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CITY OF SAN JOSE

Retiree Medical Benefits

Actuarial Valuation as of June 30, 2009

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Background

- Previously, the member and City contribution rates have been determined based on the "policy" method
- The Board adopted a policy that the contributions will be phased in to meet the GASB standard for prefunding retirement benefits
- The valuation will illustrate the accounting ARC (based on the 6.7% discount rate)
- The contribution rate strategy exhibit will show the phasing in of the rate increase.

Retiree Health Valuation

- Prior ultimate retiree health benefit contributions were based on a discount rate of 8.25%
- Based on the recent experience study, the investment return assumption for Trust fund has changed to 7.75%
- June 30, 2009 preliminary results at 7.75% show that the ***ultimate*** ARC is 15.34%.
- Based on the prior 8.25% discount rate, the ultimate ARC would have been 12.90%.
- The current contribution rate is 5.70% for the City, and 5.07% for the members
- Thus, the five year phase in is from a total of 10.77% of payroll, to 15.34% (adjusted for interest on missed contributions).
- Based on the estimated value of the interest on the missed contributions, the ARC in five years would be 16.00%

Retiree Health Valuation

Current contribution rates compared to the ultimate ARC (without adjusting for missed contributions)

Contribution	2009 Current Contribution rates	2009 Ultimate ARC (7.75%)
Employer-Health	5.70%	7.99%
Employee-Health	5.07%	7.35%
Total	10.77%	15.34%

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Retiree Health Phase-In 2007 Schedule

- Board has adopted a funding policy for retiree health benefits to phase-in to a fully-funded ARC over 5 years
- Following prior phase-in schedule based on June 30, 2007 valuation

Fiscal Year	Employer	Employee	Total
2008/2009 Initial	5.25%	4.65%	9.90%
2009/2010 (1st year phase-in)	5.70%	5.07%	10.77%
2010/2011 (2nd year phase-in)	6.14%	5.47%	11.61%
2011/2012 (3rd year phase-in)	6.54%	5.86%	12.40%
2012/2013 (4th year phase-in)	6.93%	6.23%	13.16%
2013/2014 (5th year phase-in)	7.29%	6.59%	13.88%

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Retiree Health Phase-In 2009 Schedule

- Discount rate for the ultimate ARC has changed from 8.25% to 7.75%
- Experience study also recommended a change in the rates of mortality

Fiscal Year	Employer	Employee	Total
2009/2010 Contribution	5.25%	4.65%	9.90%
2010/2011 (1st year phase-in)	5.70%	5.07%	10.77%
2010/2012 (2nd year phase-in)	6.41%	5.76%	12.17%
2012/2013 (3rd year phase-in)	7.09%	6.43%	13.52%
2013/2014 (4th year phase-in)	7.72%	7.07%	14.79%
2014/2015 (5th year phase-in)	8.33%	7.67%	16.00%

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Investment Return Assumption for Annual Required Contribution (ARC)

- Continue use of blended rate investment return rate until phase-in complete
  - Auditor and staff have requested use of blended investment return rate until phase-in complete
  - Consistent with method used by other City of San Jose plans in developing ARC (Fire and Police pension funds)
  - This means that the liabilities and ARC that will be shown for accounting purposes will be based on the 6.7% rate

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Blended Rate Development for ARC

- Blended investment return rate is 6.7% compared to prior blended rate of 6.6%
  - Full funding investment return rate of 7.75% results in employer annual required contribution of 8.3%
  - Employer contribution for 2009/2010 is 5.70% from phase-in schedule
  - Employer contribution as percent of ARC is 69%
  - Blended investment return rate is 69% times 7.75% and 31% times risk-free rate of 4.5%

Accounting Exhibit

- The accounting rules under GASB require the CAFR to show the liabilities and contribution requirements based on the blended rate (6.7%)

Actuarial Item	Ultimate (7.75%)	Accounting Value (6.7%)	Actual Contributions
Total Accrued Liability	$694	$796	
Unfunded Accrued Liability	$608	$711	
Total Normal Cost	$16	$11	
Employer ARC	7.99%	8.92%	5.70%
Employee ARC	7.35%	8.21%	5.07%

Accounting Implications

- A Net OPEB Obligation (NOO) exists when the actual employer contribution made differs from the ARC
- Plus, GASB requires the employer NOO to also reflect the differences in the employee contribution.
- Thus, the NOO will grow this year by the difference of 8.92% and 5.70% of payroll (3.22% of payroll) PLUS the difference of 8.21% and 5.07% (3.14%).
- The dollar amount in growth of the NOO is 6.36% of payroll, or $20.5 million.