

San José Police and Fire Postemployment Healthcare Plan

4c(2)



Final Actuarial Valuation Results June 30, 2024

February 6, 2024

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Jacqui King, FSA, EA, MAAA

Agenda



Schedule

Summary of Valuation Results

Changes in UAL

Membership Trends

Baseline Projections

Appendix



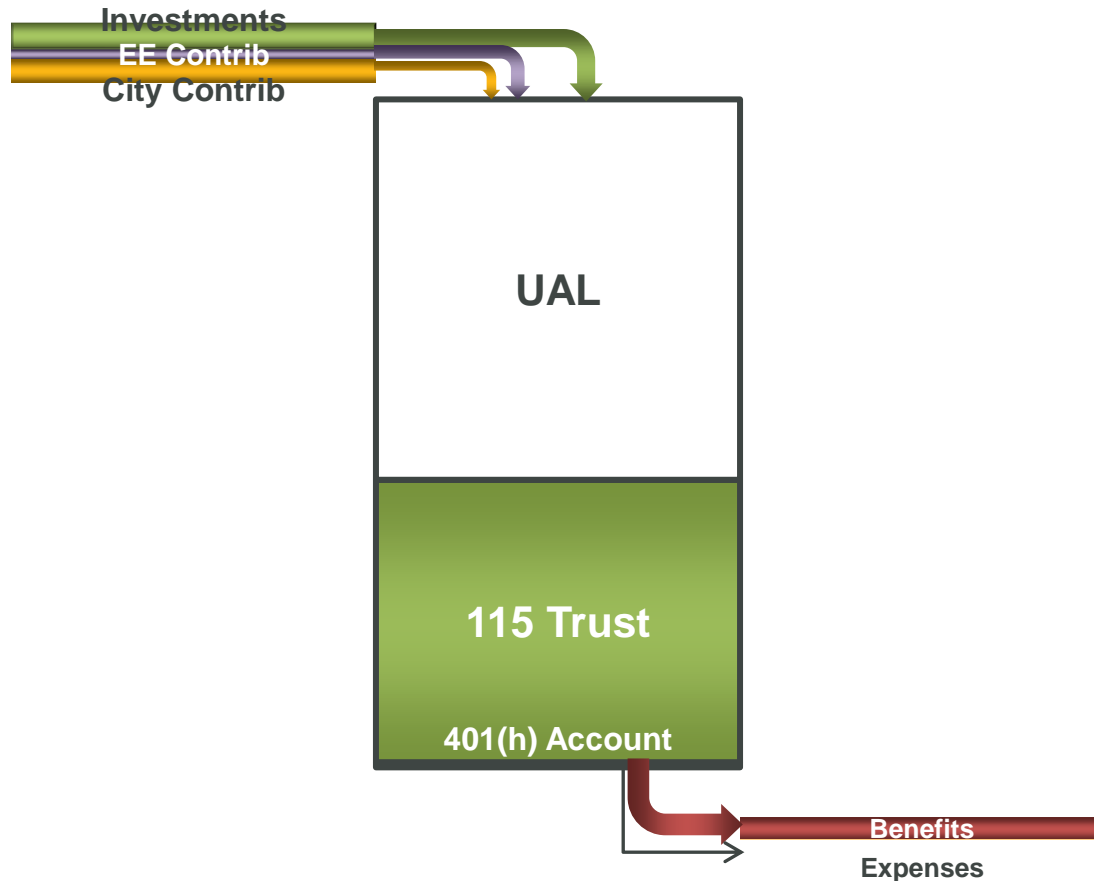
- October Board Meeting
 - ASOP 4 Changes
 - Pension Economic Assumption Review
- November Board Meeting
 - Preliminary Pension Valuation Results
 - Demographic Experience Study
 - Board Decisions on Pension Assumptions and Methods
 - OPEB Assumptions Review
- December Board Meeting
 - Final Pension Valuation Presentation
 - Final Pension Valuation Report
 - Preliminary OPEB Valuation Results
- January Board Meeting
 - No Presentation
- **February Board Meeting**
 - **Final OPEB Valuation Presentation**
 - **Final OPEB Valuation Report**
 - **5-Year City Contribution Projections**

Final Results





Explicit Subsidy Funding

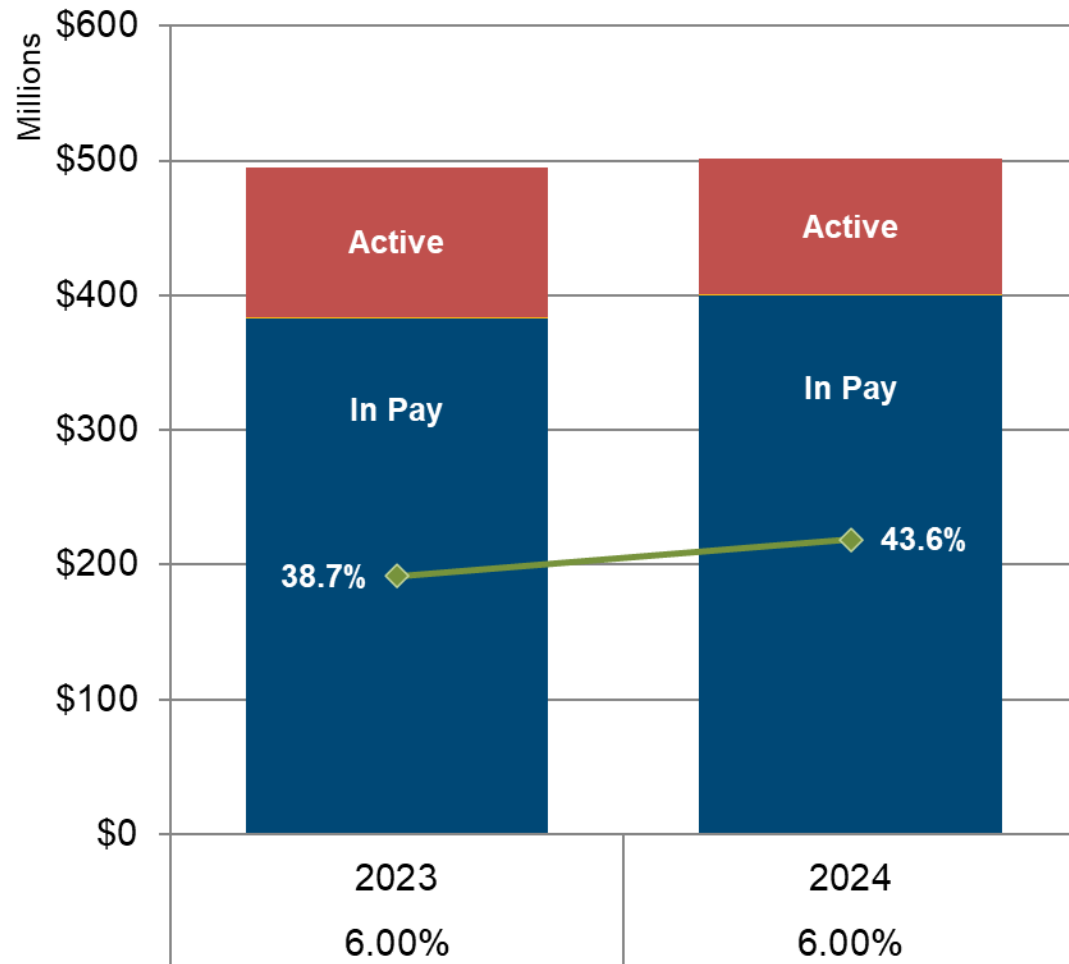


- Primary purpose of valuation is to set City contributions
 - 2024 valuation develops contributions for FYE 2026
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions
 - Plan provisions, actuarial methods, and discount rate
 - Member contributions are fixed at 8.0% of pay
 - Implicit subsidy is paid through active member health premiums

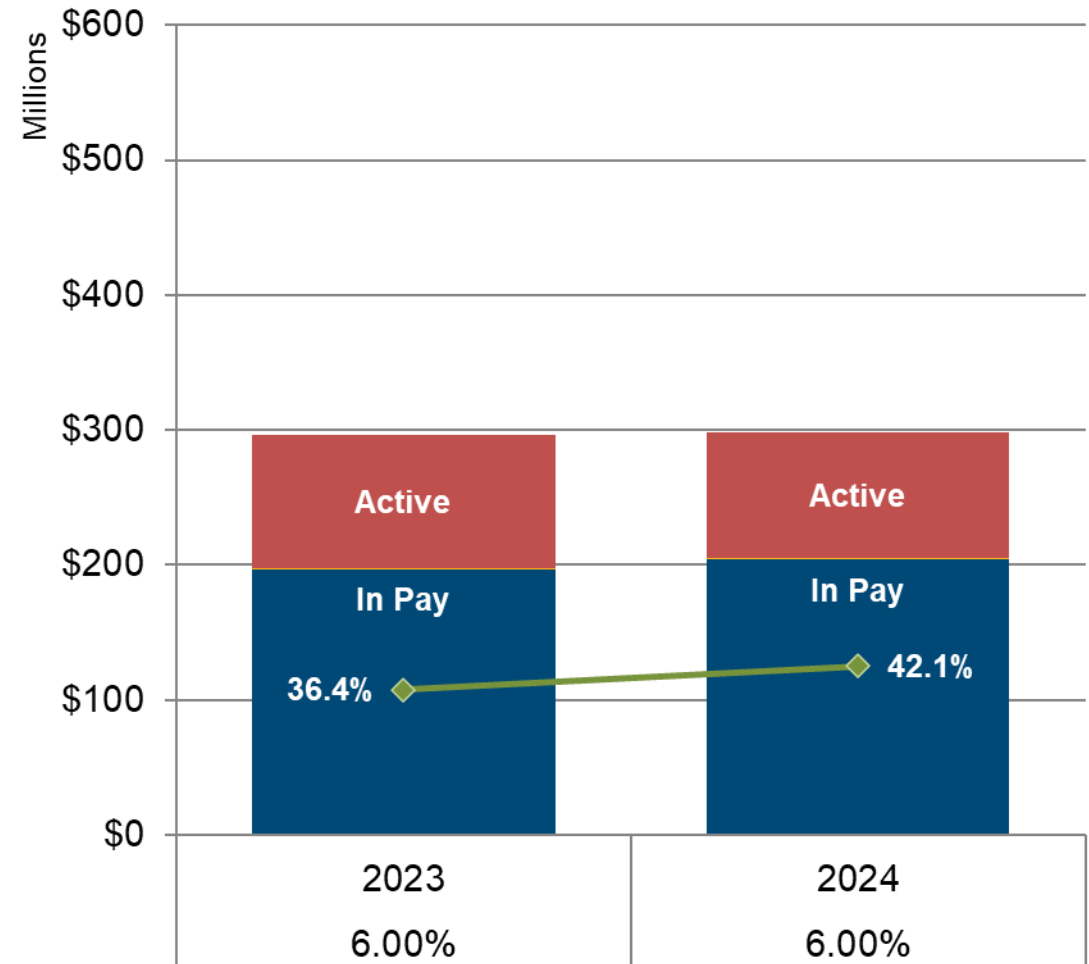
Final Valuation Results – Explicit Subsidy



Police Explicit Subsidy Funded Status



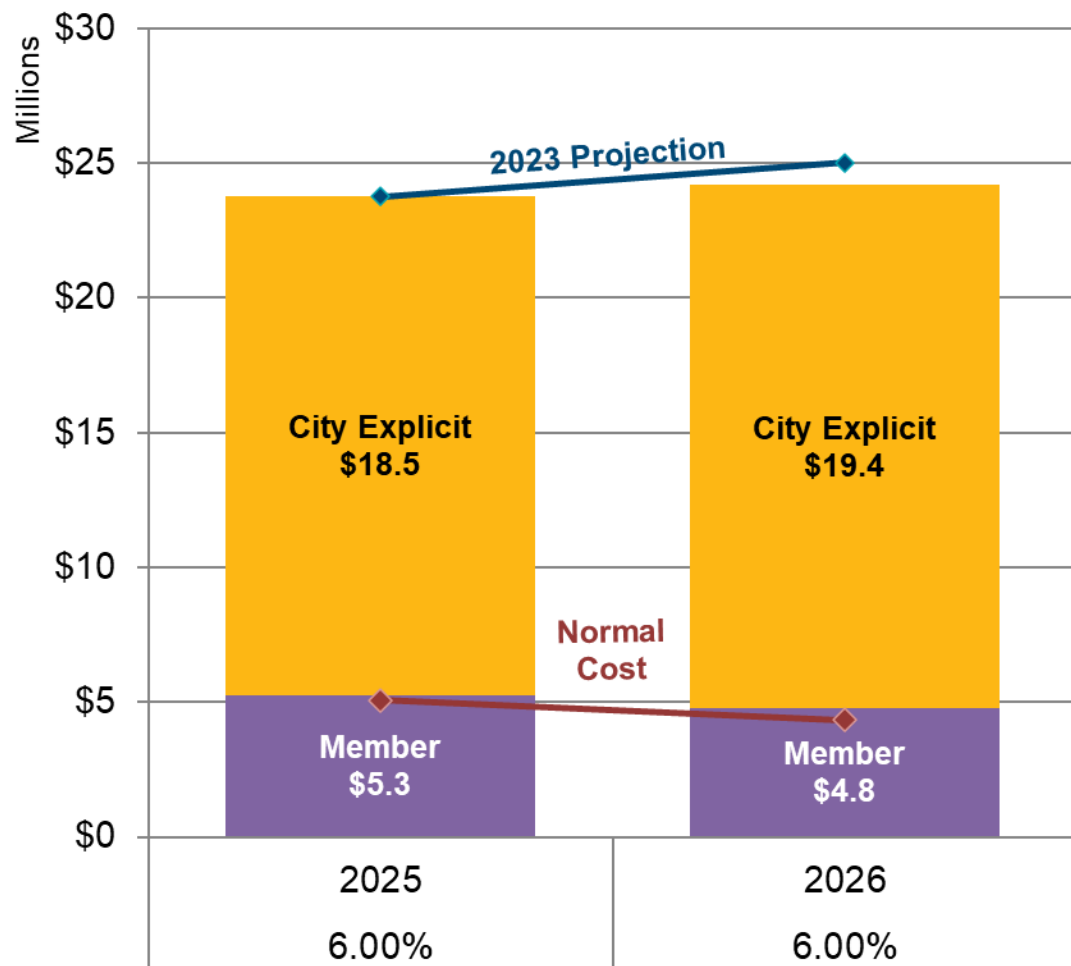
Fire Explicit Subsidy Funded Status



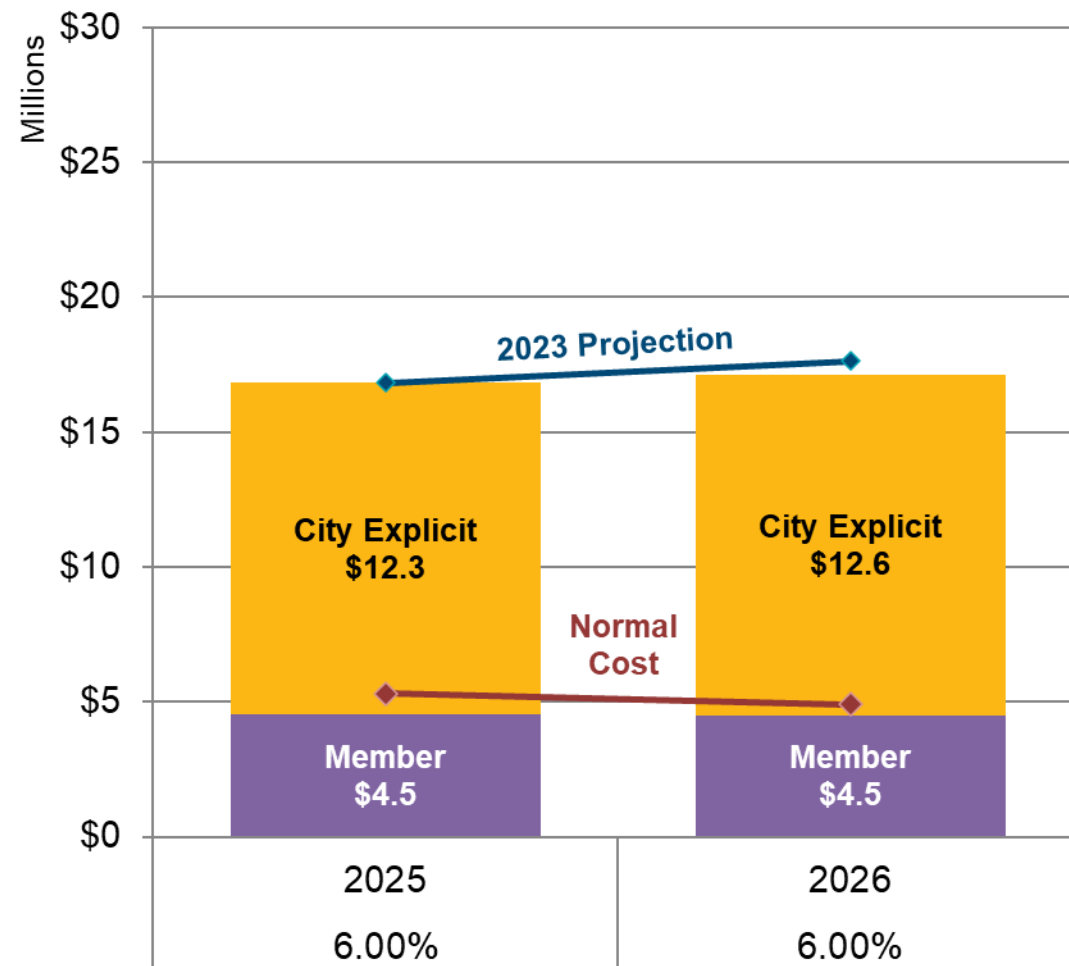
Final Valuation Results – Explicit Subsidy



Police Contributions



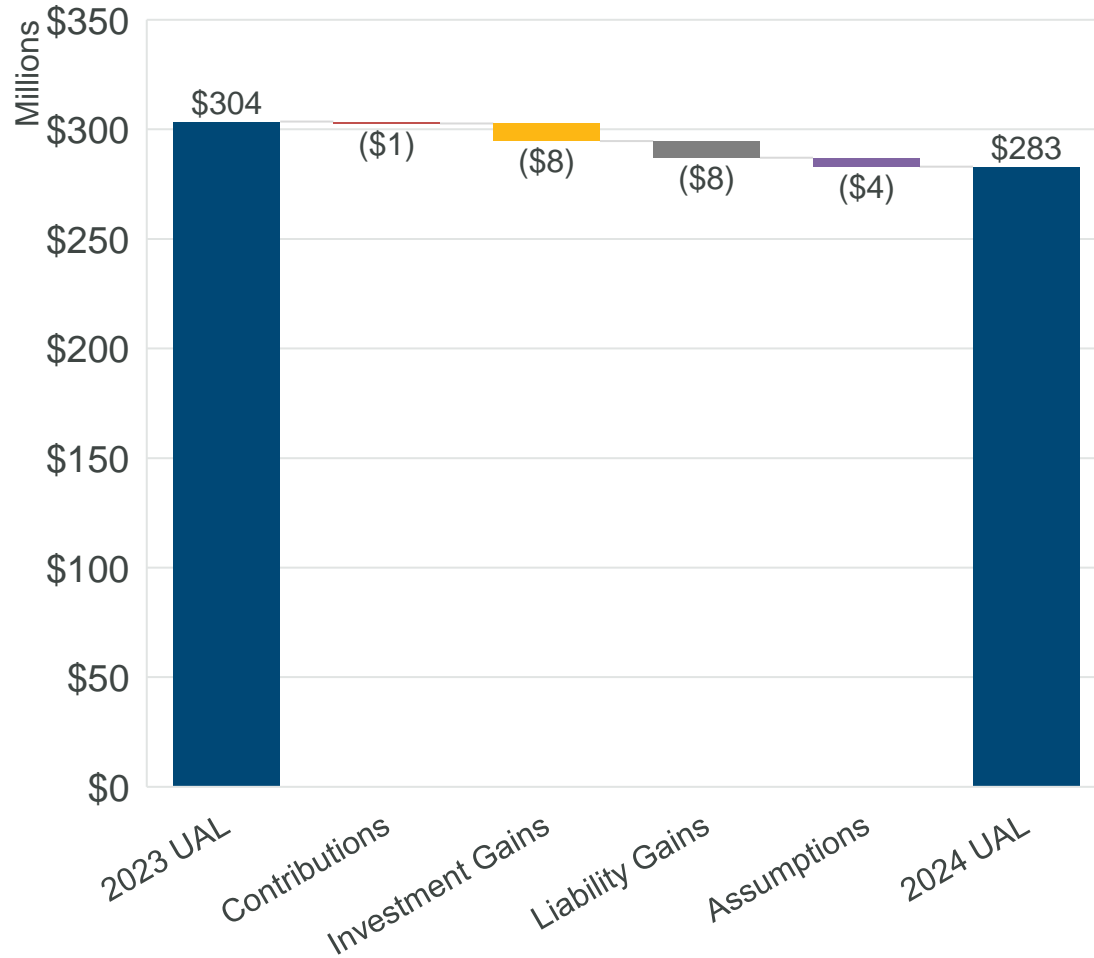
Fire Contributions



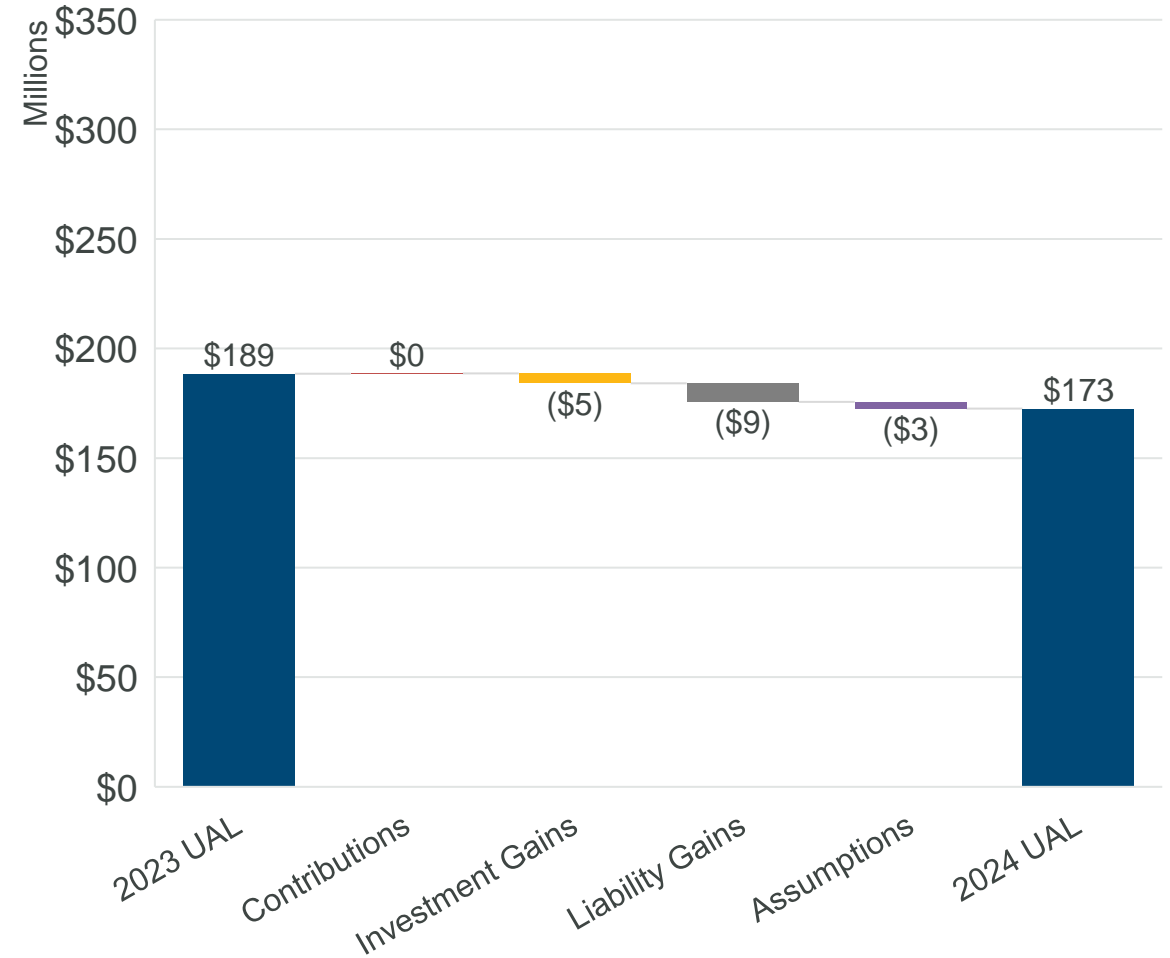
Changes in UAL – Explicit Subsidy



Change in Police Explicit Subsidy UAL



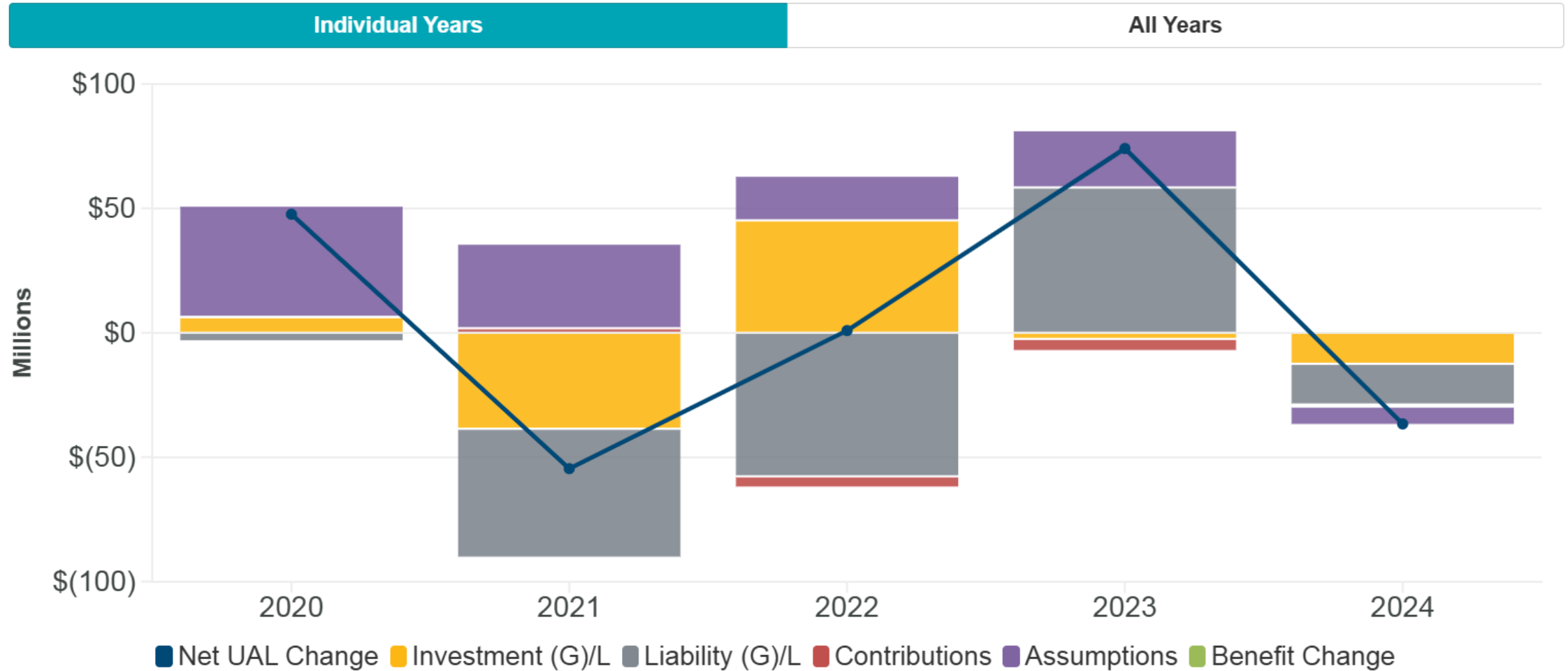
Change in Fire Explicit Subsidy UAL



Historical Changes in UAL – Explicit Subsidy



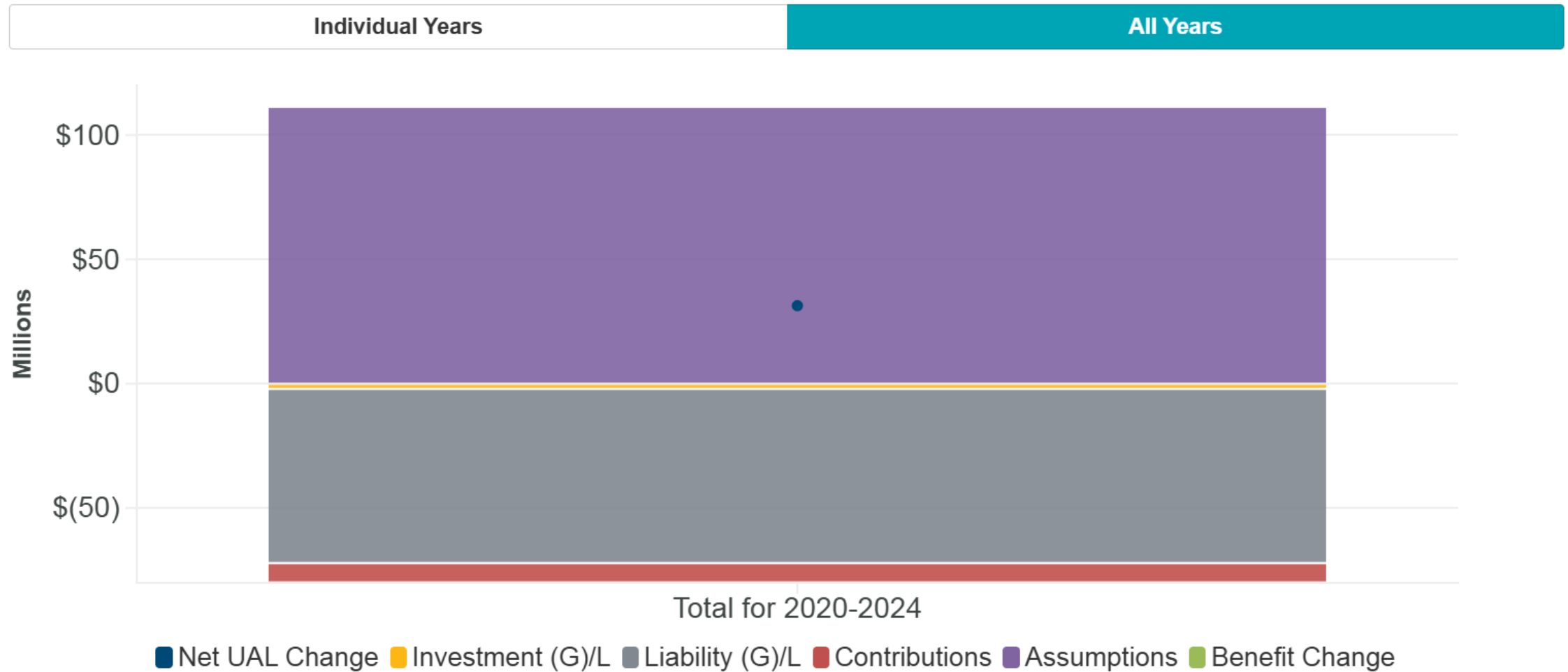
Changes in UAL



Historical Changes in UAL – Explicit Subsidy



Changes in UAL

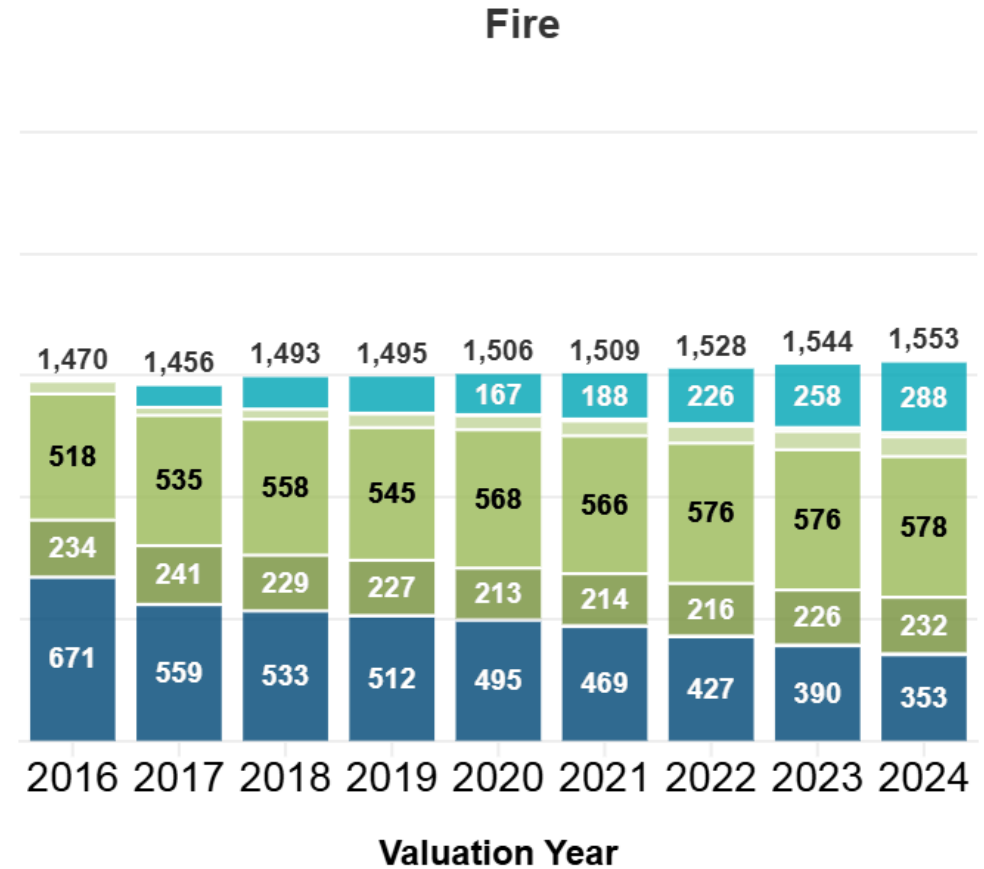
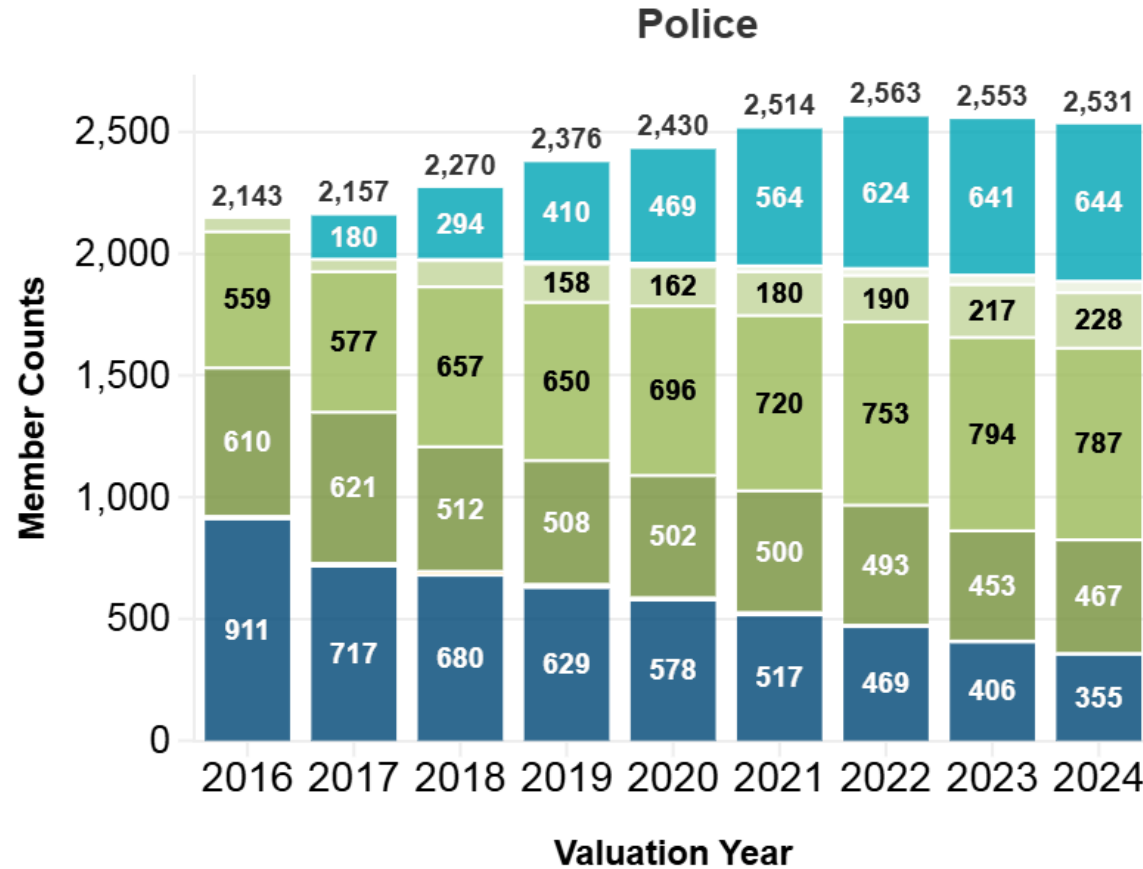


Membership Trends



Membership Trends

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

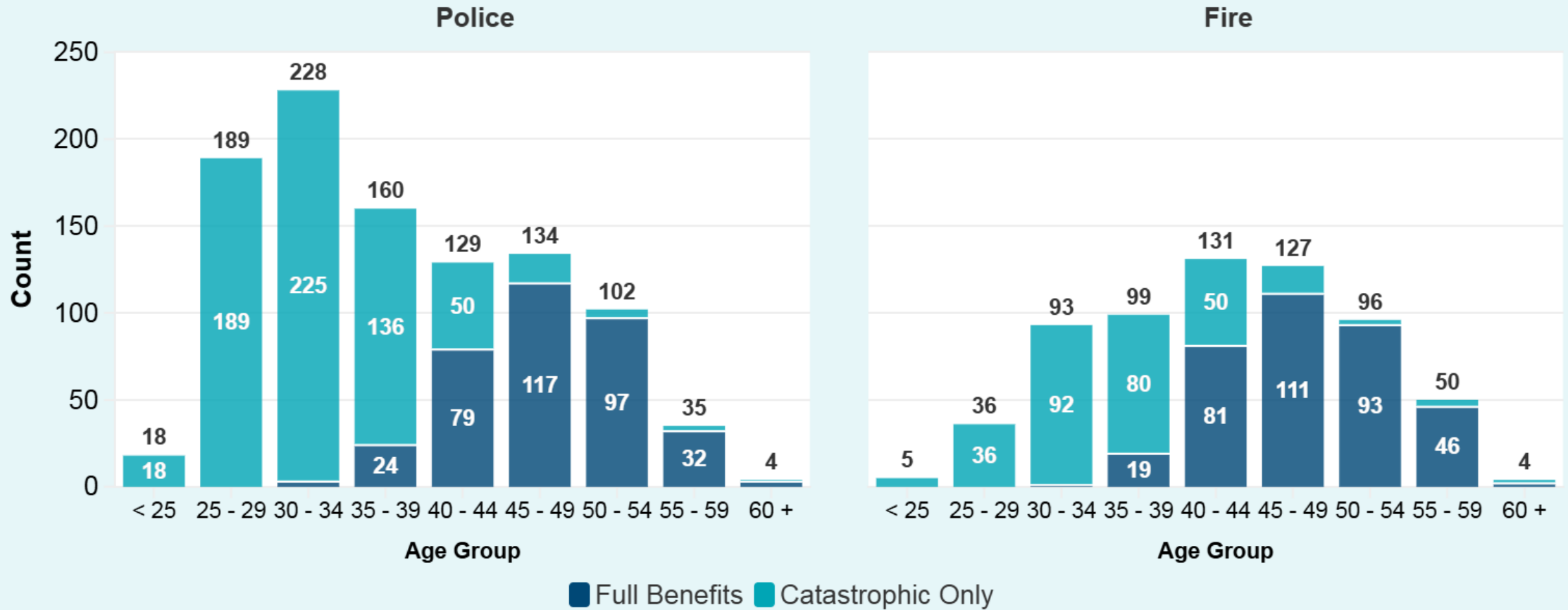


Active Member Distributions



Active Count Distribution

Valuation Year ▶ ● 2024

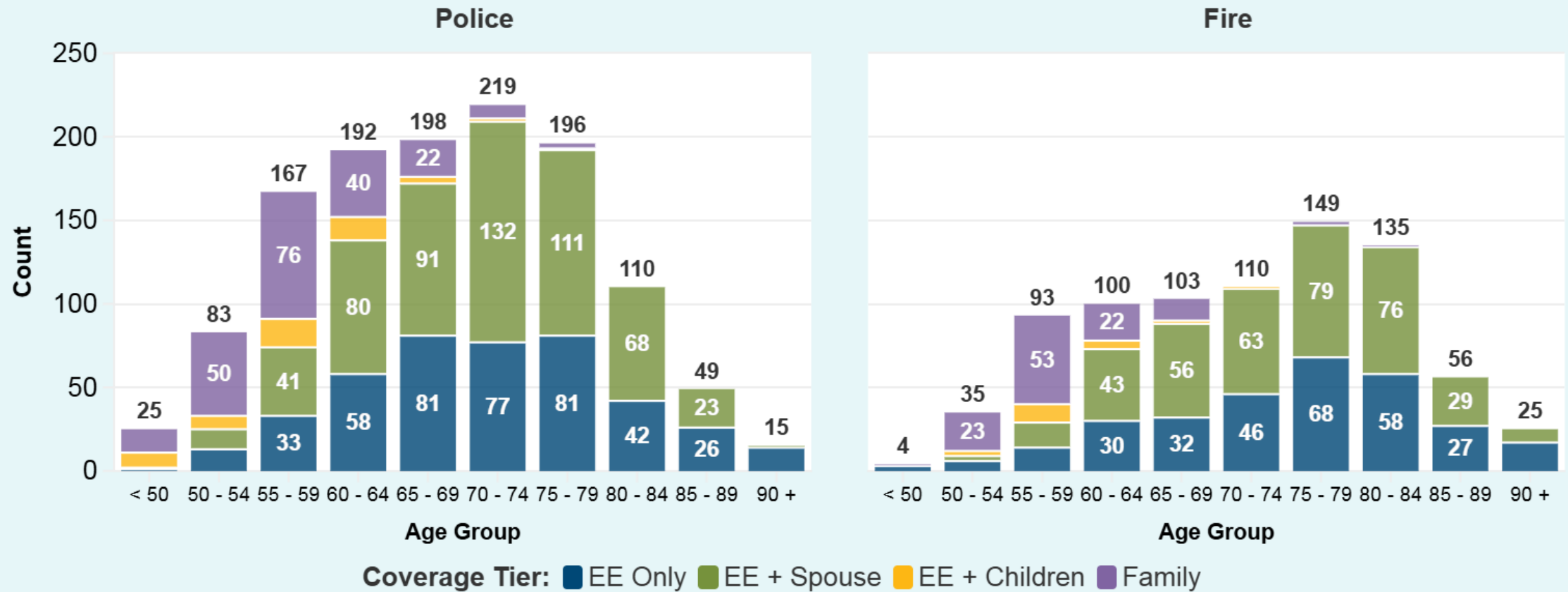


Retired Member Distributions



Retiree Count Distribution

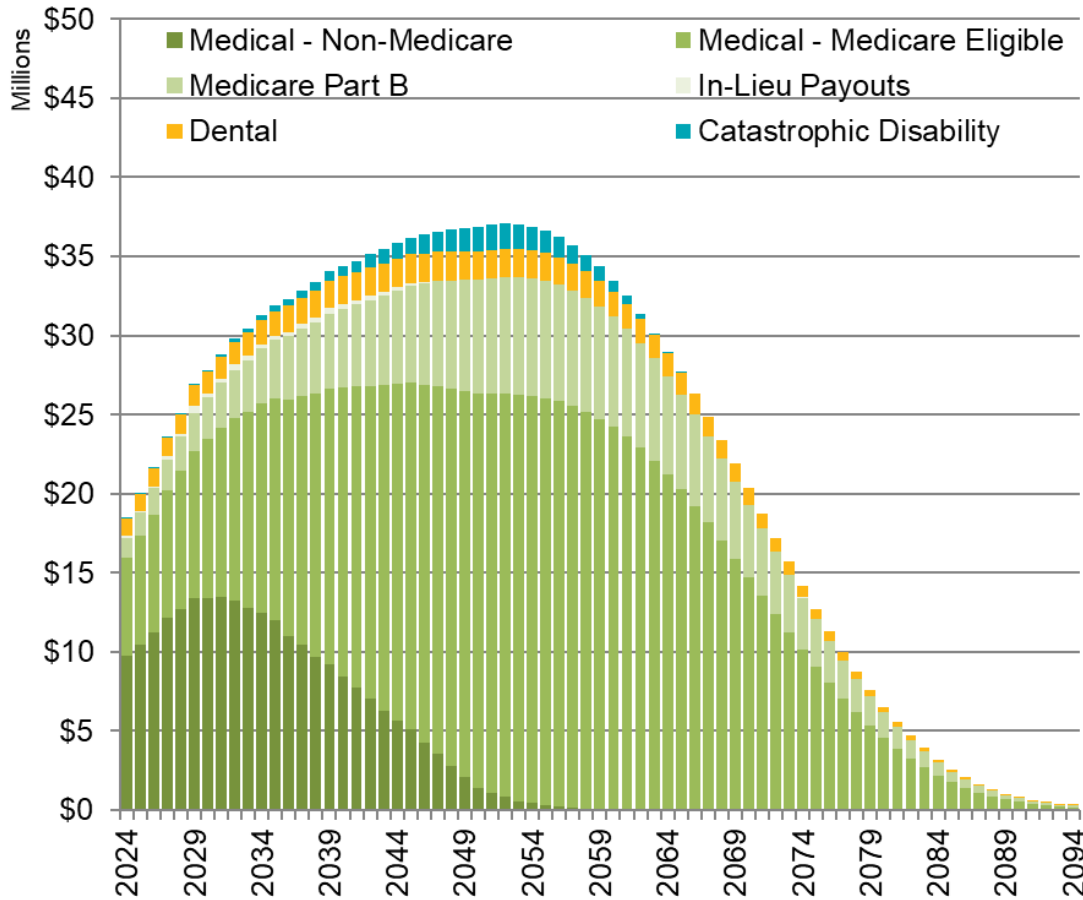
Valuation Year ▶● 2024



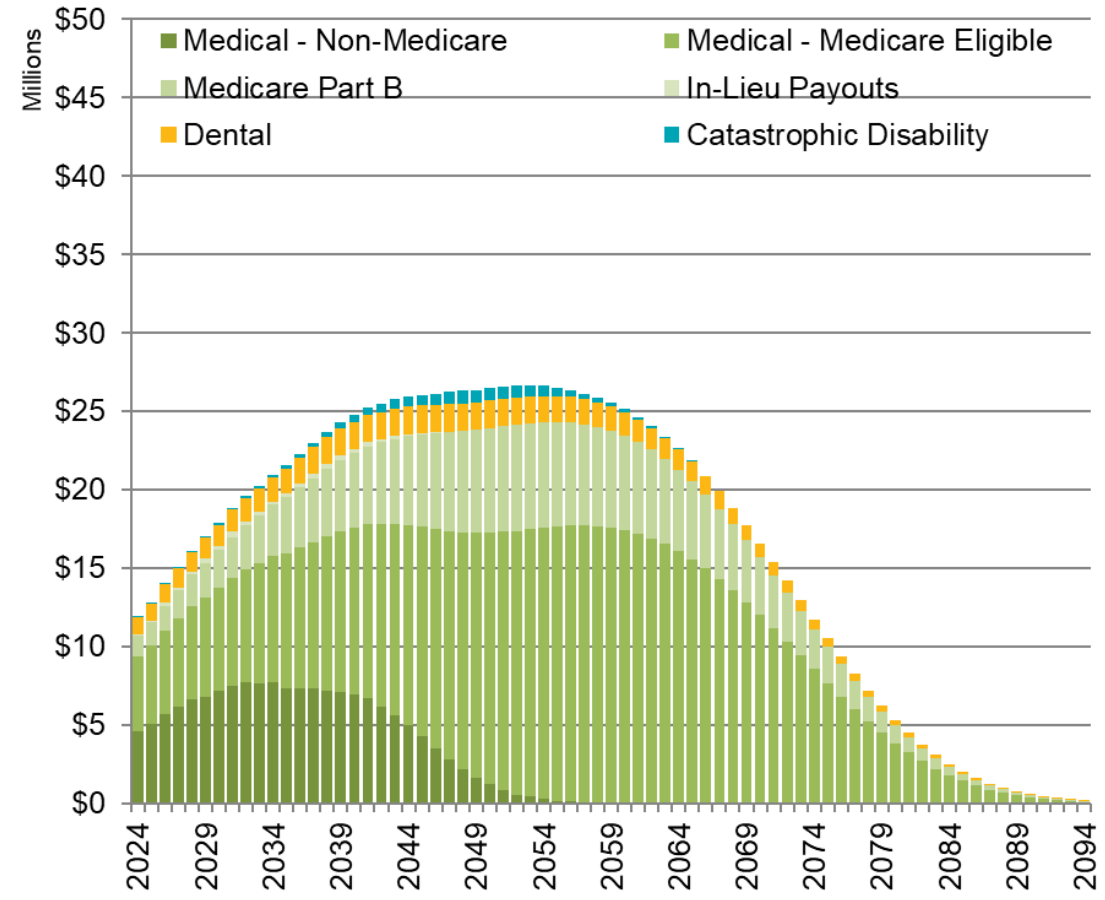
Projected Benefit Payments (Closed Group)



Projected Explicit Subsidy Payments - Police



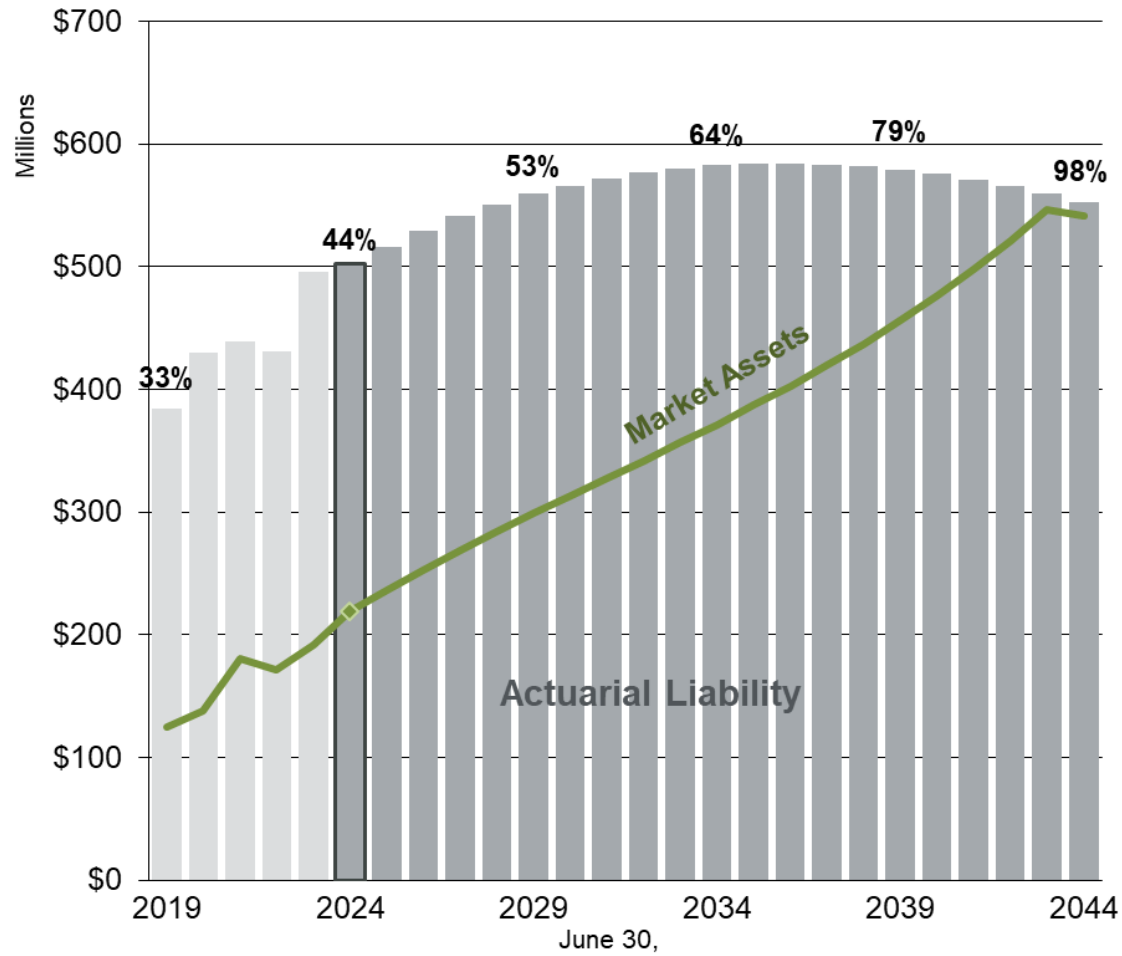
Projected Explicit Subsidy Payments - Fire



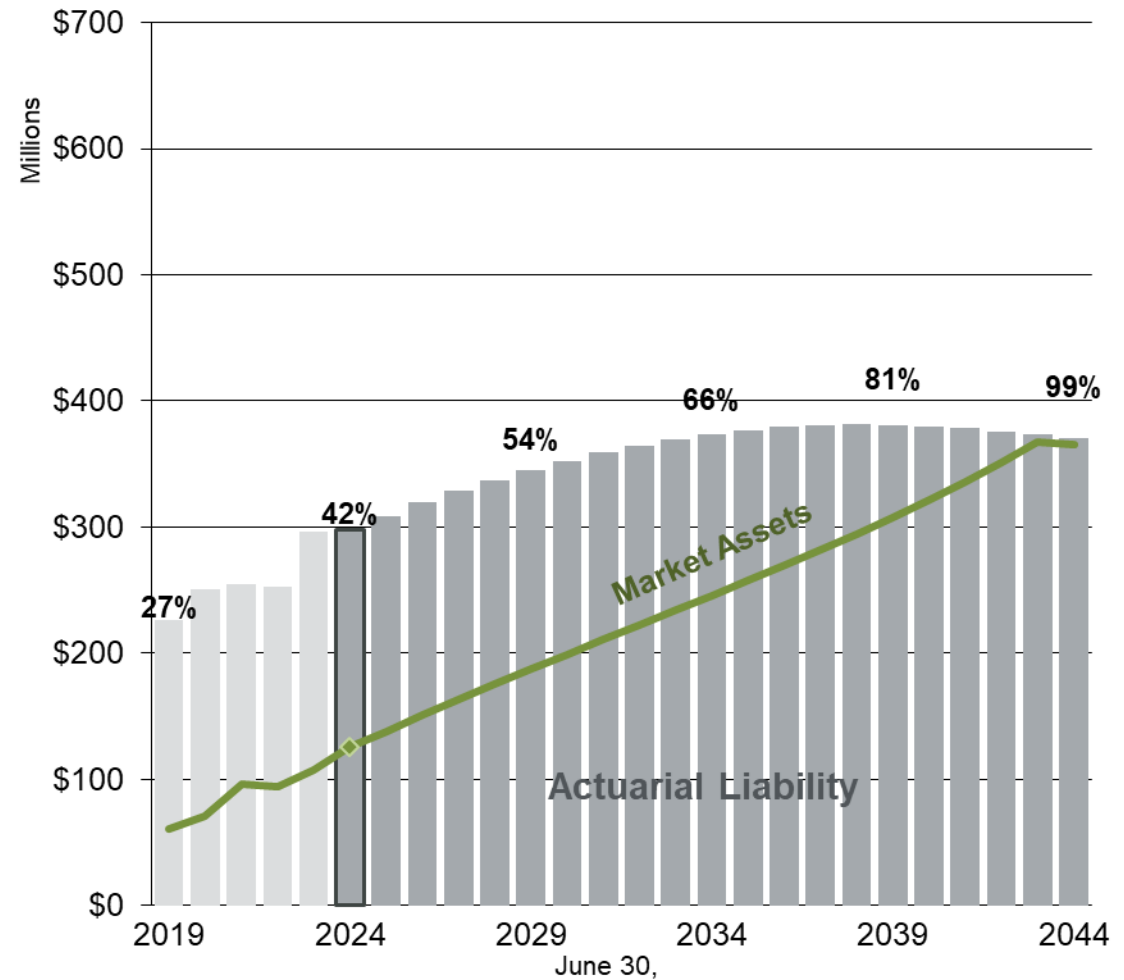
Projected Assets and Liabilities



Police Assets and Liabilities



Fire Assets and Liabilities

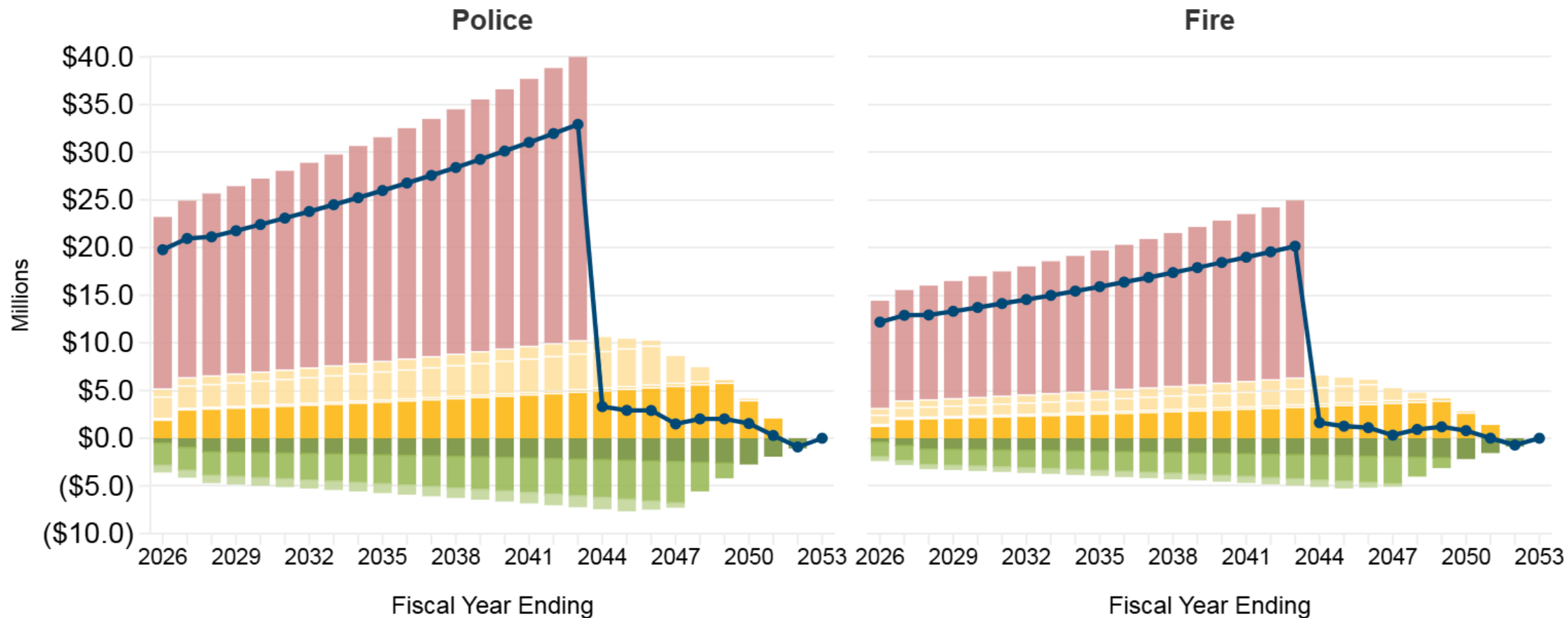


UAL Amortization Schedule



2024 Amortization Payment Layers

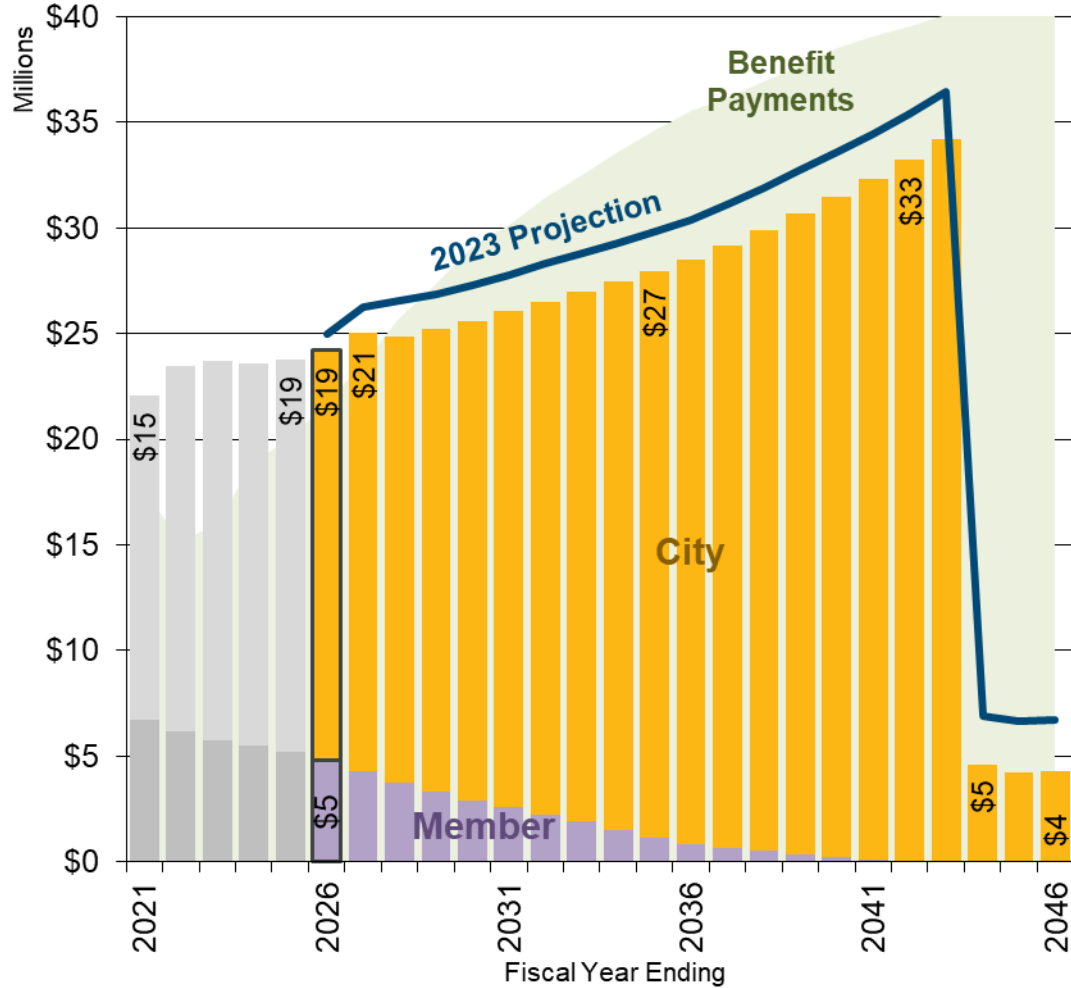
■ Net Payment
 ■ 2024
 ■ 2023
 ■ 2022
 ■ 2021
 ■ 2020
 ■ 2019
 ■ 2018
 ■ 2017



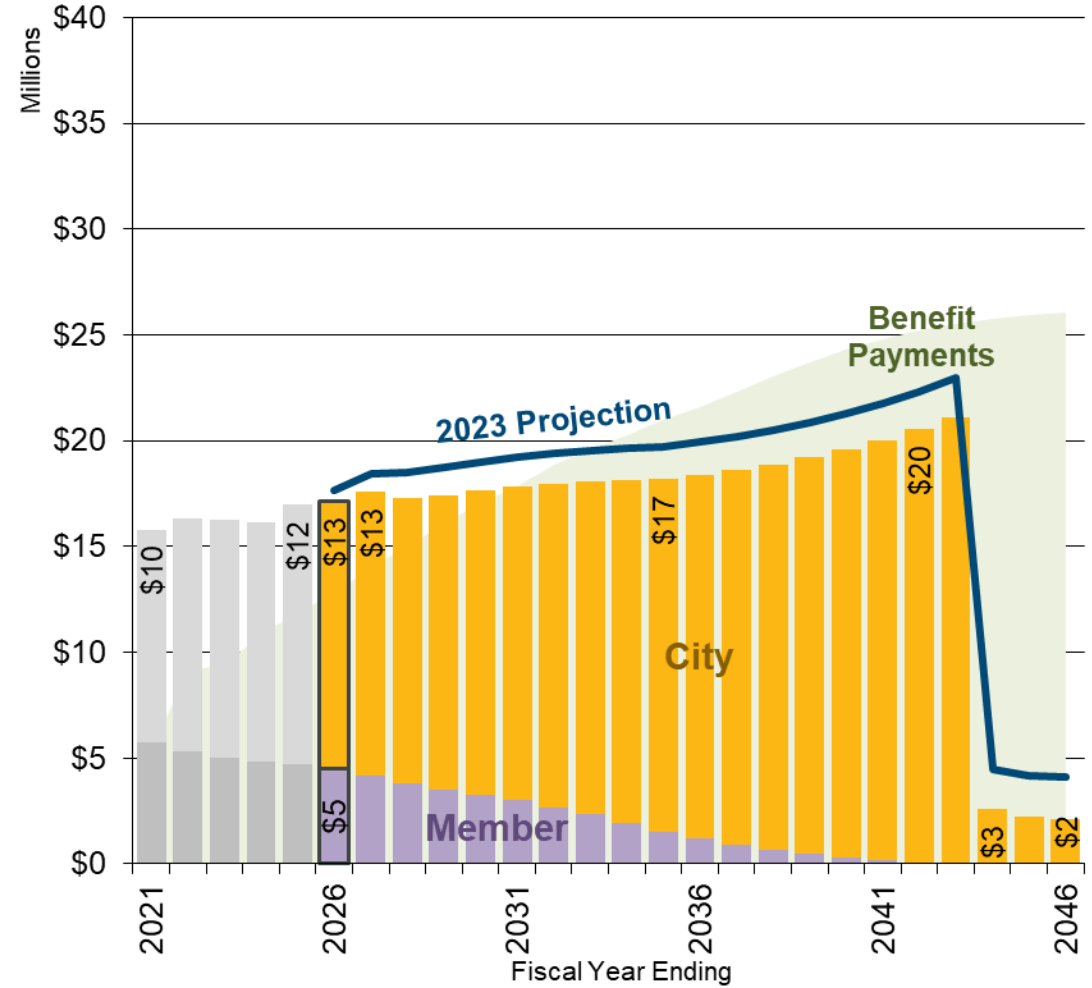
Projected Contributions



Police Contribution Amounts



Fire Contribution Amounts



Review Funding Policy Within Next Few Years



- Current funding policy established in 2017 valuation
 - Funded ratio was 27% (now 43%)
 - Liabilities projected to increase for over 18 years (now 13 years)
- Closed plan considerations
 - Limited uses for surplus
 - Liabilities are nearing their peak
- Liquidity requirements are increasing, which may impact investment policy in future
- UAL is volatile
 - Liabilities affected by healthcare trends and Medicare policies
 - Investment returns becoming more significant
- The size of OPEB plan is much smaller than the pension plan
 - Much lower risk that UAL becomes unaffordable





- The purpose of this presentation is to present the results of the June 30, 2024 Actuarial Valuation for the City of San José's Police and Fire Postemployment Healthcare Plan.
- This presentation was prepared exclusively for the Board of Administration for the purpose described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the Plan. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.
- Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.
- Health care trends for this valuation were developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of the SOA Project Oversight Group.

Certification (continued)



- We have relied on the Society of Actuaries as the developer of the Model. We have reviewed the Model and have a basic understanding of the Model and have used the Model in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of the Model that would affect this valuation.
- This presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we collectively meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

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

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

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

Appendix – Contributions



Summary of Contribution Amounts Payments Throughout the Year

	Police Department		
	2025	2026	% Change
Explicit Subsidy			
Members	\$ 5,252	\$ 4,783	-8.9%
City's ADC	18,507	19,415	4.9%
Estimated City Cap	19,181	20,031	4.4%
Implicit Subsidy	\$ 3,370	\$ 4,098	21.6%
	Fire Department		
	2025	2026	% Change
Explicit Subsidy			
Members	\$ 4,549	\$ 4,500	-1.1%
City's ADC	12,270	12,638	3.0%
Estimated City Cap	11,625	12,299	5.8%
Implicit Subsidy	\$ 1,661	\$ 1,771	6.6%

Dollar amounts in thousands

Five-Year Projection of City Contributions Throughout the Year

FYE	Police	Fire	Total	City Cap
2025	\$ 18,507	\$ 12,270	\$ 30,777	\$ 31,388
2026	19,415	12,638	32,053	32,330
2027	20,726	13,368	34,094	33,300
2028	21,063	13,454	34,517	34,299
2029	21,849	13,887	35,736	35,328
2030	22,645	14,340	36,985	36,388

Amounts in thousands

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

FYE	Police	Fire	Total	City Cap
2025	\$ 17,976	\$ 11,918	\$ 29,894	\$ 31,388
2026	18,858	12,275	31,133	32,330
2027	20,131	12,984	33,115	33,300
2028	20,458	13,068	33,526	34,299
2029	21,222	13,488	34,710	35,328
2030	21,995	13,928	35,923	36,388

* Assumes full discount rate

Amounts in thousands