

Kensington Police Protection and Community Services District

Retiree Medical Plan Design Analysis

March 15, 2019

The purpose of this document is to present order-of-magnitude impact of a plan design change to the Kensington Police Protection and Community Services District (the "District") retiree medical plan. We accomplish this by projected results of our June 30, 2018 actuarial valuation, including a sensitivity analysis of the liability to certain key assumptions.

The proposed change to the plan is to revise the current cap on medical benefits. Currently, the District caps medical benefits at the current Kaiser Bay Area rates. This cap changes over the years as Kaiser rates change. We have modeled two options:

Option 1: Freeze the cap at 2019 Kaiser rates

Option 2: Flat dollar cap of \$1,000 per retiree

This report includes the following sections:

Section	Description
Section I	– Summary of 6/30/18 Valuation Results
Section II	– Proposed Plan Analysis
Section III	– Benefit Distribution Analysis
Section IV	Cash Flow Projection
Section V	– Summary of Key Assumptions
Section VI	– Summary of Key Plan Provisions

The analysis presented herein does not include new entrants hired after 6/30/18, the date of the census used for the valuation. As a result, this analysis only looks at the cost impact associated with then current employees and retirees.

SECTION I – Summary of 7/1/18 Valuation Results

Summary of Key Valuation Results

	2018	2017
Disclosure elements as of measurement period ending June 30:		
<u>Present Value of Future Benefits:</u>		
Active	\$1,823,778	\$3,032,051
Retiree	<u>2,739,271</u>	<u>2,363,670</u>
Total	\$4,563,049	\$5,395,721
Present Value of Future Benefits (Medical Only)	\$3,595,572	\$3,770,253
Percent of Total	79%	70%
<u>Actuarial Accrued Liability (TOL)</u>		
Active	\$989,931	\$1,735,869
Retiree	<u>2,739,271</u>	<u>2,363,670</u>
Total	\$3,729,202	\$4,099,539
Actuarial Accrued Liability (Medical Only)	\$2,964,068	\$2,935,759
Percent of Total	79%	72%
Plan Fiduciary Net Position (i.e Fair Value of Assets)	<u>1,175,071</u>	843,504
Net OPEB Liability (NOL)	\$2,554,131	\$3,256,035
Plan Fiduciary Net Position as a percentage of the TOL	32%	21%
Aggregate OPEB Expense (Exhibit 3)	\$207,837	\$388,568
Covered Payroll	N/A	N/A
Demographic data for fiscal year ending June 30⁽²⁾:		
Number of active members	7	10
Number of retired members and beneficiaries	<u>15</u>	<u>13</u>
Total	22	23
Key assumptions as of June 30:		
Discount rate	7.28%	7.28%
Initial Trend Rate		
Pre-65	6.80%	8.00%
Post-65	5.00%	5.25%
Ultimate Rate	5.00%	5.00%
Year Ultimate Rate is Reached	2028	2030

SECTION II – Proposed Plan Analysis

The table below shows the liability with three different cap structures:

	July 1, 2018		
	Current	Freeze Kaiser	Flat \$1,000
Present Value of Future Benefits			
Active	\$1,823,778	\$985,964	\$911,920
Retiree	<u>2,739,271</u>	<u>1,922,217</u>	<u>2,010,452</u>
Total	\$4,563,049	\$2,908,181	\$2,922,372
Actuarial Accrued Liability			
Active	\$989,931	\$561,371	\$532,337
Retiree	<u>2,739,271</u>	<u>1,922,217</u>	<u>2,010,452</u>
Total	\$3,729,202	\$2,483,588	\$2,542,789
Plan Fiduciary Net Position	<u>1,175,071</u>	<u>1,175,071</u>	<u>1,175,071</u>
Unfunded Actuarial Accrued Liability	\$2,554,131	\$1,308,517	\$1,367,718
Actuarially Determined Contribution	\$294,103	n/a	n/a
Normal Cost	\$93,148	\$48,783	\$43,847
OPEB Expense	\$207,837	(\$1,037,777)	(\$978,576)
Expected Benefit Payments	\$220,589	\$219,450	\$172,398
Discount Rate	7.28%	7.28%	7.28%

¹The above table

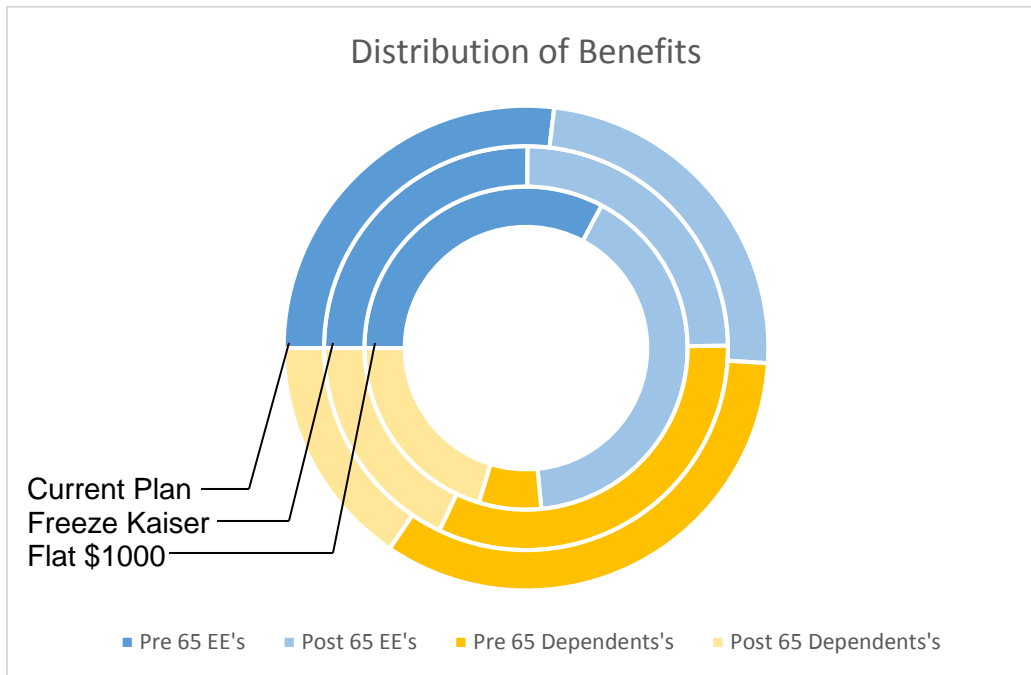
Cap Descriptions:

- **Current:** Medical benefits are capped at the Kaiser Bay Area rates for the selected coverage level. This cap increases with medical inflation each year.
- **Freeze Kaiser:** Medical Benefits are capped at the 2019 Kaiser Bay Area rates for the selected coverage level and do not increase in the future from the 2019 levels.
- **Flat \$1,000:** All retirees receive up to \$1,000 for their medical benefits.

SECTION III – Benefit Distribution Analysis

The table below show the distribution of employer provided benefits changes under the various options proposed:

Present Value of Future Benefits				
	EE		Dependents	
Current Plan				
PVFB:	\$3,595,572			
Pre - 65	\$903,580	25.13%	\$1,159,642	32.25%
Post - 65	\$887,380	24.68%	\$644,970	17.94%
Freeze Kaiser				
PVFB:	\$1,940,704			
Pre - 65	\$521,283	26.86%	\$650,480	33.52%
Post - 65	\$468,301	24.13%	\$300,640	15.49%
Flat \$1000				
PVFB:	\$1,954,895			
Pre - 65	\$640,459	32.76%	\$121,857	6.23%
Post - 65	\$796,196	40.73%	\$396,383	20.28%



SECTION IV – Cash Flow Projections

The table below shows the impact on cash flow assuming an effective date of June 30, 2019:

Actuarially Determined Contribution			
	2018-19	2019-20	2020-21
<u>Current Plan</u>			
Normal Cost End of Year	\$99,929	\$104,925	\$110,171
Amortization of UAAL	<u>194,174</u>	<u>198,690</u>	<u>203,275</u>
Actuarially Determined Contribution	\$294,103	\$303,615	\$313,446
<u>Freeze Kaiser</u>			
Normal Cost End of Year	N/A	\$51,222	\$53,783
Amortization of UAAL	N/A	<u>91,968</u>	<u>94,083</u>
Actuarially Determined Contribution	N/A	\$143,190	\$147,866
<u>Flat \$1000</u>			
Normal Cost End of Year	N/A	\$46,039	\$48,341
Amortization of UAAL	N/A	<u>94,864</u>	<u>97,065</u>
Actuarially Determined Contribution	N/A	\$140,903	\$145,406

Allocation of Actuarially Determined Contribution			
	2018-19	2019-20	2020-21
<u>Current Plan</u>			
Benefit Payments (Explicit)	\$180,780	\$182,693	\$185,953
Benefit Payments (Implicit)	\$39,809	\$32,127	\$31,691
Minimum Trust Contribution	\$73,514	\$88,795	\$95,802
<u>Freeze Kaiser</u>			
Benefit Payments (Explicit)	N/A	\$174,184	\$167,590
Benefit Payments (Implicit)	N/A	\$32,127	\$31,691
Minimum Trust Contribution	N/A	\$0	\$0
<u>Flat \$1000</u>			
Benefit Payments (Explicit)	N/A	\$137,121	\$139,929
Benefit Payments (Implicit)	N/A	\$32,127	\$31,691
Minimum Trust Contribution	N/A	\$0	\$0

SECTION V – Summary of Key Assumptions

Current assumptions used for Fiscal Year 2019 Accounting and Funding:

Discount Rate	7.28%, based on CERBT Strategy 1 investment policy
Net Investment Return	7.28%, based on CERBT Strategy 1 investment policy
Inflation	We assumed 2.25% annual inflation.
Payroll increases	2.75% annual increases.
Administrative Expenses	We assumed that the administrative expense were \$481 for the measurement period ending June 30, 2018.

Pre-Excise Tax Health Care Trend	Year	Increase in Premium Rates	
	Beginning	Pre-65	Post-65
	2019	Actual	Actual
	2020	6.80%	5.00%
	2021	6.55%	5.00%
	2022	6.30%	5.00%
	2023	6.05%	5.00%
	2024	5.80%	5.00%
	2025	5.55%	5.00%
	2026	5.30%	5.00%
	2027	5.05%	5.00%
	2028 and later	5.00%	5.00%

Mortality	2017 CalPERS mortality rates for safety employees.
Retirement	2017 CalPERS retirement rates for safety employees.
Withdrawal	2017 CalPERS withdrawal rates for safety employees.
Disability	2017 CalPERS disability rates for safety employees.
Percent Married	We assumed anyone covering a spouse would continue to cover in retirement, and that male spouses were on average 3 years older than female spouses
Participation	We assumed 100% of retirees will participate upon retirement.
Covered Children	We assumed 90% of participants would cover a child, 35 years younger, and coverage would stop at age 26 for the child.

Source: NCG has not performed an experience study to select these assumptions. NCG has not observed materially consistent gains or consistent losses associated with these assumptions

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Plan Distribution for Calculating
 Baseline Cost

Plan	Pre-Medicare	Post-Medicare
Blue Shield	15%	0%
Kaiser	70%	100%
Anthem Traditional	15%	0%
Total	100%	100%

Average Per Capita Claims Cost
 (Baseline Cost)

Pre-Medicare: \$9,609 per year
 Post-Medicare: \$3,840 per year

Administrative Expenses

Administrative costs built into the premiums are assumed to be part of the average per capita claims cost.

Health Plan Participation

We assumed that 100% of eligible participants will participate.

Medicare Coverage

We assumed that all future retirees will be eligible for Medicare when they reach age 65.

Morbidity Factors

CalPERS 2017 study

Population for Curving

CalPERS 2017 study

Age-Weighted Claims Costs¹

	Claim
50	\$9,744
55	\$11,810
60	\$14,360
65	\$3,967
70	\$3,499
75	\$4,074
80	\$4,515
85	\$4,641

SECTION VI – Summary of Key Plan Provisions

Current Plan for Existing Employees:

The District provides lifetime retiree medical coverage to eligible employees who retire at age 50, along with their dependents. The medical plan benefits are contracted with the California Public Employees' Retirement System under the public Employees' Medical and Hospital Care Act (PEMHCA).

Eligible retirees may enroll in any of the plans available through the PERS Program. The District contributes the entire cost of postemployment medical coverage up to a cap of the Kaiser Bay Area rates for the coverage selected.

Effective June 30, 2017, all eligible employees will be required to contribute at least \$125 monthly, regardless of the level of coverage selected. The \$125 monthly is assumed not to increase in future years.

Pre-Medicare Premiums	CalPERS Bay Area 2019	EE	EE+SP	EE+Fam
	Anthem HMO Select	\$831.44	\$1,662.88	\$2,161.74
	Anthem HMO Traditional	\$1,111.13	\$2,222.26	\$2,888.94
	Blue Shield Access+	\$970.90	\$1,941.80	\$2,524.34
	HealthNet SmartCare	\$901.55	\$1,803.10	\$2,344.03
	Kaiser	\$768.25	\$1,536.50	\$1,997.45
	PERS Choice	\$866.27	\$1,732.54	\$2,252.30
	PERS Select	\$543.19	\$1,086.38	\$1,412.29
	PERSCare	\$1,131.68	\$2,263.36	\$2,942.37
	PORAC	\$774.00	\$1,623.00	\$2,076.00
	UnitedHealthcare	\$928.85	\$1,857.70	\$2,415.01
Western Health Advantage	\$767.01	\$1,534.02	\$1,994.23	
Post-Medicare Premiums	CalPERS Bay Area 2019	EE	EE+SP	EE+Fam
	Anthem Traditional	\$357.44	\$714.88	\$1,072.32
	Kaiser	\$323.74	\$647.48	\$971.22
	PERS Choice	\$360.41	\$720.82	\$1,081.23
	PERS Select	\$360.41	\$720.82	\$1,081.23
	PERSCare	\$394.83	\$789.66	\$1,184.49
	PORAC	\$513.00	\$970.00	\$1,551.00
UnitedHealthcare	\$299.37	\$598.74	\$898.11	
PEMCHA Minimum			2019	\$136.00

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Current Plan for Existing Employees (continued):

In addition to medical benefits, the District contributes the entire cost of postemployment dental and vision premiums for retirees.

2019 Dental Premiums	
Coverage Level	Delta Dental
Single	\$64.41
2-Party	\$124.48
Family	\$202.72

2019 Vision Premiums	
Coverage Level	VSP
Composite Rate	\$32.31

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Proposed Plan:

The proposed plan would change the caps for retiree medical coverage. The caps would be in addition to the \$125 monthly contributions all participants pay toward medical coverage.

Option 1 is to freeze the current year cap, which is the 2019 Kaiser rates as shown below:

2019 Kaiser Rates	EE Only	EE+1	EE+Family
Pre-Medicare	\$768.25	\$1,536.50	\$1,997.45
Post-Medicare	\$323.74	\$647.48	\$971.22

Option 2 is to replace the current cap with a flat dollar cap of \$1,000, regardless of coverage level or Medicare enrollment status and is shown below:

Flat \$1,000 Cap	EE Only	EE+1	EE+Family
Pre-Medicare	\$1,000	\$1,000	\$1,000
Post-Medicare	\$1,000	\$1,000	\$1,000

Dental and vision benefits will remain unchanged. The District would continue to pay the entire cost of coverage.

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About This Material

This material includes a summary of calculations related to the GASB 75 accounting and actuarial funding results for the District retiree medical plan. This analysis is intended to assist with District's review of the associated issues and options, and its use and may not be appropriate for other purposes.

The calculations summarized in this report were performed as of June 30, 2018 based on a June 30, 2018 census.

Please note that some liability estimates were prepared using streamlined calculation techniques. As such, they are intended to provide "order of magnitude" indication of the impact of the changes contemplated in this analysis. The results of more refined calculations may yield a result and conclusions different than suggested by this streamlined methodology. In addition, the asset values reflected in this material are based on preliminary trust values and do not reflect actual year-end audited values. As a result, the actual GASB valuation results may differ from those shown in this material. Final results will change if final decisions by District differ from the assumptions listed in this material.