



Actuarial Valuation Report

Los Angeles Unified School District

Postretirement Health Benefits

As of June 30, 2017

Executive Summary

Background

The Los Angeles Unified School District (LAUSD) provides retiree healthcare benefits for eligible retirees employed by the District at retirement who meet the eligibility conditions based on their date of hire.

Under the plan, LAUSD pays for eligible retirees' medical, dental, and vision plan premiums. Employees who meet the service eligibility requirements outlined in the plan summary receive lifetime benefits for themselves and their spouses.

GASB 45 for Fiscal Year Ending June 30, 2017

The annual costs and information for fiscal year ending (FYE) 2018 were calculated based on the prior actuarial valuation using methods and assumptions in accordance with Governmental Accounting Standards Board (GASB) Statement 45, which was initially adopted by LAUSD for FYE June 30, 2008. This report includes final disclosure information under GASB 45.

GASB 75

In June 2015, GASB released Statement 75, which is effective for the FYE June 30, 2018. This July 1, 2017 valuation is based on census data provided as of July 1, 2017 for the purpose of providing GASB 75 financial statement information, including final expense for FYE June 30, 2018.

The measurement date for results shown in this valuation report is June 30, 2017.

Two key differences resulting from the new accounting guidance compared to GASB 45 are:

- Balance Sheet Liability Recognition – Under the transition to GASB 75, approximately \$8.75 billion is added to the LAUSD balance sheet (\$7.52 billion Net OPEB Obligation under GASB 45 compared to estimated \$16.27 billion unfunded liability under GASB 75) as of July 1, 2017.
- Annual Expense Amount and Volatility – The GASB 75 Annual OPEB Expense of approximately \$835 million for FYE 2018 and \$786 million (estimated) for FYE 2019 can be compared to the GASB 45 Annual OPEB Cost of \$1,141 million for FYE 2017. The expense under GASB 75 is lower due to recognition of liability through the GASB 75 transition and recognition of subsequent actuarial gains over an amortization period that is relatively short compared to that used for GASB 45.

It is important to note that only current active and retired participants are valued in this actuarial study. Future new entrants or any projected growth in LAUSD's employee population are not considered.

Summary of Results

Liabilities

There are a few terms to understand related to the Plan's liabilities. The Present Value of Benefits (PVB) represents the actuarial present value of all future benefits expected to be paid to current employees and retirees. The Actuarial Accrued Liability (AAL) is the portion of the PVB attributable to past service. The Normal Cost is the portion of the PVB that is allocated to the current plan year for active employees.

Each liability is a present value calculated by using a selected discount rate. Results in this report are shown using a 3.60% discount rate (determined using the GASB 75 prescribed discount rate methodology). We also show results below assuming full pre-funding based on a 7.28% discount rate for illustration purposes. The table below summarizes the liability results based on these discount rates as of July 1, 2017:

	3.60%	7.28%
Present Value of Benefits (PVB)	\$22,636,878,061	\$10,332,770,262
Actuarial Accrued Liability (AAL)	\$15,212,639,514	\$8,531,838,394
Normal Cost	\$523,202,810	\$173,992,522

As an explanation of the meaning of the discount rate, the PVB using a 7.28% discount rate implies that if LAUSD invested \$10,332,770,262 today in an interest bearing account that earns 7.28%, the liabilities would be fully funded. By comparison, if the account were to only earn 3.60%, \$22,636,878,061 would be required to fully fund the liability.

Discount Rate Selection

As illustrated above, the discount rate can have a considerable impact on the magnitude of the liabilities, with lower discount rates resulting in higher liabilities. GASB 75 prescribes the discount rate methodology to be used, which differs from the development under GASB 45. Considering LAUSD's current funding policy, a long term expected return assumption on plan assets of 7.28% per annum, and an assumed municipal bond rate of 3.58% results in a discount rate for GASB 75 liability development of 3.60% as of June 30, 2017.

Expense

GASB 75 will be initially adopted for the fiscal year ending June 30, 2018. The OPEB Expense is based on a Valuation Date of July 1, 2017, a Measurement Period of July 1, 2016 to June 30, 2017, and a Measurement Date of June 30, 2017. The expense for FYE June 30, 2018 is \$835,014,985 and is developed using the valuation results in this report.

Comparison to Prior Valuation

The following table compares certain results to the prior valuation:

	July 1, 2015	July 1, 2017
Purpose	GASB 45	GASB 75
Discount Rate	4.70%	3.60%
Actuarial Accrued Liability (AAL)	\$13,648,716,271	\$15,212,639,514
Assets	\$90,156,494	\$244,129,536
Unfunded AAL	\$13,558,559,787	\$14,968,509,978
Normal Cost	\$456,265,543	\$ 523,202,810
GASB Annual Expense for FYE 2016 / 2018	\$1,090,749,111	\$835,014,985

The AAL, by its nature, is expected to grow each year as active participants accrue additional benefits and the discounting period for benefit payments decreases. A projection from the 2015 valuation produces an expected AAL of \$15.0 billion. The additional \$0.2 billion increase to the 2017 AAL of \$15.2 billion is due to the following offsetting factors:

- The discount rate was changed from 4.70% to 3.60%, resulting in an increase in liabilities.
- Overall healthcare cost increases were lower than assumed in the prior valuation, resulting in an actuarial gain.
- An Employer Group Waiver Plan (EGWP) was implemented for certain Medicare eligible participants effective January 1, 2016, resulting in a decrease in the employer healthcare costs and an actuarial gain.
- Favorable demographic experience since the prior valuation resulted in an actuarial gain.
- Demographic assumptions (mortality, turnover, retirement, and disability rates) were updated to reflect the assumptions used in the most recent CalPERS/CalSTRS valuations, resulting in a small actuarial loss.

* * *

The following report shows the details of results by participant status and benefits provided, based on a 3.60% discount rate.

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Actuarial Valuation Certificate

This report documents the results of the July 1, 2017 actuarial valuation for the Los Angeles Unified School District Postretirement Health Benefits. The information provided in this report is intended strictly for documenting:

- The Annual Required Contribution and Disclosure items under Governmental Accounting Standards Board (GASB) Statement 45 for Fiscal year ending June 30, 2017.
- Disclosure items under Governmental Accounting Standards Board (GASB) Statement 75 for Fiscal year ending June 30, 2018.

Determinations for purposes other than the financial accounting and reporting requirements may be significantly different from the results in this report. Thus, the use of this report for purposes other than those expressed here may not be appropriate.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. In addition, the valuation results are based on our understanding of the financial accounting and reporting requirements under U.S. Generally Accepted Accounting Principles as set forth in Governmental Accounting Standards Board (GASB) Statements 45 and 75, including any guidance or interpretations provided by LAUSD and/or its auditors prior to the issuance of this report. The information in this report is not intended to supersede or supplant the advice and interpretations of LAUSD's auditors. Additional disclosures may be required under GASB 74.

Future actuarial measurements may differ significantly from the current measurements presented in this report due (but not limited to) to such factors as 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 methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status)
- Changes in plan provisions or applicable law; and
- Issuance of additional regulatory guidance

Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

Funded status measurements shown in this report are determined based on various measures of plan assets and liabilities. For entity and plan disclosure and reporting purposes, funded status is determined using plan assets measured at market value. Plan liabilities are measured based on the interest rates and other assumptions summarized in the Actuarial Assumptions and Methods section of this report.

These funded status measurements may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations, and funded status measurements for LAUSD and plan disclosure and reporting purposes may not be appropriate for assessing the need for or the amount of future contributions. In conducting the valuation, we have relied on personnel, plan design, health care claim cost, and asset information supplied by LAUSD as of the valuation date. While we cannot verify the accuracy of all the information, the supplied information was reviewed for consistency

and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results.

The actuarial assumptions and methods used in this valuation are described in the Actuarial Assumptions and Methods section of this report. LAUSD selected the economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB 75. Aon provided guidance with respect to these assumptions, and it is our belief that the assumptions represent reasonable expectations of anticipated plan experience.

The undersigned are familiar with the near-term and long-term aspects of OPEB valuations and collectively meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. The information provided in this report is dependent upon various factors as documented throughout this report, which may be subject to change. Each section of this report is considered to be an integral part of the actuarial opinions.

To our knowledge, no colleague of Aon providing services to the Plan Sponsor has any material direct or indirect financial interest in the Plan Sponsor. Thus, we believe there is no relationship existing that might affect our capacity to prepare and certify this actuarial report for the Plan Sponsor.

Respectfully submitted,



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Plan Liabilities

The liabilities shown in this exhibit were calculated using a 3.60% discount rate as of the July 1, 2017 valuation date.

The **Present Value of Benefits (PVB)** represents the actuarial present value of all benefits ever to be paid to current employees and retirees. The PVB follows:

	Total
PVB	
<i>Medical-Pre Medicare</i>	
Active	\$5,110,685,627
Retiree	\$482,928,210
Subtotal	<u>\$5,593,613,837</u>
<i>Medical-Post Medicare</i>	
Active	\$11,552,175,578
Retiree	\$3,874,305,714
Subtotal	<u>\$15,426,481,292</u>
Subtotal Medical	\$21,020,095,129
<i>Dental</i>	
Active	\$1,043,533,173
Retirees	\$344,350,083
Subtotal	<u>\$1,387,883,256</u>
<i>Vision</i>	
Active	\$172,129,184
Retirees	\$56,770,492
Subtotal	<u>\$228,899,676</u>
<i>All Benefits</i>	
Active	\$17,878,523,562
Retirees	\$4,758,355,499
Total PVB	<u>\$22,636,878,061</u>
PVB Per Participant	
Active	\$294,394
Retirees	<u>\$123,587</u>

The **Actuarial Accrued Liability (AAL)** is the portion of the PVB attributable to past service. For retirees and fully eligible active employees, the AAL is equal to the PVB. For other active employees, the AAL is the portion of the PVB deemed to be accrued to date. The **Normal Cost** is the portion of the PVB that is allocated to the current plan year for active employees.

The AAL in this report is based on the Entry Age Normal cost method and has been developed by spreading costs as a level percentage of payroll.

The AAL and Normal Cost are as follows:

	Total
AAL	
<i>Medical-Pre Medicare</i>	
Active	\$2,995,043,285
Retiree	\$482,928,210
Subtotal	<u>\$3,477,971,495</u>
<i>Medical-Post Medicare</i>	
Active	\$6,741,801,959
Retiree	\$3,874,305,714
Subtotal	<u>\$10,616,107,673</u>
Subtotal Medical	\$14,094,079,168
<i>Dental</i>	
Active	\$615,855,378
Retirees	\$344,350,083
Subtotal	<u>\$960,205,461</u>
<i>Vision</i>	
Active	\$101,584,393
Retirees	\$56,770,492
Subtotal	<u>\$158,355,885</u>
<i>All Benefits</i>	
Active	\$10,454,285,015
Retirees	\$4,758,354,499
Total AAL	<u>\$15,212,639,514</u>
 AAL Per Participant	
Active	\$172,144
Retirees	\$123,587
 Normal Cost	
Medical	\$487,423,000
Dental	\$30,713,644
Vision	\$5,066,166
Total Normal Cost	<u>\$523,202,810</u>
 NC Per Active Participant	<u>\$8,615</u>

Plan Assets

LAUSD currently prefunds a portion of the liabilities in CalPERS's California Employer's Retirement Benefit Trust (CERBT) fund.

The following table shows the development of assets since the prior valuation.

Assets	July 1, 2015 to June 30, 2016	July 1, 2016 to June 30, 2017
Assets, Beginning of Year	\$90,156,494	\$145,237,605
Contributions – Pre-Funding	51,000,000	78,000,000
Investment Earnings (net of expenses)	4,081,111	20,891,931
Assets, End of Year	\$145,237,605	\$244,129,536
Approximate Return on Assets	3.5%	11.3%

The following table summarizes the employer contributions attributable to each fiscal year:

	July 1, 2015 to June 30, 2016	July 1, 2016 to June 30, 2017
Contributions – Current Retirees	\$287,704,000	\$264,763,000
Contributions – Pre-Funding	51,000,000	78,000,000
Total Employer Contributions	\$338,704,000	\$342,763,000

The assets shown as of June 30, 2016 and June 30, 2017 are based on the LAUSD's financial statements for fiscal year ending June 30, 2017 and CalPERS CERBT fund statements.

Projected Benefit Payments

The following table shows the estimated projected net benefit payments based on the current plan provisions, current plan participants, and the valuation assumptions used in this report. The payments would be equivalent to funding the liabilities on a pay-as-you-go basis.

Fiscal Year Ending			
June 30	Current Retirees	Future Retirees	Total
2018	\$280,928,472	\$24,592,233	\$305,520,705
2019	266,206,277	47,508,312	313,714,589
2020	269,260,447	74,518,628	343,779,075
2021	273,739,536	106,103,791	379,843,327
2022	276,632,363	137,580,978	414,213,341
2023	279,063,081	171,077,429	450,140,510
2024	282,160,438	207,442,906	489,603,344
2025	284,074,998	247,283,296	531,358,293
2026	284,120,388	287,841,444	571,961,833
2027	282,502,736	330,511,618	613,014,354
2028	279,661,908	376,620,328	656,282,236
2029	276,561,357	427,729,203	704,290,560
2030	272,711,288	482,408,315	755,119,603
2031	268,744,077	541,652,546	810,396,623
2032	263,959,591	604,700,261	868,659,853
2033	258,667,937	666,902,953	925,570,889
2034	252,470,749	726,811,508	979,282,257
2035	245,490,259	783,481,839	1,028,972,098
2036	237,534,669	837,887,925	1,075,422,594
2037	228,592,528	894,646,340	1,123,238,868
2038	219,108,547	946,426,865	1,165,535,412
2039	208,576,101	993,810,312	1,202,386,413
2040	197,503,340	1,034,071,642	1,231,574,982
2041	185,659,409	1,068,721,826	1,254,381,235
2042	173,286,976	1,103,075,176	1,276,362,151
2043	160,595,657	1,130,706,294	1,291,301,951
2044	147,740,431	1,156,692,169	1,304,432,600
2045	134,773,369	1,177,095,913	1,311,869,282
2046	121,977,059	1,198,045,521	1,320,022,580
2047	109,323,444	1,226,441,663	1,335,765,106
2048	97,141,862	1,252,289,758	1,349,431,620
2049	85,500,696	1,279,174,573	1,364,675,270

GASB 45 Reporting and Disclosure Information For Fiscal Year Ending June 30, 2017

GASB 45 requires certain items to be disclosed in the footnotes to LAUSD's financial statements, including the following:

- Plan description
 - Name of plan and identification of the entity that administers plan
 - Brief description of the types of benefits
- Funding policy
 - Required contribution rates of plan members
 - Required contribution rates of employer

In addition, the tables below show required supplementary information to be shown with three years of historical information in LAUSD's financial statements.

Development of Net OPEB Obligation (NOO) and Annual OPEB Cost (000s omitted)

Fiscal Year	Annual Required Contributions	Actual Contribution	NOO End of Year	Interest on Net OPEB Obligation	Adjustment to the Annual Required Contribution	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
12/13	\$1,085,949	\$245,388	\$4,787,843	\$199,752	\$247,508	\$1,038,193	5.00%	3.00%	16.1
13/14	\$868,620	\$326,888	\$5,351,835	\$242,744	\$220,484	\$890,880	5.07%	3.00%	21.7
14/15	\$905,130	\$310,681	\$5,971,018	\$269,737	\$245,003	\$929,864	5.07%	3.00%	21.7
15/16	\$1,071,695	\$338,704	\$6,723,063	\$280,638	\$261,584	\$1,090,749	4.70%	3.00%	22.8
16/17	\$1,119,554	\$342,763	\$7,521,308	\$315,984	\$294,530	\$1,141,008	4.70%	3.00%	22.8

Schedule of Funding Progress (000s omitted)

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate
Actual	07/01/2013	\$0	\$10,901,982	\$10,901,982	0.00%	\$4,600,000	237%	5.07%
Actual	07/01/2015	\$90,156	\$13,648,716	\$13,558,560	0.66%	\$3,700,000	366%	4.70%
Actual	07/01/2017	\$244,130	\$15,212,639	\$14,968,509	1.60%	\$3,905,000	383%	3.60%

Schedule of Employer Contributions (000s omitted)

Fiscal Year Ending:	Annual OPEB Costs	Actual Contribution	Percentage Contribution	Net OPEB Obligation / (Asset)
6/30/2012	\$1,047,987	\$228,691	22%	\$3,995,038
6/30/2013	\$1,038,193	\$245,388	24%	\$4,787,842
6/30/2014	\$890,880	\$326,888	37%	\$5,351,835
6/30/2015	\$929,864	\$310,681	33%	\$5,971,018
6/30/2016	\$1,090,749	\$338,704	31%	\$6,723,063
6/30/2017	\$1,114,008	\$342,763	31%	\$7,521,308

GASB 75 Reporting and Disclosure Information For Fiscal Year Ending June 30, 2018

Development of GASB 75 Net OPEB Expense

The measurement period for the fiscal year ending 6/30/2018 is 7/1/2016 to 6/30/2017.

Calculation Details

The following table illustrates the Net OPEB Liability under GASB 75.

	Fiscal Year Ending 6/30/2017 (Used For GASB 75 Transition)¹	Fiscal Year Ending 6/30/2018
(1) OPEB Liability		
(a) Retired Participants and Beneficiaries		
Receiving Payment	\$ 5,282,580,519	\$ 4,758,354,499
(b) Active Participants	\$ 11,131,398,702	\$ 10,454,285,015
(c) Total	\$ 16,413,979,221	\$ 15,212,639,514
(2) Plan Fiduciary Net Position	\$ 145,237,605	\$ 244,129,536
(3) Net OPEB Liability	\$ 16,268,741,616	\$ 14,968,509,978
(4) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.88%	1.60%
(5) Deferred Outflow of Resources for Contributions Made After Measurement Date	\$ 342,763,000	TBD

GASB 75 Transition

(1) Net OPEB Obligation at last day of 2017 Fiscal Year	\$7,521,308,535
(2) Amount for Transition to GASB 75	\$8,747,433,081
(3) Liability under GASB 75 at first day of 2018 Fiscal Year	\$16,268,741,616

¹ Based on a backward projection of the July 1, 2017 valuation results adjusted to reflect the discount rate (2.90%) as of June 30, 2016.

Expense

The following table illustrates the OPEB expense under GASB 75.

	Fiscal Year Ending 6/30/2018
(1) Service Cost	\$ 634,088,236
(2) Interest Cost	490,582,330
(3) Expected Investment Return	(13,408,732)
(4) Employee Contributions	0
(5) Administrative Expense	103,451
(6) Plan Changes	0
(7) Amortization of Unrecognized	
(a) Liability (Gain)/Loss	0
(b) Asset (Gain)/Loss	(1,517,330)
(c) Assumption Change (Gain)/Loss	<u>(274,832,970)</u>
(8) Total Expense	\$ 835,014,985

Shown below are details regarding the calculation of Service, Interest Cost and Expected Investment Return components of the Expense.

	Fiscal Year Ending 6/30/2018
(1) Development of Service Cost:	
(a) Normal Cost at Beginning of Measurement Period	\$ 634,088,236
(2) Development of Interest Cost:	
(a) Total OPEB Liability at Beginning of Measurement Period	\$ 16,413,979,221
(b) Normal Cost at Beginning of Measurement Period	634,088,236
(c) Actual Benefit Payments	264,763,000
(d) Discount Rate	2.90%
(e) Interest Cost	\$ 490,582,330
(3) Development of Expected Investment Return:	
(a) Plan Fiduciary Net Position at Beginning of Measurement Period	\$ 145,237,605
(b) Actual Contributions—Employer	342,763,000
(c) Actual Contributions—Employee	0
(d) Actual Benefit Payments	264,763,000
(e) Administrative Expenses	103,451
(f) Other	0
(g) Expected Return on Assets	7.28%
(h) Expected Return	\$ 13,408,732

Reconciliation of Net OPEB Liability

Shown below are details regarding the Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability for the Measurement Period from June 30, 2016 to June 30, 2017:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) – (b)
Balance Recognized at 6/30/2017 (Based on 6/30/2016 Measurement Date)	\$ 16,413,979,221	\$ 145,237,605	\$ 16,268,741,616
Changes Recognized for the Fiscal Year:			
Service Cost	634,088,236	N/A	634,088,236
Interest on the Total OPEB Liability	490,582,330	N/A	490,582,330
Changes of Benefit Terms	0	N/A	0
Differences Between Expected and Actual Experience	0	N/A	0
Changes of Assumptions	(2,061,247,273)	N/A	(2,061,247,273)
Benefit Payments	(264,763,000)	(264,763,000)	0
Contributions From the Employer	N/A	342,763,000	(342,763,000)
Contributions From the Employee	N/A	0	0
Net Investment Income	N/A	20,995,382	(20,995,382)
Administrative Expense	N/A	(103,451)	103,451
Net Changes	<u>(1,201,339,707)</u>	<u>98,891,931</u>	<u>(1,300,231,638)</u>
Balance Recognized at 6/30/2018 (Based on 6/30/2017 Measurement Date)	\$ 15,212,639,514	\$ 244,129,536	\$ 14,968,509,978

Liability (Gain)/Loss

The following table illustrates the liability gain/loss under GASB 75.

	Fiscal Year Ending 6/30/2018
(1) OPEB Liability at Beginning of Measurement Period	\$ 16,413,979,221
(2) Service Cost	634,088,236
(3) Interest on the Total OPEB Liability	490,582,330
(4) Changes of Benefit Terms	0
(5) Changes of Assumptions	(2,061,247,273)
(6) Benefit Payments	(264,763,000)
(7) Expected OPEB Liability at End of Measurement Period	15,212,639,514
(8) Actual OPEB Liability at End of Measurement Period	<u>15,212,639,514</u>
(9) OPEB Liability (Gain)/Loss	\$ 0
(10) Average Future Working Life Expectancy	7.50
(11) OPEB Liability (Gain)/Loss Amortization	\$ 0

Asset (Gain)/Loss

The following table illustrates the asset gain/loss under GASB 75.

	Fiscal Year Ending 6/30/2018
(1) OPEB Asset at Beginning of Measurement Period	\$ 145,237,605
(2) Contributions—Employer	342,763,000
(3) Contributions—Employee	0
(4) Expected Investment Income	13,408,732
(5) Benefit Payments	(264,763,000)
(6) Administrative Expense	(103,451)
(7) Other	0
(8) Expected OPEB Asset at End of Measurement Period	236,542,885
(9) Actual OPEB Asset at End of Measurement Period	<u>244,129,536</u>
(10) OPEB Asset (Gain)/Loss	\$ (7,586,650)
(11) Amortization Factor	<u>5.00</u>
(12) OPEB Asset (Gain)/Loss Amortization	\$ (1,517,330)

Deferred Outflows/Inflows

The following table illustrates the Deferred Inflows and Outflows as of June 30, 2018 under GASB 75.

	Deferred Outflows	Deferred Inflows
(1) Difference Between Actual and Expected Experience	\$ 0	\$ 0
(2) Net Difference Between Expected and Actual Earnings on OPEB Plan Investments	\$ 0	\$ (6,069,320)
(3) Assumption Changes	<u>\$ 0</u>	<u>\$ (1,786,414,303)</u>
(4) Sub Total	\$ 0	\$ (1,792,483,623)
(5) Contributions Made in Fiscal Year Ending 06/30/2018 After Measurement Date	<u>\$ TBD</u>	<u>\$ N/A</u>
(6) Total	\$ 0	\$ (1,792,483,623)

Amortization of Deferred Inflows/Outflows

The table below lists the amortization bases included in the deferred inflows/outflows as of June 30, 2018.

Date Established	Type of Base	Period		Balance		Annual Payment
		Original	Remaining	Original	Remaining	
6/30/2017	Liability (Gain)/Loss	7.50	6.50	\$ 0	\$ 0	\$ 0
6/30/2017	Asset (Gain)/Loss	5.00	4.00	\$ (7,586,650)	\$ (6,069,320)	\$ (1,517,330)
6/30/2017	Assumptions	7.50	6.50	\$ (2,061,247,273)	<u>\$ (1,786,414,303)</u>	<u>\$ (274,832,970)</u>
	Total Charges				<u>\$ (1,792,483,623)</u>	<u>\$ (276,350,300)</u>

Amounts Recognized in the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Year End June 30:

2019	\$(276,350,300)
2020	\$(276,350,300)
2021	\$(276,350,300)
2022	\$(276,350,300)
2023	\$(274,832,970)
Total Thereafter	\$(412,249,453)

Plan Fiduciary Net Position Projection

The following table illustrates the projection of the fiduciary net position for use in the calculation of the discount rate as of June 30, 2018.

(\$ in thousands)

Year Ending June 30 ²	Beginning Fiduciary Net Position (a)	Total Contributions (b)	Benefit Payments (c)	Administrative Expenses (d)	Investment Earnings (e)	Ending Fiduciary Net Position ¹ (f)
2018	244,130	425,521	305,521	0	22,336	386,466
2019	386,466	293,386	313,715	0	27,595	393,732
2020	393,732	302,749	343,779	0	27,390	380,092
2021	380,092	318,160	379,843	0	25,668	344,077
2022	344,077	324,840	414,213	0	22,060	276,765
2023	276,765	333,320	450,141	0	16,184	176,128
2024	176,128	344,602	489,603	0	7,857	38,984
2025	38,984	357,337	531,358	0	0	0
2026	0	366,483	571,962	0	0	0
2027	0	365,973	613,014	0	0	0
2028	0	368,623	656,282	0	0	0
2029	0	375,627	704,291	0	0	0
2030	0	384,212	755,120	0	0	0
2031	0	392,674	810,397	0	0	0
2032	0	390,829	868,660	0	0	0
2033	0	386,258	925,571	0	0	0
2034	0	382,496	979,282	0	0	0
2035	0	374,269	1,028,972	0	0	0
2036	0	357,937	1,075,423	0	0	0
2037	0	331,144	1,123,239	0	0	0
2038	0	296,998	1,165,535	0	0	0
2039	0	260,862	1,202,386	0	0	0
2040	0	218,196	1,231,575	0	0	0
2041	0	163,048	1,254,381	0	0	0
2042	0	90,535	1,276,362	0	0	0
2043	0	19,756	1,291,302	0	0	0
2044	0	0	1,304,433	0	0	0
2045	0	0	1,311,869	0	0	0
2046	0	0	1,320,023	0	0	0
2047	0	0	1,335,765	0	0	0

¹ (f)=(a) + (b) – (c) – (d) + (e)

² Years later than 2047 were omitted from this table.

Plan Fiduciary Net Position

The Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan members through 2025. In projecting the Plan's fiduciary net position the following assumptions were made:

1. Assumed contributions are based on the current contribution policy of the Plan Sponsor, namely:
 - a) Contributions from members will continue based on the current cost sharing provisions; and
 - b) Contributions from LAUSD will continue to follow the current funding policy of Pay-As-You-Go annual premiums / claims, plus pre-funding of \$120,000,000 for FYE 2018 and \$0 thereafter.

For the purpose of projecting the Fiduciary Net Position, the annual contribution amounts recognized were adjusted to reflect only those contributions in excess of the amount required to cover the annual cost of benefits accruing of anticipated new hires, assuming a level employee population.

2. Projected benefit payments have been determined based on the closed group of active, retired members and beneficiaries as of June 30, 2017. Benefit payments are assumed to be paid mid-year.
3. Projected investment earnings are based on the assumed investment rate of return of 7.28% per annum.

Interest Rate Sensitivity

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability for fiscal year ending June 30, 2017:

	1% Decrease (1.90%)	Current Rate (2.90%)	1% Increase (3.90%)
(1) Total OPEB Liability	\$19,925,034,983	\$16,413,979,221	\$13,687,598,137
(2) Plan Fiduciary Net Position	\$ 145,237,605	\$ 145,237,605	\$ 145,237,605
(3) Net OPEB Liability	\$19,779,797,378	\$16,268,741,616	\$13,542,360,532

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability for fiscal year ending June 30, 2018:

	1% Decrease (2.60%)	Current Rate (3.60%)	1% Increase (4.60%)
(1) Total OPEB Liability	\$18,274,004,017	\$15,212,639,514	\$12,814,558,797
(2) Plan Fiduciary Net Position	\$ 244,129,536	\$ 244,129,536	\$ 244,129,536
(3) Net OPEB Liability	\$18,029,874,481	\$14,968,509,978	\$12,570,429,261

Healthcare Cost Trend Sensitivity

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability for fiscal year ending June 30, 2017:

	1% Decrease	Trend Rate	1% Increase
(1) Total OPEB Liability	\$13,392,785,297	\$16,413,979,221	\$20,474,403,079
(2) Plan Fiduciary Net Position	\$ 145,237,605	\$ 145,237,605	\$ 145,237,605
(3) Net OPEB Liability	\$13,247,547,692	\$16,268,741,616	\$20,329,165,474

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability for fiscal year ending June 30, 2018:

	1% Decrease	Trend Rate	1% Increase
(1) Total OPEB Liability	\$12,469,461,300	\$15,212,639,514	\$18,870,257,692
(2) Plan Fiduciary Net Position	\$ 244,129,536	\$ 244,129,536	\$ 244,129,536
(3) Net OPEB Liability	\$12,225,331,764	\$14,968,509,978	\$18,626,128,156

Disclosure—Changes in the Net OPEB Liability and Related Ratios

Changes in the Net OPEB Liability and Related Ratiosⁱ

	Fiscal Year Ending
	2018
Total OPEB Liability	
Service Cost	\$634,088,236
Interest Cost	\$490,582,330
Changes of Benefit Terms	\$0
Differences Between Expected and Actual Experiences	\$0
Changes of Assumptions	\$(2,061,247,273)
Benefit Payments	\$(264,763,000)
Net Change in Total OPEB Liability	\$(1,201,339,707)
Total OPEB Liability (Beginning)	\$16,413,979,221
Total OPEB Liability (Ending)	\$15,212,639,514
Plan Fiduciary Net Position	
Contributions—Employer	\$342,763,000
Contributions—Member	\$0
Net Investment Income	\$20,995,382
Benefit Payments	\$(264,763,000)
Administrative Expense	\$(103,451)
Other	\$0
Net Change in Plan Fiduciary Net Position	\$98,891,931
Plan Fiduciary Net Position (Beginning)	\$145,237,605
Plan Fiduciary Net Position (Ending)	\$244,129,536
Net OPEB Liability (Ending)	\$14,968,509,978
Net Position as a Percentage of OPEB Liability	1.60%
Covered-Employee Payroll	\$3,905,000,000
Net OPEB Liability as a Percentage of Payroll	383.32%

Schedule of Contributions

Not required—Funding is not based on actuarially determined contributions and contributions are neither statutorily or contractually established.

ⁱ GASB 75 was effective first for employer fiscal years beginning after June 15, 2017.

Participant Information

These exhibit summaries contain participant demographic information.

Active Employee Age/Service Distributions

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	1,156	54	0	0	0	0	0	0	0	1,210
25-30	2,126	844	258	0	0	0	0	0	0	3,228
30-35	1,507	1,094	1,546	278	0	0	0	0	0	4,425
35-40	948	1,027	2,539	2,586	430	1	0	0	0	7,531
40-45	677	655	1,930	3,688	2,681	383	1	0	0	10,015
45-50	553	577	1,382	2,781	2,612	1,913	318	0	0	10,136
50-55	368	491	1,114	1,971	1,643	1,536	1,401	222	0	8,746
55-59	246	387	929	1,690	1,280	1,237	1,265	767	70	7,871
60-65	144	238	666	1,201	863	677	649	451	140	5,029
65-70	32	105	261	461	325	249	175	141	98	1,847
70+	8	44	90	171	91	72	73	56	87	692
Total	7,765	5,516	10,715	14,827	9,925	6,068	3,882	1,637	395	60,730

Retiree Age Distribution

Age	All Retirees
Under 50	10
50-54	142
55-59	987
60-64	4,119
65-69	7,661
70-74	8,163
75-79	6,160
80-84	4,873
85+	6,387
Total	38,502

Participant Statistics

	Total
<i>Actives</i>	
Number of actives	60,730
Average age of actives	46.95
Average past service	17.29
Estimated payroll (in millions), FYE 6/30/17	\$3,905
<i>Retirees</i>	
Retirees Pre 65	5,258
Retirees Post 65	33,244
Total retirees	38,502
Number of retiree spouses	15,676
Average age of retirees	75.00

Distribution of Participants by Medical Plan

Actives

Plan Name	Total
Anthem EPO	3,438
Anthem HMO	16,318
Kaiser	28,094
Health Net	6,529
Opt Out	6,351
Subtotal	60,730

Retirees

Plan Name	Pre-65	Post-65	Total
Anthem EPO	916	15,775	16,691
Anthem HMO	1,302	1	1,303
Kaiser	2,482	13,438	15,920
Health Net	527	1,067	1,594
United	4	1,071	1,075
Subtotal	5,231	31,352	36,583

Distribution of Participants by Dental Plan

Plan Name	Actives	Retirees	Total
United Concordia PPO	32,062	29,014	61,076
Delta Dental HMO	19,223	8,457	27,680
Western Dental	2,453	366	2,819
Western Dental Plus	3,061	436	3,497
Subtotal	56,799	38,273	95,072

Distribution of Participants by Vision Plan

Plan Name	Actives	Retirees	Total
VSP	28,030	32,642	60,672
EyeMed	28,217	5,524	33,741
Subtotal	56,247	38,166	94,413

Development of GASB 75 Amortization Period for Changes in Liability

Status	July 1, 2016		July 1, 2017	
	2016 Count	Average Future Working Life	2017 Count	Average Future Working Life ⁱ
Actives	60,856	12.19	60,730	11.98
Retirees	38,028	0.00	38,502	0.00
Total/Weighted Average	98,884	7.50	99,232	7.33

ⁱ Based on demographic assumptions shown in the Actuarial Assumption and Methods section of this report

Summary of Principal Plan Provisions

The following plan provisions are the basis for the calculations in this actuarial valuation.

Eligibility for Retirement

Eligibility for retirement depends on the original date of hire for active participants. The eligibility rules for the various hire periods are:

- **Hired on or before March 11, 1984**, participant must have been eligible for District coverage for five consecutive years immediately before retiring;
- **Hired on or after March 11, 1984 but before July 1, 1987**, participant must have been eligible for District coverage for at least 10 consecutive years immediately before retiring;
- **Hired on or after July 1, 1987 but before June 1, 1992**, participant must have been eligible for District coverage for at least 15 consecutive years immediately before retiring or have been eligible for coverage for 10 consecutive years immediately before retiring plus an additional 10 years which need not be consecutive.
- **Hired on or after June 1, 1992, but before March 1, 2007**, participant's age plus the number of consecutive qualifying years of service, when added together, must equal 80. For employees who have a break in service, this must include at least ten (10) consecutive years immediately prior to retirement.
- **Hired on or after March 1, 2007 but before April 1, 2009**, participant's age plus the number of consecutive qualifying years of service, when added together, must equal 80 and one must have fifteen (15) consecutive years of qualifying service immediately prior to retirement;
- **Hired on or after April 1, 2009**, participant's age plus the number of consecutive qualifying years of service, when added together, must equal 85 and participant must have twenty-five (25) consecutive years of qualifying service immediately prior to retirement;
- **For School Police (sworn personnel) hired on or after April 1, 2009**, participant's age plus the number of consecutive qualifying years of service, when added together, must equal 80 and participant must have twenty (20) consecutive years of qualifying service immediately prior to retirement.

Qualifying years of service consist of school years in which an employee was in "paid status" for at least 100 full-time days and eligible for District-sponsored health care benefits.

Covered Individuals

To receive retiree medical benefits, an individual must:

- Be enrolled in active medical benefits at the date of retirement.
- Retire in accordance with the eligibility rules of the applicable retirement system (CalSTRS or CalPERS).
- Receive a monthly pension payment from the state retirement system (CalSTRS or CalPERS).
- Comply with the Medicare requirements of the District plans.

Dependents

Eligible dependents are also covered by the District for the life of the retiree. Upon the retiree's death, eligible dependents may continue coverage under the plan but will generally have to pay 100% of premium and plan costs.

Plans Available

Medical: Kaiser, HealthNet, Secure Horizons (65+ only), Anthem HMO (under 65 only) and Anthem EPO. All plans are fully-insured.

Dental: United Concordia PPO, Delta Dental HMO, Western Dental, Western Dental Plus. All plans are fully-insured.

Vision: VSP and EyeMed. All plans are fully-insured.

Actuarial Assumptions and Methods

The rationale for selecting the valuation assumptions summarized below are described in more detail in the document entitled 2017 LAUSD Assumptions Rationale Memo, drafted February 2018.

1. Actuarial Cost Method

The costs shown in the report were developed using the Entry Age Normal cost method.

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of pay spread over the participants' working lifetime. For this purpose, pay is assumed to increase 3.0% per annum. The AAL is the cumulative value, on the valuation date, of prior service costs. For retirees, the AAL is the present value of all projected benefits.

2. Funding Policy

LAUSD's funding policy is to contribute the direct "pay-as-you-go" costs as determined by required premium / claim payments, plus ad hoc pre-funding contributions. This valuation assumes pre-funding of \$120,000,000 for the FYE 2018 and \$0 thereafter.

3. Discount Rate

2.90% - as of 7/1/2016

3.60% - as of 7/1/2017

Under GASB 75, the discount rate is based on a single equivalent rate that reflects a blend of:

- Expected return on assets during the period such that assets are projected to be sufficient to pay benefits of current participants; and
- 20-year municipal bond yields / index for periods beyond the depletion of the assets.

Based on LAUSD's current funding policy, projected cash flows, and the assumed asset return, the plan assets are projected to be depleted in 2025. This results in a single equivalent rate of 3.60% (rounded down to 10 basis points) as of July 1, 2017, which reflects the assumed asset return until asset depletion and municipal bond rates thereafter. These preliminary amounts are based on an expected return assumption of 7.28% and will be reassessed and finalized based on final valuation results.

4. Municipal Bond Rates

2.85% - as of 7/1/2016

3.58% - as of 7/1/2017

Municipal Bond Rate is based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index.

5. Expected Long-Term Return on Assets

7.28% based on CalPERS' expected return for CERBT Strategy 1.

6. Inflation

2.75% per annum

7. Salary Scale

Salary scale rates developed in the 1997-2011 CalPERS Experience Study were used for all employees in the valuation. The following sample rates are based on age and service:

CalPERS Schools

Entry Age	Years of Service							
	0	1	5	10	15	20	25	30
25	0.0900	0.0780	0.0580	0.0460	0.0420	0.0390	0.0370	0.0350
30	0.0880	0.0750	0.0560	0.0450	0.0410	0.0380	0.0350	0.0330
35	0.0860	0.0730	0.0530	0.0430	0.0390	0.0360	0.0340	0.0320
40	0.0820	0.0700	0.0510	0.0410	0.0380	0.0350	0.0330	0.0310
45	0.0780	0.0670	0.0490	0.0390	0.0360	0.0330	0.0310	0.0300
50	0.0780	0.0670	0.0490	0.0390	0.0360	0.0330	0.0310	0.0300
55	0.0780	0.0670	0.0490	0.0390	0.0360	0.0330	0.0310	0.0300

8. Mortality

Base rates used in the most recent CalSTRS valuation and developed in the 1997-2011 CalPERS Experience Study, as applicable, were used in the valuation. Projected improvement is based on scale MP-2017. Sample base rates are as follows:

Age	Pre-retirement Mortality			
	CalSTRS		CalPERS Schools	
	Male	Female	Male	Female
35	0.00035	0.00022	0.00061	0.00037
40	0.00040	0.00029	0.00080	0.00053
45	0.00056	0.00045	0.00113	0.00075
50	0.00095	0.00076	0.00165	0.00106
55	0.00161	0.00121	0.00242	0.00153
60	0.00265	0.00177	0.00355	0.00223
65	0.00461	0.00263	0.00509	0.00327

Age	Post-retirement Mortality			
	CalSTRS		CalPERS Schools	
	Male	Female	Male	Female
50	0.00106	0.00062	0.00532	0.00495
55	0.00366	0.00218	0.00636	0.00460
60	0.00491	0.00289	0.00817	0.00533
65	0.00697	0.00437	0.01055	0.00749
70	0.01116	0.00720	0.01766	0.01264
75	0.01994	0.01289	0.02983	0.02192
80	0.03645	0.02432	0.05275	0.03695
85	0.07011	0.04846	0.09429	0.06675

9. Turnover

Turnover rates used in the most recent CalSTRS valuation and developed in the 1997-2011 CalPERS Experience Study, as applicable, were used in the valuation. The following sample rates are based on age and service:

CalSTRS

Years of Service	Male	Female
0	0.1600	0.1500
1	0.1100	0.0900
5	0.0350	0.0300
10	0.0180	0.0180
15	0.0120	0.0120
20	0.0090	0.0090
25	0.0070	0.0070
30+	0.0060	0.0060

CalPERS Schools

Entry Age	Years of Service							
	0	1	5	10	15	20	25	30
30	0.1525	0.1379	0.0870	0.0572	0.0418	0.0038	0.0010	0.0002
35	0.1422	0.1277	0.0758	0.0457	0.0053	0.0020	0.0002	0.0002
40	0.1319	0.1174	0.0646	0.0074	0.0032	0.0002	0.0002	0.0002
45	0.1217	0.1071	0.0135	0.0049	0.0011	0.0002	0.0002	0.0002
50	0.1114	0.0968	0.0107	0.0025	0.0002	0.0002	0.0002	0.0002
55	0.1011	0.0866	0.0078	0.0002	0.0002	0.0002	0.0002	0.0002

10. Retirement Age

Retirement rates used in the most recent CalSTRS valuation and developed in the 1997-2011 CalPERS Experience Study for School 2% @ 55 participants, as applicable, were used in the valuation. The following sample rates are based on age and service:

CalSTRS

Attained Age	Under 30 Years		30 or More Years	
	Male	Female	Male	Female
50	0.00000	0.00000	0.05000	0.05000
51	0.00000	0.00000	0.03000	0.03000
52	0.00000	0.00000	0.03000	0.03000
53	0.00000	0.00000	0.03000	0.03000
54	0.00000	0.00000	0.03000	0.03000
55	0.02700	0.03500	0.06000	0.08000
56	0.01800	0.02500	0.06000	0.08000
57	0.01800	0.02500	0.08000	0.10000
58	0.02700	0.03500	0.12000	0.15000
59	0.04500	0.05000	0.16000	0.18000
60	0.06300	0.07000	0.25000	0.29000
61	0.07000	0.09000	0.50000	0.50000
62	0.11000	0.12500	0.45000	0.45000
63	0.12000	0.16000	0.35000	0.40000
64	0.13000	0.14000	0.30000	0.35000
65	0.14000	0.17000	0.32500	0.37500
66	0.13000	0.15000	0.30000	0.32000
67	0.13000	0.15000	0.27000	0.32000
68	0.12000	0.14000	0.27000	0.30000
69	0.12000	0.14000	0.25000	0.30000
70	0.12000	0.14000	0.25000	0.30000
71	0.11000	0.13500	0.25000	0.30000
72	0.11000	0.13500	0.25000	0.30000
73	0.11000	0.13500	0.25000	0.30000
74	0.11000	0.13500	0.25000	0.30000
75	1.00000	1.00000	1.00000	1.00000

CalPERS Schools

Attained Age	Years of Service					
	10	15	20	25	30	35
55	0.04800	0.06700	0.07900	0.08800	0.09900	0.11600
56	0.03900	0.05500	0.06500	0.07200	0.08100	0.09500
57	0.04200	0.05900	0.07000	0.07800	0.08700	0.10200
58	0.05000	0.07000	0.08300	0.09200	0.10300	0.12100
59	0.05700	0.08000	0.09500	0.10500	0.11800	0.13800
60	0.07300	0.10200	0.12100	0.13400	0.15000	0.17600
61	0.09000	0.12600	0.14900	0.16600	0.18600	0.21800
62	0.15100	0.21200	0.25000	0.27800	0.31100	0.36600
63	0.13600	0.19100	0.22500	0.25100	0.28100	0.33000
64	0.13300	0.18500	0.21900	0.24400	0.27300	0.32000
65	0.18000	0.25100	0.29700	0.33100	0.37000	0.43500
66	0.14300	0.20000	0.23700	0.26400	0.29500	0.34700
67	0.13200	0.18500	0.21800	0.24300	0.27200	0.31900
68	0.11800	0.16500	0.19500	0.21700	0.24300	0.28600
69	0.13300	0.18700	0.22000	0.24600	0.27500	0.32300
70	0.13100	0.18300	0.21600	0.24100	0.27000	0.31600
71	0.10200	0.14300	0.16800	0.18800	0.21000	0.24600
72	0.09000	0.12600	0.14900	0.16600	0.18500	0.21800
73	0.08800	0.12200	0.14500	0.16100	0.18000	0.21200
74	0.10900	0.15300	0.18000	0.20100	0.22500	0.26400
75	0.10800	0.15100	0.17900	0.19900	0.22300	0.26200

11. Disability

Disability rates used in the most recent CalSTRS valuation, as applicable, were used in the valuation. Sample rates are as follows:

Age	CalSTRS	
	Male	Female
30	0.00027	0.00027
35	0.00045	0.00054
40	0.00072	0.00081
45	0.00099	0.00099
50	0.00144	0.00198
55	0.00189	0.00252

12. Annual Health Inflation (“Trend”)

The health trend rate represents the long-term expected growth of medical benefits paid by the plan, due to non-age-related factors such as general medical inflation, utilization, new technology, health care reform changes for Medicare Advantage plans and the excises tax. The following table sets forth the trend assumptions used for the valuation:

Current Valuation

Plan Year	Non-Medicare Advantage Plans – Trends		Medicare Advantage Plans - Post 65 Trends		Dental & Vision
	Pre 65	Post 65	Kaiser	UHC	
2017	(0.18%)	4.69%	6.58%	5.54%	5.00%
2018	8.19%	10.63%	9.52%	9.37%	5.00%
2019	7.83%	9.96%	9.10%	8.95%	5.00%
2020	7.45%	9.27%	8.65%	8.49%	5.00%
2021	7.06%	8.58%	8.18%	8.01%	5.00%
2022	6.67%	7.87%	7.69%	7.51%	5.00%
2023	6.26%	7.16%	7.00%	6.87%	5.00%
2024	5.84%	6.44%	6.32%	6.23%	5.00%
2025	5.42%	5.72%	5.64%	5.59%	5.00%
2026	5.00%	5.00%	4.94%	4.92%	5.00%
2027	5.00%	5.00%	5.00%	5.00%	5.00%

Prior Valuation

Plan Year	Non-Medicare Advantage Plans - Trends		Medicare Advantage Plans - Post 65 Trends		Dental & Vision
	Pre 65	Post 65	Kaiser	UHC	
2015	7.50%	8.55%	14.97%	14.10%	5.00%
2016	7.25%	8.25%	8.33%	8.11%	5.00%
2017	7.00%	8.00%	6.65%	6.55%	5.00%
2018	6.75%	7.75%	7.14%	6.97%	5.00%
2019	6.50%	7.50%	3.81%	3.91%	5.00%
2020	6.25%	7.25%	4.09%	4.14%	5.00%
2021	6.00%	7.00%	4.99%	4.99%	5.00%
2022	5.75%	6.50%	5.56%	5.51%	5.00%
2023	5.50%	6.00%	5.56%	5.51%	5.00%
2024	5.25%	5.50%	5.56%	5.00%	5.00%
2025	5.00%	5.00%	5.00%	5.00%	5.00%

The increases shown above are the long term expectations of healthcare trends. For valuation purposes, we also incorporated the impact of the excise tax on high cost plans under the Affordable Care Act by adding the increases to future trend. Sample increase rates follow:

Plan Year	Non-Medicare Advantage Plans - Trends		Medicare Advantage Plans - Post 65 Trends	
	Pre 65	Post 65	Kaiser	UHC
2017	0.00%	0.00%	0.00%	0.00%
2018	0.00%	0.00%	0.00%	0.00%
2019	3.34%	0.00%	0.00%	0.00%
2020	0.54%	0.00%	0.00%	0.00%
2021	0.62%	0.00%	0.00%	0.00%
2022	1.12%	0.00%	0.00%	0.00%
2023	1.27%	0.00%	0.00%	0.00%
2024	1.09%	0.00%	0.00%	0.00%
2025	0.92%	0.00%	0.00%	0.00%
↓	↓	↓	↓	↓
2035	0.58%	0.00%	0.00%	0.00%
↓	↓	↓	↓	↓
2045	0.44%	0.00%	0.00%	0.00%
↓	↓	↓	↓	↓
2055	0.34%	0.00%	0.00%	0.49%
↓	↓	↓	↓	↓
2065	0.26%	0.53%	0.53%	0.64%
↓	↓	↓	↓	↓
2075	0.20%	0.73%	0.70%	0.48%
↓	↓	↓	↓	↓
2085	0.16%	0.54%	0.52%	0.36%
↓	↓	↓	↓	↓
2095	0.12%	0.41%	0.39%	0.27%
↓	↓	↓	↓	↓
2099	0.11%	0.37%	0.35%	0.25%

13. Monthly Premiums Applicable to Retirees

2017 composite premium rates (except UHC Medicare, which is per member) are as follows:

Medical Premiums

	Anthem EPO	Anthem HMO	Kaiser	Health Net	UHC Medicare
Pre-Medicare	\$1,822.82	\$1,265.55	\$1,546.77	\$1,706.07	N/A
Medicare	\$646.23	N/A	\$273.98	\$430.75	\$343.00

Dental Premiums

United Concordia PPO	\$53.71
Delta Dental HMO	\$26.94
Western Dental	\$18.61
Western Dental Plus	\$21.37

Vision Premiums

VSP Select	\$7.62
EyeMed Vision Care	\$8.37

14. 2017-2018 Base Year Claims

Per-member medical claims are developed based on actual claims experience for self-insured plans (Anthem EPO and HMO) and premium rates for fully-insured plans (Kaiser, Health Net and UHC). Sample age-graded per-member medical claims are shown below:

Age	Anthem EPO	Anthem HMO	Kaiser	Health Net	UHC Medicare
55	\$11,573	\$8,075	\$10,331	\$11,528	N/A
60	\$14,031	\$9,797	\$12,510	\$13,958	N/A
62	\$15,022	\$10,503	\$13,358	\$14,903	N/A
64	\$16,094	\$11,268	\$14,270	\$15,920	N/A
67	\$3,902	N/A	\$2,067	\$3,245	\$3,472
72	\$4,396	N/A	\$2,289	\$3,598	\$3,848
77	\$4,789	N/A	\$2,496	\$3,927	\$4,199

Dental and vision claims are not assumed to vary by age.

15. Participants Valued

Only current active and retired participants are valued.

16. Plan Participation Rates at Retirement

100% of future eligible retirees are assumed to elect coverage

17. Plan Election

Actual plan elections were used for current retirees. Based on elections of current retired participants, future eligible retirees are assumed to elect plan coverage based on the following:

<u>Medical</u>	Pre Medicare	Post Medicare
Anthem EPO	20%	50%
Anthem HMO	25%	N/A
Kaiser	45%	40%
Health Net	10%	5%
UHC Medicare	N/A	5%
 <u>Dental</u>		
United Concordia PPO	75%	
Delta Dental HMO	23%	
Western Dental	1%	
Western Dental Plus	1%	
 <u>Vision</u>		
VSP	85%	
EyeMed	15%	

18. Dependent Assumption

40% of future retirees are assumed to be married and elect employee plus one coverage for Medical, and 45% are assumed to select employee plus one coverage for Dental and Vision. Male retirees are assumed to be five years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.

19. Affordable Care Act

The impact of the Affordable Care Act (ACA) was included in this valuation. In particular, the following items were valued:

- Reduced Funding on Medicare Advantage Plans by Federal Government
- Industry tax on fully insured plans
- Excise Taxes on High Cost Plans

Other than the excise tax, the various aspects of ACA have been reflected in the valuation through development of per capita claims. The impact of the excise tax is projected in our model using additional increases shown in the healthcare trend section.

Based on current information available, other ACA provisions are not anticipated to impact the valuation results.

20. Changes in Valuation Assumptions

The following assumptions were changed from the prior valuation:

- 1) Discount rate was changed from 4.70% to 3.60%.
- 2) Healthcare Trend – details of the changes are shown in the Annual Health Inflation section.
- 3) Mortality base rates were updated per the most recent CalSTRS and CalPERS valuations.
- 4) Mortality improvement was updated from scale MP-2014 to scale MP-2017.
- 5) Turnover rates were updated per the most recent CalSTRS valuations.
- 6) Retirement rates were updated per the most recent CalSTRS valuations.
- 7) Disability rates were updated per the most recent CalSTRS valuations.

Appendix

Funding Considerations

LAUSD's funding policy is to contribute the direct 'pay-as-you-go' cost as determined by the required premium/claim payment, plus ad hoc pre-funding contributions. This report assumes pre-funding of \$120,000,000 for the FYE 2018 and \$0 thereafter.

To compare current contributions to the estimated cost of fully pre-funding obligations, the table below shows contributions under alternative hypothetical funding policies for fiscal year ending June 30, 2018. The alternatives shown reflect contributions based on a method similar to that used to develop the Annual Required Contribution (ARC) under GASB 45 – Normal Cost plus amortization of the Unfunded Actuarial Accrued Liability (UAAL). Amounts are determined using a 7.28% discount rate and amortization of the UAAL as a level percent of payroll over various periods, assuming payments are made at the end of the year.

	Total
Actuarial Accrued Liability (AAL)	\$8,531,838,394
Market Value of Assets	<u>244,129,536</u>
Unfunded AAL (UAAL)	8,287,708,858
Normal Cost, plus interest	186,659,178
% of payroll	4.78%
30 Year Amortization of UAAL	\$503,010,173
Total 30 Year Funding Amount	689,669,350
% of payroll	17.66%
20 Year Amortization of UAAL	\$636,789,406
Total 20 Year Funding Amount	823,448,583
% of payroll	21.09%
10 Year Amortization of UAAL	\$1,060,607,628
Total 10 Year Funding Amount	1,247,266,806
% of payroll	31.94%

GASB 75 Expense Estimate For Fiscal Year Ending June 30, 2019

The following table illustrates the estimated OPEB expense under GASB 75 for the Fiscal Year ending June 30, 2019. The amounts shown are estimates based on the results of the July 1, 2017 actuarial valuation and a 3.60% discount rate.

	Fiscal Year Ending 6/30/2019
(1) Service Cost	\$ 523,203,000
(2) Interest Cost	561,040,000
(3) Expected Investment Return	(22,141,000)
(4) Employee Contributions	0
(5) Administrative Expense	103,000
(6) Plan Changes	0
(7) Amortization of Unrecognized ⁱ	
(a) Liability (Gain)/Loss	0
(b) Asset (Gain)/Loss	(1,517,000)
(c) Assumption Change (Gain)/Loss	<u>(274,833,000)</u>
(8) Total Estimated Expense ⁱⁱ	\$ 785,855,000
 (9) Total Expense as a Percentage of Payroll	 20.12%

The FYE 2019 estimate is lower than the FYE 2018 expense of \$835 million, primarily due to the change in discount rate from 2.90% to 3.60%.

ⁱ Any asset, liability, or assumption gains/losses recognized over the period June 30, 2017 to June 30, 2018 will need to be reflected in the final FYE 2019 expense amount.

ⁱⁱ Final FYE 2019 expense information will be provided in the interim valuation update based on a June 30, 2018 measurement date incorporating liabilities using an updated discount rate and actual asset values.