



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 09/9/2024

ITEM NO: 8

---

DATE: August 26, 2024  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2023 Actuarial Valuation and its Assumptions as Prepared and Recommended by Foster and Foster, Inc., and Provide Any Comments to the Town Council.

**RECOMMENDATION:**

Staff recommends that the Finance Commission receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2023 actuarial valuation and its assumptions as prepared and recommended by Foster and Foster, Inc., and provide any comments to the Town Council.

**BACKGROUND:**

The Town's healthcare plan pays all, or a portion of, health insurance premiums for qualified retirees and their survivors and dependents. Healthcare benefits are also referred to as Other Post-Employment Benefits or OPEB. The Town's healthcare plan is an Internal Revenue Code Section 115 Trust which is administered by the Town Pension and OPEB Trusts Oversight Committee. The Oversight Committee consists of the five Town Council Members. The Oversight Committee is responsible for the management and control of the healthcare assets. The healthcare assets are maintained at CalPERS and invested in the CalPERS managed California Employers' Retiree Benefit Trust (CERBT) Strategy 1.

In 2009, the Town proactively opted to transition from a "pay-as-you-go" (PayGo) funding policy for OPEB benefits and adopted a ten-year phase-in approach to prefunding the OPEB obligations. Since implementation of the ten-year phase-in of prefunding, the healthcare plan has gone from zero percent funded to the current 77.5% funding ratio.

**PREPARED BY:** Gitta Ungvari  
Finance Director

---

Reviewed by: Town Manager, Town Attorney, and Assistant Town Manager

---

DISCUSSION:

For the healthcare plan, the Town retains the services of Foster and Foster, Inc to analyze the respective assets and liabilities of the Healthcare Plan. In order for the Town to understand the value of future healthcare benefit payments, an actuarial valuation is performed every other year for the healthcare plan with the last valuation occurring in 2021.

Attachment 1 presents the June 30, 2023 Actuarial Valuation Final Results from the Town's actuary, Foster and Foster, Inc. Since the 2021 valuation, the total OPEB Actuarial Accrued Liability increased from \$28.7 million to \$33.3 million as of June 30, 2023. The Unfunded Actuarial Accrued Liability increased from approximately \$5.5 million as of June 30, 2021 to \$7.5 million as of the June 30, 2023. The net result is a decrease in the funded status for the OPEB plan as of June 30, 2023 to 77.5% from 81.0%.

	June 30, 2023	June 30, 2021
Actuarial Value of Plan Assets	\$25,824,000	\$23,252,000
Actuarial Accrued Liability	33,331,000	28,720,000
Unfunded Actuarial Accrued Liability	7,507,000	5,468,000
Funded Status	77.5%	81.0%

In addition, the development of the actuarial valuation includes assumption recommendations by the Town's actuary. The table on the following page provides the primary actuarial assumptions recommended for the Oversight Committee's consideration and adoption. The Finance Commission is welcome to provide comments on the assumptions for the Oversight Committee's consideration.

Assumption	June 30, 2023	June 30, 2021
General Inflation	2.50%	2.50%
Discount Rate	6.25%	6.25%
Healthcare Trend	Initially 6.25% to 8.5% Declining to 3.45% Over approximately 50 years	Initially 4.5% to 6.5% Declining to 3.75% Over approximately 50 years
Payroll Increases	2.75%	2.75%
Amortization UAL	14-15 Years	16 Years

PAGE 3 OF 3

SUBJECT: June 30, 2023 OPEB Actuarial Valuation

DATE: August 26, 2024

CONCLUSION:

The Town Pension and OPEB Trusts Oversight Committee is scheduled to receive this item its September 17, 2024 meeting. The Finance Commission is welcome to provide comments for consideration by the Oversight Committee.

COORDINATION:

This staff report was coordinated with the Town Manager, Assistant Town Manager, and the Town Attorney.

FISCAL IMPACT:

There is no fiscal impact related reviewing the OPEB actuarial report.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. June 30, 2023 OPEB Actuarial Valuation Final Results