City of Selma

GASB 75 Actuarial Report
Measured as of June 30, 2019
For Fiscal Year End June 30, 2020 Financial Reporting

Submitted August 2020

MacLeod Watts

Table of Contents

A. Executive Summary

This report presents actuarial information for financial reporting of the City of Selma (the City) other post-employment benefit (OPEB) program. The purpose of this valuation is to provide disclosure information as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2020.

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

An updated actuarial valuation should be prepared as of June 30, 2020. The results of the 2020 valuation will first be applied for the City's fiscal year ending June 30, 2021.

OPEB Obligations of the City

The City provides continuation of medical, dental and vision coverage to qualifying Management retired employees. This benefit creates 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 retiree medical premiums for qualifying retirees. Benefit details are in Supporting Information, Section 2A.

  The Patient Protection and Affordable Care Act (ACA) includes a 40% excise tax on high-cost employer-sponsored health coverage. Any portion of such future excise tax paid by the employer is also a form of explicit subsidy. See Supporting Information Section 2B and Section 3 for further description and assumptions about this potential excise tax.[1]

- **Implicit subsidy liabilities**: An "implicit subsidy" exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the CalPERS medical program, the same monthly premiums are charged for active employees and for pre-Medicare retirees. CalPERS has confirmed that the claims experience of these members is considered together in setting premium rates. We determine the implicit rate subsidy for pre-Medicare retirees as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. For more information on this process see Table 3 and Addendum 2: MacLeod Watts Age Rating Methodology.

  Different monthly premiums are charged for Medicare-eligible members. CalPERS confirmed that only the claims experience of these members is considered in setting Medicare-eligible premium rates; as such, there is no implicit subsidy of Medicare retiree premiums provided by active employee premiums. We assumed that the Medicare Supplement premium structure will be adequate to cover their expected retiree claims. We also assumed no implicit subsidy exists with respect to the dental coverage provided to retirees, or that it is insignificant.

[1] This excise tax was repealed in December 2019; we did not adjust the results for this change for this roll forward; we will reflect the change in the next valuation.

Executive Summary
(Continued)

OPEB Funding Policy

The City's 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.

Our understanding is that the City is currently financing its OPEB liability on a pay-as-you-go basis. With the City's approval, the discount rate used in this valuation is based on the Fidelity Muni Go AA 20 Year Index. As of the beginning and end of the Measurement Period, use of this index results in discount rates of 3.62% as of June 30, 2018 and 3.13% as of June 30, 2019.

Actuarial Assumptions

The actuarial "demographic" assumptions (i.e. rates of retirement, death, disability or other termination of employment) used in this report were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the retirement plan(s) covering 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, 2020
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	June 30, 2018 to June 30, 2019

Executive Summary
(Continued)

Significant Results and Differences from the Prior Valuation

This report is based on a roll forward of the June 30, 2018 valuation. No benefit changes and no material changes in plan members were reported to MacLeod Watts from those in place at the time the June 2018 valuation was prepared. No plan experience was reflected and no assumptions were changed other than the discount rate, which was updated to reflect the bond index rate as mentioned above.

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

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

Items	For Reporting At Fiscal Year Ending June 30, 2020
Total OPEB Liability	$ 6,501,690
Fiduciary Net Position	-
Net OPEB Liability (Asset)	6,501,690
Deferred (Outflows) of Resources	(556,753)
Deferred Inflows of Resources	387,894
Impact on Statement of Net Position	$ 6,332,831
OPEB Expense, FYE 6/30/2020	$ 533,007

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, 2020. The City is classified for GASB 75 purposes as a single employer.

Components of Net Position and Expense

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

Plan Summary Information for FYE June 30, 2020 *Measurement Date is June 30, 2019*		**City of Selma**
Items Impacting Net Position:		
Total OPEB Liability	$	6,501,690
Fiduciary Net Position		-
Net OPEB Liability (Asset)		6,501,690
Deferred (Outflows) Inflows of Resources Due to:		
Assumption Changes		(21,781)
Plan Experience		-
Investment Experience		-
Deferred Contributions		(147,078)
Net Deferred (Outflows) Inflows of Resources		(168,859)
Impact on Statement of Net Position, FYE 6/30/2020	**$**	**6,332,831**
Items Impacting OPEB Expense:		
Service Cost	$	335,680
Cost of Plan Changes		-
Interest Cost		213,125
Expected Earnings on Assets		-
Recognized Deferred Resource items:		
Assumption Changes		(15,798)
Plan Experience		-
Investment Experience		-
OPEB Expense, FYE 6/30/2020	**$**	**533,007**

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 *Measurement Date*	**6/30/2019** *6/30/2018*	**6/30/2020** *6/30/2019*	**Change During Period**
Total OPEB Liability	$ 5,616,271	$ 6,501,690	$ 885,419
Fiduciary Net Position	-	-	-
Net OPEB Liability (Asset)	5,616,271	6,501,690	885,419
Deferred Resource (Outflows) Inflows Due to:			
Assumption Changes	459,659	(21,781)	(481,440)
Plan Experience	-	-	-
Investment Experience	-	-	-
Deferred Contributions	(129,028)	(147,078)	(18,050)
Net Deferred (Outflows) Inflows	330,631	(168,859)	(499,490)
Impact on Statement of Net Position	$ 5,946,902	$ 6,332,831	$ 385,929

Change in Net Position During the Fiscal Year	
Impact on Statement of Net Position, FYE 6/30/2019	$ 5,946,902
OPEB Expense (Income)	533,007
Employer Contributions During Fiscal Year	(147,078)
Impact on Statement of Net Position, FYE 6/30/2020	$ 6,332,831

OPEB Expense	
Employer Contributions During Fiscal Year	$ 147,078
Deterioration (Improvement) in Net Position	385,929
OPEB Expense (Income), FYE 6/30/2020	$ 533,007

Accounting Information
(Continued)

Recognition Period for Deferred Resources

Liability changes due to plan experience which differs from what was assumed in the prior year and/or from assumption changes during the year are recognized over the plan's Expected Average Remaining Service Life ("EARSL"). The EARSL period is 8.32 years for deferred resources arising in this fiscal year.

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

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

Deferred Resources as of Fiscal Year End and Expected Future Recognition

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

City of Selma	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 409,675	$ 387,894
Differences Between Expected and Actual Experience	-	-
Net Difference Between Projected and Actual Earnings on Investments	-	-
Deferred Contributions	147,078	-
Total	$ 556,753	$ 387,894

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

For the Fiscal Year Ending June 30	Recognized Net Deferred Outflows (Inflows) of Resources
2021	$ (15,798)
2022	(15,798)
2023	(15,798)
2024	(15,798)
2025	(15,798)
Thereafter	100,771

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 2020 is 3.13%. Healthcare cost trend rate was assumed to start at 7.5% (effective January 1, 2020) and grade down to 5% for years 2024 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% 2.13%**	**Current 3.13%**	**Current + 1% 4.13%**
Net OPEB Liability (Asset)	7,631,318	6,501,690	5,602,971
Increase (Decrease)	1,129,628		(898,719)
% Increase (Decrease)	17.4%		-13.8%
Change in Heathcare Cost Trend Rate	**Current Trend - 1%**	**Current Trend**	**Current Trend + 1%**
Net OPEB Liability (Asset)	5,392,102	6,501,690	8,340,263
Increase (Decrease)	(1,109,588)		1,838,573
% Increase (Decrease)	-17.1%		28.3%

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. Results for fiscal years 2018, 2019 and 2020 are shown in the following table.

Fiscal Year Ending	**2020**	**2019**	**2018**
Measurement Date	6/30/2019	6/30/2018	6/30/2017
Discount Rate on Measurement Date	3.13%	3.56%	3.62%
Total OPEB liability			
Service Cost	$ 335,680	$ 329,996	$ 375,557
Interest	213,125	196,593	164,777
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	465,642	(50,785)	(546,300)
Benefit payments	(129,028)	(103,626)	(34,854)
Net change in total OPEB liability	885,419	372,178	(40,820)
Total OPEB liability - beginning	5,616,271	5,244,093	5,284,913
Total OPEB liability - ending (a)	$ 6,501,690	$ 5,616,271	$ 5,244,093
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending (b)	$ -	$ -	$ -
Net OPEB liability - ending (a) - (b)	$ 6,501,690	$ 5,616,271	$ 5,244,093
Covered-employee payroll	$ 6,913,761	$ 6,330,599	$ 6,169,019
Net OPEB liability as a % of covered-employee payroll	94.04%	88.72%	85.01%

Notes to Schedule

Valuation Date	6/30/2018	6/30/2018	6/30/2018
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Inflation	2.75% per year	2.75% per year	2.75% per year
Healthcare cost trend rates	7.50% in 2019, step down 0.5% per year to 5.0% by 2024	7.50% in 2019, step down 0.5% per year to 5.0% by 2024	7.50% in 2019, step down 0.5% per year to 5.0% by 2024
Salary increases	3.25%	3.25%	3.25%
Investment rate of return	3.56%	3.56%	3.62%
Retirement age	50 to 75	50 to 75	50 to 75
Mortality	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study
Mortality Improvement	MW Scale 2017	MW Scale 2017	MW Scale 2017

Accounting Information
(Continued)

Schedule of Contributions

This schedule is not required to be provided for an unfunded OPEB plan when no Actuarially Determined Contribution has been developed.

Accounting Information
(Continued)

Detail of Changes to Net Position

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

City of Selma	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)	(d) Deferred Outflows (Inflows) Due to: Assumption Changes	Plan Experience	Investment Experience	Deferred Contributions	Impact on Statement of Net Position (e) = (c) - (d)
Balance at Fiscal Year Ending 6/30/2019 *Measurement Date 6/30/2018*	$ 5,616,271	$ -	$ 5,616,271	$ (459,659)	$ -	$ -	$ 129,028	$ 5,946,902
Changes During the Period:								
Service Cost	335,680		335,680					335,680
Interest Cost	213,125		213,125					213,125
Expected Investment Income		-	-					-
Employer Contributions		129,028	(129,028)					(129,028)
Changes of Benefit Terms	-		-					-
Benefit Payments	(129,028)	(129,028)	-					-
Assumption Changes	465,642		465,642	465,642				-
Plan Experience	-		-		-			-
Investment Experience		-	-			-		-
Recognized Deferred Resources				15,798	-	-	(129,028)	113,230
Employer Contributions in Fiscal Year							147,078	(147,078)
Net Changes in Fiscal Year 2019-2020	885,419	-	885,419	481,440	-	-	18,050	385,929
Balance at Fiscal Year Ending 6/30/2020 *Measurement Date 6/30/2019*	$ 6,501,690	$ -	$ 6,501,690	$ 21,781	$ -	$ -	$ 147,078	$ 6,332,831

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, 2019

Deferred Resource						Recognition of Deferred Outflow or Deferred (Inflow) in Measurement Period:						
Date Created	Cause	Initial Amount	Period (Yrs)	Annual Recognition	Balance as of Jun 30, 2019	2018-19 (FYE 2020)	2019-20 (FYE 2021)	2020-21 (FYE 2022)	2021-22 (FYE 2023)	2022-23 (FYE 2024)	2023-24 (FYE 2025)	Thereafter
6/30/2017	Gain Due To Assumption Changes	$ (546,300)	8.32	$ (65,661)	$ (349,317)	$ (65,661)	$ (65,661)	$ (65,661)	$ (65,661)	$ (65,661)	$ (65,661)	$ (21,012)
6/30/2018	Gain Due To Assumption Changes	(50,785)	8.32	(6,104)	(38,577)	(6,104)	(6,104)	(6,104)	(6,104)	(6,104)	(6,104)	(8,057)
6/30/2019	Loss Due To Assumption Changes	465,642	8.32	55,967	409,675	55,967	55,967	55,967	55,967	55,967	55,967	129,840

Accounting Information
(Continued)

City Contributions to the Plan

City contributions to the Plan occur as benefits are paid to retirees and/or to the OPEB trust. 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 reclassification of a portion of active healthcare cost to be treated as a retiree healthcare expense.

Benefits and other contributions paid by the City during the measurement period are shown below.

Employer Contributions During the Measurement Period, Jul 1, 2018 thru Jun 30, 2019	**City of Selma**
Employer Contributions to the Trust	$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	44,031
Implicit contributions	84,997
Total Employer Contributions During the Measurement Period	$ 129,028

Benefits payments and other contributions reported to have been made in the year following the measurement period but prior to the end of the fiscal year are shown below.

Employer Contributions During the Fiscal Year, Jul 1, 2019 thru Jun 30, 2020	**City of Selma**
Employer Contributions to the Trust	$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	49,412
Implicit contributions	97,666
Total Employer Contributions During the Fiscal Year	$ 147,078

Accounting Information
(Continued)

Projected Benefit Payments (15-year projection)

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

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

Projected Annual Benefit Payments							
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy			Total
	Current Retirees	Future Retirees	Total	Current Retirees	Future Retirees	Total	
2019	44,031	-	44,031	84,997	-	84,997	129,028
2020	49,412	-	49,412	97,666	-	97,666	147,078
2021	53,195	13,528	66,723	62,960	43,714	106,674	173,397
2022	54,793	17,583	72,376	64,292	60,970	125,262	197,638
2023	56,381	21,540	77,921	48,709	78,233	126,942	204,863
2024	57,942	25,708	83,650	56,151	87,094	143,245	226,895
2025	59,457	30,490	89,947	44,834	95,986	140,820	230,767
2026	60,907	35,473	96,380	51,270	106,781	158,051	254,431
2027	62,270	40,604	102,874	34,822	121,386	156,208	259,082
2028	63,530	46,562	110,092	27,003	143,454	170,457	280,549
2029	64,666	53,390	118,056	30,528	146,204	176,732	294,788
2030	65,662	60,776	126,438	18,970	164,337	183,307	309,745
2031	66,508	68,998	135,506	21,431	212,069	233,500	369,006
2032	67,189	77,978	145,167	24,179	210,365	234,544	379,711
2033	67,685	87,346	155,031	27,239	247,426	274,665	429,696

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 and prescription drug claims over the premiums expected to be charged during the year for retirees' coverage. These amounts are also shown separately and in total for those currently retired on the valuation date and for those expected to retire in the future.

Accounting Information
(Concluded)

Sample Journal Entries

Beginning Account Balances **As of the fiscal year beginning 7/1/2019**	**Debit**	**Credit**
Net OPEB Liability		5,616,271
Deferred Resource -- Assumption Changes		459,659
Deferred Resource -- Plan experience	-	
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	129,028	
Net Position	5,946,902	

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

Journal entry to recharacterize retiree benefit payments not reimbursed by a trust, and record cash contributions to the trust during the fiscal year	**Debit**	**Credit**
OPEB Expense	49,412	
Premium Expense		49,412
OPEB Expense	-	
Cash		-

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

Journal entries to record implicit subsidies during the fiscal year	**Debit**	**Credit**
OPEB Expense	97,666	
Premium Expense		97,666

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

Journal entries to record other account activity during the fiscal year	**Debit**	**Credit**
Net OPEB Liability		885,419
Deferred Resource -- Assumption Changes	481,440	
Deferred Resource -- Plan experience	-	
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	18,050	
OPEB Expense	385,929	

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 Selma (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: August 13, 2020

Catherine L. MacLeod

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 94 active employees during the June 2018 valuation; of these, 79 were enrolled in a medical plan through the City while 15 were waiving coverage through the City. Age and service information for the included individuals is provided below:

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		2	1				3	3%
25 to 29	6	6					12	13%
30 to 34	2	4	2	2			10	11%
35 to 39	1	5	4	6	1		17	18%
40 to 44	1	1		11	6		19	20%
45 to 49		1	3	4	3		11	12%
50 to 54	1		1	1		5	8	9%
55 to 59		1	1	1		4	7	7%
60 to 64			1	3		2	6	6%
65 to 69						1	1	1%
70 & Up							0	0%
Total	11	20	13	28	10	12	**94**	**100%**
Percent	12%	21%	14%	30%	11%	13%	**100%**	

Valuation	January 2015	June 2018
Average Attained Age for Actives	42.5	42.1
Average Years of Service	9.9	10.6

Retired members: There were 31 retirees covered and receiving benefits under this program as of the June 30, 2018 valuation.

Retirees by Age					
Current Age	**Misc**	**Police**	**Fire**	**Total**	**Percent**
Below 50	0	0	1	1	3%
50 to 54	0	0	0	0	0%
55 to 59	2	1	2	5	16%
60 to 64	5	0	0	5	16%
65 to 69	4	3	0	7	23%
70 to 74	6	0	1	7	23%
75 to 79	3	0	0	3	10%
80 & up	2	0	1	3	10%
Total	**22**	**4**	**5**	**31**	**100%**
Average Age:					
On 6/30/2018	69.5	66.1	66.6	68.6	
At retirement	60.9	52.3	56.1	59.0	

Supporting Information
(Continued)

Section 1 - Summary of Employee Data
(continued)

GASB 75 requires the employer to report specific plan member counts. The chart below shows these counts as of the June 30, 2018 valuation date:

Summary of Plan Member Counts	
Number of active plan members	94
Number of inactive plan members currently receiving benefits	31
Number of inactive plan members entitled to but not receiving benefits	34

Supporting Information
(Continued)

Section 2A - Summary of Retiree Benefit Provisions

OPEB provided: The City offers medical, dental, and vision coverage to qualifying retirees.

Benefits excluded from this valuation: If dental and/or vision coverage is selected, the retiree must pay 100% of the premiums. Since no OPEB liability is expected with respect to dental or vision coverage for retirees, neither is considered in this valuation

Access to City medical coverage: Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA). This coverage requires the employee to satisfy the requirements for retirement under CalPERS, which requires (1) attainment of age 50 (age 52, if a new miscellaneous member to PERS on or after January 1, 2013) with 5 years of State or public agency service or (2) an approved disability retirement.

The employee must begin his or her retirement (pension) benefit within 120 days of terminating employment with the City to be eligible to continue medical coverage through the agency and be entitled to the benefits described below. In other words, it is the timing of initiating retirement benefits and not timing of enrollment in the medical program which determines whether or not a City retiree qualifies for lifetime medical coverage and any benefits defined in the PEMHCA resolution.

If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement, during any future open enrollment period or with a qualifying life event. Once eligible, coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.

Benefits provided by the City: As a PEMHCA employer, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The City has an "unequal contribution" resolution with CalPERS, executed in 2001. This resolution defines the City's contribution toward *active* employee medical premiums to be the PEMHCA minimum employer contribution (MEC)[2]. The MEC was $136 per month in 2019 and increased to $139 per month in 2020.

The City's contribution toward *retiree* medical benefits is determined by multiplying together the following three items:

- 5% *times*
- The number of prior years the employer has been contracted with PEMHCA *times*
- The contribution the employer provides for active employees (i.e., the MEC).

The amount payable by the City for retirees is $132.05 per month for 2020.

[2] It is our understanding that there is a pre-tax flexible benefit plan in place for active employees that provides premiums in excess of the MEC and these additional payments are not required to be provided to retired employees to meet PEMHCA requirements.

Supporting Information
(Continued)

Section 2A - Summary of Retiree Benefit Provisions

Current premium rates: The 2018 CalPERS monthly medical plan rates in the Other Southern California rate group are shown on the following page. If different rates apply where the member resides outside of this area, those rates are reflected in the valuation, but not listed here. The CalPERS administration fee is assumed to be separately expensed each year and was not included in this valuation.

Other Southern California Counties 2018 Health Plan Rates						
	Actives and Pre-Med Retirees			Medicare Eligible Retirees		
Plan	Ee Only	Ee & 1	Ee & 2+	Ee Only	Ee & 1	Ee & 2+
Anthem Select HMO	$ 659.69	$ 1,319.38	$ 1,715.19	*Not Available*		
Blue Shield Access+ HMO	695.97	1,391.94	1,809.52	*Not Available*		
Kaiser HMO	666.80	1,333.60	1,733.68	316.34	632.68	1,032.76
UnitedHealthcare	616.66	1,233.32	1,603.32	330.76	661.52	1,031.52
PERS Choice PPO	698.96	1,397.92	1,817.30	345.97	691.94	1,111.32
PERS Select PPO	654.74	1,309.48	1,702.32	345.97	691.94	1,084.78
PERSCare PPO	733.50	1,467.00	1,907.10	382.30	764.60	1,204.70

Section 2B - Excise Taxes for High Cost Retiree Coverage

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

As noted earlier in this report, this excise tax on high cost retiree coverage was repealed by Senate Amendment to H.R. 1865, *Further Consolidated Appropriations Act, 2020*, and signed by the President on December 20, 2019. The repeal occurred after the measurement date. We did not remove it for this report but will eliminate it in the next actuarial valuation.

Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2018
Funding Method	Entry Age Normal Cost, level percent of pay
Measurement Date	Last day of the prior fiscal year (June 30, 2019)
Asset Valuation Method	Market value of assets ($0; plan is not yet funded)
Municipal Bond Index	Fidelity Municipal Bond AA 20 Year Maturity Yield
Discount Rate	3.62% as of June 30, 2018 3.13% as of June 30, 2019
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year, since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years
Assumed Wage inflation	3.0% per year; a component of assumed salary increases
General Inflation Rate	2.75% per year

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. Rates for selected age and service are shown below and on the following pages. The representative mortality rates were those published by CalPERS adjusted to back out 15 years of Scale MP 2016 to central year 2015.

Mortality Improvement	MacLeod Watts Scale 2018 applied generationally from 2015 (see Addendum 3)
Applicable Retirement Formulas	Miscellaneous Classic: 2.7% @ 55 Miscellaneous PEPRA: 2% @62 Safety Classic: 2% @ 50 Safety PEPRA: 2.7% @ 57

Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

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
2018	Actual	2022	6.00%
2019	7.50%	2023	5.50%
2020	7.00%	2024	5.00%
2021	6.50%	2025 & later	5.00%

The required PEMHCA minimum employer contribution (MEC) is assumed to increase annually by 4.5%.

Participation Rate

Active employees: If currently enrolled through the City, 70% are assumed to continue their current plan election in retirement. If not currently participating in the City's medical program, 35% are assumed to elect coverage in the United HealthCare plan in the Other Southern California region in retirement.

Retired participants: Existing medical plan elections are assumed to continue until the retiree's death.

Spouse Coverage

Active employees: 60% of employees are assumed 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; if not, husbands are assumed to be 3 years older than their wives.

Excise tax on high-cost plans

We assumed the excise tax for high cost plan coverage for retirees will go into effect in the year 2022. Annual threshold amounts under the Affordable Care Act (ACA) are shown below.

2018 Thresholds	Ages 55-64	All Other Ages
Single	11,850	10,200
Other than Single	30,950	27,500

Note: Thresholds for disability retirements are assumed to be set at a level high enough to prevent taxation on disabled retiree benefits.

The thresholds are scheduled to increase by CPI plus 1% in 2019 and by CPI annually thereafter. A 40% excise tax rate was applied to the portion of premiums projected to exceed the threshold each year. We assumed that 100% of any excise tax liability for high cost retiree coverage will be borne by the City.

Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Development of Age-related Medical Premiums

Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying the medical claim cost factors to monthly baseline premium costs. The monthly baseline premium costs were set equal to the active employee-only premiums shown in the chart at the bottom of Section 2.

Representative claims costs derived from the dataset provided by CalPERS for retirees are shown below:

Expected Monthly Claims by Medical Plan for Selected Ages					
	Male				
Medical Plan	50	53	56	59	62
Blue Shield Access+: Other Southern California	$ 687	$ 810	$ 940	$ 1,078	$ 1,225
HMO: Other Southern California	662	781	907	1,040	1,182
Kaiser: Other Southern California	662	781	907	1,040	1,182
PERS Choice: Other Southern California	598	706	819	939	1,068
PERS Select: Other Southern California	709	836	971	1,113	1,265
PERSCare: Other Southern California	524	618	718	823	936
	Female				
Medical Plan	50	53	56	59	62
Blue Shield Access+: Other Southern California	$ 851	$ 934	$ 1,005	$ 1,086	$ 1,198
HMO: Other Southern California	821	901	970	1,048	1,155
Kaiser: Other Southern California	821	901	970	1,048	1,155
PERS Choice: Other Southern California	741	814	876	947	1,044
PERS Select: Other Southern California	879	965	1,038	1,122	1,237
PERSCare: Other Southern California	650	713	768	830	915

All current and future Medicare-eligible retirees are assumed to be covered by medical plans that are rated based solely on the experience of Medicare retirees. Therefore, no age-related premiums were developed for Medicare-eligible retirees.

Medicare Eligibility

Absent contrary data, all individuals are assumed to be eligible for Medicare Parts A and B at age 65.

Assumption changes reflected during the current measurement period:

Discount Rate:

The discount rate used to value plan benefits was changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019, based on the published change in return for the applicable municipal bond index.

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”. Upcoming excise taxes under the Affordable Care Act for retirees covered by high cost plans is another potential source of explicit subsidies.

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.

<table>
<tr><td colspan="3">Expected retiree claims</td></tr>
<tr><td colspan="2">Premium charged for retiree coverage</td><td>Covered by higher active premiums</td></tr>
<tr><td>Retiree portion of premium</td><td>Agency portion of premium
Explicit subsidy</td><td>Implicit subsidy</td></tr>
</table>

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.

Under GASB 45, for actuarial valuations dated prior to March 31, 2015, an exception allowed plan employers with a very small membership in a large “community-rated” healthcare program to avoid reporting of implicit subsidy liability. Following a change in Actuarial Standards of Practice and in accordance with GASB 75 requirements, this exception is no longer available.

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

Important Background Information
(Continued)

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.

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
Prior to Implicit Subsidy Adjustment		
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
After Implicit Subsidy Adjustment		
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 reduction 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 2018** was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2017 Report, published in October 2017 and (2) the demographic assumptions used in the 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published July 2017.

MacLeod Watts Scale 2018 is a two-dimensional mortality improvement scale reflecting both age and year of mortality improvement. The underlying base scale is Scale MP-2017 which has two segments – (1) historical improvement rates for the period 1951-2013 and (2) an estimate of future mortality improvement for years 2014-2016 using the Scale MP-2017 methodology but utilizing the assumptions obtained from Scale MP-2015. The MacLeod Watts scale then transitions from the 2016 improvement rate to the Social Security Administration (SSA) Intermediate Scale linearly over the 10-year period 2017-2026. After this transition period, the MacLeod Watts Scale uses the constant mortality improvement rate from the SSA Intermediate Scale from 2026-2040. The SSA's Intermediate Scale has a final step down in 2041 which is reflected in the MacLeod Watts scale for years 2041 and thereafter. Over the ages 95 to 115, the SSA improvement rate is graded to zero.

Scale MP-2017 can be found at the SOA website and the projection scales used in the 2017 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

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

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

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

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

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