

MacLeod Watts

October 20, 2020

Chief Scott Baker
Fire Chief
Tahoe Douglas Fire Protection District
PO Box 919
Zephyr Cove, NV 89448

Re: **PEBP** Other Postemployment Benefits of Tahoe Douglas Fire Protection District
GASB 75 Actuarial Report for the Fiscal Year Ending June 30, 2020

Dear Chief Baker:

We are pleased to enclose our actuarial report providing financial information about the other post-employment benefit (OPEB) liabilities of the Tahoe Douglas Fire Protection District. **This report covers only former employees and retirees covered by the Nevada Public Employees' Benefit Plan (PEBP).**

The primary purpose of this report is to provide information required by GASB 75 ("Accounting and Financial Reporting for Postemployment Benefits Other Than Pension") to be reported in the District's financial statements for the fiscal year ending June 30, 2020 relating to District retirees covered by PEBP. The report's text describes our analysis and assumptions in detail. Information regarding the OPEB liability relating to the District's retiree healthcare plan is provided in a separate report.

Before preparing the GASB 75 information, we first prepared an updated actuarial valuation as of December 31, 2019 based on retiree data provided to us by the District. Please review our summary of this information in the report to be comfortable that it matches your records. Our calculations reflect our assumption that the District will continue to finance this OPEB liability on a pay-as-you-go basis. The discount rate used has been updated, in keeping with the change in the municipal bond index on which it is based. Several other assumptions were updated as well.

We appreciate the opportunity to work on this analysis and acknowledge the efforts of District employees who provided valuable time and information to enable us to perform this valuation. Please let us know if we can be of further assistance.

Sincerely,



Catherine L. MacLeod, FSA, FCA, MAAA
Principal & Consulting Actuary

Enclosure



Tahoe Douglas Fire Protection District
PEBP Retirees

Actuarial Valuation of Other
Post-Employment Benefit Programs
As of December 31, 2019

& GASB 75 Report for the Fiscal Year Ending
June 30, 2020

Submitted October 2020

MacLeod Watts

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A. Executive Summary

This report presents the results of our December 31, 2019 actuarial valuation and other post-employment benefit liabilities for Tahoe Douglas Fire Protection District relating to former employees and retirees covered by the Nevada Public Employees' Benefit Plan (PEBP). The purpose of this report is to provide information about this plan as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the District's fiscal year ending June 30, 2020. A separate GASB 75 report has been prepared for OPEB liabilities stemming from the District Healthcare Plan.

Important background information regarding the valuation process can be found in Addendum 1. We recommend users of the report read this information to familiarize themselves with the process and context of actuarial valuations, including the requirements of GASB 75. The pages following this executive summary discuss the valuation results in detail and present various exhibits appropriate for disclosures under GASB 75.

Absent material changes to benefits or covered retirees in this program, the December 2019 valuation results will also be applied to prepare the District's GASB 75 report for fiscal year end June 30, 2021.

District OPEB Obligations for PEBP Members

Nevada has legislated certain unique rights to retiree medical coverage. Nevada Revised Statutes (NRS) 287.023 provide that, prior to December 1, 2008, (most) local agency retirees could elect to continue in their employer's health plan after retirement, or join PEBP, Nevada's health plan for non-State public agency employees (Section 1).

For retirees and former employees covered by a medical plan offered through PEBP:

- **Explicit subsidy liabilities:** As noted above, the District is required to provide a monthly subsidy toward the cost of medical coverage for retirees and their dependents covered under PEBP. Liabilities relating to these projected benefits are included in this valuation. These benefits are described in Supporting Information, Section 2.
- **Implicit subsidy liabilities:** It is MacLeod Watts's understanding that PEBP operates a separate pool from the State plan members for evaluating the claims and setting premiums for Nevada Public Agency PEBP participation. The Public Agency pool consists almost entirely of retired members. We have assumed that no significant subsidy, if any, of retiree premiums by active premiums exists under this program and as such have not included any implicit subsidy liability in this valuation.

OPEB Funding Policy

The District's OPEB funding policy affects the calculation of liabilities by impacting the discount rate that is used to develop the plan liability and expense. "Prefunding" is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate which reflects the expected earnings on trust assets. Pay-as-you-go, or "PAYGO", is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.



Executive Summary

(Continued)

Our understanding is that the District is continuing to finance this PEBP OPEB liability on a pay-as-you-go basis. Therefore, with the District's approval, the discount rate used in this valuation is based on the Fidelity Municipal Bond AA 20 Year Maturity Yield. As of the beginning and end of the Measurement Period, use of this index results in discount rates of 3.71% on December 31, 2018 and 2.75% on December 31, 2019.

Actuarial Assumptions

The basic mortality rates used in this report are the same as the rates used for the most recent valuation of the retirement plan(s) covering District employees, though a different table was applied to project future mortality improvement. Other assumptions, such as healthcare trend and retiree participation rates, were selected based on demonstrated plan experience and/or our best estimate of expected future experience. These assumptions, and more, impact expected future benefits. Please note that this valuation has been prepared on a closed group basis. This program is (essentially) closed to new District retirees and only the retirees covered by PEBP as of the valuation date are considered.

We emphasize that this actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent and we will continue to monitor these assumptions in future valuations. See Section 3 for a description of assumptions used in this valuation.

Important Dates Used in the Valuation

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for this report:

Fiscal Year	June 30, 2020
Measurement Date	December 31, 2019
Measurement Period	January 1, 2019 to December 31, 2019
Valuation Date	December 31, 2019

Significant Results and Differences from the Prior Valuation

No benefit changes were reported to MacLeod Watts relative to those in place at the time the December 31, 2017 valuation was prepared. We reviewed and updated certain assumptions used to project the OPEB liability. Differences between actual and expected results (referred to as "plan experience") since December 2017 were also reflected. Overall, the Total OPEB Liability on the current measurement date is higher than that reported one year ago.

Section C. Basic Valuation Results as of December 31, 2019 provides additional information on the impact of the new assumptions and plan experience. Assumption changes are described at the end of Section 3. See *Recognition Period for Deferred Resources* on page 9 for details on how these changes are recognized.



Executive Summary
 (Concluded)

Impact on Statement of Net Position and OPEB Expense for Fiscal Year End 2020

The plan's impact to Net Position will be the sum of difference between assets and liabilities as of the measurement date plus the unrecognized net outflows and inflows of resources. The plan's impact on Net Position on the measurement date can be summarized as follows.

Items	For Reporting At Fiscal Year Ending June 30, 2020
Total OPEB Liability	\$ 149,421
Fiduciary Net Position	-
Net OPEB Liability (Asset)	149,421
Deferred (Outflows) of Resources	(7,699)
Deferred Inflows of Resources	-
Impact on Statement of Net Position	\$ 141,722
 OPEB Expense, FYE 6/30/2020	 \$ 45,956

Important Notices

This report is intended to be used only to present the actuarial information relating to other postemployment benefits for the District's financial statements. The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable. We note that various issues in this report may involve legal analysis of applicable law or regulations. The District should consult counsel on these matters; MacLeod Watts does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the District consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.



B. Valuation Process

This valuation is based on retiree census data and benefits initially submitted to us by the District and clarified in various related communications. A summary of the census data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2. While individual records were reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the District as to its accuracy. The valuation has been performed in accordance with the process described below using the actuarial methods and assumptions described in Section 3 and is consistent with our understanding of Actuarial Standards of Practice.

In developing the projected benefit values and liabilities in a situation where there are only retirees, we first determine an expected benefit stream over each retiree's anticipated future lifetime. We discount the value of each future expected benefit payment back to the valuation date, using the discount rate to develop the present value of these benefits as of the valuation date. The present value of benefits payable for each retiree reflect expected trends in the cost of those benefits and the assumptions as to the expected date(s) those benefit will be paid.

The sum of the present values for all retirees forms the Present Value of Projected Benefits" (PVPB). Where there are only retirees in the plan, the PVPB is equal to the "Total OPEB Liability" (TOL).

The District is financing the plan on a pay-as-you-go basis. This policy does not establish a trust to prefund benefits and pays retirees benefits each year as required. Therefore, the **Net OPEB Liability (NOL)** is equal to the Total OPEB Liability. The NOL represents, as of the valuation date, the present value of benefits already earned by past service that remain unfunded. Future contributions by the District will equal each year's retiree benefit payments.

Please note that projections of future benefits over long periods (frequently 25 or more years) which are dependent on numerous assumptions regarding future economic and demographic variables are subject to substantial revision as future events unfold. While we believe that the assumptions and methods used in this valuation are reasonable for the purposes of this report, the costs to the District reflected in this report are subject to future revision, perhaps materially. Demonstrating the range of potential future plan costs was beyond the scope of our assignment except to the limited extent of providing liability information at various discount rates.

Certain actuarial terms and GASB 75 terms may be used interchangeably. We note a few in this table.

Actuarial Terminology	GASB 75 Terminology
Present Value of Projected Benefits (PVPB)	<i>No equivalent term</i>
Actuarial Accrued Liability (AAL)	Total OPEB Liability (TOL)
Market Value of Assets (MVA)	Fiduciary Net Position
Actuarial Value of Assets (AVA)	<i>No equivalent term</i>
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability
Normal Cost	Service Cost



C. Basic Valuation Results as of December 31, 2019

This chart compares the results measured as of December 31, 2018, based on the December 31, 2017 valuation, with the results measured as of December 31, 2019, based on the December 31, 2019 actuarial valuation.

Valuation date	12/31/2017	12/31/2019
Measurement date	12/31/2018	12/31/2019
Fiscal year ending	6/30/2019	6/30/2020
Discount rate	3.71%	2.75%
Number of Covered Employees		
Actives	0	0
Retirees	5	5
Total Participants	5	5
Actuarial Present Value of Projected Benefits	\$ 118,017	\$ 149,421
Actuarial Accrued Liability (AAL)	118,017	149,421
Actuarial Value of Assets	-	-
Unfunded AAL (UAAL)	118,017	149,421
Normal Cost		
For the 12 months following the measurement date	-	-

The TOL has increased by \$31,404 from one year ago. These changes can be categorized as “expected” or “unexpected” and are discussed on the following page.



Basic Valuation Results as of December 31, 2019

(Concluded)

We expected a decrease of \$10,443 from normal plan operation and the passage of time. This expected change in the TOL is shown in the top section of the chart.

Unexpected changes increased the TOL by \$41,847. These unexpected changes are the result of:

- *Plan experience* which recognizes results which are different than expected based on the prior valuation data and assumptions. Plan experience was close to expected over the past two years, increasing the TOL by just \$7,604 from what was previously projected.
- *Changes in actuarial assumptions:* Collectively, four assumption changes increased the TOL by \$41,847. These changes are quantified in the chart above. Additional description of these changes is provided on page 22.

This chart reconciles the Total OPEB Liability (TOL) reported at FYE 2019 to the GASB 75 liability to be reported at FYE 2020.

Reported Total OPEB Liability at June 30, 2019 Measurement Date December 31, 2018	\$ 118,017
Expected Changes:	
Service Cost	-
Benefit Payments	(14,552)
Interest Cost	4,109
Total Expected Change	(10,443)
Expected Total OPEB Liability at June 30, 2020 Measurement Date December 31, 2019	\$ 107,574
Unexpected Changes:	
<i>Plan experience different than assumed</i>	7,604
<i>Assumption changes</i>	
Change in healthcare trend model	(597)
Update to discount rate	12,260
Update to mortality rates and improvement scale	16,698
Update to SB552 assumption	5,882
Total Unexpected Change	41,847
Actual Total OPEB Liability at June 30, 2020 Measurement Date December 31, 2019	\$ 149,421



D. Accounting Information (GASB 75)

The following exhibits are designed to satisfy the reporting and disclosure requirements of GASB 75 for PEBP retirees for the fiscal year end June 30, 2020. The District is classified for GASB 75 purposes as a single employer.

Components of Net Position and Expense

The exhibit below shows the development of Net Position and Expense as of the Measurement Date.

Plan Summary Information for FYE June 30, 2020

Measurement Date is December 31, 2019

PEBP

Items Impacting Net Position:

Total OPEB Liability	\$ 149,421
Fiduciary Net Position	-
Net OPEB Liability (Asset)	<u>149,421</u>

Deferred (Outflows) Inflows of Resources Due to:

Assumption Changes	-
Plan Experience	-
Investment Experience	-
Deferred Contributions	(7,699)
Net Deferred (Outflows) Inflows of Resources	<u>(7,699)</u>

Impact on Statement of Net Position, FYE 6/30/2020

\$ 141,722

Items Impacting OPEB Expense:

Service Cost	\$ -
Cost of Plan Changes	-
Interest Cost	4,109
Expected Earnings on Assets	-

Recognized Deferred Resource items:

Assumption Changes	34,243
Plan Experience	7,604
Investment Experience	-

OPEB Expense, FYE 6/30/2020

\$ 45,956



Accounting Information

(Continued)

Change in Net Position During the Fiscal Year

The exhibit below shows the year-to-year changes in the components of Net Position.

For Reporting at Fiscal Year End	6/30/2019	6/30/2020	Change
<i>Measurement Date</i>	<i>12/31/2018</i>	<i>12/31/2019</i>	During
			Period
Total OPEB Liability	\$ 118,017	\$ 149,421	\$ 31,404
Fiduciary Net Position	-	-	-
Net OPEB Liability (Asset)	118,017	149,421	31,404
<i>Deferred Resource (Outflows) Inflows Due to:</i>			
Assumption Changes	-	-	-
Plan Experience	-	-	-
Investment Experience	-	-	-
Deferred Contributions	(6,853)	(7,699)	(846)
Net Deferred (Outflows) Inflows	(6,853)	(7,699)	(846)
Impact on Statement of Net Position	\$ 111,164	\$ 141,722	\$ 30,558

Change in Net Position During the Fiscal Year

Impact on Statement of Net Position, FYE 6/30/2019	\$ 111,164
OPEB Expense (Income)	45,956
Employer Contributions During Fiscal Year	(15,398)
Impact on Statement of Net Position, FYE 6/30/2020	<u>\$ 141,722</u>

OPEB Expense

Employer Contributions During Fiscal Year	\$ 15,398
Deterioration (Improvement) in Net Position	30,558
OPEB Expense (Income), FYE 6/30/2020	<u>\$ 45,956</u>



Accounting Information
(Continued)

Recognition Period for Deferred Resources

Liability changes due to plan experience that differs from what was assumed in the prior year and/or due to assumption changes during the year are recognized over the Expected Average Remaining Service Life ("EARSL"). The period for recognizing differences between expected and actual experience and/or changes in assumptions in a closed plan with no active members, such as PEBP, is 1 year.

Changes in the Fiduciary Net Position due to investment performance different from the assumed earnings rate are always recognized over 5 years. There are no plan assets set aside in trust for this program.

Liability changes attributable to benefit changes occurring during the period are recognized immediately.

Deferred Resources as of Fiscal Year End and Expected Future Recognition

The exhibit below shows deferred resources as of the fiscal year end June 30, 2020.

Tahoe Douglas FPD	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ -	\$ -
Differences Between Expected and Actual Experience	-	-
Net Difference Between Projected and Actual Earnings on Investments	-	-
Deferred Contributions	7,699	-
Total	\$ 7,699	\$ -

Schedule of Deferred Outflows and Inflows of Resources

Besides deferred contributions, there are no deferred resource bases which extend beyond the current measurement period for pay-as-you-go plans in which all participants are retired.

Measurement Date: December 31, 2019

Deferred Resource					
Date Created	Cause	Initial Amount	Period (Yrs)	Recognized in CY 2019 (FYE 2020)	Balance as of Dec 31, 2019
Loss Due To					
12/31/2019	Plan Experience	\$ 7,604	1.00	\$ 7,604	\$ -
Loss Due To					
12/31/2019	Assumption Changes	34,243	1.00	34,243	-



Accounting Information
(Continued)

Sensitivity of Liabilities to Changes in the Discount Rate and Healthcare Cost Trend Rate

The discount rate used for the fiscal year end 2020 is 2.75%. Healthcare cost trend rate prior to eligibility for Medicare was assumed to start at 5.4% (increase effective January 1, 2021) and fluctuate down to the ultimate rate of 4.0% by year 2076; medical cost inflation for those covered by Medicare is 4.5% per year. The impact of a 1% increase or decrease in these assumptions is shown in the chart below.

Sensitivity to:			
Change in Discount Rate	Current - 1% 1.75%	Current 2.75%	Current + 1% 3.75%
Net OPEB Liability (Asset)	164,645	149,421	136,635
Increase (Decrease)	15,224		(12,786)
% Increase (Decrease)	10.2%		-8.6%
Change in Heathcare Cost Trend Rate	Current Trend - 1%	Current Trend	Current Trend + 1%
Net OPEB Liability (Asset)	137,377	149,421	163,434
Increase (Decrease)	(12,044)		14,013
% Increase (Decrease)	-8.1%		9.4%



Accounting Information
(Continued)

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. Only results for years since GASB 75 was implemented (fiscal years 2018, 2019 and 2020) are shown in the table.

Fiscal Year Ending	2020	2019	2018
Measurement Date	12/31/2019	12/31/2018	12/31/2017
Discount Rate on Measurement Date	2.75%	3.71%	3.31%
Total OPEB liability			
Service Cost	\$ -	\$ -	\$ -
Interest	4,109	4,120	4,829
Changes of benefit terms	-	-	-
Differences between expected and actual experience	7,604	-	-
Changes of assumptions	34,243	(4,024)	5,407
Benefit payments	(14,552)	(13,089)	(11,920)
Net change in total OPEB liability	31,404	(12,993)	(1,684)
Total OPEB liability - beginning	118,017	131,010	132,694
Total OPEB liability - ending (a)	\$ 149,421	\$ 118,017	\$ 131,010
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending (b)	\$ -	\$ -	\$ -
Net OPEB liability - ending (a) - (b)	\$ 149,421	\$ 118,017	\$ 131,010

Notes to Schedule

Valuation Date

Actuarial cost method

Inflation

Healthcare cost trend rates

Salary increases

Retirement age

Mortality

Mortality Improvement

	12/31/2019	12/31/2017	12/31/2017
Entry Age Normal Level % of Pay	2.50%	2.75%	2.75%
Healthcare cost trend rates	Pre-Medicare: 5.4% effective January 2021 fluctuating down to 4.0% by 2076. Post-Medicare: 4.5%	Pre-Medicare: 6.5% effective July 2018 grading down to 5.0% by 2024. Post-Medicare: 4.5%	Pre-Medicare: 6.5% effective July 2018 grading down to 5.0% by 2024. Post-Medicare: 4.5%
Salary increases	N/A; All Retired	N/A; All Retired	N/A; All Retired
Retirement age	N/A; All Retired	N/A; All Retired	N/A; All Retired
Mortality	RPH-2014 Healthy Annuitant	RP-2000 Combined Healthy Annuitant	RP-2000 Combined Healthy Annuitant
Mortality Improvement	MW Scale 2020 Generationally	MW Scale 2017 Generationally	MW Scale 2017 Generationally



Accounting Information

(Continued)

Schedule of Contributions

This schedule is not required to be provided for unfunded OPEB plans.



Accounting Information
 (Continued)

Detail of Changes to Net Position

The chart below details changes to all components of Net Position.

Tahoe Douglas FPD	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)	(d) Deferred Outflows (Inflows) Due to:				Impact on Statement of Net Position (e) = (c) - (d)
				Assumption Changes	Plan Experience	Investment Experience	Deferred Contributions	
Balance at Fiscal Year Ending 6/30/2019 <i>Measurement Date 12/31/2018</i>	\$ 118,017	\$ -	\$ 118,017	\$ -	\$ -	\$ -	\$ 6,853	\$ 111,164
Changes During the Period:								
Service Cost	-	-	-	-	-	-	-	-
Interest Cost	4,109	-	4,109	-	-	-	-	4,109
Expected Investment Income	-	-	-	-	-	-	-	-
Employer Contributions	-	14,552	(14,552)	-	-	-	-	(14,552)
Changes of Benefit Terms	-	(14,552)	-	-	-	-	-	-
Benefit Payments	(14,552)	(14,552)	-	-	-	-	-	-
Assumption Changes	34,243	-	34,243	34,243	-	-	(14,552)	56,399
Plan Experience	7,604	-	7,604	-	7,604	-	15,398	(15,398)
Investment Experience	-	-	-	-	-	-	-	-
Recognized Deferred Resources	-	-	-	(34,243)	(7,604)	-	-	-
Employer Contributions in Fiscal Year	-	-	-	-	-	-	846	-
Net Changes in Fiscal Year 2019-2020	31,404	-	31,404	-	-	-	-	30,558
Balance at Fiscal Year Ending 6/30/2020 <i>Measurement Date 12/31/2019</i>	\$ 149,421	\$ -	\$ 149,421	\$ -	\$ -	\$ -	\$ 7,699	\$ 141,722



Accounting Information

(Continued)

The District Contributions to the Plan

The District contributions to the Plan occur as benefits are paid to retirees and/or to the OPEB trust. Benefit payments occur in the form of direct payments for premiums (“explicit subsidies”). There are no indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”) under this program. For details, see Addendum 1 – Important Background Information.

Benefits paid by the District for PEBP retirees are shown below:

- District retiree payments during calendar year 2019 (the measurement period): \$14,552
- District retiree payments during fiscal year ending June 30, 2020: \$15,398



Accounting Information

(Continued)

Projected Benefit Payments (15-year projection)

The following is an estimate of other post-employment benefits to be paid on behalf of current retirees covered by PEBP. Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Section 3.

Projected Annual Benefit Payments	
Calendar Year	PEBP Retirees
2020	\$ 14,552
2021	17,869
2022	7,921
2023	7,919
2024	7,947
2025	7,943
2026	7,906
2027	7,834
2028	7,721
2029	7,566
2030	7,372
2031	7,140
2032	6,872
2033	6,572
2034	6,247

The agency's subsidy for retirees not yet on Medicare is expected to increase in each of the next 2 years as increases under SB 552 are phased in. The decrease in benefits beyond that reflects the expected shift of two retirees to the Medicare exchange which provides lower monthly subsidy amounts.



Accounting Information

(Concluded)

Sample Journal Entries

Beginning Account Balances

As of the fiscal year beginning 7/1/2019

	Debit	Credit
Net OPEB Liability		118,017
Deferred Resource -- Assumption Changes	-	
Deferred Resource -- Plan experience	-	
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	6,853	
Net Position	111,164	

** The entries above assume nothing is on the books at the beginning of the year. So to the extent that values already exist in, for example, the Net OPEB Liability account, then only the difference should be adjusted. The entries above represent the values assumed to exist at the start of the fiscal year.*

Journal entry to recharacterize retiree benefit payments not reimbursed by a trust, and record cash contributions to the trust during the fiscal year

	Debit	Credit
OPEB Expense	15,398	
Premium Expense		15,398
OPEB Expense	-	
Cash		-

** This entry assumes a prior journal entry was made to record the payment for retiree premiums. This entry assumes the prior entry debited an account called "Premium Expense" and credited Cash. This entry reverses the prior debit to "Premium Expense" and recharacterizes that entry as an "OPEB Expense". Also, the entry for cash contributions to the trust is shown.*

Journal entries to record other account activity during the fiscal year

	Debit	Credit
Net OPEB Liability		31,404
Deferred Resource -- Assumption Changes	-	
Deferred Resource -- Plan experience	-	
Deferred Resource -- Investment Experience	-	
Deferred Resource -- Contributions	846	
OPEB Expense	30,558	



E. Funding Information

Our understanding is that the District is currently financing its PEBP OPEB liability on a pay-as-you-go basis. Prefunding (setting aside funds to accumulate in an irrevocable OPEB trust) has certain advantages, one of which is the ability to (potentially) use a higher discount rate in the determination of liabilities for GASB 75 reporting purposes.

Should the District wish to explore potential future prefunding for this plan we can prepare illustrations of various funding levels and, if appropriate, perform a formal funding valuation at that time. Results under a funding scenario may be materially different from the results presented in this report.



F. Certification

The purpose of this report is to provide actuarial information in compliance with Statement 75 of the Governmental Accounting Standards Board (GASB 75) for other postemployment benefits provided by the Tahoe Douglas Fire Protection District for retired employees covered by PEBP.

In preparing this report we relied without audit on information provided by the District. This information includes, but is not limited to, plan provisions, census data, and financial information. We performed a limited review of this data and found the information to be reasonably consistent. The accuracy of this report is dependent on this information and if any of the information we relied on is incomplete or inaccurate, then the results reported herein will be different from any report relying on more accurate information.

We consider the actuarial assumptions and methods used in this report to be individually reasonable under the requirements imposed by GASB 75 and taking into consideration reasonable expectations of plan experience. The results provide an estimate of the plan's financial condition at one point in time. Future actuarial results may be significantly different due to a variety of reasons including, but not limited to, demographic and economic assumptions differing from future plan experience, changes in plan provisions, changes in applicable law, or changes in the value of plan benefits relative to other alternatives available to plan members.

Alternative assumptions may also be reasonable; however, demonstrating the range of potential plan results based on alternative assumptions was beyond the scope of our assignment except to the limited extent required by GASB 75. Plan results for accounting purposes may be materially different than results obtained for other purposes such as plan termination, liability settlement, or underlying economic value of the promises made by the plan.

This report is prepared solely for the use and benefit of the District and may not be provided to third parties without prior written consent of MacLeod Watts. Exceptions are: The District may provide copies of this report to their professional accounting and legal advisors who are subject to a duty of confidentiality, and the District may provide this work to any party if required by law or court order. No part of this report should be used as the basis for any representations or warranties in any contract or agreement without the written consent of MacLeod Watts.

The undersigned actuary is unaware of any relationship that might impair the objectivity of this work. Nothing within this report is intended to be a substitute for qualified legal or accounting counsel. The actuary is a member of the American Academy of Actuaries and meets the qualification standards for rendering this opinion.

Signed: October 20, 2020



Catherine L. MacLeod, FSA, FCA, MAAA



Cody J. Simrell, Actuarial Analyst



G. Supporting Information

Section 1 - Summary of Employee Data

Active members: There are no active District employees covered by or eligible for coverage under PEBP.

Retired members: As of the December 2019 valuation date, there were 5 former employees for whom the District pays a subsidy toward the cost of PEBP coverage.

PEBP Retirees		
Current Age	Number	Percent
Below 50	0	0%
50 to 54	0	0%
55 to 59	0	0%
60 to 64	2	40%
65 to 69	0	0%
70 to 74	1	20%
75 to 79	2	40%
80 & up	0	0%
Total	5	100%
Average Attained Age for Retirees:		70.7

While the plan is generally closed to District retirees after September 1, 2008, former employees covered by PEBP at the time of their retirement (through a subsequent employer) may join the plan and, if this occurs, the District is assessed a portion of their cost.

There have been no changes in District retirees covered by PEBP in the two years since the prior valuation was prepared, as shown below.

Reconciliation of PEBP Retiree Population	
Retirees as of December 2017	5
Deceased or dropped coverage	0
Added to PEBP invoice	0
Retirees as of December 2019	5



Supporting Information

(Continued)

Section 2 - Summary of Retiree Benefit Provisions

PEBP Eligibility: PEBP closed to non-State public agency retirees on September 1, 2008 unless the agency’s active employees are participating in PEBP. However, the District is responsible for a portion of the PEBP subsidy for a former employee retiring after September 1, 2008 from the State or from a Non-State public agency whose active employees participate in PEBP.

For a retiree to participate in the PEBP program, the participant must be receiving a PERS benefit. PERS eligibility requirements vary by employee group and benefit type.

Benefits for PEBP retirees: Those retirees and former employees who were eligible and elected PEBP coverage are entitled to a subsidy toward their premium cost based on their years of covered employment under Nevada PERS. The subsidy is shared on a pro-rata basis by the employers for which the retiree has worked and earned PERS service credit. Thus, the District is obligated to subsidize health care premiums for former employees as well as those who retired directly from the District.

The Nevada Legislature changes the benefit subsidies from time to time. The monthly subsidy continues to be based on years of credited service under Nevada PERS, though the level differs for pre-Medicare and Medicare eligible retirees. The subsidy ends at the earlier of the retiree’s death or the date he or she discontinues coverage.

There are exceptions to the amounts shown below:

- (a) Participants who retired before June 30, 1994 receive the 15 year subsidy, regardless of their years of covered service and
- (b) Participants do not receive a subsidy if they were hired by their last employer on or after June 30, 2010, retired with less than 15 years of service and were not disabled.

Agency Subsidy for PEBP Coverage for Non-State pre-Medicare retirees:

The subsidy provided to pre-Medicare retirees varies based on the type of plan selected (PPO or HMO) and by the level of coverage taken (e.g., single, two party, family, etc.). This chart shows the monthly amounts payable as of January 2020 for those with 15 years of PERS service. Actual pre-Medicare subsidies as of January 2020 invoiced to the District by individual, were used for the valuation. Some subsidy increases are expected pursuant to SB 552, to be phased in through 2022.

Coverage Level	PPO CDHP		Statewide EPO/HMO	
	Base Subsidy	SB 552 Subsidy	Base Subsidy	SB 552 Subsidy
<i>For 15 years of PERS service</i>				
Retiree Only	\$ 813.80	\$ 163.65	\$ 398.00	\$ (11.66)
Retiree + Spouse	1,389.86	419.51	630.93	(28.22)
Retiree + Children	1,212.52	384.79	527.69	(5.39)
Retiree + Family	1,788.58	640.65	760.62	(21.95)

HRA Contributions for non-State Medicare Retirees covered by the Exchange:

Amounts paid for Medicare eligible retirees covered by the Exchange do not vary by type of plan or coverage level; they vary only by years of PERS membership service.

On January 1, 2020, the monthly subsidy for retirees on the Medicare Exchange was \$13 per month per year of PERS service, with a maximum benefit payable of \$260 per month.



Supporting Information

(Continued)

Section 3 - Actuarial Methods and Assumptions

The ultimate real cost of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These payments depend only on the terms of the plan and the administrative arrangements adopted. The actuarial assumptions are used to estimate the cost of these benefits; the funding method spreads the expected costs on a level basis over the life of the plan.

Fiscal Year End	June 30, 2020
GASB 75 Measurement Date	December 31, 2019
Valuation Date	December 31, 2019
Funding Method	Entry Age Normal Cost, closed group, level percent of pay
Asset Valuation Method	Not applicable (\$0; no OPEB trust has been established)
Municipal Bond Index	Fidelity Municipal Bond AA 20 Year Maturity Yield
Discount Rate	3.71% as of December 31, 2018 and 2.75% as of December 31, 2019
Participants Valued	Only current PEBP retirees are valued.
Salary Increase	Not applicable; there are no active employees in this plan.
General Inflation Rate	2.5% per year
Mortality:	<p><i>The basic mortality rates used in this valuation are based on the most recently published report of the Nevada Public Employees Retirement System, dated June 30, 2019, except for a different basis used to project future mortality improvements.</i></p> <p><u>Non-disabled life rates for Regular & Safety employees:</u> <i>Males and Females: Headcount-Weighted RP-2014 Healthy Annuitant Table</i></p> <p><u>Disabled life rates for Regular & Safety employees:</u> <i>Males and Females: Headcount-Weighted RP-2014 Disabled Retiree Table, set forward 4 years</i></p>
Mortality Improvement	In the June 30, 2019 Nevada PERS Valuation, the mortality rates described above were stated to “reasonably reflect the projected mortality experience of the Plan as of the measurement date.” We then adjusted these rates to anticipate future mortality improvement by applying MacLeod Watts Scale 2020 on a generational basis from 2018 forward (see Addendum 2 for additional details).



Addendum 1: Important Background Information

General Types of Other Post-Employment Benefits (OPEB)

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are medical, prescription drug, dental, vision, and/or life insurance coverage. Other OPEB may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include COBRA, vacation, sick leave (unless converted to defined benefit OPEB), or other direct retiree payments.

A direct employer payment toward the cost of OPEB benefits is referred to as an “explicit subsidy”. In addition, if claims experience of employees and retirees are pooled when determining premiums, retiree premiums are based on a pool of members which, on average, are younger and healthier. For certain types of coverage such as medical insurance, this results in an “implicit subsidy” of retiree premiums by active employee premiums since the retiree premiums are lower than they would have been if retirees were insured separately. GASB 75 and Actuarial Standards of Practice generally require that an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Expected retiree claims		
Premium charged for retiree coverage		<i>Covered by higher active premiums</i>
Retiree portion of premium	Agency portion of premium Explicit subsidy	Implicit subsidy

This chart shows the sources of funds needed to cover expected medical claims for pre-Medicare retirees. The portion of the premium paid by the Agency does not impact the amount of the implicit subsidy.

Valuation Process

The valuation was based on employee census data and benefits provided by the District. A summary of the employee data is provided in Section 1 and a summary of the benefits provided under the Plan is provided in Section 2A. While individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the District as to its accuracy. The valuation was also based on the actuarial methods and assumptions described in Section 3.

In developing the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee’s future retirement. Benefits may include both direct employer payments (explicit subsidies) and/or an implicit subsidy, arising when retiree premiums are expected to be subsidized by active employee premiums. The projected benefit streams reflect assumed trends in the cost of those benefits and assumptions as to the expected date(s) when benefits will end. We then apply assumptions regarding:

- The probability that each individual employee will or will not continue in service to receive benefits.



Important Background Information

(Continued)

- The probability of when such retirement will occur for each retiree, based on current age, service and employee type; and
- The likelihood that future retirees will or will not elect retiree coverage (and benefits) for themselves and/or their dependents.

We then calculate a present value of these benefits by discounting the value of each future expected benefit payment, multiplied by the assumed expectation that it will be paid, back to the valuation date using the discount rate. These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for many decades.

The resulting present value for each employee is allocated as a level percent of payroll each year over the employee's career using the entry age normal cost method and the amounts for each individual are then summed to get the results for the entire plan. This creates a cost expected to increase each year as payroll increases. Amounts attributed to prior fiscal years form the "Total OPEB Liability". The OPEB cost allocated for active employees in the current year is referred to as "Service Cost".

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets ("Fiduciary Net Position") is applied to offset the "Total OPEB Liability", resulting in the "Net OPEB Liability". If a plan is not being funded, then the Net OPEB Liability is equal to the Total OPEB Liability.

It is important to remember that an actuarial valuation is, by its nature, a projection of one possible future outcome based on many assumptions. To the extent that actual experience is not what we assumed, future results will differ. Some possible sources of future differences may include:

- A significant change in the number of covered or eligible plan members
- A significant increase or decrease in the future premium rates
- A change in the subsidy provided by the Agency toward retiree premiums
- Longer life expectancies of retirees
- Significant changes in expected retiree healthcare claims by age, relative to healthcare claims for active employees and their dependents
- Higher or lower returns on plan assets or contribution levels other than were assumed; and/or
- Changes in the discount rate used to value the OPEB liability



Important Background Information

(Continued)

Requirements of GASB 75

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosure of OPEB expense and related liabilities (assets), note disclosures, and, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Important Dates

GASB 75 requires that the information used for financial reporting falls within prescribed timeframes. Actuarial valuations of the total OPEB liability are generally required at least every two years. If a valuation is not performed as of the Measurement Date, then liabilities are required to be based on roll forward procedures from a prior valuation performed no more than 30 months and 1 day prior to the most recent year-end. In addition, the net OPEB liability is required to be measured as of a date no earlier than the end of the prior fiscal year (the "Measurement Date").

Recognition of Plan Changes and Gains and Losses

Under GASB 75, gains and losses related to changes in Total OPEB Liability and Fiduciary Net Position are recognized in OPEB expense systematically over time.

- *Timing of recognition:* Changes in the Total OPEB Liability relating to changes in plan benefits are recognized immediately (fully expensed) in the year in which the change occurs. Gains and Losses are amortized, with the applicable period based on the type of gain or loss. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.
- *Deferred recognition periods:* These periods differ depending on the source of the gain or loss.

Difference between projected
and actual trust earnings:

5 year straight-line recognition

All other amounts:

Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.



Important Background Information

(Continued)

Implicit Subsidy Plan Contributions

An implicit subsidy occurs when expected retiree claims exceed the premiums charged for retiree coverage. When this occurs, we expect part of the premiums paid for active employees to cover a portion of retiree claims. This transfer represents the current year’s “implicit subsidy”. Because GASB 75 treats payments to an irrevocable trust *or directly to the insurer* as employer contributions, each year’s implicit subsidy is treated as a contribution toward the payment of retiree benefits.

The following hypothetical example illustrates this treatment:

Hypothetical Illustration of Implicit Subsidy Recognition	For Active Employees	For Retired Employees
<i>Prior to Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Accounting Treatment	Compensation Cost for Active Employees	Contribution to Plan & Benefits Paid from Plan
<i>After Implicit Subsidy Adjustment</i>		
Premiums Paid by Agency During Fiscal Year	\$ 411,000	\$ 48,000
Implicit Subsidy Adjustment	(23,000)	23,000
Accounting Cost of Premiums Paid	\$ 388,000	\$ 71,000
Accounting Treatment Impact	Reduces Compensation Cost for Active Employees	Increases Contributions to Plan & Benefits Paid from Plan

The example above shows that total payments toward active and retired employee healthcare premiums is the same, but for accounting purposes part of the total is shifted from actives to retirees. This shifted amount is recognized as an OPEB contribution and reduces the current year’s premium expense for active employees.



Important Background Information

(Continued)

Discount Rate

When the financing of OPEB liabilities is on a pay-as-you-go basis, GASB 75 requires that the discount rate used for valuing liabilities be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). When a plan sponsor makes regular, sufficient contributions to a trust in order to prefund the OPEB liabilities, GASB 75 allows use of a rate up to the expected rate of return of the trust. Therefore, prefunding has an advantage of potentially being able to report overall lower liabilities due to future expected benefits being discounted at a higher rate.

Actuarial Funding Method and Assumptions

The “ultimate real cost” of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted, and as such are not affected by the actuarial funding method.

The actuarial funding method attempts to spread recognition of these expected costs on a level basis over the life of the plan, and as such sets the “incidence of cost”. GASB 75 specifically requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the Entry Age Actuarial Cost Method, with each period’s service cost determined as a level percentage of pay.

The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable.



Addendum 2: MacLeod Watts Mortality Projection Methodology

Actuarial standards of practice (e.g., ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, and ASOP 6, Measuring Retiree Group Benefits Obligations) indicate that the actuary should reflect the effect of mortality improvement (i.e., longer life expectancies in the future), both before and after the measurement date. The development of credible mortality improvement rates requires the analysis of large quantities of data over long periods of time. Because it would be extremely difficult for an individual actuary or firm to acquire and process such extensive amounts of data, actuaries typically rely on large studies published periodically by organizations such as the Society of Actuaries or Social Security Administration.

As noted in a recent actuarial study on mortality improvement, key principles in developing a credible mortality improvement model would include the following:

- (1) Short-term mortality improvement rates should be based on recent experience.
- (2) Long-term mortality improvement rates should be based on expert opinion.
- (3) Short-term mortality improvement rates should blend smoothly into the assumed long-term rates over an appropriate transition period.

The **MacLeod Watts Scale 2020** was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2019 Report, published in October 2019 and (2) the demographic assumptions used in the 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published April 2019.

MacLeod Watts Scale 2020 is a two-dimensional mortality improvement scale reflecting both age and year of mortality improvement. The underlying base scale is Scale MP-2019 which has two segments – (1) historical improvement rates for the period 1951-2015 and (2) an estimate of future mortality improvement for years 2016-2018 using the Scale MP-2019 methodology but utilizing the assumptions obtained from Scale MP-2015. The MacLeod Watts scale then transitions from the 2018 improvement rate to the Social Security Administration (SSA) Intermediate Scale linearly over the 10-year period 2019-2028. After this transition period, the MacLeod Watts Scale uses the constant mortality improvement rate from the SSA Intermediate Scale from 2028-2042. The SSA's Intermediate Scale has a final step down in 2043 which is reflected in the MacLeod Watts scale for years 2043 and thereafter. Over the ages 95 to 115, the SSA improvement rate is graded to zero.

Scale MP-2019 can be found at the SOA website and the projection scales used in the 2019 Social Security Administrations Trustees Report at the Social Security Administration website.



Glossary

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value of Projected Benefits (APVPB) – The amount presently required to fund all projected plan benefits in the future. This value is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

Defined Benefit (DB) – A pension or OPEB plan which defines the monthly income or other benefit which the plan member receives at or after separation from employment

Deferred Contributions – When an employer makes contributions after the measurement date and prior to the fiscal year end, recognition of these contributions is deferred to a subsequent accounting period by creating a deferred resource. We refer to these contributions as Deferred Contributions.

Defined Contribution (DC) – A pension or OPEB plan which establishes an individual account for each member and specifies how contributions to each active member’s account are determined and the terms of distribution of the account after separation from employment

Discount Rate - Interest rate used to discount future potential benefit payments to the valuation date. Under GASB 75, if a plan is prefunded, then the discount rate is equal to the expected trust return. If a plan is not prefunded (pay-as-you-go), then the rate of return is based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Expected Average Remaining Service Lifetime (EARS�) – Average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period

Entry Age Actuarial Cost Method – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual’s projected earnings or service from entry age to the last age at which benefits can be paid

Excise Tax – The Affordable Care Act created an excise tax on the value of employer sponsored coverage which exceeds certain thresholds (“Cadillac Plans”). The tax was repealed in December 2019.

Explicit Subsidy – The projected dollar value of future retiree healthcare costs expected to be paid directly by the Employer, e.g., the Employer’s payment of all or a portion of the monthly retiree premium billed by the insurer for the retiree’s coverage

Fiduciary Net Position – The value of trust assets used to offset the Total OPEB Liability to determine the Net OPEB Liability.

Government Accounting Standards Board (GASB) – A private, not-for-profit organization which develops generally accepted accounting principles (GAAP) for U.S. state and local governments; like FASB, it is part of the Financial Accounting Foundation (FAF), which funds each organization and selects the members of each board



Glossary

(Continued)

Health Care Trend – The assumed rate(s) of increase in future dollar values of premiums or healthcare claims, attributable to increases in the cost of healthcare; contributing factors include medical inflation, frequency or extent of utilization of services and technological developments.

Implicit Subsidy – The projected difference between future retiree claims and the premiums to be charged for retiree coverage; this difference results when the claims experience of active and retired employees are pooled together and a 'blended' group premium rate is charged for both actives and retirees; a portion of the active employee premiums subsidizes the retiree premiums.

Net OPEB Liability (NOL) – The liability to employees for benefits provided through a defined benefit OPEB. Only assets administered through a trust that meet certain criteria may be used to reduce the Total OPEB Liability.

Net Position – The Impact on Statement of Net Position is the Net OPEB Liability adjusted for deferred resource items

OPEB Expense – The OPEB expense reported in the Agency's financial statement. OPEB expense is the annual cost of the plan recognized in the financial statements.

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go (PAYGO) – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

Plan Assets – The value of cash and investments considered as 'belonging' to the plan and permitted to be used to offset the AAL for valuation purposes. To be considered a plan asset, GASB 75 requires (a) contributions to the OPEB plan be irrevocable, (b) OPEB assets to dedicated to providing OPEB benefit to plan members in accordance with the benefit terms of the plan, and (c) plan assets be legally protected from creditors, the OPEB plan administrator and the plan members.

Public Agency Miscellaneous (PAM) – Non-safety public employees.

Select and Ultimate – Actuarial assumptions which contemplate rates which differ by year initially (the select period) and then stabilize at a constant long-term rate (the ultimate rate)

Service Cost – Total dollar value of benefits expected to be earned by plan members in the current year, as assigned by the actuarial funding method; also called normal cost

Total OPEB Liability (TOL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; a subset of "Actuarial Present Value"

Vesting – As defined by the plan, requirements which when met make a plan benefit nonforfeitable on separation of service before retirement eligibility

