

## City of San José

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

#### REPORT NUMBER 2012-106, ISSUED AUGUST 2012

This report concludes that during fiscal years 2009–10 through 2011–12, the City of San José (San José) experienced financial challenges as its budgeted revenues declined and retirement costs—consisting of pension and postemployment health benefits—increased. Although we believe that San José’s financial challenges are real, we found that some of the retirement cost projections reported in San José’s official documents in 2011 were not supported by accepted actuarial methodologies, nor were the underlying assumptions vetted and approved by the boards of San José’s two retirement plans. For example, in supporting the need to reduce retirement benefits, the mayor and certain city council members referred to a projection that the city’s annual retirement costs could increase to \$650 million by fiscal year 2015–16, a projection that our actuarial consultant determined was unsupported and likely overstated when assumptions approved by the boards of the two retirement plans are considered. Although we have concerns with some of San José’s projected retirement costs for future years, its actual retirement costs increased significantly from fiscal years 2009–10 through 2011–12. These increased costs appear to have crowded out some of the funding previously available for nonpublic safety services, such as parks and libraries.

In the report, the California State Auditor (state auditor) made the following recommendation to San José. The state auditor’s determination regarding the current status of the recommendation is based on San José’s response to the state auditor as of October 2012.

#### **Recommendation—See pages 15—20 of the audit report for information on the related finding.**

To ensure that stakeholders receive consistent and reliable information, San José should report the official retirement cost projections that were developed using the assumptions approved by the boards of the two retirement plans. If San José does not use the official retirement cost projections, it should develop projections that are supported by accepted actuarial methodologies, report this information in the correct context, and disclose significant assumptions that differ from those in the boards’ retirement cost projections.

#### ***San José’s Action: Pending.***

San José reported that it continues to implement our recommendation. Similar to its initial response to our report, San José reiterated that the retirement cost projections used in its most recent five-year budget forecast, released in February 2012, were developed by the actuary used by the boards of the two retirement plans, using assumptions that were also approved by both boards. However, as we discussed in our report, San José has not always done this. Therefore, we look forward to seeing that San José uses retirement cost projections developed by the actuary used by the boards of its two retirement plans based on board-approved assumptions in its next five-year budget forecast. San José expects to release its next forecast in early 2013.

