



Classic Values, Innovative Advice

City of San José Police and Fire Department Postemployment Healthcare Plan

Actuarial Valuation Funding Report as of June 30, 2018

Produced by Cheiron

February 2019

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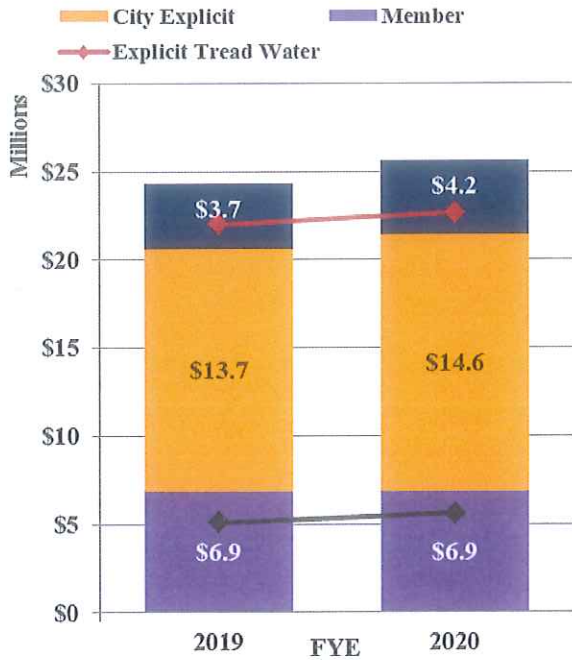
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CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I – BOARD SUMMARY

Dashboard

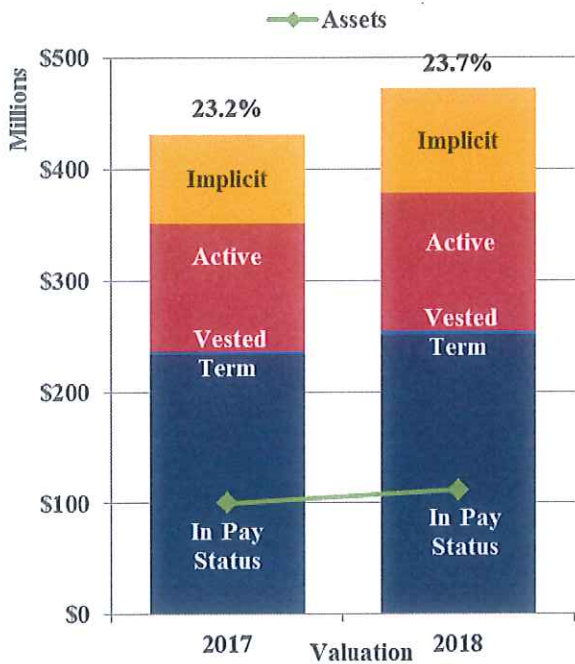
Contributions - Police



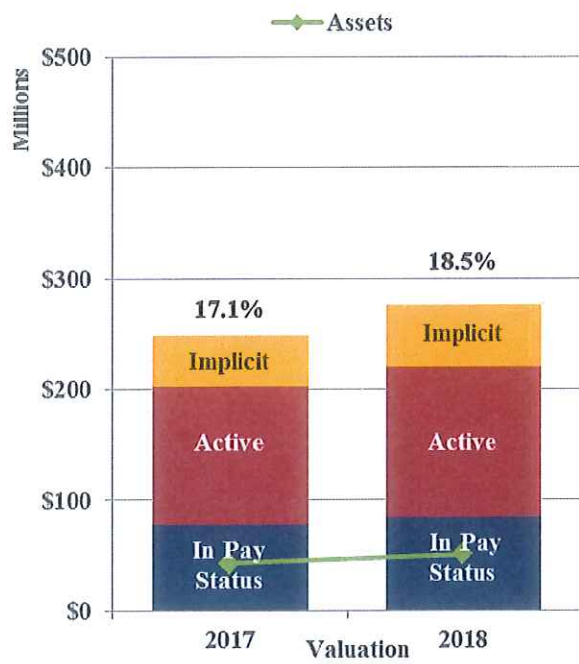
Contributions - Fire



Funded Status - Police



Funded Status - Fire



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I – BOARD SUMMARY

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

The charts on the previous page are intended to provide a quick overview of the current valuation results compared to the prior valuation results. The charts on the top show contributions for FYE 2019 and 2020 for Police (left chart) and Fire (right chart). The normal cost shown by the black line represents the expected cost of the explicit premium subsidy benefits attributable to the current year of service. All contributions above the normal cost go toward paying off the Unfunded Actuarial Liability (UAL) attributable to the explicit subsidy benefits. The Tread Water amount shown by the red line represents the amount needed to pay the normal cost and interest on the explicit subsidy UAL. Contributions in the gold bar above the Tread Water line reduce the principal of the explicit subsidy UAL. Since the top of the gold bar is below the Tread Water line, the dollar amount of the explicit subsidy UAL is expected to grow slightly. As the amortization period shortens, this relationship will change and the UAL will be paid off. The implicit subsidy is funded on a pay-as-you-go basis.

The charts on the bottom summarize the funded status as of the June 30, 2017 and June 30, 2018 actuarial valuations. The stacked bars represent the Actuarial Liability, with the liability for the explicit subsidy broken into separate components for members currently receiving benefits, vested terminated members, and active members. The gold bar at the top represents the liability for the implicit subsidy.

More detail and discussion is provided in the following sections.

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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 are fixed at 8.0% of pay; the City’s contribution toward the explicit subsidy is actuarially determined separately for Police and Fire; and the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. In addition, the City has the 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 2019 and 2020.

Table I-1 Summary of Contribution Amounts			
	FYE 2020	FYE 2019	% Change
<u>Explicit Subsidy</u>			
Police Department			
Members	\$ 6,871	\$ 6,891	-0.3%
City's Actuarially Determined Contribution	14,595	13,723	6.4%
Fire Department			
Members	\$ 5,477	\$ 5,519	-0.8%
City's Actuarially Determined Contribution	9,408	8,752	7.5%
Total Explicit Subsidy			
Members	\$ 12,348	\$ 12,410	-0.5%
City's Actuarially Determined Contribution	24,003	22,475	6.8%
Estimated City Optional Cap	24,808	23,148	7.2%
<u>Implicit Subsidy</u>			
Police Department	\$ 4,188	\$ 3,699	13.2%
Fire Department	2,543	2,017	26.1%
Total Implicit Subsidy	\$ 6,732	\$ 5,716	17.8%

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Dollar amounts in thousands

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The chart below shows the 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 sum of member contributions, the implicit subsidy, and the City’s optional cap for its explicit subsidy contribution. To the extent the bars rise above the red line, the projected contributions exceed the City’s optional cap. The gray area behind the bars represents the projected annual benefit payments.

Projected Contributions FYE 2019-2049



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 for a few more years.

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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, 2018 compared to June 30, 2017. The Actuarial Liability for the explicit subsidy increased 7.7% for Police and 8.9% for Fire, primarily due to assumption changes. At the same time, assets increased 11.7% for Police and 19.4% for Fire due to contributions and investment returns. As a result, the Unfunded Actuarial Liability increased by 6.1% for Police and 6.1% for Fire and the funded percentage improved from 28.4% to 29.5% for Police and from 21.1% to 23.1% for Fire.

Table I-2			
Summary of Funded Status - Explicit Subsidy Only			
	6/30/2018	6/30/2017	% Change
Police Department			
Actuarial Liability			
Actives	\$ 123,877	\$ 115,599	7.2%
Deferred Vested	3,392	2,447	38.6%
In Pay Status	<u>251,461</u>	<u>233,677</u>	7.6%
Total	\$ 378,730	\$ 351,723	7.7%
Assets	111,659	99,926	11.7%
Unfunded Actuarial Liability	\$ 267,071	\$ 251,797	6.1%
Funded Percentage	29.48%	28.41%	1.1%
Fire Department			
Actuarial Liability			
Actives	\$ 84,792	\$ 77,995	8.7%
Deferred Vested	0	234	-100.0%
In Pay Status	<u>135,404</u>	<u>123,947</u>	9.2%
Total	\$ 220,196	\$ 202,176	8.9%
Assets	50,861	42,591	19.4%
Unfunded Actuarial Liability	\$ 169,335	\$ 159,585	6.1%
Funded Percentage	23.10%	21.07%	2.0%
Grand Total			
Aggregate UAL	\$ 436,407	\$ 411,382	6.1%
Aggregate Funded Percentage	27.14%	25.73%	1.4%

Dollar amounts in thousands

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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 the 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 was primarily due to plan changes and health assumption changes. The increase in the Actuarial Liability in 2018 is primarily due to assumption changes, including the reduction of the discount rate from 6.875% to 6.5%.



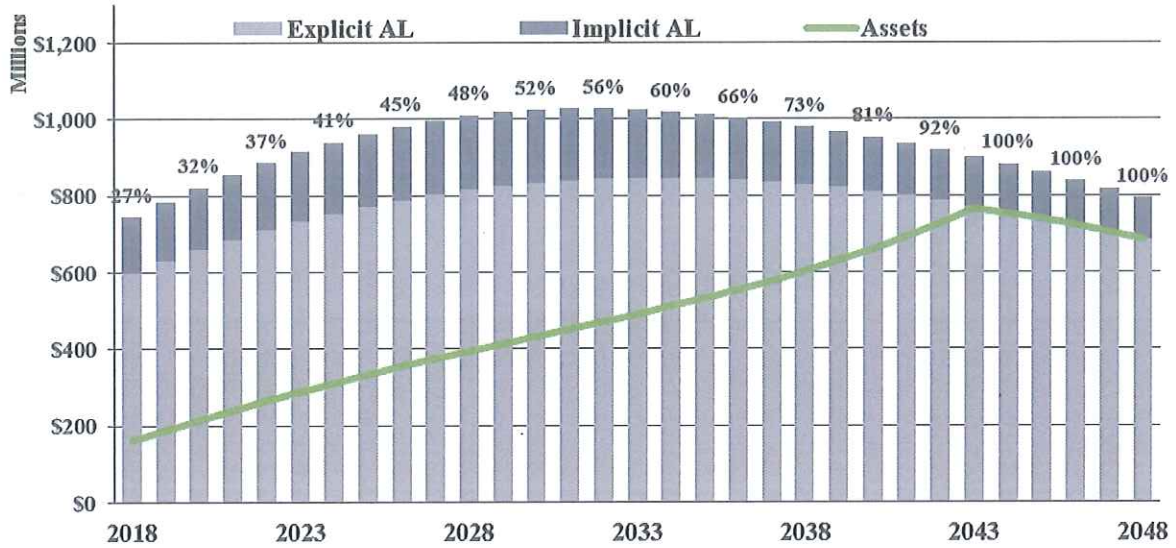
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Funded Ratio	9.9%	8.5%	9.2%	11.1%	14.7%	16.8%	19.4%	21.7%	27.0%	27.1%
UAL/(Surplus) <i>(in millions)</i>	\$507.2	\$627.8	\$596.8	\$529.8	\$437.0	\$462.1	\$477.4	\$489.0	\$411.4	\$436.4
Discount Rate	8.000%	7.750%	7.500%	7.250%	7.125%	7.000%	7.000%	6.875%	6.875%	6.500%

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 6.50% each year, the funded percentage for the explicit subsidy is expected to reach about 100% by 2044.

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SECTION I – BOARD SUMMARY

Projected Assets and Actuarial Liability 2018-2048



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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, 2018. The total UAL increased about \$47.0 million since the prior year. The explicit subsidy UAL increased \$25 million and the implicit subsidy UAL increased \$22 million.

Table I-3 Changes in Unfunded Actuarial Liability			
	Implicit	Explicit	Total
Unfunded Actuarial Liability, June 30, 2017	\$ 126,348	\$ 411,382	\$ 537,729
Unfunded Actuarial Liability, June 30, 2018	<u>148,348</u>	<u>436,407</u>	<u>584,754</u>
Change in Unfunded Actuarial Liability	\$ 22,000	\$ 25,025	\$ 47,025
<u>Sources of Changes</u>			
Contributions below Tread Water	\$ 5,770	\$ 1,040	\$ 6,810
Investment Experience	0	3,990	3,990
Experience Changes	6,245	(9,646)	(3,401)
Assumption Changes	9,985	28,858	38,843
VEBA Elections	<u>0</u>	<u>783</u>	<u>783</u>
Total Changes	\$ 22,000	\$ 25,025	\$ 47,025

Dollar amounts in thousands

For the explicit subsidy, the primary sources of the increase in the UAL were the assumption changes (\$29 million increase) offset by plan experience (\$10 million decrease). The assumption changes were primarily due to the discount rate and health trend changes. The experience changes were mainly driven by the lower than expected increases in the Medicare eligible premium rates. In addition, contributions fell short of the Tread Water level (normal cost plus interest on the UAL) by about \$1 million. Investment experience increased the UAL by about \$4 million. Additional assets transferred to the VEBA had a very minor impact.

For the implicit subsidy, the primary sources of the increase in the UAL were assumption changes (\$10 million), plan experience (\$6 million), and contributions that fell short of the normal cost plus interest on the UAL (\$6 million).

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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, 2018			June 30, 2017	% Change
	Police	Fire	Total		
Active Members					
Eligible for Full Benefits	680	533	1,213	1,276	-4.9%
Eligible for Catastrophic Disability Only	294	131	425	267	59.2%
Total Active Members	974	664	1,638	1,543	6.2%
Deferred Vested Members	15	0	15	12	25.0%
Members in Pay Status (Including In-Lieu)	1,281	829	2,110	2,058	2.5%
Total	2,270	1,493	3,763	3,613	4.2%
Full Benefit Member Payroll	\$ 93,398	\$ 70,325	\$ 163,722	\$ 162,422	0.8%
Total Payroll	131,888	86,541	218,429	203,816	7.2%
Actuarial Liability					
Explicit Subsidy	\$ 378,730	\$ 220,196	\$ 598,926	\$ 553,899	8.1%
Implicit Subsidy	93,087	55,261	148,348	126,348	17.4%
Total Actuarial Liability	\$ 471,817	\$ 275,457	\$ 747,274	\$ 680,246	9.9%
Market Value of Assets	111,659	50,861	162,519	142,517	14.0%
Explicit Subsidy Unfunded Actuarial Liability	\$ 267,071	\$ 169,335	\$ 436,407	\$ 411,382	6.1%
Explicit Subsidy Funded Percentage	29.48%	23.10%	27.14%	25.73%	1.4%
Total Unfunded Actuarial Liability	\$ 360,158	\$ 224,596	\$ 584,754	\$ 537,729	8.7%
Total Funded Percentage	23.7%	18.5%	21.7%	21.0%	0.8%
FYE 2020					
	Police	Fire	Total	FYE 2019	% Change
City's ADC Amount	\$ 14,595	\$ 9,408	\$ 24,003	\$ 22,475	6.8%
City's ADC Rate	10.7%	10.5%	10.6%	11.0%	-0.4%
City's Implicit Subsidy Payment	\$ 4,188	\$ 2,543	\$ 6,732	\$ 5,716	17.8%

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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 January 10, 2019 and February 7, 2019 Board meetings based upon our recommendations. The discount rate used in this report was adopted by the Board of Administration with our input at the February 7, 2019 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
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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

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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 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.

Table III-1 Market Value of Assets - Police Department						
	Fiscal Year Ending 2018			Fiscal Year Ending 2017		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning of Year	\$ 39,108	\$ 60,818	\$ 99,926	\$ 39,327	\$ 49,597	\$ 88,923
Contributions						
Member	9,294	0	9,294	10,344	0	10,344
City	0	11,265	11,265	0	10,905	10,905
Implicit Subsidy	3,699	0	3,699	796	0	796
Total	<u>\$ 12,993</u>	<u>\$ 11,265</u>	<u>\$ 24,258</u>	<u>\$ 11,140</u>	<u>\$ 10,905</u>	<u>\$ 22,045</u>
Net Investment Earnings	2,636	2,511	5,148	3,623	5,220	8,844
Benefit Payments						
Premium Payments	13,414	0	13,414	14,135	0	14,135
Implicit Subsidy	3,699	0	3,699	796	0	796
Total	<u>\$ 17,113</u>	<u>\$ 0</u>	<u>\$ 17,113</u>	<u>\$ 14,931</u>	<u>\$ 0</u>	<u>\$ 14,931</u>
Administrative Expenses	63	52	115	51	72	123
One-Time VEBA Transfer	0	444	444	0	4,831	4,831
Market Value, End of Year	<u>\$ 37,561</u>	<u>\$ 74,098</u>	<u>\$ 111,659</u>	<u>\$ 39,108</u>	<u>\$ 60,818</u>	<u>\$ 99,926</u>
Estimated Rate of Return	6.9%	3.4%	4.7%	9.5%	8.5%	8.9%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION III – ASSETS

Table III-2 Market Value of Assets - Fire Department						
	Fiscal Year Ending 2018			Fiscal Year Ending 2017		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning of Year	\$ 6,768	\$ 35,823	\$ 42,591	\$ 7,423	\$ 27,078	\$ 34,502
Contributions						
Member	6,833	0	6,833	7,772	0	7,772
City	0	8,401	8,401	0	8,163	8,163
Implicit Subsidy	2,017	0	2,017	803	0	803
Total	\$ 8,850	\$ 8,401	\$ 17,251	\$ 8,575	\$ 8,163	\$ 16,738
Net Investment Earnings	420	1,502	1,922	656	2,955	3,610
Benefit Payments						
Premium Payments	8,556	0	8,556	9,065	0	9,065
Implicit Subsidy	2,017	0	2,017	803	0	803
Total	\$ 10,573	\$ 0	\$ 10,573	\$ 9,868	\$ 0	\$ 9,868
Administrative Expenses	12	30	43	18	41	58
One-Time VEBA Transfer	0	288	288	0	2,333	2,333
Market Value, End of Year	\$ 5,454	\$ 45,407	\$ 50,861	\$ 6,768	\$ 35,823	\$ 42,591
Estimated Rate of Return	6.9%	3.3%	3.9%	9.4%	8.3%	8.5%

Dollar amounts in thousands

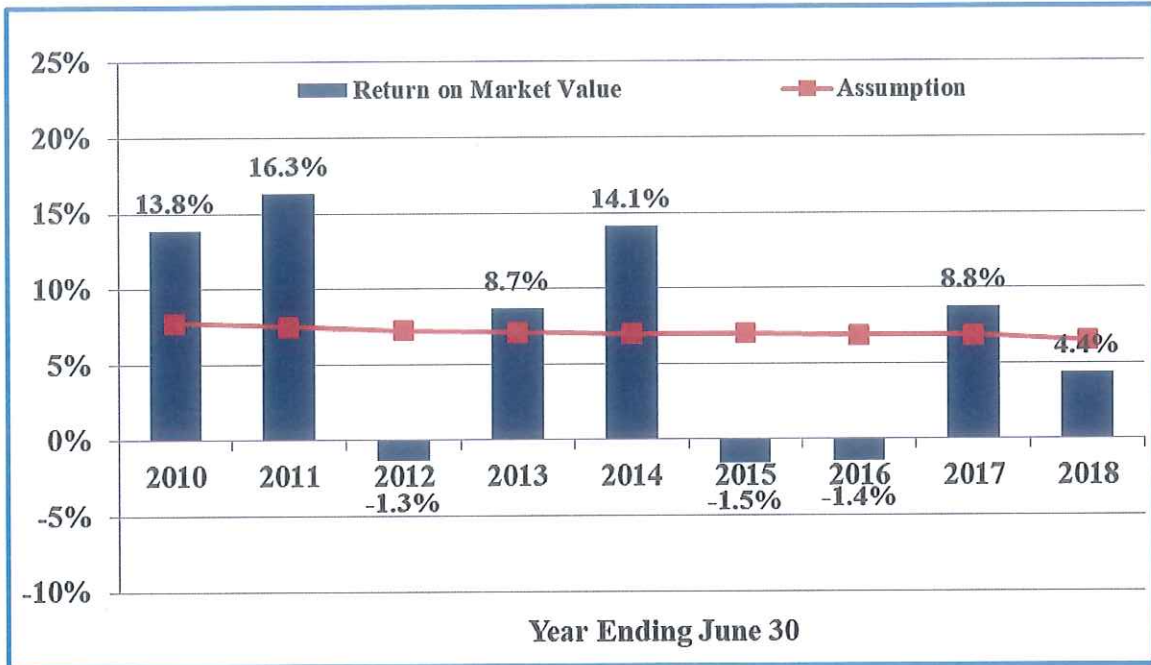
In the last year, investments, in aggregate, returned approximately 4.7% for Police and 3.9% for Fire compared to an expected rate of return of 6.875%, resulting in a total investment loss of approximately \$4.0 million. The assets in the 401(h) account returned approximately 6.9% for Police and 6.9% for Fire while the assets in the 115 trust returned approximately 3.4% for Police and 3.3% 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 nine years. The average of the actual returns is about 6.9%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION III – ASSETS

Historical Rates of Return



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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
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SECTION IV – MEASURES OF LIABILITY

Table IV-1						
Expected Net Benefit Payments - Police Department						
Fiscal Year	Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments
		Medical	Dental	Total		
2019	\$	11,872	\$ 1,504	\$ 13,376	\$ 3,789	\$ 17,166
2020		13,062	1,613	14,675	4,188	18,864
2021		14,261	1,720	15,980	4,457	20,437
2022		15,555	1,831	17,386	4,711	22,096
2023		17,272	1,955	19,228	5,007	24,235
2024		19,975	2,073	22,048	6,089	28,136
2025		21,170	2,184	23,354	6,765	30,119
2026		22,589	2,281	24,869	7,376	32,245
2027		24,104	2,385	26,489	7,992	34,481
2028		25,534	2,479	28,013	8,711	36,724
2029		26,819	2,568	29,387	9,308	38,695
2030		28,092	2,647	30,739	9,982	40,721
2031		29,044	2,719	31,763	10,421	42,184
2032		30,114	2,792	32,906	10,786	43,692
2033		30,893	2,862	33,755	10,780	44,535
2034		31,665	2,931	34,597	10,655	45,252
2035		32,307	2,990	35,298	10,343	45,640
2036		32,953	3,043	35,996	9,883	45,879
2037		33,325	3,087	36,412	9,023	45,435
2038		33,786	3,123	36,909	8,495	45,404

Dollar amounts in thousands

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SECTION IV – MEASURES OF LIABILITY

Table IV-2						
Expected Net Benefit Payments - Fire Department						
Fiscal Year	Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments
		Medical	Dental	Total		
2019	\$	7,310	\$ 974	\$ 8,284	\$ 2,321	\$ 10,605
2020		7,941	1,024	8,964	2,543	11,508
2021		8,627	1,079	9,706	2,768	12,474
2022		9,356	1,141	10,497	2,864	13,361
2023		10,220	1,209	11,428	3,091	14,519
2024		11,333	1,275	12,608	3,561	16,169
2025		12,250	1,338	13,588	3,982	17,570
2026		13,136	1,397	14,532	4,297	18,829
2027		14,105	1,460	15,565	4,764	20,330
2028		14,971	1,520	16,491	5,108	21,599
2029		15,801	1,572	17,374	5,506	22,880
2030		16,471	1,619	18,089	5,872	23,962
2031		17,230	1,669	18,899	6,350	25,249
2032		17,947	1,721	19,668	6,688	26,356
2033		18,577	1,777	20,353	6,830	27,183
2034		19,132	1,833	20,965	6,836	27,801
2035		19,745	1,888	21,633	6,899	28,532
2036		20,228	1,932	22,160	6,722	28,882
2037		20,797	1,979	22,776	6,506	29,281
2038		21,284	2,013	23,297	6,336	29,633

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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, 2018 and June 30, 2017.

Table IV-3 Present Value of Future Benefits						
	June 30, 2018			June 30, 2017		% Change
	Actives	Deferred Vested	In Pay Status	Total	Total	
Police Department						
Explicit Subsidy	\$ 164,080	\$ 3,392	\$ 251,461	\$ 418,932	\$ 386,474	8.4%
Implicit Subsidy	54,689	1,000	49,753	105,443	89,144	18.3%
Total Police	\$ 218,769	\$ 4,392	\$ 301,215	\$ 524,375	\$ 475,619	10.3%
Fire Department						
Explicit Subsidy	\$ 125,780	\$ 0	\$ 135,404	\$ 261,184	\$ 239,784	8.9%
Implicit Subsidy	42,484	0	26,542	69,026	58,048	18.9%
Total Fire	\$ 168,264	\$ 0	\$ 161,946	\$ 330,210	\$ 297,832	10.9%
Total Explicit Subsidy	\$ 289,860	\$ 3,392	\$ 386,865	\$ 680,117	\$ 626,258	8.6%
Total Implicit Subsidy	97,173	1,000	76,295	174,469	147,193	18.5%
Grand Total	\$ 387,033	\$ 4,392	\$ 463,161	\$ 854,585	\$ 773,451	10.5%

Dollar amounts in thousands



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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 shows the EA normal cost as of June 30, 2018 and June 30, 2017 separately by component.

Table IV-4 Normal Cost						
	June 30, 2018		June 30, 2017		% Change	
	Amount	Percent	Amount	Percent	Amount	
Police Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 3,342	3.69%	\$ 2,899	3.25%	15.2%	
Medicare Eligible	2,189	2.42%	1,896	2.12%	15.4%	
Dental	505	0.56%	490	0.55%	3.1%	
Total Explicit Subsidy	\$ 6,036	6.67%	\$ 5,285	5.92%	14.2%	
Implicit Subsidy	1,879	2.08%	1,457	1.63%	29.0%	
Total Police	\$ 7,915	8.75%	\$ 6,743	7.55%	17.4%	
Fire Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 2,345	3.44%	\$ 2,162	3.19%	8.4%	
Medicare Eligible	2,192	3.22%	1,914	2.82%	14.5%	
Dental	429	0.63%	414	0.61%	3.8%	
Total Explicit Subsidy	\$ 4,966	7.29%	\$ 4,490	6.62%	10.6%	
Implicit Subsidy	1,657	2.43%	1,343	1.98%	23.3%	
Total Fire	\$ 6,623	9.72%	\$ 5,833	8.60%	13.5%	
Total Explicit Subsidy	\$ 11,002	13.96%	\$ 9,776	12.54%	12.5%	
Total Implicit Subsidy	3,536	4.51%	2,800	3.61%	26.3%	
Grand Total	\$ 14,538	18.47%	\$ 12,576	16.15%	15.6%	

Dollar amounts in thousands

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SECTION IV – MEASURES OF LIABILITY

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 shows the Actuarial Liability as of June 30, 2018 and June 30, 2017 separately by component.

Table IV-5 Actuarial Liability						
	June 30, 2018				June 30, 2017	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
Police Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 54,734	\$ 1,251	\$ 58,759	\$ 114,744	\$ 113,941	0.7%
Medicare Eligible	57,861	1,798	170,001	229,661	203,370	12.9%
Dental	11,282	342	22,701	34,325	34,411	-0.3%
Total Explicit Subsidy	\$ 123,877	\$ 3,392	\$ 251,461	\$ 378,730	\$ 351,723	7.7%
Implicit Subsidy	42,333	1,000	49,753	93,087	79,616	16.9%
Total Police	\$ 166,211	\$ 4,392	\$ 301,215	\$ 471,817	\$ 431,339	9.4%
Fire Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 36,348	\$ 0	\$ 21,452	\$ 57,800	\$ 55,479	4.2%
Medicare Eligible	40,731	0	100,983	141,714	126,336	12.2%
Dental	7,712	0	12,969	20,681	20,362	1.6%
Total Explicit Subsidy	\$ 84,792	\$ 0	\$ 135,404	\$ 220,196	\$ 202,176	8.9%
Implicit Subsidy	28,719	0	26,542	55,261	46,732	18.3%
Total Fire	\$ 113,510	\$ 0	\$ 161,946	\$ 275,457	\$ 248,908	10.7%
Total Explicit Subsidy	\$ 208,669	\$ 3,392	\$ 386,865	\$ 598,926	\$ 553,899	8.1%
Total Implicit Subsidy	71,052	1,000	76,295	148,348	126,348	17.4%
Grand Total	\$ 279,721	\$ 4,392	\$ 463,161	\$ 747,274	\$ 680,246	9.9%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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.

Table V-1 Unfunded Actuarial Liability						
	June 30, 2018			June 30, 2017		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Police Department						
Actuarial Liability	\$ 378,730	\$ 93,087	\$ 471,817	\$ 351,723	\$ 79,616	\$ 431,339
Assets	<u>111,659</u>	<u>0</u>	<u>111,659</u>	<u>99,926</u>	<u>0</u>	<u>99,926</u>
Unfunded Actuarial Liability	\$ 267,071	\$ 93,087	\$ 360,158	\$ 251,796	\$ 79,616	\$ 331,412
Funded Percentage	29.5%	0.0%	23.7%	28.4%	0.0%	23.2%
Fire Department						
Actuarial Liability	\$ 220,196	\$ 55,261	\$ 275,457	\$ 202,176	\$ 46,732	\$ 248,908
Assets	<u>50,861</u>	<u>0</u>	<u>50,861</u>	<u>42,591</u>	<u>0</u>	<u>42,591</u>
Unfunded Actuarial Liability	\$ 169,335	\$ 55,261	\$ 224,596	\$ 159,585	\$ 46,732	\$ 206,317
Funded Percentage	23.1%	0.0%	18.5%	21.1%	0.0%	17.1%
Aggregate UAL	\$ 436,407	\$ 148,348	\$ 584,754	\$ 411,382	\$ 126,348	\$ 537,729
Aggregate Funded Percentage	27.1%	0.0%	21.7%	25.7%	0.0%	21.0%

Dollar amounts in thousands

The UAL for the explicit subsidy as of June 30, 2017 was amortized as a level percentage of payroll over 25 years. Payment levels for future amortization bases are phased in and out over three years. Table V-2 shows the schedule of amortization bases for payment of the UAL.

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SECTION V – CONTRIBUTIONS

Table V-2 UAL Amortization					
	Outstanding Balance	Remaining		Payment	
		Period	Phase-in Phase-out		
Police Department					
Fresh Start UAL	\$ 240,776	24	N/A	N/A	\$ 14,451
2018 Changes	11,285	25	3	3	227
7/1/2018 Payment*	<u>15,011</u>				
Total 2018 Police UAL	\$ 267,071				\$ 14,678
Fire Department					
Fresh Start UAL	\$ 150,491	24	N/A	N/A	\$ 9,033
2018 Changes	9,462	25	3	3	190
7/1/2018 Payment*	<u>9,382</u>				
Total 2018 Fire UAL	\$ 169,335				\$ 9,223
Grand Total	\$ 436,407				\$ 23,901

* FYE 2019 amortization payment discounted to 7/1/2018

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 administrative expenses 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 2020 and 2019.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V – CONTRIBUTIONS

Table V-3				
City's Actuarially Determined Contribution (ADC)				
Explicit Subsidy Only				
	FYE 2020	FYE 2019	% Change	
Police Department				
Projected Full Benefit Payroll	\$ 85,887	\$ 86,133	-0.3%	
Normal Cost Rate	6.67%	5.92%	12.7%	
Normal Cost Amount	\$ 5,728	\$ 5,095	12.4%	
Administrative Expense	106			
UAL Payment	15,632	15,518	0.7%	
Total Contribution	\$ 21,466	\$ 20,614	4.1%	
Projected Member Contributions	6,871	6,891	-0.3%	
City's ADC Amount	\$ 14,595	\$ 13,723	6.4%	
Projected Payroll	136,175	124,209	9.6%	
City's ADC Percentage	10.7%	11.0%	-3.0%	
City's ADC Amount (BOY)	\$ 14,341	\$ 13,471	6.5%	
Fire Department				
Projected Full Benefit Payroll	\$ 68,461	\$ 68,985	-0.8%	
Normal Cost Rate	7.29%	6.63%	10.0%	
Normal Cost Amount	\$ 4,989	\$ 4,571	9.2%	
Administrative Expense	73			
UAL Payment	9,822	9,699	1.3%	
Total Contribution	\$ 14,885	\$ 14,271	4.3%	
Projected Member Contributions	5,477	5,519	-0.8%	
City's ADC Amount	\$ 9,408	\$ 8,752	7.5%	
Projected Payroll	89,354	86,231	3.6%	
City's ADC Percentage	10.5%	10.1%	3.7%	
City's ADC Amount (BOY)	\$ 9,244	\$ 8,591	7.6%	
Grand Totals				
City's ADC Amount	\$ 24,003	\$ 22,475	6.8%	
Projected Payroll	225,528	210,440	7.2%	
City's ADC Percentage	10.6%	10.7%	-0.3%	
City's ADC Amount (BOY)	\$ 23,585	\$ 22,061	6.9%	

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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.

Table VI-1					
Member Benefit Coverage Information					
Actuarial Valuation Date	Actuarial Liability		Market Value of Assets *	Portion of Liability Covered by Market Value of Assets*	
	Retirees and Vested Terminated (A)	Active Members (B)		(A)	(B)
6/30/2018	\$ 467,552	\$ 279,721	\$ 162,519	35%	0%
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%
6/30/2009	436,249	325,355	55,618	13%	0%

* 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 percent 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 as providing member benefit coverage information.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
 JUNE 30, 2018 ACTUARIAL VALUATION FUNDING REPORT

SECTION VI – ACTUARIAL SECTION OF THE CAFR

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2018	\$ (3,990)	\$ 3,401	\$ (589)	\$ (36,387)	\$ (36,976)
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 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.

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SECTION VI – ACTUARIAL SECTION OF THE CAFR

Table VI-3 Schedule of Funding Progress						
Actuarial Valuation Date	Market Value of Assets *	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) ÷ c)
6/30/2018	\$ 162,519	\$ 747,274	584,755	21.7%	\$ 218,429	268%
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%

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

Dollar amounts in thousands

Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Percent Change in Average Pay
	Under Age 65	Age 65+	Total			
2018	1,638	0	1,638	\$218,429,298	\$133,351	1.0%
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%

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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		
Medical										
2017-18	1,974	\$ 20,173,930	120	58	2,036	\$ 17,150,934	62	\$ (3,022,995)	-15.0%	\$ 8,424
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
Dental										
2017-18	2,056	\$ 2,547,592	98	57	2,097	\$ 2,587,773	41	\$ 40,181	1.6%	\$ 1,234
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

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APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Valuation Date	June 30, 2018	June 30, 2017	% Change
Active Employees Eligible for Full Benefits			
<i>Police</i>			
Count	680	717	-5.16%
Average Age	45.6	45.0	1.45%
Average OPEB Benefit Service	17.8	17.3	3.09%
Total Payroll	\$99,405,066	\$100,852,366	-1.44%
<i>Fire</i>			
Count	533	559	-4.65%
Average Age	45.1	44.4	1.39%
Average OPEB Benefit Service	15.7	15.0	4.42%
Total Payroll	\$72,805,706	\$74,894,723	-2.79%
Active Employees Eligible for Catastrophic Disability Only			
<i>Police</i>			
Count	294	180	63.33%
Average Age	31.6	32.1	-1.75%
Average OPEB Benefit Service	3.0	4.1	-25.18%
Total Payroll	\$32,483,118	\$19,446,961	67.03%
<i>Fire</i>			
Count	131	87	50.57%
Average Age	34.5	35.0	-1.30%
Average OPEB Benefit Service	3.6	4.2	-13.57%
Total Payroll	\$13,735,408	\$8,475,988	62.05%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental Coverage	1,948	1,972	-1.22%
Medical Coverage Only	8	2	300.00%
In-Lieu Medical with Dental Coverage	75	0	N/A
Dental Coverage Only	74	84	-11.90%
In-Lieu Medical Coverage Only	5	0	N/A
Total	2,110	2,058	2.53%
Term Vested Members**	15	12	25.00%

* Counts do not include dependent spouses.

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

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APPENDIX A – MEMBERSHIP INFORMATION

	Status Reconciliation					Total
	Active	Terminated		Surviving		
		Vested	Retiree	Spouse	Disabled	
Beginning of Year	1,543	12	927	226	905	3,613
New Hires	0	0	0	0	0	0
Rehires	16	0	0	0	0	16
Non-Vested Termination	(13)	0	0	0	0	(13)
Vested Terminations	(6)	6	0	0	0	0
Service Retirements	(48)	(3)	51	0	0	0
Disabled Retirements	(12)	0	(13)	0	25	0
New Survivors	0	0	0	24	0	24
No longer covered	(5)	0	(12)	(9)	(27)	(53)
Data corrections	1	0	7	0	6	14
New Catastrophic Disability	162	0	0	0	0	162
End of Year	1,638	15	960	241	909	3,763

Counts do not include dependent spouses

Counts include members in In-Lieu credit program and those eligible for catastrophic disability only

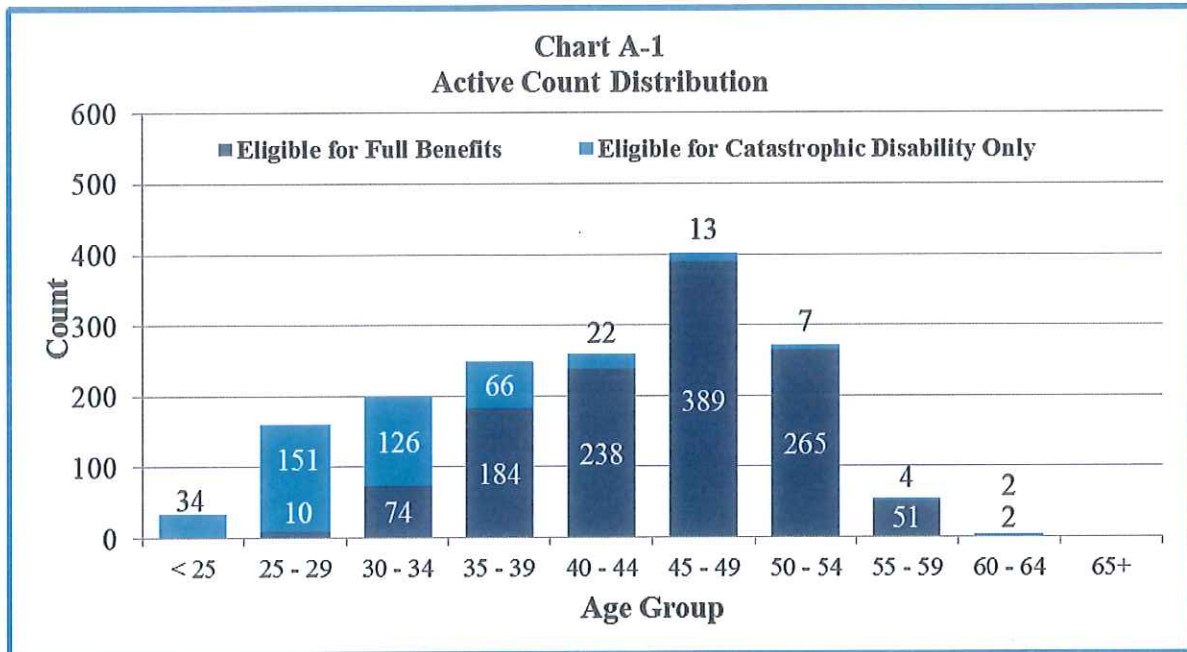
Member Data as of June 30, 2018:

Age Group	Active Employees Eligible For Full Benefits							Total
	Years of OPEB Benefit Service							
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	10	0	0	0	0	0	10
30 to 34	2	45	27	0	0	0	0	74
35 to 39	2	70	97	15	0	0	0	184
40 to 44	0	29	81	113	15	0	0	238
45 to 49	1	12	44	126	188	18	0	389
50 to 54	0	1	10	61	145	45	3	265
55 to 59	0	0	1	8	20	21	1	51
60 to 64	0	0	0	1	1	0	0	2
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	5	167	260	324	369	84	4	1,213

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APPENDIX A – MEMBERSHIP INFORMATION

Active Employees Eligible for Catastrophic Disability Benefits Only								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	34	0	0	0	0	0	0	34
25 to 29	151	0	0	0	0	0	0	151
30 to 34	120	3	3	0	0	0	0	126
35 to 39	50	8	8	0	0	0	0	66
40 to 44	12	1	6	3	0	0	0	22
45 to 49	2	2	0	3	6	0	0	13
50 to 54	3	0	0	2	2	0	0	7
55 to 59	1	1	0	1	1	0	0	4
60 to 64	0	0	0	1	0	1	0	2
65 and up	0	0	0	0	0	0	0	0
Total	373	15	17	10	9	1	0	425

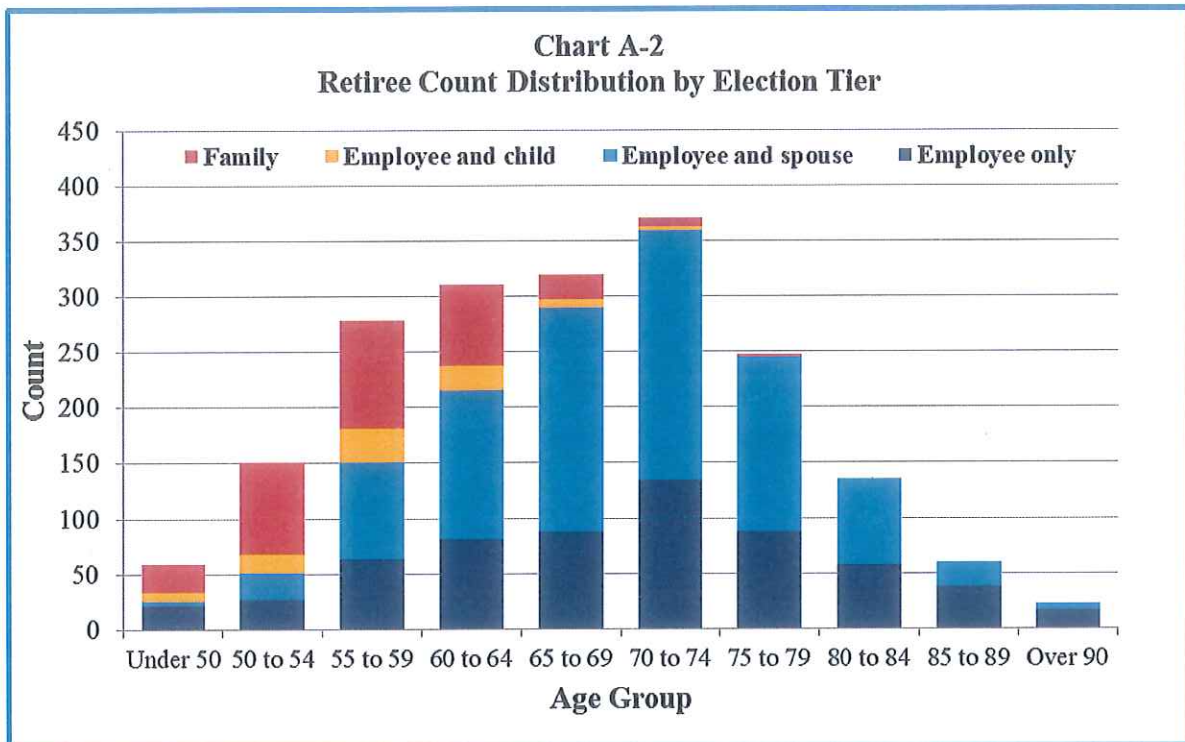


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses					
Age Group	Medical Insurance			Total	Dental Insurance
	Males	Females			
Under 50	44	15	59	59	73
50 to 54	126	25	151	151	179
55 to 59	227	52	279	279	302
60 to 64	287	24	311	311	330
65 to 69	289	30	319	319	337
70 to 74	312	59	371	371	391
75 to 79	208	39	247	247	250
80 to 84	101	35	136	136	148
85 to 89	38	22	60	60	63
<u>Over 90</u>	<u>10</u>	<u>13</u>	<u>23</u>	<u>23</u>	<u>24</u>
Total	1,642	314	1,956	1,956	2,097

Counts do not include dependent spouses



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APPENDIX A – MEMBERSHIP INFORMATION

Medical Plan Elections as of January 1, 2019			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	61	152	213
Kaiser HDHP	48	40	88
Kaiser \$25 Co-pay	437	317	754
Kaiser \$15 Co-pay (Hawaii)	4	8	12
Kaiser \$25 Co-pay (Northwest)	2	2	4
Sutter Health DHMO	8	6	14
Sutter Health \$20 Co-pay	62	55	117
PPO / POS \$25 Co-pay	<u>178</u>	<u>174</u>	<u>352</u>
Total	800	754	1,554
Medicare Medical Plans			
Kaiser Senior Advantage	477	259	736
Kaiser Senior Advantage (Hawaii)	7	3	10
Kaiser Senior Advantage (Northwest)	8	3	11
BS Medicare HMO	62	31	93
BS Medicare PPO/POS	<u>602</u>	<u>334</u>	<u>936</u>
Total	1,156	630	1,786

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	0	0	0
45 to 49	9	1	10
50 to 54	3	2	5
55 to 59	0	0	0
60 to 64	0	0	0
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
Total	12	3	15

* 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
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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 7, 2019 Board meeting.

1. Expected Return on Plan Assets

6.50% per year. The Board expects a long-term rate of return of 6.8% 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
2020	8.00%	6.00%	3.50%	4.13%
2021	7.73	5.88	3.50	5.24
2022	7.46	5.75	3.50	4.04
2023	7.20	5.63	3.50	5.70
2024	6.93	5.50	3.50	6.06
2025	6.66	5.38	3.50	5.37
2026	6.39	5.25	3.50	4.66
2027	6.13	5.13	3.50	6.13
2028	5.86	5.00	3.50	5.96
2029	5.59	4.88	3.50	5.79
2030	5.32	4.75	3.50	5.62
2031	5.05	4.63	3.50	5.45
2032	4.79	4.50	3.50	5.28
2033	4.52	4.38	3.50	5.12
2034	4.25	4.25	3.50	4.95
2035	4.25	4.25	3.50	4.78
2036	4.25	4.25	3.50	4.61
2037	4.25	4.25	3.50	4.44
2038	4.25	4.25	3.50	4.27
2039	4.25	4.25	3.50	4.11
2040	4.25	4.25	3.50	3.94
2041	4.25	4.25	3.50	3.77
2042	4.25	4.25	3.50	3.60
2043	4.25	4.25	3.50	3.60
2044+	4.25	4.25	3.50	3.60

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Actual premium increases for 2019 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

The expected return on Plan assets was reduced from 6.875% to 6.50%.

The per-person cost trends were updated.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the January 10, 2019 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

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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 unreduced 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
Healthy Annuitant	0.948 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.948 times the CalPERS 2009 Employee Mortality Table (Male)	1.048 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	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

80% of active members are assumed to elect coverage upon retirement and 20% are assumed to enter the In-Lieu credit program. 50% of term vested members are assumed to elect coverage upon retirement and 50% are assumed to enter the in-Lieu credit program. Retirees are assumed to continue in their current plan.

Members who elect to receive the In-Lieu credits are assumed to remain in the In-Lieu credit program for five years, after which they are assumed to elect coverage and use their In-Lieu credits.

A new, Sutter Health Vista High Deductible plan will be offered as of 1/1/2019.

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.

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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Assumed Elections for Future Retirees*			
	% Electing	In-Lieu	% Electing
Medical Coverage			
· Active Members	80%	· Active Members	20%
· Terminated Vested Members	50%	· Terminated Vested Members	50%

* Eligible for coverage

Assumed Plan Elections for Future Retirees*			
	% Electing		% Electing
Pre-Medicare Medical Plans		Medicare-Eligible Medical Plans	
· Kaiser DHMO	8%	· Kaiser Senior Advantage	41%
· Kaiser \$25 Co-pay	56%	· BS Medicare HMO	6%
· Kaiser HDHP	5%	· BS Medicare PPO	53%
· Sutter Health DHMO	1%		
· Sutter Health \$20 Co-pay	7%	Dental Plans (All Retirees)	
· Sutter Health Vista	0%	· Delta Dental PPO	99%
· PPO \$25 Co-pay	23%	· DeltaCare HMO	1%

* Eligible for coverage and elect coverage

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:

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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Assumed Rating Tier Elections for Future Retirees				
	Single	Emp/Sp	Emp/Chd	Family
Pre-Medicare Medical Plans				
Males	19%	34%	7%	40%
Females	52%	13%	21%	14%
Medicare Medical Plans				
Males	26%	74%	0%	0%
Females	73%	27%	0%	0%

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

For FYE 2020, trust administrative expenses are assumed to equal \$53.69 per full benefit member and are assumed to increase at the wage inflation assumption of 3.25% per annum.

12. Changes Since the Last Valuation

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

The trust administrative expense assumption was added.

In-Lieu election and period coverage assumptions were added.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Claim and Health Plan Benefit Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 10, 2019 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 2018 and 2019. 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 2018 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. 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, 2018 based on the premiums for 2018 and 2019. 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	Sample Claims Costs - Non-Medicare Eligible					
	Kaiser DHMO		Kaiser \$25 Co-Pay		Kaiser HDHP	
	Male	Female	Male	Female	Male	Female
40	6,708	8,154	11,215	13,820	13,599	16,675
45	6,770	7,886	11,502	13,514	13,866	16,241
50	7,055	7,963	12,193	13,830	14,609	16,541
55	7,702	8,342	13,536	14,690	16,123	17,485
60	8,894	8,673	15,860	15,462	18,794	18,324
64	10,390	8,459	18,698	15,217	22,088	17,978

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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 \$100 Co-pay</u>	
	Male	Female	Male	Female	Male	Female
40	5,751	7,032	8,591	10,656	14,001	17,484
45	5,844	6,833	8,879	10,474	14,585	17,276
50	6,135	6,939	9,486	10,783	15,709	17,897
55	6,746	7,313	10,610	11,525	17,705	19,248
60	7,840	7,644	12,512	12,196	21,012	20,480
64	9,196	7,485	14,809	12,050	24,967	20,313

<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	3,401	3,000	3,401	3,000	5,742	5,066
70	3,611	3,059	3,611	3,059	6,098	5,165
75	4,151	3,440	4,151	3,440	7,009	5,808
80	4,713	3,901	4,713	3,901	7,959	6,587
85	5,090	4,263	5,090	4,263	8,595	7,198

<u>Sample Claims Costs - Dental</u>				
Age	<u>Delta Dental PPO</u>		<u>DeltaCare HMO</u>	
	Male	Female	Male	Female
All	729	729	317	317

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.



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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

None.

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 was 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, administrative expenses, and the 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 the Last Valuation

None.

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.

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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 2018 and 2019 are as follows.

2018 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<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 / POS	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
Dental				
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, 2018 ACTUARIAL VALUATION FUNDING REPORT

APPENDIX C – SUMMARY OF PLAN PROVISIONS

2019 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$528.20	\$1,056.40	\$924.36	\$1,584.60
Kaiser \$25 Co-pay	645.08	1,290.16	1,128.88	1,935.24
Kaiser HDHP	445.04	890.08	778.82	1,335.12
Blue Shield PPO \$25 Co-pay	1,435.38	2,870.74	2,511.94	4,306.12
Sutter Health \$20 Co-pay	652.28	1,304.56	1,141.44	1,956.78
Sutter Health DHMO	534.06	1,068.12	934.56	1,602.12
Sutter Health Vista	445.74	891.50	780.04	1,337.22
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$300.80	\$601.60	\$601.60	\$902.40
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,585.71
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,807.68
Dental				
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
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APPENDIX C – SUMMARY OF PLAN PROVISIONS

Summary of 2019 Benefit Plans:

Non-Medicare Plans:	Kaiser \$25 Co-Pay	Kaiser DHMO	Kaiser High Deductible	Sutter Health Plus \$20 Co-Pay HMO	Sutter Health Plus \$1,500 Deductible	Sutter Health Plus Vista \$2,500 Deductible	Blue Shield PPO \$25 Co-Pay (In Network)
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	\$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	\$2,500/ \$5,000	\$100/\$200
Office Visit copay	\$25	\$40	30%*	\$20	\$20	20%*	\$25
Emergency Room copay	\$100	30%*	30%*	\$100	30%*	20%*	\$100
Hospital Care copay	\$100	30%*	30%*	\$100	30%*	20%*	\$100
Prescription Drug retail copay (30-day supply):							
Generic	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$30	\$30	\$25
Non-Formulary	N/A	N/A	N/A	\$60	\$60	\$60	\$40

* After deductible is paid.

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
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

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APPENDIX C – SUMMARY OF PLAN PROVISIONS

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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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:

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

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.

APPENDIX D – GLOSSARY OF TERMS

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.

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.

APPENDIX D – GLOSSARY OF TERMS

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
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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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