

City of San José Federated Postemployment Healthcare Plan

Actuarial Valuation Funding Report as of June 30, 2022

Produced by Cheiron

January 2023

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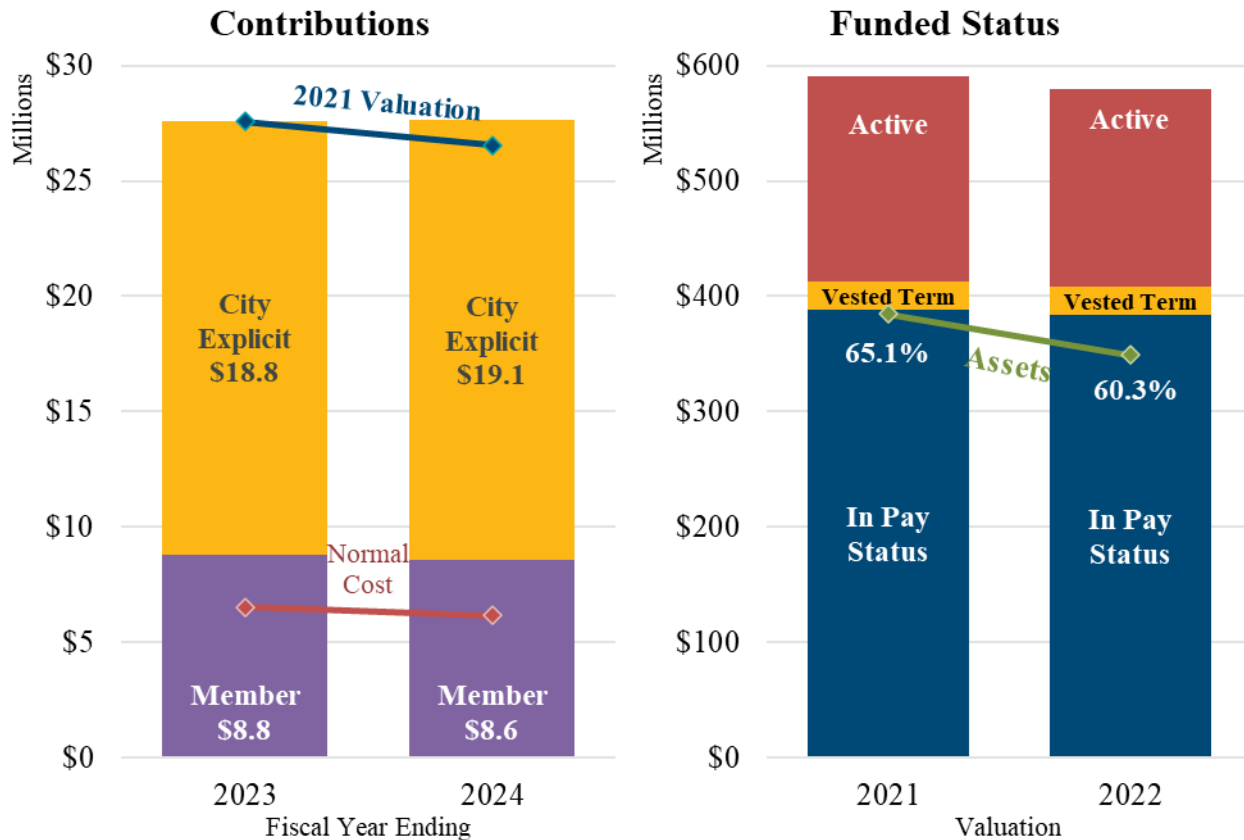
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**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2022 ACTUARIAL VALUATION FUNDING REPORT**

SECTION I – BOARD SUMMARY

This report measures assets and liabilities of the City of San José Federated Postemployment Healthcare Plan for funding purposes only. There is a separate report for financial reporting.

Dashboard



The charts above are intended to provide a quick overview of the current valuation results compared to the prior valuation results. The chart on the left shows contributions to the 115 Trust for FYE 2023 and 2024. The normal cost shown by the red line represents the expected cost of the explicit 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 payment is not shown 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 \$6.0 million for FYE 2024.

The chart on the right summarizes the funded status as of the June 30, 2021 and June 30, 2022 actuarial valuations. The stacked bars represent the Actuarial Liability for the explicit subsidy, with the liability broken into separate components for members currently receiving benefits, vested terminated members, and active members. These 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 line represents the assets, and the funded percentage is shown next to the green line.

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SECTION I – BOARD SUMMARY

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 from the Trust 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. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus city) premium.

Historically, 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 are fixed at 7.5% of pay; the City's contribution toward the explicit subsidy is actuarially determined; and, the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. Finally, the City has an option to limit its contribution toward the explicit subsidy to 14% of payroll.

Table I-1 shows the contribution amounts for the fiscal years ending in 2023 and 2024.

Table I-1				
Summary of Trust Contribution Amounts				
	FYE 2023	FYE 2024	% Change	
Explicit Subsidy				
Members	\$ 8,807	\$ 8,578		-2.6%
City's Actuarially Determined Contribution	<u>18,780</u>	<u>19,095</u>		1.7%
Total	\$ 27,587	\$ 27,673		0.3%
Estimated City Optional Cap	\$ 48,963	\$ 52,047		6.3%

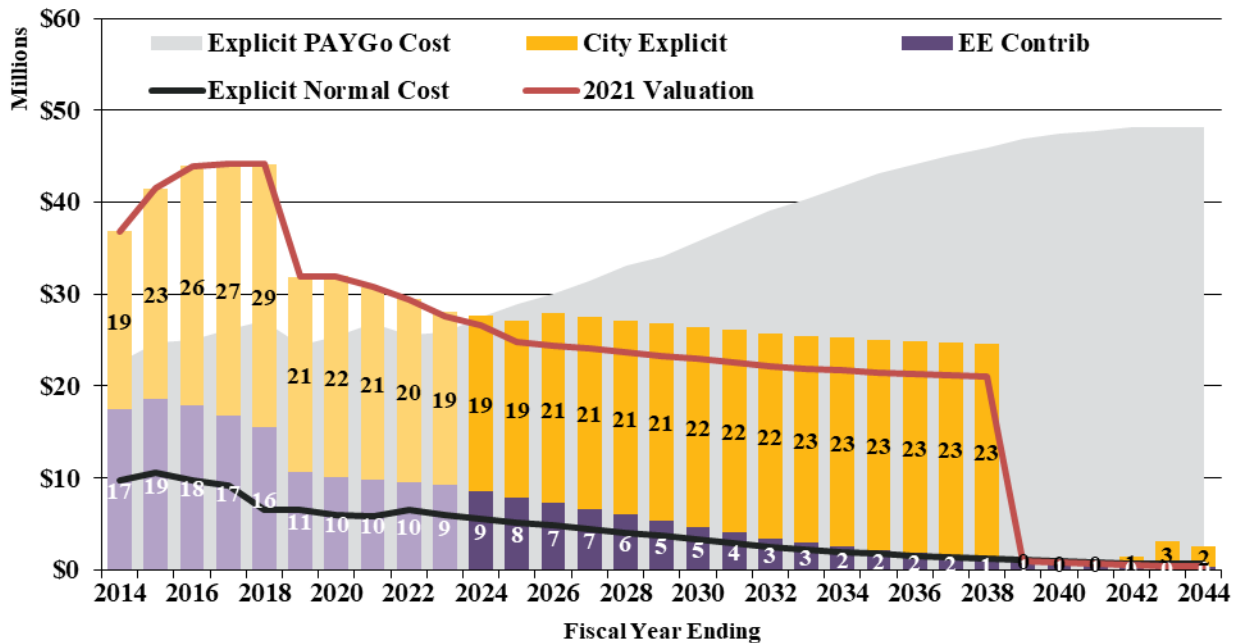
Dollar amounts in thousands

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The chart below shows the historical and 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 gray area behind the bars represents the projected annual benefit payments. The black line represents the normal cost, and the red line is the projection of the total contributions from the 2021 actuarial valuation. The significant reduction in contributions between FYE 2018 and FYE 2019 is due to the implementation of Measure F, including the VEBA elections, the new lowest cost health plan, and the adoption of actuarially determined contributions.

Historical and Projected Trust Contributions FYE 2014-2044



Because the full benefit tier of the Plan is closed to new entrants, the member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. The City’s actuarially determined contribution is expected to increase in 2026, the final phase-in year for the current year’s losses, and then remain fairly stable thereafter as the member contributions decrease.

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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, 2021. The Actuarial Liability decreased by 1.9% compared to an expected increase of 2.6%. The decrease is primarily due to demographic and premium experience, offset by assumption changes. At the same time, assets decreased 9.2% primarily due to poor investment returns. As a result, the Unfunded Actuarial Liability increased by about 11.8% and the funded percentage decreased from 65.1% to 60.3% for the explicit subsidy.

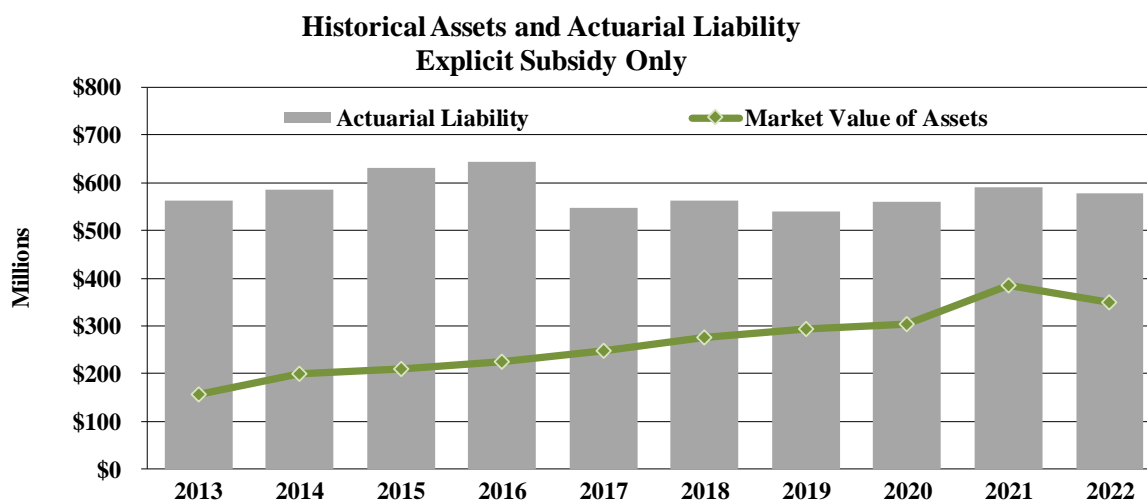
Table I-2 Summary of Funded Status - Explicit Subsidy Only				
	6/30/2021	6/30/2022	Change	
Actuarial Liability				
Actives	\$ 177,296	\$ 170,687	-3.7%	
Deferred Vested	24,485	25,120	2.6%	
In Pay Status	<u>388,606</u>	<u>383,402</u>	-1.3%	
Total Actuarial Liability	\$ 590,387	\$ 579,209	-1.9%	
Assets	384,613	349,124	-9.2%	
Unfunded Actuarial Liability	\$ 205,774	\$ 230,085	11.8%	
Funded Percentage	65.1%	60.3%	-4.9%	

Dollar amounts in thousands

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The following chart shows the historical trend of assets and the Actuarial Liability on a funding basis. Over the last 10 years, the UAL for the explicit subsidy has been reduced by \$175.0 million due to a combination of an increase in assets of \$191.4 million offset by an increase in the Actuarial Liability of \$16.4 million. The increase in Actuarial Liability was primarily due to assumption changes, offset by plan changes and favorable medical cost trend experience. 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.



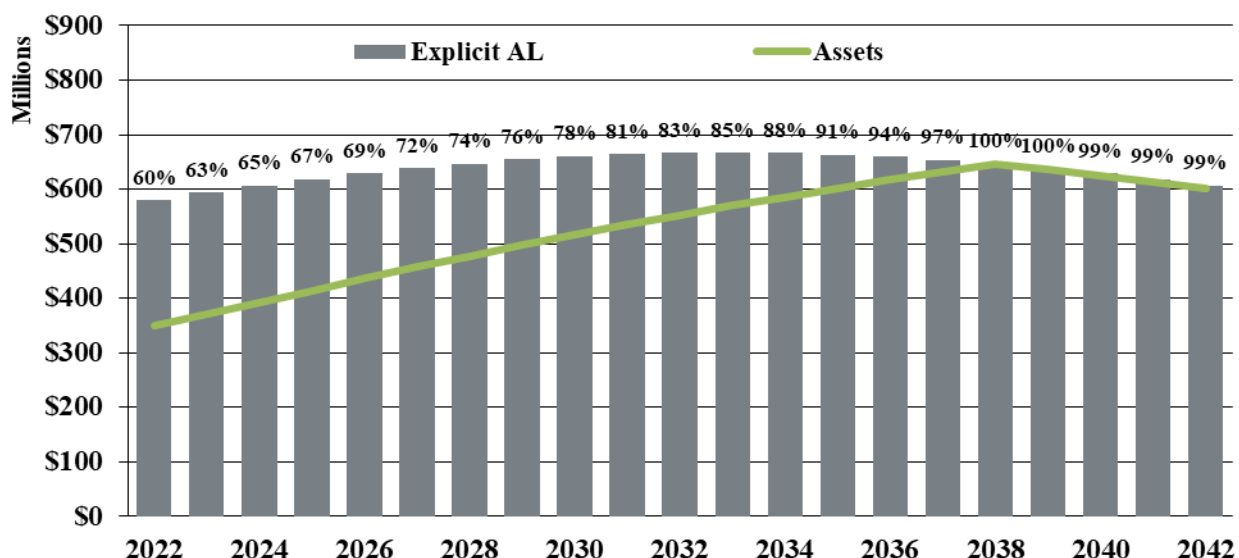
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Funded Ratio	28.0%	34.1%	33.2%	35.0%	45.3%	49.2%	54.5%	54.3%	65.1%	60.3%
UAL/(Surplus) (in millions)	\$405.1	\$385.5	\$421.5	\$418.8	\$299.6	\$286.5	\$246.3	\$255.8	\$205.8	\$230.1
Discount Rate	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%	6.75%	6.25%	6.00%	6.00%

The chart on the following page shows a 20-year projection of assets and Actuarial Liability (AL), and also shows 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, the funded percentage for the explicit subsidy is expected to reach 100% by 2038.

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Projected Assets and Actuarial Liability 2022-2042



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, 2022. The total UAL increased about \$24.3 million since the prior year.

**Table I-3
Changes in Unfunded Actuarial Liability
Explicit Subsidy Only**

Unfunded Actuarial Liability, June, 30, 2021	\$ 205,774
Unfunded Actuarial Liability, June, 30, 2022	230,085
Change in Unfunded Actuarial Liability	\$ 24,311
<u>Sources of Changes</u>	
Tread Water less Contributions	\$ (11,024)
Investment Experience	62,035
Liability Experience	(35,561)
Assumption Changes	8,861
VEBA Transfers	0
Total Changes	\$ 24,311

Dollar amounts in thousands

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Contributions in excess of the Tread Water amount reduced the UAL by \$11.0 million. The Tread Water amount equals the normal cost 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 increased the UAL by about \$62.0 million. Liability experience decreased the UAL by about \$35.6 million, mainly due to lower-than-expected premiums for Medicare eligible health plans. Assumption changes increased the UAL by about \$8.9 million, primarily due to the impact of the higher inflation assumption on health care trends.

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, 2021	June 30, 2022	% Change	
Active Members				
Eligible for Full Benefits	1,344	1,229		-8.6%
Eligible for Catastrophic Disability Only	2,285	2,397		4.9%
Total Active Members	3,629	3,626		-0.1%
Deferred Vested Members	152	153		0.7%
Members in Pay Status (Medical and/or Dental)	3,692	3,692		0.0%
Members In-Lieu only	58	65		12.1%
Total	7,531	7,536		0.1%
Full Benefit Member Payroll	\$ 126,946	\$ 124,037		-2.3%
Total Payroll	339,546	360,936		6.3%
Actuarial Liability - Explicit	\$ 590,387	\$ 579,209		-1.9%
Market Value of Assets	384,613	349,124		-9.2%
Unfunded Actuarial Liability	\$ 205,774	\$ 230,085		11.8%
Funded Percentage	65.1%	60.3%		-4.9%
Actuarial Liability - Implicit	72,473	71,461		-1.4%
	FYE 2023	FYE 2024	% Change	
City's Actuarially Determined Contribution	\$ 18,780	\$ 19,095		1.7%
City's Actuarially Determined Contribution Rate	5.37%	5.14%		-0.2%
City's Implicit Subsidy Payment	\$ 5,247	\$ 5,973		13.9%

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 Federated Postemployment 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 is a separate report 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 17, 2022 Board meeting based upon our recommendations. All other assumptions in this report were adopted at the November 21, 2019 Board meeting based on recommendations from our Experience Study covering Plan experience through June 30, 2019. 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.



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SECTION III – ASSETS

Historically, assets were invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. The 401(h) account has been depleted and all future benefits will be paid from the 115 Trust.

Statement of Change in Market Value of Assets

Table III-1 below shows the changes in the Market Value of Assets for the last two fiscal years. 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 just paid directly by the City as a part of active health plan premiums.

Table III-1 Change in Market Value of Assets		
Fiscal Year Ending	6/30/2021	6/30/2022
Market value, beginning of year	\$ 303,313,301	\$ 384,612,698
Contributions		
Employee	10,275,430	9,864,688
City	20,948,983	19,318,940
Implicit subsidy	<u>5,287,332</u>	<u>5,467,884</u>
Total	\$ 36,511,745	\$ 34,651,512
Net investment earnings	77,360,485	(38,287,194)
Benefit payments		
Explicit subsidy	26,583,889	25,620,161
Implicit subsidy	<u>5,287,332</u>	<u>5,467,884</u>
Total	\$ 31,871,221	\$ 31,088,045
Administrative expenses	696,954	764,651
VEBA Transfer	4,658	0
Market value, end of year	\$ 384,612,698	\$ 349,124,320
Estimated Rate of Return	24.5%	-9.7%

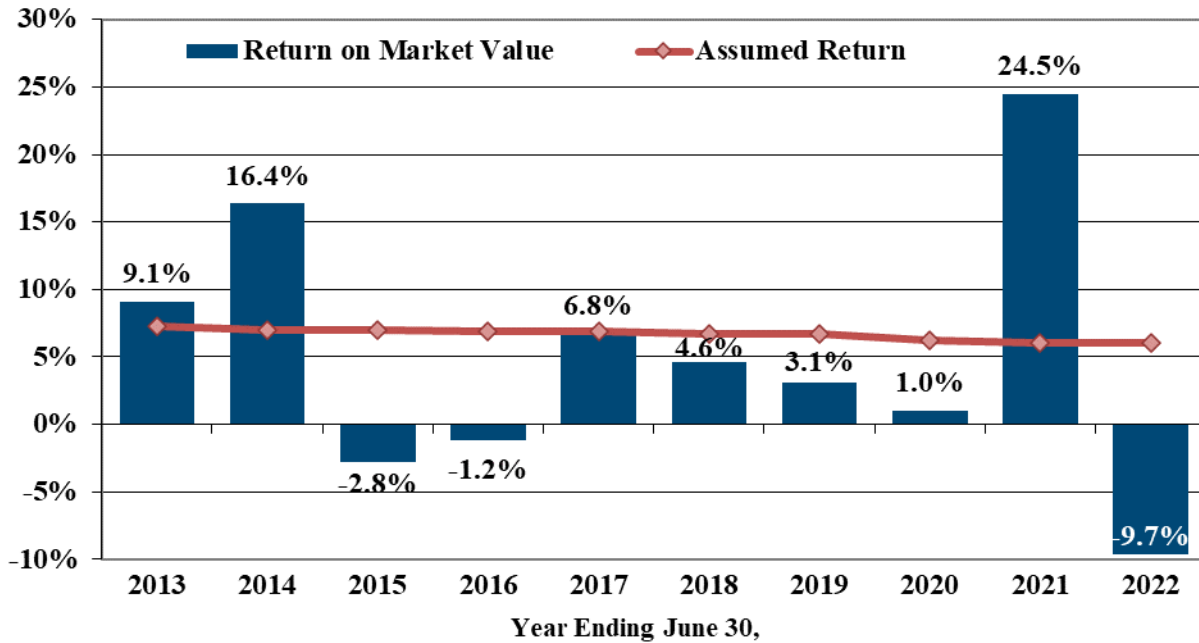
In the last year, investments, in aggregate, returned approximately -9.7% compared to an expected rate of return of 6.00%, resulting in an investment loss of approximately \$62.0 million.

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SECTION III – ASSETS

The chart below shows the actual investment return on the Market Value of Assets compared to the assumed return for the last 10 years. The compound average of the actual returns is about 4.8%.

Historical Rates of Return



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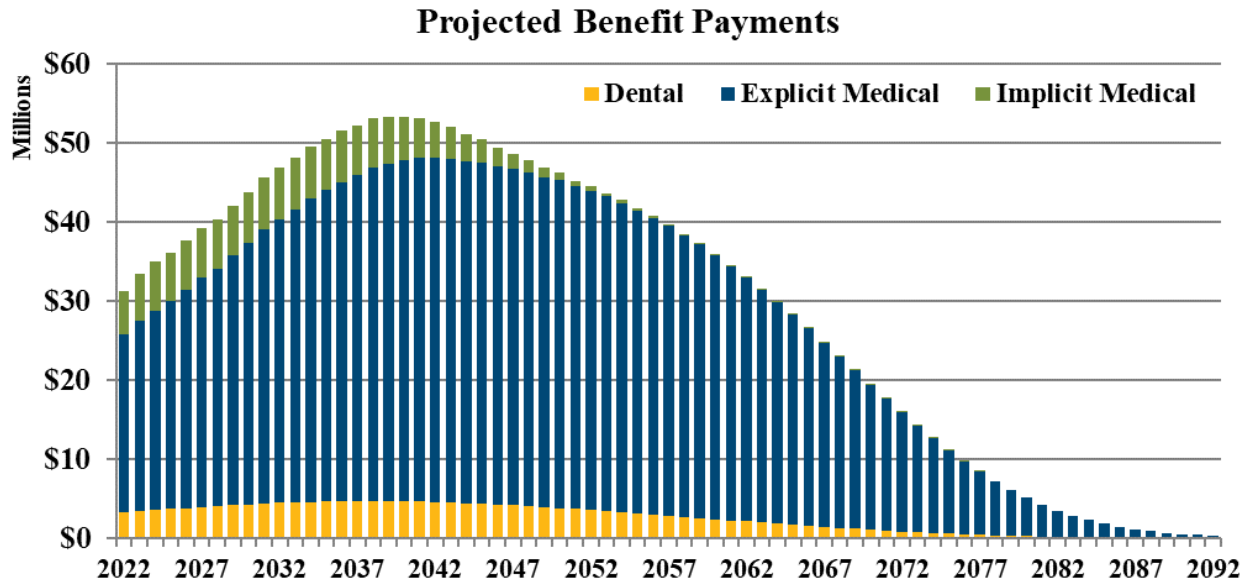
SECTION IV – MEASURES OF LIABILITY

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 chart below shows the projected benefit payments for the next 70 years.



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SECTION IV – MEASURES OF LIABILITY

Table IV-1 below shows the same projected benefit payments for the next 20 years. 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						
Fiscal Year Ending	Explicit Subsidy			Implicit Subsidy	Total	
	Medical	Dental	Total			
2023	\$ 22,533,947	\$ 3,337,238	\$ 25,871,185	\$ 5,370,230	\$ 31,241,415	
2024	24,087,714	3,476,331	27,564,045	5,973,377	33,537,422	
2025	25,258,844	3,608,057	28,866,901	6,238,801	35,105,702	
2026	26,283,616	3,736,361	30,019,977	6,196,060	36,216,037	
2027	27,549,400	3,859,304	31,408,704	6,349,875	37,758,579	
2028	29,072,940	3,976,013	33,048,952	6,273,821	39,322,773	
2029	29,989,664	4,092,753	34,082,417	6,231,994	40,314,411	
2030	31,590,990	4,207,944	35,798,933	6,311,239	42,110,172	
2031	33,100,106	4,320,566	37,420,672	6,407,255	43,827,927	
2032	34,604,365	4,428,096	39,032,461	6,565,535	45,597,996	
2033	35,850,552	4,516,810	40,367,362	6,483,933	46,851,294	
2034	37,085,037	4,583,782	41,668,818	6,495,669	48,164,487	
2035	38,439,777	4,633,477	43,073,254	6,557,679	49,630,933	
2036	39,414,753	4,669,549	44,084,301	6,494,491	50,578,793	
2037	40,410,779	4,697,146	45,107,925	6,467,620	51,575,545	
2038	41,255,291	4,720,034	45,975,326	6,255,500	52,230,826	
2039	42,159,209	4,730,004	46,889,213	6,202,112	53,091,325	
2040	42,688,378	4,724,083	47,412,461	5,918,777	53,331,238	
2041	43,085,526	4,703,407	47,788,933	5,486,184	53,275,116	
2042	43,470,845	4,667,028	48,137,873	5,097,101	53,234,974	

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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-2 below shows the present value of future benefits as of June 30, 2021 and June 30, 2022.

Table IV-2 Present Value of Future Benefits						
	<u>June 30, 2021</u>	<u>June 30, 2022</u>				
	Total	Actives	Deferred Vested	In Pay Status	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	\$ 145,857	\$ 70,493	\$ 9,717	\$ 55,701	\$ 135,911	-6.8%
Medicare Eligible	424,926	118,799	15,403	281,975	416,179	-2.1%
Dental	61,455	18,694	0	45,725	64,419	4.8%
Total Explicit Subsidy	\$ 632,238	\$ 207,986	\$ 25,120	\$ 383,403	\$ 616,509	-2.5%
Implicit Subsidy	81,136	39,954	5,517	33,840	79,311	-2.2%
Total	\$ 713,374	\$ 247,940	\$ 30,637	\$ 417,243	\$ 695,820	-2.5%

Dollar amounts in thousands

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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 the member's expected future salary. The normal cost rate is multiplied by the member's 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-3 below shows the EA normal cost as of June 30, 2021 and June 30, 2022 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.

Table IV-3					
Explicit Subsidy Normal Cost					
	June 30, 2021		June 30, 2022		
	Total	Full Benefits	Catastrophic	Total	% Change
Non-Medicare Eligible	\$ 2,401	\$ 2,076	\$ 111	\$ 2,187	-8.9%
Medicare Eligible	3,168	2,923	0	2,923	-7.7%
Dental	541	525	0	525	-3.0%
Total Normal Cost	\$ 6,110	\$ 5,524	\$ 111	\$ 5,635	-7.8%
Valuation Pay	\$ 329,796	\$ 120,476	\$ 201,149	\$ 350,572	6.3%
Total Normal Cost Rate	1.85%	4.58%	0.06%	1.61%	-13.0%
	FYE 2023		FYE 2024		
	Total	Full Benefits	Catastrophic	Total	% Change
Expected Pay	\$ 349,732	\$ 114,368	\$ 257,396	\$ 371,764	6.3%
Total Normal Cost	\$ 5,858	\$ 5,238	\$ 154	\$ 5,392	-8.0%

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-4 below shows the Actuarial Liability as of June 30, 2021 and June 30, 2022 separately by component.

Table IV-4 Actuarial Liability						
	June 30, 2021	June 30, 2022				
	Total	Actives	Deferred Vested	In Pay Status	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	\$ 128,605	\$ 55,298	\$ 9,717	\$ 55,702	\$ 120,717	-6.1%
Medicare Eligible	403,539	99,700	15,403	281,975	397,078	-1.6%
Dental	58,243	15,689	0	45,725	61,414	5.4%
Total Explicit Subsidy	\$ 590,387	\$ 170,687	\$ 25,120	\$ 383,402	\$ 579,209	-1.9%
Implicit Subsidy	72,473	32,103	5,517	33,841	71,461	-1.4%
Total	\$ 662,860	\$ 202,790	\$ 30,637	\$ 417,243	\$ 650,670	-1.8%

Dollar amounts in thousands

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SECTION V – CONTRIBUTIONS

Contributions for Administrative Expenses

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.

Contributions for administrative expenses are set equal to \$103 per member for FYE 2024 (increasing 3.0 percent each year). There are currently 7,536 members, resulting in estimated administrative expenses for FYE 2024 of \$776,208.

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SECTION V – CONTRIBUTIONS

Amortization of the Unfunded Actuarial Liability

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, 2021		June 30, 2022	
Actuarial Liability	\$	590,387	\$	579,209
Assets		<u>384,613</u>		<u>349,124</u>
Unfunded Actuarial Liability	\$	205,774	\$	230,085
Funded Percentage		65.1%		60.3%

The UAL for the explicit subsidy as of June 30, 2017 is amortized as a level dollar amount over 20 years. Subsequent amortization bases are amortized over 20 years with a three-year phase in and out. Table V-2 below shows the schedule of amortization bases for payment of the UAL.

Table V-2 UAL Amortization						
	Outstanding Balance	Remaining		FYE 2024 Payment		
		Period	Phase-in	Phase-out		
2017 UAL	\$ 227,734	15	N/A	N/A	\$	22,775
2018 Changes	1,234	16	0	3		115
2019 Changes	(33,009)	17	0	3		(2,963)
2020 Changes	19,833	18	1	3		1,727
2021 Changes	(41,973)	19	2	3		(2,438)
2022 Changes	35,819	20	3	3		1,071
FYE 2023 Payment*	20,446					
Total 2022 UAL	\$ 230,085				\$	20,287

* FYE 2023 amortization payment discounted to 7/1/2022

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V – CONTRIBUTIONS

Contribution Amounts

The City pays the actuarially determined contribution for the explicit subsidy, but has the option to cap its contribution at 14% of Federated payroll, including the payroll for members only covered for catastrophic disability. The actuarially determined contribution is the normal cost, administrative expenses, and the amortization payment on the UAL less expected member contributions. Members eligible for full benefits contribute 7.50% of pay.

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2023 and 2024.

Table V-3 City's Actuarially Determined Contribution (ADC) Explicit Subsidy Only				
	FYE 2023	FYE 2024	% Change	
Normal Cost	\$ 5,858	\$ 5,393	-7.9%	
Admin Expenses	678	776	14.5%	
UAL Payment	21,051	21,504	2.2%	
Total Contribution	\$ 27,587	\$ 27,673	0.3%	
Projected Member Contributions	\$ 8,807	\$ 8,578	-2.6%	
City's ADC Amount	\$ 18,780	\$ 19,095	1.7%	
Projected Payroll	349,732	371,764	6.3%	
City's ADC Percentage	5.4%	5.1%	-0.3%	

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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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						
Member Benefit Coverage Information						
Actuarial Valuation Date	Actuarial Liability		Active Members (B)	Reported Assets	Portion of Liability Covered by Reported Assets	
	Retirees, Beneficiaries and Other Inactives (A)				(A)	(B)
6/30/2022	\$ 447,880	\$	202,790	\$ 349,124	78%	0%
6/30/2021	452,454		210,406	384,613	85%	0%
6/30/2020	443,476		206,943	303,313	68%	0%
6/30/2019	422,108		209,644	294,489	70%	0%
6/30/2018	426,984		223,130	277,256	65%	0%
6/30/2017	408,627		221,825	248,583	61%	0%
6/30/2016	450,793		313,468	225,845	50%	0%
6/30/2015	469,903		347,770	209,761	45%	0%
6/30/2014	435,826		293,580	199,776	46%	0%
6/30/2013	495,967		374,905	157,695	32%	0%

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Table VI-2

Analysis of Financial Experience

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

Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2022	\$ (62,035)	\$ 36,504	\$ (25,531)	\$ (9,273)	\$ (34,804)
6/30/2021	57,618	25,838	83,456	(22,368)	61,088
6/30/2020	(17,738)	69,483	51,745	(34,497)	17,248
6/30/2019	(10,654)	(34,979)	(45,633)	14,784	(30,849)
6/30/2018	(5,915)	26,064	20,149	(11,137)	9,012
6/30/2017	117	5,259	5,376	123,632	129,008
6/30/2016	(16,044)	(11,608)	(27,652)	99,545	71,893
6/30/2015	(19,264)	6,948	(12,316)	(64,155)	(76,471)
6/30/2014	19,767	31,177	50,944	148,417	199,361
6/30/2013	6,847	5,834	12,681	114,786	127,467

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Schedule of Funding Progress

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

Table VI-3						
Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAL as Percentage of Covered Payroll ((b-a)/c)
6/30/2022	\$ 349,124	\$ 650,670	\$ 301,546	54%	\$ 360,936	84%
6/30/2021	384,613	662,860	278,247	58%	339,546	82%
6/30/2020	303,313	650,419	347,106	47%	322,850	108%
6/30/2019	294,489	631,752	337,263	47%	299,002	113%
6/30/2018	277,256	650,114	372,858	43%	298,985	125%
6/30/2017	248,583	630,452	381,869	39%	287,339	133%
6/30/2016	225,845	764,261	538,416	30%	266,823	202%
6/30/2015	209,761	817,673	607,912	26%	251,430	242%
6/30/2014	199,776	729,406	529,630	27%	234,677	226%
6/30/2013	157,695	870,872	713,177	18%	226,098	315%

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Schedule of Active Member Data							
Valuation Date		Active Member Counts			Annual Payroll	Average Annual Pay	% Change in Average Pay
		Under Age 65	Age 65+	Total			
2022	²	3,502	124	3,626	\$ 360,935,782	\$ 99,541	6.4%
2021	²	3,508	121	3,629	339,546,040	93,565	4.2%
2020	²	3,495	101	3,596	322,850,457	89,780	5.1%
2019	²	3,412	88	3,500	299,001,886	85,429	4.1%
2018	²	3,377	84	3,461	284,008,289	82,060	-2.6%
2017	²	3,321	89	3,410	287,339,424	84,264	-0.9%
2016	¹	2,310	77	2,387	202,911,153	85,007	5.8%
2015	¹	2,527	74	2,601	208,957,370	80,337	5.9%
2014	¹	2,800	64	2,864	217,167,654	75,827	3.7%
2013		3,028	65	3,093	226,097,882	73,100	-0.4%

¹ Does not include Tier 2B Active Employees

² Includes members that are only eligible for catastrophic disability benefits

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACTUARIAL SECTION OF THE ACFR

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls										
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	Annual Subsidy	Count	Annual Subsidy		
<u>Medical</u>										
2021-22	3,047	\$ 23,464	112	109	3,050	\$ 22,818	3	\$ (646)	-2.8%	\$ 7,481
2020-21	3,057	23,648	107	117	3,047	23,464	(10)	(184)	-0.8%	7,701
2019-20	2,909	21,588	254	106	3,057	23,648	148	2,059	9.5%	7,736
2018-19	2,923	20,566	124	138	2,909	21,588	(14)	1,023	5.0%	7,421
2017-18	2,920	23,621	139	136	2,923	20,566	3	(3,056)	-12.9%	7,036
2016-17	2,821	21,844	210	111	2,920	23,621	99	1,777	8.1%	8,090
2015-16	2,769	21,341	183	131	2,821	21,844	52	503	2.4%	7,743
2014-15	2,737	21,941	152	120	2,769	21,341	32	(599)	-2.7%	7,707
2013-14	2,718	22,657	151	132	2,737	21,941	19	(716)	-3.2%	8,016
2012-13	2,680	25,223	158	120	2,718	22,657	38	(2,566)	-10.2%	8,336
<u>Dental</u>										
2021-22	3,465	\$ 3,558	103	111	3,457	\$ 2,936	(8)	\$ (622)	-17.5%	\$ 849
2020-21	3,454	3,561	120	109	3,465	3,558	11	(3)	-0.1%	1,027
2019-20	3,405	3,502	158	109	3,454	3,561	49	58	1.7%	1,031
2018-19	3,375	3,478	123	93	3,405	3,502	30	25	0.7%	1,029
2017-18	3,322	3,414	152	99	3,375	3,478	53	63	1.9%	1,030
2016-17	3,264	3,224	170	112	3,322	3,414	58	190	5.9%	1,028
2015-16	3,206	3,212	159	101	3,264	3,224	58	12	0.4%	988
2014-15	3,133	3,130	160	87	3,206	3,212	73	82	2.6%	1,002
2013-14	3,103	3,742	138	108	3,133	3,130	30	(612)	-16.4%	999
2012-13	3,044	3,924	144	85	3,103	3,742	59	(182)	-4.6%	1,206

Annual subsidies are explicit amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Valuation Date	June 30, 2021	June 30, 2022	% Change
Active Employees Eligible for Full Benefits			
Count	1,344	1,229	-8.56%
Average Age	50.7	51.3	1.17%
Average OPEB Benefit Service	17.8	18.5	4.03%
Total Payroll	\$138,542,350	\$136,075,546	-1.78%
Active Employees Eligible for Catastrophic Disability Only			
Count	2,285	2,397	4.90%
Average Age	39.4	39.4	0.09%
Average OPEB Benefit Service	3.9	4.1	5.43%
Total Payroll	\$201,003,690	\$224,860,236	11.87%
Retirees and Surviving Spouses with Medical Coverage *			
Pre-65	853	800	-6.21%
Post-65	2,194	2,250	2.55%
Total	3,047	3,050	0.10%
Retirees and Surviving Spouses with Dental Coverage *			
Total	3,465	3,457	-0.23%
Retirees and Surviving Spouses in In-Lieu Credit Program *			
Total	237	257	8.44%
Term Vested Members	152	153	0.66%

* Counts do not include dependent spouses

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Status Reconciliation						
	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	3,629	152	3,154	424	172	7,531
New Hires	0	0	0	0	0	0
Rehires	13	(1)	0	0	0	12
Vested Terminations	(15)	15	0	0	0	0
Service Retirements	(79)	(13)	92	0	0	0
Disabled Retirements	0	0	0	0	0	0
New survivors	0	0	0	26	0	26
No longer covered	(337)	(1)	(85)	(26)	(3)	(452)
Data corrections	0	1	6	(4)	1	4
New Catastrophic Disability	415	0	0	0	0	415
End of Year	3,626	153	3,167	420	170	7,536

Counts do not include dependent spouses

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

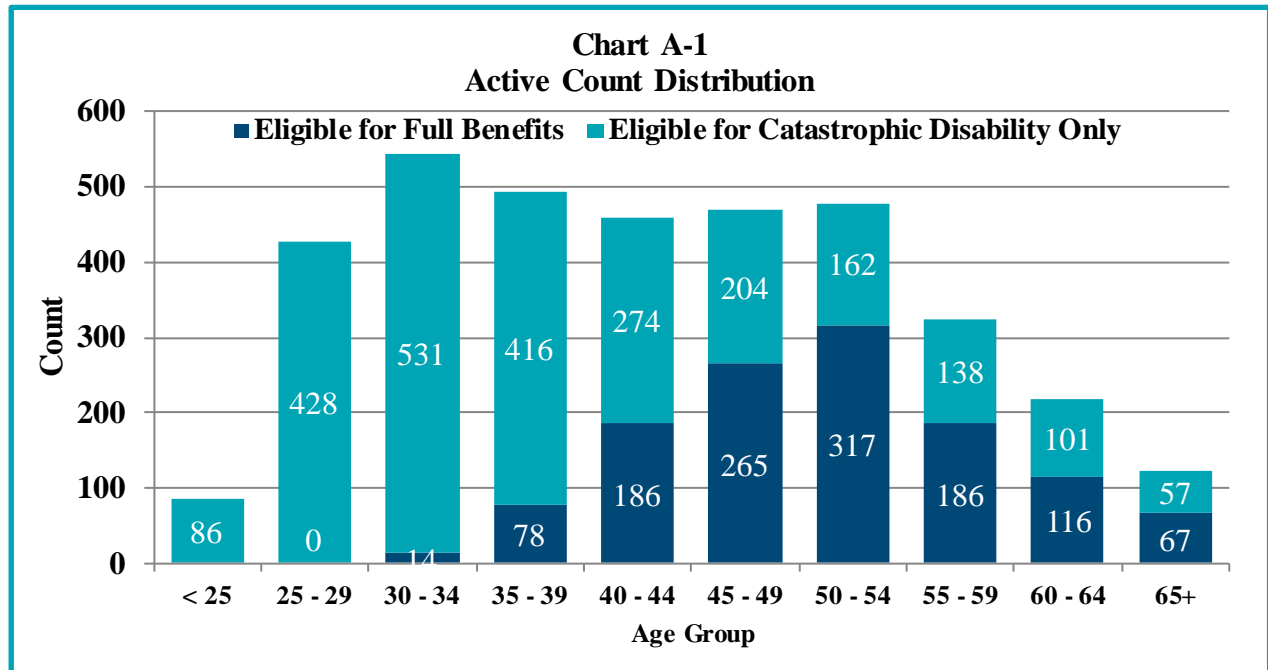
Member Data as of June 30, 2022:

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 - 34	35+	
Under 25	0	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0	0
30 to 34	0	11	2	1	0	0	0	0	14
35 to 39	4	23	36	15	0	0	0	0	78
40 to 44	2	20	69	49	46	0	0	0	186
45 to 49	1	14	48	64	128	10	0	0	265
50 to 54	0	14	39	61	144	51	8	0	317
55 to 59	0	6	36	30	94	16	4	0	186
60 to 64	1	7	36	21	31	7	11	2	116
<u>65 and up</u>	<u>0</u>	<u>3</u>	<u>6</u>	<u>21</u>	<u>25</u>	<u>6</u>	<u>5</u>	<u>1</u>	<u>67</u>
Total	8	98	272	262	468	90	28	3	1,229

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Active Employees Eligible for Catastrophic Disability Benefit Only									
Years of OPEB Benefit Service									
Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	Total
Under 25	86	0	0	0	0	0	0	0	86
25 to 29	399	29	0	0	0	0	0	0	428
30 to 34	365	166	0	0	0	0	0	0	531
35 to 39	231	175	10	0	0	0	0	0	416
40 to 44	146	115	7	4	2	0	0	0	274
45 to 49	114	82	3	1	4	0	0	0	204
50 to 54	80	71	6	3	1	1	0	0	162
55 to 59	78	48	4	2	4	1	1	0	138
60 to 64	46	48	7	0	0	0	0	0	101
<u>65 and up</u>	<u>20</u>	<u>24</u>	<u>6</u>	<u>4</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>57</u>
Total	1,565	758	43	14	13	3	1	0	2,397

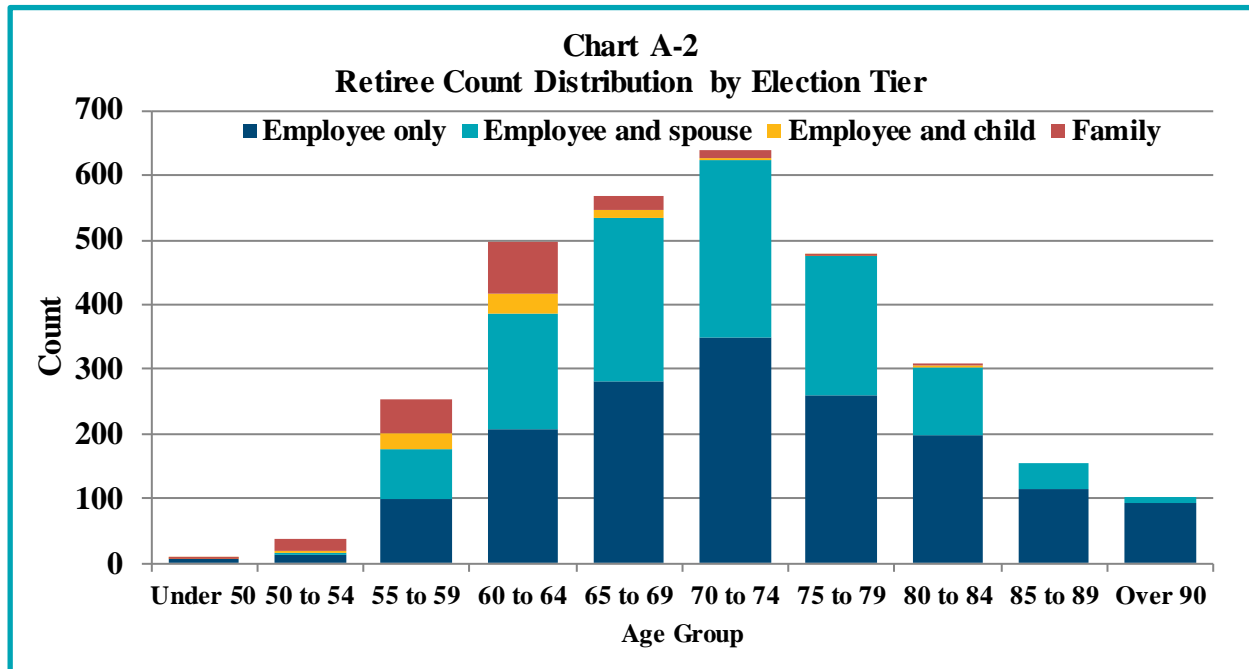


**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses				
Age Group	<u>Medical Insurance</u>			<u>Dental Insurance</u>
	Males	Females	Total	
Under 50	2	8	10	12
50 to 54	26	13	39	50
55 to 59	139	115	254	281
60 to 64	289	208	497	516
65 to 69	288	280	568	648
70 to 74	346	293	639	708
75 to 79	254	225	479	561
80 to 84	161	145	306	354
85 to 89	65	90	155	185
<u>Over 90</u>	<u>36</u>	<u>67</u>	<u>103</u>	<u>142</u>
Total	1,606	1,444	3,050	3,457

Counts do not include dependent spouses or members in In-Lieu credit program



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBERSHIP INFORMATION

Medical Plan Elections as of July 1, 2022			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	68	52	120
Kaiser HDHP	64	42	106
Kaiser \$25 Co-pay	513	330	843
Kaiser \$15 Co-pay (Hawaii)	3	0	3
Kaiser \$25 Co-pay (Northwest)	7	7	14
Anthem DHMO	8	6	14
Anthem Select \$20 Co-pay	47	25	72
Anthem Traditional \$20 Co-pay	16	10	26
Anthem HDHP	48	24	72
Anthem Select PPO	19	8	27
Anthem Classic PPO	<u>7</u>	<u>0</u>	<u>7</u>
Total	800	504	1,304
Medicare Medical Plans			
Kaiser Senior Advantage	1367	514	1,881
Kaiser Senior Advantage (Hawaii)	4	3	7
Kaiser Senior Advantage (Northwest)	27	9	36
Anthem Medicare HMO	23	7	30
Anthem Medicare PPO	<u>829</u>	<u>308</u>	<u>1,137</u>
Total	2,250	841	3,091

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	6	11	17
45 to 49	23	25	48
50 to 54	23	43	66
55 to 59	6	9	15
60 to 64	4	1	5
Over 65	<u>0</u>	<u>2</u>	<u>2</u>
Total	62	91	153

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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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 17, 2022 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 6.3% based on Meketa's 20-year capital market assumptions and the System's current investment policy.

2. Per Person Cost Trends

Medical trends were developed using the 2022 Society of Actuaries Long-Run Medical Cost Trend Model with the following parameters:

Initial trend rate:

Non-Medicare Eligible:	8.00%
Medicare Eligible:	4.00%

Inflation: 2.50%

Real GDP per Capita: 1.40%

Excess Medical Cost Growth: 1.00%

Expected GDP Share in 2031: 19.6%

Resistance Point: 21.0%

Year limited to GDP growth: 2075

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Annual Increase							
Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental	Fiscal Year Beginning	Pre- Medicare	Medicare Eligible	Dental
2023	<i>Varies by Plan</i>			2053	4.59	4.62	3.50
2024	7.16%	4.27%	3.50%	2054	4.58	4.60	3.50
2025	6.82	4.38	3.50	2055	4.57	4.59	3.50
2026	6.49	4.49	3.50	2056	4.56	4.58	3.50
2027	6.15	4.60	3.50	2057	4.56	4.57	3.50
2028	5.81	4.70	3.50	2058	4.55	4.57	3.50
2029	5.48	4.81	3.50	2059	4.54	4.56	3.50
2030	5.14	4.92	3.50	2060	4.53	4.55	3.50
2031	4.97	4.97	3.50	2061	4.52	4.54	3.50
2032	4.97	4.97	3.50	2062	4.51	4.53	3.50
2033	4.97	4.97	3.50	2063	4.51	4.52	3.50
2034	4.97	4.97	3.50	2064	4.50	4.51	3.50
2035	4.97	4.97	3.50	2065	4.46	4.48	3.50
2036	4.96	4.97	3.50	2066	4.40	4.41	3.50
2037	4.90	4.97	3.50	2067	4.34	4.35	3.50
2038	4.85	4.96	3.50	2068	4.28	4.29	3.50
2039	4.81	4.91	3.50	2069	4.23	4.24	3.50
2040	4.79	4.85	3.50	2070	4.17	4.18	3.50
2041	4.76	4.81	3.50	2071	4.12	4.12	3.50
2042	4.74	4.79	3.50	2072	4.07	4.07	3.50
2043	4.72	4.76	3.50	2073	4.01	4.02	3.50
2044	4.71	4.74	3.50	2074	3.96	3.96	3.50
2045	4.69	4.73	3.50	2075	3.94	3.94	3.50
2046	4.68	4.71	3.50	2076	3.94	3.94	3.50
2047	4.66	4.69	3.50	2077	3.94	3.94	3.50
2048	4.65	4.68	3.50	2078	3.94	3.94	3.50
2049	4.64	4.66	3.50	2079+	3.94	3.94	3.50
2050	4.63	4.65	3.50				
2051	4.62	4.64	3.50				
2052	4.60	4.63	3.50				

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, 2023, the trend was developed using actual calendar year 2023 premiums and a trend assumption for calendar year 2024. The trend factors vary by plan as shown in the table below.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Plan	FY Beginning 2023 Trend
Pre-Medicare	
Kaiser Plans	6.65%
Anthem Plans	10.93%
Medicare	
Kaiser Plan	-3.82%
Anthem HMO Plan	4.55%
Anthem PPO Plan	4.55%
Dental	
HMO Plan	1.76%
PPO Plan	11.19%

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

3. Changes Since Last Valuation

The per-person cost trends were updated.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The OPEB assumptions were adopted by the Board of Administration at the November 17, 2022 Board meeting based on our recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 21, 2019 Board meeting based on recommendations from our experience study covering Plan experience through June 30, 2019. Please refer to the full experience study report for details, including the rationale for each assumption.

1. Salary Increase Rate

Wage inflation component: 3.00%

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

Salary Merit Increases			
Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity
0	3.75%	8	1.00
1	3.00	9	0.85
2	2.50	10	0.70
3	2.15	11	0.55
4	1.85	12	0.45
5	1.60	13	0.30
6	1.40	14	0.20
7	1.20	15+	0.10

2. Rates of Termination

Rates of termination are shown in the following table.

Rates of Termination			
Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	8	5.50
1	12.75	9	4.75
2	11.75	10	4.25
3	10.75	11	4.00
4	9.75	12	3.75
5	8.75	13	3.50
6	7.75	14	3.25
7	6.50	15+	3.25

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

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3. Rates of Refund

Tier 1:

Rates of vested terminated employees electing a refund of contributions are shown in the following table.

Rates of Refund			
Years of Service	Under Age 35	Ages 35 - 44	Ages 45 and Older
0-4	100.00%	100.00%	100.00%
5	25.00	15.00	18.00
6	20.00	12.50	15.00
7	20.00	10.00	12.00
8	20.00	10.00	9.00
9	20.00	10.00	6.00
10	20.00	10.00	3.00
11	17.50	10.00	0.00
12	15.00	10.00	0.00
13	10.00	10.00	0.00
14	10.00	7.50	0.00
15	10.00	5.00	0.00
16	10.00	2.50	0.00
17+	10.00	0.00	0.00

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

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

4. Deferred Vested Member Retirement Age

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

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5. Retirement Rates

Rates of retirement for Tier 1 members are based on age according to the following table – Tier 1.

Tier 1 Rates of Retirement by Age and Service			
Age	Less than 15 Years of Service	15 or more Years of Service and less than 30 Years of Service	30 or more Years of Service
50	0.0%	0.0%	70.0%
51	0.0	0.0	70.0
52	0.0	0.0	70.0
53	0.0	0.0	70.0
54	0.0	0.0	70.0
55	10.0	35.0	50.0
56	10.0	20.0	45.0
57	10.0	20.0	40.0
58	5.0	15.0	35.0
59	5.0	15.0	30.0
60	5.0	15.0	30.0
61	10.0	20.0	30.0
62	15.0	20.0	30.0
63	20.0	20.0	30.0
64	20.0	20.0	30.0
65	20.0	20.0	30.0
66	25.0	30.0	30.0
67	25.0	35.0	30.0
68	25.0	35.0	30.0
69	25.0	35.0	30.0
70 & over	100.0	100.0	100.0

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Rates of retirement for Tier 2 members are based on age according to the following table – Tier 2. These rates are based on CalPERS retirement rates for its 2.0% at age 62 formula with adjustments based on professional judgment for differences between the CalPERS benefits and the benefits provided to Tier 2 members.

Tier 2 Rates of Retirement by Age and Service					
Age	Years of Service				
	5 – 10	11 – 20	21 – 25	26 – 34	35 +
55	3.0%	5.0%	7.0%	10.0%	15.0%
56	2.0%	3.5%	4.0%	7.0%	10.5%
57	2.5%	4.5%	5.0%	8.5%	12.75%
58	3.0%	5.5%	7.0%	11.0%	16.5%
59	3.5%	7.0%	9.0%	13.5%	20.25%
60 – 61	4.0%	8.5%	10.0%	14.5%	21.75%
62	7.5%	12.5%	17.5%	25.0%	100.0%
63 – 69	5.0%	10.0%	15.0%	25.0%	100.0%
70 & over	100.0%	100.0%	100.0%	100.0%	100.0%

6. Disability Rates

Disability rates are equal to the 0.973 times the CalPERS 2017 non-industrial disability incidence rates for miscellaneous state agencies, blended 55% male and 45% female. Sample disability rates of active members are provided in the following table.

Rates of Disability at Selected Ages	
Age	Disability
25	0.0272
30	0.0303
35	0.0613
40	0.1366
45	0.2519
50	0.3240
55	0.2631
60+	0.2191

45% of disabilities are assumed to be duty related, and 55% are assumed to be non-duty related.

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7. Base Rates of Mortality

Base mortality rates are based on the sex-distinct employee and retiree mortality tables shown below.

Category	Base Mortality Tables	
	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table

8. Rates of Mortality Improvement

Future mortality improvements are reflected by applying the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2010 for the Pub2010 tables and 2009 for the CalPERS tables. The projection scale used for the June 30, 2022 valuation is MP-2021.

9. Married Percentage

Percentage Married	
Gender	Percentage
Males	80%
Females	60%

10. Percent of Future 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	80%	20%
Terminated Vested Members	60%	40%

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11. Dependent Coverage Elections

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	31%	55%	35%	64%
Retiree and Children	4%	9%	0%	0%
Retiree and Spouse	37%	24%	65%	36%
Retiree and Family	28%	12%	0%	0%

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

12. 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	32%	32%	55%	55%
Retiree and Children	0%	0%	0%	0%
Retiree and Spouse	26%	26%	45%	45%
Retiree and Family	42%	42%	0%	0%

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13. 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	10%	Kaiser Senior Advantage	60%
Kaiser \$25 Co-pay	67%	Anthem Medicare HMO	1%
Kaiser HDHP	8%	Anthem Medicare PPO	39%
Anthem DHMO	1%		
Anthem Select \$20 Co-pay	5%		
Anthem Traditional \$20 Co-pay	1%		
Anthem HDHP PPO	3%	Dental Plans (All Retirees)	
Anthem Select PPO	4%	Delta Dental PPO	98%
Anthem Classic PPO	1%	DeltaCare HMO	2%

* Eligible for coverage and elect coverage

14. 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 1.5 to estimate the adjustment from a blended active and retiree premium to a retiree only premium.

15. Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

16. Administrative Expenses

\$103 per member for FYE 2024, increasing at the wage inflation assumption of 3.00% per annum.

17. Changes Since Last Valuation

Plan elections assumptions and the administrative expense assumption were updated.

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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the November 17, 2022 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 2022 and 2023. 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 2022 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.

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, 2022 based on the premiums for 2022 and 2023. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

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

Sample Claims Costs - Non-Medicare Eligible						
Age	Kaiser		Anthem HMO		Anthm PPO	
	Male	Female	Male	Female	Male	Female
40	\$10,414	\$12,787	\$11,585	\$14,123	\$17,665	\$22,153
45	10,635	12,468	11,731	13,692	18,493	21,959
50	11,224	12,714	12,272	13,866	20,017	22,835
55	12,407	13,457	13,447	14,571	22,663	24,651
60	14,483	14,120	15,578	15,190	26,999	26,313
64	17,035	13,865	18,237	14,846	32,155	26,159

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<u>Sample Claims Costs - Medicare Eligible</u>						
Age	<u>Kaiser Senior Adv</u>		<u>Anthem HMO</u>		<u>Anthem Select PPO</u>	
	Male	Female	Male	Female	Male	Female
65	\$2,749	\$2,425	\$5,050	\$4,455	\$5,064	\$4,467
70	2,919	2,472	5,362	4,542	5,377	4,554
75	3,355	2,780	6,163	5,108	6,180	5,122
80	3,810	3,153	6,999	5,792	7,018	5,808
85	4,114	3,445	7,558	6,330	7,579	6,347

<u>Sample Claims Costs - Dental</u>	
<u>Dental Blended</u>	
Age	Unisex
All	622.79

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.

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.

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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

9. Changes Since Last Valuation

All claims costs were updated to reflect the changes in plan premiums and the populations covered. Any implicit subsidy calculated for Medicare-eligible members is treated as an explicit subsidy reflecting additional anticipated increases in Medicare-eligible premiums attributable to the aging of the Medicare-eligible population.

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 is amortized as a level dollar amount over a closed 20-year period. All subsequent amortization bases are amortized over 20-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 amortization payment described above less expected employee contributions. The City has the option to limit its contribution towards the explicit subsidy to no more than 14% of total payroll.

Active members that are eligible for full benefits will contribute 7.50% of pay.

5. Changes Since Last Valuation

None.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

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

Medical: Employees who retire (including deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

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

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

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

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

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

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

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

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

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.

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

In-Lieu: Upon retirement, members may elect to receive credits equal to 25% of the premium subsidy the Plan would have paid in-lieu of the actual subsidy. These credits may be used at a future date to supplement the Plan's premium subsidy for the coverage elected.

Premiums: Monthly premiums for calendar years 2022 and 2023 are as follows.

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APPENDIX C – SUMMARY OF PLAN PROVISIONS

2022 Monthly Premiums				
	Single	Emp/Sp	Emp/Chd	Family
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser DHMO	\$ 607.66	\$ 1,215.32	\$ 1,063.40	\$ 1,822.98
Kaiser \$25 Co-pay	742.12	1,484.24	1,298.70	2,226.36
Kaiser HDHP	511.98	1,023.96	895.96	1,535.94
Anthem HMO Select \$20 Co-pay	661.56	1,455.40	1,190.80	2,050.78
Anthem HMO Traditional \$20 Co-pay	760.52	1,673.12	1,368.94	2,357.58
Anthem DHMO	510.02	1,234.30	1,122.10	1,581.14
Anthem HDHP	1,163.58	2,559.88	2,094.44	3,607.12
Anthem Select PPO	1,888.78	4,155.36	3,399.82	5,855.30
Anthem Classic PPO	2,020.10	4,444.26	3,636.18	6,262.34
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser Senior Advantage	\$ 260.92	\$ 521.84	\$ 521.84	\$ 782.76
Anthem Medicare PPO	465.06	930.12	930.12	1,395.18
Anthem Medicare HMO	423.76	847.52	847.52	1,271.28
Dental				
Delta Dental PPO	\$ 42.24	\$ 92.90	\$ 101.36	\$ 130.90
DeltaCare HMO	24.44	48.86	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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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.

Summary of 2023 Benefit Plans:

Medicare-Eligible Plans	Kaiser	Anthem HMO	Anthem PPO
Annual Out-of-Pocket Maximum	\$1,000 per year for any one member	\$1,000 per member	\$0
Annual Deductible	None	None	None
Office Visit copay	\$25	\$25	\$0
Emergency Room copay	\$50	\$100	\$0
Hospital Care copay	\$250	\$100	\$0
Prescription Drug retail copay (30-day supply):			
Generic Brand	\$10	\$10	\$10
Non-Formulary	\$10	\$25	\$25
Specialty Drug	N/A	\$40	\$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)	\$3,000/ \$6,000	\$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.

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, retiree-paid premiums, or both.

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VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: Employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Employee Group	VEBA Contribution Rate
Tier 1 and Tier 2A (Hired before September 2013)	
Management:	2.5%
Non-Management	3.5%
Tier 2B	
Not Unit 99	2.0%
Unit 99	N/A

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

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

VEBA members on service-connected disability receive single coverage benefits from the Postemployment Healthcare Plan 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:

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

6. Actuarial Valuation

The determination, as of a specified date, of the normal cost, Actuarial Liability, Actuarial Value of Assets, and related actuarial present values for a pension plan.

7. Actuarial Value of Assets

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

APPENDIX D – GLOSSARY OF TERMS

8. Amortization Payment

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

9. Entry Age Normal Actuarial Cost Method

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

10. Normal Cost

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

11. Unfunded Actuarial Liability

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

12. Funded Percentage

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

13. Mortality Table

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

14. Discount Rate

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

15. Medical Trend

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
JUNE 30, 2022 ACTUARIAL VALUATION FUNDING REPORT**

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)



Classic Values, Innovative Advice