Town of Corte Madera

Impact of Recent Changes in Retiree Healthcare Plans

Over the past few years, the Town has implemented a number of changes to its retiree healthcare program. The changes and their impact on the Town's liabilities for the program are summarized below.

Provisions of the original program applied to employees retiring directly from Town service and included the following:

- Ability to continue coverage under CalPERS medical plans
- Town payment of associated premiums up to Kaiser premium rate
- Coverage and Town payment of premiums up to Kaiser premium rate for spouse and family

For new retirements this was modified to eliminate Town payment of premiums for family coverage.

For new hires the following changes were made:

- Installation of Retirement Health Saving Account Program with yearly town contributions that vary between approximately 0% and 4% of pay based on employment category/bargaining group and years of service
- Town payments limited to "PEMHCA minimum" required by CalPERS ($125.00/mo. in 2016, increasing thereafter with increase in medical CPI)
- PEMHCA minimum payment only paid towards retiree's coverage and, upon retiree's death to surviving spouse if eligible for CalPERS pension.

The effective dates of the changes varied with employment category/bargaining group as shown below.

| Group | Effective Date |
|---|---|
| SEIU | 7/1/2011 |
| Department Heads / Town Manager | 8/1/2011 |
| Mid-Management | 8/1/2011 |
| Firefighters Association | 1/1/2013 |
| Firefighters Mid-Management | 1/1/2013 |

Savings for the actuarial portions of the program are estimated in the tables that follow. These savings do not take into account the costs of the new Retirement Health Savings Account Program - costs of which are limited to the agreed upon yearly contributions to participant's accounts.

These calculations assume that the Town's policy of paying benefit payments from the General Fund and contributing $500,000 annually to the CERBT trust continues. They are based on the assumptions and methods outlined in our 6/30/2015 actuarial valuation of the Town's plan which include a discount rate averaging 6.59%.

See page 5 for definitions of actuarial terms.

The impact of the changes on the Unfunded Actuarial Accrued Liability (UAAL) as of 6/30/2015 and the 2016/17 annual full prefunding contribution (the Annual Required Contribution or ARC) is shown below. (All dollar amounts are rounded to thousands.)

| | Original Plan | Current Plan | Difference |
|---|---|---|---|
| ■ **Funded Status** | | | |
| • AAL | $ 10,558 | $ 10,287 | $ 271 |
| • Assets | 583 | 583 | - |
| • UAAL | 9,975 | 9,704 | 271 |
| ■ **2016/17 Projected Payroll** | 4,981 | 4,981 | |
| ■ **2016/17 ARC$** | | | |
| • Normal Cost | 528 | 381 | 147 |
| • UAAL Payment | 833 | 801 | 32 |
| • Total | 1,361 | 1,182 | 179 |
| ■ **2016/17 ARC as % of Payroll** | 27.3% | 23.7% | 3.6% |

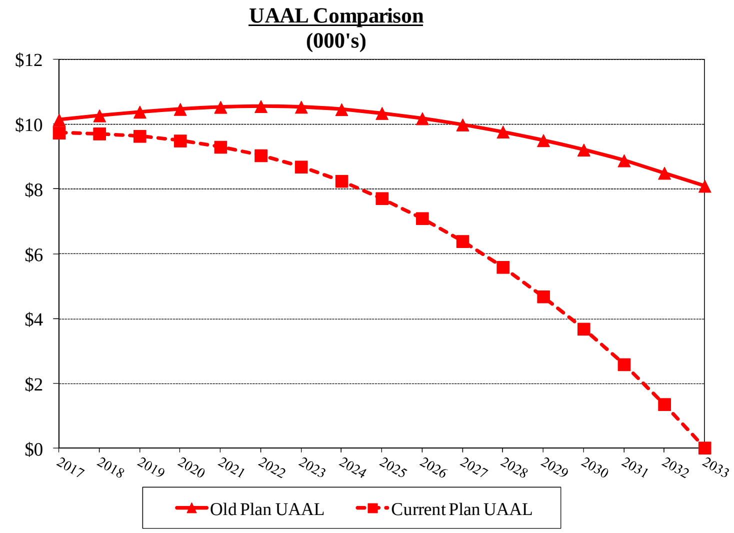
Since the bulk of the changes only apply to new hires, the current impact is not great. However, as illustrated below, the savings becomes significant over the years.

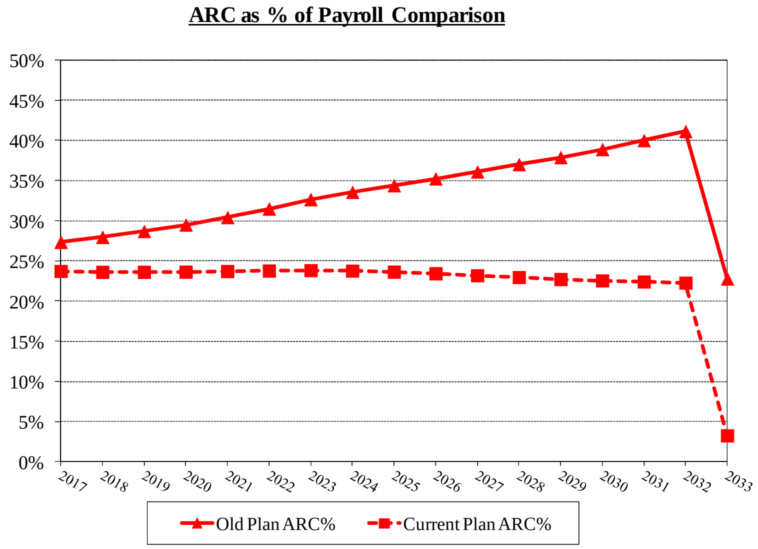
**UAAL & ARC Projection ($ amounts in thousands.)**

| Fiscal Yr Ending June 30, | UAAL at Fiscal Yr End | | | Fiscal Year ARC[1] | | | ARC as % of Payroll | | |
|---|---|---|---|---|---|---|---|---|---|
| | Original Plan | Current Plan | Difference | Original Plan | Current Plan | Savings | Original Plan | Current Plan | Savings |
| 2017 | $10,129 | $9,735 | $394 | $1,361 | $1,182 | $179 | 27.3% | 23.7% | 3.6% |
| 2018 | 10,262 | 9,707 | 555 | 1,438 | 1,215 | 223 | 28.0% | 23.6% | 4.4% |
| 2019 | 10,379 | 9,631 | 748 | 1,523 | 1,254 | 269 | 28.7% | 23.6% | 5.1% |
| 2020 | 10,463 | 9,491 | 972 | 1,617 | 1,296 | 321 | 29.5% | 23.6% | 5.9% |
| 2021 | 10,526 | 9,299 | 1,227 | 1,722 | 1,343 | 379 | 30.4% | 23.7% | 6.7% |
| 2022 | 10,551 | 9,033 | 1,518 | 1,840 | 1,390 | 450 | 31.5% | 23.8% | 7.7% |
| 2023 | 10,530 | 8,684 | 1,846 | 1,971 | 1,438 | 533 | 32.7% | 23.8% | 8.9% |
| 2024 | 10,457 | 8,244 | 2,213 | 2,091 | 1,481 | 610 | 33.6% | 23.8% | 9.8% |
| 2025 | 10,337 | 7,715 | 2,622 | 2,213 | 1,521 | 692 | 34.4% | 23.6% | 10.8% |
| 2026 | 10,174 | 7,099 | 3,075 | 2,341 | 1,557 | 784 | 35.2% | 23.4% | 11.8% |
| 2027 | 9,984 | 6,390 | 3,594 | 2,476 | 1,591 | 885 | 36.1% | 23.2% | 12.9% |
| 2028 | 9,764 | 5,593 | 4,171 | 2,621 | 1,627 | 994 | 37.0% | 23.0% | 14.0% |
| 2029 | 9,501 | 4,686 | 4,815 | 2,770 | 1,662 | 1,108 | 37.9% | 22.7% | 15.2% |
| 2030 | 9,210 | 3,687 | 5,523 | 2,935 | 1,703 | 1,232 | 38.9% | 22.6% | 16.3% |
| 2031 | 8,877 | 2,591 | 6,286 | 3,118 | 1,747 | 1,371 | 40.0% | 22.4% | 17.6% |
| 2032 | 8,492 | 1,364 | 7,128 | 3,311 | 1,793 | 1,518 | 41.1% | 22.3% | 18.8% |
| 2033[1] | 8,093 | 24 | 8,069 | 1,893 | 272 | 1,621 | 22.8% | 3.3% | 19.5% |

[1] See Definitions on page 5 for UAAL amortization periods.

The charts below illustrate the reduction in the UAAL and the ARCs due to the changes.



Please note that future calculations of amounts in this report may differ significantly if the Plan's experience differs from our assumptions or if there are changes in actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,


Marilyn M. Oliver, FSA, FCA, EA, MAAA
Vice President & Actuary
Bartel Associates, LLC
March 1, 2016

Katherine Moore, ASA, MAAA
Associate Actuary
Bartel Associates, LLC
March 1, 2016

## Definitions

- **Present Value of Projected Benefits (PVPB)**

  The Present Value of Projected Benefits is a measure of the total Town's obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.

- **Actuarial Accrued Liability (AAL)**

  This represents the portion of the present value of projected benefits that employee and retired participants have earned (on an actuarial, not actual, basis) through the valuation date. (Retired participants are assumed to have earned all of their benefits.)

- **Plan Assets**

  Plan Assets include funds that have been segregated and restricted in a trust so that they can only be used to pay plan benefits.

- **Unfunded Actuarial Accrued Liability (UAAL)**

  This is the difference between the Actuarial Accrued Liability and Plan Assets. This represents the amount of the Actuarial Accrued Liability that must still be funded.

- **Normal Cost (NC)**

  The Normal Cost represents the portion of the present value of benefits expected to be earned by employees (on an actuarial, not actual, basis) in the coming year.

- **Annual Required Contribution (ARC)**

  The Annual Required Contribution is simply the current employer Normal Cost plus a contribution to pay off the unfunded liability over a period of years. In other words, it is the value of benefits earned during the year plus an amount to keep the plan on track for funding.

- **Amortization Schedule**

  Schedule used to determine payments towards the unfunded Actuarial Accrued Liability. The 6/30/2016 UAAL is paid off as a level % of payroll over the closed period ending 6/30/2032. For purposes of this study, future increases in the Unfunded Actuarial Accrued Liability due to contributions lower than the Annual Required Contribution are amortized in the same fashion as the 6/30/2016 UAAL until 6/30/2024 and then over a 10 year rolling period.

- PEMHCA

  The Public Employees' Medical and Hospital Care Act which governs CalPERS provision of medical plans to California public agencies.

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