

# **City of San José Police and Fire Department Postemployment Healthcare Plan**

## **Actuarial Valuation Funding Report as of June 30, 2017**

**Produced by Cheiron**

**March 2018**

## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Section I Board Summary .....	1
Section II Certification .....	8
Section III Assets .....	10
Section IV Measures of Liability .....	13
Section V Contributions.....	20
Section VI Actuarial Section of the CAFR.....	23

### Appendices

Appendix A Membership Information .....	27
Appendix B Actuarial Assumptions and Methods .....	32
Appendix C Summary of Plan Provisions.....	44
Appendix D Glossary of Terms.....	49
Appendix E List of Abbreviations .....	51

**CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

This report measures assets and liabilities of the City of San José Police and Fire Postemployment Healthcare Plan for funding purposes only. There is a separate report for financial reporting.

**Contributions**

There are two components to the benefits under the Plan: the explicit subsidy and the implicit subsidy. The explicit subsidy (or premium subsidy) is paid by the Plan and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus city) premium.

Historically, member and City contributions to the plan have been negotiated through collective bargaining separately for Police and Fire and have not been actuarially determined. With the implementation of Measure F, member contributions will be fixed at 8.0% of pay; the City's contribution toward the explicit subsidy will be actuarially determined separately for Police and Fire; and, the City will also pay the implicit subsidy 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 for the explicit subsidy to 11% of Police and Fire payroll.

Table I-1 shows the contribution amounts for the fiscal years ending in 2018 and 2019.

Table I-1 Summary of Contribution Amounts			
	FYE 2019	FYE 2018	% Change
<b><u>Explicit Subsidy</u></b>			
<b>Police Department</b>			
Members	\$ 6,891	\$ 10,902	-36.8%
City's Actuarially Determined Contribution <sup>1</sup>	13,723	11,819	16.1%
<b>Fire Department</b>			
Members	\$ 5,519	\$ 8,351	-33.9%
City's Actuarially Determined Contribution <sup>1</sup>	8,752	9,106	-3.9%
<b>Total Explicit Subsidy</b>			
Members	\$ 12,410	\$ 19,253	-35.5%
City's Actuarially Determined Contribution <sup>1</sup>	22,475	20,925	7.4%
Estimated City Optional Cap	23,148		
<b><u>Implicit Subsidy</u></b>			
Police Department	\$ 3,699	\$ 796	364.7%
Fire Department	2,017	803	151.2%
Total Implicit Subsidy	\$ 5,716	\$ 1,599	257.5%

<sup>1</sup> City amount for FYE 2018 was not actuarially determined

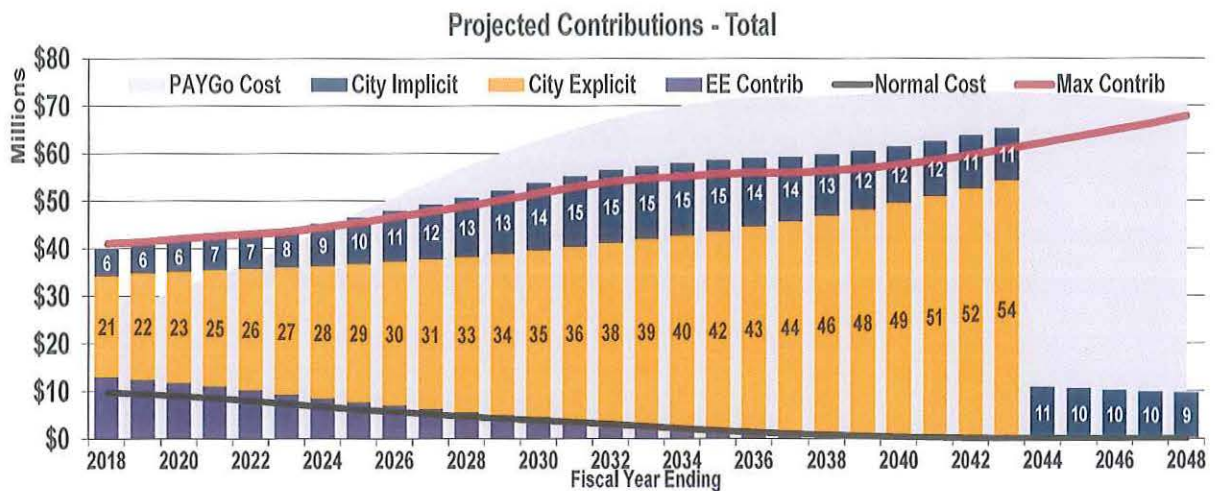
Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION I – BOARD SUMMARY

The chart below shows the historical and projected contributions to the Plan. The purple bars represent the member contributions, the gold bars are the City's contributions to pre-fund the explicit subsidy, and the blue bars are the City contributions to pay the implicit subsidy. The red line represents the City's optional cap, and the gray area behind the bars represents the projected annual benefit payments.

Historical and Projected Contributions FYE 2011-2048



Because the Plan is closed to new entrants, the member contributions are expected to decline as current active members retire or otherwise leave active employment with the City. The City's actuarially determined contribution is expected to increase faster than payroll as the member contributions decrease. The Plan has historically had positive net cash flow, but we only expect that to last until about 2025.



**CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

**Funded Status**

Table I-2 below summarizes the Actuarial Liability, Market Value of Assets, Unfunded Actuarial Liability, and funded percentage for the Plan as of June 30, 2017 compared to June 30, 2016. The Actuarial Liability for the explicit subsidy decreased 11.64% for Police and 10.61% for Fire, primarily due to the new health assumptions and the implementation of the new lowest cost health plan. At the same time, assets increased over 2% for Police and 12% for Fire due to contributions and investment returns. As a result, the Unfunded Actuarial Liability decreased by about 16% for Police and 15% for Fire and the funded percentage improved from 24.47% to 28.41% for Police and from 16.71% to 21.07% for Fire.

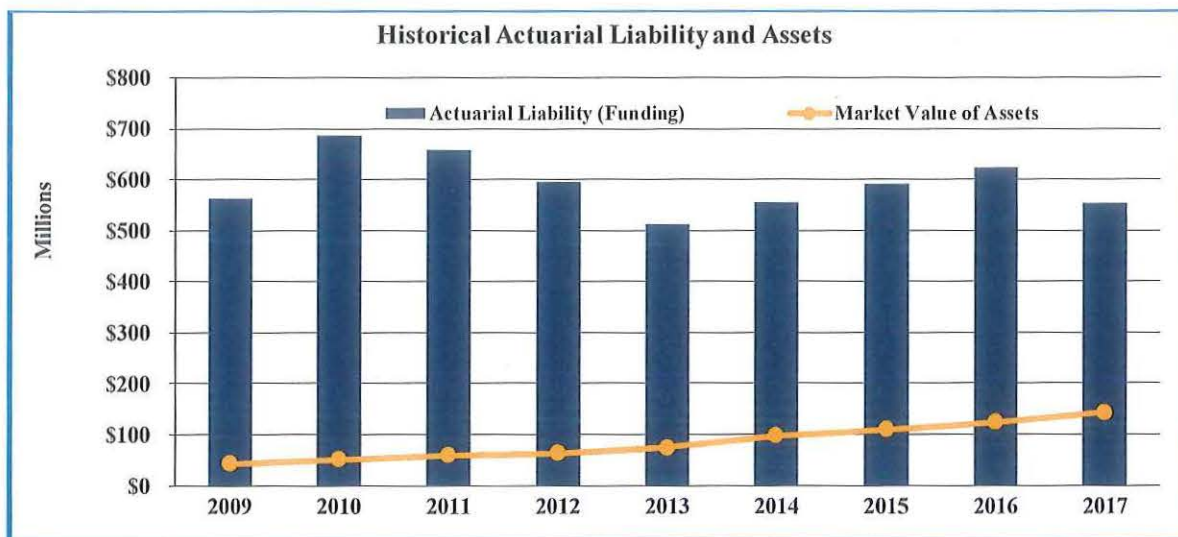
Table I-2					
Summary of Funded Status - Explicit Subsidy Only					
	6/30/2017		6/30/2016		% Change
<b>Police Department</b>					
Actuarial Liability					
Actives	\$	115,599	\$	144,841	-20.19%
Deferred Vested		2,447		2,556	-4.26%
In Pay Status		<u>233,677</u>		<u>250,652</u>	-6.77%
Total	\$	351,723	\$	398,049	-11.64%
Assets		99,926		97,412	2.58%
Unfunded Actuarial Liability	\$	251,797	\$	300,637	-16.25%
Funded Percentage		28.41%		24.47%	3.94%
<b>Fire Department</b>					
Actuarial Liability					
Actives	\$	77,995	\$	91,186	-14.47%
Deferred Vested		234		277	-15.52%
In Pay Status		<u>123,947</u>		<u>134,716</u>	-7.99%
Total	\$	202,176	\$	226,179	-10.61%
Assets		42,591		37,795	12.69%
Unfunded Actuarial Liability	\$	159,585	\$	188,384	-15.29%
Funded Percentage		21.07%		16.71%	4.36%
<b>Grand Total</b>					
Aggregate UAL	\$	411,382	\$	489,021	-15.88%
Aggregate Funded Percentage		25.73%		21.66%	4.07%

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

The chart below shows the historical trend of assets and the Actuarial Liability (excluding the implicit subsidy) on a funding basis for the City of San José Police and Fire Department Postemployment Healthcare Plan. The Actuarial Liability grew from 2009 to 2010, reflecting the accumulation of additional benefits as well as rising health care costs, reductions in the discount rate, and changes to other assumptions. The reduction in Actuarial Liability from 2010 to 2013 was primarily due to plan changes and favorable medical cost trend experience, offset by changes in the discount rate. The increase in the Actuarial Liability from 2014 through 2016 was primarily the expected growth of the Actuarial Liability with some adjustments due to changes in assumptions. The decrease in the Actuarial Liability in 2017 is primarily due to plan changes and health assumption changes.



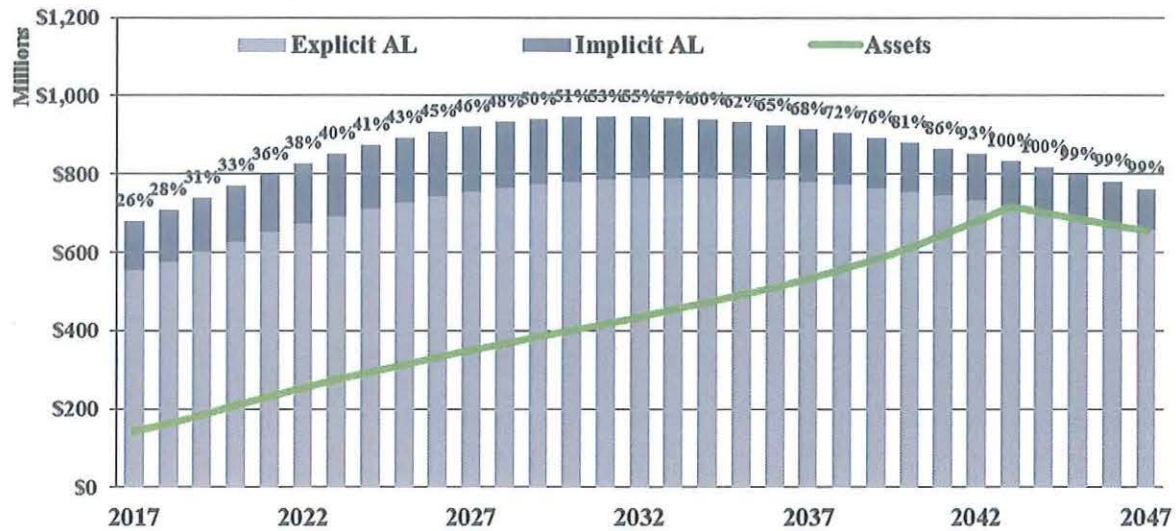
	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Funded Ratio</b>	9.9%	8.5%	9.2%	11.1%	14.7%	16.8%	19.4%	21.7%	27.0%
<b>UAL/(Surplus)</b>	\$507.2	\$627.8	\$596.8	\$529.8	\$437.0	\$462.1	\$477.4	\$489.0	\$411.4
<i>(in millions)</i>									
<b>Discount Rate</b>	8.000%	7.750%	7.500%	7.250%	7.125%	7.000%	7.000%	6.875%	6.875%

The chart on the next page shows a 30-year projection of assets and Actuarial Liability (AL), and also shows the projected funded percentage for the explicit subsidy. The AL for the implicit subsidy is shown in dark gray while the AL for the explicit subsidy is shown in a lighter gray. If all assumptions are met in the future including an expected return of 6.875% each year, the funded percentage for the explicit subsidy is expected to reach about 99% by 2047.

CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION I – BOARD SUMMARY

Projected Assets and Actuarial Liability 2017-2047





CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

**SECTION I – BOARD SUMMARY**

**Changes Since the Prior Valuation**

Table I-3 below breaks out the sources of the changes in UAL for the fiscal year ending June 30, 2017. The total UAL decreased about \$3.5 million since the prior year. The explicit subsidy UAL decreased \$78 million and the implicit subsidy UAL increased \$74 million.

Table I-3 Changes in Unfunded Actuarial Liability			
	Implicit	Explicit	Total
Unfunded Actuarial Liability, June 30, 2016	\$ 52,202	\$ 489,021	\$ 541,223
Unfunded Actuarial Liability, June 30, 2017	126,348	411,382	537,729
<b>Change in Unfunded Actuarial Liability</b>	<b>\$ 74,146</b>	<b>\$ (77,639)</b>	<b>\$ (3,494)</b>
<b>Sources of Changes</b>			
Normal Cost and Interest on UAL less Contributions	\$ 2,818	\$ 10,472	\$ 13,290
Investment Experience	0	(2,647)	(2,647)
Demographic Experience	3,217	11,891	15,108
Assumption Changes	70,277	(49,034)	21,243
New Low Cost Health Plan	0	(59,945)	(59,945)
Asset Method Change	0	11,782	11,782
VEBA Elections	(2,285)	(598)	(2,882)
Catastrophic Disability Benefit	118	440	558
<b>Total Changes</b>	<b>\$ 74,146</b>	<b>\$ (77,639)</b>	<b>\$ (3,494)</b>

*Dollar amounts in thousands*

For the explicit subsidy, the primary sources of the reduction in the UAL were the assumption changes (\$49 million) and the adoption of a new lowest cost health plan on which the explicit subsidy is based (\$60 million). In addition, there were demographic losses of about \$12 million and contributions fell short of the normal cost plus interest on the UAL by about \$10 million. The change from a smoothed asset value to the Market Value of Assets increased the UAL by about \$12 million. The VEBA elections had a very minor impact as the assets transferred to the VEBA were about the same amount as the liability for the explicit subsidy. Investment experience and the addition of the catastrophic disability benefit also had small impacts.

For the implicit subsidy, the primary source of the increase in the UAL were the assumption changes (\$70 million).



**CITY OF SAN JOSÉ POLICE DEPARTMENT AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

Table I-4 below provides a summary of the results of this valuation compared to the prior valuation.

Table I-4 Summary of Valuation Results					
	June 30, 2017			June 30, 2016	% Change
	Police	Fire	Total		
Active Members					
Eligible for Full Benefits	717	559	1,276	1,582	-19.3%
Eligible for Catastrophic Disability Only	180	87	267	N/A	N/A
Total Active Members	897	646	1,543	2,387	-35.4%
Deferred Vested Members	11	1	12	11	9.1%
Members in Pay Status (Medical and/or Dental)	1,249	809	2,058	2,020	1.9%
Total	2,157	1,456	3,613	2,387	51.4%
Full Benefit Member Payroll	\$ 92,368	\$ 70,054	\$ 162,422	\$ 194,072	-16.3%
Total Payroll	120,299	83,517	203,816	194,072	5.0%
Actuarial Liability					
Explicit Subsidy	\$ 351,723	\$ 202,176	\$ 553,899	\$ 624,228	-11.3%
Implicit Subsidy	79,616	46,732	126,348	52,202	142.0%
Total Actuarial Liability	\$ 431,339	\$ 248,908	\$ 680,246	\$ 676,430	0.6%
Market Value of Assets	99,926	42,591	142,517	135,207	5.4%
Explicit Subsidy Unfunded Actuarial Liability	\$ 251,796	\$ 159,585	\$ 411,382	\$ 489,021	-15.9%
Explicit Subsidy Funded Percentage	28.41%	21.07%	25.73%	21.66%	4.1%
Total Unfunded Actuarial Liability	\$ 331,412	\$ 206,317	\$ 537,729	\$ 541,223	-0.6%
Total Funded Percentage	23.2%	17.1%	21.0%	20.0%	1.0%
	FYE 2019			FYE 2018	% Change
	Police	Fire	Total		
City's ADC Amount	\$ 13,723	\$ 8,752	\$ 22,475	\$ 20,925	7.4%
City's ADC Rate	11.0%	10.1%	11.0%	10.4%	0.6%
City's Implicit Subsidy Payment	\$ 3,699	\$ 2,017	\$ 5,716	\$ 1,599	257.5%

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION II – CERTIFICATION**

The purpose of this report is to present the annual actuarial valuation of the City of San José Police and Fire Postemployment Department Healthcare Plan. This report is for the use of the Board in setting actuarially determined amounts for the City to contribute to the Plan. There is a separate report for accounting and financial reporting under GASB Statements 74 and 75.

In preparing our report, we relied on information, some oral and some written, supplied by the Plan. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The health assumptions were adopted by the Board of Administration at the February 1, 2018 Board meeting based upon our recommendations. The discount rate used in this report was adopted by the Board of Administration with our input at the December 7, 2017 Board meeting. All other assumptions were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the Experience Study Report and our Board presentations for an explanation of the rationale for each assumption.

The liability measures and funding ratios in this report are for the purpose of establishing contribution amounts. These measures are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the Plan's benefit obligations.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This report was prepared for the Board for the purposes described herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION II – CERTIFICATION

This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.



William R. Hallmark, ASA, EA, FCA, MAAA  
Consulting Actuary



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary



John L. Colberg, FSA, EA, MAAA  
Principal Consulting Actuary



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION III – ASSETS**

Assets are invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. All City contributions are now made to the 115 Trust while member contributions are being made to the 401(h) account and benefit payments are currently being made from the 401(h) account.

**Statement of Change in Market Value of Assets**

Table III-1 and Table III-2 show the changes in the Market Value of Assets for the last two fiscal years for Police and Fire separately. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is just paid directly by the City as a part of active health plan premiums.

<b>Table III-1</b> <b>Market Value of Assets - Police Department</b>						
	Fiscal Year Ending 2017			Fiscal Year Ending 2016		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning of Year	\$ 39,327	\$ 49,597	\$ 88,923	\$ 42,780	\$ 38,864	\$ 81,644
Contributions						
Member	10,344	0	10,344	10,246	0	10,246
City	0	10,905	10,905	0	11,576	11,576
Implicit Subsidy	796	0	796	654	0	654
Total	\$ 11,140	\$ 10,905	\$ 22,045	\$ 10,900	\$ 11,576	\$ 22,476
Net Investment Earnings	3,623	5,220	8,844	(390)	(799)	(1,189)
Benefit Payments						
Premium Payments	14,135	0	14,135	13,263	0	13,263
Implicit Subsidy	796	0	796	654	0	654
Total	\$ 14,931	\$ 0	\$ 14,931	\$ 13,917	\$ 0	\$ 13,917
Administrative Expenses	51	72	123	48	44	92
One-Time VEBA Transfer	0	4,831	4,831			
Market Value, End of Year	\$ 39,108	\$ 60,818	\$ 99,926	\$ 39,327	\$ 49,597	\$ 88,923
Estimated Rate of Return	9.5%	8.5%	8.9%	-1.1%	-1.7%	-1.4%

*Dollar amounts in thousands*



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION III – ASSETS**

<b>Table III-2 Market Value of Assets - Fire Department</b>						
	Fiscal Year Ending 2017			Fiscal Year Ending 2016		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning of Year	\$ 7,423	\$ 27,078	\$ 34,502	\$ 8,563	\$ 19,420	\$ 27,983
Contributions						
Member	7,772	0	7,772	7,761	0	7,761
City	0	8,163	8,163	0	8,100	8,100
Implicit Subsidy	803	0	803	734	0	734
Total	\$ 8,575	\$ 8,163	\$ 16,738	\$ 8,495	\$ 8,100	\$ 16,595
Net Investment Earnings	656	2,955	3,610	(76)	(420)	(496)
Benefit Payments						
Premium Payments	9,065	0	9,065	8,798	0	8,798
Implicit Subsidy	803	0	803	734	0	734
Total	\$ 9,868	\$ 0	\$ 9,868	\$ 9,532	\$ 0	\$ 9,532
Administrative Expenses	18	41	58	27	21	48
One-Time VEBA Transfer	0	2,333	2,333			
Market Value, End of Year	\$ 6,768	\$ 35,823	\$ 42,591	\$ 7,423	\$ 27,078	\$ 34,502
Estimated Rate of Return	9.4%	8.3%	8.5%	-1.2%	-1.6%	-1.5%

*Dollar amounts in thousands*

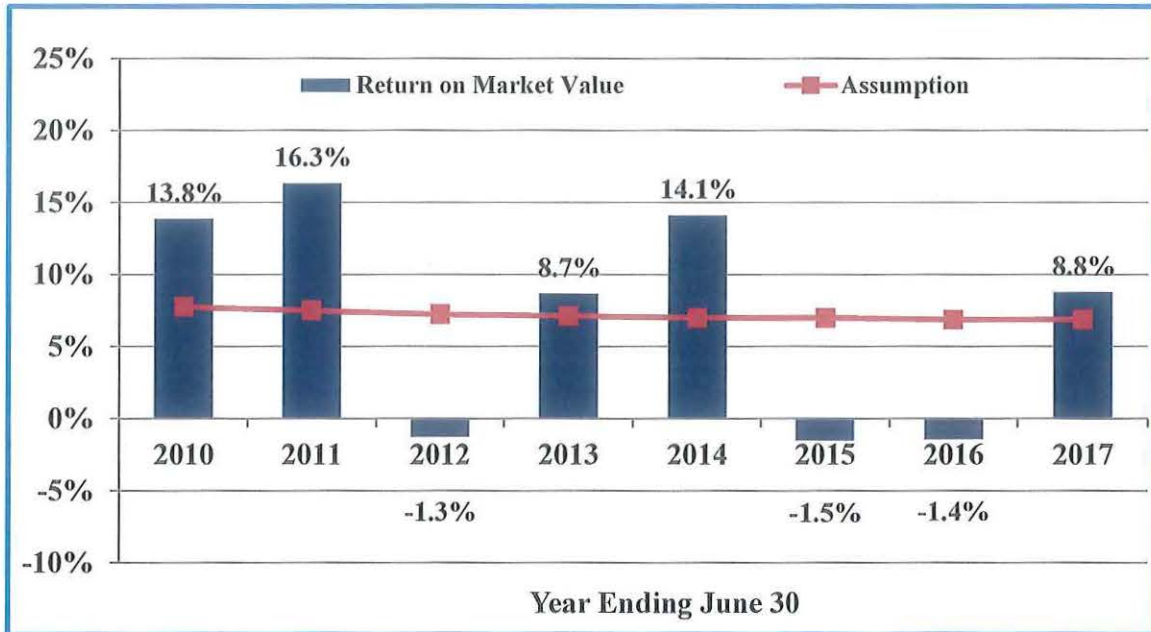
In the last year, investments, in aggregate, returned approximately 8.9% for Police and 8.5% for Fire compared to an expected rate of return of 6.875%, resulting in a total investment gain of approximately \$2.7 million. The assets in the 401(h) account returned approximately 9.5% for Police and 9.4% for Fire while the assets in the 115 trust returned approximately 8.5% for Police and 8.3% for Fire.

The chart on the following page shows the actual investment return on the Market Value of Assets compared to the assumed return for the last eight years. The average of the actual returns is about 7.2%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION III – ASSETS

Historical Rates of Return



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION IV – MEASURES OF LIABILITY

This section presents detailed information on liability measures for the Plan for funding purposes, including:

- Projected Benefit Payments,
- Present value of future benefits,
- Normal cost, and
- Actuarial Liability.

**Projected Benefit Payments:** The projected benefit payments are the fundamental basis for the valuation representing the amount that is expected to be paid in each future year for members in the Plan as of the valuation date if all assumptions are met. Tables IV-1 and IV-2 show the expected net benefit payments for the next 20 years for the Police and Fire Departments respectively. These payments include the expected annual implicit subsidy as well as expected plan premium payments (the explicit subsidy).

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

<b>Table IV-1 Expected Net Benefit Payments - Police Department</b>						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2018	\$ 13,933	\$ 1,569	\$ 15,502	\$ 3,699	\$ 19,201	
2019	12,163	1,676	13,840	3,739	17,578	
2020	13,367	1,785	15,152	4,079	19,231	
2021	14,608	1,897	16,505	4,374	20,879	
2022	15,930	2,014	17,944	4,700	22,644	
2023	17,362	2,142	19,505	5,035	24,539	
2024	18,822	2,267	21,090	5,606	26,696	
2025	20,179	2,386	22,566	6,152	28,718	
2026	21,344	2,488	23,833	6,726	30,558	
2027	22,508	2,598	25,106	7,242	32,347	
2028	23,562	2,698	26,260	7,814	34,074	
2029	24,469	2,791	27,261	8,307	35,567	
2030	25,359	2,874	28,232	8,786	37,018	
2031	25,931	2,949	28,879	9,111	37,990	
2032	26,518	3,024	29,542	9,380	38,921	
2033	27,006	3,097	30,103	9,336	39,439	
2034	27,452	3,169	30,621	9,183	39,805	
2035	27,865	3,230	31,095	8,979	40,074	
2036	28,215	3,285	31,500	8,529	40,029	
2037	28,338	3,330	31,669	7,850	39,519	

*Dollar amounts in thousands*



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

<b>Table IV-2</b> <b>Expected Net Benefit Payments - Fire Department</b>						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2018	\$ 8,182	\$ 997	\$ 9,179	\$ 2,017	\$	11,196
2019	7,010	1,044	8,054	2,162		10,216
2020	7,675	1,098	8,773	2,358		11,131
2021	8,394	1,157	9,550	2,576		12,126
2022	9,153	1,223	10,376	2,699		13,075
2023	9,983	1,295	11,278	2,927		14,205
2024	10,817	1,365	12,183	3,287		15,470
2025	11,693	1,432	13,125	3,667		16,792
2026	12,442	1,495	13,937	3,992		17,929
2027	13,264	1,564	14,828	4,385		19,213
2028	13,959	1,627	15,586	4,705		20,291
2029	14,636	1,683	16,319	5,054		21,374
2030	15,184	1,733	16,917	5,372		22,289
2031	15,805	1,787	17,592	5,748		23,340
2032	16,350	1,842	18,192	6,034		24,226
2033	16,866	1,901	18,767	6,115		24,882
2034	17,321	1,961	19,283	6,053		25,335
2035	17,877	2,020	19,897	6,142		26,039
2036	18,235	2,069	20,304	5,961		26,265
2037	18,682	2,120	20,802	5,763		26,565

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

**Present Value of Future Benefits:** The present value of future benefits represents the expected amount of money needed today if all assumptions are met to pay for all benefits both earned as of the valuation date and expected to be earned in the future by current plan members under the current plan provisions. Table IV-3 below shows the present value of future benefits as of June 30, 2017 and June 30, 2016.

Table IV-3 Present Value of Future Benefits						
	June 30, 2017			June 30, 2016		
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
<b>Police Department</b>						
Explicit Subsidy	\$ 150,350	\$ 2,447	\$ 233,677	\$ 386,474	\$ 458,587	-15.7%
Implicit Subsidy	44,722	749	43,673	89,144	34,163	160.9%
<b>Total Police</b>	<b>\$ 195,072</b>	<b>\$ 3,197</b>	<b>\$ 277,350</b>	<b>\$ 475,619</b>	<b>\$ 492,750</b>	<b>-3.5%</b>
<b>Fire Department</b>						
Explicit Subsidy	\$ 115,603	\$ 234	\$ 123,947	\$ 239,784	\$ 284,738	-15.8%
Implicit Subsidy	35,025	66	22,957	58,048	25,118	131.1%
<b>Total Fire</b>	<b>\$ 150,628</b>	<b>\$ 300</b>	<b>\$ 146,904</b>	<b>\$ 297,832</b>	<b>\$ 309,856</b>	<b>-3.9%</b>
<b>Total Explicit Subsidy</b>	<b>\$ 265,953</b>	<b>\$ 2,681</b>	<b>\$ 357,624</b>	<b>\$ 626,258</b>	<b>\$ 743,325</b>	<b>-15.7%</b>
<b>Total Implicit Subsidy</b>	<b>79,747</b>	<b>816</b>	<b>66,630</b>	<b>147,193</b>	<b>59,281</b>	<b>148.3%</b>
<b>Grand Total</b>	<b>\$ 345,701</b>	<b>\$ 3,497</b>	<b>\$ 424,253</b>	<b>\$ 773,451</b>	<b>\$ 802,606</b>	<b>-3.6%</b>

*Dollar amounts in thousands*

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

SECTION IV – MEASURES OF LIABILITY

**Normal Cost**

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial cost method. Table IV-4 on the next page shows the EA normal cost as of June 30, 2017 and June 30, 2016 separately by component.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

Table IV-4 Normal Cost						
	June 30, 2017		June 30, 2016		% Change	
	Amount	Percent	Amount	Percent	Amount	
<b>Police Department</b>						
Explicit Subsidy						
Non-Medicare Eligible	\$ 2,899	3.25%	\$ 4,377	4.27%		-33.8%
Medicare Eligible	1,896	2.12%	2,957	2.88%		-35.9%
Dental	490	0.55%	694	0.68%		-29.4%
<b>Total Explicit Subsidy</b>	<b>\$ 5,285</b>	<b>5.92%</b>	<b>\$ 8,028</b>	<b>7.83%</b>		<b>-34.2%</b>
Implicit Subsidy	1,457	1.63%	336	0.33%		333.4%
<b>Total Police</b>	<b>\$ 6,743</b>	<b>7.55%</b>	<b>\$ 8,364</b>	<b>8.16%</b>		<b>-19.4%</b>
<b>Fire Department</b>						
Explicit Subsidy						
Non-Medicare Eligible	\$ 2,162	3.19%	\$ 2,985	3.82%		-27.6%
Medicare Eligible	1,914	2.82%	2,634	3.37%		-27.3%
Dental	414	0.61%	528	0.68%		-21.6%
<b>Total Explicit Subsidy</b>	<b>\$ 4,490</b>	<b>6.63%</b>	<b>\$ 6,146</b>	<b>7.87%</b>		<b>-26.9%</b>
Implicit Subsidy	1,343	1.98%	489	0.63%		174.6%
<b>Total Fire</b>	<b>\$ 5,833</b>	<b>8.61%</b>	<b>\$ 6,636</b>	<b>8.50%</b>		<b>-12.1%</b>
<b>Total Explicit Subsidy</b>	<b>\$ 9,776</b>	<b>12.54%</b>	<b>\$ 14,175</b>	<b>15.70%</b>		<b>-31.0%</b>
<b>Total Implicit Subsidy</b>	<b>2,800</b>	<b>3.61%</b>	<b>825</b>	<b>0.96%</b>		<b>239.3%</b>
<b>Grand Total</b>	<b>\$ 12,576</b>	<b>16.15%</b>	<b>\$ 15,000</b>	<b>16.66%</b>		<b>-16.2%</b>

*Dollar amounts in thousands*

### Actuarial Liability

The Actuarial Liability represents the expected amount of money needed today, if all assumptions are met, to pay for benefits attributed to service prior to the valuation date under the Entry Age actuarial cost method. As such, it is the amount of assets targeted by the actuarial cost method for the Plan to hold as of the valuation date. It is not the amount necessary to settle the obligation. Table IV-5 on the following page shows the Actuarial Liability as of June 30, 2017 and June 30, 2016 separately by component.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

**Table IV-5  
Actuarial Liability**

	June 30, 2017				June 30, 2016	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
<b>Police Department</b>						
Explicit Subsidy						
Non-Medicare Eligible	\$ 53,826	\$ 1,051	\$ 59,065	\$ 113,941	\$ 143,203	-20.4%
Medicare Eligible	50,735	1,155	151,480	203,370	217,046	-6.3%
Dental	11,038	241	23,132	34,411	37,800	-9.0%
<b>Total Explicit Subsidy</b>	<b>\$ 115,598</b>	<b>\$ 2,447</b>	<b>\$ 233,677</b>	<b>\$ 351,723</b>	<b>\$ 398,049</b>	<b>-11.6%</b>
Implicit Subsidy	35,194	749	43,673	79,616	31,712	151.1%
<b>Total Police</b>	<b>\$ 150,792</b>	<b>\$ 3,197</b>	<b>\$ 277,350</b>	<b>\$ 431,339</b>	<b>\$ 429,761</b>	<b>0.4%</b>
<b>Fire Department</b>						
Explicit Subsidy						
Non-Medicare Eligible	\$ 35,244	\$ 80	\$ 20,156	\$ 55,479	\$ 66,304	-16.3%
Medicare Eligible	35,336	129	90,871	126,336	138,155	-8.6%
Dental	7,416	25	12,920	20,362	21,721	-6.3%
<b>Total Explicit Subsidy</b>	<b>\$ 77,996</b>	<b>\$ 234</b>	<b>\$ 123,947</b>	<b>\$ 202,176</b>	<b>\$ 226,179</b>	<b>-10.6%</b>
Implicit Subsidy	23,708	66	22,957	46,732	20,490	128.1%
<b>Total Fire</b>	<b>\$ 101,704</b>	<b>\$ 300</b>	<b>\$ 146,904</b>	<b>\$ 248,908</b>	<b>\$ 246,670</b>	<b>0.9%</b>
<b>Total Explicit Subsidy</b>	<b>\$ 193,594</b>	<b>\$ 2,681</b>	<b>\$ 357,624</b>	<b>\$ 553,899</b>	<b>\$ 624,228</b>	<b>-11.3%</b>
<b>Total Implicit Subsidy</b>	<b>58,902</b>	<b>816</b>	<b>66,630</b>	<b>126,348</b>	<b>52,202</b>	<b>142.0%</b>
<b>Grand Total</b>	<b>\$ 252,496</b>	<b>\$ 3,497</b>	<b>\$ 424,253</b>	<b>\$ 680,246</b>	<b>\$ 676,430</b>	<b>0.6%</b>

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION V – CONTRIBUTIONS**

**Amortization of the Unfunded Actuarial Liability**

Under the contribution allocation procedure employed by the Plan, there are two components to the contribution toward the explicit subsidy: the normal cost and an amortization payment on the Unfunded Actuarial Liability (UAL). The normal cost was developed in Section IV. This section develops the UAL contribution and the City's Actuarially Determined Contribution for the explicit subsidy. The implicit subsidy is funded on a pay-as-you-go basis through the payment of active health premiums.

The difference between the Actuarial Liability and the Market Value of Assets is the Unfunded Actuarial Liability (UAL). Table V-1 calculates the UAL and funded percentage for the explicit subsidy and the implicit subsidy.

<b>Table V-1</b> <b>Unfunded Actuarial Liability</b>						
	<b>June 30, 2017</b>			<b>June 30, 2016</b>		
	<b>Explicit</b>	<b>Implicit</b>	<b>Total</b>	<b>Explicit</b>	<b>Implicit</b>	<b>Total</b>
<b>Police Department</b>						
Actuarial Liability	\$ 351,723	\$ 79,616	\$ 431,339	\$ 398,049	\$ 31,712	\$ 429,761
Assets	99,926	0	99,926	97,412	0	97,412
<b>Unfunded Actuarial Liability</b>	<b>\$ 251,796</b>	<b>\$ 79,616</b>	<b>\$ 331,412</b>	<b>\$ 300,637</b>	<b>\$ 31,712</b>	<b>\$ 332,349</b>
<b>Funded Percentage</b>	<b>28.4%</b>	<b>0.0%</b>	<b>23.2%</b>	<b>24.5%</b>	<b>0.0%</b>	<b>22.7%</b>
<b>Fire Department</b>						
Actuarial Liability	\$ 202,176	\$ 46,732	\$ 248,908	\$ 226,179	\$ 20,490	\$ 246,670
Assets	42,591	0	42,591	37,795	0	37,795
<b>Unfunded Actuarial Liability</b>	<b>\$ 159,585</b>	<b>\$ 46,732</b>	<b>\$ 206,317</b>	<b>\$ 188,384</b>	<b>\$ 20,490</b>	<b>\$ 208,875</b>
<b>Funded Percentage</b>	<b>21.1%</b>	<b>0.0%</b>	<b>17.1%</b>	<b>16.7%</b>	<b>0.0%</b>	<b>15.3%</b>
<b>Aggregate UAL</b>	<b>\$ 411,382</b>	<b>\$ 126,348</b>	<b>\$ 537,729</b>	<b>\$ 489,021</b>	<b>\$ 52,202</b>	<b>\$ 541,223</b>
<b>Aggregate Funded Percentage</b>	<b>25.7%</b>	<b>0.0%</b>	<b>21.0%</b>	<b>21.7%</b>	<b>0.0%</b>	<b>20.0%</b>

*Dollar amounts in thousands*

The UAL for the explicit subsidy as of June 30, 2017 is amortized as a level percentage of payroll over 25 years. Future amortization bases will be phased in and out over three years. Table V-2 shows the schedule of amortization bases for payment of the UAL.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION V – CONTRIBUTIONS**

Table V-2 UAL Amortization						
	Outstanding Balance		Remaining			
		Period	Phase-in	Phase-out		Payment
Police Department						
Fresh Start UAL	\$ 239,332	25	N/A	N/A	\$	14,520
7/1/2017 Payment	<u>12,464</u>					
Total 2017 Police UAL	\$ 251,796				\$	14,520
Fire Department						
Fresh Start UAL	\$ 149,589	25	N/A	N/A	\$	9,075
7/1/2017 Payment	<u>9,996</u>					
Total 2017 Fire UAL	\$ 159,585				\$	9,075
Grand Total	\$ 411,382				\$	23,596

*Dollar amounts in thousands*

### Contribution Amounts

The City pays the actuarially determined contribution for the explicit subsidy, but has the option to cap its contribution at 11% of Police and Fire payroll, including the payroll for members covered by the VEBA instead of this Plan. The actuarially determined contribution is the normal cost plus the amortization payment on the UAL less expected member contributions. Members contribute 8.00% of pay.

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2019 and 2018. The FYE 2018 amounts were fixed as a percent of payroll by a collective bargaining agreement and were not actuarially determined.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION V – CONTRIBUTIONS**

Table V-3				
City's Actuarially Determined Contribution (ADC)				
Explicit Subsidy Only				
	FYE 2019	FYE 2018	% Change	
Police Department				
Projected Full Benefit Payroll	\$ 86,133	N/A		
Normal Cost Rate	5.92%	N/A		
Normal Cost Amount	\$ 5,095	N/A		
UAL Payment	15,518	N/A		
Total Contribution	\$ 20,614	\$ 22,721		-9.3%
Projected Member Contributions	6,891	10,902		-36.8%
City's ADC Amount <sup>1</sup>	\$ 13,723	\$ 11,819		16.1%
Projected Payroll	124,209	114,637		8.3%
City's ADC Percentage	11.0%	10.3%		7.2%
City's ADC Amount (BOY)	\$ 13,471	\$ 11,602		16.1%
Fire Department				
Projected Full Benefit Payroll	\$ 68,985	N/A		
Normal Cost Rate	6.63%	N/A		
Normal Cost Amount	\$ 4,571	N/A		
UAL Payment	9,699	N/A		
Total Contribution	\$ 14,271	\$ 17,457		-18.3%
Projected Member Contributions	5,519	8,351		-33.9%
City's ADC Amount <sup>1</sup>	\$ 8,752	\$ 9,106		-3.9%
Projected Payroll	86,231	85,742		0.6%
City's ADC Percentage	10.1%	10.6%		-4.4%
City's ADC Amount (BOY)	\$ 8,591	\$ 8,938		-3.9%
Grand Totals				
City's ADC Amount <sup>1</sup>	\$ 22,475	\$ 20,925		7.4%
Projected Payroll	210,440	200,379		5.0%
City's ADC Percentage	10.7%	10.4%		2.3%
City's ADC Amount (BOY)	\$ 22,061	\$ 20,540		7.4%

<sup>1</sup> City amount for FYE 2018 was not actuarially determined

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION VI – ACTUARIAL SECTION OF THE CAFR**

The Government Finance Officers Association (GFOA) maintains a checklist of items to be included in the Plan's Comprehensive Annual Financial Report (CAFR) in order to receive recognition for excellence in financial reporting. The schedules in this section are listed by the GFOA for inclusion in the Actuarial Section of the Plan's CAFR. All amounts prior to June 30, 2010 were calculated by the prior actuary.

<p align="center"><b>Table VI-1</b> <b>Schedule of Funding Progress</b></p>						
<b>Actuarial Valuation Date</b>	<b>Market Value of Assets *</b>	<b>Actuarial Liability (b)</b>	<b>Unfunded Actuarial Liability (UAL) (b - a)</b>	<b>Funded Ratio (a ÷ b)</b>	<b>Annual Covered Payroll (d)</b>	<b>UAL as a Percentage of Covered Payroll ((b - a) ÷ c)</b>
6/30/2017	\$ 142,517	\$ 680,246	537,729	21.0%	\$ 203,816	264%
6/30/2016	135,207	778,871	643,664	17.4%	194,072	332%
6/30/2015	114,565	739,753	625,188	15.5%	184,733	338%
6/30/2014	93,605	706,710	613,105	13.2%	188,189	326%
6/30/2013	75,035	700,525	625,490	10.7%	184,645	339%
6/30/2012	66,385	997,321	930,936	6.7%	172,626	539%
6/30/2011	60,709	1,003,795	943,086	6.0%	190,726	494%
6/30/2010	58,586	946,308	887,722	6.2%	222,699	399%
6/30/2009	55,618	761,604	705,986	7.3%	243,196	290%
6/30/2007	45,393	666,227	620,834	6.8%	227,734	273%

\* Actuarial Value of Assets for 6/30/2016 and earlier

Dollar amounts in thousands

Table VI-1 was previously referred to as the Solvency Test by the Government Finance Officers Association (GFOA). It should be noted, however, that it does not test the solvency of the plan in the sense understood by financial economists that a 100% ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100% ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments. Consequently, we understand that the new GFOA checklist refers to the exhibit providing member benefit coverage information.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION VI – ACTUARIAL SECTION OF THE CAFR**

<b>Table VI-2</b>					
<b>Member Benefit Coverage Information</b>					
<b>Actuarial Valuation Date</b>	<b>Actuarial Liability</b>		<b>Market Value of Assets *</b>	<b>Portion of Liability Covered by Market Value of Assets*</b>	
	<b>Retirees and Vested Terminated (A)</b>	<b>Active Members (B)</b>		<b>(A)</b>	<b>(B)</b>
6/30/2017	\$ 427,750	\$ 252,496	\$ 142,517	33%	0%
6/30/2016	472,004	306,867	135,207	29%	0%
6/30/2015	451,735	288,018	114,565	25%	0%
6/30/2014	429,034	277,676	93,605	22%	0%
6/30/2013	421,999	278,526	75,035	18%	0%
6/30/2012	600,869	396,452	66,385	11%	0%
6/30/2011	622,691	381,104	60,709	10%	0%
6/30/2010	568,611	377,697	58,586	10%	0%
6/30/2008	436,249	325,355	55,618	13%	0%
6/30/2007	336,899	329,328	45,393	13%	0%

\* Actuarial Value of Assets for 6/30/2016 and earlier

Dollar amounts in thousands

***Schedule of Funding Progress***

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The Actuarial Liability is compared to the Actuarial Value of Assets to determine the funding ratio.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION VI – ACTUARIAL SECTION OF THE CAFR**

Table VI-3 Analysis of Financial Experience						
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience	
6/30/2017	\$ 2,647	\$ (15,108)	\$ (12,461)	\$ 29,245	\$ 16,784	
6/30/2016	(2,914)	(2,728)	\$ (5,642)	4,864	(778)	
6/30/2015	582	7,990	\$ 8,572	(3,449)	5,123	
6/30/2014	2,802	16,222	\$ 19,024	13,689	32,713	
6/30/2013	2,437	(4,536)	\$ (2,099)	258,939	256,840	
6/30/2012	(6,011)	4,760	\$ (1,251)	58,173	56,922	
6/30/2011	(2,661)	5,967	\$ 3,306	1,146	4,452	
6/30/2010	(3,067)	(11,242)	\$ (14,309)	(122,599)	(136,908)	

*Dollar amounts in thousands*

Schedule of Active Member Data						
Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Percent Change in Average Pay
	Under Age 65	Age 65+	Total			
2017	1,543	0	1,543	\$203,670,038	\$131,996	7.6%
2016	1,582	0	1,582	194,072,092	122,675	4.9%
2015	1,577	0	1,577	184,481,838	116,983	2.8%
2014	1,654	0	1,654	188,188,712	113,778	5.2%
2013	1,707	0	1,707	184,645,250	108,169	7.7%
2012	1,718	0	1,718	172,625,503	100,481	-8.6%
2011	1,735	0	1,735	190,726,258	109,929	-11.5%
2010	2,020	1	2,021	251,058,473	124,225	1.4%
2009	N/A	N/A	2,083	255,222,552	122,526	14.9%
2007	N/A	N/A	2,136	227,734,449	106,617	N/A

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION VI – ACTUARIAL SECTION OF THE CAFR**

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls										
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy		
<b>Medical</b>										
2016-17	1,921	\$ 19,013,844	98	45	1,974	\$ 20,173,930	53	\$ 1,160,086	6.1%	\$ 10,220
2015-16	1,899	18,605,787	88	66	1,921	19,013,844	22	408,057	2.2%	9,898
2014-15	1,849	18,994,780	106	56	1,899	18,605,787	50	(388,993)	-2.0%	9,798
2013-14	1,832	19,538,587	79	62	1,849	18,994,780	17	(543,807)	-2.8%	10,273
2012-13	1,789	21,488,930	94	51	1,832	19,538,587	43	(1,950,343)	-9.1%	10,665
2011-12	1,736	21,104,972	107	54	1,789	21,488,930	53	383,958	1.8%	12,012
2010-11	1,676	19,632,008	119	59	1,736	21,104,972	60	1,472,964	7.5%	12,157
2009-10	1,555	16,584,591	N/A	N/A	1,676	19,632,008	121	3,047,417	18.4%	11,714
2007-09	1,362	13,277,469	N/A	N/A	1,555	16,584,591	193	3,307,122	24.9%	10,665
<b>Dental</b>										
2016-17	2,018	\$ 2,403,048	80	42	2,056	\$ 2,547,592	38	\$ 144,544	6.0%	\$ 1,239
2015-16	1,992	2,388,385	65	39	2,018	2,403,048	26	14,663	0.6%	1,191
2014-15	1,917	2,303,884	108	33	1,992	2,388,385	75	84,501	3.7%	1,199
2013-14	1,890	2,301,504	68	41	1,917	2,303,884	27	2,380	0.1%	1,202
2012-13	1,855	2,398,735	71	33	1,890	2,301,504	35	(97,231)	-4.1%	1,218
2011-12	1,798	2,325,033	70	18	1,855	2,398,735	57	73,702	3.2%	1,293
2010-11	1,707	2,267,352	104	24	1,798	2,325,033	91	57,681	2.5%	1,293
2009-10	1,519	1,794,454	N/A	N/A	1,707	2,267,352	188	472,898	26.4%	1,328
2007-09	1,375	1,629,777	N/A	N/A	1,519	1,794,454	144	164,677	10.1%	1,181

\* Annual subsidies are explicit amounts

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

**Member Data**

<b>Valuation Date</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>% Change</b>
<b>Active Employees Eligible for Full Benefits</b>			
<i><b>Police</b></i>			
Count	717	911	-21.30%
Average Age	45.0	42.3	6.29%
Average OPEB Benefit Service	17.3	14.6	18.25%
Total Payroll	\$100,852,366	\$111,028,782	-9.17%
<i><b>Fire</b></i>			
Count	559	671	-16.69%
Average Age	44.4	42.4	4.77%
Average OPEB Benefit Service	15.0	12.8	17.41%
Total Payroll	\$74,894,723	\$83,043,310	-9.81%
<b>Active Employees Eligible for Catastrophic Disability Only</b>			
<i><b>Police</b></i>			
Count	180	N/A	N/A
Average Age	32.1	N/A	N/A
Average OPEB Benefit Service	4.1	N/A	N/A
Total Payroll	\$19,446,961	N/A	N/A
<i><b>Fire</b></i>			
Count	87	N/A	N/A
Average Age	35.0	N/A	N/A
Average OPEB Benefit Service	4.2	N/A	N/A
Total Payroll	\$8,475,988	N/A	N/A
<b>Retirees and Surviving Spouses with Medical Coverage*</b>			
Pre-65	862	844	2.13%
Post 65	1,112	1,077	3.25%
Total	1,974	1,921	2.76%
<b>Retirees with Dental Coverage*</b>	2,056	2,018	1.88%
<b>Term Vested Members**</b>	12	11	9.09%

\* Counts do not include dependent spouses

\*\* Includes only those members with 20 or more years of OPEB benefit service.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

	Status Reconciliation					Total
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	
<b>Beginning of Year</b>	<b>1,582</b>	<b>11</b>	<b>899</b>	<b>217</b>	<b>904</b>	<b>3,613</b>
New Hires	51	0	0	0	0	51
Rehires	2	0	0	0	0	2
Non-Vested Termination	(32)	0	0	0	0	(32)
Vested Terminations	(2)	2	0	0	0	0
Service Retirements	(46)	(1)	47	0	0	0
Disabled Retirements	(11)	0	(12)	0	23	0
Death	(1)	0	(6)	(6)	(25)	(38)
New Survivors	0	0	0	16	0	16
No longer covered	0	0	(2)	(1)	0	(3)
Data corrections	0	0	1	0	3	4
<b>End of Year</b>	<b>1,543</b>	<b>12</b>	<b>927</b>	<b>226</b>	<b>905</b>	<b>3,613</b>

*Counts do not include dependent spouses*

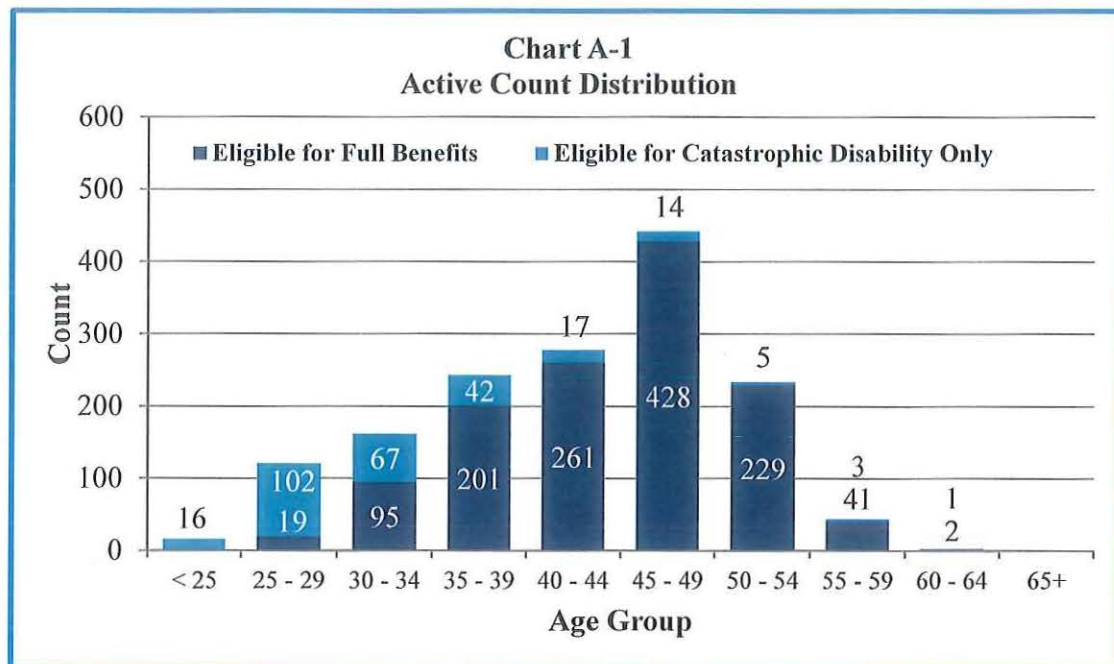
**Member Data as of June 30, 2017:**

Active Employees Eligible For Full Benefits								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	0	0	0	0	0	0	0	0
25 to 29	16	3	0	0	0	0	0	19
30 to 34	30	34	31	0	0	0	0	95
35 to 39	20	83	85	13	0	0	0	201
40 to 44	5	33	75	123	25	0	0	261
45 to 49	3	17	36	157	182	32	1	428
50 to 54	0	2	8	58	104	52	5	229
55 to 59	0	0	4	9	19	9	0	41
60 to 64	0	0	0	0	1	0	1	2
65 and up	0	0	0	0	0	0	0	0
Total	74	172	239	360	331	93	7	1,276

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

<b>Active Employees Eligible for Catastrophic Disability Benefits Only</b>								
<b>Years of OPEB Benefit Service</b>								
<b>Age Group</b>	<b>&lt; 5</b>	<b>5 - 9</b>	<b>10 - 14</b>	<b>15 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30 +</b>	<b>Total</b>
Under 25	16	0	0	0	0	0	0	16
25 to 29	102	0	0	0	0	0	0	102
30 to 34	62	3	2	0	0	0	0	67
35 to 39	29	3	10	0	0	0	0	42
40 to 44	7	1	5	3	1	0	0	17
45 to 49	1	2	0	4	6	1	0	14
50 to 54	1	0	0	2	2	0	0	5
55 to 59	2	0	0	0	0	1	0	3
60 to 64	0	0	0	1	0	0	0	1
65 and up	0	0	0	0	0	0	0	0
<b>Total</b>	<b>220</b>	<b>9</b>	<b>17</b>	<b>10</b>	<b>9</b>	<b>2</b>	<b>0</b>	<b>267</b>

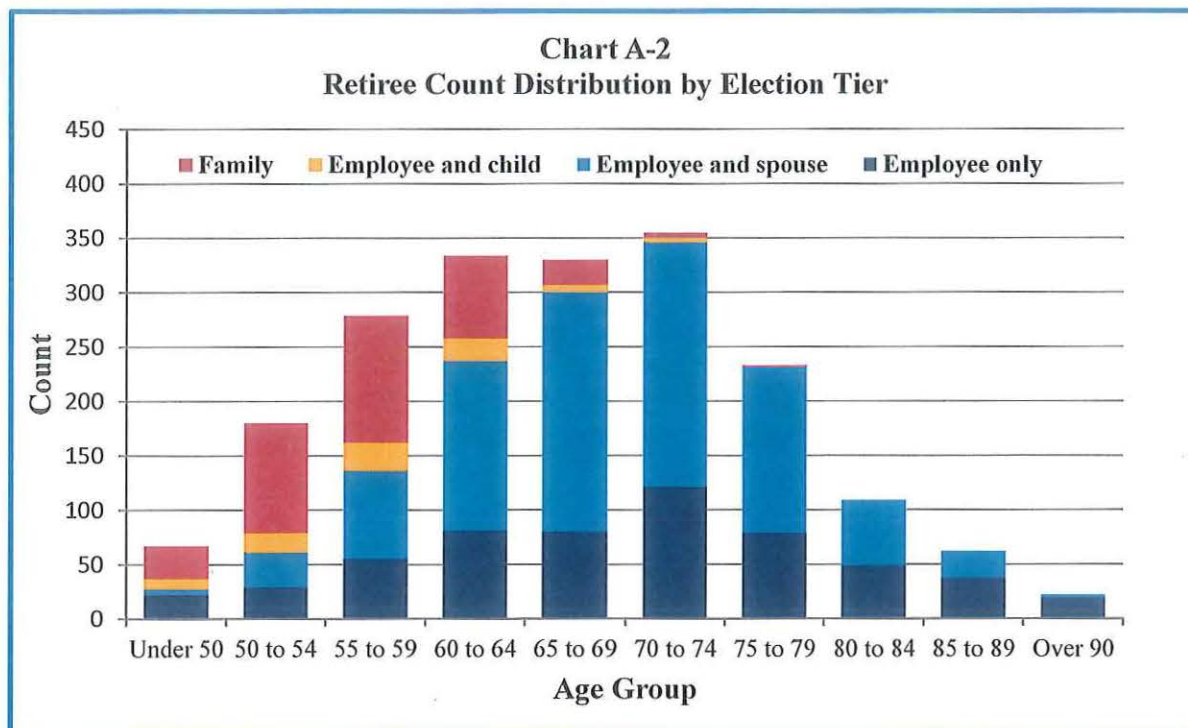


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

Retirees, Disabled Retirees and Surviving Spouses				
Age Group	<u>Medical Insurance</u>		Total	<u>Dental Insurance</u>
	Males	Females		
Under 50	52	16	68	73
50 to 54	151	29	180	183
55 to 59	235	45	280	287
60 to 64	310	24	334	348
65 to 69	300	31	331	350
70 to 74	299	56	355	371
75 to 79	202	31	233	237
80 to 84	79	30	109	119
85 to 89	43	19	62	64
<u>Over 90</u>	<u>8</u>	<u>14</u>	<u>22</u>	<u>24</u>
<b>Total</b>	<b>1,679</b>	<b>295</b>	<b>1,974</b>	<b>2,056</b>

*Counts do not include dependent spouses*





**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

Medical Plan Elections as of January 1, 2018			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
<b>Pre-Medicare Medical Plans</b>			
Kaiser DHMO	80	167	247
Kaiser HDHP	47	40	87
Kaiser \$25 Co-pay	452	337	789
Kaiser \$15 Co-pay (Hawaii)	5	9	14
Kaiser \$25 Co-pay (Northwest)	2	2	4
Sutter Health DHMO	7	6	13
Sutter Health \$20 Co-pay	56	53	109
PPO / POS \$25 Co-pay	<u>213</u>	<u>226</u>	<u>439</u>
<b>Total</b>	<b>862</b>	<b>840</b>	<b>1,702</b>
<b>Medicare Medical Plans</b>			
Kaiser Senior Advantage	448	239	687
Kaiser Senior Advantage (Hawaii)	7	2	9
Kaiser Senior Advantage (Northwest)	7	3	10
BS Medicare HMO	62	30	92
BS Medicare PPO/POS	<u>588</u>	<u>311</u>	<u>899</u>
<b>Total</b>	<b>1,112</b>	<b>585</b>	<b>1,697</b>

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	0	0	0
45 to 49	7	0	7
50 to 54	2	1	3
55 to 59	2	0	2
60 to 64	0	0	0
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>11</b>	<b>1</b>	<b>12</b>

\* Includes only those term vested participants with at least 20 years of OPEB benefit service

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**Economic Assumptions**

The expected return on plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the February 1, 2018 Board meeting.

**1. Expected Return on Plan Assets**

6.875% per year. The Board expects a long-term rate of return of 7.1% for the 401(h) account and 6.7% for the 115 trust based on Meketa's 20-year capital market assumptions and the System's current investment policy.

**2. Per Person Cost Trends**

To Calendar Year	Annual Increase			
	Pre-Medicare	Medicare Eligible	Dental	Part B Premiums
2019	8.00%	6.00%	3.50%	0.00%
2020	7.73	5.88	3.50	3.73
2021	7.46	5.75	3.50	4.82
2022	7.20	5.63	3.50	3.98
2023	6.93	5.50	3.50	5.74
2024	6.66	5.38	3.50	5.62
2025	6.39	5.25	3.50	4.79
2026	6.13	5.13	3.50	7.28
2027	5.86	5.00	3.50	7.03
2028	5.59	4.88	3.50	6.79
2029	5.32	4.75	3.50	6.54
2030	5.05	4.63	3.50	6.30
2031	4.79	4.50	3.50	6.05
2032	4.52	4.38	3.50	5.81
2033	4.25	4.25	3.50	5.56
2034	4.25	4.25	3.50	5.32
2035	4.25	4.25	3.50	5.07
2036	4.25	4.25	3.50	4.83
2037	4.25	4.25	3.50	4.58
2038	4.25	4.25	3.50	4.34
2039	4.25	4.25	3.50	4.09
2040	4.25	4.25	3.50	3.85
2041	4.25	4.25	3.50	3.60
2042	4.25	4.25	3.50	3.60
2043+	4.25	4.25	3.50	3.60

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

Actual premium increases for 2018 were reflected in the valuation. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

**3. Changes Since the Last Valuation**

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per-person cost trends were updated.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**Demographic Assumptions**

The plan election assumptions were adopted by the Board of Administration at the February 1, 2018 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 2, 2017 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2017. Please refer to the full experience study report for details, including the rationale for each assumption.

**1. Retirement Rates**

Rates of retirement are based on age and service according to the following Tables. Tier 1 rates only apply when the member is eligible for unreduced pension benefits.

Tier 1 Rates of Retirement by Age and Service				
Age	Police		Fire	
	<30 Years	30+ Years	<30 Years	30+ Years
50	55.0%	100.0%	35.0%	100.0%
51	45.0	100.0	35.0	100.0
52	40.0	100.0	35.0	100.0
53 – 55	35.0	100.0	35.0	100.0
56 - 57	35.0	100.0	27.5	100.0
58 - 61	50.0	100.0	27.5	100.0
62+	100.0	100.0	100.0	100.0

Tier 2 Rates of Retirement by Age and Service				
Age	Police			
	5 - 19 Years	20 - 24 Years	25 – 29 Years	30+ Years
50 - 56	2.0%	2.0%	2.0%	5.0%
57 - 59	7.5	10.0	20.0	100.0
60 - 61	10.0	20.0	35.0	100.0
62 - 64	25.0	50.0	75.0	100.0
65+	100.0	100.0	100.0	100.0

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

Tier 2 Rates of Retirement by Age and Service				
	Fire			
Age	5 - 19 Years	20 - 24 Years	25 - 29 Years	30+ Years
50 - 56	1.0%	1.0%	1.0%	2.5%
57 - 59	5.0	7.5	15.0	100.0
60 - 61	7.5	15.0	25.0	100.0
62 - 64	20.0	35.0	50.0	100.0
65+	100.0	100.0	100.0	100.0

Tier 1 terminated vested members are assumed to retire at age 55 and Tier 2 terminated vested members are assumed to retire at age 60.

**2. Rates of Termination**

Sample rates of refund/termination are show in the following table.

Rates of Termination		
Service	Police	Fire
0	16.00%	25.00%
1	11.75	7.00
2	9.85	3.50
3	8.35	1.75
4	7.00	1.25
5	5.75	1.00
6	4.75	0.90
7	4.00	0.80
8	3.50	0.70
9	3.50	0.60
10	3.50	0.50
11	3.50	0.50
12	3.00	0.50
13	2.50	0.50
14	2.00	0.50
15+	2.00	0.50

\*Termination rates do not apply once a member is eligible for un-reduced retirement.

## APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

### 3. Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2017 projection scale on a generational basis from the base year of 2009.

Base Mortality Tables		
Category	Male	Female
<b>Healthy Annuitant</b>	0.948 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
<b>Healthy Non-Annuitant</b>	0.948 times the CalPERS 2009 Employee Mortality Table (Male)	1.048 times the CalPERS 2009 Employee Mortality Table (Female)
<b>Disabled Annuitant</b>	0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Male)	0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Male)

### 4. Disability Rates

For Police, disability rates are equal to the CalPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older. For Fire, disability rates are equal to the CalPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older. Sample disability rates of active participants are provided in the table below.

Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.16%	0.03%
30	0.45	0.08
35	0.74	0.15
40	1.03	0.28
45	1.32	0.50
50	2.70	5.08
55	6.88	7.54
60	8.71	10.77
65	10.47	14.84

100% of disabilities are assumed to be duty related.



**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**5. Salary Increase Rate**

Wage inflation component: 3.25%

The following merit component is added to wage inflation, based on an individual member's years of service:

Salary Merit Increases	
Years of Service	Merit/ Longevity
0	6.00%
1	5.50
2	5.00
3	4.50
4	4.00
5	3.50
6	2.75
7	2.00
8	1.50
9	1.00
10	0.75
11+	0.50

**6. Percent of Retirees Electing Coverage**

100% of active members are assumed to elect coverage at retirement. Retirees are assumed to continue in their current plan.

A new Kaiser High Deductible plan will be offered as of 1/1/2018.

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table on the next page.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

Assumed Plan Elections for Future Retirees			
	% Electing		% Electing
<b>Pre-Medicare Medical Plans</b>		<b>Medicare-Eligible Medical Plans</b>	
· Kaiser DHMO	8%	· Kaiser Senior Advantage	41%
· Kaiser \$25 Co-pay	53%	· BS Medicare HMO	6%
· Kaiser HDHP	5%	· BS Medicare PPO	53%
· Sutter Health DHMO	1%	· In-Lieu	0%
· Sutter Health \$20 Co-pay	5%		
· PPO \$25 Co-pay	28%	<b>Dental Plans (All Retirees)</b>	
· In-Lieu	0%	· Delta Dental PPO	99%
		· DeltaCare HMO	1%

**7. Family Composition**

80% of married males and 50% of married females will elect spouse coverage in a medical plan at retirement.

100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.

Pre-Medicare, 47% of males and 35% of females will cover children.

**8. Enrollment by Rating Tier:**

For current retirees, their actual enrollment by rating tier is used to value the explicit subsidy. For future retirees, the following assumptions are used:

Assumed Rating Tier Elections for Future Retirees				
	Single	Emp/Sp	Emp/Chd	Family
<b>Pre-Medicare Medical Plans</b>				
Males	19%	34%	7%	40%
Females	51%	13%	21%	14%
<b>Medicare Medical Plans</b>				
Males	26%	74%	0%	0%
Females	72%	28%	0%	0%

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**9. Dependent Age**

For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

**10. Married Percentage**

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

**11. Administrative Expenses**

Included in the average monthly premiums.

**12. Changes Since the Last Valuation**

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

Merit salary increases, termination rates, retirement rates, administrative expenses, and the mortality improvement projection scale have been changed based on an experience study covering demographic experience from June 30, 2009 through June 30, 2017. Please refer to the experience study report for the details of the assumption changes and the rationale.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**Claim and Expense Assumptions**

The claim and expense assumptions shown below were adopted by the Board of Administration at the February 1, 2018 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2017 and 2018. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren) and retiree plus family) were blended based on enrollment data for the 2017 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the Kaiser \$25 Co-pay and Kaiser HMO deductible plans were assumed to transition to the Kaiser \$25 Co-pay, Kaiser HMO Deductible, and Kaiser High Deductible plans based on the actual 1/1/2018 elections. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

**1. Average Annual Claims and Expense Assumptions**

The following claim and expense assumptions were developed as of July 1, 2017 based on the premiums for 2017 and 2018. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

The following tables show the claims costs for each medical plan as of the valuation date:

Age	<b>Sample Claims Costs - Non-Medicare Eligible</b>					
	<b>Kaiser DHMO</b>		<b>Kaiser \$25 Co-Pay</b>		<b>Kaiser HDHP</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
40	6,398	7,850	10,732	13,198	6,331	7,776
45	6,528	7,649	10,981	12,885	6,468	7,584
50	6,883	7,795	11,611	13,161	6,829	7,736
55	7,601	8,244	12,859	13,952	7,551	8,191
60	8,866	8,644	15,036	14,659	8,817	8,597
64	10,423	8,484	17,705	14,409	10,374	8,443

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

<u>Sample Claims Costs - Non-Medicare Eligible</u>						
Age	<u>Sutter DHMO</u>		<u>Sutter \$20 Co-pay</u>		<u>PPO \$25 Co-pay</u>	
	Male	Female	Male	Female	Male	Female
40	7,324	9,068	12,118	14,906	11,600	14,480
45	7,553	8,900	12,402	14,556	12,078	14,302
50	8,053	9,148	13,118	14,870	13,002	14,810
55	8,989	9,761	14,533	15,768	14,646	15,921
60	10,581	10,315	16,997	16,571	17,374	16,934
64	12,511	10,181	20,017	16,291	20,639	16,792

<u>Sample Claims Costs - Medicare Eligible</u>						
Age	<u>Kaiser Senior Adv</u>		<u>BS Med HMO</u>		<u>BS Med PPO</u>	
	Male	Female	Male	Female	Male	Female
65	3,351	2,956	6,903	6,090	5,640	4,975
70	3,558	3,014	7,331	6,209	5,989	5,073
75	4,090	3,389	8,426	6,983	6,884	5,705
80	4,644	3,843	9,568	7,919	7,817	6,469
85	5,015	4,200	10,333	8,653	8,442	7,070

<u>Sample Claims Costs - Dental</u>				
Age	<u>Delta Dental PPO</u>		<u>DeltaCare HMO</u>	
	Male	Female	Male	Female
All	750	750	318	318

**2. Medicare Part D Subsidy**

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

**3. Medicare Part B**

All Medicare eligible retirees are assumed to participate in Medicare Part B.

**4. Medicare Eligibility**

All retirees who turn age 65 are assumed to be eligible for Medicare.

**5. Annual Limits**

Assumed to increase at the same rate as trend.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**6. Lifetime Maximums**

Are not assumed to have any financial impact.

**7. Geography**

Implicitly assumed to remain the same as current retirees.

**8. Retiree Contributions**

Retirees pay the difference between the actual premium for the elected medical plan and the lowest cost medical plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

**9. Changes Since the Last Valuation**

All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.



## APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

### Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

#### 1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The Actuarial Liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and Actuarial Liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and Actuarial Liability for the Plan. The Actuarial Liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

#### 2. Asset Valuation Method

The Actuarial Value of Assets equals the Market Value of assets.

#### 3. Amortization Method

The Unfunded Actuarial Liability is the difference between the Actuarial Liability and the Actuarial Value of Assets. The Unfunded Actuarial Liability as of June 30, 2017 is amortized as a level percent of payroll over a closed 25-year period. All future amortization based will be amortized over 25-year periods with a 3-year phase-in and phase-out.

#### 4. Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 11% of total payroll.

Active members that are eligible for full benefits will contribute 8.00% of pay.

#### 5. Changes Since Last Valuation

Member contributions were changed due to Measure F.

The asset valuation method was changed.

The amortization method described above was established for this valuation and future valuations.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

**Eligibility:** Employees hired before July 2013 that did not elect to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

**Medical/Dental:**

Employees who retire (include deferred vested members) with at least 15 years of service with the City ("OPEB benefit service"), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before August 4, 2013) are eligible for unreduced service retirement at age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced service retirement is available at age 50 with 20 years of service. Tier 2 employees (hired on or after August 4, 2013) are eligible for unreduced service retirement at age 60 with 10 years of service or reduced service retirement at age 50 with 10 years of service. Service credited through reciprocity agreements counts towards an employee's required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 26.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage if the following conditions are met:

The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and,  
Both the member and the survivors were enrolled in the active medical plan immediately before death; and,  
The survivor will receive a monthly pension benefit.

Employees who separate from service after July 5, 1992 with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX C – SUMMARY OF PLAN PROVISIONS**

**Benefits for Retirees:**

**Medical:** The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

**Dental:** The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

**Premiums:** Monthly premiums before adjustments for 2017 and 2018 are as follows.

2017 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
<b>Medical</b>				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$490.20	\$980.40	\$857.86	\$1,470.62
Kaiser \$25 Co-pay	598.66	1,197.32	1,047.62	1,795.94
Blue Shield PPO \$25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$289.12	\$578.24	\$578.24	\$867.36
Blue Shield Medicare PPO / POS	509.21	1,018.42	1,018.42	1,771.26
Blue Shield Medicare HMO	598.82	1,197.64	1,197.64	1,824.90
<b>Dental</b>				
Delta Dental PPO	\$50.88	\$111.92	\$122.12	\$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

*Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare \$20 Co-pay HMO*



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX C – SUMMARY OF PLAN PROVISIONS**

2018 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
<b>Medical</b>				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$486.24	\$972.48	\$850.92	\$1,458.72
Kaiser \$25 Co-pay	593.84	1,187.68	1,039.22	1,781.52
Kaiser HDHP	409.70	819.40	716.98	1,229.10
Blue Shield PPO \$25 Co-pay	1,104.14	2,208.26	1,932.26	3,312.40
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$306.28	\$612.56	\$612.56	\$918.84
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,885.26
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,205.12
<b>Dental</b>				
Delta Dental PPO	\$50.88	\$111.92	\$122.12	\$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

*Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare \$20 Co-pay HMO*

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX C – SUMMARY OF PLAN PROVISIONS**

**Summary of 2018 Benefit Plans:**

<b>Non-Medicare Plans:</b>	<b>Kaiser \$25 Co-Pay</b>	<b>Kaiser DHMO</b>	<b>Kaiser High Deductible</b>	<b>Sutter Health Plus \$20 Co-Pay HMO</b>	<b>Sutter Health Plus \$1,500 Deductible</b>	<b>Blue Shield PPO \$25 Co-Pay (In Network)</b>
Annual Out-of-Pocket Maximum (one person/family)	\$1,500/\$3,000	\$4,000/\$8,000	\$5,950/\$11,900	\$1,500/\$3,000	\$4,000/\$8,000	\$2,100/\$4,200
Annual Deductible (one person/family)	None	\$1,500/\$3,000	\$3,000/\$6,000	None	\$1,500/\$3,000	\$100/\$200
Office Visit copay	\$25	\$40	30%*	\$20	\$20	\$25
Emergency Room copay	\$100	30%*	30%*	\$100	30%*	\$100
Hospital Care copay	\$100	30%*	30%*	\$100	30%*	\$100
Prescription Drug retail copay (30-day supply):						
Generic	\$10	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$30	\$25
Non-Formulary	N/A	N/A	N/A	\$60	\$60	\$40

\* After deductible is paid.

<b>Medicare-Eligible Plans:</b>	<b>Kaiser</b>	<b>BS HMO</b>	<b>BS PPO</b>
Annual Out-of-Pocket Maximum (one person/family)	\$1,500/\$3,000	\$1,000/\$2,000	\$2,000/\$4,000
Annual Deductible (one person/family)	None	None	\$100/\$200
Office Visit copay	\$25	\$25	\$25
Emergency Room copay	\$50	\$100	\$100
Hospital Care copay	\$250	\$100	\$100 + 10%
Prescription Drug retail copay (30-day supply):			
Generic	\$10	\$10	\$10
Brand	\$10	\$25	\$25
Non-Formulary	N/A	\$40	\$40

**Cost-Sharing Provisions:**

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

**Eligibility:** Employees hired after June 2013 or employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

**Contributions:** Employees are required to make mandatory contributions into the VEBA on a pre-tax basis.

**Medical:** VEBA funds can be used to reimburse members for eligible healthcare expenses.

VEBA members on service-connected disability will receive benefits from the Postemployment Healthcare Plan only up to age 65 once VEBA funds exhausted

**Note:** The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.



## APPENDIX D – GLOSSARY OF TERMS

### 1. Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, and retirement; changes in compensation; rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and, other relevant items.

### 2. Actuarial Cost Method

A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an allocation of such value to each year of service, usually in the form of a normal cost and an Actuarial Liability.

### 3. Actuarial Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

### 4. Actuarial Liability

The portion of the actuarial present value of projected benefits that will not be paid by future normal costs. It represents the value of the past normal costs with interest to the valuation date.

### 5. Actuarial Present Value (Present Value)

The value as of a given date of a future amount or series of payments. The actuarial present value discounts the payments to the given date at the assumed investment return and includes the probability of the payment being made. As a simple example: assume you owe \$100 to a friend one year from now. Also, assume there is a 1% probability of your friend dying over the next year, in which case you will not be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

$$\begin{array}{rcccl} & & \text{Probability} & \frac{1}{(1+\text{Discount Rate})} & \\ & \text{Amount} & \text{of Payment} & & \\ \$100 & \times & (1 - .01) & 1/(1+.1) & = \$90 \end{array}$$

### 6. Actuarial Valuation

The determination, as of a specified date, of the normal cost, Actuarial Liability, Actuarial Value of Assets, and related actuarial present values for a pension plan.

### 7. Actuarial Value of Assets

The value of cash, investments, and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an Actuarial Value of Assets is to smooth out fluctuations in market values. This way long-term costs are not distorted by short-term fluctuations in the market.

**APPENDIX D – GLOSSARY OF TERMS**

**8. Amortization Payment**

The portion of the pension plan contribution, which is designed to pay interest and principal on the Unfunded Actuarial Liability in order to pay for that liability in a given number of years.

**9. Entry Age Normal Actuarial Cost Method**

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

**10. Normal Cost**

That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method.

**11. Unfunded Actuarial Liability**

The excess of the Actuarial Liability over the Actuarial Value of Assets.

**12. Funded Percentage**

The ratio of the Actuarial Value of Assets to the Actuarial Liability.

**13. Mortality Table**

A set of percentages that estimate the probability of death at a particular point in time. Typically, the rates are annual and based on age and sex.

**14. Discount Rate**

The assumed interest rate used for converting projecting dollar related values to a present value as of the valuation date.

**15. Medical Trend**

The assumed increase in dollar related values in the future due to the increase in the cost of health care.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2017 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX E – LIST OF ABBREVIATIONS**

Actuarial Accrued Liability (AAL)  
Actuarial Valuation Report (AVR)  
Annual Required Contribution (ARC)  
Coordination of Benefits (COB)  
Deductible and Coinsurance (DC)  
Deferred Retirement Option Plan (DROP)  
Durable Medical Equipment (DME)  
Employee Assistance Program (EAP)  
Employee Benefits Division (EBD)  
Fiscal Year Ending (FYE)  
Governmental Accounting Standards Board (GASB)  
Hospital Emergency Room (ER)  
In-Network (INN)  
Inpatient (IP)  
Medicare Eligible (ME)  
Net Other Postemployment Benefit (NOO)  
Non-Medicare Eligible (NME)  
Not Applicable (NA)  
Office Visit (OV)  
Other Postemployment Benefit (OPEB)  
Out-of-Network (OON)  
Out-of-Pocket (OOP)  
Outpatient (OP)  
Pay-as-you-go (PAYGo)  
Per Person Per Month (PPPM)  
Pharmacy (Rx)  
Preferred Provider Organization (PPO)  
Primary Care Physician (PCP)  
Specialist Care Provider (SCP)  
Summary Plan Description (SPD)  
Unfunded Actuarial Accrued Liability (UAAL)  
Unfunded Actuarial Liability (UAL)  
Urgent Care (UC)





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