

# MEMORANDUM

**TO:** Board of Administration  
San José Police and Fire Department Retirement Plan

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

**DATE:** January 27, 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 is converted to an actuarially equivalent amount under the optional form of payment selected by the member. San José Municipal Code Section 3.36.1466 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. The blend has been based on 95% male and 5% female mortality for members and 5% male and 95% female mortality for beneficiaries. This blend reasonably reflects the actual membership of the Plan. 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                                  | Tier 1: 3.0 percent<br>Tier 2: 2.0 percent   | Tier 1: 3.0 percent<br>Tier 2: 2.0 percent   |
| Base Mortality<br>(Healthy Retirees)  | PubS 2010(A) for retirees<br>multiplied by 1.002   | PubS 2010(A) for retirees<br>multiplied by 1.002   |
| Base Mortality<br>(Disabled Retirees) | PubS-2010 for disabled multiplied<br>by 0.915  | PubS-2010 for disabled multiplied<br>by 0.915  |
| Base Mortality<br>(Beneficiaries)     | CalPERS 2009 healthy annuitant<br>mortality multiplied by:<br><ul style="list-style-type: none"> <li>0.948 for males</li> <li>1.048 for females</li> </ul> | CalPERS 2009 healthy annuitant<br>mortality multiplied by:<br><ul style="list-style-type: none"> <li>0.948 for males</li> <li>1.048 for females</li> </ul> |
| Blend                                 | Members: 95% male, 5% female<br>Beneficiaries: 5% male, 95%<br>female  | Members: 95% male, 5% female<br>Beneficiaries: 5% male, 95%<br>female  |
| Mortality<br>Projection Scale         | MP-2019  | MP-2019  |

We recommend that the Board adopt the 2021 assumptions.