

MacLeod Watts

July 25, 2022

Jeremy Hammond
Deputy City Manager
City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92263-2743

Re: City of Palm Springs Other Post-Employment Benefits
June 30, 2021, Actuarial Valuation and GASB 75 Report for Fiscal Year Ending June 30, 2022

Dear Mr. Hammond:

We are pleased to enclose our actuarial report providing information needed for the June 30, 2022, accounting of other post-employment benefit (OPEB) liabilities for the City of Palm Springs. The primary purposes of this report are to:

1. Recalculate plan liabilities as of June 30, 2021, in accordance with GASB 75's biennial valuation requirement.
2. Provide information required by GASB 75 ("Accounting and Financial Reporting for Postemployment Benefits Other Than Pension") to be reported in the City's financial statements for the fiscal year ending June 30, 2022.

The exhibits presented in this report reflect the assumption that the City will continue financing its OPEB liability on a pay-as-you-go basis. Please let us know if we can be of assistance in preparing illustrations of how prefunding impacts the OPEB liability required to be reported under GASB 75.

The valuation results are based on the employee data and details on plan benefits provided to us by the City. As with any analysis, the soundness of the report is dependent on the inputs. We encourage you to review the information shown in the report to be comfortable that it matches your records. We are happy to update this report after June 30, 2022, when actual information for this period is available.

We appreciate the opportunity to work on this analysis and acknowledge the efforts of City staff who provided valuable time and information to enable us to prepare this report. Please let us know if we can be of further assistance.

Sincerely,


Catherine L. MacLeod, FSA, FCA, EA, MAAA
Principal and Consulting Actuary

Enclosure



City of Palm Springs

Actuarial Valuation of Other
Post-Employment Benefit Programs
As of June 30, 2021

& GASB 75 Report for the Fiscal Year Ending
June 30, 2022

Submitted July 2022

MacLeod Watts

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A. Executive Summary

This report presents the results of the June 30, 2021, actuarial valuation and the accounting information for financial reporting of the other post-employment benefit (OPEB) program of the City of Palm Springs (the City). The purpose of this valuation is to assess the OPEB liabilities and provide disclosure information as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2022.

Important background information regarding the valuation process can be found in Addendum 1. We recommend users of the report read this information to familiarize themselves with the process and context of actuarial valuations, including the requirements of GASB 75. The pages following this executive summary present exhibits and other information relevant for disclosures under GASB 75.

Absent material changes to this program, the results of the June 30, 2021, valuation may also be applied to prepare the City's GASB 75 report for the fiscal year ending June 30, 2023. If there are any significant changes in the employee population, plan benefits or eligibility, or to the City's funding policy, an earlier valuation might be required or appropriate.

OPEB Obligations of the City

The City provides continuation of medical coverage to its retiring employees. This coverage may create one or more of the following types of OPEB liabilities:

- **Explicit subsidy liabilities:** An "explicit subsidy" exists when the employer contributes directly toward the cost of retiree healthcare. In this program, the City pays a portion of medical premiums for qualifying retirees. Details are provided in Supporting Information Section 2.
- **Implicit subsidy liabilities:** As is the nature of group premium rate structures, at some ages, retirees may be expected to experience higher claims than the premiums they pay, where at other ages, the reverse may be true. An "implicit subsidy" exists when premiums are developed using blended active and retiree claims experience. When this occurs, premiums charged for active employees typically subsidize retiree claims and are said to "implicitly subsidize" retirees.

Miscellaneous employees and retirees are covered by the CalPERS medical program. In this program, the claims experience is blended and the same monthly premiums are charged for active employees and for pre-Medicare retirees. Different monthly premiums are charged for Medicare-eligible members and CalPERS has confirmed that only the claims experience of these members is considered in setting these premium rates. *Safety employees and some Safety retirees* are covered by plans in which the claims experience of active and retired members (both before and after Medicare eligibility) is pooled together in setting premium rates.

We determine the implicit rate subsidy as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. We develop this subsidy for the retirees whose premium rates are blended with active members, calculated separately for those in the CalPERS medical plan and those not. For more information see Section 3 and Addendum 2: MacLeod Watts Age Rating Methodology.



Executive Summary

(Continued)

- **Other subsidy liabilities:** In pooled plans that do not blend active and retiree claims experience to develop premiums, such as the CalPERS plans offered to Medicare retirees, there may be some cross-subsidy between retirees and other employers within the pool. An Actuarial Practice note clarifies that pool subsidies between employers and retirees should be quantified and included in plan liabilities.¹ The pool subsidy tends to be small if the employer's retirees reasonably match the age and gender composition of the entire pool. Any such liability is included with the implicit subsidy liability in this report.

OPEB Funding Policy

The City's OPEB funding policy affects the calculation of liabilities by impacting the discount rate that is used to develop the plan liability and expense. "Prefunding" is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earnings on trust assets. Pay-as-you-go, or "PAYGO", is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

Our understanding is that the City is currently financing its OPEB liability on a pay-as-you-go basis. With the City's approval, the discount rate used in this valuation is based on the S&P General Obligation Municipal Bond 20 Year High Grade Bond. As of the beginning and end of the Measurement Period, use of this index results in discount rates of 2.66% on June 30, 2020, and 2.18% on June 30, 2021.

Actuarial Assumptions

The actuarial "demographic" assumptions (i.e., rates of retirement, death, disability or other termination of employment) used in this report were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the retirement plan(s) covering City employees. Other assumptions, such as age-related healthcare claims, healthcare trend, retiree participation rates and spouse coverage, were selected based on demonstrated plan experience and/or our best estimate of expected future experience. All these assumptions, and more, impact expected future benefits. Please note that this valuation has been prepared on a closed group basis. This means that only employees and retirees present as of the valuation date are considered. We do not consider replacement employees for those we project to leave the current population of plan participants until the valuation date following their employment.

We emphasize that this actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent and we will continue to monitor these assumptions in future valuations. See Section 3 for a description of assumptions used in this valuation.

¹ Exceptions exist for 1) Medicare Advantage Plans, treated as if their premiums are age-based due to the nature of the Federal subsidies paid to these plans, and 2) when employer explicit subsidies to Medicare-covered retirees are low and no part of any potential pool subsidy is expected to be paid by the employer.



Executive Summary

(Continued)

Important Dates Used in the Valuation

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for this report:

Fiscal Year End	June 30, 2022
Measurement Date	June 30, 2021
Measurement Period	June 30, 2020, to June 30, 2021
Valuation Date	June 30, 2021

Significant Results and Differences from the Prior Valuation

No benefit changes were reported to MacLeod Watts since the June 2019 valuation was prepared. New employee census and premium data was provided and with this new information, we determined differences between actual and expected results since the prior valuation (referred to as “plan experience”). We also updated certain assumptions used to project the OPEB liability.

The Total OPEB Liability on the current measurement date is lower than that reported one year ago. Section C. presents the new valuation results and the impact of the new assumptions and plan experience on the Total OPEB Liability. See *Recognition Period for Deferred Resources* on page 12 for details on how these changes are recognized.

Impact on Statement of Net Position and OPEB Expense for Fiscal Year Ending 2022

The plan’s impact to Net Position will be the sum of difference between assets and liabilities as of the measurement date plus the unrecognized net outflows and inflows of resources. Different recognition periods apply to deferred resources depending on their origin. The plan’s impact on Net Position on the measurement date is summarized here.

Items	For Reporting At Fiscal Year Ending June 30, 2022
Total OPEB Liability	\$ 142,361,213
Fiduciary Net Position	-
Net OPEB Liability (Asset)	142,361,213
Deferred (Outflows) of Resources	(15,477,240)
Deferred Inflows of Resources	24,646,606
Impact on Statement of Net Position	<u>\$ 151,530,579</u>
OPEB Expense, FYE 6/30/2022	<u><u>\$ 3,665,642</u></u>



Executive Summary

(Concluded)

Important Notices

This report is intended to be used only to present the actuarial information relating to other postemployment benefits for the City's financial statements. The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable. We note that various issues in this report may involve legal analysis of applicable law or regulations. The City should consult counsel on these matters; MacLeod Watts does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the City consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.

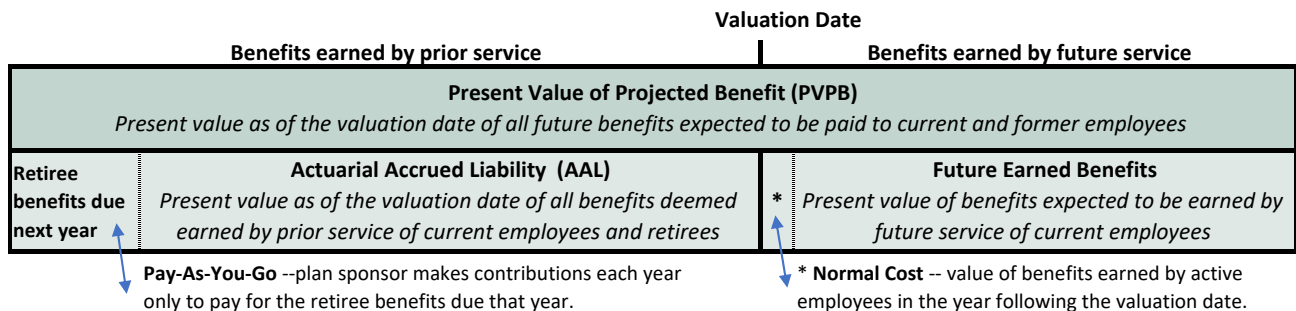


B. Valuation Process

This valuation is based on employee census data and benefits initially submitted to us by the City and clarified in various related communications. A summary of the employee data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2. While individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. The valuation was prepared in accordance with the process described below using the actuarial methods and assumptions described in Section 3 and is consistent with our understanding of Actuarial Standards of Practice.

In projecting benefit values and liabilities, we first determine an expected premium or benefit stream over each current retiree's or active employee's future retirement. Benefits may include both direct employer payments (explicit subsidies) and any implicit subsidies arising when retiree premiums are expected to be partially subsidized by premiums paid for active employees. The projected benefit streams reflect assumed trends in the cost of those benefits and assumptions as to the expected dates when benefits will end. Assumptions regarding the probability that each employee will remain in service to receive benefits and the likelihood the employee will elect coverage for themselves and their dependents are also applied.

We then calculate a present value of these future benefit streams by discounting the value of each future expected employer payment back to the valuation date using the valuation discount rate. This present value is called the **Present Value of Projected Benefits (PVPB)** and represents the current value of all expected future plan payments to current retirees and current active employees. Note that this long-term projection does not anticipate entry of future employees.



The next step in the valuation process splits the Present Value of Projected Benefits into 1) the value of benefits already earned by prior service of current employees and retirees and 2) the value of benefits expected to be earned by future service of current employees. Actuaries employ an "attribution method" to divide the PVPB into prior service liabilities and future service liabilities. For this valuation we used the **Entry Age Normal** attribution method. This method is the most common used for government funding purposes and the only attribution method allowed for financial reporting under GASB 75.

We call the value of benefits deemed earned by prior service the **Actuarial Accrued Liability (AAL)**. Benefits deemed earned by service of active employees in a single year is called the **Normal Cost** of benefits. The present value of all future normal costs (PVFNC) plus the Actuarial Accrued Liability will equal the Present Value of Projected Benefits (i.e. $PVPB = AAL + PVFNC$).



Valuation Process

(Concluded)

The City is financing the plan on a pay-as-you-go basis. This policy does not establish a trust to prefund benefits and pays retirees benefits each year as required. Therefore, the **Unfunded Actuarial Accrued Liability (UAAL)** is equal to the Actuarial Accrued Liability. The UAAL represents, as of the valuation date, the present value of benefits already earned by past service that remain unfunded. Future contributions by the City will equal each year's retiree benefit payments.

Please note that projections of future benefits over such long periods (frequently 70 or more years) which are dependent on numerous assumptions regarding future economic and demographic variables are subject to substantial revision as future events unfold. While we believe that the assumptions and methods used in this valuation are reasonable for the purposes of this report, the costs to the City reflected in this report are subject to future revision, perhaps materially. Demonstrating the range of potential future plan costs was beyond the scope of our assignment except to the limited extent of providing liability information at various discount rates.

Finally, certain actuarial terms and GASB 75 terms may be used interchangeably. We note a few in the table below.

Actuarial Terminology	GASB 75 Terminology
Present Value of Projected Benefits (PVPB)	<i>No equivalent term</i>
Actuarial Accrued Liability (AAL)	Total OPEB Liability (TOL)
Market Value of Assets (MVA)	Fiduciary Net Position
Actuarial Value of Assets (AVA)	<i>No equivalent term</i>
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability
Normal Cost	Service Cost

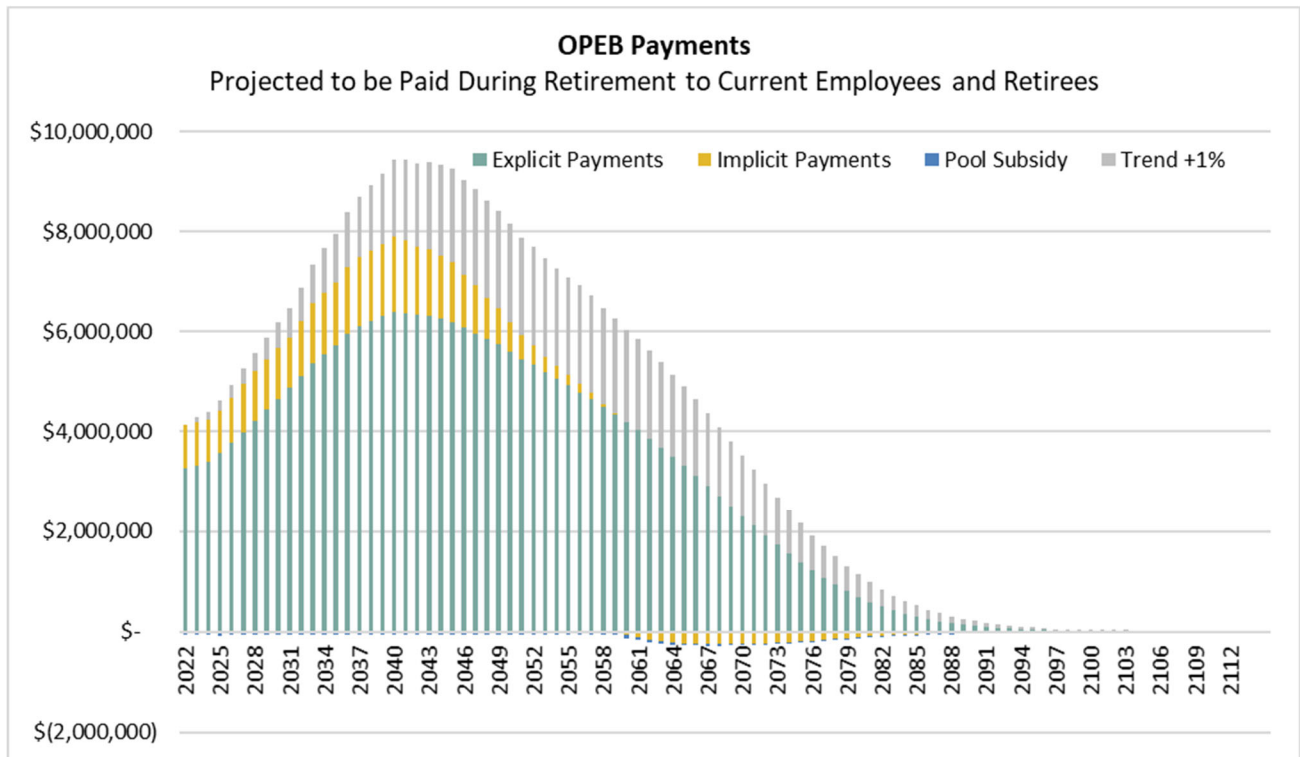


C. Valuation Results as of June 30, 2021

This section presents the basic results of our recalculation of the OPEB liability using the updated employee data, plan provisions and asset information provided to us for the June 30, 2021, valuation. We described the general process for projecting all future benefits to be paid to retirees and current employees in the preceding Section. Expected annual benefits have been projected using the actuarial assumptions outlined in Supporting Information, Section 3.

Medical coverage is provided and benefits are paid for qualifying City retirees. Please see Supporting Information, Section 2 for details.

The following graph illustrates the annual other post-employment benefits projected to be paid on behalf of current retirees and current employees expected to retire from the City.



- Amounts shown in green reflect explicit subsidy benefits, i.e., expected payments by the City toward retiree medical premiums.
- Those shown in yellow reflect the implicit subsidy benefits provided for pre-Medicare retirees (i.e., the excess of retiree medical and prescription drug claims over the premiums expected to be charged during the year for retirees' coverage).
- The projections in gray reflect increases in benefit levels if healthcare trend were 1% higher.

The first 15 years of benefit payments from the graph above are shown in tabular form on page 19. Liabilities relating to these projected benefits are shown beginning on the following page.



Valuation Results as of June 30, 2021

(Continued)

This chart compares the results measured as of June 30, 2020, based on the prior valuation, with the results measured as of June 30, 2021, based on the current valuation.

Valuation Date	6/30/2019			6/30/2021		
Fiscal Year Ending	6/30/2021			6/30/2022		
Measurement Date	6/30/2020			6/30/2021		
Discount rate	2.66%			2.18%		
Number of Covered Employees						
Actives	465			442		
Retirees	226			259		
Total Participants	691			701		
OPEB Subsidy Type	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarial Present Value of Projected Benefits						
Actives	\$ 86,875,746	\$ 11,187,631	\$ 98,063,377	\$ 77,654,663	\$ 6,613,043	\$ 84,267,706
Retirees	63,489,572	14,627,367	78,116,939	73,537,367	14,396,532	87,933,899
Total APVPB	150,365,318	25,814,999	176,180,316	151,192,030	21,009,575	172,201,605
Total OPEB Liability (TOL)						
Actives	60,777,325	6,444,644	67,221,969	51,328,461	3,098,853	54,427,314
Retirees	63,637,572	14,662,337	78,299,909	73,537,367	14,396,532	87,933,899
TOL	124,414,897	21,106,982	145,521,879	124,865,828	17,495,385	142,361,213
Fiduciary Net Position	-			-		
Net OPEB Liability	145,521,879			142,361,213		
Service Cost						
For the period following the measurement date	2,781,546	438,670	3,220,216	2,557,926	270,210	2,828,136

The Total OPEB Liability (TOL) decreased by \$3,160,666 from that reported one year ago. Part of the change in the TOL was expected and some of this change was unexpected. Changes in the TOL are discussed on the following page.



Valuation Results as of June 30, 2021

(Concluded)

Expected changes: The TOL was expected to increase by \$2,838,658 from normal plan operation, i.e., from additional service and interest costs accruing for the period reduced by benefits paid to retirees.

Unexpected changes decreased the expected TOL by \$5,999,324 and fall into one of these categories.

- *Benefit provisions* includes any changes to the OPEB plan. The City reported no changes.
- *Plan experience* recognizes results which are different than expected based on the prior valuation data and assumptions. This experience decreased the TOL by \$10,408,386, mostly due to lower than expected premiums and estimated claims and changes in Medicare eligibility.
- *Changes in assumptions* collectively increased the TOL by \$4,409,062. The chart below shows the impact of each change. For more details, please see “Changes in Assumptions recognized During the Current Measurement Period” at the end of Supporting Information, Section 3.

This chart reconciles the TOL reported for June 30, 2021, to the TOL to be reported at June 30, 2022.

Reconciliation of Changes During Measurement Period	Total OPEB Liability
Balance at Fiscal Year Ending 6/30/2021 <i>Measurement Date 6/30/2020</i>	\$ 145,521,879
Expected Changes During the Period:	
Service Cost	3,220,216
Interest Cost	3,899,600
Benefit Payments	(4,281,158)
Total Expected Changes During the Period	2,838,658
Expected at Fiscal Year Ending 6/30/2022 <i>Measurement Date 6/30/2021</i>	\$ 148,360,537
Unexpected Changes During the Period:	
<i>Plan Experience:</i>	
Premiums and estimated claims other than expected	(20,147,666)
Changes in Medicare Eligibility	5,656,495
Waiving retirees enrolling in coverage	1,988,681
Other plan experience	2,094,104
<i>Assumption Changes:</i>	
Updated discount rate	10,538,810
Changed assumed future healthcare trend	(5,052,573)
Added pool subsidy for CalPES Medicare Supplement plans	(1,510,640)
Decreased assumed spouse coverage for future Tier 1 retirees	(1,303,181)
Updated mortality improvement scale	1,141,478
Increased assumed retiree participation for PEMHCA minimum benefits	595,168
Total Unexpected Changes During the Period	(5,999,324)
Balance at Fiscal Year Ending 6/30/2022 <i>Measurement Date 6/30/2021</i>	\$ 142,361,213



D. Accounting Information (GASB 75)

The following exhibits are designed to satisfy the reporting and disclosure requirements of GASB 75 for the fiscal year end June 30, 2022. The City is classified for GASB 75 purposes as a single employer.

Components of Net Position and Expense

The exhibit below shows the development of Net Position and Expense as of the Measurement Date.

Plan Summary Information for FYE June 30, 2022 <i>Measurement Date is June 30, 2021</i>	City of Palm Springs
 Items Impacting Net Position:	
Total OPEB Liability	\$ 142,361,213
Fiduciary Net Position	-
Net OPEB Liability (Asset)	142,361,213
 <i>Deferred (Outflows) Inflows of Resources Due to:</i>	
Assumption Changes	(8,415,250)
Plan Experience	21,784,193
Investment Experience	-
Deferred Contributions	(4,199,577)
Net Deferred (Outflows) Inflows of Resources	9,169,366
 Impact on Statement of Net Position, FYE 6/30/2022	\$ 151,530,579
 Items Impacting OPEB Expense:	
Service Cost	\$ 3,220,216
Cost of Plan Changes	-
Interest Cost	3,899,600
Expected Earnings on Assets	-
 <i>Recognized Deferred Resource items:</i>	
Assumption Changes	568,454
Plan Experience	(4,022,628)
Investment Experience	-
 OPEB Expense, FYE 6/30/2022	\$ 3,665,642



Accounting Information

(Continued)

Change in Net Position During the Fiscal Year

The exhibit below shows the year-to-year changes in the components of Net Position.

For Reporting at Fiscal Year End <i>Measurement Date</i>	6/30/2021 <i>6/30/2020</i>	6/30/2022 <i>6/30/2021</i>	Change During Period
Total OPEB Liability	\$ 145,521,879	\$ 142,361,213	\$ (3,160,666)
Fiduciary Net Position	-	-	-
Net OPEB Liability (Asset)	145,521,879	142,361,213	(3,160,666)
<i>Deferred Resource (Outflows) Inflows Due to:</i>			
Assumption Changes	(4,574,642)	(8,415,250)	(3,840,608)
Plan Experience	15,398,435	21,784,193	6,385,758
Investment Experience	-	-	-
Deferred Contributions	(4,281,158)	(4,199,577)	81,581
Net Deferred (Outflows) Inflows	6,542,635	9,169,366	2,626,731
Impact on Statement of Net Position	<u>\$ 152,064,514</u>	<u>\$ 151,530,579</u>	<u>\$ (533,935)</u>

Change in Net Position During the Fiscal Year

Impact on Statement of Net Position, FYE 6/30/2021	\$ 152,064,514
OPEB Expense (Income)	3,665,642
Employer Contributions During Fiscal Year	<u>(4,199,577)</u>
Impact on Statement of Net Position, FYE 6/30/2022	<u>\$ 151,530,579</u>

OPEB Expense

Employer Contributions During Fiscal Year	\$ 4,199,577
Deterioration (Improvement) in Net Position	<u>(533,935)</u>
OPEB Expense (Income), FYE 6/30/2022	<u>\$ 3,665,642</u>



Accounting Information

(Continued)

Recognition Period for Deferred Resources

Liability changes due to plan experience which differs from what was assumed in the prior measurement period and/or from assumption changes during the period are recognized over the plan's Expected Average Remaining Service Life ("EARSL"). The EARSL of 7.61 years is the period used to recognize such changes in the OPEB Liability arising during the current measurement period.

When applicable, changes in the Fiduciary Net Position due to investment performance different from the assumed earnings rate are always recognized over 5 years.

The liability changes attributable to the reported benefit change occurring during the period will be recognized immediately.

Deferred Resources as of Fiscal Year End and Expected Future Recognition

The exhibit below shows deferred resources as of the fiscal year end June 30, 2022.

City of Palm Springs	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 11,277,663	\$ 2,862,413
Differences Between Expected and Actual Experience	-	21,784,193
Net Difference Between Projected and Actual Earnings on Investments	-	-
Deferred Contributions	4,199,577	-
Total	\$ 15,477,240	\$ 24,646,606

The City will recognize the Deferred Contributions in the next fiscal year. In addition, future recognition of these deferred resources is shown below.

For the Fiscal Year Ending June 30	Recognized Net Deferred Outflows (Inflows) of Resources
2023	\$ (3,454,174)
2024	(2,846,997)
2025	(1,917,037)
2026	(2,284,113)
2027	(1,907,441)
Thereafter	(959,181)



Accounting Information
(Continued)

Sensitivity of Liabilities to Changes in the Discount Rate and Healthcare Cost Trend Rate

The discount rate used for accounting purposes for the fiscal year end 2022 is 2.18%. Healthcare Cost Trend Rate was assumed to start at 5.8% (increase effective January 1, 2023) and grade down to 3.9% for years 2076 and later. The impact of a 1% increase or decrease in these assumptions is shown in the chart below.

Sensitivity to:			
Change in Discount Rate	Current - 1% 1.18%	Current 2.18%	Current + 1% 3.18%
Net OPEB Liability (Asset)	168,299,170	142,361,213	121,833,044
Increase (Decrease)	25,937,957		(20,528,169)
% Increase (Decrease)	18.2%		-14.4%
Change in Healthcare Cost Trend Rate	Current Trend - 1%	Current Trend	Current Trend + 1%
Net OPEB Liability (Asset)	120,805,998	142,361,213	169,750,583
Increase (Decrease)	(21,555,215)		27,389,370
% Increase (Decrease)	-15.1%		19.2%



Accounting Information
(Continued)

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. Results for years since GASB 75 was implemented (FYE 2018 through 2022) are shown in the table.

Fiscal Year End	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Measurement Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Discount Rate on Measurement Date	2.18%	2.66%	2.79%	2.98%	3.13%
Total OPEB liability					
Service Cost	\$ 3,220,216	\$ 3,010,767	\$ 3,627,328	\$ 3,358,207	\$ 3,726,841
Interest	3,899,600	3,921,381	4,515,822	4,484,043	4,040,843
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(10,408,386)	-	(20,708,241)	-	-
Changes of assumptions	4,409,062	3,023,024	6,018,257	3,755,480	(11,536,388)
Benefit payments	(4,281,158)	(3,947,609)	(3,698,318)	(3,480,420)	(3,280,004)
Net change in total OPEB liability	(3,160,666)	6,007,563	(10,245,152)	8,117,310	(7,048,708)
Total OPEB liability - beginning	145,521,879	139,514,316	149,759,468	141,642,158	148,690,866
Total OPEB liability - ending (a)	\$ 142,361,213	\$ 145,521,879	\$ 139,514,316	\$ 149,759,468	\$ 141,642,158
Plan fiduciary net position - beginning	-	-	-	-	-
Plan fiduciary net position - ending (b)	\$ -	\$ -	\$ -	\$ -	\$ -
Net OPEB liability - ending (a) - (b)	\$ 142,361,213	\$ 145,521,879	\$ 139,514,316	\$ 149,759,468	\$ 141,642,158
Covered-employee payroll	\$ 46,594,259	\$ 49,907,595	\$ 46,516,674	\$ 45,672,020	\$ 34,929,760
Net OPEB liability as % of covered-employee payroll	305.53%	291.58%	299.92%	327.90%	405.51%

Notes to Schedule

	6/30/2021	6/30/2019	6/30/2017
Valuation Date	6/30/2021	6/30/2019	6/30/2017
Actuarial cost method	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay
Inflation	2.5% per year	2.5% per year	2.75% per year
Healthcare cost trend rates	5.8% in 2023, fluctuates until ultimate rate of 3.9% in 2076	6.5% in 2021, fluctuates until ultimate rate of 4% in 2076	8.0% in 2018, step down 0.5% each year to 5% in 2024
Salary increases	3.00%	3.0%	3.25%
Retirement age	From 50 to 75	From 50 to 75	From 50 to 75
Mortality	CalPERS 2017 Experience Study	CalPERS 2017 Experience Study	CalPERS 2014 Experience Study
Mortality Improvement	MW Scale 2022	MW Scale 2020	MW Scale 2017



Accounting Information
(Continued)

Schedule of Contributions

This schedule is not required to be provided for unfunded OPEB plans.



Accounting Information
(Continued)

Detail of Changes to Net Position

The chart below details changes to all components of Net Position.

City of Palm Springs	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)	(d) Deferred Outflows (Inflows) Due to:				Impact on Statement of Net Position (e) = (c) - (d)
				Assumption Changes	Plan Experience	Investment Experience	Deferred Contributions	
Balance at Fiscal Year Ending 6/30/2021 <i>Measurement Date 6/30/2020</i>	\$ 145,521,879	\$ -	\$ 145,521,879	\$ 4,574,642	\$ (15,398,435)	\$ -	\$ 4,281,158	\$ 152,064,514
Changes During the Period:								
Service Cost	3,220,216		3,220,216					3,220,216
Interest Cost	3,899,600		3,899,600					3,899,600
Expected Investment Income		-	-					-
Employer Contributions		4,281,158	(4,281,158)					(4,281,158)
Changes of Benefit Terms	-		-					-
Benefit Payments	(4,281,158)	(4,281,158)	-					-
Assumption Changes	4,409,062		4,409,062	4,409,062				-
Plan Experience	(10,408,386)		(10,408,386)		(10,408,386)			-
Investment Experience		-	-			-		-
Recognized Deferred Resources				(568,454)	4,022,628	-	(4,281,158)	826,984
Employer Contributions in Fiscal Year							4,199,577	(4,199,577)
Net Changes in Fiscal Year 2021-2022	(3,160,666)	-	(3,160,666)	3,840,608	(6,385,758)	-	(81,581)	(533,935)
Balance at Fiscal Year Ending 6/30/2022 <i>Measurement Date 6/30/2021</i>	\$ 142,361,213	\$ -	\$ 142,361,213	\$ 8,415,250	\$ (21,784,193)	\$ -	\$ 4,199,577	\$ 151,530,579



Accounting Information
(Continued)

Schedule of Deferred Outflows and Inflows of Resources

A listing of all deferred resource bases used to develop the Net Position and OPEB Expense is shown below. Deferred Contributions are not shown.

Measurement Date: June 30, 2021

Deferred Resource					Balance as of Jun 30, 2021	Recognition of Deferred Outflow or Deferred (Inflow) in Measurement Period:							
Date Created	Created Due To	Initial Amount	Period (Yrs)	Annual Recognition		2020-21 (FYE 2022)	2021-22 (FYE 2023)	2022-23 (FYE 2024)	2023-24 (FYE 2025)	2024-25 (FYE 2026)	2025-26 (FYE 2027)	Thereafter	
6/30/2017	Assumption Changes	Decreased Liability											
		\$ (11,536,388)	6.65	\$ (1,734,795)	\$ (2,862,413)	\$ (1,734,795)	\$ (1,734,795)	\$ (1,127,618)	\$ -	\$ -	\$ -	\$ -	\$ -
6/30/2018	Assumption Changes	Increased Liability											
		3,755,480	6.65	564,734	1,496,544	564,734	564,734	564,734	367,076	-	-	-	-
6/30/2019	Plan Experience	Decreased Liability											
		(20,708,241)	7.80	(2,654,903)	(12,743,532)	(2,654,903)	(2,654,903)	(2,654,903)	(2,654,903)	(2,654,903)	(2,123,920)	-	-
6/30/2019	Assumption Changes	Increased Liability											
		6,018,257	7.80	771,571	3,703,544	771,571	771,571	771,571	771,571	771,571	617,260	-	-
6/30/2020	Assumption Changes	Increased Liability											
		3,023,024	7.80	387,567	2,247,890	387,567	387,567	387,567	387,567	387,567	387,567	310,055	310,055
6/30/2021	Plan Experience	Decreased Liability											
		(10,408,386)	7.61	(1,367,725)	(9,040,661)	(1,367,725)	(1,367,725)	(1,367,725)	(1,367,725)	(1,367,725)	(1,367,725)	(2,202,036)	(2,202,036)
6/30/2021	Assumption Changes	Increased Liability											
		4,409,062	7.61	579,377	3,829,685	579,377	579,377	579,377	579,377	579,377	579,377	932,800	932,800



Accounting Information

(Continued)

City Contributions to the Plan

City contributions to the Plan occur as benefits are paid to or on behalf of retirees. Benefit payments may occur in the form of direct payments for premiums (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”). Note that the implicit subsidy contribution does not represent cash payments to retirees, but rather the reclassification of a portion of active healthcare expense to be recognized as a retiree healthcare cost. For details, see Addendum 1 – Important Background Information.

All City OPEB contributions during the measurement period were in the form of retiree benefit payments, as shown below.

Employer Contributions During the Measurement Period, Jul 1, 2020 thru Jun 30, 2021	City of Palm Springs
Employer Benefit Payments to Retirees	3,284,887
Implicit contributions	996,271
<i>Total Employer Contributions During the Measurement Period</i>	\$ 4,281,158

Benefit payments made by the City after the measurement date but prior to the end of the current fiscal year are shown below.

Employer Contributions During the Fiscal Year, Jul 1, 2021 thru Jun 30, 2022	City of Palm Springs
Employer Benefit Payments to Retirees	\$ 3,331,105
Implicit contributions	868,472
<i>Total Employer Contributions During the Fiscal Year</i>	\$ 4,199,577



Accounting Information

(Continued)

Projected Benefit Payments (15-year projection)

The following is an estimate of other post-employment benefits to be paid on behalf of current retirees and current employees expected to retire from the City. Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Section 3. The projections do not include any benefits expected to be paid on behalf of current active employees *prior to* retirement, nor do they include any benefits for potential *future employees* (i.e., those who might be hired in future years).

Projected Annual City-Paid Benefits							
Fiscal Year Ending June 30	Explicit Subsidy			Implicit Subsidy			Total
	Current Retirees	Future Retirees	Total	Current Retirees	Future Retirees	Total	
2022	\$ 3,331,105	\$ -	\$ 3,331,105	\$ 868,472	\$ -	\$ 868,472	\$ 4,199,577
2023	3,163,412	146,031	3,309,443	827,653	59,209	886,862	4,196,305
2024	3,161,210	245,611	3,406,821	733,850	96,471	830,321	4,237,142
2025	3,173,772	393,492	3,567,264	710,395	153,607	864,002	4,431,266
2026	3,221,187	550,652	3,771,839	725,242	181,860	907,102	4,678,941
2027	3,237,139	746,982	3,984,121	722,919	243,221	966,140	4,950,261
2028	3,262,021	963,926	4,225,947	686,449	294,038	980,487	5,206,434
2029	3,261,908	1,192,714	4,454,622	657,674	328,345	986,019	5,440,641
2030	3,246,581	1,417,263	4,663,844	612,178	402,011	1,014,189	5,678,033
2031	3,257,180	1,612,944	4,870,124	572,221	430,198	1,002,419	5,872,543
2032	3,278,526	1,836,409	5,114,935	595,863	493,761	1,089,624	6,204,559
2033	3,302,297	2,062,965	5,365,262	625,647	570,576	1,196,223	6,561,485
2034	3,319,558	2,236,783	5,556,341	650,405	581,165	1,231,570	6,787,911
2035	3,303,726	2,422,214	5,725,940	651,905	594,627	1,246,532	6,972,472
2036	3,303,634	2,648,360	5,951,994	674,371	671,150	1,345,521	7,297,515

The amounts shown in the Explicit Subsidy table reflect the expected payment by the City toward retiree medical premiums in each of the years shown. The amounts are shown separately, and in total, for those retired on the valuation date (“current retirees”) and those expected to retire after the valuation date (“future retirees”).

The amounts shown in the Implicit Subsidy section reflect the expected excess of retiree medical and prescription drug claims over the premiums expected to be charged during the year for retirees’ coverage for those currently retired and those expected to retire in the future. The City is expected to provide these pre-Medicare implicit subsidy benefits to retirees in the form of higher active employee premiums than would be charged if no retirees were pooled with the active members.



Accounting Information
(Concluded)

Sample Journal Entries

Beginning Account Balances

As of the fiscal year beginning 7/1/2021	Debit	Credit
Net OPEB Liability		145,521,879
Deferred Resource -- Assumption Changes	4,574,642	
Deferred Resource -- Plan experience		15,398,435
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	4,281,158	
Net Position	152,064,514	

* The entries above assume nothing is on the books at the beginning of the year. So to the extent that values already exist in, for example, the Net OPEB Liability account, then only the difference should be adjusted. The entries above represent the values assumed to exist at the start of the fiscal year.

Journal entry to recharacterize retiree benefit payments as OPEB Expense.

	Debit	Credit
OPEB Expense	3,331,105	
Premium Expense		3,331,105

* This entry assumes a prior journal entry was made to record the payment for retiree premiums. This entry assumes the prior entry debited an account called "Premium Expense" and credited Cash. This entry reverses the prior debit to "Premium Expense" and recharacterizes that entry as an "OPEB Expense".

Journal entries to record implicit subsidies during the fiscal year

	Debit	Credit
OPEB Expense	868,472	
Premium Expense		868,472

* This entry assumes that premiums for active employees were recorded to an account called "Premium Expense". This entry reverses the portion of premium payments that represent implicit subsidies and assigns that value to OPEB Expense.

Journal entries to record account activity during the fiscal year

	Debit	Credit
Net OPEB Liability	3,160,666	
Deferred Resource -- Assumption Changes	3,840,608	
Deferred Resource -- Plan experience		6,385,758
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions		81,581
OPEB Expense		533,935



E. Certification

The purpose of this report is to provide actuarial information in compliance with Statement 75 of the Governmental Accounting Standards Board (GASB 75) for other postemployment benefits provided by the City of Palm Springs (the City). We summarized the benefits in this report and our calculations were based on our understanding of the benefits as described herein.

In preparing this report we relied without audit on information provided by the City. This information includes, but is not limited to, plan provisions, census data, and financial information. We performed a limited review of this data and found the information to be reasonably consistent. The accuracy of this report is dependent on this information and if any of the information we relied on is incomplete or inaccurate, then the results reported herein will be different from any report relying on more accurate information.

We consider the actuarial assumptions and methods used in this report to be individually reasonable under the requirements imposed by GASB 75 and taking into consideration reasonable expectations of plan experience. The results provide an estimate of the plan's financial condition at one point in time. Future actuarial results may be significantly different due to a variety of reasons including, but not limited to, demographic and economic assumptions differing from future plan experience, changes in plan provisions, changes in applicable law, or changes in the value of plan benefits relative to other alternatives available to plan members.

Alternative assumptions may also be reasonable; however, demonstrating the range of potential plan results based on alternative assumptions was beyond the scope of our assignment except to the limited extent required by GASB 75. Plan results for accounting purposes may be materially different than results obtained for other purposes such as plan termination, liability settlement, or underlying economic value of the promises made by the plan.

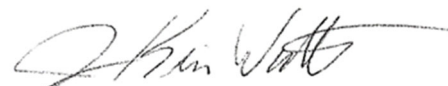
This report is prepared solely for the use and benefit of the City and may not be provided to third parties without prior written consent of MacLeod Watts. Exceptions: The City may provide copies of this report to their professional accounting and legal advisors who are subject to a duty of confidentiality, and the City may provide this work to any party if required by law or court order. No part of this report should be used as the basis for any representations or warranties in any contract or agreement without the written consent of MacLeod Watts.

The undersigned are unaware of any relationship that might impair the objectivity of this work. Nothing within this report is intended to be a substitute for qualified legal or accounting counsel. The signing actuary is a member of the American Academy of Actuaries and meets the qualification standards for rendering this opinion.

Signed: July 25, 2022



Catherine L. MacLeod, FSA, FCA, EA, MAAA



J. Kevin Watts, FSA, FCA, MAAA



F. Supporting Information

Section 1 - Summary of Employee Data

Active members: The City reported 442 active members in the data provided to us for the June 2021 valuation. Of these, 398 active employees were currently enrolled in the medical program and 44 employees were waiving coverage.

Distribution of Benefits-Eligible Active Employees								
Current Age	Years of Service						Total	Percent
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 & Up		
Under 25	2	3					5	1%
25 to 29	5	32	8				45	10%
30 to 34	4	29	17	4			54	12%
35 to 39	2	32	15	14	14		77	17%
40 to 44	4	17	13	15	19	5	73	17%
45 to 49	5	12	9	7	10	24	67	15%
50 to 54	1	12	7	6	14	8	48	11%
55 to 59	3	6	6	4	8	12	39	9%
60 to 64		9	6	2	6	4	27	6%
65 to 69			2	1		1	4	1%
70 & Up			1	1	1		3	1%
Total	26	152	84	54	72	54	442	100%
Percent	6%	34%	19%	12%	16%	12%	100%	

Valuation	June 2019	June 2021
Average Attained Age for Actives	43.9	43.4
Average Years of Service	9.7	9.7

Inactive members: There are also 259 retirees or their beneficiaries receiving benefits. Their ages are summarized in the chart below.

Retirees by Age					
Current Age	Misc	Police	Fire	Total	Percent
Below 50	1	1	0	2	1%
50 to 54	4	4	0	8	3%
55 to 59	14	13	7	34	13%
60 to 64	39	17	20	76	29%
65 to 69	35	10	7	52	20%
70 to 74	33	11	2	46	18%
75 to 79	13	4	3	20	8%
80 & up	15	3	3	21	8%
Total	154	63	42	259	100%
Average Age:					
On 6/30/2021	68.6	65.0	65.5	67.3	
At retirement	59.8	52.5	53.1	56.9	



Supporting Information

(Continued)

Section 1 - Summary of Employee Data

The chart below reconciles the number of actives and retirees included in the June 30, 2021, valuation of the City plan with those included in the June 30, 2019, valuation:

Reconciliation of City Plan Members Between Valuation Dates					
Status	Covered Actives	Waiving Actives	Covered Retirees	Covered Surviving Spouses	Total
Number reported as of June 30, 2019	430	35	219	7	691
New employees	51	16			67
Separated employees	(35)	(5)			(40)
New retiree, elected coverage	(39)		39		0
New retiree, waiving coverage	(9)	(1)			(10)
New retiree, ineligible	(1)				(1)
Previously covered, now waiving	(6)	6	(5)	1	(4)
Previously waiving, now covered	7	(7)	3		3
Deceased			(5)	0	(5)
Number reported as of June 30, 2021	398	44	251	8	701

Overall, the combined number of OPEB-eligible active and retired employees increased slightly between valuations, from 691 to 701 members, a 1.4% increase. The number of active employees decreased by 43 (9.2%) while the number of retirees increased by 33 (14.6%).

Of the 442 active employees included in the prior valuation, 50 retired between valuations. Of these:

- 39 elected to continue the City's medical coverage in retirement.
Of these, 16 qualified only for the PEMHCA minimum benefit; 6 qualified for 75% City-paid medical premiums; and 17 qualified for 100% City-paid medical premiums.
- 10 waived City medical in retirement:
Of these, 1 was a Tier 1 Non-Safety employee who would have qualified for 75% City-paid medical premiums; 2 were Tier 1 Non-Safety employees who would have qualified only for the PEMHCA minimum contribution; and 7 were Tier 2 employees who would have qualified only for the PEMHCA minimum contribution.
- 1 employee retired who failed to meet the age and service requirements for retiree health coverage.



Supporting Information

(Continued)

Section 1 - Summary of Employee Data

This chart summarizes the number of active and retired employees included in the valuation by bargaining unit:

Participants by Bargaining Unit			
Group	Actives	Retirees	Total
Elected Official	5	4	9
Exempt	21	34	55
Fire Management	15	20	35
Fire Safety	49	18	67
General	198	66	264
Management	61	58	119
Police Management	5	15	20
Police Safety	88	44	132
Total	442	259	701

Plan selections of current employees and retirees are shown here:

* 20 retirees over age 65 were reported to be ineligible for Medicare coverage. 19 are in the Blue Shield Safety plan and 1 is in PERS Platinum OOS.

Plan	Actives	Pre-65 Retirees	Post-65 Retirees *	Total
Blue Shield Safety PPO	153	61	35	249
Anthem Select Region 3	63	3	1	67
Anthem Traditional Region 3	2	2		4
Blue Shield Access Region 3	11	5		16
Health Net SmartCare Region 3	6			6
Kaiser Region 1			1	1
Kaiser Region 3	71		6	77
PERS Gold Region 1		1		1
PERS Gold Region 3	27	13	3	43
PERS Platinum OOS		8	19	27
PERS Platinum Region 1			1	1
PERS Platinum Region 2	1	2	3	6
PERS Platinum Region 3	47	17	57	121
PORAC Region 2		1		1
UHC Alliance HMO Region 3	17	7	10	34
UHC Medicare Advantage Edge			3	3
Waived	44			44
Total	442	120	139	701

Summary of Plan Member Counts: The number of members currently or potentially eligible to receive benefits under the OPEB plan are required to be reported in the notes to the financial statements.

Summary of Plan Member Counts	
Number of active plan members	442
Number of inactive plan members currently receiving benefits	259
Number of inactive plan members entitled to but not receiving benefits	351



Supporting Information

(Continued)

Section 2 - Summary of Retiree Benefit Provisions

OPEB provided: The City reported that the only OPEB provided is medical plan coverage. Access to coverage and the amount of benefits provided by the City depend on the employment group, date employed, and date retired from the City. Retirees are generally categorized as Tier 1 or Tier 2, as shown in this chart:

Tier 1 Retirees	Retired After	Hired Prior To
Elected Officials & Exempt	7/1/1999	7/1/2007
Management	7/1/1999	9/7/2005
General	7/1/1999	12/7/2005
Fire Management	7/1/2000	7/1/2006
Fire Safety	1/1/1998	11/1/2006
Police Management	7/1/1998	10/20/2005
Police Safety	11/1/1997	10/20/2005
Tier 2 Retirees	All those not Tier 1	

Access to coverage: City medical plans available to retirees are determined by their employment group.

- All miscellaneous retirees, both Tier 1 and Tier 2, (including Elected Officials, Exempt, Management and General group members) are covered by plans in the CalPERS medical program as provided under the requirements of the Public Employees' Medical and Hospital and Care Act (PEMHCA).
- All Police Safety, Fire Safety, Police Management and Fire Management retirees are eligible to continue coverage in the Blue Shield PPO plan for Safety members. However, Tier 2 Police Safety and Tier 2 Fire Safety are not eligible for any City subsidies in retirement.
- Fire Management and Police Management retirees, both Tier 1 and Tier 2, also have access to the CalPERS medical plans in retirement.

To be eligible for CalPERS medical coverage in retirement, whether Tier 1 or Tier 2, the employee must retire from the City under PERS and begin receiving their pension benefit within 120 days of terminating employment with the City. Coverage is available for the retiree's lifetime and a surviving spouse may also continue coverage until his or her death. The retiree may enroll in a CalPERS medical plan within 60 days of retirement or during any future open enrollment period.

To be eligible for Safety medical plan coverage in retirement, safety employees must retire from the City under PERS. All safety retirees may continue this coverage in retirement, whether or not they receive a direct premium subsidy from the City.² Survivors of eligible retirees may continue their coverage after the retiree's death.

² Tier 2 employees receive monthly contributions from the City *while actively employed* which accumulate in a Retiree Health Savings Plan (RHSP); the monthly credits vary based on bargaining agreements. These amounts accumulate until retirement and may then be applied toward the cost of retiree health coverage. In accordance with GASB 75, neither the RHSP contributions for active employees nor the RHSP balance are considered liabilities in this valuation.



Supporting Information

(Continued)

Section 2 - Summary of Retiree Benefit Provisions

Benefits provided: The City’s contribution toward the cost of medical coverage varies for each retiree based on his or her employment group, date hired and years of City service.

➤ **For Tier 1 retirees**, the amount of the subsidy provided is shown in the following chart.

Tier I Retiree Health Benefits						
Group	Retired After	Hired Prior To	Premium % Paid By City	For How Long?	Included Parties	Plan
Elected Officials and Exempt	7/1/1999	7/1/2007	50% after 7.5 years 75% after 11.5 years 100% after 15.5 years	The % of premium paid by the City continues for the retiree's lifetime.	Retiree & Spouse	CalPERS Medical
Management	7/1/1999	9/7/2005	75% after 20 years			
General	7/1/1999	12/7/2005				
Fire Management	7/1/2000	7/1/2006	100% after 25 years		Retiree & All Eligible Dependents	Blue Shield PPO
Fire Safety	1/1/1998	11/1/2006				
Police Management	7/1/1998	10/20/2005				
Police Safety	11/1/1997	10/20/2005				

➤ **For Tier 2 retirees covered by the CalPERS medical program**, the City will contribute the required PEMHCA Minimum Employer Contribution (MEC) for the retiree’s lifetime and that of his/her covered surviving spouse, if any.³ The MEC is \$143 per month during 2021. The retiree is responsible for paying the remainder of the medical premium.

➤ **Tier 2 retirees covered by the City’s Safety medical plan** are responsible for payment of the full medical premium for themselves and any covered dependents.

Current premium rates: The 2022 monthly medical plan rates are shown in the table on the following page. If different rates apply where the member resides outside of this area, those rates are reflected in the valuation, but not listed here. The additional CalPERS administration fee is assumed to be separately expensed each year and has not been projected as an OPEB liability in this valuation.

³ The City confirms that it provides additional benefits for active employees through a pre-tax flexible benefit plan and that these benefits need not be provided to retired employees to meet PEMHCA requirements.



Supporting Information

(Continued)

Section 2 - Summary of Retiree Benefit Provisions

Current premium rates:

City of Palm Springs 2022 Retiree Medical Premium Rates						
Plan	Pre-Medicare			Medicare		
	Single	Two Party	Family	Single	Two Party	Family
<i>CalPERS Region 3</i>						
Anthem Select Region 3	\$ 676.48	\$1,352.96	\$1,758.85	\$ 360.19	\$ 720.38	\$ 1,126.27
Anthem Traditional Region 3	935.57	1,871.14	2,432.48	360.19	720.38	1,281.72
Blue Shield Access Region 3	779.87	1,559.74	2,027.66	\$ 353.11	\$ 706.22	\$ 1,174.14
Health Net SmartCare Region 3	764.96	1,529.92	1,988.90	<i>Not Available</i>		
Kaiser Region 3	719.78	1,439.56	1,871.43	302.53	605.06	1,036.93
PERS Platinum Region 3	863.37	1,726.74	2,244.76	381.94	763.88	1,281.90
PERS Gold Region 3	575.56	1,151.12	1,496.46	377.41	754.82	1,100.16
UHC Alliance HMO Region 3	771.85	1,543.70	2,006.81	347.21	694.42	1,157.53
<hr/>						
Blue Shield PPO (for Police & Fire)	\$ 1,100.68	\$ 2,113.75	\$ 2,248.53	\$ 834.63	\$ 1,524.50	\$ 1,532.54



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

The ultimate real cost of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These payments depend only on the terms of the plan and the administrative arrangements adopted. The actuarial assumptions are used to estimate the cost of these benefits; the funding method spreads the expected costs on a level basis over the life of the plan.

Important Dates

Valuation Date	June 30, 2021
Fiscal Year End	June 30, 2022
GASB 75 Measurement Date	June 30, 2021 (last day of the prior fiscal year)

Valuation Methods

Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets
Participants Valued	Only current active employees, retired participants and covered dependents are valued. No future entrants are included.

Development of Age-related Medical Premiums

Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying medical claim cost factors developed from the data presented in the report, "Health Care Costs – From Birth to Death", sponsored by the Society of Actuaries. A description of the use of claims cost curves can be found in MacLeod Watts's Age Rating Methodology provided in Addendum 2 to this report.

Retirees in CalPERS Medical: Actual premium rates for retirees and their spouses were adjusted to an age-related basis by applying the medical claim cost factors to monthly baseline premium costs. Medicare-eligible retirees are covered by plans which are rated solely on the experience of Medicare retirees with no subsidy by active employee premiums, while premiums for pre-Medicare retirees are pooled with active members.

Retirees covered under the Blue Shield PPO Safety Plan: The claims experience of retirees covered under the Blue Shield PPO Safety Plan (for both Medicare and non-Medicare plans) are understood to be rated together with the claims experience of active Safety employees.

Representative claim costs for retirees are shown on the following two pages.



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Development of Age-related
Medical Premiums (continued)

Region	CalPERS Medical Plan	Expected Monthly Claims by Medical Plan for Selected Ages - Male											
		Non-Medicare Retirees					Medicare Retirees						
		50	53	56	59	62	65	70	75	80	85	90	95
Region 1	Kaiser HMO	\$ 873	\$ 1,030	\$ 1,196	\$ 1,371	\$ 1,558	<i>Claims not developed for Medicare Advantage plans</i>						
	PERS Gold PPO	686	808	939	1,076	1,223	\$ 300	\$ 336	\$ 365	\$ 382	\$ 377	\$ 360	\$ 357
	PERS Platinum PPO	705	832	966	1,107	1,259	303	340	369	387	382	365	362
Region 2	PERS Platinum PPO	597	704	818	937	1,065	303	340	369	387	382	365	362
	PORAC	672	792	920	1,055	1,199	392	440	478	500	494	472	468
Region 3	Anthem Select HMO	750	885	1,027	1,178	1,339	<i>Claims not developed for Medicare Advantage plans</i>						
	Anthem Traditional HMO	948	1,118	1,299	1,488	1,692	<i>Claims not developed for Medicare Advantage plans</i>						
	Blue Shield Access+ HMO	728	858	997	1,142	1,298	<i>Claims not developed for Medicare Advantage plans</i>						
	Health Net SmartCare HMO	796	939	1,091	1,250	1,421	<i>Plan not available to Medicare retirees</i>						
	Kaiser HMO	732	863	1,002	1,148	1,305	<i>Claims not developed for Medicare Advantage plans</i>						
	PERS Gold PPO	556	655	761	872	992	300	336	365	382	377	360	357
	PERS Platinum PPO	585	690	801	918	1,044	303	340	369	387	382	365	362
	UHC Alliance HMO	775	914	1,061	1,217	1,383	276	310	336	352	348	332	329
Out of State	PERS Platinum	634	748	869	996	1,132	307	344	374	392	386	369	366



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Development of Age-related
Medical Premiums (concluded)

Region	CalPERS Medical Plan	Expected Monthly Claims by Medical Plan for Selected Ages - Male											
		Non-Medicare Retirees					Medicare Retirees						
		50	53	56	59	62	65	70	75	80	85	90	95
Region 1	Kaiser HMO	\$ 873	\$ 1,030	\$ 1,196	\$ 1,371	\$ 1,558	<i>Claims not developed for Medicare Advantage plans</i>						
	PERS Gold PPO	686	808	939	1,076	1,223	\$ 300	\$ 336	\$ 365	\$ 382	\$ 377	\$ 360	\$ 357
	PERS Platinum PPO	705	832	966	1,107	1,259	303	340	369	387	382	365	362
Region 2	PERS Platinum PPO	597	704	818	937	1,065	303	340	369	387	382	365	362
	PORAC	672	792	920	1,055	1,199	392	440	478	500	494	472	468
Region 3	Anthem Select HMO	750	885	1,027	1,178	1,339	<i>Claims not developed for Medicare Advantage plans</i>						
	Anthem Traditional HMO	948	1,118	1,299	1,488	1,692	<i>Claims not developed for Medicare Advantage plans</i>						
	Blue Shield Access+ HMO	728	858	997	1,142	1,298	<i>Claims not developed for Medicare Advantage plans</i>						
	Health Net SmartCare HMO	796	939	1,091	1,250	1,421	<i>Plan not available to Medicare retirees</i>						
	Kaiser HMO	732	863	1,002	1,148	1,305	<i>Claims not developed for Medicare Advantage plans</i>						
	PERS Gold PPO	556	655	761	872	992	300	336	365	382	377	360	357
	PERS Platinum PPO	585	690	801	918	1,044	303	340	369	387	382	365	362
	UHC Alliance HMO	775	914	1,061	1,217	1,383	276	310	336	352	348	332	329
Out of State	PERS Platinum	634	748	869	996	1,132	307	344	374	392	386	369	366

Blue Shield PPO: Expected Monthly Claims by Medical Plan for Selected Ages													
Age		45	50	55	60	65	70	75	80	85	90	95	100
Medicare Eligible	Male	\$ 642	\$ 836	\$ 1,091	\$ 1,370	\$ 594	\$ 665	\$ 723	\$ 757	\$ 747	\$ 713	\$ 707	\$ 707
	Female	888	1,036	1,196	1,364	569	643	696	727	734	719	707	700
Medicare Ineligible	Male	\$ 642	\$ 836	\$ 1,091	\$ 1,370	\$ 1,696	\$ 2,049	\$ 2,380	\$ 2,676	\$ 2,863	\$ 2,983	\$ 3,097	\$ 3,139
	Female	888	1,036	1,196	1,364	1,625	1,921	2,215	2,490	2,742	2,936	3,000	3,005



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Economic Assumptions

Municipal Bond Index	S&P General Obligation 20-Year High Grade Municipal Bond Index
Discount Rates	2.66% for all plan liabilities as of June 30, 2021 2.18% for all plan liabilities as of June 30, 2020
General Inflation Rate	2.5% per year
Salary Increase	3.0% per year. Since benefits do not depend on salary, this is used to allocate the cost of benefits between service years.
Healthcare Trend	Medical plan premiums and claims costs by age are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown below.

Effective January 1	Premium Increase	Effective January 1	Premium Increase
2022	Actual	2044-2049	4.7%
2023	5.8%	2050-2059	4.6%
2024	5.6%	2060-2066	4.5%
2025	5.4%	2067-2068	4.4%
2026-2027	5.2%	2069-2070	4.3%
2028-2029	5.1%	2071	4.2%
2030-2038	5.0%	2072-2073	4.1%
2039	4.9%	2074-2075	4.0%
2040-2043	4.8%	2076 & later	3.9%

The healthcare trend shown above was developed using the Getzen Model 2022_b published by the Society of Actuaries using the following settings: CPI 2.5%; Real GDP Growth 1.4%; Excess Medical Growth 1.0%; Expected Health Share of GDP in 2030 20.3%; Resistance Point 20%; Year after which medical growth is limited to growth in GDP 2075.

The required PEMHCA minimum employer contribution (MEC) is assumed to increase annually by 4.0%.

Medicare Eligibility	Absent contrary data, all individuals are assumed to be eligible for Medicare Parts A and B at age 65.
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Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Participant Election Assumptions

Participation Rate

Active employees: The following percentages of active employees eligible for retiree coverage are assumed to continue their current plan election in retirement:

Portion of Medical Premium Paid by the City	Percent Electing	
	Pre-65	Post-65
75% - 100% of premium	100%	100%
50% of premium	75%	75%
PEMHCA Minimum only	60%	60%
No City cost sharing	20%	5%

Retired employees:

- *Subsidized Retirees:* For retirees who receive a City subsidy toward health coverage (of any amount), existing medical plan elections are assumed to be maintained until death.
- *Unsubsidized Retirees:*
 - If currently under age 65, 25% are assumed to continue current medical plan elections for life. The remaining 75% are assumed to discontinue City coverage at age 65.
 - Retirees already over age 65 covered on a 100% self-pay basis are assumed to continue coverage for life.

Spouse Coverage

Active employees: 70% of eligible Tier 1 employees and 50% of eligible Tier 2 employees are assumed to be married and to elect coverage for their spouse in retirement. Surviving spouses are assumed to retain coverage until their death. Husbands are assumed to be 3 years older than their wives.

Retired participants: Existing elections for spouse coverage are assumed to continue until the spouse's death. Actual spouse ages are used, where known; in not, husbands are assumed to be 3 years older than their wives.

Dependent Coverage

Where the City subsidizes the cost of dependent benefits, an existing election for coverage of dependent children is assumed to continue until the youngest child is age 26.



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Demographic Assumptions

Demographic actuarial assumptions used in this valuation are based on the 2017 experience study of the California Public Employees Retirement System using data from 1997 to 2015, except for a different basis used to project future mortality improvements. Rates for selected age and service are shown below and on the following pages. The representative mortality rates were the published CalPERS rates, adjusted to back out 15 years of Scale MP 2016 to central year 2015, then projected as described on the following pages.

Mortality Improvement

MacLeod Watts Scale 2022 applied generationally from 2015

Mortality After Retirement
(before improvement applied)

Healthy Lives

CalPERS Public Agency Miscellaneous, Police & Fire Post Retirement Mortality		
Age	Male	Female
40	0.00070	0.00040
50	0.00431	0.00390
60	0.00758	0.00524
70	0.01490	0.01044
80	0.04577	0.03459
90	0.14801	0.11315
100	0.35053	0.30412
110	1.00000	1.00000

Disabled Miscellaneous

CalPERS Public Agency Disabled Miscellaneous Post-Retirement Mortality		
Age	Male	Female
20	0.00027	0.00008
30	0.00044	0.00018
40	0.00070	0.00040
50	0.01371	0.01221
60	0.02447	0.01545
70	0.03737	0.02462
80	0.07218	0.05338
90	0.16585	0.14826

Disabled Fire

CalPERS Public Agency Disabled Fire Post- Retirement Mortality		
Age	Male	Female
20	0.00027	0.00009
30	0.00031	0.00014
40	0.00034	0.00022
50	0.00780	0.00681
60	0.01250	0.00809
70	0.02361	0.01647
80	0.06612	0.04975
90	0.18524	0.14349

Disabled Police

CalPERS Public Agency Disabled Police Post- Retirement Mortality		
Age	Male	Female
20	0.00034	0.00010
30	0.00023	0.00012
40	0.00023	0.00017
50	0.00642	0.00563
60	0.01059	0.00696
70	0.02185	0.01537
80	0.06477	0.04883
90	0.18501	0.14169



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Mortality Before Retirement
(before improvement applied)

CalPERS Public Agency Miscellaneous Non- Industrial Deaths			CalPERS Public Agency Police & Fire Combined Industrial & Non-Industrial		
Age	Male	Female	Age	Male	Female
15	0.00019	0.00004	15	0.00023	0.00008
20	0.00027	0.00008	20	0.00032	0.00013
30	0.00044	0.00018	30	0.00053	0.00025
40	0.00070	0.00040	40	0.00081	0.00050
50	0.00135	0.00090	50	0.00150	0.00104
60	0.00288	0.00182	60	0.00306	0.00200
70	0.00693	0.00438	70	0.00714	0.00459
80	0.01909	0.01080	80	0.01934	0.01105

Termination Rates

These rates reflect the assumed probability that an employee will leave the City in the next 12 months for reasons other than a service or disability retirement or death.

Miscellaneous Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained	Years of Service					
Age	0	3	5	10	15	20
15	0.1812	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1742	0.1193	0.0654	0.0000	0.0000	0.0000
25	0.1674	0.1125	0.0634	0.0433	0.0000	0.0000
30	0.1606	0.1055	0.0615	0.0416	0.0262	0.0000
35	0.1537	0.0987	0.0567	0.0399	0.0252	0.0184
40	0.1468	0.0919	0.0519	0.0375	0.0243	0.0176
45	0.1400	0.0849	0.0480	0.0351	0.0216	0.0168

Police Safety Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained	Years of Service					
Age	0	3	5	10	15	20
15	0.1013	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1013	0.0258	0.0249	0.0000	0.0000	0.0000
25	0.1013	0.0258	0.0249	0.0179	0.0000	0.0000
30	0.1013	0.0258	0.0249	0.0179	0.0109	0.0000
35	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
40	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
45	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Termination Rates

(continued)

Fire Safety Employees: Sum of Vested Terminated & Refund Rates From CalPERS Experience Study Report Issued December 2017						
Attained	Years of Service					
Age	0	3	5	10	15	20
15	0.1298	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1298	0.0237	0.0146	0.0000	0.0000	0.0000
25	0.1298	0.0237	0.0146	0.0069	0.0000	0.0000
30	0.1298	0.0237	0.0146	0.0069	0.0052	0.0000
35	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041
40	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041
45	0.1298	0.0237	0.0146	0.0069	0.0052	0.0041

Service Retirement Rates

The following miscellaneous retirement formulas apply:

If hired prior to 12/24/2012:	2.7% @ 55
If hired on or after 12/24/2012, with prior PERS Service	2% @ 60
If hired on or after 1/1/2013, PEPRAs:	2% @ 62

The following police safety retirement formulas apply:

If hired prior to 6/17/2011:	3% @ 50
If hired on or after 6/17/2011, with prior PERS Service	3% @ 55
If hired on or after 1/1/2013, PEPRAs:	2.7% @ 57

The following fire safety retirement formulas apply:

If hired prior to 12/17/2011:	3% @ 50
If hired on or after 12/17/2011, with prior PERS Service	3% @ 55
If hired on or after 1/1/2013, PEPRAs:	2.7% @ 57

Sample rates of assumed future retirements applicable to each of these retirement benefit formulas are shown in tables below. Each rate reflects the probability that an employee with that age and service will take a service retirement in the next 12 months.

Miscellaneous Employees: 2.7% at 55 formula						
From CalPERS Experience Study Report Issued December 2017						
Current	Years of Service					
Age	5	10	15	20	25	30
50	0.0030	0.0100	0.0160	0.0340	0.0330	0.0450
55	0.0330	0.0550	0.0780	0.1130	0.1560	0.2340
60	0.0600	0.0860	0.1120	0.1500	0.1820	0.2380
65	0.1400	0.1740	0.2080	0.2540	0.3060	0.3890
70	0.1500	0.1810	0.2120	0.2430	0.2910	0.3500
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Service retirement rates
(continued)

Miscellaneous Employees: 2% at 60 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0200	0.0200	0.0200	0.0200	0.0200	0.1500
55	0.0190	0.0260	0.0330	0.0920	0.1360	0.1460
60	0.0700	0.0740	0.0890	0.1130	0.1370	0.1610
65	0.1400	0.1780	0.2150	0.2640	0.3210	0.3770
70	0.1400	0.1780	0.2150	0.2640	0.3210	0.3770
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Miscellaneous "PEPRA" Employees: 2% at 62 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
55	0.0100	0.0190	0.0280	0.0360	0.0610	0.0960
60	0.0310	0.0510	0.0710	0.0910	0.1110	0.1380
65	0.1080	0.1410	0.1730	0.2060	0.2390	0.3000
70	0.1200	0.1560	0.1930	0.2290	0.2650	0.3330
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Police Safety Employees: 3.0% at 50 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0500	0.0500	0.0500	0.1000	0.1550	0.4000
53	0.0400	0.0400	0.0400	0.0800	0.1350	0.3500
56	0.0600	0.0600	0.0600	0.1100	0.1650	0.3300
59	0.0900	0.0900	0.0950	0.1300	0.1850	0.3500
62	0.1500	0.1500	0.1500	0.1500	0.2000	0.3500
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Police Safety Employees: 3.0% at 55 formula						
From CalPERS Experience Study Report Issued December 2017						
Current Age	Years of Service					
	5	10	15	20	25	30
50	0.0350	0.0350	0.0350	0.0350	0.0700	0.0900
53	0.0280	0.0280	0.0280	0.0430	0.0750	0.1320
56	0.0600	0.0600	0.0600	0.1100	0.1650	0.3300
59	0.0900	0.0900	0.0950	0.1300	0.1850	0.3500
62	0.1500	0.1500	0.1500	0.1500	0.2000	0.3500
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information
(Continued)

Section 3 - Actuarial Methods and Assumptions

Service retirement rates
(continued)

Police Safety Employees: 2.7% at 57 formula						
From CalPERS Experience Study Report Issued December 2017						
Current	Years of Service					
Age	5	10	15	20	25	30
50	0.0500	0.0500	0.0500	0.0500	0.0500	0.1000
53	0.0380	0.0380	0.0380	0.0380	0.0774	0.1169
56	0.0627	0.0627	0.0627	0.0836	0.1228	0.2168
59	0.0800	0.0800	0.0800	0.0920	0.1400	0.2275
62	0.1500	0.1500	0.1500	0.1500	0.1500	0.2125
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire Safety Employees: 3.0% at 50 formula						
From CalPERS Experience Study Report Issued December 2017						
Current	Years of Service					
Age	5	10	15	20	25	30
50	0.0200	0.0200	0.0200	0.0400	0.1300	0.1920
53	0.0230	0.0230	0.0230	0.0430	0.1350	0.1980
56	0.0530	0.0530	0.0530	0.0850	0.1960	0.2690
59	0.0750	0.0750	0.0750	0.1160	0.2390	0.3210
62	0.0680	0.0680	0.0680	0.1060	0.2240	0.3040
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire Safety Employees: 3.0% at 55 formula						
From CalPERS Experience Study Report Issued December 2017						
Current	Years of Service					
Age	5	10	15	20	25	30
50	0.0010	0.0010	0.0010	0.0060	0.0160	0.0690
53	0.0320	0.0320	0.0320	0.0490	0.0850	0.1490
56	0.0640	0.0640	0.0640	0.0970	0.1610	0.2380
59	0.0880	0.0880	0.0880	0.1310	0.2130	0.2990
62	0.0870	0.0870	0.0870	0.1280	0.2100	0.2950
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire Safety Employees: 2.7% at 57 formula						
From CalPERS Experience Study Report Issued December 2017						
Current	Years of Service					
Age	5	10	15	20	25	30
50	0.0065	0.0065	0.0065	0.0065	0.0101	0.0151
53	0.0442	0.0442	0.0442	0.0442	0.0680	0.1018
56	0.0740	0.0740	0.0740	0.0740	0.1140	0.1706
59	0.0729	0.0729	0.0729	0.0729	0.1123	0.1681
62	0.1136	0.1136	0.1136	0.1136	0.1749	0.2618
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

Disability Retirement Rates

CalPERS Public Agency Miscellaneous Disability From Dec 2017 Experience Study Report			CalPERS Public Agency Fire Combined Disability From Dec 2017 Experience Study Report		CalPERS Public Agency Police Combined Disability From Dec 2017 Experience Study Report	
Age	Male	Female	Age	Unisex	Age	Unisex
20	0.00017	0.00010	20	0.00015	20	0.00010
25	0.00017	0.00010	25	0.00029	25	0.00175
30	0.00019	0.00024	30	0.00066	30	0.00496
35	0.00039	0.00071	35	0.00129	35	0.00818
40	0.00102	0.00135	40	0.00235	40	0.01140
45	0.00151	0.00188	45	0.00418	45	0.01461
50	0.00158	0.00199	50	0.02128	50	0.01925
55	0.00158	0.00149	55	0.03134	55	0.04909
60	0.00153	0.00105	60	0.04442	60	0.06212

Software and Models Used in the Valuation

ProVal - MacLeod Watts utilizes ProVal, a licensed actuarial valuation software product from Winklevoss Technologies (WinTech) to project future retiree benefit payments and develop the OPEB liabilities presented in this report. ProVal is widely used by the actuarial community. We review results at the plan level and for individual sample lives and find them to be reasonable and consistent with the results we expect. We are not aware of any material inconsistencies or limitations in the software that would affect this actuarial valuation.

Age-based premiums model – developed internally and reviewed by an external consultant at the time it was developed. See discussion on Development of Age-Related Medical Premiums and Addendum 3.

Getzen model – published by the Society of Actuaries; used to derive medical trend assumptions described earlier in this section.



Supporting Information
(Concluded)

Section 3 - Actuarial Methods and Assumptions

Changes recognized during the current Measurement Date

Discount Rate	Changed from 2.66% as of June 30, 2020 to 2.18% as of June 30, 2021, based on the published change for the selected municipal bond index.
Mortality Improvement	The mortality improvement scale was updated from MacLeod Watts Scale 2020 to MacLeod Watts Scale 2022 (see Addendum 3), reflecting continued updates in available information.
Medical Trend	Updated from Getzen 2019_b to Getzen 2022_b healthcare trend model sponsored by the Society of Actuaries
Participation Rates	The percentage of active employees assumed to continue to elect coverage in retirement when eligible only for the Minimum Employer Contribution was increased from 50% to 60%, based on a review of recent retiree elections.
Spouse Coverage	The percentage of active Tier I employees assumed to cover their spouse in retirement was decreased from 75% to 70%, following a review of retiree elections.
Pool Subsidy for Medicare retirees	We applied age-based premiums and developed a liability for the projected pool subsidy for retirees enrolled in Medicare plans, under guidance provided by a new actuarial practice note



Appendix 1: Results by Fund

The chart below presents the Total OPEB Liability as of the June 30, 2021, Measurement Date separately for the various City funds. The amounts are shown separately, and in total, for those retired on the valuation date (“current retirees”) and those expected to retire after the valuation date (“future retirees”).

Fund	Airport	Motor Vehicle	Facilities Maintenance	Wastewater	All Other	Total
Future Retirees	6,489,373	455,891	903,509	381,747	46,196,794	54,427,314
Current Retirees	4,630,992	579,780	1,255,912	-	81,467,215	87,933,899
Total OPEB Liability	\$ 11,120,365	\$ 1,035,671	\$ 2,159,421	\$ 381,747	\$ 127,664,009	\$ 142,361,213



Addendum 1: Important Background Information

General Types of Other Post-Employment Benefits (OPEB)

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are medical, prescription drug, dental, vision, and/or life insurance coverage. Other OPEB may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include COBRA, vacation, sick leave (unless converted to defined benefit OPEB), or other direct retiree payments.

A direct employer payment toward the cost of OPEB benefits is referred to as an “explicit subsidy”. In addition, if claims experience of employees and retirees are pooled when determining premiums, retiree premiums are based on a pool of members which, on average, are younger and healthier. For certain types of coverage such as medical insurance, this results in an “implicit subsidy” of retiree premiums by active employee premiums since the retiree premiums are lower than they would have been if retirees were insured separately. GASB 75 and Actuarial Standards of Practice generally require that an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Expected retiree claims		
Premium charged for retiree coverage		<i>Covered by higher active premiums</i>
Retiree portion of premium	Agency portion of premium Explicit subsidy	Implicit subsidy

This chart shows the sources of funds needed to cover expected medical claims for pre-Medicare retirees. The portion of the premium paid by the Agency does not impact the amount of the implicit subsidy.

Under GASB 45, for actuarial valuations dated prior to March 31, 2015, an exception allowed plan employers with a very small membership in a large “community-rated” healthcare program to avoid reporting of implicit subsidy liability. Following a change in Actuarial Standards of Practice and in accordance with GASB 75 requirements, this exception is no longer available.

Valuation Process

The valuation was based on employee census data and benefits provided by the City. A summary of the employee data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2. While individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. The valuation was also based on the actuarial methods and assumptions described in Section 3.

In developing the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee’s future retirement. Benefits may include both direct employer payments (explicit subsidies) and/or an implicit subsidy, arising when retiree premiums are expected to be subsidized by active employee premiums. The projected benefit streams reflect assumed trends



Important Background Information

(Continued)

in the cost of those benefits and assumptions as to the expected date(s) when benefits will end. We then apply assumptions regarding:

- The probability that each individual employee will or will not continue in service to receive benefits.
- The probability of when such retirement will occur for each retiree, based on current age, service and employee type; and
- The likelihood that future retirees will or will not elect retiree coverage (and benefits) for themselves and/or their dependents.

We then calculate a present value of these benefits by discounting the value of each future expected benefit payment, multiplied by the assumed expectation that it will be paid, back to the valuation date using the discount rate. These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for many decades.

The resulting present value for each employee is allocated as a level percent of payroll each year over the employee's career using the entry age normal cost method and the amounts for each individual are then summed to get the results for the entire plan. This creates a cost expected to increase each year as payroll increases. Amounts attributed to prior fiscal years form the "Total OPEB Liability". The OPEB cost allocated for active employees in the current year is referred to as "Service Cost".

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets ("Fiduciary Net Position") is applied to offset the "Total OPEB Liability", resulting in the "Net OPEB Liability". If a plan is not being funded, then the Net OPEB Liability is equal to the Total OPEB Liability.

It is important to remember that an actuarial valuation is, by its nature, a projection of one possible future outcome based on many assumptions. To the extent that actual experience is not what we assumed, future results will differ. Some possible sources of future differences may include:

- A significant change in the number of covered or eligible plan members
- A significant increase or decrease in the future premium rates
- A change in the subsidy provided by the Agency toward retiree premiums
- Longer life expectancies of retirees
- Significant changes in expected retiree healthcare claims by age, relative to healthcare claims for active employees and their dependents
- Higher or lower returns on plan assets or contribution levels other than were assumed; and/or
- Changes in the discount rate used to value the OPEB liability



Important Background Information

(Continued)

Requirements of GASB 75

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosure of OPEB expense and related liabilities (assets), note disclosures, and, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Important Dates

GASB 75 requires that the information used for financial reporting falls within prescribed timeframes. Actuarial valuations of the total OPEB liability are generally required at least every two years. If a valuation is not performed as of the Measurement Date, then liabilities are required to be based on roll forward procedures from a prior valuation performed no more than 30 months and 1 day prior to the most recent year-end. In addition, the net OPEB liability is required to be measured as of a date no earlier than the end of the prior fiscal year (the "Measurement Date").

Recognition of Plan Changes and Gains and Losses

Under GASB 75, gains and losses related to changes in Total OPEB Liability and Fiduciary Net Position are recognized in OPEB expense systematically over time.

- *Timing of recognition:* Changes in the Total OPEB Liability relating to changes in plan benefits are recognized immediately (fully expensed) in the year in which the change occurs. Gains and Losses are amortized, with the applicable period based on the type of gain or loss. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.
- *Deferred recognition periods:* These periods differ depending on the source of the gain or loss.

Difference between projected
and actual trust earnings:

5 year straight-line recognition

All other amounts:

Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.



Important Background Information

(Continued)

Implicit Subsidy Plan Contributions

An implicit subsidy occurs when expected retiree claims exceed the premiums charged for retiree coverage. When this occurs, we expect part of the premiums paid for active employees to cover a portion of retiree claims. This transfer represents the current year's "implicit subsidy". Because GASB 75 treats payments to an irrevocable trust *or directly to the insurer* as employer contributions, each year's implicit subsidy is treated as a contribution toward the payment of retiree benefits.

The following hypothetical example illustrates this treatment:

Hypothetical Illustration of Implicit Subsidy Recognition	For Active Employees	For Retired Employees
<i>Prior to Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Accounting Treatment	Compensation Cost for Active Employees	Contribution to Plan & Benefits Paid from Plan
<i>After Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Implicit Subsidy Adjustment	(23,000)	23,000
Accounting Cost of Premiums Paid	\$ 388,000	\$ 71,000
Accounting Treatment Impact	Reduces Compensation Cost for Active Employees	Increases Contributions to Plan & Benefits Paid from Plan

The example above shows that total payments toward active and retired employee healthcare premiums is the same, but for accounting purposes part of the total is shifted from actives to retirees. This shifted amount is recognized as an OPEB contribution and reduces the current year's premium expense for active employees.



Important Background Information

(Continued)

Discount Rate

When the financing of OPEB liabilities is on a pay-as-you-go basis, GASB 75 requires that the discount rate used for valuing liabilities be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). When a plan sponsor makes regular, sufficient contributions to a trust in order to prefund the OPEB liabilities, GASB 75 allows use of a rate up to the expected rate of return of the trust. Therefore, prefunding has an advantage of potentially being able to report overall lower liabilities due to future expected benefits being discounted at a higher rate.

Actuarial Funding Method and Assumptions

The “ultimate real cost” of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted, and as such are not affected by the actuarial funding method.

The actuarial funding method attempts to spread recognition of these expected costs on a level basis over the life of the plan, and as such sets the “incidence of cost”. GASB 75 specifically requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the Entry Age Actuarial Cost Method, with each period’s service cost determined as a level percentage of pay.

The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable.



Addendum 2: MacLeod Watts Age Rating Methodology

Both accounting standards (e.g. GASB 75) and actuarial standards (e.g. ASOP 6) require that expected retiree claims, not just premiums paid, be reflected in most situations where an actuary is calculating retiree healthcare liabilities. Unfortunately, the actuary is often required to perform these calculations without any underlying claims information. In most situations, the information is not available, but even when available, the information may not be credible due to the size of the group being considered.

Actuaries have developed methodologies to approximate healthcare claims from the premiums being paid by the plan sponsor. Any methodology requires adopting certain assumptions and using general studies of healthcare costs as substitutes when there is a lack of credible claims information for the specific plan being reviewed.

Premiums paid by sponsors are often uniform for all employee and retiree ages and genders, with a drop in premiums for those participants who are Medicare-eligible. While the total premiums are expected to pay for the total claims for the insured group, on average, the premiums charged would not be sufficient to pay for the claims of older insureds, and would be expected to exceed the expected claims of younger insureds. An age-rating methodology takes the typically uniform premiums paid by plan sponsors and spreads the total premium dollars to each age and gender intended to better approximate what the insurer might be expecting in actual claims costs at each age and gender.

The process of translating premiums into expected claims by age and gender generally follows the steps below.

1. *Obtain or Develop Relative Medical Claims Costs by Age, Gender, or other categories that are deemed significant.* For example, a claims cost curve might show that, if a 50 year old male has \$1 in claims, then on average a 50 year old female has claims of \$1.25, a 30 year male has claims of \$0.40, and an 8 year old female has claims of \$0.20. The claims cost curve provides such relative costs for each age, gender, or any other significant factor the curve might have been developed to reflect. Section 3 provides the source of information used to develop such a curve and shows sample relative claims costs developed for the plan under consideration.
2. *Obtain a census of participants, their chosen medical coverage, and the premium charged for their coverage.* An attempt is made to find the group of participants that the insurer considered in setting the premiums they charge for coverage. That group includes the participant and any covered spouses and children. When information about dependents is unavailable, assumptions must be made about spouse age and the number and age of children represented in the population. These assumptions are provided in Section 3.
3. *Spread the total premium paid by the group to each covered participant or dependent based on expected claims.* The medical claims cost curve is used to spread the total premium dollars paid by the group to each participant reflecting their age, gender, or other relevant category. After this step, the actuary has a schedule of expected claims costs for each age and gender for the current premium year. It is these claims costs that are projected into the future by medical cost inflation assumptions when valuing expected future retiree claims.

The methodology described above is dependent on the data and methodologies used in whatever study might be used to develop claims cost curves for any given plan sponsor. These methodologies and assumptions can be found in the referenced paper cited as a source in the valuation report.



Addendum 3: MacLeod Watts Mortality Projection Methodology

Actuarial standards of practice (e.g., ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, and ASOP 6, Measuring Retiree Group Benefits Obligations) indicate that the actuary should reflect the effect of mortality improvement (i.e., longer life expectancies in the future), both before and after the measurement date. The development of credible mortality improvement rates requires the analysis of large quantities of data over long periods of time. Because it would be extremely difficult for an individual actuary or firm to acquire and process such extensive amounts of data, actuaries typically rely on large studies published periodically by organizations such as the Society of Actuaries or Social Security Administration.

As noted in a recent actuarial study on mortality improvement, key principles in developing a credible mortality improvement model would include the following:

- (1) Short-term mortality improvement rates should be based on recent experience.
- (2) Long-term mortality improvement rates should be based on expert opinion.
- (3) Short-term mortality improvement rates should blend smoothly into the assumed long-term rates over an appropriate transition period.

The **MacLeod Watts Scale 2022** was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2021 Report, published in October 2021 and (2) the demographic assumptions used in the 2021 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published August 2021.

MacLeod Watts Scale 2022 is a two-dimensional mortality improvement scale reflecting both age and year of mortality improvement. The underlying base scale is Scale MP-2021 which has two segments – (1) historical improvement rates for the period 1951-2017 and (2) an estimate of future mortality improvement for years 2018-2020 using the Scale MP-2021 methodology but utilizing the assumptions used in generating Scale MP-2015. The MacLeod Watts scale then transitions from the 2020 improvement rate to the Social Security Administration (SSA) Intermediate Scale linearly over the 10-year period 2021-2030. After this transition period, the MacLeod Watts Scale uses the constant mortality improvement rate from the SSA Intermediate Scale from 2030-2044. The SSA's Intermediate Scale has a final step in 2045 which is reflected in the MacLeod Watts scale for years 2045 and thereafter. Over the ages 95 to 117, the age 95 improvement rate is graded to zero.

Scale MP-2021 can be found at the SOA website and the projection scales used in the 2021 Social Security Administrations Trustees Report at the Social Security Administration website.



Glossary

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value of Projected Benefits (APVPB) – The amount presently required to fund all projected plan benefits in the future. This value is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

CalPERS – Many state governments maintain a public employee retirement system; CalPERS is the California program, covering all eligible state government employees as well as other employees of other governments within California who have elected to join the system

Defined Benefit (DB) – A pension or OPEB plan which defines the monthly income or other benefit which the plan member receives at or after separation from employment

Deferred Contributions – When an employer makes contributions after the measurement date and prior to the fiscal year end, recognition of these contributions is deferred to a subsequent accounting period by creating a deferred resource. We refer to these contributions as Deferred Contributions.

Defined Contribution (DC) – A pension or OPEB plan which establishes an individual account for each member and specifies how contributions to each active member’s account are determined and the terms of distribution of the account after separation from employment

Discount Rate - Interest rate used to discount future potential benefit payments to the valuation date. Under GASB 75, if a plan is prefunded, then the discount rate is equal to the expected trust return. If a plan is not prefunded (pay-as-you-go), then the rate of return is based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Expected Average Remaining Service Lifetime (EARSL) – Average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period

Entry Age Actuarial Cost Method – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual’s projected earnings or service from entry age to the last age at which benefits can be paid

Excise Tax – The Affordable Care Act created an excise tax on the value of employer sponsored coverage which exceeds certain thresholds (“Cadillac Plans”). The tax was repealed in December 2019.

Explicit Subsidy – The projected dollar value of future retiree healthcare costs expected to be paid directly by the Employer, e.g., the Employer’s payment of all or a portion of the monthly retiree premium billed by the insurer for the retiree’s coverage

Fiduciary Net Position – The value of trust assets used to offset the Total OPEB Liability to determine the Net OPEB Liability.

Government Accounting Standards Board (GASB) – A private, not-for-profit organization which develops generally accepted accounting principles (GAAP) for U.S. state and local governments; like FASB, it is part of the Financial Accounting Foundation (FAF), which funds each organization and selects the members of each board



Glossary
(Continued)

Health Care Trend – The assumed rate(s) of increase in future dollar values of premiums or healthcare claims, attributable to increases in the cost of healthcare; contributing factors include medical inflation, frequency or extent of utilization of services and technological developments.

Implicit Subsidy – The projected difference between future retiree claims and the premiums to be charged for retiree coverage; this difference results when the claims experience of active and retired employees are pooled together and a ‘blended’ group premium rate is charged for both actives and retirees; a portion of the active employee premiums subsidizes the retiree premiums.

Net OPEB Liability (NOL) – The liability to employees for benefits provided through a defined benefit OPEB. Only assets administered through a trust that meet certain criteria may be used to reduce the Total OPEB Liability.

Net Position – The Impact on Statement of Net Position is the Net OPEB Liability adjusted for deferred resource items

OPEB Expense – The OPEB expense reported in the Agency’s financial statement. OPEB expense is the annual cost of the plan recognized in the financial statements.

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go (PAYGO) – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

PEMHCA – The Public Employees’ Medical and Hospital Care Act, established by the California legislature in 1961, provides community-rated medical benefits to participating public employers. Among its extensive regulations are the requirements that a contracting Agency contribute toward medical insurance premiums for retired annuitants and that a contracting Agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

Plan Assets – The value of cash and investments considered as ‘belonging’ to the plan and permitted to be used to offset the AAL for valuation purposes. To be considered a plan asset, GASB 75 requires (a) contributions to the OPEB plan be irrevocable, (b) OPEB assets to dedicated to providing OPEB benefit to plan members in accordance with the benefit terms of the plan, and (c) plan assets be legally protected from creditors, the OPEB plan administrator and the plan members.

Public Agency Miscellaneous (PAM) – Non-safety public employees.

Select and Ultimate – Actuarial assumptions which contemplate rates which differ by year initially (the select period) and then stabilize at a constant long-term rate (the ultimate rate)

Service Cost – Total dollar value of benefits expected to be earned by plan members in the current year, as assigned by the actuarial funding method; also called normal cost

Total OPEB Liability (TOL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; a subset of “Actuarial Present Value”

Vesting – As defined by the plan, requirements which when met make a plan benefit nonforfeitable on separation of service before retirement eligibility

