

City of San José Police and Fire
Department Postemployment
Healthcare Plan



June 30, 2015 OPEB Actuarial Valuation Results

February 4, 2015

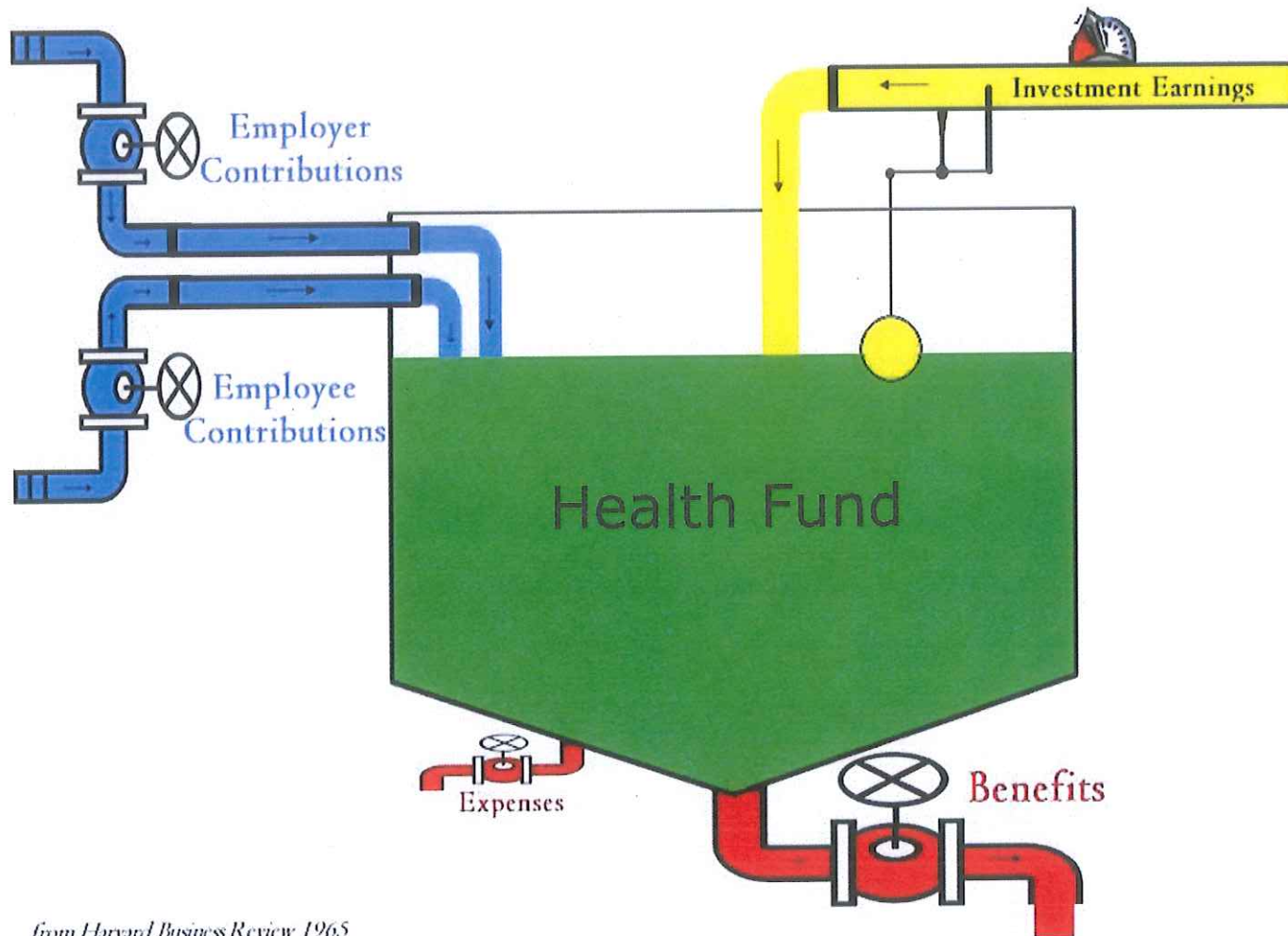
Bill Hallmark, ASA, EA, FCA, MAAA
Michael Schionning, FSA, MAAA

Agenda



- Introduction
- Key Results
- Assets
- Funding Valuation Results
- GASB Valuation Results
- Trends and Projections

Introduction



from Harvard Business Review 1965



- June 30, 2015 valuation results determine:
 - Contribution rates for FYE 2017
 - GASB reporting for FYE 2016
- Key drivers of changes since the last valuation include:
 - Investment losses
 - Experience gains
 - Demographic assumption changes
 - Health assumption changes

Key Valuation Results



Summary of Key Valuation Results Funding Valuation Basis¹

| Valuation Date | 6/30/2015 | 6/30/2014 |
|------------------------------------|-----------|-----------|
| Discount Rate | 7.000% | 7.00% |
| Actuarial Liability (AL) | 591,996 | 555,731 |
| Actuarial Value of Assets (AVA) | 114,565 | 93,605 |
| Unfunded Actuarial Liability (UAL) | 477,431 | 462,126 |
| AVA Funding Ratio | 19.4% | 16.8% |
| Market Value of Assets (MVA) | 109,627 | 97,645 |
| Unfunded Liability (MVA basis) | 482,369 | 458,086 |
| MVA Funded Ratio | 18.5% | 17.6% |
| Fiscal Year Ending | 6/30/2017 | 6/30/2016 |
| Member Contribution Rate | 9.60% | 9.60% |
| City Contribution Rate | 10.44% | 10.43% |
| City Contribution Amount (BOY) | 19,243 | 19,598 |

¹ Excludes implicit subsidy

Dollar amounts in thousands

Key Valuation Results



Summary of Key Valuation Results

GASB Valuation Basis

| Valuation Date | 6/30/2015 | 6/30/2014 |
|---|------------|------------|
| Discount Rate | 6.00% | 6.00% |
| Actuarial Liability (AL) | \$ 739,753 | \$ 706,709 |
| Actuarial Value of Assets (AVA) | 114,565 | 93,605 |
| Unfunded Actuarial Liability (UAL) | \$ 625,188 | \$ 613,105 |
| AVA Funding Ratio | 15.5% | 13.2% |
| Market Value of Assets (MVA) | \$ 109,627 | \$ 97,645 |
| Unfunded Liability (MVA basis) | 630,126 | 609,065 |
| MVA Funded Ratio | 14.8% | 13.8% |
| Fiscal Year Ending | 6/30/2016 | 6/30/2015 |
| City ARC | | |
| -- if paid as percent of pay | 17.70% | 17.69% |
| -- if paid as dollar amount (MOY) | \$ 32,694 | \$ 33,295 |
| Expected/Actual City Contribution ¹ | \$ 20,667 | \$ 22,960 |
| Expected/Actual Net Benefit Payments ¹ | \$ 23,295 | \$ 26,256 |

¹ Includes implicit subsidy

Dollar amounts in thousands

Assets



| | Market Value of Assets | | | | | FYE 2014 |
|---------------------------------|-------------------------|------------|-----------|------------|----|----------|
| | Fiscal Year Ending 2015 | | | | | |
| | 401(h) | Police 115 | Fire 115 | Total | | |
| Market Value, Beginning of Year | \$ 59,111 | \$ 26,570 | \$ 11,964 | \$ 97,645 | \$ | 74,716 |
| Contributions | | | | | | |
| Member | 17,017 | 0 | 0 | 17,017 | | 15,674 |
| City | 0 | 13,073 | 7,837 | 20,909 | | 17,267 |
| Implicit Subsidy | 0 | 1,104 | 946 | 2,050 | | 2,863 |
| Total | \$ 17,017 | \$ 14,177 | \$ 8,783 | \$ 39,976 | \$ | 35,804 |
| Net Investment Earnings | (579) | (778) | (380) | (1,738) | | 12,497 |
| Benefit Payments | | | | | | |
| Premium Payments | 24,205 | 0 | 0 | 24,205 | | 22,510 |
| Implicit Subsidy | 0 | 1,104 | 946 | 2,050 | | 2,863 |
| Total | \$ 24,205 | \$ 1,104 | \$ 946 | \$ 26,256 | \$ | 25,373 |
| Market Value, End of Year | \$ 51,343 | \$ 38,864 | \$ 19,420 | \$ 109,627 | \$ | 97,645 |
| Estimated Rate of Return | -1.0% | -2.0% | -1.9% | -1.5% | | 14.2% |

Dollar amounts in thousands

- Assets are maintained in two trusts: the 401(h) account in the pension plan and a 115 trust with separate sub-trusts for Police and Fire
- Assets within the 401(h) account are also tracked separately between Police and Fire

Assets



Development of Actuarial Value of Assets

| | FYE 2012 | FYE 2013 | FYE 2014 | FYE 2015 | June 30, 2015 |
|---|------------|----------|-----------|------------|---------------|
| Market Value of Assets | | | | | \$ 109,627 |
| Actual Earnings | \$ (891) | \$ 6,367 | \$ 12,497 | \$ (1,738) | |
| Expected Earnings | 5,258 | 5,334 | 6,314 | 8,051 | |
| Gain or (Loss) | (6,149) | 1,033 | 6,183 | (9,789) | |
| Deferred % | 20% | 40% | 60% | 80% | |
| Deferred Amount | \$ (1,230) | \$ 413 | \$ 3,710 | \$ (7,831) | \$ (4,938) |
| Preliminary Actuarial Value of Assets | | | | | \$ 114,565 |
| Minimum (80% of Market Value) | | | | | 87,702 |
| Maximum (120% of Market Value) | | | | | 131,552 |
| Actuarial Value of Assets | | | | | \$ 114,565 |
| Ratio of Actuarial to Market Value | | | | | 104.5% |
| Estimated Rate of Return on Actuarial Value | | | | | 6.5% |
| Actuarial Gain or (Loss) | | | | | \$ (528) |

Dollar amounts in thousands

- The return on the actuarial value of assets is slightly lower than the assumed return of 7.0%, resulting in a small actuarial loss

Funding Valuation Results



- OPEB Plan funding policy is based on negotiated contracts between the City and the Police and Fire unions
- Police and Fire contribution rates are based on:
 - 50/50 split of explicit medical subsidy and 75/25 split of dental subsidy
 - UAL amortized over closed period ending 6/30/2039 (Police) and 6/30/2041 (Fire)
 - City pays implicit medical subsidy on a pay-as-you-go basis
- Contribution Rate Caps
 - Transition from prior contribution methodology was completed in FYE 2014 for Police and FYE 2016 for Fire
 - Police contribution rates cannot exceed the FYE 2014 rates
 - 9.51% for Employees and 10.31% for the City (excluding implicit subsidy)
 - Fire contribution rates cannot exceed the FYE 2016 rates
 - 9.74% for Employees and 10.62% for the City (excluding implicit subsidy)

Funding Valuation Results



Unfunded Actuarial Liability – Police Department

Funding Basis

| | Medical | Dental | Total |
|--------------------------------------|-------------------|------------------|-------------------|
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 214,114 | \$ 23,766 | \$ 237,880 |
| Term Vested Members | 1,595 | 158 | 1,753 |
| Active Employees | 179,297 | 16,927 | 196,225 |
| Total | \$ 395,007 | \$ 40,851 | \$ 435,858 |
| Present Value of Future Normal Costs | 53,758 | 5,005 | 58,763 |
| Actuarial Liability | \$ 341,249 | \$ 35,846 | \$ 377,095 |
| Actuarial Value of Assets | 78,606 | 6,716 | 85,322 |
| Unfunded Actuarial Liability | \$ 262,643 | \$ 29,130 | \$ 291,773 |

Dollar amounts in thousands

Unfunded Actuarial Liability – Fire Department

Funding Basis

| | Medical | Dental | Total |
|--------------------------------------|-------------------|------------------|-------------------|
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 118,956 | \$ 13,257 | \$ 132,214 |
| Term Vested Members | 505 | 52 | 557 |
| Active Employees | 124,177 | 11,715 | 135,892 |
| Total | \$ 243,639 | \$ 25,024 | \$ 268,662 |
| Present Value of Future Normal Costs | 49,199 | 4,563 | 53,761 |
| Actuarial Liability | \$ 194,440 | \$ 20,461 | \$ 214,901 |
| Actuarial Value of Assets | 27,479 | 1,764 | 29,243 |
| Unfunded Actuarial Liability | \$ 166,961 | \$ 18,697 | \$ 185,658 |

Dollar amounts in thousands

- Assets and liabilities are tracked separately for:
 - Police vs. Fire
 - Medical vs. Dental
- The Police UAL is amortized over a remaining period of 23 years
- The Fire UAL is amortized over a remaining period of 25 years

Funding Valuation Results



| Police Department | FYE 2017 | | | FYE 2016 |
|--------------------------------------|---------------|--------------|---------------|---------------|
| | Medical | Dental | Total | Total |
| Normal Cost | 6.93% | 0.66% | 7.59% | 7.80% |
| Amortization Payment | <u>16.06%</u> | <u>1.78%</u> | <u>17.84%</u> | <u>16.73%</u> |
| Total | 22.99% | 2.44% | 25.43% | 24.53% |
| Contribution Allocation Without Caps | | | | |
| Member | 11.49% | 0.61% | 12.10% | 11.71% |
| City | <u>11.50%</u> | <u>1.83%</u> | <u>13.33%</u> | <u>12.82%</u> |
| Total | 22.99% | 2.44% | 25.43% | 24.53% |
| Fire Department | | | | |
| Normal Cost | 7.19% | 0.68% | 7.87% | 7.82% |
| Amortization Payment | <u>14.18%</u> | <u>1.59%</u> | <u>15.77%</u> | <u>14.28%</u> |
| Total | 21.37% | 2.27% | 23.64% | 22.10% |
| Contribution Allocation Without Caps | | | | |
| Member | 10.68% | 0.57% | 11.25% | 10.54% |
| City | <u>10.69%</u> | <u>1.70%</u> | <u>12.39%</u> | <u>11.56%</u> |
| Total | 21.37% | 2.27% | 23.64% | 22.10% |

- Calculated contribution rates (ignoring the caps) are slightly higher for FYE 2017 than they were for FYE 2016
- The increased rate is primarily due to the lower payroll and changes in assumptions

Funding Valuation Results



| Funding Contribution Rates ¹ | | | |
|---|------------|------------|------------|
| Fiscal Year Ending 2017 | Calculated | Negotiated | Difference |
| Member Contribution Rate | | | |
| Police | 12.10% | 9.51% | 2.59% |
| Fire | 11.25% | 9.74% | 1.51% |
| City Contribution Rate | | | |
| Police | 13.33% | 10.31% | 3.02% |
| Fire | 12.39% | 10.62% | 1.77% |

¹ Excludes implicit subsidy

- The negotiated contribution caps are lower than the calculated contribution rates
- Total Police contributions will be 5.6% of payroll lower than calculated and Fire contributions will be 3.3% of payroll lower than calculated
- As a result, full funding is not expected to be achieved by the dates targeted in the bargaining agreement

GASB Valuation Results



Development of Blended Discount Rate

Expected FYE 2016 Contributions

| | | |
|---------------------------|-----------|-------------------|
| Member Contribution | \$ | 17,740,499 |
| City Contribution | | 19,278,323 |
| Implicit Subsidy | | 1,388,504 |
| Total Contribution | \$ | 38,407,326 |

FYE 2016 Full ARC

| | | |
|------------------------------|-----------|-------------------|
| Normal Cost (Middle of Year) | \$ | 15,221,990 |
| Amortization of UAL | | 28,976,549 |
| Total ARC | \$ | 44,198,539 |

Pay-as-you-go Costs

| | | |
|----------------------------------|----|------------|
| Pay-as-you-go Cost | \$ | 23,295,273 |
| Contribution in Excess of Pay-Go | \$ | 15,112,053 |
| Full ARC in Excess of Pay-Go | \$ | 20,903,266 |
| Weight to System Return | | 72.295% |

Expected Returns

| | |
|--------------------------------|--------------|
| Expected Return on Plan Assets | 7.00% |
| Expected Return on City Assets | 3.50% |
| Blended Discount Rate | 6.00% |

- When the Full ARC isn't contributed, the discount rate is a blend between:
 - Expected return on plan assets
 - Expected return on City assets
- This year, the blended discount rate remains at 6.0%

GASB Valuation Results



Unfunded Actuarial Liability (UAL) – GASB Basis

| | Medical | | Dental | Total |
|--------------------------------------|------------------|-------------------|------------------|-------------------|
| | Implicit | Explicit | | |
| Present Value of Future Benefits | | | | |
| Retirees and Beneficiaries | \$ 30,829 | \$ 376,057 | \$ 41,721 | \$ 448,607 |
| Term Vested Members | 325 | 2,546 | 256 | 3,127 |
| Active Employees | 36,150 | 381,751 | 36,379 | 454,280 |
| Total | \$ 67,304 | \$ 760,354 | \$ 78,356 | \$ 906,014 |
| Present Value of Future Normal Costs | 11,588 | 141,397 | 13,276 | 166,261 |
| Actuarial Liability | \$ 55,717 | \$ 618,957 | \$ 65,080 | \$ 739,753 |
| Actuarial Value of Assets | 0 | 106,085 | 8,480 | 114,565 |
| Unfunded Actuarial Liability | \$ 55,717 | \$ 512,872 | \$ 56,600 | \$ 625,188 |

Dollar amounts in thousands

- The funding valuation does not include the implicit subsidy, but the GASB valuation does

GASB Valuation Results



| GASB ARC | | |
|------------------------|------------------|------------------|
| Fiscal Year Ending | 6/30/2016 | 6/30/2015 |
| Discount Rate | 6.00% | 6.00% |
| Total Normal Cost | \$ 19,822 | \$ 20,957 |
| UAL Amortization | <u>30,612</u> | <u>30,020</u> |
| Total Cost | \$ 50,434 | \$ 50,977 |
| Employee Contributions | <u>17,740</u> | <u>17,683</u> |
| Total ARC | \$ 32,694 | \$ 33,295 |

Dollar amounts in thousands

- The total normal cost plus UAL amortization payment decreased about \$0.5 million
- Employee contributions are expected to increase about \$0.06 million, resulting in an decrease in the ARC of \$0.6 million
- As total contributions increase, the blended discount rate will approach the expected return on assets, reducing the ARC
- As employee contributions increase, the portion of the total cost attributable to the City decreases, reducing the ARC

GASB Valuation Results



- GASB adopted significant changes for OPEB accounting effective for FYE 2017 and FYE 2018 for the Plan and City, respectively
 - Changes are similar to pension changes we have just implemented
 - No ARC or Net OPEB Obligation
 - Discount rate is determined by a new methodology that is driven by expected future contributions instead of current contributions
 - Entire unfunded liability is disclosed on the City's statement of net position
 - Annual expense is very volatile
 - Doesn't necessarily change contribution strategy

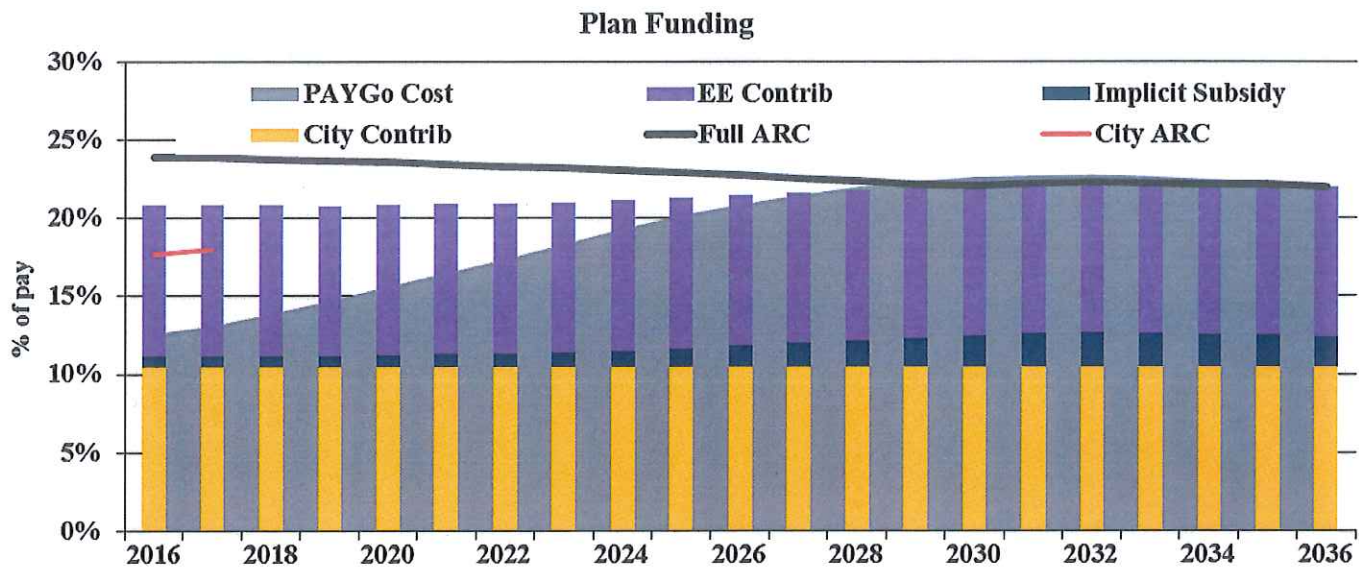
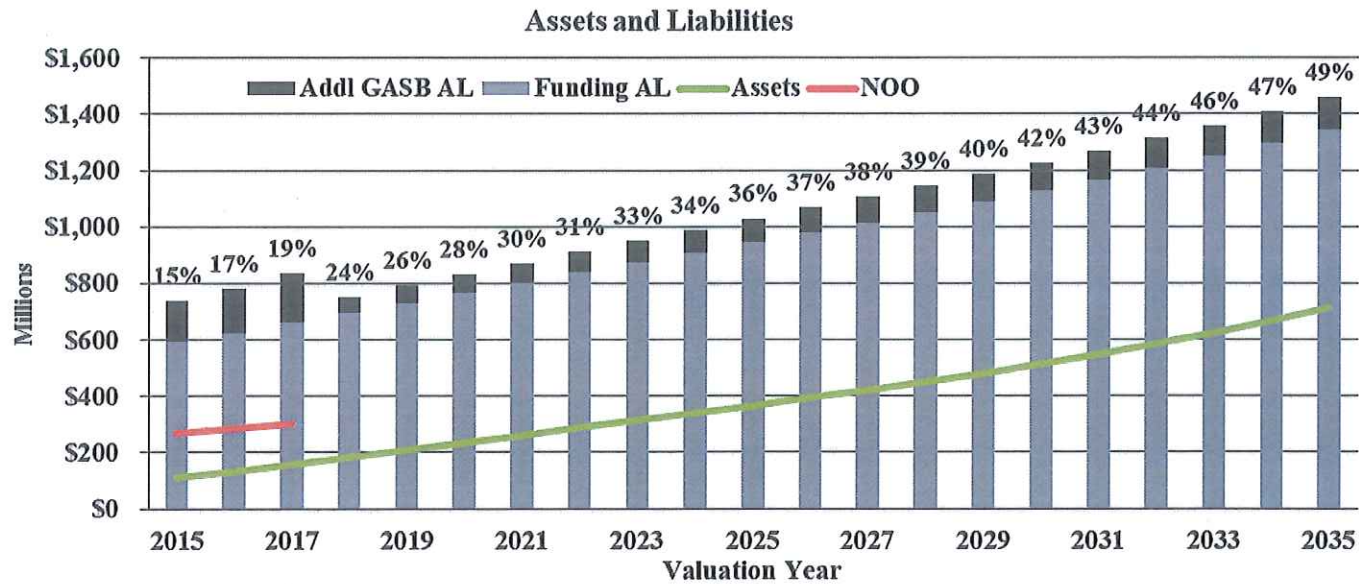
GASB Valuation Results



* Funding valuation information not available before 2009

| Funding Valuation Basis | | | | | | | | | |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2006 | 2007 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Funded Ratio | | | 9.9% | 8.5% | 9.2% | 11.1% | 14.7% | 16.8% | 19.4% |
| Discount Rate | | | 8.00% | 7.75% | 7.50% | 7.25% | 7.13% | 7.00% | 7.00% |
| GASB Valuation Basis | | | | | | | | | |
| Funded Ratio | 4.5% | 6.8% | 7.3% | 6.2% | 6.0% | 6.7% | 10.7% | 13.2% | 15.5% |
| Discount Rate | 5.30% | 6.40% | 6.70% | 6.30% | 5.70% | 4.40% | 6.00% | 6.00% | 6.00% |

Projections



Questions



Required Disclosures



- The purpose of this presentation is to present selected results of the June 30, 2015 actuarial valuation for the City of San José Police and Fire Department Postemployment Healthcare Plan.
- This presentation was prepared exclusively for the Board of Administration for the purpose described herein. 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 on information (some oral and some written) supplied by the City of San José. 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 No. 23. Please refer to the full June 30, 2015 actuarial valuation report for a complete description of the plan provisions, assumptions, methods, and a summary of the data used in the actuarial valuation.
- This valuation 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.
- Recently adopted GASB Statements for OPEB accounting and financial reporting will significantly change the projection of accounting results. The new statements will be effective for the fiscal year ending June 30, 2017 for the Plan and fiscal year ending June 30, 2018 for the City. The provisions of these statements are not reflected in this presentation.
- 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, EA, FCA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary





Classic Values, Innovative Advice



City of San José Police and Fire Department Postemployment Healthcare Plan

**Actuarial Valuation
as of June 30, 2015**

Produced by Cheiron

January 27, 2016

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Letter of Transmittal i

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January 27, 2016

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, 2015 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 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 No. 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.

All of the assumptions in this report were adopted at the December 3, 2015 and January 7, 2016 Board meetings based on recommendations from our experience study covering plan experience during the period from July 1, 2009 through June 30, 2015 and our analysis of health care claims and trends. Please refer to the experience study report and our Board presentations for an explanation of the rationale for each assumption.

The liability measures and funding ratios in this report are for the purposes of establishing contribution rates and for financial reporting under GASB Statements 43 and 45. These measures are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic, demographic or health assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

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, collectively 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.

Sincerely,
Cheiron



William R. Hallmark, ASA, EA, FCA, 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, 2015**

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, 2016;
- Determine employee and City contribution rates based on the Plan's funding policy for the fiscal year ending June 30, 2017;
- 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. 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 has been completed for both, Police and Fire. It is our understanding that the current interpretation of the phase-in language means that the fiscal year ending 2014 contribution rates for Police and the fiscal year ending 2016 contribution rates for Fire are frozen for all future years unless the ARC is less than those contribution rates.

The contribution rates calculated for the fiscal year ending 2017 are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the caps described above.

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 POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

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

Valuation Results

Table I-1 below provides the key results of the 2015 valuation on a funding basis.

| Table I-1 Summary of Key Valuation Results Funding Valuation Basis¹ | | |
|---|------------------|------------------|
| Valuation Date | 6/30/2015 | 6/30/2014 |
| Discount Rate | 7.00% | 7.00% |
| Actuarial Liability (AL) | 591,996 | 555,731 |
| Actuarial Value of Assets (AVA) | 114,565 | 93,605 |
| Unfunded Actuarial Liability (UAL) | 477,431 | 462,126 |
| AVA Funding Ratio | 19.4% | 16.8% |
| Market Value of Assets (MVA) | 109,627 | 97,645 |
| Unfunded Liability (MVA basis) | 482,369 | 458,086 |
| MVA Funded Ratio | 18.5% | 17.6% |
| Fiscal Year Ending | 6/30/2017 | 6/30/2016 |
| Member Contribution Rate | 9.60% | 9.60% |
| City Contribution Rate | 10.44% | 10.43% |
| City Contribution Amount (BOY) | \$ 19,243 | \$ 19,598 |

¹ Excludes implicit subsidy

Dollar amounts in thousands

The discount rate on a funding basis remained at 7.00% in this valuation. The actuarial liability increased approximately \$36 million while the actuarial and market values of assets increased approximately \$21 million and \$12 million respectively. As a result the UAL increased by \$15 million and \$24 million on an actuarial and market basis respectively. Contribution rates for Police and Fire remained constant due to the negotiated caps. There is a slight increase in the City’s aggregate contribution rate due to a slightly greater proportion of payroll expected to be for Fire members, and there is a slight decrease in the expected City contribution amount due to a lower total payroll.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION I - BOARD SUMMARY

Table I-2 below shows the difference between the calculated contribution rates for fiscal year ending 2017 and the actual contribution rates reflecting the negotiated cap.

| Table I-2 | | | |
|---|-------------------|-------------------|-------------------|
| Funding Contribution Rates¹ | | | |
| Fiscal Year Ending 2017 | Calculated | Negotiated | Difference |
| Member Contribution Rate | | | |
| Police | 12.10% | 9.51% | 2.59% |
| Fire | 11.25% | 9.74% | 1.51% |
| City Contribution Rate | | | |
| Police | 13.33% | 10.31% | 3.02% |
| Fire | 12.39% | 10.62% | 1.77% |

¹ Excludes implicit subsidy

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION I - BOARD SUMMARY

Table I-3 below provides the key results of the 2015 valuation on a GASB reporting basis.

| Table I-3 Summary of Key Valuation Results GASB Valuation Basis¹ | | |
|--|------------------|------------------|
| Valuation Date | 6/30/2015 | 6/30/2014 |
| Discount Rate | 6.00% | 6.00% |
| Actuarial Liability (AL) | \$ 739,753 | \$ 706,709 |
| Actuarial Value of Assets (AVA) | 114,565 | 93,605 |
| Unfunded Actuarial Liability (UAL) | \$ 625,188 | \$ 613,105 |
| AVA Funding Ratio | 15.5% | 13.2% |
| Market Value of Assets (MVA) | \$ 109,627 | \$ 97,645 |
| Unfunded Liability (MVA basis) | 630,126 | 609,065 |
| MVA Funded Ratio | 14.8% | 13.8% |
| Fiscal Year Ending | 6/30/2016 | 6/30/2015 |
| City ARC | | |
| -- if paid as percent of pay | 17.70% | 17.69% |
| -- if paid as dollar amount (MOY) | \$ 32,694 | \$ 33,295 |
| <i>Expected/Actual City Contribution¹</i> | \$ 20,667 | \$ 22,960 |
| <i>Expected/Actual Net Benefit Payments¹</i> | \$ 23,295 | \$ 26,256 |

¹ Includes implicit subsidy

Dollar amounts in thousands

The discount rate on a GASB basis remained at 6.00% in this valuation. The actuarial liability increased approximately \$33 million while the actuarial and market values of assets increased approximately \$21 million and \$12 million respectively. As a result the UAL increased by \$12 million and \$21 million on an actuarial and market basis respectively. The ARC remained about the same as a percentage of pay and declined slightly as a dollar amount.

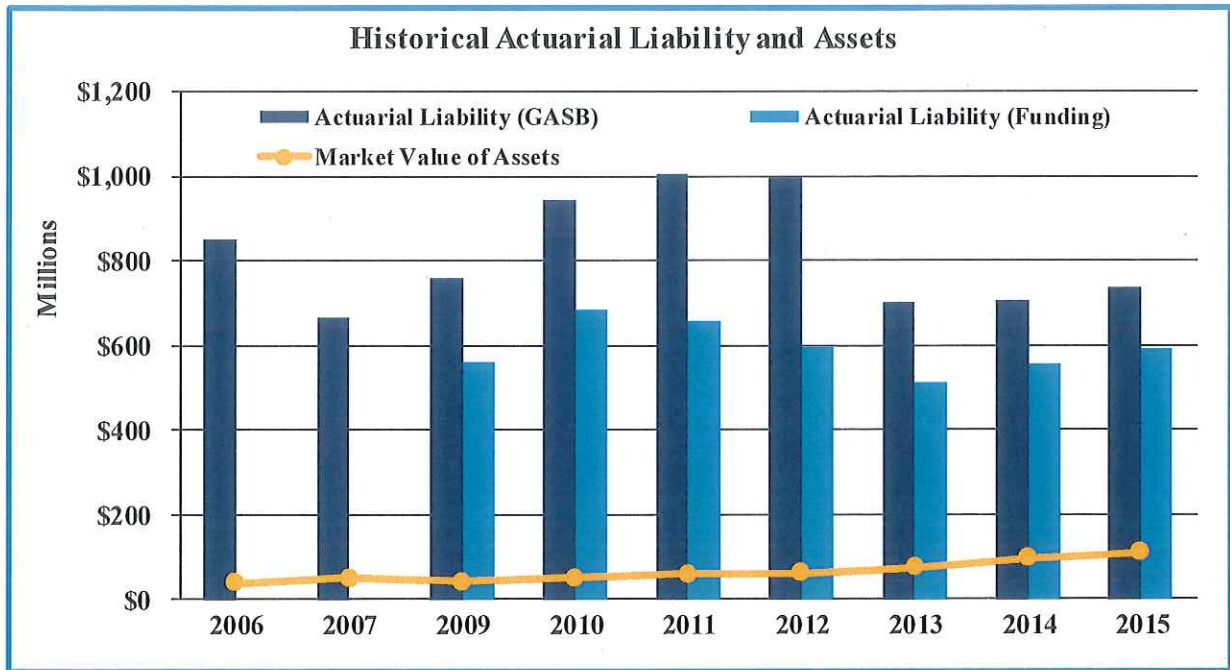
More detail can be found in the Funding and GASB valuation results sections of this report.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I - BOARD SUMMARY

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on a GASB and Funding basis for the City of San José Police and Fire Department Postemployment Healthcare Plan. The significant fluctuations in the actuarial liability reflect changes in the blended discount rate, changes in health trend assumptions, and changes in the lowest cost health plan which is the basis of the City's contribution towards coverage.



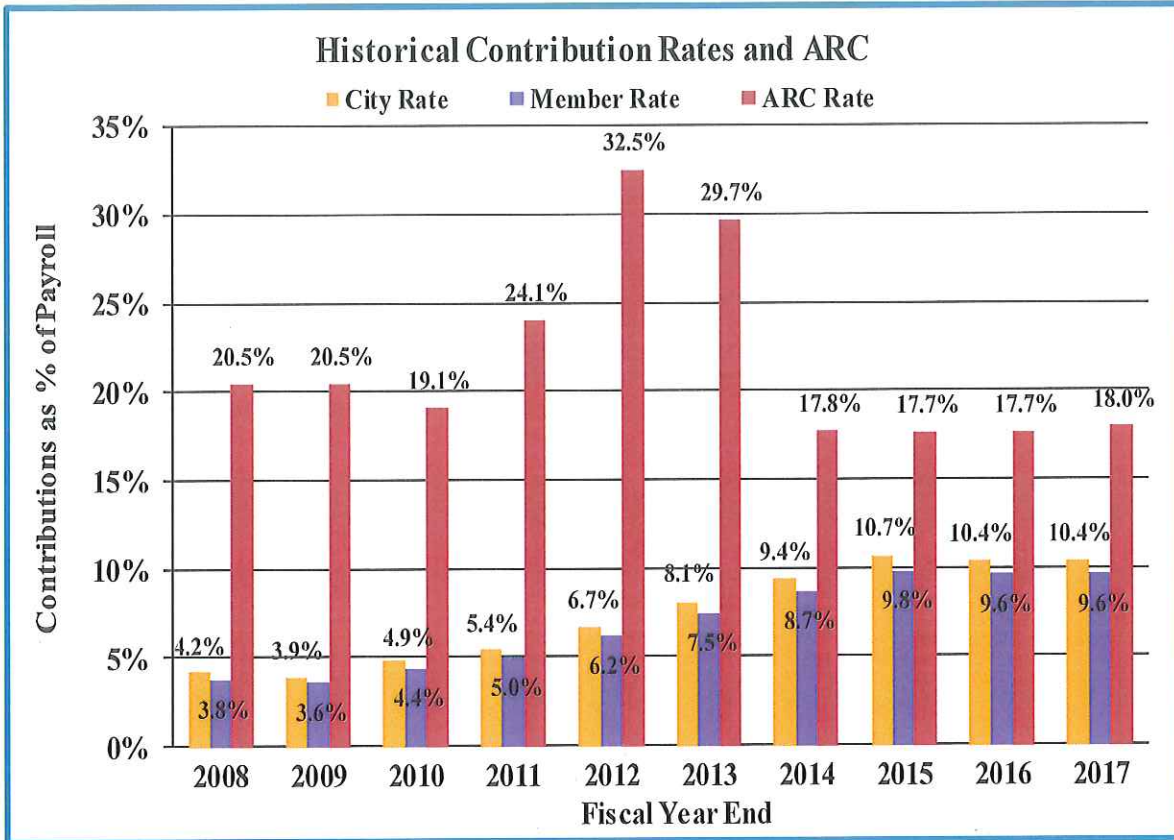
| Funding Valuation Basis | | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2006 | 2007 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Funded Ratio | | | 9.9% | 8.5% | 9.2% | 11.1% | 14.7% | 16.8% | 19.4% |
| UAL/(Surplus) <i>(in millions)</i> | | | \$507.2 | \$627.8 | \$596.8 | \$529.8 | \$437.0 | \$462.1 | \$477.4 |
| Discount Rate | | | 8.00% | 7.75% | 7.50% | 7.25% | 7.13% | 7.00% | 7.00% |
| GASB Valuation Basis | | | | | | | | | |
| | 2006 | 2007 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Funded Ratio | 4.5% | 6.8% | 7.3% | 6.2% | 6.0% | 6.7% | 10.7% | 13.2% | 15.5% |
| UAL/(Surplus) <i>(in millions)</i> | \$812.8 | \$620.8 | \$706.0 | \$887.7 | \$943.1 | \$930.9 | \$625.5 | \$613.1 | \$625.2 |
| Discount Rate | 5.30% | 6.40% | 6.70% | 6.30% | 5.70% | 4.40% | 6.00% | 6.00% | 6.00% |

* Funding valuation information performed by prior actuary not available before 2009

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The chart below shows the historical trend in member and City contribution rates compared to the City's ARC. The City's ARC for FYE 2017 is estimated. Since the City and member contribution rates are less than the ARC, the Net OPEB Obligation will increase until contributions equal the ARC.

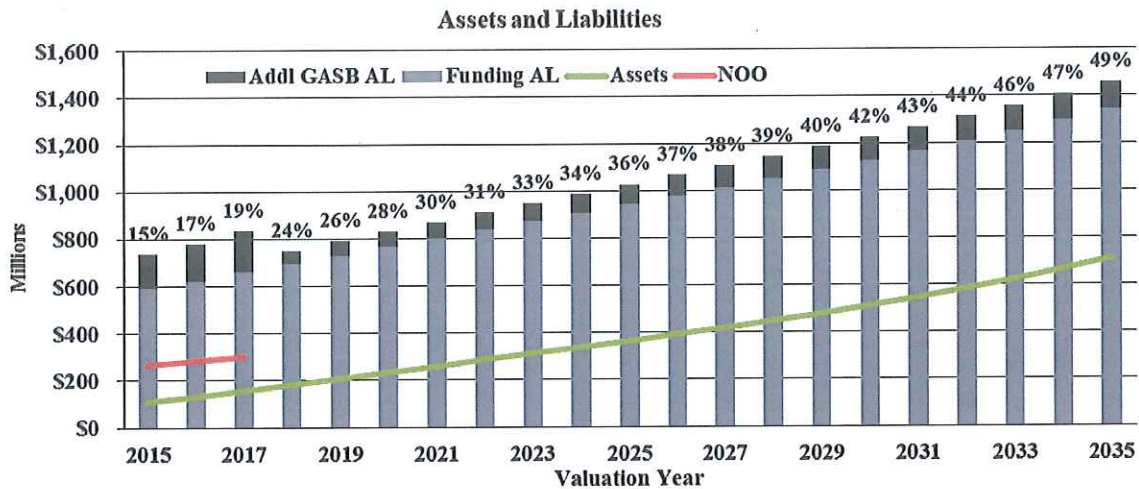


**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION I - BOARD SUMMARY

Projected Trends

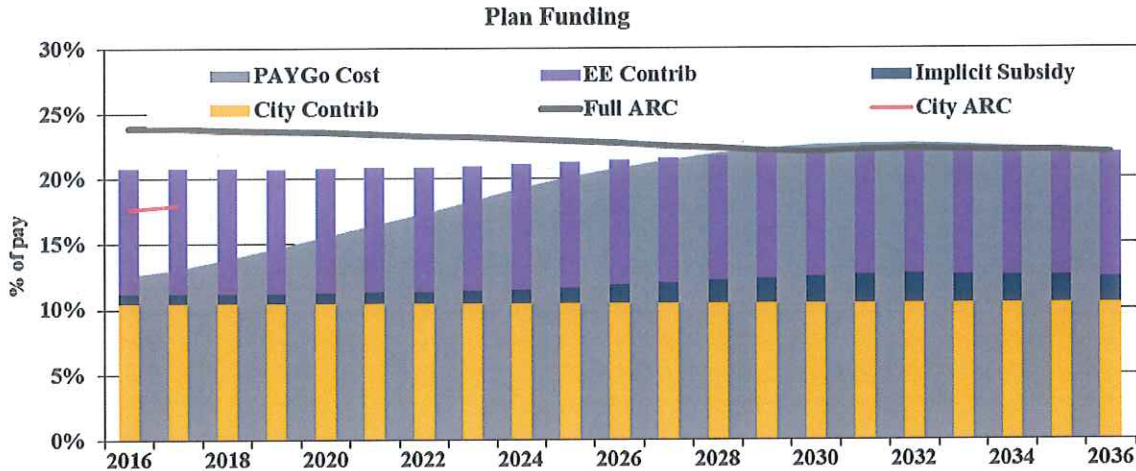
The following charts project the assets, actuarial liability, contributions, and accounting results under GASB 43 and 45 for the next 20 years. Note, however, that newly adopted GASB Statements for OPEB plans will significantly change the projected financial reporting shown. The new statements will be effective for the fiscal year ending June 30, 2017 for the Plan and for the fiscal year ending June 30, 2018 for the City.



The chart above shows the actuarial liability (gray bars) on a Funding basis increasing from about \$590 million to about \$1,350 million over the next 20 years. The dark gray bars represent the additional actuarial liability reported for GASB purposes. The additional liability is attributable to two differences: (1) the inclusion of the implicit subsidy in the GASB actuarial liability and (2) the discount rate for GASB measurements is projected to be lower than for funding measurements. The difference in discount rate is only included through FYE 2017 because the new GASB statements are effective for employer reporting beginning for FYE 2018 and the basis for determining the discount rate is entirely different. The green line shows assets increasing from \$110 million to \$710 million over the same period. The labels on top of the bars show the funded status on a GASB basis increasing from 15% to 49% over the 20-year projection. The red line shows the Net OPEB Obligation (NOO) increasing from \$270 million to about \$300 million in FYE 2017. The NOO is not shown after FYE 2017 because the newly adopted GASB statements would eliminate the NOO and replace it with a measure of the unfunded liability.

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SECTION I - BOARD SUMMARY



The second chart shows the projected contribution rates for the City and employees compared to the Full ARC and pay-as-you-go costs as a percentage of pay. Benefit payments are shown by the gray area and increase from 12.6% to 21.9% of projected payroll. The gold bars represent the City's contributions to the trust. The City's current contribution rate is frozen at the current rate for all years in the future unless the calculated rate becomes lower. In addition, the City contributes an amount equal to the implicit subsidy for each year as shown by the blue bars. Similarly, Police and Fire employee contribution rates are frozen at the current rate for all years in the future unless the calculated rate becomes lower. The Full ARC, shown by the black line, is the combined employee and City contribution rate calculated at the funding discount rate using a rolling 30-year amortization and before applying the caps. When the Full ARC reaches the actual contribution rate, it is set to the actual contribution rate as long as that rate falls within the parameters set by GASB. The Full ARC is expected to gradually decrease from approximately 24% to 22% of pay by FYE 2036.

The red line shows the City ARC, which is the City's portion of the Full ARC calculated at the blended discount rate of 6.0%. The newly adopted GASB statements will eliminate the ARC after FYE 2017 and replace it with an entirely different calculation of the annual OPEB expense.

The following table 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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I - BOARD SUMMARY

| Table I-4 Expected Net Benefit Payments | | | | | |
|--|---------------------|--------------|------------------------------|---------------------|-------------------------------|
| Fiscal Year Ending June 30 | Explicit Medical | Dental | Total Explicit Subsidy | Implicit Subsidy | Total Expected Payments |
| 2016 | \$ 19,503,414 | \$ 2,403,354 | \$ 21,906,768 | \$ 1,388,501 | \$ 23,295,269 |
| 2017 | 20,988,119 | 2,546,551 | 23,534,670 | 1,434,724 | 24,969,394 |
| 2018 | 23,189,674 | 2,709,514 | 25,899,188 | 1,465,869 | 27,365,057 |
| 2019 | 25,539,204 | 2,887,315 | 28,426,519 | 1,457,161 | 29,883,680 |
| 2020 | 28,030,367 | 3,069,683 | 31,100,050 | 1,677,282 | 32,777,332 |
| 2021 | 30,631,517 | 3,265,461 | 33,896,978 | 1,838,752 | 35,735,730 |
| 2022 | 33,476,224 | 3,481,660 | 36,957,884 | 1,869,524 | 38,827,408 |
| 2023 | 36,471,317 | 3,714,583 | 40,185,900 | 2,147,602 | 42,333,502 |
| 2024 | 39,617,176 | 3,948,247 | 43,565,423 | 2,498,736 | 46,064,159 |
| 2025 | 42,551,960 | 4,170,410 | 46,722,370 | 2,964,886 | 49,687,256 |
| 2026 | 45,081,902 | 4,372,642 | 49,454,544 | 3,529,913 | 52,984,457 |
| 2027 | 47,648,105 | 4,584,765 | 52,232,870 | 4,073,109 | 56,305,979 |
| 2028 | 50,051,281 | 4,794,488 | 54,845,769 | 4,695,959 | 59,541,728 |
| 2029 | 52,233,879 | 4,993,007 | 57,226,886 | 5,257,361 | 62,484,247 |
| 2030 | 54,231,072 | 5,178,916 | 59,409,988 | 5,877,256 | 65,287,244 |
| 2031 | 55,897,328 | 5,360,653 | 61,257,981 | 6,419,315 | 67,677,296 |
| 2032 | 57,601,797 | 5,548,924 | 63,150,721 | 6,887,871 | 70,038,592 |
| 2033 | 59,232,002 | 5,745,311 | 64,977,313 | 6,984,780 | 71,962,093 |
| 2034 | 60,832,548 | 5,947,001 | 66,779,549 | 6,932,799 | 73,712,348 |
| 2035 | 62,437,548 | 6,134,729 | 68,572,277 | 6,983,908 | 75,556,185 |
| 2036 | 63,679,012 | 6,300,645 | 69,979,657 | 6,688,229 | 76,667,886 |

In this valuation, the amount of the estimated implicit subsidy decreased from \$2,050,490 for the fiscal year ending June 30, 2015 to \$1,388,504 for the fiscal year ending June 30, 2016.

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

The assets for the Plan are maintained in two separate trusts: a 401(h) account within the pension plan and a Section 115 trust. The 115 trust consists of two sub-trusts: one for Police and one for Fire. Member contributions are deposited in the 401(h) account and City contributions are deposited in the 115 trust. Benefits can be paid from either trust, but currently all benefits are paid from the 401(h) account. The implicit subsidy is shown as a contribution to and a benefit payment from the 115 trust, but it is actually paid directly by the City on a pay-as-you-go basis. Table II-1 below shows the changes in the market value of assets for the last two fiscal years. In the last year, investment earnings were about -1.5% compared to an assumed return of 7.0%, resulting in an actuarial loss of approximately \$9.8 million.

| Table II-1 Market Value of Assets | | | | | | |
|--------------------------------------|-------------------------|---------------|---------------|----------------|---------------|--|
| | Fiscal Year Ending 2015 | | | | FYE 2014 | |
| | 401(h) | Police 115 | Fire 115 | Total | | |
| Market Value, Beginning of Year | \$ 59,110,591 | \$ 26,570,275 | \$ 11,963,637 | \$ 97,644,503 | \$ 74,715,956 | |
| Contributions | | | | | | |
| Member | 17,016,538 | 0 | 0 | 17,016,538 | 15,673,703 | |
| City | 0 | 13,072,603 | 7,836,513 | 20,909,116 | 17,267,368 | |
| Implicit Subsidy | 0 | 1,104,325 | 946,167 | 2,050,492 | 2,863,280 | |
| Total | \$ 17,016,538 | \$ 14,176,928 | \$ 8,782,680 | \$ 39,976,146 | \$ 35,804,351 | |
| Net Investment Earnings | (578,991) | (778,435) | (380,205) | (1,737,631) | 12,497,077 | |
| Benefit Payments | | | | | | |
| Premium Payments | 24,205,444 | 0 | 0 | 24,205,444 | 22,509,601 | |
| Implicit Subsidy | 0 | 1,104,325 | 946,167 | 2,050,492 | 2,863,280 | |
| Total | \$ 24,205,444 | \$ 1,104,325 | \$ 946,167 | \$ 26,255,936 | \$ 25,372,881 | |
| Market Value, End of Year | \$ 51,342,694 | \$ 38,864,443 | \$ 19,419,945 | \$ 109,627,082 | \$ 97,644,503 | |
| Estimated Rate of Return | -1.0% | -2.0% | -1.9% | -1.5% | 14.2% | |

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 may 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. For each of the last four years, it shows the actual earnings, the expected earnings, the gain or loss and the portion of the gain or loss that is

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION II - ASSETS

not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

| Table II-2 | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|----------------------|
| Development of Actuarial Value of Assets | | | | | |
| | FYE 2012 | FYE 2013 | FYE 2014 | FYE 2015 | June 30, 2015 |
| Market Value of Assets | | | | | \$ 109,627,082 |
| Actual Earnings | \$ (891,129) | \$ 6,367,119 | \$ 12,497,077 | \$ (1,737,631) | |
| Expected Earnings | 5,258,068 | 5,333,899 | 6,314,473 | 8,051,397 | |
| Gain or (Loss) | (6,149,197) | 1,033,220 | 6,182,604 | (9,789,028) | |
| Deferred % | 20% | 40% | 60% | 80% | |
| Deferred Amount | \$ (1,229,839) | \$ 413,288 | \$ 3,709,562 | \$ (7,831,223) | \$ (4,938,212) |
| Preliminary Actuarial Value of Assets | | | | | \$ 114,565,294 |
| Minimum (80% of Market Value) | | | | | 87,701,666 |
| Maximum (120% of Market Value) | | | | | 131,552,499 |
| Actuarial Value of Assets | | | | | \$ 114,565,294 |
| Ratio of Actuarial to Market Value | | | | | 104.50% |
| Estimated Rate of Return on Actuarial Value | | | | | 6.5% |
| Actuarial Gain or (Loss) | | | | | \$ (528,224) |

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 pages 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, 6/30/2014 | \$ 67,071,159 | \$ 6,055,970 | \$ 73,127,129 |
| Contributions | | | |
| Member | 10,445,138 | 458,623 | 10,903,761 |
| City | 11,563,738 | 1,508,865 | 13,072,603 |
| Implicit Subsidy | 1,104,325 | 0 | 1,104,325 |
| Total | \$ 23,113,201 | \$ 1,967,488 | \$ 25,080,689 |
| Net Investment Earnings | (1,127,072) | (102,601) | (1,229,673) |
| Benefit Payments | | | |
| Premium Payments | 12,735,373 | 1,494,006 | 14,229,379 |
| Implicit Subsidy | 1,104,325 | 0 | 1,104,325 |
| Total | \$ 13,839,698 | \$ 1,494,006 | \$ 15,333,704 |
| Market Value, 6/30/2015 | \$ 75,217,590 | \$ 6,426,851 | \$ 81,644,441 |
| Estimated Return on Market Value | -1.5% | -1.5% | -1.5% |
| Ratio of AVA / MVA | 104.5% | 104.5% | 104.5% |
| Actuarial Value of Assets | \$ 78,605,808 | \$ 6,716,351 | \$ 85,322,159 |
| Estimated Return on Actuarial Value | 6.7% | 6.4% | 6.7% |

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION II - ASSETS

| Table II-4 | | | |
|---|----------------|---------------|---------------|
| Market Value of Assets – Fire Department | | | |
| | Medical | Dental | Total |
| Market Value, 6/30/2014 | \$ 22,950,076 | \$ 1,567,298 | \$ 24,517,374 |
| Contributions | | | |
| Member | 5,831,978 | 280,799 | 6,112,777 |
| City | 6,842,152 | 994,361 | 7,836,513 |
| Implicit Subsidy | 946,167 | 0 | 946,167 |
| Total | \$ 13,620,297 | \$ 1,275,160 | \$ 14,895,457 |
| Net Investment Earnings | (472,101) | (35,857) | (507,958) |
| Benefit Payments | | | |
| Premium Payments | 8,857,385 | 1,118,680 | 9,976,065 |
| Implicit Subsidy | 946,167 | 0 | 946,167 |
| Total | \$ 9,803,552 | \$ 1,118,680 | \$ 10,922,232 |
| Market Value, 6/30/2015 | \$ 26,294,720 | \$ 1,687,921 | \$ 27,982,641 |
| Estimated Return on Market Value | -1.7% | -1.7% | -1.7% |
| Ratio of AVA / MVA | 104.5% | 104.5% | 104.5% |
| Actuarial Value of Assets | \$ 27,479,180 | \$ 1,763,955 | \$ 29,243,135 |
| Estimated Return on Actuarial Value | 6.1% | 5.0% | 6.0% |

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

This section of the report calculates the contribution rates and amounts under the contracts negotiated between the City and its labor unions for the fiscal year ending June 30, 2017. 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, the transition to the new method was completed as part of the 2012 valuation 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 was completed as part of the 2014 valuation with contribution amounts for the fiscal year ending June 30, 2016. It is our understanding that the interpretation of the phase-in language means that the contributions rates at the end of phase-in period are frozen unless the ARC is lower. Consequently, we have capped the contribution rates developed in this report.

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 7.00%.

| Table III-1 | | | |
|---|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability – Police Department | | | |
| Funding Basis | | | |
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 214,113,882 | \$ 23,766,224 | \$ 237,880,106 |
| Term Vested Members | 1,595,311 | 157,660 | 1,752,971 |
| Active Employees | <u>179,297,361</u> | <u>16,927,427</u> | <u>196,224,788</u> |
| Total | \$ 395,006,554 | \$ 40,851,311 | \$ 435,857,865 |
| Present Value of Future Normal Costs | <u>53,757,845</u> | <u>5,005,217</u> | <u>58,763,062</u> |
| Actuarial Liability | \$ 341,248,709 | \$ 35,846,094 | \$ 377,094,803 |
| Actuarial Value of Assets | <u>78,605,809</u> | <u>6,716,351</u> | <u>85,322,160</u> |
| Unfunded Actuarial Liability | \$ 262,642,900 | \$ 29,129,743 | \$ 291,772,643 |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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 | \$ 118,956,371 | \$ 13,257,217 | \$ 132,213,588 |
| Term Vested Members | 505,138 | 51,583 | 556,721 |
| Active Employees | <u>124,177,236</u> | <u>11,714,753</u> | <u>135,891,989</u> |
| Total | \$ 243,638,745 | \$ 25,023,553 | \$ 268,662,298 |
| Present Value of Future Normal Costs | | | |
| | <u>49,198,815</u> | <u>4,562,681</u> | <u>53,761,496</u> |
| Actuarial Liability | \$ 194,439,930 | \$ 20,460,872 | \$ 214,900,802 |
| Actuarial Value of Assets | | | |
| | <u>27,479,180</u> | <u>1,763,955</u> | <u>29,243,135</u> |
| Unfunded Actuarial Liability | \$ 166,960,750 | \$ 18,696,917 | \$ 185,657,667 |

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, 2015 is amortized over a period of 23 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, 2015 is amortized over a period of 25 years. The following table shows the amortization schedule as of June 30, 2015.

| Table III-3 | | | | |
|--|-------------------------|----------------------------|-----------------------------|--------------------------|
| Amortization Schedule – Funding Basis | | | | |
| Amortization Base | Remaining Period | Outstanding Balance | Amortization Payment | Amortization Rate |
| Medical | 23 | \$ 262,642,900 | \$ 18,199,170 | 16.06% |
| Dental | 23 | 29,129,743 | 2,018,471 | 1.78% |
| Medical | 25 | 166,960,750 | 10,974,821 | 14.18% |
| Fire Department - Dental | 25 | 18,696,917 | 1,229,003 | 1.59% |

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 2016-17 fiscal year.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015

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 | \$ 7,077,829 | \$ 102,096,987 | 6.93% | |
| Police Department - Dental | 671,264 | 102,096,987 | 0.66% | |
| Fire Department - Medical | 5,103,561 | 70,986,365 | 7.19% | |
| Fire Department - Dental | 480,855 | 70,986,365 | 0.68% | |

The table below develops the contribution rates for members and the City prior to any adjustment for caps.

| Table III-5 Preliminary Contribution Rates – Funding Basis | | | | |
|---|---------------|--------------|---------------|---------------|
| Police Department | FYE 2017 | | | FYE 2016 |
| | Medical | Dental | Total | Total |
| Normal Cost | 6.93% | 0.66% | 7.59% | 7.80% |
| Amortization Payment | <u>16.06%</u> | <u>1.78%</u> | <u>17.84%</u> | <u>16.73%</u> |
| Total | 22.99% | 2.44% | 25.43% | 24.53% |
| Contribution Allocation Without Caps | | | | |
| Member | 11.49% | 0.61% | 12.10% | 11.71% |
| City | <u>11.50%</u> | <u>1.83%</u> | <u>13.33%</u> | <u>12.82%</u> |
| Total | 22.99% | 2.44% | 25.43% | 24.53% |
| Fire Department | | | | |
| Normal Cost | 7.19% | 0.68% | 7.87% | 7.82% |
| Amortization Payment | <u>14.18%</u> | <u>1.59%</u> | <u>15.77%</u> | <u>14.28%</u> |
| Total | 21.37% | 2.27% | 23.64% | 22.10% |
| Contribution Allocation Without Caps | | | | |
| Member | 10.68% | 0.57% | 11.25% | 10.54% |
| City | <u>10.69%</u> | <u>1.70%</u> | <u>12.39%</u> | <u>11.56%</u> |
| Total | 21.37% | 2.27% | 23.64% | 22.10% |

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015**

SECTION III - FUNDING VALUATION RESULTS

The table below and on the following page calculate the capped contribution rates. The caps limit the combined medical and dental contribution rates to the FYE 2014 rates for Police and the FYE 2016 rates for Fire. Both Police and Fire rates are capped by the limit.

| Table III-6 | | | |
|--|----------------|---------------|---------------|
| Police Contribution Rates – Funding Basis | | | |
| Reflecting Caps | | | |
| | Medical | Dental | Total |
| FYE 2016 Contribution Rates | | | |
| Member | 9.09% | 0.42% | 9.51% |
| City | <u>9.09%</u> | <u>1.22%</u> | <u>10.31%</u> |
| Total | 18.18% | 1.64% | 19.82% |
| Calculated FYE 2017 Contribution Rate | | | |
| Member | 11.49% | 0.61% | 12.10% |
| City | <u>11.50%</u> | <u>1.83%</u> | <u>13.33%</u> |
| Total | 22.99% | 2.44% | 25.43% |
| Capped FYE 2017 Contribution Rates | | | |
| Member | 9.12% | 0.39% | 9.51% |
| City | <u>9.12%</u> | <u>1.19%</u> | <u>10.31%</u> |
| Total | 18.24% | 1.58% | 19.82% |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
 ACTUARIAL VALUATION AS OF JUNE 30, 2015

SECTION III - FUNDING VALUATION RESULTS

| Table III-7 Fire Contribution Rates – Funding Basis Reflecting Caps | | | |
|---|---------------|--------------|---------------|
| | Medical | Dental | Total |
| FYE 2016 Contribution Rates | | | |
| Member | 9.29% | 0.45% | 9.74% |
| City | <u>9.29%</u> | <u>1.33%</u> | <u>10.62%</u> |
| Total | 18.58% | 1.78% | 20.36% |
| Rate | | | |
| Member | 10.68% | 0.57% | 11.25% |
| City | <u>10.69%</u> | <u>1.70%</u> | <u>12.39%</u> |
| Total | 21.37% | 2.27% | 23.64% |
| Capped FYE 2017 Contribution Rates | | | |
| Member | 9.30% | 0.44% | 9.74% |
| City | <u>9.31%</u> | <u>1.31%</u> | <u>10.62%</u> |
| Total | 18.61% | 1.75% | 20.36% |

Effects of Changes

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

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

| Table III-8 | |
|--|-----------------|
| Reconciliation of Actuarial Liability – Funding Basis | |
| Actuarial Liability as of June 30, 2014 | \$ 555,731 |
| Normal Cost | 13,933 |
| Benefit Payments | (24,205) |
| Interest | <u>39,044</u> |
| Expected Actuarial Liability, June 30, 2015 | \$ 584,502 |
| Actuarial Liability as of June 30, 2015 | <u>591,996</u> |
| (Gain) or Loss | \$ 7,493 |
| Changes due to: | |
| Demographic experience | \$ (4,641) |
| Change in pension assumptions | 41,935 |
| Change in health assumptions | <u>(29,801)</u> |
| Total Changes | \$ 7,493 |

Dollar amounts in thousands

| Table III-9 | | | |
|---|------------------------|---------------------------------|----------------|
| Effects of Changes - Contribution Amounts Without Caps | | | |
| | Normal Cost | Amortization Payment | Total |
| Unadjusted FYE 2016 Contribution | \$ 15,171 | \$ 30,604 | \$ 45,775 |
| Expected FYE 2017 Contribution | \$ 15,664 | \$ 31,598 | \$ 47,262 |
| Calculated FYE 2017 Contribution | <u>14,694</u> | <u>32,426</u> | <u>47,120</u> |
| Net Change | \$ (970) | \$ 828 | \$ (142) |
| Changes due to: | | | |
| Contribution shortfall | \$ 0 | \$ 360 | \$ 360 |
| Investment loss | 0 | 36 | 36 |
| Demographic experience | (751) | (315) | (1,066) |
| Change in pension assumptions | 912 | 2,850 | 3,762 |
| Change in health assumptions | <u>(1,131)</u> | <u>(2,103)</u> | <u>(3,234)</u> |
| Total Changes | \$ (970) | \$ 828 | \$ (142) |

Dollar amounts in thousands

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

- *Contribution shortfall* refers to the amount that contributions were less than the normal cost plus the amortization payment on the UAL due to the rates being frozen since the phase-in periods ended and the one-year delay between the valuation and effective date of new contribution rates.
- *Investment loss* refers to the lower-than-expected investment return on the actuarial value of assets.
- *Demographic experience* refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.
- *Change in pension assumptions* refers to the change in the demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2009 through June 30, 2015 and were adopted at the December 3, 2015 and January 7, 2016 Board meetings.
- *Change in health assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

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.

In general, Statements 43 and 45 define a trust as a plan. The 401(h) account and the 115 trust are separate trusts, but they are not treated as separate plans because they cover the same employee populations. For funding purposes, assets are tracked separately for Police and Fire within the 401(h) account and within sub-trusts in the 115 trust. However, for financial reporting purposes, the Plan is reported as one plan covering both Police and Fire.

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 2016, the full ARC will not be contributed, and the table on the following page develops the blended discount rate that is used in the remainder of the GASB calculations.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015

SECTION IV - GASB VALUATION RESULTS

| Table IV-1 | |
|---|---------------------|
| Development of Blended Discount Rate | |
| Expected FYE 2016 Contributions | |
| Member Contribution | \$17,740,499 |
| City Contribution | \$19,278,323 |
| Implicit Subsidy | \$1,388,504 |
| Total Contribution | \$38,407,326 |
| FYE 2016 Full ARC | |
| Normal Cost (Middle of Year) | \$15,221,990 |
| Amortization of UAL | \$28,976,549 |
| Total ARC | \$44,198,539 |
| Pay-as-you-go Costs | |
| Pay-as-you-go Cost | \$23,295,273 |
| Contribution in Excess of Pay-Go | \$15,112,053 |
| Full ARC in Excess of Pay-Go | \$20,903,266 |
| Weight to System Return | 72.295% |
| Expected Returns | |
| Expected Return on Plan Assets | 7.00% |
| Expected Return on City Assets | 3.50% |
| Blended Discount Rate | 6.00% |

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 | \$ 30,829,386 | \$ 376,057,051 | \$ 41,720,985 | \$ 448,607,422 |
| Term Vested Members | 325,045 | 2,546,424 | 255,778 | 3,127,247 |
| Active Employees | 36,149,871 | 381,750,713 | 36,378,941 | 454,279,525 |
| Total | \$ 67,304,302 | \$ 760,354,188 | \$ 78,355,704 | \$ 906,014,194 |
| Present Value of Future Normal | 11,587,616 | 141,397,360 | 13,275,818 | 166,260,794 |
| Actuarial Liability | \$ 55,716,686 | \$ 618,956,828 | \$ 65,079,886 | \$ 739,753,400 |
| Actuarial Value of Assets | 0 | 106,084,988 | 8,480,306 | 114,565,294 |
| Unfunded Actuarial Liability | \$ 55,716,686 | \$ 512,871,840 | \$ 56,599,580 | \$ 625,188,106 |

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION IV - GASB VALUATION RESULTS

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, 2016 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 Discount Rate | 6/30/2016 6.00% | 6/30/2015 6.00% |
| Total Normal Cost | \$ 19,822,219 | \$ 20,957,240 |
| UAL Amortization | <u>30,611,811</u> | <u>30,020,155</u> |
| Total Cost | \$ 50,434,030 | \$ 50,977,395 |
| Employee Contributions | <u>17,740,499</u> | <u>17,682,720</u> |
| Total ARC | \$ 32,693,531 | \$ 33,294,675 |

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 the actuarial liability since the last valuation report. The actuarial liability for medical and dental benefits has been combined in the reconciliation table below.

| Table IV-4 | |
|---|-----------------|
| Reconciliation of Actuarial Liability – GASB Basis | |
| Actuarial Liability as of June 30, 2014 | \$ 706,709 |
| Normal Cost | 20,957 |
| Benefit Payments | (26,256) |
| Interest | <u>42,884</u> |
| Expected Actuarial Liability, June 30, 2015 | \$ 744,294 |
| Actuarial Liability as of June 30, 2015 | <u>739,753</u> |
| (Gain) or Loss | \$ (4,541) |
| Changes due to: | |
| Demographic experience | \$ (7,990) |
| Change in pension assumptions | 60,429 |
| Change in health assumptions | <u>(56,980)</u> |
| Total Changes | \$ (4,541) |

Dollar amounts in thousands

- *Demographic experience* refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.
- *Change in pension assumptions* refers to the change in the demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2009 through June 30, 2015 and were adopted at the December 3, 2015 and January 7, 2016 Board meetings.
- *Change in health assumptions* refers to the change in expected current healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

**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 | \$ 398,548 | \$ 448,607 | \$ 509,292 |
| Term Vested Members | 2,589 | 3,127 | 3,819 |
| Active Employees | 360,701 | 454,280 | 580,589 |
| Total | \$ 761,838 | \$ 906,014 | \$ 1,093,700 |
| Present Value of Future Normal Costs | 128,247 | 166,261 | 219,249 |
| Actuarial Liability | \$ 633,591 | \$ 739,753 | \$ 874,451 |
| Actuarial Value of Assets | 114,565 | 114,565 | 114,565 |
| UAL | \$ 519,026 | \$ 625,188 | \$ 759,886 |

Dollar amounts in thousands

| Table V-2 | | | |
|--|------------------|------------------|------------------|
| Sensitivity to Healthcare Trend Rates - GASB ARC for FYE 2016 | | | |
| Health Care Trend Rate | -1% | Base | +1% |
| Total Normal Cost | \$ 14,795 | \$ 19,822 | \$ 23,723 |
| UAL Amortization | 25,414 | 30,612 | 37,207 |
| Total Cost | \$ 40,209 | \$ 50,434 | \$ 60,930 |
| Employee Contributions | 17,740 | 17,740 | 17,740 |
| Total ARC | \$ 22,469 | \$ 32,694 | \$ 43,190 |

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, 2015 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2016.

| Table VI-1 Development of Net OPEB Obligation | | |
|--|--------------------------------|-----------------------|
| | Projected 6/30/2016 | 6/30/2015 |
| 1. Net OPEB Obligation, beginning of year | \$ 269,423,883 | \$ 254,747,612 |
| 2. Annual Required Contribution | \$ 32,693,530 | \$ 33,294,676 |
| 3. Interest on Net OPEB Obligation | 16,165,433 | 15,284,857 |
| 4. Adjustment to Annual Required Contribution | (13,192,114) | (12,473,503) |
| 5. Annual OPEB Cost (2.) + (3.) - (4.) | \$ 35,666,849 | \$ 36,106,030 |
| 6. Employer Contributions | 19,278,323 | 19,379,266 |
| 7. Implicit Rate Subsidy | 1,388,501 | 2,050,492 |
| 8. Net OPEB Obligation, end of year (1.) + (5.) - (6.) - (7.) | \$ 284,423,908 | \$ 269,423,883 |

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, 2015**

SECTION VI - ACCOUNTING DISCLOSURES

**Table VI-2
Solvency Test**

| Actuarial Valuation Date | Actuarial Liability | | Reported Assets | Portion of Liability Covered by Reported Assets | |
|--------------------------|---------------------------------------|--------------------|-----------------|---|-----|
| | Retirees, Beneficiaries and Other (A) | Active Members (B) | | (A) | (B) |
| 6/30/2015 | \$ 451,735 | \$ 288,019 | \$ 114,565 | 25% | 0% |
| 6/30/2014 | 429,034 | 277,676 | 93,605 | 22% | 0% |
| 6/30/2013 | 421,999 | 278,526 | 75,035 | 18% | 0% |
| 6/30/2012 | 600,869 | 396,452 | 66,385 | 11% | 0% |
| 6/30/2011 | 622,691 | 381,104 | 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% |

Dollar amounts in thousands

The Government Finance Officers Association named the above exhibit the Solvency Test. It should be noted, however, that it doesn't test the solvency of the Plan in the sense understood by financial economists in that a 100 percent ratio would mean that there were sufficient assets to settle the obligation on the valuation date. Instead, a 100 percent ratio only means that assets are expected to be sufficient if all assumptions are met in the future, including the expected rate of return on investments.

**Table VI-3
Analysis of Financial Experience**

| Actuarial Valuation Date | Gain or (Loss) for Year Ending on Valuation Date Due to: | | | | |
|--------------------------|--|-------------------------------|----------------------------|---------------------|------------------|
| | Investment Income | Combined Liability Experience | Total Financial Experience | Non-Recurring Items | Total Experience |
| 6/30/2015 | \$ 582 | \$ 7,990 | \$ 8,572 | \$ (3,449) | \$ 5,123 |
| 6/30/2014 | 2,802 | 16,222 | 19,024 | 13,689 | 32,713 |
| 6/29/2013 | 2,437 | (4,536) | (2,099) | 258,939 | 256,840 |
| 6/30/2012 | (6,011) | 4,760 | (1,251) | 58,173 | 56,922 |
| 6/30/2011 | (2,661) | 5,967 | 3,306 | 1,146 | 4,452 |
| 6/30/2010 | (3,067) | (11,242) | (14,309) | (122,599) | (136,908) |

Dollar amounts in thousands

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

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.

| 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 | |
| 6/30/2015 | \$ 114,565 | \$ 739,753 | \$ 625,188 | 15% | \$ 184,733 | 338% | |
| 6/30/2014 | 93,605 | 706,709 | 613,104 | 13% | 188,189 | 326% | |
| 6/30/2013 | 75,035 | 700,525 | 625,490 | 11% | 184,645 | 339% | |
| 6/30/2012 | 66,385 | 997,321 | 930,936 | 7% | 172,626 | 539% | |
| 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 that 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.

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

| Table VI-5 Schedule of Employer Contributions - City City Contributions (Including Implicit Subsidy) Percentage of AOC Contributed Net OPEB Obligation | | | | | |
|--|------------------------|----|------------------|-------------------------------|---------------------|
| Fiscal Year Ending | Annual OPEB Cost (AOC) | | Implicit Subsidy | Percentage of AOC Contributed | Net OPEB Obligation |
| 2016 | \$ 35,667 | | To Be Determined | To Be Determined | To Be Determined |
| 2015 | 36,106 | \$ | 22,960 | 64% | \$ 269,424 |
| 2014 | 35,791 | | 20,130 | 56% | 254,748 |
| 2013 | 56,712 | | 15,980 | 28% | 234,259 |
| 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

| 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 |
| 2016 | \$ 32,694 | | <== To Be Determined ==> | | |
| 2015 | 33,295 | \$ 20,909 | \$ 2,050 | \$ 22,960 | 69% |
| 2014 | 32,798 | 17,267 | 2,863 | 20,130 | 61% |
| 2013 | 55,824 | 15,808 | 172 | 15,980 | 29% |
| 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

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

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, 2015 |
| 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 | 3.25% |
| 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, 2015 | June 30, 2014 | % Change |
|---|----------------------|----------------------|-----------------|
| Active Employees | | | |
| <i>Police Tier 1</i> | | | |
| Count | 842 | 930 | -9.46% |
| Average Age | 43.4 | 42.8 | 1.37% |
| Average OPEB Benefit Service | 15.7 | 15.1 | 4.27% |
| Total Payroll | 102,217,827 | 107,413,220 | -4.84% |
| <i>Police Tier 2</i> | | | |
| Count | 87 | 67 | 29.85% |
| Average Age | 29.4 | 29.1 | 0.94% |
| Average OPEB Benefit Service | 1.6 | 1.1 | 47.35% |
| Total Payroll | 7,650,749 | 5,533,674.0 | 38.26% |
| <i>Fire Tier 1</i> | | | |
| Count | 626 | 657 | -4.72% |
| Average Age | 42.8 | 42.1 | 1.64% |
| Average OPEB Benefit Service | 13.3 | 12.6 | 5.21% |
| Total Payroll | 73,041,454 | 75,241,817 | -2.92% |
| <i>Fire Tier 2</i> | | | |
| Count | 22 | N/A | N/A |
| Average Age | 29.9 | N/A | N/A |
| Average OPEB Benefit Service | 0.5 | N/A | N/A |
| Total Payroll | 1,571,807 | N/A | N/A |
| <i>Total</i> | | | |
| Count | 1,577 | 1,654 | -4.66% |
| Average Age | 42.2 | 42.0 | 0.50% |
| Average OPEB Benefit Service | 13.8 | 13.6 | 1.55% |
| Total Payroll | 184,481,838 | 188,188,712 | -1.97% |
| Retirees and Spouses with Medical Coverage | | | |
| Pre-65 | 1,685 | 1,671 | 0.84% |
| Post 65 | 1,504 | 1,447 | 3.94% |
| Total | 3,189 | 3,118 | 2.28% |
| Retirees with Dental Coverage | 1,992 | 1,917 | 3.91% |
| Term Vested Members* | 9 | 9 | 0.00% |

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

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

Active Member Data as of June 30, 2015:

| Age Group | Eligible Active Employees | | | | | | | Total |
|--------------|-------------------------------|------------|------------|------------|------------|-----------|----------|--------------|
| | Years of OPEB Benefit Service | | | | | | | |
| | < 5 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30 + | |
| Under 25 | 17 | 0 | 0 | 0 | 0 | 0 | 0 | 17 |
| 25 to 29 | 90 | 7 | 0 | 0 | 0 | 0 | 0 | 97 |
| 30 to 34 | 80 | 113 | 6 | 0 | 0 | 0 | 0 | 199 |
| 35 to 39 | 44 | 103 | 80 | 18 | 0 | 0 | 0 | 245 |
| 40 to 44 | 11 | 57 | 91 | 182 | 21 | 0 | 0 | 362 |
| 45 to 49 | 4 | 25 | 44 | 196 | 152 | 23 | 0 | 444 |
| 50 to 54 | 2 | 2 | 13 | 58 | 92 | 23 | 0 | 190 |
| 55 to 59 | 0 | 0 | 2 | 11 | 5 | 4 | 0 | 22 |
| 60 to 64 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| 65 and up | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 248 | 307 | 236 | 466 | 270 | 50 | 0 | 1,577 |

Inactive Member Data as of June 30, 2015:

| Age Group | Retirees, Disabled Retirees and Surviving Spouses | | | | | |
|--------------|---|------------|--------------|------------------|------------|--------------|
| | Medical Insurance | | | Dental Insurance | | |
| | Males | Females | Total | Males | Females | Total |
| Under 50 | 56 | 11 | 67 | 59 | 11 | 70 |
| 50 to 54 | 167 | 34 | 201 | 169 | 36 | 205 |
| 55 to 59 | 258 | 32 | 290 | 264 | 34 | 298 |
| 60 to 64 | 298 | 22 | 320 | 309 | 28 | 337 |
| 65 to 69 | 326 | 36 | 362 | 348 | 44 | 392 |
| 70 to 74 | 272 | 40 | 312 | 278 | 43 | 321 |
| 75 to 79 | 158 | 27 | 185 | 166 | 31 | 197 |
| 80 to 84 | 66 | 30 | 96 | 70 | 31 | 101 |
| 85 to 89 | 35 | 15 | 50 | 37 | 18 | 55 |
| Over 90 | <u>6</u> | <u>10</u> | <u>16</u> | <u>6</u> | <u>10</u> | <u>16</u> |
| Total | 1,642 | 257 | 1,899 | 1,706 | 286 | 1,992 |

Counts do not include dependent spouses

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APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

| Medical Plan Elections | | | |
|-------------------------------------|---------------------------------|------------|--------------|
| Medical Plan | Retirees & Surviving Spouses | Spouses | Total |
| Pre-Medicare Medical Plans | | | |
| Kaiser DHMO | 95 | 168 | 263 |
| Kaiser \$25 Copay | 366 | 251 | 617 |
| Kaiser \$15 Co-pay (Hawaii) | 3 | 5 | 8 |
| Kaiser \$25 Co-pay (Northwest) | 2 | 3 | 5 |
| HMO \$45 Copay | 33 | 22 | 55 |
| HMO \$25 Copay | 204 | 186 | 390 |
| PPO / POS \$30 Copay | 27 | 18 | 45 |
| PPO / POS \$25 Copay | <u>148</u> | <u>154</u> | <u>302</u> |
| Total | 878 | 807 | 1,685 |
| Medicare Medical Plans | | | |
| Kaiser Senior Advantage | 390 | 187 | 577 |
| Kaiser Senior Advantage (Hawaii) | 5 | 1 | 6 |
| Kaiser Senior Advantage (Northwest) | 6 | 4 | 10 |
| BS Medicare HMO | 112 | 47 | 159 |
| BS Medicare PPO/POS | <u>508</u> | <u>244</u> | <u>752</u> |
| Total | 1021 | 483 | 1,504 |

| Current Vested Terminations* | | | |
|------------------------------|----------|----------|----------|
| Age Group | Male | Female | Total |
| Under 45 | 0 | 0 | 0 |
| 45 to 49 | 7 | 0 | 7 |
| 50 to 54 | 0 | 1 | 1 |
| 55 to 59 | 1 | 0 | 1 |
| 60 to 64 | 0 | 0 | 0 |
| Over 65 | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 8 | 1 | 9 |

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

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| | Status Reconciliation | | | | | Total |
|--------------------------|-----------------------|----------------------|------------|---------------------|------------|--------------|
| | Active | Terminated Vested | Retiree | Surviving Spouse | Disabled | |
| Beginning of Year | 1,654 | 9 | 844 | 201 | 874 | 3,582 |
| New Hires | 65 | 0 | 0 | 0 | 0 | 65 |
| Rehires | 1 | 0 | 0 | 0 | 0 | 1 |
| Non-vested terminations | (55) | 0 | 0 | 0 | 0 | (55) |
| Vested Terminations | (2) | 2 | 0 | 0 | 0 | 0 |
| Service Retirements | (62) | (2) | 64 | 0 | 0 | 0 |
| Disabled Retirements | (24) | 0 | (25) | 0 | 49 | 0 |
| Death | 0 | 0 | (7) | (8) | (9) | (24) |
| New Survivors | 0 | 0 | (7) | 14 | (4) | 3 |
| No longer covered | 0 | 0 | 0 | 0 | 0 | 0 |
| Data corrections | 0 | 0 | 4 | 0 | 2 | 6 |
| End of Year | 1,577 | 9 | 873 | 207 | 912 | 3,578 |

Counts do not include dependent spouses

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Economic Assumptions

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown on the next page were adopted by the Board of Administration with our input at the December 3, 2015 and January 7, 2016 Board meetings.

1. Expected Return on Plan Assets:

7.00% per year net of investment expenses. The long-term expected return on assets based on NEPC's capital market assumptions for a 30-year time horizon is 7.97%. The Board applied a margin for adverse deviation to improve the probability of achieving the discount rate.

2. Expected Return on Employer Assets:

3.50% per year.

3. Blended Discount Rate:

6.00% per year.

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APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

4. Per Person Cost Trends:

| To Calendar Year | Annual Increase | | | |
|---------------------|------------------|----------------------|--------|--------------------|
| | Pre- Medicare | Medicare Eligible | Dental | Part B Premiums |
| 2017 | 8.50% | 6.50% | 4.00% | -0.90% |
| 2018 | 8.20 | 6.34 | 4.00 | 1.33 |
| 2019 | 7.89 | 6.18 | 4.00 | 8.09 |
| 2020 | 7.59 | 6.02 | 4.00 | 5.90 |
| 2021 | 7.29 | 5.86 | 4.00 | 5.43 |
| 2022 | 6.98 | 5.70 | 4.00 | 5.56 |
| 2023 | 6.68 | 5.54 | 4.00 | 5.58 |
| 2024 | 6.38 | 5.38 | 4.00 | 5.71 |
| 2025 | 6.07 | 5.21 | 4.00 | 5.59 |
| 2026 | 5.77 | 5.05 | 4.00 | 5.46 |
| 2027 | 5.46 | 4.89 | 4.00 | 5.33 |
| 2028 | 5.16 | 4.73 | 4.00 | 5.20 |
| 2029 | 4.86 | 4.57 | 4.00 | 5.08 |
| 2030 | 4.55 | 4.41 | 4.00 | 4.95 |
| 2031 | 4.25 | 4.25 | 4.00 | 4.82 |
| 2032 | 4.25 | 4.25 | 4.00 | 4.69 |
| 2033 | 4.25 | 4.25 | 4.00 | 4.57 |
| 2034 | 4.25 | 4.25 | 4.00 | 4.44 |
| 2035 | 4.25 | 4.25 | 4.00 | 4.31 |
| 2036 | 4.25 | 4.25 | 4.00 | 4.18 |
| 2037 | 4.25 | 4.25 | 4.00 | 4.06 |
| 2038 | 4.25 | 4.25 | 4.00 | 3.93 |
| 2039 | 4.25 | 4.25 | 4.00 | 3.80 |
| 2040+ | 4.25 | 4.25 | 4.00 | 3.80 |

Actual premium increases for 2016 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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Demographic Assumptions

The demographic assumptions shown below were adopted by the Board of Administration at the December 3, 2015 Board meeting based on recommendations from our experience study covering the plan experience during the period from July 1, 2009 through June 30, 2015.

1. Retirement Rates:

The following rates of retirement apply only to those eligible for unreduced benefits.

| Age | Rates of Retirement by Age | | | | | |
|---------|----------------------------|---------------|-----------|--------|-------------|-----------|
| | Tier 1 | Police Tier 2 | | Tier 1 | Fire Tier 2 | |
| | | <30 Years | 30+ Years | | <30 Years | 30+ Years |
| 50 | 60.00% | 0.00% | 0.00% | 35.00% | 0.00% | 0.00% |
| 51 – 55 | 50.00 | 0.00 | 0.00 | 35.00 | 0.00 | 0.00 |
| 56 - 59 | 40.00 | 0.00 | 0.00 | 27.50 | 0.00 | 0.00 |
| 60 - 61 | 50.00 | 50.00 | 100.00 | 27.50 | 25.00 | 50.00 |
| 62 - 64 | 100.00 | 50.00 | 100.00 | 100.00 | 25.00 | 50.00 |
| 65 - 69 | 100.00 | 50.00 | 100.00 | 100.00 | 35.00 | 100.00 |
| 70+ | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Tier 1 vested terminated members are assumed to retire at age 55 and Tier 2 vested terminated members are assumed to retire at age 60.

2. Disability Rates:

Police: Non-Industrial plus Industrial CalPERS Public Agency disability rates for Police multiplied by 90% prior to age 50 and 140% for ages 50+.

Fire: Non-Industrial plus Industrial CalPERS Public Agency disability rates for Fire multiplied by 90% prior to age 50 and 180% for ages 50+.

| Age | Rates of Disability at Selected Ages | |
|-----|--------------------------------------|---------|
| | Police | Fire |
| 30 | 0.446% | 0.076% |
| 40 | 1.026% | 0.279% |
| 50 | 2.696% | 5.080% |
| 60 | 8.714% | 10.769% |

100% of disabilities are assumed to be duty related.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

3. Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant mortality tables shown below. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

| Category | Base Mortality Tables | |
|------------------------------|--|--|
| | Male | Female |
| Healthy Annuitant | 0.948 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male), projected using Scale MP-2015 on a generational basis | 1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female), projected using Scale MP-2015 on a generational basis |
| Healthy Non-Annuitant | 0.948 times the CalPERS 2009 Employee Mortality Table (Male), projected using Scale MP-2015 on a generational basis | 1.048 times the CalPERS 2009 Employee Mortality Table (Female), projected using Scale MP-2015 on a generational basis |
| Disabled Annuitant | 0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Male), projected using Scale MP-2015 on a generational basis | 0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Female), projected using Scale MP-2015 on a generational basis |

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APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

4. Termination Rates:

Sample rates of termination are shown in the following table.

| Rates of Termination | | |
|----------------------|--------|--------|
| Service | Police | Fire |
| 0 | 13.75% | 20.00% |
| 1 | 11.75 | 20.00 |
| 2 | 9.85 | 3.50 |
| 3 | 8.35 | 2.00 |
| 4 | 7.00 | 1.30 |
| 5 | 5.75 | 1.10 |
| 6 | 4.60 | 1.00 |
| 7 | 3.80 | 0.90 |
| 8 | 3.10 | 0.80 |
| 9 | 2.65 | 0.70 |
| 10 | 2.20 | 0.60 |
| 11 | 2.00 | 0.50 |
| 12 | 1.85 | 0.50 |
| 13 | 1.70 | 0.50 |
| 14 | 1.65 | 0.50 |
| 15+ | 1.60 | 0.50 |

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

5. Salary Increase Rate:

Wage inflation component is assumed to be 3.25%.

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 | 6.75% |
| 1 | 6.00 |
| 2 | 5.25 |
| 3 | 4.50 |
| 4 | 3.75 |
| 5 | 3.25 |
| 6 | 2.75 |
| 7 | 2.25 |
| 8 | 1.75 |
| 9 | 1.25 |
| 10+ | 1.00 |

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

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 2015 plan. The PPO / POS \$30 Co-pay and POS \$25 Co-pay plans will discontinue as of 1/1/2016, all current participants are assumed to transition to the HMO \$45 plan. Save-Net network plans for both HMO \$45 and HMO \$25 will be offered as of 1/1/2016; 70% of the current enrollees of the HMO \$45 and HMO \$25 plans are expected to transition the corresponding Save-Net plans. 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 | | 10% | · Kaiser Senior Advantage | 40% |
| · Kaiser \$25 Co-pay | | 45% | · BS Medicare HMO | 10% |
| · HMO \$45 Co-pay | | 1% | · BS Medicare PPO | 50% |
| · HMO \$45 SaveNet | | 4% | | |
| · HMO \$25 Co-pay | | 6% | Dental Plans (All Retirees) | |
| · HMO \$25 SaveNet | | 14% | · Delta Dental PPO | 99% |
| · PPO / POS \$25 Co-pay | | 20% | · DeltaCare HMO | 1% |

7. Family Composition:

80% of married males and 50% of married females will elect spouse coverage in a medical plan at retirement.

100% of married employees will elect spouse coverage in a dental plan at retirement.

Pre-Medicare, 48% of males, and 42% of females will cover children.

8. Enrollment by Rating Tier:

For current retirees, their actual enrollment by rating tier is used to value the explicit subsidy. For future retirees, the following assumptions on the next page are used:

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| Assumed Rating Tier Elections for Future Retirees | | | | |
|---|--------|--------|---------|--------|
| | Single | Emp/Sp | Emp/Chd | Family |
| Pre-Medicare Medical Plans | | | | |
| Males | 17% | 35% | 6% | 42% |
| Females | 39% | 19% | 21% | 21% |
| Medicare Medical Plans | | | | |
| Males | 23% | 77% | 0% | 0% |
| Females | 60% | 40% | 0% | 0% |

9. 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.

10. Married Percentage:

| Percentage Married | |
|--------------------|------------|
| Gender | Percentage |
| Males | 85% |
| Females | 85% |

11. Administrative Expenses:

Included in the average monthly premiums.

12. Changes since Last Valuation

Demographic assumptions were updated based on the 2015 experience study. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

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APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 3, 2015 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2015 and 2016. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren), and retiree plus family) were blended based on enrollment data for the 2015 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the PPO / POS \$30 and POS \$25 plans were assumed to transition to the HMO \$45 Plan as of 1/1/2016. Individuals on the HMO \$30 and HMO \$45 plans were assumed to transition to the Save-Net alternative plans at a rate of 70%. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs 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.

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of July 1, 2015 based on the premiums for 2015 and 2016. 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:

| Age | Sample Claims Costs - Non-Medicare Eligible | | | | | |
|-----|--|--------|---------------------------|--------|------------------------|--------|
| | Kaiser DHMO | | Kaiser \$25 Co-Pay | | HMO \$45 Co-pay | |
| | Male | Female | Male | Female | Male | Female |
| 40 | 4,995 | 6,849 | 6,935 | 9,542 | 7,896 | 10,718 |
| 45 | 5,070 | 6,571 | 7,059 | 9,170 | 7,951 | 10,236 |
| 50 | 5,512 | 6,878 | 7,699 | 9,621 | 8,565 | 10,645 |
| 55 | 6,227 | 7,371 | 8,724 | 10,334 | 9,595 | 11,338 |
| 60 | 7,257 | 8,073 | 10,192 | 11,340 | 11,106 | 12,347 |
| 64 | 8,384 | 8,765 | 11,792 | 12,329 | 12,774 | 13,355 |

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| <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 | 9,407 | 12,769 | 7,339 | 10,322 | 7,722 | 11,087 |
| 45 | 9,473 | 12,195 | 7,601 | 10,016 | 8,129 | 10,854 |
| 50 | 10,204 | 12,683 | 8,453 | 10,653 | 9,203 | 11,683 |
| 55 | 11,431 | 13,507 | 9,746 | 11,588 | 10,772 | 12,850 |
| 60 | 13,230 | 14,710 | 11,546 | 12,859 | 12,914 | 14,395 |
| 64 | 15,218 | 15,910 | 13,472 | 14,086 | 15,176 | 15,869 |

| <u>Sample Claims Costs - Non-Medicare Eligible</u> | | | | |
|--|---------------------------|--------|---------------------------|--------|
| Age | <u>Savnet \$45 Co-pay</u> | | <u>Savnet \$25 Co-pay</u> | |
| | Male | Female | Male | Female |
| 40 | 6,869 | 9,324 | 8,184 | 11,109 |
| 45 | 6,917 | 8,905 | 8,241 | 10,609 |
| 50 | 7,452 | 9,262 | 8,878 | 11,034 |
| 55 | 8,348 | 9,864 | 9,945 | 11,751 |
| 60 | 9,662 | 10,742 | 11,511 | 12,798 |
| 64 | 11,113 | 11,618 | 13,239 | 13,841 |

| <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 | 2,770 | 2,955 | 6,336 | 6,758 | 6,600 | 7,039 |
| 70 | 3,253 | 3,263 | 7,440 | 7,462 | 7,750 | 7,773 |
| 75 | 3,637 | 3,518 | 8,320 | 8,046 | 8,666 | 8,381 |
| 80 | 3,864 | 3,631 | 8,839 | 8,306 | 9,207 | 8,651 |
| 85 | 3,916 | 3,594 | 8,958 | 8,220 | 9,331 | 8,562 |

| <u>Sample Claims Costs - Dental</u> | | | | |
|-------------------------------------|-------------------------|--------|----------------------|--------|
| Age | <u>Delta Dental PPO</u> | | <u>DeltaCare HMO</u> | |
| | Male | Female | Male | Female |
| All | 693 | 693 | 317 | 317 |

2. Medicare Part D Subsidy:

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

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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.

9. Changes since Last Valuation:

There was no change to the claims cost process.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1. Actuarial Cost Method

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. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.000% for 2014-15, 7.125% for 2013-14, 7.25% for 2012-13, 7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) 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.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. For the Police Department the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period commencing June 30, 2008. For the Fire Department, the unfunded actuarial liability is amortized as a level percent of pay over a closed 30-year period as of June 30, 2010.

APPENDIX A - MEMBER DATA, ASSUMPTIONS AND METHODS

4. Contributions

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. The transition has been completed for both Police and Fire, so contribution rates are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the cap described below.

We understand that the current interpretation of the phase-in language means that the fiscal year ending 2014 contribution rates for Police and the fiscal year ending 2016 contribution rates for Fire are frozen for all future years unless the calculated contribution rates are lower.

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.

5. Changes since Last Valuation:

None.

APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

Summary of Key Substantive Plan Provisions:

Eligibility:

Employees who retire (include deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before August 4, 2013) are eligible for unreduced service retirement at age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced service retirement is available at age 50 with 20 years of service. Tier 2 employees (hired on or after August 4, 2013) are eligible for unreduced service retirement at age 60 with 10 years of service or reduced service retirement at age 50 with 10 years of service. Service credited through reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits.

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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

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.

Premiums: Monthly premiums before adjustments for 2015 and 2016 are as follows.

| 2015 Monthly Premiums | | | | |
|--|----------|----------|----------|------------|
| | Single | Emp/Sp | Emp/Chd | Family |
| Medical | | | | |
| <u>Non-Medicare Monthly Rates</u> | | | | |
| Kaiser DHMO | \$449.74 | \$899.48 | \$787.04 | \$1,349.20 |
| Kaiser \$25 Co-pay | 549.24 | 1,098.44 | 961.14 | 1,647.88 |
| Blue Shield HMO \$45 Co-pay | 611.73 | 1,223.45 | 1,070.51 | 1,835.18 |
| Blue Shield HMO \$25 Co-pay | 687.51 | 1,375.02 | 1,203.15 | 2,062.53 |
| Blue Shield PPO or POS \$30 Co-pay | 723.46 | 1,446.92 | 1,266.07 | 2,170.38 |
| Blue Shield PPO or POS \$25 Co-pay | 884.91 | 1,769.82 | 1,548.60 | 2,654.72 |
| <u>Medicare-Eligible Monthly Rates</u> | | | | |
| Kaiser Senior Advantage | \$284.65 | \$569.30 | \$569.30 | \$853.95 |
| Blue Shield Medicare HMO | 570.49 | 1,141.01 | 1,141.01 | 1,656.65 |
| Blue Shield Medicare PPO / POS | 661.99 | 1,323.98 | 1,323.98 | 1,987.67 |
| Dental | | | | |
| Delta Dental PPO | \$48.92 | \$107.62 | \$117.42 | \$151.66 |
| DeltaCare HMO | 27.16 | 54.30 | 47.50 | 81.44 |

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
 ACTUARIAL VALUATION AS OF JUNE 30, 2015

APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

| 2016 Monthly Premiums | | | | |
|--|----------|----------|----------|------------|
| | Single | Emp/Sp | Emp/Chd | Family |
| Medical | | | | |
| <u>Non-Medicare Monthly Rates</u> | | | | |
| Kaiser DHMO | \$466.92 | \$933.84 | \$817.12 | \$1,400.78 |
| Kaiser \$25 Co-pay | 570.24 | 1,140.48 | 997.88 | 1,710.66 |
| Blue Shield HMO \$45 Co-pay | 722.04 | 1,444.06 | 1,263.54 | 2,166.06 |
| Blue Shield HMO \$45 SaveNet | 628.34 | 1,256.64 | 1,099.56 | 1,884.96 |
| Blue Shield HMO \$25 Co-pay | 811.48 | 1,622.94 | 1,420.10 | 2,434.42 |
| Blue Shield HMO \$25 SaveNet | 706.18 | 1,412.34 | 1,235.82 | 2,118.52 |
| Blue Shield PPO \$25 Co-pay | 945.26 | 1,890.50 | 1,654.20 | 2,835.74 |
| <u>Medicare-Eligible Monthly Rates</u> | | | | |
| Kaiser Senior Advantage | \$272.34 | \$544.68 | \$544.68 | \$817.02 |
| Blue Shield Medicare PPO / POS | 707.14 | 1,414.28 | 1,414.28 | 2,123.24 |
| Blue Shield Medicare HMO | 673.36 | 1,346.72 | 1,346.72 | 1,955.36 |
| Dental | | | | |
| Delta Dental PPO | \$48.92 | \$107.62 | \$117.42 | \$151.66 |
| DeltaCare HMO | 24.44 | 48.86 | 42.74 | 73.30 |

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX B - SUBSTANTIVE PLAN PROVISIONS

Summary of 2015 Benefit Plans:

| Non-Medicare Plans: | Kaiser \$25 Co-Pay | Kaiser DHMO | Blue Shield HMO \$25 Copay and \$25 copay SaveNet | Blue Shield HMO \$45 Copay and \$45 copay SaveNet | Blue Shield PPO \$25 Co-Pay (In Network) |
|--|---------------------------|--------------------|--|--|---|
| Annual Out-of-Pocket Maximum (one person/family) | \$1,500/\$3,000 | \$4,000/\$8,000 | \$1,000/\$2,000 | \$3,500/\$7,000 | \$2,100/\$4,200 |
| Annual Deductible (one person/family) | None | \$1,500/\$3,000 | None | None | \$100/\$200 |
| Office Visit copay | \$25 | \$40 | \$25 | \$45 | \$25 |
| Emergency Room copay | \$100 | 30%* | \$100 | \$200 | \$100 |
| Hospital Care copay | \$100 | 30%* | \$100 | 50% | \$100 |
| Prescription Drug retail copay (30-day supply): | | | | | |
| Generic | \$10 | \$10 | \$10 | \$15 | \$10 |
| Brand | \$25 | \$30 | \$25 | \$30** | \$25 |
| Non-Formulary | N/A | N/A | \$40 | 50% | \$40 |
| | | | | **\$250 deductible | |

| Medicare-Eligible Plans: | Kaiser | BS HMO | BS PPO |
|--|-----------------|-----------------|-----------------|
| Annual Out-of-Pocket Maximum (one person/family) | \$1,500/\$3,000 | \$1,000/\$2,000 | \$2,000/\$4,000 |
| Annual Deductible (one person/family) | None | None | \$100/\$200 |
| Office Visit copay | \$25 | \$25 | \$25 |
| Emergency Room copay | \$50 | \$100 | \$100 |
| Hospital Care copay | \$250 | \$100 | \$100 + 10% |
| Prescription Drug retail copay (30-day supply): | | | |
| Generic | \$10 | \$10 | \$10 |
| Brand | \$10 | \$25 | \$25 |
| Non-Formulary | N/A | \$40 | \$40 |

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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
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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. Additionally, there is a total cap on the contribution rate of 10.0%.

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 1.35% of payroll. Additionally, there is a total cap on the contribution rate of 11.0%.

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.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2015

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
ACTUARIAL VALUATION AS OF JUNE 30, 2015

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)



Classic Values, Innovative Advice