

# San José Police and Fire Postemployment Healthcare Plan

## Preliminary Actuarial Valuation Results June 30, 2021

January 6, 2022

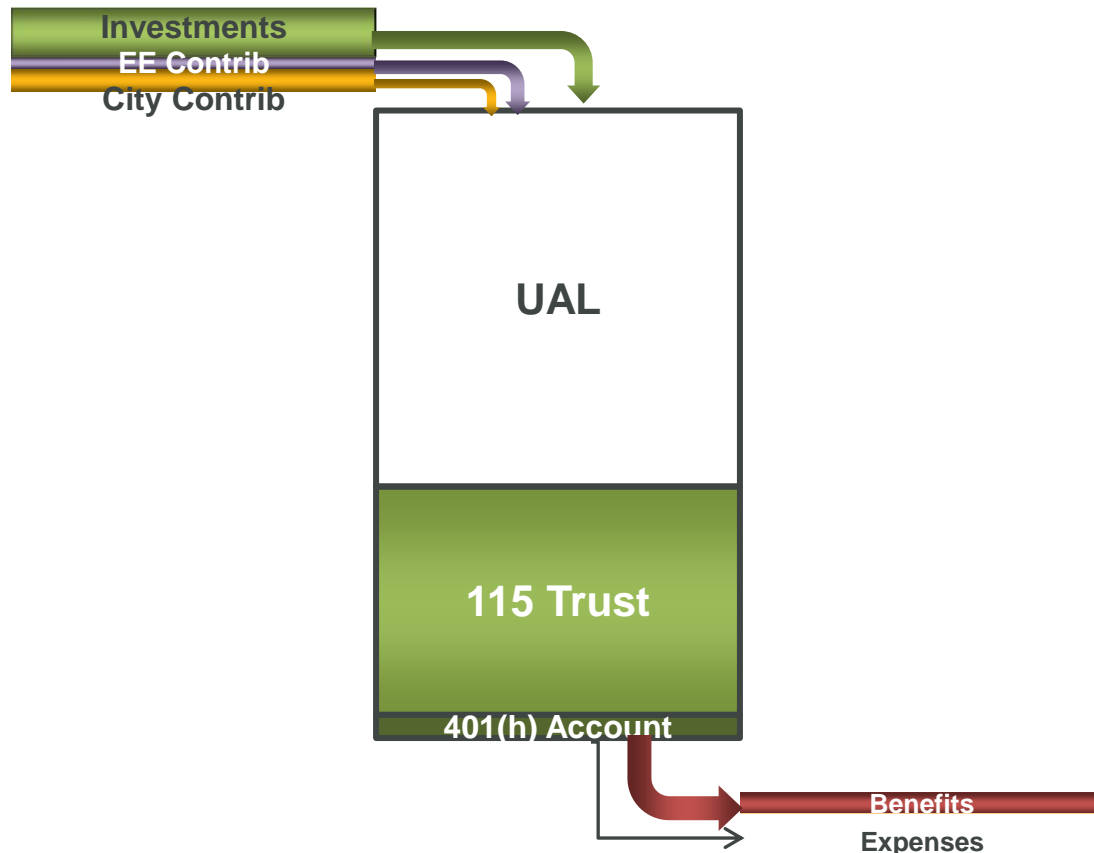
Bill Hallmark, ASA, EA, FCA, MAAA  
Michael Schionning, FSA, MAAA



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



## Explicit Subsidy Funding

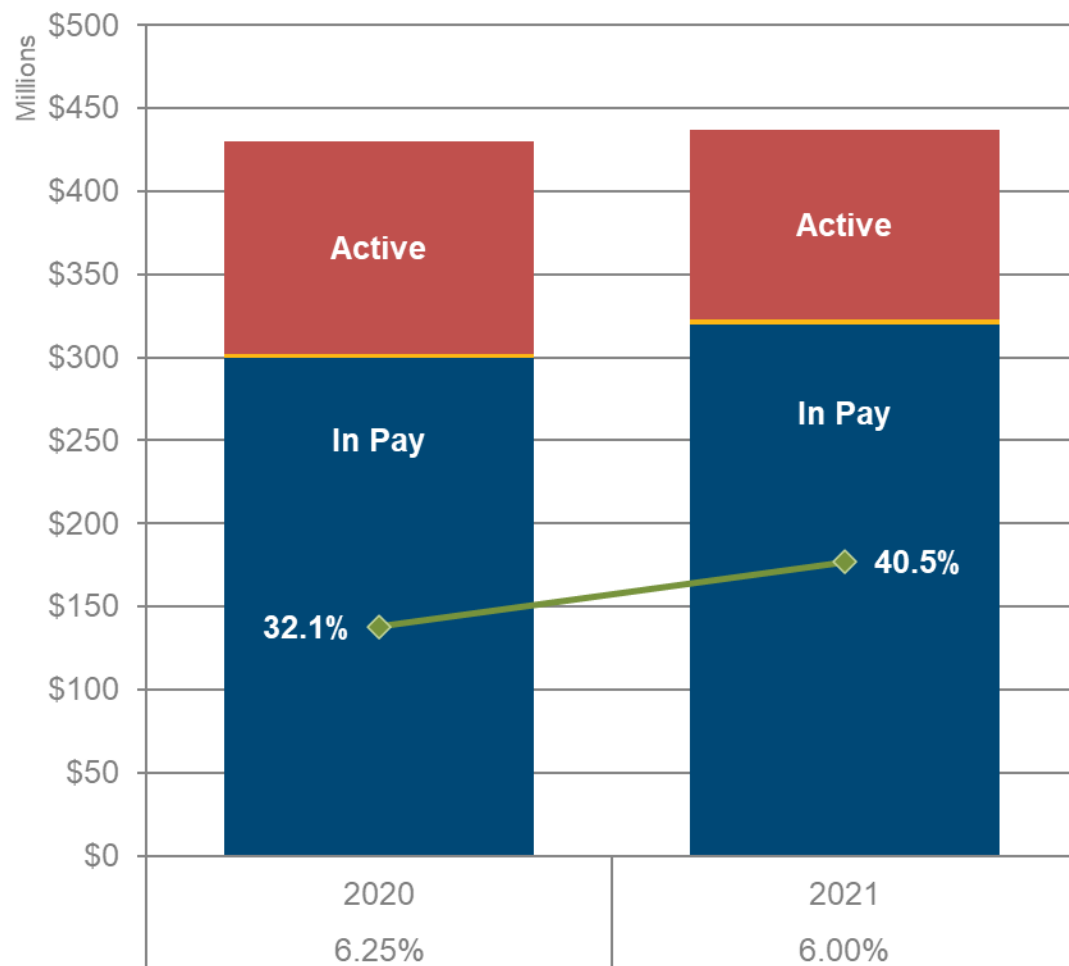


- Primary purpose of valuation is to set City contributions
  - 2021 valuation develops contributions for FYE 2023
- Project future benefit payments
  - Plan provisions, census data, and actuarial assumptions
- Determine funding target
  - Actuarial cost method and assumptions
- Set City contributions
  - Plan provisions, actuarial methods, and discount rate
  - Member contributions are fixed

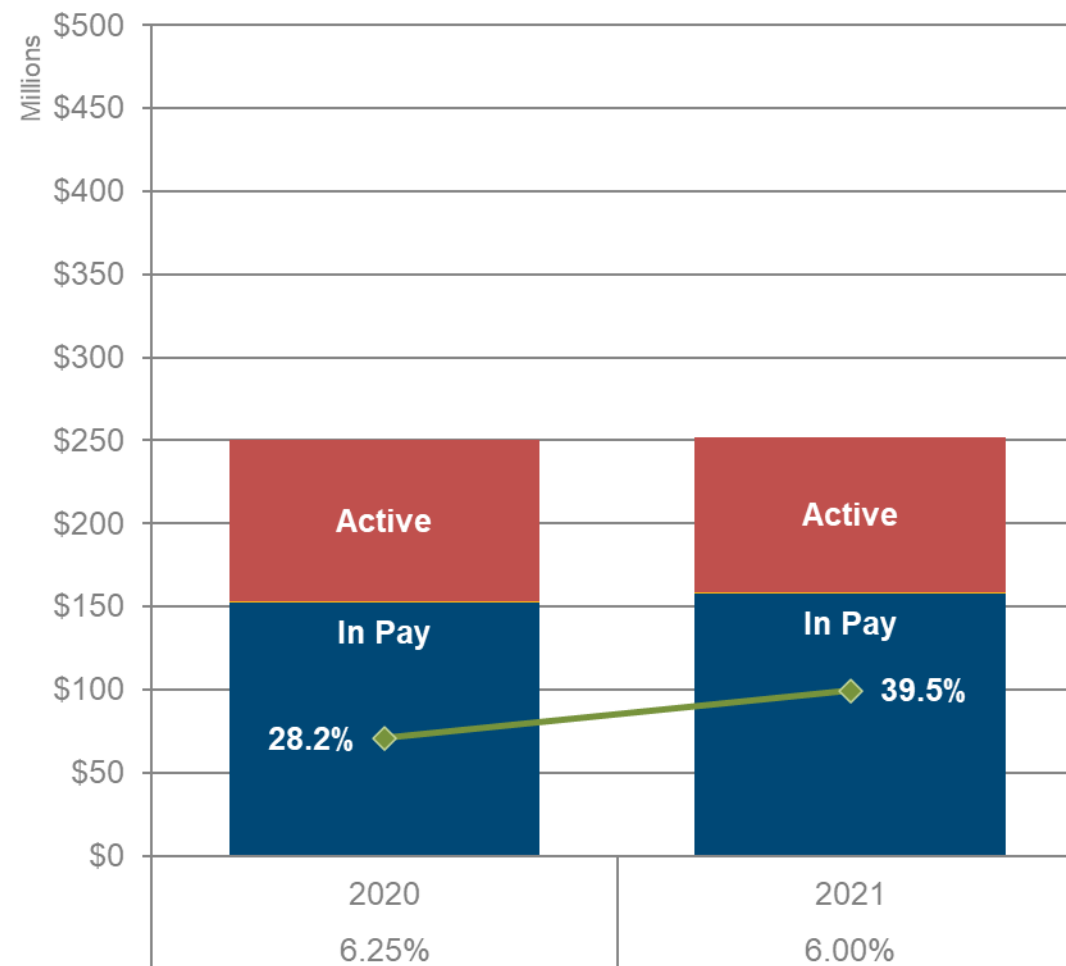
# Preliminary Valuation Results – Explicit Subsidy



## Police Explicit Subsidy Funded Status



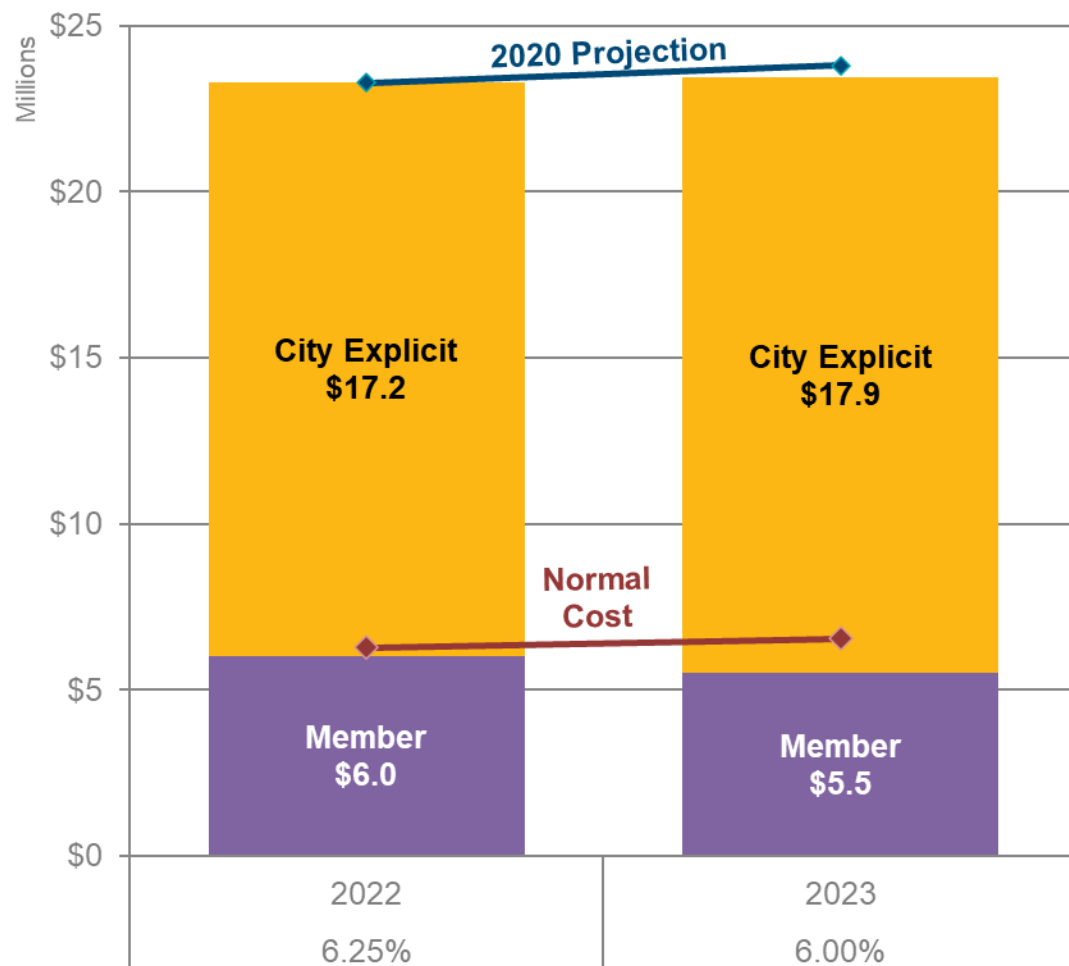
## Fire Explicit Subsidy Funded Status



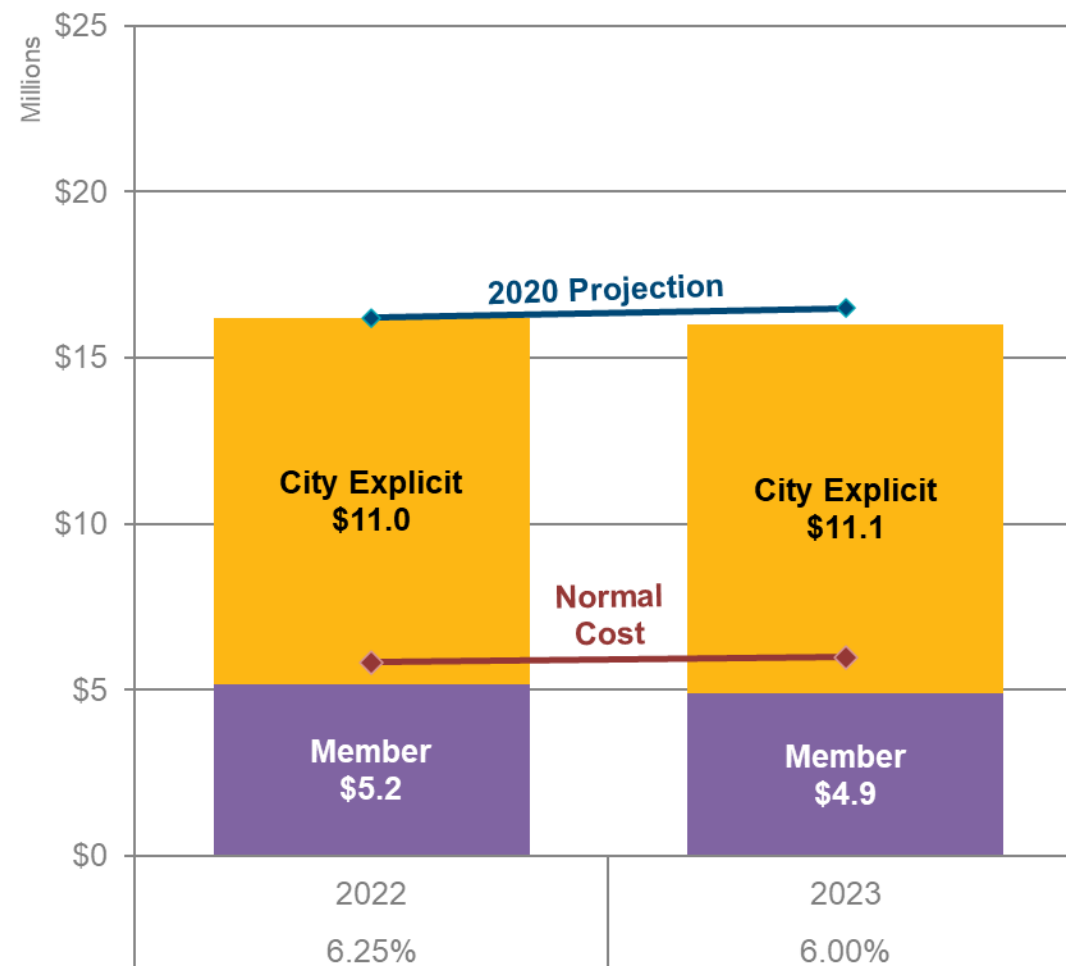
# Preliminary Valuation Results – Explicit Subsidy



## Police Contributions



## Fire Contributions



# Membership



	Membership					
	Police			Fire		
	2021	2020	% Change	2021	2020	% Change
Active Members						
Eligible for Full Benefits	517	578	-10.6%	469	495	-5.3%
Eligible for Catastrophic Disability Only	564	469	20.3%	188	167	12.6%
Total Active Members	1,081	1,047	3.2%	657	662	-0.8%
Deferred Vested Members	9	9	0.0%	3	1	200.0%
Members in Pay Status (Including In-Lieu)	1,424	1,374	3.6%	849	843	0.7%
Total	2,514	2,430	3.5%	1,509	1,506	0.2%
Full Benefit Member Payroll	\$ 76,816	\$ 82,773	-7.2%	\$ 65,706	\$ 67,891	-3.2%
Total Payroll	157,001	147,269	6.6%	95,557	93,529	2.2%

*Payroll amounts in thousands*

- Fewer active members are eligible for full benefits due to closed plan
  - Number of active members eligible for full benefits decreased 10.6% for Police and 5.3% for Fire
- Payroll on which member contributions is based decreased 7.2% for Police and 3.2% for Fire
- 752 members are now eligible for catastrophic disability benefits

# Funded Status



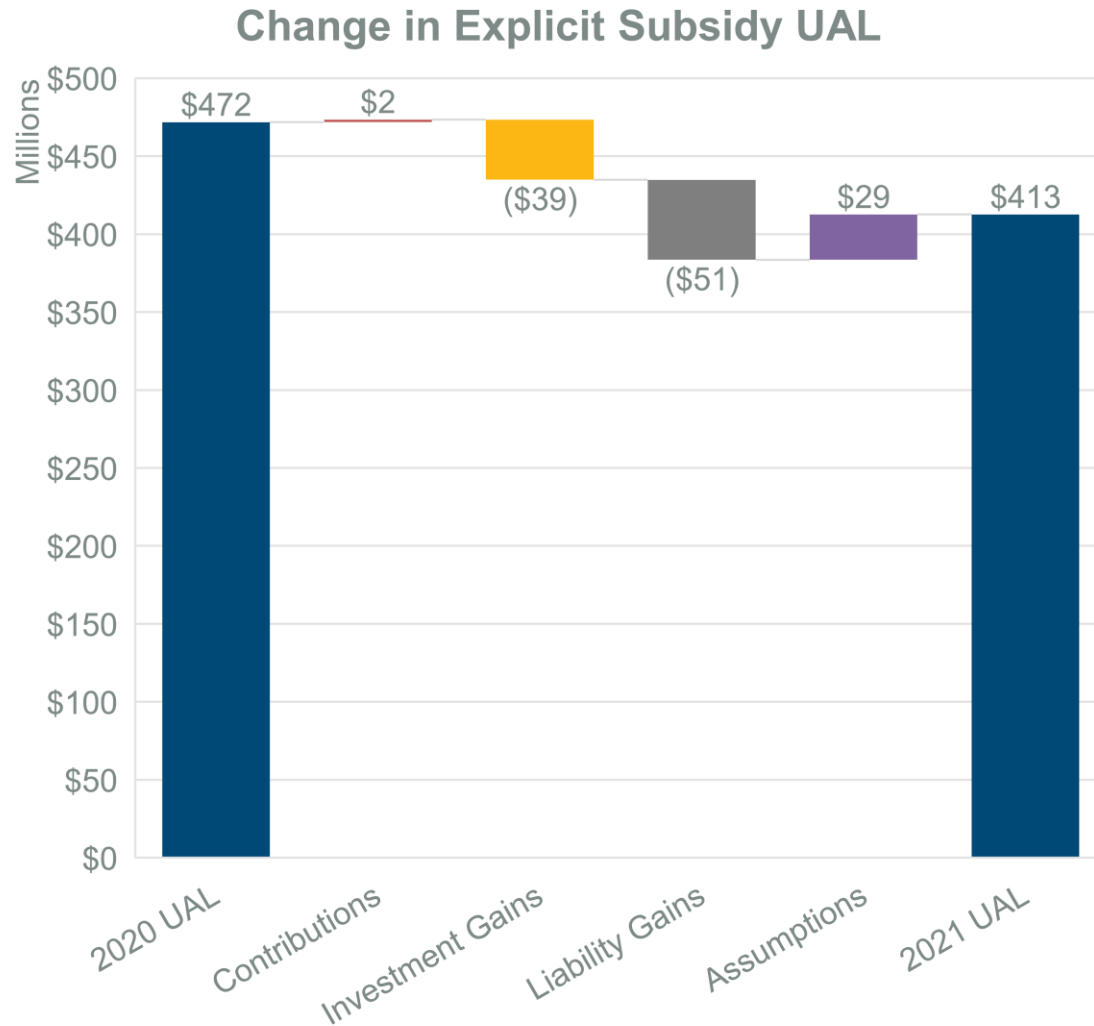
## Unfunded Actuarial Liability - Explicit Subsidy Only

	Police Department			Fire Department		
	2021	2020	% Change	2021	2020	% Change
<u>Actuarial Liability</u>						
Actives	\$ 120,071	\$ 127,495	-5.8%	\$ 97,976	\$ 97,632	0.4%
Deferred Vested	2,575	2,435	5.7%	883	270	227.0%
In Pay Status	<u>314,331</u>	<u>299,826</u>	<u>4.8%</u>	<u>153,125</u>	<u>152,651</u>	<u>0.3%</u>
Total	\$ 436,977	\$ 429,756	1.7%	\$ 251,984	\$ 250,553	0.6%
Assets	<u>176,841</u>	<u>137,789</u>	<u>28.3%</u>	<u>99,472</u>	<u>70,743</u>	<u>40.6%</u>
<b>Unfunded Actuarial Liability</b>	<b>\$ 260,136</b>	<b>\$ 291,967</b>	<b>-10.9%</b>	<b>\$ 152,512</b>	<b>\$ 179,810</b>	<b>-15.2%</b>
<b>Funded Percentage</b>	<b>40.5%</b>	<b>32.1%</b>	<b>8.4%</b>	<b>39.5%</b>	<b>28.2%</b>	<b>11.2%</b>

*Dollar amounts in thousands*

- Actuarial Liability grew slightly due to better-than-expected experience
- Assets grew sharply due to contributions and investment returns
- The funded status for the explicit subsidy increased
  - From 32% to 41% for Police and
  - From 28% to 40% for Fire

# Changes in UAL – Explicit Subsidy



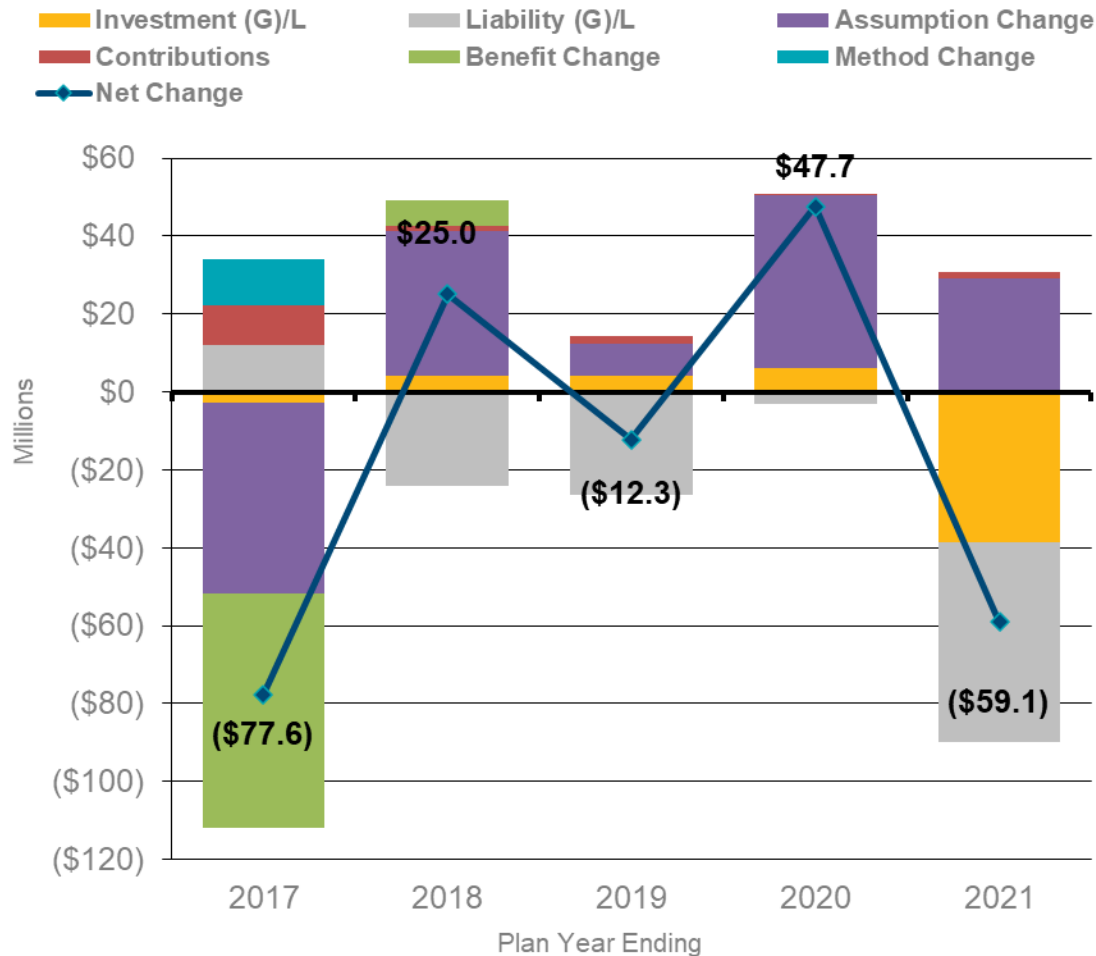
- UAL decreased \$59 million
- Reductions
  - \$39 million due to investment returns
  - \$51 million due to liability experience
- Increases
  - \$2 million due to contributions less than the tread water amount
  - \$29 million due to assumption changes



# Historical Changes in UAL – Explicit Subsidy

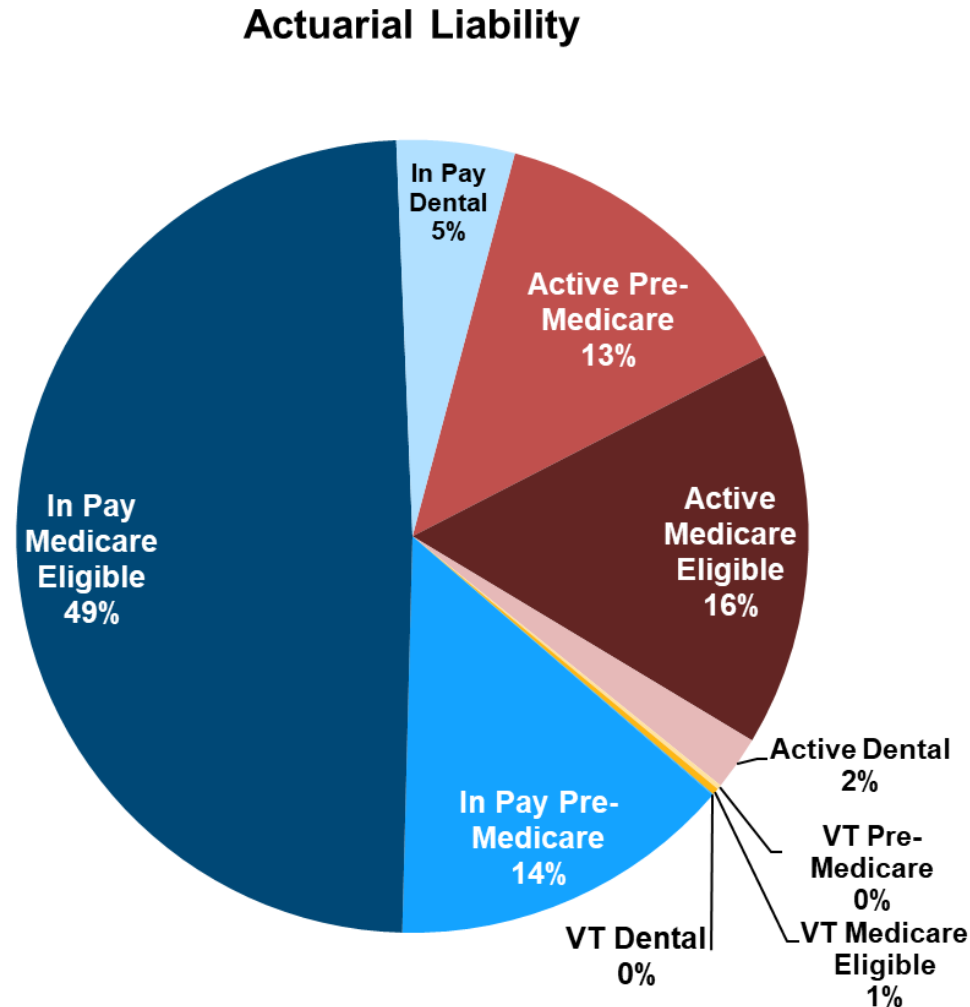


Changes in Explicit Subsidy UAL



- Over the last five years, the UAL decreased \$76.4 million
  - (\$93.3) million due to liability experience
    - Mostly lower premiums than expected
  - (\$53.3) million due to benefit changes
    - Includes the new low-cost plan in 2017, the VEBA, and in-lieu programs
  - (\$26.9) million due to investment gains
  - \$11.8 million due to asset method changes
  - \$15.3 million due to contributions less than the tread water amount
  - \$70.1 million due to assumption changes

# Actuarial Liability by Benefit



- Liability Breakdown
  - 68% currently In pay status
  - 66% medical benefits after eligibility for Medicare
  - 27% medical benefits prior to eligibility for Medicare
  - 7% dental benefits

# Contributions



## Summary of Contribution Amounts Payments Throughout the Year

	Police Department			Fire Department		
	2023	2022	% Change	2023	2022	% Change
Explicit Subsidy						
Members	\$ 5,521	\$ 6,030	-8.4%	\$ 4,914	\$ 5,187	-5.3%
City's ADC	17,938	17,245	4.0%	11,095	11,027	0.6%
Estimated City Cap	17,788	16,686	6.6%	10,827	10,597	2.2%
Implicit Subsidy	\$ 2,106	\$ 1,978	6.5%	\$ 1,032	\$ 1,062	-2.9%

*Dollar amounts in thousands*

- Member contributions are declining as members eligible for full benefits retire
- City's explicit subsidy contribution increased by \$762,000 and is only \$418,000 higher than the City's optional contribution cap
- City's implicit subsidy contribution increased for Police, but decreased slightly for Fire



- The purpose of this presentation is to present the preliminary results of the June 30, 2021 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 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