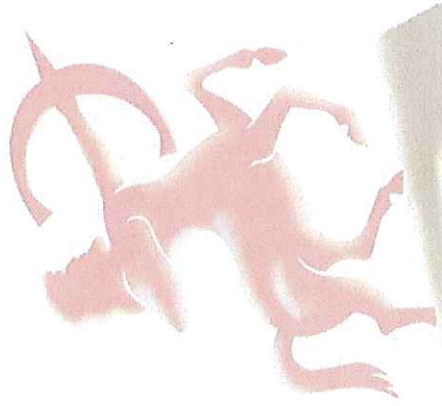


**Presentation to the  
Board of Administration  
Police and Fire  
Employees' Retirement System**

**June 30, 2011  
OPEB Actuarial Valuation**



Presentation Date March 1, 2012

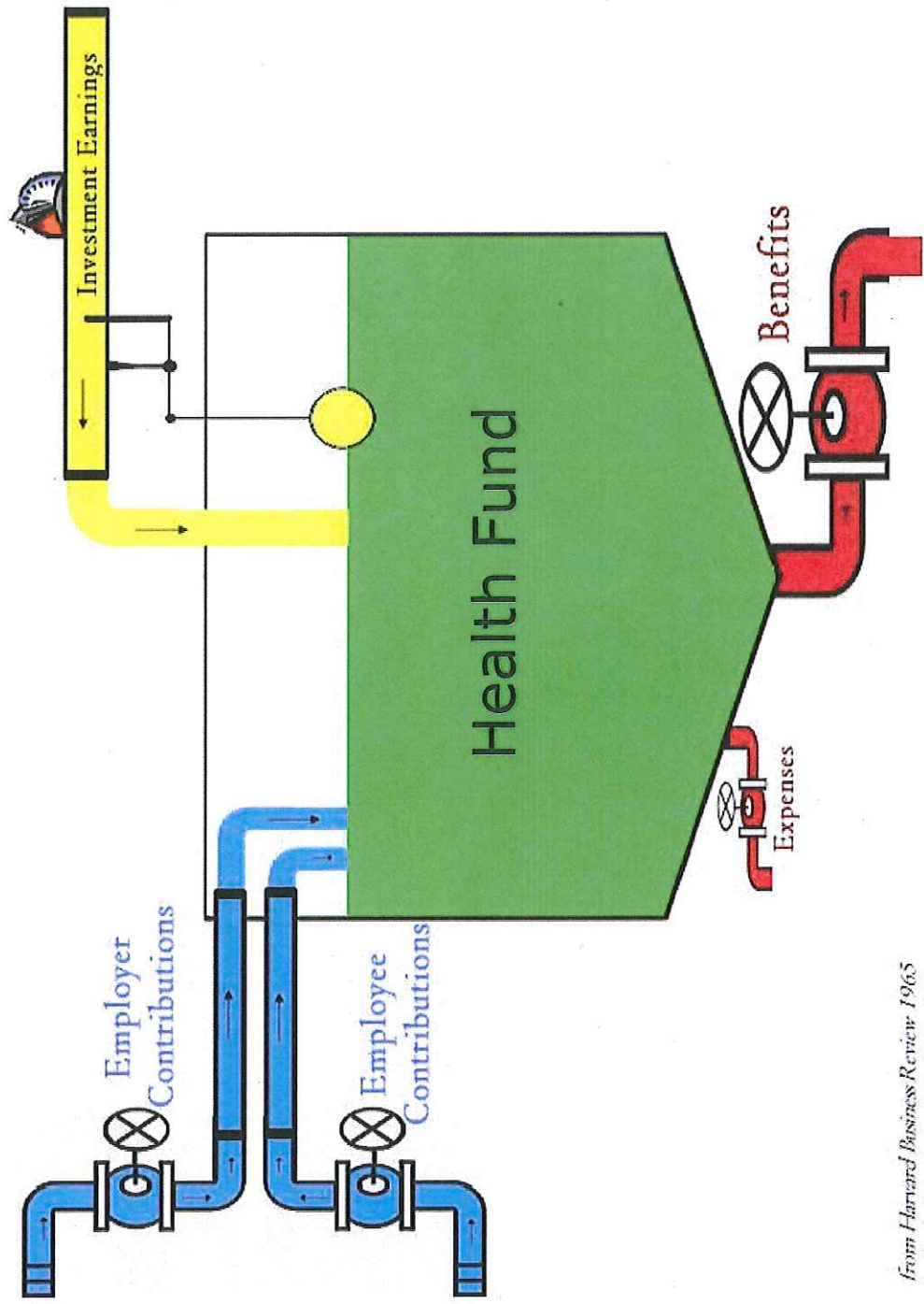
By Bill Hallmark, Margaret Tempkin



# AGENDA

- Actuarial Valuation Overview
- Transition of Actuarial Services
- Key Results
- Changes Since Prior Valuation
- Sensitivity to Health Care Trend
- Projections
- Potential Future Issues

# Actuarial Valuation Overview



from Harvard Business Review 1965



# Transition of Actuarial Services Replication of 2010 Segal Valuation

|                           | Segal            | Cheiron          | % Change |
|---------------------------|------------------|------------------|----------|
| Present Value of Benefits |                  |                  |          |
| Actives                   | 801,806.2        | 814,300.7        | 1.6%     |
| Inactives                 | <u>568,610.7</u> | <u>565,670.5</u> | -0.5%    |
| Total                     | 1,370,416.9      | 1,379,971.2      | 0.7%     |
| Actuarial Liability       |                  |                  |          |
| Actives                   | 377,697.3        | 377,771.8        | 0.0%     |
| Inactives                 | <u>568,610.7</u> | <u>565,670.5</u> | -0.5%    |
| Total                     | 946,308.0        | 943,442.3        | -0.3%    |
| Normal Cost Percentage    | 12.79%           | 12.64%           | -1.2%    |

*Amounts in thousands*



# Key Valuation Results

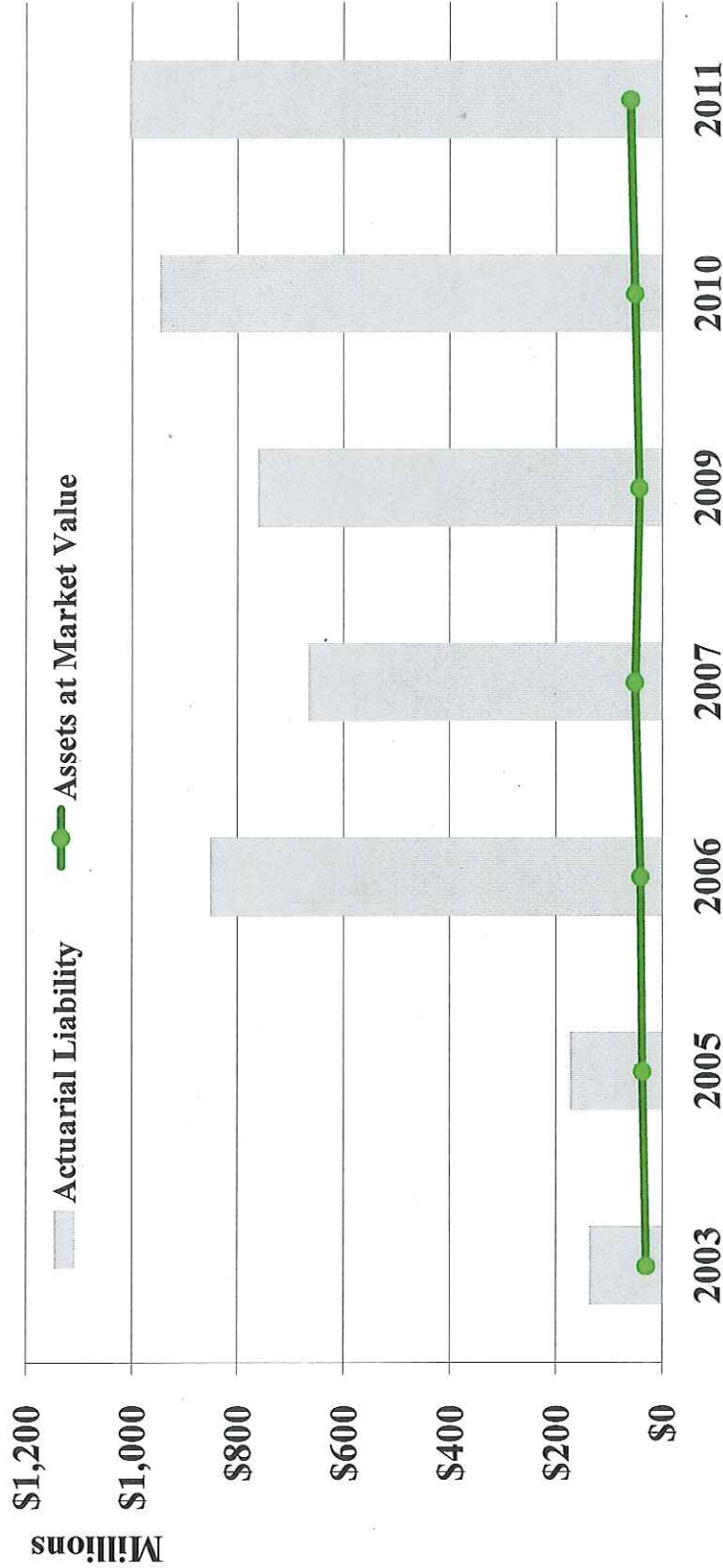
| Table 1<br>Summary of Key Valuation Results<br>GASB Valuation Basis<br>(dollars in thousands) |                  |                  |  |
|---|------------------|------------------|--|
| Valuation Date  | 6/30/2011        | 6/30/2010        |  |
| Discount Rate   | 5.70%            | 6.30%            |  |
| Actuarial Liability (AL)  | \$ 1,003,795     | \$ 946,308       |  |
| Actuarial Value of Assets (AVA)   | 60,709           | 58,586           |  |
| Unfunded Actuarial Liability (UAL)  | \$ 943,087       | \$ 887,722       |  |
| AVA Funding Ratio   | 6.0%             | 6.2%             |  |
| Market Value of Assets (MVA)  | \$ 59,669        | \$ 50,820        |  |
| Unfunded Liability (MVA Basis)  | 944,126          | 895,488          |  |
| MVA Funded Ratio  | 5.9%             | 5.4%             |  |
| <b>Fiscal Year Ending</b>   | <b>6/30/2012</b> | <b>6/30/2011</b> |  |
| City ARC  |                  |                  |  |
| -- if paid as a percent of pay  | 32.55%           | 24.08%           |  |
| -- if paid as a dollar amount (middle of year)  | \$ 62,079        | \$ 60,447        |  |
| Funding Valuation Basis <sup>1</sup>  |                  |                  |  |
| Valuation Date  | 6/30/2011        | 6/30/2010        |  |
| Discount Rate   | 7.50%            | 7.75%            |  |
| Actuarial Liability (AL)  | \$ 657,472       | \$ 686,407       |  |
| Actuarial Value of Assets (AVA)   | 60,709           | 58,586           |  |
| Unfunded Actuarial Liability (UAL)  | \$ 596,764       | \$ 627,821       |  |
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| <b>Fiscal Year Ending</b>   | <b>6/30/2013</b> | <b>6/30/2012</b> |  |
| Member Contribution Rate  | 7.48%            | 6.21%            |  |
| City Contribution Rate  | 8.11%            | 6.74%            |  |
| City Contribution Amount (beginning of year)  | \$ 14,925        | \$ 16,299        |  |

<sup>1</sup> Excludes implicit subsidy



# Historical Trends

The City of San Jose Police and Fire Retiree Healthcare Plan



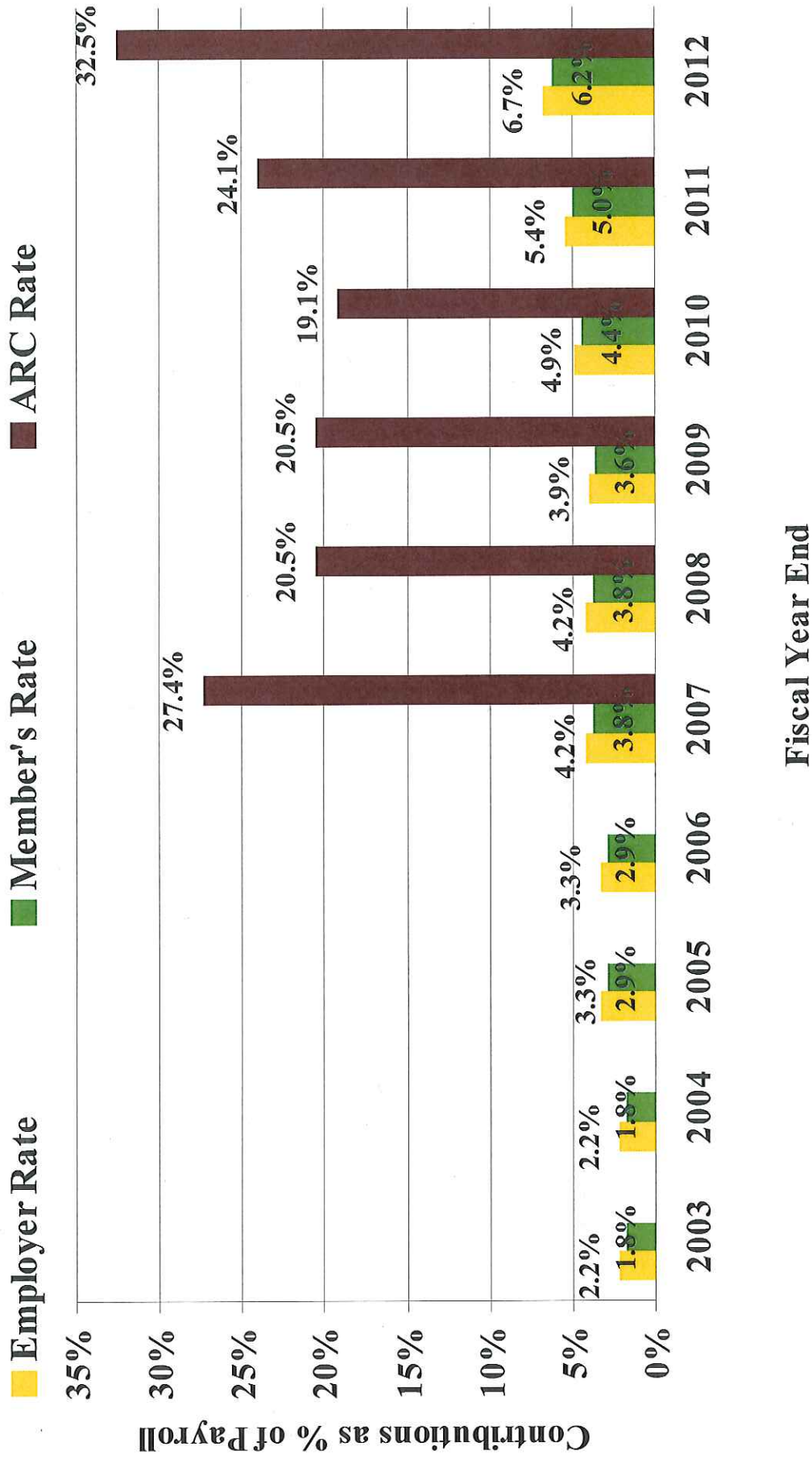
\* 2006 was the first GASB 43/45 valuation.

|                                | 2003     | 2005     | 2006     | 2007     | 2009     | 2010     | 2011     |
|--------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Funded Ratio                   | 24.1%    | 20.9%    | 4.5%     | 6.8%     | 7.3%     | 6.2%     | 6.0%     |
| UAL/(Surplus)<br>(in millions) | \$ 103.7 | \$ 136.6 | \$ 812.8 | \$ 620.8 | \$ 706.0 | \$ 887.7 | \$ 943.1 |
| Discount Rate                  | 8.00%    | 8.00%    | 5.30%    | 6.40%    | 6.70%    | 6.30%    | 5.70%    |



# Historical Trends

## City of San Jose Police & Fire Retiree Medical and Dental Insurance Plan







# Funding Policy

- Old funding policy was to spread the cost of the projected benefit payments for the next 10 years as a level percentage of payroll for the next 10 years
- The City and unions agreed to transition from old funding policy to pre-fund the full ARC (excluding implicit subsidy) over a 5-year period
  - Police transition began with 2009-10 contribution rates
  - Fire transition began with 2011-12 contribution rates
- Costs are split as follows:
  - Retiree medical: 50% City and 50% member
  - Retiree dental: 75% City and 25% member
  - Implicit subsidy: 100% City (pay-as-you-go)



# Funding Policy

- Annual increase in contribution rates is limited:
  - 1.35% of pay for the City (excluding implicit subsidy)
  - 1.25% of pay for Members
- Ultimate contribution rate is capped
  - 11% for the City (excluding implicit subsidy)
  - 10% for Members
- If calculated rate exceeds maximum, “the parties shall meet and confer....”
- “Nothing in this Article shall be construed to obligate Plan members to pay more than 10% of pensionable pay or the City to pay more than 11% of pensionable pay to fund retiree healthcare.”
- In our projections, we have limited contribution rates to 11% and 10% for the City and members respectively



# Funding Valuation Results

**Table 14**  
**Police Contribution Rates –Funding Basis**  
**Reflecting Phase-In and Caps**

|                             | Medical       | Dental       | Total         |
|-----------------------------|---------------|--------------|---------------|
| Old Funding Basis           | 9.23%         | 0.90%        | 10.14%        |
| New Funding Basis           | 25.82%        | 2.30%        | 28.11%        |
| Percentage New              | 80%           | 80%          | 80%           |
| Phased-In Contribution Rate |               |              |               |
| Member                      | 11.25%        | 0.51%        | 11.76%        |
| City                        | <u>11.25%</u> | <u>1.51%</u> | <u>12.76%</u> |
| Total                       | 22.50%        | 2.02%        | 24.52%        |
| Prior FY Contribution Rates |               |              |               |
| Member                      | 6.69%         | 0.32%        | 7.01%         |
| City                        | <u>6.66%</u>  | <u>0.95%</u> | <u>7.61%</u>  |
| Total                       | 13.35%        | 1.27%        | 14.62%        |
| Capped Contribution Rates   |               |              |               |
| Member                      | 7.90%         | 0.36%        | 8.26%         |
| City                        | <u>7.90%</u>  | <u>1.06%</u> | <u>8.96%</u>  |
| Total                       | 15.80%        | 1.42%        | 17.22%        |



# Funding Valuation Results

**Table 15**  
**Fire Contribution Rates –Funding Basis**  
**Reflecting Phase-In and Caps**

|                             | Medical | Dental | Total  |
|-----------------------------|---------|--------|--------|
| Old Funding Basis           | 6.99%   | 0.75%  | 7.74%  |
| New Funding Basis           | 25.47%  | 2.33%  | 27.80% |
| Percentage New              | 40%     | 40%    | 40%    |
| Phased-In Contribution Rate |         |        |        |
| Member                      | 7.19%   | 0.35%  | 7.54%  |
| City                        | 7.19%   | 1.03%  | 8.22%  |
| Total                       | 14.38%  | 1.38%  | 15.76% |
| Prior FY Contribution Rates |         |        |        |
| Member                      | 4.63%   | 0.23%  | 4.86%  |
| City                        | 4.58%   | 0.69%  | 5.27%  |
| Total                       | 9.21%   | 0.92%  | 10.13% |
| Capped Contribution Rates   |         |        |        |
| Member                      | 5.84%   | 0.27%  | 6.11%  |
| City                        | 5.85%   | 0.77%  | 6.62%  |
| Total                       | 11.69%  | 1.04%  | 12.73% |

# Changes Since Prior Valuation

| Valuation Date                           | June 30, 2011 | June 30, 2010 | % Change |
|--|---------------|---------------|----------|
| Active Employees                         |               |               |          |
| Count                                    | 1,753         | 2,021         | -14.2%   |
| Average Age                              | 41.3          | 40.2          | 2.7%     |
| Average Service                          | 13.5          | 12.3          | 9.8%     |
| Total Payroll                            | \$190,726,258 | \$251,058,473 | -24.0%   |
| Retirees & Spouses with Medical Coverage | 3,034         | 2,903         | 4.5%     |
| Retirees with Dental Coverage            | 1,794         | 1,707         | 5.1%     |
| Vested, Terminated Members*              | 3             | 7             | -57.1%   |

\*Only those members with at least 20 years of service at termination.

# Changes Since Prior Valuation

**Table 19**  
**Reconciliation of Actuarial Liability – GASB Basis**

|   |                      |
|---|----------------------|
| Actuarial Liability as of June 30, 2010     | \$ 946,307,955       |
| Normal Cost                                 | 32,110,601           |
| Expected Benefit Payments                   | (28,273,438)         |
| Interest                                    | <u>60,763,358</u>    |
| Expected Actuarial Liability, June 30, 2011 | \$ 1,010,908,476     |
| Actuarial Liability as of June 30, 2011     | <u>1,003,795,487</u> |
| Gain or (Loss)                              | \$ 7,112,989         |
| Gain or (Loss) due to:                      |                      |
| • Census Changes                            | \$ 5,966,542         |
| • Change in Claims Assumptions              | 14,317,402           |
| • Change in Trend Assumptions               | 95,681,698           |
| • Change in Demographic Assumptions         | (22,937,105)         |
| • Change in Discount Rate                   | <u>(85,915,548)</u>  |
| Total Changes                               | \$ 7,112,989         |



# Sensitivity to Health Care Trend

**Table 20**  
**Actuarial Liability**  
**5.70% Blended Discount Rate**  
(dollars in thousands)

| Health Care Trend Rate                                      | - 1%              | Base                | + 1%                |
|---|-------------------|---------------------|---------------------|
| Present Value of Future Benefits Retirees and Beneficiaries | \$ 544,914        | \$ 621,025          | \$ 713,783          |
| Term Vested Members   | 1,399             | 1,666               | 2,003               |
| Active Employees  | 570,259           | 741,087             | 974,823             |
| Total   | 1,116,572         | 1,363,778           | 1,690,609           |
| Present Value of Future Normal Costs                        | 271,109           | 359,983             | 483,927             |
| <b>Actuarial Liability</b>                                  | <b>\$ 845,463</b> | <b>\$ 1,003,795</b> | <b>\$ 1,206,683</b> |
| Actuarial Value of Assets                                   | 60,709            | 60,709              | 60,709              |
| <b>UAL</b>  | <b>\$ 784,754</b> | <b>\$ 943,087</b>   | <b>\$ 1,145,974</b> |

**Table 21**  
**GASB ARC – FY2011**  
**5.70% Blended Discount Rate**

| Health Care Trend Rate                         | - 1%                 | Base                 | + 1%                 |
|--|----------------------|----------------------|----------------------|
| Total Normal Cost                              | \$ 23,204,803        | \$ 29,995,849        | \$ 39,272,671        |
| Less Employee Contribution towards Normal Cost | 11,561,673           | 11,561,673           | 11,561,673           |
| Employer Normal Cost                           | \$ 11,643,130        | \$ 18,434,176        | \$ 27,710,998        |
| UAL Amortization                               | 34,905,291           | 41,947,828           | 50,972,098           |
| Interest Adjustment                            | 1,308,246            | 1,697,039            | 2,211,393            |
| <b>Total ARC</b>                               | <b>\$ 47,856,667</b> | <b>\$ 62,079,043</b> | <b>\$ 80,894,489</b> |

# Issues of Note

- Unlike the pension plan, reductions in payroll do not reduce benefits or liabilities
  - Reduction in payroll resulted in higher costs as a percentage of pay
  - Reduction in active employees resulted in a decrease in active liability, but a corresponding increase in retiree liability
- Also unlike the pension plan, actual investment returns have very little impact on contribution rates.
- Maximum contribution rates under the MOAs will be reached soon causing the parties to meet and confer
- Additional contributions or cost savings will be needed to fund the promised benefits



# Projections

H-scans OPEB

## Stress Testing

CHEIRON

|                   | Health Trends |          |          |                     |
|-------------------|---------------|----------|----------|---------------------|
|                   | Initial       | + 1 year | + 2 year | Ultimate Yrs to Ult |
| Med Pre-Medicare  | 9.17%         | 8.83%    | 8.50%    | 4.5%                |
| Med Post-Medicare | 6.83%         | 6.67%    | 6.50%    | 4.5%                |
| Dental pre        | 4.5%          | 4.5%     | 4.0%     | 3                   |
| Dental post       | 4.5%          | 4.5%     | 4.0%     | 3                   |
| Part B            | 4.5%          | 4.5%     | 4.5%     | 3                   |

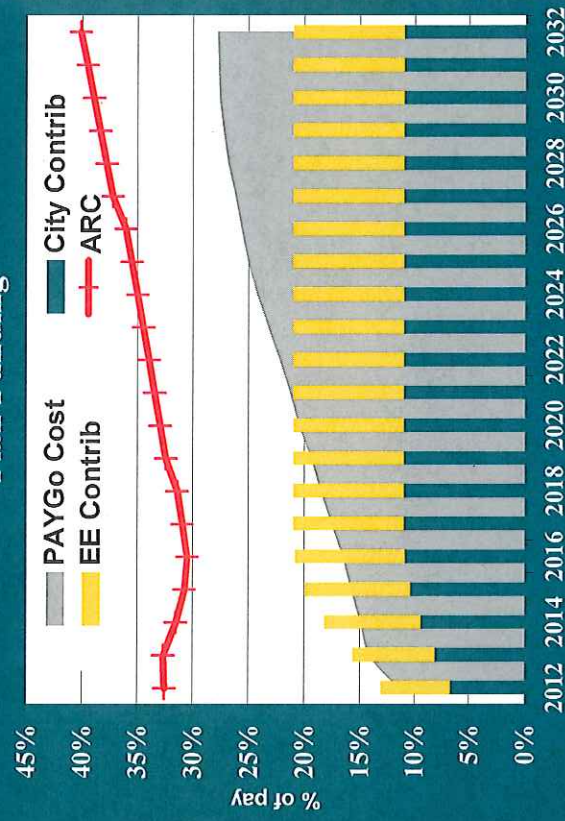
| FY Beginning  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|---------------|-------|-------|-------|-------|-------|-------|
| Inv Return    | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| Discount Rate | 5.70% | 5.80% | 6.00% | 6.20% | 6.30% | 6.30% |

| Other Assumptions             | 2011  | 2012   | 2013+  |
|-------------------------------|-------|--------|--------|
| Inv Return                    | 7.50% | 7.50%  | 7.50%  |
| Sal Increases                 | 3.50% | 3.50%  | 3.50%  |
| Amort Increases               | 3.50% | 3.50%  | 3.50%  |
| Active Population Growth      |       |        | 0.0%   |
| Exp Return on City Assets     |       |        | 4.00%  |
| Continue Annual Increase Caps |       |        | Y      |
| Annual Increase Cap           |       | City   | Member |
| Ultimate Cap                  |       | 11.00% | 10.00% |

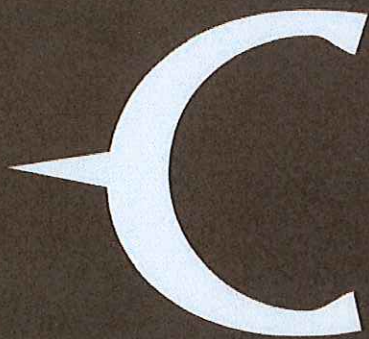
### Assets and Liabilities



### Plan Funding







**City of San Jose  
Police and Fire Department  
Retiree Medical and Dental  
Insurance Plan**

**Actuarial Valuation  
as of June 30, 2011**

**Produced by [Cheiron](#)**

**February 2012**



Classic Values, Innovative Advice

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February 24, 2012

***VIA ELECTRONIC MAIL AND U.S. MAIL***

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

***Re: City of San Jose Police & Fire Department Retiree Medical and Dental Insurance  
Plan Valuation***

Dear Members of the Board:

The purpose of this report is to present the June 30, 2011 actuarial valuation of the City of San Jose Police and Fire Department Retiree Medical and Dental Insurance Plan. Cheiron's report was prepared exclusively for the use of the Board for a specific and limited purpose. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Cheiron's work product (other than the Fund's auditor, attorney, third party administrator or other professional when providing professional services to the fund or any governmental agency to which this certification is required to be submitted by law or regulation) who desires professional guidance should not rely upon Cheiron's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Appendix A describes the Member Data, Assumptions, and Methods used in calculating the liabilities contained in the report. In preparing our report, we relied, without audit, on information (some oral and some written) supplied by the City. This information includes, but is not limited to the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice Number 23. Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with City of San Jose's staff. There were changes to the actuarial assumptions from those used in the prior valuation as a result of the experience study performed on the City of San Jose Police and Fire Department Retirement Plan. These changes are described in Appendix A of this report.

The results of this report depend on the future experience conforming to the actuarial assumptions used. The results will change to the extent that future experience differs from the assumptions. Actuarial computations are calculated based on our understanding of GASB 43/45 and are for purposes of fulfilling plan and employer financial accounting requirements. Determinations for purposes other than meeting plan or employer financial accounting requirements may be significantly different from the results in this report. This report also contains actuarial computations based on our understanding of the Plan's funding policy. The 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.





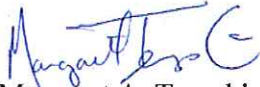
Board of Retirement  
February 24, 2012

We hereby certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the City, are work products of Cheiron, Inc. These work products are complete and accurate and 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.

Sincerely,  
Cheiron



William R. Hallmark, ASA, FCA, EA, MAAA  
Consulting Actuary



Margaret A. Tempkin, FSA, EA, MAAA  
Principal Consulting Actuary

## BOARD SUMMARY

The Board of the Police and Fire Department Retirement Plan has engaged Cheiron to provide a valuation of the City of San Jose Police and Fire Department Retiree Medical and Dental Insurance Plan. The primary purpose of performing this actuarial valuation is to:

- Determine employee and City contribution rates for the Fiscal Year ending June 30, 2013;
- Determine the accounting and financial reporting items under GASB 43 and 45 for the Plan and the City of the retiree health and dental insurance benefits;
- Show sensitivities to changes in trends and assumptions; and
- Illustrate the long-term effect of the funding strategy on projected contribution requirements and GASB accounting and financial reporting for the Plan and the City.

### *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 10-year cash flow funding policy used previously to actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. 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. We also understand that during the phase-in period, annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties should meet and confer on how to address any contributions above those two percentages.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split 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.

### *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.

If an employer is not contributing the full ARC to the Plan, GASB requires the use of a discount rate that blends the expected return on plan assets (7.50%) with the expected return on employer assets (4.00%). Following the method developed by the prior actuary, we have calculated in Table 16 a blended discount rate of 5.70% for the 2011-12 fiscal year. We note that this methodology does not truly interpolate between the expected return on plan assets and the

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**BOARD SUMMARY**

expected return on employer assets as the contribution increases from pay-as-you-go to the full ARC.

The table below presents the key results of the 2011 valuation. Numbers from the June 30, 2010 valuation were calculated by the prior actuary.

| <b>Table 1<br/>Summary of Key Valuation Results<br/>GASB Valuation Basis<br/>(dollars in thousands)</b> |                  |                  |
|---|------------------|------------------|
| <b>Valuation Date</b>   | <b>6/30/2011</b> | <b>6/30/2010</b> |
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| City ARC  |                  |                  |
| -- if paid as a percent of pay  | 32.55%           | 24.08%           |
| -- if paid as a dollar amount (middle of year)  | \$ 62,079        | \$ 60,447        |
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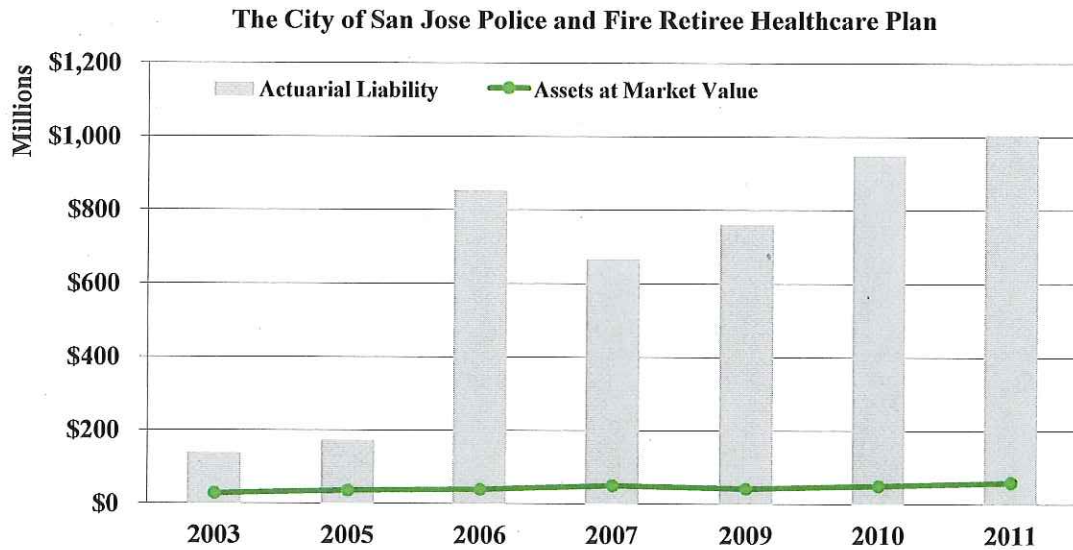


**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**BOARD SUMMARY**

*Historical Trends*

The chart below shows the historical trend of assets and liabilities on a GASB basis for the City of San Jose Police and Fire Department Retiree Medical and Dental Insurance Plan. While the Plan has been partially funded for many years, the first valuation complying with GASB 43 and 45 was performed in 2006 which resulted in a significantly lower discount rate and significantly higher liabilities.



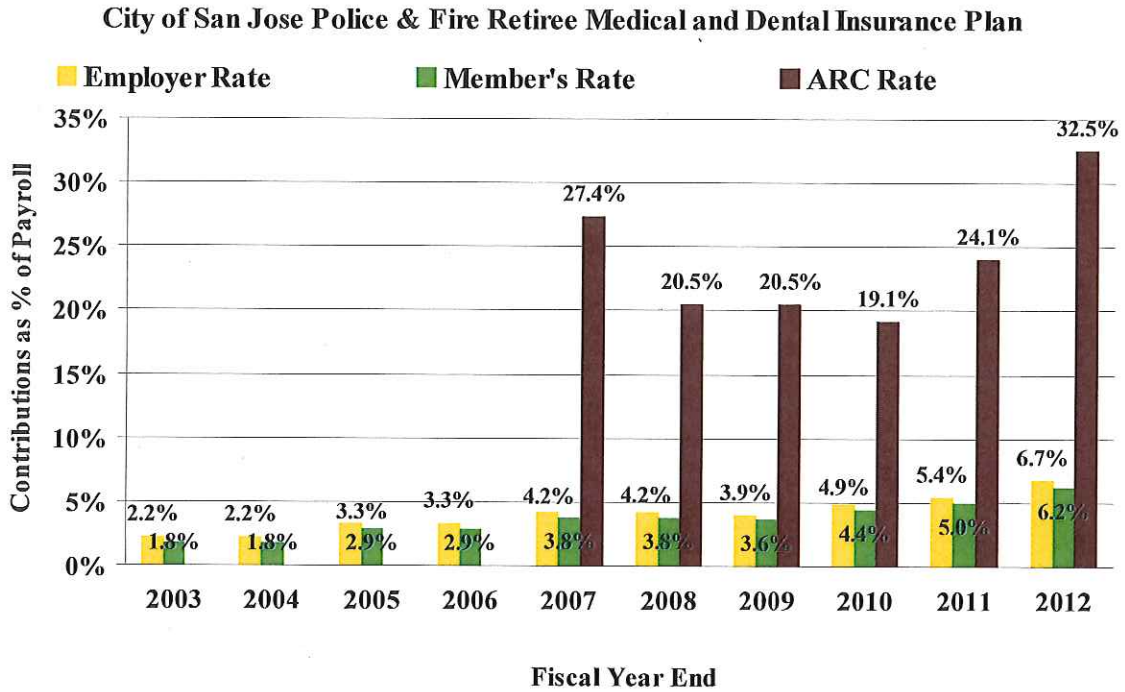
\* 2006 was the first GASB 43/45 valuation.

|  | 2003     | 2005     | 2006     | 2007     | 2009     | 2010     | 2011     |
|--|----------|----------|----------|----------|----------|----------|----------|
| <b>Funded Ratio</b>                    | 24.1%    | 20.9%    | 4.5%     | 6.8%     | 7.3%     | 6.2%     | 6.0%     |
| <b>UAL/(Surplus)<br/>(in millions)</b> | \$ 103.7 | \$ 136.6 | \$ 812.8 | \$ 620.8 | \$ 706.0 | \$ 887.7 | \$ 943.1 |
| <b>Discount Rate</b>                   | 8.00%    | 8.00%    | 5.30%    | 6.40%    | 6.70%    | 6.30%    | 5.70%    |

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**BOARD SUMMARY**

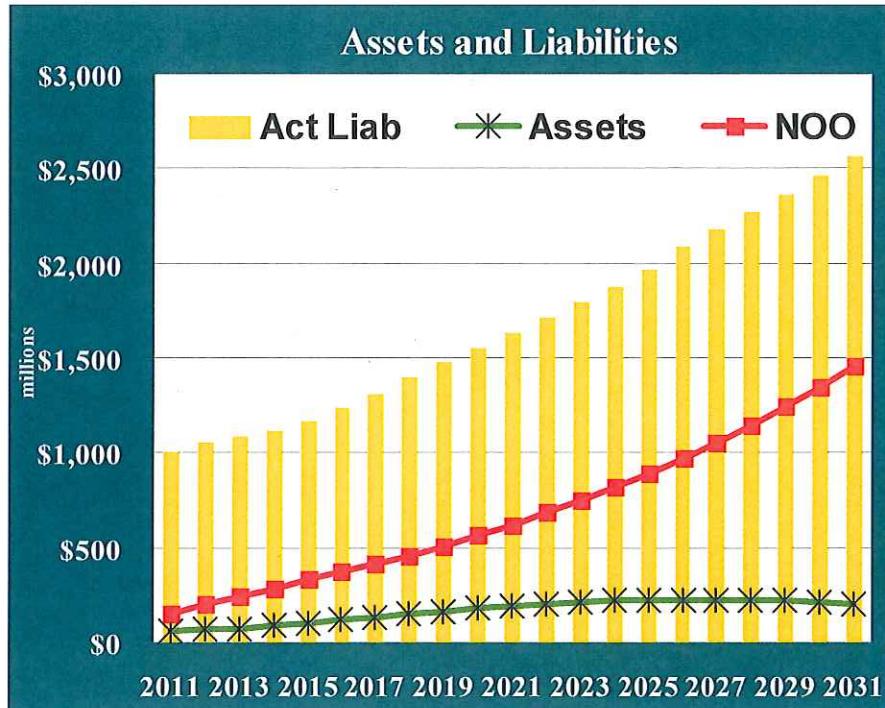
The chart below shows the historical trend in member and City contribution rates. The City's ARC is also shown as a percentage of payroll beginning with the fiscal year ending June 30, 2007.



**BOARD SUMMARY**

*Projected Trends*

Looking beyond 2011, the actuarial liability is expected to increase because the City is not fully funding the ARC. The charts below project the assets, liabilities on a GASB basis, and the funding costs for the next 20 years assuming the current cap on contributions in the MOAs of 11% for the City and 10% for members remains in effect for the entire period.

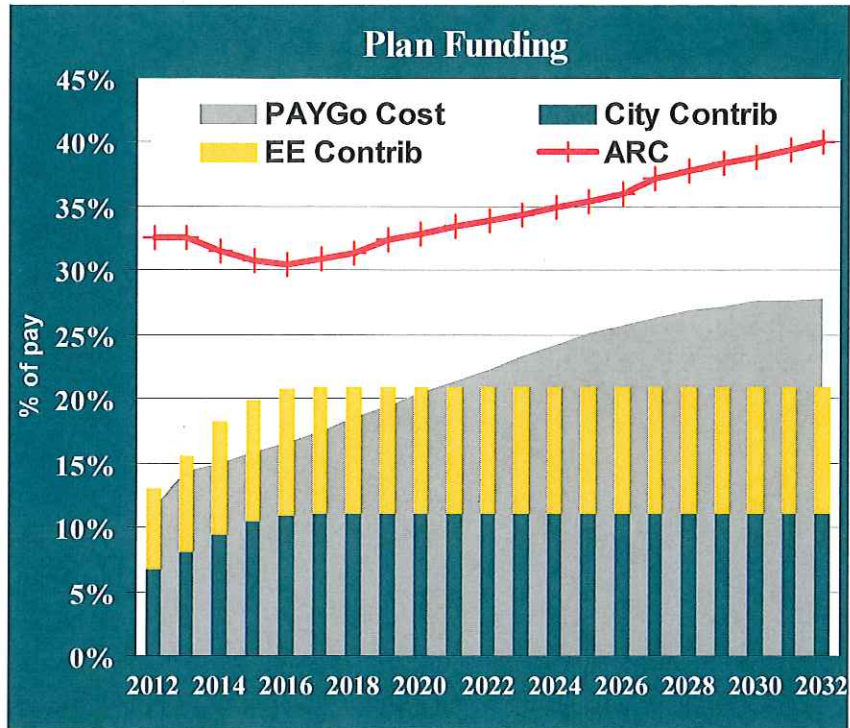


The first chart shows the actuarial liability on a GASB basis increasing from about \$1.0 billion to about \$2.6 billion over the next 20 years. The green line shows assets increasing from \$60 million to approximately \$205 million over the same period. The red line shows the Net OPEB Obligation (NOO) increasing from \$154 million to about \$1.5 billion after 20 years.



CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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BOARD SUMMARY



The second chart shows the projected contribution rates for the City and employees compared to the ARC and pay-as-you-go costs for the explicit subsidies as a percentage of pay. Benefit payments, net of retiree contributions, are shown by the gray area and increase from 12% to 28% of pay. The teal bars represent the City's contributions. The City's contribution is expected to grow from 6.76% in FY 2011-12 to 11.00% of pay in FYE 2017 and then remain at that level. In addition, the City contributes an amount equal to the implicit subsidy for each year. Similarly, employee contributions are expected to grow from 6.23% in FY 2011-12 to 10.00% of pay in FYE 2017 and then remain at that level. The ARC, shown by the red line, is expected to increase to 40% of pay over the next 20 years.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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**BOARD SUMMARY**

Below are the expected net benefit payments, including the implicit subsidy, which we anticipate for the next 15 years under Pay-As-You-Go.

| <b>Fiscal Year<br/>Ending<br/>June 30</b> | <b>Expected Net<br/>Benefit<br/>Payments</b> | <b>Fiscal Year<br/>Ending<br/>June 30</b> | <b>Expected Net<br/>Benefit<br/>Payments</b> | <b>Fiscal Year<br/>Ending<br/>June 30</b> | <b>Expected Net<br/>Benefit<br/>Payments</b> |
|---|--|---|--|---|--|
| 2012                                      | \$22,056,331                                 | 2017                                      | \$40,268,496                                 | 2022                                      | \$62,383,435                                 |
| 2013                                      | 27,608,579                                   | 2018                                      | 44,497,621                                   | 2023                                      | 67,801,585                                   |
| 2014                                      | 30,274,693                                   | 2019                                      | 48,396,264                                   | 2024                                      | 73,739,483                                   |
| 2015                                      | 33,364,318                                   | 2020                                      | 53,175,965                                   | 2025                                      | 79,423,577                                   |
| 2016                                      | 36,344,480                                   | 2021                                      | 57,634,796                                   | 2026                                      | 84,672,451                                   |

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 we 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 JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011

**ASSETS**

*Market Value of Assets*

Table 3 below shows the changes in the aggregate market value of assets for the last two fiscal years. In the last year, investment earnings were about 16%, resulting in an actuarial gain of approximately \$4.7 million. The City contributions and the benefit payments for the year ending June 30, 2011, include \$4.9 million for the implicit subsidy.

| <b>Table 3</b>                  |                  |                  |
|---------------------------------|------------------|------------------|
| <b>Market Value of Assets</b>   |                  |                  |
| <b>Year Ending</b>              | <b>6/30/2011</b> | <b>6/30/2010</b> |
| Market Value, Beginning of Year | \$ 50,820,066    | \$ 42,783,000    |
| Contributions                   |                  |                  |
| Employee                        | 11,228,813       | 10,650,000       |
| City                            | 17,001,282       | 11,284,000       |
| Total                           | \$ 28,230,095    | \$ 21,934,000    |
| Net Investment Earnings         | 8,892,560        | 6,804,000        |
| Benefit Payments                | (28,273,438)     | (20,701,000)     |
| Market Value, End of Year       | \$ 59,669,283    | \$ 50,820,000    |

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smoothes year-to-year market value returns in order to reduce the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (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. Table 4 on the following page shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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**ASSETS**

| <b>Table 4<br/>Development of Actuarial Value of Assets</b> |                    |
|---|--------------------|
|   | <b>Total</b>       |
| Market Value of Assets                                      | \$ 59,669,283      |
| Gains / (Losses)  |                    |
| Current Year  | \$ 4,667,350       |
| Prior Year  | 3,384,603          |
| 2nd Prior Year <sup>1</sup>                                 | (13,205,998)       |
| 3rd Prior Year  | (7,608,404)        |
| Deferred Gains / (Losses)                                   |                    |
| Current Year (80% Deferred)                                 | \$ 3,733,880       |
| Prior Year (60% Deferred)                                   | 2,030,762          |
| 2nd Prior Year (40% Deferred)                               | (5,282,399)        |
| 3rd Prior Year (20% Deferred)                               | <u>(1,521,681)</u> |
| Total   | \$ (1,039,438)     |
| Preliminary Actuarial Value of Assets                       | \$ 60,708,721      |
| Minimum Actuarial Value of Assets (80% of Market Value)     | \$ 47,735,426      |
| Maximum Actuarial Value of Assets (120% of Market Value)    | \$ 71,603,139      |
| Actuarial Value of Assets                                   | \$ 60,708,721      |
| Ratio of AVA / MVA  | 101.74%            |

<sup>1</sup> Adjusted to reflect immediate recognition of amount outside temporary one year 130% corridor.

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 5 and 6 on the following page show the development of the market value of assets and actuarial value of assets for medical and dental within the Police and Fire Departments respectively.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**ASSETS**

| <b>Table 5</b>                                    |                     |                    |                     |
|---|---------------------|--------------------|---------------------|
| <b>Market Value of Assets – Police Department</b> |                     |                    |                     |
|   | <b>Medical</b>      | <b>Dental</b>      | <b>Total</b>        |
| Market Value, Beginning of Year                   | \$ 29,433,382       | \$ 3,270,376       | \$ 32,703,758       |
| Contributions                                     |                     |                    |                     |
| Member  | 8,001,541           | 363,046            | 8,364,587           |
| City  | 7,873,912           | 1,071,767          | 8,945,679           |
| Implicit Subsidy                                  | <u>3,179,977</u>    | <u>0</u>           | <u>3,179,977</u>    |
| Total   | \$ 19,055,430       | \$ 1,434,813       | \$ 20,490,243       |
| Net Investment Earnings                           | 5,421,971           | 620,244            | 6,042,215           |
| Benefit Payments                                  | <u>(15,494,157)</u> | <u>(1,371,779)</u> | <u>(16,865,936)</u> |
| Market Value, End of Year                         | \$ 38,416,626       | \$ 3,953,654       | \$ 42,370,280       |
| Ratio of AVA / MVA                                | 101.74%             | 101.74%            | 101.74%             |
| Actuarial Value of Assets                         | \$ 39,085,843       | \$ 4,022,527       | \$ 43,108,370       |

| <b>Table 6</b>                                  |                     |                    |                     |
|---|---------------------|--------------------|---------------------|
| <b>Market Value of Assets – Fire Department</b> |                     |                    |                     |
|   | <b>Medical</b>      | <b>Dental</b>      | <b>Total</b>        |
| Market Value, Beginning of Year                 | \$ 16,304,677       | \$ 1,811,631       | \$ 18,116,308       |
| Contributions                                   |                     |                    |                     |
| Member  | 2,745,213           | 119,013            | 2,864,226           |
| City  | 2,759,352           | 357,036            | 3,116,388           |
| Implicit Subsidy                                | <u>1,759,238</u>    | <u>0</u>           | <u>1,759,238</u>    |
| Total   | \$ 7,263,803        | \$ 476,049         | \$ 7,739,852        |
| Net Investment Earnings                         | 2,560,246           | 290,099            | 2,850,345           |
| Benefit Payments                                | <u>(10,403,351)</u> | <u>(1,004,151)</u> | <u>(11,407,502)</u> |
| Market Value, End of Year                       | \$ 15,725,375       | \$ 1,573,628       | \$ 17,299,003       |
| Ratio of AVA / MVA                              | 101.74%             | 101.74%            | 101.74%             |
| Actuarial Value of Assets                       | \$ 15,999,311       | \$ 1,601,040       | \$ 17,600,351       |



**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**FUNDING VALUATION RESULTS**

The City has negotiated separate contracts with the Police and Fire Unions that require both employee and City contributions to fund the Plan. We understand the agreements call for a five year transition from the 10-year cash flow funding policy used previously to actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. 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. We also understand that during the phase-in period, annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties shall meet and confer on how to address any contributions above those two percentages.

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

Contributions are currently made to a 401(h) account in the pension trust, but the City is in the process of also establishing a Section 115 Trust. This report ignores any potential limits to contributions to the 401(h) account, assuming the City will be able to use the Section 115 Trust to make any contributions that may exceed the 401(h) limits.

The following tables develop the UAL for the Police and Fire Departments for the explicit subsidy of medical and dental benefits based on the full funding discount rate of 7.50%.

| <b>Table 7</b>  |                       |                      |                       |
|---|-----------------------|----------------------|-----------------------|
| <b>Unfunded Actuarial Liability – Police Department</b> |                       |                      |                       |
| <b>Funding Basis</b>                                    |                       |                      |                       |
|   | <b>Medical</b>        | <b>Dental</b>        | <b>Total</b>          |
| <b>Present Value of Future Benefits</b>                 |                       |                      |                       |
| Retirees and Beneficiaries                              | \$ 251,866,847        | \$ 23,870,016        | \$ 275,736,863        |
| Term Vested Members                                     | 707,934               | 52,367               | 760,301               |
| Active Employees  | <u>215,955,795</u>    | <u>18,338,532</u>    | <u>234,294,327</u>    |
| <b>Total</b>  | <b>\$ 468,530,576</b> | <b>\$ 42,260,915</b> | <b>\$ 510,791,491</b> |
| <b>Present Value of Future Normal Costs</b>             | <u>87,046,347</u>     | <u>7,337,674</u>     | <u>94,384,021</u>     |
| <b>Actuarial Liability</b>                              | <b>\$ 381,484,229</b> | <b>\$ 34,923,241</b> | <b>\$ 416,407,470</b> |
| <b>Actuarial Value of Assets</b>                        | <u>39,085,843</u>     | <u>4,022,527</u>     | <u>43,108,370</u>     |
| <b>Unfunded Actuarial Liability</b>                     | <b>\$ 342,398,386</b> | <b>\$ 30,900,714</b> | <b>\$ 373,299,100</b> |

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, 2011 is amortized over a period of 27 years.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011

**FUNDING VALUATION RESULTS**

| <b>Table 8</b>  |                       |                      |                       |
|---|-----------------------|----------------------|-----------------------|
| <b>Unfunded Actuarial Liability – Fire Department</b> |                       |                      |                       |
| <b>Funding Basis</b>                                  |                       |                      |                       |
|   | <b>Medical</b>        | <b>Dental</b>        | <b>Total</b>          |
| <b>Present Value of Future Benefits</b>               |                       |                      |                       |
| Retirees and Beneficiaries                            | \$ 162,035,335        | \$ 15,904,307        | \$ 177,939,642        |
| Term Vested Members                                   | 344,132               | 24,822               | 368,954               |
| Active Employees                                      | <u>109,115,012</u>    | <u>9,149,081</u>     | <u>118,264,093</u>    |
| <b>Total</b>  | <b>\$ 271,494,479</b> | <b>\$ 25,078,210</b> | <b>\$ 296,572,689</b> |
| <b>Present Value of Future Normal Costs</b>           |                       |                      |                       |
|   | <u>51,247,719</u>     | <u>4,260,000</u>     | <u>55,507,719</u>     |
| <b>Actuarial Liability</b>                            | <b>\$ 220,246,760</b> | <b>\$ 20,818,210</b> | <b>\$ 241,064,970</b> |
| Actuarial Value of Assets                             | <u>15,999,311</u>     | <u>1,601,040</u>     | <u>17,600,351</u>     |
| <b>Unfunded Actuarial Liability</b>                   | <b>\$ 204,247,449</b> | <b>\$ 19,217,170</b> | <b>\$ 223,464,619</b> |

The UAL for the Fire Department is amortized over a fixed, closed period of 30 years beginning with the June 30, 2010 UAL. Consequently, the UAL as of June 30, 2011 is amortized over a period of 29 years.

The following table shows the amortization schedule as of June 30, 2011.

| <b>Table 9</b>                               |                         |                            |                             |                          |
|--|-------------------------|----------------------------|-----------------------------|--------------------------|
| <b>Amortization Schedule – Funding Basis</b> |                         |                            |                             |                          |
| <b>Amortization Base</b>                     | <b>Remaining Period</b> | <b>Outstanding Balance</b> | <b>Amortization Payment</b> | <b>Amortization Rate</b> |
| Police Department - Medical                  | 27                      | \$342,398,386              | \$22,160,891                | 18.20%                   |
| Police Department - Dental                   | 27                      | 30,900,714                 | 1,999,972                   | 1.64%                    |
| Fire Department - Medical                    | 29                      | 204,247,449                | 12,699,460                  | 18.41%                   |
| Fire Department - Dental                     | 29                      | 19,217,170                 | 1,194,863                   | 1.73%                    |

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 2012-13 fiscal year.



CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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**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.

| <b>Table 10</b>                                |                               |   |                             |
|--|-------------------------------|---|-----------------------------|
| <b>Total Normal Cost Rates – Funding Basis</b> |                               |   |                             |
|  | <b>Normal Cost<br/>Amount</b> | <b>Expected Payroll<br/>for Current Actives</b> | <b>Normal Cost<br/>Rate</b> |
| Police Department - Medical                    | \$ 8,843,568                  | \$ 116,151,839                                  | 7.61%                       |
| Police Department - Dental                     | 759,883                       | 116,151,839                                     | 0.65%                       |
| Fire Department - Medical                      | 4,650,774                     | 65,883,691                                      | 7.06%                       |
| Fire Department - Dental                       | 394,118                       | 65,883,691                                      | 0.60%                       |

The table below develops the contribution rates for members and the City prior to any adjustment for caps or the phase-in of the new funding method. Rates shown for FYE 2012 were calculated by the prior actuary.

| <b>Table 11</b>   |                |                 |               |                 |
|---|----------------|-----------------|---------------|-----------------|
| <b>Preliminary Contribution Rates – New Funding Basis</b> |                |                 |               |                 |
|   | <b>Medical</b> | <b>FYE 2013</b> |               | <b>FYE 2012</b> |
|   |                | <b>Dental</b>   | <b>Total</b>  | <b>Total</b>    |
| <b>Police Department</b>                                  |                |                 |               |                 |
| Normal Cost   | 7.61%          | 0.65%           | 8.27%         | 8.08%           |
| Amortization Payment                                      | <u>18.20</u>   | <u>1.64</u>     | <u>19.85</u>  | <u>15.19</u>    |
| <b>Total</b>  | <b>25.82%</b>  | <b>2.30%</b>    | <b>28.11%</b> | <b>23.27%</b>   |
| Contribution Amount without Phase-In                      |                |                 |               |                 |
| Employees   | 12.91%         | 0.57%           | 13.48%        | 11.12%          |
| City  | <u>12.91</u>   | <u>1.73</u>     | <u>14.63</u>  | <u>12.15</u>    |
| <b>Total</b>  | <b>25.82%</b>  | <b>2.30%</b>    | <b>28.11%</b> | <b>23.27%</b>   |
| <b>Fire Department</b>                                    |                |                 |               |                 |
| Normal Cost   | 7.06%          | 0.60%           | 7.66%         | 7.57%           |
| Amortization Payment                                      | <u>18.41</u>   | <u>1.73</u>     | <u>20.14</u>  | <u>15.09</u>    |
| <b>Total</b>  | <b>25.47%</b>  | <b>2.33%</b>    | <b>27.80%</b> | <b>22.66%</b>   |
| Contribution Amount without Phase-In                      |                |                 |               |                 |
| Employees   | 12.73%         | 0.58%           | 13.31%        | 10.82%          |
| City  | <u>12.74</u>   | <u>1.75</u>     | <u>14.49</u>  | <u>11.84</u>    |
| <b>Total</b>  | <b>25.47%</b>  | <b>2.33%</b>    | <b>27.80%</b> | <b>22.66%</b>   |



**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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**FUNDING VALUATION RESULTS**

To calculate the phased-in contribution rates, contributions under the old funding method must be calculated. The old funding method developed contributions as a level percentage of payroll over the next 10 years equal to the present value of the expected benefit payments over the next 10 years. The tables below develop these contribution rates for Police and Fire.

| <b>Table 12</b>                                      |                |               |                |
|--|----------------|---------------|----------------|
| <b>Police Contribution Rates – Old Funding Basis</b> |                |               |                |
| <b>10-Year Projected Cash Flows</b>                  |                |               |                |
| <b>Fiscal Year Ending</b>                            | <b>Medical</b> | <b>Dental</b> | <b>Payroll</b> |
| 2012   | \$ 9,899,109   | \$ 1,368,181  | \$121,735,722  |
| 2013   | 14,231,575     | 1,450,532     | 121,735,722    |
| 2014   | 15,596,550     | 1,542,265     | 125,996,472    |
| 2015   | 17,223,119     | 1,636,449     | 130,406,349    |
| 2016   | 18,783,407     | 1,745,029     | 134,970,571    |
| 2017   | 21,002,019     | 1,875,626     | 139,694,541    |
| 2018   | 23,318,327     | 2,020,306     | 144,583,850    |
| 2019   | 25,383,589     | 2,176,346     | 149,644,285    |
| 2020   | 28,098,065     | 2,339,153     | 154,881,835    |
| 2021   | 30,538,680     | 2,509,273     | 160,302,699    |
| Present Value as of June 30, 2011                    | \$136,267,029  | \$ 12,754,138 | \$966,113,676  |
| <b>Development of Contribution Rate</b>              |                |               |                |
|  | <b>Medical</b> | <b>Dental</b> | <b>Total</b>   |
| Actuarial Value of Assets                            | \$ 39,085,843  | \$ 4,022,527  | \$ 43,108,370  |
| Unfunded Present Value                               | 97,181,186     | 8,731,611     | 105,912,797    |
| Present Value of 10-Year Payroll                     | 966,113,676    | 966,113,676   | 966,113,676    |
| Total Contribution Rate                              | 10.06%         | 0.90%         | 10.96%         |

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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**FUNDING VALUATION RESULTS**

| <b>Table 13</b>                                    |                |               |                |
|--|----------------|---------------|----------------|
| <b>Fire Contribution Rates – Old Funding Basis</b> |                |               |                |
| <b>10-Year Projected Cash Flows</b>                |                |               |                |
| <b>Fiscal Year Ending</b>                          | <b>Medical</b> | <b>Dental</b> | <b>Payroll</b> |
| 2012   | \$ 9,681,730   | \$ 1,020,685  | \$ 68,990,536  |
| 2013   | 10,486,022     | 1,067,974     | 68,990,536     |
| 2014   | 11,308,966     | 1,116,388     | 71,405,205     |
| 2015   | 12,221,895     | 1,166,184     | 73,904,387     |
| 2016   | 13,198,944     | 1,223,329     | 76,491,040     |
| 2017   | 14,258,488     | 1,284,598     | 79,168,227     |
| 2018   | 15,379,207     | 1,351,433     | 81,939,115     |
| 2019   | 16,486,901     | 1,422,129     | 84,806,984     |
| 2020   | 17,671,621     | 1,497,119     | 87,775,228     |
| 2021   | 18,910,512     | 1,577,635     | 90,847,361     |
| Present Value as of June 30, 2011                  | \$ 95,050,255  | \$ 8,800,867  | \$ 547,519,653 |
| <b>Development of Contribution Rate</b>            |                |               |                |
|  | <b>Medical</b> | <b>Dental</b> | <b>Total</b>   |
| Actuarial Value of Assets                          | \$ 15,999,311  | \$ 1,601,040  | \$ 17,600,351  |
| Unfunded Present Value                             | 79,050,944     | 7,199,827     | 86,250,772     |
| Present Value of 10-Year Payroll                   | 547,519,653    | 547,519,653   | 547,519,653    |
| Total Contribution Rate                            | 14.44%         | 1.31%         | 15.75%         |

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011**

**FUNDING VALUATION RESULTS**

The tables below calculate the phased-in contribution rates and then applies the caps to those rates. The Police Department is in the fourth year and the Fire Department is in the second year of the five-year phase-in period. The caps limit the annual increase in the City and member contribution rates to 1.35% and 1.25% of payroll respectively. In addition, we understand the MOAs indicate that if the contribution rates exceed 11% for the City or 10% for the members, the parties should meet and confer on how to address any contributions above these amounts.

| <b>Table 14</b>                                 |                |               |               |
|---|----------------|---------------|---------------|
| <b>Police Contribution Rates –Funding Basis</b> |                |               |               |
| <b>Reflecting Phase-In and Caps</b>             |                |               |               |
|   | <b>Medical</b> | <b>Dental</b> | <b>Total</b>  |
| Old Funding Basis                               | 10.06%         | 0.90%         | 10.96%        |
| New Funding Basis                               | 25.82%         | 2.30%         | 28.11%        |
| Percentage New                                  | 80%            | 80%           | 80%           |
| Phased-In Contribution Rate                     |                |               |               |
| Member  | 11.34%         | 0.51%         | 11.85%        |
| City  | <u>11.34%</u>  | <u>1.51%</u>  | <u>12.85%</u> |
| Total   | 22.68%         | 2.02%         | 24.70%        |
| Prior FY Contribution Rates                     |                |               |               |
| Member  | 6.69%          | 0.32%         | 7.01%         |
| City  | <u>6.66%</u>   | <u>0.95%</u>  | <u>7.61%</u>  |
| Total   | 13.35%         | 1.27%         | 14.62%        |
| Capped Contribution Rates                       |                |               |               |
| Member  | 7.90%          | 0.36%         | 8.26%         |
| City  | <u>7.90%</u>   | <u>1.06%</u>  | <u>8.96%</u>  |
| Total   | 15.80%         | 1.42%         | 17.22%        |

| <b>Table 15</b>                               |                |               |               |
|---|----------------|---------------|---------------|
| <b>Fire Contribution Rates –Funding Basis</b> |                |               |               |
| <b>Reflecting Phase-In and Caps</b>           |                |               |               |
|   | <b>Medical</b> | <b>Dental</b> | <b>Total</b>  |
| Old Funding Basis                             | 14.44%         | 1.31%         | 15.75%        |
| New Funding Basis                             | 25.47%         | 2.33%         | 27.80%        |
| Percentage New                                | 40%            | 40%           | 40%           |
| Phased-In Contribution Rate                   |                |               |               |
| Member  | 9.43%          | 0.43%         | 9.86%         |
| City  | <u>9.43%</u>   | <u>1.29%</u>  | <u>10.72%</u> |
| Total   | 18.86%         | 1.72%         | 20.58%        |
| Prior FY Contribution Rates                   |                |               |               |
| Member  | 4.63%          | 0.23%         | 4.86%         |
| City  | <u>4.58%</u>   | <u>0.69%</u>  | <u>5.27%</u>  |
| Total   | 9.21%          | 0.92%         | 10.13%        |
| Capped Contribution Rates                     |                |               |               |
| Member  | 5.85%          | 0.26%         | 6.11%         |
| City  | <u>5.85%</u>   | <u>0.77%</u>  | <u>6.62%</u>  |
| Total   | 11.70%         | 1.03%         | 12.73%        |



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**GASB VALUATION RESULTS**

The fundamental principle underlying most actuarial methods, as well as the GASB accounting standards, is that the cost of a member's benefits should be recognized over the period in which benefits are earned, rather than the period of benefit distribution. The *normal cost* is the annual amount which would be sufficient to fund the plan benefits (net of retiree contributions) if it were paid from each employee's date of hire until termination or retirement. Under the method used in this valuation, the normal cost is determined as a percentage of pay. This means the underlying dollar amount of normal cost is expected to increase each year as salary increases. The *actuarial liability* represents the portion of the value of the projected benefit at retirement that is allocated to service earned prior to the valuation date. That is, it represents the accumulation of past normal costs from date of hire until the valuation date. The *unfunded actuarial liability* represents the excess of the actuarial liability over plan assets. The *pay-as-you-go cost* represents the expected annual cost of health coverage less retiree contributions for current and future retirees based on the valuation assumptions. This figure can be significantly higher than the premiums because the premiums primarily reflect the cost of active, not retiree, coverage.

For plans where the contribution is not equal to GASB's Annual Required Contribution (ARC) based on a discount rate equal to the expected return on plan assets, GASB requires the use of a blended discount rate. The table below develops the blended discount rate that is used in the remainder of the GASB calculations. This methodology was established by the prior actuary.

| <b>Table 16</b>                              |                             |                             |                  |                   |
|--|-----------------------------|-----------------------------|------------------|-------------------|
| <b>Development of Blended Discount Rate</b>  |                             |                             |                  |                   |
|  | <b>Explicit<br/>Medical</b> | <b>Implicit<br/>Medical</b> | <b>Dental</b>    | <b>Total</b>      |
| Actuarial Liability                          | \$ 601,730,989              | \$ 118,621,779              | \$ 55,741,451    | \$ 776,094,219    |
| Actuarial Value of Assets                    | <u>55,085,154</u>           | <u>0</u>                    | <u>5,623,567</u> | <u>60,708,721</u> |
| Unfunded Actuarial Liability                 | \$ 546,645,835              | \$ 118,621,779              | \$ 50,117,884    | \$ 715,385,498    |
| 30-Year Amortization of UAL (Middle of Year) | 31,040,805                  | 6,735,834                   | 2,845,900        | 40,622,539        |
| Normal Cost (Middle of Year)                 | <u>13,494,342</u>           | <u>4,837,113</u>            | <u>1,154,001</u> | <u>19,485,455</u> |
| Total ARC (Middle of Year)                   | \$ 44,535,147               | \$ 11,572,947               | \$ 3,999,901     | \$ 60,107,995     |
| Expected Payroll                             |                             |                             |                  | \$ 190,726,258    |
| Total ARC %                                  | 23.35%                      | 6.07%                       | 2.10%            | 31.52%            |
| City Allocated Percentage of ARC             | 50%                         | 100%                        | 75%              |                   |
| City ARC %                                   | 11.68%                      | 6.07%                       | 1.57%            | 19.32%            |
| City Contribution %                          | 5.96%                       | 2.42%                       | 0.80%            | 9.19%             |
| Percentage of City ARC Paid                  |                             |                             |                  | 47.56%            |
| Expected Return on Plan Assets               |                             |                             |                  | 7.50%             |
| Expected Return on City Assets               |                             |                             |                  | 4.00%             |
| <b>Blended Discount Rate</b>                 |                             |                             |                  | <b>5.70%</b>      |

**GASB VALUATION RESULTS**

The development of the unfunded actuarial liability based on the blended discount rate is shown in Table 17 below for the current and prior year's valuations on a GASB valuation basis.

| <b>Table 17</b>  |                         |                         |
|--|-------------------------|-------------------------|
| <b>Unfunded Actuarial Liability (UAL) – GASB Basis</b> |                         |                         |
| <b>(dollars in thousands)</b>                          |                         |                         |
| <b>Valuation Date</b>                                  | <b>6/30/2011</b>        | <b>6/30/2010*</b>       |
| <b>Discount Rate</b>                                   | <b>5.70%</b>            | <b>6.30%</b>            |
| <b>Present Value of Future Benefits</b>                |                         |                         |
| Retirees and Beneficiaries                             | \$ 621,025,071          | \$ 565,013,138          |
| Term Vested Members                                    | 1,665,997               | 3,597,519               |
| Active Employees                                       | 741,087,142             | 801,806,205             |
| <b>Total</b>   | <b>\$ 1,363,778,210</b> | <b>\$ 1,370,416,862</b> |
| <b>Present Value of Future Normal Costs</b>            | <b>\$ 359,982,723</b>   | <b>424,108,907</b>      |
| <b>Actuarial Liability</b>                             | <b>\$ 1,003,795,487</b> | <b>\$ 946,307,955</b>   |
| Assets   | 60,708,721              | 58,586,443              |
| <b>Unfunded Actuarial Liability</b>                    | <b>\$ 943,086,766</b>   | <b>\$ 887,721,512</b>   |

\*Calculated by prior actuary.

The discount rate on a GASB basis decreased from 6.30% to 5.70% in this valuation. As a result of this change and other experience during the year, the UAL increased by approximately \$86 million on a GASB basis.

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). Under the current funding method, the City pays for the implicit subsidy through the payment of active employee health premiums and also makes additional contributions to a 401(h) account.

For GASB purposes, the UAL is amortized as a level percentage of payroll over 30 years. In Table 18 below, the Annual Required Contribution (ARC) for the fiscal year ending June 30, 2012 is developed using a blended discount rate of 5.70%. The prior year's calculation is shown for comparison.

| <b>Table 18</b>             |                      |                      |
|-----------------------------|----------------------|----------------------|
| <b>GASB ARC</b>             |                      |                      |
| <b>Fiscal Year Ending</b>   | <b>6/30/2012</b>     | <b>6/30/2011*</b>    |
| <b>Discount Rate</b>        | <b>5.70%</b>         | <b>6.30%</b>         |
| Total Normal Cost           | \$ 29,995,849        | \$ 32,110,601        |
| Less Employee Contributions | 11,561,673           | 12,175,260           |
| Employer Normal Cost        | \$ 18,434,176        | \$ 19,935,341        |
| UAL Amortization            | 41,947,828           | 38,693,083           |
| Interest Adjustment         | 1,697,039            | 1,818,590            |
| <b>Total ARC</b>            | <b>\$ 62,079,043</b> | <b>\$ 60,447,014</b> |

\*Calculated by prior actuary.



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**GASB VALUATION RESULTS**

***Reconciliation***

Table 19 provides an estimate of the major factors contributing to the change in liability since the last valuation report. Medical and dental liabilities have been combined in the reconciliation table below.

| <b>Table 19</b>   |                      |
|---|----------------------|
| <b>Reconciliation of Actuarial Liability – GASB Basis</b> |                      |
| Actuarial Liability as of June 30, 2010                   | \$ 946,307,955       |
| Normal Cost   | 32,110,601           |
| Expected Benefit Payments                                 | (28,273,438)         |
| Interest  | <u>60,763,358</u>    |
| Expected Actuarial Liability, June 30, 2011               | \$ 1,010,908,476     |
| Actuarial Liability as of June 30, 2011                   | <u>1,003,795,487</u> |
| Gain or (Loss)  | \$ 7,112,989         |
| Gain or (Loss) due to:                                    |                      |
| • Census Changes  | \$ 5,966,542         |
| • Change in Claims Assumptions                            | 14,317,402           |
| • Change in Trend Assumptions                             | 95,681,698           |
| • Change in Demographic Assumptions                       | (22,937,105)         |
| • Change in Discount Rate                                 | <u>(85,915,548)</u>  |
| Total Changes   | \$ 7,112,989         |

- *Census Changes* refers to the change in actual data and elections from June 30, 2010 to June 30, 2011.
- *Change in Claims Assumptions* refers to the change in expected current and future healthcare claims and expense costs, including the addition of the \$25 Co-pay plans.
- *Change in Trend Assumptions* refers to the change in the per person cost trends.
- *Change in Demographic Assumptions* refers to the change in assumptions from the pension experience study.
- *Change in Discount Rate* refers to the change in the discount rate from 6.30% to 5.70%.

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**SENSITIVITY OF RESULTS**

The liabilities and ARC produced in this report are sensitive to the assumptions used. The tables below show the impact of a 1% increase or decrease in the health care trend rates on the GASB actuarial liability and the ARC to provide some measure of sensitivity.

| <b>Health Care Trend Rate</b>        | <b>- 1%</b>           | <b>Base</b>             | <b>+ 1%</b>             |
|--------------------------------------|-----------------------|-------------------------|-------------------------|
| Present Value of Future Benefits     |                       |                         |                         |
| Retirees and Beneficiaries           | \$ 544,914,403        | \$ 621,025,071          | \$ 713,782,532          |
| Term Vested Members                  | 1,398,639             | 1,665,997               | 2,003,496               |
| Active Employees                     | <u>570,258,863</u>    | <u>741,087,142</u>      | <u>974,823,274</u>      |
| Total                                | \$ 1,116,571,905      | \$ 1,363,778,210        | \$ 1,690,609,302        |
| Present Value of Future Normal Costs | <u>271,109,353</u>    | <u>\$ 359,982,723</u>   | <u>483,926,798</u>      |
| <b>Actuarial Liability</b>           | <b>\$ 845,462,552</b> | <b>\$ 1,003,795,487</b> | <b>\$ 1,206,682,504</b> |
| Actuarial Value of Assets            | <u>60,708,721</u>     | <u>60,708,721</u>       | <u>60,708,721</u>       |
| <b>UAL</b>                           | <b>\$ 784,753,831</b> | <b>\$ 943,086,766</b>   | <b>\$ 1,145,973,783</b> |

| <b>Health Care Trend Rate</b>                     | <b>- 1%</b>          | <b>Base</b>          | <b>+ 1%</b>          |
|---|----------------------|----------------------|----------------------|
| Total Normal Cost                                 | \$ 23,204,803        | \$ 29,995,849        | \$ 39,272,671        |
| Less Employee Contribution towards<br>Normal Cost | <u>11,561,673</u>    | <u>11,561,673</u>    | <u>11,561,673</u>    |
| Employer Normal Cost                              | \$ 11,643,130        | \$ 18,434,176        | \$ 27,710,998        |
| UAL Amortization                                  | 34,905,291           | 41,947,828           | 50,972,098           |
| Interest Adjustment                               | <u>1,308,246</u>     | <u>1,697,039</u>     | <u>2,211,393</u>     |
| <b>Total ARC</b>                                  | <b>\$ 47,856,667</b> | <b>\$ 62,079,043</b> | <b>\$ 80,894,489</b> |

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**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 22 below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2011 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2012.

|   | <b>Projected FYE<br/>June 30, 2012</b> | <b>FYE<br/>June 30, 2011</b> |
|---|--|------------------------------|
| <b>1. Net OPEB Obligation/(Asset) at beginning of fiscal year</b>                         | <b>\$ 153,566,385</b>                  | <b>\$ 106,989,807</b>        |
| 2. Annual Required Contribution   | \$ 63,823,778                          | \$ 62,322,015                |
| 3. Interest on Net OPEB Obligation/(Asset)  | 8,753,284                              | 6,740,358                    |
| 4. Adjustment to Annual Required Contribution   | 7,219,863                              | 4,957,152                    |
| <b>5. Annual OPEB Cost (2.) + (3.) - (4.)</b>   | <b>\$ 65,357,199</b>                   | <b>\$ 64,105,221</b>         |
| 6. Employer Contributions Made  | <i>13,262,442</i>                      | 12,436,219                   |
| 7. Implicit Rate Subsidy  | <i>4,750,160</i>                       | 5,092,424                    |
| <b>8. Net OPEB Obligation/(Asset) at end of fiscal year<br/>(1.) + (5.) - (6.) - (7.)</b> | <b>\$ 200,910,982</b>                  | <b>\$ 153,566,385</b>        |

*Numbers in italics are estimated.*

Table 23 shows the solvency test and Table 24 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.

| Actuarial<br>Valuation<br>Date | Actuarial Liability                               |                   |                    | Portion of Liability<br>Covered by Reported<br>Assets |     |  |
|--------------------------------|---|-------------------|--------------------|---|-----|--|
|                                | Retirees,<br>Beneficiaries and<br>Other Inactives | Active<br>Members | Reported<br>Assets |   |     |  |
|                                | (A)   | (B)               |                    | (A)   | (B) |  |
| 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%  |  |



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**ACCOUNTING DISCLOSURES**

| <b>Type of Activity</b>                              | <b>Gain or (Loss) for Year Ending</b> |                    |
|--|---------------------------------------|--------------------|
|  | <b>6/30/2011</b>                      | <b>6/30/2010</b>   |
| Investment Income                                    | \$ (2,661)                            | \$ (3,067)         |
| Liability Experience                                 | <u>5,967</u>                          | <u>(11,242)</u>    |
| Gain or (Loss) During Year from Financial Experience | \$ 3,305                              | \$ (14,309)        |
| Non-Recurring Gain or (Loss) Items                   | <u>1,146</u>                          | <u>(122,599)</u>   |
| <b>Composite Gain or (Loss) During Year</b>          | <b>\$ 4,452</b>                       | <b>\$(136,908)</b> |

*Schedule of Funding Progress*

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The actuarial liability under GASB is determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

| <b>Actuarial Valuation Date</b> | <b>Actuarial Value of Assets (a)</b> | <b>Actuarial Accrued Liabilities (b)</b> | <b>Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)</b> | <b>Funded Ratio (a/b)</b> | <b>Annual Covered Payroll (c)</b> | <b>(UAAL) as Percentage of Covered Payroll ((b-a)/c)</b> |
|---------------------------------|--------------------------------------|--|--|---------------------------|-----------------------------------|--|
| 6/30/2011                       | \$ 60,709                            | \$ 1,003,795                             | \$ 943,087   | 6%                        | \$ 190,726                        | 494%   |
| 6/30/2010                       | 58,586                               | 946,308                                  | 887,722  | 6%                        | 222,699                           | 399%   |
| 6/30/2009                       | 55,618                               | 761,604                                  | 705,986  | 7%                        | 243,196                           | 290%   |
| 6/30/2007                       | 45,393                               | 666,228                                  | 620,835  | 7%                        | 227,734                           | 273%   |
| 6/30/2006                       | 38,381                               | 851,217                                  | 812,836  | 5%                        | 218,521                           | 372%   |

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ACCOUNTING DISCLOSURES

*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.

| <b>Table 26</b>                           |                    |                      |                      |                   |
|---|--------------------|----------------------|----------------------|-------------------|
| <b>Schedule of Employer Contributions</b> |                    |                      |                      |                   |
| <b>(dollars in thousands)</b>             |                    |                      |                      |                   |
| <b>Fiscal Year</b>                        | <b>Annual OPEB</b> | <b>Employer</b>      | <b>Percentage of</b> | <b>Net OPEB</b>   |
| <b>Ended</b>                              | <b>Cost (AOC)</b>  | <b>Contributions</b> | <b>AOC</b>           | <b>Obligation</b> |
| <b>June 30</b>                            | <b>Cost (AOC)</b>  | <b>Plus Implicit</b> | <b>Contributed</b>   | <b>Obligation</b> |
| <b>June 30</b>                            | <b>Cost (AOC)</b>  | <b>Subsidy</b>       | <b>Contributed</b>   | <b>Obligation</b> |
| 2012                                      | \$ 65,357          | To be determined     | To be determined     | To be determined  |
| 2011                                      | 64,105             | \$ 17,001            | 26.5%                | \$ 153,566        |
| 2010                                      | 51,734             | 16,059               | 31.0%                | 106,990           |
| 2009                                      | 50,651             | 13,475               | 26.6%                | 71,314            |
| 2008                                      | 48,191             | 14,053               | 29.2%                | 34,138            |

We have also provided a *Note to Required Supplementary Information* for the financial statements.

| <b>Table 27</b>   |                              |
|---|------------------------------|
| <b>Note to Required Supplementary Information</b>   |                              |
| 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, 2011                |
| Actuarial Cost Method   | Individual Entry Age         |
| Amortization Method   | Level percentage of pay open |
| Single Equivalent Amortization Period   | 30 years                     |
| Asset Valuation Method  | Five-year smoothed value     |
| Actuarial Assumptions:  |                              |
| Payroll Growth Rate   | 3.50%                        |
| Discount Rate   | 5.70%                        |
| Ultimate Rate of Medical Inflation  | 4.50%                        |

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

**Member Data:**

| <b>Valuation Date</b>                               | <b>June 30, 2011</b> | <b>June 30, 2010</b> | <b>% Change</b> |
|---|----------------------|----------------------|-----------------|
| <b>Active Employees</b>                             |                      |                      |                 |
| Count   | 1,753                | 2,021                | -14.2%          |
| Average Age   | 41.3                 | 40.2                 | 2.7%            |
| Average Service                                     | 13.5                 | 12.3                 | 9.8%            |
| Total Payroll                                       | \$190,726,258        | \$251,058,473        | -24.0%          |
| <b>Retirees &amp; Spouses with Medical Coverage</b> | 3,034                | 2,903                | 4.5%            |
| <b>Retirees with Dental Coverage</b>                | 1,794                | 1,707                | 5.1%            |
| <b>Vested, Terminated Members*</b>                  | 3                    | 7                    | -57.1%          |

*\*Only those members with at least 20 years of service at termination.*

**Member Data as of June 30, 2011:**

| <b>Age Group</b> | <b>Eligible Active Employees<br/>Years of Service</b> |              |                |                |                |                |            | <b>Total</b>    |
|------------------|---|--------------|----------------|----------------|----------------|----------------|------------|-----------------|
|                  | <b>&lt; 5</b>   | <b>5 - 9</b> | <b>10 - 14</b> | <b>15 - 19</b> | <b>20 - 24</b> | <b>25 - 29</b> | <b>30+</b> |                 |
| Under 25         | 0   | 0            | 0              | 0              | 0              | 0              | 0          | <b>0</b>        |
| 25 to 29         | 73  | 13           | 0              | 0              | 0              | 0              | 0          | <b>86</b>       |
| 30 to 34         | 113   | 85           | 20             | 0              | 0              | 0              | 0          | <b>218</b>      |
| 35 to 39         | 51  | 104          | 173            | 19             | 0              | 0              | 0          | <b>347</b>      |
| 40 to 44         | 28  | 58           | 221            | 174            | 30             | 0              | 0          | <b>511</b>      |
| 45 to 49         | 2   | 17           | 75             | 133            | 137            | 27             | 0          | <b>391</b>      |
| 50 to 54         | 0   | 3            | 23             | 41             | 67             | 14             | 0          | <b>148</b>      |
| 55 to 59         | 0   | 0            | 2              | 9              | 13             | 3              | 0          | <b>27</b>       |
| 60 to 64         | 0   | 1            | 0              | 4              | 2              | 0              | 0          | <b>7</b>        |
| 65 and up        | <u>0</u>  | <u>0</u>     | <u>0</u>       | <u>0</u>       | <u>0</u>       | <u>0</u>       | <u>0</u>   | <b><u>0</u></b> |
| <b>Total</b>     | <b>267</b>  | <b>281</b>   | <b>514</b>     | <b>380</b>     | <b>249</b>     | <b>44</b>      | <b>0</b>   | <b>1,735</b>    |



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

| <b>Retirees, Disabled Retirees and Surviving Spouses</b> |                          |                |              |                         |                |              |
|--|--------------------------|----------------|--------------|-------------------------|----------------|--------------|
| <b>Age Group</b>   | <b>Medical Insurance</b> |                |              | <b>Dental Insurance</b> |                |              |
|  | <b>Males</b>             | <b>Females</b> | <b>Total</b> | <b>Males</b>            | <b>Females</b> | <b>Total</b> |
| Under 50   | 29                       | 18             | 47           | 29                      | 20             | 49           |
| 50 to 55   | 178                      | 28             | 206          | 184                     | 28             | 212          |
| 55 to 60   | 273                      | 20             | 293          | 275                     | 23             | 298          |
| 60 to 65   | 347                      | 35             | 382          | 361                     | 37             | 398          |
| 65 to 70   | 309                      | 35             | 344          | 318                     | 37             | 355          |
| 70 to 75   | 194                      | 25             | 219          | 198                     | 28             | 226          |
| 75 to 80   | 96                       | 24             | 120          | 100                     | 26             | 126          |
| 80 to 85   | 58                       | 19             | 77           | 58                      | 21             | 79           |
| 85 to 90   | 22                       | 15             | 37           | 23                      | 16             | 39           |
| Over 90  | 4                        | 7              | 11           | 5                       | 7              | 12           |
| <b>Total</b>   | <b>1,510</b>             | <b>226</b>     | <b>1,736</b> | <b>1,551</b>            | <b>243</b>     | <b>1,794</b> |

| <b>Medical Plan Elections</b> |   |                |              |   |                |              |
|-------------------------------|---|----------------|--------------|---|----------------|--------------|
| <b>Medical Plan</b>           | <b>Pre-Medicare</b>                     |                |              | <b>Medicare-Eligible</b>                |                |              |
|                               | <b>Retirees &amp; Surviving Spouses</b> | <b>Spouses</b> | <b>Total</b> | <b>Retirees &amp; Surviving Spouses</b> | <b>Spouses</b> | <b>Total</b> |
| Kaiser \$10 Copay             | 345                                     | 348            | 693          | 279                                     | 133            | 412          |
| Kaiser \$25 Copay             | 119                                     | 110            | 229          |   |                |              |
| HMO \$10 Copay                | 192                                     | 183            | 375          | 58                                      | 21             | 79           |
| HMO \$25 Copay                | 52                                      | 49             | 101          |   |                |              |
| PPO / POS \$10 Copay          | 179                                     | 186            | 365          | 449                                     | 227            | 676          |
| PPO / POS \$25 Copay          | 41                                      | 33             | 74           |   |                |              |
| Secure Horizons               | 0                                       | 0              | 0            | 13                                      | 4              | 17           |
| PacifiCare                    | 0                                       | 0              | 0            | 9                                       | 4              | 13           |
| <b>Total</b>                  | <b>928</b>                              | <b>909</b>     | <b>1,837</b> | <b>808</b>                              | <b>389</b>     | <b>1,197</b> |

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
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| Current Vested Terminations* |          |          |          |
|------------------------------|----------|----------|----------|
| Age Group                    | Male     | Female   | Total    |
| Under 45                     | 0        | 0        | 0        |
| 45 to 50                     | 0        | 0        | 0        |
| 50 to 55                     | 3        | 0        | 3        |
| 55 to 60                     | 0        | 0        | 0        |
| 60 to 65                     | 0        | 0        | 0        |
| Over 65                      | <u>0</u> | <u>0</u> | <u>0</u> |
| <b>Total</b>                 | <b>3</b> | <b>0</b> | <b>3</b> |

\* 229 Vested Terminated members were included in the valuation; however, only those term vested participants with at least 20 years of service at termination are eligible for retiree medical or dental benefits.

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**Economic Assumptions:**

1. **Expected Return on Plan Assets:** 7.50% per year
2. **Expected Return on Employer Assets:** 4.00% per year
3. **Blended Discount Rate:** 5.70% per year
4. **Per Person Cost Trends:**

| <b>Date<br/>To Year<br/>Beginning July 1</b> | <b>Pre-Medicare</b> | <b>Annual Increase<br/>Medicare<br/>Eligible</b> | <b>Dental</b> |
|--|---------------------|--|---------------|
| 2012   | 9.17%               | 6.83%  | 4.50%         |
| 2013   | 8.83                | 6.67   | 4.50          |
| 2014   | 8.50                | 6.50   | 4.00          |
| 2015   | 8.17                | 6.33   | 4.00          |
| 2016   | 7.83                | 6.17   | 4.00          |
| 2017   | 7.50                | 6.00   | 4.00          |
| 2018   | 7.17                | 5.83   | 4.00          |
| 2019   | 6.83                | 5.67   | 4.00          |
| 2020   | 6.50                | 5.50   | 4.00          |
| 2021   | 6.17                | 5.33   | 4.00          |
| 2022   | 5.83                | 5.17   | 4.00          |
| 2023   | 5.50                | 5.00   | 4.00          |
| 2024   | 5.17                | 4.83   | 4.00          |
| 2025   | 4.83                | 4.67   | 4.00          |
| 2026+  | 4.50                | 4.50   | 4.00          |

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

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum are assumed to increase at the above trend rates.



APPENDIX A  
 MEMBER DATA, ASSUMPTIONS AND METHODS

**Demographic Assumptions:**

**1. Retirement Rates:**

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

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

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

Eligible deferred vested members are assumed to retire at age 55.

**2. Termination Rates:**

Sample rates of termination are shown in the following table.

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

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

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

**3. Rate of Mortality:**

*Healthy Lives:*

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

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

*Disabled Lives:*

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



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

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

**4. Disability Rates:**

Sample rates of disability are show in the following table.

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

100% of disabilities are assumed to be duty related.

**5. Salary Increase Rate:**

Wage inflation component is assumed to be 0.00% for FYE 2013 and 2014, and 3.50% thereafter

In addition, the following merit component is added based on an individual member's years of service.

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 MEMBER DATA, ASSUMPTIONS AND METHODS

| Salary Merit Increases |                  |
|------------------------|------------------|
| Years of Service       | Merit/ Longevity |
| 0                      | 8.00%            |
| 1                      | 7.25             |
| 2                      | 6.50             |
| 3                      | 5.75             |
| 4                      | 5.00             |
| 5                      | 4.50             |
| 6                      | 4.00             |
| 7                      | 3.50             |
| 8                      | 3.00             |
| 9                      | 2.50             |
| 10+                    | 2.25             |

6. **Percent of Retirees Electing Coverage:** 100% of employees are assumed to elect coverage at retirement. Future retirees' plan elections are assumed to mirror current retiree plan elections. Retirees who turn age 65 are assumed to be eligible for Medicare. The following rates are used to determine blended claims and contributions for future retirees.

| Assumed Plan Elections for Future Retirees |              |                   |
|--|--------------|-------------------|
| Plan                                       | Pre-Medicare | Medicare Eligible |
| Medical                                    |              |                   |
| • Kaiser                                   | 46%          | 45%               |
| • Kaiser \$25 Co-pay                       | 19%          |                   |
| • HMO                                      | 22%          | 7%                |
| • HMO \$25 Co-pay                          | 6%           |                   |
| • PPO / POS                                | 6%           | 45%               |
| • PPO / POS \$25 Co-pay                    | 1%           |                   |
| • Secure Horizons                          | N/A          | 2%                |
| • PacifiCare                               | N/A          | 1%                |
| Dental                                     |              |                   |
| • Delta Dental PPO                         |              | 97%               |
| • DeltaCare HMO                            |              | 3%                |

7. **Family Composition:** 95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.
8. **Dependent Age:** For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

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MEMBER DATA, ASSUMPTIONS AND METHODS

9. Married Percentage:

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

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

**Changes since Last Valuation**

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study for the City of San Jose Police and Fire Department Retirement System that were adopted by the Board in December 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, and healthy and disabled mortality. For a complete description of these changes, please refer to the experience study report dated October 28, 2011. In addition, the expected return on employer assets was reduced from 4.75% to 4.0%, and the blended discount rate was reduced from 6.30% to 5.70%.



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**Claim and Expense Assumptions:**

1. **Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2011 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

*Actives Employees:*

| Age | Medical  |          |
|-----|----------|----------|
|     | Male     | Female   |
| 40  | \$ 3,289 | \$ 5,847 |
| 45  | 4,119    | 6,190    |
| 50  | 5,456    | 7,341    |
| 55  | 7,169    | 8,749    |
| 60  | 9,318    | 10,444   |
| 64  | 12,036   | 12,904   |
| 65  | 5,516    | 5,883    |
| 70  | 6,477    | 6,497    |
| 75  | 7,243    | 7,005    |
| 80  | 7,695    | 7,231    |
| 85  | 7,798    | 7,156    |

*Current Retirees:*

| Age | Kaiser - Male   |                |                  | Kaiser - Female |                |                  |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
|     | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 6,329        | \$ 3,992       | \$ (2,337)       | \$ 6,329        | \$ 5,999       | \$ (330)         |
| 50  | 6,329           | 5,287          | (1,042)          | 6,329           | 7,115          | 786              |
| 55  | 6,329           | 6,948          | 619              | 6,329           | 8,479          | 2,150            |
| 64  | 6,329           | 11,665         | 5,336            | 6,329           | 12,506         | 6,177            |
| 65  | 5,570           | 4,845          | (725)            | 5,570           | 5,167          | (403)            |
| 70  | 5,570           | 5,689          | 119              | 5,570           | 5,706          | 136              |
| 75  | 5,570           | 6,361          | 791              | 5,570           | 6,152          | 582              |
| 80  | 5,570           | 6,758          | 1,188            | 5,570           | 6,350          | 780              |

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| Age | Kaiser \$25 Co-pay Plan - Male |                |                  | Kaiser \$25 Co-pay Plan - Female |                |                  |
|-----|--------------------------------|----------------|------------------|----------------------------------|----------------|------------------|
|     | Blended Premium                | Age-Based Cost | Implicit Subsidy | Blended Premium                  | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 5,952                       | \$ 3,755       | \$ (2,197)       | \$ 5,952                         | \$ 5,643       | \$ (309)         |
| 50  | 5,952                          | 4,973          | (979)            | 5,952                            | 6,692          | 740              |
| 55  | 5,952                          | 6,535          | 583              | 5,952                            | 7,975          | 2,023            |
| 64  | 5,952                          | 10,972         | 5,020            | 5,952                            | 11,763         | 5,811            |
| 65  | 5,570                          | 4,845          | (725)            | 5,570                            | 5,167          | (403)            |
| 70  | 5,570                          | 5,689          | 119              | 5,570                            | 5,706          | 136              |
| 75  | 5,570                          | 6,361          | 791              | 5,570                            | 6,152          | 582              |
| 80  | 5,570                          | 6,758          | 1,188            | 5,570                            | 6,350          | 780              |

| Age | HMO - Male      |                |                  | HMO - Female    |                |                  |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
|     | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 6,749        | \$ 4,451       | \$ (2,298)       | \$ 6,749        | \$ 6,689       | \$ (60)          |
| 50  | 6,749           | 5,896          | (853)            | 6,749           | 7,933          | 1,184            |
| 55  | 6,749           | 7,747          | 998              | 6,749           | 9,454          | 2,705            |
| 64  | 6,749           | 13,006         | 6,257            | 6,749           | 13,944         | 7,195            |
| 65  | 5,153           | 5,241          | 88               | 5,153           | 5,590          | 437              |
| 70  | 5,153           | 6,154          | 1,001            | 5,153           | 6,172          | 1,019            |
| 75  | 5,153           | 6,881          | 1,728            | 5,153           | 6,656          | 1,503            |
| 80  | 5,153           | 7,311          | 2,158            | 5,153           | 6,870          | 1,717            |

| Age | HMO \$25 Co-pay Plan - Male |                |                  | HMO \$25 Co-pay Plan - Female |                |                  |
|-----|-----------------------------|----------------|------------------|-------------------------------|----------------|------------------|
|     | Blended Premium             | Age-Based Cost | Implicit Subsidy | Blended Premium               | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 6,370                    | \$ 4,201       | \$ (2,169)       | \$ 6,370                      | \$ 6,313       | \$ (57)          |
| 50  | 6,370                       | 5,564          | (806)            | 6,370                         | 7,488          | 1,118            |
| 55  | 6,370                       | 7,312          | 942              | 6,370                         | 8,923          | 2,553            |
| 64  | 6,370                       | 12,276         | 5,906            | 6,370                         | 13,161         | 6,791            |
| 65  | 5,153                       | 5,241          | 88               | 5,153                         | 5,590          | 437              |
| 70  | 5,153                       | 6,154          | 1,001            | 5,153                         | 6,172          | 1,019            |
| 75  | 5,153                       | 6,881          | 1,728            | 5,153                         | 6,656          | 1,503            |
| 80  | 5,153                       | 7,311          | 2,158            | 5,153                         | 6,870          | 1,717            |

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| Age | PPO / POS - Male |                |                  | PPO / POS - Female |                |                  |
|-----|------------------|----------------|------------------|--------------------|----------------|------------------|
|     | Blended Premium  | Age-Based Cost | Implicit Subsidy | Blended Premium    | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 9,370         | \$ 4,786       | \$ (4,584)       | \$ 9,370           | \$ 7,192       | \$ (2,178)       |
| 50  | 9,370            | 6,338          | (3,032)          | 9,370              | 8,529          | (841)            |
| 55  | 9,370            | 8,329          | (1,041)          | 9,370              | 10,164         | 794              |
| 64  | 9,370            | 13,984         | 4,614            | 9,370              | 14,992         | 5,622            |
| 65  | 7,282            | 6,320          | (962)            | 7,282              | 6,740          | (542)            |
| 70  | 7,282            | 7,420          | 138              | 7,282              | 7,443          | 161              |
| 75  | 7,282            | 8,297          | 1,015            | 7,282              | 8,025          | 743              |
| 80  | 7,282            | 8,816          | 1,534            | 7,282              | 8,284          | 1,002            |

| Age | PPO / POS \$25 Co-pay Plan - Male |                |                  | PPO / POS \$25 Co-pay Plan - Female |                |                  |
|-----|-----------------------------------|----------------|------------------|-------------------------------------|----------------|------------------|
|     | Blended Premium                   | Age-Based Cost | Implicit Subsidy | Blended Premium                     | Age-Based Cost | Implicit Subsidy |
| 45  | \$ 8,841                          | \$ 4,516       | \$ (4,325)       | \$ 8,841                            | \$ 6,786       | \$ (2,055)       |
| 50  | 8,841                             | 5,981          | (2,860)          | 8,841                               | 8,048          | (793)            |
| 55  | 8,841                             | 7,859          | (982)            | 8,841                               | 9,591          | 750              |
| 64  | 8,841                             | 13,195         | 4,354            | 8,841                               | 14,146         | 5,305            |
| 65  | 7,282                             | 6,320          | (962)            | 7,282                               | 6,740          | (542)            |
| 70  | 7,282                             | 7,420          | 138              | 7,282                               | 7,443          | 161              |
| 75  | 7,282                             | 8,297          | 1,015            | 7,282                               | 8,025          | 743              |
| 80  | 7,282                             | 8,816          | 1,534            | 7,282                               | 8,284          | 1,002            |

| Age | Secure Horizons - Male |                |                  | Secure Horizons - Female |                |                  |
|-----|------------------------|----------------|------------------|--------------------------|----------------|------------------|
|     | Blended Premium        | Age-Based Cost | Implicit Subsidy | Blended Premium          | Age-Based Cost | Implicit Subsidy |
| 65  | \$ 5,868               | \$ 4,427       | \$ (1,441)       | \$ 5,868                 | \$ 4,722       | \$ (1,146)       |
| 70  | 5,868                  | 5,199          | (669)            | 5,868                    | 5,214          | (654)            |
| 75  | 5,868                  | 5,813          | (55)             | 5,868                    | 5,622          | (246)            |
| 80  | 5,868                  | 6,176          | 308              | 5,868                    | 5,803          | (65)             |

| Age | PacifiCare - Male |                |                  | PacifiCare - Female |                |                  |
|-----|-------------------|----------------|------------------|---------------------|----------------|------------------|
|     | Blended Premium   | Age-Based Cost | Implicit Subsidy | Blended Premium     | Age-Based Cost | Implicit Subsidy |
| 65  | \$ 5,189          | \$ 4,129       | \$ (1,060)       | \$ 5,189            | \$ 4,404       | \$ (785)         |
| 70  | 5,189             | 4,849          | (340)            | 5,189               | 4,863          | (326)            |
| 75  | 5,189             | 5,422          | 233              | 5,189               | 5,244          | 55               |
| 80  | 5,189             | 5,760          | 571              | 5,189               | 5,413          | 224              |



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| <b>Dental</b>    |                                       |
|------------------|---------------------------------------|
| <b>Plan</b>      | <b>Annual Premium<br/>(every age)</b> |
| Delta Dental PPO | \$1,303                               |
| DeltaCare HMO    | 561                                   |

2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B Premiums:** Assumed that Medicare eligible retirees pay the Medicare Part B premiums.
4. **Medicare Eligibility:** 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:**

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser \$25 Co-pay Plan rate, if the retiree is eligible to receive the explicit subsidy.

Future retirees are assumed to pay the following annual rates (after reflection of the explicit subsidy).

|                   | <b>Retiree</b> | <b>Spouse</b> |
|-------------------|----------------|---------------|
| Pre-Medicare      | \$ 631         | \$ 1,144      |
| Medicare Eligible | 364            | 0             |

Contributions are assumed to increase with trend.

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

**Methodology:**

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

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

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population.

**Changes since Last Valuation:**

We modified the claim costs to reflect current retiree plan election experience. We also reflected the new \$25 Co-pay plans offered for the first time this valuation cycle.

The 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.

**APPENDIX B  
SUBSTANTIVE PLAN PROVISIONS**

**Summary of Key Substantive Plan Provisions:**

**Eligibility:**

Employees who retire at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical and/or dental coverage upon retirement.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical and/or dental coverage upon retirement.

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

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical and/or dental plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 19 (24 if a full-time student).

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1. The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. Both the member and the survivors were enrolled in the active medical and/or dental plans immediately before death; and
3. The survivor will receive a monthly pension benefit.

**Benefits for Retirees:**

**Medical:** The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2011, the lowest cost health plan is the Kaiser \$25 Co-pay plan. The single coverage amount is \$496.04 per month, and the family coverage amount is \$1,235.16 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

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

**Premiums:** Monthly premiums before adjustments for 2011 are as follows.



CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREE MEDICAL AND DENTAL INSURANCE PLAN  
ACTUARIAL VALUATION AS OF JUNE 30, 2011

**APPENDIX B  
SUBSTANTIVE PLAN PROVISIONS**

| Monthly Premiums for 2011             |          |            |            |            |
|---------------------------------------|----------|------------|------------|------------|
|                                       | Single   | % Increase | Family     | % Increase |
| <b>Medical</b>                        |          |            |            |            |
| <u>Non-Medicare Monthly Rates</u>     |          |            |            |            |
| Kaiser – Traditional (CA)             | \$527.38 | 8.9%       | \$1,313.18 | 9.0%       |
| Kaiser \$25 Co-pay Plan               | 496.04   | N/A        | 1,235.16   | N/A        |
| Blue Shield HMO                       | 562.40   | 4.1%       | 1,444.76   | 4.1%       |
| Blue Shield HMO \$25 Co-pay           | 530.82   | N/A        | 1,363.58   | N/A        |
| Blue Shield PPO or POS                | 780.84   | 4.1%       | 2,006.70   | 4.1%       |
| Blue Shield PPO or POS \$25<br>Co-pay | 736.78   | N/A        | 1,893.48   | N/A        |
| <u>Medicare Monthly Rates</u>         |          |            |            |            |
| Kaiser – Senior Advantage             | \$464.16 | 8.0%       | \$ 928.32  | 8.0%       |
| Secure Horizons                       | 489.02   | 10.0%      | 978.04     | 10.0%      |
| Blue Shield Medicare PPO              | 606.82   | 4.1%       | 1,213.64   | 4.1%       |
| Blue Shield Medicare HMO              | 429.41   | 4.1%       | 858.82     | 4.1%       |
| PacifiCare Senior Supplement          | 432.40   | 9.3%       | 864.80     | 9.3%       |
| <b>Dental</b>                         |          |            |            |            |
| Delta Dental PPO                      | \$108.62 | (2.6)%     | \$ 108.62  | (2.6)%     |
| DeltaCare HMO                         | 46.78    | (6.4)%     | 46.78      | (6.4)%     |

**Cost Sharing Provisions:**

It is assumed for the purpose of this valuation that the City of San Jose 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.

**Active Plan Funding:**

**Police:** Employee Contribution: Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 27 years left on the amortization period.

For the 2012-2013 fiscal year, the contribution rate is based on 80% of the full prefunding rate and 20% of the 10-year cash flow requirement rate. However, the

**APPENDIX B**  
**SUBSTANTIVE PLAN PROVISIONS**

limit on the annual increase in rate of 1.25% of payroll overrides the weighted average rate.

City's Contribution: Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 27 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 80% of the full prefunding rate and 20% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.35% of payroll overrides the weighted average rate.

**Fire:** Employee Contribution: Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 29 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.25% of payroll overrides the weighted average rate.

City's Contribution: Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 29 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.35% of payroll overrides the weighted average rate.



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:

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

**6. Actuarial Valuation**

The determination, as of a specified date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

**7. Actuarial Value of Assets**

The value of cash, investments and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market values. This way long-term costs are not distorted by short-term fluctuations in the market.



**APPENDIX C**  
**GLOSSARY OF TERMS**

**8. Amortization Payment**

The portion of the pension plan contribution which is designed to pay interest and principal on the unfunded actuarial liability in order to pay for that liability in a given number of years.

**9. Entry Age Normal Actuarial Cost Method**

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

**10. Normal Cost**

That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method.

**11. Unfunded Actuarial Liability**

The excess of the actuarial liability over the actuarial value of assets.

**12. Funded Percentage**

The ratio of the actuarial value of assets to the actuarial liability.

**13. Mortality Table**

A set of percentages which estimate the probability of death at a particular point in time. Typically, the rates are annual and based on age and sex.

**14. Discount Rate**

The assumed interest rate used for converting projecting dollar related values to a present value as of the valuation date.

**15. Medical Trend**

The assumed increase in dollar related values in the future due to the increase in the cost of health care.

**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)