

San José Federated Postemployment Healthcare Plan

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Final Actuarial Valuation Results June 30, 2023

January 18, 2024

Bill Hallmark, ASA, EA, FCA, MAAA

Taylor Stevens, ASA, MAAA

Jacqui King, FSA, EA, MAAA

Agenda



Schedule

Summary of Valuation Results

Changes in UAL

Membership Trends

Baseline Projections

Appendix



- October Board Meeting
 - ASOP 4 Updates
 - Pension Economic Assumption Review
- November Board Meeting
 - Preliminary Pension Valuation Results
 - Demographic Experience Study
 - OPEB Assumptions Review
- December Board Meeting
 - Final Pension Valuation Presentation
 - Final Pension Valuation Report
 - Preliminary OPEB Valuation Results
- **January Board Meeting**
 - **Final OPEB Valuation Presentation**
 - **Final OPEB Valuation Report**
 - **5-Year City Contribution Projections**

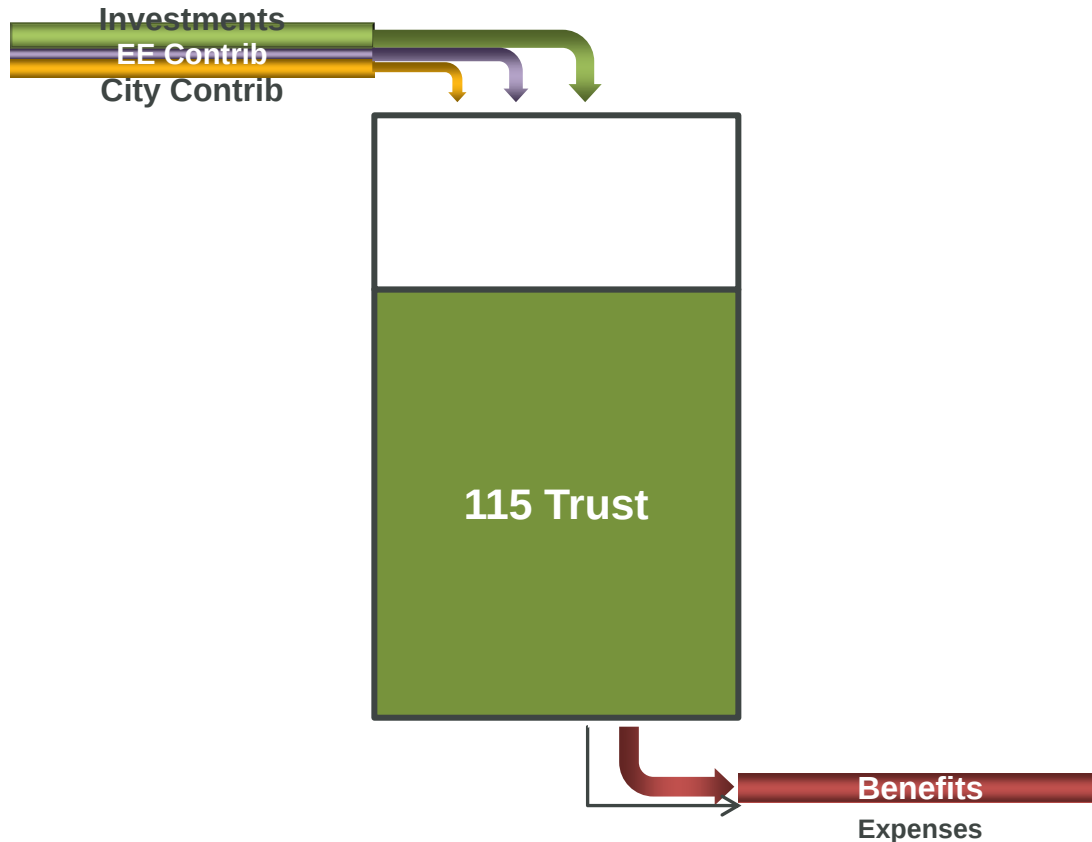
Final Results



A Dynamic System



Explicit Subsidy Funding

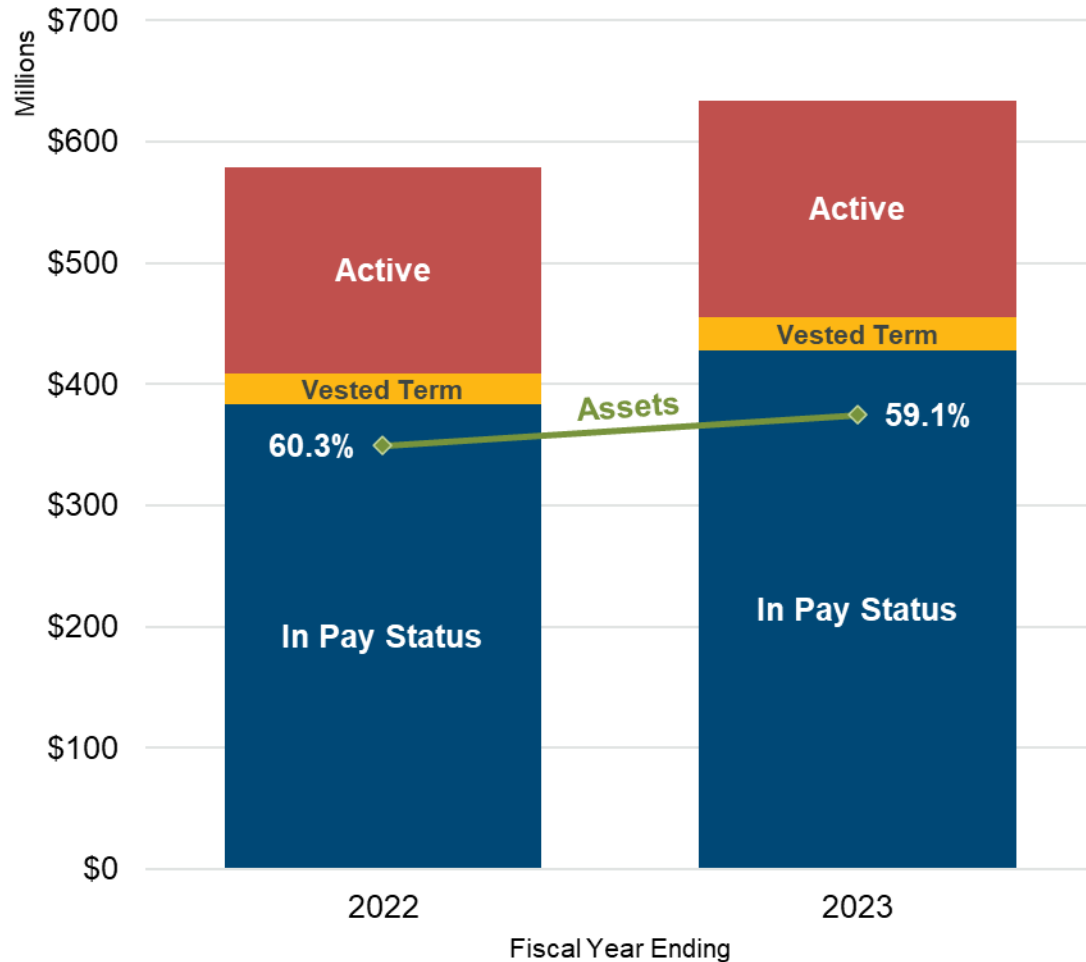


- Primary purpose of valuation is to set City contributions
 - 2023 valuation develops contributions for FYE 2025
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions for explicit subsidy
 - Plan provisions, actuarial methods, and discount rate
 - Member contributions are fixed at 7.5% of pay
 - Implicit subsidy paid through active member health premiums

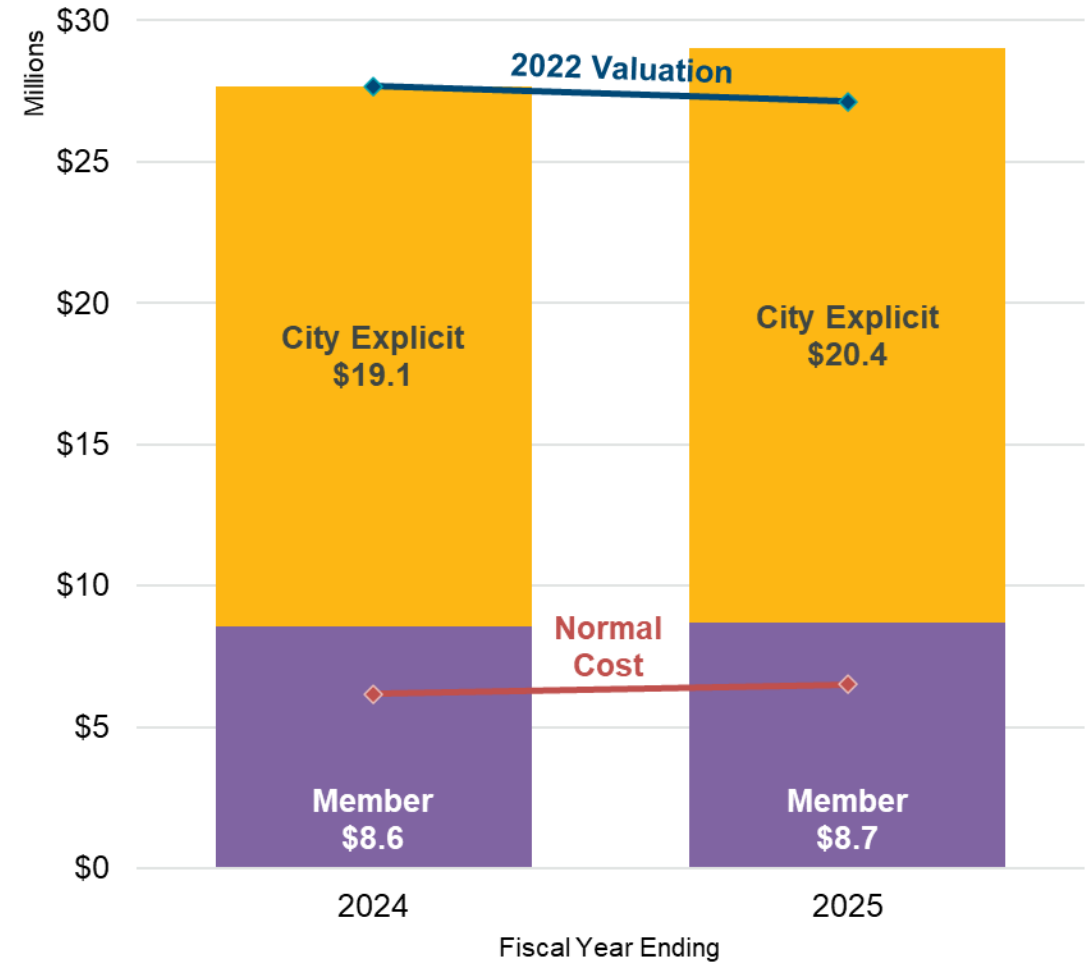
Final Valuation Results – Explicit Subsidy



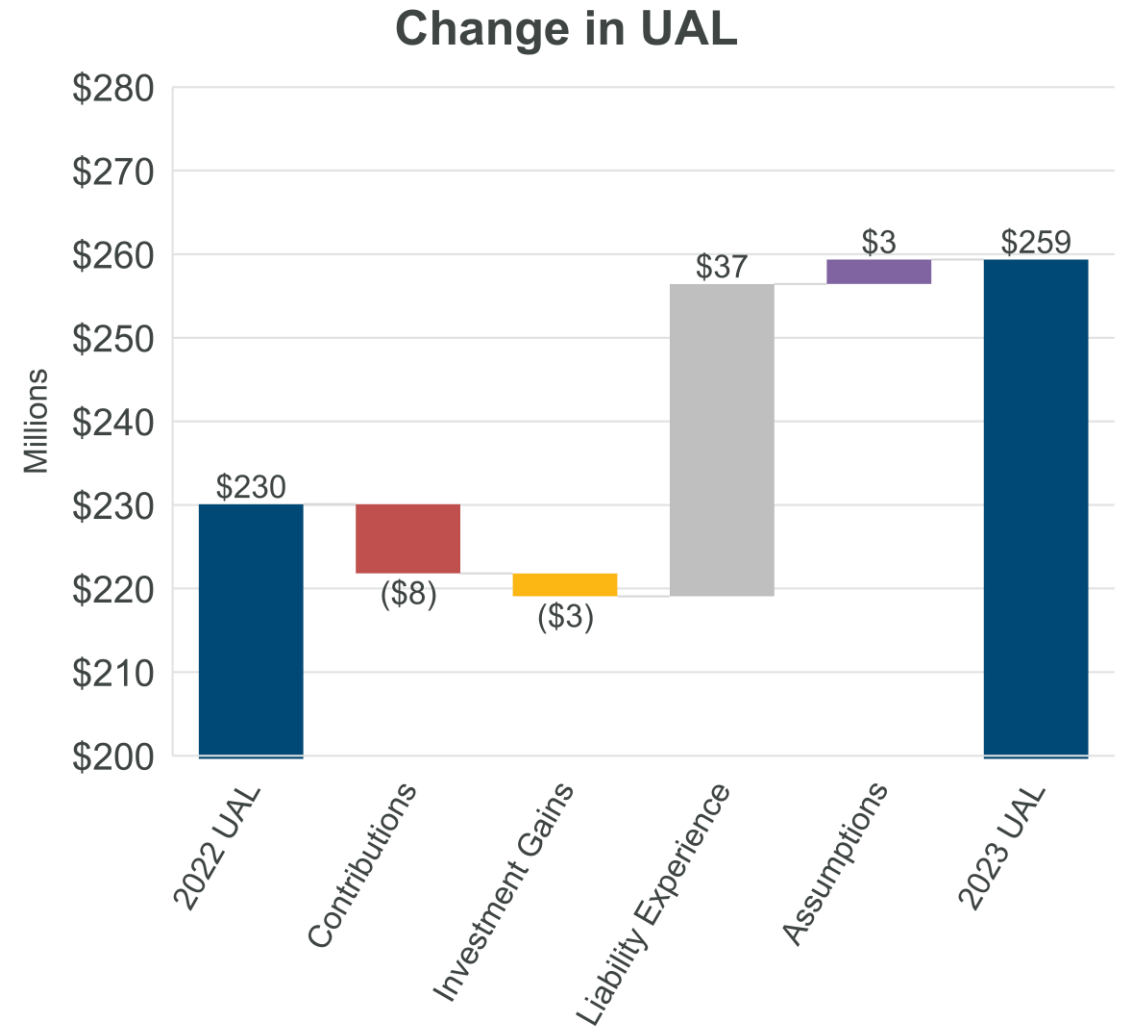
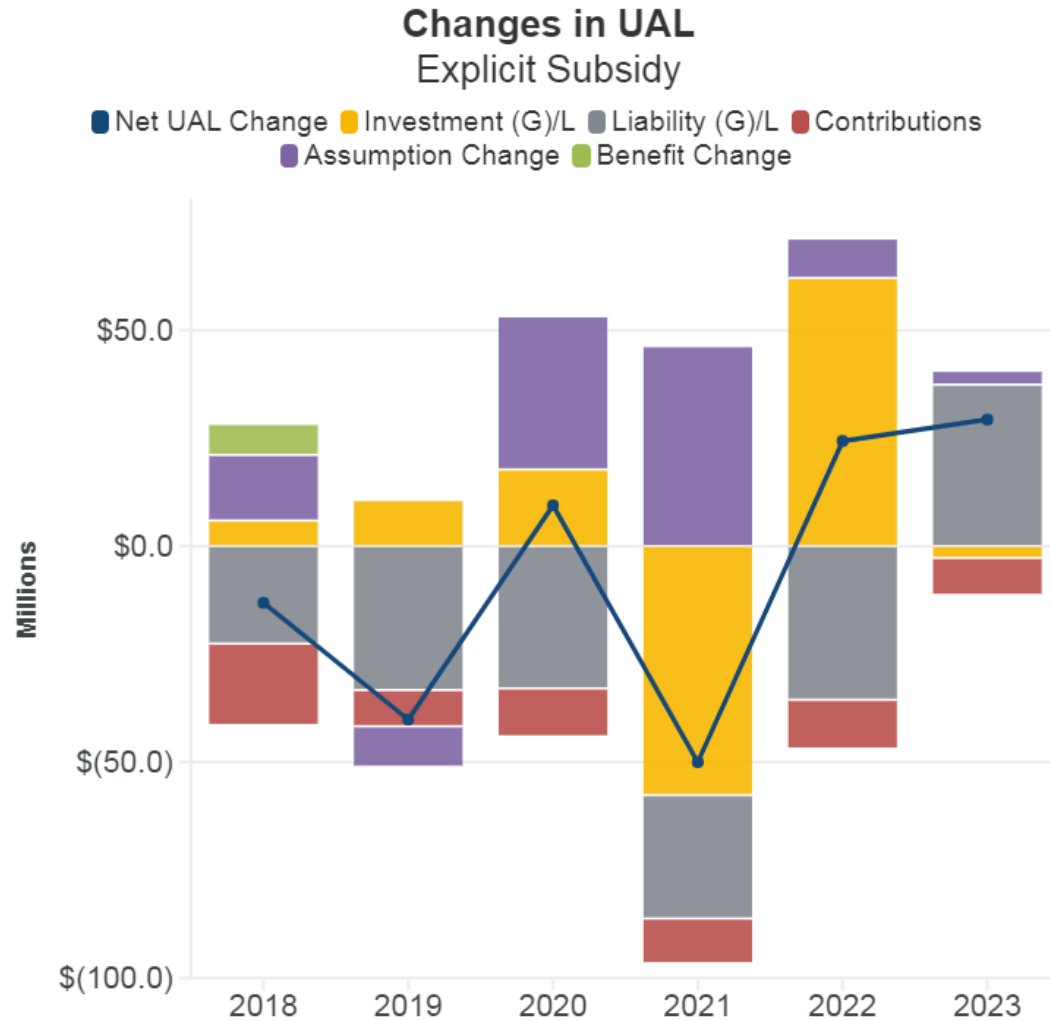
Explicit Subsidy Funded Status



Contributions



Historical Changes in UAL – Explicit Subsidy

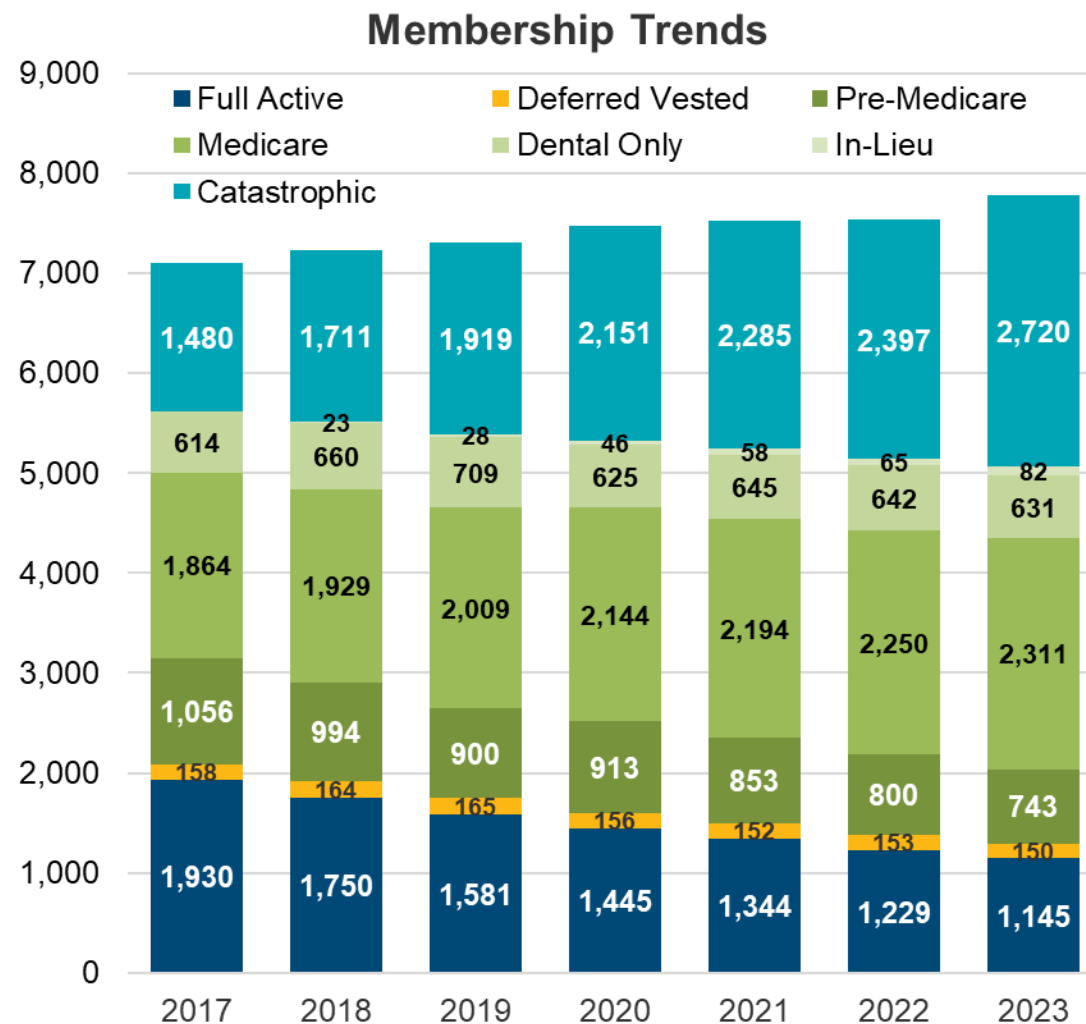


Membership



Membership			
	6/30/2022	6/30/2023	% Change
Active Members			
Eligible for Full Benefits	1,229	1,145	-6.8%
Eligible for Catastrophic Disability Only	2,397	2,720	13.5%
Total Active Members	3,626	3,865	6.6%
Deferred Vested Members	153	150	-2.0%
Members in Pay Status (Medical and/or Dental)	3,692	3,685	-0.2%
Members In-Lieu only	65	82	26.2%
Total	7,536	7,782	3.3%
Full Benefit Member Payroll	\$124,037	\$123,671	-0.3%
Total Payroll	\$360,936	\$409,009	13.3%

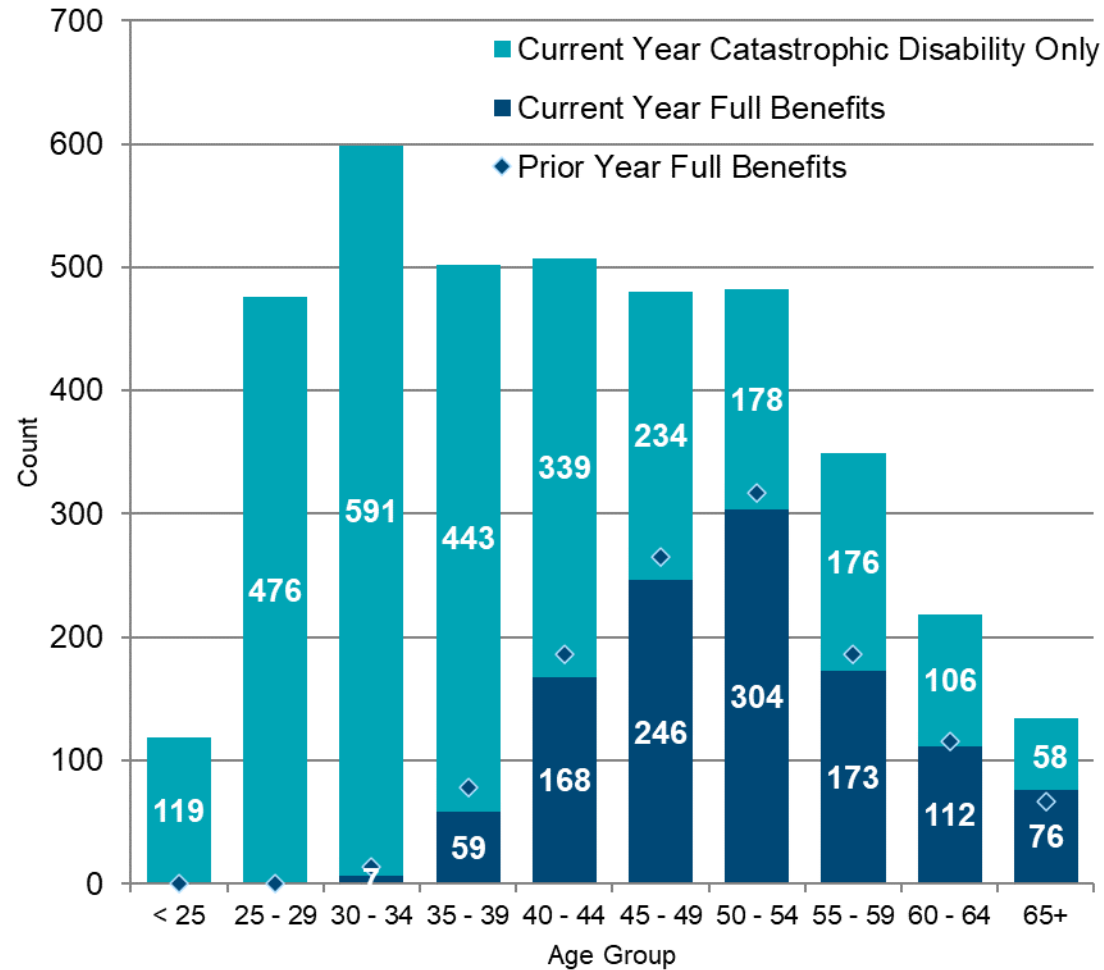
Dollar amounts in thousands



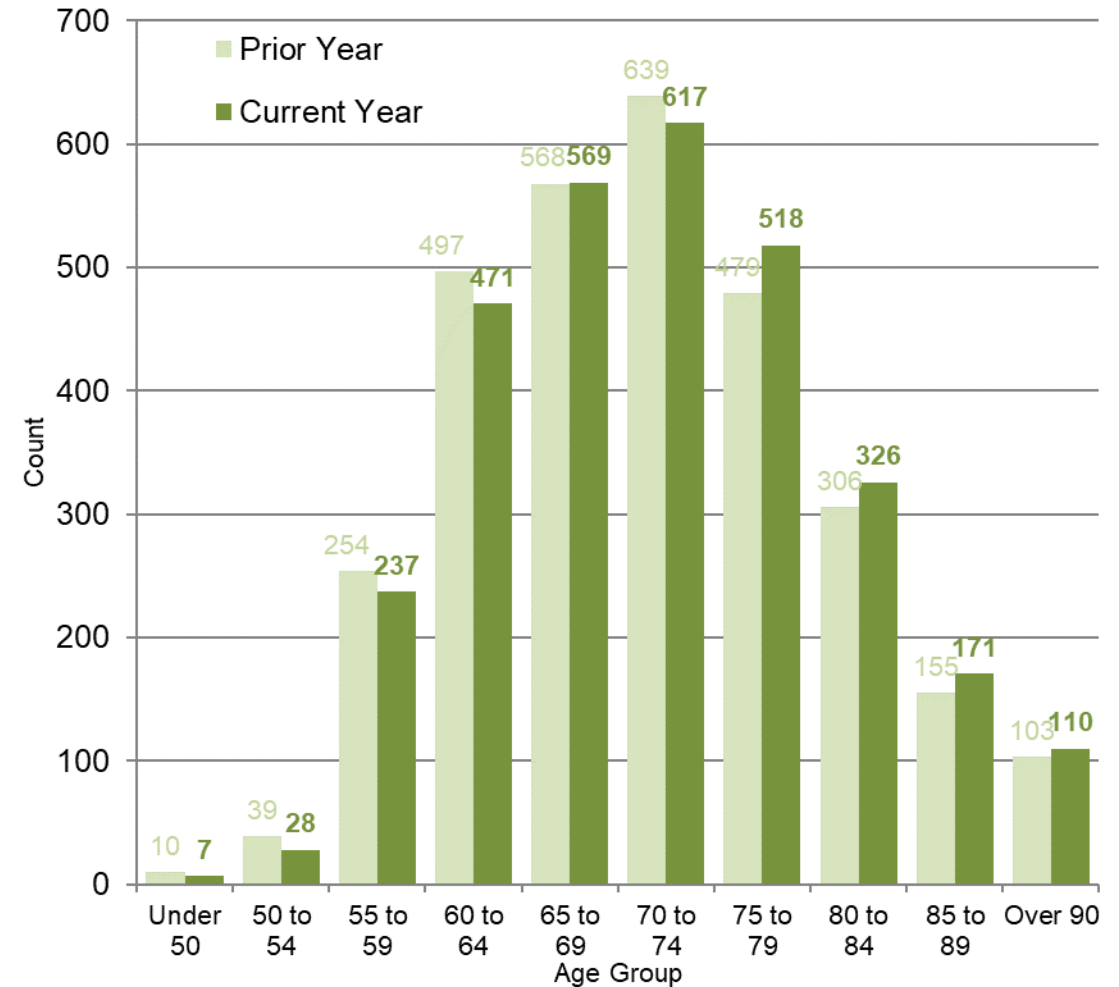
Member Distributions



Distribution of Active Members



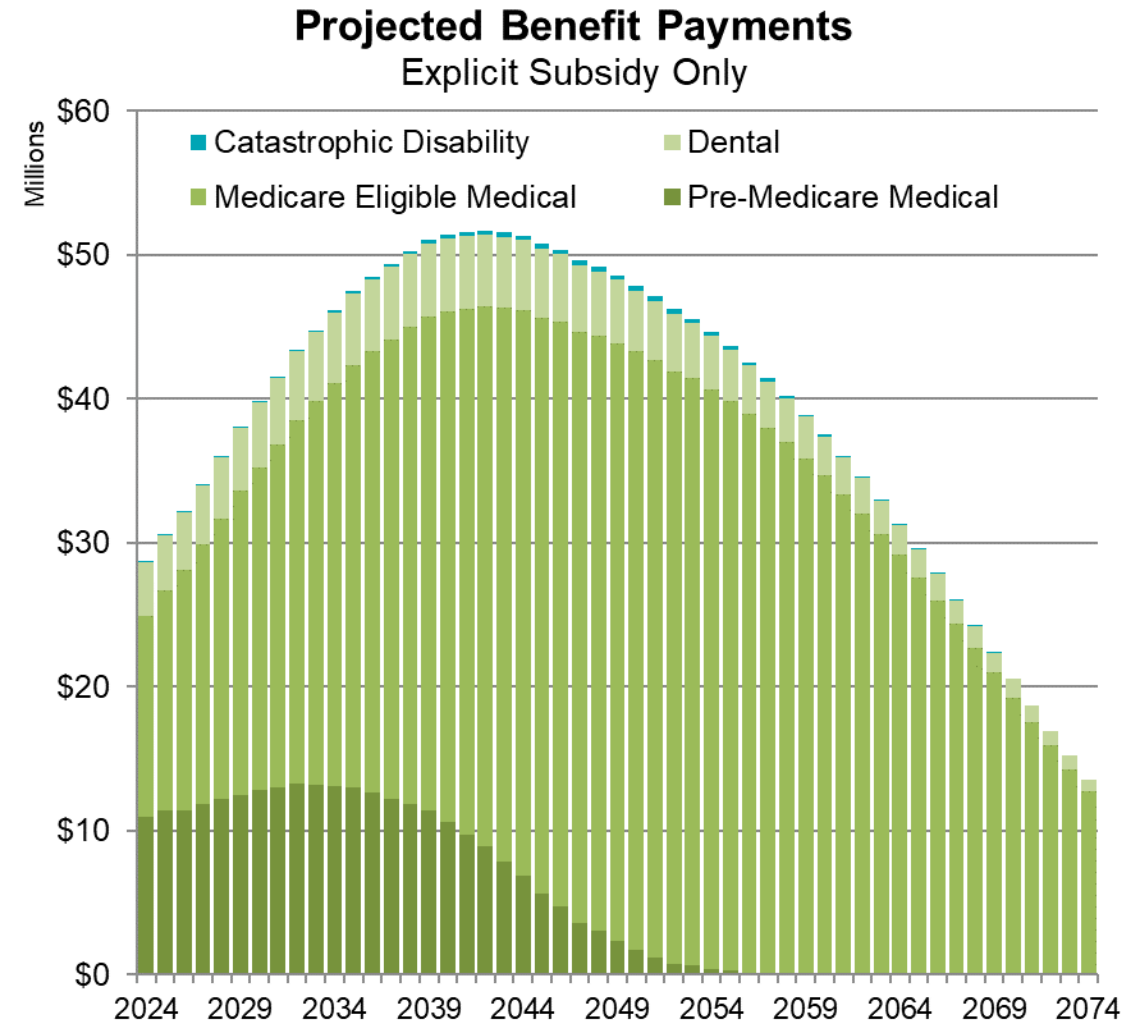
Distribution of Retired Members - Medical



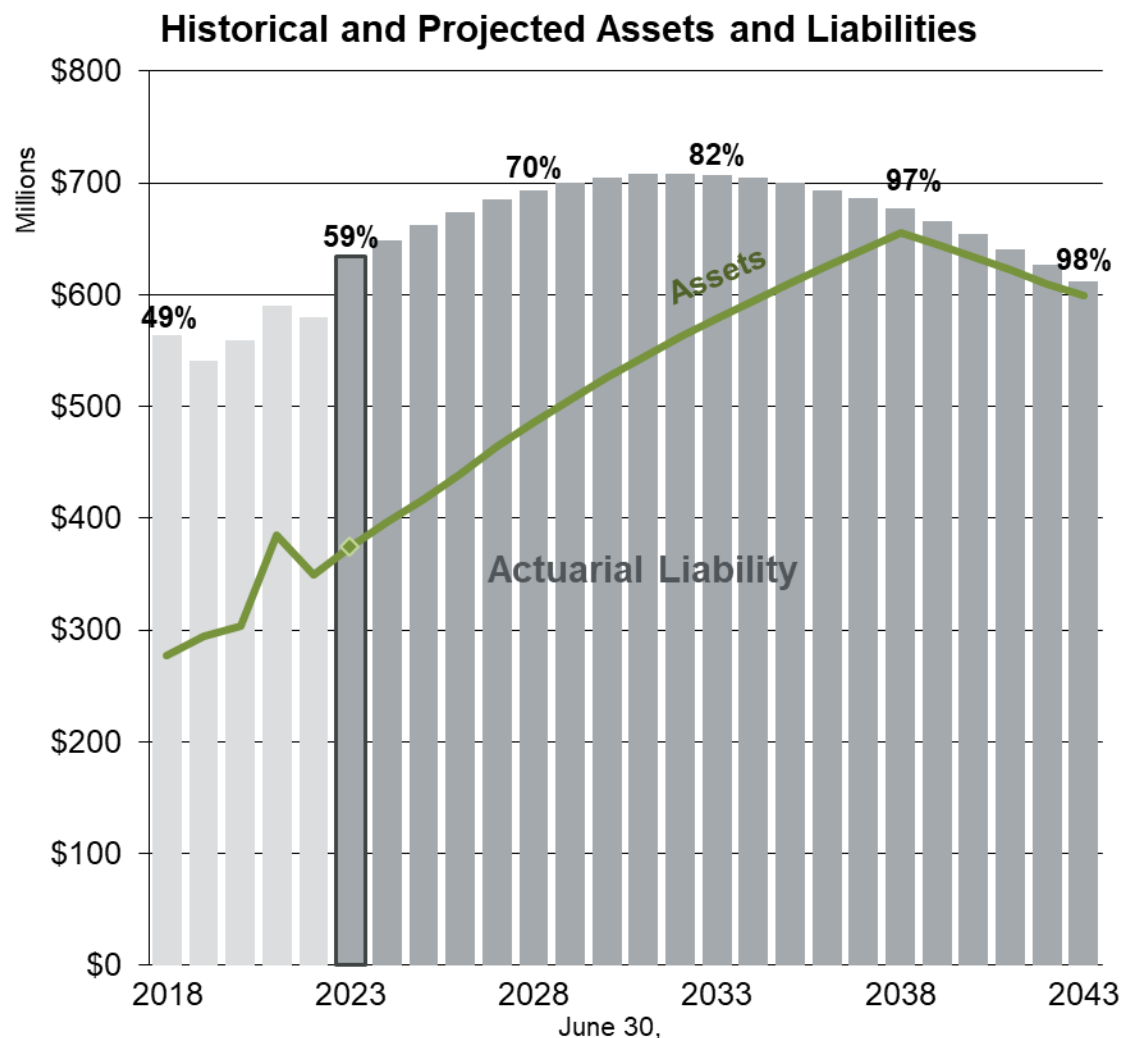
Projected Benefit Payments



- Full Benefits – Closed Group
 - Benefit payments expected to increase for next 20 years before starting to decline
 - Benefit payments expected to continue far into the future
- Catastrophic Disability – Open Group
 - Projected benefit payments are very small compared to the total benefit payments
 - No payments so far
 - Payments stop at age 65



Projected Assets and Liabilities

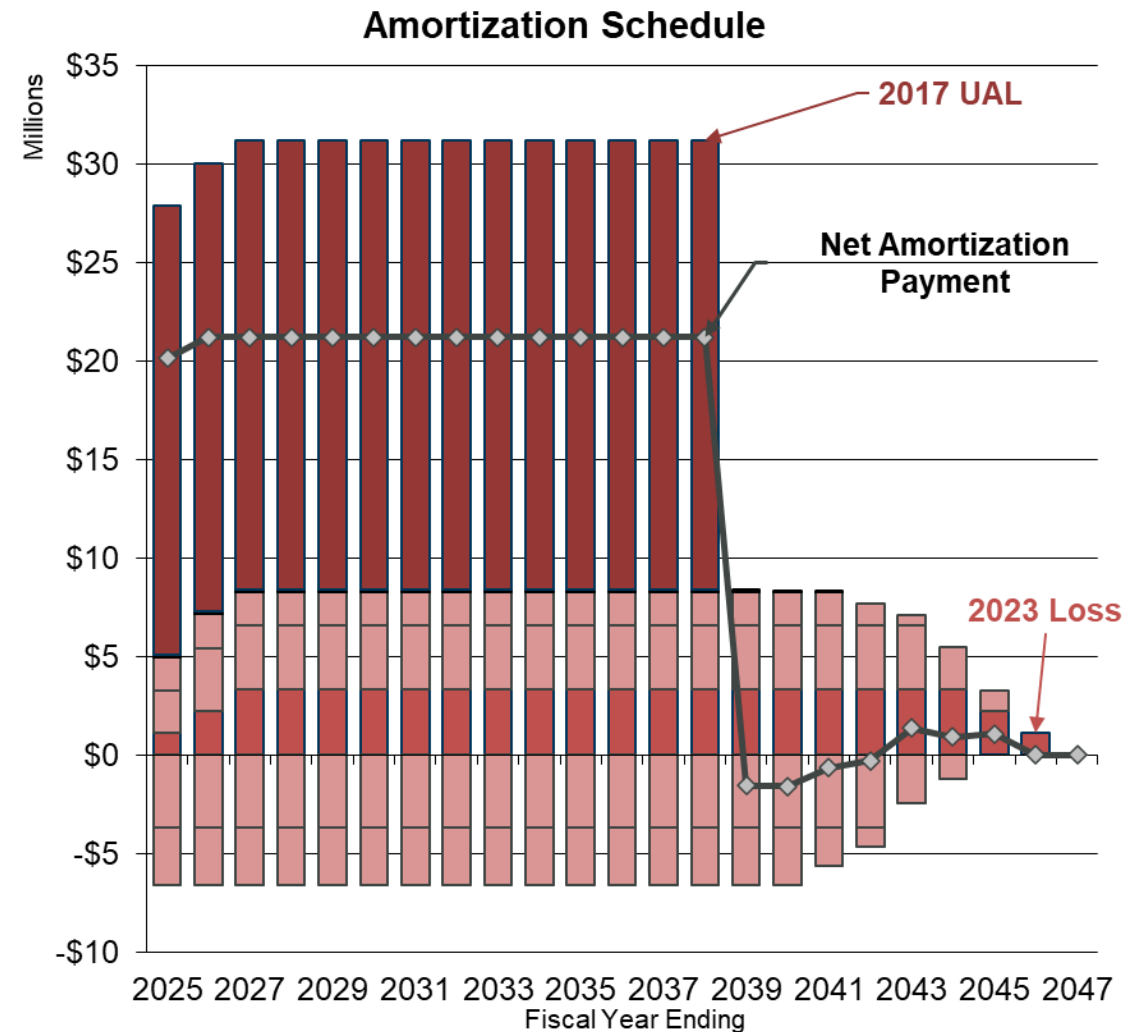


- Liabilities are projected to grow for 9 more years
 - Liability increases due to new benefits and interest
 - Liability decreases due to benefit payments
- Assets are projected to grow faster than liabilities, paying off the original UAL in 2038
 - Contributions and investment returns increase assets
 - Benefit payments reduce assets

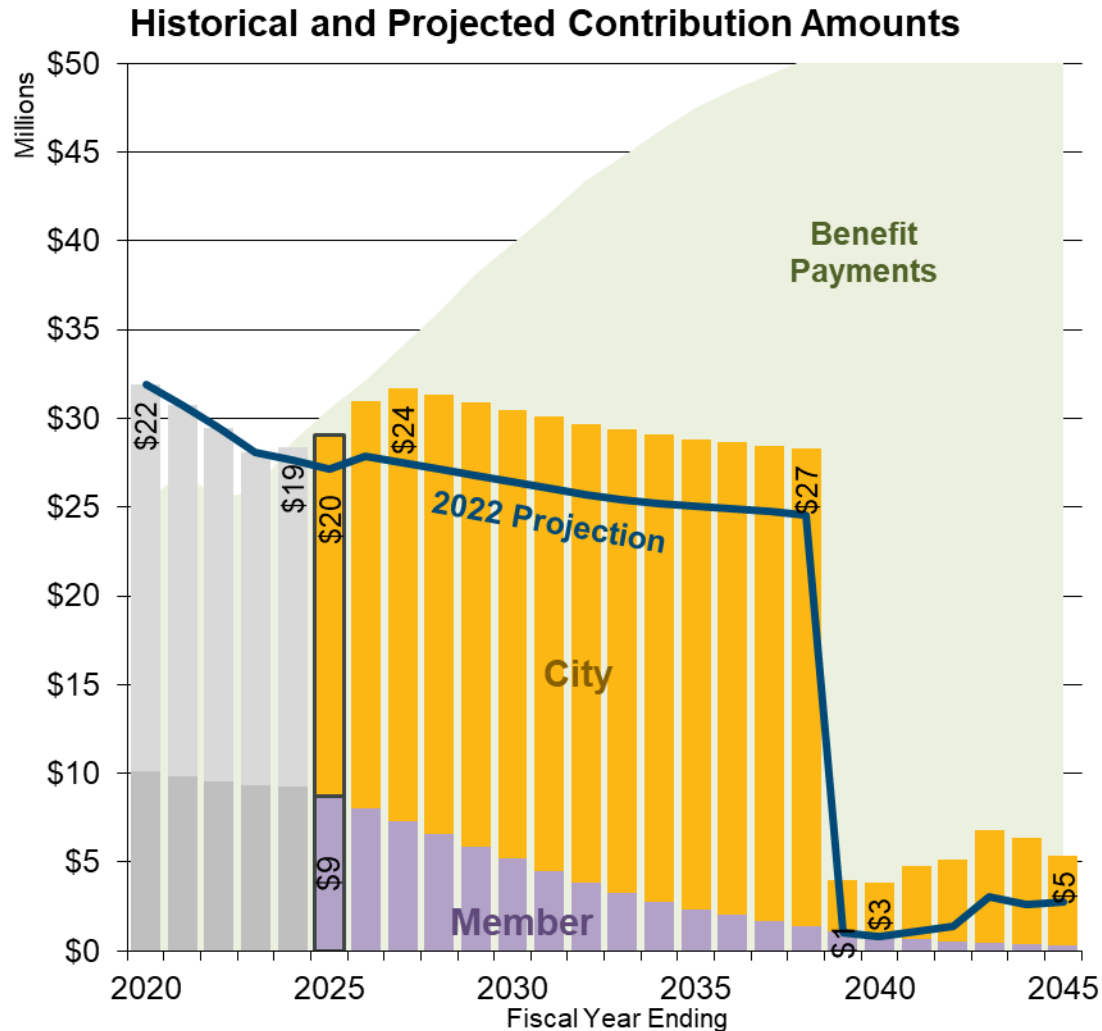
Amortization Schedule to Payoff UAL



- Amortization schedule established in 2017 when Measure F was implemented
- Last payment on 2017 UAL is scheduled for FYE 2038
 - Significant reduction in contribution expected for FYE 2039
- Amortization payments for changes in UAL since 2017 are phased in and out over three-year periods



Projected Contributions



- Member contributions are expected to decline as active membership eligible for full benefits declines
- City contributions are expected to increase to \$24 million for FYE 2027 and then gradually increase to \$27 for FYE 2038 before dropping significantly
- Benefit payments from the trust are expected to increase significantly, resulting in a growing net negative cash flow
 - Will need to manage liquidity
 - Will become extra sensitive to short-term investment returns



- The purpose of this presentation is to present the results of the June 30, 2023 Actuarial Valuation for the City of San José's Federated 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

B. Taylor Stevens, ASA, MAAA
Associate Actuary

Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary

John L. Colberg, FSA, EA, MAAA
Principal Consulting Actuary

Appendix – Contributions



Summary of Contribution Amounts

	FYE 2024	FYE 2025	% Change
Explicit Subsidy			
Members	\$ 8,578	\$ 8,683	1.2%
City's Actuarially Determined Contribution	19,095	20,352	6.6%
Estimated City Optional Cap	52,047	58,979	13.3%
Implicit Subsidy	\$ 5,973	\$ 6,830	14.3%

Dollar amounts in thousands

Five-Year Projection of City Contributions

FYE	Throughout Year	Beginning of Year*
2024	\$ 19,095	\$ 18,547
2025	20,352	19,767
2026	22,934	22,276
2027	24,416	23,715
2028	24,704	23,995
2029	25,000	24,283

* Assumes full discount

Dollar amounts in thousands