City of Costa Mesa

GASB 45 Other Post-Employment Benefits (OPEB)
Actuarial Valuation
Fiscal Year Ending June 30, 2014

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nyhart

August 27, 2014

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This report summarizes the GASB actuarial valuation for City of Costa Mesa 2013/14 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

The actuarial assumptions were selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All computations have been made in accordance with generally accepted actuarial principles and practice.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest.

Should you have any questions please do not hesitate to contact us.

Randy Gomez, FSA, MAAA
Consulting Actuary

Evi Laksana, ASA, MAAA
Valuation Actuary

Two actuarial assumptions have been updated since the last full valuation:

1. Aggregate payroll increases used to amortize the unfunded actuarial accrued liability and determine the Entry Age Normal actuarial liabilities have been reduced from 3.25% to 3.00%. This change increased the liabilities slightly.

2. Health Care Trend Rates have been revised to the same initial rate used in the last full valuation, decreasing to an ultimate rate of 5.00%. Comparison of current and prior health care trend rates are as shown below. This caused an increase in liabilities.

	Prior Expected				Current Proposed				PEMHCA	
	Non-Medicare		Medicare		Non-Medicare		Medicare			
FYE	HMO	PPO	HMO	PPO	HMO	PPO	HMO	PPO	Prior Expected	Current Proposed
2013	9.05%	9.75%	9.40%	10.10%	N/A	N/A	N/A	N/A	2.68%	N/A
2014	8.40%	9.00%	8.70%	9.30%	N/A	N/A	N/A	N/A	2.50%	N/A
2015	7.75%	8.25%	8.00%	8.50%	9.05%	9.75%	9.40%	10.10%	3.00%	2.52%*
2016	7.10%	7.50%	7.30%	7.70%	8.40%	9.00%	8.70%	9.30%	3.50%	2.50%
2017	6.45%	6.75%	6.60%	6.90%	7.75%	8.25%	8.00%	8.50%	4.00%	3.00%
2018	5.80%	6.00%	5.90%	6.10%	7.10%	7.50%	7.30%	7.70%	4.50%	3.50%
2019	5.15%	5.25%	5.20%	5.30%	6.45%	6.75%	6.60%	6.90%	4.50%	4.00%
2020	4.50%	4.50%	4.50%	4.50%	5.80%	6.00%	5.90%	6.10%	4.50%	4.50%
2021	4.50%	4.50%	4.50%	4.50%	5.15%	5.25%	5.20%	5.30%	4.50%	5.00%
2022+	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%	5.00%	4.50%	5.00%

* Actual increase from 2014 to 2015.

Summary of Results

The City administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The plan provides subsidized retiree health benefits for employees hired before January 1, 2004 who retire directly from the City with 10 years of City service. For employees hired on/after January 1, 2014, the plan will pay for PEMCHA subsidy once employees retire after meeting California PERS definition of a "retiree". Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 compared to the prior fiscal year.

		As of July 1, 2012		*As of July 1, 2013*
Actuarial Accrued Liability	$	36,429,075	$	35,828,202
Actuarial Value of Assets	$	0	$	0
Unfunded Actuarial Accrued Liability	$	36,429,075	$	35,828,202
Funded Ratio		0.0%		0.0%

		FY 2012/13		*FY 2013/14*
Annual Required Contribution	$	2,146,578	$	2,134,522
Annual OPEB Cost	$	2,153,804	$	2,141,410
Annual Employer Contribution	$	1,727,148	$	1,728,740

		As of June 30, 2013		*As of June 30, 2014*
Net OPEB Obligation	$	2,897,591	$	3,310,261

	As of June 30, 2014
Total Active Participants	395[1]
Total Retiree Participants	362

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

[1] Out of 395 active participants:

- 177 of them were hired prior to January 1, 2004 and currently have medical coverage. They are eligible for retiree health benefits as described under Council Policy 300-1.
- There are also 50 actives hired prior to January 1, 2004 who currently have no medical coverage but could potentially be eligible for Council Policy 300-1 if they can meet the medical participation eligibility requirements.
- The remaining 168 actives were hired on/after January 1, 2004 and are only eligible for PEMHCA subsidy from the City upon retirement.

Below is a breakdown of total GASB 45 liabilities allocated to past, current, and future service as of July 1, 2013 compared to the prior year.

		As of July 1, 2012		*As of July 1, 2013*
Present Value of Future Benefits	**$**	**42,384,095**	**$**	**41,352,362**
Actuarial Accrued Liability	**$**	**36,429,075**	**$**	**35,828,202**
Normal Cost	**$**	**616,158**	**$**	**581,253**
Future Normal Cost	**$**	**5,338,862**	**$**	**4,942,907**

Present Value of Future Benefits (PVFB) is the amount needed as of July 1, 2012 and 2013 to fully fund the City's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

Actuarial Accrued Liability is the portion of PVFB considered to be accrued or earned as of July 1, 2012 and 2013. This amount is a required disclosure in the Required Supplementary Information section.

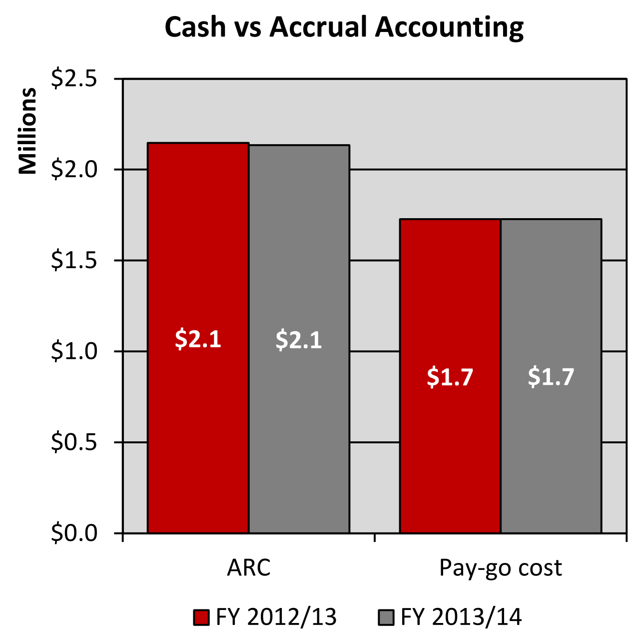
Normal Cost is the portion of the total liability amount that is attributed and accrued for current year's active employee service by the actuarial cost method.

Future Normal Cost is the portion of the total liability amount that is attributed to the future employee by the actuarial cost method.

Development of Annual Required Contribution (ARC)

Required Supplementary Information		FY 2012/13		FY 2013/14
Actuarial Accrued Liability as of beginning of year	$	36,429,075	$	35,828,202
Actuarial Value of Assets as of beginning of year		0		0
Unfunded Actuarial Accrued Liability (UAAL)	**$**	**36,429,075**	**$**	**35,828,202**
Covered payroll	$	38,315,112	$	35,329,764
UAAL as a % of covered payroll		95.1%		101.4%

Annual Required Contribution		FY 2012/13		FY 2013/14
Normal cost as of beginning of year	$	616,158	$	581,253
Amortization of the UAAL		1,437,984		1,461,352
Total normal cost and amortization payment	$	2,054,142	$	2,042,605
Interest to end of year		92,436		91,917
Total Annual Required Contribution (ARC)	**$**	**2,146,578**	**$**	**2,134,522**



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The GASB 45 ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation		*FY 2012/13*		*FY 2013/14*
ARC as of end of year	$	2,146,578	$	2,134,522
Interest on Net OPEB Obligation (NOO) to end of year		86,701		130,392
NOO amortization adjustment to the ARC		(79,475)		(123,504)
Annual OPEB cost	$	2,153,804	$	2,141,410
Annual employer contribution for pay-go cost		(1,727,148)		(1,728,740)
Annual employer contribution for pre-funding		0		0
Change in NOO	$	426,656	$	412,670
NOO as of beginning of year		2,470,935		2,897,591
NOO as of end of year	**$**	**2,897,591**	**$**	**3,310,261**

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules.

The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance.

The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 and prior fiscal years as shown in the City's Notes to Financial Statements.

Schedule of Funding Progress

As of	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
	A	B	C = A - B	D = B / A	E	F = C / E
July 1, 2013	$ 35,828,202	$ -	$ 35,828,202	0.0%	$ 35,329,764	101.4%
July 1, 2012	$ 36,429,075	$ -	$ 36,429,075	0.0%	$ 38,315,112	95.1%
July 1, 2011	$ 36,429,075	$ -	$ 36,429,075	0.0%	$ 38,315,112	95.1%

Schedule of Employer Contributions

FYE	Employer Contributions	Annual Required Contribution (ARC)	% of ARC Contributed
	A	B	C = A / B
June 30, 2014	$ 1,728,740	$ 2,134,522	81.0%
June 30, 2013	$ 1,727,148	$ 2,146,578	80.5%
June 30, 2012	$ 1,609,565	$ 2,146,578	75.0%

Historical Annual OPEB Cost

As of	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 2,141,410	80.7%	$ 3,310,261
June 30, 2013	$ 2,153,804	80.2%	$ 2,897,591
June 30, 2012	$ 2,153,804	74.7%	$ 2,470,935

The Actuarial Accrued Liability (AAL) is expected to change on an annual basis as a result of expected and unexpected events. Under normal circumstances, it is generally expected to have a net increase each year. Below is a list of the most common events affecting the AAL and whether they increase or decrease the liability.

Expected Events

- Increases in AAL due to additional benefit accruals as employees continue to earn service each year
- Increases in AAL due to interest as the employees and retirees age
- Decreases in AAL due to benefit payments

Unexpected Events

- Increases in AAL when actual premium rates increase more than expected. A liability decrease occurs when premium rates increase less than expected.
- Increases in AAL when more new retirements occur than expected or fewer terminations occur than anticipated. Liability decreases occur when the opposite outcomes happen.
- Increases or decreases in AAL depending on whether benefit provisions are improved or reduced.

		FY 2013/14[2]
Actuarial Accrued Liability as of beginning of year	$	35,828,202
Normal cost as of beginning of year		581,253
Expected benefit payments during the year		(1,521,678)
Interest adjustment to end of year		1,604,564
Expected Actuarial Accrued Liability as of end of year	$	36,492,341
Actuarial (gain) / loss due to experience		0
Actuarial (gain) / loss due to provisions / assumptions changes		0
Actual Actuarial Accrued Liability as of end of year	$	36,492,341

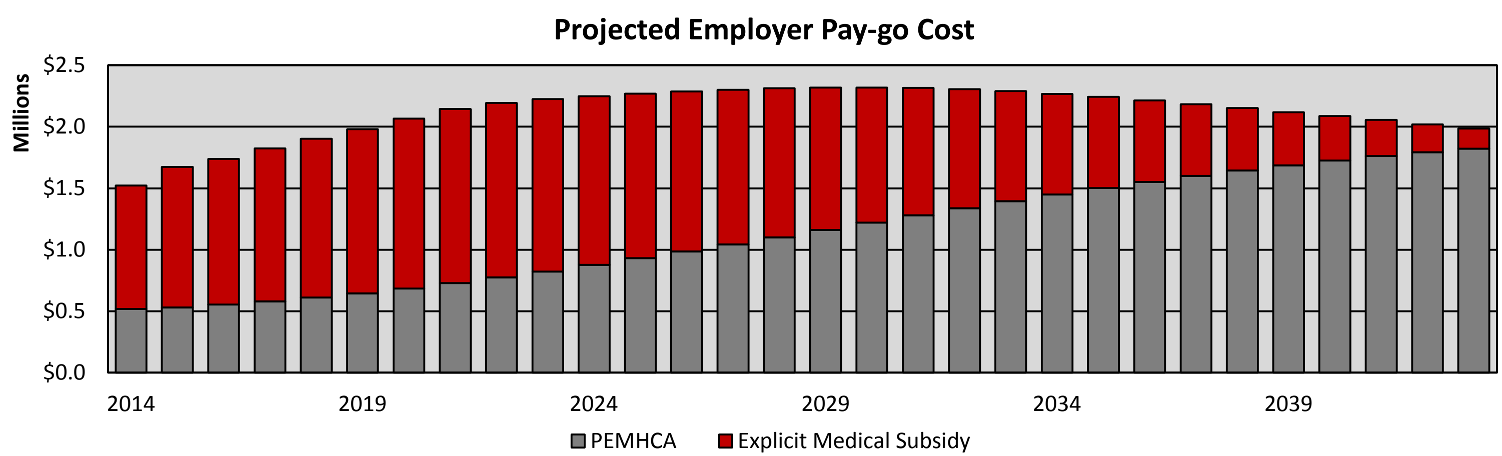
Reconciliation of AAL shows what the actuary expects the actuarial accrued liability to be at the beginning of the following fiscal year based on current assumptions and plan provisions. The expected end of year AAL will change as actual plan experience varies from assumptions. Generally, the AAL is expected to have a net increase each year.

[2] Actuarial Accrued Liability (AAL) as of beginning of year was actuarially rolled-back from end of year AAL on a “no gain/loss” basis.

The below projections show the actuarially estimated employer subsidized contribution for retiree benefits for the next 30 years (split between PEMHCA and explicit medical subsidy). The projections include explicit subsidy and do not take into account future new hires.

FYE	PEMHCA	Explicit Medical	Total
2014	$ 518,499	$ 1,003,179	$ 1,521,678
2015	$ 531,565	$ 1,140,545	$ 1,672,110
2016	$ 554,679	$ 1,183,987	$ 1,738,666
2017	$ 580,605	$ 1,243,485	$ 1,824,090
2018	$ 610,096	$ 1,293,331	$ 1,903,427
2019	$ 644,175	$ 1,335,836	$ 1,980,011
2020	$ 684,061	$ 1,383,307	$ 2,067,368
2021	$ 728,510	$ 1,415,919	$ 2,144,429
2022	$ 774,310	$ 1,420,377	$ 2,194,687
2023	$ 823,234	$ 1,400,952	$ 2,224,186
2024	$ 876,039	$ 1,372,051	$ 2,248,090
2025	$ 930,780	$ 1,339,575	$ 2,270,355
2026	$ 986,985	$ 1,301,403	$ 2,288,388
2027	$ 1,042,910	$ 1,257,440	$ 2,300,350
2028	$ 1,101,860	$ 1,210,683	$ 2,312,543

FYE	PEMHCA	Explicit Medical	Total
2029	$ 1,161,199	$ 1,157,217	$ 2,318,416
2030	$ 1,220,053	$ 1,097,900	$ 2,317,953
2031	$ 1,280,043	$ 1,035,033	$ 2,315,076
2032	$ 1,338,457	$ 966,633	$ 2,305,090
2033	$ 1,395,260	$ 894,105	$ 2,289,365
2034	$ 1,448,925	$ 818,447	$ 2,267,372
2035	$ 1,501,000	$ 740,811	$ 2,241,811
2036	$ 1,551,003	$ 662,206	$ 2,213,209
2037	$ 1,599,145	$ 584,582	$ 2,183,727
2038	$ 1,644,076	$ 507,829	$ 2,151,905
2039	$ 1,685,194	$ 432,853	$ 2,118,047
2040	$ 1,725,713	$ 361,048	$ 2,086,761
2041	$ 1,762,835	$ 291,543	$ 2,054,378
2042	$ 1,794,091	$ 225,740	$ 2,019,831
2043	$ 1,822,131	$ 164,466	$ 1,986,597



Eligibility

To be eligible for benefits as described under the Explicit Subsidy section below employees must meet all of the following requirements (per Council Policy 300-1):

1. Full-time employees who are employed as of December 31, 2003
2. Have participated in the City's group medical plan for a minimum of five consecutive years at any time during employment
3. Enrolled in the medical plan immediately prior to retirement
4. Immediately commence receiving a retirement allowance from the Public Employees' Retirement System (PERS) upon separation from City employment
5. Has spent with the City as a full-time employee a minimum of 10 years of service

For all full-time employees who are employed by the City after December 31, 2003, the City will only pay for the PEMHCA subsidy once they meet the definition of a "retiree" under California PERS (CalPERS).

To meet CalPERS's retiree definition, a full-time employee must be age 50 with 5 years of CalPERS service (across all CalPERS employers).

Explicit Subsidy

The following applies to all employees with 10 years of City service:

- The City pays percentage of the lesser of (a) retiree-only premium of the plan elected or (b) the most popular active employee medical plan.
- The City will pay the minimum monthly PEMCHA employer contribution for all retirees and surviving spouses (at 100%).
- City's contribution (including City's contribution for PEMCHA) is capped at a percentage of $500 per month.
- City's subsidy percentage depends on retirement date and years of service as shown below:

DOR < 7/19/1993		7/20/1993 < DOR < 8/18/2003		DOR ≥ 8/19/2003	
YOS at Ret	**Percentage**	**YOS at Ret**	**Percentage**	**YOS at Ret**	**Percentage**
10-19	50.00%	10	50.00%	10	50.00%
20-29	75.00%	11	52.50%	11	53.33%
30+	100.00%	12	55.00%	12	56.67%
		…*	…*	…**	…**
		30	100.00%	25	100.00%

* Increasing at 2.5% for each additional year of service at retirement.
** Increasing at 3.33% for each additional year of service at retirement.

Spouse Benefit

Retiree health benefits continue to surviving spouse if retiree elects CalPERS survivor annuity. Surviving spouses are only eligible for the PEMHCA City subsidy.

Explicit Subsidy Example

Below is an example of how the City's explicit subsidy is split between medical premium rates and PEMHCA for a retiree currently enrolled in BS NetValue plan (Other Southern California region) with 80% City subsidy.

CY	Total Premiums	PEMHCA	Max. City subsidy	City Subsidy Pmt for PEMHCA	City Subsidy Pmt for Medical Premiums	Total City subsidy
	A[1]	B[2]	C[3]	D	E[4]	F = D + E
2014	$ 457.17	$ 119.00	$ 400.00	$ 119.00	$ 281.00	$ 400.00
2019	$ 663.87	$ 138.64	$ 400.00	$ 138.64	$ 261.36	$ 400.00
2024	$ 854.96	$ 176.10	$ 400.00	$ 176.10	$ 223.90	$ 400.00
2029	$ 1,091.18	$ 224.76	$ 400.00	$ 224.76	$ 175.24	$ 400.00
2034	$ 1,392.65	$ 286.85	$ 400.00	$ 286.85	$ 113.15	$ 400.00
2039	$ 1,777.41	$ 366.11	$ 400.00	$ 366.11	$ 33.89	$ 400.00

[1] Total premiums are increasing according to assumed health care trend rates.
[2] PEMHCA fees are increasing according to assumed PEMHCA trend rates.
[3] In this example, the maximum City subsidy is 80% of $500.
[4] City subsidy payment towards medical premiums for 2014 calendar year is the lesser of:

a) 80% x $457.17 = $365.74 and
b) $400 – $119 = $281 (the remaining City subsidy balance after PEMHCA payment).

Retiree Cost Sharing

Retirees are responsible for the portion of premium rates not covered by the City's explicit subsidy.

Life Insurance

Retiree coverage: $1,000
Spouse coverage: $500

PEMHCA Subsidy

The monthly PEMHCA subsidy is as follows:

Effective Date	Per Person
January 1, 2014	$ 119.00
January 1, 2015	$ 122.00

Medical Benefit

Same benefit options are available to retirees as active employees. Costa Mesa participates in the PEMHCA health plan and all health options are community-rated. The premiums do not include the PEMHCA employer contribution.

The monthly premium rates effective on January 1, 2014 are shown below.

Other Southern California Residents		**Pre-Medicare**		**Medicare**	
Plans	**Plan Type**	**EE**	**EE + 1**	**EE**	**EE + 1**
Anthem Select	HMO	$ 536.99	$ 1,073.98	$ 341.12	$ 682.24
BS Access+	HMO	$ 543.21	$ 1,086.42	$ 298.21	$ 596.42
BS NetValue	HMO	$ 457.17	$ 914.34	$ 298.21	$ 596.42
Health Net SmartCare	HMO	$ 568.51	$ 1,137.02	$ 261.24	$ 522.48
Kaiser	HMO	$ 602.79	$ 1,205.58	$ 294.97	$ 589.94
UHC	HMO	$ 521.01	$ 1,042.02	$ 193.33	$ 386.66
PERS Choice	PPO	$ 612.25	$ 1,224.50	$ 307.23	$ 614.46
PERS Select	PPO	$ 586.32	$ 1,172.64	$ 307.23	$ 614.46
PERS Care	PPO	$ 638.22	$ 1,276.44	$ 327.36	$ 654.72
PORAC	PPO	$ 634.00	$ 1,186.00	$ 397.00	$ 791.00

Los Angeles Residents		**Pre-Medicare**		**Medicare**	
Plans	**Plan Type**	**EE**	**EE + 1**	**EE**	**EE + 1**
Anthem Select	HMO	$ 475.86	$ 951.72	$ 341.12	$ 682.24
BS Access +	HMO	$ 469.91	$ 939.82	$ 298.21	$ 596.42
BS NetValue	HMO	$ 395.50	$ 791.00	$ 298.21	$ 596.42
Health Net SmartCare	HMO	$ 542.71	$ 1,085.42	$ 261.24	$ 522.48
Kaiser	HMO	$ 541.79	$ 1,083.58	$ 294.97	$ 589.94
UHC	HMO	$ 487.76	$ 975.52	$ 193.33	$ 386.66
PERS Choice	PPO	$ 599.19	$ 1,198.38	$ 307.23	$ 614.46
PERS Select	PPO	$ 573.83	$ 1,147.66	$ 307.23	$ 614.46
PERS Care	PPO	$ 624.59	$ 1,249.18	$ 327.36	$ 654.72
PORAC	PPO	$ 634.00	$ 1,186.00	$ 397.00	$ 791.00

The actuarial assumptions used in this report represent a reasonable long-term expectation of future OPEB outcomes. As national economic and City experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

There are changes to the plan provisions and actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2012. Refer to Actuary's Notes section in the Appendix for complete information on these changes. For the current year GASB valuation, we have also updated the per capita costs. We expect to update health care trend rates and per capita costs again in the next full GASB valuation, which will be for the fiscal year ending June 30, 2016.

Measurement Date	June 30, 2014; results are actuarially rolled-back to July 1, 2013 on a "no gain/loss" basis
Discount Rate	4.5%
Aggregate Payroll Increases	3.00% per year; this assumption is used to amortize the unfunded actuarial accrued liability and to determine the Entry Age Normal actuarial liabilities.
Inflation Rate	2.75% per year
Cost Method	Entry Age Normal as a level percentage of payroll
Amortization	Level percentage of pay over thirty years based on an open group
Census Data	Census information was provided by the City as of April 2014. We have reviewed it for reasonableness and no material modifications were made.
Health Care Coverage Election Rate	Active employees with current coverage and hired before January 1, 2004: 100% Active employees with no coverage and hired before January 1, 2004: 75% (pre-65) and 90% (post-65) Active employees hired after January 1, 2004: • 65% elect retiree health coverage immediately upon retirement • 35% do not elect retiree health coverage immediately upon retirement but 10% of them will ultimately apply for health coverage at age 65 Future retirees were assumed to elect the same health plan elected while actively employed. Current employees who waived coverage were assumed to elect retiree health plan in the same proportion as active employees with coverage. Inactive employees with current coverage: 100% Inactive employees with no coverage: 0%

Spousal Coverage Spousal coverage is based on actual data. Husbands are assumed to be three years older than wives.

Employer Funding Policy Pay-as-you-go cash basis

Mortality Based on rates used in the CalPERS actuarial valuation as of June 30, 2012.

Disability Based on rates used in the CalPERS actuarial valuation as of June 30, 2012.

Turnover Rate Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months. The termination rates are based on those used in the CalPERS actuarial valuation as of June 30, 2012.

Retirement Rate Annual retirement rates are based on those used in the CalPERS actuarial valuation as of June 30, 2012.

Medical Trend Rates Annual health care trend rates for medical and PEMHCA fees are as shown below:

	Non-Medicare		Medicare		
FYE	**HMO**	**PPO**	**HMO**	**PPO**	**PEMHCA**
2015	9.05%	9.75%	9.40%	10.10%	2.52%*
2016	8.40%	9.00%	8.70%	9.30%	2.50%
2017	7.75%	8.25%	8.00%	8.50%	3.00%
2018	7.10%	7.50%	7.30%	7.70%	3.50%
2019	6.45%	6.75%	6.60%	6.90%	4.00%
2020	5.80%	6.00%	5.90%	6.10%	4.50%
2021	5.15%	5.25%	5.20%	5.30%	5.00%
2022+	5.00%	5.00%	5.00%	5.00%	5.00%

The initial trend rate was based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

* Actual increase from 2014 to 2015.

Retiree Contributions Retiree contributions are assumed to increase according to medical trend rates.

Per Capita Costs

Annual per capita are equal to the monthly premium rates effective on January 1, 2014. The costs are assumed to increase with health care trend rates.

Explicit Subsidy

The difference between (a) the premium rate and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retiree under age 65 enrolled in BS NetValue plan (Other Southern California region) with 80% City subsidy.

	Premium Rate	Max. City Subsidy*	Retiree Contribution	City's Explicit Subsidy**
	A	B	C = A – D	D
Retiree	$ 457.17	$ 400.00	$ 57.17	$ 400.00
Spouse	$ 457.17	$ 0.00	$ 457.17	$ 0.00

* The maximum City subsidy for retiree only is $400 (= $500 x 80%)
** City's explicit subsidy for retiree only is the minimum of (a) 80% of premium and (b) the maximum City subsidy, which is $400.

Implicit Subsidy

The plan is assumed to meet the GASB 45 definition of a community rated plan. Therefore, no implicit subsidy is included in this valuation.

Actives with coverage hired prior to 1/1/2004	Single	Non-Single	Total	Avg. Age	Avg. Svc	Salary	
Anthem Select	1		1	55.5	14.8	$	66,804
BS Access+	20	35	55	49.1	19.4	$	5,063,981
BS NetValue	5	10	15	50.0	19.8	$	1,405,272
Kaiser	14	13	27	46.6	17.3	$	2,482,512
PERS Care	4	1	5	55.2	24.7	$	392,676
PERS Choice	14	8	22	49.1	19.1	$	2,069,376
PERS Select	3	3	6	53.0	19.2	$	415,313
PORAC	7	37	44	44.5	17.4	$	4,880,376
UHC		2	2	41.0	18.3	$	191,244
Total	**68**	**109**	**177**	**47.9**	**18.7**	**$**	**16,967,554**

Actives with coverage hired on/after 1/1/2004	Single	Non-Single	Total	Avg. Age	Avg. Svc	Salary	
Anthem Select	3		3	28.8	3.7	$	192,564
BS Access+	13	12	25	39.4	7.7	$	2,116,680
BS NetValue	4	6	10	38.3	6.2	$	804,048
Health Net SmartCare		1	1	46.5	9.8	$	66,804
Kaiser	19	14	33	39.2	6.1	$	2,513,352
PERS Care	2	3	5	41.4	3.6	$	445,692
PERS Choice	7	5	12	50.0	5.7	$	1,002,986
PERS Select	4	6	10	37.3	5.6	$	963,012
PORAC	6	9	15	36.2	8.1	$	1,452,624
UHC	1	2	3	36.0	7.4	$	238,044
Total	**59**	**58**	**117**	**39.5**	**6.5**	**$**	**9,795,806**

Actives without coverage[3]	Single	Non-Single	Total	Avg. Age	Avg. Svc	Salary	
Hired prior to 1/1/2004			50	45.8	17.2	$	4,606,668
Hired on/after 1/1/2004			51	39.6	6.2	$	3,959,736
Total actives without coverage			**101**	**42.7**	**11.7**	**$**	**8,566,404**

[3] Actives who currently have no coverage are assumed to elect coverage at retirement. They have been included in the GASB valuation.

Retirees with coverage	*Single*	*Non-Single*	*Total*	*Avg. Age*
Anthem Select	2		2	57.1
BS Access+	31	24	55	63.7
BS NetValue	7	3	10	59.2
Kaiser	18	13	31	61.1
PERS Care	17	3	20	77.4
PERS Choice	124	66	190	67.9
PERS Select	5	1	6	60.1
PORAC	23	24	47	58.8
UHC		1	1	66.4
Total actives with coverage	**227**	**135**	**362**	**65.6**

Active Age-Service Distribution

Age	Years of Service										Total
	< 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25		2	1								3
25 to 29	1	12	14								27
30 to 34		4	35	9							48
35 to 39	1	3	25	25	10						64
40 to 44	2	4	14	19	31	1					71
45 to 49	1	1	10	12	21	12	7				64
50 to 54	1	9	9	8	4	10	23	1			65
55 to 59		3	4	10	3	7	5	2			34
60 to 64		1	4	3	1	3	2		1		15
65 to 69			1	2		1					4
70 & up											0
Total	**6**	**39**	**117**	**88**	**70**	**34**	**37**	**3**	**1**	**0**	**395**

APPENDIX

Comparison of Participant Demographic Information

	As of June 30, 2012	*As of June 30, 2014*
Active participants		
With health coverage	336	294
Waived and part-time	98	101
All active participants	434	395
Inactive participants		
With health coverage	352	362
Waived and part-time	N/A	N/A
All inactive participants	352	362
Averages for active		
Age	43.8	44.1
Service	13.4	13.3
Average for inactive		
Age	64.6	65.6

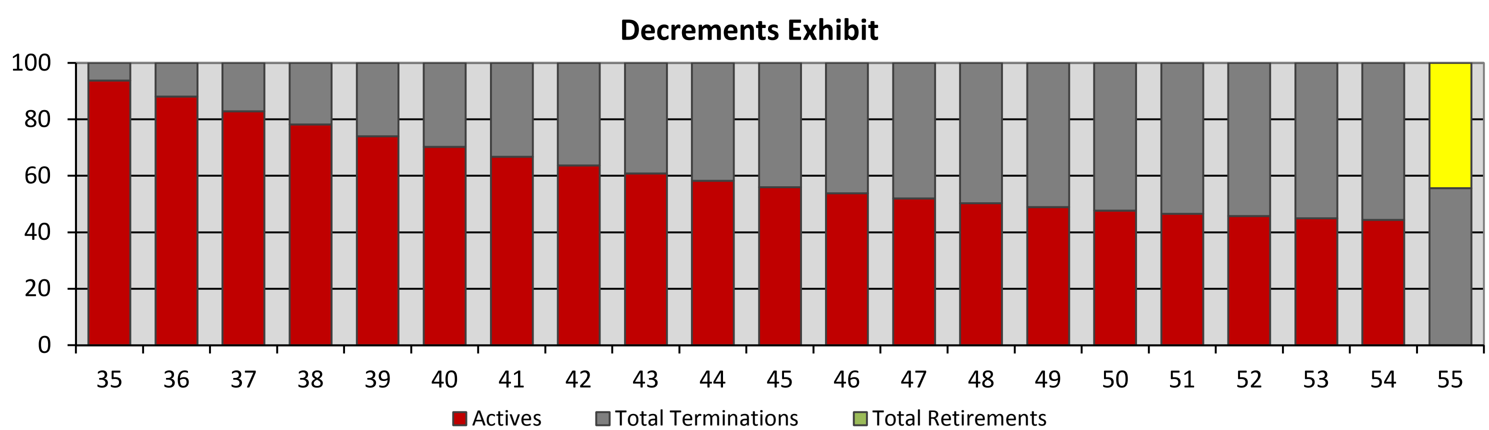
Glossary

Decrements Exhibit

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. Starting with 100 employees at age 35, the illustrated actuarial assumptions show that 44.430 employees out of the original 100 are expected to retire and could elect retiree health benefits at age 55.

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
35	100.000	6.276	0.000	6.276
36	93.724	5.677	0.000	5.677
37	88.047	5.136	0.000	5.136
38	82.911	4.648	0.000	4.648
39	78.262	4.209	0.000	4.209
40	74.053	3.814	0.000	3.814
41	70.239	3.456	0.000	3.456
42	66.783	3.131	0.000	3.131
43	63.652	2.835	0.000	2.835
44	60.817	2.564	0.000	2.564
45	58.253	2.316	0.000	2.316

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
46	55.938	2.085	0.000	2.085
47	53.853	1.866	0.000	1.866
48	51.987	1.656	0.000	1.656
49	50.331	1.452	0.000	1.452
50	48.880	1.253	0.000	1.253
51	47.627	1.060	0.000	1.060
52	46.567	0.877	0.000	0.877
53	45.690	0.707	0.000	0.707
54	44.983	0.553	0.000	0.553
55	44.430	0.000	44.430	44.430

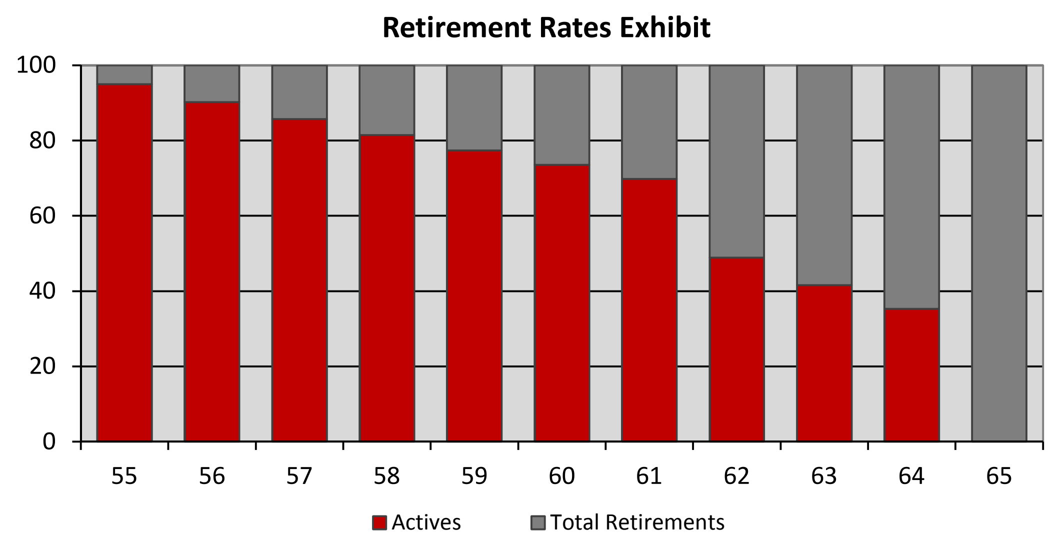


* The above rates are illustrative rates and are not used in our GASB calculations.

Retirement Rates Exhibit

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. The illustrated retirement rates show the number of employees who are assumed to retire annually based on 100 employees age 55 who are eligible for retiree health care coverage. The average age at retirement is 62.0.

Age	Active Employees BOY	Annual Retirement Rates*	# Retirements per Year	Active Employees EOY
55	100.000	5.0%	5.000	95.000
56	95.000	5.0%	4.750	90.250
57	90.250	5.0%	4.513	85.738
58	85.738	5.0%	4.287	81.451
59	81.451	5.0%	4.073	77.378
60	77.378	5.0%	3.869	73.509
61	73.509	5.0%	3.675	69.834
62	69.834	30.0%	20.950	48.884
63	48.884	15.0%	7.333	41.551
64	41.551	15.0%	6.233	35.318
65	35.318	100.0%	35.318	0.000



* The above rates are illustrative rates and are not used in our GASB calculations.

Illustration of GASB Calculations

The purpose of the illustration is to familiarize non-actuaries with the GASB 45 actuarial calculation process.

I. Facts

1. The employer provides subsidized retiree health coverage worth $100,000 to employees retiring at age 55 with 25 years of service. The employer funds for retiree health coverage on a pay-as-you-go basis.
2. Employee X is age 50 and has worked 20 years with the employer.
3. Retiree health subsidies are paid from the general fund assets which are expected to earn 4.5% per year on a long-term basis.
4. Based on Employee X's age and sex he has a 98.0% probability of living to age 55 and a 95.0% probability of continuing to work to age 55.

II. Calculation of Present Value of Future Benefits

Present Value of Future Benefits represents the cost to finance benefits payable in the future to current and future retirees and beneficiaries, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

	Value	Description
A.	$100,000	Projected benefit at retirement
B.	80.2%	Interest discount for five years = $(1 / 1.045)^5$
C.	98.0%	Probability of living to retirement age
D.	95.0%	Probability of continuing to work to retirement age
E.	$74,666	Present value of projected retirement benefit measured at employee's current age = A x B x C x D

Illustration of GASB Calculations (continued)

III. Calculation of Actuarial Accrued Liability

Actuarial Accrued Liability represents the portion of the Present Value of Future Benefits which has been accrued recognizing the employee's past service with the employer. The Actuarial Accrued Liability is a required disclosure in the Required Supplementary Information section of the employer's financial statement.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	20	Current years of service with employer
C.	25	Projected years of service with employer at retirement
D.	$59,733	Actuarial accrued liability measured at employee's current age = A x B / C

IV. Calculation of Normal Cost

Normal Cost represents the portion of the Present Value of Future Benefits allocated to the current year.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	25	Projected years of service with employer at retirement
C.	$2,987	Normal cost measured at employee's current age = A / B

V. Calculation of Annual Required Contribution

Annual Required Contribution is the total expense for the current year to be shown in the employer's income statement.

	Value	Description
A.	$2,987	Normal Cost for the current year
B.	$3,509	30-year amortization (level dollar method) of Unfunded Actuarial Accrued Liability using a 4.5% interest rate discount factor
C.	$292	Interest adjustment = 4.5% x (A + B)
D.	$6,788	Annual Required Contribution = A + B + C

Definitions

GASB 45 defines several unique terms not commonly employed in the funding of pension and retiree health plans. The definitions of the terms used in the GASB actuarial valuations are noted below.

1. **Actuarial Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

2. **Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided health care benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

3. **Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

4. **Actuarial Present Value** – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

   a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.);
   b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned; and
   c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.

5. **Annual OPEB Cost** – An accrual-basis measure of the periodic cost of an employer’s participation in a defined benefit OPEB plan.

6. **Annual Required Contribution (ARC)** – The employer’s periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

7. **Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

8. **Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

9. **Healthcare Cost Trend Rate** – The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Definitions (continued)

10. **Implicit Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

11. **Net OPEB Obligation** – The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

12. **Normal Cost** – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

13. **Pay-as-you-go** – A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

14. **PEMHCA** – California Government Code 22892 of the Public Employees' Medical and Hospital Care Act (PEMHCA) establishes the contracting agencies' minimum health premium contribution for their participating active membership. The minimum employer contribution is set as a specific dollar value, increasing with the medical care component of the Consumer Price Index-Urban (CPI-U) beginning on January 1, 2009.

15. **Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

16. **Present Value of Future Benefits** – Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

17. **Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8% for year 20W0, then 7.5% for 20W1, and 7% for 20W2 and thereafter, then 8% and 7.5% select rates, and 7% is the ultimate rate.

18. **Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan members.