



Town of Atherton
FINANCE COMMITTEE MEETING
DRAFT MINUTES

March 5, 2009

91 Ashfield Road
Atherton, California

ROLL CALL Jerry Carlson, Kathy McKeithen

Meeting called to order at 3:00 p.m.

Other Attending: City Manager Jerry Gruber, Finance Director Louise Ho, Rose Hau

PUBLIC COMMENTS (only for items which are not on the agenda - limit of
three minutes per person)

None

REGULAR AGENDA

Agenda Item 3. REVIEW MINUTES OF FEBRUARY 11, 2009, FINANCE COMMITTEE MEETING

Mayor Carlson and Vice Mayor McKeithen moved to accept the minutes of February 11, 2009

Agenda Item 4. REVIEW OF CURRENT INVESTMENT PORTFOLIO

Received attached information

Agenda Item 5. INVESTMENT POLICY – MBIA ASSET MANAGEMENT

Received and reviewed the draft Statement of Investment Policy with staff and Gay Eichhoff of MBIA Asset Management

Agenda Item 6. CITY MANAGER AND FINANCE DIRECTOR UPDATE

a) Retiree Health Actuarial Valuation Study (GASB 45)

Received update from staff on the progress of actuarial study

b) FY 2007-08 Audit

Received update from staff on the progress of draft audit report

c) Business License Tax Refund

Received update from staff; recommended setting an acceptance threshold for minor discrepancy between amount claimed and Town's record

d) Business License Processing – MuniServices

Received update on contract amendment that will be presented to the City Council for approval; directed staff to work with MuniServices to develop a Spanish version of the business license application

e) **Banking Services**

Received update from staff on progress of the banking contract with Wells Fargo Bank

f) **Cost Allocation Plan and Fee Study**

Received update from staff on the progress of the NBS cost allocation plan and fee study

Agenda Item 8. COMMITTEE MEMBER DISCUSSION – FUTURE AGENDA

None

The Committee adjourned the meeting at 4:55 p.m.

☞ Please contact the City Clerk's office at (650) 752-0500 with any questions

Pursuant to the Americans with Disabilities Act, if you need special assistance in this meeting, please contact the Park Program Manager at (650) 752-0534. Notification of 48 hours prior to the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting. (29 CRF 35.104 ADA Title II)

DRAFT

TOWN OF ATHERTON

Actuarial Valuation of
Postemployment Healthcare Program
Valuation Date: January 1, 2009

April 16, 2009

Ms. Louise Ho
Finance Director
Town of Atherton
91 Ashfield Road
Atherton, CA 94027

Dear Ms. Ho:

Re: Actuarial Valuation of Postemployment Health Benefits

The Nicolay Consulting Group is pleased to present the results of the January 1, 2009 actuarial valuation of the Town of Atherton postemployment healthcare program. In preparing the report, we relied on employee data and plan information supplied by the Town. On the basis of that information, this report has been prepared in accordance with generally accepted actuarial principles and methods. It is our opinion that the actuarial assumptions used are reasonably related to the actual experience of the plan and to anticipated future experience.

The financial projections presented in this letter are intended for the Town's internal use in evaluating the potential cost of the retiree health programs. Because future events frequently do not occur as expected, it should be recognized that there are usually differences between anticipated and actual results. These differences may be material, especially if there are significant changes in the employee or retiree population. Consequently, we can express no assurance that the projected values will occur. We recommend that the Town obtain an updated actuarial valuation on a periodic basis.

We, the undersigned, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Questions about the report should be directed to Doug Tokerud at (415) 512-5300 x220 or Dennis Daugherty at x221.

Sincerely,

NICOLAY CONSULTING GROUP

By: _____
Douglas R. Tokerud, F.S.A., M.A.A.A.

By: _____
Dennis Daugherty, F.S.A., M.A.A.A.

DRAFT
TOWN OF ATHERTON

Table of Contents

SECTION	TITLE	PAGE
SECTION I	Introduction	1
SECTION II	Valuation Results	2
SECTION III	Plan Description and Demographic Summary	6
SECTION IV	Actuarial Method and Assumptions	8
SECTION V	Glossary	18

DRAFT

SECTION I

Introduction

The Town of Atherton sponsors postemployment health benefits to retirees who meet certain eligibility requirements. This report provides an estimate of the Town's liability as of January 1, 2009 and a ten-year projection of the pay-as-you-go cost of providing the benefits. **Section II** contains valuation results. **Section III** describes the plans and presents a demographic summary. **Section IV** describes the actuarial method and assumptions used to complete the valuation. **Section V** contains a Glossary of Terms.

Accounting Requirements

In July 2004 the Governmental Accounting Standards Board issued **Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**. This statement requires governmental entities to begin accounting for postemployment benefits on an accrual basis. Public entities that sponsor postemployment benefits are required to account for the cost of those benefits using accrual accounting rather than the more common pay-as-you-go accounting. This means that each employee's benefit will "accrue" throughout their working lifetime and that employers will be required to show the annual accruals as a current year expense.

Employers must adopt Statement 45 no later than the plan year that begins after December 15, 2006, 2007 or 2008 depending on the annual revenues of the entity (entities with total 1999/2000 annual revenues of \$100 million or more will adopt no later than the first year listed above, entities with total annual revenues of \$10 to \$100 million no later than the second year and entities with total annual revenues of less than \$10 million will adopt no later than the third year). For purposes of this report, we assumed that the Town will adopt GASB 45 in the fiscal year beginning July 1, 2009.

DRAFT

SECTION II

Valuation Results

Tables 2-1a and 2-1b contain estimates of the present value of the cost of postemployment medical benefits attributable to past service rendered by current retirees and employees who are expected to receive the benefit and attributable to future service expected to be rendered by current employees. The valuation results are based on a 4.00% discount rate assuming that the Town continues pay-as-you-go funding of the program.

A primary goal of GASB 45 is to require employers to recognize postemployment healthcare expense systematically over periods approximating employees' years of service. The Actuarial Accrued Liability represents the estimated present value of future benefits that are associated with past service rendered by employees and retirees. The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over the Actuarial Value of any Assets.

Table 2-1a
Present Value of Future Postretirement Medical Benefits

As of January 1, 2009

	Present Value Attributable to <u>Past Service</u>	Present Value Attributable to <u>Future Service</u>	<u>Total</u>
Active Employees	\$ 3,899,319	\$ 4,802,650	\$ 8,701,969
Retirees and Surviving Spouses	<u>3,561,358</u>	<u>0</u>	<u>3,561,358</u>
Total	\$ 7,460,677	\$ 4,802,650	\$ 12,263,327

DRAFT

Table 2-1b

**Present Value of Future Benefit Cost
Attributable to Past Service (i.e., Actuarial Accrued Liability)**

as of January 1, 2009

	<u>Management</u>	<u>Police</u>	<u>APOA Misc.</u>	<u>Teamsters</u>	<u>Total</u>
Actives	\$ 692,441	\$ 1,969,416	\$ 284,201	\$ 953,261	\$ 3,899,319
Retirees and Spouses	<u>2,292,419</u>	<u>891,392</u>	<u>287,856</u>	<u>89,691</u>	<u>3,561,358</u>
Actuarial Accrued Liability	\$ 2,984,860	\$ 2,860,808	\$ 572,057	\$ 1,042,952	\$ 7,460,677
Actuarial Value of Assets					\$ 0
Unfunded Actuarial Accrued Liability					\$ 7,460,677

Projected Postemployment Health Benefit Costs

Table 2-2 contains a ten-year projection of the benefits that the Town is expected to pay to current and future retirees.

Table 2-2

**Estimated Future
pay-as-you-go Benefits**

<u>Year</u>	<u>Estimated Amount</u>
2009 / 10	\$ 185,644
2010 / 11	\$ 213,408
2011 / 12	\$ 243,694
2012 / 13	\$ 278,412
2013 / 14	\$ 312,401
2014 / 15	\$ 343,020
2015 / 16	\$ 371,221
2016 / 17	\$ 398,664
2017 / 18	\$ 428,539
2018 / 19	\$ 464,615

DRAFT

GASB 45 Benefit Costs

The Town's financial statements will contain disclosure of information regarding funding, costs and provisions of the postemployment plans.

The following Tables provide information that will be used in the preparation of the Town's June 30, 2010 financial statement assuming GASB 45 is adopted as of July 1, 2009 and the Town continues pay-as-you-go funding.

The first year Annual Required Contribution (ARC) consists of the Normal Cost plus the portion of the Unfunded Actuarial Accrued Liability that is to be amortized in the current year. The Normal Cost is the portion of the actuarial present value of future benefits that is allocated to the current 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 Cost method of calculation and an attribution period that runs from date of hire until the expected retirement date.

In the year the new accounting rules become effective, an employer is allowed to commence amortization of the Unfunded Actuarial Accrued Liability over a period not to exceed 30 years. Tables 2-3 and 2-4 are based on a level percentage of payroll amortization over 30 years.

Actuarial Accrued Liability	\$ 7,750,968
Actuarial Value of Assets	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 7,750,968
Illustrative Amortization Period	30 years
Amortization Factor (based on 4.00% Discount Rate)	26.023
Annual % of Payroll Amortization of Unfunded AAL	\$ 297,851
Normal Cost (based on the Entry Age Normal Method)	<u>515,296</u>
Annual Required Contribution	\$ 813,147

DRAFT

Table 2-4 presents a five-year projection under the assumptions the Town **contributes only the expected pay-as-you-go benefits**, the discount rate remains 4.00% and the Normal Cost component of the ARC increases by 6% per year throughout the period.

Table 2-4					
Town of Atherton					
Five-year Projection of Annual OPEB Cost and Net OPEB Obligation					
Based on a 4.00% discount rate, the Entry Age Normal Actuarial Cost Method and					
assuming funding equal to the expected pay-as-you-go benefits					
	2009 / 2010	2010 / 2011	2011 / 2012	2012 / 2013	2013 / 2014
Actuarial Accrued Liability (AAL)	\$ 7,750,968	\$ 8,386,982	\$ 9,051,041	\$ 9,743,550	\$ 10,463,092
Actuarial Value of Assets at beginning of year	0	0	0	0	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 7,750,968	\$ 8,386,982	\$ 9,051,041	\$ 9,743,550	\$ 10,463,092
 Remaining Amortization Period	 30	 29	 28	 27	 26
Normal Cost	\$ 515,296	\$ 546,214	\$ 578,987	\$ 613,726	\$ 650,550
Amortization of UAAL	<u>297,851</u>	<u>332,237</u>	<u>370,050</u>	<u>411,676</u>	<u>457,483</u>
Annual Required Contribution (ARC)	\$ 813,147	\$ 878,451	\$ 949,037	\$ 1,025,402	\$ 1,108,033
 Annual Required Contribution (ARC)	 \$ 813,147	 \$ 878,451	 \$ 949,037	 \$ 1,025,402	 \$ 1,108,033
Interest on net OPEB Obligation	0	25,100	51,712	79,880	109,579
Adjustment to ARC	<u>(0)</u>	<u>(24,858)</u>	<u>(52,855)</u>	<u>(84,375)</u>	<u>(119,780)</u>
Annual OPEB Cost	\$ 813,147	\$ 878,693	\$ 947,894	\$ 1,020,907	\$ 1,097,832
Town Contributions	<u>(185,644)</u>	<u>(213,408)</u>	<u>(243,694)</u>	<u>(278,412)</u>	<u>(312,401)</u>
Increase in net OPEB Obligation	\$ 627,503	\$ 665,285	\$ 704,200	\$ 742,495	\$ 785,431
 Net OPEB Obligation – Beginning of Year	 \$ 0	 \$ 627,503	 \$ 1,292,788	 \$ 1,996,988	 \$ 2,739,483
Net OPEB Obligation – End of Year	\$ 627,503	\$ 1,292,788	\$ 1,996,988	\$ 2,739,483	\$ 3,524,914
 Projected Benefits Paid	 \$ 185,644	 \$ 213,408	 \$ 243,694	 \$ 278,412	 \$ 312,401

DRAFT

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

The Town pays 100% of premiums for any medical coverage and any family status. This is subject to a phase-in over the next three years (2009 through 2011) from 85% to 100% for pre-age 65 premiums.

Police Officers

The Town pays 100% of premiums for any medical coverage and any family status. However, this is subject to a **maximum monthly benefit of \$1,247.06** which is assumed to *not* increase in the future.

APOA Miscellaneous Employees

The Town pays up to a maximum of 90% of Blue Shield premiums. The same three year phase-in applies as for management retirees, except that the phase-in also applies to post-age 65 benefits. The 90% of Blue Shield maximum applies to any medical coverage and any family status. After age 65, the Town pays only 90% of the reduced post age 65 premiums.

Teamsters

Same benefits as APOA, except that the maximum benefit is 95% rather than 90% of Blue Shield premiums.

DRAFT

Demographic Data

The Town provided demographic information on current active and retired employees. The data was provided on several files. After combining the data and working with Town representatives we prepared the data used in this valuation.

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

Table 3-1
**Age and Sex Table of Retired Employees
and Surviving Spouses**
as of January 1, 2009

Age	Female	Male	Total
Under 50	0	0	0
50-54	3	2	5
55-59	1	1	2
60-64	1	2	3
65-69	0	3	3
70-74	0	5	5
75-79	0	0	0
80 and Older	<u>0</u>	<u>0</u>	<u>0</u>
Total	5	13	18

Table 3-2
Age and Service Table of Active Employees
as of January 1, 2009

Age	Years of Service					Total
	<5	5-9	10-14	15-19	20+	
Under 30	4	0	0	0	0	4
30-34	2	5	0	0	0	7
35-39	0	3	2	0	0	5
40-44	2	2	0	1	1	6
45-49	3	7	0	1	1	12
50-54	4	1	1	1	3	10
55-59	1	2	1	0	1	5
60-64	0	0	1	1	0	2
65 and Older	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	16	20	5	4	6	51

DRAFT

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. Where appropriate we used the same assumptions used by PERS in the most recent California PERS pension valuations.

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 January 1, 2009. 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 4.0% discount rate for this valuation. This rate is representative of the long term rate of return the Town expects to attain on funds that will be used to pay postemployment benefits.

DRAFT

Health Care Trend

The rate of increase in per capita health care costs is commonly referred to as the *health care trend* rate. Although the term “health care inflation” is sometimes used synonymously with the trend rate, health care inflation is only one of several components of the trend rate. The analysis recognizes the following influences on health care trend: pure medical inflation, utilization changes, technological changes, regulatory requirements, Medicare cost shifting, and aging.

Based on recent rate increases and our assessment of likely future premium increases, we developed the following annual healthcare trend rates for use in the valuation. These rates assume that there will not be any significant changes in the medical plan designs:

for the Plan Year <u>Beginning</u>	
January 1, 2010	8.2%
January 1, 2011	7.9%
January 1, 2012	7.6%
January 1, 2013	7.3%
January 1, 2014	7.0%
January 1, 2015	6.7%
January 1, 2016	6.4%
January 1, 2017	6.1%
January 1, 2018	5.8%
January 1, 2019 and thereafter	5.5%

Baseline Cost

Estimates of retiree health benefit obligations are normally based on current costs for a one year period. We refer to this as the *baseline cost*. The components of baseline cost, such as average per capita cost, and the current plan population are projected into the future to estimate the cost of future benefits.

We valued each active employee and retiree assuming they will not change their enrollment in future years. Table 4-2 contains 2009 calendar year CalPERS premium rates for the Bay Area.

DRAFT

Table 4-2

Cal PERS Bay Area 2009 Monthly Premium Rates per Retiree or Spouse

Basic Rates

Blue Shield	\$ 560.57
Blue Shield NetValue	\$ 495.50
Kaiser	\$ 508.30
PERS Choice	\$ 482.48
PERS Care	\$ 749.83
PORAC	\$ 484.00

Medicare Supplement Rates

Blue Shield	\$ 341.44
Blue Shield NetValue	\$ 304.66
Kaiser	\$ 280.17
PERS Choice	\$ 349.11
PERS Care	\$ 404.60
PORAC	\$ 330.00

CalPERS has indicated that its medical program is a “community rated” plan as described in GASB 45. This means that 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. If CalPERS changes its present practice and at a future date decides to modify the premium structure so that it charges more on average for non-Medicare retirees than for active employees, then higher costs would need to be allocated to retirees, and this could result in a substantial increase in the Town’s Actuarial Accrued Liability and Annual Required Contribution. This potential increase could also occur if there ever is a ruling that CalPERS should not be treated as a “community rated” plan.

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.

DRAFT

Amortization Methodology

GASB 45 allows amortization of the Unfunded Actuarial Accrued Liability based on a level dollar approach or as a level percentage of covered payroll. The maximum amortization period is 30 years. This valuation is based on a closed 30-year amortization of the Unfunded Actuarial Accrued Liability as a level percentage of payroll; increasing each year as payroll increases.

Administrative Expenses

We assumed that there are no administrative fees other than those included in the premium rates.

Plan Assets

During Fiscal Year 2008, the Town designated \$500,000 of its General Fund Reserve toward funding its GASB 45 obligations. However, these funds are not treated as official GASB 45 assets since they have not been placed in an irrevocable trust as specified under GASB 45.

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.

DRAFT

Withdrawal Rates (also called turnover rates)

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

Completed Years of Service	Police
0	0.12990
1	0.08160
2	0.03480
3	0.03310
4	0.03140
5	0.02970
6	0.02810
7	0.02630
8	0.02470
9	0.02300
10	0.02130
15	0.01290
20	0.00970
25	0.00820
30	0.00760
35	0.00120

DRAFT

For all other employees we selected withdrawal rates used in the most recent California PERS Public Agency Miscellaneous retirement plan valuations. Selected rates are shown below.

<u>Service</u>	----- Entry Age -----						
	20	25	30	35	40	45	50
0	0.17600	0.16910	0.16220	0.15525	0.14830	0.14140	0.13450
1	0.15610	0.14920	0.14230	0.13535	0.12840	0.12150	0.11460
2	0.13620	0.12930	0.12240	0.11545	0.10850	0.10160	0.09470
3	0.11630	0.10940	0.10250	0.09555	0.08860	0.08170	0.07480
4	0.09640	0.08950	0.08260	0.07565	0.06870	0.06180	0.05490
5	0.07650	0.06965	0.06270	0.05575	0.04880	0.03085	0.01290
6	0.07270	0.06580	0.05880	0.05190	0.04500	0.02810	0.01120
7	0.06890	0.06190	0.05500	0.04815	0.04110	0.02535	0.00960
8	0.06500	0.05805	0.05120	0.04425	0.03730	0.02265	0.00800
9	0.06120	0.05430	0.04730	0.04040	0.03350	0.02000	0.00650
10	0.05740	0.05045	0.04350	0.03660	0.00950	0.00730	0.00510
15	0.04460	0.03755	0.03070	0.00645	0.00460	0.00270	0.00080
20	0.03180	0.02490	0.00410	0.00250	0.00090	0.00055	0.00020
25	0.01900	0.00215	0.00090	0.00055	0.00020	0.00020	0.00020
30	0.00100	0.00060	0.00020	0.00020	0.00020	0.00020	0.00020
35	0.00020	0.00020	0.00020	0.00020	0.00020	0.00010	0.00000

DRAFT

Retirement Rates

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

<u>Age</u>	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.04350	0.04350	0.04350	0.08210	0.12080	0.15590	0.19100
51	0.03850	0.03850	0.03850	0.07280	0.10710	0.13820	0.16930
52	0.06140	0.06140	0.06140	0.11590	0.17050	0.22000	0.26950
53	0.06890	0.06890	0.06890	0.13030	0.19160	0.24720	0.30280
54	0.07100	0.07100	0.07100	0.13420	0.19740	0.25470	0.31200
55	0.08980	0.08980	0.08980	0.16980	0.24970	0.32220	0.39470
56	0.06870	0.06870	0.06870	0.12990	0.19100	0.24650	0.30190
57	0.08030	0.08030	0.08030	0.15180	0.22320	0.28800	0.35280
58	0.07910	0.07910	0.07910	0.14950	0.21980	0.28370	0.34750
59	0.08200	0.08200	0.08200	0.15490	0.22790	0.29400	0.36020
60	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

DRAFT

For all other employees we selected the retirement rates used in the most recent California PERS 2% @55 retirement plan valuation. Sample rates are shown below.

Table 4-6
Annual Rates of Retirement

<u>Age</u>	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.01450	0.01840	0.02240	0.02690	0.03070	0.03660	0.04110
51	0.01060	0.01350	0.01640	0.01980	0.02260	0.02690	0.03020
52	0.01140	0.01450	0.01760	0.02120	0.02410	0.02870	0.03230
53	0.01500	0.01900	0.02310	0.02780	0.03180	0.03780	0.04250
54	0.01990	0.02520	0.03070	0.03690	0.04210	0.05020	0.05640
55	0.04750	0.06040	0.07340	0.08830	0.10080	0.12000	0.13490
56	0.03950	0.05020	0.06110	0.07350	0.08380	0.09980	0.11230
57	0.04270	0.05420	0.06590	0.07930	0.09050	0.10780	0.12120
58	0.04730	0.06010	0.07300	0.08790	0.10030	0.11940	0.13430
59	0.05100	0.06480	0.07880	0.09480	0.10820	0.12870	0.14480
60	0.07150	0.09080	0.11040	0.13280	0.15160	0.18040	0.20300
61	0.07150	0.09080	0.11040	0.13280	0.15160	0.18050	0.20300
62	0.12750	0.16200	0.19690	0.23690	0.27040	0.32190	0.36210
63	0.12870	0.16360	0.19880	0.23920	0.27310	0.32500	0.36560
64	0.09310	0.11820	0.14380	0.17290	0.19740	0.23500	0.26430
65	0.17380	0.22090	0.26860	0.32310	0.36880	0.43900	0.49380
66	0.10850	0.13780	0.16750	0.20160	0.23010	0.27390	0.30810
67	0.11090	0.14090	0.17130	0.20610	0.23530	0.28010	0.31500
68	0.08780	0.11160	0.13560	0.16320	0.18630	0.22170	0.24940
69	0.10350	0.13150	0.15990	0.19230	0.21960	0.26140	0.29400
70	0.12240	0.15550	0.18900	0.22740	0.25960	0.30900	0.34760
71	0.09410	0.11950	0.14530	0.17480	0.19950	0.23750	0.26720
72	0.10350	0.13150	0.15980	0.19230	0.21950	0.26130	0.29390
73	0.08340	0.10600	0.12890	0.15510	0.17700	0.21070	0.23700
74	0.06440	0.08180	0.09950	0.11970	0.13660	0.16260	0.18300
75	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

DRAFT

Disability Retirement

Sample disability rates for Police employees are shown in Table 4-7. These rates match those used in the most recent California PERS pension valuations.

We assumed that Police Officers who suffer a work related disability are immediately eligible for postemployment medical benefits. Because of the low incidence of disability retirements for non-Safety employees we did not value disability retirement for non-Safety employees.

<u>Age</u>	<u>Police Officers</u>
25	0.4%
30	0.5%
35	0.7%
40	1.0%
45	1.4%
50	1.9%
55	2.4%

Mortality

The mortality rates used in this valuation are the rates used in the most recent California PERS pension valuation. Annual mortality rates for selected ages are shown in Table 4-8. In this valuation we used the same mortality rates for service retirees and disability retirees.

<u>Age</u>	<u>Active Employees</u>		<u>Retired Employees</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.248%	0.178%	0.429%	0.253%
60	0.344%	0.256%	0.721%	0.442%
65	0.480%	0.369%	1.302%	0.795%
70	0.671%	0.537%	2.135%	1.276%
75			3.716%	2.156%
80			6.256%	3.883%
85			10.195%	7.219%
90			17.379%	12.592%

DRAFT

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 all employees with spouses or other eligible dependents at retirement will elect to cover such dependents, and will have the same spouse or domestic partner that they have now.

We assumed that surviving spouses will remain on the plan by continuing to pay any required premium.

Medicare Coverage

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

DRAFT

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 compensation levels, Social Security, 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.

DRAFT

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

- Annual Other Postemployment Benefit Cost (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).

DRAFT

- 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 (used in this valuation) 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.

DRAFT

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 benefits paid.
- 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 of 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.