

**City of San José
Police and Fire Department
Postemployment Healthcare Plan**

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

Produced by Cheiron

January 29, 2015



Classic Values, Innovative Advice

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January 29, 2015

VIA EMAIL

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112

***Re: City of San José Police and Fire Department Postemployment Healthcare Plan
Valuation***

Dear Members of the Board:

The purpose of this report is to present the June 30, 2014 actuarial valuation of the City of San José Police and Fire Department 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
January 29, 2015

Sincerely,
Cheiron

A handwritten signature in blue ink, reading "William R. Hallmark".

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

A handwritten signature in blue ink, reading "Michael W. Schionning".

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

A handwritten signature in blue ink, reading "John L. Colberg".

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

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**SECTION I
BOARD SUMMARY**

The Board of Administration of the City of San José Police and Fire Department Retirement Plan has engaged Cheiron to provide a valuation of the City of San José Police and Fire Department 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 funding policy 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. We understand the agreements call for a five-year transition from the prior 10-year cash flow funding policy to the current policy of actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. The transition has been completed for both, Police and Fire. The contribution rates for the fiscal year ending 2016 are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the annual rate increases and ultimate caps described below.

We understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. We have interpreted the bargaining agreement to apply these restrictions beyond the transition period, so they have been applied to the Police contribution rates as well as the Fire contribution rates.

Furthermore, the bargaining agreement states that if the City or member rates exceed 11% or 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. Based on discussions in the last year, we understand

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that the bargaining parties meant for this provision to cap contribution rates at 11% and 10% until they agree on how to address the additional contributions. Consequently, we have capped the contribution rates developed in this report.

The contributions for retiree medical benefits (explicit subsidy only) are split evenly between employees and the City, and the contributions for retiree dental benefits are split with the City contributing 75% of the total contribution and employees contributing 25% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

Accounting Policy

The Board's current policy sets the Annual Required Contribution (ARC) for the fiscal year immediately following the valuation date equal to the normal cost plus a rolling 30-year amortization of the unfunded actuarial liability (including the implicit subsidy). Once actual contributions reach that level, it is anticipated that the ARC will change to the contribution basis.

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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 Basis¹		
Valuation Date	6/30/2014	6/30/2013
Discount Rate	7.000%	7.125%
Actuarial Liability (AL)	555,731	511,999
Actuarial Value of Assets (AVA)	93,605	75,035
Unfunded Actuarial Liability (UAL)	462,126	436,964
AVA Funding Ratio	16.8%	14.7%
Market Value of Assets (MVA)	97,645	74,716
Unfunded Liability (MVA basis)	458,086	437,283
MVA Funded Ratio	17.6%	14.6%
Fiscal Year Ending	6/30/2016	6/30/2015
Member Contribution Rate	9.90%	9.39%
City Contribution Rate	10.85%	10.30%
City Contribution Amount (BOY)	\$ 20,376	\$ 18,728
GASB Valuation Basis²		
Valuation Date	6/30/2014	6/30/2013
Discount Rate	6.00%	6.00%
Actuarial Liability (AL)	\$ 706,709	\$ 700,525
Actuarial Value of Assets (AVA)	93,605	75,035
Unfunded Actuarial Liability (UAL)	\$ 613,105	\$ 625,490
AVA Funding Ratio	13.2%	10.7%
Market Value of Assets (MVA)	\$ 97,645	\$ 74,716
Unfunded Liability (MVA basis)	609,065	625,810
MVA Funded Ratio	13.8%	10.7%
Fiscal Year Ending	6/30/2015	6/30/2014
City ARC		
-- if paid as percent of pay	17.69%	17.76%
-- if paid as dollar amount (MOY)	\$ 33,295	\$ 32,798
Expected /Actual City Contribution ²	\$ 21,430	\$ 20,131
Expected /Actual Net Benefit Payments ²	\$ 23,545	\$ 25,373

¹ Excludes implicit subsidy

Dollar amounts in thousands

² Includes implicit subsidy

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The discount rate on a funding basis decreased from 7.125% to 7.00% while the discount rate on a GASB basis remained at 6.00% in this valuation. There were also changes in other assumptions and changes to the plan since the prior valuation. These changes, together with other experience during the year, resulted in an increase in the UAL of approximately \$25 million on a funding basis and a decrease in the UAL of approximately \$12 million on a GASB basis. More detail on these changes can be found in the Funding and GASB valuation results section of this report.

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on a GASB basis for the City of San José Police and Fire Department Postemployment Healthcare Plan. The significant fluctuations in the actuarial liability reflect changes in the blended discount rate, changes in health trend assumptions, and changes in the lowest cost health plan which is the basis of the City's contribution towards coverage.

Historical Actuarial Liability and Assets

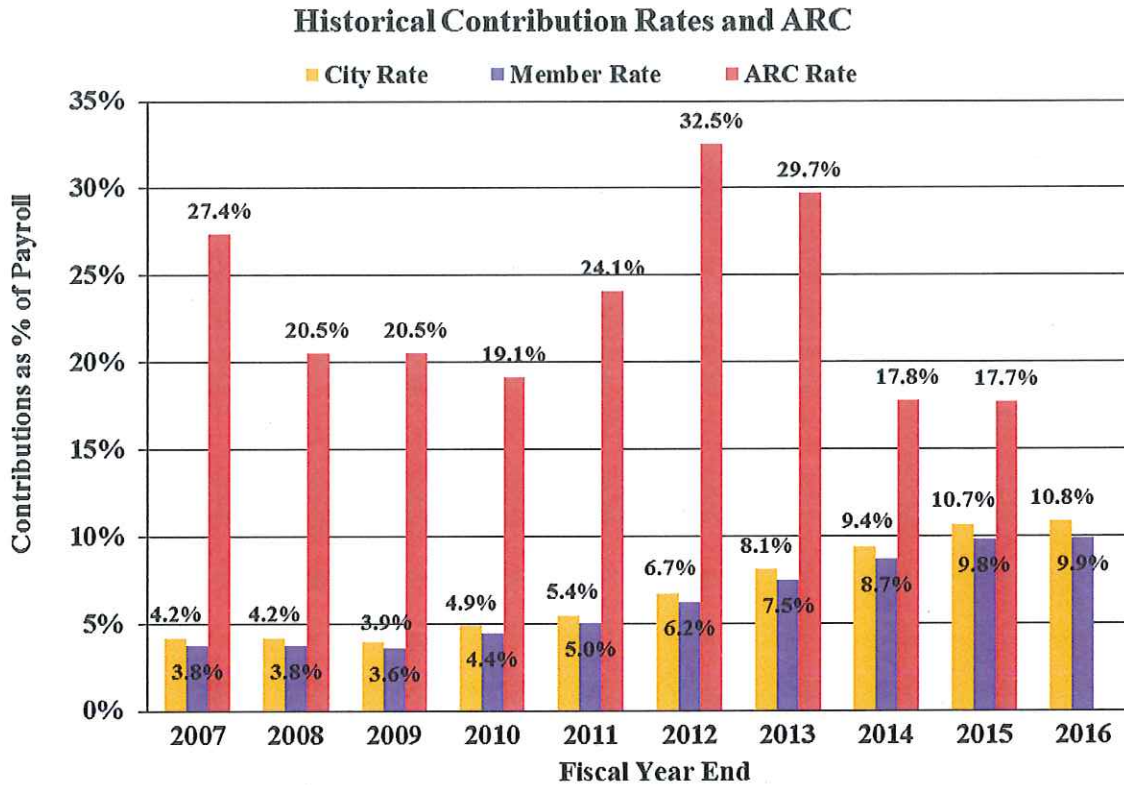


Funded Ratio	4.5%	6.8%	7.3%	6.2%	6.0%	6.7%	10.7%	13.2%
UAL/(Surplus)	\$ 812.8	\$ 620.8	\$ 706.0	\$ 887.7	\$ 943.1	\$ 930.9	\$ 625.5	\$ 613.1
<i>(in millions)</i>								
Discount Rate	5.30%	6.40%	6.70%	6.30%	5.70%	4.40%	6.00%	6.00%

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The chart below shows the historical trend in member and City contribution rates compared to the City's ARC. As City and member contribution rates increase, the ARC will decrease until it is equal to the City's contribution rate.

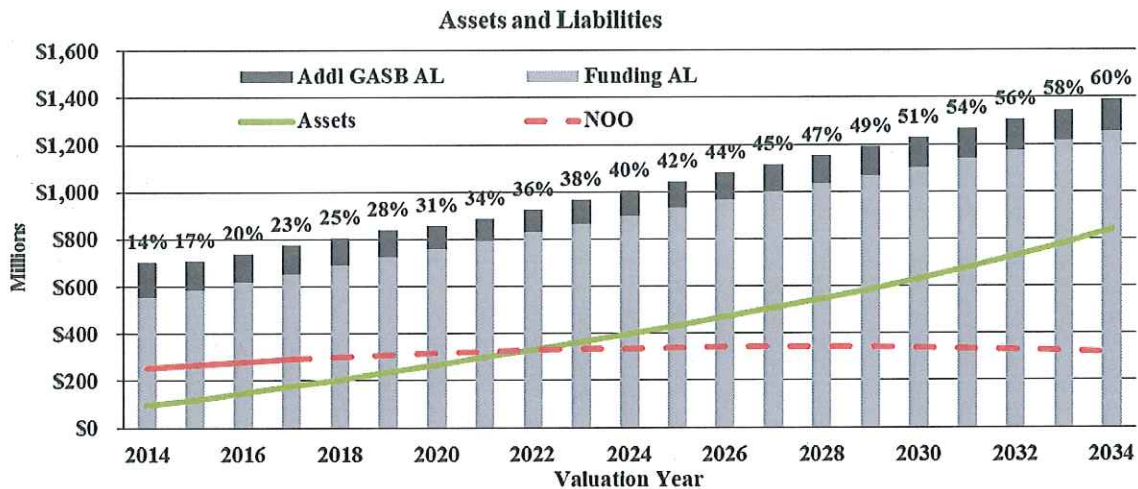


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**SECTION I
BOARD SUMMARY**

Projected Trends

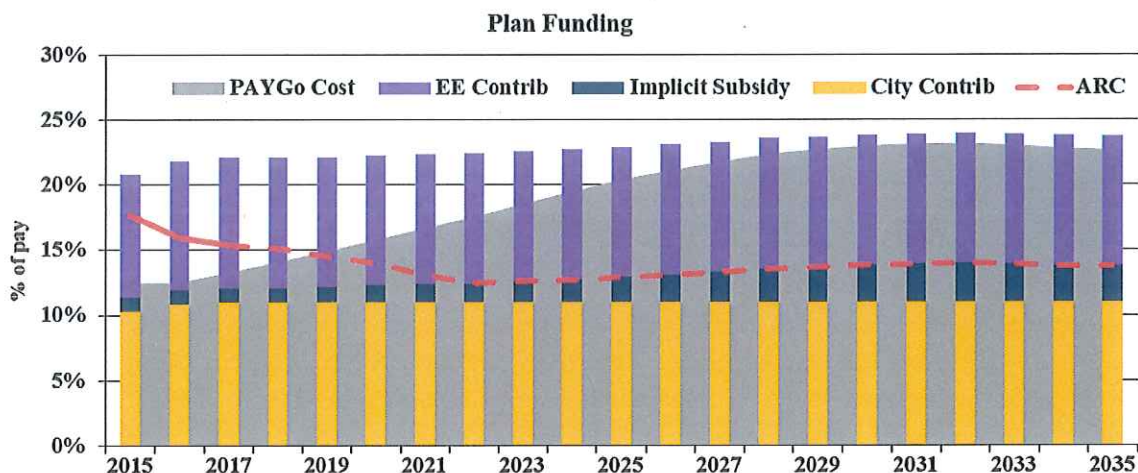
The following charts project the assets, actuarial liability, contributions, and accounting results under GASB 43 and 45 for the next 20 years. Note, however, that newly proposed GASB Statements for OPEB plans would significantly change the projected financial reporting shown. The proposed statements 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 chart above shows the actuarial liability (gray bars) on a Funding basis increasing from about \$560 million to about \$1,260 million over the next 20 years. The dark gray bars represent the additional actuarial liability reported for GASB purposes. The additional liability is attributable to two differences: (1) the inclusion of the implicit subsidy in the GASB actuarial liability and (2) the discount rate for GASB measurements is projected to be lower than for funding measurements until the 2021 valuation. The green line shows assets increasing from \$98 million to \$840 million over the same period. The labels on top of the bars show the funded status on a GASB basis increasing from 11% to 60% over the 20-year projection. The red line shows the Net OPEB Obligation (NOO) increasing from \$255 million to about \$344 million after 14 years before declining to \$320 million after 20 years. However, the proposed GASB statements would eliminate the NOO and replace it with a measure of the unfunded liability. The chart shows the projected NOO after the proposed effective date of the new statements as a dashed line.

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The second chart shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs as a percentage of pay. Benefit payments are shown by the gray area and increase from 12.5% to 22.7% of projected payroll. The gold bars represent the City's contributions to the trust. The City's contribution is already capped for Police members at 11% and is expected to reach the cap for Fire members in FYE 2017. In addition, the City contributes an amount equal to the implicit subsidy for each year as shown by the purple bars. Similarly, Police employee contributions are already capped at 10% of pay and Fire employee contributions are expected to reach the cap in FYE 2017. The ARC, shown by the red line, is expected to decrease to approximately 12.5% of pay by FYE 2022 before gradually increasing as the annual implicit subsidy is expected to increase through the end of the projection period. The proposed GASB statements would eliminate the ARC and replace it with an entirely different calculation of the annual OPEB expense. The chart shows the projected ARC as a dashed line after the proposed effective date of the new GASB statements.

The table below shows the expected net benefit payments for the next 21 years. The payments are separated into the explicit subsidy payments (health and dental premium payments) on which the contributions are based and the implicit subsidy payments, which are only included in the GASB calculations and disclosures.

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**SECTION I
BOARD SUMMARY**

Table I-2					
Expected Net Benefit Payments					
Fiscal Year					
Ending June 30	Explicit Medical	Dental	Total Explicit Subsidy	Implicit Subsidy	Total Expected Payments
2015	\$ 19,179,942	\$ 2,314,978	\$ 21,494,920	\$ 2,050,492	\$ 23,545,412
2016	19,857,028	2,444,616	22,301,644	2,021,899	24,323,543
2017	21,902,742	2,592,421	24,495,163	2,184,045	26,679,208
2018	24,174,511	2,752,660	26,927,171	2,297,808	29,224,979
2019	26,502,777	2,923,644	29,426,421	2,470,747	31,897,168
2020	28,988,412	3,102,825	32,091,237	2,830,562	34,921,799
2021	31,650,272	3,299,265	34,949,537	3,105,525	38,055,062
2022	34,523,094	3,513,507	38,036,601	3,331,821	41,368,422
2023	37,489,997	3,741,325	41,231,322	3,835,128	45,066,450
2024	40,679,425	3,974,964	44,654,389	4,320,077	48,974,466
2025	43,733,653	4,204,319	47,937,972	4,964,331	52,902,303
2026	46,452,439	4,418,089	50,870,528	5,630,929	56,501,457
2027	49,144,699	4,638,774	53,783,473	6,384,628	60,168,101
2028	51,708,254	4,853,787	56,562,041	7,259,613	63,821,654
2029	54,040,665	5,059,294	59,099,959	7,887,409	66,987,368
2030	56,176,442	5,253,629	61,430,071	8,527,457	69,957,528
2031	58,043,601	5,440,663	63,484,264	9,149,038	72,633,302
2032	59,872,167	5,626,875	65,499,042	9,649,291	75,148,333
2033	61,562,980	5,814,257	67,377,237	9,722,387	77,099,624
2034	63,242,722	6,005,877	69,248,599	9,642,235	78,890,834
2035	64,940,859	6,186,834	71,127,693	9,736,794	80,864,487

In this valuation, the amount of the estimated implicit subsidy decreased from \$2,863,280 for the fiscal year ending June 30, 2014 to \$2,050,490 for the fiscal year ending June 30, 2015.

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 health care trend rates. We conclude with disclosure information to satisfy the GASB OPEB accounting and financial reporting requirements.

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**SECTION II
ASSETS**

Market Value of Assets

Table II-1 below shows the changes in the aggregate market value of assets for the last two fiscal years. In the last year, investment earnings were about 14.1%, resulting in an actuarial gain of approximately \$6.1 million.

Table II-1 Market Value of Assets		
Year Ending	6/30/2014	6/30/2013
Market Value, Beginning of Year	\$ 74,715,956	\$ 62,978,197
Contributions		
Member	15,673,703	13,497,706
City	17,267,368	15,635,412
Implicit Subsidy	2,863,280	172,014
Total	35,804,351	\$ 29,305,132
Net Investment Earnings	12,497,077	6,367,119
Benefit Payments		
Premium Payments	22,509,601	23,762,478
Implicit Subsidy	2,863,280	172,014
Total	\$ 25,372,881	\$ 23,934,492
Market Value, End of Year	\$ 97,644,503	\$ 74,715,956

Actuarial Value of Assets

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smooths year-to-year market value returns in order to reduce the volatility of contribution rates. The same approach is used for this OPEB valuation although, given the size of the current assets, the smoothing effect is minimal. As the assets grow, smoothing will become more important in controlling the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 shows the development of the actuarial value of assets as of the valuation date. For each of the last four years, it shows the actual earnings, the expected earnings, the gain or loss and the portion of the gain or loss that is

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**SECTION II
ASSETS**

not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

Table II-2 Development of Actuarial Value of Assets					
	FYE 2011	FYE 2012	FYE 2013	FYE 2014	June 30, 2014
Market Value of Assets					\$ 97,644,503
Actual Earnings	\$ 8,892,560	\$ (891,129)	\$ 6,367,119	\$ 12,497,077	
Expected Earnings	4,225,210	5,258,068	5,333,899	6,314,473	
Gain or (Loss)	4,667,350	(6,149,197)	1,033,220	6,182,604	
Deferred %	20%	40%	60%	80%	
Deferred Amount	\$ 933,470	\$ (2,459,679)	\$ 619,932	\$ 4,946,083	\$ 4,039,806
Preliminary Actuarial Value of Assets					\$ 93,604,697
Minimum (80% of Market Value)					78,115,603
Maximum (120% of Market Value)					117,173,404
Actuarial Value of Assets					\$ 93,604,697
Ratio of Actuarial to Market Value					95.86%
Estimated Rate of Return					9.1%
Actuarial Gain or (Loss)					\$ 1,800,983

Asset Values by Department

The market value of assets is reported separately for the Police and Fire Departments. Within each department, the dental assets were set equal to 10% of the total assets as of June 30, 2010. Since that date, contributions (excluding the implicit subsidy) are allocated to medical and dental in proportion to the contribution rates, and benefit payments are allocated to medical and dental in proportion to the expected payments from the prior valuation. Tables II-3 and II-4 on the following page show the development of the market value of assets and actuarial value of assets for medical and dental within the Police and Fire Departments respectively.

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**SECTION II
ASSETS**

Table II-3			
Market Value of Assets – Police Department			
	Medical	Dental	Total
Market Value, 6/30/2013	\$ 52,593,847	\$ 4,992,354	\$ 57,586,201
Contributions			
Member	9,145,302	401,550	9,546,852
City	10,360,448	1,351,857	11,712,304
Implicit Subsidy	1,761,721	0	1,761,721
Total	\$ 21,267,471	\$ 1,753,407	\$ 23,020,877
Net Investment Earnings	7,295,920	696,450	7,992,370
Benefit Payments			
Premium Payments	12,324,357	1,386,241	13,710,598
Implicit Subsidy	1,761,721	0	1,761,721
Total	\$ 14,086,078	\$ 1,386,241	\$ 15,472,319
Market Value, 6/30/2014	\$ 67,071,159	\$ 6,055,970	\$ 73,127,129
Ratio of AVA / MVA	95.9%	95.9%	95.9%
Actuarial Value of Assets	\$ 64,296,252	\$ 5,805,419	\$ 70,101,671

Table II-4			
Market Value of Assets – Fire Department			
	Medical	Dental	Total
Market Value, 6/30/2013	\$ 16,021,072	\$ 1,108,683	\$ 17,129,755
Contributions			
Member	5,868,791	258,060	6,126,851
City	4,780,883	774,181	5,555,064
Implicit Subsidy	1,101,559	0	1,101,559
Total	\$ 11,751,233	\$ 1,032,241	\$ 12,783,474
Net Investment Earnings	4,174,705	330,002	4,504,707
Benefit Payments			
Premium Payments	7,895,375	903,628	8,799,003
Implicit Subsidy	1,101,559	0	1,101,559
Total	\$ 8,996,934	\$ 903,628	\$ 9,900,562
Market Value, 6/30/2014	\$ 22,950,076	\$ 1,567,298	\$ 24,517,374
Ratio of AVA / MVA	95.9%	95.9%	95.9%
Actuarial Value of Assets	\$ 22,000,572	\$ 1,502,454	\$ 23,503,026

SECTION III FUNDING VALUATION RESULTS

This section of the report calculates the contribution requirements under the contracts negotiated between the City and its labor unions for the fiscal year ending June 30, 2016. The City has negotiated separate contracts with the Police and Fire Unions that require both employee and City contributions to fund the Plan.

We understand the agreements call for a five-year transition from the 10-year cash flow funding policy used previously to actuarially funding the explicit subsidy. For the Police Department, the transition to the new method was completed as part of the 2012 valuation with contribution amounts for the fiscal year ending June 30, 2014. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. The transition to the new method is complete as part of this valuation with contribution amounts for the fiscal year ending June 30, 2016.

We also understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. We interpret the language of the bargaining agreement to apply these limits to annual changes in contribution rates indefinitely.

Furthermore, the bargaining agreement states that if the City or member rates exceed 11% and 10% of payroll respectively, the parties shall meet and confer on how to address any contributions above those two percentages. Based on discussions in the last year, we understand that the bargaining parties meant for this provision to cap contribution rates at 11% and 10% until they agree on how to address the additional contributions. Consequently, we have capped the contribution rates developed in this report.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split such that the City contributes 75% and members contribute 25% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

The following tables develop the UAL for the Police and Fire Departments for the explicit subsidy of medical and dental benefits based on the funding discount rate of 7.00%.

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**SECTION III
FUNDING VALUATION RESULTS**

Table III-1			
Unfunded Actuarial Liability – Police Department			
	Funding Basis		
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 199,997,932	\$ 22,055,112	\$ 222,053,044
Term Vested Members	1,384,144	128,066	1,512,210
Active Employees	<u>193,046,415</u>	<u>17,240,740</u>	<u>210,287,155</u>
Total	\$ 394,428,491	\$ 39,423,918	\$ 433,852,409
Present Value of Future Normal Costs	<u>68,511,636</u>	<u>6,019,723</u>	<u>74,531,359</u>
Actuarial Liability	\$ 325,916,855	\$ 33,404,195	\$ 359,321,050
Actuarial Value of Assets	<u>64,296,252</u>	<u>5,805,419</u>	<u>70,101,671</u>
Unfunded Actuarial Liability	\$ 261,620,603	\$ 27,598,776	\$ 289,219,379

Table III-2			
Unfunded Actuarial Liability – Fire Department			
	Funding Basis		
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 110,341,102	\$ 12,589,907	\$ 122,931,009
Term Vested Members	793,517	76,001	869,518
Active Employees	<u>122,009,574</u>	<u>10,897,384</u>	<u>132,906,958</u>
Total	\$ 233,144,193	\$ 23,563,292	\$ 256,707,485
Present Value of Future Normal Costs	<u>55,422,728</u>	<u>4,875,170</u>	<u>60,297,898</u>
Actuarial Liability	\$ 177,721,465	\$ 18,688,122	\$ 196,409,587
Actuarial Value of Assets	<u>22,000,572</u>	<u>1,502,454</u>	<u>23,503,026</u>
Unfunded Actuarial Liability	\$ 155,720,893	\$ 17,185,668	\$ 172,906,561

The UAL for the Police Department is amortized over a fixed, closed period of 30 years beginning with the June 30, 2008 UAL. Consequently, the UAL as of June 30, 2014 is amortized over a period of 24 years.

The UAL for the Fire Department is amortized over a fixed, closed period of 30 years beginning with the June 30, 2010 UAL. Consequently, the UAL as of June 30, 2014 is amortized over a period of 26 years. The following table shows the amortization schedule as of June 30, 2014.

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**SECTION III
FUNDING VALUATION RESULTS**

Table III-3				
Amortization Schedule – Funding Basis				
Amortization Base	Remaining Period	Outstanding Balance	Amortization Payment	Amortization Rate
Police Department - Medical	24	\$ 261,620,603	\$ 17,642,142	15.13%
Police Department - Dental	24	27,598,776	1,861,098	1.60%
Fire Department - Medical	26	155,720,893	9,992,744	12.86%
Fire Department - Dental	26	17,185,668	1,102,819	1.42%

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 assumed to be made 18 months after the valuation date and have been adjusted for interest accordingly. The amortization rate is calculated by dividing the amortization payment by the projected payroll for the 2015-16 fiscal year.

The table below develops the total normal cost rate for each of the groups based on the active employees on the valuation date and the expected pay for those employees for the year following the valuation date.

Table III-4			
Total Normal Cost Rates – Funding Basis			
	Normal Cost Amount	Expected Payroll for Current Actives	Normal Cost Rate
Police Department - Medical	\$ 7,647,360	\$ 106,804,142	7.16%
Police Department - Dental	684,583	106,804,142	0.64%
Fire Department - Medical	5,141,827	71,567,220	7.18%
Fire Department - Dental	459,723	71,567,220	0.64%

The table on the following page develops the contribution rates for members and the City prior to any adjustment for caps or the phase-in of the new funding method.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**SECTION III
FUNDING VALUATION RESULTS**

Table III-5				
Preliminary Contribution Rates – Funding Basis				
	FYE 2016			FYE 2015
	Medical	Dental	Total	Total
Police Department				
Normal Cost	7.16%	0.64%	7.80%	6.70%
Amortization Payment	<u>15.13%</u>	<u>1.60%</u>	<u>16.73%</u>	<u>15.71%</u>
Total	22.29%	2.24%	24.53%	22.41%
Contribution Allocation without Annual Caps				
Member	11.15%	0.56%	11.71%	10.74%
City	<u>11.14%</u>	<u>1.68%</u>	<u>12.82%</u>	<u>11.67%</u>
Total	22.29%	2.24%	24.53%	22.41%
Fire Department				
Normal Cost	7.18%	0.64%	7.82%	6.48%
Amortization Payment	<u>12.86%</u>	<u>1.42%</u>	<u>14.28%</u>	<u>13.52%</u>
Total	20.04%	2.06%	22.10%	20.00%
Contribution Allocation without Annual Caps				
Member	10.02%	0.52%	10.54%	9.57%
City	<u>10.02%</u>	<u>1.54%</u>	<u>11.56%</u>	<u>10.43%</u>
Total	20.04%	2.06%	22.10%	20.00%

The tables on the following page calculate the capped contribution rates. The caps limit the annual increase in the City and member contribution rates to 1.35% and 1.25% of payroll respectively. In addition, the caps limit the total contribution rate to 11% for the City and 10% for the members. Both Police and Fire rates are capped by the limit of 11% and 10%, but the Fire Department rates are limited further by the annual increase cap.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

Table III-6			
Police Contribution Rates – Funding Basis			
Reflecting Caps			
	Medical	Dental	Total
FYE 2015 Contribution Rates			
Member	9.50%	0.50%	10.00%
City	<u>9.50%</u>	<u>1.50%</u>	<u>11.00%</u>
Total	19.00%	2.00%	21.00%
Calculated FYE 2016 Contribution Rate			
Member	11.15%	0.56%	11.71%
City	<u>11.14%</u>	<u>1.68%</u>	<u>12.82%</u>
Total	22.29%	2.24%	24.53%
Capped FYE 2016 Contribution Rates			
Member	9.48%	0.52%	10.00%
City	<u>9.48%</u>	<u>1.52%</u>	<u>11.00%</u>
Total	18.96%	2.04%	21.00%

Table III-7			
Fire Contribution Rates – Funding Basis			
Reflecting Caps			
	Medical	Dental	Total
FYE 2015 Contribution Rates			
Member	8.10%	0.39%	8.49%
City	<u>8.09%</u>	<u>1.18%</u>	<u>9.27%</u>
Total	16.19%	1.57%	17.76%
Calculated FYE 2016 Contribution Rates			
Member	10.02%	0.52%	10.54%
City	<u>10.02%</u>	<u>1.54%</u>	<u>11.56%</u>
Total	20.04%	2.06%	22.10%
Capped FYE 2016 Contribution Rates			
Member	9.29%	0.45%	9.74%
City	<u>9.29%</u>	<u>1.33%</u>	<u>10.62%</u>
Total	18.58%	1.78%	20.36%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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 caps since the last valuation report. The actuarial liability and contribution amounts for medical and dental benefits have been combined in the reconciliation.

Table III-8	
Reconciliation of Actuarial Liability – Funding Basis	
Actuarial Liability as of June 30, 2013	\$ 511,999
Normal Cost	11,591
Benefit Payments	(22,510)
Interest	<u>36,518</u>
Expected Actuarial Liability, June 30, 2014	\$ 537,598
Actuarial Liability as of June 30, 2014	<u>555,731</u>
(Gain) or Loss	\$ 18,132
Changes due to:	
Demographic experience	\$ (9,590)
Change in health assumptions	22,123
Change in discount rate/wage inflation	<u>5,599</u>
Total Changes	\$ 18,132

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**SECTION III
FUNDING VALUATION RESULTS**

Table III-9 Effects of Changes - Contribution Amounts Without Caps			
	Rate	Payment	Total
Unadjusted FYE 2015 Contribution	\$ 12,451	\$ 27,916	\$ 40,366
Expected FYE 2016 Contribution	\$ 12,700	\$ 28,893	\$ 41,592
Calculated FYE 2016 Contribution	<u>15,171</u>	<u>30,604</u>	<u>45,775</u>
Net Change	\$ 2,471	\$ 1,711	\$ 4,183
Changes due to:			
Contribution shortfall	\$ 0	\$ 336	\$ 336
Investment gain	0	(118)	(118)
Demographic experience	(145)	(628)	(773)
Change in health assumptions	1,579	1,449	3,028
Change in discount rate/wage inflation	<u>1,037</u>	<u>673</u>	<u>1,710</u>
Total Changes	\$ 2,471	\$ 1,711	\$ 4,183

Dollar amounts in thousands

- *Contribution shortfall* refers to the amount that contributions were less than the normal cost plus the amortization payment on the UAL due to the caps on contribution rates (including the effect of the phase-in for the Fire Department) and the one-year delay between the valuation and effective date of new contribution rates.
- *Investment gain* refers to the greater-than-expected investment return on the actuarial value of assets.
- *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 claims cost assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2014 and 2015 medical premium experience and the impact of 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/wage inflation* refers to the change in the discount rate from 7.125% to 7.00% and the change in wage inflation from 2.0% for one year and 3.5% thereafter to 3.25% for all years.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

SECTION IV
GASB VALUATION RESULTS

GASB's OPEB Requirements

The Governmental Accounting Standards Board (GASB) Statement 43 governs financial reporting for post-employment benefits plans other than pension plans and a companion Statement (Number 45) governs the employer accounting and financial reporting for these plans.

For plans where the contribution equals the Annual Required Contribution under GASB 43 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 Contribution	\$17,682,720
City Contribution	\$19,397,570
Implicit Subsidy	\$2,050,490
Total Contribution	\$39,130,780
FYE 2015 Full ARC	
Normal Cost (Middle of Year)	\$16,332,312
Amortization of UAL	\$28,844,161
Total ARC	\$45,176,473
Pay-as-you-go Costs	
Pay-as-you-go Cost	\$23,545,410
Contribution in Excess of Pay-Go	\$15,585,370
Full ARC in Excess of Pay-Go	\$21,631,063
Weight to System Return	72.051%
Expected Returns	
Expected Return on Plan Assets	7.000%
Expected Return on City Assets	3.500%
Blended Discount Rate	6.000%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION IV
GASB VALUATION RESULTS**

The development of the unfunded actuarial liability based on the blended discount rate is shown in the table below for retiree medical and dental benefits. For GASB purposes, the implicit subsidy is included as part of the liability.

Table IV-2 Unfunded Actuarial Liability (UAL) – GASB Basis				
	Medical		Dental	Total
	Implicit	Explicit		
Present Value of Future Benefits				
Retirees and Beneficiaries	\$ 38,728,463	\$ 348,252,116	\$ 38,780,639	\$ 425,761,218
Term Vested Members	411,109	2,614,904	246,532	3,272,545
Active Employees	51,010,189	395,811,145	35,609,206	482,430,540
Total	\$ 90,149,761	\$ 746,678,165	\$ 74,636,377	\$ 911,464,303
Present Value of Future Normal Costs	20,596,565	169,164,025	14,994,354	204,754,944
Actuarial Liability	\$ 69,553,196	\$ 577,514,140	\$ 59,642,023	\$ 706,709,359
Actuarial Value of Assets	9,123,023	76,590,172	7,891,503	93,604,697
Unfunded Actuarial Liability	\$ 60,430,173	\$ 500,923,968	\$ 51,750,520	\$ 613,104,662

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).

For GASB purposes, the UAL is amortized as a level percentage of payroll over 30 years. In the table below, the Annual Required Contribution (ARC) for the fiscal year ending June 30, 2015 is developed using a blended discount rate of 6.00%. The prior year's calculation is shown for comparison.

Table IV-3 GASB ARC		
Fiscal Year Ending	6/30/2015	6/30/2014
Discount Rate	6.00%	6.00%
Total Normal Cost	\$ 20,957,240	\$ 19,043,996
UAL Amortization	30,020,155	29,704,653
Total Cost	\$ 50,977,395	\$ 48,748,649
Employee Contributions	17,682,720	15,950,231
Total ARC	\$ 33,294,676	\$ 32,798,418

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION IV
GASB VALUATION RESULTS**

Reconciliation

Table IV-4 provides an estimate of the major factors contributing to the change in the actuarial liability since the last valuation report. The actuarial liability for medical and dental benefits have been combined in the reconciliation table below.

Table IV-4 Reconciliation of Actuarial Liability – GASB Basis		
Actuarial Liability as of June 30, 2013	\$	700,525
Normal Cost		19,044
Benefit Payments		(25,373)
Interest		42,424
Expected Actuarial Liability, June 30, 2014	\$	736,621
Actuarial Liability as of June 30, 2014		706,709
(Gain) or Loss	\$	(29,911)
Changes due to:		
Demographic experience	\$	(16,222)
Change in health assumptions		(4,715)
Change in wage inflation		(8,975)
Total Changes	\$	(29,911)

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 claims cost assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2014 and 2015 medical premium experience and the impact of 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 wage inflation* refers to the change in wage inflation from 2.0% for one year and 3.5% thereafter to 3.25% for all years.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V
SENSITIVITY OF RESULTS

The measure 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 Healthcare Trend Rates - Unfunded Actuarial Liability (GASB basis)			
Health Care Trend Rate	-1%	Base	+1%
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 380,584	\$ 425,761	\$ 479,862
Term Vested Members	2,739	3,273	3,946
Active Employees	384,397	482,431	612,962
Total	\$ 767,720	\$ 911,464	\$ 1,096,771
Present Value of Future Normal Costs	158,621	204,755	267,863
Actuarial Liability	\$ 609,099	\$ 706,709	\$ 828,908
Actuarial Value of Assets	93,605	93,605	93,605
UAL	\$ 515,494	\$ 613,105	\$ 735,303

Dollar amounts in thousands

Table V-2			
Sensitivity to Healthcare Trend Rates - GASB ARC for FYE 2015			
Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	\$ 15,893	\$ 20,957	\$ 25,161
UAL Amortization	25,241	30,020	36,004
Total Cost	\$ 41,134	\$ 50,977	\$ 61,165
Employee Contributions	17,683	17,683	17,683
Total ARC	\$ 23,451	\$ 33,295	\$ 43,482

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**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

Table VI-1 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 (dollars in thousands)		
	Projected 6/30/2015	6/30/2014
1. Net OPEB Obligation, beginning of year	\$ 254,747,612	\$ 239,213,166
2. Annual Required Contribution	\$ 33,294,676	\$ 32,798,418
3. Interest on Net OPEB Obligation	15,284,857	14,352,790
4. Adjustment to Annual Required Contribution	(12,473,503)	(11,360,277)
5. Annual OPEB Cost (2.) + (3.) – (4.)	\$ 36,106,030	\$ 35,790,932
6. Employer Contributions	19,379,266	17,393,205
7. Implicit Rate Subsidy	2,050,492	2,863,280
8. Net OPEB Obligation, end of year (1.) + (5.) – (6.) – (7.)	\$ 269,423,883	\$ 254,747,612

Table VI-2 shows the solvency test and Table VI-3 shows the analysis of financial experience, both as recommended by the Government Finance Officers Association for inclusion in the plan's Comprehensive Annual Financial Report.

SECTION VI

ACCOUNTING DISCLOSURES

Table VI-2 Solvency Test (dollars in thousands)								
Actuarial Liability								
Actuarial Valuation Date	Retirees, Beneficiaries and Other		Active Members	Reported Assets	Portion of Liability Covered by Reported Assets			
	(A)		(B)		(A)	(B)		
6/30/2014	\$	429,034	\$	277,676	\$	93,605	22%	0%
6/30/2013		421,999		278,526		75,035	18%	0%
6/30/2012		600,869		396,452		66,385	11%	0%
6/30/2011		622,691		381,104		60,709	10%	0%
6/30/2010		568,611		377,697		58,586	10%	0%
6/30/2009		436,249		325,355		55,618	13%	0%
6/30/2007		336,899		329,328		45,393	13%	0%
6/30/2006		422,457		428,761		38,381	9%	0%

<div>Table VI-3</div> <div>Analysis of Financial Experience</div>						
Actuarial Valuation Date	Gain or (Loss) for Year Ending on Valuation Date Due to:					
	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience	
6/30/2014	\$ 2,802	\$ 16,222	\$ 19,024	\$ 13,689	\$ 32,713	
6/30/2013	2,437	(4,536)	(2,099)	258,939	256,840	
6/30/2012	(6,011)	4,760	(1,251)	58,173	56,922	
6/30/2011	(2,661)	5,967	3,306	1,146	4,452	
6/30/2010	(3,067)	(11,242)	(14,309)	(122,599)	(136,908)	

Dollar amounts in thousands

Schedule of Funding Progress

The schedule of funding progress compares the assets used for funding purposes to the actuarial liability 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 POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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 (c)	(UAAL) as Percentage of Covered Payroll ((b-a)/c)	
6/30/2014	\$ 93,605	\$ 706,709	\$ 613,105	13%	\$ 188,189	326%	
6/30/2013	75,035	700,525	625,490	11%	184,645	339%	
6/30/2012	66,385	997,321	930,936	7%	172,626	539%	
6/30/2011	60,709	1,003,795	943,086	6%	190,726	494%	
6/30/2010	58,586	946,308	887,722	6%	222,699	399%	
6/30/2009	55,618	761,604	705,986	7%	243,196	290%	
6/30/2007	45,393	666,227	620,834	7%	227,734	273%	
6/30/2006	38,381	851,218	812,837	5%	218,521	372%	

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. Note the Table VI-5 provides the information in a format for the City's reporting while Table VI-6 provides the format for the Plan's reporting.

Table VI-5 Schedule of Employer Contributions - City City Contributions (Including Implicit					
Fiscal Year Ending	Annual OPEB Cost (AOC)	Subsidy)	Percentage of AOC Contributed	Net OPEB Obligation	
2015	\$ 36,106	To Be Determined	To Be Determined	To Be Determined	
2014	35,791	\$ 20,131	56%	\$ 254,748	
2013	56,712	15,980	28%	234,259	
2012	65,747	21,205	32%	198,108	
2011	64,105	17,001	27%	154,566	
2010	51,734	15,546	30%	106,990	
2009	50,651	13,063	26%	71,314	
2008	48,191	13,624	28%	34,138	

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

SECTION VI
ACCOUNTING DISCLOSURES

Table VI-6					
Schedule of Employer Contributions - Plan					
Fiscal Year Ending	Annual Required Contribution (ARC)	City Contributions to Trust	Implicit Subsidy	Total Contributions	Percentage of ARC Contributed
2015	\$ 33,295		<== To Be Determined ==>		
2014	32,798	\$ 17,267	\$ 2,863	\$ 20,131	61%
2013	55,824	15,808	172	15,980	29%
2012	62,079	16,455	4,750	21,205	34%
2011	62,322	12,062	4,939	17,001	27%
2010	50,438	11,284	4,262	15,546	31%
2009	50,119	9,888	3,175	13,063	26%
2008	61,344	10,618	3,006	13,624	22%

Dollar amounts in thousands

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

Table VI-7	
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 percentage of pay open
Single Equivalent Amortization Period	30 years
Asset Valuation Method	Five-year smoothed value
Actuarial Assumptions:	
Payroll Growth Rate	3.25%
Discount Rate	6.00%
Ultimate Rate of Medical Inflation	4.25%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data:

Valuation Date	June 30, 2014	June 30, 2013	% Change
Active Employees			
<i>Police Tier 1</i>			
Count	930	1,028	-9.53%
Average Age	42.8	41.8	2.30%
Average OPEB Benefit Service	15.1	14.6	3.77%
Total Payroll	107,413,220	109,783,295	-2.16%
<i>Police Tier 2</i>			
Count	67	N/A	N/A
Average Age	29.1	N/A	N/A
Average OPEB Benefit Service	1.1	N/A	N/A
Total Payroll	5,533,674	N/A	N/A
<i>Fire</i>			
Count	657	679	-3.24%
Average Age	42.1	41.3	1.93%
Average OPEB Benefit Service	12.6	12.2	3.29%
Total Payroll	75,241,817	74,861,955	0.51%
<i>Total</i>			
Count	1,654	1,707	-3.10%
Average Age	42.0	41.6	0.83%
Average OPEB Benefit Service	13.6	13.6	-0.57%
Total Payroll	188,188,712	184,645,250	1.92%
<i>Retirees and Spouses with Medical Coverage</i>			
Pre-65	1,671	1,779	-6.07%
Post 65	1,447	1,388	4.25%
Total	3,118	3,167	-1.55%
<i>Retirees with Dental Coverage</i>			
	1,917	1,890	1.43%
<i>Term Vested Members*</i>			
	9	11	-18.18%

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

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Active Member Data as of June 30, 2014:

Eligible Active Employees								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	22	0	0	0	0	0	0	22
25 to 29	79	18	0	0	0	0	0	97
30 to 34	82	126	10	0	0	0	0	218
35 to 39	35	109	102	19	0	0	0	265
40 to 44	14	55	108	203	19	0	0	399
45 to 49	2	22	54	193	143	26	0	440
50 to 54	3	1	13	55	93	20	0	185
55 to 59	0	0	4	11	8	3	0	26
60 to 64	0	0	1	0	0	0	1	2
65 and up	0	0	0	0	0	0	0	0
Total	237	331	292	481	263	49	1	1,654

Inactive Member Data as of June 30, 2014:

Retirees, Disabled Retirees and Surviving Spouses						
Age Group	Medical Insurance			Dental Insurance		
	Males	Females	Total	Males	Females	Total
Under 50	54	13	67	54	13	67
50 to 54	141	34	175	145	36	181
55 to 59	269	31	300	275	34	309
60 to 64	297	26	323	314	26	340
65 to 69	327	34	361	338	39	377
70 to 74	266	41	307	269	43	312
75 to 79	146	26	172	150	30	180
80 to 84	64	28	92	66	30	96
85 to 89	28	12	40	29	14	43
Over 90	4	8	12	4	8	12
Total	1,596	253	1,849	1,644	273	1,917

Counts do not include dependent spouses

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Medical Plan Elections			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	86	158	244
Kaiser \$25 Copay	349	242	591
Kaiser \$15 Co-pay (Hawaii)	3	5	8
Kaiser \$25 Co-pay (Northwest)	3	3	6
HMO \$45 Copay	24	16	40
HMO \$25 Copay	216	191	407
PPO / POS \$30 Copay	23	15	38
PPO / POS \$25 Copay	<u>161</u>	<u>176</u>	<u>337</u>
Total	865	806	1,671
Medicare Medical Plans			
Kaiser Senior Advantage	365	170	535
Kaiser Senior Advantage (Hawaii)	4	1	5
Kaiser Senior Advantage (Northwest)	6	4	10
BS Medicare HMO	84	37	121
BS Medicare PPO/POS	462	210	672
UHC Medicare Advantage	7	2	9
UHC Senior Supplement	<u>56</u>	<u>39</u>	<u>95</u>
Total	984	463	1,447

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	1	0	1
45 to 49	5	1	6
50 to 54	2	0	2
55 to 59	0	0	0
60 to 64	0	0	0
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
Total	8	1	9

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

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	Status Reconciliation					Total
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	
Beginning of Year	1,707	11	841	200	849	3,608
New Hires	64					64
Rehires	4					4
Non-vested terminations	(64)					(64)
Vested Terminations	(3)	3				0
Service Retirements	(33)	(1)	34			0
Disabled Retirements	(21)		(23)		44	0
Death			(8)	(12)	(19)	(39)
New Survivors				13		13
No longer covered						0
Data corrections		(4)				(4)
End of Year	1,654	9	844	201	874	3,582

Counts do not include dependent spouses

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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 4, 2014 Board meeting.

1. **Expected Return on Plan Assets:** 7.00% per year net of investment expenses.
The long-term expected return on assets based on NEPC's capital market assumptions for a 30-year time horizon is 7.97%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.
2. **Expected Return on Employer Assets:** 3.50% per year
3. **Blended Discount Rate:** 6.00% per year
4. **Per Person Cost Trends:**

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To Calendar Year	Pre- Medicare	<u>Annual Increase</u>		Part B Premiums
		Medicare Eligible	Dental	
2016	8.50%	6.50%	4.00%	1.53%
2017	8.20	6.34	4.00	6.29
2018	7.89	6.18	4.00	5.30
2019	7.59	6.02	4.00	5.54
2020	7.29	5.86	4.00	5.72
2021	6.98	5.70	4.00	5.41
2022	6.68	5.54	4.00	5.56
2023	6.38	5.38	4.00	5.54
2024	6.07	5.21	4.00	5.44
2025	5.77	5.05	4.00	5.35
2026	5.46	4.89	4.00	5.25
2027	5.16	4.73	4.00	5.16
2028	4.86	4.57	4.00	5.06
2029	4.55	4.41	4.00	4.96
2030	4.25	4.25	4.00	4.87
2031	4.25	4.25	4.00	4.77
2032	4.25	4.25	4.00	4.68
2033	4.25	4.25	4.00	4.58
2034	4.25	4.25	4.00	4.48
2035	4.25	4.25	4.00	4.39
2036	4.25	4.25	4.00	4.29
2037	4.25	4.25	4.00	4.20
2038	4.25	4.25	4.00	4.10
2039+	4.25	4.25	4.00	4.10

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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Demographic Assumptions:

The wage inflation, participation assumptions, and plan election assumptions were adopted by the Board of Administration at the November 6, 2014 and December 4, 2014 Board meetings based upon our recommendations and input. The other demographic assumptions shown below were adopted by the Board of Administration at the November 7, 2013 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2007 through June 30, 2013.

1. Retirement Rates:

The following rates of retirement apply only to those eligible for unreduced benefits.

Rates of Retirement by Age						
Age	Police			Fire		
	Tier 1	Tier 2 <30 Years	Tier 2 30+ Years	Tier 1	Tier 2 <30 Years	Tier 2 30+ Years
50	45.00%	0.00%	0.00%	27.50%	0.00%	0.00%
51 - 54	35.00	0.00	0.00	22.50	0.00	0.00
55 - 59	35.00	0.00	0.00	22.50	0.00	0.00
60 - 61	50.00	50.00	100.00	22.50	25.00	50.00
62 - 64	100.00	50.00	100.00	100.00	25.00	50.00
65 - 69	100.00	50.00	100.00	100.00	35.00	100.00
70+	100.00	100.00	100.00	100.00	100.00	100.00

2. Termination Rates:

Sample rates of termination are shown in the following table.

Rates of Termination		
Service	Police	Fire
0	9.50%	9.50%
1	8.00	7.00
2	6.50	4.50
3	5.50	2.00
4	4.50	1.30
5	3.50	1.10
6	2.50	1.00
7	2.00	0.90
8	1.50	0.80
9	1.30	0.70
10	1.00	0.60
11+	1.00	0.50

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

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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 mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

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Disabled Lives:

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Rates of Mortality for Disabled Lives at Selected Ages	
Age	Mortality
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

4. Disability Rates:

Sample rates of disability for active participants are show in the following table.

Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.32	0.20
40	0.52	0.31
45	0.84	0.51
50	1.96	2.50
55	6.44	6.50
60	8.04	12.70
65	8.50	19.00

100% of disabilities are assumed to be duty related.

5. Salary Increase Rate:

Wage inflation component is assumed to be 3.25%.

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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	9.25%
1	7.25
2	6.75
3	5.75
4	5.00
5	4.25
6	3.75
7	3.25
8	2.75
9	2.25
10+	2.00

- 6. Percent of Retirees Electing Coverage:** 100% of future retirees are assumed to elect coverage at retirement. Retirees are assumed to continue coverage in their 2014 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 proportions shown below.

Assumed Plan Elections for Future Retirees			
% Electing		% Electing	
Pre-Medicare Medical Plans		Medicare-Eligible Medical Plans	
• Kaiser DHMO	10%	• Kaiser Senior Advantage	40%
• Kaiser \$25 Co-pay	40%	• BS Medicare HMO	10%
• HMO \$45 Co-pay	5%	• BS Medicare PPO / POS	50%
• HMO \$25 Co-pay	20%	• UHC Medicare Advantage	N/A
• PPO / POS \$30 Co-pay	5%	• UHC Senior Supplement	N/A
• PPO / POS \$25 Co-pay	20%	Dental Plans (All Retirees)	
		• Delta Dental PPO	98%
		• DeltaCare HMO	2%

- 7. Family Composition:** 95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of married employees will elect spouse coverage in a dental plan at retirement. Pre-Medicare, 49% of males, and 37% of females will cover children.

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- 8. Enrollment by Rating Tier:** For current retirees, their actual enrollment by rating tier is used to value the explicit subsidy. For future retirees, the following assumptions are used:

Assumed Rating Tier Elections for Future Retirees				
	Single	Emp/Sp	Emp/Chd	Family
Pre-Medicare Medical Plans				
Males	16%	35%	5%	44%
Females	45%	18%	13%	24%
Medicare Medical Plans				
Males	19%	81%	0%	0%
Females	40%	60%	0%	0%

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

- 10. Married Percentage:**

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

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

Changes since Last Valuation

The expected return on plan assets was reduced from 7.125% to 7.000%.

Plan election rates were also updated based on recent plan enrollment data and updated plan options.

The wage inflation assumption changed from 3.5% annually (2% for fiscal year ending June 30, 2014 and 2015), to 3.25%.

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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 4, 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; the combined population participates in the same health insurance plans and pays the same premiums.

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 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:

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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Sample Claims Costs - Non-Medicare Eligible						
Age	HMO \$25 Co-pay		PPO/POS \$30 Co-pay		PPO/POS \$25 Co-pay	
	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

Sample Claims Costs - Medicare Eligible						
Age	Kaiser Senior Adv		BS Med HMO		BS Med PPO/POS	
	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

Sample Claims Costs - Dental				
Age	Delta Dental PPO		DeltaCare HMO	
	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 Premiums:** 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 plan and the lowest cost plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

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Changes since Last Valuation:

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

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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 Normal 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 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. 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

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.125% for 2013-14, 7.25% for 2012-13, 7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of 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. For the Police Department the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period commencing June 30, 2008. For the Fire Department, the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period as of June 30, 2010.

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4. Contributions

Funding Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. We understand the agreements call for a five-year transition from the prior 10-year cash flow funding policy to the current policy of actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year. For the Fire Department, this transition began with the 2011-12 fiscal year. The transition has been completed for both Police and Fire, so contribution rates are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the caps described below.

We understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. We have interpreted the bargaining agreement to apply these restrictions beyond the transition period, so they have been applied to the Police contribution rates as well as the Fire contribution rates.

Furthermore, the bargaining agreement states that City or member rates may not exceed 11% or 10% of payroll, respectively.

The contributions for retiree medical benefits (explicit subsidy only) are split evenly between employees and the City, and the contributions for retiree dental benefits are split with the City contributing 75% of the total contribution and employees contributing 25% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

Accounting Policy

The Board's current policy sets the Annual Required Contribution (ARC) for the fiscal year immediately following the valuation date equal to the normal cost plus a rolling 30-year amortization of the unfunded actuarial liability (including the implicit subsidy). Once actual contributions reach that level, it is anticipated that the ARC will change to the contribution basis.

Changes since Last Valuation:

None.

APPENDIX B
SUBSTANTIVE PLAN PROVISIONS

Summary of Key Substantive Plan Provisions:

Eligibility:

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

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

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

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

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

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

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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.

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

Dental: The 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	1,006.84	1,534.62
Blue Shield Medicare PPO / POS	616.00	1,232.00	1,805.46	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

Summary of 2014 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%* *\$250 deductible	\$40	50%* *\$250 deductible

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2014

APPENDIX B
SUBSTANTIVE PLAN PROVISIONS

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.

Active Plan Funding:

Member Contribution: Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll. Additionally, there is a total cap on the contribution rate of 10.0%.

City's Contribution: Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll. Additionally, there is a total cap on the contribution rate of 11.0%.

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:

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

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 which 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 POLICE AND FIRE DEPARTMENT 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)