

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

**Actuarial Valuation
as of June 30, 2013**

Produced by Cheiron

January 29, 2014



Classic Values, Innovative Advice

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January 29, 2014

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, 2013 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.

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 29, 2014

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 POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

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, 2014;
- Determine employee and City contribution rates based on the Plan's funding policy for the fiscal year ending June 30, 2015;
- 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, measured liabilities, and projected trends for the Plan using actuarial assumptions and methods that have been adopted by the Board or are prescribed by the collective bargaining agreement.

Contribution 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. The transition has been completed so Police contribution rates are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the annual rate increases described below. 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. We have interpreted the bargaining agreement to apply these restrictions beyond the transition period, so they have been applied to the Police contribution rates as well as the Fire contribution rates.

Furthermore, the bargaining agreement states that if the City or member rates exceed 11% or 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. This report does not restrict the contribution rates to

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SECTION I
BOARD SUMMARY

those limits, and we expect the bargaining parties to meet and confer on how to address the contribution amounts shown in this report that exceed those limits.

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.

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 (including the implicit subsidy). Once actual contributions reach that level, it is anticipated that the ARC will change to the contribution basis.

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**SECTION I
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Valuation Results

The table below presents the key results of the 2013 valuation.

| Table I-1 Summary of Key Valuation Results (dollars in thousands) | | |
|--|------------------|------------------|
| Funding Valuation Basis¹ | | |
| Valuation Date | 6/30/2013 | 6/30/2012 |
| Discount Rate | 7.125% | 7.25% |
| Actuarial Liability (AL) | 511,999 | 596,223 |
| Actuarial Value of Assets (AVA) | 75,035 | 66,385 |
| Unfunded Actuarial Liability (UAL) | 436,964 | 529,839 |
| AVA Funding Ratio | 14.7% | 11.1% |
| Market Value of Assets (MVA) | 74,716 | 62,978 |
| Unfunded Liability (MVA basis) | 437,283 | 533,245 |
| MVA Funded Ratio | 14.6% | 10.6% |
| Fiscal Year Ending | 6/30/2015 | 6/30/2014 |
| Member Contribution Rate | 9.83% | 8.69% |
| City Contribution Rate | 10.69% | 9.42% |
| City Contribution Amount (BOY) | \$ 19,441 | \$ 17,073 |
| GASB Valuation Basis² | | |
| Valuation Date | 6/30/2013 | 6/30/2012 |
| Discount Rate | 6.00% | 4.40% |
| Actuarial Liability (AL) | \$ 700,525 | \$ 997,321 |
| Actuarial Value of Assets (AVA) | 75,035 | 66,385 |
| Unfunded Actuarial Liability (UAL) | \$ 625,490 | \$ 930,936 |
| AVA Funding Ratio | 10.7% | 6.7% |
| Market Value of Assets (MVA) | \$ 74,716 | \$ 62,978 |
| Unfunded Liability (MVA basis) | 625,810 | 934,343 |
| MVA Funded Ratio | 10.7% | 6.3% |
| Fiscal Year Ending | 6/30/2014 | 6/30/2013 |
| City ARC | | |
| -- if paid as percent of pay | 17.76% | 29.70% |
| -- if paid as dollar amount (MOY) | \$ 32,798 | \$ 55,824 |
| Expected/Actual City Contribution ² | \$ 20,256 | \$ 15,807 |
| Expected/Actual Net Benefit Payments ² | \$ 21,950 | \$ 23,934 |

¹ Excludes implicit subsidy

Dollar amounts in thousands

² Includes implicit subsidy

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The discount rate on a funding basis decreased from 7.25% to 7.125% while the discount rate on a GASB basis increased from 4.40% to 6.00% 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 \$93 million on a funding basis and \$305 million on a GASB basis. More detail on the effects of these changes can be found in the Funding and GASB valuation results section of this report.

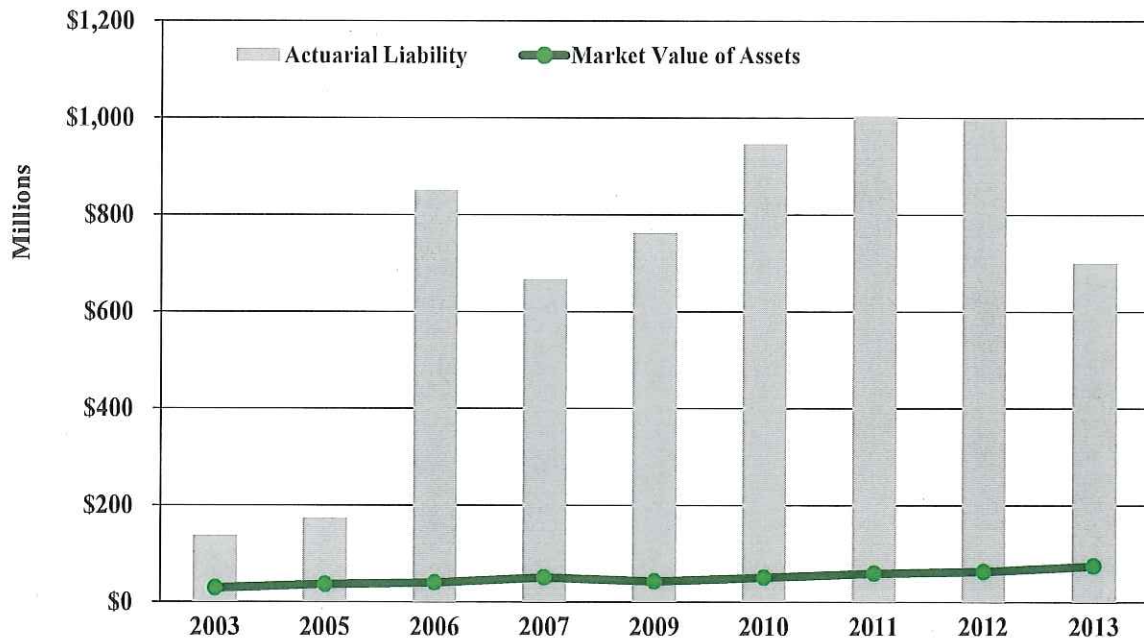
**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability 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 measure of the plan’s liability.

City of San José Police and Fire Department Postemployment Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

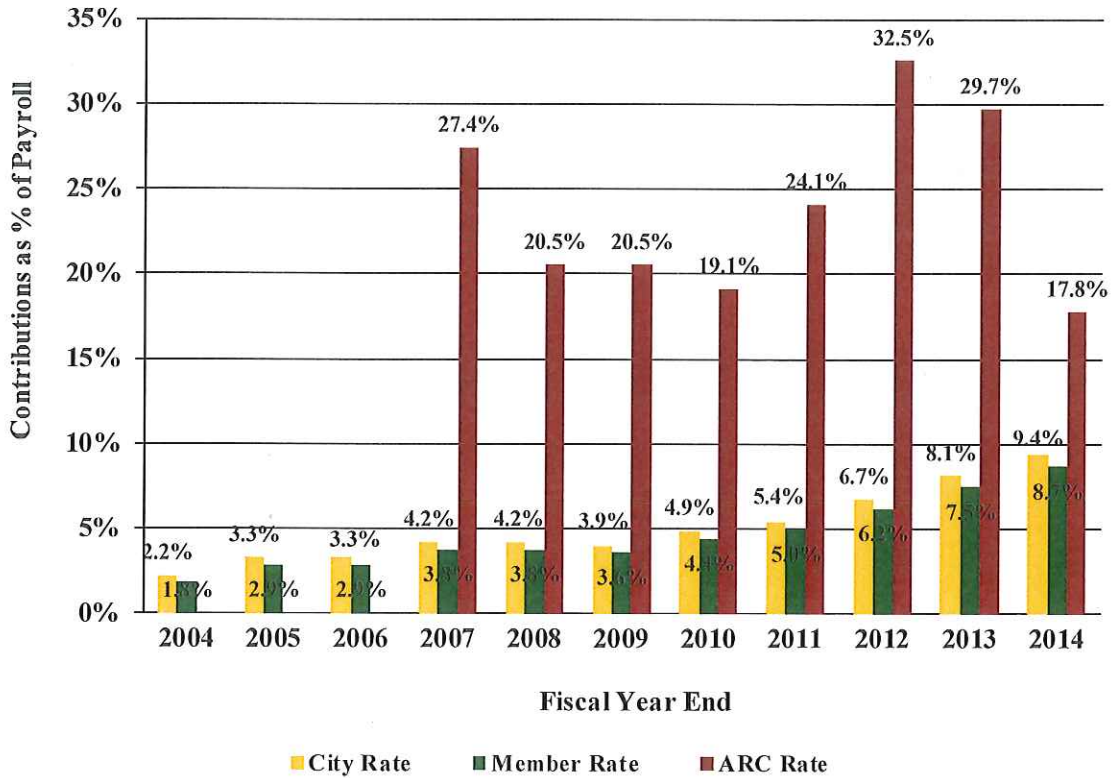
| | 2003 | 2005 | 2006 | 2007 | 2009 | 2011 | 2012 | 2013 |
|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Funded Ratio | 24.1% | 20.9% | 4.5% | 6.8% | 7.3% | 6.0% | 6.7% | 10.7% |
| UAL/(Surplus) | \$ 103.7 | \$ 136.6 | \$ 812.8 | \$ 620.8 | \$ 706.0 | \$ 943.1 | \$ 930.9 | \$ 625.5 |
| <i>(in millions)</i> | | | | | | | | |
| Discount Rate | 8.00% | 8.00% | 5.30% | 6.40% | 6.70% | 5.70% | 4.40% | 6.00% |

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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**



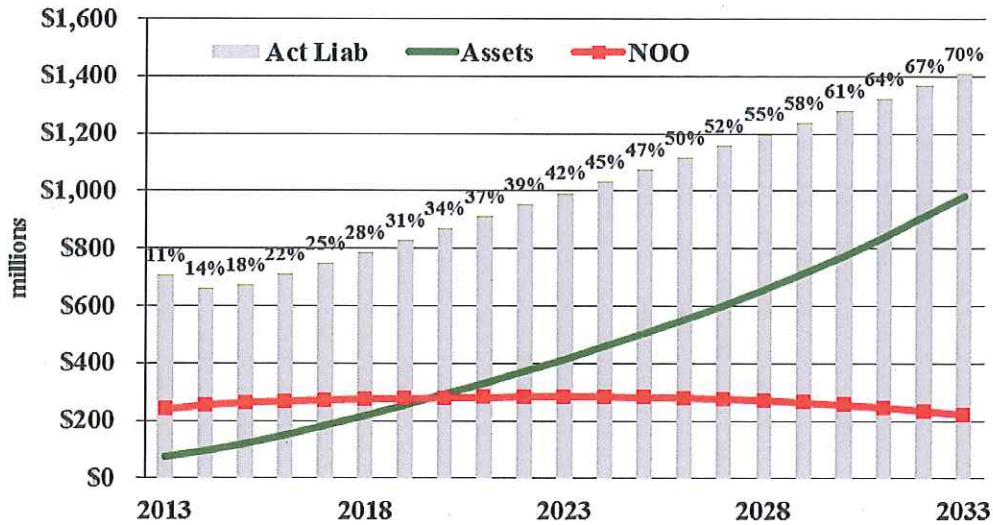
Projected Trends

The charts on the following pages project the assets, actuarial liability, contributions and accounting results under GASB 43 and 45 for the next 20 years.

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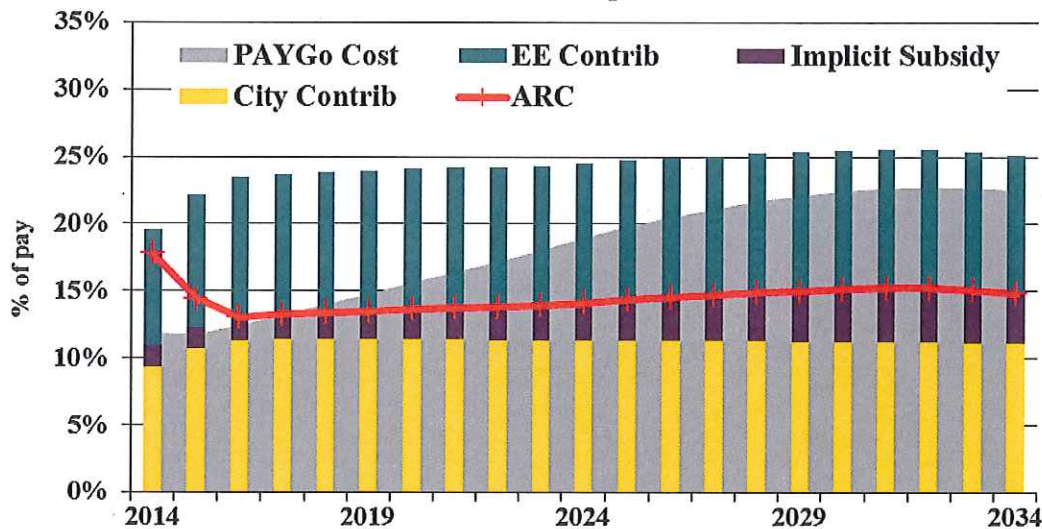
SECTION I
 BOARD SUMMARY

Assets and Liabilities



The chart above shows the actuarial liability (gray bars) on a GASB basis increasing from about \$0.7 billion to about \$1.4 billion over the next 20 years. The green line shows assets increasing from \$75 million to almost \$1.0 billion over the same period. The labels on top of the gray bars show the funded status increasing from 11% to 70% over the 20-year projection. The red line shows the Net OPEB Obligation (NOO) increasing from \$239 million to about \$284 million after 10 years before declining to \$220 million after 20 years.

Plan Funding



The second chart shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs as a percentage of pay. Benefit payments are shown by the gray area and increase from 12% to 23% of projected payroll. The yellow bars represent the City's

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**SECTION I
BOARD SUMMARY**

contributions. The City's contribution is expected to grow to approximately 11.40% of pay in FYE 2017 ignoring the 11% cap in the bargaining agreement. It is then expected to remain relatively level as a percentage of payroll over the remainder of the projection period. In addition, the City contributes an amount equal to the implicit subsidy for each year as shown by the purple bars. Similarly, employee contributions are expected to grow to approximately 10.50% of pay in FYE 2017 ignoring the 10% cap in the bargaining agreement and then remain relatively level for the remainder of the projection period. The ARC, shown by the red line, is expected to decrease to approximately 13% of pay by FYE 2016 before gradually increasing as the annual implicit subsidy is expected to increase through the end of the projection period.

The table below shows the expected net benefit payments for the next 21 years. The payments are separated into the explicit subsidy payments (health and dental premium payments) on which the contributions are based and the implicit subsidy payments, which are only included in the GASB calculations and disclosures.

| Fiscal Year Ending June 30 | Explicit Medical | Dental | Total Explicit Subsidy | Implicit Subsidy | Total Expected Payments |
|----------------------------------|---------------------|--------------|---------------------------|---------------------|-------------------------------|
| 2014 | \$ 17,145,204 | \$ 1,941,976 | \$ 19,087,180 | \$ 2,863,280 | \$ 21,950,460 |
| 2015 | 16,966,898 | 2,033,233 | 19,000,131 | 3,101,372 | 22,101,503 |
| 2016 | 18,524,178 | 2,142,091 | 20,666,269 | 3,268,744 | 23,935,013 |
| 2017 | 20,310,919 | 2,270,840 | 22,581,759 | 3,677,362 | 26,259,121 |
| 2018 | 22,327,039 | 2,416,969 | 24,744,008 | 4,100,465 | 28,844,473 |
| 2019 | 24,463,455 | 2,572,996 | 27,036,451 | 4,418,147 | 31,454,598 |
| 2020 | 26,702,897 | 2,735,312 | 29,438,209 | 5,021,497 | 34,459,706 |
| 2021 | 29,049,259 | 2,905,912 | 31,955,171 | 5,477,294 | 37,432,465 |
| 2022 | 31,658,259 | 3,096,809 | 34,755,068 | 5,796,004 | 40,551,072 |
| 2023 | 34,464,135 | 3,305,206 | 37,769,341 | 6,294,403 | 44,063,744 |
| 2024 | 37,418,955 | 3,520,098 | 40,939,053 | 7,018,031 | 47,957,084 |
| 2025 | 40,239,640 | 3,727,613 | 43,967,253 | 7,908,131 | 51,875,384 |
| 2026 | 42,931,558 | 3,928,171 | 46,859,729 | 8,658,658 | 55,518,387 |
| 2027 | 45,608,193 | 4,131,791 | 49,739,984 | 9,478,485 | 59,218,469 |
| 2028 | 48,188,512 | 4,330,001 | 52,518,513 | 10,464,308 | 62,982,821 |
| 2029 | 50,639,294 | 4,524,097 | 55,163,391 | 11,205,639 | 66,369,030 |
| 2030 | 52,955,062 | 4,708,707 | 57,663,769 | 12,106,081 | 69,769,850 |
| 2031 | 55,151,006 | 4,881,903 | 60,032,909 | 12,860,205 | 72,893,114 |
| 2032 | 57,286,914 | 5,048,383 | 62,335,297 | 13,468,671 | 75,803,968 |
| 2033 | 59,463,088 | 5,216,258 | 64,679,346 | 13,488,870 | 78,168,216 |
| 2034 | 61,736,604 | 5,391,978 | 67,128,582 | 13,236,695 | 80,365,277 |

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**SECTION I
BOARD SUMMARY**

In this valuation, the amount of the estimated implicit subsidy increased from \$172,014 for the fiscal year ending June 30, 2013 to \$2,863,280 for the fiscal year ending June 30, 2014, primarily due to the change to four-tiered premiums.

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 POSTEMPLOYMENT HEALTHCARE PLAN
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**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 8.7%, resulting in an actuarial gain of approximately \$1.0 million.

| Table II-1 | | |
|---------------------------------|------------------|------------------|
| Market Value of Assets | | |
| Year Ending | 6/30/2013 | 6/30/2012 |
| Market Value, Beginning of Year | \$ 62,978,197 | \$ 59,669,283 |
| Contributions | | |
| Member | 13,497,706 | 11,473,635 |
| City | 15,635,412 | 16,454,985 |
| Implicit Subsidy | 172,014 | 4,750,160 |
| Total | \$ 29,305,132 | \$ 32,678,780 |
| Net Investment Earnings | 6,367,119 | (891,129) |
| Benefit Payments | | |
| Premium Payments | 23,762,478 | 23,728,577 |
| Implicit Subsidy | 172,014 | 4,750,160 |
| Total | \$ 23,934,492 | \$ 28,478,737 |
| Market Value, End of Year | \$ 74,715,956 | \$ 62,978,197 |

Actuarial Value of Assets

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smooths 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 in 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.

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**SECTION II
ASSETS**

| Table II-2 Development of Actuarial Value of Assets | | | |
|--|-----------------|------------------|------------------|
| | | | Total |
| Market Value of Assets at 6/30/2013 | | | \$ 74,715,956 |
| Investment Return Assumption for Year Ending 6/30/2013 | | | 7.25% |
| Expected Investment Earnings | | | 5,333,899 |
| Actual Investment Earnings | | | <u>6,367,119</u> |
| Investment Gain or (Loss) | | | \$ 1,033,220 |
| Deferred Gains / (Losses) | Initial Balance | Percent Deferred | |
| Current Year | 1,033,220 | 80% | 826,576 |
| Prior Year | (6,149,197) | 60% | (3,689,518) |
| 2nd Prior Year | 4,667,350 | 40% | 1,866,940 |
| 3rd Prior Year | 3,384,603 | 20% | <u>676,921</u> |
| Total | | | \$ (319,081) |
| Preliminary Actuarial Value of Assets | | | \$ 75,035,037 |
| Minimum Actuarial Value of Assets (80% of Market Value) | | | 59,772,765 |
| Maximum Actuarial Value of Assets (120% of Market Value) | | | 89,659,147 |
| Actuarial Value of Assets | | | \$ 75,035,037 |
| Ratio of AVA / MVA | | | 100.4% |

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.

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**SECTION II
ASSETS**

| Table II-3 | | | |
|---|----------------|---------------|---------------|
| Market Value of Assets – Police Department | | | |
| | Medical | Dental | Total |
| Market Value, 6/30/2012 | \$ 42,884,864 | \$ 4,357,278 | \$ 47,242,142 |
| Contributions | | | |
| Member | 8,649,317 | 394,146 | 9,043,463 |
| City | 9,656,777 | 1,295,719 | 10,952,496 |
| Implicit Subsidy | 121,246 | 0 | 121,246 |
| Total | \$ 18,427,340 | \$ 1,689,865 | \$ 20,117,205 |
| Net Investment Earnings | 4,400,288 | 446,033 | 4,846,321 |
| Benefit Payments | | | |
| Premium Payments | (12,997,399) | (1,500,822) | (14,498,221) |
| Implicit Subsidy | (121,246) | 0 | (121,246) |
| Total | \$ 13,118,645 | \$ 1,500,822 | \$ 14,619,467 |
| Market Value, 6/30/2013 | \$ 52,593,847 | \$ 4,992,354 | \$ 57,586,201 |
| Ratio of AVA / MVA | 100.4% | 100.4% | 100.4% |
| Actuarial Value of Assets | \$ 52,818,453 | \$ 5,013,675 | \$ 57,832,128 |

| Table II-4 | | | |
|---|----------------|---------------|---------------|
| Market Value of Assets – Fire Department | | | |
| | Medical | Dental | Total |
| Market Value, 6/30/2012 | \$ 14,482,914 | \$ 1,253,141 | \$ 15,736,055 |
| Contributions | | | |
| Member | 4,264,701 | 189,542 | 4,454,243 |
| City | 4,114,289 | 568,627 | 4,682,916 |
| Implicit Subsidy | 50,768 | 0 | 50,768 |
| Total | \$ 8,429,758 | \$ 758,169 | \$ 9,187,927 |
| Net Investment Earnings | 1,401,786 | 119,012 | 1,520,798 |
| Benefit Payments | | | |
| Premium Payments | (8,242,618) | (1,021,639) | (9,264,257) |
| Implicit Subsidy | (50,768) | 0 | (50,768) |
| Total | \$ 8,293,386 | \$ 1,021,639 | \$ 9,315,025 |
| Market Value, 6/30/2013 | \$ 16,021,072 | \$ 1,108,683 | \$ 17,129,755 |
| Ratio of AVA / MVA | 100.4% | 100.4% | 100.4% |
| Actuarial Value of Assets | \$ 16,089,492 | \$ 1,113,417 | \$ 17,202,909 |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

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, 2015. 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 was completed as part of the last valuation 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. We interpret the language of the bargaining agreement to apply these limits to annual changes in contribution rates indefinitely.

Furthermore, the bargaining agreement states that 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. We have not limited contribution rates to these caps in this valuation. We expect the bargaining parties to address how the contribution rates for Police that exceed these amounts are to be handled.

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 7.125%.

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**SECTION III
FUNDING VALUATION RESULTS**

| Table III-1 | | | |
|---|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability – Police Department | | | |
| Funding Basis | | | |
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 183,584,160 | \$ 18,336,538 | \$ 201,920,698 |
| Term Vested Members | 1,058,882 | 83,143 | 1,142,025 |
| Active Employees | <u>174,059,813</u> | <u>14,719,208</u> | <u>188,779,021</u> |
| Total | \$ 358,702,855 | \$ 33,138,889 | \$ 391,841,744 |
| Present Value of Future Normal Costs | <u>58,523,387</u> | <u>4,945,002</u> | <u>63,468,389</u> |
| Actuarial Liability | \$ 300,179,468 | \$ 28,193,887 | \$ 328,373,355 |
| Actuarial Value of Assets | <u>52,818,453</u> | <u>5,013,675</u> | <u>57,832,128</u> |
| Unfunded Actuarial Liability | \$ 247,361,015 | \$ 23,180,212 | \$ 270,541,227 |

| Table III-2 | | | |
|---|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability – Fire Department | | | |
| Funding Basis | | | |
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 107,564,578 | \$ 10,891,314 | \$ 118,455,892 |
| Term Vested Members | 253,659 | 20,442 | 274,101 |
| Active Employees | <u>107,261,089</u> | <u>9,020,853</u> | <u>116,281,942</u> |
| Total | \$ 215,079,326 | \$ 19,932,609 | \$ 235,011,935 |
| Present Value of Future Normal Costs | <u>47,416,609</u> | <u>3,969,339</u> | <u>51,385,948</u> |
| Actuarial Liability | \$ 167,662,717 | \$ 15,963,270 | \$ 183,625,987 |
| Actuarial Value of Assets | <u>16,089,492</u> | <u>1,113,417</u> | <u>17,202,909</u> |
| Unfunded Actuarial Liability | \$ 151,573,225 | \$ 14,849,853 | \$ 166,423,078 |

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, 2013 is amortized over a period of 25 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, 2013 is amortized over a period of 27 years. The following table shows the amortization schedule as of June 30, 2013.

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FUNDING VALUATION RESULTS**

| Table III-3 | | | | |
|--|-------------------------|----------------------------|-----------------------------|--------------------------|
| Amortization Schedule – Funding Basis | | | | |
| Amortization Base | Remaining Period | Outstanding Balance | Amortization Payment | Amortization Rate |
| Police Department - Medical | 25 | \$ 247,361,015 | \$ 16,081,766 | 14.36% |
| Police Department - Dental | 25 | 23,180,212 | 1,507,023 | 1.35% |
| Fire Department - Medical | 27 | 151,573,225 | 9,396,167 | 12.31% |
| Fire Department - Dental | 27 | 14,849,853 | 920,556 | 1.21% |

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 2014-15 fiscal year.

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 | \$ 6,417,396 | \$ 104,080,171 | 6.17% |
| Police Department - Dental | 551,297 | 104,080,171 | 0.53% |
| Fire Department - Medical | 4,260,481 | 71,328,985 | 5.97% |
| Fire Department - Dental | 361,818 | 71,328,985 | 0.51% |

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

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**SECTION III
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| Table III-5 | | | | |
|---|-----------------|---------------|---------------|-----------------|
| Preliminary Contribution Rates – Funding Basis | | | | |
| | FYE 2015 | | | FYE 2014 |
| | Medical | Dental | Total | Total |
| Police Department | | | | |
| Normal Cost | 6.17% | 0.53% | 6.70% | 8.34% |
| Amortization Payment | <u>14.36%</u> | <u>1.35%</u> | <u>15.71%</u> | <u>18.34%</u> |
| Total | 20.53% | 1.88% | 22.41% | 26.69% |
| Contribution Allocation without Annual Caps | | | | |
| Member | 10.27% | 0.47% | 10.74% | 12.74% |
| City | <u>10.26%</u> | <u>1.41%</u> | <u>11.67%</u> | <u>13.95%</u> |
| Total | 20.53% | 1.88% | 22.41% | 26.69% |
| Fire Department | | | | |
| Normal Cost | 5.97% | 0.51% | 6.48% | 7.69% |
| Amortization Payment | <u>12.31%</u> | <u>1.21%</u> | <u>13.52%</u> | <u>17.04%</u> |
| Total | 18.28% | 1.72% | 20.00% | 24.73% |
| Contribution Allocation without Phase-In or Annual Caps | | | | |
| Member | 9.14% | 0.43% | 9.57% | 11.79% |
| City | <u>9.14%</u> | <u>1.29%</u> | <u>10.43%</u> | <u>12.94%</u> |
| Total | 18.28% | 1.72% | 20.00% | 24.73% |

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 on the following page develops these contribution rates for the Fire Department.

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**SECTION III
FUNDING VALUATION RESULTS**

| Table III-6 | | | |
|--|----------------|---------------|----------------|
| Fire Contribution Rates – Old Funding Basis | | | |
| 10-Year Projected Cash Flows | | | |
| Fiscal Year Ending | Medical | Dental | Payroll |
| 2014 | \$ 6,844,339 | \$ 783,337 | \$ 74,861,955 |
| 2015 | 6,741,205 | 813,779 | 76,359,194 |
| 2016 | 7,299,214 | 850,375 | 77,886,378 |
| 2017 | 7,912,056 | 891,209 | 80,612,401 |
| 2018 | 8,592,327 | 937,020 | 83,433,835 |
| 2019 | 9,298,029 | 984,912 | 86,354,019 |
| 2020 | 10,051,704 | 1,036,593 | 89,376,410 |
| 2021 | 10,846,827 | 1,092,065 | 92,504,585 |
| 2022 | 11,706,634 | 1,152,643 | 95,742,245 |
| 2023 | 12,634,211 | 1,218,915 | 99,093,224 |
| Present Value as of June 30, 2013 | \$ 63,719,430 | \$ 6,859,589 | \$ 607,694,669 |
| Development of Contribution Rate | | | |
| | Medical | Dental | Total |
| Actuarial Value of Assets | \$ 16,089,492 | \$ 1,113,417 | \$ 17,202,909 |
| Unfunded Actuarial Liability | 47,629,938 | 5,746,172 | 53,376,111 |
| Present Value of 10-Year Payroll | 607,694,669 | 607,694,669 | 607,694,669 |
| Total Contribution Rate | 7.84% | 0.95% | 8.78% |

The tables on the following page calculate the phased-in contribution rates and then apply the caps to those rates. The Fire Department is in the fourth 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. After applying the phase-in and the annual increase limits, the Fire Department contribution rates are below these caps, but the Police Department contribution rates exceed the caps.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

| Table III-7 | | | |
|---|----------------|---------------|---------------|
| Police Contribution Rates –Funding Basis | | | |
| Reflecting Annual Caps | | | |
| | Medical | Dental | Total |
| Calculated FYE 2015 Contribution Rate | | | |
| Member | 10.27% | 0.47% | 10.74% |
| City | <u>10.26%</u> | <u>1.41%</u> | <u>11.67%</u> |
| Total | 20.53% | 1.88% | 22.41% |
| 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% |
| Capped FYE 2015 Contribution Rates | | | |
| Member | 10.27% | 0.47% | 10.74% |
| City | <u>10.26%</u> | <u>1.40%</u> | <u>11.66%</u> |
| Total | 20.53% | 1.87% | 22.40% |

| Table III-8 | | | |
|---|----------------|---------------|--------------|
| Fire Contribution Rates –Funding Basis | | | |
| Reflecting Phase-In and Annual Caps | | | |
| | Medical | Dental | Total |
| Old Funding Basis | 7.84% | 0.95% | 8.78% |
| New Funding Basis | 18.28% | 1.72% | 20.00% |
| Percentage New | 80% | 80% | 80% |
| Phased-In FYE 2015 Contribution Rates | | | |
| Member | 8.10% | 0.39% | 8.49% |
| City | <u>8.09%</u> | <u>1.18%</u> | <u>9.27%</u> |
| Total | 16.19% | 1.57% | 17.76% |
| 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% |
| Capped FYE 2015 Contribution Rates | | | |
| Member | 8.10% | 0.39% | 8.49% |
| City | <u>8.09%</u> | <u>1.18%</u> | <u>9.27%</u> |
| Total | 16.19% | 1.57% | 17.76% |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

Effects of Changes

The tables below provide estimates of the major factors contributing to the change in actuarial liability and the change in contribution amounts before application of the phase-in and caps since the last valuation report. The liability and contribution amounts for medical and dental benefits have been combined in the reconciliation.

| Table III-9 | |
|--|--------------|
| Reconciliation of Actuarial Liability – Funding Basis | |
| Actuarial Liability as of June 30, 2012 | \$ 596,223 |
| Normal Cost | 14,895 |
| Benefit Payments | (23,934) |
| Interest | 42,904 |
| Expected Actuarial Liability, June 30, 2013 | \$ 630,088 |
| Actuarial Liability as of June 30, 2013 | 511,999 |
| Gain or (Loss) | \$ (118,089) |
| Changes due to: | |
| Demographic experience | \$ 4,674 |
| Change in claims cost assumptions | (35,943) |
| Change in trend assumptions | (25,325) |
| Plan changes effective 1/1/2014 | (78,663) |
| Change in funding assumptions | 8,299 |
| Change in discount rate | 8,871 |
| Total Changes | \$ (118,089) |

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION III
FUNDING VALUATION RESULTS**

| Table III-10 | | | |
|--|--------------------|---------------------|---------------|
| Effects of Changes - Contribution Amounts Without Phase-In/Caps | | | |
| | Normal Cost | Amortization | |
| | Rate | Payment | Total |
| Unadjusted FYE 2014 Contribution | \$ 15,219 | \$ 33,539 | \$ 48,759 |
| Expected FYE 2015 Contribution | \$ 15,752 | \$ 34,713 | \$ 50,465 |
| Calculated FYE 2015 Contribution | <u>12,451</u> | <u>27,916</u> | <u>40,366</u> |
| Net Change | \$ (3,301) | \$ (6,798) | \$ (10,099) |
| Changes due to: | | | |
| Demographic experience | \$ 564 | \$ 1,533 | \$ 2,097 |
| Change in claims cost assumptions | (953) | (2,328) | (3,281) |
| Change in trend assumptions | (790) | (1,640) | (2,430) |
| Plan changes effective 1/1/2014 | (2,128) | (5,094) | (7,222) |
| Change in funding assumptions | (374) | 537 | 164 |
| Change in discount rate | <u>380</u> | <u>193</u> | <u>573</u> |
| Total Changes | \$ (3,301) | \$ (6,798) | \$ (10,099) |

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2012 to June 30, 2013 as compared to the changes expected in the prior valuation.
- *Change in claims cost assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2013 and 2014 medical premium experience.
- *Change in trend assumptions* refers to the changes to assumed rates of increase in future healthcare claims and expenses.
- *Plan changes effective 1/1/2014* refers to the adoption of the four-tier rate structure effective January 1, 2014.
- *Change in funding assumptions* refers to the change in the demographic and wage inflation assumptions.
- *Change in discount rate* refers to the change in the discount rate from 7.25% to 7.125%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**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 2014, 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 FYE 2014 Contributions | |
| Member Contribution | \$15,950,231 |
| City Contribution | \$17,285,156 |
| Implicit Subsidy | \$2,863,280 |
| Total Contribution | \$36,098,667 |
| FYE 2014 Full ARC | |
| Normal Cost (Middle of Year) | \$14,119,186 |
| Amortization of UAL | \$28,339,924 |
| Total ARC | \$42,459,110 |
| Pay-as-you-go Costs | |
| Pay-as-you-go Cost | \$21,950,467 |
| Contribution in Excess of Pay-Go | \$14,148,200 |
| Full ARC in Excess of Pay-Go | \$20,508,643 |
| Weight to System Return | 68.987% |
| Expected Returns | |
| Expected Return on Plan Assets | 7.125% |
| Expected Return on City Assets | 3.500% |
| Blended Discount Rate | 6.000% |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**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. For GASB purposes, the implicit subsidy is included as part of the liability.

| Table IV-2 | | | | |
|--|-----------------------|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability (UAL) – GASB Basis | | | | |
| | Medical | | Dental | Total |
| | Implicit | Explicit | | |
| Present Value of Future Benefits | | | | |
| Retirees and Beneficiaries | \$ 52,982,820 | \$ 333,722,201 | \$ 33,232,703 | \$ 420,232,285 |
| Term Vested Members | 294,561 | 1,638,187 | 128,572 | 1,766,759 |
| Active Employees | <u>69,591,828</u> | <u>370,494,664</u> | <u>31,085,839</u> | <u>471,172,331</u> |
| Total | \$ 122,869,209 | \$ 705,855,052 | \$ 64,447,114 | \$ 893,171,375 |
| Present Value of Future Normal Costs | <u>25,959,330</u> | <u>153,832,757</u> | <u>12,853,829</u> | <u>192,645,916</u> |
| Actuarial Liability | \$ 96,909,879 | \$ 552,022,295 | \$ 51,593,285 | \$ 700,525,459 |
| Actuarial Value of Assets | <u>10,408,573</u> | <u>59,110,803</u> | <u>5,515,662</u> | <u>75,035,037</u> |
| Unfunded Actuarial Liability | \$ 86,501,306 | \$ 492,911,492 | \$ 46,077,623 | \$ 625,490,422 |

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, 2014 is developed using a blended discount rate of 6.00%. The prior year's calculation is shown for comparison.

| Table IV-3 | | |
|---------------------------|----------------------|----------------------|
| GASB ARC | | |
| Fiscal Year Ending | 6/30/2014 | 6/30/2013 |
| Discount Rate | 6.00% | 4.40% |
| Total Normal Cost | \$ 19,043,996 | \$ 33,961,961 |
| UAL Amortization | <u>29,704,653</u> | <u>35,846,961</u> |
| Total Cost | \$ 48,748,649 | \$ 69,808,922 |
| Employee Contributions | <u>15,950,231</u> | <u>13,984,443</u> |
| Total ARC | \$ 32,798,418 | \$ 55,824,479 |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**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.

| Table IV-4 Reconciliation of Actuarial Liability – GASB Basis | |
|--|---------------------|
| Actuarial Liability as of June 30, 2012 | \$ 997,321 |
| Normal Cost | 33,962 |
| Benefit Payments | (23,934) |
| Interest | 44,100 |
| Expected Actuarial Liability, June 30, 2013 | \$ 1,051,449 |
| Actuarial Liability as of June 30, 2013 | 700,525 |
| Gain or (Loss) | \$ (350,923) |
| Changes due to: | |
| Demographic experience | \$ 4,536 |
| Change in claims cost assumptions | (102,585) |
| Change in trend assumption | (39,179) |
| Plan changes effective 1/1/2014 | (31,783) |
| Change in demographic assumptions and wage inflation | 13,251 |
| Change in discount rate | (195,163) |
| Total Changes | \$ (350,923) |

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2012 to June 30, 2013 as compared to the changes expected in the prior valuation.
- *Change in claims cost assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2013 and 2014 medical premium experience.
- *Change in trend assumptions* refers to the changes to assumed rates of increase in future healthcare claims and expenses. *Plan changes effective 1/1/2014* refers to the adoption of the four-tier rate structure effective January 1, 2014.
- *Change in funding assumption* refers to the change in the demographic and wage inflation assumptions.
- *Change in Discount Rate* refers to the change in the discount rate from 4.40% to 6.00%.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V
SENSITIVITY OF RESULTS

The measure of liability 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 Healthcare Trend Rates - Unfunded Actuarial Liability (GASB basis) | | | |
| Health Care Trend Rate | -1% | Base | +1% |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 373,825 | \$ 420,232 | \$ 475,497 |
| Term Vested Members | 1,707 | 1,767 | 2,510 |
| Active Employees | 370,492 | 471,172 | 606,315 |
| Total | \$ 746,024 | \$ 893,171 | \$ 1,084,322 |
| Present Value of Future Normal Costs | | | |
| | 147,318 | 192,646 | 255,049 |
| Actuarial Liability | \$ 598,706 | \$ 700,525 | \$ 829,273 |
| Actuarial Value of Assets | 75,035 | 75,035 | 75,035 |
| UAL | \$ 523,671 | \$ 625,490 | \$ 754,238 |

Dollar amounts in thousands

| Table V-2 | | | |
|--|------------------|------------------|------------------|
| Sensitivity to Healthcare Trend Rates - GASB ARC for FYE 2014 | | | |
| Health Care Trend Rate | -1% | Base | +1% |
| Total Normal Cost | \$ 14,250 | \$ 19,044 | \$ 23,259 |
| UAL Amortization | 24,869 | 29,705 | 35,819 |
| Total Cost | \$ 39,120 | \$ 48,749 | \$ 59,078 |
| Employee Contributions | 15,950 | 15,950 | 15,950 |
| Total ARC | \$ 23,169 | \$ 32,798 | \$ 43,127 |

Dollar amounts in thousands

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT 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

Table VI-1 below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2013 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2014.

| Table VI-1 | | |
|--|-----------------------|-----------------------|
| Development of Net OPEB Obligation | | |
| (dollars in thousands) | | |
| | Projected | |
| | 6/30/2014 | 6/30/2013 |
| 1. Net OPEB Obligation, beginning of year | \$ 239,213,166 | \$ 198,107,778 |
| 2. Annual Required Contribution | \$ 32,798,418 | \$ 55,824,479 |
| 3. Interest on Net OPEB Obligation | 14,352,790 | 8,716,742 |
| 4. Adjustment to Annual Required Contribution | (11,360,277) | (7,628,408) |
| 5. Annual OPEB Cost (2.) + (3.) - (4.) | \$ 35,790,932 | \$ 56,912,814 |
| 6. Employer Contributions | 17,393,205 | 15,635,412 |
| 7. Implicit Rate Subsidy | 2,863,280 | 172,014 |
| 8. Net OPEB Obligation, end of year | \$ 254,747,612 | \$ 239,213,166 |
| <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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2013

**SECTION VI
ACCOUNTING DISCLOSURES**

| Table VI-2 Solvency Test (dollars in thousands) | | | | | | |
|---|---|------------|----------------|-----------------|--|-----|
| Actuarial Liability | | | | | | |
| Actuarial Valuation Date | Retirees, Beneficiaries and Other Inactives | | Active Members | Reported Assets | Portion of Liability Covered by Reported Assets | |
| | (A) | (B) | | | (A) | (B) |
| 6/30/2013 | \$ 421,999 | \$ 278,526 | \$ - | 0% | 0% | 0% |
| 6/30/2012 | 600,869 | 396,452 | - | 0% | 0% | 0% |
| 6/30/2011 | 622,691 | 381,104 | 60,709 | 10% | 0% | 0% |
| 6/30/2010 | 568,611 | 377,697 | 58,586 | 10% | 0% | 0% |
| 6/30/2009 | 436,249 | 325,355 | 55,618 | 13% | 0% | 0% |
| 6/30/2007 | 336,899 | 329,328 | 45,393 | 13% | 0% | 0% |
| 6/30/2006 | 422,457 | 428,761 | 38,381 | 9% | 0% | 0% |

| Table VI-3 Analysis of Financial Experience | | |
|---|--------------------------------|------------------|
| Type of Activity | Gain or (Loss) for Year Ending | |
| | 6/30/2013 | 6/30/2012 |
| Investment Income | \$ 2,437 | \$ (6,011) |
| Liability Experience | (4,536) | 4,760 |
| Gain or (Loss) During Year from Financial Experience | \$ (2,099) | \$ (1,251) |
| Non-Recurring Gain or (Loss) Items | 258,939 | 58,173 |
| Composite Gain or (Loss) During Year | \$ 256,840 | \$ 56,922 |

Dollar amounts in thousands

Schedule of Funding Progress

The schedule of funding progress compares the assets used for funding purposes to the actuarial liability 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 JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION VI
ACCOUNTING DISCLOSURES**

**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) |
|--------------------------|----------------------------------|----------------------------|---|-----------------------|-------------------------------|--|
| 6/30/2013 | \$ 75,035 | \$ 700,525 | \$ 625,490 | 11% | \$ 184,645 | 339% |
| 6/30/2012 | 66,385 | 997,321 | 930,936 | 7% | 187,959 | 495% |
| 6/30/2011 | 60,709 | 1,003,795 | 943,086 | 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 |
|--------------------|------------------------|-------------------------------------|-------------------------------|---------------------|
| 2014 | \$ 35,791 | To Be Determined | To Be Determined | To Be Determined |
| 2013 | 56,913 | \$ 15,807 | 28% | \$ 239,213 |
| 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

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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**SECTION VI
ACCOUNTING DISCLOSURES**

| Table VI-6 | | | | | |
|--|---|--|-----------------------------|--------------------------------|--|
| Schedule of Employer Contributions - Plan | | | | | |
| Fiscal Year Ending | Annual Required Contribution (ARC) | City Contributions to Trust | Implicit Subsidy | Total Contributions | Percentage of ARC Contributed |
| 2014 | \$ 32,798 | | <== To Be Determined ==> | | |
| 2013 | 55,824 | \$ 15,635 | \$ 172 | \$ 15,807 | 28% |
| 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-7 | |
|---|------------------------------|
| 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, 2013 |
| 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 | 6.00% |
| Ultimate Rate of Medical Inflation | 4.25% |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data:

| Valuation Date | June 30, 2013 | June 30, 2012 | % Change |
|---|---------------|---------------|----------|
| Active Employees | | | |
| Count | 1,707 | 1,718 | -0.64% |
| Average Age | 41.6 | 41.5 | 0.24% |
| Average Service | 13.6 | 13.6 | 0.00% |
| Total Payroll | \$184,645,250 | \$172,625,503 | 6.96% |
| Retirees and Spouses with Medical Coverage | | | |
| Pre-65 | 1,779 | 1,802 | -1.28% |
| Post 65 | 1,388 | 1,310 | 5.95% |
| Total | 3,167 | 3,112 | 1.77% |
| Retirees with Dental Coverage | | | |
| | 1,890 | 1,852 | 2.05% |
| Term Vested Members* | 11 | 5 | 120.00% |

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

Active Member Data as of June 30, 2013:

| Age Group | Eligible Active Employees | | | | | | | Total |
|--------------|---------------------------|------------|------------|------------|------------|-----------|----------|--------------|
| | Years of Service | | | | | | | |
| | < 5 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30 + | |
| Under 25 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 15 |
| 25 to 29 | 61 | 35 | 0 | 0 | 0 | 0 | 0 | 96 |
| 30 to 34 | 90 | 122 | 27 | 0 | 0 | 0 | 0 | 239 |
| 35 to 39 | 32 | 87 | 139 | 25 | 0 | 0 | 0 | 283 |
| 40 to 44 | 17 | 43 | 139 | 238 | 26 | 0 | 0 | 463 |
| 45 to 49 | 1 | 10 | 52 | 161 | 172 | 24 | 0 | 420 |
| 50 to 54 | 1 | 1 | 6 | 51 | 91 | 15 | 2 | 167 |
| 55 to 59 | 0 | 0 | 2 | 8 | 9 | 3 | 0 | 22 |
| 60 to 64 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 2 |
| 65 and up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 217 | 298 | 366 | 483 | 298 | 42 | 3 | 1,707 |

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

Inactive Member Data as of June 30, 2013:

| Retirees, Disabled Retirees and Surviving Spouses | | | | | | |
|--|---------------------------------|----------------|--------------|--------------------------------|----------------|--------------|
| Age Group | <u>Medical Insurance</u> | | | <u>Dental Insurance</u> | | |
| | Males | Females | Total | Males | Females | Total |
| Under 50 | 51 | 16 | 67 | 51 | 17 | 68 |
| 50 to 54 | 148 | 34 | 182 | 151 | 35 | 186 |
| 55 to 59 | 287 | 23 | 310 | 293 | 26 | 319 |
| 60 to 64 | 306 | 27 | 333 | 312 | 27 | 339 |
| 65 to 69 | 344 | 39 | 383 | 358 | 43 | 401 |
| 70 to 74 | 233 | 30 | 263 | 236 | 31 | 267 |
| 75 to 79 | 126 | 33 | 159 | 133 | 38 | 171 |
| 80 to 84 | 63 | 21 | 84 | 63 | 22 | 85 |
| 85 to 89 | 22 | 16 | 38 | 23 | 18 | 41 |
| <u>Over 90</u> | <u>6</u> | <u>7</u> | <u>13</u> | <u>6</u> | <u>7</u> | <u>13</u> |
| Total | 1,586 | 246 | 1,832 | 1,626 | 264 | 1,890 |

| Medical Plan Elections | | | |
|---------------------------------------|---|----------------|--------------|
| Medical Plan | Retirees & Surviving Spouses | Spouses | Total |
| Pre-Medicare Medical Plans | | | |
| Kaiser DHMO | 74 | 144 | 218 |
| Kaiser \$25 Copay | 378 | 310 | 688 |
| HMO \$45 Copay | 35 | 31 | 66 |
| HMO \$25 Copay | 212 | 181 | 393 |
| PPO / POS \$30 Copay | 14 | 9 | 23 |
| PPO / POS \$25 Copay | <u>178</u> | <u>90</u> | <u>268</u> |
| Total | 892 | 887 | 1,779 |
| Medical-Medicare Medical Plans | | | |
| Kaiser Senior Advantage | 342 | 161 | 503 |
| BS Medicare HMO | 78 | 31 | 109 |
| BS Medicare PPO/POS | 487 | 242 | 729 |
| UHC Medicare Advantage | 9 | 1 | 10 |
| UHC Senior Supplement | <u>24</u> | <u>13</u> | <u>37</u> |
| Total | 940 | 448 | 1,388 |

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

| Current Vested Terminations* | | | |
|------------------------------|----------|----------|-----------|
| Age Group | Male | Female | Total |
| Under 45 | 1 | 0 | 1 |
| 45 to 49 | 6 | 2 | 8 |
| 50 to 54 | 1 | 1 | 2 |
| 55 to 59 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 |
| Over 65 | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 8 | 3 | 11 |

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

| | Status Reconciliation | | | | | Total |
|--------------------------|-----------------------|------------|------------|------------|------------|--------------|
| | Active | Terminated | | Surviving | | |
| | | Vested | Retiree | Spouse | Disabled | |
| Beginning of Year | 1,718 | 5 | 830 | 196 | 826 | 3,575 |
| New Hires | 107 | | | | | 107 |
| Rehires | 3 | | | | | 3 |
| Non-vested terminations | (60) | | | | | (60) |
| Vested Terminations | (6) | 6 | | | | 0 |
| Service Retirements | (32) | (3) | 35 | | | 0 |
| Disabled Retirements | (23) | | (20) | | 43 | 0 |
| Death | | | (5) | (6) | (22) | (33) |
| New Survivors | | | | 13 | | 13 |
| No longer covered | | | | | | 0 |
| Data corrections | | 3 | 1 | (3) | 2 | 3 |
| End of Year | 1,707 | 11 | 841 | 200 | 849 | 3,608 |

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

Economic Assumptions:

1. **Expected Return on Plan Assets:** 7.125% per year
2. **Expected Return on Employer Assets:** 3.50% per year
3. **Blended Discount Rate:** 6.00% per year
4. **Per Person Cost Trends:**

| To Calendar Year | Pre- Medicare | Annual Increase | | Part B Premiums |
|---------------------|------------------|----------------------|--------|--------------------|
| | | Medicare Eligible | Dental | |
| 2014 | 8.50% | 6.50% | 4.00% | 0.00% |
| 2015 | 8.20 | 6.34 | 4.00 | 5.53 |
| 2016 | 7.89 | 6.18 | 4.00 | 4.25 |
| 2017 | 7.59 | 6.02 | 4.00 | 4.77 |
| 2018 | 7.29 | 5.86 | 4.00 | 5.38 |
| 2019 | 6.98 | 5.70 | 4.00 | 5.49 |
| 2020 | 6.68 | 5.54 | 4.00 | 5.51 |
| 2021 | 6.38 | 5.38 | 4.00 | 5.78 |
| 2022 | 6.07 | 5.21 | 4.00 | 7.00 |
| 2023 | 5.77 | 5.05 | 4.00 | 6.81 |
| 2024 | 5.46 | 4.89 | 4.00 | 6.69 |
| 2025 | 5.16 | 4.73 | 4.00 | 6.58 |
| 2026 | 4.86 | 4.57 | 4.00 | 6.47 |
| 2027 | 4.55 | 4.41 | 4.00 | 6.36 |
| 2028 | 4.25 | 4.25 | 4.00 | 6.25 |
| 2029 | 4.25 | 4.25 | 4.00 | 6.13 |
| 2030 | 4.25 | 4.25 | 4.00 | 6.02 |
| 2031 | 4.25 | 4.25 | 4.00 | 5.91 |
| 2032 | 4.25 | 4.25 | 4.00 | 5.80 |
| 2033 | 4.25 | 4.25 | 4.00 | 5.68 |
| 2034 | 4.25 | 4.25 | 4.00 | 5.57 |
| 2035 | 4.25 | 4.25 | 4.00 | 5.46 |
| 2036 | 4.25 | 4.25 | 4.00 | 5.35 |
| 2037+ | 4.25 | 4.25 | 4.00 | 4.10 |

Actual premium increases for 2014 were reflected with the above rates applying after. 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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**APPENDIX A
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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 |
| | Tier 1 | Tier 2 <30 Years | Tier 2 30+ Years | |
| 50 | 45.00% | 30.00% | 50.00% | 27.50% |
| 51 – 54 | 35.00 | 30.00 | 50.00 | 22.50 |
| 55 - 59 | 35.00 | 30.00 | 50.00 | 22.50 |
| 60 - 61 | 50.00 | 50.00 | 100.00 | 22.50 |
| 62 - 69 | 100.00 | 50.00 | 100.00 | 100.00 |
| 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 | Police | Fire |
| 0 | 9.50% | 9.50% |
| 1 | 8.00 | 7.00 |
| 2 | 6.50 | 4.50 |
| 3 | 5.50 | 2.00 |
| 4 | 4.50 | 1.30 |
| 5 | 3.50 | 1.10 |
| 6 | 2.50 | 1.00 |
| 7 | 2.00 | 0.90 |
| 8 | 1.50 | 0.80 |
| 9 | 1.30 | 0.70 |
| 10 | 1.00 | 0.60 |
| 11+ | 1.00 | 0.50 |

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

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APPENDIX A
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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 for active participants 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 | 0.32 | 0.20 |
| 40 | 0.52 | 0.31 |
| 45 | 0.84 | 0.51 |
| 50 | 1.96 | 2.50 |
| 55 | 6.44 | 6.50 |
| 60 | 8.04 | 12.70 |
| 65 | 8.50 | 19.00 |

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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, 2016 (2% for the fiscal years ending June 30, 2014 and 2015). 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 | 9.25% |
| 1 | 7.55 |
| 2 | 6.75 |
| 3 | 5.75 |
| 4 | 5.00 |
| 5 | 4.25 |
| 6 | 3.75 |
| 7 | 3.25 |
| 8 | 2.75 |
| 9 | 2.25 |
| 10+ | 2.00 |

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 2013 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 | | | |
|--|------------|--|------------|
| | % Electing | | % Electing |
| Pre-Medicare Medical Plans | | Medicare-Eligible Medical Plans | |
| • Kaiser DHMO | 5% | • Kaiser Senior Advantage | 40% |
| • Kaiser \$25 Co-pay | 45% | • BS Medicare HMO | 7% |
| • HMO \$45 Co-pay | 5% | • BS Medicare PPO / POS | 50% |
| • HMO \$25 Co-pay | 20% | • UHC Medicare Advantage | 2% |
| • PPO / POS \$30 Co-pay | 5% | • UHC Senior Supplement | 1% |
| • PPO / POS \$25 Co-pay | 20% | Dental Plans (All Retirees) | |
| | | • Delta Dental PPO | 97% |
| | | • DeltaCare HMO | 3% |

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APPENDIX A
MEMBER DATA, ASSUMPTIONS AND METHODS

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.

Changes since Last Valuation

The expected return on plan assets was reduced from 7.25% to 7.125%. The blended discount rate was increased from 4.40% to 6.10%. Plan election rates were also updated based on recent plan enrollment data and updated plan options.

Trend assumptions were revised slightly, including a reduction in the ultimate rate of medical cost growth from 4.50% to 4.25%.

Wage Inflation for FYE 2014-2015, merit salary scale, retirement, termination and disability rates were changed following the experience study adopted by the City of San José Police and Fire Department Retirement Plan Board.

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APPENDIX A
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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 July 1, 2013 based on the premiums in effect on that date. 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.

The following tables show the claims costs for each medical plan as of the valuation date:

| <u>Sample Claims Costs - Non-Medicare Eligible</u> | | | | | | |
|--|--------------------|--------|---------------------------|--------|------------------------|--------|
| Age | <u>Kaiser DHMO</u> | | <u>Kaiser \$25 Co-Pay</u> | | <u>HMO \$45 Co-pay</u> | |
| | Male | Female | Male | Female | Male | Female |
| 40 | 2,526 | 4,490 | 3,256 | 5,787 | 2,972 | 5,282 |
| 45 | 3,163 | 4,754 | 4,077 | 6,127 | 3,721 | 5,592 |
| 50 | 4,190 | 5,638 | 5,400 | 7,266 | 4,929 | 6,632 |
| 55 | 5,506 | 6,719 | 7,096 | 8,659 | 6,477 | 7,904 |
| 60 | 7,156 | 8,021 | 9,223 | 10,337 | 8,418 | 9,435 |
| 64 | 9,244 | 9,910 | 11,913 | 12,772 | 10,874 | 11,658 |

| <u>Sample Claims Costs - Non-Medicare Eligible</u> | | | | | | |
|--|------------------------|--------|----------------------------|--------|----------------------------|--------|
| Age | <u>HMO \$25 Co-pay</u> | | <u>PPO/POS \$30 Co-pay</u> | | <u>PPO/POS \$25 Co-pay</u> | |
| | Male | Female | Male | Female | Male | Female |
| 40 | 3,626 | 6,446 | 3,395 | 6,035 | 3,777 | 6,714 |
| 45 | 4,541 | 6,824 | 4,252 | 6,389 | 4,730 | 7,108 |
| 50 | 6,014 | 8,093 | 5,631 | 7,577 | 6,265 | 8,430 |
| 55 | 7,903 | 9,644 | 7,400 | 9,030 | 8,233 | 10,047 |
| 60 | 10,272 | 11,513 | 9,618 | 10,780 | 10,700 | 11,993 |
| 64 | 13,268 | 14,225 | 12,423 | 13,319 | 13,822 | 14,818 |

| <u>Sample Claims Costs - Medicare Eligible</u> | | | | | | |
|--|--------------------------|--------|-------------------|--------|-----------------------|--------|
| Age | <u>Kaiser Senior Adv</u> | | <u>BS Med HMO</u> | | <u>BS Med PPO/POS</u> | |
| | Male | Female | Male | Female | Male | Female |
| 65 | 2,697 | 2,877 | 5,445 | 5,807 | 6,007 | 6,407 |
| 70 | 3,167 | 3,177 | 6,393 | 6,412 | 7,053 | 7,075 |
| 75 | 3,541 | 3,425 | 7,149 | 6,914 | 7,887 | 7,628 |
| 80 | 3,763 | 3,536 | 7,595 | 7,137 | 8,380 | 7,874 |
| 85 | 3,813 | 3,499 | 7,697 | 7,063 | 8,492 | 7,792 |

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| <u>Sample Claims Costs - Medicare Eligible</u> | | | | |
|--|--------------------|---------------|------------------------|---------------|
| <u>Age</u> | <u>UHC Med Adv</u> | | <u>UHC Senior Supp</u> | |
| | <u>Male</u> | <u>Female</u> | <u>Male</u> | <u>Female</u> |
| 65 | 4,378 | 4,669 | 5,007 | 5,340 |
| 70 | 5,141 | 5,156 | 5,879 | 5,897 |
| 75 | 5,748 | 5,560 | 6,574 | 6,358 |
| 80 | 6,108 | 5,739 | 6,985 | 6,563 |
| 85 | 6,189 | 5,679 | 7,078 | 6,495 |

| <u>Sample Claims Costs - Dental</u> | | | | |
|-------------------------------------|-------------------------|---------------|----------------------|---------------|
| <u>Age</u> | <u>Delta Dental PPO</u> | | <u>DeltaCare HMO</u> | |
| | <u>Male</u> | <u>Female</u> | <u>Male</u> | <u>Female</u> |
| All | 616 | 616 | 319 | 319 |

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. No retiree contributions are required for dental.

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Methodology:

The Entry Age Normal actuarial cost 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 2013, adjusted to reflect the actual premium increases for 2014. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2013 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. The impact of children was assumed to be de minimis. 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 claims costs process was modified slightly to reflect actual rates for the year following the valuation date.

**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Summary of Key Substantive Plan Provisions:

Eligibility:

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.

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.

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.

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.

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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

Premiums: Monthly premiums before adjustments for 2013 and 2014 are as follows.

| 2013 Monthly Premiums | | |
|--|---------------|---------------|
| | Single | Family |
| Medical | | |
| <u>Non-Medicare Monthly Rates</u> | | |
| Kaiser DHMO | \$457.70 | \$1,139.70 |
| Kaiser \$25 Co-pay | 583.80 | 1,453.70 |
| Blue Shield HMO \$45 Co-pay | 520.12 | 1,336.08 |
| Blue Shield HMO \$25 Co-pay | 623.56 | 1,601.82 |
| Blue Shield PPO or POS \$30 Co-pay | 587.86 | 1,510.74 |
| Blue Shield PPO or POS \$25 Co-pay | 755.20 | 1,940.82 |
| <u>Medicare-Eligible Monthly Rates</u> | | |
| Kaiser Senior Advantage | \$256.01 | \$512.02 |
| Blue Shield Medicare HMO | 503.42 | 1,006.86 |
| Blue Shield Medicare PPO / POS | 617.62 | 1,235.28 |
| UHC Medicare Advantage | 485.95 | 971.90 |
| UHC Senior Supplement | 501.78 | 1,003.56 |
| Dental | | |
| Delta Dental PPO | \$102.18 | \$102.18 |
| DeltaCare HMO | 46.84 | 46.84 |

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**APPENDIX B
SUBSTANTIVE PLAN PROVISIONS**

| 2014 Monthly Premiums | | |
|--|----------|----------|
| | Single | Emp/Sp |
| Medical | | |
| <u>Non-Medicare Monthly Rates</u> | | |
| Kaiser DHMO | \$471.12 | \$942.24 |
| Kaiser \$25 Co-pay | 575.34 | 1,150.68 |
| Blue Shield HMO \$45 Co-pay | 561.00 | 1,122.00 |
| Blue Shield HMO \$25 Co-pay | 630.50 | 1,261.00 |
| Blue Shield PPO or POS \$30 Co-pay | 625.10 | 1,250.20 |
| Blue Shield PPO or POS \$25 Co-pay | 764.60 | 1,529.20 |
| <u>Medicare-Eligible Monthly Rates</u> | | |
| Kaiser Senior Advantage | \$278.50 | \$557.00 |
| Blue Shield Medicare HMO | 530.86 | 1,061.74 |
| Blue Shield Medicare PPO / POS | 616.00 | 1,232.00 |
| UHC Medicare Advantage | 485.95 | 971.90 |
| UHC Senior Supplement | 501.78 | 1,003.56 |
| Dental | | |
| Delta Dental PPO | \$48.92 | \$107.62 |
| DeltaCare HMO | 27.16 | 54.30 |

Changes since Last Valuation:

The premium structure was changed from a 2-tier basis where premiums are set for single and family coverage to a 4-tier basis where premiums are set for single, member plus spouse, member plus child or children, and member plus spouse and children.

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Summary of 2013 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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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.

**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 POSTEMPLOYMENT HEALTHCARE 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)