The California State Auditor released the following report today:

**City of San José**

*Some Retirement Cost Projections Were Unsupported Although Rising Retirement Costs Have Led to Reduced City Services*

**BACKGROUND**

With a budgeted workforce of approximately 5,400, the City of San José’s (San José) employees provide a range of municipal services—such as police and fire protection, sanitation services, street maintenance, library and recreational administration—to its nearly one million residents. San José offers several retirement benefits to its employees, including defined-benefit pensions and postemployment health benefits for retirees. Most of the city’s employees participate in one of the two plans administered by the boards of administration (boards) of the Federated City Employees’ Retirement System and the Police and Fire Department Retirement Plan. A handful participate in the California Public Employees’ Retirement System. Many changes have been made to the retirement plans over the years—with the majority resulting in increases to pension benefits. However, voters recently passed a measure that will generally authorize limits on pension benefits for new city employees and authorize reduced future benefits for current city employees who do not increase their retirement contributions.

**KEY FINDINGS**

During our review of San José’s retirement costs, we noted the following:

- Between January 2011 and February 2012, San José produced five different projections of the city’s annual contributions toward retirement costs—the projections of what the costs would be by fiscal year 2015–16, ranged from $320.1 million to $650 million.
  - The retirement boards did not approve the actuarial assumptions used to calculate the projections, except for the $320.1 million estimate made in February 2012.
  - Three of the projections did not meet actuarial standards—the city was unable to provide support for the projections or appropriate documentation of the assumptions, data, or methodologies used to calculate the projections.

- Since fiscal year 2006–07, San José’s retirement costs have dramatically increased. Even though San José has paid more into the plans (funded the plans), the funded status—the amount of funds in the plans compared to the projected pension and postemployment health benefit costs—of the plans has continuously deteriorated.
  - In fiscal year 2010–11, the city’s pension plans had accumulated liabilities of $6 billion, but had only $4.5 billion in assets, which resulted in a $1.5 billion unfunded liability.
  - The plans suffered significant investment losses in both fiscal years 2007–08 and 2008–09—retirement plan assets lost nearly $1 billion during this period yet losses in 2008–09 did not affect the annual required contributions until fiscal year 2010–11.
  - Postemployment health benefit costs have also been rising rapidly. From fiscal years 2008–09 through 2011–12, these costs rose from $80 million to $133 million—an increase of 66 percent.

- Rising retirement costs have created budgetary challenges for San José—its retirement costs increased from $136 million to $244 million between fiscal years 2009–10 and 2011–12. In response, San José reduced its budgeted salaries for the police and fire departments by $76 million by reducing wages and eliminating positions.

**KEY RECOMMENDATIONS**

We recommended that San José report the official retirement cost projections developed using the assumptions approved by the two retirement plan boards to ensure that stakeholders receive consistent and reliable information. Alternatively, San José should develop projections that are supported by accepted actuarial methodologies, report the information in the correct context, and disclose significant assumptions that differ from the boards’ retirement cost projections.