



CITY OF SAN JOSE

Contribution Rate Phase In Strategies

Retirement and Retiree Medical Rate Increases Based on the 2009 valuation results

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Implementing the Contribution Rate Strategy

- ◆ The Federated Retirement plan valuation displays the accounting and the ultimate cost for all assumption changes
- ◆ The retiree health valuation also displays the accounting costs and includes all assumption changes; the ultimate cost for the retiree health care valuation is shown in the health care presentation
- ◆ The funding policy of the Board is to implement these rate increases (from current contribution rates to the ultimate rates), phased in over a five year period



Implementing the Contribution Rate Strategy

- ◆ The Federated retirement plan will phase in the rate increase as follows:
 - ▶ The rate increase due to the demographic assumptions will be incorporated immediately into the rate increase for 2011/2012
 - ▶ The rate increase due to the economic assumption changes will be phased in over a five year period.



Implementing the Contribution Rate Strategy

- ◆ The Board has previously adopted a policy for a five year phase in of the retiree medical plan rate increase.
- ◆ Originally, the phase in was put into place to bring the “policy” contribution to the level of the GASB-compliant annual required contribution (ARC).
- ◆ The phase in will now also include the cost increases related to the change in assumptions



Implementing the Contribution Rate Strategy

- ◆ For the Retiree Medical Plan, the discount rate for accounting purposes has changed from 6.6% to 6.7%; the discount rate for funding purposes changed from 8.25% to 7.75%
- ◆ The discount rate is based on the “proportion” of the annual required contribution being made
 - ▶ If the plan were not prefunding, then the discount rate would be 4.5%
 - ▶ When the plan is funded at the ARC, then the discount rate will be 7.75%
 - ▶ Until then, a blended rate is used that reflects the partial funding



Federated Retirement Plan

- Phasing in from 22.59% to 30.63%
- The final year rate is higher, to “pay” for missed contributions
- From 2010 to 2011, full phase in of all gains and losses, except that 1/5 of the change due to the change in economic assumptions is phased

Fiscal Year	Employee	Employer	Total
2009/2010 (from 2007 valuation)	4.28%	18.31%	22.59%
2010/2011	4.54%	23.18%	27.72%
2011/2012	4.65%	23.96%	28.61%
2012/2013	4.76%	24.70%	29.46%
2013/2014	4.85%	25.41%	30.26%
2014/2015	4.94%	26.09%	31.03%



Retiree Health Phase-In—Prior Schedule

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

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



Retiree Health Updated Schedule

- ◆ This phase-in is to move from the current “policy” rates to the ARC

Fiscal Year Contribution	Employee	Employer	Total
2008/2009 Initial	4.65%	5.25%	9.90%
2009/2010 (1 st year phase-in)	5.07%	5.70%	10.77%
2010/2011 (2 nd year phase-in)	5.76%	6.41%	12.17%
2011/2012 (3 rd year phase-in)	6.43%	7.09%	13.52%
2012/2013 (4 th year phase-in)	7.07%	7.72%	14.79%
2013/2014 (5 th year phase-in)	7.67%	8.33%	16.00%