

DRAFT



County of Napa

**Retiree Healthcare Plan
Actuarial Valuation
January 1, 2006**

March 2007

Actuarial Valuation Certification

This report presents the January 1, 2006 actuarial valuation for the County of Napa Retiree Healthcare Plan ("Plan"). The purpose of this valuation is to:

- determine the Plan benefit obligations as of January 1, 2006 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45),
- calculate the County's 2007/08 fiscal year Annual Required Contribution for the Plan assuming GASB 45 is adopted for the 2007/08 fiscal year and pre-funded through CalPERS.

This report includes the following sections:

- Section 1 presents an executive summary of the GASB 45 valuation results.
- Section 2 provides financial accounting information, including the Annual Required Contribution and the January 1, 2006 benefit obligation.
- Section 3 provides the results of the actuarial valuation.
- Sections 4, 5, and 6 summarize the census data, Plan provisions, and actuarial assumptions that form the basis for this valuation.
- Section 7 includes a summary of GASB 45.

This report presents our best estimate of the County of Napa Retiree Healthcare Plan liabilities and costs in accordance with accepted actuarial principles and our understanding of GASB 45.

The undersigned are members of the American Academy of Actuaries and meet the Academy Qualification Standards to render the actuarial results and opinions in this report. The healthcare claims analysis for this valuation was performed by a collaborating qualified healthcare actuary.

Respectfully submitted,

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March 16, 2007

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Acronyms used in this report

Actuarial/Accounting Terminology

- AAL – Actuarial Accrued Liability
- AOC – Annual OPEB Cost
- ARC – Annual Required Contribution
- EAN – Entry Age Normal Cost Method
- GASB 45 – Governmental Accounting Standards Board Statement No. 45
- NOO – Net OPEB Obligation
- OPEB – Other (than pensions) Post Employment Benefits
- PVPB – Present Value of Projected Benefits
- UAAL – Unfunded Actuarial Accrued Liability

Bargaining Groups

- DSA – Deputy Sheriff Association
- LE Supervisory – Law Enforcement Supervisory Unit
- Confidential – Management Confidential Unit
- Classified - Management Classified Unit
- Non Classified – Management Non-Classified
- PSE – Public Services Employee Unit
- PSE Supervisory - Public Services Employee Supervisory Unit
- Courts – Superior Court of California, County of Napa

SECTION 1

EXECUTIVE SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), Accounting Standards for Other (than Pensions) Post Employment Benefits (OPEB). The information presented in this report is based on the financial reporting standards established under GASB 45.

GASB 45 is phased in similar to GASB 34. For Phase 1 governments, GASB 45 is effective for fiscal years beginning after December 15, 2006. GASB 45 is therefore first effective for the County of Napa for the fiscal year beginning on July 1, 2007.

The County of Napa provides retiree healthcare benefits to employees retiring directly from the County. Medical coverage is provided through CalPERS Healthcare (PEHMCA) and a separate County Kaiser plan. The County allows all employees to apply unused sick leave at retirement (at least 120 hours) toward the healthcare premium. Management and Public Service employees with 20 years of service are eligible to get single medical premium (based on the County's Kaiser \$5 co-pay plan) up to age 65 as an option. The County also pays lifetime benefits to Non-Classified employees and Elected Officials with 8 years of County service.

Highlights and conclusions of this actuarial valuation are:

- The County currently funds retiree healthcare benefits on a pay-as-you-go basis. Benefit payments in 2006/07 and 2007/08 are expected to be \$1.5 million and \$1.8 million, respectively (1.9% and 2.1% of payroll, respectively).
- The County will pre-fund the retiree healthcare benefits through CalPERS for the fiscal year 2007/08. The 2007/08 ARC is \$5.9 million and was determined by amortizing the projected June 30, 2007 Unfunded Actuarial Accrued Liability over a 14-year period.
- The County has determined to make approximately \$5.9 million contribution for the fiscal year 2007/08. Therefore, there will be no the Net OPEB Obligation at June 30, 2008.
- The County had a January 1, 2006 Retiree Healthcare Unfunded Actuarial Accrued Liability (UAAL) of \$34.2 million and a June 30, 2007 projected UAAL of \$38.8 million assuming a 7.75% rate of return. This rate reflects CalPERS expected long term investment return.
- Total Present Value of all expected Projected Benefits (PVPB) is a measure of the total liability or obligation for benefits due to past and future service for current employees and retirees. The January 1, 2006 Present Value of Projected Benefits for current employees and retirees is \$49.4 million.

The January 1, 2006 benefit obligations and 2007/08 plan cost are as follows using 7.75% discount rate assuming the County will pre-fund through CalPERS (000s omitted):

SECTION 1

EXECUTIVE SUMMARY

January 1, 2006

■ **Present Value of Projected Benefits (PVPB)**

\$49,424

Total present value of all expected future benefits calculated using selected actuarial assumptions. The PVPB is a measure of the total liability or obligation for benefits due to past and future service for current employees and retirees.

■ **Actuarial Accrued Liability (AAL)**

\$ 34,217

Liability or obligation for benefits earned or allocated to past service at the valuation date.

■ **Plan Assets**

0

Assets that have been segregated and restricted in a trust so that they can only be used to pay Plan benefits.

■ **Unfunded Actuarial Accrued Liability (UAAL)**

34,217

The excess of the AAL over the Plan Assets. This represents the amount of the liability earned at the valuation date that must still be funded. If Plan Assets exceed the AAL, there will be a Plan Surplus.

2007/08 Plan Cost

■ **Normal Cost (NC)**

\$1,981

The value of employer promised benefits expected to be earned or allocated to the current fiscal year.

■ **Annual Required Contribution (ARC)**

5,858

NC plus a 14-year level percent of pay amortization of the UAAL (or less an amortization of excess assets).

■ **Annual OPEB Cost (AOC)**

5,858

The first year that the County complies with GASB 45, the AOC will equal the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and actual contributions.

■ **Net OPEB Obligation (NOO)**

0

The July 1, 2007 NOO is the historical difference between the ARC and actual Plan contributions.

■ **Expected Benefit Payments**

1,778

Cash flow expected for the current year for County promised retiree healthcare benefits. It includes payments for current retirees and active employees expected to retire during the year.

SECTION 2

ACCOUNTING INFORMATION

GASB 45 is effective for the County for its 2007/08 fiscal year. We have performed a January 1, 2006 actuarial valuation and calculated the fiscal year 2007/08 ARC. The June 30, 2007 Unfunded Actuarial Accrued Liability was based on an actuarial roll-forward of the January 1, 2006 valuation results assuming no demographic and contribution gains/losses. Gains/losses will be reflected in the County's next valuation. The 2007/08 ARC, AOC, and the estimated June 30, 2008 NOO are as follows.

Annual Required Contribution (ARC)

GASB 45 does not require an agency to make up any shortfall (unfunded liability) immediately nor does it allow an immediate credit for any excess assets. Instead, the difference is amortized over time. Simply put, the ARC is the value of benefits earned during the year plus an amount to put the Plan on track for funding. The 2007/08 ARC is approximately \$5.9 million, based on a 14-year UAAL amortization:

	<u>Total</u>
■ Normal Cost	\$1,981
■ UAAL Amortization	<u>3,877</u>
■ Total 2007/08 ARC	5,858
■ ARC as % of Payroll	7.0%
■ Projected 2007/08 Payroll	83,322

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the County has a NOO at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The County's June 30, 2007 AOC is determined as follows (000s omitted):

	<u>Total</u>
■ 2007/08 ARC	\$5,858
■ Interest on NOO	0
■ Amortization of NOO	<u>0</u>
■ Total AOC	5,858
■ AOC as % of Payroll	7.0%

Net OPEB Obligation (NOO)

The NOO is the historical difference between the ARC and actual contributions. If the County always contributes the ARC, then the NOO will always equal zero. Benefit payments are considered contributions. Contributions in excess of benefit payments must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for purposes of GASB 45.

SECTION 2

ACCOUNTING INFORMATION

Based on the AOC developed above, the projected June 30, 2008 NOO is (000s omitted):

	<u>Total</u>
■ June 30, 2007 NOO ¹	\$ 0
■ 2007/08 AOC	5,858
■ Expected 2007/08 Contribution	<u>(5,858)</u>
■ Expected June 30, 2008 NOO	0

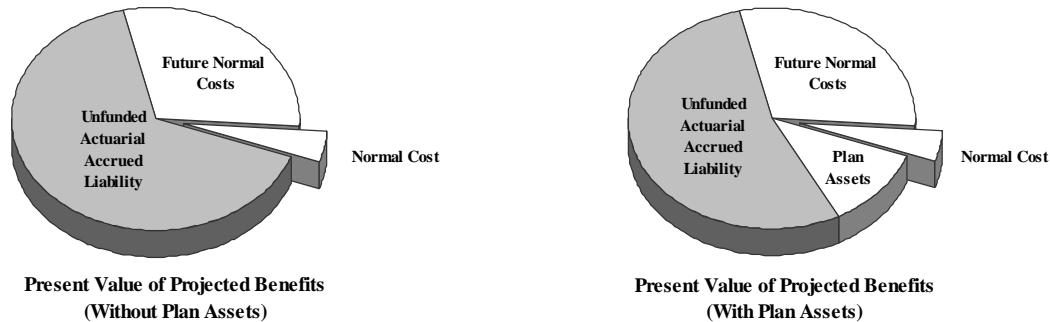
¹ Assumes the June 30, 2007 Net OPEB Obligation is zero.

SECTION 3

ACTUARIAL VALUATION RESULTS

Actuarial Obligations

The valuation develops the Actuarial Accrued Liability and the Normal Cost using the Entry Age Normal actuarial cost method. This method is designed to produce a Normal Cost which, if all assumptions are met, will be a level percent of payroll. The following chart illustrates the Present Value of Projected Benefits, with the shaded area representing the Unfunded Actuarial Accrued Liability.



- The **Present Value of Projected Benefits (PVPB)** is the value of all expected future benefits for current employees and retirees as of the valuation date calculated using the selected actuarial assumptions.
- The **Actuarial Accrued Liability (AAL)** is the liability for benefits earned through the valuation date calculated using the selected actuarial methods and assumptions.
- **Plan Assets** must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for GASB 45.
- The **Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AAL and the Plan Assets.
- The **Normal Cost** is the value of benefits expected to be earned during or allocated to the current fiscal year.
- **Expected Benefit Payments** is the cash flow expected for the current year for County promised retiree healthcare benefits. It includes payments for current retirees and active employees expected to retire during the year.
- The **Annual Required Contribution** is the employer NC plus the amortized UAAL (or less the amortized excess assets.) For the County's valuation, the UAAL is amortized over 14 years as a level percent of pay.
- GASB45 requires that the **Implied Subsidy** for retirees be included in the AAL and the ARC for plans that are not community rated. An Implied Subsidy exists when the premium for a group of employees is determined by aggregating the experience of the group. For example, assume the premium for actives and non-Medicare eligible retirees is \$600 per month. The underlying medical cost varies by age and gender and might actually be \$300 per month for a 40 year-old active employee and \$900 per month for a 60 year-old retiree. In this case, the younger employee is subsidizing \$300 of the older employee's cost. An Implied Subsidy is valued for the County's

SECTION 3

ACTUARIAL VALUATION RESULTS

Kaiser \$5 plan but not the PEMHCA² plans as the PEMHCA plans are considered a community rated for the County.

² CalPERS Medical program is commonly referred to using the acronym for the California Government Code Section which created it: Public Employees Medical and Healthcare Act (PEMHCA).

SECTION 3
ACTUARIAL VALUATION RESULTS

Actuarial Obligations

7.75% Discount Rate

(000s omitted)

	<u>January 1, 2006</u>
■ Present Value of Projected Benefits	
• Actives	\$37,818
• Retirees	<u>11,606</u>
• Total	49,424
■ Actuarial Accrued Liability	
• Actives	22,611
• Retirees	<u>11,606</u>
• Total	34,217
■ Plan Assets	<u>0</u>
■ Unfunded AAL	34,217
■ Expected 2006/07 Benefit Payments	1,535
■ Total 2006/07 Payroll	80,700

The Actuarial Accrued Liability is then roll-forwarded from January 1, 2006 to June 30, 2007 in order to determine the 2007/08 ARC.

	<u>June 30, 2007</u>
■ Expected Actuarial Accrued Liability	\$38,818
■ Plan Assets	<u>0</u>
■ Unfunded AAL	38,818
■ Expected 2007/08 Benefit Payments	1,778
■ Total Projected 2007/08 Payroll	83,322

SECTION 3
ACTUARIAL VALUATION RESULTS

Annual Required Contribution (ARC)

2007/08 Fiscal Year

7.75% Discount Rate

(000s omitted)

	<u>Fiscal Year 2007/08</u>
■ ARC - \$	
• Normal Cost	\$1,981
• UAAL Amortization ³	<u>3,877</u>
• Total	5,858
■ ARC - % of Payroll	
• Normal Cost	2.4%
• UAAL Amortization	<u>4.7%</u>
• Total	7.0%
■ Total Projected 2007/08 Payroll	83,322

³ UAAL amortized as a level percentage of payroll over 14 years

SECTION 4 DEMOGRAPHIC INFORMATION

Participant Statistics

Active

	<u>Law Enforcement</u>		<u>Management</u>			<u>Public Service</u>			
	<u>DSA</u>	<u>LE-Supv</u>	<u>Conf</u>	<u>Classified</u>	<u>NC</u>	<u>PSE</u>	<u>Supv</u>	<u>Courts</u> ⁴	<u>Total</u>
■ Count	70	14	20	123	23	841	103	100	1,294
■ Average age	37.7	43.8	49.0	48.6	54.5	44.1	49.6	44.9	45.0
■ Average service	8.5	14.8	7.9	10.7	13.7	8.1	13.2	8.6	9.0
■ Average 2006/07 PERS Wages ⁵	\$88,175	\$108,719	\$50,391	\$107,349	\$138,707	\$57,043	\$74,088	n/a	\$67,588
■ 2006/07 PERS Payroll (000's)	\$6,172	\$1,522	\$1,008	\$13,204	\$3,190	\$47,973	\$7,631	n/a	\$80,700
■ Unused Sick Leave Hours									
• Total (000's)	35	13	6	73	9	207	51	19	413
• Average	504	926	290	591	406	246	495	185	319

⁴ The County is responsible for service prior to 1/1/2001 for future Courts retirees and current Courts retirees retired after 1/1/2001. The Courts is not included in the County payroll.

⁵ Adjusted annualized PERS wages

SECTION 4
DEMOGRAPHIC INFORMATION

Participant Statistics

Retiree

	<u>Law Enforcement</u>		<u>Management</u>			<u>Public Service</u>			
	<u>DSA</u>	<u>LE-Supv</u>	<u>Conf</u>	<u>Classified</u>	<u>NC</u>	<u>PSE</u>	<u>Supv</u>	<u>Courts</u>	<u>Total</u>
■ Service Retired									
• Count	13	-	3	45	35	167	30	21	314
• Average Age	60.5	-	61.2	64.7	68.8	66.9	65.9	62.5	66.1
• Average Retirement Age	56.1	-	59.2	58.4	59.6	60.8	60.7	58.9	60.1
■ Disable Retired									
• Count	5	-	-	1	-	1	1	-	8
• Average Age	56.4	-	-	59.0	-	49.6	57.0	-	55.9
• Average Retirement Age	53.5	-	-	58.8	-	-	-	-	54.4
■ Vested Terms									
• Count	-	-	-	-	3	-	-	-	3
• Average Age	-	-	-	-	52.0	-	-	-	52.0

SECTION 4
DEMOGRAPHIC INFORMATION

Medical Coverage

Active Employee

Plan	Single	2 Party	Family	Total
County KAISER \$5	116	100	137	353
PERS BLUE SHIELD	91	66	125	282
PERS KAISER	149	112	188	449
PERS CARE	2	-	-	2
PERS CHOICE	16	21	14	51
PERS PORAC	-	-	1	1
PERS WHA	-	1	-	1
Waived	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>155</u>
Total	374	300	465	1,294

Retiree

Plan	Single	2 Party	Family	Total
County KAISER \$5	84	53	1	138
PERS BLUE SHIELD	23	15	6	44
PERS KAISER	27	11	2	40
PERS CARE	5	11	2	18
PERS CHOICE	35	19	1	55
PERS PORAC	2	-	1	3
Vested Term	N/A	N/A	N/A	3
Dental & Vision Only	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>24</u>
Total	176	109	13	325

SECTION 4
DEMOGRAPHIC INFORMATION

Dental Coverage

Active Employee

Plan	Single	2 Party	Family	Total
Delta Dental	101	117	948	1,166
Pacific Union	8	4	38	50
Waived	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>78</u>
Total	109	121	986	1,294

Retiree

Plan	Single	2 Party	Family	Total
Delta Dental	10	67	5	82
Vested Term	N/A	N/A	N/A	3
Waived	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>240</u>
Total	10	67	5	325

SECTION 4
DEMOGRAPHIC INFORMATION

Vision Coverage

Active Employee

Plan	Single	2 Party	Family	Total
Vision	208	180	248	636
Waived	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>658</u>
Total	208	180	248	1,294

Retiree

Plan	Single	2 Party	Family	Total
Vision	23	36	6	65
Vested Term	N/A	N/A	N/A	3
Waived	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>257</u>
Total	23	36	6	325

SECTION 4
DEMOGRAPHIC INFORMATION

Active Employees – Law Enforcement
Age/Service/Distribution

Age	Service							
	Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	1	-	-	-	-	-	-	1
25-29	2	6	2	-	-	-	-	10
30-34	1	6	7	-	-	-	-	14
35-39	-	7	9	6	2	-	-	24
40-44	-	2	2	4	8	1	-	17
45-49	-	-	5	1	5	3	-	14
50-54	-	1	-	1	-	-	-	2
55-59	-	-	1	-	-	-	1	2
60-64	-	-	-	-	-	-	-	-
65 & over	-	-	-	-	-	-	-	-
Total	4	22	26	12	15	4	1	84

Active Employees – Management
Age/Service/Distribution

Age	Service							
	Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	-	-	-	-	-	-	-	-
25-29	-	2	-	-	-	-	-	2
30-34	2	2	2	1	-	-	-	7
35-39	1	6	4	2	1	-	-	14
40-44	3	7	11	3	4	1	-	29
45-49	3	5	8	2	1	6	-	25
50-54	3	7	10	4	11	8	5	48
55-59	3	3	6	4	4	2	3	25
60-64	-	2	4	-	5	1	1	13
65 & over	-	1	2	-	-	-	-	3
Total	15	35	47	16	26	18	9	166

SECTION 4
DEMOGRAPHIC INFORMATION

Active Employees – Public Service
Age/Service/Distribution

Age	Service							Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	
Under 25	16	8	2	-	-	-	-	26
25-29	17	54	11	-	-	-	-	82
30-34	19	48	36	4	-	-	-	107
35-39	16	36	48	16	4	-	-	120
40-44	16	33	36	27	13	3	-	128
45-49	10	33	40	28	25	12	3	151
50-54	6	24	35	24	31	13	11	144
55-59	2	25	23	18	19	16	9	112
60-64	1	10	14	8	14	2	6	55
65 & over	1	3	3	1	4	4	3	19
Total	104	274	248	126	110	50	32	944

Active Employees – Courts
Age/Service/Distribution

Age	Service							Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	
Under 25	-	1	-	-	-	-	-	1
25-29	2	2	3	-	-	-	-	7
30-34	3	3	1	1	-	-	-	8
35-39	1	1	7	3	4	-	-	16
40-44	2	3	7	2	2	2	-	18
45-49	2	4	5	2	2	2	1	18
50-54	1	4	4	2	3	1	1	16
55-59	1	4	1	2	1	3	-	12
60-64	-	3	1	-	-	-	-	4
65 & over	-	-	-	-	-	-	-	-
Total	12	25	29	12	12	8	2	100

SECTION 4
DEMOGRAPHIC INFORMATION

Active Employees – Total
Age/Service Distribution

Age	Service							
	Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	17	9	2	-	-	-	-	28
25-29	21	64	16	-	-	-	-	101
30-34	25	59	46	6	-	-	-	136
35-39	18	50	68	27	11	-	-	174
40-44	21	45	56	36	27	7	-	192
45-49	15	42	58	33	33	23	4	208
50-54	10	36	49	31	45	22	17	210
55-59	6	32	31	24	24	21	13	151
60-64	1	15	19	8	19	3	7	72
65 & over	1	4	5	1	4	4	3	22
Total	135	356	350	166	163	80	44	1,294

SECTION 5
PLAN PROVISIONS

Benefit Summary

Sick Leave Conversion			
■ Eligibility	<ul style="list-style-type: none"> • Retire directly from the County, except extra helps and elected officials • Minimum 120 hours unused sick leave • One time choice at retirement • Can not be banked to a later date 		
■ Sick Leave Conversion	Law Enforcement	Management⁶	Public Service⁷
	<ul style="list-style-type: none"> • 8 hrs/month – EE • 16 hrs/month – EE+1 • Max – 1,800 hrs 	<ul style="list-style-type: none"> • 8 hrs/month – EE • 16 hrs/month – EE+1 • Max – 1,800 hrs 	<ul style="list-style-type: none"> • 8 hrs/month – EE • Max – 1,248 hrs
	<ul style="list-style-type: none"> • Apply accumulated sick leave hours to medical or dental premiums (Medical premium based on County Kaiser \$5 plan) • No surviving spouse benefit 		
■ Sick Leave Accrual	• 96 hours/year	• 96 hours/year	• 96 hours/year

Long Term Service and Other Benefits			
	Law Enforcement	Management	Public Service
■ Long-Term Service Conversion	• n/a	<ul style="list-style-type: none"> • Retire directly from the County, except extra helps • 50&20 • County pays single party medical premium until age 65 • Premium based on County Kaiser \$5 plan 	
■ Lifetime Benefit	• n/a	<ul style="list-style-type: none"> • Non-classified only • Includes elected officials • 8 years County service • 5+ years Non-Classified • County pays 	• n/a

⁶ Includes Confidential, classified, non-classified and Courts employees in the same classification

⁷ Includes Courts employees in the same classification

SECTION 5
PLAN PROVISIONS

Long Term Service and Other Benefits																														
	Law Enforcement	Management	Public Service																											
		medical, dental and vision family coverage for life of retiree and spouse <ul style="list-style-type: none">Termination – Deferred benefits																												
■ PEMHCA Minimum	<ul style="list-style-type: none">Effective 2002Not eligible for above benefits and participating in PEMHCAIncluded in County paid benefitUnequal method:<table><tr><td>Year</td><td>Actives</td><td>Retirees</td></tr><tr><td>2002</td><td>\$16.00</td><td>\$10.00</td></tr><tr><td>2003</td><td>16.00</td><td>10.80</td></tr><tr><td>2004</td><td>32.20</td><td>12.41</td></tr><tr><td>2005</td><td>48.40</td><td>14.83</td></tr><tr><td>2006</td><td>64.60</td><td>18.06</td></tr><tr><td>2007</td><td>80.80</td><td>22.10</td></tr><tr><td>2008</td><td>97.00</td><td>26.95</td></tr><tr><td>2009+</td><td colspan="2">Increased by healthcare CPI</td></tr></table>			Year	Actives	Retirees	2002	\$16.00	\$10.00	2003	16.00	10.80	2004	32.20	12.41	2005	48.40	14.83	2006	64.60	18.06	2007	80.80	22.10	2008	97.00	26.95	2009+	Increased by healthcare CPI	
Year	Actives	Retirees																												
2002	\$16.00	\$10.00																												
2003	16.00	10.80																												
2004	32.20	12.41																												
2005	48.40	14.83																												
2006	64.60	18.06																												
2007	80.80	22.10																												
2008	97.00	26.95																												
2009+	Increased by healthcare CPI																													

Courts	
■ Courts	<ul style="list-style-type: none">Retired < 1/1/01 – County responsibility for retiree healthcare benefitsHired < 1/1/01 – County share based on service as of 1/1/01Hired > 1/1/01 – Not County responsibility

SECTION 5
PLAN PROVISIONS

2006 Medical Monthly Premiums

Active & Non-Medicare Eligible Retiree

Plan	EE	EE+1	Family
Blue Shield	\$425.50	\$851.00	\$1, 016.30
Kaiser	389.38	778.76	1,012.39
PERS Choice	404.59	809.18	1,051.93
PERS Care	680.43	1,360.86	1,769.12
PORAC	399.00	748.00	950.00
WHA	354.07	708.14	920.58
County Kaiser \$5	423.08	846.16	1,125.40

Medicare Eligible Retiree

Plan	EE	EE+1	Family
Blue Shield	\$286.49	\$572.98	\$859.47
Kaiser	218.59	437.18	655.77
PERS Choice	322.03	644.06	966.09
PERS Care	347.20	694.40	1,041.60
PORAC	351.00	701.00	1,049.00
WHA	277.44	554.88	832.32
County Kaiser \$5	313.71	627.42	906.66

SECTION 5
PLAN PROVISIONS

2006 Dental Premiums

Monthly Composite Rates

	Law Enforcement	Management	Public Service
Delta	\$125.83	\$103.11	\$ 86.95
Pacific Union	69.74	65.82	69.74

2006 Vision Premiums

Monthly Rates

	EE	EE+1	Family
Vision	\$ 8.00	\$16.00	\$ 21.30

SECTION 6

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Normal Cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime.

The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits.

The AAL was roll-forwarded from January 1, 2006 to June 30, 2007 in order to determine the 2007/08 ARC. The unfunded AAL at June 30, 2007 is amortized over 14 years as a level percent of payroll.

The Plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the Plan exists.

Actuarial Assumptions

<p>■ Discount Rate</p> <ul style="list-style-type: none">• The County will pre-fund through CalPERS for the fiscal year 2007/08.• 7.75%, representing CalPERS investment return.
<p>■ Inflation Rate</p> <ul style="list-style-type: none">• 3.0% per annum.• Same as CalPERS assumption.
<p>■ Aggregate Payroll Increases</p> <ul style="list-style-type: none">• 3.25% per annum.• Same as CalPERS assumption.
<p>■ Salary Merit Increases</p> <ul style="list-style-type: none">• CalPERS' 1997-2002 Experience Study
<p>■ Demographic Assumptions (Mortality, Withdrawal, Disability)</p> <ul style="list-style-type: none">• CalPERS' 1997-2002 Experience Study.
<p>■ Retirement Age</p> <ul style="list-style-type: none">• CalPERS' 1997-2002 Experience Study• Miscellaneous: 2%@55• Safety: 3%@50

SECTION 6

ACTUARIAL METHODS AND ASSUMPTIONS

■ **Deferred Retirement Age for Lifetime Benefits for Non-Classified Employees**

- Age 50

■ **Healthcare Cost Increases**

<u>Year</u>	<u>HMO</u>	<u>PPO</u>
2007	11.0%	12.0%
2008	10.3%	11.3%
2009	9.6%	10.6%
↓	↓	↓
2017+	4.0%	5.0%

■ **Dental & Vision Cost Increase**

- 3.0%

■ **Participation at Retirement**

- Current covered – 100%
- Not current Covered – 90%

■ **Spouses & Dependents**

- Actives
 - Current covered - current marital status (based on coverage election)
 - Not current covered – 80% married
- Retirees – Current marital status

■ **Spouse Age**

Males 3 years older than females.

■ **Medical Plan at Retirement**

- Same as current coverage, except,
- 7.5% have family coverage at retirement
- 0% beyond age 57
- Current waived – weighted average premium

■ **Medicare Eligible**

- 100%
- Everyone eligible for Medicare will elect Part B coverage

■ **Future Sick Leave Accumulation**

- 96 hours/year

SECTION 6

ACTUARIAL METHODS AND ASSUMPTIONS

■ Future Sick Leave Usage

- 50%
- Based on 2005 actual usage

■ Benefit Coordination

- If future retirees are eligible for both Sick Leave Conversion Benefit and Long Term Service Conversion Benefit, we assume that future retirees will elect the one that the benefits will last longer.

■ Future New Participants

- Closed Group – no future new participants assumed.

■ Age Based Claim Cost for County Kaiser \$5 Plan

The following age-based monthly claim costs are used to calculate the implied subsidy for the County Kaiser \$5 plan:

<u>Age</u>	<u>Retirees</u>		<u>Spouses</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
30	\$ 199.32	\$ 352.64	\$ 216.57	\$ 383.16
35	\$ 245.31	\$ 367.97	\$ 266.55	\$ 399.82
40	\$ 260.65	\$ 413.97	\$ 283.21	\$ 449.80
45	\$ 321.97	\$ 490.63	\$ 349.84	\$ 533.09
50	\$ 413.97	\$ 490.63	\$ 449.80	\$ 533.09
55	\$ 536.62	\$ 505.96	\$ 583.07	\$ 549.75
60	\$ 674.61	\$ 551.96	\$ 733.00	\$ 599.73
65+	n/a	n/a	n/a	n/a

SECTION 7

GASB 45 SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), accounting standards for *other* (than pensions) *postemployment benefits* (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impact on County and local government financial statements. This section summarizes GASB 45.

Background

Historically, most public sector entities have accounted for OPEB using a “pay-as-you-go” approach; very few have prefunded or even accrued for these benefits. This means OPEB costs are ignored while an employee renders service and recognized only after an employee retires. GASB argues this delayed recognition shifts “costs” from one taxpaying generation to another. The GASB position is that OPEB, like pension benefits, are a form of deferred compensation. Accordingly, GASB 45 requires recognizing OPEB (in the financial statement) *as employees render service* (and consequently earn the benefit), rather than when paid.

Effective Dates

GASB 45 effective dates are phased in similar to GASB Statement No. 34:

- Fiscal years beginning after December 15, 2006 for GASB 34 phase 1 governments (total annual revenue of \$100 million or more)
- Fiscal years beginning after December 15, 2007 for GASB 34 phase 2 governments (total annual revenue of \$10 million to \$100 million)
- Fiscal years beginning after December 15, 2008 for GASB 34 phase 3 governments (total annual revenue less than \$10 million).

What Benefits are OPEB?

OPEB includes most postemployment benefits, other than pensions, that employees are entitled to after leaving employment:

- Retiree medical
- Dental
- Prescription drug
- Vision
- Life insurance
- Outside group legal
- Long-term care
- Disability benefits outside a pension plan

OPEB does not include vacation, sick leave, COBRA, or ad hoc early retirement incentives, which fall under other GASB accounting statements.

SECTION 7

GASB 45 SUMMARY

Accounting Standards

Under GASB 45, pay-as-you-go accounting is replaced with accrual accounting. This is virtually identical to GASB's approach under Statement No. 27, with the key financial statement components being an Annual Required Contribution, an Annual OPEB Cost, and a Net OPEB Obligation.

- **Annual Required Contribution (ARC):** GASB 45 doesn't require an agency to make up any shortfall (unfunded Actuarial Liability) immediately, nor does it allow an immediate credit for any excess Plan Assets. Instead, the difference is amortized over time. An agency's ARC is nothing more than the employer current Normal Cost (value of benefits being "earned" during a year), plus the amortized unfunded Actuarial Liability (or less the amortized excess Plan Assets). Simply put, ARC is the value of benefits earned during the year plus (or minus) something to move the plan toward being on track for funding. GASB 45 allows actuaries to amortize the unfunded Actuarial Liability (or excess Plan Assets) on a level dollar or level percent of payroll basis. We believe most agencies will want to use a level percent of payroll amortization because it's more consistent with the budget process and how pension contributions are usually calculated. ARC must be based on the underlying OPEB promise (as understood by the plan sponsor and employees).
- **Annual OPEB Cost (AOC):** The first year an agency complies with the new standards, the AOC equals the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and AOC.
- **Net OPEB Obligation (NOO):** An agency's NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the ARC, the NOO equals zero. However, an agency has not "made" the contribution unless it has been set aside *and* cannot legally be used for any other purpose.

Implementation Process

The implementation process will be relatively straightforward: An agency will hire an actuary to calculate the ARC. The first time an agency does this, their AOC equals their ARC. The agency then decides whether to contribute all, none, or part of the ARC into a Trust that cannot legally be used for any purpose other than paying OPEB.

If an agency always contributes the ARC, then each subsequent year's AOC equals their ARC – and the NOO is zero. The first year an agency does *not* contribute the ARC, they must establish an NOO equal to the difference between their actual contribution and the ARC. The subsequent year's AOC equals the ARC, adjusted for interest and amortization of the NOO.

Disclosure Requirements

This may be the most important aspect of GASB 45. When disclosed, some agencies will show large OPEB unfunded liabilities, while others will show small or no unfunded liabilities. These differences *may* require an adjustment in an agency's bond rating. Plan sponsors must disclose in their financial statement footnotes:

SECTION 7

GASB 45 SUMMARY

- Basic plan information
 - Plan type
 - Benefits provided
 - Authority under which benefits were established
- Plan funding/contribution policy information:
 - Required contribution rates for active members and employers shown in dollars or as a percent of payroll
- Plan Funded Status information:
 - AOC and the dollar contributions actually made
 - If the employer has a NOO, also
 - Components of the AOC
 - NOO increase or decrease during the year
 - End of year NOO
 - 3-year history of
 - AOC
 - Percent of AOC contributed during the year
 - End of year NOO
 - Most recent year's plan Funded Status
 - Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status.

In addition, plan sponsors must provide 3 years of historical required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial Liability
- Unfunded Actuarial Liability (excess Plan Assets)
- Plan funded ratio
- Annual covered payroll
- Ratio of unfunded Actuarial Liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years.

SECTION 7

GASB 45 SUMMARY

Defining the Plan

GASB 45 refers to the *substantive plan* as the basis for accounting. It may differ from the *written plan* in that it reflects the employer's cost sharing policy based on:

- Past practice or communication of intended changes to a plan's cost sharing provisions, or
- Past practice of cost increases in monetary benefits.

The substantive plan is the basis for allowing recognition of potential future plan changes. This approach requires entities to acknowledge the underlying promise, not just the written plan.

What if retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience? (This was a contentious issue during the statement drafting, with one of the seven board members dissenting from Board adoption of the final statement.) In general, GASB 45 requires recognition of the implied subsidy. However, if benefits are provided through a community rated plan (premium rates based on experience of multiple employers rather than a single employer), and the same premium is charged for active and retired participants, it is appropriate to value unadjusted premiums.

Actuarial Assumptions and Discount Rate Requirements

Under GASB 45, the actuary must follow current actuarial standards of practice, which generally call for explicit assumptions – meaning each individual assumption represents the actuary's best estimate.

GASB 45 also requires basing the discount rate on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on Plan Assets for funded plans. Since the source of funds for unfunded plans is usually an agency's general fund, unfunded plans will need to use a low (for example, 4% to 5%) discount rate. If an agency sets up a Trust and diversifies Trust Plan Assets, however, the discount rate might be much higher (such as 7%) depending on the Trust fund's expected long-term investment return.

Transition Issues

Typically, new accounting standards allow transition from old to new requirements. Because historical ARC calculations will rarely be available, GASB 45 takes a prospective transition approach: there is no requirement for an initial transition obligation. But if AOCs, before transition, were calculated consistently with the standard, a NOO at transition can be established at an agency's discretion.

Valuation Frequency Requirements and Small Plans

GASB 45 requires an actuarial valuation at least every two years for plans with more than 200 (active, inactive, and retired) members. Plans with fewer than 200 members will need a valuation every 3 years. In a significant departure from prior standards, though, GASB 45 allows plans with fewer than 100 members to elect a simplified measurement method not requiring an actuarial certification.