CHEIRON *Classic Values, Innovative Advice*

City of San José Federated Postemployment Healthcare Plan

Actuarial Valuation Funding Report as of June 30, 2018

Produced by Cheiron

January 2019

www.cheiron.us 1.877.CHEIRON (243.4766)

TABLE OF CONTENTS

Section		*Page*
Section I	Board Summary	1
Section II	Certification	8
Section III	Assets	10
Section IV	Measures of Liability	12
Section V	Contributions	15
Section VI	Actuarial Section of the CAFR	17

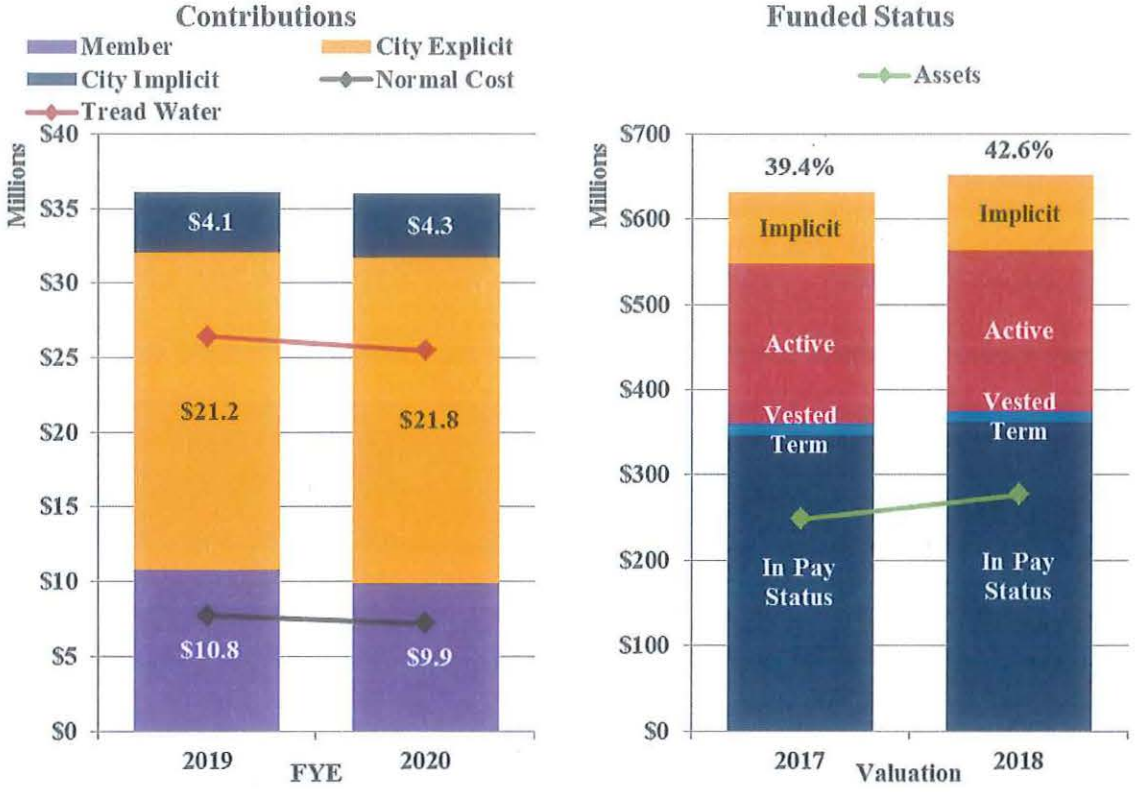
Appendices

Appendix A	Membership Information	21
Appendix B	Actuarial Assumptions and Methods	26
Appendix C	Summary of Plan Provisions	39
Appendix D	Glossary of Terms	45
Appendix E	List of Abbreviations	47

SECTION I – BOARD SUMMARY

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

Dashboard



The charts above are intended to provide a quick overview of the current valuation results compared to the prior valuation results. The chart on the left shows contributions for FYE 2019 and 2020. The normal cost shown by the black line represents the expected cost of the benefits attributable to the current year of service. All contributions above the normal cost go toward paying off the Unfunded Actuarial Liability (UAL). The Tread Water amount shown by the red line represents the amount needed to pay the normal cost and interest on the UAL. Contributions above the Tread Water line reduce the principal of the UAL.

The chart on the right summarizes 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 sections below.

SECTION I – BOARD SUMMARY

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 were negotiated through collective bargaining and were not actuarially determined. With the implementation of Measure F, member contributions are fixed at 7.5% of pay; the City's contribution toward the explicit subsidy is actuarially determined; and, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. Finally, the City has an option to limit its contribution toward the explicit subsidy to 14% of 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
Explicit Subsidy			
Members	$ 9,890	$ 10,778	-8.2%
City's Actuarially Determined Contribution	21,790	21,247	2.6%
Estimated City Optional Cap	43,218	41,535	4.1%
Implicit Subsidy	$ 4,339	$ 4,082	6.3%

Dollar amounts in thousands

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 gray area behind the bars represents the projected annual benefit payments. The black line represents the normal cost and the red line is the projection of the total contributions from the 2017 actuarial valuation. The significant reduction in contributions between FYE 2018 and FYE 2019 is due to the implementation of Measure F, including the VEBA elections and the new lowest cost health plan.

Historical and Projected Contributions FYE 2012-2039



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 as the member contributions decrease. The Plan has historically had positive net cash flow, but that is only expected to last for a few more years.

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, including both the explicit and implicit subsidies, increased by 3%, primarily due to premium experience. At the same time, assets increased over 11% due to contributions and investment returns. As a result, the Unfunded Actuarial Liability decreased by about 2.4% and the funded percentage improved from 39.4% to 42.6%.

Table I-2
Summary of Funded Status

	6/30/2018	6/30/2017	Change
Actuarial Liability			
Explicit Subsidy			
Actives	$ 188,554	$ 188,400	0.1%
Deferred Vested	13,772	13,297	3.6%
In Pay Status	361,380	346,475	4.3%
Implicit Subsidy	86,407	82,280	5.0%
Total	$ 650,114	$ 630,452	3.1%
Assets	277,256	248,583	11.5%
Unfunded Actuarial Liability	$ 372,858	$ 381,868	-2.4%
Funded Percentage	42.6%	39.4%	3.2%

Dollar amounts in thousands

SECTION I – BOARD SUMMARY

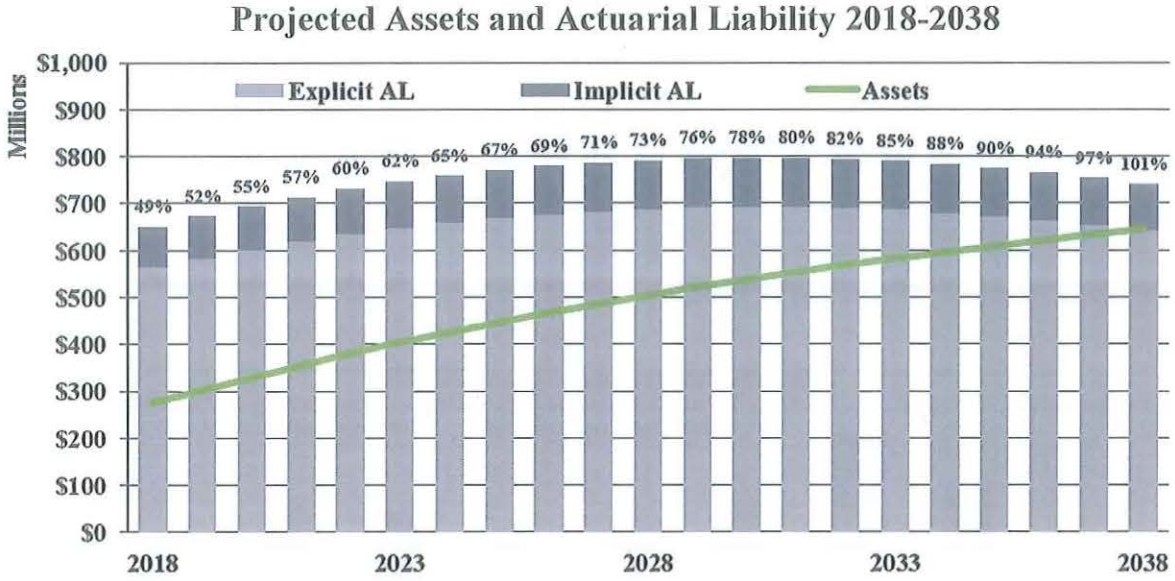
The chart below shows the historical trend of assets and the Actuarial Liability on a funding basis for the City of San José Federated Postemployment Healthcare Plan. The Actuarial Liability grew from 2010 to 2011, reflecting the accumulation of additional benefits as well as rising health care costs and reductions in the discount rate and changes to other assumptions. The reduction in Actuarial Liability from 2011 to 2014 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 in 2015 was primarily due to the change in demographic assumptions. The decrease in the Actuarial Liability in 2017 was primarily due to Plan changes and health assumption changes. The Actuarial Liability remained relatively unchanged in 2018.

Historical Assets and Actuarial Liability



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Funded Ratio	13.7%	14.5%	18.6%	23.9%	30.0%	29.1%	30.7%	39.4%	42.6%
UAL/(Surplus) *(in millions)*	$681.5	$800.5	$604.7	$501.3	$465.2	$511.9	$510.9	$381.9	$372.9
Discount Rate	7.95%	7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%

The chart on the following page shows a 20-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 6.75% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038.



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 decreased about $9 million since the prior year. The explicit subsidy UAL decreased $13 million and the implicit subsidy UAL increased $4 million.

Table I-3
Changes in Unfunded Actuarial Liability

	Implicit	Explicit	Total
Unfunded Actuarial Liability, June, 30, 2017	$ 82,280	$ 299,588	$ 381,868
Unfunded Actuarial Liability, June, 30, 2018	86,407	286,450	372,858
Change in Unfunded Actuarial Liability	**$ 4,127**	**$ (13,138)**	**$ (9,011)**
Sources of Changes			
Normal Cost and Interest on UAL less Contributions	$ 2,911	$ (18,556)	$ (15,645)
Investment Experience	0	5,915	5,915
Experience Changes	(65)	(10,354)	(10,418)
Assumption Changes	1,281	8,029	9,310
VEBA Transfers	0	1,828	1,828
Total Changes	**$ 4,127**	**$ (13,138)**	**$ (9,011)**

Dollar amounts in thousands

SECTION I – BOARD SUMMARY

The primary sources of the reduction in the UAL were contributions ($15.6 million) and plan experience ($10.4 million). The experience changes were mainly driven by the lower than expected increases in the Medicare eligible premium rates. Assumption changes increased the UAL by about $9.3 million, primarily due to the discount rate and health trend changes. Investment experience and the additional assets transferred to the VEBA increased the UAL by about $8 million.

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
Active Members			
Eligible for Full Benefits	1,750	1,930	-9.3%
Eligible for Catastrophic Disability Only	1,711	1,480	15.6%
Total Active Members	3,461	3,410	1.5%
Deferred Vested Members	164	158	3.8%
Members in Pay Status (Medical and/or Dental)	3,504	3,534	-0.8%
Members In-Lieu only	102	N/A	N/A
Total	7,231	7,102	1.8%
Full Benefit Member Payroll	$ 141,745	$ 154,964	-8.5%
Total Payroll	298,985	287,339	4.1%
Actuarial Liability			
Explicit Subsidy	$ 563,706	$ 548,172	2.8%
Implicit Subsidy	86,407	82,280	5.0%
Total Actuarial Liability	$ 650,114	$ 630,452	3.1%
Market Value of Assets	277,256	248,583	11.5%
Explicit Subsidy Unfunded Actuarial Liability	$ 286,450	$ 299,588	-4.4%
Explicit Subsidy Funded Percentage	49.2%	45.3%	8.5%
Total Unfunded Actuarial Liability	$ 372,858	$ 381,868	-2.4%
Total Funded Percentage	42.6%	39.4%	8.2%
	FYE 2020	**FYE 2019**	**% Change**
City's Actuarially Determined Contribution Amount	$ 21,790	$ 21,247	2.6%
City's Actuarially Determined Contribution Rate	7.06%	7.16%	-0.1%
City's Implicit Subsidy Payment	$ 4,339	$ 3,818	13.6%

Dollar amounts in thousands

SECTION II – CERTIFICATION

The purpose of this report is to present the annual actuarial valuation of the City of San José Federated Postemployment 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 and discount rate assumption were adopted by the Board of Administration at the December 20, 2018 Board meeting based upon our recommendations. All other assumptions in this report were adopted at the November 19, 2015 Board meeting based on recommendations from our Experience Study covering Plan experience during the period from July 1, 2010 through June 30, 2015. 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.

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

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 contributions are now made to the 115 Trust while benefit payments are currently being made from the 401(h) account.

Statement of Change in Market Value of Assets

Table III-1 below shows the changes in the Market Value of Assets for the last two fiscal years. 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
Change in Market Value of Assets

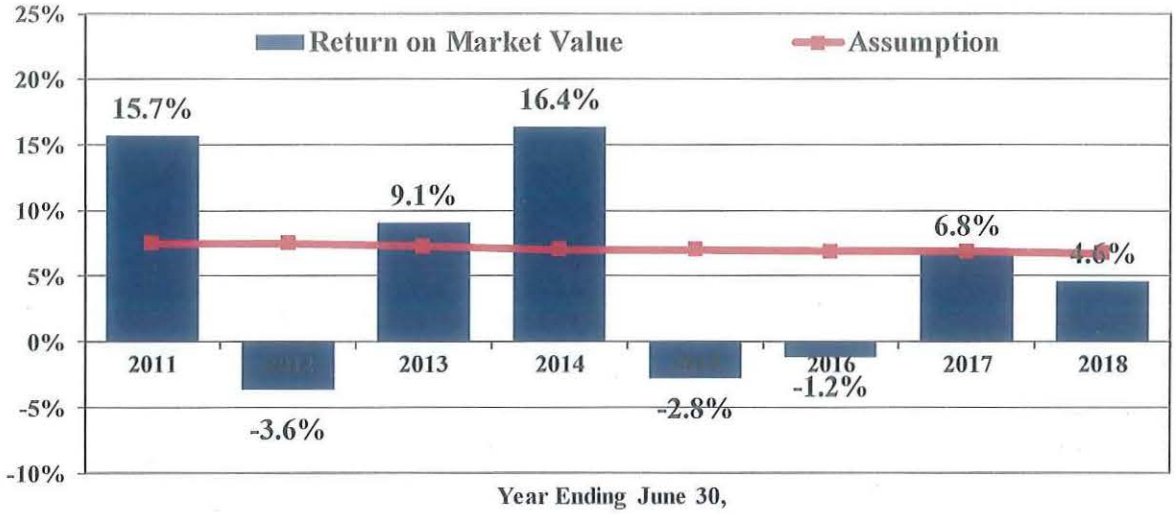
Fiscal Year Ending	6/30/2018 401(h) Acct	6/30/2018 115 Trust	6/30/2018 Total	6/30/2017 Total
Market value, beginning of year	$ 34,146,119	$ 214,437,059	$ 248,583,178	$ 225,845,229
Contributions				
Employee	0	15,544,890	15,544,890	16,826,735
City	0	28,578,332	28,578,332	27,328,443
Implicit subsidy	3,818,363	0	3,818,363	4,576,736
Total	$ 3,818,363	$ 44,123,222	$ 47,941,585	$ 48,731,914
Net investment earnings	1,176,665	10,988,636	12,165,301	16,799,178
Benefit payments				
Explicit subsidy	25,905,264	0	25,905,264	26,430,086
Implicit subsidy	3,818,363	0	3,818,363	4,576,736
Total	$ 29,723,627	$ 0	$ 29,723,627	$ 31,006,822
VEBA Transfer	0	1,710,277	1,710,277	11,786,321
Market value, end of year	**$ 9,417,520**	**$ 267,838,640**	**$ 277,256,160**	**$ 248,583,178**
Estimated Rate of Return	5.6%	4.5%	4.6%	6.9%

In the last year, investments, in aggregate, returned approximately 4.6% compared to an expected rate of return of 6.875%, resulting in an investment loss of approximately $6.0 million. The assets in the 401(h) account returned approximately 5.6% while the assets in the 115 trust returned approximately 4.5%.

SECTION III – ASSETS

The chart below shows the actual investment return on the Market Value of Assets compared to the assumed return for the last eight years. The compound average of the actual returns is about 5.3%.

Historical Rates of Return



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. Table IV-1 below shows the expected net benefit payments for the next 20 years. These payments include the expected annual implicit subsidy as well as expected Plan premium payments (the explicit subsidy).

Table IV-1
Expected Net Benefit Payments

Fiscal Year Ending	Explicit Subsidy			Implicit Subsidy	Total
	Medical	Dental	Total		
2019	$ 20,878,992	$ 3,557,673	$ 24,436,665	$ 4,082,056	$ 28,518,721
2020	22,356,708	3,735,871	26,092,579	4,338,698	30,431,277
2021	24,076,295	3,918,480	27,994,774	4,614,154	32,608,929
2022	25,918,829	4,102,042	30,020,871	4,835,649	34,856,520
2023	27,858,965	4,276,272	32,135,237	5,062,767	37,198,004
2024	30,999,841	4,438,531	35,438,372	5,542,598	40,980,970
2025	32,372,499	4,591,270	36,963,769	5,949,339	42,913,108
2026	34,062,115	4,735,896	38,798,011	6,130,176	44,928,187
2027	35,831,548	4,873,509	40,705,057	6,480,618	47,185,676
2028	37,203,891	5,002,448	42,206,339	6,727,907	48,934,246
2029	38,725,024	5,125,895	43,850,919	6,816,374	50,667,293
2030	40,412,647	5,247,332	45,659,979	7,119,531	52,779,510
2031	41,985,188	5,364,523	47,349,711	7,344,567	54,694,278
2032	43,537,128	5,477,085	49,014,213	7,586,613	56,600,826
2033	44,782,162	5,578,706	50,360,867	7,663,282	58,024,149
2034	46,001,930	5,659,920	51,661,850	7,749,475	59,411,326
2035	47,000,643	5,713,803	52,714,447	7,889,282	60,603,728
2036	47,638,130	5,748,893	53,387,023	7,954,690	61,341,713
2037	48,300,045	5,771,024	54,071,069	8,080,488	62,151,557
2038	48,862,727	5,783,868	54,646,595	8,090,656	62,737,252

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-2 below shows the present value of future benefits as of June 30, 2018 and June 30, 2017.

Table IV-2
Present Value of Future Benefits

	June 30, 2018				June 30, 2017	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	$ 78,145	$ 5,254	$ 55,659	$ 139,059	$ 148,119	-6.1%
Medicare Eligible	129,790	8,518	259,318	397,625	373,491	6.5%
Dental	23,163	0	46,403	69,565	70,140	-0.8%
Total Explicit Subsidy	**$ 231,097**	**$ 13,772**	**$ 361,380**	**$ 606,249**	**$ 591,751**	**2.5%**
Implicit Subsidy	42,298	2,648	49,183	94,129	90,052	4.5%
Total	**$ 273,395**	**$ 16,420**	**$ 410,564**	**$ 700,378**	**$ 681,803**	**2.7%**

Dollar amounts in thousands

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-3 on the next page shows the EA normal cost as of June 30, 2018 and June 30, 2017 separately by component.

SECTION IV – MEASURES OF LIABILITY

Table IV-3
Normal Cost

	June 30, 2018	June 30, 2017	% Change
Explicit Subsidy			
Non-Medicare Eligible	$ 2,252	$ 2,400	-6.2%
Medicare Eligible	3,399	3,313	2.6%
Dental	703	794	-11.4%
Total Explicit Subsidy	**$ 6,354**	**$ 6,507**	**-2.3%**
Implicit Subsidy	1,120	1,124	-0.4%
Total	**$ 7,475**	**$ 7,631**	**-2.0%**

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-4 below shows the Actuarial Liability as of June 30, 2018 and June 30, 2017 separately by component.

Table IV-4
Actuarial Liability

	June 30, 2018				June 30, 2017	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	$ 62,274	$ 5,254	$ 55,659	$ 123,188	$ 131,270	-6.2%
Medicare Eligible	107,322	8,518	259,318	375,158	351,482	6.7%
Dental	18,958	0	46,403	65,361	65,420	-0.1%
Total Explicit Subsidy	**$ 188,554**	**$ 13,772**	**$ 361,380**	**$ 563,706**	**$ 548,172**	**2.8%**
Implicit Subsidy	34,576	2,648	49,183	86,407	82,280	5.0%
Total	**$ 223,130**	**$ 16,420**	**$ 410,564**	**$ 650,114**	**$ 630,452**	**3.1%**

Dollar amounts in thousands

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
Actuarial Liability	$ 563,706	$ 86,407	$ 650,114	$ 548,172	$ 82,280	$ 630,452
Assets	277,256		277,256	248,583		248,583
Unfunded Actuarial Liability	**$ 286,450**	**$ 86,407**	**$ 372,858**	**$ 299,588**	**$ 82,280**	**$ 381,868**
Funded Percentage	**49.2%**	**0.0%**	**42.6%**	**45.3%**	**0.0%**	**39.4%**

Dollar amounts in thousands

The UAL for the explicit subsidy as of June 30, 2017 is amortized as a level dollar amount over 20 years. Future amortization bases will be phased in and out over three years. Table V-2 below shows the schedule of amortization bases for payment of the UAL.

Table V-2
UAL Amortization

	Outstanding Balance	Remaining Period	Remaining Phase-in/out	Payment
2017 UAL	$ 260,242	19	N/A	$ 23,915
2018 Changes	1,265	20	3	40
7/1/2018 Payment*	24,944			
Total 2018 UAL	**$ 286,450**			**$ 23,955**

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

Dollar amounts in thousands

SECTION V – CONTRIBUTIONS

Contribution Amounts

The City pays the actuarially determined contribution for the explicit subsidy, but has the option to cap its contribution at 14% of Federated 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 7.50% of pay.

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2020 and 2019.

Table V-3
City's Actuarially Determined Contribution (ADC)
Explicit Subsidy Only

	FYE 2020	FYE 2019	% Change
Normal Cost	$ 6,108	$ 6,238	-2.1%
UAL Payment	25,572	25,787	-0.8%
Total Contribution	$ **31,680**	$ **32,025**	-1.1%
Projected Member Contributions	9,890	10,778	-8.2%
City's ADC Amount	$ **21,790**	$ **21,247**	**2.6%**
Projected Payroll	308,702	296,678	4.1%
City's ADC Percentage	**7.1%**	**7.2%**	**-0.1%**
City's ADC Amount (BOY)	$ **21,397**	$ **20,856**	**2.6%**

Dollar amounts in thousands

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: Retirees, Beneficiaries and Other Inactives (A)	Actuarial Liability: Active Members (B)	Reported Assets	Portion of Liability Covered by Reported Assets (A)	Portion of Liability Covered by Reported Assets (B)
6/30/2018	$ 426,984	$ 223,130	$ 277,256	65%	0%
6/30/2017	408,627	221,825	$ 248,583	61%	0%
6/30/2016	450,793	313,468	$ 225,845	50%	0%
6/30/2015	469,903	347,770	$ 209,761	45%	0%
6/30/2014	435,826	293,580	$ 199,776	46%	0%
6/30/2013	495,967	374,905	$ 157,695	32%	0%
6/30/2012	611,267	485,353	$ 137,798	23%	0%
6/30/2011	652,157	493,203	$ 135,454	21%	0%
6/30/2010	515,284	411,087	$ 108,011	21%	0%
6/30/2009	421,367	375,081	$ 85,564	20%	0%

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 in that a 100 percent 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 providing member benefit coverage information.

Table VI-2
Analysis of Financial Experience

Actuarial Valuation Date	Gain or (Loss) for Year Ending on Valuation Date Due to: Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2018	$ (5,915)	$ 26,064	$ 20,149	$ (11,137)	$ 9,012
6/30/2017	117	5,259	5,376	123,632	129,008
6/30/2016	(16,044)	(11,608)	(27,652)	99,545	71,893
6/30/2015	(19,264)	6,948	(12,316)	(64,155)	(76,471)
6/30/2014	19,767	31,177	50,944	148,417	199,361
6/30/2013	6,847	5,834	12,681	114,786	127,467
6/30/2012	(14,897)	(27,919)	(42,816)	136,154	93,338
6/30/2011	10,131	(35,166)	(25,035)	(131,557)	(156,592)
6/30/2010	6,705	(43,746)	(37,041)	(36,785)	(73,826)

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.

SECTION VI – ACTUARIAL SECTION OF THE CAFR

Table VI-3
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAL as Percentage of Covered Payroll ((b-a)/c)
6/30/2018	$ 277,256	$ 650,114	$ 372,858	43%	$ 298,985	125%
6/30/2017	248,583	630,452	381,869	39%	287,339	133%
6/30/2016	225,845	764,261	538,416	30%	266,823	202%
6/30/2015	209,761	817,673	607,912	26%	251,430	242%
6/30/2014	199,776	729,406	529,630	27%	234,677	226%
6/30/2013	157,695	870,872	713,177	18%	226,098	315%
6/30/2012	137,798	1,096,620	958,822	13%	225,859	425%
6/30/2011	135,454	1,145,360	1,009,906	12%	228,936	441%
6/30/2010	108,011	926,371	818,360	12%	300,069	273%
6/30/2009	85,564	796,448	710,884	11%	308,697	230%

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			
2018 [2]	3,377	84	3,461	$284,008,289	$82,060	-2.6%
2017 [2]	3,321	89	3,410	287,339,424	84,264	-0.9%
2016 [1]	2,310	77	2,387	202,911,153	85,007	5.8%
2015 [1]	2,527	74	2,601	208,957,370	80,337	5.9%
2014 [1]	2,800	64	2,864	217,167,654	75,827	3.7%
2013	3,028	65	3,093	226,097,882	73,100	-0.4%
2012	3,017	59	3,076	225,859,144	73,426	5.0%
2011	3,201	73	3,274	228,936,398	69,926	-11.2%
2010	3,721	97	3,818	300,811,165	78,788	-0.5%
2009	3,988	91	4,079	323,020,387	79,191	N/A

[1] *Does not include Tier 2B Active Employees*

[2] *Includes members that are only eligible for catastrophic disability benefits*

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		
Medical										
2017-18	2,920	$ 23,621,494	139	136	2,923	$ 20,565,618	3	$ (3,055,876)	-12.9%	$ 7,036
2016-17	2,821	21,844,128	210	111	2,920	23,621,494	99	1,777,366	8.1%	8,090
2015-16	2,769	21,341,423	183	131	2,821	21,844,128	52	502,705	2.4%	7,743
2014-15	2,737	21,940,885	152	120	2,769	21,341,423	32	(599,462)	-2.7%	7,707
2013-14	2,718	22,656,997	151	132	2,737	21,940,885	19	(716,112)	-3.2%	8,016
2012-13	2,680	25,223,474	158	120	2,718	22,656,997	38	(2,566,477)	-10.2%	8,336
2011-12	2,557	25,518,761	203	80	2,680	25,223,474	123	(295,287)	-1.2%	9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4%	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9%	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3%	8,523
Dental										
2017-18	3,322	$ 3,414,299	152	99	3,375	$ 3,477,633	53	$ 63,334	1.9%	$ 1,030
2016-17	3,264	3,224,133	170	112	3,322	3,414,299	58	190,166	5.9%	1,028
2015-16	3,206	3,212,072	159	101	3,264	3,224,133	58	12,061	0.4%	988
2014-15	3,133	3,130,058	160	87	3,206	3,212,072	73	82,014	2.6%	1,002
2013-14	3,103	3,742,351	138	108	3,133	3,130,058	30	(612,293)	-16.4%	999
2012-13	3,044	3,924,332	144	85	3,103	3,742,351	59	(181,981)	-4.6%	1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	179,499	4.8%	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	727,360	24.1%	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	606,912	25.2%	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	63,627	2.7%	1,015

Annual subsidies are explicit amounts

APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Valuation Date	June 30, 2018	June 30, 2017	% Change
Active Employees Eligible for Full Benefits			
Count	1,750	1,930	-9.33%
Average Age	49.2	48.7	1.08%
Average OPEB Benefit Service	16.4	15.6	4.64%
Total Payroll	$155,082,892	$170,243,645	-8.91%
Active Employees Eligible for Catastrophic Disability Only			
Count	1,711	1,480	15.61%
Average Age	38.7	38.9	-0.63%
Average OPEB Benefit Service	3.1	2.9	7.33%
Total Payroll	$128,925,397	$117,095,779	10.10%
Retirees and Surviving Spouses with Medical Coverage *			
Pre-65	994	1,056	-5.87%
Post-65	1,929	1,864	3.49%
Total	2,923	2,920	0.10%
Retirees and Surviving Spouses with Dental Coverage *			
Total	3,375	3,322	1.60%
Retirees and Surviving Spouses in In-Lieu Credit Program *			
Total	102	N/A	N/A
Term Vested Members	164	158	3.80%

** Counts do not include dependent spouses*

APPENDIX A – MEMBERSHIP INFORMATION

Status Reconciliation	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	**3,410**	**158**	**2,942**	**412**	**180**	**7,102**
New Hires	0	0	0	0	0	0
Rehires	1	(1)	0	0	0	0
Vested Terminations	(28)	28	0	0	0	0
Service Retirements	(115)	(16)	131	0	0	0
Disabled Retirements	(3)	0	0	0	3	0
New survivors	0	0	0	27	0	27
No longer covered	(257)	(5)	(77)	(20)	(4)	(363)
Data corrections	7	0	8	(1)	5	19
New Catastrophic Disability	446	0	0	0	0	446
End of Year	**3,461**	**164**	**3,004**	**418**	**184**	**7,231**

Counts do not include dependent spouses

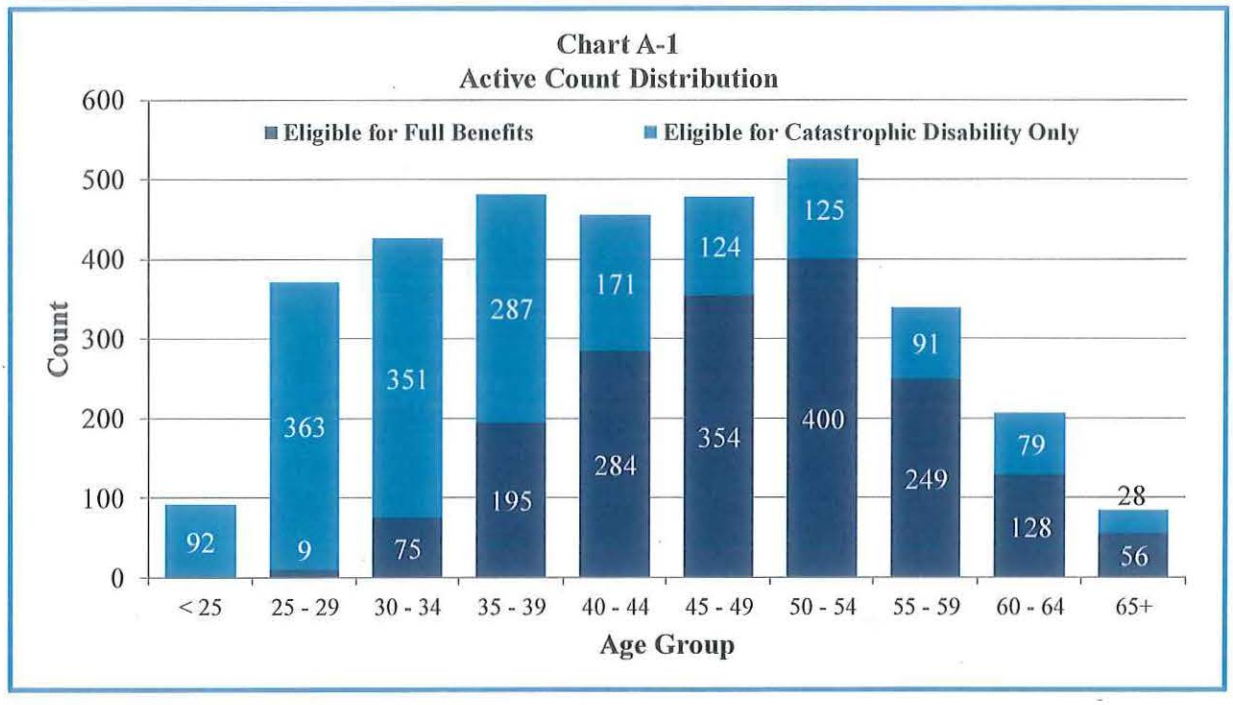
Counts include members in In-Lieu credit program and those eligible for catastrophic disability only

Member Data as of June 30, 2018:

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 – 34	35+	Total
Under 25	0	0	0	0	0	0	0	0	0
25 to 29	1	8	0	0	0	0	0	0	9
30 to 34	6	48	21	0	0	0	0	0	75
35 to 39	7	70	77	39	2	0	0	0	195
40 to 44	6	45	93	124	16	0	0	0	284
45 to 49	3	31	80	145	65	30	0	0	354
50 to 54	1	29	59	127	87	96	1	0	400
55 to 59	3	27	54	78	28	49	9	1	249
60 to 64	1	6	35	47	19	17	2	1	128
65 and up	0	4	11	18	13	7	2	1	56
Total	**28**	**268**	**430**	**578**	**230**	**199**	**14**	**3**	**1,750**

APPENDIX A – MEMBERSHIP INFORMATION

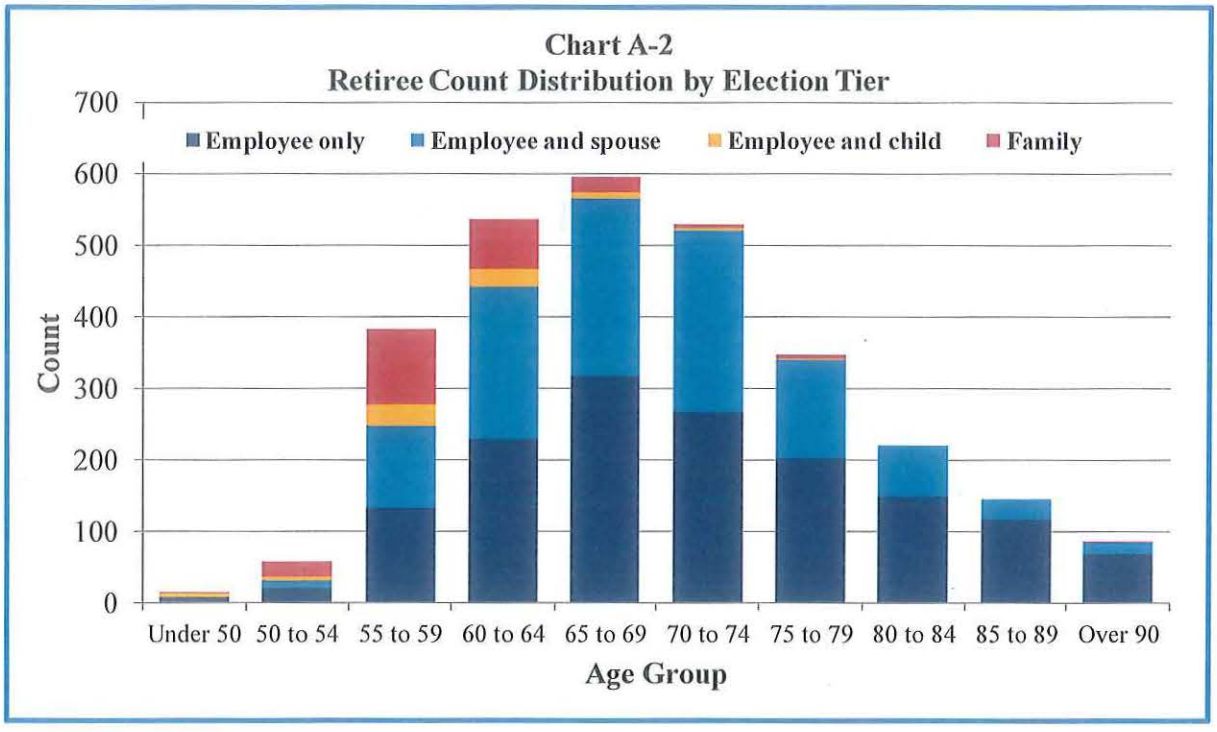
Active Employees Eligible for Catastrophic Disability Benefit Only Years of OPEB Benefit Service									
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 – 34	35+	Total
Under 25	92	0	0	0	0	0	0	0	92
25 to 29	362	1	0	0	0	0	0	0	363
30 to 34	328	22	1	0	0	0	0	0	351
35 to 39	260	20	5	2	0	0	0	0	287
40 to 44	154	10	3	4	0	0	0	0	171
45 to 49	103	5	6	8	2	0	0	0	124
50 to 54	96	7	6	6	2	8	0	0	125
55 to 59	71	7	4	1	5	3	0	0	91
60 to 64	50	16	9	3	1	0	0	0	79
65 and up	10	6	7	2	3	0	0	0	28
Total	**1,526**	**94**	**41**	**26**	**13**	**11**	**0**	**0**	**1,711**



APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses				
	Medical Insurance			Dental
Age Group	Males	Females	Total	Insurance
Under 50	2	12	14	17
50 to 54	31	28	59	63
55 to 59	219	165	384	382
60 to 64	288	249	537	580
65 to 69	327	270	597	677
70 to 74	290	240	530	641
75 to 79	181	167	348	413
80 to 84	107	114	221	271
85 to 89	64	82	146	190
Over 90	33	54	87	141
Total	**1,542**	**1,381**	**2,923**	**3,375**

Counts do not include dependent spouses or members in In-Lieu credit program



APPENDIX A – MEMBERSHIP INFORMATION

Medical Plan Elections as of July 1, 2018			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	130	96	226
Kaiser HDHP	75	51	126
Kaiser $25 Co-pay	603	374	977
Kaiser $15 Co-pay (Hawaii)	1	1	2
Kaiser $25 Co-pay (Northwest)	7	7	14
Sutter Health DHMO	8	4	12
Sutter Health $20 Co-pay	50	22	72
Sutter Health Vista	0	0	0
PPO / POS $25 Co-pay	120	77	197
Total	**994**	**632**	**1,626**
Medicare Medical Plans			
Kaiser Senior Advantage	1113	420	1,533
Kaiser Senior Advantage (Hawaii)	6	1	7
Kaiser Senior Advantage (Northwest)	23	5	28
BS Medicare HMO	136	46	182
BS Medicare PPO / POS	651	223	874
Total	**1,929**	**695**	**2,624**

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	13	11	24
45 to 49	19	33	52
50 to 54	39	38	77
55 to 59	5	2	7
60 to 64	2	2	4
Over 65	0	0	0
Total	**78**	**86**	**164**

**Includes those term vested participants with at least 15 years of OPEB benefit service (37.5% pension multiplier)*

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 December 20, 2018 Board meeting.

1. Expected Return on Plan Assets

6.75% 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

	Annual Increase		
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2020	8.00%	6.00%	3.50%
2021	7.73	5.88	3.50
2022	7.46	5.75	3.50
2023	7.20	5.63	3.50
2024	6.93	5.50	3.50
2025	6.66	5.38	3.50
2026	6.39	5.25	3.50
2027	6.13	5.13	3.50
2028	5.86	5.00	3.50
2029	5.59	4.88	3.50
2030	5.32	4.75	3.50
2031	5.05	4.63	3.50
2032	4.79	4.50	3.50
2033	4.52	4.38	3.50
2034+	4.25	4.25	3.50

Actual premium increases for 2019 were reflected with the above rates applying after 2019. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

3. Changes Since Last Valuation

The expected return on Plan assets was lowered from 6.875% to 6.75%.

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.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The Plan election assumptions were adopted by the Board of Administration at the December 20, 2018 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering Plan experience during the period from July 1, 2010 through June 30, 2015. Please refer to the full experience study report for details, including the rationale for each assumption.

1. Retirement Rates

Rates of retirement for Tier 1 members are based on age according to the following Table – Tier 1.

Tier 1
Rates of Retirement by Age and Service

Age	Less than 15 Years of Service	15 or more Years of Service and less than 30 Years of Service	30 or more Years of Service
50	0.0%	0.0%	70.0%
51	0.0	0.0	70.0
52	0.0	0.0	70.0
53	0.0	0.0	70.0
54	0.0	0.0	70.0
55	8.0	35.0	50.0
56	8.0	22.5	50.0
57	8.0	22.5	50.0
58	8.0	22.5	50.0
59	8.0	22.5	50.0
60	8.0	22.5	45.0
61	8.0	30.0	45.0
62	9.0	30.0	45.0
63	10.0	30.0	45.0
64	15.0	35.0	45.0
65	20.0	40.0	45.0
66	20.0	40.0	45.0
67	20.0	40.0	45.0
68	20.0	40.0	45.0
69	20.0	40.0	45.0
70 & over	100.0	100.0	100.0

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Rates of retirement for Tier 2 members are based on age according to the following Table – Tier 2.

Tier 2
Rates of Retirement by Age and Service

	Years of Service				
Age	5 – 10	11 – 20	21 – 25	26 – 34	35 +
55	3.0%	5.0%	7.0%	10.0%	15.0%
56	2.0%	3.5%	4.0%	7.0%	10.5%
57	2.5%	4.5%	5.0%	8.5%	12.75%
58	3.0%	5.5%	7.0%	11.0%	16.5%
59	3.5%	7.0%	9.0%	13.5%	20.25%
60 – 61	4.0%	8.5%	10.0%	14.5%	21.75%
62	7.5%	12.5%	17.5%	25.0%	100.0%
63 – 69	5.0%	10.0%	15.0%	25.0%	100.0%
70 & over	100.0%	100.0%	100.0%	100.0%	100.0%

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

2. Rates of Termination

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

Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	18.00%	17.50%	9.00%
25	18.00	15.50	9.00
30	18.00	13.50	7.00
35	18.00	11.50	5.50
40	18.00	9.50	4.50
45	18.00	8.00	3.50
50	18.00	7.00	3.00
55	18.00	6.00	3.00
60	18.00	5.00	0.00
65	0.00	0.00	0.00

**Withdrawal/termination rates do not apply once a member is eligible for retirement.*

3. Rates of Refund

Tier 1:
Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table.

Rates of Refund	
Age	Refund
20	40.00%
25	40.00
30	27.50
35	17.00
40	8.00
45	3.00
50	1.00
55	0.00

Tier 2:
Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

4. Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2009. The projection scale used for this valuation is MP-2018.

Base Mortality Tables		
Category	**Male**	**Female**
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

5. Disability Rates

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages	
Age	**Disability**
20	0.014%
25	0.014
30	0.021
35	0.063
40	0.136
45	0.201
50	0.218
55	0.200
60	0.181
65	0.167
70	0.149

40% of disabilities are assumed to be duty related, and 60% are assumed to be non-duty.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

6. Salary Increase Rate

Wage inflation component: 3.25%

In addition, the following merit component is added based on an individual member's years of service.

Salary Merit Increases	
Years of Service	Merit/ Longevity
0	4.50%
1	3.50
2	2.50
3	1.85
4	1.40
5	1.15
6	0.95
7	0.75
8	0.60
9	0.50
10	0.45
11	0.40
12	0.35
13	0.30
14	0.25
15+	0.25

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

7. Percent of Retirees Electing Coverage

85% of active members are assumed to elect coverage upon retirement and 15% 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 below.

Assumed Elections for Future Retirees*			
	% Electing		% Electing
Medical Coverage		**In-Lieu**	
· Active Members	85%	· Active Members	15%
· 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	11%	· Kaiser Senior Advantage	58%
· Kaiser $25 Co-pay	64%	· BS Medicare HMO	8%
· Kaiser HDHP	8%	· BS Medicare PPO	34%
· Sutter Health DHMO	1%		
· Sutter Health $20 Co-pay	4%	**Dental Plans (All Retirees)**	
· Sutter Health Vista	0%	· Delta Dental PPO	97%
· PPO $25 Co-pay	12%	· DeltaCare HMO	3%

** Eligible for coverage and elect coverage*

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

8. Family Composition

85% of married males and 70% 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, 31% of males and 21% of females will cover children.

9. Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

10. Married Percentage

Percentage Married	
Gender	Percentage
Males	80%
Females	60%

11. Administrative Expenses

Included in the average monthly premiums.

12. Changes Since Last Valuation

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

The mortality improvement table was updated from MP-2017 to MP-2018.

In-Lieu election and period coverage assumptions were added.

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 December 20, 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 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, or 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:

Sample Claims Costs - Non-Medicare Eligible						
	Kaiser DHMO		Kaiser $25 Co-Pay		Kaiser HDHP	
Age	Male	Female	Male	Female	Male	Female
40	6,225	7,885	7,965	9,969	4,890	6,050
45	6,594	7,876	8,319	9,866	5,038	5,934
50	7,220	8,262	8,983	10,242	5,367	6,095
55	8,261	8,996	10,149	11,037	5,985	6,499
60	9,927	9,674	12,069	11,763	7,040	6,863
64	11,884	9,666	14,359	11,682	8,320	6,771

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Sample Claims Costs - Non-Medicare Eligible						
	Sutter DHMO		Sutter $20 Co-pay		PPO $100 Co-pay	
Age	Male	Female	Male	Female	Male	Female
40	9,605	11,650	7,576	9,624	11,573	14,623
45	9,668	11,247	8,052	9,634	12,223	14,579
50	10,048	11,333	8,845	10,131	13,345	15,261
55	10,940	11,846	10,151	11,058	15,231	16,582
60	12,602	12,290	12,228	11,915	18,265	17,798
64	14,700	11,968	14,660	11,923	21,838	17,763

Sample Claims Costs - Medicare Eligible						
	Kaiser Senior Adv		BS Med PPO		BS Med HMO	
Age	Male	Female	Male	Female	Male	Female
65	3,409	3,007	5,670	5,001	6,779	5,980
70	3,620	3,066	6,021	5,099	7,198	6,097
75	4,161	3,448	6,920	5,735	8,273	6,856
80	4,724	3,910	7,857	6,503	9,395	7,775
85	5,102	4,273	8,486	7,107	10,146	8,497

Sample Claims Costs - Dental				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	686	686	312	312

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.

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 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 dollar amount over a closed 20-year period. All future amortization bases will be amortized over 20-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 towards the explicit subsidy to no more than 14% of total payroll.

   Active members that are eligible for full benefits will contribute 7.50% of pay.

5. **Changes Since Last Valuation**

   None.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

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

Medical: 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 September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible for unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five years of service. Service credited thru 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 retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

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:

1. 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,
2. Both the member and the survivors were enrolled in the active medical plan immediately before death; and,
3. The survivor will receive a monthly pension benefit.

Dental: Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City's dental plan at the time of the member's retirement.

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

APPENDIX C – SUMMARY OF PLAN PROVISIONS

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

Benefits for Retirees:

Medical: The Plan, through either the 401(h) account or 115 trust, 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.

Dental: The Plan, through either the 401(h) account or 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums for calendar years 2018 and 2019 are as follows.

2018 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
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
Medicare-Eligible Monthly Rates				
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
Dental				
Delta Dental PPO	$50.88	$111.92	$122.12	$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

APPENDIX C – SUMMARY OF PLAN PROVISIONS

2019 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
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
Medicare-Eligible Monthly Rates				
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

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

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.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: 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 are 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:

Amount	Probability of Payment		$\frac{1}{(1+\text{Discount Rate})}$		
$100	x	(1 - .01)	1/(1+.1)	=	$90

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.

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)

CHEIRON

Classic Values, Innovative Advice