

LOS ALTOS SCHOOL DISTRICT

VALUATION OF RETIREE HEALTH BENEFITS

**REPORT OF GASB 75 ACTUARIAL VALUATION
AS OF JULY 1, 2017**

**Prepared by: North Bay Pensions LLC
February 21, 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 July 1, 2017 for the retiree health and welfare benefits provided by the Los Altos School District. I was retained by the District to perform these calculations.

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, 2017 provided to me by the District. The actuarial assumptions and methods used in this valuation 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.



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Summary of Results

Background

The District maintains a program which pays part 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 \$5,247,615 in an irrevocable trust with the CalPERS CERBT (California Employers' Retiree Benefit Trust) toward the cost of future benefits.

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", 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.

The District has requested this actuarial valuation to determine what its OPEB obligations are, and what the fiscal impact of GASB 75 will be for the 2017-2018 fiscal year.

Actuarial Present Value of Projected Benefit Payments

The Actuarial Present Value of Projected Benefit Payments (APVPBP) for all current and former employees, as of July 1, 2017, is **\$28,386,302**. This is the amount the District would theoretically need to set aside at this time to fully fund all those future benefits.

The total value of \$28,386,302 is the sum of these amounts:

Future benefits of current employees	\$ 15,175,203
Future benefits of current retirees	<u>13,211,099</u>
APVPBP	\$ 28,386,302

The APVPBP of \$28,386,302 may be compared to the APVTPB of \$22,137,147 that was reported in the 2015 valuation report. We would have expected the APVTPB to decrease to approximately \$21,908,000 by 2017 as employees continue working and approach retirement age. The difference between the 2015 figure of \$22,137,147 and this year's figure of \$28,386,302 is due to:

• Expected decrease since 2015	\$ (229,272)
• Change in the discount rate from 4.25% to 3.13%	6,091,265
• New assumptions for certificated employees	1,252,541
• Miscellaneous experience gains and losses	<u>(965,379)</u>
	\$ 6,249,155

The experience gain of \$965,379 is the combined result of (1) normal demographic effects (i.e., terminations, deaths and retirements different than expected); and (2) medical premiums in 2017 and 2018 different than were anticipated back in 2015. The changes in the discount rate and certificated assumptions are explained further under “Actuarial Assumptions”, below.

These figures were computed by (1) estimating the OPEB benefits that will be paid to each current and former employee and their beneficiaries (if applicable), upon the employee’s retirement from the District, (2) estimating the likelihood that each payment will be made, taking into consideration the likelihood of remaining employed until retirement age and the likelihood of survival after retirement, and (3) discounting each expected future payment back to the present date at an assumed rate of investment return.

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 employment).

The **Plan Fiduciary Net Position** (FNP) is equal to the value of assets that have been accumulated in an irrevocable trust for these benefits. Since the District has not accumulated any such funds, the FNP is \$0.

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	\$ 5,278,857	\$ 5,434,448
Present value of benefits for retirees	<u>14,605,022</u>	<u>13,211,099</u>
Total OPEB Liability	\$ 19,883,879	\$ 18,645,547
Accumulated assets	<u>\$ 0</u>	<u>\$ 0</u>
Plan Fiduciary Net Position	\$ 0	\$ 0
Total OPEB Liability	\$ 19,883,879	\$ 18,645,547
Plan Fiduciary Net Position	<u>\$ 0</u>	<u>\$ 0</u>
Net OPEB Liability	\$ 19,883,879	\$ 18,645,547

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 20.0 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 **\$967,208**. 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 2 through 6 of this report.

Exhibit 7 shows estimated retiree benefits and OPEB expense for the next nine years after that.

Actuarial Assumptions

All actuarial assumptions are described in detail in Exhibit 9, and are unchanged from the July 1, 2015 valuation, with these exceptions:

- The discount rate has been changed from 4.25% per year to 3.13% per year. This change was made to comply with the new requirements of GASB 75 that the discount rate for an unfunded program should reflect the yield on high-quality 20-year municipal bonds. The District has elected to use the “S&P Municipal Bond 20 Year High Grade Rate Index” for this purpose. That Index was 2.71% at June 30 2016, and 3.13% at June 30 2017. This change in discount rate increased the APVPBP by \$6,091,265.
- The assumed rates of retirement, termination and mortality for certificated employees have been changed from the 2010 STRS rates to the 2016 STRS rates. The new rates reflect an experience study for all STRS participants was released in 2016. This change increased the APVPBP by \$1,252,541.

Exhibit 1 - Actuarial Values as of July 1, 2017

The Actuarial Present Value of Projected Benefit Payments (APVPBP) as of July 1, 2017 of all future employer-paid benefits from the program, for all current and former employees, is as follows:

	<u>Actuarial Present Values</u>	<u>Number of Persons</u>
Current employees	\$ 15,175,203	493
Retired former employees	<u>13,211,099</u>	<u>174</u>
Totals	\$ 28,386,302	667

As of June 30, 2017, the District has not accumulated any assets in an irrevocable trust toward this liability.

The Total OPEB Liability (TOL) as of June 30, 2017 is the portion of the APVPBP which has been “earned” to date by current and former employees, based on the years of service already completed:

Current employees	\$ 5,434,448
Retired former employees	<u>13,211,099</u>
Totals	\$ 18,645,547

Summary of Participating Employees as of July 1, 2017

Active Employees

Number	493 employees
Average Age	45.5 years
Average Service	9.4 years

Retired Former Employees and Surviving Spouses

Number	174 persons
Average Age	77.0 years

Exhibit 2 - Total OPEB Liability

The Net OPEB Liability (NOL) is the excess of the Total OPEB Liability (TOL) over the Plan Fiduciary Net Position (FNP). As of June 30, 2016 and June 30, 2017 these are:

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Total OPEB Liability		
1. Value of benefits for employees	\$ 5,278,857	\$ 5,434,448
2. Value of benefits for retirees	<u>14,605,022</u>	<u>13,211,099</u>
3. Total OPEB Liability	\$ 19,883,879	\$ 18,645,547
Plan Fiduciary Net Position		
4. Fair value of accumulated assets	<u>\$ 0</u>	<u>\$ 0</u>
5. Plan Fiduciary Net Position	\$ 0	\$ 0
6. Net OPEB Liability: 3. minus 5.	\$ 19,883,879	\$ 18,645,547

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

7. TOL at June 30, 2016	\$ 19,883,879
8. Service cost	497,104
9. Interest	522,442
10. Differences between actual and expected experience	0
11. Assumption changes	(1,046,760)
12. Benefit changes	0
13. Benefits paid to retirees	(1,211,118)
14. Net changes	\$ (1,238,332)
15. TOL at June 30, 2017	\$ 18,645,547

Exhibit 3 - 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:

	1% Decrease 2.13 %	Discount Rate 3.13 %	1% Increase 4.13 %
Net OPEB Liability (Asset)	\$ 21,295,040	\$ 18,645,547	\$ 16,477,431

The following presents the 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:

	1% Decrease 3.0 % - 4.5 %	Trend Rates 4.0 % - 5.5 %	1% Increase 5.0 % - 6.5 %
Net OPEB Liability (Asset)	\$ 16,357,057	\$ 18,645,547	\$ 21,549,849

Exhibit 4 - OPEB Expense for the Fiscal Year Ending June 30, 2018

For the year ending June 30, 2018, the District will recognize OPEB expense of **\$967,208**, computed as follows:

Service cost	\$ 497,104
Interest	522,442
Change in TOL due to changes in benefits	0
Recognition of difference between actual and expected experience	0
Recognition of changes in assumptions	<u>(52,338)</u>
Total	\$ 967,208

Exhibit 5 - 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	994,422
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	\$ 994,422

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	\$ (52,338)
2020	(52,338)
2021	(52,338)
2022	(52,338)
2023	(52,338)
Thereafter	(732,732)

Exhibit 6 - Schedule of Changes in the Total OPEB Liability

Reporting date	<u>6/30/2018</u>
Total OPEB liability	
Service cost	\$ 497,104
Interest	522,442
Changes of benefit terms	0
Differences between actual and expected experience	0
Changes of assumptions	(1,046,760)
Benefits paid to retirees	(1,211,118)
Net change in Total OPEB liability	(1,238,332)
Total OPEB liability – beginning	<u>19,883,879</u>
Total OPEB liability - ending	\$ 18,645,547
 Covered-employee payroll	 \$ 35,460,858
 Total OPEB liability as a percentage of covered-employee payroll	 52.58 %

Exhibit 7 - Ten-Year Projection of Costs

Shown below are estimates of (a) the benefits expected to be paid to retirees, and (b) 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 the service cost will increase 2% per year, 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 fund the retiree benefits each year, and that there are no experience gains or losses.

Fiscal Year Ending:	<u>Benefits To Retirees</u>	<u>GASB 75 OPEB Expense</u>
2018	\$ 1,173,000	\$ 967,208
2019	1,037,000	1,020,000
2020	1,019,000	1,029,000
2021	953,000	1,041,000
2022	880,000	1,055,000
2023	873,000	1,072,000
2024	844,000	1,090,000
2025	842,000	1,111,000
2026	850,000	1,132,000
2027	814,000	1,154,000

Exhibit 8 - Summary of Benefit Provisions

The District contributes toward post-retirement benefits for employees who retire after meeting certain age and service requirements. Retired employees are required to enroll in CalPERS medical plans. The eligibility requirements and benefits payable are:

Certificated employees hired prior to October, 1988 who retire after age 55 with at least 10 years of service are entitled to 100% (95% if retired after June 30, 2006) of the full medical premium for any CalPERS medical plan except PERS Care. Certificated employees hired after September, 1988 who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit (\$128 per month in 2017). No benefits are paid to dependent spouses.

Classified employees hired prior to November, 1988 who retire after age 55 with at least 10 years of service are entitled to 100% (95% if retired after June 30 2006, 90% if retired after June 30 2012) of the full medical premium for any CalPERS medical plan except PERS Care. Classified employees hired after October, 1988 who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit. No benefits are paid to dependent spouses.

Confidential employees hired prior to November, 1988 who retire after age 55 with at least 10 years of service (including 5 years of District service) are entitled to 100% (95% if retired after June 30 2006, 80% if retired after June 30 2012) of the full medical premium for any CalPERS medical plan except PERS Care, plus dental coverage. All other confidential employees who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit. Dental benefits are also payable if hired before July 1989 and retired before May 2009. Dependent spouses are also covered.

Management employees hired prior to July 1989 who retire after age 55 with at least 10 years of service (including 5 years of District service) are entitled to 100% (95% if retired after June 30 2006, 75% if retired after June 30 2012) of the full medical premium for any CalPERS medical plan except PERS Care, plus dental coverage. All other management employees who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit. Dental benefits are also payable if hired before July 1989 and retired before May 2009. Dependent spouses are also covered.

2017 composite dental premiums are \$130.39 per month.

Exhibit 9 - Summary of Actuarial Assumptions

Actuarial Assumptions: The following assumptions as of July 1, 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 chosen to use the “S&P Municipal Bond 20 Year High Grade Rate Index” as its 20-year bond rate. That Index was 2.71% at June 30 2016, and 3.13% at June 30 2017.

Discount rate: 2.71% at June 30 2016, and 3.13% at June 30 2017. Since the benefits are not funded, the discount rate is equal to the 20-Year Bond Rate.

Premium Increases: PEMHCA minimum contributions are assumed to increase 4% per year after 2018. Dental premiums are assumed to increase 3% per year. CalPERS medical premiums are assumed to increase after 2018 as follows:

2019	5.5 %
2020	5.0 %
2021 and later	4.5 %

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

Coverage Elections: 100% of retiring employees who are eligible for full medical benefits, and 80% of retiring employees who are eligible for the PEMHCA minimum, are assumed to elect coverage upon retirement, and to remain covered under District plans for life. Employees who work less than 50% full-time are assumed not to qualify for benefits. Retirees who are eligible for benefits but choose not to enroll are assumed to not enroll later.

Mortality: Mortality rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified and confidential employees) and from the 2016 valuation of Cal STRS (for certificated and management employees). In the 2015 valuation, mortality for certificated and management employees was taken from the 2010 valuation of Cal STRS.

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

Retirement: Retirement rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified and confidential employees) and from the 2016 valuation of Cal STRS (for certificated and management employees). Sample rates are:

	<u>10 Years Service</u>	<u>20 Years Service</u>	<u>30 Years Service</u>
CalPERS			
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 %
STRS Males			
Age 55	2.7 %	2.7 %	6.0 %
Age 58	2.7 %	2.7 %	12.0 %
Age 61	7.0 %	7.0 %	50.0 %
Age 64	13.0 %	13.0 %	30.0 %
STRS Females			
Age 55	3.5 %	3.5 %	8.0 %
Age 58	3.5 %	3.5 %	15.0 %
Age 61	9.0 %	9.0 %	50.0 %
Age 64	14.0 %	14.0 %	35.0 %

In the 2015 valuation, retirement rates for certificated and management employees was taken from the 2010 valuation of Cal STRS.

Turnover (withdrawal): Likelihood of termination within the next year is taken from the 2014 CalPERS OPEB Assumptions Model (for classified and confidential employees) and from the 2016 valuation of Cal STRS (for certificated and management employees). Sample rates are:

	<u>5 Years Service</u>	<u>10 Years Service</u>	<u>15 Years Service</u>
CalPERS			
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 %
STRS Males			
Age 20	3.50 %		
Age 30	3.50 %	1.80 %	1.20 %
Age 40	3.50 %	1.80 %	1.20 %
Age 50	3.50 %	1.80 %	1.20 %
STRS Females			
Age 20	3.00 %		
Age 30	3.00 %	1.80 %	1.20 %
Age 40	3.00 %	1.80 %	1.20 %
Age 50	3.00 %	1.80 %	1.20 %

In the 2015 valuation, turnover rates for certificated and management employees was taken from the 2010 valuation of Cal STRS.

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 2017-18 fiscal year are as follows (rates are shown for certain ages only):

<u>Age</u>	
40	\$ 7,624
45	9,219
50	11,390
55	14,047
60	16,372
64	17,566

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.

Family Status: 20% of future retirees are assumed to be married, with male spouses 3 years older than females.