

San José Police and Fire Postemployment Healthcare Plan

Preliminary Actuarial Valuation Results June 30, 2025

December 4, 2025

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- Background
- Preliminary Valuation Results
 - Membership
 - Changes in UAL
 - Funded Status
 - Contributions

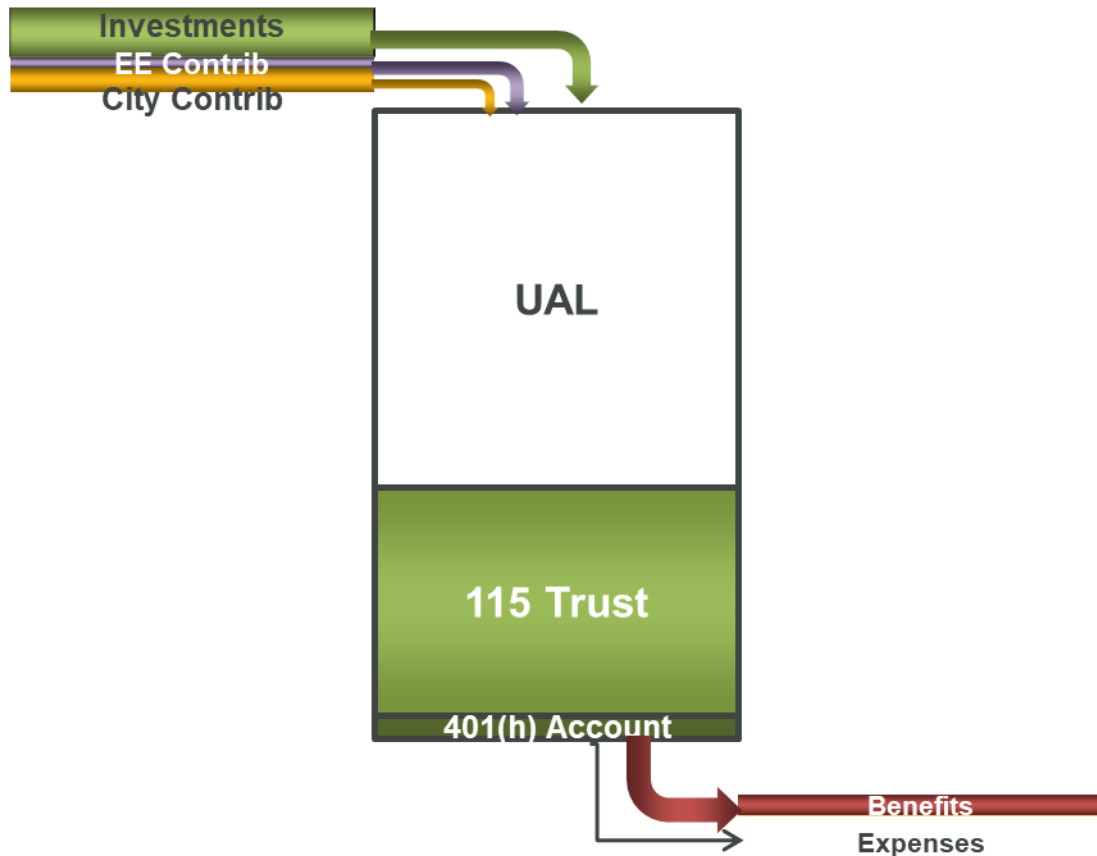


- October Meeting
 - The Board adopted the OPEB assumptions
 - The Board deferred the decision on the discount rate to this meeting
- Preliminary valuation results are provided assuming
 - 6.00% discount rate
 - 6.25% discount rate
- The Board needs to select the discount rate for us to finalize the valuation

A Dynamic System



Explicit Subsidy Funding



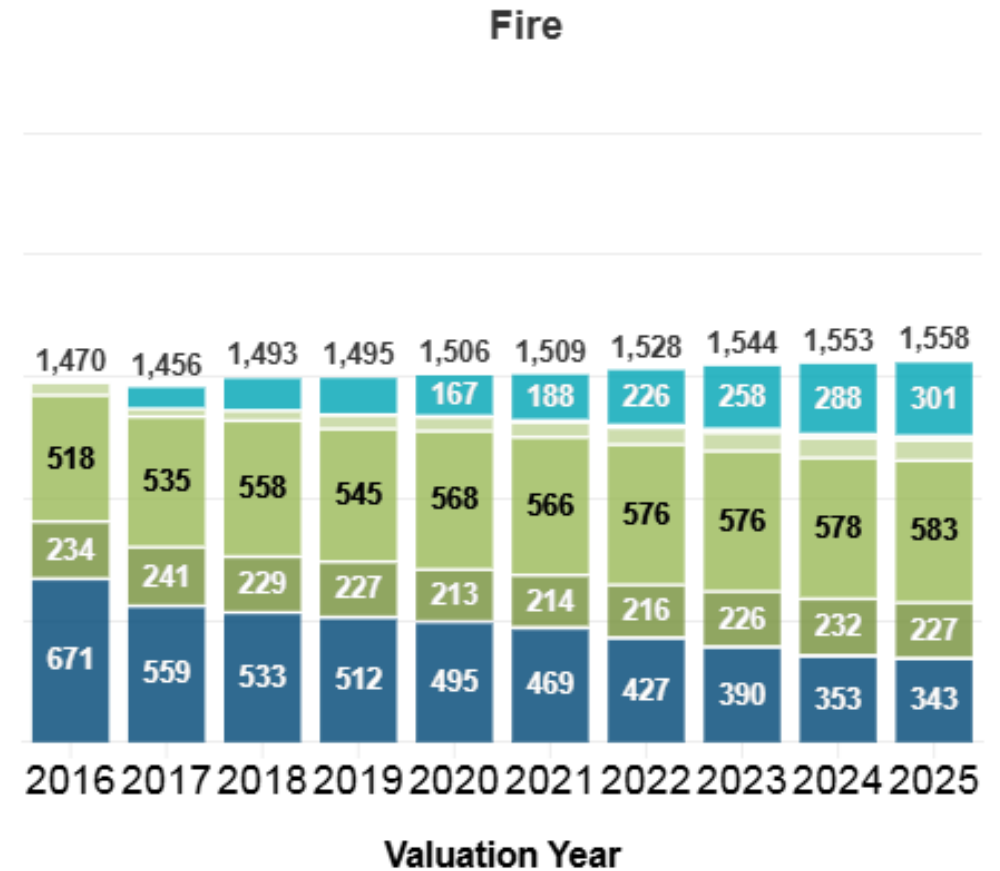
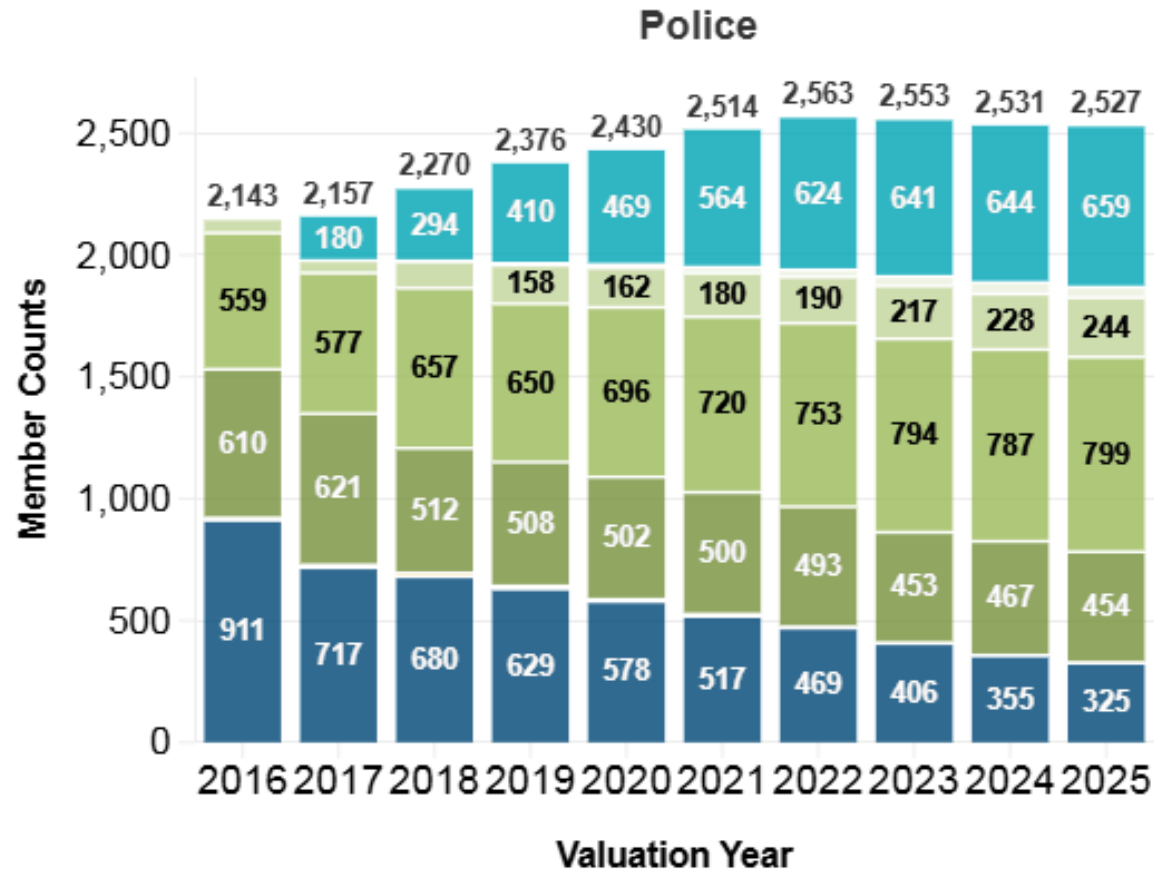
- Primary purpose of valuation is to set City contributions
 - 2025 valuation develops contributions for FYE 2027
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions
 - Plan provisions, actuarial methods, and discount rate
 - Member contributions are fixed

Membership Trends



Membership Trends

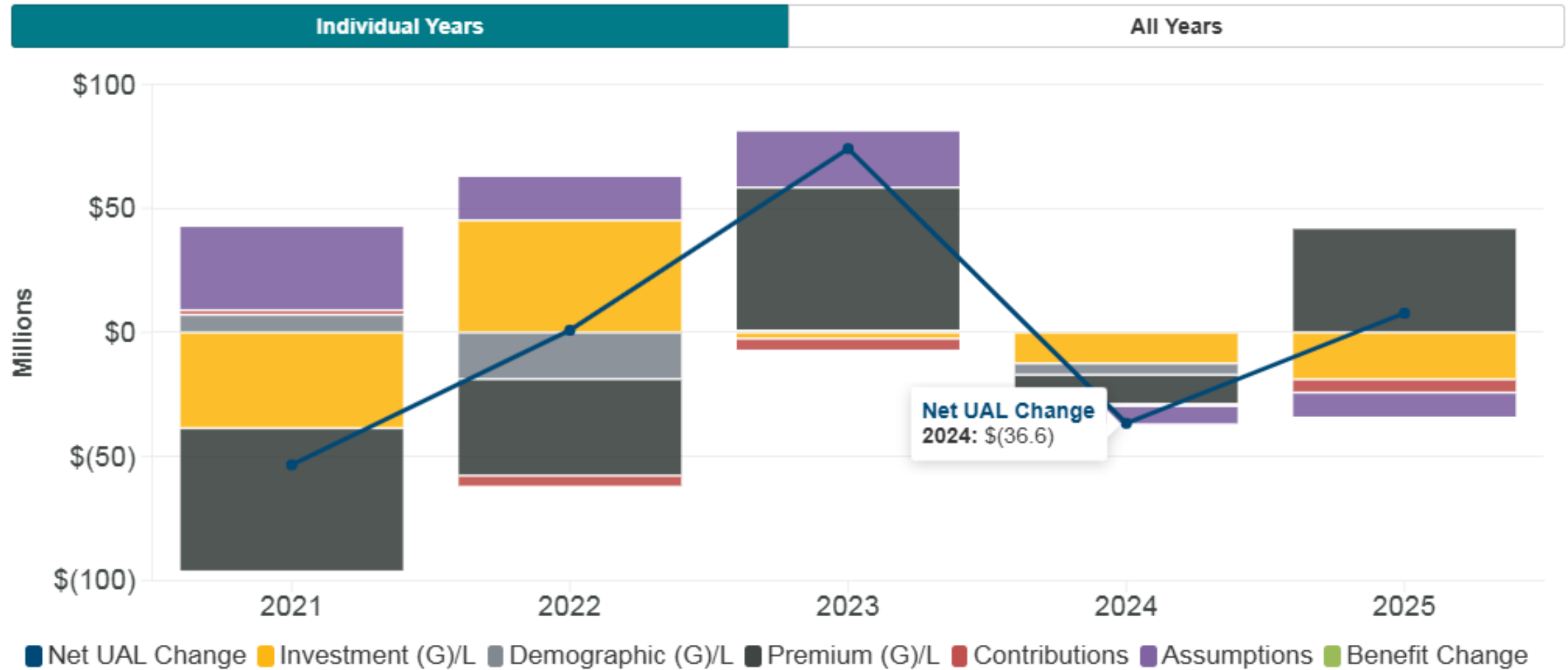
■ Full Active
 ■ Deferred Vested
 ■ Pre-Medicare
 ■ Medicare
 ■ Dental Only
 ■ In Lieu Only
 ■ Catastrophic



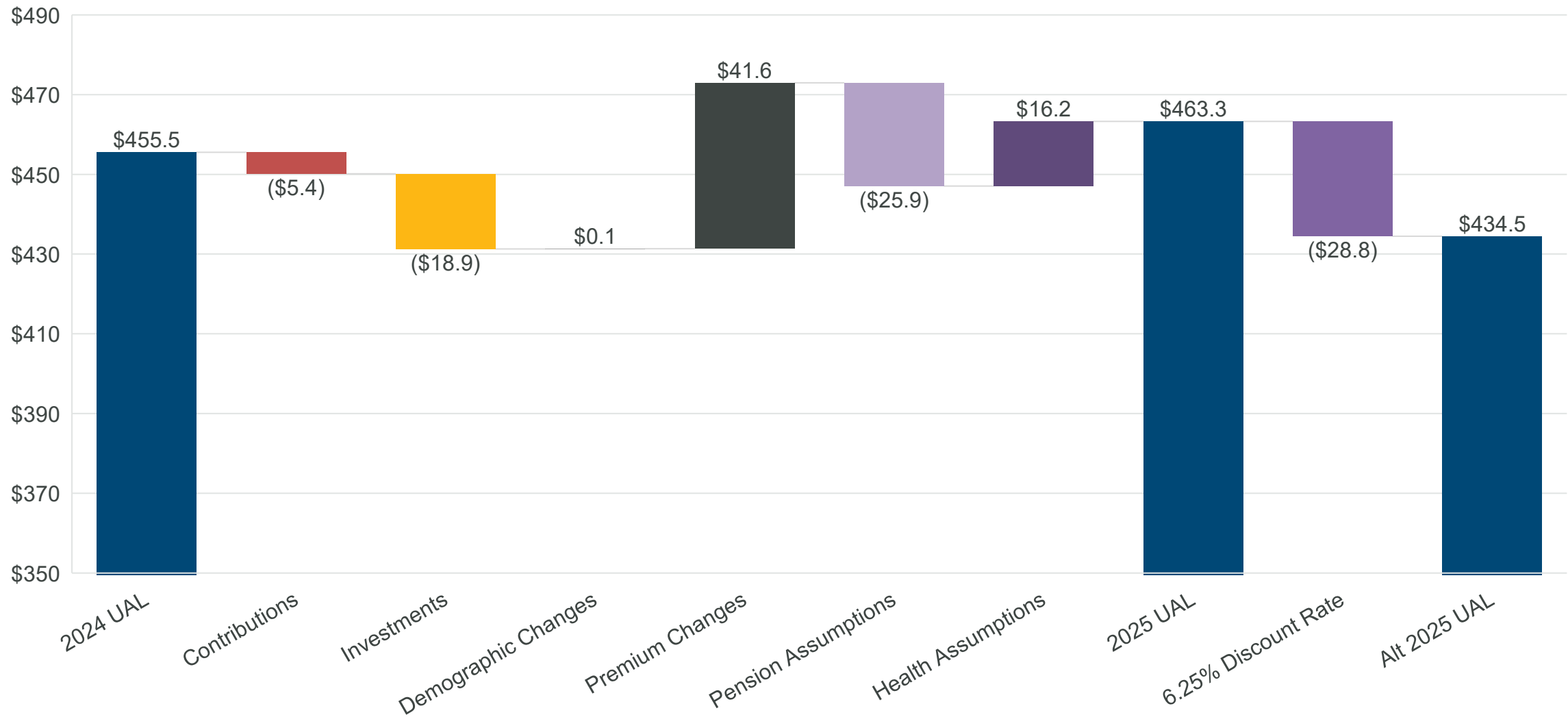
Historical Changes in UAL – Explicit Subsidy



Changes in UAL



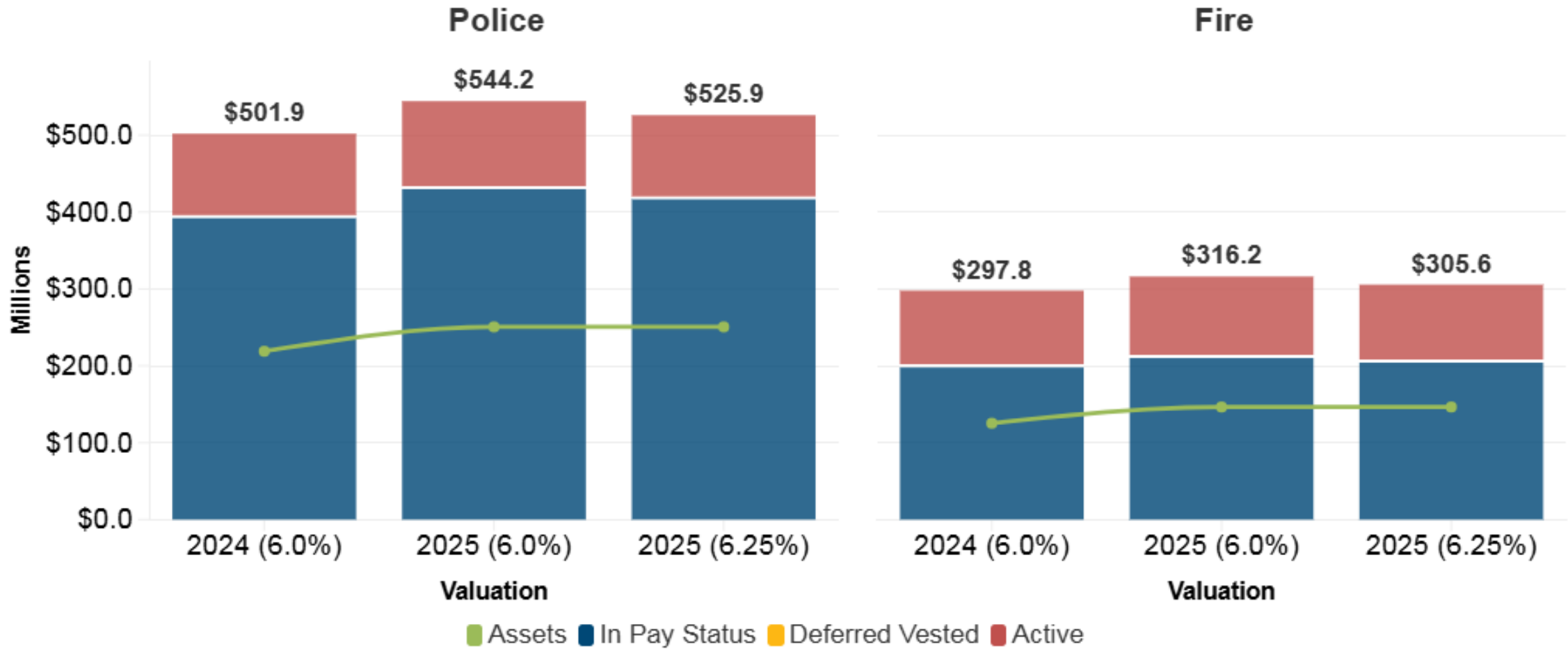
Changes in UAL – Explicit Subsidy Only



Preliminary Valuation Results – Explicit Subsidy



Funded Status



Funded Status at 6.00% and 6.25%



Unfunded Actuarial Liability - Explicit Subsidy Only						
	Police Department			Fire Department		
	2024	2025	2025	2024	2025	2025
Discount Rate	6.00%	6.00%	6.25%	6.00%	6.00%	6.25%
<u>Actuarial Liability</u>						
Actives	\$ 107,370	\$ 112,046	\$ 107,071	\$ 97,117	\$ 103,385	\$ 98,877
Deferred Vested	1,021	966	920	1,496	1,226	1,167
In Pay Status	393,489	431,196	417,934	199,231	211,547	205,585
Total	\$ 501,880	\$ 544,208	\$ 525,925	\$ 297,844	\$ 316,158	\$ 305,629
Assets	218,894	250,647	250,647	125,313	146,452	146,452
Unfunded Actuarial Liability	\$ 282,986	\$ 293,561	\$ 275,278	\$ 172,531	\$ 169,706	\$ 159,177
Funded Percentage	43.6%	46.1%	47.7%	42.1%	46.3%	47.9%

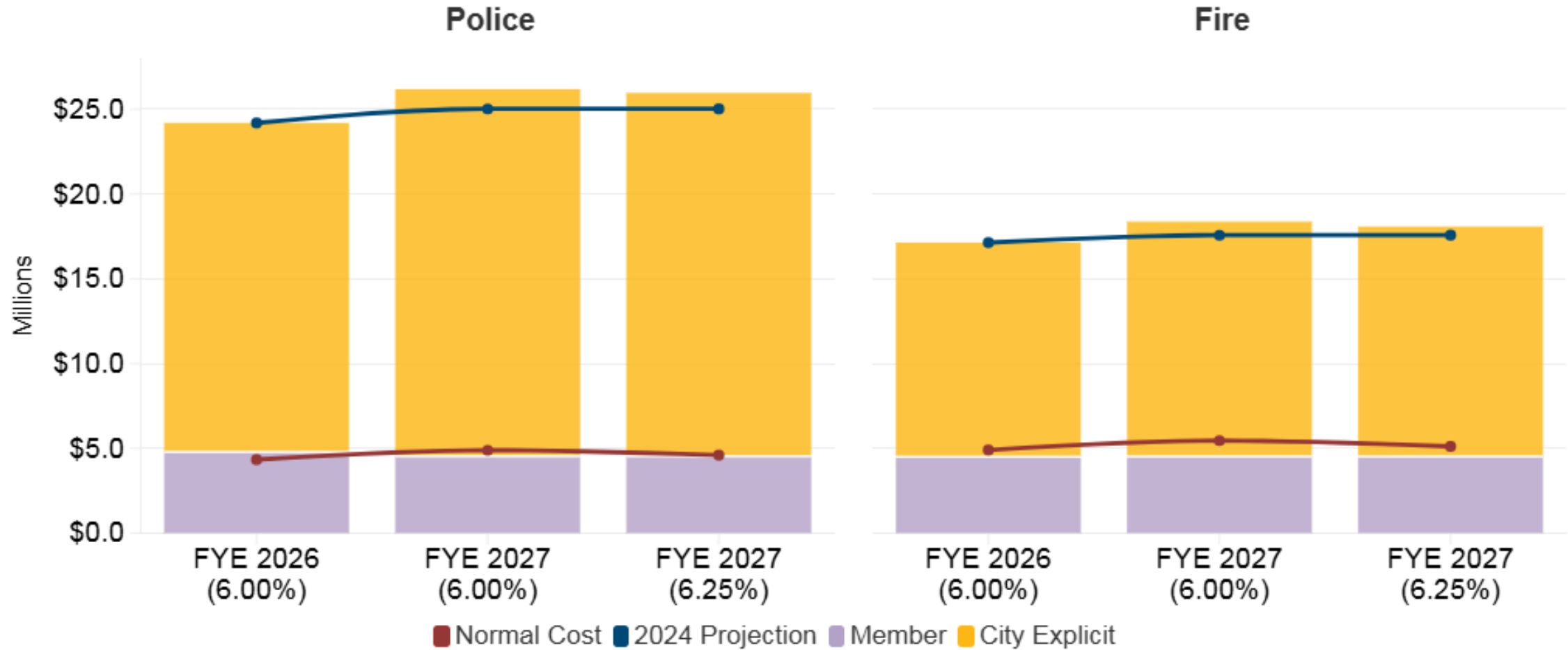
Dollar amounts in thousands

- Actuarial Liability increased more than expected due to higher-than-expected premium increases
- Assets increased due to contributions and investment returns
- The funded status for the explicit subsidy increased
 - Police: 43.6% → 46.1% at 6.00% or 47.7% at 6.25%
 - Fire: 42.1% → 46.3% at 6.00% or 47.9% at 6.25%

Preliminary Valuation Results – Explicit Subsidy



Preliminary Contributions



Impact of Potential Discount Rate Change



- Changing the discount rate from 6.00% to 6.25%
 - Reduces the Actuarial Liability for the explicit subsidy by \$29 million
 - Change is amortized over 25 years with a 3-year phase-in and out
 - Reduces City contributions for FYE 2027 by \$0.6 million
 - Contribution impact increases to \$1.8 million for FYE 2029 due to the 3-year phase-in

Impact on City Contributions If the Discount Rate is Increased from 6.00% to 6.25%			
FYE	Fire	Police	Total
2027	\$ (0.2)	\$ (0.4)	\$ (0.6)
2028	\$ (0.4)	\$ (0.8)	\$ (1.2)
2029	\$ (0.7)	\$ (1.1)	\$ (1.8)
2030	\$ (0.7)	\$ (1.2)	\$ (1.9)

Amounts in millions

Expected Return on Assets

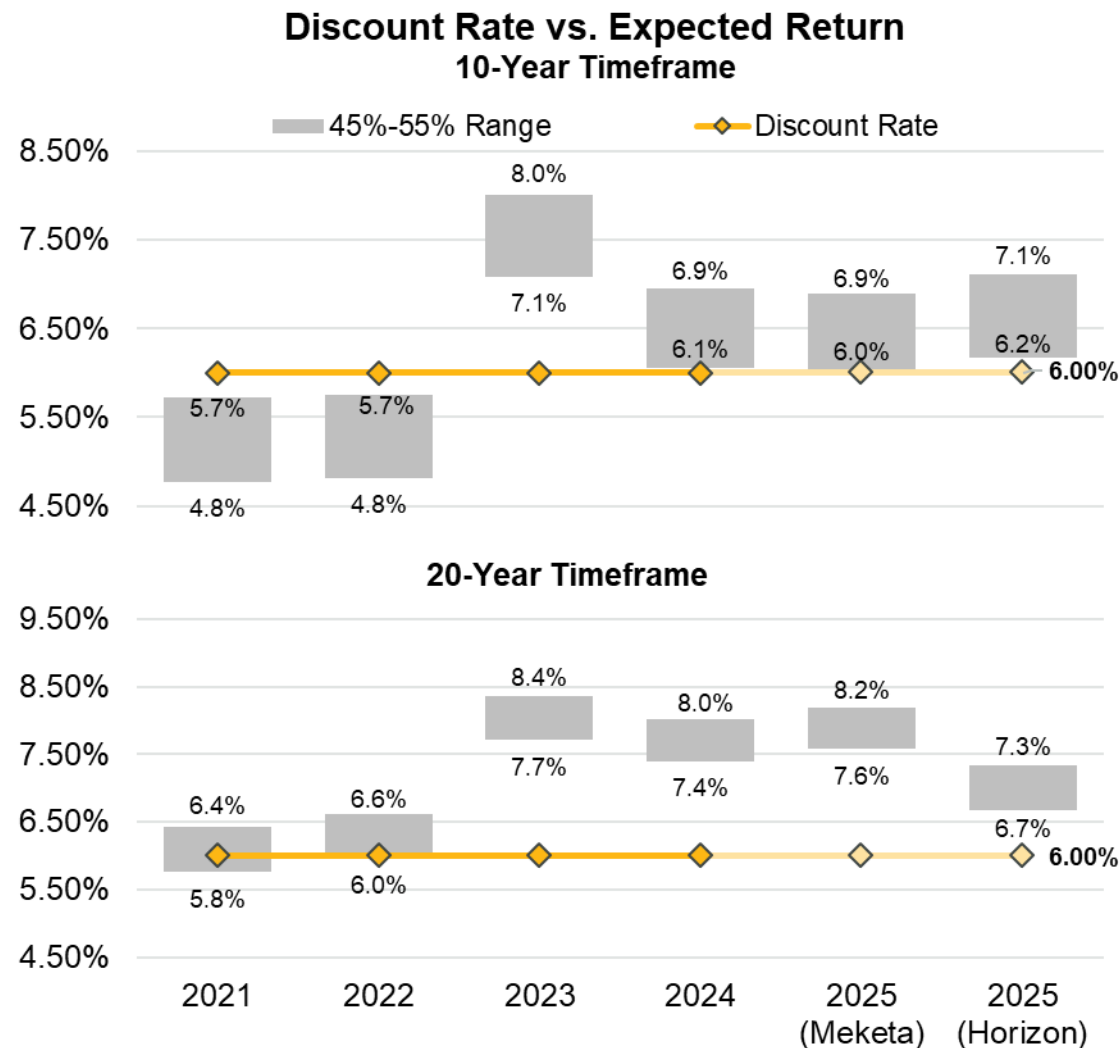


- Meketa provided forward-looking capital market assumptions for 2025
 - 10- and 20-year time horizons
- Horizon survey includes:
 - 10-year time horizon – 41 consultants
 - 20-year time horizon – 27 consultants
- Expectations remain higher than discount rate
 - Interest rates have been higher for the last three years
 - Fed is expected to continue reducing interest rate

Expected Distribution of Average Annual Passive Returns				
Percentile	10-Year Timeframe		20-Year Timeframe	
	Horizon Survey	Meketa	Horizon Survey	Meketa
95th	13.0%	12.3%	11.4%	12.0%
75th	9.2%	8.8%	8.8%	9.5%
60th	7.6%	7.3%	7.7%	8.5%
55th	7.1%	6.9%	7.3%	8.2%
50th	6.6%	6.5%	7.0%	7.9%
45th	6.2%	6.0%	6.7%	7.6%
40th	5.7%	5.6%	6.3%	7.3%
25th	4.2%	4.2%	5.2%	6.2%
5th	0.7%	0.9%	2.7%	3.9%

Cheiron calculations based on capital market assumptions from the Horizon survey and from Meketa

Expected Return on Assets



- Capital market assumptions fluctuate
 - Interest rates
 - Valuations (P/E ratios)
- Discount rate typically falls between 10- and 20-year expectations
 - 10 years ~ 40% of the present value of benefits
 - 20 years ~ 70% of the present value of benefits
- Current discount rate of 6.00% is conservative compared to the capital market assumptions since 2023
- Consider a discount rate between 6.00% and 6.25%



Maintain 6.00% Discount Rate

- Higher capital market assumptions may not last
- Current assumption is close to the target range on a 10-year horizon
- It can be painful to have to reduce the discount rate again
- It is okay for the discount rate to be lower than the expected return
- The OPEB plans are poorly funded

Increase the Discount Rate to 6.25%

- Capital market assumptions have been higher for 3 years
- 6.25% is still below the expected return on a 10-year horizon
- Not as painful to reduce the discount rate for the OPEB plan
 - Much smaller plan, so minor impact
 - Doesn't affect member contributions
- Very limited uses for surplus assets because the plan is closed



The purpose of this presentation is to show the preliminary results of the June 30, 2025 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.

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Appendix: Explicit Subsidy Contributions – 6%



Summary of Contribution Amounts Payments Throughout the Year						
	Police Department			Fire Department		
	2026	2027	% Change	2026	2027	% Change
Explicit Subsidy						
Members	\$ 4,783	\$ 4,531	-5.3%	\$ 4,500	\$ 4,516	0.4%
City's ADC	19,415	21,655	11.5%	12,638	13,856	9.6%

Dollar amounts in thousands

- Member contributions are generally declining as members eligible for full benefits retire
- City's explicit subsidy contribution increased by \$3.5 million
- In aggregate, City's explicit subsidy contribution is about \$1,204,000 lower than the City's optional contribution cap

Appendix: Explicit Subsidy Contributions – 6.25%



Summary of Contribution Amounts Payments Throughout the Year						
	Police Department			Fire Department		
	2026	2027	% Change	2026	2027	% Change
Explicit Subsidy						
Members	\$ 4,783	\$ 4,531	-5.3%	\$ 4,500	\$ 4,516	0.4%
City's ADC	19,415	21,435	10.4%	12,638	13,566	7.3%

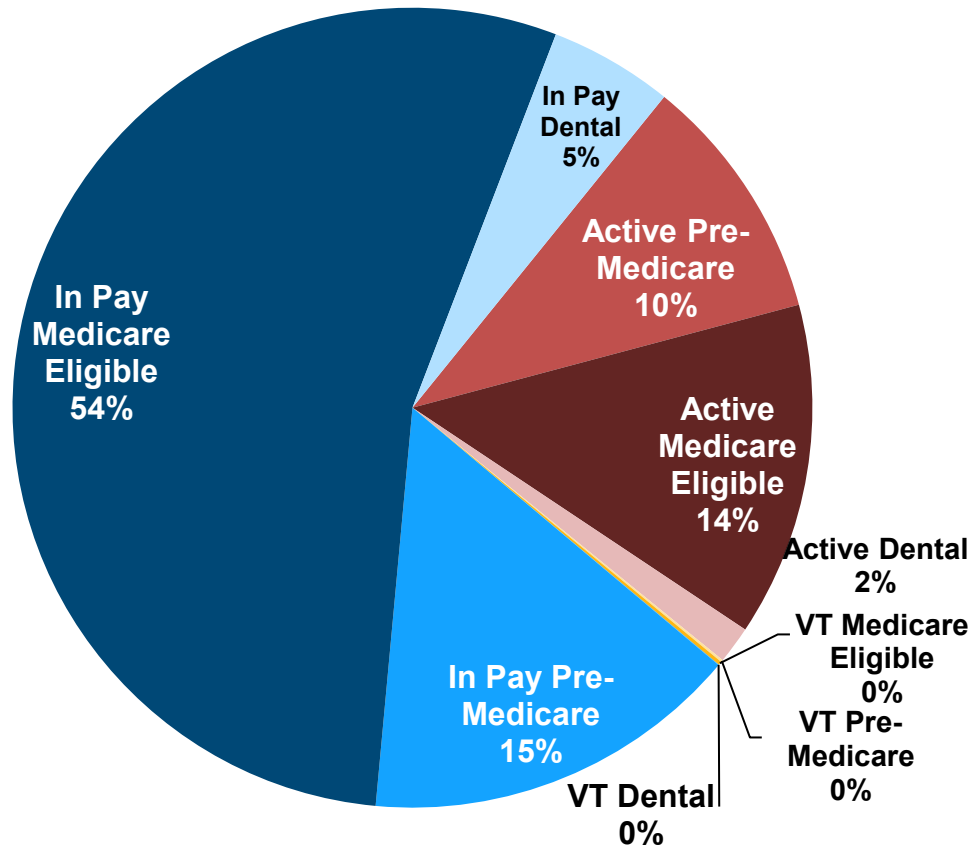
Dollar amounts in thousands

- Member contributions are generally declining as members eligible for full benefits retire
- City's explicit subsidy contribution increased by \$2.9 million
- In aggregate, City's explicit subsidy contribution is about \$694,000 lower than the City's optional contribution cap

Appendix: Actuarial Liability – 6.00% Discount Rate



Actuarial Liability



- Liability Breakdown

- 74% currently in pay status
- 68% medical benefits after eligibility for Medicare
- 25% medical benefits prior to eligibility for Medicare
- 7% dental benefits