



Item No. 4 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: NOVEMBER 20, 2014

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 Actuarial Valuation of Postemployment Healthcare Program;
- 2) Hear Presentation by Nicolay Consulting; and
- 3) 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 reason for the refresh was to capture the new contributions to the PARS OPEB Trust as well changes to the October 2013 APOA Memorandum of Understanding and Non-Represented employee resolutions. Over the past year the Council has taken significant steps to reduce the Town's OPEB Liability. The Town made an initial OPEB contribution of \$1,299,316 to the PARS Trust in Fiscal Year 2012-2013. On September 18, 2013 the City Council authorized a \$2,000,000 contribution to the Trust account. For the Fiscal Year 2014-2015 the Council authorized the allocation of ERAF \$1,020,000 to pay down OPEB liability. Based on the last OPEB Actuarial as of July 1, 2012, the OPEB Liability was estimated as follows:

As of 7/1/2012	
Active Employees	\$1,832,176
Retirees Spouses	\$5,892,692
Accrued Actuarial Liability (AAL)	\$7,724,868
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)
Estimated Unfunded Actuarial Liability Amount	\$3,405,552

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Along with the total contributions of \$4,319,316, the Town also made changes to existing Memorandums of Understanding, Miscellaneous Employee (non-represented) Resolution, and updated its Employee Census Data. Staff felt with the OPEB contributions and changes to employee benefits, that it was a proper time to refresh the OPEB Actuarial Valuation.

Changes to MOU's

The new Atherton Police Officers Association (APOA) Memorandum of Understanding (MOU) resulted in a reduction in retiree healthcare for current APOA members. The MOU also eliminated retiree healthcare (beyond the minimum PEMHCA contribution) for new hires after October 1, 2013. The new MOU set a vesting schedule for current members of the APOA, hired *before October 1, 2013* but retired or will retire after October 1, 2013.

Service retirees are provided the PEMHCA Minimum (\$119 in 2014, \$122 in 2015) if they have at least 5 years of PERS-credited service with the Town. The Town pays up to a maximum of 90% of the Kaiser premium for any family status for active employees. For each employee retiring from employment with the Town with at least 10 years of PERS credited service with the Town, they receive health benefits equal to the contribution of *active employees (i.e. no more than whatever the Town provides via cafeteria plan to active employees)*. The Town now has a vesting schedule for retirees – something upon which the prior OPEB actuarial was not calculated. The employee shall receive the minimum PEMHCA plus a retiree health contribution based on the following vesting schedule:

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

The Town's current contribution rate is \$668.45 for the employee, \$1,336.90 for the employee plus one, and \$1,737.96 for family.

Management and Miscellaneous Employees (Non Represented), under the new resolution, employees hired on or after July 1, 2013 will only receive the CalPERS minimum PEMHCA benefit. This resolution eliminates retiree healthcare for non-represented employees, and only provides the minimum PEMHCA.

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FINDINGS | ANALYSIS

The new OPEB valuation takes into account all of the discussed changes. There are no changes to currently retired employees. 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, 2014.

With the elimination of fully paid retiree healthcare and the update of the Employee Census Data, the Town sees a reduction of the Present Value Attributable to Future Service for Postretirement Medical Benefits from \$1,476,883 to \$1,283,546 (March 1, 2013 Valuation Date compared to July 1, 2014 Valuation Date). The new valuation also shows a reduction in the Annual Required Contribution (ARC). The 2013 Report shows an ARC of \$573,188 compared to the new ARC of \$367,793. The Annual OPEB cost (ARC plus interest/adjustments) is reduced from \$582,525 to \$364,557 – a \$217,968 reduction. This is attributed to the elimination of retiree healthcare benefits and the Council's direction to pre-fund the Trust. The Town now has a positive Actuarial Value Asset Balance for OPEB. The new valuation report projects an Unfunded Actuarial Accrued Liability for 2015/16 of \$2,817,397 (this assumes an additional ERAF contribution of \$680,684 in 2015/16).

An actuary from Nicolay Consulting is here today to discuss and answer questions regarding the new OPEB Actuary Valuation report.

FISCAL IMPACT

The new refresh of the OPEB Valuation report highlights the elimination of retiree healthcare for new hires, reduction in retiree healthcare for APOA via a vesting schedule, changes to the Employee Census data and contributions to the PARS Trust. All of which reduced the annual OPEB cost for the Town by \$217,968.

ATTACHMENT

Town of Atherton Actuarial Valuation of Postemployment Healthcare Program

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TOWN OF ATHERTON

Actuarial Valuation of
Postemployment Healthcare Program
Valuation Date: July 1, 2014

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November 19, 2014

Mr. Robert Barron III
Finance Director
Town of Atherton
91 Ashfield Road
Atherton, CA 94027

Dear Mr. Barron:

Re: Actuarial Valuation of Postemployment Health Benefits

The Nicolay Consulting Group is pleased to present the results of the July 1, 2014 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.

I, 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.

Sincerely,

NICOLAY CONSULTING GROUP

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

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TOWN OF ATHERTON

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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 July 1, 2014 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 "accrues" throughout their working lifetime and that employers are required to show the annual accruals as a current year expense.

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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 6.00% discount rate. The results assume that the Town contributes \$1,020,000 in the 2014/15 year and the full annual OPEB cost each year (including City benefits paid for retirees) thereafter.

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 July 1, 2014

	<u>Present Value Attributable to Past Service</u>	<u>Present Value Attributable to Future Service</u>	<u>Total</u>
Active Employees	\$ 1,851,691	\$ 1,283,546	\$ 3,135,237
Retirees and Surviving Spouses	<u>5,607,553</u>	<u>0</u>	<u>5,607,553</u>
Total	\$ 7,459,244	\$ 1,283,546	\$ 8,742,790

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Table 2-1b

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

as of July 1, 2014

	<u>Management</u>	<u>Police</u>	<u>Teamsters</u>	<u>Total</u>
Actives	\$ 574,895	\$ 927,694	\$ 349,102	\$ 1,851,691
Retirees and Spouses	<u>1,818,897</u>	<u>2,649,444</u>	<u>1,139,212</u>	<u>5,607,553</u>
Actuarial Accrued Liability	\$ 2,393,792	\$ 3,577,138	\$ 1,488,314	\$ 7,459,244
Actuarial Value of Assets				\$ 3,513,466
Unfunded Actuarial Accrued Liability				\$ 3,945,778

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>
2014 / 15	\$409,229
2015 / 16	\$415,483
2016 / 17	\$434,373
2017 / 18	\$448,215
2018 / 19	\$461,191
2019 / 20	\$474,212
2020 / 21	\$494,720
2021 / 22	\$517,675
2022 / 23	\$535,040
2023 / 24	\$541,394

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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, 2015 financial statements assuming the Town pays the Annual OPEB Cost each year.

The first year Annual Required Contribution (ARC) consisted of the Normal Cost plus the portion of the Unfunded Actuarial Accrued Liability that is to be amortized in that 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 first became effective, employers were 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 the remaining 25 years of the original 30 years period.

Table 2-3	
Development of 2014/2015 Fiscal Year	
Annual Required Contribution - based on a 6.00% discount rate	
Actuarial Accrued Liability	\$ 7,459,244
Actuarial Value of Assets	<u>3,513,466</u>
Unfunded Actuarial Accrued Liability	\$ 3,945,778
Illustrative Amortization Period	25 years
Amortization Factor (based on 6.00% Discount Rate)	17.515
Annual % of Payroll Amortization of Unfunded AAL	\$ 225,276
Normal Cost (based on the Entry Age Normal Method)	<u>142,517</u>
Annual Required Contribution	\$ 367,793
Annual OPEB Cost (see next page)*	\$ 364,557
*including retiree benefits paid	

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Table 2-4 presents a projection under the assumptions that the Town **contributes \$1,020,000 in 2014/15 and \$680,684 in 2015/16, in addition to benefits paid**, the discount rate remains 6.00%, and the Normal Cost component of the ARC increases by 5% per year throughout the period.

Table 2-4 Town of Atherton					
Projection of Annual OPEB Cost and Net OPEB Obligation Based on a 6.00% discount rate and the Entry Age Normal Actuarial Cost Method					
	2014 / 2015	2015 / 2016	2016 / 2017	2018 / 2019	2019 / 2020
Actuarial Accrued Liability (AAL)	\$ 7,459,244	\$ 7,627,989			
Actuarial Value of Assets at beginning of year	\$ 3,513,466	\$ 4,810,591			
Unfunded Actuarial Accrued Liability (UAAL)	\$ 3,945,778	\$ 2,817,397			
 Remaining Amortization Period	 25	 24			
Normal Cost	\$ 142,517	\$ 149,643			
Amortization of UAAL	<u>\$ 225,276</u>	<u>\$ 165,599</u>			
Annual Required Contribution (ARC)	\$ 367,793	\$ 315,242			
 Annual Required Contribution (ARC)	 \$ 367,793	 \$ 315,242			
Interest on net OPEB Obligation	(\$ 66,772)	(\$ 130,652)			
Adjustment to ARC	<u>\$ 63,537</u>	<u>\$ 127,990</u>			
Annual OPEB Cost	\$ 364,557	\$ 312,580			
Town Contribution (including benefits paid)	<u>(\$ 1,429,229)</u>	<u>(\$1,096,167)</u>			
Increase in net OPEB Obligation (Asset)	(\$ 1,064,672)	\$ (783,587)			
 Net OPEB Obligation (Asset) - Beginning of Year	 (\$ 1,112,868)	 (\$ 2,177,539)			
Net OPEB Obligation (Asset) - End of Year	(\$ 2,177,539)	(\$ 2,961,126)			
 Projected Benefits Paid	 \$ 409,229	 \$ 415,483			

Important Note: The Actuarial Standards Board recently issued a major restatement of ASOP 6. Perhaps the most important change will be the prohibition of using "community rated accounting," which is described at the bottom of page 12. This may result in an as yet unknown, significant increase in accounting costs, probably starting in the 2016/17 fiscal year.

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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 2014 it is \$119, \$122 in 2015. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

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Credit Years of Service	% of Town Contribution
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 \$115 per month as of 2013.

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.

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 2014 it is \$119, \$122 in 2015. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

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Credit Years of Service	% of Town Contribution
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 (\$119 in 2014, \$122 in 2015).

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-mangement, 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. If they have 10 or more years of service, they are subject to a vesting schedule, as detailed below:

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

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Demographic Data

The Town provided demographic information on current active and retired employees. This data was used to perform a July 1, 2014 valuation.

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

Age	Female	Male	Total
Under 50	0	1	1
50-54	1	4	5
55-59	3	5	8
60-64	3	4	7
65-69	3	2	5
70-74	1	3	4
75-79	0	5	5
80 and Older	<u>1</u>	<u>0</u>	<u>1</u>
Total	12	24	36

Age	Years of Service					Total
	<5	5-9	10-14	15-19	20+	
Under 30	1	1	0	0	0	2
30 - 34	4	3	0	0	0	7
35 - 39	2	1	1	1	0	5
40 - 44	3	0	1	2	0	6
45 - 49	3	1	2	0	1	7
50 - 54	1	1	4	0	0	6
55 - 59	0	0	0	0	0	0
60 - 64	1	0	0	0	0	1
65 and Older	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
Total	15	7	8	3	2	35

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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 July 1, 2014. This date is the starting point from which current health premium costs are projected to increase 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. Based on discussions with the Town and its investment advisors, we used a 6.0% 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.

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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 recent rate increases and our assessment of likely future premium increases, we assumed 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 Year <u>Beginning</u>	
January 1, 2015	6.7%
January 1, 2016	6.4%
January 1, 2017	6.1%
January 1, 2018	5.8%
January 1, 2019	5.5%
January 1, 2020	5.2%
January 1, 2021 and thereafter	5.0%

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 2014 and 2015 calendar year CalPERS premium rates for the Bay Area.

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Table 4-2

**Cal PERS Bay Area
2014/15 Monthly Premium Rates per Retiree or Spouse**

	2014	2015
Basic Rates		
Blue Shield Bay	\$ 836.59	\$ 928.87
Blue Shield NetValue	\$ 704.01	\$ 870.60
Kaiser	\$ 742.72	\$ 714.45
PERS Choice	\$ 690.77	\$ 700.84
PERS Care	\$ 720.04	\$ 775.08
PORAC	\$ 634.00	\$ 675.00
Medicare Supplement Rates		
Blue Shield	\$ 298.21	\$ 352.63
Blue Shield NetValue	\$ 298.21	\$ 352.63
Kaiser	\$ 294.97	\$ 295.51
PERS Choice	\$ 307.23	\$ 339.47
PERS Care	\$ 327.36	\$ 368.76
PORAC	\$ 397.00	\$ 402.00

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. **IMPORTANT NOTE:** It appears that the above “community rating” accounting will no longer be available starting with fiscal year 2016/17. Please see note on page 5.

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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

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

Plan Assets in the PARS Truse were reported to be \$3,513,466 as of June 30, 2014.

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.

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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.

Table 4-3
Annual Withdrawal Rates for Police

<u>Service</u>	-----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

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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.

Table 4-4
Public Agency Miscellaneous Withdrawal Rates

<u>Service</u>	----- 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	0.00000

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.

Table 4-5
**Sworn Police
Annual Rates of Retirement**

<u>Age</u>	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.07000	0.07000	0.07000	0.13100	0.19300	0.24900	0.30600
55	0.09000	0.09000	0.09000	0.17000	0.25000	0.32200	0.39500
60	0.13500	0.13500	0.13500	0.25500	0.37650	0.48450	0.59400
65	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

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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							
PERS Public Agency Miscellaneous - Annual Rates of Retirement							
<u>Age</u>	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.0150	0.0200	0.0240	0.0290	0.0330	0.0390	0.0440
51	0.0130	0.0160	0.0200	0.0240	0.0270	0.0330	0.0370
52	0.0140	0.0180	0.0220	0.0270	0.0300	0.0360	0.0400
53	0.0170	0.0220	0.0270	0.0320	0.0370	0.0430	0.0490
54	0.0270	0.0340	0.0410	0.0490	0.0560	0.0670	0.0760
55	0.0500	0.0640	0.0780	0.0940	0.1070	0.1270	0.1430
56	0.0450	0.0570	0.0690	0.0830	0.0950	0.1130	0.1270
57	0.0480	0.0610	0.0740	0.0900	0.1020	0.1220	0.1370
58	0.0520	0.0660	0.0800	0.0970	0.1100	0.1310	0.1480
59	0.0600	0.0760	0.0920	0.1110	0.1270	0.1510	0.1690
60	0.0720	0.0920	0.1120	0.1340	0.1530	0.1820	0.2050
61	0.0890	0.1130	0.1370	0.1650	0.1880	0.2240	0.2520
62	0.1280	0.1620	0.1970	0.2370	0.2700	0.3220	0.3620
63	0.1290	0.1640	0.1990	0.2390	0.2730	0.3250	0.3660
64	0.1160	0.1480	0.1800	0.2160	0.2470	0.2940	0.3300
65	0.1740	0.2210	0.2690	0.3230	0.3690	0.4390	0.4940
66	0.1350	0.1710	0.2080	0.2500	0.2850	0.3400	0.3820
67	0.1330	0.1690	0.2060	0.2470	0.2820	0.3360	0.3780
68	0.1180	0.1500	0.1820	0.2190	0.2500	0.2970	0.3340
69	0.1160	0.1470	0.1790	0.2150	0.2460	0.2930	0.3290
70	0.1380	0.1760	0.2140	0.2570	0.2930	0.3490	0.3930
71	0.0940	0.1200	0.1450	0.1750	0.2000	0.2380	0.2670
72	0.1040	0.1320	0.1600	0.1920	0.2200	0.2610	0.2940
73	0.0830	0.1060	0.1290	0.1550	0.1770	0.2110	0.2370
74	0.0640	0.0820	0.1000	0.1200	0.1370	0.1630	0.1830
75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

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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	0.332%
30	0.664%
35	0.996%
40	1.328%
45	1.660%
50	2.001%
55	6.812%

Mortality

The mortality rates used in this valuation are those used in the most recent California PERS pension valuations. 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. 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 AA. 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.

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Table 4-8
Sample Mortality Rates (Before Projection AA)

<u>Age</u>	<u>Active Employees</u>		<u>Retired Employees</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.260%	0.176%	0.474%	0.243%
60	0.395%	0.266%	0.720%	0.431%
65	0.608%	0.419%	1.069%	0.775%
70	0.914%	0.649%	1.675%	1.244%
75			3.080%	2.070%
80			5.270%	3.749%
85			9.775%	7.005%
90			16.747%	12.404%

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.

We assumed 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 so 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.

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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.

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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).

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- 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.

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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.