

City of San José Police and Fire Department Postemployment Healthcare Plan

**Revised Actuarial Valuation
Funding Report as of June 30, 2021**

Produced by Cheiron

March 2022

TABLE OF CONTENTS

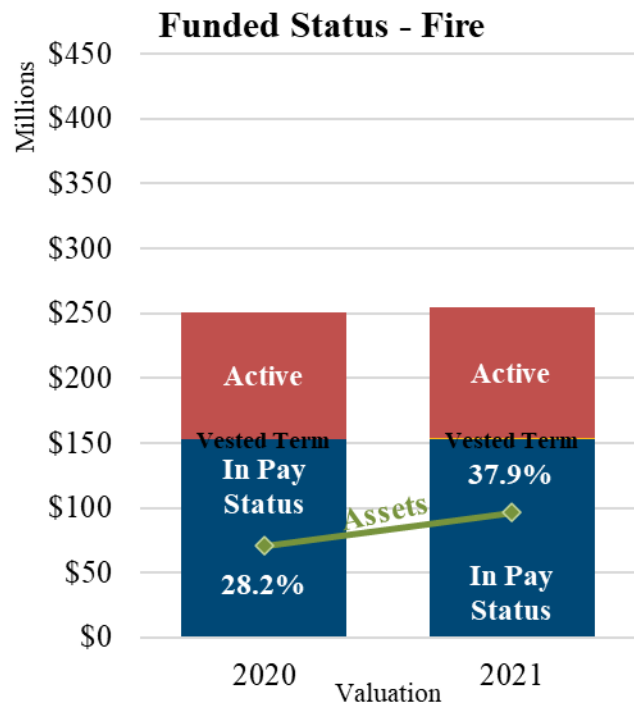
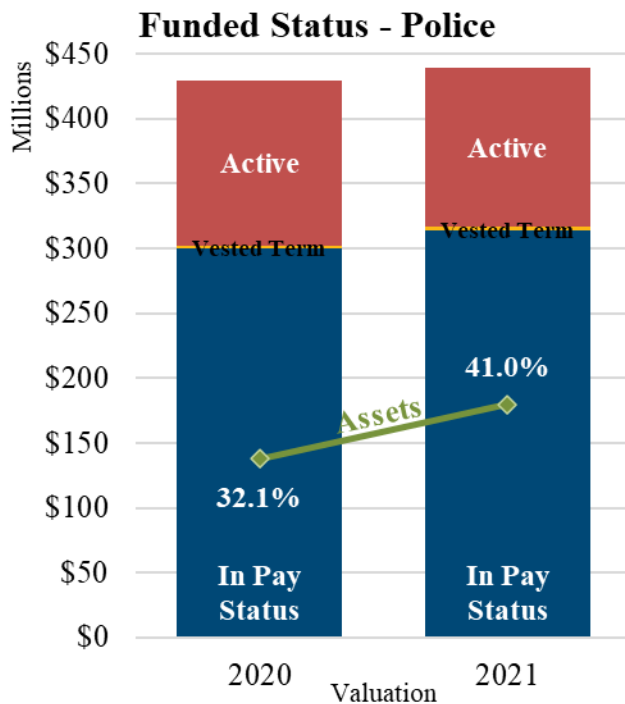
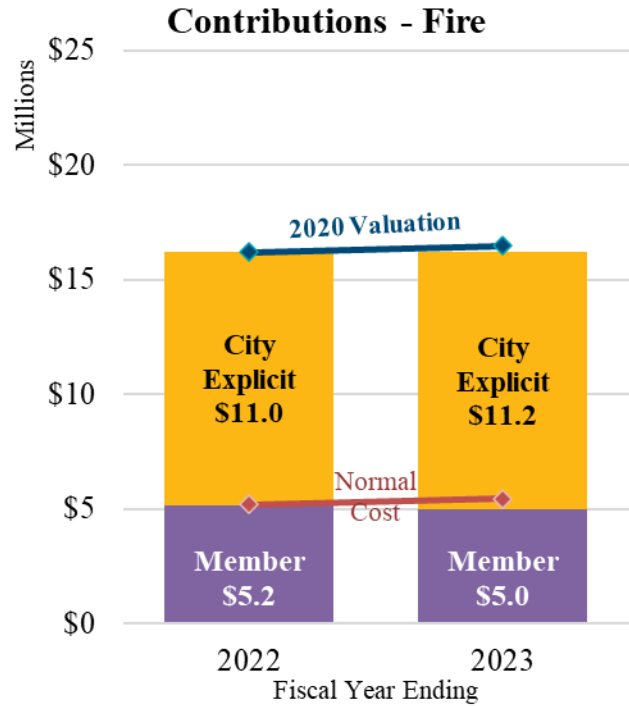
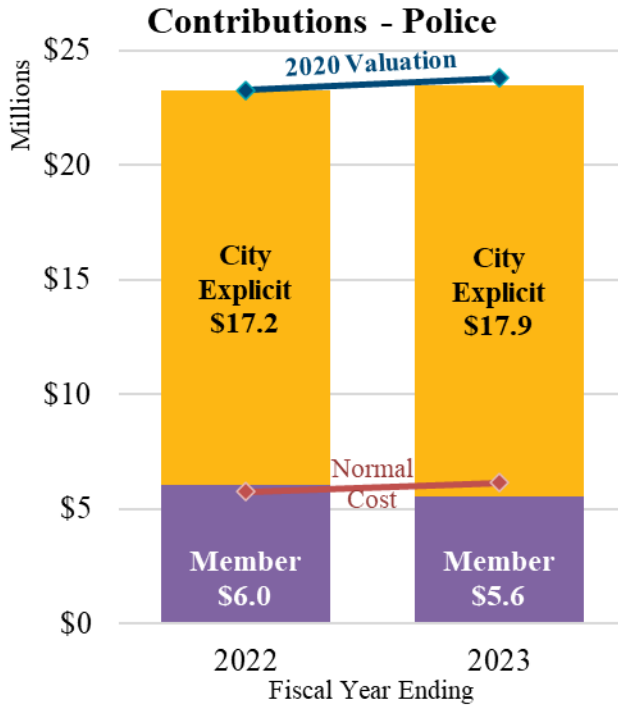
<i>Section</i>		<i>Page</i>
Section I	Board Summary	1
Section II	Certification	10
Section III	Assets	12
Section IV	Measures of Liability	15
Section V	Contributions.....	22
Section VI	Actuarial Section of the ACFR.....	25
 <i>Appendices</i>		
Appendix A	Membership Information	33
Appendix B	Actuarial Assumptions and Methods	42
Appendix C	Summary of Plan Provisions.....	56
Appendix D	Glossary of Terms.....	61
Appendix E	List of Abbreviations	64

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

This report measures assets and liabilities of the City of San José Police and Fire Department Postemployment Healthcare Plan for funding purposes only. There are separate reports for financial reporting. This revised report reflects a correction of the allocation of assets between Police and Fire in the 401(h) account.

Dashboard



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

The charts on the previous page are intended to provide a quick overview of the current valuation results compared to the prior valuation results. The charts on the top show contributions for FYE 2022 and 2023 for Police (left chart) and Fire (right chart). The normal cost shown by the red line represents the expected cost of the explicit premium subsidy benefits attributable to the current year of service. All contributions above the normal cost go toward paying off the Unfunded Actuarial Liability (UAL). The projected contribution amount from the prior valuation is shown by the blue line. The implicit subsidy is not shown on these charts 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 \$3.2 million for FYE 2023.

The charts on the bottom of the previous page summarize the funded status as of the June 30, 2020 and June 30, 2021 actuarial valuations. The stacked bars represent the Actuarial Liability, with the liability broken into separate components for members currently receiving benefits, vested terminated members, and active members. These liability amounts are only for the portion of the plan that is intended to be pre-funded, so they do not include the implicit subsidy. The green lines represent the assets, and the funded ratio improved to 41% for Police and 38% for Fire.

More detail and discussion is provided in the following sections.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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 plus the premium for the dental plan selected by the retiree. 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 became fixed at 8.0% of pay, and the City’s contribution toward the explicit subsidy became actuarially determined separately for Police and Fire. However, the City has the option to limit its contribution for the explicit subsidy to 11% of Police and Fire payroll. Finally, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. Because the Board’s role is related to the funding of the explicit subsidy, the focus of this report is on the status of that funding and the development of the Actuarially Determined Contribution (ADC) for the pre-funded benefits.

Table I-1 shows the contribution amounts for the fiscal years ending in 2022 and 2023.

Table I-1			
Summary of Trust Contribution Amounts			
	FYE 2023	FYE 2022	% Change
Police Department			
Members	\$ 5,567	\$ 6,030	-7.7%
City	<u>17,943</u>	<u>17,245</u>	<u>4.0%</u>
Total	\$ 23,510	\$ 23,275	1.0%
Fire Department			
Members	\$ 4,974	\$ 5,187	-4.1%
City	<u>11,249</u>	<u>11,027</u>	<u>2.0%</u>
Total	\$ 16,223	\$ 16,214	0.1%
Total Trust Contributions			
Members	\$ 10,541	\$ 11,217	-6.0%
City	<u>29,192</u>	<u>28,272</u>	<u>3.3%</u>
Grand Total	\$ 39,733	\$ 39,489	0.6%
Estimated City Optional Cap	\$ 28,714	\$ 27,282	5.2%

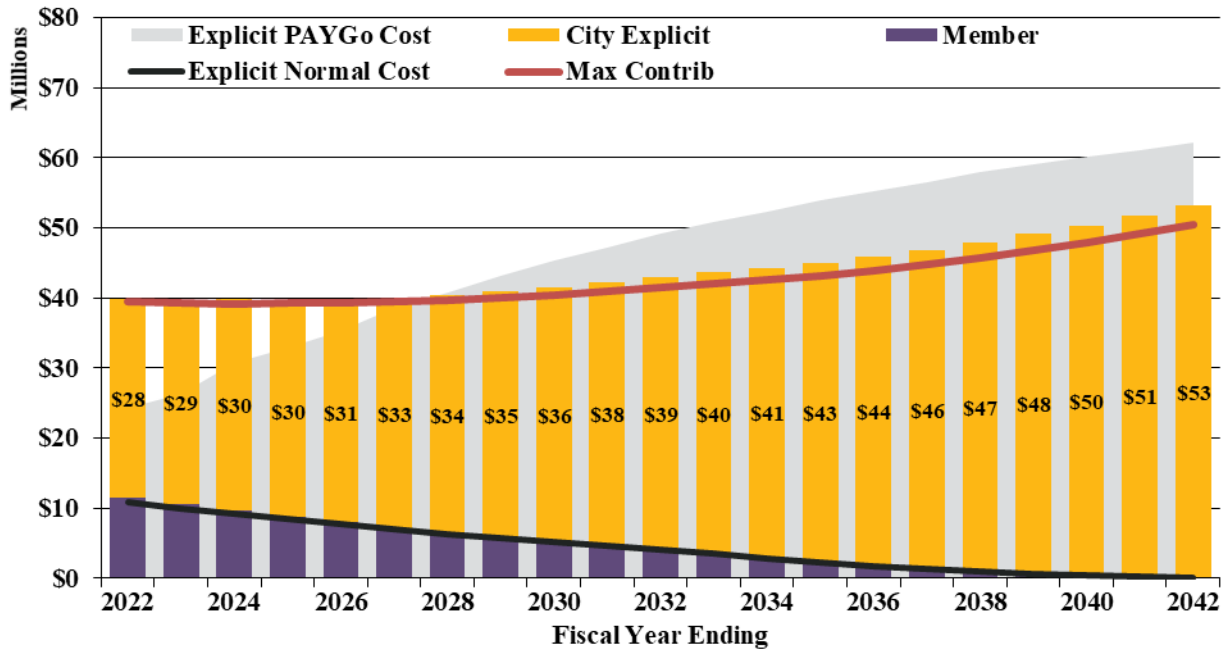
Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

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

Projected Contributions FYE 2022-2042



Because new entrants are only entitled to catastrophic disability benefits and do not contribute to the Plan, the member contributions are expected to decline as current active members who are eligible for full benefits retire or otherwise leave active employment with the City. The City’s actuarially determined contribution is expected to increase faster than payroll as the member contributions decrease. The Plan has historically had positive net cash flow, but we only expect that to last through FYE 2027.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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, 2021 compared to June 30, 2020. The Actuarial Liability for the explicit subsidy increased 2.2% for Police and 1.5% for Fire. At the same time, assets increased 30.6% for Police and 36.1% for Fire due primarily to investment returns. As a result, the Unfunded Actuarial Liability decreased by 11.2% for Police and 12.1% for Fire and the funded percentage increased from 32.1% to 41.0% for Police and improved from 28.2% to 37.9% for Fire. The funded percentages are for the explicit subsidy only.

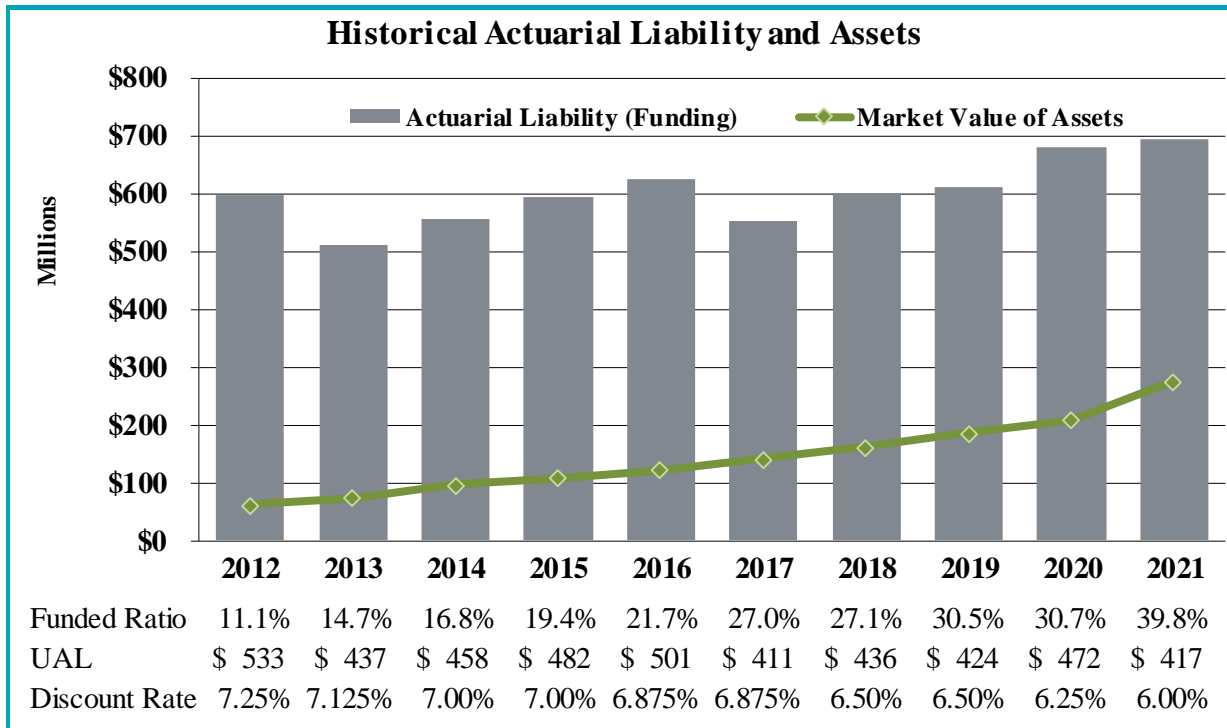
Table I-2			
Summary of Funded Status - Explicit Subsidy Only			
	6/30/2021	6/30/2020	% Change
Police Department			
Actuarial Liability			
Actives	\$ 122,275	\$ 127,495	-4.1%
Deferred Vested	2,581	2,435	6.0%
In Pay Status	314,331	299,826	4.8%
Total	\$ 439,187	\$ 429,756	2.2%
Assets	180,002	137,789	30.6%
Unfunded Actuarial Liability	\$ 259,185	\$ 291,967	-11.2%
Funded Percentage	41.0%	32.1%	8.9%
Fire Department			
Actuarial Liability			
Actives	\$ 100,275	\$ 97,632	2.7%
Deferred Vested	905	270	235.2%
In Pay Status	153,125	152,651	0.3%
Total	\$ 254,305	\$ 250,553	1.5%
Assets	96,311	70,743	36.1%
Unfunded Actuarial Liability	\$ 157,994	\$ 179,810	-12.1%
Funded Percentage	37.9%	28.2%	9.6%
Grand Total			
Aggregate UAL	\$ 417,179	\$ 471,778	-11.6%
Aggregate Funded Percentage	39.8%	30.7%	9.2%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

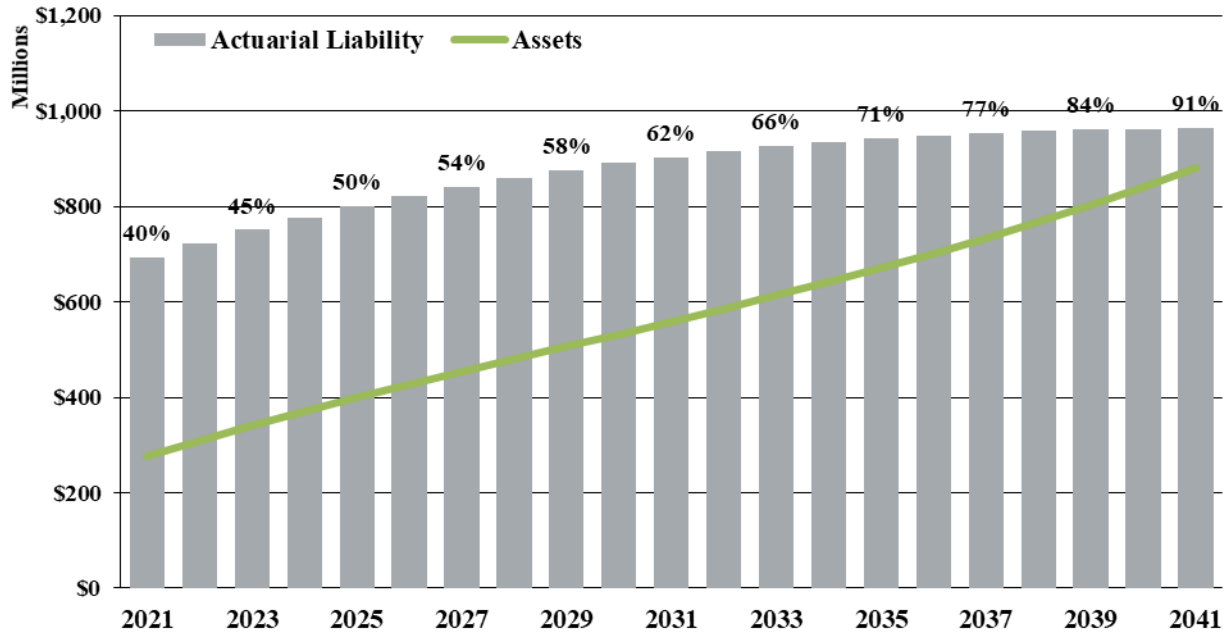
The chart below shows the historical trend of assets and the Actuarial Liability (excluding the implicit subsidy) on a funding basis for the City of San José Police and Fire Department Postemployment Healthcare Plan. Over the last 10 years, the UAL for the explicit subsidy has been reduced by \$116.1 million due to an increase in assets of \$213.3 million somewhat offset by an increase in the Actuarial Liability of \$97.3 million. The increase in Actuarial Liability includes the impact of reducing the discount rate from 7.25% in 2012 to 6.00% in 2021. The increase in the assets has been primarily attributable to contributions and recent investment returns. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions.



The chart on the next 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 6.00% each year and the City does not impose its optional cap on contributions, the funded percentage for the explicit subsidy is expected to reach 100% by 2043. If the City imposes its optional cap on contributions every year, the funded percentage for the explicit subsidy is not expected to reach 100%.

SECTION I – BOARD SUMMARY

Projected Assets and Actuarial Liability 2021-2041



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, 2021. The total UAL for the explicit subsidy decreased about \$54.6 million since the prior year.

	Total
Unfunded Actuarial Liability, June 30, 2020	\$ 471,778
Unfunded Actuarial Liability, June 30, 2021	417,179
Change in Unfunded Actuarial Liability	\$ (54,599)
Sources of Changes	
Contributions below Tread Water	\$ 1,824
Investment Experience	(38,588)
Liability Experience	(51,393)
Assumption Changes	33,558
Total Changes	\$ (54,599)

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

The primary sources of the decrease in the UAL were investment experience, which decreased the UAL by about \$38.6 million, and liability experience, which decreased the UAL by about \$51.4 million. The liability experience was mainly driven by the decreases in the Medicare eligible and dental premium rates offset by demographic experience. The decreases in the UAL were somewhat offset by two factors. Contributions were below the Tread Water level by about \$1.8 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. Assumption changes increased the UAL by \$33.6 million, mainly due to reducing the discount rate from 6.25% to 6.00% and plan election assumptions.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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.

Table I-4 Summary of Valuation Results					
	June 30, 2021			June 30, 2020	Change
	Police	Fire	Total		
Active Members					
Full Benefits	517	469	986	1,073	-8.1%
Catastrophic Disability Only	564	188	752	636	18.2%
Total Active Members	1,081	657	1,738	1,709	1.7%
Deferred Vested Members	9	3	12	10	20.0%
In Pay Status or In-Lieu	1,424	849	2,273	2,217	2.5%
Total	2,514	1,509	4,023	3,936	2.2%
Full Benefit Member Payroll	\$ 77,450	\$ 66,504	\$ 143,954	\$ 150,664	-4.5%
Total Payroll	157,594	95,841	253,435	240,798	5.2%
Actuarial Liability - Explicit	\$ 439,187	\$ 254,305	\$ 693,492	\$ 680,308	1.9%
Market Value of Assets	180,002	96,311	276,313	208,531	32.5%
Unfunded Actuarial Liability	\$ 259,184	\$ 157,995	\$ 417,179	\$ 471,777	-11.6%
Funded Percentage	40.99%	37.87%	39.84%	30.65%	9.2%
Actuarial Liability - Implicit	\$ 42,518	\$ 22,199	\$ 64,716	\$ 58,706	10.2%
FYE 2023					
	Police	Fire	Total	FYE 2022	Change
City's ADC Amount	\$ 17,943	\$ 11,249	\$ 29,192	\$ 28,271	3.3%
City's ADC Rate	11.1%	11.4%	11.2%	11.4%	-0.2%
City's Implicit Subsidy Payment	\$ 2,113	\$ 1,039	\$ 3,152	\$ 3,040	3.7%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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 Police and Fire Postemployment Department Healthcare Plan. This report is for the use of the Board in setting actuarially determined amounts for the City to contribute to the Plan. There are separate reports 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 2, 2021 Board meeting based upon our recommendations. Price inflation and wage inflation assumptions were adopted at the December 3, 2020 Board meeting based upon our recommendations. All other assumptions in this report were adopted at the November 4, 2021 Board meeting based on recommendations from our experience study covering plan experience through June 30, 2021. 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.

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.

This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.



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Principal Consulting Actuary

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION III – ASSETS

Assets are invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. All City contributions are made to the 115 Trust while member contributions are made to the 401(h) account. Benefit payments are currently being paid from the 401(h) account, but some benefit payments will likely need to be paid from the 115 Trust in the near future.

Statement of Change in Market Value of Assets

Table III-1 and Table III-2 show the changes in the Market Value of Assets for the last two fiscal years for Police and Fire separately. The implicit subsidy is shown as both a contribution and a payment from the Plan, but it is not actually contributed to the trust or paid from the trust. It is paid directly by the City as a part of active health plan premiums.

Table III-1 Market Value of Assets - Police Department						
	Fiscal Year Ending 2021			Fiscal Year Ending 2020		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning	\$ 27,248	\$ 110,541	\$ 137,789	\$ 32,736	\$ 92,254	\$ 124,990
Contributions						
Member	6,743	0	6,743	7,331	0	7,331
City	0	15,320	15,320	0	14,595	14,595
Implicit subsidy	1,950	0	1,950	1,927	0	1,927
Total	<u>\$ 8,693</u>	<u>\$ 15,320</u>	<u>\$ 24,013</u>	<u>\$ 9,258</u>	<u>\$ 14,595</u>	<u>\$ 23,853</u>
Net Investment Earnings	6,562	28,448	35,010	1,103	3,723	4,826
Benefit Payments						
Explicit subsidy	14,796	0	14,796	13,876	0	13,876
Implicit subsidy	1,950	0	1,950	1,927	0	1,927
Total	<u>\$ 16,746</u>	<u>\$ 0</u>	<u>\$ 16,746</u>	<u>\$ 15,803</u>	<u>\$ 0</u>	<u>\$ 15,803</u>
Administrative Expenses	31	33	64	46	31	77
Market Value, End	\$ 25,726	\$ 154,276	\$ 180,002	\$ 27,248	\$ 110,541	\$ 137,789
Estimated Rate of Return	28.3%	22.6%	23.5%	3.7%	3.5%	3.5%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION III – ASSETS

Table III-2						
Market Value of Assets - Fire Department						
	Fiscal Year Ending 2021			Fiscal Year Ending 2020		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning	\$ 2,200	\$ 68,543	\$ 70,743	\$ 4,115	\$ 56,852	\$ 60,967
Contributions						
Member	5,732	0	5,732	5,804	0	5,804
City	0	10,062	10,062	0	9,408	9,408
Implicit subsidy	1,065	0	1,065	1,420	0	1,420
Total	<u>\$ 6,797</u>	<u>\$ 10,062</u>	<u>\$ 16,859</u>	<u>\$ 7,224</u>	<u>\$ 9,408</u>	<u>\$ 16,632</u>
Net Investment Earnings	276	17,707	17,983	115	2,302	2,417
Benefit Payments						
Explicit subsidy	8,163	0	8,163	7,808	0	7,808
Implicit subsidy	1,065	0	1,065	1,420	0	1,420
Total	<u>\$ 9,228</u>	<u>\$ 0</u>	<u>\$ 9,228</u>	<u>\$ 9,228</u>	<u>\$ 0</u>	<u>\$ 9,228</u>
Administrative Expenses	26	20	46	26	19	45
Market Value, End	\$ 19	\$ 96,292	\$ 96,311	\$ 2,200	\$ 68,543	\$ 70,743
Estimated Rate of Return	28.3%	22.5%	22.6%	3.7%	3.5%	3.5%

Dollar amounts in thousands

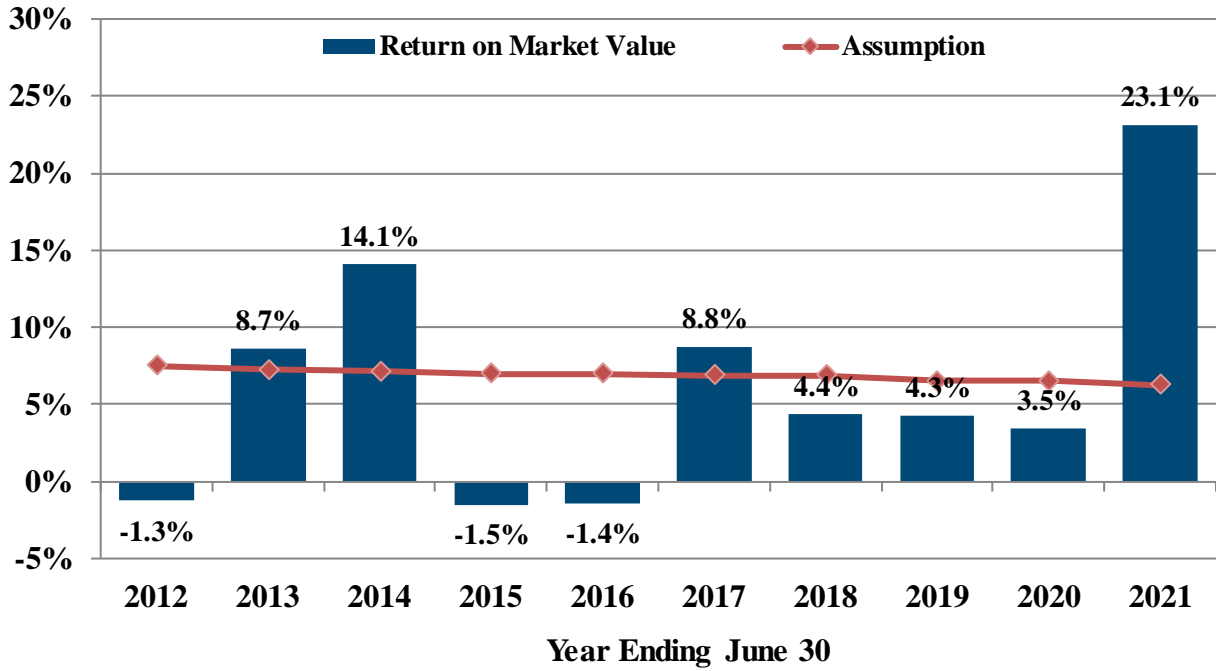
In the last year, investments, in aggregate, returned approximately 23.5% for Police and 22.6% for Fire compared to an expected rate of return of 6.25%, resulting in a total investment gain of approximately \$38.7 million. The assets in the 401(h) account returned approximately 28.3%, while the assets in the 115 Trust returned approximately 22.5%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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 6.0%.

Historical Rates of Return



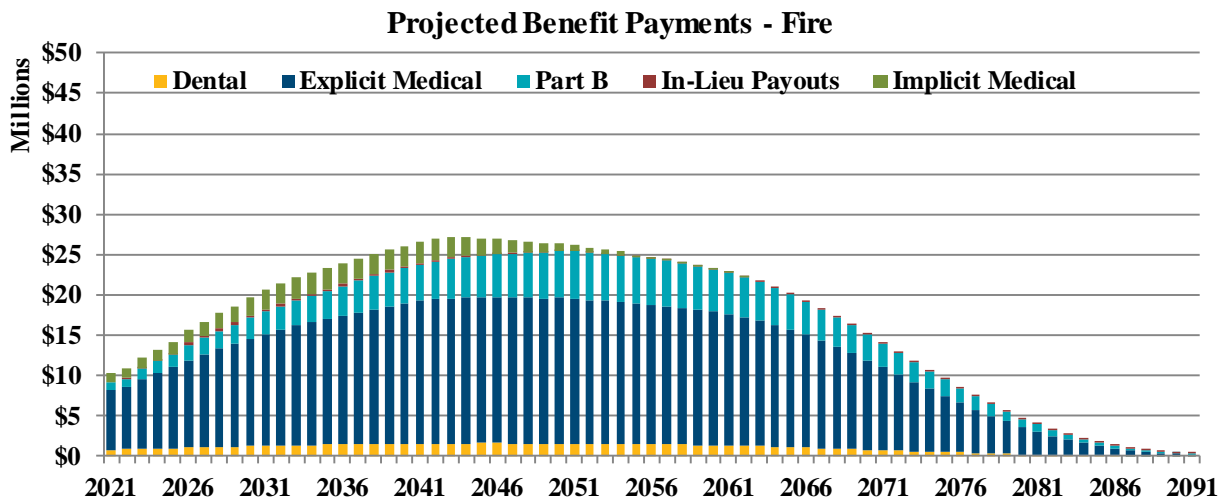
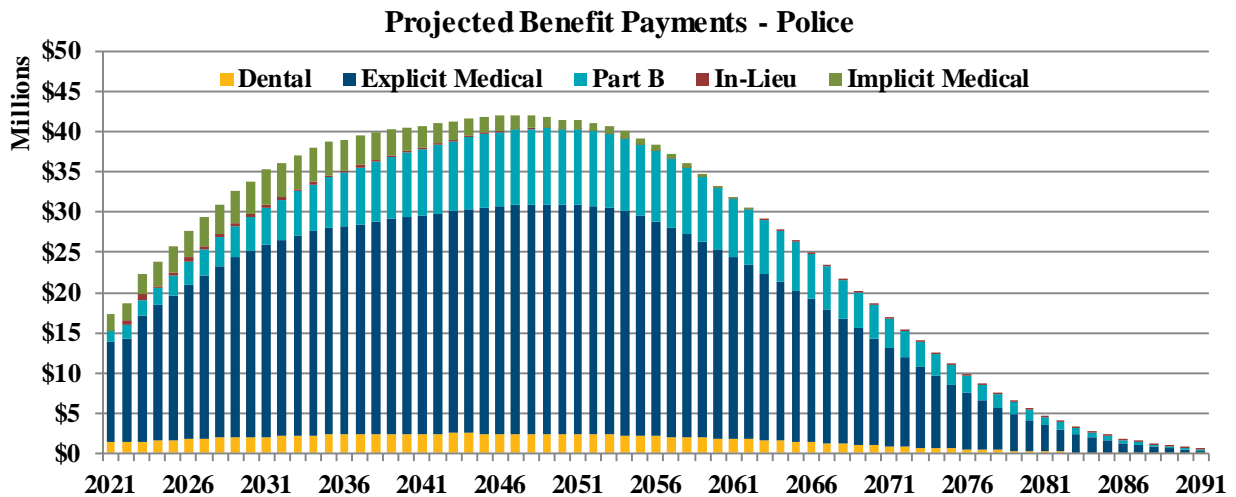
SECTION IV – MEASURES OF LIABILITY

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

- Projected Benefit Payments,
- Present value of future benefits,
- Normal cost, and
- Actuarial Liability.

Projected Benefit Payments

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



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION IV – MEASURES OF LIABILITY

Tables IV-1 and IV-2 show the expected net benefit payments for the next 20 years for the Police and Fire Departments respectively. These payments include the expected annual implicit subsidy as well as expected plan premium payments (the explicit subsidy).

Table IV-1 Expected Net Benefit Payments - Police Department						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2022	\$ 13,793	\$ 1,346	\$ 15,139	\$ 2,147	\$ 17,285	
2023	15,141	1,437	16,578	2,113	18,691	
2024	18,215	1,523	19,737	2,657	22,394	
2025	19,256	1,606	20,862	2,913	23,775	
2026	20,886	1,683	22,570	3,152	25,721	
2027	22,683	1,765	24,447	3,304	27,751	
2028	24,012	1,841	25,854	3,538	29,392	
2029	25,315	1,913	27,228	3,757	30,985	
2030	26,686	1,981	28,666	3,967	32,633	
2031	27,735	2,041	29,776	4,078	33,854	
2032	28,879	2,101	30,981	4,305	35,286	
2033	29,725	2,160	31,885	4,305	36,189	
2034	30,658	2,218	32,876	4,252	37,128	
2035	31,458	2,271	33,729	4,340	38,069	
2036	32,219	2,318	34,537	4,223	38,760	
2037	32,778	2,359	35,137	3,845	38,981	
2038	33,441	2,390	35,831	3,714	39,546	
2039	34,093	2,419	36,513	3,520	40,032	
2040	34,674	2,444	37,119	3,204	40,323	
2041	35,111	2,464	37,575	2,907	40,482	

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION IV – MEASURES OF LIABILITY

Table IV-2 Expected Net Benefit Payments - Fire Department						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2022	\$ 8,413	\$ 810	\$ 9,223	\$ 1,114	\$ 10,337	
2023	8,902	863	9,765	1,039	10,804	
2024	10,071	921	10,992	1,234	12,226	
2025	10,974	973	11,947	1,338	13,285	
2026	11,689	1,021	12,709	1,359	14,069	
2027	12,998	1,073	14,071	1,528	15,599	
2028	13,823	1,122	14,944	1,614	16,558	
2029	14,728	1,166	15,894	1,844	17,738	
2030	15,365	1,203	16,568	1,986	18,554	
2031	16,138	1,242	17,380	2,242	19,623	
2032	16,940	1,285	18,225	2,418	20,643	
2033	17,565	1,329	18,894	2,594	21,487	
2034	18,099	1,372	19,471	2,663	22,134	
2035	18,747	1,415	20,163	2,704	22,866	
2036	19,266	1,451	20,717	2,620	23,336	
2037	19,882	1,485	21,367	2,558	23,925	
2038	20,507	1,516	22,023	2,540	24,563	
2039	21,059	1,542	22,602	2,506	25,108	
2040	21,545	1,563	23,108	2,575	25,683	
2041	21,961	1,577	23,538	2,583	26,122	

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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-3 below shows the present value of future benefits as of June 30, 2021 and June 30, 2020.

Table IV-3						
Present Value of Future Benefits						
June 30, 2021						
	Actives	Deferred Vested	In Pay Status	Total	June 30, 2020	Change
Police Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 80,354	\$ 948	\$ 73,264	\$ 154,566	\$ 148,423	4.1%
Medicare Eligible	74,210	1,433	219,110	294,752	284,564	3.6%
Dental	<u>10,350</u>	<u>200</u>	<u>21,957</u>	<u>32,507</u>	<u>37,998</u>	-14.4%
Total Explicit Subsidy	\$164,914	\$ 2,581	\$314,331	\$481,826	\$ 470,985	2.3%
Fire Department						
Explicit Subsidy						
Non-Medicare Eligible	\$ 61,275	\$ 328	\$ 23,830	\$ 85,433	\$ 82,804	3.2%
Medicare Eligible	70,784	509	118,045	189,338	184,761	2.5%
Dental	<u>9,317</u>	<u>68</u>	<u>11,250</u>	<u>20,635</u>	<u>24,047</u>	-14.2%
Total Explicit Subsidy	\$141,376	\$ 905	\$153,125	\$295,405	\$ 291,612	1.3%
Aggregate						
Explicit Subsidy						
Non-Medicare Eligible	\$ 141,629	\$ 1,276	\$ 97,094	\$ 239,999	\$ 231,227	3.8%
Medicare Eligible	144,994	1,941	337,155	484,090	469,326	3.1%
Dental	<u>19,667</u>	<u>268</u>	<u>33,207</u>	<u>53,142</u>	<u>62,045</u>	-14.3%
Total Explicit Subsidy	\$306,289	\$ 3,486	\$467,456	\$777,231	\$ 762,598	1.9%
Implicit Subsidy	<u>37,760</u>	<u>427</u>	<u>34,706</u>	<u>72,892</u>	<u>66,497</u>	9.6%
Grand Total	\$344,049	\$ 3,913	\$502,162	\$850,123	\$ 829,094	2.5%

Dollar amounts in thousands

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 each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial cost method.

Table IV-4 shows the EA normal cost as of June 30, 2021 and June 30, 2020 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.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION IV – MEASURES OF LIABILITY

Table IV-4 Explicit Subsidy Normal Cost					
	June 30, 2021			June 30, 2020	
	Full Benefits	Catastrophic	Total	Total	% Change
Police Department					
Non-Medicare Eligible	\$ 2,734	\$ 891	\$ 3,625	\$ 3,521	3.0%
Medicare Eligible	2,186	0	2,186	2,196	-0.4%
Dental	349	0	349	436	-19.8%
Total Normal Cost	\$ 5,270	\$ 891	\$ 6,161	\$ 6,152	0.1%
Valuation Pay	\$ 77,450	\$ 66,752	\$ 144,202	\$ 134,928	6.9%
Total Normal Cost Rate	7.01%	1.37%	4.27%	4.56%	-6.4%
Fire Department					
Non-Medicare Eligible	\$ 2,281	\$ 257	\$ 2,539	\$ 2,437	4.2%
Medicare Eligible	2,586	0	2,586	2,447	5.7%
Dental	354	0	354	412	-14.0%
Total Normal Cost	\$ 5,222	\$ 257	\$ 5,479	\$ 5,297	3.4%
Valuation Pay	\$ 66,504	\$ 22,757	\$ 89,261	\$ 86,601	3.1%
Total Normal Cost Rate	8.08%	1.16%	6.14%	6.12%	0.3%
	FYE 2023			FYE 2022	
	Full Benefits	Catastrophic	Total	Total	% Change
Police Department					
Expected Pay	\$ 69,586	\$ 92,736	\$ 162,321	\$ 151,687	7.0%
Total Normal Cost	\$ 4,878	\$ 1,270	\$ 6,148	\$ 5,774	6.5%
Fire Department					
Expected Pay	\$ 62,173	\$ 36,543	\$ 98,716	\$ 96,335	2.5%
Total Normal Cost	\$ 5,024	\$ 424	\$ 5,447	\$ 5,215	4.5%
Aggregate					
Expected Pay	\$ 131,759	\$ 129,279	\$ 261,038	\$ 248,022	5.2%
Total Normal Cost	\$ 9,902	\$ 1,694	\$ 11,596	\$ 10,989	5.5%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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-5 shows the Actuarial Liability as of June 30, 2021 and June 30, 2020 separately by component.

Table IV-5 Actuarial Liability						
	June 30, 2021			Total	June 30, 2020	% Change
	Actives	Deferred Vested	In Pay Status			
Police Department						
Explicit Subsidy						
Pre-Medicare	\$ 52,791	\$ 948	\$ 73,264	\$ 127,003	\$ 122,874	3.4%
Medicare Eligible	61,173	1,433	219,110	281,716	271,426	3.8%
Dental	8,311	200	21,957	30,468	35,456	-14.1%
Total Explicit	\$ 122,275	\$ 2,581	\$ 314,331	\$ 439,187	\$ 429,756	2.2%
Implicit Subsidy	16,189	315	26,013	42,518	38,347	10.9%
Total Police	\$ 138,464	\$ 2,896	\$ 340,345	\$ 481,704	\$ 468,102	2.9%
Fire Department						
Explicit Subsidy						
Pre-Medicare	\$ 40,737	\$ 328	\$ 23,830	\$ 64,895	\$ 62,710	3.5%
Medicare Eligible	52,649	509	118,045	171,202	166,748	2.7%
Dental	6,890	68	11,250	18,208	21,095	-13.7%
Total Explicit	\$ 100,276	\$ 905	\$ 153,125	\$ 254,305	\$ 250,553	1.5%
Implicit Subsidy	13,394	112	8,692	22,199	20,359	9.0%
Total Fire	\$ 113,670	\$ 1,017	\$ 161,817	\$ 276,504	\$ 270,912	2.1%
Aggregate						
Explicit Subsidy	\$ 222,551	\$ 3,486	\$ 467,456	\$ 693,492	\$ 680,308	1.9%
Implicit Subsidy	29,583	427	34,706	64,716	58,706	10.2%
Grand Total	\$ 252,134	\$ 3,913	\$ 502,162	\$ 758,208	\$ 739,014	2.6%

Dollar amounts in thousands

SECTION V – CONTRIBUTIONS

Amortization of the Unfunded Actuarial Liability

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.

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.

Table V-1 Unfunded Actuarial Liability Explicit Subsidy Only			
	June 30, 2021	June 30, 2020	% Change
Police Department			
Actuarial Liability	\$ 439,187	\$ 429,756	2.2%
Assets	<u>180,002</u>	<u>137,789</u>	30.6%
Unfunded Actuarial Liability	\$ 259,185	\$ 291,967	-11.2%
Funded Percentage	41.0%	32.1%	27.8%
Fire Department			
Actuarial Liability	\$ 254,305	\$ 250,553	1.5%
Assets	<u>96,311</u>	<u>70,743</u>	36.1%
Unfunded Actuarial Liability	\$ 157,994	\$ 179,810	-12.1%
Funded Percentage	37.9%	28.2%	34.1%
Aggregate UAL	\$ 417,179	\$ 471,777	-11.6%
Aggregate Funded Percentage	39.8%	30.7%	30.0%

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION V – CONTRIBUTIONS

Table V-2 UAL Amortization						
	Outstanding Balance	Remaining		FYE 2023 Payment		
		Period	Phase-in Phase-out			
Police Department						
Fresh Start UAL	\$ 241,053	21	N/A	N/A	\$ 15,513	
2018 Changes	12,076	22	0	3	728	
2019 Changes	(9,988)	23	1	3	(585)	
2020 Changes	33,526	24	2	3	1,296	
2021 Changes	(34,363)	25	3	3	(670)	
FYE 2022 Payment*	16,881					
Total 2021 Police UAL	\$ 259,184				\$ 16,282	
Fire Department						
Fresh Start UAL	\$ 150,665	21	N/A	N/A	\$ 9,696	
2018 Changes	10,124	22	0	3	611	
2019 Changes	(5,658)	23	1	3	(331)	
2020 Changes	14,766	24	2	3	571	
2021 Changes	(22,514)	25	3	3	(439)	
FYE 2022 Payment*	10,611					
Total 2021 Fire UAL	\$ 157,995				\$ 10,107	
Grand Total	\$ 417,179				\$ 26,388	

* FYE 2022 amortization payment discounted to 7/1/2021

Dollar amounts in thousands

Contributions for Administrative Expenses

Contributions for administrative expenses are set to be \$41.00 per member for FYE 2023 (increasing 3.00 percent per year). There are currently 3,936 members, resulting in estimated administrative expenses for FYE 2023 of \$164,943.

Contribution Amounts

The City pays the actuarially determined contribution for the explicit subsidy but has the option to cap its contribution at 11% of Police and Fire payroll, including the payroll for members only eligible for catastrophic disability benefits. The actuarially determined contribution is the normal cost plus administrative expenses plus the amortization payment on the UAL less expected member contributions. Members eligible for full benefits contribute 8.00% of pay.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION V – CONTRIBUTIONS

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2023 and 2022.

Table V-3			
City's Actuarially Determined Contribution (ADC)			
Explicit Subsidy Only			
	FYE 2023	FYE 2022	% Change
Police Department			
Normal Cost Amount	\$ 6,148	\$ 5,774	6.5%
Administrative Expense	103	100	3.5%
UAL Payment	<u>17,259</u>	<u>17,400</u>	-0.8%
Total Contribution	\$ 23,510	\$ 23,274	1.0%
Projected Member Contributions	<u>5,567</u>	<u>6,030</u>	-7.7%
City's ADC Amount	\$ 17,943	\$ 17,245	4.1%
Projected Total Payroll	162,321	151,687	7.0%
City's ADC Percentage	11.1%	11.4%	-2.8%
Fire Department			
Normal Cost Amount	\$ 5,447	\$ 5,215	4.5%
Administrative Expense	62	62	0.2%
UAL Payment	<u>10,713</u>	<u>10,938</u>	-2.1%
Total Contribution	\$ 16,223	\$ 16,214	0.1%
Projected Member Contributions	<u>4,974</u>	<u>5,187</u>	-4.1%
City's ADC Amount	\$ 11,249	\$ 11,027	2.0%
Projected Total Payroll	98,716	96,335	2.5%
City's ADC Percentage	11.4%	11.4%	-0.4%
Grand Totals			
City's ADC Amount	\$ 29,192	\$ 28,271	3.3%
Projected Total Payroll	261,038	248,022	5.2%
City's ADC Percentage	11.2%	11.4%	-1.9%
City's Optional Cap	\$ 28,714	\$ 27,282	5.2%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

The Government Finance Officers Association (GFOA) maintains a checklist of items to be included in the Plan’s Annual Comprehensive Financial Report (ACFR) 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 ACFR. Liability amounts shown in these exhibits include both the explicit and implicit subsidies.

Table VI-1

Police Department - Member Benefit Coverage Information

Actuarial Valuation Date	Actuarial Liability		Market Value of Assets *	Portion of Liability Covered by Actuarial Value of Assets	
	Retirees and Vested Terminated (A)	Active Members (B)		(A)	(B)
6/30/2021	\$ 343,241	\$ 138,464	\$ 180,002	52%	0%
6/30/2020	324,689	143,413	137,789	42%	0%
6/30/2019	293,344	142,094	124,990	43%	0%
6/30/2018	305,606	166,211	111,659	37%	0%
6/30/2017	280,546	150,792	99,926	36%	0%
6/30/2016	307,941	188,002	97,412	32%	0%
6/30/2015	290,354	179,969	85,322	29%	0%
6/30/2014	275,902	180,568	70,102	25%	0%
6/30/2013	268,633	183,266	57,832	22%	0%
6/30/2012	374,949	268,590	49,797	13%	0%

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

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-2

Fire Department - Member Benefit Coverage Information

Actuarial Valuation Date	Actuarial Liability		Market Value of Assets *	Portion of Liability Covered by Actuarial Value of Assets	
	Retirees and Vested Terminated	Active Members		(A)	(B)
	(A)	(B)		(A)	(B)
6/30/2021	\$ 162,834	\$ 113,670	\$ 96,311	59%	0%
6/30/2020	161,088	109,823	70,743	44%	0%
6/30/2019	154,885	103,007	60,967	39%	0%
6/30/2018	161,946	113,510	50,861	31%	0%
6/30/2017	147,204	101,704	42,591	29%	0%
6/30/2016	164,063	118,866	37,795	23%	0%
6/30/2015	161,381	108,049	29,243	18%	0%
6/30/2014	153,132	97,108	23,503	15%	0%
6/30/2013	153,366	95,261	17,203	11%	0%
6/30/2012	225,919	127,862	16,587	7%	0%

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

Dollar amounts in thousands

Table VI-3

Police Department - Analysis of Financial Experience

Gain or (Loss) for the Year Ending on Valuation Date Due to:

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Changes	Total Experience
6/30/2021	\$ 25,626	\$ 27,361	\$ 52,988	\$ (21,845)	\$ 31,143
6/30/2020	(4,115)	17,054	12,938	(30,044)	(17,106)
6/30/2019	(2,839)	64,974	62,135	(6,817)	55,318
6/30/2018	(2,442)	3,712	1,270	(22,819)	(21,549)

The analysis was combined for Police and Fire for 6/30/2017 and earlier

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-4

Fire Department - Analysis of Financial Experience

Gain or (Loss) for the Year Ending on Valuation Date Due to:

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Changes	Total Experience
6/30/2021	\$ 12,961	\$ 23,287	\$ 36,248	\$ (14,737)	\$ 21,511
6/30/2020	(2,137)	19,190	17,052	(18,287)	(1,235)
6/30/2019	(1,205)	34,915	33,710	(1,749)	31,961
6/30/2018	(1,548)	(311)	(1,859)	(13,568)	(15,427)

The analysis was combined for Police and Fire for 6/30/2017 and earlier

Dollar amounts in thousands

Table VI-5

Police and Fire Department - Analysis of Financial Experience

Gain or (Loss) for the Year Ending on Valuation Date Due to:

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2017	2,647	(15,108)	\$ (12,461)	29,245	16,784
6/30/2016	(2,914)	(2,728)	\$ (5,642)	4,864	(778)
6/30/2015	582	7,990	\$ 8,572	(3,449)	5,123
6/30/2014	2,802	16,222	\$ 19,024	13,689	32,713
6/30/2013	2,437	(4,536)	\$ (2,099)	258,939	256,840
6/30/2012	(6,011)	4,760	\$ (1,251)	58,173	56,922

The analysis was combined for Police and Fire for 6/30/2017 and earlier

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

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. Since the June 30, 2017 valuation, the Actuarial Value of Assets is equal to the Market Value of Assets.

**Table VI-6
Police Department - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) ÷ c)
6/30/2021	\$ 180,002	\$ 481,704	\$ 301,702	37.4%	\$ 157,594	191%
6/30/2020	137,789	468,102	330,314	29.4%	147,269	224%
6/30/2019	124,990	435,438	310,448	28.7%	146,865	211%
6/30/2018	111,659	471,817	360,158	23.7%	131,888	273%
6/30/2017	99,926	431,338	331,412	23.2%	120,299	275%
6/30/2016	97,412	495,943	398,531	19.6%	111,029	359%
6/30/2015	85,322	470,323	385,001	18.1%	109,783	351%
6/30/2014	70,102	456,470	386,368	15.4%	112,947	342%
6/30/2013	57,832	451,899	394,067	12.8%	109,783	359%
6/30/2012	49,797	643,539	593,742	7.7%	107,929	550%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-7

Fire Department - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) ÷ c)
6/30/2021	\$ 96,311	\$ 276,504	\$ 180,193	34.8%	\$ 95,841	188%
6/30/2020	70,743	270,912	200,169	26.1%	93,529	214%
6/30/2019	60,967	257,891	196,925	23.6%	88,953	221%
6/30/2018	50,861	275,456	224,595	18.5%	86,541	260%
6/30/2017	42,591	248,908	206,317	17.1%	83,517	247%
6/30/2016	37,795	282,928	245,133	13.4%	83,043	295%
6/30/2015	29,243	269,430	240,187	10.9%	74,950	320%
6/30/2014	23,503	250,240	226,737	9.4%	75,242	301%
6/30/2013	17,203	248,627	231,424	6.9%	74,862	309%
6/30/2012	16,587	353,781	337,194	4.7%	64,696	521%

Dollar amounts in thousands

Schedule of Active Member Data - Police

Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Change in Average Pay
	Under 65	Age 65+	Total			
2021	1,081	0	1,081	\$ 157,000,932	\$ 145,237	3.3%
2020	1,047	0	1,047	147,268,605	140,658	-0.5%
2019	1,039	0	1,039	146,865,241	141,352	4.4%
2018	974	0	974	131,888,184	135,409	1.0%
2017	897	0	897	120,299,327	134,113	10.0%
2016	911	0	911	111,028,782	121,876	3.1%
2015	929	0	929	109,868,577	118,265	4.4%
2014	997	0	997	112,946,895	113,287	6.1%
2013	1,028	0	1,028	109,783,295	106,793	6.5%
2012	1,076	0	1,076	107,929,300	100,306	

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Schedule of Active Member Data - Fire						
Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Change in Average Pay
	Under 65	Age 65+	Total			
2021	657	0	657	\$ 95,556,891	\$ 145,444	2.9%
2020	662	0	662	93,529,264	141,283	5.1%
2019	662	0	662	88,952,979	134,370	3.1%
2018	664	0	664	86,541,114	130,333	1.0%
2017	646	0	646	83,370,711	129,057	4.3%
2016	671	0	671	83,043,310	123,761	7.5%
2015	648	0	648	74,613,261	115,144	0.5%
2014	657	0	657	75,241,817	114,523	3.9%
2013	679	0	679	74,861,955	110,253	9.4%
2012	642	0	642	64,696,203	100,773	

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Police Department - Schedule of Retirees and Beneficiaries Added to and Removed from Rolls											
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy	
	Count	Annual Subsidy			Count	Count	Count	Annual Subsidy			Count
<u>Medical</u>											
2020-21	1,353	\$ 12,410	74	24	1,403	\$ 13,091	50	\$ 681	5.5%	\$ 9,331	
2019-20	1,242	11,217	132	21	1,353	12,410	111	1,193	10.6%	9,172	
2018-19	1,233	10,633	69	60	1,242	11,217	9	584	5.5%	9,031	
2017-18	1,198	12,719	73	38	1,233	10,633	35	(2,086)	-16.4%	8,624	
2016-17	1,169	12,037	56	27	1,198	12,719	29	681	5.7%	10,616	
2015-16	1,141	11,641	60	32	1,169	12,037	28	397	3.4%	10,297	
2014-15	1,106	11,900	71	36	1,141	11,641	35	(259)	-2.2%	10,202	
2013-14	1,083	11,802	50	27	1,106	11,900	23	98	0.8%	10,759	
2012-13	1,037	12,823	66	20	1,083	11,802	46	(1,022)	-8.0%	10,897	
2011-12	991	12,267	77	31	1,037	12,823	46	557	4.5%	12,366	
<u>Dental</u>											
2020-21	1,359	\$ 1,723	66	26	1,399	\$ 1,776	40	\$ 53	3.1%	\$ 1,269	
2019-20	1,315	1,693	71	27	1,359	1,723	44	30	1.8%	1,268	
2018-19	1,269	1,626	70	24	1,315	1,693	46	67	4.1%	1,288	
2017-18	1,248	1,605	59	38	1,269	1,626	21	20	1.3%	1,281	
2016-17	1,220	1,510	50	22	1,248	1,605	28	96	6.3%	1,286	
2015-16	1,199	1,497	42	21	1,220	1,510	21	12	0.8%	1,237	
2014-15	1,139	1,428	79	19	1,199	1,497	60	69	4.8%	1,249	
2013-14	1,111	1,353	45	17	1,139	1,428	28	75	5.6%	1,254	
2012-13	1,070	1,384	53	10	1,111	1,353	41	(31)	-2.2%	1,218	
2011-12	1,028	1,330	50	11	1,070	1,384	42	54	4.0%	1,294	

Annual subsidies are explicit amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

Schedule of Retirees and Beneficiaries - Fire Added to and Removed from Rolls											
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy	
	Count	Annual Subsidy			Count	Count	Count	Annual Subsidy			Count
Medical											
2020-21	825	\$ 7,332	36	29	832	\$ 7,525	7	\$ 192	2.6%	\$ 9,044	
2019-20	799	6,791	41	15	825	7,332	26	542	8.0%	8,888	
2018-19	803	6,518	27	31	799	6,791	(4)	272	4.2%	8,499	
2017-18	776	7,455	47	20	803	6,518	27	(937)	-12.6%	8,117	
2016-17	752	6,976	42	18	776	7,455	24	479	6.9%	9,607	
2015-16	758	6,965	28	34	752	6,976	(6)	11	0.2%	9,277	
2014-15	743	7,095	35	20	758	6,965	15	(130)	-1.8%	9,189	
2013-14	749	7,737	29	35	743	7,095	(6)	(642)	-8.3%	9,549	
2012-13	752	8,665	28	31	749	7,737	(3)	(929)	-10.7%	10,329	
2011-12	745	8,838	30	23	752	8,665	7	(173)	-2.0%	11,523	
Dental											
2020-21	839	\$ 970	32	30	841	\$ 977	2	\$ 7	0.7%	\$ 1,161	
2019-20	828	963	26	15	839	970	11	7	0.7%	1,156	
2018-19	828	962	26	26	828	963	0	1	0.2%	1,163	
2017-18	808	942	39	19	828	962	20	20	2.1%	1,162	
2016-17	798	893	30	20	808	942	10	49	5.5%	1,166	
2015-16	793	891	23	18	798	893	5	2	0.2%	1,120	
2014-15	778	876	29	14	793	891	15	15	1.8%	1,124	
2013-14	779	949	23	24	778	876	(1)	(73)	-7.7%	1,126	
2012-13	785	1,015	18	23	779	949	(6)	(66)	-6.5%	1,218	
2011-12	770	995	20	7	785	1,015	15	20	2.0%	1,293	

Annual subsidies are explicit amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Police Department - Summary of Member Data			
Valuation Date	June 30, 2021	June 30, 2020	% Change
Active Employees Eligible for Full Benefits			
Count	517	578	-10.55%
Average Age	46.7	46.4	0.74%
Average OPEB Benefit Service	18.7	18.4	1.46%
Total Payroll	\$ 85,177,803	\$ 90,768,550	-6.16%
Active Employees Eligible for Catastrophic Disability Only			
Count	564	469	20.26%
Average Age	31.7	31.7	0.03%
Average OPEB Benefit Service	3.4	3.3	4.11%
Total Payroll	\$ 71,823,129	\$ 56,500,055	27.12%
Term Vested Members**	9	9	0.00%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental Coverage	1,219	1,197	1.84%
Medical Coverage Only	1	1	0.00%
In-Lieu Medical with Dental Coverage	159	141	12.77%
Dental Coverage Only	21	21	0.00%
In-Lieu Medical Coverage Only	24	14	71.43%
Total	1,424	1,374	3.64%
Total Count	2,514	2,430	3.46%

* Counts do not include dependent spouses.

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Fire Department - Summary of Member Data			
Valuation Date	June 30, 2021	June 30, 2020	% Change
Active Employees Eligible for Full Benefits			
Count	469	495	-5.25%
Average Age	47.1	46.5	1.21%
Average OPEB Benefit Service	17.4	16.9	3.01%
Total Payroll	\$ 72,131,382	\$ 73,995,442	-2.52%
Active Employees Eligible for Catastrophic Disability Only			
Count	188	167	12.57%
Average Age	35.6	34.9	2.06%
Average OPEB Benefit Service	4.8	4.3	10.88%
Total Payroll	\$ 23,425,509	\$ 19,533,822	19.92%
Term Vested Members**	3	1	200.00%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental Coverage	780	781	-0.13%
Medical Coverage Only	0	0	N/A
In-Lieu Medical with Dental Coverage	44	40	10.00%
Dental Coverage Only	17	18	-5.56%
In-Lieu Medical Coverage Only	8	4	100.00%
Total	849	843	0.71%
Total Count	1,509	1,506	0.20%

* Counts do not include dependent spouses.

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Police Department - Status Reconciliation						
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	1,047	9	792	130	452	2,430
New Hires	111	0	0	0	0	111
Rehires	10	0	0	0	0	10
Non-Vested Termination	(10)	0	0	0	0	(10)
Vested Terminations	0	0	0	0	0	0
Service Retirements	(52)	0	52	0	0	0
Disabled Retirements	(10)	0	(1)	0	11	0
New Survivors	0	0	0	10	0	10
No longer covered	(15)	0	(8)	(3)	(14)	(40)
Data corrections	0	0	3	0	0	3
New Catastrophic Disability	0	0	0	0	0	0
End of Year	1,081	9	838	137	449	2,514

Counts do not include dependent spouses

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

Fire Department - Status Reconciliation						
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	662	1	270	130	443	1,506
New Hires	21	0	0	0	0	21
Rehires	2	0	0	0	0	2
Non-Vested Termination	0	0	0	0	0	0
Vested Terminations	(1)	1	0	0	0	0
Service Retirements	(25)	0	25	0	0	0
Disabled Retirements	(2)	0	0	0	2	0
New Survivors	0	0	0	8	0	8
No longer covered	0	0	(4)	(9)	(16)	(29)
Data corrections	0	1	0	0	0	1
New Catastrophic Disability	0	0	0	0	0	0
End of Year	657	3	291	129	429	1,509

Counts do not include dependent spouses

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Member Data as of June 30, 2021:

Police Department - 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 +	Total
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0
30 to 34	0	14	1	0	0	0	0	15
35 to 39	0	20	45	7	0	0	0	72
40 to 44	0	8	37	34	17	0	0	96
45 to 49	1	4	25	40	80	19	0	169
50 to 54	0	1	9	20	66	43	1	140
55 to 59	0	0	2	6	5	7	2	22
60 to 64	0	0	0	0	1	2	0	3
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	1	47	119	107	169	71	3	517

Fire Department - 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 +	Total
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0
30 to 34	0	9	2	0	0	0	0	11
35 to 39	0	27	28	1	0	0	0	56
40 to 44	0	24	61	22	6	0	0	113
45 to 49	1	4	27	30	45	5	0	112
50 to 54	0	3	13	25	74	26	2	143
55 to 59	0	0	1	6	18	8	0	33
60 to 64	0	0	0	0	1	0	0	1
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	1	67	132	84	144	39	2	469

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

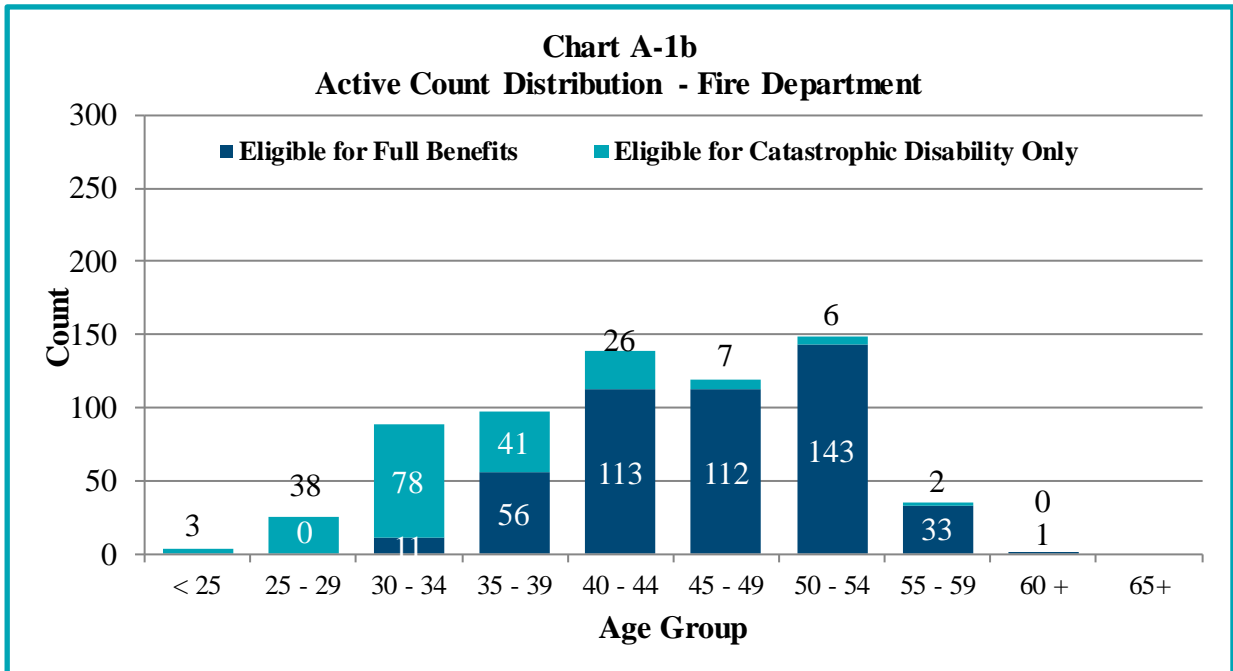
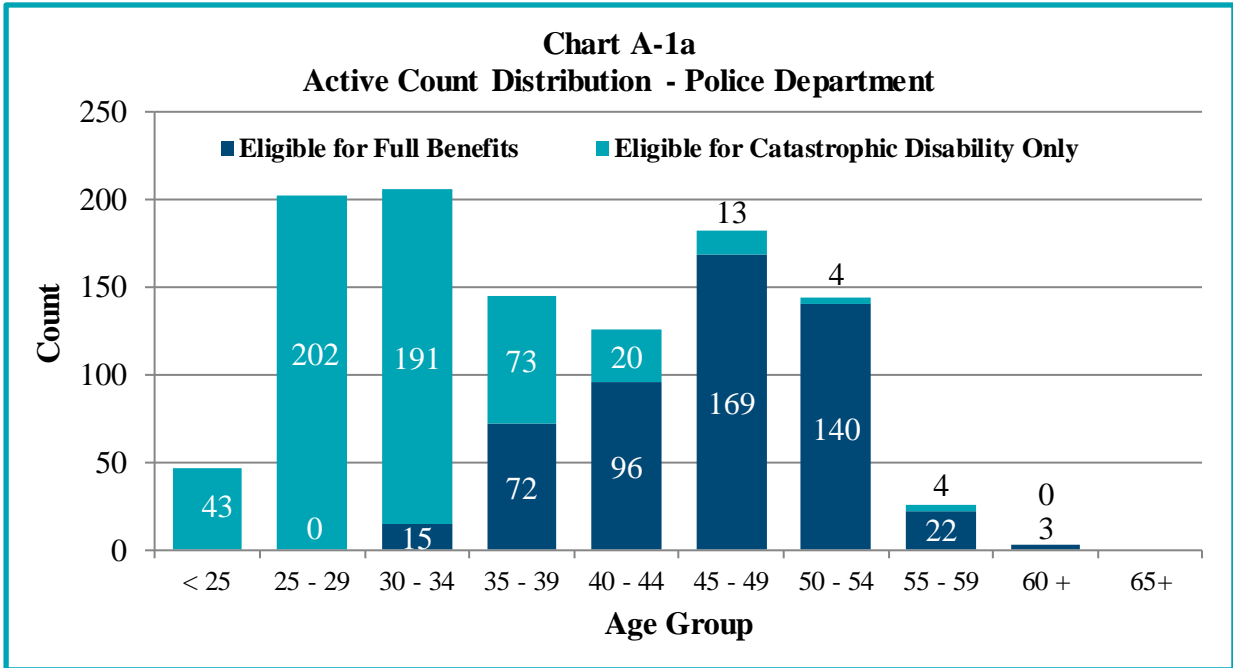
APPENDIX A – MEMBERSHIP INFORMATION

Police Department - Active Employees Eligible for Catastrophic Disability Benefits Only								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	47	0	0	0	0	0	0	47
25 to 29	195	7	0	0	0	0	0	202
30 to 34	136	55	0	0	0	0	0	191
35 to 39	50	21	2	0	0	0	0	73
40 to 44	14	10	4	1	1	0	0	30
45 to 49	6	3	0	2	2	0	0	13
50 to 54	1	0	1	0	2	0	0	4
55 to 59	1	0	0	0	3	0	0	4
60 to 64	0	0	0	0	0	0	0	0
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	450	96	7	3	8	0	0	564

Fire Department - Active Employees Eligible for Catastrophic Disability Benefits Only								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	3	0	0	0	0	0	0	3
25 to 29	22	3	0	0	0	0	0	25
30 to 34	47	31	0	0	0	0	0	78
35 to 39	24	15	2	0	0	0	0	41
40 to 44	4	13	7	2	0	0	0	26
45 to 49	2	2	1	1	1	0	0	7
50 to 54	1	3	0	1	1	0	0	6
55 to 59	0	2	0	0	0	0	0	2
60 to 64	0	0	0	0	0	0	0	0
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	103	69	10	4	2	0	0	188

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

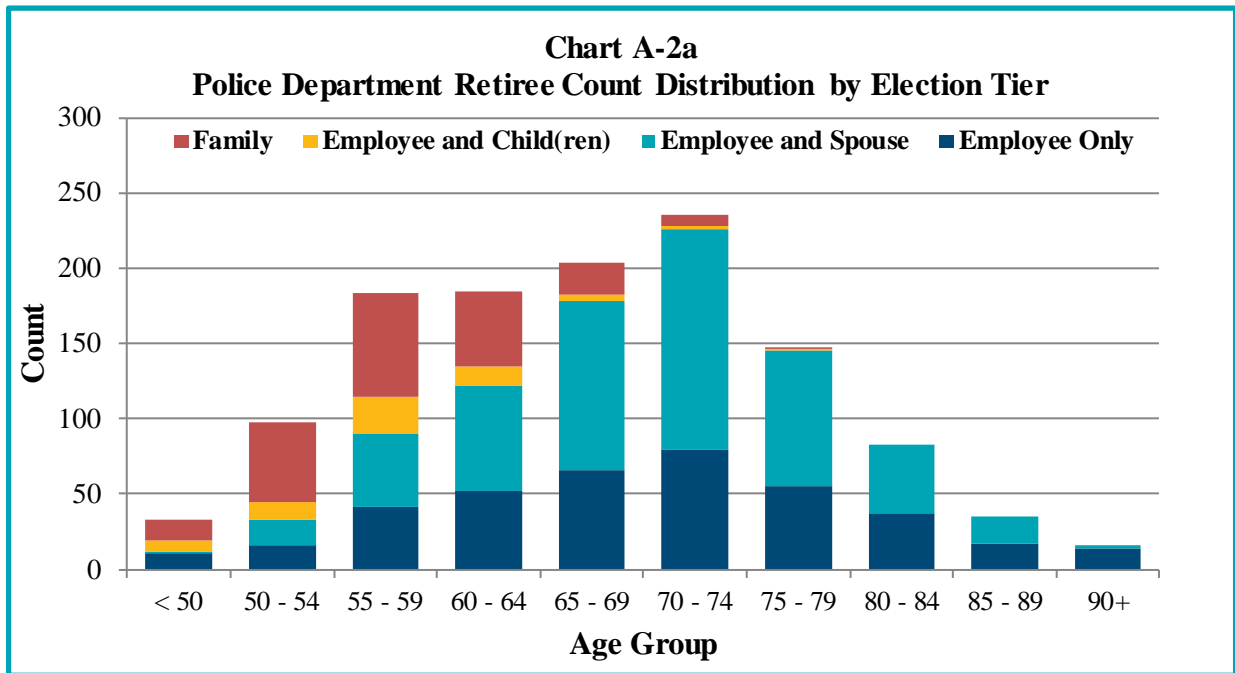


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Age Group	Medical Insurance			Dental Insurance
	Males	Females	Total	
Under 50	26	7	33	49
50 to 54	84	14	98	149
55 to 59	156	28	184	229
60 to 64	158	27	185	217
65 to 69	189	15	204	223
70 to 74	200	35	235	245
75 to 79	123	24	147	151
80 to 84	61	22	83	84
85 to 89	23	12	35	36
Over 90	6	10	16	16
Total	1,026	194	1,220	1,399

Counts do not include dependent spouses

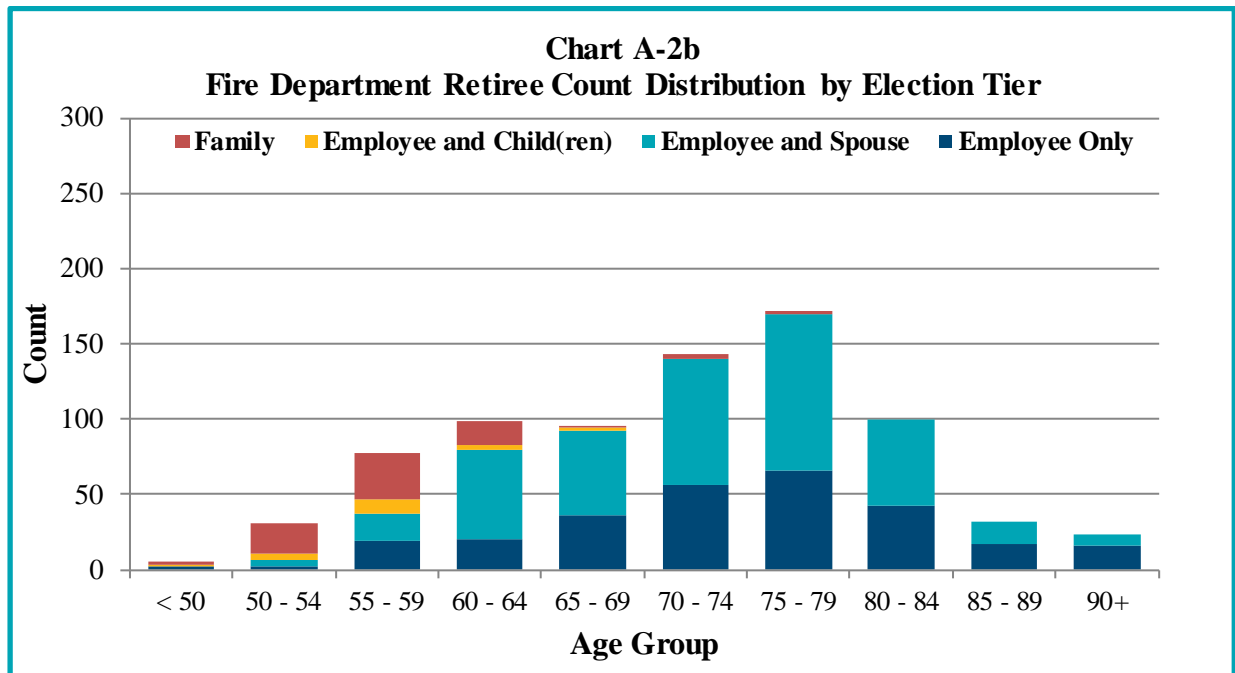


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Fire Department - Retirees, Disabled Retirees and Surviving Spouses				
Age Group	Medical Insurance		Total	Dental Insurance
	Males	Females		
Under 50	4	2	6	10
50 to 54	27	4	31	39
55 to 59	69	9	78	95
60 to 64	88	11	99	106
65 to 69	81	15	96	99
70 to 74	118	25	143	149
75 to 79	137	35	172	178
80 to 84	81	19	100	105
85 to 89	19	13	32	35
Over 90	14	9	23	25
Total	638	142	780	841

Counts do not include dependent spouses



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Police & Fire Department Vested Terminations*			
Age Group	Police	Fire	Total
Under 45	0	0	0
45 to 49	0	0	0
50 to 54	9	3	12
55 to 59	0	0	0
60 to 64	0	0	0
Over 65	0	0	0
Total	9	3	12

**Includes only those term vested participants with at least 20 years of OPEB benefit service*

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 2, 2021 Board meeting. Price inflation and wage inflation assumptions were adopted at the December 3, 2020 Board meeting based upon our recommendations. Please refer to the presentation for that meeting for details, including the rationale for each assumption.

1. Expected Return on Plan Assets

6.00% per year. The Board expects a long-term rate of return of 6.1% 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 2021 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 2030:	20.3%
Resistance Point:	20.0%
Year limited to GDP growth:	2075

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Annual Increase									
Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental	Part B Premiums	Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental	Part B Premiums
2022		<i>Varies by Plan</i>		6.96%	2022	4.45	4.45	3.50	3.70
2023	7.49%	4.15%	3.50%	3.04	2023	4.44	4.44	3.50	3.70
2024	7.15	4.26	3.50	5.25	2024	4.43	4.43	3.50	3.70
2025	6.80	4.36	3.50	4.94	2025	4.42	4.42	3.50	3.70
2026	6.46	4.46	3.50	5.68	2026	4.41	4.41	3.50	3.70
2027	6.12	4.57	3.50	5.81	2027	4.40	4.40	3.50	3.70
2028	5.78	4.67	3.50	5.91	2028	4.39	4.39	3.50	3.70
2029	5.44	4.77	3.50	5.66	2029	4.38	4.38	3.50	3.70
2030	5.10	4.87	3.50	5.37	2030	4.37	4.37	3.50	3.70
2031	4.93	4.93	3.50	5.27	2031	4.36	4.36	3.50	3.70
2032	4.87	4.87	3.50	5.16	2032	4.36	4.36	3.50	3.70
2033	4.78	4.78	3.50	5.05	2033	4.35	4.35	3.50	3.70
2034	4.74	4.74	3.50	4.94	2034	4.34	4.34	3.50	3.70
2035	4.71	4.71	3.50	4.83	2035	4.33	4.33	3.50	3.70
2036	4.68	4.68	3.50	4.72	2036	4.30	4.30	3.50	3.70
2037	4.66	4.66	3.50	4.61	2037	4.24	4.24	3.50	3.70
2038	4.64	4.64	3.50	4.51	2038	4.18	4.18	3.50	3.70
2039	4.62	4.62	3.50	4.40	2039	4.12	4.12	3.50	3.70
2040	4.60	4.60	3.50	4.29	2040	4.07	4.07	3.50	3.70
2041	4.59	4.59	3.50	4.18	2041	4.02	4.02	3.50	3.70
2042	4.57	4.57	3.50	4.07	2042	3.96	3.96	3.50	3.70
2043	4.56	4.56	3.50	3.96	2043	3.91	3.91	3.50	3.70
2044	4.54	4.54	3.50	3.85	2044	3.86	3.86	3.50	3.70
2045	4.53	4.53	3.50	3.75	2045	3.81	3.81	3.50	3.70
2046	4.51	4.51	3.50	3.70	2046	3.78	3.78	3.50	3.70
2047	4.50	4.50	3.50	3.70	2047	3.78	3.78	3.50	3.70
2048	4.49	4.49	3.50	3.70	2048+	3.78	3.78	3.50	3.70
2049	4.48	4.48	3.50	3.70					
2050	4.47	4.47	3.50	3.70					
2051	4.46	4.46	3.50	3.70					

The table above shows the trend increases on a fiscal year basis; premium rates change on a calendar year basis. For the fiscal year beginning July 1, 2022, the trend was developed using actual calendar year 2022 premiums and a trend assumption for calendar year 2023. The trend factors vary by plan as shown in the table below.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Plan	FY Beginning 2022 Trend
Pre-Medicare	
Kaiser Plans	3.59%
Anthem HMO Plans	-0.91%
Anthem High Deductible Plan	12.84%
Anthem PPO Plans	12.84%
Medicare	
Kaiser Plan	1.67%
Anthem HMO Plan	1.82%
Anthem PPO Plan	0.43%
Dental	
HMO Plan	1.76%
PPO Plan	-7.69%

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

3. Changes Since the Last Valuation

The per-person cost trends were updated, and the discount rate was reduced from 6.25% to 6.00%.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The OPEB assumptions were adopted by the Board of Administration at the December 2, 2021 Board meeting based on our recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 4, 2021 Board meeting based on recommendations from our experience study covering Plan experience through June 30, 2021. Please refer to the full experience study report for details, including the rationale for each assumption.

1. Salary Increase Rate

Wage inflation component: Reflect currently bargained across-the-board increases and 3.00% per annum (0.75% real wage growth) thereafter. For this valuation, Fire members have bargained increases of 4.25% for FYE 2022 and 3.00% for FYE 2023. Police members bargained increases of 3.85% for FYE 2022.

The following merit component is added to wage inflation, based on an individual member’s years of service:

Merit Salary Increases	
Years of Service	Merit/ Longevity
0	6.50%
1	6.50
2	6.25
3	5.75
4	5.25
5	4.25
6	2.50
7	1.50
8	1.00
9	0.80
10+	0.60

2. Administrative Expenses

For FYE 2023, trust administrative expenses are assumed to equal \$41 per full benefit member and are assumed to increase at the wage inflation assumption of 3.00% per annum.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

3. Retirement Rates

Rates of retirement are based on age and service according to the following Tables. Tier 1 rates only apply when the member is eligible for unreduced pension benefits.

Tier 1 Rates of Retirement by Age and Service				
Age	Police		Fire	
	<30 Years	30+ Years	<30 Years	30+ Years
50	55.0%	100.0%	35.0%	100.0%
51	45.0	100.0	35.0	100.0
52	40.0	100.0	35.0	100.0
53	30.0	100.0	35.0	100.0
54	30.0	100.0	35.0	100.0
55	30.0	100.0	30.0	100.0
56	30.0	100.0	25.0	100.0
57	30.0	100.0	20.0	100.0
58 – 61	50.0	100.0	27.5	100.0
62+	100.0	100.0	100.0	100.0

Tier 2 Rates of Retirement by Age and Service				
Age	Police			
	5 – 19 Years	20 – 24 Years	25 – 29 Years	30+ Years
50 – 56	2.0%	2.0%	2.0%	5.0%
57 – 59	7.5	10.0	20.0	100.0
60 – 61	10.0	20.0	35.0	100.0
62 – 64	25.0	50.0	75.0	100.0
65+	100.0	100.0	100.0	100.0

Tier 2 Rates of Retirement by Age and Service				
Age	Fire			
	5 – 19 Years	20 – 24 Years	25 – 29 Years	30+ Years
50 – 56	1.0%	1.0%	1.0%	2.5%
57 – 59	5.0	7.5	15.0	100.0
60 – 61	7.5	15.0	25.0	100.0
62 – 64	20.0	35.0	50.0	100.0
65+	100.0	100.0	100.0	100.0

Tier 1 vested terminated members are assumed to retire at age 50 if they have 25 or more years of service or at age 55 if they have less than 25 years of service. Tier 2 vested terminated members are assumed to retire at age 60.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

4. Rates of Termination

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

Rates of Termination*		
Service	Police	Fire
0	13.75%	8.50%
1	11.75	4.00
2	10.00	2.75
3	8.50	1.75
4	7.50	1.25
5	6.75	1.00
6	6.00	0.90
7	5.50	0.80
8	5.00	0.70
9	4.75	0.60
10	4.50	0.50
11	4.25	0.50
12	3.75	0.50
13	3.25	0.50
14	2.75	0.50
15	2.25	0.50
16	1.75	0.50
17	1.50	0.50
18	1.25	0.50
19+	1.00	0.50

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

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

5. Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2021 projection scale on a generational basis from the base year of 2010.

Category	Base Mortality Tables	
	Male	Female
Healthy Retirees	1.002 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Retirees	1.002 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Retirees
Disabled Retiree	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees
Beneficiaries	1.032 times the 2010 Public General Above Median Income Mortality Table (Pub(g)-2010(A)) for Healthy Retirees	1.032 times the 2010 Public General Above Median Income Mortality Table (Pub(g)-2010(A)) for Healthy Retirees
Healthy Non-Annuitant	0.979 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Employees	0.979 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Employees

6. Disability Rates

For Police, disability rates are equal to the CalPERS police industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 140% for ages 50 and older. For Fire, disability rates are equal to the CalPERS fire industrial and non-industrial rates for public agencies multiplied by 90% for ages under 50 and 180% for ages 50 and older. Sample disability rates of active participants are provided in the following table.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.16%	0.03%
30	0.45	0.08
35	0.74	0.15
40	1.03	0.28
45	1.32	0.50
50	2.70	5.08
55	6.88	7.54
60	8.71	10.77
65	10.47	14.84

100% of disabilities are assumed to be duty related.

7. Married Percentage

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

8. Percent of Future Retirees Electing Coverage Versus In-Lieu Credits

Upon retirement, members are assumed to elect coverage or enter the In-Lieu credit program according to the following table.

Future Retiree Participation		
	Coverage	In-Lieu
Active Members	70%	30%
Terminated Vested Members	50%	50%

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

9. Dependent Coverage Election

Upon retirement, members who elect coverage are assumed to cover dependents according to the following table.

Assumed Future Retiree Tier Elections				
Coverage Tier	Pre-Medicare		Medicare	
	Male	Female	Male	Female
Retiree Only	20%	52%	27%	74%
Retiree and Children	7%	22%	0%	0%
Retiree and Spouse	34%	13%	73%	26%
Retiree and Family	39%	13%	0%	0%

100% of members eligible for dental are assumed to elect spousal coverage.

10. In-Lieu Assumptions

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. The amount of the In-Lieu credit is 25% of the subsidy for the tier of coverage for which the retiree qualifies. Future retiree medical tier qualification assumptions are provided in the following table.

Assumed Future Retiree In-Lieu Credit Tier				
Coverage Tier	Pre-Medicare		Medicare	
	Male	Female	Male	Female
Retiree Only	25%	25%	40%	40%
Retiree and Children	0%	0%	0%	0%
Retiree and Spouse	20%	20%	60%	60%
Retiree and Family	55%	55%	0%	0%

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

11. Health Plan Election

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
Pre-Medicare Medical Plans		Medicare-Eligible Medical Plans	
Kaiser DHMO	4%	Kaiser Senior Advantage	43%
Kaiser \$25 Co-pay	62%	Anthem Medicare HMO	1%
Kaiser HDHP	6%	Anthem Medicare PPO	56%
Anthem DHMO	2%		
Anthem Select \$20 Co-pay	8%		
Anthem Traditional \$20 Co-pay	1%		
Anthem HDHP PPO	7%	Dental Plans (All Retirees)	
Anthem Select PPO	8%	Delta Dental PPO	99%
Anthem Classic PPO	2%	DeltaCare HMO	1%

** Eligible for coverage and elect coverage*

The Anthem \$20 Copay Traditional HMO plan was added effective January 1, 2022.

12. Voluntary Employees' Beneficiary Association Balance Drawdown

Members are assumed to draw down their VEBA balances by the blended active and retiree member plus spouse premium, without factoring in the lowest cost premium, and increased by a factor of 1.5 to estimate the adjustment from a blended active and retiree premium to a retiree only premium.

13. Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

14. Changes Since the 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-2021. The Beneficiary mortality table was updated.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Claim and Health Plan Benefit Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 2, 2021 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 2021 and 2022. 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 2021 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 but the load for children for Police and Fire was developed separately from the load for Federated.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

1. Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2021 based on the premiums for 2021 and 2022. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

The following tables show the claims costs for each medical plan as of the valuation date:

Sample Claims Costs - Non-Medicare Eligible						
Age	Kaiser		Anthem HMO		Anthm PPO	
	Male	Female	Male	Female	Male	Female
40	\$10,255	\$12,604	\$11,561	\$13,979	\$14,589	\$18,432
45	10,484	12,298	11,595	13,463	15,406	18,374
50	11,078	12,553	12,005	13,524	16,819	19,233
55	12,259	13,299	13,020	14,091	19,193	20,895
60	14,324	13,965	14,945	14,576	23,014	22,427
64	16,858	13,721	17,395	14,163	27,515	22,381

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

<u>Sample Claims Costs - Medicare Eligible</u>						
<u>Age</u>	<u>Kaiser Senior Adv</u>		<u>Anthem HMO</u>		<u>Anthem Select PPO</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
65	\$2,922	\$2,578	\$4,873	\$4,299	\$5,041	\$4,447
70	3,103	2,628	5,175	4,383	5,353	4,534
75	3,566	2,956	5,948	4,929	6,153	5,099
80	4,050	3,352	6,754	5,590	6,987	5,783
85	4,374	3,663	7,294	6,108	7,546	6,319

<u>Sample Claims Costs - Dental</u>	
<u>Dental Blended</u>	
<u>Age</u>	<u>Unisex</u>
All	579.18

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 POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

9. Changes Since the Last Valuation

All claims costs were updated to reflect the changes in plan premiums and the populations covered.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The Actuarial Liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and Actuarial Liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and Actuarial Liability for the Plan. The Actuarial Liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

The Actuarial Value of Assets equals the Market Value of Assets.

3. Amortization Method

The Unfunded Actuarial Liability is the difference between the Actuarial Liability and the Actuarial Value of Assets. The Unfunded Actuarial Liability as of June 30, 2017 was amortized as a level percent of payroll over a closed 25-year period. All future amortization bases will be amortized over 25-year periods with a 3-year phase-in and phase-out.

4. Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost, administrative expenses, and the amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 11% of total payroll.

Active members that are eligible for full benefits will contribute 8.00% of pay.

5. Changes Since the Last Valuation

None.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

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

Medical/Dental:

Employees who retire (including deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

Tier 1 employees (hired before August 4, 2013) are eligible for unreduced service retirement at age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced service retirement is available at age 50 with 20 years of service. Tier 2 employees (hired on or after August 4, 2013) are eligible for unreduced service retirement at age 60 with 10 years of service or reduced service retirement at age 50 with 10 years of service. Service credited through reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City’s medical plan at the time of the member’s retirement. Dependent children are eligible to receive coverage until the age of 26.

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

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.

Employees who separate from service after July 5, 1992 with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Benefits for Retirees:

Medical: The Plan pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

Dental: The Plan pays 100% of the dental insurance premiums.

Premiums: Monthly premiums for calendar years 2021 and 2022 are as follows.

2021 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<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
Dental				
Delta Dental PPO	\$50.88	\$111.92	\$122.12	\$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX C – SUMMARY OF PLAN PROVISIONS

2022 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$607.66	\$1,215.32	\$1,063.40	\$1,822.98
Kaiser \$25 Co-pay	742.12	1,484.24	1,298.70	2,226.36
Kaiser HDHP	511.98	1,023.96	895.96	1,535.94
Anthem HMO Select \$20 Co-pay	661.56	1,455.40	1,190.80	2,050.78
Anthem HMO Traditional \$20 Co-pay	760.52	1,673.12	1,368.94	2,357.58
Anthem DHMO	510.02	1,234.30	1,122.10	1,581.14
Anthem HDHP	1,163.58	2,559.88	2,094.44	3,607.12
Anthem Select PPO	1,888.78	4,155.36	3,399.82	5,855.30
Anthem Classic PPO	2,020.10	4,444.26	3,636.18	6,262.34
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$260.92	\$521.84	\$521.84	\$782.76
Anthem Medicare PPO	465.06	930.12	930.12	1,395.18
Anthem Medicare HMO	423.76	847.52	847.52	1,271.28
Dental				
Delta Dental PPO	\$42.24	\$92.90	\$101.36	\$130.90
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 2022 Benefit Plans:

Medicare-Eligible Plans:	Kaiser	Anthem HMO	Anthem PPO
Annual Out-of-Pocket Maximum	Single \$1,500 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 POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Non-Medicare Plans:	Kaiser			Anthem HMO		Anthem PPO*		
	High Deductible	DHMO	\$25 Co-Pay	\$20 Co-Pay	DHMO	Select PPO	Classic PPO	High Deductible
Annual Out-of-Pocket Maximum (single/family)	\$5,950/ \$11,900	\$4,000/ \$8,000	\$1,500/ \$3,000	\$1,500/ \$3,000	\$4,000/ \$8,000	\$2,100/ \$4,200	\$2,100/ \$4,200	\$4,000/ \$8,000
Annual Deductible (single/family)	\$3,000/ \$6,000	\$1,500/ \$3,000	None	None	\$1,500/ \$3,000	\$100/\$200	\$100/\$200	\$2,500/ \$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

* *In-Network benefits*

** *After deductible is paid.*

Cost-Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions, or both.



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 ACTUARIAL VALUATION FUNDING REPORT

APPENDIX C – SUMMARY OF PLAN PROVISIONS

CATASTROPHIC DISABILITY HEALTHCARE PROGRAM

Eligibility: Employees hired after June 2013 or employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Contributions: Employees are required to make mandatory contributions into the VEBA on a pre-tax basis.

Employee Group	VEBA Contribution Rate
Tier 1	5.0%
Tier 2	4.0%

Medical: VEBA funds can be used to reimburse members for eligible healthcare expenses.

VEBA members on service-connected disability receive single coverage benefits from the Postemployment Healthcare Plan 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:

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

6. Actuarial Valuation

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

APPENDIX D – GLOSSARY OF TERMS

7. Actuarial Value of Assets

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

8. Amortization Payment

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

9. Entry Age Normal Actuarial Cost Method

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

10. Normal Cost

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

11. Unfunded Actuarial Liability

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

12. Funded Percentage

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

13. Mortality Table

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

14. Discount Rate

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

APPENDIX D – GLOSSARY OF TERMS

15. Medical Trend

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2021 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