

15. POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The Town's single-employer defined benefit Other Post Employment Benefit (OPEB) Plan provides post-retirement healthcare benefits to eligible employees who retire directly from the Town. Healthcare coverage is with PEMHCA (CalPERS medical program). The Town pays healthcare coverage up to a cap based on the Kaiser Bay Area premiums for eligible Tier 1 retirees and their dependents. For all present employees and some new retirees, payments are limited to dual coverage. For Tier 2 retirees, the Town pays the PEMHCA minimum payment, \$128 per month in 2017 for the retiree only. The PEMHCA minimum payment is adjusted each year with changes in the medical CPI. Benefit levels are established and may be amended by the Town Council except for the PEMHCA minimum benefit which is governed by state statute. The Plan does not provide dental and vision benefits, although retirees can continue these benefits at their own cost upon separation. In fiscal year 2008-09, the Town elected to begin prefunding its OPEB liabilities in an irrevocable trust established through the California Public Employees Retirement System. The Prefunding Plan (sometimes also referred to as CERBT) is an agent multiple-employer plan which is administered by the CalPERS Board of Administration. The trust will be used to accumulate and invest assets necessary to pay for healthcare costs and administrative costs of the Prefunding Plan.

Copies of the Fund's annual financial report may be obtained from the CalPERS executive office: 400 P Street, Sacramento, California, 95814.

Funding Policy

Annual Required Contributions (ARC) are based upon actuarial valuations. The contribution amounts are established and may be amended by the Town Council. Plan members do not make contributions to the plan.

The Town presently pays \$500,000 to CERBT each fiscal year for prefunding. At June 30, 2017, on a pay-as-you-go basis, the Town provided health care benefits to 53 retirees, which included 49 retired employees, 3 retired Council members on Council Tier One allowance (2017 Kaiser single Medicare rate \$300 per month) and 1 retired Council member on Council Tier Two allowance (State minimum employer contribution - \$128 per month for 2017). The Town's expenditures for 2016-2017 benefit payments totaled \$444,516.

Annual Post Employment Benefit Cost and Net Post Employment Benefit Obligation

The Town's annual OPEB cost (expense) is calculated based upon the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Town of Corte Madera, California
Notes to Basic Financial Statements, Continued
June 30, 2017

15. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Annual Post Employment Benefit Cost and Net Post Employment Benefit Obligation, Continued

Based upon the valuation dated June 30, 2015, the actuarially required ARC for fiscal year 2016-2017 was \$1,182,000. The components of annual OPEB cost for the current fiscal year, amount actually contributed, and the changes in net post employment benefit obligation are shown in the following table.

	Fiscal year ended June 30, 2017 <u>(in thousands)</u>
Normal cost at year end	\$ 381
Amortization of UAAL	<u>801</u>
Annual required contribution	1,182
Interest on prior year Net OPEB Obligation	384
Amortization of NOO	<u>(508)</u>
Annual OPEB cost	1,058
Contributions made	<u>(1,019)</u>
Increase (decrease) in Net OPEB Obligation	39
Net OPEB Obligation (asset) – beginning of year	<u>6,167</u>
Net OPEB Obligation (asset) – end of year	<u>\$ 6,206</u>

Plan Funded Status and Funding Progress

This is the ninth year that the Town is following the reporting requirements of GASB 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans. The Town has elected to implement GASB 45 prospectively and therefore shows no OPEB obligation at transition. The Town's annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost (in thousands)	Annual OPEB Cost Contributed (in thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset) (in thousands)
6/30/2015	\$ 1,605	\$ 911	57%	\$ 5,466
6/30/2016	1,640	939	57%	6,167
6/30/2017	1,058	1,019	96%	6,206

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Town of Corte Madera, California
Notes to Basic Financial Statements, Continued
June 30, 2017

15. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Plan Funded Status and Funding Progress, Continued

The Town's actuarial report dated June 30, 2017, estimates an Unfunded Actuarial Accrued Liability (UAAL) of \$9,863,000 in order to fund the health medical benefits of retired employees. The funded status of the plan as of the plans valuation dates can be seen in the Required Supplementary Information schedule.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal cost method. Market value is used for the actuarial value of assets.

The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. To calculate the 2016-2017 ARC, the projected June 30, 2016, unfunded AAL is amortized over a closed 16 year period as a level percent of payroll beginning with 2016-2017 fiscal year.

The actuarial assumptions in the most recent (6/30/2017) valuation included a graded investment rate of return for GASB 45 purposes ranging from 6.4% to 6.75%, based on the Town contributing \$500,000 per year to the CalPERS OPEB trust with the total (trust contributions plus benefit payments) limited to Annual Required Contribution. The inflation rate was assumed to be constant at 2.75% per year. Aggregate payroll increases were assumed to be 3.00% per year. The demographic assumptions for salary, merit, and longevity increases, terminations, mortality, disability, and retirement were based upon the CalPERS 1997-2011 experience study. Mortality improvement is assumed to follow Society of Actuaries Scale MP-2017. Participation in the Plan was assumed to be 100% for Tier 1 actives and 70% for Tier 2 actives. Healthcare cost trends included an initial 7.50% increase for HMO and PPO plans for Non-Medicare eligible premiums. Medicare eligible premiums included an initial 6.50% increase for HMO and PPO plans. Future year increases were reduced by decrements of 0.5%-0.6% per year to an ultimate rate of 4.0% for HMO and PPO plans by year 2076. It is assumed that everyone will be eligible for Medicare and will elect Part B coverage and retirees will generally choose the same medical plan they were enrolled in while active. In setting spouse ages for actives, the age for females is assumed to be three years younger than the male's age. Current marital status is assumed for all currently covered employees and retirees. The PEMHCA minimum is assumed to increase at a rate of 4.25% per year.

Town of Corte Madera, California
Notes to Basic Financial Statements, Continued
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15. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Actuarial Methods and Assumptions, Continued

The most significant assumption change between the June 30, 2015 valuation and the June 30, 2017 valuation was the change in medical trend.

TOWN OF CORTE MADERA, CALIFORNIA
Required Supplementary Information
Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Value of Assets (in thousands)	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2017	\$ 1,777	\$ (11,640)	\$ (9,863)	15.3%	\$ 4,966	198.61%
June 30, 2015	\$ 583	\$ (10,287)	\$ (9,704)	5.7%	\$ 4,673	207.66%
June 30, 2013	\$ 66	\$ (14,862)	\$ (14,796)	0.4%	\$ 4,367	338.81%
June 30, 2011	\$ 39	\$ (11,829)	\$ (11,790)	0.3%	\$ 3,936	299.54%
June 30, 2010	\$ 22	\$ (11,089)	\$ (11,067)	0.2%	\$ 4,263	259.61%
June 30, 2008	\$ -	\$ (8,542)	\$ (8,542)	0.0%	\$ 4,551	187.70%