



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

**Actuarial Valuation
as of June 30, 2013**

Produced by **Cheiron**

January 13, 2014

Table of Contents

Letter of Transmittal	i
Section I - Board Summary	1
Section II - Assets	9
Section III - Funding Valuation Results	10
Section IV - GASB Valuation Results	14
Section V - Sensitivity of Results	18
Section VI - Accounting Disclosures	19
Appendix A – Member Data, Assumptions and Methods	23
Appendix B – Substantive Plan Provisions	37
Appendix C – Glossary of Terms	41
Appendix D – List of Abbreviations	43

Via Email

January 13, 2014

Board of Administration
City of San José Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San José, California 95112

Re: City of San José Federated Postemployment Healthcare Plan Valuation

Dear Members of the Board:

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 and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

Appendix A describes the member data, assumptions, and methods used in calculating the figures throughout the report. In preparing our report, we relied on information (some oral and some written) supplied by the City. 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 #23.

Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with the City of San José's staff.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This valuation report was prepared for the Board for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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.



Board of Administration
City of San José Federated City
Employees' Retirement System
January 13, 2014

Sincerely,
Cheiron



William R. Hallmark, ASA, FCA, EA, MAAA
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CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION I
BOARD SUMMARY**

The Board of Administration of the City of San José Federated City Employees' Retirement System has engaged Cheiron to provide a valuation of the City of San José Federated Postemployment Healthcare Plan. The primary purpose of performing this actuarial valuation is to:

- Determine the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the Net Other Postemployment Benefit (OPEB) Obligation (NOO) of the Postemployment Healthcare Plan under GASB 43 and 45 for the fiscal year ending June 30, 2014;
- Determine employee and City contribution rates based on the Plan's contribution policy as prescribed by the collective bargaining agreement for the fiscal year ending June 30, 2015;
- Provide information for financial statement disclosures under GASB 43 and 45;
- Provide projections of contributions, assets, actuarial liability, ARC, and NOO to illustrate the long-term effect of the funding strategy; and
- Show the sensitivity of the valuation results to changes in health trend assumptions.

We have determined costs, measured liabilities and projected trends for the Plan using actuarial assumptions and methods that have been adopted by the Board or are prescribed by the collective bargaining agreement.

Contribution Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for contributing the full Annual Required Contribution (ARC) under GASB 43 and 45 beginning on December 21, 2014, with contribution rates limited to an incremental increase to 0.75% of pay for the members and City for each fiscal year until that date. For the fiscal year ending June 30, 2015, the fiscal year for which this valuation determines contributions, the limited contribution rates will apply for the first part of the fiscal year and the full ARC rates will apply for the second part of the fiscal year.

Under the agreements, the unfunded liability as of June 30, 2009 is amortized over a closed 30-year period. Subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change. As the plan is now closed to new entrants, these amortization bases were changed from level percent of pay to level dollar payments with this valuation to comply with the requirements of GASB 43 and 45 for determining the ARC.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution. In addition, the City will contribute the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

Currently, employee contributions are made to the 401(h) account and City contributions are made to the 115 Trust. In practice, the City has contributed the amount required for the phase-in under the bargaining agreements plus the annual amount of the implicit subsidy. If the intent is just to contribute the ARC, the implicit subsidy amount should be paid from either the 401(h) account or the 115 Trust instead of from additional City contributions.

Accounting Policy

The Board's current policy sets the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION I
BOARD SUMMARY**

Valuation Results

The table below presents the key results of the 2013 valuation.

Table I-1 Summary of Key Valuation Results Funding Valuation Basis		
Valuation Date	6/30/2013	6/30/2012
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	\$ 659,043	\$ 742,466
Assets	157,695	137,798
Unfunded Actuarial Liability (UAL)	\$ 501,348	\$ 604,668
Funding Ratio	24%	19%
Fiscal Year Ending	6/30/2015	6/30/2014
<u>Through December 21, 2014</u>		
Member Contribution Rate	8.76%	8.01%
City Contribution Rate - Members with Coverage	9.41%	8.66%
City Contribution Rate - Members without Coverage	12.66%	10.59%
<u>After December 21, 2014</u>		
Member Contribution Rate	11.55%	N/A
City Contribution Rate - Members with Coverage	12.56%	N/A
City Contribution Rate - Members without Coverage	18.60%	N/A
City Contribution Amount (beginning of year)	\$ 25,438	\$ 24,484
GASB Valuation Basis		
Valuation Date	6/30/2013	6/30/2012
Discount Rate	5.30%	4.80%
Actuarial Liability (AL)	\$ 870,872	\$ 1,096,620
Assets	157,695	137,798
Unfunded Actuarial Liability (UAL)	\$ 713,177	\$ 958,822
Funding Ratio	18%	13%
Fiscal Year Ending	6/30/2014	6/30/2013
City ARC		
-- if paid as a percent of total payroll	23.16%	25.38%
-- if paid as a dollar amount (middle of year)	\$ 52,364	\$ 57,331
<i>Expected/Actual City Contribution*</i>	\$ 24,484	\$ 21,251
<i>Expected/Actual Net Benefit Payments*</i>	\$ 27,400	\$ 30,943

**Includes implicit subsidies*

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

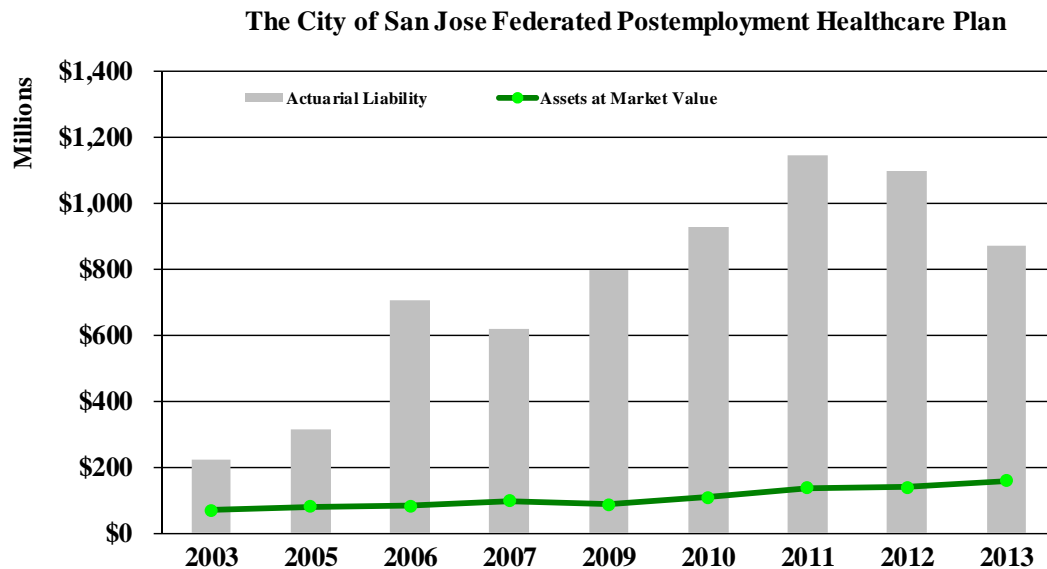
The discount rate on a GASB basis increased from 4.80% to 5.30% in this valuation, while the discount rate used for funding decreased from 7.50% to 7.25%. There were also changes in other assumptions and methods and changes to the plan since the prior valuation. These changes, together with other experience during the year, resulted in a decrease in the UAL of \$225 million on a GASB basis and \$100 million on a funding basis. More detail on the effects of these changes can be found in the Funding and GASB valuation results sections of this report.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on an accounting basis for the City of San José Federated Postemployment Healthcare Plan. While the Plan has been partially funded for many years, the first valuation complying with GASB 43 and 45 was performed in 2006, which resulted in a significantly lower discount rate and a significantly higher measure of the plan’s liability. The funding policy, however, was not changed until 2009. The actuarial liability grew from 2007 to 2011, reflecting the accumulation of additional benefits as well as rising health care costs and reductions in the discount rate and changes to other assumptions. The reduction in actuarial liability since 2011 is primarily due to the plan changes and favorable medical cost trend experience.



* 2006 was the first GASB 43/45 valuation.

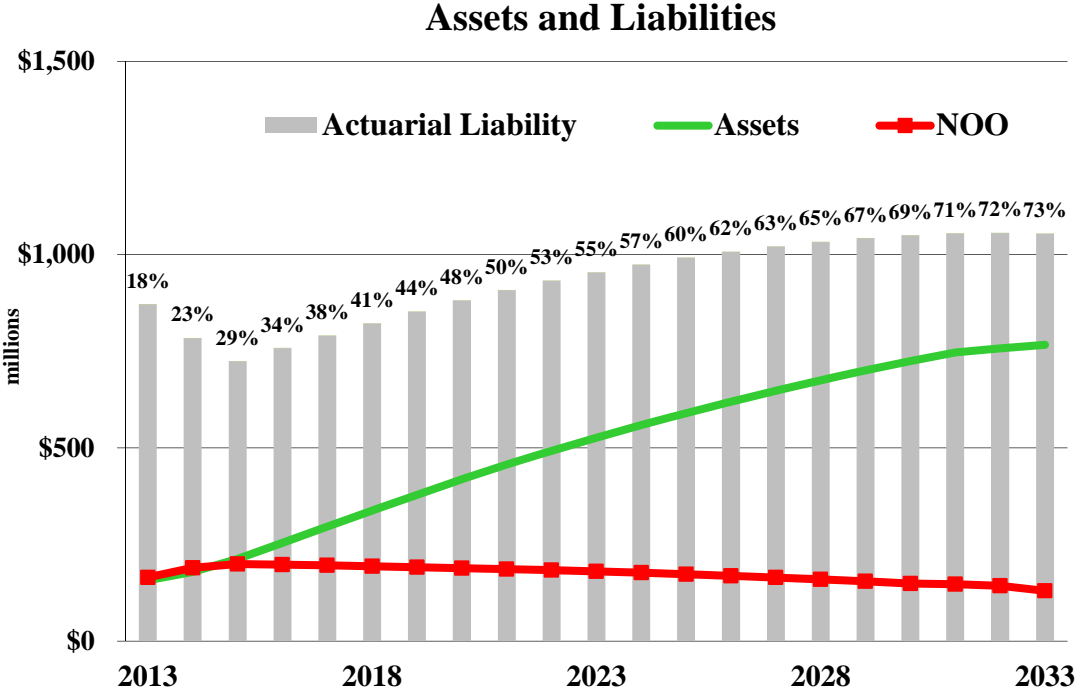
	2003	2005	2006	2007	2009	2010	2011	2012	2013
Funded Ratio	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%	18.1%
UAL/(Surplus) (in millions)	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$1,009.9	\$ 958.8	\$ 713.2
Discount Rate	8.25%	5.60%	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%	5.30%

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

Projected Trends

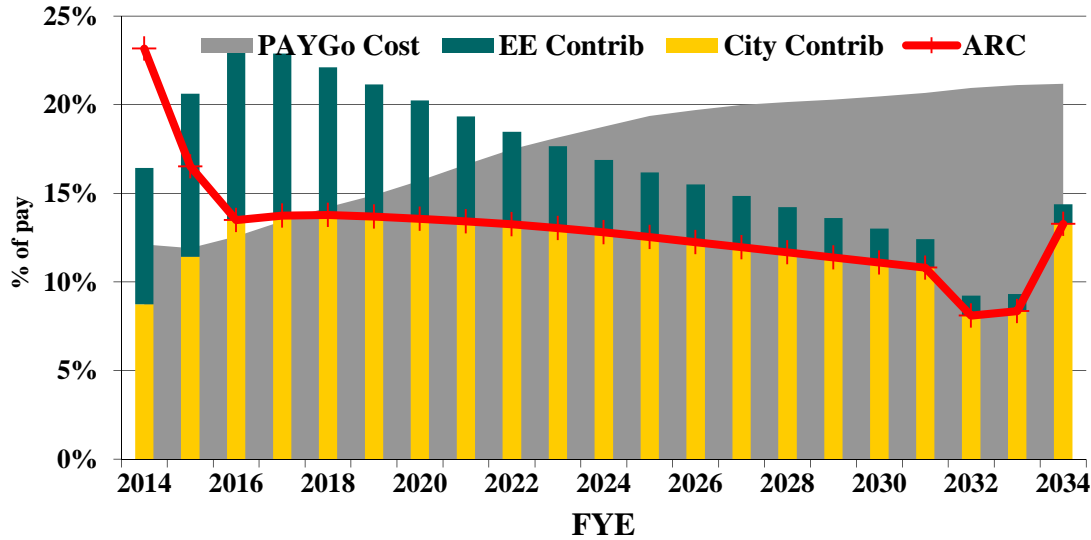
The charts below project the assets, actuarial liability, contributions and accounting results under GASB 43 and 45 for the next 20 years.



The chart above shows the actuarial liability on a GASB basis decreasing from about \$0.9 billion to approximately \$0.7 billion over the next two years assuming the full ARC is contributed beginning December 21, 2014. Then, the actuarial liability is projected to increase, reaching approximately \$1.1 billion in 20 years. The green line shows assets increasing from \$158 million to approximately \$800 million over the same period. The red line shows the Net OPEB Obligation (NOO) increasing somewhat from \$165 million before decreasing to approximately \$121 million at the end of the projection period.

SECTION I
 BOARD SUMMARY

Plan Funding



The chart above shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs as a percentage of total pay, (including pay for those future members who will not be eligible for the benefit). Benefit payments, net of retiree contributions, are shown by the gray area and increase from 12% to 21% of pay over the projection period. The gold bars represent the City’s contributions, which are equal to its share of the ARC starting in FYE 2015. The City’s contribution increases from 8.66% in FYE 2014 to approximately 13.8% of pay in FYE 2018 then decreases to approximately 8.4% of pay in FYE 2033 before increasing to 13.3% in FYE 2034. Similarly, employee contributions as a percentage of total payroll increase from 8.01% in FYE 2014 to approximately 9.9% of pay in FYE 2016, then decrease to approximately 1.0% of pay near the end of the projection period, primarily due to the retirement of the current active members.

These same percentages based on the pay of the members eligible for the benefit are 8.01% in FYE 2014, increasing to approximately 11.6% in FYE 2016 and then decreasing to 6.7% in FYE 2033 before increasing to 9.2% in FYE 2034.

The reason for the projected decrease in FYE 2013 is the expiration of an amortization base. There is a small projected increase in FYE 2033 and a larger increase in FYE 2034 due to the expiration of amortization bases. When the primary amortization base expires in FYE 2041, there is a significant projected decrease in contribution rates.

The ARC, shown by the red line, is expected to decrease to the City’s contribution rate beginning in FYE 2016 when the full ARC is contributed. Note that our projections assume that accounting policy will be changed to align with the funding policy of maintaining a one-year lag between the valuation date and applicable reporting period beginning when the ARC is first fully contributed (FYE 2016).

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

The table below shows the expected net benefit payments for the next 15 years. These payments include the expected annual implicit subsidy as well as expected plan premium payments.

Table I-2					
Expected Net Benefit Payments					
Fiscal Year Ending June 30	Expected Net Benefit Payments	Fiscal Year Ending June 30	Expected Net Benefit Payments	Fiscal Year Ending June 30	Expected Net Benefit Payments
2014	\$ 27,399,529	2019	\$ 36,675,322	2024	\$ 52,025,301
2015	27,440,705	2020	39,626,879	2025	55,063,926
2016	29,466,631	2021	42,871,556	2026	57,549,978
2017	31,937,012	2022	46,201,104	2027	59,960,432
2018	34,272,875	2023	49,048,126	2028	62,180,881

The remainder of this report provides additional detail. First, we present the assets. Second, we develop the contribution requirements under the Plan’s funding policy. Third, we develop the GASB valuation results and illustrate the sensitivity of the GASB results to changes in the health care trend rates. We conclude with disclosure information needed to satisfy the GASB OPEB accounting and financial reporting requirements.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION II
ASSETS**

Assets

Table II-1 below shows the changes in the market value of assets for the last two fiscal years. Assets in the 401(h) account and the 115 Trust are combined for purposes of the actuarial valuation. In the last year, investments earned approximately 9.1 percent, resulting in an actuarial gain of approximately \$6.8 million.

Table II-1		
Assets		
Fiscal Year Ending	6/30/2013	6/30/2012
Market value, beginning of year	\$ 137,797,925	\$ 135,454,421
Contributions		
Employee	15,978,661	14,995,084
City	18,194,284	21,450,155
Implicit subsidy	<u>3,057,000</u>	<u>4,383,191</u>
Total	\$ 37,229,945	\$ 40,828,430
Net investment earnings	13,610,000	(5,407,660)
Benefit payments		
Explicit subsidy	27,886,080	28,694,075
Implicit subsidy	<u>3,057,000</u>	<u>4,383,191</u>
Total	30,943,080	33,077,266
Market value, end of year	\$ 157,694,793	\$ 137,797,925

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION III
FUNDING VALUATION RESULTS**

This section of the report calculates the current and expected future contribution requirements under the contracts negotiated between the City and its labor unions that require both employee and City contributions to fund the Plan. This valuation calculates contributions for the fiscal year ending June 30, 2015.

The following table develops the UAL separately for medical and dental benefits based on the funding discount rate of 7.25%.

Table III-1			
Unfunded Actuarial Liability - Funding Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 334,071,945	\$ 36,281,283	\$ 370,353,228
Vested, Terminated Members	26,221,422	-	26,221,422
Active Employees	328,983,126	30,938,571	359,921,697
Total	\$ 689,276,493	\$ 67,219,854	\$ 756,496,347
Present Value of Future Normal Costs	88,398,368	9,054,718	97,453,086
Actuarial Liability	\$ 600,878,125	\$ 58,165,136	\$ 659,043,261
Assets ¹	143,777,134	13,917,659	157,694,793
Unfunded Actuarial Liability	\$ 457,100,991	\$ 44,247,477	\$ 501,348,468

¹ Assets are allocated in proportion to Actuarial Liability

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level dollar amount, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change. The amortization payment is allocated to medical and dental in proportion to the Actuarial Liability. The following table shows the amortization schedule as of June 30, 2013.

Table III-2					
Amortization Schedule - Funding Basis					
Date Established	Remaining Period	Outstanding Balance	Amortization Payment		
			Medical	Dental	Total
6/30/2009	26	\$ 757,224,741	\$ 57,679,649	\$ 5,583,402	\$ 63,263,051
6/30/2010	17	88,142,290	8,086,296	782,755	8,869,051
6/30/2011	18	(28,500,078)	(2,539,561)	(245,830)	(2,785,391)
6/30/2012	19	(204,167,194)	(17,718,393)	(1,715,144)	(19,433,537)
6/30/2013	20	(111,351,291)	(9,434,120)	(913,225)	(10,347,345)
Total		\$ 501,348,468	\$ 36,073,871	\$ 3,491,958	\$ 39,565,829

Due to the one-year lag between the valuation date and the effective date of new contribution rates, the amortization payments shown in the table above would need to be increased for one year of interest to be appropriate for the FYE 2015 contribution.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION III
FUNDING VALUATION RESULTS**

Under GASB 43 and 45 for purposes of determining the ARC, the single equivalent amortization period for the current year's payment cannot be more than 30 years. Because the gains from the last three years are amortized over a shorter period than the UAL as of June 30, 2009, the single equivalent amortization period is greater than 30 years. Consequently, a minimum amortization payment of \$42,895,290 (\$39,113,125 for medical and \$3,782,165 for dental) would need to be made to equal the full ARC as defined by GASB 43 and 45 for FYE 2015.

The tables below develop the contribution amounts and rates for the fiscal year ending June 30, 2015.

Table III-3				
Contribution Amounts - Funding Basis				
	FYE 2015			FYE 2014
	Medical	Dental	Total	Total
Normal Cost	\$ 10,276,074	\$ 1,232,293	\$ 11,508,367	\$ 14,178,534
Amortization Payment	<u>38,698,009</u>	<u>3,736,041</u>	<u>42,434,050</u>	<u>38,687,808</u>
Total	\$ 48,974,083	4,968,334	53,942,417	52,866,342
Contribution Allocation				
Employees	\$ 22,661,667	\$ 1,253,180	\$ 23,914,847	\$ 25,039,274
City	<u>26,312,416</u>	<u>3,715,155</u>	<u>30,027,571</u>	<u>27,827,069</u>
Total	\$ 48,974,083	\$ 4,968,335	\$ 53,942,418	\$ 52,866,343

Table III-4					
Contribution Rates - Funding Basis					
		FYE 2015			FYE 2014
	Est. Payroll	Medical	Dental	Total	Total
Normal Cost	\$ 208,863,294	4.92%	0.59%	5.51%	6.08%
Amortization Payment	\$ 230,619,840	<u>16.78%</u>	<u>1.62%</u>	<u>18.40%</u>	<u>16.59%</u>
Total		21.70%	2.21%	23.91%	22.67%
Contribution Amount Without Caps (applies after December 21, 2014)					
Employees	\$ 208,863,294	10.85%	0.60%	11.45%	10.74%
City - Employees with Coverage	\$ 208,863,294	10.85%	1.61%	12.46%	11.93%
City - Employees without Coverage	\$ 21,756,545	16.78%	1.62%	18.40%	16.59%
Contribution Amount With Caps (applies through December 21, 2014)					
Employees	\$ 208,863,294	8.37%	0.39%	8.76%	8.01%
City - Employees with Coverage	\$ 208,863,294	8.37%	1.04%	9.41%	8.66%
City - Employees without Coverage	\$ 21,756,545	11.82%	0.84%	12.66%	10.59%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION III
FUNDING VALUATION RESULTS**

Effects of Changes

The tables below provide estimates of the major factors contributing to the change in actuarial liability and the change in contribution amounts before application of the phase-in and caps since the last valuation report. Medical and dental liabilities have been combined in the reconciliation.

Table III-5	
Reconciliation of Actuarial Liability - Funding Basis	
Actuarial Liability at 6/30/2012	\$ 742,466
Normal Cost	12,793
Expected Benefit Payments	(30,624)
Interest	55,028
Expected Actuarial Liability at 6/30/2013	\$ 779,664
Actuarial Liability at 6/30/2013	659,043
(Gain) or Loss	\$ (120,620)
 (Gain) or Loss due to:	
Demographic experience	(5,834)
Change in claims cost assumptions	(91,011)
Plan changes effective 1/1/2014	(45,174)
Change in discount rate	21,399
Total changes	(120,620)

Dollar amounts in thousands

Table III-6			
Effects of Changes - Contribution Amounts Without Phase-In/Caps			
	Normal Cost	UAL	Total
Unadjusted FYE2014 Contribution	\$ 14,179	\$ 38,688	\$ 52,866
Expected FYE2015 Contribution	\$ 14,639	\$ 39,950	\$ 54,590
Calculated FYE2015 Contribution	11,508	42,895	54,404
Net Change	\$ (3,131)	\$ 2,945	\$ (186)
 Net change due to:			
Demographic experience	\$ (568)	\$ 273	\$ (295)
Change in claims cost assumptions	(2,153)	(7,904)	(10,057)
Plan changes effective 1/1/2014	(583)	(3,566)	(4,149)
Change in discount rate and wage inflation	174	5,046	5,220
Change in amortization method	-	9,095	9,095
Total changes	\$ (3,131)	\$ 2,945	(186)

Dollar amounts in thousands

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

SECTION III
FUNDING VALUATION RESULTS

- *Demographic experience* refers to the change in actual data and elections from June 30, 2012 to June 30, 2013 as compared to the changes expected in the prior valuation.
- *Change in claims cost assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions.
- *Plan changes effective 1/1/2014* refers to the adoption of the four-tier rate structure effective January 1, 2014.
- *Change in discount rate and wage inflation* refers to the change in the discount rate from 7.50% to 7.25% and the change in wage inflation to 2.0% for five years and 2.85% thereafter.
- *Change in amortization method* refers to the change from level percent of pay to level dollar payments for the amortization of the unfunded actuarial liability.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION IV
GASB VALUATION RESULTS**

For plans where the contribution equals the Annual Required Contribution under GASB 43 and 45 based on a discount rate equal to the expected return on plan assets, the discount rate for GASB purposes is also the expected return on plan assets. Where the contribution equals the pay-as-you-go cost (annual benefit payments), the discount rate for GASB purposes is equal to the expected return on the City’s unrestricted assets. Where the contribution is between these two amounts, GASB requires the use of a blended discount rate that is prorated between the expected return on plan assets and the expected return on City assets. For FYE 2014, the full ARC will not be contributed, and the table below develops the blended discount rate that is used in the remainder of the GASB calculations.

Table IV-1 Development of Blended Discount Rate	
Expected FYE 2014 Contributions	
Member Contributions	\$ 17,402,022
City Contributions	19,750,769
Implicit Subsidy	4,733,102
Total Expected Contributions	\$ 41,885,893
FYE 2014 Full ARC	
Normal Cost (Middle of Year)	\$ 11,970,679
Amortization of UAL	39,996,706
Total ARC	\$ 51,967,386
Pay-as-you-go Costs	
Pay-as-you-go	\$ 27,399,529
Contribution in Excess of Pay-Go	14,486,364
Full ARC in Excess of Pay-Go	24,567,857
Weight to System Return	58.96%
Expected Returns	
Expected Return on Plan Assets	7.25%
Expected Return on City Assets	2.50%
Blended Discount Rate	5.30%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION IV
GASB VALUATION RESULTS**

The development of the unfunded actuarial liability (UAL) based on the blended discount rate is shown below for retiree medical and dental benefits.

Table IV-2			
Unfunded Actuarial Liability - GASB Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 412,969,793	\$ 44,712,546	\$ 457,682,339
Vested, Terminated Members	38,284,829	-	38,284,829
Active Employees	<u>515,774,065</u>	<u>47,895,658</u>	<u>563,669,723</u>
Total	\$ 967,028,687	\$ 92,608,204	\$ 1,059,636,891
Present Value of Future Normal Costs	<u>172,085,458</u>	<u>16,679,755</u>	<u>188,765,213</u>
Actuarial Liability	\$ 794,943,229	\$ 75,928,449	\$ 870,871,678
Assets¹	<u>143,945,901</u>	<u>13,748,892</u>	<u>157,694,793</u>
Unfunded Actuarial Liability	\$ 650,997,328	\$ 62,179,557	\$ 713,176,885

¹ Assets are allocated in proportion to Actuarial Liability

The Annual Required Contribution (ARC) under GASB 43 and 45 consists of two parts: (1) the *normal cost*, which represents the annual cost attributable to service earned in a given year, and (2) the amortization of the unfunded actuarial liability (UAL).

The UAL as of June 30, 2009 is amortized as a level dollar amount over 30 years, and each year's change in UAL due to assumption changes, plan changes or experience changes is amortized over 20 years from the valuation date in which the change is first recognized. The outstanding balance of each amortization base established in a prior year is based on the amortization schedule used for funding purposes. The amortization base for the current year is equal to the UAL shown in the table above less the outstanding balance of prior year bases. The table below shows the amortization payments on a GASB basis.

Table IV-3					
Amortization Schedule - GASB Basis					
Date Established	Remaining Period	Outstanding Balance	Medical	Amortization Payment Dental	Total
6/30/2009	26	\$ 757,224,741	\$ 48,317,268	\$ 4,614,990	\$ 52,932,258
6/30/2010	17	\$ 88,142,290	7,111,279	679,229	\$ 7,790,508
6/30/2011	18	(28,500,078)	(2,219,900)	(212,032)	(2,431,933)
6/30/2012	19	(204,167,194)	(15,397,401)	(1,470,672)	(16,868,073)
6/30/2013	20	<u>100,477,126</u>	<u>7,355,553</u>	<u>702,561</u>	<u>8,058,114</u>
Total		\$ 713,176,885	\$ 45,166,799	\$ 4,314,075	\$ 49,480,874

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION IV
GASB VALUATION RESULTS**

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2014 is developed in the table below. The prior year's calculation is shown for comparison.

Table IV-4 GASB ARC			
Fiscal Year Ending	6/30/2014	6/30/2013	
Discount Rate	5.30%	4.80%	
Total Normal Cost	\$ 20,285,152	\$ 26,741,618	
UAL Amortization	49,480,874	46,986,739	
Total Cost	\$ 69,766,026	\$ 73,728,357	
Employee Contributions	17,402,022	16,397,374	
Total City ARC	\$ 52,364,004	\$ 57,330,983	

Reconciliation

The table below provides an estimate of the major factors contributing to the change in liability since the last valuation report. Medical and dental liabilities have been combined in the reconciliation.

Table IV-5 Reconciliation of Actuarial Liability - GASB Basis		
Actuarial Liability at 6/30/2012	\$	1,096,620
Normal Cost		26,742
Expected Benefit Payments		(30,624)
Interest		52,546
Expected Actuarial Liability at 6/30/2013	\$	1,145,284
Actuarial Liability at 6/30/2013		870,872
(Gain) or Loss	\$	(274,412)
 (Gain) or Loss due to:		
Demographic experience		(8,166)
Change in claims cost assumptions		(139,017)
Plan changes effective 1/1/2014		(62,716)
Change in discount rate and wage inflation		(64,513)
Total changes		(274,412)

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2012 to June 30, 2013 as compared to the changes expected in the prior valuation.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

SECTION IV
GASB VALUATION RESULTS

- *Change in claims cost assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions.
- *Plan changes effective 1/1/2014* refers to the adoption of a 4-tier rate structure effective January 1, 2014.
- *Change in Discount Rate and wage inflation* refers to the change in the discount rate from 4.80% to 5.30% and the change in wage inflation to 2.0% for five years and 2.85% thereafter.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

SECTION V
SENSITIVITY OF RESULTS

The measures of liability and ARC produced in this report are sensitive to the assumptions used. The tables below show the impact of a 1% increase or decrease in the health care trend rates on the GASB actuarial liability and the ARC to provide some measure of sensitivity.

Table V-1			
Sensitivity to Health Care Trend Rates - Unfunded Actuarial Liability (GASB Basis)			
Health Care Trend Rate	-1%	Base	+1%
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 414,999	\$ 457,682	\$ 508,477
Vested, Terminated Members	31,435	38,285	47,071
Active Employees	455,143	563,670	709,018
Total	\$ 901,578	\$ 1,059,637	\$ 1,264,567
Present Value of Future Normal Costs	147,551	188,765	245,766
Actuarial Liability	\$ 754,027	\$ 870,872	\$ 1,018,801
Assets	157,695	157,695	157,695
Unfunded Actuarial Liability	\$ 596,333	\$ 713,177	\$ 861,106

Dollar amounts in thousands

Table V-2			
Sensitivity to Health Care Trend Rates - GASB ARC for FYE 2014			
Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	\$ 16,252	\$ 20,285	\$ 25,775
UAL Amortization	40,110	49,481	61,345
Total Cost	\$ 56,362	\$ 69,766	\$ 87,120
Employee Contributions	17,402	17,402	17,402
Total ARC	\$ 38,960	\$ 52,364	\$ 69,718

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION VI
ACCOUNTING DISCLOSURES**

Statements No. 43 and 45 of the Governmental Accounting Standards Board (GASB) established standards for accounting and financial reporting of Other Postemployment Benefit (OPEB) information by governmental employers and plans. In accordance with those statements, we have prepared the following disclosures.

Net OPEB Obligation

The table below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2013 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2014.

Table VI-1			
Development of Net OPEB Obligation			
		Projected 6/30/2014	6/30/2013
1. Net OPEB Obligation, beginning of year	\$	164,825	\$ 128,546
2. Annual Required Contribution		52,364	57,331
3. Interest on Net OPEB Obligation		8,736	6,170
4. Adjustment to Annual Required Contribution		<u>(11,436)</u>	<u>(6,299)</u>
5. Annual OPEB Cost [2. + 3. -4.]	\$	49,664	\$ 57,202
6. City Contributions		19,751	17,865
7. Implicit Rate Subsidy		4,733	3,057
8. Net OPEB Obligation, end of year	\$	190,005	\$ 164,825

Dollar amounts in thousands

The tables on the following page show the solvency test and the analysis of financial experience, both as recommended by the Government Finance Officers Association for inclusion in the plan's Comprehensive Annual Financial Report.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION VI
ACCOUNTING DISCLOSURES**

Table VI-2 Solvency Test						
Actuarial Valuation Date	Actuarial Liability		Reported Assets	Portion of Liability Covered by Reported Assets		
	Retirees, Beneficiaries and Other (A)	Active Members (B)		(A)	(B)	
6/30/2013	\$ 495,967	\$ 374,905	\$ 157,695	32%	0%	
6/30/2012	611,267	485,353	137,798	23%	0%	
6/30/2011	652,157	493,203	135,454	21%	0%	
6/30/2010	515,284	411,087	108,011	21%	0%	
6/30/2009	421,367	375,081	85,564	20%	0%	
6/30/2007	335,798	280,951	96,601	29%	0%	

Dollar amounts in thousands

Table VI-3 Analysis of Financial Experience		
Type of Activity	Gain or (Loss) for Year Ending	
	6/30/2013	6/30/2012
Investment Income	\$ 6,847	\$ (14,897)
Liability Experience	5,834	(27,919)
Gain or (Loss) During Year from Financial Experience	\$ 12,681	\$ (42,816)
Non-Recurring Gain or (Loss) Items	114,786	136,154
Composite Gain or (Loss) During Year	\$ 127,467	\$ 93,338

Dollar amounts in thousands

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. The actuarial liability under GASB is determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION VI
ACCOUNTING DISCLOSURES**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAL as Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ 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	1,145,359	1,009,905	12%	228,936	441%
6/30/2010	108,011	926,371	818,360	12%	300,069	273%
6/30/2009	85,564	796,448	710,884	11%	308,697	230%
6/30/2007	96,601	616,749	520,148	16%	271,833	191%

Dollar amounts in thousands

Schedule of Employer Contributions

The schedule of employer contributions shows whether the employer has made contributions that are consistent with the parameters established by GASB for calculating the ARC and the annual OPEB expense.

Fiscal Year Ending	Annual OPEB Cost (AOC)	City Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2014	\$ 49,664	To Be Determined	To Be Determined	To Be Determined
2013	57,202	\$ 20,923	37%	\$ 164,825
2012	68,028	\$ 25,833	38%	\$ 128,546
2011	44,834	21,072	47%	86,351
2010	39,414	21,585	55%	62,589
2009	33,725	15,918	47%	44,760

Dollar amounts in thousands

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

SECTION VI
ACCOUNTING DISCLOSURES

We have also provided a *Note to Required Supplementary Information* for the financial statements.

Table VI-6
Note to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 2013
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Dollar Closed
Single Equivalent Amortization Period	26.4 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	2.00% for first 5 years, 2.85% thereafter
Discount Rate	5.30%
Ultimate Rate of Medical Inflation	4.25%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data

Valuation Date	June 30, 2013	June 30, 2012	% Change
Active Employees			
Count	3,093	3,076	0.55%
Average Age	45.9	46	-0.22%
Average Service	12.2	12.4	-1.61%
Total Payroll	\$226,097,882	\$225,859,144	0.11%
Retirees and Spouses with Medical Coverage			
Pre-65	2,037	2,001	1.80%
Post-65	2,273	2,099	8.29%
Total	4,310	4,100	5.12%
Retirees with Dental Coverage	3,103	3,044	1.94%
Term Vested Members	149	111	34.23%

	Status Reconciliation					Total
	Active	Terminated		Surviving		
		Vested	Retiree	Spouse	Disabled	
Beginning of Year	3,076	111	2,596	411	197	6,391
New Hires	275	0	0	0	0	275
Rehires	17	0	(1)	0	0	16
Vested Terminations	(28)	28	0	0	0	0
Service Retirements	(110)	(14)	124	0	0	0
Disabled Retirements	(1)	(1)	0	0	2	0
New survivors	(1)	0	(1)	2	0	0
No longer covered	(135)	(1)	(57)	(26)	(8)	(227)
Data corrections*	0	26	25	9	2	62
End of Year	3,093	149	2,686	396	193	6,517

* Includes members who began coverage after initial status change

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Member Data as of June 30, 2013:

Eligible Active Employees									
Years of Service									
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	Total
Under 25	28	0	0	0	0	0	0	0	28
25 to 29	137	39	0	0	0	0	0	0	176
30 to 34	139	121	54	2	0	0	0	0	316
35 to 39	95	124	156	19	0	0	0	0	394
40 to 44	52	100	185	91	34	2	0	0	464
45 to 49	49	73	152	110	120	43	0	0	547
50 to 54	47	74	134	84	163	117	2	0	621
55 to 59	39	69	90	45	51	19	2	0	315
60 to 64	16	26	62	30	24	8	0	1	167
<u>65 and up</u>	<u>4</u>	<u>14</u>	<u>31</u>	<u>10</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>65</u>
Total	606	640	864	391	394	191	5	2	3,093

Retirees, Disabled Retirees and Surviving Spouses						
Age Group	<u>Medical Insurance</u>			<u>Dental Insurance</u>		
	Males	Females	Total	Males	Females	Total
Under 50	6	22	28	6	25	31
50 to 54	46	34	80	47	40	87
55 to 59	256	204	460	236	208	444
60 to 64	309	260	569	326	270	596
65 to 69	288	229	517	335	279	614
70 to 74	211	177	388	237	214	451
75 to 79	144	132	276	159	163	322
80 to 84	97	102	199	115	132	247
85 to 89	67	72	139	92	119	211
<u>Over 90</u>	<u>28</u>	<u>34</u>	<u>62</u>	<u>34</u>	<u>66</u>	<u>100</u>
Total	1,452	1,266	2,718	1,587	1,516	3,103

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Medical Plan Elections			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	194	295	489
Kaiser \$25 Co-pay	582	305	887
HMO \$45 Co-pay	52	42	94
HMO \$25 Co-pay	155	129	284
PPO / POS \$30 Co-pay	20	13	33
PPO / POS \$25 Co-pay	<u>134</u>	<u>107</u>	<u>241</u>
Total	1,137	891	2,028
Medical-Medicare Medical Plans			
Kaiser Senior Advantage	824	365	1189
BS Medicare HMO	142	48	190
BS Medicare PPO / POS	515	248	763
UHC Medicare Advantage	40	11	51
UHC Senior Supplement	<u>60</u>	<u>29</u>	<u>89</u>
Total	1,581	701	2,282

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	10	12	22
45 to 49	35	17	52
50 to 54	35	32	67
55 to 59	3	5	8
60 to 64	0	0	0
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
Total	83	66	149

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

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Economic Assumptions:

1. **Expected Return on Plan Assets:** 7.25% per year
2. **Expected Return on Employer Assets:** 2.50% per year
3. **Blended Discount Rate:** 5.30% per year
4. **Per Person Cost Trends:**

To Calendar Year	<u>Annual Increase</u>		
	Pre-Medicare	Medicare Eligible	Dental
2015	8.50%	6.50%	4.00%
2016	8.20	6.34	4.00
2017	7.89	6.18	4.00
2018	7.59	6.02	4.00
2019	7.29	5.86	4.00
2020	6.98	5.70	4.00
2021	6.68	5.54	4.00
2022	6.38	5.38	4.00
2023	6.07	5.21	4.00
2024	5.77	5.05	4.00
2025	5.46	4.89	4.00
2026	5.16	4.73	4.00
2027	4.86	4.57	4.00
2028	4.55	4.41	4.00
2029+	4.25	4.25	4.00

Actual premium increases for 2014 were reflected with the above rates applying after. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
 ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
 MEMBER DATA, ASSUMPTIONS AND METHODS**

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for Tier 1 active members eligible to retire:

Rates of Retirement by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

The following rates of retirement are assumed for Tier 2 active members eligible to retire:

Rates of Retirement by Age and Service		
Age	Less than 33 Years of Service	33 or more Years of Service
50	0.0%	0.0%
51	0.0	0.0
52	0.0	0.0
53	0.0	0.0
54	0.0	0.0
55	4.0	7.0
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

Term vested members are assumed to retire at age 58.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

2. Termination / Refund Rates:

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

Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

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

Rates of Refund	
Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0

**APPENDIX A
 MEMBER DATA, ASSUMPTIONS AND METHODS**

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

Disabled Lives:

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Rates of Mortality for Disabled Lives at Selected Ages		
Age	Male	Female
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

4. Disability Rates:

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages	
Age	Disability
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

5. Salary Increase Rate:

Wage inflation component for first 5 years after valuation date:	2.00%
Wage inflation component thereafter:	2.85%

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

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

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

- 6. Percent of Retirees Electing Coverage:** 100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their 2013 plan. Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table below.

Assumed Plan Elections for Future Retirees			
		% Electing	% Electing
Pre-Medicare Medical Plans			Medical-Eligible Medical Plans
• Kaiser DHMO	15%	• Kaiser Senior Advantage	50%
• Kaiser \$25 Co-pay	53%	• BS Medicare HMO	8%
• HMO \$45 Co-pay	4%	• BS Medicare PPO / POS	38%
• HMO \$25 Co-pay	14%	• UHC Medicare Advantage	2%
• PPO / POS \$30 Co-pay	1%	• UHC Senior Supplement	2%
• PPO / POS \$25 Co-pay	13%	Dental Plans (All Retirees)	
		• Delta Dental PPO	97%
		• DeltaCare HMO	3%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

- 7. Family Composition:** 90% 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.
- 8. 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.
- 9. Married Percentage:**

Percentage Married	
Gender	Percentage
Males	80%
Females	60%

- 10. Administrative Expenses:** Included in the average monthly premiums.

Changes Since Last Valuation

The expected return on trust assets was reduced from 7.5 percent to 7.25 percent and the expected return on employer assets was reduced from 3.3 percent to 2.5 percent; the blended discount rate increased from 4.8 percent to 5.3 percent.

Trend assumptions were revised slightly, including a reduction in the ultimate rate of medical cost growth from 4.5 percent to 4.25 percent.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Claim and Expense Assumptions:

- 1. Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions were developed as of July 1, 2013 based on the premiums in effect on that date. 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 DHMO</u>		<u>Kaiser \$25 Co-Pay</u>		<u>HMO \$45 Co-pay</u>	
	Male	Female	Male	Female	Male	Female
40	2,526	4,490	3,256	5,787	2,972	5,282
45	3,163	4,754	4,077	6,127	3,721	5,592
50	4,190	5,638	5,400	7,266	4,929	6,632
55	5,506	6,719	7,096	8,659	6,477	7,904
60	7,156	8,021	9,223	10,337	8,418	9,435
64	9,244	9,910	11,913	12,772	10,874	11,658

<u>Sample Claims Costs - Non-Medicare Eligible</u>						
Age	<u>HMO \$25 Co-pay</u>		<u>PPO/POS \$30 Co-pay</u>		<u>PPO/POS \$25 Co-pay</u>	
	Male	Female	Male	Female	Male	Female
40	3,626	6,446	3,395	6,035	3,777	6,714
45	4,541	6,824	4,252	6,389	4,730	7,108
50	6,014	8,093	5,631	7,577	6,265	8,430
55	7,903	9,644	7,400	9,030	8,233	10,047
60	10,272	11,513	9,618	10,780	10,700	11,993
64	13,268	14,225	12,423	13,319	13,822	14,818

<u>Sample Claims Costs - Medicare Eligible</u>						
Age	<u>Kaiser Senior Adv</u>		<u>BS Med HMO</u>		<u>BS Med PPO/POS</u>	
	Male	Female	Male	Female	Male	Female
65	2,697	2,877	5,445	5,807	6,007	6,407
70	3,167	3,177	6,393	6,412	7,053	7,075
75	3,541	3,425	7,149	6,914	7,887	7,628
80	3,763	3,536	7,595	7,137	8,380	7,874
85	3,813	3,499	7,697	7,063	8,492	7,792

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

<u>Sample Claims Costs - Medicare Eligible</u>				
Age	<u>UHC Med Adv</u>		<u>UHC Senior Supp</u>	
	Male	Female	Male	Female
65	4,378	4,669	5,007	5,340
70	5,141	5,156	5,879	5,897
75	5,748	5,560	6,574	6,358
80	6,108	5,739	6,985	6,563
85	6,189	5,679	7,078	6,495

<u>Sample Claims Costs - Dental</u>				
Age	<u>Delta Dental PPO</u>		<u>DeltaCare HMO</u>	
	Male	Female	Male	Female
All	616	616	319	319

2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B:** Assumed that Medicare eligible retirees 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
ACTUARIAL VALUATION AS OF JUNE 30, 2013

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Methodology:

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment 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 cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2013, adjusted to reflect the actual premium increases for 2014. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2013 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 impact of children was assumed to be de minimis. All claims costs are developed jointly for the Federated and 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 and regulations.

Changes Since Last Valuation:

The amortization method was changed from level percent of pay to level dollar.

The claims costs process was modified slightly to reflect actual rates for the year following the valuation date.

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Summary of Key Substantive Plan Provisions:

Eligibility (for employees hired before September 2013):

Medical: Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

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:

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.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Benefits for Retirees:

Medical: The Retirement System, through the medical benefit account, 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 Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2013 and 2014 are as follows.

2013 Monthly Premiums		
	Single	Family
Medical		
<u>Non-Medicare Monthly Rates</u>		
Kaiser DHMO	\$457.70	\$1,139.70
Kaiser \$25 Co-pay	583.80	1,453.70
Blue Shield HMO \$45 Co-pay	520.12	1,336.08
Blue Shield HMO \$25 Co-pay	623.56	1,601.82
Blue Shield PPO or POS \$30 Co-pay	587.86	1,510.74
Blue Shield PPO or POS \$25 Co-pay	755.20	1,940.82
<u>Medicare-Eligible Monthly Rates</u>		
Kaiser Senior Advantage	\$256.01	\$512.02
Blue Shield Medicare HMO	503.42	1,006.86
Blue Shield Medicare PPO / POS	617.62	1,235.28
UHC Medicare Advantage	485.95	971.90
UHC Senior Supplement	501.78	1,003.56
Dental		
Delta Dental PPO	\$102.18	\$102.18
DeltaCare HMO	46.84	46.84

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

2014 Monthly Premiums		
	Single	Emp/Sp
Medical		
<u>Non-Medicare Monthly Rates</u>		
Kaiser DHMO	\$471.12	\$942.24
Kaiser \$25 Co-pay	575.34	1,150.68
Blue Shield HMO \$45 Co-pay	561.00	1,122.00
Blue Shield HMO \$25 Co-pay	630.50	1,261.00
Blue Shield PPO or POS \$30 Co-pay	625.10	1,250.20
Blue Shield PPO or POS \$25 Co-pay	764.60	1,529.20
<u>Medicare-Eligible Monthly Rates</u>		
Kaiser Senior Advantage	\$278.50	\$557.00
Blue Shield Medicare HMO	530.86	1,061.74
Blue Shield Medicare PPO / POS	616.00	1,232.00
UHC Medicare Advantage	485.95	971.90
UHC Senior Supplement	501.78	1,003.56
Dental		
Delta Dental PPO	\$48.92	\$107.62
DeltaCare HMO	27.16	54.30

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Summary of 2013 Benefit Plans:

Non-Medicare Plans:	Kaiser \$25 Co-Pay	Kaiser DHMO	BS HMO \$25 Co-Pay	BS HMO \$45 Co-Pay	BS PPO \$25 Co-Pay	BS PPO \$30 Co-Pay
Annual Out-of-Pocket Maximum	\$1,500/\$3,000	\$4,000/\$8,000	\$1,000/\$2,000	\$3,500/\$7,000	\$2,000/\$4,000	\$7,000/\$14,000
Annual Deductible	None	\$1,500/\$3,000	None	Rx only*	\$100/\$200	\$3,500/\$7,000
Office Visit	\$25	\$40	\$25	\$45	\$25	\$30
Emergency Room	\$100	30% coinsurance	\$100	\$200	\$100	\$100 + 20%
Hospital Care	\$100	30% coinsurance	\$100	50% coinsurance	Tier 1 – \$100 + 10% Tier 2 – 30%	Tier 1 – \$250 + 20% Tier 2 – 40%
Prescription Drug (30-day supply):						
Generic	\$10	\$10	\$10	\$15	\$10	\$15
Brand	\$25	\$30	\$25	\$30*	\$25	\$30*
Non-Formulary	N/A	N/A	\$40	50%* *\$250 deductible	\$40	50%* *\$250 deductible

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO	UHC Medicare Advantage	UHC Senior Supplement
Annual Out-of-Pocket Maximum	\$1,500/\$3,000	\$1,000/\$2,000	\$2,000/\$4,000	\$6,700	None
Annual Deductible	None	None	\$100/\$200	None	\$250 outside US only
Office Visit	\$25	\$25	\$25	\$25	No charge
Emergency Room	\$50	\$100	\$100	\$50	No charge
Hospital Care	\$250	\$100	\$100 + 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	\$10	\$10	\$10	\$15	\$5
Brand	\$10	\$25	\$25	\$20	\$10
Non-Formulary	N/A	\$40	\$40	\$20	Not covered

Cost-Sharing Provisions:

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

**APPENDIX C
 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 which 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 won't be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

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

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 C
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
ACTUARIAL VALUATION AS OF JUNE 30, 2013

APPENDIX D
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)