

# El Camino Real Charter High School

## A Commitment to Your Success

Actuarial Services  
March 14, 2022



## **TABLE OF CONTENTS**

Transmittal Letter

Qualifications and Experience

Technical Approach

Cost / Pricing

Appendix

Engagement Document

Mr. Gregory Wood  
Chief Business Officer  
El Camino Real Charter High School  
5440 Valley Circle Boulevard  
Woodland Hills, CA 91367



March 14, 2022

Dear Mr. Wood,

We are delighted to present our qualifications to provide actuarial services to the El Camino Real Charter High School (“ECRCHS” or “you”). Based on extensive knowledge and experience working with ECRCHS, other charter schools, school districts, local governmental entities, and agencies, Schwab Actuarial Services (SAS) has hands-on insight into current processes, financial reporting laws, and the challenges and opportunities related to increasing costs of benefit offerings. Going forward, that knowledge will ensure the continued partnership and uninterrupted services related to actuarial and consulting services for ECRCHS’s Other Post-Employment Benefits (OPEB). We are proposing to perform annual valuations in order to comply with the accounting and financial reporting requirements issued by the FASB Accounting Standards Codification Topic 715 (ASC 715).

We are committed to tailoring our services to exceed your expectations through the following advantages:

- **Extensive Experience.** We have deep experience with the Financial Accounting Standard Board accounting standard and have worked with many charter schools and other large public and private sector organizations. We have completed over 1,000 OPEB actuarial valuations and special studies.
- **Proven Methodology.** We have a proven methodology, designed specifically for actuarial valuations that utilizes consulting, tax, and accounting in-depth knowledge to develop solutions that will meet and exceed your needs.
- **Public and Private Sector Experience.** We have significant experience working with public sector and private sector entities and have assisted with the actuarial valuation and consulting needs of over 100 entities, including many within the Los Angeles and surrounding counties.
- **Highly Responsive and Timely Service.** We take pride in delivering attentive and timely service and will always be available to ECRCHS’s management team and the Board of Directors to help ensure that the service you receive is immediate and responsive.
- **Value That Surpasses Fees.** The cornerstone of our service approach is value. We provide constructive, value-adding business advice.

In closing, permit me to emphasize that we are excited to continue working and partnering with ECRCHS. We are prepared to provide you with the scope of services we discussed related to the offered post-employment healthcare benefits. We have worked with ECRCHS over the years to create a methodology that is efficient and cost effective. Thank you for the opportunity to help with these important directives.

Sincerely,

A handwritten signature in black ink that reads "Brett Schwab".

Brett Schwab, ASA, EA, MAAA  
Principal & Lead Actuary  
312-244-9022  
[BrettSchwab1@yahoo.com](mailto:BrettSchwab1@yahoo.com)

## *Qualifications and Experience*

We have experience working with numerous charter schools, school districts, municipalities, counties, associations, and other local units in both the initial implementation and the on-going actuarial valuations of post-employment benefit valuations as required by the Financial Accounting Standards Board (FASB) and the Government Accounting Standards Board (GASB). We have provided over 1,000 valuations and special studies for over 100 entities.

We have experience in all actuarial and retirement-related consulting work, within both the public and private sectors. We have a long history of working with, consulting, and managing companies in regard to all aspects of their health, retirement, and other benefit programs. We partner and consult with entities on the main policy levers that drive the performance of these benefit programs – the design, investment, contribution, and governance. This helps organizations meet their unique HR, Finance, Tax and Accounting needs and drives an effective workforce management strategy while minimizing the risk impact and cost to the business.

Brett Schwab will lead and manage the El Camino Real Charter High School engagement. He holds a Bachelor of Science degree in actuarial science, with high distinction from the University of Illinois, Urbana-Champaign. He is a member and meets all qualification standards of the American Academy of Actuaries. He is also an Associate of the Society of Actuaries and an Enrolled Actuary under the Employee Retirement Income Security Act.

- Brett is accountable for projects including assisting management through union negotiations relating to pension and healthcare benefits, determining funding and expense strategies, and educating and advising clients on the implications of FASB and GASB accounting changes.
- Prior to Schwab Actuarial Services, Brett was the Lead Actuary in the National office of Grant Thornton and responsible for all aspects of benefit plan valuation and consulting items. He oversaw the actuarial work performed in the Central and West regions. Prior to joining Grant Thornton, Brett served as a Principal Consultant with Mercer, one of the largest HR consulting firms in the world. He led teams of actuaries that performed calculations, projections of liabilities, assets, and cash funding requirements.
- Brett is a frequent presenter at actuarial associations. He partnered with ASPPA College of Pension Actuaries and led a presentation on the FASB Accounting Standards Codification No. 715 as it relates to retiree healthcare plans (OPEB), including the measurement of obligations and determining periodic costs. He also partnered with Pension360 and presented on the measurement and accounting changes for State and local pension plans. His articles, Benefit plan sponsors need to consider new mortality tables and Introducing New Accounting Standards, were published in a Benefits Bulletin.

Listed below are just a few examples of how Brett partnered with companies as their trusted advisor.

- Numerous board presentations: Educate and advise on the changes needed to the Comprehensive Annual Financial Report related to FASB and GASB accounting standard amendments, and the associated cost impacts.
- Adoption of cash funding strategies: Developed interactive tools to model alternate rate environments, future asset return levels, alternate funding policies, future demographics, and the resulting projected funding levels.
- Presentations and discussions with Union Committees: Partnered with executive management through the negotiation process resulting in benefit realignment through a total reward strategy.
- Strategic employee benefit consulting: Consulted for a large public sector organization including plan design, utilization and claims reviews, vendor searches, and compliance services (IRS, DOL, ACA, etc.). Facilitated a collaborative health care committee consisting of union and administration members.

We have decades of experience making sure that:

- Valuations are performed to meet the desired plan sponsor objectives,
- Ensuring that valuations use appropriate actuarial funding and accounting methods, and
- The assumptions are management's best estimate solely with respect to that individual assumption and in the aggregate.

We partner with our clients and go beyond giving just high-quality valuation and other core recurring actuarial services. We will have continuous collaboration with you and your executive management team and board to identify and confirm benefit policies to make sure they align with the value drivers of your organization. Your actuary should understand your business and industry and look for unbiased ways to unlock that value through your benefit programs.

## Our Technical Approach to Meeting Your Needs

Below is a description of the overall approach and specific steps necessary to satisfy the accounting and financial reporting standards for the post-employment healthcare benefits (OPEB) mandated under ASC 715. The actual schedule will be customized or accelerated as needed to meet the individual needs of ECRCHS.

Each year, we recommend the actuarial methods of the calculations and the key assumptions to be used in the valuation of the OPEB. The methods and assumptions selected are ultimately ECRCHS's decision, however we will partner with you through the setting process to ensure that they are reasonable and appropriate based on the current environment and future expectations.

- The actuarial cost methods will be determined in accordance with the applicable FASB standards.
- The actuarial assumptions will rely on Actuarial Standards of Practice No. 27, *Selection of Economic Assumptions for Measuring Obligations* and Actuarial Standards of Practice No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Obligations*.

As part of the assumption setting process, we will also utilize the CalSTRS and CalPERS experience studies performed periodically to ensure that the assumptions continue to fulfill the applicable accounting requirements that each actuarial assumption represents management's "best estimate solely with respect to that individual assumption." As part of the valuation process, we perform a gain/loss analysis by source related to the ECRCHS-specific OPEB. This adds another layer of review to help identify any assumptions that create large and/or consistent liability movements. In addition, and prior to the formal valuation, we can incorporate ECRCHS's auditors to obtain sign-off up front, which rules out any re-measurements that would be requested upon review during the audit cycle.

Phase 1	<ul style="list-style-type: none"><li>• Planning and Kick-off Meeting</li><li>• Data Collection and Review</li></ul>
Phase 2	<ul style="list-style-type: none"><li>• Determine Actuarial Assumptions</li></ul>
Phase 3	<ul style="list-style-type: none"><li>• Preliminary ASC 715 Valuation</li><li>• Presentation of Results</li></ul>
Phase 4	<ul style="list-style-type: none"><li>• Final Accounting Valuation</li><li>• Preparation of Actuarial Reports</li></ul>

### PHASE 1: KICK-OFF MEETING AND INFORMATION GATHERING

The purpose of this phase is to develop the organizational foundation for the projects, gather and review the information necessary to perform the valuations. In our experience, this conversation is extremely important because it provides an opportunity for direct stakeholders to discuss goals and concerns with us.

The following timeline is related to the July 1, 2021-June 30, 2022 fiscal year and is consistent with actuarial services provided in prior years. The schedule can be altered based on your timing needs. The 2021/2022 fiscal year valuations will utilize updated demographic information, an assumption review, and adjustments for changes in the economic environment.

#### Data Gathering

Utilizing accurate participant data, claim, and membership experience is essential for actuarial valuations. This task involves analyzing the relevant information for reasonableness and integrity. In order to complete this task, we will:

- Discuss the data collection procedures with the appropriate ECRCHS personnel.
- Provide an excel spreadsheet that indicates the needed general plan and census information that you will populate.
- Review and confirm the summary of plan provisions and research any alternative plans that may exist.

In March 2022, SAS will issue a formal information request seeking relevant information. Around mid-April, ECRCHS will send the relevant data to SAS to perform the valuations. It is expected that the data will be complete and accurate. If we identify errors and inconsistencies, you may need to correct and resubmit for valuation purposes.

## **Kick-off Meeting**

After the information request has been issued, we will have a conference call with the appropriate personnel from ECRCHS to kick-off the valuation processes. The purpose of the meeting is to confirm overall project objectives, review the methodologies, and confirm ongoing roles and responsibilities.

The agenda for this meeting will include the following items:

- Confirm expectations and definitions of success.
- Confirm project approach, methodology and expected deliverables.
- Review project schedules, key milestones and target dates for meetings and deliverables.
- Discuss data and document requests.

## **PHASE 2: DETERMINATION OF ACTUARIAL ASSUMPTIONS**

The selection of actuarial assumptions will be guided by the applicable actuarial standards. This involves an analysis of the actuarial assumptions (both economic and non-economic). The final assumptions are selected by ECRCHS however we will perform a review and provide information which will enable you to select appropriate actuarial assumptions as required under the standards. We will:

- Analyze plan experience and the underlying cause of any recent fluctuations if necessary.
- As appropriate, provide a range of reasonable assumptions to be used in calculating the OPEB liabilities.
- Increase your understanding of the assumptions used in the actuarial calculations.
- Discuss assumptions with you to gain understanding of the various issues, including the impact on OPEB financials.
- Comparison with assumptions used by similarly situated organizations, including those in the relative location of ECRCHS.

All assumption will be based on best estimates of anticipated experience unless prescribed otherwise. Assumptions should be based on recent plan-specific experience and reasonable near-term expectations. Expectations include input from ECRCHS and the Board of Directors, as applicable. This is particularly important regarding assumptions relating to turnover, retirement and salary increases.

## **PHASE 3: PRELIMINARY<sup>1</sup> ASC 715 VALUATION**

The formal actuarial valuation report will have all the necessary schedules needed for your financial statements. FASB ASC 715 mandates that the actuarial valuation and accompanying disclosures be based on the economic environment as of the fiscal year-end. Rather than wait until the yield curve is published and available in July (after the close of the fiscal year), Schwab Actuarial Services performs a preliminary valuation of the liabilities and funded status to set expectations for interested stakeholders.

At Schwab Actuarial Services, actuarial valuations are more than simply assuming the status quo, performing a valuation and providing a report. Each valuation is an opportunity to review and challenge assumptions and methods, explore new ideas, consider strategic opportunities, and identify hidden risks.

Around or prior to May 2022, we will complete the following tasks:

### **Preliminary Actuarial Valuation**

This task incorporates the most recent available yield curve, the agreed upon demographic assumptions and actuarial methods to determine the preliminary ASC 715 benefit liabilities and obligations. We will:

- Establish an actuarial model to evaluate benefit liabilities under the substantive plan (the plan as understood by you and members).
- Calculate the applicable OPEB liabilities, the fiscal year OPEB benefit costs, and reconciliation of the current funded status.
- Measure present values of projected benefits, future cash flow needs, accrued liabilities, normal cost and associated annual expense.

### **Presentation of Results**

- Prepare a 1-page high-level summary of accrued liabilities, funded percentage, annual expense, and demographic information.
- Present and discuss all changes from the prior year valuation and disclosures including the impact of each item.

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<sup>1</sup> The preliminary results will be based on a discount rate using the most recent economic environment. The final OPEB costs and obligations included in the financial statements will be based on the June 30, 2022 yield curve that is published early July.

## **PHASE 4: PREPARATION OF THE ACTUARIAL VALUATION REPORT**

Around mid-July 2022 and based on the June 30 yield curve, we will calculate the applicable OPEB liabilities, the fiscal year OPEB benefit costs, and reconciliation of funded status. The final figures, including all exhibits and supplementary information for inclusion in the Consolidated Financial Statements will be prepared. A formal written actuarial valuation report documenting the results and exhibits under ASC 715 is provided and will contain:

- Executive summary of results.
- Exhibits containing information relevant to satisfying disclosure requirements under FASB (including footnote disclosures).
- Present value of projected future benefits including split of past, current, and future accruals.
- Reconciliation of actuarial accrued liability with prior valuations.
- Summary of census data.
- Projected OPEB cash flows, including impacts of the implicit rate subsidy.
- Summary of actuarial assumptions.
- Summary of plan provisions.
- Actuarial Certification indicating compliance with the “Qualification Standards for Actuaries issuing Statement of Actuarial Opinion in the United States”.

In addition, we will include telephonic support with ECRCHS and the auditors to discuss the information.

### ***ECRCHS will enjoy the following benefits***

- Extensive experience with employment benefits.
- A proven methodology, designed specifically for actuarial valuations that utilizes consulting, tax and accounting in-depth knowledge to develop solutions that meet your needs.
- Effective work at all organization levels, including staff, middle and executive management, committees, and boards.
- Significant skills and experience working on numerous assignments with similarly situated entities.

**Most importantly, ECRCHS will benefit from the continuity of the actuarial service team, its evolved and established processes, in addition to the unquantifiable benefit of program familiarity, specific institutional history and knowledge.**

### ***Project Team Availability***

You want your service provider to be accessible and responsive. We may not be in your backyard, but you will feel like we are.

- Easy access to engagement team members and industry specialists.
- Regularly scheduled meetings and calls throughout the year.

**The bottom line: We are 100% committed to your projects and are always only a phone call away.**

### ***Quality Assurance***

At Schwab Actuarial Services, quality is the top priority. We enforce consistent, high-quality standards in service delivery by using a quality assurance process that embraces all methodologies, deliverables, and tasks. This process is used throughout the projects to establish and maintain a positive client relationship, mitigate risk and meet or exceed client expectations.

- Appropriate planning, instructions, and helping to ensure that work programs and work papers adequately cover the areas and testing performed.
- Adherence to any laws, regulations, and government or industry standards that specify requirements.
- Procedures and required documentation for planning, execution, and wrap-up.
- Ongoing development and trainings.

**These quality assurance processes enable us to deliver superior service to the El Camino Real Charter High School.**

## *Cost / Pricing*

### *Your investment*

You will know up front what to expect from us and how much it will cost to achieve your results. We will provide industry-leading services at a competitive fee relative to the value of our experience. We will be focused on your objectives, get the work done according to best-in-class methodologies, and provide the insights you need to realize your future potential for growth.

Based on our experience, we anticipate that the fees for the requested services as outlined below. The agreement will commence upon signature of the formal engagement letter, and it will not expire unless earlier terminated. We shall each have the right to terminate the contract, in whole or in part, at any time without further obligation to the other by giving not less than thirty (30) days written notice.

<u>Service</u>	<u>Fixed Fee</u>
ASC 715 Valuation for the period ending June 30, 2022	\$4,000
ASC 715 Valuation for the period ending June 30, 2023	\$4,000
<b><i>Next Cycle Renewal Option</i></b>	
ASC 715 Valuation for the period ending June 30, 2024	\$4,250
ASC 715 Valuation for the period ending June 30, 2025	\$4,250

We will discuss with you any circumstances that require us to do additional actuarial analyses or consulting services which may include, but are not limited to, work to satisfy our obligations under applicable professional standards including additional fact-gathering, and unforeseen scope changes. If additional, out-of-scope work is requested, we will work with ECRCHS and provide a separate proposal and accompanying engagement documents at a discount off our then-standard hourly rates.

### *Our investment*

#### **NO SURPRISE FEES**

We practice a policy of “no surprises.” You know the fee up front — without any hidden costs. When conditions require more work than either of us anticipated, we will ask for your approval before we proceed further. Should these fees not correspond to your expectations, we would welcome the opportunity to further discuss the engagement and the level of work required.

#### **QUESTIONS AND CONSULTATION**

We strongly encourage frequent communication and understand the importance of keeping you informed about emerging issues. As such, we do not charge for questions or conversations that do not require substantial research or time. The fees include basic telephone consultations, meaningful thought leadership, and other items related to routine business issues. For technical issues not included in the original scope of work and require significant additional time, fees will be billed at our discounted rates. You will never receive a bill unless fees have been discussed with you first.



## *Appendix*

On the following pages, we have included the formal Engagement Document.

**El Camino Real Charter High School**  
**Statement of Work – Actuarial Services**  
**ASC 715 Valuation and Cash Funding Projections**

This Statement of Work dated March 14, 2022 is intended to describe the scope of services (“Services”) the El Camino Real Charter High School (“Client”) is requesting Schwab Actuarial Services (“SAS”) to perform, and to set forth the agreed fee, timing and other matters related to the Services.

**The services we will provide**

The Services we will provide under this Statement of Work consist of actuarial valuation and benefits advisory services related to your offered post-employment benefits other than pensions (OPEB) for fiscal years ending June 30, 2022 and June 30, 2023 with a renewal option for fiscal years ending June 30, 2024 and June 30, 2025. Specifically, we shall provide actuarial and consulting services according to Generally Accepted Accounting Principles (GAAP) accounting and advise on risk and financial security issues. The Services will be compliant with Financial Accounting Standards Board (FASB) Accounting Standard Codification No. 715 (ASC 715) for financial reporting.

*ASC 715 accounting and financial reporting*

- Assist you by providing actuarial valuation and consulting services related to all OPEB plans identified,
- Determine a discount rate based on a cash flow matching analysis using plan specific expected benefit payments and spot rates from the most recently available discount curve,
- Set an expected long-term return on plan assets based on the asset classes held in trust and long-term capital market assumptions in published papers from industry experts,
- Facilitate the selection of reasonable demographic assumptions for ASC 715 compliance,
- Develop Net Periodic Postretirement Benefit Costs and Accrued Postretirement Benefit Costs for financial reporting purposes according to ASC 715,
- Present results to the relevant audience within your group telephonically, and
- Prepare a written actuarial valuation summary documenting the results under ASC 715.

Specific steps are necessary to satisfy accounting and financial reporting standards. In providing Services under this Statement of Work, SAS will use techniques, applications, procedures, and methods that reflect appropriate practices. Services are performed in a manner consistent with the degree of care and skill exercised in the actuarial profession.

Below is a description of the overall approach and specific steps necessary to satisfy the accounting and financial reporting standards for post-employment healthcare benefits mandated under ASC 715.

**Data review**

Utilizing accurate participant data and claims information is essential for an OPEB actuarial valuation. This task involves analyzing the current participant levels, demographic information, and premium data for reasonableness and integrity. It is expected that all data from you is complete and accurate. If errors and inconsistencies are identified, you may need to correct and resubmit for valuation purposes.

In order to complete this task, SAS will:

- Discuss the data collection procedures with appropriate Client personnel,
- Provide a spreadsheet that you will populate with plan and census information, and
- Review plan provisions and research any alternative plans that may exist.

## **Determination of Actuarial Assumptions**

The selection of actuarial assumptions will be guided by applicable actuarial standards and will rely on Actuarial Standards of Practice No. 27, *Selection of Economic Assumptions for Measuring Obligations* and Actuarial Standards of Practice No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Obligations*. The final assumptions are selected by you, and we will perform a review and provide information which will enable you to select the appropriate actuarial assumptions as required under the ASC 715 standards.

We will:

- Analyze plan claims experience, to the extent that credible experience data are available, and the underlying cause of any recent premium rate fluctuations, if necessary,
- As appropriate, provide a range of reasonable assumptions to be used in calculating the OPEB liabilities,
- Increase your understanding of the assumptions used in the actuarial valuation,
- Discuss the assumptions with you and your members personnel to gain an understanding of the various issues impacting the assumptions, and
- Compare those assumptions with the assumptions used by other public organizations.

## **Actuarial Valuation**

This task incorporates the agreed upon actuarial assumptions and various actuarial methods to determine the OPEB costs and liabilities. We will:

- Establish an actuarial model for evaluating benefit liabilities under the substantive plan (the plan as understood by you and plan members), and
- Calculate and measure the present value of projected benefits, normal cost, actuarial accrued liability, actuarial value of assets, etc.

## **Preparation of ASC 715 Accounting Information**

This task incorporates the agreed upon actuarial assumptions and various actuarial methods to determine the OPEB obligations. We will:

- Calculate the applicable net OPEB obligations, the applicable fiscal year OPEB costs, any applicable adjustments to the obligations and expenses, etc., and
- Prepare exhibits for financial reporting.

## **Actuarial Valuation Report and Recommendations**

This task involves preparing an actuarial valuation report containing:

- Executive summary of results,
- Exhibits containing information relevant to satisfying ASC 715 disclosure requirements,
- Summary of census data,
- Summary of actuarial assumptions, and
- Summary of plan provisions.

In addition, we will include telephonic support with the auditor to discuss the report.

## **Quality Assurance**

Quality assurance processes enable SAS to deliver superior Services to the Client. We enforce consistent, high-quality standards in all service delivery by using a quality assurance process that embraces all methodologies, deliverables, and tasks. This process is used throughout the projects to establish and maintain a positive client relationship, mitigate risk, and meet or exceed client expectations.

- Appropriate planning, instructions, and helping to ensure that work programs and work papers adequately cover the areas and testing performed.
- Adherence to any laws, regulations, and government or industry standards that specify requirements.
- Procedures and required documentation for planning, execution, and wrap-up.
- Ongoing development and trainings.

**Engagement Team**

Brett Schwab, ASA, EA, MAAA, Principal and Lead Actuary, will oversee and review the actuarial work. His direct telephone number is 312-244-9022. He holds a Bachelor of Science degree in actuarial science, with high distinction from the University of Illinois, Urbana-Champaign. He is a member and meets all the qualification standards of the American Academy of Actuaries. He is also an Associate of the Society of Actuaries and an Enrolled Actuary under the Employee Retirement Income Security Act.

**Delivering the services**

Prior to the commencement of work, we will discuss with you and/or other management to establish the expected timeframe and the deliverables for Services listed above, including management’s role and the additional resources allocated to the project.

**Fees and payment terms**

The fees for the requested services are outlined below. Note that if the District determines a particular service is not needed for a fiscal year, then we will not perform the analysis and the associated fee will not be invoiced.

The agreement will commence upon signature and it will not expire, unless earlier terminated. We shall each have the right to terminate the contract, in whole or in part, at any time without further obligation to the other.

<u>Service</u>	<u>Fixed Fee</u>
GASB 75 Valuation for period ending June 30, 2022	\$4,000
GASB 75 Valuation for period ending June 30, 2023	\$4,000
<i>Next Cycle Renewal Option</i>	
GASB 75 Valuation for period ending June 30, 2024	\$4,250
GASB 75 Valuation for period ending June 30, 2025	\$4,250

We will discuss with you circumstances that require us to do additional work which may include, but are not limited to, work to satisfy our obligations under applicable professional standards including additional fact gathering, analysis and preparation of disclosure forms, unforeseen scope changes, and late or incomplete client provided information. If it appears that the stated fee will be exceeded, we will consult with you before continuing with the engagement.

**Agreed and accepted**

The undersigned hereby agree to the terms and conditions as set forth above.

**EL CAMINO REAL CHARTER HIGH SCHOOL**

\_\_\_\_\_ Date: \_\_\_\_\_

**SCHWAB ACTUARIAL SERVICES**



Brett Schwab, ASA, EA, MAAA  
Principal & Lead Actuary

Date: March 14, 2022

