

AGENDA ITEM 1 H
Consent Item

MEMORANDUM

DATE: March 5, 2020

TO: El Dorado County Transit Authority

FROM: Julie Petersen, Finance Manager

SUBJECT: California Employer's Retiree Benefit Trust Program (CERBT)
funding for Other Post-Employment Benefits (OPEB) Funding

REQUESTED ACTION:
BY MOTION,

1. **Accept Actuarial Valuation of Other Post-Employee Benefit Program for fiscal years ending June 30, 2020 and June 30, 2021**
2. **Adopt Resolution No. 20-05 approving the pre-fund amount in the California Employer's Retiree Benefit Trust Program (CERBT)**
3. **Authorize Executive Director to execute all documents necessary for continued participation**

BACKGROUND

In July 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. GASB 45 mandates disclosure of Other Post-Employment Benefits (OPEB) liabilities for public employees. OPEB may include retiree benefits such as medical, dental, prescription drug, vision and life insurance plans. GASB 45 establishes a standard for measuring and reporting the liability of retirement benefits other than pensions; however, it does not require funding the liability.

In June 2015, GASB issued Statement No. 75 replacing Statements No. 45 and 57. The basis point of GASB No. 75 expands the financial statement disclosures to ten (10) years and changed the measurement dates. Currently there are three (3) years of calculations available and will be reported by El Dorado Transit.

During Fiscal Year (FY) 2007/08 El Dorado Transit contracted with California Public Employers' Retirement System (CalPERS) to provide cost effective medical insurance for the unrepresented employee group. CalPERS contractually requires El Dorado Transit to contribute an amount towards the cost of retiree medical coverage as a condition of participating in the CalPERS medical plans. Monthly cost to the agency is currently at the lowest level possible of

\$90.35 per eligible retiree. This contribution is based on a formula and increases a modest amount each year.

On August 5, 2010 the Board adopted resolution 10-10 to pre-fund the OPEB future liability by placing assets in the CERBT program to allow for a manageable dollar amount to be budgeted each year for contributions to build reserves and earn interest to offset the cost of the program. A thirty (30) year amortization period is consistent with the anticipated retirement trend of current employees; twenty (20) years remain as of fiscal year-end 2020.

In March 2011, the CalPERS Board approved a change to the classes in which assets of the CERBT are invested in public market securities. The Executive Director approved the development of the actuarial valuation based on “Strategy 1” which is the class most similar to the strategy previously chosen by the Board and the class El Dorado Transit is currently participating in.

DISCUSSION

The El Dorado Transit continuing retiree health plan allows eligible retirees to enroll in the agency group medical plan through CalPERS at the time of their separation or at any subsequent open enrollment period. The plan includes only medical insurance coverage excluding other possible retiree benefits e.g. dental, vision, etc. Since plan inception in 2007, five (5) eligible participants have elected coverage; however, three (3) retirees remain eligible and may enroll during future enrollment period. There are twenty-six (26) current employees who are qualified, of which seven (7) may retire within the next five (5) years. These employees have the option to continue their medical coverage under this plan.

Actuarial valuations are used as a method of qualifying the changing conditions of an agency’s workforce that impact the annual cost of OPEB obligations and future potential liabilities. CalPERS requires an actuarial valuation every two (2) years under the CERBT pooling program.

El Dorado Transit contracted MacLeod Watts to complete an actuarial valuation of other post-employment benefits to capture and report the current and future potential liabilities of this benefit. This report provides statistics as of July 1, 2019 for the years ending June 30, 2020 and June 30, 2021.

The El Dorado County Transit Authority Actuarial Valuation of Other Post-Employment Benefits Programs of the as of July 1, 2019 & GASB 75 Report for Fiscal Year Ending June 30, 2020 represents the CERBT Trust is 75% funded as of the June 30, 2019 valuation date.

As discussed in the Actuarial Report, El Dorado Transit is currently using the “Pay-As-You-Go” method for five (5) retiree’s currently enrolled. The total of those expenses for FY 2018/19 equaled \$2,044.61. This amount was paid in addition to the OPEB Pre-Funding amount of \$57,407. The remaining unfunded liability is estimated at \$140,558 as of July 1, 2020.

Staff is recommending the acceptance of the Report as presented and the continued “Pay-As-You-Go” methodology, covering current retiree’s, for fiscal years 2019/20 and 2020/21.

FISCAL IMPACT

The projected actuarial expense for FY 2019/20 of \$49,568 and FY 2020/21 of \$51,022 total \$100,590 to capture both years. Costs for FY 2019/20 are included in the adopted budget. Costs for both fiscal years are represented. Detailed funding information can be found on page 21 of the actuarial report.

Fiscal Year 2019/20 Mid-Year Budget

		<u>Revenue</u>	<u>Proposed</u>
4000.00	Local Transportation Fund (LTF)	\$49,568	
5020.02	OPEB Pre-fund		\$49,568

Fiscal Year 2020/21 Proposed Preliminary Budget

		<u>Revenue</u>	<u>Proposed</u>
4270.00	State Transit Assistance	\$51,022	
5020.02	OPEB Pre-fund		\$51,022

**EL DORADO COUNTY TRANSIT AUTHORITY
RESOLUTION NO. 20-05**

RESOLUTION OF THE BOARD OF DIRECTORS OF THE EL DORADO COUNTY
TRANSIT AUTHORITY ADOPTING PRE-FUNDING FOR OTHER POST EMPLOYMENT
BENEFITS ADMINISTERED BY THE CALIFORNIA EMPLOYERS' RETIREE BENEFITS
TRUST FOR PRE-FUNDED ACCOUNTS

WHEREAS, Governmental Standards Board Statement Number 45/75, dealing with Other Post-Employment Benefits (OPEB), requires that governments report the annual cost of OPEB and the unfunded actuarial accrued liabilities for past service costs; and

WHEREAS, the El Dorado County Transit Authority (El Dorado Transit) provides eligible regular unrepresented employees with medical benefits subsequent to their retirement from El Dorado Transit; and

WHEREAS, El Dorado Transit has deemed it to be in El Dorado Transit's best financial interest and the most financially prudent action to pre-fund post-employment health benefits past service liabilities and fund current year contributions; and

WHEREAS, the actuarially determined costs for fiscal year (FY) 2019/2020 to pre-fund an annual contribution of \$49,568; and

WHEREAS, the actuarially determined costs for FY 2020/2021 to pre-fund an annual contribution of \$51,022; and

WHEREAS, the California Employers' Retiree Benefits Trust, part of the California Public Employees Retirement System, is a trust fund that allows public employers to pre-fund the future cost of retiree benefits;

NOW, THEREFORE, BE IT RESOLVED, that El Dorado Transit hereby approves and directs staff to pre-fund the FY 2019/2020 Annual Contribution of \$49,568 and the FY 2020/2021 Annual Contribution of \$51,022: and

PASSED AND ADOPTED BY THE GOVERNING BOARD OF THE EL DORADO COUNTY TRANSIT AUTHORITY at the regular meeting of said Board held on the 5th day of March 2020, by the following vote:

AYES: NOES: ABSTAIN: ABSENT:

John Hidahl, Chairperson

ATTEST:

Megan Wilcher, Secretary to the Board

MacLeod Watts

February 3, 2020

Mr. Matthew Mauk
Executive Director
El Dorado County Transit Authority
6565 Commerce Way
Diamond Springs, CA 95619

Re: June 30, 2019 Actuarial Valuation and GASB 75 Report for Fiscal Year Ending June 30, 2020

Dear Mr. Mauk:

We are pleased to enclose our actuarial report providing information regarding the other post-employment benefit (OPEB) liability **provided for the unrepresented employees** of El Dorado County Transit Authority. The report's text describes our analysis and assumptions in detail.

The primary purposes of this report are to:

- 1) Remeasure plan liabilities as of June 30, 2019, in accordance with GASB 75's biennial valuation requirement;
- 2) Develop Actuarially Determined Contributions levels for prefunding plan benefits;
- 3) Provide information to be submitted to the California Employers' Retiree Benefit Trust (CERBT) to satisfy filing requirements for the trust; and
- 4) Provide information required by GASB 75 ("Accounting and Financial Reporting for Postemployment Benefits Other Than Pension") to be reported in the Authority's financial statements for the fiscal year ending June 30, 2020. *Some of these exhibits are preliminary because payroll and actual benefit payments for fiscal year end 2020 are not yet known.*

Exhibits in the body of the report reflect the Authority's current OPEB Funding Policy of contributing 100% or more of the ADC each year. We assumed OPEB trust assets remain in CERBT Asset Allocation Strategy 1. If either assumption is incorrect, please let us know as results would need to be revised.

We based the valuation on the employee data, details on plan benefits and retiree benefit payments reported to us by the Authority. As with any analysis, the soundness of the report is dependent on the inputs. Please review our summary of this information to be comfortable that it matches your records.

We appreciate the opportunity to work on this analysis and acknowledge the efforts of District employees who provided valuable time and information to enable us to perform this valuation. Please let us know if we can be of further assistance.

Sincerely,



Catherine L. MacLeod, FSA, FCA, EA, MAAA
Principal & Consulting Actuary



El Dorado County Transit Authority

Actuarial Valuation of Other
Post-Employment Benefit Programs
As of June 30, 2019

& GASB 75 Report for the Fiscal Year Ending
June 30, 2020

Submitted February 2020

MacLeod Watts

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A. Executive Summary

This report presents the results of the June 30, 2019 actuarial valuation of the other post-employment benefit (OPEB) program **provided on behalf of unrepresented employees** of El Dorado County Transit Authority (the Authority). The purposes of this valuation are to: 1) summarize the results of the valuation and review differences from prior valuation results; 2) assess the OPEB liabilities and provide disclosure information as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2020; 3) develop Actuarially Determined Contribution (ADC) levels for prefunding plan benefits; and 4) provide information required by CERBT.

Important background information about the process is found in Addendum 1. We recommend users of the report read this information to familiarize themselves with the process and context of actuarial valuations, including the requirements of GASB 75. The pages following this executive summary present various exhibits and other relevant information for financial reporting and plan funding.

Absent material changes to plan benefits or eligibility, employee population and/or funding strategy, we anticipate that the results of the June 30, 2019 valuation will be adjusted (rolled forward) to prepare the Authority's GASB 75 report for the fiscal year ending June 30, 2021. If there are any significant changes in the employee population, plan benefits provided, or the Authority's funding policy, please contact us to discuss whether an earlier valuation might be required.

OPEB Obligations of the Authority

The Authority provides continuation of medical coverage to its retiring employees. This benefit creates one or more of the following types of OPEB liabilities:

- **Explicit subsidy liabilities:** An "explicit subsidy" exists when the employer contributes directly toward the cost of retiree healthcare.¹ In this program, the Authority contributes a portion of retiree medical premiums for qualifying retirees. These benefits are described in Section 2A.
- **Implicit subsidy liabilities:** An "implicit subsidy" exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the CalPERS medical program, the same monthly premiums are charged for active employees and for pre-Medicare retirees. CalPERS has confirmed that the claims experience of these members is considered together in setting premium rates.

As is the nature of group premium rate structures, however, at some ages, retirees may be expected to experience higher claims than the premiums they pay, where at other ages, the reverse may be true. We determine the implicit rate subsidy for pre-Medicare retirees as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. For more information on this process see Section 3 and Addendum 2: MacLeod Watts Age Rating Methodology.

Different monthly premiums are charged for Medicare-eligible members. CalPERS confirmed that only the claims experience of these members is considered in setting Medicare-eligible premium rates. Thus, there is no implicit subsidy by active employee premiums, and we assumed that the Medicare Supplement premium structure is adequate to cover their expected retiree claims.

¹ A liability for potential future excise tax liability for "high cost" retiree coverage was included in the prior valuation. However, this provision of the Affordable Care Act was repealed in December 2019, so this liability was eliminated.



Executive Summary

(Continued)

OPEB Funding Policy

The Authority's OPEB funding policy affects the calculation of liabilities by impacting the discount rate that is used to develop the plan liability and expense. "Prefunding" is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earnings on trust assets. Pay-as-you-go, or "PAYGO", is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

The Authority has been and continues to prefund its OPEB liability, contributing 100% or more of the Actuarially Determined Contributions each year. With the Authority's approval, the discount rate used in this valuation is 6.85%, equal to the expected long-term return on trust assets as of the measurement date. For additional information, see Expected Return on Trust Assets on page 10.

Actuarial Assumptions

The actuarial "demographic" assumptions (i.e. rates of retirement, death, disability or other termination of employment) used in this report were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the retirement plan(s) covering District employees. Other assumptions, such as age-related healthcare claims, healthcare trend, retiree participation rates and spouse coverage, were selected based on demonstrated plan experience and/or our best estimate of expected future experience. All these assumptions, and more, impact expected future benefits. Please note that this valuation has been prepared on a closed group basis. This means that only employees and retirees present as of the valuation date are considered. We do not consider replacement employees for those we project to leave the current population of plan participants until the valuation date following their employment.

We emphasize that this actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent and we will continue to monitor these assumptions in future valuations. See Section 3 for a description of assumptions used in this valuation.

Important Dates for GASB 75 in this Report

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for this report:

Fiscal Year End	June 30, 2020
Measurement Date	June 30, 2019
Measurement Period	June 30, 2018 to June 30, 2019
Valuation Date	June 30, 2019



Executive Summary
(Concluded)

Significant Results and Differences from the Prior Valuation

No benefit changes were reported to MacLeod Watts relative to those in place at the time the July 2017 valuation was prepared. We reviewed and updated some assumptions used to project the OPEB liability. Differences between actual and expected results (referred to as “plan experience”) since July 2017 were also recognized. Overall, the Net OPEB Liability on the current measurement date is lower than that reported one year ago.

Section B. Discussion of Valuation Results, provides additional information on the impact of the new assumptions and plan experience. Details of the assumption changes are at the end of Section 3.

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

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

Items	For Reporting At Fiscal Year Ending June 30, 2020
Total OPEB Liability	\$ 552,779
Fiduciary Net Position	412,221
Net OPEB Liability (Asset)	140,558
Deferred (Outflows) of Resources	(73,261)
Deferred Inflows of Resources	89,359
Impact on Statement of Net Position	<u>\$ 156,656</u>
 OPEB Expense, FYE 6/30/2020	 <u><u>\$ 47,639</u></u>

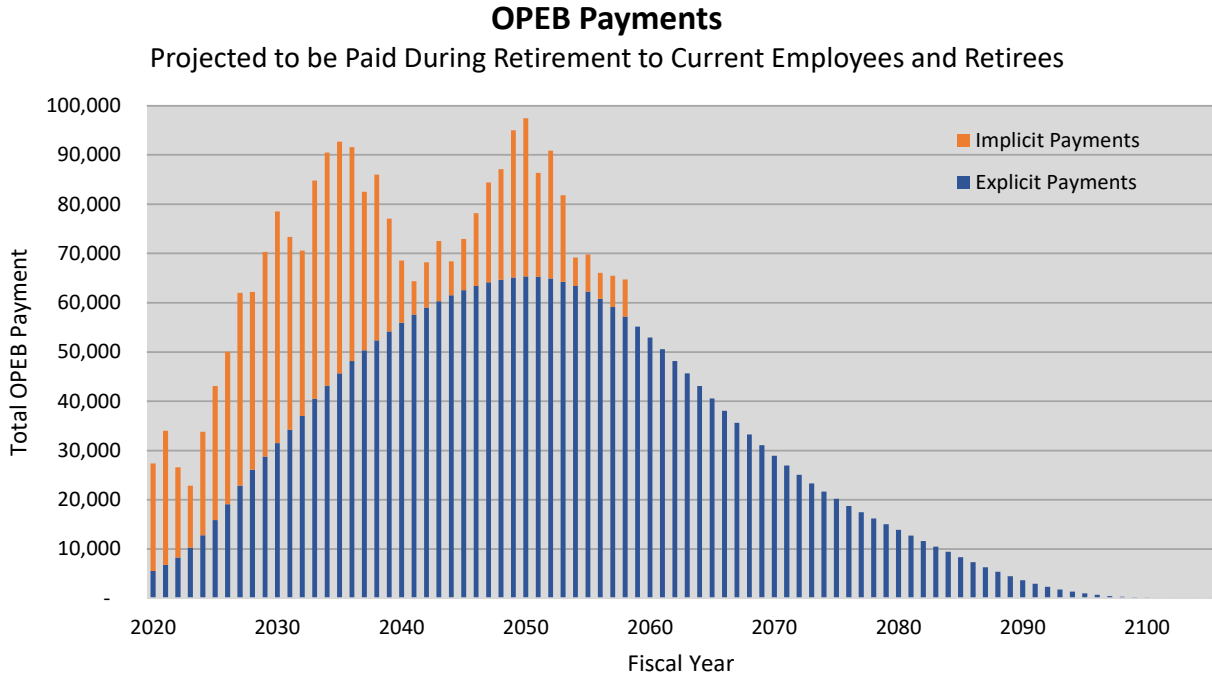
Important Notices

This report is intended to be used only to present the actuarial information relating to other postemployment benefits for the Authority’s financial statements. The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable. We note that various issues in this report may involve legal analysis of applicable law or regulations. The Authority should consult counsel on these matters; MacLeod Watts does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the Authority consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.



B. Discussion of June 30, 2019 Valuation Results

This section presents the basic results of our recalculation of the OPEB liability using the updated employee data, plan provisions and asset information provided to us. The new valuation performed as of June 30, 2019 starts by projecting all future benefits to be paid to retirees and current employees if they retire from the Authority. Based on the data provided and utilizing all the assumptions about future participant elections, mortality, etc., the actuary provides a very long-term projection of expected future payments. A snapshot of the valuation's projected payments appears below.



Annual OPEB payments to current retirees and current employees assumed to retire in the future from EDCTA are expected to increase from roughly \$27,000 in 2020 to almost \$100,000 in 2051, then start to decrease. The explicit benefit payments have a smooth bell shape indicating a more consistent variance year over year while the implicit payments vary significantly year over year. Of course, future employees (not yet hired) who become covered under this program will increase benefit payments in the later years, so the pattern of benefits in later years will be different.

Next, this long-term projection of future OPEB payments is translated into a *present value* as of the measurement date using the 6.85% assumed discount rate. As of June 30, 2019, the present value of projected benefits is \$857,236. If the OPEB trust currently held this amount *and if* all actuarial assumptions about the future were exactly realized, then the trust could pay all plan benefits of retirees and current employees assumed to retire and elect health coverage. No assets would be available for new employees hired *after* current employees retired. Benefits of future employees are not considered in the valuation and future funding contributions would still be required for their benefits.

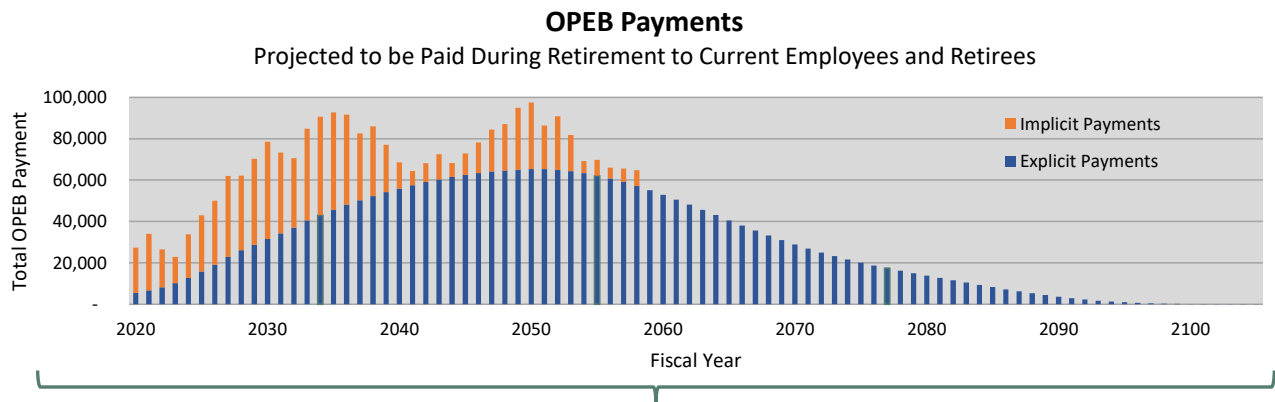
The next step in the valuation is to split (attribute) the Present Value of Projected Benefits into 1) the value of benefits already *earned by prior service* of current employees and retirees and 2) the value of benefits expected to be *earned by future service* of current employees. Using the Entry Age Normal attribution method, the value of benefits deemed earned by prior service as of June 30, 2019, is \$552,779. This is called the **Total OPEB Liability** (in GASB terminology) or **Actuarial Accrued Liability** (in actuarial terminology).



Discussion of June 30, 2019 Valuation Results
(continued)

Benefits deemed earned by service in a single year is called the “service cost” or “normal cost” of benefits. The present value of all future service costs is \$304,457 (i.e. \$857,236 - \$552,779). This represents the value of OPEB benefits expected to be earned by *future* service of current employees.

The Authority has committed to making regular contributions to a trust in order to prefund plan benefits. Prior trust contributions and earnings have accumulated so that, as of June 30, 2019, the market value of assets is \$412,221. In comparison to the Present Value of Future OPEB Benefits (i.e. \$857,236), the trust is about 48% funded. However, the funded status of a plan is generally viewed relative to benefits that have been earned by service up to the valuation date. When compared to the Actuarial Accrued Liability, current assets are 75% of liabilities. In other words, trust assets as of June 30, 2019 cover 75% of benefits earned by prior service but no portion of OPEB benefits expected to be earned by future service of current employees. Pictorially, we can represent the June 30, 2019, valuation as follows:



Present Value of Future OPEB Benefits = \$857,236 <i>Present value as of the measurement date of all future benefits projected to be paid to current and former employees</i>	
Actuarial Accrued Liability (AAL), or Total OPEB Liability (TOL) = \$552,779 <i>Present value of all benefits deemed earned by employees and retirees as of the measurement date</i>	Future Earned Benefits = \$304,457 <i>Present value of benefits expected to be earned by future service of current employees</i>
Actuarial Value of Assets (AVA) = \$412,221 <i>Actuarial value of trust assets set aside to pay future benefits</i>	Unfunded AAL (Surplus) = \$140,558 <i>Excess of AAL over AVA</i>

The Unfunded Actuarial Accrued Liability (actuarial terminology) or Net OPEB Liability (“NOL”) (GASB terminology), is about 25% of the AAL. Future contributions will prefund the remaining UAAL plus the portion of OPEB benefits that will be earned by future service of current employees. See Section D, OPEB Funding Information, for development of plan contributions for fiscal years ending June 30, 2020, June 30, 2021 and June 30, 2022 based on this June 30, 2019 valuation.

Please recognize, however, that these projections are based on numerous assumptions that almost certainly will not be exactly realized; differences between future actual and expected results (plan gains or losses) will also decrease or increase future contributions.



Discussion of June 30, 2019 Valuation Results
(continued)

The chart below compares valuation results measured as of June 30, 2018, based on the July 1, 2017 valuation, with the results measured as of June 30, 2019, based on the June 30, 2019 actuarial valuation.

Valuation date	7/1/2017			6/30/2019		
Fiscal Year End	6/30/2019			6/30/2020		
Measurement Date	6/30/2018			6/30/2019		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Subsidy						
Discount rate	6.95%	6.95%	6.95%	6.85%	6.85%	6.85%
Number of Covered Employees						
Actives	27	27	27	25	25	25
Retirees	2	-	2	5	2	5
Total Participants	29	27	29	30	27	30
Actuarial Present Value of Projected Benefits						
Actives	\$ 401,527	\$ 393,953	\$ 795,480	\$ 353,421	\$ 336,096	\$ 689,517
Retirees	47,555	-	47,555	120,162	47,557	167,719
Total APVPB	449,082	393,953	843,035	473,583	383,653	857,236
Total OPEB Liability (TOL)						
Actives	243,187	239,746	482,933	192,782	192,278	385,060
Retirees	47,555	-	47,555	120,162	47,557	167,719
TOL	290,742	239,746	530,488	312,944	239,835	552,779
Fiduciary Net Position			333,321			412,221
Net OPEB Liability			197,167			140,558
Service Cost	21,694	21,666	43,360	19,392	17,258	36,650

The Net OPEB Liability (a.k.a., Unfunded Actuarial Accrued Liability) has decreased by \$56,609 from one year ago, from \$197,167 to \$140,558. Factors contributing to this improvement in the plans' funded position are described on the following page.



Discussion of June 30, 2019 Valuation Results

(Concluded)

The roughly \$57,000 improvement in the plan's funded position from one year ago is the combination of 1) about a \$22,000 increase in the Total OPEB Liability offset by 2) an \$79,000 increase in trust assets over this same period.

Part of the change in the TOL was expected based on normal plan operation and the passage of time. Some of the change was not expected including the change due to changes in actuarial assumptions and the change due to plan experience different than projected. Plan experience includes a variety of factors, such as unexpected changes in the plan's population and medical costs different than assumed.

This chart reconciles the Total OPEB Liability (TOL) reported at June 30, 2019 to the TOL to be reported as of June 30, 2020.

We observe that while the TOL did increase, this increase was less than expected. The largest driver of the unexpected changes was our change in the assumed future increases (trend) on the PEMHCA Minimum Employer Contribution. Updated assumptions about future employee separations, deaths and retirement and the elimination of the liability for the excise tax on high cost retiree coverage all reduced the liability somewhat.

Plan liability experience relative to our prior assumptions was small and slightly unfavorable. Return on trust assets was about \$1,000 less than assumed. There was also one new retiree not included in the prior valuation because he was not in the eligible group at that time.

For more details on assumption changes, see the last page of Supporting Information, Section 3.

Reported Total OPEB Liability at June 30, 2019 Measurement Date June 30, 2018	\$ 530,488
Expected Changes:	
Service Cost	43,360
Benefit Payments	(7,384)
Interest Cost	39,626
Total Expected Change	75,602
Expected Total OPEB Liability at June 30, 2020 Measurement Date June 30, 2019	\$ 606,090
Unexpected Changes:	
Updated demographic assumptions, including mortality improvement	(14,873)
Adjusted future trend on PEMHCA Minimum Employer Contribution (MEC)	(27,193)
Change in percentage of future retirees assumed to cover a spouse	(12,201)
Change in discount rate	5,837
Removed liability due to excise tax repeal	(12,140)
Plan experience	7,259
Total Unexpected Change	(53,311)
Actual Total OPEB Liability at June 30, 2020 Measurement Date June 30, 2019	\$ 552,779



C. Accounting Information (GASB 75)

The following exhibits are designed to satisfy the reporting and disclosure requirements of GASB 75 for the fiscal year end June 30, 2020. The Authority is classified for GASB 75 purposes as a single employer.

Components of Net Position and Expense

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

Plan Summary Information for FYE June 30, 2020 <i>Measurement Date is June 30, 2019</i>	EDCTA
 Items Impacting Net Position:	
Total OPEB Liability	\$ 552,779
Fiduciary Net Position	412,221
Net OPEB Liability (Asset)	140,558
 <i>Deferred (Outflows) Inflows of Resources Due to:</i>	
Assumption Changes	64,161
Plan Experience	3,149
Investment Experience	(1,644)
Deferred Contributions	(49,568)
Net Deferred (Outflows) Inflows of Resources	16,098
 Impact on Statement of Net Position, FYE 6/30/2020	\$ 156,656
 Items Impacting OPEB Expense:	
Service Cost	\$ 43,360
Cost of Plan Changes	-
Interest Cost	39,626
Expected Earnings on Assets	(25,158)
Administrative Expenses	74
 <i>Recognized Deferred Resource items:</i>	
Assumption Changes	(9,508)
Plan Experience	(791)
Investment Experience	36
 OPEB Expense, FYE 6/30/2020	\$ 47,639



Accounting Information

(Continued)

Change in Net Position During the Fiscal Year

The exhibit below shows the year-to-year changes in the components of Net Position.

For Reporting at Fiscal Year End <i>Measurement Date</i>	6/30/2019 <i>6/30/2018</i>	6/30/2020 <i>6/30/2019</i>	Change During Period
Total OPEB Liability	\$ 530,488	\$ 552,779	\$ 22,291
Fiduciary Net Position	333,321	412,221	78,900
Net OPEB Liability (Asset)	197,167	140,558	(56,609)
<i>Deferred Resource (Outflows) Inflows Due to:</i>			
Assumption Changes	13,099	64,161	51,062
Plan Experience	11,199	3,149	(8,050)
Investment Experience	1,911	(1,644)	(3,555)
Deferred Contributions	(64,791)	(49,568)	15,223
Net Deferred (Outflows) Inflows	(38,582)	16,098	54,680
Impact on Statement of Net Position	\$ 158,585	\$ 156,656	\$ (1,929)

Change in Net Position During the Fiscal Year

Impact on Statement of Net Position, FYE 6/30/2019	\$ 158,585
OPEB Expense (Income)	47,639
Employer Contributions During Fiscal Year	(49,568)
Impact on Statement of Net Position, FYE 6/30/2020	<u>\$ 156,656</u>

OPEB Expense

Employer Contributions During Fiscal Year	\$ 49,568
Deterioration (Improvement) in Net Position	(1,929)
OPEB Expense (Income), FYE 6/30/2020	<u>\$ 47,639</u>



Accounting Information

(Continued)

Change in Fiduciary Net Position During the Measurement Period

		EDCTA
Fiduciary Net Position at Fiscal Year Ending 6/30/2019	\$	333,321
<i>Measurement Date 6/30/2018</i>		
Changes During the Period:		
Investment Income		21,567
Employer Contributions		64,791
Administrative Expenses		(74)
Benefit Payments		(7,384)
Net Changes During the Period		78,900
 Fiduciary Net Position at Fiscal Year Ending 6/30/2020	 \$	 412,221
<i>Measurement Date 6/30/2019</i>		

If all transactions into/out of the trust occurred mid-year, the estimated return over this 12 month period is 6.0%.

Expected Long-term Return on Trust Assets

The expected long-term return on trust assets was derived from information published by CalPERS for CERBT Strategy 1. CalPERS determined its returns using a building-block method and best-estimate ranges of expected future real rates of return for each major asset class (expected returns, net of OPEB plan investment expense and inflation). The target allocation and best estimates of geometric real rates of return published by CalPERS for each major class are summarized in the following table:

CERBT Strategy 1		Years 1-10			Years 11+		
Major Asset Classification	Target Allocation	General Inflation Rate Assumption	1-10 Year Expected Real Rate of Return*	Compound Return Yrs 1-10	General Inflation Rate Assumption	11+ Year Expected Real Rate of Return*	Compound Return Years 11+
Global Equity	57%	2.50%	5.25%	7.75%	3.00%	5.71%	8.71%
Fixed Income	27%	2.50%	1.79%	4.29%	3.00%	2.40%	5.40%
Global Real Estate(REITs)	8%	2.50%	3.25%	5.75%	3.00%	7.88%	10.88%
Treasury Inflation Protected Securities (TIPS)	5%	2.50%	1.00%	3.50%	3.00%	2.25%	5.25%
Commodities	3%	2.50%	0.34%	2.84%	3.00%	4.95%	7.95%
Volatility	11.74%						

Currently, CalPERS’ expected returns are split for years 1-10 and years 11 and thereafter. To derive the expected return specifically for the Authority, we projected plan benefits in each future year. Then applying the plan specific benefit payments to CalPERS’ bifurcated return expectations, we determined the single equivalent long-term rate of return to be 6.85%.



Accounting Information

(Continued)

Recognition Period for Deferred Resources

Liability changes due to plan experience which differs from what was assumed in the prior measurement period and/or from assumption changes during the period are recognized over the plan's Expected Average Remaining Service Life ("EARSL"). The EARSL of 8.38 years is the period used to recognize such changes in the OPEB Liability arising during the current measurement period.

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

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

Deferred Resources as of Fiscal Year End and Expected Future Recognition

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

El Dorado County Transit Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 15,656	\$ 79,817
Differences Between Expected and Actual Experience	6,393	9,542
Net Difference Between Projected and Actual Earnings on Investments	1,644	-
Deferred Contributions	49,568	-
Total	\$ 73,261	\$ 89,359

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

For the Fiscal Year Ending June 30	Recognized Net Deferred Outflows (Inflows) of Resources
2021	\$ (10,263)
2022	(10,265)
2023	(9,444)
2024	(9,580)
2025	(10,299)
Thereafter	(15,815)



Accounting Information

(Continued)

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

The discount rate used for the fiscal year end 2020 is 6.85%. Healthcare Cost Trend Rate was assumed to start at 6.5% (increase effective January 1, 2021) and grade down to 5% for years 2024 and later. Increases in the PEMHCA minimum benefit (MEC) are 4.0% per year. The impact of a 1% increase or decrease in these assumptions is shown in the chart below.

Sensitivity to:			
Change in Discount Rate	Current - 1% 5.85%	Current 6.85%	Current + 1% 7.85%
Total OPEB Liability	617,117	552,779	498,598
Increase (Decrease)	64,338		(54,181)
% Increase (Decrease)	11.6%		-9.8%
Net OPEB Liability (Asset)	204,896	140,558	86,377
Increase (Decrease)	64,338		(54,181)
% Increase (Decrease)	45.8%		-38.5%
Change in Heathcare Cost Trend Rate	Current Trend - 1%	Current Trend	Current Trend + 1%
Total OPEB Liability	487,871	552,779	631,844
Increase (Decrease)	(64,908)		79,065
% Increase (Decrease)	-11.7%		14.3%
Net OPEB Liability (Asset)	75,650	140,558	219,623
Increase (Decrease)	(64,908)		79,065
% Increase (Decrease)	-46.2%		56.3%



Accounting Information

(Continued)

Schedule of Changes in the Authority's Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. Only results for years since GASB 75 was implemented (fiscal years 2018, 2019 and 2020) are shown in the table.

Fiscal Year Ending	2020	2019	2018
<i>Measurement Date</i>	<i>6/30/2019</i>	<i>6/30/2018</i>	<i>6/30/2017</i>
<i>Discount Rate on Measurement Date</i>	<i>6.85%</i>	<i>6.95%</i>	<i>7.28%</i>
Total OPEB liability			
Service Cost	\$ 39,599	\$ 39,599	\$ 31,222
Interest	39,364	34,753	33,711
Changes of benefit terms	-	-	-
Differences between expected and actual experience	11,282	-	(14,513)
Changes of assumptions	(60,570)	20,288	(40,263)
Benefit payments	(7,384)	(3,872)	(4,550)
Net change in total OPEB liability	22,291	90,768	5,607
Total OPEB liability - beginning	530,488	439,720	434,113
Total OPEB liability - ending (a)	\$ 552,779	\$ 530,488	\$ 439,720
Plan fiduciary net position			
Contributions - employer	\$ 64,791	\$ 59,503	\$ 55,642
Net investment income	21,567	20,106	19,606
Benefit payments	(7,384)	(3,872)	(4,550)
Administrative Expenses	(74)	(139)	(102)
Other Expenses		(341)	
Net change in plan fiduciary net position	78,900	75,257	70,596
Plan fiduciary net position - beginning	333,321	258,064	187,468
Plan fiduciary net position - ending (b)	\$ 412,221	\$ 333,321	\$ 258,064
Net OPEB liability - ending (a) - (b)	\$ 140,558	\$ 197,167	\$ 181,656
Covered-employee payroll	\$ 1,525,472	\$ 1,472,288	\$ 1,670,014
Net OPEB liability as a % of covered-employee payroll	9.21%	13.39%	10.88%



Accounting Information
(Continued)

Schedule of Contributions

Since establishing the OPEB trust, the Authority has consistently contributed 100% or more of the Actuarially Determined Contribution (ADC) each year and confirmed its intention to continue doing so. This chart shows the contributions for the years since GASB 75 was implemented:

Fiscal Year Ending	FYE 2020	FYE 2019	FYE 2018
Actuarially Determined Contribution	\$ 49,568	\$ 57,407	\$ 55,631
Contributions in relation to the actuarially determined contribution	49,568	64,791	59,503
Contribution deficiency (excess)	\$ -	\$ (7,384)	\$ (3,872)
Covered employee payroll	\$ 1,575,050	\$ 1,525,472	\$ 1,472,288
Contributions as a percentage of covered employee payroll	3.15%	4.25%	4.04%

Notes to Schedule

Valuation Date

Actuarial cost method

Amortization method

Amortization period

Asset valuation method

Inflation

Healthcare cost trend rates

Salary increases

Investment rate of return

Retirement age

Mortality

Mortality Improvement

	6/30/2019	7/1/2017	7/1/2017
	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
	Level % of Pay, Closed 30 yr period	Level % of Pay, Closed 30 yr period	Level % of Pay, Closed 30 yr period
	20 Years	21 Years	22 Years
	Market Value	Market Value	Market Value
	2.75%	2.75%	2.75%
	6.50% in 2021, stepping down 0.5% each yr to 5.0% in 2024	7.50% in 2019, stepping down 0.5% each year to 5.0% in 2024	7.50% in 2019, stepping down 0.5% each year to 5.0% in 2024
	3.25%	3.25%	3.25%
	6.85%	7.28%	7.28%
	From 50 to 75	From 50 to 75	From 50 to 75
	CalPERS 2017 Experience Study	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study
	MacLeod Watts Scale 2018	Projected with MW Scale 2017	Projected with MW Scale 2017



Accounting Information

(Continued)

Detail of Changes to Net Position

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

El Dorado County Transit Authority	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)	(d) Deferred Outflows (Inflows) Due to:				Impact on Statement of Net Position (e) = (c) - (d)
				Assumption Changes	Plan Experience	Investment Experience	Deferred Contributions	
Balance at Fiscal Year Ending 6/30/2019 <i>Measurement Date 6/30/2018</i>	\$ 530,488	\$ 333,321	\$ 197,167	\$ (13,099)	\$ (11,199)	\$ (1,911)	\$ 64,791	\$ 158,585
Changes During the Period:								
Service Cost	43,360		43,360					43,360
Interest Cost	39,626		39,626					39,626
Expected Investment Income		25,158	(25,158)					(25,158)
Employer Contributions		64,791	(64,791)					(64,791)
Changes of Benefit Terms	-		-					-
Administrative Expenses		(74)	74					74
Benefit Payments	(7,384)	(7,384)	-					-
Assumption Changes	(60,570)		(60,570)	(60,570)				-
Plan Experience	7,259		7,259		7,259			-
Investment Experience		(3,591)	3,591			3,591		-
Recognized Deferred Resources				9,508	791	(36)	(64,791)	54,528
Employer Contributions in Fiscal Year							49,568	(49,568)
Net Changes in Fiscal Year 2019-2020	22,291	78,900	(56,609)	(51,062)	8,050	3,555	(15,223)	(1,929)
Balance at Fiscal Year Ending 6/30/2020 <i>Measurement Date 6/30/2019</i>	\$ 552,779	\$ 412,221	\$ 140,558	\$ (64,161)	\$ (3,149)	\$ 1,644	\$ 49,568	\$ 156,656



Accounting Information
(Continued)

Schedule of Deferred Outflows and Inflows of Resources

A listing of all deferred resource bases used to develop the Net Position and OPEB Expense is shown below. Deferred Contributions are not shown.

Measurement Date: June 30, 2019

Deferred Resource					Balance as of Jun 30, 2019	Recognition of Deferred Outflow or Deferred (Inflow) in Measurement Period:						
Date Created	Cause	Initial Amount	Period (Yrs)	Annual Recognition		2018-19 (FYE 2020)	2019-20 (FYE 2021)	2020-21 (FYE 2022)	2021-22 (FYE 2023)	2022-23 (FYE 2024)	2023-24 (FYE 2025)	Thereafter
Gain Due To												
6/30/2017	Assumption Changes	\$ (40,263)	8.76	\$ (4,596)	\$ (26,475)	\$ (4,596)	\$ (4,596)	\$ (4,596)	\$ (4,596)	\$ (4,596)	\$ (4,596)	\$ (3,495)
Investment Earnings												
6/30/2017	Greater than Expected	(4,102)	5.00	(820)	(1,642)	(820)	(820)	(822)	-	-	-	-
Gain Due To												
6/30/2017	Plan Experience	(14,513)	8.76	(1,657)	(9,542)	(1,657)	(1,657)	(1,657)	(1,657)	(1,657)	(1,657)	(1,257)
Loss Due To												
6/30/2018	Assumption Changes	20,288	8.76	2,316	15,656	2,316	2,316	2,316	2,316	2,316	2,316	4,076
Investment Earnings												
6/30/2018	Less than Expected	689	5.00	138	413	138	138	138	137	-	-	-
Loss Due To												
6/30/2019	Plan Experience	7,259	8.38	866	6,393	866	866	866	866	866	866	2,063
Gain Due To												
6/30/2019	Assumption Changes	(60,570)	8.38	(7,228)	(53,342)	(7,228)	(7,228)	(7,228)	(7,228)	(7,228)	(7,228)	(17,202)
Investment Earnings												
6/30/2019	Less than Expected	3,591	5.00	718	2,873	718	718	718	718	719	-	-



Accounting Information

(Continued)

District Contributions to the Plan

District contributions to the Plan occur as benefits are paid to retirees and/or to the OPEB trust. Benefit payments may occur in the form of direct payments for premiums and taxes (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”). Note that the implicit subsidy contribution does not represent cash payments to retirees, but reclassification of a portion of active healthcare cost to be treated as a retiree healthcare expense.

Benefits and other contributions paid by the Authority during the measurement period are shown here:

Benefit Payments During the Measurement Period, Jul 1, 2018 thru Jun 30, 2019	EDCTA
Benefits Paid by Trust	\$ -
Benefits Paid by Employer (not reimbursed by trust)	2,045
Implicit benefit payments	5,339
Total Benefit Payments During the Measurement Period	\$ 7,384

Employer Contributions During the Measurement Period, Jul 1, 2018 thru Jun 30, 2019	EDCTA
Employer Contributions to the Trust	\$ 57,407
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	2,045
Implicit contributions	5,339
Total Employer Contributions During the Measurement Period	\$ 64,791

Authority contributions estimated to be made in the year following the measurement period but prior to the end of the fiscal year are shown below. *These estimates should be replaced with total actual payments once known after the close of the fiscal year.*

Employer Contributions During the Fiscal Year, Jul 1, 2019 thru Jun 30, 2020	EDCTA
Employer Contributions to the Trust	\$ 22,187
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	5,559
Implicit contributions	21,822
Total Employer Contributions During the Fiscal Year	\$ 49,568



Accounting Information

(Continued)

Projected Benefit Payments (15-year projection)

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

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

Projected Annual Benefit Payments							
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy			Total
	Current Retirees	Future Retirees	Total	Current Retirees	Future Retirees	Total	
2020	\$ 5,156	\$ 403	\$ 5,559	\$ 20,004	\$ 1,818	\$ 21,822	\$ 27,381
2021	5,752	993	6,745	22,504	4,758	27,262	34,007
2022	6,376	1,928	8,304	9,239	9,026	18,265	26,569
2023	7,028	3,266	10,294	-	12,610	12,610	22,904
2024	7,707	5,056	12,763	-	21,068	21,068	33,831
2025	8,410	7,479	15,889	-	27,199	27,199	43,088
2026	9,136	9,956	19,092	-	30,947	30,947	50,039
2027	9,883	12,984	22,867	-	39,136	39,136	62,003
2028	10,386	15,713	26,099	-	36,088	36,088	62,187
2029	10,625	18,135	28,760	-	41,550	41,550	70,310
2030	10,848	20,635	31,483	-	47,028	47,028	78,511
2031	11,050	23,173	34,223	-	39,121	39,121	73,344
2032	11,228	25,816	37,044	-	33,557	33,557	70,601
2033	11,371	29,136	40,507	-	44,295	44,295	84,802
2034	11,477	31,666	43,143	-	47,373	47,373	90,516

The amounts shown in the Explicit Subsidy table reflect the expected payment by the Authority toward retiree medical premiums in each of the years shown. The amounts are shown separately, and in total, for those retired on the valuation date (“current retirees”) and those expected to retire after the valuation date (“future retirees”).

Explicit retiree benefits shown for FYE 2020 are estimates.

The amounts shown in the Implicit Subsidy table reflect the expected excess of retiree medical and prescription drug claims over the premiums expected to be charged during the year for retirees’ coverage. These amounts are also shown separately and in total for those currently retired on the valuation date and for those expected to retire in the future.



Accounting Information
(Concluded)

Sample Journal Entries

Beginning Account Balances

As of the fiscal year beginning 7/1/2019

	Debit	Credit
Net OPEB Liability		197,167
Deferred Resource -- Assumption Changes		13,099
Deferred Resource -- Plan experience		11,199
Deferred Resource -- Investment Experience		1,911
Deferred Resource -- Contributions	64,791	
Net Position	158,585	

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

Journal entry to recharacterize retiree benefit payments not reimbursed by a trust, and record cash contributions to the trust during the fiscal year

OPEB Expense	5,559	
Premium Expense		5,559
OPEB Expense	22,187	
Cash		22,187

Will change at year end when actual payments are known	
Debit	Credit
5,559	
	5,559
22,187	
	22,187

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

Journal entries to record implicit subsidies during the fiscal year

	Debit	Credit
OPEB Expense	21,822	
Premium Expense		21,822

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

Journal entries to record other account activity during the fiscal year

	Debit	Credit
Net OPEB Liability	56,609	
Deferred Resource -- Assumption Changes		51,062
Deferred Resource -- Plan experience	8,050	
Deferred Resource -- Investment Experience	3,555	
Deferred Resource -- Contributions		15,223
OPEB Expense		1,929



D. OPEB Funding Information

The employer’s OPEB funding policy and level of contributions to an irrevocable OPEB trust directly affects the discount rate which is used to calculate the OPEB liability to be reported in the employer’s financial statements. Prefunding (setting aside funds to accumulate in an irrevocable OPEB trust) has certain advantages, one of which is the ability to (potentially) use a higher discount rate in the determination of liabilities for GASB 75 reporting purposes.

The Authority established an OPEB trust with CERBT during fiscal year 2010-11. The percent of the Total OPEB liability set aside in trust as of the June 30, 2019 valuation date was roughly 75%, as shown here:

Total AAL	FNP (Assets)	Funded %
\$ 552,779	\$ 412,221	75%

Different terminology is sometimes used by actuaries and accountants when referring to key liability and expense components. Here are some of these terms which are often interchangeable:

Actuarial Funding Terminology

Present Value of Projected Benefits (PVPB)
Actuarially Accrued Liability (AAL)
Market Value of Assets
Unfunded Actuarially Accrued Liability (UAAL)
Normal Cost

GASB 75 Terminology

N/A; typically not reported for accounting purposes
Total OPEB Liability (TOL)
Fiduciary Net Position
Net OPEB Liability
Service Cost

The Authority approved development of Actuarially Determined Contributions (ADC) based on these two components, calculated at the beginning of the year, then adjusted with interest to 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) over a closed 30-year period with level % of pay annual payments.

The ADC for FYE 2020, developed from the June 30, 2019 valuation, is summarized below:

Discount Rate	6.85%
Actuarial Accrued Liability (projected)	\$ 552,779
Actuarial Value of Assets (projected)	412,221
Unfunded Actuarial Accrued Liability (UAAL)	140,558
Amortization Factor*	14.4313
Actuarially Determined Contribution for FYE 2019	
Amortization of UAAL	\$ 9,740
Normal Cost	36,650
Interest to Fiscal Year End	3,178
Total ADC	\$ 49,568

*Level % of pay basis over a closed 30 year period; 20 years remain for FYE 2020.

In our professional judgement, the ADC determined on this basis should provide for trust sufficiency, based on the current plan provisions and employee data, *if* (1) all assumptions are exactly realized, including return on trust assets, and (2) the Authority contributes 100% or more of the ADC each year. When an agency commits to funding the trust at or above the ADC, GASB 75 allows use of the expected long term trust return to be used as the discount rate in determining the plan liability.



OPEB Funding Information

(Concluded)

Actuarially Determined Contributions are developed for the Authority's fiscal years ending June 30, 2020, June 30, 2021 and June 30, 2022 in the chart below. These contribution levels include both explicit and implicit benefits.

Funding Policy	Prefunding Basis		
Valuation date	6/30/2019		
For fiscal year ending	6/30/2020	6/30/2021	6/30/2022
Expected long-term return on assets	6.85%	6.85%	6.85%
Discount rate	6.85%	6.85%	6.85%
Number of Covered Employees			
Actives	25	25	25
Retirees	5	5	5
Total Participants	30	30	30
Actuarial Present Value of Projected Benefits			
Actives	\$ 689,517	\$ 734,452	\$ 778,814
Retirees	167,719	153,187	134,457
Total APVPB	857,236	887,639	913,271
Actuarial Accrued Liability (AAL)			
Actives	385,060	448,300	513,493
Retirees	167,719	153,187	134,457
Total AAL	552,779	601,487	647,950
Actuarial Value of Assets	412,221	463,405	512,746
Unfunded AAL (UAAL)	140,558	138,082	135,204
UAAL Amortization method	Level % of Pay	Level % of Pay	Level % of Pay
Remaining amortization period (years)	20	19	18
Amortization Factor	14.4313	13.9333	13.4168
Actuarially Determined Contribution (ADC)			
Normal Cost	\$ 36,650	\$ 37,841	\$ 39,071
Amortization of UAAL	9,740	9,910	10,078
Interest to fiscal year end	3,178	3,271	3,366
Total ADC	49,568	51,022	52,515
Projected covered payroll	\$ 1,525,472	\$ 1,575,050	\$ 1,626,239
Normal Cost as a percent of payroll	2.4%	2.4%	2.4%
ADC as a percent of payroll	3.2%	3.2%	3.2%

Funding of the ADC

Actuarially Determined Contribution for this period	49,568	51,022	\$ 52,515
Less current implicit subsidy (expense reclassification)	(21,822)	(27,262)	\$ (18,265)
Cash payments needed to meet ADC	27,746	23,760	34,250
Estimated retiree benefits paid by the District	5,559	6,745	8,304
Estimated contribution needed to the trust	22,187	17,015	25,946

The retiree benefit payments are estimates and could be lower than projected above. If so, the Authority's reimbursement from the trust should be adjusted so that total actual contributions are greater than or equal to the ADC each year.



E. Certification

The primary purposes of this report are: (1) to provide actuarial information of the other postemployment benefits (OPEB) provided by El Dorado County Transit Authority (the Authority) in compliance with Statement 75 of the Governmental Accounting Standards Board (GASB 75); and (2) to provide Actuarially Determined Contributions for prefunding of this program in conformity with the Authority's OPEB funding policy. The Authority is not required to contribute the ADC shown in this report and we make no representation that it will, in fact, fund the OPEB trust at any particular level).

In preparing this report we relied without audit on information provided by the Authority. This information includes, but is not limited to, plan provisions, census data, and financial information. We performed a limited review of this data and found the information to be reasonably consistent. The accuracy of this report is dependent on this information and if any of the information we relied on is incomplete or inaccurate, then the results reported herein will be different from any report relying on more accurate information.


We consider the actuarial assumptions and methods used in this report to be individually reasonable under the requirements imposed by GASB 75 and taking into consideration reasonable expectations of plan experience. The results provide an estimate of the plan's financial condition at one point in time. Future actuarial results may be significantly different due to a variety of reasons including, but not limited to, demographic and economic assumptions differing from future plan experience, changes in plan provisions, changes in applicable law, or changes in the value of plan benefits relative to other alternatives available to plan members.


Alternative assumptions may also be reasonable; however, demonstrating the range of potential plan results based on alternative assumptions was beyond the scope of our assignment except to the limited extent required by GASB 75 and in accordance with the Authority's stated OPEB funding policy. Results for accounting purposes may be materially different than results obtained for other purposes such as plan termination, liability settlement, or underlying economic value of the promises made by the plan.

This report is prepared solely for the use and benefit of the Authority and may not be provided to third parties without prior written consent of MacLeod Watts. Exceptions are: The Authority may provide copies of this report to their professional accounting and legal advisors who are subject to a duty of confidentiality, and the Authority may provide this work to any party if required by law or court order. No part of this report should be used as the basis for any representations or warranties in any contract or agreement without the written consent of MacLeod Watts.

The undersigned actuary is unaware of any relationship that might impair the objectivity of this work. Nothing within this report is intended to be a substitute for qualified legal or accounting counsel. The signing actuary is a member of the American Academy of Actuaries and meets the qualification standards for rendering this opinion.

Signed: February 3, 2020


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


Cody J. Simrell, Actuarial Analyst



F. Supporting Information

Section 1 - Summary of Employee Data

Active employees: The Authority reported 25 active employees in the data provided to us for the June 2019 valuation. Of these, 24 were reported as currently enrolled in the medical program while 1 employee was waiving coverage. Their age and service information are summarized 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		1					1	4%
30 to 34		1	2				3	12%
35 to 39							0	0%
40 to 44			1				1	4%
45 to 49	1	2	1	2			6	24%
50 to 54			2	1	1	2	6	24%
55 to 59		1		2		1	4	16%
60 to 64	1	1		1			3	12%
65 to 69					1		1	4%
70 & Up							0	0%
Total	2	6	6	6	2	3	25	100%
Percent	8%	24%	24%	24%	8%	12%	100%	

Valuation	July 2017	June 2019
Average Attained Age for Actives	48.5	50.3
Average Years of Service	8.7	9.2

Retired members: There were also 5 retired employees receiving benefits under this program on the valuation date. Their ages are summarized in the chart below.

Retirees by Age		
Current Age	Number	Percent
Below 50	0	0%
50 to 54	0	0%
55 to 59	0	0%
60 to 64	2	40%
65 to 69	1	20%
70 to 74	1	20%
75 to 79	1	20%
80 & up	0	0%
Total	5	100%
Average Age:		
On 6/30/2019	68.3	
At retirement	65.4	

GASB 75 requires the employer to report specific plan member counts. The chart below shows these counts as of the June 30, 2019 valuation date:

Summary of Plan Member Counts	
Number of active plan members	25
Number of inactive plan members currently receiving benefits	5
Number of inactive plan members entitled to but not receiving benefits	0*

*We were not provided information about whether there are any retirees entitled to but not currently receiving benefits.



Supporting Information

(Continued)

Section 1 - Summary of Employee Data

(continued)

The chart below reconciles the number of actives and retirees included in the July 1, 2017 valuation of the Authority plan with those included in the June 30, 2019 valuation:

Reconciliation of Client Plan Members Between Valuation Dates				
Status	Covered Actives	Waiving Actives	Covered Retirees	Total
Number reported as of July 1, 2017	26	1	2	29
New employees	3			3
Separated employees	(3)			(3)
New retiree, elected coverage	(2)		2	0
New retiree, waiving coverage				0
Previously ineligible, now eligible			1	1
Number reported as of June 30, 2019	24	1	5	30

Overall, the number of plan members valued increased by 1, from 29 to 30. The most notable changes since the last valuation are:

- Three employees left the Authority prior to retirement.
- Three employees retired from the Authority and elected to continue their health coverage through the Authority and are receiving the retiree medical benefit.
- One of the three new retirees was previously in a represented group who changed positions to an unrepresented group which would make this employee eligible for retiree benefits from the Authority. He was not included in the prior valuation.



Supporting Information

(Continued)

Section 2A - Summary of Retiree Benefit Provisions

OPEB provided: The Authority provides lifetime medical coverage for qualifying retirees.

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, for PEPR employees) with 5 years of State or public agency service or approved disability retirement.

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

Once eligible for retiree medical coverage, a retiree not already enrolled in the medical plan 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.

Benefits provided by the Authority: As a PEMHCA employer, the Authority is obligated to contribute toward the cost of retiree medical coverage for the retiree’s lifetime or until coverage is discontinued. The benefit is continued to a surviving spouse, if covered at the time of the retiree’s death. The Authority maintains an “unequal” resolution with CalPERS (executed in 2007) defining the level of the Authority’s contribution toward the cost of medical plan premiums for *active* employees to be the PEMHCA minimum employer contribution (MEC)². The Authority’s contribution toward *retiree* medical benefits is determined by multiplying (a), (b) and (c) together, as described below:

- (a) 5% *times* (b) the number of prior years the employer has been contracted with PEMHCA *times*
- (c) the employer’s contribution toward active employee health benefits (i.e., the MEC).

The Authority’s contribution toward retiree medical coverage was \$81.60 in 2019 and is \$90.35 in 2020.

The 2020 CalPERS monthly medical plan rates in the Region 1 rate group are shown below.

Region 1 2020 Health Plan Rates						
Plan	Actives and Pre-Med Retirees			Medicare Eligible Retirees		
	Ee Only	Ee & 1	Ee & 2+	Ee Only	Ee & 1	Ee & 2+
Kaiser HMO	768.49	1,536.98	1,998.07	339.43	678.86	1,139.95
PERS Choice PPO	861.18	1,722.36	2,239.07	351.39	702.78	1,219.49
PERS Select PPO	520.29	1,040.58	1,352.75	351.39	702.78	1,014.95
Western Health Advantage HMO	731.96	1,463.92	1,903.10	<i>Not Available</i>		

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



Supporting Information

(Continued)

Section 2B - Excise Taxes for High Cost Retiree Coverage (Repealed)

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

As noted earlier in this report, this excise tax on high cost retiree coverage was repealed by Senate Amendment to H.R. 1865, *Further Consolidated Appropriations Act, 2020*, and signed by the President on December 20, 2019. While the repeal of this excise tax occurred after the valuation date and measurement date, we assumed no future OPEB tax liability for the Authority relating to this excise tax.



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Valuation Date	June 30, 2019
GASB 75 Measurement Date	Last day of prior fiscal year (June 30, 2019)
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets
Long Term Return on Assets	6.85% as of June 30, 2019 and 6.95% as of June 30, 2018 net of plan investment expenses and including inflation
Discount Rates	6.85% as of June 30, 2019 and 6.95% as of June 30, 2018
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years
Assumed Wage inflation	3.0% per year; used to determine amortization payments for developing the Actuarially Determined Contributions
General Inflation Rate	2.75% per year

Demographic actuarial assumptions used in this valuation are based on the 2017 experience study of the California Public Employees Retirement System using data from 1997 to 2015, except for a different basis used to project future mortality improvements. Rates for selected age and service are shown below and on the following pages. The representative mortality rates were the published CalPERS rates, adjusted to back out 15 years of Scale MP 2016 to central year 2015, then projected as described below.

Mortality Improvement MacLeod Watts Scale 2018 applied generationally from 2015
(see Addendum 3)

Mortality Before Retirement
(before improvement applied)

CalPERS Public Agency Miscellaneous Non- Industrial Deaths		
Age	Male	Female
15	0.00019	0.00004
20	0.00027	0.00008
30	0.00044	0.00018
40	0.00070	0.00040
50	0.00135	0.00090
60	0.00288	0.00182
70	0.00693	0.00438
80	0.01909	0.01080



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Mortality After Retirement
(before improvement applied)

Healthy Lives			Disabled Miscellaneous		
CalPERS Public Agency Miscellaneous, Police & Fire Post Retirement Mortality			CalPERS Public Agency Disabled Miscellaneous Post-Retirement Mortality		
Age	Male	Female	Age	Male	Female
40	0.00070	0.00040	20	0.00027	0.00008
50	0.00431	0.00390	30	0.00044	0.00018
60	0.00758	0.00524	40	0.00070	0.00040
70	0.01490	0.01044	50	0.01371	0.01221
80	0.04577	0.03459	60	0.02447	0.01545
90	0.14801	0.11315	70	0.03737	0.02462
100	0.35053	0.30412	80	0.07218	0.05338
110	1.00000	1.00000	90	0.16585	0.14826

Termination Rates

These rates reflect the assumed probability that an employee will leave the Authority in the next 12 months for reasons other than a service or disability retirement or death.

Miscellaneous Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
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	0.0654	0.0000	0.0000	0.0000
25	0.1674	0.1125	0.0634	0.0433	0.0000	0.0000
30	0.1606	0.1055	0.0615	0.0416	0.0262	0.0000
35	0.1537	0.0987	0.0567	0.0399	0.0252	0.0184
40	0.1468	0.0919	0.0519	0.0375	0.0243	0.0176
45	0.1400	0.0849	0.0480	0.0351	0.0216	0.0168

Service Retirement Rates

Each rate in these tables reflects the assumed probability that an employee with that age and service will take a service retirement from the Authority in the next 12 months.

The following miscellaneous retirement formulas apply:

For "Classic" employees:

2.0% @ 55

Miscellaneous Employees: 2% at 55 formula From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0080	0.0130	0.0180	0.0210	0.0220	0.0330
55	0.0400	0.0400	0.0560	0.0930	0.1090	0.1540
60	0.0580	0.0750	0.0930	0.1260	0.1430	0.1690
65	0.1450	0.1730	0.2010	0.2330	0.2660	0.2890
70	0.1500	0.1710	0.1920	0.2390	0.3040	0.3300
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Service Retirement Rates
(continued)

For "PEPRA" employees 2% @ 62

Miscellaneous "PEPRA" Employees: 2% at 62 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
55	0.0100	0.0190	0.0280	0.0360	0.0610	0.0960
60	0.0310	0.0510	0.0710	0.0910	0.1110	0.1380
65	0.1080	0.1410	0.1730	0.2060	0.2390	0.3000
70	0.1200	0.1560	0.1930	0.2290	0.2650	0.3330
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Disability Retirement Rates

CalPERS Public Agency Miscellaneous Disability From Dec 2017 Experience Study Report		
Age	Male	Female
20	0.00017	0.00010
25	0.00017	0.00010
30	0.00019	0.00024
35	0.00039	0.00071
40	0.00102	0.00135
45	0.00151	0.00188
50	0.00158	0.00199
55	0.00158	0.00149
60	0.00153	0.00105

Healthcare Trend

Medical plan premiums and claims costs by age are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown below:

Effective January 1	Premium Increase	Effective January 1	Premium Increase
2020	Actual	2023	5.50%
2021	6.50%	2024	5.00%
2022	6.00%	2025 & later	5.00%

The required PEMHCA minimum employer contribution (MEC) is assumed to increase by 4.0% annually.

Medicare Eligibility

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



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Participation Rate

Active employees are assumed to continue their current plan election in retirement based on their year of retirement, as shown below:

Year	Percent	Year	Percent
2020	52%	2023	64%
2021	56%	2024	68%
2022	60%	and later	70%

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

Spouse Coverage

Active employees: 60% are assumed to be married when they retire and to elect coverage for their spouse. Surviving spouses are assumed to continue coverage until their death. Husbands are assumed to be 3 years older than their wives.

Retired participants: Existing elections for spouse coverage are assumed to continue until the spouse’s death. Actual spouse ages are used, where known; if not, husbands are assumed to be 3 years older than their wives.

Excise tax on high-cost plans

With the repeal of this provision of the Affordable Care Act in December 2019, we excluded any liability for prior excise tax on high cost coverage in the results presented in this report.

Development of Age-related Medical Premiums

Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying medical claim cost factors developed from the data presented in the report, “Health Care Costs – From Birth to Death”, sponsored by the Society of Actuaries. A description of the use of claims cost curves can be found in MacLeod Watts’s Age Rating Methodology provided in Addendum 2 to this report.

Representative claims costs derived for retirees not currently covered or not expected to be eligible for Medicare were developed from the program dataset provided by CalPERS. Sample monthly claim costs in 2020 used in developing the liability are shown in the chart below. These claim costs are projected and compared to projected premium rates (see 2020 rates on page 25) to develop the implicit subsidy liability.



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Development of Age-related
Medical Premiums (continued)

Expected Monthly Claims by Medical Plan for Selected Ages						
Region	Medical Plan	Male				
		50	53	56	59	62
Region 1	Kaiser HMO	\$ 763	\$ 900	\$ 1,045	\$ 1,198	\$ 1,362
Region 1	PERS Choice PPO	773	912	1,059	1,214	1,380
Region 1	PERS Select PPO	543	640	744	852	969
Region 1	Western Health Advantage HMO	684	807	937	1,074	1,221
Region	Medical Plan	Female				
		50	53	56	59	62
Region 1	Kaiser HMO	\$ 946	\$ 1,039	\$ 1,118	\$ 1,208	\$ 1,331
Region 1	PERS Choice PPO	958	1,052	1,132	1,224	1,349
Region 1	PERS Select PPO	673	739	795	859	947
Region 1	Western Health Advantage HMO	848	931	1,002	1,083	1,194

All current and future Medicare-eligible retirees are assumed to be covered by plans that are rated based solely on the experience of Medicare retirees. Therefore, no implicit subsidy is calculated for Medicare-eligible retirees.

Assumption changes reflected in the current measurement period:

Assumed Long-term Trust Return
and Discount rate

Decreased from 6.95% to 6.85%, reflecting updated projections of long term return on trust assets.

Demographic Assumptions

Assumed termination, disability and retirement rates were updated to the rates in the most recent available experience study (2017) of the CalPERS program.

Mortality Improvement

Updated from MacLeod Watts Scale 2017 (projected from base year 2008) to MacLeod Watts Scale 2018 (projected from base year 2015). See Addendum 3 for details.

Spouse Coverage

We decreased the assumed likelihood that employees would cover a spouse in retirement, based on information provided by the Authority and on other relevant historical experience.

PEMHCA MEC Trend

Following reviewing recent historical increases and projections about future increases in CPI-medical trend, we decreased our assumption about future increases in the PEMHCA Minimum Employer Contribution (MEC) from 4.5% to 4% per year.

Excise tax on High-cost Coverage

We excluded the excise tax from the results given the December 2019 repeal of this provision of the Affordable Care Act.



Addendum 1: Important Background Information

General Types of Other Post-Employment Benefits (OPEB)

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are medical, prescription drug, dental, vision, and/or life insurance coverage. Other OPEB may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include COBRA, vacation, sick leave (unless converted to defined benefit OPEB), or other direct retiree payments.

A direct employer payment toward the cost of OPEB benefits is referred to as an “explicit subsidy”. Upcoming excise taxes under the Affordable Care Act for retirees covered by high cost plans is another potential source of explicit subsidies.

In addition, if claims experience of employees and retirees are pooled when determining premiums, retiree premiums are based on a pool of members which, on average, are younger and healthier. For certain types of coverage such as medical insurance, this results in an “implicit subsidy” of retiree premiums by active employee premiums since the retiree premiums are lower than they would have been if retirees were insured separately. GASB 75 and Actuarial Standards of Practice generally require that an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Expected retiree claims		
Premium charged for retiree coverage		<i>Covered by higher active premiums</i>
Retiree portion of premium	Agency portion of premium Explicit subsidy	Implicit subsidy

This chart shows the sources of funds needed to cover expected medical claims for pre-Medicare retirees. The portion of the premium paid by the Agency does not impact the amount of the implicit subsidy.

Valuation Process

The valuation was based on employee census data and benefits provided by the Authority. A summary of the employee data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2. While 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 Authority as to its accuracy. The valuation was also based on the actuarial methods and assumptions described in Section 3.

In developing the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee’s future retirement. Benefits may include both direct employer payments (explicit subsidies) and/or an implicit subsidy, arising when retiree premiums are expected to be subsidized by active employee premiums. The projected benefit streams reflect assumed trends in the cost of those benefits and assumptions as to the expected date(s) when benefits will end. We then apply assumptions regarding:

- The probability that each individual employee will or will not continue in service to receive benefits.



Important Background Information

(Continued)

- The probability of when such retirement will occur for each retiree, based on current age, service and employee type; and
- The likelihood that future retirees will or will not elect retiree coverage (and benefits) for themselves and/or their dependents.

We then calculate a present value of these benefits by discounting the value of each future expected benefit payment, multiplied by the assumed expectation that it will be paid, back to the valuation date using the discount rate. These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for many decades.

The resulting present value for each employee is allocated as a level percent of payroll each year over the employee's career using the entry age normal cost method and the amounts for each individual are then summed to get the results for the entire plan. This creates a cost expected to increase each year as payroll increases. Amounts attributed to prior fiscal years form the "Total OPEB Liability". The OPEB cost allocated for active employees in the current year is referred to as "Service Cost".

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets ("Fiduciary Net Position") is applied to offset the "Total OPEB Liability", resulting in the "Net OPEB Liability". If a plan is not being funded, then the Net OPEB Liability is equal to the Total OPEB Liability.

It is important to remember that an actuarial valuation is, by its nature, a projection of one possible future outcome based on many assumptions. To the extent that actual experience is not what we assumed, future results will differ. Some possible sources of future differences may include:

- A significant change in the number of covered or eligible plan members;
- A significant increase or decrease in the future premium rates;
- A change in the subsidy provided by the Agency toward retiree premiums;
- Longer life expectancies of retirees;
- Significant changes in expected retiree healthcare claims by age, relative to healthcare claims for active employees and their dependents;
- Higher or lower returns on plan assets or contribution levels other than were assumed; and/or
- Changes in the discount rate used to value the OPEB liability



Important Background Information

(Continued)

Requirements of GASB 75

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosure of OPEB expense and related liabilities (assets), note disclosures, and, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Important Dates

GASB 75 requires that the information used for financial reporting falls within prescribed timeframes. Actuarial valuations of the total OPEB liability are generally required at least every two years. If a valuation is not performed as of the Measurement Date, then liabilities are required to be based on roll forward procedures from a prior valuation performed no more than 30 months and 1 day prior to the most recent year-end. In addition, the net OPEB liability is required to be measured as of a date no earlier than the end of the prior fiscal year (the "Measurement Date").

Recognition of Plan Changes and Gains and Losses

Under GASB 75, gains and losses related to changes in Total OPEB Liability and Fiduciary Net Position are recognized in OPEB expense systematically over time.

- *Timing of recognition:* Changes in the Total OPEB Liability relating to changes in plan benefits are recognized immediately (fully expensed) in the year in which the change occurs. Gains and Losses are amortized, with the applicable period based on the type of gain or loss. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.
- *Deferred recognition periods:* These periods differ depending on the source of the gain or loss.

Difference between projected
and actual trust earnings:

5 year straight-line recognition

All other amounts:

Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.



Important Background Information

(Continued)

Implicit Subsidy Plan Contributions

An implicit subsidy occurs when expected retiree claims exceed the premiums charged for retiree coverage. When this occurs, we expect part of the premiums paid for active employees to cover a portion of retiree claims. This transfer represents the current year’s “implicit subsidy”. Because GASB 75 treats payments to an irrevocable trust *or directly to the insurer* as employer contributions, each year’s implicit subsidy is treated as a contribution toward the payment of retiree benefits.

The following hypothetical example illustrates this treatment:

Hypothetical Illustration of Implicit Subsidy Recognition	For Active Employees	For Retired Employees
<i>Prior to Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Accounting Treatment	Compensation Cost for Active Employees	Contribution to Plan & Benefits Paid from Plan
<i>After Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Implicit Subsidy Adjustment	(23,000)	23,000
Accounting Cost of Premiums Paid	\$ 388,000	\$ 71,000
Accounting Treatment Impact	Reduces Compensation Cost for Active Employees	Increases Contributions to Plan & Benefits Paid from Plan

The example above shows that total payments toward active and retired employee healthcare premiums is the same, but for accounting purposes part of the total is shifted from actives to retirees. This shifted amount is recognized as an OPEB contribution and reduces the current year’s premium expense for active employees.



Important Background Information

(Continued)

Discount Rate

When the financing of OPEB liabilities is on a pay-as-you-go basis, GASB 75 requires that the discount rate used for valuing liabilities be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). When a plan sponsor makes regular, sufficient contributions to a trust in order to prefund the OPEB liabilities, GASB 75 allows use of a rate up to the expected rate of return of the trust. Therefore, prefunding has an advantage of potentially being able to report overall lower liabilities due to future expected benefits being discounted at a higher rate.

Actuarial Funding Method and Assumptions

The “ultimate real cost” of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted, and as such are not affected by the actuarial funding method.

The actuarial funding method attempts to spread recognition of these expected costs on a level basis over the life of the plan, and as such sets the “incidence of cost”. GASB 75 specifically requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the Entry Age Actuarial Cost Method, with each period’s service cost determined as a level percentage of pay.

The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable.



Addendum 2: MacLeod Watts Age Rating Methodology

Both accounting standards (e.g. GASB 75) and actuarial standards (e.g. ASOP 6) require that expected retiree claims, not just premiums paid, be reflected in most situations where an actuary is calculating retiree healthcare liabilities. Unfortunately, the actuary is often required to perform these calculations without any underlying claims information. In most situations, the information is not available, but even when available, the information may not be credible due to the size of the group being considered.

Actuaries have developed methodologies to approximate healthcare claims from the premiums being paid by the plan sponsor. Any methodology requires adopting certain assumptions and using general studies of healthcare costs as substitutes when there is a lack of credible claims information for the specific plan being reviewed.

Premiums paid by sponsors are often uniform for all employee and retiree ages and genders, with a drop in premiums for those participants who are Medicare-eligible. While the total premiums are expected to pay for the total claims for the insured group, on average, the premiums charged would not be sufficient to pay for the claims of older insureds and would be expected to exceed the expected claims of younger insureds. An age-rating methodology takes the typically uniform premiums paid by plan sponsors and spreads the total premium dollars to each age and gender intended to better approximate what the insurer might be expecting in actual claims costs at each age and gender.

The process of translating premiums into expected claims by age and gender generally follows the steps below.

1. *Obtain or Develop Relative Medical Claims Costs by Age, Gender, or other categories that are deemed significant.* For example, a claims cost curve might show that, if a 50 year old male has \$1 in claims, then on average a 50 year old female has claims of \$1.25, a 30 year male has claims of \$0.40, and an 8 year old female has claims of \$0.20. The claims cost curve provides such relative costs for each age, gender, or any other significant factor the curve might have been developed to reflect. Section 3 provides the source of information used to develop such a curve and shows sample relative claims costs developed for the plan under consideration.
2. *Obtain a census of participants, their chosen medical coverage, and the premium charged for their coverage.* An attempt is made to find the group of participants that the insurer considered in setting the premiums they charge for coverage. That group includes the participant and any covered spouses and children. When information about dependents is unavailable, assumptions must be made about spouse age and the number and age of children represented in the population. These assumptions are provided in Section 3.
3. *Spread the total premium paid by the group to each covered participant or dependent based on expected claims.* The medical claims cost curve is used to spread the total premium dollars paid by the group to each participant reflecting their age, gender, or other relevant category. After this step, the actuary has a schedule of expected claims costs for each age and gender for the current premium year. It is these claims costs that are projected into the future by medical cost inflation assumptions when valuing expected future retiree claims.

The methodology described above is dependent on the data and methodologies used in whatever study might be used to develop claims cost curves for any given plan sponsor. These methodologies and assumptions can be found in the referenced paper cited as a source in the valuation report.



Addendum 3: MacLeod Watts Mortality Projection Methodology

Actuarial standards of practice (e.g., ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, and ASOP 6, Measuring Retiree Group Benefits Obligations) indicate that the actuary should reflect the effect of mortality improvement (i.e., longer life expectancies in the future), both before and after the measurement date. The development of credible mortality improvement rates requires the analysis of large quantities of data over long periods of time. Because it would be extremely difficult for an individual actuary or firm to acquire and process such extensive amounts of data, actuaries typically rely on large studies published periodically by organizations such as the Society of Actuaries or Social Security Administration.

As noted in a recent actuarial study on mortality improvement, key principles in developing a credible mortality improvement model would include the following:

- (1) Short-term mortality improvement rates should be based on recent experience.
- (2) Long-term mortality improvement rates should be based on expert opinion.
- (3) Short-term mortality improvement rates should blend smoothly into the assumed long-term rates over an appropriate transition period.

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

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

Scale MP-2017 can be found at the SOA website and the projection scales used in the 2017 Social Security Administrations Trustees Report at the Social Security Administration website.



Glossary

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value of Projected Benefits (APVPB) – The amount presently required to fund all projected plan benefits in the future. This value is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

CalPERS – Many state governments maintain a public employee retirement system; CalPERS is the California program, covering all eligible state government employees as well as other employees of other governments within California who have elected to join the system

Defined Benefit (DB) – A pension or OPEB plan which defines the monthly income or other benefit which the plan member receives at or after separation from employment

Deferred Contributions – When an employer makes contributions after the measurement date and prior to the fiscal year end, recognition of these contributions is deferred to a subsequent accounting period by creating a deferred resource. We refer to these contributions as Deferred Contributions.

Defined Contribution (DC) – A pension or OPEB plan which establishes an individual account for each member and specifies how contributions to each active member's account are determined and the terms of distribution of the account after separation from employment

Discount Rate - Interest rate used to discount future potential benefit payments to the valuation date. Under GASB 75, if a plan is prefunded, then the discount rate is equal to the expected trust return. If a plan is not prefunded (pay-as-you-go), then the rate of return is based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Expected Average Remaining Service Lifetime (EARSL) – Average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period

Entry Age Actuarial Cost Method – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual's projected earnings or service from entry age to the last age at which benefits can be paid

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

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

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

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



Glossary

(Continued)

Health Care Trend – The assumed rate(s) of increase in future dollar values of premiums or healthcare claims, attributable to increases in the cost of healthcare; contributing factors include medical inflation, frequency or extent of utilization of services and technological developments.

Implicit Subsidy – The projected difference between future retiree claims and the premiums to be charged for retiree coverage; this difference results when the claims experience of active and retired employees are pooled together and a ‘blended’ group premium rate is charged for both actives and retirees; a portion of the active employee premiums subsidizes the retiree premiums.

Net OPEB Liability (NOL) – The liability to employees for benefits provided through a defined benefit OPEB. Only assets administered through a trust that meet certain criteria may be used to reduce the Total OPEB Liability.

Net Position – The Impact on Statement of Net Position is the Net OPEB Liability adjusted for deferred resource items

OPEB Expense – The OPEB expense reported in the Agency’s financial statement. OPEB expense is the annual cost of the plan recognized in the financial statements.

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go (PAYGO) – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

PEMHCA – The Public Employees’ Medical and Hospital Care Act, established by the California legislature in 1961, provides community-rated medical benefits to participating public employers. Among its extensive regulations are the requirements that a contracting Agency contribute toward medical insurance premiums for retired annuitants and that a contracting Agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

Plan Assets – The value of cash and investments considered as ‘belonging’ to the plan and permitted to be used to offset the AAL for valuation purposes. To be considered a plan asset, GASB 75 requires (a) contributions to the OPEB plan be irrevocable, (b) OPEB assets to dedicated to providing OPEB benefit to plan members in accordance with the benefit terms of the plan, and (c) plan assets be legally protected from creditors, the OPEB plan administrator and the plan members.

Public Agency Miscellaneous (PAM) – Non-safety public employees.

Select and Ultimate – Actuarial assumptions which contemplate rates which differ by year initially (the select period) and then stabilize at a constant long-term rate (the ultimate rate)

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

Total OPEB Liability (TOL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; a subset of “Actuarial Present Value”

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

