

San José Federated City Employees' Retirement System



2020 Assumptions for Actuarial Equivalence

January 23, 2020

Bill Hallmark, ASA, EA, FCA, MAAA
Steven Hastings, FSA, EA, FCA, MAAA
Jacqui King, ASA, EA, MAAA

Topics



- Background
- Current Assumptions
- Updating Actuarial Equivalence
- Board Decisions

Background



- Plan must specify assumptions for converting default forms of payment to optional forms
 - Single Life Annuity
 - 50%, 75%, or 100% Joint & Survivor Annuity
 - Conversions from member's life to an alternate payee's life under a Qualified Domestic Relations Order
- Actuarial equivalence implies that the different forms of payment have the same present value (at least approximately)

Background



- Total of 55 actuarial equivalence tables
 - Status of retiree
 - Healthy
 - Disabled
 - Default form of payment
 - Life annuity if not married
 - 50% joint and survivor if married
 - Optional forms of payment
 - 50% joint and survivor annuity
 - 75% joint and survivor annuity
 - 100% joint and survivor annuity
 - COLA
 - Tier 1 = 3.00%
 - Tier 2 = 1.25%, 1.50%, 1.75% or 2.00% depending on service

Prior Requirements



- Prior to Measure F, the Municipal Code provided for the actuarial equivalence assumptions to be updated at the Board's discretion
- Prior procedure
 - Update after each experience study
 - Roughly every 4-5 years
 - Reflect latest mortality and interest assumptions
 - Keep actuarial equivalence tables in place for entire period until next experience study

New Requirements



- Current San José Municipal Code (3.28.1720) specifies:

...actuarial equivalences shall mean a benefit of equal value when computed on the basis of the interest rate, inflation rate and annuity tables and other relevant assumptions on the most recent actuarial valuation and adopted by resolution of the Board...

...the most recent actuarial valuation shall be the valuation performed as of June 30th in the calendar year prior to the effective date of the actuarial equivalence calculation.

- Implication is that factors will need to be updated every year

New Requirements



- For calculations in each calendar year:
 - Actuarial equivalence assumptions must be based on the relevant assumptions used in the actuarial valuation as of June 30th of the prior year
 - Must be adopted by the Board
- Update actuarial equivalence tables when relevant assumptions change
 - Generational mortality assumptions change every year
- Issue tables in time for January benefit calculations

Board Decisions



- Municipal Code specifies most assumptions by reference to the 2019 valuation, but also requires Board adoption
 - Interest = 6.75%
 - COLAs based on plan provisions
 - Male and female mortality tables from valuation, but for actuarial equivalence calculations, mortality must be unisex
- Unisex blend for tables
 - System is about 55% male and 45% female
 - Option 1 – Match current System data
 - Member table is 55% male and beneficiary table is 45% male
 - Option 2 – Keep it simple
 - Member and beneficiary tables are 50% male and 50% female

Certification



- The purpose of this presentation is to present actuarial equivalence information for decisions regarding the City of San José Federated City Employees' Retirement System.
- In preparing our presentation, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information.
- This presentation and its contents have 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.
- This presentation was prepared exclusively for the City of San José Federated City Employees' Retirement System for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary

Steven M. Hastings, FSA, EA, FCA, MAAA
Consulting Actuary

Jacqueline R. King, ASA, EA, MAAA
Associate Actuary



Classic Values, Innovative Advice

January 23, 2020

Prior Actuarial Equivalence Assumptions



- Interest = 7.00%
- Adjusted CalPERS mortality with generational projection using MP-2015
- 50% male and 50% female mortality for members and beneficiaries
- Actuarial Equivalence Factors based on ages attained in 2018
- COLA based on plan provisions