

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

**Actuarial Valuation
as of June 30, 2014**

Produced by Cheiron

January 22, 2015



Classic Values, Innovative Advice

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Via Email

January 22, 2015

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 No. 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 22, 2015

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, 2014

**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, 2015;
- 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, 2016;
- 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 June 21, 2015, 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, 2016, the fiscal year for which this valuation determines contributions, the full ARC rates will apply for the entire 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 beginning with the 2013 valuation to comply with the requirements of GASB 43 and 45 for determining the ARC. Also in accordance with GASB's parameters for an ARC, the aggregate amortization payment cannot be less than the amortization payment based on a 30-year amortization of the entire unfunded liability.

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 8/11ths of the total contribution. In addition, the City will contribute the unfunded

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I
BOARD SUMMARY

actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan.

In the fiscal year end 2014, the City contributions were made to the 115 Trust and the employee contributions were split between the 401(h) account and the 115 Trust. In practice, the City has contributed the amount required 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
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**SECTION I
BOARD SUMMARY**

Valuation Results

The table below presents the key results of the 2014 valuation.

Table I-1 Summary of Key Valuation Results Funding Valuation Basis		
Valuation Date	6/30/2014	6/30/2013
Discount Rate	7.00%	7.25%
Actuarial Liability (AL)	\$ 664,936	\$ 659,043
Assets	199,776	157,695
Unfunded Actuarial Liability (UAL)	\$ 465,160	\$ 501,348
Funding Ratio	30%	24%
Fiscal Year Ending	6/30/2016	6/30/2015
Member Contribution Rate	10.47%	8.76%
City Contribution Rate - Members with Coverage	11.61%	9.41%
City Contribution Rate - Members without Coverage	16.07%	12.66%
City Contribution Amount (beginning of year)	\$ 28,753	\$ 22,909
GASB Valuation Basis		
Valuation Date	6/30/2014	6/30/2013
Discount Rate	6.30%	5.30%
Actuarial Liability (AL)	\$ 729,406	\$ 870,872
Assets	199,776	157,695
Unfunded Actuarial Liability (UAL)	\$ 529,630	\$ 713,177
Funding Ratio	27%	18%
Fiscal Year Ending	6/30/2015	6/30/2014
City ARC		
-- if paid as a percent of total payroll	15.19%	23.16%
-- if paid as a dollar amount (middle of year)	\$ 35,644	\$ 52,364
<i>Expected/Actual City Contribution*</i>	\$ 27,043	\$ 24,031
<i>Expected/Actual Net Benefit Payments*</i>	\$ 28,787	\$ 27,924

**Includes implicit subsidies*

Dollar amounts in thousands

The discount rate on a GASB basis increased from 5.30% to 6.30% in this valuation, while the discount rate used for funding decreased from 7.25% to 7.00%. 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 \$184 million on a GASB basis and \$36 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.

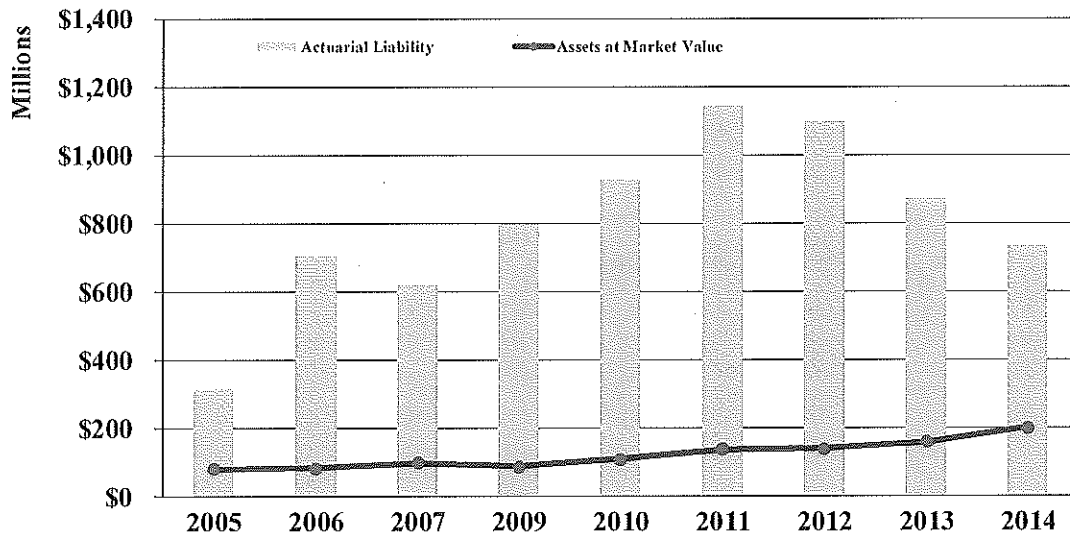
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**SECTION I
BOARD SUMMARY**

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, favorable medical cost trend experience, and changes in the discount rate as the plan moves towards contributing the full ARC.

The City of San Jose Federated Postemployment Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

	2005	2006	2007	2009	2010	2011	2012	2013	2014
Funded Ratio	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%	18.1%	27.4%
UAL/(Surplus) (in millions)	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$1,009.9	\$ 958.8	\$ 713.2	\$ 529.6
Discount Rate	5.60%	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%	5.30%	6.30%

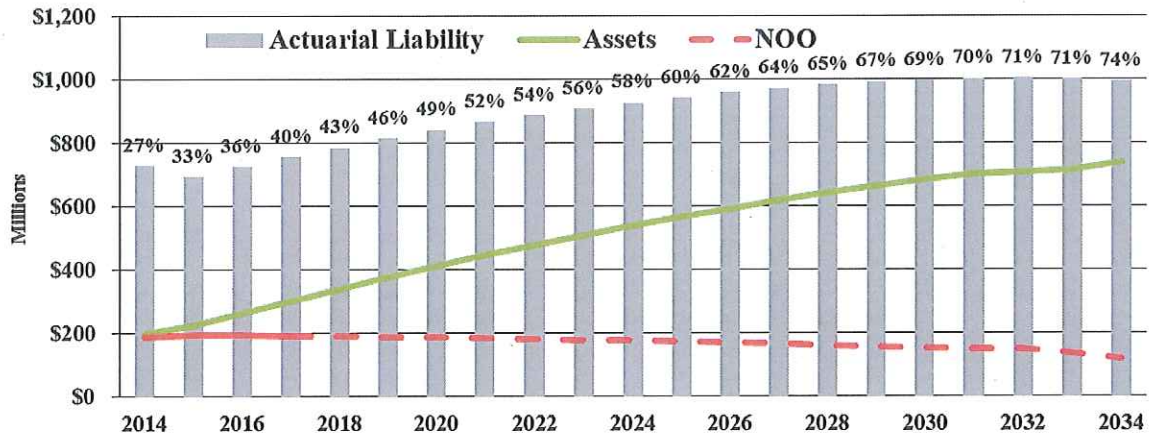
CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I
 BOARD SUMMARY

Projected Trends

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

Assets and Liabilities

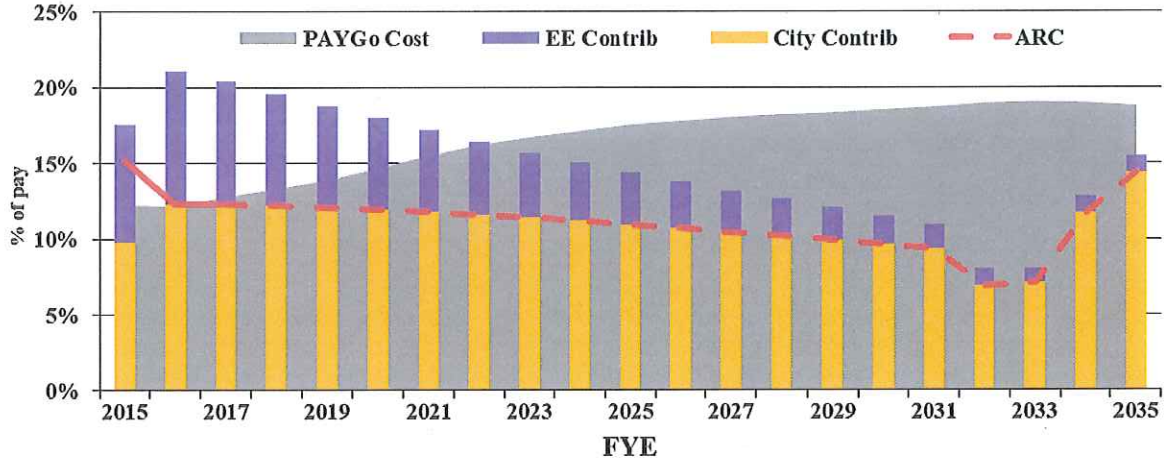


The chart above shows the actuarial liability on a GASB basis decreasing from about \$730 million to approximately \$695 million over the next year assuming the full ARC is contributed beginning June 21, 2015. Then, the actuarial liability is projected to increase, reaching approximately \$1.0 billion in 20 years. The green line shows assets increasing from \$200 million to approximately \$740 million over the same period. The red line shows the Net OPEB Obligation (NOO) increasing somewhat from \$190 million before decreasing to approximately \$120 million at the end of the projection period.

The NOO is the amount reported by the City on its financial statements as a liability for the Plan. Note, however, that newly proposed GASB Statements for OPEB plans would significantly change the projected financial statement liability figures shown. The proposed statements are scheduled to be effective for the fiscal year ending June 30, 2017 for the Plan and for the fiscal year ending June 30, 2018 for the City. The NOO shown in the chart after the scheduled effective date of the new statements is represented by a dashed line instead of a solid line. The proposed GASB changes would not necessarily change the funding projections for the Plan.

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 19% 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 2016. The City’s contribution increases from 9.76% in FYE 2015 to approximately 12.3% of pay in FYE 2017 then decreases to approximately 6.9% of pay in FYE 2032 before increasing to 14.4% in FYE 2035. Similarly, employee contributions as a percentage of total payroll increase from 7.81% in FYE 2015 to approximately 8.8% of pay in FYE 2016, then decrease to approximately 1.1% 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 8.76% in FYE 2015, increasing to approximately 10.5% in FYE 2016 and then decreasing to 6.6% in FYE 2032 before increasing to 10.4% in FYE 2035.

The reason for the projected decrease in FYE 2032 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).

Also, as noted above, GASB has proposed new statements for OPEB accounting and financial reporting that are scheduled to be effective for the fiscal year ending June 30, 2017 for the Plan and for the fiscal year ending June 30, 2018 for the City. The proposed statements would

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**SECTION I
BOARD SUMMARY**

eliminate the ARC and use an entirely different method to calculate the annual OPEB expense reported by the City. The ARC shown in the above graph after the effective date is represented by a dashed line instead of a solid line. While the current bargaining agreements set the contribution amounts based on the ARC as defined by GASB, the projections shown assume the contribution methodology remains the same after the ARC is no longer defined by GASB.

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
2015	\$ 28,787,267	2020	\$ 39,651,782	2025	\$ 54,599,119
2016	29,383,278	2021	43,093,305	2026	56,894,936
2017	31,793,398	2022	46,370,716	2027	59,366,153
2018	34,036,315	2023	49,153,010	2028	61,658,902
2019	36,532,093	2024	51,816,151	2029	63,881,473

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
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**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, but an allocation is made between Medical and Dental assets. Contributions are allocated in proportion to the Medical and Dental rates applicable and benefit payments are allocated in proportion to the present value of benefits in pay status. In the last year, investments earned approximately 16.4% compared to an expected rate of return of 7.25%, resulting in an actuarial gain of approximately \$16.6 million on a funding basis.

Table II-1				
Assets				
Fiscal Year Ending	6/30/2014			6/30/2013
	Medical	Dental	Total	Total
Market value, beginning of year	\$ 143,777,134	\$ 13,917,343	\$ 157,694,477	\$ 137,797,925
Contributions				
Employee	16,641,838	851,748	17,493,586	15,978,661
City	17,017,427	2,280,467	19,297,894	18,194,284
Implicit subsidy	4,733,000	0	4,733,000	3,057,000
Total	\$ 38,392,265	\$ 3,132,215	\$ 41,524,480	\$ 37,229,945
Net investment earnings	25,948,063	2,533,010	28,481,072	13,610,000
Benefit payments				
Explicit subsidy	20,918,822	2,271,851	23,190,673	27,886,080
Implicit subsidy	4,733,000	0	4,733,000	3,057,000
Total	25,651,822	2,271,851	27,923,673	30,943,080
Market value, end of year	\$ 182,465,640	\$ 17,310,717	\$ 199,776,356	\$ 157,694,793
Estimated Rate of Return	16.4%	16.4%	16.4%	9.1%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**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, 2016.

The following table develops the UAL separately for medical and dental benefits based on the funding discount rate of 7.00%.

Table III-1			
Unfunded Actuarial Liability - Funding Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 342,681,523	\$ 45,096,712	\$ 387,778,235
Vested, Terminated Members	16,587,796	0	16,587,796
Active Employees	<u>329,601,370</u>	<u>35,371,602</u>	<u>364,972,972</u>
Total	\$ 688,870,689	\$ 80,468,314	\$ 769,339,003
Present Value of Future Normal Costs	<u>93,406,672</u>	<u>10,995,894</u>	<u>104,402,566</u>
Actuarial Liability	\$ 595,464,017	\$ 69,472,420	\$ 664,936,437
Assets¹	<u>182,465,640</u>	<u>17,310,717</u>	<u>199,776,356</u>
Unfunded Actuarial Liability	\$ 412,998,377	\$ 52,161,703	\$ 465,160,081

¹ Assets are allocated based on the contributions received and claims paid for each benefit.

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 Unfunded Actuarial Liability. The following table shows the amortization schedule as of June 30, 2014.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

Table III-2					
Amortization Schedule - Funding Basis					
Date Established	Remaining Period	Outstanding Balance	Amortization Payment		
			Medical	Dental	Total
6/30/2009	25	\$ 746,607,322	\$ 54,990,388	\$ 6,945,287	\$ 61,935,675
6/30/2010	16	85,347,677	7,754,753	979,425	8,734,178
6/30/2011	17	(27,681,739)	(2,433,628)	(307,367)	(2,740,995)
6/30/2012	18	(198,843,639)	(16,967,082)	(2,142,943)	(19,110,025)
6/30/2013	19	(108,708,386)	(9,027,793)	(1,140,210)	(10,168,003)
6/30/2014	20	(31,561,154)	(2,557,092)	(322,961)	(2,880,053)
Total		\$ 465,160,081	\$ 31,759,546	\$ 4,011,232	\$ 35,770,778
Min Payment	30	\$ 465,160,081	\$ 32,174,976	\$ 4,063,700	\$ 36,238,676

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 four 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 \$36,238,676 (\$32,174,976 for medical and \$4,063,700 for dental) would need to be made to equal the full ARC as defined by GASB 43 and 45 for FYE 2016.

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 are increased for one year of interest in the tables below to be appropriate for the FYE 2016 contribution.

Table III-3				
Contribution Amounts - Funding Basis				
	Medical	FYE 2016		FYE 2015
		Dental	Total	Total
Normal Cost	\$ 10,707,503	\$ 1,480,393	\$ 12,187,896	\$ 11,508,367
Amortization Payment	34,442,847	4,344,578	38,787,425	42,895,290
Total	\$ 45,150,350	5,824,971	50,975,321	54,403,657
Contribution Allocation				
Employees	\$ 19,833,216	\$ 1,399,276	\$ 21,232,492	\$ 24,123,710
City	25,317,134	4,425,695	29,742,829	30,279,947
Total	\$ 45,150,350	\$ 5,824,971	\$ 50,975,321	\$ 54,403,657

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**SECTION III
FUNDING VALUATION RESULTS**

Table III-4					
Contribution Rates - Funding Basis					
		FYE 2016			FYE 2015
	Est. Payroll	Medical	Dental	Total	Total
Normal Cost	\$ 202,793,622	5.28%	0.73%	6.01%	5.51%
Amortization Payment	\$ 241,365,429	<u>14.27%</u>	<u>1.80%</u>	<u>16.07%</u>	<u>18.60%</u>
Total	\$ 241,365,429	18.71%	2.41%	21.12%	23.59%
Contribution Amount (Without Cap as of June 21, 2015)					
Employees	\$ 202,793,622	9.78%	0.69%	10.47%	8.76%
City - Employees with Coverage	\$ 202,793,622	9.77%	1.84%	11.61%	9.41%
City - Employees without Coverage	\$ 38,571,808	14.27%	1.80%	16.07%	12.66%

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**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 6/30/2013	\$ 659,043
Normal Cost	11,543
Benefit Payments	(27,924)
Interest	47,623
Expected Actuarial Liability at 6/30/2014	\$ 690,285
Actuarial Liability at 6/30/2014	664,936
(Gain) or Loss	\$ (25,349)
 (Gain) or Loss due to:	
Demographic experience	(23,675)
Change in health assumptions	(17,739)
Change in discount rate	16,065
Total changes	(25,349)

Dollar amounts in thousands

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

Table III-6			
Effects of Changes - Contribution Amounts Without Phase-In/Caps			
	Normal Cost	UAL	Total
Unadjusted FYE2015 Contribution	\$ 11,509	\$ 42,895	\$ 54,404
Expected FYE2016 Contribution	\$ 11,492	\$ 42,501	\$ 53,993
Calculated FYE2016 Contribution	<u>12,188</u>	<u>38,787</u>	<u>50,975</u>
Net Change	\$ 696	\$ (3,714)	\$ (3,018)
Net change due to:			
Asset gain	\$ 0	\$ (532)	\$ (532)
Demographic experience	\$ (504)	\$ (2,026)	\$ (2,530)
Change in health assumptions	21	(1,518)	(1,497)
Change in discount rate and wage inflation	<u>1,179</u>	<u>362</u>	<u>1,541</u>
Total changes	\$ 696	\$ (3,714)	\$ (3,018)

Dollar amounts in thousands

- *Asset gain* refers to the greater-than-expected investment returns offset by the less-than-expected contribution amounts. The contribution amounts were less than “expected” primarily due to the caps on the annual increase in contribution rates.
- *Demographic experience* refers to the change in actual data and elections from June 30, 2013 to June 30, 2014 as compared to the changes expected in the prior valuation.
- *Change in health assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2014 and 2015 medical premium experience and the additional data on the coverage of children. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.
- *Change in discount rate and wage inflation* refers to the change in the discount rate from 7.25% to 7.00% and the change in wage inflation from 2.00% to 2.85% for the first five years. As in the prior valuation, wage inflation is assumed to be 2.85% after the five-year select period.

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**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 2015, 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 2015 Contributions	
Member Contributions	\$ 18,332,455
City Contributions	22,908,700
Implicit Subsidy	4,134,187
Total Expected Contributions	\$ 45,375,342
FYE 2015 Full ARC	
Normal Cost (Middle of Year)	\$ 12,577,403
Amortization of UAL	36,238,676
Total ARC	\$ 48,816,079
Pay-as-you-go Costs	
Pay-as-you-go	\$ 28,787,267
Contribution in Excess of Pay-Go	16,588,075
Full ARC in Excess of Pay-Go	20,028,812
Weight to System Return	82.82%
Expected Returns	
Expected Return on Plan Assets	7.00%
Expected Return on City Assets	3.00%
Blended Discount Rate	6.30%

The expected return on plan assets was decreased from 7.25% to 7.00% while the expected return on City assets was increased from 2.50% to 3.00%. The discount rate increased from 5.30% to 6.30% primarily due to contributions becoming closer to the full ARC. When contributions equal the ARC, the discount rate will equal the expected return on plan assets.

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

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**SECTION IV
GASB VALUATION RESULTS**

Table IV-2			
Unfunded Actuarial Liability - GASB Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 368,532,605	\$ 48,455,263	\$ 416,987,868
Vested, Terminated Members	18,838,470	0	18,838,470
Active Employees	<u>383,273,445</u>	<u>41,082,544</u>	<u>424,355,989</u>
Total	\$ 770,644,520	\$ 89,537,807	\$ 860,182,327
Present Value of Future Normal Costs			
	<u>117,204,319</u>	<u>13,571,910</u>	<u>130,776,229</u>
Actuarial Liability	\$ 653,440,201	\$ 75,965,897	\$ 729,406,098
Assets ¹	<u>182,465,640</u>	<u>17,310,717</u>	<u>199,776,356</u>
Unfunded Actuarial Liability	\$ 470,974,561	\$ 58,655,180	\$ 529,629,742

¹ Assets are allocated based on the contributions received and claims paid for each benefit.

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.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**SECTION IV
GASB VALUATION RESULTS**

Table IV-3					
Amortization Schedule - GASB Basis					
Date Established	Remaining Period	Outstanding Balance	Medical	Amortization Payment Dental	Total
6/30/2009	25	\$ 746,607,322	\$ 51,818,797	\$ 6,453,514	\$ 58,272,311
6/30/2010	16	85,347,677	7,434,896	925,942	\$ 8,360,838
6/30/2011	17	(27,681,739)	(2,328,210)	(289,955)	(2,618,165)
6/30/2012	18	(198,843,639)	(16,198,075)	(2,017,309)	(18,215,384)
6/30/2013	19	(108,708,386)	(8,601,077)	(1,071,178)	(9,672,255)
6/30/2014	20	32,908,507	2,535,213	315,735	2,850,948
Total		\$ 529,629,742	\$ 34,661,544	\$ 4,316,749	\$ 38,978,293
Min Payment	30	\$ 529,629,742	\$ 34,258,601	\$ 4,266,567	\$ 38,525,168

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2015 is developed in the table below. The prior year's calculation is shown for comparison.

Table IV-4		
GASB ARC		
Fiscal Year Ending	6/30/2015	6/30/2014
Discount Rate	6.30%	5.30%
Total Normal Cost	\$ 14,998,054	\$ 20,285,152
UAL Amortization	38,978,293	49,480,874
Total Cost	\$ 53,976,347	\$ 69,766,026
Employee Contributions	18,332,455	17,402,022
Total City ARC	\$ 35,643,892	\$ 52,364,004

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.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION IV
GASB VALUATION RESULTS**

Table IV-5	
Reconciliation of Actuarial Liability - GASB Basis	
Actuarial Liability at 6/30/2013	\$ 870,872
Normal Cost	19,588
Expected Benefit Payments	(27,924)
Interest	46,464
Expected Actuarial Liability at 6/30/2014	\$ 909,000
Actuarial Liability at 6/30/2014	729,406
(Gain) or Loss	\$ (179,594)
 (Gain) or Loss due to:	
Demographic experience	(31,177)
Change in health assumptions	(23,360)
Change in discount rate	(125,057)
Total changes	(179,594)

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2013 to June 30, 2014 as compared to the changes expected in the prior valuation.
- *Change in health assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2014 and 2015 medical premium experience and the additional data on the coverage of children. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.
- *Change in Discount Rate and wage inflation* refers to the change in the discount rate from 5.30% to 6.30% and the change in wage inflation from 2.00% to 2.85% for the first five years. As in the prior valuation, wage inflation is assumed to be 2.85% after the five-year select period.

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**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	\$ 377,444	\$ 416,988	\$ 463,641
Vested, Terminated Members	15,761	18,838	22,717
Active Employees	343,061	424,356	531,078
Total	\$ 736,266	\$ 860,182	\$ 1,017,436
Present Value of Future Normal Costs			
	101,925	130,776	169,974
Actuarial Liability	\$ 634,341	\$ 729,406	\$ 847,462
Assets	199,776	199,776	199,776
Unfunded Actuarial Liability	\$ 434,565	\$ 529,630	\$ 647,686

Dollar amounts in thousands

Table V-2			
Sensitivity to Health Care Trend Rates - GASB ARC for FYE 2015			
Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	\$ 12,034	\$ 14,998	\$ 19,072
UAL Amortization	30,743	38,978	49,206
Total Cost	\$ 42,777	\$ 53,976	\$ 68,278
Employee Contributions	18,332	18,332	18,332
Total ARC	\$ 24,445	\$ 35,644	\$ 49,946

Dollar amounts in thousands

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**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, 2014 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2015.

Table VI-1		
Development of Net OPEB Obligation		
	Projected	
	6/30/2015	6/30/2014
1. Net OPEB Obligation, beginning of year	\$ 190,005	\$ 164,825
2. Annual Required Contribution	35,644	52,364
3. Interest on Net OPEB Obligation	11,970	8,736
4. Adjustment to Annual Required Contribution	(13,984)	(11,436)
5. Annual OPEB Cost [2. + 3. + 4.]	\$ 33,630	\$ 49,664
6. City Contributions	22,909	19,751
7. Implicit Rate Subsidy	4,134	4,733
8. Net OPEB Obligation, end of year	\$ 196,592	\$ 190,005

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, 2014

**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)	
	\$	\$		\$	%	%
6/30/2014	\$ 435,826	\$ 293,580	\$ 199,776	46%	0%	
6/30/2013	495,967	374,905	157,695	32%	0%	
6/30/2012	611,267	485,353	137,798	23%	0%	
6/30/2011	652,157	493,203	135,454	21%	0%	
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						
Actuarial Valuation Date	Gain or (Loss) for Year Ending on Valuation Date Due to:					
	Investment Income	Combined Liability Experience		Total Financial Experience		Total Experience
		\$	\$	\$	\$	
6/30/2014	\$ 19,768	\$ 31,177	\$ 50,945	\$ 148,417	\$ 199,362	
6/30/2013	6,847	5,834	12,681	114,786	127,467	
6/30/2012	(14,897)	(27,919)	(42,816)	136,154	93,338	
6/30/2011	10,131	(35,166)	(25,035)	(131,557)	(156,592)	

Dollar amounts in thousands

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, 2014

**SECTION VI
ACCOUNTING DISCLOSURES**

Table VI-4 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 (d)	UAL as Percentage of Covered Payroll ((b-a)/c)
6/30/2014	\$ 199,776	\$ 729,406	\$ 529,630	27%	\$234,677	226%
6/30/2013	157,695	870,872	713,177	18%	226,098	315%
6/30/2012	137,798	1,096,620	958,822	13%	225,859	425%
6/30/2011	135,454	1,145,359	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.

Table VI-5 Schedule of Employer Contributions City					
Fiscal Year Ending	Annual OPEB Cost (AOC)	Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation	
2015	\$ 33,630	To Be Determined	To Be Determined	To Be Determined	
2014	49,664	\$ 24,484	49%	\$ 190,005	
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, 2014

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, 2014
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Dollar Closed
Single Equivalent Amortization Period	29.0 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	2.85%
Discount Rate	6.30%
Ultimate Rate of Medical Inflation	4.25%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data

Valuation Date	June 30, 2014	June 30, 2013	% Change
Active Employees			
<i>Tier 1</i>			
Count	2,592	2,855	-9.21%
Average Age	47.6	46.7	1.89%
Average OPEB Benefit Service	13.9	13.1	5.87%
Total Payroll	\$199,745,889	\$211,778,344	-5.68%
<i>Tier 2A</i>			
Count	272	238	14.29%
Average Age	36.0	35.8	0.78%
Average OPEB Benefit Service	1.6	0.8	98.94%
Total Payroll	\$17,421,766	\$14,319,539	21.66%
<i>Eligible Active Employees</i>			
Count	2,864	3,093	-7.40%
Average Age	46.5	45.9	1.37%
Average OPEB Benefit Service	12.7	12.2	4.53%
Total Payroll	\$217,167,654	\$226,097,882	-3.95%
<i>Tier 2B</i>			
Count	256	N/A	N/A
Average Age	36.5	N/A	N/A
Average OPEB Benefit Service	0.6	N/A	N/A
Total Payroll	\$17,461,319	N/A	N/A
<i>Total</i>			
Count	3,120	3,093	0.87%
Average Age	45.7	45.9	-0.42%
Average OPEB Benefit Service	11.7	12.2	-3.80%
Total Payroll	\$234,628,974	\$226,097,882	3.77%
<i>Retirees and Spouses with Medical Coverage</i>			
Pre-65	1,772	1,916	-7.52%
Post-65	2,272	2,200	3.27%
Total	4,044	4,116	-1.75%
<i>Retirees with Dental Coverage</i>			
	3,133	3,103	0.97%
<i>Term Vested Members</i>			
	133	149	-10.74%

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

	Status Reconciliation					Total
	Active	Vested	Retiree	Spouse	Disabled	
Beginning of Year	3,093	149	2,686	396	193	6,517
New Hires	74	0	0	0	0	74
Rehires	4	0	0	0	0	4
Vested Terminations	(24)	24	0	0	0	0
Service Retirements	(103)	(9)	115	0	0	3
Disabled Retirements	(4)	(1)	(1)	0	6	0
New survivors	0	0	(3)	31	0	28
No longer covered	(173)	(6)	(79)	(24)	(10)	(292)
Data corrections*	(3)	(24)	0	(1)	1	(27)
End of Year	2,864	133	2,718	402	190	6,307

* Includes members who began coverage after initial status change

* Includes members who has fifteen years of credit service but not of benefit & SADRO service

* Includes members terminated and rehired between 7/1/13 and 7/1/14 and are now classified as Tier 2B

Member Data as of June 30, 2014:

Age Group	Eligible Active Employees								Total
	Years of OPEB Benefit Service								
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	
Under 25	26	0	0	0	0	0	0	0	26
25 to 29	103	31	0	0	0	0	0	0	134
30 to 34	126	114	30	1	0	0	0	0	271
35 to 39	75	130	120	27	1	0	0	0	353
40 to 44	52	85	156	114	22	4	0	0	433
45 to 49	38	76	128	116	81	49	1	0	489
50 to 54	37	82	113	123	126	127	0	0	608
55 to 59	30	63	76	59	40	28	3	0	299
60 to 64	18	38	57	40	21	12	0	1	187
65 and up	<u>2</u>	<u>18</u>	<u>26</u>	<u>12</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>64</u>
Total	507	637	706	492	293	222	4	3	2,864

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Retirees, Disabled Retirees and Surviving Spouses						
Age Group	<u>Medical Insurance</u>			<u>Dental Insurance</u>		
	Males	Females	Total	Males	Females	Total
Under 50	5	22	27	5	23	28
50 to 54	42	29	71	41	38	79
55 to 59	240	180	420	219	184	403
60 to 64	302	256	558	326	268	594
65 to 69	315	240	555	359	294	653
70 to 74	211	181	392	240	226	466
75 to 79	160	146	306	173	181	354
80 to 84	96	98	194	116	123	239
85 to 89	61	77	138	81	119	200
<u>Over 90</u>	<u>30</u>	<u>46</u>	<u>76</u>	<u>41</u>	<u>76</u>	<u>117</u>
Total	1,462	1,275	2,737	1,601	1,532	3,133

Counts do not include dependent spouses

Medical Plan Elections				
Medical Plan	Retirees & Surviving Spouses		Spouses	Total
Pre-Medicare Medical Plans				
Kaiser DHMO		193	140	333
Kaiser \$25 Co-pay		567	360	927
Kaiser \$15 Co-pay (Hawaii)		2	2	4
Kaiser \$25 Co-pay (Northwest)		5	7	12
HMO \$45 Co-pay		41	30	71
HMO \$25 Co-pay		145	86	231
PPO / POS \$30 Co-pay		15	7	22
PPO / POS \$25 Co-pay		<u>123</u>	<u>65</u>	<u>188</u>
Total		1,091	697	1,788
Medicare Medical Plans				
Kaiser Senior Advantage		848	317	1,165
Kaiser Senior Advantage (Hawaii)		3	0	3
Kaiser Senior Advantage (Northwest)		19	4	23
BS Medicare HMO		157	54	211
BS Medicare PPO / POS		493	184	677
UHC Medicare Advantage		37	9	46
UHC Senior Supplement		<u>89</u>	<u>42</u>	<u>131</u>
Total		1,646	610	2,256

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MEMBER DATA, ASSUMPTIONS AND METHODS

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	10	8	18
45 to 49	28	17	45
50 to 54	35	25	60
55 to 59	4	5	9
60 to 64	0	0	0
Over 65	<u>1</u>	<u>0</u>	<u>1</u>
Total	78	55	133

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

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

Economic Assumptions:

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 18, 2014 Board meeting.

1. **Expected Return on Plan Assets:** 7.00% per year. The Board expects a long-term rate of return of 7.58% based on Meketa’s capital market assumptions and investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.
2. **Expected Return on Employer Assets:** 3.00% per year
3. **Blended Discount Rate:** 6.30% per year
4. **Per Person Cost Trends:**

To Calendar Year	<u>Annual Increase</u>		
	Pre-Medicare	Medicare Eligible	Dental
2016	8.50%	6.50%	4.00%
2017	8.20	6.34	4.00
2018	7.89	6.18	4.00
2019	7.59	6.02	4.00
2020	7.29	5.86	4.00
2021	6.98	5.70	4.00
2022	6.68	5.54	4.00
2023	6.38	5.38	4.00
2024	6.07	5.21	4.00
2025	5.77	5.05	4.00
2026	5.46	4.89	4.00
2027	5.16	4.73	4.00
2028	4.86	4.57	4.00
2029	4.55	4.41	4.00
2030+	4.25	4.25	4.00

Actual premium increases for 2015 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.

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**APPENDIX A
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Demographic Assumptions:

The wage inflation assumption was adopted by the Board of Administration at the November 20, 2014 Board meeting and the tier participation and plan election assumptions were adopted by the Board of Administration at the December 18, 2014 Board meeting based upon our recommendations and input. The other demographic assumptions shown below were adopted by the Board of Administration at the October 20, 2011 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2005 through June 30, 2010.

1. Retirement Rates:

The following rates of retirement are assumed for Tier 1 active members eligible to retire. Tier 1 members are those hired before September 30, 2012.

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

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The following rates of retirement are assumed for Tier 2 active members eligible to retire. Tier 2 members are those hired on or after September 30, 2012.

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.

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**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 2000-2004 study for miscellaneous employees.

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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: 2.85%

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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

APPENDIX A
 MEMBER DATA, ASSUMPTIONS AND METHODS

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 2014 plan. The UnitedHealthcare Medicare Advantage and Senior Supplement plans are being discontinued effective 1/1/2015; retirees on the Medicare Advantage plan have been mapped to the BlueShield HMO plan, and retirees on the Senior Supplement plan have been mapped to the BlueShield PPO 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	17%	Kaiser Senior Advantage	53%
Kaiser \$25 Co-pay	53%	BS Medicare HMO	12%
HMO \$45 Co-pay	4%	BS Medicare PPO / POS	35%
HMO \$25 Co-pay	14%	UHC Medicare Advantage	0%
PPO / POS \$30 Co-pay	1%	UHC Senior Supplement	0%
PPO / POS \$25 Co-pay	11%	Dental Plans (All Retirees)	
		Delta Dental PPO	97%
		DeltaCare HMO	3%

7. **Family Composition:** 85% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement. Pre-Medicare, 34% of males and 23% of females will cover children.

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.

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Changes Since Last Valuation

The expected return on trust assets was reduced from 7.25 percent to 7.00 percent and the expected return on employer assets was increased from 2.5 percent to 3.0 percent; the blended discount rate increased from 5.3 percent to 6.3 percent.

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Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 18, 2014 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 2014 and 2015. 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 2014 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the UnitedHealthcare Medicare Advantage plan were mapped to the BlueShield HMO plan, and individuals on the UnitedHealthcare Senior Supplement plan were mapped to the BlueShield PPO plan since the UnitedHealthcare plans will not be offered after 2014. 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 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.

- 1. Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions were developed as of July 1, 2014 based on the premiums for 2014 and 2015. 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 DHMO		Kaiser \$25 Co-Pay		HMO \$45 Co-pay	
	Male	Female	Male	Female	Male	Female
40	4,879	6,704	7,078	9,680	6,381	8,826
45	4,960	6,438	7,170	9,277	6,522	8,502
50	5,404	6,749	7,778	9,697	7,147	8,950
55	6,116	7,243	8,769	10,377	8,132	9,642
60	7,139	7,942	10,204	11,350	9,534	10,610
64	8,255	8,631	11,776	12,312	11,054	11,557

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<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	8,983	12,055	7,188	9,960	7,847	10,974
45	8,965	11,452	7,357	9,601	8,091	10,622
50	9,555	11,820	8,075	10,119	8,953	11,258
55	10,598	12,496	9,202	10,914	10,276	12,208
60	12,165	13,517	10,801	12,021	12,133	13,509
64	13,918	14,551	12,532	13,102	14,127	14,771

<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	2,815	3,002	5,734	6,115	6,198	6,611
70	3,305	3,315	6,733	6,753	7,278	7,300
75	3,696	3,575	7,528	7,281	8,138	7,871
80	3,927	3,690	7,999	7,516	8,646	8,125
85	3,980	3,652	8,106	7,438	8,762	8,040

<u>Sample Claims Costs - Dental</u>				
Age	<u>Delta Dental PPO</u>		<u>DeltaCare HMO</u>	
	Male	Female	Male	Female
All	695	695	348	348

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.

APPENDIX A
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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.

Changes Since Last Valuation:

The claims costs process was modified to add a load for children to the pre-Medicare claim costs.

**APPENDIX A
MEMBER DATA, 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, 2009 is amortized as a level dollar amount over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level dollar amount over 20-year periods beginning with the valuation date in which they first arise. The single equivalent amortization period cannot be greater than 30 years.

4. Contributions

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 June 21, 2015, 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.

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 8/11ths 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.

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Changes Since Last Valuation:

The cap on increases to contribution rates was extended from December 21, 2014 to June 21, 2015.

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) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible for unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five years of service. Service credited thru reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits. Employees who retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

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

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

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

1. The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and,
2. Both the member and the survivors were enrolled in the active medical plan immediately before death; and,
3. The survivor will receive a monthly pension benefit.

Dental: Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City’s dental plan at the time of the member’s retirement.

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

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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.

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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 2014 and 2015 are as follows.

2014 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$471.12	\$942.24	\$824.46	\$1,413.36
Kaiser \$25 Co-pay	575.34	1,150.68	1,006.84	1,726.02
Blue Shield HMO \$45 Co-pay	561.00	1,122.00	981.74	1,683.00
Blue Shield HMO \$25 Co-pay	630.50	1,261.00	1,103.38	1,891.50
Blue Shield PPO or POS \$30 Co-pay	625.10	1,250.20	1,093.94	1,875.30
Blue Shield PPO or POS \$25 Co-pay	764.60	1,529.20	1,338.06	2,293.80
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$278.50	\$557.00	\$557.00	\$835.50
Blue Shield Medicare HMO	530.86	1,061.74	1,061.74	1,534.62
Blue Shield Medicare PPO / POS	616.00	1,232.00	1,232.00	1,805.46
UHC Medicare Advantage	485.95	971.90	N/A	N/A
UHC Senior Supplement	501.78	1,003.56	N/A	N/A
Dental				
Delta Dental PPO	\$48.92	\$107.62	\$117.42	\$151.66
DeltaCare HMO	27.16	54.3	47.5	81.44

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

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2015 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$449.74	\$899.48	\$787.04	\$1,349.20
Kaiser \$25 Co-pay	549.24	1,098.44	961.14	1,647.88
Blue Shield HMO \$45 Co-pay	611.73	1,223.45	1,070.51	1,835.18
Blue Shield HMO \$25 Co-pay	687.51	1,375.02	1,203.15	2,062.53
Blue Shield PPO or POS \$30 Co-pay	723.46	1,446.92	1,266.07	2,170.38
Blue Shield PPO or POS \$25 Co-pay	884.91	1,769.82	1,548.60	2,654.72
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$284.65	\$569.30	\$569.30	\$853.95
Blue Shield Medicare HMO	570.49	1,141.01	1,141.01	1,656.65
Blue Shield Medicare PPO / POS	661.99	1,323.98	1,323.98	1,987.67
Dental				
Delta Dental PPO	\$48.92	\$107.62	\$117.42	\$151.66
DeltaCare HMO	27.16	54.3	47.5	81.44

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

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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	\$250 + 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%*	\$40	50%*
				*\$250 deductible		*\$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:

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

6. Actuarial Valuation

The determination, as of a specified date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

7. Actuarial Value of Assets

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

APPENDIX 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.

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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)