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City of San José Federated Postemployment Healthcare Plan

Actuarial Valuation Funding Report as of June 30, 2017

Produced by Cheiron

March 2018

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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.

Contributions

There are two components to the benefits under the Plan: the explicit subsidy and the implicit subsidy. The explicit subsidy (or premium subsidy) is paid by the Plan and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. 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 have been negotiated through collective bargaining and have not been actuarially determined. With the implementation of Measure F, member contributions will be fixed at 7.5% of pay; the City's contribution toward the explicit subsidy will be actuarially determined; and the City will also pay the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution to 14% of payroll.

Table I-1 shows the contribution amounts for the fiscal years ending in 2018 and 2019.

Table I-1
Summary of Contribution Amounts

	FYE 2019	FYE 2018	% Change
Explicit Subsidy			
Members	$ 10,778	$ 15,489	-30.4%
City's Actuarially Determined Contribution[1]	21,247	28,960	-26.6%
Estimated City Optional Cap	41,535		
Implicit Subsidy	$ 3,818	$ 4,577	-16.6%

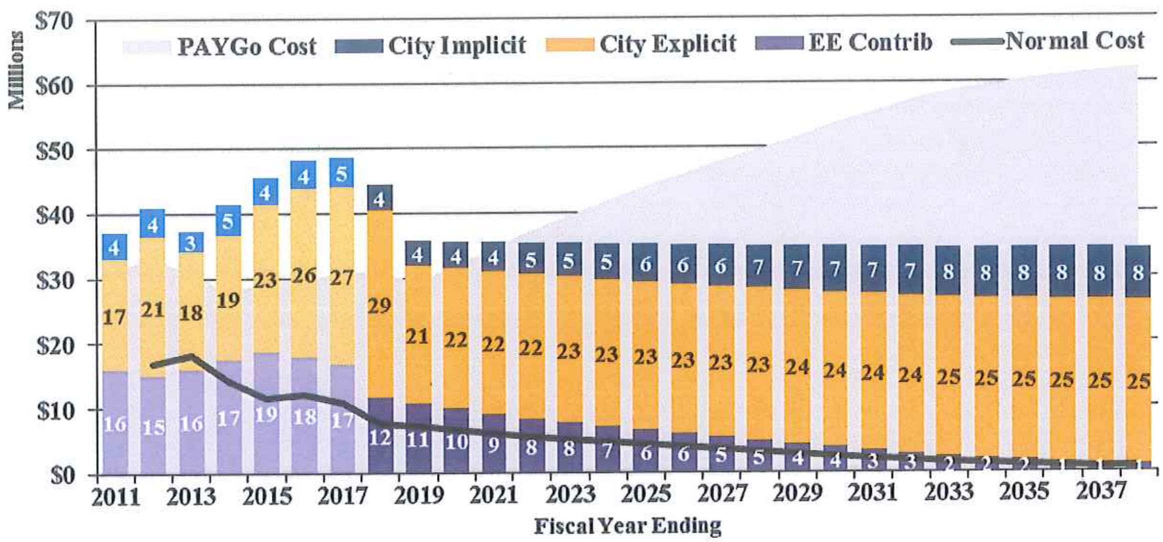
[1] *City amount for FYE 2018 was not actuarially determined*

Dollar amounts in thousands

SECTION I – BOARD SUMMARY

The chart below shows the historical and projected contributions to the Plan. The purple bars represent the member contributions, the gold bars are the City's contributions to pre-fund the explicit subsidy, and the blue bars are the City contributions to pay the implicit subsidy. The gray area behind the bars represents the projected annual benefit payments.

Historical and Projected Contributions FYE 2011-2038



Because the Plan is closed to new entrants, the member contributions are expected to decline as current active members retire or otherwise leave active employment with the City. The City's actuarially determined contribution is lower than the negotiated amount for FYE 2018, but it is expected to increase as the member contributions decrease. The Plan has historically had positive net cash flow, but we only expect that to last for about four more years.

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, 2017 compared to June 30, 2016. The Actuarial Liability, including both the explicit and implicit subsidies, decreased 14.4%, primarily due to the new health assumptions and the implementation of the new lowest cost health plan. At the same time, assets increased over 10% due to contributions and investment returns. As a result, the Unfunded Actuarial Liability decreased by about 25% and the funded percentage improved from 30.7% to 39.4%.

Table I-2
Summary of Funded Status

	6/30/2017	6/30/2016	Change
Actuarial Liability			
Actives	$ 221,825	$ 299,191	-25.9%
Deferred Vested	16,235	19,000	-14.6%
In Pay Status	392,392	418,530	-6.2%
Total	$ 630,452	$ 736,721	-14.4%
Assets	248,583	225,845	10.1%
Unfunded Actuarial Liability	$ 381,868	$ 510,876	-25.3%
Funded Percentage	39.4%	30.7%	8.8%

Dollar amounts in thousands

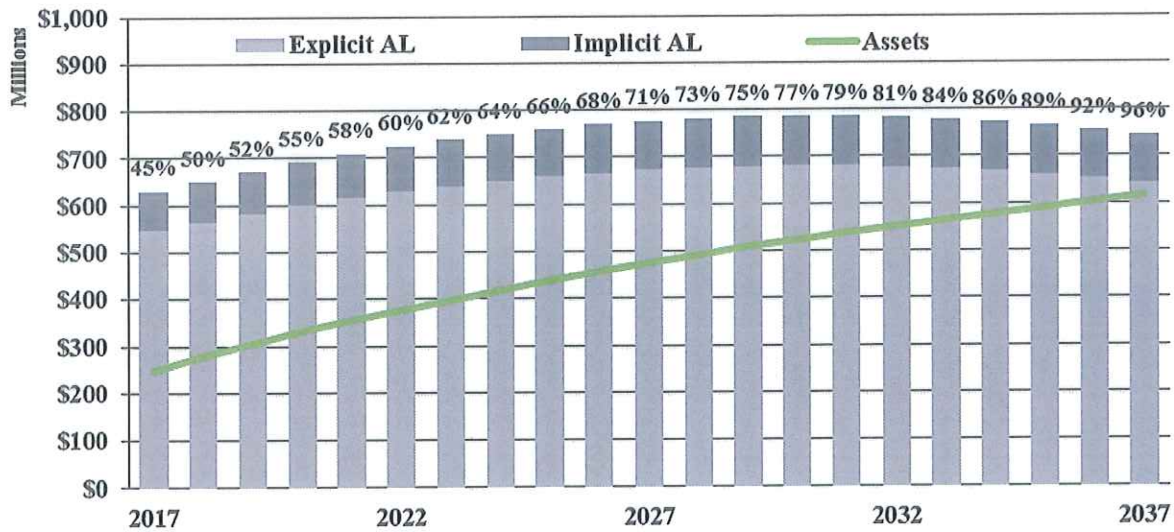
SECTION I – BOARD SUMMARY

The chart below shows the historical trend of assets and the Actuarial Liability on a funding basis for the City of San José Federated Postemployment Healthcare Plan. The Actuarial Liability grew from 2010 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 Plan changes and favorable medical cost trend experience, offset by changes in the discount rate. The increase in the Actuarial Liability in 2015 was primarily due to the change in demographic assumptions. The decrease in the Actuarial Liability in 2017 is primarily due to Plan changes and health assumption changes.

	2010	2011	2012	2013	2014	2015	2016	2017
Funded Ratio	13.7%	14.5%	18.6%	23.9%	30.0%	29.1%	30.7%	39.4%
UAL/(Surplus) *(in millions)*	$681.5	$800.5	$604.7	$501.3	$465.2	$511.9	$510.9	$381.9
Discount Rate	7.95%	7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%

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. The AL for the implicit subsidy is shown in dark gray while the AL for the explicit subsidy is shown in a lighter gray. If all assumptions are met in the future including an expected return of 6.875% each year, the funded percentage for the explicit subsidy is expected to reach about 96% by 2037.

Projected Assets and Actuarial Liability 2017-2037



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, 2017. The total UAL decreased about $129 million since the prior year. The explicit subsidy UAL decreased $119 million and the implicit subsidy UAL decreased $10 million.

Table I-3
Changes in Unfunded Actuarial Liability

		Implicit		Explicit		Total
Unfunded Actuarial Liability, June, 30, 2016	$	92,107	$	418,769	$	510,876
Unfunded Actuarial Liability, June, 30, 2017		82,280		299,588		381,868
Change in Unfunded Actuarial Liability	$	**(9,827)**	$	**(119,181)**	$	**(129,008)**
Sources of Changes						
Normal Cost and Interest on UAL less Contributions	$	3,228	$	(7,556)	$	(4,328)
Investment Experience		0		(117)		(117)
Demographic Experience		3,507		(4,438)		(931)
Assumption Changes		(14,691)		(63,105)		(77,795)
New Low Cost Health Plan		0		(44,023)		(44,023)
VEBA Elections		(1,878)		15		(1,863)
Catastrophic Disability Benefit		7		43		50
Total Changes	$	**(9,827)**	$	**(119,181)**	$	**(129,008)**

Dollar amounts in thousands

SECTION I – BOARD SUMMARY

The primary sources of the reduction in the UAL were the assumption changes ($78 million), including lower trend rates and lower expected claims, and the adoption of a new lowest cost health plan on which the explicit subsidy is based ($44 million). In addition, contributions were higher than the normal cost plus interest on the UAL by about $4 million. The VEBA elections had only a minor impact as the assets transferred to the VEBA were about the same amount as the liability for the explicit subsidy. Investment experience, demographic experience, and the addition of the catastrophic disability benefit had very little impact.

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, 2017	June 30, 2016	% Change
Active Members			
Eligible for Full Benefits	1,930	2,387	-19.1%
Eligible for Catastrophic Disability Only	1,480	N/A	N/A
Total Active Members	3,410	2,387	42.9%
Deferred Vested Members	158	151	4.6%
Members in Pay Status (Medical and/or Dental)	3,534	3,461	2.1%
Total	7,102	5,999	18.4%
Full Benefit Member Payroll	$ 154,964	$ 208,957	-25.8%
Total Payroll	287,339	266,823	7.7%
Actuarial Liability			
Explicit Subsidy	$ 548,172	$ 644,615	-15.0%
Implicit Subsidy	82,280	92,107	-10.7%
Total Actuarial Liability	$ 630,452	$ 736,721	-14.4%
Market Value of Assets	248,583	225,845	10.1%
Explicit Subsidy Unfunded Actuarial Liability	$ 299,588	$ 418,769	-28.5%
Explicit Subsidy Funded Percentage	45.3%	35.0%	29.4%
Total Unfunded Actuarial Liability	$ 381,868	$ 510,876	-25.3%
Total Funded Percentage	39.4%	30.7%	28.6%
	FYE 2019	**FYE 2018**	**% Change**
City's Actuarially Determined Contribution Amount[1]	$ 21,247	$ 28,960	-26.6%
City's Actuarially Determined Contribution Rate	7.16%	10.55%	-3.4%
City's Implicit Subsidy Payment	$ 3,818	$ 4,577	-16.6%

[1] *City amount for FYE 2018 was not actuarially determined*

Dollar amounts in thousands

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 were adopted by the Board of Administration at the January 18, 2018 Board meeting based upon our recommendations. The wage inflation assumption and mortality improvement scale were adopted with our input at the December 21, 2017 Board meeting. The discount rate assumption was adopted with our input at the November 16, 2017 Board meeting. All other assumptions in this report 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 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 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.

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.

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 that 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 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.

SECTION II – CERTIFICATION

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.

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

Michael W. Schionning, FSA,

Principal Consulting Actuary

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

SECTION III – ASSETS

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

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

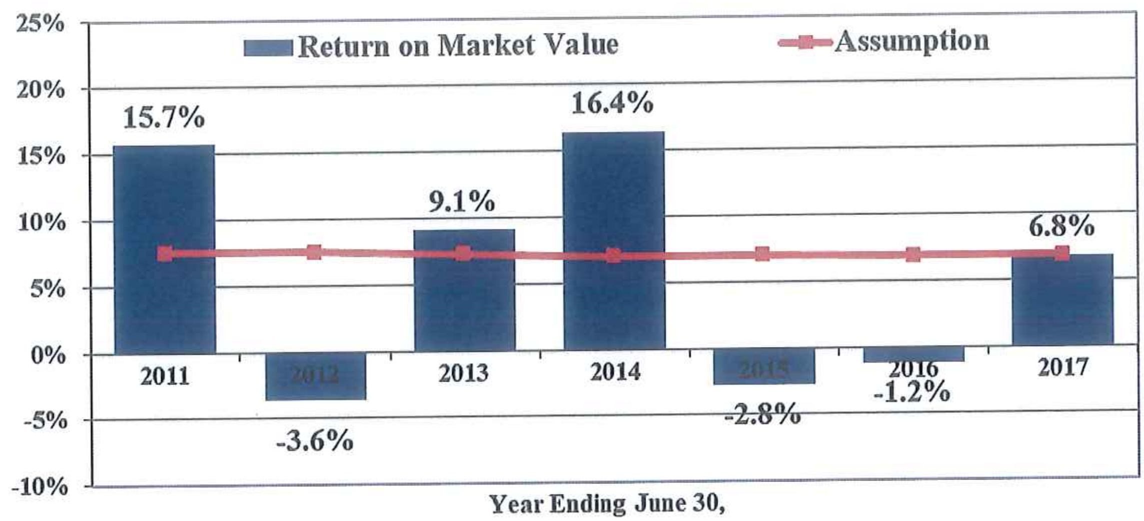
	6/30/2017			6/30/2016
Fiscal Year Ending	**401(h) Acct**	**115 Trust**	**Total**	**Total**
Market value, beginning of year	$ 57,238,495	$ 168,606,734	$ 225,845,229	$ 209,760,718
Contributions				
Employee	0	16,826,735	16,826,735	17,884,169
City	0	27,328,443	27,328,443	26,034,659
Implicit subsidy	4,576,736	0	4,576,736	4,427,194
Total	$ 4,576,736	$ 44,155,178	$ 48,731,914	$ 48,346,022
Net investment earnings	3,337,710	13,461,468	16,799,178	(2,684,784)
Benefit payments				
Explicit subsidy	26,430,086	0	26,430,086	25,149,533
Implicit subsidy	4,576,736	0	4,576,736	4,427,194
Total	$ 31,006,822	$ 0	$ 31,006,822	$ 29,576,727
One-Time VEBA Transfer	0	11,786,321	11,786,321	
Market value, end of year	**$ 34,146,119**	**$ 214,437,059**	**$ 248,583,178**	**$ 225,845,229**
Estimated Rate of Return	7.6%	6.8%	6.9%	-1.2%

In the last year, investments, in aggregate, returned approximately 6.9% compared to an expected rate of return of 6.875%, resulting in an investment gain of approximately $0.1 million. The assets in the 401(h) account returned approximately 7.6% while the assets in the 115 trust returned approximately 6.8%.

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 six years. The compound average of the actual returns is about 5.5%.

Historical Rates of Return



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. Table IV-1 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 (the explicit subsidy).

Table IV-1
Expected Net Benefit Payments

Fiscal Year Ending	Explicit Subsidy Medical	Explicit Subsidy Dental	Explicit Subsidy Total	Implicit Subsidy	Total
2018	$ 23,554,182	$ 3,505,359	$ 27,059,541	$ 3,818,363	$ 30,877,904
2019	21,928,406	3,699,594	25,628,001	3,804,895	29,432,896
2020	23,971,140	3,902,063	27,873,203	4,095,896	31,969,099
2021	26,080,523	4,104,340	30,184,863	4,464,718	34,649,581
2022	28,147,532	4,289,680	32,437,212	4,814,732	37,251,943
2023	29,917,273	4,459,656	34,376,929	5,181,757	39,558,685
2024	31,748,754	4,619,579	36,368,333	5,484,784	41,853,117
2025	33,549,056	4,771,693	38,320,749	5,840,194	44,160,943
2026	35,087,301	4,919,097	40,006,398	5,953,636	45,960,034
2027	36,591,994	5,059,308	41,651,302	6,325,689	47,976,991
2028	38,001,063	5,195,273	43,196,337	6,563,572	49,759,908
2029	39,534,116	5,330,855	44,864,971	6,755,489	51,620,459
2030	41,180,926	5,464,304	46,645,230	7,089,669	53,734,899
2031	42,637,727	5,593,021	48,230,748	7,226,964	55,457,712
2032	44,060,607	5,714,659	49,775,265	7,463,576	57,238,841
2033	45,175,287	5,814,351	50,989,638	7,580,866	58,570,504
2034	46,007,658	5,887,175	51,894,833	7,657,945	59,552,778
2035	46,643,761	5,938,285	52,582,046	7,779,622	60,361,668
2036	47,213,687	5,973,577	53,187,264	7,869,699	61,056,963
2037	47,697,540	5,999,411	53,696,951	7,986,808	61,683,759

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, 2017 and June 30, 2016.

Table IV-2
Present Value of Future Benefits

	June 30, 2017				June 30, 2016	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	$ 84,727	$ 5,978	$ 57,414	$ 148,119	$ 191,370	-22.6%
Medicare Eligible	122,564	7,318	243,609	373,491	432,055	-13.6%
Dental	24,687	0	45,453	70,140	84,560	-17.1%
Total Explicit Subsidy	**$ 231,979**	**$ 13,297**	**$ 346,475**	**$ 591,751**	**$ 707,985**	**-16.4%**
Implicit Subsidy	41,197	2,938	45,917	90,052	102,875	-12.5%
Total	**$ 273,176**	**$ 16,235**	**$ 392,392**	**$ 681,803**	**$ 810,860**	**-15.9%**

Dollar amounts in thousands

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 each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial cost method. Table IV-3 on the next page shows the EA normal cost as of June 30, 2017 and June 30, 2016 separately by component.

SECTION IV – MEASURES OF LIABILITY

Table IV-3
Normal Cost

	June 30, 2017	June 30, 2016	% Change
Explicit Subsidy			
Non-Medicare Eligible	$ 2,400	$ 3,230	-25.7%
Medicare Eligible	3,313	4,797	-30.9%
Dental	794	1,197	-33.7%
Total Explicit Subsidy	**$ 6,507**	**$ 9,224**	**-29.5%**
Implicit Subsidy	1,124	1,522	-26.1%
Total	**$ 7,631**	**$ 10,746**	**-29.0%**

Dollar amounts in thousands

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, 2017 and June 30, 2016 separately by component.

Table IV-4
Actuarial Liability

	June 30, 2017				June 30, 2016	
	Actives	Deferred Vested	In Pay Status	Total	Total	% Change
Explicit Subsidy						
Non-Medicare Eligible	$ 67,878	$ 5,978	$ 57,414	$ 131,270	$ 168,282	-22.0%
Medicare Eligible	100,555	7,318	243,609	351,482	399,086	-11.9%
Dental	19,967	0	45,453	65,420	77,246	-15.3%
Total Explicit Subsidy	**$ 188,400**	**$ 13,297**	**$ 346,475**	**$ 548,172**	**$ 644,615**	**-15.0%**
Implicit Subsidy	33,425	2,938	45,917	82,280	92,107	-10.7%
Total	**$ 221,825**	**$ 16,235**	**$ 392,392**	**$ 630,452**	**$ 736,721**	**-14.4%**

Dollar amounts in thousands

Amortization of the Unfunded Actuarial Liability

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

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

Table V-1
Unfunded Actuarial Liability

	June 30, 2017			June 30, 2016		
	Explicit	**Implicit**	**Total**	**Explicit**	**Implicit**	**Total**
Actuarial Liability	$ 548,172	$ 82,280	$ 630,452	$ 644,615	$ 92,107	$ 736,721
Assets	248,583		248,583	225,845		225,845
Unfunded Actuarial Liability	**$ 299,588**	**$ 82,280**	**$ 381,868**	**$ 418,769**	**$ 92,107**	**$ 510,876**
Funded Percentage	**45.3%**	**0.0%**	**39.4%**	**35.0%**	**0.0%**	**30.7%**

Dollar amounts in thousands

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

Table V-2
UAL Amortization

	Outstanding Balance	Remaining Period	Remaining Phase-in	Remaining Phase-out	Payment
Fresh Start UAL	$ 266,840	20	N/A	N/A	$ 24,128
7/1/2017 Payment	32,748				
Total 2017 UAL	**$ 299,588**				**$ 24,128**

Dollar amounts in thousands

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 covered by the VEBA instead of this Plan. The actuarially determined contribution is the normal cost plus the amortization payment on the UAL less expected member contributions. Members contribute 7.50% of pay.

Table V-3 shows the components of the Actuarially Determined Contribution (ADC) amounts for the explicit subsidy for FYE 2019 and 2018. The FYE 2018 amounts were fixed as a percent of payroll by a collective bargaining agreement and were not actuarially determined.

Table V-3
City's Actuarially Determined Contribution (ADC)
Explicit Subsidy Only

		FYE 2019		FYE 2018	% Change
Normal Cost	$	6,238		N/A	
UAL Payment		25,787		N/A	
Total Contribution	$	**32,025**	$	**44,449**	-28.0%
Projected Member Contributions		10,778		15,489	-30.4%
City's ADC Amount	$	**21,247**	$	**28,960**	**-26.6%**
Projected Payroll		296,678		274,428	8.1%
City's ADC Percentage		**7.2%**		**10.6%**	**-3.4%**
City's ADC Amount (BOY)	$	**20,856**	$	**28,427**	**-26.6%**

SECTION VI – ACTUARIAL SECTION OF THE CAFR

The Government Finance Officers Association (GFOA) maintains a checklist of items to be included in the Plan's Comprehensive Annual Financial Report (CAFR) in order 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 CAFR. All amounts prior to June 30, 2010 were calculated by the prior actuary.

Table VI-1
Member Benefit Coverage Information

	Actuarial Liability				
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives (A)	Active Members (B)	Reported Assets	Portion of Liability Covered by Reported Assets (A)	(B)
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%
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

Table VI-1 was previously referred to as the Solvency Test by the Government Finance Officers Association (GFOA). It should be noted, however, that it does not 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. Consequently, we understand that the new GFOA checklist refers to the exhibit providing member benefit coverage information.

SECTION VI – ACTUARIAL SECTION OF THE CAFR

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
6/30/2017	$ 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
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)
6/30/2010	6,705	(43,746)	(37,041)	(36,785)	(73,826)

Dollar amounts in thousands

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)
6/30/2017	$ 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%
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

SECTION VI – ACTUARIAL SECTION OF THE CAFR

Schedule of Active Member Data

Valuation Date		Active Member Counts			Annual Payroll	Average Annual Pay	Percent Change in Average Pay
		Under Age 65	Age 65+	Total			
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%
2012		3,017	59	3,076	225,859,144	73,426	5.0%
2011		3,201	73	3,274	228,936,398	69,926	-11.2%
2010		3,721	97	3,818	300,811,165	78,788	-0.5%
2009		3,988	91	4,079	323,020,387	79,191	N/A
2007		3,853	66	3,919	N/A	N/A	N/A

[1] *Does not include Tier 2B Active Employees*

[2] *Includes members that are only eligible for catastrophic disability benefits*

SECTION VI – ACTUARIAL SECTION OF THE CAFR

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	Count	Count	Annual Subsidy	Count	Annual Subsidy		
Medical										
2016-17	2,821	$ 21,844,128	210	111	2,920	$ 23,621,494	99	1,777,366	8.1%	8,090
2015-16	2,769	21,341,423	183	131	2,821	21,844,128	52	502,705	2.4%	7,743
2014-15	2,737	21,940,885	152	120	2,769	21,341,423	32	(599,462)	-2.7%	7,707
2013-14	2,718	22,656,997	151	132	2,737	21,940,885	19	(716,112)	-3.2%	8,016
2012-13	2,680	25,223,474	158	120	2,718	22,656,997	38	(2,566,477)	-10.2%	8,336
2011-12	2,557	25,518,761	203	80	2,680	25,223,474	123	(295,287)	-1.2%	9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4%	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9%	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3%	8,523
2006-07	1,891	10,864,081	N/A	N/A	1,976	14,970,264	85	4,106,183	37.8%	7,576
Dental										
2016-17	3,264	$ 3,224,133	170	112	3,322	$ 3,414,299	58	190,166	5.9%	1,028
2015-16	3,206	$ 3,212,072	159	101	3,264	$ 3,224,133	58	12,061	0.4%	988
2014-15	3,133	3,130,058	160	87	3,206	3,212,072	73	82,014	2.6%	1,002
2013-14	3,103	3,742,351	138	108	3,133	3,130,058	30	(612,293)	-16.4%	999
2012-13	3,044	3,924,332	144	85	3,103	3,742,351	59	3,739,307	-4.6%	1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	3,921,426	4.8%	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	3,742,245	24.1%	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	3,015,098	25.2%	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	2,408,313	2.7%	1,015
2006-07	2,220	1,955,377	N/A	N/A	2,248	2,346,934	28	2,344,714	20.0%	1,044

** Annual subsidies are explicit amounts*

APPENDIX A – MEMBERSHIP INFORMATION

Member Data

Valuation Date	June 30, 2017	June 30, 2016	% Change
Active Employees Eligible for Full Benefits			
Count	1,930	2,387	-19.15%
Average Age	48.7	48.1	1.30%
Average OPEB Benefit Service	15.6	14.3	9.57%
Total Payroll	$170,243,645	$202,911,153	-16.10%
Active Employees Eligible for Catastrophic Disability Only			
Count	1,480	N/A	N/A
Average Age	38.9	N/A	N/A
Average OPEB Benefit Service	2.9	N/A	N/A
Total Payroll	$117,095,779	N/A	N/A
Retirees and Surviving Spouses with Medical Coverage *			
Pre-65	1,056	1,056	0.00%
Post-65	1,864	1,765	5.61%
Total	2,920	2,821	3.51%
Retirees and Surviving Spouses with Dental Coverage *			
Total	3,322	3,264	1.78%
Term Vested Members	158	151	4.64%

** Counts do not include dependent spouses*

APPENDIX A – MEMBERSHIP INFORMATION

Status Reconciliation	Active	Terminated Vested	Retiree	Surviving Spouse	Disabled	Total
Beginning of Year	**2,387**	**151**	**2,871**	**404**	**186**	**5,999**
New Hires	0	0	0	0	0	0
Rehires	1	0	(1)	0	0	0
Vested Terminations	(28)	28	0	0	0	0
Service Retirements	(131)	(16)	147	0	0	0
Disabled Retirements	(3)	(2)	0	0	5	0
New survivors	(1)	0	(13)	43	0	29
No longer covered	(81)	(3)	(68)	(35)	(13)	(200)
Data corrections	16	0	6	0	2	24
New Catastrophic Disability	1,250	0	0	0	0	1,250
End of Year	**3,410**	**158**	**2,942**	**412**	**180**	**7,102**

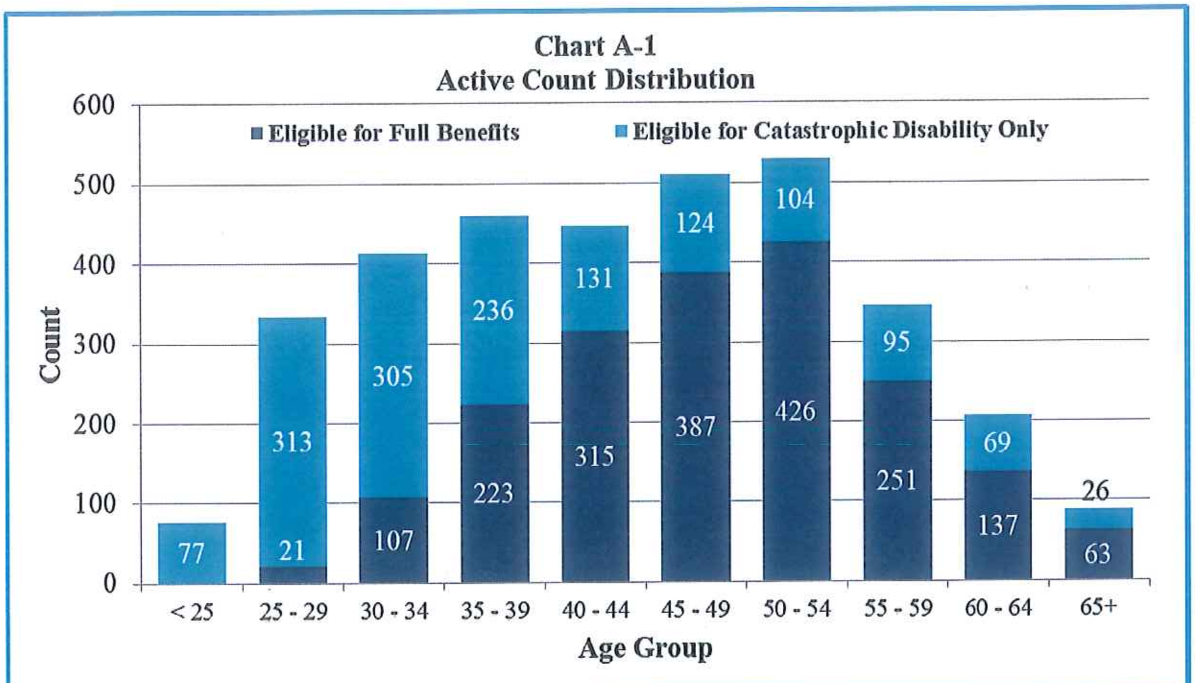
Counts do not include dependent spouses

Member Data as of June 30, 2017:

Active Employees Eligible for Full Benefits Years of OPEB Benefit Service Age Group	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 – 34	35+	Total
Under 25	0	0	0	0	0	0	0	0	0
25 to 29	13	7	1	0	0	0	0	0	21
30 to 34	34	52	21	0	0	0	0	0	107
35 to 39	26	77	66	54	0	0	0	0	223
40 to 44	18	60	72	152	13	0	0	0	315
45 to 49	17	45	65	161	56	43	0	0	387
50 to 54	6	40	49	149	65	113	4	0	426
55 to 59	9	40	35	79	21	60	5	2	251
60 to 64	2	6	34	57	23	14	1	0	137
65 and up	2	6	12	27	10	3	1	2	63
Total	**127**	**333**	**355**	**679**	**188**	**233**	**11**	**4**	**1,930**

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	77	0	0	0	0	0	0	0	77
25 to 29	313	0	0	0	0	0	0	0	313
30 to 34	290	15	0	0	0	0	0	0	305
35 to 39	214	13	7	2	0	0	0	0	236
40 to 44	118	7	2	4	0	0	0	0	131
45 to 49	103	8	5	7	1	0	0	0	124
50 to 54	75	6	6	8	1	8	0	0	104
55 to 59	75	12	1	2	3	2	0	0	95
60 to 64	43	15	6	3	1	1	0	0	69
65 and up	10	8	4	1	3	0	0	0	26
Total	**1,318**	**84**	**31**	**27**	**9**	**11**	**0**	**0**	**1,480**

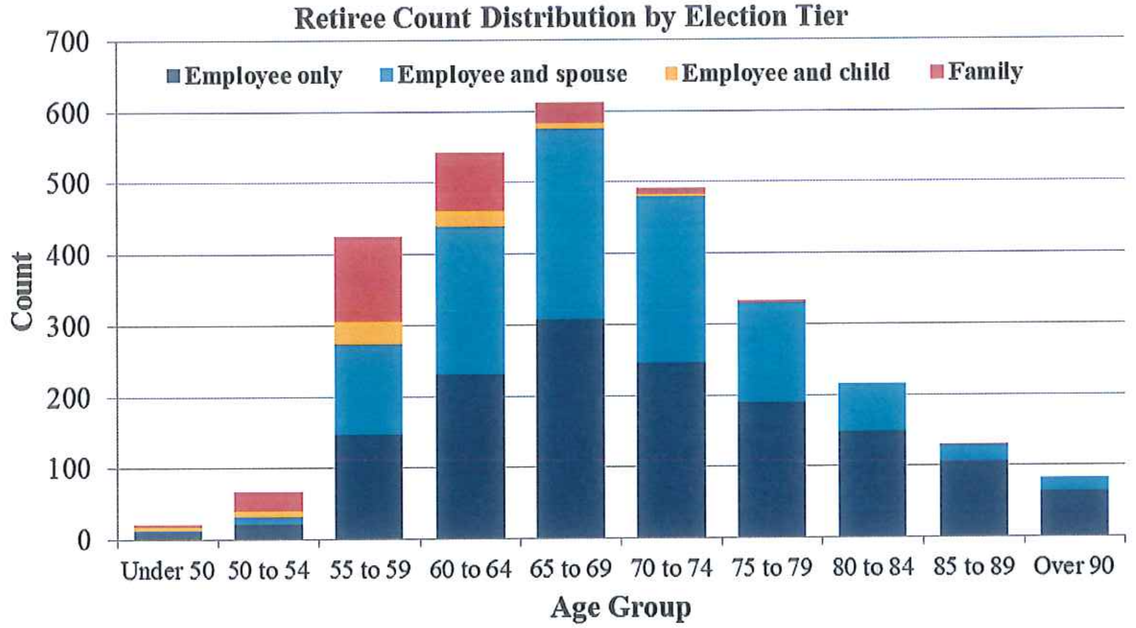


APPENDIX A – MEMBERSHIP INFORMATION

Retirees, Disabled Retirees and Surviving Spouses				
	Medical Insurance			Dental
Age Group	Males	Females	Total	Insurance
Under 50	5	16	21	22
50 to 54	40	28	68	73
55 to 59	244	181	425	394
60 to 64	279	263	542	576
65 to 69	342	271	613	694
70 to 74	265	226	491	586
75 to 79	182	151	333	402
80 to 84	98	117	215	259
85 to 89	53	76	129	182
Over 90	35	48	83	134
Total	**1,543**	**1,377**	**2,920**	**3,322**

Counts do not include dependent spouses

Chart A-2
Retiree Count Distribution by Election Tier



APPENDIX A – MEMBERSHIP INFORMATION

Medical Plan Elections as of January 1, 2016			
Medical Plan	Retirees & Surviving Spouses	Spouses	Total
Pre-Medicare Medical Plans			
Kaiser DHMO	167	130	297
Kaiser HDHP	64	43	107
Kaiser $25 Co-pay	614	393	1007
Kaiser $15 Co-pay (Hawaii)	1	1	2
Kaiser $25 Co-pay (Northwest)	9	8	17
Sutter Health DHMO	10	5	15
Sutter Health $20 Co-pay	45	22	67
PPO / POS $25 Co-pay	146	89	235
Total	**1,056**	**691**	**1,747**
Medicare Medical Plans			
Kaiser Senior Advantage	1060	391	1,451
Kaiser Senior Advantage (Hawaii)	5	1	6
Kaiser Senior Advantage (Northwest)	20	4	24
BS Medicare HMO	137	45	182
BS Medicare PPO / POS	642	234	876
Total	**1,864**	**675**	**2,539**

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	12	9	21
45 to 49	19	28	47
50 to 54	39	36	75
55 to 59	10	1	11
60 to 64	1	2	3
Over 65	1	0	1
Total	**82**	**76**	**158**

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

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 January 1, 2018 Board meeting.

1. **Expected Return on Plan Assets**

   6.875% per year. The Board expects a long-term rate of return of 7.1% for the 401(h) account and 6.7% for the 115 trust based on Meketa's 20-year capital market assumptions and the System's current investment policy.

2. **Per Person Cost Trends**

Annual Increase			
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental
2019	8.00%	6.00%	3.50%
2020	7.73	5.88	3.50
2021	7.46	5.75	3.50
2022	7.20	5.63	3.50
2023	6.93	5.50	3.50
2024	6.66	5.38	3.50
2025	6.39	5.25	3.50
2026	6.13	5.13	3.50
2027	5.86	5.00	3.50
2028	5.59	4.88	3.50
2029	5.32	4.75	3.50
2030	5.05	4.63	3.50
2031	4.79	4.50	3.50
2032	4.52	4.38	3.50
2033+	4.25	4.25	3.50

Actual premium increases for 2018 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.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

3. Changes Since Last Valuation

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per-person cost trends were updated.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

The Plan election assumptions were adopted by the Board of Administration at the January 10, 2018 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 B – ACTUARIAL 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

	Years of Service				
Age	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%

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.

APPENDIX B – ACTUARIAL 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 B – ACTUARIAL ASSUMPTIONS AND METHODS

4. Rates 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 most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2009. The projection scale used for this valuation is MP-2017.

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 B – ACTUARIAL ASSUMPTIONS AND METHODS

6. Salary Increase Rate

Wage inflation component: 3.25%

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 B – ACTUARIAL 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 current plan.

A new, lower cost Kaiser High Deductible plan (Kaiser HDHP) will be offered as of 1/1/2018.

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	14%	· Kaiser Senior Advantage	58%
· Kaiser $25 Co-pay	61%	· BS Medicare HMO	8%
· Kaiser HDHP	6%	· BS Medicare PPO	34%
· Sutter Health DHMO	1%	· In-Lieu	0%
· Sutter Health $20 Co-pay	3%		
· PPO $25 Co-pay	15%	**Dental Plans (All Retirees)**	
· In-Lieu	0%	· Delta Dental PPO	97%
		· 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 B – ACTUARIAL 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

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

The retirement rates for Tier 2 members were changed due to the Measure F changes to retirement eligibility and benefit amounts.

The retirement age for Tier 2 terminated vested members was decreased from 65 to 62.

The wage inflation and payroll growth was increased from 2.85% to 3.25%.

The mortality improvement table was updated from MP-2015 to MP-2017.

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the January 1, 2018 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 2017 and 2018. 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 2017 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the Kaiser $25 Co-pay and Kaiser HMO deductible plans were assumed to transition to the Kaiser $25 Co-pay, Kaiser HMO Deductible, and Kaiser High Deductible plans based on the actual 1/1/2018 elections. 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 separately for the Federated, 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, 2017 based on the premiums for 2017 and 2018. 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		Kaiser HDHP	
Age	Male	Female	Male	Female	Male	Female
40	6,323	7,769	7,733	9,655	5,881	7,239
45	6,463	7,579	8,054	9,538	6,024	7,073
50	6,826	7,734	8,672	9,879	6,377	7,230
55	7,551	8,191	9,771	10,622	7,071	7,672
60	8,820	8,599	11,594	11,300	8,276	8,068
64	10,379	8,448	13,774	11,207	9,750	7,935

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

	Sample Claims Costs - Non-Medicare Eligible					
	Sutter DHMO		Sutter $20 Co-pay		PPO $100 Co-pay	
Age	Male	Female	Male	Female	Male	Female
40	9,429	11,266	7,619	9,655	8,594	11,115
45	9,325	10,743	8,074	9,647	9,327	11,274
50	9,505	10,659	8,845	10,124	10,451	12,034
55	10,145	10,959	10,125	11,027	12,206	13,322
60	11,477	11,196	12,172	11,861	14,909	14,524
64	13,233	10,778	14,575	11,855	18,020	14,652

	Sample Claims Costs - Medicare Eligible					
	Kaiser Senior Adv		BS Med PPO		BS Med HMO	
Age	Male	Female	Male	Female	Male	Female
65	3,341	2,948	5,598	4,938	6,819	6,015
70	3,548	3,005	5,945	5,035	7,241	6,133
75	4,078	3,380	6,833	5,662	8,322	6,897
80	4,631	3,833	7,758	6,421	9,450	7,821
85	5,001	4,188	8,379	7,017	10,206	8,547

	Sample Claims Costs - Dental			
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	685	685	311	311

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.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

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

All claims costs are developed separately for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

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 future amortization based will be 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 and amortization payment described above less expected employee contributions. The City has the option to limit its contribution 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**

   Member contributions were changed due to Measure F.

   The amortization method described above was established for this valuation and future valuations.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

POSTEMPLOYMENT HEALTHCARE PLAN

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

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 C – SUMMARY OF 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 calendar years 2017 and 2018 are as follows.

2017 Monthly Premiums	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$490.20	$980.40	$857.86	$1,470.62
Kaiser $25 Co-pay	598.66	1,197.32	1,047.62	1,795.94
Blue Shield PPO $25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Sutter Health $20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$289.12	$578.24	$578.24	$867.36
Blue Shield Medicare PPO / POS	509.21	1,018.42	1,018.42	1,771.26
Blue Shield Medicare HMO	598.82	1,197.64	1,197.64	1,824.90
Dental				
Delta Dental PPO	$50.88	$111.92	$122.12	$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay HMO

APPENDIX C – SUMMARY OF PLAN PROVISIONS

2018 Monthly Premiums	Single	Emp/Sp	Emp/Chd	Family
Medical				
Non-Medicare Monthly Rates				
Kaiser DHMO	$486.24	$972.48	$850.92	$1,458.72
Kaiser $25 Co-pay	593.84	1,187.68	1,039.22	1,781.52
Kaiser HDHP	409.70	819.40	716.98	1,229.10
Blue Shield PPO $25 Co-pay	1,104.14	2,208.26	1,932.26	3,312.40
Sutter Health $20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$306.28	$612.56	$612.56	$918.84
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,885.26
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,205.12
Dental				
Delta Dental PPO	$50.88	$111.92	$122.12	$157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay HMO

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Summary of 2018 Benefit Plans:

Non-Medicare Plans:	Kaiser $25 Co-Pay	Kaiser DHMO	Kaiser High Deductible	Sutter Health Plus $20 Co-Pay HMO	Sutter Health Plus $1,500 Deductible	Blue Shield PPO $25 Co-Pay (In Network)
Annual Out-of-Pocket Maximum (one person/family)	$1,500/$3,000	$4,000/$8,000	$5,950/$11,900	$1,500/$3,000	$4,000/$8,000	$2,100/$4,200
Annual Deductible (one person/family)	None	$1,500/$3,000	$3,000/$6,000	None	$1,500/$3,000	$100/$200
Office Visit copay	$25	$40	30%*	$20	$20	$25
Emergency Room copay	$100	30%*	30%*	$100	30%*	$100
Hospital Care copay	$100	30%*	30%*	$100	30%*	$100
Prescription Drug retail copay (30-day supply):						
Generic	$10	$10	$10	$10	$10	$10
Brand	$25	$30	$30	$30	$30	$25
Non-Formulary	N/A	N/A	N/A	$60	$60	$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 – SUMMARY OF PLAN PROVISIONS

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

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

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

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

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

Amount		Probability of Payment	$\frac{1}{(1+\text{Discount Rate})}$		
$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 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.

APPENDIX E – LIST OF ABBREVIATIONS

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

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