

San José Police and Fire
Postemployment Healthcare Plan



Final Actuarial Valuation Results

June 30, 2017

April 5, 2018

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Agenda



- Background
- Valuation Results
- Membership
- Projections

Background

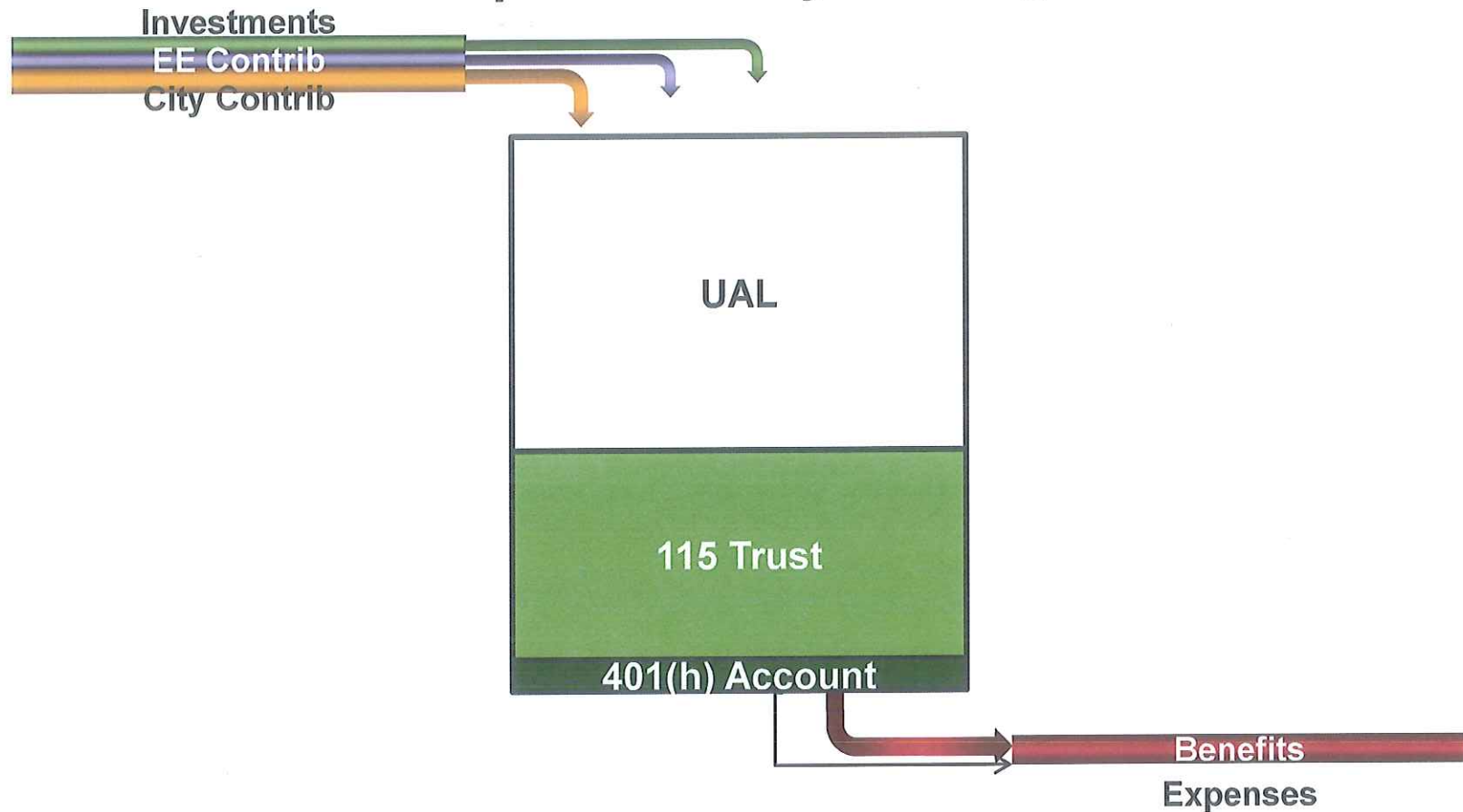


- June 30, 2017 valuation:
 - Develops City contribution for FYE 2019
 - Basis for projected City contributions
 - Used as basis for GASB 74/75 valuation in September for FYE 2018
- First valuation to implement:
 - Measure F plan changes
 - Contribution policy adopted in March
 - Pre-fund explicit subsidy
 - Pay-as-you-go contributions for implicit subsidy

A Dynamic System



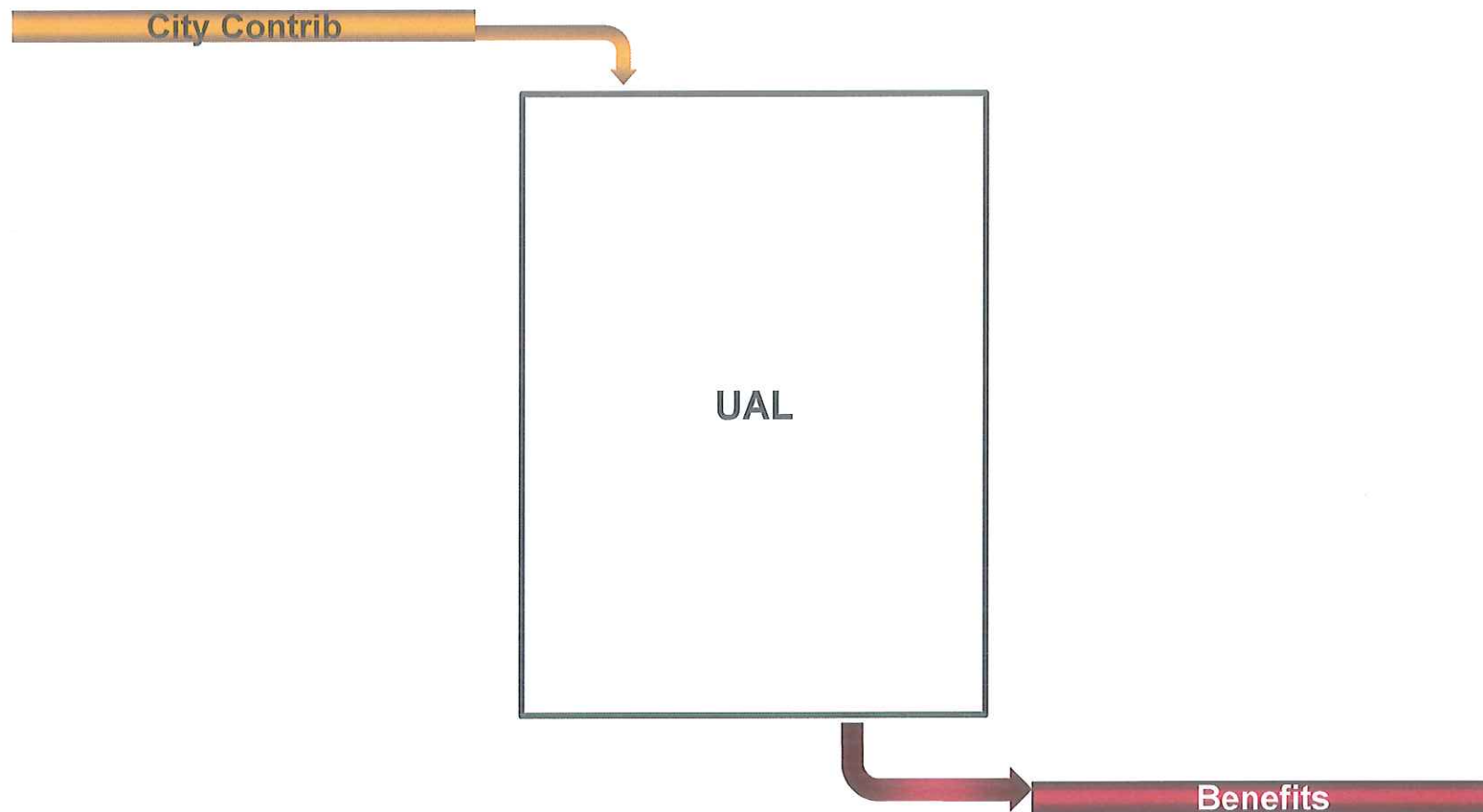
Explicit Subsidy Funding



A Dynamic System



Implicit Subsidy Funding



Valuation Results



Summary of Contribution Amounts				
	FYE 2019	FYE 2018	% Change	
Explicit Subsidy				
Police Department				
Members	\$ 6,891	\$ 10,902	-36.8%	
City's Actuarially Determined Contribution ¹	13,723	11,819	16.1%	
Fire Department				
Members	\$ 5,519	\$ 8,351	-33.9%	
City's Actuarially Determined Contribution ¹	8,752	9,106	-3.9%	
Total Explicit Subsidy				
Members	\$ 12,410	\$ 19,253	-35.5%	
City's Actuarially Determined Contribution ¹	22,475	20,925	7.4%	
Estimated City Optional Cap	23,148			
Implicit Subsidy				
Police Department	\$ 3,699	\$ 796	364.7%	
Fire Department	2,017	803	151.2%	
Total Implicit Subsidy	5,716	1,599	257.5%	

¹ City amount for FYE 2018 was not actuarially determined

Dollar amounts in thousands

- City's contribution to the 115 Trust for FYE 2019 is \$1.5 million higher than for FYE 2018, and is slightly below the City's optional cap

Valuation Results



	Unfunded Actuarial Liability June 30, 2017			June 30, 2016		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Police Department						
Actuarial Liability	\$ 351,723	\$ 79,616	\$ 431,339	\$ 398,049	\$ 31,712	\$ 429,761
Assets	<u>99,926</u>	<u>-</u>	<u>99,926</u>	<u>97,412</u>	<u>-</u>	<u>97,412</u>
Unfunded Actuarial Liability	\$ 251,796	\$ 79,616	\$ 331,412	\$ 300,637	\$ 31,712	\$ 332,349
Funded Percentage	28.4%	0.0%	23.2%	24.5%	0.0%	22.7%
Fire Department						
Actuarial Liability	\$ 202,176	\$ 46,732	\$ 248,908	\$ 226,179	\$ 20,490	\$ 246,670
Assets	<u>42,591</u>	<u>-</u>	<u>42,591</u>	<u>37,795</u>	<u>-</u>	<u>37,795</u>
Unfunded Actuarial Liability	\$ 159,585	\$ 46,732	\$ 206,317	\$ 188,384	\$ 20,490	\$ 208,875
Funded Percentage	21.1%	0.0%	17.1%	16.7%	0.0%	15.3%
Aggregate UAL	\$ 411,382	\$ 126,348	\$ 537,729	\$ 489,021	\$ 52,202	\$ 541,223
Aggregate Funded Percentage	25.7%	0.0%	21.0%	21.7%	0.0%	20.0%

Dollar amounts in thousands

- The explicit subsidy is now 28% funded for Police and 21% for Fire; the total UAL is \$411 million
- Improved funded percentage is primarily the result of a reduction in the Actuarial Liability

Valuation Results



Changes in Unfunded Actuarial Liability			
	Implicit	Explicit	Total
Unfunded Actuarial Liability, June, 30, 2016	\$ 52,202	\$ 489,021	\$ 541,223
Unfunded Actuarial Liability, June, 30, 2017	126,348	411,382	537,729
Change in Unfunded Actuarial Liability	\$ 74,146	\$ (77,639)	\$ (3,494)
<u>Sources of Changes</u>			
Normal Cost + Interest on UAL less Contributions	\$ 2,818	\$ 10,472	\$ 13,290
Investment Experience	0	(2,647)	(2,647)
Demographic Experience	3,217	11,891	15,108
Assumption Changes	70,277	(49,034)	21,243
New Low Cost Health Plan	0	(59,945)	(59,945)
Asset Method Change	0	11,782	11,782
VEBA Elections	(2,285)	(598)	(2,882)
Catastrophic Disability Benefit	118	440	558
Total Changes	\$ 74,146	\$ (77,639)	\$ (3,494)

Dollar amounts in thousands

- Reduction in Actuarial Liability and UAL is primarily due to:
 - Health claims and trend assumption changes
 - New lowest cost health plan, which is the basis for the explicit subsidy
- Other changes had relatively minor impacts

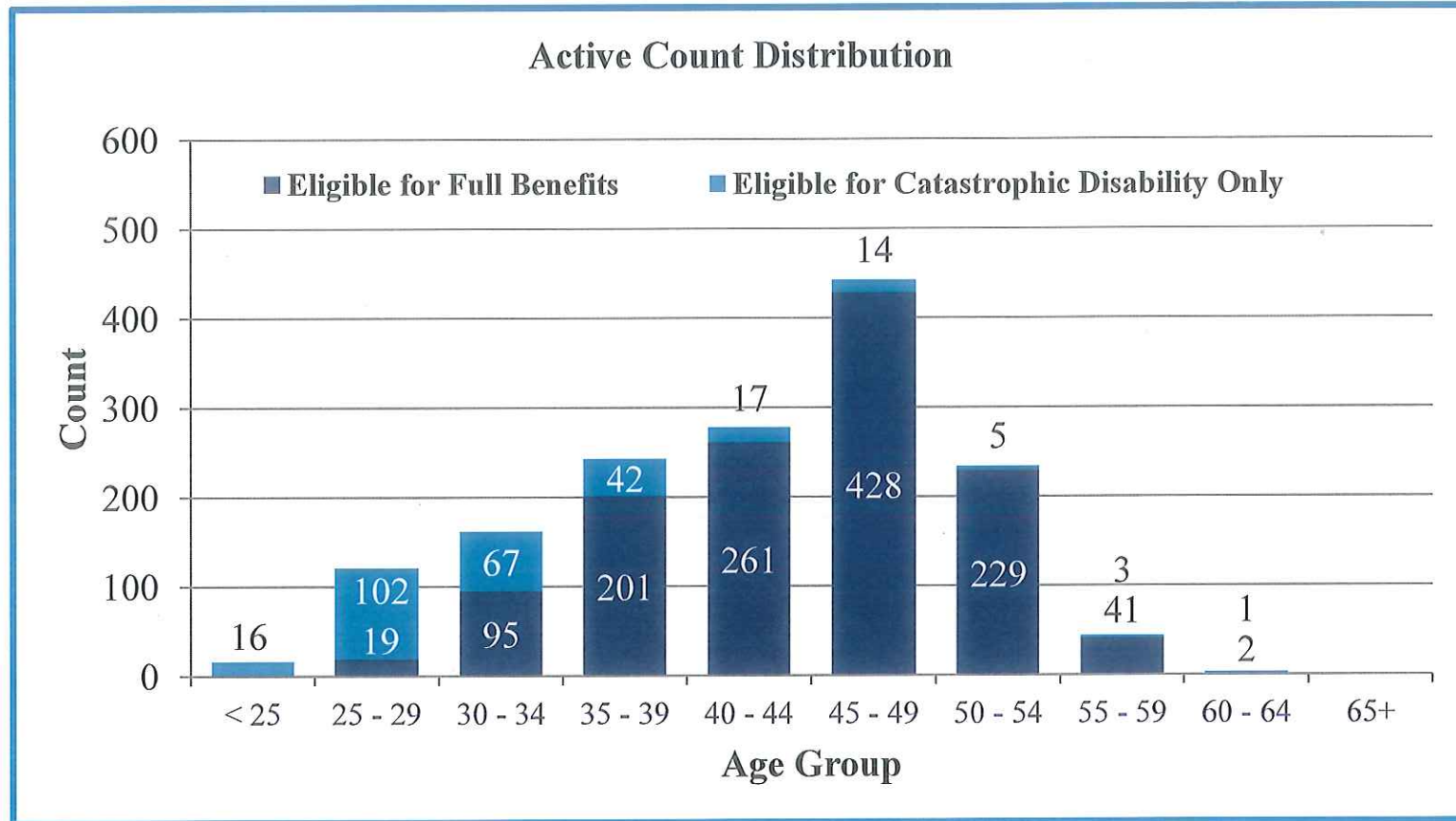
Membership



	Membership			June 30, 2016	% Change
	Police	Fire	Total		
Active Members					
Eligible for Full Benefits	717	559	1,276	1,582	-19.3%
Eligible for Catastrophic Disability Only	180	87	267	N/A	N/A
Total Active Members	897	646	1,543	2,387	-35.4%
Deferred Vested Members	11	1	12	11	9.1%
Members in Pay Status (Medical and/or Dental)	1,249	809	2,058	2,020	1.9%
Total	2,157	1,456	3,613	2,387	51.4%
Full Benefit Member Payroll	\$92,368	\$70,054	\$162,422	\$ 194,072	-16.3%
Total Payroll	120,299	83,517	203,816	194,072	5.0%

- Fewer members are eligible for full benefits due to closed plan, removal of Tier 2 members and VEBA elections
 - Counts decreased 19%
 - Payroll on which member contributions are based decreased 16%
- About 270 members are now eligible for catastrophic disability benefits

Membership

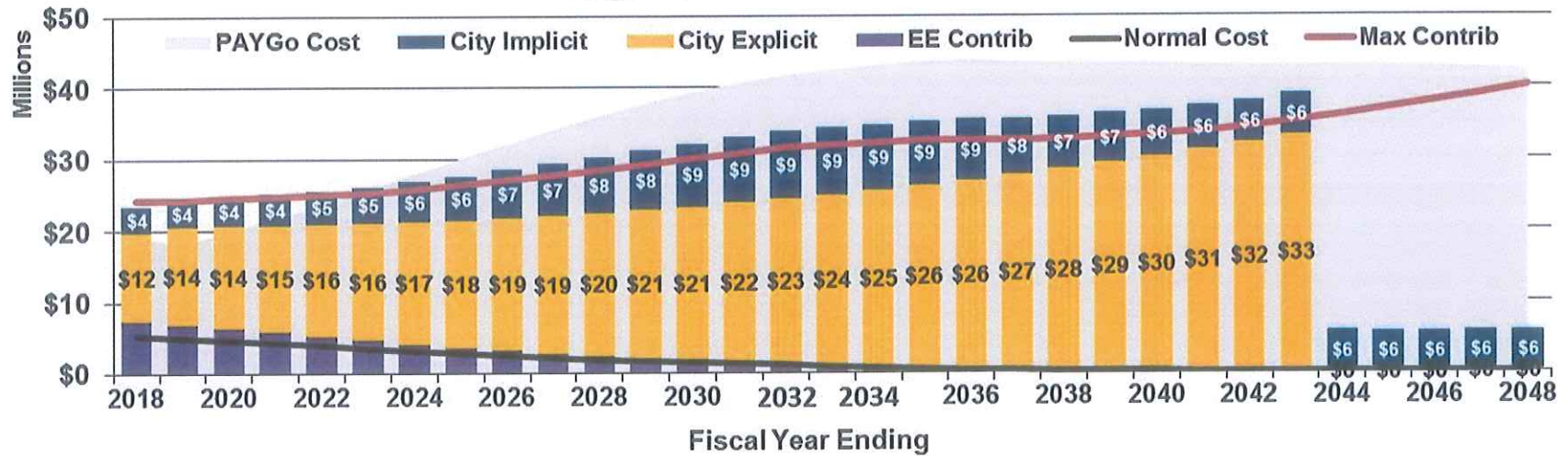


- Many active members eligible for full benefits are at or approaching prime ages for retirement

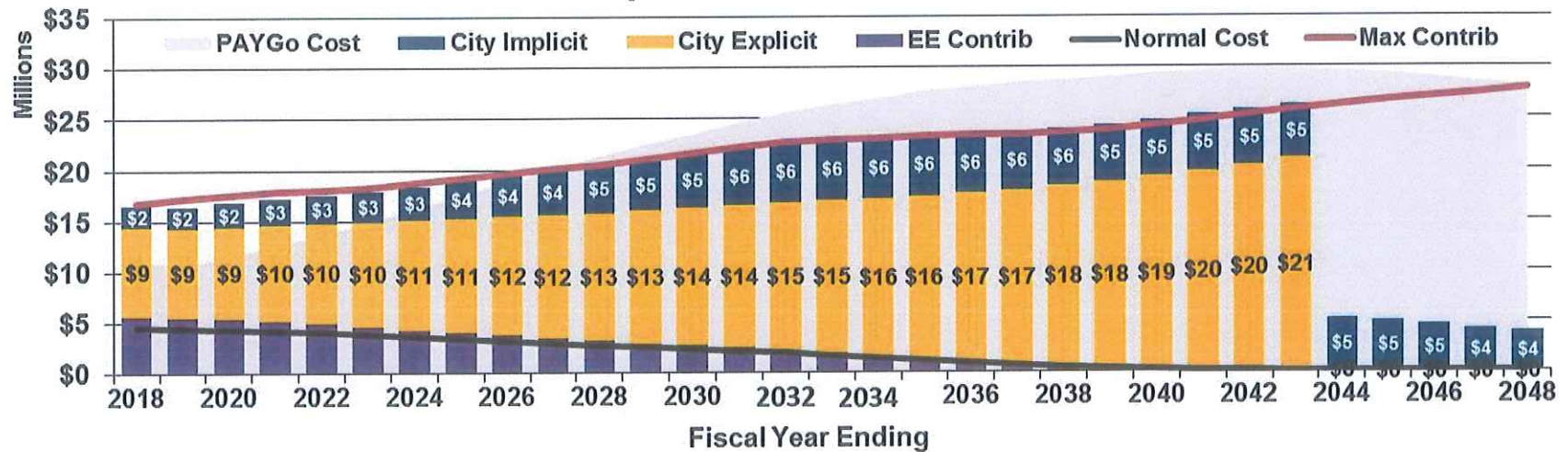
Projections



Projected Contributions - Police



Projected Contributions - Fire



Projections



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Stress Testing

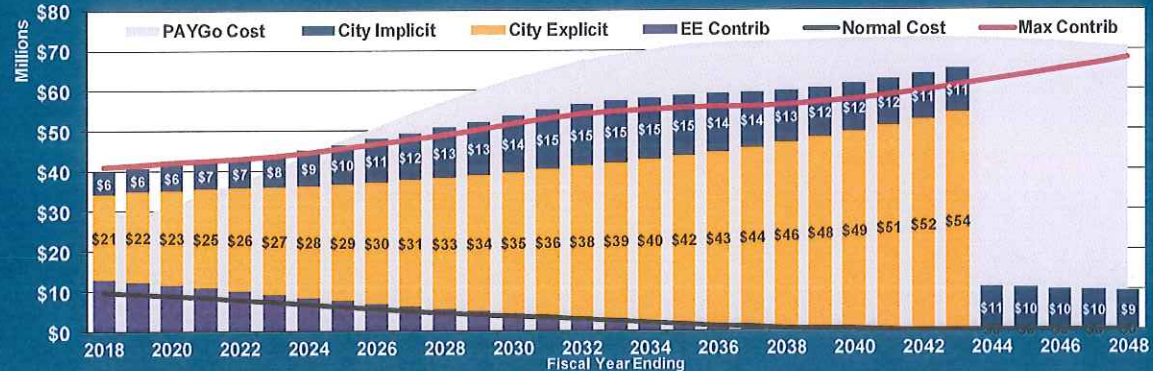
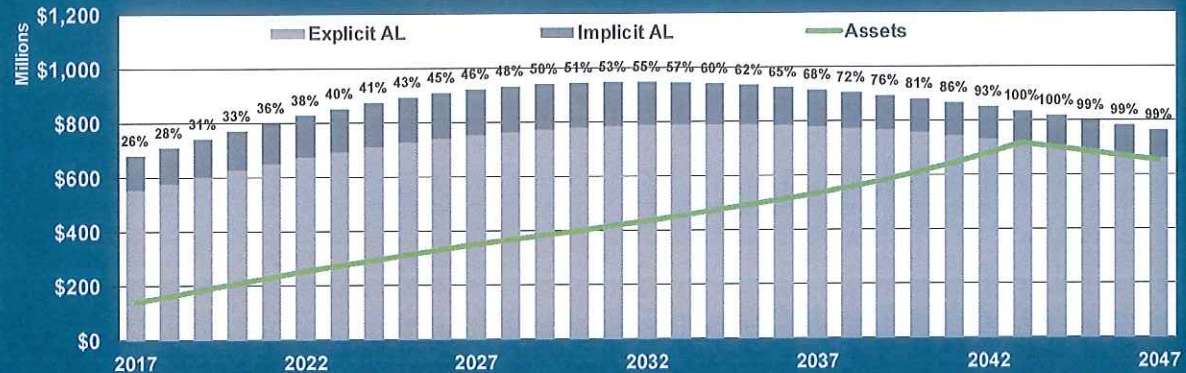
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Restore Baseline

Amortization Options	Police	Fire
Period	25	25
Phase In/Out	3	3
Payment Growth	3.25%	3.25%

OPEB Plan	Total
Contribution Policy	Amortization
Apply City Cap	No

FYE	Invest	Health Trends			
	Return	NME	ME	Dental	PartB
2018	6.88%	7.87%	5.94%	3.50%	3.73%
2019	6.88%	7.60%	5.81%	3.50%	4.82%
2020	6.88%	7.33%	5.69%	3.50%	3.98%
2021	6.88%	7.06%	5.56%	3.50%	5.74%
2022	6.88%	6.79%	5.44%	3.50%	5.62%
2023	6.88%	6.53%	5.31%	3.50%	4.79%
2024	6.88%	6.26%	5.19%	3.50%	7.28%
2025	6.88%	5.99%	5.06%	3.50%	7.03%
2026	6.88%	5.72%	4.94%	3.50%	6.79%
2027	6.88%	5.46%	4.81%	3.50%	6.54%
2028	6.88%	5.19%	4.69%	3.50%	6.30%
2029	6.88%	4.92%	4.56%	3.50%	6.05%
2030	6.88%	4.65%	4.44%	3.50%	5.81%
2031	6.88%	4.38%	4.31%	3.50%	5.56%
2032	6.88%	4.25%	4.25%	3.50%	5.32%
2033	6.88%	4.25%	4.25%	3.50%	5.07%
2034	6.88%	4.25%	4.25%	3.50%	4.83%
2035	6.88%	4.25%	4.25%	3.50%	4.58%
2036	6.88%	4.25%	4.25%	3.50%	4.34%
2037	6.88%	4.25%	4.25%	3.50%	4.09%
Avg	6.88%	5.56%	4.86%	3.50%	5.41%



Classic Values, Innovative Advice

April 5, 2018

Disclosures



- The purpose of this presentation is to present the results of the June 30, 2017 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.
- To the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

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