COUNTY OF MARIN

County of Marin
Retiree Healthcare Plan

BARTEL ASSOCIATES, LLC

Actuarial Valuation as of July 1, 2015
For Fiscal Years 2015/16 & 2016/17
GASB 45 Information

January 2016

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BARTEL ASSOCIATES, LLC

ACTUARIAL VALUATION CERTIFICATION

This report presents the July 1, 2015 actuarial valuation for the County of Marin Retiree Healthcare Plan ("Plan"). The purpose of this valuation is to:

- determine the Plan benefit obligations and funded status as of July 1, 2015 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45),
- calculate the County's 2015/16 & 2016/17 fiscal year Annual Required Contribution for the Plan pursuant to GASB 45.

Use of this valuation for other purposes may not be appropriate.

This report includes the following sections:

- Section 1 presents a staff summary of the GASB 45 valuation results.
- Section 2 provides financial accounting information, including the 2015/16 & 2016/17 Annual Required Contributions.
- Section 3 provides the results of the actuarial valuation.
- Sections 4, 5, 6 and 7 summarize the census data, premium rates, Plan provisions, funding method, and actuarial assumptions that form the basis for this valuation.
- Section 8 provides a summary of GASB 45 and a brief summary of new GASB standards 74 and 75.

This report presents Bartel Associates' valuation of the County of Marin Retiree Healthcare Plan in accordance with accepted actuarial principles and our understanding of GASB 45. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

We have relied on demographic and premium information supplied by the County, which has been reviewed for general reasonableness, but not audited.

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The undersigned are members of the American Academy of Actuaries and meet Academy Qualification Standards to render the actuarial results and opinions in this report.

Respectfully submitted,
Bartel Associates, LLC

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January, 2016

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Actuarial and Accounting Terminology Used in this Report

- AAL – Actuarial Accrued Liability
- AOC – Annual OPEB Cost
- ARC – Annual Required Contribution
- EAN – Entry Age Normal Cost Method
- GASB 45 – Governmental Accounting Standards Board Statement No. 45
- NC – Normal Cost
- NOO – Net OPEB Obligation
- OPEB – Other (than pensions) Post Employment Benefits
- PVPB – Present Value of Projected Benefits
- UAAL – Unfunded Actuarial Accrued Liability

Plan Provisions

Under the current practice, the County allows eligible service and disability retirees and their dependents to continue health coverage in the County's medical and dental plans. The County pays a portion of the premiums based on date of hire.

- Plan 1: For retirees hired before October 1, 1987, the County pays 100% of the eligible retiree's single health plan premiums and Medicare Part B premiums.
- Plan 2: For retirees hired between October 1, 1987 and September 30, 1993, the County pays the retiree's single health plan premiums up to $2,275 per year.
- Plan 3: For retirees hired between October 1, 1993 and December 31, 2007, the County pays a percentage of the retiree's single premium up to a dollar cap based on years of service at retirement, where the dollar cap is reviewed each year. Through January 1, 2007 the cap was increased to cover single Anthem Blue Cross Prudent Buyer Classic and Delta Dental premiums. Due to the amount of unfunded liability the County faces, the Board of Supervisors has implemented a policy to limit annual increases in the maximum allocation for Plan 3 to no more than 3%, subject to annual approval regarding whether any increase will be granted and, if so, the amount of the increase. Cap increases were 3% effective January 1, 2008 and January 1, 2009. No cap increases have been adopted since that time and the Plan 3 Cap remains $8,853 per year. The most recent action by the Board of Supervisors was on September 15, 2015 when it approved no change to the Plan 3 Cap for 2016.
- Plan 4: For retirees hired on or after January 1, 2008, the County pays $150 per year of service up to $3,000 per year for the retiree's single health plan premiums only.

At retirement, retirees eligible for Plans 1 and 2 may elect Plan 3 instead; and retirees eligible for Plans 1, 2, or 3 may elect Plan 4 instead. Plan selections may not be changed after retirement. Retirees eligible for Plan 1 are eligible for Medicare Part B premium reimbursement even after electing another Plan.

Medical coverage is provided through Anthem Blue Cross and Kaiser. Anthem Blue Cross premiums vary by status (employee, retiree under age 65, retiree age 65 or over with Medicare). Kaiser premiums are the same for employees and retirees under age 65. To the extent these premium structures result in subsidies of retiree claim costs from premiums paid for employees by the County, an implied subsidy exists which under GASB 45 must be included in County post-retirement healthcare calculations.

Funding Policy

Through the 2011/12 fiscal year the County used pay-as-you-go funding in conjunction with contributions to a reserve intended to be used to fund the plan. The County transferred the reserve balance to the CalPERS California Employers' Retiree Benefit Trust (CERBT) Fund and began prefunding the full Annual Required Contribution beginning in the 2012/13 fiscal year using Asset Allocation Strategy 2. The County changed their investment to Asset Allocation Strategy 1 in the 2014/15 fiscal year.

Plan Changes since the Prior Valuation

There were no changes to the Plan.

Actuarial Valuation Assumptions and Methods

Assumptions were updated to reflect the 6/30/2014 experience study conducted by the Marin County Employees' Retirement Association (MCERA). This included an adjustment of medical and dental trend rates to reflect the reduction in the inflation assumption and changes to demographic and salary increase assumptions.

For current employees, participation, spouse coverage, and medical plan election assumptions at retirement were updated based on a review of experience.

A new scale for future mortality improvement was implemented.

Results

The July 1, 2015 benefit obligations and the 2015/16 Plan cost are as follows using a 5.50% interest rate, based on the assumption that the County will continue full ARC prefunding (amounts in 000's):

	July 1, 2015
■ **Present Value of Projected Benefits (PVPB)** The Present Value of Projected Benefits is a measure of the total County obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.	$ 404,564
■ **Actuarial Accrued Liability (AAL)** The Actuarial Accrued Liability is a measure of the County obligation for benefits earned or allocated to past service.	349,063
■ **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.	54,688
■ **Unfunded Actuarial Accrued Liability (UAAL)** The Unfunded Actuarial Accrued Liability is the excess of the AAL over Plan Assets. This represents the amount of the Actuarial Accrued Liability at the valuation date that must still be funded.	294,375

	2015/16 Plan Cost
■ **Normal Cost (NC)** The Normal Cost is the value of County-provided benefits expected to be earned or allocated to the 2015/16 fiscal year.	$ 6,905
■ **Annual Required Contribution (ARC)** The Annual Required Contribution is the sum of the Normal Cost plus a 27-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability. It is determined as of the middle of the 2015/16 fiscal year.	21,937
■ **Estimated Annual OPEB Cost (AOC)** The Annual OPEB Cost is the expense recognized on the County's income statement for providing post-retirement healthcare benefits. The AOC equals the ARC, adjusted for prior differences between the ARC and actual contributions.	22,188

The following are the 2015/16 and 2016/17 ARCs, estimated AOCs, and the estimated June 30, 2015, June 30, 2016 and June 30, 2017 Net OPEB Obligations (NOO).

Annual Required Contribution (ARC)

The 2015/16 Annual Required Contribution determined by this valuation includes the Normal Cost and a 27-year amortization of the unfunded AAL, both as a level percentage of payroll and determined as of the middle of the fiscal year (amounts in 000's):

	July 1, 2013		July 1, 2015	
	2013/14	**2014/15**	**2015/16**	**2016/17**
■ Interest Rate	**5.50%**	**5.50%**	**5.50%**	**5.50%**
■ Normal Cost	$ 8,609	$ 8,352	$ 6,905	$ 6,629
■ UAAL Amortization[1]	15,803	16,317	15,032	15,483
■ Total ARC	24,412	24,669	21,937	22,112
■ Projected Payroll	151,988	156,928	165,972	170,951
■ ARC as a % of Payroll	16.1%	15.7%	13.2%	12.9%

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the County has a Net OPEB Obligation (NOO) at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by the amortization of the NOO included in the ARC. The end of year AOC for fiscal year 2015/16 and 2016/17 are determined as follows (amounts in 000's):

	July 1, 2013		July 1, 2015	
	2013/14	**Estimated 2014/15**	**Estimated 2015/16**	**Estimated 2016/17**
■ Interest Rate	**5.50%**	**5.50%**	**5.50%**	**5.50%**
■ ARC	$ 24,412	$ 24,669	$ 21,937	$ 22,112
■ Interest on NOO	5,347	5,375	5,404	5,418
■ Amortization of NOO	(4,706)	(4,852)	(5,153)	(5,308)
■ Total AOC	25,053	25,192	22,188	22,222
■ AOC as a % of Payroll	16.5%	16.1%	13.4%	13.0%

[1] Amortized as a level percent of payroll over closed 30 years beginning 2012/13, 27 years remaining 7/1/2015.

Net OPEB Obligation (NOO)

The NOO is the historical difference between the ARC and actual contributions. If an agency has always contributed the ARC, then the NOO equals zero. However, contributions have not been "made" for purposes of GASB 45 unless they have been segregated in an irrevocable trust for the sole purpose of paying plan benefits or used to pay premiums or benefits for the current year.

Based on the AOC developed on the prior page, the June 30, 2016 NOO and the June 30, 2017 NOO are estimated at year end as shown below. Final figures will be dependent on actual benefits paid, actual contribution made to the Trust and final NOO balances as of 6/30/2015 and 6/30/2016.

(amounts in 000's)

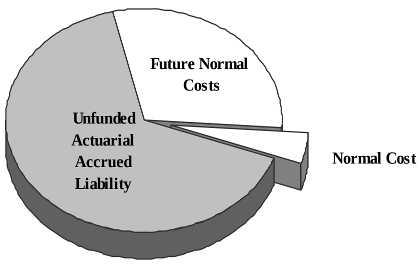
	Actual 2013/14	Actual 2014/15	Estimated 2015/16	Estimated 2016/17
■ Beginning of Year NOO	$ 97,930	$ 97,728	$ 98,251	$ 98,502
■ *plus* AOC	25,053	25,192	22,188	22,222
■ *minus* Contributions				
• Benefits Paid	10,990	11,104	11,512	12,235
• Implied Subsidy Payments for FY[2]	1,681	1,994	1,420	1,572
• Trust Prefunding	12,584	11,571	9,005	8,305
• Total Contributions	25,255	24,669	21,937	22,112
■ End of Year NOO	97,728	98,251	98,502	98,612

Since the source of the implied subsidies paid is employer-paid employee medical premiums, this implied subsidy amount should be subtracted from employer-paid employee medical premium payments recognized in the County's financial statements.

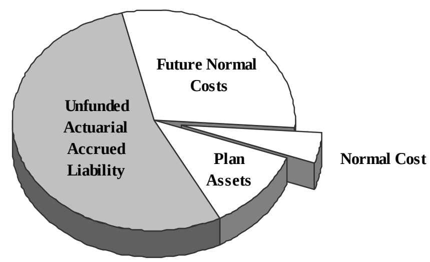
2 Through active employee premiums.

Actuarial Obligations

This report develops the AAL and Normal Cost using the Entry Age Normal actuarial cost method. It is designed to produce a Normal Cost that, if all assumptions are met, will generally be a level percent of payroll. The following charts illustrate a sample PVPB, both with and without plan assets, with the shaded area representing the unfunded AAL:



Present Value of Projected Benefits (Without Plan Assets)



Present Value of Projected Benefits (With Plan Assets)

- **The Present Value of Projected Benefits (PVPB)** is a measure of the total County obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.

- **The Actuarial Accrued Liability (AAL)** is a measure of the County obligation for benefits earned or allocated to past service.

- **The Normal Cost (NC)** is the value of County-provided benefits expected to be earned or allocated to the current fiscal year determined as of the end of the fiscal year.

- **Plan Assets** must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for GASB 45.

- **The Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AAL and the Plan Assets.

- **Expected Benefit Payments** are the County-paid retiree healthcare benefit payments for the current fiscal year. It includes payments for current retirees and active employees expected to retire during the year.

- **The Annual Required Contribution** is the sum of the Normal Cost plus a 27-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability (or less an amortization of excess assets) determined as of the middle of the fiscal year.

- An **Implied Subsidy** exists when the premium for a group of employees is determined by aggregating the experience of the group.

Asset Reconciliation – Market Value of Assets

(amounts in 000's)

	2012/13	2013/14	2014/15
■ Market Value of Assets (Beginning of Year)	$ 0	$ 25,520	$ 42,466
• Contributions	26,284	12,584	11,571
• Disbursements[3]	-	-	-
• Expenses	(8)	(41)	(44)
• Investment Earnings	(757)	4,404	(33)
■ Market Value of Assets (End of Year)	25,520	42,466	53,960

Assets Reconciliation – Actuarial Value of Assets

(amounts in 000's)

Year	Expected Earnings	Actual Earnings[4]	Actual minus Expected Earnings	% Not Recognized	Unrecognized Earnings
2011/12	$ n/a	$ n/a	$ n/a	20%	$ n/a
2012/13	293	(765)	(1,058)	40%	(423)
2013/14	1,552	4,362	2,810	60%	1,686
2014/15	2,412	(77)	(2,489)	80%	(1,991)

	2014/15
(1) Total Unrecognized Earnings	$ (728)
(2) Market Value of Assets at End of Year	53,960
(3) Preliminary Actuarial Value of Assets: = (2) - (1)	54,688
(4) Ratio of Preliminary Actuarial Value to Market Value	101%
(5) 80% of Market Value	43,168
(6) 120% of Market Value	64,752
(7) Actuarial Value of Assets at End of Year: = (3) but not less than (5) or over (6)	54,688

3 Paid directly by the County outside of the trust.
4 Net of expenses.

Benefit Obligations as of July 1, 2015

5.50% Interest Rate
(amounts in 000's)

■ **Present Value of Benefits**	
• Actives	$ 193,740
• Retirees	210,824
• Total	404,564
■ **Actuarial Accrued Liability**	
• Actives	138,239
• Retirees	210,824
• Total	349,063
■ **Actuarial Value of Assets**	54,688
■ **Unfunded AAL @ 7/1/2015**	294,375

Annual Required Contribution (ARC) for 2015/16 and 2016/17[5]

5.50% Interest Rate
(amounts in 000's)

	2015/16	2016/17
■ ARC - $		
• Normal Cost	$ 6,905	$ 6,629
• UAAL Amortization[6]	15,032	15,483
• ARC	21,937	22,112
■ Projected Payroll[7]	165,972	170,951
■ ARC - %		
• Normal Cost	4.2%	3.9%
• UAAL Amortization	9.1%	9.1%
• ARC	13.2%	12.9%

5 Payable at middle of fiscal year.
6 Amortized as a level percent of payroll over 27 years for 2015/16 and 26 years for 2016/17.
7 Payroll projected using aggregate payroll increase assumption.

Comparison of July 1, 2013 and July 1, 2015 Valuations

(amounts in 000's)

	July 1, 2013	July 1, 2015
■ **Interest Rate**	**5.50%**	**5.50%**
■ **Present Value of Benefits**		
• Actives	$ 226,394	$ 193,740
• Retirees	206,103	210,824
• Total	432,497	404,564
■ **Actuarial Accrued Liability**		
• Actives	155,608	138,239
• Retirees	206,103	210,824
• Total	361,711	349,063
■ **Assets**	26,366	54,688
■ **Unfunded AAL**	335,345	294,375

	2013/14	2015/16
■ **ARC - $**		
• Normal Cost	$ 8,609	$ 6,905
• UAAL Amortization[8]	15,803	15,032
• ARC	24,412	21,937
■ **Projected Payroll**[9]	151,988	165,972
■ **ARC - %**		
• Normal Cost	5.7%	4.2%
• UAAL Amortization	10.4%	9.1%
• ARC	16.1%	13.2%

[8] Amortized as a level percent of payroll over closed 30-year period beginning 2012/13, 29 years remaining 7/1/2013, 27 years remaining 7/1/2015.

[9] Payroll projected using aggregate payroll increase assumption.

Actuarial Gains/Losses
(amounts in 000's)

The impacts on the Unfunded Actuarial Accrued Liability of experience gains and losses as well as assumption and method changes are shown below.

- Factors decreasing the Actuarial Accrued Liability included:
  - Medical premium increases significantly lower than anticipated
  - No increases to the Plan 3 cap
  - Decreases in medical and dental trend assumptions due to a lowering of the underlying inflation assumption from 3.25% to 2.75%
  - Changes to participation, medical plan elections, and spouse coverage rates at retirement based on a study of 7/1/2011- 6/30/2014 experience
- Changes to update experience and salary increases for the 6/30/2014 MCERA experience study resulted in a net decrease in the Actuarial Accrued Liability.
- Updating the mortality projection scale increased the Actuarial Accrued Liability.

	AAL	(Assets)	UAAL
■ **Actual – 7/1/2013**	**$ 361,711**	**$ (26,366)**	**$ 335,345**
■ **Expected – 7/1/2015**	**391,927**	**(52,564)**	**339,363**
■ **Experience (Gains)/Losses**			
• Asset (gain)	-	(2,124)	(2,124)
• Premium (gain)[10]	(30,800)	-	(30,800)
• Plan 3 cap	(8,542)	-	(8,542)
• Demographic & other	(5,059)	-	(5,059)
• **Total**	**(44,400)**	**(2,124)**	**(46,524)**
■ **Assumptions and Method Changes**			
• MCERA demographic / salary increase	(5,697)	-	(5,697)
• Medical and dental trend rates	(6,790)	-	(6,790)
• Medical and dental participation	(1,846)	-	(1,846
• Spouse coverage	(573)	-	(573)
• Medical plan elections	(1,543)	-	(1,543)
• Mortality projection scale	17,986	-	17,986
• **Total**	**1,537**	**-**	**1,537**
■ **Total Change**	**(42,864)**	**(2,124)**	**(44,988)**
■ **Actual – 7/1/2015**	**349,063**	**(54,688)**	**294,375**

[10] Includes change in assumed claims aging curve and, for Kaiser Senior Advantage, claims calculation

Benefit Payment Projection
(amounts in 000's)

Fiscal Year	Estimated Cash Benefit Payments	Implied Subsidy Benefit Payments	Total
2015/16	$ 11,512	$ 1,420	$ 12,932
2016/17	12,235	1,572	13,807
2017/18	13,099	1,699	14,798
2018/19	13,952	1,855	15,807
2019/20	14,828	2,045	16,873
2020/21	15,707	2,183	17,890
2021/22	16,577	2,394	18,971
2022/23	17,409	2,609	20,018
2023/24	18,267	2,832	21,099
2024/25	19,095	3,007	22,102

Participant Statistics – July 1, 2015

	Miscellaneous	Safety	Total
Actives			
Count	1,611	353	1,964
Average Age	49.2	41.2	47.7
Average Service	10.4	11.6	10.6
Average Pay	$ 80,395	$ 96,374	$ 83,267
Total Pay (000's)	129,517	34,020	163,537
Retirees			
Count	1,237	264	1,501
Average Age	73.1	64.2	71.5

Medical Coverage – July 1, 2015

Medical Plan	Employees	Retirees Under 65	Retirees 65+	Total
Kaiser Plan L	1,000	227	634	1,861
Kaiser Plan S	478	24	12	514
Kaiser – Out of State	-	9	17	26
Anthem Blue Cross PPO	141	94	363	598
Waived	345	29	92	466
Total	1,964	383	1,118	3,465

Plan Coverage – July 1, 2015

Plan	Plan 1	Plan 2	Plan 3	Plan 4	Self-Paying Surviving Spouse	Total
Retirees	769	26	613	2	91	1,501
Actives	83	116	1,024	741	-	1,964

Miscellaneous Employees
Age & Service Distribution

July 1, 2015

Age	County Service							
	Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	5	4	-	-	-	-	-	9
25-29	32	47	3	-	-	-	-	82
30-34	37	58	39	6	-	-	-	140
35-39	27	56	46	32	2	-	-	163
40-44	20	44	56	49	24	1	-	194
45-49	18	39	47	38	40	16	4	202
50-54	18	42	51	58	46	24	24	263
55-59	15	31	35	58	52	23	26	240
60-64	9	22	45	38	36	15	37	202
65 & Over	1	5	19	39	26	10	16	116
Total	182	348	341	318	226	89	107	1,611

Safety Employees
Age & Service Distribution

July 1, 2015

Age	County Service							
	Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	13	1	-	-	-	-	-	14
25-29	10	19	2	-	-	-	-	31
30-34	14	26	16	4	-	-	-	60
35-39	-	11	18	31	2	-	-	62
40-44	2	1	12	22	17	5	-	59
45-49	2	1	10	11	15	18	6	63
50-54	1	1	1	4	8	11	10	36
55-59	-	1	2	2	-	-	10	15
60-64	-	-	1	2	3	1	3	10
65 & Over	-	-	-	1	1	-	1	3
Total	42	61	62	77	46	35	30	353

All Employees
Age & Service Distribution
July 1, 2015

	County Service							
Age	**Under 1**	**1-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25 & Over**	**Total**
Under 25	18	5	-	-	-	-	-	23
25-29	42	66	5	-	-	-	-	113
30-34	51	84	55	10	-	-	-	200
35-39	27	67	64	63	4	-	-	225
40-44	22	45	68	71	41	6	-	253
45-49	20	40	57	49	55	34	10	265
50-54	19	43	52	62	54	35	34	299
55-59	15	32	37	60	52	23	36	255
60-64	9	22	46	40	39	16	40	212
65 & Over	1	5	19	40	27	10	17	119
Total	224	409	403	395	272	124	137	1,964

2015 Monthly Premium Rates

Actives

Plan	Single	2-Party	Family
Kaiser Plan L	$ 709.10	$1,418.22	$1,886.23
Kaiser Plan S	640.33	1,280.67	1,703.29
Anthem Blue Cross PPO	1,046.72	2,120.17	2,686.61

Retirees

Plan	Non-Medicare			Medicare		
	Single	2-Party	Family	Single	2-Party	Family
Kaiser Plan L[11]	$ 709.10	$1,418.22	$1,886.23	$395.32	$ 790.64	n/a
Kaiser Plan S[12]	640.33	1,280.67	1,703.29	283.14	566.28	n/a
Anthem Blue Cross PPO[13]	1,089.00	2,044.80	2,829.68	537.05	1,074.10	n/a

Delta Dental 2015 monthly premiums are $53.40 for single coverage, $100.68 for 2-party coverage and $158.18 for family coverage.

	Kaiser Plan L	Kaiser Plan S	Anthem Blue Cross PPO
	Network	Network	Network
Calendar Year Deductible	None	None	$500/member $1,000/family
Annual Out-of-Pocket Maximums	$1,500/member $3,000/family	$1,500/member $3,000/family	$3,000/member $6,000/family
Lifetime Maximum	None	None	None
Hospital			
Inpatient Services	No charge	No charge	20%
Outpatient Surgery	$5/procedure	$25/procedure	20%
Physician Services			
Physician Office Visit	$5/visit	$25/visit	$20/visit
Preventive Care	No charge	No charge	No charge
Diagnostic X-Ray and Lab	No charge	No charge	20%
Ambulance Service	$50/trip	$50/trip	20%
Emergency	$50/visit	$50/visit	$50 ded. + 20%
Prescription Drugs			
Retail (30-day supply)	$5/generic $5/brand-name	$10/generic $25/brand-name	$5/generic $15/brand-name
Mail Order (90-day supply)	$5/generic $5/brand-name	$20/generic $50/brand-name	$10/generic $25/brand-name

11 With Senior Advantage for Medicare
12 With Senior Advantage for Medicare
13 Medical + Rx for Medicare premiums.

2016 Monthly Premium Rates

Actives

Plan	Single	2-Party	Family
Kaiser Plan L	$ 707.36	$1,414.72	$1,881.58
Kaiser Plan S	638.75	1,277.51	1,699.09
Anthem Blue Cross PPO	1,078.14	2,183.81	2,767.22

Retirees

Plan	Non-Medicare			Medicare		
	Single	2-Party	Family	Single	2-Party	Family
Kaiser Plan L[14]	$ 707.36	$1,414.72	$1,881.58	$393.58	$ 787.16	n/a
Kaiser Plan S[15]	638.75	1,277.51	1,699.09	281.14	562.28	n/a
Anthem Blue Cross PPO[16]	1,121.65	2,106.11	2,914.53	563.09	1,126.18	n/a

Delta Dental 2016 monthly premiums are $52.29 for single coverage, $98.59 for 2-party coverage and $154.89 for family coverage.

14 With Senior Advantage for Medicare
15 With Senior Advantage for Medicare
16 Medical + Rx for Medicare premiums.

Benefits

Under current practice, the County allows eligible service and disability retirees and their dependents to continue health coverage in the County's medical and dental plans. The County pays a portion of the premiums based on date of hire. Retirees must retire directly from the County, have 5 years of County service, and continuity of coverage to be eligible. Retirees are not eligible for open enrollment and those waiving coverage may not reenroll.

	Plan 1	Plan 2	Plan 3	Plan 4
Eligibility	Hired before 10/1/87	Hired between 10/1/87 and 9/30/93	Hired between 10/1/93 and 12/31/07	Hired on or after 1/1/08 and at least 5 years continuous coverage under the same medical plan
Benefits	The County pays 100% of the eligible retiree's single health plan premiums and Medicare Part B premiums.	The County pays the retiree's single health plan premiums up to $2,275 per year.	The County pays a percentage of the retiree's single premium (and those for spouses of eligible retiree's with 30 years of service) up to a dollar cap ($8,853 per year from 2009 through 2016) based on years of service at retirement[17]	The County pays $150 per year of service up to $3,000 per year for the retiree's single health plan premiums only.

- The Plan 3 dollar cap is reviewed each year. Through January 1, 2007 the cap was increased to cover single Anthem Blue Cross Prudent Buyer Classic and Delta Dental premiums. Due to the amount of unfunded liability the County faces, the Board has implemented a policy to limit annual increases in the maximum allocation for Plan 3 to no more than 3%, subject to annual approval regarding whether any increase will be granted and, if so, the amount of the increase. The last cap increase was at 3% on January 1, 2009.
- Retirees eligible for Plans 1 and 2 may elect Plan 3 instead; and retirees eligible for Plans 1, 2, or 3 may elect Plan 4 instead. Retirees eligible for Plan1 are eligible for Medicare Part B premium reimbursement even after electing another Plan.

The County also implicitly subsidizes a portion of retirees' benefits because non-Medicare retirees are charged the same premiums as employees for Kaiser participants. Anthem Blue Cross retirees are also charged premiums that are somewhat lower than the cost. Under GASB 45, the value of the implied subsidy must be included in the employer's ARC and AAL calculations to the extent that the employer pays at least the yearly implied subsidy through active employee premiums.

The County also provides retirees with 20 years of service $10,000 of life insurance and, on an 8-year phase-out basis, continuance of supplemental life coverage.

[17] 100% for 20 years of service, prorated for those with less than 20 years of service.

Data

Results were based on the demographic data as of July 1, 2015 provided by the County. Data has been reviewed for reasonability but not audited.

Actuarial Methods

Actuarial Cost Method
The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll payable throughout the participants' working lifetime. 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.

Amortization of Unfunded AAL
The unfunded AAL is amortized over a closed 27-year period as a level percentage of payroll from July 1, 2015.

Actuarial Value of Assets
Smoothed based on market results over a period of 5 years. 1/5 of the difference between actual investment earnings and the assumed investment earnings recognized each year. 120% / 80% market value corridor also applied.

Actuarial Assumptions

Interest (Discount) rate
5.50%, assuming that the County continues to prefund with CERBT Asset Allocation Strategy 1. (Prior assumption – 5.50%, prefunded with CERBT Asset Allocation Strategy 2)

Inflation
Assumed to increase 2.75% per annum. (Prior assumption – 3.25%)

Aggregate Payroll
Assumed to increase 3.00% per annum. (Used to amortize unfunded AAL.) (Prior assumption – 3.25%)

Plan 3 Cap Trend Rate
Assumed to increase at 3.00% per year

Dental Care Cost Trend Rate
Assumed to increase at 3.75% per year. (Prior assumption – 4.25%)

Medical Care Cost Trend Rates

Year	Current Assumption				Prior Assumption		
	Anthem Blue Cross / Kaiser	Kaiser Senior Advantage	Medicare B Premiums		Anthem Blue Cross / Kaiser	Kaiser Senior Advantage	Medicare B Premiums
2014	n/a	n/a	n/a		n/a	n/a	6.75%
2015	n/a	n/a	n/a		7.50%	7.50%	6.50%
2016	n/a	n/a	6.25%		7.00%	7.00%	6.25%
2017	6.50%	6.50%	6.25%		6.50%	6.50%	6.25%
2018	6.00%	6.00%	6.00%		6.00%	6.00%	6.00%
2019	5.50%	5.50%	5.50%		5.50%	5.50%	5.50%
2020	5.25%	5.25%	5.25%		5.25%	5.25%	5.25%
2021	5.00%	5.00%	5.00%		5.25%	5.25%	5.25%
2022+	4.75%	4.75%	4.75%		5.25%	5.25%	5.25%

Monthly Claims Costs

The AHP Cost Model™, which is based on Axene Health Partners, LLC's proprietary claims database, was used in the determination of age/ gender/ plan specific claims factors. Blue Cross and Kaiser Plans offered by the County were run through the cost model to determine benefit values by age and gender. These benefit values were then used to develop the corresponding age / gender-based claims factors for the valuation.

The same AHP Cost Model was used to determine the benefit value of Medicare for purposes of reflecting coordination in the projected claims costs for Medicare participants. The model was run using the 2015 Medicare benefits for Part A and Part B for individuals aged 65 and older. The resulting benefit value was then subtracted from the non-Medicare benefit value at each age over 65 to develop the claims cost value for participants receiving Medicare.

Premium rates for each health plan were used in the claims cost projections. Current (CY 2015) premiums, as reported by Segal Consulting on behalf of County of Marin, were reviewed and deemed reasonable relative to benefits offered and the covered populations; however, these premiums were not audited against actual claims and we do not attest herein to their adequacy.

It is Kaiser's policy not to release any demographic information summaries for its Northern California Senior Advantage pool. Public agency client enrollment data for entities covered by CalPERS Northern California Kaiser Senior Advantage was used for determination of age-gender based claim costs for the Kaiser Medicare plans.

For Kaiser plans outside California, age-gender based claim costs were developed using the County's Kaiser Plan L plans as a proxy. This assumption has negligible impact due to the relatively small proportion of enrollees outside California.

	2015 Age/Gender Claims Costs			
	Kaiser Plan L Non-Medicare		Kaiser Plan L Medicare	
Age	Male	Female	Male	Female
30	$349	$610	n/a	n/a
35	379	603	n/a	n/a
40	427	616	n/a	n/a
45	500	643	n/a	n/a
50	607	691	n/a	n/a
55	782	795	n/a	n/a
60	1,035	954	n/a	n/a
65	1,158	1,005	$300	$259
70	1,304	1,095	366	307
75	1,586	1,308	445	367
80	1,906	1,561	535	438
85	2,241	1,835	629	514

	2015 Age/Gender Claims Costs			
	Kaiser Plan S Non-Medicare		Kaiser Plan S Medicare	
Age	Male	Female	Male	Female
30	$312	$550	n/a	n/a
35	339	544	n/a	n/a
40	383	555	n/a	n/a
45	450	579	n/a	n/a
50	548	624	n/a	n/a
55	708	719	n/a	n/a
60	940	864	n/a	n/a
65	1,052	911	$216	$185
70	1,186	993	263	219
75	1,441	1,186	320	262
80	1,733	1,416	385	312
85	2,036	1,664	452	367

	2015 Age/Gender Claims Costs			
	Anthem Blue Cross PPO Non-Medicare		Anthem Blue Cross PPO Medicare	
Age	Male	Female	Male	Female
30	$389	$699	n/a	n/a
35	423	690	n/a	n/a
40	479	706	n/a	n/a
45	566	739	n/a	n/a
50	695	799	n/a	n/a
55	910	929	n/a	n/a
60	1,231	1,128	n/a	n/a
65	1,387	1,192	$407	$340
70	1,562	1,298	496	402
75	1,900	1,550	603	480
80	2,283	1,851	725	573
85	2,684	2,175	852	673

	2016 Age/Gender Claims Costs			
	Kaiser Plan L Non-Medicare		Kaiser Plan L Medicare	
Age	Male	Female	Male	Female
30	$348	$609	n/a	n/a
35	378	602	n/a	n/a
40	426	614	n/a	n/a
45	499	641	n/a	n/a
50	606	690	n/a	n/a
55	780	794	n/a	n/a
60	1,033	952	n/a	n/a
65	1,155	1,002	$299	$258
70	1,301	1,092	365	305
75	1,582	1,305	443	365
80	1,902	1,558	533	436
85	2,235	1,831	626	512

Age	2016 Age/Gender Claims Costs Kaiser Plan S Non-Medicare Male	2016 Age/Gender Claims Costs Kaiser Plan S Non-Medicare Female	Kaiser Plan S Medicare Male	Kaiser Plan S Medicare Female
30	$311	$549	n/a	n/a
35	338	542	n/a	n/a
40	382	553	n/a	n/a
45	449	578	n/a	n/a
50	547	622	n/a	n/a
55	706	717	n/a	n/a
60	938	862	n/a	n/a
65	1,050	909	$214	$184
70	1,183	990	261	217
75	1,438	1,183	318	260
80	1,728	1,412	382	310
85	2,031	1,660	449	365

Age	2016 Age/Gender Claims Costs Anthem Blue Cross PPO Non-Medicare Male	2016 Age/Gender Claims Costs Anthem Blue Cross PPO Non-Medicare Female	Anthem Blue Cross PPO Medicare Male	Anthem Blue Cross PPO Medicare Female
30	$403	$724	n/a	n/a
35	439	716	n/a	n/a
40	497	731	n/a	n/a
45	587	766	n/a	n/a
50	721	828	n/a	n/a
55	944	963	n/a	n/a
60	1,276	1,169	n/a	n/a
65	1,438	1,236	$422	$352
70	1,619	1,345	514	416
75	1,969	1,607	625	498
80	2,366	1,918	752	594
85	2,781	2,254	883	698

Percentage of Future Retirees Participating in Medical Plans

	Current Assumption					Prior Assumption			
	<10	10-14	15-19	20+		<10	10-14	15-19	20+
Plan 1	100.0%	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%	100.0%
Plan 2/3	37.5%	85.0%	85.0%	100.0%		75.0%	85.0%	90.0%	100.0%
Plan 4	30.0%	37.5%	40.0%	42.5%		60.0%	75.0%	80.0%	85.0%

Percentage of Future Retirees Participating in Dental Plans

	Current Assumption		Prior Assumption
Plan 1	97.5%		97.5%
Plan 2/3	90.0%		97.5%
Plan 4	90.0%		97.5%

Medical Plan Coverage after Retirement
Current Employees:

	Current Assumption				Prior Assumption		
	Plan 1	Plan 2/3	Plan 4		Plan 1	Plan 2/3	Plan 4
Anthem PPO	35.0%	20.0%	10.0%		30.0%	25.0%	20.0%
Kaiser Plan L	60.0%	70.0%	60.0%		70.0%	75.0%	80.0%
Kaiser Plan S	5.0%	10.0%	30.0%		0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%

Current Retirees and Beneficiaries:
Current medical plan election. Annual open enrollment is only available for employees and does not apply to retirees.

Election of Plan 3 at Retirement by Currently Employed Plan 1 and 2 Members
Plan 1 members with 30 years' service and eligible spouses are assumed to elect Plan 3. All Plan 2 members are assumed to elect Plan 3.

Medicare Coverage
100% except 10% of those hired between July 1, 1967 and March 31, 1986 are assumed to be ineligible for Medicare.

Spouse Coverage
Current Assumptions:
30 years of service at retirement: 80% of male retirees and 50% of female retirees cover a spouse.
All others: 35% of male retirees and 20% of female retirees cover a spouse.
Female spouse is assumed to be 3 years younger than male spouse.

Prior Assumptions:
30 years of service at retirement: 80% of male retirees and 50% of female retirees cover a spouse.
All others: 50% of male retirees and 20% of female retirees cover a spouse.

Patient Protection and Affordable Care Act (PPACA) Cadillac Tax
No Cadillac Tax included. The County is assumed to adjust their plans so that they are not subject to the Cadillac Tax.

Salary Merit and Longevity Increases

Assumptions based on the Marin County Employees' Retirement Association 2011-2014 Experience Study. (Prior assumption – based on the Marin County Employees' Retirement Association 2008-2011 Experience Study)

Service	Miscellaneous	Safety
0	8.00%	5.00%
1	8.00%	5.00%
2	8.00%	5.00%
3	6.00%	2.00%
4	2.00%	1.25%
5+	0.75%	1.25%

Demographic Assumptions

Assumptions based on the Marin County Employees' Retirement Association 2011-2014 Experience Study except for the allowance for future post-retirement mortality improvement. (Prior assumptions – based on the Marin County Employees' Retirement Association 2008-2011 Experience Study except for the allowance for future post-retirement mortality improvement.)

Pre-retirement Probabilities Other than Retirement:

Miscellaneous Employees

	Withdrawal and Vested Termination Male (by service)								
Age	**0**	**1**	**2**	**3**	**4**	**5-9**	**10-14**	**15-29**	**30+**
20	.150	.090	.070	.070	.070	.070	.053	.030	.000
35	.150	.090	.070	.070	.070	.068	.045	.025	.000
55	.150	.090	.070	.070	.070	.012	.000	.000	.000
	Withdrawal and Vested Termination Female (by service)								
Age	**0**	**1**	**2**	**3**	**4**	**5-9**	**10-14**	**15-29**	**30+**
20	.150	.090	.070	.070	.070	.078	.053	.030	.000
35	.150	.090	.070	.070	.070	.078	.045	.025	.000
55	.150	.090	.070	.070	.070	.022	.000	.000	.000

Age	Disability Ordinary	Disability Duty – Male	Disability Duty – Female
20	.00000	.00025	.00012
35	.00008	.00080	.00040
55	.00078	.00165	.00082

Safety Employees

Age	Withdrawal and Vested Termination (by service)								
	0	1	2	3	4	5-9	10-14	15-19	20+
20	.080	.050	.040	.040	.040	.021	.021	.021	.000
35	.080	.050	.040	.040	.040	.034	.034	.034	.000
55	.080	.050	.040	.040	.040	.001	.001	.001	.000

Age	Disability Ordinary	Disability Duty
20	.00020	.00061
35	.00070	.00302
55	.00460	.02145

Retirement Probabilities:

Age	Miscellaneous (by service)			Safety (by service)					
	All			3%@50			3%@55 & PEPRA		
	<20	20-29	30+	<20	20-29	30+	<20	20-29	30+
40-49	n/a	n/a	n/a	0%	3%	3%	0%	1%	1%
50	4%	4%	4%	25%	25%	50%	5%	5%	30%
51	4%	4%	4%	10%	10%	20%	5%	5%	30%
52	4%	4%	4%	10%	10%	20%	5%	5%	30%
53	4%	4%	4%	10%	10%	20%	5%	5%	30%
54	4%	4%	4%	10%	10%	20%	5%	15%	30%
55	8%	10%	25%	25%	25%	50%	20%	40%	50%
56	4%	4%	25%	25%	25%	50%	10%	30%	50%
57	4%	6%	25%	25%	25%	50%	10%	20%	50%
58	4%	8%	25%	25%	25%	50%	10%	20%	50%
59	8%	10%	25%	25%	25%	50%	10%	20%	50%
60-61	8%	10%	35%	50%	50%	50%	30%	30%	50%
62-64	20%	20%	35%	50%	50%	50%	30%	30%	50%
65-69	20%	20%	35%	100%	100%	100%	100%	100%	100%
70-74	20%	20%	35%	100%	100%	100%	100%	100%	100%
75-79	25%	25%	35%	100%	100%	100%	100%	100%	100%
80+	100%	100%	100%	100%	100%	100%	100%	100%	100%

For PEPRA Miscellaneous members, the rates are only applied once a member is eligible to retire (i.e. at age 52 with 5 years of service).

Pre-retirement Mortality:
CalPERS 1997-2011 Experience Study Pre-Retirement Non-Industrial Death rates (plus Duty-Related Death rates for Safety members), projected fully generational using Projection Scale MP-2014 modified to converge to ultimate improvement rates in 2022. (Prior assumption – RP-2000 Combined Healthy Basic Mortality Table, projected to 2010 using Projection Scale AA, with three-year setback for males and females)

Post-retirement Mortality:
Service Retirements and Spouses: CalPERS 1997-2011 Experience Study Post-Retirement Healthy Mortality rates, adjusted by 110% for Safety males and 95% for Miscellaneous and Safety females, projected fully generational using Projection Scale MP-2014 modified to converge to ultimate improvement rates in 2022. (Prior assumption – RP-2000 Combined Healthy Basic Mortality Table, projected fully generational using Projection Scale AA, with one-year setback for males and two-year setback for females)

Disability Retirement:
CalPERS 1997-2011 Experience Study Disability Mortality rates (Non-Industrial rates for Miscellaneous members and Industrial Disability rates for Safety members), adjusted by 90% for Males and Females, projected fully generational using Projection Scale MP-2014 modified to converge to ultimate improvement rates in 2022. (Prior assumption – RP-2000 Combined Healthy Basic Mortality Table, projected fully generational using Projection Scale AA, with three-year set forward)

Sample life expectancies are shown below.

	Miscellaneous				**Safety**			
7/1/2015	**Service**		**Disability**		**Service**		**Disability**	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50	35.5	38.5	28.0	32.5	34.1	38.5	34.8	37.4
55	30.9	33.8	24.4	28.6	29.5	33.8	30.0	32.7
60	26.3	29.1	21.1	24.6	25.0	29.1	25.4	27.9
65	21.9	24.4	18.0	20.6	20.6	24.4	21.0	23.2
70	17.5	19.8	14.8	16.9	16.4	19.8	16.9	18.9
75	13.6	15.6	11.7	13.4	12.6	15.6	13.1	14.9
80	10.0	11.8	8.8	10.2	9.2	11.8	9.9	11.5
85	7.1	8.5	6.6	7.4	6.4	8.5	7.3	8.6

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), accounting standards for *other* (than pensions) *post employment benefits* (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impact on state and local government financial statements.

Background

Historically, most public sector entities have accounted for OPEB using a "pay-as-you-go" approach; very few have prefunded or even accrued for these benefits. This means OPEB costs are ignored while an employee renders service and recognized only after an employee retires. GASB argues this delayed recognition shifts "costs" from one taxpaying generation to another. The GASB position is that OPEB, like pension benefits, are a form of deferred compensation. Accordingly, GASB 45 requires recognizing OPEB (in the financial statement) *as employees render service* (and consequently earn the benefit), rather than when paid.

What Benefits are OPEB?

OPEB includes most post employment benefits, other than pensions, that employees are entitled to after leaving employment:

- Retiree medical
- Dental
- Prescription drug
- Vision
- Life insurance
- Outside group legal
- Long-term care
- Disability benefits outside a pension plan

OPEB does not include vacation, sick leave, COBRA, or ad hoc early retirement incentives, which fall under other GASB accounting statements.

Accounting Standards

Under GASB 45, pay-as-you-go accounting is replaced with accrual accounting. This is virtually identical to GASB's approach under Statement No. 27, with the key financial statement components being an Annual Required Contribution, an Annual OPEB Cost, and a Net OPEB Obligation.

- **Annual Required Contribution (ARC)**: GASB 45 doesn't require an agency to make up any shortfall (unfunded Actuarial Liability) immediately, nor does it allow an immediate credit for any excess Plan Assets. Instead, the difference is amortized over time. An agency's ARC is nothing more than the employer current Normal Cost (value of benefits being "earned" during a year), plus the amortized unfunded Actuarial Liability (or less the amortized excess Plan Assets). Simply put, the ARC is the value of benefits earned during the year plus (or minus) something to move the plan toward being on track for funding. GASB 45 allows actuaries to amortize the unfunded

Actuarial Liability (or excess Plan Assets) on a level dollar or level percent of payroll basis. We believe most agencies will want to use a level percent of payroll amortization because it's more consistent with the budget process and how pension contributions are usually calculated. The ARC must be based on the underlying OPEB promise (as understood by the plan sponsor and employees).

- **Annual OPEB Cost (AOC)**: The first year an agency complies with the new standards, the AOC equals the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and AOC.
- **Net OPEB Obligation (NOO)**: An agency's NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the ARC, the NOO equals zero. However, an agency has not "made" the contribution unless it has been set aside *and* cannot legally be used for any other purpose.

Implementation Process

The implementation process will be relatively straightforward: An agency will hire an actuary to calculate the ARC. The first time an agency does this, their AOC equals their ARC. The agency then decides whether to contribute all, none, or part of the ARC into a Trust that cannot legally be used for any purpose other than paying OPEB.

If an agency always contributes the ARC, then each subsequent year's AOC equals their ARC – and the NOO is zero. The first year an agency does *not* contribute the ARC; they must establish an NOO equal to the difference between their actual contribution and the ARC. The subsequent year's AOC equals the ARC, adjusted for discount and amortization of the NOO.

Disclosure Requirements

This may be the most important aspect of GASB 45. When disclosed, some agencies will show large OPEB unfunded liabilities, while others will show small or no unfunded liabilities. These differences *may* require an adjustment in an agency's bond rating.

Plan sponsors must disclose in their financial statement footnotes:

- Basic plan information
  - Plan type
  - Benefits provided
  - Authority under which benefits were established
- Plan funding/contribution policy information:
  - Required contribution rates for active members and employers shown in dollars or as a percent of payroll
- Plan Funded Status information:
  - AOC and the dollar contributions actually made
  - If the employer has a NOO, also
    - Components of the AOC

- NOO increase or decrease during the year
- End of year NOO

- 3-year history of
  - AOC
  - Percent of AOC contributed during the year
  - End of year NOO
- Most recent year's plan Funded Status
- Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status.

In addition, plan sponsors must provide 3 years of historical required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial Liability
- Unfunded Actuarial Liability (excess Plan Assets)
- Plan funded ratio
- Annual covered payroll
- Ratio of unfunded Actuarial Liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years.

Defining the Plan

GASB 45 refers to the *substantive plan* as the basis for accounting. It may differ from the *written plan* in that it reflects the employer's cost sharing policy based on:

- Past practice or communication of intended changes to a plan's cost sharing provisions, or
- Past practice of cost increases in monetary benefits.

The substantive plan is the basis for allowing recognition of potential future plan changes.

What if retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience? (This was a contentious issue during the statement drafting, with one of the seven board members dissenting from Board adoption of the final statement.) In general, GASB 45 requires recognition of the implied subsidy. However, if benefits are provided through a community rated plan (premium rates based on experience of multiple employers rather than a single employer), and the same premium is charged for active and retired participants, it is appropriate to value unadjusted premiums.

Actuarial Assumptions and Discount Rate Requirements

Under GASB 45, the actuary must follow current actuarial standards of practice, which generally call for explicit assumptions – meaning each individual assumption represents the actuary's best estimate.

GASB 45 also requires basing the discount rate on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on Plan Assets for funded plans. Since the source of funds for unfunded plans is usually an agency's general fund, and California and most other state law restricts what investments agencies can have in their general fund, unfunded plans will need to use a low (for example, 4% to 5%) discount rate. If an agency sets up a Trust and diversifies Trust Plan Assets, however, the discount rate might be much higher depending on the Trust fund's expected long-term investment return.

Valuation Frequency Requirements and Small Plans

GASB 45 requires an actuarial valuation at least every two years for plans with more than 200 (active, inactive, and retired) members. Plans with fewer than 200 members will need a valuation every 3 years. In a significant departure from prior standards, though, GASB 45 allows plans with fewer than 100 members to elect a simplified measurement method not requiring an actuarial certification.