



CLASSIC VALUES, INNOVATIVE ADVICE

**Presentation to the
Board of Administration
City of San Jose Police & Fire
Department Retirement Plan**

**Finalizing the Assumptions for the
June 30, 2011
OPEB Actuarial Valuation**



Presentation Date January 5, 2011



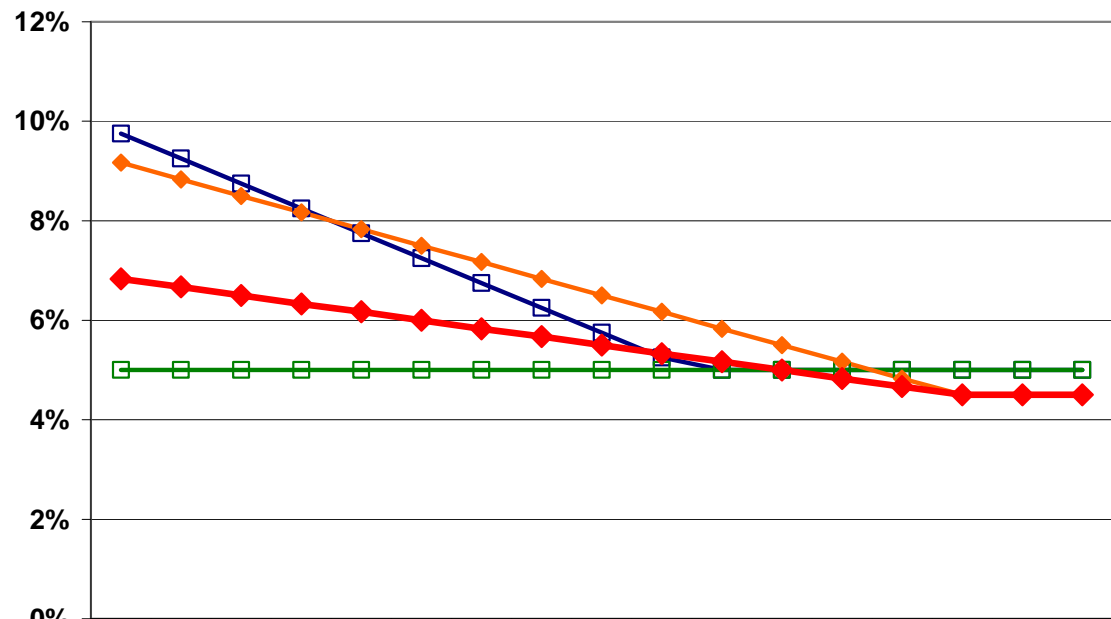
Background

- January 6, 2012 Board Meeting
 - Presentation and recommendation of health assumptions
 - Change in expected return assumption for pension valuation would also affect OPEB valuation
 - Questions raised by City's actuary on
 - Health trend rates for Medicare eligible
 - Assumptions for those not covered by Medicare



Healthcare Trend Rates Medicare Eligible

Medicare Eligible Healthcare Trend Rates



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028 +
—■— Segal Explicit Subsidy and Claims	9.75%	9.25%	8.75%	8.25%	7.75%	7.25%	6.75%	6.25%	5.75%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
—■— Segal Part B	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
—◆— Cheiron Explicit Subsidy	9.17%	8.83%	8.50%	8.17%	7.83%	7.50%	7.17%	6.83%	6.50%	6.17%	5.83%	5.50%	5.17%	4.83%	4.50%	4.50%	4.50%
—◆— Cheiron Medicare Eligible Claims and Part B Prens	6.83%	6.67%	6.50%	6.33%	6.17%	6.00%	5.83%	5.67%	5.50%	5.33%	5.17%	5.00%	4.83%	4.67%	4.50%	4.50%	4.50%

Valuation Year



Healthcare Trend Rates Medicare Eligible

- Explicit Subsidy is based on lowest active plan
 - Using pre-Medicare trend rates
- For trend on estimated claim costs
 - For 2012-2020, Medicare trustees estimate average trends of 1.7% for Part A, 3.8% for Part B, and 6.9% for Part D
 - Premiums are cost to cover primarily coinsurance, deductibles and co-pays imposed by Medicare, which are linked to Medicare trends
 - For retirees in Medicare Advantage plans (Kaiser), lower reimbursements under Affordable Care Act are offset by programs to lower trend and closing of the donut hole



Members Not Covered by Medicare

- Members hired prior to 4/1/1986 are not covered by Medicare due to employment with the City of San Jose
- Can become covered by Medicare due to other employment or spouse's employment
- Valuation data indicates that 29 of 808 retirees who are currently over age 65 are not covered by Medicare
- Given the small number of retirees not covered, we recommend no change to Segal's assumption that 100% of future retirees are covered by Medicare when they reach age 65



Summary of Recommended Assumptions

Claims	By age and gender. Identical to Federated. About a 10% aggregate decrease from prior valuation		
<u>Healthcare Trend</u>	<u>2011-12</u>	<u>Ultimate</u>	<u>Year of Ultimate</u>
Pre-Medicare & Explicit Subsidy	9.17%	4.50%	2026
Medicare Eligible Claims	6.83%	4.50%	2026
Dental	4.50%	4.00%	2014
<u>Participation</u>		<u>Medical</u>	<u>Dental</u>
Retiree		100%	100%
Spouse of male retiree		95%	100%
Spouse of female retiree		70%	100%
Expected Return on Employer Assets			4.00%
Medicare Coverage upon attainment of age 65			100%