

# MEMORANDUM

**TO:** Board of Administration  
San José Federated City Employees' Retirement System

**FROM:** Bill Hallmark, Cheiron, Inc.

**DATE:** January 12, 2021

**SUBJECT:** Assumptions for 2021 Actuarial Equivalence

When a member retires and elects an optional form of payment for their retirement benefits, the amount that would have been payable under the automatic form of payment (life annuity if not married or 50% joint and survivor annuity if married) is converted to an actuarially equivalent amount under the optional form of payment selected by the member. San José Municipal Code Section 3.28.1720 requires that the assumptions used for this conversion are the relevant assumptions from “the valuation performed as of June 30<sup>th</sup> in the calendar year prior to the effective date of the actuarial equivalence calculation.” In addition, the Municipal Code requires the Board to adopt these assumptions.

While the Board is required to adopt the assumptions, the only discretion the Board has is how to blend male and female mortality so the factors do not differ based on the member’s sex. Historically, the blend has been based on an assumption of 50% male and 50% female mortality. This blend is simple to use and reasonably reflects the actual membership of the Federated System. Consequently, we recommend no change to the blend.

The table below shows the assumptions used for 2020 and the assumptions to be used for 2021 with assumptions that have changed highlighted in bold.

Assumption	2020	2021
<b>Interest Rate</b>	<b>6.75%</b>	<b>6.625%</b>
COLA	Based on applicable plan provisions	Based on applicable plan provisions
Base Mortality (Healthy)	PubG 2010 multiplied by: <ul style="list-style-type: none"> <li>0.995 for males</li> <li>0.960 for females</li> </ul>	PubG 2010 multiplied by: <ul style="list-style-type: none"> <li>0.995 for males</li> <li>0.960 for females</li> </ul>
Base Mortality (Disabled)	CalPERS 2009 Ordinary Disability multiplied by: <ul style="list-style-type: none"> <li>1.051 for males</li> <li>0.991 for females</li> </ul>	CalPERS 2009 Ordinary Disability multiplied by: <ul style="list-style-type: none"> <li>1.051 for males</li> <li>0.991 for females</li> </ul>
<b>Mortality Projection Scale</b>	<b>MP-2019</b>	<b>MP-2020</b>
Blend	50% male, 50% female	50% male, 50% female

We recommend that the Board adopt the 2021 assumptions.