

City of San José Police and Fire Department Postemployment Healthcare Plan

Actuarial Valuation Funding Report as of June 30, 2023

Produced by Cheiron

January 2024

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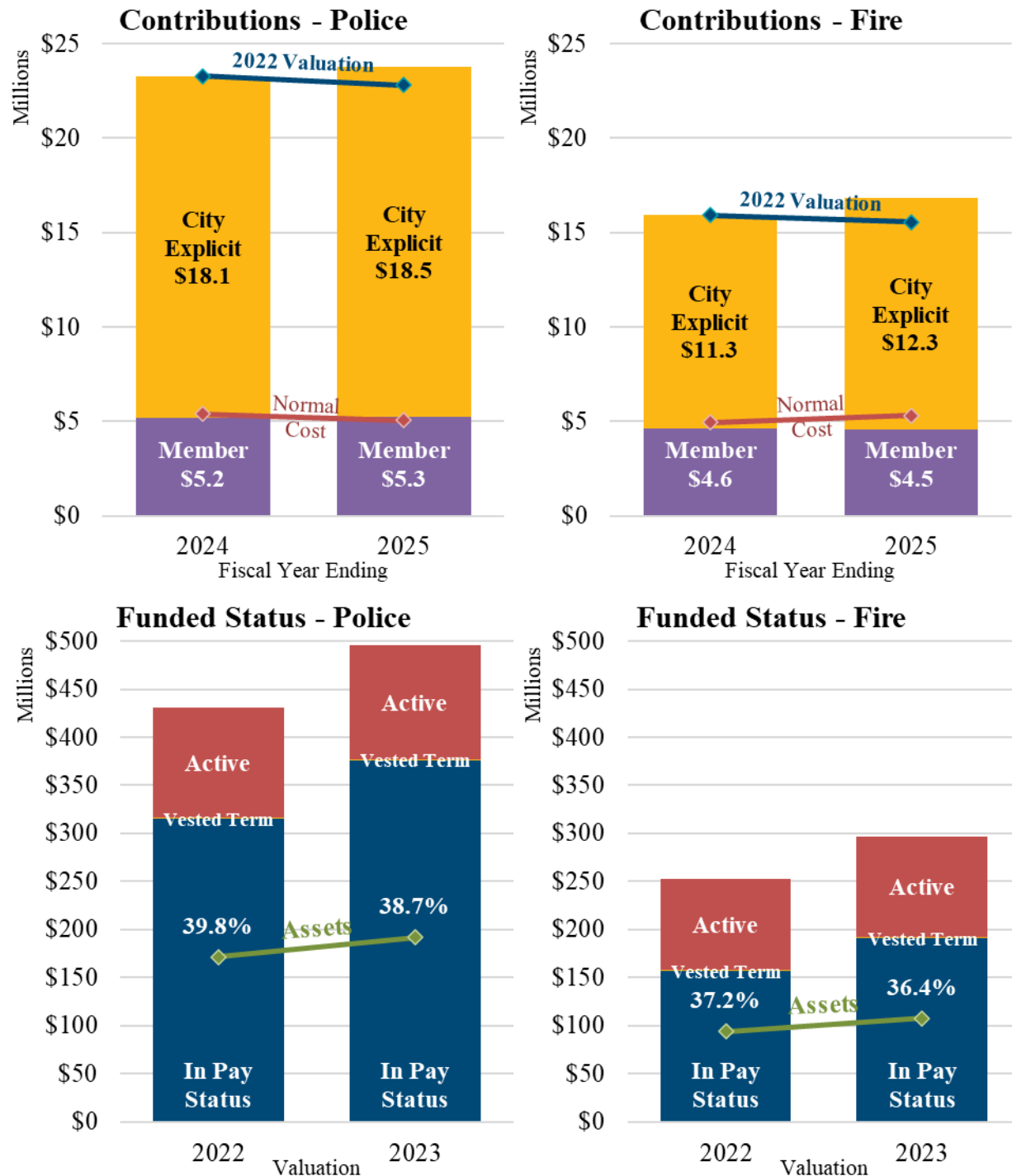
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**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I – BOARD SUMMARY

This report measures assets and liabilities of the City of San José Police and Fire Department Postemployment Healthcare Plan for funding purposes only. There are separate reports for financial reporting.

Dashboard



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The charts on the previous page are intended to provide a quick overview of the current valuation results compared to the prior valuation results. The charts on the top show contributions for FYE 2024 and 2025 for Police (left chart) and Fire (right chart). The normal cost shown by the red line represents the expected cost of the explicit premium subsidy benefits attributable to the current year of service. All contributions above the normal cost go toward paying off the Unfunded Actuarial Liability (UAL). The projected contribution amount from the prior valuation is shown by the blue line. The implicit subsidy is not shown on these charts as it is funded on a pay-as-you-go basis as a part of the health premiums for active employees. The City's implicit subsidy payment is approximately \$5.0 million for FYE 2025.

The charts on the bottom of the previous page summarize the funded status as of the June 30, 2022 and June 30, 2023 actuarial valuations. The stacked bars represent the Actuarial Liability, with the liability separated into components for members currently receiving benefits, vested terminated members, and active members. These liability amounts are only for the portion of the plan that is intended to be pre-funded, so they do not include the implicit subsidy. The green lines represent the assets, and the funded ratio declined to 39% for Police and 36% for Fire.

More detail and discussion is provided in the following sections.

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Contributions

There are two components to the benefits under the Plan: the explicit subsidy and the implicit subsidy. The explicit subsidy (or premium subsidy) is paid by the Plan and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees plus the premium for the dental plan selected by the retiree. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus city) premium.

Prior to FYE 2019, member and City contributions to the plan were negotiated through collective bargaining and were not actuarially determined. With the implementation of Measure F, member contributions became fixed at 8.0% of pay, and the City’s contribution toward the explicit subsidy became actuarially determined separately for Police and Fire. However, the City has the option to limit its contribution for the explicit subsidy to 11% of Police and Fire payroll. Finally, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. Because the Board’s role is related to the funding of the explicit subsidy, the focus of this report is on the status of that funding and the development of the Actuarially Determined Contribution (ADC) for the pre-funded benefits.

Table I-1 shows the contribution amounts for the fiscal years ending in 2024 and 2025.

Table I-1 Summary of Trust Contribution Amounts			
	FYE 2024	FYE 2025	% Change
Police Department			
Members	\$ 5,187	\$ 5,252	1.3%
City	<u>18,108</u>	<u>18,507</u>	<u>2.2%</u>
Total	\$ 23,295	\$ 23,759	2.0%
Fire Department			
Members	\$ 4,633	\$ 4,549	-1.8%
City	<u>11,301</u>	<u>12,270</u>	<u>8.6%</u>
Total	\$ 15,934	\$ 16,819	5.6%
Total Trust Contributions			
Members	\$ 9,820	\$ 9,801	-0.2%
City	<u>29,409</u>	<u>30,777</u>	<u>4.7%</u>
Grand Total	\$ 39,229	\$ 40,578	3.4%
Estimated City Optional Cap	\$ 29,843	\$ 30,805	3.2%

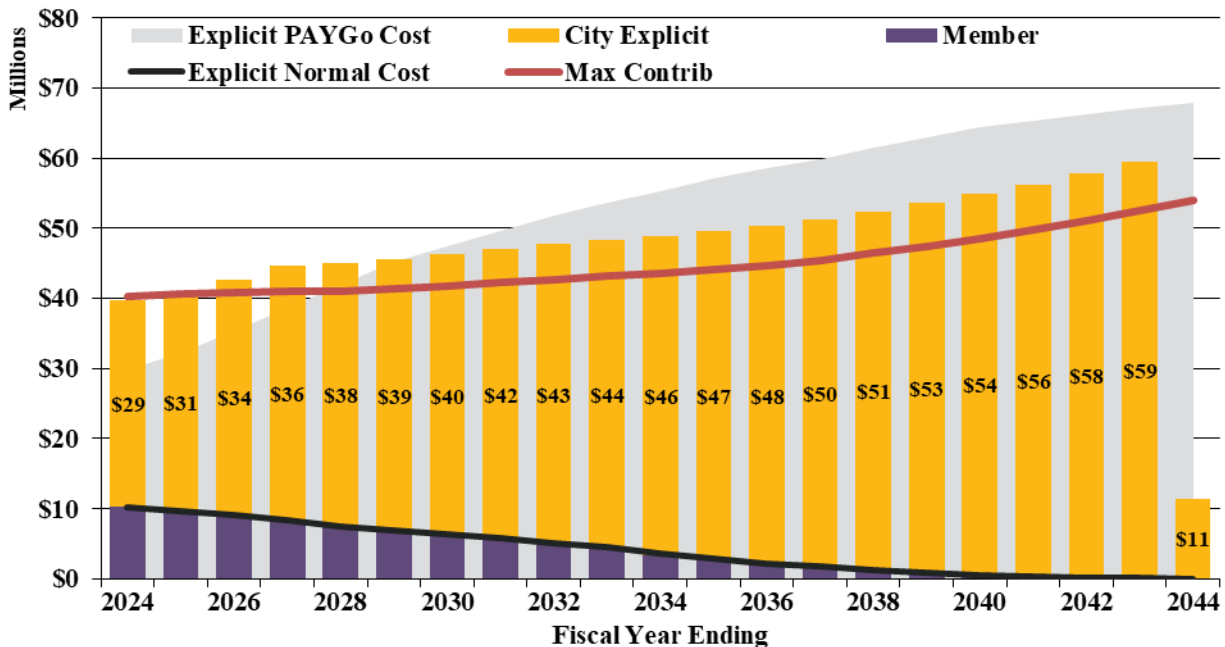
Dollar amounts in thousands

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The chart below shows the projected contributions to the Plan. The purple bars represent the member contributions, and the gold bars are the City’s contributions to pre-fund the explicit subsidy. The red line represents the sum of member contributions and the City’s optional cap. To the extent the bars rise above the red line, the projected contributions exceed the City’s optional cap. The gray area behind the bars represents the projected annual benefit payments.

Projected Contributions FYE 2024-2044



Because new entrants are only entitled to catastrophic disability benefits and do not contribute to the Plan, the member contributions are expected to decline as current active members who are eligible for full benefits retire or otherwise leave active employment with the City. The City’s actuarially determined contribution is expected to increase faster than payroll as the member contributions decrease. The Plan has historically had positive net cash flow, but we only expect that to last through FYE 2029. The large decrease in 2044 is due to the full amortization of the initial amortization bases established in 2017.

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Funded Status

Table I-2 below summarizes the Actuarial Liability, Market Value of Assets, Unfunded Actuarial Liability, and funded percentage for the Plan as of June 30, 2022 compared to June 30, 2023. The Actuarial Liability for the explicit subsidy increased 15.0% for Police and 17.3% for Fire. At the same time, assets increased 11.9% for Police and 14.7% for Fire due to contributions and investment returns. As a result, the Unfunded Actuarial Liability increased by 17.0% for Police and 18.8% for Fire and the funded percentage for the explicit subsidy decreased from 39.8% to 38.7% for Police and from 37.2% to 36.4% for Fire.

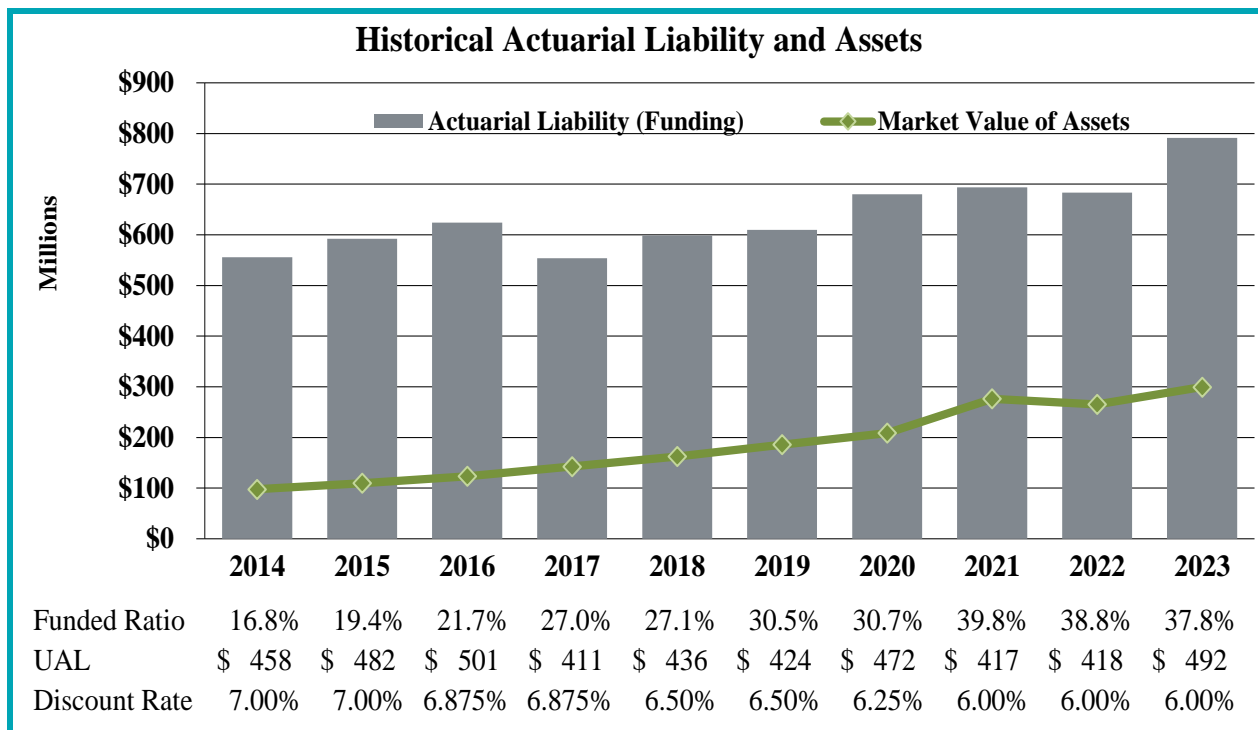
Table I-2				
Summary of Funded Status - Explicit Subsidy Only				
	6/30/2022	6/30/2023	% Change	
Police Department				
Actuarial Liability				
Actives	\$ 114,297	\$ 118,037	3.3%	
Deferred Vested	1,370	1,014	-26.0%	
In Pay Status	315,117	376,261	19.4%	
Total	\$ 430,784	\$ 495,312	15.0%	
Assets	171,369	191,682	11.9%	
Unfunded Actuarial Liability	\$ 259,415	\$ 303,630	17.0%	
Funded Percentage	39.8%	38.7%	-1.1%	
Fire Department				
Actuarial Liability				
Actives	\$ 94,456	\$ 103,774	9.9%	
Deferred Vested	925	1,115	20.5%	
In Pay Status	157,172	191,314	21.7%	
Total	\$ 252,553	\$ 296,203	17.3%	
Assets	93,904	107,682	14.7%	
Unfunded Actuarial Liability	\$ 158,649	\$ 188,521	18.8%	
Funded Percentage	37.2%	36.4%	-0.8%	
Grand Total				
Aggregate UAL	\$ 418,064	\$ 492,151	17.7%	
Aggregate Funded Percentage	38.8%	37.8%	-1.0%	

Dollar amounts in thousands

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The chart below shows the historical trend of assets and the Actuarial Liability for the explicit subsidy on a funding basis for the City of San José Police and Fire Department Postemployment Healthcare Plan. Over the last 10 years, the UAL for the explicit subsidy has increased by \$34 million. Assets increased \$202 million, and the Actuarial Liability increased \$236 million. The increase in Actuarial Liability includes the impact of reducing the discount rate from 7.00% in 2014 to 6.00% in 2023. The increase in the assets has been primarily attributable to contributions and investment returns. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions.

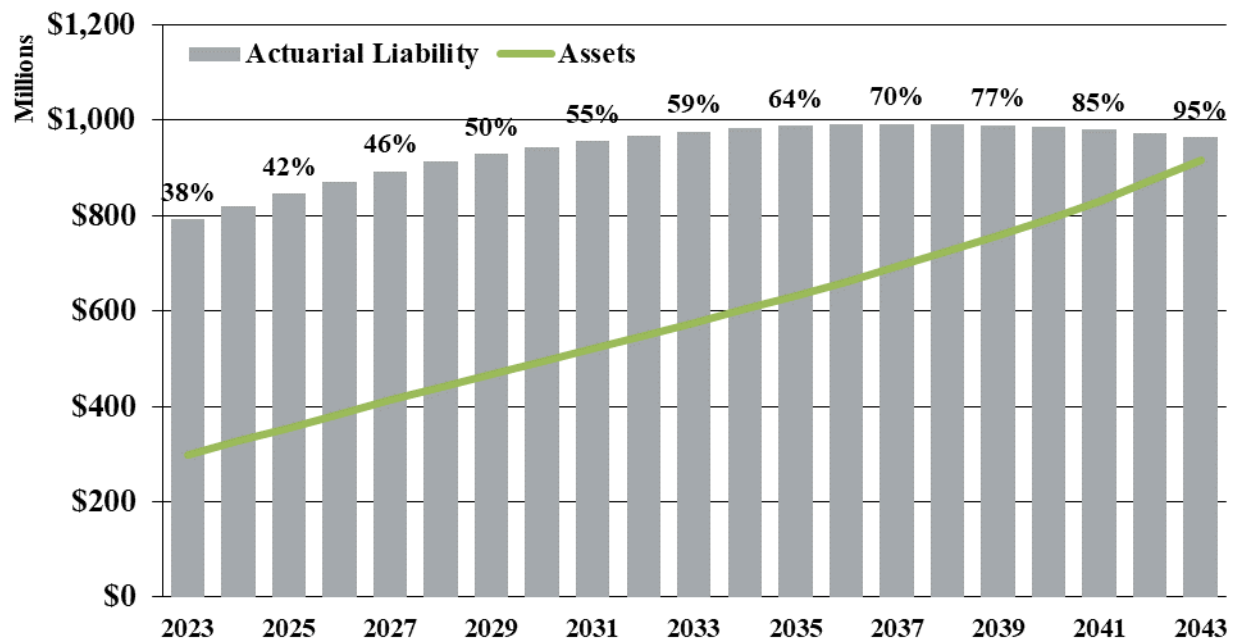


The chart on the next page shows a 20-year projection of assets and Actuarial Liability (AL), as well as the projected funded percentage for the explicit subsidy. If all assumptions are met in the future, including an expected return of 6.00% each year, and the City does not impose its optional cap on contributions, the funded percentage for the explicit subsidy is expected to reach 95% by 2043. If the City imposes its optional cap on contributions every year, the funded percentage for the explicit subsidy is not expected to reach 100% until 2070.

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Projected Assets and Actuarial Liability 2023-2043



Changes Since the Prior Valuation

Table I-3 below breaks out the sources of the changes in UAL for the fiscal year ending June 30, 2023. The total UAL for the explicit subsidy increased about \$74.1 million since the prior year.

Table I-3	
Changes in Unfunded Actuarial Liability - Explicit Subsidy Only	
	Total
Unfunded Actuarial Liability, June 30, 2022	\$ 418,064
Unfunded Actuarial Liability, June 30, 2023	492,151
Change in Unfunded Actuarial Liability	\$ 74,088
Sources of Changes	
Contributions above Tread Water	\$ (4,534)
Investment Experience	(2,374)
Liability Experience	58,422
Assumption Changes	22,574
Total Changes	\$ 74,088

Dollar amounts in thousands

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Contributions in excess of the Tread Water amount reduced the UAL by \$4.5 million. The Tread Water amount equals the normal cost plus administrative expenses plus the interest on the UAL. If all assumptions are met, contributions equal to the Tread Water amount would result in no change to the dollar amount of the UAL. Investment experience decreased the UAL by about \$2.4 million. Liability experience increased the UAL by about \$58.4 million, mainly due to higher-than-expected premiums for Medicare eligible health plans. Assumption changes increased the UAL by about \$22.6 million, primarily due to plan and coverage election assumptions and increases in health care trends.

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

Table I-4 Summary of Valuation Results						
	June 30, 2022	June 30, 2023			Change	
		Police	Fire	Total		
Active Members						
Full Benefits	896	406	390	796	-11.2%	
Catastrophic Disability Only	850	641	258	899	5.8%	
Total Active Members	1,746	1,047	648	1,695	-2.9%	
Deferred Vested Members	8	3	3	6	-25.0%	
In Pay Status or In-Lieu	2,337	1,503	893	2,396	2.5%	
Total	4,091	2,553	1,544	4,097	0.1%	
Full Benefit Member Payroll	\$ 135,021	\$ 68,668	\$ 60,727	\$ 129,394	-4.2%	
Total Payroll	263,395	169,293	102,599	271,893	3.2%	
Actuarial Liability - Explicit	\$ 683,337	\$ 495,312	\$ 296,203	\$ 791,515	15.8%	
Market Value of Assets	265,273	191,682	107,682	299,364	12.9%	
Unfunded Actuarial Liability	\$ 418,064	\$ 303,630	\$ 188,521	\$ 492,151	17.7%	
Funded Percentage	38.82%	38.70%	36.35%	37.82%	-1.0%	
Actuarial Liability - Implicit	\$ 68,719	\$ 54,828	\$ 29,894	\$ 84,723	23.3%	
FYE 2025						
	FYE 2024	Police	Fire	Total	Change	
City's ADC Amount	\$ 29,410	\$ 18,507	\$ 12,270	\$ 30,777	4.6%	
City's ADC Rate	10.8%	10.6%	11.6%	11.0%	0.1%	
City's Implicit Subsidy Payment	\$ 4,054	\$ 3,370	\$ 1,661	\$ 5,031	24.1%	

Dollar amounts in thousands

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SECTION II – CERTIFICATION

The purpose of this report is to present the annual actuarial valuation of the City of San José Police and Fire Postemployment Department Healthcare Plan. This report is for the use of the Board in setting actuarially determined amounts for the City to contribute to the Plan. There are separate reports for accounting and financial reporting under GASB Statements 74 and 75.

In preparing our report, we relied on information, some oral and some written, supplied by the Plan. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The health assumptions and discount rate assumption were adopted by the Board of Administration at the November 2, 2023 Board meeting based upon our recommendations. All other assumptions in this report were adopted at the November 2, 2023 Board meeting based on recommendations from our experience study covering plan experience through June 30, 2023. Please refer to the experience study report and our Board presentations for an explanation of the rationale for each assumption. We believe these assumptions are reasonable for the purpose of the funding valuation.

The liability measures and funding ratios in this report are for the purpose of establishing contribution amounts. These measures are not appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

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

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

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

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

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SECTION II – CERTIFICATION

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

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

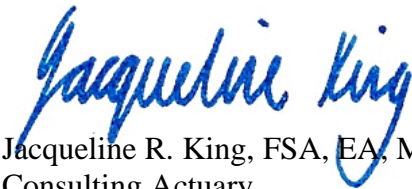
This report was prepared for the Board for the purposes described herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.



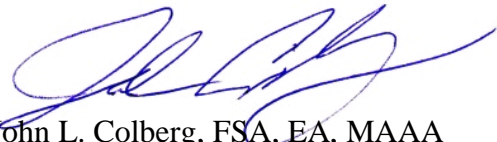
William R. Hallmark, ASA, EA, FCA, MAAA
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Principal Consulting Actuary

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SECTION III – ASSETS

Assets are invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. All City contributions are made to the 115 Trust while member contributions are made to the 401(h) account. Benefit payments for the Police Department are currently being paid entirely from the 401(h) account. For the Fire Department some benefit payments are paid from the 401(h) account and some are paid from the 115 Trust.

Statement of Change in Market Value of Assets

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

Table III-1 Market Value of Assets - Police Department						
	Fiscal Year Ending 2022			Fiscal Year Ending 2023		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning	\$ 25,726	\$ 154,276	\$ 180,002	\$ 16,331	\$ 155,038	\$ 171,369
Contributions						
Member	6,592	0	6,592	6,000	0	6,000
City	0	16,735	16,735	0	16,951	16,951
Implicit subsidy	2,147	0	2,147	2,112	0	2,112
Total	\$ 8,739	\$ 16,735	\$ 25,474	\$ 8,112	\$ 16,951	\$ 25,063
Net Investment Earnings	(1,356)	(15,906)	(17,262)	960	11,716	12,676
Benefit Payments						
Explicit subsidy	14,594	0	14,594	15,247	0	15,247
Implicit subsidy	2,147	0	2,147	2,112	0	2,112
Total	\$ 16,741	\$ 0	\$ 16,741	\$ 17,359	\$ 0	\$ 17,359
Administrative Expenses	37	67	104	29	38	67
Market Value, End	\$ 16,331	\$ 155,038	\$ 171,369	\$ 8,015	\$ 183,667	\$ 191,682
Estimated Rate of Return	-6.2%	-9.3%	-9.0%	8.2%	6.8%	6.9%

Dollar amounts in thousands

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SECTION III – ASSETS

**Table III-2
Market Value of Assets - Fire Department**

	Fiscal Year Ending 2022			Fiscal Year Ending 2023		
	401(h)	115 Trust	Total	401(h)	115 Trust	Total
Market Value, Beginning	\$ 19	\$ 96,292	\$ 96,311	\$ 1,121	\$ 92,783	\$ 93,904
Transfer between funds	\$ 1,179	\$ (1,179)	\$ 0	\$ 0	\$ 0	\$ 0
Contributions						
Member	5,516	0	5,516	5,299	0	5,299
City	0	10,767	10,767	0	10,574	10,574
Implicit subsidy	1,114	0	1,114	1,126	0	1,126
Total	\$ 6,630	\$ 10,767	\$ 17,397	\$ 6,425	\$ 10,574	\$ 16,999
Net Investment Earnings	1,984	(12,021)	(10,037)	92	6,892	6,984
Benefit Payments						
Explicit subsidy	5,210	3,392	8,602	5,288	3,755	9,043
Implicit subsidy	1,114	0	1,114	1,126	0	1,126
Total	\$ 6,324	\$ 3,392	\$ 9,716	\$ 6,414	\$ 3,755	\$ 10,169
Administrative Expenses	9	42	51	13	23	36
Market Value, End	\$ 1,121	\$ 92,783	\$ 93,904	\$ 1,211	\$ 106,471	\$ 107,682
Estimated Rate of Return	-27.8%	-9.3%	-9.5%	8.2%	6.8%	6.8%

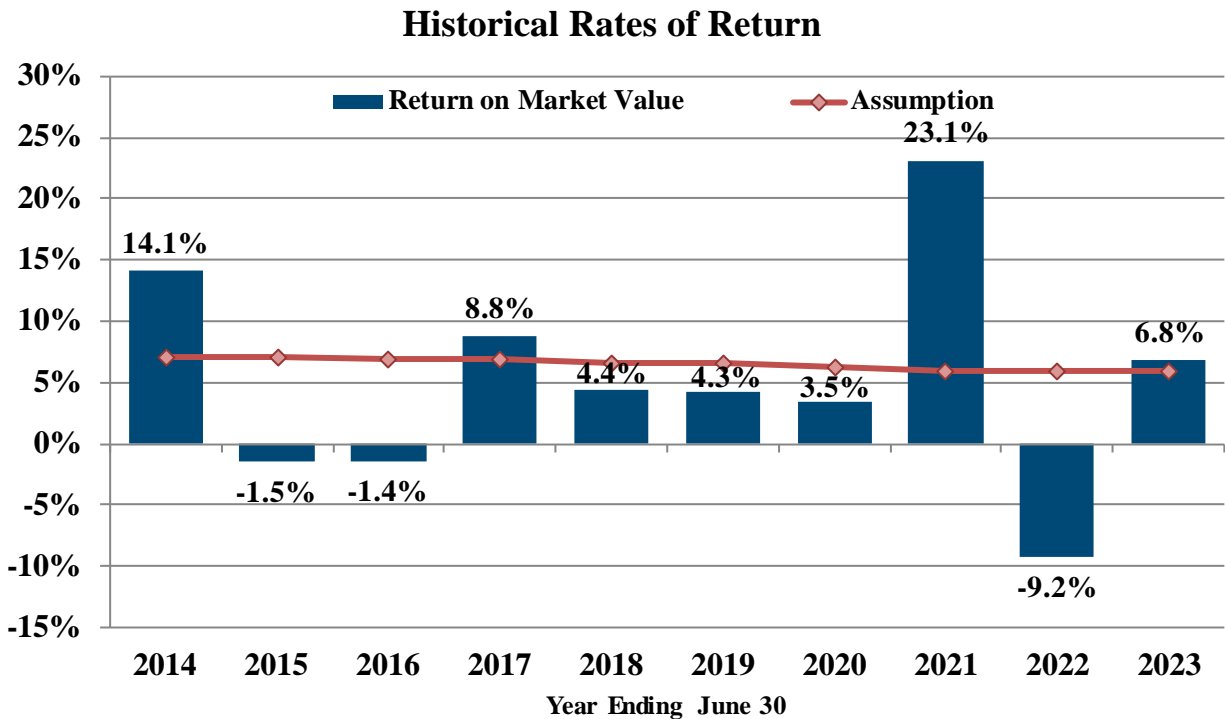
Dollar amounts in thousands

In the last year, investments, in aggregate, returned approximately 6.9% for Police and 6.8% for Fire compared to an expected rate of return of 6.00%, resulting in a total investment gain of approximately \$2.5 million.

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SECTION III – ASSETS

The chart below shows the actual investment return on the Market Value of Assets for Police and Fire combined compared to the assumed return for the last 10 years. The compound average of the actual returns is about 4.9%.



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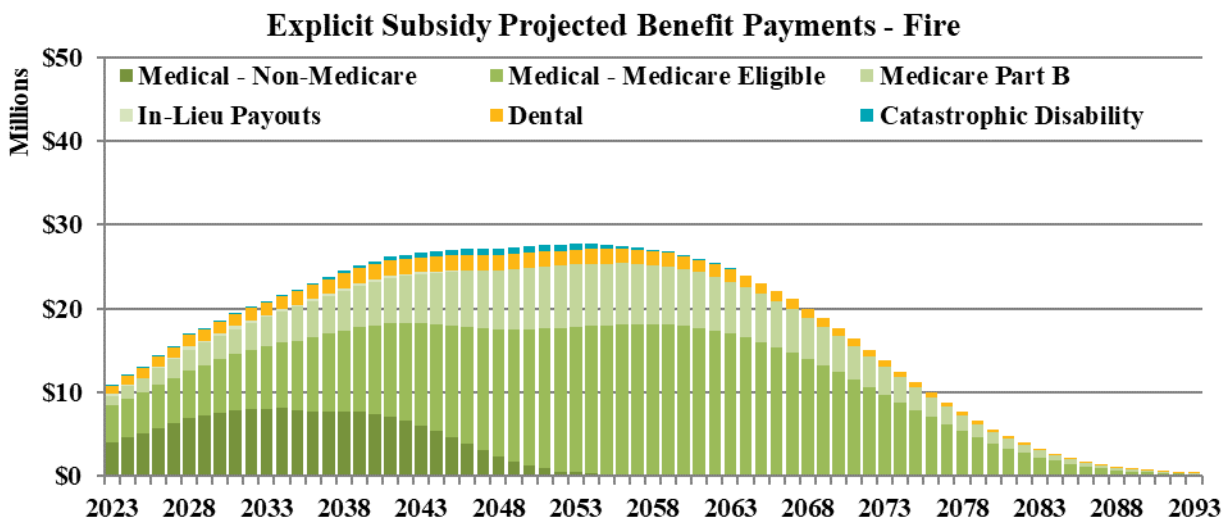
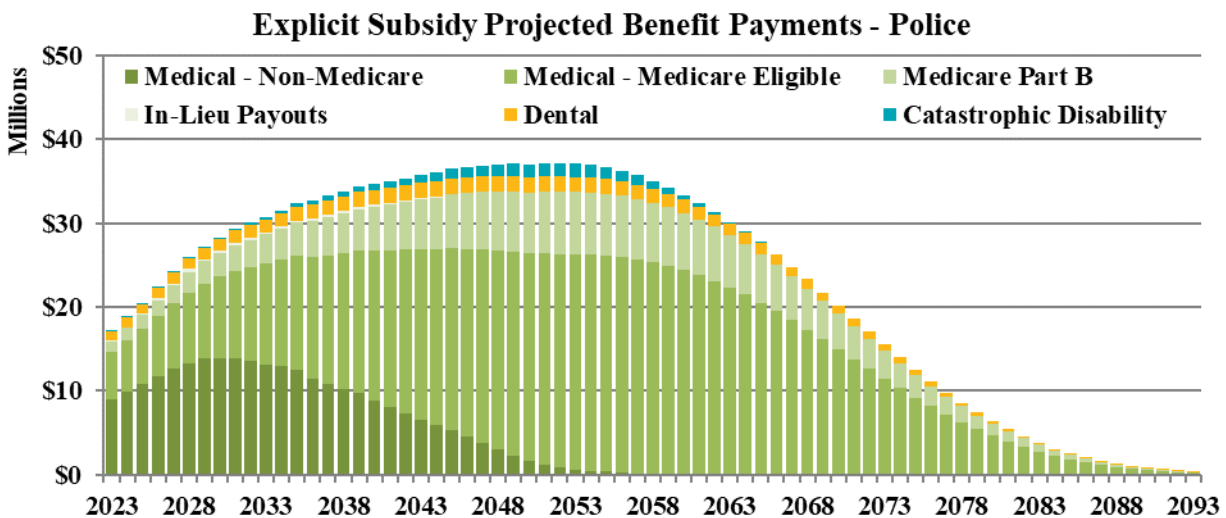
SECTION IV – MEASURES OF LIABILITY

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

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

Projected Benefit Payments

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



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SECTION IV – MEASURES OF LIABILITY

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

Table IV-1 Expected Net Benefit Payments - Police Department						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2024	\$ 17,138	\$ 1,777	\$ 18,915	\$ 2,980	\$	21,895
2025	18,444	1,865	20,309	3,370		23,679
2026	20,406	1,950	22,356	3,745		26,101
2027	22,225	2,040	24,265	4,035		28,300
2028	24,382	2,129	26,512	4,474		30,986
2029	26,047	2,215	28,262	4,759		33,021
2030	27,468	2,293	29,761	5,152		34,913
2031	28,659	2,365	31,024	5,255		36,279
2032	29,859	2,435	32,294	5,514		37,808
2033	30,816	2,504	33,320	5,472		38,792
2034	31,754	2,575	34,330	5,273		39,602
2035	32,694	2,644	35,338	5,330		40,668
2036	33,564	2,702	36,267	5,342		41,609
2037	34,102	2,750	36,852	5,061		41,913
2038	34,835	2,788	37,622	4,900		42,522
2039	35,556	2,822	38,378	4,616		42,994
2040	36,338	2,855	39,193	4,377		43,569
2041	36,830	2,879	39,709	4,082		43,791
2042	37,275	2,895	40,169	3,799		43,968
2043	37,742	2,903	40,646	3,548		44,194

Dollar amounts in thousands

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SECTION IV – MEASURES OF LIABILITY

Table IV-2 Expected Net Benefit Payments - Fire Department						
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy	Total Expected Payments	
	Medical	Dental	Total			
2024	\$ 9,894	\$ 1,037	\$ 10,930	\$ 1,464	\$	12,395
2025	10,895	1,092	11,987	1,661		13,648
2026	11,817	1,142	12,959	1,736		14,695
2027	13,159	1,200	14,360	1,945		16,304
2028	14,169	1,258	15,427	2,091		17,518
2029	15,614	1,306	16,920	2,390		19,310
2030	16,291	1,348	17,639	2,537		20,176
2031	17,173	1,390	18,563	2,780		21,343
2032	18,099	1,439	19,537	3,008		22,546
2033	18,798	1,490	20,287	3,226		23,513
2034	19,416	1,545	20,961	3,269		24,230
2035	20,160	1,599	21,760	3,387		25,146
2036	20,708	1,645	22,353	3,216		25,569
2037	21,462	1,685	23,146	3,191		26,337
2038	22,174	1,720	23,894	3,262		27,156
2039	22,881	1,751	24,632	3,246		27,878
2040	23,483	1,778	25,261	3,329		28,590
2041	23,953	1,796	25,749	3,336		29,085
2042	24,425	1,812	26,237	3,334		29,571
2043	24,675	1,821	26,497	3,252		29,749

Dollar amounts in thousands

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SECTION IV – MEASURES OF LIABILITY

Present Value of Future Benefits

The present value of future benefits represents the expected amount of money needed today, if all assumptions are met, to pay for all benefits both earned as of the valuation date and expected to be earned in the future by current plan members under the current plan provisions. Table IV-3 below shows the present value of future benefits as of June 30, 2022 and 2023.

Table IV-3 Present Value of Future Benefits						
	June 30, 2022	June 30, 2023				
	Total	Actives	Deferred Vested	In Pay Status	Total	Change
Police Department						
Explicit Subsidy						
Pre-Medicare	\$ 142,944	\$ 68,742	\$ 355	\$ 89,154	\$ 158,251	10.7%
Medicare Eligible	288,131	74,416	576	258,089	333,081	15.6%
Dental	35,935	9,944	83	29,018	39,045	8.7%
Total Explicit Subsidy	\$ 467,010	\$ 153,102	\$ 1,014	\$ 376,261	\$ 530,377	13.6%
Fire Department						
Explicit Subsidy						
Pre-Medicare	\$ 81,076	\$ 58,645	\$ 405	\$ 34,458	\$ 93,509	15.3%
Medicare Eligible	185,741	74,869	627	142,165	217,660	17.2%
Dental	22,138	9,453	83	14,690	24,226	9.4%
Total Explicit Subsidy	\$ 288,955	\$ 142,967	\$ 1,115	\$ 191,314	\$ 335,396	16.1%
Aggregate						
Explicit Subsidy						
Pre-Medicare	\$ 224,020	\$ 127,387	\$ 760	\$ 123,613	\$ 251,760	12.4%
Medicare Eligible	473,872	149,285	1,202	400,254	550,741	16.2%
Dental	58,073	19,397	167	43,708	63,271	9.0%
Total Explicit Subsidy	\$ 755,965	\$ 296,068	\$ 2,129	\$ 567,575	\$ 865,772	14.5%
Implicit Subsidy	76,469	43,860	298	50,436	94,593	23.7%
Grand Total	\$ 832,433	\$ 339,928	\$ 2,427	\$ 618,011	\$ 960,366	15.4%

Dollar amounts in thousands

SECTION IV – MEASURES OF LIABILITY

Normal Cost

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits divided by the value, also at entry age, of each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial cost method.

Table IV-4 shows the EA normal cost as of June 30, 2022 and 2023 separately by component, develops the normal cost rate, and applies the rate to the projected payroll for the fiscal year for which contributions are determined.

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SECTION IV – MEASURES OF LIABILITY

Table IV-4 Explicit Subsidy Normal Cost					
	June 30, 2022 Total	Full Benefits	June 30, 2023 Catastrophic	Total	% Change
Police Department					
Pre-Medicare	\$ 3,106	\$ 2,184	\$ 373	\$ 2,556	-17.7%
Medicare Eligible	2,031	2,177	0	2,177	7.2%
Dental	341	313	0	313	-8.4%
Total Normal Cost	\$ 5,478	\$ 4,673	\$ 373	\$ 5,046	-7.9%
Valuation Pay	\$ 150,372	\$ 68,668	\$ 89,005	\$ 157,673	4.9%
Total Normal Cost Rate	3.64%	7.01%	0.43%	3.20%	-12.1%
Fire Department					
Pre-Medicare	\$ 2,284	\$ 2,249	\$ 176	\$ 2,426	6.2%
Medicare Eligible	2,442	2,642	0	2,642	8.2%
Dental	353	355	0	355	0.6%
Total Normal Cost	\$ 5,079	\$ 5,246	\$ 176	\$ 5,423	6.8%
Valuation Pay	\$ 90,858	\$ 60,727	\$ 34,417	\$ 95,143	4.7%
Total Normal Cost Rate	5.59%	8.89%	0.53%	5.70%	2.0%
	FYE 2024 Total	Full Benefits	FYE 2025 Catastrophic	Total	% Change
Police Department					
Expected Pay	\$ 170,606	\$ 65,646	\$ 108,726	\$ 174,372	2.2%
Total Normal Cost	\$ 5,382	\$ 4,602	\$ 468	\$ 5,069	-5.8%
Fire Department					
Expected Pay	\$ 100,691	\$ 56,861	\$ 48,817	\$ 105,677	5.0%
Total Normal Cost	\$ 4,953	\$ 5,055	\$ 259	\$ 5,314	7.3%
Aggregate					
Expected Pay	\$ 271,296	\$ 122,506	\$ 157,543	\$ 280,049	3.2%
Total Normal Cost	\$ 10,336	\$ 9,657	\$ 726	\$ 10,383	0.5%

Dollar amounts in thousands

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SECTION IV – MEASURES OF LIABILITY

Actuarial Liability

The Actuarial Liability represents the expected amount of money needed today, if all assumptions are met, to pay for benefits attributed to service prior to the valuation date under the Entry Age actuarial cost method. As such, it is the amount of assets targeted by the actuarial cost method for the Plan to hold as of the valuation date. It is not the amount necessary to settle the obligation.

Table IV-5 shows the Actuarial Liability as of June 30, 2022 and 2023 separately by component.

Table IV-5 Actuarial Liability						
	June 30, 2022	June 30, 2023				
	Total	Actives	Deferred Vested	In Pay Status	Total	% Change
Police Department						
Explicit Subsidy						
Pre-Medicare	\$ 120,403	\$ 49,050	\$ 355	\$ 89,154	\$ 138,559	15.1%
Medicare Eligible	276,378	60,938	576	258,089	319,603	15.6%
Dental	34,004	8,049	83	29,018	37,150	9.3%
Total Explicit	\$ 430,784	\$ 118,037	\$ 1,014	\$ 376,261	\$ 495,312	15.0%
Implicit Subsidy	44,969	18,169	140	36,519	54,828	21.9%
Total Police	\$ 475,753	\$ 136,206	\$ 1,154	\$ 412,780	\$ 550,140	15.6%
Fire Department						
Explicit Subsidy						
Pre-Medicare	\$ 63,391	\$ 39,908	\$ 405	\$ 34,458	\$ 74,772	18.0%
Medicare Eligible	169,332	56,787	627	142,165	199,578	17.9%
Dental	19,830	7,079	83	14,690	21,853	10.2%
Total Explicit	\$ 252,553	\$ 103,774	\$ 1,115	\$ 191,314	\$ 296,203	17.3%
Implicit Subsidy	23,751	15,820	157	13,917	29,894	25.9%
Total Fire	\$ 276,304	\$ 119,594	\$ 1,273	\$ 205,231	\$ 326,097	18.0%
Aggregate						
Explicit Subsidy	\$ 683,337	\$ 221,811	\$ 2,129	\$ 567,575	\$ 791,515	15.8%
Implicit Subsidy	68,719	33,989	298	50,436	84,723	23.3%
Grand Total	\$ 752,056	\$ 255,800	\$ 2,427	\$ 618,011	\$ 876,237	16.5%

Dollar amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V – CONTRIBUTIONS

Amortization of the Unfunded Actuarial Liability

Under the contribution allocation procedure employed by the Plan, there are three components to the contribution toward the explicit subsidy: the normal cost, administrative expenses, and an amortization payment on the Unfunded Actuarial Liability (UAL). The normal cost was developed in Section IV. This section develops the administrative expenses, the UAL contribution, and the City’s actuarially determined contribution for the explicit subsidy. The implicit subsidy is funded on a pay-as-you-go basis through the payment of active health premiums.

The difference between the Actuarial Liability and the Market Value of Assets is the Unfunded Actuarial Liability (UAL). Table V-1 calculates the UAL and funded percentage for the explicit subsidy.

Table V-1					
Unfunded Actuarial Liability					
Explicit Subsidy Only					
	June 30, 2022		June 30, 2023		% Change
Police Department					
Actuarial Liability	\$	430,784	\$	495,312	15.0%
Assets		<u>171,369</u>		<u>191,682</u>	11.9%
Unfunded Actuarial Liability	\$	259,415	\$	303,630	17.0%
Funded Percentage		39.8%		38.7%	-2.7%
Fire Department					
Actuarial Liability	\$	252,553	\$	296,203	17.3%
Assets		<u>93,904</u>		<u>107,682</u>	14.7%
Unfunded Actuarial Liability	\$	158,649	\$	188,521	18.8%
Funded Percentage		37.2%		36.4%	-2.2%
Aggregate UAL					
Aggregate UAL	\$	418,064	\$	492,151	17.7%
Aggregate Funded Percentage		38.8%		37.8%	-2.6%

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SECTION V – CONTRIBUTIONS

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

Table V-2					
UAL Amortization					
	Outstanding		Remaining		FYE 2025
	Balance	Period	Phase-in	Phase-out	Payment
Police Department					
Fresh Start UAL	\$ 237,467	19	N/A	N/A	\$ 17,445
2018 Changes	12,001	20	0	3	819
2019 Changes	(9,964)	21	0	3	(657)
2020 Changes	34,194	22	0	3	2,186
2021 Changes	(36,456)	23	1	3	(2,262)
2022 Changes	2,676	24	2	3	110
2023 Changes	46,419	25	3	3	960
FYE 2024 Payment*	17,294				
Total Police UAL	\$ 303,630				\$ 18,600
Fire Department					
Fresh Start UAL	\$ 148,423	19	N/A	N/A	\$ 10,904
2018 Changes	10,062	20	0	3	687
2019 Changes	(5,644)	21	0	3	(372)
2020 Changes	15,061	22	0	3	963
2021 Changes	(23,886)	23	1	3	(1,482)
2022 Changes	2,519	24	2	3	103
2023 Changes	31,383	25	3	3	649
FYE 2024 Payment*	10,603				
Total Fire UAL	\$ 188,521				\$ 11,451
Grand Total	\$ 492,151				\$ 30,051

* FYE 2024 amortization payment discounted to 7/1/2023

Dollar amounts in thousands

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SECTION V – CONTRIBUTIONS

Contributions for Administrative Expenses

Contributions for administrative expenses are set equal to \$35.00 per member for FYE 2025 (increasing 3.00 percent per year). There are currently 2,553 Police members and 1,544 Fire members, resulting in estimated administrative expenses for FYE 2025 of \$89,355 and 54,040 respectively.

Contribution Amounts

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

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SECTION V – CONTRIBUTIONS

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2025 and 2024.

Table V-3 City's Actuarially Determined Contribution (ADC) Explicit Subsidy Only			
	FYE 2024	FYE 2025	% Change
Police Department			
Normal Cost Amount	\$ 5,382	\$ 5,069	-5.8%
Administrative Expense	108	89	-17.0%
UAL Payment	17,805	18,600	4.5%
Total Contribution	\$ 23,295	\$ 23,759	2.0%
Projected Member Contributions	5,187	5,252	1.3%
City's ADC Amount	\$ 18,108	\$ 18,507	2.2%
Projected Total Payroll	170,606	174,372	2.2%
City's ADC Percentage	10.6%	10.6%	0.0%
Fire Department			
Normal Cost Amount	\$ 4,953	\$ 5,314	7.3%
Administrative Expense	64	54	-15.8%
UAL Payment	10,917	11,451	4.9%
Total Contribution	\$ 15,934	\$ 16,818	5.5%
Projected Member Contributions	4,633	4,549	-1.8%
City's ADC Amount	\$ 11,301	\$ 12,270	8.6%
Projected Total Payroll	100,691	105,677	5.0%
City's ADC Percentage	11.2%	11.6%	3.4%
Grand Totals			
City's ADC Amount	\$ 29,410	\$ 30,777	4.6%
Projected Total Payroll	271,296	280,049	3.2%
City's ADC Percentage	10.8%	11.0%	1.4%
City's Optional Cap	\$ 29,843	\$ 30,805	3.2%

Dollar amounts in thousands

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SECTION VI – ACTUARIAL SECTION OF THE ACFR

The Government Finance Officers Association (GFOA) maintains a checklist of items to be included in the Plan’s Annual Comprehensive Financial Report (ACFR) to receive recognition for excellence in financial reporting. The schedules in this section are listed by the GFOA for inclusion in the Actuarial Section of the Plan’s ACFR. Liability amounts shown in these exhibits include both the explicit and implicit subsidies.

Table VI-1						
Police Department - Member Benefit Coverage Information						
Actuarial Valuation Date	Actuarial Liability		Market Value of Assets *	Portion of Liability Covered by Actuarial Value of Assets		
	Retirees and					
	Vested	Active				
	Terminated	Members				
	(A)	(B)		(A)	(B)	
6/30/2023	\$ 413,934	\$ 136,206	\$ 191,682	46%	0%	
6/30/2022	345,739	130,013	171,369	50%	0%	
6/30/2021	343,241	138,464	180,002	52%	0%	
6/30/2020	324,689	143,413	137,789	42%	0%	
6/30/2019	293,344	142,094	124,990	43%	0%	
6/30/2018	305,606	166,211	111,659	37%	0%	
6/30/2017	280,546	150,792	99,926	36%	0%	
6/30/2016	307,941	188,002	97,412	32%	0%	
6/30/2015	290,354	179,969	85,322	29%	0%	
6/30/2014	275,902	180,568	70,102	25%	0%	

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

Dollar amounts in thousands

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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-2

Fire Department - Member Benefit Coverage Information

Actuarial Valuation Date	Actuarial Liability		Market Value of Assets *	Portion of Liability Covered by Actuarial Value of Assets	
	Retirees and Vested Terminated	Active Members		(A)	(B)
	(A)	(B)			
6/30/2023	\$ 206,503	\$ 119,594	\$ 107,682	52%	0%
6/30/2022	168,837	107,466	93,904	56%	0%
6/30/2021	162,834	113,670	96,311	59%	0%
6/30/2020	161,088	109,823	70,743	44%	0%
6/30/2019	154,885	103,007	60,967	39%	0%
6/30/2018	161,946	113,510	50,861	31%	0%
6/30/2017	147,204	101,704	42,591	29%	0%
6/30/2016	164,063	118,866	37,795	23%	0%
6/30/2015	161,381	108,049	29,243	18%	0%
6/30/2014	153,132	97,108	23,503	15%	0%

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

Dollar amounts in thousands

Table VI-3

Police Department - Analysis of Financial Experience

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

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Changes	Total Experience
6/30/2023	\$ 1,583	\$ (40,872)	\$ (39,290)	\$ (15,899)	\$ (55,189)
6/30/2022	(28,934)	36,673	7,739	(11,836)	(4,097)
6/30/2021	25,626	27,361	52,988	(21,845)	31,143
6/30/2020	(4,115)	17,054	12,938	(30,044)	(17,106)
6/30/2019	(2,839)	64,974	62,135	(6,817)	55,318
6/30/2018	(2,442)	3,712	1,270	(22,819)	(21,549)

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

Dollar amounts in thousands

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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-4

Fire Department - Analysis of Financial Experience

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

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Assumption Changes	Total Experience
6/30/2023	\$ 791	\$ (27,055)	\$ (26,264)	\$ (10,286)	\$ (36,550)
6/30/2022	(16,421)	19,851	3,430	(6,488)	(3,058)
6/30/2021	12,961	23,287	36,248	(14,737)	21,511
6/30/2020	(2,137)	19,190	17,052	(18,287)	(1,235)
6/30/2019	(1,205)	34,915	33,710	(1,749)	31,961
6/30/2018	(1,548)	(311)	(1,859)	(13,568)	(15,427)

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

Dollar amounts in thousands

Table VI-5

Police and Fire Department - Analysis of Financial Experience

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

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2017	2,647	(15,108)	\$ (12,461)	29,245	16,784
6/30/2016	(2,914)	(2,728)	\$ (5,642)	4,864	(778)
6/30/2015	582	7,990	\$ 8,572	(3,449)	5,123
6/30/2014	2,802	16,222	\$ 19,024	13,689	32,713

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

Dollar amounts in thousands

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The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The Actuarial Liability is compared to the Actuarial Value of Assets to determine the funding ratio. Since the June 30, 2017 valuation, the Actuarial Value of Assets equals the Market Value of Assets.

Table VI-6							
Police Department - Schedule of Funding Progress							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) ÷ c)	
6/30/2023	\$ 191,682	\$ 550,140	\$ 358,459	34.8%	\$ 169,293	212%	
6/30/2022	171,369	475,753	304,384	36.0%	165,637	184%	
6/30/2021	180,002	481,704	301,702	37.4%	157,594	191%	
6/30/2020	137,789	468,102	330,314	29.4%	147,269	224%	
6/30/2019	124,990	435,438	310,448	28.7%	146,865	211%	
6/30/2018	111,659	471,817	360,158	23.7%	131,888	273%	
6/30/2017	99,926	431,338	331,412	23.2%	120,299	275%	
6/30/2016	97,412	495,943	398,531	19.6%	111,029	359%	
6/30/2015	85,322	470,323	385,001	18.1%	109,783	351%	
6/30/2014	70,102	456,470	386,368	15.4%	112,947	342%	

Dollar amounts in thousands

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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-7							
Fire Department - Schedule of Funding Progress							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) ÷ c)	
6/30/2023	\$ 107,682	\$ 326,097	\$ 218,415	33.0%	\$ 102,599	213%	
6/30/2022	93,904	276,304	182,399	34.0%	97,758	187%	
6/30/2021	96,311	276,504	180,193	34.8%	95,841	188%	
6/30/2020	70,743	270,912	200,169	26.1%	93,529	214%	
6/30/2019	60,967	257,891	196,925	23.6%	88,953	221%	
6/30/2018	50,861	275,455	224,594	18.5%	86,541	260%	
6/30/2017	42,591	248,908	206,317	17.1%	83,517	247%	
6/30/2016	37,795	282,929	245,134	13.4%	83,043	295%	
6/30/2015	29,243	269,430	240,187	10.9%	74,950	320%	
6/30/2014	23,503	250,240	226,737	9.4%	75,242	301%	

Dollar amounts in thousands

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Schedule of Active Member Data - Police						
Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Change in Average Pay
	Under 65	Age 65+	Total			
2023	1,047	0	1,047	\$ 169,293,313	\$ 161,694	6.7%
2022	1,093	0	1,093	165,636,770	151,543	4.3%
2021	1,081	0	1,081	157,000,932	145,237	3.3%
2020	1,047	0	1,047	147,268,605	140,658	-0.5%
2019	1,039	0	1,039	146,865,241	141,352	4.4%
2018	974	0	974	131,888,184	135,409	1.0%
2017	897	0	897	120,299,327	134,113	10.0%
2016	911	0	911	111,028,782	121,876	3.1%
2015	929	0	929	109,868,577	118,265	4.4%
2014	997	0	997	112,946,895	113,287	

Schedule of Active Member Data - Fire						
Valuation Date	Active Member Counts			Annual Payroll	Average Annual Pay	Change in Average Pay
	Under 65	Age 65+	Total			
2023	648	0	648	\$ 102,599,376	\$ 158,332	5.8%
2022	653	0	653	97,757,818	149,706	2.9%
2021	657	0	657	95,556,891	145,444	2.9%
2020	662	0	662	93,529,264	141,283	5.1%
2019	662	0	662	88,952,979	134,370	3.1%
2018	664	0	664	86,541,114	130,333	1.0%
2017	646	0	646	83,370,711	129,057	4.3%
2016	671	0	671	83,043,310	123,761	7.5%
2015	648	0	648	74,613,261	115,144	0.5%
2014	657	0	657	75,241,817	114,523	

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SECTION VI – ACTUARIAL SECTION OF THE ACFR

**Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Police Department**

Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy			Count	Count	Annual Subsidy	Count		
Medical										
2022-23	1,444	\$ 13,143	63	27	1,480	\$ 14,376	36	\$ 1,232	9.4%	\$ 9,713
2021-22	1,403	13,091	68	27	1,444	13,143	41	53	0.4%	9,102
2020-21	1,353	12,410	74	24	1,403	13,091	50	681	5.5%	9,331
2019-20	1,242	11,217	132	21	1,353	12,410	111	1,193	10.6%	9,172
2018-19	1,233	10,633	69	60	1,242	11,217	9	584	5.5%	9,031
2017-18	1,198	12,719	73	38	1,233	10,633	35	(2,086)	-16.4%	8,624
2016-17	1,169	12,037	56	27	1,198	12,719	29	681	5.7%	10,616
2015-16	1,141	11,641	60	32	1,169	12,037	28	397	3.4%	10,297
2014-15	1,106	11,900	71	36	1,141	11,641	35	(259)	-2.2%	10,202
2013-14	1,083	11,802	50	27	1,106	11,900	23	98	0.8%	10,759
Dental										
2022-23	1,435	\$ 1,502	60	32	1,463	\$ 1,912	28	\$ 410	27.3%	\$ 1,307
2021-22	1,399	1,776	66	30	1,435	1,502	36	(274)	-15.4%	1,047
2020-21	1,359	1,723	66	26	1,399	1,776	40	53	3.1%	1,269
2019-20	1,315	1,693	71	27	1,359	1,723	44	30	1.8%	1,268
2018-19	1,269	1,626	70	24	1,315	1,693	46	67	4.1%	1,288
2017-18	1,248	1,605	59	38	1,269	1,626	21	20	1.3%	1,281
2016-17	1,220	1,510	50	22	1,248	1,605	28	96	6.3%	1,286
2015-16	1,199	1,497	42	21	1,220	1,510	21	12	0.8%	1,237
2014-15	1,139	1,428	79	19	1,199	1,497	60	69	4.8%	1,249
2013-14	1,111	1,353	45	17	1,139	1,428	28	75	5.6%	1,254

Annual subsidies are explicit amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2023 ACTUARIAL VALUATION FUNDING REPORT**

SECTION VI – ACTUARIAL SECTION OF THE ACFR

**Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Fire Department**

Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy			Count	Count	Annual Subsidy	Count		
<u>Medical</u>										
2022-23	856	\$ 7,545	51	28	879	\$ 8,432	23	\$ 887	11.8%	\$ 9,592
2021-22	832	7,525	54	30	856	7,545	24	20	0.3%	8,814
2020-21	825	7,332	36	29	832	7,525	7	192	2.6%	9,044
2019-20	799	6,791	41	15	825	7,332	26	542	8.0%	8,888
2018-19	803	6,518	27	31	799	6,791	(4)	272	4.2%	8,499
2017-18	776	7,455	47	20	803	6,518	27	(937)	-12.6%	8,117
2016-17	752	6,976	42	18	776	7,455	24	479	6.9%	9,607
2015-16	758	6,965	28	34	752	6,976	(6)	11	0.2%	9,277
2014-15	743	7,095	35	20	758	6,965	15	(130)	-1.8%	9,189
2013-14	749	7,737	29	35	743	7,095	(6)	(642)	-8.3%	9,549
<u>Dental</u>										
2022-23	861	\$ 829	45	30	876	\$ 1,065	15	\$ 236	28.5%	\$ 1,216
2021-22	841	977	51	31	861	829	20	(148)	-15.2%	962
2020-21	839	970	32	30	841	977	2	7	0.7%	1,161
2019-20	828	963	26	15	839	970	11	7	0.7%	1,156
2018-19	828	962	26	26	828	963	0	1	0.2%	1,163
2017-18	808	942	39	19	828	962	20	20	2.1%	1,162
2016-17	798	893	30	20	808	942	10	49	5.5%	1,166
2015-16	793	891	23	18	798	893	5	2	0.2%	1,120
2014-15	778	876	29	14	793	891	15	15	1.8%	1,124
2013-14	779	949	23	24	778	876	(1)	(73)	-7.7%	1,126

Annual subsidies are explicit amounts in thousands

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2023 ACTUARIAL VALUATION FUNDING REPORT**

APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Police Department - Summary of Member Data			
Valuation Date	June 30, 2022	June 30, 2023	% Change
Active Employees Eligible for Full Benefits			
Count	469	406	-13.43%
Average Age	47.2	47.4	0.48%
Average OPEB Benefit Service	19.1	19.3	1.20%
Total Payroll	\$ 80,983,115	\$ 75,067,140	-7.31%
Active Employees Eligible for Catastrophic Disability Only			
Count	624	641	2.72%
Average Age	32.4	32.8	1.41%
Average OPEB Benefit Service	3.9	4.5	14.43%
Total Payroll	\$ 84,653,655	\$ 94,226,173	11.31%
Term Vested Members¹	5	3	-40.00%
Retirees and Surviving Spouses with Coverage²			
Medical and Dental Coverage	1,245	1,246	0.08%
Medical Coverage Only	1	1	0.00%
In-Lieu Medical with Dental Coverage	169	194	14.79%
Dental Coverage Only	21	23	9.52%
In-Lieu Medical Coverage Only	29	39	34.48%
Total	1,465	1,503	2.59%
Total Count	2,563	2,553	-0.39%

¹ Includes only those members with 20 or more years of OPEB benefit service.

² Counts do not include dependent spouses.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Fire Department - Summary of Member Data			
Valuation Date	June 30, 2022	June 30, 2023	% Change
Active Employees Eligible for Full Benefits			
Count	427	390	-8.67%
Average Age	47.6	47.9	0.78%
Average OPEB Benefit Service	17.8	18.2	1.98%
Total Payroll	\$ 68,540,498	\$ 66,747,487	-2.62%
Active Employees Eligible for Catastrophic Disability Only			
Count	226	258	14.16%
Average Age	35.7	36.1	1.13%
Average OPEB Benefit Service	4.8	5.1	4.60%
Total Payroll	\$ 29,217,320	\$ 35,851,889	22.71%
Term Vested Members¹	3	3	0.00%
Retirees and Surviving Spouses with Coverage²			
Medical and Dental Coverage	792	801	1.14%
Medical Coverage Only	0	1	N/A
In-Lieu Medical with Dental Coverage	53	61	15.09%
Dental Coverage Only	16	14	-12.50%
In-Lieu Medical Coverage Only	11	16	45.45%
Total	872	893	2.41%
Total Count	1,528	1,544	1.05%

¹ Includes only those members with 20 or more years of OPEB benefit service.

² Counts do not include dependent spouses.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Police Department - Status Reconciliation						
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	1,093	5	873	147	445	2,563
New Hires	62	0	0	0	0	62
Rehires	0	0	0	0	0	0
Non-Vested Termination	(41)	0	0	0	0	(41)
Vested Terminations	0	0	0	0	0	0
Service Retirements	(52)	(1)	53	0	0	0
Disabled Retirements	(2)	0	(1)	0	3	0
New Survivors	0	0	0	10	0	10
No longer covered	(13)	(1)	(4)	(10)	(13)	(41)
Data corrections	0	0	0	0	0	0
End of Year	1,047	3	921	147	435	2,553

Counts do not include dependent spouses

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

Fire Department - Status Reconciliation						
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	653	3	322	137	413	1,528
New Hires	36	0	0	0	0	36
Rehires	0	0	0	0	0	0
Non-Vested Termination	(3)	0	0	0	0	(3)
Vested Terminations	(1)	1	0	0	0	0
Service Retirements	(35)	0	33	0	0	(2)
Disabled Retirements	0	0	0	0	2	2
New Survivors	0	0	0	15	0	15
No longer covered	(4)	(1)	(7)	(9)	(14)	(35)
Data corrections	2	0	0	0	1	3
End of Year	648	3	348	143	402	1,544

Counts do not include dependent spouses

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

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Member Data as of June 30, 2023:

Police Department - Active Employees Eligible For Full Benefits								
Age Group	Years of OPEB Benefit Service							Total
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0
30 to 34	0	0	6	0	0	0	0	6
35 to 39	1	2	23	9	0	0	0	35
40 to 44	1	5	25	45	11	0	0	87
45 to 49	1	0	13	34	77	9	0	134
50 to 54	0	0	5	15	57	36	0	113
55 to 59	0	0	0	4	11	12	0	27
60 to 64	0	0	0	2	1	1	0	4
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	3	7	72	109	157	58	0	406

Fire Department - Active Employees Eligible For Full Benefits								
Age Group	Years of OPEB Benefit Service							Total
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0
30 to 34	0	0	3	0	0	0	0	3
35 to 39	0	0	23	8	0	0	0	31
40 to 44	0	3	45	43	4	0	0	95
45 to 49	2	0	17	48	35	6	0	108
50 to 54	0	1	7	26	46	25	0	105
55 to 59	0	0	1	5	25	13	2	46
60 to 64	0	0	0	0	0	2	0	2
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	2	4	96	130	110	46	2	390

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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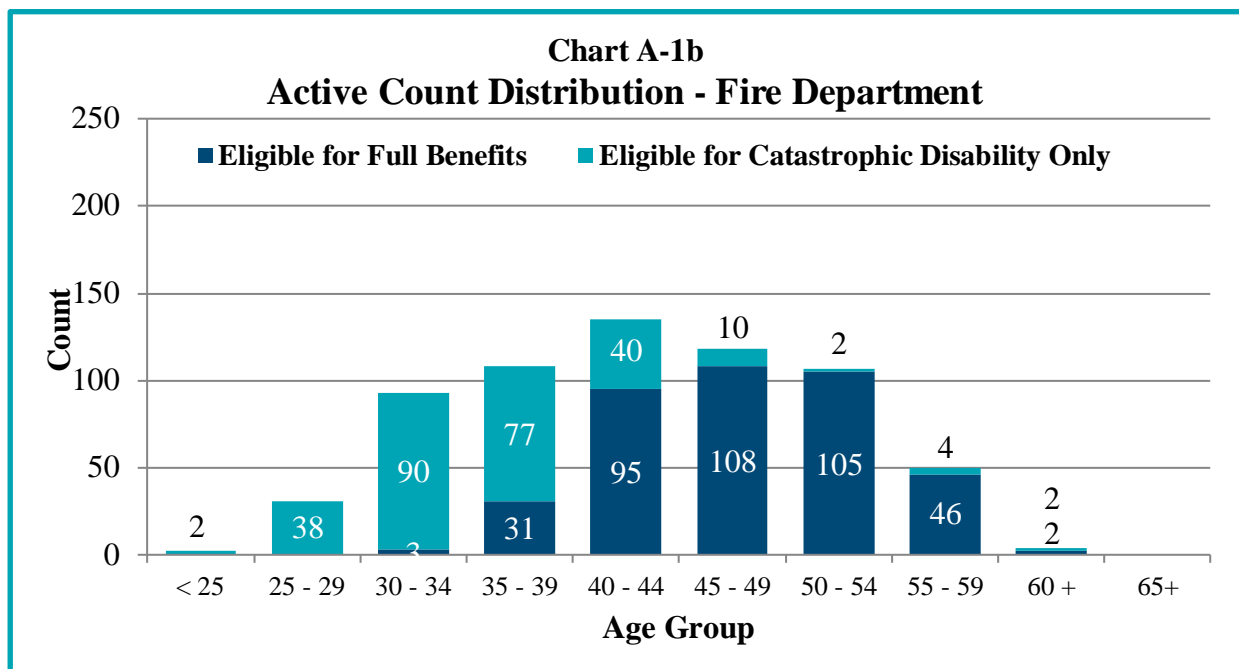
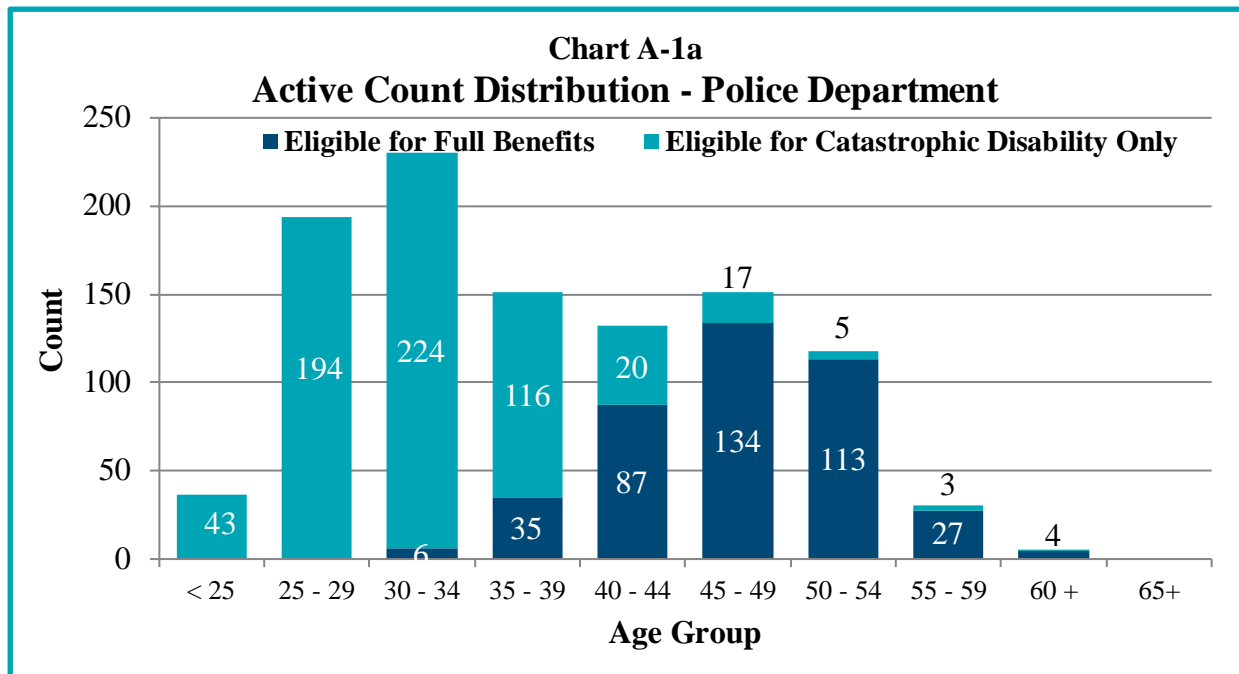
APPENDIX A – MEMBERSHIP INFORMATION

Police Department - Active Employees Eligible for Catastrophic Disability Benefits Only								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	36	0	0	0	0	0	0	36
25 to 29	168	26	0	0	0	0	0	194
30 to 34	131	93	0	0	0	0	0	224
35 to 39	48	64	2	2	0	0	0	116
40 to 44	15	25	2	3	0	0	0	45
45 to 49	7	4	2	3	1	0	0	17
50 to 54	2	0	1	0	1	1	0	5
55 to 59	2	0	0	0	1	0	0	3
60 to 64	0	0	0	0	1	0	0	1
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	409	212	7	8	4	1	0	641

Fire Department - Active Employees Eligible for Catastrophic Disability Benefits Only								
Years of OPEB Benefit Service								
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 +	Total
Under 25	2	0	0	0	0	0	0	2
25 to 29	30	1	0	0	0	0	0	31
30 to 34	57	33	0	0	0	0	0	90
35 to 39	34	41	1	1	0	0	0	77
40 to 44	11	16	6	7	0	0	0	40
45 to 49	2	5	1	1	1	0	0	10
50 to 54	0	0	1	0	1	0	0	2
55 to 59	1	2	0	0	1	0	0	4
60 to 64	0	1	1	0	0	0	0	2
<u>65 and up</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	137	99	10	9	3	0	0	258

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

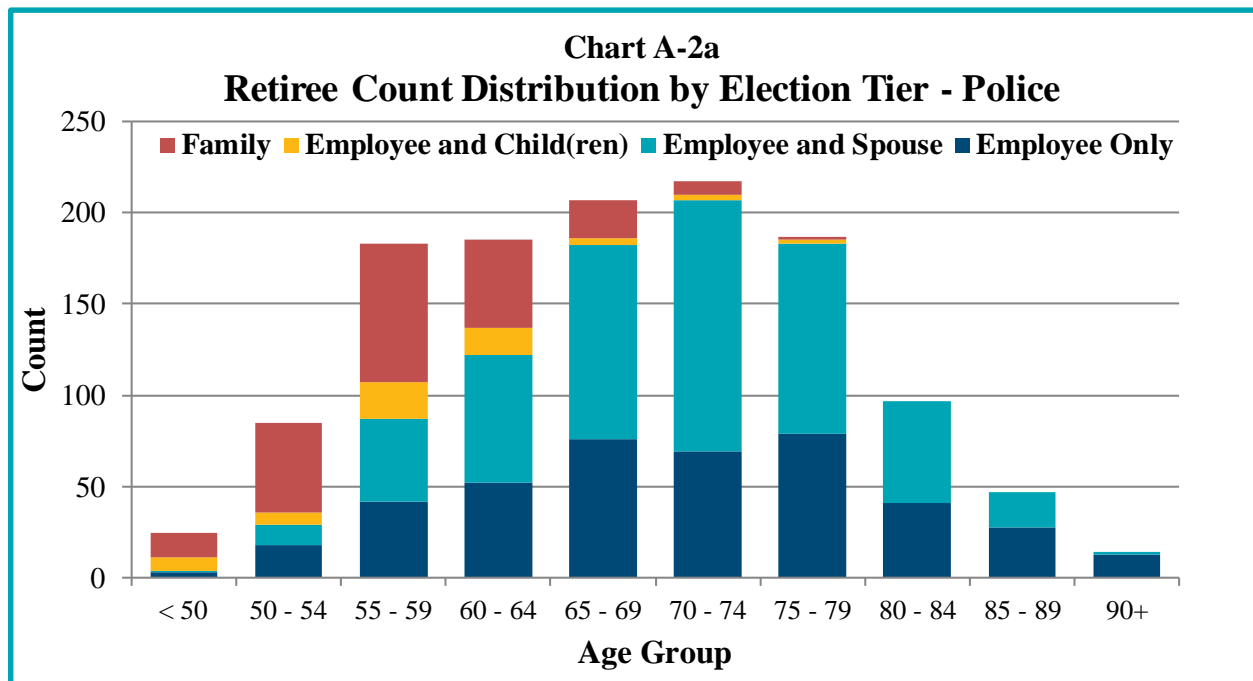


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses				
Age Group	Police Department			Dental Insurance
	Males	<u>Medical Insurance</u> Females	Total	
Under 50	21	4	25	37
50 to 54	76	9	85	137
55 to 59	157	26	183	248
60 to 64	151	34	185	235
65 to 69	189	18	207	226
70 to 74	192	25	217	225
75 to 79	149	38	187	194
80 to 84	74	23	97	98
85 to 89	28	19	47	49
Over 90	6	8	14	14
Total	1,043	204	1,247	1,463

Counts do not include dependent spouses

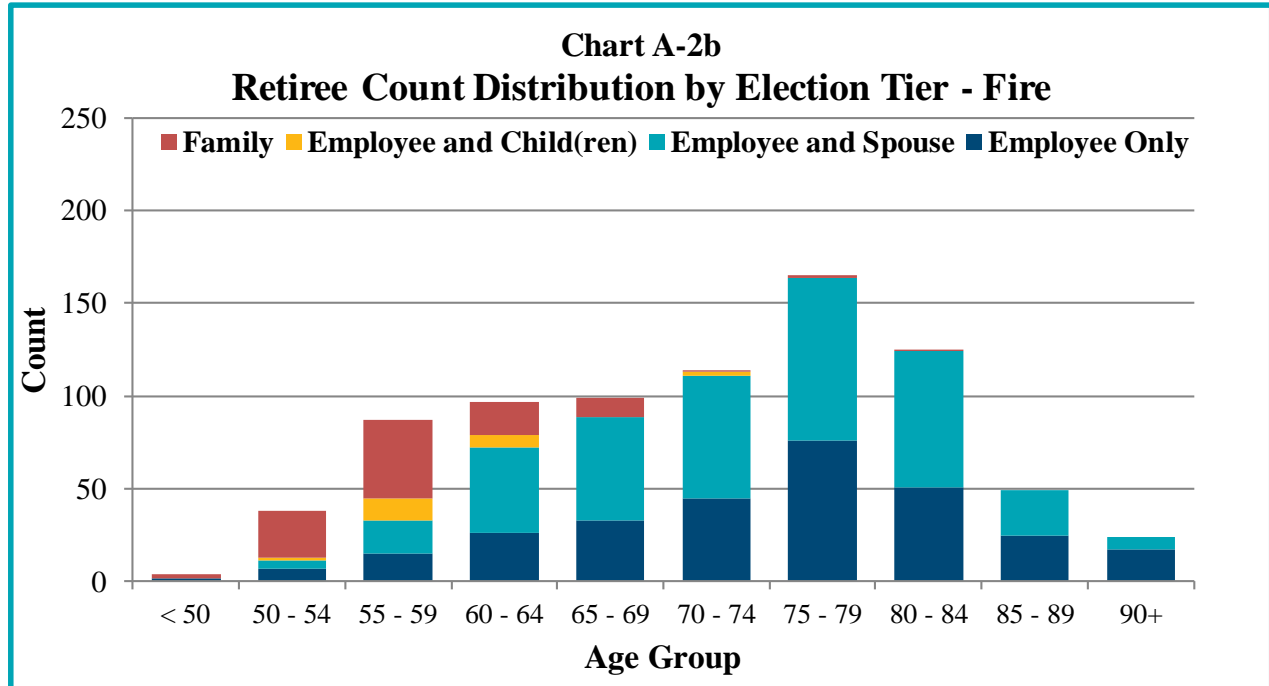


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses				
Age Group	Fire Department			Dental Insurance
	Males	Medical Insurance Females	Total	
Under 50	4	0	4	8
50 to 54	33	5	38	54
55 to 59	79	8	87	104
60 to 64	82	15	97	108
65 to 69	87	12	99	105
70 to 74	88	26	114	118
75 to 79	123	42	165	170
80 to 84	101	24	125	129
85 to 89	34	15	49	54
Over 90	14	10	24	26
Total	645	157	802	876

Counts do not include dependent spouses



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Police & Fire Department Vested Terminations*			
Age Group	Police	Fire	Total
Under 45	0	0	0
45 to 49	0	0	0
50 to 54	2	3	5
55 to 59	1	0	1
60 to 64	0	0	0
Over 65	0	0	0
Total	3	3	6

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

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Economic Assumptions

The expected return on Plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the November 2, 2023 Board meeting. Please refer to the presentation for that meeting for details, including the rationale for each assumption.

1. Expected Return on Plan Assets

6.00% per year. The Board expects a long-term rate of return of 8.0% based on Meketa's 20-year capital market assumptions and the Plan's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2. Per Person Cost Trends

Medical trends were developed using the 2023 Society of Actuaries Long-run Medical Cost Trend Model with the following parameters:

Initial trend rate:

Non-Medicare Eligible:	10.00%
Medicare Eligible:	6.00%

Inflation:	2.50%
Real GDP per Capita:	1.40%
Excess Medical Cost Growth:	1.00%

Expected GDP Share in 2032:	19.8%
Resistance Point:	19.0%
Year limited to GDP growth:	2075

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Annual Increase									
Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental	Part B Premiums	Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental	Part B Premiums
2024	<i>Varies by Plan</i>			5.92%	2054	4.51	4.51	3.50	3.70
2025	8.60%	5.72%	3.50%	6.03	2055	4.50	4.50	3.50	3.70
2026	8.05	5.60	3.50	6.69	2056	4.49	4.49	3.50	3.70
2027	7.49	5.49	3.50	6.87	2057	4.49	4.49	3.50	3.70
2028	6.93	5.37	3.50	6.77	2058	4.48	4.48	3.50	3.70
2029	6.37	5.26	3.50	6.29	2059	4.47	4.47	3.50	3.70
2030	5.81	5.15	3.50	5.81	2060	4.47	4.47	3.50	3.70
2031	5.25	5.03	3.50	6.16	2061	4.46	4.46	3.50	3.70
2032	4.87	4.87	3.50	6.17	2062	4.45	4.45	3.50	3.70
2033	4.75	4.75	3.50	6.00	2063	4.45	4.45	3.50	3.70
2034	4.73	4.73	3.50	5.84	2064	4.44	4.44	3.50	3.70
2035	4.71	4.71	3.50	5.68	2065	4.41	4.41	3.50	3.70
2036	4.70	4.70	3.50	5.51	2066	4.35	4.35	3.50	3.70
2037	4.68	4.68	3.50	5.35	2067	4.30	4.30	3.50	3.70
2038	4.67	4.67	3.50	5.19	2068	4.25	4.25	3.50	3.70
2039	4.66	4.66	3.50	5.02	2069	4.20	4.20	3.50	3.70
2040	4.64	4.64	3.50	4.86	2070	4.15	4.15	3.50	3.70
2041	4.63	4.63	3.50	4.70	2071	4.10	4.10	3.50	3.70
2042	4.62	4.62	3.50	4.53	2072	4.05	4.05	3.50	3.70
2043	4.61	4.61	3.50	4.37	2073	4.01	4.01	3.50	3.70
2044	4.60	4.60	3.50	4.21	2074	3.96	3.96	3.50	3.70
2045	4.59	4.59	3.50	4.04	2075+	3.94	3.94	3.50	3.70
2046	4.58	4.58	3.50	3.88					
2047	4.57	4.57	3.50	3.75					
2048	4.56	4.56	3.50	3.70					
2049	4.55	4.55	3.50	3.70					
2050	4.54	4.54	3.50	3.70					
2051	4.53	4.53	3.50	3.70					
2052	4.52	4.52	3.50	3.70					
2053	4.52	4.52	3.50	3.70					

The table above shows the trend increases on a fiscal year basis; premium rates change on a calendar year basis. For the fiscal year beginning July 1, 2024, the trend was developed using actual calendar year 2024 premiums and a trend assumption for calendar year 2025. The trend factors vary by plan as shown in the table below.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Plan		FY Beginning 2024 Trend
Pre-Medicare		
	Kaiser Plans	9.44%
	Anthem Plans	15.42%
Medicare		
	Kaiser Plan	10.63%
	Anthem PPO Plan	4.43%
Dental		
	HMO Plan	1.76%
	PPO Plan	1.75%

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

3. Changes Since the Last Valuation

The per-person cost trends were updated.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The OPEB assumptions were adopted by the Board of Administration at the November 2, 2023 Board meeting based on our recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 2, 2023 Board meeting based on recommendations from our experience study covering Plan experience through June 30, 2023. Please refer to the full experience study report for details, including the rationale for each assumption.

1. Salary Increase Rate

Wage inflation component

Reflect currently bargained across-the-board increases and 3.00% per annum (0.50% real wage growth) thereafter. For this valuation, Police and Fire members have bargained increases of 4.00% for FYE 2024. Police members have an ongoing non-pensionable 4.00% retention pay that becomes pensionable as well as a bargained increase of 3.00% for FYE 2025.

Merit Increases

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

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

2. Administrative Expenses

For FYE 2025, trust administrative expenses are assumed to equal \$35 per full benefit member and are assumed to increase at the ultimate wage inflation assumption of 3.00% per annum.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

3. Retirement Rates

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

Tier 1 Rates of Retirement						
Age	Police Years of Service			Fire Years of Service		
	<25	25 – 29	30+	<25	25 – 29	30+
50	0.0%	55.0%	60.0%	0.0%	45.0%	50.0%
51	0.0	45.0	60.0	0.0	30.0	50.0
52	0.0	35.0	60.0	0.0	40.0	50.0
53	0.0	35.0	60.0	0.0	40.0	50.0
54	0.0	35.0	60.0	0.0	40.0	50.0
55	30.0	40.0	60.0	30.0	40.0	100.0
56	30.0	45.0	60.0	25.0	40.0	100.0
57	30.0	50.0	60.0	20.0	40.0	100.0
58 – 61	45.0	50.0	60.0	27.5	40.0	100.0
62+	100.0	100.0	100.0	100.0	100.0	100.0

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

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

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

4. Deferred Vested Member Retirement Age

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

5. Rates of Termination

Rates of termination are shown in the following table.

Rates of Termination*		
Service	Police	Fire
0	11.00%	8.50%
1	8.00	4.00
2	6.25	2.75
3	5.00	1.75
4	4.25	1.25
5	3.75	1.00
6	3.55	0.90
7	3.40	0.80
8	3.30	0.70
9	3.25	0.60
10	3.25	0.50
11	3.25	0.50
12	3.15	0.50
13	2.95	0.50
14	2.75	0.50
15	2.25	0.50
16	1.75	0.50
17	1.50	0.50
18	1.25	0.50
19+	1.00	0.50

**Termination rates do not apply once retirement rates apply.*

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

6. Rates of Mortality

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

Base Mortality Tables		
Category	Male	Female
Healthy Retirees	0.972 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Retirees	0.972 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Retirees
Disabled Retiree	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees
Beneficiaries	1.032 times the 2010 General Member Mortality Table (PubG-2010) for Healthy Retirees	1.032 times the 2010 General Member Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.979 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Employees	0.979 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)-2010(A)) for Healthy Employees

7. Disability Rates

For Police and Fire, disability rates are equal to the CalPERS Police Officers & Firefighters (POFF) industrial and non-industrial rates multiplied by 104%. Sample disability rates of active participants are provided in following table.

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Rates of Disability at Selected Ages	
Age	Rate
25	0.12%
30	0.20
35	0.33
40	0.52
45	0.80
50	1.17
55	1.65
60	2.24
65	2.96

All disabilities are assumed to be duty related.

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

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

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

9. Dependent Coverage Election

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

Assumed Future Retiree Tier Elections				
Coverage Tier	Pre-Medicare		Medicare	
	Male	Female	Male	Female
Retiree Only	18%	52%	25%	75%
Retiree and Children	7%	23%	0%	0%
Retiree and Spouse	32%	15%	75%	25%
Retiree and Family	43%	10%	0%	0%

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

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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

10. In-Lieu Assumptions

Members who elect to receive the In-Lieu credits are assumed to remain in the In-Lieu credit program for five years, after which they are assumed to elect coverage and use their In-Lieu credits. The amount of the In-Lieu credit is 25% of the subsidy for the tier of coverage for which the retiree qualifies. Future retiree medical tier qualification assumptions are provided in the following table.

Assumed Future Retiree In-Lieu Credit Tier				
Coverage Tier	Pre-Medicare		Medicare	
	Male	Female	Male	Female
Retiree Only	22%	22%	40%	40%
Retiree and Children	0%	0%	0%	0%
Retiree and Spouse	23%	23%	60%	60%
Retiree and Family	55%	55%	0%	0%

11. Health Plan Election

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the following table.

Assumed Plan Elections for Future Retirees			
		% Electing	% Electing
Pre-Medicare Medical Plans			Medicare-Eligible Medical Plans
Kaiser DHMO	5%	Kaiser Senior Advantage	43%
Kaiser \$25 Co-pay	62%	Anthem Medicare PPO	57%
Kaiser HDHP	6%		
Anthem DHMO	3%		
Anthem Select \$20 Co-pay	8%		
Anthem Traditional \$20 Co-pay	3%		
Anthem HDHP PPO	9%	Dental Plans (All Retirees)	
Anthem Select PPO	3%	Delta Dental PPO	99%
Anthem Classic PPO	1%	DeltaCare HMO	1%

Eligible for coverage and elect coverage

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

12. Voluntary Employees' Beneficiary Association Balance Drawdown

Members are assumed to draw down their VEBA balances by the blended active and retiree member plus spouse premium, without factoring in the lowest cost premium, and increased by a factor of 1.65 to estimate the adjustment from a blended active and retiree premium to a retiree only premium.

13. Married Percentage

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

14. 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.

15. Changes Since the Last Valuation

Plan election assumptions and the administrative expense assumption were updated.

The wage inflation assumption was updated to reflect currently bargained agreements for FYE 2024 and FYE 2025.

Demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2023. Please refer to our demographic experience study report for more detail and an explanation of the rationale for these changes.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Claim and Health Plan Benefit Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the November 2, 2023 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 2023 and 2024. 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 2023 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José but the load for children for Police and Fire was developed separately from the load for Federated.

The Inflation Reduction Act of 2022 (the Act) contains provisions that may impact the cost of benefits provided to Medicare eligible retirees. The Act provides for changes that could reduce costs and changes that could increase costs. Implementing regulations and market responses are likely to affect the net impact. Based on information currently available, we don't expect the Act to have a material impact on costs. However, we may adjust our assumptions in the future as more information emerges.

1. Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2023 based on the premiums for 2023 and 2024. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

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

<u>Sample Claims Costs - Non-Medicare Eligible</u>						
Age	<u>Kaiser</u>		<u>Anthem HMO</u>		<u>Anthem PPO</u>	
	Male	Female	Male	Female	Male	Female
40	\$11,766	\$14,385	\$14,624	\$17,685	\$18,494	\$23,203
45	11,956	13,979	14,670	17,034	19,371	23,008
50	12,551	14,196	15,190	17,113	20,978	23,936
55	13,802	14,962	16,477	17,833	23,763	25,849
60	16,039	15,639	18,916	18,448	28,321	27,601
64	18,813	15,314	22,018	17,928	33,738	27,446

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Age	<u>Sample Claims Costs - Medicare Eligible</u>					
	<u>Kaiser Senior Adv</u>		<u>Anthem HMO</u>		<u>Anthem Select PPO</u>	
	Male	Female	Male	Female	Male	Female
65	\$2,786	\$2,458	\$5,366	\$4,734	\$5,234	\$4,617
70	2,959	2,506	5,699	4,826	5,558	4,707
75	3,400	2,818	6,550	5,428	6,388	5,294
80	3,861	3,196	7,437	6,155	7,253	6,003
85	4,170	3,492	8,032	6,727	7,833	6,560

<u>Sample Claims Costs - Dental</u>	
<u>Dental Blended</u>	
Age	Unisex
All	701.15

2. Medicare Part D Subsidy

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3. Medicare Part B

All Medicare eligible retirees are assumed to participate in Medicare Part B.

4. Medicare Eligibility

All retirees who turn age 65 are assumed to be eligible for Medicare.

5. Annual Limits

Assumed to increase at the same rate as trend.

6. Lifetime Maximums

Are not assumed to have any financial impact.

7. Geography

Implicitly assumed to remain the same as current retirees.

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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.

9. Changes Since the Last Valuation

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

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Contribution Allocation Procedure

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

1. Actuarial Cost Method

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

2. Asset Valuation Method

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

3. Amortization Method

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

4. Contributions

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

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

5. Changes Since the Last Valuation

None.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

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

Medical/Dental:

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

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

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

Premiums: Monthly premiums before adjustments for 2023 and 2024 are as follows.

2023 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$ 643.72	\$ 1,287.42	\$ 1,126.50	\$ 1,931.14
Kaiser \$25 Co-pay	786.16	1,572.30	1,375.76	2,358.46
Kaiser HDHP	542.36	1,084.72	949.12	1,627.08
Anthem HMO Select \$20 Co-pay	761.32	1,674.88	1,370.38	2,360.04
Anthem HMO Traditional \$20 Co-pay	875.20	1,925.42	1,575.38	2,713.10
Anthem DHMO	586.94	1,291.32	1,056.50	1,819.58
Anthem HDHP	1,339.04	2,945.90	2,410.28	4,151.08
Anthem Select PPO	2,173.60	4,781.98	3,912.52	6,738.28
Anthem Classic PPO	2,324.74	5,114.46	4,184.52	7,206.70
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$ 232.29	\$ 464.58	\$ 464.58	\$ 696.87
Anthem Medicare PPO	487.81	975.62	975.62	1,463.43
Anthem Medicare HMO	444.53	889.06	889.06	1,333.59
Dental				
Delta Dental PPO	\$ 50.88	\$ 92.89	\$ 122.12	\$ 157.72
DeltaCare HMO	24.44	48.68	42.74	73.30

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

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2024 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$ 708.38	\$ 1,416.74	\$ 1,239.66	\$ 2,125.12
Kaiser \$25 Co-pay	865.12	1,730.22	1,513.94	2,595.34
Kaiser HDHP	596.84	1,193.68	1,044.46	1,790.52
Anthem HMO Select \$20 Co-pay	940.24	2,068.48	1,692.42	2,914.64
Anthem HMO Traditional \$20 Co-pay	1,080.88	2,377.90	1,945.60	3,350.68
Anthem DHMO	724.88	1,594.78	1,304.78	2,247.18
Anthem HDHP	1,653.72	3,638.18	2,976.70	5,126.58
Anthem Select PPO	2,684.40	5,905.74	4,831.96	8,321.78
Anthem Classic PPO	2,871.06	6,316.36	5,167.88	8,900.28
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$ 270.09	\$ 540.18	\$ 540.18	\$ 810.27
Anthem Medicare PPO	502.69	1,005.38	1,005.38	1,508.07
Anthem Medicare HMO	N/A	N/A	N/A	N/A
Dental				
Delta Dental PPO	\$ 50.88	\$ 111.92	\$ 122.12	\$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

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Summary of 2024 Benefit Plans:

Medicare-Eligible Plans	Kaiser	Anthem PPO
Annual Out-of-Pocket Maximum	\$1,000 per year for any one member	\$0
Annual Deductible	None	None
Office Visit copay	\$25	\$0
Emergency Room copay	\$50	\$0
Hospital Care copay	\$250	\$0
Prescription Drug retail copay (30-day supply):		
Generic Brand	\$10	\$10
Non-Formulary	\$10	\$25
Specialty Drug	N/A	\$40

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Non-Medicare Plans:	Kaiser			Anthem HMO		Anthem PPO*		
	High Deductible	DHMO	\$25 Co-Pay	\$20 Co-Pay	DHMO	Select PPO	Classic PPO	High Deductible
Annual Out-of-Pocket Maximum (single/family)	\$5,950/ \$11,900	\$4,000/ \$8,000	\$1,500/ \$3,000	\$1,500/ \$3,000	\$4,000/ \$8,000	\$2,100/ \$4,200	\$2,100/ \$4,200	\$4,000/ \$8,000
Annual Deductible (single/family)	\$3,200/ \$6,400	\$1,500/ \$3,000	None	None	\$1,500/ \$3,000	\$100/\$200	\$100/\$200	\$2,500/ \$5,000
Office Visit copay	30%**	\$40	\$25	\$20	\$20	\$25	\$25	20%**
Emergency Room copay	30%**	30%**	\$100	\$100	30%**	\$100	\$100	20%**
Hospital Care copay	30%**	30%**	\$100	\$100	30%**	10%**	10%**	20%**
Prescription Drug retail copay (30-day supply):								
Generic Brand	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Non-Preferred	\$30	\$30	\$25	\$30	\$30	\$25	\$25	\$30
Specialty	N/A	N/A	N/A	\$60	\$60	\$40	\$40	\$60

* In-Network benefits

** After deductible is paid.

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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.

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CATASTROPHIC DISABILITY HEALTHCARE PROGRAM

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

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

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

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

VEBA members on service-connected disability will receive benefits from the Postemployment Healthcare Plan only up to age 65 once VEBA funds are exhausted

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

APPENDIX D – GLOSSARY OF TERMS

1. Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, and retirement; changes in compensation; rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and, other relevant items.

2. Actuarial Cost Method

A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an allocation of such value to each year of service, usually in the form of a normal cost and an Actuarial Liability.

3. Actuarial Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

4. Actuarial Liability

The portion of the actuarial present value of projected benefits that will not be paid by future normal costs. It represents the value of the past normal costs with interest to the valuation date.

5. Actuarial Present Value (Present Value)

The value as of a given date of a future amount or series of payments. The actuarial present value discounts the payments to the given date at the assumed investment return and includes the probability of the payment being made. As a simple example: assume you owe \$100 to a friend one year from now. Also, assume there is a 1% probability of your friend dying over the next year, in which case you will not be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

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

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.

APPENDIX D – GLOSSARY OF TERMS

7. Actuarial Value of Assets

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

8. Amortization Payment

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

9. Entry Age Normal Actuarial Cost Method

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

10. Normal Cost

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

11. Unfunded Actuarial Liability

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

12. Funded Percentage

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

13. Mortality Table

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

14. Discount Rate

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

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APPENDIX D – GLOSSARY OF TERMS

15. Medical Trend

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

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APPENDIX E – LIST OF ABBREVIATIONS

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



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