

San José Federated Postemployment Healthcare Plan

5c(1)



Final Actuarial Valuation Results June 30, 2024

January 16, 2025

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Agenda



Schedule

Summary of Valuation Results

Changes in UAL

Membership Trends

Baseline Projections

Appendix



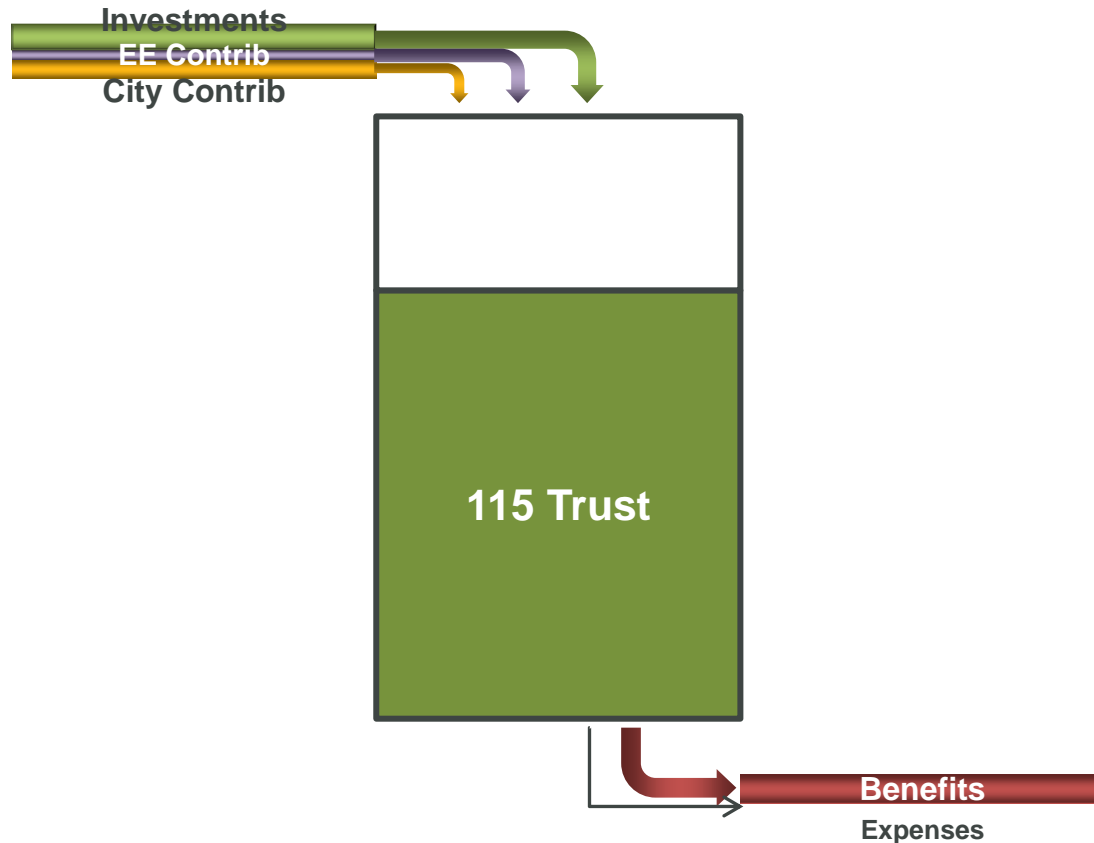
- October Board Meeting
 - ASOP 4 Updates
 - Pension Economic Assumption Review
- November Board Meeting
 - Preliminary Pension Valuation Results
 - Demographic Experience Study
 - OPEB Assumptions Review
- December Board Meeting
 - Final Pension Valuation Presentation
 - Final Pension Valuation Report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

Final Results





Explicit Subsidy Funding

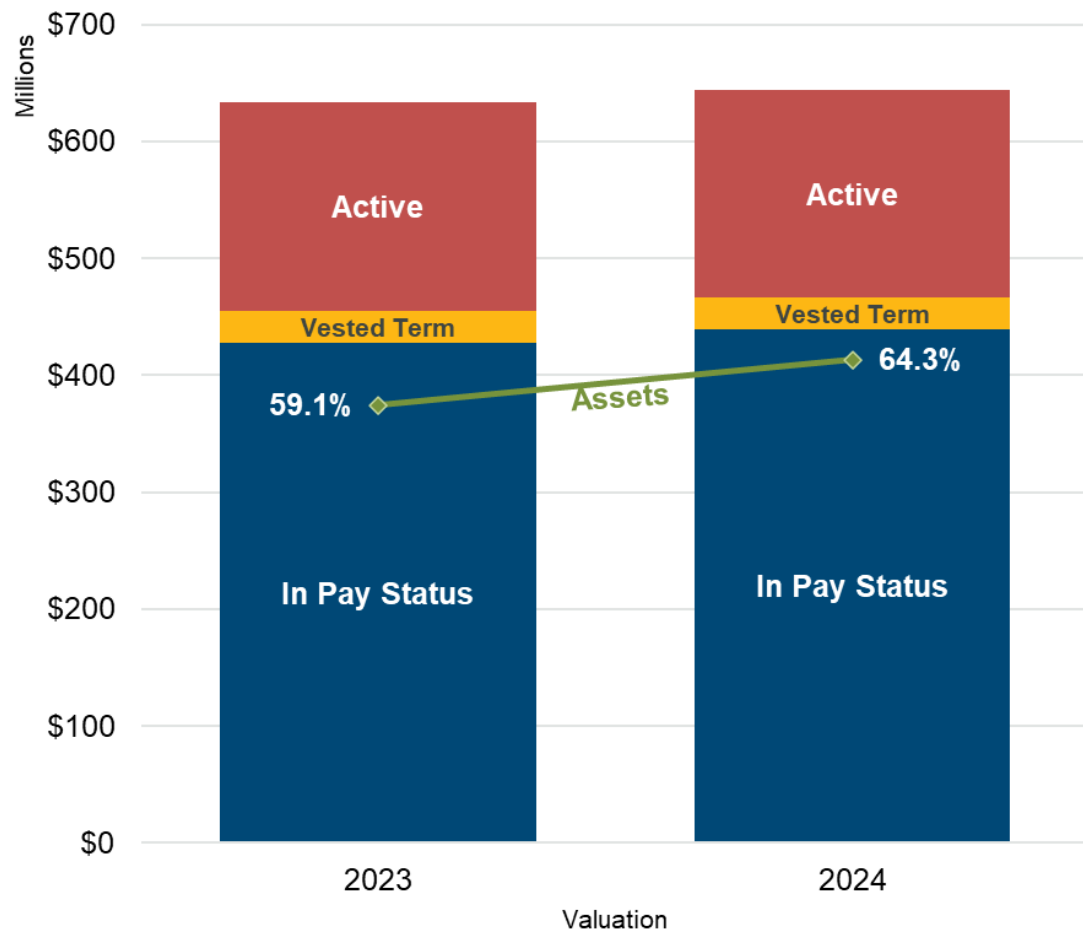


- Primary purpose of valuation is to set City contributions
 - 2024 valuation develops contributions for FYE 2026
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions for 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

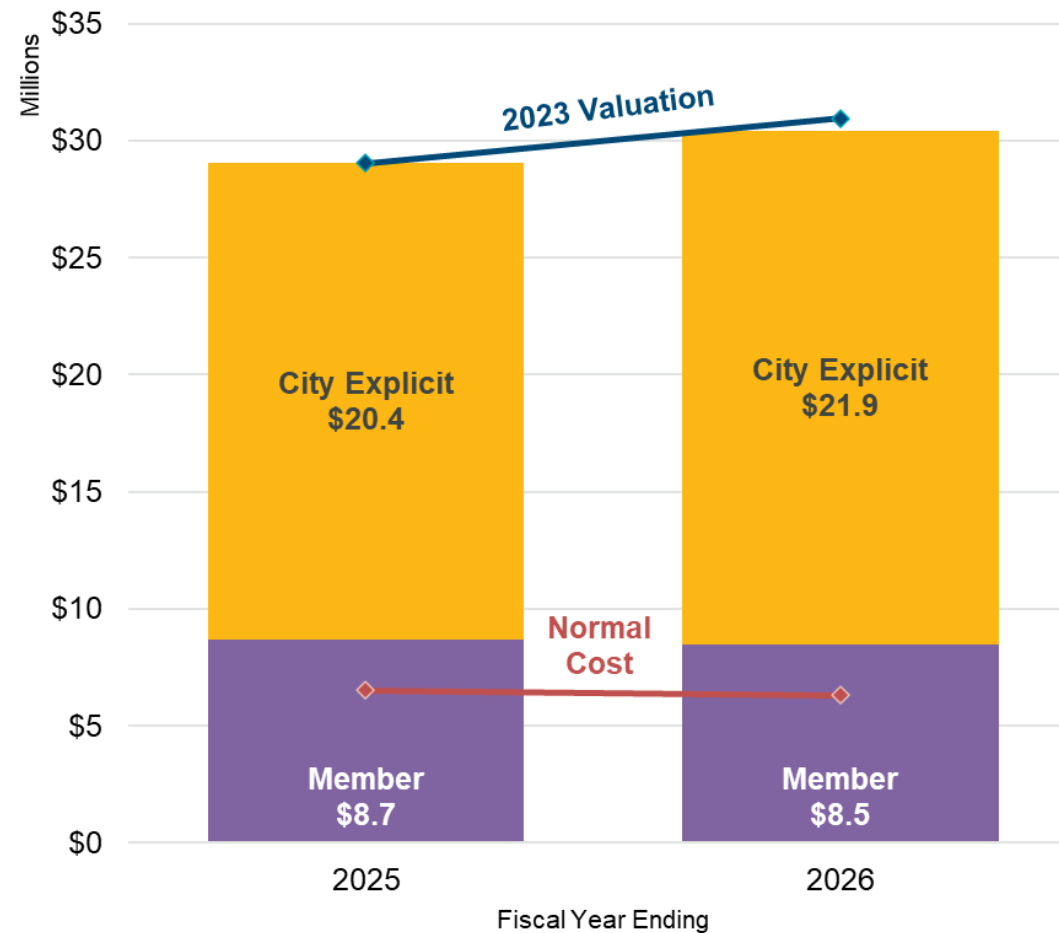
Final Valuation Results – Explicit Subsidy



Explicit Subsidy Funded Status



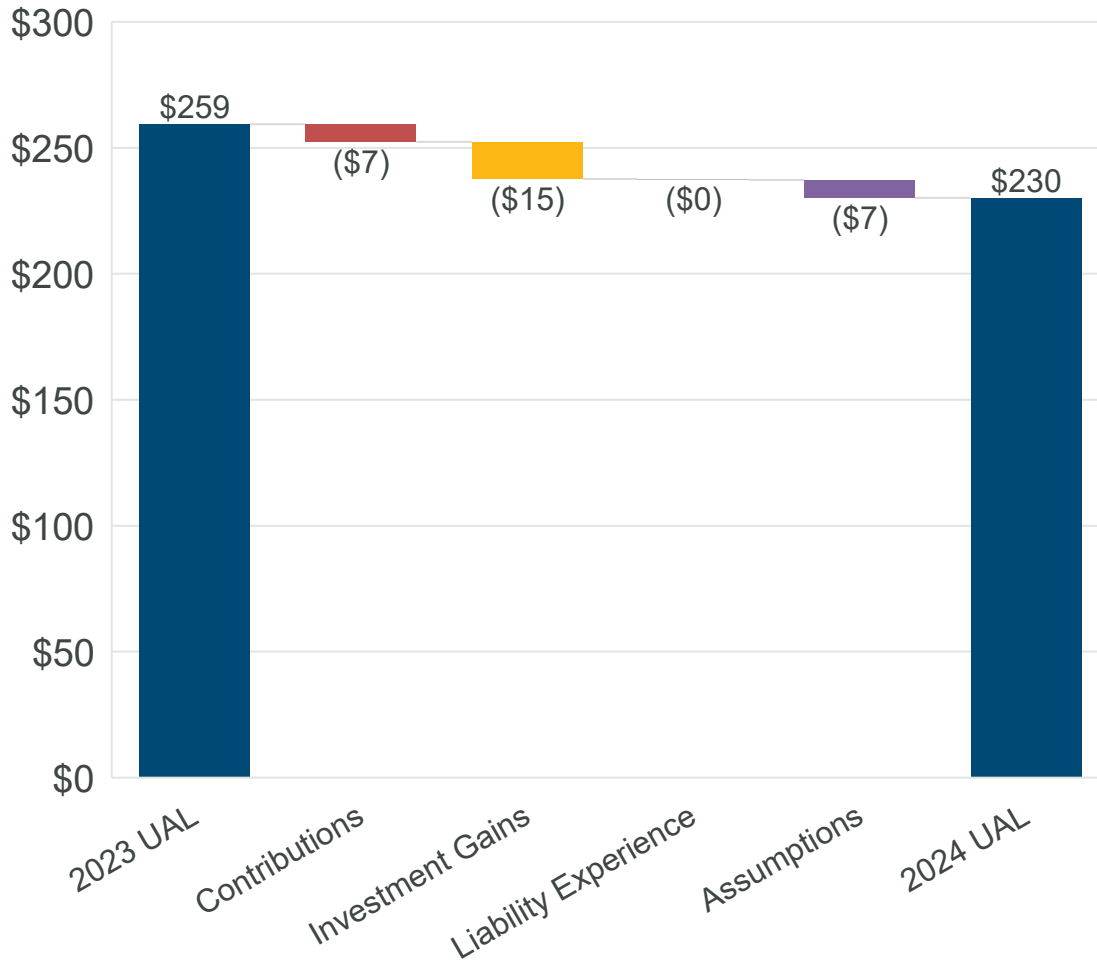
Contributions



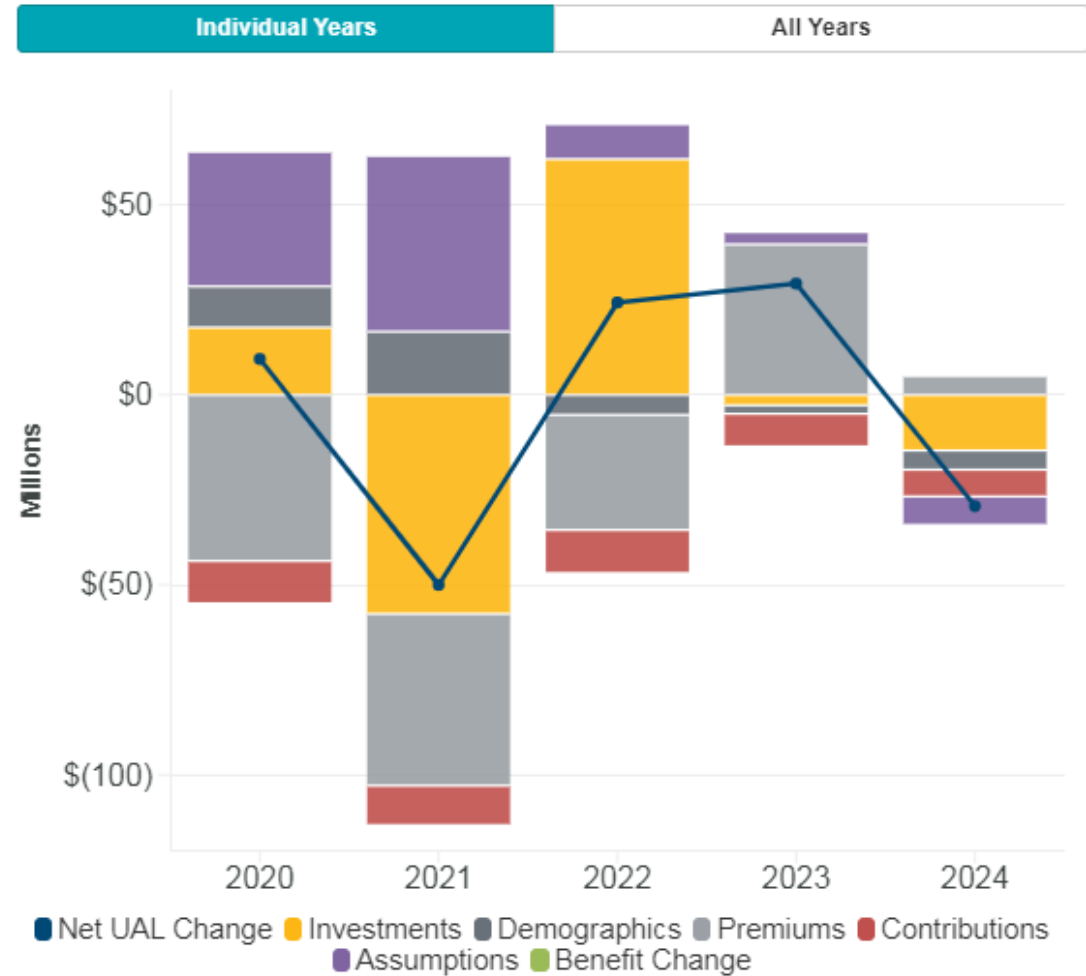
Changes in UAL – Explicit Subsidy



Change in UAL



Changes in UAL



Membership

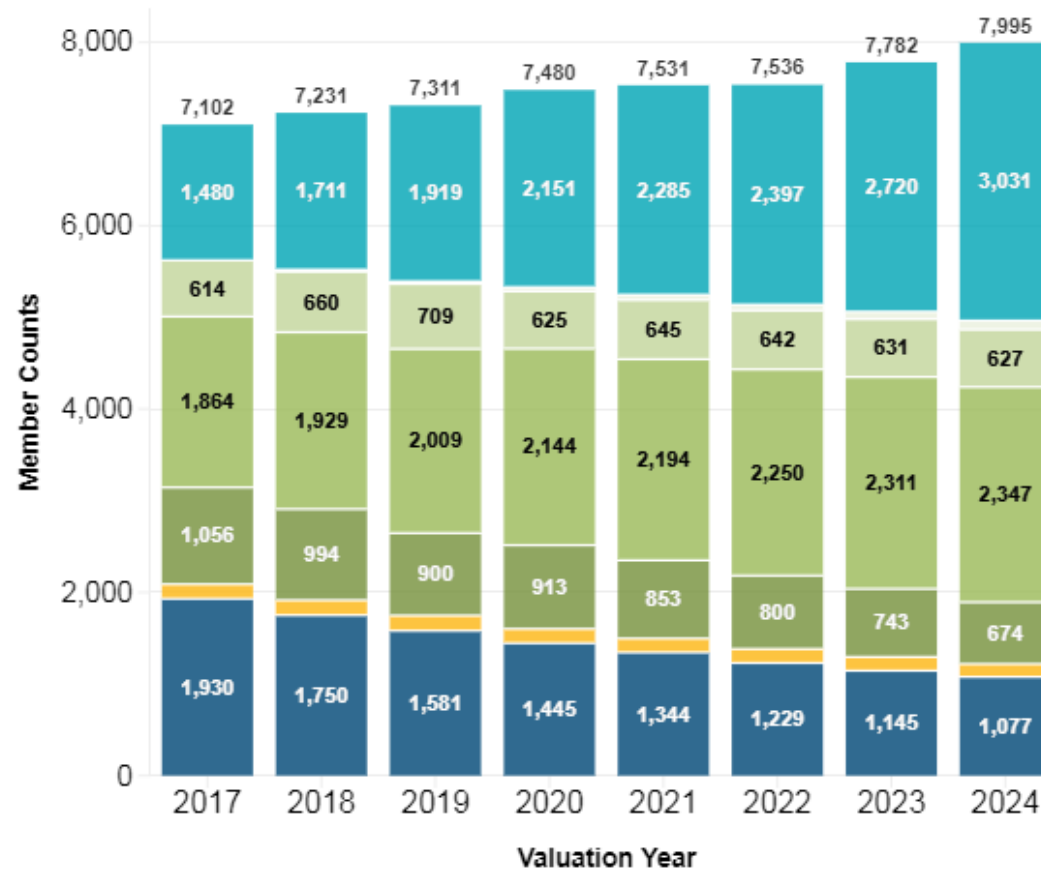


| Membership | | | |
|---|------------|------------|----------|
| | 6/30/2023 | 6/30/2024 | % Change |
| Active Members | | | |
| Eligible for Full Benefits | 1,145 | 1,077 | -5.9% |
| Eligible for Catastrophic Disability Only | 2,720 | 3,031 | 11.4% |
| Total Active Members | 3,865 | 4,108 | 6.3% |
| Deferred Vested Members | 150 | 141 | -6.0% |
| Members in Pay Status (Medical and/or Dental) | 3,685 | 3,648 | -1.0% |
| Members In-Lieu only | 82 | 98 | 19.5% |
| Total | 7,782 | 7,995 | 2.7% |
| Full Benefit Member Payroll | \$ 123,671 | \$ 123,038 | -0.5% |
| Total Payroll | \$ 409,009 | \$ 454,295 | 11.1% |

Dollar amounts in thousands

Membership Trends

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

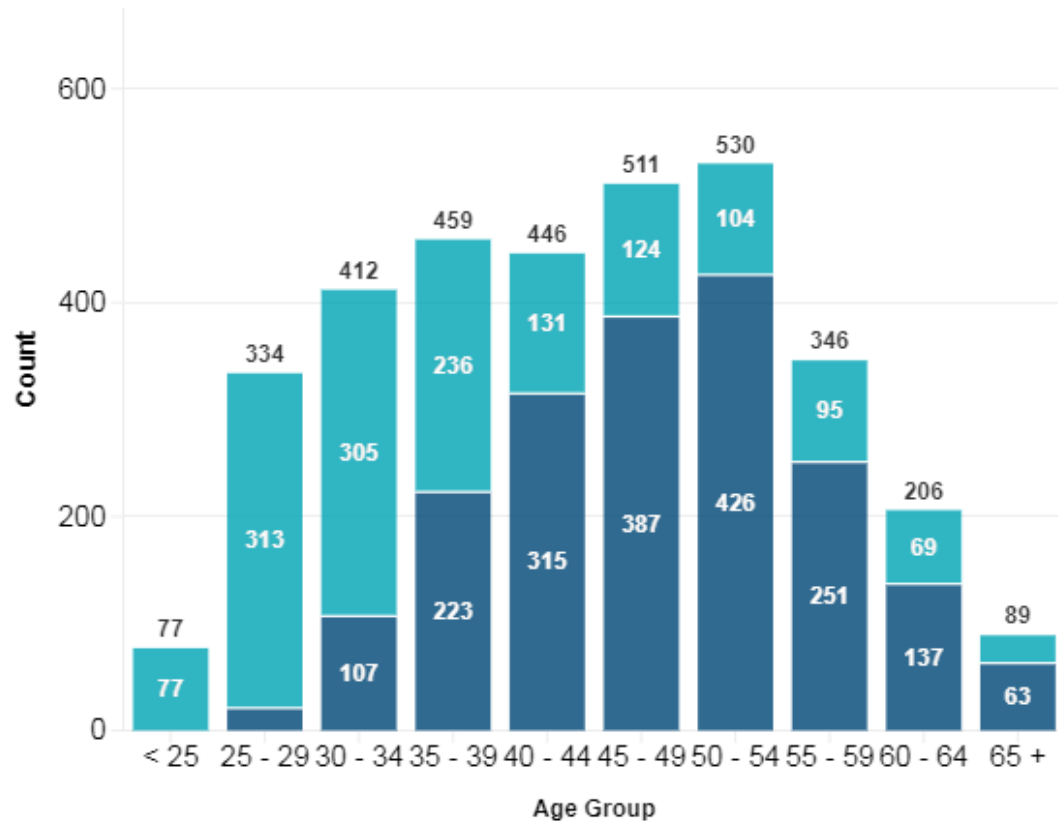


Member Distributions



Active Count Distribution

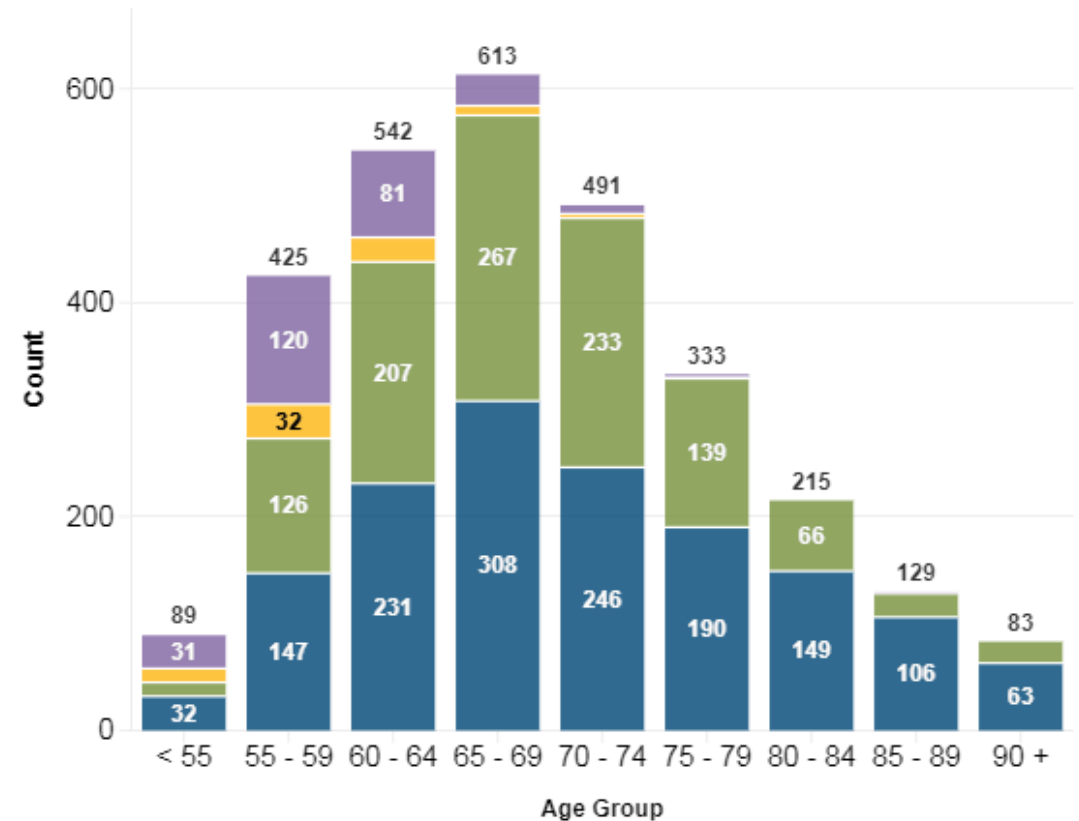
Eligibility: ■ Full Benefits ■ Catastrophic Disability Only



Valuation Year 2017 2023 2024

Retiree Count Distribution

Coverage Tier: ■ EE Only ■ EE + Spouse ■ EE + Children ■ Family



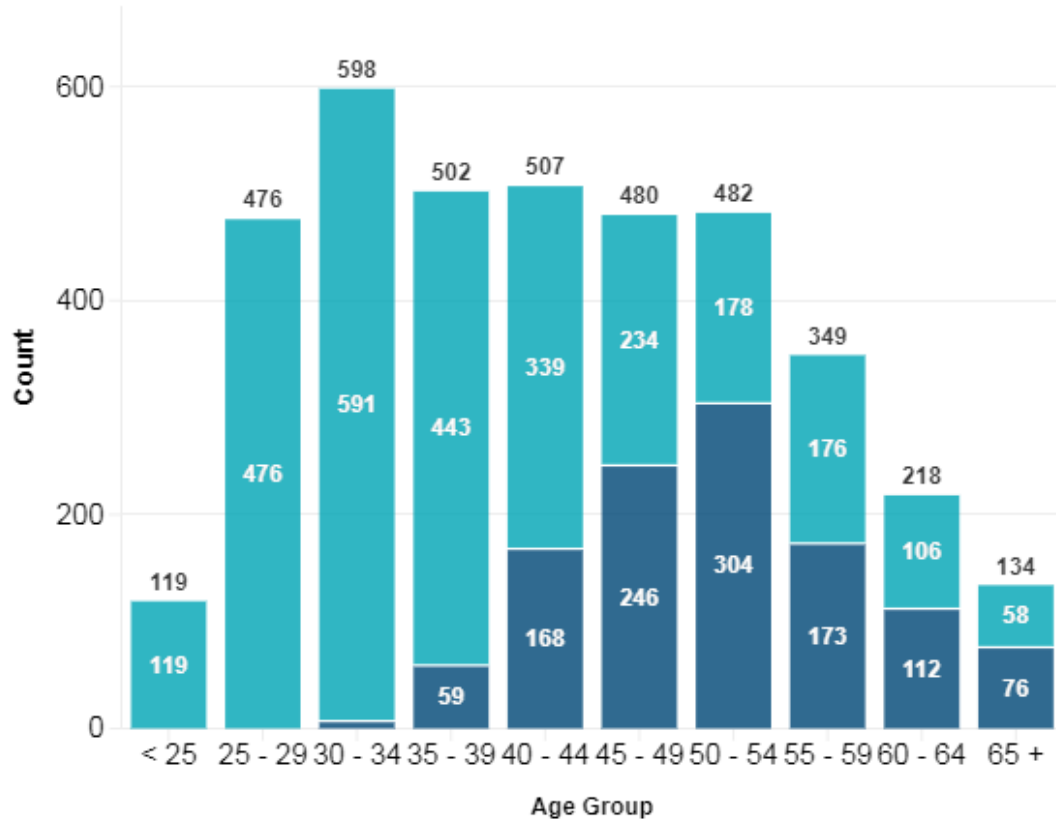
Valuation Year 2017 2023 2024

Member Distributions



Active Count Distribution

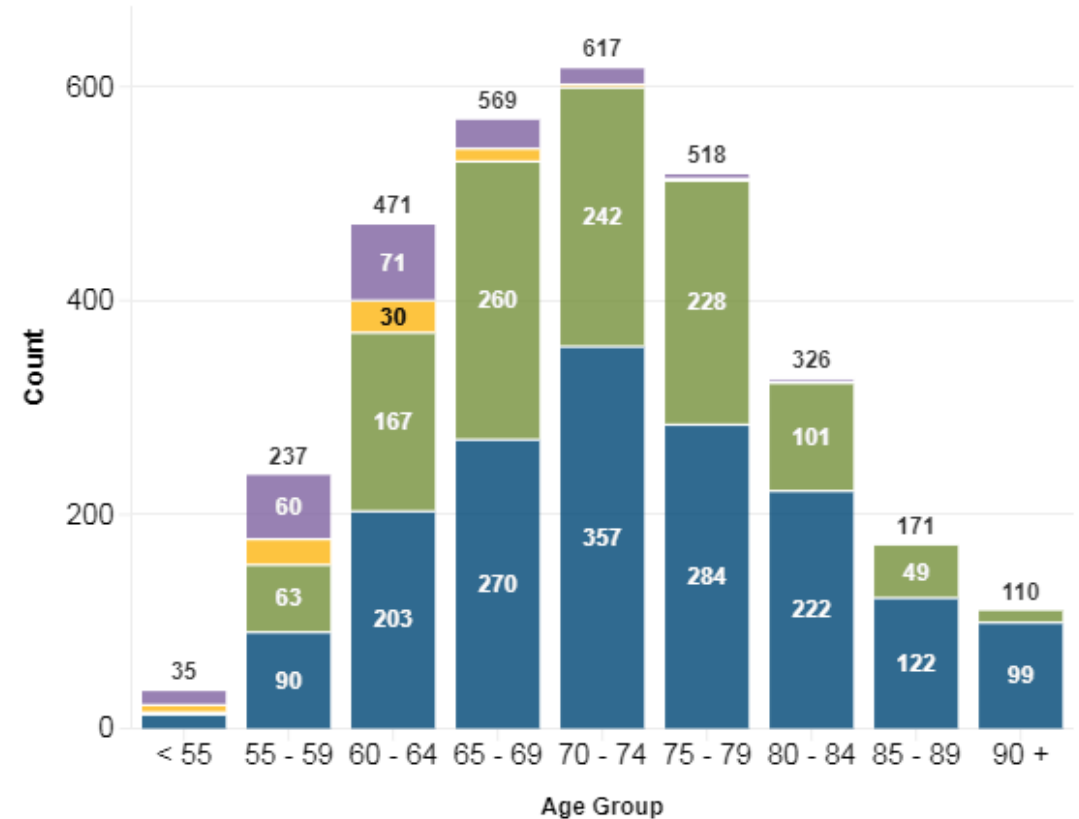
Eligibility: ■ Full Benefits ■ Catastrophic Disability Only



Valuation Year 2017 2023 2024

Retiree Count Distribution

Coverage Tier: ■ EE Only ■ EE + Spouse ■ EE + Children ■ Family



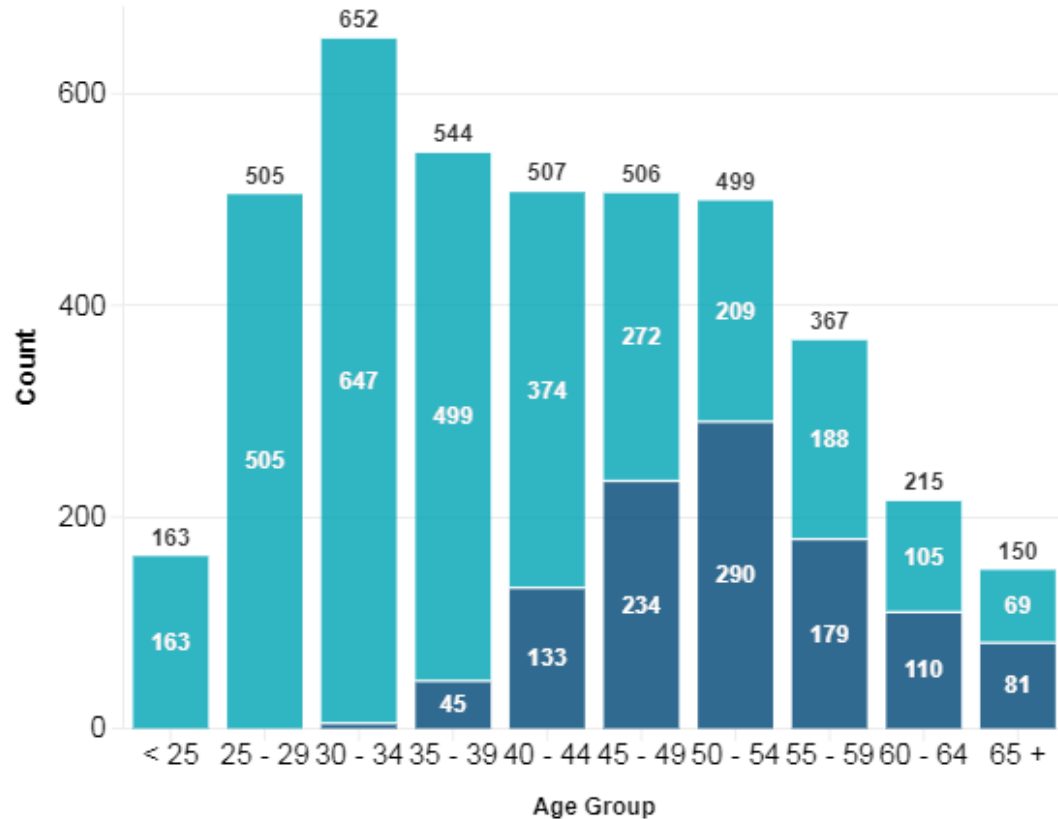
Valuation Year 2017 2023 2024

Member Distributions



Active Count Distribution

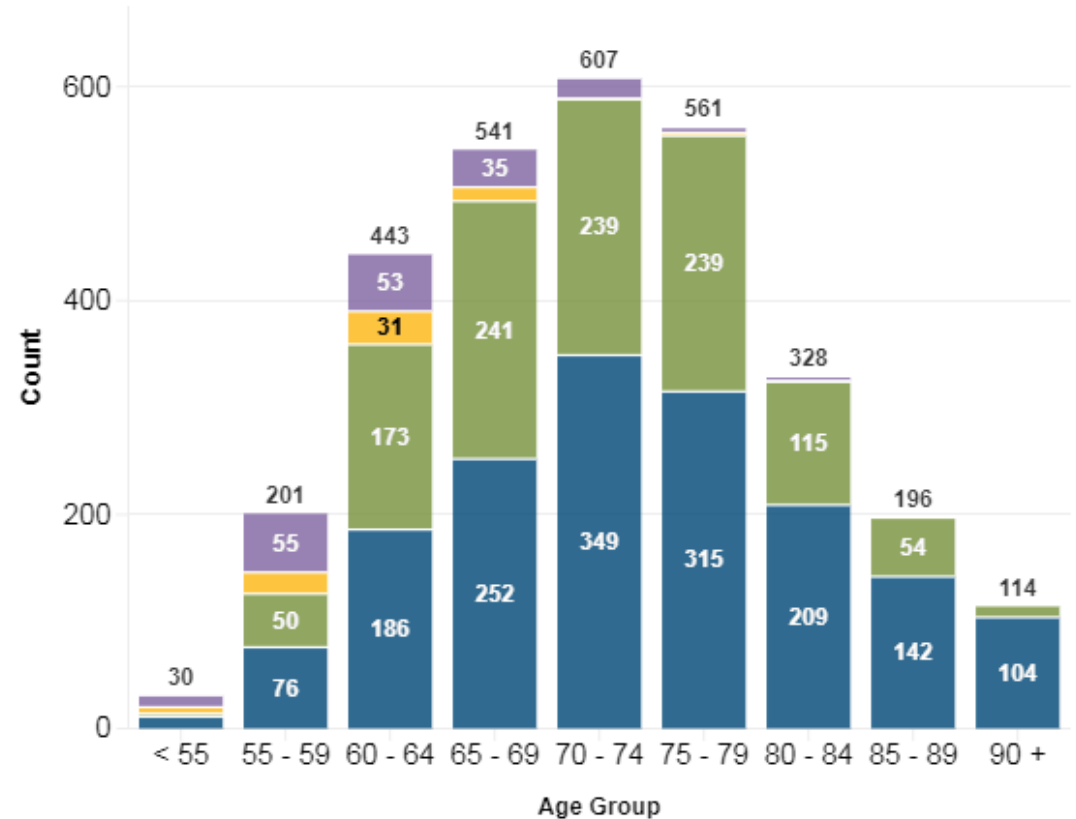
Eligibility: ■ Full Benefits ■ Catastrophic Disability Only



Valuation Year: 2017 2023 **2024**

Retiree Count Distribution

Coverage Tier: ■ EE Only ■ EE + Spouse ■ EE + Children ■ Family

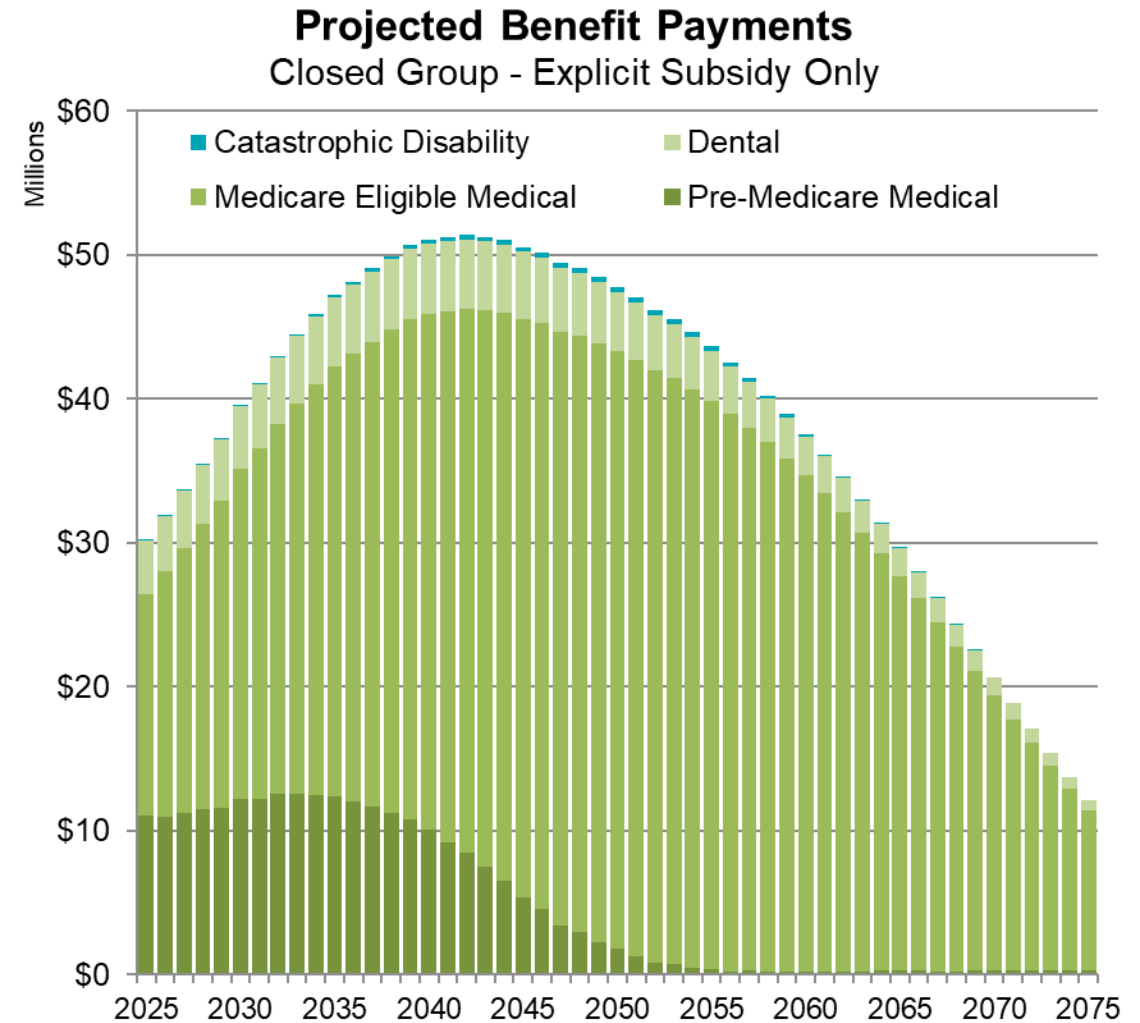


Valuation Year: 2017 2023 **2024**

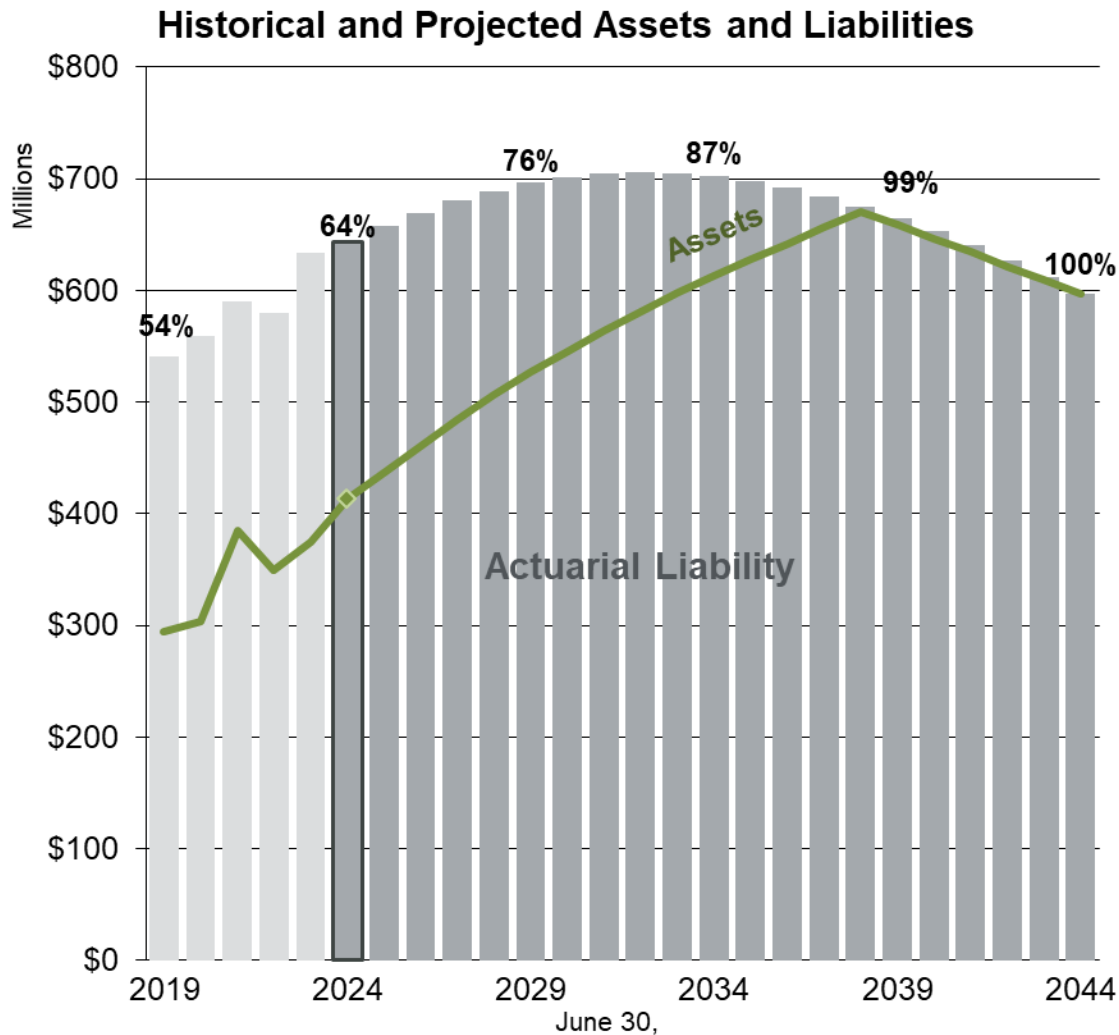
Projected Benefit Payments



- Full Benefits – Closed Group
 - Benefit payments expected to increase for next 18 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 yet
 - Payments stop at age 65



Projected Assets and Liabilities

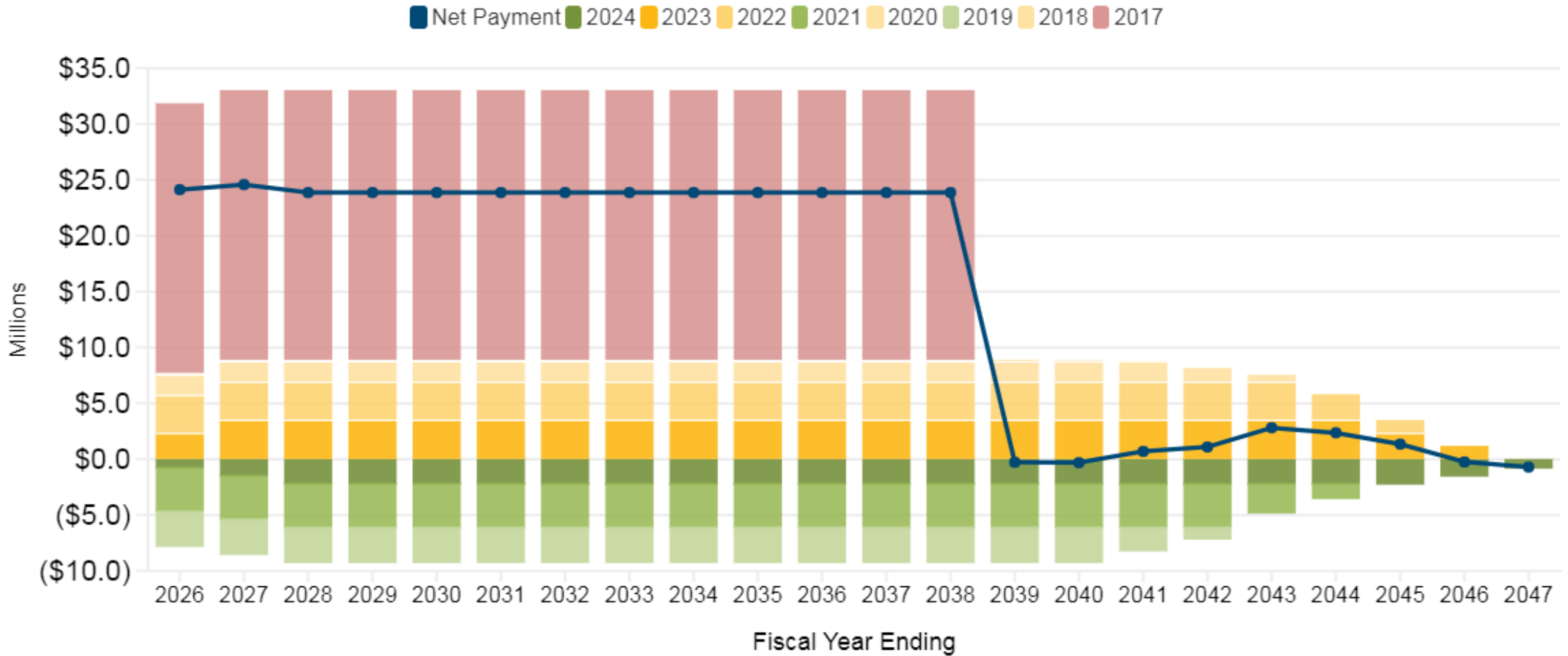


- Liabilities are projected to grow for 8 more years
 - Liability increases due to new benefits and interest
 - Liability decreases due to benefit payments
- Assets are projected to grow faster than liabilities, paying off the original UAL in 2038
 - Contributions and investment returns increase assets
 - Benefit payments reduce assets

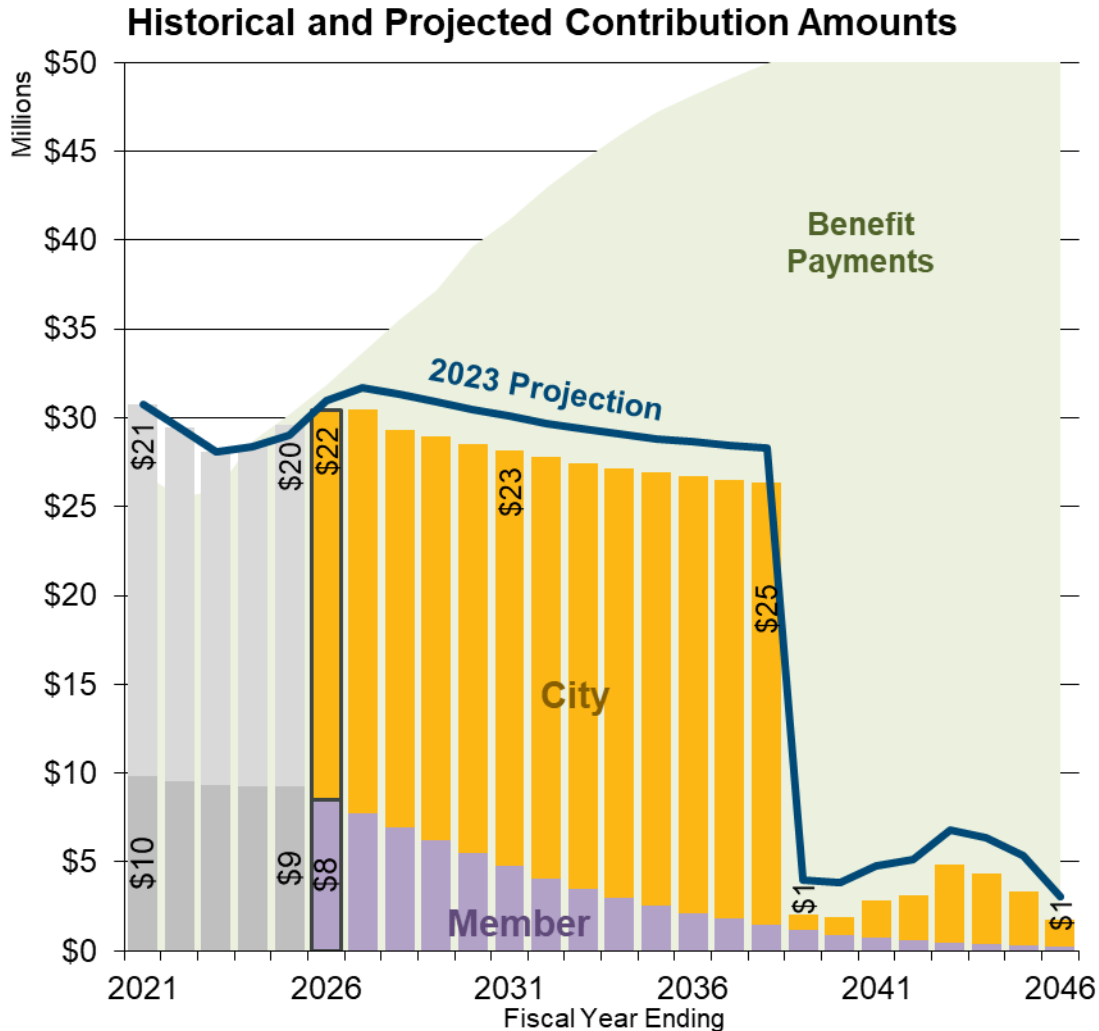
Amortization Schedule to Payoff UAL



2024 Amortization Payment Layers



Projected Contributions



- Member contributions are expected to decline as active membership eligible for full benefits declines
- City contributions are the total ADC minus member contributions
 - Total ADC is expected to remain level through FYE 2027 and then gradually decline through FYE 2038
 - Because member contributions are expected to decline more rapidly than the total ADC, the City contribution is expected to gradually increase through FYE 2038 to \$25 million 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 more sensitive to short-term investment returns

Review Funding Policy Within Next Few Years



- Current funding policy established in 2017 valuation
 - Funded ratio was 45% (now 64%)
 - Liabilities projected to increase for over 20 years (now 8 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 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, MAAA, FCA
Consulting Actuary

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Principal Consulting Actuary

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

Appendix – Contributions



Summary of Contribution Amounts

| | FYE 2025 | FYE 2026 | % Change |
|--|----------|----------|----------|
| Explicit Subsidy | | | |
| Members | \$ 8,683 | \$ 8,489 | -2.2% |
| City's Actuarially Determined Contribution | 20,352 | 21,929 | 7.8% |
| Estimated City Optional Cap | 58,979 | 65,509 | 11.1% |
| Implicit Subsidy | \$ 6,830 | \$ 6,984 | 2.2% |

Dollar amounts in thousands

Five-Year Projection of City Contributions

| FYE | Throughout Year | Beginning of Year* |
|------|-----------------|--------------------|
| 2025 | \$ 20,352 | \$ 19,767 |
| 2026 | 21,929 | 21,300 |
| 2027 | 22,747 | 22,094 |
| 2028 | 22,364 | 21,722 |
| 2029 | 22,696 | 22,045 |
| 2030 | 23,044 | 22,383 |

* Assumes full discount

Dollar amounts in thousands