

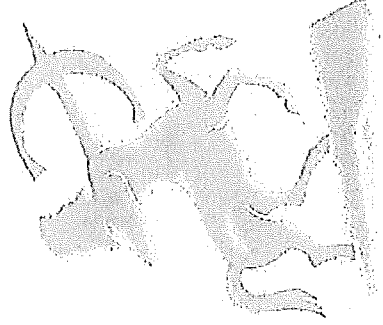


CLASSIC VALUES. INNOVATIVE ADVICE

Board of Administration
City of San José Police and Fire
Department Retirement System

June 30, 2012 OPEB Actuarial Valuation Results

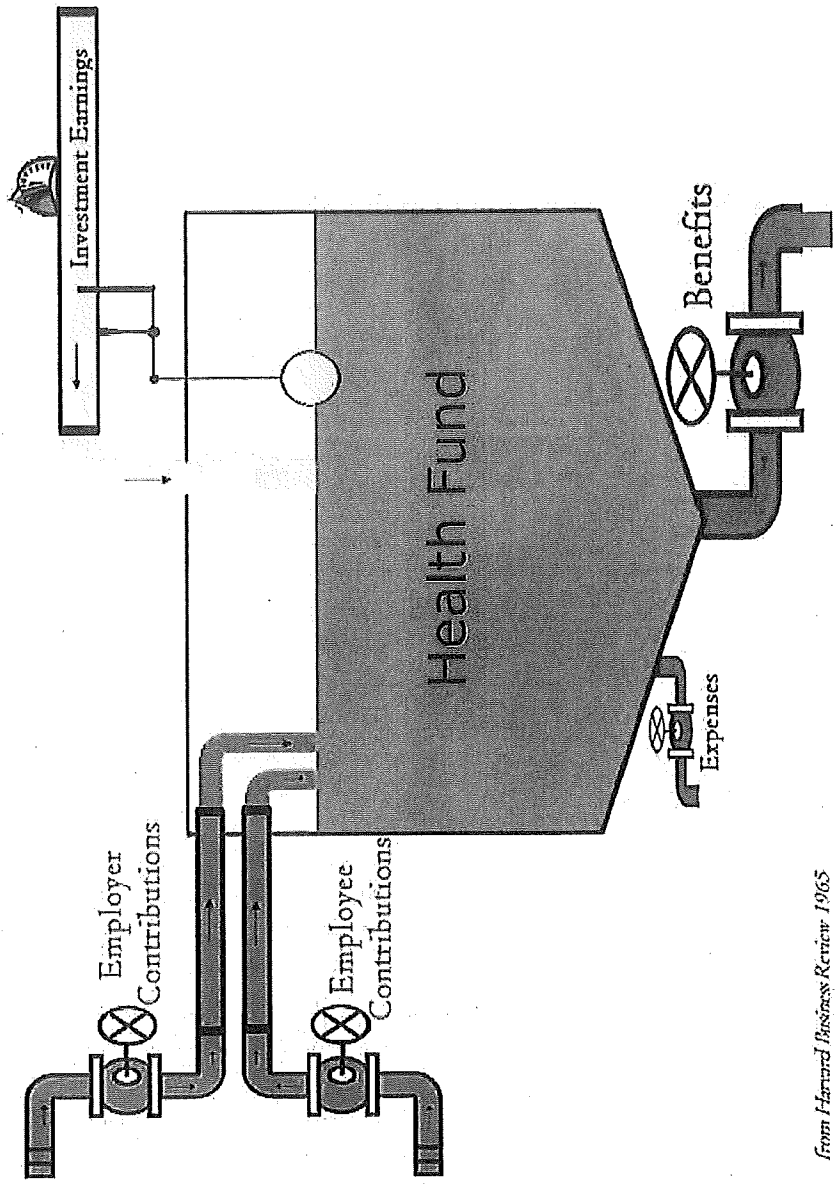
February 7, 2013
Bill Hallmark, ASA, FCA
Michael Schionning, FSA



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
- 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 the Police and Fire unions
- Currently in a 5-year transition period, during which the funding basis will gradually change from the prior (10-year cash flow) method to actuarial funding
- June 30, 2012 valuation determines contribution rates for the fiscal year ending June 30, 2014, which is the
 - Final year in the transition period for Police; and
 - Third year in the transition period for Fire
- Beyond the 5-year period, caps on annual increases in rates and the overall rates continue to apply

Funding Valuation Results

Table I-1
Summary of Key Valuation Results
(dollars in thousands)

Valuation Date	Funding Valuation Basis ¹	
	6/30/2012	6/30/2011
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	596,223	657,472
Actuarial Value of Assets (AVA)	66,385	60,709
Unfunded Actuarial Liability (UAL)	529,839	596,764
AVA Funding Ratio	11.1%	9.2%
Market Value of Assets (MVA)	62,978	59,669
Unfunded Liability (MVA basis)	533,245	597,803
MVA Funded Ratio	10.6%	9.1%
Fiscal Year Ending	6/30/2014	6/30/2013
Member Contribution Rate	8.69%	7.48%
City Contribution Rate	9.42%	8.11%
City Contribution Amount (BOY)	17,073	14,922

- UAL decreased almost \$70 million since prior valuation
- Contribution rates for FYE 2014 reflect maximum increase allowed by current agreements

¹ Excludes implicit subsidy

Dollar amounts in thousands



Funding Valuation Results

Table III-7
Police Contribution Rates –Funding Basis
Reflecting Caps

	Medical	Dental	Total
Calculated FYE 2014 Contribution Rate			
Member	12.14%	0.60%	12.74%
City	<u>12.15%</u>	<u>1.80%</u>	<u>13.95%</u>
Total	24.29%	2.40%	26.69%
FYE 2013 Contribution Rates			
Member	7.90%	0.36%	8.26%
City	<u>7.90%</u>	<u>1.06%</u>	<u>8.96%</u>
Total	15.80%	1.42%	17.22%
Capped FYE 2014 Contribution Rates			
Member	9.11%	0.40%	9.51%
City	<u>9.12%</u>	<u>1.19%</u>	<u>10.31%</u>
Total	18.23%	1.59%	19.82%



Funding Valuation Results

Table III-8
Fire Contribution Rates –Funding Basis
Reflecting Phase-In and Caps

	Medical	Dental	Total
Old Funding Basis	10.33%	1.34%	11.67%
New Funding Basis	22.41%	2.32%	24.73%
Percentage New	60%	60%	60%
Phased-In FYE 2014 Contribution Rates			
Member	8.79%	0.48%	9.27%
City	<u>8.79%</u>	<u>1.45%</u>	<u>10.24%</u>
Total	17.58%	1.93%	19.51%
FYE 2013 Contribution Rates			
Member	5.85%	0.26%	6.11%
City	<u>5.85%</u>	<u>0.77%</u>	<u>6.62%</u>
Total	11.69%	1.03%	12.73%
Capped FYE 2014 Contribution Rates			
Member	7.05%	0.30%	7.36%
City	<u>7.05%</u>	<u>0.91%</u>	<u>7.97%</u>
Total	14.11%	1.21%	15.32%



Accounting Valuation Results

Table I-1

Summary of Key Valuation Results
(dollars in thousands)

Valuation Date	GASB Valuation Basis	
	6/30/2012	6/30/2011
Discount Rate	4.40%	5.70%
Actuarial Liability (AL)	\$ 997,321	\$ 1,003,795
Actuarial Value of Assets (AVA)	66,385	60,709
Unfunded Actuarial Liability (UAL)	\$ 930,936	\$ 943,087
AVA Funding Ratio	6.7%	6.0%
Market Value of Assets (MVA)	\$ 62,978	\$ 59,669
Unfunded Liability (MVA basis)	934,343	944,126
MVA Funded Ratio	6.3%	5.9%
Fiscal Year Ending	6/30/2013	6/30/2012
City ARC		
-- if paid as percent of pay	29.70%	32.55%
-- if paid as dollar amount (MOY)	\$ 55,824	\$ 62,079
Expected /Actual City Contribution ¹	\$ 15,419	\$ 21,205
Expected /Actual Net Benefit Payments ¹	\$ 23,355	\$ 28,479

- UAL decreased slightly since prior valuation
- Gains due to plan changes offset by losses due to lower blended discount rate

¹ Includes implicit subsidy

Dollar amounts in thousands



Accounting Valuation Results

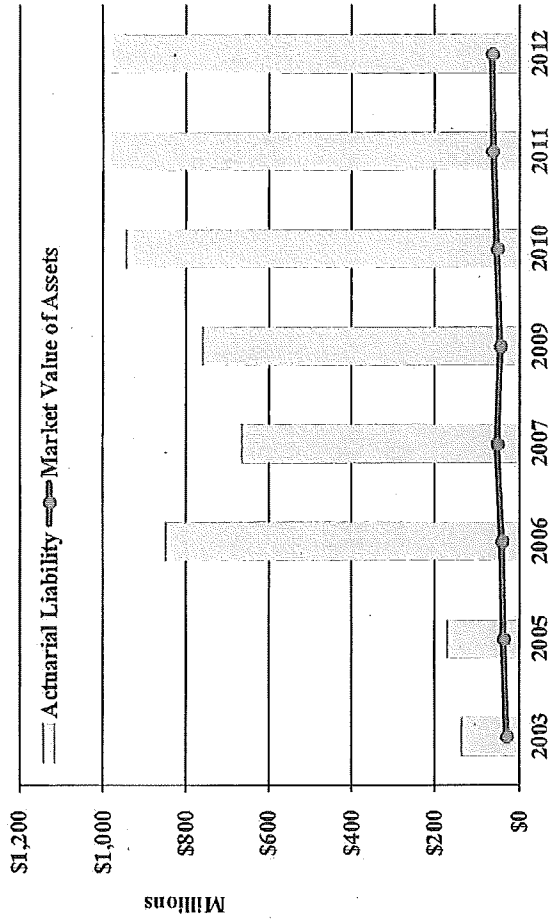
Table IV-1
Development of Blended Discount Rate

Expected FY2013 Contributions	
Member Contribution Rate	7.44%
City Contribution Rate	8.07%
Implicit Subsidy Rate	0.09%
Total Contribution Rate	15.60%
FY2013 Full ARC	
Normal Cost (Middle of Year)	8.33%
Amortization of UAL	17.10%
Total ARC as % of pay	25.44%
Pay-as-you-go Costs	
Pay-as-you-go as % of pay	12.43%
Contribution in Excess of Pay-Go	3.17%
Full ARC in Excess of Pay-Go	13.01%
Weight to System Return	24.39%
Expected Returns	
Expected Return on Plan Assets	7.25%
Expected Return on City Assets	3.50%
Blended Discount Rate	4.40%

- Blended discount rate for GASB valuation = 4.4% compared to 5.7% last year
- Determined based on new method adopted in December

Accounting Valuation Results

City of San José Police and Fire Department Postemployment Healthcare



* 2006 was the first GASB 43/45 valuation.

	2003	2005	2006	2007	2009	2011	2012
Funded Ratio	24.1%	20.9%	4.5%	6.8%	7.3%	6.0%	6.7%
UAL/(Surplus)	\$ 103.7	\$ 136.6	\$ 812.8	\$ 620.8	\$ 706.0	\$ 943.1	\$ 930.9
<i>(in millions)</i>							
Discount Rate	8.00%	8.00%	5.30%	6.40%	6.70%	5.70%	4.40%

Changes Since Prior Valuation

Table IV-4
Reconciliation of Actuarial Liability – GASB Basis

Actuarial Liability as of June 30, 2011	\$ 1,003,795
Normal Cost	29,996
Benefit Payments	(30,733)
Interest	57,196
Expected Actuarial Liability, June 30, 2012	\$ 1,060,254
Actuarial Liability as of June 30, 2012	997,321
Gain or (Loss)	\$ (62,933)
Changes due to:	
Demographic experience	\$ (4,760)
Plan changes effective 1/1/2012	(109,450)
Change in claims assumptions	(49,696)
Plan changes effective 1/1/2013	(86,497)
Change in discount rate	187,470
Total Changes	\$ (62,933)

Dollar amounts in thousands

Accounting Valuation Results

**Table IV-3
GASB ARC**

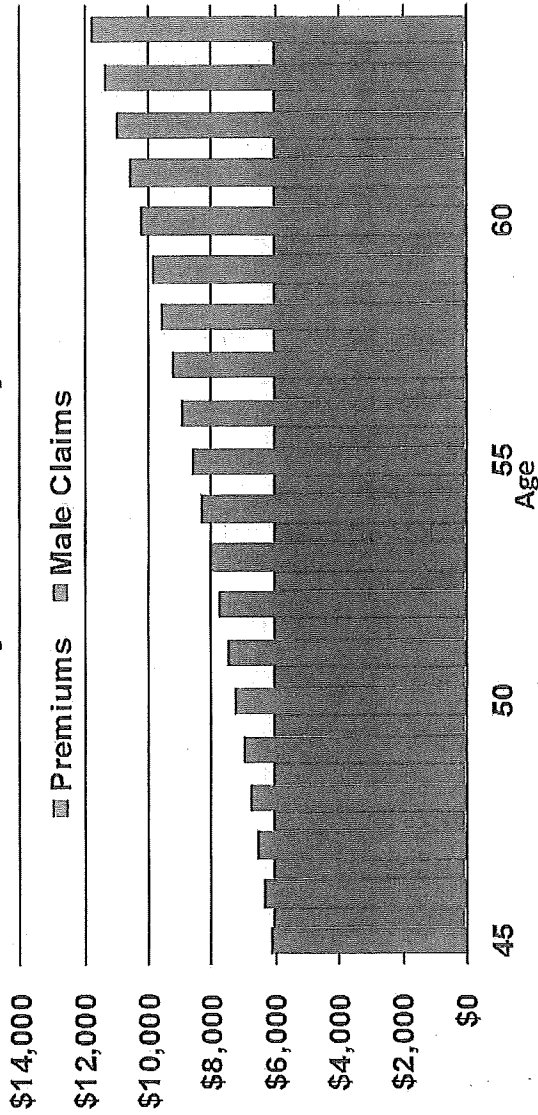
Fiscal Year Ending	6/30/2013	6/30/2012
Discount Rate	4.40%	5.70%
Total Normal Cost	\$ 33,961,961	\$ 29,995,849
UAL Amortization	<u>35,846,961</u>	<u>41,947,828</u>
Total Cost	\$ 69,808,922	\$ 71,943,677
Employee Contributions	<u>13,984,443</u>	<u>11,561,673</u>
Total ARC	\$ 55,824,479	\$ 62,079,043

Implicit Subsidy

- In prior valuations, estimated implicit subsidy was determined based solely on the Police and Fire membership
- In reality, medical premiums are developed collectively for Federated and Police and Fire members, so that all members pay the same premiums
- The current valuation reflects joint development, resulting in a much smaller estimated implicit subsidy for the Police and Fire Plan:
 - Estimated implicit subsidy was \$4.75M for FYE 2012
 - Estimated implicit subsidy is \$0.17M for FYE 2013

Implicit Subsidy - PPO

Kaiser Retiree Claims vs. Premiums
Analysis - P&F Only

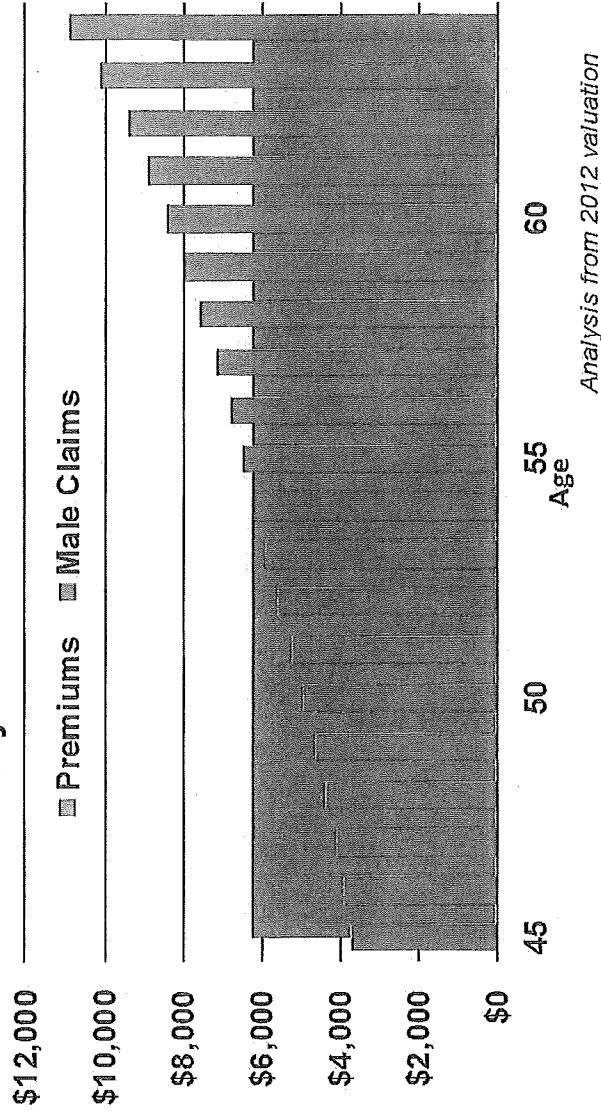


Analysis from 2010 valuation

- With the analysis solely on the Police and Fire population, the premium is less than the claims for virtually all retirees, resulting in a large implicit subsidy

Implicit Subsidy - Kaiser

Kaiser Retiree Claims vs. Premiums
Analysis - P&F and Federated



- With the analysis combining Police and Fire with Federated, claims above and below the premium are offsetting, resulting in a smaller implicit subsidy

Projections

Full Scale OPEB

Stress Testing

CHEIRON

Health Trends

	Initial	+ 1 year	+ 2 year	Ultimate Yrs to Ult
Med Pre-Medicare	8.80%	8.47%	8.14%	4.5%
Med Post-Medicare	6.63%	6.47%	6.30%	4.5%
Dental pre	4.5%	4.5%	4.5%	3
Dental post	4.5%	4.5%	4.5%	3
Part B	4.5%	4.5%	4.5%	3

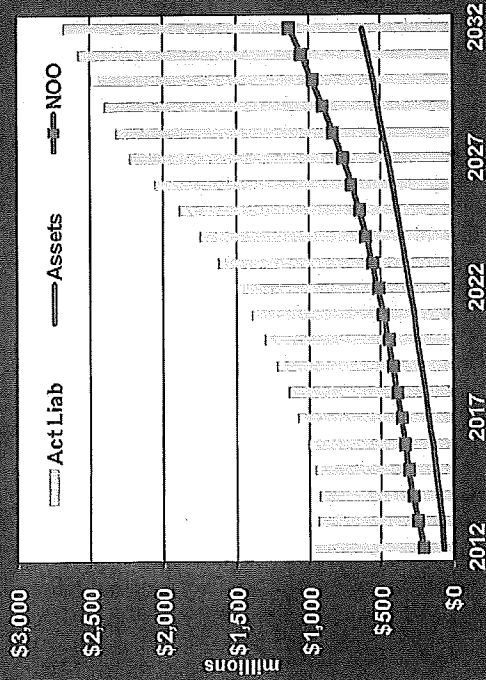
FY Beginning

	2012	2013	2014	2015	2016	2017
Actual Inv Return	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Discount Rate	4.40%	5.09%	5.50%	5.71%	5.71%	5.64%

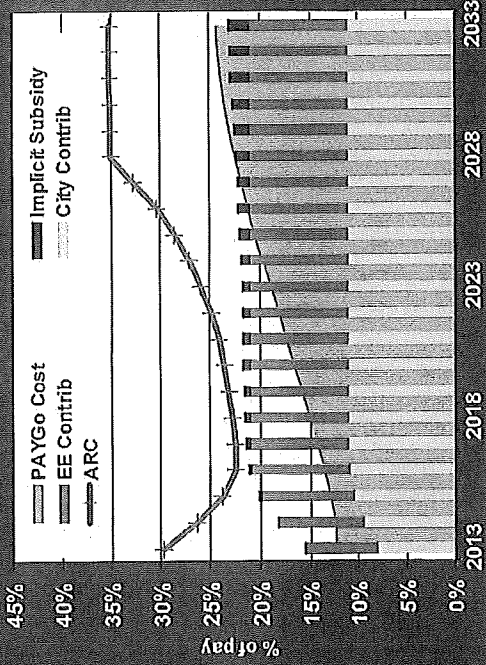
Other Assumptions

	2012	2013	2014+
Full Funding Rate	7.25%	7.25%	7.25%
Sal Increases	0.00%	3.50%	3.50%
Amort Increases	3.50%	3.50%	3.50%
Exp Return on City Assets	Continue Ultimate Caps		
City Member	Y	Y	Y
Annual Increase Cap	1.35%	1.35%	1.25%
Ultimate Cap	11.00%	11.00%	10.00%

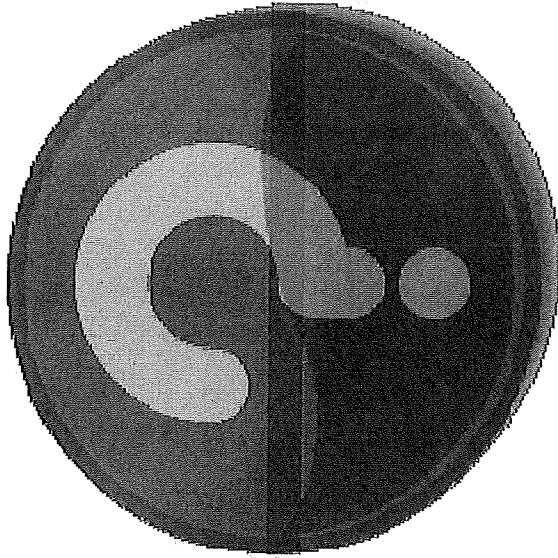
Assets and Liabilities



Plan Funding





Questions

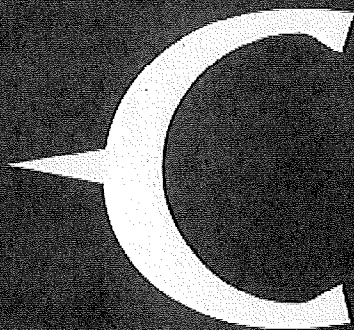


Required Disclosures

- The purpose of this presentation is to present selected results of the June 30, 2012 actuarial valuation for the City of San Jose's Police and Fire Department Postemployment Healthcare Plan.
- This presentation is for the use of the Board of Administration of the City of San Jose Police and Fire Department 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
Police and Fire Department
Postemployment Healthcare Plan**

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

Produced by Cheiron

January 2013



Classic Values, Innovative Advice

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January 30, 2013

VIA EMAIL

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112

Re: *City of San José Police and Fire Department Postemployment Healthcare Plan Valuation*

Dear Members of the Board:

The purpose of this report is to present the June 30, 2012 actuarial valuation of the City of San José Police and Fire Department 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 Number 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.

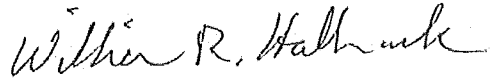
This valuation report was prepared for the Board for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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
January 30, 2013

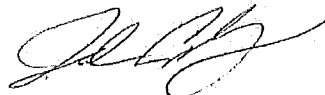
Sincerely,
Cheiron



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 JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION I
BOARD SUMMARY

The Board of Administration of the City of San José Police and Fire Department Retirement Plan has engaged Cheiron to provide a valuation of the City of San José Police and Fire Department 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. We understand the agreements call for a five-year transition from the prior 10-year cash flow funding policy to the current policy of actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010.

In addition, we understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages.

The contributions for retiree medical benefits (explicit subsidy only) are split evenly between employees and the City, and the contributions for retiree dental benefits are split with the City contributing 75% of the total contribution and employees contributing 25% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION I
BOARD SUMMARY

Accounting Policy

The Board's current policy sets the Annual Required Contribution (ARC) for the fiscal year immediately following the valuation date equal to the normal cost plus a rolling 30-year amortization of the unfunded actuarial liability.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION I
BOARD SUMMARY**

Valuation Results

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

Table I-1 Summary of Key Valuation Results (dollars in thousands) GASB Valuation Basis		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	4.40%	5.70%
Actuarial Liability (AL)	\$ 997,321	\$ 1,003,795
Actuarial Value of Assets (AVA)	66,385	60,709
Unfunded Actuarial Liability (UAL)	\$ 930,936	\$ 943,087
AVA Funding Ratio	6.7%	6.0%
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Unfunded Liability (MVA basis)	934,343	944,126
MVA Funded Ratio	6.3%	5.9%
Fiscal Year Ending	6/30/2013	6/30/2012
City ARC		
-- if paid as percent of pay	29.70%	32.55%
-- if paid as dollar amount (MOY)	\$ 55,824	\$ 62,079
<i>Expected/Actual City Contribution</i> ¹	\$ 15,419	\$ 21,205
<i>Expected/Actual Net Benefit Payments</i> ¹	\$ 23,355	\$ 28,479
Funding Valuation Basis²		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	596,223	657,472
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Member Contribution Rate	8.69%	7.48%
City Contribution Rate	9.42%	8.11%
City Contribution Amount (BOY)	17,073	14,922

¹ Includes implicit subsidy

Dollar amounts in thousands

² Excludes implicit subsidy

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

The discount rate on a funding basis decreased from 7.50% to 7.25% while the discount rate on a GASB basis decreased from 5.7% to 4.4% in this valuation. 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 the UAL of approximately \$12 million on a GASB basis and \$67 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.

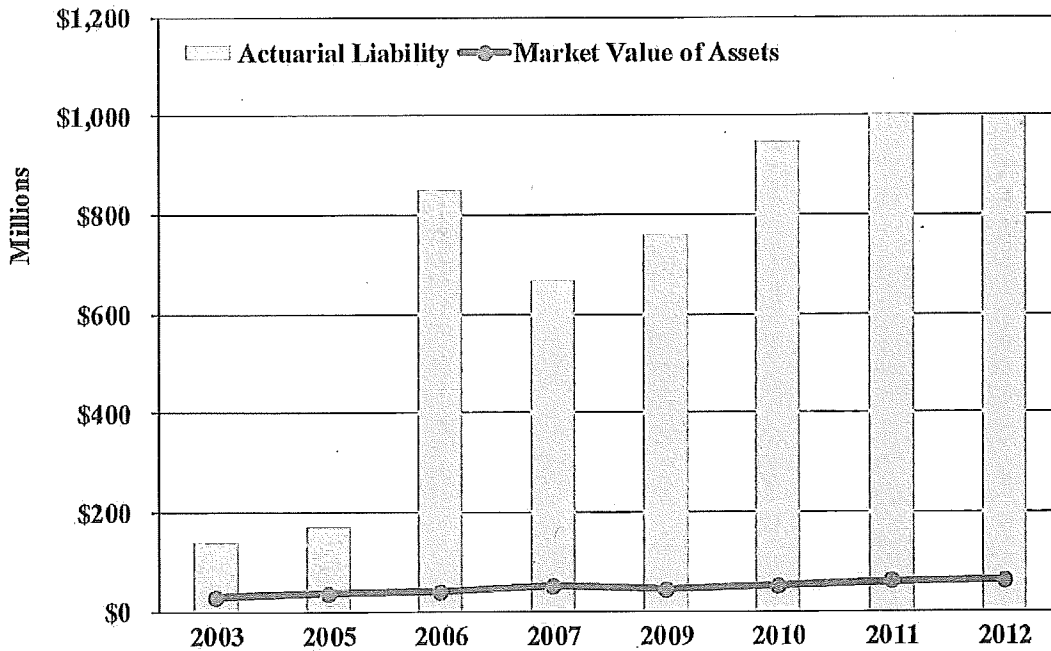
CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION I
BOARD SUMMARY**

Historical Trends

The chart below shows the historical trend of assets and liabilities on a GASB basis for the City of San José Police and Fire Department 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 significantly higher liabilities.

City of San José Police and Fire Department Postemployment Healthcare



* 2006 was the first GASB 43/45 valuation.

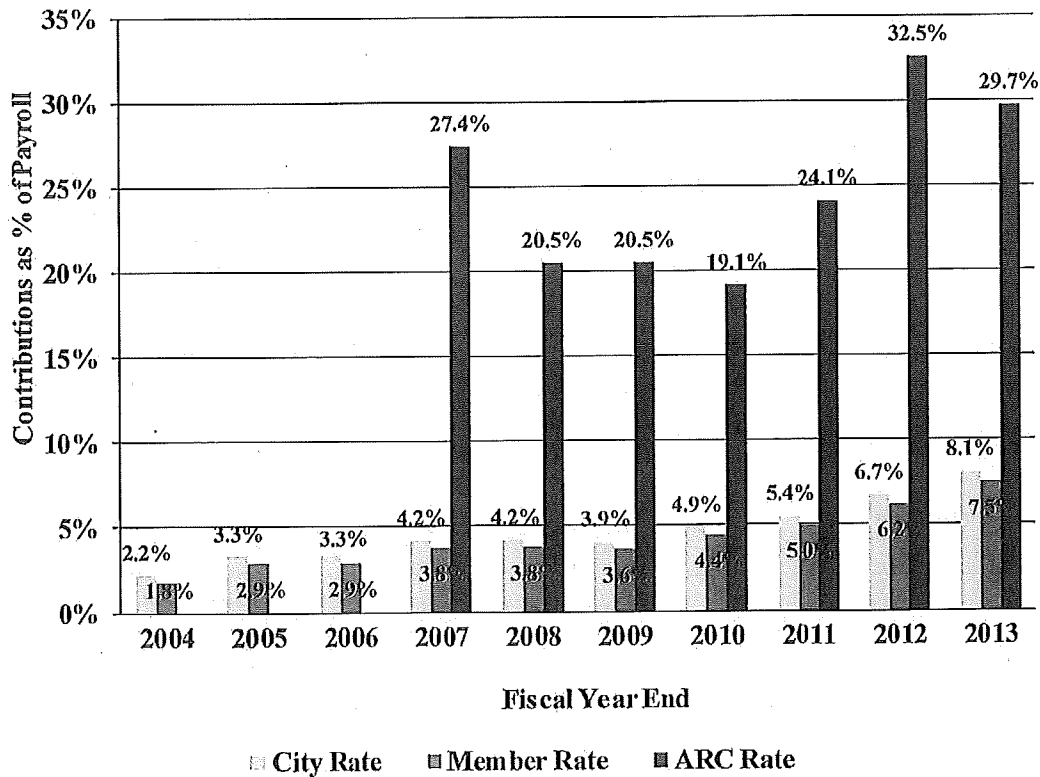
	2003	2005	2006	2007	2009	2011	2012
Funded Ratio	24.1%	20.9%	4.5%	6.8%	7.3%	6.0%	6.7%
UAL/(Surplus) <i>(in millions)</i>	\$ 103.7	\$ 136.6	\$ 812.8	\$ 620.8	\$ 706.0	\$ 943.1	\$ 930.9
Discount Rate	8.00%	8.00%	5.30%	6.40%	6.70%	5.70%	4.40%

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

The chart below shows the historical trend in member and City contribution rates. The City's ARC is also shown as a percentage of payroll beginning with the fiscal year ending June 30, 2007.

**City of San José Police and Fire Department Postemployment
Healthcare Plan**



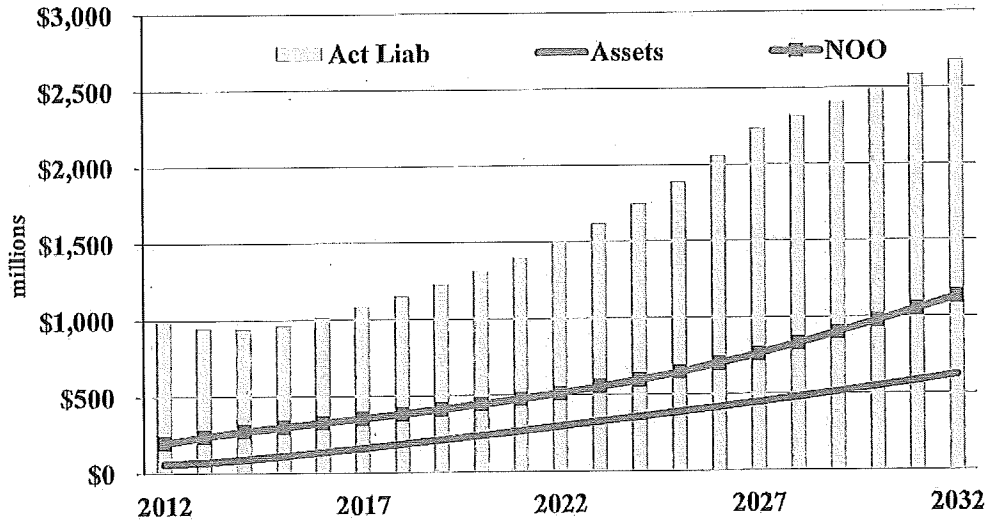
Projected Trends

The charts below project the assets, liabilities on a GASB basis, and the funding costs for the next 20 years assuming the current cap on contributions in the MOAs of 11% for the City and 10% for members remains in effect for the entire period.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

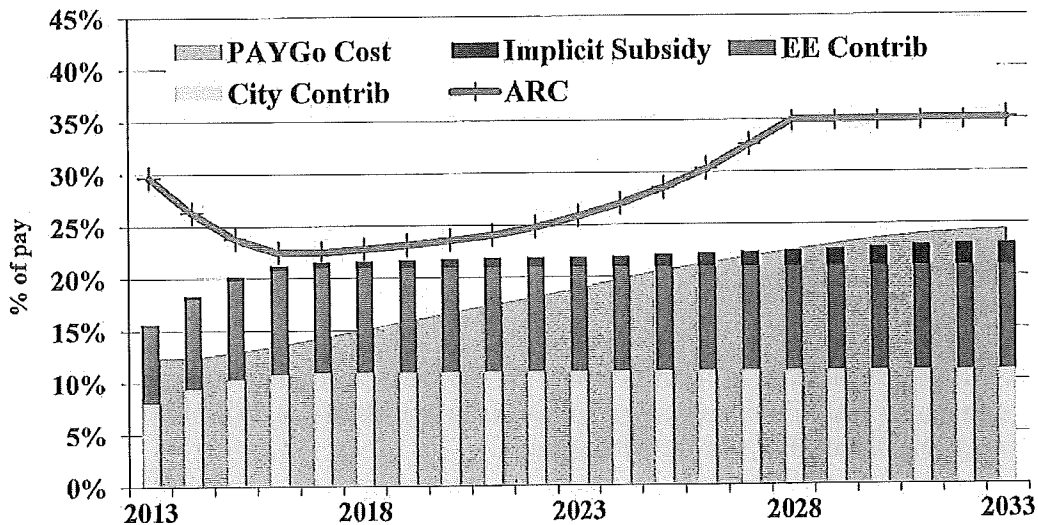
**SECTION I
BOARD SUMMARY**

Assets and Liabilities



The chart above shows the actuarial liability on a GASB basis increasing from about \$1.0 billion to about \$2.7 billion over the next 20 years. The green line shows assets increasing from \$60 million to approximately \$700 million over the same period. The red line shows the Net OPEB Obligation (NOO) increasing from \$203 million to about \$1.0 billion 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 for the explicit subsidy as a percentage of pay. Benefit payments, net of retiree contributions, are shown by the gray area and increase from 12% to 24%

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

of projected payroll. The yellow bars represent the City's contributions. The City's contribution is expected to grow to 11.00% of pay in FYE 2017 and then remain at that level due to the assumed cap. In addition, the City contributes an amount equal to the implicit subsidy for each year. Similarly, employee contributions are expected to grow to 10.00% of pay in FYE 2017 and then remain at that level due to the assumed cap. The ARC, shown by the red line, is expected to decrease to approximately 20% of pay before increasing to about 35% of pay by the end of the projection period. The unusual pattern of the ARC projection is due to the projected contribution levels being less than the full ARC by varying degrees, which drives the blended discount rate used to determine the ARC in each year.

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	Expected Net	Fiscal Year	Expected Net	Fiscal Year	Expected Net
Ending	Benefit	Ending	Benefit	Ending	Benefit
June 30	Payments	June 30	Payments	June 30	Payments
2013	\$ 23,354,518	2018	\$ 32,723,896	2023	\$ 48,624,655
2014	23,335,167	2019	35,550,858	2024	52,672,178
2015	25,343,570	2020	38,654,217	2025	56,731,256
2016	27,426,326	2021	41,761,431	2026	60,627,785
2017	29,913,436	2022	45,016,619	2027	64,553,176

In this valuation, the amount of the estimated implicit subsidy decreased from \$4,750,160 for the fiscal year ending June 30, 2012 to \$172,014 for the fiscal year ending June 30, 2013. In prior valuations, the estimated implicit subsidy was determined based solely on the membership in the Police and Fire plan. However, medical premiums are developed collectively for Federated and Police and Fire members so that all members pay the same premiums. This valuation recognizes the combined development of the premiums for this purpose which results in a much smaller estimated implicit subsidy for the Police and Fire plan.

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 health care trend rates. We conclude with disclosure information to satisfy the GASB OPEB accounting and financial reporting requirements.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION II
ASSETS**

Market Value of 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 about -0.7%, resulting in an actuarial loss of approximately \$6.1 million.

Table II-1		
Market Value of Assets		
Year Ending	6/30/2012	6/30/2011
Market Value, Beginning of Year	\$ 59,669,283	\$ 50,820,066
Contributions		
Member	11,473,635	11,228,813
City	16,454,985	12,062,067
Implicit Subsidy	4,750,160	4,939,215
Total	\$ 32,678,780	\$ 28,230,095
Net Investment Earnings	(891,129)	8,892,560
Benefit Payments		
Premium Payments	(23,728,577)	(23,334,223)
Implicit Subsidy	(4,750,160)	(4,939,215)
Total	\$ 28,478,737	\$ (28,273,438)
Market Value, End of Year	\$ 62,978,197	\$ 59,669,283

Actuarial Value of Assets

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smoothes year-to-year market value returns in order to reduce the volatility of contribution rates. The same approach is used for this OPEB valuation although, given the size of the current assets, the smoothing effect is minimal. As the assets grow, smoothing will become more important to controlling the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 shows the development of the actuarial value of assets as of the valuation date.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION II
ASSETS**

Table II-2			
Development of Actuarial Value of Assets			
			Total
Market Value of Assets at 6/30/2012			\$ 62,978,197
Investment Return Assumption for Year Ending 6/30/2012			7.50%
Expected Investment Earnings			5,258,068
Actual Investment Earnings			(891,129)
Investment Gain or (Loss)			\$ (6,149,197)
Deferred Gains / (Losses)	Initial Balance	Percent Deferred	
Current Year	(6,149,197)	80%	(4,919,358)
Prior Year	4,667,350	60%	2,800,410
2nd Prior Year	3,384,603	40%	1,353,841
3rd Prior Year	(13,205,998)	20%	(2,641,200)
Total			\$ (3,406,307)
Preliminary Actuarial Value of Assets			\$ 66,384,504
Minimum Actuarial Value of Assets (80% of Market Value)			50,382,558
Maximum Actuarial Value of Assets (120% of Market Value)			75,573,836
Actuarial Value of Assets			\$ 66,384,504
Ratio of AVA / MVA			105.4%

Asset Values by Department

The market value of assets is reported separately for the Police and Fire Departments. Within each department, the dental assets were set equal to 10% of the total assets as of June 30, 2010. Since that date, contributions (excluding the implicit subsidy) are allocated to medical and dental in proportion to the contribution rates, and benefit payments are allocated to medical and dental in proportion to the expected payments from the prior valuation. Tables II-3 and II-4 on the following page show the development of the market value of assets and actuarial value of assets for medical and dental within the Police and Fire Departments respectively.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION II
ASSETS**

Table II-3			
Market Value of Assets – Police Department			
	Medical	Dental	Total
Market Value, 6/30/2011	\$ 38,416,626	\$ 3,953,654	\$ 42,370,280
Contributions			
Member	7,757,896	371,080	8,128,976
City	10,226,005	1,458,664	11,684,669
Implicit Subsidy	3,065,587	0	3,065,587
Total	\$ 21,049,487	\$ 1,829,745	\$ 22,879,232
Net Investment Earnings	(588,262)	(62,842)	(651,104)
Benefit Payments			
Premium Payments	(12,927,399)	(1,363,280)	(14,290,679)
Implicit Subsidy	(3,065,587)	0	(3,065,587)
Total	\$ 15,992,986	\$ 1,363,280	\$ 17,356,266
Market Value, 6/30/2012	\$ 42,884,865	\$ 4,357,277	\$ 47,242,142
Ratio of AVA / MVA	105.4%	105.4%	105.4%
Actuarial Value of Assets	\$ 45,204,383	\$ 4,592,949	\$ 49,797,332

Table II-4			
Market Value of Assets – Fire Department			
	Medical	Dental	Total
Market Value, 6/30/2011	\$ 15,725,375	\$ 1,573,628	\$ 17,299,003
Contributions			
Member	3,186,373	158,286	3,344,659
City	4,295,457	474,859	4,770,316
Implicit Subsidy	1,684,573	0	1,684,573
Total	\$ 9,166,403	\$ 633,145	\$ 9,799,548
Net Investment Earnings	(219,036)	(20,990)	(240,026)
Benefit Payments			
Premium Payments	(8,505,254)	(932,644)	(9,437,898)
Implicit Subsidy	(1,684,573)	0	(1,684,573)
Total	\$ 10,189,827	\$ 932,644	\$ 11,122,471
Market Value, 6/30/2012	\$ 14,482,916	\$ 1,253,139	\$ 15,736,055
Ratio of AVA / MVA	105.4%	105.4%	105.4%
Actuarial Value of Assets	\$ 15,266,254	\$ 1,320,918	\$ 16,587,172

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
FUNDING VALUATION RESULTS**

This section of the report calculates the contribution requirements under the contracts negotiated between the City and its labor unions for the fiscal year ending June 30, 2014. The City has negotiated separate contracts with the Police and Fire Unions that require both employee and City contributions to fund the Plan.

We understand the agreements call for a five year transition from the 10-year cash flow funding policy used previously to actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. The transition to the new method is complete effective with contribution amounts for the fiscal year ending June 30, 2014. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. The transition to the new method will be complete effective with contribution amounts for the fiscal year ending June 30, 2016.

We also understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties shall meet and confer on how to address any contributions above those two percentages.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split such that the City contributes 75% and members contribute 25% of the total contribution. In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

The following tables develop the UAL for the Police and Fire Departments for the explicit subsidy of medical and dental benefits based on the funding discount rate of 7.25%.

Table III-1			
Unfunded Actuarial Liability – Police Department			
Funding Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 208,425,982	\$ 25,333,538	\$ 233,759,520
Term Vested Members	1,135,777	97,439	1,233,216
Active Employees	228,749,435	18,609,494	247,358,929
Total	\$ 438,311,194	\$ 44,040,471	\$ 482,351,665
Present Value of Future Normal Costs	93,095,645	7,498,077	100,593,722
Actuarial Liability	\$ 345,215,549	\$ 36,542,394	\$ 381,757,943
Actuarial Value of Assets	45,204,383	4,592,949	49,797,332
Unfunded Actuarial Liability	\$ 300,011,166	\$ 31,949,445	\$ 331,960,611

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION III
FUNDING VALUATION RESULTS**

Table III-2			
Unfunded Actuarial Liability – Fire Department			
Funding Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 128,216,596	\$ 16,302,334	\$ 144,518,930
Term Vested Members	306,463	26,625	333,088
Active Employees	124,711,179	9,999,702	134,710,881
Total	\$ 253,234,238	\$ 26,328,661	\$ 279,562,899
Present Value of Future Normal Costs			
	60,316,020	4,781,468	65,097,488
Actuarial Liability	\$ 192,918,218	\$ 21,547,193	\$ 214,465,411
Actuarial Value of Assets	15,266,254	1,320,918	16,587,172
Unfunded Actuarial Liability	\$ 177,651,964	\$ 20,226,275	\$ 197,878,239

The UAL for the Police Department is amortized over a fixed, closed period of 30 years beginning with the June 30, 2008 UAL. Consequently, the UAL as of June 30, 2012 is amortized over a period of 26 years.

The UAL for the Fire Department is amortized over a fixed, closed period of 30 years beginning with the June 30, 2010 UAL. Consequently, the UAL as of June 30, 2011 is amortized over a period of 28 years. The following table shows the amortization schedule as of June 30, 2012.

Table III-3				
Amortization Schedule – Funding Basis				
Amortization Base	Remaining Period	Outstanding Balance	Amortization Payment	Amortization Rate
Police Department - Medical	26	\$ 300,011,166	\$ 19,302,282	16.58%
Police Department - Dental	26	31,949,445	2,055,581	1.77%
Fire Department - Medical	28	177,651,964	10,936,423	15.29%
Fire Department - Dental	28	20,226,275	1,245,149	1.74%

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 amortization rate is calculated by dividing the amortization payment by the projected payroll for the 2013-14 fiscal year.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION III
FUNDING VALUATION RESULTS**

The table below develops the total normal cost rate for each of the groups based on the active employees on the valuation date and the expected pay for those employees for the year following the valuation date.

Table III-4			
Total Normal Cost Rates – Funding Basis			
	Normal Cost Amount	Expected Payroll for Current Actives	Normal Cost Rate
Police Department - Medical	\$ 8,790,876	\$ 113,973,192	7.71%
Police Department - Dental	719,999	113,973,192	0.63%
Fire Department - Medical	4,981,932	69,981,884	7.12%
Fire Department - Dental	402,114	69,981,884	0.57%

The table below develops the contribution rates for members and the City prior to any adjustment for caps or the phase-in of the new funding method.

Table III-5				
Preliminary Contribution Rates – Funding Basis				
	FYE 2014			FYE 2013
	Medical	Dental	Total	Total
Police Department				
Normal Cost	7.71%	0.63%	8.34%	8.27%
Amortization Payment	<u>16.58%</u>	<u>1.77%</u>	<u>18.34%</u>	<u>19.85%</u>
Total	24.29%	2.40%	26.69%	28.11%
Contribution Allocation without Phase-In				
Member	12.14%	0.60%	12.74%	13.48%
City	<u>12.15%</u>	<u>1.80%</u>	<u>13.95%</u>	<u>14.63%</u>
Total	24.29%	2.40%	26.69%	28.11%
Fire Department				
Normal Cost	7.12%	0.57%	7.69%	7.66%
Amortization Payment	<u>15.29%</u>	<u>1.74%</u>	<u>17.04%</u>	<u>20.14%</u>
Total	22.41%	2.32%	24.73%	27.80%
Contribution Allocation without Phase-In				
Member	11.21%	0.58%	11.79%	13.31%
City	<u>11.20%</u>	<u>1.74%</u>	<u>12.94%</u>	<u>14.49%</u>
Total	22.41%	2.32%	24.73%	27.80%

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
FUNDING VALUATION RESULTS**

To calculate the phased-in contribution rates for the Fire Department, contributions under the prior funding method must be calculated. For Police Department members, the phase-in is complete so this calculation is no longer necessary. The prior funding method developed contributions as a level percentage of payroll over the next 10 years equal to the present value of the expected benefit payments over the next 10 years. The table below develops these contribution rates for the Fire Department.

Table III-6			
Fire Contribution Rates – Old Funding Basis			
10-Year Projected Cash Flows			
Fiscal Year Ending	Medical	Dental	Payroll
2013	\$ 8,399,842	\$ 1,041,126	\$ 71,504,912
2014	8,216,217	1,084,527	72,059,915
2015	8,786,127	1,129,943	75,041,703
2016	9,422,201	1,182,938	77,436,559
2017	10,127,511	1,240,234	79,329,657
2018	10,866,799	1,302,681	80,624,731
2019	11,647,248	1,368,338	81,504,732
2020	12,490,536	1,438,139	82,176,561
2021	13,332,491	1,513,692	82,217,945
2022	14,238,456	1,596,180	81,595,028
Present Value as of June 30, 2012	\$ 74,501,229	\$ 9,022,670	\$ 573,691,757
Development of Contribution Rate			
	Medical	Dental	Total
Actuarial Value of Assets	\$ 15,266,254	\$ 1,320,918	\$ 16,587,172
Unfunded Actuarial Liability	59,234,975	7,701,752	66,936,728
Present Value of 10-Year Payroll	573,691,757	573,691,757	573,691,757
Total Contribution Rate	10.33%	1.34%	11.67%

The tables below calculate the phased-in contribution rates and then apply the caps to those rates. The Fire Department is in the third year of the five-year phase-in period. The caps limit the annual increase in the City and member contribution rates to 1.35% and 1.25% of payroll respectively. In addition, we understand the MOAs indicate that if the contribution rates exceed 11% for the City or 10% for the members, the parties should meet and confer on how to address any contributions above these amounts. The full contribution rates exceed these caps for both the Police and Fire Departments. However, after applying the phase-in and the annual increase limits, all of the contribution rates are below these caps. The Police Department is likely to exceed the cap for the fiscal year ending June 30, 2015.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION III
FUNDING VALUATION RESULTS**

Table III-7			
Police Contribution Rates –Funding Basis			
Reflecting Caps			
	Medical	Dental	Total
Calculated FYE 2014 Contribution Rate			
Member	12.14%	0.60%	12.74%
City	<u>12.15%</u>	<u>1.80%</u>	<u>13.95%</u>
Total	24.29%	2.40%	26.69%
FYE 2013 Contribution Rates			
Member	7.90%	0.36%	8.26%
City	<u>7.90%</u>	<u>1.06%</u>	<u>8.96%</u>
Total	15.80%	1.42%	17.22%
Capped FYE 2014 Contribution Rates			
Member	9.11%	0.40%	9.51%
City	<u>9.12%</u>	<u>1.19%</u>	<u>10.31%</u>
Total	18.23%	1.59%	19.82%

Table III-8			
Fire Contribution Rates –Funding Basis			
Reflecting Phase-In and Caps			
	Medical	Dental	Total
Old Funding Basis	10.33%	1.34%	11.67%
New Funding Basis	22.41%	2.32%	24.73%
Percentage New	60%	60%	60%
Phased-In FYE 2014 Contribution Rates			
Member	8.79%	0.48%	9.27%
City	<u>8.79%</u>	<u>1.45%</u>	<u>10.24%</u>
Total	17.58%	1.93%	19.51%
FYE 2013 Contribution Rates			
Member	5.85%	0.26%	6.11%
City	<u>5.85%</u>	<u>0.77%</u>	<u>6.62%</u>
Total	11.69%	1.03%	12.73%
Capped FYE 2014 Contribution Rates			
Member	7.05%	0.30%	7.36%
City	<u>7.05%</u>	<u>0.91%</u>	<u>7.97%</u>
Total	14.11%	1.21%	15.32%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION IV
GASB VALUATION RESULTS**

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.

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	7.44%
City Contribution Rate	8.07%
Implicit Subsidy Rate	0.09%
Total Contribution Rate	15.60%
FY2013 Full ARC	
Normal Cost (Middle of Year)	8.33%
Amortization of UAL	17.10%
Total ARC as % of pay	25.44%
Pay-as-you-go Costs	
Pay-as-you-go as % of pay	12.43%
Contribution in Excess of Pay-Go	3.17%
Full ARC in Excess of Pay-Go	13.01%
Weight to System Return	24.39%
Expected Returns	
Expected Return on Plan Assets	7.25%
Expected Return on City Assets	3.50%
Blended Discount Rate	4.40%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION IV
GASB VALUATION RESULTS**

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

Table IV-2			
Unfunded Actuarial Liability (UAL) – GASB Basis			
	Medical	Dental	Total
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 538,346,432	\$ 59,634,129	\$ 597,980,561
Term Vested Members	2,667,886	220,206	2,888,092
Active Employees	791,669,983	58,377,177	850,047,160
Total	\$ 1,332,684,301	\$ 118,231,512	\$ 1,450,915,813
Present Value of Future Normal Costs			
	422,477,469	31,117,512	453,594,981
Actuarial Liability	\$ 910,206,832	\$ 87,114,000	\$ 997,320,832
Actuarial Value of Assets	60,600,907	5,783,597	66,384,504
Unfunded Actuarial Liability	\$ 849,605,925	\$ 81,330,403	\$ 930,936,328

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).

For GASB purposes, the UAL is amortized as a level percentage of payroll over 30 years. In the table below, the Annual Required Contribution (ARC) for the fiscal year ending June 30, 2013 is developed using a blended discount rate of 4.40%. The prior year's calculation is shown for comparison.

Table IV-3		
GASB ARC		
Fiscal Year Ending	6/30/2013	6/30/2012
Discount Rate	4.40%	5.70%
Total Normal Cost	\$ 33,961,961	\$ 29,995,849
UAL Amortization	35,846,961	41,947,828
Total Cost	\$ 69,808,922	\$ 71,943,677
Employee Contributions	13,984,443	11,561,673
Total ARC	\$ 55,824,479	\$ 62,079,043

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
 ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION IV
 GASB VALUATION RESULTS

Reconciliation

Table IV-4 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.

Actuarial Liability as of June 30, 2011	\$ 1,003,795
Normal Cost	29,996
Benefit Payments	(30,733)
Interest	57,196
Expected Actuarial Liability, June 30, 2012	\$ 1,060,254
Actuarial Liability as of June 30, 2012	997,321
Gain or (Loss)	\$ (62,933)
Changes due to:	
Demographic experience	\$ (4,760)
Plan changes effective 1/1/2012	(109,450)
Change in claims assumptions	(49,696)
Plan changes effective 1/1/2013	(86,497)
Change in discount rate	187,470
Total Changes	\$ (62,933)

Dollar amounts in thousands

- *Census Changes* 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.
- *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 members were also introduced.
- *Change in Discount Rate* refers to the change in the discount rate from 5.70% to 4.40%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE 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.

Health Care Trend Rate	-1%	Base	+1%
Present Value of Future Benefits			
Retirees and Beneficiaries	\$ 519,267	\$ 597,981	\$ 695,238
Term Vested Members	2,338	2,888	3,601
Active Employees	<u>637,797</u>	<u>850,047</u>	<u>1,147,172</u>
Total	\$ 1,159,402	\$ 1,450,916	\$ 1,846,010
Present Value of Future Normal Costs	<u>333,163</u>	<u>453,595</u>	<u>625,402</u>
Actuarial Liability	\$ 826,239	\$ 997,321	\$ 1,220,608
Actuarial Value of Assets	<u>66,385</u>	<u>66,385</u>	<u>66,385</u>
UAL	\$ 759,855	\$ 930,936	\$ 1,154,224

Dollar amounts in thousands

Health Care Trend Rate	-1%	Base	+1%
Total Normal Cost	\$ 25,158	\$ 33,962	\$ 44,492
UAL Amortization	<u>29,259</u>	<u>35,847</u>	<u>44,445</u>
Total Cost	\$ 54,417	\$ 69,809	\$ 88,937
Employee Contributions	<u>13,984</u>	<u>13,984</u>	<u>13,984</u>
Total ARC	\$ 40,433	\$ 55,824	\$ 74,952

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
 ACTUARIAL VALUATION AS OF JUNE 30, 2012

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

Table VI-1 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		
(dollars in thousands)		
	Projected	
	6/30/2013	6/30/2012
1. Net OPEB Obligation, beginning of year	\$ 198,107,778	\$ 153,566,385
2. Annual Required Contribution	\$ 55,824,479	\$ 63,823,778
3. Interest on Net OPEB Obligation	8,716,742	8,753,284
4. Adjustment to Annual Required Contribution	(7,628,408)	(6,830,523)
5. Annual OPEB Cost (2.) + (3.) - (4.)	\$ 56,912,814	\$ 65,746,539
6. Employer Contributions	15,246,733	16,454,985
7. Implicit Rate Subsidy	172,014	4,750,160
8. Net OPEB Obligation, end of year	\$ 239,601,845	\$ 198,107,778
<i>(1.) + (5.) - (6.) - (7.)</i>		

Table VI-2 shows the solvency test and Table VI-3 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.

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SECTION VI
ACCOUNTING DISCLOSURES

Actuarial Valuation Date	<u>Actuarial Liability</u>		Reported Assets	Portion of Liability Covered by Reported Assets	
	Retirees, Beneficiaries and Other Inactives (A)	Active Members (B)		(A)	(B)
	6/30/2012	\$ 541,014		\$ 369,193	\$ 66,385
6/30/2011	600,869	396,452	60,709	10%	0%
6/30/2010	568,611	377,697	58,586	10%	0%
6/30/2009	436,249	325,355	55,618	13%	0%
6/30/2007	336,899	329,328	45,393	13%	0%
6/30/2006	422,457	428,761	38,381	9%	0%

Type of Activity	Gain or (Loss) for Year Ending		
	6/30/2012	6/30/2011	6/30/2010
Investment Income	\$ (6,011)	\$ (2,661)	\$ (3,067)
Liability Experience	4,760	5,967	(11,242)
Gain or (Loss) During Year from Financial Experience	\$ (1,251)	\$ 3,305	\$ (14,309)
Non-Recurring Gain or (Loss) Items	58,173	1,146	(122,599)
Composite Gain or (Loss) During Year	\$ 56,922	\$ 4,452	\$ (136,908)

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.

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**SECTION VI
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**Table VI-4
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	(UAAL) as Percentage of Covered Payroll ((b-a)/c)
6/30/2012	\$ 66,385	\$ 997,321	\$ 930,936	7%	\$ 187,959	495%
6/30/2011	60,709	1,003,795	943,087	6%	190,726	494%
6/30/2010	58,586	946,308	887,722	6%	222,699	399%
6/30/2009	55,618	761,604	705,986	7%	243,196	290%
6/30/2007	45,393	666,227	620,834	7%	227,734	273%
6/30/2006	38,381	851,218	812,837	5%	218,521	372%

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. Note the Table VI-5 provides the information in a format for the City's reporting while Table VI-6 provides the format for the Plan's reporting.

**Table VI-5
Schedule of Employer Contributions - City
City**

Fiscal Year Ending	Annual OPEB Cost (AOC)	Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 56,913	To Be Determined	To Be Determined	To Be Determined
2012	65,747	\$ 21,205	32%	\$ 198,108
2011	64,105	17,001	27%	154,566
2010	51,734	15,546	30%	106,990
2009	50,651	13,063	26%	71,314
2008	48,191	13,624	28%	34,138

Dollar amounts in thousands

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**SECTION VI
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Table VI-6 Schedule of Employer Contributions - Plan					
Fiscal Year Ending	Annual Contribution (ARC)	City Contributions to Trust	Implicit Subsidy	Total Contributions	Percentage of ARC Contributed
2013	\$ 55,824			←= To Be Determined =→	
2012	62,079	\$ 16,455	\$ 4,750	\$ 21,205	34%
2011	62,322	12,062	4,939	17,001	27%
2010	50,438	11,284	4,262	15,546	31%
2009	50,119	9,888	3,175	13,063	26%
2008	61,344	10,618	3,006	13,624	22%

Dollar amounts in thousands

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 open
Single Equivalent Amortization Period	30 years
Asset Valuation Method	Five-year smoothed value
Actuarial Assumptions:	
Payroll Growth Rate	3.50%
Discount Rate	4.40%
Ultimate Rate of Medical Inflation	4.50%

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MEMBER DATA, ASSUMPTIONS AND METHODS**

Member Data:

Valuation Date	June 30, 2012	June 30, 2011	% Change
Active Employees			
Count	1,718	1,735	-0.98%
Average Age	41.5	41.3	0.48%
Average Service	13.6	13.5	0.74%
Total Payroll	\$172,625,503	\$190,726,258	-9.49%
Retirees and Spouses with Medical Coverage			
Pre-65	1,802	1,837	-1.91%
Post 65	1,310	1,197	9.44%
Total	3,112	3,034	2.57%
Retirees with Dental Coverage			
	1,852	1,794	3.23%
Term Vested Members*	5	3	66.67%

* Includes only those members with 20 or more years of service.

Active 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 +	
Under 25	3	0	0	0	0	0	0	3
25 to 29	51	41	0	0	0	0	0	92
30 to 34	84	126	22	0	0	0	0	232
35 to 39	38	92	168	33	0	0	0	331
40 to 44	19	42	169	238	45	0	0	513
45 to 49	0	7	58	127	164	34	0	390
50 to 54	0	4	9	44	65	9	1	132
55 to 59	0	0	1	7	10	3	0	21
60 to 64	0	0	1	2	0	1	0	4
65 and up	0	0	0	0	0	0	0	0
Total	195	312	428	451	284	47	1	1,718

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Inactive Member Data as of June 30, 2012:

Age Group	Retirees, Disabled Retirees and Surviving Spouses					
	Medical Insurance			Dental Insurance		
	Males	Females	Total	Males	Females	Total
Under 50	37	16	53	37	17	54
50 to 54	162	33	195	165	33	198
55 to 59	300	21	321	307	25	332
60 to 64	306	31	337	319	31	350
65 to 69	336	38	374	348	41	389
70 to 74	219	26	245	223	27	250
75 to 79	100	26	126	106	30	136
80 to 84	70	20	90	70	22	92
85 to 89	21	16	37	22	17	39
Over 90	5	6	11	6	6	12
Total	1,556	233	1,789	1,603	249	1,852

Medical Plan	Medical Plan Elections					
	Pre-Medicare			Medicare-Eligible		
	Retirees & Surviving Spouses	Spouses	Total	Retirees & Surviving Spouses	Spouses	Total
Kaiser \$25 Copay	447	459	906	324	148	472
HMO \$25 Copay	255	240	495	68	28	96
PPO / POS \$25 Copay	204	197	401	466	242	708
UHC Medicare Advantage	0	0	0	11	2	13
UHC Senior Supplement	0	0	0	14	7	21
Total	906	896	1,802	883	427	1,310

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Current Vested Terminations*			
Age Group	Male	Female	Total
Under 45	0	0	0
45 to 49	3	1	4
50 to 54	1	0	1
55 to 59	0	0	0
60 to 64	0	0	0
Over 65	<u>0</u>	<u>0</u>	<u>0</u>
Total	4	1	5

* Includes only those term vested participants with at least 20 years of service.

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Economic Assumptions:

1. **Expected Return on Plan Assets:** 7.25% per year
2. **Expected Return on Employer Assets:** 3.50% per year
3. **Blended Discount Rate:** 4.40% 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	4.50
2015	8.14	6.30	4.50
2016	7.81	6.14	4.50
2017	7.48	5.97	4.50
2018	7.15	5.81	4.50
2019	6.82	5.65	4.50
2020	6.48	5.48	4.50
2021	6.15	5.32	4.50
2022	5.82	5.16	4.50
2023	5.49	4.99	4.50
2024	5.16	4.83	4.50
2025	4.83	4.66	4.50
2026 +	4.50	4.50	4.50

Part B Premiums are assumed to increase at ultimate Medicare-Eligible trend of 4.50%.

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.

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Demographic Assumptions:

1. Retirement Rates:

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

Rates of Retirement by Age				
Age	Police		Fire	
	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

Terminated vested members are assumed to retire at age 55.

2. Termination Rates:

Sample rates of termination are shown in the following table.

Rates of Termination	
Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

* Termination rates do not apply once a member is eligible for retirement.

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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 mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

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Disabled Lives:

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Rates of Mortality for Disabled Lives at Selected Ages	
Age	Mortality
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

4. Disability Rates:

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

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5. Salary Increase Rate:

Wage inflation component is assumed to be 3.50% annually beginning in fiscal year ending June 30, 2014 (0% for the fiscal year ending June 30, 2013). 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	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

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6. **Percent of Retirees Electing Coverage:** 100% of future retirees are assumed to elect coverage at retirement. Retirees are assumed to continue coverage 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 proportions shown below.

Assumed Plan Elections for Future Retirees		
Plan	Pre-Medicare	Medicare Eligible
Medical		
• Kaiser DHMO	5%	
• Kaiser \$25 Co-pay	45%	40%
• HMO \$30 Co-pay	5%	
• HMO \$25 Co-pay	20%	7%
• PPO / POS \$45 Co-pay	5%	
• PPO / POS \$25 Co-pay	20%	50%
• UHC Med Adv	N/A	2%
• UHC Senior Supp	N/A	1%
Dental		
• Delta Dental PPO		97%
• DeltaCare HMO		3%

7. **Family Composition:** 95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement.

8. **Dependent Age:** For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

9. **Married Percentage:**

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

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

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Changes since Last Valuation

The expected return on plan assets was reduced from 7.5% to 7.25% and the expected return on employer assets was reduced from 4.0% to 3.5%. The blended discount rate was reduced from 5.70% to 4.40%. 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, but will decrease effective January 1, 2013 as shown in Appendix B.

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	Male Implicit Subsidy - Spouse	Age-Based Cost	Female Implicit Subsidy - Retiree	Female Implicit Subsidy - Spouse
40	6,900	10,582	3,153	(3,747)	(7,429)	5,604	(1,296)	(4,978)
45	6,900	10,582	3,948	(2,952)	(6,634)	5,933	(967)	(4,649)
50	6,900	10,582	5,229	(1,671)	(5,353)	7,037	137	(3,545)
55	6,900	10,582	6,872	(28)	(3,710)	8,386	1,486	(2,196)
60	6,900	10,582	8,932	2,032	(1,650)	10,011	3,111	(571)
64	6,900	10,582	11,537	4,637	955	12,369	5,469	1,787
65	5,368	5,368	4,712	(656)	(656)	5,026	(342)	(342)
70	5,368	5,368	5,533	166	166	5,549	182	182
75	5,368	5,368	6,187	820	820	5,984	617	617
80	5,368	5,368	6,573	1,206	1,206	6,177	810	810

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	Age-Based Cost	Male		Age-Based Cost	Female	
				Implicit Subsidy - Retiree	Implicit Subsidy - Spouse		Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
45	6,241	9,300	3,728	(2,513)	(5,572)	5,603	(638)	(3,697)
50	6,241	9,300	4,938	(1,303)	(4,362)	6,645	404	(2,655)
55	6,241	9,300	6,489	248	(2,811)	7,919	1,678	(1,381)
64	6,241	9,300	10,895	4,654	1,595	11,680	5,439	2,380
65	2,959	2,959	2,660	(299)	(299)	2,838	(121)	(121)
70	2,959	2,959	3,124	165	165	3,133	174	174
75	2,959	2,959	3,493	534	534	3,379	420	420
80	2,959	2,959	3,711	752	752	3,487	528	528

Age	HMO \$25 Copay Plan							
	Retiree Premium	Spouse Premium	Age-Based Cost	Male		Age-Based Cost	Female	
				Implicit Subsidy - Retiree	Implicit Subsidy - Spouse		Implicit Subsidy - Retiree	Implicit Subsidy - Spouse
45	6,669	10,462	4,152	(2,517)	(6,310)	6,240	(429)	(4,222)
50	6,669	10,462	5,499	(1,170)	(4,963)	7,400	731	(3,062)
55	6,669	10,462	7,226	557	(3,236)	8,819	2,150	(1,643)
64	6,669	10,462	12,132	5,463	1,670	13,007	6,338	2,545
65	5,569	5,569	5,721	152	152	6,102	533	533
70	5,569	5,569	6,718	1,149	1,149	6,738	1,169	1,169
75	5,569	5,569	7,512	1,943	1,943	7,265	1,696	1,696
80	5,569	5,569	7,981	2,412	2,412	7,499	1,930	1,930

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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	8,449	13,264	4,184	(4,265)	(9,080)	6,288	(2,161)	(6,976)
50	8,449	13,264	5,542	(2,907)	(7,722)	7,457	(992)	(5,807)
55	8,449	13,264	7,282	(1,167)	(5,982)	8,887	438	(4,377)
64	8,449	13,264	12,226	3,777	(1,038)	13,108	4,659	(156)
65	7,231	7,231	6,223	(1,008)	(1,008)	6,637	(594)	(594)
70	7,231	7,231	7,307	76	76	7,329	98	98
75	7,231	7,231	8,171	940	940	7,903	672	672
80	7,231	7,231	8,681	1,450	1,450	8,157	926	926

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	(1,146)	(1,146)
70	5,831	5,831	5,158	(673)	(673)	5,174	(657)	(657)
75	5,831	5,831	5,768	(63)	(63)	5,579	(252)	(252)
80	5,831	5,831	6,128	297	297	5,758	(73)	(73)

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	(896)	(896)
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

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

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 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 plan and the lowest cost plan available to active members, if the retiree is eligible to receive the explicit subsidy.

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 funding valuation does not include the value of the implicit subsidy.

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; the combined population participates in the same health insurance plans and pays the same premiums.

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:

The estimated amount of implicit subsidy payments reflects the aggregation of the Federated plan population with the Police and Fire plan population in the development of the insurance premiums paid by both populations.

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Summary of Key Substantive Plan Provisions:

Eligibility:

Employees who retire 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 and/or dental 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 and/or dental coverage upon retirement.

Employees who separate from service after July 5, 1992 with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical and/or dental 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 and/or dental plans immediately before death; and
3. The survivor will receive a monthly pension benefit.

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.

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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

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

Premiums:

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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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

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 B
SUBSTANTIVE PLAN PROVISIONS

Active Plan Funding:

Member Contribution: Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll

City's Contribution: Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**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:

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

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.

**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 JOSÉ POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE 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)

