

San José Police and Fire
Postemployment Healthcare Plan



Final Actuarial Valuation Results

June 30, 2019

February 6, 2020

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Agenda

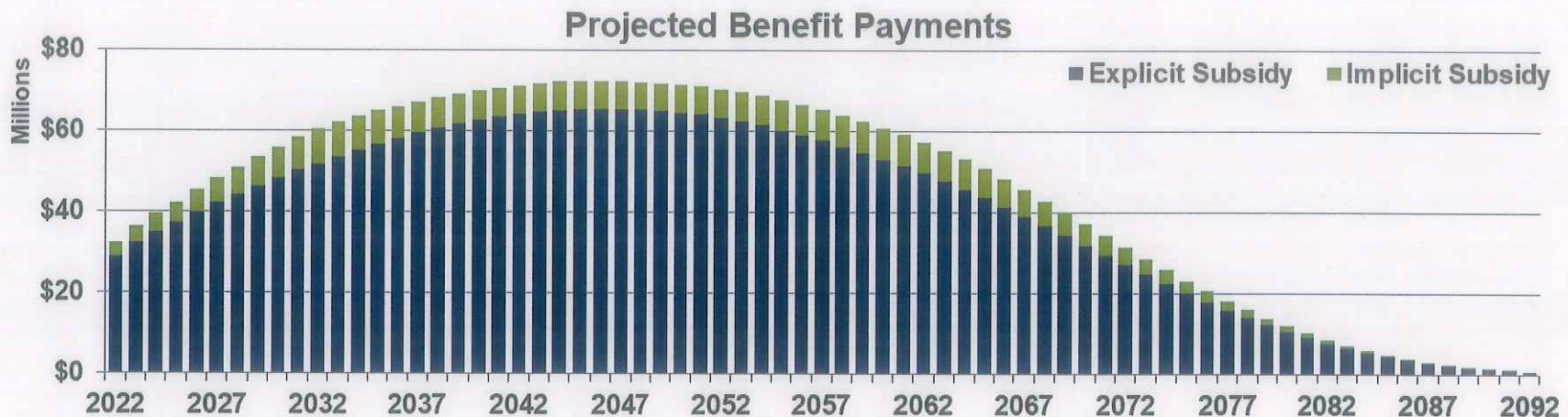


- Background
- Valuation Results
 - Contributions
 - Funded Status
 - Changes in UAL
- Projections

Background



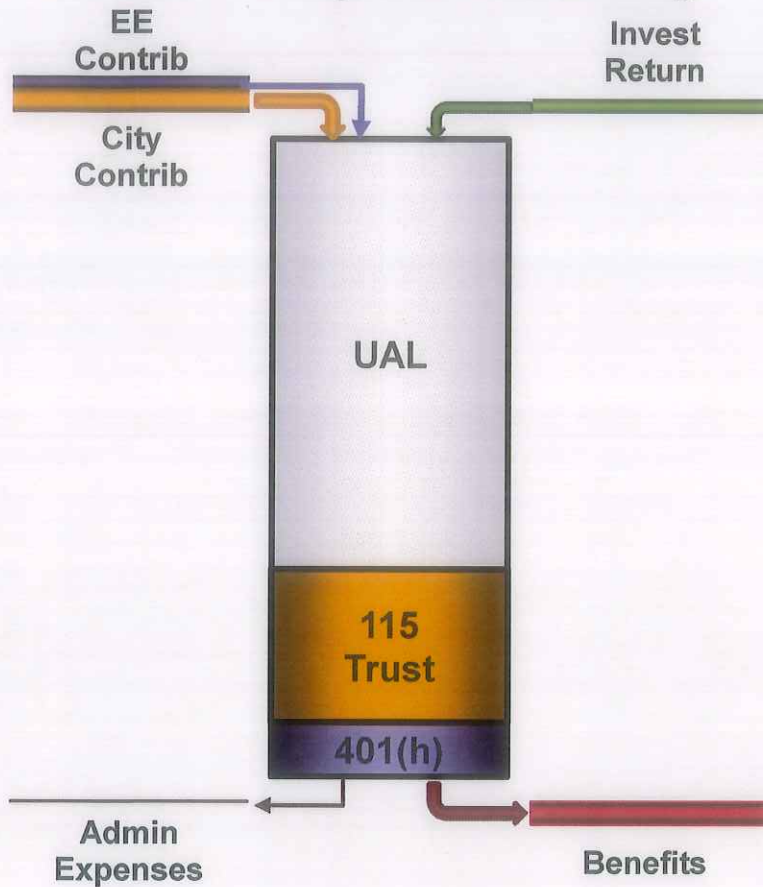
- Two parts of the benefit – Explicit premium subsidy and implicit subsidy
 - Board is responsible for funding of explicit premium subsidy
 - Implicit subsidy is paid on a pay-as-you-go basis through active employee health premiums
- June 30, 2019 valuation:
 - Develops City contribution for FYE 2021 for explicit premium subsidy
 - Member contributions are fixed at 8.0%
 - Used as basis for GASB 74/75 valuation in September for FYE 2020 financial disclosures



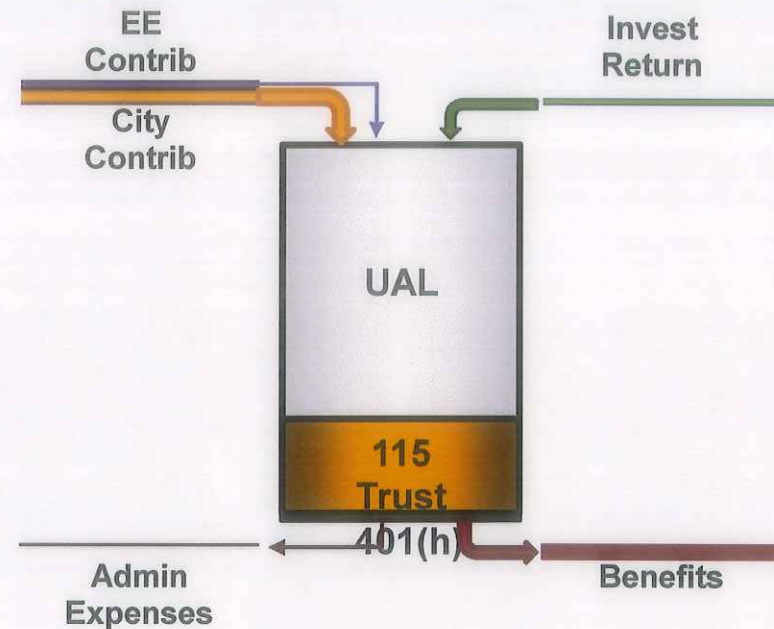
A Dynamic System



Police Explicit Subsidy



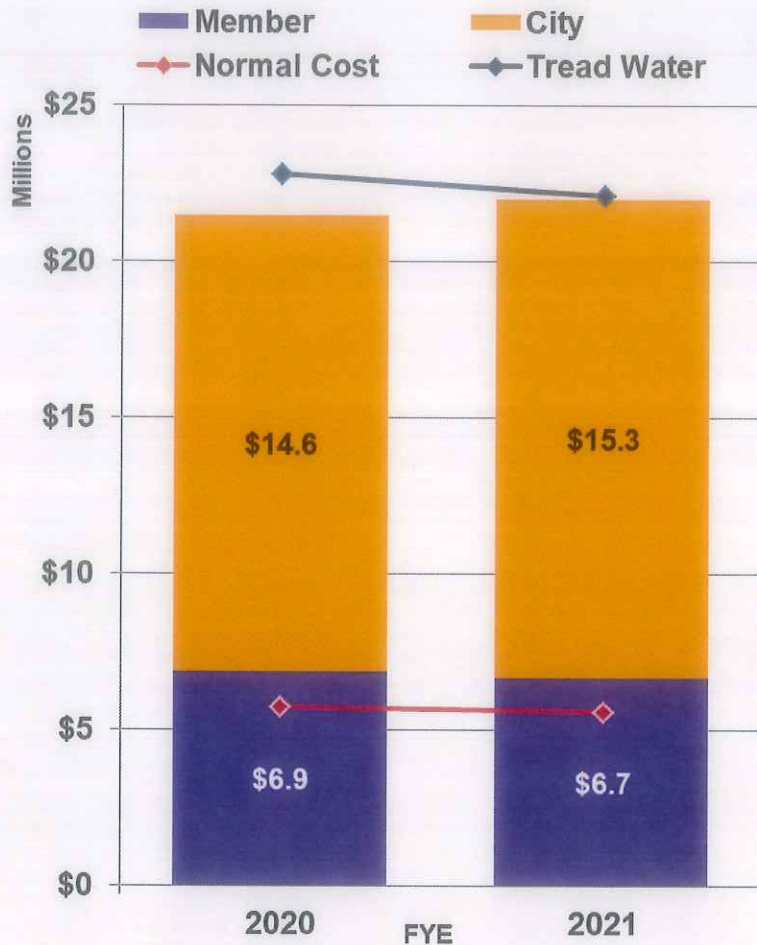
Fire Explicit Subsidy



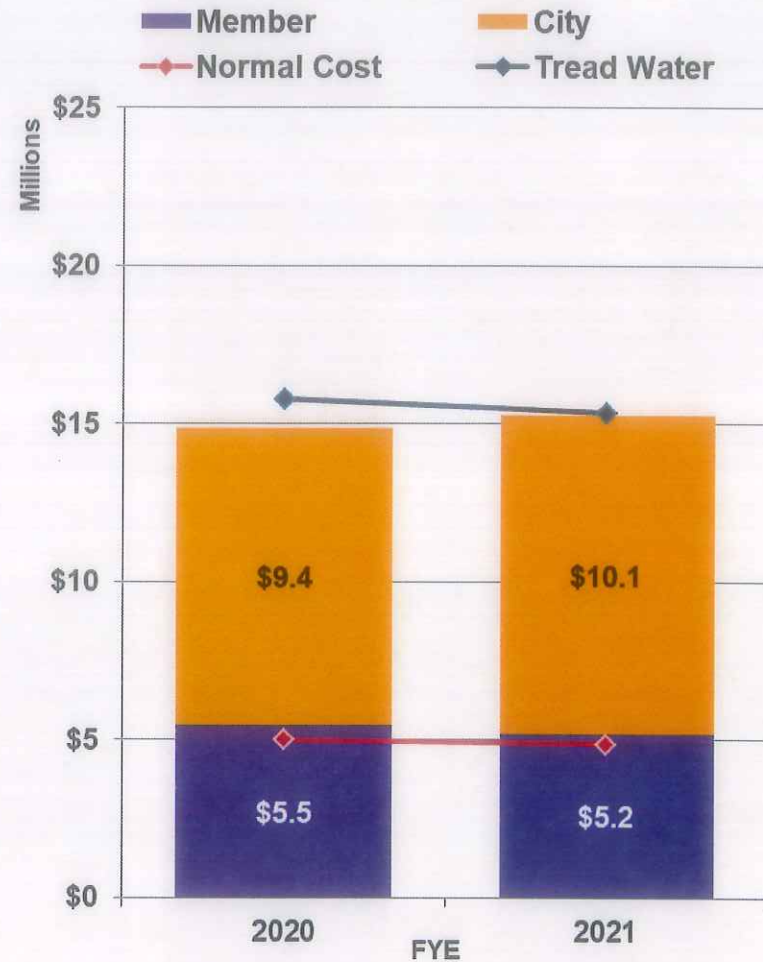
Contributions



Contributions - Police



Contributions - Fire

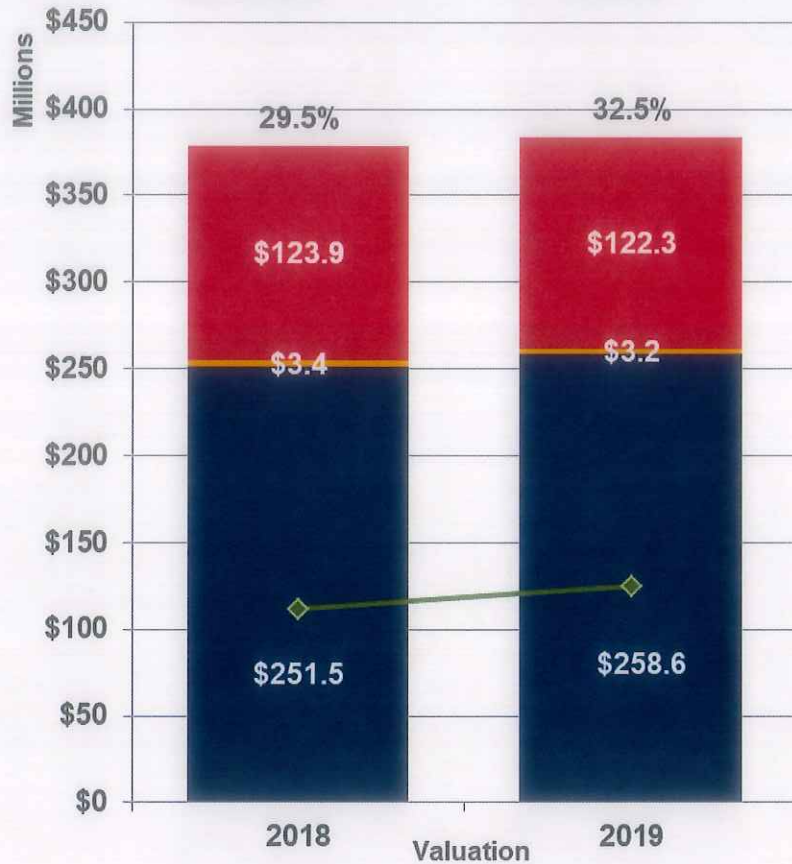


Funded Status



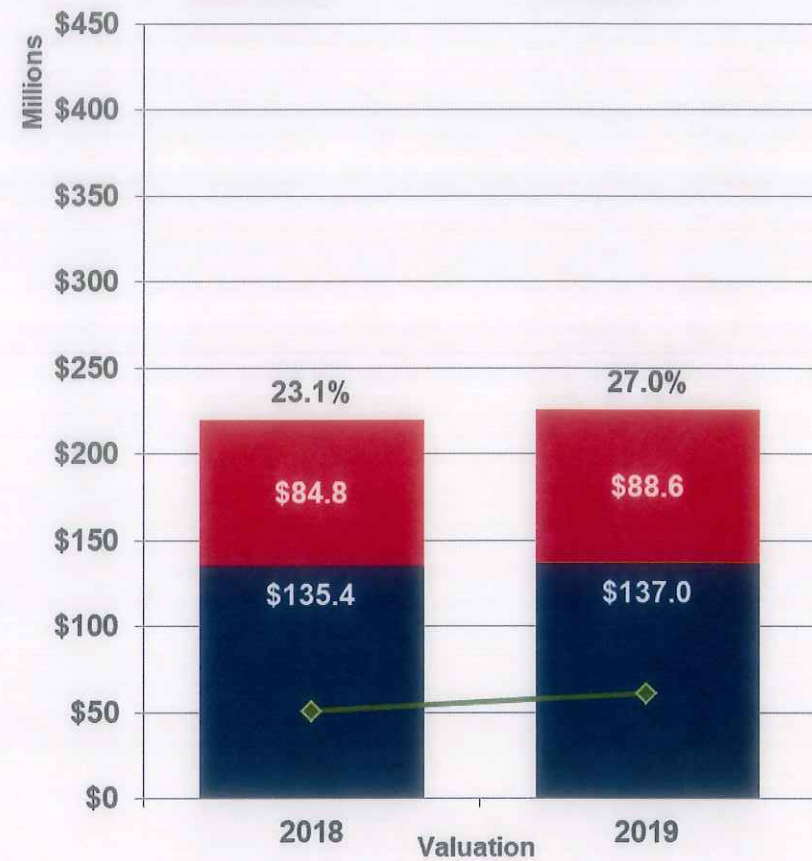
Funded Status - Police

■ In Pay Status ■ Vested Term
■ Active ◆ Assets



Funded Status - Fire

■ In Pay Status ■ Vested Term
■ Active ◆ Assets



Unfunded Actuarial Liability



Unfunded Actuarial Liability - Explicit Subsidy Only

	Police Department			Fire Department		
	2019	2018	% Change	2019	2018	% Change
Actuarial Liability						
Actives	\$ 122,325	\$ 123,877	-1.3%	\$ 88,561	\$ 84,792	4.4%
Deferred Vested	3,181	3,392	-6.2%	496	-	0.0%
In Pay Status	<u>258,563</u>	<u>251,461</u>	<u>2.8%</u>	<u>136,954</u>	<u>135,404</u>	<u>1.1%</u>
Total	\$ 384,069	\$ 378,730	1.4%	\$ 226,011	\$ 220,196	2.6%
Assets	<u>124,990</u>	<u>111,659</u>	<u>11.9%</u>	<u>60,967</u>	<u>50,861</u>	<u>19.9%</u>
Unfunded Actuarial Liability	\$ 259,079	\$ 267,071	-3.0%	\$ 165,044	\$ 169,335	-2.5%
Funded Percentage	32.5%	29.5%	3.1%	27.0%	23.1%	3.9%

Dollar amounts in thousands

- The Police UAL for the explicit subsidy decreased 3.0% to \$259 million
- The Fire UAL for the explicit subsidy decreased 2.5% to \$165 million
- The funded ratio for Police and Fire improved to 32.5% and 27.0% respectively

Changes in UAL



Changes in Unfunded Actuarial Liability Explicit Subsidy Only

	Total
UAL, June, 30, 2018	\$ 436,407
UAL, June, 30, 2019	424,123
Change in UAL	\$ (12,283)
<u>Sources of Changes</u>	
Tread Water Amount	\$ 38,161
Actual Contributions	36,343
Contribution Impact	\$ 1,818
Investment Experience	4,044
Premium and Claims Experience	(12,056)
Other Experience	(14,485)
Assumption Changes	8,396
Total Changes	\$ (12,283)

Dollar amounts in thousands

- The combined UAL for Police and Fire decreased \$12.3 million during the year
- Premium experience for the Medicare Eligible plans reduced the liability \$12.1 million

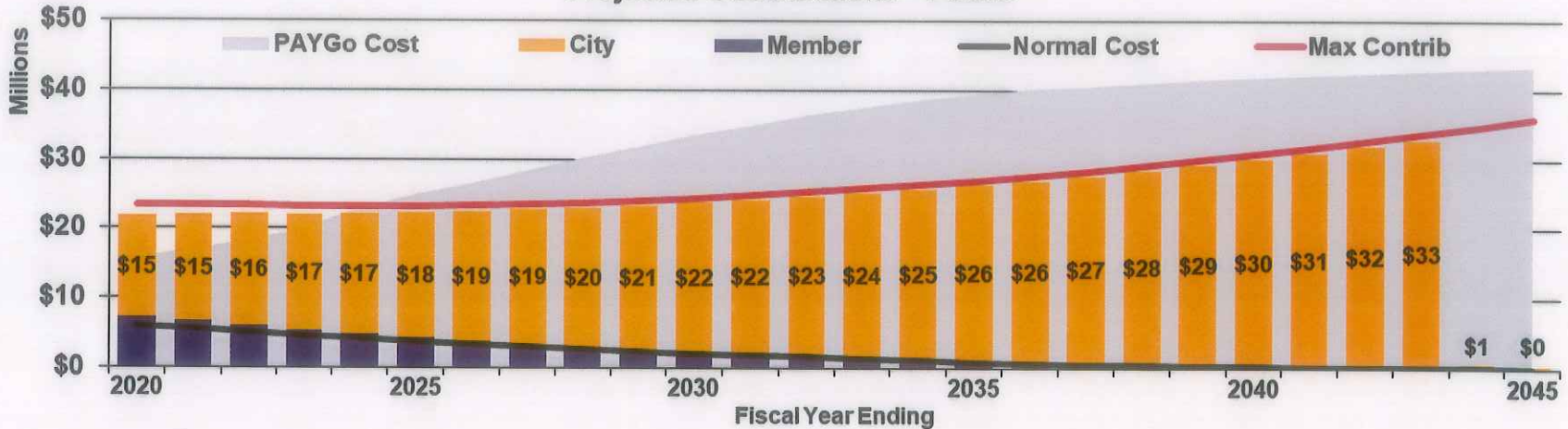
Projections – Police



Projected Assets and Liabilities - Police



Projected Contributions - Police



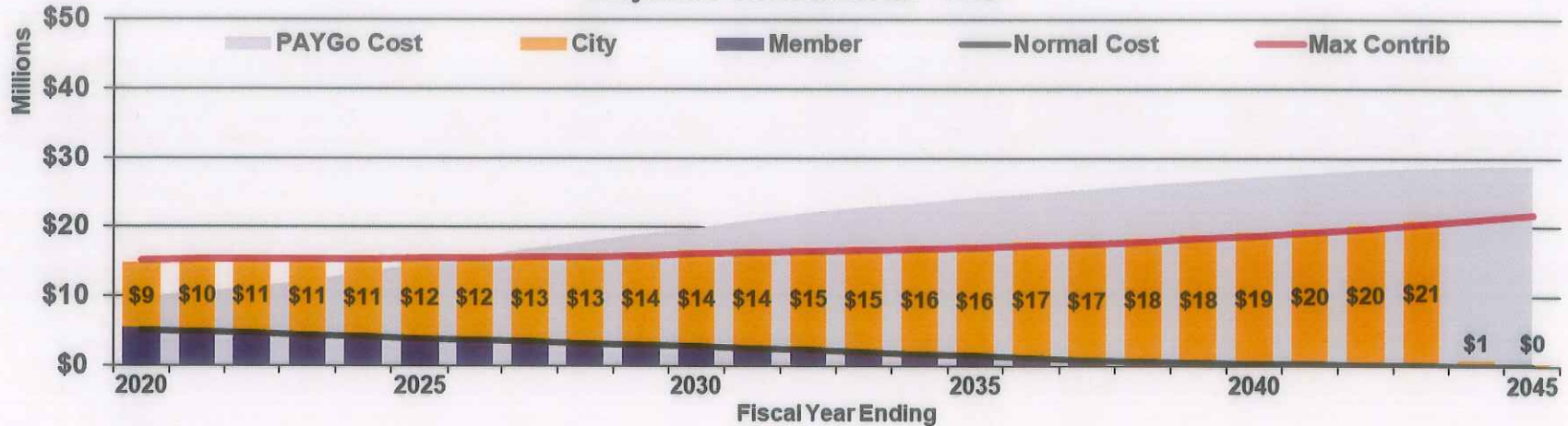
Projections – Fire



Projected Assets and Liabilities - Fire



Projected Contributions - Fire



Projections



H-scan OPEB

Stress Testing

CHEIRON

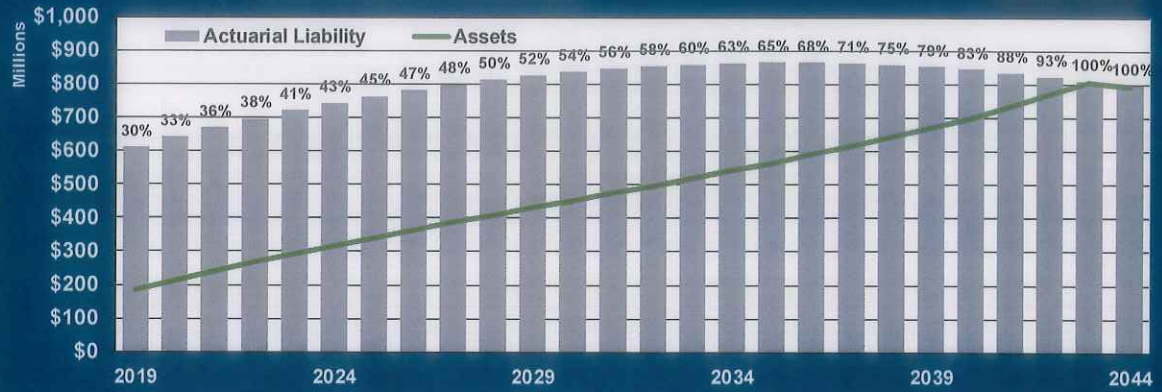
Restore Baseline

FYE	Invest Return	Health Trend Experience			
		NME	ME	Dental	PartB
2020	6.50%	7.50%	4.16%	3.50%	4.07%
2021	6.50%	7.16%	4.27%	3.50%	5.04%
2022	6.50%	6.82%	4.38%	3.50%	5.95%
2023	6.50%	6.49%	4.49%	3.50%	6.10%
2024	6.50%	6.15%	4.60%	3.50%	5.94%
2025	6.50%	5.81%	4.70%	3.50%	6.04%
2026	6.50%	5.48%	4.81%	3.50%	7.10%
2027	6.50%	5.14%	4.92%	3.50%	7.88%
2028	6.50%	4.89%	4.89%	3.50%	7.59%
2029	6.50%	4.80%	4.80%	3.50%	7.30%
2030	6.50%	4.77%	4.77%	3.50%	7.01%
2031	6.50%	4.75%	4.75%	3.50%	6.72%
2032	6.50%	4.73%	4.73%	3.50%	6.44%
2033	6.50%	4.71%	4.71%	3.50%	6.15%
2034	6.50%	4.70%	4.70%	3.50%	5.86%
2035	6.50%	4.68%	4.68%	3.50%	5.57%
2036	6.50%	4.67%	4.67%	3.50%	5.28%
2037	6.50%	4.66%	4.66%	3.50%	5.00%
2038	6.50%	4.64%	4.64%	3.50%	4.71%
2039	6.50%	4.63%	4.63%	3.50%	4.42%
Avg	6.50%	5.36%	4.65%	3.50%	6.00%

Medical Trend Assumptions

	NME	ME	Period
Initial	7.66%	4.11%	1
Ultimate	3.94%	3.94%	55

OPEB Plan	Total
Discount Rate	6.50%
Apply City Cap	No



Classic Values, Innovative Advice

February 6, 2020

Disclosures



- The purpose of this presentation is to present the results of the June 30, 2019 Actuarial Valuation for the City of San José's Police and Fire Postemployment Healthcare Plan.
- This presentation was prepared exclusively for the Board of Administration for the purpose described herein. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In preparing the valuation, we relied on information (some oral and some written) supplied by the City of San José. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.
- This valuation does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.
- This presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we collectively meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

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

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary



Classic Values, Innovative Advice

February 6, 2020

Membership



Police Department - Summary of Member Data			
Valuation Date	2019	2018	% Change
Active Members			
Eligible for Full Benefits	629	680	-7.5%
Eligible for Catastrophic Disability	410	294	39.5%
Total Active Members	1,039	974	6.7%
Term Vested Members	13	15	-13.3%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental	1,157	1,161	-0.3%
Medical Only	1	8	-87.5%
In-Lieu Medical with Dental	76	60	26.7%
Dental Coverage Only	82	48	70.8%
In-Lieu Medical Only	8	4	100.0%
Total	1,324	1,281	3.4%
Total Count	2,376	2,270	4.7%
Full Benefit Member Payroll	\$ 98,281	\$ 99,405	-1.1%
Total Payroll	\$ 146,865	\$ 131,888	11.4%

* Counts do not include dependent spouses

Payroll in thousands

Fire Department - Summary of Member Data			
Valuation Date	2019	2018	% Change
Active Members			
Eligible for Full Benefits	512	533	-3.9%
Eligible for Catastrophic Disability	150	131	14.5%
Total Active Members	662	664	-0.3%
Term Vested Members	2	0	N/A
Retirees and Surviving Spouses with Coverage*			
Medical and Dental	772	787	-1.9%
Medical Only	0	0	N/A
In-Lieu Medical with Dental	24	15	60.0%
Dental Coverage Only	32	26	23.1%
In-Lieu Medical Only	3	1	200.0%
Total	831	829	0.2%
Total Count	1,495	1,493	0.1%
Full Benefit Member Payroll	\$ 72,440	\$ 72,806	-0.5%
Total Payroll	\$ 88,953	\$ 86,541	2.8%

* Counts do not include dependent spouses

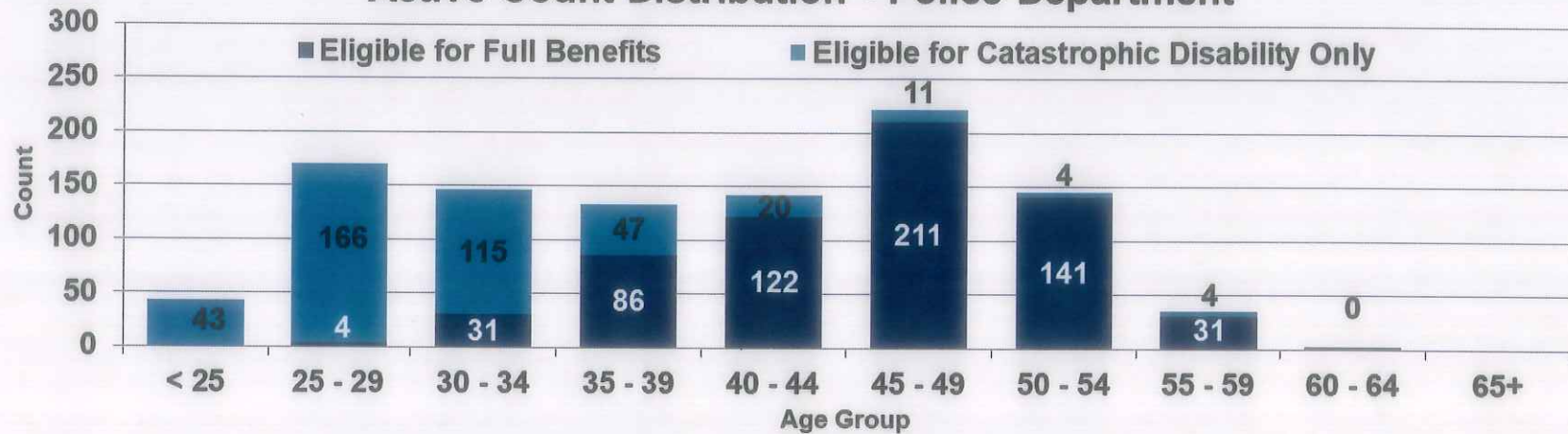
Payroll in thousands

- Fewer active members are eligible for full benefits
 - Payroll on which member contributions are based declined 1.1% for Police and 0.5% for Fire
- Total active payroll is growing
 - Police payroll increased 11% and Fire payroll increased 3%
 - City's optional contribution cap increased 8%

Active Member Distribution



Active Count Distribution - Police Department



Active Count Distribution - Fire Department

