

**Presentation to the
Board of Administration
Federated City
Employees' Retirement System**

**June 30, 2010
OPEB Actuarial Valuation**



Presentation Date December 9, 2010

By Bill Hallmark

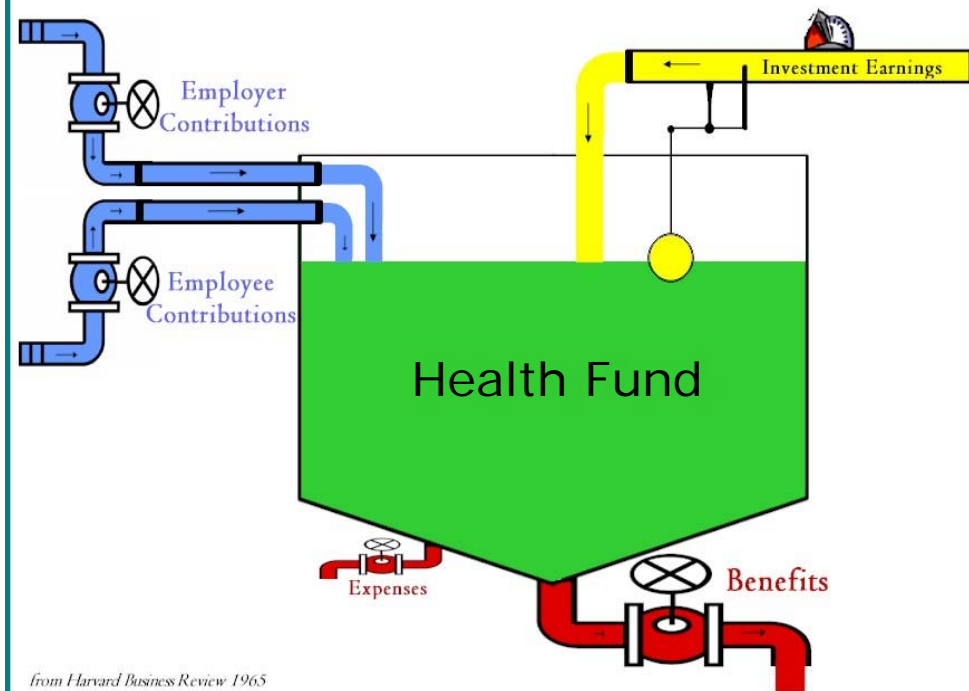


AGENDA

- The Actuarial Valuation Process
- Transition Of Actuarial Services
- Historical Trends
- Assumptions for 2010 Actuarial Valuation
- Contribution Strategy
- Amortization of Gains and Losses

The Actuarial Valuation Process In General

1. Collect information
 - Participant data
 - Plan provisions
 - Financial
2. Apply assumptions
 - Demographic
 - Economic
3. Project all future benefit payments
4. Determine a present value of the benefits
5. Compare to assets
6. Calculate employer and employee contribution





Transition of Actuarial Services

Replication of 2009 GRS Valuation

	GRS	Cheiron	Change
Present Value of Benefits			
Actives	\$ 552,819	\$ 559,478	1.2%
Inactives	<u>421,367</u>	<u>430,282</u>	<u>2.1%</u>
Total	\$ <u>974,187</u>	\$ <u>989,760</u>	1.6%
Actuarial Liability			
Actives	\$ 375,081	\$ 368,683	-1.7%
Inactives	<u>421,367</u>	<u>430,282</u>	<u>2.1%</u>
Total	\$ <u>796,448</u>	\$ <u>798,965</u>	0.3%
Normal Cost Percentage	6.26%	6.28%	0.3%

Amounts in thousands



Transition of Actuarial Services

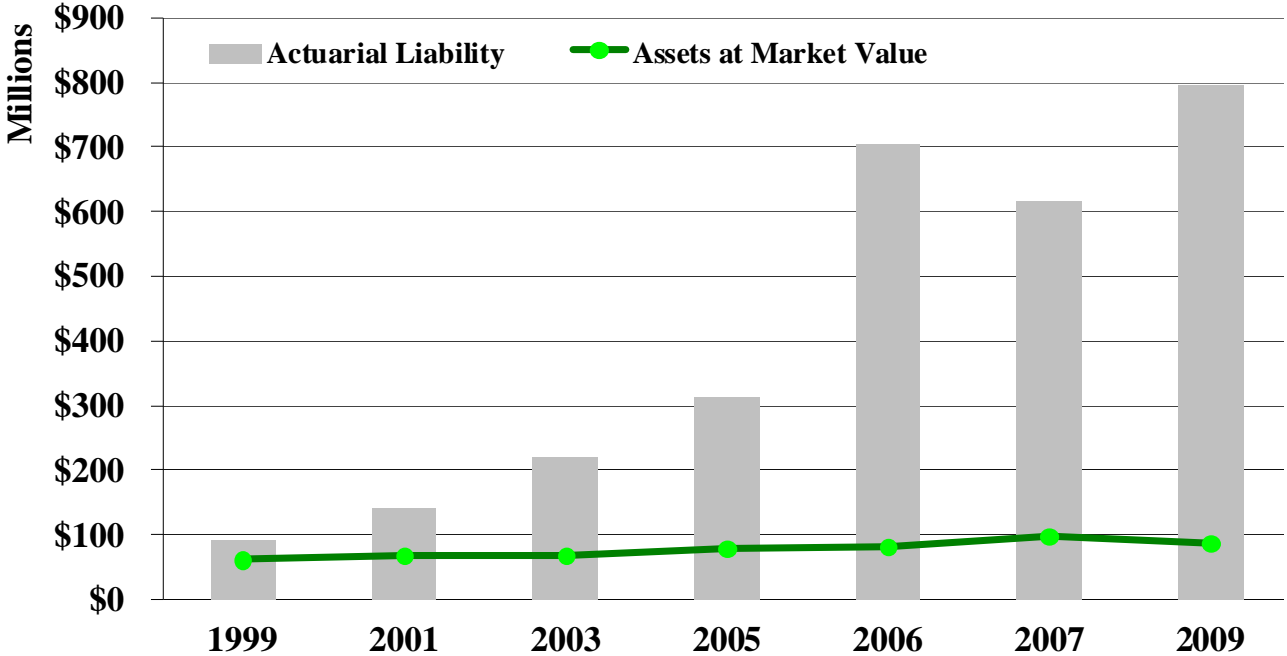
Comments on Transition

- Necessary processed data was received from prior actuary, was able to reconcile with the exception of the terminated vested members (we believe these were left out)
- Full claim curves and expected retiree contributions not received. We estimated both curves to complete the replication
- Assumptions in medical plan slightly different than pension plan. Ideally, they should be the same (e.g. disability and mortality rates do not apply before five years and in pensions they apply immediately)
- Additional assumptions changed from 2008 to 2009, but were not disclosed as changes (e.g. percentage electing)
- Unsure on how the prior actuary treated terminated vested members who are eventually able to elect and receive medical (e.g., terminated vested's who receive at least 37.5% pension are eligible). We included those with 15 years of service in the expected liability



Historical Trends Assets and Liabilities

The City of San Jose Federated Retiree Healthcare Plan



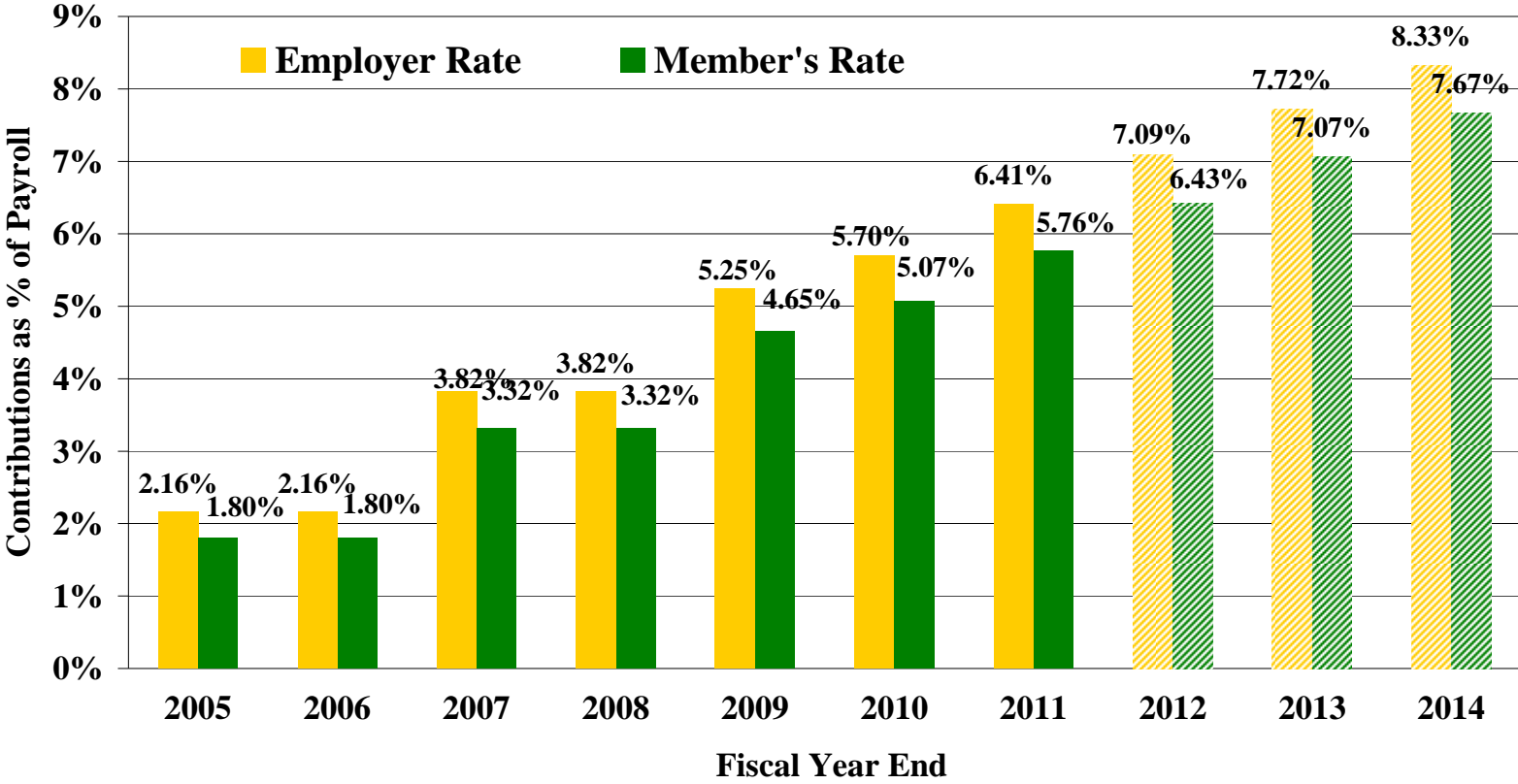
* 2006 was the first GASB 43/45 valuation.

	1999	2001	2003	2005	2006	2007	2009
Funded Ratio	66.2%	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%
UAL/(Surplus) <i>(in millions)</i>	\$ 31.0	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9



Historical Trends Contribution Rates

The City of San Jose Federated Retiree Healthcare Plan

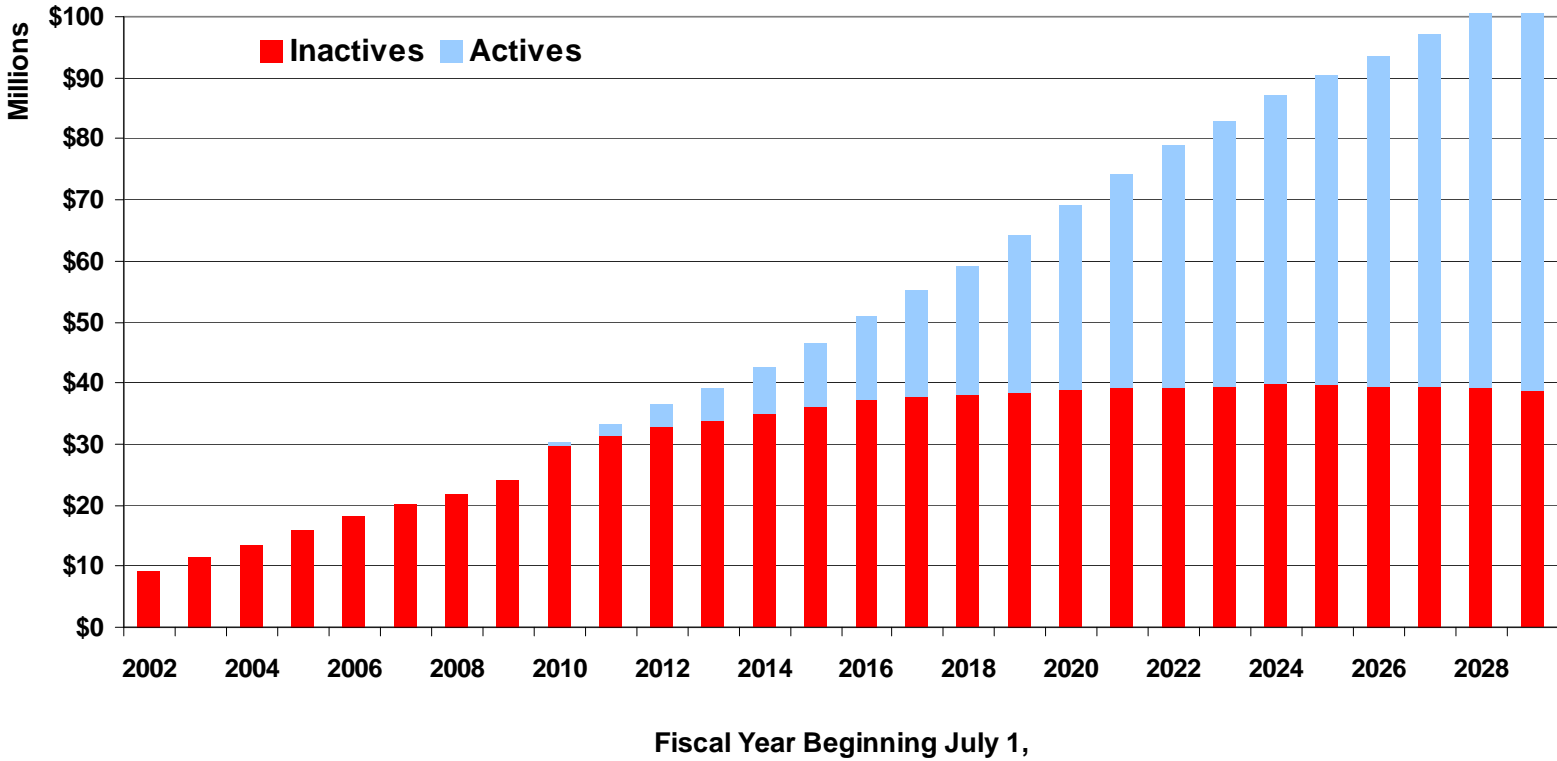


Note: Hashed bars represent projected rates from the 2009 valuation. Phase-in to ARC commenced with 2009 rates.



Historical Trends

Historic and Projected Benefit Payments





Assumptions for 2010 Valuation

- Where applicable, same assumptions as used in the pension valuation
- In addition, the following specific OPEB assumptions are used:
 - Health care trend rates
 - Claims costs
 - Participation assumption
 - Blended discount rate
- Amortization method after 2009 has not been fully defined



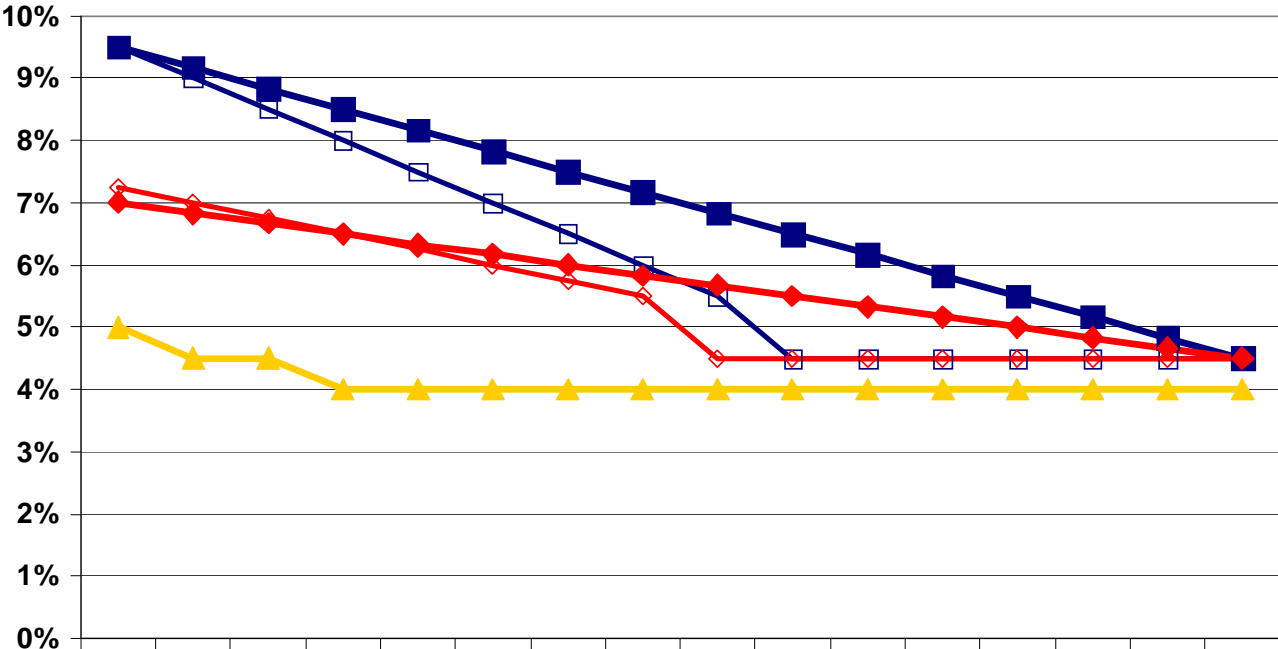
Healthcare Trend Rates

- GRS used trends that trended down to ultimate over a relatively short period, 9 years.
- We propose lengthening the period to 15 years.
- Initial and ultimate trends would stay approximately the same as GRS.
- Proposed trends of:
 - Pre-Medicare: 9.5% to 4.5% over 15 years
 - Post-Medicare: 7% to 4.5% over 15 years
 - Dental: 5%, 4.5%, 4.0%



Healthcare Trend Rates

Healthcare Trend Rates



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025+
GRS Pre-Medicare	9.50%	9.00%	8.50%	8.00%	7.50%	7.00%	6.50%	6.00%	5.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Cheiron Pre-Medicare	9.50%	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%
GRS Medicare Eligible	7.25%	7.00%	6.75%	6.50%	6.25%	6.00%	5.75%	5.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Cheiron Medicare Eligible	7.00%	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%
Dental	5.00%	4.50%	4.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Valuation Year



Claims Costs

Claims Assumptions

Age	<u>7/1/2009</u>		<u>7/1/2010</u>		<u>% Change</u>	
	Male	Female	Male	Female	Male	Female
Medical						
40	\$255	\$399	\$268	\$477	5.2%	19.5%
50	\$468	\$531	\$445	\$599	-4.9%	12.8%
60	\$769	\$739	\$760	\$852	-1.2%	15.3%
64	\$895	\$829	\$982	\$1,052	9.7%	27.0%
65	\$411	\$378	\$429	\$457	4.3%	20.9%
75	\$526	\$467	\$563	\$544	7.0%	16.5%
85	\$587	\$515	\$606	\$556	3.2%	7.9%
Dental	\$93		\$110		18.3%	



Blended Discount Rate

- Board adopted 7.95% expected return for pension plan for 2010 decreasing to 7.75% for 2011
- MOU's require phase-in to full ARC by FY 2013-14 with a contribution of 5.70% in 2009-10 and 6.41% in 2010-11

Valuation Date	7/1/2009	7/1/2010
Expected Return on Plan Assets	7.75%	7.95%
Expected Return on City Assets	4.50%	4.50%
“Full ARC”	8.30%	9.99%
Percent of “Full ARC” contributed	69%	64%
Blended Discount Rate	6.70%	6.71%



Contribution Strategy

- Transition to fully fund ARC over 5 years beginning June 28, 2009
 - Straight line phase-in, but City and Member rates can't increase by more than 0.75% of pay each year
 - Full ARC contributed 2013-14
- Entry Age Normal Cost Method
- Initial unfunded liability amortized over the closed 30-year period ending June 30, 2039
- Changes in unfunded liability other than initial unfunded liability amortized as recommended by the actuary.
 - We recommend a 20-year layered amortization effect with changes as of June 30, 2010.
 - This method is identical to the pension plan.
- Contributions by the City and members in the ratio of:
 - Retiree medical benefits 1:1
 - Retiree dental benefits 8:3



Contribution Limitations

- OPEB is funded using a 401(h) account in the Retirement Fund
- 401(h) limits the amount of contributions that can be made to the account
- GRS' projected that the limit would be reached by June 30, 2013
- Subject to legal interpretations, Cheiron believes the limit will be reached much earlier if not already



Policy for Required Contributions

- The June 30, 2010 valuation results are used to determine phased-in contribution rates for the City and members for Fiscal Year 2012
- We recommend that the City contribution be the greater of the dollar determined contribution reported in the valuation or the dollar determined contribution by applying the valuation City contribution rate times the emerging payroll in the fiscal year
 - Moving from previous percent of payroll approach will eliminate future losses when there are payroll contractions
 - Using the greater of the two provides funding source for future liability losses that occur if layoffs take place



Stress Testing

H-scan OPEB

Stress Testing

CHEIRON



Health Trends

	Initial Trend	First Year	Second Year	Ultimate Trend	Years to Ultimate
Med Pre-Medicare	10.0%	9.5%	9.0%	4.5%	10
Med Post-Medicare	7.5%	7.3%	7.0%	4.5%	9
Dental pre	5.0%	5.0%	4.5%	4.0%	4
Dental post	5.0%	5.0%	4.5%	4.0%	4
Investment Return	7.75%				
Discount Rate	6.70%				

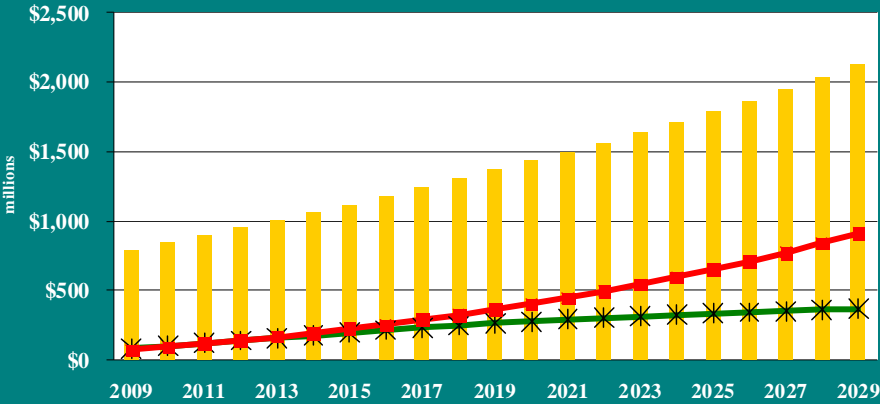
Active Population Growth **0.00%**
 Average Salary Increases **3.83%**

GASB Implemented in FY **2009**

Group To Show:

WARNING: NOT ALLOWED

Assets and Liabilities



Plan Funding

