

**City of San Jose Police and Fire Department  
Medical and Dental Insurance Plan**

*Actuarial Valuation and Review of Other Postemployment  
Benefits (OPEB) as of June 30, 2010  
In accordance with GASB Statements No. 43 and No. 45*

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May 31, 2011

Board of Retirement

City of San Jose Police and Fire Department Medical and Dental Insurance Plan

1737 North First Street, Suite 580

San Jose, CA 95112-4505

Dear Members of the Board:

We are pleased to submit this report on our actuarial valuation of postemployment welfare benefits as of June 30, 2010. For the purpose of determining the discount rate, we have continued to follow directions provided previously by the Department of Retirement Services to follow the Municipal Code provisions that specify how the funding contribution rates are shared between the City and the members so as to anticipate that the members will now make contributions that amount to those same proportionate shares but applied to the accrual accounting expense determined in accordance with GASB Statements No. 43 and 45. A summary of the procedures and assumptions directed by the Department of Retirement Services are provided in Section 4, Exhibits IV and V.

The employees represented by the POA have agreed to phase-in the prefunding of the cost of the OPEB over a five year period beginning with the 2009-2010 fiscal year. The employees represented by Fire Fighters Local 230 have agreed to phase-in the prefunding of the cost of the OPEB over a five year period beginning with the 2011-2012 fiscal year.

This report is based on information received from the Department of Retirement Services and the data provided is summarized in this report. The actuarial projections were based on the assumptions and methods described in Exhibit II and on the plan of benefits as summarized in Exhibit III.

We look forward to discussing this material with you at your convenience.

Sincerely,

THE SEGAL COMPANY

By:

Paul Angelo, FSA, EA, MAAA, FCA  
Senior Vice President and Actuary

Andy Yeung, ASA, EA, MAAA, FCA  
Vice President and Associate Actuary

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**SECTION 1: Executive Summary for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45.**

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**PURPOSE**

This report presents the results of our actuarial valuation of City of San Jose (the "Employer") OPEB plan as of June 30, 2010. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

This report is intended for GASB expense and disclosure purposes. The setting of funding contribution rates is addressed in a separate report.

**HIGHLIGHTS OF THE VALUATION**

- The annual required contribution (ARC) for the 2010-2011 fiscal year is \$60.4 million, or 24.1% of projected pay, which is increased from 19.1% of payroll determined in the June 30, 2009 valuation for the 2009-2010 fiscal year. This 2010-2011 ARC is the City's net ARC after reducing the total ARC for the expected employee contributions for the 2010-2011 fiscal year.
- The increase in costs is mainly due to increased trend rate assumptions and decreased discount rate. Chart 2 provides a detailed reconciliation of the Unfunded Actuarial Accrued Liability. Exhibit F provides a reconciliation of the ARC from June 30, 2009 to June 30, 2010.
- Contributions paid for 2010 - 2011 represent the second year that the phase in is in place for the Police employees from the prior 10-year cash flow funding method to full ARC prefunding. Three more years remain until the transition is complete.

- Since the prior valuation, the City and Fire Fighters Local 230 have agreed to phase in from the 10-year cash flow method to full prefunding, similar to the Police, but commencing with the 2011 - 2012 fiscal year.
- The amount required to amortize the Unfunded Actuarial Accrued Liability that we use to develop the ARC has been calculated using the 30-year open (non-decreasing) amortization period adopted by the Board in the June 30, 2006 and 2007 GASB valuations. This is different from the 30-year closed (decreasing) amortization period adopted by the Board for determining the five-year phase-in funding contribution rates for the Police employees, beginning with 2009-2010 fiscal year, and for the Fire employees beginning with 2011-2012 fiscal year.
- The assumed discount rate used in this report is 6.3% as of June 30, 2010 and is reduced from the 6.7% rate used in the last valuation as of June 30, 2009.
- The derivation of the 6.3% discount rate used in this study is provided in Section 4, Exhibit V. Under this method, we first determine for 2010-2011 the ratio of the City's actual cash contributions to the City's net ARC. Those contributions include:
  - The 10-year cashflow funding contribution policy for Fire employees, plus
  - A weighted average (40/60% in this valuation to reflect the second year of the five-year phase-in) of full pre-funding and the 10-year cashflow funding

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**SECTION 1: Executive Summary for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

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contribution policy for Police employees for the 2010-2011 fiscal year, plus

- The entire implicit subsidy to the City's net ARC determined using full accrual accounting.

That ratio is used to weight the return that would be earned on assets invested by the plan versus the return that the City would earn on its investments.

- As directed by the Department of Retirement Services, a 7.75% rate is used to represent the return that the Police and Fire System would earn on contributions deposited with and invested by the plan while a 4.75% rate is used to represent the return that the City would earn on its investments. Both rates are reduced from those used in the June 30, 2009 valuation. The System's rate had been 8.00% and the City's rate had been 5.00%.
- The results of this valuation have been updated to reflect changes in the health care trend rates, per capita costs and other demographic assumptions. The new assumptions are provided in Exhibit II of this report.
- The ARC dollar amount will generally increase with payroll growth. Other factors such as gains or losses, or changes in trend assumptions will also alter the ARC.

**SECTION 1: Executive Summary for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

*The key valuation results for the current and prior years are shown.*

**SUMMARY OF VALUATION RESULTS**

	June 30, 2010	June 30, 2009
Actuarial Accrued Liability (AAL)	\$946,307,955	\$761,604,425
Actuarial Value of Assets	58,586,443	55,617,900
Unfunded Actuarial Accrued Liability	\$887,721,512	705,986,525
Funded Ratio	6.19%	7.30%
Market Value of Assets	\$50,820,000	\$42,783,000
<b>Annual Required Contribution (ARC) for coming year</b>		
Normal cost (beginning of year)	\$32,110,601	\$25,915,507
Less Employee Contributions:		
Cash contributions under current contribution funding policy, payable at the beginning of the year	(12,175,260) <sup>(1)</sup>	(10,945,625) <sup>(2)</sup>
Amortization of the unfunded actuarial accrued liability	38,693,083	32,300,810
Adjustment for timing	<u>1,818,590</u>	<u>1,557,895</u>
Total Annual Required Contribution, payable throughout the year	\$60,447,014	\$48,828,587
Covered payroll	\$251,058,473	\$255,222,552
ARC as a percentage of pay	24.08%	19.13%
<b>Total Participants</b>	<b>3,831</b>	<b>3,783</b>
<b>Annual OPEB Cost (AOC) for Coming Year</b>		
Annual Required Contributions, with interest to end of year	\$62,322,015	\$50,437,825
Interest on Net OPEB Obligations	6,740,358	4,778,049
ARC Adjustments	<u>-4,957,152</u>	<u>-3,481,423</u>
Total Annual OPEB Cost	\$64,105,221	\$51,734,451

<sup>(1)</sup> Fire employee funding contributions are based on 10-year cashflow and Police funding rates are based on a 40%/60% weighted average of 10-year cashflow and full ARC funding.

<sup>(2)</sup> Fire employee funding contributions are based on 10-year cashflow and Police funding rates are based on a 20%/80% weighted average of 10-year cashflow and full ARC funding.

**SECTION 1: Executive Summary for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

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May 31, 2011

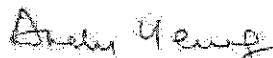
**ACTUARIAL CERTIFICATION**

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of The City of San Jose Police and Fire Department Medical and Dental Insurance Plan's other postemployment benefit programs as of June 30, 2010, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements 43 and 45 for the determination of the liability for postemployment benefits other than pensions.


The actuarial valuation is based on the plan of benefits verified by the Plan and on participant, premium, claims and expense data provided by the Plan or from vendors employed by the Plan.

The actuarial computations made are for purposes of fulfilling plan accounting requirements. Determinations for purposes other than meeting financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are Members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.



Andy Yeung, ASA, EA, MAAA, FCA  
Vice President and Associate Actuary



Patrick Twomey, ASA, EA, MAAA  
Assistant Actuary

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed.

**CHART 1**

**Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet**

	Actuarial Present Value of Total Projected Benefits (APB)	
	June 30, 2010	June 30, 2009
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$565,013,138	\$433,355,534
Current active members	801,806,205	649,845,238
Terminated members entitled but not yet eligible	<u>3,597,519</u>	<u>2,893,515</u>
<b>Total</b>	<b>\$1,370,416,862</b>	<b>\$1,086,094,287</b>
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>Actuarial Balance Sheet</b>		
The actuarial balance sheet as of the valuation date is as follows:		
<b>Assets</b>		
1. Actuarial value of assets	\$58,586,443	\$55,617,900
2. Present value of future normal costs	424,108,907	324,489,862
3. Unfunded actuarial accrued liability	<u>887,721,512</u>	<u>705,986,525</u>
4. Present value of current and future assets	\$1,370,416,862	\$1,086,094,287
<b>Liabilities</b>		
5. Actuarial Present Value of total Projected Benefits	\$1,370,416,862	\$1,086,094,287



**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion

covered by accumulated plan assets, and reconciles the Unfunded Actuarial Accrued Liability from June 30, 2009 to June 30, 2010.

**CHART 2**

**Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)**

	June 30, 2010	June 30, 2009
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$565,013,138	\$433,355,534
Current active members	377,697,300	325,355,376
Terminated members entitled but not yet eligible	<u>3,597,517</u>	<u>2,893,515</u>
Total actuarial accrued liability	\$946,307,955	\$761,604,425
Actuarial value of assets	<u>58,586,443</u>	<u>55,617,900</u>
Unfunded actuarial accrued liability	\$887,721,512	\$705,986,525

**Development of Unfunded Actuarial Accrued Liability for the Year Ended June 30, 2010**

1)	Unfunded actuarial accrued liability (UAAL) as of July 1, 2009	\$705,986,525
2)	Total normal cost as of July 1, 2009	25,915,507
3)	Interest on UAAL and normal cost for the twelve-month period ended June 30, 2010	49,037,436
4a)	Employer contributions from July 1, 2009 through June 30, 2010 (cash contributions plus implicit subsidy)	15,546,450
4b)	Employee contributions from July 1, 2009 through June 30, 2010 (cash contributions)	10,650,000
5)	Interest on contributions, payable throughout the twelve-month period ended June 30, 2010	<u>863,354</u>
6)	Expected UAAL as of June 30, 2010 (1+2+3-4a-4b-5)	\$753,879,664
7)	Actuarial experience (gain) loss	11,242,429
8)	Change in assumptions	
	a) Trends and starting costs	69,691,136
	b) Discount rate	52,908,283
9)	Unfunded actuarial accrued liability as of June 30, 2010 (6 + 7 + 8a + 8b)	\$887,721,512

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

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For purposes of determining the ARC under GASB 43 and 45, the Unfunded Actuarial Accrued Liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. The Board of Retirement for the City of San Jose Police and Fire Department Medical and Dental Insurance Plan has elected to amortize Unfunded Actuarial Accrued Liability using the following rules:

- > Open 30-year schedule
- > Level percent of pay

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**CHART 3**

**Table of Amortization Bases**

Type	Date Established	Initial Year	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Total Unfunded Actuarial Accrued Liability	06/30/2010	30	\$887,721,512	\$38,693,083	30	\$887,721,512

\* Level percentage of pay.

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

The Annual Required Contribution (ARC) is the amount calculated to determine the annual cost of the OPEB plan for accounting purposes *as if* the plan were being funded through contributions to a trust fund. The GASB standards cannot require the contributions actually be made to a trust fund. The ARC is simply a device used to measure annual plan costs on an accrual basis. The calculation consists of adding the Normal Cost of the plan to an amortization payment. The resulting sum is then adjusted to the start of the accounting period and adjusted as if the annual cost were to be contributed throughout the year.

The amortization payment is based on a 30-year open amortization of the Unfunded Actuarial Accrued Liability as level percent of pay.

**CHART 4**

**Determination of Annual Required Contribution (ARC)**

Cost Element	June 30, 2010		June 30, 2009	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$32,110,601	12.79%	\$25,915,507	10.16%
2. Less employee contributions, payable at beginning of year	(12,175,260)	(4.85%)	(10,945,625)	(4.29%)
3. Amortization of the unfunded actuarial accrued liability (30-year open period)	38,693,083	15.42%	32,300,810	12.65%
4. Adjustment for timing, payable throughout year	<u>1,818,590</u>	<u>0.72%</u>	<u>1,557,895</u>	<u>0.61%</u>
5. Total Annual Required Contribution (ARC)	<u>\$60,447,014</u>	<u>24.08%</u>	<u>\$48,828,587</u>	<u>19.13%</u>
6. Total Compensation	\$251,058,473		\$255,222,552	

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

The Annual OPEB Cost (AOC) adjusts the ARC for timing differences between the ARC and contributions in relation to the ARC. The AOC is the cost of OPEB actually booked as an expense for the Fiscal Year under GASB 45.

**CHART 4 (continued)**

**Determination of Annual OPEB Cost (AOC)**

Cost Element	2010-11	2009-10
	Amount	Amount
1. Annual Required Contribution, with interest to end of year	\$62,322,013	\$50,437,825
2. Interest on Beginning of Year Net OPEB Obligation (NOO)	6,740,358	4,778,049
3. ARC adjustment	<u>-4,957,152</u>	<u>-3,481,423</u>
4. Annual OPEB Cost	<u>\$64,105,221</u>	<u>\$51,734,451</u>

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For GASB 45 (employer reporting) purposes, the

schedule of employer contributions compares actual contributions to the AOC.

**CHART 5**

**Required Supplementary Information – Schedule of Employer Contributions**

**GASB 43**

Fiscal Year Ended June 30,	Annual Required Contributions <sup>(1)</sup>	Actual Contributions <sup>(1)(3)</sup>	Percentage Contributed
2007	\$61,343,928	\$12,056,142	19.65%
2008	48,191,414	14,053,257	29.16%
2009	50,119,071	13,474,813	26.89%
2010	50,437,825	16,058,813	31.84%
2011	62,322,015	(2)	(2)

<sup>(1)</sup> Includes interest adjustment to end of year.

<sup>(2)</sup> Will be updated when actual contributions become available.

<sup>(3)</sup> Based on schedule of direct contributions made by the City to the OPEB trust and implicit subsidy paid by the employer in the form of monthly premiums to the health insurance providers. These amounts have been adjusted with interest to the end of the year and are summarized in the following table:

Fiscal Year End	Contributions to Trust	Implicit Subsidy	Interest	Total
6/30/2007	\$9,082,000	\$2,666,818	\$307,324	\$12,056,142
6/30/2008	10,618,000	3,006,048	429,209	14,053,257
6/30/2009	9,888,000	3,175,271	411,542	13,474,813
6/30/2010	11,284,000	4,262,450	512,363	16,058,813
6/30/2011	(2)	4,939,215	(2)(4)	(2)

<sup>(4)</sup> Use factor of 3.1019% (6.30% discount rate compounded from middle to end of year).

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**CHART 5 (continued)**

**Required Supplementary Information – Schedule of Employer Contributions  
GASB 45**

Fiscal Year Ended June 30,	Annual OPEB Cost <sup>(1)</sup>	Actual Contributions <sup>(2) (3)</sup>	Percentage Contributed
2008	\$48,191,414	\$14,053,257	29.16%
2009	\$0,650,825	13,474,813	26.60%
2010	\$1,734,451	16,058,813	31.04%
2011	64,105,221	(2)	(2)

<sup>(1)</sup> Includes interest adjustment to end of year.

<sup>(2)</sup> Will be updated when actual contributions become available.

<sup>(3)</sup> Based on schedule of direct contributions made by the City to the OPEB trust and implicit subsidy paid by the employer in the form of monthly premiums to the health insurance providers. These amounts have been adjusted with interest to the end of the year and are summarized in the following table:

Fiscal Year End	Contributions to Trust	Implicit Subsidy	Interest	Total
6/30/2008	\$10,618,000	\$3,006,048	\$429,209	\$14,053,257
6/30/2009	9,888,000	3,175,271	411,542	13,474,813
6/30/2010	11,284,000	4,262,450	512,363	16,058,813
6/30/2011	(2)	4,939,215	(2) (4)	(2)

<sup>(4)</sup> Use factor of 3.1019% (6.30% discount rate compounded from middle to end of year).

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 6**

**Required Supplementary Information – Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2006	\$38,381,423	\$851,217,360	\$812,835,937	4.51%	\$218,521,000	371.97%
June 30, 2007	45,393,375	666,227,637	620,834,262	6.81%	227,734,449	272.61%
June 30, 2009	55,617,900	761,604,425	705,986,525	7.30%	255,222,552	276.62%
June 30, 2010	58,586,443	946,307,955	887,721,512	6.19%	251,058,473	353.59%

**SECTION 2: Valuation Results for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

The Net OPEB obligation measures the accumulated differences between the annual OPEB cost and the actual contributions in relation to the ARC.

**CHART 7**

**Required Supplementary Information – Net OPEB Obligation (NOO)**

Fiscal Year End <sup>(1)</sup>	Annual Required Contribution <sup>(2)</sup> (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount <sup>(4)</sup> (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Fiscal Year (g)
6/30/2008	\$48,191,414	\$0	\$0	\$48,191,414	\$14,053,257	\$34,138,157	\$34,138,157
6/30/2009	50,119,071	2,184,842	-1,653,088	50,650,825	13,474,813	37,176,012	71,314,169
6/30/2010	50,437,825	4,778,049	-3,481,423	51,734,451	16,058,813	35,575,638	106,989,807
6/30/2011	62,322,015	6,740,358	-4,957,152	64,105,221	(3)	(3)	(3)

<sup>(1)</sup> While the Plan was required to disclose the OPEB liabilities effective with the 2006/2007 fiscal year, the City was not required to disclose such liabilities until the 2007/2008 fiscal year. This schedule for the City has been prepared to reflect that the City has not elected early implementation of GASB 45.

<sup>(2)</sup> Includes interest adjustment to end of year.

<sup>(3)</sup> Will be updated when actual contributions become available.

<sup>(4)</sup> Based on schedule of direct contributions made by the City to the OPEB trust and implicit subsidy paid by the employer in the form of monthly premiums to the health insurance providers. These amounts have been adjusted with interest to the end of the year and are summarized in the following table:

Fiscal Year End	Contributions to Trust	Implicit Subsidy	Interest	Total
6/30/2008	\$10,618,000	\$3,006,048	\$429,209	\$14,053,257
6/30/2009	9,888,000	3,175,271	411,542	13,474,813
6/30/2010	11,284,000	4,262,450	512,363	16,058,813
6/30/2011	(5)	4,939,215	(5)(5)	(5)

<sup>(5)</sup> Use factor of 3.1019% (6.30% discount rate compounded from middle to end of year).



**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

*This exhibit summarizes the participant data used for the current and prior valuations.*

**EXHIBIT A  
Summary of Participant Data**

	June 30, 2010	June 30, 2009
<b>Retirees</b>		
Non-disabled	752	675
Disabled	801	776
Total	1,553 <sup>(1)</sup>	1,451 <sup>(2)</sup>
Average age	64.3	64.3
<b>Surviving Spouses</b>		
Number	257	249
Average age	64.8	64.6
<b>Active Participants</b>		
Number	2,021	2,083
Average age	40.2	40.4
Average years of service	12.3	12.6

<sup>(1)</sup> Includes 1,504 receiving medical benefits and 1,524 receiving dental benefits.

<sup>(2)</sup> Includes 1,392 receiving medical benefits and 1,413 receiving dental benefits.

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT B**

**Cash Flow Projections**

The ARC generally exceeds the current pay-as-you-go ("paygo") cost of an OPEB plan. Over time the paygo cost will tend to grow and may even eventually exceed the ARC in a well funded plan. The following table projects the paygo cost as the projected net fund payment over the next ten years.

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments**		
	Current	Future	Total	Current	Future	Total
2011	3,012	72	3,084	\$28,095,131	\$356,914	\$28,452,045
2012	2,975	148	3,123	29,862,734	1,093,943	30,956,677
2013	2,933	235	3,168	31,875,746	2,135,885	34,011,630
2014	2,890	327	3,217	33,744,777	3,507,602	37,252,378
2015	2,843	424	3,267	35,661,644	5,138,372	40,800,017
2016	2,795	536	3,331	37,201,808	7,145,261	44,347,068
2017	2,742	664	3,406	38,779,520	9,696,480	48,476,001
2018	2,688	800	3,488	40,208,191	12,836,944	53,045,135
2019	2,632	940	3,572	41,211,659	16,420,792	57,632,451
2020	2,571	1,081	3,652	42,080,525	20,410,376	62,490,901

\* Includes spouses of retirees.

\*\* Adjusted to reflect the implicit subsidy paid for members and spouses under age 65.

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT C**

**Summary Statement of Plan Net Assets on an Actuarial Value Basis (Pension and Retiree Health Plans)**

Employers may accumulate assets to pay for future OPEB. In order to be treated as plan assets, the funds must be set aside in a trust fund or equivalent arrangement that has the following characteristics:

- a. Employer contributions are irrevocable
- b. Plan assets are dedicated to OPEB only

- c. Plan assets are legally protected from the creditors of the employer and the plan administrator.

The City of San Jose Police and Fire Department Medical and Dental Insurance Plan has an arrangement that meets those requirements.

	As of June 30, 2010	As of June 30, 2009
Cash equivalents	\$204,362,000	\$224,998,000
Accounts receivable:		
Employee contributions	\$1,569,000	\$1,366,000
Employer contributions	3,547,000	4,413,000
Brokers and others	28,493,000	43,673,000
Accrued income/other liabilities	<u>8,884,000</u>	<u>8,011,000</u>
Total accounts receivable	\$42,493,000	\$57,463,000
Investments:		
Domestic equity securities and cash	\$468,971,000	\$621,868,000
International equity securities and cash	422,708,000	519,715,000
Private equity securities	106,298,000	75,905,000
Fixed income – domestic	954,502,000	418,274,000
Fixed income – international	25,143,000	40,584,000
Real estate	189,070,000	182,526,000
Other investments	<u>(5,199,000)</u>	<u>(71,000)</u>
Total investments at market value	<u>\$2,161,493,000</u>	<u>\$1,858,801,000</u>
Total assets	\$2,408,348,000	\$2,141,262,000

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT C (continued)**

**Summary Statement of Plan Net Assets on an Actuarial Value Basis (Pension and Retiree Health Plans)**

	As of June 30, 2010	As of June 30, 2009
Less accounts payable:		
Payable to brokers	-\$82,330,000	-\$81,349,000
Net securities lending	-4,316,000	-10,705,000
Other liabilities	<u>-6,832,000</u>	<u>-4,966,000</u>
Total accounts payable	-93,478,000	-97,020,000
Net assets at market value	<u>\$2,314,870,000</u>	<u>\$2,044,242,000</u>
Net assets at actuarial value	<u>\$2,668,634,370</u>	<u>\$2,657,514,600</u>
Net assets at valuation value (retiree health)	<u>\$58,586,443</u>	<u>\$55,617,900</u>

*Note: Results may not add due to rounding.*

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT D**

**Summary Statement of Income and Expenses on an Actuarial Value Basis (Pension and Retiree Health Plans)**

	One-Year Period Ended June 30, 2010	Two-Year Period Ended June 30, 2009
<b>Contribution income:</b>		
Employee contributions	\$30,747,000	\$57,902,000
Employer contributions	<u>63,599,000</u>	<u>129,981,000</u>
Net contribution income	\$94,346,000	\$187,883,000
<b>Investment income</b>	<u>61,814,770</u>	<u>271,823,512</u>
<b>Total income available for benefits</b>	\$156,160,770	\$459,706,512
<b>Less benefit payments:</b>		
Retirement benefits	-\$114,604,000	-\$192,067,000
Healthcare insurance premiums	-20,701,000	-34,013,000
Death benefits	-6,519,000	-11,449,000
Refund of contributions	<u>-196,000</u>	<u>-531,000</u>
Net benefit payments	-\$142,020,000	-\$238,060,000
<b>Less administrative expenses</b>	-\$3,021,000	-\$5,455,000
<b>Change in assets held for future benefits</b>	\$11,119,770	\$216,191,512

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

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**EXHIBIT E**

**Determination of the Actuarial Value of Assets for Years Ended June 30, 2010**

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To minimize volatility in the calculation of the annual required contribution, the Plan may choose to smooth out short-term changes in the market value of plan assets by use of an actuarial value of assets method. The Board of Retirement for the City of San Jose Police and Fire Department Medical and Dental Insurance Plan adopted the following method that smoothes such changes over a five-year period.

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT E (continued)**

**Determination of the Actuarial Value of Assets for Years Ended June 30, 2010 (Pension and Retiree Health Plans)**

*The chart shows the determination of the actuarial value of assets as of the valuation date.*

Plan Year Ending		(net)	(net)	Investment	Deferral	Deferred
From	To	Total Actual	Expected			
		Market Return	Market Return	Gain/(Loss)	Factor	Return
7/1/2005	6/30/2006	\$232,101,000	\$167,148,640	\$64,952,360	0	\$ 0
7/1/2006	6/30/2007	446,863,000	183,993,000	262,870,000	0.20	52,574,000
7/1/2007	6/30/2008	(159,466,000)	218,213,440	(377,679,440)	0.40	(151,071,776)
7/1/2008	6/30/2009	(481,764,000)	205,451,335	(504,803,408)**	0.75	(378,602,556)
7/1/2009	6/30/2010	318,302,000	164,132,047	154,169,953	0.80	123,335,962
1.	Total deferred return *					\$(353,764,370)
2.	Net market value of pension and health assets					\$2,314,870,000
3.	Actuarial value of pension and health assets					
a.	Preliminary (item 2 - item 1)					\$2,668,634,370
b.	Adjustment to be within 20% of market value					0
c.	Final					\$2,668,634,370
4.	Actuarial value as a percentage of market value:					
a.	Preliminary (item 3a ÷ item 2)					115.3%
b.	Final (item 3c ÷ item 2)					115.3%
5.	Valuation value of assets for health (market value of \$50,820,000 x item 3c ÷ item 2)					\$58,586,443

*Note: Results may not add due to rounding.*

\* The amount of deferred return that will be recognized in each subsequent year is as follows:

6/30/2011	\$(118,328,749)
6/30/2012	(170,902,749)
6/30/2013	(95,366,861)
6/30/2014	30,833,991

\*\* Based on direction from the Plan's staff, this amount has been calculated as the unrecognized (deferred) balance as of June 30, 2009 of the FY 2008/2009 investment loss, adjusted to reflect the immediate recognition of \$44,968,860 due to the 130% market value corridor adjustment from June 30, 2009.

**SECTION 3: Supplemental Valuation Details for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan June 30, 2010 Measurement Under GASB 43 and 45**

**EXHIBIT F**

**Estimated Reconciliation of Annual Required Contribution (ARC) from June 30, 2009 to June 30, 2010  
(Percent of Payroll)**

	Contribution Rate
<b>Annual Required Contribution (ARC) as of June 30, 2009</b>	<b>19.13%</b>
Effect of actuarial experience loss	0.23%
Effect of contributions less than ARC	0.71%
Effect of rolling 30-year amortization period	-0.35%
Effect of changes in trend and starting costs	2.30%
Effect of change in discount rate	1.44%
Effect of Police employee contribution phase-in	-0.57%
Effect of payroll less than projected	1.17%
Effect of changes in active demographic profile	0.02%
Net Change	4.95%
<b>Annual Required Contribution (ARC) as of June 30, 2010</b>	<b>24.08%</b>



**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT I**

**Required Supplementary Information**

Valuation date	June 30, 2010	
Actuarial cost method	Entry age normal, level percent of pay	
Amortization method	30-year open (non-decreasing) amortization period, level percent of pay	
Remaining amortization period	30 years as of June 30, 2010	
Asset valuation method	<p>The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The actuarial value of assets is constrained to be within 30% of the market value as of June 30, 2009 and within 20% on subsequent valuation dates.</p> <p>The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.</p>	
<b>Actuarial assumptions:</b>		
Discount rate	6.3%	
Inflation rate	3.5%	
Across-the-board pay increase	0.75%	
Projected payroll increases	4.25%	
Projected salary increases (8+ years of service)	6.00%*	
Medical Trends	See Next Page	
<b>Plan membership:</b>		
	June 30, 2010	June 30, 2009
Current retirees and beneficiaries	1,810	1,700
Current active participants	<u>2,021</u>	<u>2,083</u>
Total	3,831	3,783

\*Includes inflation at 3.50%, across-the-board increase of 0.75%; plus merit and promotional increases.

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT I**

**Required Supplementary Information (continued)**

**Health care cost trend rates**

Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium.

First Fiscal Year (July 1, 2010 through June 30, 2011)

PLAN	Blue Shield PPO/POS, Under Age 65	Blue Shield PPO/POS, Age 65 and Over	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Blue Shield HMO, All Ages
Trend to be applied to 2010- 2011 Fiscal Year premium	7.11%	7.11%	9.50%	9.04%	7.11%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Trend (Approximate)	Calendar Year	Trend (applied to calculate following year premium)
2011-2012	9.75%	2011	10.00%
2012-2013	9.25%	2012	9.50%
2013-2014	8.75%	2013	9.00%
2014-2015	8.25%	2014	8.50%
2015-2016	7.75%	2015	8.00%
2016-2017	7.25%	2016	7.50%
2017-2018	6.75%	2017	7.00%
2018-2019	6.25%	2018	6.50%
2019-2020	5.75%	2019	6.00%
2020-2021	5.25%	2020	5.50%
2021-2022 and later	5.00%	2021 and later	5.00%

Dental Premium Trend

5.00% for all years

Medicare Part B Premium Trend

The 2011-2012 fiscal year premium is assumed to increase 2.5% from the 2010-2011 fiscal year premium (based on the calendar year premium for 2011 remaining unchanged from 2010). Premiums after 2011-2012 are assumed to increase with 5% annual trend.

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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method**

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<b>Data:</b>	Detailed census data and financial data for postemployment benefits were provided by the Plan.
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<b>Actuarial Cost Method:</b>	Entry age normal, level percent of pay.
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<b>Administrative Expenses:</b>	No administrative expenses were valued separately from the claim costs.
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<b>Dental Premium:</b>	\$111.48 per month for calendar year 2010 and \$108.62 for calendar year 2011, with the same premium for single or married coverage.
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<b>Medicare Part B Premium:</b>	\$96.40 for calendar years 2010 and 2011.
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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Per Capita Cost Development:**

**Per Capita Costs and Carrier Election Assumption Under Age 65**

For retirees in pay status, we would use the data on record. Future retirees would have costs assigned according to the following table:

**2010 Calendar Year**

CARRIER	Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser	\$484.06	\$484.06	\$484.06	\$1,205.20	\$1,205.20	\$1,205.20	\$484.06	\$484.06	\$484.06
Blue PPO/POS	\$750.02	\$484.06	\$484.06	\$1,927.48	\$1,205.20	\$1,205.20	\$750.02	\$484.06	\$484.06
Blue Shield HMO	\$540.20	\$484.06	\$484.06	\$1,387.72	\$1,205.20	\$1,205.20	\$540.20	\$484.06	\$484.06

**2011 Calendar Year**

CARRIER	Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser	\$527.38	\$496.04	\$496.04	\$1,313.18	\$1,235.16	\$1,235.16	\$527.38	\$496.04	\$496.04
Blue PPO or POS	\$780.84	\$496.04	\$496.04	\$2,006.70	\$1,235.16	\$1,235.16	\$780.84	\$496.04	\$496.04
Blue Shield HMO	\$562.40	\$496.04	\$496.04	\$1,444.76	\$1,235.16	\$1,235.16	\$562.40	\$496.04	\$496.04

**2010-2011 Fiscal Year**

CARRIER	Election Percent		Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
	Observed	Recommended For Valuation	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser	50.1	50	\$505.72	\$490.05	\$490.05	\$1,259.19	\$1,220.18	\$1,220.18	\$505.72	\$490.05	\$490.05
Blue PPO or POS	25.8	25	\$765.43	\$490.05	\$490.05	\$1,967.09	\$1,220.18	\$1,220.18	\$765.43	\$490.05	\$490.05
Blue Shield HMO	24.1	25	\$551.30	\$490.05	\$490.05	\$1,416.24	\$1,220.18	\$1,220.18	\$551.30	\$490.05	\$490.05

*All Plans shown have a \$10 co-pay, as the \$25 co-pay plans were not available as of the June 30, 2010 census date. We note that the subsidy limits for calendar year 2011 are set equal to the premiums for the Kaiser Plans with \$25 co-pay. In this valuation we will assume that future retirees will not switch from the \$10 co-pay plans to the \$25 co-pay plans because in practice even if some retirees were to switch to the plans with the \$25 co-pay, there is no change in the subsidy amount they would be able to receive from the City of San Jose Police and Fire Department Medical Insurance Program.*

# SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan

## EXHIBIT II

### Actuarial Assumptions and Actuarial Cost Method (continued)

#### Per Capita Costs and Carrier Election Assumption Age 65 and Older

##### 2010 Calendar Year

###### CARRIER

Kaiser Senior Advantage  
Blue Shield PPO or POS  
Blue Shield HMO  
PacifiCare

Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*
\$429.78	\$484.06	\$429.78	\$859.56	\$1,205.20	\$859.56	\$429.78	\$484.06	\$429.78
\$582.86	\$484.06	\$484.06	\$1,165.72	\$1,205.20	\$1,165.72	\$582.86	\$484.06	\$484.06
\$412.46	\$484.06	\$412.46	\$824.92	\$1,205.20	\$824.92	\$412.46	\$484.06	\$412.46
\$395.48	\$484.06	\$395.48	\$790.96	\$1,205.46	\$790.96	\$395.48	\$484.06	\$395.48

##### 2011 Calendar Year

###### CARRIER

Kaiser Senior Advantage  
Blue Shield PPO or POS  
Blue Shield HMO  
PacifiCare

Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*
\$464.16	\$496.16	\$464.04	\$928.32	\$1,235.16	\$928.32	\$464.16	\$496.04	\$464.16
\$606.82	\$496.04	\$496.04	\$1,213.64	\$1,235.16	\$1,213.64	\$606.82	\$496.04	\$496.04
\$429.41	\$496.04	\$429.41	\$858.82	\$1,235.16	\$858.82	\$432.40	\$496.04	\$432.40
\$432.40	\$496.04	\$432.40	\$864.80	\$1,235.16	\$864.80	\$432.40	\$496.04	\$432.40

##### 2010-2011 Fiscal Year

###### CARRIER

###### Election Percent

Observed      Recommended  
For Valuation

Kaiser Senior Advantage  
Blue Shield PPO or POS  
Blue Shield HMO  
PacifiCare

34.1      35  
57.9      60  
5.7      5  
2.3      0

Single Party			Married/With Domestic Partner			Surviving Spouse/Domestic Partner		
Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*	Monthly Premium	Maximum Subsidy	Subsidy*
\$446.97	\$490.05	\$446.97	\$893.94	\$1,220.18	\$893.94	\$446.97	\$490.05	\$446.97
\$594.84	\$490.05	\$490.05	\$1,189.68	\$1,220.18	\$1,189.68	\$594.84	\$490.05	\$490.05
\$420.94	\$490.05	\$420.94	\$841.87	\$1,220.18	\$841.87	\$420.94	\$490.05	\$420.94
\$413.94	\$490.05	\$413.94	\$827.88	\$1,220.18	\$827.88	\$413.94	\$490.05	\$413.94

\* Any excess of the maximum subsidy over the premium can be applied toward the Medicare Part B premium. The Medicare Part B premium is \$96.40 per month in 2010 and 2011, before means testing.

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Implicit Subsidy**

GASB requires that retirees underwritten with actives be valued as if they had been underwritten separately from the actives. The difference between the age based cost for retirees only and the blended active/retiree premium is the implicit subsidy. The sample values of this subsidy for the 2010/2011 plan year for retirees and spouses/domestic partners at various ages are shown below:

<b>Male Retirees</b>									
<b>Age</b>	<b>Kaiser</b>			<b>Blue Shield PPO/POS</b>			<b>Blue Shield HMO</b>		
	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>
50	\$6,069	\$7,287	\$1,218	\$9,185	\$9,301	\$116	\$6,616	\$8,542	\$1,926
55	6,069	8,654	2,585	9,185	11,046	1,861	6,616	10,144	3,528
60	6,069	10,277	4,208	9,185	13,118	3,933	6,616	12,047	5,431
64	6,069	11,791	5,722	9,185	15,050	5,865	6,616	13,821	7,205
65+	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

<b>Female Retirees</b>									
<b>Age</b>	<b>Kaiser</b>			<b>Blue Shield PPO/POS</b>			<b>Blue Shield HMO</b>		
	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>
50	\$6,069	\$8,300	\$2,231	\$9,185	\$10,594	\$1,409	\$6,616	\$9,729	\$3,113
55	6,069	8,935	2,866	9,185	11,404	2,219	6,616	10,473	3,857
60	6,069	9,630	3,561	9,185	12,292	3,107	6,616	11,289	4,673
64	6,069	10,216	4,147	9,185	13,040	3,855	6,616	11,975	5,359
65+	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Implicit Subsidy (Continued)**

<b>Male Spouses/Domestic Partners</b>									
<b>Age</b>	<b>Kaiser</b>			<b>Blue Shield PPO/POS</b>			<b>Blue Shield HMO</b>		
	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>
50	\$6,069	\$5,090	-\$979	\$9,185	\$6,497	-\$2,688	\$6,616	\$5,966	-\$650
55	6,069	6,811	742	9,185	8,693	-492	6,616	7,984	1,368
60	6,069	9,118	3,049	9,185	11,638	2,453	6,616	10,688	4,072
64	6,069	11,510	\$,441	9,185	14,692	5,507	6,616	13,492	6,876
65+	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

<b>Female Spouses/Domestic Partners</b>									
<b>Age</b>	<b>Kaiser</b>			<b>Blue Shield PPO/POS</b>			<b>Blue Shield HMO</b>		
	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>	<b>Blended Premium</b>	<b>Age-Based Cost</b>	<b>Implicit Subsidy</b>
50	\$6,069	\$6,664	\$595	\$9,185	\$8,506	-\$679	\$6,616	\$7,812	\$1,196
55	6,069	7,714	1,645	9,185	9,846	661	6,616	9,042	2,426
60	6,069	8,947	2,878	9,185	11,420	2,235	6,616	10,487	3,871
64	6,069	10,070	4,001	9,185	12,853	3,668	6,616	11,804	5,188
65+	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT II**

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**Actuarial Assumptions and Actuarial Cost Method (continued)**

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**Spouse Coverage**

Actives at the time of retirement: 85% of employees assumed to have a spouse or domestic partner electing coverage.

Retirees: Actual data included with census.

**Spouse Age Difference**

Males are assumed to be 3 years older than their female spouses/domestic partners.

**Participation**

95% of the current participants are assumed to elect medical and dental coverage at retirement.

100% of retirees reaching age 65 are assumed to be eligible for Medicare.



**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

<b>Measurement Date:</b>	June 30, 2010
<b>Discount Rate:</b>	6.3%, based on a 7.75% assumed return on assets invested by the Police and Fire Plan and a 4.75% assumed return on assets invested by the City. The detailed development is provided in Section 4, Exhibit V.
<b>Post-Retirement Mortality Rates:</b>	
<i>Healthy:</i>	RP-2000 combined healthy mortality table (separate table for males and females) with no collar adjustment, projected 10 years. The male table is set back four years.
<i>Disabled:</i>	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back one year of age.

**Termination Rates Before Retirement:**

Age	Mortality			
	Service-Connected		Rate (%)	
			Non Service-Connected	
	Male	Female	Male	Female
25	0.0149	0.0090	0.0149	0.0090
35	0.0237	0.0213	0.0237	0.0213
45	0.0522	0.0478	0.0522	0.0478
55	0.1011	0.1254	0.1011	0.1254

SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Age	Service Connected Disability Rates (%)	
	Police	Fire
20	0.064	0.064
25	0.093	0.093
30	0.134	0.134
35	0.199	0.199
40	0.314	0.314
45	0.505	0.505
50	2.138	2.138
55	9.075	11.069
60	15.000	20.000

Years of Service	Turnover
	Rate (%)
<1	8.00
1-4	1.00
5-9	0.50
10+	0.40

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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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**Retirement Rates:\***

Retirement Rates (%)*		
Age	Police	Fire
50-54	20.00	17.00
55-59	30.00	17.00
60-64	50.00	17.00
65-69	50.00	35.00
70	100.00	100.00

*\* Applies to active members eligible for unreduced retirement benefits.*

**Retirement Age and Benefit for  
Deferred Vested Members:**

For current deferred vested members, the retirement assumption is age 55.

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**Future Benefit Accruals:**

1.0 year of service per year.

**Inclusion of Deferred  
Vested Members:**

All deferred vested members are included in the valuation.

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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**Salary Increases:**

**Annual Rate of Compensation Increase**

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Inflation: 3.50% per year;  
plus 0.75% real across-the-board salary increase;  
plus the following Merit and Promotion increases based on  
completed years of service:

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Years of Service	Annual Increase
0 - 5	5.50%
6 - 7	2.50
8 +	1.75

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**Actuarial Value of Assets:**

The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The actuarial value of assets is constrained to be within 30% of the market value as of June 30, 2009 and within 20% on subsequent valuation dates.

The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

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**Actuarial Cost Method:**

Entry Age Normal Actuarial Cost Method. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation.

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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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<b>Plan Design:</b>	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
<b>Administrative Expenses:</b>	No administrative expenses were valued separately from the claim costs.
<b>Assumption Changes Since Prior Valuation:</b>	Health care cost trend rates have been updated. Starting premium costs were revised to reflect updated data.
<b>Discount rate:</b>	Decreased from 6.7% to 6.3%.

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT III**

**Summary of Plan**

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This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plan as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

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<b>Eligibility:</b>	Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of FAS. Also, if a member separates from service after July 5, 1992, with 20 years of service leaving contributions in the retirement plan until the member applies for retirement benefits.
<b>Benefit Types:</b>	
<i>Medical Plan Choices</i>	Kaiser, BlueShield and Pacificare
<i>Dental Plan</i>	Delta Dental and Enhanced Delta Dental
<i>Medical Premiums</i>	For retirees not eligible for Medicare, the Plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the Plan pays the retiree's HMO premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees. For the 2010-2011 fiscal year, the maximum subsidy is \$490.05 for a single member and \$1,220.18 for member with spouse or domestic partner.
<i>Dental Premiums</i>	The Plan pays the entire premium.
<i>Benefit</i>	The same medical and dental coverage that the City provides an active member.

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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT III**

**Summary of Plan (continued)**

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**Active Plan Funding:**

*Police*

*Employee's Contribution*

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2011 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate.

*City's Contribution*

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2010 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate.

SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan

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Active Plan Funding (continued):

*Fire*

*Employee's Contribution*

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2011 fiscal year, the contribution rate is based on 0% of the full prefunding rate and 100% of the 10-year cash flow requirement rate.

*City's Contribution*

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2010-2011 fiscal year, the contribution rate is based on 0% of the full prefunding rate and 100% of the 10-year cash flow requirement rate.



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**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT IV**

**Procedures and Assumptions Directed by the Department of Retirement Services**

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For the purposes of determining the discount rate, we have followed directions from the Department of Retirement Services to follow the Municipal Code provision that specify how the funding contribution rates are shared between the City and the members so as to anticipate that the members will now make contributions that amount to those same proportionate shares but applied to the accrual accounting expense determined in accordance with GASB Statements No. 43 and 45.

For the purpose of determining the discount rate, we have anticipated member contributions to equal to 50% of the expense for providing the medical premium subsidy, 0% of the expense of providing the implicit subsidy, and 25% of the expense for providing dental benefit.

We also received directions regarding the earnings assumptions for City funds and for plan assets. Using those assumptions, it is assumed that the Police and Fire would earn an 7.75% annual return on contributions deposited with and invested by the Plan while the City would earn 4.75% per year on its investments. In the prior valuation, the annual Plan investment return assumption was 8.00% and the annual City investment return assumption was 5.00%.

**SECTION 4: Supporting Information for The City of San Jose Police and Fire Department Medical and Dental Insurance Plan.**

**EXHIBIT V**

**Development of Discount Rate as of June 30, 2010**

1) Projected Implicit Subsidy Payment for 2010-2011	\$4,939,215			
2) City Contribution Rate for 2010-2011 Plan Year*	5.39%			
3) Projected Payroll for 2010-2011	251,058,473			
4) Projected City Cash Contribution [(2) X (3)]	13,532,052			
5) Total Credited City Contribution [(1) + (4)]	18,471,267			
	<b>TOTAL</b>	<b>Medical</b>	<b>Dental</b>	<b>Implicit Subsidy</b>
6) Entry Age Normal Actuarial Accrued Liability Calculated Using 7.75% Discount Rate	\$773,893,520	\$618,806,111	\$62,715,731	\$92,371,678
7) Allocation of Actuarial Value of Assets	58,586,443	52,728,000	5,858,443	-
8) Unfunded Actuarial Accrued Liability	\$715,307,077	\$566,078,111	\$56,857,288	\$92,371,678
9) 30-Year Amortization of Unfunded Liability	36,959,206	29,248,693	2,937,760	4,772,753
10) Normal Cost	22,273,753	17,253,557	1,543,404	3,476,792
11) Total ARC at Beginning of Year [(9) + (10)]	59,232,959	46,502,250	4,481,164	8,249,545
12) Interest to Middle of Year	2,252,450	1,768,340	170,405	313,705
13) Total ARC payable throughout year	61,485,409	48,270,590	4,651,569	8,563,250
14) City Allocated Percentage of ARC		50%	75%	100%
15) City Allocated ARC - Expressed in Dollars	\$36,187,222	24,135,295	3,488,677	8,563,250
16) City Allocated ARC - Expressed as Percent of Payroll	14.41%	9.61%	1.39%	3.41%
17) Employee Allocated ARC - Expressed in Dollars	25,298,187	24,135,295	1,162,892	-
18) Employee Allocated ARC - Expressed as Percent of Payroll	10.08%	9.61%	0.46%	0.00%
19) Short-Term Rate of Return (as directed by Dept. of Ret. Services)	4.75%			
20) Rate of Return for fully funded plan (as directed by Dept. of Ret. Services)	7.75%			
21) Actual contribution credited to City [Line (5)]	\$18,471,267			
22) ARC allocated to City [Line (15)]	36,187,222			
23) Funded percentage for City ARC [(21)/(22)]	51.04%			
24) Weighted Average Discount Rate [(23) X (20)] + [(1-(23)) X (19)] (Rounded)	6.3%			

\* Weighted average of Police and Fire rates

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**SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**EXHIBIT VI**

**Definitions of Terms**

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The following list defines certain technical terms for the convenience of the reader:

**Assumptions or Actuarial Assumptions:**

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age; and
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

**Actuarial Present Value of Total Projected Benefits (APB):**

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

**Normal Cost:**

The amount of contributions required to fund the benefit allocated to the current year of service.

**Actuarial Accrued Liability For Actives:**

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

**Actuarial Accrued Liability For Retirees:**

The single sum value of lifetime benefits to existing retirees. This sum takes account of life expectancies appropriate to the ages of the retirees and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

**SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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<b>Actuarial Value of Assets (AVA):</b>	The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
<b>Funded Ratio:</b>	The ratio AVA/AAL.
<b>Unfunded Actuarial Accrued Liability (UAAL):</b>	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
<b>Amortization of the Unfunded Actuarial Accrued Liability:</b>	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
<b>Investment Return (discount rate):</b>	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
<b>Covered Payroll:</b>	Annual reported salaries for all active participants on the valuation date.
<b>ARC as a Percentage of Covered Payroll:</b>	The ratio of the annual required contribution to covered payroll.
<b>Health Care Cost Trend Rates:</b>	The annual rate of increase in net claims costs per individual benefiting from the Plan.
<b>Annual Required Contribution (ARC):</b>	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

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**SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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**Net OPEB Obligation (NOO):**

The NOO is the cumulative difference between the ARC and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions. There are additional adjustments in the NOO calculations to adjust for timing differences between cash and accrual accounting, and to prevent double counting of OPEB plan costs.

## SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan

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### EXHIBIT VII

#### Accounting Requirements

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The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45 -- *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statements cover postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described in Exhibit III of Section 4, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The new standards introduce an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee's career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit II of Section 4. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the Net OPEB Obligation (NOO). In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibits IV and VI of Section

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**SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

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4 contain a definition of terms as well as more information about GASB 43/45 concepts.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

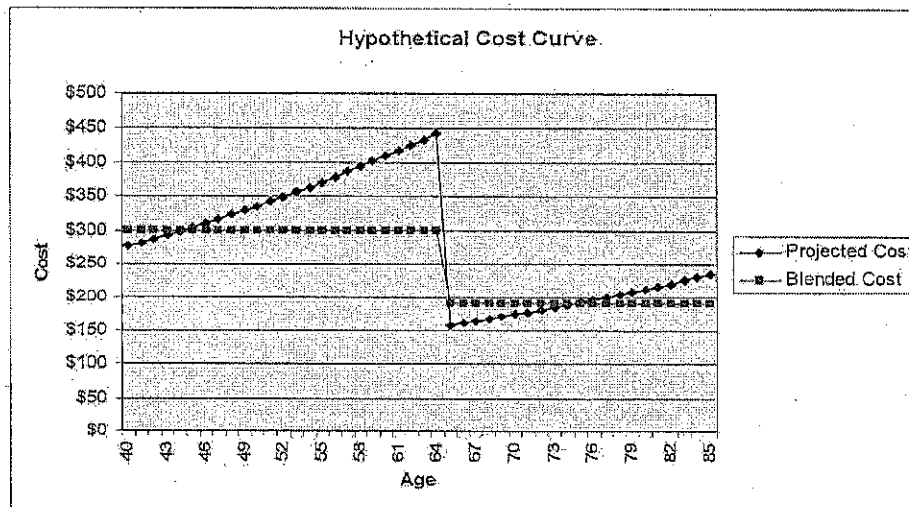
SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan

EXHIBIT VIII

GASB 43/45 Concepts

The following graph illustrates why a significant accounting obligation may exist even though the retiree contributes most or all of the blended premium cost of the plan. The average cost for retirees is likely to exceed the average cost for the whole group, leading to an implicit

subsidy for these retirees. The accounting standard requires the Plan to identify and account for this implicit subsidy as well as any explicit subsidies the Plan may provide.





**SECTION 4: Supporting Information for the The City of San Jose Police and Fire Department Medical and Dental Insurance Plan**

This graph shows how the actuarial present value of the total projected benefits (APB) is broken down and allocated to various accounting periods. The exact breakdown depends on the actuarial cost method and amortization methods selected by the employer.

**GASB 43/45 Measurement  
Elements Using Actuarial Cost Methods**

Present Value  
of Future Benefits

Future  
Accounting  
Periods

Future Accruals  
(Actives)

Current Period

Normal Cost (Actives)

Historical  
Accounting  
Periods

Actuarial Accrued  
Liability (Actives +  
Retirees)

Normal Cost

+

30 Years Amortization  
of Unfunded Actuarial Accrued Liability  
Annual Required Contribution (ARC)

$$\begin{aligned} \text{Net OPEB Obligation} &= \text{ARC}_1 + \text{ARC}_2 + \text{ARC}_3 + \dots \\ &- \text{Contribution}_1 - \text{Contribution}_2 - \text{Contribution}_3 - \dots \end{aligned}$$