

# **MILPITAS UNIFIED SCHOOL DISTRICT**

## **VALUATION OF RETIREE HEALTH BENEFITS**

**Revised Report of GASB 75 Calculations for the Fiscal Year  
Ending June 30, 2018**

**Prepared by: North Bay Pensions LLC  
February 21, 2018**

**This replaces the report previously issued on January 17, 2018**

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## Actuarial Certification

This report presents the determination of benefit obligations under **Statement No. 75 of the Governmental Accounting Standards Board (GASB 75)** as of June 30, 2017 for the retiree health and welfare benefits provided by the Milpitas Unified School District. I was retained by the District to perform these calculations. **This revised report replaces the report which was previously issued on January 17, 2018.**

GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", was issued to provide standards for governmental employers to record expense for **Other Postemployment Benefits (OPEB)**. GASB 75 replaces GASB 45 for the District, effective July 1, 2017.

The information contained in this report was based on a participant census as of July 1, 2016 provided to me by the District. The actuarial assumptions and methods used in these calculations were selected by the District after consultation with me. I believe the assumptions and methods are reasonable and appropriate for purposes of actuarial computations under GASB 75.

Actuarial computations under GASB 75 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with my understanding of GASB 75. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Due to the limited scope of my assignment, I did not perform an analysis of the potential range of future measurements.

To the best of my knowledge, this report is complete and accurate. This valuation has been conducted in accordance with generally accepted actuarial principles and practices. The undersigned is a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, and a Member of the American Academy of Actuaries, and meets their continuing education requirements and qualification standards for public statements of actuarial opinion relating to retirement plans. In my opinion, I am qualified to perform this valuation.

 2-21-18

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## Summary of Results

### Background

The District maintains a program which pays part or all of monthly medical insurance premiums on behalf of retired former employees, provided that the employee has satisfied certain requirements. As of June 30, 2017, the District has accumulated \$0 in an irrevocable trust toward the cost of future benefits.

In June 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement, often referred to as **GASB 75**, requires governmental entities to (1) record annual expense for their OPEB and (2) disclose certain information in their year-end financial statements.

I previously performed an actuarial valuation of the District's post-retirement medical benefits as of July 1, 2016. The results of that valuation have been rolled forward to June 30, 2017 for purposes of GASB 75 reporting for the 2017-2018 fiscal year. **After the final report was issued on January 17, 2018, I was notified that the maximum benefit cap was increased from \$820.87 to \$920.87. This revised report reflects the higher cap.**

### Net OPEB Liability

The **Total OPEB Liability** (TOL) is the portion of the APVPBP which has been "earned" by employees based on past years of service (i.e. benefits allocated to past years of service).

The **Plan Fiduciary Net Position** (FNP) is equal to the value of assets that have been accumulated in an irrevocable trust for these benefits.

The **Net OPEB Liability or Asset** (NOL) is the excess of the Total OPEB Liability over the Plan Fiduciary Net Position. At the end of each fiscal year, beginning June 30 2018, the District must show a liability equal to the NOL.

At June 30, 2016 and June 30, 2017, these amounts are:

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Present value of benefits for employees	\$ 16,318,701	\$ 16,902,563
Present value of benefits for retirees	<u>3,139,974</u>	<u>2,262,392</u>
Total OPEB Liability	\$ 19,458,675	\$ 19,164,955
 Plan Fiduciary Net Position	 \$ 0	 \$ 0
Net OPEB Liability	\$ 19,458,675	\$ 19,164,955

## **OPEB Expense under GASB 75**

GASB 75 requires that the annual change in the NOL be recognized as OPEB expense, except for certain specific changes which are to be recognized over different periods of time. Changes in actuarial assumptions, and experience gains and losses, are to be recognized over the average of the expected remaining service lives of all employees. As of June 30, 2017, this average for District employees is 11.1 years. Differences between actual and expected investment earnings are to be recognized over 5 years. The unrecognized remaining amounts of assumption changes, experience gains/losses and investment earnings differences are called “deferred outflows and inflows of resources relating to OPEB” (see Exhibit 5).

The OPEB Expense for the fiscal year ending June 30, 2018 is **\$1,227,656**. A derivation of this amount is shown in Exhibit 4.

## **Disclosure Information as of June 30, 2018**

Amounts to be disclosed in the footnotes to the District’s audited financial statements as of June 30, 2018 are shown in Exhibits 1 through 5 of this report.

Exhibit 6 shows estimated retiree benefits and OPEB expense for the next nine years after that.

## **Actuarial Assumptions**

All actuarial assumptions are unchanged from the July 1, 2016 valuation, except for the discount rate. The assumptions are described in detail in Exhibit 8.

Under GASB 75, the discount rate is equal to the “yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher”. For this purpose, the District has elected to use the S&P Municipal Bond 20 Year High Grade Rate Index. Using that index, the discount rate at June 30 2016 is 2.71%, and the discount rate at June 30 2017 is 3.13%.

## Exhibit 1 - Total OPEB Liability

The Total OPEB Liability (TOL) as of June 30, 2016 and June 30, 2017 is:

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
1. Value of benefits for employees	\$ 16,318,701	\$ 16,902,563
2. Value of benefits for retirees	<u>3,139,974</u>	<u>2,262,392</u>
3. Total OPEB Liability	\$ 19,458,675	\$ 19,164,955

The Total OPEB Liability has changed from June 30, 2016 to June 30, 2017 in this way:

4. TOL at June 30, 2016	\$ 19,458,675
5. Service cost	771,833
6. Interest	514,785
7. Differences between actual and expected experience	0
8. Changes in benefit terms	0
9. Changes in assumptions	(654,481)
10. Benefits paid to retirees	<u>(925,857)</u>
11. Net changes	(293,720)
12. TOL at June 30, 2017	\$ 19,164,955

These figures were based on the July 1, 2016 participant census, which included these persons:

### Active Employees

Number	398 employees
Average Age	49.7 years
Average Service	16.7 years

### Retired Former Employees

Number	65 persons
Average Age	62.3 years

## Exhibit 2 - Sensitivity of the Total OPEB Liability

The following presents the Total OPEB Liability (TOL) as well as what the TOL would be if it were calculated using a discount rate that is 1-percentage-point higher or lower than the current discount rate, as of June 30, 2017:

	<b>1% Decrease 2.13 %</b>	<b>Discount Rate 3.13 %</b>	<b>1% Increase 4.13 %</b>
Net OPEB Liability (Asset)	\$ 20,766,876	\$ 19,164,955	\$ 17,709,044

The following presents the Total OPEB Liability (TOL) as well as what the TOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point higher or lower than the current healthcare cost trend rates, as of June 30, 2017:

	<b>1% Decrease 4.5 to 4.8 %</b>	<b>Trend Rates 5.5 to 5.8 %</b>	<b>1% Increase 6.5 to 6.8 %</b>
Net OPEB Liability (Asset)	\$ 17,949,271	\$ 19,164,955	\$ 20,539,640

## Exhibit 3 - OPEB Expense for the Fiscal Year Ending June 30, 2018

For the year ending June 30, 2018, the District will recognize OPEB expense of **\$1,227,656**, computed as follows:

Service cost	\$ 771,833
Interest	514,785
Change in TOL due to changes in benefits	0
Recognition of difference between actual and expected experience	0
Recognition of changes in assumptions	(58,962)
Recognition of difference between projected and actual earnings on investments	<u>0</u>
<b>Total</b>	<b>\$ 1,227,656</b>

## Exhibit 4 - Deferred Outflows and Inflows of Resources

The values of deferred outflows and inflows of resources related to OPEB as of June 30, 2017, **to be reported as of June 30, 2018**, are:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	595,519
Net difference between projected and actual earnings on OPEB plan investments	0	0
District contributions subsequent to the measurement date	<u>UNKNOWN</u>	<u>0</u>
Total	\$ UNKNOWN	\$ 595,519

The amounts shown above as UNKNOWN are the total amounts contributed by the District to retirees' benefits during the year ending June 30, 2018.

Amounts reported as deferred outflows and inflows of resources related to OPEB as of June 30 2017, to be reported as of June 30, 2018, will be recognized in OPEB expense as follows:

Year Ended June 30	
2019	\$ (58,962)
2020	(58,962)
2021	(58,962)
2022	(58,962)
2023	(58,962)
Thereafter	(300,709)



## Exhibit 5 - Schedule of Changes in the Total OPEB Liability

Reporting date	<b><u>6/30/2018</u></b>
<b>Total OPEB liability</b>	
Service cost	\$ 771,833
Interest	514,785
Changes of benefit terms	0
Differences between actual and expected experience	0
Changes of assumptions	(654,481)
Benefits paid to retirees	<u>(925,857)</u>
<b>Net change in Total OPEB liability</b>	<b>(293,720)</b>
<b>Total OPEB liability – beginning</b>	<b><u>19,458,675</u></b>
<b>Total OPEB liability - ending</b>	<b>\$ 19,164,955</b>
 Covered-employee payroll	 \$ 71,141,497
 Total OPEB liability as a percentage of covered-employee payroll	 26.94 %

## Exhibit 6 - Ten-Year Projection of Costs

Shown below are estimates of (a) the benefits expected to be paid to retirees, (b) subsidized premiums and (c) the amounts the District is expected to accrue as GASB 75 OPEB expense, for the next ten years. For these estimates, it is assumed that all actuarial assumptions and the size of the workforce will remain unchanged, that the promised benefits will remain the same, that the District will pay all benefits to retirees each year, and that there are no significant experience gains or losses.

Fiscal Year Ending:	Cash Benefits <u>To Retirees</u>	Subsidized <u>Premiums</u>	GASB 75 <u>OPEB Expense</u>
2018	\$ 702,000	\$ 413,000	\$ 1,227,656
2019	730,000	437,000	1,258,000
2020	745,000	442,000	1,286,000
2021	760,000	462,000	1,314,000
2022	769,000	473,000	1,343,000
2023	761,000	467,000	1,372,000
2024	733,000	468,000	1,403,000
2025	731,000	486,000	1,436,000
2026	760,000	550,000	1,472,000
2027	672,000	494,000	1,507,000

## Exhibit 7 - Summary of Benefit Provisions

1. **Eligibility:** Employees who retire after age 55 with at least 12 years of service are entitled to benefits. Employees hired after June 30, 2007 are not entitled to any benefits from this plan.

There are three different employee groups for which benefits are provided:

2. **Management:** The plan pays the full monthly premium for a District-sponsored medical plan for the retiree, until the retiree reaches age 65. If the retiree has at least 15 years of service, then coverage will be either employee-plus-one medical, or employee-only medical-plus-dental. With at least 20 years of service, coverage will be employee-plus-one for both medical and dental. If at least 25 years of service, coverage will be family coverage for medical, dental and vision benefits. All payments cease when the retiree reaches age 65. The amount of the monthly District-paid medical premium is not to exceed the district cap at the time of retirement. Employees hired during the 2006-07 fiscal year are only eligible for employee-only medical coverage, and only if they have at least 25 years of service. Employees who retire after age 55 with at least 25 years of service are covered by group term life insurance of \$30,000. The current district cap is \$820.87, changed to \$920.87 effective January 1, 2017.
3. **Certificated:** Retired certificated employees are entitled to the same benefits as retired management employees, except that retired certificated employees do not receive vision or group term life insurance coverage, and benefits are pro-rated if the employee worked less than full-time (8 hours per day).
4. **Classified (CSEA):** Classified employees who retire are entitled to the same benefits as retired certificated employees.
5. For 2016 and 2017, the total uncapped monthly premiums are:

	<u>2016</u>	<u>2017</u>
Kaiser High employee only	\$ 677.82	644.95
Kaiser High employee plus spouse	1,355.64	1,289.89
Kaiser High family coverage	1,918.23	1,825.20
Anthem Blue Cross High employee only	930.68	908.24
Anthem Blue Cross High employee plus spouse	1,861.35	1,816.48
Anthem Blue Cross High family coverage	2,633.82	2,570.33
Anthem Blue Cross PPO employee only	782.93	864.01
Anthem Blue Cross PPO employee plus spouse	1,644.15	1,814.42
Anthem Blue Cross PPO family coverage	2,348.78	2,592.03
Delta Dental, certificated and classified	149.13	149.13
Delta Dental, management	156.33	156.33
Vision Service Plan	26.29	26.29
Life Insurance	10.20	10.20

## Exhibit 8 - Summary of Actuarial Assumptions

**Actuarial Assumptions:** The following assumptions as of June 30, 2017 were selected by the District in accordance with the requirements of GASB 75. These assumptions, in my opinion, are reasonable and appropriate for purposes of determining OPEB costs under GASB 75.

**20-Year Bond Rate:** The District has elected to use the S&P Municipal Bond 20 Year High Grade Rate Index. Using that index, the discount rate at June 30 2016 is 2.71%, and the discount rate at June 30 2017 is 3.13%.

**Discount rate:** As noted above, the discount rate at June 30 2016 is 2.71%, and the discount rate at June 30 2017 is 3.13%.

**Medical Cost Increases (Trend):** Medical premiums for retired employees are assumed to increase as follows:

2018	5.8 %
2019 and later	5.5 %

Dental and vision premiums are assumed to increase 4% per year.

**Mortality:** Mortality rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and from the 2015 valuation of STRS (for certificated employees).

**Actuarial Methods:** The Entry Age actuarial cost method has been used, with normal costs calculated as a level percentage of payroll, as required by GASB 75.

**Coverage Elections:** 100% of eligible employees are assumed to elect coverage upon retirement, and to remain covered under District plans until age 65. Eligible future retirees are assumed to choose medical plans in this manner: 80% are assumed to choose the Kaiser High plan, 10% are assumed to choose Anthem Blue Cross High plan, and 10% are assumed to choose the Anthem Blue Cross PPO. Employees who qualify for coverage of family members are assumed to be married to a spouse the same age.

**Retirement:** Retirement rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and from the most recent valuation of Cal STRS (for certificated employees). Sample rates are:

	<u>10 Years Service</u>	<u>20 Years Service</u>	<u>30 Years Service</u>
<b>CalPERS</b>			
Age 55	4.8 %	7.9 %	9.9 %
Age 58	5.0 %	8.3 %	10.3 %
Age 61	9.0 %	14.9 %	18.6 %
Age 64	13.3 %	21.9 %	27.3 %
<b>STRS Males</b>			
Age 55	2.7 %	2.7 %	8.0 %
Age 58	2.7 %	2.7 %	14.0 %
Age 61	6.3 %	6.3 %	43.0 %
Age 64	10.8 %	10.8 %	30.0 %
<b>STRS Females</b>			
Age 55	4.5 %	4.5 %	9.0 %
Age 58	4.1 %	4.1 %	16.0 %
Age 61	9.0 %	9.0 %	40.0 %
Age 64	13.5 %	13.5 %	32.0 %

**Turnover (withdrawal):** Likelihood of termination within the next year is taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and from the most recent valuation of Cal STRS (for certificated employees). Sample rates are:

	<u>5 Years Service</u>	<u>10 Years Service</u>	<u>15 Years Service</u>
<b>CalPERS</b>			
Age 20	12.04 %		
Age 30	9.82 %	8.01 %	7.69 %
Age 40	7.58 %	5.72 %	5.34 %
Age 50	1.35 %	0.74 %	0.53 %
<b>STRS Males</b>			
Age 20	3.90 %		
Age 30	3.60 %	2.00 %	1.10 %
Age 40	3.00 %	2.00 %	1.10 %
Age 50	3.00 %	2.00 %	1.10 %
<b>STRS Females</b>			
Age 20	5.50 %		
Age 30	5.30 %	2.30 %	1.00 %
Age 40	3.80 %	1.60 %	0.90 %
Age 50	2.50 %	1.30 %	0.90 %

**District Cap:** The District benefit cap is assumed to remain unchanged at \$920.87 per month in all future years.

**Payroll Growth:** Total payroll is assumed to increase 3.0% per year in the future.

**Disability:** Incidence of disability is considered to be included in the rates above, so no explicit recognition of disability benefits has been included.

**Inflation:** Long-term inflation is assumed to be 2.75% per year.

**Age-Specific Medical Claims:** The estimated per person medical claims (true costs of coverage) during the 2016-17 fiscal year are as follows (rates are shown for certain ages only):

<u>Age</u>	
40	\$ 6,809
45	7,926
50	9,259
55	10,923
60	13,326
64	16,418

These age-specific rates were developed so as to reproduce in the aggregate the same total premium that would be paid to the carriers for all current employees and all current retirees.