979
h. Charge to SRBR *(minimum of 2.f. × 10% and 2.g. × 5%)*	**$**	**$849,227**
i. Decrease in the City's contribution for 12 months effective July 1, 2006 *(2.h. ÷ 2.e.)*		**0.39%**

[1] *Covered payroll for plan year beginning July 1, 2005 is the payroll as of June 30, 2005 increased by half a year salary scale.*

Participant Data

System Membership and Benefit Statistics

Active Members

	June 30, 2005	June 30, 2003	Percent Change
A. Number	2,003	2,104	(4.8%)
B. Average Age	40.98	40.00	2.5%
C. Average Years of Service	13.42	12.52	7.2%
D. Annual Salary			
i. Total	$ 206,426,000	$ 202,222,000	2.1%
ii. Average	103,058	96,113	7.2%

Retired and Inactive Vested Members

	June 30, 2005	June 30, 2003	Percent Change
Retired Members			
A. Service Retirement			
i. Number	439	364	20.6%
ii. Annual Allowance			
▫ Basic Only	$ 25,698,228	$ 18,934,837	35.7%
▫ COLA	4,657,692	3,276,025	42.2%
▫ Total	30,355,920	22,210,862	36.7%
▫ Average Monthly Amount	5,762	5,085	13.3%
B. Disability Retirement			
i. Number	750	729	2.9%
ii. Annual Allowance			
▫ Basic Only	$ 30,468,459	$ 27,411,246	11.2%
▫ COLA	10,317,724	8,488,478	21.5%
▫ Total	40,786,183	35,899,724	13.6%
▫ Average Monthly Amount	4,532	4,104	10.4%
C. Beneficiaries			
i. Number	196	178	10.1%
ii. Annual Allowance			
▫ Basic Only	$ 2,933,103	$ 2,566,012	14.3%
▫ COLA	1,995,677	1,637,427	21.9%
▫ Total	4,928,780	4,203,439	17.3%
▫ Average Monthly Amount	2,096	1,968	6.5%
Inactive Vested Members			
A. Service Retirement	69	58	19.0%

Participant Data *(continued)*

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Monthly Average Pay	% Increase in Average Pay[1]
June 30, 1993	1,785	$ 98,831,000	$ 4,614	Not calculated
June 30, 1995	1,812	109,196,000	5,022	8.84%
June 30, 1997	1,954	129,850,000	5,538	10.27%
June 30, 1999	1,953	144,125,000	6,150	11.05%
June 30, 2001	2,107	171,799,000	6,795	10.49%
June 30, 2003	2,104	202,222,000	8,009	17.88%
June 30, 2005	2,003	206,426,000	8,588	7.20%

[1] *Reflects the increase in average salary for members at the beginning of the period versus those at the end of the period; it does not reflect the average salary increases received by members who worked the full period.*

Participant Data *(continued)*

Retirees and Beneficiaries Added to and Removed from Retiree Payroll

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of Beginning of Period	Annual Retiree Payroll Added During Period[1]	Annual Retiree Payroll Removed During Period	Annual Retiree Payroll as of End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/1993 – 6/30/1995	700	157	33	824	$ 18,958,000	$ 7,264,000	$ 639,000	$ 25,583,000	31.94%	$31,047
6/30/1995 – 6/30/1997	824	145	29	940	25,583,000	7,059,000	652,000	31,990,000	25.04%	34,032
6/30/1997 – 6/30/1999	940	156	36	1,060	31,990,000	9,962,000	880,000	41,072,000	28.39%	38,747
6/30/1999 – 6/30/2001	1,060	145	41	1,164	41,072,000	10,272,000	1,351,000	49,993,000	21.72%	42,949
6/30/2001 – 6/30/2003	1,164	159	52	1,271	49,993,000	13,806,000	1,485,000	62,314,000	24.65%	49,028
6/30/2003 – 6/30/2005	1,271	161	47	1,385	62,314,000	15,619,000	1,862,000	76,071,000	22.08%	54,925

[1] *Includes the Plan's annual cost-of-living adjustment as well as payroll for new retirees.*

Participant Data *(continued)*

Active Members

Age	Years of Service									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
0-19										**0**
20-24	3									**3**
	*									*
25-29	97	33								**130**
	76,143	91,587								**80,063**
30-34	96	184	57	2						**339**
	86,252	98,530	102,594	*						**95,696**
35-39	49	181	209	50						**489**
	92,212	99,258	103,419	103,315						**100,746**
40-44	18	55	106	170	36					**385**
	*	101,319	103,280	109,057	110,094					**105,190**
45-49	1	14	31	91	144	29	1			**311**
	*	*	103,703	109,939	113,310	118,730	*			**111,247**
50-54		1	8	41	82	93	4			**229**
		*	*	110,846	113,395	114,454	*			**112,415**
55-59	1		2	11	22	43	25	1		**105**
	*		*	*	116,167	111,488	119,763	*		**113,568**
60-64					2	2	3	3		**10**
					*	*	*	*		*
65-69								1	1	**2**
								*	*	*
70-74										**0**
75+										**0**
Total	**265**	**468**	**413**	**365**	**286**	**167**	**33**	**5**	**1**	**2,003**
	82,889	**98,570**	**103,249**	**108,597**	**113,062**	**114,704**	**118,015**	*	*	**103,058**

Total Salary	$206,426,000
Average Age	40.98
Average Service	13.42

Note: cells with fewer than 20 participants (indicated with an asterisk (*)) have salary information withheld for confidentiality purposes.

Participant Data *(continued)*

Service Retirement

	Years of Retirement									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40+**	**Total**
<30										**0**
30-34										**0**
35-39										**0**
40-44										**0**
45-49										**0**
50-54	53 88,198									**53** **88,198**
55-59	82 81,869	59 69,132								**141** **76,539**
60-64	22 85,680	58 57,907	41 65,388							**121** **65,492**
65-69	2 *	17 *	58 56,375	4 *						**81** **60,209**
70-74		4 *	10 *	15 *	1 *					**30** **51,913**
75-79				1 *	3 *	3 *				**7** *
80+						3 *	2 *		1 *	**6** *
Total	**159** **84,555**	**138** **64,365**	**109** **60,340**	**20** **46,643**	**4** *	**6** *	**2** *	**0** *	**1** *	**439** **69,148**

Total Retired Benefit	$30,355,920
Average Age	61.35
Average Years Retired	7.14

Note: cells with fewer than 20 participants (indicated with an asterisk (*)) have salary information withheld for confidentiality purposes.

Participant Data *(continued)*

Disabled Retirees

	Years of Retirement									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40+**	**Total**
<30										
30-34										
35-39	2 *									**2** *
40-44	7 *	4 *	2 *	1 *						**14** *
45-49	6 *	2 *	6 *	1 *	1 *					**16** *
50-54	21 75,390	10 *	3 *	3 *		1 *				**38** **59,741**
55-59	65 83,532	49 62,039	11 *	10 *	2 *	4 *	1 *			**142** **66,445**
60-64	28 77,126	85 65,301	55 54,201	8 *	10 *	11 *	4 *	1 *		**202** **57,774**
65-69	3 *	23 66,143	62 59,239	28 49,094	16 *	4 *	4 *			**140** **54,437**
70-74		3 *	13 *	40 51,363	15 *	5 *	8 *	5 *		**89** **46,556**
75-79			1 *	16 *	26 44,381	17 *	2 *	1 *	1 *	**64** **42,870**
80+			1 *		4 *	20 35,441	16 *	1 *	1 *	**43** **37,478**
Total	**132** **76,527**	**176** **62,701**	**154** **55,178**	**107** **47,583**	**74** **38,470**	**62** **31,417**	**35** **30,458**	**8** *	**2** *	**750** **54,382**

Total Retired Benefit	40,786,182
Average Age	64.46
Average Years Retired	13.31

Note: cells with fewer than 20 participants (indicated with an asterisk (*)) have salary information withheld for confidentiality purposes.

Participant Data *(continued)*

Beneficiaries

Age	Years of Retirement									
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
0-19	7	1	3	2						13
	*	*	*	*						*
20-24		1		1						2
		*		*						*
25-29										0
30-34										0
35-39	1									1
	*									*
40-44	1		1	1						3
	*		*	*						*
45-49	1		2							3
	*		*							*
50-54	2	2		2	1					7
	*	*		*	*					*
55-59	8	6	5	5	1	1				26
	*	*	*	*	*					30,988
60-64	4	7	6	7						24
	*	*	*	*						26,449
65-69	7	3	6	1	3	2				22
	*	*	*	*	*	*				23,762
70-74	9	9	7	8		2				35
	*	*	*	*		*				26,362
75-79	7	3	4	4	1	4				23
	*	*	*	*	*	*				23,154
80+	9	9	6	3	3	5	2			37
	*	*	*	*	*	*	*			21,837
Total	**56**	**41**	**40**	**34**	**9**	**14**	**2**	**0**	**0**	**196**
	29,029	**25,233**	**24,622**	**23,761**	*	*	*			**25,147**

Total Retired Benefit	$4,928,779
Average Age	65.40
Average Years Retired	10.51

Note: cells with fewer than 20 participants (indicated with an asterisk (*)) have salary information withheld for confidentiality purposes.

Methods and Assumptions

Actuarial Cost Method

Individual Entry Age Normal Method

Pension liabilities and contributions shown in this report are computed using the individual entry age normal method of funding as specified in the Municipal Code. The objective under this method is to fund each member's benefits under the plan as payments that are a level percentage of pay, starting at original participation date (or employment date), and continuing until the assumed retirement, termination, disability or death.

A detailed description of the calculation follows:

- The **normal cost** for each active participant under the assumed retirement age is the level percentage of pay which, if contributed each year from date of entry into the plan until the assumed retirement (termination, disability or death) date, is sufficient to provide the full value of the benefits expected to be payable.
- The **present value of future normal costs** is the total of the discounted values of all active participants' normal costs, assuming these to be paid in each case from the valuation date until retirement (termination, disability or death) date.
- The **present value of projected benefits** is calculated as the value of all benefit payments expected to be paid to the plan's current participants, including active and retired members, beneficiaries, and terminated members with vested rights.
- The **accrued liability** is the excess of the present value of projected benefits over the present value of future normal costs.
- The **unfunded liability** is the excess of the accrued liability over the actuarial value of assets, and represents that part of the accrued liability which has not been funded by accumulated past contributions.

Changes Since Prior Valuation

None.

Methods and Assumptions *(continued)*

Amortization Method

The payment required on the unfunded pension liability is calculated as a level percentage of future active member payroll (including payroll of new members) assuming a stable active membership over a specified period. To remain a level percentage of payroll, payments (in dollars) are assumed to increase each year for inflation and real wage growth. The length of the amortization period is defined as follows:

- For unfunded liabilities calculated through the June 30, 2003 actuarial valuation, the amortization period extends to June 30, 2017.
- For the prior service cost of the benefit improvement effective July 1, 1996, the amortization period extends to June 30, 2017.
- For gains and losses between each valuation, the amortization period will be 16 years from the valuation date in which the gains or losses are first recognized.

Changes Since Prior Valuation

In the prior valuation, all unfunded pension liabilities were amortized over the period extending from the valuation date to June 30, 2017.

Asset Valuation Method

The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years.

The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

Changes Since Prior Valuation

None.

Methods and Assumptions *(continued)*

Retiree Healthcare Funding Method

The objective of the funding method for retiree healthcare benefits is to fund the next 10 years of expected payments to retirees as a level percentage of active member payroll over that 10-year period. This method is not intended to comply with GASB 43 or to fully fund a member's retiree healthcare benefits over the period of the member's active service.

The basic details of the calculation are as follows:

- Projected benefit payments to retirees are estimated for the next 10 years based on healthcare cost trend assumptions and an assumption as to the net growth in the retiree population.
- An unfunded liability is calculated equal to the present value of the projected benefit payments less the actuarial value of assets.
- Projected payroll for active members is estimated for the next 10 years assuming a stable active membership.
- The unfunded liability is divided by the present value of the projected payroll to determine the current contribution rate.

Changes Since Prior Valuation

None.

Methods and Assumptions *(continued)*

Valuation Procedures

- **Financial and census data:** We used financial and member data submitted by the City of San Jose Retirement Services Department without further audit. This information would customarily not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.
- **Benefits not included in liabilities:** We are not aware of any benefits that have not been included.

The limitations of Internal Revenue Code Sections 415(b) and 401(a)(17) have been incorporated into our calculations.

No actuarial liability is included for participants who terminated nonvested prior to the valuation date.

Methods and Assumptions *(continued)*

Assumptions — Pension

Economic Assumptions	
Inflation	3.0%
Real Wage Growth	1.0%
Merit and Longevity Wage Growth	The following service based rates apply:

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

Investment Return	8.0%
Demographic Assumptions	
Healthy Postretirement Mortality	Males: 1994 Male Group Annuity Mortality Table (set back 4 years) Females: 1994 Female Group Annuity Mortality Table (set forward 1 year)
Disabled Retiree Mortality	RP-2000 combined healthy male with no collar adjustment, projected 10 years
Service-Connected Preretirement Mortality	Rates developed from experience. Sample rates are as follows:

Age	Mortality Rate
25	0.000100
35	0.000200
45	0.000300
55	0.000600

Non-Service-Connected Preretirement Mortality: Rates developed from experience. Sample rates are as follows:

Age	Mortality Rate
25	0.000125
35	0.000150
45	0.000250
55	0.000525

Member Turnover: Rates developed from experience. Rates are as follows:

Years of Service	Rate
<1	0.050
1–4	0.015
5–9	0.005
10+	0.006

Methods and Assumptions *(continued)*

Assumptions — Pension *(continued)*

Service-Connected Disability Incidence	Prior to age 50, 1985 Pension Disability Table for Class 2 employees, published by the Society of Actuaries. From age 49 to age 60 rates increase on a linear slope to a rate of 0.15 and remain level thereafter.
Service Retirement Rates	The following retirement rates apply to actives eligible for unreduced benefits:

Years of Service	Rate
50–64	0.17
65–69	0.35
70+	1.00

Percentage of Members Married	85%
Reciprocity	75% of all terminated vested members are assumed to be employed by a reciprocal entity.
Changes Since Prior Valuation	The following assumptions were revised since the prior valuation. For a complete analysis of the changes, please refer to the experience study report dated October 27, 2005. ▪ The real wage growth assumption decreased from 1.5% to 1.0%. ▪ Merit and longevity wage growth assumption was restructured from a primarily age-based structure to a service-based structure to be consistent with the pay step structure used by the city. ▪ Member turnover rates decreased from the prior rates. ▪ Retirement assumptions for those ineligible for unreduced benefits were eliminated. The retirement rates increased at younger ages, decreased at older ages, and were extended from age 65 to age 70. ▪ Non-service-connected disability incidence rates were eliminated. Service-connected disability incidence was updated to a standard table prior to age 50 with rates increasing linearly from age 50 to 15% at age 60. ▪ The disabled retiree mortality assumption was updated from the PERS Industrial Disability Table 88-92 (set back 5 years) to RP-2000 male combined mortality with no collar adjustment projected 10 years.

Methods and Assumptions *(continued)*

Assumptions — Postemployment Healthcare

Economic Assumptions	
Investment yield	8.0%
Growth in Covered Payroll	4.0%
Growth in Retiree Rolls	7.0%
Annual Cost Per Retiree – Medical	The total medical premiums paid by the City divided by participating retirees, brought forward with half a year trend rate
Annual Cost Per Retiree – Dental	The total dental premiums paid by the City divided by participating retirees, brought forward with half a year trend rate
Annual Cost Per Retiree - Medicare Part B	The weighted average of the Medicare Part B premiums for retirees participating in the postemployment medical benefit plan, brought forward with half of the percentage increase in Part B premium published by Medicare.
Medicare Part B Trend Rate	6.0%
Medical Trend Rates	Trend rates are as follows:

Plan Year	Rate
2006-7	12%
2007-8	11%
2008-9	10%
2009-10	9%
2010-11	8%
2011-12	7%
2012-13	6%
2013-14 and following years	5%

Dental Trend Rates — Trend rates are as follows:

Plan Year	Rate
2006-7	7.0%
2007-8	6.5%
2008-9	6.0%
2009-10	5.5%
2010-11 and following years	5.0%

Changes Since Prior Valuation — The following assumptions were revised since the prior valuation.

- The medical trend rates changed in 2006-07 plan year from 13.0% to 12.0% and in 2007-08 plan year from 11.5% to 11.0%.
- The dental trend rates changed from a constant 5.5% to 7.0% in 2006-07 plan year then decreasing 50 basis points each plan year to 5.0% in 2010-11 plan year.

Summary of Plan Provisions

Following is a summary of the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan. The summary is not intended to provide sufficient information to determine individual benefits, but should solely be used as an overview of the benefit structure and an aid in understanding and interpreting the remaining sections of the report.

Pension

Plan Year	July 1 to June 30
Eligibility	Any person employed as a police officer or fire fighter in the City of San José, except the following: ▪ Independent contractors ▪ Person in city service for training/educational purposes ▪ Auxiliary or voluntary police officers or fire fighters ▪ Part-time or non-salaried employees ▪ Receiving credit in any other retirement or pension system
Members' Retirement Contributions	The members' contribution rate equals 3/11 of the normal cost plus the amortization payment on the prior service cost for a February 4, 1996 benefit improvement.
City's Retirement Contributions	The City's contribution rate equals 8/11 of the normal cost plus any amortization payments or credits on the unfunded liability.
Final Average Salary (FAS)	The highest 12 consecutive months of compensation earnable, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. FAS excludes overtime pay and expense allowances.
Return of Contributions	If a member should resign or die before becoming eligible for retirement, his or her contributions plus 2% interest per annum will be refunded.
Service Retirement Benefit	**Eligibility** The earlier of age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or 30 years of service regardless of age. **Benefit** The normal service retirement benefit is 2.5% of FAS per year of service up to 20 years of service, 3.0% of FAS per year of service for the next 5 years of service, and 4.0% of FAS per year of service over 25, not to exceed 85% of FAS.
Early Service Retirement Benefit	**Eligibility** Age 50 with 20 years of service. **Benefit** The Service Retirement Benefit accrued to date of termination, then reduced pursuant to Municipal Code 3.36.810.

Summary of Plan Provisions *(continued)*

Pension *(continued)*

Deferred Vested Benefit	**Eligibility** Age 55 with 10 years of service and 20 years have elapsed from date of membership. **Benefit** The Service Retirement Benefit accrued to date of termination.
Disability Benefit — Non-Service-Connected	**Eligibility** Members deemed to have incurred a non-service-connected disability after completing 2 years of service, regardless of age. **Benefit** 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. The maximum benefit is 50% of FAS.
Disability Benefit — Service-Connected	**Eligibility** Members deemed to have incurred a service-connected disability regardless of length of service or age. **Benefit** 50% of FAS for the first 20 years of service, 3.0% of FAS per year of service for the next 5 years of service, and 4.0% of FAS per year of service over 25 years, not to exceed 85% of FAS.

Summary of Plan Provisions *(continued)*

Pension *(continued)*

Death Benefit	
▪ *Non-Service-Connected Death — with Less than 2 Years of Service*	**Eligibility** Death prior to 2 years of service. **Benefit** The greater of return on contributions, plus interest, or $1,000.
▪ *Non-Service-Connected Death — Disabled Retirees or Members Ineligible for Service Retirement*	**Eligibility** Death after 2 years of service, regardless of age. **Benefit** The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year, not to exceed 37.5% of FAS. If a member has eligible dependent children (under age 18, or age 22 if a full time student), the benefits are as follows: 1 child .....25% of FAS 2 children .....37.5% of FAS 3 or more children.....50% of FAS The total benefits payable to a family shall not exceed 75% of FAS. If a member does not have a spouse nor dependent children at death, a lump sum equal to the greater of the member's contributions with interest or $1,000 is paid to the estate.
▪ *Non-Service-Connected Death — Members Eligible for Service Retirement*	**Eligibility** Death after 2 years of service who was eligible for Service Retirement. **Benefit** The spouse receives the greater of 37.5% of FAS or 50% of the member's Service Retirement Benefit. The eligible dependent children will receive the same benefit as defined in Non-Service-Connected Death who was a disabled retiree or was Ineligible for Service Retirement. The total benefits payable to a family shall not exceed 75% of FAS.
▪ *Service-Connected Death*	**Eligibility** Death in the course of employment with the city. **Benefit** The spouse receives the greater of 50% of the member's benefit and 37.5% of FAS. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.
Cost of Living	The increase in retirement allowance is subject to a maximum of 3% a year.
Optional Forms of Benefit	Retiree may elect a reduced pension in order to provide a 50% to 100% (in multiples of 5) survivorship benefit to the surviving spouse.
Changes Since Prior Valuation	None.

Summary of Plan Provisions *(continued)*

Supplemental Retiree Benefits Reserve (SRBR)

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

Postretirement Health and Dental

Eligibility	Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of FAS. Also, if a member separates from service after July 5, 1992, with 20 years of service leaving contributions in the retirement plan until he applies for retirement benefits.
Medical Plan Choices	Kaiser, BlueShield and PacifiCare
Dental Plan	Delta Dental and Enhanced Delta Dental
Medical Premiums	The Plan pays the cost of Medicare Part B up to the difference between the health plan selected by the retiree and the lowest cost health plan. In addition, the plan pays an amount equal to the premium for the lowest cost health plan.
Dental Premiums	The Plan pays the entire premium.
Benefit	The same medical and dental coverage that the City provides an active member.
Member's Contribution	Contribute 50% of the health cost and 25% of the dental cost as determined at each biannual actuarial valuation.
City's Contribution	Contribute 50% of the health cost and 75% of the dental cost as determined at each biannual actuarial valuation.
Changes Since Prior Valuation	None.

Appendix A

Measures of Pension Plan Funded Status

Solvency (in thousands)

	Aggregate Accrued Liabilities for					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions[1]	Retired / Vested Members[2]	Active Members (Employer Financed Portion)[3]
6/30/1993	$ 85,915	$ 260,326	$ 369,882	$ 716,123	$ 714,592	100%	100%	100%
6/30/1995	100,010	351,327	377,402	828,739	854,414	100%	100%	107%
6/30/1997	115,995	434,292	479,881	1,030,168	1,124,294	100%	100%	120%
6/30/1999	117,755	595,196	563,413	1,276,364	1,440,117	100%	100%	129%
6/30/2001	145,166	699,082	648,484	1,492,732	1,713,812	100%	100%	134%
6/30/2003	167,203	881,064	774,934	1,823,200	1,826,287	100%	100%	100%
6/30/2005	$ 194,434	$ 1,072,754	$ 760,244	$ 2,027,432	$ 1,983,090	100%	100%	94%

[1] Accumulated from member contribution account balances provided by the Retirement System

[2] Calculated based on assumptions adopted by the Board

[3] Calculated based on assumptions adopted by the Board and offset with Active member contribution account balances Derived: (Actuarial Value of Assets - Active Member Contributions Liabilities - Retired and Vested Members Liabilities) / (Employer Financed Portion of Liabilities)

Appendix A

Measures of Pension Plan Funded Status *(continued)*

Schedule of Funding Progress (in thousands)

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

MERCER
Human Resource Consulting

Mercer Human Resource Consulting, Inc.
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Portland, OR 97204-3693
503 273 5900

Development of Costs

Calculation of Separate Rates for Basic and COLA Benefits

		July 1, 2005		
		Basic Benefit	COLA Benefit	Total Benefit
1.	Normal Cost	41,367,479	15,770,503	57,137,982
2	Accrued Liability			
	a. Active members	690,206,512	264,471,364	954,677,876
	b. Members with deferred benefits	6,869,423	3,637,889	10,507,312
	c. Members and beneficiaries receiving benefits	630,145,044	432,101,789	1,062,246,833
	d. Total	1,327,220,979	700,211,042	2,027,432,021
3.	Assets			
	a. Market Value	1,468,012,000	594,685,000	2,062,697,000
	b. Actuarial Value	1,411,356,112	571,733,957	1,983,090,069
4	Unfunded accrued liability *(2.d. – 3.b.)*	(84,135,133)	128,477,085	44,341,952
5.	Total Amortization Payment	(6,752,403)	10,311,139	3,558,736
6.	Total Contribution	34,615,076	26,081,642	60,696,718

Development of Costs

Summary of Contribution Rates

	July 1, 2005		
	City	Member	Total
Pension			
1. Normal Cost			
a. Basic	14.33%	5.37%	19.70%
b. COLA	5.46%	2.05%	7.51%
c. Total	19.79%	7.42%	27.21%
2. Unfunded Accrued Liability			
a. Basic	-3.10%	-0.12%	-3.22%
b. COLA	4.73%	0.18%	4.91%
c. Total	1.63%	0.06%	1.69%
3. Pension Total			
a. Basic	11.23%	5.25%	16.48%
b. COLA	10.19%	2.23%	12.42%
c. Total	21.42%	7.48%	28.90%
Postemployment Health Insurance — 10-Year Cost Projection			
4. Medical contribution rate	3.58%	3.57%	7.15%
5. Dental contribution rate	0.61%	0.21%	0.82%
6. Total Contribution Rate (3.c. + 4. + 5.)	25.62%	11.26%	36.87%

MERCER

Human Resource Consulting

December 1, 2005

City of San Jose Police and Fire Department Retirement Plan

Preliminary Actuarial Valuation Results

Bill Hallmark, Michelle Rathbun

Marsh & McLennan Companies

Agenda

Pension Plan

- Valuation results
- Recommended assumption changes
  - Prior meeting recap
- Recommended method changes

Retiree Health Plan

- Valuation results
- Recommended assumption changes

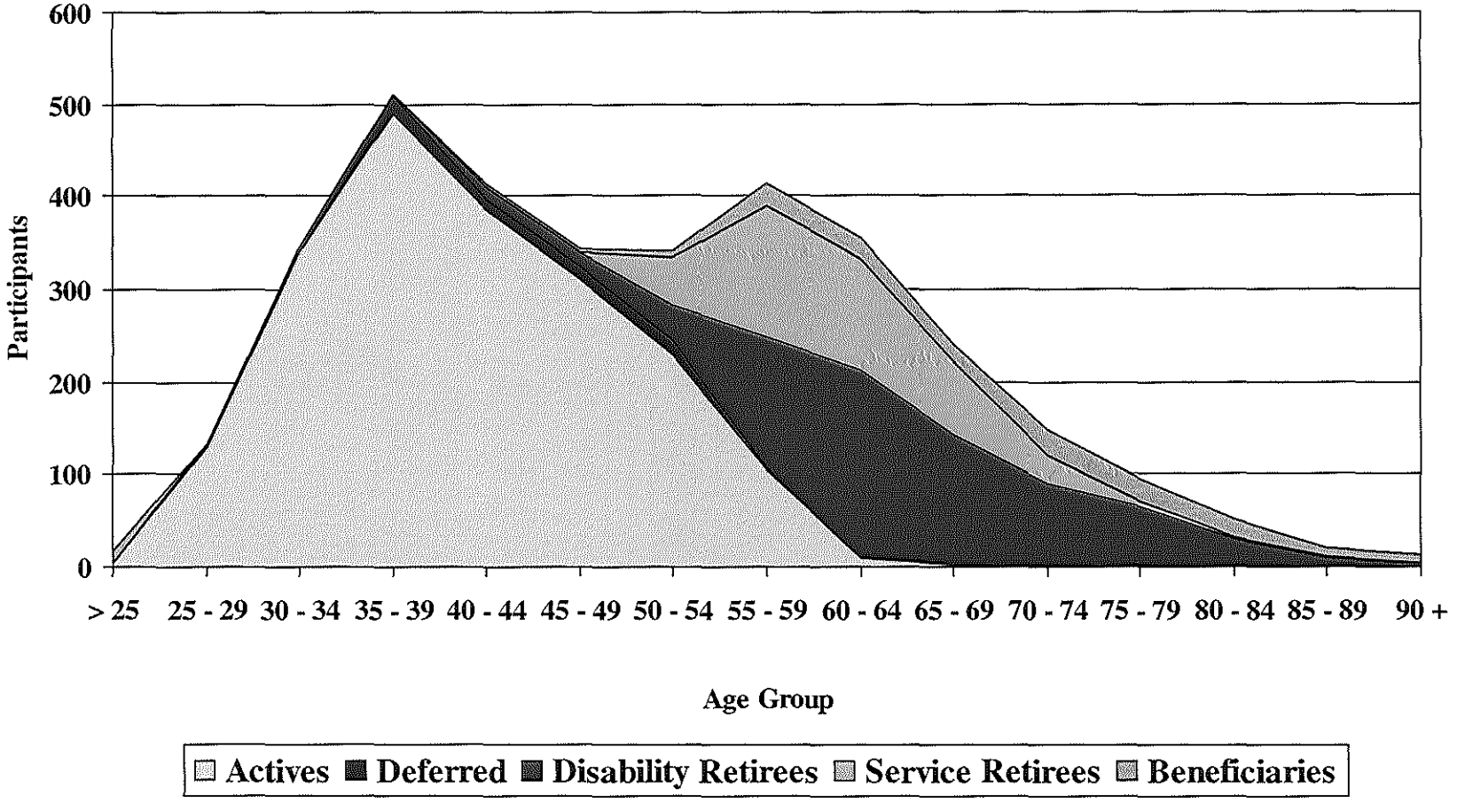
Summary of Results

Next Steps

Pension Plan Valuation Results
Pension Plan Highlights

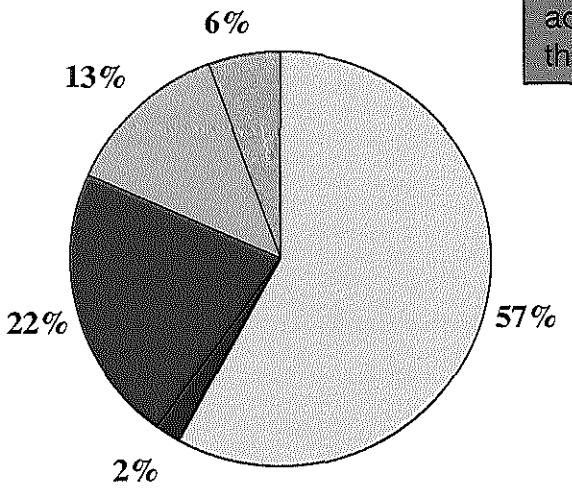
	7/1/2003	7/1/2005	
		Before Recommended Changes	After Recommended Changes
Market Value of Assets	$1,878	$2,063	$2,063
Actuarial Value of Assets	$1,826	$1,983	$1,983
Actuarial Accrued Liability	$1,823	$2,014	$2,027
Actuarial Value Funded %	100%	98%	98%
UAL	($3)	$31	$44
Normal Cost	$61	$63	$57
Normal Cost (% of payroll)	30%	30%	27%
Member Contribution Rate	8.27%	8.16%	7.42%
City Contribution Rate	21.77%	23.31%	21.22%

Pension Plan Valuation Results
Member Distribution by Age



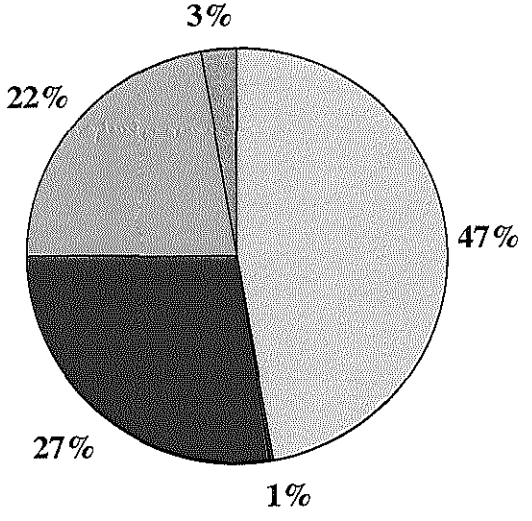
Pension Plan Valuation Results

Member Counts

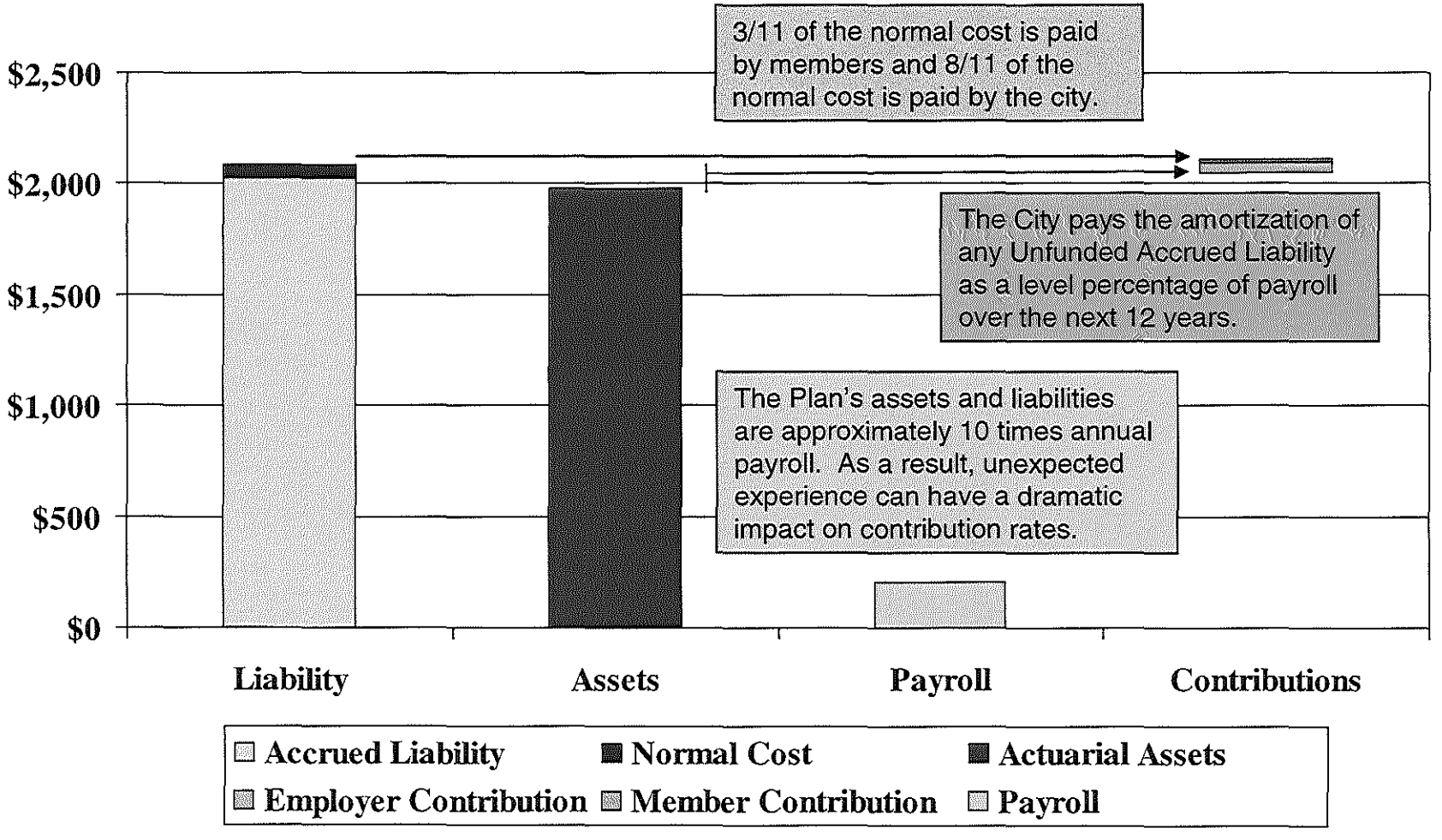


While retirees and beneficiaries account for 41% of all members, they account for 52% of the Plan's liability.

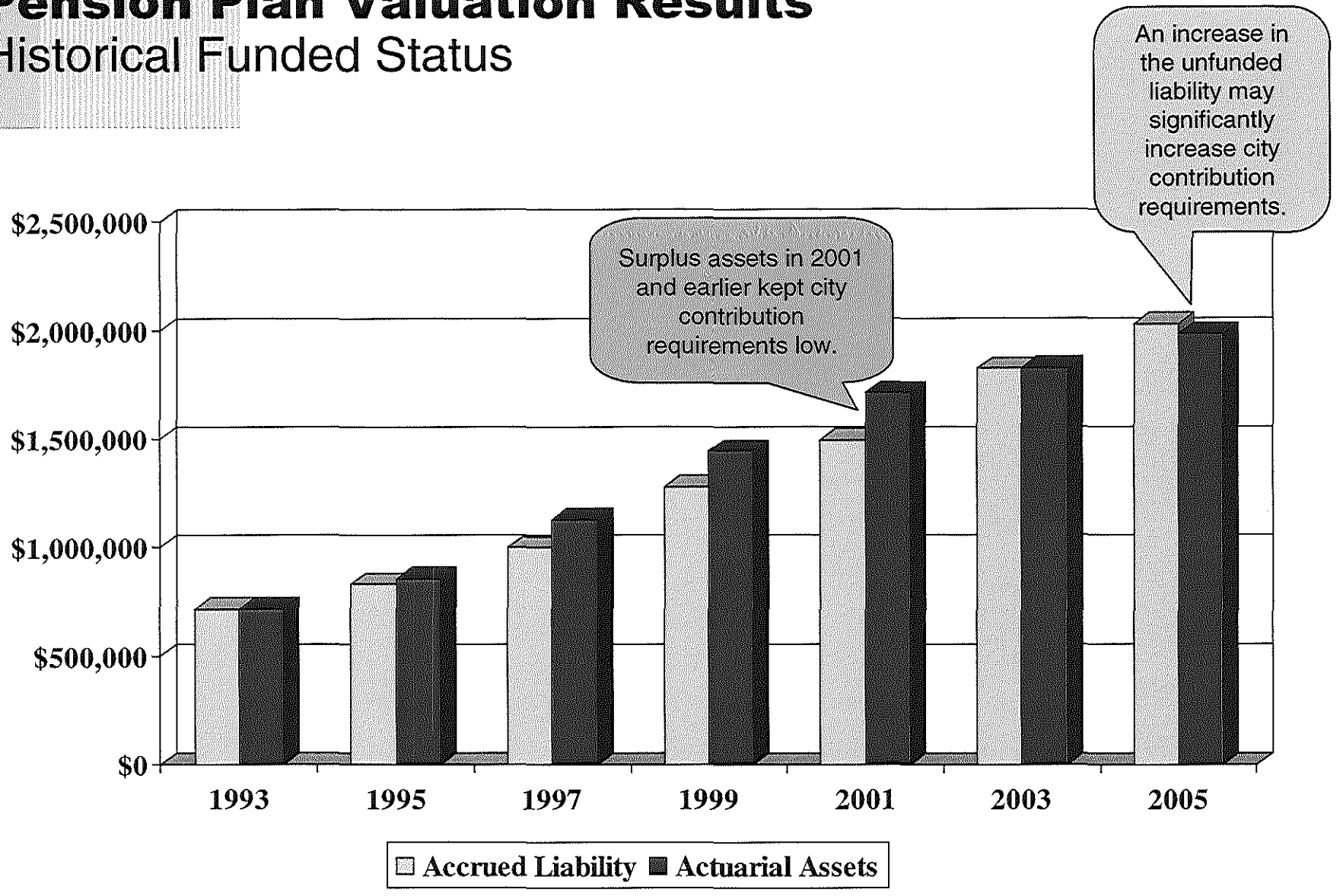
Actuarial Accrued Liability



Pension Plan Valuation Results



Pension Plan Valuation Results
Historical Funded Status



Pension Plan Valuation Results
Gains and Losses

- Even though the market value of assets earned substantially more than expected since the last valuation, because of the 5-year smoothing method, the actuarial value of assets earned less than the assumed 8% return.
- While assets did not grow as fast as expected, salaries also grew at a slower pace than expected tempering the growth of liabilities.

	Accrued Liability	Actuarial Assets	UAL
Actual Value, 6/30/2003	$1,823	$1,826	($3)
Expected Value, 6/30/2005	$2,116	$2,087	$29
Actual Value, 6/30/2005	$2,014	$1,983	$31
Actuarial Gain / (Loss)	$102	($104)	($2)

Recommended Pension Plan Assumption Changes
Prior Meeting Recap

- Recommended Changes to Economic Assumptions
  - Real wage growth
    - Reduce assumption from 1.5% to 1.0%
  - Merit & longevity wage growth
    - Change assumption to be based on length of service.
      - 6.00% for 0-5 years of service
      - 3.00% for 6-7 years of service
      - 0.75% for 8 or more years of service
- Maintain the Following Economic Assumptions
  - Inflation at 3.00%
  - Investment return at 8.00%
- These assumption changes reduce member and City contribution rates by 0.39% and 1.23% of payroll respectively

Recommended Pension Plan Assumption Changes
Prior Meeting Recap

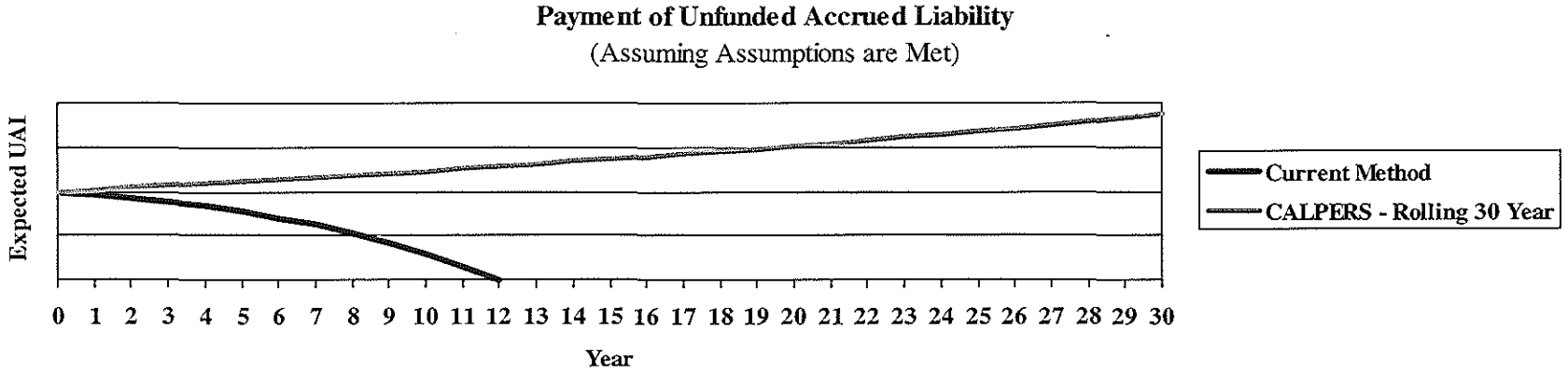
- Recommended Changes to Demographic Assumptions
  - Turnover rates
    - Reduce turnover rates
    - Assume all vested terminations elect a deferred annuity
  - Retirement rates
    - Apply assumption only to members eligible for unreduced benefits
    - Extend assumption to age 70
    - Increase rates at younger ages and decrease rates at older ages
  - Disability incidence
    - Assume all disabilities are service connected
    - Adopt standard table to age 50
    - Increase rates linearly from 2% at age 50 to 15% at age 60
  - Disabled retiree mortality
    - Improve mortality assumption to RP 2000 male combined non-collar adjusted mortality table projected 10 years.
- These assumption changes reduce member and City contribution rates by 0.35% and 0.11% of payroll respectively

Recommended Pension Plan Assumption Changes

Comparison to CalPERS

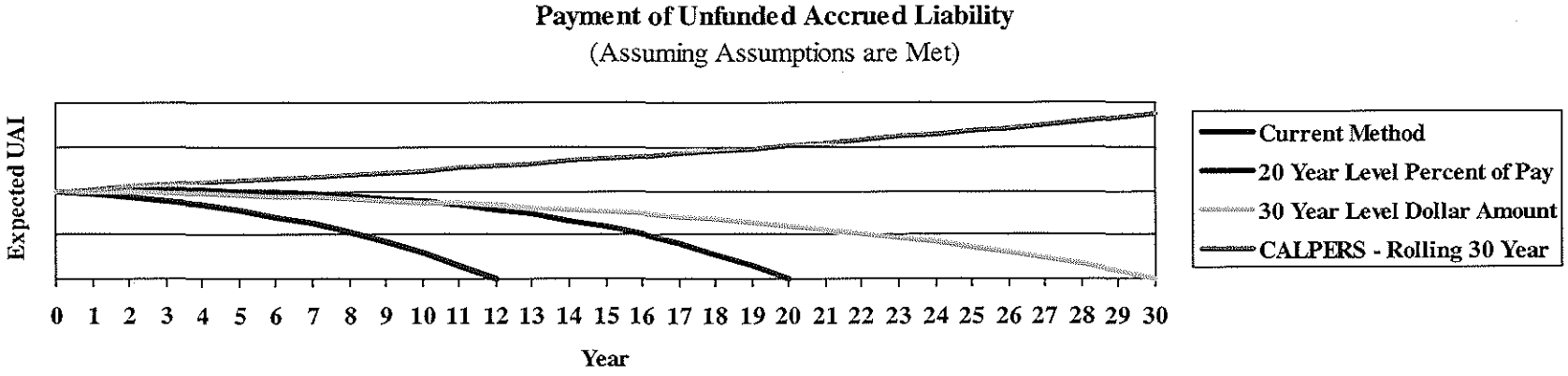
Actuarial Method or Assumption	CalPERS	San Jose P&F
Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	15-Year Smoothing	5-Year Smoothing
Asset Valuation Corridor	80% - 120%	80% - 120%
Amortization Method	30-Year Rolling Level % of Payroll	12-Year Closed Level % of Payroll
Inflation	3.00%	3.00%
Real Wage Growth	0.25%	1.00%
Investment Return	7.75%	8.00%

Recommended Pension Plan Method Change
Amortization Method



- The current method pays off the unfunded accrued liability (UAL) by June 30, 2017 with payments scheduled to be a level percentage of payroll.
- Gains and losses as the end of the amortization period approaches are amortized over shorter and shorter periods, leading to increased contribution volatility.
- The CalPERS methodology makes payments less than the interest on the UAL, and relies on investment and demographic gains in order to pay off the UAL. If all assumptions are met, the UAL continues to grow every year.

Recommended Pension Plan Method Change
Amortization Method



- Alternative methods to consider include the 20-year level percentage of payroll and the 30-year level dollar amount.
- We recommend applying a 20-year level percentage of payroll amortization to new gains and losses as of each valuation date. Prior gains and losses would continue to be amortized on their prior schedule.
- With valuations every 2 years, there would ultimately be 10 different amortizations.
- In the current valuation, this change reduces the City's contribution rate by 0.75% of payroll.

Retiree Health Plan Valuation Results
Highlights

	7/1/2003		7/1/2005	
	Medical	Dental	Medical	Dental
Present Value of 10-Year Projected Premiums	$120	$17	$154	$18
Assets	$29	$4	$32	$4
Unfunded Premiums	$91	$13	$122	$14
Present Value of 10-Year Projected Payroll	$1,685	$1,685	$1,715	$1,715
Total Contribution Rate	5.40%	0.76%	7.15%	0.82%
Member Contribution Rate	2.70%	0.19%	3.57%	0.21%
City Contribution Rate	2.70%	0.57%	3.58%	0.61%

The increases in cost are primarily due to the higher than expected premium increases since 2003 and the rolling 10-year period used for this valuation.

Recommended Assumption Changes
Medical and Dental Trend Rates

- Contribution rates are calculated to pre-fund for the next 10 years expected premiums for retiree benefits.
- After consulting with our health care actuaries, we modified the medical and dental premium trend assumptions from the assumptions used in the 2003 valuation as shown in the table.
- The outlook for medical trend is slightly more favorable than two years ago. The dental trend is higher in the short-term and lower in the long-term.

Fiscal Year Ending	7/1/2003		7/1/2005	
	Medical	Dental	Medical	Dental
2006	13.0%	5.5%	12.0%	7.0%
2007	11.5%	5.5%	11.0%	6.5%
2008	10.0%	5.5%	10.0%	6.0%
2009	9.0%	5.5%	9.0%	5.5%
2010	8.0%	5.5%	8.0%	5.0%
2011	7.0%	5.5%	7.0%	5.0%
2012	6.0%	5.5%	6.0%	5.0%
2013 and later	6.0%	5.5%	5.0%	5.0%

Summary of Results

	7/1/2003	7/1/2005	
		Before Recommended Changes	After Recommended Changes
Member Contribution Rate			
▪ Pension	8.27%	8.16%	7.42%
▪ Medical	2.70%	3.64%	3.57%
▪ Dental	0.19%	0.20%	0.21%
Total Member	**11.16%**	**12.00%**	**11.20%**
City Contribution Rate			
▪ Pension	21.77%*	23.31%	21.22%
▪ Medical	2.70%	3.65%	3.58%
▪ Dental	0.57%	0.60%	0.61%
Total City	25.04%	27.56%	25.41%

* *After adjustment for SRBR contribution.*

Next Steps

- Board adoption of actuarial assumptions
- Board adoption of actuarial methods
- Final valuation report