



City of San José Federated Postemployment Healthcare Plan

Actuarial Valuation as of June 30, 2016

Produced by Cheiron

January 2017

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Via Electronic Mail

January 13, 2017

Board of Administration
City of San José Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San José, California 95112

Re: City of San José Federated Postemployment Healthcare Plan Valuation

Dear Members of the Board:

The purpose of this report is to present the annual actuarial valuation of the City of San José Federated Postemployment Healthcare Plan. This report is for the use of the Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

Appendix A describes the member data, assumptions, and methods used in calculating the figures throughout the report. In preparing our report, we relied on information (some oral and some written) supplied by the City and 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.

Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with the City of San José's staff.

The discount rate, health care claims and trends were adopted at the December 15, 2016 Board meeting. All of the other assumptions in this report were adopted at the November 19, 2015 and December 17, 2015 Board meetings based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and our analysis of health care claims and trends. Please refer to the experience study report and our Board presentations for an explanation of the rationale for each assumption.

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

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

Board of Administration
City of San José Federated City
Employees' Retirement System
January 13, 2017

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

This valuation report was prepared for the Board for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary



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Principal Consulting Actuary

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION I – BOARD SUMMARY

The Board of Administration of the City of San José Federated City Employees’ Retirement System and Federated City Employees’ Health Care Trust has engaged Cheiron to provide a valuation of the City of San José Federated Postemployment Healthcare Plan. The primary purpose of performing this actuarial valuation is to:

- Determine the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the Net Other Postemployment Benefit (OPEB) Obligation (NOO) of the Postemployment Healthcare Plan under GASB 43 and 45 for the fiscal year ending June 30, 2017;
- Provide information for financial statement disclosures under GASB 43 and 45; and,
- Show the sensitivity of the valuation results to changes in health trend assumptions.

We have determined costs and measured liabilities for the Plan using actuarial assumptions and methods that have been adopted by the Board or are prescribed by the collective bargaining agreement.

Contribution Policy

On November 8, 2016, Measure F was passed. Measure F significantly changed the benefits and contribution agreements between the City and its employees. Once Measure F is fully implemented, we understand that the members who remain under the Plan will contribute a fixed percentage of pay and the City will pay a contribution determined by the Board, subject to a cap. Prior to the time that Measure F is implemented, we understand the City and members will continue paying the contributions rates that were set for FYE 2015. We understand the City intends to implement Measure F in stages as ordinances are adopted, approvals are received from the IRS, and member elections are implemented. For purposes of this report, we have valued the plan provisions in effect as of June 30, 2016 and assumed that no changes affecting contributions to the Plan under Measure F are implemented until after June 30, 2017.

Accounting Policy

The Board’s current policy sets the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION I – BOARD SUMMARY

Valuation Results

The tables below present the key results of the 2016 valuation. Table I-1 provides results on a funding basis, which is also used to determine the discount rate under GASB 43/45; and Table I-2 provides the results on a GASB reporting basis.

| Table I-1 | | | |
|---|------------------|------------------|---------------|
| Summary of Key Valuation Results | | | |
| Funding Valuation Basis | | | |
| Valuation Date | 6/30/2016 | 6/30/2015 | Change |
| Discount Rate | 6.875% | 7.00% | |
| Actuarial Liability (AL) | \$ 736,721 | \$ 721,655 | 2.1% |
| Assets | <u>225,845</u> | <u>209,761</u> | 7.7% |
| Unfunded Actuarial Liability (UAL) | \$ 510,876 | \$ 511,894 | -0.2% |
| Funding Ratio | 30.7% | 29.1% | 1.6% |

Dollar amounts in thousands

| Table I-2 | | | |
|--|------------------|------------------|---------------|
| Summary of Key Valuation Results | | | |
| GASB Valuation Basis | | | |
| Valuation Date | 6/30/2016 | 6/30/2015 | Change |
| Discount Rate | 6.60% | 6.10% | |
| Actuarial Liability (AL) | \$ 764,261 | \$ 817,673 | -6.5% |
| Assets | <u>225,845</u> | <u>209,761</u> | 7.7% |
| Unfunded Actuarial Liability (UAL) | \$ 538,416 | \$ 607,912 | -11.4% |
| Funding Ratio | 29.6% | 25.7% | 3.9% |
| Fiscal Year Ending | 6/30/2017 | 6/30/2016 | Change |
| City ARC | | | |
| -- if paid as a percent of total payroll | 13.34% | 16.98% | -3.64% |
| -- if paid as a dollar amount (middle of year) | \$ 35,598 | \$ 42,684 | -16.6% |
| <i>Expected</i> /Actual City Contribution* | \$ 32,173 | \$ 30,462 | 5.6% |
| <i>Expected</i> /Actual Net Benefit Payments* | \$ 30,684 | \$ 29,577 | 3.7% |

**Includes implicit subsidy.*

Dollar amounts in thousands

The discount rate on a GASB basis increased from 6.10% to 6.60% in this valuation and the discount rate used for funding decreased from 7.00% to 6.875%. There were also changes to the plan since the prior valuation. These changes, together with other experience during the year, resulted in a decrease in the UAL of \$1.0 million on a funding basis and \$69.5 million on a GASB basis. More detail on the effects of these changes can be found in the GASB valuation results section of this report.

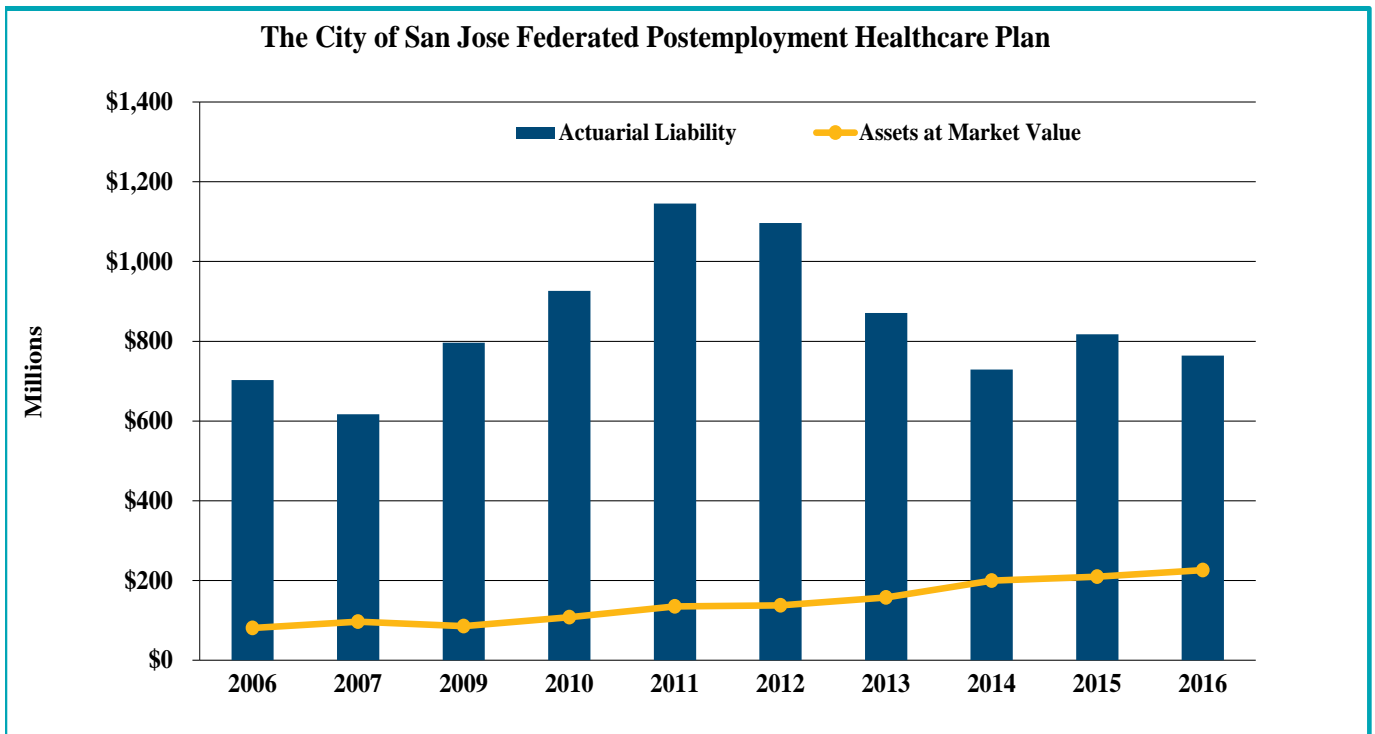


**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION I – BOARD SUMMARY

Historical Trends

The chart below shows the historical trend of assets and the actuarial liability on an accounting basis for the City of San José Federated Postemployment Healthcare 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 a significantly higher measure of the plan’s liability. The funding policy, however, was not changed until 2009. The actuarial liability grew from 2007 to 2011, reflecting the accumulation of additional benefits as well as rising health care costs and reductions in the discount rate and changes to other assumptions. The reduction in actuarial liability from 2011 to 2014 was primarily due to the plan changes, favorable medical cost trend experience, and changes in the discount rate as the plan moves towards contributing the full ARC. The increase in the actuarial liability in 2015 was primarily due to the change in demographic assumptions. The decrease in the actuarial liability in 2016 is due to an increase in the discount rate used as well as plan changes.



* 2006 was the first GASB 43/45 valuation.

| | 2006 | 2007 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|
| Funded Ratio | 11.6% | 15.7% | 10.7% | 11.7% | 11.8% | 12.6% | 18.1% | 27.4% | 25.7% | 29.6% |
| UAL/(Surplus) <i>(in millions)</i> | \$621.7 | \$520.1 | \$710.9 | \$818.4 | \$1,009.9 | \$958.8 | \$713.2 | \$529.6 | \$607.9 | \$538.4 |
| Discount Rate | 5.60% | 6.60% | 6.70% | 6.71% | 6.10% | 4.80% | 5.30% | 6.30% | 6.10% | 6.60% |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION I – BOARD SUMMARY

The table below shows the expected net benefit payments for the next 20 years. These payments include the expected annual implicit subsidy as well as expected plan premium payments.

| Table I-3 Expected Net Benefit Payments | | | | |
|--|-----------------------------|-----------------------------|---------------|---------------|
| Fiscal Year Ending | Implicit Subsidy | Explicit Subsidy | Dental | Total |
| 2017 | \$ 4,576,736 | \$ 22,478,993 | \$ 3,627,853 | \$ 30,683,582 |
| 2018 | 4,651,293 | 24,402,599 | 3,873,074 | 32,926,967 |
| 2019 | 4,897,735 | 26,690,658 | 4,122,593 | 35,710,987 |
| 2020 | 5,392,923 | 29,277,666 | 4,384,640 | 39,055,228 |
| 2021 | 6,000,456 | 31,807,820 | 4,649,697 | 42,457,974 |
| 2022 | 6,428,493 | 34,276,912 | 4,902,625 | 45,608,031 |
| 2023 | 6,894,893 | 36,356,059 | 5,138,813 | 48,389,764 |
| 2024 | 7,331,345 | 38,522,546 | 5,368,267 | 51,222,158 |
| 2025 | 7,861,811 | 40,644,955 | 5,587,539 | 54,094,305 |
| 2026 | 8,051,027 | 42,456,927 | 5,801,912 | 56,309,866 |
| 2027 | 8,456,106 | 44,321,097 | 6,011,935 | 58,789,138 |
| 2028 | 8,733,524 | 46,043,527 | 6,218,624 | 60,995,674 |
| 2029 | 8,924,089 | 47,907,293 | 6,427,136 | 63,258,518 |
| 2030 | 9,141,539 | 49,877,174 | 6,634,555 | 65,653,269 |
| 2031 | 9,126,905 | 51,739,912 | 6,841,156 | 67,707,973 |
| 2032 | 9,270,160 | 53,548,191 | 7,039,700 | 69,858,051 |
| 2033 | 9,298,103 | 55,001,482 | 7,213,016 | 71,512,601 |
| 2034 | 9,267,385 | 56,136,821 | 7,355,183 | 72,759,389 |
| 2035 | 9,208,584 | 57,026,035 | 7,474,357 | 73,708,976 |
| 2036 | 9,171,381 | 57,919,830 | 7,576,381 | 74,667,591 |

The remainder of this report provides additional detail. First, the assets are presented. Then, the GASB valuation results are developed and the sensitivity of the GASB results to changes in the health care trend rates are illustrated. Finally, disclosure information needed to satisfy the GASB OPEB accounting and financial reporting requirements is presented.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION II – ASSETS

Assets

Assets are invested in two separate trust vehicles: a 401(h) account within the pension plan and a separate 115 Trust. All contributions are now made to the 115 Trust while benefit payments are currently being made from the 401(h) account. Table II-1 below shows the changes in the market value of assets for the last two fiscal years. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is just paid directly by the City as a part of active health plan premiums.

In the last year, investments, in aggregate, returned approximately -1.2% compared to an expected rate of return of 7.00%, resulting in an actuarial loss of approximately \$16.0 million on a funding basis. The assets in the 401(h) account returned approximately -2.1% while the assets in the 115 trust returned approximately -0.7%.

| Table II-1 Assets | | | | |
|----------------------------------|----------------------|-----------------------|-----------------------|-----------------------|
| Fiscal Year Ending | 6/30/2016 | | 6/30/2015 | |
| | 401(h) Acct | 115 Trust | Total | Total |
| Market value, beginning of year | \$ 83,868,883 | \$ 125,891,835 | \$ 209,760,718 | \$ 199,776,356 |
| Contributions | | | | |
| Employee | 0 | 17,884,169 | 17,884,169 | 18,645,386 |
| City | 0 | 26,034,659 | 26,034,659 | 22,824,558 |
| Implicit subsidy | 4,427,194 | 0 | 4,427,194 | 4,134,187 |
| Total | \$ 4,427,194 | \$ 43,918,828 | \$ 48,346,022 | \$ 45,604,131 |
| Net investment earnings | (1,480,855) | (1,203,929) | (2,684,784) | (6,176,869) |
| Benefit payments | | | | |
| Explicit subsidy | 25,149,533 | 0 | 25,149,533 | 25,308,713 |
| Implicit subsidy | 4,427,194 | 0 | 4,427,194 | 4,134,187 |
| Total | \$ 29,576,727 | \$ 0 | \$ 29,576,727 | \$ 29,442,900 |
| Market value, end of year | \$ 57,238,495 | \$ 168,606,734 | \$ 225,845,229 | \$ 209,760,718 |
| Estimated Rate of Return | -2.1% | -0.7% | -1.2% | -2.8% |

Assets in the 401(h) account and the 115 Trust are combined for purposes of the actuarial valuation, but an allocation is made between Medical and Dental assets. Contributions are allocated in proportion to the Medical and Dental rates applicable and benefit payments are allocated in proportion to expected benefit payments from the prior valuation. Table II-2 shows the allocation of the assets between Medical and Dental.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION II – ASSETS

| Table II-2 | | | | |
|----------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Fiscal Year Ending | 6/30/2016 | | | 6/30/2015 |
| | Medical | Dental | Total | Total |
| Market value, beginning of year | \$ 193,193,884 | \$ 16,566,834 | \$ 209,760,718 | \$ 199,776,356 |
| Contributions | | | | |
| Employee | 17,087,956 | 796,213 | 17,884,169 | 18,645,386 |
| City | 23,457,760 | 2,576,899 | 26,034,659 | 22,824,558 |
| Implicit subsidy | <u>4,427,194</u> | <u>0</u> | <u>4,427,194</u> | <u>4,134,187</u> |
| Total | \$ 44,972,910 | \$ 3,373,112 | \$ 48,346,022 | \$ 45,604,131 |
| Net investment earnings | (2,479,007) | (205,777) | (2,684,784) | (6,176,869) |
| Benefit payments | | | | |
| Explicit subsidy | 21,654,414 | 3,495,119 | 25,149,533 | 25,308,713 |
| Implicit subsidy | <u>4,427,194</u> | <u>0</u> | <u>4,427,194</u> | <u>4,134,187</u> |
| Total | \$ 26,081,608 | \$ 3,495,119 | \$ 29,576,727 | \$ 29,442,900 |
| Market value, end of year | \$ 209,606,179 | \$ 16,239,050 | \$ 225,845,229 | \$ 209,760,718 |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION III – FUNDING VALUATION RESULTS

The funding valuation results are not currently used to determine contributions, but they are used to determine the Full Annual Required Contribution (ARC) – the amount that would be contributed if the Plan was funded on the same basis as the Annual Required Contribution. This amount is compared to projected contributions to determine the discount rate for GASB purposes.

The following table develops the UAL separately for medical and dental benefits based on the funding discount rate of 6.875%.

| Table III-1 | | | |
|---|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability - Funding Basis | | | |
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 368,123,175 | \$ 50,406,746 | \$ 418,529,921 |
| Vested, Terminated Members | 19,000,321 | 0 | 19,000,321 |
| Active Employees | 339,176,840 | 34,153,313 | 373,330,153 |
| Total | \$ 726,300,336 | \$ 84,560,059 | \$ 810,860,395 |
| Present Value of Future Normal Costs | 66,825,150 | 7,314,025 | 74,139,175 |
| Actuarial Liability | \$ 659,475,186 | \$ 77,246,034 | \$ 736,721,220 |
| Assets | 209,606,179 | 16,239,050 | 225,845,229 |
| Unfunded Actuarial Liability | \$ 449,869,007 | \$ 61,006,984 | \$ 510,875,991 |

The Full ARC is equal to the normal cost plus a 30-year level dollar amortization payment on the Unfunded Actuarial Liability of \$510.9 million.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION IV – GASB VALUATION RESULTS

For plans where the contribution equals the Annual Required Contribution under GASB 43 and 45 based on a discount rate equal to the expected return on plan assets, the discount rate for GASB purposes is also the expected return on plan assets. Where the contribution equals the pay-as-you-go cost (annual benefit payments), the discount rate for GASB purposes is equal to the expected return on the City’s unrestricted assets. Where the contribution is between these two amounts, GASB requires the use of a blended discount rate that is prorated between the expected return on plan assets and the expected return on City assets. For FYE 2017, the full ARC will not be contributed, and the table below develops the blended discount rate that is used in the remainder of the GASB calculations.

| Table IV-1 Development of Blended Discount Rate | |
|--|----------------------|
| Expected FYE 2017 Contributions | |
| Member Contributions | \$ 16,677,898 |
| City Contributions | 27,595,809 |
| Implicit Subsidy | 4,576,736 |
| Total Expected Contributions | \$ 48,850,443 |
| FYE 2017 Full ARC | |
| Normal Cost (Middle of Year) | \$ 11,122,611 |
| Amortization of UAL | 39,324,599 |
| Total ARC | \$ 50,447,210 |
| Pay-as-you-go Costs | |
| Pay-as-you-go | \$ 30,683,582 |
| Contribution in Excess of Pay-Go | 18,166,861 |
| Full ARC in Excess of Pay-Go | 19,763,628 |
| Weight to System Return | 91.92% |
| Expected Returns | |
| Expected Return on Plan Assets | 6.875% |
| Expected Return on City Assets | 3.000% |
| Blended Discount Rate | 6.600% |

The expected return on plan assets was reduced to 6.875% and the expected return on City assets remained at 3.00%. The discount rate increased from 6.10% to 6.60% primarily due to the impact of the changes in health plan offerings and the change to the amortization period. When contributions equal the ARC, the discount rate will equal the expected return on plan assets.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION IV – GASB VALUATION RESULTS

The development of the unfunded actuarial liability (UAL) based on the blended discount rate is shown below for retiree medical and dental benefits.

| Table IV-2 | | | |
|--|-----------------------|----------------------|-----------------------|
| Unfunded Actuarial Liability - GASB Basis | | | |
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 378,948,571 | \$ 51,905,569 | \$ 430,854,140 |
| Vested, Terminated Members | 19,938,849 | 0 | 19,938,849 |
| Active Employees | 358,298,408 | 36,121,510 | 394,419,918 |
| Total | \$ 757,185,828 | \$ 88,027,079 | \$ 845,212,907 |
| Present Value of Future Normal Costs | 73,004,082 | 7,948,322 | 80,952,404 |
| Actuarial Liability | \$ 684,181,746 | \$ 80,078,757 | \$ 764,260,503 |
| Assets | 209,606,179 | 16,239,050 | 225,845,229 |
| Unfunded Actuarial Liability | \$ 474,575,567 | \$ 63,839,707 | \$ 538,415,274 |

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).

As of the June 30, 2016 valuation, the plan has adopted a 30-year rolling level dollar amortization policy for purposes of calculating the ARC under GASB 43 and 45. Each year, the unfunded actuarial liability will be amortized over a new 30-year period. The table below shows the amortization payment on this basis separately for medical and dental benefits.

| Table IV-3 | | | | | |
|---|-----------------------------|--------------------------------|-----------------------------|---------------|---------------|
| Amortization Schedule - GASB Basis | | | | | |
| Date Established | Remaining Period | Outstanding Balance | Amortization Payment | | |
| | | | Medical | Dental | Total |
| 6/30/2016 | 30 | \$ 538,415,274 | \$ 35,564,434 | \$ 4,784,113 | \$ 40,348,547 |

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2017 is developed in the following table. The prior year's calculation is shown for comparison.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION IV – GASB VALUATION RESULTS

| Table IV-4 GASB ARC | | | |
|--------------------------------|--|----------------------|----------------------|
| Fiscal Year Ending | | 6/30/2017 | 6/30/2016 |
| Discount Rate | | 6.60% | 6.10% |
| Total Normal Cost | | \$ 11,927,191 | \$ 14,670,611 |
| UAL Amortization | | <u>40,348,547</u> | <u>45,345,557</u> |
| Total Cost | | \$ 52,275,738 | \$ 60,016,168 |
| Employee Contributions | | <u>16,677,898</u> | <u>17,332,321</u> |
| Total City ARC | | \$ 35,597,840 | \$ 42,683,847 |

Reconciliation

The table below 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 IV-5 Reconciliation of Unfunded Actuarial Liability - GASB Basis | | |
|---|----|-----------------|
| Unfunded Actuarial Liability at 6/30/2015 | \$ | 607,912 |
| Expected Unfunded Actuarial Liability Payment | | (45,346) |
| Interest | | <u>35,720</u> |
| Expected Unfunded Actuarial Liability at 6/30/2016 | \$ | 598,286 |
| Unfunded Actuarial Liability at 6/30/2016 | | <u>538,416</u> |
| Unexpected Change | \$ | (59,870) |
| Unexpected change due to: | | |
| Asset experience | \$ | 28,065 |
| Demographic experience | | 11,608 |
| Change in health assumptions | | (44,429) |
| Change in discount rate | | <u>(55,114)</u> |
| Total changes | \$ | (59,870) |

Dollar amounts in thousands

- *Asset experience* refers to the lower-than-expected investment returns.
- *Demographic experience* refers to the change in actual data and elections from June 30, 2015 to June 30, 2016 as compared to the changes expected in the prior valuation.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION IV – GASB VALUATION RESULTS

- *Change in health assumptions* refers to the change in expected current and future healthcare claims and expense costs based on the 2016 and 2017 medical premium experience as well as the change in the pre-Medicare plan offerings. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.
- *Change in Discount Rate* refers to the change in the discount rate from 6.10% to 6.60%.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION V – SENSITIVITY OF RESULTS

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

| Table V-1 | | | |
|--|-------------------|-------------------|-------------------|
| Sensitivity to Health Care Trend Rates | | | |
| Unfunded Actuarial Liability (GASB Basis) | | | |
| Health Care Trend Rate | -1% | Base | +1% |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 389,740 | \$ 430,854 | \$ 479,597 |
| Vested, Terminated Members | 16,826 | 19,939 | 23,868 |
| Active Employees | 324,749 | 394,420 | 485,064 |
| Total | \$ 731,315 | \$ 845,213 | \$ 988,529 |
| Present Value of Future Normal Costs | 64,177 | 80,952 | 103,546 |
| Actuarial Liability | \$ 667,138 | \$ 764,261 | \$ 884,983 |
| Assets | 225,845 | 225,845 | 225,845 |
| Unfunded Actuarial Liability | \$ 441,293 | \$ 538,416 | \$ 659,138 |

Dollar amounts in thousands

| Table V-2 | | | |
|---|------------------|------------------|------------------|
| Sensitivity to Health Care Trend Rates | | | |
| GASB ARC for FYE 2017 | | | |
| Health Care Trend Rate | -1% | Base | +1% |
| Total Normal Cost | \$ 9,739 | \$ 11,927 | \$ 14,855 |
| UAL Amortization | 33,070 | 40,349 | 49,395 |
| Total Cost | \$ 42,810 | \$ 52,276 | \$ 64,252 |
| Employee Contributions | 16,678 | 16,678 | 16,678 |
| Total ARC | \$ 26,132 | \$ 35,598 | \$ 47,574 |

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION VI – ACCOUNTING DISCLOSURES

Statements No. 43 and 45 of the Governmental Accounting Standards Board (GASB) established standards for accounting and financial reporting of Other Postemployment Benefit (OPEB) information by governmental employers and plans. In accordance with those statements, we have prepared the following disclosures.

Net OPEB Obligation

The table below shows the development of the Net OPEB Obligation for the fiscal year ending June 30, 2016 and projects the Net OPEB Obligation for the fiscal year ending June 30, 2017.

| Table VI-1 | | | |
|---|------------------|----------------|-------------------|
| Development of Net OPEB Obligation | | | |
| | Projected | | |
| | 6/30/2017 | | 6/30/2016 |
| 1. Net OPEB Obligation, beginning of year | \$ | 206,226 | \$ 196,677 |
| 2. Annual Required Contribution | | 35,598 | 42,684 |
| 3. Interest on Net OPEB Obligation | | 13,611 | 11,997 |
| 4. Adjustment to Annual Required Contribution | | (15,454) | (14,671) |
| 5. Annual OPEB Cost [2. + 3. + 4.] | \$ | 33,755 | \$ 40,011 |
| 6. City Contributions | | 27,596 | 26,035 |
| 7. Implicit Rate Subsidy | | 4,577 | 4,427 |
| 8. Net OPEB Obligation, end of year | \$ | 207,808 | \$ 206,226 |

Dollar amounts in thousands

The tables on the following page show the solvency test and the analysis of financial experience, both as recommended by the Government Finance Officers Association for inclusion in the plan's Comprehensive Annual Financial Report.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACCOUNTING DISCLOSURES

**Table VI-2
Solvency Test**

| Actuarial Valuation Date | Actuarial Liability | | Reported Assets | Portion of Liability Covered by Reported Assets | |
|--------------------------|---|--------------------|-----------------|---|-----|
| | Retirees, Beneficiaries and Other Inactives (A) | Active Members (B) | | (A) | (B) |
| 6/30/2016 | \$ 450,793 | \$ 313,468 | \$ 225,845 | 50% | 0% |
| 6/30/2015 | 469,903 | 347,770 | 209,761 | 45% | 0% |
| 6/30/2014 | 435,826 | 293,580 | 199,776 | 46% | 0% |
| 6/30/2013 | 495,967 | 374,905 | 157,695 | 32% | 0% |
| 6/30/2012 | 611,267 | 485,353 | 137,798 | 23% | 0% |
| 6/30/2011 | 652,157 | 493,203 | 135,454 | 21% | 0% |
| 6/30/2010 | 515,284 | 411,087 | 108,011 | 21% | 0% |
| 6/30/2009 | 421,367 | 375,081 | 85,564 | 20% | 0% |
| 6/30/2007 | 335,798 | 280,951 | 96,601 | 29% | 0% |

Dollar amounts in thousands

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

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

| Actuarial Valuation Date | Gain or (Loss) for Year Ending on Valuation Date Due to: | | | | |
|--------------------------|--|-------------------------------|----------------------------|---------------------|------------------|
| | Investment Income | Combined Liability Experience | Total Financial Experience | Non-Recurring Items | Total Experience |
| 6/30/2016 | \$ (16,044) | \$ (11,608) | \$ (27,652) | \$ 99,545 | \$ 71,893 |
| 6/30/2015 | (19,264) | 6,948 | (12,316) | (64,155) | (76,471) |
| 6/29/2013 | 19,767 | 31,177 | 50,944 | 148,417 | 199,361 |
| 6/30/2013 | 6,847 | 5,834 | 12,681 | 114,786 | 127,467 |
| 6/30/2012 | (14,897) | (27,919) | (42,816) | 136,154 | 93,338 |
| 6/30/2011 | 10,131 | (35,166) | (25,035) | (131,557) | (156,592) |
| 6/30/2010 | 6,705 | (43,746) | (37,041) | (36,785) | (73,826) |

Dollar amounts in thousands

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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SECTION VI – ACCOUNTING DISCLOSURES

Schedule of Funding Progress

The schedule of funding progress compares the assets used for funding purposes to the 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.

| Table VI-4 Schedule of Funding Progress | | | | | | |
|--|--|--|---|-----------------------------------|---|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (b) | Unfunded Actuarial Liability (UAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (d) | UAL as Percentage of Covered Payroll ((b-a)/c) |
| 6/30/2016 | \$ 225,845 | \$ 764,261 | \$ 538,416 | 30% | \$ 266,823 | 202% |
| 6/30/2015 | 209,761 | 817,673 | 607,912 | 26% | 251,430 | 242% |
| 6/29/2013 | 199,776 | 729,406 | 529,630 | 27% | 234,677 | 226% |
| 6/30/2013 | 157,695 | 870,872 | 713,177 | 18% | 226,098 | 315% |
| 6/30/2012 | 137,798 | 1,096,620 | 958,822 | 13% | 225,859 | 425% |
| 6/30/2011 | 135,454 | 1,145,360 | 1,009,906 | 12% | 228,936 | 441% |
| 6/30/2010 | 108,011 | 926,371 | 818,360 | 12% | 300,069 | 273% |
| 6/30/2009 | 85,564 | 796,448 | 710,884 | 11% | 308,697 | 230% |
| 6/30/2007 | 96,601 | 616,749 | 520,148 | 16% | 271,833 | 191% |

Dollar amounts in thousands

Schedule of Employer Contributions

The schedule of employer contributions shows whether the employer has made contributions that are consistent with the parameters established by GASB for calculating the ARC and the annual OPEB expense.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

SECTION VI – ACCOUNTING DISCLOSURES

| Table VI-5 | | | | | |
|---|-------------------------------|--|--------------------------------------|----------------------------|--|
| Schedule of Employer Contributions | | | | | |
| City | | | | | |
| Fiscal Year Ending | Annual OPEB Cost (AOC) | Contributions Plus Implicit Subsidy | Percentage of AOC Contributed | Net OPEB Obligation | |
| 2017 | \$ 33,755 | To Be Determined | To Be Determined | To Be Determined | |
| 2016 | 40,011 | \$ 30,462 | 76% | \$ 206,226 | |
| 2015 | 33,631 | 26,959 | 80% | 196,677 | |
| 2014 | 49,664 | 24,484 | 49% | 190,005 | |
| 2013 | 57,202 | 20,923 | 37% | 164,825 | |
| 2012 | 68,028 | 25,833 | 38% | 128,546 | |
| 2011 | 44,834 | 21,072 | 47% | 86,351 | |
| 2010 | 39,414 | 21,585 | 55% | 62,589 | |
| 2009 | 33,725 | 15,918 | 47% | 44,760 | |

Dollar amounts in thousands

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

| Table VI-6 | |
|---|----------------------|
| Note to Required Supplementary Information | |
| The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows. | |
| Valuation Date | June 30, 2016 |
| Actuarial Cost Method | Individual Entry Age |
| Amortization Method | Level Dollar Open |
| Single Equivalent Amortization Period | 30 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Payroll Growth Rate | 2.85% |
| Discount Rate | 6.60% |
| Ultimate Rate of Medical Inflation | 4.25% |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Member Data

| Valuation Date | June 30, 2016 | June 30, 2015 | % Change |
|--|----------------------|----------------------|-----------------|
| Active Employees | | | |
| <i>Tier 1</i> | | | |
| Count | 2,162 | 2,363 | -8.51% |
| Average Age | 49.0 | 48.3 | 1.30% |
| Average OPEB Benefit Service | 15.3 | 14.6 | 4.84% |
| Total Payroll | \$186,249,410 | \$192,615,490 | -3.31% |
| <i>Tier 2A</i> | | | |
| Count | 212 | 233 | -9.01% |
| Average Age | 39.3 | 37.5 | 4.82% |
| Average OPEB Benefit Service | 3.7 | 2.7 | 38.16% |
| Total Payroll | \$15,608,705 | \$15,997,293 | -2.43% |
| <i>Tier 2C (Eligible for Dental only)</i> | | | |
| Count | 13 | 5 | 160.00% |
| Average Age | 40.4 | 42.9 | -5.70% |
| Average OPEB Benefit Service | 9.4 | 8.1 | 16.43% |
| Total Payroll | \$1,053,038 | \$344,587 | 205.59% |
| <i>Eligible Active Employees</i> | | | |
| Count | 2,387 | 2,601 | -8.23% |
| Average Age | 48.1 | 47.4 | 1.49% |
| Average OPEB Benefit Service | 14.3 | 13.5 | 5.36% |
| Total Payroll | \$202,911,153 | \$208,957,370 | -2.89% |
| <i>Tier 2B</i> | | | |
| Count | 910 | 635 | 43.31% |
| Average Age | 36.7 | 36.5 | 0.65% |
| Average OPEB Benefit Service | 1.3 | 0.9 | 43.31% |
| Total Payroll | \$63,912,222 | \$42,472,351 | 50.48% |
| <i>Total</i> | | | |
| Count | 3,297 | 3,236 | 1.89% |
| Average Age | 44.9 | 45.2 | -0.65% |
| Average OPEB Benefit Service | 10.7 | 11.1 | -3.38% |
| Total Payroll | \$266,823,375 | \$251,429,721 | 6.12% |
| <i>Retirees and Spouses with Medical Coverage</i> | | | |
| Pre-65 | 1,739 | 1,756 | -0.97% |
| Post-65 | 2,407 | 2,330 | 3.30% |
| Total | 4,146 | 4,086 | 1.47% |
| <i>Retirees with Dental Coverage</i> | | | |
| | 3,264 | 3,206 | 1.81% |
| <i>Term Vested Members</i> | | | |
| | 151 | 142 | 6.34% |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

| | Status Reconciliation | | | | | Total |
|--------------------------|-----------------------|------------|--------------|------------|------------|--------------|
| | Active | Vested | Retiree | Spouse | Disabled | |
| Beginning of Year | 2,601 | 142 | 2,799 | 400 | 192 | 6,134 |
| New Hires | 0 | 0 | 0 | 0 | 0 | 0 |
| Rehires | 14 | (1) | 0 | 0 | 0 | 13 |
| Vested Terminations | (24) | 24 | 0 | 0 | 0 | 0 |
| Service Retirements | (121) | (12) | 133 | 0 | 0 | 0 |
| Disabled Retirements | 0 | 0 | 0 | 0 | 0 | 0 |
| New survivors | 0 | 0 | 0 | 31 | 0 | 31 |
| No longer covered | (88) | (2) | (78) | (22) | (8) | (198) |
| Data corrections | 5 | 0 | 17 | (5) | 2 | 19 |
| End of Year | 2,387 | 151 | 2,871 | 404 | 186 | 5,999 |

Counts do not include dependent spouses

Member Data as of June 30, 2016:

| Age Group | Eligible Active Employees | | | | | | | | Total |
|--------------|-------------------------------|------------|------------|------------|------------|------------|-----------|----------|--------------|
| | Years of OPEB Benefit Service | | | | | | | | |
| | < 5 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30 - 34 | 35+ | |
| Under 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 44 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 54 |
| 30 to 34 | 77 | 93 | 14 | 0 | 0 | 0 | 0 | 0 | 184 |
| 35 to 39 | 60 | 113 | 65 | 51 | 0 | 0 | 0 | 0 | 289 |
| 40 to 44 | 33 | 67 | 82 | 169 | 16 | 0 | 0 | 0 | 367 |
| 45 to 49 | 37 | 65 | 68 | 154 | 53 | 44 | 1 | 0 | 422 |
| 50 to 54 | 27 | 52 | 55 | 172 | 61 | 141 | 4 | 0 | 512 |
| 55 to 59 | 23 | 64 | 32 | 94 | 16 | 60 | 8 | 0 | 297 |
| 60 to 64 | 14 | 31 | 36 | 65 | 19 | 19 | 0 | 1 | 185 |
| 65 and up | <u>3</u> | <u>19</u> | <u>17</u> | <u>26</u> | <u>9</u> | <u>2</u> | <u>0</u> | <u>1</u> | <u>77</u> |
| Total | 318 | 514 | 369 | 731 | 174 | 266 | 13 | 2 | 2,387 |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

| Retirees, Disabled Retirees and Surviving Spouses | | | | | | |
|--|---------------------------------|----------------|--------------|--------------------------------|----------------|--------------|
| Age Group | <u>Medical Insurance</u> | | | <u>Dental Insurance</u> | | |
| | Males | Females | Total | Males | Females | Total |
| Under 50 | 4 | 21 | 25 | 4 | 20 | 24 |
| 50 to 54 | 37 | 27 | 64 | 35 | 35 | 70 |
| 55 to 59 | 237 | 188 | 425 | 218 | 182 | 400 |
| 60 to 64 | 289 | 253 | 542 | 309 | 275 | 584 |
| 65 to 69 | 334 | 259 | 593 | 389 | 303 | 692 |
| 70 to 74 | 235 | 196 | 431 | 266 | 258 | 524 |
| 75 to 79 | 172 | 147 | 319 | 199 | 194 | 393 |
| 80 to 84 | 106 | 112 | 218 | 121 | 144 | 265 |
| 85 to 89 | 50 | 78 | 128 | 76 | 111 | 187 |
| <u>Over 90</u> | <u>30</u> | <u>46</u> | <u>76</u> | <u>40</u> | <u>85</u> | <u>125</u> |
| Total | 1,494 | 1,327 | 2,821 | 1,657 | 1,607 | 3,264 |

Counts do not include dependent spouses

| Medical Plan Elections as of January 1, 2017 | | | | |
|---|---|----------------|--------------|--------------|
| Medical Plan | Retirees & Surviving Spouses | Spouses | Total | |
| Pre-Medicare Medical Plans | | | | |
| Kaiser DHMO | | 200 | 162 | 362 |
| Kaiser \$25 Co-pay | | 618 | 376 | 994 |
| Kaiser \$15 Co-pay (Hawaii) | | 1 | 2 | 3 |
| Kaiser \$25 Co-pay (Northwest) | | 10 | 7 | 17 |
| Sutter Health DHMO | | 4 | 4 | 8 |
| Sutter Health \$20 Co-pay | | 39 | 22 | 61 |
| PPO / POS \$25 Co-pay | | <u>184</u> | <u>110</u> | <u>294</u> |
| Total | | 1,056 | 683 | 1,739 |
| Medicare Medical Plans | | | | |
| Kaiser Senior Advantage | | 995 | 366 | 1,361 |
| Kaiser Senior Advantage (Hawaii) | | 5 | 0 | 5 |
| Kaiser Senior Advantage (Northwest) | | 21 | 6 | 27 |
| BS Medicare HMO | | 140 | 47 | 187 |
| BS Medicare PPO / POS | | <u>604</u> | <u>223</u> | <u>827</u> |
| Total | | 1,765 | 642 | 2,407 |

CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

| Current Vested Terminations* | | | |
|------------------------------|-----------|-----------|------------|
| Age Group | Male | Female | Total |
| Under 45 | 11 | 11 | 22 |
| 45 to 49 | 17 | 26 | 43 |
| 50 to 54 | 45 | 31 | 76 |
| 55 to 59 | 7 | 2 | 9 |
| 60 to 64 | 1 | 0 | 1 |
| Over 65 | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 81 | 70 | 151 |

**Includes those term vested participants with at least 15 years of OPEB benefit service (37.5% pension multiplier).*

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Economic Assumptions

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 15, 2016 Board meeting.

1. Expected Return on Plan Assets

6.875% per year. The Board expects a long-term rate of return of 7.20% for the 401(h) account and 7.00% for the 115 trust based on Meketa’s 20-year capital market assumptions and the System’s current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2. Expected Return on Employer Assets 3.00% per year

3. Blended Discount Rate 6.60% per year

4. Per Person Cost Trends

| To Calendar Year | Annual Increase | | |
|---------------------|------------------|----------------------|--------|
| | Pre- Medicare | Medicare Eligible | Dental |
| 2018 | 8.50% | 6.50% | 4.00% |
| 2019 | 8.20 | 6.34 | 4.00 |
| 2020 | 7.89 | 6.18 | 4.00 |
| 2021 | 7.59 | 6.02 | 4.00 |
| 2022 | 7.29 | 5.86 | 4.00 |
| 2023 | 6.98 | 5.70 | 4.00 |
| 2024 | 6.68 | 5.54 | 4.00 |
| 2025 | 6.38 | 5.38 | 4.00 |
| 2026 | 6.07 | 5.21 | 4.00 |
| 2027 | 5.77 | 5.05 | 4.00 |
| 2028 | 5.46 | 4.89 | 4.00 |
| 2029 | 5.16 | 4.73 | 4.00 |
| 2030 | 4.86 | 4.57 | 4.00 |
| 2031 | 4.55 | 4.41 | 4.00 |
| 2032+ | 4.25 | 4.25 | 4.00 |

Actual premium increases for 2017 were reflected with the above rates applying after Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

5. Changes Since Last Valuation

The funding discount rate decreased from 7.00% to 6.875%. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The blended discount rate increased from 6.10% to 6.60%. The per person cost trends were moved forward one year.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Demographic Assumptions

The plan election assumptions were adopted by the Board of Administration at the December 15, 2016 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015. Please refer to the full experience study report for details, including the rationale for each assumption.

1. Retirement Rates

Rates of retirement for Tier 1 members are based on age according to the following Table Tier 1.

| Tier 1 | | | |
|---|--|--|------------------------------------|
| Rates of Retirement by Age and Service | | | |
| Age | 15 or more Years of Service and less than 30 Years of Service | | |
| | Less than 15 Years of Service | 15 or more Years of Service and less than 30 Years of Service | 30 or more Years of Service |
| 50 | 0.0% | 0.0% | 70.0% |
| 51 | 0.0 | 0.0 | 70.0 |
| 52 | 0.0 | 0.0 | 70.0 |
| 53 | 0.0 | 0.0 | 70.0 |
| 54 | 0.0 | 0.0 | 70.0 |
| 55 | 8.0 | 35.0 | 50.0 |
| 56 | 8.0 | 22.5 | 50.0 |
| 57 | 8.0 | 22.5 | 50.0 |
| 58 | 8.0 | 22.5 | 50.0 |
| 59 | 8.0 | 22.5 | 50.0 |
| 60 | 8.0 | 22.5 | 45.0 |
| 61 | 8.0 | 30.0 | 45.0 |
| 62 | 9.0 | 30.0 | 45.0 |
| 63 | 10.0 | 30.0 | 45.0 |
| 64 | 15.0 | 35.0 | 45.0 |
| 65 | 20.0 | 40.0 | 45.0 |
| 66 | 20.0 | 40.0 | 45.0 |
| 67 | 20.0 | 40.0 | 45.0 |
| 68 | 20.0 | 40.0 | 45.0 |
| 69 | 20.0 | 40.0 | 45.0 |
| 70 & over | 100.0 | 100.0 | 100.0 |

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Rates of retirement for Tier 2 members are based on age according to the following Table
Tier 2.

| Tier 2 Rates of Retirement by Age and Service | | |
|--|--|--|
| Age | Less than 32.5 Years of Service | 32.5 or more Years of Service |
| 55 | 4.0% | 7.0% |
| 56 | 3.0 | 6.0 |
| 57 | 3.0 | 6.0 |
| 58 | 3.0 | 6.0 |
| 59 | 5.0 | 10.0 |
| 60 | 7.5 | 15.0 |
| 61 | 10.0 | 25.0 |
| 62 | 10.0 | 25.0 |
| 63 | 10.0 | 25.0 |
| 64 | 10.0 | 25.0 |
| 65 | 40.0 | 70.0 |
| 66 | 25.0 | 50.0 |
| 67 | 25.0 | 50.0 |
| 68 | 25.0 | 50.0 |
| 69 | 25.0 | 50.0 |
| 70 & over | 100.0 | 100.0 |

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 65.

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

2. Rates of Termination

Sample rates of refund/termination are show in the following tables.

| Rates of Termination | | | |
|-----------------------------|---------------------------|-----------------------------|-----------------------------------|
| Age | 0 Years of Service | 1-4 Years of Service | 5 or more Years of Service |
| 20 | 18.00% | 17.50% | 9.00% |
| 25 | 18.00 | 15.50 | 9.00 |
| 30 | 18.00 | 13.50 | 7.00 |
| 35 | 18.00 | 11.50 | 5.50 |
| 40 | 18.00 | 9.50 | 4.50 |
| 45 | 18.00 | 8.00 | 3.50 |
| 50 | 18.00 | 7.00 | 3.00 |
| 55 | 18.00 | 6.00 | 3.00 |
| 60 | 18.00 | 5.00 | 0.00 |
| 65 | 0.00 | 0.00 | 0.00 |

**Withdrawal/termination rates do not apply once a member is eligible for retirement.*

3. Rates of Refund

Tier 1:

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table.

| Rates of Refund | |
|------------------------|---------------|
| Age | Refund |
| 20 | 40.00% |
| 25 | 40.00 |
| 30 | 27.50 |
| 35 | 17.00 |
| 40 | 8.00 |
| 45 | 3.00 |
| 50 | 1.00 |
| 55 | 0.00 |

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

4. Rate of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

| Base Mortality Tables | | |
|------------------------------|---|---|
| Category | Male | Female |
| Healthy Annuitant | 0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male) | 0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female) |
| Healthy Non-Annuitant | 0.919 times the CalPERS 2009 Employee Mortality Table (Male) | 0.918 times the CalPERS 2009 Employee Mortality Table (Female) |
| Disabled Annuitant | 1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male) | 1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female) |

5. Disability Rates

Sample rates of disability are show in the following table.

| Rates of Disability at Selected Ages | |
|---|-------------------|
| Age | Disability |
| 20 | 0.014% |
| 25 | 0.014 |
| 30 | 0.021 |
| 35 | 0.063 |
| 40 | 0.136 |
| 45 | 0.201 |
| 50 | 0.218 |
| 55 | 0.200 |
| 60 | 0.181 |
| 65 | 0.167 |
| 70 | 0.149 |

40% of disabilities are assumed to be duty related, and 60% are assumed to be non-duty.

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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

6. Salary Increase Rate

Wage inflation component: 2.85%

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

| Salary Merit Increases | |
|------------------------|------------------|
| Years of Service | Merit/ Longevity |
| 0 | 4.50% |
| 1 | 3.50 |
| 2 | 2.50 |
| 3 | 1.85 |
| 4 | 1.40 |
| 5 | 1.15 |
| 6 | 0.95 |
| 7 | 0.75 |
| 8 | 0.60 |
| 9 | 0.50 |
| 10 | 0.45 |
| 11 | 0.40 |
| 12 | 0.35 |
| 13 | 0.30 |
| 14 | 0.25 |
| 15+ | 0.25 |

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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

7. Percent of Retirees Electing Coverage

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their current plan.

The HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans will discontinue as of 1/1/2017. Sutter Health Plus \$20 Co-pay and Sutter Health Plus \$1,500 Deductible plans will be offered as of 1/1/2017.

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table below.

| Assumed Plan Elections for Future Retirees | | | |
|---|-------------------|--|-------------------|
| | % Electing | | % Electing |
| Pre-Medicare Medical Plans | | Medicare-Eligible Medical Plans | |
| · Kaiser DHMO | 18% | · Kaiser Senior Advantage | 58% |
| · Kaiser \$25 Co-pay | 60% | · BS Medicare HMO | 8% |
| · Sutter Health DHMO | 1% | · BS Medicare PPO | 34% |
| · Sutter Health \$20 Co-pay | 5% | | |
| · PPO \$25 Co-pay | 16% | Dental Plans (All Retirees) | |
| | | · Delta Dental PPO | 97% |
| | | · DeltaCare HMO | 3% |

8. Family Composition

85% 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.

Pre-Medicare, 35% of males and 22% of females will cover children.

9. Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

10. Married Percentage

| Percentage Married | |
|--------------------|------------|
| Gender | Percentage |
| Males | 80% |
| Females | 60% |

11. Administrative Expenses

Included in the average monthly premiums.

12. Changes Since Last Valuation

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 15, 2016 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2016 and 2017. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren) and retiree plus family) were blended based on enrollment data for the 2016 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans were assumed to transition to the Sutter Plus \$20 Co-Pay and Sutter Health Plus \$1,500 Deductible plans based on the actual 1/1/2017 elections. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

1. Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2016 based on the premiums for 2016 and 2017. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

The following tables show the claims costs for each medical plan as of the valuation date:

| Age | <u>Sample Claims Costs - Non-Medicare Eligible</u> | | | | | |
|-----|--|--------|---------------------------|--------|------------------------|--------|
| | <u>Kaiser DHMO</u> | | <u>Kaiser \$25 Co-Pay</u> | | <u>PPO \$25 Co-pay</u> | |
| | Male | Female | Male | Female | Male | Female |
| 40 | 5,125 | 7,213 | 6,467 | 9,242 | 7,585 | 11,311 |
| 45 | 5,311 | 7,001 | 6,783 | 9,031 | 8,231 | 11,247 |
| 50 | 5,909 | 7,449 | 7,649 | 9,696 | 9,614 | 12,361 |
| 55 | 6,816 | 8,105 | 8,925 | 10,639 | 11,547 | 13,848 |
| 60 | 8,078 | 8,997 | 10,673 | 11,894 | 14,114 | 15,754 |
| 64 | 9,428 | 9,857 | 12,523 | 13,095 | 16,774 | 17,541 |

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APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

| <u>Sample Claims Costs - Non-Medicare Eligible</u> | | | | |
|--|--------------------|--------|---------------------------|--------|
| Age | <u>Sutter DHMO</u> | | <u>Sutter \$20 Co-pay</u> | |
| | Male | Female | Male | Female |
| 40 | 6,750 | 9,485 | 7,783 | 10,903 |
| 45 | 6,986 | 9,200 | 8,035 | 10,562 |
| 50 | 7,763 | 9,779 | 8,905 | 11,206 |
| 55 | 8,942 | 10,632 | 10,236 | 12,163 |
| 60 | 10,588 | 11,792 | 12,097 | 13,471 |
| 64 | 12,350 | 12,913 | 14,095 | 14,737 |

| <u>Sample Claims Costs - Medicare Eligible</u> | | | | | | |
|--|--------------------------|--------|-------------------|--------|-------------------|--------|
| Age | <u>Kaiser Senior Adv</u> | | <u>BS Med HMO</u> | | <u>BS Med PPO</u> | |
| | Male | Female | Male | Female | Male | Female |
| 65 | 2,831 | 3,020 | 6,567 | 7,004 | 5,924 | 6,318 |
| 70 | 3,324 | 3,334 | 7,711 | 7,735 | 6,956 | 6,977 |
| 75 | 3,717 | 3,595 | 8,623 | 8,340 | 7,778 | 7,523 |
| 80 | 3,950 | 3,711 | 9,162 | 8,609 | 8,264 | 7,765 |
| 85 | 4,003 | 3,673 | 9,284 | 8,519 | 8,375 | 7,685 |

| <u>Sample Claims Costs - Dental</u> | | | | |
|-------------------------------------|-------------------------|--------|----------------------|--------|
| Age | <u>Delta Dental PPO</u> | | <u>DeltaCare HMO</u> | |
| | Male | Female | Male | Female |
| All | 717 | 717 | 311 | 311 |

2. Medicare Part D Subsidy

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

3. Medicare Part B

All Medicare eligible retirees are assumed to participate in Medicare Part B.

4. Medicare Eligibility

All retirees who turn age 65 are assumed to be eligible for Medicare.



**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
ACTUARIAL VALUATION AS OF JUNE 30, 2016**

APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

5. Annual Limits

Assumed to increase at the same rate as trend.

6. Lifetime Maximums

Are not assumed to have any financial impact.

7. Geography

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions

Retirees pay the difference between the actual premium for the elected medical plan and the lowest cost medical plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

9. Changes Since Last Valuation

There was no change to the claims costs process.

APPENDIX A – MEMBER DATA, ASSUMPTIONS AND METHODS

Contribution Allocation Procedure

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

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement 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 costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

The actuarial value of assets equals the market value of assets.

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2016 is amortized as a level dollar amount over an open 30-year period.

4. Contributions

The City negotiates contracts with its labor unions that require both employee and City contributions to fund the Plan.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11ths of the total contribution. In addition, the City contributes the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan. For employees who are rehired after September 2013 who have a vested right to dental benefits, the City contributes the full UAL rate for medical benefits in addition to the 8/11ths of the total dental contribution rate.

5. Changes Since Last Valuation

The amortization method changed from a layered amortization method to a 30-year open amortization method.

APPENDIX B – SUBSTANTIVE PLAN PROVISIONS

Summary of Key Substantive Plan Provisions

Eligibility (for employees hired before September 2013):

Medical: Employees who retire (include deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible for unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five years of service. Service credited thru reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits. Employees who retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

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

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City’s medical plan at the time of the member’s retirement. Dependent children are eligible to receive coverage until the age of 26.

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

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

Dental: Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City’s dental plan at the time of the member’s retirement.

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

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APPENDIX B – SUBSTANTIVE PLAN PROVISIONS

1. The employee has five 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 dental plan immediately before death; and,
3. The survivor will receive a monthly pension benefit.

Benefits for Retirees:

Medical: The Plan, through either the 401(h) account or 115 trust, 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.

Dental: The Plan, through either the 401(h) account or 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2016 and 2017 are as follows.

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

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

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APPENDIX B – SUBSTANTIVE PLAN PROVISIONS

| 2017 Monthly Premiums | | | | |
|--|---------------|---------------|----------------|---------------|
| | Single | Emp/Sp | Emp/Chd | Family |
| Medical | | | | |
| <u>Non-Medicare Monthly Rates</u> | | | | |
| Kaiser DHMO | \$490.20 | \$980.40 | \$857.86 | \$1,470.62 |
| Kaiser \$25 Co-pay | 598.66 | 1,197.32 | 1,047.62 | 1,795.94 |
| Sutter Health DHMO | 513.62 | 1,027.22 | 898.84 | 1,540.86 |
| Sutter Health \$20 Co-pay | 627.26 | 1,254.52 | 1,097.66 | 1,881.72 |
| Blue Shield PPO \$25 Co-pay | 1,003.76 | 2,007.50 | 1,756.60 | 3,011.26 |
| <u>Medicare-Eligible Monthly Rates</u> | | | | |
| Kaiser Senior Advantage | \$289.12 | \$578.24 | \$578.24 | \$867.36 |
| Blue Shield Medicare HMO | 598.82 | 1,197.64 | 1,197.64 | 1,824.90 |
| Blue Shield Medicare PPO | 509.21 | 1,018.42 | 1,018.42 | 1,771.26 |
| Dental | | | | |
| Delta Dental PPO | \$50.88 | \$111.92 | \$122.12 | \$157.72 |
| DeltaCare HMO | 24.44 | 48.86 | 42.74 | 73.30 |

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

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APPENDIX B – SUBSTANTIVE PLAN PROVISIONS

Summary of 2017 Benefit Plans:

| Non-Medicare Plans: | Kaiser \$25 Co-Pay | Kaiser DHMO | Sutter Health Plus \$20 Co-Pay HMO | Sutter Health Plus \$1,500 Deductible | Blue Shield PPO \$25 Co-Pay (In Network) |
|--|---------------------------|--------------------|---|--|---|
| Annual Out-of-Pocket Maximum (one person/family) | \$1,500/\$3,000 | \$4,000/\$8,000 | \$1,500/\$3,000 | \$4,000/\$8,000 | \$2,100/\$4,200 |
| Annual Deductible (one person/family) | None | \$1,500/\$3,000 | None | \$1,500/\$3,000 | \$100/\$200 |
| Office Visit copay | \$25 | \$40 | \$20 | \$20 | \$25 |
| Emergency Room copay | \$100 | 30%* | \$100 | 30%* | \$100 |
| Hospital Care copay | \$100 | 30%* | \$100 | 30%* | \$100 |
| Prescription Drug retail copay (30-day supply): | | | | | |
| Generic | \$10 | \$10 | \$10 | \$10 | \$10 |
| Brand | \$25 | \$30 | \$30 | \$30 | \$25 |
| Non-Formulary | N/A | N/A | \$60 | \$60 | \$40 |

* After deductible is paid.

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

Cost-Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

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 that 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 will not be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

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

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.

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

14. Discount Rate

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

15. Medical Trend

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

**CITY OF SAN JOSÉ FEDERATED POSTEMPLOYMENT HEALTHCARE PLAN
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APPENDIX D – LIST OF ABBREVIATIONS

Actuarial Accrued Liability (AAL)
Actuarial Valuation Report (AVR)
Annual Required Contribution (ARC)
Coordination of Benefits (COB)
Deductible and Coinsurance (DC)
Deferred Retirement Option Plan (DROP)
Durable Medical Equipment (DME)
Employee Assistance Program (EAP)
Employee Benefits Division (EBD)
Fiscal Year Ending (FYE)
Governmental Accounting Standards Board (GASB)
Hospital Emergency Room (ER)
In-Network (INN)
Inpatient (IP)
Medicare Eligible (ME)
Net Other Postemployment Benefit (NOO)
Non-Medicare Eligible (NME)
Not Applicable (NA)
Office Visit (OV)
Other Postemployment Benefit (OPEB)
Out-of-Network (OON)
Out-of-Pocket (OOP)
Outpatient (OP)
Pay-as-you-go (PAYGo)
Per Person Per Month (PPPM)
Pharmacy (Rx)
Preferred Provider Organization (PPO)
Primary Care Physician (PCP)
Specialist Care Provider (SCP)
Summary Plan Description (SPD)
Unfunded Actuarial Accrued Liability (UAAL)
Unfunded Actuarial Liability (UAL)
Urgent Care (UC)



Classic Values, Innovative Advice