



**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT
COMMITTEE AGENDA
AUGUST 04, 2020
110 EAST MAIN STREET
LOS GATOS, CA**

*Marcia Jensen, Mayor
Barbara Spector, Vice Mayor
Rob Rennie, Council Member
Marico Sayoc, Council Member
Vacant, Council Member*

PARTICIPATION IN THE PUBLIC PROCESS

How to participate: The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk. If you wish to speak to an item NOT on the agenda, you may do so during the “Verbal Communications” period. The time allocated to speakers may change to better facilitate the Town Council meeting.

Effective Proceedings: The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town’s meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

Deadlines for Public Comment and Presentations are as follows:

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk’s Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
 - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
 - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
 - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

***Town Pension and OPEB Trusts Oversight Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) quarterly on the 1st or 3rd Tuesday at 6:00 p.m.
Live & Archived Council Meetings can be viewed by going to:
www.losgatosca.gov/Councilvideos***

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]

**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
AUGUST 04, 2020
6:00 PM**

**IMPORTANT NOTICE REGARDING THE AUGUST 4, 2020
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE MEETING**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. The live stream of the meeting may be viewed on television and/or online at <https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=4bc370fb-3064-458e-a11a-78e0c0e5d161&p=0>. **In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.**

PARTICIPATION

If you are not interested in providing oral comments real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at <https://www.youtube.com/channel/UCFh35XRBWer1DPx-F7vvhcg>.

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar at <https://zoom.us/j/95984921680>. Password: 927633.

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to PublicComment@losgatosca.gov with the subject line “Public Comment Item #__” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments will be reviewed and distributed before the meeting if received by 5:00 p.m. on the day of the meeting. All comments received will become part of the record. The Mayor has the option to modify this action on items based on comments received.

REMOTE LOCATION PARTICIPANTS

The following Council Members are listed to permit them to appear electronically or telephonically at the Town Council meeting: MAYOR MARCIA JENSEN, VICE MAYOR BARBARA SPECTOR, COUNCIL MEMBER ROB RENNIE, COUNCIL MEMBER MARICO SAYOC. All votes during the teleconferencing session will be conducted by roll call vote.

MEETING CALLED TO ORDER

ROLL CALL

CONSENT ITEMS (*Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Committee or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item from Consent by following the Participation instructions contained on page 2 of this agenda. If an item is pulled, the Mayor has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by the Committee, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.*)

1. Approve the Minutes of the April 21, 2020, Town Pension and OPEB Trusts Oversight Committee Meeting.
2. Receive Final Account Summary Reports for the Town of Los Gatos PARS IRS Section 115 Pension Trust for the Periods Ending November 30, 2019 through June 30, 2020.
3. Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT).

VERBAL COMMUNICATIONS (*Members of the public are welcome to address the Town Council on any matter that is not listed on the agenda consistent with the Participation instructions contained on page 2 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Mayor, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per comment. In the event additional comments were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.*)

OTHER BUSINESS (*Up to three minutes may be allotted for each comment on any of the following items consistent with the Participation Instructions contained on page 2 of this agenda.*)

4. Review and Approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial Valuation and its Assumptions as Prepared and Recommended by Bartel Associates, LLC.
5. Consider Finance Committee Recommendation Regarding a Methodology for Additional Discretionary Payments to CalPERS.

ADJOURNMENT

Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for public inspection at the front desk of the Los Gatos Town Library, located at 100 Villa Avenue, and are also available for review on the official Town of Los Gatos website. Copies of desk items distributed to members of the Council at the meeting are available for review in the Town Council Chambers

Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.



**TOWN OF LOS GATOS
PENSION AND OPEB TRUST
OVERSIGHT COMMITTEE
REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 1

**DRAFT
Minutes of the Pension and OPEB Trust Oversight Committee Meeting
April 21, 2020**

The Pension and OPEB Trust Oversight Committee of the Town of Los Gatos conducted a regular meeting via Teleconference, due to COVID-19 Shelter in Place guidelines on Tuesday, April 21, 2020, at 6:00 p.m.

MEETING CALLED TO ORDER AT 6:04 P.M.

ROLL CALL

Present: Mayor Marcia Jensen, Vice Mayor Barbara Spector, Council Member Rob Rennie, Council Member Marico Sayoc.

Absent: None

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve the Town Pension and OPEB Trusts Oversight Committee Meeting Minutes of March 3, 2019.

MOTION: Motion by Council Member Sayoc to approve the Consent Item. Seconded by Vice Mayor Spector.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

2. Provide Modified Direction to Staff Not to Make a Payment to CalPERS Prior to May 1, 2020 Given the CalPERS Methodology Explained in this Report and Instead, Direct Staff to Make a Payment After July 1, 2020 to Receive a Unique Market Exposure for the Additional Amortization Base Payment.

Arn Andrews, Assistant Town Manager, presented the staff report.

The Mayor acknowledged written communication from Mr. Jak Van Nada and asked Mr. Andrews to comment. Mr. Andrews described the correlation between additional discretionary payments (ADPs), Actuarial Assets, Actuarial Liabilities, and Unfunded Actuarial Liability.

PAGE 2 OF 2

SUBJECT: Draft Minutes of the April 21, 2020 Pension and OPEB Trust Oversight
Committee Meeting

DATE: July 23, 2020

Councilmembers asked questions regarding public communications, actuarial savings associated with ADPs, asset allocation market risk, CalPERS allocation methodology, difference of unique market exposures between years, and diversification of market exposures.

Opened Public Comment.

No one spoke.

Closed Public Comment.

MOTION: Motion by Mayor Jensen to adopt the recommendation of staff to delay the payment of the 2015 amortization base until after July 1, 2020 and asked the Finance Committee to make a recommendation on a methodology going forward, including a recommendation of the appropriate vehicle for assets prior to transfer to CalPERS. **Seconded by Council Member Rennie.**

VOTE: Motion passed unanimously.

ADJOURNMENT

The meeting adjourned at 6:57 p.m.

Respectfully Submitted:

Jenna De Long, Deputy Clerk



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 08/04/2020

ITEM NO: 2

DATE: July 30, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Final Account Summary Reports for the Town of Los Gatos PARS IRS Section 115 Pension Trust for the Periods Ending November 30, 2019 through June 30, 2020

RECOMMENDATION:

Receive final Account Summary Reports for the Town of Los Gatos PARS IRS Section 115 Pension Trust for the periods ending November 30, 2019 through June 30, 2020 (Attachment 1).

BACKGROUND:

On August 15, 2017, Town Council approved Public Agency Retirement Services (PARS) as the administrator of the Town's Section 115 Pension Trust.

On September 17, 2019, the Town Council directed staff to terminate the PARS agreement, consistent with the Town Pension and OPEB Trusts Oversight Committee recommendation and utilize the assets to make additional discretionary payments directly to CalPERS.

On November 5, 2019, the Town Council voted to utilize the CalPERS California Employers' Pension Prefunding Trust (CEPPT) Program as the Town's IRS Section 115 Pension Trust.

DISCUSSION:

Per previous Oversight Committee direction, the remaining PARS account balance was distributed directly to CalPERS CEPPT in June as part of an ADP scheduled for July 8, 2020. The attached summaries provide the final account information.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

PAGE 2 OF 2

SUBJECT: Final PARS Account Summaries

DATE: July 30, 2020

Attachment:

1. PARS IRS 115 Pension Trust Account Final Summaries

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
11/1/2019 to 11/30/2019

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Beginning Balance as of 11/1/2019	Contributions	Earnings	Expenses	Distributions	Transfers	Ending Balance as of 11/30/2019
PENSION	\$294,764.63	\$0.00	\$6,236.06	\$1,471.84	\$0.00	\$0.00	\$299,528.85
Totals	\$294,764.63	\$0.00	\$6,236.06	\$1,471.84	\$0.00	\$0.00	\$299,528.85

Investment Selection

Source

PENSION Capital Appreciation Index PLUS

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	2.12%	3.07%	9.65%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
12/1/2019 to 12/31/2019

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Beginning Balance as of 12/1/2019	Contributions	Earnings	Expenses	Distributions	Transfers	Ending Balance as of 12/31/2019
PENSION	\$299,528.85	\$0.00	\$6,768.92	\$2,895.51	\$0.00	\$0.00	\$303,402.26
Totals	\$299,528.85	\$0.00	\$6,768.92	\$2,895.51	\$0.00	\$0.00	\$303,402.26

Investment Selection

Source

PENSION **Capital Appreciation Index PLUS**

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	2.27%	3.90%	18.54%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

**TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust**

**Account Report for the Period
1/1/2020 to 1/31/2020**

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 1/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 1/31/2020
PENSION	\$303,402.26	\$0.00	-\$1,616.69	\$145.54	\$0.00	\$0.00	\$301,640.03
Totals	\$303,402.26	\$0.00	-\$1,616.69	\$145.54	\$0.00	\$0.00	\$301,640.03

Investment Selection

Source

PENSION **Capital Appreciation Index PLUS**

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	-0.53%	3.88%	11.01%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

**TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust**

**Account Report for the Period
2/1/2020 to 2/29/2020**

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 2/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 2/29/2020
PENSION	\$301,640.03	\$0.00	-\$16,584.09	\$236.05	\$0.00	\$0.00	\$284,819.89
Totals	\$301,640.03	\$0.00	-\$16,584.09	\$236.05	\$0.00	\$0.00	\$284,819.89

Investment Selection

Source

PENSION **Capital Appreciation Index PLUS**

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	-5.50%	-3.87%	2.59%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
3/1/2020 to 3/31/2020

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 3/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 3/31/2020
PENSION	\$284,819.89	\$0.00	-\$32,938.83	\$145.83	\$0.00	\$0.00	\$251,735.23
Totals	\$284,819.89	\$0.00	-\$32,938.83	\$145.83	\$0.00	\$0.00	\$251,735.23

Investment Selection

Source

PENSION Capital Appreciation Index PLUS

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	-11.57%	-16.88%	-10.40%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.

Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.

Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
4/1/2020 to 4/30/2020

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 4/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 4/30/2020
PENSION	\$251,735.23	\$0.00	\$19,608.89	\$135.25	\$0.00	\$0.00	\$271,208.87
Totals	\$251,735.23	\$0.00	\$19,608.89	\$135.25	\$0.00	\$0.00	\$271,208.87

Investment Selection

Source	
PENSION	Capital Appreciation Index PLUS

Investment Objective

Source	
PENSION	The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	7.79%	-9.92%	-5.66%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
5/1/2020 to 5/31/2020

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 5/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 5/31/2020
PENSION	\$271,208.87	\$0.00	\$318.78	\$127.41	\$0.00	-\$268,000.00	\$3,400.24
Totals	\$271,208.87	\$0.00	\$318.78	\$127.41	\$0.00	-\$268,000.00	\$3,400.24

Investment Selection

Source

PENSION **Capital Appreciation Index PLUS**

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION	0.25%	-4.44%	-1.26%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.

Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.

Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
6/1/2020 to 6/30/2020

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Balance as of 6/1/2020	Contributions	Earnings	Expenses	Distributions	Transfers	Balance as of 6/30/2020
PENSION	\$3,400.24	\$0.00	\$4.88	\$4.88	\$0.00	-\$3,400.24	\$0.00
Totals	\$3,400.24	\$0.00	\$4.88	\$4.88	\$0.00	-\$3,400.24	\$0.00

Investment Selection

Source

PENSION **Capital Appreciation Index PLUS**

Investment Objective

Source

PENSION The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
PENSION							

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees



**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 3

DATE: July 30, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT)

RECOMMENDATION:

Receive Market Value Summary Quarterly Reports for the period ending December 31, 2019, the period ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT).

BACKGROUND:

In 2009, the Council approved participating in the California Employer's Retiree Benefit Trust Fund. The CERBT Fund is an IRS Section 115 trust fund dedicated to the prefunding of other post-employment benefits ("OPEB"). The CERBT is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan").

DISCUSSION:

The Town's OPEB assets are invested in the CERBT Strategy 1 and were approximately \$19.6 million as of December 31, 2019 and approximately \$16.7 million as of March 31, 2020 (Attachment 1). For the period ending June 30, 2020, the CERBT Strategy 1 fund returned 3.58% gross of fees (Attachment 2).

Attachments:

1. CERBT Account Summaries
2. CERBT Strategy 1 Performance Report as of June 30, 2020

PREPARED BY: Arn Andrews
Assistant Town manager

Reviewed by: Town Manager and Finance Director



Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$18,608,468.96	\$18,379,772.40
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	1,049,027.86	1,281,662.30
Administrative Expenses	(2,351.10)	(4,625.80)
Investment Expense	(1,719.00)	(3,382.18)
Other	0.00	0.00
Ending Balance	\$19,653,426.72	\$19,653,426.72
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$19,653,426.72	\$19,653,426.72

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,090,918.002	1,090,918.002
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	17.057624	16.847987
Period Ending Unit Value	18.015494	18.015494

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 12/31/2019

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
------	-------------	--------	------------	-------	------------	-------

Client Contact:
CERBT4U@CalPERS.ca.gov

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$19,653,426.72	\$18,379,772.40
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(2,975,699.50)	(1,694,037.20)
Administrative Expenses	(2,308.39)	(6,934.19)
Investment Expense	(1,687.80)	(5,069.98)
Other	0.00	0.00
Ending Balance	\$16,673,731.03	\$16,673,731.03
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$16,673,731.03	\$16,673,731.03

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,090,918.002	1,090,918.002
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	18.015494	16.847987
Period Ending Unit Value	15.284129	15.284129

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 03/31/2020

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
------	-------------	--------	------------	-------	------------	-------

Client Contact:
CERBT4U@CalPERS.ca.gov

CERBT Strategy 1



Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Expense Ratio
\$9,565,548,004	0.10%

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

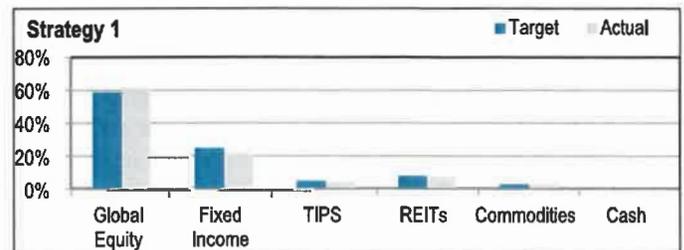
Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	± 5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of June 30, 2020

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	2.57%	14.10%	3.58%	3.58%	5.92%	5.84%	8.20%	4.82%
Net Return ^{2,3}	2.56%	14.07%	3.49%	3.49%	5.83%	5.75%	8.10%	4.74%
Benchmark Returns	2.53%	13.95%	3.16%	3.16%	5.59%	5.43%	7.92%	4.38%
Standard Deviation ⁴	-	-	-	-	11.46%	10.14%	10.07%	12.85%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expenses section of this document.

⁴ Standard Deviation is based on gross returns.

CERBT Strategy 1



General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external managers. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at: www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee directs the CERBT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CERBT, which includes: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.¹

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as recordkeeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expense ratios are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CERBT Strategy 1 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits (OPEB). CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations. Further, CalPERS will not make up the difference between an employer's CERBT assets and the actual cost of OPEB provided to an employer's plan members.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

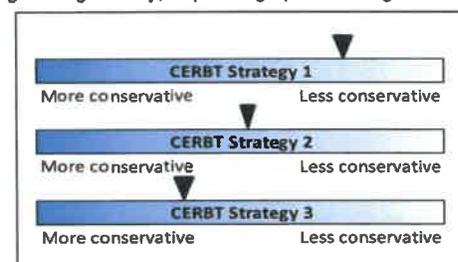
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Projected risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%





**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 3

ADDENDUM

DATE: August 3, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT)

REMARKS:

Attachment 3 contains public comment received since the issuance of the staff report on Thursday, July 30, 2020, and before 11:00 a.m. Monday, August 3, 2020.

Attachments previously received with the Staff Report:

1. CERBT Account Summaries
2. CERBT Strategy 1 Performance Report as of June 30, 2020

Attachment distributed with this Addendum:

3. Public Comments received 11:01 a.m. Thursday, July 30, 2020 and 11:00 a.m. Monday, August 3, 2020.

PREPARED BY: Arn Andrews
Assistant Town manager

Reviewed by: Town Manager and Finance Director

From: Phil Koen

Sent: Monday, August 3, 2020 9:07 AM

To: Marcia Jensen <MJensen@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; BSpector <BSpector@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>

Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>

Subject: Pension and OPEB Trust meeting - August 4, 2020

Dear Honorable Mayor and Council Members,

I am submitting the following comments for your review and consideration because I think it is important that you have another perspective regarding the material that has been presented. I have comments on agenda item 3, 4 and 5.

Agenda Item #3

This Oversight Committee has selected to invest in the CERBT Strategy 1 as an investment vehicle for prefunding of the Town's other post-employment benefits. Strategy #1 is the riskiest of the three investment strategies since it invests in a significantly higher percentage of equities versus Strategy 2 and Strategy 3. As of March 31, 2020, the strategy resulted in a **15.2% loss** for the most recent quarter reported and a **9.3% loss** fiscal year to date. This is shown in exhibit E.

Since preservation of capital is the most important element of funding the OPEB liability, I question the wisdom of pursuing the riskiest investment strategy offered by CERBT. The rationale given for choosing this strategy is this investment profile offers the highest investment return objective of the three CERBT strategies. The target return of this strategy is 6.75%, which is used in the actuarial valuation prepared by Bartels. I will discuss the implications of this shortly.

As shown in Exhibit D, CalPERS warns that "there is no guarantee that the portfolio will achieve its investment objective". And as reported, since inception (June 1, 2007) this strategy has generated a net return of only 4.74%, which is materially below the target objective. Stated another way, the Town has selected an investment strategy which exposes the prefunded monies to the most market risk, the highest volatility as measured by standard deviation while producing investment returns materially below the 6.75% benchmark. This is not a conservative approach and should be re-evaluated by this Committee.

ATTACHMENT 3

CERBT Strategy 1



Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. **There is no guarantee** that the portfolio will achieve its investment objective. ✖✖

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, **strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk)** compared with strategies invested in a higher percentage of bonds. ✖✖

Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Expense Ratio
\$9,565,548,004	0.10%

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

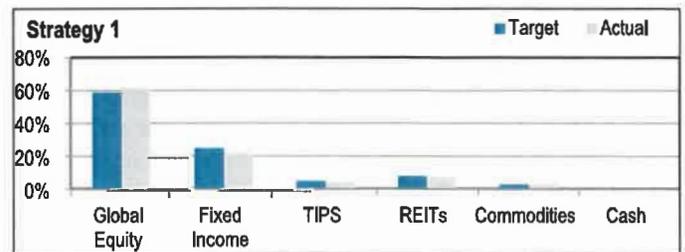
Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	± 5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of June 30, 2020								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	2.57%	14.10%	3.58%	3.58%	5.92%	5.84%	8.20%	4.82%
Net Return ^{2,3}	2.56%	14.07%	3.49%	3.49%	5.83%	5.75%	8.10%	4.74%
Benchmark Returns	2.53%	13.95%	3.16%	3.16%	5.59%	5.43%	7.92%	4.38%
Standard Deviation ⁴	-	-	-	-	11.46%	10.14%	10.07%	12.85%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expenses section of this document.

⁴ Standard Deviation is based on gross returns.

E



Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$19,653,426.72	\$18,379,772.40
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(2,975,699.50)	(1,694,037.20)
Administrative Expenses	(2,308.39)	(6,934.19)
Investment Expense	(1,687.80)	(5,069.98)
Other	0.00	0.00
Ending Balance	\$16,673,731.03	\$16,673,731.03
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$16,673,731.03	\$16,673,731.03

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,090,918.002	1,090,918.002
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	18.015494	16.847987
Period Ending Unit Value	15.284129	15.284129

Δ (15.2%) (9.3%)

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 08/04/2020

ITEM NO: 4

DATE: July 23, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review and Approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial Valuation and its Assumptions as Prepared and Recommended by Bartel Associates, LLC.

RECOMMENDATION:

Review and approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 actuarial valuation and its assumptions as prepared and recommended by Bartel Associates, LLC.

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 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 67.9% funding ratio. Since 2009 the Town has prefunded \$13,060,000 in contributions beyond the PayGo funding.

For the healthcare plan, the Town Pension and OPEB Trusts Oversight Committee retain the services of Bartel and Associates 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 2017.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

SUBJECT: Review and approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 actuarial valuation and its assumptions as prepared and recommended by Bartel Associates, LLC.

DATE: July 23, 2020

DISCUSSION:

Attachment 1 to this staff report presents the June 30, 2019 Actuarial Valuation Final Results from the Town’s actuary, Bartel and Associates. Since the 2017 valuation, the total OPEB Actuarial Accrued Liability increased from \$24.8 million to \$27.0 million as of June 30, 2019. However, the Unfunded Actuarial Accrued Liability decreased from approximately \$11.2 million as of June 30, 2017 to \$8.7 million as of the June 30, 2019. The decrease in the Unfunded Actuarial Accrued Liability since 2017 was primarily the result of positive investment and demographic experience. The net result is an increase in the funded status for the OPEB plan as of June 30, 2019 to 67.9% from 54.9%.

	June 30, 2017	June 30, 2019
Actuarial Value of Plan Assets	\$13,605,000	\$18,341,000
Actuarial Accrued Liability	24,773,000	27,017,000
Unfunded Actuarial Accrued Liability	11,168,000	8,676,000
Funded Status	54.9%	67.9%

In addition, the development of the actuarial valuation requires assumption recommendations by the Town’s actuary. The following table provides the primary actuarial assumptions recommended for the Committee’s consideration and adoption:

Assumption	June 30, 2017	June 30, 2019
General Inflation	2.75%	2.75%
Discount Rate	6.75%	6.75%
Payroll Increases	3.00%	3.00%
Amortization UAL	20 Years	18 Years

CONCLUSION:

Review and approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 actuarial valuation and its assumptions as prepared and recommended by Bartel Associates, LLC.

PAGE 3 OF 3

SUBJECT: Review and approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 actuarial valuation and its assumptions as prepared and recommended by Bartel Associates, LLC.

DATE: July 23, 2020

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Director of Finance.

FISCAL IMPACT:

No fiscal impact

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. June 30, 2019 OPEB Actuarial Valuation Final Results



**TOWN OF LOS GATOS
RETIREE HEALTHCARE PLAN**

BARTEL
ASSOCIATES, LLC

June 30, 2019 Actuarial Valuation
Final Results

Bartel Associates, LLC
Joseph R. D'Onofrio, FSA
Wai Man Yam, Actuarial Analyst
Katherine Moore, Associate Actuary
March 13, 2020

CONTENTS

<u>Topic</u>	<u>Page</u>
Benefit Summary	1
Funding Policy	5
Participant Summary	7
Assets	11
Valuation Results	13
Actuarial Certification	26
Exhibits	27

BENEFIT SUMMARY

<p>■ Eligibility</p>	<ul style="list-style-type: none"> • Retire directly from Town under CalPERS (service or disability) • Town Council members in CalPERS eligible
<p>■ Retiree Medical Benefit Tier 1</p>	<ul style="list-style-type: none"> • Maximum Town contribution is Kaiser Bay Area/Region 1 single premium plus 90% of difference between Kaiser premium for coverage elected (2-party and family) and single premium using: <ul style="list-style-type: none"> ➢ Non-Medicare premium for employees who retired before 2/1/16¹ ➢ Non-Medicare and Medicare premiums for employees who retired on or after 2/1/16 • Town contribution uses PEMHCA 5% unequal method <ul style="list-style-type: none"> ➢ Town joined PEMHCA in 1991 ➢ Maximum annual increase of \$100 per month - \$1,647.16 for family coverage (B/B/B) for 2019

¹ The prior valuation as of 6/30/17 assumed the Town contribution for Medicare eligible retirees who retired before 2/1/16 was based on the Kaiser Bay Area Medicare premium rather than the non-Medicare premium.



BENEFIT SUMMARY

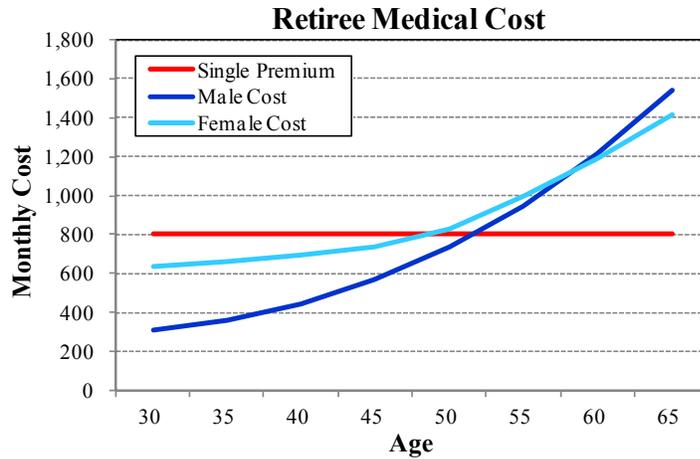
<p>■ Retiree Medical Benefit Tier 2</p>	<ul style="list-style-type: none"> • PEMHCA minimum amount for: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Employee Group</th> <th>Hired After</th> </tr> </thead> <tbody> <tr> <td>TEA</td> <td>8/22/18</td> </tr> <tr> <td>AFSCME</td> <td>7/1/18</td> </tr> <tr> <td>POA</td> <td>10/1/18</td> </tr> <tr> <td>Management</td> <td>10/1/18</td> </tr> <tr> <td>Confidential</td> <td>10/1/18</td> </tr> <tr> <td>Town Manager</td> <td>10/1/18</td> </tr> <tr> <td>Town Attorney</td> <td>10/1/18</td> </tr> <tr> <td>Town Council</td> <td>10/1/18</td> </tr> </tbody> </table> 	Employee Group	Hired After	TEA	8/22/18	AFSCME	7/1/18	POA	10/1/18	Management	10/1/18	Confidential	10/1/18	Town Manager	10/1/18	Town Attorney	10/1/18	Town Council	10/1/18
Employee Group	Hired After																		
TEA	8/22/18																		
AFSCME	7/1/18																		
POA	10/1/18																		
Management	10/1/18																		
Confidential	10/1/18																		
Town Manager	10/1/18																		
Town Attorney	10/1/18																		
Town Council	10/1/18																		
<p>■ PEMHCA Minimum Amount</p>	<p>2019 \$136 / month 2020 \$139 / month 2021 \$143 / month (estimated) 2022+ Medical CPI increases</p>																		
<p>■ Surviving Spouse Benefit</p>	<ul style="list-style-type: none"> • Retiree benefit paid to surviving spouse of retiree with CalPERS joint and survivor payment option • Retiree benefit paid to spouse of active employee who died while eligible to retire receiving CalPERS survivor benefit 																		



BENEFIT SUMMARY

■ **Implicit Subsidy**

- Retirees pay blended medical premiums rather than expected medical costs by age and gender
- Active premiums subsidize non-Medicare eligible retiree medical costs (“implicit subsidy”)



- Implicit subsidy required by Actuarial Standards of Practice for actuarial valuations for PEMHCA plans after 3/31/15



BENEFIT SUMMARY



This page intentionally blank



FUNDING POLICY

<p>■ Funding Policy</p>	<ul style="list-style-type: none"> • Contribute at least full ADC² less cash subsidy and implicit subsidy benefit payments with OPEB trust (CERBT Investment Strategy #1) • Cash subsidy and implicit subsidy benefit payments and PEMHCA administrative fees currently paid by the Town and not reimbursed from OPEB trust • Unfunded Liability amortized over 18 years for 2020/21 																																																																													
<p>■ Pay-As-You-Go Cost (000's)</p>	<table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Cash Subsidy</th> <th>Implicit Subsidy</th> <th>PEMHCA Fees</th> <th>Total PayGo</th> <th>Trust Paid</th> <th>Town Paid</th> </tr> </thead> <tbody> <tr><td>2018/19</td><td>\$1,104</td><td>\$195</td><td>\$8</td><td>\$1,307</td><td>\$0</td><td>\$1,307</td></tr> <tr><td>2017/18</td><td>1,138</td><td>188</td><td>9</td><td>1,335</td><td>0</td><td>1,335</td></tr> <tr><td>2016/17</td><td>1,040</td><td>229</td><td>9</td><td>1,278</td><td>0</td><td>1,278</td></tr> <tr><td>2015/16</td><td>943</td><td>253</td><td>n/a</td><td>1,196</td><td>0</td><td>1,196</td></tr> <tr><td>2014/15</td><td>859</td><td>n/a</td><td>n/a</td><td>859</td><td>0</td><td>859</td></tr> <tr><td>2013/14</td><td>754</td><td>n/a</td><td>n/a</td><td>754</td><td>0</td><td>754</td></tr> <tr><td>2012/13</td><td>687</td><td>n/a</td><td>n/a</td><td>687</td><td>0</td><td>687</td></tr> <tr><td>2011/12</td><td>636</td><td>n/a</td><td>n/a</td><td>636</td><td>0</td><td>636</td></tr> <tr><td>2010/11</td><td>581</td><td>n/a</td><td>n/a</td><td>581</td><td>0</td><td>581</td></tr> <tr><td>2009/10</td><td>400</td><td>n/a</td><td>n/a</td><td>400</td><td>0</td><td>400</td></tr> </tbody> </table>	Fiscal Year	Cash Subsidy	Implicit Subsidy	PEMHCA Fees	Total PayGo	Trust Paid	Town Paid	2018/19	\$1,104	\$195	\$8	\$1,307	\$0	\$1,307	2017/18	1,138	188	9	1,335	0	1,335	2016/17	1,040	229	9	1,278	0	1,278	2015/16	943	253	n/a	1,196	0	1,196	2014/15	859	n/a	n/a	859	0	859	2013/14	754	n/a	n/a	754	0	754	2012/13	687	n/a	n/a	687	0	687	2011/12	636	n/a	n/a	636	0	636	2010/11	581	n/a	n/a	581	0	581	2009/10	400	n/a	n/a	400	0	400
Fiscal Year	Cash Subsidy	Implicit Subsidy	PEMHCA Fees	Total PayGo	Trust Paid	Town Paid																																																																								
2018/19	\$1,104	\$195	\$8	\$1,307	\$0	\$1,307																																																																								
2017/18	1,138	188	9	1,335	0	1,335																																																																								
2016/17	1,040	229	9	1,278	0	1,278																																																																								
2015/16	943	253	n/a	1,196	0	1,196																																																																								
2014/15	859	n/a	n/a	859	0	859																																																																								
2013/14	754	n/a	n/a	754	0	754																																																																								
2012/13	687	n/a	n/a	687	0	687																																																																								
2011/12	636	n/a	n/a	636	0	636																																																																								
2010/11	581	n/a	n/a	581	0	581																																																																								
2009/10	400	n/a	n/a	400	0	400																																																																								

² Actuarially Determined Contribution (ADC) is GASBS 75's terminology for the recommended funding contribution.



FUNDING POLICY

<p>■ Town Contributions ('000's)</p>	<table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Town PayGo</th> <th>Trust Prefund</th> <th>Total Contrib</th> <th>ARC/ADC</th> <th>Discount Rate</th> </tr> </thead> <tbody> <tr><td>2018/19</td><td>\$1,307</td><td>\$1,100</td><td>\$2,407</td><td>\$2,108</td><td>6.75%</td></tr> <tr><td>2017/18</td><td>1,335</td><td>1,600</td><td>2,935</td><td>2,129</td><td>7.25%</td></tr> <tr><td>2016/17</td><td>1,278</td><td>2,600</td><td>3,878</td><td>2,067</td><td>7.25%</td></tr> <tr><td>2015/16</td><td>1,196</td><td>1,500</td><td>2,696</td><td>1,913</td><td>7.25%</td></tr> <tr><td>2014/15</td><td>859</td><td>1,300</td><td>2,159</td><td>1,864</td><td>7.25%</td></tr> <tr><td>2013/14</td><td>754</td><td>1,300</td><td>2,054</td><td>2,619</td><td>S&U</td></tr> <tr><td>2012/13</td><td>687</td><td>1,200</td><td>1,887</td><td>2,492</td><td>S&U</td></tr> <tr><td>2011/12</td><td>636</td><td>1,060</td><td>1,696</td><td>2,129</td><td>S&U</td></tr> <tr><td>2010/11</td><td>581</td><td>850</td><td>1,431</td><td>1,990</td><td>S&U</td></tr> <tr><td>2009/10</td><td>400</td><td>550</td><td>950</td><td>1,953</td><td>S&U</td></tr> </tbody> </table>	Fiscal Year	Town PayGo	Trust Prefund	Total Contrib	ARC/ADC	Discount Rate	2018/19	\$1,307	\$1,100	\$2,407	\$2,108	6.75%	2017/18	1,335	1,600	2,935	2,129	7.25%	2016/17	1,278	2,600	3,878	2,067	7.25%	2015/16	1,196	1,500	2,696	1,913	7.25%	2014/15	859	1,300	2,159	1,864	7.25%	2013/14	754	1,300	2,054	2,619	S&U	2012/13	687	1,200	1,887	2,492	S&U	2011/12	636	1,060	1,696	2,129	S&U	2010/11	581	850	1,431	1,990	S&U	2009/10	400	550	950	1,953	S&U
Fiscal Year	Town PayGo	Trust Prefund	Total Contrib	ARC/ADC	Discount Rate																																																														
2018/19	\$1,307	\$1,100	\$2,407	\$2,108	6.75%																																																														
2017/18	1,335	1,600	2,935	2,129	7.25%																																																														
2016/17	1,278	2,600	3,878	2,067	7.25%																																																														
2015/16	1,196	1,500	2,696	1,913	7.25%																																																														
2014/15	859	1,300	2,159	1,864	7.25%																																																														
2013/14	754	1,300	2,054	2,619	S&U																																																														
2012/13	687	1,200	1,887	2,492	S&U																																																														
2011/12	636	1,060	1,696	2,129	S&U																																																														
2010/11	581	850	1,431	1,990	S&U																																																														
2009/10	400	550	950	1,953	S&U																																																														



PARTICIPANT SUMMARY

Eligible Participants - June 30, 2019

CalPERS Classification	Misc		Safety		Total	
■ Actives						
• Participating	87	78%	30	79%	117	79%
• Waived Coverage	<u>24</u>	<u>22%</u>	<u>8</u>	<u>21%</u>	<u>32</u>	<u>21%</u>
• Total Actives	111	100%	38	100%	149 ³	100%
• Average Age	44.8		43.1		44.4	
• Average Town Service	8.0		10.7		8.7	
• Total Payroll (000's)	\$10,364		\$5,522		\$15,886	
■ Retirees						
• Participating	94	74%	36	75%	130	74%
• Waived Coverage	<u>33</u>	<u>26%</u>	<u>12</u>	<u>25%</u>	<u>45</u>	<u>26%</u>
• Total Retirees	127	100%	48	100%	175	100%
• Average Age	72.3		64.6		70.2	
• Average Service Retirement Age	59.9		53.4		58.6	
• Average Disabled Retirement Age	49.8		46.3		46.5	
■ Retirees/Actives	114%		126%		117%	

³ 10 active employees on 6/30/19 are in Tier 2.



PARTICIPANT SUMMARY

Eligible Participants - June 30, 2017

CalPERS Classification	Misc		Safety		Total	
■ Actives						
• Participating	83	74%	29	81%	112	76%
• Waived Coverage	<u>29</u>	<u>26%</u>	<u>7</u>	<u>19%</u>	<u>36</u>	<u>24%</u>
• Total Actives	112	100%	36	100%	148	100%
• Average Age	44.3		42.9		43.9	
• Average Town Service	7.7		11.0		8.5	
• Total Payroll (000's)	\$9,400		\$4,651		\$14,051	
■ Retirees						
• Participating	90	71%	32	71%	122	71%
• Waived Coverage	<u>37</u>	<u>29%</u>	<u>13</u>	<u>29%</u>	<u>50</u>	<u>29%</u>
• Total Retirees	127	100%	45	100%	172	100%
• Average Age	71.1		63.3		69.0	
• Average Service Retirement Age	59.8		53.6		58.6	
• Average Disabled Retirement Age	49.8		46.4		46.6	
■ Retirees/Actives	112%		125%		116%	



PARTICIPANT SUMMARY

Participant Reconciliation
Miscellaneous

Participants	Actives	Retirees			
		Service	Disabled	Survivors	Total
■ June 30, 2017	112	113	1	13	127
• Terminations ⁴	(16)	-	-	-	-
• New Retirees & Survivors	(6)	6	0	0	6
• Retiree Deaths with Survivor	-	(3)	(0)	3	-
• Retiree Deaths without Survivor ⁵	-	(4)	(0)	(2)	(6)
• New Participants	21	-	-	-	-
■ June 30, 2019	111	112	1	14	127

⁴ Active employees reported for the 6/30/17 valuation and not reported for the 6/30/19 valuation were assumed to be terminations and deaths before retirement.

⁵ Retirees reported for the 6/30/17 valuation and not reported for the 6/30/19 valuation were assumed to be deaths without covered survivors.



PARTICIPANT SUMMARY

Participant Reconciliation
Safety

Participants	Actives	Retirees			
		Service	Disabled	Survivors	Total
■ June 30, 2017	36	25	16	4	45
• Terminations ⁶	(1)	-	-	-	-
• New Retirees & Survivors	(3)	2	1	0	3
• Retiree Deaths with Survivor	-	(0)	(1)	1	-
• Retiree Deaths without Survivor ⁷	-	(0)	(0)	(0)	(0)
• New Participants	6	-	-	-	-
■ June 30, 2019	38	27	16	5	48

⁶ Active employees reported for the 6/30/17 valuation and not reported for the 6/30/19 valuation were assumed to be terminations and deaths before retirement.

⁷ Retirees reported for the 6/30/17 valuation and not reported for the 6/30/19 valuation were assumed to be deaths without covered survivors.



ASSETS

Market Value of Plan Assets

(Amounts in 000's)

Market Value of Assets	2015/16	2016/17	2017/18	2018/19
■ Market Value at Beginning of Year	\$8,346	\$9,958	\$13,601	\$16,277
● Town Contributions				
➢ Trust Prefunding Contributions	1,500	2,600	1,600	1,100
➢ Town Cash Subsidy Benefit Payments	943	1,040	1,138	1,104
➢ Town Implicit Subsidy Benefit Payments	253	229	188	195
➢ PEMHCA Administrative Fees	n/a	9	9	8
➢ Total Contributions	2,696	3,878	2,935	2,407
● Investment Earnings	119	1,053	1,088	1,017
● Benefit Payments				
➢ Cash Subsidy Benefit Payments	(943)	(1,040)	(1,138)	(1,104)
➢ Implicit Subsidy Benefit Payments	(253)	(229)	(188)	(195)
➢ Total Benefit Payments	(1,196)	(1,269)	(1,326)	(1,299)
● Investment Expenses	(3)	(4)	(5)	(6)
● CERBT Administrative Expenses	(4)	(5)	(7)	(8)
● PEMHCA Administrative Fees	n/a	(9)	(9)	(8)
■ Market Value at End of Year	9,958	13,601	16,277	18,380
■ Estimated Annual Return	1.4%	10.5%	8.0%	6.2%
■ CERBT #1 Annual Return	1.0%	10.6%	8.0%	6.2%



ASSETS

Actuarial Value of Plan Assets

(Amounts in 000's)

Actuarial Value of Assets	2015/16	2016/17	2017/18	2018/19
■ Actuarial Value at Beginning of Year	\$8,238	\$10,261	\$13,605	\$16,149
● Town Contributions	2,696	3,878	2,935	2,407
● Expected Net Earnings	598	745	919	1,091
● Benefit Payments	(1,196)	(1,269)	(1,326)	(1,299)
● Administrative Expenses	n/a	(9)	(16)	(16)
■ Expected AVA at End of Year	10,336	13,606	16,117	18,332
■ Accrued Market Value at End of Year	9,958	13,601	16,277	18,380
■ MVA - Expected AVA	(379)	(5)	160	48
■ 1/5 of (MVA - Expected AVA)	(76)	(1)	32	10
■ Preliminary AVA	10,261	13,605	16,149	18,341
■ Minimum AVA (80% of MVA)	7,966	10,881	13,021	14,704
■ Maximum AVA (120% of MVA)	11,949	16,321	19,532	22,056
■ Actuarial Value at End Year	10,261	13,605	16,149	18,341
■ Actuarial Value Estimated Net Return	6.3%	7.2%	7.0%	6.8%
■ AVA/MVA	103%	100%	99%	100%



VALUATION RESULTS

Actuarial Obligations

Actuarial Obligations (Amounts in 000's)	<u>6/30/17 Valuation</u>		<u>6/30/19 Valuation</u>		
	Actual 6/30/17	Projected 6/30/19	Actual 6/30/19	Projected 6/30/20	Projected 6/30/21
■ Discount Rate	6.75%	6.75%	6.75%	6.75%	6.75%
■ Present Value of Benefits					
• Actives	\$19,569	n/a	\$19,848	n/a	n/a
• Retirees	<u>15,436</u>	<u>n/a</u>	<u>16,952</u>	<u>n/a</u>	<u>n/a</u>
• Total	35,005	\$37,106	36,800	\$37,794	\$38,814
■ Actuarial Accrued Liability					
• Actives	9,337	n/a	10,065	n/a	n/a
• Retirees	<u>15,436</u>	<u>n/a</u>	<u>16,952</u>	<u>n/a</u>	<u>n/a</u>
• Total	24,773	28,061	27,017	28,568	30,155
■ Actuarial Value of Assets	<u>13,605</u>	<u>17,084</u>	<u>18,341</u>	<u>20,259</u>	<u>21,949</u>
■ Unfunded AAL	11,168	10,977	8,676	8,309	8,206
■ Funded Percentage	54.9%	60.9%	67.9%	70.9%	72.8%
■ Annual Cost for Following Year					
• Normal Cost	1,247	1,323	1,217	1,191	1,171
• PEMHCA Administrative Fees	4	4	2	2	2
• CERBT Administrative Expenses	<u>8</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>11</u>
• Annual Cost	1,259	1,337	1,228	1,203	1,184



VALUATION RESULTS

Actuarial Obligations

June 30, 2019

Actuarial Obligations (Amounts in 000's)	Cash Subsidy	Implicit Subsidy	Total Subsidy
■ Discount Rate	6.75%	6.75%	6.75%
■ Present Value of Benefits			
• Actives	\$16,486	\$3,362	\$19,848
• Retirees	<u>15,694</u>	<u>1,258</u>	<u>16,952</u>
• Total	32,180	4,620	36,800
■ Actuarial Accrued Liability			
• Actives	8,358	1,707	10,065
• Retirees	<u>15,694</u>	<u>1,258</u>	<u>16,952</u>
• Total	24,052	2,965	27,017
■ Actuarial Value of Assets⁸	<u>16,328</u>	<u>2,013</u>	<u>18,341</u>
■ Unfunded AAL	7,724	952	8,676
■ Annual Cost 2020/21			
• Normal Cost	993	197	1,191
• PEMHCA Administrative Fee	2	n/a	2
• CERBT Administrative Expenses	<u>10</u>	<u>n/a</u>	<u>10</u>
• Annual Cost	1,005	197	1,203

⁸ Actuarial Value of Assets allocated to cash subsidy and implicit subsidy in proportion to Actuarial Accrued Liability.



VALUATION RESULTS

Estimated Gains & Losses

(Amounts in 000's)

Actuarial Gains & Losses	AAL	(AVA)	UAAL	Fund%
■ 6/30/17 Actual Amounts	\$24,773	\$(13,605)	\$11,168	54.9%
■ 6/30/19 Expected Amounts	28,061	(17,084)	10,977	60.9%
■ Plan Grandfather Benefits	1,167	-	1,167	
■ Experience Losses (Gains)				
• Actual versus expected premiums ⁹	(1,251)	-	(1,251)	
• Demographic & other	(88)	-	(88)	
• Asset loss (gain)	-	(1,257)	(1,257)	
■ Assumption Changes				
• Mortality improvement	(160)	-	(160)	
• Participation at retirement ¹⁰	(231)	-	(231)	
• Remove ACA high cost plan excise tax	<u>(481)</u>	<u>-</u>	<u>(481)</u>	
■ Total Changes	(1,044)	(1,257)	(2,301)	7.0%
■ 6/30/19 Actual Amounts	27,017	(18,341)	8,676	67.9%

⁹ Includes the impact of actual versus expected premiums and changes in claims aging factors.

¹⁰ Includes change in family coverage at retirement assumption.



VALUATION RESULTS



This page intentionally blank



VALUATION RESULTS

Actuarially Determined Contributions (ADC)

(Amounts in 000's)

Actuarially Determined Contribution	<u>6/30/17 Valuation</u>		<u>6/30/19 Valuation</u>	
	2018/19	2019/20	2020/21 ¹¹	2021/22
■ Discount Rate	6.75%	6.75%	6.75%	6.75%
■ ADC - \$				
• Annual Cost	\$1,298	\$1,337	\$1,203	\$1,184
• UAAL Amortization	<u>810</u>	<u>835</u>	<u>656</u>	<u>676</u>
• Total ADC	2,108	2,172	1,859	1,860
■ Projected Payroll¹²	14,688	15,129	16,853	17,359
■ ADC - %				
• Annual Cost	8.8%	8.8%	7.1%	6.8%
• UAAL Amortization	<u>5.5%</u>	<u>5.5%</u>	<u>3.9%</u>	<u>3.9%</u>
• Total ADC%	14.4%	14.4%	11.0%	10.7%
■ UAAL Amortization Years	20	19	18	17

¹¹ 1-year lag period between valuation date and first fiscal year ADC.

¹² For 2020/21, reported 2018/19 PERSable payroll projected 2 years using the aggregate payroll assumption of 3.00%.



VALUATION RESULTS

Actuarially Determined Contribution (ADC)

2020/21 Fiscal Year

(Amounts in 000's)

Actuarially Determined Contribution	Cash Subsidy	Implicit Subsidy	Total Subsidy
■ Discount Rate	6.75%	6.75%	6.75%
■ ADC - \$			
• Annual Cost	\$1,005	\$197	\$1,203
• UAAL Amortization	<u>585</u>	<u>72</u>	<u>656</u>
• Total ADC	1,590	269	1,859
■ Projected Payroll	16,853	16,853	16,853
■ ADC - %			
• Annual Cost	6.0%	1.2%	7.1%
• UAAL Amortization	<u>3.5%</u>	<u>0.4%</u>	<u>3.9%</u>
• Total ADC%	9.4%	1.6%	11.0%
■ UAAL Amortization Years	18	18	18



VALUATION RESULTS

Benefit Payment Projection

(Amounts in 000's)

Fiscal Year End	Cash Subsidy ¹³			Implicit Subsidy	Total Benefit Payments
	Current Actives	Current Retirees	Total Cash		
2020	\$ 49	\$1,163	\$1,212	\$230	\$1,442
2021	129	1,137	1,266	216	1,482
2022	212	1,138	1,350	211	1,561
2023	291	1,151	1,442	210	1,652
2024	387	1,157	1,544	222	1,766
2025	488	1,163	1,651	230	1,881
2026	579	1,184	1,763	240	2,003
2027	681	1,208	1,889	277	2,166
2028	797	1,203	2,000	279	2,279
2029	912	1,217	2,129	324	2,453
PVB ¹⁴	16,486	15,694	32,180	4,620	36,800

¹³ Does not include estimated PEMHCA administrative fees.

¹⁴ Present Value of Benefits for all years, including those after the 10 years shown. The Present Value of Benefits is the discounted value of future expected Town benefit payments using the valuation discount rate.



VALUATION RESULTS

Total Payments Projection

(Amounts in 000's)

Fiscal Year End	Cash Benefit Payments	PEMHCA Admin Expense	Total Cash Payments	Implicit Subsidy Payments	Total Benefit Payments	Percent of Payroll
2020	\$1,212	\$2	\$1,214	\$230	\$1,444	8.8%
2021	1,266	2	1,268	216	1,484	8.8%
2022	1,350	2	1,352	211	1,563	9.0%
2023	1,442	2	1,444	210	1,654	9.3%
2024	1,544	2	1,546	222	1,768	9.6%
2025	1,651	2	1,653	230	1,883	9.9%
2026	1,763	2	1,765	240	2,005	10.3%
2027	1,889	2	1,891	277	2,168	10.8%
2028	2,000	3	2,003	279	2,282	11.0%
2029	2,129	3	2,132	324	2,456	11.5%



VALUATION RESULTS

Contribution Projection - ADC Funding

(Amounts in 000's)

Fiscal Year End ¹⁵	Actuarially Determined Contribution					Town Contributions ¹⁶			
	Annual Cost	UAAL Amort	ADC	Projected Payroll	ADC % Pay	Cash Subsidy	Implicit Subsidy	Trust Funding	Total Contrib
2020	\$1,337	\$835	\$2,172	\$15,129	14.4%	\$1,214	\$230	\$728	\$2,172
2021	1,203	656	1,859	16,853	11.0%	1,268	216	375	1,859
2022	1,184	676	1,860	17,359	10.7%	1,352	211	297	1,860
2023	1,171	695	1,866	17,880	10.4%	1,444	210	212	1,866
2024	1,156	716	1,872	18,416	10.2%	1,546	222	104	1,872
2025	1,140	737	1,877	18,969	9.9%	1,653	230	0	1,883
2026	1,120	758	1,878	19,538	9.6%	1,765	240	0	2,005
2027	1,101	767	1,868	20,124	9.3%	1,891	277	0	2,168
2028	1,079	755	1,834	20,728	8.8%	2,003	279	0	2,282
2029	1,057	721	1,778	21,349	8.3%	2,132	324	0	2,456

¹⁵ ADC for the fiscal year ending 6/30/20 was determined by the 6/30/17 actuarial valuation.

¹⁶ Projection assumes Town pays benefit payments and PEMHCA administrative fees directly from Town assets and does not request reimbursement from the OPEB trust.



VALUATION RESULTS

Funded Status Projection - ADC Funding

(Amounts in 000's)

Fiscal Year End	Actuarial Value of Assets ¹⁷						Funded Status		
	BOY AVA	Trust Funding	CS Payments	IS Payments	Expected Earnings	EOY AVA	BOY AAL	BOY UAAL ¹⁸	BOY Fund%
2020	\$18,341	\$728	\$(0)	\$(0)	\$1,190	\$20,259	\$27,017	\$8,676	68%
2021	20,259	375	(0)	(0)	1,315	21,949	28,568	8,309	71%
2022	21,949	297	(0)	(0)	1,425	23,671	30,155	8,206	73%
2023	23,671	212	(0)	(0)	1,536	25,419	31,749	8,078	75%
2024	25,419	104	(0)	(0)	1,648	27,171	33,342	7,923	76%
2025	27,171	0	(0)	(0)	1,762	28,933	34,909	7,738	78%
2026	28,933	0	(0)	(0)	1,875	30,808	36,446	7,513	79%
2027	30,808	0	(0)	(0)	1,995	32,803	37,940	7,132	81%
2028	32,803	0	(0)	(0)	2,124	34,927	39,346	6,543	83%
2029	34,927	0	(0)	(0)	2,261	37,188	40,707	5,780	86%

¹⁷ Projection assumes Town pays benefit payments and PEMHCA administrative fees directly from Town assets and does not request reimbursement from the OPEB trust. Expected earnings is shown net of investment and CERBT administrative expenses.

¹⁸ UAAL is amortized over 18 years for 2020/21 and decreases by 1 year for each year thereafter.



VALUATION RESULTS

CERBT Prefunding¹⁹
CERBT Target Investment Allocation

■ CERBT Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Global Equity	59%	40%	22%
■ Fixed Income	25%	43%	49%
■ TIPS	5%	5%	16%
■ REITs	8%	8%	8%
■ Commodities	<u>3%</u>	<u>4%</u>	<u>5%</u>
■ Total	100%	100%	100%
■ Long-Term Expected Real Return ²⁰	4.14%	3.54%	2.83%
■ Long-Term Inflation Assumption	2.75%	2.75%	2.75%
■ Assumed Investment Expenses	<u>(0.05%)</u>	<u>(0.05%)</u>	<u>(0.05%)</u>
■ Long-Term Expected Net Nominal Return	6.84%	6.24%	5.53%
■ Recommended Discount Rate	6.75%	6.25%	5.50%

¹⁹ Bartel Associates is not an investment advisor and cannot recommend specific OPEB trusts. CERBT funds are shown for illustrative purposes only. Other OPEB trust options are available.

²⁰ Using Bartel Associates' 2017 capital market assumptions which are based on a survey of various investment advisors' expected asset class returns.



VALUATION RESULTS

CERBT Prefunding
 (Amounts in 000's)

■ Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Discount Rate	6.75%	6.25%	5.50%
■ Present Value of Benefits	\$36,800	\$39,792	\$45,057
■ Funded Status - 6/30/19			
• Actuarial Accrued Liability	27,017	28,649	31,414
• Actuarial Value of Assets	<u>18,341</u>	<u>18,341</u>	<u>18,341</u>
• Unfunded AAL	8,676	10,308	13,073
• Funded Percentage	67.9%	64.0%	58.4%
■ ADC 2020/21			
• Annual Cost	1,203	1,322	1,528
• UAAL Amortization ²¹	<u>656</u>	<u>761</u>	<u>922</u>
• Total ADC	1,859	2,082	2,451
■ ADC% 2020/21	11.0%	12.4%	14.5%

²¹ Amortized as a level percentage of payroll over a 18-year period.



VALUATION RESULTS

Implicit Subsidy Illustration

(Amounts in 000's)

2020/21	Pay-As-You-Go Cost			Town Contribution		
	Actives	OPEB	Total	Actives	OPEB ²²	Total
■ Before Implicit Subsidy						
• Cash Subsidy ²³	\$2,000	\$1,268	\$3,268	\$2,000	\$1,590	\$3,590
• Implicit Subsidy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
• Total	2,000	1,268	3,268	2,000	1,590	3,590
■ After Implicit Subsidy						
• Cash Subsidy	2,000	1,268	3,268	2,000	1,590	3,590
• Implicit Subsidy ²⁴	<u>(216)</u>	<u>216</u>	<u>0</u>	<u>(216)</u>	<u>269</u>	<u>53</u>
• Total	1,784	1,484	3,268	1,784	1,859	3,643
■ Change						
• Cash Subsidy	0	0	0	0	0	0
• Implicit Subsidy	<u>(216)</u>	<u>216</u>	<u>0</u>	<u>(216)</u>	<u>269</u>	<u>53</u>
• Total	(216)	216	0	(216)	269	53

²² The Town contribution is shown as the ADC for purposes of this illustration.

²³ Estimate of Town's active employee cash subsidy.

²⁴ The Town's active premium pay-as-you go-cost is offset by the estimated retiree implicit subsidy pay-as-you-go cost.

 March 13, 2020

25



ACTUARIAL CERTIFICATION

This report presents the Town of Los Gatos Retiree Healthcare Plan ("Plan") June 30, 2019 actuarial valuation. The purpose of this valuation is to calculate the June 30, 2019 funded status and 2020/21 and 2021/22 Actuarially Determined Contributions and provide the basis for the Town's GASBS 75 accounting information report for the fiscal years ending on June 30, 2020 and June 30, 2021. The report may not be appropriate for other purposes.

Future valuations may differ significantly if the Plan's experience differs from the assumptions or if there are changes in Plan design, actuarial methods, or actuarial assumptions. The scope of the valuation did not include an analysis of this potential variation.

The valuation is based on Plan provisions, participant data, and asset information provided by the Town as summarized in this report, which we relied on but did not audit. We reviewed the participant data for reasonableness.

To the best of our knowledge, this report is complete and accurate and has been completed using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy's 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
March 13, 2020



Katherine Moore, ASA, MAAA
Associate Actuary
Bartel Associates, LLC
March 13, 2020

 March 13, 2020



EXHIBITS

<u>Topic</u>	<u>Page</u>
Premiums	E-1
Participant Statistics	E-6
Actuarial Assumptions	E-18
Actuarial Methods	E-31
Definitions	E-33



PREMIUMS

2018 PEMHCA Monthly Premiums
Bay Area

Medical Plan	Non-Medicare Eligible			Medicare Eligible		
	Single B	2-Party B/B	Family B/B/B	Single M	2-Party M/M	Family M/M/M
Anthem HMO Select	\$856.41	\$1,712.82	\$2,226.67	n/a	n/a	n/a
Anthem HMO Traditional	925.47	1,850.94	2,406.22	\$370.34	\$740.68	\$1,111.02
Blue Shield Access+	889.02	1,778.04	2,311.45	n/a	n/a	n/a
Health Net SmartCare	863.48	1,726.96	2,245.05	n/a	n/a	n/a
Kaiser Permanente	779.86	1,559.72	2,027.64	316.34	632.68	992.28
UnitedHealthcare	1,371.84	2,743.68	3,566.78	330.76	661.52	992.28
Western Health Advantage	792.56	1,585.12	2,060.66	n/a	n/a	n/a
PERS Choice	800.27	1,600.54	2,080.70	345.97	691.94	1,037.91
PERS Select	717.50	1,435.00	1,865.50	345.97	691.94	1,037.91
PERSCare	882.45	1,764.90	2,294.37	382.30	764.60	1,146.90
PORAC	734.00	1,540.00	1,970.00	487.00	970.00	1,551.00



PREMIUMS

2019 PEMHCA Monthly Premiums
Bay Area

Medical Plan	Non-Medicare Eligible			Medicare Eligible		
	Single B	2-Party B/B	Family B/B/B	Single M	2-Party M/M	Family M/M/M
Anthem HMO Select	\$831.44	\$1,662.88	\$2,161.74	n/a	n/a	n/a
Anthem HMO Traditional	1,111.13	2,222.26	2,888.94	\$357.44	\$714.88	\$1,072.32
Blue Shield Access+	970.90	1,941.80	2,524.34	n/a	n/a	n/a
Health Net SmartCare	901.55	1,803.10	2,344.03	n/a	n/a	n/a
Kaiser Permanente	768.25	1,536.50	1,997.45	323.74	647.48	971.22
UnitedHealthcare	n/a	n/a	n/a	299.37	598.74	898.11
Western Health Advantage	767.01	1,534.02	1,994.23	n/a	n/a	n/a
PERS Choice	866.27	1,732.54	2,252.30	360.41	720.82	1,081.23
PERS Select	543.19	1,086.38	1,412.29	360.41	720.82	1,081.23
PERSCare	1,131.68	2,263.36	2,942.37	394.83	789.66	1,184.49
PORAC	774.00	1,623.00	2,076.00	513.00	1,022.00	1,635.00



PREMIUMS

2020 PEMHCA Monthly Premiums
Region 1

Medical Plan	Non-Medicare Eligible			Medicare Eligible		
	Single B	2-Party B/B	Family B/B/B	Single M	2-Party M/M	Family M/M/M
Anthem HMO Select	\$868.98	\$1,737.96	\$2,259.35	\$388.15	\$776.30	\$1,164.45
Anthem HMO Traditional	1,184.84	2,369.68	3,080.58	388.15	776.30	1,164.45
Blue Shield Access+	1,127.77	2,255.54	2,932.20	n/a	n/a	n/a
Blue Shield Trio	833.00	1,666.00	2,165.80	n/a	n/a	n/a
Health Net SmartCare	1,000.52	2,001.04	2,601.35	n/a	n/a	n/a
Kaiser Permanente	768.49	1,536.98	1,998.07	339.43	678.86	1,018.29
UnitedHealthcare	899.94	1,799.88	2,339.84	327.03	654.06	981.09
Western Health Advantage	731.96	1,463.92	1,903.10	n/a	n/a	n/a
Anthem EPO Del Norte	861.18	1,722.36	2,239.07	n/a	n/a	n/a
PERS Choice	861.18	1,722.36	2,239.07	351.39	702.78	1,054.17
PERS Select	520.29	1,040.58	1,352.75	351.39	702.78	1,054.17
PERSCare	1,133.14	2,266.28	2,946.16	384.78	769.56	1,154.34
PORAC	774.00	1,699.00	2,199.00	513.00	1,022.00	1,635.00



PREMIUMS

PEMHCA Monthly Premium Increases
Bay Area/Region 1 - 2019 to 2020

Medical Plan	Actual Increases		Assumed Increases	
	Non-Medicare	Medicare	Non-Medicare	Medicare
Anthem HMO Select	4.5%	n/a	7.5%	n/a
Anthem HMO Traditional	6.6%	8.6%	7.5%	6.5%
Blue Shield Access+	16.2%	n/a	7.5%	n/a
Blue Shield Trio	n/a	n/a	n/a	n/a
Health Net SmartCare	11.0%	n/a	7.5%	n/a
Kaiser Permanente	0.0%	4.8%	7.5%	6.5%
UnitedHealthcare	n/a	9.2%	7.5%	6.5%
Western Health Advantage	(4.6%)	n/a	7.5%	n/a
Anthem EPO Del Norte	n/a	n/a	n/a	n/a
PERS Choice	(0.6%)	(2.5%)	7.5%	6.5%
PERS Select	(4.2%)	(2.5%)	7.5%	6.5%
PERSCare	0.1%	(2.5%)	7.5%	6.5%
PORAC (single)	0.0%	0.0%	7.5%	6.5%



PREMIUMS

PEMHCA Monthly Premium Increases
Bay Area/Region 1 - 2018 to 2020

Medical Plan	Actual Increases		Assumed Increases	
	Non-Medicare	Medicare	Non-Medicare	Medicare
Anthem HMO Select	1.5%	n/a	15.6%	n/a
Anthem HMO Traditional	28.0%	4.8%	15.6%	13.4%
Blue Shield Access+	26.9%	n/a	15.6%	n/a
Blue Shield Trio	n/a	n/a	n/a	n/a
Health Net SmartCare	15.9%	n/a	15.6%	n/a
Kaiser Permanente	(1.5%)	7.3%	15.6%	13.4%
UnitedHealthcare	(34.4%)	(1.1%)	15.6%	13.4%
Western Health Advantage	(7.6%)	n/a	15.6%	n/a
Anthem EPO Del Norte	n/a	n/a	n/a	n/a
PERS Choice	(7.6%)	1.6%	15.6%	13.4%
PERS Select	(27.5%)	1.6%	15.6%	13.4%
PERSCare	28.4%	0.6%	15.6%	13.4%
PORAC (single)	5.4%	5.3%	15.6%	13.4%



PARTICIPANT STATISTICS

**Medical Plan Participation
Miscellaneous Non-Waived Participants**

Medical Plan	June 30, 2017			June 30, 2019		
	Actives	Retirees		Actives	Retirees	
		< 65	≥ 65		< 65	≥ 65
Anthem HMO Select	13%	8%	0%	15%	13%	1%
Anthem HMO Traditional	8%	0%	0%	3%	4%	0%
Blue Shield Access+	3%	11%	0%	0%	0%	0%
Health Net SmartCare	3%	8%	0%	1%	0%	0%
Kaiser Permanente	57%	31%	27%	63%	42%	30%
UnitedHealthcare	0%	0%	17%	0%	0%	16%
Western Health Advantage	n/a	n/a	n/a	0%	0%	0%
PERS Choice	12%	34%	33%	17%	33%	30%
PERS Select	2%	0%	0%	1%	4%	0%
PERSCare	2%	8%	23%	0%	4%	23%
Total	100%	100%	100%	100%	100%	100%



PARTICIPANT STATISTICS

**Medical Plan Participation
Safety Non-Waived Participants**

Medical Plan	June 30, 2017			June 30, 2019		
	Actives	Retirees		Actives	Retirees	
		< 65	≥ 65		< 65	≥ 65
Anthem HMO Select	17%	11%	0%	10%	10%	0%
Anthem HMO Traditional	0%	0%	0%	0%	0%	7%
Blue Shield Access+	0%	5%	0%	0%	0%	0%
Health Net SmartCare	0%	0%	0%	0%	0%	0%
Kaiser Permanente	48%	21%	23%	57%	33%	20%
UnitedHealthcare	0%	0%	8%	0%	0%	0%
Western Health Advantage	n/a	n/a	n/a	0%	0%	0%
PERS Choice	4%	26%	23%	3%	24%	20%
PERS Select	0%	0%	0%	0%	0%	7%
PERSCare	0%	0%	8%	0%	0%	13%
PORAC	31%	37%	38%	30%	33%	33%
Total	100%	100%	100%	100%	100%	100%



PARTICIPANT STATISTICS

Active Medical Coverage
Miscellaneous

Medical Plan	Single	2-Party	Family	Cash	Total
Anthem HMO Select	3	2	7		12
Anthem HMO Traditional	2		1		3
Blue Shield Access+					0
Health Net SmartCare			1		1
Kaiser Permanente	26	9	20		55
UnitedHealthcare					0
Western Health Advantage					0
PERS Choice	6	4	5		15
PERS Select			1		1
PERSCare					0
Waived				24	24
Total	37	15	35	24	111
Election %	43%	17%	40%		
Waived %				22%	



March 13, 2020

E-8



PARTICIPANT STATISTICS

Active Medical Coverage
Safety

Medical Plan	Single	2-Party	Family	Cash	Total
Anthem HMO Select			3		3
Anthem HMO Traditional					0
Blue Shield Access+					0
Health Net SmartCare					0
Kaiser Permanente	5	3	9		17
UnitedHealthcare					0
Western Health Advantage					0
PERS Choice	1				1
PERS Select					0
PERSCare					0
PORAC		2	7		9
Waived				8	8
Total	6	5	19	8	38
Election %	20%	17%	63%		
Waived %				21%	



March 13, 2020

E-9



PARTICIPANT STATISTICS

**Retiree Medical Coverage
Miscellaneous - Under Age 65**

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem HMO Select	2		1		3
Anthem HMO Traditional	1				1
Blue Shield Access+					0
Health Net SmartCare					0
Kaiser Permanente	5	4	1		10
UnitedHealthcare					0
Western Health Advantage					0
PERS Choice	4	4			8
PERS Select		1			1
PERSCare	1				1
Waived				5	5
Total	13	9	2	5	29
Election %	54%	38%	8%		
Waived %				17%	



March 13, 2020

E-10



PARTICIPANT STATISTICS

**Retiree Medical Coverage
Safety - Under Age 65**

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem HMO Select		1	1		2
Anthem HMO Traditional					0
Blue Shield Access+					0
Health Net SmartCare					0
Kaiser Permanente	4	2	1		7
UnitedHealthcare					0
Western Health Advantage					0
PERS Choice	3	2			5
PERS Select					0
PERSCare					0
PORAC	1	3	3		7
Waived				6	6
Total	8	8	5	6	27
Election %	38%	38%	24%		
Waived %				22%	



March 13, 2020

E-11



PARTICIPANT STATISTICS

**Retiree Medical Coverage
Miscellaneous - Age 65 & Over**

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem HMO Select		1			1
Anthem HMO Traditional					0
Blue Shield Access+					0
Health Net SmartCare					0
Kaiser Permanente	15	6			21
UnitedHealthcare	5	6			11
Western Health Advantage					0
PERS Choice	11	10			21
PERS Select					0
PERSCare	8	8			16
Waived				28	28
Total	39	31	0	28	98
Election %	56%	44%	0%		
Waived %				29%	



March 13, 2020

E-12



PARTICIPANT STATISTICS

**Retiree Medical Coverage
Safety - Age 65 & Over**

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem HMO Select					0
Anthem HMO Traditional		1			1
Blue Shield Access+					0
Health Net SmartCare					0
Kaiser Permanente	2	1			3
UnitedHealthcare					0
Western Health Advantage					0
PERS Choice	3				3
PERS Select		1			1
PERSCare	1		1		2
PORAC	1	4			5
Waived				6	6
Total	7	7	1	6	21
Election %	47%	47%	6%		
Waived %				29%	



March 13, 2020

E-13



PARTICIPANT STATISTICS

Actives by Age and Town Service
Miscellaneous

Age	Town Service							Total
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	
< 25	1	2						3
25-29	2	10	2					14
30-34		8	2					10
35-39	2	6	2	1	1			12
40-44	2	9	3	2	2	2		20
45-49		5	3	2	2	1		13
50-54	1	5	2	4	2		1	15
55-59		4	4	1	5	1		15
60-64	1	1			2		3	7
≥ 65				1			1	2
Total	9	50	18	11	14	4	5	111



PARTICIPANT STATISTICS

Actives by Age and Town Service
Safety

Age	Town Service							Total
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	
< 25		1						1
25-29	1	2						3
30-34		4	1					5
35-39		1	1	3				5
40-44				2	1	2		5
45-49		4	3		2	3		12
50-54				1		2		3
55-59					1	1		2
60-64					1			1
≥ 65		1						1
Total	1	13	5	6	5	8	0	38



PARTICIPANT STATISTICS

Retiree Medical Coverage by Age Group

Miscellaneous

Age	Single	2-Party	Family	Waived	Total
Under 50					0
50-54		1			1
55-59	2				2
60-64	11	8	2	5	26
65-69	10	9		3	22
70-74	13	12		8	33
75-79	9	7		7	23
80-84	3	2		3	8
85+	4	1		7	12
Total	52	40	2	33	127

Average Age	71.5	70.5	63.2	76.2	72.3
Election %	55%	43%	2%		
Waived %				26%	



PARTICIPANT STATISTICS

Retiree Medical Coverage by Age Group

Safety

Age	Single	2-Party	Family	Waived	Total
Under 50	2		3	1	6
50-54	1	1	1	3	6
55-59	2	2	1		5
60-64	3	5		2	10
65-69	1	2	1	1	5
70-74	4	2		1	7
75-79		2		2	4
80-84	1	1		1	3
85+	1			1	2
Total	15	15	6	12	48

Average Age	65.5	66.8	52.4	66.7	64.6
Election %	42%	42%	16%		
Waived %				25%	



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> Valuation Date 	<ul style="list-style-type: none"> June 30, 2017 2018/19 and 2019/20 ADCs ADC calculated as of beginning of the year with interest to end of year 1-year lag period between valuation date and first fiscal year ADC 	<ul style="list-style-type: none"> June 30, 2019 2020/21 and 2021/22 ADCs ADC calculated as of beginning of the year with interest to end of year 1-year lag period between valuation date and first fiscal year ADC
<ul style="list-style-type: none"> Funding Policy 	<ul style="list-style-type: none"> Prefund full ADC less cash and implicit subsidy benefit payments with CERBT #1 Benefit payments currently made from Town assets 	<ul style="list-style-type: none"> Same
<ul style="list-style-type: none"> General Inflation 	<ul style="list-style-type: none"> 2.75% annually Basis for aggregate payroll and discount rate assumptions 	<ul style="list-style-type: none"> Same



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation																																				
<ul style="list-style-type: none"> Target Asset Allocation and Expected Long-Term Real Returns 	<ul style="list-style-type: none"> 2017 capital market assumptions 2017 CERBT #1 target asset allocation <table border="1"> <thead> <tr> <th><u>CERBT #1</u></th> <th><u>Mix</u></th> <th><u>Return</u></th> </tr> </thead> <tbody> <tr> <td>Global Equity</td> <td>57%</td> <td>4.82%</td> </tr> <tr> <td>Fixed Income</td> <td>27%</td> <td>1.47%</td> </tr> <tr> <td>TIPS</td> <td>5%</td> <td>1.29%</td> </tr> <tr> <td>REITs</td> <td>8%</td> <td>3.76%</td> </tr> <tr> <td>Commodities</td> <td>3%</td> <td>0.84%</td> </tr> </tbody> </table>	<u>CERBT #1</u>	<u>Mix</u>	<u>Return</u>	Global Equity	57%	4.82%	Fixed Income	27%	1.47%	TIPS	5%	1.29%	REITs	8%	3.76%	Commodities	3%	0.84%	<ul style="list-style-type: none"> 2017 capital market assumptions 2019 CERBT #1 target asset allocation <table border="1"> <thead> <tr> <th><u>CERBT #1</u></th> <th><u>Mix</u></th> <th><u>Return</u></th> </tr> </thead> <tbody> <tr> <td>Global Equity</td> <td>59%</td> <td>4.82%</td> </tr> <tr> <td>Fixed Income</td> <td>25%</td> <td>1.47%</td> </tr> <tr> <td>TIPS</td> <td>5%</td> <td>1.29%</td> </tr> <tr> <td>REITs</td> <td>8%</td> <td>3.76%</td> </tr> <tr> <td>Commodities</td> <td>3%</td> <td>0.84%</td> </tr> </tbody> </table>	<u>CERBT #1</u>	<u>Mix</u>	<u>Return</u>	Global Equity	59%	4.82%	Fixed Income	25%	1.47%	TIPS	5%	1.29%	REITs	8%	3.76%	Commodities	3%	0.84%
<u>CERBT #1</u>	<u>Mix</u>	<u>Return</u>																																				
Global Equity	57%	4.82%																																				
Fixed Income	27%	1.47%																																				
TIPS	5%	1.29%																																				
REITs	8%	3.76%																																				
Commodities	3%	0.84%																																				
<u>CERBT #1</u>	<u>Mix</u>	<u>Return</u>																																				
Global Equity	59%	4.82%																																				
Fixed Income	25%	1.47%																																				
TIPS	5%	1.29%																																				
REITs	8%	3.76%																																				
Commodities	3%	0.84%																																				



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation																								
<ul style="list-style-type: none"> ■ Discount Rate 	<ul style="list-style-type: none"> • 6.75% • 2017 capital market assumptions • 2.75% assumed inflation • 4 bp investment expenses with no administrative expenses • 50% confidence level <table> <tr> <td>Expected Real Return</td> <td align="right">4.08%</td> </tr> <tr> <td>Assumed Inflation</td> <td align="right">2.75%</td> </tr> <tr> <td>Assumed Expenses</td> <td align="right"><u>(0.04%)</u></td> </tr> <tr> <td>Expected Nominal Return</td> <td align="right">6.79%</td> </tr> <tr> <td>Rounding Margin</td> <td align="right"><u>(0.04%)</u></td> </tr> <tr> <td>Discount Rate</td> <td align="right">6.75%</td> </tr> </table>	Expected Real Return	4.08%	Assumed Inflation	2.75%	Assumed Expenses	<u>(0.04%)</u>	Expected Nominal Return	6.79%	Rounding Margin	<u>(0.04%)</u>	Discount Rate	6.75%	<ul style="list-style-type: none"> • 6.75% • 2017 capital market assumptions • 2.75% assumed inflation • 5 bp investment expenses with no administrative expenses • 50% confidence level <table> <tr> <td>Expected Real Return</td> <td align="right">4.14%</td> </tr> <tr> <td>Assumed Inflation</td> <td align="right">2.75%</td> </tr> <tr> <td>Assumed Expenses</td> <td align="right"><u>(0.05%)</u></td> </tr> <tr> <td>Expected Nominal Return</td> <td align="right">6.84%</td> </tr> <tr> <td>Rounding Margin</td> <td align="right"><u>(0.09%)</u></td> </tr> <tr> <td>Discount Rate</td> <td align="right">6.75%</td> </tr> </table>	Expected Real Return	4.14%	Assumed Inflation	2.75%	Assumed Expenses	<u>(0.05%)</u>	Expected Nominal Return	6.84%	Rounding Margin	<u>(0.09%)</u>	Discount Rate	6.75%
Expected Real Return	4.08%																									
Assumed Inflation	2.75%																									
Assumed Expenses	<u>(0.04%)</u>																									
Expected Nominal Return	6.79%																									
Rounding Margin	<u>(0.04%)</u>																									
Discount Rate	6.75%																									
Expected Real Return	4.14%																									
Assumed Inflation	2.75%																									
Assumed Expenses	<u>(0.05%)</u>																									
Expected Nominal Return	6.84%																									
Rounding Margin	<u>(0.09%)</u>																									
Discount Rate	6.75%																									
<ul style="list-style-type: none"> ■ Aggregate Payroll Increases 	<ul style="list-style-type: none"> • 3.00% annually • Inflation plus 0.25% • For Normal Cost calculation and UAAL amortization 	<ul style="list-style-type: none"> • Same 																								



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Merit Payroll Increases 	<ul style="list-style-type: none"> • CalPERS 1997-2015 Experience Study • Added to aggregate payroll increase assumption for Normal Cost calculation 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Administration Expenses 	<ul style="list-style-type: none"> • CERBT - 0.06% of assets added to Normal Cost • PEMHCA - 0.33% of retiree premium added to Normal Cost (2017/18 PEMHCA administrative fee) 	<ul style="list-style-type: none"> • CERBT - 0.05% of assets added to Normal Cost • PEMHCA - 0.27% of retiree premium added to Normal Cost (2019/20 PEMHCA administrative fee)
<ul style="list-style-type: none"> ■ CalPERS Service 	<ul style="list-style-type: none"> • Total CalPERS service • Used for CalPERS demographic assumptions 	<ul style="list-style-type: none"> • Same



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
■ PPACA High Cost Plan Excise Tax	• 2% cash subsidy load	• Repealed 12/20/19
■ Medical Trend Basis	<ul style="list-style-type: none"> • Short-term healthcare trend was developed in consultation with Axene Health Partners' healthcare actuaries • Long-term healthcare trend developed using Society of Actuaries' Getzen Model of Long-Run Medical Cost Trends 	• Same



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation		June 30, 2019 Valuation			
■ Medical Trend	<u>Increase from Prior Year</u>		<u>Increase from Prior Year</u>			
	<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>	<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>
	2017	Premiums		2017	n/a	
	2018	Premiums		2018	n/a	
	2019	7.50%	6.50%	2019	Premiums	
	2020	7.50%	6.50%	2020	Premiums	
	2021	7.25%	6.30%	2021	7.25%	6.30%
	2022	7.00%	6.10%	2022	7.00%	6.10%
	2023	6.75%	5.90%	2023	6.75%	5.90%
	2024	6.50%	5.70%	2024	6.50%	5.70%
	2025	6.25%	5.50%	2025	6.25%	5.50%
	2026	6.00%	5.30%	2026	6.00%	5.30%
	2027	5.80%	5.15%	2027	5.80%	5.15%
	2028	5.60%	5.00%	2028	5.60%	5.00%
2029	5.40%	4.85%	2029	5.40%	4.85%	
2030	5.20%	4.70%	2030	5.20%	4.70%	
2031-2035	5.05%	4.60%	2031-2035	5.05%	4.60%	
2036-2045	4.90%	4.50%	2036-2045	4.90%	4.50%	
2046-2055	4.75%	4.45%	2046-2055	4.75%	4.45%	
2056-2065	4.60%	4.40%	2056-2065	4.60%	4.40%	
2066-2075	4.30%	4.20%	2066-2075	4.30%	4.20%	
2076+	4.00%	4.00%	2076+	4.00%	4.00%	



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation								
■ Medical Claims Costs 2020 Calendar Year	<ul style="list-style-type: none"> • Sample estimated monthly claims costs: <ul style="list-style-type: none"> <u>Region 1 - Non-Medicare Eligible</u> 									
		<u>Anthem Select</u>		<u>Anthem Trad</u>		<u>BS Access+</u>		<u>HN SmartCare</u>		
		<u>Age</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>
		25	\$322	\$564	\$429	\$751	\$375	\$657	\$360	\$631
		35	410	696	547	928	479	812	460	780
		45	586	854	781	1,139	684	997	656	957
		55	973	1,132	1,296	1,511	1,135	1,322	1,089	1,269
		60	1,227	1,287	1,635	1,716	1,431	1,502	1,374	1,442
		65	1,390	1,393	1,852	1,858	1,622	1,627	1,557	1,561
		■ Medical Claims Costs 2020 Calendar Year	<ul style="list-style-type: none"> • Sample estimated monthly claims costs: <ul style="list-style-type: none"> <u>Region 1 - Non-Medicare Eligible</u> 							
<u>Kaiser</u>				<u>UHC</u>		<u>PERSChoice</u>		<u>PERS Select</u>		
<u>Age</u>	<u>M</u>			<u>F</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>
25	\$281			\$492	\$337	\$591	\$252	\$471	\$175	\$341
35	358			607	430	730	332	592	235	432
45	512			745	614	896	495	738	359	545
55	849			988	1,020	1,188	861	1,001	642	747
60	1,071			1,122	1,286	1,350	1,105	1,149	831	862
65	1,214			1,215	1,457	1,461	1,264	1,254	954	944



March 13, 2020

E-24



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation				
■ Medical Claims Costs 2020 Calendar Year	<ul style="list-style-type: none"> • Sample estimated monthly claims costs: <ul style="list-style-type: none"> <u>Region 1 - Non-Medicare Eligible</u> 					
		<u>PERSCare</u>		<u>PORAC</u>		
		<u>Age</u>	<u>M</u>	<u>F</u>	<u>M</u>	<u>F</u>
		25	\$326	\$596	\$308	\$557
		35	425	746	399	694
		45	625	925	582	860
		55	1,072	1,245	987	1,154
		60	1,369	1,424	1,256	1,317
65	1,560	1,550	1,429	1,431		
■ Mortality, Termination, Disability	<ul style="list-style-type: none"> • CalPERS 1997-2015 Experience Study • Mortality Improvement Scale 2017 for postretirement mortality 	<ul style="list-style-type: none"> • CalPERS 1997-2015 Experience Study • Mortality Improvement Scale 2019 				



March 13, 2020

E-25



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation																								
<ul style="list-style-type: none"> ■ Service Retirement 	<ul style="list-style-type: none"> • CalPERS 1997-2015 Experience Study <table border="0"> <tr> <td style="padding-left: 40px;"><u>CalPERS</u></td> <td style="padding-left: 40px;"><u>Misc</u></td> </tr> <tr> <td>Hired < 9/15/12</td> <td>2.5%@55</td> </tr> <tr> <td>Hired ≥ 9/15/12</td> <td>2%@60</td> </tr> <tr> <td>Hired ≥ 1/1/13</td> <td></td> </tr> <tr> <td>➢ Classic Member</td> <td>2%@60</td> </tr> <tr> <td>➢ New Member</td> <td>2%@62</td> </tr> <tr> <td colspan="2" style="padding-top: 10px;"><u>CalPERS</u></td> </tr> <tr> <td colspan="2" style="padding-left: 40px;"><u>Safety</u></td> </tr> <tr> <td>Hired < 1/1/13</td> <td>3%@50</td> </tr> <tr> <td>Hired ≥ 1/1/13</td> <td></td> </tr> <tr> <td>➢ Classic Member</td> <td>3%@50</td> </tr> <tr> <td>➢ New Member</td> <td>2.7%@57</td> </tr> </table>	<u>CalPERS</u>	<u>Misc</u>	Hired < 9/15/12	2.5%@55	Hired ≥ 9/15/12	2%@60	Hired ≥ 1/1/13		➢ Classic Member	2%@60	➢ New Member	2%@62	<u>CalPERS</u>		<u>Safety</u>		Hired < 1/1/13	3%@50	Hired ≥ 1/1/13		➢ Classic Member	3%@50	➢ New Member	2.7%@57	<ul style="list-style-type: none"> • Same
<u>CalPERS</u>	<u>Misc</u>																									
Hired < 9/15/12	2.5%@55																									
Hired ≥ 9/15/12	2%@60																									
Hired ≥ 1/1/13																										
➢ Classic Member	2%@60																									
➢ New Member	2%@62																									
<u>CalPERS</u>																										
<u>Safety</u>																										
Hired < 1/1/13	3%@50																									
Hired ≥ 1/1/13																										
➢ Classic Member	3%@50																									
➢ New Member	2.7%@57																									



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Participation at Retirement 	<ul style="list-style-type: none"> • Actives: <ul style="list-style-type: none"> ➢ Participating - 100% ➢ Waived - 90% • Retirees: <ul style="list-style-type: none"> ➢ Participating - 100% ➢ Waived: <ul style="list-style-type: none"> - < 65 - 20% elect at 65 - ≥ 65 - 0% 	<ul style="list-style-type: none"> • Tier I Actives: <ul style="list-style-type: none"> ➢ Participating - 100% ➢ Waived - 80% • Tier 2 Actives: <ul style="list-style-type: none"> ➢ Participating - 60% ➢ Waived: <ul style="list-style-type: none"> - Agency service < 3 months - 60% - Agency service ≥ 3 months - 40% • Retirees: <ul style="list-style-type: none"> ➢ Participating - 100% ➢ Waived: <ul style="list-style-type: none"> - < 65 - 20% elect at 65 - ≥ 65 - 0%



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Medical Plan at Retirement 	<ul style="list-style-type: none"> • Participating: <ul style="list-style-type: none"> ➢ Current plan election ➢ UnitedHealthcare when eligible for Medicare if Medicare eligible plan not available for current plan election • Waived - Kaiser 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Marital Status at Retirement 	<ul style="list-style-type: none"> • Actives: <ul style="list-style-type: none"> ➢ Married if currently elect 2-party or family coverage ➢ Waived - 80% married • Retirees - based on spouse information if provided 	<ul style="list-style-type: none"> • Same



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Retiree Coverage Election at Retirement 	<ul style="list-style-type: none"> • Covered - based on current coverage election • Waived <ul style="list-style-type: none"> ➢ Single coverage if assumed not married ➢ 2-party coverage if assumed married 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Spouse Age 	<ul style="list-style-type: none"> • Actives - males 3 years older than females • Retirees - males 3 years older than females if spouse birth date not provided 	<ul style="list-style-type: none"> • Same



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Spouse & Dependent Coverage at Retirement 	<ul style="list-style-type: none"> • Surviving spouse coverage - 100% of married retirees elect CalPERS joint and survivor annuity • Family coverage: <ul style="list-style-type: none"> ➢ Current actives: <ul style="list-style-type: none"> - Misc - 10% until age 65 - Safety - 25% until age 65 ➢ Current retirees <ul style="list-style-type: none"> - Current coverage until 65 ➢ No coverage after age 65 	<ul style="list-style-type: none"> • Surviving spouse coverage - 100% of married retirees elect CalPERS joint and survivor annuity • Family coverage: <ul style="list-style-type: none"> ➢ Current actives: <ul style="list-style-type: none"> - Misc - 5% until age 65 - Safety - 25% until age 65 ➢ Current retirees <ul style="list-style-type: none"> - Current coverage until 65 ➢ No coverage after age 65
<ul style="list-style-type: none"> ■ Medicare Eligibility 	<ul style="list-style-type: none"> • 100% eligible for Medicare at age 65 • Medicare eligible retirees will elect Part B coverage 	<ul style="list-style-type: none"> • Same



ACTUARIAL METHODS

Method	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Cost Method 	<ul style="list-style-type: none"> • Entry Age Normal • Normal Cost is a level percentage of payroll 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Actuarial Value of Assets 	<ul style="list-style-type: none"> • Investment gains and losses spread over a 5-year rolling period • Not less than 80% nor more than 120% of market value 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Amortization Method 	<ul style="list-style-type: none"> • Level percent of payroll 	<ul style="list-style-type: none"> • Same
<ul style="list-style-type: none"> ■ Amortization Periods 	<ul style="list-style-type: none"> • 30-year fixed (closed) period for 2008/09 ARC • 20-year fixed (closed) period for 6/30/18 projected UAAL for 2018/19 ADC 	<ul style="list-style-type: none"> • 30-year fixed (closed) period for 2008/09 ARC • 18-year fixed (closed) period for 6/30/20 projected UAAL for 2020/21 ADC



ACTUARIAL METHODS

Method	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Implicit Subsidy 	<ul style="list-style-type: none"> ● Implicit subsidy estimate included for non-Medicare eligible retirees 	<ul style="list-style-type: none"> ● Same
<ul style="list-style-type: none"> ■ Projections 	<ul style="list-style-type: none"> ● Valuation Results - closed group, no new hires ● Projections: <ul style="list-style-type: none"> ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 8.7% for new hires ➢ No additional retirees from new hires over the 10-year projection period 	<ul style="list-style-type: none"> ● Valuation Results - closed group, no new hires ● Projections: <ul style="list-style-type: none"> ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 1.6% for new hires²⁵ ➢ No additional retirees from new hires over the 10-year projection period

²⁵ Normal cost percentage of pay if all actives hired in the past 3 years received Tier 2 benefit.



March 13, 2020

E-32



DEFINITIONS

<ul style="list-style-type: none"> ■ Actuarial Obligations 	<ul style="list-style-type: none"> ● The Present Value of Benefits (PVB) is calculated as follows: <ul style="list-style-type: none"> ➢ Project future employer-provided retiree benefits for current retirees and current active employees (future retirees) ➢ Discount projected benefits to valuation date using the discount rate ➢ Discount rate is the expected long-term net rate of return on assets for benefits projected to be paid from the OPEB trust and the expected long-term net rate of return on Town investments for benefits projected to be paid from Town assets ➢ Allocate the PVB to past, current, and future working periods using the Entry Age Normal Cost Method ● Normal Cost (NC) is portion of the PVB allocated to one fiscal year ● Actuarial Accrued Liability (AAL) is the portion of the PVB allocated to prior Town service, that is, the accumulation of prior years' NCs ● Unfunded AAL (UAAL) is AAL less the Actuarial Value of Assets ● Actuarial Value of Assets (AVA) smooths market value of assets (MVA) volatility by spreading investment gains and losses over 5 years
---	---



March 13, 2020

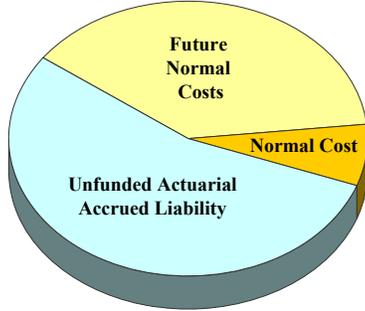
E-33



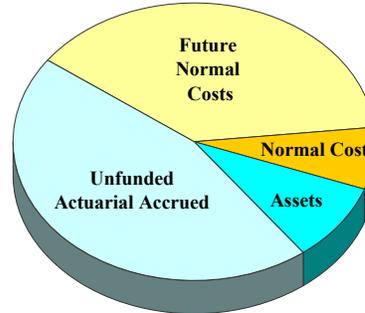
DEFINITIONS

Present Value of Benefits

**Present Value of Benefits
(Without Plan Assets)**



**Present Value of Benefits
(With Plan Assets)**



DEFINITIONS

<p>■ PayGo Cost</p>	<ul style="list-style-type: none"> ● Cash Subsidy is the Town’s pay-as-you-go cash payments for its portion of retiree premiums ● Implicit Subsidy is the difference between the expected cost of retiree healthcare benefits, by age and gender, and retiree premiums, that is, it is the portion of retiree healthcare costs subsidized by active employee premiums
<p>■ Terminology Used in Report</p>	<ul style="list-style-type: none"> ● AAL - Actuarial Accrued Liability ● ADC - Actuarially Determined Contribution ● AVA - Actuarial Value of Assets ● GASBS 75 - Governmental Accounting Standards Board Statement No. 75 ● MVA - Market Value of Assets ● NC - Normal Cost ● OPEB - Other (than pensions) Postemployment Benefits ● PVB - Present Value of Benefits ● UAAL - Unfunded Actuarial Accrued Liability





**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 4
ADDENDUM

DATE: August 3, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review and Approve the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial Valuation and its Assumptions as Prepared and Recommended by Bartel Associates, LLC.

REMARKS:

Attachment 2 contains public comment received since the issuance of the staff report on Thursday, July 30, 2020, and before 11:00 a.m. Monday, August 3, 2020.

Attachments previously received with the Staff Report:

1. June 30, 2019 OPEB Actuarial Valuation Final Results

Attachment distributed with this Addendum:

2. Public Comments received 11:01 a.m. Thursday, July 30, 2020 and 11:00 a.m. Monday, August 3, 2020.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

From: Phil Koen
Sent: Monday, August 3, 2020 9:07 AM
To: Marcia Jensen <MJensen@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>;
BSpector <BSpector@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>
Subject: Pension and OPEB Trust meeting - August 4, 2020

Agenda item #4

The Staff report states that the OPEB liabilities are currently 67.9% funded and that the unfunded actuarial accrued liability is \$8.7m as of June 30, 2019 based on the actuarial valuation report prepared by Bartels. The report also points out that this is an increase in the funded status since the last valuation report as of June 30, 2017. **But is this really so?** The answer to that question is that it depends on the assumptions used in preparing the valuation report.

If you refer to Exhibit A, you will see under the Actual June 30, 2019 column the funded percentage of 67.9% and the 6.75% discount rate which was used in computing the valuation. The funded percentage is substantially determined by the discount rate. **The higher the discount rate, the higher the funded percentage. The lower the discount rate, the lower the funded percentage.**

If you look at Exhibit C, you will see that the discount rate represents the “expected long-term NET RATE OF RETURN on assets projected to be paid from the OPEB Trust”. A question that this Oversight Committee should address is why you are comfortable with a 6.75% discount rate when the CERBT Strategy #1 performance from inception has only produced a 4.74% return? What objective evidence do you have that informs you that the discount rate of 6.75% is the appropriate “expected long-term net rate of return”? As Trustees, wouldn’t it be more prudent to use a more conservative rate for purposes of the valuation analysis?

This is a very important question and is clearly highlighted in Exhibit B. Here Bartels is presenting **the ALTERNATIVE funding percentages** achieve if different discount rates are used in the valuation analysis. Specifically, if this Committee had selected more conservative net rate of returns of 6.25% and 5.5% (by selecting Strategy #2 or Strategy #3), the funding percentages would be 64% and 58.4% respectively. Please note that even these target rates are still materially greater than the actual returns achieved, which would strongly suggest the prudent approach is to use more conservative discount rates and investing strategies.

Here is the most troubling piece of all of this – namely by using the most aggressive and risky discount rate, the Town is able to show the **LOWEST** actuarially determined contribution which is the minimum amount required to be paid into the benefit plan. Again, referring to Exhibit B, under Strategy #1 the Town’s ADC (actuarially determined contribution) is \$1.9m for FY 21. If the Committee had selected Strategy #3 which is the most conservative and least risky investment strategy, the ADC would be \$2.6m or 32% higher! Simply put, by selecting Strategy #1, the Town is able to contribute less money on an annual basis into the OPEB based on the “hope” that the investment returns will be substantially higher and therefore higher levels of contributions are not required. This is the bet the Committee is making if they accept this valuation report and continue with Strategy #1 .

This is hardly consistent with the message that has been put forth that the Town uses conservative budgeting practices. It is my recommendation that the Committee direct Staff to adopt more realistic net rate of return assumptions (i.e. 4.74%) to determine the required ADC. Why set the Town up “for failure” by adopting an unrealistic expected long-term net rate of return which is highly unlikely to be achieved which then results in the ADC being understated?

I would like to make one last point which hopefully convinces you of the risk in the current approach. Again, referring to Exhibit A, under the column Projected June 30, 2020 you can see that the valuation analysis projects that as of June 30, 2020 the value of the assets in the trust fund is \$20.3m and a year later grows to \$21.9m. This reflects the assumption that every year Strategy 1 will generate net returns of 6.75%. And it is because of that assumption, the valuation analysis shows the funded percentage every year improving. Ask yourself, is this a reasonable and prudent assumption given that the quarter ending March 30, 2020 generated a fiscal year to date decline of 9.3% and that inception to date the net return has been 4.74%?

Phil Koen

A

VALUATION RESULTS

CERBT #1

Actuarial Obligations

4.74%

Actuarial Obligations (Amounts in 000's)	6/30/17 Valuation		6/30/19 Valuation		
	Actual 6/30/17	Projected 6/30/19	Actual 6/30/19	Projected 6/30/20	Projected 6/30/21
■ Discount Rate	6.75%	6.75%	6.75%	6.75%	6.75%
■ Present Value of Benefits					
• Actives	\$19,569	n/a	\$19,848	n/a	n/a
• Retirees	15,436	n/a	16,952	n/a	n/a
• Total	35,005	\$37,106	36,800	\$37,794	\$38,814
■ Actuarial Accrued Liability					
• Actives	9,337	n/a	10,065	n/a	n/a
• Retirees	15,436	n/a	16,952	n/a	n/a
• Total	24,773	28,061	27,017	28,568	30,155
■ Actuarial Value of Assets	13,605	17,084	18,341	20,259	21,949
■ Unfunded AAL	11,168	10,977	8,676	8,309	8,206
■ Funded Percentage	54.9%	60.9%	67.9%	70.9%	72.8%
■ Annual Cost for Following Year					
• Normal Cost	1,247	1,323	1,217	1,191	1,171
• PEMHCA Administrative Fees	4	4	2	2	2
• CERBT Administrative Expenses	8	10	9	10	11
• Annual Cost	1,259	1,337	1,228	1,203	1,184



VALUATION RESULTS

Actuarial Obligations
June 30, 2019

Actuarial Obligations (Amounts in 000's)	Cash Subsidy	Implicit Subsidy	Total Subsidy
■ Discount Rate	6.75%	6.75%	6.75%
■ Present Value of Benefits			
• Actives	\$16,486	\$3,362	\$19,848
• Retirees	15,694	1,258	16,952
• Total	32,180	4,620	36,800
■ Actuarial Accrued Liability			
• Actives	8,358	1,707	10,065
• Retirees	15,694	1,258	16,952
• Total	24,052	2,965	27,017
■ Actuarial Value of Assets ⁸	16,328	2,013	18,341
■ Unfunded AAL	7,724	952	8,676
■ Annual Cost 2020/21			
• Normal Cost	993	197	1,191
• PEMHCA Administrative Fee	2	n/a	2
• CERBT Administrative Expenses	10	n/a	10
• Annual Cost	1,005	197	1,203

⁸ Actuarial Value of Assets allocated to cash subsidy and implicit subsidy in proportion to Actuarial Accrued Liability.



VALUATION RESULTS

CERBT Prefunding¹⁹
CERBT Target Investment Allocation

■ CERBT Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Global Equity	59%	40%	22%
■ Fixed Income	25%	43%	49%
■ TIPS	5%	5%	16%
■ REITs	8%	8%	8%
■ Commodities	3%	4%	5%
■ Total	100%	100%	100%
■ Long-Term Expected Real Return ²⁰	4.14%	3.54%	2.83%
■ Long-Term Inflation Assumption	2.75%	2.75%	2.75%
■ Assumed Investment Expenses	(0.05%)	(0.05%)	(0.05%)
■ Long-Term Expected Net Nominal Return	6.84%	6.24%	5.53%
■ Recommended Discount Rate	6.75%	6.25%	5.50%

¹⁹ Bartel Associates is not an investment advisor and cannot recommend specific OPEB trusts. CERBT funds are shown for illustrative purposes only. Other OPEB trust options are available.

²⁰ Using Bartel Associates' 2017 capital market assumptions which are based on a survey of various investment advisors' expected asset class returns.

BA March 13, 2020

23



VALUATION RESULTS

CERBT Prefunding
 (Amounts in 000's)

■ Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Discount Rate	6.75%	6.25%	5.50%
■ Present Value of Benefits	\$36,800	\$39,792	\$45,057
■ Funded Status - 6/30/19			
• Actuarial Accrued Liability	27,017	28,649	31,414
• Actuarial Value of Assets	18,341	18,341	18,341
• Unfunded AAL	8,676	10,308	13,073
• Funded Percentage	67.9%	64.0%	58.4%
■ ADC 2020/21			
• Annual Cost	1,203	1,322	1,528
• UAAL Amortization ²¹	656	761	922
• Total ADC	1,859	2,082	2,451
■ ADC% 2020/21	11.0%	12.4%	14.5%

²¹ Amortized as a level percentage of payroll over a 18-year period.

BA March 13, 2020



Δ 32%

ACTUARIAL METHODS

Method	June 30, 2017 Valuation	June 30, 2019 Valuation
<ul style="list-style-type: none"> ■ Implicit Subsidy 	<ul style="list-style-type: none"> ● Implicit subsidy estimate included for non-Medicare eligible retirees 	<ul style="list-style-type: none"> ● Same
<ul style="list-style-type: none"> ■ Projections 	<ul style="list-style-type: none"> ● Valuation Results - closed group, no new hires ● Projections: <ul style="list-style-type: none"> ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 8.7% for new hires ➢ No additional retirees from new hires over the 10-year projection period 	<ul style="list-style-type: none"> ● Valuation Results - closed group, no new hires ● Projections: <ul style="list-style-type: none"> ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 1.6% for new hires²⁵ ➢ No additional retirees from new hires over the 10-year projection period

²⁵ Normal cost percentage of pay if all actives hired in the past 3 years received Tier 2 benefit.



March 13, 2020

E-32



DEFINITIONS

<ul style="list-style-type: none"> ■ Actuarial Obligations 	<ul style="list-style-type: none"> ● The Present Value of Benefits (PVB) is calculated as follows: <ul style="list-style-type: none"> ➢ Project future employer-provided retiree benefits for current retirees and current active employees (future retirees) ➢ Discount projected benefits to valuation date using the discount rate ➢ Discount rate is the expected long-term net rate of return on assets for benefits projected to be paid from the OPEB trust and the expected long-term net rate of return on Town investments for benefits projected to be paid from Town assets ➢ Allocate the PVB to past, current, and future working periods using the Entry Age Normal Cost Method ● Normal Cost (NC) is portion of the PVB allocated to one fiscal year ● Actuarial Accrued Liability (AAL) is the portion of the PVB allocated to prior Town service, that is, the accumulation of prior years' NCs ● Unfunded AAL (UAAL) is AAL less the Actuarial Value of Assets ● Actuarial Value of Assets (AVA) smooths market value of assets (MVA) volatility by spreading investment gains and losses over 5 years
---	---

6.75% NS
4.74%



March 13, 2020

E-33





TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 08/04/2020

ITEM NO: 5

DATE: July 22, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Consider Finance Committee Recommendation Regarding a Methodology for Additional Discretionary Payments to CalPERS

RECOMMENDATION:

Consider Finance Committee recommendation regarding a methodology for additional discretionary payments (ADPs) to CalPERS.

BACKGROUND:

Based on prior guidance, the Town Pension and OPEB Trusts Oversight Committee (Oversight Committee) directed staff to utilize existing surplus funds budgeted for additional discretionary payments (ADPs) to go directly to CalPERS toward existing long-term amortization bases. Per the Oversight Committee direction, the first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS on October 11, 2019. Under the same direction, the second ADP of \$3,580,365 for the 2015 gain/loss amortization base was transferred to CalPERS on July 8, 2020.

On February 3, 2020, the Council Finance Committee, as part of their CEPPT asset allocation recommendation to the Oversight Committee, also opined that a clearly defined methodology for allocating assets to pay off amortization bases should be developed for future ADPs. At this meeting, the Finance Committee suggested that a monthly transfer schedule to CEPPT could be adopted similar to the dollar cost averaging that was utilized when the PARS account was first established. The preliminary methodology recommended was for minimum monthly transfers to be established.

Following the Finance Committee meeting, staff consulted with CalPERS regarding the proposed monthly methodology and was informed that it would result in a significant

PREPARED BY: ARN ANDREWS
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

SUBJECT: Consider Finance Committee recommendation regarding a methodology for additional discretionary payments (ADPs) to CalPERS

DATE: July 22, 2020

administrative challenge. As such, on March 3, 2020, staff presented the Oversight Committee with the initial monthly methodology provided by the Finance Committee and a revised staff recommendation for quarterly payments to the CEPPT. At the conclusion of the discussion, the Oversight Committee referred the development of a future ADP payment methodology back to the Finance Committee for further discussion.

In addition, Since the Finance Committee last discussed ADP payment methodologies, staff has learned that any additional discretionary payments provided to CalPERS are not treated as an additional unique market exposure. Instead as CalPERS receives monies, in practice they attribute a prorated proportional share of whatever the investment returns are for those additional payments in a single fiscal year rather than a daily share price type of exposure similar to a mutual fund. This methodology could create a scenario where if the CalPERS portfolio were to perform better after payment of an additional amortization base but remain below the expected rate of return for the year, the Town's ADP would be allocated a proportionate investment loss as opposed to an investment gain since deposit. This information was presented to the Oversight Committee on April 21, 2020.

DISCUSSION:

On June 8, 2020, the Finance Committee had their first opportunity to discuss both the administrative challenge to make monthly transfers to the CEPPT and the pro rata annual return methodology employed by CalPERS for ADPs (Attachment 1). The Finance Committee discussions followed three primary questions: (1) Should funds be transferred to the CEPPT versus directly to CalPERS, (2) Does either method have any inherent market timing bias, and (3) What should be the timing of payments of existing General Fund Policy ADP monies and other potential surplus funds? At the conclusion of Committee deliberations, the recommendation was that any allocation to CalPERS should go directly to CalPERS and skip the interim step to CEPPT except in limited circumstances. Following is a brief summary of each discussion topic.

CEPPT versus CalPERS Direct

The Committee asked questions about the CalPERS prorated methodology and discussed utilizing the CalPERS CEPPT products to gain fully unitized market exposures with unit values versus receiving a prorated share of annual market returns from direct investments to CalPERS. The Committee considered the benefits of utilizing either CEPPT asset allocation depending on the timing of transfers to CalPERS and the desired equity exposure. The Committee discussed the potential for the CEPPT to potentially become a distraction and lead to unintended market timing decisions. Ultimately, the Committee determined that the primary benefit to investing in CEPPT products was if real time investments weren't going to be programmed into CalPERS. In addition, Committee members thought the CEPPT could provide value in the event monies

PAGE 3 OF 3

SUBJECT: Consider Finance Committee recommendation regarding a methodology for additional discretionary payments (ADPs) to CalPERS

DATE: July 22, 2020

became available later in the budget cycle and CalPERS was exhibiting the potential for significant loss.

While critical of CalPERS, the Committee concurred that on average CalPERS returns are still superior to the Town's mandated lower risk fixed income operating portfolio.

Market Timing Risk and Timing of ADPs

In general, the Committee was very attuned to the potential for unanticipated market timing consequences associated with implementation of an ADP methodology. The Committee ultimately expressed that any methodology that didn't transfer payments directly to CalPERS expeditiously could have an element of market timing seep in. The Committee discussed that the Town's budget cycle of July 1st aligns well with annual ADPs receiving the benefit of a full year of returns from CalPERS. In addition, a July payment cycle ensures that ADPs get credited in the development of the annual actuarial valuation performed by CalPERS. It should be noted, that while the Town's budget cycle and CalPERS methodology aligns well with an initial annual ADP, the Committee thought any other funds potentially identified throughout the year for ADPs should in most cases also go directly to CalPERS.

CONCLUSION:

Consider Finance Committee recommendation regarding a methodology for additional discretionary payments (ADPs) to CalPERS and provide direction to staff.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Director of Finance.

FISCAL IMPACT:

No impact at this time

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. June 8, 2020, Finance Committee Staff Report



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 06/08/2020

ITEM NO: 2

DATE: June 1, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Direction to the Town Pension and OPEB Trusts Oversight Committee on Investment Methodologies for Additional Discretionary Payments (ADPs)

RECOMMENDATION:

Provide direction to the Town Pension and OPEB Trusts Oversight Committee on investment methodologies for additional discretionary payments (ADPs).

BACKGROUND:

On September 3, 2019, the Town Pension and OPEB Trusts Oversight Committee (Oversight Committee) directed staff to utilize the funds in the PARS account to make payments directly to CalPERS toward existing long-term amortization bases. Per the Oversight Committee direction, the first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS from PARS on October 11, 2019. Under the same direction, the remaining PARS account balance in conjunction with committed Pension/OPEB fund balance was to be used as an ADP to pay a 2015 gain/loss amortization base of approximately \$3,660,342 prior to September 2020.

On February 3, 2020, the Council Finance Committee reviewed the two CEPPT asset allocation options available through CalPERS and staff's recommendation that Strategy 2 be brought forward to the Oversight Committee. The Council Finance Committee discussion regarding asset allocation options focused on two primary considerations: concerns about existing and future assets remaining idle in the CEPPT account regardless of which asset allocation was chosen, and that a clearly defined methodology for allocating assets to pay off amortization bases should be employed. In addition, one Committee member expressed concerns that the current ADP payment approach adopted on September 3, 2019, was not fully understood by the Oversight Committee and not the optimum approach.

PREPARED BY: Arn Andrews
Assistant Town Manager

ATTACHMENT 1

Reviewed by: Town Manager, Town Attorney, and Finance Director

SUBJECT: Provide direction to the Town Pension and OPEB Trusts Oversight Committee on investment methodologies for additional discretionary payments (ADPs)

DATE: June 2, 2020

BACKGROUND (continued):

To ensure that assets are deployed on a continual basis from the CEPPT to selected amortization bases, the Finance Committee ultimately suggested that a monthly transfer schedule be adopted similar to the dollar cost averaging that was utilized when the PARS account was first established. The preliminary methodology recommended was for minimum monthly payments of \$300,000 or approximately one-twelfth (1/12) of the total assets available at the time. Following the Finance Committee meeting, staff consulted with CalPERS regarding the proposed methodology and was informed that it would result in a significant administrative challenge.

Based on the discussions with CalPERS, staff presented the initial monthly methodology provided by the Finance Committee and a revised staff recommendation for quarterly payments to the Oversight Committee on March 3, 2020. At the conclusion of the discussion, the Oversight Committee voted to make the second amortization base payoff in full and referred the development of a future ADP payment methodology back to the Finance Committee.

DISCUSSION:

Since the Finance Committee last discussed ADP payment methodologies, staff has learned that any additional discretionary payments provided to CalPERS are not treated as an additional unique market exposure. Instead as CalPERS receives monies in practice, they attribute a prorated proportional share of whatever the investment returns are for those additional payments in a single fiscal year rather than a daily share price type of exposure similar to a mutual fund.

As an example, if the Town made an ADP halfway through the year and the CalPERS PERF Fund ended the year up 10%, the ADP would receive 6/12s of the return or 5%. This methodology could create a scenario where if the CalPERS portfolio were to perform better after payment of an additional amortization base but remain below the expected rate of return for the year, the Town's ADP would be allocated a proportionate investment loss as opposed to an investment gain since deposit. As a result, the Town may wish to make an annual payment to CalPERS at the beginning of each fiscal year to obtain the benefit of a full year of returns.

In addition, the Finance Committee may wish to consider alternative options for dollar cost averaging future ADPs. One option the Committee could consider would be utilizing the CalPERS CEPPT products to gain dollar cost averaged market exposures while accumulating funds for an annual ADP to the CalPERS PERF Fund. As previously discussed, CEPPT provides two asset allocations with varying degrees of exposure to equity, fixed income, Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), and liquidity.

SUBJECT: Provide direction to the Town Pension and OPEB Trusts Oversight Committee on investment methodologies for additional discretionary payments (ADPs)

DATE: June 2, 2020

DISCUSSION (continued):

The CEPPT products are fully unitized with unit values being determined on a daily basis with a daily share price. On any given day, they have a unit value which when multiplied by the number of units owned equals the market value of assets under management.

CEPPT Strategy 1 has a medium risk tolerance with a 5.0% expected return and 8.2% expected volatility. CEPPT Strategy 2 has a lower risk tolerance with a 4.0% expected return and 5.2% expected volatility. Previously the Oversight Committee opted to use Strategy 2 with the understanding that the lower volatility asset allocation was conducive to the timing of frequent asset transfers to the CalPERS PERF Fund.

Given the CalPERS methodology, the Finance Committee may wish to consider utilizing either asset allocation depending on the timing of transfers to PERF and the desired equity exposure.

Following are the two asset allocations:

Asset Allocation Targets	Benchmark	Strategy 1	Strategy 2
Global Equity	MSCI ACWI IMI (Net)	40% +/- 5%	14% +/- 5%
Fixed Income	Bloomberg Barclays U.S. Aggregate Bond Index	47% +/- 5%	73% +/- 5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid (net)	8% +/- 5%	8% +/- 5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg Barclays U.S. TIPS Index (Series L)	5% +/- 3%	5% +/- 3%
Liquidity	91-Day Treasury Bill	0% +2%	0% +2%

PAGE 4 OF 4

SUBJECT: Provide direction to the Town Pension and OPEB Trusts Oversight Committee on investment methodologies for additional discretionary payments (ADPs)

DATE: June 2, 2020

CONCLUSION:

Given the methodology utilized by CalPERS for ADPs received into the PERF Fund, the Finance Committee should reevaluate dollar cost averaging strategies for future Town ADPs and provide the Oversight Committee with recommendations.

COORDINATION:

This staff report has been coordinated with the Town Manager and Director of Finance

FISCAL IMPACT:

No fiscal impact beyond the normal market exposures attributed to pension assets.

ENVIRONMENTAL ASSESSMENT:

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



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 08/04/2020

ITEM NO: 5
ADDENDUM

DATE: August 3, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Consider Finance Committee Recommendation Regarding a Methodology for Additional Discretionary Payments to CalPERS

REMARKS:

Attachment 2 contains public comment received since the issuance of the staff report on Thursday, July 30, 2020, and before 11:00 a.m. Monday, August 3, 2020.

Attachments previously received with the Staff Report:

1. June 8, 2020, Finance Committee Staff Report

Attachment distributed with this Addendum:

2. Public Comments received 11:01 a.m. Thursday, July 30, 2020 and 11:00 a.m. Monday, August 3, 2020.

PREPARED BY: ARN ANDREWS
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

From: Phil Koen
Sent: Monday, August 3, 2020 9:07 AM
To: Marcia Jensen <MJensen@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; BSpector <BSpector@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>
Subject: Pension and OPEB Trust meeting - August 4, 2020

Agenda Item #5

The Staff report discusses the concept of “unique market exposure” and gives an example of this concept in page 2 of the report. However, I have a slightly different understanding, which I think the Committee should validate with CALPERS. The issue of when a payment is made to CALPERS is a non-issue since CALPERS **time weights the amount of the ADP investment not the rate of return.** Using the Staff’s example, if PERF Fund had a **10% gain for the entire year** and the Town made an ADP of \$5m on January 1 (at the mid-point of the fiscal year), CALPERS would compute the gain on the \$5m by time weighting the investment and then multiplying it **by the full year performance return, regardless of market fluctuations from the date of the ADP until the end of the fiscal period.** That means the \$5m would be effectively invested for only 6 months, resulting in only **\$2.5m being time weighted exposed** to the full year return of 10%. Since the full year return of 10% is greater than the 7% expected rate of return, the ADP would generate a **“gain”** of \$75k (3% x \$2.5m) and not a “loss” as suggested by the Staff. (As a side note, It would be helpful if Staff showed the calculations which support their position that the ADP “would be allocated a proportionate investment loss as opposed to an investment gain).

The important point here is that CALPERS uses the **return for the entire year** in determining whether or not a gain or loss basis is created and time weights the ADP to avoid the exact situation the Staff has identified. This approach neutralizes all “market timing issues” since the investment return is applied based on the full year results. Based on my understanding CALPERS does not track the gain or loss from an ADP separately from the full year investment return. This should be very easy to verify and I would encourage the Committee to request Staff to verify what I have outlined above. Assuming I am correct, the timing of making an ADP during a fiscal year therefore is a non-issue with regard to computing return performance for the ADP. Having said that, the default condition should be to make an ADP as soon as possible because of the benefit of saving the 7% interest charged by CALPERS. Once a loss basis is extinguished, the interest charge associated with that loss basis stops.

Thank you for your time.

Phil Koen