West Valley Mission Community College District
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

West Valley Mission Community College District engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of June 30, 2018 (the measurement date). This valuation report is based on an earlier GASB 75 valuation as of June 30, 2017. We used standard actuarial “roll-forward” methodology to estimate the Total OPEB Liability (TOL) as of the measurement date. The Fiduciary Net Position (FNP) is based on the actual FNP at June 30, 2018. The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2018. If the report will first be used for a different fiscal year, the numbers may need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree’s cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under applicable Governmental Accounting Standards Board (GASB) Standards.

This actuarial study is intended to serve the following purposes:

➤ To provide information to enable West Valley Mission CCD to manage the costs and liabilities associated with its retiree health benefits.

➤ To provide information to enable West Valley Mission CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.

➤ To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 74 and 75 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 74 and 75, West Valley Mission CCD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 74 and 75 compliance.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Faculty, Classified, Management and Police Officers. We estimated the following:

➤ the total liability created. (The actuarial present value of total projected benefit payments or APVPBP)

➤ twenty five years of projected benefit payments.

➤ the "total OPEB liability (TOL)." (The TOL is the portion of the APVPBP attributable to employees’ service prior to the measurement date.)

➤ the “net OPEB liability” (NOL). For plans funded through a trust, this represents the unfunded portion of the liability.
Total Compensation Systems, Inc.

- the service cost (SC). This is the value of OPEB benefits earned for one year of service.
- deferred inflows and outflows of resources attributable to the OPEB plan.
- “OPEB expense.” This is the amount recognized in accrual basis financial statements as the current period expense. The OPEB expense includes service cost, interest and certain changes in the OPEB liability, adjusted to reflect deferred inflows and outflows. This amount may need to be adjusted to reflect any contributions received after the Measurement Date.
- Amounts to support financial statement Note Disclosures and Required Supplementary Information (RSI) schedules.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Service costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the “pay-as-you-go” cost of providing retiree health benefits in the year beginning July 1, 2018 to be $4,318,952 (see Section IV.A.). The “pay-as-you-go” cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2018 (the service cost) is $246,894. This service cost would increase each year based on covered payroll. Had West Valley Mission CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated at June 30, 2018 to be $53,036,551. This amount is called the “Total OPEB Liability” (TOL). West Valley Mission CCD has set aside funds to cover retiree health liabilities in a GASB 75 qualifying trust. The Fiduciary Net Position of this trust at June 30, 2018 was $68,121,589. This leaves a Net OPEB Liability (NOL) of ($15,085,038).

Based on the information we were provided, the OPEB Expense for the fiscal year ending June 30, 2018 is negative $420,343. As noted in this report, adjustments may be needed – particularly if the reporting date is not the same as the measurement date.

We based all of the above estimates on employees as of June, 2017. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.
C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan. These benefits apply only to employees hired prior to 7/1/94.

<table>
<thead>
<tr>
<th>Benefit types provided</th>
<th>Faculty</th>
<th>Classified</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of Benefits</td>
<td>Lifetime</td>
<td>Lifetime</td>
<td>Lifetime</td>
</tr>
<tr>
<td>Required Service</td>
<td>10 Years*</td>
<td>10 Years*</td>
<td>10 Years*</td>
</tr>
<tr>
<td>Minimum Age</td>
<td>55</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Dependent Coverage</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>District Contribution %</td>
<td>50% to 100%*</td>
<td>50% to 100%*</td>
<td>50% to 100%*</td>
</tr>
<tr>
<td>District Cap</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

* Retirees receive 50% paid benefit for 10 years of service + 10% per additional year of service to 100% for 15 years of service. Certain grandfathered employees were subject to a different vesting schedule, but these employees have now all qualified for 100% benefits.

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions West Valley Mission CCD should take to manage the liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of West Valley Mission CCD’s practices, it is possible that West Valley Mission CCD is already complying with some or all of our recommendations.

- We recommend that West Valley Mission CCD maintain an inventory of all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, West Valley Mission CCD should determine whether the benefit is material and subject to GASB 74 and/or 75.

- We recommend that West Valley Mission CCD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 74/75.

- Under GASB 75, it is important to isolate the cost of retiree health benefits. West Valley Mission CCD should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – even on a retiree-pay-all basis – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, West Valley Mission CCD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- West Valley Mission CCD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB
Several assumptions were made in estimating costs and liabilities under West Valley Mission CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, West Valley Mission CCD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for West Valley Mission CCD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

E. Certification

The actuarial information in this report is intended solely to assist West Valley Mission CCD in complying with Governmental Accounting Standards Board Accounting Statements 74 and 75 and, unless otherwise stated, fully and fairly discloses actuarial information required for compliance. Nothing in this report should be construed as an accounting opinion, accounting advice or legal advice. TCS recommends that third parties retain their own actuary or other qualified professionals when reviewing this report. TCS’s work is prepared solely for the use and benefit of West Valley Mission CCD. Release of this report may be subject to provisions of the Agreement between West Valley Mission CCD and TCS. No third party recipient of this report product should rely on the report for any purpose other than accounting compliance. Any other use of this report is unauthorized without first consulting with TCS.

This report is for fiscal year July 1, 2017 to June 30, 2018, using a measurement date of June 30, 2018. The calculations in this report have been made based on our understanding of plan provisions and actual practice at the time we were provided the required information. We relied on information provided by West Valley Mission CCD. Much or all of this information was unaudited at the time of our evaluation. We reviewed the information provided for reasonableness, but this review should not be viewed as fulfilling any audit requirements. Information we relied on is listed in Appendix A.

All costs, liabilities, and other estimates are based on actuarial assumptions and methods that comply with all applicable Actuarial Standards of Practice (ASOPs). Each assumption is deemed to be reasonable by itself, taking into account plan experience and reasonable future expectations.

This report contains estimates of the Plan's financial condition only as of a single date. It cannot predict the Plan's future condition nor guarantee its future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. Determining results using alternative assumptions (except for the alternate discount and trend rates shown in this report) is outside the scope of our engagement.

Future actuarial measurements may differ significantly from those presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the measurement methodology (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. We were not asked to perform analyses to estimate the potential range of such future measurements.
The signing actuary is independent of West Valley Mission CCD and any plan sponsor. TCS does not intend to benefit from and assumes no duty or liability to other parties who receive this report. TCS is not aware of any relationship that would impair the objectivity of the opinion.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this report is complete and has been prepared in accordance with generally accepted actuarial principles and practices and all applicable Actuarial Standards of Practice. I am a member of the American Academy of Actuaries and meet the Qualification Standards to render this actuarial opinion.

Respectfully submitted,

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