



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

**SUBJECT: FUTURE RETIREMENT COSTS
STUDY SESSION**

DATE: March 22, 2012

OUTCOME

Discussion and presentation of future retirement costs.

PURPOSE

The Rules Committee approved a memorandum from Mayor Chuck Reed establishing a study session on March 29, 2012, for the purpose of discussing future retirement costs. This memorandum, dated February 27, 2012, also directed staff to answer the following questions. This memo is available at:

http://www.sanjoseca.gov/clerk/CommitteeAgenda/Rules/20120229/rules20120229_g2att.pdf.

What would be the impact on the City's retirement costs if:

- *The discount and rate of return assumptions were reduced to so-called risk-free rates pegged to a tax-exempt, 30-year AA or higher-rated municipal bond index, for both pension and OPEB obligations?*
- *Increases in medical costs continue at double digit rates for the next 30 years?*
- *There is another recession where the plans lose 25% of their market value over two years, followed by a "lost decade" of relatively flat economic growth in which the plans investment return is half of the assumed rate of return?*
- *Employee wage increases occur at twice the rate assumed by the retirement boards?*
- *All of the above occur?*

No decisions or direction will be required of the City Council during this session. Some of the information presented will be information already available through a variety of sources that are linked below. Due to the short timeframe for developing this presentation, including the need to have an actuary develop the estimates above, detailed information regarding the answers to these questions will be presented through a PowerPoint presentation on the day of the session. John Bartel, the City's Actuary who is developing these estimates, will be available for questions.

BACKGROUND

The City has engaged in many discussions and presentations on retirement issues in the last few years. In addition, there have been many documents provided to the City Council on these issues. This information is available on the City's Retirement Benefits website at: <http://www.sanjoseca.gov/employeeRelations/RetirementBenefits.asp>.

In addition to information provided by City Administration, the City Auditor has performed two audits on these issues, one on pension sustainability and the other on disability retirements, which are available at <http://www.sanjoseca.gov/auditor/AuditReports/1010/1010.pdf> and <http://www.sanjoseca.gov/auditor/AuditReports/1102/1102.pdf>. Further, all Retirement Board agendas, including valuations and other information are available on the Retirement Services Department website, which is available here: <http://www.sjretirement.com>.

On March 29, 2012, we will be providing a summary of some this information and we have linked some of the relevant previous presentations and documents below for your review prior to the Study Session.

- **Cheiron Presentation:** On March 7, 2012, the Police and Fire Department Retirement Board held a special meeting and during this meeting, Cheiron, the Board's Actuary, made a presentation on *Improving Cost Predictability*. This presentation is available here: <http://www.sjretirement.com/uploads/PF/2itemPFSpecMtgMar12.pdf>.
- **Cheiron Valuations:** The Boards' actuary, Cheiron, completed valuations ending June 30, 2011, for retirement costs in Fiscal Year 2012-2013. Those valuations and the presentations related to the valuations are below:

Police and Fire:

Pension:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/reports/PensionActuarialValuationDated03.2012.pdf>

Retiree Healthcare:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/reports/OPEBPresentationAndValuationDated03.01.12.pdf>

Federated:

Pension:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/ActuarialValuation6.30.11PensionOnly.pdf>

Retiree Healthcare:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/ActuarialValuationAndPresentationofOPEB6.30.11.pdf>

- **Cheiron Five Year Projections:** Based on the above valuations, Cheiron has updated their five year projections. Those are available here:

Federated:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/reports/5YearFederatedContributionProjectionsDated02.08.12.pdf>

Police and Fire:

<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/reports/5YearPoliceAndFireContributionProjectionsDated02.21.12.pdf>

- **February 13, 2012 Presentation:** The City Administration made a presentation at a Budget Study Session on how defined benefit retirement costs are determined. This presentation is available here:
<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/DefinedBenefitRetirementCostsPresentation02.13.12.pdf>.
- **May 18, 2011 Presentation:** The City Administration made a presentation at a public Retirement Reform City Council Budget Study Session that included a presentation on actuarial assumptions, predicting costs of benefits and level of risk. This presentation is available here:
<http://www.sanjoseca.gov/employeeRelations/retirementbenefits/RetirementReformBudgetStudySessiondated05.18.11.pdf>.
- **Fiscal Reform Plan:** The City Manager's Fiscal Reform Plan released in May 2011, contains a discussion regarding actuarial assumptions and risk. This plan is available here: <http://www.sanjoseca.gov/budget/FY1112/05MBA/MBA01-FiscalReformPlan.PDF>

COORDINATION

This memo has been coordinated with the City Attorney's Office.

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CITY MANAGER