

MacLeod Watts

September 23, 2020

Ms. Kim Hardcastle
Human Resources Manager
City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92263-2743

Re: June 30, 2019 Actuarial Valuation and GASB 75 Report for Fiscal Year Ending June 30, 2020

Dear Ms. Hardcastle:

We are pleased to enclose our actuarial report providing financial information regarding other post-employment benefit (OPEB) liabilities of the City of Palm Springs.

The primary purpose of this report is to provide information required by GASB 75 ("Accounting and Financial Reporting for Postemployment Benefits Other Than Pension") to be reported in the City's financial statements for the fiscal year ending June 30, 2020. The report's text describes our analysis and assumptions in detail.

The information included in this report reflects the assumption that the City will continue financing its OPEB liability on a pay-as-you-go basis. Please let us know if we can be of assistance in preparing illustrations of how prefunding impacts the OPEB liability required to be reported under GASB 75.

The results presented are based on an actuarial valuation prepared as of June 30, 2019 and on the employee data and details on plan benefits provided to us by the City. As with any analysis, the soundness of the report is dependent on the inputs. Please review the information shown in the report to be comfortable that it matches your records.

We appreciate the opportunity to work on this analysis and acknowledge the efforts of the City employees who provided valuable time and information to enable us to prepare this report. Please let us know if we can be of further assistance.

Sincerely,



Catherine L. MacLeod, FSA, FCA, EA, MAAA
Principal & Consulting Actuary

Enclosure



City of Palm Springs

Actuarial Valuation of Other
Post-Employment Benefit Programs
As of June 30, 2019

& GASB 75 Report for the Fiscal Year Ending
June 30, 2020

Submitted September 2020

MacLeod Watts

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A. Executive Summary

This report presents the results of the June 30, 2019 actuarial valuation and accounting information regarding the other post-employment benefit (OPEB) program of the City of Palm Springs (the City). The purpose of this valuation is to assess the OPEB liabilities and provide disclosure information as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2020.

Important background information regarding the valuation process can be found in Addendum 1. We recommend users of the report read this information to familiarize themselves with the process and context of actuarial valuations, including the requirements of GASB 75. The pages following this executive summary present various exhibits and other relevant information appropriate for disclosures under GASB 75.

Absent material changes to this program, the results of the June 30, 2019 valuation may also be applied to prepare the City's GASB 75 report for the fiscal year ending June 30, 2021. If there are any significant changes in the employee population, plan benefits or eligibility, or to the City's funding policy, an earlier valuation might be required or appropriate.

OPEB Obligations of the City

The City provides continuation of medical coverage to its retiring employees. This coverage may create one or more of the following types of OPEB liabilities:

- **Explicit subsidy liabilities:** An "explicit subsidy" exists when the employer contributes directly toward the cost of retiree healthcare¹. In this program, the City pays a portion of medical premiums for qualifying retirees. Details are provided in Supporting Information Section 2A.
- **Implicit subsidy liabilities:** An "implicit subsidy" exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. The City offers medical coverage through two separate programs for different employee and retiree groups. Where applicable, as described below, we determine the implicit rate subsidy for pre-Medicare retirees as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. For more information see Section B and Addendum 2: MacLeod Watts Age Rating Methodology.

OPEB Funding Policy

The City's OPEB funding policy affects the calculation of liabilities by impacting the discount rate that is used to develop the plan liability and expense. "Prefunding" is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earnings on trust assets. Pay-as-you-go, or "PAYGO", is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

¹ A liability for potential future excise tax liability for "high cost" retiree coverage was included in the prior valuation. However, this provision of the Affordable Care Act was repealed in December 2019, so this liability was eliminated.



Executive Summary

(Continued)

Our understanding is that the City is continuing to finance its OPEB liability on a pay-as-you-go basis. With the City's approval, the discount rate used in this valuation is based on the S&P Municipal Bond 20 Year High Grade Index. As of the beginning and end of the Measurement Period, use of this index results in discount rates of 2.98% on June 30, 2018 and 2.79% on June 30, 2019.

Actuarial Assumptions

The actuarial "demographic" assumptions (i.e. rates of retirement, death, disability or other termination of employment) used in this report were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the retirement plan(s) covering the City employees. Other assumptions, such as age-related healthcare claims, healthcare trend, retiree participation rates and spouse coverage, were selected based on demonstrated plan experience and/or our best estimate of expected future experience. All these assumptions, and more, impact expected future benefits. Please note that this valuation has been prepared on a closed group basis. This means that only employees and retirees present as of the valuation date are considered. We do not consider replacement employees for those we project to leave the current population of plan participants until the valuation date following their employment.

We emphasize that this actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent and we will continue to monitor these assumptions in future valuations. See Section 3 for a description of assumptions used in this valuation.

Important Dates for GASB 75 in this Report

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for this report:

Fiscal Year End	June 30, 2020
Measurement Date	June 30, 2019
Measurement Period	June 30, 2018 to June 30, 2019
Valuation Date	June 30, 2019

Significant Results and Differences from the Prior Valuation

No benefit changes were reported to MacLeod Watts relative to those in place at the time the June 2017 valuation was prepared. We reviewed and updated certain assumptions used to project the OPEB liability. Differences between actual and expected results based on updated census and premium data since June 2017 were also reflected (referred to as "plan experience"). See *Recognition Period for Deferred Resources* on page 10 for details on how these changes are recognized.

Overall, the Total OPEB Liability on the current measurement date is lower than that reported one year ago. Section C provides additional information on the impact of the new assumptions and plan experience. Assumption changes are described at the end of Section 3.



Executive Summary
(Concluded)

Impact on Statement of Net Position and OPEB Expense for Fiscal 2020

The plan’s impact to Net Position will be the sum of difference between assets and liabilities as of the measurement date plus the unrecognized net outflows and inflows of resources. Different recognition periods apply to deferred resources depending on their origin. The plan’s impact on Net Position on the measurement date can be summarized as follows:

Items	For Reporting At Fiscal Year Ending June 30, 2020
Total OPEB Liability	\$ 139,514,316
Fiduciary Net Position	-
Net OPEB Liability (Asset)	139,514,316
Deferred (Outflows) of Resources	(11,820,307)
Deferred Inflows of Resources	24,385,341
Impact on Statement of Net Position	<u>\$ 152,079,350</u>
OPEB Expense, FYE 6/30/2020	<u>\$ 5,089,757</u>

Important Notices

This report is intended to be used only to present the actuarial information relating to other postemployment benefits for the City’s financial statements. The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable. We note that various issues in this report may involve legal analysis of applicable law or regulations. The City should consult counsel on these matters; MacLeod Watts does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the City consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.



B. OPEB Obligations of the City

General Types of OPEB

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are medical, prescription drug, dental, vision, and/or life insurance coverage. Other OPEB may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include COBRA, vacation, sick leave (unless converted to defined benefit OPEB), or other direct retiree payments.

OPEB Obligations of the City

The City provides continuation of medical coverage to its retiring employees. This coverage may create one or more of the following types of OPEB liabilities:

- **Explicit subsidy liabilities:** An “explicit subsidy” exists when the employer contributes directly toward the cost of retiree healthcare². In this program, the City pays a portion of medical premiums for qualifying retirees. The specific plan coverage and benefits provided vary based on the employee bargaining group, date hired or retired and years of service at retirement. Details are provided in Supporting Information Section 2A.
- **Implicit subsidy liabilities:** An “implicit subsidy” exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. Where applicable, as described below, we determine the implicit rate subsidy for pre-Medicare retirees as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. For more information see Section 3 and Addendum 2: MacLeod Watts Age Rating Methodology.
 - *Miscellaneous employees and retirees* are covered by the CalPERS medical program. The same monthly premiums are charged for active employees and for pre-Medicare retirees. CalPERS has confirmed that the claims experience of these members is considered together in setting these premium rates. Accordingly, we have made age-related premium adjustments and computed an implicit rate subsidy for pre-Medicare retirees covered or expected to be covered in retirement.

Different monthly premiums are charged for Medicare-eligible members and CalPERS has confirmed that only the claims experience of these members is considered in setting these premium rates. As such, there is no implicit subsidy of premiums for these members by active employees. Our analysis suggests that, in the aggregate, the Medicare Supplement premium structure is adequate to cover the expected claims of these retirees.
 - *Safety employees and some Safety retirees* are covered by plans in which the claims experience of active and retired members (both before and after Medicare eligibility) is pooled together in setting premium rates. We valued an implicit subsidy for all retirees covered by these plans (for both Medicare and non-Medicare retirees) and have included the liabilities for this subsidy in this valuation.

² A liability for potential future excise tax liability for “high cost” retiree coverage was included in the prior valuation. However, this provision of the Affordable Care Act was repealed in December 2019, so this liability was eliminated.

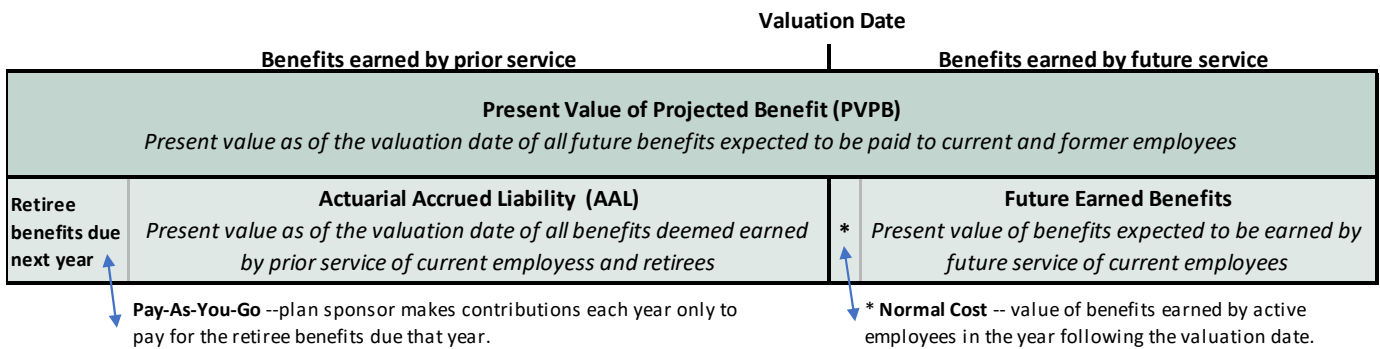


C. Valuation Process

The June 30, 2019 valuation has been based on employee census data and benefits initially submitted to us by the City in May 2020 and clarified in various related communications. A summary of the employee data is provided in Supporting Information Section 1 and a summary of the benefits provided under the Plan is provided in Section 2A. While individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. The valuation has been performed in accordance with the process described below using the actuarial methods and assumptions described in Section H and is consistent with our understanding of Actuarial Standards of Practice.

In projecting benefit values and liabilities, we first determine an expected premium or benefit stream over each current retiree’s or active employee’s future retirement. Benefits may include both direct employer payments (explicit subsidies) and any implicit subsidies arising when retiree premiums are expected to be partially subsidized by premiums paid for active employees. The projected benefit streams reflect assumed trends in the cost of those benefits and assumptions as to the expected dates when benefits will end. Assumptions regarding the probability that each employee will remain in service to receive benefits and the likelihood the employee will elect coverage for themselves and their dependents are also applied.

We then calculate a present value of these future benefit streams by discounting the value of each future expected employer payment back to the valuation date using the valuation discount rate. This present value is called the **Present Value of Projected Benefits (PVPB)** and represents the current value of all expected future plan payments to current retirees and current active employees. Note that this long-term projection does not anticipate entry of future employees.



The next step in the valuation process splits the Present Value of Projected Benefits into 1) the value of benefits already earned by prior service of current employees and retirees and 2) the value of benefits expected to be earned by future service of current employees. Actuaries employ an “attribution method” to divide the PVPB into prior service liabilities and future service liabilities. For this valuation we used the **Entry Age Normal** attribution method. This method is the most common used for government funding purposes and the only attribution method allowed for financial reporting under GASB 75.

We call the value of benefits deemed earned by prior service the **Actuarial Accrued Liability (AAL)**. Benefits deemed earned by service of active employees in a single year is called the **Normal Cost** of benefits. The present value of all future normal costs (PVFNC) plus the Actuarial Accrued Liability will equal the Present Value of Projected Benefits (i.e. PVPB = AAL + PVFNC).



Valuation Process
(Concluded)

The City is making contributions to the plan on a pay-as-you-go basis. Therefore, the **Unfunded Actuarial Accrued Liability (UAAL)** is equal to the Actuarial Accrued Liability. The UAAL represents, as of the valuation date, the present value of benefits already earned by past service that remain unfunded. Under this contribution strategy, future contributions by the City will only fund each year’s retiree payments.

Please note that projections of future benefits over such long periods (frequently 60 or more years) which are dependent on numerous assumptions regarding future economic and demographic variables are subject to substantial revision as future events unfold. While we believe that the assumptions and methods used in this valuation are reasonable for the purposes of this report, the costs to the City reflected in this report are subject to future revision, perhaps materially. Demonstrating the range of potential future plan costs was beyond the scope of our assignment except to the limited extent of providing liability information at various discount rates.

Finally, certain actuarial terms and GASB 75 terms may be used interchangeably. We note a few in the table below.

Actuarial Terminology	GASB 75 Terminology
Present Value of Projected Benefits (PVPB)	<i>No equivalent term</i>
Actuarial Accrued Liability (AAL)	Total OPEB Liability (TOL)
Market Value of Assets (MVA)	Fiduciary Net Position
Actuarial Value of Assets (AVA)	<i>No equivalent term</i>
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability
Normal Cost	Service Cost

Specific results from this valuation are provided in the following Section D.



D. June 30, 2019 Valuation Results

This chart compares the results measured as of June 30, 2018, based on the June 30, 2017 valuation, with the results measured as of June 30, 2019, based on the June 30, 2019 actuarial valuation.

Valuation Date	6/30/2017			6/30/2019		
Measurement Date	6/30/2018			6/30/2019		
Fiscal Year End	6/30/2019			6/30/2020		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Subsidy						
Discount rate	2.98%	2.98%	2.98%	2.79%	2.79%	2.79%
Number of Covered Employees						
Actives	354	354	354	365	452	465
Retirees	209	109	209	223	138	226
Total Participants	563	463	563	588	590	691
Actuarial Present Value of Projected Benefits						
Actives	\$ 98,097,415	\$ 13,395,945	\$ 111,493,360	\$ 81,711,714	10,710,390	92,422,104
Retirees	67,413,543	6,306,451	73,719,994	63,893,290	14,988,776	78,882,066
Total APVPB	165,510,958	19,702,396	185,213,354	145,605,004	25,699,166	171,304,170
Total OPEB Liability (TOL)						
Actives	67,273,991	8,765,483	76,039,474	54,826,577	5,805,673	60,632,250
Retirees	67,413,543	6,306,451	73,719,994	63,893,290	14,988,776	78,882,066
TOL	134,687,534	15,071,934	149,759,468	118,719,867	20,794,449	139,514,316
Fiduciary Net Position	-	-	-	-	-	-
Net OPEB Liability	134,687,534	15,071,934	149,759,468	118,719,867	20,794,449	139,514,316
Service Cost						
For the period following the measurement date	3,142,999	484,329	3,627,328	2,592,641	418,126	3,010,767

The Total OPEB Liability (TOL) to be reported as of June 30, 2020 has decreased by about \$10.2 million from that reported one year ago on June 30, 2019. Through normal plan operation, the TOL was expected to *increase* by additional service and interest costs accruing for the period and decrease by benefits paid to retirees. The expected increase in the TOL since the prior measurement date was \$4.4 million.



June 30, 2019 Valuation Results
(Concluded)

The remaining change in the TOL was unexpected. These unexpected changes in the TOL generally fall into one of the three following categories:

- *Plan experience* recognizes results which are *different than expected* based on the prior valuation data and assumptions. Plan experience was highly favorable over the past two years, decreasing the TOL by \$20.7 million from what was previously projected. The largest contributing factor were medical premiums lower than projected.
- *Assumption changes*: Collectively, these changes increased the TOL by \$6.0 million. Details of these changes are provided on the last page in Supporting Information, Section 3.
- *Plan changes*: No changes to benefits were reported since the prior valuation was completed.

This chart summarizes the change in the TOL from that reported one year ago.

Reported Total OPEB Liability at June 30, 2019 Measurement Date June 30, 2018	\$ 149,759,468
Expected Changes:	
Service Cost	3,627,328
Benefit Payments	(3,698,318)
Interest Cost	4,515,822
Total Expected Change	4,444,832
Expected Total OPEB Liability at June 30, 2020 Measurement Date June 30, 2019	\$ 154,204,300
Unexpected Changes:	
<i>Plan experience</i>	
Medical premiums other than expected	(16,518,835)
Other plan experience different than assumed	(4,371,703)
<i>Assumption changes</i>	
Elimination of excise tax liability	(11,228,443)
Methodology change for implicit subsidy	(5,380,772)
Revise assumed medicare eligibility status for certain retirees	15,100,778
Change in healthcare trend model	4,371,528
Change in discount rate	4,230,941
Change in demographic and economic assumptions and mortality improvement scale	(660,247)
Decrease in PEMHCA minimum increase trend	(415,528)
Change in assumed retiree participation rates	182,297
Total Unexpected Change	(14,689,984)
Actual Total OPEB Liability at June 30, 2020 Measurement Date June 30, 2019	\$ 139,514,316



E. Accounting Information (GASB 75)

The following exhibits are designed to satisfy the reporting and disclosure requirements of GASB 75 for the fiscal year end June 30, 2020. The City is classified for GASB 75 purposes as a single employer.

Components of Net Position and Expense

The exhibit below shows the development of Net Position and Expense as of the Measurement Date.

Plan Summary Information for FYE June 30, 2020 <i>Measurement Date is June 30, 2019</i>	City of Palm Springs
<i>Items Impacting Net Position:</i>	
Total OPEB Liability	\$ 139,514,316
Fiduciary Net Position	-
Net OPEB Liability (Asset)	139,514,316
<i>Deferred (Outflows) Inflows of Resources Due to:</i>	
Assumption Changes	(1,540,695)
Plan Experience	18,053,338
Investment Experience	-
Deferred Contributions	(3,947,609)
Net Deferred (Outflows) Inflows of Resources	12,565,034
Impact on Statement of Net Position, FYE 6/30/2020	\$ 152,079,350
<i>Items Impacting OPEB Expense:</i>	
Service Cost	\$ 3,627,328
Cost of Plan Changes	-
Interest Cost	4,515,822
Expected Earnings on Assets	-
<i>Recognized Deferred Resource items:</i>	
Assumption Changes	(398,490)
Plan Experience	(2,654,903)
Investment Experience	-
OPEB Expense, FYE 6/30/2020	\$ 5,089,757



Accounting Information

(Continued)

Change in Net Position During the Fiscal Year

The exhibit below shows the year-to-year changes in the components of Net Position.

For Reporting at Fiscal Year End <i>Measurement Date</i>	6/30/2019	6/30/2020	Change During Period
	6/30/2018	6/30/2019	
Total OPEB Liability	\$ 149,759,468	\$ 139,514,316	\$ (10,245,152)
Fiduciary Net Position	-	-	-
Net OPEB Liability (Asset)	149,759,468	139,514,316	(10,245,152)
<i>Deferred Resource (Outflows) Inflows Due to:</i>			
Assumption Changes	4,876,052	(1,540,695)	(6,416,747)
Plan Experience	-	18,053,338	18,053,338
Investment Experience	-	-	-
Deferred Contributions	(3,698,318)	(3,947,609)	(249,291)
Net Deferred (Outflows) Inflows	1,177,734	12,565,034	11,387,300
Impact on Statement of Net Position	\$ 150,937,202	\$ 152,079,350	\$ 1,142,148

Change in Net Position During the Fiscal Year

Impact on Statement of Net Position, FYE 6/30/2019	\$ 150,937,202
OPEB Expense (Income)	5,089,757
Employer Contributions During Fiscal Year	(3,947,609)
Impact on Statement of Net Position, FYE 6/30/2020	<u>\$ 152,079,350</u>

OPEB Expense

Employer Contributions During Fiscal Year	\$ 3,947,609
Deterioration (Improvement) in Net Position	1,142,148
OPEB Expense (Income), FYE 6/30/2020	<u>\$ 5,089,757</u>



Accounting Information

(Continued)

Recognition Period for Deferred Resources

Liability changes due to plan experience which differs from what was assumed in the prior measurement period and/or from assumption changes during the period are recognized over the plan's Expected Average Remaining Service Life ("EARSL"). The EARSL of 7.80 years is the period used to recognize such changes in the OPEB Liability arising during the current measurement period.

When applicable, changes in the Fiduciary Net Position due to investment performance different from the assumed earnings rate are always recognized over 5 years.

Liability changes attributable to benefit changes occurring during the period are recognized immediately.

Deferred Resources as of Fiscal Year End and Expected Future Recognition

The exhibit below shows deferred resources as of the fiscal year end June 30, 2020.

City of Palm Springs	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 7,872,698	\$ 6,332,003
Differences Between Expected and Actual Experience	-	18,053,338
Net Difference Between Projected and Actual Earnings on Investments	-	-
Deferred Contributions	3,947,609	-
Total	\$ 11,820,307	\$ 24,385,341

The City will recognize the Deferred Contributions in the next fiscal year. In addition, future recognition of these deferred resources is shown below.

For the Fiscal Year Ending June 30	Recognized Net Deferred Outflows (Inflows) of Resources
2021	\$ (3,053,393)
2022	(3,053,393)
2023	(3,053,393)
2024	(2,446,216)
2025	(1,516,256)
Thereafter	(3,389,992)



Accounting Information
(Continued)

Sensitivity of Liabilities to Changes in the Discount Rate and Healthcare Cost Trend Rate

The discount rate used for accounting purposes for the fiscal year end 2020 is 2.79%. Healthcare Cost Trend Rate was assumed to start at 6.5% (increase effective January 1, 2021) and grade down to 4% for years 2076 and later. The impact of a 1% increase or decrease in these assumptions is shown in the chart below.

Sensitivity to:			
Change in Discount Rate	Current - 1% 1.79%	Current 2.79%	Current + 1% 3.79%
Net OPEB Liability (Asset)	165,218,111	139,514,316	119,181,051
Increase (Decrease)	25,703,795		(20,333,265)
% Increase (Decrease)	18.4%		-14.6%
Change in Heathcare Cost Trend Rate	Current Trend - 1%	Current Trend	Current Trend + 1%
Net OPEB Liability (Asset)	117,925,006	139,514,316	167,070,639
Increase (Decrease)	(21,589,310)		27,556,323
% Increase (Decrease)	-15.5%		19.8%



Accounting Information (Continued)

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. Only results for years since GASB 75 was implemented (fiscal years 2018, 2019 and 2020) are shown in the table.

Fiscal Year End	6/30/2020	6/30/2019	6/30/2018
Measurement Date	6/30/2019	6/30/2018	6/30/2017
Discount Rate on Measurement Date	2.79%	2.98%	3.13%
Total OPEB liability			
Service Cost	\$ 3,627,328	\$ 3,358,207	\$ 3,726,841
Interest	4,515,822	4,484,043	4,040,843
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(20,708,241)	-	-
Changes of assumptions	6,018,257	3,755,480	(11,536,388)
Benefit payments	(3,698,318)	(3,480,420)	(3,280,004)
Net change in total OPEB liability	(10,245,152)	8,117,310	(7,048,708)
Total OPEB liability - beginning	149,759,468	141,642,158	148,690,866
Total OPEB liability - ending (a)	\$ 139,514,316	\$ 149,759,468	\$ 141,642,158
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending (b)	\$ -	\$ -	\$ -
Net OPEB liability - ending (a) - (b)	\$ 139,514,316	\$ 149,759,468	\$ 141,642,158
Covered-employee payroll	\$ 46,516,674	\$ 45,672,020	\$ 34,929,760
Net OPEB liability as a % of covered-employee payroll	299.92%	327.90%	405.51%

Notes to Schedule

Valuation Date	6/30/2019	6/30/2017	6/30/2017
Actuarial cost method	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay
Inflation	2.5% per year	2.75% per year	2.75% per year
Healthcare cost trend rates	6.5% in 2021, fluctuates until ultimate rate of 4% in 2076	8.0% in 2018, step down 0.5% each year to 5% in 2024	8.0% in 2018, step down 0.5% each year to 5% in 2024
Salary increases	3%	3.25%	3.25%
Retirement age	From 50 to 75	From 50 to 75	From 50 to 75
Mortality	CalPERS 2017 Experience Study	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study
Mortality Improvement	MW Scale 2020	MW Scale 2017	MW Scale 2017



Accounting Information
(Continued)

Schedule of Contributions

This schedule is not required to be provided for unfunded OPEB plans.



Accounting Information

(Continued)

Detail of Changes to Net Position

The chart below details changes to all components of Net Position.

City of Palm Springs	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)	(d) Deferred Outflows (Inflows) Due to:				Impact on Statement of Net Position (e) = (c) - (d)
				Assumption Changes	Plan Experience	Investment Experience	Deferred Contributions	
Balance at Fiscal Year Ending 6/30/2019 <i>Measurement Date 6/30/2018</i>	\$ 149,759,468	\$ -	\$ 149,759,468	\$ (4,876,052)	\$ -	\$ -	\$ 3,698,318	\$ 150,937,202
Changes During the Period:								
Service Cost	3,627,328		3,627,328					3,627,328
Interest Cost	4,515,822		4,515,822					4,515,822
Expected Investment Income		-	-					-
Employer Contributions		3,698,318	(3,698,318)					(3,698,318)
Changes of Benefit Terms	-		-					-
Benefit Payments	(3,698,318)	(3,698,318)	-					-
Assumption Changes	6,018,257		6,018,257	6,018,257				-
Plan Experience	(20,708,241)		(20,708,241)		(20,708,241)			-
Investment Experience		-	-			-		-
Recognized Deferred Resources				398,490	2,654,903		(3,698,318)	644,925
Employer Contributions in Fiscal Year							3,947,609	(3,947,609)
Net Changes in Fiscal Year 2019-2020	(10,245,152)	-	(10,245,152)	6,416,747	(18,053,338)	-	249,291	1,142,148
Balance at Fiscal Year Ending 6/30/2020 <i>Measurement Date 6/30/2019</i>	\$ 139,514,316	\$ -	\$ 139,514,316	\$ 1,540,695	\$(18,053,338)	\$ -	\$ 3,947,609	\$ 152,079,350



Accounting Information
(Continued)

Schedule of Deferred Outflows and Inflows of Resources

A listing of all deferred resource bases used to develop the Net Position and OPEB Expense is shown below. Deferred Contributions are not shown.

Measurement Date: June 30, 2019

Deferred Resource					Balance as of Jun 30, 2019	Recognition of Deferred Outflow or Deferred (Inflow) in Measurement Period:						
Date Created	Cause	Initial Amount	Period (Yrs)	Annual Recognition		2018-19 (FYE 2020)	2019-20 (FYE 2021)	2020-21 (FYE 2022)	2021-22 (FYE 2023)	2022-23 (FYE 2024)	2023-24 (FYE 2025)	Thereafter
Gain Due To												
6/30/2017	Assumption Changes	\$ (11,536,388)	6.65	\$ (1,734,795)	\$ (6,332,003)	\$(1,734,795)	\$(1,734,795)	\$(1,734,795)	\$(1,734,795)	\$(1,127,618)	\$ -	\$ -
Loss Due To												
6/30/2018	Assumption Changes	3,755,480	6.65	564,734	2,626,012	564,734	564,734	564,734	564,734	564,734	367,076	-
Gain Due To												
6/30/2019	Plan Experience	(20,708,241)	7.80	(2,654,903)	(18,053,338)	(2,654,903)	(2,654,903)	(2,654,903)	(2,654,903)	(2,654,903)	(2,654,903)	(4,778,823)
Loss Due To												
6/30/2019	Assumption Changes	6,018,257	7.80	771,571	5,246,686	771,571	771,571	771,571	771,571	771,571	771,571	1,388,831



Accounting Information

(Continued)

The City Contributions to the Plan

The City contributions to the Plan occur as benefits are paid to or on behalf of retirees. Benefit payments may occur in the form of direct payments for premiums and taxes (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”). For details, see Addendum 1 – Important Background Information.

Benefits paid by the City during the measurement period and during the current fiscal year are shown below. Note that the implicit subsidy contribution does not represent cash payments to retirees, but rather the reclassification of a portion of active healthcare expense to be recognized as a retiree healthcare cost.

Employer Contributions During the Measurement Period, Jul 1, 2018 thru Jun 30, 2019	City of Palm Springs
Employer Contributions to the Trust	\$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	2,877,640
Implicit contributions	820,678
<i>Total Employer Contributions During the Measurement Period</i>	\$ 3,698,318

Employer Contributions During the Fiscal Year, Jul 1, 2019 thru Jun 30, 2020	City of Palm Springs
Employer Contributions to the Trust	\$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	3,046,379
Implicit contributions	901,230
<i>Total Employer Contributions During the Fiscal Year</i>	\$ 3,947,609



Accounting Information

(Continued)

Projected Benefit Payments (15-year projection)

The following is an estimate of other post-employment benefits to be paid on behalf of current retirees and current employees expected to retire from the City. Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Section 3.

These projections do not include any benefits expected to be paid on behalf of current active employees *prior to* retirement, nor do they include any benefits for potential *future employees* (i.e., those who might be hired in future years).

Projected Annual Benefit Payments							
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy			Total
	Current Retirees	Future Retirees	Total	Current Retirees	Future Retirees	Total	
2020	\$3,046,379	\$ -	\$3,046,379	\$ 901,230	\$ -	\$ 901,230	\$3,947,609
2021	2,793,130	191,281	2,984,411	897,290	98,981	996,271	3,980,682
2022	2,841,451	319,228	3,160,679	895,647	156,659	1,052,306	4,212,985
2023	2,891,898	445,173	3,337,071	909,765	205,512	1,115,277	4,452,348
2024	2,873,265	583,829	3,457,094	772,399	252,973	1,025,372	4,482,466
2025	2,888,956	762,309	3,651,265	718,252	320,942	1,039,194	4,690,459
2026	2,938,747	951,263	3,890,010	714,710	369,080	1,083,790	4,973,800
2027	2,964,473	1,182,086	4,146,559	719,153	441,294	1,160,447	5,307,006
2028	2,991,865	1,431,271	4,423,136	694,765	498,280	1,193,045	5,616,181
2029	3,008,619	1,677,312	4,685,931	649,928	532,395	1,182,323	5,868,254
2030	3,015,633	1,947,462	4,963,095	594,038	619,023	1,213,061	6,176,156
2031	3,041,608	2,183,020	5,224,628	575,369	609,487	1,184,856	6,409,484
2032	3,067,322	2,439,433	5,506,755	590,118	676,341	1,266,459	6,773,214
2033	3,081,759	2,714,783	5,796,542	600,146	781,516	1,381,662	7,178,204
2034	3,100,048	2,924,719	6,024,767	648,688	764,250	1,412,938	7,437,705

The amounts shown in the Explicit Subsidy table reflect the expected payment by the City toward retiree medical premiums in each of the years shown. The amounts are shown separately, and in total, for those retired on the valuation date (“current retirees”) and those expected to retire after the valuation date (“future retirees”).

The amounts shown in the Implicit Subsidy table reflect the expected excess of retiree medical and prescription drug claims over the premiums expected to be charged during the year for retirees’ coverage. These amounts are also shown separately and in total for those currently retired on the valuation date and for those expected to retire in the future.



Accounting Information

(Concluded)

Sample Journal Entries

Beginning Account Balances

As of the fiscal year beginning 7/1/2019

	Debit	Credit
Net OPEB Liability		149,759,468
Deferred Resource -- Assumption Changes		4,876,052
Deferred Resource -- Plan experience	-	
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	3,698,318	
Net Position	150,937,202	

* The entries above assume nothing is on the books at the beginning of the year. So to the extent that values already exist in, for example, the Net OPEB Liability account, then only the difference should be adjusted. The entries above represent the values assumed to exist at the start of the fiscal year.

Journal entry to recharacterize retiree benefit payments not reimbursed by a trust, and record cash contributions to the trust during the fiscal year

	Debit	Credit
OPEB Expense	3,046,379	
Premium Expense		3,046,379
OPEB Expense	-	
Cash		-

* This entry assumes a prior journal entry was made to record the payment for retiree premiums. This entry assumes the prior entry debited an account called "Premium Expense" and credited Cash. This entry reverses the prior debit to "Premium Expense" and recharacterizes that entry as an "OPEB Expense". Also, the entry for cash contributions to the trust is shown.

Journal entries to record implicit subsidies during the fiscal year

	Debit	Credit
OPEB Expense	901,230	
Premium Expense		901,230

* This entry assumes that premiums for active employees were recorded to an account called "Premium Expense". This entry reverses the portion of premium payments that represent implicit subsidies and assigns that value to OPEB Expense.

Journal entries to record other account activity during the fiscal year

	Debit	Credit
Net OPEB Liability	10,245,152	
Deferred Resource -- Assumption Changes	6,416,747	
Deferred Resource -- Plan experience		18,053,338
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	249,291	
OPEB Expense	1,142,148	



F. Funding Information

Our understanding is that the City is currently financing its OPEB liability on a pay-as-you-go basis. Prefunding (setting aside funds to accumulate in an irrevocable OPEB trust) has certain advantages, one of which is the ability to (potentially) use a higher discount rate in the determination of liabilities for GASB 75 reporting purposes.

Should the City wish to explore potential future prefunding for this plan we can prepare illustrations of various funding levels and, if appropriate, perform a formal funding valuation at that time. Results under a funding scenario may be materially different from the results presented in this report.



G. Certification

The purpose of this report is to provide actuarial information of the other postemployment benefits (OPEB) provided by the City of Palm Springs (the City) in compliance with Statement 75 of the Governmental Accounting Standards Board (GASB 75). We summarized the benefits in this report and our calculations were based on our understanding of the benefits as described herein.

In preparing this report we relied without audit on information provided by the City. This information includes, but is not limited to, plan provisions, census data, and financial information. We performed a limited review of this data and found the information to be reasonably consistent. The accuracy of this report is dependent on this information and if any of the information we relied on is incomplete or inaccurate, then the results reported herein will be different from any report relying on more accurate information.

We consider the actuarial assumptions and methods used in this report to be individually reasonable under the requirements imposed by GASB 75 and taking into consideration reasonable expectations of plan experience. The results provide an estimate of the plan's financial condition at one point in time. Future actuarial results may be significantly different due to a variety of reasons including, but not limited to, demographic and economic assumptions differing from future plan experience, changes in plan provisions, changes in applicable law, or changes in the value of plan benefits relative to other alternatives available to plan members.

Alternative assumptions may also be reasonable; however, demonstrating the range of potential plan results based on alternative assumptions was beyond the scope of our assignment except to the limited extent required by GASB 75 and in accordance with the City's stated OPEB funding policy. Results for accounting purposes may be materially different than results obtained for other purposes such as plan termination, liability settlement, or underlying economic value of the promises made by the plan.

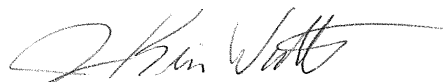
This report is prepared solely for the use and benefit of the City and may not be provided to third parties without prior written consent of MacLeod Watts. Exceptions are: the City may provide copies of this report to their professional accounting and legal advisors who are subject to a duty of confidentiality, and the City may provide this work to any party if required by law or court order. No part of this report should be used as the basis for any representations or warranties in any contract or agreement without the written consent of MacLeod Watts.

The undersigned actuary is unaware of any relationship that might impair the objectivity of this work. Nothing within this report is intended to be a substitute for qualified legal or accounting counsel. The actuary is a member of the American Academy of Actuaries and meets the qualification standards for rendering this opinion.

Signed: September 23, 2020



Catherine L. MacLeod, FSA, FCA, EA, MAAA



J. Kevin Watts, FSA, FCA, MAAA



H. Supporting Information

Section 1 - Summary of Employee Data

Active members: The City reported 465 active employees in the data provided to us for the June 2019 valuation. Of these, 430 were shown as currently participating in the medical program while 35 employees were waiving coverage.

Distribution of Benefits-Eligible Active Employees								
Current Age	Years of Service						Total	Percent
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 & Up		
Under 25	5	3	1				9	2%
25 to 29	17	22	4	1			44	9%
30 to 34	10	37	11	7			65	14%
35 to 39	8	25	13	26	9	1	82	18%
40 to 44	3	16	5	17	18	4	63	14%
45 to 49	2	10	6	9	12	17	56	12%
50 to 54	3	7	5	14	15	11	55	12%
55 to 59	4	13	1	9	9	7	43	9%
60 to 64		6	6	10	2	11	35	8%
65 to 69	1	3	2	2	1	2	11	2%
70 & Up						2	2	0%
Total	53	142	54	95	66	55	465	100%
Percent	11%	31%	12%	20%	14%	12%	100%	

Valuation	June 2017	June 2019
Average Attained Age for Actives	47.5	43.9
Average Years of Service	12.0	9.7

Inactive members: There are also 226 retirees or their beneficiaries receiving benefits. Their ages are summarized in the chart below.

Retirees by Age					
Current Age	Misc	Police	Fire	Total	Percent
Below 50	1	1	0	2	1%
50 to 54	2	2	2	6	3%
55 to 59	10	16	9	35	15%
60 to 64	34	18	14	66	29%
65 to 69	31	10	4	45	20%
70 to 74	27	11	3	41	18%
75 to 79	12	0	4	16	7%
80 & up	11	3	1	15	7%
Total	128	61	37	226	100%
Average Age:					
On 6/30/2019	68.3	64.0	64.9	66.5	
At retirement	59.4	53.1	53.4	56.7	



Supporting Information

(Continued)

Section 1 - Summary of Employee Data

The chart below reconciles the number of actives and retirees included in the June 30, 2019 valuation of the City plan with those included in the June 30, 2017 valuation:

Reconciliation of City Plan Members Between Valuation Dates					
Status	Covered Actives	Waiving Actives	Covered Retirees	Covered Surviving Spouses	Total
Number reported as of June 30, 2017	334	20	203	6	563
New employees	86	21	-	-	107
Tier 2 Safety (previously excluded)	63	1	-	-	64
Separated employees	(18)	(4)	-	-	(22)
New retiree, elected coverage	(27)	-	27	-	0
New retiree, waiving coverage	(9)	-	-	-	(9)
New retiree, ineligible	(1)	-	-	-	(1)
Previously covered, now waiving	(2)	2	(5)	-	(5)
Previously waiving, now covered	4	(4)	1	-	1
Deceased	-	-	(7)	0	(7)
Data corrections	-	(1)	0	1	0
Number reported as of June 30, 2019	430	35	219	7	691

Overall, the number of OPEB-eligible active and retired employees increased substantially between valuations. The main reason for the increase in the number of active employees was the addition of non-Management Tier 2 Safety employees who were previously excluded from the valuation³.

Of the 354 active employees included in the prior valuation, 37 retired between valuations. Of these:

- 27 elected to continue the City's medical coverage in retirement. Of these 27 new covered retirees: 7 qualified only for the PEMHCA minimum contribution; 8 qualified for 75% City-paid medical premiums; and 12 qualified for 100% City-paid medical premiums.
- 9 retirees waived City medical in retirement: (a) 5 were Tier 1 Non-Safety employees who would have qualified only for the PEMHCA minimum contribution; (b) 1 was a Tier 1 Safety employee who did not meet the minimum service requirement needed to receive subsidized coverage in retirement; (c) 2 were Tier 2 employees who would have qualified only for the PEMHCA minimum contribution; and (d) 1 Non-Safety employee appeared to have qualified for 100% City-paid medical premiums but chose to waive coverage.
- 1 additional Non-Safety retiree did not qualify for coverage under PEMHCA.

³ When the July 2017 valuation was prepared, it was our understanding that any employees in this group and Tier who did not qualify for an City paid benefit would not be eligible to continue coverage in retirement, even if the retiree paid the full premium. We now understand that they are eligible for continuation of coverage on a 100% self-pay basis. An implicit subsidy liability may be created for any such retirees.



Supporting Information

(Continued)

Section 1 - Summary of Employee Data

This chart summarizes the number of active and retired employees included in the valuation by bargaining unit:

Participants by Bargaining Unit			
Group	Actives	Retirees	Total
Elected Official	4	4	8
Exempt	26	30	56
Fire Management	19	16	35
Fire Safety	44	19	63
General	211	50	261
Management	63	49	112
Police Management	5	16	21
Police Safety	93	42	135
Total	465	226	691

Employees and retirees are currently covered by the following plans:

Plan	Actives	Pre-65 Retirees	Post-65 Retirees	Total
Blue Shield Safety PPO	152	59	29	240
Anthem Select Region 3	58	2	0	60
Anthem Traditional Region 3	6	2	0	8
Blue Shield Access Region 3	26	7	0	33
Health Net SmartCare Region 3	6	0	0	6
Kaiser Region 1	0	0	1	1
Kaiser Region 3	58	1	3	62
PERS Choice Out of State	0	5	13	18
PERS Choice Region 1	0	1	0	1
PERS Choice Region 3	55	18	43	116
PERS Select Region 3	31	2	1	34
PERSCare Out of State	0	2	4	6
PERSCare Region 3	15	5	13	33
UHC Out of State	0	0	3	3
UHC Region 3	23	5	7	35
Waived	35	0	0	35
Total	465	109	117	691

Summary of Plan Member Counts: The number of members currently or potentially eligible to receive benefits under the OPEB plan are required to be reported in the notes to the financial statements.

Summary of Plan Member Counts	
Number of active plan members	465
Number of inactive plan members currently receiving benefits	226
Number of inactive plan members entitled to but not receiving benefits	140*

* Waiving Miscellaneous retirees eligible to return to the City for PEMHCA coverage



Supporting Information

(Continued)

Section 2A - Summary of Retiree Benefit Provisions

OPEB provided: The City reported that the only OPEB provided is medical plan coverage. Access to coverage and the amount of benefits provided by the City depend on the employment group, date employed, and date retired from the City. Retirees are generally categorized as Tier 1 or Tier 2, as shown in this chart:

Tier 1 Retirees	Retired After	Hired Prior To
Elected Officials & Exempt Management	7/1/1999	7/1/2007
General	7/1/1999	12/7/2005
Fire Management	7/1/2000	7/1/2006
Fire Safety	1/1/1998	11/1/2006
Police Management	7/1/1998	10/20/2005
Police Safety	11/1/1997	10/20/2005
Tier 2 Retirees	All those not Tier 1	

Access to coverage: City medical plans available to retirees are determined by their employment group.

- All miscellaneous retirees, both Tier 1 and Tier 2, (including Elected Officials, Exempt, Management and General group members) are covered by plans in the CalPERS medical program as provided under the requirements of the Public Employees’ Medical and Hospital and Care Act (PEMHCA).
- All Police Safety, Fire Safety, Police Management and Fire Management retirees are eligible to continue coverage in the Blue Shield PPO plan for Safety members. However, Tier 2 Police Safety and Tier 2 Fire Safety are not eligible for any City subsidies in retirement.
- Fire Management and Police Management retirees, both Tier 1 and Tier 2, also have access to the CalPERS medical plans in retirement.

To be eligible for CalPERS medical coverage in retirement, whether Tier 1 or Tier 2, the employee must retire from the City under PERS and begin receiving their pension benefit within 120 days of terminating employment with the City. Coverage is available for the retiree’s lifetime and a surviving spouse may also continue coverage until his or her death. The retiree may enroll in a CalPERS medical plan within 60 days of retirement or during any future open enrollment period.

To be eligible for Safety medical plan coverage in retirement, safety employees must retire from the City under PERS. All safety retirees may continue this coverage in retirement, whether or not they receive a direct premium subsidy from the City.⁴ Survivors of eligible retirees may continue their coverage after the retiree’s death.

⁴ Tier 2 employees receive monthly contributions from the City *while actively employed* which accumulate in a Retiree Health Savings Plan (RHSP); the monthly credits vary based on bargaining agreements. These amounts accumulate until retirement and may then be applied toward the cost of retiree health coverage. In accordance with GASB 75, neither the RHSP contributions for active employees nor the RHSP balance are considered liabilities in this valuation.



Supporting Information
(Continued)

Section 2A - Summary of Retiree Benefit Provisions

Benefits provided: The City’s contribution toward the cost of medical coverage varies for each retiree based on his or her employment group, date hired and years of City service.

➤ **For Tier 1 retirees,** the amount of the subsidy provided is shown in the following chart.

Tier I Retiree Health Benefits						
Group	Retired After	Hired Prior To	Premium % Paid By City	For How Long?	Included Parties	Plan
Elected Officials and Exempt	7/1/1999	7/1/2007	50% after 7.5 years 75% after 11.5 years 100% after 15.5 years	The % of premium paid by the City continues for the retiree's lifetime.	Retiree & Spouse	CalPERS Medical
Management	7/1/1999	9/7/2005	75% after 20 years 100% after 25 years			
General	7/1/1999	12/7/2005				
Fire Management	7/1/2000	7/1/2006				
Fire Safety	1/1/1998	11/1/2006				
Police Management	7/1/1998	10/20/2005				
Police Safety	11/1/1997	10/20/2005				
					Retiree & All Eligible Dependents	Blue Shield PPO

➤ **For Tier 2 retirees covered by the CalPERS medical program,** the City will contribute the required PEMHCA Minimum Employer Contribution (MEC) for the retiree’s lifetime and that of his/her covered surviving spouse, if any.⁵ The MEC is \$136 per month during 2019. The retiree is responsible for paying the remainder of the medical premium.

➤ **Tier 2 retirees covered by the City’s Safety medical plan** are responsible for payment of the full medical premium for themselves and any covered dependents.

Current premium rates: The 2020 monthly medical plan rates are shown in the table on the following page. If different rates apply where the member resides outside of this area, those rates are reflected in the valuation, but not listed here. The additional CalPERS administration fee is assumed to be separately expensed each year and has not been projected as an OPEB liability in this valuation.

⁵ The City confirms that it provides additional benefits for active employees through a pre-tax flexible benefit plan and that these benefits need not be provided to retired employees to meet PEMHCA requirements.



Supporting Information

(Continued)

Current premium rates:

City of Palm Springs 2020 Retiree Medical Premium Rates						
Plan	Pre-Medicare			Medicare		
	Single	Two Party	Family	Single	Two Party	Family
<i>CalPERS Region 3</i>						
Anthem Select HMO	\$ 619.93	\$1,239.86	\$1,611.82	<i>Not Available</i>		
Anthem Traditional HMO	902.63	1,805.26	2,346.84	388.15	776.30	1,317.88
Blue Shield Access+ HMO	813.17	1,626.34	2,114.24	<i>Not Available</i>		
Health Net SmartCare	648.42	1,296.84	1,685.89	<i>Not Available</i>		
Kaiser HMO	664.39	1,328.78	1,727.41	339.43	678.86	1,077.49
PERS Choice PPO	710.29	1,420.58	1,846.75	351.39	702.78	1,128.95
PERS Select PPO	435.74	871.48	1,132.92	351.39	702.78	964.22
PERSCare PPO	931.12	1,862.24	2,420.91	384.78	769.56	1,328.23
UnitedHealthcare HMO	668.31	1,336.62	1,737.61	327.03	654.06	1,055.05
<i>Blue Shield PPO (for Police & Fire)</i>						
Blue Shield PPO (for Police & Fire)	\$ 1,082.95	\$ 2,079.69	\$ 2,212.31	\$ 821.18	\$ 1,499.95	\$ 1,507.85

Section 2B - Excise Taxes for High Cost Retiree Coverage (Repealed)

The Patient Protection and Affordable Care Act (ACA) included a 40% excise tax on high-cost employer-sponsored health coverage. The tax applied to the aggregate annual cost of an employee's applicable coverage that exceeds a dollar limit. Implementation of this tax had been delayed by subsequent legislation to 2022.

As noted earlier in this report, this excise tax on high cost retiree coverage was repealed by Senate Amendment to H.R. 1865, *Further Consolidated Appropriations Act, 2020*, and signed by the President on December 20, 2019. While the repeal occurred after the valuation date, we no longer assume any portion of such a tax would be paid by the City and, accordingly, excluded the previously developed liability from the results of this valuation.



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

The ultimate real cost of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These payments depend only on the terms of the plan and the administrative arrangements adopted. The actuarial assumptions are used to estimate the cost of these benefits; the funding method spreads the expected costs on a level basis over the life of the plan.

Fiscal Year End	June 30, 2020
GASB 75 Measurement Date	June 30, 2019 -- last day of prior fiscal year
Valuation Date	June 30, 2019
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets (\$0; plan is not yet funded)
Municipal Bond Index	S&P Municipal Bond 20 Year High Grade Index
Discount Rate	2.98% as of June 30, 2018 2.79% as of June 30, 2019
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.0% per year; since benefits do not depend on salary, this is used to allocate the cost of benefits between service years.
General Inflation Rate	2.5% per year
Medicare Eligibility	Additional information regarding Medicare-eligibility status was provided for this valuation. Retirees currently over age 65 who are not enrolled in a Medicare supplement plan are assumed to be permanently ineligible for Medicare. All other individuals are assumed to be eligible for Medicare Parts A and B at age 65.

Demographic actuarial assumptions used in this valuation are based on the 2017 experience study of the California Public Employees Retirement System using data from 1997 to 2015, except as noted below. Rates for selected age and service are shown below and on the following pages. The representative mortality rates were the published CalPERS rates, adjusted to back out 15 years of Scale MP 2016 to central year 2015, then projected as described below.

Mortality Improvement	MacLeod Watts Scale 2020 applied generationally from 2015 (see Addendum 3)
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Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Mortality Before Retirement
(before improvement applied)

CalPERS Public Agency Miscellaneous Non- Industrial Deaths		
Age	Male	Female
15	0.00019	0.00004
20	0.00027	0.00008
30	0.00044	0.00018
40	0.00070	0.00040
50	0.00135	0.00090
60	0.00288	0.00182
70	0.00693	0.00438
80	0.01909	0.01080

CalPERS Public Agency Police & Fire Combined Industrial & Non-Industrial		
Age	Male	Female
15	0.00023	0.00008
20	0.00032	0.00013
30	0.00053	0.00025
40	0.00081	0.00050
50	0.00150	0.00104
60	0.00306	0.00200
70	0.00714	0.00459
80	0.01934	0.01105

Mortality After Retirement
(before improvement applied)

Healthy Lives

CalPERS Public Agency Miscellaneous, Police & Fire Post Retirement Mortality		
Age	Male	Female
40	0.00070	0.00040
50	0.00431	0.00390
60	0.00758	0.00524
70	0.01490	0.01044
80	0.04577	0.03459
90	0.14801	0.11315
100	0.35053	0.30412
110	1.00000	1.00000

CalPERS Public Agency Disabled Miscellaneous Post-Retirement Mortality		
Age	Male	Female
20	0.00027	0.00008
30	0.00044	0.00018
40	0.00070	0.00040
50	0.01371	0.01221
60	0.02447	0.01545
70	0.03737	0.02462
80	0.07218	0.05338
90	0.16585	0.14826

CalPERS Public Agency Disabled Fire Post- Retirement Mortality		
Age	Male	Female
20	0.00027	0.00009
30	0.00031	0.00014
40	0.00034	0.00022
50	0.00780	0.00681
60	0.01250	0.00809
70	0.02361	0.01647
80	0.06612	0.04975
90	0.18524	0.14349

CalPERS Public Agency Disabled Police Post- Retirement Mortality		
Age	Male	Female
20	0.00034	0.00010
30	0.00023	0.00012
40	0.00023	0.00017
50	0.00642	0.00563
60	0.01059	0.00696
70	0.02185	0.01537
80	0.06477	0.04883
90	0.18501	0.14169



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Termination Rates

These rates reflect the assumed probability that an employee will leave the City in the next 12 months for reasons other than a service or disability retirement or death.

Miscellaneous Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1812	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1742	0.1193	0.0654	0.0000	0.0000	0.0000
25	0.1674	0.1125	0.0634	0.0433	0.0000	0.0000
30	0.1606	0.1055	0.0615	0.0416	0.0262	0.0000
35	0.1537	0.0987	0.0567	0.0399	0.0252	0.0184
40	0.1468	0.0919	0.0519	0.0375	0.0243	0.0176
45	0.1400	0.0849	0.0480	0.0351	0.0216	0.0168

Police Safety Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1013	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1013	0.0258	0.0249	0.0000	0.0000	0.0000
25	0.1013	0.0258	0.0249	0.0179	0.0000	0.0000
30	0.1013	0.0258	0.0249	0.0179	0.0109	0.0000
35	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
40	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
45	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082

Fire Safety Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1298	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1298	0.0237	0.0146	0.0000	0.0000	0.0000
25	0.1298	0.0237	0.0146	0.0069	0.0000	0.0000
30	0.1298	0.0237	0.0146	0.0069	0.0052	0.0000
35	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041
40	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041
45	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Service Retirement Rates

The following miscellaneous retirement formulas apply:

- If hired prior to 12/24/2012: 2.7% @ 55
- If hired on or after 12/24/2012, with prior PERS Service 2% @ 60
- If hired on or after 1/1/2013, PEPR: 2% @ 62

The following police safety retirement formulas apply:

- If hired prior to 6/17/2011: 3% @ 50
- If hired on or after 6/17/2011, with prior PERS Service 3% @ 55
- If hired on or after 1/1/2013, PEPR: 2.7% @ 57

The following fire safety retirement formulas apply:

- If hired prior to 12/17/2011: 3% @ 50
- If hired on or after 12/17/2011, with prior PERS Service 3% @ 55
- If hired on or after 1/1/2013, PEPR: 2.7% @ 57

Sample rates of assumed future retirements applicable to each of these retirement benefit formulas are shown in tables below. Each rate reflects the probability that an employee with that age and service will take a service retirement in the next 12 months.

Miscellaneous Employees: 2.7% at 55 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0030	0.0100	0.0160	0.0340	0.0330	0.0450
55	0.0330	0.0550	0.0780	0.1130	0.1560	0.2340
60	0.0600	0.0860	0.1120	0.1500	0.1820	0.2380
65	0.1400	0.1740	0.2080	0.2540	0.3060	0.3890
70	0.1500	0.1810	0.2120	0.2430	0.2910	0.3500
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Miscellaneous Employees: 2% at 60 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0200	0.0200	0.0200	0.0200	0.0200	0.1500
55	0.0190	0.0260	0.0330	0.0920	0.1360	0.1460
60	0.0700	0.0740	0.0890	0.1130	0.1370	0.1610
65	0.1400	0.1780	0.2150	0.2640	0.3210	0.3770
70	0.1400	0.1780	0.2150	0.2640	0.3210	0.3770
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Service retirement rates
(continued)

Miscellaneous "PEPRA" Employees: 2% at 62 formula From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
55	0.0100	0.0190	0.0280	0.0360	0.0610	0.0960
60	0.0310	0.0510	0.0710	0.0910	0.1110	0.1380
65	0.1080	0.1410	0.1730	0.2060	0.2390	0.3000
70	0.1200	0.1560	0.1930	0.2290	0.2650	0.3330
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Police Safety Employees: 3.0% at 50 formula From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0500	0.0500	0.0500	0.1000	0.1550	0.4000
53	0.0400	0.0400	0.0400	0.0800	0.1350	0.3500
56	0.0600	0.0600	0.0600	0.1100	0.1650	0.3300
59	0.0900	0.0900	0.0950	0.1300	0.1850	0.3500
62	0.1500	0.1500	0.1500	0.1500	0.2000	0.3500
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Police Safety Employees: 3.0% at 55 formula From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0350	0.0350	0.0350	0.0350	0.0700	0.0900
53	0.0280	0.0280	0.0280	0.0430	0.0750	0.1320
56	0.0600	0.0600	0.0600	0.1100	0.1650	0.3300
59	0.0900	0.0900	0.0950	0.1300	0.1850	0.3500
62	0.1500	0.1500	0.1500	0.1500	0.2000	0.3500
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Police Safety Employees: 2.7% at 57 formula From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0500	0.0500	0.0500	0.0500	0.0500	0.1000
53	0.0380	0.0380	0.0380	0.0380	0.0774	0.1169
56	0.0627	0.0627	0.0627	0.0836	0.1228	0.2168
59	0.0800	0.0800	0.0800	0.0920	0.1400	0.2275
62	0.1500	0.1500	0.1500	0.1500	0.1500	0.2125
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Service retirement rates
(continued)

Fire Safety Employees: 3.0% at 50 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0200	0.0200	0.0200	0.0400	0.1300	0.1920
53	0.0230	0.0230	0.0230	0.0430	0.1350	0.1980
56	0.0530	0.0530	0.0530	0.0850	0.1960	0.2690
59	0.0750	0.0750	0.0750	0.1160	0.2390	0.3210
62	0.0680	0.0680	0.0680	0.1060	0.2240	0.3040
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire Safety Employees: 3.0% at 55 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0010	0.0010	0.0010	0.0060	0.0160	0.0690
53	0.0320	0.0320	0.0320	0.0490	0.0850	0.1490
56	0.0640	0.0640	0.0640	0.0970	0.1610	0.2380
59	0.0880	0.0880	0.0880	0.1310	0.2130	0.2990
62	0.0870	0.0870	0.0870	0.1280	0.2100	0.2950
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire Safety Employees: 2.7% at 57 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0065	0.0065	0.0065	0.0065	0.0101	0.0151
53	0.0442	0.0442	0.0442	0.0442	0.0680	0.1018
56	0.0740	0.0740	0.0740	0.0740	0.1140	0.1706
59	0.0729	0.0729	0.0729	0.0729	0.1123	0.1681
62	0.1136	0.1136	0.1136	0.1136	0.1749	0.2618
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Disability Retirement Rates

CalPERS Public Agency Miscellaneous Disability From Dec 2017 Experience Study Report			CalPERS Public Agency Fire Combined Disability From Dec 2017 Experience Study Report		CalPERS Public Agency Police Combined Disability From Dec 2017 Experience Study Report	
Age	Male	Female	Age	Unisex	Age	Unisex
20	0.00017	0.00010	20	0.00015	20	0.00010
25	0.00017	0.00010	25	0.00029	25	0.00175
30	0.00019	0.00024	30	0.00066	30	0.00496
35	0.00039	0.00071	35	0.00129	35	0.00818
40	0.00102	0.00135	40	0.00235	40	0.01140
45	0.00151	0.00188	45	0.00418	45	0.01461
50	0.00158	0.00199	50	0.02128	50	0.01925
55	0.00158	0.00149	55	0.03134	55	0.04909
60	0.00153	0.00105	60	0.04442	60	0.06212

Healthcare Trend

Medical plan premiums and claims costs by age are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown below:

Effective January 1	Premium Increase	Effective January 1	Premium Increase
2020	Actual	2060-66	4.80%
2021	6.50%	2067	4.70%
2022	6.00%	2068	4.60%
2023-24	5.50%	2069	4.50%
2025-27	5.40%	2070-71	4.40%
2027-46	5.30%	2072	4.30%
2047	5.20%	2073-74	4.20%
2048-49	5.10%	2075	4.10%
2050-53	5.00%	2076	4.00%
2054-59	4.90%	& later	4.00%

The healthcare trend shown above was developed using the Getzen Model 2019_b published by the Society of Actuaries using the following settings: short term rates from 2020-2022 6.5%, 6%, 5.5%; CPI 2.5%; Real GDP Growth 1.5%; Excess Medical Growth 1.2%; Expected Health Share of GDP in 2028 20.5%; Resistance Point 25%; Year after which medical growth is limited to growth in GDP 2075.

The required PEMHCA minimum employer contribution (MEC) is assumed to increase by 4.0% annually. This implies a long-term spread between CPI and CPI-Med of 1.5%.



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Participation Rate

Active employees: The following percentages of active employees eligible for retiree coverage are assumed to continue their current plan election in retirement:

Portion of Medical Premium Paid by the City	Percent Electing	
	Pre-65	Post-65
75% - 100% of premium	100%	100%
50% of premium	75%	75%
PEMHCA Minimum only	50%	50%
No City cost sharing	20%	5%

Retired employees:

- **Subsidized Retirees:** For retirees who receive a City subsidy toward health coverage (of any amount), existing medical plan elections are assumed to be maintained until death.
- **Unsubsidized Retirees:**
 - If currently under age 65, 25% are assumed to continue current medical plan elections for life. The remaining 75% are assumed to discontinue City coverage at age 65.
 - Retirees already over age 65 covered on a 100% self-pay basis are assumed to continue coverage for life.

Spouse Coverage

Active employees: 75% of eligible Tier 1 employees and 50% of eligible Tier 2 employees are assumed to be married and to elect coverage for their spouse in retirement. Surviving spouses are assumed to retain coverage until their death. Husbands are assumed to be 3 years older than their wives.

Retired participants: Existing elections for spouse coverage are assumed to continue until the spouse's death. Actual spouse ages are used, where known; in not, husbands are assumed to be 3 years older than their wives.

Dependent Coverage

Where the City subsidizes the cost of dependent benefits, an existing election for coverage of dependent children is assumed to continue until the youngest child is age 26.



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Development of Age-related
Medical Premiums

Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying medical claim cost factors developed from the data presented in the report, “Health Care Costs – From Birth to Death”, sponsored by the Society of Actuaries. A description of the use of claims cost curves can be found in MacLeod Watts’s Age Rating Methodology provided in Addendum 2 to this report.

Medicare retirees: All current and future Medicare-eligible retirees covered under the CalPERS medical program are assumed to be covered by plans that are rated based solely on the experience of Medicare retirees. Representative claims costs for CalPERS medical retirees not currently covered or not expected to be eligible for Medicare appear on the following page.

The claims experience of retirees covered under the Blue Shield PPO Safety Plan (for both Medicare and non-Medicare plans) are understood to be rated together with the claims experience of active Safety employees. Representative claim costs for retirees expected to be covered by the Blue Shield plan for safety employees are also shown on the following page.



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

CalPERS Medical Plan: Expected Monthly Claims by Medical Plan for Selected Ages											
Region	Medical Plan	Male					Female				
		50	53	56	59	62	50	53	56	59	62
Region 1	Kaiser HMO	\$ 763	\$ 900	\$ 1,045	\$ 1,198	\$ 1,362	\$ 946	\$ 1,039	\$ 1,118	\$ 1,208	\$ 1,331
	PERS Choice PPO	773	912	1,059	1,214	1,380	958	1,052	1,132	1,224	1,349
Region 3	Anthem Select HMO	680	802	932	1,068	1,214	843	926	997	1,077	1,187
	Anthem Traditional HMO	959	1,131	1,313	1,505	1,711	1,188	1,305	1,404	1,517	1,673
	Blue Shield Access+ HMO	769	907	1,053	1,207	1,373	953	1,047	1,126	1,217	1,342
	Health Net SmartCare HMO	682	804	934	1,070	1,217	845	928	998	1,079	1,189
	Kaiser HMO	675	796	924	1,059	1,204	836	919	988	1,068	1,177
	PERS Choice PPO	618	729	847	971	1,103	766	841	905	978	1,079
	PERS Select PPO	464	547	636	729	828	575	632	680	735	810
	PERSCare PPO	784	925	1,074	1,231	1,400	972	1,068	1,149	1,241	1,369
Out of State	UnitedHealthcare HMO	703	829	963	1,104	1,255	871	957	1,030	1,113	1,227
	PERS Choice PPO	455	536	623	714	812	564	619	666	720	794
	PERSCare PPO	549	648	752	862	980	681	747	804	869	958
	UnitedHealthcare	<i>Not available to pre-Medicare retirees</i>									

Blue Shield PPO: Expected Monthly Claims by Medical Plan for Selected Ages													
	Age	45	50	55	60	65	70	75	80	85	90	95	100
Medicare Eligible	Male	\$ 654	\$ 851	\$ 1,110	\$ 1,394	\$ 604	\$ 677	\$ 735	\$ 770	\$ 760	\$ 726	\$ 720	\$ 719
	Female	903	1,054	1,217	1,388	579	654	709	740	747	731	720	713
Medicare Ineligible	Male	\$ 654	\$ 851	\$ 1,110	\$ 1,394	\$ 1,726	\$ 2,085	\$ 2,422	\$ 2,723	\$ 2,913	\$ 3,035	\$ 3,151	\$ 3,194
	Female	903	1,054	1,217	1,388	1,653	1,954	2,254	2,533	2,790	2,987	3,052	3,057



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Changes recognized during the current measurement period:

Discount Rate	Changed from 2.98% as of June 30, 2018 to 2.79% as of June 30, 2019, based on the published change in return for the applicable municipal bond index.
Demographic Assumptions	Assumed mortality, termination, and service retirement rates were updated from those provided in the 2014 experience study report to those provided in the 2017 experience study report of CalPERS. The City's plan population is not likely to produce credible rates based only solely on its experience. We believe rates from the CalPERS experience study provide a reasonable estimate of the City's future demographic experience.
Mortality Improvement	The mortality improvement scale was updated from MacLeod Watts Scale 2017 to MacLeod Watts Scale 2020 (see Addendum 3), reflecting continued updates in available information.
Salary Scale	Decreased from 3.25% per year to 3.0% per year
General Inflation Rate	Decreased from 2.75% to 2.5% per year
Medical Trend	Updated to use the Getzen healthcare trend model sponsored by the Society of Actuaries
PEMHCA MEC Increases	Decreased from 4.5% to 4.0% per year based on recent historical and expected future increases in CPI-medical.
Implicit Subsidy	We recognized that current and future retirees enrolled in the Blue Shield PPO Medicare supplement plan are expected to subsidize premiums for pre-Medicare retirees and/or active members (i.e., a negative implicit subsidy for these members).
Medicare Eligibility	For retirees recently identified as not having paid into Medicare while employed by the City, we assumed the following: (a) if currently over age 65 and not covered by a Medicare Supplement plan, we assumed the retiree would never qualify for Medicare, whether or not the retiree's spouse is under age 65, and (b) if the retiree is currently under age 65, we assumed the he or she will qualify for Medicare since virtually all are married.
Participation rate	Participation rates were modified for Currently Active Tier 2 Non-Management Safety Employees : 20% are assumed to elect to continue (self-pay) City coverage in retirement before age 65. Of those, 25% are assumed to continue coverage after age 65. The 2017 valuation assumption was 0% retiree coverage continuation.
Excise Tax Repeal:	As noted in Section 2B, we excluded the excise tax from the valuation results due to the December 2019 repeal.



Appendix 1: Results for Airport Fund

The chart below presents the Total OPEB Liability as of the June 30, 2019 Measurement Date separately for the Airport Fund and all other funds. The amounts are shown separately, and in total, for those retired on the valuation date (“current retirees”) and those expected to retire after the valuation date (“future retirees”).

Fund	Airport	All Other	Total
Future Retirees	7,640,109	52,992,141	60,632,250
Current Retirees	2,182,006	76,700,060	78,882,066
Total OPEB Liability	\$ 9,822,115	\$ 129,692,201	\$ 139,514,316



Addendum 1: Important Background Information

General Types of Other Post-Employment Benefits (OPEB)

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are medical, prescription drug, dental, vision, and/or life insurance coverage. Other OPEB may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include COBRA, vacation, sick leave (unless converted to defined benefit OPEB), or other direct retiree payments.

A direct employer payment toward the cost of OPEB benefits is referred to as an “explicit subsidy”. In addition, if claims experience of employees and retirees are pooled when determining premiums, retiree premiums are based on a pool of members which, on average, are younger and healthier. For certain types of coverage such as medical insurance, this results in an “implicit subsidy” of retiree premiums by active employee premiums since the retiree premiums are lower than they would have been if retirees were insured separately. GASB 75 and Actuarial Standards of Practice generally require that an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Expected retiree claims		
Premium charged for retiree coverage		<i>Covered by higher active premiums</i>
Retiree portion of premium	Agency portion of premium Explicit subsidy	Implicit subsidy

This chart shows the sources of funds needed to cover expected medical claims for pre-Medicare retirees. The portion of the premium paid by the Agency does not impact the amount of the implicit subsidy.

Valuation Process

The valuation was based on employee census data and benefits provided by the City. A summary of the employee data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2. While individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. The valuation was also based on the actuarial methods and assumptions described in Section 3.

In developing the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee’s future retirement. Benefits may include both direct employer payments (explicit subsidies) and/or an implicit subsidy, arising when retiree premiums are expected to be subsidized by active employee premiums. The projected benefit streams reflect assumed trends in the cost of those benefits and assumptions as to the expected date(s) when benefits will end. We then apply assumptions regarding:

- The probability that each individual employee will or will not continue in service to receive benefits.
- The probability of when such retirement will occur for each retiree, based on current age, service and employee type; and
- The likelihood that future retirees will or will not elect retiree coverage (and benefits) for themselves and/or their dependents.



Important Background Information

(Continued)

We then calculate a present value of these benefits by discounting the value of each future expected benefit payment, multiplied by the assumed expectation that it will be paid, back to the valuation date using the discount rate. These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for many decades.

The resulting present value for each employee is allocated as a level percent of payroll each year over the employee's career using the entry age normal cost method and the amounts for each individual are then summed to get the results for the entire plan. This creates a cost expected to increase each year as payroll increases. Amounts attributed to prior fiscal years form the "Total OPEB Liability". The OPEB cost allocated for active employees in the current year is referred to as "Service Cost".

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets ("Fiduciary Net Position") is applied to offset the "Total OPEB Liability", resulting in the "Net OPEB Liability". If a plan is not being funded, then the Net OPEB Liability is equal to the Total OPEB Liability.

It is important to remember that an actuarial valuation is, by its nature, a projection of one possible future outcome based on many assumptions. To the extent that actual experience is not what we assumed, future results will differ. Some possible sources of future differences may include:

- A significant change in the number of covered or eligible plan members
- A significant increase or decrease in the future premium rates
- A change in the subsidy provided by the Agency toward retiree premiums
- Longer life expectancies of retirees
- Significant changes in expected retiree healthcare claims by age, relative to healthcare claims for active employees and their dependents
- Higher or lower returns on plan assets or contribution levels other than were assumed, and/or
- Changes in the discount rate used to value the OPEB liability



Important Background Information

(Continued)

Requirements of GASB 75

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosure of OPEB expense and related liabilities (assets), note disclosures, and, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Important Dates

GASB 75 requires that the information used for financial reporting falls within prescribed timeframes. Actuarial valuations of the total OPEB liability are generally required at least every two years. If a valuation is not performed as of the Measurement Date, then liabilities are required to be based on roll forward procedures from a prior valuation performed no more than 30 months and 1 day prior to the most recent year-end. In addition, the net OPEB liability is required to be measured as of a date no earlier than the end of the prior fiscal year (the "Measurement Date").

Recognition of Plan Changes and Gains and Losses

Under GASB 75, gains and losses related to changes in Total OPEB Liability and Fiduciary Net Position are recognized in OPEB expense systematically over time.

- *Timing of recognition:* Changes in the Total OPEB Liability relating to changes in plan benefits are recognized immediately (fully expensed) in the year in which the change occurs. Gains and Losses are amortized, with the applicable period based on the type of gain or loss. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.
- *Deferred recognition periods:* These periods differ depending on the source of the gain or loss.

Difference between projected
and actual trust earnings:

5 year straight-line recognition

All other amounts:

Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.



Important Background Information

(Continued)

Implicit Subsidy Plan Contributions

An implicit subsidy occurs when expected retiree claims exceed the premiums charged for retiree coverage. When this occurs, we expect part of the premiums paid for active employees to cover a portion of retiree claims. This transfer represents the current year’s “implicit subsidy”. Because GASB 75 treats payments to an irrevocable trust *or directly to the insurer* as employer contributions, each year’s implicit subsidy is treated as a contribution toward the payment of retiree benefits.

The following hypothetical example illustrates this treatment:

Hypothetical Illustration of Implicit Subsidy Recognition	For Active Employees	For Retired Employees
<i>Prior to Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Accounting Treatment	Compensation Cost for Active Employees	Contribution to Plan & Benefits Paid from Plan
<i>After Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Implicit Subsidy Adjustment	(23,000)	23,000
Accounting Cost of Premiums Paid	\$ 388,000	\$ 71,000
Accounting Treatment Impact	Reduces Compensation Cost for Active Employees	Increases Contributions to Plan & Benefits Paid from Plan

The example above shows that total payments toward active and retired employee healthcare premiums is the same, but for accounting purposes part of the total is shifted from actives to retirees. This shifted amount is recognized as an OPEB contribution and reduces the current year’s premium expense for active employees.



Important Background Information

(Continued)

Discount Rate

When the financing of OPEB liabilities is on a pay-as-you-go basis, GASB 75 requires that the discount rate used for valuing liabilities be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). When a plan sponsor makes regular, sufficient contributions to a trust in order to prefund the OPEB liabilities, GASB 75 allows use of a rate up to the expected rate of return of the trust. Therefore, prefunding has an advantage of potentially being able to report overall lower liabilities due to future expected benefits being discounted at a higher rate.

Actuarial Funding Method and Assumptions

The “ultimate real cost” of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted, and as such are not affected by the actuarial funding method.

The actuarial funding method attempts to spread recognition of these expected costs on a level basis over the life of the plan, and as such sets the “incidence of cost”. GASB 75 specifically requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the Entry Age Actuarial Cost Method, with each period’s service cost determined as a level percentage of pay.

The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable.



Addendum 2: MacLeod Watts Age Rating Methodology

Both accounting standards (e.g. GASB 75) and actuarial standards (e.g. ASOP 6) require that expected retiree claims, not just premiums paid, be reflected in most situations where an actuary is calculating retiree healthcare liabilities. Unfortunately, the actuary is often required to perform these calculations without any underlying claims information. In most situations, the information is not available, but even when available, the information may not be credible due to the size of the group being considered.

Actuaries have developed methodologies to approximate healthcare claims from the premiums being paid by the plan sponsor. Any methodology requires adopting certain assumptions and using general studies of healthcare costs as substitutes when there is a lack of credible claims information for the specific plan being reviewed.

Premiums paid by sponsors are often uniform for all employee and retiree ages and genders, with a drop in premiums for those participants who are Medicare-eligible. While the total premiums are expected to pay for the total claims for the insured group, on average, the premiums charged would not be sufficient to pay for the claims of older insureds and would be expected to exceed the expected claims of younger insureds. An age-rating methodology takes the typically uniform premiums paid by plan sponsors and spreads the total premium dollars to each age and gender intended to better approximate what the insurer might be expecting in actual claims costs at each age and gender.

The process of translating premiums into expected claims by age and gender generally follows the steps below.

1. *Obtain or Develop Relative Medical Claims Costs by Age, Gender, or other categories that are deemed significant.* For example, a claims cost curve might show that, if a 50 year old male has \$1 in claims, then on average a 50 year old female has claims of \$1.25, a 30 year male has claims of \$0.40, and an 8 year old female has claims of \$0.20. The claims cost curve provides such relative costs for each age, gender, or any other significant factor the curve might have been developed to reflect. Section 3 provides the source of information used to develop such a curve and shows sample relative claims costs developed for the plan under consideration.
2. *Obtain a census of participants, their chosen medical coverage, and the premium charged for their coverage.* An attempt is made to find the group of participants that the insurer considered in setting the premiums they charge for coverage. That group includes the participant and any covered spouses and children. When information about dependents is unavailable, assumptions must be made about spouse age and the number and age of children represented in the population. These assumptions are provided in Section 3.
3. *Spread the total premium paid by the group to each covered participant or dependent based on expected claims.* The medical claims cost curve is used to spread the total premium dollars paid by the group to each participant reflecting their age, gender, or other relevant category. After this step, the actuary has a schedule of expected claims costs for each age and gender for the current premium year. It is these claims costs that are projected into the future by medical cost inflation assumptions when valuing expected future retiree claims.

The methodology described above is dependent on the data and methodologies used in whatever study might be used to develop claims cost curves for any given plan sponsor. These methodologies and assumptions can be found in the referenced paper cited as a source in the valuation report.



Addendum 3: MacLeod Watts Mortality Projection Methodology

Actuarial standards of practice (e.g., ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, and ASOP 6, Measuring Retiree Group Benefits Obligations) indicate that the actuary should reflect the effect of mortality improvement (i.e., longer life expectancies in the future), both before and after the measurement date. The development of credible mortality improvement rates requires the analysis of large quantities of data over long periods of time. Because it would be extremely difficult for an individual actuary or firm to acquire and process such extensive amounts of data, actuaries typically rely on large studies published periodically by organizations such as the Society of Actuaries or Social Security Administration.

As noted in a recent actuarial study on mortality improvement, key principles in developing a credible mortality improvement model would include the following:

- (1) Short-term mortality improvement rates should be based on recent experience.
- (2) Long-term mortality improvement rates should be based on expert opinion.
- (3) Short-term mortality improvement rates should blend smoothly into the assumed long-term rates over an appropriate transition period.

The **MacLeod Watts Scale 2020** was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2019 Report, published in October 2019 and (2) the demographic assumptions used in the 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published April 2019.

MacLeod Watts Scale 2020 is a two-dimensional mortality improvement scale reflecting both age and year of mortality improvement. The underlying base scale is Scale MP-2019 which has two segments – (1) historical improvement rates for the period 1951-2015 and (2) an estimate of future mortality improvement for years 2016-2018 using the Scale MP-2019 methodology but utilizing the assumptions obtained from Scale MP-2015. The MacLeod Watts scale then transitions from the 2018 improvement rate to the Social Security Administration (SSA) Intermediate Scale linearly over the 10-year period 2019-2028. After this transition period, the MacLeod Watts Scale uses the constant mortality improvement rate from the SSA Intermediate Scale from 2028-2042. The SSA's Intermediate Scale has a final step down in 2043 which is reflected in the MacLeod Watts scale for years 2043 and thereafter. Over the ages 95 to 115, the SSA improvement rate is graded to zero.

Scale MP-2019 can be found at the SOA website and the projection scales used in the 2019 Social Security Administrations Trustees Report at the Social Security Administration website.



Glossary

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value of Projected Benefits (APVPB) – The amount presently required to fund all projected plan benefits in the future. This value is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

CalPERS – Many state governments maintain a public employee retirement system; CalPERS is the California program, covering all eligible state government employees as well as other employees of other governments within California who have elected to join the system

Defined Benefit (DB) – A pension or OPEB plan which defines the monthly income or other benefit which the plan member receives at or after separation from employment

Deferred Contributions – When an employer makes contributions after the measurement date and prior to the fiscal year end, recognition of these contributions is deferred to a subsequent accounting period by creating a deferred resource. We refer to these contributions as Deferred Contributions.

Defined Contribution (DC) – A pension or OPEB plan which establishes an individual account for each member and specifies how contributions to each active member’s account are determined and the terms of distribution of the account after separation from employment

Discount Rate - Interest rate used to discount future potential benefit payments to the valuation date. Under GASB 75, if a plan is prefunded, then the discount rate is equal to the expected trust return. If a plan is not prefunded (pay-as-you-go), then the rate of return is based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Expected Average Remaining Service Lifetime (EARSL) – Average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period

Entry Age Actuarial Cost Method – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual’s projected earnings or service from entry age to the last age at which benefits can be paid

Excise Tax – The Affordable Care Act created an excise tax on the value of employer sponsored coverage which exceeds certain thresholds (“Cadillac Plans”). This tax was repealed in December 2019.

Explicit Subsidy – The projected dollar value of future retiree healthcare costs expected to be paid directly by the Employer, e.g., the Employer’s payment of all or a portion of the monthly retiree premium billed by the insurer for the retiree’s coverage

Fiduciary Net Position – The value of trust assets used to offset the Total OPEB Liability to determine the Net OPEB Liability.

Government Accounting Standards Board (GASB) – A private, not-for-profit organization which develops generally accepted accounting principles (GAAP) for U.S. state and local governments; like FASB, it is part of the Financial Accounting Foundation (FAF), which funds each organization and selects the members of each board



Glossary
(Continued)

Health Care Trend – The assumed rate(s) of increase in future dollar values of premiums or healthcare claims, attributable to increases in the cost of healthcare; contributing factors include medical inflation, frequency or extent of utilization of services and technological developments.

Implicit Subsidy – The projected difference between future retiree claims and the premiums to be charged for retiree coverage; this difference results when the claims experience of active and retired employees are pooled together and a ‘blended’ group premium rate is charged for both actives and retirees; a portion of the active employee premiums subsidizes the retiree premiums.

Net OPEB Liability (NOL) – The liability to employees for benefits provided through a defined benefit OPEB. Only assets administered through a trust that meet certain criteria may be used to reduce the Total OPEB Liability.

Net Position – The Impact on Statement of Net Position is the Net OPEB Liability adjusted for deferred resource items

OPEB Expense – The OPEB expense reported in the Agency’s financial statement. OPEB expense is the annual cost of the plan recognized in the financial statements.

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go (PAYGO) – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

PEMHCA – The Public Employees’ Medical and Hospital Care Act, established by the California legislature in 1961, provides community-rated medical benefits to participating public employers. Among its extensive regulations are the requirements that a contracting Agency contribute toward medical insurance premiums for retired annuitants and that a contracting Agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

Plan Assets – The value of cash and investments considered as ‘belonging’ to the plan and permitted to be used to offset the AAL for valuation purposes. To be considered a plan asset, GASB 75 requires (a) contributions to the OPEB plan be irrevocable, (b) OPEB assets to dedicated to providing OPEB benefit to plan members in accordance with the benefit terms of the plan, and (c) plan assets be legally protected from creditors, the OPEB plan administrator and the plan members.

Public Agency Miscellaneous (PAM) – Non-safety public employees.

Select and Ultimate – Actuarial assumptions which contemplate rates which differ by year initially (the select period) and then stabilize at a constant long-term rate (the ultimate rate)

Service Cost – Total dollar value of benefits expected to be earned by plan members in the current year, as assigned by the actuarial funding method; also called normal cost

Total OPEB Liability (TOL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; a subset of “Actuarial Present Value”

Vesting – As defined by the plan, requirements which when met make a plan benefit nonforfeitable on separation of service before retirement eligibility

