

# MacLeod Watts

October 21, 2021

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

Re: City of Palm Springs Other Post-Employment Benefits  
GASB 75 Actuarial Report for the Fiscal Year Ending June 30, 2021

Dear Ms. Hardcastle:

We are pleased to enclose our actuarial report providing actuarial information regarding the 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, 2021. 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. The only assumption change reflected in this report relative to the report for the prior fiscal year end is an update to the discount rate, in keeping with the change in the applicable municipal bond index on which it is based. 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 exhibits presented are based on the results of an actuarial valuation prepared as of June 30, 2019, adjusted to the current measurement date, and on the employee and plan data provided to us for that valuation. The City also provided information on retiree benefits paid during the current fiscal year. 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 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

GASB 75 Actuarial Report  
Measured as of June 30, 2020  
For Fiscal Year End June 30, 2021 Financial Reporting

Submitted October 2021

MacLeod Watts

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## A. Executive Summary

This report presents actuarial 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 required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2021.

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. Following this executive summary are various exhibits and information appropriate for disclosures under GASB 75. These exhibits were developed from a rollforward of the June 2019 valuation.

A new actuarial valuation will need to be prepared as of June 30, 2021, before the GASB 75 report can be completed for the City's fiscal year ending June 30, 2022.

### OPEB Obligations of the City

The City provides continuation of medical coverage to qualifying retirees. 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 healthcare. In this program, the City pays a portion of medical insurance 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 2.
- **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. Section 3 and Addendum 2: MacLeod Watts Age Rating Methodology provide details.

- *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 and 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 further 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.



**Executive Summary**

(Continued)

**OPEB Funding Policy**

The City’s OPEB funding policy affects the calculation of liabilities by impacting the discount rate 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.

The City confirmed that it continues to finance its OPEB liability on a pay-as-you-go basis. With the City’s approval, the discount rate used in this report is based on the S&P General Obligation Municipal Bond 20 Year High Grade Bond Index. As of the beginning and end of the Measurement Period, use of this index results in discount rates of 2.79% on June 30, 2019 and 2.66% on June 30, 2020.

**Actuarial Assumptions**

The “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 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 Used in the Valuation**

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, 2021                  |
| Valuation Date     | June 30, 2019                  |
| Measurement Date   | June 30, 2020                  |
| Measurement Period | June 30, 2019 to June 30, 2020 |



**Executive Summary**  
 (Concluded)

**Significant Results and Differences from the Prior Valuation**

This report is based on a roll forward of the June 30, 2019, valuation. No benefit changes and no material changes were reported to MacLeod Watts during the measurement period. Accordingly, no plan or census data was gathered, and no plan experience was analyzed for this report. No assumptions were changed, other than an update to the discount rate as described earlier. This change resulted in roughly a \$3 million increase in the Total OPEB Liability (2.1%) relative to what was previously expected on the current measurement date.

**Impact on Statement of Net Position and OPEB Expense for Fiscal Year Ending 2021**

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:

| <b>Items</b>                        | <b>For Reporting At<br/>Fiscal Year Ending<br/>June 30, 2021</b> |
|-------------------------------------|--|
| Total OPEB Liability                | \$ 145,521,879   |
| Fiduciary Net Position              | -  |
| Net OPEB Liability (Asset)          | 145,521,879  |
| Deferred (Outflows) of Resources    | (13,453,008)   |
| Deferred Inflows of Resources       | 19,995,643   |
| Impact on Statement of Net Position | <u>\$ 152,064,514</u>  |
| <b>OPEB Expense, FYE 6/30/2021</b>  | <u><u>\$ 4,266,322</u></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. 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, 2021. 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.

| <b>Plan Summary Information for FYE June 30, 2021</b><br><i>Measurement Date is June 30, 2020</i> | <b>City of Palm Springs</b> |
|---|-----------------------------|
| <br><b>Items Impacting Net Position:</b>  |                             |
| Total OPEB Liability  | \$ 145,521,879              |
| Fiduciary Net Position  | -                           |
| Net OPEB Liability (Asset)  | 145,521,879                 |
| <br><i>Deferred (Outflows) Inflows of Resources Due to:</i>                                       |                             |
| Assumption Changes  | (4,574,642)                 |
| Plan Experience   | 15,398,435                  |
| Investment Experience   | -                           |
| Deferred Contributions  | (4,281,158)                 |
| Net Deferred (Outflows) Inflows of Resources  | 6,542,635                   |
| <b>Impact on Statement of Net Position, FYE 6/30/2021</b>   | <b>\$ 152,064,514</b>       |
| <br><b>Items Impacting OPEB Expense:</b>  |                             |
| Service Cost  | \$ 3,010,767                |
| Cost of Plan Changes  | -                           |
| Interest Cost   | 3,921,381                   |
| Expected Earnings on Assets   | -                           |
| <br><i>Recognized Deferred Resource items:</i>  |                             |
| Assumption Changes  | (10,923)                    |
| Plan Experience   | (2,654,903)                 |
| Investment Experience   | -                           |
| <b>OPEB Expense, FYE 6/30/2021</b>  | <b>\$ 4,266,322</b>         |



**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<br><i>Measurement Date</i> | 6/30/2020<br><i>6/30/2019</i> | 6/30/2021<br><i>6/30/2020</i> | Change<br>During<br>Period |
|---|-------------------------------|-------------------------------|----------------------------|
| Total OPEB Liability  | \$ 139,514,316                | \$ 145,521,879                | \$ 6,007,563               |
| Fiduciary Net Position                                      | -                             | -                             | -                          |
| Net OPEB Liability (Asset)                                  | 139,514,316                   | 145,521,879                   | 6,007,563                  |
| <i>Deferred Resource (Outflows) Inflows Due to:</i>         |                               |                               |                            |
| Assumption Changes  | (1,540,695)                   | (4,574,642)                   | (3,033,947)                |
| Plan Experience   | 18,053,338                    | 15,398,435                    | (2,654,903)                |
| Investment Experience                                       | -                             | -                             | -                          |
| Deferred Contributions                                      | (3,947,609)                   | (4,281,158)                   | (333,549)                  |
| Net Deferred (Outflows) Inflows                             | 12,565,034                    | 6,542,635                     | (6,022,399)                |
| Impact on Statement of Net Position                         | <u>\$ 152,079,350</u>         | <u>\$ 152,064,514</u>         | <u>\$ (14,836)</u>         |

**Change in Net Position During the Fiscal Year**

|  |                       |
|--|-----------------------|
| Impact on Statement of Net Position, FYE 6/30/2020 | \$ 152,079,350        |
| OPEB Expense (Income)                              | 4,266,322             |
| Employer Contributions During Fiscal Year          | <u>(4,281,158)</u>    |
| Impact on Statement of Net Position, FYE 6/30/2021 | <u>\$ 152,064,514</u> |

**OPEB Expense**

|   |                     |
|---|---------------------|
| Employer Contributions During Fiscal Year   | \$ 4,281,158        |
| Deterioration (Improvement) in Net Position | <u>(14,836)</u>     |
| OPEB Expense (Income), FYE 6/30/2021        | <u>\$ 4,266,322</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 is 7.80 years for such changes 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, 2021.

| City of Palm Springs   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Changes of Assumptions   | \$ 9,171,850                      | \$ 4,597,208                     |
| Differences Between Expected<br>and Actual Experience                  | -                                 | 15,398,435                       |
| Net Difference Between Projected and<br>Actual Earnings on Investments | -                                 | -                                |
| Deferred Contributions   | 4,281,158                         | -                                |
| <b>Total</b>   | <b>\$ 13,453,008</b>              | <b>\$ 19,995,643</b>             |

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<br>Fiscal Year<br>Ending<br>June 30 | Recognized<br>Net Deferred<br>Outflows (Inflows)<br>of Resources |
|---|--|
| 2022  | \$ (2,665,826)   |
| 2023  | (2,665,826)  |
| 2024  | (2,058,649)  |
| 2025  | (1,128,689)  |
| 2026  | (1,495,765)  |
| Thereafter                                  | (809,038)  |



**Accounting Information**

(Continued)

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

The discount rate used for the fiscal year end 2021 is 2.66%. Healthcare cost trend rate was assumed to start at 6.5% (effective January 1, 2021) and grade down to 4% for years 2076 and thereafter. 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%<br>1.66% | Current<br>2.66% | Current + 1%<br>3.66% |
| <b>Net OPEB Liability (Asset)</b>    | 172,132,464           | 145,521,879      | 124,432,990           |
| Increase (Decrease)                  | 26,610,585            |                  | (21,088,889)          |
| % Increase (Decrease)                | 18.3%                 |                  | -14.5%                |
| Change in Healthcare Cost Trend Rate | Current Trend<br>- 1% | Current Trend    | Current Trend<br>+ 1% |
| <b>Net OPEB Liability (Asset)</b>    | 123,002,921           | 145,521,879      | 174,264,792           |
| Increase (Decrease)                  | (22,518,958)          |                  | 28,742,913            |
| % 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 fiscal years 2018 through 2021 are shown in this table, since GASB 75 was implemented.

| <b>Fiscal Year End</b>                                     | <b>6/30/2021</b>      | <b>6/30/2020</b>      | <b>6/30/2019</b>      | <b>6/30/2018</b>      |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Measurement Date   | 6/30/2020             | 6/30/2019             | 6/30/2018             | 6/30/2017             |
| Discount Rate on Measurement Date                          | 2.66%                 | 2.79%                 | 2.98%                 | 3.13%                 |
| <b>Total OPEB liability</b>                                |                       |                       |                       |                       |
| Service Cost   | \$ 3,010,767          | \$ 3,627,328          | \$ 3,358,207          | \$ 3,726,841          |
| Interest   | 3,921,381             | 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                                     | 3,023,024             | 6,018,257             | 3,755,480             | (11,536,388)          |
| Benefit payments   | (3,947,609)           | (3,698,318)           | (3,480,420)           | (3,280,004)           |
| <b>Net change in total OPEB liability</b>                  | <b>6,007,563</b>      | <b>(10,245,152)</b>   | <b>8,117,310</b>      | <b>(7,048,708)</b>    |
| <b>Total OPEB liability - beginning</b>                    | <b>139,514,316</b>    | <b>149,759,468</b>    | <b>141,642,158</b>    | <b>148,690,866</b>    |
| <b>Total OPEB liability - ending (a)</b>                   | <b>\$ 145,521,879</b> | <b>\$ 139,514,316</b> | <b>\$ 149,759,468</b> | <b>\$ 141,642,158</b> |
| <b>Plan fiduciary net position - beginning</b>             | <b>-</b>              | <b>-</b>              | <b>-</b>              | <b>-</b>              |
| <b>Plan fiduciary net position - ending (b)</b>            | <b>\$ -</b>           | <b>\$ -</b>           | <b>\$ -</b>           | <b>\$ -</b>           |
| <b>Net OPEB liability - ending (a) - (b)</b>               | <b>\$ 145,521,879</b> | <b>\$ 139,514,316</b> | <b>\$ 149,759,468</b> | <b>\$ 141,642,158</b> |
| <b>Covered-employee payroll</b>                            | <b>\$ 49,907,595</b>  | <b>\$ 46,516,674</b>  | <b>\$ 45,672,020</b>  | <b>\$ 34,929,760</b>  |
| <b>Net OPEB liability as % of covered-employee payroll</b> | <b>291.58%</b>        | <b>299.92%</b>        | <b>327.90%</b>        | <b>405.51%</b>        |

**Notes to Schedule**

|                             | 6/30/2019  | 6/30/2017  |
|-----------------------------|--|--|
| Valuation Date              |  |  |
| Actuarial cost method       | Entry Age Normal Level % of Pay                            | Entry Age Normal Level % of Pay                      |
| Inflation                   | 2.5% 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 |
| Salary increases            | 3.0%   | 3.25%  |
| Retirement age              | From 50 to 75  | From 50 to 75  |
| Mortality                   | CalPERS 2017 Experience Study                              | CalPERS 2014 Experience Study                        |
| Mortality Improvement       | MW Scale 2020  | 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 |   |
| <b>Balance at Fiscal Year Ending 6/30/2020</b><br><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                                       |
| <b>Changes During the Period:</b>   |                          |                            |                                    |   |                 |                       |                        |   |
| Service Cost  | 3,010,767                |                            | 3,010,767                          |   |                 |                       |                        | 3,010,767   |
| Interest Cost   | 3,921,381                |                            | 3,921,381                          |   |                 |                       |                        | 3,921,381   |
| Expected Investment Income  |                          | -                          | -                                  |   |                 |                       |                        | -   |
| Employer Contributions  |                          | 3,947,609                  | (3,947,609)                        |   |                 |                       |                        | (3,947,609)   |
| Changes of Benefit Terms  | -                        |                            | -                                  |   |                 |                       |                        | -   |
| Benefit Payments  | (3,947,609)              | (3,947,609)                | -                                  |   |                 |                       |                        | -   |
| Assumption Changes  | 3,023,024                |                            | 3,023,024                          | 3,023,024                               |                 |                       |                        | -   |
| Plan Experience   | -                        |                            | -                                  |   | -               |                       |                        | -   |
| Investment Experience   |                          | -                          | -                                  |   |                 | -                     |                        | -   |
| Recognized Deferred Resources   |                          |                            |                                    | 10,923                                  | 2,654,903       | -                     | (3,947,609)            | 1,281,783   |
| Employer Contributions in Fiscal Year   |                          |                            |                                    |   |                 |                       | 4,281,158              | (4,281,158)   |
| <b>Net Changes in Fiscal Year 2020-2021</b>   | 6,007,563                | -                          | 6,007,563                          | 3,033,947                               | 2,654,903       | -                     | 333,549                | (14,836)  |
| <b>Balance at Fiscal Year Ending 6/30/2021</b><br><i>Measurement Date 6/30/2020</i> | \$145,521,879            | \$ -                       | \$145,521,879                      | \$4,574,642                             | \$(15,398,435)  | \$ -                  | \$ 4,281,158           | \$152,064,514                                       |



**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 Pension Expense is shown below. Deferred Contributions are not shown.

Measurement Date: June 30, 2020

| Deferred Resource |                    |                   |                 |                       | Balance<br>as of<br>Jun 30, 2020 | Recognition of Deferred Outflow or Deferred (Inflow) in Measurement Period: |                       |                       |                       |                       |                       |             |
|-------------------|--------------------|-------------------|-----------------|-----------------------|----------------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------|
| Date<br>Created   | Cause              | Initial<br>Amount | Period<br>(Yrs) | Annual<br>Recognition |                                  | 2019-20<br>(FYE 2021)   | 2020-21<br>(FYE 2022) | 2021-22<br>(FYE 2023) | 2022-23<br>(FYE 2024) | 2023-24<br>(FYE 2025) | 2024-25<br>(FYE 2026) | Thereafter  |
|                   | Gain Due To        |                   |                 |                       |                                  |   |                       |                       |                       |                       |                       |             |
| 6/30/2017         | Assumption Changes | \$(11,536,388)    | 6.65            | \$ (1,734,795)        | \$ (4,597,208)                   | \$(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               | 2,061,278                        | 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)           | (15,398,435)                     | (2,654,903)   | (2,654,903)           | (2,654,903)           | (2,654,903)           | (2,654,903)           | (2,654,903)           | (2,123,920) |
|                   | Loss Due To        |                   |                 |                       |                                  |   |                       |                       |                       |                       |                       |             |
| 6/30/2019         | Assumption Changes | 6,018,257         | 7.80            | 771,571               | 4,475,115                        | 771,571   | 771,571               | 771,571               | 771,571               | 771,571               | 771,571               | 617,260     |
|                   | Loss Due To        |                   |                 |                       |                                  |   |                       |                       |                       |                       |                       |             |
| 6/30/2020         | Assumption Changes | 3,023,024         | 7.80            | 387,567               | 2,635,457                        | 387,567   | 387,567               | 387,567               | 387,567               | 387,567               | 387,567               | 697,622     |



**Accounting Information**

(Continued)

**City Contributions to the Plan**

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 (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”). Note that the implicit subsidy contribution does not represent cash payments to retirees, but the reclassification of a portion of active healthcare expense to be recognized as a retiree healthcare cost. For details, see Addendum 1 – Important Background Information.

City contributions paid during the measurement period (in the form of benefit payments) are shown below.

| <b>Employer Contributions During the Measurement Period, Jul 1, 2019 thru Jun 30, 2020</b> | <b>City of Palm Springs</b> |
|--|-----------------------------|
| 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                     |
| <b><i>Total Employer Contributions During the Measurement Period</i></b>                   | <b>\$ 3,947,609</b>         |

This next chart shows deferred contributions, i.e., those paid after the measurement date but prior to this current fiscal year end.

| <b>Employer Contributions During the Fiscal Year, Jul 1, 2020 thru Jun 30, 2021</b>     | <b>City of Palm Springs</b> |
|---|-----------------------------|
| Employer Contributions to the Trust   | \$ -                        |
| Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust) | 3,284,887                   |
| Implicit contributions  | 996,271                     |
| <b><i>Total Employer Contributions During the Fiscal Year</i></b>                       | <b>\$ 4,281,158</b>         |



## 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<br>Ending<br>June 30  | Explicit Subsidy    |                    |             | Implicit Subsidy    |                    |            | Total       |
|                                   | Current<br>Retirees | Future<br>Retirees | Total       | Current<br>Retirees | Future<br>Retirees | Total      |             |
| 2021                              | \$3,284,887         | \$ -               | \$3,284,887 | \$ 996,271          | \$ -               | \$ 996,271 | \$4,281,158 |
| 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   |
| 2035                              | 3,092,786           | 3,154,714          | 6,247,500   | 632,813             | 802,076            | 1,434,889  | 7,682,389   |

The amounts shown in the Explicit Subsidy section 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 section reflect the expected excess of retiree medical 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 7/1/2020**

|  | <b>Debit</b> | <b>Credit</b> |
|--|--------------|---------------|
| Net OPEB Liability                         |              | 139,514,316   |
| Deferred Resource -- Assumption Changes    | 1,540,695    |               |
| Deferred Resource -- Plan experience       |              | 18,053,338    |
| Deferred Resource -- Investment Experience | -            |               |
| Deferred Resource -- Contributions         | 3,947,609    |               |
| Net Position                               | 152,079,350  |               |

\* 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**

|                 | <b>Debit</b> | <b>Credit</b> |
|-----------------|--------------|---------------|
| OPEB Expense    | 3,284,887    |               |
| Premium Expense |              | 3,284,887     |
| 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**

|                 | <b>Debit</b> | <b>Credit</b> |
|-----------------|--------------|---------------|
| OPEB Expense    | 996,271      |               |
| Premium Expense |              | 996,271       |

\* 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**

|  | <b>Debit</b> | <b>Credit</b> |
|--|--------------|---------------|
| Net OPEB Liability                         |              | 6,007,563     |
| Deferred Resource -- Assumption Changes    | 3,033,947    |               |
| Deferred Resource -- Plan experience       | 2,654,903    |               |
| Deferred Resource -- Investment Experience | -            |               |
| Deferred Resource -- Contributions         | 333,549      |               |
| OPEB Expense                               |              | 14,836        |



### **C. 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.



## D. Certification

The purpose of this report is to provide actuarial information in compliance with Statement 75 of the Governmental Accounting Standards Board (GASB 75) for other postemployment benefits provided by the City of Palm Springs (the City). 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. Plan 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 actuaries are 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. Both actuaries are members of the American Academy of Actuaries and meet the qualification standards for rendering this opinion.

Signed: October 21, 2021



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



J. Kevin Watts, FSA, FCA, MAAA



**E. 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 enrolled in a City 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%          |
| <b>Total</b>                                       | 53               | 142    | 54     | 95       | 66       | 55      | <b>465</b>  | <b>100%</b> |
| <b>Percent</b>                                     | 11%              | 31%    | 12%    | 20%      | 14%      | 12%     | <b>100%</b> |             |

|                                  |           |           |           |
|----------------------------------|-----------|-----------|-----------|
|                                  | 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 were also 226 retirees or their beneficiaries receiving benefits on the valuation date. 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%          |
| <b>Total</b>        | <b>128</b> | <b>61</b> | <b>37</b> | <b>226</b> | <b>100%</b> |
| <b>Average Age:</b> |            |           |           |            |             |
| 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**

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        |
| <b>Total</b>                    | <b>465</b> | <b>226</b> | <b>691</b> |

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         |
| <b>Total</b>                  | <b>465</b> | <b>109</b>      | <b>117</b>       | <b>691</b> |

**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. The counts as of the valuation date are shown in this chart.

| 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 2 - 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     |
| <b>Tier 2 Retirees</b>                | 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.<sup>1</sup> Survivors of eligible retirees may continue their coverage after the retiree’s death.*

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<sup>1</sup> 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 2 - 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<br>75% after 11.5 years<br>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<br><br>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.<sup>2</sup> 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 used in the valuation 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 shown in the chart.

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.

<sup>2</sup> 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)

**Section 2 - Summary of Retiree Benefit Provisions**

**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    |
| <hr/>   |              |             |             |                      |             |             |
| Blue Shield PPO (for Police & Fire)                     | \$ 1,082.95  | \$ 2,079.69 | \$ 2,212.31 | \$ 821.18            | \$ 1,499.95 | \$ 1,507.85 |





## 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.

#### Important Dates

|                          |   |
|--------------------------|---|
| Fiscal Year End          | June 30, 2021                                     |
| GASB 75 Measurement Date | Last day of the prior fiscal year (June 30, 2020) |
| Valuation Date           | June 30, 2019                                     |

#### Valuation Methods

|                        |  |
|------------------------|--|
| Funding Method         | Entry Age Normal Cost, level percent of pay  |
| Asset Valuation Method | Not applicable (\$0; no OPEB trust has been established)   |
| Participants Valued    | Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation. |

#### Development of Age-related Medical Premiums

Medical claims by age were estimated based on data provided in the 2013 paper “Health Care Costs – From Birth to Death”, prepared by Dale H. Yamamoto, and sponsored by the Society of Actuaries. A description of MacLeod Watts Age Rating Methodology is provided in Addendum 2 to this report. The monthly baseline premium costs were set equal to the active employee-only premiums shown in the chart at the end of Supporting Information Section 2.

*Retirees in CalPERS Medical:* Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying the medical claim cost factors to monthly baseline premium costs. Medicare-eligible retirees are covered by plans which are rated solely on the experience of Medicare retirees with no subsidy by active employee premiums. Age-based premiums were not developed for Medicare retirees covered by CalPERS medical.

*Retirees covered under the Blue Shield PPO Safety Plan:* premium rates for Medicare and non-Medicare plans are understood to be rated determined from the pooled claims experience of active Safety employees.

Representative claim costs are 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**

**Economic Assumptions**

|                        |  |
|------------------------|--|
| Municipal Bond Index   | S&P Municipal Bond 20 Year High Grade Index  |
| Discount Rate          | 2.66% as of June 30, 2020<br>2.79% as of June 30, 2019   |
| General Inflation Rate | 2.5% per year  |
| 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.  |
| 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%.

|                      |   |
|----------------------|---|
| 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. |
|----------------------|---|



**Supporting Information**

(Continued)

**Section 3 - Actuarial Methods and Assumptions**

**Participant Election 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<br>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**

**Demographic Assumptions**

*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 for a different basis used to project future mortality improvements.*

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

Retirement Formulas

|   | Miscellaneous     | Police           | Fire              |
|---|-------------------|------------------|-------------------|
| Classic First Level                             | 2.7% @ 55         | 3.0% @ 50        | 3.0% @ 50         |
| Classic Second Level                            | 2.0% @ 60         | 3.0% @ 55        | 3.0% @ 55         |
| PEPRA   | 2.0% @ 62         | 2.7% @ 57        | 2.7% @ 57         |
| <i>Classic First Level<br/>Hire Date Cutoff</i> | <i>12/24/2012</i> | <i>6/17/2011</i> | <i>12/17/2011</i> |

For sample rates of assumed mortality, service and disability retirement and separation (termination) prior to retirement at selected ages, please refer to our June 30, 2019, valuation report and/or the CalPERS experience study referenced above.

**Changes recognized in the current measurement period:**

Discount rate                                      Changed from 2.79% as of June 30, 2019 to 2.66% as of June 30, 2020 based on the published change in return for the applicable municipal bond index.



**Appendix 1: Split Results for Airport Fund & All Others**

The chart below presents the Total OPEB Liability as of the June 30, 2020, 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             | 8,343,724            | 58,582,929            | 66,926,652            |
| Current Retirees            | 2,134,239            | 76,460,987            | 78,595,227            |
| <b>Total OPEB Liability</b> | <b>\$ 10,477,963</b> | <b>\$ 135,043,916</b> | <b>\$ 145,521,879</b> |



**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<br>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 Table 1 and a summary of the benefits provided under the Plan is provided in Section 2. While individual employee records were 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 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.

### 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.



## **Important Background Information**

(Continued)

### **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

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

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

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.



## Glossary

(Continued)

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

