

# San José Federated Postemployment Healthcare Plan

4a(1)



## Final Actuarial Valuation Results June 30, 2021

January 20, 2022

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- Schedule
- Final OPEB Valuation Results
  - Overview
  - Assumption Change
  - Changes in UAL
  - Membership
  - Projections

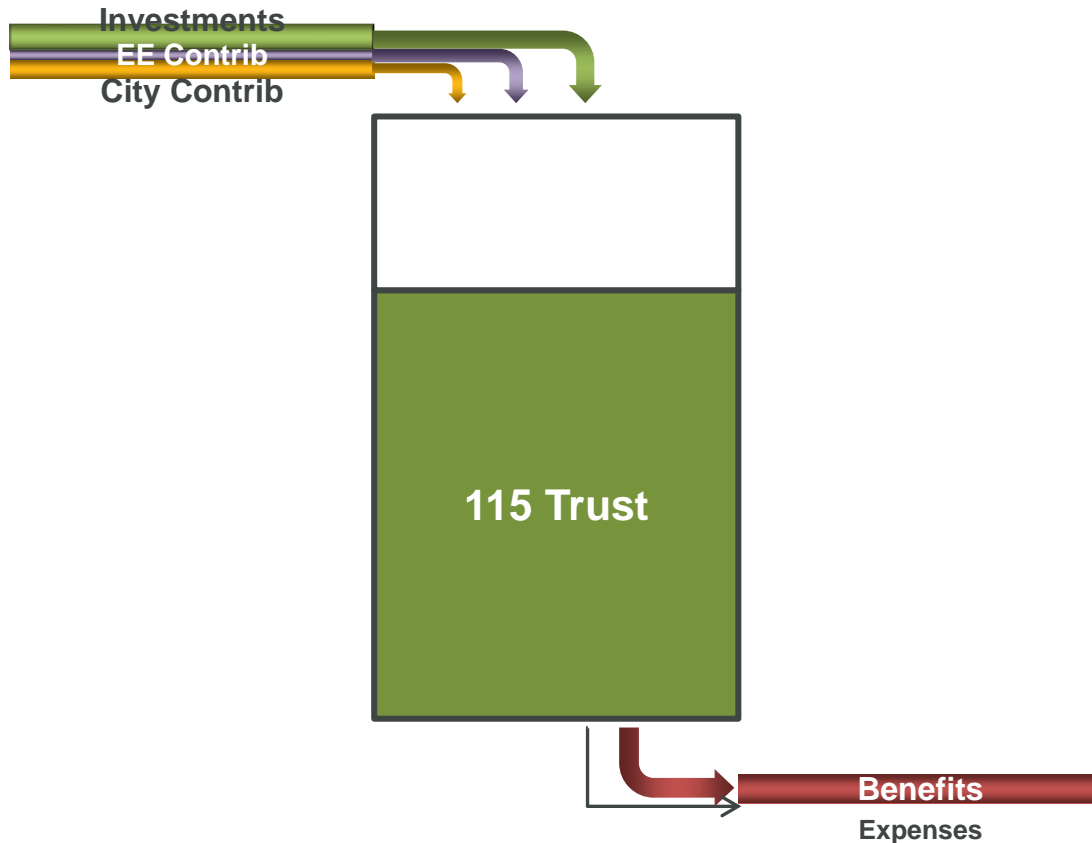


- October Board Meeting
  - Pension Economic Assumption Review
- November Board Meeting
  - Draft Pension Valuation Results
  - Review OPEB Assumptions
  - Final Decisions on OPEB Assumptions
- December Board Meeting
  - Final Pension Valuation Report
  - Draft OPEB Valuation Results
- **January Board Meeting**
  - **Segal Pension Audit Results**
  - **Final OPEB Valuation Report**
- February Board Meeting
  - Segal OPEB Audit Results

# A Dynamic System



## Explicit Subsidy Funding

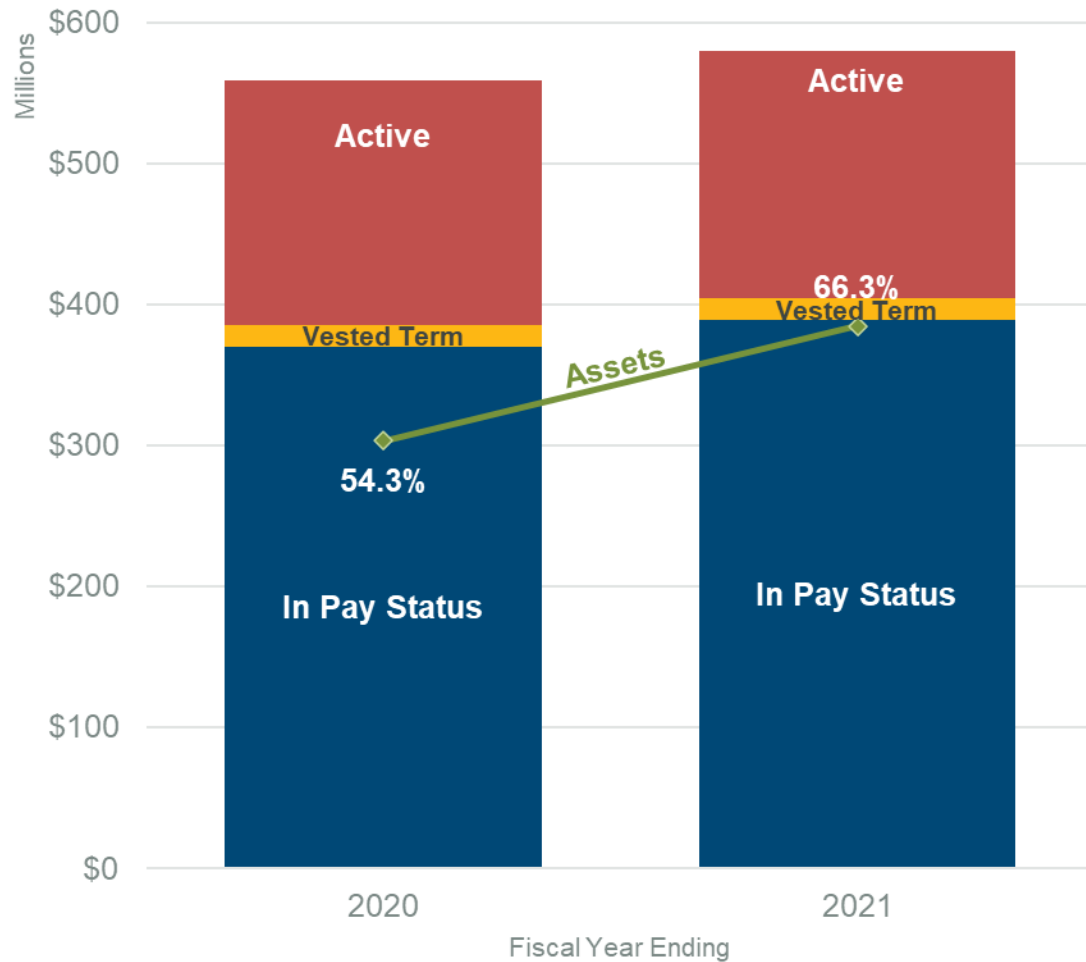


- Primary purpose of valuation is to set City contributions
  - 2021 valuation develops contributions for FYE 2023
- Project future benefit payments
  - Plan provisions, census data, and actuarial assumptions
- Determine funding target
  - Actuarial cost method and assumptions
- Set City contributions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

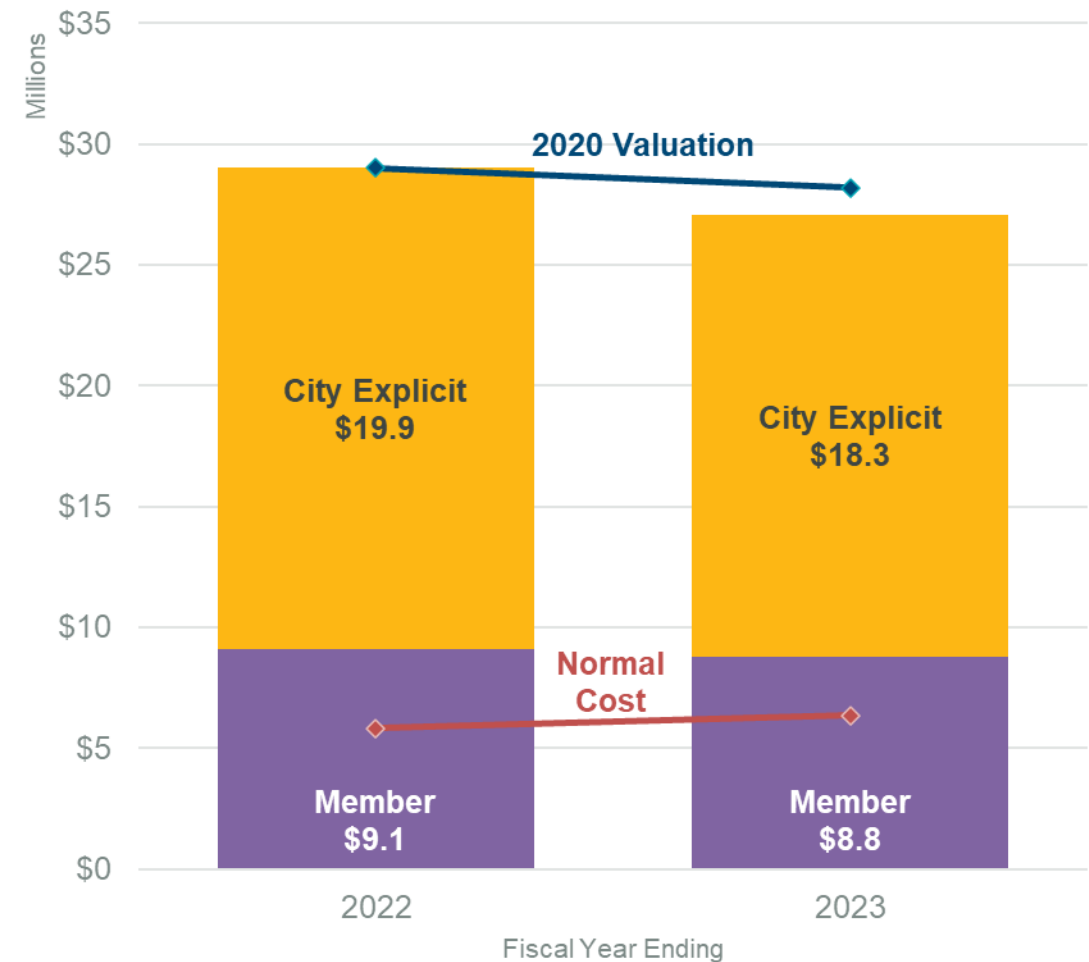
# Final Valuation Results – Explicit Subsidy



## Explicit Subsidy Funded Status



## Contributions



# Change in Assumption – Medicare Eligible



- **Prior Valuation**
    - Medicare eligible premiums projected with trend assumption only
  - **Proposed Change**
    - Medicare eligible premiums projected with trend + projected aging of covered population
  - **Impact**
    - Increases liability by about \$28.6 million
- **Closed Group**
    - Medicare eligible benefits are provided to a closed group of members
    - Over time, the average age of the closed group will increase
    - Premiums reflect the age distribution of the covered group, so as the population ages, the premiums will increase at a rate higher than the assumed trend

# Change in Assumption – Medicare Eligible

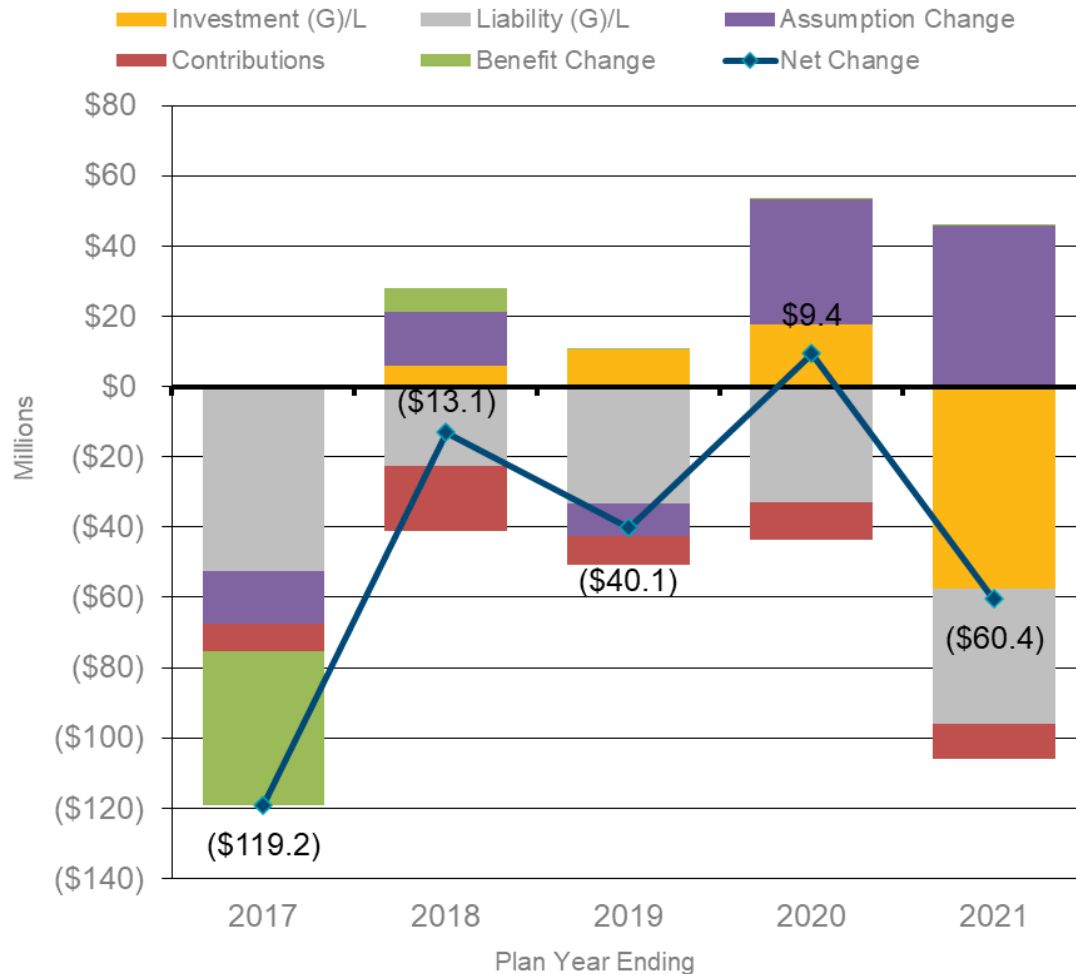


- Explicit subsidy is limited to premium for lowest cost pre-Medicare plan and historically, the Medicare premiums were close to or higher than the maximum explicit subsidy
  - Any additional premium due to the aging of the population would be paid by the retirees
  - This would not create any additional liability for the Plan
- Recent reductions have caused the current premiums to be, on average, 33% lower than the maximum explicit subsidy
  - This means that the additional premium due to the aging of the population will be paid by the Trust rather than the retiree
  - The proposed change recognizes this increased use of the subsidy in the liability

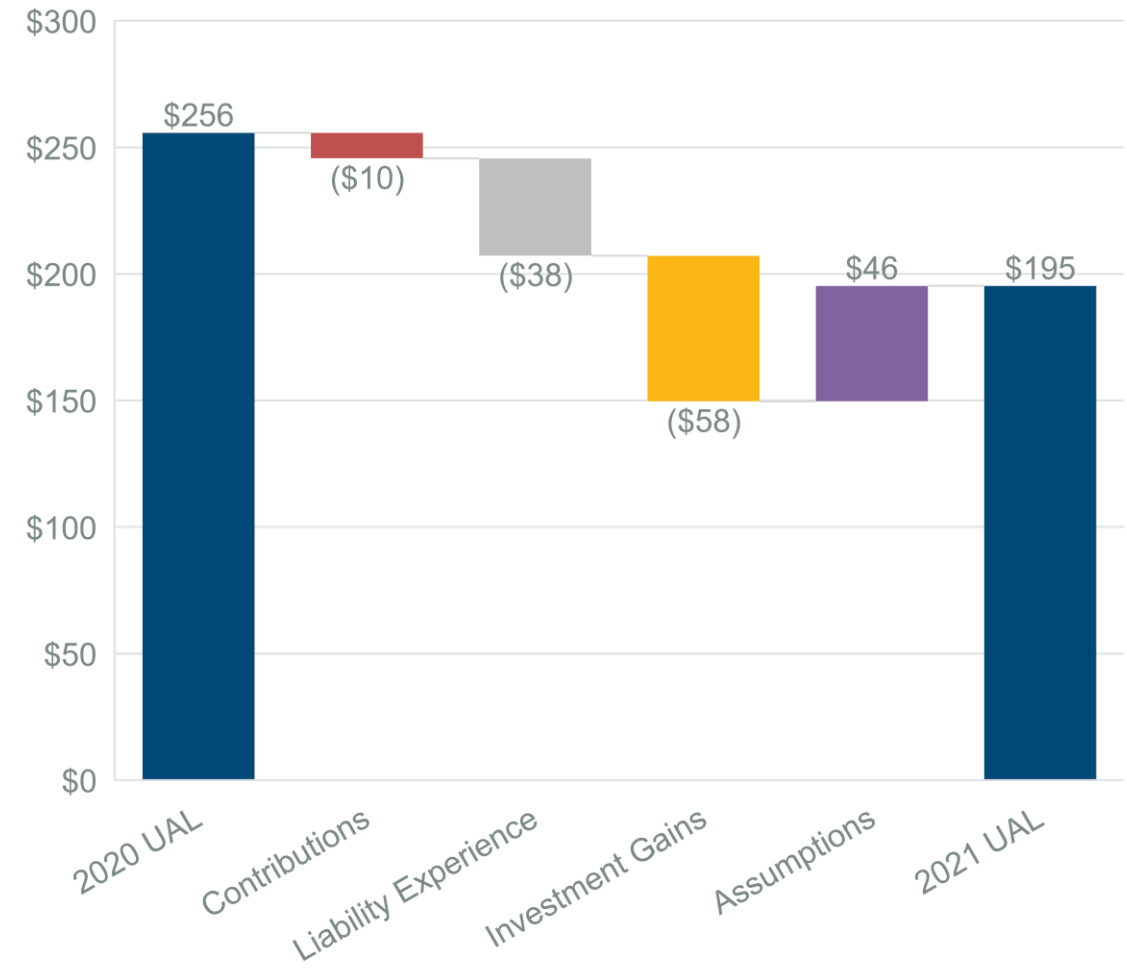
# Historical Changes in UAL – Explicit Subsidy



## Changes in Explicit Subsidy UAL



## Change in Explicit Subsidy UAL





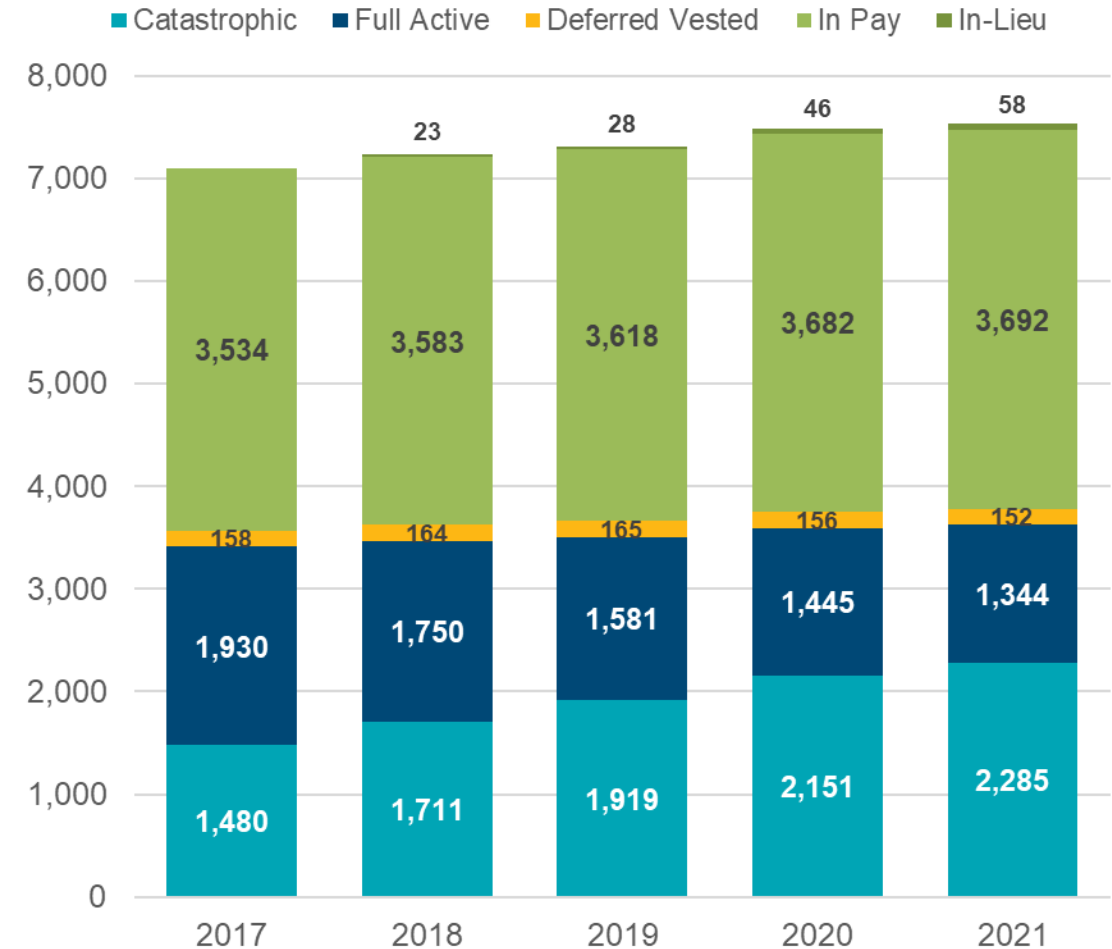
# Membership



Membership			
	6/30/2021	6/30/2020	% Change
Active Members			
Eligible for Full Benefits	1,344	1,445	-7.0%
Eligible for Catastrophic Disability Only	2,285	2,151	6.2%
Total Active Members	3,629	3,596	0.9%
Deferred Vested Members	152	156	-2.6%
Members in Pay Status (Medical and/or Dental)	3,692	3,682	0.3%
Members In-Lieu only	58	46	26.1%
Total	7,531	7,480	0.7%
Full Benefit Member Payroll	\$126,946	\$130,725	-2.9%
Total Payroll	339,546	322,850	5.2%

Dollar amounts in thousands

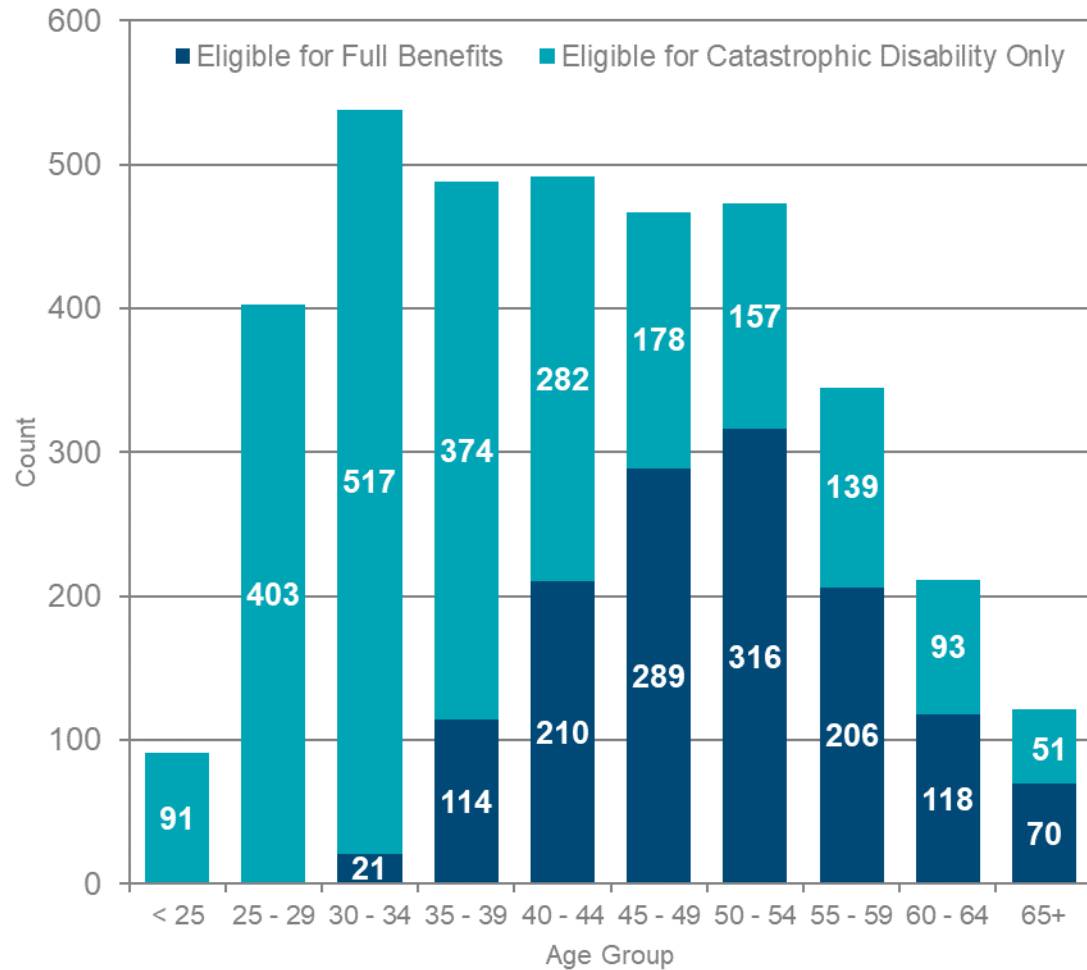
## Membership Trends



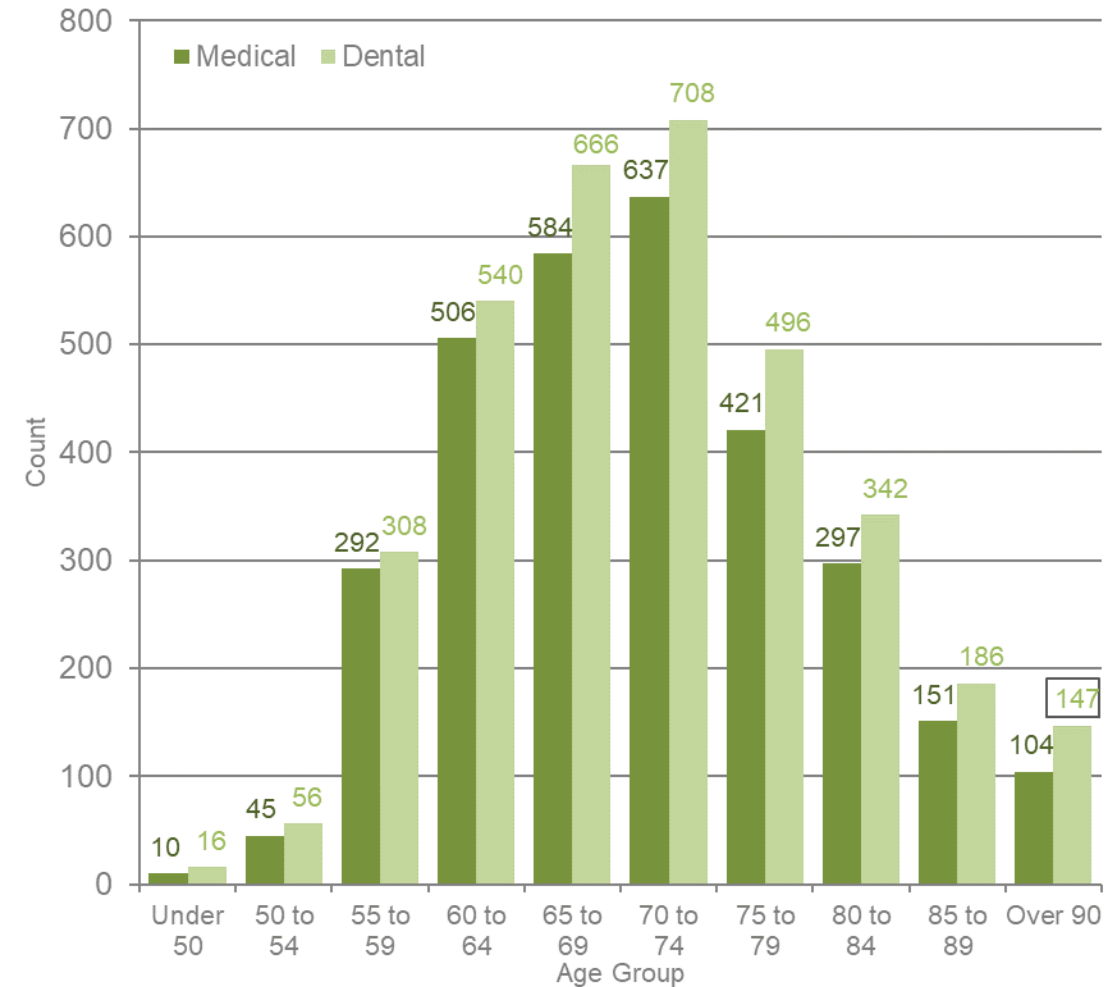
# Member Distributions



## Distribution of Active Members



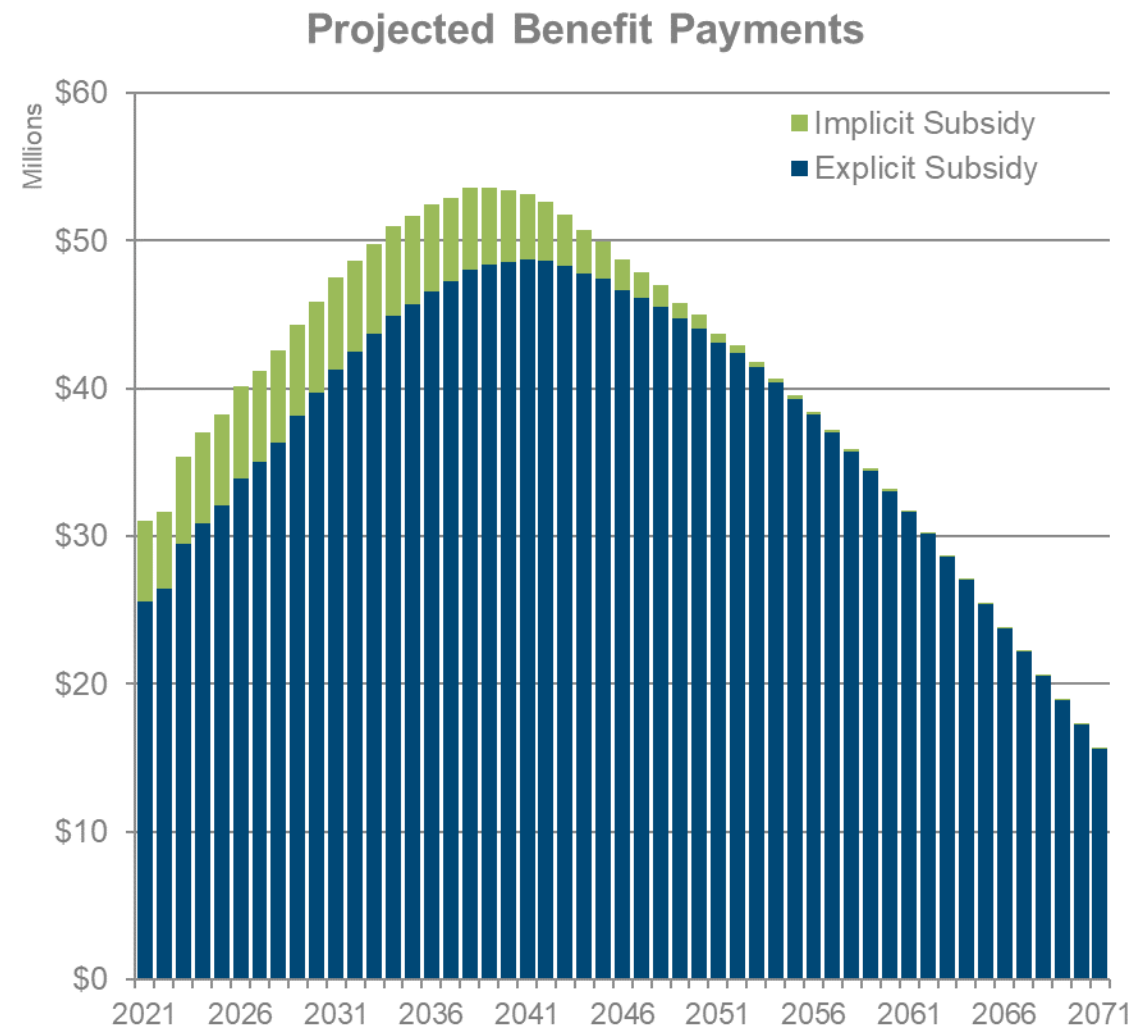
## Distribution of Retired Members



# Projected Benefit Payments



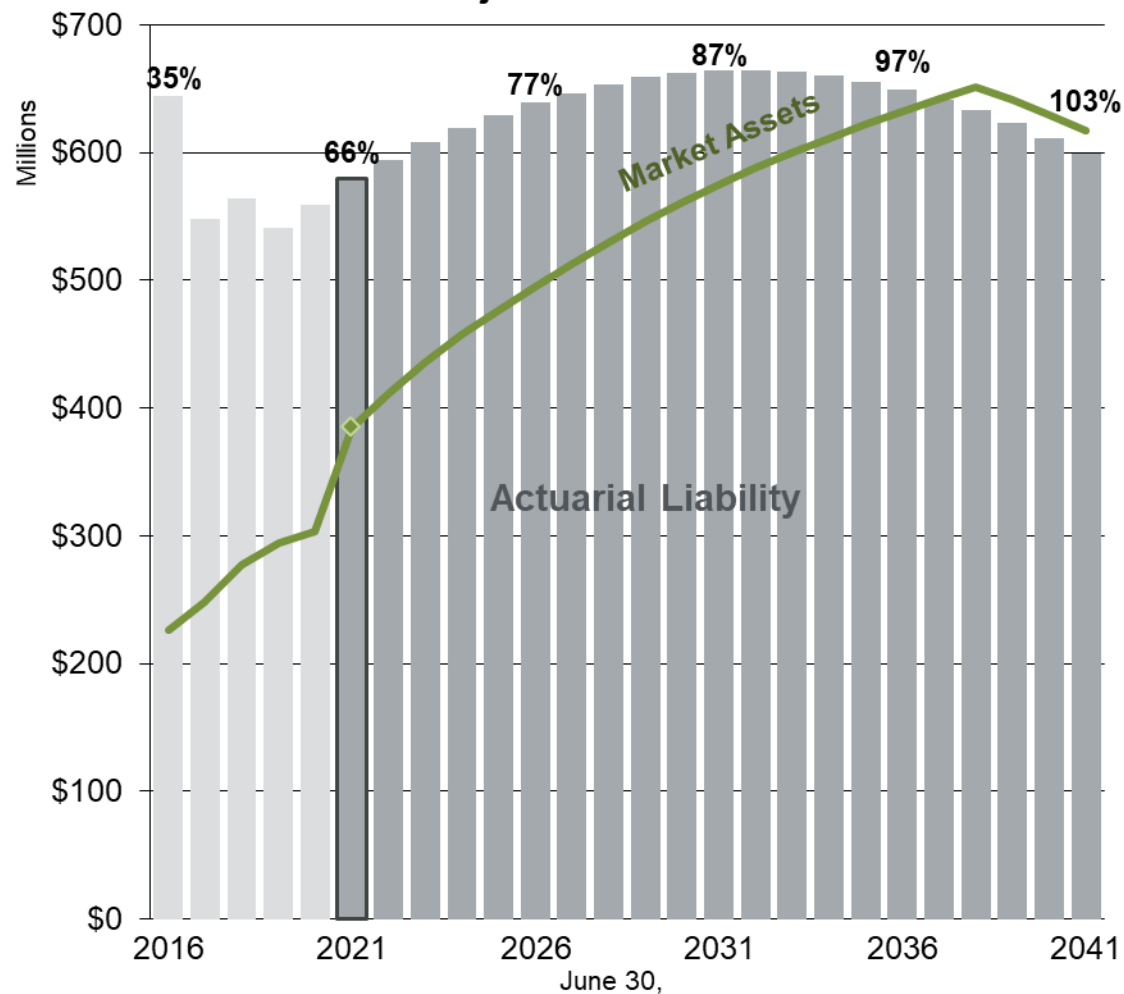
- Full Benefits – Closed Group
  - Benefit payments expected to increase for next 20 years before starting to decline
  - Benefit payments expected to continue far into the future
- Catastrophic Disability – Open Group
  - Projected benefit payments are very small compared to the total benefit payments
    - No payments so far
    - Payments stop at age 65



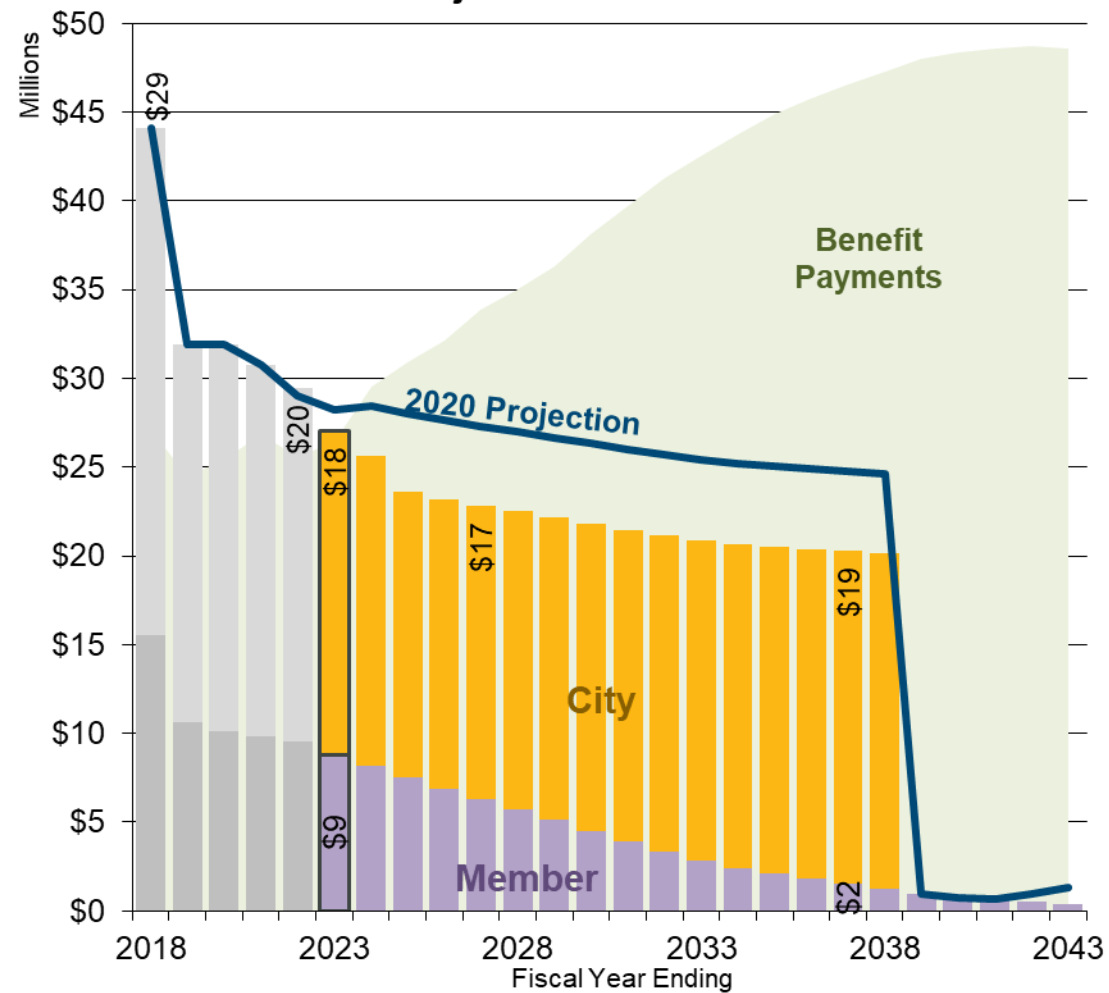
# Projections



## Historical and Projected Assets and Liabilities



## Historical and Projected Contribution Amounts





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



- Member contributions are declining as members eligible for full benefits retire
- City's explicit subsidy contribution declined due to reduction in UAL
- City's implicit subsidy contribution declined

Summary of Contribution Amounts			
	FYE 2023	FYE 2022	% Change
Explicit Subsidy			
Members	\$ 8,807	\$ 9,076	-3.0%
City's Actuarially Determined Contribution	18,260	19,936	-8.4%
Estimated City Optional Cap	48,963	46,555	5.2%
Implicit Subsidy	\$ 5,223	\$ 5,439	-4.0%

*Dollar amounts in thousands*