



BARTEL
ASSOCIATES, LLC

**Town of Los Gatos
Retiree Healthcare Plan**

June 30, 2019 GASBS 75

Accounting Information

As of Measurement Date June 30, 2018

Based on the June 30, 2017 Actuarial Valuation

Joseph R. D'Onofrio, Assistant Vice President

Katherine Moore, Associate Actuary

Wai Man Yam, Actuarial Analyst

Bartel Associates, LLC

September 27, 2019

Contents

<u>Topic</u>	<u>Page</u>
Applicable Dates	1
Note Disclosures	2
Required Supplementary Information	14
Actuarial Certification	19
Supporting Calculations	20
Journal Entries	29

ATTACHMENT 1

Applicable Dates

Applicable Dates and Periods

	Fiscal Year Ending June 30, 2019
■ Measurement date	June 30, 2018
■ Measurement period	July 1, 2017 to June 30, 2018
■ Actuarial valuation date	June 30, 2017

Update procedures were used to roll forward the Total OPEB Liability from the valuation date (June 30, 2017) to the measurement date (June 30, 2018).



Note Disclosures

Plan Information

	Fiscal Year Ending June 30, 2019
■ Plan type	Agent Multiple Employer
■ OPEB trust	Yes
■ Special funding situation	No
■ Nonemployer contributing entities	No



Note Disclosures

Expected Long-Term Rate of Return

	Target Allocation* CERBT-Strategy 1	Expected Real Rate of Return
■ Asset Class Component		
● Global Equity	57%	4.82%
● Fixed Income	27%	1.47%
● TIPS	5%	1.29%
● Commodities	3%	0.84%
● REITs	8%	3.76%
■ Assumed Long-Term Rate of Inflation		2.75%
■ Expected Long-Term Net Rate of Return, Rounded		6.75%

The long-term expected real rates of return are presented as geometric means.

* Policy target effective on the measurement date (June 30, 2018). Changes to the target investment allocation effective October 1, 2018 do not have a significant impact on the expected long-term rate of return.



Note Disclosures

Covered Participants

At June 30, 2018, the measurement date, the following numbers of participants were covered by the benefit terms:

	Number of Covered Participants
■ Inactives currently receiving benefits	126
■ Inactives entitled to but not yet receiving benefits	50
■ Active employees	149
■ Total	325



Note Disclosures

Net OPEB Liability/(Asset)

	Fiscal Year Ending	
	6/30/18	6/30/19
	Measurement Date 6/30/17	Measurement Date 6/30/18
■ Total OPEB Liability (TOL)	\$ 24,773,000	\$ 26,321,184
■ Fiduciary Net Position (FNP)	13,608,000	16,265,716
■ Net OPEB Liability (NOL)	11,165,000	10,055,468
■ Funded status (FNP/TOL)	54.9%	61.8%



Note Disclosures

Changes in Net OPEB Liability/(Asset)

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
■ Balance at 6/30/18 (6/30/17 measurement date)	\$24,773,000	\$ 13,608,000	\$ 11,165,000
■ Changes for the year			
● Service Cost	1,168,227	-	1,168,227
● Interest	1,706,270	-	1,706,270
● Changes of benefit terms	-	-	-
● Actual vs. expected experience	-	-	-
● Assumption changes	-	-	-
● Contributions - employer*	-	2,935,313	(2,935,313)
● Contributions - employee	-	-	-
● Net investment income**	-	1,082,977	(1,082,977)
● Benefit payments*	(1,326,313)	(1,326,313)	-
● Administrative expenses***	-	(34,261)	34,261
■ Net Changes	1,548,184	2,657,716	(1,109,532)
■ Balance at 6/30/19 (6/30/18 measurement date)	\$26,321,184	\$ 16,265,716	\$ 10,055,468

* See the measurement period column on page 20 for details.

** Includes an adjustment of -\$296 for removing rounding dollars to thousands.

*** \$9,000 healthcare administrative expenses (page 20) plus \$25,261 CERBT trust administrative expenses (page 26).



Note Disclosures

Sensitivity of Net OPEB Liability/(Asset)

■ **Changes in the Discount Rate**

	Discount Rate		
	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
■ Net OPEB Liability	\$ 13,482,106	\$ 10,055,468	\$ 7,226,415

■ **Changes in the Healthcare Trend Rate**

	Healthcare Trend Rate		
	1% Decrease	Current Trend	1% Increase
■ Net OPEB Liability	\$ 7,459,605	\$ 10,055,468	\$ 12,779,309



Note Disclosures

OPEB Expense for Fiscal Year

	2018/19
	Measurement Period 2017/18
■ OPEB Expense*	\$ 1,883,013

* See page 25 for OPEB expense detail, which is not required disclosure.



Note Disclosures

Deferred Outflows/Inflows Balances at June 30, 2019

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
■ Differences between expected and actual experience	\$ -	\$ -
■ Changes in assumptions	-	-
■ Net difference between projected and actual earnings on plan investments	-	358,232
■ Employer contributions made subsequent to the measurement date*	2,406,636	-
■ Total	2,406,636	358,232

* See page 20 for details.



Note Disclosures

Recognition of Deferred Outflows and Inflows of Resources in Future OPEB Expense

FYE June 30	Deferred Outflows/(Inflows) of Resources
■ 2020	\$ (108,058)
■ 2021	(108,058)
■ 2022	(109,058)
■ 2023	(33,058)
■ 2024	-
■ Thereafter	-



Note Disclosures

Significant Actuarial Assumptions Used for Total OPEB Liability

Actuarial Assumption	June 30, 2018 Measurement Date
■ Actuarial Valuation Date	■ June 30, 2017
■ Contribution Policy	■ Pre-funded through CERBT with the Strategy 1 asset allocation. ■ Town contributes at least the ADC
■ Discount Rate and Long-Term Expected Rate of Return on Assets	■ 6.75% at June 30, 2018 ■ 6.75% at June 30, 2017 ■ Expected Town contributions projected to keep sufficient plan assets to pay all benefits from trust
■ General Inflation	■ 2.75% annually
■ Mortality, Retirement, Disability, Termination	■ CalPERS 1997-2015 Experience Study
■ Mortality Improvement	■ Post-retirement mortality projected fully generational with Scale MP-2017



Note Disclosures

Significant Actuarial Assumptions Used for Total OPEB Liability

Actuarial Assumption	June 30, 2018 Measurement Date
■ Salary Increases	■ Aggregate - 3% annually ■ Merit - CalPERS 1997-2015 Experience Study
■ Medical Trend	■ Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 ■ Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
■ Participation at Retirement	■ Actives: <ul style="list-style-type: none"> • Insurance Program - 100% • Cash Allocation Program - 90% ■ Retirees with sick leave conversion accounts will continue to participate after account exhausted ■ Waived Retirees: <ul style="list-style-type: none"> • < 65 - 20% elect at 65 • ≥ 65 - 0%



Note Disclosures

Changes Since June 30, 2017 Measurement Date

	June 30, 2018 Measurement Date
■ Changes of assumptions	■ None
■ Changes of benefit terms	■ Plan benefits were changed for hires after the measurement date. This does not impact the 6/30/17 valuation or the 6/30/19 disclosure.



Required Supplementary Information

Schedule of Changes in Net OPEB Liability/(Assets) and Related Ratios

	2018/19
	Measurement Period 2017/18
■ Changes in Total OPEB Liability	
● Service Cost	\$ 1,168,227
● Interest	1,706,270
● Changes of benefit terms	-
● Actual vs. expected experience	-
● Assumption changes	-
● Benefit payments	(1,326,313)
■ Net Changes	1,548,184
■ Total OPEB Liability (beginning of year)	24,773,000
■ Total OPEB Liability (end of year)	26,321,184



Required Supplementary Information

Schedule of Changes in Net OPEB Liability/(Assets) and Related Ratios

	2018/19
	Measurement Period 2017/18
■ Changes in Plan Fiduciary Net Position	
● Contributions - employer	\$ 2,935,313
● Contributions - employee	-
● Net investment income	1,082,977
● Benefit payments	(1,326,313)
● Administrative expenses	(34,261)
● Other changes	-
● Net Changes	<u>2,657,716</u>
■ Plan Fiduciary Net Position (beginning of year)	<u>13,608,000</u>
■ Plan Fiduciary Net Position (end of year)	16,265,716



Required Supplementary Information

Schedule of Changes in Net OPEB Liability/(Assets) and Related Ratios

	2018/19
■ Net OPEB Liability/(Asset)	\$ 10,055,468
■ Fiduciary Net Position as a percentage of the Total OPEB Liability	61.8%
■ Covered employee payroll*	16,192,060
■ Net OPEB Liability as a percentage of covered employee payroll	62.1%

* For the 12-month period ending on June 30, 2018 (Measurement Date).



Required Supplementary Information

Schedule of Employer Contributions

	Fiscal Year 2018/19
■ Actuarially Determined Contribution (ADC)	\$ 2,108,000
■ Contributions in relation to the actuarially determined contribution*	2,406,636
■ Contribution deficiency/(excess)	(298,636)
■ Covered employee payroll**	17,338,201
■ Contributions as a percentage of covered employee payroll	13.9%

* See page 20 for details.

** For the 12-month period ending on June 30, 2019 (fiscal year end).



Required Supplementary Information

**Notes to Schedule of Employer Contribution
Methods and Assumptions for
2018/19 Actuarially Determined Contribution**

■ Valuation Date	■ June 30, 2017
■ Actuarial Cost Method	■ Entry Age Normal, Level % of pay
■ Amortization Method	■ Level % of pay
■ Amortization Period	■ 20-year fixed period for 2018/19
■ Asset Valuation Method	■ Investment gains and losses spread over 5-year rolling period
■ Discount Rate	■ 6.75%
■ General Inflation	■ 2.75%
■ Medical Trend	■ Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 ■ Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
■ Mortality	■ CalPERS 1997-2015 experience study
■ Mortality Improvement	■ Post-retirement mortality projected fully generational with Scale MP-2017



Actuarial Certification

This report presents Town of Los Gatos Retiree Healthcare Plan 2018/19 disclosure under Governmental Accounting Standards Board Statement No. 75 (GASBS 75). The Journal Entries in this report are provided for the Town's convenience and are not an actuarial communication and this actuarial certification does not apply to them.

The report provides information intended for reporting under GASBS 75, but may not be appropriate for other purposes. Information provided in this report may be useful to the Town for the Plan's financial management. The total OPEB liability has been calculated from the June 30, 2017 actuarial valuation. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in Plan design, actuarial methods, or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The June 30, 2017 valuation is based on Plan provisions and participant data provided by the Town, and asset information, all of which we relied on and did not audit. We reviewed the census data for reasonableness. Additional information on participants included in the valuation and actuarial assumptions can be found in the June 30, 2017 funding actuarial valuation report. As the actuary, Bartel Associates has recommended the assumptions used in this report, and we believe they are reasonable.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASBS 75. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



Joseph R. D'Onofrio, FSA, EA, FCA, MAAA
Assistant Vice President
Bartel Associates, LLC
September 27, 2019



Katherine Moore, ASA, MAAA
Associate Actuary
Bartel Associates, LLC
September 27, 2019



September 27, 2019

19

Town of Los Gatos

Supporting Calculations

Employer Contributions

	Measurement Period	Measurement Date to FYE	Prior Measurement Date to Prior FYE
	7/1/17 to 6/30/18	7/1/18 to 6/30/19	Same as Measurement Period
■ Cash benefit payments	\$ 1,138,313	\$ 1,104,025	\$ 1,138,313
■ Implied subsidy benefit payments	188,000	194,598	188,000
■ Total benefit payments	1,326,313	1,298,623	1,326,313
■ Trust reimbursements	-	-	-
■ Benefit payments paid outside of trust	1,326,313	1,298,623	1,326,313
■ Administrative expenses paid outside of trust	9,000	8,013	9,000
■ Trust contributions	1,600,000	1,100,000	1,600,000
■ Total employer contributions	2,935,313	2,406,636	2,935,313

Measurement period (7/1/17 to 6/30/18): \$2,935,313

Fiscal year (7/1/18 to 6/30/19): \$2,406,636



September 27, 2019

20

Town of Los Gatos

Supporting Calculations

Recognition of Deferred Outflows/Inflows at June 30, 2019
Differences between Expected and Actual Experience

Fiscal Year	Initial Amt	Initial Recog Period	Amount Recognized in OPEB Expense for FY							Deferred Balances June 30, 2019	
			18/19	19/20	20/21	21/22	22/23	23/24	24/25+	Outflows	(Inflows)
17/18	-	-	-	-	-	-	-	-	-	-	-
18/19	-	-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-



Supporting Calculations

Recognition of Deferred Outflows/Inflows at June 30, 2019
Changes of Assumptions

Fiscal Year	Initial Amt	Initial Recog Period	Amount Recognized in OPEB Expense for FY							Deferred Balances June 30, 2019	
			18/19	19/20	20/21	21/22	22/23	23/24	24/25+	Outflows	(Inflows)
17/18	-	-	-	-	-	-	-	-	-	-	-
18/19	-	-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-



Supporting Calculations

Recognition of Deferred Outflows/Inflows at June 30, 2019 Projected Versus Actual Earnings on Investments

Fiscal Year	Initial Amt	Initial Recog Period	Amount Recognized in OPEB Expense for FY							Deferred Balances June 30, 2019	
			18/19	19/20	20/21	21/22	22/23	23/24	24/25+	Outflows	(Inflows)
17/18	(376,000)	5.0	(75,000)	(75,000)	(75,000)	(76,000)	-	-	-	-	(226,000)
18/19	(165,290)	5.0	(33,058)	(33,058)	(33,058)	(33,058)	(33,058)	-	-	-	(132,232)
Total			(108,058)	(108,058)	(108,058)	(109,058)	(33,058)	-	-	-	(358,232)
Net Deferred Outflows/(Inflows)										-	(358,232)

Calculation of initial amount for 2018/19 (2017/18 measurement period)

Projected earnings on investments of \$917,687 (page 26), less

Actual earnings on investments of \$1,082,977 (net investment income, page 15)



Supporting Calculations

Recognition of Deferred Outflows/Inflows in Future OPEB Expense

	19/20	20/21	21/22	22/23	23/24	Thereafter 24/25+
■ Differences between Expected and Actual Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
■ Changes of Assumptions	-	-	-	-	-	-
■ Projected Versus Actual Earnings on Investments	(108,058)	(108,058)	(109,058)	(33,058)	-	-
■ Total	(108,058)	(108,058)	(109,058)	(33,058)	-	-



Supporting Calculations

Components of GASBS 75 OPEB Expense

	2018/19
	Measurement Period 2017/18
■ Service Cost	\$ 1,168,227
■ Interest on Total OPEB Liability	1,706,270
■ Projected earnings on investments	(917,687)
■ Employee contributions	-
■ Administrative expense	34,261
■ Changes of benefit terms	-
■ Recognition of deferred outflows/(inflows)	
● Experience	-
● Assumptions	-
● Asset returns	(108,058)
■ OPEB Expense	1,883,013



Supporting Calculations

Components of GASBS 75 OPEB Expense
Calculation of Projected Earnings on Investments*

	Dollar Amount	Expected Return	Portion of Year	Projected Earnings
■ Fiduciary Net Position (beginning of year)	\$ 13,608,000	6.75%	100%	\$ 918,540
■ Employer contributions	1,600,000	6.75%	0%	-
■ Employee contributions	-	6.75%	0%	-
■ Benefit payments	-	6.75%	0%	-
■ Administrative expenses	(25,261)	6.75%	50%	(853)
■ Projected earnings				917,687

* Reflects trust activity only.



Supporting Calculations

Components of GASBS 75 OPEB Expense
Calculation of Interest on Total OPEB Liability

	Dollar Amount	Discount Rate	Portion of Year	Interest
■ Total OPEB Liability	\$ 24,773,000	6.75%	100%	\$ 1,672,178
■ Service Cost	1,168,227	6.75%	100%	78,855
■ Changes of benefit terms	-	6.75%	0%	-
■ Assumption changes	-	6.75%	0%	-
■ Benefit payments	(1,326,313)	6.75%	50%	(44,763)
■ Total interest				<u>1,706,270</u>



Supporting Calculations

GASBS 75 Balance Equation

	Fiscal Year Ending	
	6/30/18	6/30/19
	Measurement Date 6/30/17	Measurement Date 6/30/18
■ Total OPEB Liability	\$ 24,773,000	\$ 26,321,184
■ Fiduciary Net Position	<u>13,608,000</u>	<u>16,265,716</u>
■ Net OPEB Liability	11,165,000	10,055,468
■ Deferred inflows of resources	301,000	358,232
■ Deferred (outflows) of resources	-	-
■ Balance Sheet	<u>11,466,000</u>	<u>10,413,700</u>

Check:

■ Balance Sheet 6/30/18	\$ 11,466,000
● OPEB Expense	1,883,013
● Employer Contributions*	(2,935,313)
■ Balance Sheet 6/30/19	<u>10,413,700</u>

* See the measurement period column on page 20 for details.



Journal Entries

Employer Contributions

The entries below assume cash benefit payments, Trust contributions, and administrative expenses have been charged to OPEB Expense when paid, and that no accounting entries have been made for the current year implied subsidy payment, which is recorded as a reduction to active employee health care costs. See page 20 for details.

Following records the impact of employer contributions as deferred outflows of resources and as a reduction to Net OPEB Liability.

	Debit	(Credit)
■ Net OPEB Liability - (for Contributions paid 7/1/17 to 6/30/18)	\$ 2,935,313	\$ -
■ Deferred Outflow - 7/1/17 to 6/30/18 contributions	-	(2,935,313)
■ Deferred Outflow - 7/1/18 to 6/30/19 contributions	2,406,636	-
■ Active employee health care costs - (implied subsidy payments 7/1/18 to 6/30/19)	-	(194,598)
■ OPEB Expense - (for contributions paid 7/1/18 to 6/30/19)	-	(2,212,038)

Check *5,341,949* *(5,341,949)*



Journal Entries

Summary Journal Entries - OPEB Expense

Following records the impact of current year OPEB expense

	Debit	(Credit)
■ Deferred Outflows*	\$ -	\$ -
■ Deferred Inflows**	-	(57,232)
■ OPEB Expense/Credit	1,883,013	-
■ Net OPEB Liability	-	(1,825,781)

Check *1,883,013* *(1,883,013)*

* See page 32 ('Subtotal' row) for details.

** See page 33 for details.



Journal Entries

Ending Balances at June 30, 2019

	Debit	(Credit)
■ Deferral: Differences between expected and actual experience	\$ -	\$ -
■ Deferral: Changes of assumptions	-	-
■ Deferral: Net differences between projected and actual earnings on plan investments	-	(358,232)
■ Net OPEB Liability (NOL)	-	(10,055,468)
■ Contributions after the Measurement Date	2,406,636	-
■ Net Impact	8,007,064	-

Check: 10,413,700 (10,413,700)

■ Total OPEB expense/(income) for FYE 2019	1,883,013	-
--	-----------	---



Journal Entries

Reconciliation of Deferred Outflows

Detail for page 30

Deferred Outflows	Opening Balance - Debit	Journal Entry - Debit	Journal Entry - (Credit)	Ending Balance - Debit
■ Differences between actual and expected experience	\$ -	\$ -	\$ -	\$ -
■ Change in assumptions	-	-	-	-
■ Differences between projected and actual earnings on plan investments	-	-	-	-
■ Subtotal - actuarial deferrals	-	-	-	-
■ Contributions after the Measurement Date	2,935,313	2,406,636	(2,935,313)	2,406,636
■ Total Deferred Outflows	2,935,313	2,406,636	(2,935,313)	2,406,636



Journal Entries

Reconciliation of Deferred Inflows

Detail for page 30

Deferred Inflows	Opening Balance - (Credit)	Journal Entry- (Credit)	Journal Entry - Debit	Ending Balance - (Credit)
■ Differences between actual and expected experience	\$ -	\$ -	\$ -	\$ -
■ Change in assumptions	-	-	-	-
■ Differences between projected and actual earnings on plan investments	(301,000)	(57,232)	-	(358,232)
■ Total Deferred (Inflows)	(301,000)	(57,232)	-	(358,232)



Journal Entries

Reconciliation of Deferred Outflows/(Inflows)

Summary of Balances

	Fiscal Year Ending	
	6/30/18	6/30/19
	Measurement Date 6/30/17	Measurement Date 6/30/18
■ Total OPEB (Liability)	\$ (24,773,000)	\$ (26,321,184)
■ Fiduciary Net Position	13,608,000	16,265,716
■ Net OPEB (Liability)/Asset	(11,165,000)	(10,055,468)
■ Deferred (inflows) of resources	(301,000)	(358,232)
■ Deferred outflows of resources	2,935,313	2,406,636
■ Balance Sheet Impact	(8,530,687)	(8,007,064)

Deferred Outflows include contributions after the measurement date.

