

San José Police and Fire Postemployment Healthcare Plan



Final Actuarial Valuation Results June 30, 2022

February 2, 2023

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

Agenda



Schedule

Summary of Valuation Results

Changes in UAL

Membership Trends

Baseline Projections

Sensitivity to Investment Returns

Appendix



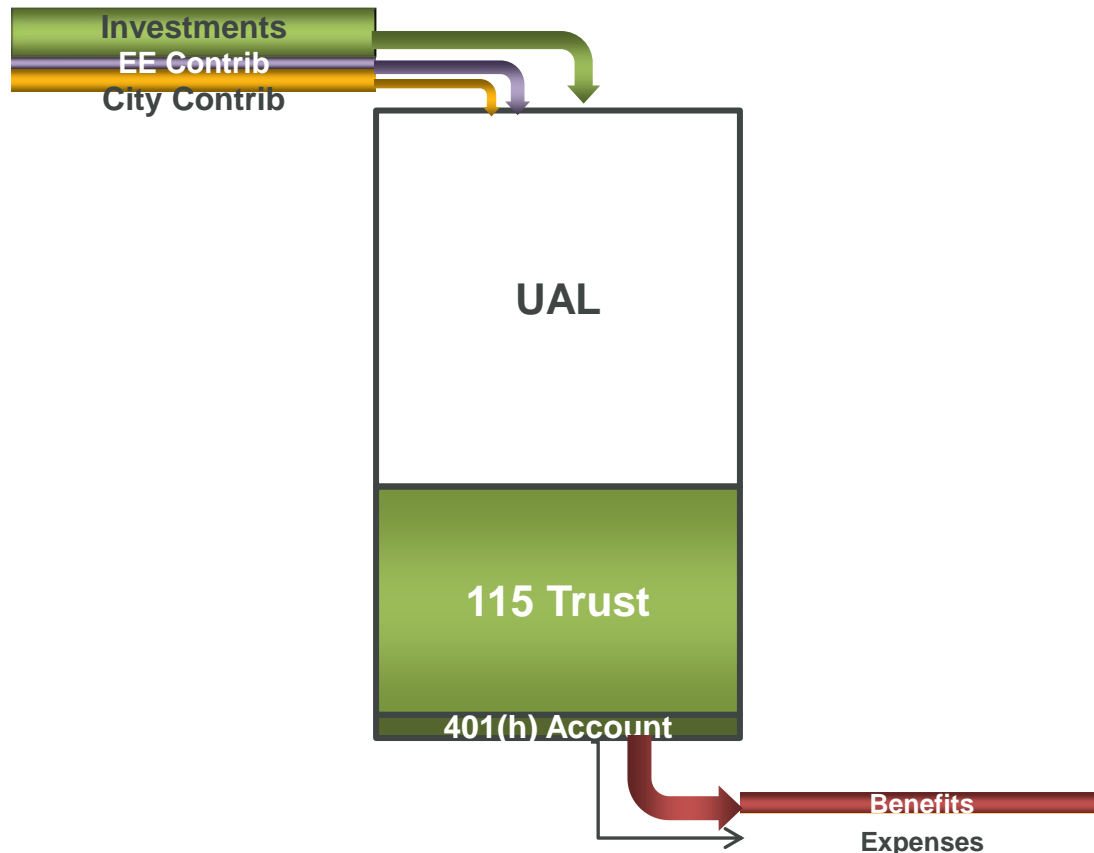
- **October Board Meeting**
 - Pension Economic Assumption Review
- **November Board Meeting**
 - Draft Pension Valuation Results
 - OPEB Assumptions Review
 - OPEB Amortization Method
- **December Board Meeting**
 - Final Pension Valuation Presentation
 - Final Pension Valuation Report
 - Draft OPEB Valuation Results
- **January Board Meeting**
 - No Presentation
- **February Board Meeting**
 - **Final OPEB Valuation Presentation**
 - **Final OPEB Valuation Report**

Final Results

The background of the image is filled with various hand-drawn sketches in black ink on a white surface. These sketches include several 3D bar charts with hatched sides, some with arrows pointing upwards or to the right. There are also various lines, curves, and arrows scattered throughout, suggesting a brainstorming or analytical process. In the bottom right corner, a person's hand is visible, holding a silver pen and appearing to be in the process of drawing or writing on the surface. The hand is wearing a light blue sleeve. The overall composition is dynamic and creative, emphasizing the final stage of a project or analysis.



Explicit Subsidy Funding

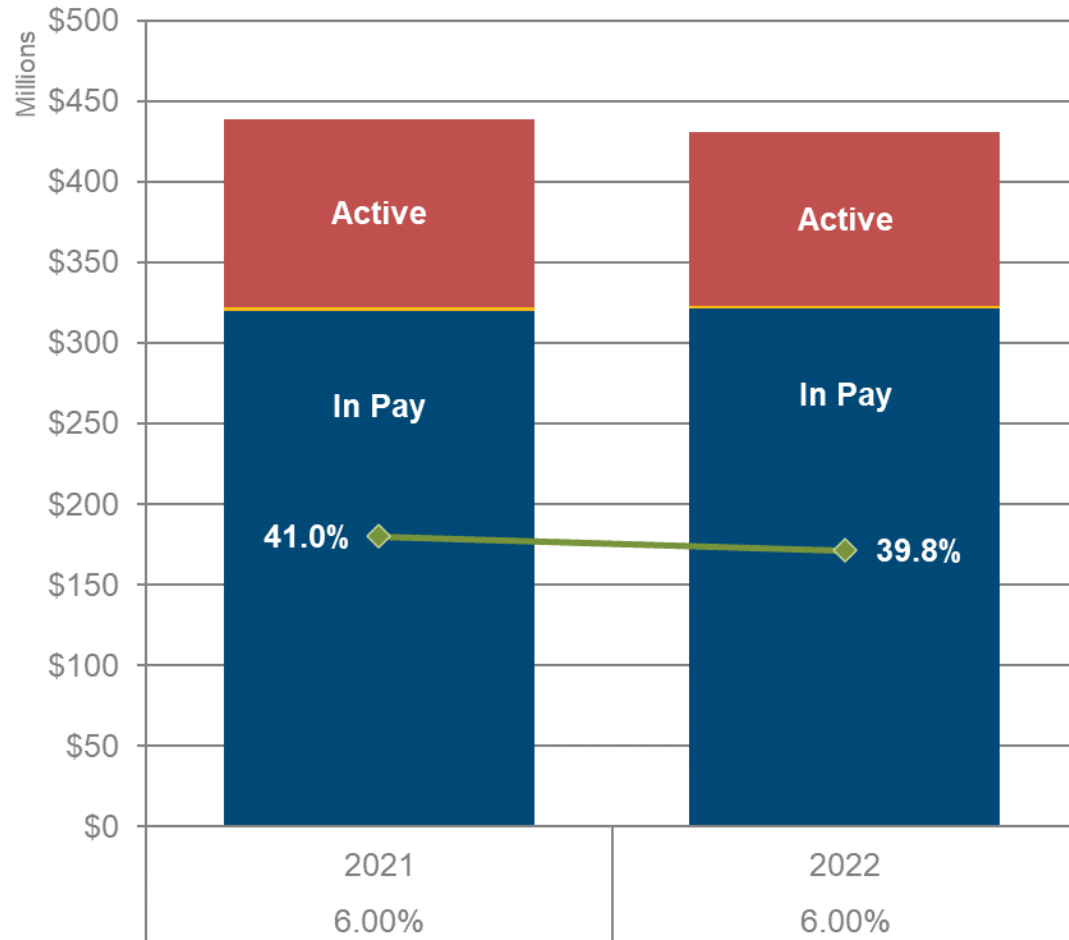


- Primary purpose of valuation is to set City contributions
 - 2022 valuation develops contributions for FYE 2024
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions
 - Plan provisions, actuarial methods, and discount rate
 - Member contributions are fixed

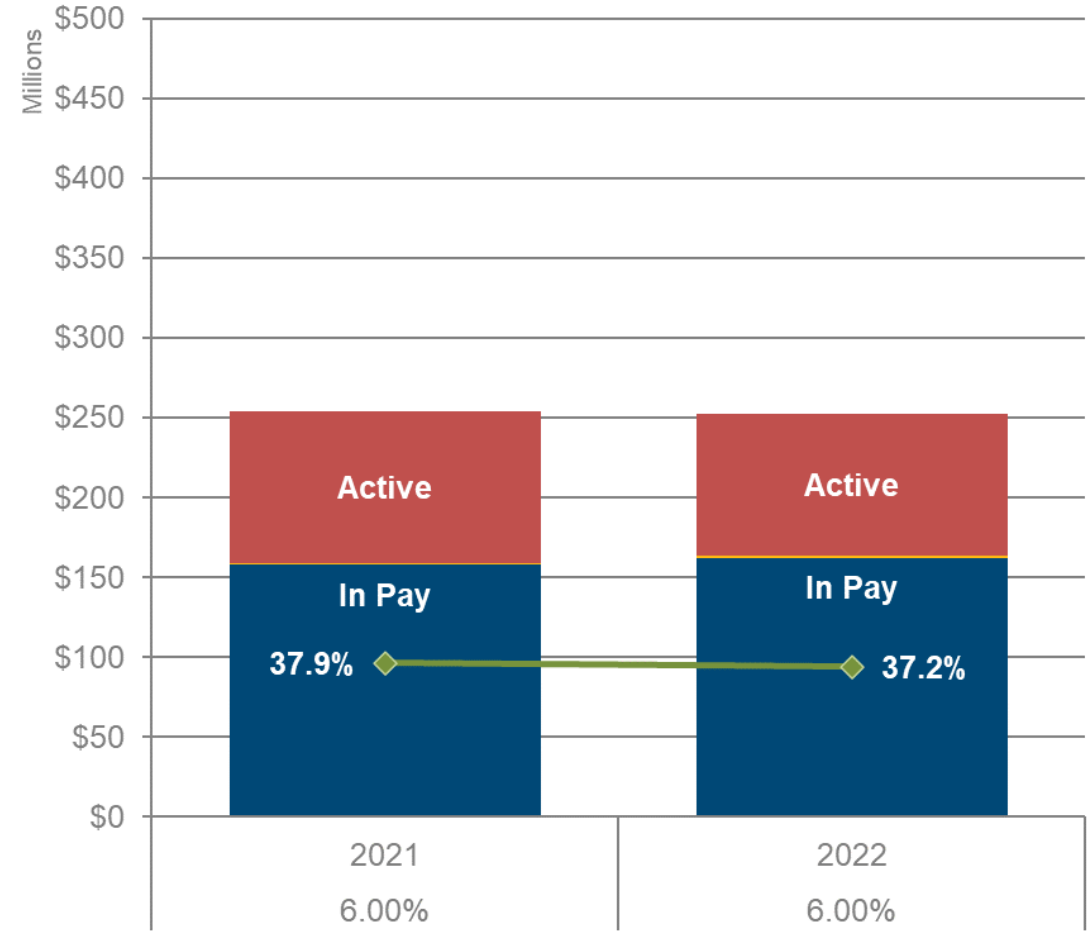
Final Valuation Results – Explicit Subsidy



Police Explicit Subsidy Funded Status



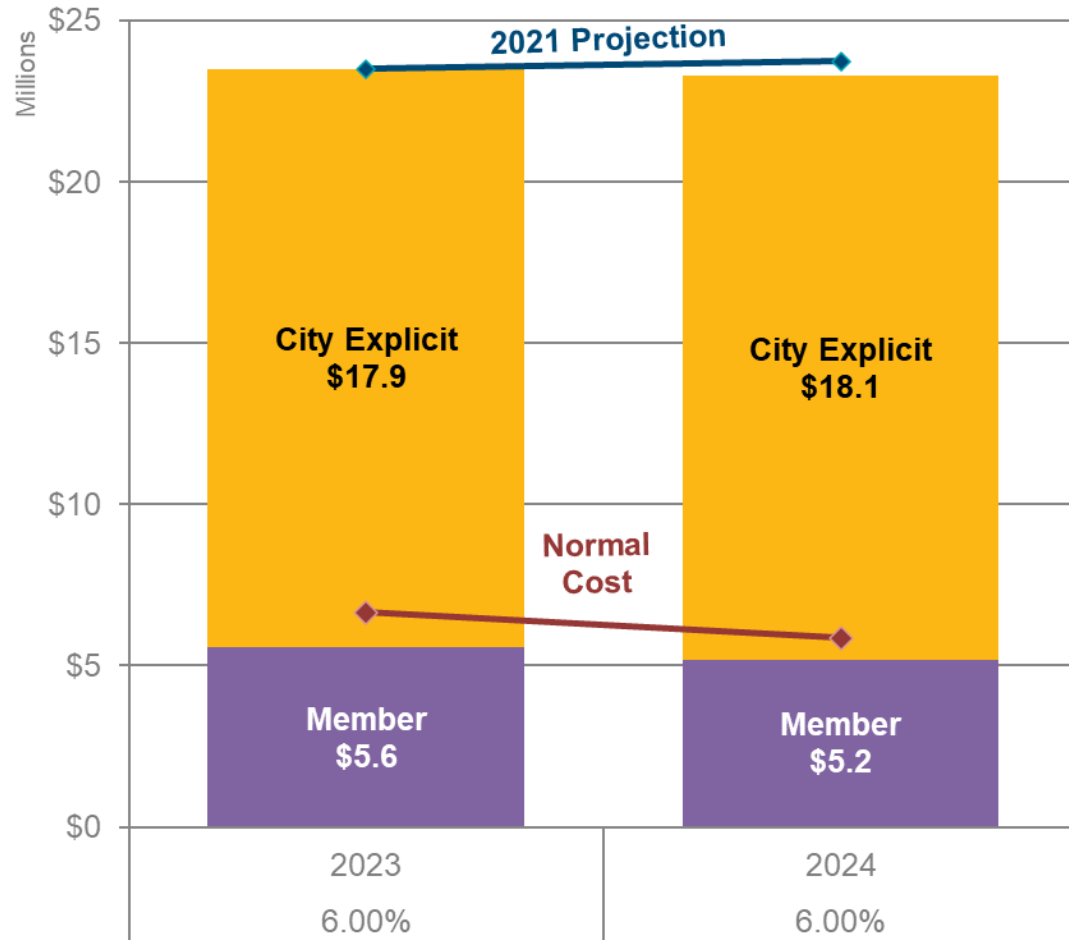
Fire Explicit Subsidy Funded Status



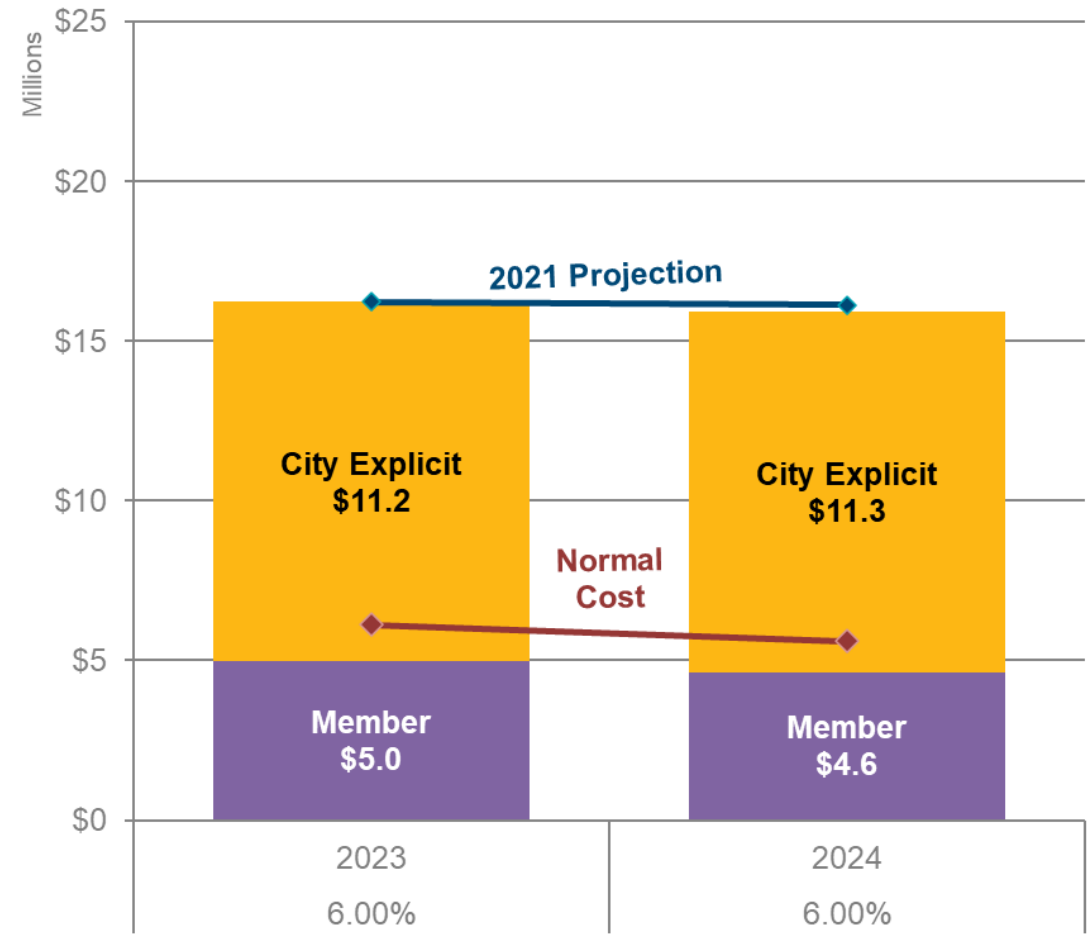
Final Valuation Results – Explicit Subsidy



Police Contributions



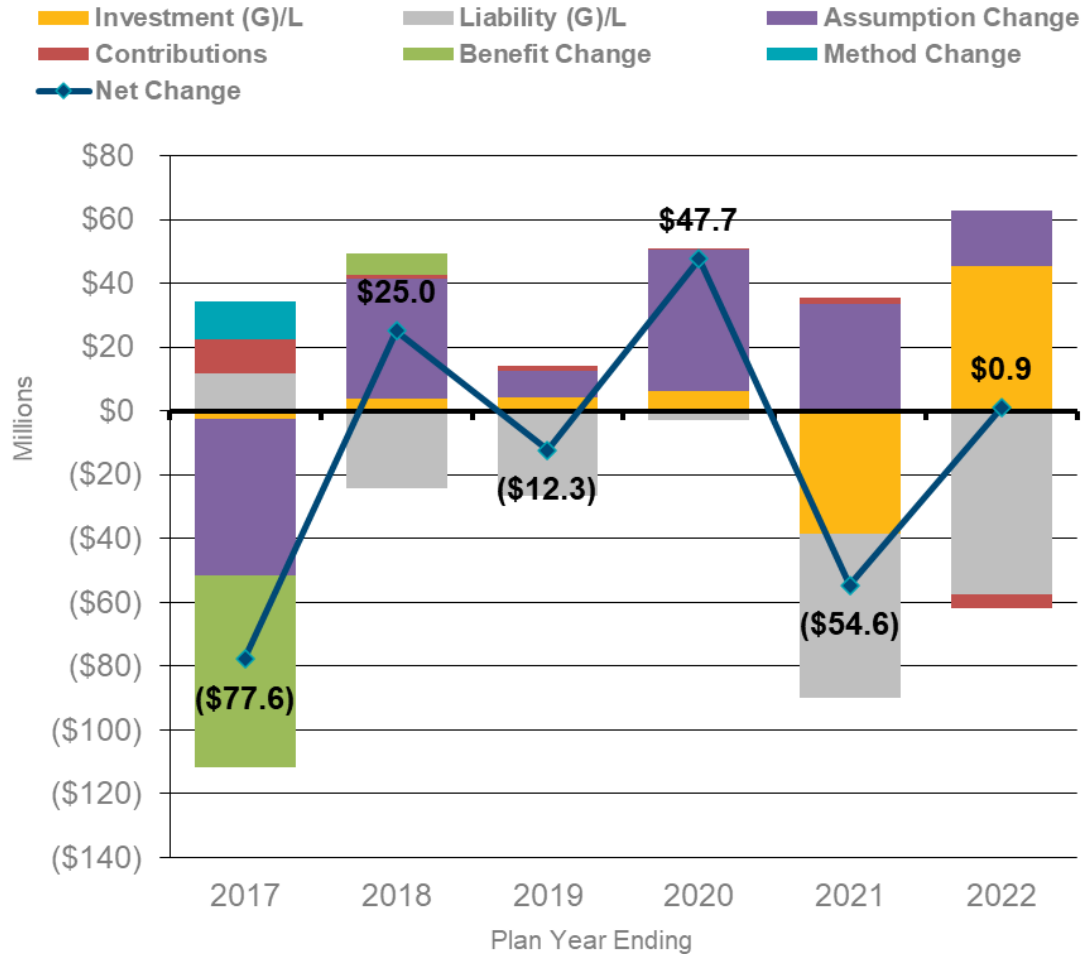
Fire Contributions



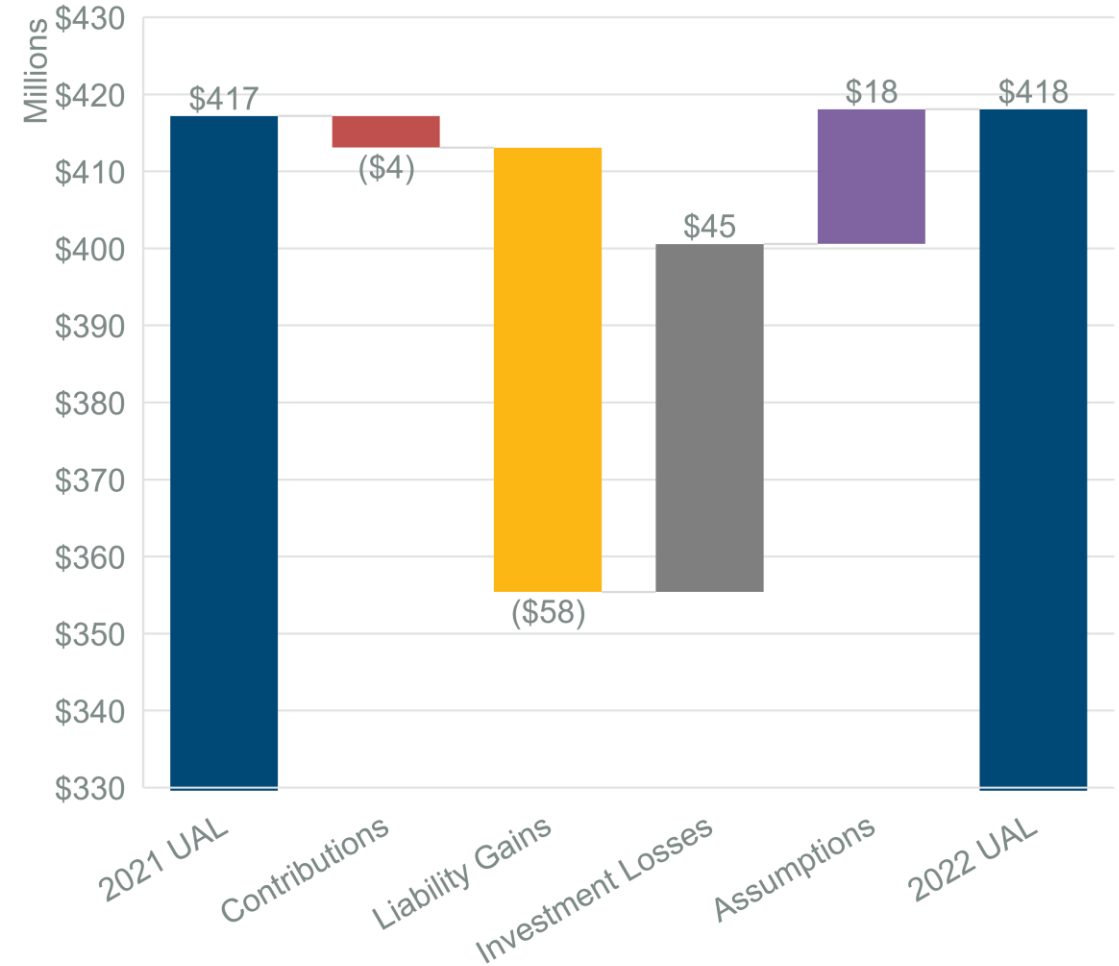
Historical Changes in UAL – Explicit Subsidy



Changes in Explicit Subsidy UAL



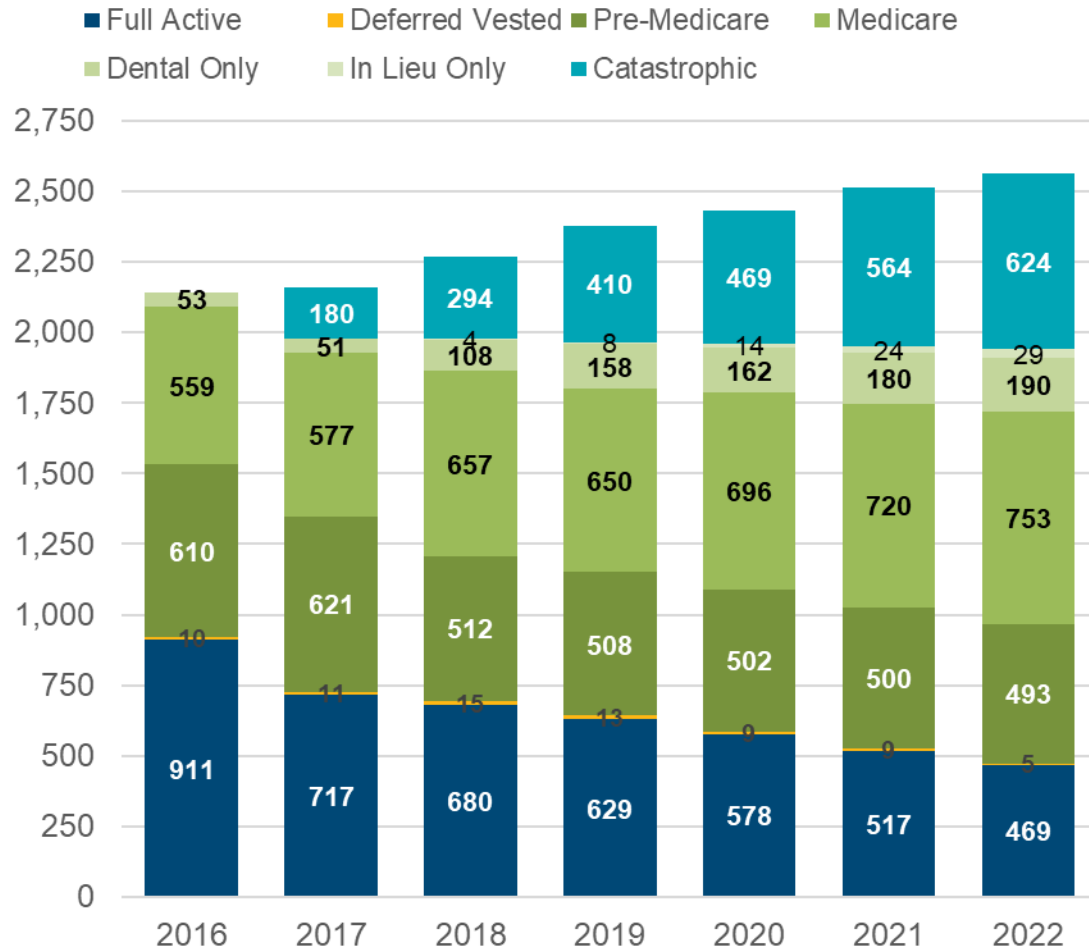
Change in Explicit Subsidy UAL



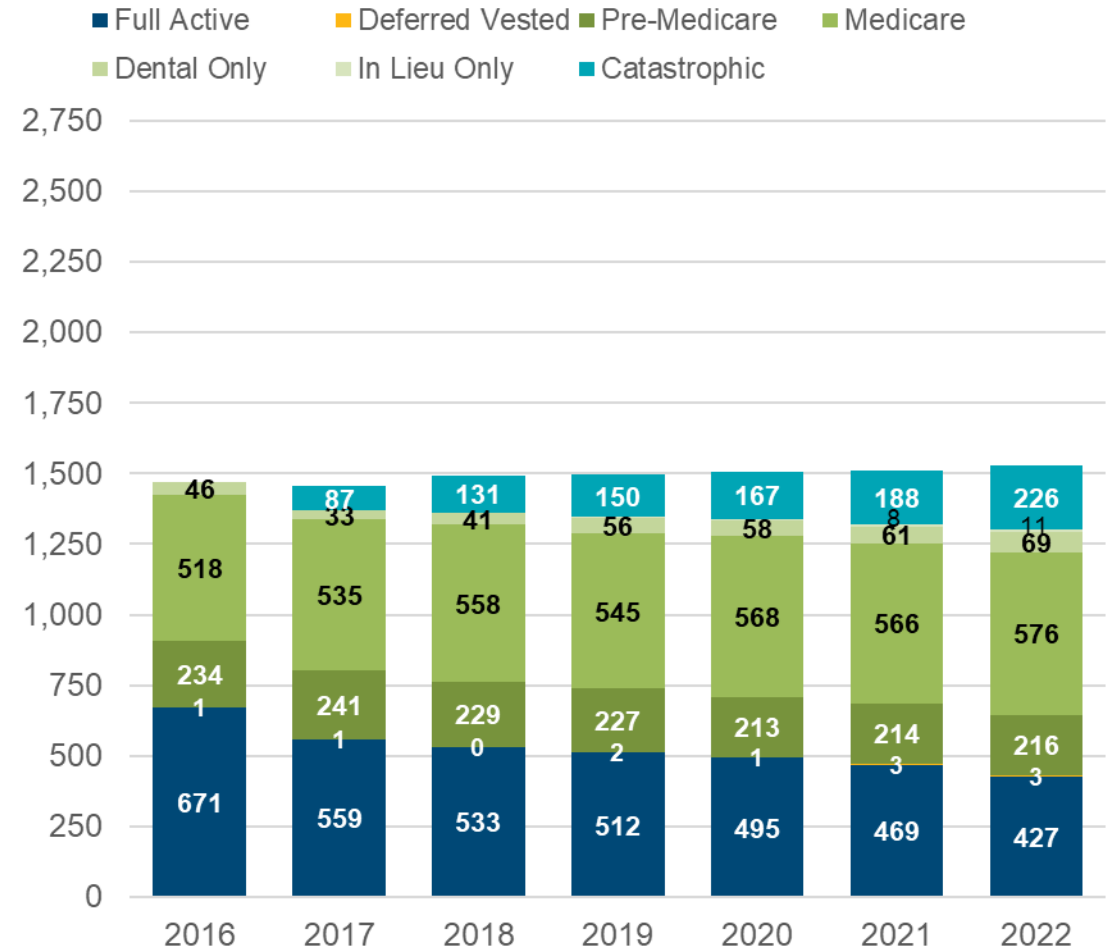
Membership Trends



Police Membership Trends



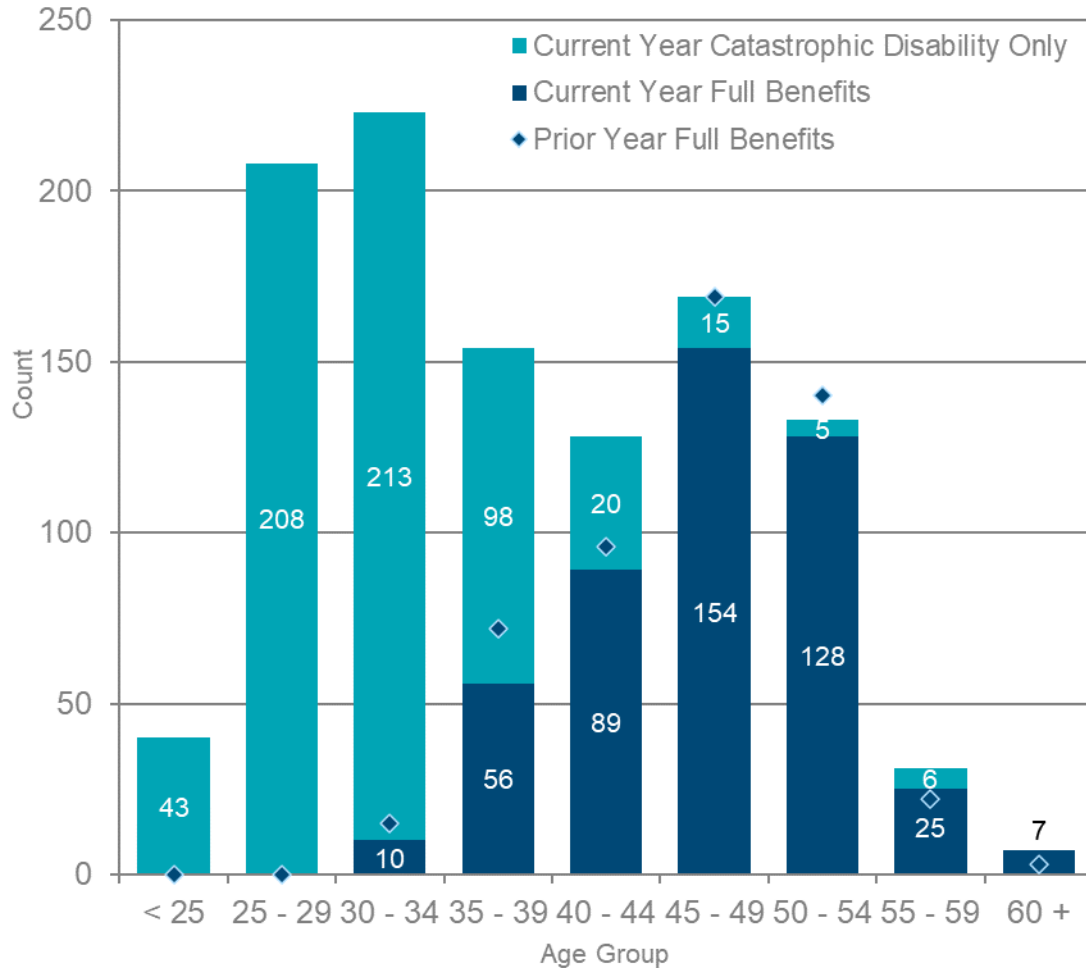
Fire Membership Trends



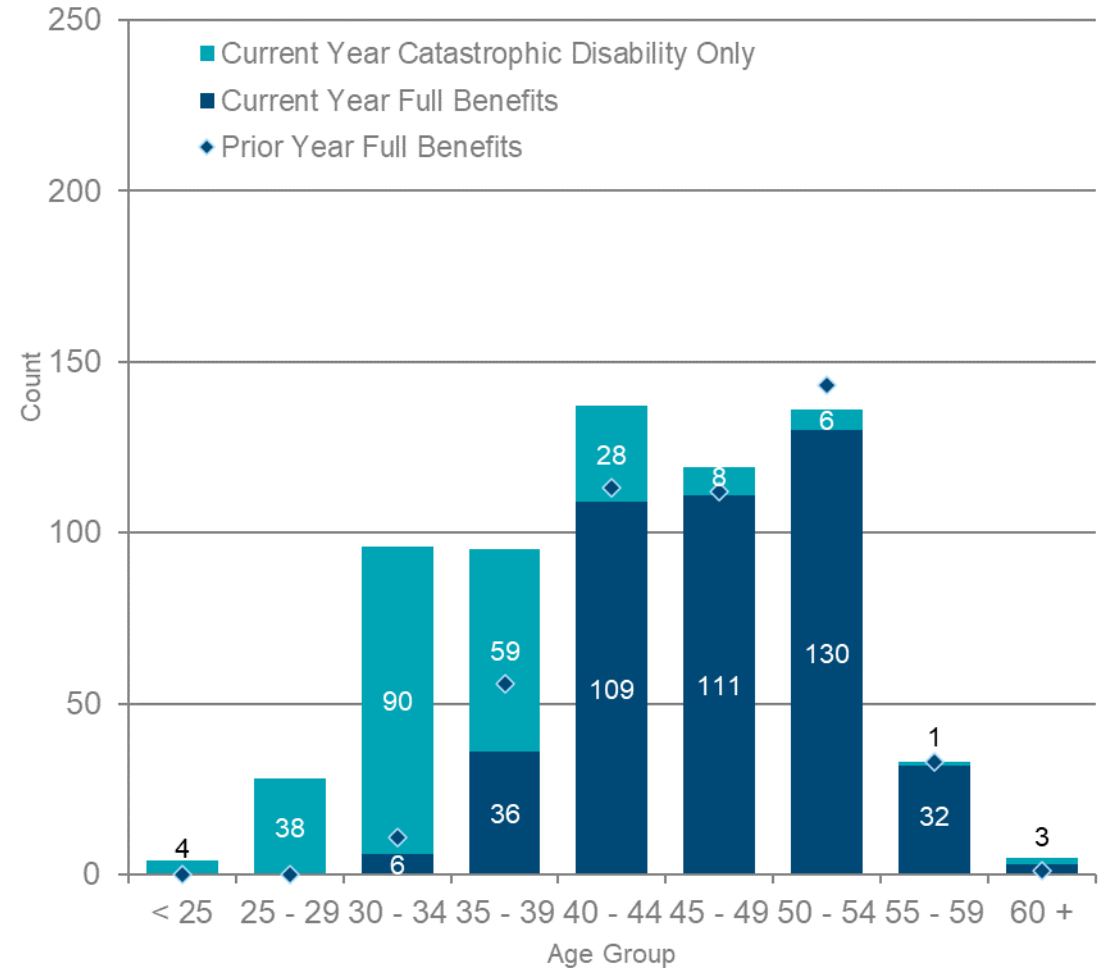
Active Member Distributions



Active Count Distribution - Police



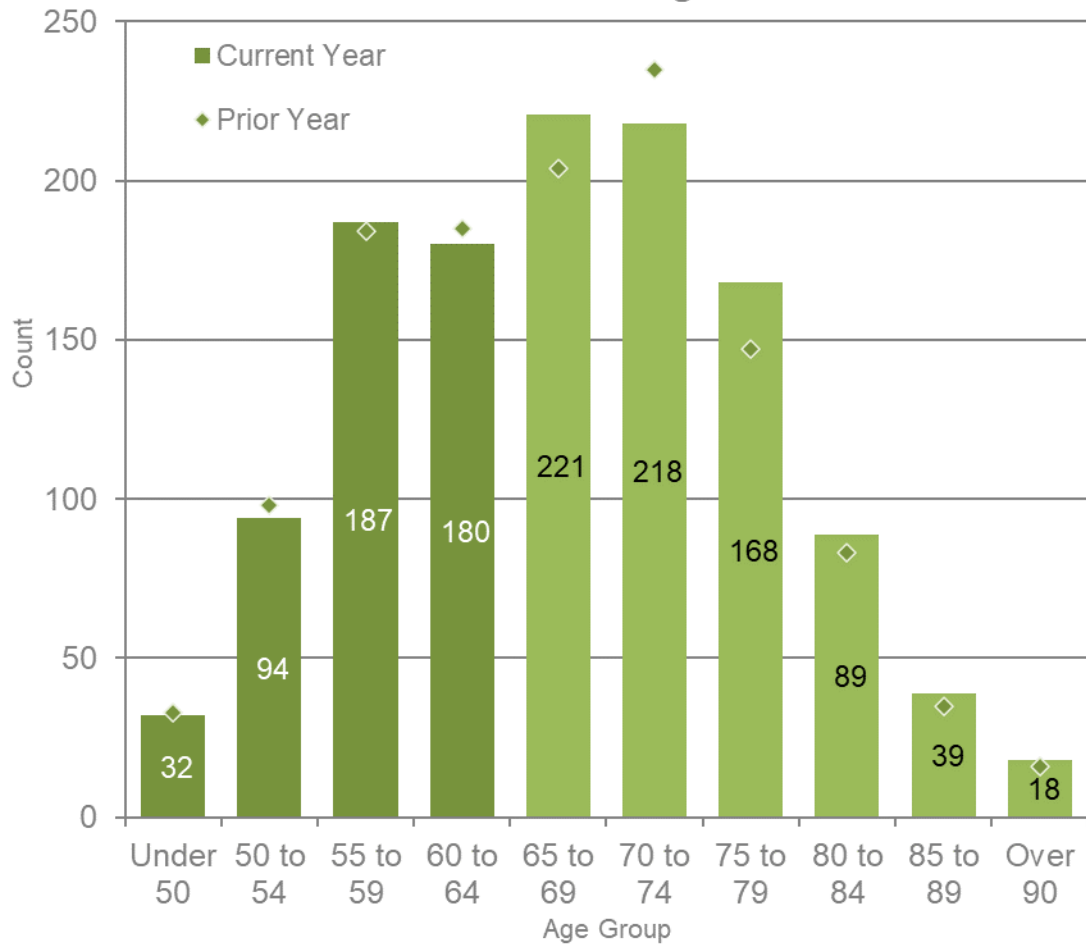
Active Count Distribution - Fire



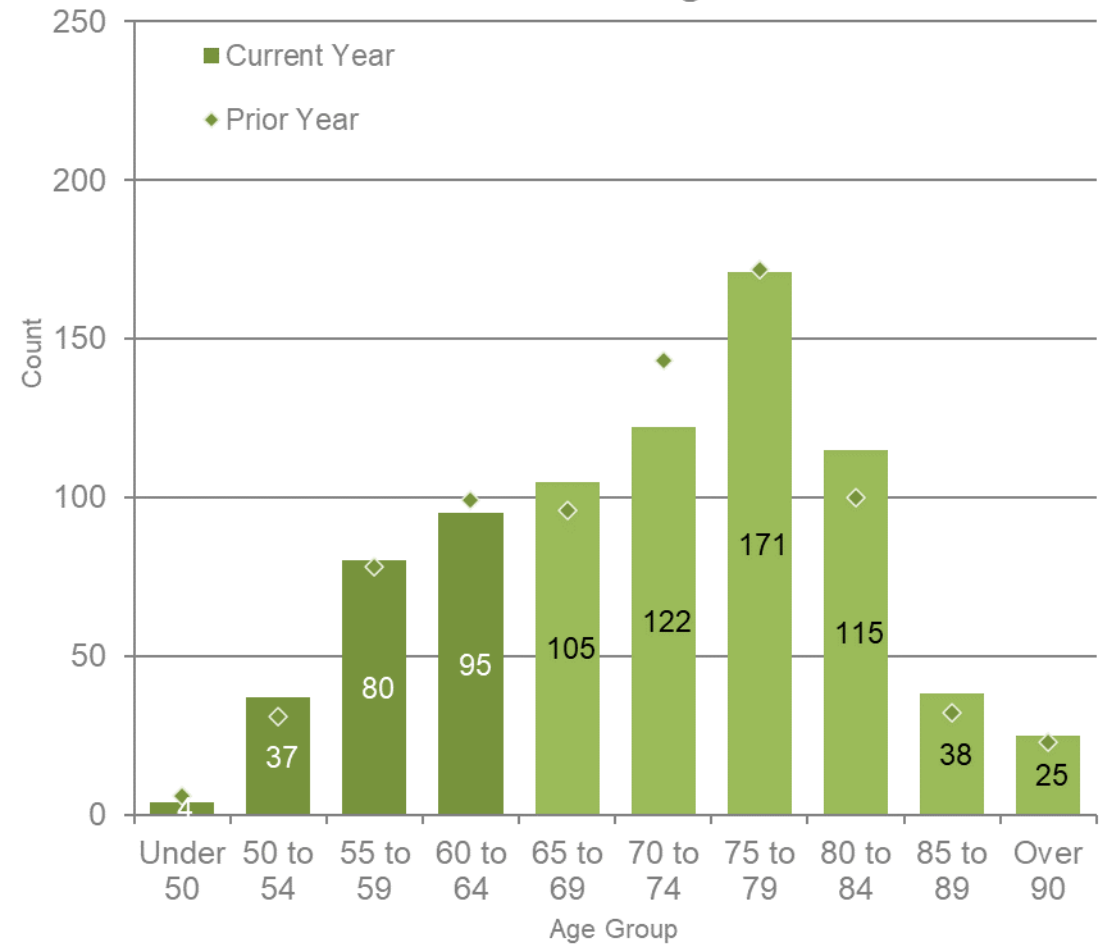
Retired Member Distributions



Distribution of Retired Members - Police Medical Coverage



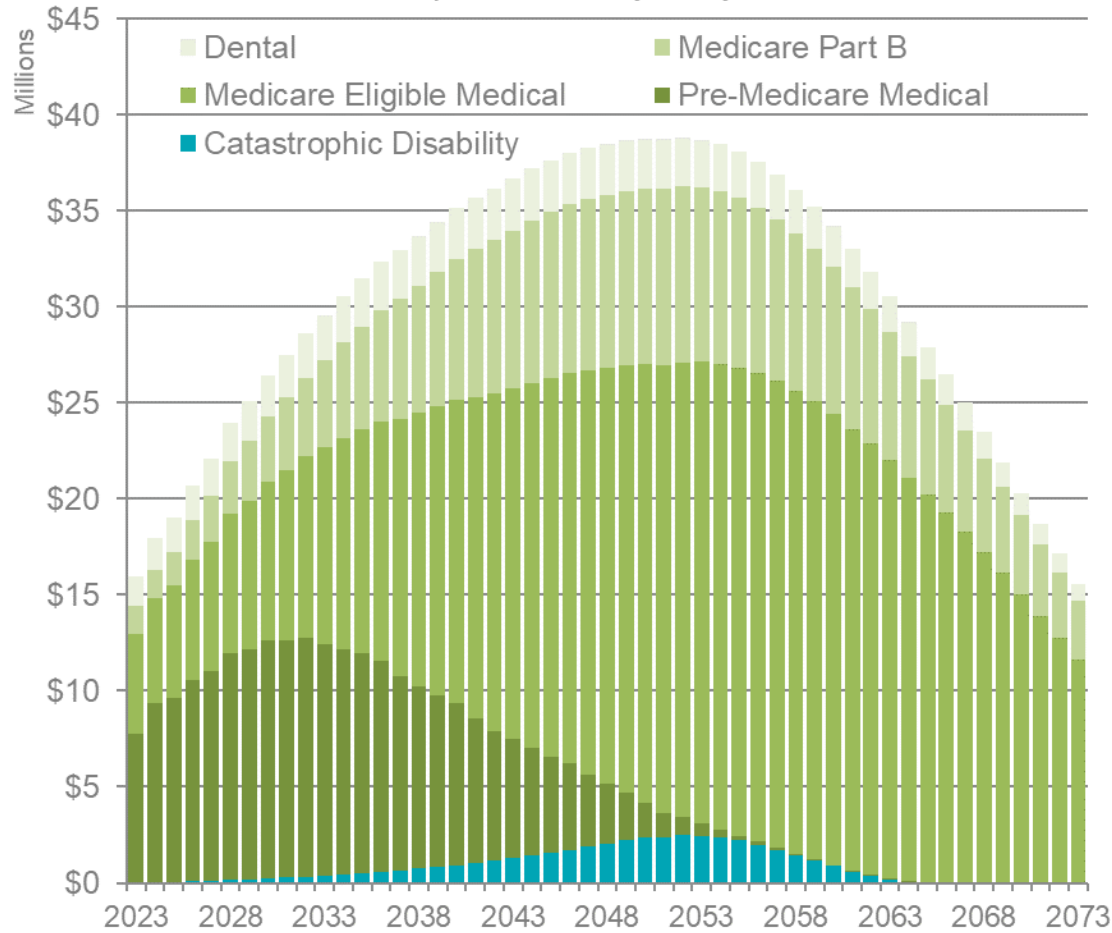
Distribution of Retired Members - Fire Medical Coverage



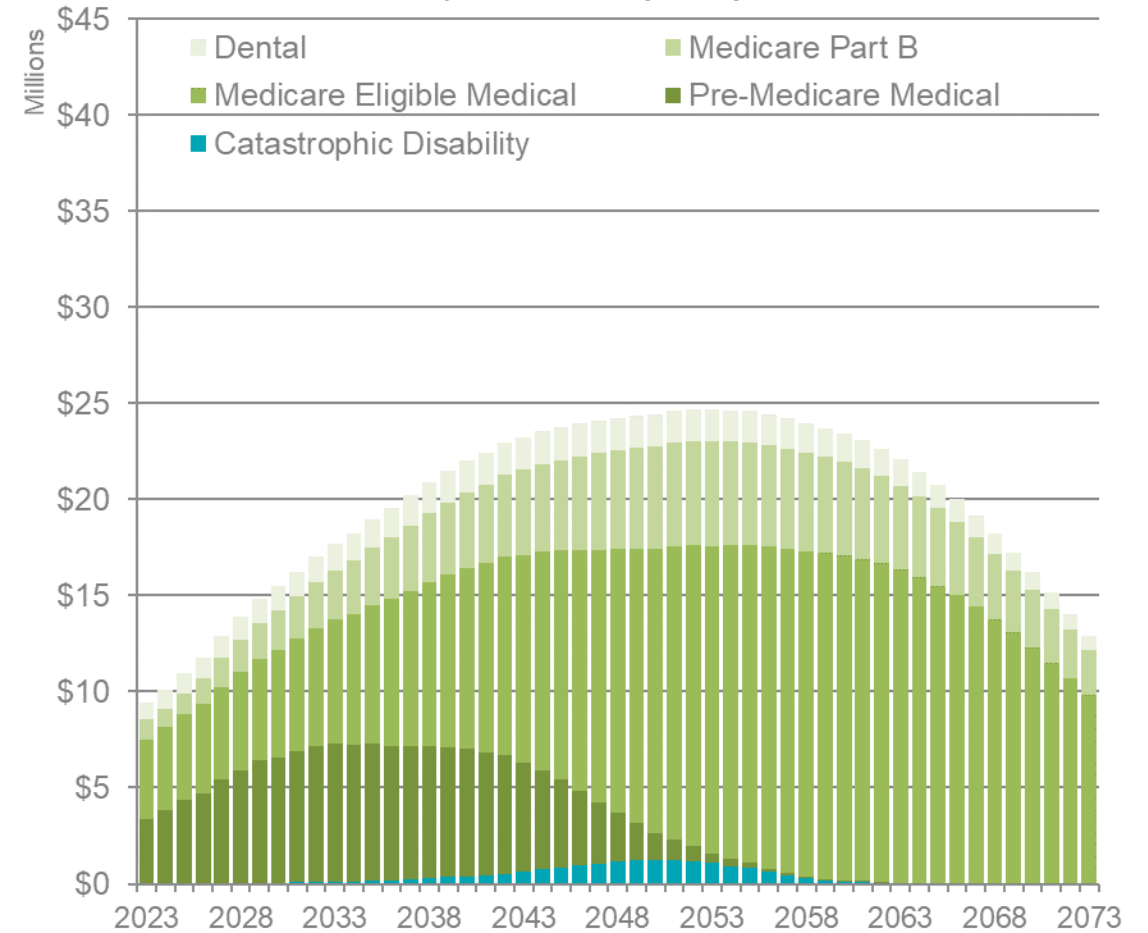
Projected Benefit Payments (Closed Group)



Projected Benefit Payments - Police
Explicit Subsidy Only



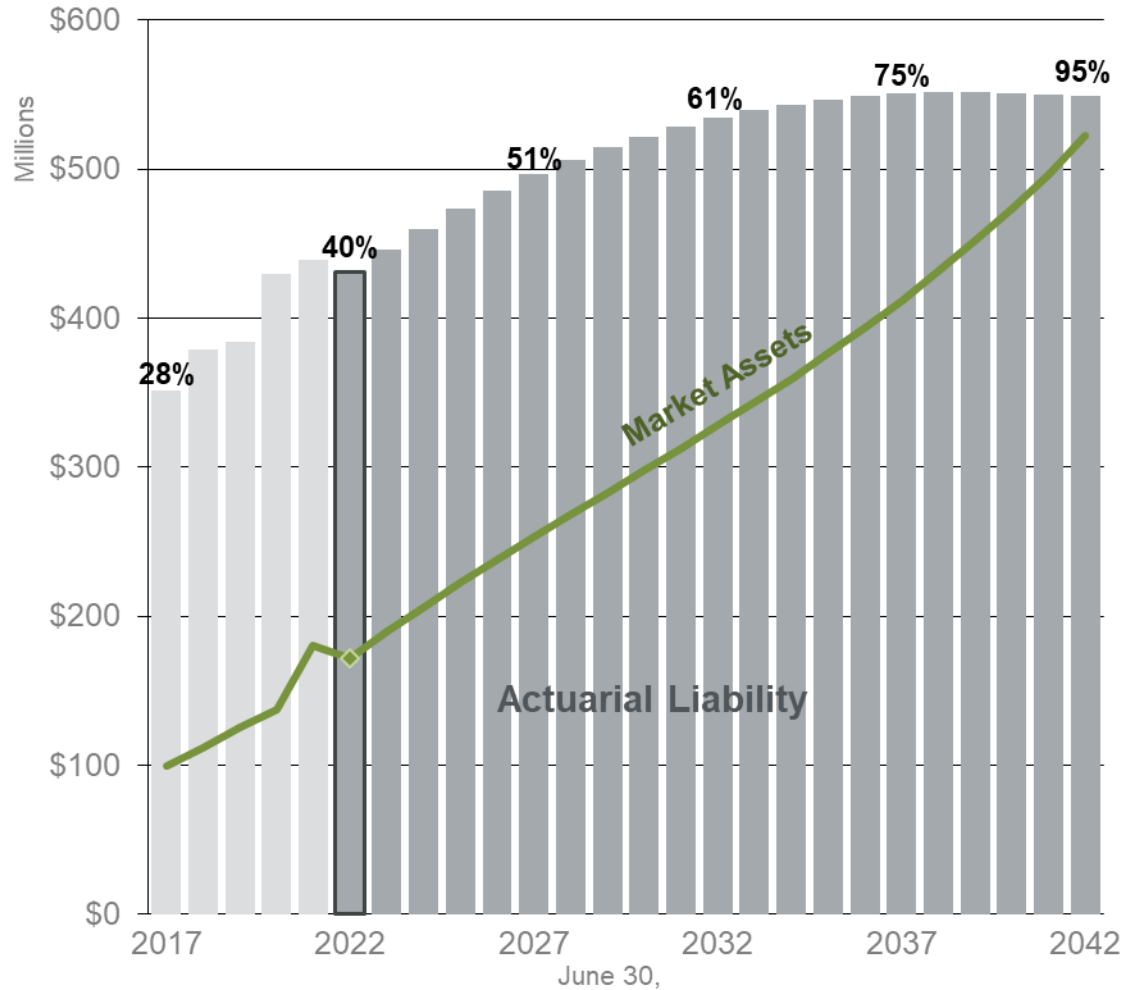
Projected Benefit Payments - Fire
Explicit Subsidy Only



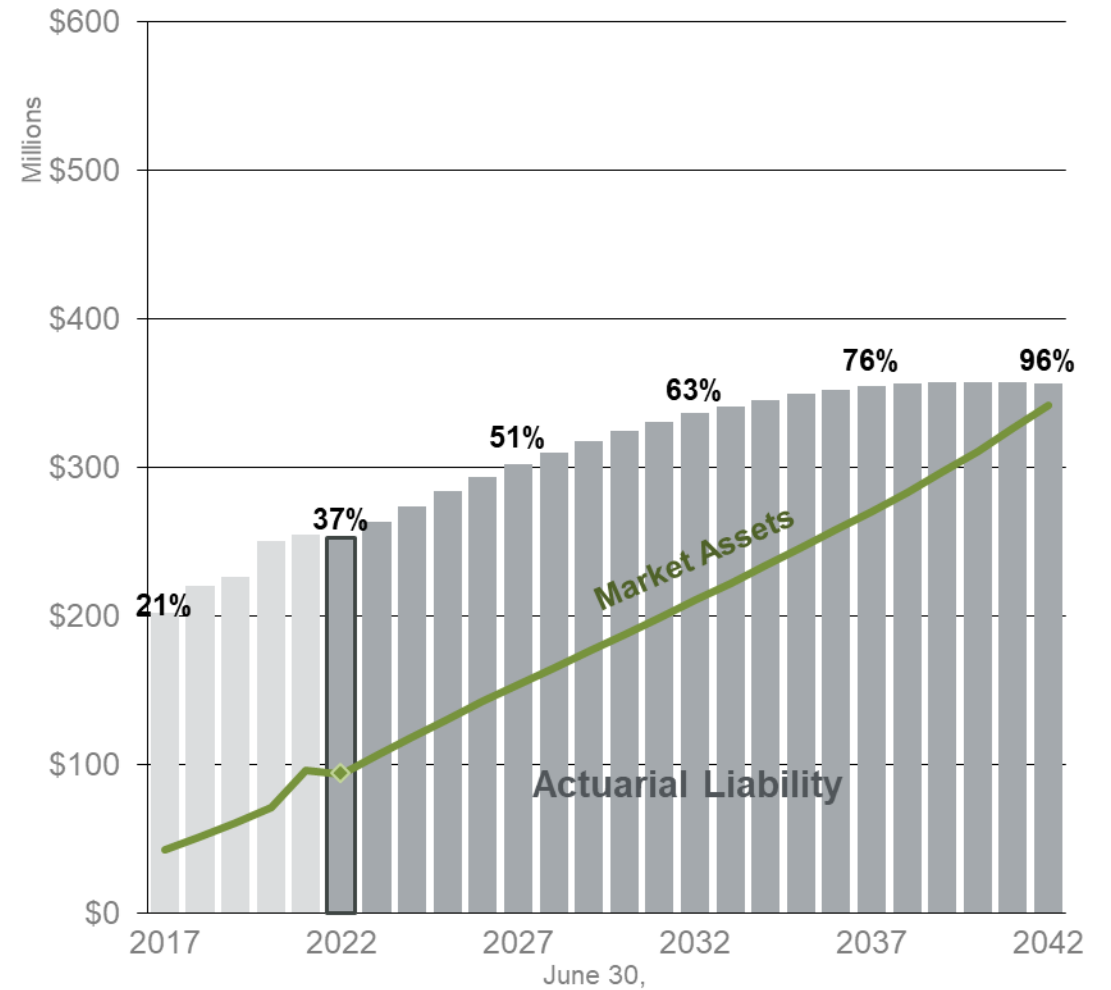
Projected Assets and Liabilities



Police Assets and Liabilities



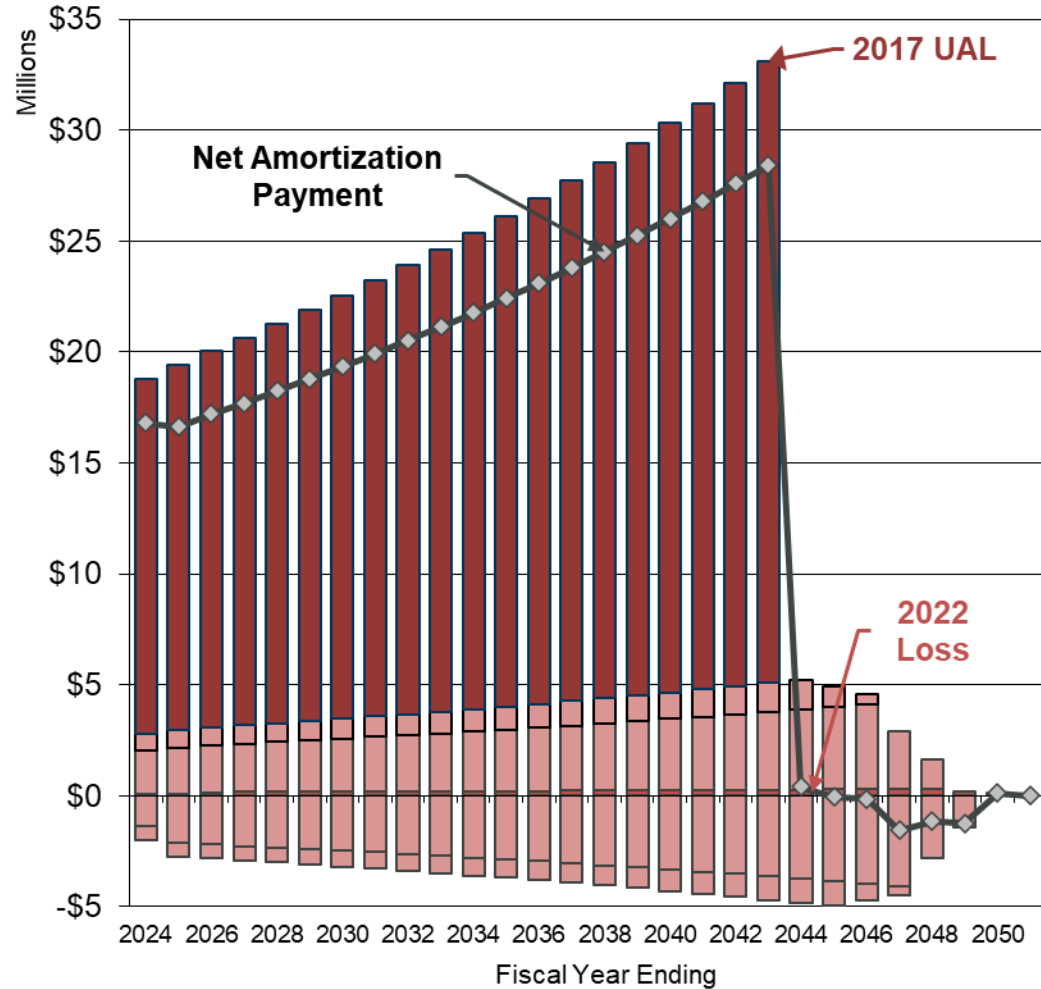
Fire Assets and Liabilities



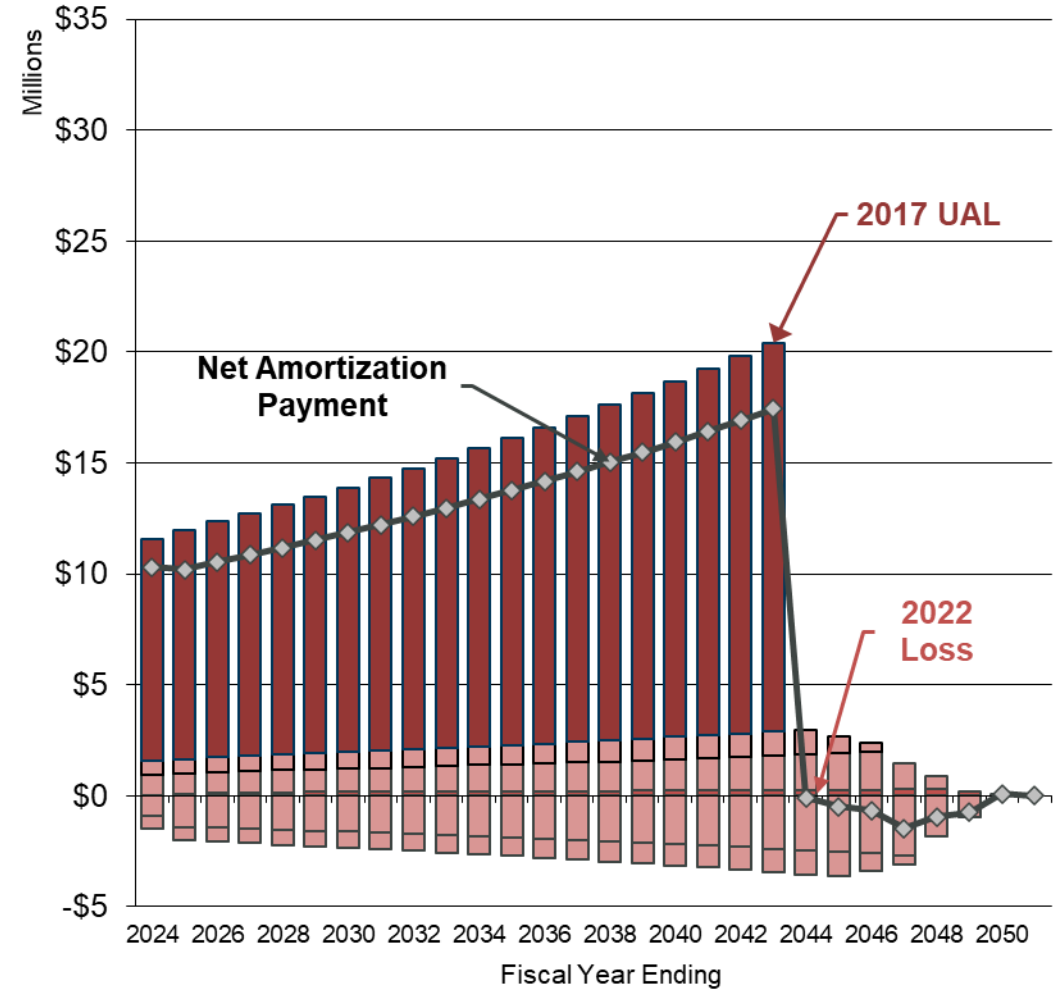
Amortization Schedule to Payoff UAL



Amortization Schedule - Police



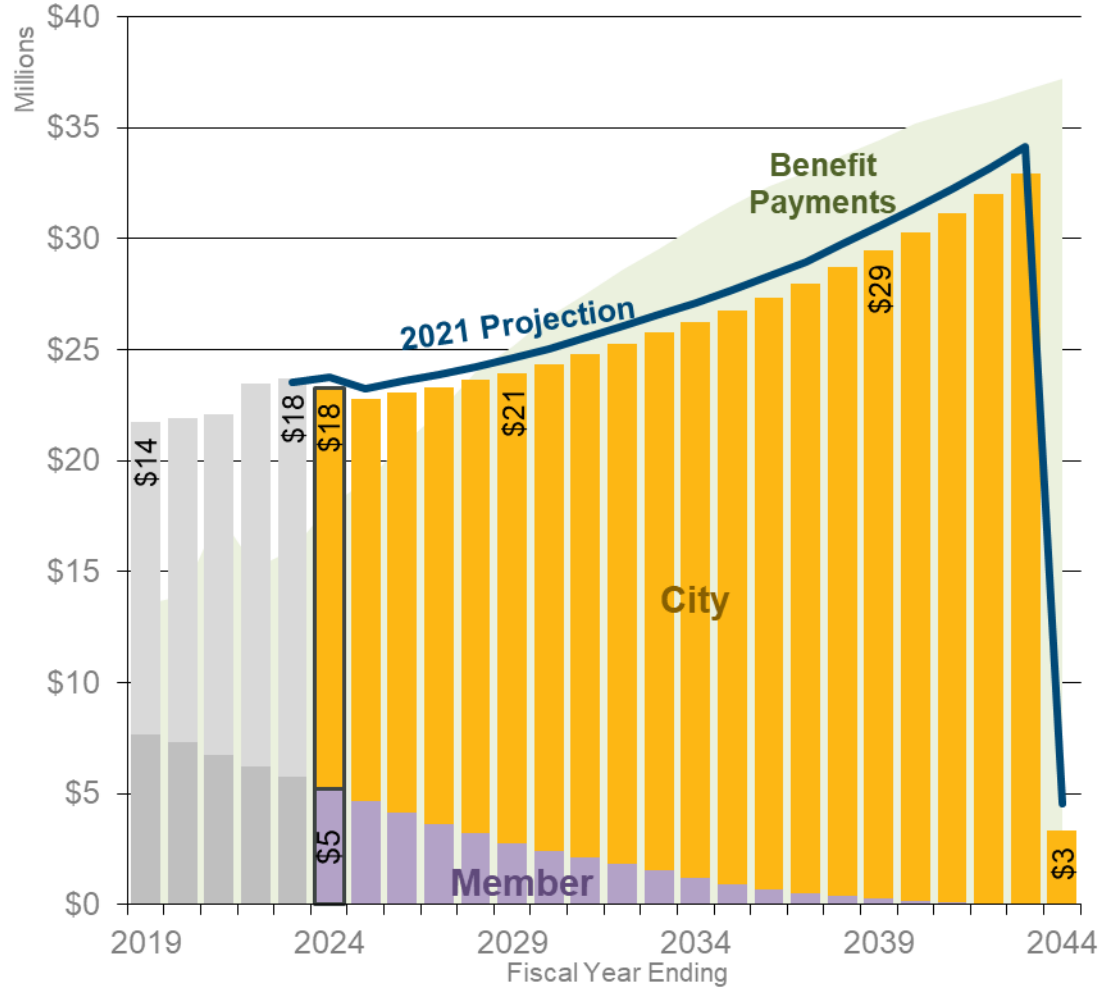
Amortization Schedule - Fire



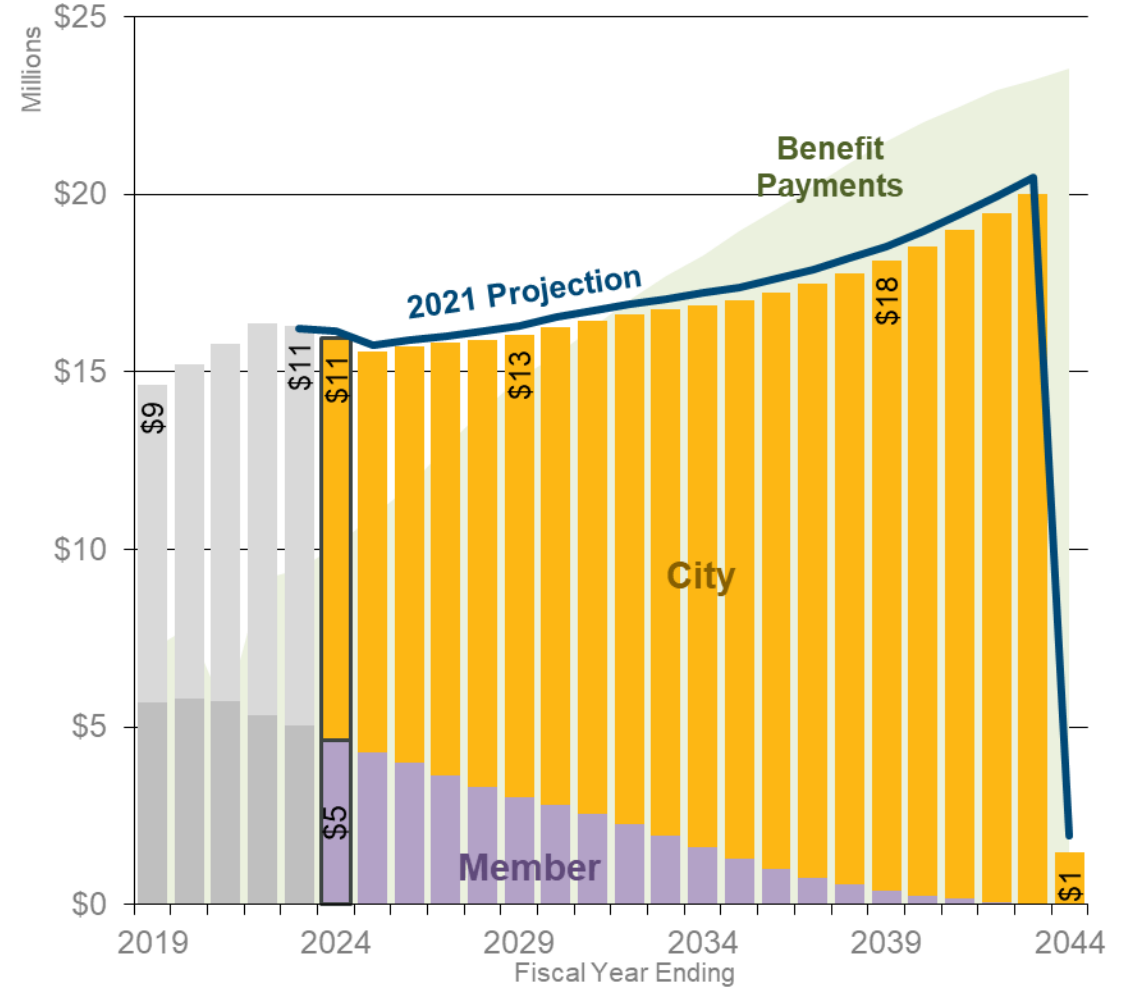
Projected Contributions



Police Contribution Amounts



Fire Contribution Amounts





- The purpose of this presentation is to present the results of the June 30, 2022 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. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the Plan. 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.
- Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.
- Health care trends for this valuation were developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of the SOA Project Oversight Group.

Certification (continued)



- We have relied on the Society of Actuaries as the developer of the Model. We have reviewed the Model and have a basic understanding of the Model and have used the Model in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of the Model that would affect this valuation.
- 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

Appendix – Contributions



Summary of Contribution Amounts Payments Throughout the Year

Police Department

	2023	2024	% Change
Explicit Subsidy			
Members	\$ 5,567	\$ 5,187	-6.8%
City's ADC	17,943	18,108	0.9%
Estimated City Cap	17,855	18,767	5.1%
Implicit Subsidy	\$ 2,113	\$ 2,740	29.7%

Fire Department

	2023	2024	% Change
Explicit Subsidy			
Members	\$ 4,974	\$ 4,633	-6.9%
City's ADC	11,249	11,301	0.5%
Estimated City Cap	10,859	11,076	2.0%
Implicit Subsidy	\$ 1,039	\$ 1,314	26.5%

Dollar amounts in thousands

Five-Year Projection of City Contributions Throughout the Year

FYE	Police	Fire	Total	City Cap
2023	\$ 17,943	\$ 11,249	\$ 29,192	\$ 28,973
2024	18,108	11,301	29,409	29,843
2025	18,146	11,275	29,421	30,738
2026	18,913	11,740	30,653	31,660
2027	19,658	12,155	31,813	32,610
2028	20,418	12,588	33,006	33,588

Amounts in thousands

Five-Year Projection of City Contributions Beginning of the Year*

FYE	Police	Fire	Total	City Cap
2023	\$ 17,428	\$ 10,926	\$ 28,354	\$ 28,973
2024	17,588	10,977	28,565	29,843
2025	17,625	10,951	28,576	30,738
2026	18,370	11,403	29,773	31,660
2027	19,094	11,806	30,900	32,610
2028	19,832	12,227	32,059	33,588

* Assumes full discount rate

Amounts in thousands