



**City of Encinitas  
GASB Actuarial Valuation  
Retiree Health Program  
As of June 30, 2015**

March 2016

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## **SECTION I. EXECUTIVE SUMMARY**

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### **Background**

The City of Encinitas (the “City”) selected Nyhart to perform an updated actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the City’s liability for retiree health benefits and to determine the City’s accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

To be eligible for retiree health benefits, an employee must retire from the City and commence pension benefits under PERS (typically on or after age 50 with at least 5 years of PERS eligible service). The City’s financial obligation is to provide the CalPERS minimum required employee contribution (\$122 per month in 2015, \$125 per month in 2016, and in future years, indexed to medical CPI increases) except for former Encinitas Fire Protection District employees hired on or before March 15, 1995 who receive full retiree health benefits for both the employee and their dependents.

The City currently has 206 active employees who are working and earning service credit for eligibility of retiree health benefits. The City currently provides a contribution towards retiree medical benefits which are provided through the CalPERS Health Program for 91 retirees (52 safety and 39 miscellaneous). This information can be found on page 12 in the Valuation Data section.

The City pays the cost for lifetime retiree and dependent health benefits for Encinitas Fire Protection District employees hired on or before March 15, 1995. Currently there are 58 retirees (52 firefighters and 6 miscellaneous) receiving an additional stipend which pays for full coverage of the eligible retiree and their covered dependents up to a monthly maximum based on the average of available plans. There are also 10 active employees eligible to receive full retiree health benefits.

There are currently 33 retirees receiving the minimum required employee contribution (MRC) from the City and 196 active employees eligible to receive this benefit upon retiring from the City.

### **Summary of Participants**

| <b><u>Eligible Benefits</u></b>     | <b><u>Actives</u></b> | <b><u>Retirees</u></b> |
|-------------------------------------|-----------------------|------------------------|
| Full Benefits                       | 10                    | 58                     |
| Minimum Required Contribution (MRC) | <u>196</u>            | <u>33</u>              |
| Total                               | 206                   | 91                     |

The City participates in the CalPERS Health Program for its retiree medical coverage. In general, the premium rates charged to participating employers are the same for each medical plan within each region (or “community”) and are the same for both active and retired employees covered under the same medical plan. An implicit rate subsidy can exist when the non-Medicare rates for retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. In past valuations the liability for the implicit rate subsidy was excluded from the valuation as the GASB had provided for an exemption for community-rated plans. This valuation includes an estimate of the liability for the implicit rate subsidy.

## Results of the Retiree Health Valuation

The amount of the actuarial liability for the City's retiree health benefits program as of June 30, 2015, the measurement date, is \$13,669,774 (including \$11,652,755 for the City's explicit contribution and \$2,017,019 for the implicit rate subsidy). This amount is based on a discount rate of 7.28% which assumes the City continues to pre-fund its annual required contribution in the California Employers' Retiree Benefit Trust (CERBT) under the CERBT's asset allocation strategy 1. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the City for current and future retirees. If the City were to place this amount in a fund earning interest at the rate of 7.28% per year, and all other actuarial assumptions were met, the fund would have enough to pay all expected benefits. This includes contributions for retiree health benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date. The split of the liability by employee group is provided in Section II-A of the valuation report.

If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is \$12,060,155 (including \$10,588,831 for the City's explicit contribution and \$1,471,324 for the implicit rate subsidy), the current service component (normal cost or current year accrual) is \$223,459 (including \$160,590 for the City's explicit contribution and \$62,869 for the implicit rate subsidy) and the future service component (not yet accrued liability) is \$1,386,160 (including \$903,334 for the City's explicit contribution and \$482,826 for the implicit rate subsidy).

## Funding

The City's funding policy is to fund at least 100% of the annual required contribution as determined under GASB 45 through the CERBT. The market value of assets in the CERBT as of June 30, 2015 is \$2,987,299. The actuarial value of assets at June 30, 2015 is \$2,915,458. The actuarial value of asset method phases gains and losses in over five years subject to a 20% corridor around the market value of assets. Using the actuarial value of assets, the unfunded actuarial accrued liability at June 30, 2015 is \$9,144,697 (including \$7,673,373 for the explicit City contribution) and the plan's funded ratio is 24% (28% for the explicit City contribution).

The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has a CERBT published median yield of 7.28%, strategy 2 has a published median yield of 6.73% and strategy 3 has a published median yield of 6.12%. The valuation was performed using a 7.28% discount rate assuming the City remains in strategy 1 for the 2016/2017 and 2017/2018 fiscal years and assumes no additional margin for adverse deviation applied to the CERBT stated median discount rate. The results for alternative allocation strategies using a 6.73% and 6.12% discount rate are provided in Section II-I of the report

## Annual Required Contribution

The City's annual required contribution (ARC) for the fiscal year ending June 30, 2015 is \$930,499 (including \$749,810 for the City's explicit contribution and \$180,689 for the implicit rate subsidy). The annual required contribution is comprised of the present value of benefits accruing in the current fiscal year (normal cost with interest) plus a 24-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The change in the net OPEB obligation/(asset) at the end of the fiscal year will reflect any actual contributions made by the City during the period for retiree health benefits including any pre-funding amounts.

### Changes from Prior Valuation

The valuation reflects updated plan, premiums and census information since the prior valuation. In addition, the valuation reflects several assumption changes as outlined in Section VI. A reconciliation of the approximate change in the actuarial accrued liability (AAL) and the annual required contribution (ARC) from the prior valuation is provided below:

|   | <u>AAL</u>       | <u>ARC</u>      |
|---|------------------|-----------------|
| <b>June 30, 2013 Valuation @7.61%</b>   | <b>\$8.686M</b>  | <b>\$0.544M</b> |
| Increase due to passage of time (includes interest and normal costs less expected payments since June 30, 2013) | 0.373M           |                 |
| Increase due to net experience gain (primarily less favorable retirement experience)                            | 0.642M           |                 |
| Net increase due to demographic assumption changes  | 0.487M           |                 |
| Increase due to increase in initial medical trend rate  | 0.037M           |                 |
| Increase due to lowering the discount rate to 7.28%   | <u>0.364M</u>    |                 |
| <b>June 30, 2015 Valuation @7.28%</b>   | <b>\$10.589M</b> | <b>\$0.750M</b> |
| Increase due to implied subsidy   | \$1.471M         | \$0.180M        |
| <b>June 30, 2015 Valuation @7.28%</b>   | <b>\$12.060M</b> | <b>\$0.930M</b> |

### Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 14%.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.28%. A 0.5% decrease in the discount rate would increase the annual required contribution by 3%. A 0.5% increase in the discount rate would decrease the annual required contribution by 3%.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. The valuation results were determined using the higher expected costs associated with retired employees.

Scheduled to take effect in 2020, the "Cadillac Tax" is a 40% non-deductible excise tax on employer-sponsored health coverage that provides high-cost benefits. For insured plans, the insurance company is responsible for payment of the excise tax. For self-funded plans, the employer is responsible for payment of the excise tax. The valuation does not include any additional liability for the Cadillac Tax.

The valuation is based on the census, plan and rate information provided by the City. To the extent that the data provided lacks clarity in interpretation or is missing relevant information, this can result in liabilities different than those presented in the report. Often missing or unclear information is not identified until future valuations.

## **SECTION II. FINANCIAL RESULTS**

### **A. Valuation Results as of June 30, 2015**

The table below presents the employer liabilities associated with the City's retiree health benefits determined in accordance with GASB 45. The actuarial liability is the present value of all benefits or contributions projected to be paid by the City under the program. The actuarial accrued liability reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period.

|   | <u>Full</u><br><u>Benefits*</u> | <u>MRC</u><br><u>Benefits</u> | <u>Total</u>     |
|---|---------------------------------|-------------------------------|------------------|
| <b>1. Actuarial Liability (AL)</b>          |                                 |                               |                  |
| Actives                                     | \$ 2,169,323                    | \$2,476,612                   | \$ 4,645,935     |
| Retirees                                    | <u>8,267,273</u>                | <u>756,566</u>                | <u>9,023,839</u> |
| Total AL                                    | \$10,436,596                    | \$3,233,178                   | \$13,669,774     |
| <i>Explicit Contribution</i>                | \$ 9,483,593                    | \$2,169,162                   | \$11,652,755     |
| <i>Implicit Contribution</i>                | \$ 953,003                      | \$1,064,016                   | \$ 2,017,019     |
| <b>2. Actuarial Accrued Liability (AAL)</b> |                                 |                               |                  |
| Actives                                     | \$ 1,848,579                    | \$1,187,737                   | \$ 3,036,316     |
| Retirees                                    | <u>8,267,273</u>                | <u>756,566</u>                | <u>9,023,839</u> |
| Total AAL                                   | \$10,115,852                    | \$1,944,303                   | \$12,060,155     |
| <i>Explicit Contribution</i>                | \$ 9,197,974                    | \$1,390,857                   | \$10,588,831     |
| <i>Implicit Contribution</i>                | \$ 917,878                      | \$ 553,446                    | \$ 1,471,324     |
| <b>3. Normal Cost</b>                       | \$ 80,727                       | \$ 142,732                    | \$ \$223,459     |
| <i>Explicit Contribution</i>                | \$ 72,062                       | \$ 88,528                     | \$ 160,590       |
| <i>Implicit Contribution</i>                | \$ 8,665                        | \$ 54,204                     | \$ \$62,869      |
| <br>  |                                 |                               |                  |
| No. of Actives                              | 10                              | 196                           | 206              |
| Average Age                                 | 52.5                            | 45.0                          | 45.4             |
| Average Past Service                        | 26.7                            | 9.5                           | 10.4             |
| <br>  |                                 |                               |                  |
| No. of Retirees                             | 58                              | 33                            | 91               |
| Average Age                                 | 67.9                            | 66.5                          | 67.4             |
| Average Retirement Age                      | 54.9                            | 61.1                          | 57.1             |

\* These employees are eligible for stipend for full benefits up to a maximum.

### **B. Reconciliation of Market Value of Plan Assets**

The reconciliation of Plan Assets for the last two fiscal years is presented below:

|                                     | <u>6/30/2014</u> | <u>6/30/2015</u> |
|-------------------------------------|------------------|------------------|
| 1. Beginning Market Value of Assets | \$2,335,163      | \$3,087,044      |
| 2. Contribution                     | 784,514          | 543,693          |
| 3. Fund Earnings (gross)            | 548,659          | ( 1,188)         |
| 4. Benefit Payments                 | ( 576,642)       | ( 638,603)       |
| 5. Administrative Expenses          | <u>( 4,650)</u>  | <u>( 3,647)</u>  |
| 6. Ending Market Value of Assets    | \$3,087,044      | \$2,987,299      |
| 7. Estimated Rate of Return         | 23%              | 0%               |

C. Development of Actuarial Value of Assets

The actuarial value of assets is based on the expected market value appreciation. The actual market appreciation or depreciation, both realized and unrealized, is phased in over five years as the expected growth is phased out. The table below presents the development of the actuarial value of assets.

|   | <u>6/30/2012</u> | <u>6/30/2013</u> | <u>6/30/2014</u> | <u>6/30/2015</u> |             |
|---|------------------|------------------|------------------|------------------|-------------|
| 1 Market value of assets  |                  |                  |                  |                  | \$2,987,299 |
| 2 Actual gross rate of return   | 0.38%            | 15.91%           | 22.52%           | (0.04%)          |             |
| 3 Expected rate of return   | 7.61%            | 7.61%            | 7.61%            | 7.61%            |             |
| 4 Actual fund earnings  | 6,315            | 306,148          | 548,659          | (1,188)          | 859,934     |
| 5 Expected fund earnings  | 126,507          | 146,396          | 185,438          | 231,256          | 689,597     |
| 6 Gain(loss) [(4) - (5)]  | (120,192)        | 159,752          | 363,221          | (232,444)        |             |
| 7 Percent of gain/(loss) recognized<br>6/30/2015                                    | 80%              | 60%              | 40%              | 20%              |             |
| 8 Recognized gain/(loss)<br>[(6) x (7)]   | ( 96,154)        | 95,851           | 145,288          | (46,489)         | 98,496      |
| 9. Blended value of assets at 6/30/2015 [(1) - (4) + (5) + (8)]                     |                  |                  |                  |                  | \$2,915,458 |
| 10. Percent increase/(decrease) of (9) over (1)                                     |                  |                  |                  |                  | (2.4%)      |
| 11. Actuarial value of assets, not more than 120% nor less than 80% of market value |                  |                  |                  |                  | \$2,915,458 |

D. Development of Unfunded Actuarial Accrued Liability (UAAL)

The table below presents the development of the unfunded actuarial accrued liability (UAAL). The UAAL is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

|                                      | <u>Explicit</u> | <u>Implicit</u> | <u>Total</u> |
|--------------------------------------|-----------------|-----------------|--------------|
| 1. Actuarial Accrued Liability (AAL) | \$10,588,831    | \$1,471,324     | \$12,060,155 |
| 2. Actuarial Value of Assets         | ( 2,915,458)    | ( 0)            | ( 2,915,458) |
| 3. Unfunded AAL (UAAL)               | \$ 7,673,373    | \$1,471,324     | \$ 9,144,697 |

E. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

The amortization of the UAAL component of the annual required contribution (ARC) is being amortized over 24 years on a level-percentage of pay basis. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years by wage inflation.

|                         |             |             |              |
|-------------------------|-------------|-------------|--------------|
| 1. Unfunded AAL (UAAL)  | \$7,673,373 | \$1,471,324 | \$ 9,144,697 |
| 2. Amortization Factor  | 13.58150    | 13.58150    | 13.58150     |
| 3. Amortization of UAAL | \$ 564,987  | \$ 108,333  | \$ 673,320   |

F. Annual Required Contribution (ARC) or Actuarially Determined Contribution\*

The table below presents the development of the annual required contribution (ARC) under GASB 45 for the fiscal year ending June 30, 2017 and an estimate of an actuarially determined contribution for the fiscal year ending June 30, 2018.

| <i>FY2016/2017</i>                    | <u>Explicit</u> | <u>Implicit</u> | <u>Total</u>   |
|---------------------------------------|-----------------|-----------------|----------------|
| 1. Normal Cost at End of Fiscal Year  | \$ 184,823      | \$ 72,356       | \$ 257,179     |
| 2. Amortization of Surplus            | <u>564,987</u>  | <u>108,333</u>  | <u>673,320</u> |
| 3. Annual Required Contribution (ARC) | \$ 749,810      | \$ 180,689      | \$ 930,499     |
| 4. Estimated Payroll                  | \$17,850,000    | \$17,850,000    | \$17,850,000   |
| 5. ARC as % of Payroll                | 4.2%            | 1.0%            | 5.2%           |

| <i>FY2017/2018</i>                     | <u>Explicit</u> | <u>Implicit</u> | <u>Total</u>   |
|--|-----------------|-----------------|----------------|
| 1. Normal Cost at End of Fiscal Year   | \$ 190,368      | \$ 74,527       | \$ 264,895     |
| 2. Amortization of Surplus             | <u>581,937</u>  | <u>111,583</u>  | <u>693,520</u> |
| 3. Actuarially Determined Contribution | \$ 772,305      | \$ 186,110      | \$ 958,415     |

\*GASB 74 will be effective for the fiscal year ending June 30, 2018

G. Required Supplementary Information (Funding Progress @6/30/2015)

The table below presents a sample disclosure of the funding progress as of the beginning of the fiscal year.

|                                      |                     |              |                     |
|--------------------------------------|---------------------|--------------|---------------------|
| 1. Actuarial Accrued Liability (AAL) | \$10,588,831        | \$ 1,471,324 | \$12,060,155        |
| 2. Actuarial Valuation of Assets     | <u>( 2,915,458)</u> | <u>( 0)</u>  | <u>( 2,915,458)</u> |
| 3. Unfunded AAL                      | \$ 7,673,373        | \$ 1,471,324 | \$ 9,144,697        |
| 4. Funded Ratio                      | 28%                 | 0%           | 24%                 |
| 5. Current Payroll                   | \$17,330,000        | \$17,330,000 | \$17,330,000        |
| 6. UAAL as % of Payroll              | 44%                 | 9%           | 53%                 |

H. Sensitivity Analysis:

The impact of a 0.5% decrease or increase in the discount (interest) rate and the impact of a 1% increase in future healthcare trend rates on the City's actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

|   | Dollar<br>(\$)<br>Increase/<br><u>(Decrease)</u> | Percentage<br>(%)<br>Increase/<br><u>(Decrease)</u> |
|---|--|---|
| <i>0.5% Decrease in Discount Rate</i>               |  |   |
| - Actuarial Liability                               | \$ 854,020                                       | 6%  |
| - Actuarial Accrued Liability                       | \$ 637,547                                       | 5%  |
| - Unfunded Actuarial Accrued Liability              | \$ 637,547                                       | 7%  |
| - Annual Required Contribution                      | \$ 32,325  | 3%  |
| <i>0.5% Increase in Discount Rate</i>               |  |   |
| - Actuarial Liability                               | (\$ 769,963)                                     | (6%)  |
| - Actuarial Accrued Liability                       | (\$ 583,485)                                     | (5%)  |
| - Unfunded Actuarial Accrued Liability              | (\$ 583,485)                                     | (6%)  |
| - Annual Required Contribution                      | (\$ 29,569)                                      | (3%)  |
| <i>1% Increase in Future Healthcare Trend Rates</i> |  |   |
| - Actuarial Liability                               | \$1,521,666                                      | 11%   |
| - Actuarial Accrued Liability                       | \$1,210,054                                      | 10%   |
| - Unfunded Actuarial Accrued Liability              | \$1,210,054                                      | 13%   |
| - Annual Required Contribution                      | \$ 125,650                                       | 14%   |

I. Liabilities - Alternative Discount Rate

The results below present the impact of the liability and annual required contribution using a discount rate to reflect pre-funding the retiree health benefits through the California Employers' Retiree Benefit Trust (CERBT) alternative allocation strategies 2 and 3 with discount rates of 6.73% and 6.12%, respectively.

Investment Strategy 2

| <u>Liabilities</u>                   | <u>Explicit</u>     | <u>Implicit</u> | <u>Total</u>        |
|--------------------------------------|---------------------|-----------------|---------------------|
| 1. Actuarial Liability (AL)          |                     |                 |                     |
| Actives                              | \$ 3,801,956        | \$1,288,668     | \$ 5,090,624        |
| Retirees                             | <u>8,684,893</u>    | <u>836,452</u>  | <u>9,521,345</u>    |
| Total AL                             | \$12,486,849        | \$2,125,120     | \$14,611,969        |
| 2. Actuarial Accrued Liability (AAL) |                     |                 |                     |
| Actives                              | \$ 2,562,472        | \$ 679,586      | \$ 3,242,058        |
| Retirees                             | <u>8,684,893</u>    | <u>836,452</u>  | <u>9,521,345</u>    |
| Total AAL                            | \$11,247,365        | \$1,516,038     | \$12,763,403        |
| 3. Actuarial Value of Assets         | <u>( 2,915,458)</u> | <u>( 0)</u>     | <u>( 2,915,458)</u> |
| 4. Unfunded AAL (UAAL)               | \$ 8,331,907        | \$1,516,038     | \$ 9,847,945        |
| 5. Amortization Factor               | 14.42312            | 14.42312        | 14.42312            |
| 6. Amortization of UAAL              | \$ 577,677          | \$ 105,112      | \$ 682,789          |

FY2016/2017 Annual Required Contribution

|  |                |                |                |
|--|----------------|----------------|----------------|
| 1. Normal Cost at End of Year          | \$ 206,386     | \$ 76,852      | \$ 283,238     |
| 2. Amortization of UAAL at End of Year | <u>577,677</u> | <u>105,112</u> | <u>682,789</u> |
| 3. Annual Required Contribution        | \$ 784,063     | \$ 181,964     | \$ 966,027     |

FY2017/2018 Actuarially Determined Contribution

|  |                |                |                |
|--|----------------|----------------|----------------|
| 1. Normal Cost at End of Year          | \$ 212,578     | \$ 79,158      | \$ 291,736     |
| 2. Amortization of UAAL at End of Year | <u>595,007</u> | <u>108,265</u> | <u>703,272</u> |
| 3. Actuarially Determined Contribution | \$ 807,585     | \$ 187,423     | \$ 995,008     |

Investment Strategy 3

| <u>Liabilities</u>                   | <u>Explicit</u>     | <u>Implicit</u> | <u>Total</u>        |
|--------------------------------------|---------------------|-----------------|---------------------|
| 1. Actuarial Liability (AL)          |                     |                 |                     |
| Actives                              | \$ 4,264,157        | \$1,402,356     | \$ 5,666,513        |
| Retirees                             | <u>9,274,753</u>    | <u>860,020</u>  | <u>10,134,773</u>   |
| Total AL                             | \$13,538,910        | \$2,262,376     | \$15,801,286        |
| 2. Actuarial Accrued Liability (AAL) |                     |                 |                     |
| Actives                              | \$ 2,788,436        | \$ 710,529      | \$ 3,498,965        |
| Retirees                             | <u>9,274,753</u>    | <u>860,020</u>  | <u>10,134,773</u>   |
| Total AAL                            | \$12,063,189        | \$1,570,549     | \$13,633,738        |
| 3. Actuarial Value of Assets         | <u>( 2,915,458)</u> | <u>( 0)</u>     | <u>( 2,915,458)</u> |
| 4. Unfunded AAL (UAAL)               | \$ 9,147,731        | \$1,570,549     | \$10,718,280        |
| 5. Amortization Factor               | 15.44554            | 15.44554        | 15.44554            |
| 6. Amortization of UAAL              | \$ 592,257          | \$ 101,683      | \$ 693,940          |

FY2016/2017 Annual Required Contribution

|  |                |                |                |
|--|----------------|----------------|----------------|
| 1. Normal Cost at End of Year          | \$ 234,056     | \$ 82,442      | \$ 316,498     |
| 2. Amortization of UAAL at End of Year | <u>592,257</u> | <u>101,683</u> | <u>693,940</u> |
| 3. Annual Required Contribution (ARC)  | \$ 826,313     | \$ 184,125     | \$ 1,010,438   |

FY2017/2018 Actuarially Determined Contribution

|  |                |                |                |
|--|----------------|----------------|----------------|
| 1. Normal Cost at End of Year          | \$ 241,078     | \$ 84,915      | \$ 325,993     |
| 2. Amortization of UAAL at End of Year | <u>610,025</u> | <u>104,733</u> | <u>714,758</u> |
| 3. Actuarially Determined Contribution | \$ 851,103     | \$ 189,648     | \$ 1,040,751   |

### ***SECTION III. PROJECTED CASH FLOWS***

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The valuation process includes the projection of the expected retiree benefits/contributions to be paid by the City under the Plan. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and retirement date. Once the employees reach their retirement date, a certain percent are assumed to enter the retiree group each year. Employees already over the latest assumed retirement age as of the valuation date are assumed to retire immediately. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following table:

Projected Employer Cash Flows: All City Retirees – Representative Years

| <u>Fiscal Year</u> | <u>Future Retirees</u> | <u>Retired Employees</u> | <u>City Total</u> |
|--------------------|------------------------|--------------------------|-------------------|
| 2015/16            | \$ 670,702             | \$ 144,010               | \$ 814,712        |
| 2016/17            | \$ 717,108             | \$ 162,191               | \$ 879,299        |
| 2017/18            | \$ 750,348             | \$ 150,176               | \$ 900,524        |
| 2018/19            | \$ 784,152             | \$ 164,666               | \$ 948,818        |
| 2019/20            | \$ 792,374             | \$ 167,879               | \$ 960,253        |
| 2020/21            | \$ 820,232             | \$ 182,252               | \$ 1,002,484      |
| 2021/22            | \$ 841,402             | \$ 174,416               | \$ 1,015,818      |
| 2022/23            | \$ 862,987             | \$ 177,890               | \$ 1,040,877      |
| 2023/24            | \$ 888,450             | \$ 183,467               | \$ 1,071,917      |
| 2024/25            | \$ 863,919             | \$ 156,142               | \$ 1,020,061      |
| 2025/26            | \$ 865,418             | \$ 141,676               | \$ 1,007,094      |
| 2026/27            | \$ 893,885             | \$ 154,106               | \$ 1,047,991      |
| 2027/28            | \$ 900,008             | \$ 152,923               | \$ 1,052,931      |
| 2028/29            | \$ 910,610             | \$ 154,265               | \$ 1,064,875      |
| 2029/30            | \$ 928,057             | \$ 144,081               | \$ 1,072,138      |
| 2030/31            | \$ 949,429             | \$ 155,434               | \$ 1,104,863      |
| 2031/32            | \$ 968,612             | \$ 167,487               | \$ 1,136,099      |
| 2032/33            | \$ 966,006             | \$ 159,586               | \$ 1,125,592      |
| 2033/34            | \$ 961,979             | \$ 152,579               | \$ 1,114,558      |
| 2034/35            | \$ 979,110             | \$ 154,422               | \$ 1,133,532      |
| 2035/36            | \$ 975,163             | \$ 150,498               | \$ 1,125,661      |
| 2036/37            | \$ 986,596             | \$ 164,671               | \$ 1,151,267      |
| 2037/38            | \$ 985,102             | \$ 157,431               | \$ 1,142,533      |
| 2038/39            | \$ 990,326             | \$ 152,094               | \$ 1,142,420      |
| 2039/40            | \$ 992,661             | \$ 156,617               | \$ 1,149,278      |
| 2040/41            | \$ 991,667             | \$ 161,813               | \$ 1,153,480      |
| 2041/42            | \$ 987,353             | \$ 139,413               | \$ 1,126,766      |
| 2042/43            | \$ 979,554             | \$ 133,901               | \$ 1,113,455      |
| 2043/44            | \$ 968,525             | \$ 106,606               | \$ 1,075,131      |
| 2044/45            | \$ 953,968             | \$ 99,273                | \$ 1,053,241      |
| 2045/46            | \$ 936,173             | \$ 87,771                | \$ 1,023,944      |
| 2050/51            | \$ 804,197             | \$ 14,184                | \$ 818,381        |
| 2055/56            | \$ 628,677             | \$ 0                     | \$ 628,677        |
| 2060/61            | \$ 452,987             | \$ 0                     | \$ 452,987        |
| 2065/66            | \$ 301,546             | \$ 0                     | \$ 301,546        |
| 2070/71            | \$ 183,655             | \$ 0                     | \$ 183,655        |
| 2075/76            | \$ 98,052              | \$ 0                     | \$ 98,052         |
| 2080/81            | \$ 41,499              | \$ 0                     | \$ 41,499         |
| 2085/86            | \$ 11,608              | \$ 0                     | \$ 11,608         |
| 2090/91            | \$ 1,642               | \$ 0                     | \$ 1,642          |
| 2095/96            | \$ 0                   | \$ 0                     | \$ 0              |
| 2100/01            | \$ 0                   | \$ 0                     | \$ 0              |
| All Years          | \$42,514,659           | \$4,951,941              | \$47,466,600      |

## **SECTION IV. BENEFIT PLAN PROVISIONS**

This study analyzes the postretirement health benefit plan provided by the City. The City contributes to the retiree health coverage of eligible retirees and eligible surviving spouses. The City's financial obligation is as follows:

Except for former Encinitas Fire Protection District employees hired on or before March 15, 1995, the City provides the minimum required employer contribution under the CalPERS Health Plan for eligible retirees and surviving spouses in receipt of a pension benefit from PERS. An employee is eligible for this employer contribution provided they are vested in their PERS pension benefit and commence payment of their pension benefit when retiring from the City. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon the death of the retiree.

The minimum required employer contributions is statutorily set under PEMHCA and is scheduled to increase in the future based on the medical portion of CPI. A history of the increases in past years and current amounts are as follows:

| <b>Calendar Year</b> | <b>Minimum Required Employer Contribution</b>       |
|----------------------|---|
| 2006                 | \$64.60   |
| 2007                 | \$80.80   |
| 2008                 | \$97.00   |
| 2009                 | \$101.00  |
| 2010                 | \$105.00  |
| 2011                 | \$108.00  |
| 2012                 | \$112.00  |
| 2013                 | \$115.00  |
| 2014                 | \$119.00  |
| 2015                 | \$122.00  |
| 2016                 | \$125.00  |
| 2017+                | Adjusted Annually to reflect Medical Portion of CPI |

The City provides former Encinitas Fire Protection District employees with a contribution equal to the lesser of the actual premium cost for coverage or 100% of the PEMCHA Southern California average premium as follows:

|                              | <b>Retiree Only</b> | <b>Retiree Plus Spouse</b> | <b>Retiree Plus Family</b> |
|------------------------------|---------------------|----------------------------|----------------------------|
| <b>Non- Medicare (Basic)</b> |                     |                            |                            |
| 2015                         | \$590.67            | \$1,181.35                 | \$1,535.75                 |
| 2016                         | \$627.54            | \$1,255.09                 | \$1,631.61                 |
| <b>Medicare</b>              |                     |                            |                            |
| 2015                         | \$346.47            | \$692.94                   | \$1,039.40                 |
| 2016                         | \$346.67            | \$693.33                   | \$1,040.00                 |

## Premium Rates

The City participates in the CalPERS Health Program, a community-rated program, for medical coverage. The tables below summarize the calendar 2015 and 2016 monthly medical premiums for the primary medical plans in which the retirees are enrolled.

| 2015 Other So. Cal. Region     | Kaiser     | BS HMO     | BS NVP HMO | PERS Care  | PERS Choice | PERS Choice OOS |
|--------------------------------|------------|------------|------------|------------|-------------|-----------------|
| Retiree Only                   | \$ 579.80  | \$ 598.66  | \$ 561.09  | \$ 657.32  | \$ 594.40   | \$ 653.58       |
| Retiree Plus Spouse            | \$1,159.60 | \$1,197.32 | \$1,122.18 | \$1,314.64 | \$1,188.80  | \$1,307.16      |
| Retiree Plus Family            | \$1,507.48 | \$1,556.52 | \$1,458.83 | \$1,709.03 | \$1,545.44  | \$1,699.31      |
| Retiree Only- Medicare         | \$ 295.51  | \$ 352.63  | \$ 352.63  | \$ 368.76  | \$ 339.47   | \$ 339.47       |
| Retiree Plus Spouse – Medicare | \$ 591.02  | \$ 705.26  | \$ 705.26  | \$ 737.52  | \$ 678.94   | \$ 678.94       |

| 2015 Other So. Cal. Region (Continued) | Sharp HMO  | UHC HMO    | Anthem HMO Select | Anthem HMO Traditional | Health Net Salud y Mas | Health Net Smart Care |
|--|------------|------------|-------------------|------------------------|------------------------|-----------------------|
| Retiree Only                           | \$ 564.57  | \$ 449.10  | \$ 653.97         | \$ 743.12              | \$ 520.59              | \$ 579.88             |
| Retiree Plus Spouse                    | \$1,129.14 | \$ 898.20  | \$1,307.94        | \$1,486.24             | \$1,041.18             | \$1,159.76            |
| Retiree Plus Family                    | \$1,467.88 | \$1,167.66 | \$1,700.32        | \$1,932.11             | \$1,353.53             | \$1,507.69            |
| Retiree Only- Medicare                 | \$ 327.66  | \$ 267.41  | \$ 445.38         | \$ 445.38              | \$ 276.85              | \$ 276.85             |
| Retiree Plus Spouse – Medicare         | \$ 655.32  | \$ 534.82  | \$ 890.76         | \$ 890.76              | \$ 553.70              | \$ 553.70             |

| 2016 Other So. Cal. Region     | Kaiser     | BS HMO     | BS NVP HMO | PERS Care  | PERS Choice | PERS Select |
|--------------------------------|------------|------------|------------|------------|-------------|-------------|
| Retiree Only                   | \$ 605.05  | \$ 654.87  | \$ 666.35  | \$ 761.50  | \$ 683.71   | \$ 625.20   |
| Retiree Plus Spouse            | \$1,210.10 | \$1,309.74 | \$1,332.70 | \$1,523.00 | \$1,367.42  | \$1,250.40  |
| Retiree Plus Family            | \$1,573.13 | \$1,702.66 | \$1,732.51 | \$1,979.90 | \$1,777.65  | \$1,625.52  |
| Retiree Only- Medicare         | \$ 297.23  | N/A        | N/A        | \$ 408.04  | \$ 366.38   | \$ 366.38   |
| Retiree Plus Spouse – Medicare | \$ 594.46  | N/A        | N/A        | \$ 816.08  | \$ 732.76   | \$ 732.76   |

| 2016 Other So. Cal. Region (Continued) | Sharp HMO  | UHC HMO    | Anthem HMO Select | Anthem HMO Traditional | Health Net Salud | Health Net Smart Care |
|--|------------|------------|-------------------|------------------------|------------------|-----------------------|
| Retiree Only                           | \$ 561.34  | \$ 493.99  | \$ 634.75         | \$ 710.79              | \$ 535.98        | \$ 596.98             |
| Retiree Plus Spouse                    | \$1,122.68 | \$ 987.98  | \$1,269.50        | \$1,421.58             | \$1,071.96       | \$1,193.96            |
| Retiree Plus Family                    | \$1,459.48 | \$1,284.37 | \$1,650.35        | \$1,848.05             | \$1,393.55       | \$1,552.15            |
| Retiree Only- Medicare                 | N/A        | \$320.98   | N/A               | N/A                    | N/A              | N/A                   |
| Retiree Plus Spouse – Medicare         | N/A        | \$641.96   | N/A               | N/A                    | N/A              | N/A                   |

**SECTION V. VALUATION DATA**

The valuation was based on the census furnished to us by the City. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

| Age                     | Miscellaneous |          |          | Safety   |          |          | Full     | MRC      | Total    |
|-------------------------|---------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                         | Full          | MRC      | Total    | Full     | MRC      | Total    |          |          |          |
| <50                     | 0             | 1        | 1        | 0        | 0        | 0        | 0        | 1        | 1        |
| 50-54                   | 0             | 0        | 0        | 1        | 0        | 1        | 1        | 0        | 1        |
| 55-59                   | 1             | 6        | 7        | 8        | 0        | 8        | 9        | 6        | 15       |
| 60-64                   | 1             | 10       | 11       | 12       | 0        | 12       | 13       | 10       | 23       |
| 65-69                   | 0             | 7        | 7        | 12       | 0        | 12       | 12       | 7        | 19       |
| 70-74                   | 1             | 2        | 3        | 10       | 0        | 10       | 11       | 2        | 13       |
| 75-79                   | 0             | 6        | 6        | 5        | 0        | 5        | 5        | 6        | 11       |
| 80+                     | <u>3</u>      | <u>1</u> | <u>4</u> | <u>4</u> | <u>0</u> | <u>4</u> | <u>7</u> | <u>1</u> | <u>8</u> |
| Total:                  | 6             | 33       | 39       | 52       | 0        | 52       | 58       | 33       | 91       |
| Average Age:            | 72.7          | 66.5     | 67.4     | 67.3     | NA       | 67.3     | 67.9     | 66.5     | 67.4     |
| Average Retirement Age: | 58.0          | 61.1     | 60.6     | 54.6     | NA       | 54.6     | 54.9     | 61.1     | 57.1     |

Age/Service Distribution of All Active Benefit Eligible Employees

| Age              | Service  |          |          |          |          |          |          | Total    | Full Benefit | PEMCHA MRC |
|------------------|----------|----------|----------|----------|----------|----------|----------|----------|--------------|------------|
|                  | 0-4      | 5-9      | 10-14    | 15-19    | 20-24    | 25-29    | 30-34    |          |              |            |
| 20-24            | 0        |          |          |          |          |          |          | 0        | 0            | 0          |
| 25-29            | 8        |          |          |          |          |          |          | 8        | 0            | 8          |
| 30-34            | 15       | 10       |          |          |          |          |          | 25       | 0            | 25         |
| 35-39            | 15       | 12       | 13       | 1        |          |          |          | 41       | 0            | 41         |
| 40-44            | 8        | 9        | 7        | 6        |          |          |          | 30       | 0            | 30         |
| 45-49            | 4        | 4        | 7        | 8        | 3        | 1        |          | 27       | 3            | 24         |
| 50-54            | 12       | 7        | 4        | 4        | 1        | 6        | 1        | 35       | 4            | 31         |
| 55-59            | 2        | 6        | 7        | 6        | 1        | 8        | 0        | 30       | 3            | 27         |
| 60-64            | 1        | 0        | 1        | 2        | 1        | 0        | 0        | 5        | 0            | 5          |
| 65-69            | 0        | 0        | 1        | 0        | 2        | 0        | 0        | 3        | 0            | 3          |
| 70+              | <u>0</u> | <u>0</u> | <u>1</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>2</u> | <u>0</u>     | <u>2</u>   |
| Total:           | 65       | 48       | 41       | 28       | 8        | 15       | 1        | 206      | 10           | 196        |
| Average Age:     |          |          |          |          |          |          |          | 45.4     | 52.5         | 45.0       |
| Average Service: |          |          |          |          |          |          |          | 10.4     | 26.7         | 9.5        |
| Average Pay:     |          |          |          |          |          |          |          | \$84,128 | \$101,664    | \$83,233   |

Age/Service Distribution of Benefit Eligible Safety Employees

| Age              | Service |     |       |       |       |       |       | Total    | Full PEMCHA |          |
|------------------|---------|-----|-------|-------|-------|-------|-------|----------|-------------|----------|
|                  | 0-4     | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 |          | Benefit     | MRC      |
| 20-24            | 0       |     |       |       |       |       |       | 0        | 0           | 0        |
| 25-29            | 2       |     |       |       |       |       |       | 2        | 0           | 2        |
| 30-34            | 6       | 3   |       |       |       |       |       | 9        | 0           | 9        |
| 35-39            | 7       | 4   | 7     |       |       |       |       | 18       | 0           | 18       |
| 40-44            | 1       | 1   | 3     | 3     |       |       |       | 8        | 0           | 8        |
| 45-49            | 1       | 2   | 3     | 3     | 2     |       |       | 11       | 1           | 10       |
| 50-54            | 1       | 0   | 0     | 1     | 0     | 2     | 1     | 5        | 3           | 2        |
| 55-59            | 0       | 1   | 0     | 1     | 0     | 3     | 0     | 5        | 3           | 2        |
| 60-64            | 0       | 0   | 0     | 0     | 0     | 0     | 0     | 0        | 0           | 0        |
| 65-69            | 0       | 0   | 0     | 0     | 0     | 0     | 0     | 0        | 0           | 0        |
| 70+              | 0       | 0   | 0     | 0     | 0     | 0     | 0     | 0        | 0           | 0        |
| Total:           | 18      | 11  | 13    | 8     | 2     | 5     | 1     | 58       | 7           | 51       |
| Average Age:     |         |     |       |       |       |       |       | 42.3     | 54.17       | 40.7     |
| Average Service: |         |     |       |       |       |       |       | 11.2     | 27.8        | 8.9      |
| Average Pay:     |         |     |       |       |       |       |       | \$92,834 | \$107,935   | \$90,761 |

Age/Service Distribution of Benefit Eligible Miscellaneous Employees

| Age              | Service |     |       |       |       |       |       | Total    | Full PEMCHA |          |
|------------------|---------|-----|-------|-------|-------|-------|-------|----------|-------------|----------|
|                  | 0-4     | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 |          | Benefit     | MRC      |
| 20-24            | 0       |     |       |       |       |       |       | 0        | 0           | 0        |
| 25-29            | 6       |     |       |       |       |       |       | 6        | 0           | 6        |
| 30-34            | 9       | 7   |       |       |       |       |       | 16       | 0           | 16       |
| 35-39            | 8       | 8   | 6     | 1     |       |       |       | 23       | 0           | 23       |
| 40-44            | 7       | 8   | 4     | 3     |       |       |       | 22       | 0           | 22       |
| 45-49            | 3       | 2   | 4     | 5     | 1     | 1     |       | 16       | 2           | 14       |
| 50-54            | 11      | 7   | 4     | 3     | 1     | 4     |       | 30       | 1           | 29       |
| 55-59            | 2       | 5   | 7     | 5     | 1     | 5     |       | 25       | 0           | 25       |
| 60-64            | 1       | 0   | 1     | 2     | 1     | 0     | 0     | 5        | 0           | 5        |
| 65-69            | 0       | 0   | 1     | 0     | 2     | 0     | 0     | 3        | 0           | 3        |
| 70+              | 0       | 0   | 1     | 1     | 0     | 0     | 0     | 2        | 0           | 2        |
| Total:           | 47      | 37  | 28    | 20    | 6     | 10    | 0     | 148      | 3           | 145      |
| Average Age:     |         |     |       |       |       |       |       | 46.6     | 48.9        | 46.5     |
| Average Service: |         |     |       |       |       |       |       | 10.0     | 23.9        | 9.7      |
| Average Pay:     |         |     |       |       |       |       |       | \$80,716 | \$87,031    | \$80,586 |

## **SECTION VI. ACTUARIAL ASSUMPTIONS AND METHODS**

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The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Fiscal Year: July 1<sup>st</sup> to June 30<sup>th</sup>

Measurement Date: June 30, 2015

Fiscal Years Covered: FY2016/2017 and FY2017/2018 (funding only)

Discount Rate: 7.28% per annum. This discount rate assumes the City continues to fully fund for its retiree health benefits through the California Employers' Retiree Benefit Trust (CERBT) under its investment allocation strategy 1. The 7.28% reflects the CERBT published median interest rate for strategy 1 without any additional margin for adverse deviation.

Sensitivity analysis showing a 0.5% increase or decrease in the discount rate is also provided.

Inflation: 2.8% per annum consistent with the most recent CalPERS pension plan study.

Payroll Increases: 3.0% per annum, in aggregate with the most recent CalPERS pension plan study.

Salary Increases: Merit increases from the most recent CalPERS pension plan study. The benefits are not payroll related but each individual's projected cost is allocated over their lifetime as a level-percentage of pay.

*[The prior valuation used average pay increases based on the prior CalPERS pension plan study]*

Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample rates for Miscellaneous employees are as follows:

| Service | Entry Age |        |        |        |
|---------|-----------|--------|--------|--------|
|         | 20        | 30     | 40     | 50     |
| 0       | 17.42%    | 16.06% | 14.68% | 13.32% |
| 5       | 8.68%     | 7.11%  | 5.54%  | 0.97%  |
| 10      | 6.68%     | 5.07%  | 0.71%  | 0.38%  |
| 15      | 5.03%     | 3.47%  | 0.23%  | 0.04%  |
| 20      | 3.70%     | 0.21%  | 0.05%  | 0.01%  |
| 25      | 2.29%     | 0.05%  | 0.01%  | 0.01%  |
| 30      | 0.05%     | 0.01%  | 0.01%  | 0.01%  |

Sample rates for Firefighter employees are as follows:

| Service | Entry Age |      |      |      |
|---------|-----------|------|------|------|
|         | 20        | 30   | 40   | 50   |
| 0       | 9.5%      | 9.5% | 9.5% | 9.5% |
| 5       | 2.6%      | 2.6% | 2.6% | 1.0% |
| 10      | 0.9%      | 0.9% | 0.3% | 0.3% |
| 15      | 0.8%      | 0.8% | 0.2% | 0.2% |
| 20      | 0.7%      | 0.2% | 0.2% | 0.2% |
| 25      | 0.6%      | 0.1% | 0.1% | 0.1% |
| 30      | 0.1%      | 0.1% | 0.1% | 0.1% |

Pre-retirement Mortality:

According to the pre-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to employees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 25  | 0.4   | 0.2     |
| 30  | 0.5   | 0.3     |
| 35  | 0.6   | 0.4     |
| 40  | 0.8   | 0.5     |
| 45  | 1.1   | 0.7     |
| 50  | 1.6   | 1.0     |
| 55  | 2.3   | 1.4     |
| 60  | 3.1   | 1.8     |

*[The PERS mortality rates have been updated to reflect mortality improvements reported in the 2014 CalPERS Experience Study]*

Post-retirement Mortality:

According to the post-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous and Safety retirees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 55  | 6.0   | 4.2     |
| 60  | 7.1   | 4.4     |
| 65  | 8.3   | 5.9     |
| 70  | 13.1  | 9.9     |
| 75  | 22.1  | 17.2    |
| 80  | 39.0  | 29.0    |
| 85  | 69.7  | 52.4    |
| 90  | 129.7 | 98.9    |

Sample deaths per 1,000 employees applicable to non-industrial disabled retirees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 55  | 19.7  | 11.5    |
| 60  | 22.9  | 12.4    |
| 65  | 24.5  | 16.1    |
| 70  | 28.8  | 22.1    |
| 75  | 39.9  | 30.4    |
| 80  | 60.8  | 47.3    |
| 85  | 97.3  | 77.6    |
| 90  | 148.0 | 128.9   |

Sample deaths per 1,000 employees applicable to industrial disabled retirees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 55  | 6.0   | 4.2     |
| 60  | 7.5   | 5.2     |
| 65  | 11.2  | 8.4     |
| 70  | 16.4  | 14.0    |
| 75  | 28.3  | 23.2    |
| 80  | 49.0  | 39.1    |
| 85  | 52.4  | 62.5    |
| 90  | 129.7 | 98.9    |

*[The PERS mortality rates have been updated to reflect mortality improvements reported in the 2014 CalPERS Experience Study]*

Disability Rates:

According to the disability rates under the CalPERS pension plan updated to reflect the most recent experience study.

Retirement Age:

According to the retirement rates under the most recent CalPERS pension plan experience study. According to the following retirement tables:

- Miscellaneous Tier 1: 2.7% @ 55
- Miscellaneous Tier 2: 2.0% @ 62
- Safety Tier 1: 3.0% @ 55
- Safety Tier 2: 2.7% @ 57
- Firefighter Tier 1: 3.0% @ 55
- Firefighter Tier 2: 2.7% @ 57

*[The PERS retirement rates have been updated to reflect the 2014 CalPERS Experience Study.]*

Participation Rates: 100% of future retirees who are eligible to receive full benefits are assumed to elect coverage at retirement.

50% of future retirees who are eligible for the PEMCHA MRC are assumed to elect coverage at retirement. 20% of retirees waiving coverage are assumed to elect coverage at age 65. Retirees currently waiving coverage are assumed to continue to waive coverage in the future.

Actual medical plan coverage is used for current retirees and for current active employees not waiving coverage. For active employees waiving coverage, a weighted average premium is assumed.

Spouse Coverage: 80% of future retirees are assumed to elect coverage for their spouse. Actual spousal coverage is used for current retirees. This percentage is reduced by 50% for employees only eligible for the MRC at retirement. Male spouses are assumed to be 3 years older than female spouses. Actual spouse age is used for current retirees.

Dependent Coverage: 25% of future retirees with full benefits are assumed to elect family coverage to age 65; dependent coverage is assumed to end at the retiree's attainment of age 65.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The City participates in CalPERS, a community rated plan. Past valuations assumed the City was exempt from the valuation of any medical plan implicit rate subsidy. An implicit rate subsidy can exist when the non-Medicare rates for retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. The current valuation contains an estimate of the implicit rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

| Year  | PPO    | HMO    |
|-------|--------|--------|
| 2016  | Actual | Actual |
| 2017  | 7.0%   | 6.5%   |
| 2018  | 6.5%   | 6.0%   |
| 2019  | 6.0%   | 5.5%   |
| 2020  | 5.5%   | 5.0%   |
| 2021+ | 5.0%   | 5.0%   |

*[The prior valuation assumed 0.5% lower initial trend rates]*

Medicare Participation: 100%

Minimum Contribution: The CalPERS minimum required contribution is assumed to increase 4% per year.

**CalPERS Service:** Actual CalPERS Service as reported by CERBT was included for purposes of applying the CalPERS demographic tables and determining eligibility for benefits.

**Actuarial Cost Method:** The actuarial cost method used to determine the allocation of the retiree health actuarial liability to the past (accrued), current and future periods is the Entry Age Normal (EAN) cost method. The EAN cost method is a projected benefit cost method which means the “cost” is based on the projected benefit expected to be paid at retirement.

The EAN normal cost equals the level annual amount of contribution from the employee’s date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level in dollars; for pay-related plans the normal cost is calculated to remain level as a percentage of pay. The City has elected to determine the EAN normal cost as a level percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by future normal costs.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the City were included in the valuation.

**Actuarial Value of Assets:** Asset gains and losses are recognized over 5 years subject to an 80% and 120% of market value corridor.

**Amortization of UAAL:** The unfunded actuarial accrued liability is being amortized over 24 years using the level-percentage of pay method on a closed-basis.

## **SECTION VII. ACTUARIAL CERTIFICATION**

This report summarizes the GASB actuarial valuation for the City of Encinitas (the "City") as of June 30, 2015. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statements No. 43 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information and asset information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate and other economic assumptions have been selected by the Plan Sponsor. Demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- changes in plan provisions or applicable law.

While some sensitivity analysis was provided in the report, we did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Should you have any questions please do not hesitate to contact me.

Certified by:

Marilyn K. Jones, ASA, EA, MAAA, FCA  
Consulting Actuary

Date: March 8, 2016

## **SECTION VIII. DEFINITIONS**

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The definitions of the terms used in GASB actuarial valuations are noted below.

**Actuarial Liability (also referred to as Present Value of Future Benefits)** – Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

**Actuarial Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

**Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, turnover, disablement and retirement; changes in compensation and Government provided health care benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

**Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

**Actuarial Present Value** – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

**Annual OPEB Cost** – An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

**Annual Required Contribution (ARC)** – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

**Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

**Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

**Healthcare Cost Trend Rate** – The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

**Implicit Rate Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of

age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

**Net OPEB Obligation** – The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

**Normal Cost** – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

**Pay-as-you-go** – A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

**Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

**Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the healthcare trend rate assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed healthcare trend rate of 6.5% for year 20W0, 6.0% for 20W1, 5.5% for 20W2, then 5.0% for 20W3 and thereafter, then 6.5%, 6% and 5.5% are select rates, and 5% is the ultimate rate.

**Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan participant.