

## **City of San José Federated Postemployment Healthcare Plan**

### **Actuarial Valuation Funding Report as of June 30, 2020**

**Produced by Cheiron**

**January 2021**

## TABLE OF CONTENTS

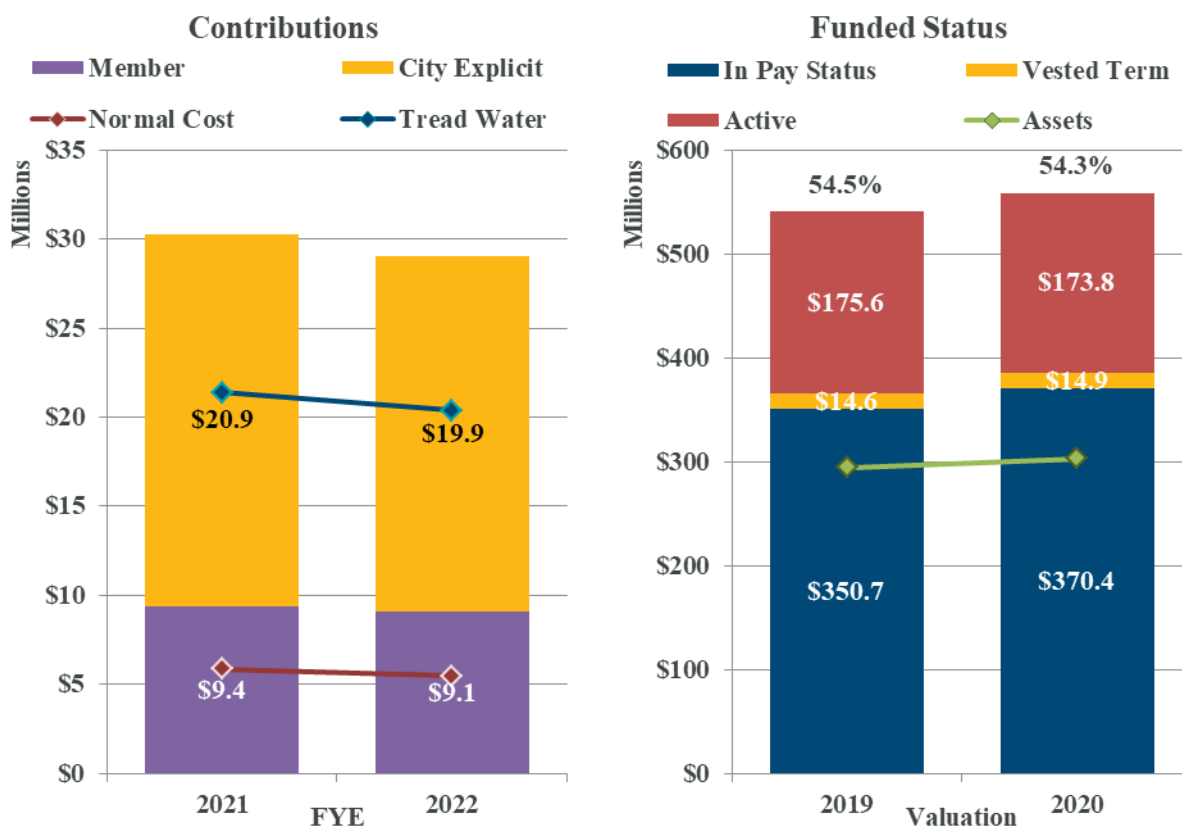
| <u>Section</u>                                     | <u>Page</u> |
|--|-------------|
| Section I Board Summary .....                      | 1           |
| Section II Certification .....                     | 9           |
| Section III Assets .....                           | 11          |
| Section IV Measures of Liability .....             | 13          |
| Section V Contributions.....                       | 18          |
| Section VI Actuarial Section of the CAFR.....      | 20          |
| <br><u>Appendices</u>                              |             |
| Appendix A Membership Information .....            | 25          |
| Appendix B Actuarial Assumptions and Methods ..... | 30          |
| Appendix C Summary of Plan Provisions.....         | 43          |
| Appendix D Glossary of Terms .....                 | 49          |
| Appendix E List of Abbreviations .....             | 51          |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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 to the 115 Trust for FYE 2021 and 2022. The normal cost shown by the red line represents the expected cost of the explicit subsidy 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 blue 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 implicit subsidy payment is not shown as it is funded on a pay-as-you-go basis as a part of the health premiums for active employees. The City's implicit subsidy payment is approximately \$5.4 million for FYE 2022.

The chart on the right summarizes the funded status as of the June 30, 2019 and June 30, 2020 actuarial valuations. The stacked bars represent the Actuarial Liability for the explicit subsidy, with the liability broken into separate components for members currently receiving benefits, vested terminated members, and active members. These amounts are only for the portion of the plan that is intended to be pre-funded, so they do not include the implicit subsidy.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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 2021 and 2022.

| <b>Table I-1</b>                           |                 |                 |                 |       |
|--|-----------------|-----------------|-----------------|-------|
| <b>Summary of Contribution Amounts</b>     |                 |                 |                 |       |
|  | <b>FYE 2022</b> | <b>FYE 2021</b> | <b>% Change</b> |       |
| Explicit Subsidy                           |                 |                 |                 |       |
| Members                                    | \$ 9,076        | \$ 9,356        |                 | -3.0% |
| City's Actuarially Determined Contribution | 19,936          | 20,949          |                 | -4.8% |
| Estimated City Optional Cap                | 46,555          | 43,116          |                 | 8.0%  |
| Implicit Subsidy                           | \$ 5,439        | \$ 4,991        |                 | 9.0%  |

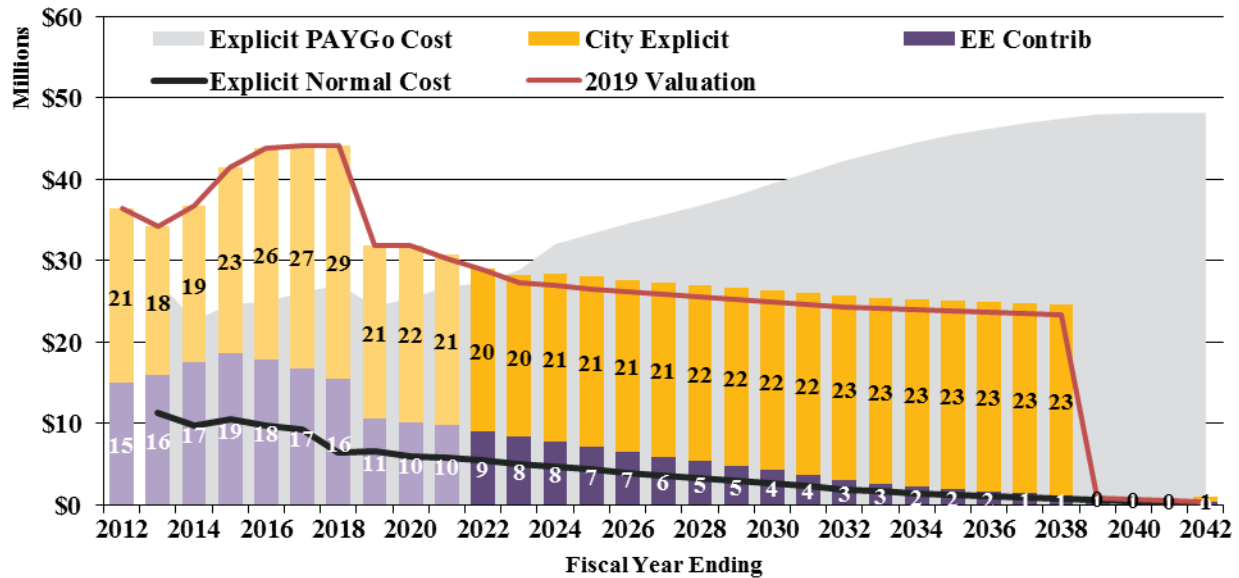
*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

The chart below shows the historical and projected contributions to the Plan. The purple bars represent the member contributions and the gold bars are the City’s contributions to pre-fund the explicit 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 2019 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, the new lowest cost health plan, and the adoption of actuarially determined contributions.

**Historical and Projected Trust Contributions FYE 2012-2042**



Because the full benefit tier of the Plan is closed to new entrants, the member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. The City’s actuarially determined contribution is expected to increase slightly as the member contributions decrease.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

**Funded Status**

Table I-2 below summarizes the Actuarial Liability, Market Value of Assets, Unfunded Actuarial Liability, and funded percentage for the Plan as of June 30, 2020 compared to June 30, 2019. The Actuarial Liability increased by 3.4% compared to an expected increase of 2.9%. The additional increase is primarily due to the reduction in the discount rate from 6.75% to 6.25% and changes in health plan election assumptions, offset by premium experience. At the same time, assets increased 3.0% primarily due to contributions. As a result, the Unfunded Actuarial Liability increased by about 3.8% and the funded percentage declined slightly from 54.5% to 54.3% for the explicit subsidy.

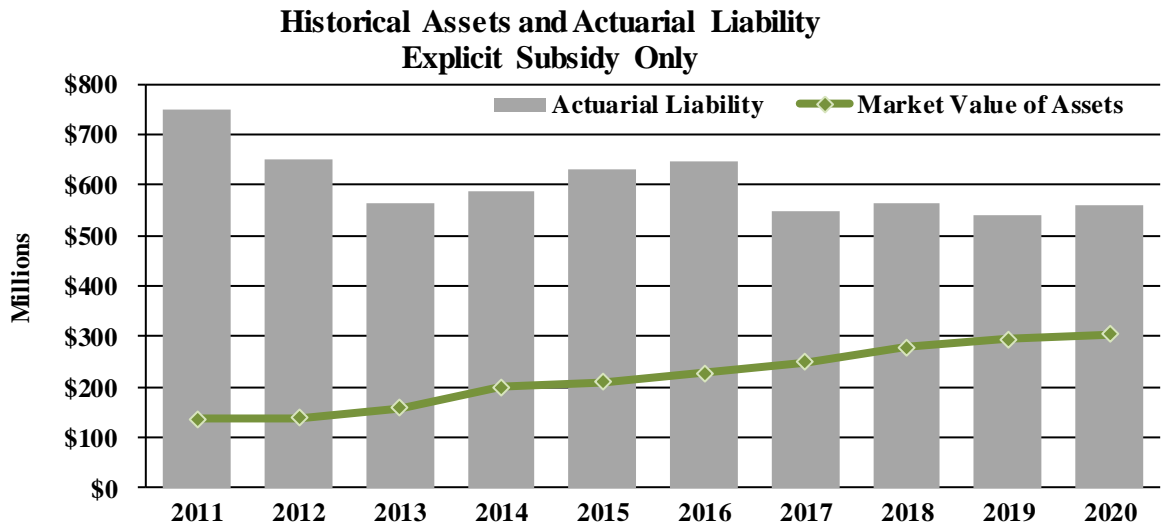
| Table I-2  |                |                |        |       |
|--|----------------|----------------|--------|-------|
| Summary of Funded Status - Explicit Subsidy Only |                |                |        |       |
|  | 6/30/2020      | 6/30/2019      | Change |       |
| Actuarial Liability                              |                |                |        |       |
| Actives  | \$ 173,797     | \$ 175,598     |        | -1.0% |
| Deferred Vested                                  | 14,919         | 14,564         |        | 2.4%  |
| In Pay Status                                    | <u>370,361</u> | <u>350,653</u> |        | 5.6%  |
| Total Actuarial Liability                        | \$ 559,077     | \$ 540,815     |        | 3.4%  |
| Assets   | 303,313        | 294,489        |        | 3.0%  |
| Unfunded Actuarial Liability                     | \$ 255,764     | \$ 246,326     |        | 3.8%  |
| Funded Percentage                                | 54.3%          | 54.5%          |        | -0.2% |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

The following chart shows the historical trend of assets and the Actuarial Liability on a funding basis. Over the last 10 years, the UAL for the explicit subsidy has been reduced by \$357 million due to a combination of a reduction in the Actuarial Liability of \$189 million and an increase in assets of \$168 million. The reduction in Actuarial Liability was primarily due to plan changes and favorable medical cost trend experience. The increase in the assets has been primarily attributable to contributions. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions.



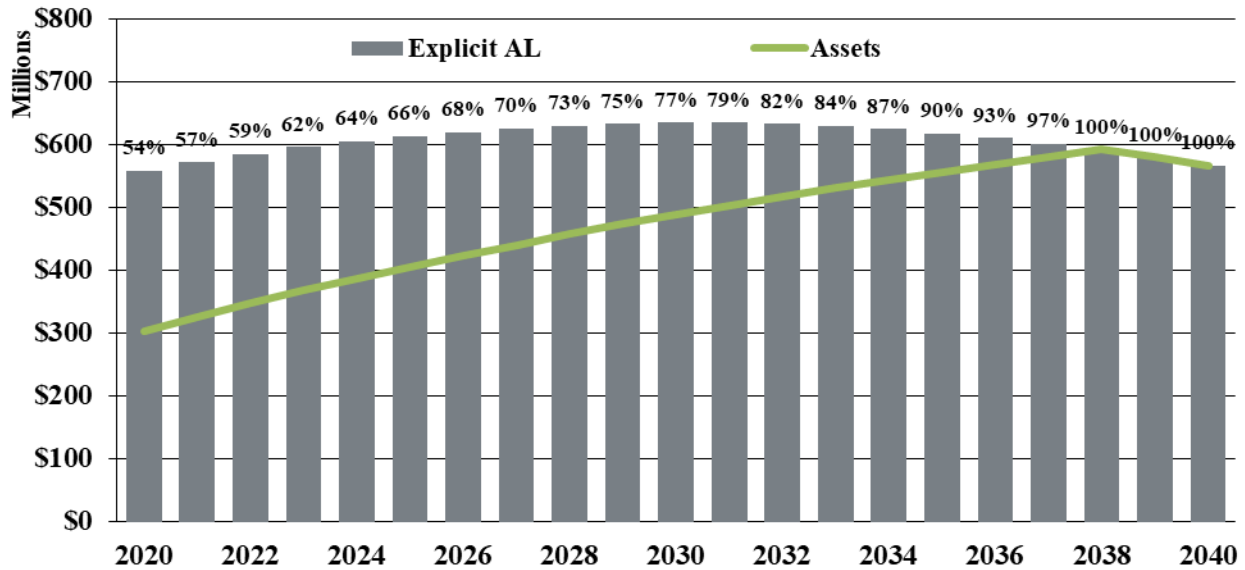
|  | 2011    | 2012    | 2013    | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    | 2020    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Funded Ratio</b>                    | 14.4%   | 18.6%   | 23.9%   | 30.0%   | 29.1%   | 30.7%   | 39.4%   | 42.6%   | 46.6%   | 54.3%   |
| <b>UAL/(Surplus)<br/>(in millions)</b> | \$613.0 | \$512.8 | \$405.1 | \$385.5 | \$421.5 | \$418.8 | \$299.6 | \$286.5 | \$246.3 | \$255.8 |
| <b>Discount Rate</b>                   | 7.50%   | 7.50%   | 7.25%   | 7.00%   | 7.00%   | 6.875%  | 6.875%  | 6.75%   | 6.75%   | 6.25%   |

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. If all assumptions are met in the future including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

**Projected Assets and Actuarial Liability 2020-2040**



**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, 2020. The total UAL increased about \$9.4 million since the prior year.

**Table I-3  
Changes in Unfunded Actuarial Liability  
Explicit Subsidy Only**

|   |                 |
|---|-----------------|
| Unfunded Actuarial Liability, June, 30, 2019  | \$ 246,326      |
| Unfunded Actuarial Liability, June, 30, 2020  | <u>255,764</u>  |
| <b>Change in Unfunded Actuarial Liability</b> | <b>\$ 9,438</b> |
| <b><u>Sources of Changes</u></b>              |                 |
| Tread Water less Contributions                | \$ (10,850)     |
| Investment Experience                         | 17,738          |
| Liability Experience                          | (32,917)        |
| Assumption Changes                            | 35,453          |
| VEBA Transfers                                | <u>14</u>       |
| <b>Total Changes</b>                          | <b>\$ 9,438</b> |

*Dollar amounts in thousands*



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

Liability experience decreased the UAL by about \$32.9 million, mainly driven by the decreases in the Medicare eligible premium rates offset by demographic experience. Assumption changes increased the UAL by about \$35.5 million, primarily due to plan election assumptions and lowering the discount rate from 6.75% to 6.25%. Contributions in excess of the Tread Water amount decreased the UAL by \$10.9 million. The Tread Water amount equals normal cost plus the interest on the UAL. If all assumptions are met, contributions equal to the Tread Water amount would result in no change to the dollar amount of the UAL. Investment experience and the additional assets transferred to the VEBA increased the UAL by about 17.7 million.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION I – BOARD SUMMARY**

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

| <b>Table I-4<br/>Summary of Valuation Results</b> |                      |                      |                 |  |
|---|----------------------|----------------------|-----------------|--|
|   | <b>June 30, 2020</b> | <b>June 30, 2019</b> | <b>% Change</b> |  |
| Active Members                                    |                      |                      |                 |  |
| Eligible for Full Benefits                        | 1,445                | 1,581                | -8.6%           |  |
| Eligible for Catastrophic Disability Only         | 2,151                | 1,919                | 12.1%           |  |
| Total Active Members                              | 3,596                | 3,500                | 2.7%            |  |
| Deferred Vested Members                           | 156                  | 165                  | -5.5%           |  |
| Members in Pay Status (Medical and/or Dental)     | 3,682                | 3,618                | 1.8%            |  |
| Members In-Lieu only                              | 46                   | 28                   | N/A             |  |
| Total   | 7,480                | 7,311                | 2.3%            |  |
| Full Benefit Member Payroll                       | \$ 130,725           | \$ 135,090           | -3.2%           |  |
| Total Payroll                                     | 322,850              | 299,002              | 8.0%            |  |
| Actuarial Liability                               |                      |                      |                 |  |
| Explicit Subsidy                                  | \$ 559,077           | \$ 540,815           | 3.4%            |  |
| Implicit Subsidy                                  | 91,342               | 90,937               | 0.4%            |  |
| Total Actuarial Liability                         | \$ 650,419           | \$ 631,752           | 3.0%            |  |
| Market Value of Assets                            | 303,313              | 294,489              | 3.0%            |  |
| Explicit Subsidy Unfunded Actuarial Liability     | \$ 255,764           | \$ 246,326           | 3.8%            |  |
| Explicit Subsidy Funded Percentage                | 54.3%                | 54.5%                | -0.4%           |  |
| Total Unfunded Actuarial Liability                | \$ 347,106           | \$ 337,263           | 2.9%            |  |
| Total Funded Percentage                           | 46.6%                | 46.6%                | 0.0%            |  |
|   | <b>FYE 2022</b>      | <b>FYE 2021</b>      | <b>% Change</b> |  |
| City's Actuarially Determined Contribution        | \$ 19,936            | \$ 20,949            | -4.8%           |  |
| City's Actuarially Determined Contribution Rate   | 5.99%                | 6.80%                | -0.8%           |  |
| City's Implicit Subsidy Payment                   | \$ 5,439             | \$ 4,991             | 9.0%            |  |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION II – CERTIFICATION**

The purpose of this report is to present the annual actuarial valuation of the City of San José 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 17, 2020 Board meeting based upon our recommendations. All other assumptions in this report were adopted at the November 21, 2019 Board meeting based on recommendations from our Experience Study covering Plan experience through June 30, 2019. Please refer to the experience study report and our Board presentations for an explanation of the rationale for each assumption. We believe these assumptions are reasonable for the purpose of the funding valuation.

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.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Health care trends for this valuation were developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of the SOA Project Oversight Group.

We have relied on the Society of Actuaries as the developer of the Model. We have reviewed the Model and have a basic understanding of the Model and have used the Model in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of the Model that would affect this valuation.

Deterministic projections in this valuation report were developed using H-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience on the future financial status of the Plan. H-scan uses standard roll-forward techniques that implicitly assume a stable active population.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION II – CERTIFICATION**

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.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we collectively 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.



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



Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary



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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION III – ASSETS**

Historically, assets were invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. The 401(h) account has been depleted and all future benefits will be paid from the 115 Trust.

**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<br>Change in Market Value of Assets |                       |                       |
|---|-----------------------|-----------------------|
| Fiscal Year Ending                              | 6/30/2020             | 6/30/2019             |
|   | Total                 | Total                 |
| Market value, beginning of year                 | \$ 294,488,947        | \$ 277,256,160        |
| Contributions                                   |                       |                       |
| Employee  | 10,692,150            | 10,577,720            |
| City  | 21,790,130            | 22,071,342            |
| Implicit subsidy                                | 4,742,930             | 4,338,698             |
| Total   | \$ 37,225,210         | \$ 36,987,760         |
| Net investment earnings                         | 3,077,272             | 9,471,928             |
| Benefit payments                                |                       |                       |
| Explicit subsidy                                | 26,035,849            | 24,485,180            |
| Implicit subsidy                                | 4,742,930             | 4,338,698             |
| Total   | \$ 30,778,779         | \$ 28,823,878         |
| Administrative expenses                         | 686,011               | 384,184               |
| VEBA Transfer                                   | 13,338                | 18,839                |
| <b>Market value, end of year</b>                | <b>\$ 303,313,301</b> | <b>\$ 294,488,947</b> |
| Estimated Rate of Return                        | 1.0%                  | 3.2%                  |

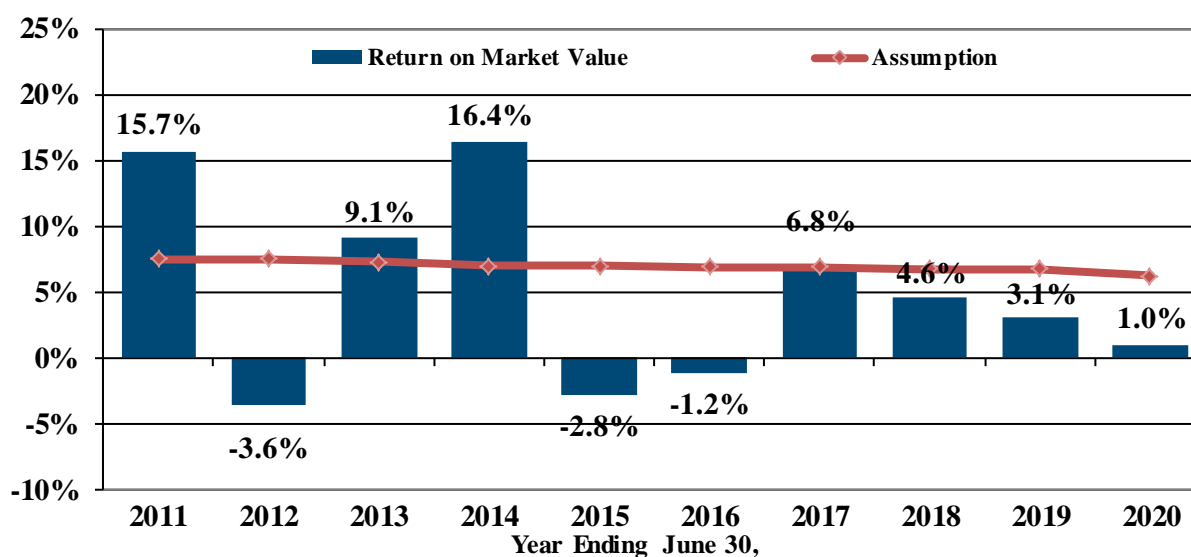
In the last year, investments, in aggregate, returned approximately 1.0% compared to an expected rate of return of 6.75%, resulting in an investment loss of approximately \$17.7 million.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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 10 years. The compound average of the actual returns is about 4.7%.

**Historical Rates of Return**



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

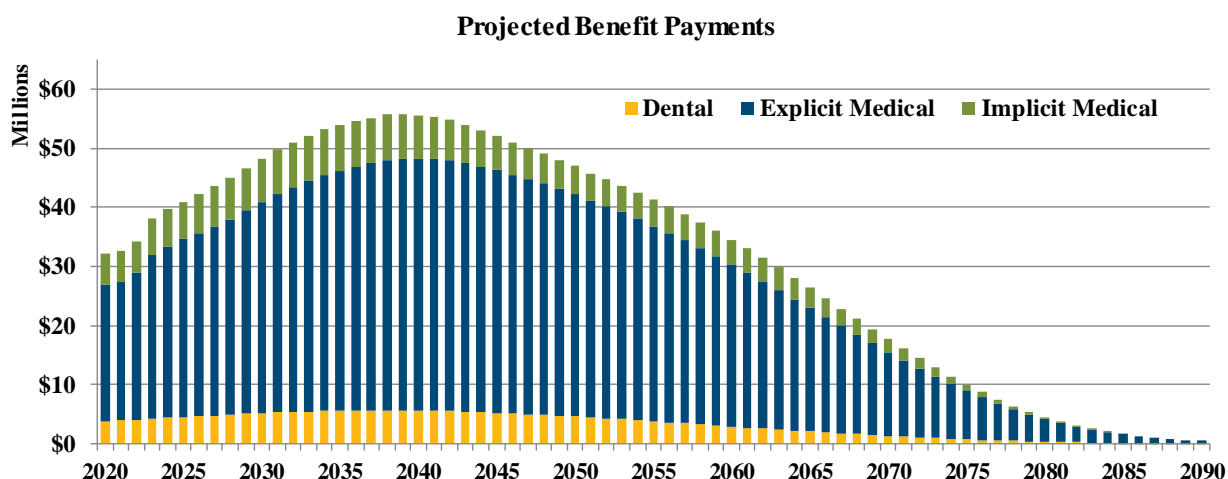
**SECTION IV – MEASURES OF LIABILITY**

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

- Projected benefit payments,
- Present value of future benefits,
- Normal cost, and
- Actuarial Liability.

**Projected Benefit Payments**

The projected benefit payments are the fundamental basis for the valuation representing the amount that is expected to be paid in each future year for members in the Plan as of the valuation date if all assumptions are met. The chart below shows the projected benefit payments for the next 70 years.



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

Table IV-1 below shows the same projected 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<br>Expected Net Benefit Payments |                  |              |               |                     |               |
|---|------------------|--------------|---------------|---------------------|---------------|
| Fiscal Year<br>Ending                       | Explicit Subsidy |              |               | Implicit<br>Subsidy | Total         |
|   | Medical          | Dental       | Total         |                     |               |
| 2021  | \$ 23,104,300    | \$ 3,728,375 | \$ 26,832,675 | \$ 5,287,332        | \$ 32,120,007 |
| 2022  | 23,405,409       | 3,895,345    | 27,300,755    | 5,438,667           | 32,739,422    |
| 2023  | 24,836,121       | 4,057,119    | 28,893,240    | 5,448,593           | 34,341,833    |
| 2024  | 27,848,397       | 4,210,253    | 32,058,650    | 6,064,779           | 38,123,430    |
| 2025  | 28,974,858       | 4,358,145    | 33,333,003    | 6,417,054           | 39,750,057    |
| 2026  | 30,087,150       | 4,503,395    | 34,590,546    | 6,401,152           | 40,991,698    |
| 2027  | 31,025,845       | 4,642,520    | 35,668,365    | 6,629,890           | 42,298,255    |
| 2028  | 32,022,683       | 4,774,218    | 36,796,901    | 6,766,131           | 43,563,032    |
| 2029  | 33,111,804       | 4,906,840    | 38,018,644    | 6,933,133           | 44,951,777    |
| 2030  | 34,450,072       | 5,037,000    | 39,487,072    | 7,062,037           | 46,549,108    |
| 2031  | 35,697,294       | 5,163,167    | 40,860,462    | 7,264,641           | 48,125,102    |
| 2032  | 37,024,647       | 5,283,873    | 42,308,520    | 7,494,912           | 49,803,432    |
| 2033  | 38,062,536       | 5,384,530    | 43,447,066    | 7,535,558           | 50,982,624    |
| 2034  | 39,099,721       | 5,459,452    | 44,559,173    | 7,607,906           | 52,167,080    |
| 2035  | 39,990,635       | 5,513,896    | 45,504,531    | 7,731,244           | 53,235,775    |
| 2036  | 40,663,852       | 5,553,845    | 46,217,697    | 7,749,703           | 53,967,400    |
| 2037  | 41,334,448       | 5,584,946    | 46,919,394    | 7,812,733           | 54,732,127    |
| 2038  | 41,861,280       | 5,610,036    | 47,471,316    | 7,708,288           | 55,179,604    |
| 2039  | 42,375,057       | 5,620,300    | 47,995,358    | 7,790,533           | 55,785,890    |
| 2040  | 42,522,765       | 5,611,820    | 48,134,585    | 7,628,141           | 55,762,726    |



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

**Present Value of Future Benefits**

The present value of future benefits represents the expected amount of money needed today if all assumptions are met to pay for all benefits both earned as of the valuation date and expected to be earned in the future by current Plan members under the current Plan provisions. Table IV-2 below shows the present value of future benefits as of June 30, 2020 and June 30, 2019.

| <b>Table IV-2</b><br><b>Present Value of Future Benefits</b> |                   |                    |                   |                   |                   |             |
|--|-------------------|--------------------|-------------------|-------------------|-------------------|-------------|
|  | June 30, 2020     |                    |                   |                   | June 30, 2019     | %           |
|  | Actives           | Deferred<br>Vested | In Pay<br>Status  | Total             | Total             | Change      |
| Explicit Subsidy   |                   |                    |                   |                   |                   |             |
| Non-Medicare Eligible  | \$ 75,936         | \$ 6,503           | \$ 63,561         | \$ 146,000        | \$ 136,648        | 6.8%        |
| Medicare Eligible  | 114,609           | 8,416              | 256,039           | 379,064           | 375,154           | 1.0%        |
| Dental   | 22,418            | 0                  | 50,761            | 73,178            | 68,143            | 7.4%        |
| <b>Total Explicit Subsidy</b>                                | <b>\$ 212,962</b> | <b>\$ 14,919</b>   | <b>\$ 370,361</b> | <b>\$ 598,242</b> | <b>\$ 579,945</b> | <b>3.2%</b> |
| Implicit Subsidy   | 41,056            | 3,363              | 54,833            | 99,252            | 98,474            | 0.8%        |
| <b>Total</b>   | <b>\$ 254,018</b> | <b>\$ 18,282</b>   | <b>\$ 425,194</b> | <b>\$ 697,494</b> | <b>\$ 678,420</b> | <b>2.8%</b> |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION IV – MEASURES OF LIABILITY**

**Normal Cost**

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits divided by the value, also at entry age, of the 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 below shows the EA normal cost as of June 30, 2020 and June 30, 2019 separately by component, develops the normal cost rate, and applies the rate to the projected payroll for the fiscal year for which contributions are determined.

| <b>Table IV-3</b>             |                      |                      |                 |              |
|-------------------------------|----------------------|----------------------|-----------------|--------------|
| <b>Normal Cost</b>            |                      |                      |                 |              |
|                               | <b>June 30, 2020</b> | <b>June 30, 2019</b> | <b>% Change</b> |              |
| Explicit Subsidy              |                      |                      |                 |              |
| Non-Medicare Eligible         | \$ 2,252             | \$ 2,211             |                 | 1.8%         |
| Medicare Eligible             | 2,803                | 2,900                |                 | -3.3%        |
| Dental                        | 644                  | 624                  |                 | 3.1%         |
| <b>Total Explicit Subsidy</b> | <b>\$ 5,698</b>      | <b>\$ 5,735</b>      |                 | <b>-0.6%</b> |
| Implicit Subsidy              | 1,110                | 1,079                |                 | 2.9%         |
| <b>Total Normal Cost</b>      | <b>\$ 6,808</b>      | <b>\$ 6,813</b>      |                 | <b>-0.1%</b> |
| Valuation Pay                 | \$ 126,822           | \$ 130,749           |                 | -3.0%        |
| Explicit Subsidy Rate         | 4.49%                | 4.39%                |                 | 2.3%         |
| Implicit Subsidy Rate         | 0.88%                | 0.82%                |                 | 7.3%         |
| <b>Total Normal Cost Rate</b> | <b>5.37%</b>         | <b>5.21%</b>         |                 | <b>3.1%</b>  |
|                               | <b>FYE 2022</b>      | <b>FYE 2021</b>      | <b>% Change</b> |              |
| Expected Pay                  | \$ 121,017           | \$ 124,746           |                 | -3.0%        |
| Explicit Subsidy              | 5,434                | 5,476                |                 | -0.8%        |
| Implicit Subsidy              | 1,065                | 1,023                |                 | 4.1%         |
| <b>Total Normal Cost</b>      | <b>\$ 6,499</b>      | <b>\$ 6,499</b>      |                 | <b>0.0%</b>  |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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-4 below shows the Actuarial Liability as of June 30, 2020 and June 30, 2019 separately by component.

| Table IV-4<br>Actuarial Liability |                   |                  |                   |                   |                   |             |
|-----------------------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------|
|                                   | June 30, 2020     |                  |                   |                   | June 30, 2019     |             |
|                                   | Actives           | Deferred Vested  | In Pay Status     | Total             | Total             | % Change    |
| Explicit Subsidy                  |                   |                  |                   |                   |                   |             |
| Non-Medicare Eligible             | \$ 59,590         | \$ 6,503         | \$ 63,561         | \$ 129,654        | \$ 120,809        | 7.3%        |
| Medicare Eligible                 | 95,675            | 8,416            | 256,039           | 360,130           | 355,612           | 1.3%        |
| Dental                            | 18,532            | 0                | 50,761            | 69,293            | 64,394            | 7.6%        |
| <b>Total Explicit Subsidy</b>     | <b>\$ 173,797</b> | <b>\$ 14,919</b> | <b>\$ 370,361</b> | <b>\$ 559,077</b> | <b>\$ 540,815</b> | <b>3.4%</b> |
| Implicit Subsidy                  | 33,146            | 3,363            | 54,833            | 91,342            | 90,937            | 0.4%        |
| <b>Total</b>                      | <b>\$ 206,943</b> | <b>\$ 18,282</b> | <b>\$ 425,194</b> | <b>\$ 650,419</b> | <b>\$ 631,752</b> | <b>3.0%</b> |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION V – CONTRIBUTIONS**

**Contributions for Administrative Expenses**

Under the contribution allocation procedure employed by the Plan, there are three components to the contribution toward the explicit subsidy: the normal cost, administrative expenses, and an amortization payment on the Unfunded Actuarial Liability (UAL). The normal cost was developed in Section IV. This section develops the administrative expenses, 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.

Contributions for administrative expenses are set equal to \$51 per member for FYE 2022 (increasing 3.0 percent each year). There are currently 7,480 members, resulting in estimated administrative expenses for FYE 2022 of \$381,480.

**Amortization of the Unfunded Actuarial Liability**

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, 2020     |                  |                   | June 30, 2019     |                  |                   |
|                                     | Explicit          | Implicit         | Total             | Explicit          | Implicit         | Total             |
| Actuarial Liability                 | \$ 559,077        | \$ 91,342        | \$ 650,419        | \$ 540,815        | \$ 90,937        | \$ 631,752        |
| Assets                              | 303,313           |                  | 303,313           | 294,489           |                  | 294,489           |
| <b>Unfunded Actuarial Liability</b> | <b>\$ 255,764</b> | <b>\$ 91,342</b> | <b>\$ 347,106</b> | <b>\$ 246,326</b> | <b>\$ 90,937</b> | <b>\$ 337,263</b> |
| <b>Funded Percentage</b>            | <b>54.3%</b>      | <b>0.0%</b>      | <b>46.6%</b>      | <b>54.5%</b>      | <b>0.0%</b>      | <b>46.6%</b>      |

*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. Subsequent amortization bases are amortized over 20 years with a three year phase in and out. Table V-2 on the following page shows the schedule of amortization bases for payment of the UAL.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**SECTION V – CONTRIBUTIONS**

| <b>Table V-2<br/>UAL Amortization</b> |                                |                             |                               |                             |
|---------------------------------------|--------------------------------|-----------------------------|-------------------------------|-----------------------------|
|                                       | <b>Outstanding<br/>Balance</b> | <b>Remaining<br/>Period</b> | <b>Remaining<br/>Phase-in</b> | <b>FYE 2022<br/>Payment</b> |
| 2017 UAL                              | \$ 245,474                     | 17                          | N/A                           | \$ 23,140                   |
| 2018 Changes                          | 1,314                          | 18                          | 1                             | 117                         |
| 2019 Changes                          | (33,969)                       | 19                          | 2                             | (2,012)                     |
| 2020 Changes                          | 19,233                         | 20                          | 3                             | 587                         |
| FYE 2021 Payment*                     | <u>23,712</u>                  |                             |                               |                             |
| <b>Total 2019 UAL</b>                 | <b>\$ 255,764</b>              |                             |                               | <b>\$ 21,832</b>            |

\* FYE 2021 amortization payment discounted to 7/1/2020

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 14% of Federated payroll, including the payroll for members only covered for catastrophic disability. The actuarially determined contribution is the normal cost, administrative expenses, and the amortization payment on the UAL less expected member contributions. Members eligible for full benefits contribute 7.50% of pay.

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2022 and 2021.

| <b>Table V-3<br/>City's Actuarially Determined Contribution (ADC)<br/>Explicit Subsidy Only</b> |                  |                  |                 |
|---|------------------|------------------|-----------------|
|   | <b>FYE 2022</b>  | <b>FYE 2021</b>  | <b>% Change</b> |
| Normal Cost   | \$ 5,434         | \$ 5,476         | -0.8%           |
| Admin Expenses  | 381              | 329              |                 |
| UAL Payment   | <u>23,197</u>    | <u>24,500</u>    | -5.3%           |
| <b>Total Contribution</b>   | <b>\$ 29,012</b> | <b>\$ 30,305</b> | -4.3%           |
| Projected Member Contributions  | <u>\$ 9,076</u>  | <u>\$ 9,356</u>  | -3.0%           |
| <b>City's ADC Amount</b>  | <b>\$ 19,936</b> | <b>\$ 20,949</b> | <b>-4.8%</b>    |
| Projected Payroll   | 332,536          | 307,972          | 8.0%            |
| <b>City's ADC Percentage</b>  | <b>6.0%</b>      | <b>6.8%</b>      | <b>-0.8%</b>    |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

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

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

| Table VI-1                          |   |         |                          |                    |  |         |     |    |
|-------------------------------------|---|---------|--------------------------|--------------------|--|---------|-----|----|
| Member Benefit Coverage Information |   |         |                          |                    |  |         |     |    |
| Actuarial<br>Valuation<br>Date      | Actuarial Liability   |         | Active<br>Members<br>(B) | Reported<br>Assets | Portion of Liability Covered by<br>Reported Assets |         |     |    |
|                                     | Retirees,<br>Beneficiaries<br>and Other<br>Inactives<br>(A) |         |                          |                    | (A)  | (B)     |     |    |
| 6/30/2020                           | \$  | 443,476 | \$                       | 206,943            | \$   | 303,313 | 68% | 0% |
| 6/30/2019                           |   | 422,108 |                          | 209,644            |  | 294,489 | 70% | 0% |
| 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% |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

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

| Table VI-2<br>Analysis of Financial Experience |  |                                     |                                  |                        |                     |  |
|--|--|-------------------------------------|----------------------------------|------------------------|---------------------|--|
| Actuarial<br>Valuation<br>Date                 | Gain or (Loss) for Year Ending on Valuation Date Due to: |                                     |                                  |                        |                     |  |
|  | Investment<br>Income                                     | Combined<br>Liability<br>Experience | Total<br>Financial<br>Experience | Non-Recurring<br>Items | Total<br>Experience |  |
| 6/30/2020                                      | \$ (17,738)  | \$ 69,483                           | \$ 51,745                        | \$ (34,497)            | \$ 17,248           |  |
| 6/30/2019                                      | (10,654)   | (34,979)                            | (45,633)                         | 14,784                 | (30,849)            |  |
| 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)           |  |

*Dollar amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

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

***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.

| <b>Table VI-3<br/>Schedule of Funding Progress</b> |  |  |   |                                   |   |   |
|--|--|--|---|-----------------------------------|---|---|
| <b>Actuarial<br/>Valuation<br/>Date</b>            | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Liability<br/>(b)</b> | <b>Unfunded<br/>Actuarial<br/>Liability<br/>(UAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Annual<br/>Covered<br/>Payroll<br/>(d)</b> | <b>UAL as<br/>Percentage of<br/>Covered<br/>Payroll<br/>((b-a)/c)</b> |
| 6/30/2020  | \$ 303,313                                       | \$ 650,419                             | \$ 347,106  | 47%                               | \$ 322,850                                    | 108%  |
| 6/30/2019  | 294,489  | 631,752                                | 337,263   | 47%                               | 299,002                                       | 113%  |
| 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%  |

*Dollar amounts in thousands*



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

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

| Schedule of Active Member Data |                      |         |       |                   |                       |                            |       |
|--------------------------------|----------------------|---------|-------|-------------------|-----------------------|----------------------------|-------|
| Valuation<br>Date              | Active Member Counts |         |       | Annual<br>Payroll | Average<br>Annual Pay | % Change in<br>Average Pay |       |
|                                | Under Age 65         | Age 65+ | Total |                   |                       |                            |       |
| 2020                           | <sup>2</sup>         | 3,495   | 101   | 3,596             | \$ 322,850,457        | \$ 89,780                  | 5.1%  |
| 2019                           | <sup>2</sup>         | 3,412   | 88    | 3,500             | 299,001,886           | 85,429                     | 4.1%  |
| 2018                           | <sup>2</sup>         | 3,377   | 84    | 3,461             | 284,008,289           | 82,060                     | -2.6% |
| 2017                           | <sup>2</sup>         | 3,321   | 89    | 3,410             | 287,339,424           | 84,264                     | -0.9% |
| 2016                           | <sup>1</sup>         | 2,310   | 77    | 2,387             | 202,911,153           | 85,007                     | 5.8%  |
| 2015                           | <sup>1</sup>         | 2,527   | 74    | 2,601             | 208,957,370           | 80,337                     | 5.9%  |
| 2014                           | <sup>1</sup>         | 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                     |       |

<sup>1</sup> Does not include Tier 2B Active Employees

<sup>2</sup> Includes members that are only eligible for catastrophic disability benefits, does not include Tier 2B Active Employees

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

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

| Schedule of Retirees and Beneficiaries<br>Added to and Removed from Rolls |                     |                |                |                    |               |                |            |                |                   |                |
|---|---------------------|----------------|----------------|--------------------|---------------|----------------|------------|----------------|-------------------|----------------|
| Period  | Beginning of Period |                | Added to Rolls | Removed from Rolls | End of Period |                | Net Change |                | % Increase        | Average        |
|   | Count               | Annual Subsidy | Count          | Count              | Count         | Annual Subsidy | Count      | Annual Subsidy | in Annual Subsidy | Annual Subsidy |
| <b><u>Medical</u></b>   |                     |                |                |                    |               |                |            |                |                   |                |
| 2019-20   | 2,909               | \$ 21,588      | 254            | 106                | 3,057         | \$ 23,648      | 148        | \$ 2,059       | 9.5%              | \$ 7,736       |
| 2018-19   | 2,923               | 20,566         | 124            | 138                | 2,909         | 21,588         | (14)       | 1,023          | 5.0%              | 7,421          |
| 2017-18   | 2,920               | 23,621         | 139            | 136                | 2,923         | 20,566         | 3          | (3,056)        | -12.9%            | 7,036          |
| 2016-17   | 2,821               | 21,844         | 210            | 111                | 2,920         | 23,621         | 99         | 1,777          | 8.1%              | 8,090          |
| 2015-16   | 2,769               | 21,341         | 183            | 131                | 2,821         | 21,844         | 52         | 503            | 2.4%              | 7,743          |
| 2014-15   | 2,737               | 21,941         | 152            | 120                | 2,769         | 21,341         | 32         | (599)          | -2.7%             | 7,707          |
| 2013-14   | 2,718               | 22,657         | 151            | 132                | 2,737         | 21,941         | 19         | (716)          | -3.2%             | 8,016          |
| 2012-13   | 2,680               | 25,223         | 158            | 120                | 2,718         | 22,657         | 38         | (2,566)        | -10.2%            | 8,336          |
| 2011-12   | 2,557               | 25,519         | 203            | 80                 | 2,680         | 25,223         | 123        | (295)          | -1.2%             | 9,412          |
| 2010-11   | 2,245               | 20,521         | 429            | 117                | 2,557         | 25,519         | 312        | 4,998          | 24.4%             | 9,980          |
| <b><u>Dental</u></b>  |                     |                |                |                    |               |                |            |                |                   |                |
| 2019-20   | 3,405               | \$ 3,502       | 158            | 109                | 3,454         | \$ 3,561       | 49         | \$ 58          | 1.7%              | \$ 1,031       |
| 2018-19   | 3,375               | 3,478          | 123            | 93                 | 3,405         | 3,502          | 30         | 25             | 0.7%              | 1,029          |
| 2017-18   | 3,322               | 3,414          | 152            | 99                 | 3,375         | 3,478          | 53         | 63             | 1.9%              | 1,030          |
| 2016-17   | 3,264               | 3,224          | 170            | 112                | 3,322         | 3,414          | 58         | 190            | 5.9%              | 1,028          |
| 2015-16   | 3,206               | 3,212          | 159            | 101                | 3,264         | 3,224          | 58         | 12             | 0.4%              | 988            |
| 2014-15   | 3,133               | 3,130          | 160            | 87                 | 3,206         | 3,212          | 73         | 82             | 2.6%              | 1,002          |
| 2013-14   | 3,103               | 3,742          | 138            | 108                | 3,133         | 3,130          | 30         | (612)          | -16.4%            | 999            |
| 2012-13   | 3,044               | 3,924          | 144            | 85                 | 3,103         | 3,742          | 59         | (182)          | -4.6%             | 1,206          |
| 2011-12   | 2,906               | 3,745          | 203            | 65                 | 3,044         | 3,924          | 138        | 179            | 4.8%              | 1,289          |
| 2010-11   | 2,588               | 3,017          | 413            | 95                 | 2,906         | 3,745          | 318        | 727            | 24.1%             | 1,289          |

*Annual subsidies are explicit amounts in thousands*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

**Member Data**

| <b>Valuation Date</b>  | <b>June 30, 2020</b> | <b>June 30, 2019</b> | <b>% Change</b> |
|--|----------------------|----------------------|-----------------|
| <b><i>Active Employees Eligible for Full Benefits</i></b>                |                      |                      |                 |
| Count  | 1,445                | 1,581                | -8.60%          |
| Average Age  | 50.3                 | 49.7                 | 1.25%           |
| Average OPEB Benefit Service   | 17.6                 | 16.8                 | 4.46%           |
| Total Payroll  | \$142,837,698        | \$147,613,697        | -3.24%          |
| <b><i>Active Employees Eligible for Catastrophic Disability Only</i></b> |                      |                      |                 |
| Count  | 2,151                | 1,919                | 12.09%          |
| Average Age  | 39.0                 | 38.7                 | 0.69%           |
| Average OPEB Benefit Service   | 3.8                  | 3.2                  | 17.07%          |
| Total Payroll  | \$180,012,759        | \$151,388,189        | 18.91%          |
| <b><i>Retirees and Surviving Spouses with Medical Coverage *</i></b>     |                      |                      |                 |
| Pre-65   | 913                  | 900                  | 1.44%           |
| Post-65  | 2,144                | 2,009                | 6.72%           |
| Total  | 3,057                | 2,909                | 5.09%           |
| <b><i>Retirees and Surviving Spouses with Dental Coverage *</i></b>      |                      |                      |                 |
| Total  | 3,454                | 3,405                | 1.44%           |
| <b><i>Retirees and Surviving Spouses in In-Lieu Credit Program *</i></b> |                      |                      |                 |
| Total  | 199                  | 134                  | 48.51%          |
| <b><i>Term Vested Members</i></b>  | <b>156</b>           | <b>165</b>           | <b>-5.45%</b>   |

\* Counts do not include dependent spouses

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

|                             | Status Reconciliation |                      |              |                     |            | Total        |
|-----------------------------|-----------------------|----------------------|--------------|---------------------|------------|--------------|
|                             | Active                | Terminated<br>Vested | Retiree      | Surviving<br>Spouse | Disabled   |              |
| <b>Beginning of Year</b>    | <b>3,500</b>          | <b>165</b>           | <b>3,062</b> | <b>406</b>          | <b>178</b> | <b>7,311</b> |
| New Hires                   | 0                     | 0                    | 0            | 0                   | 0          | 0            |
| Rehires                     | 0                     | 0                    | 0            | 0                   | 0          | 0            |
| Vested Terminations         | (9)                   | 9                    | 0            | 0                   | 0          | 0            |
| Service Retirements         | (99)                  | (17)                 | 116          | 0                   | 0          | 0            |
| Disabled Retirements        | (2)                   | 0                    | (1)          | 0                   | 3          | 0            |
| New survivors               | (1)                   | 0                    | 0            | 32                  | 0          | 31           |
| No longer covered           | (211)                 | (1)                  | (77)         | (29)                | (10)       | (328)        |
| Data corrections            | 2                     | 0                    | 43           | (1)                 | 6          | 50           |
| New Catastrophic Disability | 416                   | 0                    | 0            | 0                   | 0          | 416          |
| <b>End of Year</b>          | <b>3,596</b>          | <b>156</b>           | <b>3,143</b> | <b>408</b>          | <b>177</b> | <b>7,480</b> |

*Counts do not include dependent spouses*

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

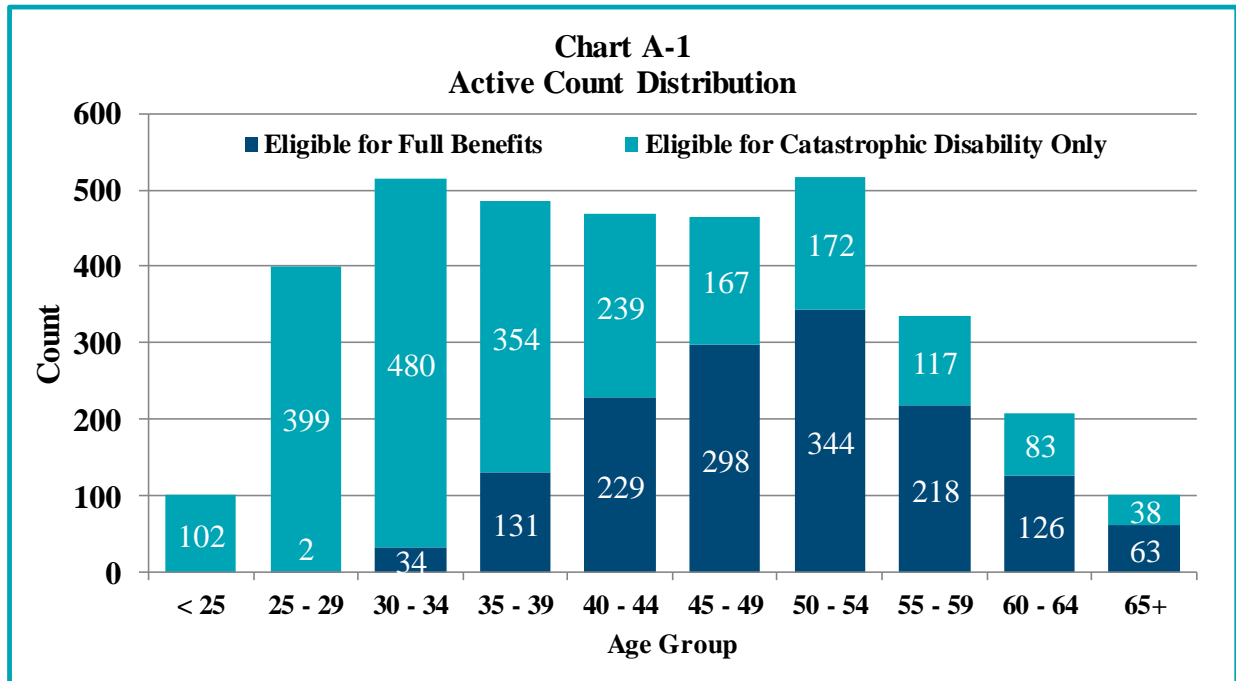
**Member Data as of June 30, 2020:**

| 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                                    | 0        | 2          | 0          | 0          | 0          | 0          | 0         | 0        | 2            |
| 30 to 34                                    | 0        | 23         | 11         | 0          | 0          | 0          | 0         | 0        | 34           |
| 35 to 39                                    | 2        | 43         | 75         | 10         | 1          | 0          | 0         | 0        | 131          |
| 40 to 44                                    | 0        | 31         | 91         | 80         | 26         | 1          | 0         | 0        | 229          |
| 45 to 49                                    | 2        | 22         | 57         | 97         | 107        | 13         | 0         | 0        | 298          |
| 50 to 54                                    | 0        | 22         | 52         | 95         | 113        | 56         | 6         | 0        | 344          |
| 55 to 59                                    | 1        | 18         | 45         | 53         | 72         | 22         | 7         | 0        | 218          |
| 60 to 64                                    | 0        | 10         | 34         | 32         | 22         | 17         | 8         | 3        | 126          |
| <u>65 and up</u>                            | <u>0</u> | <u>2</u>   | <u>8</u>   | <u>24</u>  | <u>10</u>  | <u>9</u>   | <u>9</u>  | <u>1</u> | <u>63</u>    |
| <b>Total</b>                                | <b>5</b> | <b>173</b> | <b>373</b> | <b>391</b> | <b>351</b> | <b>118</b> | <b>30</b> | <b>4</b> | <b>1,445</b> |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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   | 102          | 0          | 0         | 0         | 0         | 0        | 0        | 0        | 102          |
| 25 to 29   | 375          | 24         | 0         | 0         | 0         | 0        | 0        | 0        | 399          |
| 30 to 34   | 380          | 98         | 2         | 0         | 0         | 0        | 0        | 0        | 480          |
| 35 to 39   | 248          | 90         | 11        | 4         | 1         | 0        | 0        | 0        | 354          |
| 40 to 44   | 163          | 63         | 6         | 7         | 0         | 0        | 0        | 0        | 239          |
| 45 to 49   | 110          | 40         | 4         | 3         | 10        | 0        | 0        | 0        | 167          |
| 50 to 54   | 115          | 34         | 7         | 5         | 8         | 1        | 2        | 0        | 172          |
| 55 to 59   | 78           | 25         | 4         | 3         | 2         | 3        | 2        | 0        | 117          |
| 60 to 64   | 40           | 35         | 5         | 1         | 2         | 0        | 0        | 0        | 83           |
| 65 and up  | 16           | 10         | 6         | 2         | 3         | 1        | 0        | 0        | 38           |
| <b>Total</b>   | <b>1,627</b> | <b>419</b> | <b>45</b> | <b>25</b> | <b>26</b> | <b>5</b> | <b>4</b> | <b>0</b> | <b>2,151</b> |

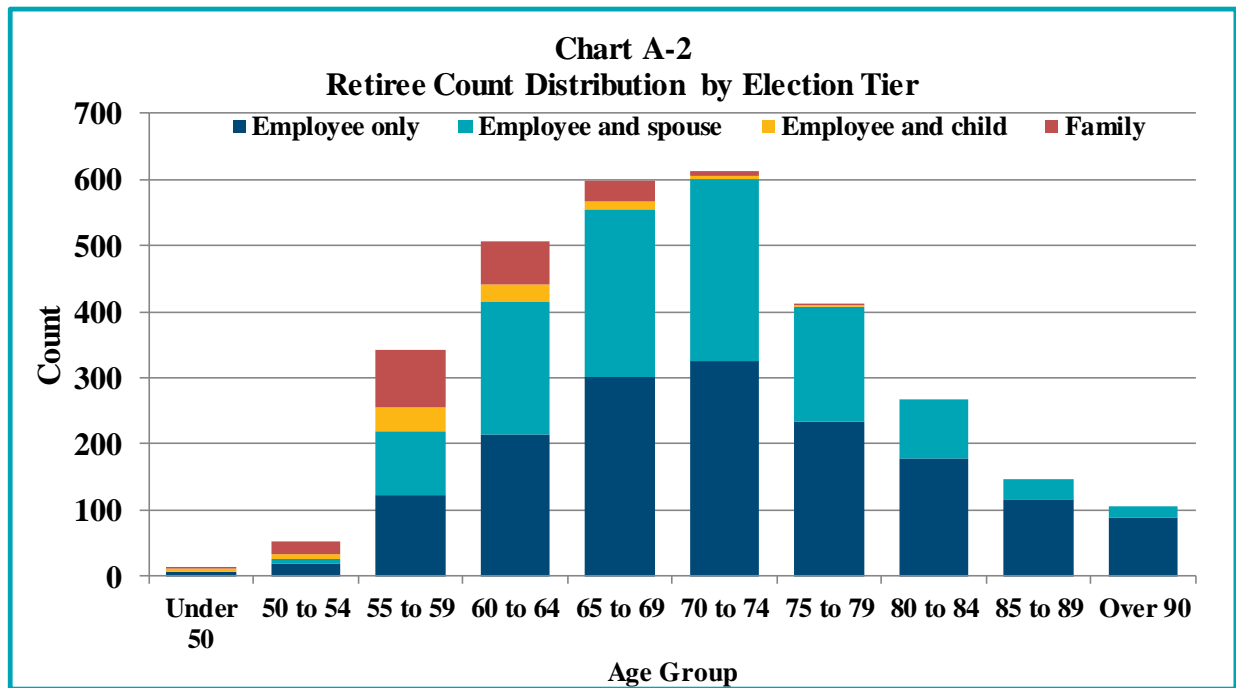


**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

| Retirees, Disabled Retirees and Surviving Spouses |                   |              |              |                  |
|---|-------------------|--------------|--------------|------------------|
| Age Group   | Medical Insurance |              |              | Dental Insurance |
|   | Males             | Females      | Total        |                  |
| Under 50  | 5                 | 8            | 13           | 17               |
| 50 to 54  | 28                | 24           | 52           | 69               |
| 55 to 59  | 193               | 149          | 342          | 340              |
| 60 to 64  | 265               | 241          | 506          | 536              |
| 65 to 69  | 320               | 278          | 598          | 668              |
| 70 to 74  | 332               | 282          | 614          | 705              |
| 75 to 79  | 222               | 191          | 413          | 478              |
| 80 to 84  | 128               | 139          | 267          | 311              |
| 85 to 89  | 66                | 81           | 147          | 176              |
| <u>Over 90</u>                                    | <u>41</u>         | <u>64</u>    | <u>105</u>   | <u>154</u>       |
| <b>Total</b>                                      | <b>1,600</b>      | <b>1,457</b> | <b>3,057</b> | <b>3,454</b>     |

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



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX A – MEMBERSHIP INFORMATION**

| Medical Plan Elections as of July 1, 2020 |                                 |            |              |
|---|---------------------------------|------------|--------------|
| Medical Plan                              | Retirees &<br>Surviving Spouses | Spouses    | Total        |
| <b>Pre-Medicare Medical Plans</b>         |                                 |            |              |
| Kaiser DHMO                               | 102                             | 76         | 178          |
| Kaiser HDHP                               | 74                              | 47         | 121          |
| Kaiser \$25 Co-pay                        | 577                             | 360        | 937          |
| Kaiser \$15 Co-pay (Hawaii)               | 1                               | 1          | 2            |
| Kaiser \$25 Co-pay (Northwest)            | 7                               | 7          | 14           |
| Anthem DHMO                               | 7                               | 4          | 11           |
| Anthem \$20 Co-pay                        | 61                              | 32         | 93           |
| Anthem HDHP                               | 40                              | 30         | 70           |
| Anthem Select PPO                         | 38                              | 13         | 51           |
| Anthem Classic PPO                        | <u>6</u>                        | <u>1</u>   | <u>7</u>     |
| <b>Total</b>                              | <b>913</b>                      | <b>571</b> | <b>1,484</b> |
| <b>Medicare Medical Plans</b>             |                                 |            |              |
| Kaiser Senior Advantage                   | 1287                            | 481        | 1,768        |
| Kaiser Senior Advantage (Hawaii)          | 4                               | 1          | 5            |
| Kaiser Senior Advantage (Northwest)       | 24                              | 7          | 31           |
| Anthem Medicare HMO                       | 17                              | 5          | 22           |
| Anthem Medicare PPO                       | <u>812</u>                      | <u>299</u> | <u>1,111</u> |
| <b>Total</b>                              | <b>2,144</b>                    | <b>793</b> | <b>2,937</b> |

| Current Vested Terminations* |           |           |            |
|------------------------------|-----------|-----------|------------|
| Age Group                    | Male      | Female    | Total      |
| Under 45                     | 8         | 16        | 24         |
| 45 to 49                     | 18        | 31        | 49         |
| 50 to 54                     | 27        | 38        | 65         |
| 55 to 59                     | 6         | 6         | 12         |
| 60 to 64                     | 4         | 2         | 6          |
| Over 65                      | <u>0</u>  | <u>0</u>  | <u>0</u>   |
| <b>Total</b>                 | <b>63</b> | <b>93</b> | <b>156</b> |

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

## **Economic Assumptions**

The expected return on Plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 17, 2020 Board meeting. Please refer to the presentation for that meeting for details, including the rationale for each assumption.

### **1. Expected Return on Plan Assets**

6.25% per year. The Board expects a long-term rate of return of 6.2% based on Meketa's 20-year capital market assumptions and the System's current investment policy.

### **2. Per Person Cost Trends**

Medical trends were developed using the 2020 Society of Actuaries Long-Run Medical Cost Trend Model with the following parameters:

Initial trend rate:

Non-Medicare Eligible: 8.00%

Medicare Eligible: 4.00%

Inflation: 2.25%

Real GDP per Capita: 1.50%

Excess Medical Cost Growth: 1.10%

Expected GDP Share in 2029: 20.0%

Resistance Point: 20.0%

Year limited to GDP growth: 2076



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

| Annual Increase  |                             |                   |        |                  |              |                   |        |
|------------------|-----------------------------|-------------------|--------|------------------|--------------|-------------------|--------|
| To Calendar Year | Pre-Medicare                | Medicare Eligible | Dental | To Calendar Year | Pre-Medicare | Medicare Eligible | Dental |
| 2021             | <i>Actual Premiums Used</i> |                   |        | 2051             | 4.45         | 4.45              | 3.50   |
| 2022             | 7.66%                       | 4.10%             | 3.50%  | 2052             | 4.44         | 4.44              | 3.50   |
| 2023             | 7.32                        | 4.21              | 3.50   | 2053             | 4.43         | 4.43              | 3.50   |
| 2024             | 6.98                        | 4.31              | 3.50   | 2054             | 4.42         | 4.42              | 3.50   |
| 2025             | 6.63                        | 4.41              | 3.50   | 2055             | 4.41         | 4.41              | 3.50   |
| 2026             | 6.29                        | 4.51              | 3.50   | 2056             | 4.40         | 4.40              | 3.50   |
| 2027             | 5.95                        | 4.62              | 3.50   | 2057             | 4.39         | 4.39              | 3.50   |
| 2028             | 5.61                        | 4.72              | 3.50   | 2058             | 4.39         | 4.39              | 3.50   |
| 2029             | 5.27                        | 4.82              | 3.50   | 2059             | 4.38         | 4.38              | 3.50   |
| 2030             | 4.93                        | 4.93              | 3.50   | 2060             | 4.37         | 4.37              | 3.50   |
| 2031             | 4.93                        | 4.93              | 3.50   | 2061             | 4.36         | 4.36              | 3.50   |
| 2032             | 4.81                        | 4.81              | 3.50   | 2062             | 4.35         | 4.35              | 3.50   |
| 2033             | 4.76                        | 4.76              | 3.50   | 2063             | 4.34         | 4.34              | 3.50   |
| 2034             | 4.73                        | 4.73              | 3.50   | 2064             | 4.34         | 4.34              | 3.50   |
| 2035             | 4.70                        | 4.70              | 3.50   | 2065             | 4.33         | 4.33              | 3.50   |
| 2036             | 4.67                        | 4.67              | 3.50   | 2066             | 4.32         | 4.32              | 3.50   |
| 2037             | 4.65                        | 4.65              | 3.50   | 2067             | 4.32         | 4.32              | 3.50   |
| 2038             | 4.63                        | 4.63              | 3.50   | 2068             | 4.26         | 4.26              | 3.50   |
| 2039             | 4.61                        | 4.61              | 3.50   | 2069             | 4.20         | 4.20              | 3.50   |
| 2040             | 4.59                        | 4.59              | 3.50   | 2070             | 4.14         | 4.14              | 3.50   |
| 2041             | 4.58                        | 4.58              | 3.50   | 2071             | 4.09         | 4.09              | 3.50   |
| 2042             | 4.56                        | 4.56              | 3.50   | 2072             | 4.04         | 4.04              | 3.50   |
| 2043             | 4.55                        | 4.55              | 3.50   | 2073             | 3.98         | 3.98              | 3.50   |
| 2044             | 4.53                        | 4.53              | 3.50   | 2074             | 3.93         | 3.93              | 3.50   |
| 2045             | 4.52                        | 4.52              | 3.50   | 2075             | 3.88         | 3.88              | 3.50   |
| 2046             | 4.51                        | 4.51              | 3.50   | 2076             | 3.83         | 3.83              | 3.50   |
| 2047             | 4.50                        | 4.50              | 3.50   | 2077+            | 3.78         | 3.78              | 3.50   |
| 2048             | 4.48                        | 4.48              | 3.50   |                  |              |                   |        |
| 2049             | 4.47                        | 4.47              | 3.50   |                  |              |                   |        |
| 2050             | 4.46                        | 4.46              | 3.50   |                  |              |                   |        |

Actual premium increases for 2021 were reflected with the above rates applying after 2021. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

### 3. Changes Since Last Valuation

The per-person cost trends were updated.

The discount rate assumption was lowered from 6.75% to 6.25%.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

## **Demographic Assumptions**

The OPEB assumptions were adopted by the Board of Administration at the December 17, 2020 Board meeting based on our recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 21, 2019 Board meeting based on recommendations from our experience study covering Plan experience through June 30, 2019. Please refer to the full experience study report for details, including the rationale for each assumption.

### **1. Salary Increase Rate**

Wage inflation component: 3.00%

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 | Years of Service | Merit/ Longevity |
| 0                      | 3.75%            | 8                | 1.00             |
| 1                      | 3.00             | 9                | 0.85             |
| 2                      | 2.50             | 10               | 0.70             |
| 3                      | 2.15             | 11               | 0.55             |
| 4                      | 1.85             | 12               | 0.45             |
| 5                      | 1.60             | 13               | 0.30             |
| 6                      | 1.40             | 14               | 0.20             |
| 7                      | 1.20             | 15+              | 0.10             |

### **2. Rates of Termination**

Rates of termination are show in the following table.

| Rates of Termination |                  |                  |                  |
|----------------------|------------------|------------------|------------------|
| Years of Service     | Termination Rate | Years of Service | Termination Rate |
| 0                    | 15.00%           | 8                | 5.50             |
| 1                    | 12.75            | 9                | 4.75             |
| 2                    | 11.75            | 10               | 4.25             |
| 3                    | 10.75            | 11               | 4.00             |
| 4                    | 9.75             | 12               | 3.75             |
| 5                    | 8.75             | 13               | 3.50             |
| 6                    | 7.75             | 14               | 3.25             |
| 7                    | 6.50             | 15+              | 3.25             |

Termination rates do not apply once a member is eligible for retirement.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**3. Rates of Refund**

Tier 1:

Rates of vested terminated employees electing a refund of contributions are shown in the following table.

| Rates of Refund  |              |              |                   |
|------------------|--------------|--------------|-------------------|
| Years of Service | Under Age 35 | Ages 35 - 44 | Ages 45 and Older |
| 0-4              | 100.00%      | 100.00%      | 100.00%           |
| 5                | 25.00        | 15.00        | 18.00             |
| 6                | 20.00        | 12.50        | 15.00             |
| 7                | 20.00        | 10.00        | 12.00             |
| 8                | 20.00        | 10.00        | 9.00              |
| 9                | 20.00        | 10.00        | 6.00              |
| 10               | 20.00        | 10.00        | 3.00              |
| 11               | 17.50        | 10.00        | 0.00              |
| 12               | 15.00        | 10.00        | 0.00              |
| 13               | 10.00        | 10.00        | 0.00              |
| 14               | 10.00        | 7.50         | 0.00              |
| 15               | 10.00        | 5.00         | 0.00              |
| 16               | 10.00        | 2.50         | 0.00              |
| 17+              | 10.00        | 0.00         | 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.

**4. Deferred Vested Member Retirement Age**

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.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**5. Retirement Rates**

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

| Tier 1<br>Rates of Retirement by Age and Service |                                  |  |                                |
|--|----------------------------------|--|--------------------------------|
| Age  | Less than 15 Years<br>of Service | 15 or more Years<br>of Service and less<br>than 30 Years of<br>Service | 30 or more Years<br>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   | 10.0                             | 35.0   | 50.0                           |
| 56   | 10.0                             | 20.0   | 45.0                           |
| 57   | 10.0                             | 20.0   | 40.0                           |
| 58   | 5.0                              | 15.0   | 35.0                           |
| 59   | 5.0                              | 15.0   | 30.0                           |
| 60   | 5.0                              | 15.0   | 30.0                           |
| 61   | 10.0                             | 20.0   | 30.0                           |
| 62   | 15.0                             | 20.0   | 30.0                           |
| 63   | 20.0                             | 20.0   | 30.0                           |
| 64   | 20.0                             | 20.0   | 30.0                           |
| 65   | 20.0                             | 20.0   | 30.0                           |
| 66   | 25.0                             | 30.0   | 30.0                           |
| 67   | 25.0                             | 35.0   | 30.0                           |
| 68   | 25.0                             | 35.0   | 30.0                           |
| 69   | 25.0                             | 35.0   | 30.0                           |
| 70 & over  | 100.0                            | 100.0  | 100.0                          |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

Rates of retirement for Tier 2 members are based on age according to the following table – Tier 2. These rates are based on CalPERS retirement rates for its 2.0% at age 62 formula with adjustments based on professional judgment for differences between the CalPERS benefits and the benefits provided to Tier 2 members.

| Tier 2<br>Rates of Retirement by Age and Service |                  |         |         |         |        |
|--|------------------|---------|---------|---------|--------|
| Age  | Years of Service |         |         |         |        |
|  | 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% |

**6. Disability Rates**

Disability rates are equal to the 0.973 times the CalPERS 2017 non-industrial disability incidence rates for miscellaneous state agencies, blended 55% male and 45% female. Sample disability rates of active members are provided in the following table.

| Rates of Disability at Selected Ages |            |
|--------------------------------------|------------|
| Age                                  | Disability |
| 25                                   | 0.0272     |
| 30                                   | 0.0303     |
| 35                                   | 0.0613     |
| 40                                   | 0.1366     |
| 45                                   | 0.2519     |
| 50                                   | 0.3240     |
| 55                                   | 0.2631     |
| 60+                                  | 0.2191     |

45% of disabilities are assumed to be duty related, and 55% are assumed to be non-duty related.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**7. Base Rates of Mortality**

Base mortality rates are based on the sex-distinct employee and retiree mortality tables shown below.

| Category                     | Base Mortality Tables   |   |
|------------------------------|---|---|
|                              | Male  | Female  |
| <b>Healthy Annuitant</b>     | 0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees  | 0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees  |
| <b>Healthy Non-Annuitant</b> | 0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees | 1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees |
| <b>Disabled Annuitant</b>    | 1.051 times the CalPERS 2009 Ordinary Disability Mortality Table                      | 0.991 times the CalPERS 2009 Ordinary Disability Mortality Table                      |

**8. Rates of Mortality Improvement**

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 2010 for the Pub2010 tables and 2009 for the CalPERS tables. The projection scale used for the June 30, 2020 valuation is MP-2020.

**9. Married Percentage**

| Percentage Married |            |
|--------------------|------------|
| Gender             | Percentage |
| Males              | 80%        |
| Females            | 60%        |

**10. Administrative Expenses**

\$51 per member for FYE 2022, increasing at the wage inflation assumption of 3.00% per annum.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**11. 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. 70% of term vested members are assumed to elect coverage upon retirement and 30% 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. Their medical tier election assumptions are provided in the following table.

| Assumed Medical Tier Elections for Future Retirees who Elect In-Lieu Coverage* |            |                                   |            |
|--|------------|-----------------------------------|------------|
|  | % Electing |                                   | % Electing |
| <b>Pre-Medicare Retirees</b>   |            | <b>Medicare-Eligible Retirees</b> |            |
| · Retiree Only   | 40%        | · Retiree Only                    | 60%        |
| · Retiree Plus Spouse  | 15%        | · Retiree Plus Spouse             | 40%        |
| · Retiree Plus Family  | 45%        | · Retiree Plus Family             | 0%         |

\* Eligible for coverage

There were no changes to plans in 2020.

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 following table.

| Assumed Plan Elections for Future Retirees* |            |  |            |
|---|------------|--|------------|
|   | % Electing |  | % Electing |
| <b>Pre-Medicare Medical Plans</b>           |            | <b>Medicare-Eligible Medical Plans</b> |            |
| · Kaiser DHMO                               | 10%        | · Kaiser Senior Advantage              | 60%        |
| · Kaiser \$25 Co-pay                        | 67%        | · Anthem Medicare HMO                  | 1%         |
| · Kaiser HDHP                               | 8%         | · Anthem Medicare PPO                  | 39%        |
| · Anthem DHMO                               | 1%         |  |            |
| · Anthem \$20 Co-pay                        | 6%         |  |            |
| · Anthem HDHP PPO                           | 3%         | <b>Dental Plans (All Retirees)</b>     |            |
| · Anthem Select PPO                         | 4%         | · Delta Dental PPO                     | 98%        |
| · Anthem Classic PPO                        | 1%         | · DeltaCare HMO                        | 2%         |

\* Eligible for coverage and elect coverage

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**12. 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, 32% of males and 21% of females will cover children.

**13. 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.

**14. Changes Since Last Valuation**

Plan elections assumptions and the administrative expense assumption were updated.

The assumed rate of mortality improvement was updated from MP-2019 to MP-2020.



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

## **Claim and Expense Assumptions**

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 17, 2020 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 2020 and 2021. 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 2020 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 jointly 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, 2020 based on the premiums for 2020 and 2021. 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:

| <u>Sample Claims Costs - Non-Medicare Eligible</u> |               |          |                   |          |                  |          |
|--|---------------|----------|-------------------|----------|------------------|----------|
| Age  | <u>Kaiser</u> |          | <u>Anthem HMO</u> |          | <u>Anthm PPO</u> |          |
|  | Male          | Female   | Male              | Female   | Male             | Female   |
| 40   | \$9,686       | \$11,920 | \$10,863          | \$13,279 | \$12,637         | \$15,980 |
| 45   | 9,918         | 11,643   | 11,036            | 12,901   | 13,359           | 15,941   |
| 50   | 10,495        | 11,898   | 11,582            | 13,099   | 14,599           | 16,698   |
| 55   | 11,632        | 12,621   | 12,733            | 13,803   | 16,675           | 18,156   |
| 60   | 13,609        | 13,268   | 14,794            | 14,425   | 20,010           | 19,499   |
| 64   | 16,030        | 13,046   | 17,350            | 14,123   | 23,935           | 19,468   |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

| <u>Sample Claims Costs - Medicare Eligible</u> |                          |         |                   |         |                   |         |
|--|--------------------------|---------|-------------------|---------|-------------------|---------|
| Age  | <u>Kaiser Senior Adv</u> |         | <u>Anthem HMO</u> |         | <u>Anthem PPO</u> |         |
|  | Male                     | Female  | Male              | Female  | Male              | Female  |
| 65   | \$3,080                  | \$2,717 | \$4,837           | \$4,267 | \$5,303           | \$4,678 |
| 70   | 3,271                    | 2,770   | 5,137             | 4,350   | 5,632             | 4,770   |
| 75   | 3,760                    | 3,116   | 5,904             | 4,893   | 6,473             | 5,364   |
| 80   | 4,269                    | 3,533   | 6,704             | 5,548   | 7,350             | 6,083   |
| 85   | 4,611                    | 3,861   | 7,240             | 6,063   | 7,938             | 6,648   |

| <u>Sample Claims Costs - Dental</u> |        |
|-------------------------------------|--------|
| <u>Dental Blended</u>               |        |
| Age                                 | Unisex |
| All                                 | 694.98 |

**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.

**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.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS**

**9. Changes Since Last Valuation**

All claims costs were updated to reflect the changes in plan premiums and the populations covered. The claims curves were developed jointly 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 subsequent amortization bases are 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, administrative expenses 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:

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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 the 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 the 115 trust, pays 100% of the dental insurance premiums.

**Premiums:** Monthly premiums for calendar years 2020 and 2021 are as follows.

| 2020 Monthly Premiums                  |          |            |            |            |
|--|----------|------------|------------|------------|
|  | Single   | Emp/Sp     | Emp/Chd    | Family     |
| <b>Medical</b>                         |          |            |            |            |
| <u>Non-Medicare Monthly Rates</u>      |          |            |            |            |
| Kaiser DHMO                            | \$574.36 | \$1,148.72 | \$1,005.14 | \$1,723.08 |
| Kaiser \$25 Co-pay                     | 701.46   | 1,402.92   | 1,227.54   | 2,104.38   |
| Kaiser HDHP                            | 483.94   | 967.88     | 846.90     | 1,451.82   |
| Anthem HMO \$20 Co-pay                 | 671.12   | 1,476.46   | 1,208.02   | 2,080.46   |
| Anthem DHMO                            | 517.42   | 1,138.34   | 931.36     | 1,604.02   |
| Anthem HDHP                            | 905.36   | 1,991.82   | 1,629.66   | 2,806.66   |
| Anthem Select PPO                      | 1,469.66 | 3,233.24   | 2,645.38   | 4,555.94   |
| Anthem Classic PPO                     | 1,571.82 | 3,458.02   | 2,829.28   | 4,872.66   |
| <u>Medicare-Eligible Monthly Rates</u> |          |            |            |            |
| Kaiser Senior Advantage                | \$289.14 | \$578.28   | \$578.28   | \$867.42   |
| Anthem Medicare PPO                    | 508.56   | 1,017.12   | 1,017.12   | 1,525.68   |
| Anthem Medicare HMO                    | 453.55   | 907.10     | 907.10     | 1,360.65   |
| <b>Dental</b>                          |          |            |            |            |
| Delta Dental PPO                       | \$50.88  | \$111.92   | \$122.12   | \$157.72   |
| DeltaCare HMO                          | 24.44    | 48.86      | 42.74      | 73.30      |

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX C – SUMMARY OF PLAN PROVISIONS**

| 2021 Monthly Premiums                  |          |            |            |            |
|--|----------|------------|------------|------------|
|  | Single   | Emp/Sp     | Emp/Chd    | Family     |
| <b>Medical</b>                         |          |            |            |            |
| <u>Non-Medicare Monthly Rates</u>      |          |            |            |            |
| Kaiser DHMO                            | \$610.44 | \$1,220.88 | \$1,068.28 | \$1,831.32 |
| Kaiser \$25 Co-pay                     | 745.52   | 1,491.04   | 1,304.64   | 2,236.56   |
| Kaiser HDHP                            | 514.34   | 1,028.68   | 900.10     | 1,543.02   |
| Anthem HMO \$20 Co-pay                 | 724.82   | 1,594.58   | 1,304.68   | 2,246.90   |
| Anthem DHMO                            | 558.80   | 1,229.40   | 1,005.86   | 1,732.34   |
| Anthem HDHP                            | 977.80   | 2,151.16   | 1,760.04   | 3,031.20   |
| Anthem Select PPO                      | 1,587.22 | 3,491.90   | 2,857.00   | 4,920.42   |
| Anthem Classic PPO                     | 1,697.56 | 3,734.68   | 3,055.62   | 5,262.48   |
| <u>Medicare-Eligible Monthly Rates</u> |          |            |            |            |
| Kaiser Senior Advantage                | \$262.90 | \$525.80   | \$525.80   | \$788.70   |
| Anthem Medicare PPO                    | 480.04   | 960.08     | 960.08     | 1,440.12   |
| Anthem Medicare HMO                    | 425.71   | 851.42     | 851.42     | 1,277.13   |
| <b>Dental</b>                          |          |            |            |            |
| Delta Dental PPO                       | \$50.88  | \$111.92   | \$122.12   | \$157.72   |
| DeltaCare HMO                          | 24.44    | 48.86      | 42.74      | 73.30      |

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

**Summary of 2021 Benefit Plans:**

| Medicare-Eligible Plans:                        | Kaiser                           | Anthem HMO         | Anthem PPO |
|---|----------------------------------|--------------------|------------|
| Annual Out-of-Pocket Maximum                    | Single \$1,500<br>Family \$3,000 | \$1,000 per member | \$0        |
| Annual Deductible                               | None                             | None               | None       |
| Office Visit copay                              | \$25                             | \$25               | \$0        |
| Emergency Room copay                            | \$50                             | \$100              | \$0        |
| Hospital Care copay                             | \$250                            | \$100              | \$0        |
| Prescription Drug retail copay (30-day supply): |                                  |                    |            |
| Generic   | \$10                             | \$10               | \$10       |
| Brand   | \$10                             | \$25               | \$25       |
| Non-Formulary                                   | N/A                              | \$40               | \$40       |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX C – SUMMARY OF PLAN PROVISIONS**

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

\* After deductible is paid.



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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 FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**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:

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

**6. Actuarial Valuation**

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

**7. Actuarial Value of Assets**

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

**APPENDIX D – GLOSSARY OF TERMS**

**8. Amortization Payment**

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

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

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

**10. Normal Cost**

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

**11. Unfunded Actuarial Liability**

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

**12. Funded Percentage**

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

**13. Mortality Table**

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

**14. Discount Rate**

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

**15. Medical Trend**

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN  
JUNE 30, 2020 ACTUARIAL VALUATION FUNDING REPORT**

**APPENDIX E – LIST OF ABBREVIATIONS**

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



*Classic Values, Innovative Advice*