City of San Jose Police and Fire Department Retirement Plan

Actuarial Valuation and Review of Pension and Health Benefits as of June 30, 2009

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SEGAL

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March 1, 2010

Board of Retirement
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112-4525

Re: June 30, 2009 Actuarial Valuations

Dear Members of the Board:

We have provided in the enclosed Exhibit a summary of results for both the pension and health funding valuations. For financial disclosure purposes, we will provide another report for the health plan that complies with the Governmental Accounting Standards Board requirements. That report would be furnished as soon as it becomes available.

We look forward to discussing this Exhibit, and the pension and health funding valuation reports, with you.

Sincerely,

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

Andy Yeung, ASA, MAAA, EA
Vice President and Associate Actuary

DNA/hy
Enclosure

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Exhibit A

City of San Jose Police and Fire Department Retirement Plan
Summary of Significant Valuation Results

		June 30, 2009	June 30, 2007	Percent Change
I.	**Total Membership**			
	A. Active Members	2,083	2,136	(2.5)%
	B. Pensioners and Beneficiaries	1,700	1,477	15.1%
II.	**Valuation Salary**			
	A. Projected Annual Payroll	$255,222,552	$227,734,449	12.1%
	B. Average Monthly Salary	122,526	106,617	14.9%
III.	**Total Plan Assets**			
	A. Actuarial Value	$2,657,515,000	$2,441,323,000	8.9%
	B. Valuation Value of Pension Assets*	2,569,569,000	2,365,790,000	8.6%
	C. Valuation Value of Health Assets	55,618,000	45,393,000	22.5%
	D. Market Value	2,044,242,000	2,735,649,000	(25.3)%
	E. Market Value of Pension Assets*	1,969,131,000	2,654,643,000	(25.8)%
	F. Market Value of Health Assets	42,783,000	50,866,000	(15.9)%
IV.	**Unfunded Actuarial Accrued Liability (UAAL) and Funded Ratio (Pension only)**			
	A. UAAL	$393,913,063	$6,595,759	
	B. Funded Ratio	86.7%	99.7%	

* *Excludes SRBR*

Exhibit A (continued)

City of San Jose Police and Fire Department Retirement Plan
Summary of Significant Valuation Results

V.	Budget Items	June 30, 2009	June 30, 2007	Change
	A. Pension Benefits			
	1. City	39.45%**	22.50%	16.95%
	2. Member	9.91%	8.34%	1.57%
	3. Total Pension Contribution	49.36%	30.84%	18.52%
	B. Health Benefits			
	1. City	5.44%	4.89%***	0.55%
	2. Member	5.00%	4.43%***	0.57%
	3. Total Health Contribution	10.44%	9.32%	1.12%
	C. Total Contribution (A+B)			
	1. City	44.89%	27.39%	17.50%
	2. Member	14.91%	12.77%	2.14%
	3. Total	59.80%	40.16%	19.64%

** *Before applying the charge to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.*

*** *Based on contribution rates paid for fiscal year 2009/2010.*

Note: The above rates are the combined rates for both the Fire and the Police Departments. For the specific Fire and Police rates, please refer to the corresponding rates in the pension and health funding valuation reports.

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March 1, 2010

Board of Retirement
San Jose City Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Re: June 30, 2009 Retiree Medical and Dental Valuation Results

Dear Members of the Board:

In this report, we have calculated the funding requirements for the 2010/2011 fiscal year based on the membership and financial information available as of June 30, 2009.

Funding Policy

Prior to the 2009/2010 fiscal year, the Board's funding policy was to determine employer and member contribution rates so that the City and the members would share in the funding of the projected retiree medical and dental benefit cashflows for the next 10 fiscal years. For the medical program, the City and the members shared equally in the projected cashflows not covered by current assets. For the dental program, the City paid 75% and the members paid 25% of the unfunded cashflows.

The above policy remains unchanged for determining the employer and member contribution rates for the Fire Department after the 2008/2009 fiscal year. For the Police Department, the 50%/50% and 75%/25% cost sharing between the employer and the members for the medical and dental programs respectively remain unchanged; however, effective with the 2009/2010 fiscal year, the policy for setting the employer and member contributions for the Police Department was amended so that those contribution rates would fully prefund the entire cost of the medical and dental programs after a phase-in period of 5 years. It is our understand that the full prefund rates should include an adjustment to reflect the additional cost associated with partial prefunding during the 5-year phase-in period.

It is our understanding that, for the Police Department, during the 5-year phase-in period the annual increases to the employer and the member contribution rates are limited to 1.35% and 1.25% of payroll, respectively of the rates paid in the previous fiscal year. Also, if the employer and member rates are in excess of 11% and 10% of payroll, respectively during or at the end of the phase-in period, the parties should meet and confer on how to address any retiree healthcare contributions above those two percentages. Such discussions should include alternatives to reduce retiree healthcare costs.

It should also be noted that there is an implicit subsidy paid by the City for the pre-65 retirees because their medical premiums are in the same rating pool as the current active employees. For the purpose of determining the employer and member contribution rates in the this report, we have continued to make the assumption that the cost of the implicit subsidy would be paid for entirely by the City on a pay-as-you-go basis and hence not included in the contribution rates in this report.

While there is no requirement to prefund the liabilities associated with the implicit subsidy, the disclosure of such liabilities is required under the Government Accounting Standards Board (GASB) Statements No. 43 and 45. The liabilities for the implicit subsidy together with the other liabilities for the health plan calculated using the GASB assumptions and procedures will be provided in a separate GASB 43/45 report.

Cashflows and Associated Contribution Rates

Funding Methodology

Similar to the methodology used in the last valuations to determine the employer and member contribution rates for the 2009/2010 fiscal year, for the 2010/2011 fiscal year we have developed the contribution rates by first determining the contributions required for funding the cashflows for the next 10 fiscal years.

This method produces the rates for the Fire Department. For the Police Department, we have to add in the incremental rates required to reflect the second year of the 5-year phase-in to fully prefund the entire cost of the medical and dental programs.

Please note both the 10-year cashflow and the full prefunding calculations described above have been carried out on a combined basis with all the members from both the Fire and Police Departments. In order to carry out the calculations based on the separate 10-year cashflows and fully prefunded liabilities of each of the two Departments, we would need to first segregate the current assets for each of the two Departments.

An illustrative calculation to show the effects of an asset split and some of the policy questions that would have to be answered by the Board before splitting the assets were included in the attached letter dated December 19, 2006. We are available to review those issues again with the

Board if requested. Note that it may become necessary to split or track the assets separately or at least in some way enhance the current methodology to give recognition to the additional phase-in contributions made by the employer and the members for the Police Department effective with the 2009/2010 fiscal year.

First Step: 10-Year Cashflows Funding Requirement

Based on the cashflows projected as of June 30, 2009, we have summarized in the attached Exhibit I the contribution rates under the 10-year cashflow policy. This method produces the final contribution rates for the Fire Department and provides one of the two rates required to calculate the final rates for the Police Department as discussed above. Those rates are 3.92% for the City and 3.61% for the Members.

Second Step: 5-Year Phase-in of the Full Prefunding Requirement

For Police employees, we have determined the rates for the second year of the phase-in from the 10-year cash flow methodology to full prefunding, based on the Memorandum of Understanding between The City of San Jose and the San Jose Police Officers' Association (SJPOA), as documented in correspondence from the City to the Retirement System, dated March 23, 2009. The basis for the prefunding is:

Entry Age Normal funding method,
30-year close amortization period for determining the UAAL contribution rate commencing with the 2009/2010 fiscal year,
Discount rate of 8.00%, used for a fully funded plan,
No reflection of implicit subsidy in the costs,
The Medical cost is allocated 50%/50% between the City and Member, and
The Dental cost is allocated 75%/25% between the City and Member

The attached Exhibit II shows the process used in adjusting the full prefunding rates to the partial phase-in rates.

Calculate the Full Prefunding Rate

In Exhibit II, we show the actuarial accrued liability, the actuarial value of assets, normal cost, amortization of the unfunded actuarial accrued liability, and the development of the full prefunding rate both before and after the adjustment to reflect the additional cost associated with the partial prefunding during the 5-year phase-in period.

Initial Rate Reflecting 40% Phase-In of Full Prefunding

The contribution rates based on full prefunding are then combined with the contribution rates developed in Exhibit I to get a weighted average rate. For the 2010/2011 fiscal year, the full prefunding rate is weighted 40% and the 10-year cashflow rate is weighted 60%. The calculation yields a 6.26% rate for the City and 5.76% rate for Members.

Reflect Caps on Increases In Prior Year Contribution Rates

The 2010/2011 fiscal year rates may not exceed the 2009/2010 fiscal year rates by 1.35% for the City and 1.25% for the Member. The 2009/2010 fiscal year rates, as adopted at the May 7, 2009 Board meeting, are 5.28% for the City and 4.78% for the Member. Therefore, the 2010/2011 rates are limited to 6.63% and 6.03% for the City and the Member, respectively. When we compare the initial phase-in rates against the caps, we find that for the 2010/2011 fiscal year, the caps do not apply.

Final 2010/2011 Rates For Police

The contribution rates, calculated as 40%/60% weighted average of full prefunding and 10-year cashflow bases and also reflecting the caps are 6.26% for the City and 5.76% for the Member.

A summary of the projected rates during the 5-year phase-in period, assuming all the actuarial assumptions included in this letter would be met, is also provided in Exhibit II. There is a reduction in the ultimate cost at the end of the 5-year phase-in of about 1% of payroll relative to the cost estimate that was used in original Police MOU negotiations with the City. The primary reason for the decrease in cost is that the actual medical premiums for the 2009/2010 fiscal year are lower than those used in the original projections. In addition, both the current 2009/2010 fiscal year payroll and the future payroll projected using the higher wage and salary increase assumptions adopted by the Board for the June 30, 2009 experience study have resulted in higher anticipated active payroll which further reduce the cost of the health plan when expressed as a percent of payroll.

The results for the funding valuation is summarized below:

	2009 (% of pay)		
	Fire	**Police**	**Combined**
Medical			
City	3.46%	5.51%	4.79%
Member	3.46	5.51	4.79
Total	6.92	11.02	9.58
Dental			
City	0.46%	0.75%	0.65%
Member	0.15	0.25	0.21
Total	0.61	1.00	0.86
Medical and Dental			
City	3.92%	6.26%	5.44%
Member	3.61	5.76	5.00
Total	7.53	12.02	10.44

Projected Compensation is $255,222,552 as of June 30, 2009.

The results shown in this report have been certified by Andy Yeung, ASA, EA, MAAA and Patrick Twomey, ASA, MAAA. The certifying actuaries are Members of the Society of Actuaries, the American Academy of Actuaries and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

If you have any questions, please let us know.

Sincerely,

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

Andy Yeung, ASA, EA, MAAA
Vice President & Associate Actuary

DTB/gxk
Enclosures (4003304)

EXHIBIT I - 10 Year Cash Flow Requirement for Combined Fire and Police Departments
(Before Reflecting 5-Year Phase-In for Police Department)

A. Determination of Contribution Rates for the Medical and Dental Programs as of June 30, 2009 Valuation

	Projected Cashflows and Payroll			
Fiscal year Beginning July 1	Medical Only	Dental Only	Total	Projected Payroll
2009	$19,118,796	$1,948,248	$21,067,044	$255,222,552
2010	21,303,072	2,042,777	23,345,849	266,069,510
2011	23,503,523	2,199,112	25,702,635	277,377,465
2012	25,831,090	2,366,559	28,197,649	289,166,007
2013	28,126,241	2,541,420	30,667,661	301,455,562
2014	30,511,728	2,725,886	33,237,614	314,267,424
2015	33,030,722	2,930,784	35,961,506	327,623,789
2016	35,704,928	3,157,355	38,862,283	341,547,800
2017	38,465,632	3,405,030	41,870,662	356,063,582
2018	41,241,239	3,666,550	44,907,789	371,196,284
Present Value As of June 30, 2009	$196,299,000	$17,984,000	$214,283,000	$2,105,608,000
Assets As of June 30, 2009	50,517,100	5,100,800	55,617,900	
Unfunded Present Value of Benefits As of June 30, 2009	145,781,900	12,883,200	158,665,100	
Present Value of 10-Year Future Payroll As of June 30, 2009	$2,105,608,000	$2,105,608,000		
Total Contribution Rate	6.92%	0.61%	7.53%	
City Contribution Rate	3.46%	0.46%	3.92%	
Member Contribution Rate	3.46%	0.15%	3.61%	

B. The above contribution rates have calculated based on the June 30, 2009 valuation. The rates based on the June 30, 2007 valuation and the rates actually adopted by the Board for that valuation are as follows:

(1) Determination of Contributions Rate for the Medical and Dental Programs as of June 30, 2007 Valuation

	Medical Only	Dental Only	Total
Total Contribution Rate	6.87%	0.68%	7.55%
City Contribution Rate	3.44%	0.50%	3.94%
Member Contribution Rate	3.43%	0.18%	3.61%

(2) Contributions Rates Adopted by the Board (based on results from previous valuation as of June 30, 2005)

	Medical Only	Dental Only	Total
Total Contribution Rate	7.15%	0.82%	7.97%
City Contribution Rate	3.58%	0.61%	4.19%
Member Contribution Rate	3.57%	0.21%	3.78%

Exhibit II – Full Prefunding Requirement for Combined Fire and Police Departments

A. Entry Age Normal Funding Method Calculated Using 8.00% Discount Rate for Both Fire and Police

	Medical	Dental	Total
Actives	$203,484,354	$17,584,804	$221,069,158
Retirees	307,867,312	31,851,231	339,718,543
Inactive Vesteds	1,850,930	163,511	2,014,441
Total	$513,202,596	$49,599,546	$562,802,142
Actuarial Value of Assets	50,517,100	5,100,800	55,617,900
Unfunded Actuarial Accrued Liability (UAAL)	$462,685,496	$44,498,746	$507,184,242
Amortization of UAAL	25,057,399	2,409,894	27,467,293
Normal Cost	14,637,725	1,273,465	15,911,190
Annual Contribution, beginning of year	39,695,124	3,683,359	43,378,482
Adjustment for timing	1,557,259	144,500	1,701,759
Annual Contribution, payable throughout fiscal year	41,252,383	3,827,859	45,080,242
Projected Payroll	$255,222,552	$255,222,552	$255,222,552
Total Contribution Rate Assuming Immediate Prefunding	16.16%	1.50%	17.66%
Total Contribution Rate After Adjustment to Reflect Additional Cost Due to 5-year Phase-In	17.16%	1.59%	18.75%

B. Full Prefunding Contribution Rate Before Recognizing Phase-in

	Medical	Dental	Total
City Rate with Full Funding	8.58%	1.19%	9.77%
Member Rate with Full Funding	8.58%	0.40%	8.98%

C. Contribution Rates After Recognizing Phase-in

Apply Phase-In For **Police Only**			
Total Years of Phase-In	5		
Years Into Phase-In	2		
Rates Under 10 Year Cashflow (See Exhibit I)			
City Rate Under 10-Year Cashflow Method	3.46%	0.46%	3.92%
Member Rate Under 10-Year Cashflow Method	3.46%	0.15%	3.61%
Amounts Reflecting Phase-In (40%/60% Weighted Average of Full Prefunding/10-year Cashflow Basis)			
City Rate	5.51%	0.75%	6.26%
Member Rate	5.51%	0.25%	5.76%
Total Rate	11.02%	1.00%	12.02%
Apply Cap on Increases from Prior Years			
Annual Cap for City Rate Increase for Police			1.35%(1)
City Rate for Police Adopted by Board for 2009/2010 Fiscal Year			5.28%(2)
Cap on Current Year City Rate for Police			6.63%
Annual Cap for Member Rate Increase for Police			1.25%(1)
Member Rate for Police Adopted by Board for 2009/2010 Fiscal Year			4.78%(2)
Cap on Current Year Member Rate for Police			6.04%
FINAL CONTRIBUTION RATES FOR POLICE AFTER REFLECTING THE CAPS			
City Rate	5.51%	0.75%	6.26%
Member Rate	5.51%	0.25%	5.76%
Total Rate	11.02%	1.00%	12.02%

(1) Based on attachment to the City's memo to Retirement System dated March 23, 2009.
(2) Based on May 7, 2009 Board meeting minutes

Exhibit II – Full Prefunding Requirement for Combined Fire and Police Departments (continued)

D. Phase-In Contribution Rates to Full Prefunding Determined as of June 30, 2009
(5-Year Phase-In Commenced in 2009-2010 Fiscal Year)

Fiscal Year	Members	City	Total
2009/2010	4.78%*	5.28%*	10.06%*
2010/2011	5.76%	6.26%	12.02%
2011/2012	6.83%	7.43%	14.26%
2012/2013	7.91%	8.60%	16.51%
2013/2014	8.98%	9.77%	18.75%

* Reflects rates adopted by Board on May 7, 2009

Mortality Rates

Healthy: RP-2000 combined healthy mortality table (separate tables for males and females) with no collar adjustment, projected 10 years. The male table is set back four years.

Disabled: RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back one year of age.

Termination Rates Before Retirement:

Mortality Rate (%)				
Age	Service-Connected		Non Service-Connected	
	Male	Female	Male	Female
25	0.0149	0.0090	0.0149	0.0090
35	0.0237	0.0213	0.0237	0.0213
45	0.0522	0.0478	0.0522	0.0478
55	0.1011	0.1254	0.1011	0.1254

Service Connected Disability Rates (%)		
Age	Police	Fire
20	0.064	0.064
25	0.093	0.093
30	0.134	0.134
35	0.199	0.199
40	0.314	0.314
45	0.505	0.505
50	2.138	2.138
55	9.075	11.069
60	15.000	20.000

Turnover	
Years of Service	Rate (%)
< 1	8.00
1 – 4	1.00
5 – 9	0.50
10 +	0.40

Retirement Rates (%)*		
Age	Fire	Police
50-54	20.00	17.00
55-59	30.00	17.00
60-64	50.00	17.00
65-69	50.00	35.00
70	100.00	100.00

** Applied to active members eligible for unreduced pension benefits.*

Retirement Age and Benefit for Deferred Vested Members: For current deferred vested members, the retirement assumption is age 55. It is assumed that 75% of deferred vested members work for a reciprocal employer.

Future Benefit Accruals: 1.0 year of service per year.

Inclusion of Deferred Vested Members: No deferred vested members are included in the valuation.

Percent Electing Spouse Coverage: 85%

Age of Spouse: Wives are 3 years younger than their husbands.

Future Retiree Medical Enrollment: 95% of future eligible retirees are assumed to elect retiree medical and dental coverage.

Net Investment Return: 8.00%, net of administration and investment expenses.

Consumer Price Index: Increase of 3.50% per year.

Salary Increases:

Annual Rate of Compensation Increase	
Inflation: 3.50% per year; plus 0.75% real across-the-board salary increase; plus the following Merit and Promotion increases based on completed years of service.	
Years of Service	**Annual Increase**
0 - 5	5.50%
6 - 7	2.50
8 +	1.75

Dental Premium: $94.48 per month for calendar years 2009 and 2010, with the same premium for single or married coverage.

Medicare Part B Premium: $96.40 per month for calendar year 2009 and calendar year 2010, with an average monthly premium of $96.40 per month for the 2009-2010 fiscal year.

MEDICAL TRENDS FOR JUNE 30, 2009 VALUATION

Trends to be applied in following fiscal years, to all health plans.
Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium
First Fiscal Year (July 1, 2009 through June 30, 2010)

PLAN	Blue Shield PPO/POS, Under Age 65	Blue Shield PPO/POS, Age 65 and Over	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Blue Shield HMO Under Age 65	Blue Shield HMO, Age 65 & Over
Trend to be applied to 2009-2010 Fiscal Year premium	10.89%	10.89%	9.54%	6.92%	9.97%	9.97%

		The fiscal year trend rates are based on the following calendar year trend rates:	
Fiscal Year	Trend (Approximate)	Calendar Year	Trend (applied to calculate following year premium)
2010-2011	8.25%	2010	8.50%
2011-2012	7.75%	2011	8.00%
2012-2013	7.25%	2012	7.50%
2013-2014	6.75%	2013	7.00%
2014-2015	6.25%	2014	6.50%
2015-2016	5.75%	2015	6.00%
2016-2017	5.25%	2016	5.50%
2017-2018 and later	5.00%	2017 and later	5.00%

Dental Premium Trend	5.00% for all years
Medicare Part B Premium Trend	The 2010-2011 fiscal year premium is 2.5%. Premiums after 2010-2011 are assumed to increase with 5% annual trend.

EXHIBIT III

Actuarial Assumptions (continued)

Per Capita Costs and Carrier Election Assumption Under Age 65

2009 Calendar Year

CARRIER	Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser	$443.96	$443.96	**$443.96**	$1,105.46	$1,105.46	**$1,105.46**	$443.96	$443.96	**$443.96**
Blue PPO/POS	$670.42	$443.96	**$443.96**	$1,722.90	$1,105.46	**$1,105.46**	$670.42	$443.96	**$443.96**
Blue Shield HMO	$491.40	$443.96	**$443.96**	$1,262.36	$1,105.46	**$1,105.46**	$491.40	$443.96	**$443.96**

2010 Calendar Year

CARRIER	Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser	$484.06	$484.06	**$484.06**	$1,205.20	$1,205.20	**$1,205.20**	$484.06	$484.06	**$484.06**
Blue PPO/POS	$750.02	$484.06	**$484.06**	$1,927.48	$1,205.20	**$1,205.20**	$750.02	$484.06	**$484.06**
Blue Shield HMO	$540.20	$484.06	**$484.06**	$1,387.72	$1,205.20	**$1,205.20**	$540.20	$484.06	**$484.06**

2009-2010 Fiscal year

CARRIER	Election Percent		Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Observed	Used in Valuation	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser	**47.9**	50	$464.01	$464.01	**$464.01**	$1,155.33	$1,155.33	**$1,155.33**	$464.01	$464.01	**$464.01**
Blue PPO/POS	**29.8**	30	$710.22	$464.01	**$464.01**	$1,825.19	$1,155.33	**$1,155.33**	$710.22	$464.01	**$464.01**
Blue Shield HMO	**22.3**	20	$515.80	$464.01	**$464.01**	$1,325.04	$1,155.33	**$1,155.33**	$515.80	$464.01	**$464.01**

EXHIBIT III

Actuarial Assumptions (continued)

Per Capita Cost and Carrier Election Assumption Age 65 and Older

2009 Calendar Year

CARRIER	Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser Senior Advantage	$414.31	$443.96	**$414.31**	$828.62	$1,105.46	**$828.62**	$414.31	$443.96	**$414.31**
Blue Shield PPO/POS	$521.00	$443.96	**$443.96**	$1,042.00	$1,105.46	**$1,042.00**	$521.00	$443.96	**$443.96**
Blue Shield HMO	$375.20	$443.96	**$375.20**	$750.40	$1,105.46	**$750.40**	$375.20	$443.96	**$375.20**
PacifiCare	$378.90	$443.96	**$378.90**	$757.80	$1,105.46	**$757.80**	$328.90	$443.96	**$378.90**

2010 Calendar Year

CARRIER	Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser Senior Advantage	$429.78	$484.06	**$429.78**	$859.56	$1,205.20	**$859.56**	$429.78	$484.06	**$429.78**
Blue Shield PPO/POS	$582.86	$484.06	**$484.06**	$1,165.22	$1,205.20	**1,165.22**	$582.86	$484.06	**$484.06**
Blue Shield HMO	$412.46	$484.06	**$412.46**	$824.92	$1,205.20	**824.92**	$412.46	$484.06	**$412.46**
PacifiCare	$395.48	$484.06	**$395.48**	$790.96	$1,205.20	**790.96**	$395.48	$484.06	**$395.48**

2009-2010 Fiscal year

CARRIER	Election Percent		Single Party			Married/with Domestic Partner			Surviving Spouse/Domestic Partner		
	Observed	Recommended For Valuation	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser Senior Advantage	**35.5**	35	$422.05	$464.01	**$422.05**	$844.09	$1,155.33	**$844.09**	$422.05	$464.01	**$422.05**
Blue Shield PPO/POS	**57.0**	60	$551.93	$464.01	**$464.01**	$1,103.86	$1,155.33	**$1,103.86**	$551.93	$464.01	**$464.01**
Blue Shield HMO	**4.9**	5	$393.83	$464.01	**$393.83**	$787.66	$1,155.33	**$787.66**	$393.83	$464.01	**$393.83**
PacifiCare	**2.6**	0	$387.19	$464.01	**$387.19**	$774.38	$1,155.33	**$774.38**	$387.19	$464.01	**$387.19**

EXHIBIT IV

Summary of Plan

This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plan as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

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 the member applies for retirement benefits.
Benefit Types:	
Medical Plan Choices	Kaiser, BlueShield and PacifiCare
Dental Plan	Delta Dental and Enhanced Delta Dental
Medical Premiums	For retirees not eligible for Medicare, the Plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the Plan pays the retiree's HMO premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees. For the 2009-2010 fiscal year, the maximum subsidy is $464.01 for a single member and $1,155.33 for member with spouse or domestic partner.
Dental Premiums	The Plan pays the entire premium.
Benefit	*The same medical and dental coverage that the City provides an active member.*
Active Plan Funding :	
Fire	
(Based on Cash Flow Requirement for the Next Ten Years):	
Employee's Contribution	Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.
City's Contribution	Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.

Police

Employee's Contribution

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 8.00% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2011 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate.

City's Contribution

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 8.00% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2011 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate.

EXHIBIT V

Funding Methodology

This exhibit summarizes the Plan's funding methods.

Actuarial Basis for Partial Prefunding:	Aggregate Cost Method Contributions plus current assets would be sufficient to pay benefits over the next 10 years.
Actuarial Basis for Full Prefunding (Police Only):	
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30-year closed (decreasing) amortization period, level percent of pay
Remaining amortization period	29 years used in setting rate for 2010/2011 fiscal year
Actuarial Value of Assets:	In developing the total actuarial value of assets for the pension and health plans, we have adjusted the market value of assets (MVA) by smoothing the market returns that were either below or above the assumed rate of 8.00% over the last five years. In prior valuations, the Board's methodology included an adjustment to the smoothed actuarial value of assets if it fell outside the range of 80% to 120% of the market value of assets (also commonly referred to as the "market value corridor"). The adjustment would be the amount necessary to keep the smoothed actuarial value of assets within the corridor. At the February 4, 2010 meeting, the Board decided to change the market value corridor (MVA corridor) to a range of 70% to 130% of market value. This change in the corridor was made only for the June 30, 2009 valuation. For the June 30, 2009 valuation, the preliminary actuarial value of assets before any MVA corridor was calculated at about 132% of the market value of assets. The final actuarial value of assets was limited to 130% of the market value of assets so that an additional loss equal to the difference between 132% and 130% of the market value of assets, or approximately $45.0 million, was recognized immediately in the June 30, 2009 pension and health plan valuations.

SEGAL

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December 19, 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: **City of San Jose Police and Fire Department Retirement Plan**
Division of Assets Between Police and Fire Members as of June 30, 2005

Dear Ed:

As we discussed with the Board at the December meeting, attached are illustrative examples of how the June 30, 2005 actuarial value of assets would be divided between police and fire members. In Exhibit 1, we have provided the division of assets for the pension plan and in Exhibit 2, we have provided the division of assets for the medical and dental plans. The methodology follows that described in our letter of November 28, 2006.

We have also included a comparison of the contribution rates before and after the division of assets. For the pension plan, the "after division" contribution rates also reflect a separate valuation of the police and fire member accrued liabilities and normal costs. As you will see, the UAAL contribution rate is unchanged between the before and after scenarios, since that result was the underlying principle in the division of assets methodology. However, the normal cost rate after the division of assets is now slightly higher for the fire members, reflecting the fact that their average entry age is slightly higher than that of the police members.

For the medical and dental plans, the "after division" contribution rates for the police and the fire groups will be the same at the date of the division. However, different contribution rates will emerge in future valuations if there is a difference in the demographic experience for the two groups. Please note that a higher proportion of the total assets for the medical and dental plans has been allocated to the fire members. This is because the ratio of the present value of benefit to the present value of payroll over the 10 year period beginning July 1, 2005 is higher for the fire group than that of the police group, so a larger allocation of assets is necessary to maintain their current rate.

Note that the member and City rates for police members are before the police benefit enhancement. In addition, these contribution rates and liability results are based entirely on the Segal pension and medical and dental reconciliations (reference: our letters dated October 4 and November 30). For a small group of members without a police or fire classification (about 0.3% of the total liability for the pension plan), we have allocated their liabilities in proportion to the known liabilities for those with a police or fire classification.

It is our belief that there is no need to allocate the SRBR assets between police and fire members. Recall that the primary reason for dividing the assets between the fire and police is to allow the Board to charge fire and police contribution rates that equitably reflect differences in benefit formula, demographic profile (e.g., age at retirement), etc. between the two groups. Since no contributions are collected from the City or the members to pay for the SRBR benefits, the SRBR assets do not have to be divided to satisfy the rate equity goal.

Furthermore, we understand, based on the following language in the Municipal code, that the SRBR is to provide: "…a greater benefit for those persons who have been in benefit status for a longer period of time and those persons receiving the lowest monthly benefit payments…". Therefore, it would appear that maintaining the equity among the different generations of retirees and beneficiaries is a priority for the System in maintaining the SRBR. Splitting the assets could potentially hinder the Board's ability to achieve this goal.

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

Enclosures

Exhibit 1 - Illustrative Example for the Division of Pension Assets Between the Police and the Fire
Results are Based on Segal's Reconciliation of the June 30, 2005 Valuation Results
Before Reflecting the Police Benefit Enhancement
($000s)

	Pension Plan	Police	Fire	Total
A	**Division of Assets Between the Police and the Fire**			
1	Actuarial Accrued Liability As of June 30, 2005	$ 1,228,068	$ 788,956	$ 2,017,024
2	Estimated Payroll for Plan Year 2005-2006	$ 138,683	$ 71,433	$ 210,116
3	City's Contribution Rate to Unfunded Actuarial Accrued Liability	1.29%	1.29%	1.29%
4	Future UAAL Payment Made by City	$ 21,572	$ 11,111	$ 32,683
5	Member's Contribution Rate to Unfunded Actuarial Accrued Liability	0.06%	0.06%	0.06%
6	Future UAAL Payment Made by Members	$ 826	$ 425	$ 1,251
7	Actuarial Value of Assets As of June 30, 2005 (1 - 4 - 6)	$ 1,205,670	$ 777,420	$ 1,983,090
8	Funded Ratio (7 / 1)	98.2%	98.5%	98.3%
B	**Contribution Rates Calculated in the June 30, 2005 Valuation Before the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	20.46%	20.46%	20.46%
2	City's Contribution Rate to Unfunded Actuarial Accrued Liability	1.29%	1.29%	1.29%
3	City's Total Rate	21.75%	21.75%	21.75%
4	Member's Normal Cost Determined in the June 30, 2005 Valuation	7.67%	7.67%	7.67%
5	Member's Contribution Rate to Unfunded Actuarial Accrued Liability	0.06%	0.06%	0.06%
6	Member's Total Rate	7.73%	7.73%	7.73%
C	**Contribution Rates Calculated in the June 30, 2005 Valuation After the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	20.44%	20.49%	20.46%
2	City's Contribution Rate to Unfunded Actuarial Accrued Liability	1.29%	1.29%	1.29%
3	City's Total Rate	21.73%	21.78%	21.75%
4	Member's Normal Cost Determined in the June 30, 2005 Valuation	7.66%	7.69%	7.67%
5	Member's Contribution Rate to Unfunded Actuarial Accrued Liability	0.06%	0.06%	0.06%
6	Member's Total Rate	7.72%	7.75%	7.73%

M:\SJPF.CLI\val2005\Report\[Comparison_PFblank_split.xls]Split assets

Exhibit 2 - Illustrative Example for the Division of Medical and Dental Assets Between the Police and the Fire
Results are Based on Segal's Reconciliation of the June 30, 2005 Valuation Results
($000s)

	Medical Plan	Police	Fire	Total
A	**Division of Medical Plan Assets Between the Police and the Fire**			
1	Present Value of 10 Years' Cash Payment as of June 30, 2005	$ 76,225	$ 57,494	$ 133,719
2	Estimated Payroll for Plan Year 2005-2006	$ 138,683	$ 71,433	$ 210,116
3	Present Value of 10 Years' Future Payroll as of June 30, 2005	$ 1,132,669	$ 583,416	$ 1,716,085
4	Unfunded Present Value of 10 Years' Cash Payment Expressed As % of Payroll	5.94%	5.94%	5.94%
5	Unfunded Amount (3 * 4)	$ 67,281	$ 34,736	$ 102,017
6	Actuarial Value of Assets As of June 30, 2005 (1 - 5)	$ 8,944	$ 22,758	$ 31,702
B	**Medical Plan Contribution Rates Calculated in the June 30, 2005 Valuation Before the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	2.97%	2.97%	2.97%
2	Member's Normal Cost Determined in the June 30, 2005 Valuation	2.97%	2.97%	2.97%
C	**Medical Plan Contribution Rates Calculated in the June 30, 2005 Valuation After the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	2.97%	2.97%	2.97%
2	Member's Normal Cost Determined in the June 30, 2005 Valuation	2.97%	2.97%	2.97%
	Dental Plan	**Police**	**Fire**	**Total**
D	**Division of Dental Plan Assets Between the Police and the Fire**			
1	Present Value of 10 Years' Cash Payment as of June 30, 2005	$ 8,702	$ 6,708	$ 15,410
2	Estimated Payroll for Plan Year 2005-2006	$ 138,683	$ 71,433	$ 210,116
3	Present Value of 10 Years' Future Payroll as of June 30, 2005	$ 1,132,669	$ 583,416	$ 1,716,085
4	Unfunded Present Value of 10 Years' Cash Payment Expressed As % of Payroll	0.65%	0.65%	0.65%
5	Unfunded Amount (3 * 4)	$ 7,362	$ 3,754	$ 11,116
6	Actuarial Value of Assets As of June 30, 2005 (1 - 5)	$ 1,340	$ 2,954	$ 4,294
E	**Dental Plan Contribution Rates Calculated in the June 30, 2005 Valuation Before the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	0.49%	0.49%	0.49%
2	Member's Normal Cost Determined in the June 30, 2005 Valuation	0.16%	0.16%	0.16%
F	**Dental Plan Contribution Rates Calculated in the June 30, 2005 Valuation After the Division of Assets/Liabilities Between the Police and the Fire**			
1	City's Normal Cost Determined in the June 30, 2005 Valuation	0.49%	0.49%	0.49%
2	Member's Normal Cost Determined in the June 30, 2005 Valuation	0.16%	0.16%	0.16%