

Board of Administration
San Jose Federated
City Employees' Retirement System

June 30, 2012 OPEB
Actuarial Valuation Results



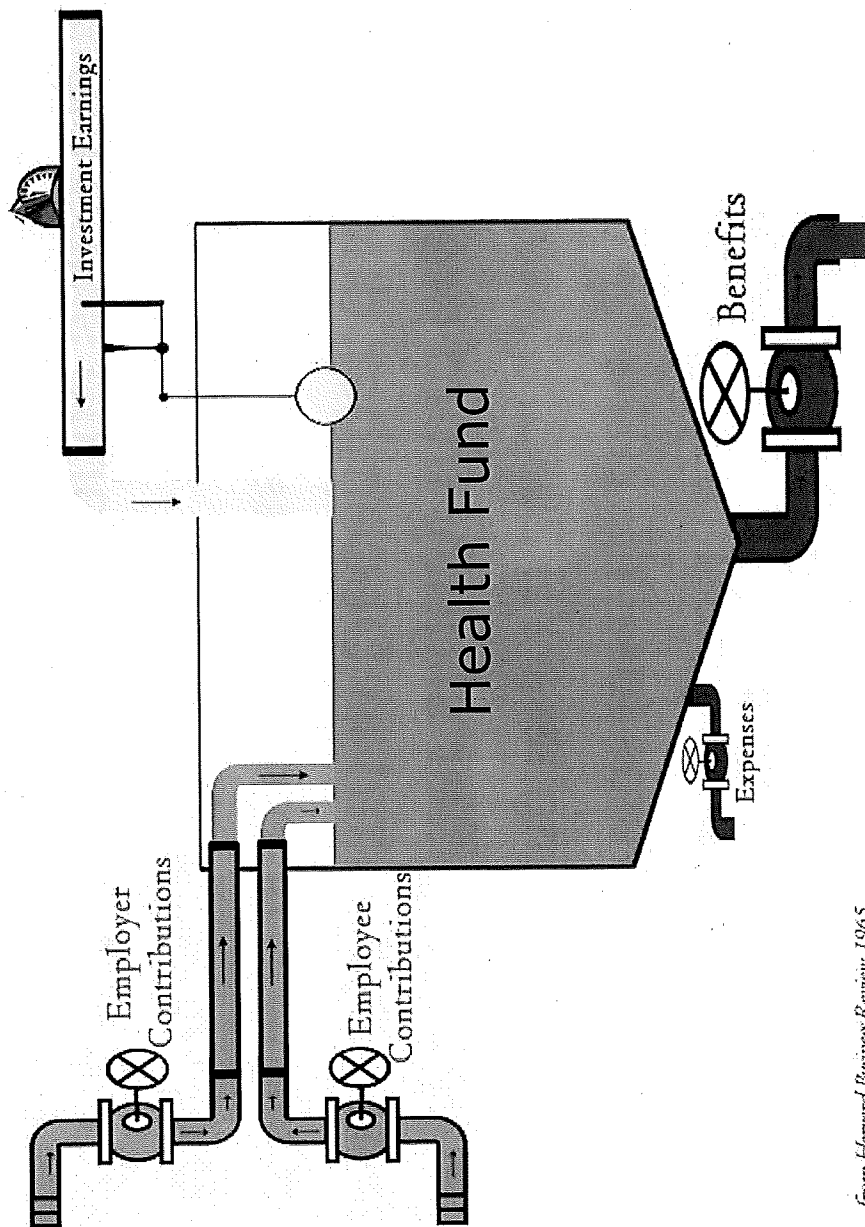
January 17, 2013
Bill Hallmark, ASA, FCA
Michael Schionning, FSA



Agenda

- Introduction
- Funding Valuation Results
- Accounting (GASB) Valuation Results
- Projections

Introduction



from Harvard Business Review 1965

Introduction

- June 30, 2012 valuation results determine:
 - Contribution rates for FYE 2014
 - GASB reporting for FYE 2013
- Final results differ slightly from preliminary results presented in December due to:
 - Change in plan election assumption
 - Technical corrections
- The primary drivers of changes since the last valuation are the plan changes effective January 1, 2012 and January 1, 2013

Funding Summary

- OPEB Plan funding policy is based on negotiated contracts between the City and its labor unions
- The fiscal year ending June 30, 2014, the fiscal year for which this valuation determines contribution rates, is the first year for which the agreements call for contributing the full ARC
 - We understand that the labor contracts are currently under negotiation. Our valuation continues to follow the recently expired agreements; any changes to the negotiated terms may require an update to the funding valuation results as well as projections



Funding Valuation Results

Table I-1		
Summary of Key Valuation Results		
Funding Valuation Basis		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	7.50%	7.50%
Actuarial Liability (AL)	\$ 742,466	\$ 935,960
Assets	137,798	135,454
Unfunded Actuarial Liability (UAL)	\$ 604,668	\$ 800,505
Funding Ratio	19%	14%
Fiscal Year Ending	6/30/2014	6/30/2013
Member Contribution Rate	10.74%	7.26%
City Contribution Rate	11.93%	7.91%
City Contribution Amount (beginning of year)	\$ 26,833	\$ 18,033

Dollar amounts in thousands

- UAL decreased almost \$200 million since prior valuation
- Increase in contribution rates is due to expiration of caps applicable during phase-in period

Funding Valuation Results

Table III-4
Contribution Rates - Funding Basis

	FYE 2014			FYE 2013
	Medical	Dental	Total	Total
Normal Cost	5.37%	0.71%	6.08%	7.69%
Amortization Payment	<u>14.67%</u>	<u>1.92%</u>	<u>16.59%</u>	<u>22.53%</u>
Total	20.04%	2.63%	22.67%	30.22%
Contribution Amount				
Employees	10.02%	0.72%	10.74%	14.48%
City	<u>10.02%</u>	<u>1.91%</u>	<u>11.93%</u>	<u>15.74%</u>
Total	20.04%	2.63%	22.67%	30.22%

- Rates shown for FYE 2013 are prior to the application of transition period caps
- Actual rates for FYE 2013 were 7.26% for employees and 7.91% for the City



Accounting Valuation Results

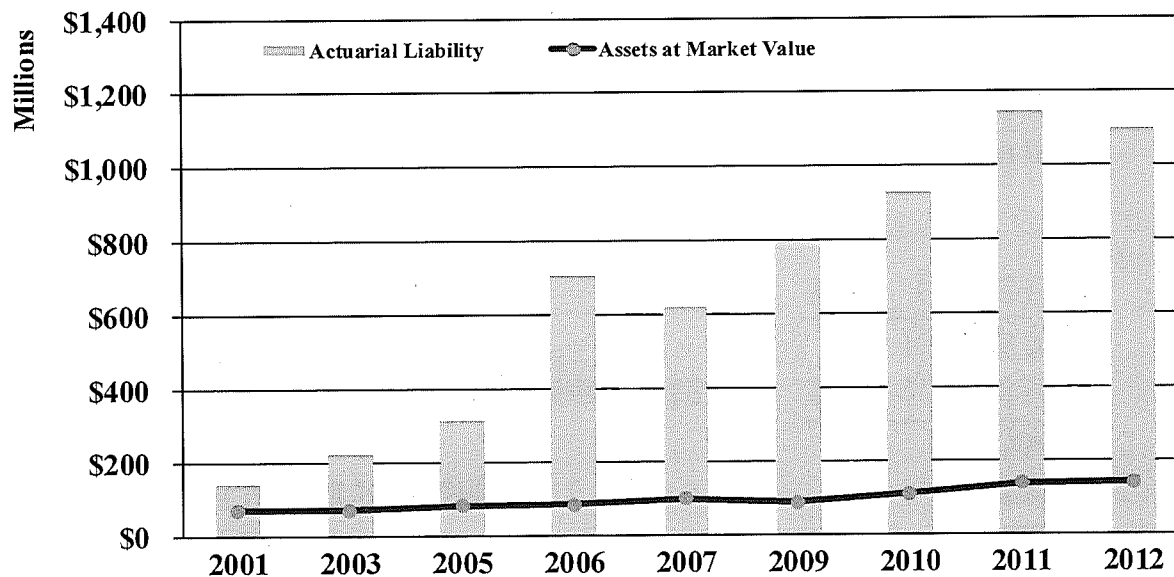
Valuation Date	6/30/2012	6/30/2011
Discount Rate	4.80%	6.10%
Actuarial Liability (AL)	\$ 1,096,620	\$ 1,145,359
Assets	137,798	135,454
Unfunded Actuarial Liability (UAL)	\$ 958,822	\$ 1,009,905
Funding Ratio	13%	12%
Fiscal Year Ending	6/30/2013	6/30/2012
City ARC		
-- if paid as a percent of pay	25.38%	29.26%
-- if paid as a dollar amount (middle of year)	\$ 57,331	\$ 66,991

- UAL decreased about \$50 million since prior valuation
- Reduction due to plan changes offset by decrease in blended discount rate



Accounting Valuation Results

The City of San Jose Federated Postemployment Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

	2001	2003	2005	2006	2007	2009	2010	2011	2012
Funded Ratio	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%
UAL/(Surplus) (in millions)	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$1,009.9	\$ 958.8
Discount Rate	8.25%	8.25%	5.60%	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%

Changes Since Prior Valuation

Actuarial Liability at 6/30/2011	\$ 1,145,359
Normal Cost	25,496
Expected Benefit Payments	(35,565)
Interest	69,564
Expected Actuarial Liability at 6/30/2012	\$ 1,204,855
Actuarial Liability at 6/30/2012	1,096,620
(Gain) or Loss	\$ (108,235)
 (Gain) or Loss due to:	
Demographic experience	27,919
Plan changes effective 1/1/2012	(154,239)
Change in claims assumptions	(117,528)
Plan changes effective 1/1/2013	(60,380)
Change in discount rate	195,993
Total changes	(108,235)

Dollar amounts in thousands

Changes Since Prior Valuation

- Plan changes made effective January 1, 2012:
 - Pre-Medicare plans with \$10 co-pays eliminated
 - Co-pays increased to \$25 for Medicare Eligible members in Kaiser plan
- Plan changes made effective January 1, 2013:
 - New lowest cost plan added – Kaiser \$1,500 Deductible HMO (DHMO)
 - New lower-cost pre-Medicare plans added

Accounting Valuation Results

Table IV-4 GASB ARC		
Fiscal Year Ending	6/30/2013	6/30/2012
Discount Rate	4.80%	6.10%
Total Normal Cost	\$ 26,741,618	\$ 25,495,975
UAL Amortization	<u>46,986,739</u>	<u>56,398,638</u>
Total Cost	\$ 73,728,357	\$ 81,894,613
Employee Contributions	<u>16,397,374</u>	<u>14,903,760</u>
Total ARC	\$ 57,330,983	\$ 66,990,854

Projections

H-scail OPEB

Stress Testing

CHEIRON

Health Trends

	Initial	+ 1 year	+ 2 year	Ultimate Yrs to Ult
Med Pre-Medicare	8.80%	8.5%	8.1%	4.5%
Med Post-Medicare	6.63%	6.47%	6.30%	4.5%
Explicit Subsidy	-13.9%	8.5%	8.1%	4.5%
Dental	4.5%	4.0%	4.0%	4.0%

Other Assumptions

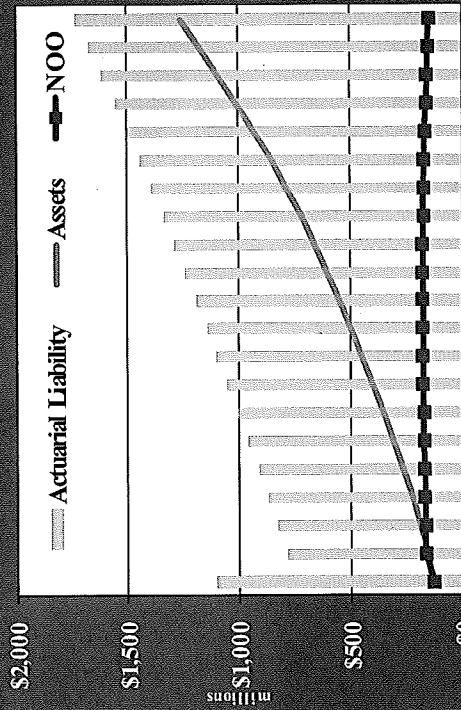
	2012	2013	2014+
Inv Return	7.50%	7.50%	7.50%
Sal Increases	3.25%	3.25%	3.25%
Amort Increases	3.25%	3.25%	3.25%
Active Population Growth	0.0%		
Amortization Period	20		

FY Beginning

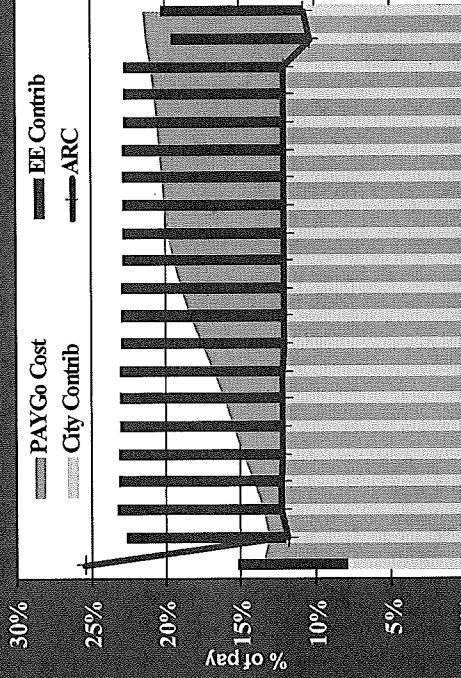
	2012	2013	2014	2015	2016	2017+
Inv Return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Discount Rate	4.80%	7.50%	7.50%	7.50%	7.50%	7.50%

1 = Fixed, 2=Layers, 3= Rolling

Assets and Liabilities



Plan Funding





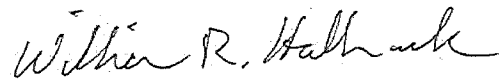
Questions






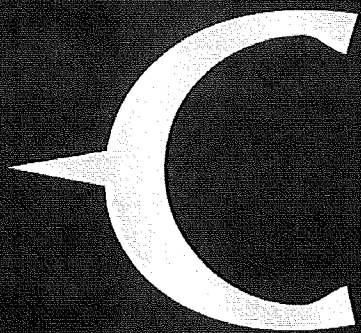
Required Disclosures

- The purpose of this presentation is to present selected results of the June 30, 2012 actuarial valuation for the City of San Jose's Federated Postemployment Healthcare Plan.
- This presentation is for the use of the Board of Administration of the San Jose Federated City Employees Retirement System and its auditors. Any other user is not an intended user and is considered a third party. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In preparing the valuation, we relied without audit, on information (some oral and some written) supplied by the City of San Jose. 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. Please refer to the full June 30, 2012 actuarial valuation report for a complete description of the plan provisions, assumptions, methods and a summary of the data used in the actuarial valuation.
- We hereby certify that, to the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.


William R. Hallmark, ASA, FCA
Consulting Actuary


Michael W. Schionning, FSA
Principal Consulting Actuary





**City of San José Federated
Postemployment Healthcare Plan**

**Actuarial Valuation
as of June 30, 2012**

Produced by Cheiron

January 2013



Classic Values, Innovative Advice

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Via Email

January 9, 2013

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

Re: *City of San José Federated Postemployment Healthcare Plan Valuation*

Dear Members of the Board:

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

Appendix A describes the member data, assumptions, and methods used in calculating the figures throughout the report. In preparing our report, we relied, 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 the City of San José's staff.

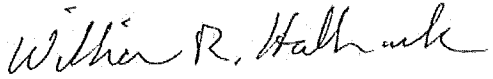
We hereby certify that, to the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

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

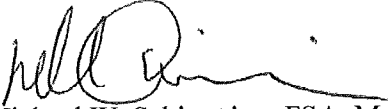
This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Board of Administration
City of San José Federated City
Employees' Retirement System
January 9, 2013

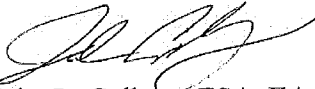
Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary



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

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION I
BOARD SUMMARY**

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

- Determine the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the Net Other Postemployment Benefit (OPEB) Obligation (NOO) of the Postemployment Healthcare Plan under GASB 43 and 45 for the fiscal year ending June 30, 2013;
- Determine employee and City contribution rates based on the Plan's funding policy for the fiscal year ending June 30, 2014;
- Provide information for financial statement disclosures under GASB 43 and 45;
- Provide projections of contributions, assets, actuarial liability, ARC, and NOO to illustrate the long-term effect of the funding strategy; and
- Show the sensitivity of the valuation results to changes in health trend assumptions.

We have determined costs, liabilities and trends for the substantive Plan using actuarial assumptions and methods that we consider reasonable.

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 fund the Annual Required Contribution (ARC) under GASB 43 and 45, beginning with the 2008-09 fiscal year, using a straight line method but limiting the incremental increase to 0.75% of pay for the members and City during the phase-in period. The fiscal year ending June 30, 2014, the fiscal year for which this valuation determines contributions, marks the end of the transition period and the first year for which the agreements call for contributing the full ARC.

Under the agreements, 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.

Currently, employee contributions are made to the 401(h) account and City contributions are made to the 115 Trust. In practice, the City has contributed the amount required for the phase-in under the bargaining agreements plus the annual amount of the implicit subsidy. If the intent is to contribute the ARC, the implicit subsidy amount should be paid from either the 401(h) account or the 115 Trust instead of from additional City contributions.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION I
BOARD SUMMARY

At the time of this writing, we understand that the labor contracts are under negotiation. This report reflects the recently expired agreements, and any changes to the negotiated terms may require an update to the funding valuation results and all projections shown herein.

Accounting Policy

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

Valuation Results

The table below presents the key results of the 2012 valuation.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION I
BOARD SUMMARY**

Table I-1		
Summary of Key Valuation Results		
GASB Valuation Basis		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	4.80%	6.10%
Actuarial Liability (AL)	\$ 1,096,620	\$ 1,145,359
Assets	137,798	135,454
Unfunded Actuarial Liability (UAL)	\$ 958,822	\$ 1,009,905
Funding Ratio	13%	12%
Fiscal Year Ending	6/30/2013	6/30/2012
City ARC		
-- if paid as a percent of pay	25.38%	29.26%
-- if paid as a dollar amount (middle of year)	\$ 57,331	\$ 66,991
<i>Expected/Actual City Contribution*</i>	\$ 20,923	\$ 25,833
<i>Expected/Actual Net Benefit Payments*</i>	\$ 30,624	\$ 33,077
Funding Valuation Basis		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	7.50%	7.50%
Actuarial Liability (AL)	\$ 742,466	\$ 935,960
Assets	137,798	135,454
Unfunded Actuarial Liability (UAL)	\$ 604,668	\$ 800,505
Funding Ratio	19%	14%
Fiscal Year Ending	6/30/2014	6/30/2013
Member Contribution Rate	10.74%	7.26%
City Contribution Rate	11.93%	7.91%
City Contribution Amount (beginning of year)	\$ 26,833	\$ 18,033

**Includes implicit subsidies*

Dollar amounts in thousands

The discount rate on a GASB basis decreased from 6.10% to 4.80% in this valuation, while the discount rate used for funding remained the same. There were also changes in other assumptions and changes to the plan since the prior valuation. These changes, together with other experience during the year, resulted in a decrease in UAL of approximately \$50 million on a GASB basis and \$200 million on a funding basis. More detail on the effects of these changes can be found in the GASB valuation results section of this report.

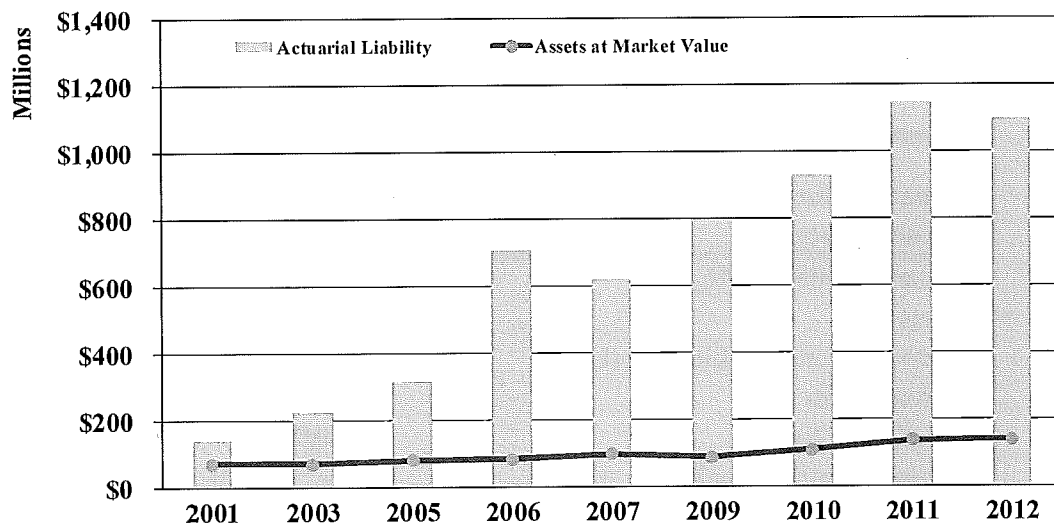
**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on an accounting basis for the City of San José Federated Postemployment Healthcare Plan. While the Plan has been partially funded for many years, the first valuation complying with GASB 43 and 45 was performed in 2006 which resulted in a significantly lower discount rate and a significantly higher measure of the plan’s liability. The funding policy, however, was not changed until 2009. Since 2007, the actuarial liability has grown 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 with this valuation is primarily due to the plan changes since the prior valuation.

The City of San Jose Federated Postemployment Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

	2001	2003	2005	2006	2007	2009	2010	2011	2012
Funded Ratio	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%
UAL/(Surplus) <i>(in millions)</i>	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$1,009.9	\$ 958.8
Discount Rate	8.25%	8.25%	5.60%	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%

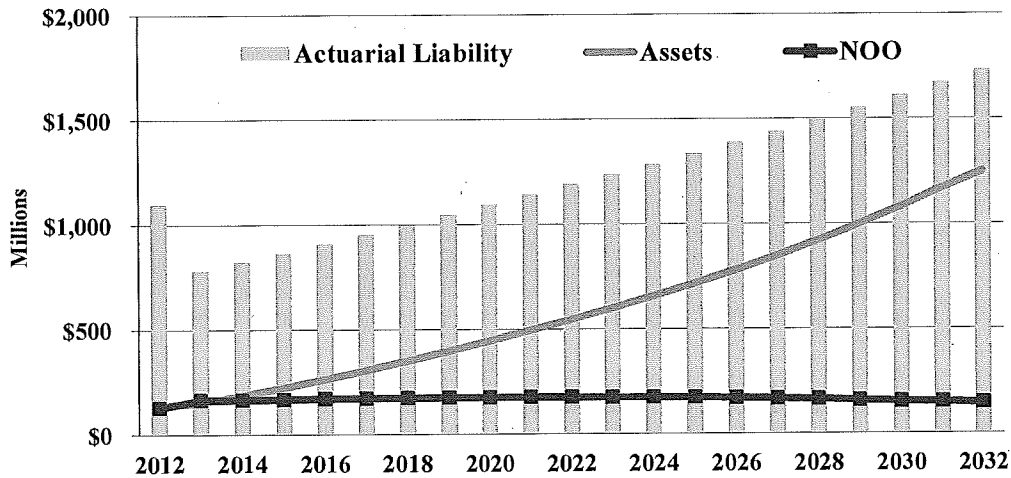
**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

Projected Trends

The charts below project the assets, liabilities and the funding costs for the next 20 years.

Assets and Liabilities

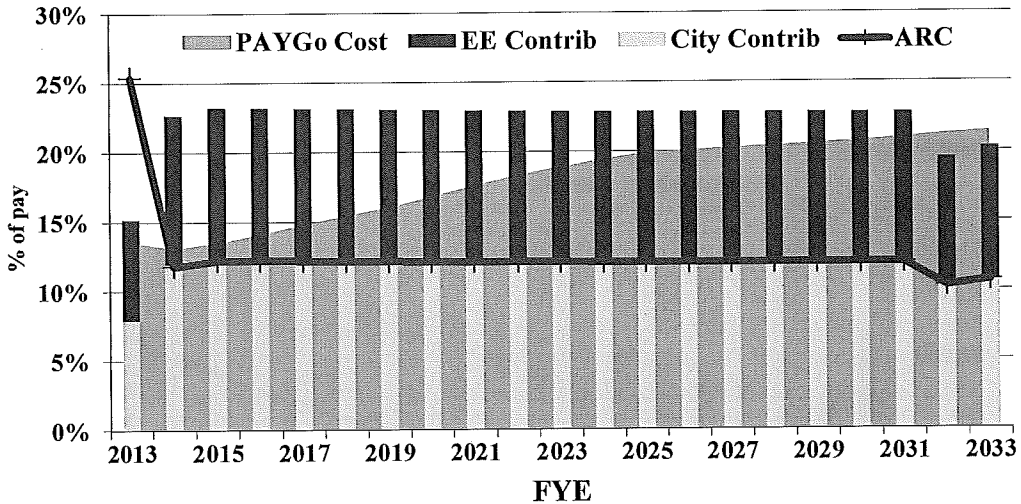


The chart above shows the actuarial liability on a GASB basis decreasing from about \$1.1 billion to approximately \$0.8 billion next year assuming the full ARC is contributed. Then, the actuarial liability is projected to increase reaching approximately \$1.7 billion in 20 years. The green line shows assets increasing from \$138 million to approximately \$1.2 billion over the same period. The red line shows the Net OPEB Obligation (NOO) increasing from \$129 million to approximately \$175 million before decreasing to approximately \$150 million at the end of the projection period.

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

Plan Funding



This 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 14% to 21% of pay over the projection period. The teal bars represent the City's contributions, which are equal to its share of the ARC starting in FY 2013-14. The City's contribution increases from 7.91% in FY 2012-13 to 11.93% of pay in FY 2013-14 and is expected to remain approximately 12% of pay until dropping somewhat at the end of the projection period. Similarly, employee contributions increase from 7.26% in FY 2012-13 to 10.74% of pay in FY 2013-14 and are expected to remain approximately 11% of pay until dropping somewhat at the end of the projection period. The reason for the projected decrease is the expiration of an amortization base in FYE 2031. There is a small projected increase in FYE 2033 and a larger increase in FYE 2034 due to the expiration of amortization bases. When the primary amortization base expires in FYE 2041, there is a significant projected decrease in contribution rates.

The ARC, shown by the red line, is expected to decrease to the City's contribution rate beginning in FYE 2014 when the full ARC is contributed. Note that our projections assume that accounting policy will be changed to align with the funding policy of maintaining a one-year lag between the valuation date and applicable reporting period beginning when the ARC is first fully contributed (FYE 2014).

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

The table below shows the expected net benefit payments for the next 15 years. These payments include the expected annual implicit subsidy as well as expected plan premium payments.

Table I-2					
Expected Net Benefit Payments					
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
2013	\$ 30,623,814	2018	\$ 40,931,990	2023	\$ 58,754,231
2014	30,537,939	2019	43,856,138	2024	62,399,626
2015	32,517,977	2020	47,406,660	2025	65,949,503
2016	35,054,424	2021	51,305,069	2026	68,762,636
2017	38,052,177	2022	55,158,017	2027	71,505,961

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

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION II
ASSETS**

Assets

Table II-1 below shows the changes in the aggregate market value of assets for the last two fiscal years. In the last year, investment earnings were minus 4 percent, resulting in an actuarial loss of approximately \$14 million. The City contributions and benefit payments include \$4.4 million and \$3.9 million for the implicit subsidy payments for the years ending June 30, 2012 and June 30, 2011 respectively.

Table II-1		
Assets		
Fiscal Year Ending	6/30/2012	6/30/2011
Market value, beginning of year	\$ 135,454,421	\$ 108,010,981
Contributions		
Employee	14,995,084	16,041,379
City	21,450,155	17,146,249
Implicit subsidy	4,383,191	3,925,000
Total	\$ 40,828,430	\$ 37,112,628
Net investment earnings	(5,407,660)	17,700,429
Benefit payments		
Explicit subsidy	(28,694,075)	(27,369,617)
Implicit subsidy	(4,383,191)	(3,925,000)
Total	(33,077,266)	(31,294,617)
Market value, end of year	\$ 137,797,925	\$ 131,529,421

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
FUNDING VALUATION RESULTS**

This section of the report calculates the current and expected future contribution requirements under the contracts negotiated between the City and its labor unions that require both employee and City contributions to fund the Plan. This valuation calculates contributions for fiscal year 2013-14, the first year that the agreements call for fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 at the end of a five-year transition period.

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 III-1			
Unfunded Actuarial Liability - Funding Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 369,848,472	\$ 58,404,874	\$ 428,253,346
Vested, Terminated Members	22,382,537	-	22,382,537
Active Employees	<u>361,295,386</u>	<u>38,583,201</u>	<u>399,878,587</u>
Total	\$ 753,526,395	\$ 96,988,075	\$ 850,514,470
Present Value of Future Normal Costs	<u>96,952,937</u>	<u>11,095,452</u>	<u>108,048,389</u>
Actuarial Liability	\$ 656,573,458	\$ 85,892,623	\$ 742,466,081
Assets¹	<u>121,856,691</u>	<u>15,941,234</u>	<u>137,797,925</u>
Unfunded Actuarial Liability	\$ 534,716,767	\$ 69,951,389	\$ 604,668,156

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 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, 2012.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION III
FUNDING VALUATION RESULTS**

Table III-2					
Amortization Schedule - Funding Basis					
Date Established	Remaining Period	Outstanding Balance	Amortization Payment		
			Medical	Dental	Total
6/30/2009	27	\$ 749,027,093	\$ 40,922,028	\$ 5,353,400	\$ 46,275,428
6/30/2010	18	88,793,407	6,235,292	815,698	7,050,990
6/30/2011	19	(28,625,779)	(1,938,349)	(253,574)	(2,191,923)
6/30/2012	20	(204,526,565)	(13,389,694)	(1,751,634)	(15,141,328)
Total		\$ 604,668,156	\$ 31,829,277	\$ 4,163,890	\$ 35,993,167

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.

Table III-3				
Contribution Amounts - Funding Basis				
	FYE 2014			FYE 2013
	Medical	Dental	Total	Total
Normal Cost	\$ 12,522,817	\$ 1,655,717	\$ 14,178,534	\$ 18,169,338
Amortization Payment	<u>34,210,376</u>	<u>4,477,432</u>	<u>38,687,808</u>	<u>53,245,348</u>
Total	\$ 46,733,193	6,133,149	52,866,342	71,414,686
Contribution Allocation				
Employees	\$ 23,366,597	\$ 1,672,677	\$ 25,039,274	\$ 34,216,208
City	<u>23,366,597</u>	<u>4,460,472</u>	<u>27,827,069</u>	<u>37,198,478</u>
Total	\$ 46,733,194	\$ 6,133,149	\$ 52,866,343	\$ 71,414,686

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

Table III-4				
Contribution Rates - Funding Basis				
	FYE 2014			FYE 2013
	Medical	Dental	Total	Total
Normal Cost	5.37%	0.71%	6.08%	7.69%
Amortization Payment	<u>14.67%</u>	<u>1.92%</u>	<u>16.59%</u>	<u>22.53%</u>
Total	20.04%	2.63%	22.67%	30.22%
Contribution Amount				
Employees	10.02%	0.72%	10.74%	14.48%
City	<u>10.02%</u>	<u>1.91%</u>	<u>11.93%</u>	<u>15.74%</u>
Total	20.04%	2.63%	22.67%	30.22%

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION IV
GASB VALUATION RESULTS**

For plans where the contribution equals the Annual Required Contribution under GASB 43 based on a discount rate equal to the expected return on plan assets, the discount rate for GASB purposes is also the expected return on plan assets. Where the contribution equals the pay-as-you-go cost (annual benefit payments), the discount rate for GASB purposes is equal to the expected return on the City's unrestricted assets. Where the contribution is between these two amounts, GASB requires the use of a blended discount rate that is prorated between the expected return on plan assets and the expected return on City assets. For FYE 2013, the full ARC will not be contributed, and the table below develops the blended discount rate that is used in the remainder of the GASB calculations.

Table IV-1 Development of Blended Discount Rate	
Expected FY2013 Contributions	
Member Contribution Rate	7.26%
City Contribution Rate	7.91%
Implicit Subsidy Rate	1.35%
Total Contribution Rate	16.52%
FY2013 Full ARC	
Normal Cost (Middle of Year)	6.08%
Amortization of UAL	15.94%
Total ARC as % of pay	22.02%
Pay-as-you-go Costs	
Pay-as-you-go as % of pay	13.56%
Contribution in Excess of Pay-Go	2.96%
Full ARC in Excess of Pay-Go	8.46%
Weight to System Return	34.99%
Expected Returns	
Expected Return on Plan Assets	7.50%
Expected Return on City Assets	3.30%
Blended Discount Rate	4.80%

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

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION IV
GASB VALUATION RESULTS**

Table IV-2			
Unfunded Actuarial Liability - GASB Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 494,887,458	\$ 78,791,830	\$ 573,679,288
Vested, Terminated Members	37,587,847	-	37,587,847
Active Employees	<u>687,175,372</u>	<u>69,999,579</u>	<u>757,174,951</u>
Total	\$ 1,219,650,677	\$ 148,791,409	\$ 1,368,442,086
Present Value of Future Normal Costs	<u>246,286,085</u>	<u>25,535,920</u>	<u>271,822,005</u>
Actuarial Liability	\$ 973,364,592	\$ 123,255,489	\$ 1,096,620,081
Assets ¹	<u>122,815,086</u>	<u>14,982,839</u>	<u>137,797,925</u>
Unfunded Actuarial Liability	\$ 850,549,506	\$ 108,272,650	\$ 958,822,156

¹ Assets are allocated in proportion to Actuarial Liability

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

The UAL as of June 30, 2009 is amortized as a level 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. The outstanding balance of each amortization base established in a prior year is based on the amortization schedule used for funding purposes. The amortization base for the current year is equal to the UAL shown in the table above less the outstanding balance of prior year bases. The table below shows the amortization payments on a GASB basis.

Table IV-3					
Amortization Schedule - GASB Basis					
Date Established	Remaining Period	Outstanding Balance	Medical	Amortization Payment Dental	Total
6/30/2009	27	\$ 749,027,093	\$ 30,390,560	\$ 3,848,304	\$ 34,238,864
6/30/2010	18	\$ 88,793,407	5,072,437	642,314	\$ 5,714,751
6/30/2011	19	(28,625,779)	(1,560,268)	(197,574)	(1,757,842)
6/30/2012	20	<u>149,627,435</u>	<u>7,802,899</u>	<u>988,068</u>	<u>8,790,966</u>
Total		\$ 958,822,156	\$ 41,705,627	\$ 5,281,112	\$ 46,986,739

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION IV
GASB VALUATION RESULTS**

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2012 is developed in the table below. The prior year's calculation is shown for comparison.

Table IV-4 GASB ARC			
Fiscal Year Ending	6/30/2013	6/30/2012	
Discount Rate	4.80%	6.10%	
Total Normal Cost	\$ 26,741,618	\$ 25,495,975	
UAL Amortization	46,986,739	56,398,638	
Total Cost	\$ 73,728,357	\$ 81,894,613	
Employee Contributions	16,397,374	14,903,760	
Total ARC	\$ 57,330,983	\$ 66,990,854	

Reconciliation

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

Table IV-5 Reconciliation of Actuarial Liability - GASB Basis	
Actuarial Liability at 6/30/2011	\$ 1,145,359
Normal Cost	25,496
Expected Benefit Payments	(35,565)
Interest	69,564
Expected Actuarial Liability at 6/30/2012	\$ 1,204,855
Actuarial Liability at 6/30/2012	1,096,620
(Gain) or Loss	\$ (108,235)
 (Gain) or Loss due to:	
Demographic experience	27,919
Plan changes effective 1/1/2012	(154,239)
Change in claims and trend assumptions	(117,528)
Plan changes effective 1/1/2013	(60,380)
Change in discount rate	195,993
Total changes	(108,235)

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2011 to June 30, 2012 as compared to the changes expected in the prior valuation.
- *Plan changes effective 1/1/2012* refers to the elimination of the \$10 Co-pay plans as well as the change to \$25 Co-pays for the Kaiser Plan for Medicare-eligible members.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION IV
GASB VALUATION RESULTS

- *Change in Claims Assumptions* refers to the change in expected current and future healthcare claims and expense costs.
- *Plan changes effective 1/1/2013* refers to the introduction of the Kaiser \$1500 Deductible HMO, which is now the lowest cost plan available to actives and therefore the basis for retiree premium subsidies. New lower-cost plans for non-Medicare-eligible retirees were also introduced.
- *Change in Discount Rate* refers to the change in the discount rate from 6.10% to 4.80%.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION V
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 V-1			
Sensitivity to Health Care Trend Rates - Unfunded Actuarial Liability (GASB Basis)			
Health Care Trend Rate	-1%	Base	+1%
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 507,922	\$ 573,679	\$ 653,074
Vested, Terminated Members	30,503	37,588	46,767
Active Employees	585,513	757,175	991,583
Total	\$ 1,123,938	\$ 1,368,442	\$ 1,691,424
Present Value of Future Normal Costs			
	204,207	271,822	366,504
Actuarial Liability	\$ 919,731	\$ 1,096,620	\$ 1,324,920
Assets	137,798	137,798	137,798
Unfunded Actuarial Liability	\$ 781,933	\$ 958,822	\$ 1,187,122

Dollar amounts in thousands

Table V-2			
Sensitivity to Health Care Trend Rates - GASB ARC for FYE 2013			
Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	\$ 20,650	\$ 26,742	\$ 35,102
UAL Amortization	36,594	46,987	60,400
Total Cost	\$ 57,244	\$ 73,728	\$ 95,502
Employee Contributions	16,397	16,397	16,397
Total ARC	\$ 40,847	\$ 57,331	\$ 79,105

Dollar amounts in thousands

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION VI
ACCOUNTING DISCLOSURES**

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

Net OPEB Obligation

The table below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2012 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2013.

Table VI-1			
Development of Net OPEB Obligation			
		Projected	
		6/30/2013	6/30/2012
1. Net OPEB Obligation, beginning of year	\$	128,546	\$ 86,351
2. Annual Required Contribution ¹		57,331	67,583
3. Interest on Net OPEB Obligation		6,170	5,267
4. Adjustment to Annual Required Contribution		(6,299)	(4,822)
5. Annual OPEB Cost [2. + 3. -4.]	\$	57,202	\$ 68,028
6. City Contributions		17,865	21,450
7. Implicit Rate Subsidy		3,057	4,383
8. Net OPEB Obligation, end of year	\$	164,825	\$ 128,546

¹ 2012 figure adjusted for actual timing of contributions

Dollar amounts in thousands

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

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION VI
ACCOUNTING DISCLOSURES

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

Dollar amounts in thousands

Type of Activity	Gain or (Loss) for Year Ending	
	6/30/2012	6/30/2011
Investment Income	\$ (14,897)	\$ 10,131
Liability Experience	(27,919)	(35,166)
Gain or (Loss) During Year from Financial Experience	\$ (42,816)	\$ (25,035)
Non-Recurring Gain or (Loss) Items	136,154	(131,557)
Composite Gain or (Loss) During Year	\$ 93,338	\$ (156,592)

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. 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.

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION VI
ACCOUNTING DISCLOSURES**

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)
6/30/2012	\$ 137,798	\$ 1,096,620	\$ 958,822	13%	\$ 225,859	425%
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%

Dollar amounts in thousands

Schedule of Employer Contributions

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

Fiscal Year Ending	Annual OPEB Cost (AOC)	City Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 57,202	To Be Determined	To Be Determined	To Be Determined
2012	68,028	\$ 25,833	38%	\$ 128,546
2011	44,834	\$ 21,072	47%	\$ 86,351
2010	39,414	21,585	55%	62,589
2009	33,725	15,918	47%	44,760
2008	38,513	11,560	30%	26,953

Dollar amounts in thousands

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION VI
ACCOUNTING DISCLOSURES**

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

Table VI-6 Note to Required Supplementary Information	
The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.	
Valuation Date	June 30, 2012
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percentage of pay closed*
Single Equivalent Amortization Period	24.8 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.25%
Discount Rate	4.80%
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.*

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

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

Member Data

Valuation Date	June 30, 2012	June 30, 2011	% Change
Active Employees			
Count	3,076	3,274	-6.05%
Average Age	46.0	45.9	0.22%
Average Service	12.4	12.3	0.81%
Total Payroll	\$225,859,144	\$228,936,398	-1.34%
Retirees and Spouses with Medical Coverage			
Pre-65	2,001	1,968	1.68%
Post-65	2,099	1,946	7.86%
Total	4,100	3,914	4.75%
Retirees with Dental Coverage	3,044	2,906	4.75%
Term Vested Members	111	103	7.77%

Member Data as of June 30, 2012:

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	11	1	0	0	0	0	0	0	12
25 to 29	128	30	0	0	0	0	0	0	158
30 to 34	126	106	73	0	0	0	0	0	305
35 to 39	91	99	195	15	0	0	0	0	400
40 to 44	75	77	200	79	48	1	0	0	480
45 to 49	58	62	173	84	146	56	0	0	579
50 to 54	58	55	136	58	198	104	4	0	613
55 to 59	34	61	111	40	45	13	0	0	304
60 to 64	17	29	74	16	23	3	2	2	166
<u>65 and up</u>	<u>9</u>	<u>5</u>	<u>29</u>	<u>9</u>	<u>4</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>59</u>
Total	607	525	991	301	464	179	6	3	3,076

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**APPENDIX A
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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	24	32	7	29	36
50 to 54	57	41	98	57	43	100
55 to 59	243	212	455	232	211	443
60 to 64	330	264	594	337	274	611
65 to 69	269	220	489	303	267	570
70 to 74	211	163	374	236	197	433
75 to 79	136	123	259	150	156	306
80 to 84	81	93	174	103	128	231
85 to 89	71	73	144	98	121	219
<u>Over 90</u>	<u>28</u>	<u>33</u>	<u>61</u>	<u>36</u>	<u>59</u>	<u>95</u>
Total	1,434	1,246	2,680	1,559	1,485	3,044

Medical Plan Elections						
Medical Plan	Pre-Medicare			Medicare-Eligible		
	Retirees & Surviving Spouses	Spouses	Total	Retirees & Surviving Spouses	Spouses	Total
Kaiser \$25 Copay	798	575	1373	766	314	1080
HMO \$25 Copay	223	158	381	116	33	149
PPO / POS \$25 Copay	158	89	247	537	233	770
UHC Medicare Advantage	0	0	0	43	12	55
UHC Senior Supplement	0	0	0	39	6	45
Total	1,179	822	2,001	1,501	598	2,099

Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	6	7	13
45 to 49	22	12	34
50 to 54	34	26	60
55 to 59	1	3	4
60 to 64	0	0	0
Over 65	0	0	0
Total	63	48	111

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

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Economic Assumptions:

1. **Expected Return on Plan Assets:** 7.50% per year
2. **Expected Return on Employer Assets:** 3.30% per year
3. **Blended Discount Rate:** 4.80% per year
4. **Per Person Cost Trends:**

To Calendar Year	<u>Annual Increase</u>		
	Pre-Medicare	Medicare Eligible	Dental
2013	8.80%	6.63%	4.50%
2014	8.47	6.47	4.00
2015	8.14	6.30	4.00
2016	7.81	6.14	4.00
2017	7.48	5.97	4.00
2018	7.15	5.81	4.00
2019	6.82	5.65	4.00
2020	6.48	5.48	4.00
2021	6.15	5.32	4.00
2022	5.82	5.16	4.00
2023	5.49	4.99	4.00
2024	5.16	4.83	4.00
2025	4.83	4.66	4.00
2026 +	4.50	4.50	4.00

The above trends are applied in the valuation by applying one half of the increase for 2013 for the fiscal year ending June 30, 2013 and the average of the increases for the applicable calendar years for each fiscal year thereafter. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for active 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

Term vested members are assumed to retire at age 58.

**CITY OF SAN JOSE FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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**APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS**

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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APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

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.

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**APPENDIX A
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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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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

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- 6. 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 2012 plan. 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		
Plan	Pre-Medicare	Medicare Eligible
Medical		
• Kaiser DHMO	15%	50%
• Kaiser \$25 Co-pay	53%	
• HMO \$30 Co-pay	4%	8%
• HMO \$25 Co-pay	14%	
• PPO / POS \$45 Co-pay	1%	38%
• PPO / POS \$25 Co-pay	13%	
• UHC Med Adv	N/A	2%
• UHC Senior Supp	N/A	2%
Dental		
• Delta Dental PPO		97%
• DeltaCare HMO		3%

- 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.

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Changes Since Last Valuation

The expected return on employer assets was reduced from 4.0 percent to 3.3 percent, and the blended discount rate was reduced from 6.1 percent to 4.8 percent. Plan election rates were also updated based on recent plan enrollment data and updated plan options.

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Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions: The following claim and expense assumptions were developed as of January 1, 2012 based on the premiums in effect on that date. Each valuation years' costs are based on the trended first year cost adjusted with trends listed above, so for the year beginning July 1, 2012 the starting values are increased by a half-year of the 2012 trend rates. 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.

Future Retirees: The following table shows the premiums, claims costs, and resulting implicit subsidies for future retirees. All values are as of January 1, 2012 and reflect the assumed plan election assumptions described above.

Age	Future Retirees							
	Retiree Premium	Spouse Premium	Age-Based Cost	Male Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Female Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
40	6,545	9,944	3,047	(3,498)	(6,897)	5,416	(1,129)	(4,528)
45	6,545	9,944	3,816	(2,729)	(6,128)	5,734	8,463	11,862
50	6,545	9,944	5,054	(1,491)	(4,890)	6,800	8,291	11,690
55	6,545	9,944	6,641	96	(3,303)	8,104	8,008	11,407
60	6,545	9,944	8,632	2,087	(1,312)	9,674	7,587	10,986
64	6,545	9,944	11,149	4,604	1,205	11,953	7,349	10,748
65	4,910	4,910	4,337	(573)	(573)	4,625	5,198	5,198
70	4,910	4,910	5,092	182	182	5,107	4,925	4,925
75	4,910	4,910	5,694	784	784	5,507	4,723	4,723
80	4,910	4,910	6,050	1,140	1,140	5,684	4,544	4,544

Current Retirees: The following tables show the premiums, claims costs, and resulting implicit subsidies for each medical plan as of January 1, 2012.

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Age	Kaiser \$25 Copay Plan							
	Retiree Premium	Spouse Premium	Male			Female		
			Age- Based Cost	Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age- Based Cost	Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
45	6,075	9,052	3,629	(2,446)	(5,423)	5,454	(621)	(3,598)
50	6,075	9,052	4,807	(1,268)	(4,245)	6,468	7,736	10,713
55	6,075	9,052	6,316	241	(2,736)	7,708	7,467	10,444
64	6,075	9,052	10,605	4,530	1,553	11,369	6,839	9,816
65	2,959	2,959	2,660	(299)	(299)	2,838	3,137	3,137
70	2,959	2,959	3,124	165	165	3,133	2,968	2,968
75	2,959	2,959	3,493	534	534	3,379	2,845	2,845
80	2,959	2,959	3,711	752	752	3,487	2,735	2,735

Age	HMO \$25 Copay Plan							
	Retiree Premium	Spouse Premium	Male			Female		
			Age- Based Cost	Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age- Based Cost	Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
45	6,643	10,422	4,136	(2,507)	(6,286)	6,216	(427)	(4,206)
50	6,643	10,422	5,478	(1,165)	(4,944)	7,372	8,537	12,316
55	6,643	10,422	7,199	556	(3,223)	8,785	8,229	12,008
64	6,643	10,422	12,086	5,443	1,664	12,958	7,515	11,294
65	5,569	5,569	5,721	152	152	6,102	5,950	5,950
70	5,569	5,569	6,718	1,149	1,149	6,738	5,589	5,589
75	5,569	5,569	7,512	1,943	1,943	7,265	5,322	5,322
80	5,569	5,569	7,981	2,412	2,412	7,499	5,087	5,087

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Age	PPO \$25 Copay Plan							
	Retiree Premium	Spouse Premium	Age-Based Cost	Male Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Female Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
45	8,701	13,660	4,309	(4,392)	(9,351)	6,476	(2,225)	(7,184)
50	8,701	13,660	5,707	(2,994)	(7,953)	7,680	10,674	15,633
55	8,701	13,660	7,500	(1,201)	(6,160)	9,152	10,353	15,312
64	8,701	13,660	12,591	3,890	(1,069)	13,499	9,609	14,568
65	7,231	7,231	6,223	(1,008)	(1,008)	6,637	7,645	7,645
70	7,231	7,231	7,307	76	76	7,329	7,253	7,253
75	7,231	7,231	8,171	940	940	7,903	6,963	6,963
80	7,231	7,231	8,681	1,450	1,450	8,157	6,707	6,707

Age	UHC Medicare Advantage							
	Retiree Premium	Spouse Premium	Age-Based Cost	Male Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Female Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
65	5,831	5,831	4,393	(1,438)	(1,438)	4,685	6,123	6,123
70	5,831	5,831	5,158	(673)	(673)	5,174	5,847	5,847
75	5,831	5,831	5,768	(63)	(63)	5,579	5,642	5,642
80	5,831	5,831	6,128	297	297	5,758	5,461	5,461

Age	UHC Senior Supplement							
	Retiree Premium	Spouse Premium	Age-Based Cost	Male Implicit Subsidy - Retiree	Implicit Subsidy - Spouse	Age-Based Cost	Female Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
65	6,021	6,021	4,805	(1,216)	(1,216)	5,125	6,341	6,341
70	6,021	6,021	5,643	(378)	(378)	5,659	6,037	6,037
75	6,021	6,021	6,310	289	289	6,102	5,813	5,813
80	6,021	6,021	6,704	683	683	6,299	5,616	5,616

Dental	
Plan	Annual Premium (every age)
Delta Dental PPO	\$1,304
DeltaCare HMO	562

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2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B:** Assumed that Medicare eligible retirees participate in Medicare Part B.
4. **Medicare Eligibility:** All retirees who turn age 65 are assumed to be eligible for Medicare.
5. **Annual Limits:** Assumed to increase at the same rate as trend.
6. **Lifetime Maximums:** Are not assumed to have any financial impact.
7. **Geography:** Implicitly assumed to remain the same as current retirees.
8. **Retiree Contributions:** Retirees pay the difference between the actual premium for the elected medical plan and the lowest cost medical plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

Current retirees are assumed to pay the difference between their current plan and the lowest cost plan for active members. Future retirees are assumed to pay the difference between the blended premium based on the assumed plan elections and the lowest cost plan for active members.

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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 in 2012. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2012 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. Dental costs were based directly on the rates in effect for 2012. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José.

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

Changes Since Last Valuation:

There were no changes to actuarial methods since the prior valuation.

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 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:

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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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, 2012, the lowest cost health plan is the Kaiser \$25 Co-pay plan. The single coverage amount is \$531.58 per month, and the family coverage amount is \$1,323.66 per month. Effective January 1, 2013, the lowest cost health plan is the Kaiser \$1500 Deductible HMO plan. The single coverage amount is \$457.70 per month, and the family coverage amount is \$1,139.70 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 2012 are as follows.

2012 Monthly Premiums				
	Single	% Increase	Family	% Increase
Medical				
<u>Non-Medicare Monthly Rates</u>				
Kaiser \$25 Co-pay Plan	\$531.58	7%	\$1,323.66	7%
Blue Shield HMO \$25 Co-pay	574.82	8%	1,476.60	8%
Blue Shield PPO or POS \$25 Co-pay	736.78	0%	1,893.48	0%
<u>Medicare-Eligible Monthly Rates</u>				
Kaiser – Senior Advantage	\$246.58	-47%	\$493.16	-47%
UHC Medicare Advantage	485.95	-1%	971.90	-1%
Blue Shield Medicare PPO	602.56	-1%	1,205.14	-1%
Blue Shield Medicare HMO	464.06	8%	928.14	8%
UHC Senior Supplement	501.78	16%	1,003.56	16%
Dental				
Delta Dental PPO	\$108.66	0%	\$108.66	0%
DeltaCare HMO	46.82	0%	46.82	0%

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Summary of Benefit Plans:

Non-Medicare Plans:	Kaiser \$25 Co-Pay	Kaiser DHMO	BS HMO \$25 Co-Pay	BS HMO \$45 Co-Pay	BS PPO \$25 Co-Pay	BS PPO \$30 Co-Pay
Annual Out-of-Pocket Maximum	\$1,500/\$3,000	\$4,000/\$8,000	\$1,000/\$2,000	\$3,500/\$7,000	\$2,000/\$4,000	\$7,000/\$14,000
Annual Deductible	None	\$1,500/\$3,000	None	Rx only*	\$100/\$200	\$3,500/\$7,000
Office Visit	\$25	\$40	\$25	\$45	\$25	\$30
Emergency Room	\$100	30% coinsurance	\$100	\$200	\$100	\$100 + 20%
Hospital Care	\$100	30% coinsurance	\$100	50% coinsurance	Tier 1 – \$100 + 10% Tier 2 – 30%	Tier 1 – \$250 + 20% Tier 2 – 40%
Prescription Drug (30-day supply):						
Generic	\$10	\$10	\$10	\$15	\$10	\$15
Brand	\$25	\$30	\$25	\$30*	\$25	\$30*
Non-Formulary	N/A	N/A	\$40	50%* *\$250 deductible	\$40	50%* *\$250 deductible

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO	UHC Medicare Advantage	UHC Senior Supplement
Annual Out-of-Pocket Maximum	\$1,500/\$3,000	\$1,000/\$2,000	\$2,000/\$4,000	\$6,700	None
Annual Deductible	None	None	\$100/\$200	None	\$250 outside US only
Office Visit	\$25	\$25	\$25	\$25	No charge
Emergency Room	\$50	\$100	\$100	\$50	No charge
Hospital Care	\$250	\$100	\$100.+ 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	\$10	\$10	\$10	\$15	\$5
Brand	\$10	\$25	\$25	\$20	\$10
Non-Formulary	N/A	\$40	\$40	\$20	Not covered

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.

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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:

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

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.

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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.

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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)

