



MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Katano Kasaine

SUBJECT: GASB 43/45 REPORT (JULY 1, 2015)

DATE: October 28, 2016

City Administrator

Date

Approval /s/

10/28/16

INFORMATION

SUBJECT: City of Oakland Postretirement Health Insurance Plan (GASB 43/45 Actuarial Valuation Report as of July 1, 2015)

The purpose of this memorandum is to provide information regarding the recent actuarial valuation of the City's Postretirement Health Insurance Plan ("OPEB") prepared by Cheiron (City Actuary). As of July 1, 2015, the Actuarial Accrued Liability (the "AAL"), which is equal to a portion of the Actuarial Present Value of Benefits deemed to have been earned to date, was approximately \$862.9 million with an Annual Required Contribution ("ARC") of approximately \$74.1 million.

The City pays the partial costs of health insurance premiums for certain classes of retirees from City employment. Retirees meeting certain requirements relating to age and years of service are eligible for health benefits. The health benefits are extended to retirees pursuant to labor agreements between the City and certain of its employee labor unions and in resolutions adopted by the City. Approximately \$19.8 million was paid on behalf of retirees under these programs for the year ended June 30, 2015. The City began partially pre-funding the ARC to the California Employer's Retiree Benefit Trust ("CERBT") in 2014. As of August 15, 2016, the City has approximately \$4.07 million set aside for future liabilities. Currently, the City is funding OPEB on a partially funded basis and anticipates paying approximately \$25.4 million for Fiscal Year 2015-16. Based on the most recent actuarial report prepared by Cheiron, as of July 1, 2015, the Unfunded Actuarial Liability (UAL) is approximately \$862.9 million, an increase of approximately \$352 million over the expected UAL as shown in Table 1.

Table 1
Reconciliation of Actuarial Accrued Liability

Actuarial Liability at July 1, 2013	\$	463,850,944
Normal Cost at middle of year		15,344,307
Expected Benefit Payments paid throughout the year		(18,173,363)
Interest		<u>25,851,271</u>
Expected Actuarial Liability at July 1, 2014	\$	486,873,159
Normal Cost at middle of year		16,111,522
Expected Benefit Payments paid throughout the year		(19,276,068)
Interest		<u>27,128,963</u>
Expected Actuarial Liability at July 1, 2015	\$	510,837,576
Actuarial Liability at July 1, 2015		862,891,642
Gain or (Loss)	\$	(352,054,066)
Gain or (Loss) due to:		
Census changes	\$	(2,916,285)
Change in discount rate		(116,190,426)
Change due to implicit subsidy ¹		(164,303,530)
Change in demographic assumptions		(38,866,759)
Change in claims and trend assumptions		<u>(29,777,066)</u>
Total changes	\$	(352,054,066)

- 1) The “true cost of care” for retirees on their own; this is called the “claim curve”. The system charges a flat premium for both actives and retirees. Since the actives are subsidizing the retirees by paying more than their “true cost”, this result in an implicit subsidy.

Assuming a 4.00% interest earnings and recognizing implicit subsidy for the first time, the City’s projected net OPEB obligation (defined, in terms of balance sheet liability, as the cumulative difference between the annual OPEB cost, on an actuarial basis and the City’s actual contribution to the OPEB plan since 2008) will be approximately \$305 million. The ARC for the fiscal year ending June 30, 2016 is approximately \$74.1 million, an increase of \$34.2 million over the expected ARC due to the following: 1) \$14.8 million due to the change in discount rate to align with the City’s contribution practice, 2) \$15.0 million due to recognizing the implicit subsidy, 3) \$2.0 million due to changes in future expected decrements, 4) \$1.7 million due to changes in anticipated health care costs and their increases, and 5) \$0.7 million due to the impact of population changes.

The following table sets forth certain information with respect to the City’s OPEB obligations:

Actuarial Valuation Date	Actuarial Accrued Liability	Asset	Unfunded Actuarial Liability	Annual Required Contribution	Employer Contribution	Net OPEB Obligation
7/1/2010	\$520,882,498	\$0	\$520,882,498	\$46,657,000	\$15,710,000	\$156,978,000
7/1/2012	\$553,530,074	\$0	\$553,530,074	\$46,596,504	\$17,622,496	\$215,252,287
7/1/2013	\$463,850,944	\$0	\$463,850,944	\$39,418,149	\$20,632,950	\$235,094,821
7/1/2015	\$862,891,642	\$2,901,346	\$859,990,296	\$74,094,179	\$25,359,800	\$305,024,063

For more information and detail on the data, assumptions and methods used in calculation of the report, see the [Government Accounting Standards Board \(GASB\) 43/45 Actuarial Valuation Report](#) as of July 1, 2015.

For questions please contact Katano Kasaine, Treasurer, at (510) 238-2989.

Respectfully submitted,

/s/

KATANO KASAINE
Treasurer, Treasury Bureau

Attachment(s):

--GASB 43/45 Actuarial Valuation Report as of July 1, 2015