CHEIRON

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City of San José Federated Postemployment Healthcare Plan

Actuarial Valuation as of June 30, 2015

Produced by Cheiron

January 2016

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Via Email

January 13, 2016

Board of Administration
City of San José Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San José, California 95112

Re: City of San José Federated Postemployment Healthcare Plan Valuation

Dear Members of the Board:

The purpose of this report is to present the annual actuarial valuation of the City of San José Federated Postemployment Healthcare Plan. This report is for the use of the Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

Appendix A describes the member data, assumptions, and methods used in calculating the figures throughout the report. In preparing our report, we relied on information (some oral and some written) supplied by the City. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with the City of San José's staff.

All of the assumptions in this report were adopted at the November 19, 2015 and December 17, 2015 Board meetings based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and our analysis of health care claims and trends. Please refer to the experience study report and our Board presentations for an explanation of the rationale for each assumption.

The liability measures and funding ratios in this report are for the purposes of establishing contribution rates and for financial reporting under GASB Statements 43 and 45. These measures are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

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, demographic or health assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report.

This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This valuation report was prepared for the Board for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,
Cheiron

William R. Hallmark

William R. Hallmark, ASA, EA, FCA, MAAA
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Michael W. Schionning, FSA, MAAA
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SECTION I - BOARD SUMMARY

The Board of Administration of the City of San José Federated City Employees' Retirement System has engaged Cheiron to provide a valuation of the City of San José Federated Postemployment Healthcare Plan. The primary purpose of performing this actuarial valuation is to:

- Determine the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the Net Other Postemployment Benefit (OPEB) Obligation (NOO) of the Postemployment Healthcare Plan under GASB 43 and 45 for the fiscal year ending June 30, 2016;

- Determine employee and City contribution rates for the fiscal year ending June 30, 2017 based on the Plan's contribution policy as prescribed by the collective bargaining agreement;

- Provide information for financial statement disclosures under GASB 43 and 45;

- Provide projections of contributions, assets, actuarial liability, ARC, and NOO to illustrate the long-term effect of the funding strategy; and,

- Show the sensitivity of the valuation results to changes in health trend assumptions.

We have determined costs, measured liabilities, and projected trends for the Plan using actuarial assumptions and methods that have been adopted by the Board or are prescribed by the collective bargaining agreement.

Contribution Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The amended agreements called for contributing the full Annual Required Contribution (ARC) under GASB 43 and 45 beginning on June 21, 2015, with contribution rate increases limited to 0.75% of pay for the members and City for each fiscal year until that date. However, we understand that subsequent agreements extended the contribution rates for FYE 2015 to the end of FYE 2016. It is not clear what the bargaining parties intend for the fiscal year ending June 30, 2017, the fiscal year for which this valuation determines contributions. Consequently, for this report we have just calculated the full ARC rates for the fiscal year.

Under the agreements, the unfunded liability as of June 30, 2009 is amortized over a closed 30-year period. Subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change. As the plan is now closed to new entrants, these amortization bases were changed from level percent of pay to level dollar payments beginning with the 2013 valuation to comply with the requirements of GASB 43 and 45 for determining the ARC. Also in accordance with GASB's parameters for an ARC, the aggregate amortization payment cannot be less than the amortization payment based on a 30-year amortization of the entire unfunded liability.

SECTION I - BOARD SUMMARY

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11ths of the total contribution. In addition, the City contributes the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan. For employees who are rehired after September 2013 who have a vested right to dental benefits, the City contributes the full UAL rate for medical benefits in addition to 8/11ths of the total dental contribution rate.

In the fiscal year end 2015, the employee and City contributions under the bargaining agreements were made to the 115 Trust. In practice, the City has contributed the amount required under the bargaining agreements plus the annual amount of the implicit subsidy. If the intent is just to contribute the ARC, the implicit subsidy amount should be paid from either the 401(h) account or the 115 Trust instead of from additional City contributions.

Accounting Policy

The Board's current policy sets the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

SECTION I - BOARD SUMMARY

Valuation Results

The tables below present the key results of the 2015 valuation. Table I-1 provides results on a funding basis, Table I-2 shows the difference between the calculated contribution rates for fiscal year ending 2016 and the actual contribution rates that have been negotiated and are being paid, and Table I-3 provides the results on a GASB reporting basis.

Table I-1
Summary of Key Valuation Results
Funding Valuation Basis

Valuation Date Discount Rate	6/30/2015 7.00%	6/30/2014 7.00%	Change
Actuarial Liability (AL)	$ 721,655	$ 664,936	8.5%
Assets	209,761	199,776	5.0%
Unfunded Actuarial Liability (UAL)	$ 511,894	$ 465,160	10.0%
Funding Ratio	29.1%	30.0%	-0.9%
Fiscal Year Ending	**6/30/2017**	**6/30/2016**	**Change**
Member Contribution Rate			
Tier 1 and 2 (Medical and Dental)	10.72%	10.47%	0.25%
Tier 2c (Dental Only)	0.69%	0.69%	0.00%
City Contribution Rate			
Tier 1 and 2 (Medical and Dental)	11.86%	11.61%	0.25%
Tier 2b (No Coverage)	16.73%	16.07%	0.66%
Tier 2c (Dental Only)	16.69%	16.11%	0.58%
City Contribution Amount (beginning of year)	$ 33,111	$ 28,753	15.2%

Dollar amounts in thousands

Table I-2
Funding Contribution Rates

Fiscal Year Ending 6/30/2016	Calculated	Negotiated	Difference
Member Contribution Rate			
Tier 1 and 2 (Medical and Dental)	10.47%	8.76%	1.71%
Tier 2c (Dental Only)	0.69%	0.39%	0.30%
City Contribution Rate			
Tier 1 and 2 (Medical and Dental)	11.61%	9.41%	2.20%
Tier 2b (No Coverage)	16.07%	12.66%	3.41%
Tier 2c (Dental Only)	16.11%	12.86%	3.25%

SECTION I - BOARD SUMMARY

Table I-3
Summary of Key Valuation Results
GASB Valuation Basis

Valuation Date	**6/30/2015**	**6/30/2014**	
Discount Rate	**6.10%**	**6.30%**	**Change**
Actuarial Liability (AL)	$ 817,673	$ 729,406	12.1%
Assets	209,761	199,776	5.0%
Unfunded Actuarial Liability (UAL)	$ 607,912	$ 529,630	14.8%
Funding Ratio	25.7%	27.4%	-1.7%
Fiscal Year Ending	**6/30/2016**	**6/30/2015**	**Change**
City ARC			
-- if paid as a percent of total payroll	16.98%	15.19%	1.79%
-- if paid as a dollar amount (middle of year)	$ 42,684	$ 35,644	19.8%
Expected /Actual City Contribution*	*$ 29,832*	$ 26,959	10.7%
Expected /Actual Net Benefit Payments*	*$ 29,421*	$ 29,443	-0.1%

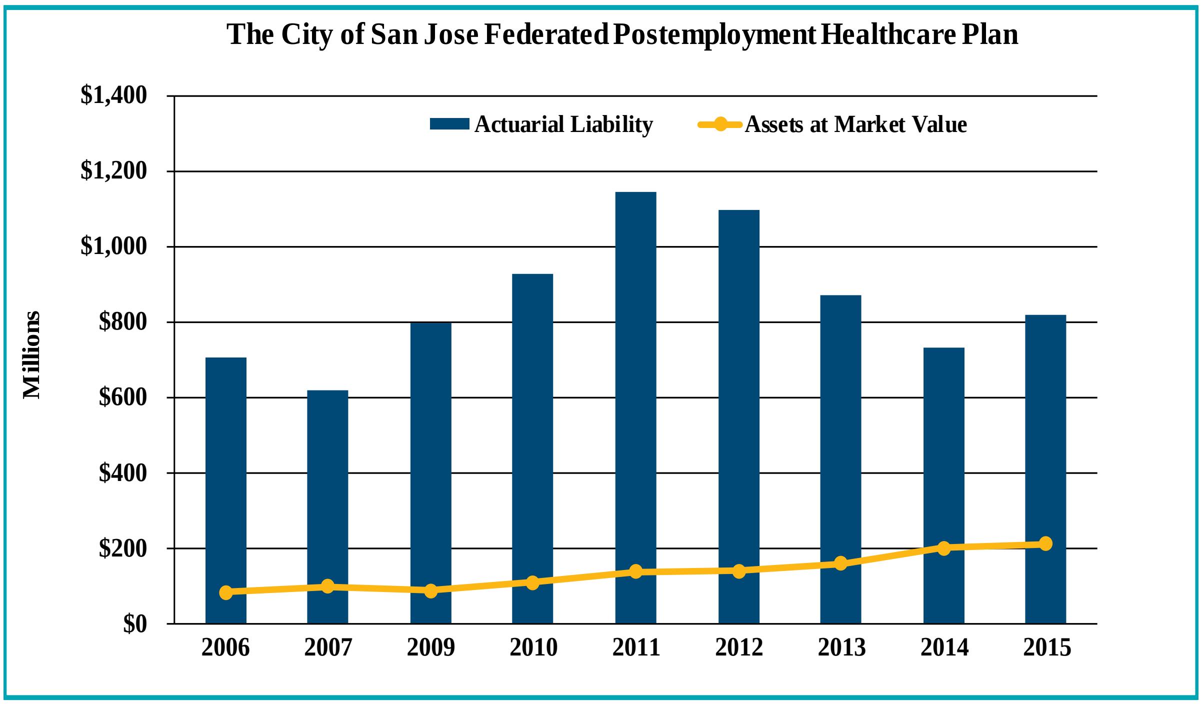
**Includes implicit subsidy* *Dollar amounts in thousands*

The discount rate on a GASB basis decreased from 6.30% to 6.10% in this valuation, while the discount rate used for funding remained at 7.00%. There were also changes in other assumptions and methods and changes to the plan since the prior valuation. These changes, together with other experience during the year, resulted in an increase in the UAL of $64 million on a GASB basis and $34 million on a funding basis. More detail on the effects of these changes can be found in the Funding and GASB valuation results sections of this report.

SECTION I - BOARD SUMMARY

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on an accounting basis for the City of San José Federated Postemployment Healthcare Plan. While the Plan has been partially funded for many years, the first valuation complying with GASB 43 and 45 was performed in 2006, which resulted in a significantly lower discount rate and a significantly higher measure of the plan's liability. The funding policy, however, was not changed until 2009. The actuarial liability grew from 2007 to 2011, reflecting the accumulation of additional benefits as well as rising health care costs and reductions in the discount rate and changes to other assumptions. The reduction in actuarial liability from 2011 to 2014 was primarily due to the plan changes, favorable medical cost trend experience, and changes in the discount rate as the plan moves towards contributing the full ARC. The increase in the actuarial liability in 2015 is primarily due to the change in demographic assumptions.



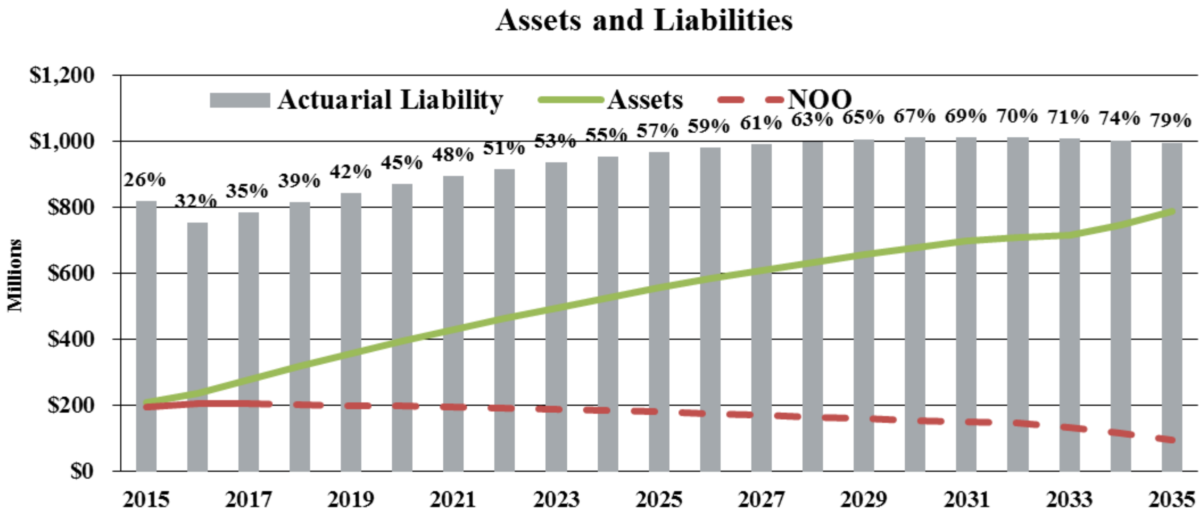
* *2006 was the first GASB 43/45 valuation.*

	2006	2007	2009	2010	2011	2012	2013	2014	2015
Funded Ratio	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%	18.1%	27.4%	25.7%
UAL/(Surplus) *(in millions)*	$621.7	$520.1	$710.9	$818.4	$1,009.9	$958.8	$713.2	$529.6	$607.9
Discount Rate	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%	5.30%	6.30%	6.10%

SECTION I - BOARD SUMMARY

Projected Trends

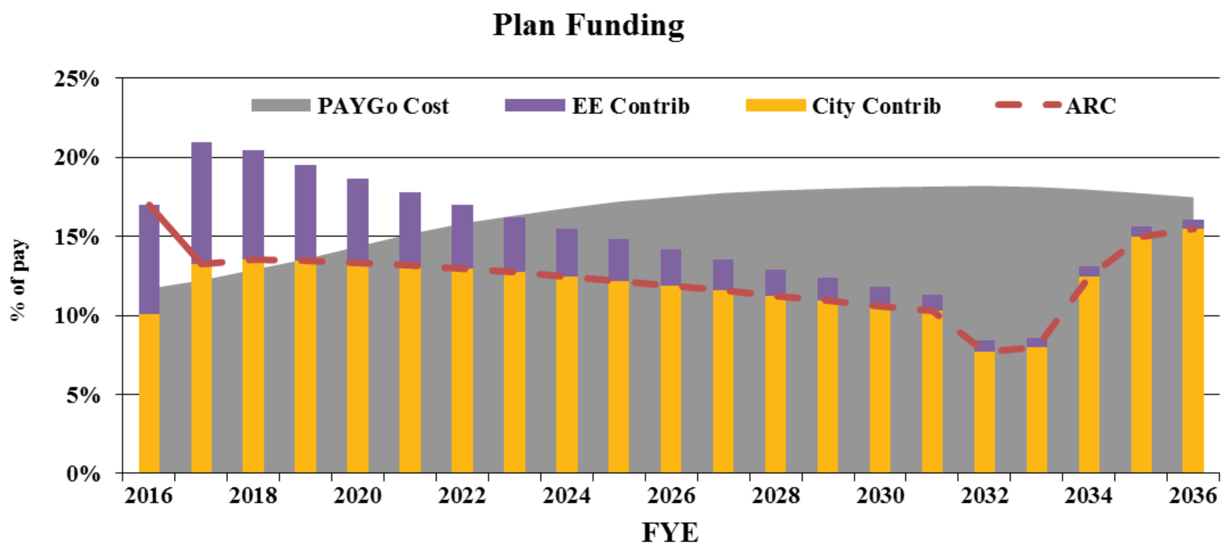
The charts below project the assets, actuarial liability, contributions, and accounting results under GASB 43 and 45 for the next 20 years.



The chart above shows the actuarial liability on a GASB basis decreasing from about $818 million to approximately $754 million over the next year assuming the full ARC is contributed. Then, the actuarial liability is projected to increase, reaching approximately $996 million in 20 years. The green line shows assets increasing from $210 million to approximately $792 million over the same period. The red line shows the Net OPEB Obligation (NOO) increasing somewhat from $197 million before decreasing to approximately $93 million at the end of the projection period.

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

SECTION I - BOARD SUMMARY



The chart above shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs as a percentage of total pay, (including pay for those future members who will not be eligible for the benefit). Benefit payments, net of retiree contributions, are shown by the gray area and increase from 12% to 18% of pay over the projection period. The gold bars represent the City's contributions, which are set equal to its share of the ARC starting in FYE 2017. The City's contribution increases from 10.1% in FYE 2016 to approximately 13.6% of pay in FYE 2018 then decreases to approximately 7.8% of pay in FYE 2032 before increasing to 15.5% in FYE 2036. Similarly, employee contributions as a percentage of total payroll increase from 6.9% in FYE 2016 to approximately 7.7% of pay in FYE 2017, then decrease to approximately 0.5% of pay near the end of the projection period, primarily due to the retirement of the current active members.

These same percentages based on the pay of the members eligible for the benefit are 8.76% in FYE 2016, increasing to approximately 10.7% in FYE 2017 and then decreasing to 6.6% in FYE 2032 before increasing to 10.3% in FYE 2036.

The reason for the projected decrease in FYE 2032 is the expiration of an amortization base. There is a small projected increase in FYE 2033 and a larger increase in FYE 2034 due to the expiration of amortization bases. When the primary amortization base expires in FYE 2041, there is a significant projected decrease in contribution rates.

The ARC, shown by the red line, is expected to decrease to the City's contribution rate beginning in FYE 2017 when the full ARC is contributed. Note that our projections assume that accounting policy will be changed to align with the funding policy of maintaining a one-year lag between the valuation date and applicable reporting period beginning when the ARC is first fully contributed (FYE 2017).

SECTION I - BOARD SUMMARY

Also, as noted above, GASB has adopted new statements for OPEB accounting and financial reporting that will be effective for the fiscal year ending June 30, 2017 for the Plan and for the fiscal year ending June 30, 2018 for the City. The proposed statements would eliminate the ARC and use an entirely different method to calculate the annual OPEB expense reported by the City. The ARC shown in the above graph after the effective date is represented by a dashed line instead of a solid line. While the current bargaining agreements set the contribution amounts based on the ARC as defined by GASB, the projections shown assume the contribution methodology remains the same after the ARC is no longer defined by GASB.

The table below shows the expected net benefit payments for the next 20 years. These payments include the expected annual implicit subsidy as well as expected plan premium payments.

Table I-4
Expected Net Benefit Payments

Fiscal Year Ending	Implicit Subsidy	Explicit Subsidy	Dental	Total
2016	$ 4,429,979	$ 21,518,128	$ 3,473,122	$ 29,421,229
2017	4,798,027	23,086,176	3,709,372	31,593,575
2018	4,962,471	25,376,886	3,953,881	34,293,239
2019	5,196,179	27,707,448	4,198,770	37,102,396
2020	5,638,028	30,325,968	4,456,536	40,420,531
2021	6,228,950	32,899,247	4,718,268	43,846,465
2022	6,683,978	35,431,503	4,967,488	47,082,969
2023	7,169,717	37,570,996	5,201,848	49,942,562
2024	7,592,966	39,833,568	5,430,065	52,856,599
2025	8,078,570	41,992,928	5,647,882	55,719,379
2026	8,343,576	44,004,835	5,860,085	58,208,497
2027	8,661,487	46,068,906	6,069,481	60,799,874
2028	8,881,371	47,936,003	6,276,458	63,093,831
2029	8,942,661	49,842,403	6,483,682	65,268,747
2030	9,019,706	51,787,940	6,688,315	67,495,961
2031	9,054,044	53,659,452	6,890,084	69,603,580
2032	9,154,209	55,501,280	7,084,245	71,739,734
2033	9,163,355	57,064,733	7,255,865	73,483,953
2034	9,155,481	58,360,977	7,398,043	74,914,501
2035	9,118,876	59,406,146	7,516,492	76,041,514

SECTION I - BOARD SUMMARY

The remainder of this report provides additional detail. First, we present the assets. Second, we develop the contribution requirements under the Plan's funding policy. Third, we develop the GASB valuation results and illustrate the sensitivity of the GASB results to changes in the health care trend rates. We conclude with disclosure information needed to satisfy the GASB OPEB accounting and financial reporting requirements.

SECTION II - ASSETS

Assets

Assets are invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. All contributions are now made to the 115 Trust while benefit payments are currently being made from the 401(h) account. Table II-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.

In the last year, investments, in aggregate, returned approximately -2.8% compared to an expected rate of return of 7.00%, resulting in an actuarial loss of approximately $23.6 million on a funding basis. The assets in the 401(h) account returned approximately -1.1% while the assets in the 115 trust returned approximately -4.2%.

Table II-1
Assets

	6/30/2015			6/30/2014
Fiscal Year Ending	**401(h) Acct**	**115 Trust**	**Total**	**Total**
Market value, beginning of year	$ 110,214,910	$ 89,561,446	$ 199,776,356	$ 157,694,477
Contributions				
Employee	0	18,645,386	18,645,386	17,493,586
City	0	22,824,558	22,824,558	19,297,894
Implicit subsidy	4,134,187	0	4,134,187	4,733,000
Total	$ 4,134,187	$ 41,469,944	$ 45,604,131	$ 41,524,480
Net investment earnings	(1,037,314)	(5,139,555)	(6,176,869)	28,481,072
Benefit payments				
Explicit subsidy	25,308,713	0	25,308,713	23,190,673
Implicit subsidy	4,134,187	0	4,134,187	4,733,000
Total	$ 29,442,900	$ 0	$ 29,442,900	$ 27,923,673
Market value, end of year	**$ 83,868,883**	**$ 125,891,835**	**$ 209,760,718**	**$ 199,776,356**
Estimated Rate of Return	-1.1%	-4.2%	-2.8%	16.4%

Assets in the 401(h) account and the 115 Trust are combined for purposes of the actuarial valuation, but an allocation is made between Medical and Dental assets. Contributions are allocated in proportion to the Medical and Dental rates applicable and benefit payments are allocated in proportion to expected benefit payments from the prior valuation. Table II-2 shows the allocation of the assets between Medical and Dental.

SECTION II - ASSETS

Table II-2
Assets

Fiscal Year Ending	6/30/2015 Medical	6/30/2015 Dental	6/30/2015 Total	6/30/2014 Total
Market value, beginning of year	$ 182,465,639	$ 17,310,717	$ 199,776,356	$ 157,694,477
Contributions				
Employee	17,815,283	830,103	18,645,386	17,493,586
City	20,421,983	2,402,575	22,824,558	19,297,894
Implicit subsidy	4,134,187	0	4,134,187	4,733,000
Total	$ 42,371,453	$ 3,232,678	$ 45,604,131	$ 41,524,480
Net investment earnings	(5,658,558)	(518,311)	(6,176,869)	28,481,072
Benefit payments				
Explicit subsidy	21,850,463	3,458,250	25,308,713	23,190,673
Implicit subsidy	4,134,187	0	4,134,187	4,733,000
Total	$ 25,984,650	$ 3,458,250	$ 29,442,900	$ 27,923,673
Market value, end of year	**$ 193,193,884**	**$ 16,566,834**	**$ 209,760,718**	**$ 199,776,356**

SECTION III - FUNDING VALUATION RESULTS

This section of the report calculates the contribution requirements using the methodology specified in the contracts negotiated between the City and its labor unions that require both employee and City contributions to fund the Plan. This valuation calculates contributions for the fiscal year ending June 30, 2017, ignoring any caps to contribution rates that may be negotiated.

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

Table III-1
Unfunded Actuarial Liability - Funding Basis

	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	$ 357,611,589	$ 47,672,477	$ 405,284,066
Vested, Terminated Members	19,511,290	0	19,511,290
Active Employees	341,390,814	33,949,302	375,340,116
Total	$ 718,513,693	$ 81,621,779	$ 800,135,472
Present Value of Future Normal Costs	70,747,804	7,732,576	78,480,380
Actuarial Liability	**$ 647,765,889**	**$ 73,889,203**	**$ 721,655,092**
Assets	193,193,884	16,566,834	209,760,718
Unfunded Actuarial Liability	**$ 454,572,005**	**$ 57,322,369**	**$ 511,894,374**

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level dollar amount, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change. Amortization payments are allocated to medical and dental in proportion to the Unfunded Actuarial Liability. The table on the following page shows the amortization schedule as of June 30, 2015.

SECTION III - FUNDING VALUATION RESULTS

Table III-2
Amortization Schedule - Funding Basis

Date Established	Remaining Period	Outstanding Balance	Amortization Payment Medical	Amortization Payment Dental	Amortization Payment Total
6/30/2009	24	$ 734,803,074	$ 55,000,065	$ 6,935,610	$ 61,935,675
6/30/2010	15	82,287,310	7,756,117	978,061	8,734,178
6/30/2011	16	(26,784,153)	(2,434,056)	(306,939)	(2,740,995)
6/30/2012	17	(192,995,130)	(16,970,068)	(2,139,957)	(19,110,025)
6/30/2013	18	(105,800,109)	(9,029,381)	(1,138,622)	(10,168,003)
6/30/2014	19	(30,791,285)	(2,557,542)	(322,511)	(2,880,053)
6/30/2015	20	51,174,667	4,146,913	522,933	4,669,846
Total		$ 511,894,374	$ 35,912,048	$ 4,528,575	$ 40,440,623
Min Payment	30	$ 511,894,374	$ 35,413,803	$ 4,465,746	$ 39,879,549

Under GASB 43 and 45 for purposes of determining the ARC, the single equivalent amortization period for the current year's payment cannot be more than 30 years. The minimum amortization payment of $39,879,549 ($35,413,803 for medical and $4,465,746 for dental) is less than the actual amortization payment of $40,440,623 so the actual amortization payment is used for the ARC as defined by GASB 43 and 45 for FYE 2017.

Due to the one-year lag between the valuation date and the effective date of new contribution rates, the amortization payments shown in the table above are increased for one year of interest in the tables below to be appropriate for the FYE 2017 contribution.

Table III-3
Contribution Amounts - Funding Basis

	FYE 2017 Medical	FYE 2017 Dental	FYE 2017 Total	FYE 2016 Total
Normal Cost	$ 9,623,068	$ 1,204,900	$ 10,827,968	$ 12,187,896
Amortization Payment	38,427,287	4,835,735	43,263,022	38,787,425
Total	**$ 48,050,355**	**6,040,635**	**54,090,990**	**50,975,321**
Contribution Allocation				
Employees	$ 18,561,418	$ 1,279,048	$ 19,840,466	$ 21,232,492
City	29,488,937	4,761,588	34,250,525	29,742,829
Total	**$ 48,050,355**	**$ 6,040,636**	**$ 54,090,991**	**$ 50,975,321**

SECTION III - FUNDING VALUATION RESULTS

Table III-4
Contribution Rates - Funding Basis

	Est. Payroll	FYE 2017 Medical	FYE 2017 Dental	FYE 2017 Total	FYE 2016 Total
Normal Cost	$ 185,369,206	5.20%	0.65%	5.85%	6.01%
Amortization Payment	$ 258,595,469	14.86%	1.87%	16.73%	16.07%
Total	$ 258,595,469	**18.58%**	**2.34%**	**20.92%**	**21.12%**
Contribution Rates					
Employees	$ 185,369,206	10.03%	0.69%	10.72%	10.47%
City - Employees with Coverage	$ 185,369,206	10.03%	1.83%	11.86%	11.61%
City - Employees without Coverage	$ 73,226,263	14.86%	1.87%	16.73%	16.07%

SECTION III - FUNDING VALUATION RESULTS

Effects of Changes

The tables below provide estimates of the major factors contributing to the change in actuarial liability and the change in contribution amounts since the last valuation report. Medical and dental liabilities have been combined in the reconciliation.

Table III-5
Reconciliation of Unfunded Actuarial Liability - Funding Basis

Unfunded Actuarial Liability at 6/30/2014	$	465,160
Expected Unfunded Actuarial Liability Payment		(35,771)
Interest		31,330
Expected Unfunded Actuarial Liability at 6/30/2015	$	460,719
Unfunded Actuarial Liability at 6/30/2015		511,894
Unexpected Change	$	51,175
Unexpected change due to:		
Asset experience	$	23,550
Demographic experience		(6,341)
Change in pension assumptions		58,254
Change in health assumptions		(24,288)
Total changes	$	51,175

Dollar amounts in thousands

SECTION III - FUNDING VALUATION RESULTS

Table III-6
Effects of Changes - Contribution Amounts Without Phase-In/Caps

	Normal Cost	UAL	Total
Unadjusted FYE 2016 Contribution	$ 12,189	$ 38,787	$ 50,975
Expected FYE 2017 Contribution	$ 12,252	$ 38,787	$ 51,039
Calculated FYE 2017 Contribution	10,828	43,263	54,091
Net Change	$ (1,424)	$ 4,476	$ 3,052
Net change due to:			
Asset loss	$ 0	$ 1,963	$ 1,963
Demographic experience	$ (1,420)	$ (528)	$ (1,948)
Change in pension assumptions	252	4,856	5,108
Change in health assumptions	(256)	(1,815)	(2,071)
Total changes	$ (1,424)	$ 4,476	3,052

Dollar amounts in thousands

- *Asset loss* refers to the lower-than-expected investment returns offset by the higher-than-expected contribution amounts. The contribution amounts were more than "expected" primarily due actual contributions paid being lower than anticipated.

- *Demographic experience* refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.

- *Change in pension assumptions* refers to the change in demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and were adopted at the November 19, 2015 Board meeting.

- *Change in health assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

SECTION IV - GASB VALUATION RESULTS

For plans where the contribution equals the Annual Required Contribution under GASB 43 and 45 based on a discount rate equal to the expected return on plan assets, the discount rate for GASB purposes is also the expected return on plan assets. Where the contribution equals the pay-as-you-go cost (annual benefit payments), the discount rate for GASB purposes is equal to the expected return on the City's unrestricted assets. Where the contribution is between these two amounts, GASB requires the use of a blended discount rate that is prorated between the expected return on plan assets and the expected return on City assets. For FYE 2016, the full ARC will not be contributed, and the table below develops the blended discount rate that is used in the remainder of the GASB calculations.

Table IV-1
Development of Blended Discount Rate

Expected FYE 2016 Contributions		
Member Contributions	$	17,332,321
City Contributions		25,401,761
Implicit Subsidy		4,429,979
Total Expected Contributions	$	47,164,061
FYE 2016 Full ARC		
Normal Cost (Middle of Year)	$	11,575,942
Amortization of UAL		40,440,623
Total ARC	$	52,016,565
Pay-as-you-go Costs		
Pay-as-you-go	$	29,421,229
Contribution in Excess of Pay-Go		17,742,832
Full ARC in Excess of Pay-Go		22,595,336
Weight to System Return		78.52%
Expected Returns		
Expected Return on Plan Assets		7.00%
Expected Return on City Assets		3.00%
Blended Discount Rate		**6.10%**

The expected return on plan assets remained at 7.00% and the expected return on City assets remained at 3.00%. The discount rate decreased from 6.30% to 6.10% primarily due to contributions being lower than the ARC. When contributions equal the ARC, the discount rate will equal the expected return on plan assets.

SECTION IV - GASB VALUATION RESULTS

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

Table IV-2
Unfunded Actuarial Liability - GASB Basis

	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	$ 394,335,764	$ 52,552,961	$ 446,888,725
Vested, Terminated Members	23,014,181	0	23,014,181
Active Employees	411,994,790	40,986,460	452,981,250
Total	$ 829,344,735	$ 93,539,421	$ 922,884,156
Present Value of Future Normal Costs	95,043,074	10,167,917	105,210,991
Actuarial Liability	**$ 734,301,661**	**$ 83,371,504**	**$ 817,673,165**
Assets	193,193,884	16,566,834	209,760,718
Unfunded Actuarial Liability	**$ 541,107,777**	**$ 66,804,670**	**$ 607,912,447**

The Annual Required Contribution (ARC) under GASB 43 and 45 consists of two parts: (1) the *normal cost*, which represents the annual cost attributable to service earned in a given year, and (2) the amortization of the unfunded actuarial liability (UAL).

The UAL as of June 30, 2009 is amortized as a level dollar amount over 30 years, and each year's change in UAL due to assumption changes, plan changes or experience changes is amortized over 20 years from the valuation date in which the change is first recognized. The outstanding balance of each amortization base established in a prior year is based on the amortization schedule used for funding purposes. The amortization base for the current year is equal to the UAL shown in the table above less the outstanding balance of prior year bases. The table on the following page shows the amortization payments on a GASB basis.

SECTION IV - GASB VALUATION RESULTS

Table IV-3
Amortization Schedule - GASB Basis

Date Established	Remaining Period	Outstanding Balance	Amortization Payment Medical	Amortization Payment Dental	Amortization Payment Total
6/30/2009	24	$ 734,803,074	$ 51,062,582	$ 6,304,140	$ 57,366,722
6/30/2010	15	82,287,310	7,369,380	909,817	$ 8,279,197
6/30/2011	16	(26,784,153)	(2,306,031)	(284,701)	(2,590,732)
6/30/2012	17	(192,995,130)	(16,032,507)	(1,979,359)	(18,011,866)
6/30/2013	18	(105,800,109)	(8,507,335)	(1,050,308)	(9,557,643)
6/30/2014	19	(30,791,285)	(2,403,311)	(296,711)	(2,700,022)
6/30/2015	20	147,192,740	11,179,669	1,380,232	12,559,901
Total		$ 607,912,447	$ 40,362,447	$ 4,983,110	$ 45,345,557
Min Payment	30	$ 607,912,447	$ 38,573,369	$ 4,762,232	$ 43,335,601

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2016 is developed in the table below. The prior year's calculation is shown for comparison.

Table IV-4
GASB ARC

Fiscal Year Ending Discount Rate	6/30/2016 6.10%	6/30/2015 6.30%
Total Normal Cost	$ 14,670,611	$ 14,998,054
UAL Amortization	45,345,557	38,978,293
Total Cost	$ 60,016,168	$ 53,976,347
Employee Contributions	17,332,321	18,332,455
Total City ARC	**$ 42,683,847**	**$ 35,643,892**

SECTION IV - GASB VALUATION RESULTS

Reconciliation

The table below provides an estimate of the major factors contributing to the change in liability since the last valuation report. Medical and dental liabilities have been combined in the reconciliation.

Table IV-5
Reconciliation of Unfunded Actuarial Liability - GASB Basis

Unfunded Actuarial Liability at 6/30/2014	$	529,630
Expected Unfunded Actuarial Liability Payment		(38,978)
Interest		32,158
Expected Unfunded Actuarial Liability at 6/30/2015	$	522,810
Unfunded Actuarial Liability at 6/30/2015		607,912
Unexpected Change	$	85,102
Unexpected change due to:		
Asset experience	$	27,896
Demographic experience		(6,948)
Change in pension assumptions		63,830
Change in health assumptions		(26,613)
Change in discount rate		26,937
Total changes	$	85,102

Dollar amounts in thousands

- *Asset experience* refers to the lower-than-expected investment returns.

- *Demographic experience* refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.

- *Change in pension assumptions* refers to the change in demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and were adopted at the November 19, 2015 Board meeting.

- *Change in health assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

- *Change in Discount Rate* refers to the change in the discount rate from 6.30% to 6.10%.

SECTION V - SENSITIVITY OF RESULTS

The measures of liability and ARC produced in this report are sensitive to the assumptions used. The tables below show the impact of a 1% increase or decrease in the health care trend rates on the GASB actuarial liability and the ARC to provide some measure of sensitivity.

Table V-1
Sensitivity to Health Care Trend Rates
Unfunded Actuarial Liability (GASB Basis)

Health Care Trend Rate	-1%	Base	+1%
Present Value of Future Benefits			
Retirees and Beneficiaries	$ 402,329	$ 446,889	$ 499,990
Vested, Terminated Members	19,212	23,014	27,867
Active Employees	368,317	452,981	564,611
Total	$ 789,858	$ 922,884	$ 1,092,468
Present Value of Future Normal Costs	82,197	105,211	136,662
Actuarial Liability	**$ 707,661**	**$ 817,673**	**$ 955,806**
Assets	209,761	209,761	209,761
Unfunded Actuarial Liability	**$ 497,900**	**$ 607,912**	**$ 746,045**

Dollar amounts in thousands

Table V-2
Sensitivity to Health Care Trend Rates
GASB ARC for FYE 2016

Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	$ 11,841	$ 14,671	$ 18,611
UAL Amortization	35,958	45,346	57,132
Total Cost	$ 47,799	$ 60,016	$ 75,744
Employee Contributions	17,332	17,332	17,332
Total ARC	**$ 30,467**	**$ 42,684**	**$ 58,412**

Dollar amounts in thousands

SECTION VI - ACCOUNTING DISCLOSURES

Statements No. 43 and 45 of the Governmental Accounting Standards Board (GASB) established standards for accounting and financial reporting of Other Postemployment Benefit (OPEB) information by governmental employers and plans. In accordance with those statements, we have prepared the following disclosures.

Net OPEB Obligation

The table below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2015 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2016.

Table VI-1
Development of Net OPEB Obligation

	Projected 6/30/2016	6/30/2015
1. Net OPEB Obligation, beginning of year	$ 196,677	$ 190,005
2. Annual Required Contribution	42,684	35,644
3. Interest on Net OPEB Obligation	11,997	11,970
4. Adjustment to Annual Required Contribution	(14,671)	(13,984)
5. Annual OPEB Cost [2. + 3. + 4.]	$ 40,010	$ 33,631
6. City Contributions	25,402	22,825
7. Implicit Rate Subsidy	4,430	4,134
8. Net OPEB Obligation, end of year	**$ 206,855**	**$ 196,677**

Dollar amounts in thousands

The tables on the following page show the solvency test and the analysis of financial experience, both as recommended by the Government Finance Officers Association for inclusion in the plan's Comprehensive Annual Financial Report.

SECTION VI - ACCOUNTING DISCLOSURES

Table VI-2
Solvency Test

	Actuarial Liability				
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives (A)	Active Members (B)	Reported Assets	Portion of Liability Covered by Reported Assets (A)	Portion of Liability Covered by Reported Assets (B)
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%
6/30/2012	611,267	485,353	137,798	23%	0%
6/30/2011	652,157	493,203	135,454	21%	0%
6/30/2010	515,284	411,087	108,011	21%	0%
6/30/2009	421,367	375,081	85,564	20%	0%
6/30/2007	335,798	280,951	96,601	29%	0%

Dollar amounts in thousands

The Government Finance Officers Association named this exhibit the Solvency Test. It should be noted, however, that it doesn't test the solvency of the plan in the sense understood by financial economists that a 100 percent ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100 percent ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments.

Table VI-3
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
6/30/2015	$ (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
6/30/2012	(14,897)	(27,919)	(42,816)	136,154	93,338
6/30/2011	10,131	(35,166)	(25,035)	(131,557)	(156,592)

Dollar amounts in thousands

SECTION VI - ACCOUNTING DISCLOSURES

Schedule of Funding Progress

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The actuarial liability under GASB is determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

Table VI-4
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAL as Percentage of Covered Payroll ((b-a)/c)
6/30/2015	$ 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%
6/30/2012	137,798	1,096,620	958,822	13%	225,859	425%
6/30/2011	135,454	1,145,360	1,009,906	12%	228,936	441%
6/30/2010	108,011	926,371	818,360	12%	300,069	273%
6/30/2009	85,564	796,448	710,884	11%	308,697	230%
6/30/2007	96,601	616,749	520,148	16%	271,833	191%

Dollar amounts in thousands

Schedule of Employer Contributions

The schedule of employer contributions shows whether the employer has made contributions that are consistent with the parameters established by GASB for calculating the ARC and the annual OPEB expense.

SECTION VI - ACCOUNTING DISCLOSURES

Table VI-5
Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost (AOC)	City Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2016	$ 40,010	To Be Determined	To Be Determined	To Be Determined
2015	33,631	$ 26,959	80%	$ 196,677
2014	49,664	24,484	49%	190,005
2013	57,202	20,923	37%	164,825
2012	68,028	25,833	38%	128,546
2011	44,834	21,072	47%	86,351
2010	39,414	21,585	55%	62,589
2009	33,725	15,918	47%	44,760

Dollar amounts in thousands

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

Table VI-6
Note to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 2015
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Dollar Closed
Single Equivalent Amortization Period	28.7 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	2.85%
Discount Rate	6.10%
Ultimate Rate of Medical Inflation	4.25%

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data

Valuation Date	June 30, 2015	June 30, 2014	% Change
Active Employees			
Tier 1			
Count	2,363	2,592	-8.83%
Average Age	48.3	47.6	1.49%
Average OPEB Benefit Service	14.6	13.9	5.23%
Total Payroll	$192,615,490	$199,745,889	-3.57%
Tier 2A			
Count	233	272	-14.34%
Average Age	37.5	36.0	4.08%
Average OPEB Benefit Service	2.7	1.6	64.83%
Total Payroll	$15,997,293	$17,421,766	-8.18%
Tier 2C (Eligible for Dental only)			
Count	5	N/A	N/A
Average Age	42.9	N/A	N/A
Average OPEB Benefit Service	8.1	N/A	N/A
Total Payroll	$344,587	N/A	N/A
Eligible Active Employees			
Count	2,601	2,864	-9.18%
Average Age	47.4	46.5	1.78%
Average OPEB Benefit Service	13.5	12.7	6.36%
Total Payroll	$208,957,370	$217,167,654	-3.78%
Tier 2B			
Count	635	256	148.05%
Average Age	36.5	36.5	-0.21%
Average OPEB Benefit Service	0.9	0.6	60.04%
Total Payroll	$42,472,351	$17,461,319	143.24%
Total			
Count	3,236	3,120	3.72%
Average Age	45.2	45.7	-1.07%
Average OPEB Benefit Service	11.1	11.7	-5.72%
Total Payroll	$251,429,721	$234,628,974	7.16%
Retirees and Spouses with Medical Coverage			
Pre-65	1,756	1,772	-0.90%
Post-65	2,330	2,272	2.55%
Total	4,086	4,044	1.04%
Retirees with Dental Coverage	3,206	3,133	2.33%
Term Vested Members	142	133	6.77%

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Status Reconciliation	Active	Vested	Retiree	Spouse	Disabled	Total
Beginning of Year	**2,864**	**133**	**2,718**	**402**	**190**	**6,307**
New Hires	0	0	0	0	0	0
Rehires	4	0	0	0	0	4
Vested Terminations	(25)	25	0	0	0	0
Service Retirements	(123)	(13)	136	0	0	0
Disabled Retirements	(5)	(1)	0	0	6	0
New survivors	0	0	0	26	0	26
No longer covered	(116)	(3)	(72)	(21)	(5)	(217)
Data corrections	2	1	17	(7)	1	14
End of Year	**2,601**	**142**	**2,799**	**400**	**192**	**6,134**

Counts do not include dependent spouses

Member Data as of June 30, 2015:

Eligible Active Employees Years of OPEB Benefit Service Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 – 34	35+	Total
Under 25	9	0	0	0	0	0	0	0	9
25 to 29	71	16	0	0	0	0	0	0	87
30 to 34	107	110	19	2	0	0	0	0	238
35 to 39	55	119	100	29	1	0	0	0	304
40 to 44	50	68	121	130	17	2	0	0	388
45 to 49	39	67	106	131	62	56	0	0	461
50 to 54	29	69	90	146	81	139	2	0	556
55 to 59	27	65	66	57	32	46	4	0	297
60 to 64	18	30	56	48	17	16	1	1	187
65 and up	1	19	26	16	7	3	0	2	74
Total	**406**	**563**	**584**	**559**	**217**	**262**	**7**	**3**	**2,601**

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Retirees, Disabled Retirees and Surviving Spouses						
	Medical Insurance			Dental Insurance		
Age Group	Males	Females	Total	Males	Females	Total
Under 50	4	20	24	4	21	25
50 to 54	50	25	75	49	33	82
55 to 59	229	195	424	210	191	401
60 to 64	297	250	547	324	266	590
65 to 69	315	253	568	366	309	675
70 to 74	237	189	426	270	235	505
75 to 79	156	144	300	177	189	366
80 to 84	97	103	200	112	136	248
85 to 89	55	79	134	82	113	195
Over 90	31	40	71	42	77	119
Total	**1,471**	**1,298**	**2,769**	**1,636**	**1,570**	**3,206**

Counts do not include dependent spouses

Medical Plan Elections			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	199	145	344
Kaiser $25 Co-pay	579	363	942
Kaiser $15 Co-pay (Hawaii)	1	2	3
Kaiser $25 Co-pay (Northwest)	6	6	12
HMO $45 Co-pay	31	24	55
HMO $25 Co-pay	131	77	208
PPO / POS $30 Co-pay	22	12	34
PPO / POS $25 Co-pay	101	57	158
Total	**1,070**	**686**	**1,756**
Medicare Medical Plans			
Kaiser Senior Advantage	926	347	1,273
Kaiser Senior Advantage (Hawaii)	4	0	4
Kaiser Senior Advantage (Northwest)	18	5	23
BS Medicare HMO	199	67	266
BS Medicare PPO / POS	552	212	764
Total	**1,699**	**631**	**2,330**

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Current Vested Terminations*			
Age Group	**Male**	**Female**	**Total**
Under 45	9	10	19
45 to 49	24	23	47
50 to 54	41	25	66
55 to 59	5	4	9
60 to 64	1	0	1
Over 65	0	0	0
Total	**80**	**62**	**142**

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

Economic Assumptions

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 17, 2015 Board meeting.

1. **Expected Return on Plan Assets**

   7.00% per year. The Board expects a long-term rate of return of 7.40% for the 401(h) account and 7.31% for the 115 trust based on Meketa's capital market assumptions and investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2. **Expected Return on Employer Assets** 3.00% per year

3. **Blended Discount Rate** 6.10% per year

4. **Per Person Cost Trends**

Annual Increase			
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2017	8.50%	6.50%	4.00%
2018	8.20	6.34	4.00
2019	7.89	6.18	4.00
2020	7.59	6.02	4.00
2021	7.29	5.86	4.00
2022	6.98	5.70	4.00
2023	6.68	5.54	4.00
2024	6.38	5.38	4.00
2025	6.07	5.21	4.00
2026	5.77	5.05	4.00
2027	5.46	4.89	4.00
2028	5.16	4.73	4.00
2029	4.86	4.57	4.00
2030	4.55	4.41	4.00
2031+	4.25	4.25	4.00

Actual premium increases for 2016 were reflected with the above rates applying after Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the December 17, 2015 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015. Please refer to the full experience study report for details, including the rationale for each assumption.

1. 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	8.0	35.0	50.0
56	8.0	22.5	50.0
57	8.0	22.5	50.0
58	8.0	22.5	50.0
59	8.0	22.5	50.0
60	8.0	22.5	45.0
61	8.0	30.0	45.0
62	9.0	30.0	45.0
63	10.0	30.0	45.0
64	15.0	35.0	45.0
65	20.0	40.0	45.0
66	20.0	40.0	45.0
67	20.0	40.0	45.0
68	20.0	40.0	45.0
69	20.0	40.0	45.0
70 & over	100.0	100.0	100.0

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Rates of retirement for Tier 2 members are based on age according to the following Table Tier 2.

Tier 2 Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 65.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

2. Rates of Termination

Sample rates of refund/termination are show in the following tables.

Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	18.00%	17.50%	9.00%
25	18.00	15.50	9.00
30	18.00	13.50	7.00
35	18.00	11.50	5.50
40	18.00	9.50	4.50
45	18.00	8.00	3.50
50	18.00	7.00	3.00
55	18.00	6.00	3.00
60	18.00	5.00	0.00
65	0.00	0.00	0.00

*Withdrawal/termination rates do not apply once a member is eligible for retirement

3. Rates of Refund

Tier 1:
Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table.

Rates of Refund	
Age	Refund
20	40.00%
25	40.00
30	27.50
35	17.00
40	8.00
45	3.00
50	1.00
55	0.00

Tier 2:
Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

4. Rate of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

Base Mortality Tables		
Category	**Male**	**Female**
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

5. Disability Rates

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages	
Age	**Disability**
20	0.014%
25	0.014
30	0.021
35	0.063
40	0.136
45	0.201
50	0.218
55	0.200
60	0.181
65	0.167
70	0.149

40% of disabilities are assumed to be duty related, and 60% are assumed to be non-duty.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

6. Salary Increase Rate

Wage inflation component: 2.85%

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

Salary Merit Increases	
Years of Service	Merit/ Longevity
0	4.50%
1	3.50
2	2.50
3	1.85
4	1.40
5	1.15
6	0.95
7	0.75
8	0.60
9	0.50
10	0.45
11	0.40
12	0.35
13	0.30
14	0.25
15+	0.25

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

7. Percent of Retirees Electing Coverage

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their 2015 plan. The PPO / POS $30 Co-pay and POS $25 Co-pay plans will discontinue as of 1/1/2016, all current participants are assumed to transition to the HMO $45 plan. Save-Net network plans for both HMO $45 and HMO $25 will be offered as of 1/1/2016, 70% of the current enrollees of the HMO $45 and HMO $25 plans are expected to transition the corresponding Save-Net plans. Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table below.

Assumed Plan Elections for Future Retirees			
	% Electing		% Electing
Pre-Medicare Medical Plans		**Medicare-Eligible Medical Plans**	
· Kaiser DHMO	17%	· Kaiser Senior Advantage	53%
· Kaiser $25 Co-pay	55%	· BS Medicare HMO	12%
· HMO $45 Co-pay	1%	· BS Medicare PPO	35%
· HMO $45 SaveNet	3%		
· HMO $25 Co-pay	4%	**Dental Plans (All Retirees)**	
· HMO $25 SaveNet	10%	· Delta Dental PPO	97%
· PPO / POS $25 Co-pay	10%	· DeltaCare HMO	3%

8. Family Composition

85% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.

Pre-Medicare, 35% of males and 22% of females will cover children.

9. 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.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

10. Married Percentage

Percentage Married	
Gender	**Percentage**
Males	80%
Females	60%

11. Administrative Expenses

Included in the average monthly premiums.

12. Changes Since Last Valuation

Demographic assumptions were updated based on the 2015 experience study. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The blended discount rate decreased from 6.3 percent to 6.1 percent.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 17, 2015 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 2015 and 2016. 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 2015 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the PPO / POS $30 and POS $25 plans were assumed to transition to the HMO $45 Plan as of 1/1/2016. Individuals on the HMO $30 and HMO $45 plans were assumed to transition to the Save-Net alternative plans at a rate of 70%. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

1. Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2015 based on the premiums for 2015 and 2016. 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						
	Kaiser DHMO		Kaiser $25 Co-Pay		HMO $45 Co-pay	
Age	Male	Female	Male	Female	Male	Female
40	4,995	6,849	6,935	9,542	7,896	10,718
45	5,070	6,571	7,059	9,170	7,951	10,236
50	5,512	6,878	7,699	9,621	8,565	10,645
55	6,227	7,371	8,724	10,334	9,595	11,338
60	7,257	8,073	10,192	11,340	11,106	12,347
64	8,384	8,765	11,792	12,329	12,774	13,355

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Sample Claims Costs - Non-Medicare Eligible						
	HMO $25 Co-pay		PPO/POS $30 Co-pay		PPO/POS $25 Co-pay	
Age	Male	Female	Male	Female	Male	Female
40	9,407	12,769	7,339	10,322	7,722	11,087
45	9,473	12,195	7,601	10,016	8,129	10,854
50	10,204	12,683	8,453	10,653	9,203	11,683
55	11,431	13,507	9,746	11,588	10,772	12,850
60	13,230	14,710	11,546	12,859	12,914	14,395
64	15,218	15,910	13,472	14,086	15,176	15,869

Sample Claims Costs - Non-Medicare Eligible				
	Savnet $45 Co-pay		Savnet $25 Co-pay	
Age	Male	Female	Male	Female
40	6,869	9,324	8,184	11,109
45	6,917	8,905	8,241	10,609
50	7,452	9,262	8,878	11,034
55	8,348	9,864	9,945	11,751
60	9,662	10,742	11,511	12,798
64	11,113	11,618	13,239	13,841

Sample Claims Costs - Medicare Eligible						
	Kaiser Senior Adv		BS Med HMO		BS Med PPO/POS	
Age	Male	Female	Male	Female	Male	Female
65	2,770	2,955	6,336	6,758	6,600	7,039
70	3,253	3,263	7,440	7,462	7,750	7,773
75	3,637	3,518	8,320	8,046	8,666	8,381
80	3,864	3,631	8,839	8,306	9,207	8,651
85	3,916	3,594	8,958	8,220	9,331	8,562

Sample Claims Costs - Dental				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	693	693	317	317

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

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.

9. Changes Since Last Valuation

There was no change to the claims costs process.

Contribution Allocation Procedure

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

1. **Actuarial Cost Method**

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

2. **Asset Valuation Method**

   The actuarial value of assets equals the market value of assets.

3. **Amortization Method**

   The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level dollar amount over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level dollar amount over 20-year periods beginning with the valuation date in which they first arise. The single equivalent amortization period cannot be greater than 30 years.

4. **Contributions**

   The City negotiates contracts with its labor unions that require both employee and City contributions to fund the Plan.

   The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11ths of the total contribution. In addition, the City contributes the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan. For employees who are rehired after September 2013 who have a vested right to dental benefits, the City contributes the full UAL rate for medical benefits in addition to the 8/11ths of the total dental contribution rate.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

5. Changes Since Last Valuation

None.

Summary of Key Substantive Plan Provisions

Eligibility (for employees hired before September 2013):

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

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

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

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

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

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

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

APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

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, through either the 401(h) account or 115 trust, 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, through either the 401(h) account or 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2015 and 2016 are as follows.

2015 Monthly Premiums	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$449.74	$899.48	$787.04	$1,349.20
Kaiser $25 Co-pay	549.24	1,098.44	961.14	1,647.88
Blue Shield HMO $45 Co-pay	611.73	1,223.45	1,070.51	1,835.18
Blue Shield HMO $25 Co-pay	687.51	1,375.02	1,203.15	2,062.53
Blue Shield PPO or POS $30 Co-pay	723.46	1,446.92	1,266.07	2,170.38
Blue Shield PPO or POS $25 Co-pay	884.91	1,769.82	1,548.60	2,654.72
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$284.65	$569.30	$569.30	$853.95
Blue Shield Medicare HMO	570.49	1,141.01	1,141.01	1,656.65
Blue Shield Medicare PPO / POS	661.99	1,323.98	1,323.98	1,987.67
Dental				
Delta Dental PPO	$48.92	$107.62	$117.42	$151.66
DeltaCare HMO	27.16	54.30	47.50	81.44

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

APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

2016 Monthly Premiums

	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$466.92	$933.84	$817.12	$1,400.78
Kaiser $25 Co-pay	570.24	1,140.48	997.88	1,710.66
Blue Shield HMO $45 Co-pay	722.04	1,444.06	1,263.54	2,166.06
Blue Shield HMO $45 SaveNet	628.34	1,256.64	1,099.56	1,884.96
Blue Shield HMO $25 Co-pay	811.48	1,622.94	1,420.10	2,434.42
Blue Shield HMO $25 SaveNet	706.18	1,412.34	1,235.82	2,118.52
Blue Shield PPO $25 Co-pay	945.26	1,890.50	1,654.20	2,835.74
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$272.34	$544.68	$544.68	$817.02
Blue Shield Medicare PPO / POS	707.14	1,414.28	1,414.28	2,123.24
Blue Shield Medicare HMO	673.36	1,346.72	1,346.72	1,955.36
Dental				
Delta Dental PPO	$48.92	$107.62	$117.42	$151.66
DeltaCare HMO	24.44	48.86	42.74	73.30

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

APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

Summary of 2016 Benefit Plans:

Non-Medicare Plans:	Kaiser $25 Co-Pay	Kaiser DHMO	Blue Shield HMO $25 Copay and $25 copay SaveNet	Blue Shield HMO $45 Copay and $45 copay SaveNet	Blue Shield PPO $25 Co-Pay (In Network)
Annual Out-of-Pocket Maximum (one person/family)	$1,500/$3,000	$4,000/$8,000	$1,000/$2,000	$3,500/$7,000	$2,100/$4,200
Annual Deductible (one person/family)	None	$1,500/$3,000	None	None	$100/$200
Office Visit copay	$25	$40	$25	$45	$25
Emergency Room copay	$100	30%*	$100	$200	$100
Hospital Care copay	$100	30%*	$100	50%	$100
Prescription Drug retail copay (30-day supply):					
Generic	$10	$10	$10	$15	$10
Brand	$25	$30	$25	$30**	$25
Non-Formulary	N/A	N/A	$40	50% **$250 deductible	$40

** After deductible is paid*

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual Out-of-Pocket Maximum (one person/family)	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000
Annual Deductible (one person/family)	None	None	$100/$200
Office Visit copay	$25	$25	$25
Emergency Room copay	$50	$100	$100
Hospital Care copay	$250	$100	$100 + 10%
Prescription Drug retail copay (30-day supply):			
Generic	$10	$10	$10
Brand	$10	$25	$25
Non-Formulary	N/A	$40	$40

Cost-Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

APPENDIX C - GLOSSARY OF TERMS

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

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

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

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

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

Amount		Probability of Payment	$\frac{1}{\text{(1+Discount Rate)}}$		
$100	x	(1 - .01)	1/(1+.1)	=	$90

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

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

APPENDIX C - GLOSSARY OF TERMS

8. **Amortization Payment**
   The portion of the pension plan contribution which is designed to pay interest and principal on the unfunded actuarial liability in order to pay for that liability in a given number of years.

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

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

11. **Unfunded Actuarial Liability**
    The excess of the actuarial liability over the actuarial value of assets.

12. **Funded Percentage**
    The ratio of the actuarial value of assets to the actuarial liability.

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

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

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

APPENDIX D - LIST OF ABBREVIATIONS

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

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