



November 25, 2020

Juan Pablo Herrera
Chief Business Officer
Palisades Charter High School (PCHS)
15777 Bowdin Street
Pacific Palisades, CA 90272

Re: ASC 715-60 Retiree Medical Final Disclosures for June 30, 2020 and Net Postretirement Benefit Cost for Fiscal Years Ending June 30, 2020 and June 30, 2021

Dear Juan Pablo:

This report sets forth the results of our actuarial valuation of the PCHS's post-retirement medical plan as of June 30, 2020.

Enclosed are the following exhibits that develop our results:

- Executive Summary
- Postretirement Benefit Obligations and Funded Status
- Net Periodic Benefit Cost and Changes in Unrestricted Net Assets
- Changes in Accrued Cost and Unrecognized Items
- Accumulated Postretirement Benefit Obligation
- Additional Information
- Funding Schedule
- Benefit plan provisions
- Valuation data
- Actuarial assumptions
- Actuarial certification.

We appreciate the opportunity to be of service to PCHS and are available to answer any questions you may have regarding this report.

Sincerely,
DFA, LLC

Carlos Diaz, ASA
Actuary

Executive Summary

The purpose of this report is to assist PCHS in complying with the accounting and disclosure requirements of ASC 715-60 (formerly FAS 106, 132R and 158) for the 2019-2020 fiscal year, and determine PCHS's annual expense for the 2020-2021 fiscal year.

Some of the highlights of our findings are as follows:

- The postretirement benefit obligations and annual expense under the accrual accounting standards of ASC 715-60, using a valuation date of June 30, 2020, are as follows:

Expected Postretirement Benefit Obligation	\$26,002,065
Accumulated Postretirement Benefit Obligation	21,209,024
Plan Assets	0
Funded Status (Liability)	(21,209,024)
Net Periodic Benefit Cost for 2019-2020	\$2,073,978
Total Recognized in CUNA for 2019-2020	(305,484)
Net Periodic Benefit Cost for 2020-2021	\$1,820,684
Total Recognized in CUNA for 2020-2021	(551,956)

- The Accumulated Postretirement Benefit Obligation increased by approximately 7.30% compared to the amount reported in PCHS's June 30, 2019 financial statement. The estimated changes are as follows:

Benefit obligation at beginning of year	\$19,772,327
Service cost	541,599
Interest cost	980,423
Benefits paid	(331,797)
Change in census and premium rates	(3,160,825)
Change in trend rates and mortality updates	(4,028,858)
Change in discount rate	7,436,155
Benefit obligation at end of year	\$21,209,024

The balance of this report describes our findings in detail.

Disclosure – Postretirement Benefit Obligations and Funded Status

	Fiscal Year End		
	06/30/2021	06/30/2020	06/30/2019
	Projected	Actual	Actual
Change in Benefit Obligation			
Benefit obligation at beginning of year	\$21,209,024	\$19,772,327	\$18,463,950
Service cost	706,824	541,599	664,800
Interest cost	561,904	980,423	914,579
Plan participants' contributions	0	0	0
Amendments	0	0	0
Actuarial (gains)/losses	0	246,472	0
Benefits paid	(330,009)	(331,797)	(271,002)
Benefit obligation at end of year	\$22,147,743	\$21,209,024	\$19,772,327
Change in Plan Assets			
Fair value at beginning of year	\$0	\$0	\$0
Actual (expected) return on plan assets	0	0	0
Employer contributions	330,009	331,797	271,002
Plan participants' contributions	0	0	0
Benefits paid	(330,009)	(331,797)	(271,002)
Fair value at end of year	\$0	\$0	\$0
Funded Status	\$(22,147,743)	\$(21,209,024)	\$(19,772,327)
Amounts Recognized in Statement of Financial Position (SFP)			
Non-current assets	\$0	\$0	\$0
Current liabilities	(388,708)	(330,009)	(331,797)
Non-current liabilities	(21,759,035)	(20,879,015)	(19,440,530)
Total recognized in SFP	\$(22,147,743)	\$(21,209,024)	\$(19,772,327)
Amounts Recognized in Changes in Unrestricted Net Assets (CUNA)			
Net transition obligation	\$5,519,558	\$6,071,514	\$6,623,470
Prior service cost (credit)	0	0	0
Net actuarial loss (gain)	150,666	150,666	(95,806)
Total recognized in CUNA	\$5,670,224	\$6,222,180	\$6,527,664
Total Recognized in SFP and CUNA	\$(16,477,519)	\$(14,986,844)	\$(13,244,663)
Weighted Average Assumptions			
Discount rate	2.67%	2.67%	5.00%
Expected return on assets	N/A	N/A	N/A
Assumed Healthcare Trend Rates			
Initial medical/Rx rate	6.00%	6.50%	7.00%
Ultimate medical/Rx rate	4.00%	4.00%	5.00%
Year ultimate rate is reached	2070	2070	2024

Disclosure – Net Periodic Benefit Cost and Changes in Unrestricted Net Assets

	Fiscal Year End		
	06/30/2021	06/30/2020	06/30/2019
	Projected	Actual	Actual
Net Periodic Benefit Cost			
Service cost	\$706,824	\$541,599	\$664,800
Interest cost	561,904	980,423	914,579
Expect return on assets	0	0	0
Amortization of transition obligation	551,956	551,956	551,956
Amortization of prior service cost	0	0	0
Amortization of net loss (gain)	0	0	0
Total Net Periodic Benefit Cost (NPBC)	\$1,820,684	\$2,073,978	\$2,131,335
Other Changes Recognized in Changes in Unrestricted Net Assets (CUNA)			
Prior service cost for period	\$0	\$0	\$0
Net loss (gain) for period	0	246,472	0
Amortization of transition obligation	(551,956)	(551,956)	(551,956)
Amortization of prior service cost	0	0	0
Amortization of net loss (gain)	0	0	0
Total recognized in CUNA	\$(551,956)	\$(305,484)	\$(551,956)
Total Recognized in NPBC and CUNA	\$1,268,728	\$1,768,494	\$1,579,379
Weighted Average Assumptions			
Discount rate	2.67%	5.00%	5.00%
Expected return on assets	4.00%	4.00%	4.00%
Assumed Healthcare Trend Rates			
Initial medical/Rx rate	6.50%	7.00%	Actual
Ultimate medical/Rx rate	4.00%	5.00%	5.00%
Year ultimate rate is reached	2070	2024	2024

Supplemental Information – Changes in Accrued Cost and Unrecognized Items

	Fiscal Year End		
	06/30/2021	06/30/2020	06/30/2019
	Projected	Actual	Actual
Change in (Accrued) Benefit Cost			
(Accrued) benefit cost at beginning	\$(14,986,844)	\$(13,244,663)	\$(11,384,330)
Net periodic benefit cost	(1,820,684)	(2,073,978)	(2,131,335)
Employer contributions	330,009	331,797	271,002
(Accrued) benefit cost at end of year	\$(16,477,519)	\$(14,986,844)	\$(13,244,663)
Change in Net Transition Obligation			
Net transition obligation at beginning	\$6,071,514	\$6,623,470	\$7,175,426
Amount recognized	(551,956)	(551,956)	(551,956)
Other adjustments	0	0	0
Net transition obligation at end of year	\$5,519,558	\$6,071,514	\$6,623,470
Change in Unrecognized Prior Service Cost			
Unrecognized prior service cost at beginning of year	\$0	\$0	\$0
Amount recognized	0	0	0
Amendments	0	0	0
Other adjustments	0	0	0
Unrecognized prior service cost at end of year	\$0	\$0	\$0
Change in Unrecognized Net Loss (Gain)			
Unrecognized net loss (gain) at beginning of year	\$150,666	\$(95,806)	\$(95,806)
Amount recognized	0	0	0
Actuarial losses (gains) deferred	0	246,472	0
Other adjustments	0	0	0
Unrecognized net loss (gain) at end of year	\$150,666	\$150,666	\$(95,806)
Recognition of Cumulative Net Loss (Gain)			
1. Cumulative loss (gain) at beginning of year	\$150,666	\$(95,806)	\$95,806
2. Greater of benefit obligation and fair value of asset	21,209,024	19,772,327	18,463,950
3. 10% corridor of (2)	2,120,902	1,977,233	1,846,395
4. Amount subject to recognition: (1) – (3)	0	0	0
5. Average future service	12.07		
6. Amount to recognize: (4) ÷ (5)	\$0		

Supplemental Information – Accumulated Postretirement Benefit Obligation

Accumulated Postretirement Benefit Obligation (APBO) by Status

	Fiscal Year End		
	06/30/2021	06/30/2020	06/30/2019
	Projected	Actual	Actual
Actives fully eligible	2,684,304	2,614,497	
Other actives	13,815,501	12,767,778	
Retirees	5,647,938	5,826,749	
Total	\$22,147,743	\$21,209,024	\$19,772,327

Effect on APBO of a 1% Increase or Decrease in Healthcare Trend Rates

As of June 30, 2020	1% Increase	1% Decrease
Accumulated postretirement benefit obligation	\$25,990,902	\$17,527,201
Amount change	4,781,878	(3,681,823)
Percent change	22.5%	-17.4%

Implicit Subsidy and ASOP 6

When premiums charged for retiree healthcare are lower than expected claims, an implicit subsidy is realized. This occurs, for example, when pre-Medicare retirees are afforded medical coverage at the same rates as active employees.

Actuarial Standard of Practice No. 6 (ASOP 6), revised in May 2014, provides guidance in measuring OPEB obligations and determining periodic costs or actuarially determined contributions. The standard specifies that in (almost all instances), the actuary must include the value of this implicit subsidy in the liabilities.

This valuation reflects a value for the implicit subsidy equal to \$2,543,860.

Supplemental Information – Additional Information

Expected Benefit Payments (Based on Age-Adjusted Costs)

Fiscal Year	Pay-as-You-Go	Adjustment	Age-Adjusted
2020	\$302,954	\$27,055	\$330,009
2021	344,954	43,754	388,708
2022	379,477	46,391	425,868
2023	429,702	56,728	486,430
2024	464,943	64,535	529,478
2025-2029	2,966,273	365,575	3,331,848

Other Information

1. Amounts invested in each major category of assets, investment policy - Not Applicable.
2. Best estimate of contributions to be made in the June 30, 2021 fiscal year: \$330,009.
3. Amount recognized in Statement of Financial Position as of June 30, 2020: \$(21,209,024).
4. Amounts to be recognized as components of net postretirement benefit cost over the June 30, 2021 fiscal year:

Net transition obligation	\$551,956
Net actuarial (gain)/loss	\$0
Net prior service cost/(credit)	\$0

Funding Schedule

There are many ways to approach the pre-funding of retiree healthcare benefits. In the Disclosure section, we determined the annual expense for all PCHS-paid benefits. The expense is an orderly methodology, developed by the FASB, to account for retiree healthcare benefits. This amount will fluctuate from year to year based on the asset performance and as the population matures. However, the Net Periodic Benefit Cost (NPBC) has no direct relation to amounts PCHS may set aside to pre-fund healthcare benefits.

The table on the next page provides PCHS with three alternative schedules for funding (as contrasted with expensing) retiree healthcare benefits. The schedules assume that retiree funds are held internally and earn, or are otherwise credited with, an average of 4.00%% per year on investments, starting fund value of \$6,383,360 as of June 30, 2020, and that contributions and benefits are paid mid-year.

The schedules are:

1. A level contribution amount for the next 20 years.
2. A level percent of the Unfunded Accrued Liability.
3. A constant percentage (3%) increase for the next 20 years.

We provide these funding schedules to give PCHS a sense of the various alternatives available to it to pre-fund its retiree healthcare obligation. The funding schedules are simply different examples of how PCHS may choose to spread its costs.

By comparing the schedules, you can see the effect that early pre-funding has on the total amount PCHS will eventually have to pay. Because of investment earnings on fund assets, the earlier contributions are made, the less PCHS will have to pay in the long run. Of course, the advantages of pre-funding will have to be weighed against other uses of the money.

The tables on the following pages show the required annual outlay under the pay-as-you-go method and each of the above schedules. The three funding schedules include the "pay-as-you-go" costs; therefore, the amount of pre-funding is the excess over the "pay-as-you-go" amount.

These numbers are computed on a closed group basis and assume no new entrants.

Treatment of Implicit Subsidy

We exclude the implicit subsidy from these funding schedules because we do not recommend that the District pre-fund for the full age-adjusted costs reflected in the liabilities shown in the first section of this report. If the District's premium structure changes in the future to explicitly charge under-age 65 retirees for the full actuarial cost of their benefits, this change will be offset by a lowering of the active employee rates (all else remaining equal), resulting in a direct reduction in District operating expenses on behalf of active employees from that point forward. For this reason, among others, we believe that pre-funding of the full GASB liability would be redundant.

Funding Schedule (continued)

Sample Funding Schedules (Closed Group)
Starting Asset Value of \$6,383,360 as of June 30, 2020

Fiscal Year Beginning	Pay-as-you-go	Level Contribution for 20 years	Level % of Unfunded Liability	Constant Percentage Increase
2020	\$302,954	\$789,346	\$986,790	\$610,506
2021	344,954	789,346	947,954	628,821
2022	379,477	789,346	909,543	647,686
2023	429,702	789,346	871,745	667,116
2024	464,943	789,346	834,577	687,130
2025	491,236	789,346	798,055	707,744
2026	537,407	789,346	762,185	728,976
2027	599,189	789,346	726,980	750,845
2028	643,175	789,346	692,466	773,371
2029	695,266	789,346	658,669	796,572
2030	744,763	789,346	625,612	820,469
2031	802,700	789,346	593,320	845,083
2032	839,369	789,346	561,821	870,436
2033	890,293	789,346	531,140	896,549
2034	948,701	789,346	501,298	923,445
2035	984,925	789,346	472,326	951,148
2036	1,016,260	789,346	444,250	979,683
2037	1,045,086	789,346	417,084	1,009,073
2038	1,081,359	789,346	390,843	1,039,346
2039	1,099,510	789,346	365,541	1,070,526
2040	1,133,536	0	341,191	0
2041	1,150,623	0	317,804	0
2042	1,161,099	0	295,393	0
2043	1,159,882	0	273,961	0
2044	1,168,533	0	253,503	0
2045	1,166,492	0	234,016	0
2046	1,163,368	0	215,497	0
2047	1,166,722	0	197,937	0
2048	1,164,653	0	181,332	0
2049	1,148,266	0	165,677	0
2050	1,104,506	0	150,961	0
2051	1,082,760	0	137,156	0
2052	1,054,176	0	124,233	0
2055	970,067	0	90,510	0
2060	773,274	0	49,557	0
2065	556,259	0	24,266	0
2070	348,530	0	10,361	0

Note to auditor: when calculating the employer OPEB contribution for the year ending on the statement date, we recommend multiplying the actual PCHS-paid premiums on behalf of retirees by a factor of 1.1363 to adjust for the implicit subsidy.

Benefit Plan Provisions

PCHS provides health benefits to certain eligible employees at retirement. The retiree health benefits provided are a continuation of the medical including prescription drugs, dental and vision benefits provided to active employees. The retiree health coverage is paid for entirely by PCHS for the lifetime of the retiree except retirees electing the higher PPO plans must pay the difference in cost. Survivors of deceased retirees may continue health coverage, at their own expense.

Eligibility for retiree health benefits requires the following:

- Future retiree must be enrolled in the health plan prior to retirement date.
- Future retiree must be in receipt of monthly payment from STRS or PERS.
- Active employees must meet the following years of service requirements at retirement:

Date of Hire	Service Requirement
Before March 12, 1984	Five consecutive years prior to retirement
March 12, 1984 to June 30, 1987	10 consecutive years prior to retirement
July 1, 1987 to May 31, 1992	15 consecutive years prior to retirement, or 20 years with 10 consecutive years prior to retirement
June 1, 1992 to February 28, 2007	Age plus consecutive years of qualifying service greater than or equal to 80
March 1, 2007 to June 30, 2009	Age plus consecutive years of qualifying service greater than or equal to 80, with at least 15 consecutive years of qualifying service
After July 1, 2019	Age plus consecutive years of qualifying service greater than or equal to 85, with at least 25 consecutive years of qualifying service

- Retiree must be enrolled in Medicare Part A if eligible; and must enroll in Part B.

All employees except PESPU employees hired on or after July 1, 2009 are not eligible for PCHS-paid health benefits at retirement. PESPU employees hired after June 30, 2012 are not eligible for PCHS-paid health benefits at retirement. Employees who defer their retirement after separation from service with PCHS are not eligible for PCHS-paid health benefits.

PCHS provides retiree health coverage through health plans available through SISC. The following table summarizes the monthly premiums for the health benefit coverage provided by PCHS. These rates went into effect as of October 1, 2019:

	Kaiser HMO/Sr. Adv.	California Care HMO	BC/ Medco 90/\$10	BC/ Medco 90/\$20	BC/ Medco 80/\$20	Companion Care
Retiree Only	NA	\$848	\$1,047	\$971	\$842	NA
Retiree Plus Spouse	NA	\$1,205	\$1,471	\$1,367	\$1,190	NA
Retiree Plus Family	NA	\$1,532	\$1,870	\$1,738	\$1,514	NA
Retiree Only - Medicare	\$229	\$574	\$506	\$506	\$490	\$386
Retiree Plus Spouse - Medicare	\$458	\$1148	\$1,012	\$1,012	\$980	\$772

	Delta Premier	Delta PPO Plan	VSP Vision Plan
Retiree Only	\$53.00	\$60.80	\$12.30
Retiree Plus Spouse	\$106.00	\$122.00	\$24.60
Retiree Plus Family	\$139.00	\$167.60	\$36.90

Valuation Data

Age distribution of retirees included in the valuation

Age	Count
Under 55	0
55-59	1
60-64	3
65-69	12
70-74	17
75-79	3
80-84	2
85+	0
Total	38
Average Age	70.6

Age/Years of service distribution of active employees included in the valuation

Age	Year of Service								Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	
<25	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0
30-34	0	0	0	1	0	0	0	0	1
35-39	1	0	2	1	0	0	0	0	4
40-44	0	0	5	4	1	0	0	0	10
45-49	0	0	4	9	4	1	0	0	18
50-54	0	0	3	7	1	8	0	0	19
55-59	0	1	5	4	4	0	1	0	15
60-64	0	0	2	9	3	1	0	0	15
65+	0	0	1	4	1	0	0	0	6
All Ages	1	1	22	39	14	10	1	0	88

Average Age	53.2
Average Service	17.8

Actuarial Assumptions

The liabilities set forth in this report are based on the following actuarial assumptions:

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2020
Census Date:	June 30, 2020
Discount Rate:	2.67% – determined by fitting the June 30, 2020, FTSE Pension Discount Curve (formerly Citigroup Pension Liability Curve) to projected benefit outflow.
Return on Assets:	4.00% for funding schedule
Pre-retirement Turnover:	CalSTRS 2020 turnover assumption
Mortality:	RPH2014 mortality table with generational projection scale MP-2019

Retirement Rates:

Age	Male	Female
55	2.7%	4.5%
56	1.8%	3.2%
57	1.8%	3.2%
58	2.7%	4.1%
59	4.5%	5.4%
60	6.3%	9.0%
61	6.3%	9.0%
62	10.8%	10.8%
63	13.5%	16.2%
64	10.8%	13.5%
65	10.8%	14.4%
66	10.0%	13.5%
67	10.0%	13.5%
68	10.0%	13.5%
69	10.0%	13.5%
70	100.0%	100.0%

Actuarial Assumptions (continued)

Medical Claim Cost:

Annual Per Retiree or Spouse:

Age	Medical	Dental/Vision
50	\$9,912	\$794
55	12,360	794
60	15,264	794
64	18,264	794
65	5,880	794
70	5,652	794
75	6,048	794

Medical Trend:

Sample Rates:

Year	Pre-Medicare	Medicare	Dental/Vision
2020	6.50%	3.50%	3.00%
2021	6.00%	3.50%	3.00%
2022	5.20%	3.50%	3.00%
2024-2069	5.20%	3.50%	3.00%
2070+	4.00%	3.50%	3.00%

Percent of Retirees with Spouses:

Future Retirees: 50% married or with domestic partner; female spouses assumed three years younger than male spouses.
Current Retirees: Actual spousal ages used if applicable.

Amortization of unrecognized gains and losses:

Minimum method under FAS 106.

Actuarial Certification

The results set forth in this report are based on our actuarial valuation of the health and welfare benefit plans of the Palisades Charter High School (PCHS), as of June 30, 2020.

The valuation was performed in accordance with generally accepted actuarial principles and practices. We relied on census data for active employees and retirees provided to us by PCHS. We also made use of claims, premium, expense, and enrollment data, and copies of relevant sections of healthcare documents provided to us by PCHS.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the program under FASB ASC 715-60, and the existing and proposed Actuarial Standards of Practice for measuring post-retirement healthcare benefits.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the valuation process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this valuation report to the clients' financial statements.

The undersigned actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Certified by:

Carlos Diaz, ASA, EA, MAAA
Actuary

DRAFT