

### **3.5 Review of Retirement Plans' Pension and Postemployment Healthcare Plans' Actuarial Valuations as of June 30, 2023.**

#### **Recommendation:**

Review the following actuarial valuation reports:

- (a) Federated City Employees' Retirement System Actuarial Valuation as of June 30, 2023;
- (b) Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2023;
- (c) Police and Fire Department Retirement Plan Actuarial Valuation as of June 30, 2023; and
- (d) Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2023.

CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (Retirement Services)

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Roberto L. Peña

**SUBJECT:** SEE BELOW

**DATE:** February 20, 2024

---

**SUBJECT: REVIEW OF THE RETIREMENT PLANS' PENSION AND POST-EMPLOYMENT HEALTHCARE PLAN ACTUARIAL VALUATIONS AS OF JUNE 30, 2023**

## **RECOMMENDATION**

It is recommended that the City Council review the following actuarial valuation reports (links to the reports are included):

- a. Federated City Employees' Retirement System Actuarial Valuation (Pension) as of June 30, 2023 <https://www.sjretirement.com/Resources/4ae6f1ba-6593-46fe-a5ef-e82c5a66be4d/2023.pdf>; and
- b. Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2023 <https://www.sjretirement.com/Resources/92ea4961-34d4-4963-80ba-6a612ed6350d/2023.pdf>; and
- c. Police and Fire Department Retirement Plan Actuarial Valuation (Pension) as of June 30, 2023 <https://www.sjretirement.com/Resources/5049f392-cbc3-443a-85aa-3e3946413bd0/2023.pdf>; and
- d. Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation (OPEB) as of June 30, 2023 <https://www.sjretirement.com/Resources/c75a4bdd-2105-47fc-a4e8-f8e0d98825cb/2023.pdf>.

## **SUMMARY AND OUTCOME**

City Council review of the Federated City Employees' Retirement System Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2023 and the Police and Fire Department Retirement Plan Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2023 (collectively Valuations) will provide relevant financial information to the City Council for the two retirement plans and ensure the City Council is

properly informed on the retirement plans' funding status and retirement benefit costs for the City.

## **BACKGROUND**

The Valuations provide detailed information regarding the actuarial value of the assets and pension and Other Postemployment Employee Benefit (OPEB) liability of the Retirement Plans as of June 30, 2023. The information is used to determine the employee and employer's contribution rates in the next fiscal year and are generally divided into the following sections:

- A Summary section intended to recap the most important information of the report;
- Risk and Certification sections to identify, explain, and assess the risks to the plan, as well as certify the report;
- An Asset section that details the calculation of the actuarial value of the plans' assets;
- A Liability section that discloses the present value of all future benefits, normal cost, and changes in unfunded actuarial liabilities;
- A Contribution section that details the effects of assumption changes on the contribution rates and amortization of unfunded liabilities; and
- An Actuarial section of the Annual Comprehensive Financial Report (ACFR) which contains schedules that are required reporting by the Governmental Accounting Standards Board for the ACFR.

## **ANALYSIS**

The Valuations were prepared by the Boards' actuarial consultant, Cheiron Inc. The report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The credentialed actuaries who prepared the reports meet the qualification standards of the American Academy of Actuaries to render the opinion contained in the reports.

For the Pension Valuations, as of June 30, 2023, the following are the key actuarial results, as compared to the results from the June 30, 2022 Valuations. Funding ratio on an actuarial valuation basis increased for both plans for pension. The increase in the funded status is mainly due to the increases in the actuarial value, which is due to the asset smoothing method recognizing 20% of the gains from the most recent fiscal year.

<i>\$ Amounts in millions</i>	<b>Federated</b>		<b>Police and Fire</b>	
<b>PENSION Valuation Date</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>
Actuarial Liability	\$4,750.6	\$4,965.7	\$5,650.5	\$5,908.6
Actuarial Value	\$2,709.6	\$2,890.0	\$4,495.7	\$4,739.7
UAL	\$2,041.0	\$2,075.7	\$1,154.8	\$1,168.8
<b>Funded Ratio</b>	<b>57.0%</b>	<b>58.2%</b>	<b>79.6%</b>	<b>80.2%</b>

The following is a summary of the contribution rates shown in the pension actuarial valuations. Both Boards will approve contribution rates at their May meetings. Amounts shown below are contribution amounts throughout the year.

<b>PENSION</b>	<b>Federated</b>	<b>Police</b>	<b>Fire</b>
	<b>FY2024-2025</b>	<b>FY2024-2025</b>	<b>FY2024-2025</b>
<b>Member Contribution Rates</b>			
Tier 1 Member	6.61%	10.63%	11.82%
Tier 2 Member	8.49%	13.65%	14.90%
<b>City Contributions</b>			
Tier 1 UAL Payment	\$176.8 million	\$79.4 million	\$68.7 million
Tier 1 Admin Expenses	\$5.3 million	\$3.9 million	\$3.1 million
Tier 1 Normal Cost	\$24.4 million 18.73%	\$21.7 million 29.20%	\$20.5 million 31.73%
Tier 2 Contribution	\$27.9 million 8.73%	\$13.7 million 13.65%	\$6.1 million 14.90%
<b>Total City Contribution</b>	<b>\$234.4 million 52.13%</b>	<b>\$118.7 million 68.06%</b>	<b>\$98.4 million 93.11%</b>

While the funding ratio for pension increased from the Valuations as of June 30, 2022 to the Valuations as of June 30, 2023, the funding ratio for both plans for OPEB decreased. The increase in UAL for both plans is due to premium and liability experience. The liability experience is mainly due to higher-than-expected premiums for Medicare eligible health plans.

<i>\$ Amounts in thousands</i>	<b>Federated</b>		<b>Police</b>		<b>Fire</b>	
<b>OPEB Valuation Date</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>
Actuarial Liability	\$579.2	\$634.0	\$430.8	\$495.3	\$252.6	\$296.2
Assets	\$349.1	\$374.6	\$171.4	\$191.7	\$93.9	\$107.7
UAL	\$230.1	\$259.4	\$259.4	\$303.6	\$158.7	\$188.5
<b>Funded Ratio</b>	<b>60.3%</b>	<b>59.1%</b>	<b>39.8%</b>	<b>38.7%</b>	<b>37.2%</b>	<b>36.4%</b>

With the implementation of Measure F in 2017, health contribution rates were fixed at 7.5% of pensionable pay for Federated members and 8.0% of pensionable pay for Police and Fire members. The City's contribution toward the explicit subsidy is actuarially determined on an annual basis; and the City will also pay the implicit subsidy based on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution to 14% of pensionable payroll for Federated and 11% of pensionable payroll for Police and Fire.

<b>OPEB</b>	<b>Federated</b>	<b>Police</b>	<b>Fire</b>
	<b>FY2024-2025</b>	<b>FY2024-2025</b>	<b>FY2024-2025</b>

<b>Member Contribution Rates</b>			
Federated Member	7.50%	N/A	N/A
Police and Fire Member	N/A	8.0%	8.0%
Explicit Subsidy Members	\$8.7 million	\$5.3 million	\$4.5 million
<b>City Contribution Rates</b>			
Estimated City Optional Cap (Explicit Subsidy – 14% for Fed and 11% for PF of pensionable payroll)	\$59.0 million	\$30.8 million	
Actuarially Determined Amount (Explicit Subsidy)	\$20.4 million	\$18.5 million	\$12.3 million
City's Implicit Subsidy Payment	\$6.8 million	\$3.4 million	\$1.7 million
City's Total Payment for Healthcare (Explicit + Implicit Subsidy)	\$27.2 million	\$21.9 million	\$14.0 million

**EVALUATION AND FOLLOW**

The Office of Retirement Services staff will present the Retirement Plans' Valuations on an annual basis to the City Council per the recommendation of the City Auditor's report on Pension Sustainability (Audit #10-10) to update the City Council on the financial status of the Retirement Plans.

**COORDINATION**

Production of the Valuations was coordinated with the Board of Administration for the Federated City Employees Retirement System, the Board of Administration for the Police and Fire Department Retirement Plan, and the City Manager's Office.

**PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the March 12, 2024 City Council meeting.

Outreach was undertaken for this item in addition to the agenda posting described above. These outreach efforts are described below.

These Valuations and audits of the Valuations were presented to the Federated System and Police and Fire Boards at their meetings from October through January, which were open to the public.

HONORABLE MAYOR AND CITY COUNCIL

February 20, 2024

**Subject: Review of the Retirement Plans' Pension and Post-Employment Healthcare Plan Actuarial Valuations as of June 30, 2023**

Page 5

**COMMISSION RECOMMENDATION AND INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

**PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

A handwritten signature in black ink, appearing to read "Roberto L. Peña".

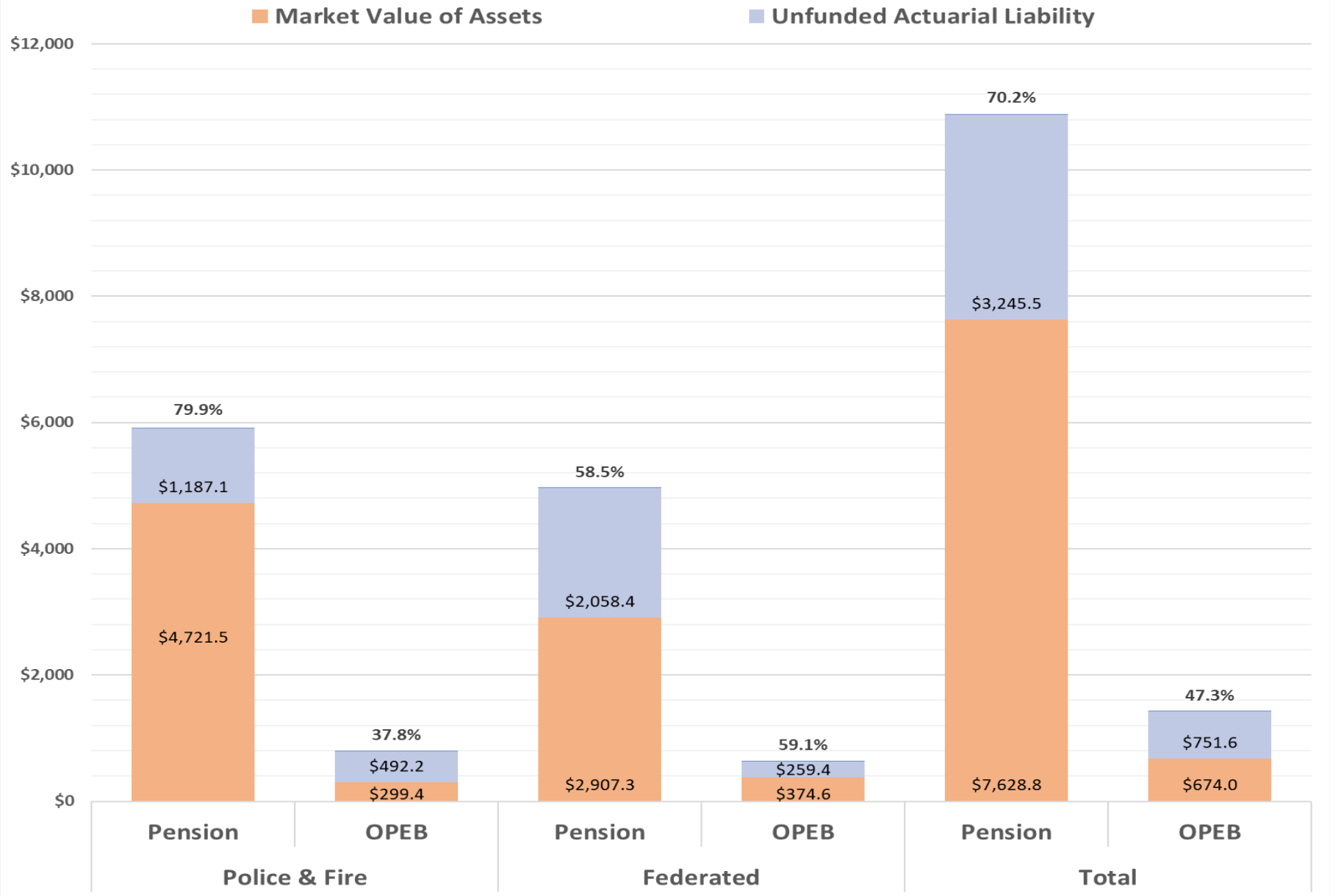
Roberto L Peña  
Chief Executive Officer  
Office of Retirement Services

# Actuarial Valuations as of June 30, 2023 Presentation to City Council

Federated City Employees' Retirement System  
Police & Fire Department Retirement Plan

March 12, 2024  
Presented by: Roberto L. Peña

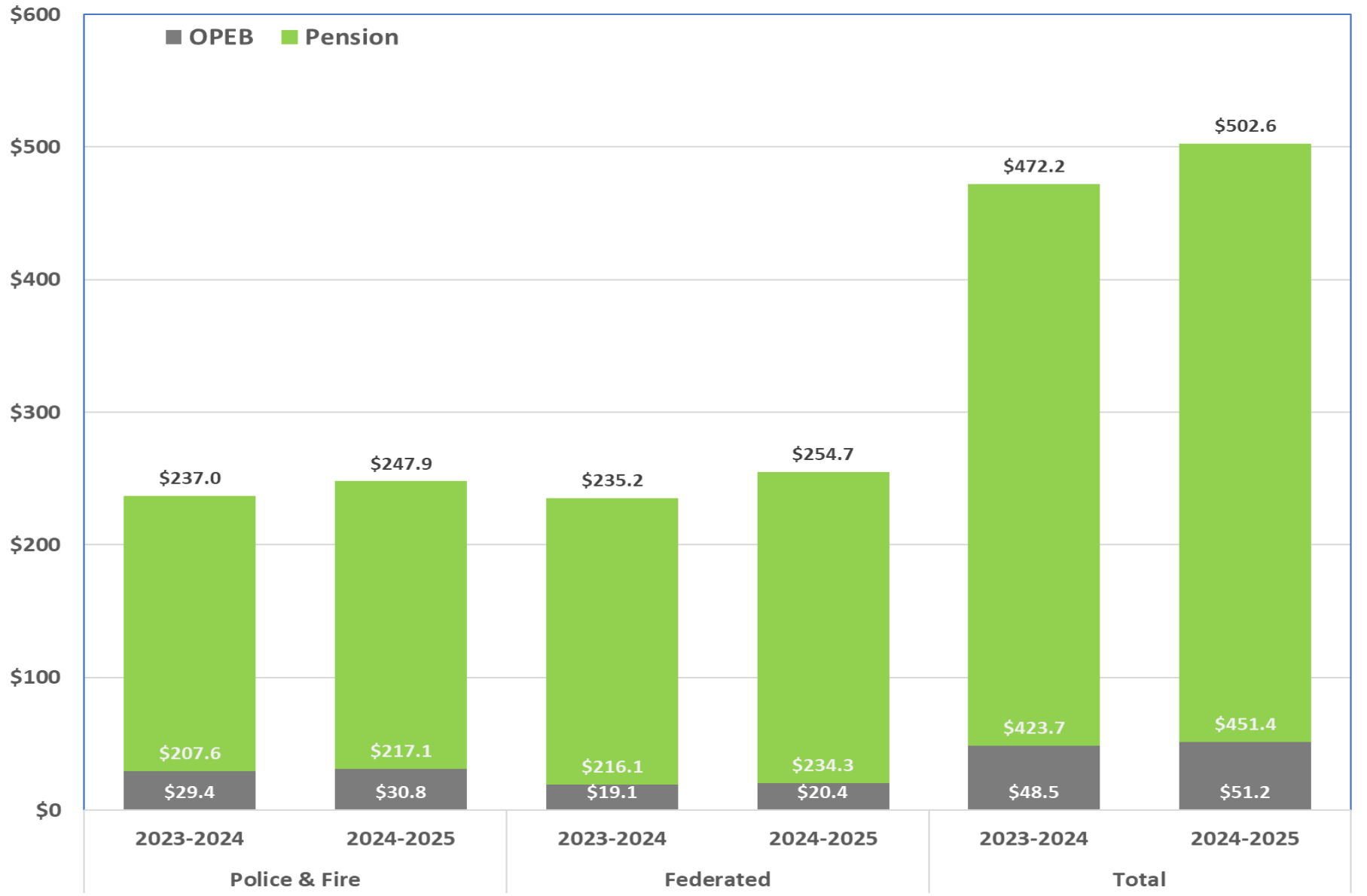
## Funded Status as of June 30, 2023 (amounts in millions)



OPEB unfunded liability and funded percentage is for the explicit subsidy only



## Annual City Contributions Amounts Throughout the Fiscal Year (in millions)



OPEB amounts are contributions to the Trust for the explicit subsidy only and assume the City contributes the actuarially determined amount which is in excess of the cap

# Actuarial Value of Assets – Pension

Federated						
<b>Market Value of Assets</b>						<b>\$ 2,907,313</b>
<b>Earnings</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Actual	76,855	90,909	698,607	(169,130)	222,101	919,342
Expected	144,760	149,167	151,252	197,280	184,708	827,167
Gain or (Loss)	(67,905)	(58,258)	547,355	(366,410)	37,393	92,175
Deferred %	0%	20%	40%	60%	80%	
Deferred Gain (Loss)	-	(11,652)	218,942	(219,846)	29,914	17,359
<b>Final Actuarial Value of Assets</b>						<b>\$ 2,889,954</b>

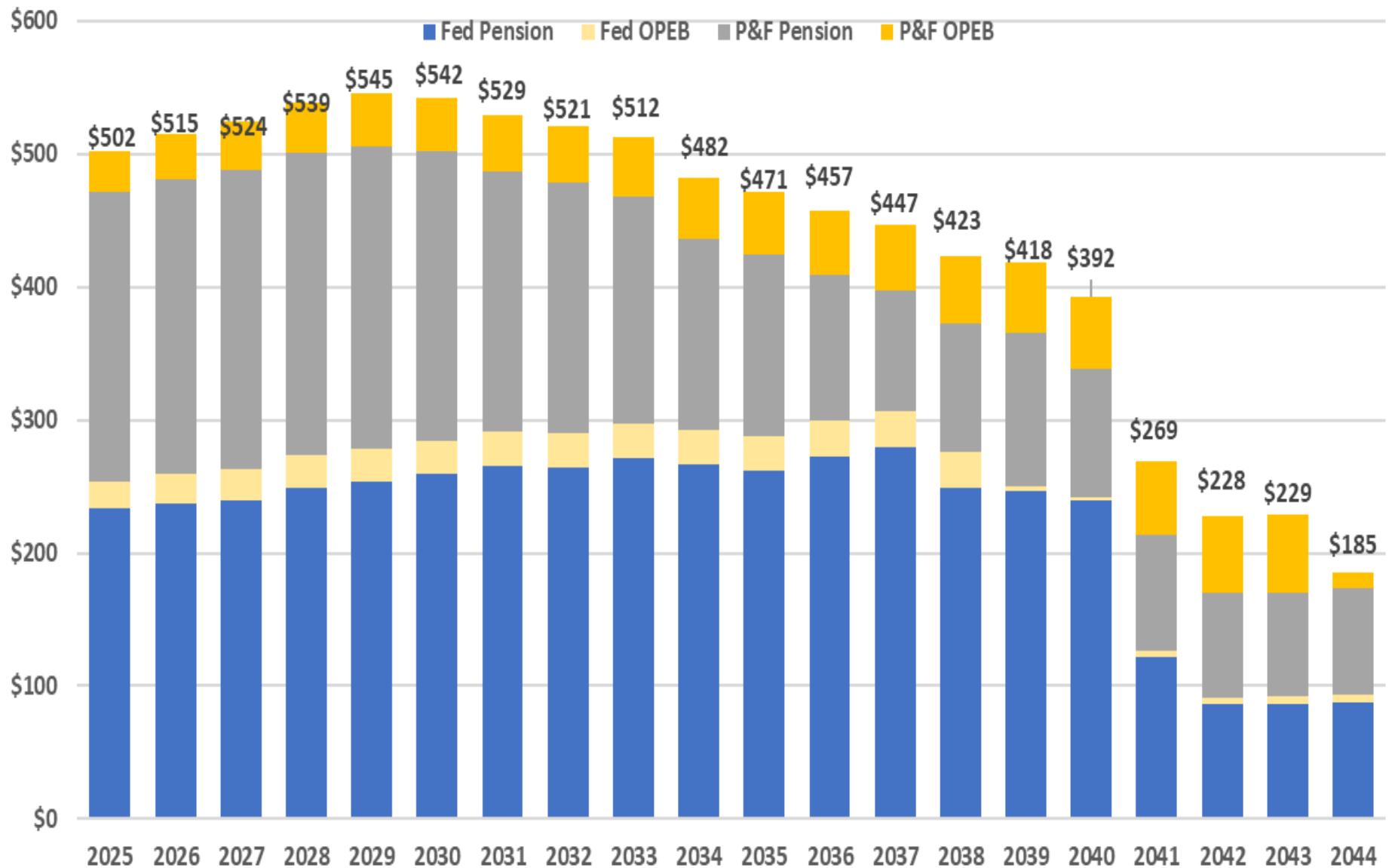
*Amounts in Thousands*

Police and Fire						
<b>Market Value of Assets</b>						<b>\$ 4,721,488</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Actual Earnings	-	-	-	-	359,863	359,863
Expected Earnings	-	-	-	-	296,862	296,862
Investment Gain or (Loss)	-	-	-	-	63,001	63,001
Prior Remaining Deferrals	(25,387)	(45,451)	475,948	(490,928)		(85,818)
Total Investment Gain (Loss)	0%	20%	40%	60%	80%	(22,817)
Deferred (80%)					(18,254)	(18,254)
<b>Final Actuarial Value of Assets</b>						<b>\$ 4,739,742</b>

*Amounts in Thousands*

**Note:** Effective for the PF valuation, based on Cheiron's recommendation to smooth future contribution rates, the Board elected to reset the asset smoothing method by combining deferred gains and losses in the 2022 valuation from all prior years with the investment gain from 2023 and recognize the sum over the next five years.

## Projected Annual City Contributions (in millions)



For fiscal years ending

# Actuarial Valuations as of June 30, 2023 Presentation to City Council

Federated City Employees' Retirement System  
Police & Fire Department Retirement Plan

March 12, 2024  
Presented by: Roberto L. Peña