

San José Federated Postemployment Healthcare Plan

Preliminary Actuarial Valuation Results June 30, 2024

December 19, 2024

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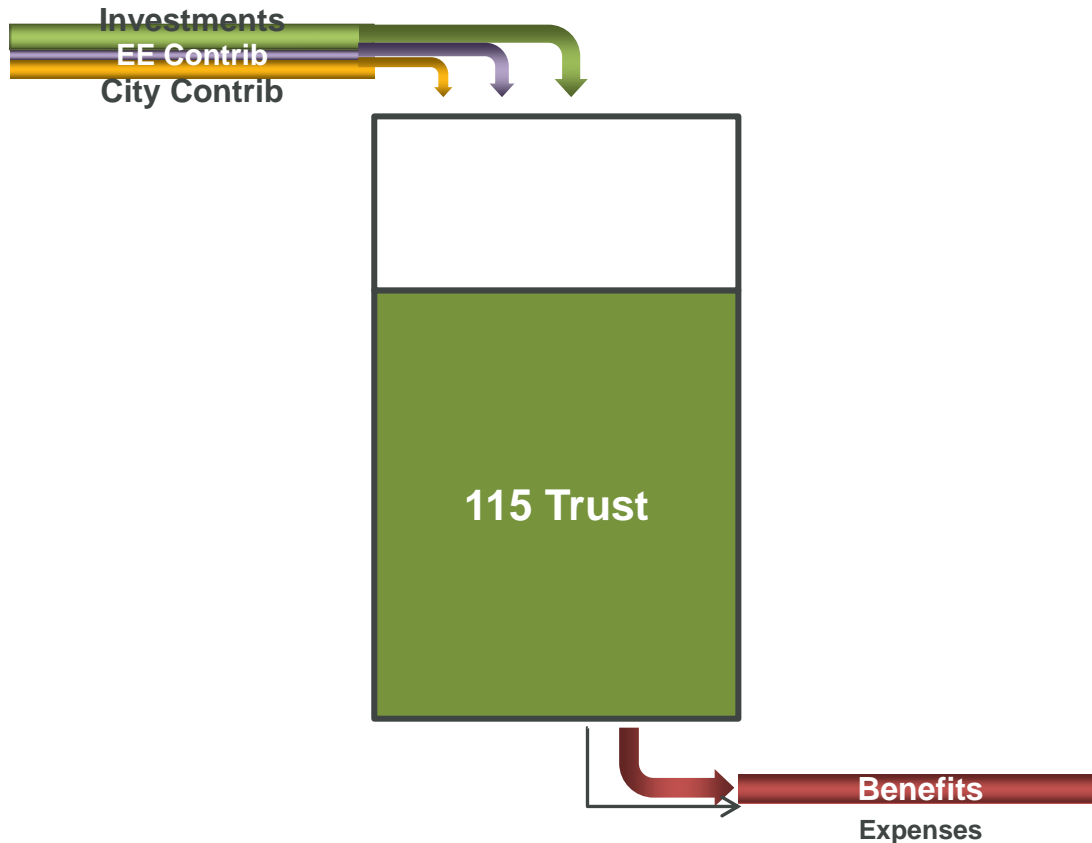


- Background
- Preliminary Valuation Results
 - Contributions
 - Funded Status
 - Membership
 - Changes in UAL

A Dynamic System



Explicit Subsidy Funding

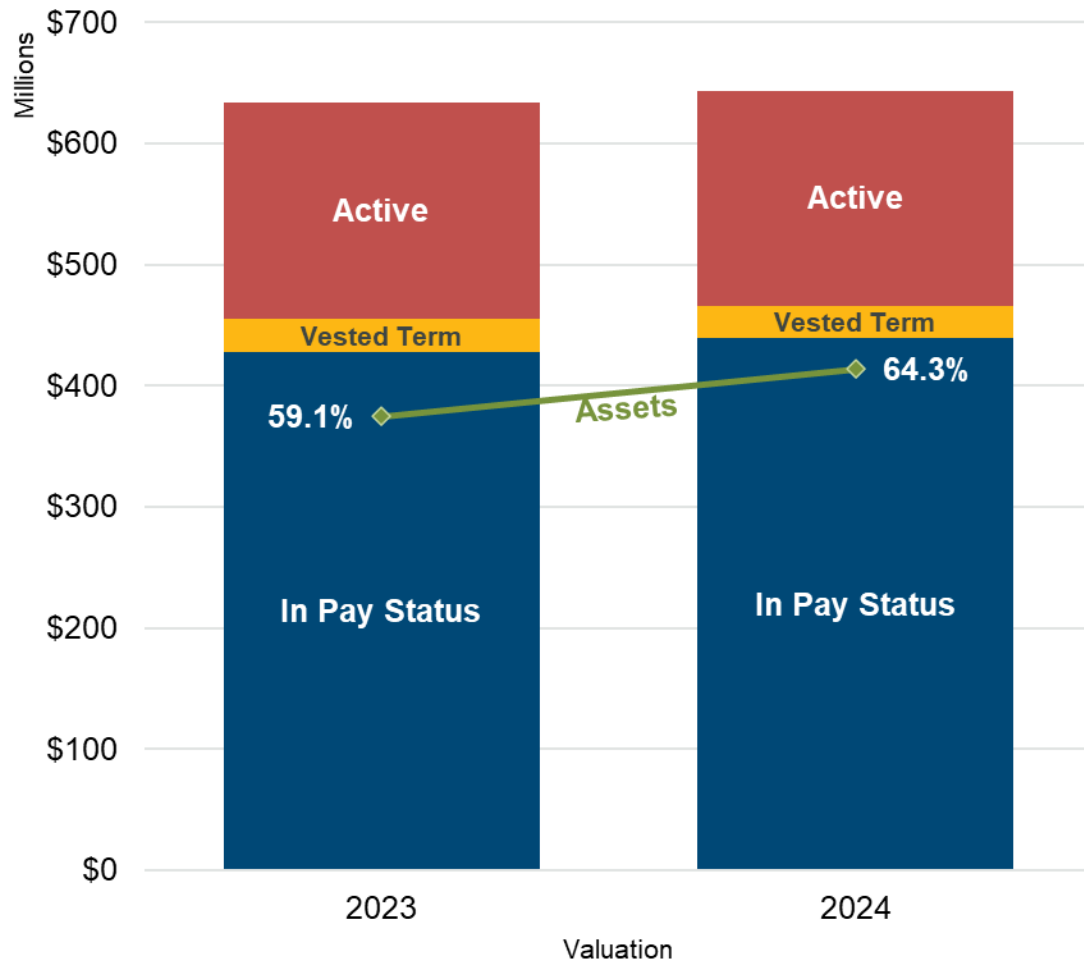


- Primary purpose of valuation is to set City contributions
 - 2024 valuation develops contributions for FYE 2026
- Project future benefit payments
 - Plan provisions, census data, and actuarial assumptions
- Determine funding target
 - Actuarial cost method and assumptions
- Set City contributions
 - Plan provisions, actuarial methods, and discount rate
 - Member contributions are fixed at 7.5% of pay

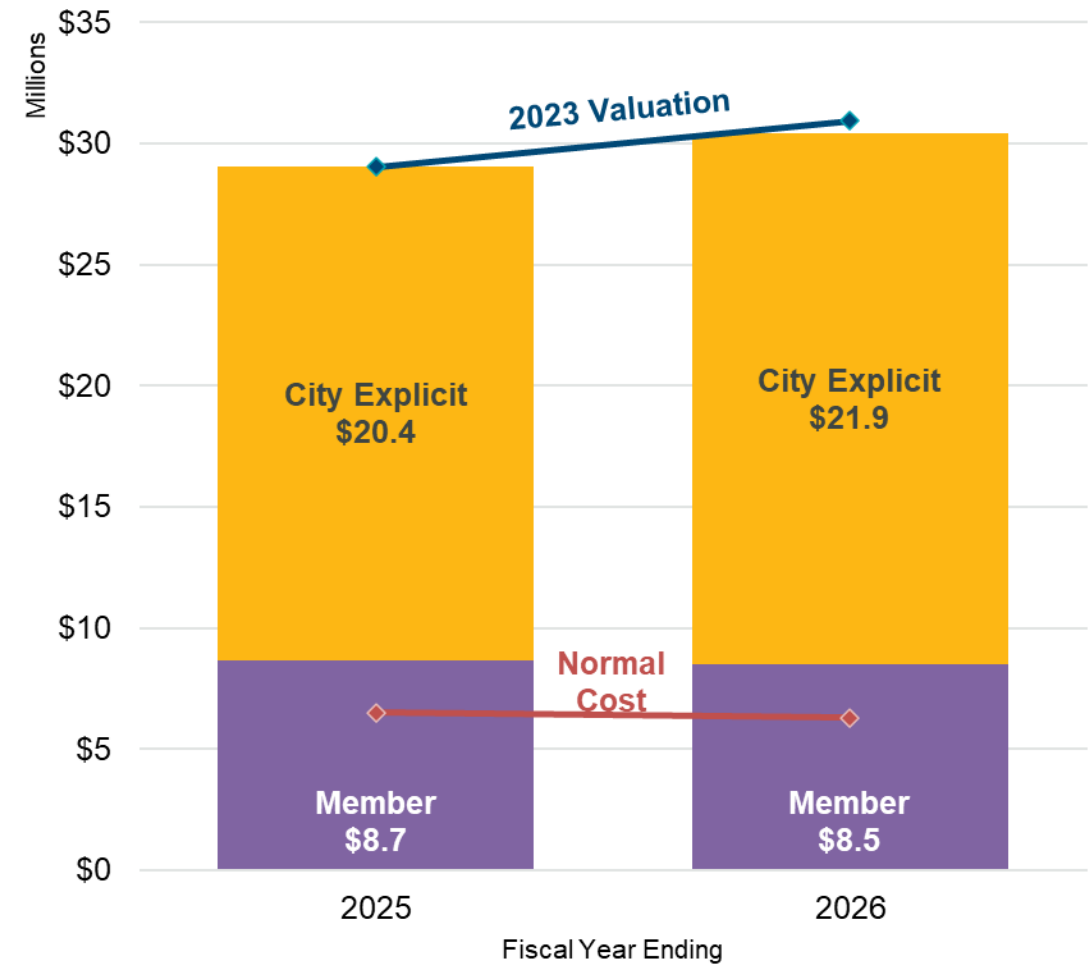
Preliminary Valuation Results – Explicit Subsidy



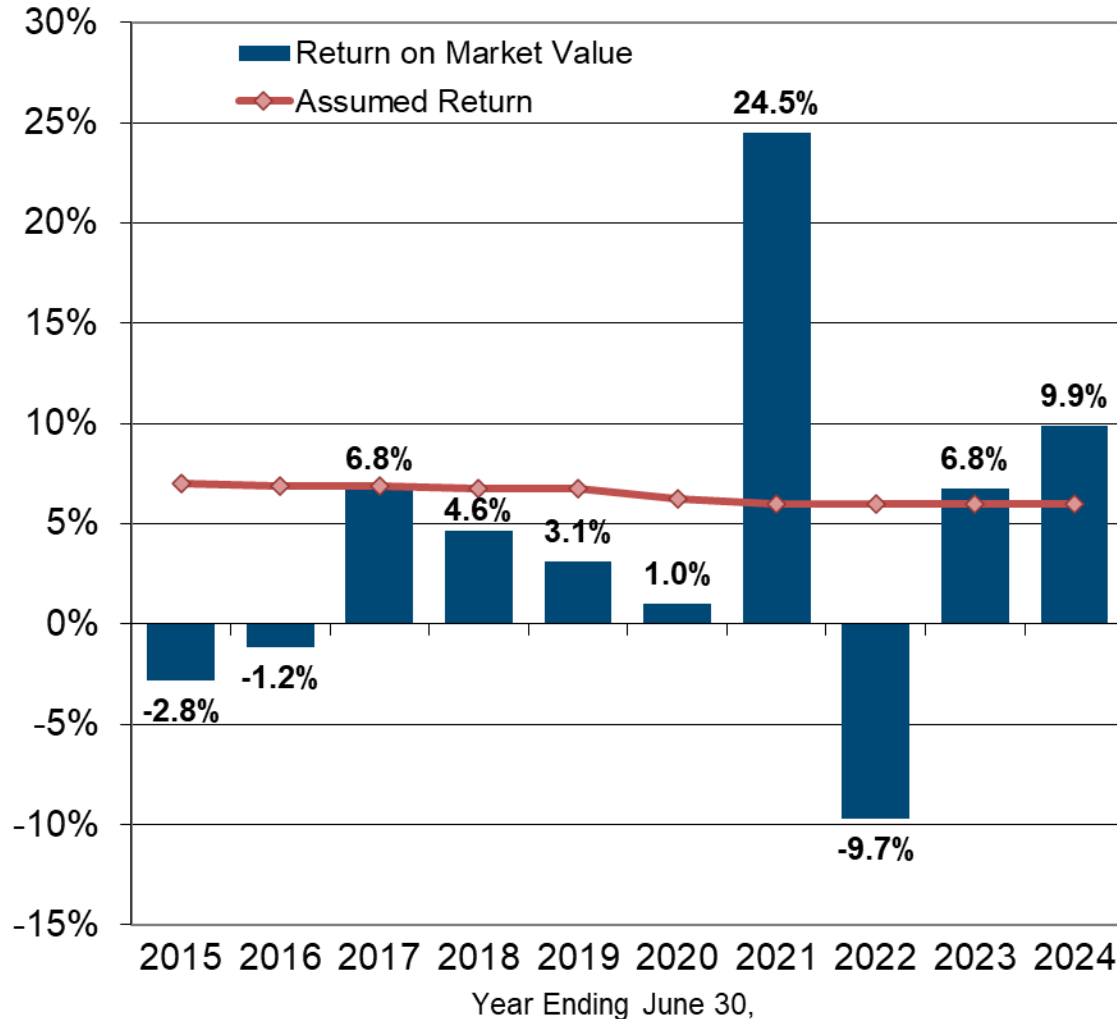
Explicit Subsidy Funded Status



Contributions



Investment Returns



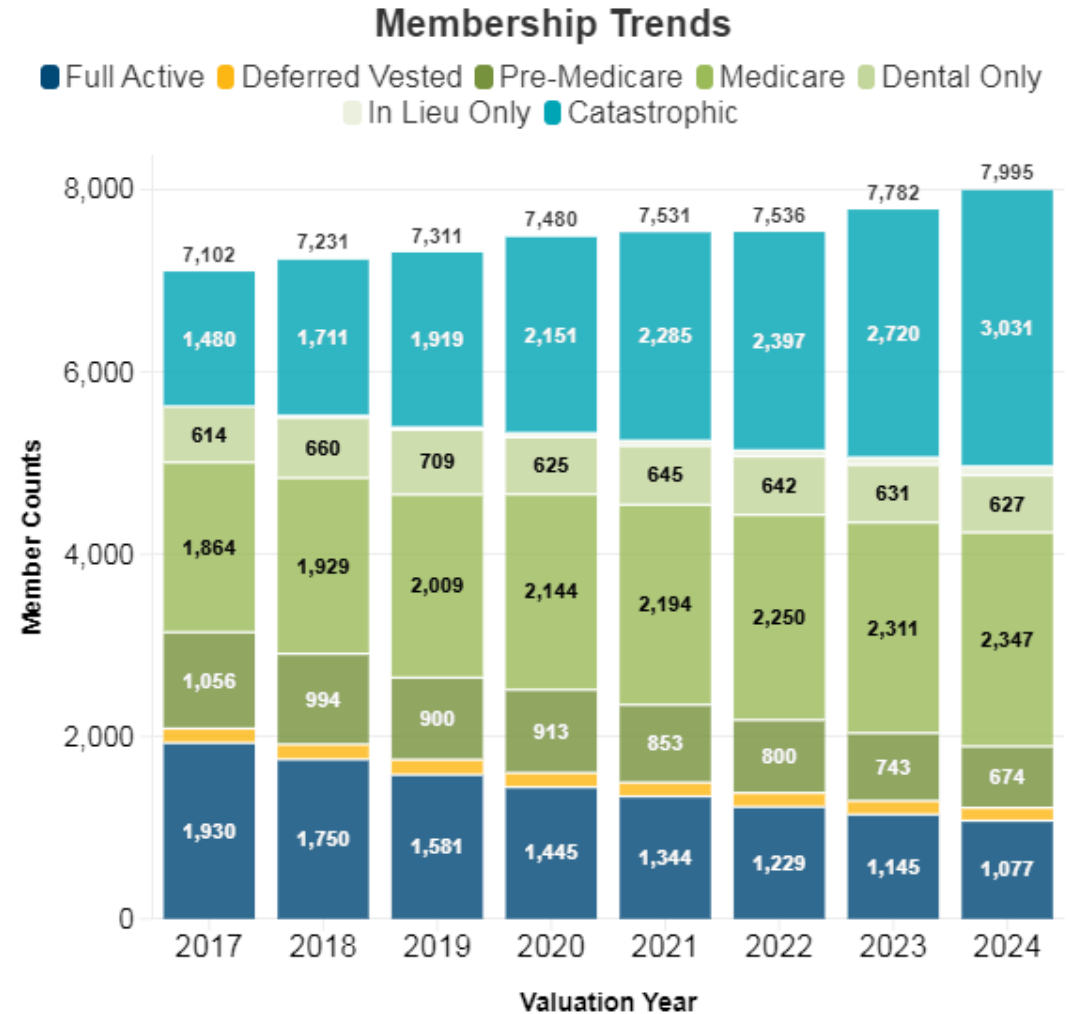
- Dollar-weighted rates of return
 - 6.0% assumed
 - 9.9% for FYE 2024
 - 5-year average = 5.9%
- FYE 2024 investment earnings
 - Expected = \$22.5 million
 - Actual = \$37.1 million
 - Investment gain = \$14.6 million

Membership

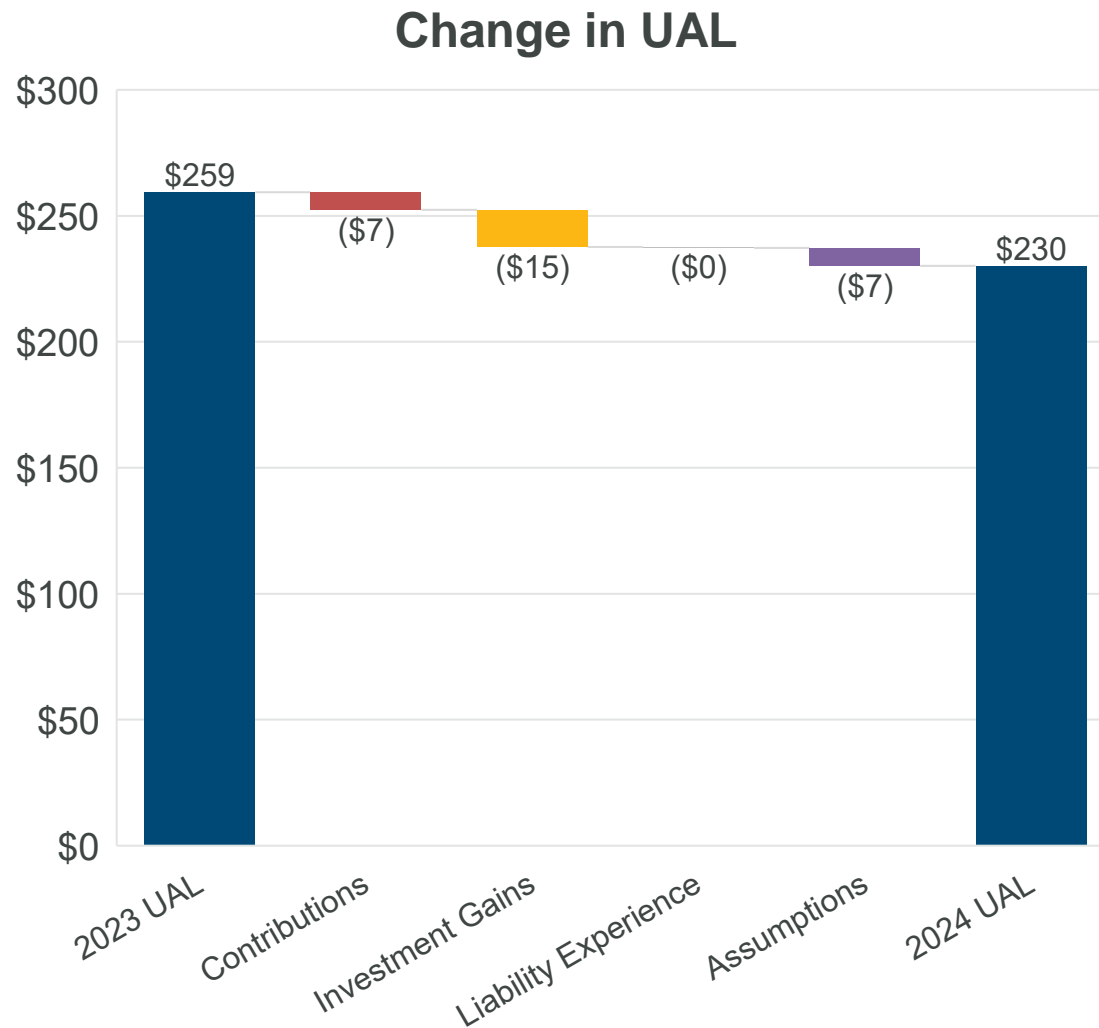


Membership			
	6/30/2023	6/30/2024	% Change
Active Members			
Eligible for Full Benefits	1,145	1,077	-5.9%
Eligible for Catastrophic Disability Only	2,720	3,031	11.4%
Total Active Members	3,865	4,108	6.3%
Deferred Vested Members	150	141	-6.0%
Members in Pay Status (Medical and/or Dental)	3,685	3,648	-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



Changes in UAL – Explicit Subsidy

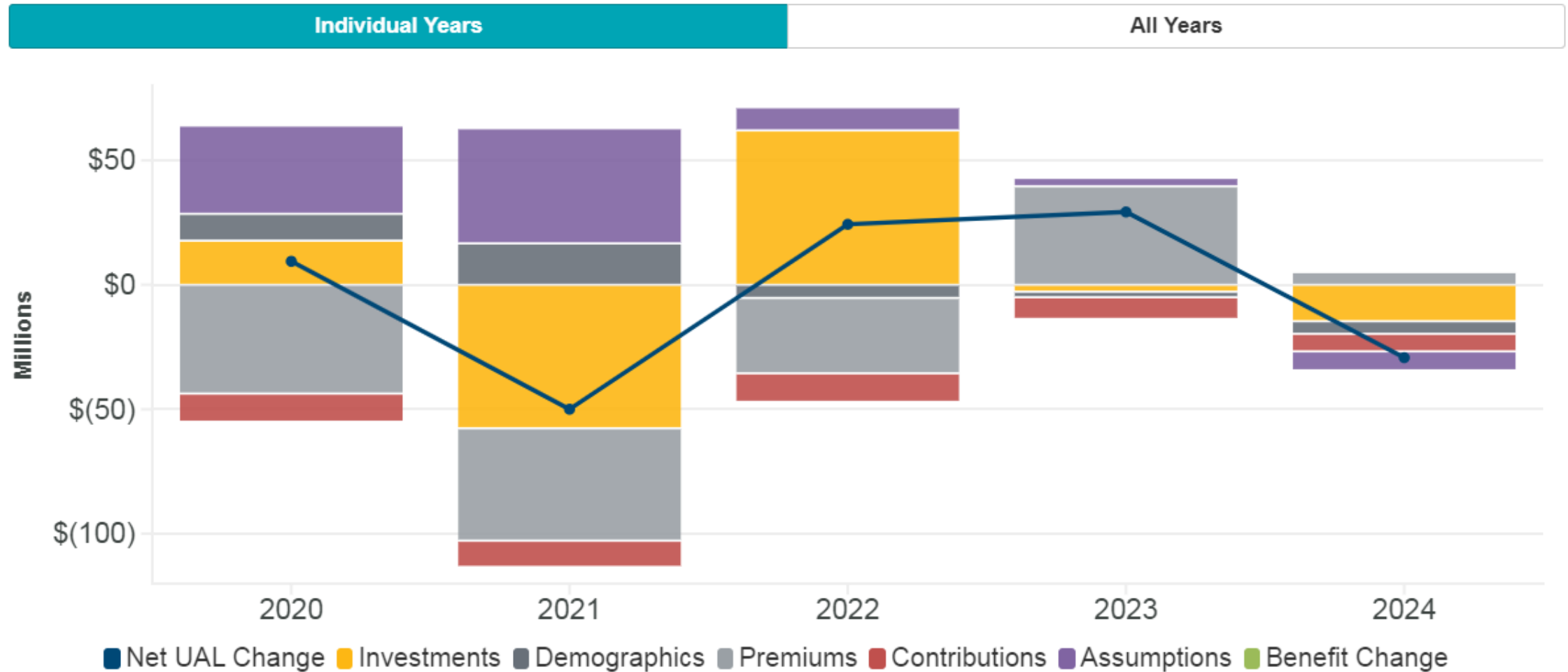


- UAL decreased \$29 million
- Reductions
 - \$15 million due to investment returns
 - \$7 million due to contributions greater than the tread water amount
 - \$7 million due to assumption changes
 - Less than \$1 million due to liability experience
 - \$5.1 million reduction due to demographic gains
 - \$4.7 million increase due to premium experience

Historical Changes in UAL – Explicit Subsidy



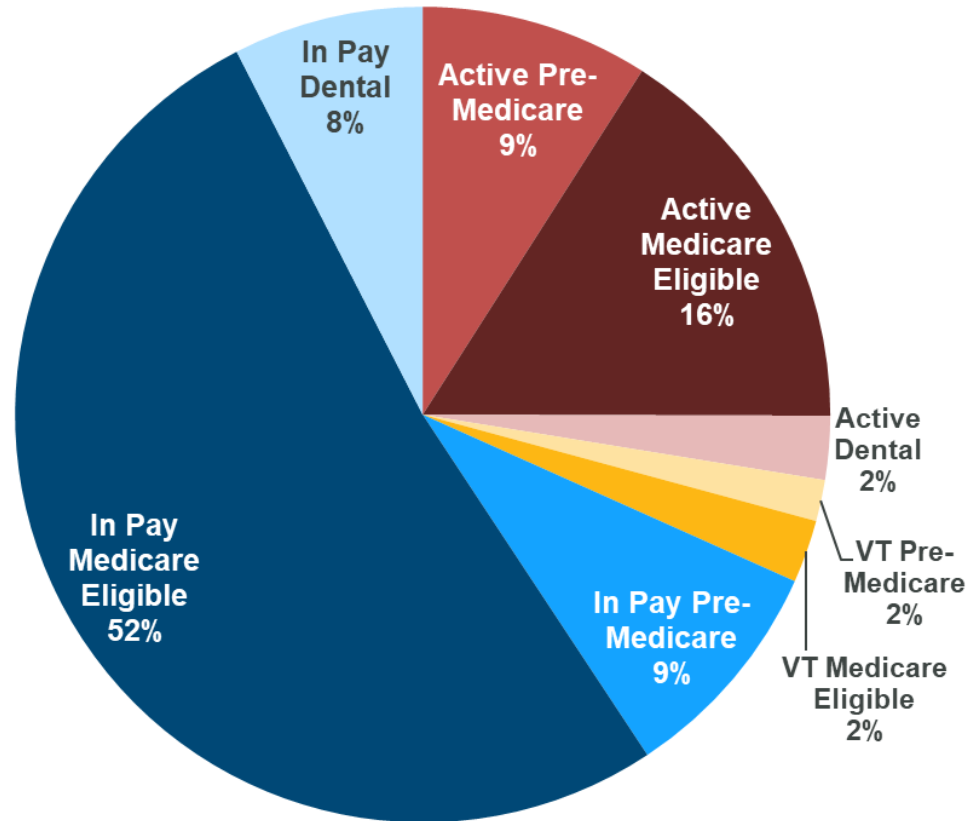
Changes in UAL



Actuarial Liability by Benefit



Actuarial Liability



- Liability Breakdown
 - 69% currently In pay status
 - 70% medical benefits after eligibility for Medicare
 - 20% medical benefits prior to eligibility for Medicare
 - 10% dental benefits

Contribution Summary



- Member contributions are generally declining as members eligible for full benefits retire
- City's explicit subsidy contribution increased by \$1.6 million
- City's optional contribution cap is almost three times the Actuarially Determined Contribution for FYE 2026
- City's implicit subsidy contribution also increased by \$0.2 million

Summary of Contribution Amounts

	FYE 2025	FYE 2026	% Change
Explicit Subsidy			
Members	\$ 8,683	\$ 8,489	-2.2%
City's Actuarially Determined Contribution	<u>20,352</u>	<u>21,929</u>	<u>7.7%</u>
Total Explicit Subsidy Contribution	\$ 29,035	\$ 30,418	4.8%
Estimated City Optional Cap	58,979	65,509	11.1%
Implicit Subsidy	\$ 6,830	\$ 6,984	2.2%

Dollar amounts in thousands



The purpose of this presentation is to present the preliminary 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.

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