

# San José Federated Postemployment Healthcare Plan

5b(1)



## Final Actuarial Valuation Results June 30, 2022

January 19, 2023

Bill Hallmark, ASA, EA, FCA, MAAA  
Michael Schionning, FSA, MAAA

# Agenda



Schedule

Summary of Valuation Results

Changes in UAL

Membership Trends

Baseline Projections

Sensitivity to Investment Returns

Appendix



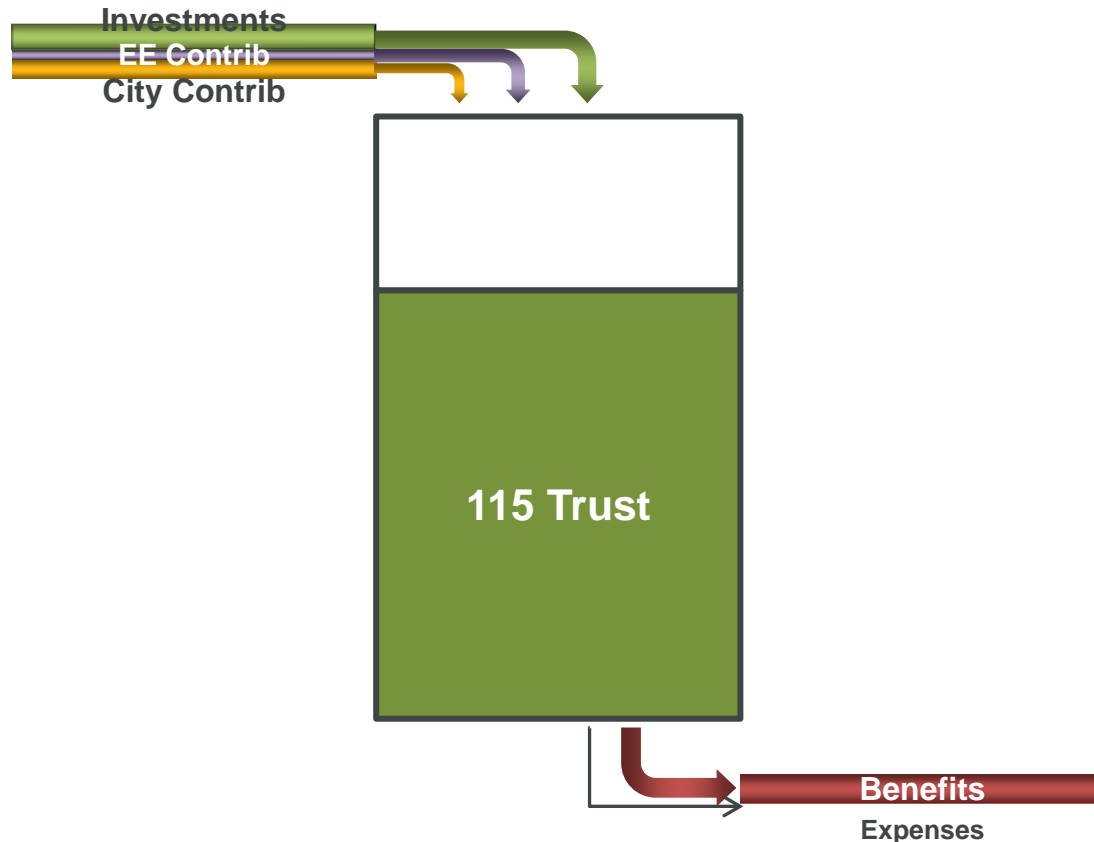
- September Meeting
  - Tier 1 Amortization Periods
- October Board Meeting
  - Pension Economic Assumption Review
- November Board Meeting
  - Preliminary Pension Valuation Results
  - OPEB Assumptions Review
- December Board Meeting
  - Final Pension Valuation Presentation
  - Final Pension Valuation Report
  - Preliminary OPEB Valuation Results
- **January Board Meeting**
  - **Final OPEB Valuation Presentation**
  - **Final OPEB Valuation Report**

# Final Results

The background of the image is filled with numerous hand-drawn sketches of bar charts and line graphs. These sketches are drawn with black ink on a white background. Some charts have axes labeled with 'x' and 'y'. In the bottom right corner, a person's hand is visible, holding a silver pen and drawing a bar chart. The person is wearing a light blue long-sleeved shirt. The overall theme is data analysis and business results.



## Explicit Subsidy Funding

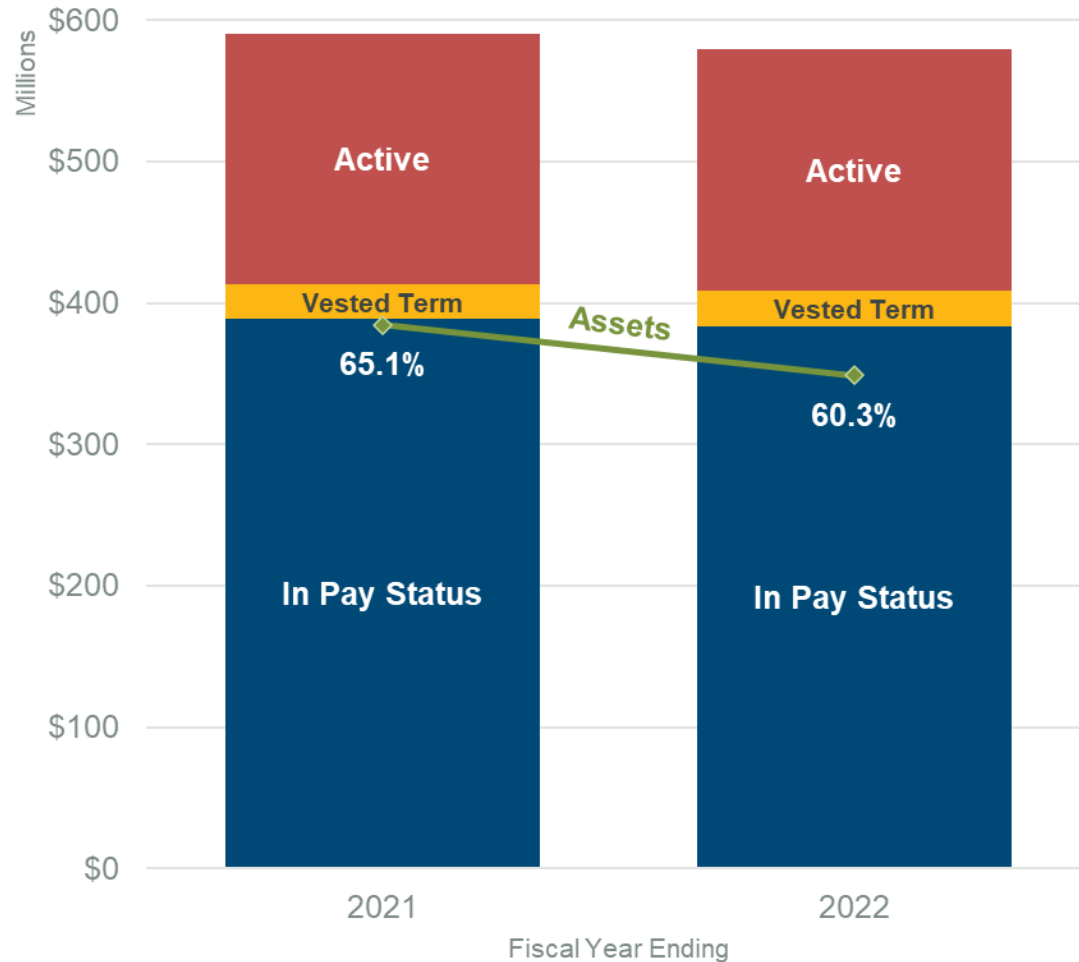


- Primary purpose of valuation is to set City contributions
  - 2022 valuation develops contributions for FYE 2024
- Project future benefit payments
  - Plan provisions, census data, and actuarial assumptions
- Determine funding target
  - Actuarial cost method and assumptions
- Set City contributions for explicit subsidy
  - Plan provisions, actuarial methods, and discount rate
  - Member contributions are fixed
  - Implicit subsidy paid through active member health premiums

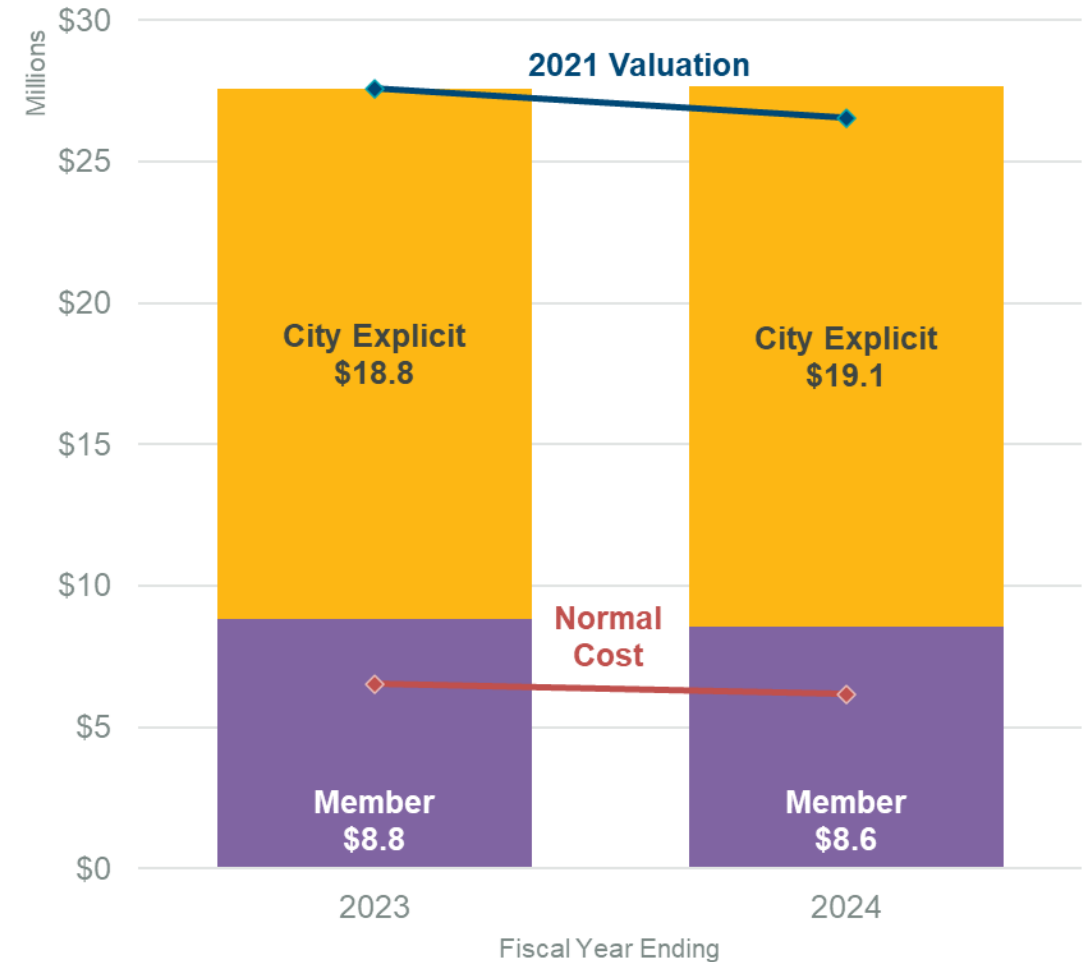
# Final Valuation Results – Explicit Subsidy



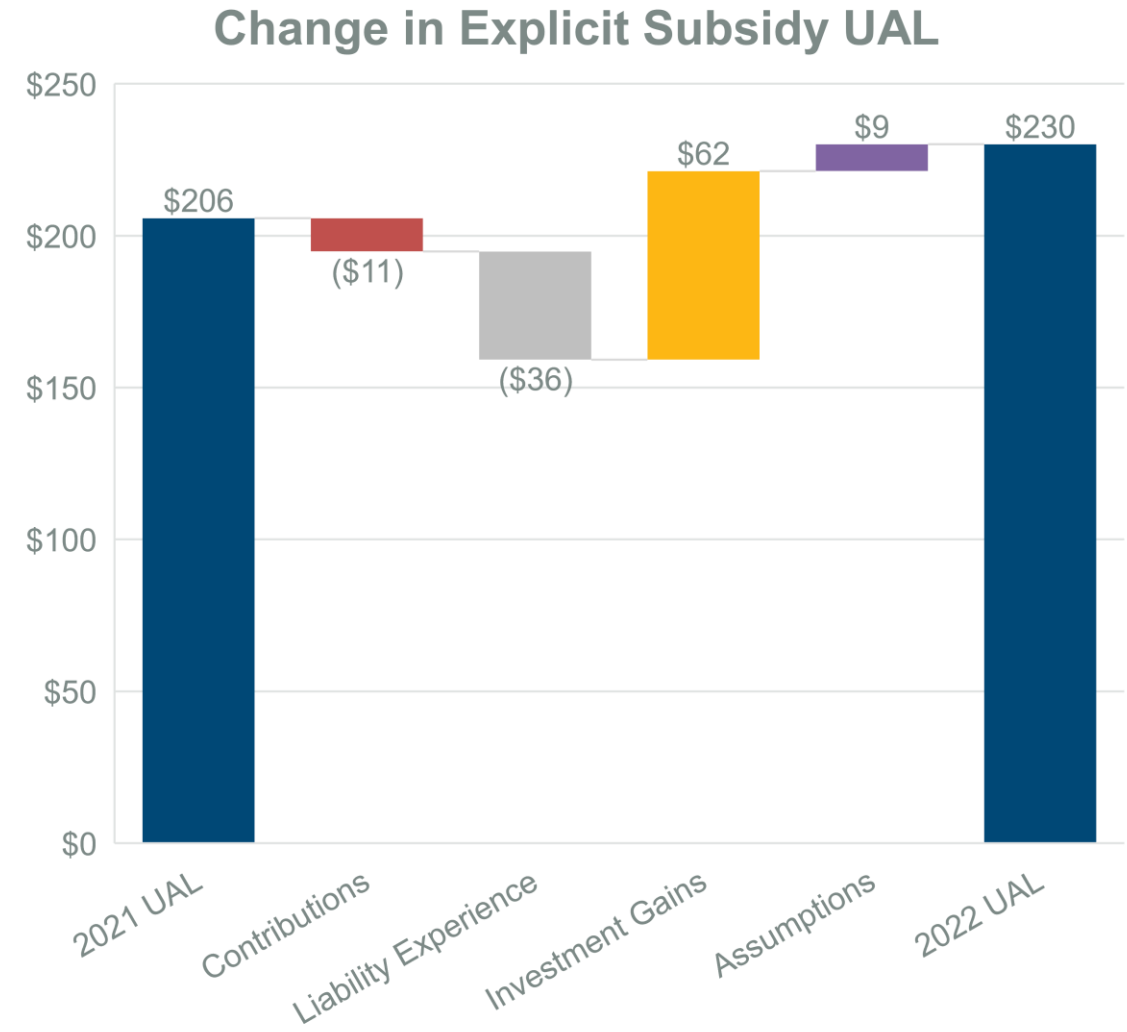
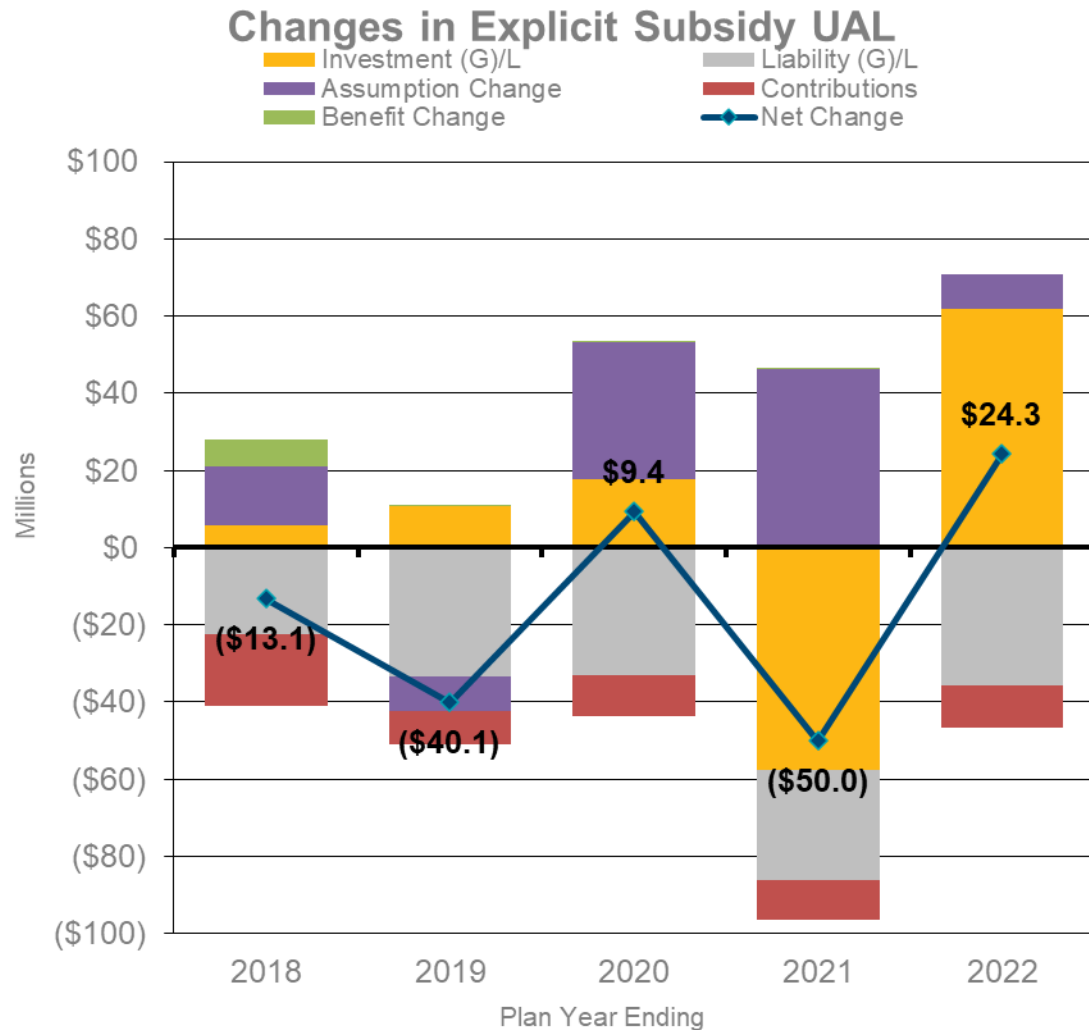
## Explicit Subsidy Funded Status



## Contributions



# Historical Changes in UAL – Explicit Subsidy



# Membership



## Membership

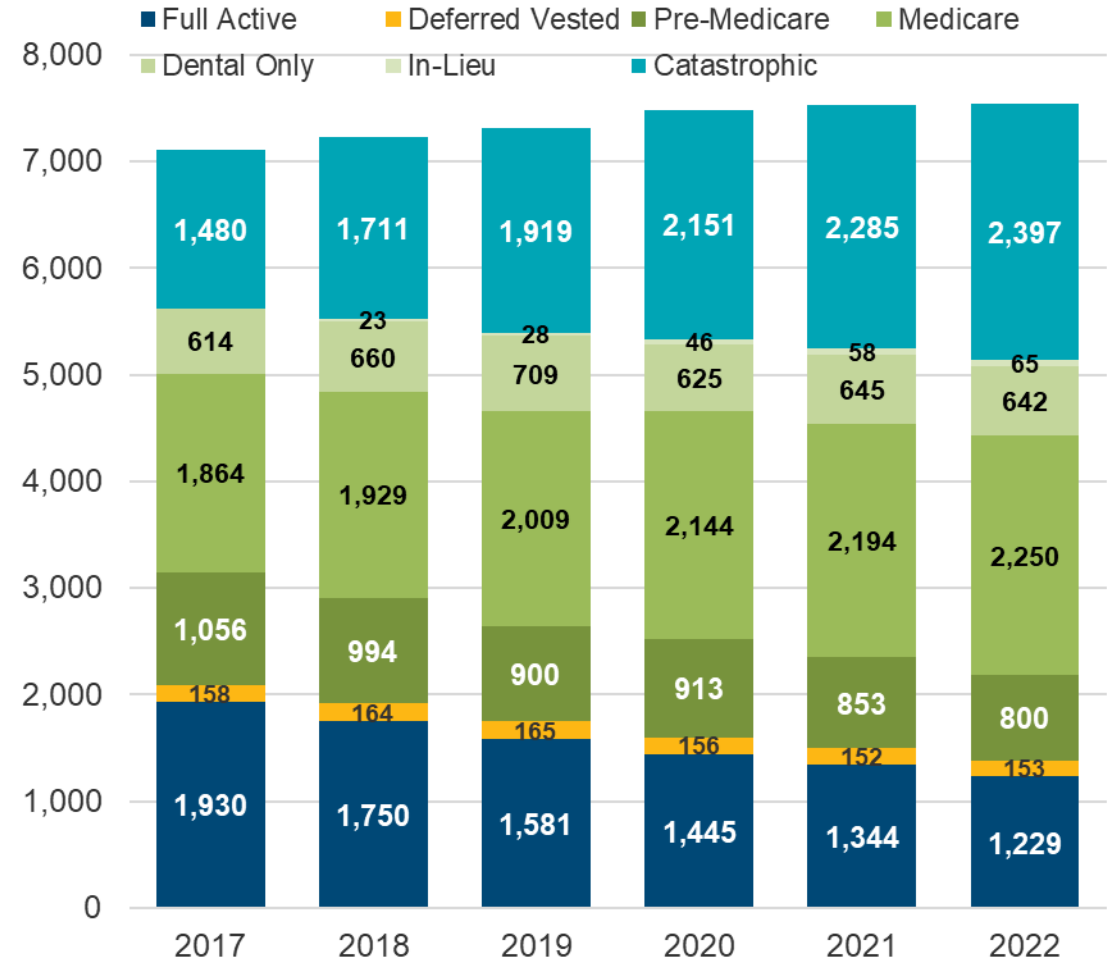
6/30/2021 6/30/2022 % Change

### Active Members

Eligible for Full Benefits	1,344	1,229	-8.6%
Eligible for Catastrophic Disability Only	2,285	2,397	4.9%
Total Active Members	3,629	3,626	-0.1%
Deferred Vested Members	152	153	0.7%
Members in Pay Status (Medical and/or Dental)	3,692	3,692	0.0%
Members In-Lieu only	58	65	12.1%
Total	7,531	7,536	0.1%
Full Benefit Member Payroll	\$126,946	\$124,037	-2.3%
Total Payroll	339,546	360,936	6.3%

Dollar amounts in thousands

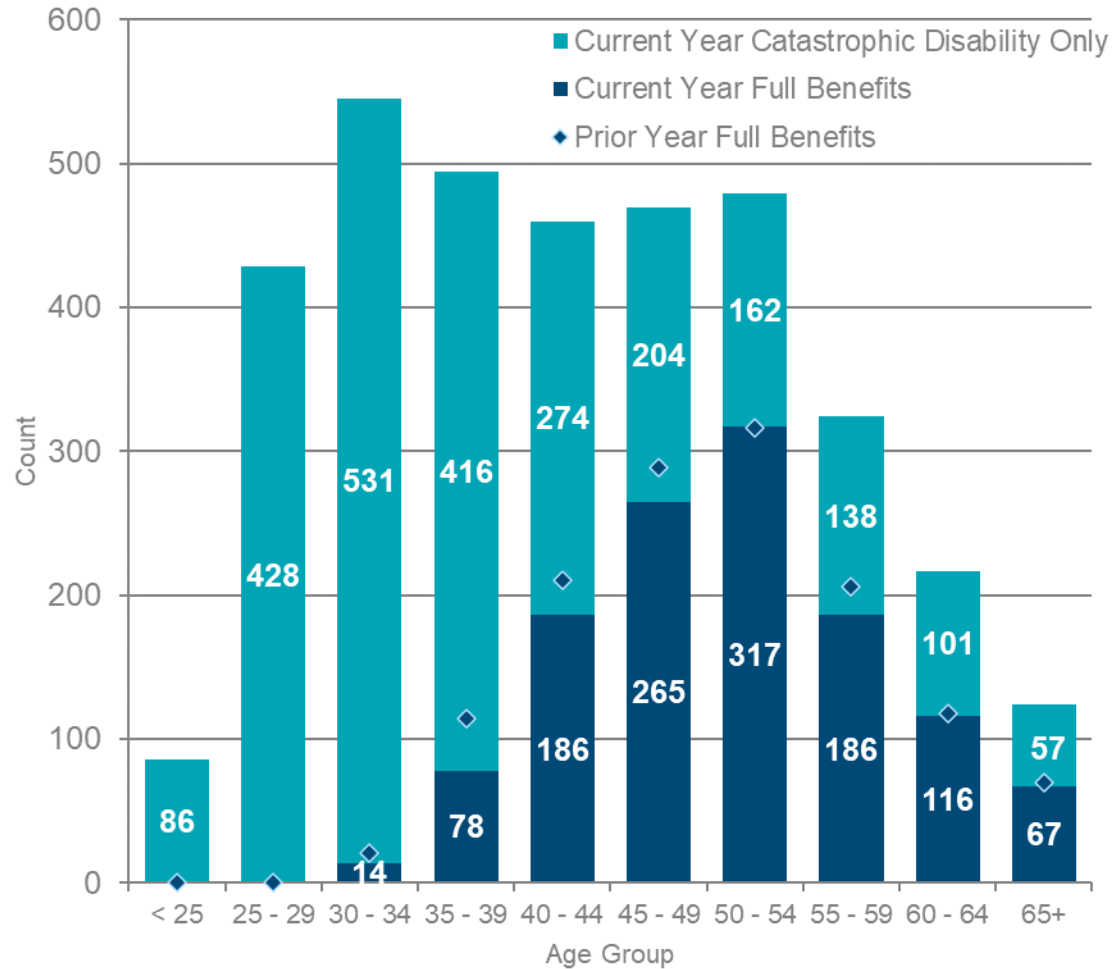
## Membership Trends



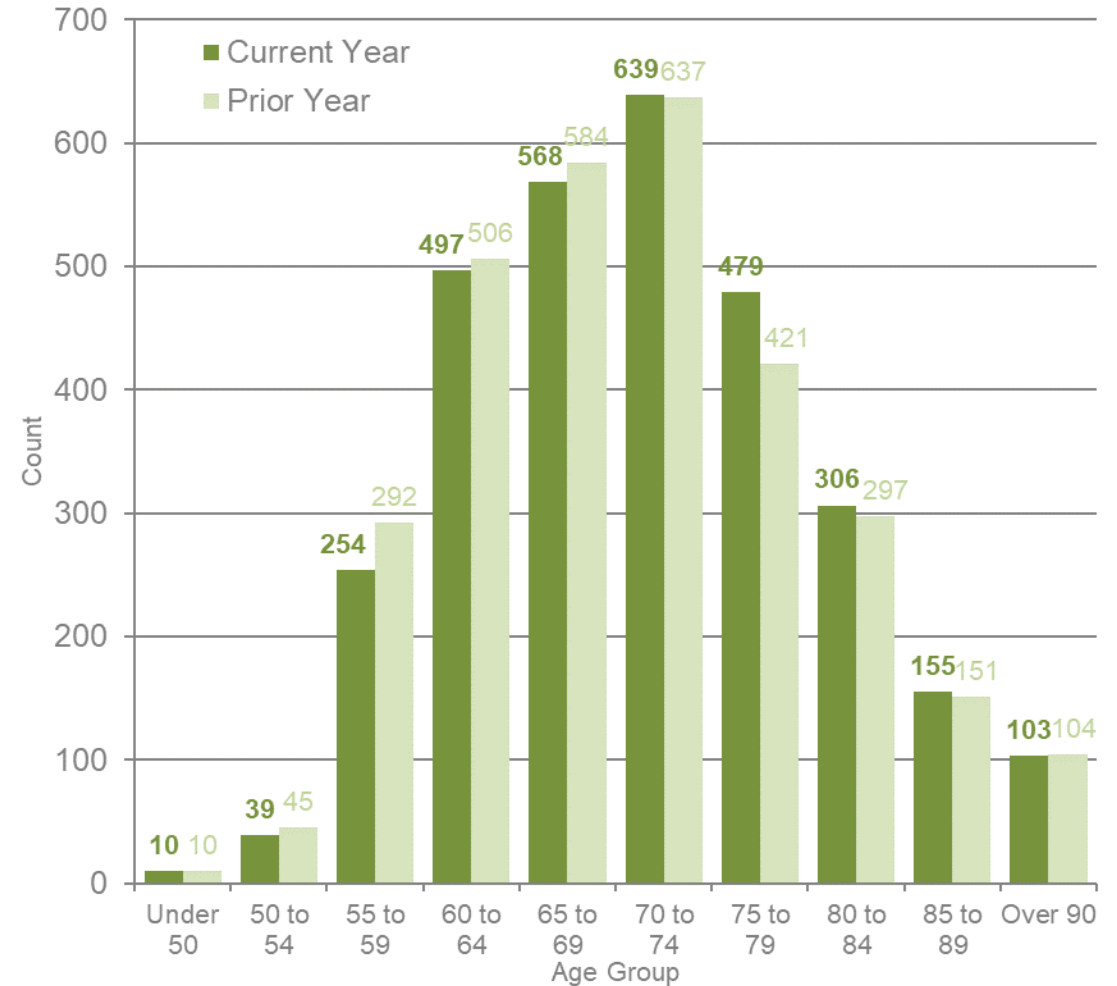
# Member Distributions



## Distribution of Active Members



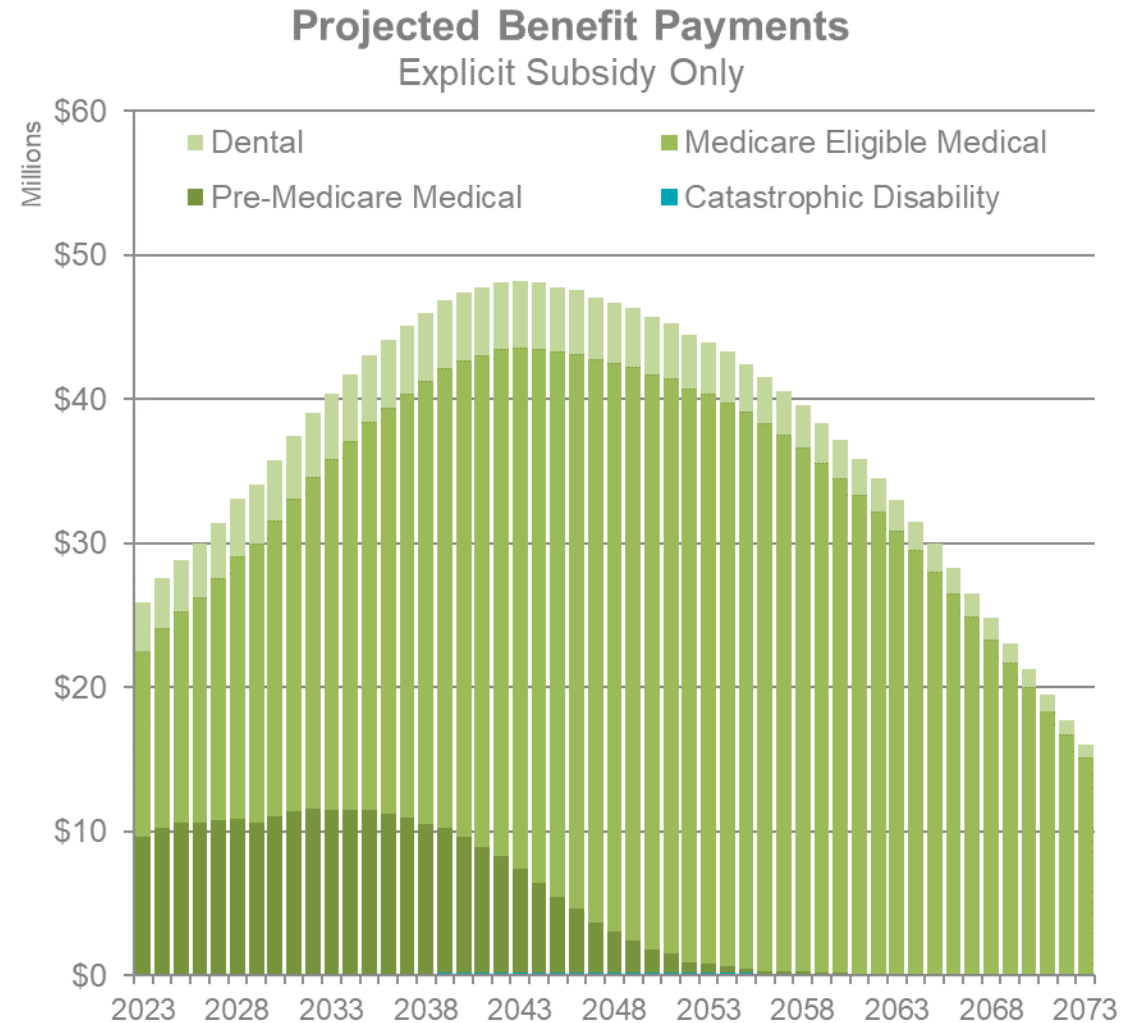
## Distribution of Retired Members - Medical



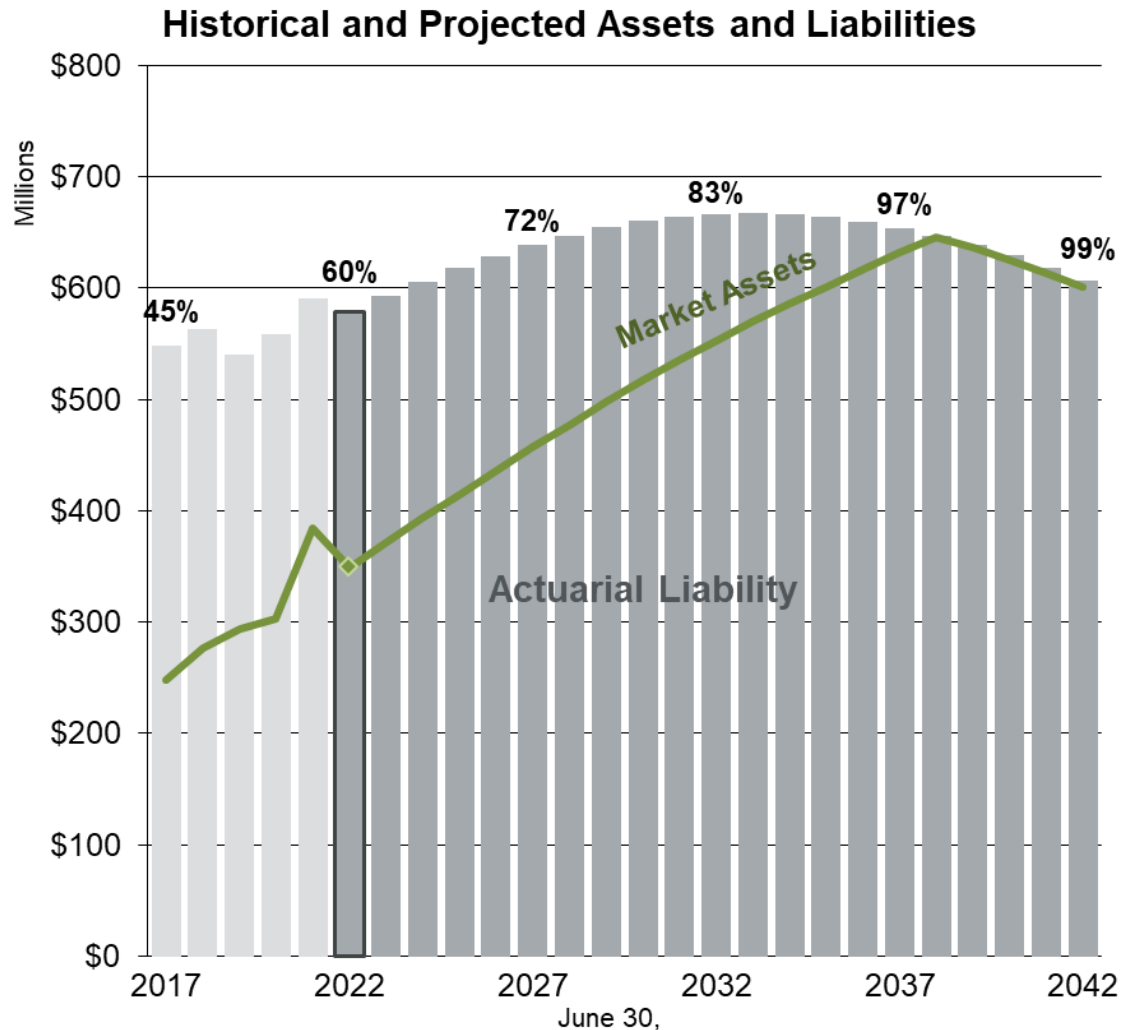
# Projected Benefit Payments



- 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

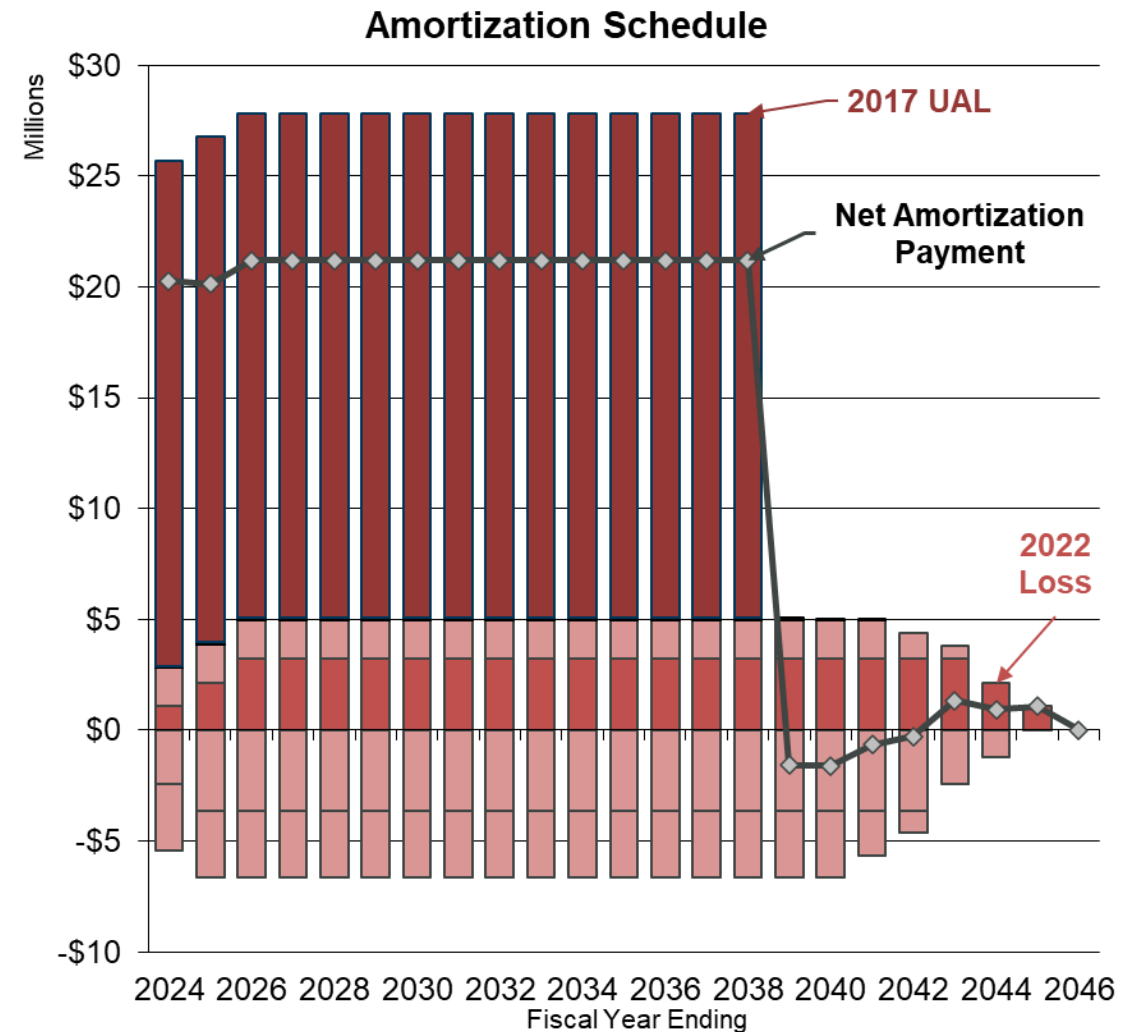


- Liabilities are projected to grow for approximately 10 more years
  - Liability increases due to new benefits and interest
  - Liability decreases due to benefit payments
- Assets are projected to grow faster than liabilities reaching 100% funding in 2038
  - Contributions and investment returns increase assets
  - Benefit payments reduce assets

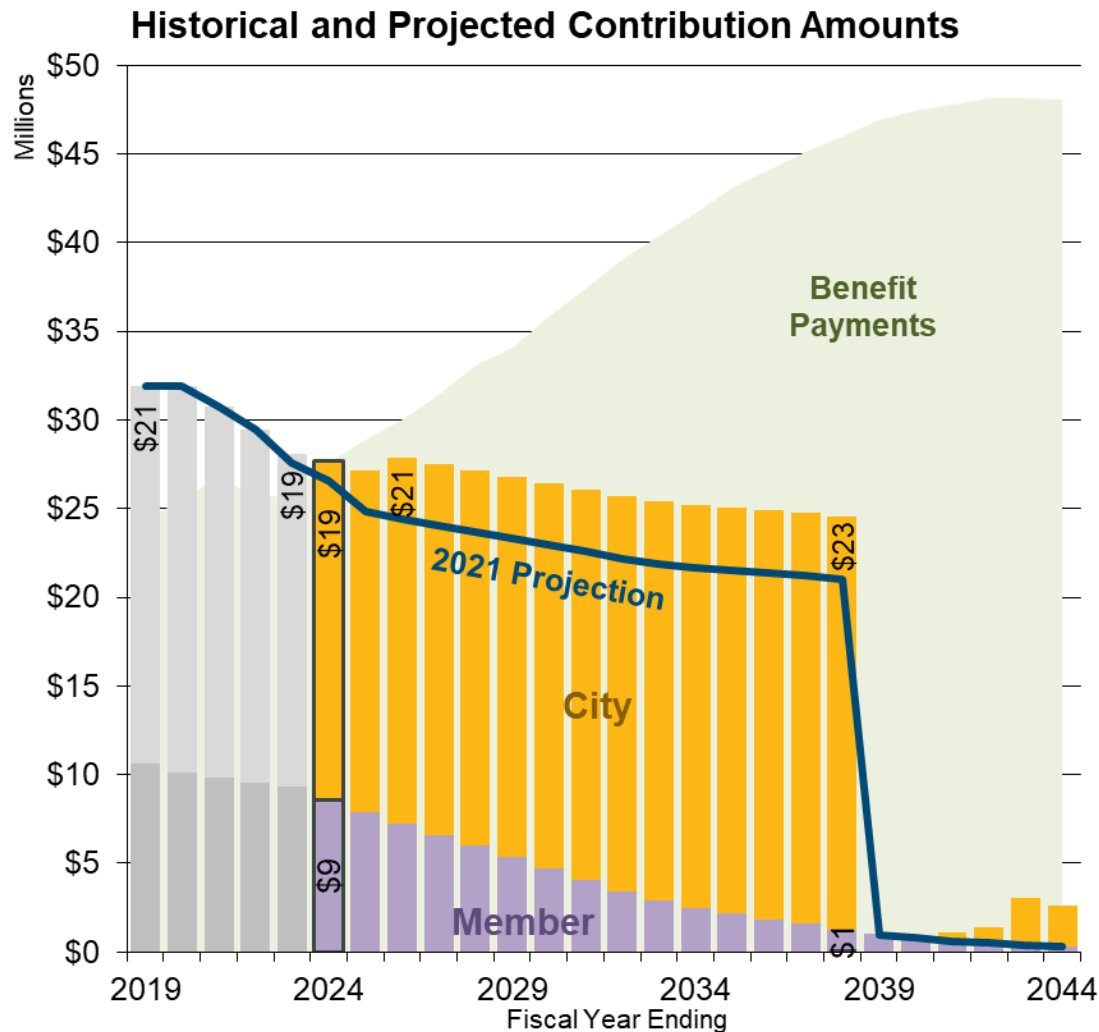
# Amortization Schedule to Payoff UAL



- 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 \$21 million for FYE 2026 and then remain relatively level until FYE 2039
- Benefit payments from the trust are expected to increase significantly, resulting in a growing net negative cash flow



- The purpose of this presentation is to present the results of the June 30, 2022 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

Michael W. Schionning, FSA, MAAA  
Principal Consulting Actuary

# Appendix – Contributions



## Summary of Contribution Amounts

FYE 2023   FYE 2024   % Change

### Explicit Subsidy

Members                      \$   8,807   \$   8,578   -2.6%

City's Actuarially  
Determined Contribution                      18,780                      19,095                      1.7%

Estimated City Optional  
Cap                      48,963                      52,047                      6.3%

Implicit Subsidy                      \$   5,247   \$   5,973   13.9%

*Dollar amounts in thousands*

## Five-Year Projection of City Contributions

FYE                      Throughout Year                      Beginning of Year\*

2023	\$	18,780	\$	18,240
2024		19,095		18,547
2025		19,239		18,686
2026		20,642		20,049
2027		20,901		20,301
2028		21,168		20,560

\* Assumes full discount

*Dollar amounts in thousands*