

**LOS ANGELES COUNTY  
OTHER POSTEMPLOYMENT  
BENEFITS PROGRAM**



**ACTUARIAL REVIEW  
REPORT FOR THE 2023  
INVESTIGATION OF  
EXPERIENCE FOR OTHER  
POST EMPLOYMENT  
BENEFITS ASSUMPTIONS**

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**PREPARED: AUGUST 16, 2024**



August 16, 2024

Mr. Richard Bendall  
Chief, Internal Audit  
Los Angeles County Employees Retirement Association  
300 North Lake Avenue, Suite 820  
Pasadena, CA 91101

**Re: Actuarial Review of the 2023 Investigation of OPEB Program Experience for the Los Angeles County Other Postemployment Benefits Program**

Dear Mr. Bendall:

Cavanaugh Macdonald Consulting, LLC (CavMac) has performed an independent review of the 2023 Investigation of Experience for Other Postemployment Benefits (OPEB) Assumptions prepared by Milliman, Inc. for LACERA. As an independent reviewing, or auditing actuary, we have been asked to express an opinion regarding the reasonableness and accuracy of this work product.

LACERA conducts experience studies every three years to study the relevant economic and demographic assumptions that will be used to determine employer and member contribution rates for LACERA's Retirement Plan. In accordance with LACERA's OPEB Program Policy, an Experience Study for the OPEB Program immediately follows each Retirement Plan Experience Study. LACERA typically has the Experience Studies reviewed by an independent actuarial services firm, and we are performing this work in accordance with our contract with LACERA. As requested, this report presents the results of the Actuarial Review of the 2023 Investigation of OPEB Program Experience Report. Our findings are outlined in the Board Summary, and various observations are included throughout in the sections applicable to each review task. Detailed findings and conclusions from the Actuarial Review are provided in Section 6 of the report.

We would like to thank LACERA's staff for their responsiveness in providing the items and information that we requested during the course of our review. Additionally, we would also like to thank Milliman for their cooperation and assistance in providing the requested information and answering our questions along the way. **We generally find the Investigation of Experience results to be reasonable and accurate. The study was performed by qualified actuaries and conducted in accordance with the principles and practices prescribed by the Actuarial Standards Board.** This report documents the detailed results of our review.



## **ADDITIONAL INFORMATION AND DISCLOSURES**

This report has been prepared for LACERA and its stakeholders by CavMac and is intended to assist LACERA as it validates the reasonability of the liabilities, costs, and other calculations for the OPEB Program as of June 30, 2023 and following years. Additionally, the findings, conclusions, and recommendations presented in this report are specific to LACERA, LACERA's OPEB Program, and the work produced by Milliman. CavMac may produce different findings or arrive at different conclusions in other situations or even in cases involving similar other postemployment benefit plans. As such, it is important to keep in mind that the use of this information for purposes other than those expressed here may not be appropriate.

In preparing this review, we have relied on the following information provided by LACERA and/or Milliman:

- A report produced by Milliman on July 8, 2021 titled, "Los Angeles County Other Postemployment Benefits Program 2020 Investigation of Experience for Other Postemployment Benefits Assumptions" (2020 Investigation of OPEB Program Experience Report);
- A report dated August 16, 2024 prepared by Milliman titled, "Los Angeles County Other Postemployment Benefits Program 2023 Investigation of Experience for Other Postemployment Benefits Assumptions" (2023 Investigation of OPEB Program Experience Report);
- Retirement Plan actuarial valuation census data and OPEB Program Experience Study data as of June 30, 2021, June 30, 2022, and June 30, 2023; and,
- OPEB Program actuarial valuation census data as of June 30, 2020, June 30, 2021 and June 30, 2022, and preliminary actuarial valuation census data as of June 30, 2023.

While we cannot verify the accuracy of all this information, the supplied information was reviewed for reasonableness and consistency. We have no reason to doubt the substantial accuracy or completeness of the information and believe that it is reliable for the purpose of conducting this review. The results and conclusions contained in this report depend on the integrity of this information, and if any of the supplied information or analyses change, our results and conclusions may be different, and this report may need to be revised.

The undersigned are familiar with the near-term and/or long-term aspects of other postemployment benefit plan valuations and collectively meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained in this report. All sections of this report, including any appendices and attachments, are considered an integral part of the actuarial opinions.



Mr. Richard Bendall

August 16, 2024

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CavMac does not provide legal, investment, or accounting advice. Thus, the information in this report is not intended to supersede or supplant the advice and interpretations of LACERA or its external consultants.

Please let us know if you have any questions or need any additional information.

Respectfully submitted,

Brent A. Banister, Ph.D., FSA, EA, MAAA, FCA  
Chief Actuary

Alisa Bennett, FSA, MAAA, FCA, EA  
President



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## SECTION 1 – EXECUTIVE SUMMARY

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LACERA engaged Cavanaugh Macdonald Consulting, LLC (CavMac) to prepare an independent review of the OPEB Experience Study for Los Angeles County’s OPEB Program prepared by Milliman for the period ending on June 30, 2023. This study used the three years of data accumulated since the last experience study. The scope of the actuarial review requested by LACERA includes an independent verification of the results and evaluation of any recommendations in the 2023 Investigation of OPEB Program Experience Report, the preparation of a report containing CavMac’s findings and conclusions from the actuarial review, and a presentation of any findings to the Board of Retirement.

The process of setting actuarial assumptions brings together a blend of both numerical analysis and professional judgment. An experience study is not simply a mathematical exercise, but also draws on the experience and insight of the professionals conducting the study. While our review included confirming certain data tabulations supporting the results in Milliman’s report, we wish to stress that we have also examined the bigger picture to determine if an assumption, or recommended change, is appropriate. We consider whether there are other ways to form an assumption, whether an assumption may be simplified, and whether or not the assumption reflects trends that we have observed in other plans. The fact that we might prefer an alternate approach does not automatically mean that Milliman’s approach is not reasonable. Rather, we offer some of these thoughts as a consideration for future studies, fully aware that there are multiple ways in which to appropriately model a dynamic post-retirement benefit program like Los Angeles County’s OPEB Program.

**In general, we find Milliman’s work to be accurate and complete, and we have not identified any material findings.**

We summarize our findings for each major review task as follows:

### **1. Review of Data Used in the 2023 OPEB Investigation of Experience**

The actuarial review of the 2023 Investigation of Experience for OPEB Assumptions Report is based on the experience study data that Milliman provided. We requested and received from Milliman the full valuation data files for the 2021, 2022, and 2023 (preliminary) OPEB and pension valuations. These files allowed us to replicate certain portions of Milliman’s work with regards to the analysis of demographic assumptions. In our opinion, the data used is sufficient for the purposes of the experience study, appears consistent with previous experience investigations and, therefore, appropriately reflects the active and inactive membership of LACERA during the three-year period ending on June 30, 2023.

### **2. Review the Proposed Economic and Demographic Assumptions Contained in the 2023 OPEB Investigation of Experience Report**

We find the work prepared by Milliman—reviewed within the scope of this assignment—to be based on reasonable processes, to be technically sound, and to be fairly presented. Milliman’s work related to LACERA’s experience, selecting assumptions, and presenting the associated results is based on generally accepted actuarial practices and principles. Relevant details for each assumption reviewed are provided in Sections 2 through 5.





### 3. Present Any Recommendations to the Board of Retirement Regarding the Work Completed by Milliman

We believe that the actuarial assumptions recommended by Milliman are reasonable and appropriate for use in the upcoming OPEB actuarial valuation for LACERA. We have no findings of material discrepancies with generally accepted actuarial principles or professional standards. In Section 6, we provide some minor considerations and recommendations for future studies.

Milliman proposes several changes in assumptions in its experience study. Generally, these are fine-tuning of the current assumptions to better reflect recent behavior of the plan members. These changes involve initial election rates, plan election rates, retirement rates for deferred vested members, and some other minor items such as spouse age difference. We find these assumptions to be reasonable. We also find the economic assumptions, including the investment return assumptions and the health cost trend rates proposed by Milliman to be appropriate.

### CONCLUSIONS

Because of the complexity of actuarial work, we would not expect our opinions regarding the selection of assumptions and methods to be the same as the opinions of Milliman. We do expect, however, that there would be sufficient explanation of their choices such that we can acknowledge that they are reasonable based upon the relevant factors. In our opinion, the assumptions and methods proposed by Milliman are reflective of sound professional judgement and are appropriate for the systematic funding of the OPEB obligations of LACERA.

We have determined that the actuarial methods, assumptions, processes, and the report are consistent with the applicable Actuarial Standards of Practice. Throughout this report, we have noted a few minor items for consideration that we believe may present opportunities for improvement, but none that we believe would have a material impact on the proposed assumptions and the resulting OPEB liabilities.

The remainder of this report provides the basis for our findings and recommendations for each assumption that appears in the 2023 Investigation of Experience for Other Post-Employment Benefits Assumptions Report and our conclusions.

We would like to thank LACERA's staff for their responsiveness in providing the items and information that we requested during our review. Additionally, we would also like to thank Milliman for their cooperation and assistance in providing the requested information and answering our questions.





## SECTION 2 – INITIAL ELECTION ASSUMPTIONS

The provisions and plan design of the OPEB Program determine how plan costs are shared with members, and because cost sharing varies based on service credit at retirement, we would expect initial medical election percentages to vary with service at retirement as well. Milliman has used a service-based assumption for both medical and dental/vision initial election and is proposing some minor refinements. For members who retire on account of disability, by contrast, the assumption is uniform regardless of service. Milliman recommends the same rates for both males and females but does conduct the analysis separately as well as in total to test their assertion.

CavMac independently developed exposures and initial medical election experience for members during the three-year period from July 1, 2020 to June 30, 2023. We note that our independent development is truly independent in that we did not follow the same methodology as was used by Milliman. As the retained actuary, Milliman has built the historical data they need for valuations that allows them to be slightly more refined than we can be in analyzing the experience results. By analyzing in a different manner, we do not expect to match their results exactly. However, to the extent our independent approach provides similar results, there is actually a higher degree of confidence in the reasonableness of their conclusions than if we were simply replicating their methodology. We believe that we match to a sufficient level to be confident that Milliman is using an appropriate approach. As a note, our results at low service levels (where election is rare) do not match as well, but we anticipate that our results may be distorted by situations where there was some sort of additional or contingent service involved or by disability determinations that were slow to be awarded. For the purpose of assessing Milliman's work, further analysis would not be expected to change our assessment.

It should be noted that we also confirmed the reasonableness of the experience of disabled members, even though these results are not shown in the following tables. Because disability experience often unfolds across more than one fiscal year, there is a challenge in assigning disabilities to a specific year. By taking a deeper look across multiple years and discussing the issue with Milliman, we are very comfortable in concluding that a very high portion of disabled members do elect coverage, as assumed.

We find the proposed election rates to be reasonable. During the process of preparing results, we discussed with Milliman the issue of being cautious about reducing the probability of election assumption based solely on the last three years and they reflected that discussion in their proposed assumptions. We would be comfortable with additional increases in the 15-24 years of service rates to provide some margin for conservatism.

We note that with the very high election rates observed among those members who retire with more than 25 years of service, it would also be appropriate to simplify the assumption and assume 100% elect coverage. However, there are indeed some members who do not elect coverage, and the proposed assumptions reasonably reflect that reality. We would often round up the election assumption to the nearest 5% to provide a slight degree of conservatism, but because of the size of the LACERA population, we are not opposed to Milliman developing an assumption with slightly more precision.





## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



### ANALYSIS OF MALE MEMBER INITIAL MEDICAL ELECTION PERCENTAGES

The following tables compare the results of our analyses with those proposed in Exhibit 3–1 of the 2023 Investigation of OPEB Program Experience Report.

#### MALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	214	314	339	482	2,533	3,882
Milliman	184	308	343	487	2,542	3,864
<i>Pct. Difference</i>	16.30%	1.95%	-1.17%	-1.03%	-0.35%	0.47%

Total Number of Member Initial Medical Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	14	97	183	352	2,395	3,041
Milliman	8	114	212	372	2,334	3,040
<i>Pct. Difference</i>	75.00%	-14.91%	-13.68%	-5.38%	2.61%	0.03%

Member Initial Medical Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	6.54%	30.89%	53.98%	73.03%	94.55%	78.34%
Milliman	4.35%	37.01%	61.81%	76.39%	91.82%	78.67%
<i>Recommended</i>	7%	43%	64%	77%	94%	



## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



### ANALYSIS OF FEMALE MEMBER INITIAL MEDICAL ELECTION PERCENTAGES

The following tables compare the results of our analyses with those proposed in Exhibit 3–2 of the 2023 Investigation of OPEB Program Experience Report.

#### FEMALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	249	543	628	769	3,646	5,835
Milliman	206	530	630	773	3,668	5,807
<i>Pct. Difference</i>	20.87%	2.45%	-0.32%	-0.52%	-0.60%	0.48%

Total Number of Member Initial Medical Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	14	176	356	592	3,410	4,548
Milliman	5	203	397	628	3,376	4,609
<i>Pct. Difference</i>	180.00%	-13.30%	-10.33%	-5.73%	1.01%	-1.32%

Member Initial Medical Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	5.62%	32.41%	56.69%	76.98%	93.53%	77.94%
Milliman	2.43%	38.30%	63.02%	81.24%	92.04%	79.37%
<i>Recommended</i>	7%	43%	64%	77%	94%	



## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



### ANALYSIS OF MALE AND FEMALE MEMBER INITIAL MEDICAL ELECTION PERCENTAGES

Because the initial medical election percentages are not significantly different for males and females, the assumption used for valuation purposes is based on combined male and female experience. The following tables compare the results of our analyses with those proposed in Exhibit 3–3 of the 2023 Investigation of OPEB Program Experience Report.

#### MALES AND FEMALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	463	857	967	1,251	6,179	9,717
Milliman	390	838	973	1,260	6,210	9,671
<i>Pct. Difference</i>	18.72%	2.27%	-0.62%	-0.71%	-0.50%	0.48%

Total Number of Member Initial Medical Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	28	273	539	944	5,805	7,589
Milliman	13	317	609	1,000	5,710	7,649
<i>Pct. Difference</i>	115.38%	-13.88%	-11.49%	-5.60%	1.66%	-0.78%

Member Initial Medical Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	6.05%	31.86%	55.74%	75.46%	93.95%	78.10%
Milliman	3.33%	37.83%	62.59%	79.37%	91.95%	79.09%
<i>Recommended</i>	7%	43%	64%	77%	94%	



## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



Like the medical election rates, dental election rates are also significantly affected by the amount of service a member has at retirement. The same comments on methodology that were applicable to the initial medical election assumption are also applicable to the dental and vision election assumption. We find Milliman’s proposed assumptions to be reasonable.

### ANALYSIS OF MALE MEMBER INITIAL DENTAL / VISION ELECTION PERCENTAGES

The following tables compare the results of our analyses with those proposed in Exhibit 3–4 of the 2023 Investigation of OPEB Program Experience Report.

#### MALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	214	314	339	482	2,533	3,882
Milliman	184	308	343	487	2,542	3,864
<i>Pct. Difference</i>	16.30%	1.95%	-1.17%	-1.03%	-0.35%	0.47%

Total Number of Member Initial Dental / Vision Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	21	108	193	363	2,391	3,076
Milliman	11	116	223	378	2,326	3,054
<i>Pct. Difference</i>	90.91%	-6.90%	-13.45%	-3.97%	2.79%	0.72%

Member Initial Dental / Vision Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	9.81%	34.39%	56.93%	75.31%	94.39%	79.24%
Milliman	5.98%	37.66%	65.01%	77.62%	91.50%	79.04%
<i>Recommended</i>	7%	44%	68%	77%	93%	



## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



### ANALYSIS OF FEMALE MEMBER INITIAL DENTAL / VISION ELECTION PERCENTAGES

The following tables compare the results of our analyses with those proposed in Exhibit 3–5 of the 2023 Investigation of OPEB Program Experience Report.

#### FEMALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	249	543	628	769	3,646	5,835
Milliman	206	530	630	773	3,668	5,807
<i>Pct. Difference</i>	20.87%	2.45%	-0.32%	-0.52%	-0.60%	0.48%

Total Number of Member Initial Dental / Vision Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	25	209	388	607	3,453	4,682
Milliman	11	228	424	638	3,409	4,710
<i>Pct. Difference</i>	127.27%	-8.33%	-8.49%	-4.86%	1.29%	-0.59%

Member Initial Dental / Vision Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	10.04%	38.49%	61.78%	78.93%	94.71%	80.24%
Milliman	5.34%	43.02%	67.30%	82.54%	92.94%	81.11%
<i>Recommended</i>	7%	44%	68%	77%	93%	



## SECTION 2 – INITIAL ELECTION ASSUMPTIONS



### ANALYSIS OF MALE AND FEMALE MEMBER INITIAL DENTAL / VISION ELECTION PERCENTAGES

Because the initial election percentages are not significantly different for males and females, the assumption used for valuation purposes is based on combined male and female experience. The following tables compare the results of our analyses with those proposed in Exhibit 3–6 of the 2023 Investigation of OPEB Program Experience Report.

#### MALES AND FEMALES

Total Number of Members Exposed						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	463	857	967	1,251	6,179	9,717
Milliman	390	838	973	1,260	6,210	9,671
<i>Pct. Difference</i>	18.72%	2.27%	-0.62%	-0.71%	-0.50%	0.48%

Total Number of Member Initial Dental / Vision Elections						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	46	317	581	970	5,844	7,758
Milliman	22	344	647	1,016	5,735	7,764
<i>Pct. Difference</i>	109.09%	-7.85%	-10.20%	-4.53%	1.90%	-0.08%

Member Initial Dental / Vision Election Percentages						
Years of Service Credit Earned by Healthy Members						
	Under 10	10 – 14	15 – 19	20 – 24	Over 24	Total
CavMac	9.94%	36.99%	60.08%	77.54%	94.58%	79.84%
Milliman	5.64%	41.05%	66.50%	80.63%	92.35%	80.28%
<i>Recommended</i>	7%	44%	68%	77%	93%	



## SECTION 3 – TIER SELECTION AND MIGRATION ASSUMPTIONS



### ANALYSIS OF MEMBER INITIAL MEDICAL PLAN AND TIER SELECTION PERCENTAGES

CavMac independently developed initial medical plan and tier selection percentages for male and female members during the period from June 30, 2020 to June 30, 2023. This analysis was further split by pre-65 or post-65 elections.

As with other assumptions we reviewed, we used an independent methodology and did not use Milliman’s refined processed data. We compared the initial elections of more than 8,200 newly-covered members across approximately 175 different coverage options and identified only a handful of situations where we differed from Milliman. The most frequent issue leading to differences related to situations where a retiree or spouse became Medicare-eligible between retirement and the valuation date, resulting in differing tier selections within the same plan.

In general, we find the plan election analysis to be performed correctly. We do note that some of the assumed rates of election are less than 1%. Such a rate has very minimal impact on the total results, and we would certainly not be opposed to a simpler assumption in which these plans were grouped with some others expected to have similar costs. Because of the size of LACERA, there is certainly sufficient credible data to reasonably draw the conclusions that have been made, and so we are not suggesting a change is needed, but simply that some consideration be given to a possible simplification that would have negligible impact on the results.

We note that retired members can elect to switch plans, although we understand that this may not occur frequently. This means that the assumption regarding plan election could be thought of in terms of “current election” rather than “initial election” and still be useful for valuation purposes. Phrasing the assumption in this way would simplify the ability to set the assumption, and so it might be worth considering in the next experience study.



## SECTION 3 – TIER SELECTION AND MIGRATION ASSUMPTIONS



### ANALYSIS OF MALE MEMBER INITIAL DENTAL / VISION PLAN AND TIER SELECTION PERCENTAGES

CavMac independently developed initial dental / vision plan and tier selection percentages for male members during the period from June 30, 2020 to June 30, 2023. The following tables compare the results of our analyses with those proposed in Exhibit 4–5 of the 2023 Investigation of OPEB Program Experience Report.

#### MALES

Member Initial Dental / Vision Plan and Tier Selection Percentages*			
Deduction Code	CavMac	Milliman	Difference
501	16.2%	16.0%	0.2%
502	59.0%	59.3%	-0.3%
503			
901	7.1%	6.9%	0.2%
902	17.7%	17.8%	-0.1%
903			

\* Numbers may not add to 100% due to rounding.





## SECTION 3 – TIER SELECTION AND MIGRATION ASSUMPTIONS



### ANALYSIS OF FEMALE MEMBER INITIAL DENTAL / VISION PLAN AND TIER SELECTION PERCENTAGES

CavMac independently developed initial dental / vision plan and tier selection percentages for female members during the period from June 30, 2020 to June 30, 2023. The following tables compare the results of our analyses with those proposed in Exhibit 4–5 of the 2023 Investigation of OPEB Program Experience Report.

#### FEMALES

Member Initial Dental / Vision Plan and Tier Selection Percentages*			
Deduction Code	CavMac	Milliman	Difference
501	38.3%	38.2%	0.1%
502	36.7%	36.8%	-0.1%
503			
901	14.5%	14.5%	0.0%
902	10.5%	10.5%	0.0%
903			

\* Numbers may not add to 100% due to rounding.



## SECTION 3 – TIER SELECTION AND MIGRATION ASSUMPTIONS

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### REVIEW OF PRE-65 TO POST-65 MEDICAL PLAN MIGRATION ASSUMPTIONS

CavMac independently developed the frequencies of member medical plan enrollment decisions for those who reached Medicare-eligibility age during the period from June 30, 2020 to June 30, 2023 and were enrolled in a pre-65 medical plan immediately prior to attaining age 65. Because we based our results on valuation data rather than Milliman’s comprehensive database, there are some minor differences in our counts, but nothing that is significant or indicative of any inadequate process.

The Plan’s experience during the three-year study period is consistent with current assumptions, and the adjustments recommended by Milliman appear to be reasonable. Additionally, we agree with the proposed assumptions for Tier 2 members, because our understanding is that these members must enroll in Medicare when they reach Medicare-eligibility age in order to be eligible to elect a post-65 medical plan.

We note that several of the recommended assumptions are 2% or less, which does not significantly affect any of the results. We believe there is an opportunity for simplification with this assumption, if desired.



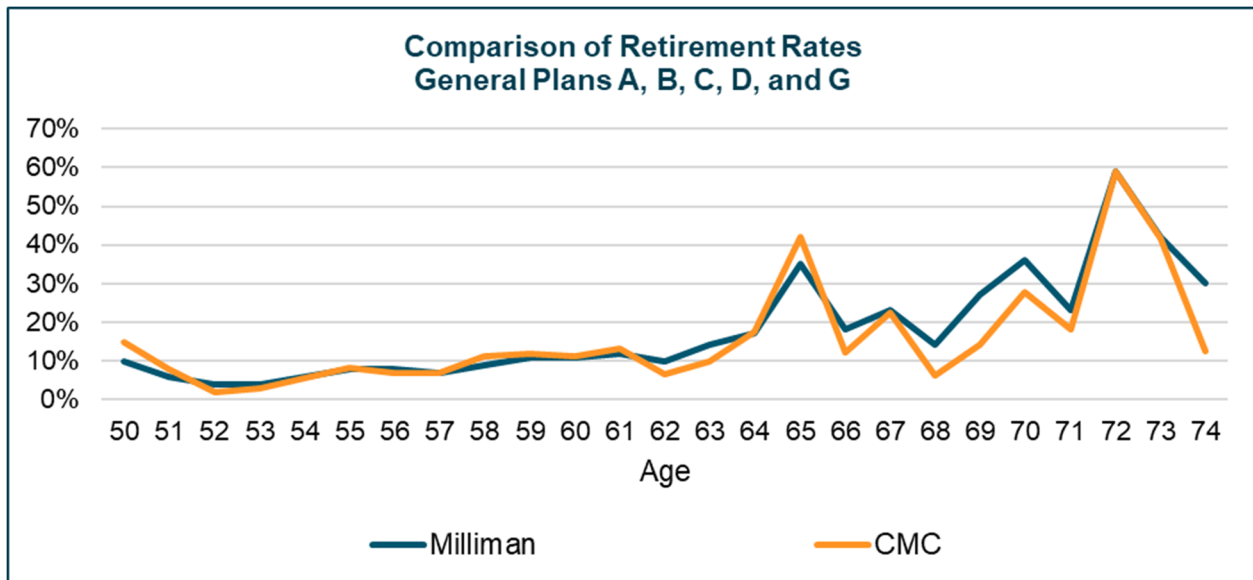
## SECTION 4 – OTHER ELECTION ASSUMPTIONS



### ANALYSIS OF ASSUMED RETIREMENT RATES FOR DEFERRED VESTED MEMBERS

For pension valuation purposes, the retirement patterns of deferred vested members is often not important because retirement at earlier ages often lead to a reduced benefit that is approximately actuarially equivalent. For OPEB purposes, however, earlier commencement has a definite cost impact since it represents more years of medical coverage. Consequently, Milliman develops an assumption for OPEB purposes that is more refined than the assumption used in their pension valuation. Although the actuarial liability attributable to the deferred vested members is not significant, we still believe this additional analysis is appropriate.

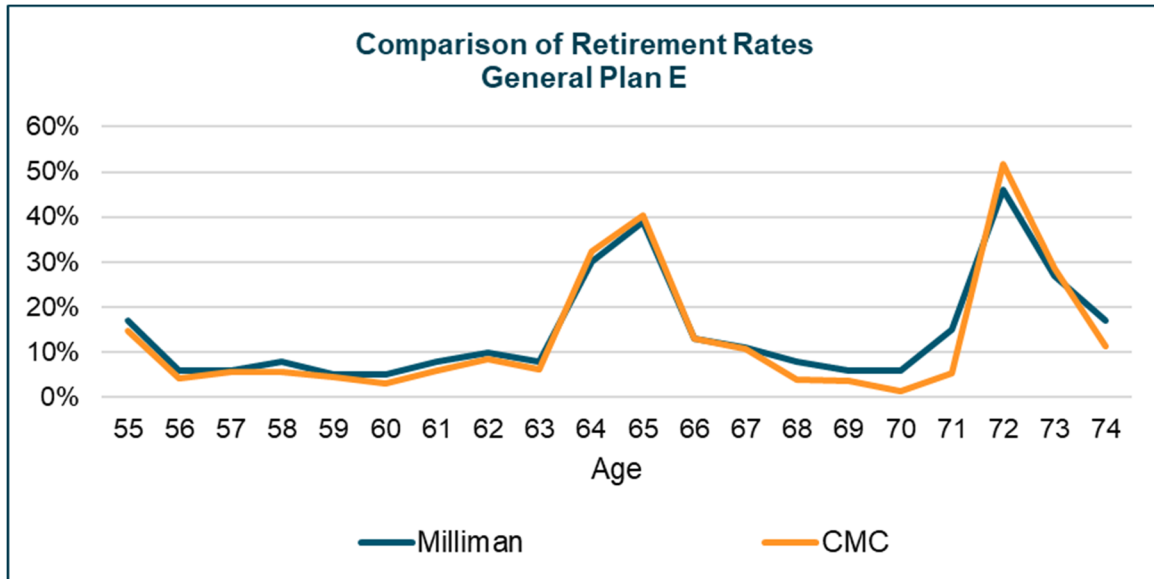
CavMac independently developed the percentages of members with deferred vested pension benefits under General Plans A, B, C, D, and G who will retire at a given age based on experience during the period from June 30, 2020 to June 30, 2023. Milliman used two additional years of data, so we would expect there to be some differences in our results. The general concurrence of the two sets of results further strengthens our confidence in the resulting conclusion, because the possible influence of some unusual year is significantly reduced by not using all of the same years. The following graph compares the results of our analyses with those proposed in Exhibit 5–1 of the 2023 Investigation of OPEB Program Experience Report.



## SECTION 4 – OTHER ELECTION ASSUMPTIONS



CavMac independently developed the percentages of members with deferred vested pension benefits under General Plan E who will retire at a given age based on experience during the period from June 30, 2020 to June 30, 2023. Milliman used two additional years of data, so we would expect there to be some differences in our results. The general concurrence of the two sets of results further strengthens our confidence in the resulting conclusion, because the possible influence of some unusual year is significantly reduced by not using all of the same years. The following graph compares the results of our analyses with those proposed in Exhibit 5–2 of the 2023 Investigation of OPEB Program Experience Report.



The total number of members with deferred vested pension benefits under Safety Plans A, B, and C shown in Exhibit 5-3 are low relative to the other Plan groups (112 total actual retirement observations over five years). As a result, CavMac did not independently develop rates of retirement for these members.



## SECTION 4 – OTHER ELECTION ASSUMPTIONS



### ANALYSIS OF DIFFERENCES IN MEMBER AGES AND AGES OF ENROLLED SPOUSES

CavMac replicated the average differences in member ages and the ages of enrolled spouses based on the experience of unique retired members who were enrolled in a medical or dental plan as of July 1, 2021, 2022, or 2023, and who had a spouse indicator and a valid spouse date of birth on his or her record. Our method and criteria missed a limited number of individuals who Milliman observed, but the differences are small, and the conclusions are unchanged.

The following table summarizes the results:

Actual Experience	Male Retirees		Female Retirees	
	Number	Average Age Difference in Years (Males Older Than Females)	Number	Average Age Difference in Years (Males Older Than Females)
CavMac — All Retirees	18,019	4.1	10,599	1.4
CavMac — Recent Retirees	4,273	3.3	3,358	1.6
Milliman — All Retirees	18,316	4.1	10,780	1.4
Milliman — Recent Retirees	4,429	3.2	3,472	1.6

As shown in the table above, the average age differences we produced are consistent with the results contained in Section 6 of the 2023 Investigation of OPEB Program Experience Report.

We note that the proposed assumptions concerning the average difference in male member ages and the ages of enrolled spouses provided in the 2023 Investigation of OPEB Program Experience Report are different from the assumptions used in the 2023 Retirement Plan Actuarial Valuation, while the assumption for females is the same. These age differences are not necessarily expected to be the same. In the pension study, the difference is 3 years, consistent with the more recent experience in the OPEB plan. If a similar difference in all retirees and recent retirees continues to be seen in the 2026 Investigation of OPEB Program Experience, we would suggest adjusting the forward-looking assumption to 3 years.



## SECTION 4 – OTHER ELECTION ASSUMPTIONS



### ANALYSIS OF MEDICARE ENROLLMENT FOR ANTHEM BLUE CROSS I, II, AND PRUDENT BUYER PLANS

Section 6 of the 2023 Investigation of OPEB Program Experience Report contains the following description of the Medicare enrollment assumptions for members who are enrolled in Anthem Blue Cross I, II, and Prudent Buyer Plans:

*“Our July 1, 2022 OPEB valuation assumed that members in Blue Cross I, II, and Prudent Buyer were not eligible for Medicare Part B premium reimbursement. We checked the validity of this assumption based on July 1, 2021, 2022, and 2023 enrollment information. Medicare Part A information from LACERA for both inactives and actives was incomplete, so we relied on the Medicare Part B indicator. There were not any members in the Blue Cross I, II, and Prudent Buyer plans who were in Medicare Part B. We recommend continuing with the current assumption for Tier 1. We will assume Tier 2 members will enroll in Medicare Parts A and B.”*

CavMac reviewed the OPEB Program census data and agrees that records for members who are age 65 or older and enrolled in Anthem Blue Cross I, II, and Prudent Buyer Plans do not contain Medicare Part B premium amounts.

### ANALYSIS OF SURVIVOR AND NEW DEPENDENT ENROLLMENT ASSUMPTIONS

Milliman is proposing that these provisions be modeled with a load rather than trying to precisely reflect the provisions. We agree that the complexity involved in trying to model these provisions is very complex using most valuation software, and that the proposed change with simplify the actuarial valuation process without any significant impact. We find Milliman’s proposed loads to be reasonable.



## SECTION 5 – ECONOMIC ASSUMPTIONS



### INFLATION

The inflation assumption is a component of both the investment return assumption and the health cost trend rate development. For consistency with the pension assumptions developed last year, Milliman uses the same 2.75% inflation assumption and points to the pension study for justification. We do not find 2.75% unreasonable. While inflation the past few years has been higher, forward-looking market indicators and many experts anticipate inflation returning to the lower rates observed for most of the past three decades.

Milliman also recommends using the pension assumption of 3.25% for wage inflation. We believe this is reasonable and consistent.

### INVESTMENT RETURN

ASOP 6 and ASOP 27 provide actuaries with guidance on selecting an investment return that included considering the purpose of the measurement. With the adoption of an agent employer approach, the OPEB Program has two groups of employers – those who are prefunding, and those who are not (at least to any significant degree). As a result, there are two different investment return assumptions needed - one for the employers who prefund these benefits and one for the employers who do not.

For the funded plans, the investment return assumption is an estimation of what the invested funds are expected to earn over time. The expected earnings are largely dependent upon the way in which the portfolio is allocated across asset classes, and so the usual approach to developing this assumption is to consider the capital market assumptions applicable to the asset classes involved. Milliman follows this general approach.

In performing their analysis, Milliman considered capital market assumptions from Meketa, LACERA's investment consultant, as well as from the Horizon survey and from Milliman's internal resources. Because of some of the recent volatility in capital market assumptions, Milliman averaged the assumptions across the most recent three years available from each source. This analysis was performed with both a 10-year and 20-year time horizon. We believe that Milliman's approach of considering multiple sets of investment experts as well as two different time frames is reasonable and provides greater confidence when approaching such a significant assumption.

Finally, Milliman comments on how they consider the impact of differing inflation assumptions as well as the recognition of certain investment expenses that should be reflected and recommend the use of a 6.25% investment return assumption, an increase from the current assumption of 6.00%. We believe this is a reasonable assumption and is developed using appropriate considerations. Of course, there are other reasonable assumptions which could have been chosen, but we are very comfortable with Milliman's recommendation.



## SECTION 5 – ECONOMIC ASSUMPTIONS



We also reviewed Milliman’s analysis of the expected return for the unfunded plans. In this case, Milliman recommends using the expected return of the general (cash) account held by the County, which is generally considered a reasonable approach. Based on the general proportions of cash and short-term Treasuries that this account holds, Milliman recommends the use of a 3.50% rate. While this recommendation is based primarily on short-term analysis, we believe that it is appropriate for the situations in which this assumption is needed. We find this analysis reasonable.

We do note that for accounting purposes under Governmental Accounting Standards Board Statements 74 and 75, the effective rate used may be a blend of this long-term rate and a current bond index rate, as required in those standards.

### LONG-TERM HEALTH CARE COST TREND RATES

Annual per capita health care claims costs are expected to increase in future years as a result of medical inflation, utilization, leverage in the plan design, and improvements in technology adjusted for any implicit and/or explicit cost containment features. Long-term health care trend rates are typically used to reflect an assumed pattern of annual increases in expected health care claims costs and contributions (if applicable) during each period subsequent to the measurement date. ASOP 6 provides specific guidance concerning the selection of long-term health care cost rates for the purpose of measuring retiree group benefit plan obligations or establishing actuarially determined contribution amounts for these plans.

CavMac reviewed the proposed long-term medical cost trend rates (Medical Trend Rates) provided in the 2023 Investigation of OPEB Program Experience Report. Milliman selected Medical Trend Rates based on the Society of Actuaries (SOA) Long Term Healthcare Cost Trends Model, which is often referred to as the “Getzen Model” because it was originally developed by Professor Thomas E. Getzen for the SOA. We note that one common criticism of the Getzen Model is that it generates a longer transition period from short-term trend rates to ultimate trend rates when compared to transition periods produced by other models. However, with more recent assumptions and the rates proposed by Milliman, the model converges much more quickly to an ultimate trend rate than in prior years. Although slightly different from our typical methodology, we find the rates proposed by Milliman to be reasonable and technically sound.

Our understanding is that Milliman has modified the Getzen Model to reflect:

- An offset to correct the implicit aging of the population—an artifact of the Getzen Model development process—included in trend rates as required under Section 3.12.1(a) of ASOP 6;
- An adjustment equal to the expected long-term rate of inflation plus 0.75% to reflect future changes in carrier administrative costs as recommended under Section 3.12.1(a) of ASOP 6,
- Adjustments, if needed, to produce trend rates that are rounded to the nearest 0.1%.





## SECTION 5 – ECONOMIC ASSUMPTIONS



CavMac believes that the modifications outlined above are reasonable for the purposes stated herein.

The Getzen Model produces short-term, intermediate-term, and long-term rates based on various inputs provided by the user. Milliman selected the following inputs to calibrate the Getzen Model for the OPEB Program:

- **Initial Trend**—These trend rates are based on review of the July 1, 2023 annual medical and dental plan rate renewals and summaries provided by Segal, LACERA’s health care consultant, taking into account drug percentage of total, approximate annual premiums, and plan type.
- **2033 GDP Percentage Share**—The assumed percentage of the Gross Domestic Product dedicated to health care costs. Based on guidance from the Centers for Medicare and Medicaid Services (CMS), Milliman selected the recommended value to be 19.0%.
- **Inflation Rate**—Milliman selected a 2.75% inflation assumption, which is consistent with the expected long-term rate of inflation.
- **Real GDP Per Capita Growth**—The expected growth in Real GDP during future periods. Milliman used information from the Congressional Budget Office to select a 1.40% per year growth in Real GDP.
- **Excess Medical Cost Growth**—The ratio of expected increases in health care expenditures over expected increases in income and wages. Milliman selected a 0.90% rate based on SOA research.
- **GDP Resistance Point and Limit Year**—The projected health share of GDP percentage where additional increases in costs meet resistance and the year in which this limit is expected to be reached. Milliman selected the 17.0% recommended value for the GDP Resistance Point, and 2075 for the GDP Limit Year, based on SOA research.

The values listed above for the parameters used in the Getzen Model are all within ranges produced and accepted by researchers, forecasters, government officials, and other interested parties, and appear to meet the criteria outlined in Section 3.6 of ASOP 27, as well as the requirements in Section 3.12.5 of ASOP 6, concerning the selection of reasonable assumptions. As a result, CavMac believes that the inputs selected by Milliman for the purposes of calibrating the Getzen Model for the OPEB Program are reasonable. Overall, CavMac did not uncover any concerns with the parameters or modifications employed by Milliman in their use of the Getzen Model, and we have determined that the Getzen Model described above is an acceptable basis for the selection of long-term medical cost trend rates for the OPEB Program.



## SECTION 5 – ECONOMIC ASSUMPTIONS



CavMac would like to note that long-term health care cost trends can be impacted by events such as the COVID-19 pandemic (for which long-term data is still developing) and by Federal legislation such as the Affordable Care Act (ACA) and the Inflation Reduction Act (IRA). Under the IRA in particular, Medicare Part D plan design will change dramatically in 2025 and price negotiations for Medicare Part D drugs will begin in 2026, suggesting modifications to the medical trend for post-65 members may be needed. Modifications to both pre-65 and post-65 trends have already been seen due to COVID and the ACA. We would therefore suggest possibly including additional language in the experience study report and the valuation reports mentioning these concerns and the fact that the trend assumption will be monitored as information emerges.

CavMac also reviewed the proposed long-term dental / vision cost trend rates provided in the 2023 Investigation of OPEB Program Experience Report. Milliman selected a 4.25% underlying dental and vision trend rate, which was developed based on the expected long-term rate of inflation (2.75%) plus 1.50%. As required under Section 3.12 of ASOP 27, these parameters are consistent with the values selected for similar inputs used in the development of long-term medical cost trend rates. CavMac believes that the inputs selected by Milliman for the purposes of developing the 4.25% underlying dental / vision trend rate are reasonable.

### MEDICARE PART B PREMIUM TREND RATES

CavMac reviewed the proposed Medicare Part B premium trend rates contained in Exhibit 7–6 in Milliman’s report. The proposed Medicare Part B premium trend rates initially start at 11.20% and grade down to an ultimate rate equal to 4.10%. Milliman established the Medicare Part B premium trend assumption to be consistent with projections from CMS. We find their proposed trend rates reasonable.



## SECTION 6 – EXPERIENCE REPORT REVIEW AND CONCLUSIONS



**In general, we find Milliman’s work to be accurate and complete, and we have not identified any material findings.**

We have no findings of material discrepancies with generally accepted actuarial principles or professional standards, and our recommendations are limited to suggesting minor improvements to the OPEB Program Experience Study process. We have summarized our recommendations for future experience studies:

- In our report, we identified some areas in which we believe there could be some simplification of assumptions. We recognize that there may be valid reasons for the more complex assumptions, and do not disagree with those assumptions. However, some simplification could be made with only a very minor change in results.
- In our opinion, it is helpful to add some commentary as to the rationale in changing assumptions. This helps provide documentation of the thought process behind the recommended changes. While Milliman does this to some extent, we would suggest they expand this discussion. This is a preference issue, of course, and we recognize that each firm and consultant have personal styles, and that the client’s wishes are also a significant consideration.
- We believe that it could be useful for Milliman to consider using a headcount-based mortality table for the OPEB work rather than the benefit amount-based tables used in the pension work. For pension benefits, the mortality tables reflect that those with larger benefits tend to live longer. The nature of LACERA’s OPEB benefits are such that there is some indirect correlation between the size of the pension benefit and the amount of insurance subsidy, so this is not a simple decision. We would suggest the possibility be studied over the next three years.
- We believe more commentary could be included in the experience study and valuation reports regarding:
  - the amortization method and funding methodology,
  - potential considerations regarding the COVID-19 pandemic and Federal legislation impact on health care costs and trend, and
  - the origin of the morbidity factors used in the calculation of the age-based claims costs.

As part of the actuarial review of the 2023 OPEB Program Actuarial Valuation Report scheduled for later this year, we will be reviewing Milliman’s valuation process and confirming the valuation results. As part of that project, we will be reviewing the reasonableness of Milliman’s estimated cost impact of the proposed assumption changes. While we are not able to fully quantify the changes at this point, we believe the changes are reasonable in light of general actuarial rules of thumb and our experience with other OPEB plans.

