

San José Federated Postemployment Healthcare Plan



Final Actuarial Valuation Results June 30, 2019

January 23, 2020

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Agenda

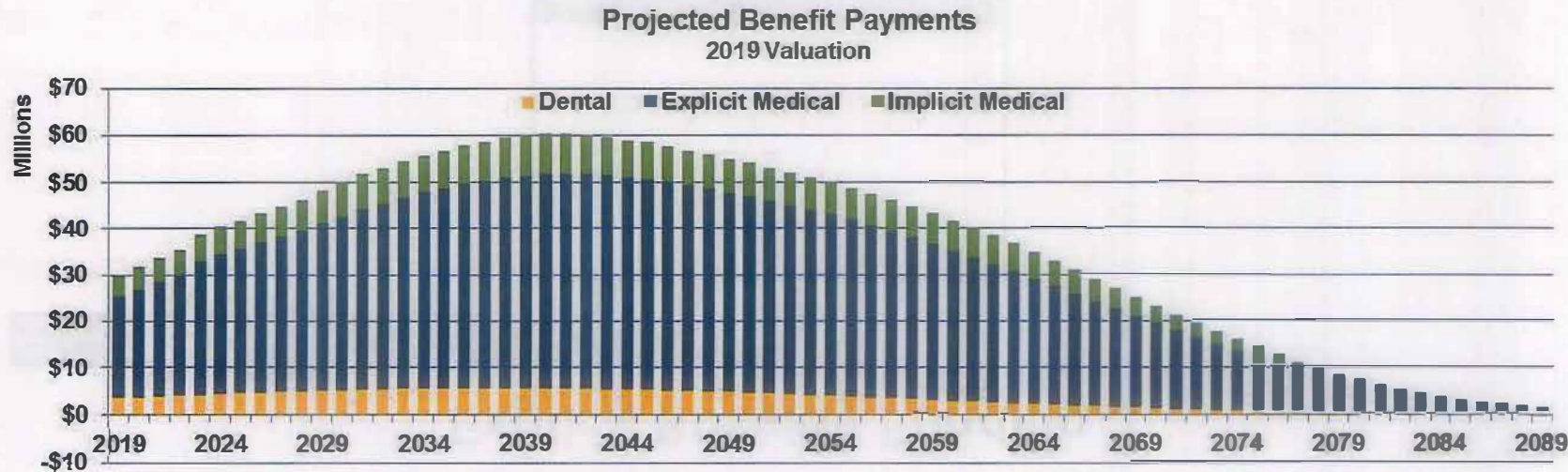


- Background
- Valuation Results
 - Contributions
 - Funded Status
 - Changes in UAL
- Projections

Background



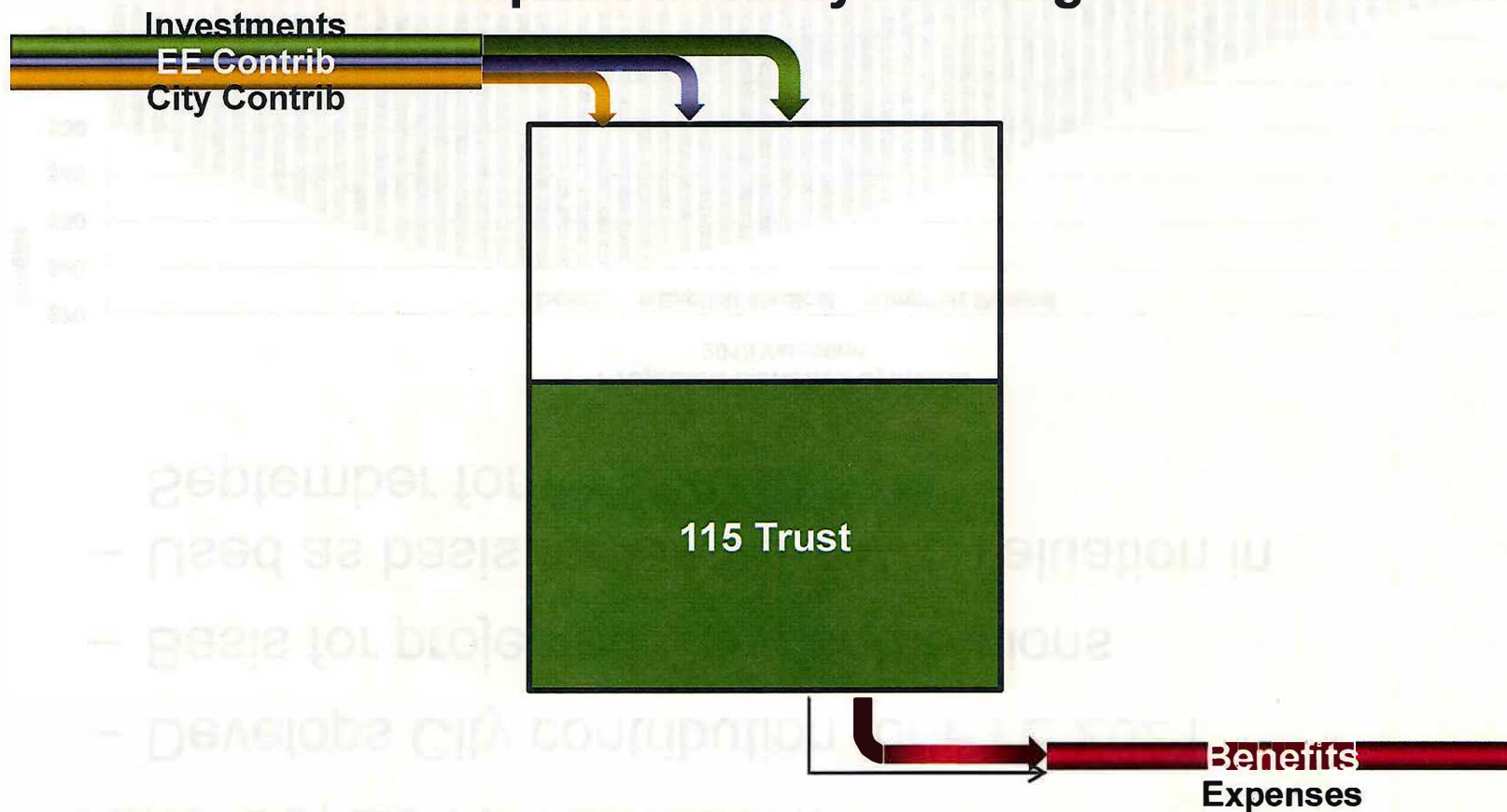
- June 30, 2019 valuation:
 - Develops City contribution for FYE 2021
 - Basis for projected City contributions
 - Used as basis for GASB 74/75 valuation in September for FYE 2020



A Dynamic System



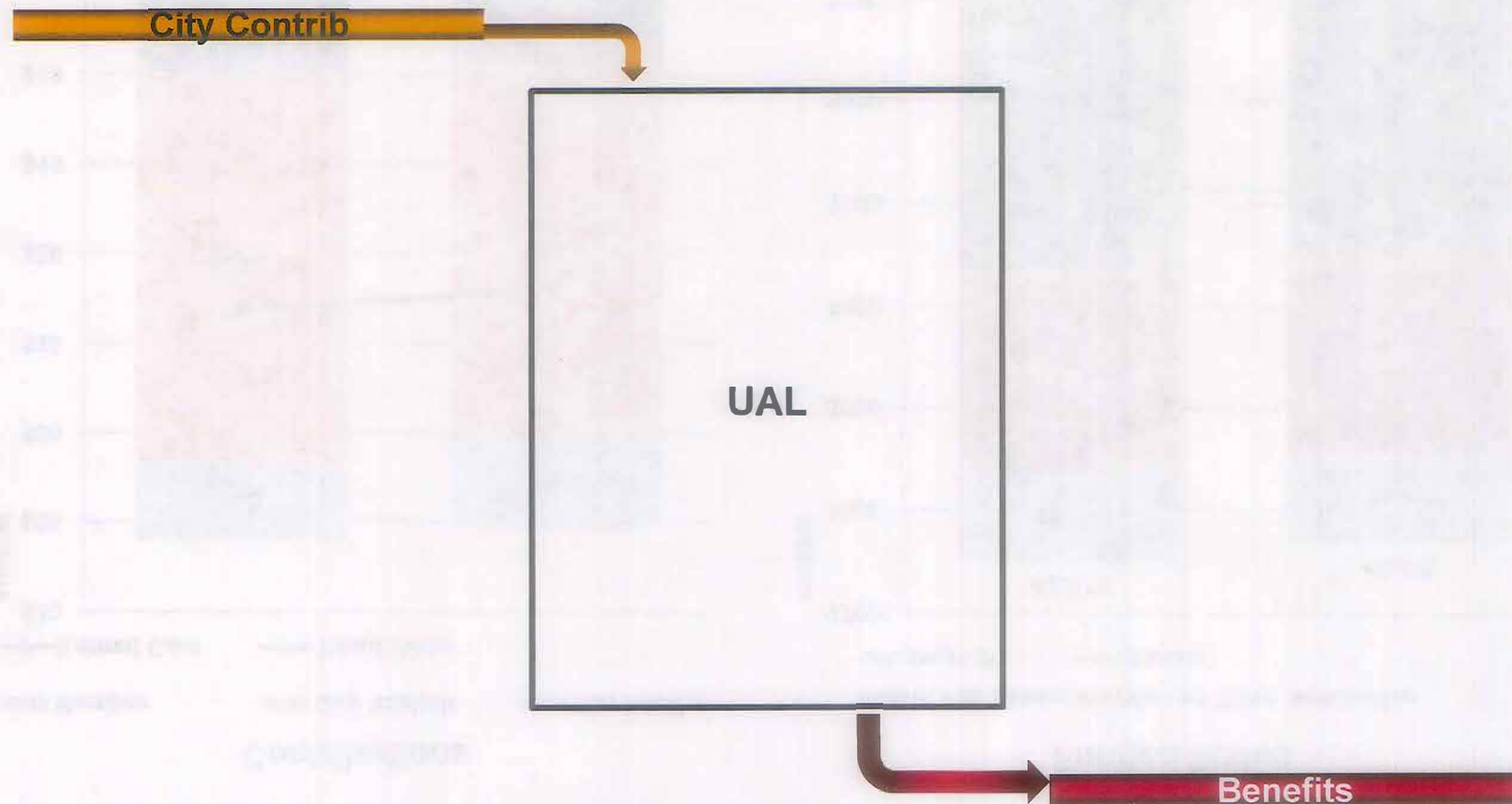
Explicit Subsidy Funding



A Dynamic System



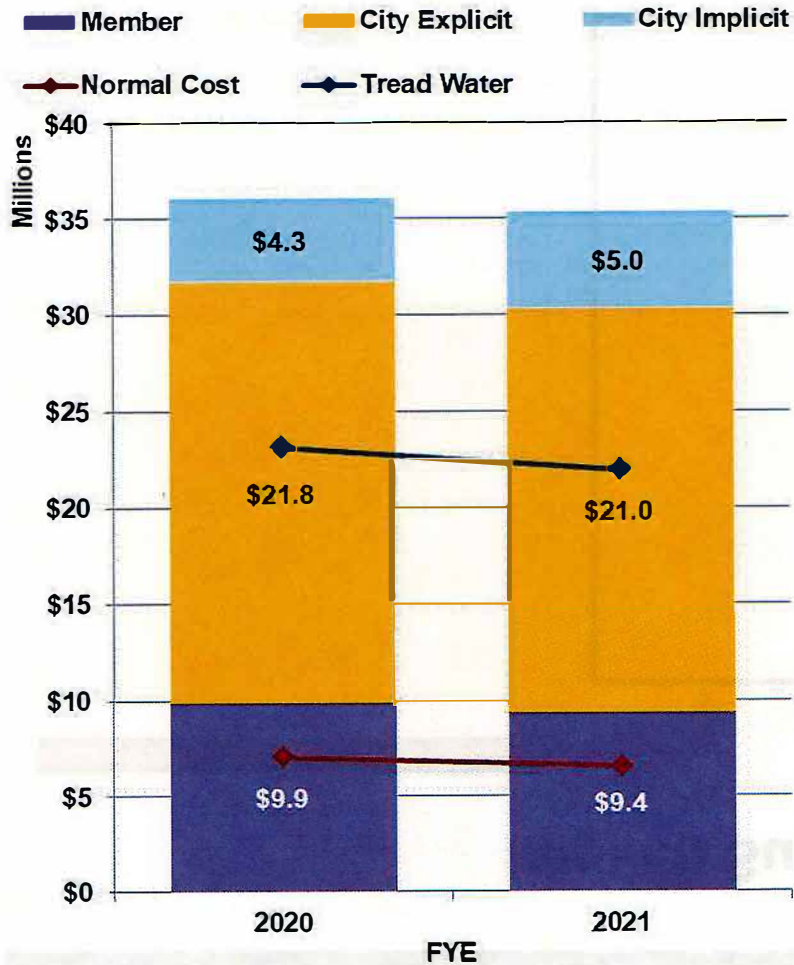
Implicit Subsidy Funding



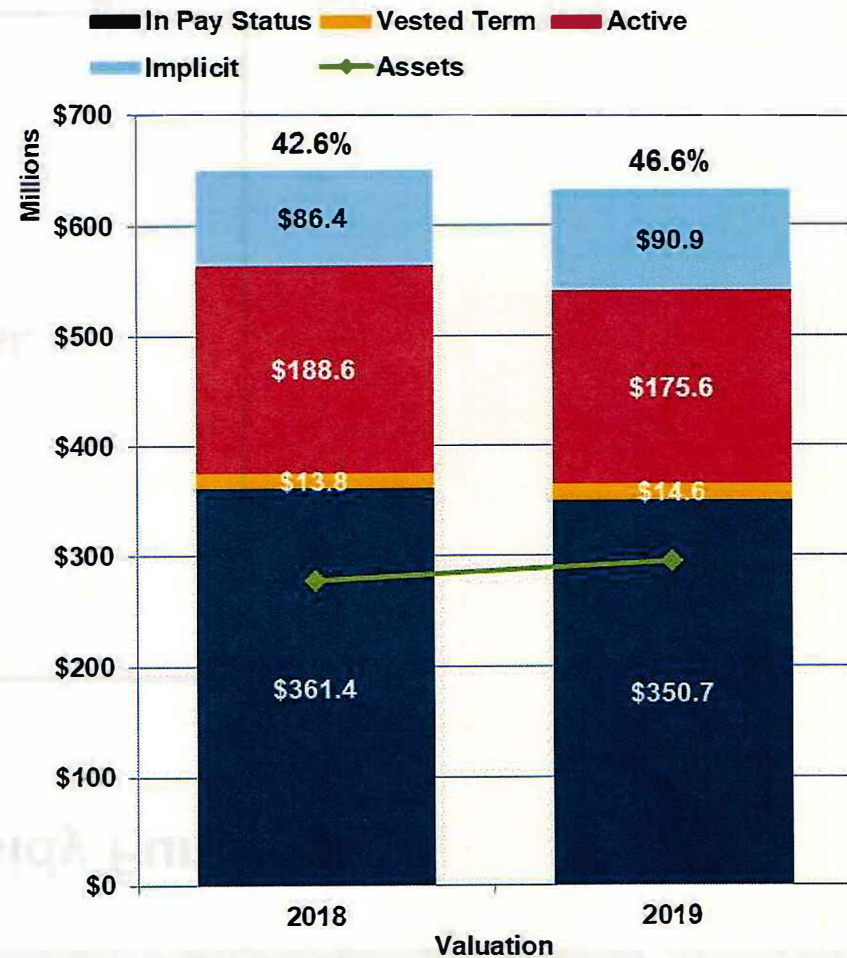
Final Valuation Results



Contributions



Funded Status



Valuation Results



Summary of Contribution Amounts

	FYE 2021	FYE 2020	% Change
Explicit Subsidy			
Members	\$ 9,356	\$ 9,890	-5.4%
City's Actuarially Determined Contribution	20,949	21,790	-3.9%
Estimated City Optional Cap	43,116	43,218	-0.2%
Implicit Subsidy	\$ 4,991	\$ 4,339	15.0%

Dollar amounts in thousands

Unfunded Actuarial Liability

	June 30, 2019			June 30, 2018		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarial Liability	\$ 540,815	\$ 90,937	\$ 631,752	\$ 563,706	\$ 86,407	\$ 650,114
Assets	294,489		294,489	277,256		277,256
Unfunded Actuarial Liability	\$ 246,326	\$ 90,937	\$ 337,263	\$ 286,450	\$ 86,407	\$ 372,858
Funded Percentage	54.5%	0.0%	46.6%	49.2%	0.0%	42.6%

Dollar amounts in thousands

Valuation Results



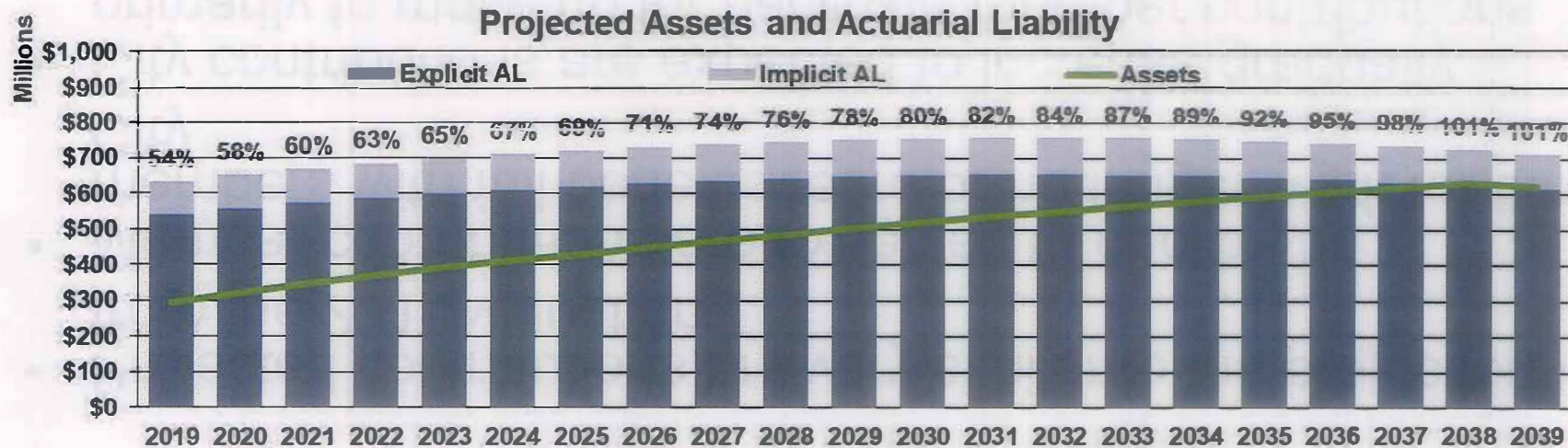
Changes in Unfunded Actuarial Liability

	Implicit	Explicit	Total
Unfunded Actuarial Liability, June, 30, 2018	\$ 86,407	\$ 286,450	\$ 372,858
Unfunded Actuarial Liability, June, 30, 2019	90,937	246,326	337,263
Change in Unfunded Actuarial Liability	\$ 4,530	\$ (40,124)	\$ (35,595)
Sources of Changes			
Tread Water less Contributions	\$ 2,546	\$ (8,371)	\$ (5,826)
Investment Experience	0	10,654	10,654
Plan Experience	7,686	(33,324)	(25,638)
Assumption Changes	(5,702)	(9,103)	(14,805)
VEBA Transfers	0	20	20
Total Changes	\$ 4,530	\$ (40,124)	\$ (35,595)

Dollar amounts in thousands

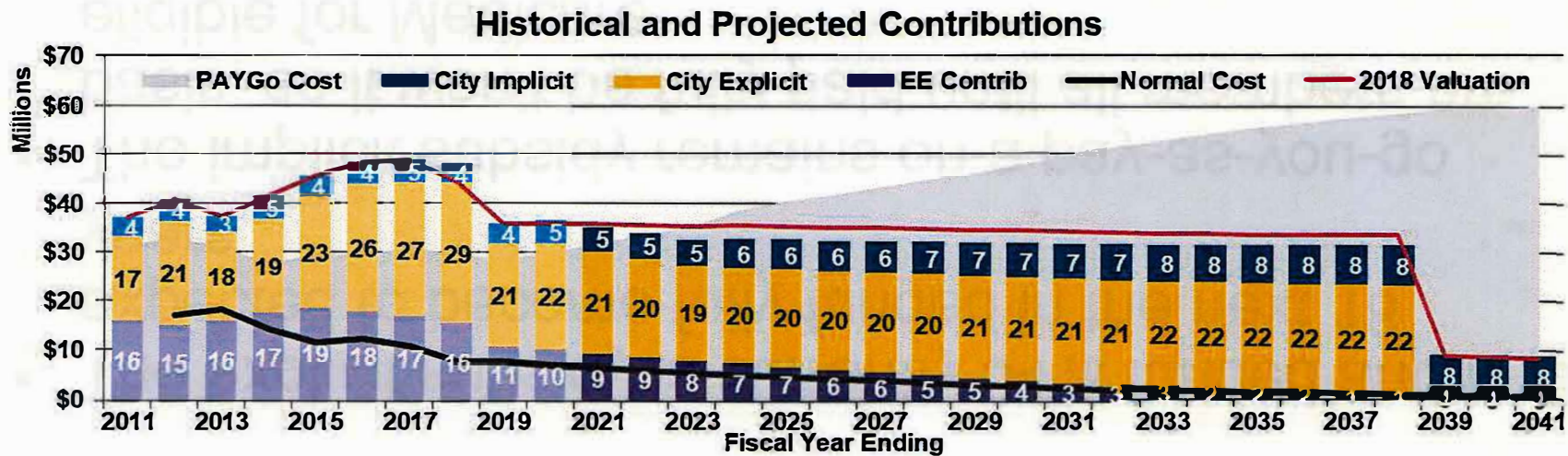
- Reduction in UAL is primarily due to:
 - Contributions
 - Lower than expected premium increases for Medicare-eligible plans
 - Assumption changes – primarily the health trend assumptions
- There were some additional VEBA transfers not anticipated in last year's valuation

Projections



- The explicit subsidy is currently 54% funded and is expected to become fully funded in the next 18 years
- The implicit subsidy remains on a pay-as-you-go basis, so it won't be fully paid until all members are eligible for Medicare

Projections



- Projected contributions are very similar to the projections from the 2018 valuation
- Member contributions are expected to decline as members with full benefits retire or no longer work for the City
- City contributions are expected to increase gradually primarily to make up for declining member contributions

Projections



H-scann OPEB

Stress Testing

CHEIRON

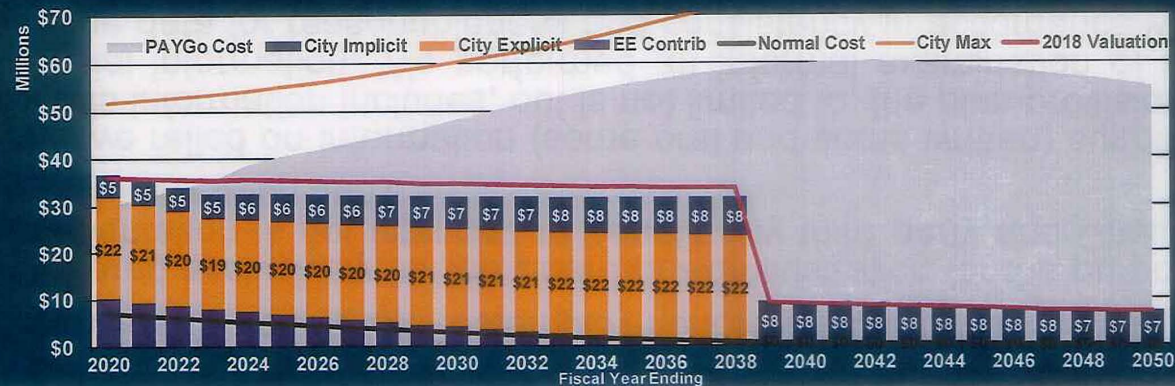
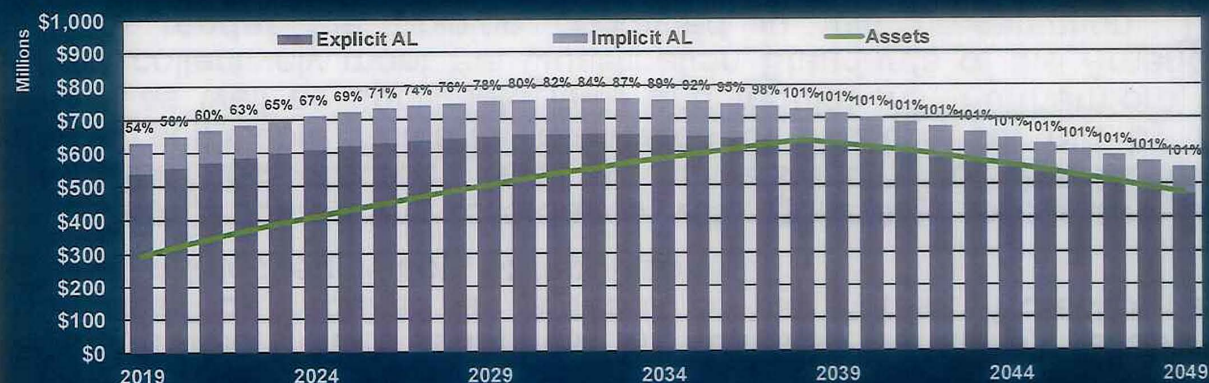
Restore Baseline

FYE	Invest Return	Health Trends	NME	ME	Dental
2020	6.75%	7.50%	4.16%	3.50%	
2021	6.75%	7.16%	4.27%	3.50%	
2022	6.75%	6.82%	4.38%	3.50%	
2023	6.75%	6.49%	4.49%	3.50%	
2024	6.75%	6.15%	4.60%	3.50%	
2025	6.75%	5.81%	4.70%	3.50%	
2026	6.75%	5.48%	4.81%	3.50%	
2027	6.75%	5.14%	4.92%	3.50%	
2028	6.75%	4.89%	4.89%	3.50%	
2029	6.75%	4.80%	4.80%	3.50%	
2030	6.75%	4.77%	4.77%	3.50%	
2031	6.75%	4.75%	4.75%	3.50%	
2032	6.75%	4.73%	4.73%	3.50%	
2033	6.75%	4.71%	4.71%	3.50%	
2034	6.75%	4.70%	4.70%	3.50%	
2035	6.75%	4.68%	4.68%	3.50%	
2036	6.75%	4.67%	4.67%	3.50%	
2037	6.75%	4.66%	4.66%	3.50%	
2038	6.75%	4.64%	4.64%	3.50%	
2039	6.75%	4.63%	4.63%	3.50%	
Avg	6.75%	5.36%	4.65%	3.50%	

Amortization Options

Period	20
Phase In/Out	3
Payment Growth	0.00%

Apply City Max Y



Classic Values, Innovative Advice

January 23, 2020

Disclosures



- The purpose of this presentation is to present the results of the June 30, 2019 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. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In preparing the valuation, we relied on information (some oral and some written) supplied by the City of San José. 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.
- This valuation does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.
- 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, FCA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Membership



Membership			
	June 30, 2019	June 30, 2018	% Change
Active Members			
Eligible for Full Benefits	1,581	1,750	-9.7%
Eligible for Catastrophic Disability Only	1,919	1,711	12.2%
Total Active Members	3,500	3,461	1.1%
Deferred Vested Members	165	164	0.6%
Members in Pay Status (Medical and/or Dental)	3,618	3,583	1.0%
Members In-Lieu only	28	23	N/A
Total	7,311	7,231	1.1%
Full Benefit Member Payroll	\$ 130,932	\$ 141,745	-7.6%
Total Payroll	313,310	298,985	4.8%

Dollar amounts in thousands

- Fewer members are eligible for full benefits due to closed plan
 - Counts decreased 9.7%
 - Payroll on which member contributions is based decreased 7.6%
- About 1,900 members are now eligible for catastrophic disability benefits

Distribution of Active Members



Active Count Distribution

