

San José Police and Fire Postemployment Healthcare Plan



Final Actuarial Valuation Results June 30, 2020

February 4, 2021

Bill Hallmark, ASA, EA, FCA, MAAA
Michael Schionning, FSA, MAAA

Agenda

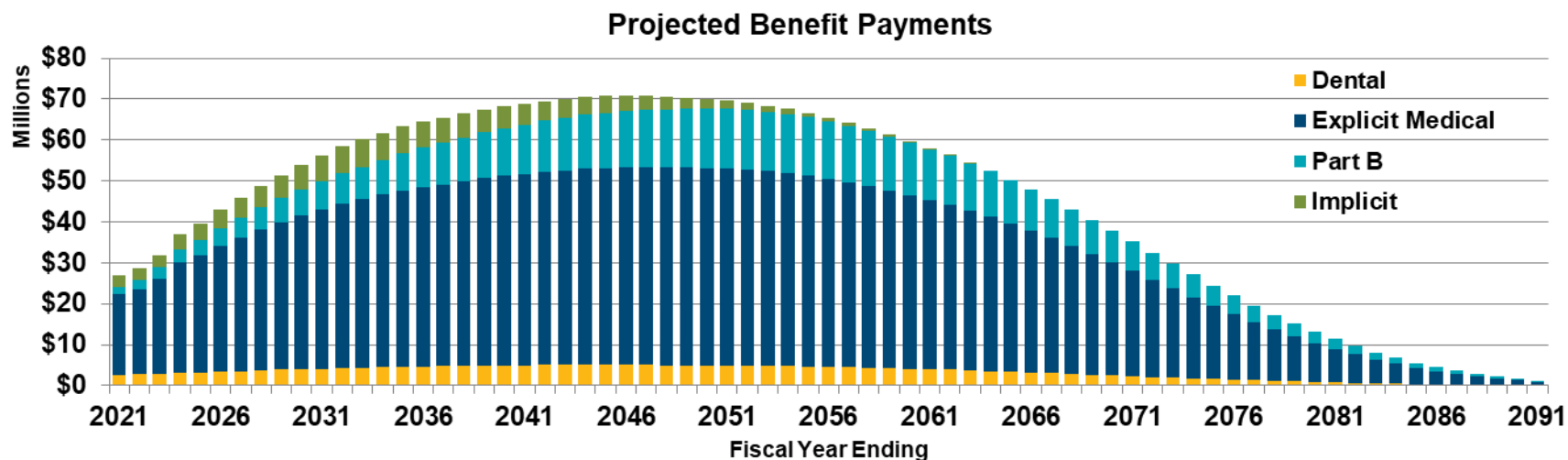


- Background
- Valuation Results
 - Contributions
 - Funded Status
 - Changes in UAL
- Projections

Background



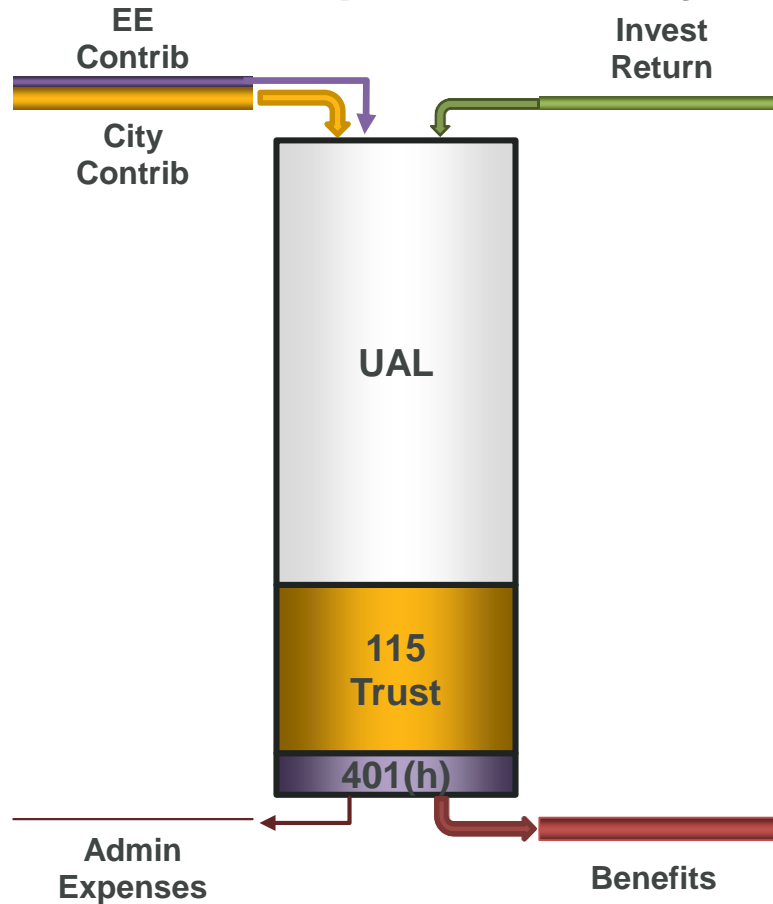
- Two parts of the benefit – Explicit premium subsidy and implicit subsidy
 - Board is responsible for funding of explicit premium subsidy
 - Implicit subsidy is paid on a pay-as-you-go basis through active employee health premiums
- June 30, 2020 valuation:
 - Develops City contribution for FYE 2022 for explicit premium subsidy
 - Member contributions are fixed at 8.0%
 - Used as basis for GASB 74/75 valuation in September for FYE 2021 financial disclosures



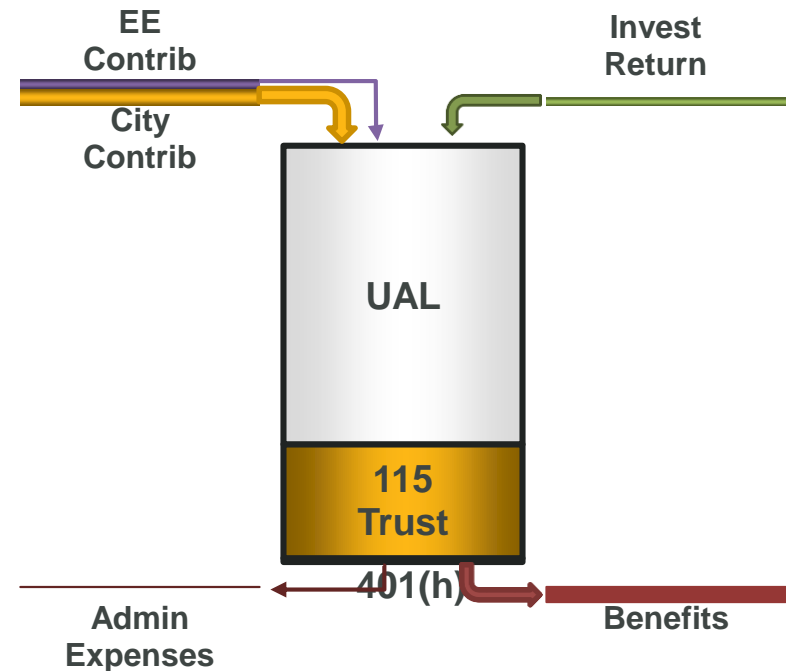
A Dynamic System



Police Explicit Subsidy



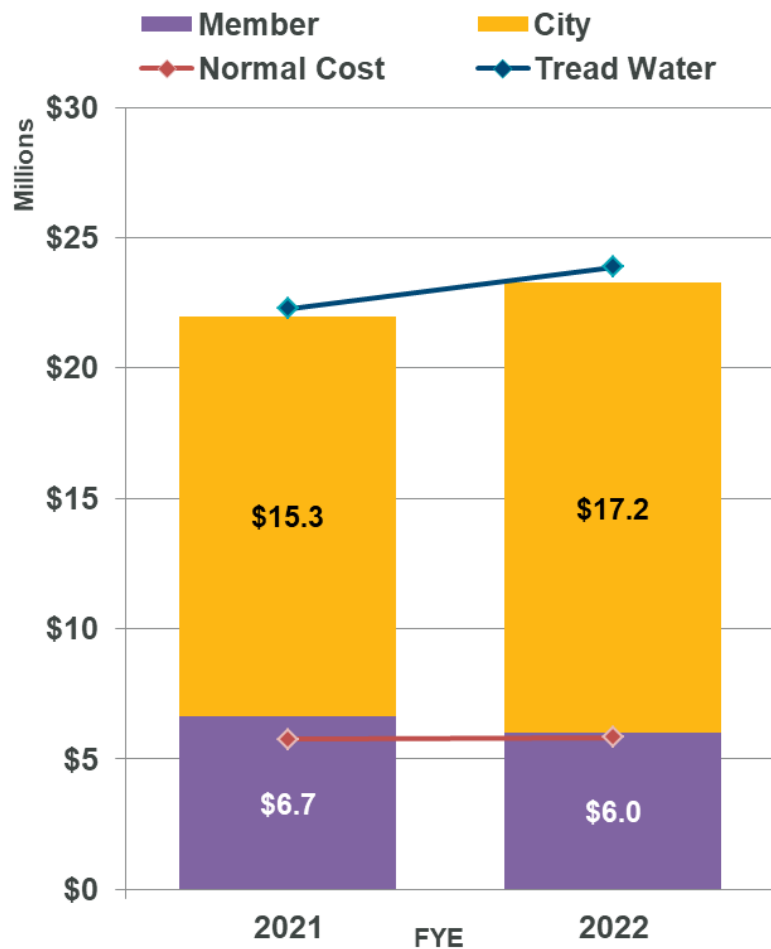
Fire Explicit Subsidy



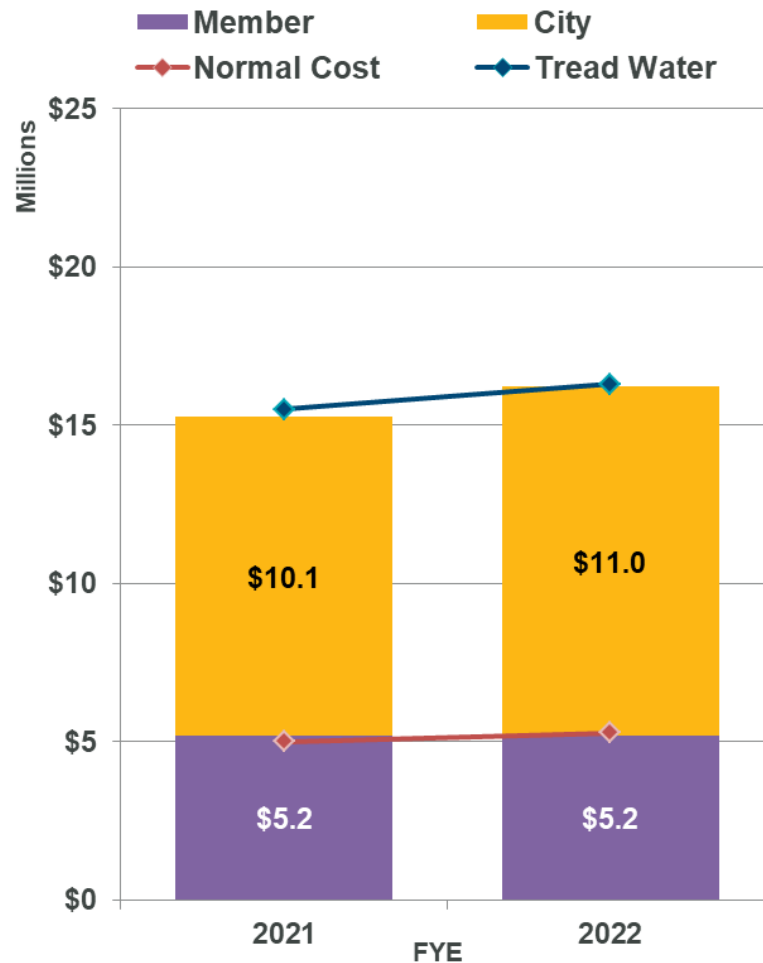
Contributions



Contributions - Police



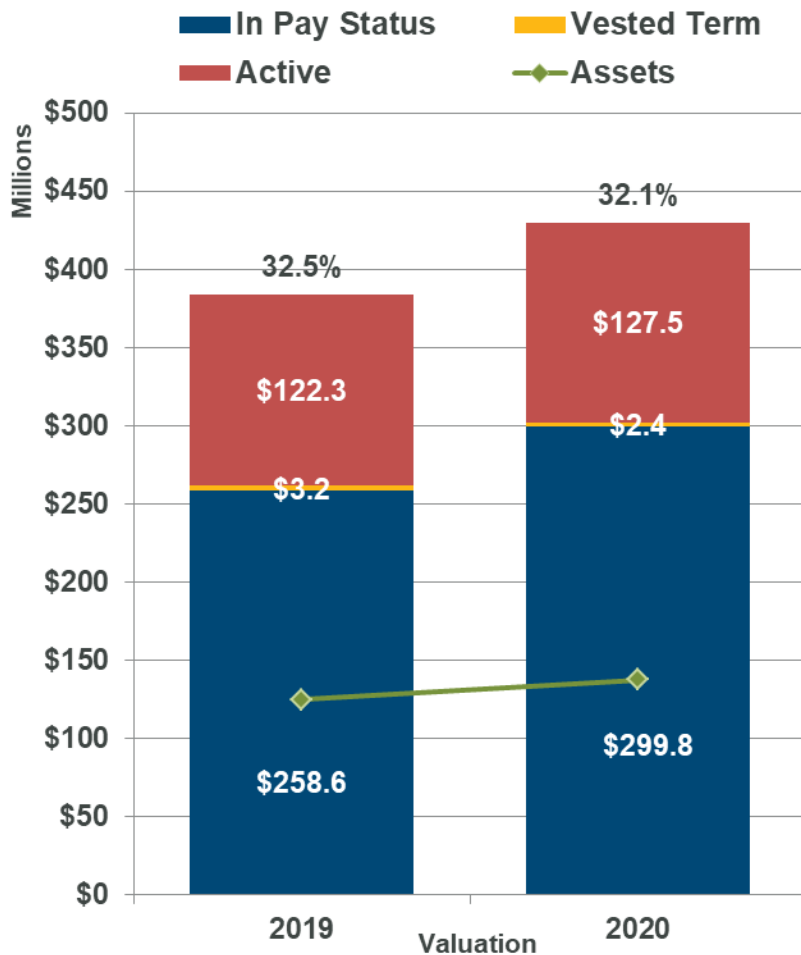
Contributions - Fire



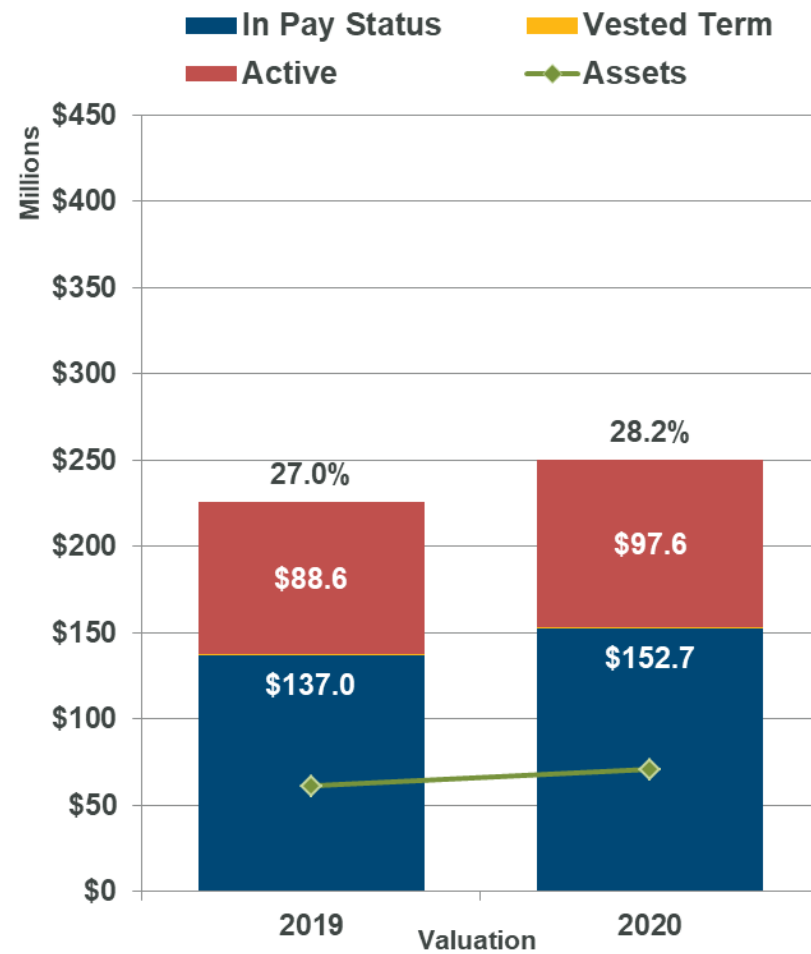
Funded Status



Funded Status - Police



Funded Status - Fire



Valuation Results



Summary of Contribution Amounts Payments Throughout the Year

	Police Department			Fire Department		
	2020	2019	% Change	2020	2019	% Change
Explicit Subsidy						
Members	\$ 6,030	\$ 6,666	-9.5%	\$ 5,187	\$ 5,196	-0.2%
City's ADC	17,245	15,320	12.6%	11,027	10,062	9.6%
Estimated City Cap	16,686	16,680	0.0%	10,597	10,103	4.9%
Implicit Subsidy	\$ 1,978	\$ 1,993	-0.7%	\$ 1,062	\$ 1,481	-28.3%

Dollar amounts in thousands

Unfunded Actuarial Liability - Explicit Subsidy Only

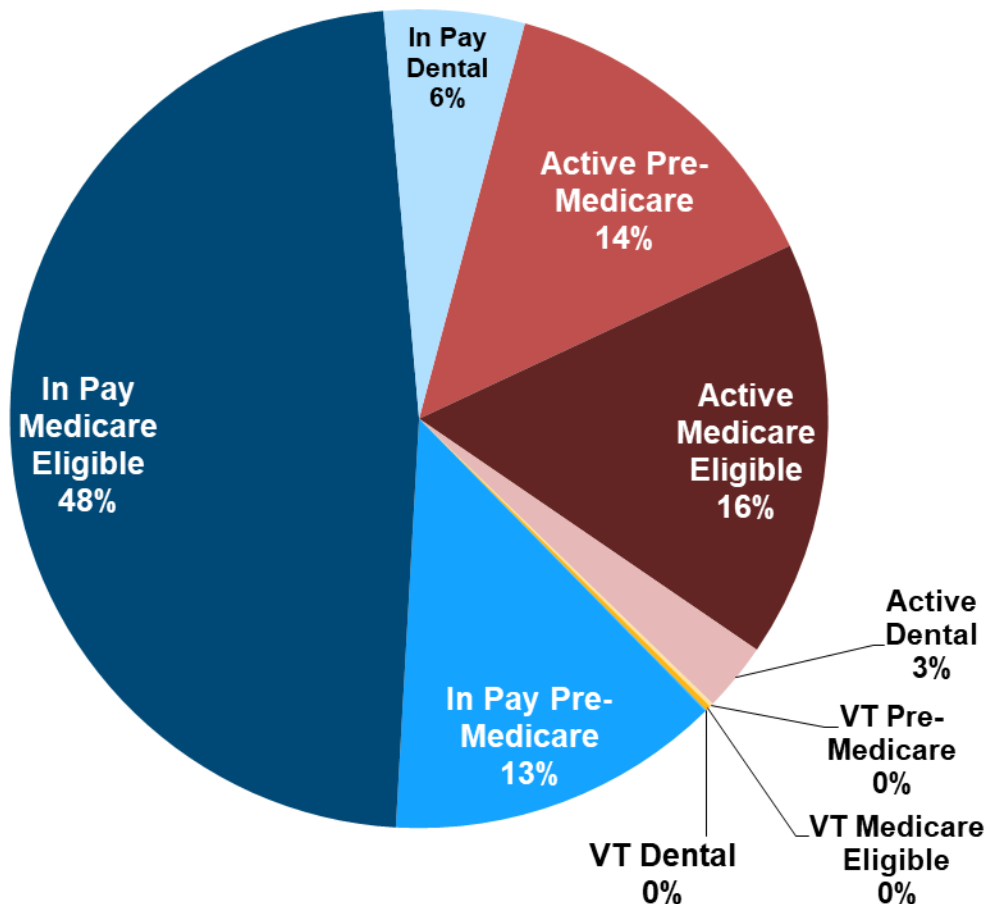
	Police Department			Fire Department		
	2020	2019	% Change	2020	2019	% Change
<u>Actuarial Liability</u>						
Actives	\$ 127,495	\$ 122,325	4.2%	\$ 97,632	\$ 88,561	10.2%
Deferred Vested	2,435	3,181	-23.5%	270	496	-45.6%
In Pay Status	299,826	258,563	16.0%	152,651	136,954	11.5%
Total	\$ 429,756	\$ 384,069	11.9%	\$ 250,553	\$ 226,011	10.9%
Assets	137,789	124,990	10.2%	70,743	60,967	16.0%
Unfunded Actuarial Liability	\$ 291,967	\$ 259,079	12.7%	\$ 179,810	\$ 165,044	8.9%
Funded Percentage	32.1%	32.5%	-0.5%	28.2%	27.0%	1.3%

Dollar amounts in thousands

Actuarial Liability by Benefit

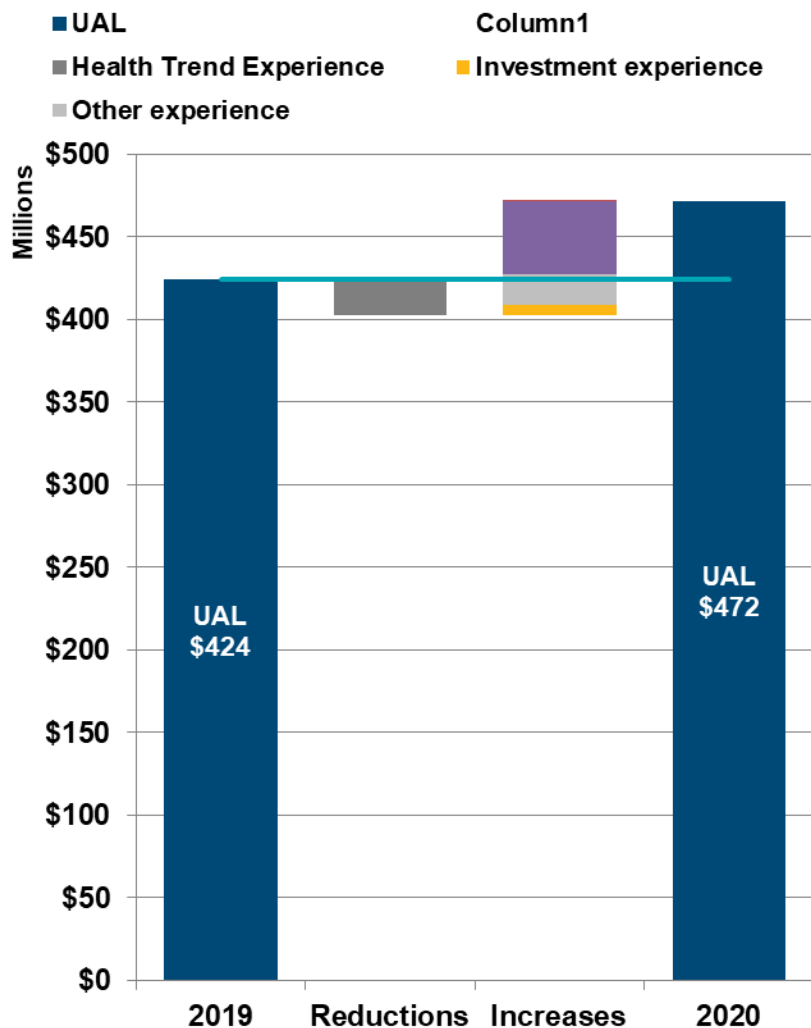


Actuarial Liability



- Liability breakdowns
 - 67% – Currently In pay status
 - 64% – Medical benefits after eligibility for Medicare
 - 27% – Medical benefits prior to eligibility for Medicare
 - 9% – Dental benefits

Changes in UAL



Changes in Unfunded Actuarial Liability Explicit Subsidy Only

UAL, June, 30, 2019	\$ 424,123
UAL, June, 30, 2020	471,778
Change in UAL	\$ 47,654

Sources of Changes

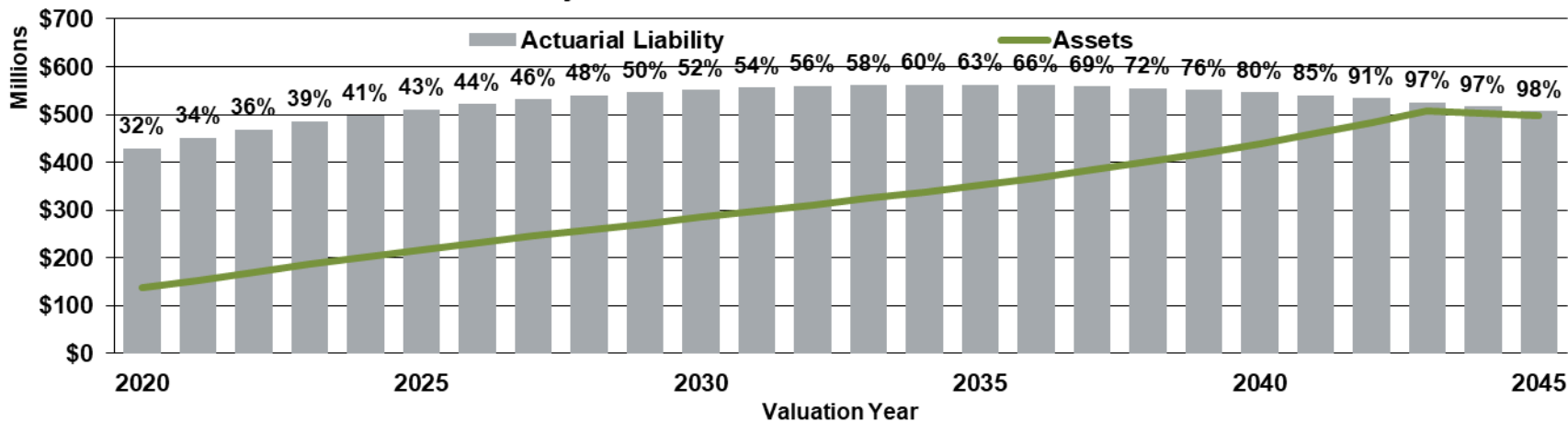
Tread Water Amount	\$ 37,298
Actual Contributions	37,137
Contribution Impact	\$ 161
Investment Experience	6,253
Health Trend Experience	(21,628)
Other Experience	18,609
Assumption Changes	44,259
Total Change in UAL	\$ 47,654

Dollar amounts in thousands

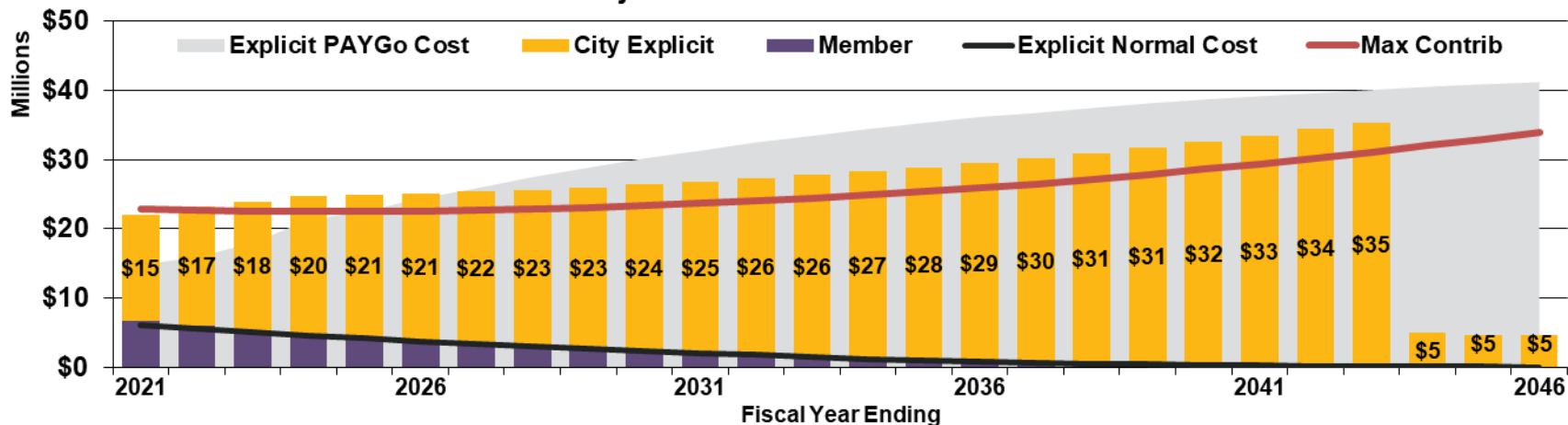
Projections – Police



Projected Assets and Liabilities - Police



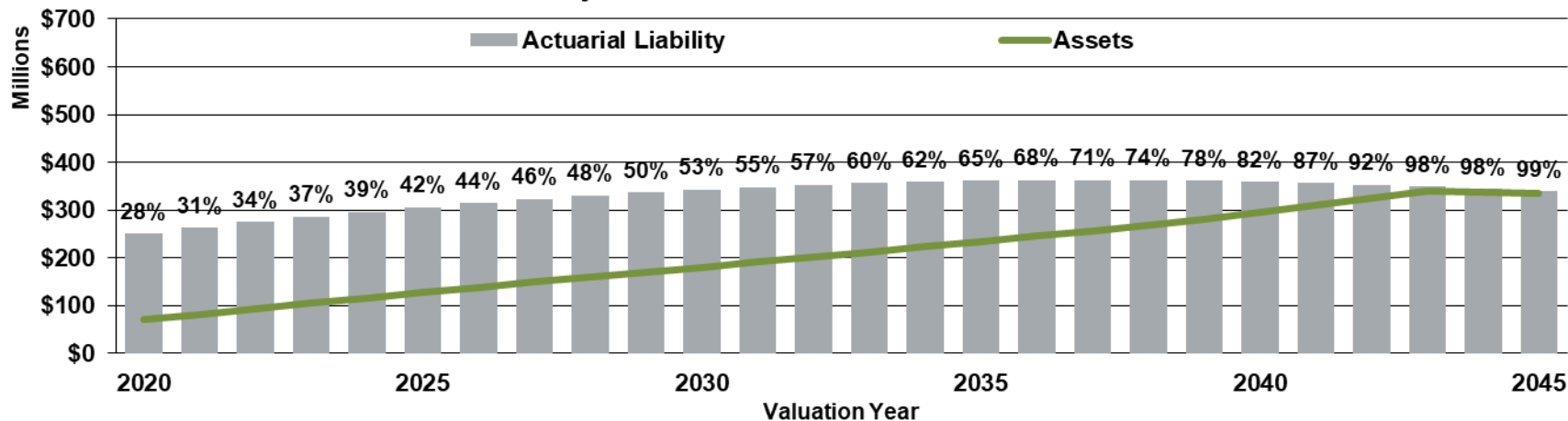
Projected Contributions - Police



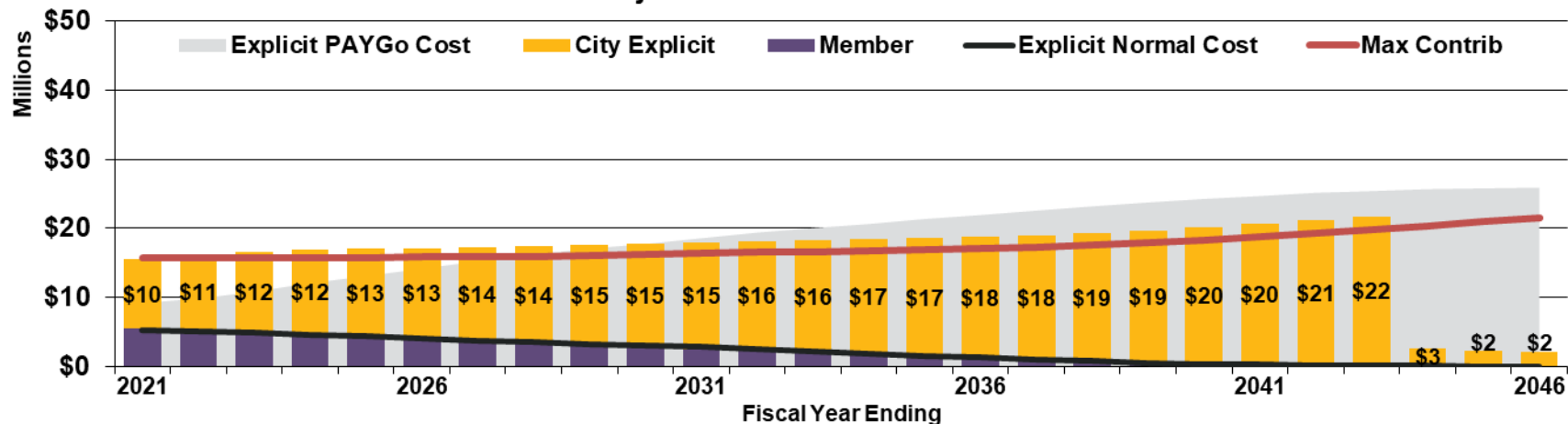
Projections – Fire



Projected Assets and Liabilities - Fire



Projected Contributions - Fire



Projections



H-scans OPEB

Stress Testing

CHEIRON

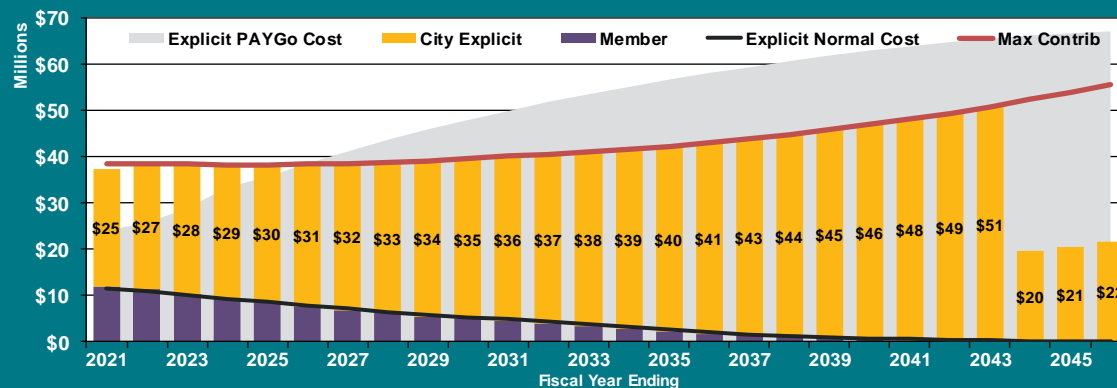
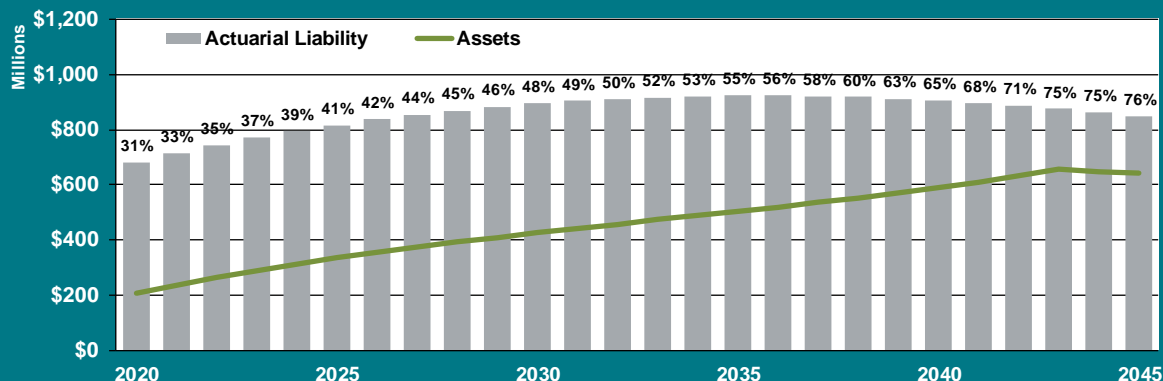
Medical Trend Assumptions

	NME	ME	Period
Initial	7.66%	4.10%	1
Ultimate	3.78%	3.78%	55

OPEB Plan	Total
Discount Rate	6.25%
Apply City Cap	Yes

Restore Baseline

FYE	Invest Return	Health Trend Experience			
		NME	ME	Dental	PartB
2021	6.25%	7.49%	4.15%	3.50%	5.95%
2022	6.25%	7.15%	4.26%	3.50%	5.82%
2023	6.25%	6.80%	4.36%	3.50%	6.00%
2024	6.25%	6.46%	4.46%	3.50%	5.86%
2025	6.25%	6.12%	4.57%	3.50%	5.76%
2026	6.25%	5.78%	4.67%	3.50%	5.79%
2027	6.25%	5.44%	4.77%	3.50%	5.71%
2028	6.25%	5.10%	4.87%	3.50%	5.63%
2029	6.25%	4.93%	4.93%	3.50%	5.51%
2030	6.25%	4.87%	4.87%	3.50%	5.39%
2031	6.25%	4.78%	4.78%	3.50%	5.27%
2032	6.25%	4.74%	4.74%	3.50%	5.15%
2033	6.25%	4.71%	4.71%	3.50%	5.03%
2034	6.25%	4.68%	4.68%	3.50%	4.91%
2035	6.25%	4.66%	4.66%	3.50%	4.79%
2036	6.25%	4.64%	4.64%	3.50%	4.67%
2037	6.25%	4.62%	4.62%	3.50%	4.56%
2038	6.25%	4.60%	4.60%	3.50%	4.44%
2039	6.25%	4.59%	4.59%	3.50%	4.32%
2040	6.25%	4.57%	4.57%	3.50%	4.20%
Avg	6.25%	5.33%	4.63%	3.50%	5.24%



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 Police and Fire 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



Police Department - Summary of Member Data

Valuation Date	2020	2019	% Change
Active Members			
Eligible for Full Benefits	578	629	-8.1%
Eligible for Catastrophic Disability	469	410	14.4%
Total Active Members	1,047	1,039	0.8%
Term Vested Members	9	13	-30.8%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental	1,197	1,157	3.5%
Medical Only	1	1	0.0%
In-Lieu Medical with Dental	141	76	85.5%
Dental Coverage Only	21	82	-74.4%
In-Lieu Medical Only	14	8	75.0%
Total	1,374	1,324	3.8%
Total Count	2,430	2,376	2.3%
Full Benefit Member Payroll	\$ 90,769	\$ 98,281	-7.6%
Total Payroll	\$ 147,269	\$ 146,865	0.3%

* Counts do not include dependent spouses

Payroll in thousands

Fire Department - Summary of Member Data

Valuation Date	2020	2019	% Change
Active Members			
Eligible for Full Benefits	495	512	-3.3%
Eligible for Catastrophic Disability	167	150	11.3%
Total Active Members	662	662	0.0%
Term Vested Members	1	2	-50.0%
Retirees and Surviving Spouses with Coverage*			
Medical and Dental	781	772	1.2%
Medical Only	0	0	N/A
In-Lieu Medical with Dental	40	24	66.7%
Dental Coverage Only	18	32	-43.8%
In-Lieu Medical Only	4	3	33.3%
Total	843	831	1.4%
Total Count	1,506	1,495	0.7%
Full Benefit Member Payroll	\$ 73,995	\$ 72,440	2.1%
Total Payroll	\$ 93,529	\$ 88,953	5.1%

* Counts do not include dependent spouses

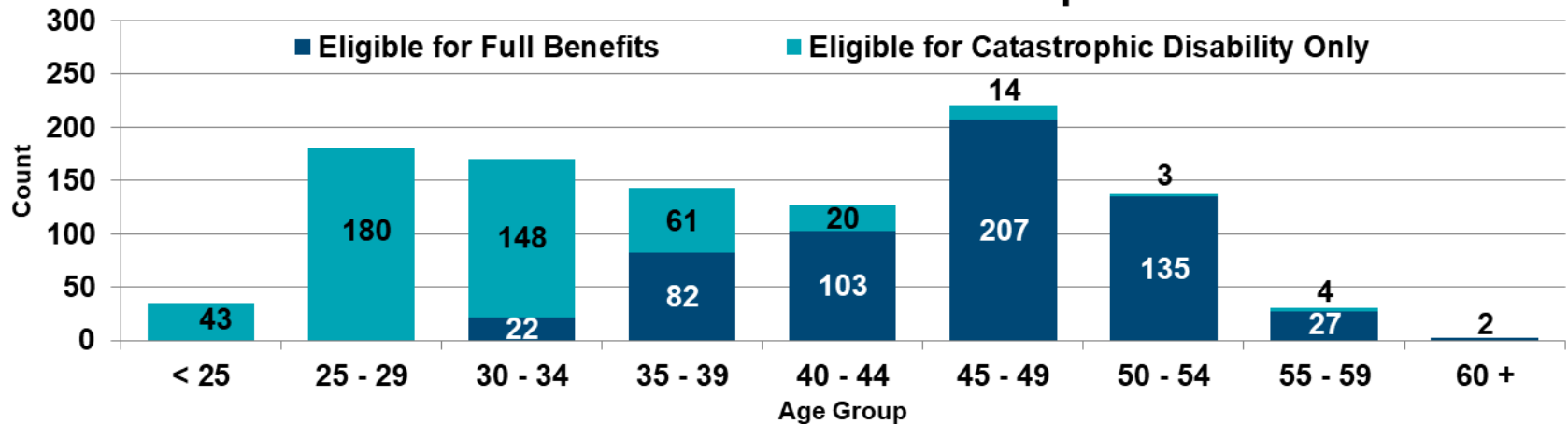
Payroll in thousands

- Fewer active members are eligible for full benefits
 - Payroll on which member contributions are based declined 7.6% for Police and increased 2.1% for Fire
- Total active payroll is growing
 - Police payroll increased 0.3% and Fire payroll increased 5.1%
 - City's optional contribution cap increased 2%

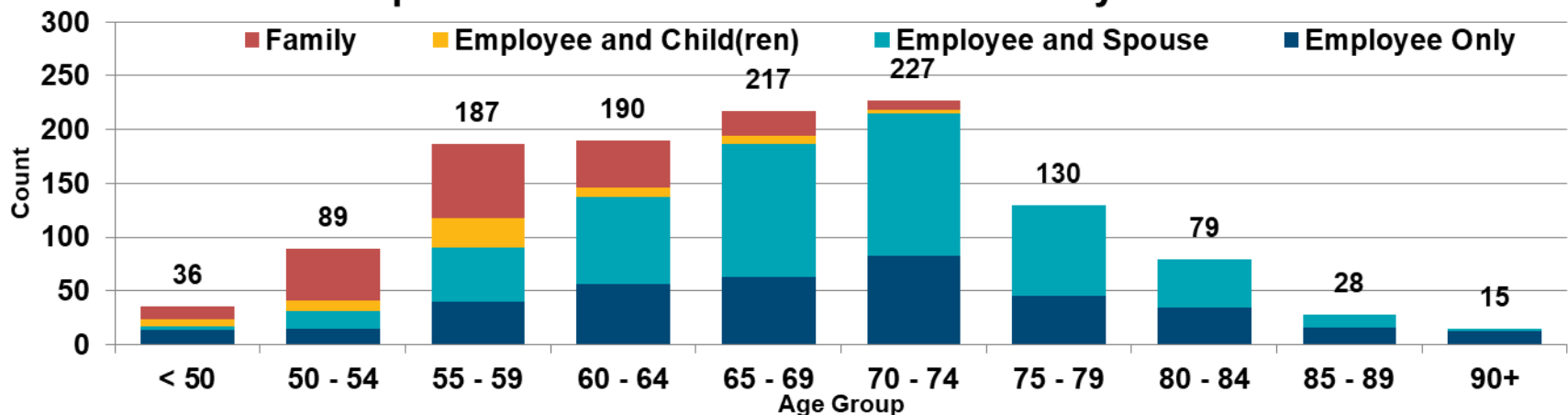
Police Member Distribution



Active Count Distribution - Police Department



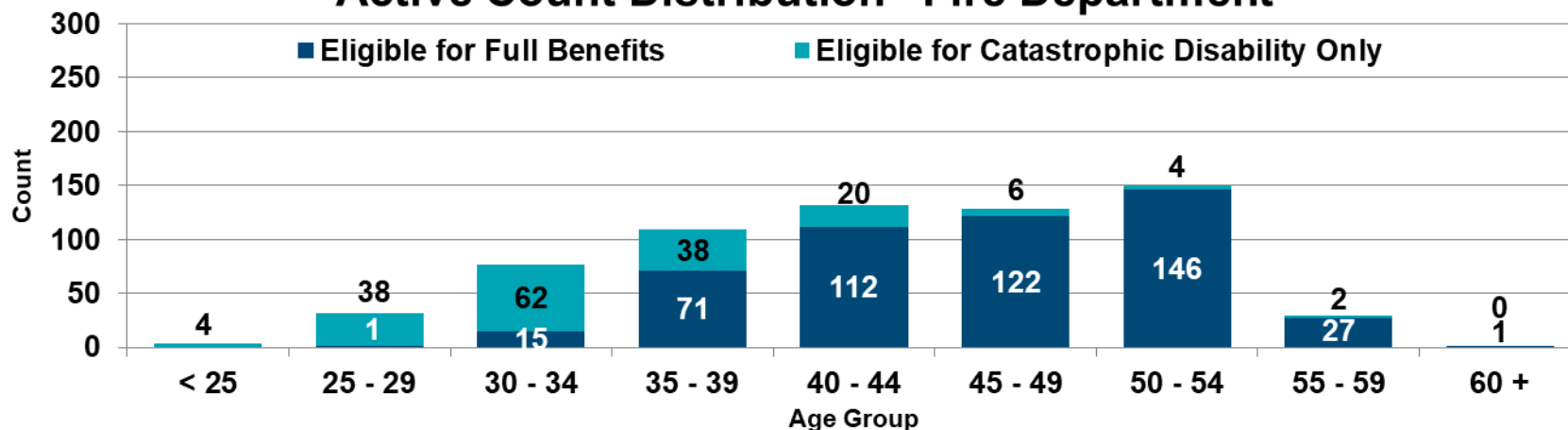
Police Department Retiree Count Distribution by Election Tier



Fire Member Distribution



Active Count Distribution - Fire Department



Fire Department Retiree Count Distribution by Election Tier

