



Item No. 5 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: NOVEMBER 15, 2016

SUBJECT: PRESENTATION BY NICOLAY CONSULTING; REVIEW AND DISCUSS TOWN OF ATHERTON ACTUARIAL VALUATION OF POSTEMPLOYMENT HEALTH CARE PROGRAM; RECOMMEND TO COUNCIL TO ADOPT THE OPEB VALUATION REPORT.

RECOMMENDATION

- 1) Review and discuss the Town of Atherton 2016 Actuarial Valuation of Postemployment Healthcare Program;
- 2) Hear Presentation by Nicolay Consulting; and
- 3) If appropriate recommend to City Council to adopt OPEB Valuation Report.

BACKGROUND

The Town of Atherton worked with Nicolay Consulting to obtain a refresh of the Actuarial Valuation of its OPEB liability. The last OPEB actuarial valuation was performed July 1, 2014. The reason for the refresh was due to the new Actuarial Standards of Practice No. 6 (ASOP 6) that would take place in 2016 regarding actuarial valuations. The most important impact to valuations is the prohibition of using “community rated accounting” for health care plans. Effective March 31, 2016 ASOP 6 implemented that valuation plans reflect the impact of aging claims for community rated plans.

CalPERS for the purposes GASB 45 (Accounting & Financial Reporting for OPEB) indicated that’s its medical program is a “Community rated” plan. This means all participating employers located in the same region pay the same premium rates, even though older employees and early retirees generally have higher medical costs than younger employees. GASB 45 allowed liabilities to be based on flat premiums for community rated plans. With the implementation of ASOP 6, this eliminates the community rated plan exemption. As a result the Town was required to revise the pre and post-Medicare plan liabilities to adjust and allocate them on a claims cost curve rather than based on premiums. This resulted in an increase of liabilities of approximately \$3,250,000. This new increase is described as an *implicit subsidy*. This means that the flat-rate premiums are lower than the calculated participants age-adjusted claims cost of coverage. Healthcare costs tend to increase with age, therefore results in an implicit subsidy. This is a result of the difference between the flat-rate premiums plan participants are charged, and the estimated age-related claims costs.

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There were additional assumptions that were within the OPEB Actuarial Valuation report. They included revised mortality rates, healthcare cost trends, actual demographic experiences, and other assumptions.

The City Council over the past couple of years, took significant steps to reduce the Town's OPEB Liability. The Town eliminated retiree healthcare for new hires, and reduced retiree healthcare for APOA via a vesting schedule. The Town also made several contributions to the OPEB Trust. Based on the last OPEB Actuarial as of July 1, 2014, and the resultant contributions, the OPEB Liability was estimated as follows:

As of 7/1/2014	
Active Employees	\$1,851,691
Retirees Spouses	\$5,607,553
Accrued Actuarial Liability (AAL)	\$7,459,244
Prior Town Contribution to PARS Trust FY 12/13	(\$1,299,316)
Contribution Towards PARS Trust FY 13/14	(\$2,000,000)
ERAF Contribution FY 14/15	(\$1,020,000)
ERAF Contribution FY 15/16	(\$680,684)
Estimated Unfunded Actuarial Liability Amount	\$2,459,244

FINDINGS | ANALYSIS

The new OPEB valuation takes into account new assumptions and the new ASOP 6. As part of the refresh, the Town also updated its Employee Census Data with current employees and annuitants of the Town as of July 1, 2016.

Actuarial Accrued Liability	07/1/2016	7/1/2014
Active	\$2,775,369	\$1,851,691
Retiree	\$9,380,054	\$5,607,553
Total	\$12,155,423	\$7,459,244
Actuarial Value of Assets	\$5,405,490	\$3,513,466
Unfunded Actuarial Accrued Liability	\$6,749,933	\$3,945,778

The actuarial accrued liability increased \$4,696,179 from the July 2014 to July 2016 reports. A majority of the increase is due to the implicit subsidy calculation as a result of ASOP 6. This calculation resulted in an additional \$3,247,011 within the actuarial accrued liability. A result of the ASOP 6, brings transparency to the true costs of health care based on projected claims. This is the breaking down of the costs of healthcare, getting more analytical of what those costs are for retiree medical. The costs are higher because of the requirement to unwind the costs of the community rated health plans and base them on a claims cost curve. The implicit subsidy doesn't increase cash costs, it is an accounting accrual liability. Employer actual retiree cash costs are based on flat premiums. The new valuation also shows an increase in the Annual Required Contribution (ARC). The 2014 Report shows an ARC of \$367.793 compared to the new ARC of \$668.846. The Annual OPEB cost (ARC plus interest/adjustments) is increased from \$364,557 to \$670,860 – a \$306,303 increase. This is mostly attributed to the calculation of the implicit rate

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subsidy, a result of age-related claims costs on community rated plans. Table 1-2 of the report lists the estimated sources that caused the liability change. The Town through its contributions to the OPEB Trust has a positive Actuarial Value Asset Balance of \$5,405,490 for OPEB. The new valuation report projects an Unfunded Actuarial Accrued Liability for 16/17 of \$6,749,993.

Gary Cline and Joshua Clement from Nicolay Consulting are present today to discuss and answer questions regarding the OPEB Actuary valuation report in more detail.

FISCAL IMPACT

The new refresh of the OPEB Valuation report highlights the implementation of ASOP 6, changes to the Employee Census data and contributions to the PARS Trust. The additional fiscal impact would be funding the new ARC within the report and understanding the implicit subsidy impact on the OPEB long term liability.

ATTACHMENT

Town of Atherton 2016 Actuarial Valuation of Postemployment Healthcare Program

THE TOWN OF ATHERTON

Actuarial Valuation of
Postemployment Medical Benefits
Valuation Date: July 1, 2016

THE TOWN OF ATHERTON

Actuarial Valuation of Postemployment Medical Benefits

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Valuation Date: July 1, 2016



November 8, 2016

PENSION CONSULTANTS AND ACTUARIES

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SAN FRANCISCO, CALIFORNIA 94108-3633
TEL: 415-512-5300
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Mr. Robert Barron III
Finance Director
Town of Atherton
91 Ashfield Road
Atherton, CA 94027

Dear Mr. Barron:

Re: Actuarial Valuation of Postemployment Medical Plans

The Town of Atherton has retained Nicolay Consulting Group to complete this valuation of the Town of Atherton postemployment medical program as of July 1, 2016.

The purpose of this valuation is to determine the value of the expected postretirement benefits for current and future retirees and the Actuarial Accrued Liability and Annual Required Contribution recognized under Government Accounting Standards Board Statement No. 45 (GASB 45) requirements for the fiscal year ending June 30, 2017. The amounts reported herein are not necessarily appropriate for use for a different fiscal year without adjustment.

In preparing this report we relied on employee data and plan information provided by the Town. The results of the valuation are dependent on the accuracy of the data and other information provided. These data are not audited by Nicolay Consulting Group, although they were reviewed for reasonableness. Calculations presented in this valuation do not reflect any other postemployment benefits than those described in this report.

The financial projections presented in this report are intended for internal use in evaluating the potential cost of the retiree medical program and for the plan sponsor's financial statements. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without the written consent of Nicolay Consulting Group.

On the basis of the data provided, this report has been prepared in accordance with generally accepted actuarial principles and methods. The assumptions for termination, retirement, mortality and health care claims morbidity rates are those used in the most recent California PERS Public Agency retirement plan valuations.



Mortality improvement was reflected based on the most recent tables published by the Society of Actuaries. Morbidity rates for age-adjusting claims rates are based on the most recent tables published by CalPERS. Certain other assumptions were selected specifically for this valuation, and in many cases, including assumed health care trend, reflect changes from that used in the prior valuation. For all other assumptions, we believe they are reasonable for the measurement of the obligation involved. It should be recognized, however, that there can be significant differences between actual experience and the assumptions. Moreover, other sets of reasonable assumptions can yield materially lesser or greater results.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: retiree group benefits program experience differing from that anticipated by the assumptions; changes in assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in retiree group benefits program provisions or applicable law. Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. Because of limited scope, we have not performed analysis of the potential range of such future differences.

Based on the foregoing, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures. We believe they fully and fairly disclose the actuarial position of the Plan based on the plan provisions, employee and plan cost data submitted.

The passage of healthcare reform in March 2010 ushered in a number of changes that might be expected to impact postretirement medical plans over time. We considered the possible effects of these changes for the Town and summarized the results in this report.

On December 18, 2015, the President signed the Omnibus Appropriations Act of 2015. There are significant provisions in this law relating to the Cadillac tax, the annual fee on health insurers, and the medical device tax. This valuation reflects this new legislation.

Mr. Robert Barron III
November 8, 2016
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This report represents a statement of actuarial opinion by the undersigned actuary, who is a member of the American Academy of Actuaries (AAA) and is qualified to issue that opinion. Questions about the report should be directed to Gary Cline at (415) 512-5300 x231.

Sincerely,

By: 
Gary E. Cline, ASA, EA, FCA, MAAA

SECTION I

Summary of Valuation Results

Table 1-1 Summary of Valuation Results		
	<u>7/1/2016</u>	<u>7/1/2014</u>
Present Value of Future Benefits		
Active	\$5,189,359	\$3,135,237
Retiree	<u>\$9,380,054</u>	<u>\$5,607,553</u>
Total	\$14,569,413	\$8,742,790
Actuarial Accrued Liability		
Active	\$2,775,369	\$1,851,691
Retiree	<u>\$9,380,054</u>	<u>\$5,607,553</u>
Total	\$12,155,423	\$7,459,244
Actuarial Value of Assets	\$5,405,490	\$3,513,466
Unfunded Actuarial Accrued Liability	\$6,749,933	\$3,945,778
Expected Employer Share of Current Year Plan Cost (Pay-As-You-Go)	\$464,433 *	\$409,229
Annual Required Contribution	\$668,846	\$367,793
Number of Plan Participants		
Actives	37	35
Retirees and Surviving Spouses	<u>38</u>	<u>36</u>
Total	75	71
Key Assumptions		
Discount Rate	6.00%	6.00%
Initial Trend Rate: Pre-65	8.00%	6.40%
Initial Trend Rate: Post-65	5.50%	6.40%
Ultimate Trend Rate	5.00%	5.00%
Year Ultimate Trend Rate Reached	2030	2021

*Excludes implicit subsidy related to retiree premiums (since unadjusted premiums represent the current cash cost) and the implied subsidy related to active employee premiums (but the Town can elect to recognize this as a retiree cash cost under GASB 45).

The Actuarial Accrued Liability (AAL) has increased \$4,696,179 from \$7,459,244 as of July 1, 2014 to \$12,155,423 as of July 1, 2016. A breakdown of the sources of this change in liability is shown in Table 1-2.

	<u>Amount</u>	<u>Percent</u>
Expected Benefits Earned, Benefit Payments and Interest	\$0.35	5%
Recognition of an Age-Related Implicit Subsidy	\$3.25	44%
Revised CalPERS Assumed Mortality Rates	\$0.51	7%
Revised Spouse Coverage Assumption	\$0.04	0%
Revised CalPERS Assumed Disability Rates	(\$0.02)	0%
Revised CalPERS Assumed Retirement Rates	(\$0.03)	0%
Revised Health Plan Selection Assumption	(\$0.07)	(1%)
Revised Health Care Cost Assumed Trend Rates	(\$0.09)	(1%)
Actual 2016 and 2017 Premium Rates	(\$0.22)	(3%)
Actual Demographic and Other Experience	<u>\$0.98</u>	<u>13%</u>
Subtotal of Liability Change*	\$4.70	63%

*Individual amounts may not add to total due to rounding.

Expected Benefits Earned, Benefit Payments and Interest: The liabilities were expected to increase 5% from the prior actuarial valuation due to net effect of active employees continuing to earn benefits, retirees receiving benefit payments, and interest.

Recognition of an Age-Related Implicit Subsidy: Since healthcare costs generally increase with age, an implied subsidy exists. This subsidy is caused by the difference between the flat-rate premiums participants are charged and the assumed average age-related claims costs.

Effective with measurement dates on or after March 31, 2016, Actuarial Standard of Practice No. 6 (ASOP 6) requires actuarial valuations to reflect the impact of aging on claims for “community-rated” plans. For the Town, this means we were required to revise the pre and post-Medicare plan liabilities to base them on a claims cost curve as opposed to premiums. The resulting implicit subsidy identified from this assumption increased liabilities approximately \$3,250,000, or roughly 44%. This subsidy is positive (an increase in the liability), which reflects the fact that the flat-rate premiums are lower than the assumed age-adjusted cost of coverage (e.g., for the pre-Medicare plans the younger active employees are subsidizing the older retired participants).

Revised CalPERS Assumed Mortality Rates: We updated the valuation assumed mortality rates to reflect those rates most recently published by CalPERS, and the projection scales most recently published by the Society of Actuaries, which drove a 7% increase in liabilities. This increase is primarily caused by an observed improvement in longevity for the overall population in the SOA study.

Revised Spouse Coverage Assumption: We changed from assuming that all actives would cover spouses at retirement if and only if they were currently covering spouses to assuming that 75% of actives would cover spouses at retirement, which drove a near zero increase in liabilities.

Revised CalPERS Assumed Disability Rates: We updated the valuation assumed disability rates to reflect those rates most recently published by CalPERS, which drove a near zero decrease in liabilities.

Revised CalPERS Assumed Retirement Rates: We updated the valuation assumed retirement rates to reflect those rates most recently published by CalPERS, which drove a near zero decrease in liabilities.

Revised Health Plan Selection Assumption: We changed from assuming that all actives would remain with their current health plans for life to assuming that they would choose plans at retirement in a distribution similar to that of current retirees, which drove a 1% decrease in liabilities.

Revised Health Care Cost Assumed Trend Rates: Initial trend rates in the July 1, 2013 valuation were a blend of the pre- and post-Medicare trend rates. For the July 1, 2016 valuation we adopted stand-alone initial pre- and post-Medicare trend rates. This reduced the liabilities by 1%.

Actual 2016 and 2017 Premium Rates: The increase in premiums from 2015 to 2016 and 2017 was lower than assumed, resulting in a 3% decrease in liabilities.

Actual Demographic and Other Experience: This is a catch-all category that refers to actual demographic experience (e.g., withdrawal, retirement, death, disability, marriage, etc.) and other experience (e.g., plan participation, plan selection, etc.) other than expected. Actual demographic experience is driven by the participant census data we collect from the Town for our valuations. Demographic experience since the July 1, 2014 valuation resulted in an overall 13% increase in the liability, largely due to two new disability retirees.

SECTION II

Development of ARC and GASB 45 Disclosures

Table 2-1 presents the Present Value of Future Benefits (i.e., liability based on all future service) and the Actuarial Accrued Liability (i.e., liability based on past service only) broken down by participant status and benefit type.

The implicit subsidy is the obligation associated with the difference between premiums and the assumed true per capita healthcare costs for Town participants.

Table 2-1a			
Present Value of Future Postemployment Medical Benefits and Actuarial Accrued Liability			
As of July 1, 2016			
Entry Age Normal Actuarial Cost Method			
Discount Rate: 6.00%			
	<u>Town Contribution</u>	<u>Implicit Subsidy</u>	<u>Total</u>
Present Value of Future Benefits			
Actives	\$2,980,276	\$2,209,083	\$5,189,359
Retirees	<u>\$7,125,542</u>	<u>\$2,254,512</u>	<u>\$9,380,054</u>
Total	\$10,105,818	\$4,463,595	\$14,569,413
Actuarial Accrued Liability (AAL)			
Actives	\$1,782,870	\$992,499	\$2,775,369
Retirees	<u>\$7,125,542</u>	<u>\$2,254,512</u>	<u>\$9,380,054</u>
Total	\$8,908,412	\$3,247,011	\$12,155,423

Table 2-1b

Actuarial Accrued Liability
(i.e., Present Value of Future Benefit Cost Attributable to Past Service)
Discount Rate: 6.00%

as of July 1, 2016

	<u>Management</u>	<u>Police</u>	<u>Teamsters</u>	<u>Total</u>
Explicit subsidy				
Actives	\$549,332	\$907,156	\$326,382	\$1,782,870
Retirees and Spouses	<u>2,001,211</u>	<u>3,654,517</u>	<u>1,469,814</u>	<u>7,125,542</u>
Actuarial Accrued Liability	\$2,550,543	\$4,561,673	\$1,796,196	\$8,908,412
Implicit subsidy				
Actives	\$140,771	\$782,852	\$68,876	\$992,499
Retirees and Spouses	<u>348,093</u>	<u>1,647,788</u>	<u>258,631</u>	<u>2,254,512</u>
Actuarial Accrued Liability	\$488,864	\$2,430,640	\$327,507	\$3,247,011
Total Actuarial Accrued Liability				
Actives	\$690,103	\$1,690,008	\$395,258	\$2,775,369
Retirees and Spouses	<u>2,349,304</u>	<u>5,302,305</u>	<u>1,728,445</u>	<u>9,380,054</u>
Actuarial Accrued Liability	\$3,039,407	\$6,992,313	\$2,123,703	\$12,155,423

This valuation was completed using the Entry Age Normal Actuarial Cost method and assumes a closed 30-year amortization (started in 2009) of the Unfunded Actuarial Accrued Liability using the level percentage of payroll amortization method.

Projected Expected Health Benefit Payments

Table 2-2 contains a 25-year projection of the Town pay-as-you-go cost to provide postemployment medical benefits and the total Expected Benefit Payments.

	<u>Town Premiums*</u>	<u>Implicit Subsidy</u>	<u>Total</u>
2016/17	\$464,433	\$130,119	\$594,552
2017/18	\$471,739	\$136,376	\$608,115
2018/19	\$495,757	\$151,292	\$647,049
2019/20	\$516,683	\$159,945	\$676,628
2020/21	\$538,922	\$163,354	\$702,276
2021/22	\$566,232	\$182,479	\$748,711
2022/23	\$590,353	\$199,818	\$790,171
2023/24	\$607,513	\$210,059	\$817,572
2024/25	\$621,975	\$236,158	\$858,133

*This is actual pay-as-you-go cost and excludes the implicit subsidy related to retiree premiums (since unadjusted premiums represent the current cash cost) and the implied subsidy related to active employee premiums (but the Town can elect to recognize this as a retiree cost under GASB 45).

Health Benefit Costs Under GASB 45

The Annual Required Contribution (ARC) consists of the Normal Cost plus the current period amortization of the Unfunded Actuarial Accrued Liability.

Normal Cost is the portion of the actuarial present value of future benefits that is allocated to a particular year. Another interpretation is that the Normal Cost is the present value of future benefits that are “earned” by employees for service rendered during the current year. This valuation is based on the Entry Age Normal actuarial cost method and an attribution period that runs from date of hire until the expected retirement date.

Employers are allowed to amortize the Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years. The following Tables are based on amortization of the UAAL over a closed 30-year period using the level percentage of payroll amortization method. The Town adopted GASB 45 in the 2009/10 fiscal year. The remaining amortization period is 23 years.

Table 2-3
Fiscal Year Annual Required Contribution and Net OPEB Obligation

Fiscal Year	<u>2016-17</u>	<u>2014-15</u>
Discount rate	6.00%	6.00%
Actuarial Accrued Liability	\$12,155,423	\$7,459,244
Actuarial Value of Assets	<u>\$5,405,490</u>	<u>\$3,513,466</u>
Unfunded Actuarial Accrued Liability	\$6,749,933	\$3,945,778
Remaining Amortization Period	23 years	25 years
Level percent of pay Amortization Factor (based on the discount rate and a 3.25% annual increase in payroll)	16.498	17.515
Normal Cost (based on the Entry Age Normal Method)	\$259,708	\$142,517
Annual Level Percentage of Pay Amort. of Unfunded AAL	<u>\$409,138</u>	<u>\$225,276</u>
Annual Required Contribution	\$668,846	\$367,793
Interest on Net OPEB Obligation	(\$196,915)	(\$66,772)
Adjustment to ARC	<u>\$198,929</u>	<u>\$63,537</u>
Annual OPEB Cost	\$670,860	\$364,557
Contribution	<u>(\$670,860)</u>	<u>(\$1,429,229)</u>
Increase in Net OPEB Obligation	\$0	(\$1,064,672)
Net OPEB Obligation – Beginning of Year	<u>(\$3,281,922)</u>	<u>(\$1,112,868)</u>
Net OPEB Obligation – End of Year	(\$3,281,922)	(\$2,177,539)

A substantial change in GASB accounting rules has just been published which is scheduled to become effective for Fiscal Year 2017/18 and beyond. We have not attempted to quantify the change in actuarial liabilities that may result.

Amounts that can be counted as contributions towards the ARC include:

- Contributions made to a Trust
- Employer paid premium payments for retirees made directly to providers net of any reimbursements from the Trust
- Implicit rate subsidy payments related to premium payments for active employees, if elected.
- Interest on the above amounts to the end of the measurement period

Table 2-4 presents the Town funding policy contributions. The funding policy contributions shown below include (i) pay-go costs unreimbursed by the Trust, (ii) \$92,188 cash contributions to the Trust and (iii) active implicit rate subsidy contributions that could be transferred to OPEB accounting.

Table 2-4	
Total Trust and Non-Trust OPEB Contributions for Year Ending June 30, 2017	
Active Benefit Expense Transfer of Premium Implicit Subsidies and Pay-go Costs	
	FYE
	<u>June 30, 2017</u>
Cash Contributions to the Trust	\$92,188
Pay-go Costs*	\$464,433
Active Implicit Rate Subsidy**	<u>\$114,239</u>
Total OPEB Contributions	\$670,860
ARC Explicit Subsidy***	\$343,472
ARC Implicit Subsidy****	<u>\$325,374</u>
Total ARC	\$668,846

*Retiree premiums paid by the Town and unreimbursed by the Trust.

** The active implicit rate subsidy represents a subsidy toward pre-Medicare retiree medical costs paid via active premiums, since the claims from both groups are combined to calculate a blended premium. This amount can be transferred from active employee benefit expense to OPEB expense and counted as a contribution toward the ARC.

***The portion of the ARC attributable to current and future retiree premiums paid by the Town.

****The portion of the ARC attributable to pre-Medicare retiree average claims costs in excess of premiums.

In order for the Town to reflect the active implicit rate subsidy as an OPEB contribution, it must transfer the amount (\$114,239 in FYE 2017) from active benefit expense (cash accounting) to OPEB contributions (accrual accounting).

Explicit subsidies (i.e., retiree premiums paid by the Town) are being prefunded by assets in the Trust. In order to ensure the explicit subsidy portion of the ARC is prefunded properly, the Town should fund the ARC Explicit Subsidy in cash.

SECTION III

Plan Description and Demographic Summary

Benefit Description

The Town of Atherton participates in the CalPERS medical program. Retirees who qualify for a CalPERS pension are entitled to employer paid CalPERS medical benefits as described below. The Town does not pay for dental, vision or other health and welfare benefits for retirees.

Employees who retire from the Town, receive a PERS pension and continue their CalPERS medical coverage are eligible to receive the benefit described below. This benefit continues throughout the life of the retiree and surviving spouse.

Management Employees (non-represented), hired before adoption of Management Resolution on November 17, 2010

The Town pays 100% of premiums for any medical coverage and any family status.

Management Employees (non-represented), hired after adoption of November 17, 2010 and before June 30, 2013

The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post age 65 single employee Kaiser premium.

Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. For calendar year 2016 it is \$125, \$128 in 2017. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

<u>Credit Years of Service</u>	<u>% of Town Contribution</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Management Employees (non-represented), hired on or after July 1, 2013

The Town pays the CalPERS minimum benefit, which is \$125 per month as of 2016 and \$128 per month as of 2017.

APOA Police Officers, retired before October 1, 2013

The Town pays a **maximum monthly benefit of \$1,247.06** which is assumed to not increase in the future. APOA employees retiring on disability from employment of the Town while in a job classification covered by this MOU and said disability arising from employment with the Town, shall be exempt from this cap.

Members of the APOA Police Officers, hired before October 1, 2013 but retired or will retire after October 1, 2013

The Town pays up to a maximum of 90% of the Kaiser premium for any family status. This cap is assumed to increase at half the excess of the assumed rate of increase over 3% each year, with a minimum of 0%. This assumption is based on the language in Resolution 13-37, page 8, Paragraph C. a., and assumes that the same language will continue in years after 2016.

Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. For calendar year 2016 it is \$125, \$128 in 2017. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

<u>Credit Years of Service</u>	<u>% of Town Contribution</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

APOA employees retiring on disability from employment of the Town while in a job classification covered by this MOU and said disability arising from employment with the Town, shall receive 90% of the Town contribution of Kaiser.

APOA Police Officers, hired on or after October 1, 2013

The Town pays up to a maximum of the PEMHCA Minimum (\$125 in 2016, \$128 in 2017).

APOA Miscellaneous Employees

The Town pays the same benefit as for APOA Officers. It has been assumed that this benefit will continue after 2016.

Teamsters and Confidential employees- (non-management, miscellaneous) hired before January 19, 2011

The Town pays up to a maximum benefit of 95% of Blue Shield Access Plus basic/supplemental Bay Area/Sacramento HMO premiums. This applies to any medical coverage and any family status. After age 65, the Town pays only 95% of the reduced post age 65 premiums.

Teamsters and Confidential employees- (non-management, miscellaneous) hired after January 19, 2011

The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post

age 65 single employee Kaiser premiums. Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. For calendar year 2016 it is \$125, \$128 in 2017. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

<u>Credit Years of Service</u>	<u>% of Town Contribution</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Demographic Data

Tables 3-1 and 3-2 contain summaries of the demographic information provided by the Town.

Table 3-1

**Age and Service Table for
Active Non-Safety Employees**
as of July 1, 2016

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	1	0	0	0	0	0	1
25 - 29	2	0	0	0	0	0	2
30 - 34	5	1	0	0	0	0	6
35 - 39	2	3	0	0	0	0	5
40 - 44	3	0	0	1	0	0	4
45 - 49	7	0	0	1	2	1	11
50 - 54	0	0	3	0	0	0	3
55 - 59	1	0	1	1	0	0	3
60 - 64	0	0	0	0	0	0	0
65 - 69	0	0	2	0	0	0	2
70+	0	0	0	0	0	0	0
Total	22	4	4	3	3	1	37

Table 3-2

**Age and Sex Table for All Non-Safety
Retirees and Surviving Spouses Receiving Benefits**
as of July 1, 2016

<u>Age</u>	<u>Female</u>	<u>Male</u>	<u>Total</u>
Under 55	0	6	6
55-59	4	3	7
60-64	2	4	6
65-69	4	4	8
70-74	1	2	3
75-79	0	6	6
80-84	0	1	1
85+	1	0	1
Total	12	26	38

Table 3-1 shows the premiums used to calculate the implicit subsidy:

Pre-Medicare Rates						
Plan	<u>2016</u>			<u>2017</u>		
	EE	Couple	Family	EE	Couple	Family
Anthem HMO Traditional	855.42	1,710.84	2,224.09	990.05	1,980.10	2,574.13
Blue Shield Access+	1,016.18	2,032.36	2,642.07	1,024.85	2,049.70	2,664.61
BS NetValue	1,033.86	2,067.72	2,688.04	n/a	n/a	n/a
HealthNet SmartCare	808.44	1,616.88	2,101.94	733.29	1,466.58	1,906.55
Kaiser	746.47	1,492.94	1,940.82	733.39	1,466.78	1,906.81
PERS Choice	798.36	1,596.72	2,075.74	830.30	1,660.60	2,158.78
PERS Select	730.07	1,460.14	1,898.18	736.27	1,472.54	1,914.30
PERSCare	889.27	1,778.54	2,312.10	932.39	1,864.78	2,424.21
PORAC	699.00	1,399.00	1,789.00	699.00	1,467.00	1,876.00
UnitedHealthcare	955.44	1,910.88	2,484.14	1,062.26	2,124.52	2,761.88
Post-Medicare Rates						
Plan	<u>2016</u>			<u>2017</u>		
	EE	Couple	Family	EE	Couple	Family
Kaiser	297.23	594.46	891.69	300.48	600.96	901.44
PERS Choice	366.38	732.76	1,099.14	353.63	707.26	1,060.89
PERS Select	366.38	732.76	1,099.14	353.63	707.26	1,060.89
PERSCare	408.04	816.08	1,224.12	389.76	779.52	1,169.28
PORAC	442.00	881.00	1,408.00	464.00	924.00	1,477.00
UnitedHealthcare	320.98	641.96	962.94	324.21	648.42	972.63

PEMHCA Minimum

The Town contributes the amount described in Government Code Section 22825 of the Public Employees Medical and Hospital Care Act to certain retirees, as described above. The following Table contains these contribution amounts.

<u>Calendar Year</u>	<u>Total</u>
2016	\$125.00
2017	\$128.00

In future years the PEMHCA minimum benefit will increase to reflect any change in the medical care component of the Consumer Price Index.

SECTION IV

Actuarial Method and Assumptions

In order to project the Town's liabilities into the future, a number of economic, demographic, and baseline cost assumptions are necessary. For this valuation, we have used assumptions consistent with those specified in the "OPEB Assumption Model" released by the CalPERS Health Benefits Committee.

Actuarial Cost Method

The valuation was completed using the Entry Age Normal Cost Method. An Actuarial Cost Method is a procedure for allocating the actuarial present value of benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability. The Entry Age Normal cost method allocates the present value of future benefits on a level basis over the earnings or service (in this case earnings) of each employee between the hire date and assumed retirement age. The portion of the present value of future benefits allocated to a valuation year is called the Normal Cost. The portion allocated to all prior years is called the Actuarial Accrued Liability.

Valuation Date

The valuation date is July 1, 2016. This date is the starting point from which current health premium costs are increased according to the assumed annual rates of health care cost trend. The Town census is projected from the valuation date to the date of the final benefit payment for each employee and retiree on the census. After calculating future costs for the projected retiree and dependent population, all liabilities are discounted back to the valuation date to obtain the present value of future costs.

Economic Assumptions

Discount Rate

A discount rate is required to calculate the present value of future benefit payments which are used to determine financial statement expense. We used a 6.00% discount rate for this valuation, which is the Town's estimate of long term returns on Plan assets held in the PARS Trust.

Health Care Trend

The rate of increase in per capita health care costs is commonly referred to as the *health care trend rate*.

Based on our extensive experience with postemployment health plans, we selected the following annual trend rates for use in this valuation:

<u>Year Beginning</u>	<u>Increase in CalPERS Regional Premium Rates</u>	
	<u>Pre-65</u>	<u>Post-65</u>
January 1, 2018	8.00%	5.50%
January 1, 2019	7.75%	5.25%
January 1, 2020	7.50%	5.00%
January 1, 2021	7.25%	5.00%
January 1, 2022	7.00%	5.00%
January 1, 2023	6.75%	5.00%
January 1, 2024	6.50%	5.00%
January 1, 2025	6.25%	5.00%
January 1, 2026	6.00%	5.00%
January 1, 2027	5.75%	5.00%
January 1, 2028	5.50%	5.00%
January 1, 2029	5.25%	5.00%
January 1, 2030 and later	5.00%	5.00%

CalPERS Minimum benefits are assumed to increase at a flat 4% annual rate.

The initial trend rate assumption represents an estimate of short term cost increases based on recent health care marketplace experience, and taking into consideration the cost characteristics of plans available to Town retirees. Annual increases in national health expenditures have exceeded the general growth in GDP for many years. However, there are practical limitations to this trend. Therefore, we have constrained the ultimate trend rate to a rate closer to the expected long-term growth in the economy.

We assume the ultimate rate to be comprised of real growth in per capita GDP, long-term growth attributable to technology innovations, and the assumed long-term inflation rate. The initial trend is assumed to decrease ratably to this ultimate rate over time.

Payroll Increases

In this valuation we assumed a 3.25% annual rate of increase in payroll. This rate is a component of the Entry Age Normal Actuarial Cost Method and is used in the calculation of the amortization component of the Annual Required Contribution and in calculation of the Normal Cost.

Amortization Methodology

This valuation is based on a closed, 30-year amortization of the Unfunded Actuarial Accrued Liability. The amortization payment is a level percentage of covered payroll and will increase each year as covered payroll increases. The amortization will continue for the next 23 years.

Plan Assets

Plan assets as of June 30, 2016 as reported by PARS are \$5,405,490.

Per Capita Health Plan Costs

Due to the small size of the retiree population, the per capita claims were developed using the age adjusted premiums for the current CalPERS population. These premiums are assumed to include administrative costs. The premiums for CalPERS are based on community-rated claims experience by region for all CalPERS member agencies.

Administrative Expenses

We did not include any internal administrative expenses in this valuation, as it has been assumed that expenses are included as part of the health premium.

Age-Adjusted Costs

The gender distinct age morbidity factors for pre- and post-Medicare morbidity were developed by CalPERS based on 2013 data. CalPERS developed these tables for use in complying with ASOP 6. Table 4-2 illustrates the age-graded premiums based on the premiums and the male and female morbidity factors that were provided by CalPERS for HMO and PPO plans.

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	\$9,668	\$11,040
55	\$12,968	\$12,661
60	\$16,061	\$13,882
65	\$3,151	\$2,970
70	\$3,667	\$3,474
75	\$4,131	\$4,090
80	\$4,516	\$4,593
85	\$4,670	\$4,812

Demographic Assumptions

In estimating this obligation, a number of demographic assumptions are needed. These assumptions are the same as those used in the most recent California PERS valuation.

Withdrawal

For Police Safety employees we selected withdrawal rates used in the most recent California PERS Police 3% @50 retirement plan valuations. Selected rates are shown below.

Table 4-3
Police Safety Employees
Annual Withdrawal Rates

Service	Age						
	20	25	30	35	40	45	50
0	0.10130	0.10130	0.10130	0.10130	0.10130	0.10130	0.10130
1	0.06360	0.06360	0.06360	0.06360	0.06360	0.06360	0.06360
2	0.02710	0.02710	0.02710	0.02710	0.02710	0.02710	0.02710
3	0.02580	0.02580	0.02580	0.02580	0.02580	0.02580	0.02580
4	0.02450	0.02450	0.02450	0.02450	0.02450	0.02450	0.02450
5	0.02490	0.02490	0.02490	0.02490	0.02490	0.02490	0.00860
6		0.02360	0.02360	0.02360	0.02360	0.02360	0.00790
7		0.02210	0.02210	0.02210	0.02210	0.02210	0.00720
8		0.02080	0.02080	0.02080	0.02080	0.02080	0.00660
9		0.01930	0.01930	0.01930	0.01930	0.01930	0.00590
10		0.01790	0.01790	0.01790	0.01790	0.01790	0.00530
15			0.01090	0.01090	0.01090	0.01090	0.00270
20				0.00820	0.00820	0.00820	0.00170
25					0.00700	0.00700	0.00120
30						0.00650	0.00090
35							0.00090

For all other employees we used withdrawal rates that match those used in the most recent California PERS Public Agency Miscellaneous retirement plan valuations. Sample rates are shown below (e.g., an employee who was hired at age 30 and has completed 5 years of service is assumed to have an 7.11% probability of leaving the City's employment in the current year).

Table 4-4
Public Agency Miscellaneous Employees Withdrawal Rates

Service	Entry Age						
	20	25	30	35	40	45	50
0	0.17420	0.16740	0.16060	0.15370	0.14680	0.14000	0.13320
1	0.15450	0.14770	0.14090	0.13390	0.12710	0.12030	0.11350
2	0.13480	0.12800	0.12120	0.11420	0.10740	0.10060	0.09380
3	0.11510	0.10830	0.10150	0.09450	0.08770	0.08090	0.07410
4	0.09540	0.08860	0.08180	0.07480	0.06800	0.06120	0.05430
5	0.08680	0.07900	0.07110	0.06320	0.05540	0.01160	0.00970
6	0.08290	0.07510	0.06700	0.05920	0.05140	0.01030	0.00840
7	0.07900	0.07100	0.06310	0.05520	0.04710	0.00900	0.00720
8	0.07490	0.06700	0.05910	0.05100	0.04300	0.00770	0.00600
9	0.07100	0.06290	0.05480	0.04690	0.03890	0.00660	0.00490
10	0.06680	0.05870	0.05070	0.04270	0.00710	0.00550	0.00380
15	0.05030	0.04240	0.03470	0.00320	0.00230	0.00140	0.00040
20	0.03700	0.02900	0.00210	0.00130	0.00050	0.00010	0.00010
25	0.02290	0.00110	0.00050	0.00010	0.00010	0.00010	0.00010
30	0.00050	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010
35	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010

This table is unchanged from the 2010 CalPERS withdrawal rates used in the July 1, 2014 valuation.

Disability

Sample disability rates for Police employees are shown in Table 4-8. These rates match those used in the most recent California PERS pension valuations.

Because of the anticipated low incidence of disability retirements for non-Safety employees we did not value disability retirement for non-Safety employees.

Table 4-5
Annual Rates of Disability

<u>Age</u>	<u>Rate</u>
25	0.175%
30	0.496%
35	0.818%
40	1.140%
45	1.462%
50	1.926%
55	4.915%

Retirement Rates

We used the retirement rates that match those used in the most recent California PERS retirement plan valuations.

For Police safety employees we selected the retirement rates used in the most recent California PERS 3% @50 Police retirement plan valuation. Sample rates are shown below.

Table 4-6a
Police Safety Employees
Annual Rates of Retirement

<u>Age</u>	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.0500	0.0500	0.0500	0.0990	0.2400	0.3140	0.3790
51	0.0340	0.0340	0.0340	0.0720	0.1980	0.2600	0.3120
52	0.0330	0.0330	0.0330	0.0710	0.1980	0.2590	0.3110
53	0.0390	0.0390	0.0390	0.0800	0.2120	0.2770	0.3330
54	0.0450	0.0450	0.0450	0.0920	0.2290	0.3000	0.3610
55	0.0520	0.0520	0.0520	0.1050	0.2480	0.3230	0.3890
56	0.0420	0.0420	0.0420	0.0870	0.2210	0.2890	0.3470
57	0.0430	0.0430	0.0430	0.0880	0.2230	0.2920	0.3510
58	0.0540	0.0540	0.0540	0.1090	0.2550	0.3330	0.4010
59	0.0540	0.0540	0.0540	0.1080	0.2530	0.3300	0.3980
60	0.0600	0.0600	0.0600	0.1210	0.2720	0.3550	0.4280
61	0.0480	0.0480	0.0480	0.0980	0.2380	0.3110	0.3750
62	0.0610	0.0610	0.0610	0.1220	0.2740	0.3570	0.4310
63	0.0570	0.0570	0.0570	0.1150	0.2630	0.3430	0.4140
64	0.0690	0.0690	0.0690	0.1370	0.2960	0.3850	0.4660
65	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

All Police safety employees hired on or after January 1, 2013, are under the 2.7% @ 57 plan. Sample rates are shown below.

Table 4-6b
Police Safety Employees
CalPERS 2.7%@57 Annual Rates of Retirement

Age	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.0138	0.0138	0.0138	0.0138	0.0253	0.0451	0.0535
51	0.0123	0.0123	0.0123	0.0123	0.0226	0.0402	0.0477
52	0.0249	0.0249	0.0249	0.0249	0.0456	0.0812	0.0963
53	0.0497	0.0497	0.0497	0.0497	0.0909	0.1621	0.1920
54	0.0662	0.0662	0.0662	0.0662	0.1211	0.2160	0.2559
55	0.0854	0.0854	0.0854	0.0854	0.1563	0.2785	0.3300
56	0.0606	0.0606	0.0606	0.0606	0.1108	0.1975	0.2340
57	0.0711	0.0711	0.0711	0.0711	0.1300	0.2318	0.2747
58	0.0628	0.0628	0.0628	0.0628	0.1149	0.2049	0.2427
59	0.1396	0.1396	0.1396	0.1396	0.1735	0.2544	0.3014
60	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506	0.2969
61	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506	0.2969
62	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506	0.2969
63	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506	0.2969
64	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506	0.2969
65	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Table 4-7a illustrates the rates used for miscellaneous employees participating in the CalPERS 2%@55 pension plan (employees hired prior to January 1, 2013) and Table 4-7b illustrates the rates used for miscellaneous employees participating in the CalPERS 2%@62 pension plan (employees hired on or after January 1, 2013). Selected rates are shown below.

Table 4-7a							
Annual Rates of Retirement							
CalPERS 2%@55 Public Agency Miscellaneous							
----- Years of Service -----							
Age	5	10	15	20	25	30	35
50	0.0140	0.0180	0.0210	0.0250	0.0270	0.0310	0.0350
51	0.0120	0.0140	0.0170	0.0200	0.0210	0.0250	0.0280
52	0.0130	0.0170	0.0190	0.0230	0.0250	0.0280	0.0320
53	0.0150	0.0200	0.0230	0.0270	0.0300	0.0340	0.0390
54	0.0260	0.0330	0.0380	0.0450	0.0510	0.0590	0.0680
55	0.0480	0.0610	0.0740	0.0880	0.1000	0.1170	0.1320
56	0.0420	0.0530	0.0630	0.0750	0.0850	0.1000	0.1130
57	0.0440	0.0560	0.0670	0.0810	0.0910	0.1070	0.1210
58	0.0490	0.0620	0.0740	0.0890	0.1000	0.1180	0.1340
59	0.0570	0.0720	0.0860	0.1030	0.1180	0.1380	0.1560
60	0.0670	0.0860	0.1030	0.1230	0.1390	0.1640	0.1860
61	0.0810	0.1030	0.1240	0.1480	0.1680	0.1990	0.2240
62	0.1160	0.1470	0.1780	0.2140	0.2430	0.2880	0.3240
63	0.1140	0.1440	0.1740	0.2080	0.2370	0.2810	0.3170
64	0.1080	0.1380	0.1660	0.1990	0.2270	0.2680	0.3020
65	0.1550	0.1970	0.2380	0.2850	0.3250	0.3860	0.4350
66	0.1320	0.1680	0.2030	0.2430	0.2760	0.3280	0.3690
67	0.1220	0.1550	0.1890	0.2250	0.2560	0.3040	0.3430
68	0.1110	0.1410	0.1700	0.2040	0.2320	0.2740	0.3090
69	0.1140	0.1440	0.1740	0.2090	0.2380	0.2820	0.3170
70	0.1300	0.1650	0.2000	0.2400	0.2720	0.3230	0.3640
71	0.1070	0.1370	0.1640	0.1980	0.2250	0.2660	0.2990
72	0.1100	0.1400	0.1690	0.2020	0.2300	0.2720	0.3070
73	0.0850	0.1090	0.1320	0.1580	0.1790	0.2120	0.2390
74	0.1000	0.1290	0.1560	0.1860	0.2120	0.2510	0.2820
75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

For the July 1, 2014 valuation, the 2010 California PERS Miscellaneous 2% at 55 rates were used.

Table 4-7b
Annual Rates of Retirement
CalPERS 2%@62 Public Agency Miscellaneous

Age	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
51	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
52	0.0103	0.0132	0.0160	0.0188	0.0216	0.0244	0.0272
53	0.0131	0.0167	0.0202	0.0238	0.0273	0.0309	0.0345
54	0.0213	0.0272	0.0330	0.0388	0.0446	0.0504	0.0562
55	0.0440	0.0560	0.0680	0.0800	0.0920	0.1040	0.1160
56	0.0303	0.0385	0.0468	0.0550	0.0633	0.0715	0.0798
57	0.0363	0.0462	0.0561	0.0660	0.0759	0.0858	0.0957
58	0.0465	0.0592	0.0718	0.0845	0.0972	0.1099	0.1225
59	0.0578	0.0735	0.0893	0.1050	0.1208	0.1365	0.1523
60	0.0616	0.0784	0.0952	0.1120	0.1288	0.1456	0.1624
61	0.0619	0.0788	0.0956	0.1125	0.1294	0.1463	0.1631
62	0.0968	0.1232	0.1496	0.1760	0.2024	0.2288	0.2552
63	0.0888	0.1131	0.1373	0.1615	0.1857	0.2100	0.2342
64	0.0941	0.1197	0.1454	0.1710	0.1967	0.2223	0.2480
65	0.1287	0.1638	0.1989	0.2340	0.2691	0.3042	0.3393
66	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
67	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
68	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
69	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
70	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
71	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
72	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
73	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
74	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Mortality

The mortality rates used in this valuation are those used in the most recent California PERS pension valuations. These rates provide a starting point for the projection of future mortality rates. The mortality rates for each future year were determined based on a generational mortality projection using Projection Scale MP-2014. This scale consists of a set of Annual Mortality improvement factors as a function of age and sex. The resulting projected mortality rates were applied to each employee and retiree.

Age	Non-Safety Employees		Safety Employees		Retired Employees	
	Male	Female	Male	Female	Male	Female
55	0.228%	0.138%	0.244%	0.154%	0.599%	0.416%
60	0.308%	0.182%	0.325%	0.199%	0.710%	0.436%
65	0.400%	0.257%	0.418%	0.275%	0.829%	0.588%
70	0.524%	0.367%			1.305%	0.993%
75					2.205%	1.722%
80					3.899%	2.902%
85					6.969%	5.243%
90					12.974%	9.887%

For the July 1, 2014 valuation, the 2010 California PERS mortality rates were used with a generational projection using Projection Scale AA.

Health Plan Participation

We assumed that upon retiring from the Town 100% of eligible employees will enroll in one of the available medical plans. Retirees who have waived coverage are assumed not to elect coverage at a future time. Current employees who have waived medical coverage are assumed to elect coverage under the Blue Shield Bay Area medical plan, upon retirement.

Dependent Coverage

We assumed that 75% of all employees will cover spouses at retirement, that 90% of Police employees will elect to cover a child, and that the youngest child is on average 35 years younger than the employee. Because few non-safety retirees had children covered, we did not count the cost of covering children for non-safety employees.

Medicare Coverage

We assumed that all future retirees will be eligible for Medicare when they reach age 65.

Health Care Reform Considerations

Health care delivery is going through an evolution due to enactment of Health Care Reform. The Patient Protection and Affordable Care Act (PPACA), was signed March 23, 2010, with further changes enacted by the Health Care and Education Affordability Reconciliation Act (HCEARA), signed March 30, 2010. This valuation uses various assumptions that may have been modified based on considerations under PPACA. This section discusses particular legislative changes that were reflected in our assumptions. We have not identified any other specific provision of PPACA that would be expected to have a significant impact on the measured obligation. As additional guidance on the Act continues to be issued, we'll continue to monitor impacts.

Individual Mandate

Under PPACA, individuals (whether actively employed or otherwise) must be covered by health insurance or else pay a penalty tax to the government. While it is not anticipated that the Act will result in universal coverage, it is expected to increase the overall portion of the population with coverage. We believe this will result in an increased demand on health care providers, resulting in higher trend for medical services for non-Medicare eligible retirees. (Medicare costs are constrained by Medicare payment mechanisms already in place, plus additional reforms added by PPACA and HCERA.) While we believe that the mandate may result in somewhat higher participation overall, this issue is moot since we assume 100% participation upon retirement.

Employer Mandate

Health Care Reform includes various provisions mandating employer coverage for active employees, with penalties for non-compliance. Those provisions do not directly apply to the postemployment coverage included in this valuation.

Medicare Advantage Plans

Effective January 1, 2011, the Law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. We considered the effect of these reductions in federal payments to Medicare Advantage plans when setting our trend assumption.

Expansion of Child Coverage to Age 26

Health Care Reform mandates that coverage be offered to any child, dependent or not, through age 26, consistent with coverage for any other dependent. We assume that this change has been reflected in current premium rates. While this plan covers dependents, we do not currently assume non-spouse dependent coverage. We believe the impact this assumption has on the valuation is immaterial due to the lack of retirees that have had or are expected to have non-spouse dependents for any significant amount of time during retirement.

Elimination of Annual or Lifetime Maximums

Health Care Reform provides that annual or lifetime maximums have to be eliminated for all “essential services.” We assume that current premium rates already reflect the elimination of any historic maximums.

Cadillac Tax (High Cost Plan Excise Tax)

The PPACA legislation added a new High-Cost Plan Excise Tax (also known as the “Cadillac Tax”) starting in calendar year 2020. For valuation purposes, we assumed that the value of the tax will be passed back to the plan in higher premium rates.

- The tax is 40% of the excess of (a) the cost of coverage over (b) the limit. We modeled the cost of the tax by calculating (a) using the working rates projected with trend. We calculated (b) starting with the statutory limits (\$10,200 single and \$27,500 family), adjusted for the following:
 - Limits will increase from 2018 to 2019 by 4.25% (CPI plus 1%);
 - Limits will increase after 2019 by 3.25% (CPI); and
 - For retirees over age 55 and not on Medicare, the limit is increased by an additional dollar amount of \$1,650 for single coverage and \$3,450 for family coverage.
- Based on the above assumptions, we estimate that the tax will apply as early as 2020 for some of the Town’s pre-Medicare plans. In addition, we estimate that the tax will not apply to any of the post-Medicare plans.

Other Revenue Raisers

The Health Care Reform includes a variety of other revenue raisers that involve additional costs on providers (such as medical device manufacturers) and insurers. We considered these factors when developing the trend assumptions.

SECTION V

Glossary

- Accrual Accounting – A method of matching the cost of an employee’s service, including long term obligations such as OPEB, to that employee’s period of active service.
- Actuarial Accrued Liability (AAL) – The Actuarial Present Value of all postemployment benefits attributable to past service. Note: the AAL is sometimes referred to as the Past Service Liability.
- Actuarial Cost Method – A procedure for allocating the actuarial present value of benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.
- Actuarial Present Value – The value of an amount or series of amounts payable or receivable at various times. Each such amount or series of amounts is:
 - a. adjusted for the probable financial effect of certain intervening events (such as changes in healthcare costs, compensation levels, Medicare, marital status, etc.)
 - b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
 - c. discounted according to an assumed rate (or rates) of return to reflect the time value of money
- Actuarial Valuation – The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and related Actuarial Present Values.
- Actuarial Value of Assets – The value of cash, investments and other property belonging to a plan. These are amounts that may be applied to fund the Actuarial Accrued Liability. Note: assets must be segregated and placed in a Trust in order to be considered OPEB assets
- Amortization Payment – That portion of the Annual OPEB cost which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

In the year that Statement 45 becomes effective an employer is allowed to commence amortization of the Unfunded Actuarial Accrued Liability, over a period not to exceed 30 years.

- Annual Other Postemployment Benefit (OPEB) Cost - An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. The annual OPEB cost is the amount that must be calculated and reported as an expense.

When an employer has no net OPEB obligation (e.g., in the year of implementation) the annual OPEB cost is equal to the Annual Required Contribution (ARC).

In subsequent years the Annual OPEB cost will include:

- the ARC (equal to the Normal Cost plus one year's amortization of the Unfunded Actuarial Accrued Liability);
 - one year's interest on the net OPEB obligation at the beginning of the year using the valuation discount rate; and
 - an adjustment to the ARC. This adjustment is intended to provide a reasonable approximation of that portion of the ARC that consists of interest associated with past contribution deficiencies. GASB Statement No. 45 specifies that this adjustment should be equal to an amortization of the discounted present value of the net OPEB obligation at the beginning of the year. The amortization should be calculated using the same amortization method and period used in determining the ARC for that year. If the net OPEB obligation is positive the adjustment should be deducted from the ARC.
 - Note: As long as the net OPEB obligation is zero, there will not be any interest charge or adjustment to the ARC. However, if an employer does not contribute the full amount of the ARC, a net OPEB obligation will emerge.
- Annual required contributions of the employer (ARC) - The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
 - Defined benefit OPEB plan - An OPEB plan having terms that specify the *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors, such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

- Defined contribution plan - A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify how contributions to an active plan member's account are to be determined, rather than the income or other benefits the member or his beneficiaries are to receive at or after separation from employment. Those benefits will depend only on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits.
- Employer's contributions - Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.
- Entry Age Normal Actuarial Cost Method – An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in the valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.
- Healthcare cost trend rate - The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.
- Investment return assumption (discount rate) - The rate used to adjust a series of future payments to reflect the time value of money.
- Net OPEB obligation - The cumulative difference since the effective date of GASB Statement 45 between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Most employers will have no net OPEB obligation at the beginning of the year in which Statement 45 is implemented.

If an employer contributes the annual OPEB cost to the plan each year, and there are no actuarial or investment gains or losses then the net OPEB Obligation will remain zero.

- Normal Cost - That portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Another interpretation is that the Normal Cost is the present value of future benefits that are “earned” by employees for service rendered during the current year.
- OPEB assets - The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expenses.
- OPEB expense - The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.
- Other postemployment benefits (OPEB) - Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.
- Plan assets - Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan.
- Present Value – See Actuarial Present Value.
- Projected Unit Credit Cost Method – An actuarial cost method under which the projected benefits of each individual included in an Actuarial Valuation are separately calculated and allocated to each year service by a consistent formula.
- Substantive plan - The terms of an OPEB plan as understood by the employer(s) and plan members.
- Unfunded Actuarial Accrued Liability (UAAL) – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.
- Valuation date – The date as of which the postemployment benefit obligation is determined.