

CITY OF LARKSPUR  
Staff Report

November 19, 2014 Council Meeting

DATE: November 14, 2014  
TO: Honorable Mayor Morrison and Members of the City Council  
FROM: Dan Schwarz, City Manager  
SUBJECT: ASSESSMENT OF LARKSPUR'S OTHER POST- EMPLOYMENT  
BENEFITS (OPEB) LIABILITY AND APPOINTMENT OF AN AD-HOC  
COMMITTEE

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**ACTION REQUESTED**

Receive report and oral presentation. Consider appointment of an ad-hoc committee to work with the City Manager on a plan to address the City's OPEB liability.

**SUMMARY**

At its strategic planning session earlier this year, the Council identified the City's Other Post-Employment Benefits (OPEB) Liability as a critical issue that must be addressed as part of the City's short and long-term financial planning. For Larkspur, the OPEB liability is the amount of money the City ought to have in a trust account today to cover the cost of promised medical coverage for retired employees. The City hired Bickmore Health and Benefit Actuarial Services to prepare an analysis of the City's liability. Bickmore has produced the attached actuarial analysis, which places the actuarial accrued liability at \$12.3 million and the actuarial present value of projected benefits at \$16.6 million. These concepts are explained within the report.

The City Manager will make an oral presentation about the report at the Council's November 19 meeting. City staff is currently working on potential approaches to addressing this liability for discussion later this fiscal year. Staff believes it will be beneficial to the Council to assign an ad-hoc committee to review various options with staff prior to such a discussion. It is recommended that the Council appoint a two-person "Ad-Hoc Committee on OPEB Liability" for this purpose.

**STAFF RECOMMENDATION**

It is recommended for the Council to receive the report and appoint an ad-hoc committee.

Respectfully submitted,

Dan Schwarz  
City Manager

Attachments  
OPEB liability report



October 23, 2014

Daniel Schwarz  
City Manager  
City of Larkspur  
400 Magnolia Avenue  
Larkspur, CA 94939

Re: July 1, 2013 Actuarial Report on GASB 45 Retiree Benefit Valuation

Dear Daniel:

We are pleased to enclose our report providing the results of the July 1, 2013 actuarial valuation of other post-employment benefit (OPEB) liabilities for the City of Larkspur (the City). The report's text describes our analysis and assumptions in detail.

The primary purposes of the report are to develop:

- The value of future OPEB expected to be provided by the City, and
- The current OPEB liability and the annual OPEB expense to be reported in the City's financial statements for the fiscal years ending June 30, 2014, 2015 and 2016.

The majority of the exhibits included in this report reflect our assumption that the City will continue funding its OPEB liability on a pay-as-you-go basis for the three fiscal years indicated above. Other approaches are possible and these are discussed briefly in the report. We have included an illustration of valuation results calculated on a prefunding basis as an Appendix to this report. If additional illustrations would be helpful to see for any of the fiscal years to which this report will be applied, please let us know.

This valuation was prepared on the assumption that the City will continue to follow the terms of its current PEMHCA resolution on file with CalPERS and to provide additional benefits as provided by the terms of Memorandums of Understanding. We have based our valuation on employee data and plan information provided by the City. We encourage you to review our summary of the benefits described in Table 3A to be comfortable that we have described these provisions correctly.

We appreciate the opportunity to work on this analysis and acknowledge the efforts of the City's staff, who provided valuable information and assistance to enable us to perform this valuation. Please let us know if we can be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Catherine L. MacLeod".

Catherine L. MacLeod, FSA, EA, MAAA  
Director, Health and Benefit Actuarial Services

Enclosure



City of Larkspur

Actuarial Valuation of the Other  
Post-Employment Benefit Programs  
As of July 1, 2013

Submitted October 2014

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## A. Executive Summary

This report presents the results of the July 1, 2013 actuarial valuation of the City of Larkspur (the City) other post-employment benefit (OPEB) programs. Briefly, benefits include subsidized medical insurance coverage for eligible retirees. The purpose of this valuation is to assess the OPEB liabilities and provide disclosure information as required by Statement No. 45 of the Governmental Accounting Standards Board (GASB 45).

How much the City contributes each year affects the calculation of liabilities. Prefunding is the term used to describe when an agency consistently contributes an amount at least equal to the annual required contribution (ARC) each year. Contributing only the current year's retiree payments is referred to as pay-as-you-go funding. There are other options relating to the funding policy, including shorter amortization periods and partial pre-funding. These other options would require additional calculations not provided in this report, though we would be happy to provide illustrations at the City's request.

Prefunding the plan typically supports use of a higher discount rate and often produces substantially lower liabilities than a pay-as-you-go funding policy, which usually requires a lower discount rate. This valuation uses discount rates of 6.5% and 4.0% for prefunding and pay-as-you-go calculations, respectively. Neither rate is a guarantee of future investment performance, but rather an assumption about the long term rate of return. We have selected these rates for illustrative purposes, though the ultimate decision for these rates lies with the City.

In its financial report for the period ending June 30, 2013, the City reported a net OPEB obligation of \$2,035,414. The City confirmed it has not yet established an irrevocable OPEB trust. Accordingly, we prepared our calculations assuming a continuation of the current pay-as-you-go funding approach. We calculate the GASB 45 actuarial accrued liability (AAL) to be \$12,308,419 as of July 1, 2013. With no trust assets to offset these liabilities, the unfunded accrued liability as of this date is also \$12,308,419, and the funded ratio is 0%.

*The following summarizes results for the fiscal year ending June 30, 2014:*

- We calculate the annual required contribution (ARC) to be \$1,026,992.
- The City reported contributions totaling \$255,039 for the fiscal year ending June 30, 2014, equal to the premium payments for retirees.
- Based on the calculations and contributions as described above, we calculate a net OPEB obligation of \$2,799,789 as of June 30, 2014.

These results are shown in tables beginning on page 11. Projected results for the fiscal year ending June 30, 2015 and June 30, 2016 are also shown in these tables.

The liabilities shown in the report reflect assumptions regarding continued future employment, rates of retirement and survival, and elections by future retirees to continue coverage for themselves and their dependents. To the extent that actual experience is not what we assumed, future results will be different. We also note that this valuation has been prepared on a closed group basis; no provision is made for new employees.

## Executive Summary (Concluded)

Some discussion of how results compare to those from the 2009 Alternative Measure Method (AMM) valuation is provided on pages 7 and 24. While other sources of differences in future results are possible, the most likely causes for variance are:

- A significant change in the number of covered plan members entitled to future plan benefits;
- A significant increase or decrease in the future medical premium rates or in the subsidy provided by the City toward retiree medical premiums;
- Establishment of and contributions to an irrevocable OPEB trust with assets expected to yield a higher long term rate of return;
- Recognition of *additional* expected improvements in life expectancies of retirees;
- A recently adopted change in Actuarial Standards of Practice, likely required to be reflected in the next OPEB valuation, which effectively eliminates the ability of the City to ignore the implicit subsidy liability arising when medical premiums for retired employees are the same as premiums for active employees in a community-rated medical program such as CalPERS (see page 4);
- Changes in the OPEB accounting standard (revisions to GASB 45), similar to changes adopted in GASB 68 for defined benefit retirement plan liabilities. Some of the changes are expected to include information to be reported on the balance sheet, how the discount rate is determined and shortening of the amortization period for recognizing the unfunded actuarial accrued liability.

The last two items may not create any additional liability that did not previously exist, but will change how much liability is required to be valued and reported. We would be happy to discuss how any of the above could be expected to impact future valuation results.

Details of our valuation process and the various disclosures required by GASB 45 are provided on the succeeding pages. The date of the next actuarial valuation should not be later than July 1, 2016. If there are any significant changes in the employee data, benefits provided or the funding policy, please contact us to discuss whether an earlier valuation is appropriate.

### 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 and to provide the annual contribution information with respect to the City's current OPEB funding policy. 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; Bickmore 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. Requirements of GASB 45

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. We understand that the City implemented GASB 45 for the fiscal year ended June 30, 2010.

For agencies with less than 200 members covered by or eligible for plan benefits, GASB 45 requires that a valuation be prepared no less frequently than every three years. Required disclosures include the determination of an annual OPEB cost. For the first year, the annual OPEB cost is equal to the annual required contribution (ARC) as determined by the actuary.

- If the City's OPEB contributions had been equal the ARC each year, the net OPEB obligation would equal \$0.
- If the City's actual contribution is less than (greater than) the ARC, then a net OPEB obligation (asset) amount is established. In subsequent years, the annual OPEB expense will reflect adjustments made to the net OPEB obligation, in addition to the ARC (see Table 1C).

GASB 45 provides for recognition of payments as contributions if they are made (a) directly to retirees or beneficiaries, (b) to an insurer, e.g., for the payment of premiums, or (c) to an OPEB fund set aside toward the cost of future benefits. Funds set aside for future benefits should be considered contributions to an OPEB plan only if the vehicle established is one that is capable of building assets that are separate from and independent of the control of the employer and legally protected from its creditors. Furthermore, the sole purpose of the assets should be to provide benefits under the plan. These conditions generally require the establishment of a legal trust. Earmarked assets or reserves may be an important step in financing future benefits, but they may not be recognized as an asset for purposes of reporting under GASB 45.

The decision whether or not to prefund, and at what level, is at the discretion of the City, as are the manner and term for paying down the unfunded actuarial accrued liability. Once a funding policy has been established, however, the City's auditor may have an opinion as to the timing and manner of any change to such policy in future years. The level of prefunding also affects the selection of the discount rate used for valuing the liabilities.

## C. Sources of OPEB Liabilities

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are:

- Medical
- Dental
- Prescription drug
- Vision
- Life insurance

Other possible post-employment benefits may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include vacation, sick leave<sup>1</sup> or COBRA benefits, which fall under other GASB accounting statements.

A direct employer payment toward the cost of OPEB is referred to as an “explicit” subsidy and these are included in the determination of OPEB liabilities. In addition, if claims experience of employees and retirees are pooled when determining premiums, the retirees pay a premium based on a pool of members that, on average, are younger and healthier. For certain types of coverage, such as medical, payment of the same premium rate results in an “implicit” subsidy of retiree claims by active employee premiums since the retiree premiums are lower than they would have been if the retirees were insured separately. Paragraph 13.a. of GASB 45 generally requires an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Exceptions may exist when the plan is part of a “community-rated” program. Current GASB guidance<sup>2</sup> may allow an agency whose membership is a very small portion (e.g., less than 1%) of the total coverage of a multiple employer plan to reasonably conclude that any change in their group’s mix of retirees and active employees would not affect the premium rates for the plan. In those circumstances, while an implicit subsidy may exist, it is not currently required to be disclosed.

### OPEB Obligations of the City

The City provides continuation of medical coverage to its retiring employees. For retirees and their dependent(s) who have chosen to retain this coverage:

- The City contributes directly to the cost of retiree medical coverage. These benefits are described in Table 3A and liabilities have been included in this valuation.
- Employees are covered by the CalPERS medical program. The experience of public agency employer membership in this program is community-rated (“OPEB Assumption Model”, August 2012) and the City’s membership in this program is incidental relative to the total number of members covered. As currently permitted by GASB 45<sup>2</sup>, this report does not make age-related premium adjustments or compute an implicit rate subsidy for employees covered under this program.

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<sup>1</sup> When a terminating employee’s unused sick leave credits are converted to provide or enhance a defined benefit OPEB, e.g., healthcare benefits, such converted sick leave credits should be valued under GASB 45.

<sup>2</sup> A change in Actuarial Standards of Practice was recently adopted and a new GASB Statement for reporting of OPEB liabilities is under development. One important change is the elimination of the exception for disclosing the implicit subsidy liability for community rated plans. These changes could significantly impact the OPEB liability to be reported by the City for the fiscal year ending June 30, 2017.



## D. Valuation Process

The valuation has been based on employee census data initially submitted to us by the City in July 2014 and clarified in various related communications. Summaries of that data are provided in Table 2. While the individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. A summary of the benefits provided under the Plan is provided in Table 3, based on information supplied to Bickmore by the City. The valuation described below has been performed in accordance with the actuarial methods and assumptions described in Table 4.

In the specific development of the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee's future retirement. We then calculate a present value of these benefits as of the valuation date.

- These present value determinations discount the value of each future expected benefit payment back to the valuation date, using the discount rate. The present value calculations also reflect assumptions for the likelihood that an employee may not continue in service with the City to receive benefits.
- For those that do continue in service with the City, assumptions are made regarding the probability of retirement at various ages.
- After adjustments for the probabilities of whether and when an employee may retire from the City, we then apply an assumption about whether or not the retiree will elect coverage for themselves and/or dependents.
- To the extent an employee is assumed to qualify and elect coverage in retirement, the calculated liability reflects expected trends in the cost of those benefits and the assumptions as to the expected date(s) those benefits will cease.
- These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for 65 years or more.

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 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 "actuarial accrued liability" (AAL). The amount of future OPEB cost allocated for active employees in the current year is referred to as the "normal cost". The remaining active cost to be assigned to future years is called the "present value of future normal costs". In summary:

Actuarial Accrued Liability	Past Years' Costs
<i>plus</i> Normal Cost	Current Year's Cost
<u><i>plus</i> Present Value of Future Normal Costs</u>	<u>Future Years' Costs</u>
<i>equals</i> Present Value of Projected Benefits	Total Benefit Costs

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets is applied to offset the AAL. It is our understanding that the City's plans have not yet been funded and no assets have been set aside in an irrevocable trust as of the valuation date. The portion of the AAL not covered by assets is referred to as the unfunded actuarial accrued liability (UAAL).

### E. Basic Valuation Results

The following chart compares the results of the July 1, 2013 valuation of OPEB liabilities to the results of the July 1, 2009 valuation.

Valuation date	Pay-As-You-Go Basis	
	7/1/2009	7/1/2013
Discount rate	5.00%	4.00%
<b>Number of Covered Employees</b>		
Actives	54	59
Retirees	39	41
Total Participants	93	100
<b>Actuarial Present Value of Projected Benefits</b>		
Actives	\$ 7,957,551	\$ 12,086,887
Retirees	-	4,511,606
Total APVPB	7,957,551	16,598,493
<b>Actuarial Accrued Liability (AAL)</b>		
Actives	4,055,553	7,796,813
Retirees	-	4,511,606
Total AAL	4,055,553	12,308,419
<b>Actuarial Value of Assets</b>	-	-
<b>Unfunded AAL (UAAL)</b>	4,055,553	12,308,419
<b>Normal Cost</b>	345,673	470,028
<b>Benefit Payments</b>	251,009	255,039

The funded ratio (the ratio of the Actuarial Value of Assets divided by the Actuarial Accrued Liability) is 0.0% as of July 1, 2013. Covered payroll as of July 1, 2013 was reported to be \$4,336,754. The Unfunded Actuarial Accrued Liability, expressed as a percentage of payroll, is 283.8% as of this date.

#### Changes Since the Prior Valuation

Even if all of the previous assumptions were met exactly as projected, OPEB liabilities often increase over time as active employees get closer to the date their benefits are expected to begin. Given the uncertainties involved and the long term nature of these projections, it is highly unlikely that the prior assumptions will ever be exactly realized.

Bickmore did not prepare the July 2009 AMM valuation nor did we receive the prior data in order to be able to redevelop those results. Consequently, a detailed determination of why results are different is not possible. In comparing results shown in the exhibit above, however, we can see that the unfunded actuarial accrued liability (UAAL) increased by \$8,253,000 over the four year period between July 1, 2009 and July 1, 2013.

## **Basic Valuation Results (Concluded)**

Changes since the July 2009 AMM valuation include the following:

- Plan experience relative to prior assumptions;
- Changes in retiree medical benefits and recognition of the PEMHCA required minimum employer contributions for those who do not qualify for the longer service benefits;
- A change in discount rates used to develop the OPEB liability, from 5.0% to 4.0%, which would increase the unfunded AAL;
- Revised assumptions for mortality (including projection of future improvements, resulting in longer life expectancies), termination, disability and retirement, based on the most recent CalPERS retirement plan experience study covering City employees;
- An increase in the percent of active employees assumed to be married and to elect to cover their spouse in retirement, from 60% to 70%; and
- An increase in assumed future increases in medical premium levels between 2014 and 2022.

## F. Funding Policy

The specific calculation of the ARC and annual OPEB expense for an agency depends on how it elects to fund these benefits. The funding levels are generally categorized as follows:

1. *Prefunding* – contributing an amount greater than or equal to the ARC each year. Prefunding generally allows the employer to have the liability calculated using a higher discount rate, such as 6.5% used in this valuation, which lowers the liability.
2. *Pay-As-You-Go funding* – contributing only the amounts needed to pay retiree benefits in the current year; generally requires a lower discount rate, such as the 4.0% rate used in this valuation.
3. *Partial prefunding* – contributing more than the current year's retiree payments but less than 100% of the ARC; requires that liabilities be developed using a discount rate that “blends” the relative portions of benefits that are prefunded and those which are not.

### Determination of the ARC

The Annual Required Contribution (ARC) consists of two basic components, which have been adjusted with interest to the City's fiscal year end:

- The amounts attributed to service performed in the current fiscal year (the normal cost) and
- Amortization of the unfunded actuarial accrued liability (UAAL).

The ARC for each of the fiscal years ending June 30, 2014, 2015, and 2016 is developed in Table 1B.

### Decisions Affecting the Amortization Payment

The period and method for amortizing the AAL can significantly affect the ARC. GASB 45:

- Prescribes a maximum amortization period of 30 years and requires no minimum amortization period (except 10 years for certain actuarial gains). Immediate full funding of the liability is also permitted.
- Allows amortization payments to be determined (a) as a level percentage of payroll, designed to increase over time as payroll increases, or (b) as a level dollar amount much like a conventional mortgage, so that this component of the ARC does not increase over time. Where a plan is closed and has no ongoing payroll base, a level percent of payroll basis is not permitted.
- Allows the amortization period to decrease annually by one year (closed basis) or to be maintained at the same number of years (open basis).

### Funding Policy Illustrated in This Report

It is our understanding that the City's pay-as-you-go policy includes amortization of the unfunded AAL over a closed 30-year period initially effective July 1, 2009; the remaining period applicable in determining the ARC for the fiscal year ending June 30, 2014 is 26 years. Amortization payments are now being determined on a level percent of pay basis.

## **G. Choice of 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”. Methods that produce higher initial annual (prefunding) costs will produce lower annual costs later. Conversely, methods that produce lower initial costs will produce higher annual costs later relative to the other methods. GASB 45 allows the use of any of six actuarial funding methods; a brief description of each is in the glossary.

### **Factors Impacting the Selection of Funding Method**

While the goal of GASB 45 is to match recognition of retiree medical expense with the periods during which the benefit is earned, the funding methods differ because they focus on different financial measures in attempting to level the incidence of cost. Appropriate selection of a funding method contributes to creating intergenerational equity between generations of taxpayers. The impact of potential new employees entering the plan may also affect selection of a funding method, though this is not a factor in this plan.

We believe it is most appropriate for the plan sponsor to adopt a theory of funding and consistently apply the funding method representing that theory. This valuation was prepared using the entry age normal cost method with normal cost determined on a level percent of pay basis. The entry age normal cost method often produces initial contributions between those of the other more common methods and is generally regarded by pension actuaries as the most stable of the funding methods and is one of the most commonly used methods for GASB 45 compliance.

### **Factors Affecting the Selection of Assumptions**

Special considerations apply to the selection of actuarial funding methods and assumptions for the City. The actuarial assumptions used in this report were chosen, for the most part, to be the same as the actuarial assumptions used for the most recent actuarial valuation of the retirement plan covering City employees. Several of these assumptions were updated since the last valuation was prepared. Other assumptions were selected based on demonstrated plan experience and/or our best estimate of expected future experience.

In selecting an appropriate discount rate, GASB states that the discount rate should be based on the expected long-term yield of investments used to finance the benefits. The City approved calculation of liabilities on a pay-as-you-go basis using a 4.0% discount rate, the same rate used in the prior valuation. Since no OPEB trust has yet been established, for illustrative purposes, we have used a 6.5% discount rate in developing results on a funded basis. The actual discount rate, should the City decide to establish an irrevocable OPEB trust, will depend on the particular investments and asset allocation strategy selected.

## H. Certification

This report presents the results of our actuarial valuation of the other post employment benefits provided by the City of Larkspur. The purpose of this valuation was to provide the actuarial information required for the City's reporting under Statement 45 of the Governmental Accounting Standards Board. The calculations were focused on determining the plan's funded status as of the valuation date, developing the Annual Required Contribution and projecting the Net OPEB Obligation for the years to which this report is expected to be applied.

We certify that this report has been prepared in accordance with our understanding of GASB 45. To the best of our knowledge, the report is complete and accurate, based upon the data and plan provisions provided to us by the City. We believe the assumptions and method used are reasonable and appropriate for purposes of the financial reporting required by GASB 45. The results may not be appropriate for other purposes.

Each of the undersigned individuals is a Fellow in the Society of Actuaries and Member of the American Academy of Actuaries who satisfies the Academy Qualification Standards for rendering this opinion.

Signed: October 23, 2014



Catherine L. MacLeod, FSA, EA, MAAA



J. Kevin Watts, FSA, MAAA

**Table 1A**  
**Summary of Valuation Results**  
**Pay-As-You-Go Basis**

The following summarizes the results of our valuation of OPEB liabilities for the City calculated under GASB 45 for the fiscal year ending June 30, 2014 as well as projected amounts for the fiscal year ending June 30, 2015 and 2016.

Valuation date	Pay-As-You-Go Basis		
	7/1/2013		
For fiscal year beginning	7/1/2013	7/1/2014	7/1/2015
For fiscal year ending	6/30/2014	6/30/2015	6/30/2016
Expected long term rate of return on assets			
Discount rate	4.00%	4.00%	4.00%
<b>Number of Covered Employees*</b>			
Actives	59	59	59
Retirees	41	41	41
Total Participants	100	100	100
<b>Actuarial Present Value of Projected Benefits</b>			
Actives	\$ 12,086,887	\$ 12,537,516	\$ 12,970,661
Retirees	4,511,606	4,437,446	4,354,691
Total APVPB	16,598,493	16,974,962	17,325,352
<b>Actuarial Accrued Liability (AAL)</b>			
Actives	7,796,813	8,564,669	9,343,616
Retirees	4,511,606	4,437,446	4,354,691
Total AAL	12,308,419	13,002,115	13,698,307
<b>Actuarial Value of Assets</b>	-	-	-
<b>Unfunded AAL (UAAL)</b>	12,308,419	13,002,115	13,698,307
<b>Normal Cost</b>	470,028	485,304	501,076
<b>Benefit Payments</b>			
Actives (in retirement)	-	68,356	108,485
Retirees	255,039	260,253	271,238
Total	255,039	328,609	379,723

\* The numbers of active employees and retirees shown above are as of the valuation date and are not necessarily the number expected in the following years. Because this valuation has been prepared on a closed group basis, no potential future employees are included and, based on assumptions outlined in Table 4, we recognize the possibility that active employees may leave employment, some may retire and elect benefits and coverage for some of the retired employees may cease.

**Table 1B**  
**Calculation of the Annual Required Contribution**  
**Pay-As-You-Go Basis**

The following exhibit calculates the amortization payments and the annual required contribution (ARC) on a pay-as-you-go basis for the fiscal years ending June 30, 2014, 2015, and 2016.

Fiscal Year End	Pay-As-You-Go Basis		
	6/30/2014	6/30/2015	6/30/2016
<b>Funding Policy</b>			
Discount rate	4.00%	4.00%	4.00%
Amortization method	Level % of Pay	Level % of Pay	Level % of Pay
Initial amortization period (in years)	30	30	30
Remaining period (in years)	26	25	24
<b>Determination of Amortization Payment</b>			
UAAL	\$ 12,308,419	\$ 13,002,115	\$ 13,698,307
Factor	23.7860	22.9515	22.1110
Payment	517,464	566,503	619,524
<b>Annual Required Contribution (ARC)</b>			
Normal Cost	470,028	485,304	501,076
Amortization of UAAL	517,464	566,503	619,524
Interest to 06/30	39,500	42,072	44,824
<b>Total ARC at fiscal year end</b>	<b>1,026,992</b>	<b>1,093,879</b>	<b>1,165,424</b>

While the following is not intended to be used to determine the normal cost or ARC in future years, this information may be of value for planning purposes:

Valuation date	7/1/2013		
	6/30/2014	6/30/2015	6/30/2016
Projected covered payroll	\$ 4,336,754	\$ 4,477,699	\$ 4,623,224
Normal Cost as a percent of payroll	10.8%	10.8%	10.8%
ARC as a percent of payroll	23.7%	24.4%	25.2%
ARC per active ee	17,407	18,540	19,753



**Table 1C**  
**Expected OPEB Disclosures**  
**Pay-As-You-Go Basis**

The exhibit below develops the annual OPEB expense, estimates the expected OPEB contributions and projects the net OPEB obligation for the fiscal years ending June 30, 2014, 2015, and 2016. The calculations assume the City continues to follow the pay-as-you-go funding approach outlined on the prior page.

Fiscal Year End	Pay-As-You-Go Basis		
	6/30/2014	6/30/2015	6/30/2016
<b>1. Calculation of the Annual OPEB Expense</b>			
a. ARC for current fiscal year	\$ 1,026,992	\$ 1,093,879	\$ 1,165,424
b. Interest on Net OPEB Obligation (Asset) at beginning of year	81,417	111,992	142,007
c. Adjustment to the ARC	(88,995)	(126,866)	(166,984)
d. <b>Annual OPEB Expense (a. + b. + c.)</b>	1,019,414	1,079,005	1,140,447
<b>2. Calculation of Expected Contribution</b>			
a. Estimated payments on behalf of retirees	255,039	328,609	379,723
b. Estimated contribution to OPEB trust	-	-	-
c. <b>Total Expected Employer Contribution</b>	255,039	328,609	379,723
<b>3. Change in Net OPEB Obligation (1.d. minus 2.c.)</b>	764,375	750,396	760,724
Net OPEB Obligation (Asset), beginning of fiscal year	2,035,414	2,799,789	3,550,185
<b>Net OPEB Obligation (Asset) at fiscal year end</b>	2,799,789	3,550,185	4,310,909

Please note that the expected payments to retirees shown in item 2.a. above are projections and should be replaced with the actual payments in order to determine the accurate end of year OPEB obligation.

**Table 2**  
**Summary of Employee Data**

The City reported 59 active employees; of these, 53 were currently participating in the medical program and 6 employees were waiving coverage as of the valuation date. Age and service information for the reported 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							0	0%
25 to 29	2	1					3	5%
30 to 34		1	3				4	7%
35 to 39		1		2			3	5%
40 to 44	1	1	2	4	1	2	11	19%
45 to 49	1		1	4		4	10	17%
50 to 54	1	3	1	2	3	3	13	22%
55 to 59		1	2	1	1	4	9	15%
60 to 64				3	1	1	5	8%
65 to 69						1	1	2%
70 & Up							0	0%
<b>Total</b>	5	8	9	16	6	15	<b>59</b>	<b>100%</b>
<b>Percent</b>	8%	14%	15%	27%	10%	25%	<b>100%</b>	

	July 2009 Valuation	July 2013 Valuation
Annual Covered Payroll	Not provided	\$4,336,754
Average Attained Age for Actives	Not provided	48.5
Average Years of Service	Not provided	12.8
Number of Active Employees	54	59

There are also 28 service retirees, 9 on disability retirement and 4 surviving spouses currently receiving benefits under this plan. Their ages are summarized below.

Retirees by Age		
Current Age	Number	Percent
Below 50	0	0%
50 to 54	1	2%
55 to 59	5	12%
60 to 64	2	5%
65 to 69	7	17%
70 to 74	11	27%
75 to 79	7	17%
80 & up	8	20%
<b>Total</b>	<b>41</b>	<b>100%</b>
Average Attained Age for Retirees:		71.8

**Table 2- Summary of Employee Data  
(Concluded)**

The chart below reconciles the number of actives and retirees included in the June 30, 2009 valuation of the City plan with those included in the July 1, 2013 valuation:

Reconciliation of City of Larkspur Plan Members Between Valuation Dates						
Status	Covered Actives	Waiving Actives	Covered Service Retirees	Covered Disabled Retirees	Covered Surviving Spouses	Total
Number valued on July 1, 2009	54		39			93
New employees	8	3				11
Terminated employees	(2)					(2)
Previously covered, now waiving	(1)	1				
New retiree, elected coverage	(5)		5			0
New retiree, waiving coverage	(1)					(1)
Deceased or dropped coverage			(2)			(2)
Data corrections		2	(14)	9	4	1
<b>Number valued on July 1, 2013</b>	<b>53</b>	<b>6</b>	<b>28</b>	<b>9</b>	<b>4</b>	<b>100</b>

Monthly benefits payable in retirement vary based on the date of employment, employee group, years of City service and medical plan coverage level. The following charts breaks out active and retired employees based on the appropriate benefit group & coverage level.

Active Employees: Counts by Benefit Group & Current Coverage Level							
Group	Maximum Benefit	Waiving Coverage	Ee Only	Ee + Spouse	Ee + Child(ren)	Ee + Family	Total
Misc: Hired before 7/1/2007	100% Retiree & Spouse premium, up to Kaiser Bay rate	3	9	8	0	6	26
Fire: Hired before 9/1/2008		0	2	3	2	10	17
Misc: Hired on/after 7/1/2007	100% Retiree premium only, up to Kaiser Bay rate	2	6	0	2	6	16
Fire: Hired on/after 9/1/2008		0	0	0	0	0	0
<b>All active employees</b>		<b>5</b>	<b>17</b>	<b>11</b>	<b>4</b>	<b>22</b>	<b>59</b>

Retirees & Survivors: Counts by Benefit Group	
Current Benefit	Counts
100% Retiree & Spouse premium, up to Kaiser Bay rate	18
100% Retiree premium only, up to Kaiser Bay rate	20
MEC only	3
<b>Total</b>	<b>41</b>

**Table 3A**  
**Summary of Retiree Benefit Provisions**

**OPEB provided:** The City reported that the only OPEB is medical insurance coverage.

**Access to 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 attainment of age 50 (age 52, if a new member on or after January 1, 2013) with 5 years of State or public agency service or approved disability retirement.
- If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement or during any future open enrollment period.
- 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.
- The employee must commence his or her retirement warrant within 120 days of terminating employment with the City to be eligible to continue medical coverage through the City and be entitled to the employer subsidy described below.

**Benefits provided:** 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 benefit grid below summarizes the City's OPEB structure as we understand it:

City of Larkspur Retiree Medical Benefits				
Category	Years of Service	Benefit Provided	Term of Benefit	Survivor Benefit
Misc Employees hired prior to July 1, 2007 and Fire Employees hired prior to September 1, 2008	5 years in PERS but less than 10 years with the City	PEMHCA Minimum (\$119 per month in 2014)	Lifetime	PEMHCA Minimum, if spouse eligible for survivor pension
	At least 10 but less than 15 years with the City	100% premium paid for retiree only, up to Kaiser Bay area rate	Lifetime	PEMHCA Minimum, if spouse eligible for survivor pension
	15 or more years with the City	100% premium paid for retiree & spouse, up to Kaiser Bay area rate	Lifetime	100% premium paid for surviving spouse, up to Kaiser Bay rate
Misc Employees hired on/after July 1, 2007 and Fire Employees hired on/after September 1, 2008	5 years in PERS but less than 10 years with the City	PEMHCA Minimum (\$119 per month in 2014)	Lifetime	PEMHCA Minimum, if spouse eligible for survivor pension
	10 or more years with the City	100% premium paid for retiree only, up to Kaiser Bay area rate	Lifetime	PEMHCA Minimum, if spouse eligible for survivor pension

**Table 3A – Summary of Retiree Benefit Provisions  
(concluded)**

**Current premium rates:** The 2014 CalPERS monthly medical plan rates in the Bay Area rate group are shown in the table below. If different rates apply where the member resides outside of this area, those rates are reflected in the valuation, but not listed here. The additional CalPERS administration fee is assumed to be separately expensed each year and has not been projected as an OPEB liability in this valuation.

Bay Area 2014 Health Plan Rates						
Plan	Actives and Pre-Med Retirees			Medicare Eligible		
	Ee Only	Ee & 1	Ee & 2+	Ee Only	Ee & 1	Ee & 2+
Anthem HMO Select	\$657.33	\$1,314.66	\$1,709.06	\$341.12	\$682.24	\$1,076.64
Anthem HMO Traditional	728.41	1,456.82	1,893.87	341.12	682.24	1,119.29
Blue Shield Access/ Adv HMO	836.59	1,673.18	2,175.13	298.21	596.42	1,098.37
Blue Shield NetValue/ Adv HMO	704.01	1,408.02	1,830.43	298.21	596.42	1,018.83
Kaiser HMO	742.72	1,485.44	1,931.07	294.97	589.94	1,035.57
UnitedHealthcare HMO	764.24	1,528.48	1,987.02	193.33	386.66	845.20
PERS Choice PPO	690.77	1,381.54	1,796.00	307.23	614.46	1,028.92
PERS Select PPO	661.52	1,323.04	1,719.95	307.23	614.46	1,011.37
PERSCare PPO	720.04	1,440.08	1,872.10	327.36	654.72	1,086.74
PORAC Association Plan	634.00	1,186.00	1,507.00	397.00	791.00	1,112.00

## Table 3B General CalPERS Annuitant Eligibility Provisions

The content of this section has been drawn from Section C, Summary of Plan Provisions, of the State of California OPEB Valuation as of June 30, 2013, issued March 2014, to the State Controller from Gabriel Roeder & Smith. It is provided here as a brief summary of general annuitant and survivor coverage.

### Health Care Coverage

#### *Retired Employees*

A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment and receives a monthly retirement allowance. If the member meets this requirement, he or she may continue his or her enrollment at retirement, enroll within 60 days of retirement, or enroll during any Open Enrollment period. If a member is currently enrolled in a CalPERS health plan and wants to continue enrollment into retirement, the employee will notify CalPERS and the member's coverage will continue into retirement.

Eligibility Exceptions: Certain family members are not eligible for CalPERS health benefits:

- Children age 26 or older
- Children's spouses
- Former spouses
- Disabled children over age 26 who were never enrolled or were deleted from coverage
- Grandparents
- Parents
- Children of former spouses
- Other relatives

#### *Coordination with Medicare*

CalPERS retired members who qualify for premium-free Part A, either on their own or through a spouse (current, former, or deceased), must sign up for Part B as soon as they qualify for Part A. A member must then enroll in a CalPERS sponsored Medicare plan. The CalPERS-sponsored Medicare plan will pay for costs not paid by Medicare, by coordinating benefits.

#### *Survivors of an Annuitant*

If a CalPERS annuitant satisfied the requirement to retire within 120 days of separation, the survivor may be eligible to enroll within 60 days of the annuitant's death or during any future Open Enrollment period. Note: A survivor cannot add any new dependents; only dependents that were enrolled or eligible to enroll at the time of the member's death qualify for benefits.

Surviving registered domestic partners who are receiving a monthly annuity as a surviving beneficiary of a deceased employee or annuitant on or after January 1, 2002, are eligible to continue coverage if currently enrolled, enroll within 60 days of the domestic partner's death, or enroll during any future Open Enrollment period.

Surviving enrolled family members who do not qualify to continue their current coverage are eligible for continuation coverage under COBRA.

### Table 4 Actuarial Methods and Assumptions

Valuation Date	July 1, 2013
Funding Method	Entry Age Normal Cost, level percent of pay <sup>3</sup>
Asset Valuation Method	Market value of assets (\$0; no OPEB trust has been established)
Discount Rate	4.0% for pay-as-you-go; 6.5% illustrated for prefunding
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, used only to allocate the cost of benefits between service years
Assumed Increase for Amortization Payments	3.25% per year where determined on a percent of pay basis
General Inflation Rate	3.0% per year

*The demographic actuarial assumptions used in this valuation are based on the (demographic) experience study of the California Public Employees Retirement System using data from 1997 to 2007. Rates for selected age and service are shown below and on the following pages.*

Mortality Before Retirement      Mortality rates in each of the tables below were projected by applying Scale AA on a fully generational basis.

CalPERS Public Agency Miscellaneous Non- Industrial Deaths only		
Age	Male	Female
15	0.00045	0.00006
20	0.00047	0.00016
30	0.00053	0.00036
40	0.00087	0.00065
50	0.00176	0.00126
60	0.00395	0.00266
70	0.00914	0.00649
80	0.01527	0.01108

CalPERS Public Agency Police & Fire Combined Industrial & Non-Industrial Deaths		
Age	Male	Female
15	0.00045	0.00006
20	0.00050	0.00019
30	0.00063	0.00046
40	0.00100	0.00078
50	0.00191	0.00141
60	0.00412	0.00283
70	0.00933	0.00668
80	0.01548	0.01129

<sup>3</sup> The level percent of pay aspect of the funding method refers to how the normal cost is determined. Use of level percent of pay cost allocations in the funding method is separate from and has no effect on a decision regarding use of a level percent of pay or level dollar basis for determining amortization payments.

**Table 4 - Actuarial Methods and Assumptions  
(Continued)**

Mortality After Retirement      Mortality rates in each of the tables below were projected by applying Scale AA on a fully generational basis.

Healthy Miscellaneous & Fire

Disabled Miscellaneous

CalPERS Public Agency Miscellaneous Post Retirement Mortality		
Age	Male	Female
40	0.00093	0.00062
50	0.00239	0.00125
60	0.00720	0.00431
70	0.01675	0.01244
80	0.05270	0.03749
90	0.16747	0.12404
100	0.34551	0.31876
110	1.00000	1.00000

CalPERS Public Agency Disabled Miscellaneous Post Retirement Mortality		
Age	Male	Female
20	0.00664	0.00478
30	0.00790	0.00512
40	0.01666	0.00674
50	0.01632	0.01245
60	0.02293	0.01628
70	0.03870	0.03019
80	0.08388	0.05555
90	0.21554	0.14949

Disabled Fire

CalPERS Public Agency Disabled Fire Post Retirement Mortality		
Age	Male	Female
20	0.00313	0.00238
30	0.00205	0.00175
40	0.00217	0.00207
50	0.00518	0.00412
60	0.00808	0.00815
70	0.02269	0.01743
80	0.06956	0.04549
90	0.16676	0.13799

Termination Rates

*For miscellaneous employees:* sum of CalPERS Terminated Refund and Terminated Vested rates for miscellaneous employees – Illustrative rates

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1812	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1742	0.1193	0.0946	0.0000	0.0000	0.0000
25	0.1674	0.1125	0.0868	0.0749	0.0000	0.0000
30	0.1606	0.1055	0.0790	0.0668	0.0581	0.0000
35	0.1537	0.0987	0.0711	0.0587	0.0503	0.0450
40	0.1468	0.0919	0.0632	0.0507	0.0424	0.0370
45	0.1400	0.0849	0.0554	0.0427	0.0347	0.0290



**Table 4 - Actuarial Methods and Assumptions  
(Continued)**

Termination Rates  
(continued)

*For fire employees: sum of CalPERS Terminated Refund and Terminated Vested rates for fire employees – Illustrative rates*

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.0947	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.0947	0.0323	0.0257	0.0000	0.0000	0.0000
25	0.0947	0.0323	0.0257	0.0090	0.0000	0.0000
30	0.0947	0.0323	0.0257	0.0090	0.0079	0.0000
35	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069
40	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069
45	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069

Service Retirement Rates

*For miscellaneous employees hired by the City prior to 11/12/2013: CalPERS Public Agency 2.5% @ 55 for Miscellaneous – Illustrative rates*

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0261	0.0333	0.0404	0.0475	0.0546	0.0618
55	0.0880	0.1120	0.1360	0.1600	0.1840	0.2080
60	0.0880	0.1120	0.1360	0.1600	0.1840	0.2080
65	0.1430	0.1820	0.2210	0.2600	0.2990	0.3380
70	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

*For miscellaneous employees hired by the City after 11/12/2012 but who are not new PERS members on or after 1/1/2013: CalPERS Public Agency 2.0% @ 55 for Miscellaneous – Illustrative rates*

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0150	0.0200	0.0240	0.0290	0.0330	0.0390
55	0.0500	0.0640	0.0780	0.0940	0.1070	0.1270
60	0.0720	0.0920	0.1120	0.1340	0.1530	0.1820
65	0.1740	0.2210	0.2690	0.3230	0.3690	0.4390
70	0.1380	0.1760	0.2140	0.2570	0.2930	0.3490
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

**Table 4 - Actuarial Methods and Assumptions  
(Continued)**

*For miscellaneous employees joining CalPERS on or after 1/1/2013: CalPERS Public Agency 2% @ 62 for Miscellaneous – Illustrative rates*

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
52	0.0103	0.0132	0.0160	0.0188	0.0216	0.0244
55	0.0440	0.0560	0.0680	0.0800	0.0920	0.1040
60	0.0616	0.0784	0.0952	0.1120	0.1288	0.1456
65	0.1287	0.1638	0.1989	0.2340	0.2691	0.3042
70	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

*For fire employees who have joined CalPERS before 1/1/2013: CalPERS Public Agency 3% @ 55 for Fire employees – Illustrative rates*

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0120	0.0120	0.0120	0.0180	0.0280	0.0330
52	0.0180	0.0180	0.0180	0.0270	0.0420	0.0500
55	0.0920	0.0920	0.0920	0.1340	0.2110	0.2460
57	0.1000	0.1000	0.1000	0.1460	0.2300	0.2680
60	0.1170	0.1170	0.1170	0.1695	0.2670	0.3120
62	0.0975	0.0975	0.0975	0.1413	0.2225	0.2600
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

*For fire employees joining CalPERS on or after 1/1/2013: CalPERS Public agency 2.7% @ 57 for Safety employees – Illustrative rates*

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0138	0.0138	0.0138	0.0138	0.0253	0.0451
55	0.0854	0.0854	0.0854	0.0854	0.1563	0.2785
60	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506
65	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
70	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

**Table 4 - Actuarial Methods and Assumptions  
(Continued)**

Disability Retirement Rates

Illustrative rates:

CalPERS Public Agency Miscellaneous Disability Retirement Rates			CalPERS Public Agency Fire Combined Disability Retirement Rates	
Age	Male	Female	Age	Unisex
20	0.00010	0.00010	20	0.00034
25	0.00010	0.00010	25	0.00130
30	0.00021	0.00020	30	0.00262
35	0.00063	0.00088	35	0.00382
40	0.00145	0.00164	40	0.00502
45	0.00252	0.00243	45	0.00632
50	0.00331	0.00311	50	0.00794
55	0.00366	0.00306	55	0.07305
60	0.00377	0.00253	60	0.07351

Healthcare Trend

Medical plan premiums 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
2014	Actual	2020	6.00%
2015	8.50%	2021	5.50%
2016	8.00%	2022	5.00%
2017	7.50%	2023	4.50%
2018	7.00%	2024	4.50%
2019	6.50%	2025 & later	4.64%

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

Medicare Eligibility

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

Participation Rate

*Active employees:* 100% of those eligible for subsidized premiums in excess of the PEMHCA MEC are assumed to continue their current plan election in retirement. However, for future retirees who will receive only the PEMHCA MEC, we assume a 50% likelihood that they will elect to continue their medical coverage through the City in retirement.

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

#### Table 4 - Actuarial Methods and Assumptions (Concluded)

Spouse Coverage	<p><i>Active employees:</i> 70% are assumed to be married and elect coverage for their spouse in retirement. Surviving spouses are assumed to continue coverage until their death. Husbands are assumed to be 3 years older than their wives.</p> <p><i>Retired participants:</i> Existing elections for spouse coverage are assumed to be maintained 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.</p>
Dependent Coverage	<p>Future retirees do not receive benefits for dependent children. To the extent that a current retiree is receiving a subsidy toward the premium for dependent children, the subsidy is assumed to end when the youngest currently covered dependent reaches age 26.</p>

#### Changes Since the Prior Valuation:

Because Bickmore did not prepare the prior valuation and because the prior valuation was prepared using the Alternate Measurement Method (AMM), it is difficult to identify the extent to which the method and assumptions differ between 2009 and 2013. We have included those changes which seem evident to us from a review of the 2009 AMM report.

Discount rates	<p><i>Unfunded rate:</i> decreased from 5.0% to 4.0%</p> <p><i>Prefunding rate:</i> illustrated at 6.5% (none previously)</p>
Demographic assumptions	<p>Rates of assumed mortality, termination, disability and retirement rates were likely updated, now based on those rates from the CalPERS 2007 experience study. Explicit costs for potential disability benefits were included.</p>
Healthcare trend	<p>Medical plan premiums are assumed to increase at higher rates than were assumed in the prior valuation until 2022.</p>
PEMHCA minimum benefit	<p>We are uncertain whether the AMM valuation included a liability for the required PEMHCA minimum benefit.</p>
Spouse coverage	<p>The percent of future retirees assumed to cover a spouse was increased from 60% to 70%.</p>

**Table 5**  
**Projected Benefit Payments**

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.

- No benefits expected to be paid on behalf of current active employees prior to retirement are considered in this projection.
- No benefits for potential future employees have been included.

Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Table 4.

<b>Projected Annual Benefit Payments</b>			
<b>Fiscal Year Ending June 30</b>	<b>Current Retirees</b>	<b>Future Retirees</b>	<b>Total</b>
2014	\$ 255,039	\$ -	\$ 255,039
2015	260,253	68,356	328,609
2016	271,238	108,485	379,723
2017	279,788	144,427	424,215
2018	292,708	188,464	481,172
2019	284,231	239,288	523,519
2020	293,093	295,112	588,205
2021	292,043	340,385	632,428
2022	271,531	397,920	669,451
2023	273,259	452,004	725,263
2024	265,804	492,877	758,681
2025	265,458	548,155	813,613
2026	254,510	587,011	841,521
2027	242,077	617,008	859,085
2028	239,227	666,759	905,986

## Appendix 1 Prefunding Illustration for the FYE 2015 and 2016

The following table highlights of results developed for the fiscal years ending June 30, 2015 and 2016, assuming the City (a) establishes an irrevocable OPEB trust and (b) begins prefunding, by contributing at least 100% of the annual required contribution (ARC) each year.

In developing the prefunding ARC, we assumed the investment policy for trust assets would support a long term expected rate of return of 6.5%. In so doing, the unfunded actuarial accrued liability (AAL) to be reported as of the valuation date would be reduced from \$12,308,419 to \$8,654,052. We also assumed that, effective July 1, 2014, the period for amortizing the unfunded actuarial accrued liability (UAAL) would be re-set to a new, closed 30 year period with payments determined on a level percent of pay basis.

Fiscal Year End	Prefunding Basis	
	6/30/2015	6/30/2016
<b>1. Calculation of the Annual OPEB Expense</b>		
a. ARC for current fiscal year	\$ 838,053	\$ 865,289
b. Interest on Net OPEB Obligation (Asset) at beginning of year	181,986	182,846
c. Adjustment to the ARC	(168,755)	(174,240)
d. <b>Annual OPEB Expense (a. + b. + c.)</b>	851,284	873,895
<b>2. Calculation of Expected Contribution</b>		
a. Estimated payments on behalf of retirees	328,609	379,723
b. Estimated contribution to OPEB trust	509,444	485,566
c. <b>Total Expected Employer Contribution</b>	838,053	865,289
<b>3. Change in Net OPEB Obligation (1.d. minus 2.c.)</b>	13,231	8,606
Net OPEB Obligation (Asset), beginning of fiscal year	2,799,789	2,813,020
<b>Net OPEB Obligation (Asset) at fiscal year end</b>	2,813,020	2,821,626

## Appendix 2 Breakout of Valuation Results by Group

The chart below breaks out the valuation results for the Miscellaneous and Sworn employee groups for the fiscal year ending June 30, 2014. Amortization of the unfunded actuarial accrued liability is on the same basis as described in Section F and in Table 1B.

Approach	Fire	Miscellaneous	Total
	Pay-As-You-Go Basis		
Interest Rate	4.00%	4.00%	4.00%
Amortization method	Level % of Pay	Level % of Pay	Level % of Pay
Remaining amortization period (in years)	26	26	26
<b>Number of Covered Employees</b>			
Actives	17	42	59
Retirees	15	26	41
Total Participants	32	68	100
<b>Actuarial Present Value of Projected Benefits</b>			
Actives	\$ 5,390,422	\$ 6,696,465	\$ 12,086,887
Retirees	2,261,240	2,250,366	4,511,606
Total APVPB	7,651,662	8,946,831	16,598,493
<b>Actuarial Accrued Liability</b>			
Actives	3,498,572	4,298,241	7,796,813
Retirees	2,261,240	2,250,366	4,511,606
Total AAL	5,759,812	6,548,607	12,308,419
<b>Actuarial Value of Assets</b>	-	-	-
<b>Unfunded Actuarial Accrued Liability</b>	5,759,812	6,548,607	12,308,419
Amortization Factor	23.7860	23.7860	23.7860
<b>Annual Required Contribution (ARC)</b>			
Normal Cost	185,440	284,588	470,028
Amortization of UAAL	242,151	275,313	517,464
Interest to 6/30/2014	17,104	22,396	39,500
<b>ARC for Fiscal Year End 6/30/2014</b>	444,695	582,297	1,026,992

### Appendix 3 General OPEB Disclosure and Required Supplementary Information

The Information necessary to complete the OPEB footnote in the City's financial reports is summarized below, or we note the location of the information contained elsewhere in this report:

Summary of Plan Provisions:	See Table 3A
OPEB Funding Policy:	See Section F; details are provided also at the top of the exhibit in Table 1B
Annual OPEB Cost and Net OPEB Obligation:	See Table 1C
Actuarial Methods and Assumptions:	See Table 4.
Funding Status and Funding Progress:	See Section E – Basic Valuation Results

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	\$ 4,055,553	\$ 4,055,553	0%	\$ 4,733,338	85.68%
7/1/2013	\$ -	\$ 12,308,419	\$ 12,308,419	0%	\$ 4,336,754	283.82%

Required Supplementary Information: Three Year History of Amounts Funded  
See chart below:

#### OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Employer OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2011	\$ 573,367	\$ 286,410	50%	\$ 869,086
6/30/2012	\$ 1,067,288	\$ 414,862	39%	\$ 1,521,512
6/30/2013	\$ 810,237	\$ 296,335	37%	\$ 2,035,414
6/30/2014	\$ 1,019,414	\$ 255,039	25%	\$ 2,799,789
6/30/2015	\$ 1,079,005	\$ 328,609	30%	\$ 3,550,185
6/30/2016	\$ 1,140,447	\$ 750,396	66%	\$ 4,310,909

*Italicized values above are estimates which may change if contributions are other than projected.*



## Glossary

Actuarial Accrued Liability (AAL) – 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; see “Actuarial Present Value”

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 (APV) – The amount presently required to fund a payment or series of payments in the future, it is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

Aggregate – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Annual Required Contribution (ARC) – The amount the employer would contribute to a defined benefit OPEB plan for a given year, it is the sum of the normal cost and some amortization (typically 30 years) of the unfunded actuarial accrued liability

Annual OPEB Expense – The OPEB expense reported in the Agency’s financial statement, which is comprised of three elements: the ARC, interest on the net OPEB obligation at the beginning of the year and an ARC adjustment.

Attained Age Normal Cost (AANC) – An actuarial funding method where, for each plan member, the excess of the actuarial present value of benefits over the actuarial accrued liability (determined under the unit credit method) is levelly spread over the individual’s projected earnings or service forward from the valuation date to the assumed exit date

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

Entry Age Normal Cost (EANC) – 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 assumed exit age

## Glossary (Continued)

Frozen Attained Age Normal Cost (FAANC) – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability (determined under the unit credit method) is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Frozen Entry Age Normal Cost (FEANC) – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability (determined under the entry age normal cost method) is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Financial Accounting Standards Board (FASB) – A private, not-for-profit organization designated by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles (GAAP) for U.S. public corporations

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

Net OPEB Obligation (Asset) - The net OPEB obligation (NOO) represents the accumulated shortfall of OPEB funding since GASB 45 was implemented. If cumulative contributions have exceeded the sum of the prior years' annual OPEB expenses, then a net OPEB asset results.

Non-Industrial Disability (NID) – Unless specifically contracted by the individual Agency, PAM employees are assumed to be subject to only non-industrial disabilities.

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

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 medical insurance contributions for retired annuitants and paid for by a contracting Agency be equal to the medical insurance contributions paid for its active employees, and that a contracting Agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

## **Glossary (Concluded)**

Projected Unit Credit (PUC) – An actuarial funding method where, for each individual, the projected plan benefit is allocated by a consistent formula from entry date to assumed exit date

Public Agency Miscellaneous (PAM) – Actuarial assumptions used by CalPERS for most 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)

Trend – The healthcare cost trend rate, defined as the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments

Unfunded Actuarial Accrued Liability (UAAL) – The excess of the actuarial accrued liability over the actuarial value of plan assets

Unit Credit (UC) -- An actuarial funding method where, for each individual, the unprojected plan benefit is allocated by a consistent formula from entry date to assumed exit date

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