

San José Police and Fire Postemployment Healthcare Plan



Assumptions for June 30, 2025 OPEB Actuarial Valuation

November 6, 2025

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Background

OPEB Assumptions

- Health Trend Assumptions
- Health Plan and Coverage Elections
- Administrative Expenses
- Discount Rate

Board Decisions

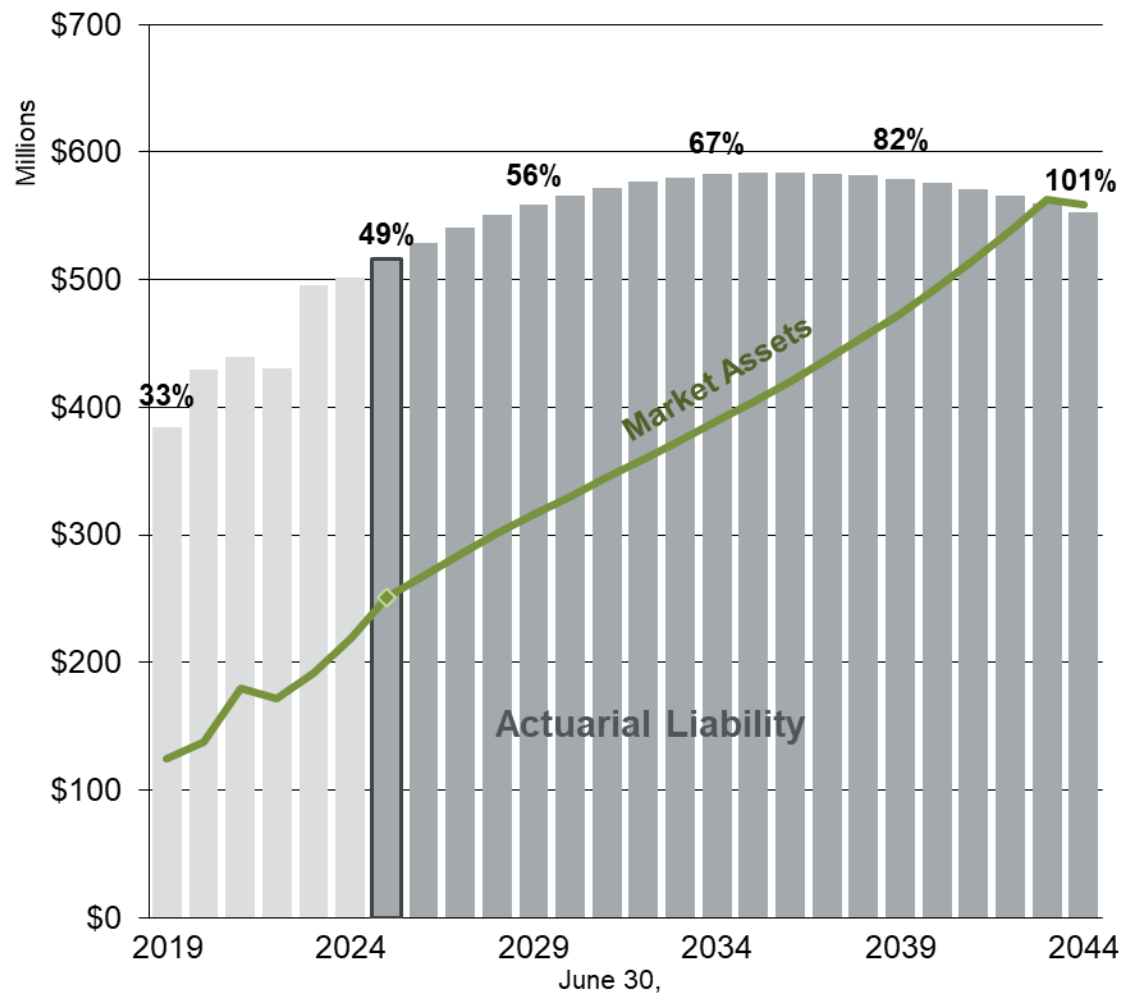


- OPEB plan is mostly closed
 - Only Tier 1 members who did not elect the VEBA can receive full benefits
 - Benefits for others who qualify for catastrophic disability
- Member contributions are fixed at 8.0% of pay
- City contributions are set by the Board
 - City can cap contributions at 11% of pay, but so far has not done so
- June 30, 2025 valuation
 - Develops City contribution for FYE 2027
 - Used as basis for GASB 74/75 reporting for FYE 2026

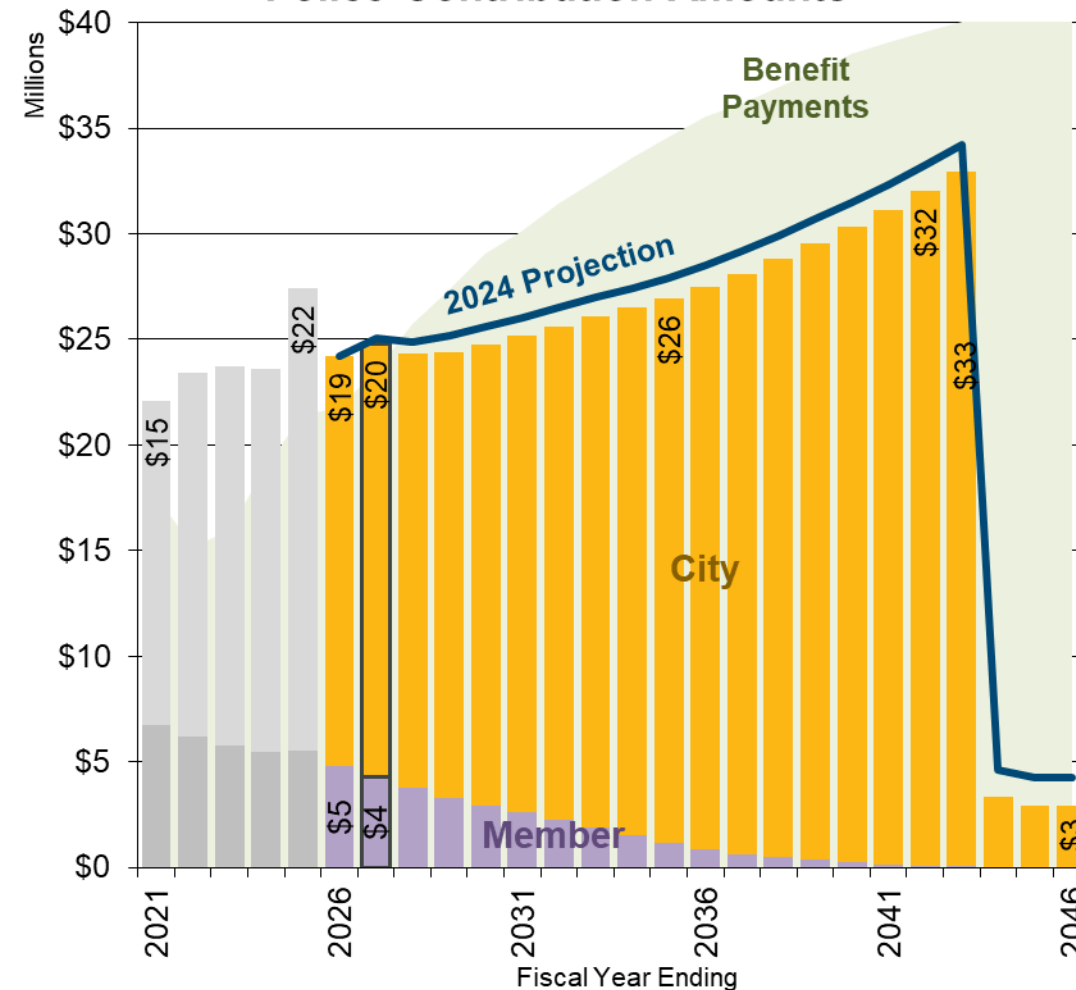
Police Projections – Updated for Investment Returns



Police Assets and Liabilities



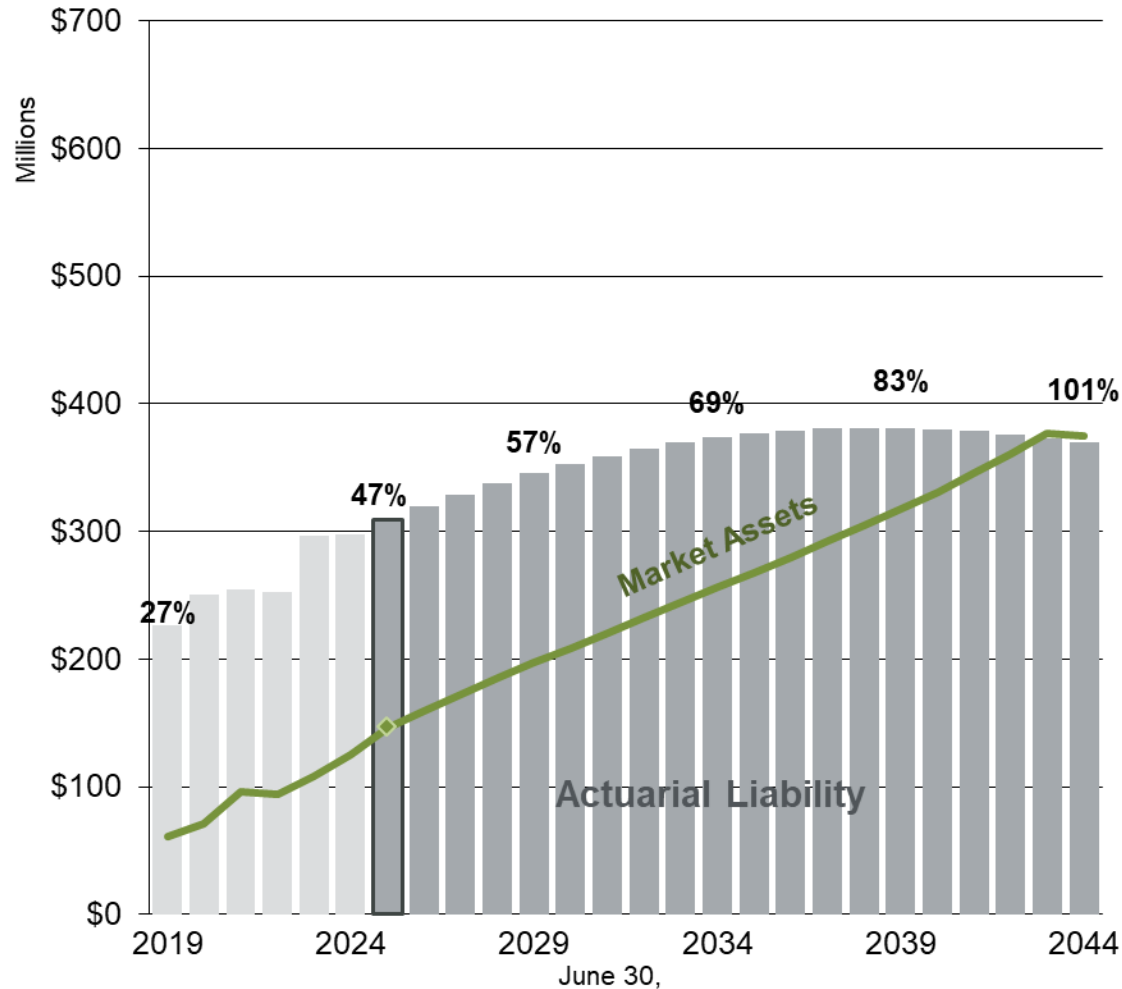
Police Contribution Amounts



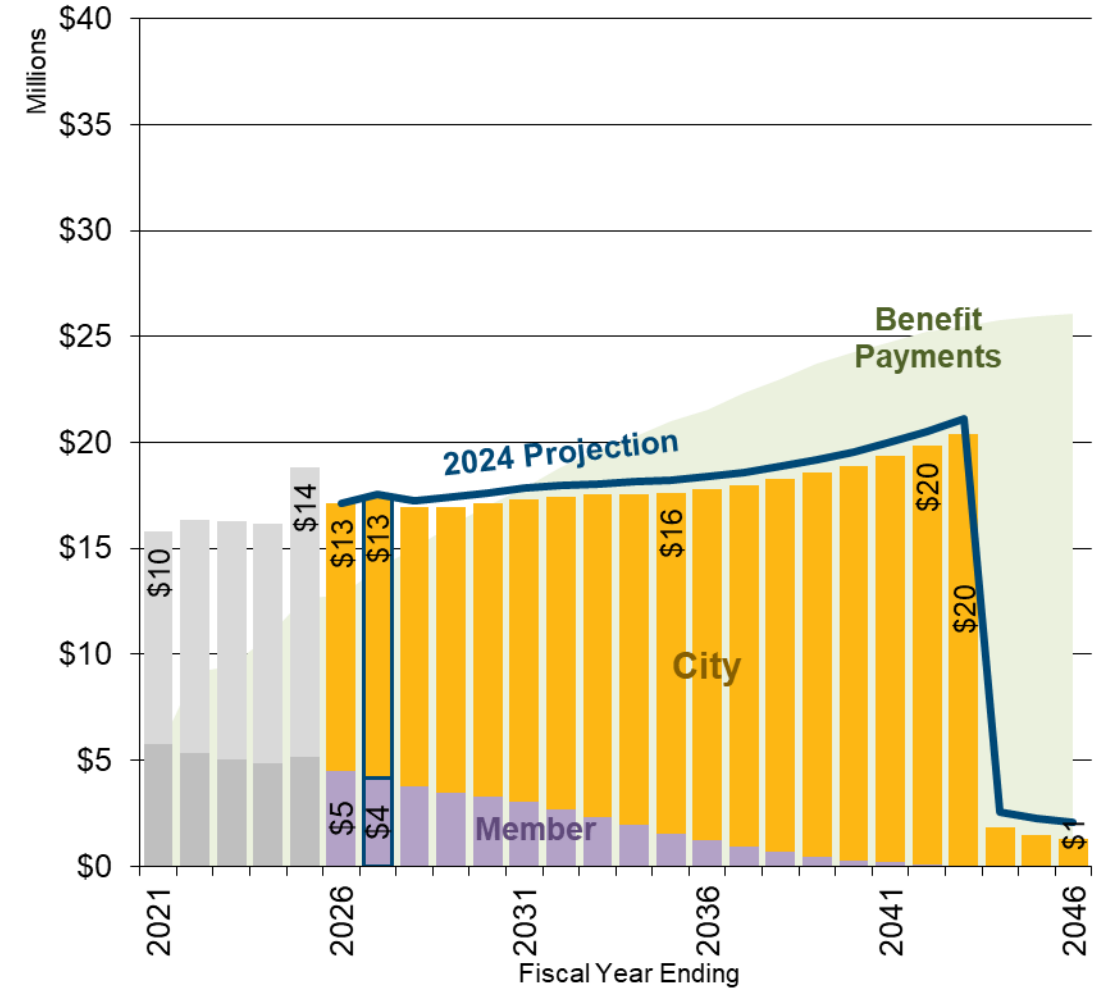
Fire Projections – Updated for Investment Returns



Fire Assets and Liabilities



Fire Contribution Amounts



OPEB Assumptions





- Use same assumptions as pension plan where applicable
 - Economic assumptions: Price inflation, wage inflation
 - Demographic assumptions: Retirement rates, mortality, etc.
- Unique OPEB assumptions
 - Health care trend rates
 - Health plan elections and coverage tiers
 - In-Lieu elections
 - Administrative expenses
 - Expected return on assets

Overview of Proposed Changes



OPEB Assumption	Recommendation
Health care trend rates	• Update Getzen model parameters (details in appendix) • New short-term trends
Health/Dental plan elections	• No change
Future retiree tier elections	• No change
In-Lieu election and coverage duration	• No change
In-Lieu credit tier	• No change
Administrative expenses	• Reduce assumption to \$33 per member for FYE 2027
Discount rate	• Consider 6.00% or 6.25%

Analyses for items with no changes proposed are shown in the appendix

Changes in Explicit Subsidy



Maximum Annual Explicit Subsidy Premium for Lowest Cost Health Plan Offered to Active Employees

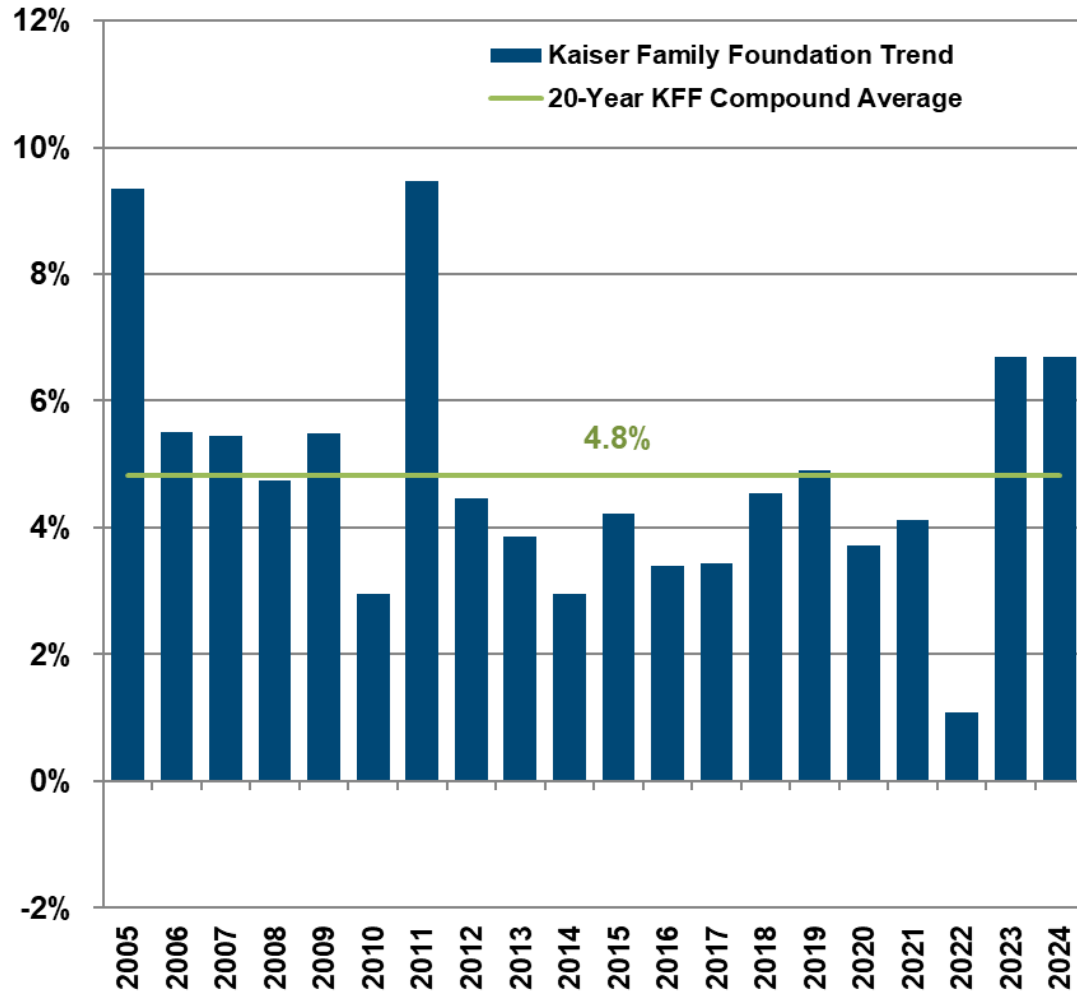
Year	Member Only	Member + Spouse	Member + Child(ren)	Member + Family	Approximate Increase
2019	\$5,340	\$10,681	\$9,346	\$16,021	8.6%
2020	\$5,807	\$11,615	\$10,163	\$17,422	8.7%
2021	\$6,172	\$12,344	\$10,801	\$18,516	6.3%
2022	\$6,120	\$12,288	\$10,752	\$18,431	-0.5%
2023	\$6,508	\$13,017	\$11,389	\$19,525	5.9%
2024	\$7,162	\$14,324	\$12,534	\$21,486	10.0%
2025	\$7,653	\$15,306	\$13,393	\$22,959	6.9%
2026	\$8,466	\$16,933	\$14,817	\$25,399	10.6%

- Maximum explicit subsidy
 - Expected increase = 6.9%
 - Actual increase = 10.6%
 - All pre-Medicare plans receive maximum subsidy
- Medicare-eligible plan premiums
 - Expected increase = 5.6%
 - Kaiser (~42% of population)
 - Actual increase = +12.9%
 - Still below the maximum subsidy
 - Anthem PPO (~58% of population)
 - Actual increase = +34.9%
 - Now above the maximum subsidy and no longer eligible for reimbursement of Medicare Part B premiums

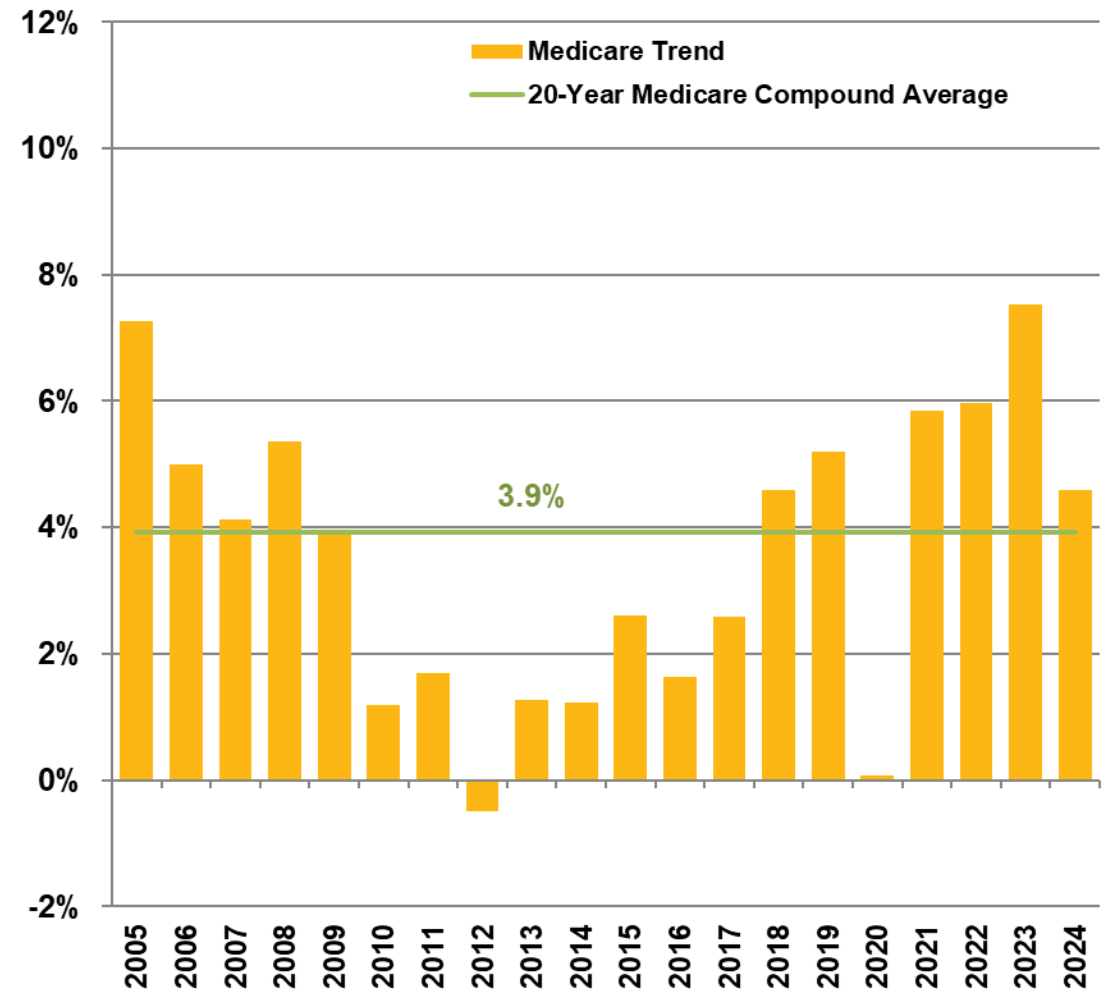
Healthcare Trend Rates



Historical Pre-Medicare Healthcare Trend



Historical Medicare Healthcare Trend



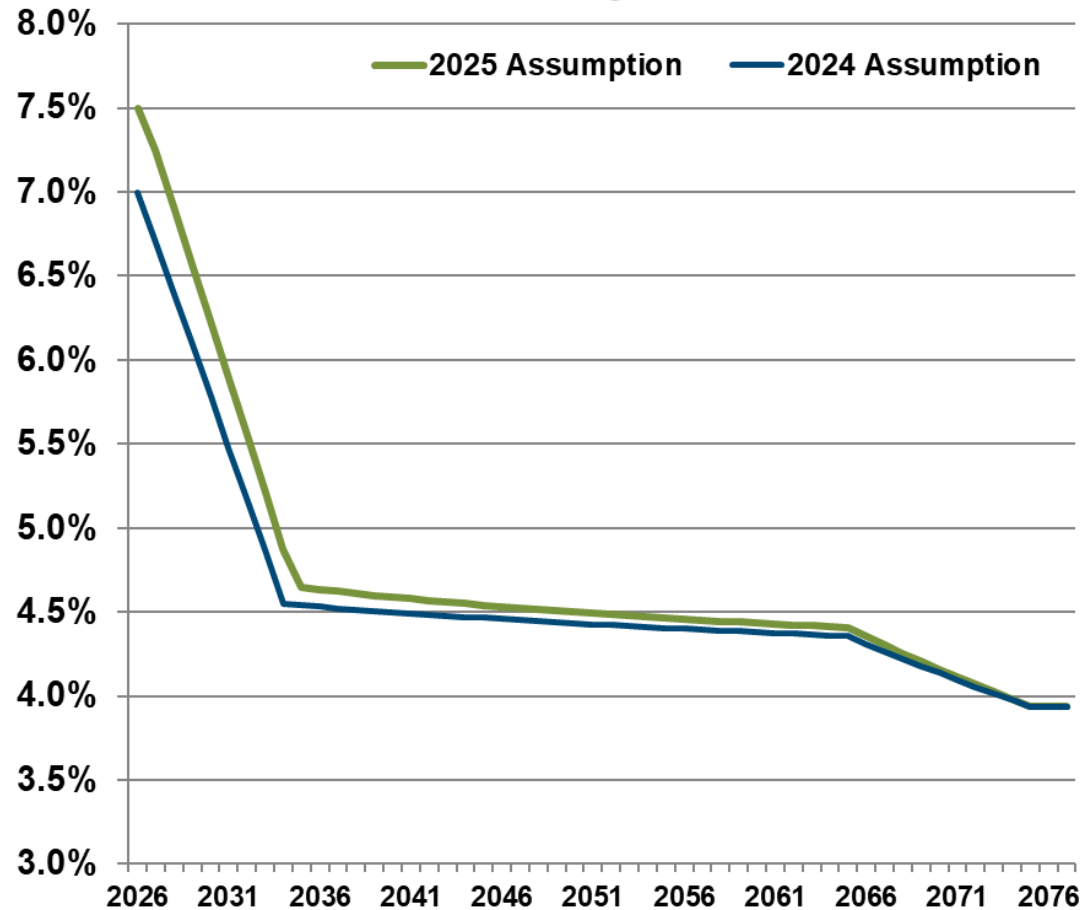


- Developed medical trend assumptions using 2025 Getzen model published by the Society of Actuaries
 - Initial 2026 trends reflect short-term expectations
 - Non-Medicare Eligible = 7.50%
 - Medicare Eligible = 6.50%
 - Adjusts linearly to the long-run trend of 4.97% in 2034
 - Nominal per capita GDP growth plus 0.9% excess medical cost growth
 - Grades down to nominal per capita GDP growth of 4.04% in 2075
- The trend for dental remains at 3.5% for all years

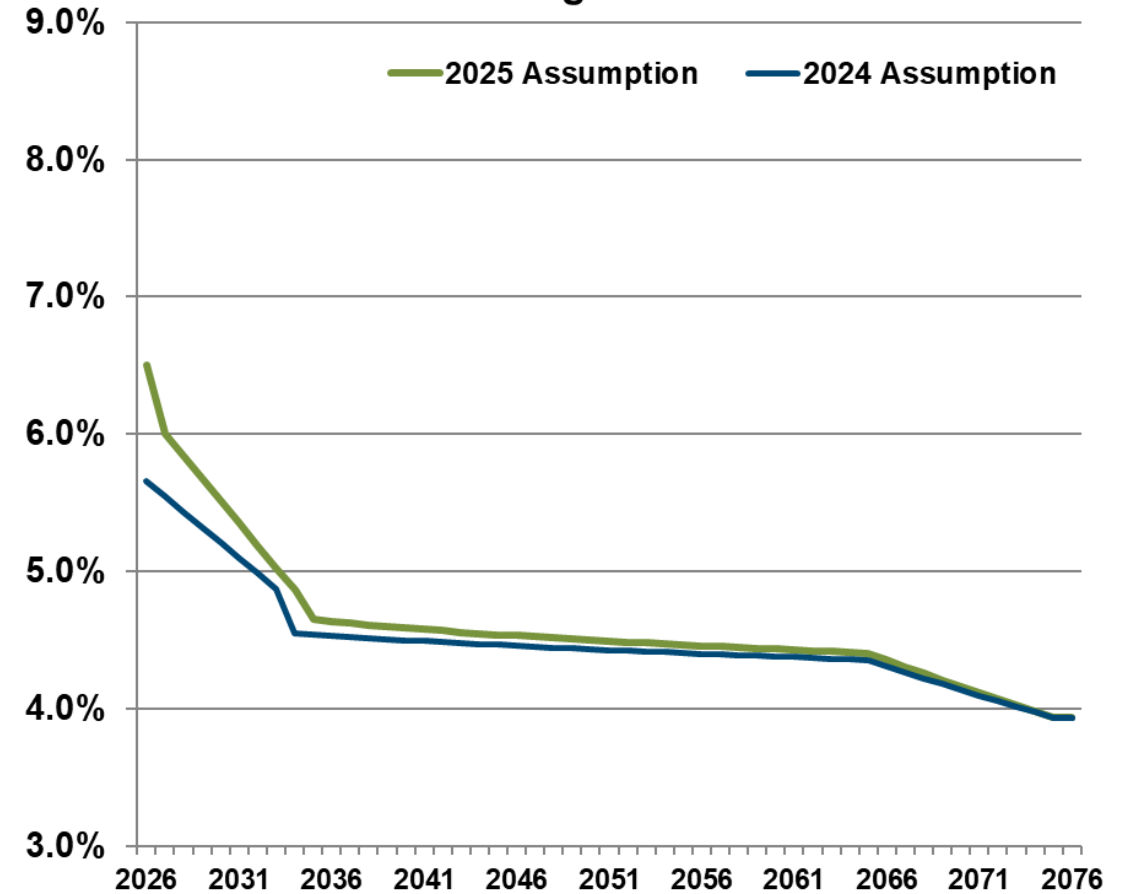
Comparison of Health Trend Rates



Non-Medicare Eligible Trend



Medicare Eligible Trend



Healthcare Trend Rates



- Premium rates change on a calendar year basis
- Converted to a fiscal year basis for valuation
- For the fiscal year beginning July 1, 2026, trend is developed using actual calendar year 2026 premiums and a trend assumption for calendar year 2027

Plan		FY Beginning 2026 Trend
Pre-Medicare		
	Kaiser Nationwide	8.85%
	Anthem Plans	4.65%
Medicare		
	Kaiser Nationwide	9.23%
	Anthem PPO Plan	18.29%
Dental		
	HMO Plan	1.76%
	PPO Plan	1.75%

Administrative Expenses



- Current assumption is \$34.0 per member for FYE 2026 and \$35.0 for FYE 2027
 - Increases each year with assumed wage inflation
- Analysis adjusts historical administrative expenses to the current year with assumed wage inflation of 3.00% per year
- Average adjusted expense per member is increased from 2025 to 2027, with future assumed wage inflation of 3.00% per year
- We propose to reduce the assumption to \$33 per member for FYE 2027, increasing with assumed future wage inflation
 - Administrative expenses have dropped since the implementation of the VEBA
 - Administrative expenses vary significantly from year to year, but are a small portion of overall costs

FYE	Adjusted Administrative Expenses	Members	Adjusted Expense / Member
2025	\$ 106,927	4,085	\$ 26.2
2024	134,267	4,084	32.9
2023	108,963	4,091	26.6
2022	168,611	4,084	41.3
2021	123,545	4,024	30.7
2025 Average Adjusted Expense / Member			\$ 31.5
FYE 2027 Expense per Member			\$ 33.0

Expected Return on Assets

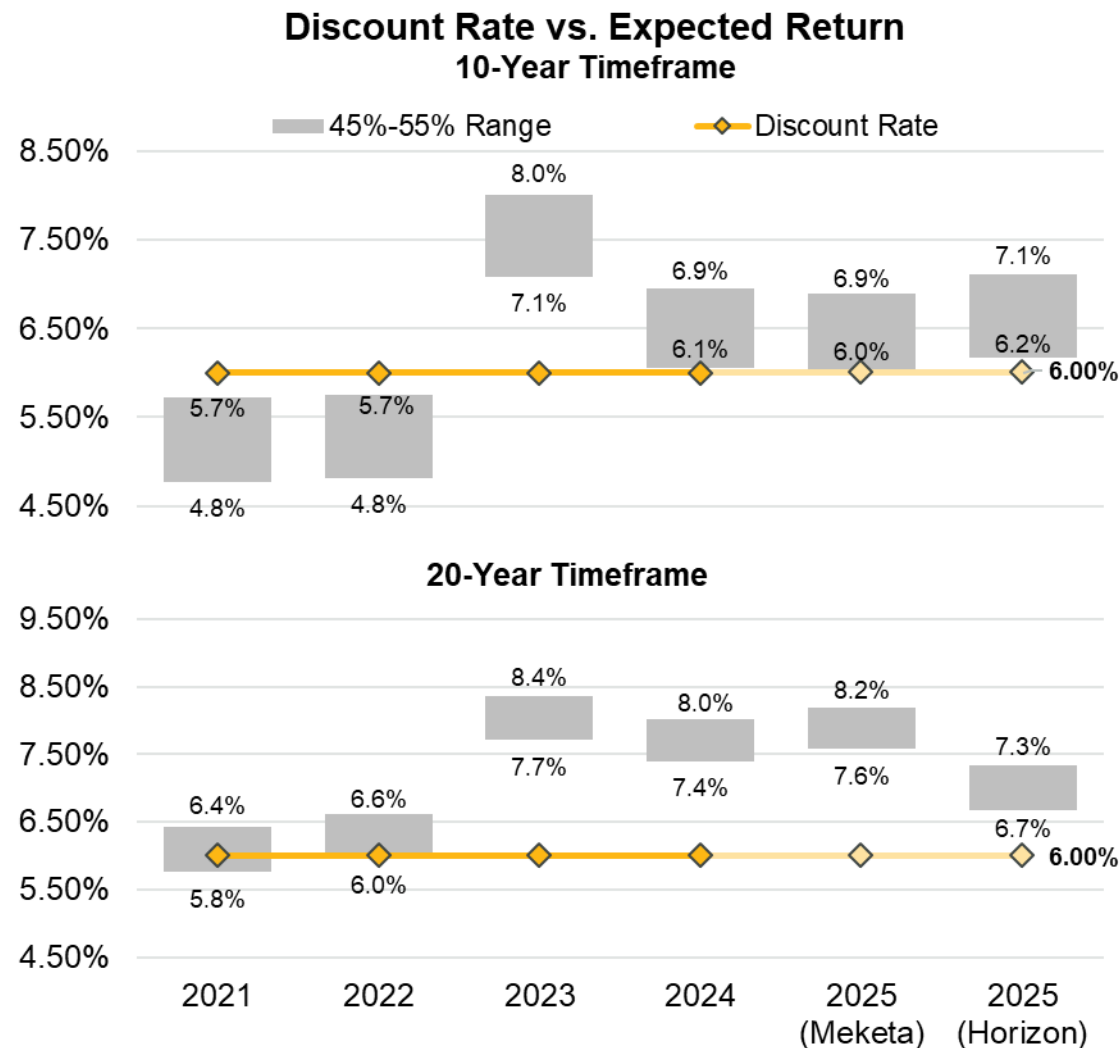


- Meketa provided forward-looking capital market assumptions for 2025
 - 10- and 20-year time horizons
- Horizon survey includes:
 - 10-year time horizon – 41 consultants
 - 20-year time horizon – 27 consultants
- Expectations remain higher than discount rate
 - Interest rates have been higher for the 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



OPEB Assumption	Recommendation
Health care trend rates	• Update Getzen model parameters (details in appendix) • New short-term trends
Health/Dental plan elections	• No change
Future retiree tier elections	• No change
In-Lieu election and coverage duration	• No change
In-Lieu credit tier	• No change
Administrative expenses	• Reduce assumption to \$33 per member for FYE 2027
Discount rate	• Consider 6.00% or 6.25%



- The purpose of this presentation is to present proposed assumptions for the June 30, 2025 Valuation for the City of San José Police and Fire Department 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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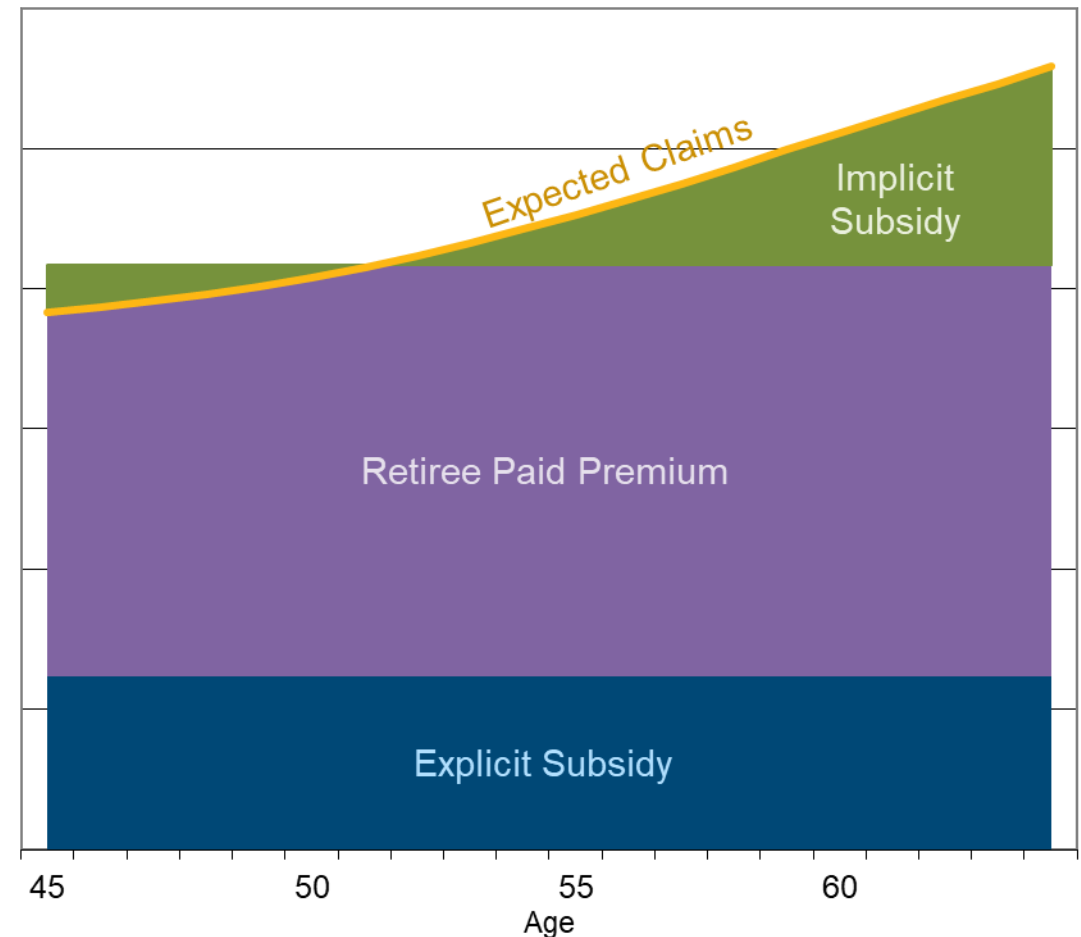
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Consulting Actuary

Two Types of Subsidies



- Explicit subsidy – Pre-Funded
 - The plan pays the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees
 - The explicit subsidy is the focus of our funding valuation
- Implicit subsidy – Pay-as-you-go
 - Difference between the expected claims cost and the total premium (retiree + plan)
 - Same premium is used for active employees and retirees not yet eligible for Medicare
 - Cost for a retiree generally exceeds the premium
 - City pays for the implicit subsidy on a pay-as-you-go basis through its premiums for active employees
 - Expected claim costs are developed using combined data for Federated and Police and Fire
 - Value is disclosed in the funding valuation and is a key part of required financial reporting

Illustration of Pre-Medicare Subsidies
Anthem Select PPO Plan



Appendix: Getzen Health Trend Model Parameters



- Initial 2025 Trend Rate (Updated from prior valuation)
 - Non-Medicare Eligible = 8.10% in 2025, 7.50% in 2026, 7.00% in 2027
 - Medicare Eligible = 25.40% in 2025, 6.50% in 2026, 6.00% in 2027
- Linear decline to long run trend in 2034
- Long run trend = 4.97%
 - Inflation = 2.50%
 - Real GDP per capita = 1.4%
 - Excess medical cost growth = 0.9%
- Capacity constraints
 - Expected GDP Share in 2034 = 19.0%
 - Resistance point = 18.0%
 - Applies resistance to growth in health spending as a percentage of GDP starting in 2032
 - Year limited to GDP growth = 2075

Health/Dental Plan Elections



Assumed Plan Elections for Future Retirees*

	Enrollment Experience		Enrollment Assumption	
	2024	5-Yr Ave	2024	2025
Pre-Medicare Medical Plans				
Kaiser DHMO	5%	5%	5%	5%
Kaiser \$25 Co-pay	63%	63%	62%	62%
Kaiser HDHP	7%	6%	6%	6%
Anthem DHMO	4%	3%	3%	3%
Anthem Select \$20 Co-pay	6%	7%	8%	8%
Anthem Traditional \$20 Co-pay	5%	4%	3%	3%
Anthem HDHP PPO	8%	8%	9%	9%
Anthem Select PPO	2%	3%	3%	3%
Anthem Classic PPO	0%	1%	1%	1%
Medicare-Eligible Medical Plans				
Kaiser Senior Advantage	42%	42%	43%	43%
Anthem Medicare PPO	58%	57%	57%	57%
Anthem Medicare PPO 75	N/A	N/A	N/A	0%
Dental Plans (All Retirees)				
Delta Dental PPO	99%	99%	99%	99%
DeltaCare HMO	1%	1%	1%	1%

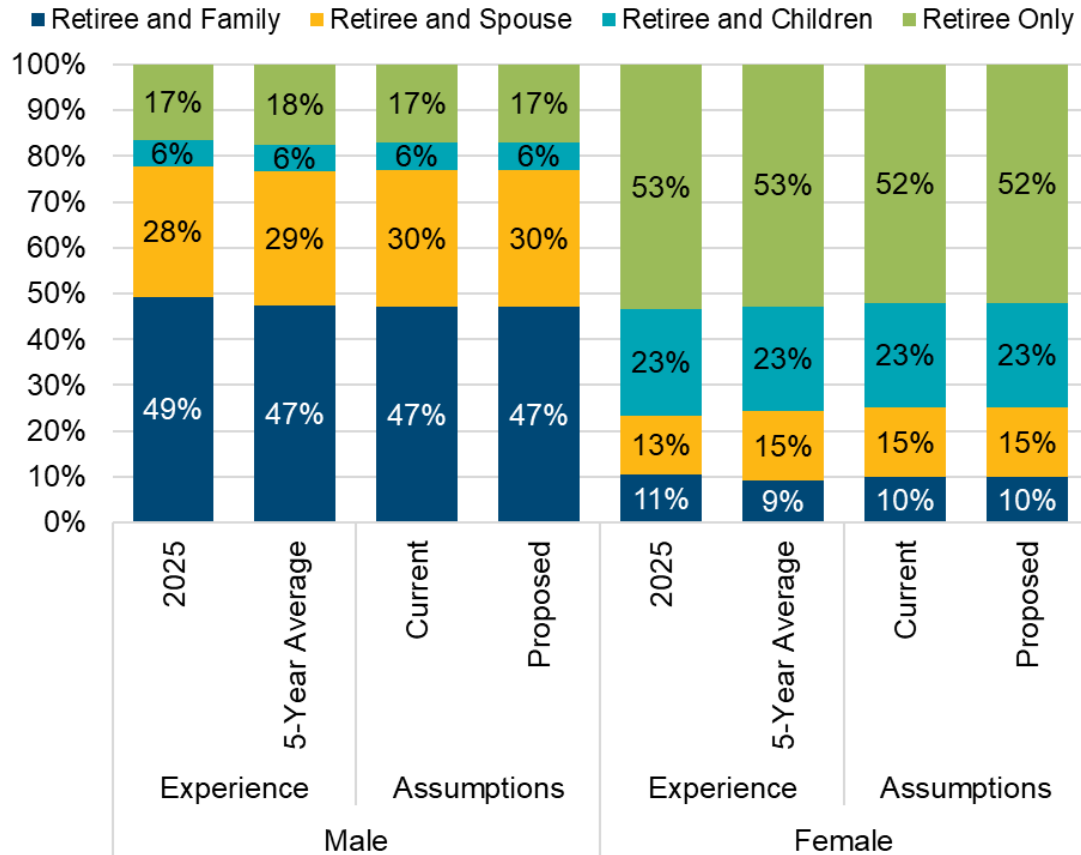
* Eligible for coverage and elect coverage

- Enrollment experience only differs slightly from assumptions
 - Will continue to monitor
 - No changes proposed this year

Future Retiree Tier Elections



Future Retiree Tier Elections Experience vs. Assumptions



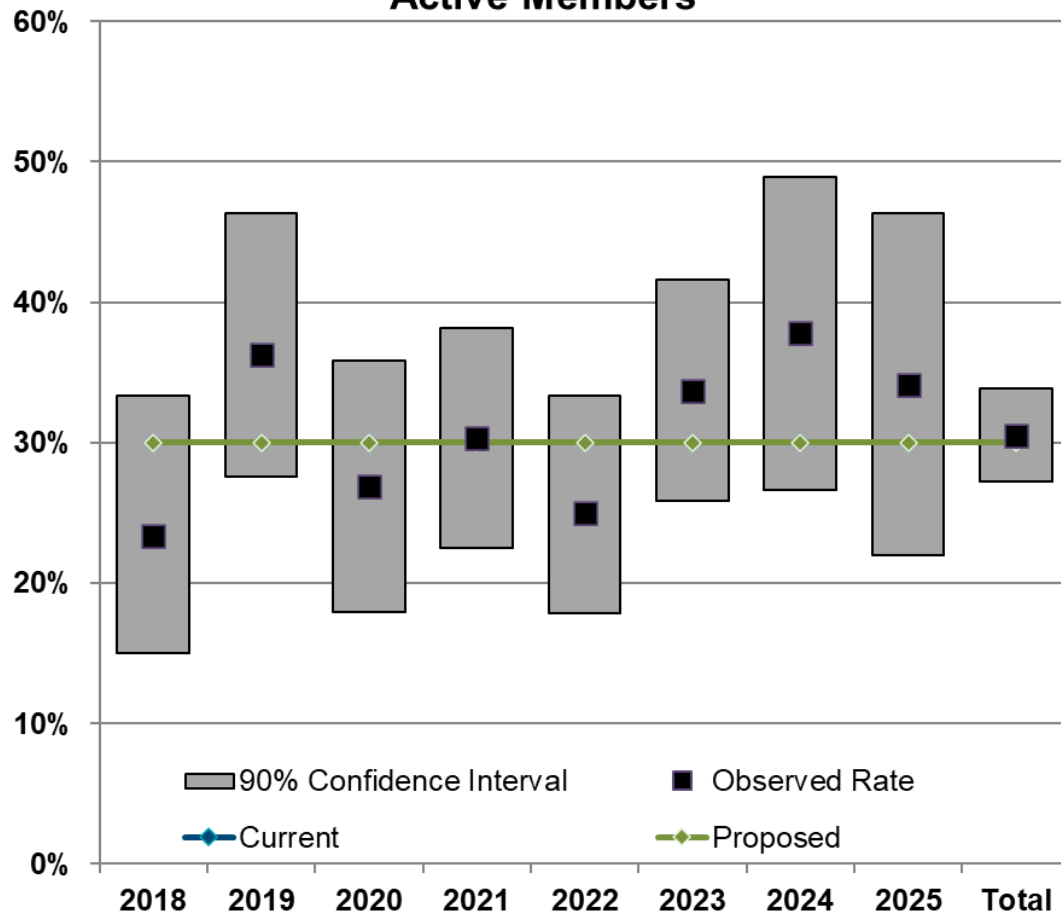
Assumed Future Retiree Tier Elections

Coverage Tier	Pre-Medicare		Medicare
	Current	Proposed	
Males			
Retiree Only	17%	17%	23%
Retiree and Children	6%	6%	0%
Retiree and Spouse	30%	30%	77%
Retiree and Family	47%	47%	0%
Females			
Retiree Only	52%	52%	75%
Retiree and Children	23%	23%	0%
Retiree and Spouse	15%	15%	25%
Retiree and Family	10%	10%	0%

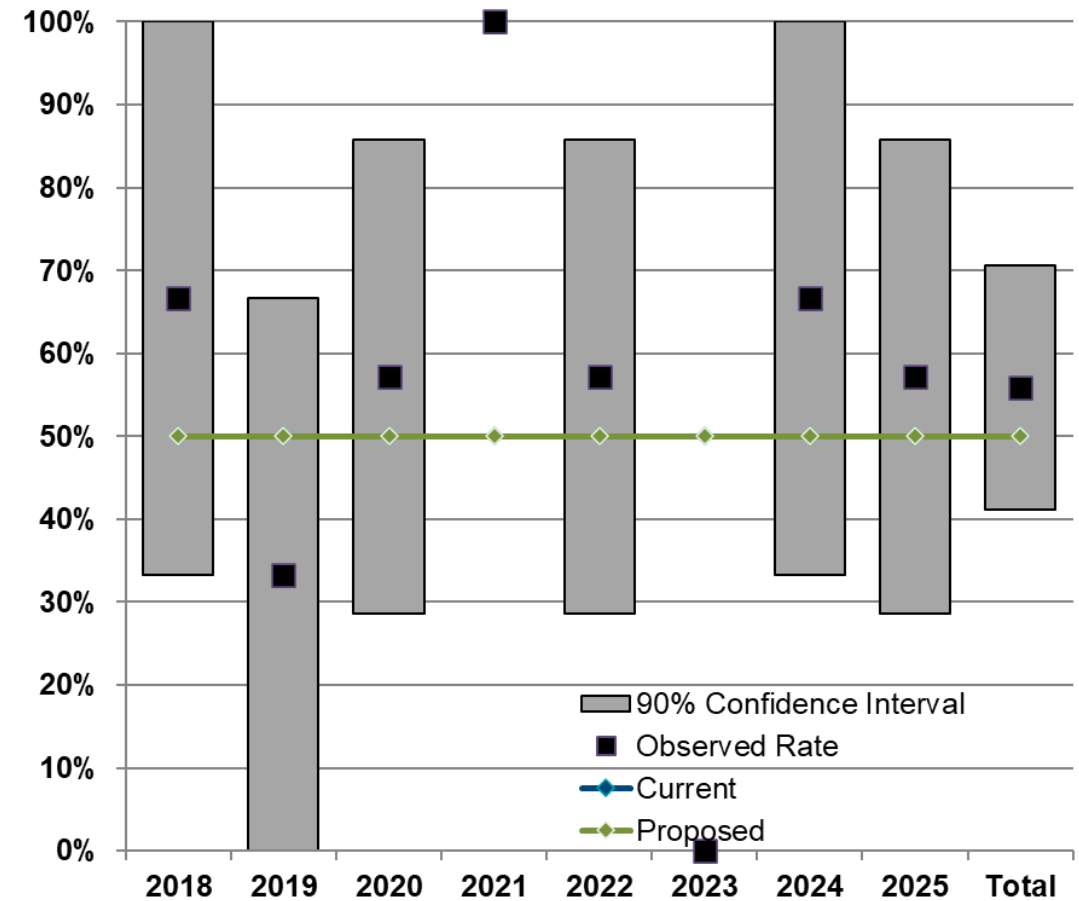
Appendix – Probability Elect In-Lieu



Probability Elect In-Lieu Active Members



Probability Elect In-Lieu Vested Terminated Members



Appendix – In Lieu Coverage Duration and Credit Tier



- Measure F added an “In-Lieu” option
 - Retirees can waive health coverage for a credit equal to 25% of the explicit subsidy for the tier of coverage for which they qualify
 - Credit can be applied to pay future premiums
- Duration of In-Lieu Coverage
 - Very little data on duration so far
 - Recommend continuing with current assumption of 5 years
- In-Lieu Coverage Credit Tier
 - Seven years of data
 - Experience has trended toward more expensive tiers
 - No changes this year, but we will continue to monitor

Assumed In-Lieu Coverage Tier				
	Experience		Assumption	
	2025	5-Yr Ave	2024	2025
Pre-Medicare				
Retiree Only	13%	17%	17%	17%
Retiree + Spouse	26%	24%	23%	23%
Retiree + Family	61%	60%	60%	60%
Medicare Eligible				
Retiree Only	35%	36%	37%	37%
Retiree + Spouse	65%	64%	63%	63%

Appendix – Capital Market Assumptions



2025 Capital Market Assumptions

Meketa's Assumptions					Horizon Survey Assumptions				
Asset Class	Allocation	Standard Deviation	Arithmetic Returns		Asset Class	Allocation	Standard Deviation	Arithmetic Returns	
			10-Year	20-Year				10-Year	20-Year
Short-term Investment Grade Bonds	6.0%	1.0%	4.21%	4.31%	US Corp Bonds - Core	20.0%	6.2%	5.19%	5.28%
Investment Grade Bonds	14.0%	4.0%	4.97%	5.37%	US Treasuries	5.0%	1.5%	3.60%	3.61%
Long-term Government Bonds	5.0%	12.0%	5.61%	6.34%	US Equity - Large Cap	30.0%	16.5%	7.67%	8.29%
US Equity	30.0%	17.0%	7.59%	9.63%	Non-US Equity - Developed	16.0%	18.2%	8.58%	8.96%
Developed Market Equity (non-US)	16.0%	18.0%	8.52%	10.07%	Non-US Equity - Emerging	12.0%	23.4%	9.96%	10.63%
Emerging Market Equity	12.0%	22.0%	9.04%	10.72%	Real Estate	12.0%	16.2%	7.52%	7.59%
Core Private Real Estate	12.0%	12.0%	6.10%	8.03%	Commodities	5.0%	17.8%	6.20%	6.37%
Commodities (naive)	5.0%	17.0%	6.70%	7.16%	Inflation			2.39%	2.41%
Inflation			2.30%	2.70%					

Appendix – Aggregate Claims Costs



- Claims costs are developed by age for each health plan offered
- Aggregate claims costs reflect the average cost based on plan election assumptions as of 7/1/2025
- Claim costs will be developed using combined data for Federated and Police and Fire