

FC MEETING

May 5

☒ Received Before Meeting

1

Presented by:
Mary Beth Redding, Vice President & Actuary
Deanna Van Valer, Assist Vice President &
Actuary

Retiree Healthcare Valuation

as of June 30, 2019

May 5, 2020

www.cityofpaloalto.org



CITY OF PALO ALTO RETIREE HEALTHCARE PLAN

BARTEL
ASSOCIATES, LLC

Valuation Summary

June 30, 2019 Actuarial Valuation

Mary Beth Redding, Vice President & Actuary
Deanna Van Valer, Assistant Vice President & Actuary
Bartel Associates, LLC

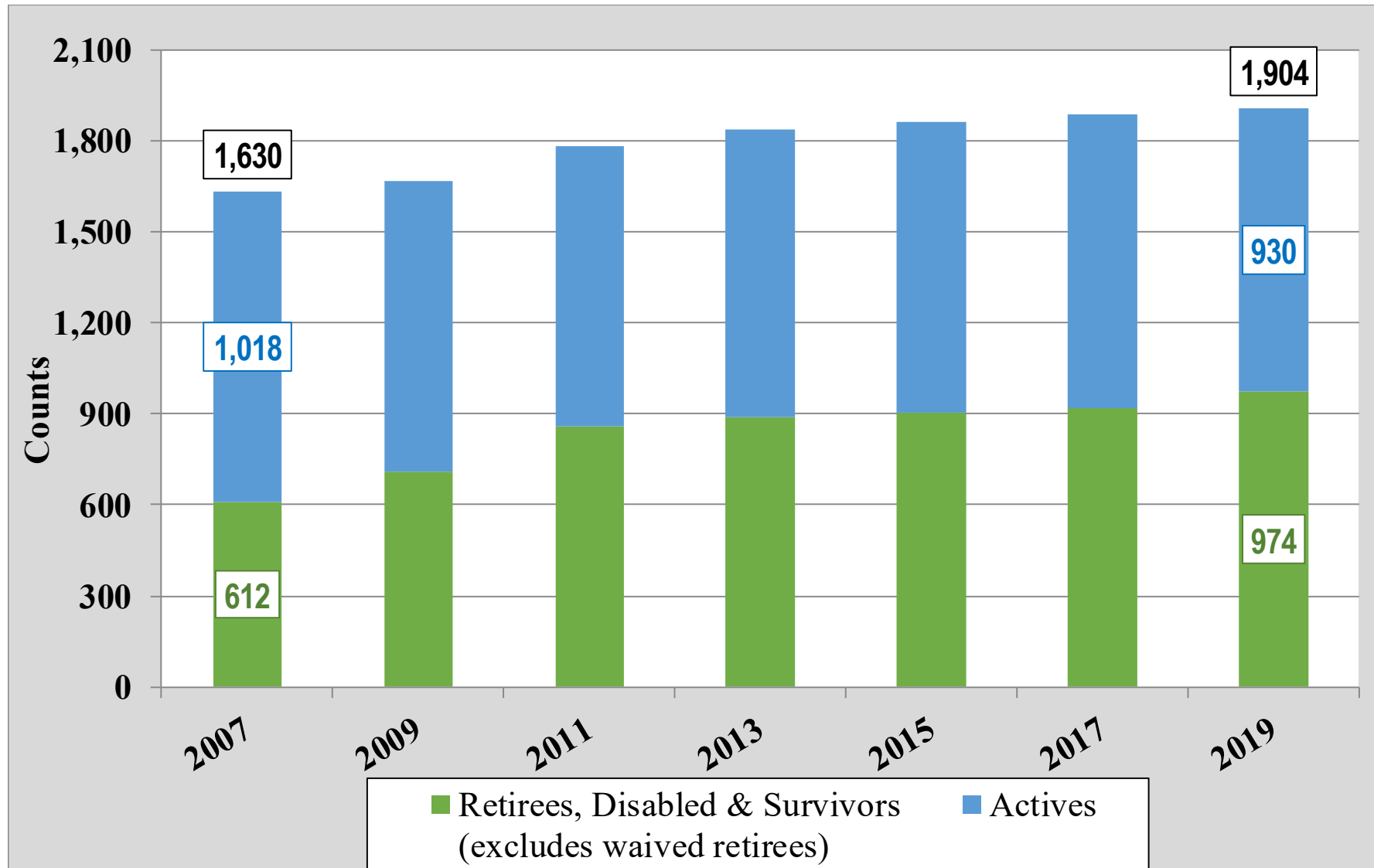
May 5, 2020

■ **City pre-funding retiree health care (OPEB) Liability in the CERBT (CalPERS) trust, since March 2008:**

- Asset allocation chosen most closely matches CalPERS pension fund
- Actuarially Determined Contribution (ADC) to be contributed:
 - Normal Cost – pays for benefit earned each year by employees
 - Amortization of the Unfunded (UAL) Liability – gradually pays off the UAL (24 years remaining from July 1, 2020)
 - Reduced by City-paid benefits/premiums
- Biennial valuations produce 2 years of ADC. 6/30/19 valuation calculates 2020/21 & 2021/22 contributions
- Accounting under GASBS 45 commenced 2007/08;
Accounting under GASBS 75 began 2017/18
- Benefits provided have changed over time; generally cover most of premium for retiree and dependents

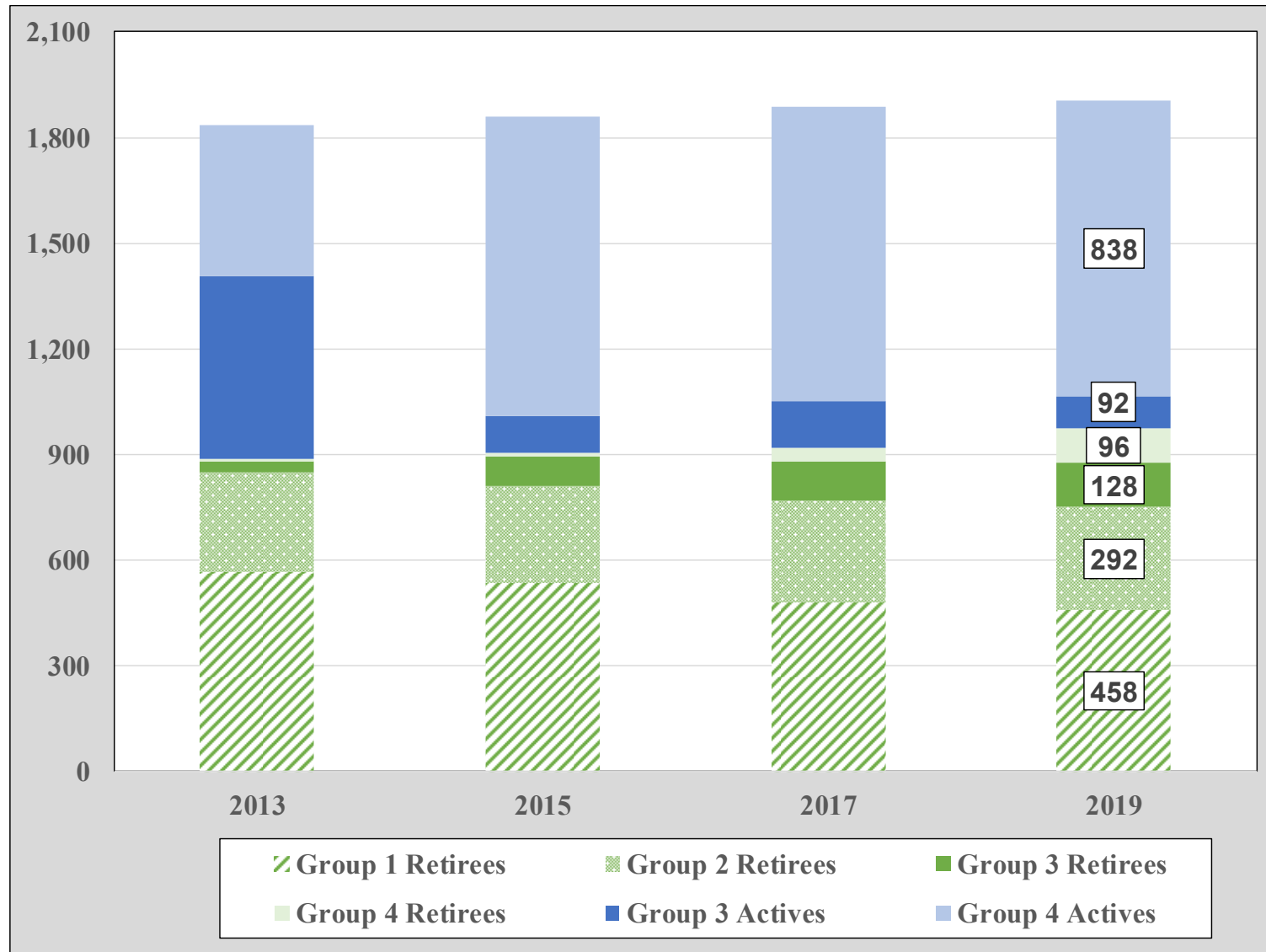
PARTICIPANT SUMMARY

Historical Participant Counts



PARTICIPANT SUMMARY

Participant Counts by Benefit Group

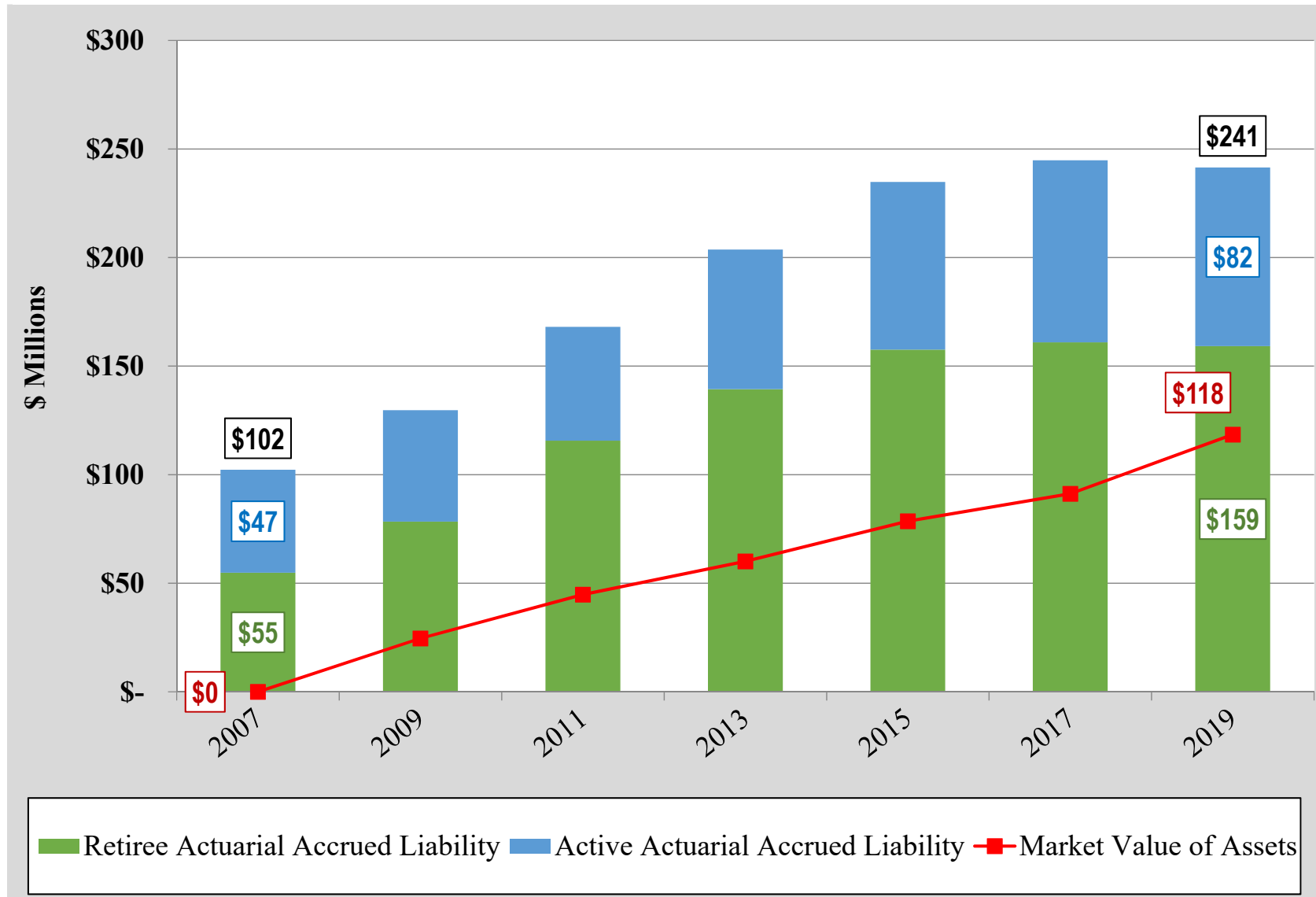


May 5, 2020



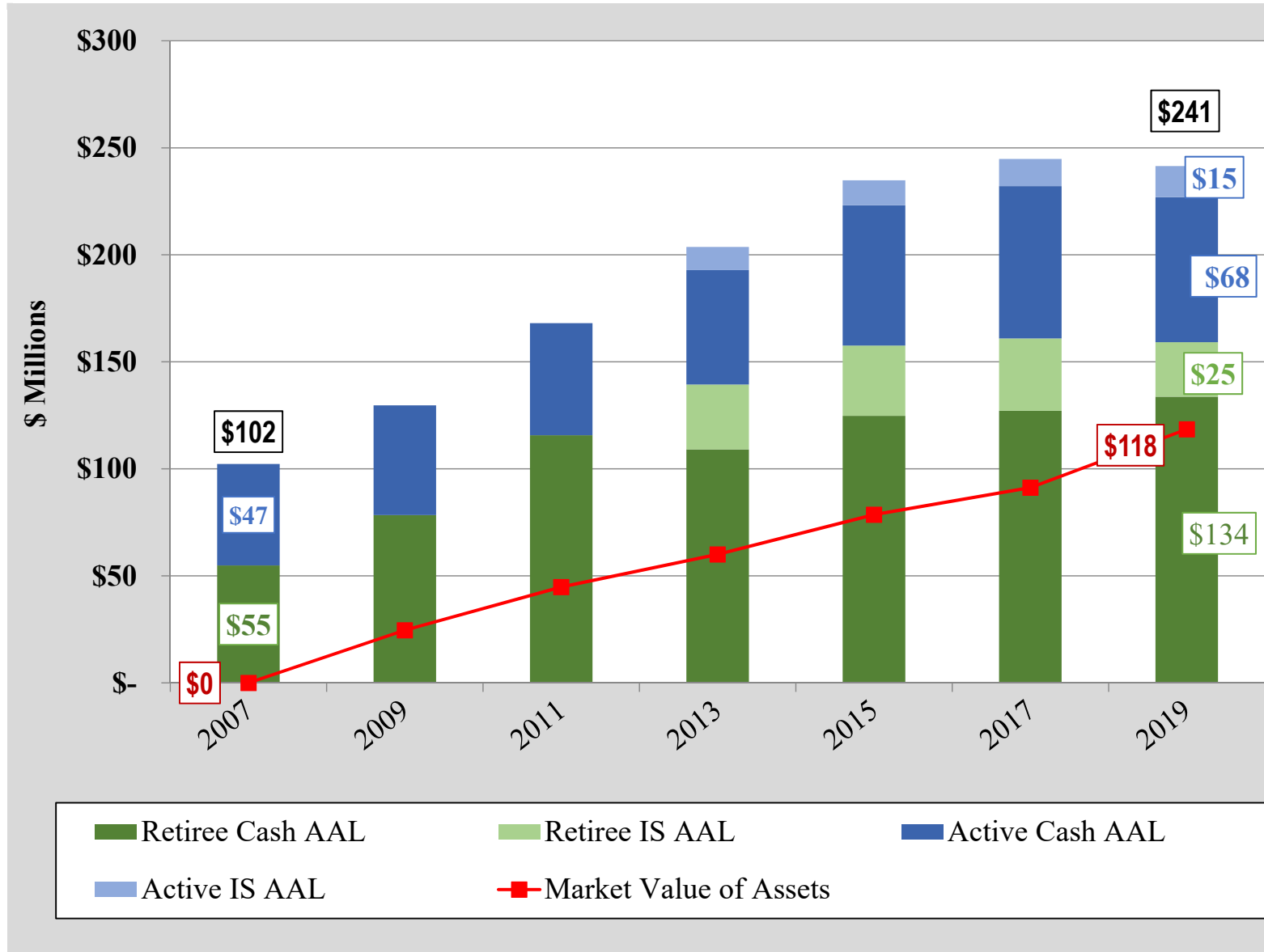
VALUATION SUMMARY

Historical Actuarial Accrued Liability by Status



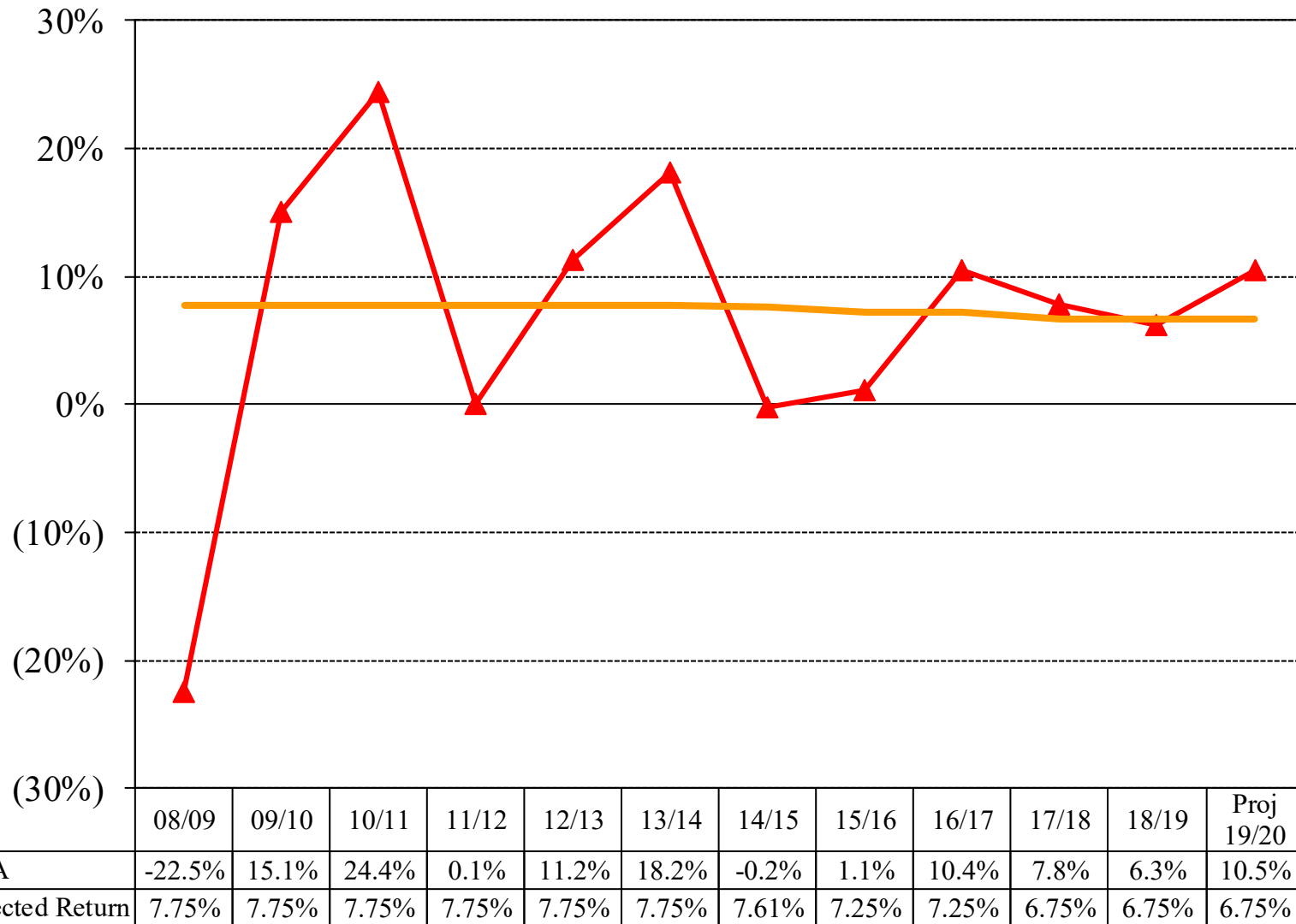
VALUATION SUMMARY

Historical AAL by Status and Cash vs. Implied Subsidy



VALUATION SUMMARY

Historical Return on Assets



May 5, 2020

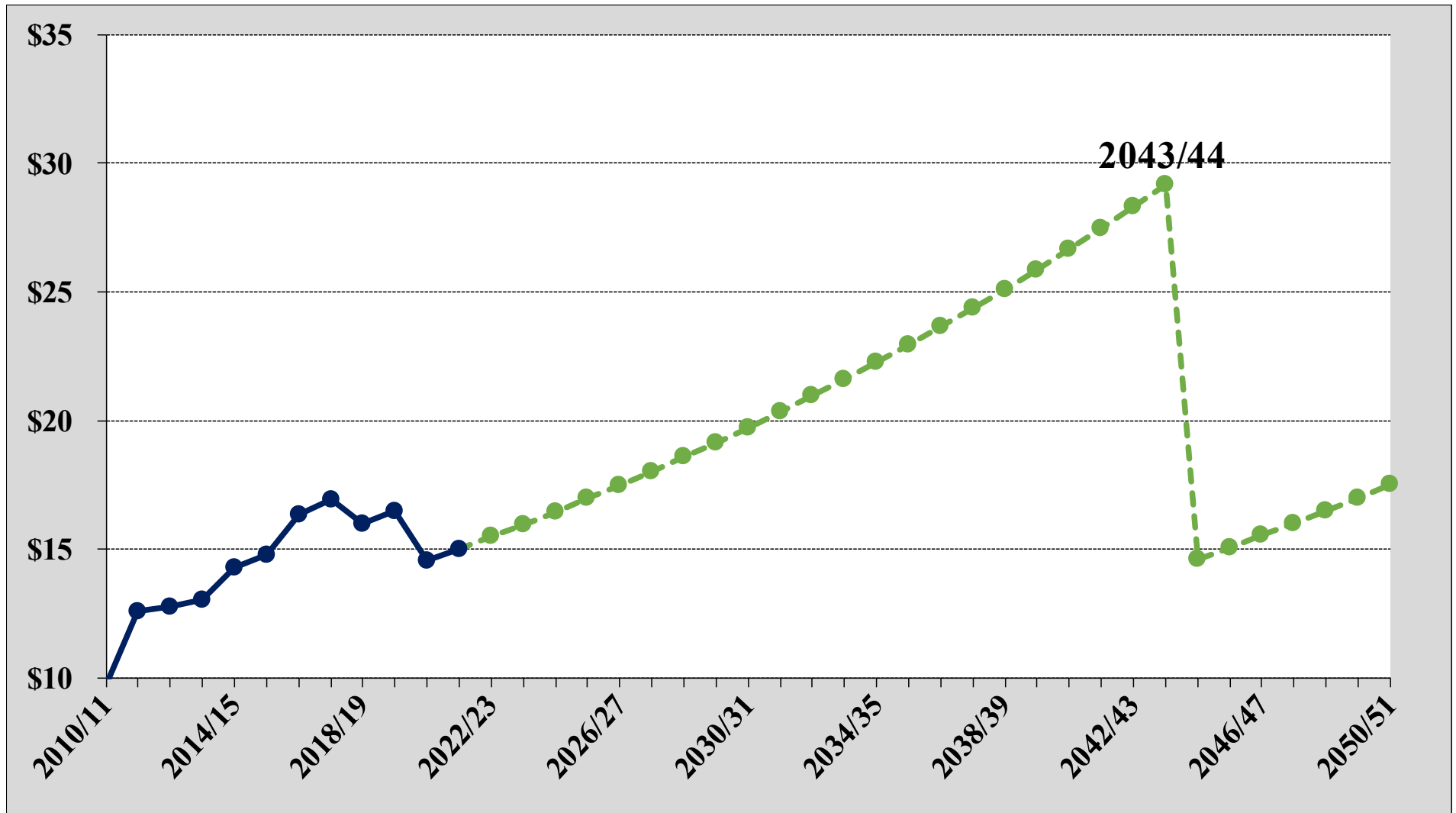


■ Changes since 2017 valuation:

- Unfunded Actuarial Accrued Liability (UAAL) = \$29 million less than expected
- Significant changes to UAAL:
 - \$23 million decrease from premiums less than expected
 - \$9 million decrease from census data, primarily Medicare eligibility
 - \$1 million increase from plan change (Group 3 caps)
 - \$8 million increase from updates to demographic assumptions, primarily for observed participation among newer Groups.
 - \$4 million net decrease from other experience/changes (primarily elimination of ACA “Cadillac Tax”)
 - \$1 million gain on plan assets

VALUATION SUMMARY

Historical & Projected Recommended Contributions (\$millions)



ACTUARIAL METHODS & ASSUMPTIONS

Assumption	
■ Valuation Date	■ June 30, 2019 ■ ADC for Fiscal Years 2020/21 & 2021/22
■ Discount Rate	■ 6.75%, net of expenses, based on CERBT Strategy #1
■ Medical Trend (Health Care Future Annual Cost Increases Unrelated to Aging)	■ Non-Medicare: 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 ■ Medicare: 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
■ Demographics	■ Based on CalPERS Studies ■ Mortality improvement: Society of Actuaries improvement scale MP-19
■ Participation at Retirement	■ Based on City experience ■ Group 3: 98%; Group 4: if eligible for City contribution: 95%; if not: 0%

VALUATION SUMMARY

CERBT Investment Options

- Updated Target asset allocations (approved by CalPERS Board October 2018)

Asset Classifications	Option 1	Option 2	Option 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
REIT's	8%	8%	8%
TIPS	5%	5%	16%
Commodities	<u>3%</u>	<u>4%</u>	<u>5%</u>
Total	100%	100%	100%

- Bartel Associates expected returns, 50th percentile:

	Option 1	Option 2	Option 3
Expected Real Rate of Return	4.14%	3.54%	2.83%
Inflation Assumption	2.75%	2.75%	2.75%
Expenses (Admin. & Invest.)	<u>(0.05%)</u>	<u>(0.05%)</u>	<u>(0.05%)</u>
Nominal Rate of Return	6.84%	6.24%	5.53%
Rounded to nearest 0.25%	6.75%	6.25%	5.50%



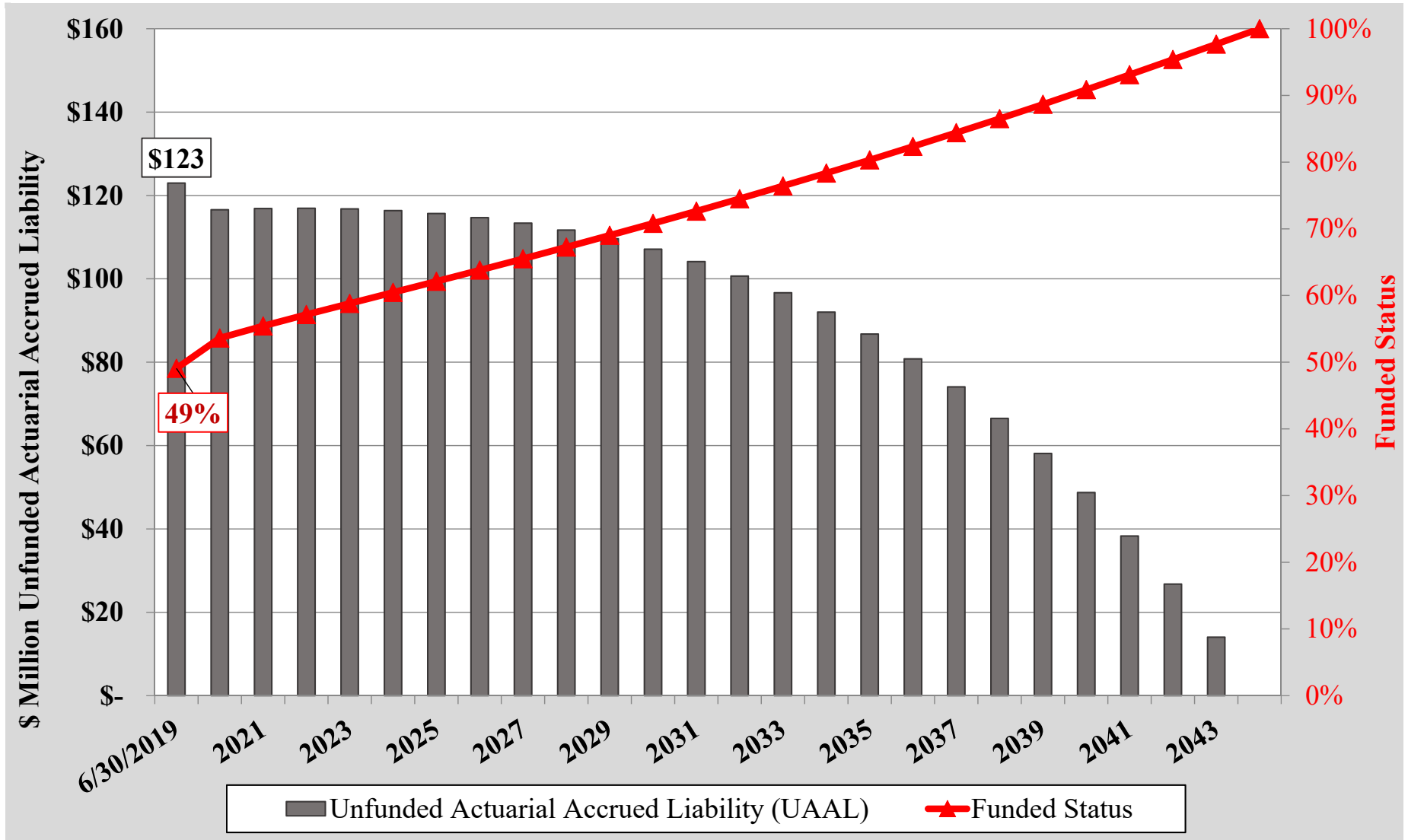
VALUATION SUMMARY

(\$000's)

	6/30/17	6/30/19	6/30/19
■ Discount Rate	6.75%	6.75%	6.25%
■ Actuarial Accrued Liability (AAL)	244,759	241,469	256,328
■ Market Value of Assets	<u>91,250</u>	<u>118,497</u>	<u>118,497</u>
■ Unfunded AAL (UAAL)	153,509	122,972	137,831
■ Funded Ratio	37%	49%	46%
■ Actuarially Determined Contribution	FY 18/19	FY 20/21	FY 20/21
● Normal Cost	7,081	6,978	7,764
● UAAL Amortization	<u>8,916</u>	<u>7,588</u>	<u>8,160</u>
● Total	15,997	14,566	15,924

VALUATION SUMMARY

Projected Unfunded Actuarial Accrued Liability (UAAL)



Assumes contributions using 6.75% discount rate



May 5, 2020



VALUATION RESULTS

Questions?