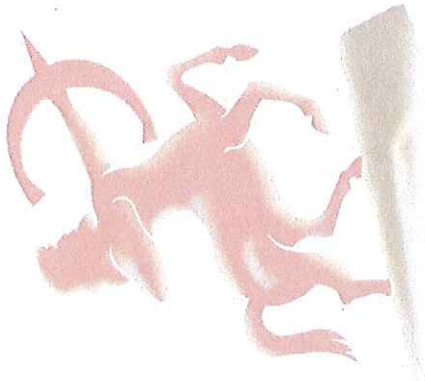




CLASSIC VALUES, INNOVATIVE ADVICE

Federated City Employees' Retirement System

June 30, 2011 OPEB Actuarial Valuation



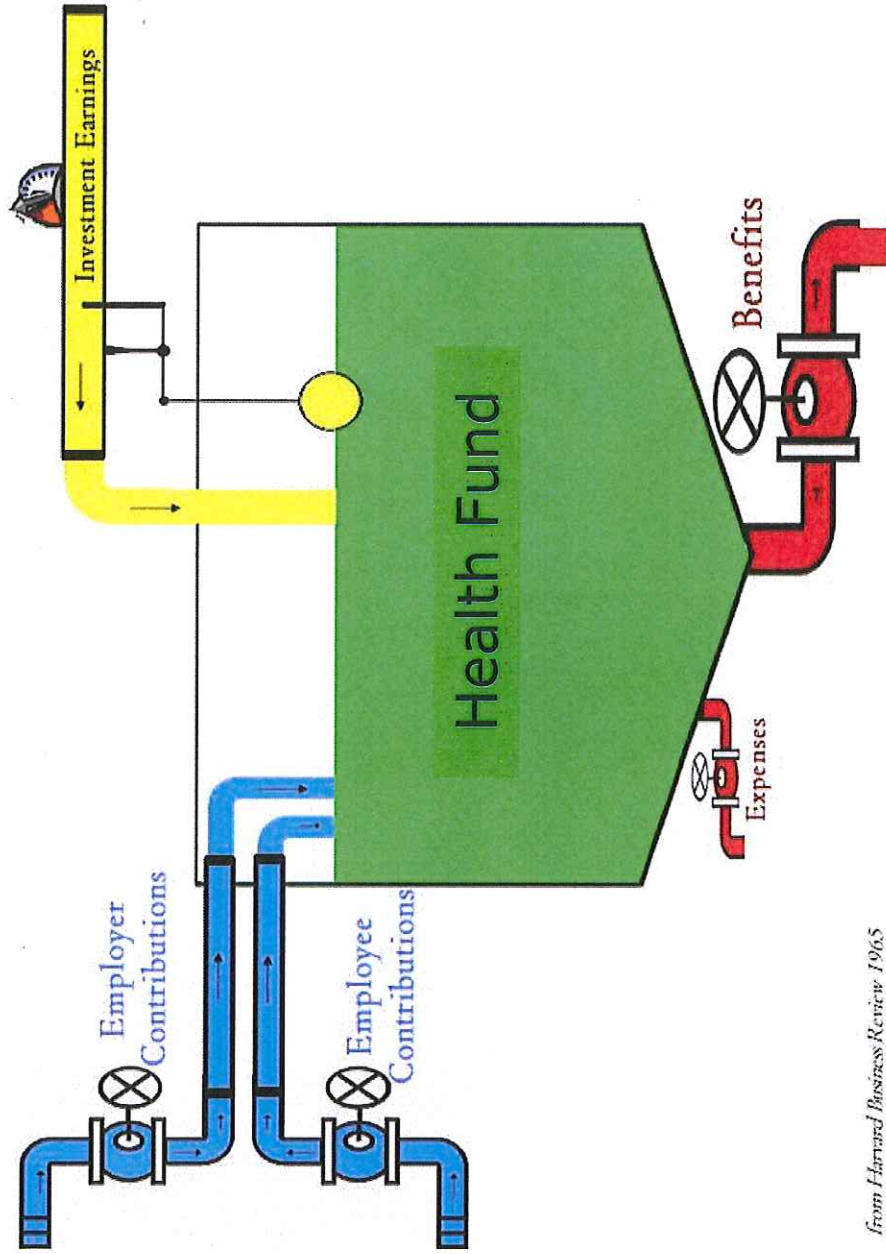
January 19, 2012
Bill Hallmark, ASA, FCA, EA
Margaret Tempkin, FSA, EA



Agenda

- Actuarial Valuation Overview
- Key Results
- Changes Since Prior Valuation
- Sensitivity to Health Care Trend
- Projections
- Potential Future Issues

Actuarial Valuation Overview



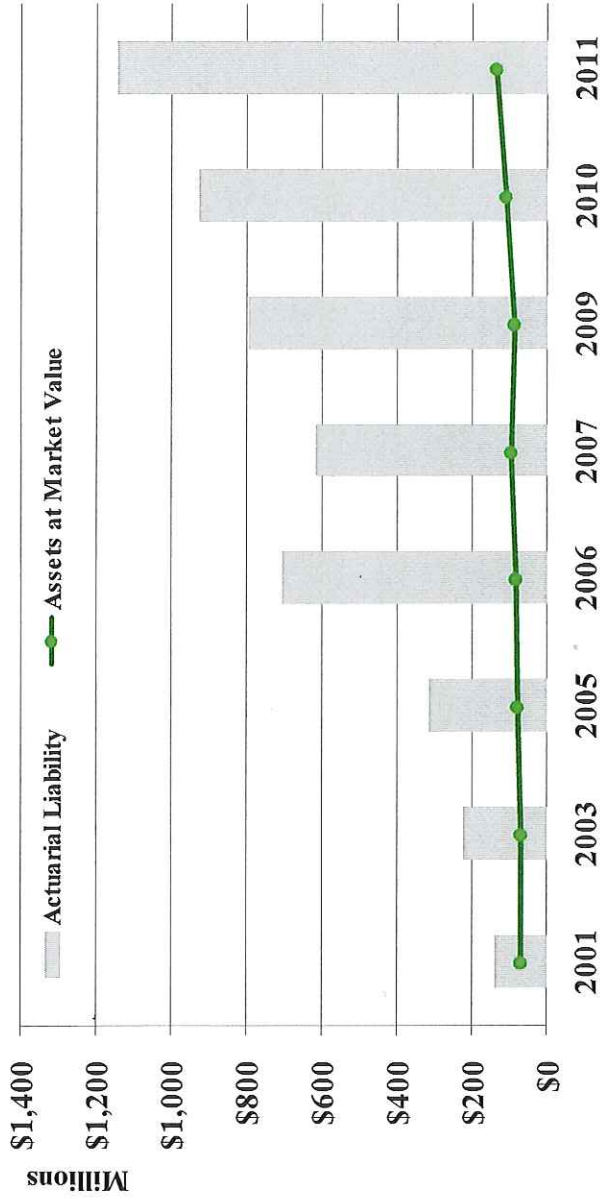
from Harvard Business Review 1965

Key Valuation Results

Table 1 Summary of Key Valuation Results GASB Valuation Basis (dollars in thousands)			
Valuation Date	6/30/2011	6/30/2010	
Discount Rate	6.10%	6.71%	
Actuarial Liability (AL)	\$ 1,145,359	\$ 926,371	
Assets	135,454	108,011	
Unfunded Actuarial Liability (UAL)	\$ 1,009,905	\$ 818,360	
Funding Ratio	12%	12%	
Fiscal Year Ending	6/30/2012	6/30/2011	
City ARC			
-- if paid as a percent of pay	29.26%	15.86%	
-- if paid as a dollar amount (middle of year)	\$ 66,991	\$ 47,593	
Funding Valuation Basis			
Valuation Date	6/30/2011	6/30/2010	
Discount Rate	7.50%	7.95%	
Actuarial Liability (AL)	\$ 935,960	\$ 789,486	
Assets	135,454	108,011	
Unfunded Actuarial Liability (UAL)	\$ 800,505	\$ 681,475	
Funding Ratio	14%	14%	
Fiscal Year Ending	6/30/2012	6/30/2011	
Member Contribution Rate	7.26%	6.51%	
City Contribution Rate	7.91%	7.16%	
City Contribution Amount (beginning of year)	\$ 18,033	\$ 21,471	

Key Valuation Results

The City of San Jose Federated Retiree Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

	2001	2003	2005	2006	2007	2009	2010	2011
Funded Ratio	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%
UAL/(Surplus) (in millions)	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$ 1,009.9
Discount Rate	8.25%	8.25%	8.25%	5.60%	6.60%	6.70%	6.71%	6.10%

Key Valuation Results

Table 14
Contribution Rates – Funding Basis

	FYE 2013		FYE 2012
	Medical	Dental	Total
Normal Cost	6.95%	0.74%	7.69%
Amortization Payment	20.49%	2.04%	22.52%
Contribution Amount without Phase-In			
Employees	13.72%	0.76%	14.47%
City	13.72%	2.02%	15.74%
Total	27.44%	2.78%	30.21%
			5.44%
			13.48%
			9.03%
			9.89%
			18.92%

Table 15
Projected Phase-In Contribution Rates

Fiscal Year	Employee	City	Total
2008-09	4.65%	5.25%	9.90%
2009-10	5.07%	5.70%	10.77%
2010-11	5.76%	6.41%	12.17%
2011-12	6.51%	7.16%	13.67%
2012-13	7.26%	7.91%	15.17%
2013-14	15.50%	16.84%	32.34%



Changes Since Prior Valuation

Valuation Date	June 30, 2010	June 30, 2011	% Change
Active Employees			
Count	3,818	3,274	-14.2%
Average Age	45.9	45.9	0.0%
Average Service	12.1	12.3	1.7%
Total Payroll	\$ 300,069,063	\$ 228,936,398	-23.7%
Retirees and Spouses with Medical Coverage			
Pre-Medicare	1,716	1,968	14.7%
Medicare-Eligible	1,855	1,946	4.9%
Total	3,571	3,914	9.6%
Retirees with Dental Coverage			
Total	2,588	2,906	12.3%
Term Vested Participants	89	103	15.7%

Changes Since Prior Valuation

Table 7
Reconciliation of Actuarial Liability – GASB Basis

Actuarial Liability as of June 30, 2010	\$ 926,370,862
Normal Cost	22,195,786
Expected Benefit Payments	(31,773,902)
Interest	<u>61,843,356</u>
Expected Actuarial Liability, June 30, 2011	\$ 978,636,102
Actuarial Liability as of June 30, 2011	<u>1,145,359,322</u>
Gain or (Loss)	\$ (166,723,221)
Changes due to:	
• Census Changes	\$ (35,166,462)
• Change in Demographic Assumptions	(84,371,915)
• Change in Claims Assumptions	34,486,846
• Change in Discount Rate	<u>(81,671,690)</u>
Total Changes	\$ (166,723,221)

Sensitivity to Health Care Trend

Table 9
Actuarial Liability
6.10% Blended Discount Rate
(dollars in thousands)

Health Care Trend Rate	- 1%	Base	+ 1%
Present Value of Future Benefits Retirees and Beneficiaries	\$ 575,122	\$ 643,146	\$ 724,582
Term Vested Members	8,058	9,011	10,152
Active Employees	<u>580,878</u>	<u>733,039</u>	<u>936,239</u>
Total	\$ 1,164,058	\$ 1,385,196	\$ 1,670,973
Present Value of Future Normal Costs	<u>168,552</u>	<u>239,837</u>	<u>344,703</u>
Actuarial Liability	\$ 995,505	\$ 1,145,359	\$ 1,326,270
Assets	<u>135,454</u>	<u>135,454</u>	<u>135,454</u>
UAL	\$ 860,051	\$ 1,009,905	\$ 1,190,816

Table 10
GASB ARC – FY2011
6.10% Blended Discount Rate
(dollars in thousands)

Health Care Trend Rate	- 1%	Base	+ 1%
Total Normal Cost	\$ 17,932	\$ 25,496	\$ 36,619
Less Employee Contribution towards Normal Cost	<u>14,904</u>	<u>14,904</u>	<u>14,904</u>
Employer Normal Cost	\$ 3,028	\$ 10,592	\$ 21,715
UAL Amortization	<u>46,525</u>	<u>56,399</u>	<u>68,319</u>
Total ARC	\$ 49,553	\$ 66,991	\$ 90,034



Issues of Note

- Significant reduction in active employees and payroll combined with increased number of retirees results in higher OPEB liabilities and significantly higher contributions as a percentage of payroll
- MOUs restrict increase in contributions as a percentage of payroll
- Contribution rates for the next two years under the MOUs are less than the expected pay-as-you-go cost (including the implicit subsidy) for the plan
- Increase when go to full ARC payments is substantial for both employees and the City



Projections

H-scal **OPEB**

Health Trends

	Initial	+ 1 year	+ 2 year	Ultimate	Yrs to Ult
Med Pre-Medicare	9.17%	8.83%	8.50%	4.5%	14
Med Post-Medicare	6.83%	6.67%	6.50%	4.5%	14
Dental pre	4.5%	4.5%	4.0%	4.0%	3
Dental post	4.5%	4.5%	4.0%	4.0%	3

FY Beginning

	2011	2012	2013	2014	2015	2016+
Inv Return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Discount Rate	6.10%	7.50%	7.50%	7.50%	7.50%	7.50%

Other Assumptions

	2011	2012	2013+
Inv Return	7.50%	7.50%	7.50%
Sal Increases	3.25%	3.25%	3.25%
Amort Increases	3.25%	3.25%	3.25%
Active Population Growth			0.0%
Amortization Period			20
			2

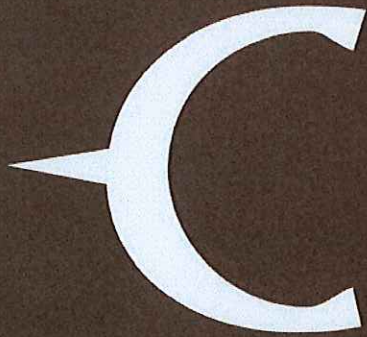
1 = Fixed, 2=Layers, 3= Rolling

Assets and Liabilities

Act Liab — Assets — NOO

Plan Funding

PAYGo Cost — EE Contrib — City Contrib — ARC



**City of San Jose Federated
Retiree Health Care Plan**

**Actuarial Valuation
as of June 30, 2011**

Produced by [Cheiron](#)

January 2012



Classic Values, Innovative Advice

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Via Email and U.S. Mail

January 13, 2012

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

Re: City of San Jose Federated Retiree Health Care Plan Valuation

Dear Members of the Board:

The purpose of this report is to present the June 30, 2011 actuarial valuation of the City of San Jose Federated Retiree Health Care Plan, covering postretirement health and dental insurance benefits. This report is for the use of the Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of this report is not an intended user and is considered a third party. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Appendix A describes the Member Data, Assumptions, and Methods used in calculating the liabilities contained in the report. In preparing our report, we relied, without audit, 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 #23. Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with City of San Jose's staff. There were changes to the actuarial assumptions from those used in the prior valuation as a result of the experience study performed on the San Jose Federated Employees' Pension Plan. These changes are described in Appendix A of this report.

The results of this report depend on the future experience conforming to the actuarial assumptions used. The results will change to the extent that future experience differs from the assumptions. Actuarial computations are calculated based on our understanding of GASB 43/45 and are for purposes of fulfilling plan and employer financial accounting requirements. Determinations for purposes other than meeting plan or employer financial accounting requirements may be significantly different from the results in this report. This report also contains actuarial computations based on our understanding of the Plan's funding policy. The 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.

At its December 2010 meeting, the Board adopted a policy setting 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



Retirement Board of the Federated City
Employees' Retirement System
January 13, 2012

the fiscal year. For example, based on this valuation report, the contribution required for the fiscal year ending June 30, 2013 is the greater of \$18,033,381 (if paid 7/1/2012) and 7.91% of actual payroll for the period from July 1, 2012 through June 30, 2013.

We hereby certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the City, are work products of Cheiron, Inc. These work products are complete and accurate and 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, collectively, 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.

Sincerely,
Cheiron



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



Margaret A. Tempkin, FSA, EA, MAAA
Principal Consulting Actuary

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

INTRODUCTION

The Retirement Board of the Federated City Employees' Retirement System has engaged Cheiron to provide a valuation of the City of San Jose Federated Retiree Health Care Plan. The primary purpose of performing this actuarial valuation is to:

- Determine employee and City contribution rates for the Fiscal Year ending June 30, 2013;
- Determine the accounting and financial reporting items under GASB 43 and 45 for the Plan and the City of the retiree health and dental insurance benefits;
- Show sensitivities to changes in trends and assumptions; and
- Illustrate the long-term effect of the funding strategy on projected contribution requirements and GASB accounting and financial reporting for the Plan and the City.

Funding Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five-year transition to fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method but limiting the incremental increase to 0.75% for the members and City during the phase-in period. The unfunded liability as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, 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.

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 8/11 of the total contribution.

GASB's OPEB Requirements

The Governmental Accounting Standards Board (GASB) Statement 43 governs financial reporting for post-employment benefits plans other than pension plans and a companion Statement (number 45) governs the employer accounting and financial reporting for these plans.

If an employer is not contributing the full ARC to the Plan, GASB requires the use of a discount rate that blends the expected return on plan assets (7.50%) with the expected return on employer assets (4.00%). For the 2011-12 fiscal year, the "full ARC" is 11.97% of pay, but under the phase-in, the City is only contributing 7.16% of pay, or 60% of the ARC. Consequently, following the method developed by the prior actuary, we have calculated a blended discount rate of 6.10% for this valuation. We note that this methodology does not truly interpolate between the expected return on plan assets and the expected return on employer assets as the contribution increases from pay-as-you-go to the full ARC. Consequently, with the reduction in payroll and the projection of contributions less than the pay-as-you-go cost, this methodology should be revisited.

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011

VALUATION RESULTS

The table below presents the key results of the 2011 valuation.

Table 1		
Summary of Key Valuation Results		
GASB Valuation Basis		
(dollars in thousands)		
Valuation Date	6/30/2011	6/30/2010
Discount Rate	6.10%	6.71%
Actuarial Liability (AL)	\$ 1,145,359	\$ 926,371
Assets	135,454	108,011
Unfunded Actuarial Liability (UAL)	\$ 1,009,905	\$ 818,360
Funding Ratio	12%	12%
Fiscal Year Ending	6/30/2012	6/30/2011
City ARC		
-- if paid as a percent of pay	29.26%	15.86%
-- if paid as a dollar amount (middle of year)	\$ 66,991	\$ 47,593
Funding Valuation Basis		
Valuation Date	6/30/2011	6/30/2010
Discount Rate	7.50%	7.95%
Actuarial Liability (AL)	\$ 935,960	\$ 789,486
Assets	135,454	108,011
Unfunded Actuarial Liability (UAL)	\$ 800,505	\$ 681,475
Funding Ratio	14%	14%
Fiscal Year Ending	6/30/2013	6/30/2012
Member Contribution Rate	7.26%	6.51%
City Contribution Rate	7.91%	7.16%
City Contribution Amount (beginning of year)	\$ 18,033	\$ 21,471

It should be noted that the City's contribution amount for the 2011-12 fiscal year was calculated based on the expected payroll from the 2010 valuation. With the significant reduction in payroll between valuations, we now estimate that a 7.16% contribution rate would be equivalent to a beginning of year contribution amount of \$16,392,000.

The remainder of this report provides additional detail. First, we present the results of our valuation on a GASB basis and a reconciliation to the prior year's results. Second, we illustrate the sensitivity of the GASB results to health care trend rates. Then, we present the results of the valuation on a funding basis, and we conclude with disclosure information to satisfy the GASB OPEB accounting and financial reporting requirements.

The fundamental principle underlying most actuarial methods, as well as the GASB accounting standards, is that the cost of a member's benefits should be recognized over the period in which benefits are earned, rather than the period of benefit distribution. The *normal cost* is the annual amount which would be sufficient to fund the plan benefits (net of retiree contributions) if it were paid from each employee's date of hire until termination or retirement. Under the method

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011

VALUATION RESULTS

used in this valuation, the normal cost is determined as a percentage of pay. This means the underlying dollar amount of normal cost is expected to increase each year as salary increases. The *actuarial liability* represents the portion of the value of the projected benefit at retirement that is allocated to service earned prior to the valuation date. That is, it represents the accumulation of past normal costs from date of hire until the valuation date. The *unfunded actuarial liability* represents the excess of the actuarial liability over plan assets. The *pay-as-you-go cost* represents the expected annual cost of health coverage less retiree contributions for current and future retirees based on the valuation assumptions. This figure can be significantly higher than the premiums because the premiums primarily reflect the cost of active, not retiree, coverage.

The development of the unfunded actuarial liability of the Plan is shown in Table 2 below for the current and prior year's valuations on both a funding basis and a GASB basis.

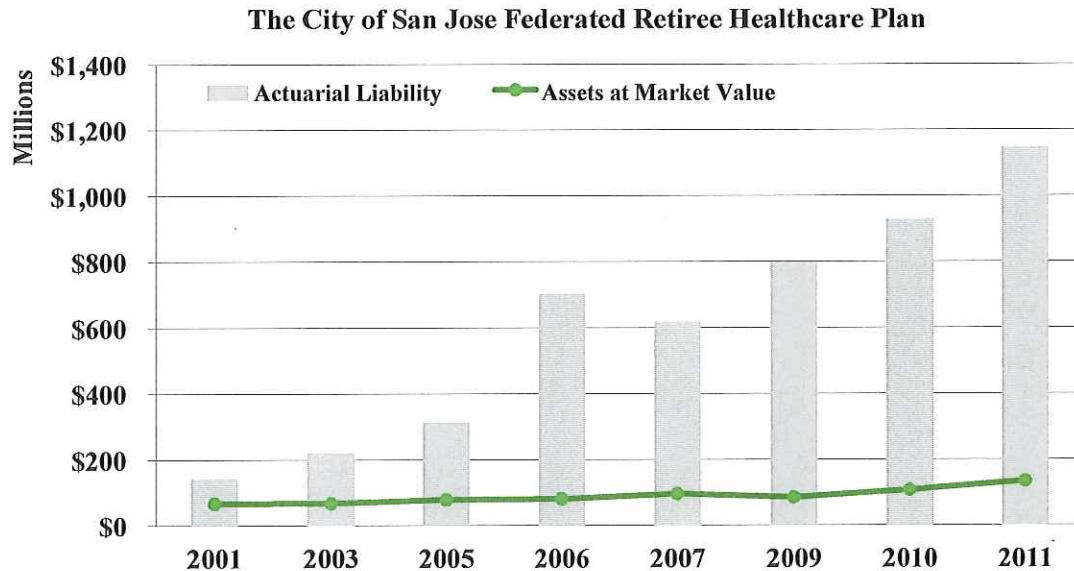
Table 2				
Unfunded Actuarial Liability (UAL)				
(dollars in thousands)				
Valuation Date	6/30/2011		6/30/2010	
Discount Rate	7.50%	6.10%	7.95%	6.71%
Present Value of Future Benefits				
Retirees and Beneficiaries	\$ 549,624	\$ 643,146	\$ 449,575	\$ 509,414
Term Vested Members	6,934	9,011	4,759	5,869
Active Employees	<u>530,731</u>	<u>733,039</u>	<u>472,716</u>	<u>613,294</u>
Total	\$1,087,288	\$1,385,196	\$ 927,050	\$1,128,577
Present Value of Future Normal Costs				
	<u>151,329</u>	<u>239,837</u>	<u>137,564</u>	<u>202,206</u>
Actuarial Liability	\$ 935,960	\$1,145,359	\$ 789,486	\$ 926,371
Assets	<u>135,454</u>	<u>135,454</u>	<u>108,011</u>	<u>108,011</u>
Unfunded Actuarial Liability	\$ 800,505	\$1,009,905	\$ 681,475	\$ 818,360

The discount rate for funding decreased from 7.95% to 7.50% in this valuation, and the discount rate on a GASB basis decreased from 6.71% to 6.10% in this valuation. As a result of this change and other experience during the year, the UAL increased by approximately \$100 million on a funding basis and \$200 million on a GASB basis.

The chart below shows the historical trend of assets and liabilities for the City of San Jose Federated Retiree 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 significantly higher liabilities. The funding policy, however, was not changed until 2009.

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

VALUATION RESULTS



* 2006 was the first GASB 43/45 valuation.

	2001	2003	2005	2006	2007	2009	2010	2011
Funded Ratio	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%
UAL/(Surplus) <i>(in millions)</i>	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$ 1,009.9
Discount Rate	8.25%	8.25%	8.25%	5.60%	6.60%	6.70%	6.71%	6.10%

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). Under the current funding method, the City pays for the implicit subsidy through the payment of active employee health premiums and also makes additional contributions to a 401(h) account. The total cost of retiree medical benefits is split evenly between employees and the City, while the total cost of retiree dental benefits is split in an 8 to 3 ratio.

Table 3 below develops the UAL separately for retiree medical and dental benefits.

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011

VALUATION RESULTS

Table 3			
Unfunded Actuarial Liability – GASB Basis Detail			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 578,242,240	\$ 64,903,276	\$ 643,145,516
Term Vested Members	9,011,077	0	9,011,077
Active Employees	<u>676,868,177</u>	<u>56,171,102</u>	<u>733,039,279</u>
Total	\$ 1,264,121,494	\$ 121,074,378	\$ 1,385,195,872
Present Value of Future Normal Costs			
	<u>220,812,420</u>	<u>19,024,130</u>	<u>239,836,550</u>
Actuarial Liability	\$ 1,043,309,074	\$ 102,050,248	\$ 1,145,359,322
Assets ¹	<u>123,385,582</u>	<u>12,068,839</u>	<u>135,454,421</u>
Unfunded Actuarial Liability	\$ 919,923,492	\$ 89,981,409	\$ 1,009,904,901

¹ Assets are allocated in proportion to Actuarial Liability

The UAL as of June 30, 2009 is amortized as a level percentage of payroll over 30 years, and each year's change in UAL due to assumption changes, plan changes or experience changes is amortized as a level percentage of payroll over 20 years from the valuation date in which the change is first recognized. Table 4 below shows the amortization payments on a GASB basis.

Table 4					
Amortization Schedule – GASB Basis					
Date	Remaining	Outstanding	Amortization Payment		
Established	Period	Balance	Medical	Dental	Total
6/30/2009	28	\$ 739,996,493	\$ 34,961,334	\$ 3,419,708	\$ 38,381,042
6/30/2010	19	89,185,035	5,565,140	544,349	6,109,489
6/30/2011	20	<u>180,723,373</u>	<u>10,847,108</u>	<u>1,060,999</u>	<u>11,908,107</u>
Total		\$ 1,009,904,901	\$ 51,373,582	\$ 5,025,056	\$ 56,398,638

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

VALUATION RESULTS

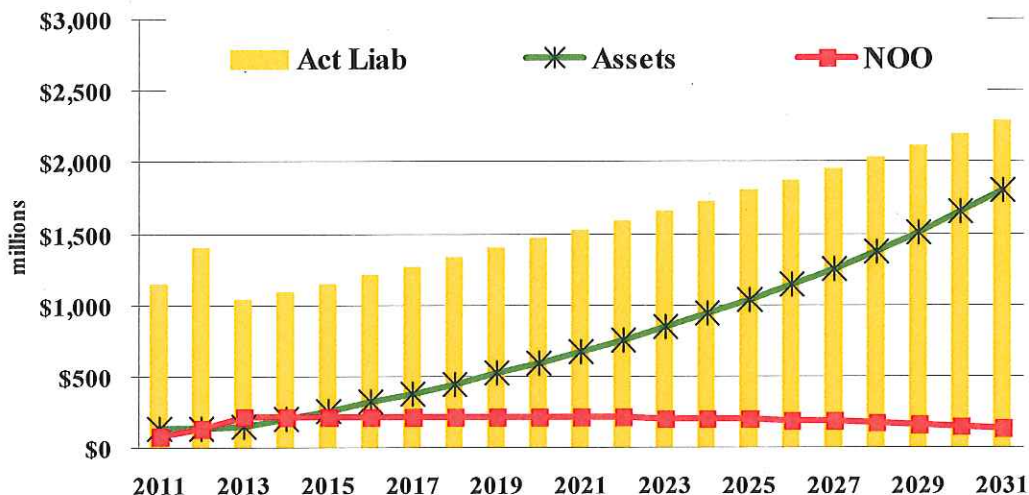
In Table 5 below, the Annual Required Contribution (ARC) for the fiscal year ending June 30, 2012 is developed using a blended discount rate of 6.10%. The prior year's calculation is shown for comparison.

Fiscal Year Ending	6/30/2012	6/30/2011
Discount Rate	6.10%	6.71%
Total Normal Cost	\$ 25,495,975	\$ 22,195,786
Less Employee Contribution towards Normal Cost	<u>14,903,759</u>	<u>17,283,978</u>
Employer Normal Cost	\$ 10,592,216	\$ 4,911,808
UAL Amortization	<u>56,398,638</u>	<u>42,681,581</u>
Total ARC	\$ 66,990,854	\$ 47,593,389

While employee contribution rates increased from the prior year, the significant reduction in payroll results in a lower expected employee contribution for the 2011-12 fiscal year and a significantly higher employer normal cost.

Looking beyond 2011, the actuarial liability is expected to decrease when the City begins paying the full ARC and the discount rate increases to the funding rate. After phasing into fully funding the ARC, both the liability and assets are projected to increase. The charts below project the assets, liabilities and the funding costs for the next 20 years.

Assets and Liabilities



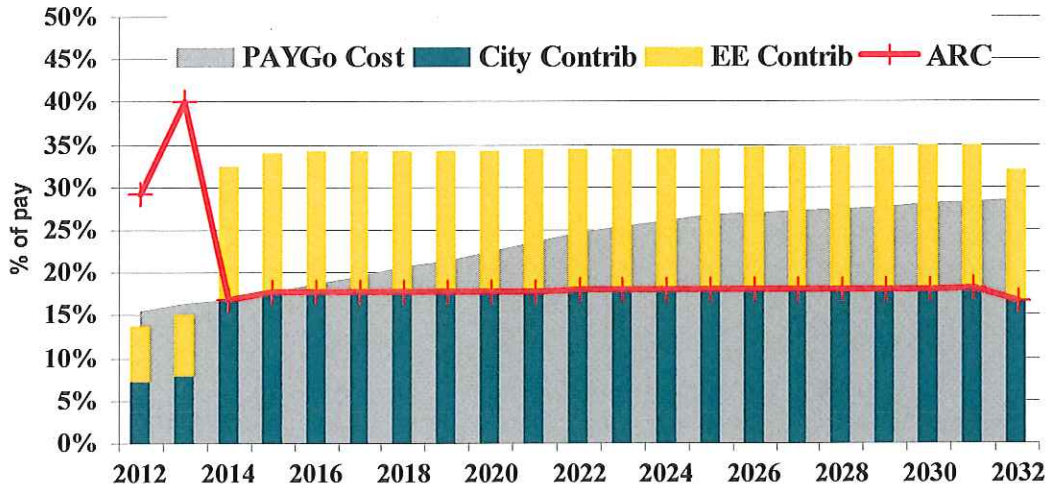
The first chart shows the actuarial liability on a GASB basis increasing from about \$1.1 billion to about \$2.3 billion over the next 20 years. The green line shows assets increasing from \$135 million to approximately \$1.8 billion over the same period. The red line shows the Net OPEB

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

VALUATION RESULTS

Obligation (NOO) first increasing from \$86 million to about \$205 million before decreasing to about \$130 million after 20 years.

Plan Funding



The second chart shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs as a percentage of pay. Benefit payments, net of retiree contributions, are shown by the gray area and increase from 15% to 29% of pay. The teal bars represent the City’s contributions, which are equal to the ARC starting in FY 2013-14. The City’s contribution is expected to grow from 7.16% in FY 2011-12 to 16.84% of pay in FY 2014-15 and approximately 18% of pay thereafter. Similarly, employee contributions are expected to grow from 6.51% in FY 2011-12 to 15.50% of pay in FY 2014-15 and approximately 17% of pay thereafter. The ARC, shown by the red line, is expected to increase to 40.0% of pay due to the projected reduced discount rate next year before the increased discount rate (due to fully funding the ARC) and increased employee contributions due to the phase-in result in an ARC of about 18% of pay.

Below are the expected net benefit payments that we anticipate for the next 15 years under Pay-As-You-Go.

Fiscal Year Ending June 30	Expected Net Benefit Payments	Fiscal Year Ending June 30	Expected Net Benefit Payments	Fiscal Year Ending June 30	Expected Net Benefit Payments
2012	\$35,564,507	2017	\$52,923,747	2022	\$78,143,186
2013	38,601,176	2018	57,192,379	2023	83,186,171
2014	41,499,057	2019	61,575,023	2024	87,930,096
2015	44,635,119	2020	66,847,318	2025	92,725,977
2016	48,454,489	2021	72,493,536	2026	96,796,826

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RECONCILIATION

Liabilities

Table 7 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 below.

Table 7	
Reconciliation of Actuarial Liability – GASB Basis	
Actuarial Liability as of June 30, 2010	\$ 926,370,862
Normal Cost	22,195,786
Expected Benefit Payments	(31,773,902)
Interest	<u>61,843,356</u>
Expected Actuarial Liability, June 30, 2011	\$ 978,636,102
Actuarial Liability as of June 30, 2011	<u>1,145,359,322</u>
Gain or (Loss)	\$ (166,723,220)
Changes due to:	
• Census Changes	\$ (35,166,462)
• Change in Demographic Assumptions	(84,371,915)
• Change in Claims Assumptions	34,486,846
• Change in Discount Rate	<u>(81,671,689)</u>
Total Changes	\$ (166,723,220)

- *Census Changes* refers to the change in actual data and elections from June 30, 2010 to June 30, 2011.
- *Change in Demographic Assumptions* refers to the change in assumptions from the pension experience study.
- *Change in Claims Assumptions* refers to the change in expected current and future healthcare claims and expense costs, including the addition of the \$25 Co-pay plans.
- *Change in Discount Rate* refers to the change in the discount rate from 6.71% to 6.10%.

Assets

Table 8 below shows the changes in assets for the last two fiscal years. In the last year, investment earnings were almost 20 percent, resulting in an actuarial gain of approximately \$14 million.

Table 8		
Assets		
	6/30/2011	6/30/2010
Market Value, Beginning of Year	\$ 108,010,981	\$ 85,563,934
Contributions		
Employee	16,041,379	15,076,000
City	<u>17,146,249</u>	<u>16,368,000</u>
Total	\$ 33,187,628	\$ 31,444,000
Net Investment Earnings	21,625,429	13,670,247
Benefit Payments	<u>(27,369,617)</u>	<u>(24,065,584)</u>
Market Value, End of Year	\$ 135,454,421	\$ 108,010,981

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SENSITIVITY OF RESULTS

The liabilities 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 9			
Actuarial Liability			
6.10% Blended Discount Rate			
(dollars in thousands)			
Health Care Trend Rate	- 1%	Base	+ 1%
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 575,122	\$ 643,146	\$ 724,582
Term Vested Members	8,058	9,011	10,152
Active Employees	<u>580,878</u>	<u>733,039</u>	<u>936,239</u>
Total	\$ 1,164,058	\$ 1,385,196	\$ 1,670,973
Present Value of Future Normal Costs	<u>168,552</u>	<u>239,837</u>	<u>344,703</u>
Actuarial Liability	\$ 995,505	\$ 1,145,359	\$ 1,326,270
Assets	<u>135,454</u>	<u>135,454</u>	<u>135,454</u>
UAL	\$ 860,051	\$ 1,009,905	\$ 1,190,816

Table 10			
GASB ARC – FY2011			
6.10% Blended Discount Rate			
(dollars in thousands)			
Health Care Trend Rate	- 1%	Base	+ 1%
Total Normal Cost	\$ 17,932	\$ 25,496	\$ 36,619
Less Employee Contribution towards Normal Cost	<u>14,904</u>	<u>14,904</u>	<u>14,904</u>
Employer Normal Cost	\$ 3,028	\$ 10,592	\$ 21,715
UAL Amortization	<u>46,525</u>	<u>56,399</u>	<u>68,319</u>
Total ARC	\$ 49,553	\$ 66,991	\$ 90,034

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ACTUARIAL FUNDING

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to fully fund the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method. This section of the report calculates the current and expected future contribution requirements under these agreements. Contributions are currently made to a 401(h) account in the pension trust, but the City is in the process of also establishing a Section 115 Trust. This report ignores any potential limits to contributions to the 401(h) account, assuming the City will be able to use the 115 Trust to make any contributions that may exceed the 401(h) limits.

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 8/11 of the total contribution. The following table develops the UAL separately for medical and dental benefits based on the full funding discount rate of 7.50%.

Table 11			
Unfunded Actuarial Liability			
Actuarial Funding			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 494,008,577	\$ 55,615,203	\$ 549,623,780
Term Vested Members	6,933,893	0	6,933,893
Active Employees	489,157,764	41,572,962	530,730,726
Total	\$ 990,100,234	\$ 97,188,165	\$1,087,288,399
Present Value of Future Normal Costs	138,731,918	12,596,697	151,328,615
Actuarial Liability	\$ 851,368,316	\$ 84,591,468	\$ 935,959,784
Assets ¹	123,212,134	12,242,287	135,454,421
Unfunded Actuarial Liability	\$ 728,156,182	\$ 72,349,181	\$ 800,505,363

¹ Assets are allocated in proportion to Actuarial Liability.

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, 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. The outstanding balance of each amortization base established in a prior year is based on the amortization schedule used for GASB reporting purposes at the blended discount rate. 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 amortization payment is allocated to medical and dental in proportion to the Actuarial Liability. The following table shows the amortization schedule as of June 30, 2011.

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ACTUARIAL FUNDING

Table 12					
Amortization Schedule – Funding Basis					
Date Established	Remaining Period	Outstanding Balance	Amortization Payment		
			Medical	Dental	Total
6/30/2009	28	\$ 739,996,493	\$ 40,768,119	\$ 4,050,697	\$ 44,818,816
6/30/2010	19	89,185,035	6,211,841	617,205	6,829,046
6/30/2011	20	<u>(28,676,165)</u>	<u>(1,931,059)</u>	<u>(191,869)</u>	<u>(2,122,928)</u>
Total		\$ 800,505,363	\$ 45,048,901	\$ 4,476,033	\$ 49,524,934

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 assumed to be made 18 months after the valuation date and have been adjusted for interest accordingly.

The tables below develop the contribution amounts and rates for the fiscal year ending June 30, 2013 ignoring the phase-in of contribution rates.

Table 13				
Contribution Amounts – Funding Basis				
	FYE 2013			FYE 2012
	Medical	Dental	Total	Total
Normal Cost	\$ 16,420,079	\$ 1,749,259	\$ 18,169,338	\$ 16,951,804
Amortization Payment	<u>48,433,613</u>	<u>4,811,735</u>	<u>53,245,348</u>	<u>42,035,792</u>
Total	\$ 64,853,692	\$ 6,560,994	\$ 71,414,686	\$ 58,987,596
Contribution Amount without Phase-In				
Employees	\$ 32,426,846	\$ 1,789,362	\$ 34,216,208	\$ 28,163,930
City	<u>32,426,846</u>	<u>4,771,632</u>	<u>37,198,478</u>	<u>30,823,665</u>
Total	\$ 64,853,692	\$ 6,560,994	\$ 71,414,686	\$ 58,987,595

Table 14				
Contribution Rates – Funding Basis				
	FYE 2013			FYE 2012
	Medical	Dental	Total	Total
Normal Cost	6.95%	0.74%	7.69%	5.44%
Amortization Payment	<u>20.49%</u>	<u>2.04%</u>	<u>22.53%</u>	<u>13.48%</u>
Total	27.44%	2.78%	30.21%	18.92%
Contribution Amount without Phase-In				
Employees	13.72%	0.76%	14.47%	9.03%
City	<u>13.72%</u>	<u>2.02%</u>	<u>15.74%</u>	<u>9.89%</u>
Total	27.44%	2.78%	30.21%	18.92%

The agreement to phase-in contributions to the full ARC by 2013-14 also contains a limit preventing either employee or City contribution rates from increasing by more than 0.75% per

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ACTUARIAL FUNDING

year until the last year of the phase-in when the full ARC must be contributed. The table below shows the projected contribution rates reflecting the phase-in.

Fiscal Year	Employee	City	Total
2008-09	4.65%	5.25%	9.90%
2009-10	5.07%	5.70%	10.77%
2010-11	5.76%	6.41%	12.17%
2011-12	6.51%	7.16%	13.67%
2012-13	7.26%	7.91%	15.17%
2013-14	15.50%	16.84%	32.34%

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2011

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

Table 16 below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2011 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2012.

Table 16		
Development of Net OPEB Obligation		
(dollars in thousands)		
	Projected	
	June 30, 2012	June 30, 2011
1. Net OPEB Obligation/(Asset) at beginning of fiscal year	\$ 86,351	\$ 62,589
2. Annual Required Contribution*	\$ 66,991	\$ 43,900
3. Interest on Net OPEB Obligation/(Asset)	5,267	4,200
4. Adjustment to Annual Required Contribution	<u>4,822</u>	<u>3,266</u>
5. Annual OPEB Cost (2.) + (3.) - (4.)	67,436	44,834
6. Employer Contributions Made	16,392	17,147
7. Implicit Rate Subsidy	4,383	3,925
8. Net OPEB Obligation/(Asset) at end of fiscal year	\$ 133,012	\$ 86,351
<i>(1.) + (5.) - (6.) - (7.)</i>		

*2011 figure adjusted for actual timing of contributions.

Table 17 shows the solvency test and Table 18 shows the analysis of financial experience, both as recommended by the Government Finance Officers Association for inclusion in the plan's Comprehensive Annual Financial Report.

Table 17					
Solvency Test					
(dollars in thousands)					
Actuarial Valuation Date	Actuarial Liability			Portion of Liability Covered by Reported Assets	
	Retirees, Beneficiaries and Other Inactives	Active Members	Reported Assets		
	(A)	(B)		(A)	(B)
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%
6/30/2006	370,886	332,052	81,288	22%	0%

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ACCOUNTING DISCLOSURES

Table 18		
Analysis of Financial Experience		
(dollars in thousands)		
Type of Activity	Gain or (Loss) for Year Ending	
	6/30/2011	6/30/2010
Investment Income	\$ 14,186	\$ 6,705
Liability Experience	<u>(35,166)</u>	<u>(43,746)</u>
Gain or (Loss) During Year from Financial Experience	\$ (20,980)	\$ (37,041)
Non-Recurring Gain or (Loss) Items	<u>(131,557)</u>	<u>(36,785)</u>
Composite Gain or (Loss) During Year	\$ (152,537)	\$ (73,826)

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 19						
Schedule of Funding Progress						
(dollars in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (b)	Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	(UAAL) as Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ 135,454	\$ 1,145,359	\$ 1,009,905	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%
6/30/2006	81,288	702,939	621,651	12%	275,559	226%

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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ACCOUNTING DISCLOSURES

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.

Table 20				
Schedule of Employer Contributions				
(dollars in thousands)				
Fiscal Year	Annual OPEB	Employer	Percentage of	Net OPEB
Ended	Cost (AOC)	Contributions	AOC	Obligation
June 30		Plus Implicit	Contributed	
		Subsidy		
2012	\$ 67,436	To be determined	To be determined	To be determined
2011	44,834	\$ 21,072	47%	\$ 86,351
2010	39,414	21,585	55%	62,589
2009	33,725	15,918	47%	44,760
2008	38,513	11,560	30%	26,953

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

Table 21	
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, 2011
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percentage of pay closed*
Single Equivalent Amortization Period	25.1 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.25%
Discount Rate	6.10%
Ultimate Rate of Medical Inflation	4.50%

* The 6/30/2009 UAL is amortized over a closed 30-year period. Subsequent changes to the UAL are amortized over closed 20-year layered periods.

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APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data

Valuation Date	June 30, 2010	June 30, 2011	% Change
Active Employees			
Count	3,818	3,274	-14.2%
Average Age	45.9	45.9	0.0%
Average Service	12.1	12.3	1.7%
Total Payroll	\$ 300,069,063	\$ 228,936,398	-23.7%
Retirees and Spouses with Medical Coverage			
Pre-65	1,716	1,968	14.7%
Post 65	1,855	1,946	4.9%
Total	3,571	3,914	9.6%
Retirees with Dental Coverage	2,588	2,906	12.3%
Vested, Terminated Members	89	103	15.7%

Member Data as of June 30, 2011:

Age Group	Eligible Active Employees								Total
	Years of Service								
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	
Under 25	12	0	0	0	0	0	0	0	12
25 to 29	155	9	0	0	0	0	0	0	164
30 to 34	169	94	57	0	0	0	0	0	320
35 to 39	109	100	192	16	0	0	0	0	417
40 to 44	96	89	199	65	38	2	0	0	489
45 to 49	77	69	191	75	149	47	0	0	608
50 to 54	88	47	149	61	184	107	1	0	637
55 to 59	54	50	122	38	71	20	3	0	358
60 to 64	28	35	78	21	27	4	2	1	196
65 and up	10	7	36	10	5	5	0	0	73
Total	798	500	1,024	286	474	185	6	1	3,274

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Retirees, Disabled Retirees and Surviving Spouses						
Age Group	Medical Insurance			Dental Insurance		
	Males	Females	Total	Males	Females	Total
Under 50	8	26	34	7	31	38
50 to 55	60	43	103	60	43	103
55 to 60	246	213	459	235	210	445
60 to 65	329	242	571	345	246	591
65 to 70	238	197	435	262	242	504
70 to 75	193	154	347	215	191	406
75 to 80	143	115	258	153	146	299
80 to 85	79	93	172	107	136	243
85 to 90	64	58	122	91	102	193
<u>Over 90</u>	<u>23</u>	<u>33</u>	<u>56</u>	<u>29</u>	<u>55</u>	<u>84</u>
Total	1,383	1,174	2,557	1,504	1,402	2,906

Medical Plan Elections						
Medical Plan	Pre-Medicare			Medicare-Eligible		
	Retirees & Surviving Spouses	Spouses	Total	Retirees & Surviving Spouses	Spouses	Total
Kaiser \$10 Copay	545	382	927	703	285	988
Kaiser \$25 Copay	244	185	429			
HMO \$10 Copay	168	109	277	93	33	126
HMO \$25 Copay	41	34	75			
PPO / POS \$10 Copay	141	76	217	520	223	743
PPO / POS \$25 Copay	28	15	43			
Secure Horizons	0	0	0	44	12	56
Pacificare	<u>0</u>	<u>0</u>	<u>0</u>	<u>30</u>	<u>3</u>	<u>33</u>
Total	1,167	801	1,968	1,390	556	1,946

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Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	9	5	14
45 to 50	21	13	34
50 to 55	28	23	51
55 to 60	2	1	3
60 to 65	1	0	1
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
Total	61	42	103

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

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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**APPENDIX A
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Economic Assumptions:

1. **Expected Return on Plan Assets:** 7.50% per year
2. **Expected Return on Employer Assets:** 4.00% per year
3. **Blended Discount Rate:** 6.10% per year
4. **Per Person Cost Trends:**

Date To Year Beginning July 1	Pre-Medicare	Annual Increase Medicare Eligible	Dental
2012	9.17%	6.83%	4.50%
2013	8.83	6.67	4.50
2014	8.50	6.50	4.00
2015	8.17	6.33	4.00
2016	7.83	6.17	4.00
2017	7.50	6.00	4.00
2018	7.17	5.83	4.00
2019	6.83	5.67	4.00
2020	6.50	5.50	4.00
2021	6.17	5.33	4.00
2022	5.83	5.17	4.00
2023	5.50	5.00	4.00
2024	5.17	4.83	4.00
2025	4.83	4.67	4.00
2026+	4.50	4.50	4.00

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

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**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

Rates of Retirement by Age and Service		
Age	Less than 30 Years of Service	30 or more Years of Service
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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2. Termination / Refund Rates:

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	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

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

Rates of Refund	
Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0

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3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

Disabled Lives:

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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Rates of Mortality for Disabled Lives at Selected Ages		
Age	Male	Female
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

4. Disability Rates:

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages	
Age	Disability
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

5. Salary Increase Rate:

Wage inflation component 3.25%

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MEMBER DATA, ASSUMPTIONS AND METHODS**

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

- 6. Percent of Retirees Electing Coverage:** 100% of employees are assumed to elect coverage at retirement. Future retirees' plan elections are assumed to mirror current retiree plan elections. Retirees who turn age 65 are assumed to be eligible for Medicare. The following rates are used to determine blended claims and contributions for future retirees.

Assumed Plan Elections for Future Retirees		
Plan	Pre-Medicare	Medicare Eligible
Medical		
• Kaiser	46%	
• Kaiser \$25 Co-pay	19%	45%
• HMO	22%	
• HMO \$25 Co-pay	6%	7%
• PPO / POS	6%	
• PPO / POS \$25 Co-pay	1%	45%
• Secure Horizons	N/A	2%
• Pacificare	N/A	1%
Dental		
• Delta Dental PPO		97%
• DeltaCare HMO		3%

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MEMBER DATA, ASSUMPTIONS AND METHODS

7. **Family Composition:** 90% 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.
8. **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.
9. **Married Percentage:**

Percentage Married	
Gender	Percentage
Males	80%
Females	60%

10. **Administrative Expenses:** Included in the average monthly premiums.

Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study for the San Jose Federated City Employees' Retirement System that were adopted by the Board in October 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rate assumptions. For a complete description of these changes, please refer to the experience study report dated May 12, 2011. In addition, the expected return on employer assets was reduced from 4.5 percent to 4.0 percent, and the blended discount rate was reduced from 6.71 percent to 6.1 percent.

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Claim and Expense Assumptions:

1. **Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2011 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

Actives Employees:

Age	Medical	
	Male	Female
40	\$ 3,289	\$ 5,847
45	4,119	6,190
50	5,456	7,341
55	7,169	8,749
60	9,318	10,444
64	12,036	12,904
65	5,516	5,883
70	6,477	6,497
75	7,243	7,005
80	7,695	7,231
85	7,798	7,156

Current Retirees:

Age	Kaiser - Male			Kaiser - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 6,329	\$ 3,992	\$ (2,337)	\$ 6,329	\$ 5,999	\$ (330)
50	6,329	5,287	(1,042)	6,329	7,115	786
55	6,329	6,948	619	6,329	8,479	2,150
64	6,329	11,665	5,336	6,329	12,506	6,177
65	5,570	4,845	(725)	5,570	5,167	(403)
70	5,570	5,689	119	5,570	5,706	136
75	5,570	6,361	791	5,570	6,152	582
80	5,570	6,758	1,188	5,570	6,350	780

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Age	Kaiser \$25 Co-pay Plan - Male			Kaiser \$25 Co-pay Plan - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 5,952	\$ 3,755	\$ (2,197)	\$ 5,952	\$ 5,643	\$ (309)
50	5,952	4,973	(979)	5,952	6,692	740
55	5,952	6,535	583	5,952	7,975	2,023
64	5,952	10,972	5,020	5,952	11,763	5,811
65	5,570	4,845	(725)	5,570	5,167	(403)
70	5,570	5,689	119	5,570	5,706	136
75	5,570	6,361	791	5,570	6,152	582
80	5,570	6,758	1,188	5,570	6,350	780

Age	HMO - Male			HMO - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 6,749	\$ 4,451	\$ (2,298)	\$ 6,749	\$ 6,689	\$ (60)
50	6,749	5,896	(853)	6,749	7,933	1,184
55	6,749	7,747	998	6,749	9,454	2,705
64	6,749	13,006	6,257	6,749	13,944	7,195
65	5,153	5,241	88	5,153	5,590	437
70	5,153	6,154	1,001	5,153	6,172	1,019
75	5,153	6,881	1,728	5,153	6,656	1,503
80	5,153	7,311	2,158	5,153	6,870	1,717

Age	HMO \$25 Co-pay Plan - Male			HMO \$25 Co-pay Plan - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 6,370	\$ 4,201	\$ (2,169)	\$ 6,370	\$ 6,313	\$ (57)
50	6,370	5,564	(806)	6,370	7,488	1,118
55	6,370	7,312	942	6,370	8,923	2,553
64	6,370	12,276	5,906	6,370	13,161	6,791
65	5,153	5,241	88	5,153	5,590	437
70	5,153	6,154	1,001	5,153	6,172	1,019
75	5,153	6,881	1,728	5,153	6,656	1,503
80	5,153	7,311	2,158	5,153	6,870	1,717

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Age	PPO / POS - Male			PPO / POS - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 9,370	\$ 4,786	\$ (4,584)	\$ 9,370	\$ 7,192	\$ (2,178)
50	9,370	6,338	(3,032)	9,370	8,529	(841)
55	9,370	8,329	(1,041)	9,370	10,164	794
64	9,370	13,984	4,614	9,370	14,992	5,622
65	7,282	6,320	(962)	7,282	6,740	(542)
70	7,282	7,420	138	7,282	7,443	161
75	7,282	8,297	1,015	7,282	8,025	743
80	7,282	8,816	1,534	7,282	8,284	1,002

Age	PPO / POS \$25 Co-pay Plan - Male			PPO / POS \$25 Co-pay Plan - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	\$ 8,841	\$ 4,516	\$ (4,325)	\$ 8,841	\$ 6,786	\$ (2,055)
50	8,841	5,981	(2,860)	8,841	8,048	(793)
55	8,841	7,859	(982)	8,841	9,591	750
64	8,841	13,195	4,354	8,841	14,146	5,305
65	7,282	6,320	(962)	7,282	6,740	(542)
70	7,282	7,420	138	7,282	7,443	161
75	7,282	8,297	1,015	7,282	8,025	743
80	7,282	8,816	1,534	7,282	8,284	1,002

Age	Secure Horizons - Male			Secure Horizons - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
65	\$ 5,868	\$ 4,427	\$ (1,441)	\$ 5,868	\$ 4,722	\$ (1,146)
70	5,868	5,199	(669)	5,868	5,214	(654)
75	5,868	5,813	(55)	5,868	5,622	(246)
80	5,868	6,176	308	5,868	5,803	(65)

Age	Pacificare - Male			Pacificare - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
65	\$ 5,189	\$ 4,129	\$ (1,060)	\$ 5,189	\$ 4,404	\$ (785)
70	5,189	4,849	(340)	5,189	4,863	(326)
75	5,189	5,422	233	5,189	5,244	55
80	5,189	5,760	571	5,189	5,413	224

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Dental	
Plan	Annual Premium (every age)
Delta Dental PPO	\$1,303
DeltaCare HMO	561

2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B Premiums:** Assumed that Medicare eligible retirees pay the Medicare Part B premiums.
4. **Medicare Eligibility:** 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:**

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser \$25 Co-pay Plan rate, if the retiree is eligible to receive the explicit subsidy.

Future retirees are assumed to pay the following annual rates (after reflection of the explicit subsidy).

	Retiree	Spouse
Pre-Medicare	\$ 631	\$ 1,144
Medicare Eligible	364	0

Contributions are assumed to increase with trend.

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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MEMBER DATA, ASSUMPTIONS AND METHODS

Methodology:

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment 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 cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population.

Changes Since Last Valuation:

We modified the claim costs to reflect current retiree plan election experience. We also reflected the new \$25 Co-pay plans offered for the first time this valuation cycle.

The 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.

APPENDIX B
SUBSTANTIVE PLAN PROVISIONS

Summary of Key Substantive Plan Provisions:

Eligibility:

Medical: Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

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 19 (24 if a full-time student).

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:

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.

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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Benefits for Retirees:

Medical: The Retirement System, through the medical benefit account, 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.

Effective January 1, 2011, the lowest cost health plan is the Kaiser \$25 Co-pay plan. The single coverage amount is \$496.04 per month, and the family coverage amount is \$1,235.16 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental: The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2011 are as follows.

Monthly Premiums for 2011				
	Single	% Increase	Family	% Increase
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser – Traditional (CA)	\$527.38	8.9%	\$1,313.18	9.0%
Kaiser \$25 Co-pay Plan	496.04	N/A	1,235.16	N/A
Blue Shield HMO	562.40	4.1%	1,444.76	4.1%
Blue Shield HMO \$25 Co-pay	530.82	N/A	1,363.58	N/A
Blue Shield PPO or POS	780.84	4.1%	2,006.70	4.1%
Blue Shield PPO or POS \$25 Co-pay	736.78	N/A	1,893.48	N/A
<u>Medicare Monthly Rates</u>				
Kaiser – Senior Advantage	\$464.16	8.0%	\$ 928.32	8.0%
Secure Horizons	489.02	10.0%	978.04	10.0%
Blue Shield Medicare PPO	606.82	4.1%	1,213.64	4.1%
Blue Shield Medicare HMO	429.41	4.1%	858.82	4.1%
Pacificare Senior Supplement	432.40	9.3%	864.80	9.3%
Dental				
Delta Dental PPO	\$108.62	(2.6)%	\$ 108.62	(2.6)%
DeltaCare HMO	46.78	(6.4)%	46.78	(6.4)%

**CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San Jose 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.

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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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:

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

6. Actuarial Valuation

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

7. Actuarial Value of Assets

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

**APPENDIX 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 which estimate the probability of death at a particular point in time. Typically, the rates are annual and based on age and sex.

14. Discount Rate

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

15. Medical Trend

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

CITY OF SAN JOSE FEDERATED RETIREE HEALTH CARE PLAN
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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)