

San José Federated Postemployment Healthcare Plan



Final Actuarial Valuation Results June 30, 2020

January 21, 2021

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Agenda

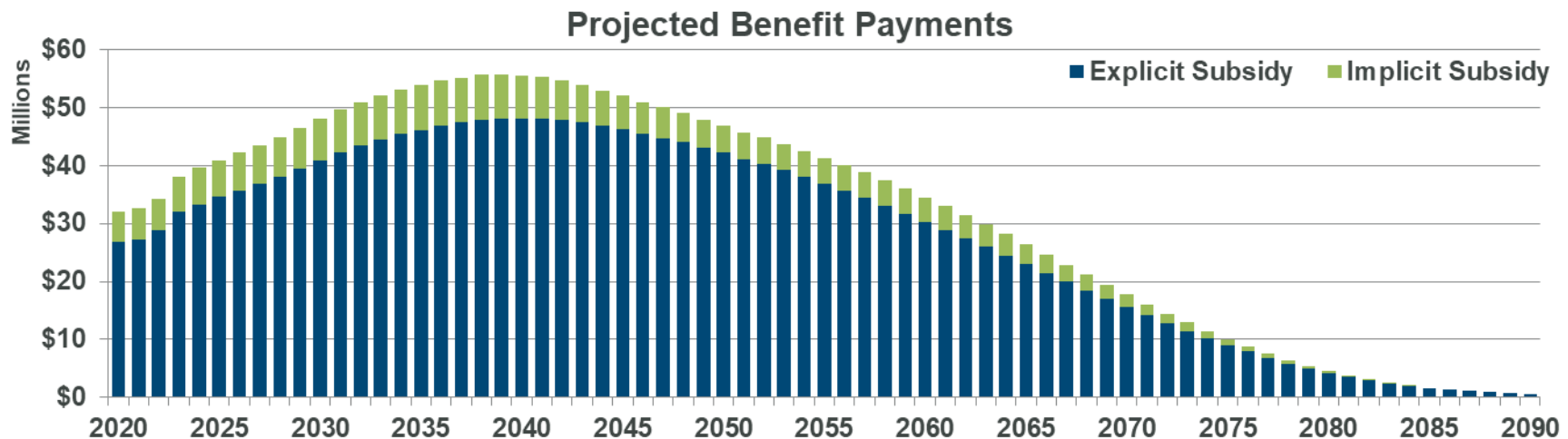


- Background
- Valuation Results
 - Contributions
 - Funded Status
 - Changes in UAL
- Projections

Background



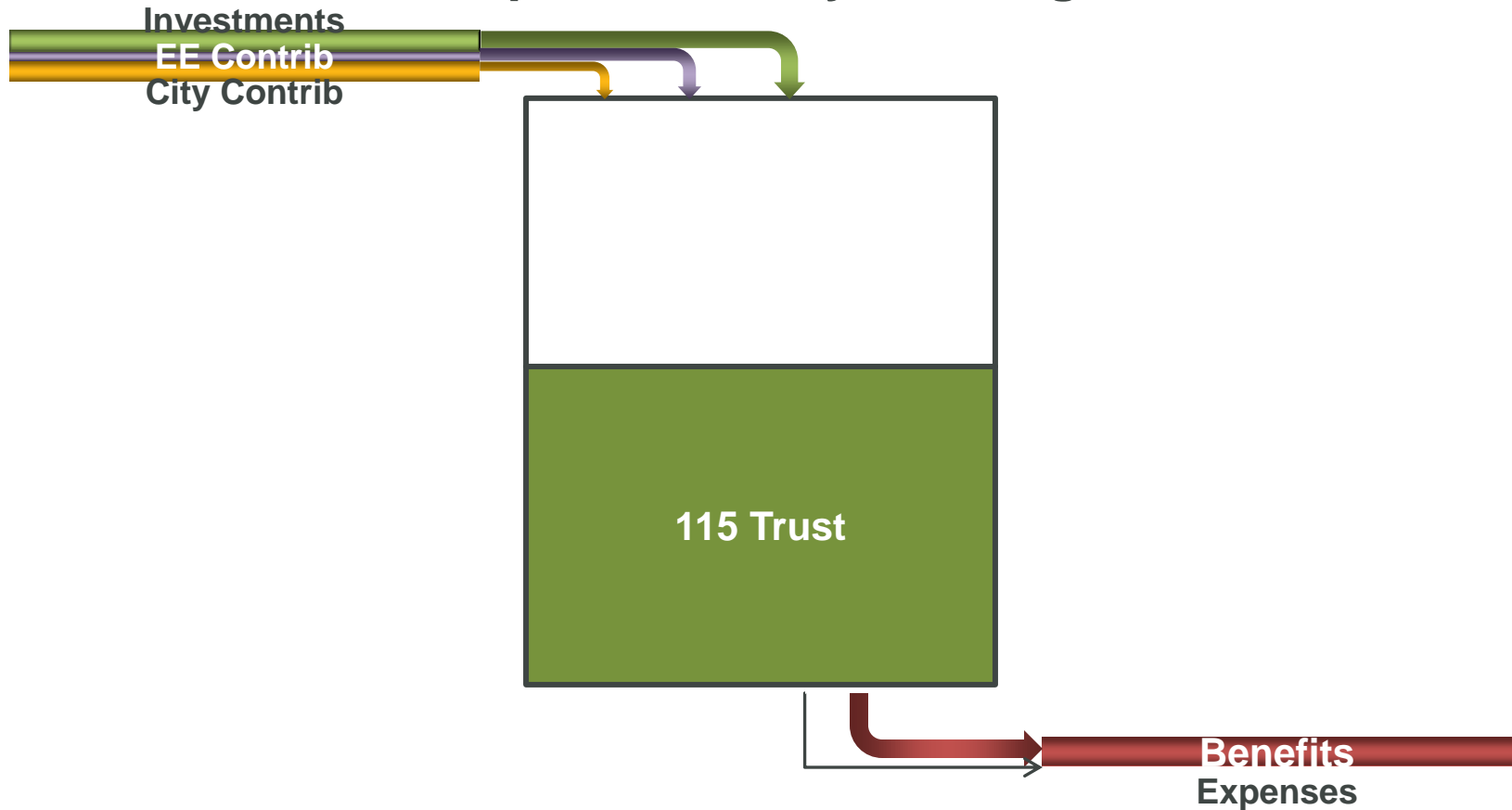
- June 30, 2020 valuation:
 - Develops City contribution for FYE 2022
 - Basis for projected City contributions
 - Used as basis for GASB 74/75 valuation in September for FYE 2021



A Dynamic System



Explicit Subsidy Funding



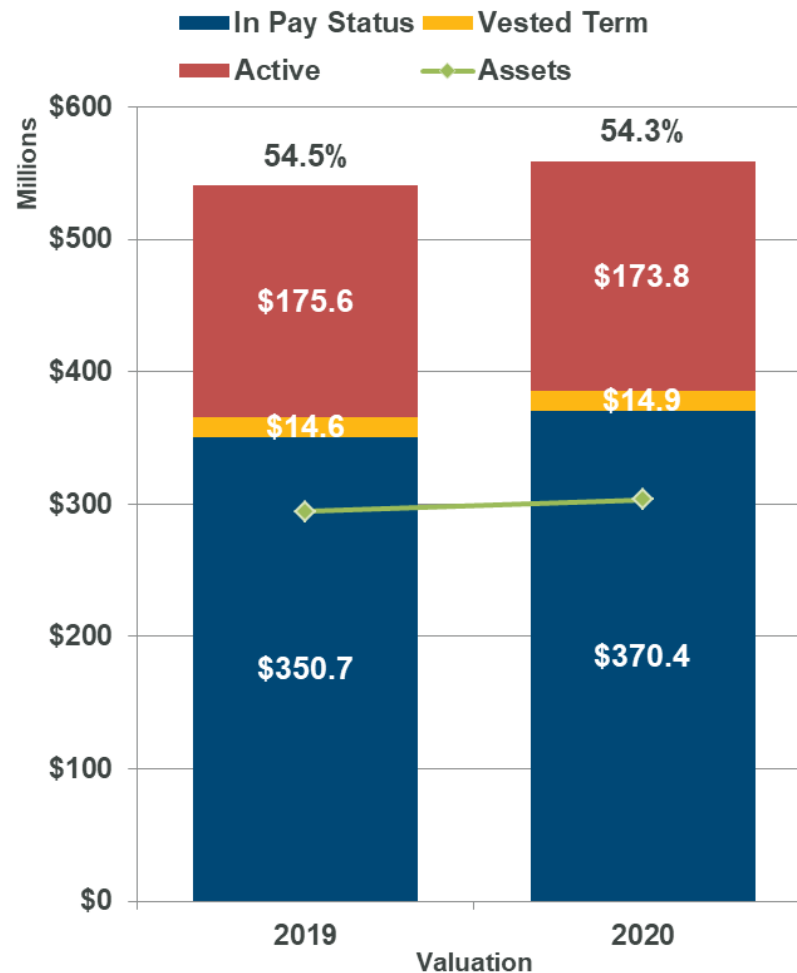
Final Valuation Results



Contributions



Funded Status



Valuation Results



Summary of Contribution Amounts

	FYE 2022	FYE 2021	% Change
Explicit Subsidy			
Members	\$ 9,076	\$ 9,356	-3.0%
City's Actuarially Determined Contribution	19,936	20,949	-4.8%
Estimated City Optional Cap	46,555	43,116	8.0%
Implicit Subsidy	\$ 5,439	\$ 4,991	9.0%

Dollar amounts in thousands

Unfunded Actuarial Liability

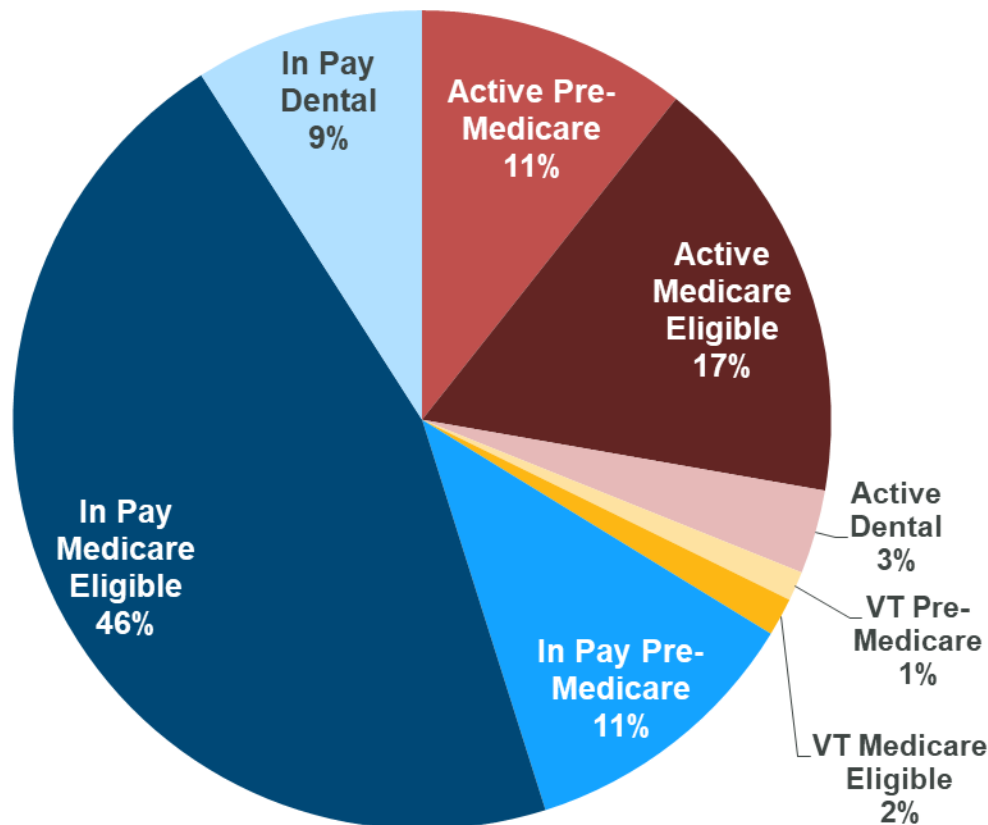
	June 30, 2020			June 30, 2019		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarial Liability	\$559,077	\$ 91,342	\$650,419	\$540,815	\$ 90,937	\$631,752
Assets	<u>303,313</u>		<u>303,313</u>	<u>294,489</u>		<u>294,489</u>
Unfunded Actuarial Liability	\$255,764	\$ 91,342	\$347,106	\$246,326	\$ 90,937	\$337,263
Funded Percentage	54.3%	0.0%	46.6%	54.5%	0.0%	46.6%

Dollar amounts in thousands

Actuarial Liability by Benefit

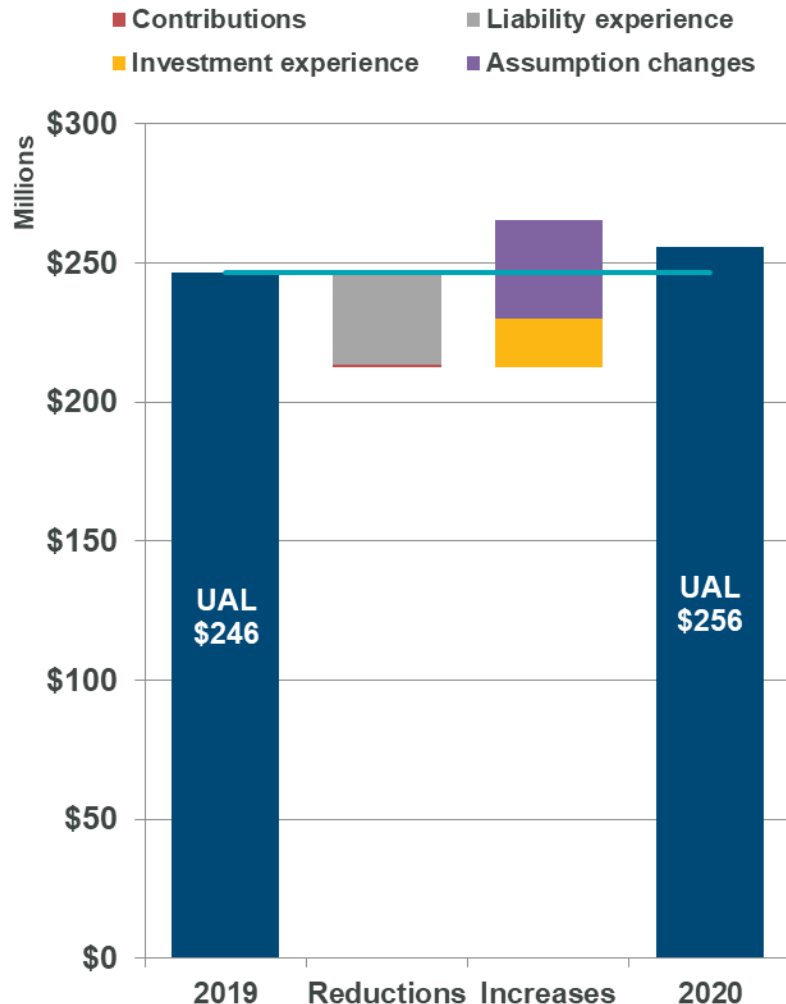


Actuarial Liability



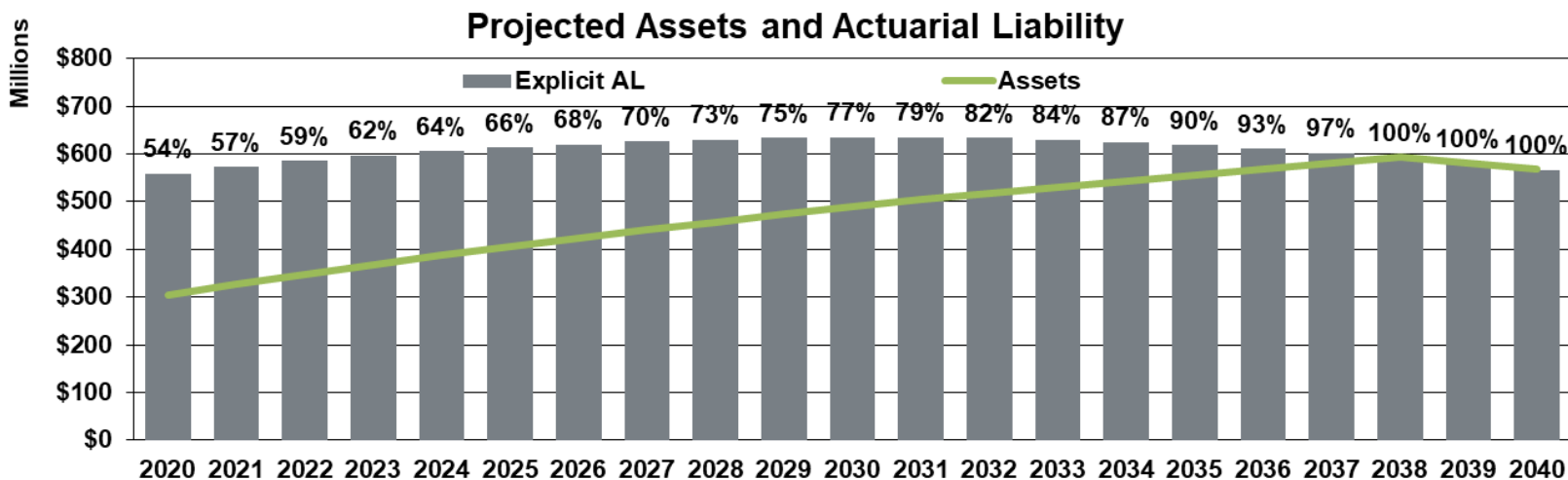
- Liability breakdowns
 - 66% – Currently In pay status
 - 65% – Medical benefits after eligibility for Medicare
 - 23% – Medical benefits prior to eligibility for Medicare
 - 12% – Dental benefits

Changes in UAL – Explicit Subsidy



- UAL increased \$10 million
- Reductions
 - Liability experience -\$33m – mostly reduction in premiums for Medicare eligible plans
 - Contributions -\$1m
- Increases
 - Investments +\$18m
 - Assumptions +\$35m

Projections

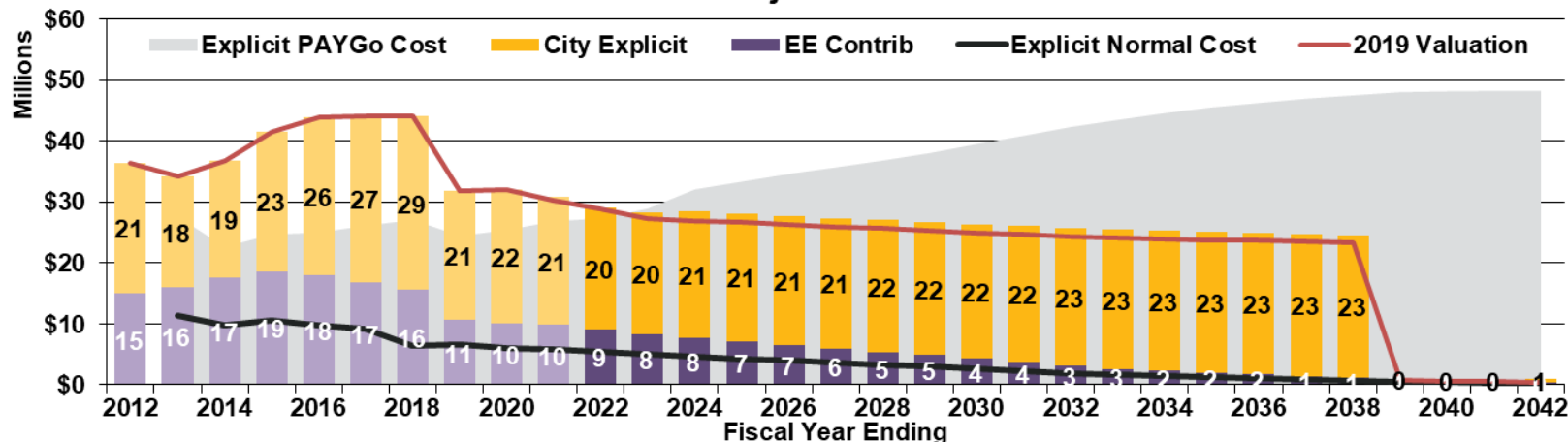


- The explicit subsidy is currently 54% funded
- Expected to reach 100% funded in 2038 if all assumptions are met
- Expected to reach peak liability in 2031

Projections



Historical and Projected Contributions



- Projected contributions are very similar to the projections from the 2019 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
- Benefit payments are expected to exceed contributions starting in FYE 2023

Projections



H-scanner OPEB

Stress Testing

CHEIRON

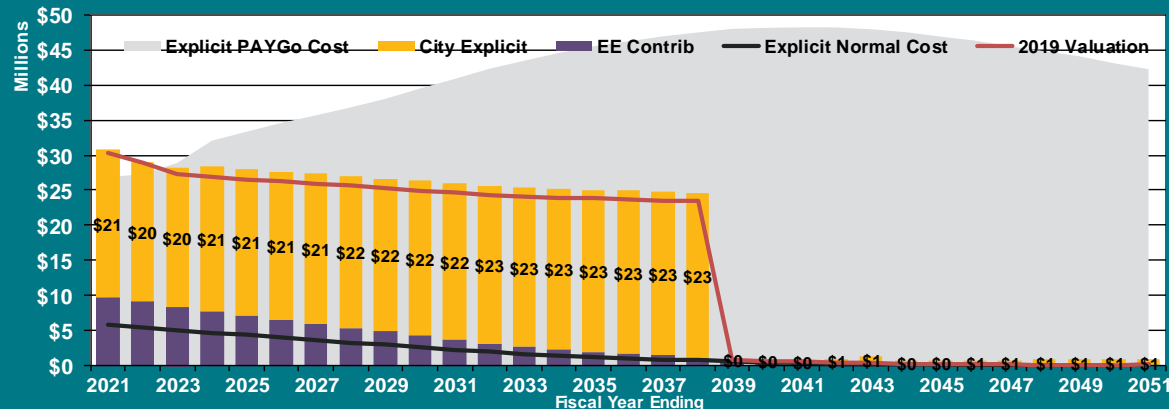
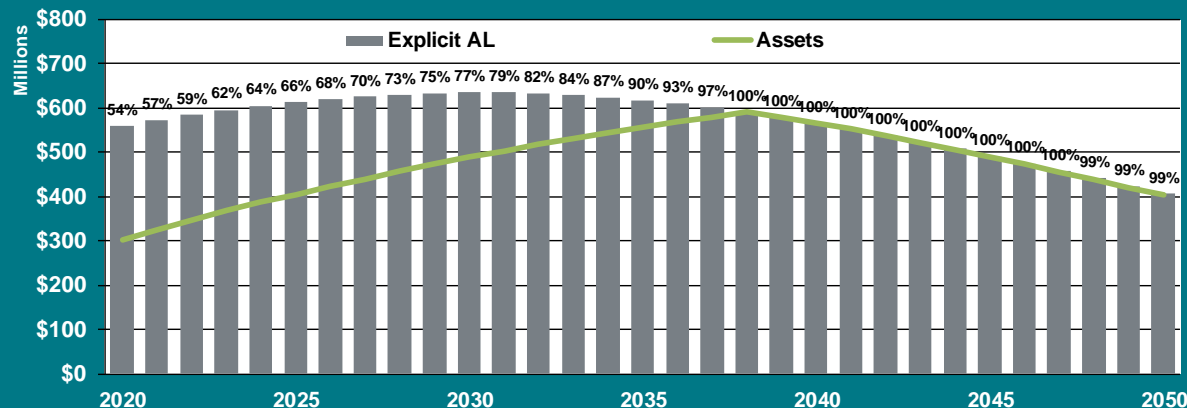
Restore Baseline

FYE	Invest Return	Health Trends NME	ME	Dental
2021	6.25%	7.49%	4.15%	3.50%
2022	6.25%	7.15%	4.26%	3.50%
2023	6.25%	6.80%	4.36%	3.50%
2024	6.25%	6.46%	4.46%	3.50%
2025	6.25%	6.12%	4.57%	3.50%
2026	6.25%	5.78%	4.67%	3.50%
2027	6.25%	5.44%	4.77%	3.50%
2028	6.25%	5.10%	4.87%	3.50%
2029	6.25%	4.93%	4.93%	3.50%
2030	6.25%	4.87%	4.87%	3.50%
2031	6.25%	4.78%	4.78%	3.50%
2032	6.25%	4.74%	4.74%	3.50%
2033	6.25%	4.71%	4.71%	3.50%
2034	6.25%	4.68%	4.68%	3.50%
2035	6.25%	4.66%	4.66%	3.50%
2036	6.25%	4.64%	4.64%	3.50%
2037	6.25%	4.62%	4.62%	3.50%
2038	6.25%	4.60%	4.60%	3.50%
2039	6.25%	4.59%	4.59%	3.50%
2040	6.25%	4.57%	4.57%	3.50%
Avg	6.25%	5.33%	4.63%	3.50%

Amortization Options

Period	20
Phase In/Out	3
Payment Growth	0.00%

Apply City Max Y



Disclosures



- The purpose of this presentation is to present the results of the June 30, 2020 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 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



- 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.
- 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.
- Deterministic projections in this valuation report were developed using H-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the Plan.
- H-scan uses standard roll-forward techniques that implicitly assume a stable active population. Because H-scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.



Membership			
	June 30, 2020	June 30, 2019	% Change
Active Members			
Eligible for Full Benefits	1,445	1,581	-8.6%
Eligible for Catastrophic Disability Only	2,151	1,919	12.1%
Total Active Members	3,596	3,500	2.7%
Deferred Vested Members	156	165	-5.5%
Members in Pay Status (Medical and/or Dental)	3,682	3,618	1.8%
Members In-Lieu only	46	28	N/A
Total	7,480	7,311	2.3%
Full Benefit Member Payroll	\$ 130,725	\$ 135,090	-3.2%
Total Payroll	322,850	299,002	8.0%

Dollar amounts in thousands

- Fewer members are eligible for full benefits due to closed plan
 - Number of active members eligible for full benefits decreased 8.6%
 - Payroll on which member contributions is based decreased 3.2%
- About 2,150 members are now eligible for catastrophic disability benefits

Distribution of Active Members

