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CITY OF MILPITAS

Actuarial Valuation of
Postemployment Medical and Dental Plans
Valuation Date: July 1, 2007

DRAFT #2

May 27, 2007

Ms. Emma Karlen
Director of Financial Services
City of Milpitas
455 E. Calaveras Blvd.
Milpitas, CA 95035

Dear Ms. Karlen:

Re: Actuarial Valuation of Postemployment Medical and Dental Plans

The Nicolay Consulting Group is pleased to present the results of the July 1, 2007 actuarial valuation of the City of Milpitas postemployment medical and dental plans.

In preparing this valuation report, we relied on employee data and plan information provided by the City. On the basis of that information, this report has been prepared in accordance with generally accepted actuarial principles and methods. In our opinion, this valuation has been performed in accordance with GASB Statement No. 45. It is also our opinion that the actuarial assumptions used are reasonably related to the actual experience of the plan and to anticipated future experience.

The financial projections presented in this report are intended for the City's internal use in evaluating the potential cost of its postemployment healthcare program. Because future events frequently do not occur as expected, it should be recognized that there are usually differences between anticipated and actual results. These differences may be material, especially if there are significant changes in the employee or retiree population. Consequently, we can express no assurance that the projected values will occur. We recommend that the City obtain an updated actuarial valuation every second year.

Questions about the report should be directed to Dennis Daugherty at (800) 998-7675 x221.

Sincerely,

Nicolay Consulting Group

By: ______________________

Dennis Daugherty, F.S.A.
Member, American Academy of Actuaries

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SECTION I
Executive Summary

This Executive Summary presents the results of the July 1, 2007 actuarial valuation of the City of Milpitas postemployment medical and dental programs.

Background

The City of Milpitas provides postemployment medical and dental benefits to retirees who satisfy certain eligibility requirements. The eligibility requirements vary by bargaining unit.

In 2004 the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The new accounting rules will have a dramatic effect on the financial statements of many public employers. The types of benefits covered by this statement are often referred to as OPEB, which stands for Other Postemployment Benefits. OPEB includes all postemployment benefits except pension benefits and termination incentives.

A premise of Statement No. 45 is that "postemployment benefits are part of an exchange of salaries and benefits for employee services rendered". Some benefits are taken while employees are in active service and others, including postemployment healthcare benefits, are taken after retirement.

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods when the benefits are provided.

GASB Statement No. 45 requires that the accrual basis measurement and recognition of the cost of postemployment healthcare benefits take place over a period that approximates the employees' years of service. The Statement also requires the periodic reporting of information about actuarial accrued liabilities associated with these benefits and whether and to what extent progress is being made in funding the plan.

It should be noted even though terminology contained in Statement No. 45 refers to the "Annual Required Contribution" and the "Annual OPEB Cost" there is no legal requirement that an employer contribute these, or any other, amounts to a trust.

Further, there should not be any inference made as to whether these would be the optimum contribution amounts if an employer decides to pre-fund the plan.

In addition to the City's "retiree only" plans the City also makes annual contributions to funds that are used to pay some, or all, of the premium for retirees' dependents. The actuarial accrued liability shown in Table I-1 includes the City's funding obligation for the retirees' dependents.

Valuation Results

An actuarial valuation provides a determination, as of a measurement date, of the actuarial present value of obligations and the annual accrual cost of those obligations.

The July 1, 2007 actuarial valuation of the City's postemployment medical and dental plans was based on a set of economic and demographic assumptions consistent with those prescribed by CalPERS for use by agencies that will be participating in the new California Employers' Retiree Benefit Trust Fund. This valuation assumes the City will join that Fund.

All valuation assumptions are described in detail in the valuation report that follows this Summary. Valuation results by bargaining unit are shown in **Section III**.

In our opinion, this valuation has been performed in accordance with GASB Statement No. 45.

Table I-1

Actuarial Accrued Liability*
Based on a 7.75% discount rate
as of July 1, 2007

Active Employees	$22,310,987
Retirees	$14,060,153
Total	$36,371,140**

* The present value of future benefits attributable to past service

** $35,351,352 (97.2%) of the Past Service obligation is attributable to Medical Benefits; $1,019,788 (2.8%) is attributable to Dental Benefits.

Table I-2 contains a five-year projection of the City's Unfunded Actuarial Accrued Liability, Annual OPEB Cost, net OPEB obligation and pay-as-you-go cost assuming an initial Trust Fund deposit of $4,140,884 and annual contributions to the Trust Fund equal to the ARC. The Annual OPEB Cost and pay-as-you-go cost are also illustrated as a percentage of estimated annual payroll.

Please note the following:

- The projections shown in Table I-2 are based on the closed group of current employees and retirees. The projections do not include any assumptions about employees who would be hired as replacements for departing employees.
- The Annual Required Contribution (ARC) refers to an employer's accrual expense. It should not be interpreted as a required contribution amount. The ARC consists of two components – the Normal Cost and a provision for amortizing the total Unfunded Actuarial Accrued Liability. Normal Cost is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year. Another interpretation of Normal Cost is that it is the present value of benefits earned by employees for service rendered during the current year. This valuation is based on the Entry Age Normal actuarial cost method and the assumption that the City will amortize the Unfunded Actuarial Accrued Liability over a closed 30-year period as a level percentage of salaries. 30 years is the maximum amortization period allowed by Statement No. 45.
- Assuming that the City pre-funds the entire ARC each year the Annual OPEB Cost will be equal to the ARC. As shown in Table I-2, the Annual OPEB Cost is expected to increase gradually throughout the five-year projection period.

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Table I-2

Five-year Projection of Annual OPEB Cost and Net OPEB Obligation*
Based on a 7.75% discount rate

	2007/08	2008/09	2009/10	2010/11	2011/12
Unfunded Actuarial Accrued Liability (UAAL)	**$32,230,256**	**$32,598,403**	**$32,933,130**	**$33,230,239**	**$33,485,180**
Remaining Amortization Period	**30**	**29**	**28**	**27**	**26**
Normal Cost	$1,122,462	$1,178,585	$1,237,514	$1,299,390	$1,364,359
Amortization of UAAL	$2,009,058	$2,066,704	$2,125,807	$2,186,381	$2,248,440
Annual Required Contribution (ARC)	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Annual Required Contribution (ARC)	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Interest on net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Contributions made	($3,131,520)	($3,245,289)	($3,363,321)	($3,485,771)	($3,612,799)
Increase in net OPEB Obligation	$0	$0	$0	$0	$0
Net OPEB Obligation – Beginning of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Net OPEB Obligation – End of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Estimated Annual Payroll	$41,522,000	$42,871,000	$44,264,000	$45,703,000	$47,188,000
Normal Cost as a % of Annual Payroll	2.7%	2.7%	2.8%	2.8%	2.9%
Annual OPEB Cost as a % of Annual Payroll	7.5%	7.6%	7.6%	7.6%	7.7%
Pay-as-you-go Expense as a% of Annual Payroll	2.4%	2.6%	2.9%	3.2%	3.5%

SECTION II
Introduction

The City of Milpitas provides postemployment medical and dental benefits to retirees and dependents who meet plan eligibility requirements. This report provides an estimate of the City's liability as of July 1, 2007, a ten-year projection of the pay-as-you-go cost of providing the benefits and an illustration of the impact of GASB Statement 45. **Section III** contains valuation results. **Section IV** describes the plans and presents a demographic summary. **Section V** lists the actuarial assumptions used to complete the valuation. **Section VI** contains a Glossary. Most of the definitions are taken directly from GASB Statement 45.

Accounting Requirements

In July 2004 the Governmental Accounting Standards Board issued **Statement 45**, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires governmental entities to begin accounting for postemployment benefits on an accrual basis rather than the more common pay-as-you-go accounting. Each employee's benefit will "accrue" throughout their working lifetime and employers will be required to show the annual accruals as a current year expense.

Employers must adopt Statement 45 no later than the plan year that begins after December 15, 2006, 2007 or 2008 depending on the annual revenues of the entity. The City of Milpitas will adopt Statement 45 during the 2007/08 fiscal year.

SECTION III
Valuation Results

Postemployment healthcare benefits can be viewed as a form of deferred compensation in which the benefits are taken after an employee retires. From an accrual accounting perspective the cost of these benefits should be treated as an expense throughout each employee's working lifetime rather than when the retiree benefits are actually paid. When an employer first converts to accrual accounting (as will be required by GASB Statement No. 45) there is often a large liability associated with past service that employees and retirees have rendered.

Table 3-1 contains the estimated July 1, 2007 present value of the cost of postemployment medical and dental benefits for current retirees, employees and dependents who are expected to receive benefits. The estimates are based on the assumptions and methodology prescribed for Agencies that participate in the CalPERS administered California Employers' Retiree Benefit Trust Fund. In particular, the 7.75% discount rate is based on the assumption that the City will join the CalPERS Trust Fund and contribute the full GASB 45 Annual Required Contribution (ARC) to the Trust Fund each year. If the City does not contribute the full ARC each year a lower discount rate will most likely be required. This could result in substantially higher annual costs and liabilities as reported under GASB 45 (conceivably as much as 100% higher). The amounts shown in Table 3-1 do not include any liability estimates for future hires. Estimates are shown for each of the City's bargaining units. The estimates are based on the economic and demographic assumptions described in **Section V**.

A primary goal of GASB 45 is to require employers to recognize postemployment healthcare expense systematically over periods approximating employees' years of service. The Actuarial Accrued Liability represents the estimated present value of future benefits that are attributable to past service rendered by employees and retirees. The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

The first set of numbers in Table 3-1 illustrates the estimated present value of all postemployment benefits ***attributable to past service***. For current retirees and dependents the amount represents the entire present value of all future benefits. For current active employees the amount represents the present value of that portion of their postemployment benefit that is attributable to service they have already rendered. GASB 45 requires that actuarial liabilities be determined based on employee's past service.

The second set of numbers in Table 3-1 provides an illustration of the estimated present value of future benefits that are likely to be "earned" by the City's current employees from the July 1, 2007 valuation date until they retire. These amounts are included for illustrative purposes. GASB Statement No. 45 does not require that the cost of postemployment benefits be recognized until the benefits are "earned".

The third set of numbers in Table 3-1 illustrates the estimated total present value of future benefits likely to be paid to current and future retirees and dependents. These amounts are included to aid the City in its planning process.

Table 3-1

City of Milpitas

Present Value of Future Postemployment Medical and Dental Benefits
Based on the Entry Age Normal actuarial cost method and a 7.75% discount rate
as of July 1, 2007

Total Present Value Attributable to Past Service (GASB 45 Actuarial Accrued Liability)

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$3,851,927	$1,537,438	$1,057,317	$6,932,040	$3,806,066	$707,074	$4,419,125	$22,310,987
Retirees	$2,045,556	$505,661	$2,654,452	$4,038,141	$1,598,368	$250,423	$2,967,552	$14,060,153
Total	$5,897,483	$2,043,099	$3,711,769	$10,970,181	$5,404,434	$957,497	$7,386,677	$36,371,140

Total Present Value Attributable to Future Service

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$1,741,676	$622,843	$303,720	$3,381,687	$1,277,513	$87,628	$1,682,111	$9,097,178
Retirees	$0	$0	$0	$0	$0	$0	$0	$0
Total	$1,741,676	$622,843	$303,720	$3,381,687	$1,277,513	$87,628	$1,682,111	$9,097,178

Total Present Value

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$5,593,603	$2,160,281	$1,361,037	$10,313,727	$5,083,579	$794,702	$6,101,236	$31,408,165
Retirees	$2,045,556	$505,661	$2,654,452	$4,038,141	$1,598,368	$250,423	$2,967,552	$14,060,153
Total	$7,639,159	$2,665,942	$4,015,489	$14,351,868	$6,681,947	$1,045,125	$9,068,788	$45,468,318

Projected Health Benefit Costs

Table 3-2 contains a ten-year projection of the City's pay-as-you-go cost to provide postemployment medical and dental benefits to current and future retirees and dependents.

Table 3-2

Projected Future Annual Plan Cost of Postemployment Medical and Dental Benefits

Year	Based on Estimated Premium Cost
2007/08	$977,704
2008/09	$1,119,810
2009/10	$1,282,388
2010/11	$1,455,516
2011/12	$1,644,654
2012/13	$1,839,970
2013/14	$2,064,409
2014/15	$2,285,503
2015/16	$2,525,886
2016/17	$2,778,531

Illustrative Health Benefit Costs Under Accrual Accounting

The first year Annual Required Contribution (ARC) consists of the Normal Cost plus the current year amortization of the Unfunded Actuarial Accrued Liability (UAAL). The amortization method used in this valuation is the level percentage of projected payroll method. The amortization will occur over a closed 30-year period.

Normal Cost is the portion of the actuarial present value of future benefits that is allocated to a particular year. Another interpretation is that the Normal Cost is the present value of future benefits that are "earned" by employees for service rendered during the current year. This valuation is based on the Entry Age Normal actuarial cost method. Under the Entry Age Normal cost method the actuarial present value of projected benefits is allocated on a level basis over the earnings or service of individuals between entry age and the assumed exit age(s). In this valuation each individual's attribution period extends from hire date to estimated retirement date. The valuation attributes the benefit assuming a 3.25% annual increase in salaries.

The following Tables provide illustrations of the July 1, 2007 GASB 45 Unfunded Actuarial Liability and 2008 fiscal year Annual Required Contribution assuming (i) a decision has been made by then to join the CalPERS Trust, and (ii) the full ARC will be contributed each year.

Tables 3-3a and 3-3b illustrate the City's first year Annual Required Contribution assuming an initial Trust deposit of $4,140,884 or an initial Trust deposit of $9,496,160.

Tables 3-4a and 3-4b contain 5-year projections for these two scenarios assuming that the City joins the CalPERS sponsored California Employers' Retiree Benefit Trust and contributes the full ARC each year. If a lesser amount is contributed then it is likely that the valuation would need to be completed using a discount rate lower than 7.75%.

Table 3-3a

Development of Illustrative 2007/08 Fiscal Year OPEB Annual Required Contribution – based on a 7.75% discount rate

Actuarial Accrued Liability	$36,371,140
Actuarial Value of Assets	$4,140,884
Unfunded Actuarial Accrued Liability	$32,230,256
Illustrative Amortization Period	30 years
Level percent of pay Amortization Factor (based on a 7.75% discount rate and a 3.25% annual increase in salaries)	16.042
Annual Level Dollar Amortization of Unfunded AAL	$2,009,058
Normal Cost (based on Entry Age Normal Method)	$1,122,462
Annual Required Contribution	$3,131,520
Estimated 2007/2008 pay-as-you-go Expense	$977,704

Table 3-3b

Development of Illustrative 2007/08 Fiscal Year
OPEB Annual Required Contribution – based on a 7.75% discount rate

Actuarial Accrued Liability	$36,371,140
Actuarial Value of Assets	$9,496,160
Unfunded Actuarial Accrued Liability	$26,874,980
Illustrative Amortization Period	30 years
Level percent of pay Amortization Factor (based on a 7.75% discount rate and a 3.25% annual increase in salaries)	16.042
Annual Level Dollar Amortization of Unfunded AAL	$1,675,239
Normal Cost (based on Entry Age Normal Method)	$1,122,462
Annual Required Contribution	$2,797,701
Estimated 2007/2008 pay-as-you-go Expense	$977,704

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Table 3-4a presents a five-year projection under the assumptions that the Trust will earn 7.75% per year, **the City contributes the full Annual Required Contribution to the CalPERS Trust**, the discount rate remains 7.75% and the Normal Cost component of the ARC increases by 5.0% each year. After the initial deposit we assumed mid-year additions to and subtractions from the Trust.

Table 3-4a

City of Milpitas

Five-year Projection of Annual OPEB Cost and Net OPEB Obligation
Based on a 7.75% discount rate and assuming full ARC funding

	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Actuarial Accrued Liability (AAL)	**$36,371,140**	**$39,297,482**	**$42,359,229**	**$45,548,430**	**$48,866,959**
Actuarial Value of Assets at beginning of year	**$4,140,884**	**$6,699,079**	**$9,426,099**	**$12,318,191**	**$15,381,778**
Unfunded Actuarial Accrued Liability (UAAL)	**$32,230,256**	**$32,598,403**	**$32,933,130**	**$33,230,239**	**$33,485,180**
Remaining Amortization Period	**30**	**29**	**28**	**27**	**26**
Normal Cost	$1,122,462	$1,178,585	$1,237,514	$1,299,390	$1,364,359
Amortization of UAAL	$2,009,058	$2,066,704	$2,125,807	$2,186,381	$2,248,440
Annual Required Contribution (ARC)	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Annual Required Contribution (ARC)	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Interest on net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$3,131,520	$3,245,289	$3,363,321	$3,485,771	$3,612,799
Contributions made	($3,131,520)	($3,245,289)	($3,363,321)	($3,485,771)	($3,612,799)
Increase in net OPEB Obligation	$0	$0	$0	$0	$0
Net OPEB Obligation – Beginning of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Net OPEB Obligation – End of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Estimated Annual Payroll	$41,522,000	$42,871,000	$44,264,000	$45,703,000	$47,188,000
Normal Cost as a % of Annual Payroll	2.7%	2.7%	2.8%	2.8%	2.9%
Annual OPEB Cost as a % of Annual Payroll	7.5%	7.6%	7.6%	7.6%	7.7%
Pay-as-you-go Expense as a% of Annual Payroll	2.4%	2.6%	2.9%	3.2%	3.5%

Table 3-4b presents a five-year projection under the assumptions that the Trust will earn 7.75% per year, **the City contributes the full Annual Required Contribution to the CalPERS Trust**, the discount rate remains 7.75% and the Normal Cost component of the ARC increases by 5.0% each year. After the initial deposit we assumed mid-year additions to and subtractions from the Trust.

Table 3-4b

City of Milpitas

Five-year Projection of Annual OPEB Cost and Net OPEB Obligation
Based on a 7.75% discount rate and assuming full ARC funding

	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Actuarial Accrued Liability (AAL)	**$36,371,140**	**$39,297,482**	**$42,359,229**	**$45,548,430**	**$48,866,959**
Actuarial Value of Assets at beginning of year	**$9,496,160**	**$12,122,634**	**$14,912,808**	**$17,862,233**	**$20,976,579**
Unfunded Actuarial Accrued Liability (UAAL)	**$26,874,980**	**$27,174,848**	**$27,446,421**	**$27,686,197**	**$27,890,379**
Remaining Amortization Period	**30**	**29**	**28**	**27**	**26**
Normal Cost	$1,122,462	$1,178,585	$1,237,514	$1,299,390	$1,364,359
Amortization of UAAL	$1,675,239	$1,722,856	$1,771,644	$1,821,612	$1,872,764
Annual Required Contribution (ARC)	$2,797,701	$2,901,441	$3,009,158	$3,121,002	$3,237,123
Annual Required Contribution (ARC)	$2,797,701	$2,901,441	$3,009,158	$3,121,002	$3,237,123
Interest on net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$2,797,701	$2,901,441	$3,009,158	$3,121,002	$3,237,123
Contributions made	($2,797,701)	($2,901,441)	($3,009,158)	($3,121,002)	($3,237,123)
Increase in net OPEB Obligation	$0	$0	$0	$0	$0
Net OPEB Obligation – Beginning of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Net OPEB Obligation – End of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Estimated Annual Payroll	$41,522,000	$42,871,000	$44,264,000	$45,703,000	$47,188,000
Normal Cost as a % of Annual Payroll	2.7%	2.7%	2.8%	2.8%	2.9%
Annual OPEB Cost as a % of Annual Payroll	6.7%	6.8%	6.8%	6.8%	6.9%
Pay-as-you-go Expense as a% of Annual Payroll	2.4%	2.6%	2.9%	3.2%	3.5%

SECTION IV
Plan Description and Demographic Summary

Eligibility and Contribution Requirements

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of the City's eligible health plans. In addition, the following eligibility rules and contribution requirements apply:

Professional/Technical (PROTECH)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Hired prior to July 1, 1995	At least 5 years of service	If retirement occurred between July 1, 1990 and September 1, 2002 – Any employee only medical premium rate provided that the retiree maintains enrollment in one of the health plans offered by the City. If retirement occurs after September 1, 2002 – Up to the single medical premium rate, but no more than the single rate paid by the City for active employees.
Hired on or after July 1, 1995 and retired on or after September 1, 2002	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the single rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

After a PROTECH retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

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Mid-Management and Confidential (LIUNA)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate, but no more than the employee only rate paid by the City for active employees.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the employee only rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

After a LIUNA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Unrepresented (UNREP)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate, but no more than the employee only rate paid by the City for active employees.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the employee only rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

After an Unrepresented retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Police Exempt employees follow MPOA benefit rules.

Police (MPOA)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Retired prior to January 1, 1989	N/A	None. However, retirees may elect to continue coverage on a self-pay basis. Note: the City does contribute the required minimum Cal PERS contribution ($80.80 per month in 2007 and $97.00 per month in 2008)
Hired prior to January 1, 1996	At least 5 years of service	If retirement occurred on or before June 30, 2003 – Any single, medical premium rate. If retirement occurs on or after July 1, 2003 – Up to 15% more than the cap on the City's employee only medical premium for active employees. (i.e., "retiree cap amount")
Hired on or after January 1, 1996	less than 10 years of service	The City will contribute up to 25% of the "retiree cap amount"
	10 but less than 15 years of service	The City will contribute up to 50% of the "retiree cap amount"
	15 but less than 20 years of service	The City will contribute up to 75% of the "retiree cap amount"
	20 or more years of service	The City will contribute up to 100% of the "retiree cap amount"

After an MPOA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Employee Association (MEA)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Hired prior to June 30, 1996	At least 5 years of service	If retirement occurred prior to July 17, 1989 – None. If retirement occurs on or after July 17, 1989 – Any employee only medical premium rate
Hired on or after June 30, 1996	1 but less than 10 years of service	The City will contribute 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the lowest cost employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the lowest cost employee only premium
	20 or more years of service	The City will contribute 100% of the lowest cost employee only premium

After an MEA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Supervisors (MSA)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

After an MSA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

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Fire (IAFF)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Retired prior to January 1, 1990	N/A	None. However, retirees may elect to continue coverage on a self-pay basis. Note: the City does contribute the required minimum Cal PERS contribution ($80.80 per month in 2007, $97.00 per month in 2008)
Retired January 1, 1990 through February 20, 2007	N/A	Any employee only premium.
Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10 years of service	The City will contribute 50% of the lesser of the "retiree cap" (defined as 15% more than the benefit cap provided to active employees) and the premium rate for the plan selected by the retiree.
	10 or more years of service	The City will contribute 100% of the lesser of the "retiree cap" and the premium rate for the plan selected by the retiree.

Fire (IAFF) continued

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Hired on or after January 1, 1995 and retire after February 20, 2007	1 but less than 10 years of service	The City will contribute 25% of the lesser of the "retiree cap" and the premium rate for the plan selected by the retiree.
	10 but less than 15 years of service	The City will contribute 50% of the lesser of the "retiree cap" and the premium rate for the plan selected by the retiree.
	15 but less than 20 years of service	The City will contribute 75% of the lesser of the "retiree cap" and the premium rate for the plan selected by the retiree.
	20 or more years of service	The City will contribute 100% of the lesser of the "retiree cap" and the premium rate for the plan selected by the retiree.

After an IAFF retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Duration of Benefits

City provided benefits continue throughout the lifetime of the retiree. Surviving spouse benefits are available to spouses of MPOA and IAFF retirees.

Medical Plans

Retirees and their dependents may enroll in any of the Cal PERS plans.

Dependent premium payments are made from Retiree Dependent Health Care Funds established and funded by the City.

Dental Plan

PROTECH, LIUNA, Unrepresented, MEA and MSA retirees are eligible to participate in the City's self-funded dental plan.

MPOA and IAFF retirees (including Exempt retirees) are eligible to participate in postemployment dental coverage (Delta Dental and IAFF Dental Fund respectively) at no cost to the City.

City Cap

The City's cap on contributions varies by bargaining unit. For certain retirees there is no cap, and the City contributes the full cost of employee only coverage. However, generally, for future retirees, the City's cap is tied to the maximum amount the City contributes toward the cost of active employee only medical coverage (which is generally the Cal PERS Kaiser rate).

Retiree Contributions

Retirees must contribute any medical premium amounts that exceed the City's cap.

Eligible PROTECH, LIUNA, UNREP and MEA retirees contribute 50% of the composite active employee dental premium/funding rate. MSA retirees contribute $62.50 per month.

MPOA, unrepresented Police, IAFF, and unrepresented IAFF retirees are not eligible for City subsidized postemployment dental coverage.

City Contributions

In addition to the monthly premium cap the City also contributes additional amounts to be used by various bargaining units to pay for some, or all, of the cost of postemployment dependent medical coverage. These contributions are:

- PROTECH – Each year the City will contribute 1% of payroll with benefits to a fund to be used to help pay the medical premiums of retirees' dependents.
- LIUNA – Each year the City will contribute 1% of payroll with benefits to a fund to be used to help pay the medical premiums of retirees' dependents.
- MPOA and MPOA Exempt staff – Each year the City will contribute 1% of payroll and benefits to a fund to be used to help pay the medical premiums of dependents of eligible retirees and dependents of eligible employees who became deceased while still employed.
- MEA – Each year the City will contribute .41% of payroll and benefits to a fund to be used to help pay dependent medical premiums.
- MSA – The City will contribute 1% of payroll with benefits for the purpose of establishing a fund for contributions relating to retirees' dependent's medical premiums.
- IAFF – Each year the City will contribute 1% of payroll and benefits to a fund to be used to help pay the medical premiums of dependents of eligible retirees and dependents of eligible employees who became deceased while still employed.

The benefit provided to dependents of retirees is described in the City's MOUs and is summarized below.

Professional/Technical (PROTECH)

Hire Date/Retirement Date	Eligibility Rule	Dependent Benefits paid from the Fund
Hired prior to July 1, 1995 and retired on or after December 5, 2006.	At least 5 years of service	An amount up to the family medical premium rate (at a rate no higher than any family plan paid by the City for active employees) will be paid from the Fund as long as the retiree maintains enrollment in one of the eligible health plans.
Hired on or after July 1, 1995 and retired on or after December 5, 2006	1 but less than 10 years of service	The City will contribute 25% of the dependent premium from the Fund as long as the retiree maintains enrollment in one of the eligible health plans.
	10 but less than 15 years of service	The City will contribute 50% of the dependent premium from the Fund.
	15 but less than 20 years of service	The City will contribute 75% of the dependent premium from the Fund.
	20 or more years of service	The City will contribute 100% of the dependent premium from the Fund.

After a dependent of a PROTECH retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Mid-Management and Confidential (LIUNA)

Hire Date	Eligibility Rule	Dependent Benefits paid from the Fund
Prior to July 1, 1995 and retired on or after January 2, 2007	At least 5 years of full-time service	An amount up to the family medical premium rate (at a rate no higher than any family plan paid by the City for active employees), as long as the retiree maintains enrollment in one of the eligible health plans.
On or after July 1, 1995 and retired on or after January 2, 2007	5 but less than 10 years of service	The City will contribute 25% of the dependent medical premium employee only premium from the Fund, as long as the retiree maintains enrollment in one of the eligible health plans.
	10 but less than 15 years of service	The City will contribute 50% of the dependent premium from the Fund.
	15 but less than 20 years of service	The City will contribute 75% of the dependent premium from the Fund.
	20 or more years of service	The City will contribute 100% of the dependent premium from the Fund.

After a dependent of a LIUNA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Unrepresented (UNREP)

Hire Date	Eligibility Rule	Dependent Benefits paid from the Fund
	At least 5 years of full-time service	Police Exempt Staff receive the same dependent benefits from the Fund as MPOA retirees. No other Unrepresented retirees are eligible for dependent benefits.

After a dependent of a Police Exempt retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Police (MPOA)

Hire Date/Retirement Date	Eligibility Rule	Dependent Benefits paid from the Fund
Hired prior to January 1, 1996 and retired or deceased on or after July 1, 2003	At least 5 years of service	100% of the medical premium of dependents of retirees and eligible surviving dependents of deceased employees will be paid from the Fund.
Hired on or after January 1, 1996 and retired or deceased on or after July 1, 2003	5 but less than 10 years of service	The City will contribute 25% of the dependent premium from the Fund.
	10 but less than 15 years of service	The City will contribute up to 50% of the dependent premium from the Fund.
	15 but less than 20 years of service	The City will contribute up to 75% of the dependent premium from the Fund.
	20 or more years of service	The City will contribute up to 100% of the dependent premium from the Fund.

After a dependent of an MPOA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Employee Association (MEA)

Hire Date/Retirement Date	Eligibility Rule	Dependent Benefits paid from the Fund
Hired prior to June 30, 1996 and retire after June 30, 1996	At least 5 years of service	If retirement occurs on or after June 30, 1996. 100% of the dependent premium will be paid from the Fund
Hired on or after June 30, 1996	1 but less than 10 years of service	The City will contribute 25% of lowest cost dependent premium from the Fund.
	10 but less than 15 years of service	The City will contribute 50% of the lowest cost dependent premium from the Fund.
	15 but less than 20 years of service	The City will contribute 75% of the lowest cost dependent premium from the Fund.
	20 or more years of service	The City will contribute 100% of the lowest cost dependent premium from the Fund.

After a dependent of an MEA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Supervisors (MSA)

Hire Date	Eligibility Rule	Spousal Benefits paid from the Fund
Prior to February 3, 1999	At least 5 years of full-time service	100% of the spousal medical premium rate from the Fund.
On or after February 3, 1999	10 but less than 20 years of service	50% of the spousal premium from the Fund.
	20 or more years of service	100% of the spousal premium from the Fund.

After a dependent of an MSA retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

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Fire (IAFF)

Hire Date/Retirement Date	Eligibility Rule	Dependent Benefits paid from the Fund
Hired prior to January 1, 1995 and retired or deceased after February 20, 2007	10 or more years of service	100% of the medical premium of dependents of retirees and eligible surviving dependents of deceased employees will be paid from the Fund.
Hired on or after January 1, 1995	1 but less than 9 years of service	The City will contribute 25% of the dependent premium from the Fund.
	9 but less than 14 years of service	The City will contribute 50% of the dependent premium from the Fund.
	15 but less than 19 years of service	The City will contribute 75% of the dependent premium from the Fund.
	19 or more years of service	The City will contribute 100% of the dependent premium from the Fund.

After a dependent of an IAFF retiree becomes Medicare eligible the City shall contribute up to the CalPERS premium rates for Medicare recipients.

Demographic Data

The City provided demographic information on all current active and retired employees. The data was provided as of April 2007. However, for this valuation we assumed that the census was stable between April 2007 and the July 1, 2007 valuation date and used the census as if it was the actual July 1, 2007 census. The following Tables contain a summary of the census data used in the valuation.

Table 4-1
Age and Service Table for
Active PROTECH Employees
as of July 1, 2007

	Years of Service						
Age	<5	5-9	10-14	15-19	20-24	25+	Total
Under 25	2	0	0	0	0	0	**2**
25-29	0	2	0	0	0	0	**2**
30-34	2	11	0	0	0	0	**13**
35-39	6	6	0	0	0	0	**12**
40-44	2	7	1	2	0	0	**12**
45-49	4	7	2	6	5	0	**24**
50-54	2	5	0	5	1	0	**13**
55-59	1	6	3	3	3	0	**16**
60-64	1	2	1	1	0	0	**5**
65+	0	1	0	0	1	1	**3**
Total	**20**	**47**	**7**	**17**	**10**	**1**	**102**

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Table 4-2
Age and Service Table for
Active LIUNA Employees
as of July 1, 2007

	Years of Service						
Age	<5	5-9	10-14	15-19	20-24	25+	Total
Under 25	0	0	0	0	0	0	**0**
25-29	0	3	0	0	0	0	**3**
30-34	0	2	0	0	0	0	**2**
35-39	1	5	0	0	0	0	**6**
40-44	0	1	2	0	0	0	**3**
45-49	0	1	3	1	1	0	**6**
50-54	2	4	1	1	0	1	**9**
55-59	2	2	0	0	2	0	**6**
60-64	0	0	0	2	0	0	**2**
65+	0	1	0	0	0	0	**1**
Total	**5**	**19**	**6**	**4**	**3**	**1**	**38**

Table 4-3
Age and Service Table for
Active Unrepresented Employees
as of July 1, 2007

	Years of Service						
Age	<5	5-9	10-14	15-19	20-24	25+	Total
Under 25	0	0	0	0	0	0	**0**
25-29	0	0	0	0	0	0	**0**
30-34	0	0	0	0	0	0	**0**
35-39	1	0	0	0	0	0	**1**
40-44	2	0	1	3	1	0	**7**
45-49	0	1	2	1	3	2	**9**
50-54	1	2	0	1	1	1	**6**
55-59	2	0	0	0	0	0	**2**
60-64	0	1	0	0	0	0	**1**
65+	0	0	0	0	0	0	**0**
Total	**6**	**4**	**3**	**5**	**5**	**3**	**26**

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Table 4-4
Age and Service Table for
Active MPOA Employees
as of July 1, 2007

			Years of Service				
Age	**<5**	**5-9**	**10-14**	**15-19**	**20-24**	**25+**	**Total**
Under 25	1	0	0	0	0	0	**1**
25-29	7	3	0	0	0	0	**10**
30-34	6	16	1	0	0	0	**23**
35-39	2	8	11	5	0	0	**26**
40-44	0	4	6	8	4	0	**22**
45-49	0	1	0	4	13	1	**19**
50-54	0	2	1	0	0	2	**5**
55-59	0	0	0	0	0	0	**0**
60-64	0	0	0	0	0	0	**0**
65+	0	0	0	0	0	0	**0**
Total	**16**	**34**	**19**	**17**	**17**	**3**	**106**

Table 4-5
Age and Service Table for
Active MEA Employees
as of July 1, 2007

			Years of Service				
Age	**<5**	**5-9**	**10-14**	**15-19**	**20-24**	**25+**	**Total**
Under 25	0	0	0	0	0	0	**0**
25-29	1	2	0	0	0	0	**3**
30-34	0	4	0	0	0	0	**4**
35-39	1	9	1	0	0	0	**11**
40-44	2	6	3	4	1	0	**16**
45-49	3	4	3	5	4	1	**20**
50-54	0	2	2	3	2	1	**10**
55-59	1	2	1	3	2	1	**9**
60-64	0	1	0	0	0	0	**2**
65+	0	1	0	0	0	0	**1**
Total	**8**	**31**	**10**	**15**	**9**	**3**	**76**

Table 4-6
Age and Service Table for
Active MSA Employees
as of July 1, 2007

Years of Service

Age	≤5	5-9	10-14	15-19	20-24	25+	Total
Under 25	0	0	0	0	0	0	**0**
25-29	0	0	0	0	0	0	**0**
30-34	0	0	0	0	0	0	**0**
35-39	0	0	0	1	0	0	**1**
40-44	0	0	0	0	0	0	**0**
45-49	0	0	0	1	1	0	**2**
50-54	0	0	0	1	1	2	**4**
55-59	0	0	0	0	0	0	**0**
60-64	0	0	0	0	1	0	**1**
65+	0	0	0	0	0	0	**0**
Total	**0**	**0**	**0**	**3**	**3**	**1**	**8**

Table 4-7
Age and Service Table for
Active IAFF Employees
as of July 1, 2007

Years of Service

Age	≤5	5-9	10-14	15-19	20-24	25+	Total
Under 25	0	0	0	0	0	0	**0**
25-29	4	0	0	0	0	0	**4**
30-34	1	3	0	0	0	0	**4**
35-39	4	2	3	0	0	0	**9**
40-44	2	7	1	3	1	0	**14**
45-49	0	1	0	7	6	0	**14**
50-54	1	0	0	0	4	5	**10**
55-59	0	0	1	1	1	0	**3**
60-64	0	0	0	0	0	0	**0**
65+	0	0	0	0	0	0	**0**
Total	**12**	**13**	**5**	**11**	**12**	**5**	**58**

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Table 4-8
Age and Service Table for
All Active Employees
as of July 1, 2007

	Years of Service						
Age	**<5**	**5-9**	**10-14**	**15-19**	**20-24**	**25+**	**Total**
Under 25	3	0	0	0	0	0	**3**
25-29	12	10	0	0	0	0	**22**
30-34	9	36	1	0	0	0	**46**
35-39	15	30	15	6	0	0	**66**
40-44	8	25	14	20	7	0	**74**
45-49	7	15	10	25	33	4	**94**
50-54	6	15	4	11	9	12	**57**
55-59	6	10	5	7	8	0	**36**
60-64	1	4	1	3	1	1	**11**
65+	0	3	0	0	1	1	**5**
Total	**67**	**148**	**50**	**72**	**59**	**18**	**414**

Note: 32 employees and Council members who have waived medical coverage were included in the valuation.

Table 4-9

Age Table for All Retirees

Currently Receiving Benefits

as of July 1, 2007

Age	PROTECH	LIUNA	UNREP*	MPOA	MEA	MSA	IAFF	Total
Under 50	0	0	0	8	1	0	4	**13**
50-54	1	0	2	4	0	0	11	**18**
55-59	7	1	5	5	4	0	7	**29**
60-64	4	4	11	11	5	2	7	**44**
65-69	9	0	7	5	6	0	4	**31**
70-74	3	0	4	4	1	1	0	**13**
75-79	2	0	1	0	0	0	2	**5**
80-84	0	0	1	0	0	0	0	**1**
85+	2	0	0	0	0	0	0	**2**
Total	**28**	**5**	**31**	**37**	**17**	**3**	**35**	**156**

* Unrepresented includes 4 MPOA Exempt employees and 3 IAFF Exempt employees.

Table 4-10

Retiree Enrollment by Medical Plan

as of July 1, 2007

Medical Plan	Total
Blue Shield	20
Kaiser	75
No Current Coverage	3
PERS Care	21
PERS Choice	33
PORAC	4
Total	**156**

SECTION V
Actuarial Method and Assumptions

In order to project the City's liabilities into the future, a number of economic, demographic, and baseline cost assumptions are necessary. In general we used the same demographic assumptions as those used in the most recent California PERS pension valuations.

Valuation Date
The valuation date is July 1, 2007. This date is the starting point from which current health premium costs are increased according to the assumed annual rates of health care cost trend. The City census is projected from the valuation date to the date of the final benefit payment for each employee and retiree on the census. After calculating future costs for the projected retiree and dependent population, all liabilities are discounted back to the valuation date to obtain the present value of future costs.

Economic Assumptions

Discount Rate
A discount rate is required to calculate the present value of future benefit payments which are used to determine financial statement expense. GASB Statement No. 45 specifies that the selected rate should be "the long-term investment yield on investments that are expected to be used to finance the payment of benefits". This valuation is based on the 7.75% discount rate specified for public agencies that join the CalPERS sponsored California Employers' Retiree Benefit Trust Fund and contribute the full ARC each year. If the City does not establish or join a Trust, and contribute the full ARC each year, the valuation should be rerun based on a discount rate (most likely lower) that approximates the amount the City expects to earn on its internal investments. This could substantially increase liabilities and costs.

Health Care Trend
The rate of increase in per capita health care costs is commonly referred to as the *health care trend* rate. Although the term "health care inflation" is sometimes used synonymously with the trend rate, health care inflation is only one of several components of the trend rate. The analysis recognizes the following influences on health care trend: pure medical inflation, utilization changes, technological changes, regulatory requirements, Medicare cost shifting, and aging.

Based on our extensive experience with postemployment health plans and guidance provided by CalPERS, we used the following annual trend rates in this valuation:

Table 5-1

Annual Health Care Cost Trend Rate Assumption

Estimated Cost Increase in the Plan Year Beginning	**Medical**	**Dental**
July 1, 2008	8.5%	3.0%
July 1, 2009	7.7%	3.0%
July 1, 2010	7.2%	3.0%
July 1, 2011	6.7%	3.0%
July 1, 2012	6.2%	3.0%
July 1, 2013	5.7%	3.0%
July 1, 2014	5.2%	3.0%
July 1, 2015 and later	5.0%	3.0%

Baseline Cost

Estimates of retiree health benefit obligations are normally based on current costs for a one year period. We refer to this as the *baseline cost*. The components of baseline cost, such as average per capita cost, and the current plan population are projected into the future to estimate the cost of future benefits.

Table 5-2a contains the premium rates used to develop the 2007/2008 baseline cost per retiree or spouse. We assumed that the premium rates for all medical plans will increase 9% on January 1, 2008.

Table 5-2a

Baseline Cost for the Plan Year
Beginning July 1, 2007

Medical	**2007**	**Estimated 2008**
- Cal PERS "Minimum Employer Contribution"	$80.80	$97.00
- Cal PERS Retiree or Spouse Monthly Premium Rates		
Basic Rates		
Blue Shield	$484.21	$527.79
Kaiser	$431.17	$469.98
PERS Choice	$455.18	$496.15
PERS Care	$769.50	$838.76
PORAC	$439.00	$478.51
Medicare Supplement Rates		
Blue Shield	$318.95	$347.66
Kaiser	$289.68	$315.75
PERS Choice	$341.75	$372.51
PERS Care	$371.68	$405.13
PORAC	$351.00	$382.59
Dental composite Funding rate	$165.17	

Table 5-2b contains 2007/08 baseline cost developed from the premium rates shown in Table 5-2a.

CalPERS has indicated that its medical program is a "community rated" plan as described in GASB 45. This means that all participating employers located in the same region pay the same premium rates even though older employees and early retirees generally have higher medical costs than younger employees. If CalPERS changes its present practice and at a future date decides to modify the premium structure so that it charges more on average for non-Medicare retirees than for active employees, then higher costs would need to be allocated to retirees, and this could result in a substantial increase in the City's Actuarial Accrued Liability and Annual Required Contribution.

Table 5-2b

Baseline Cost for the Plan Year Beginning July 1, 2007

Medical cost per retiree or spouse		**2007/08**
- Maximum Annual City Contribution		
Cal PERS "Minimum Employer Contribution" (Applicable to certain MPOA and IAFF retirees)		$1,067
Lowest Cost Plan (i.e., Kaiser) (Applicable to PROTECH, UNREP, and LIUNA retirees)	Pre-Medicare	$5,407
	Medicare	$3,633
Any available plan (weighted average of current enrollees) (Applicable to certain MPOA, PROTECH, MEA MSA and IAFF retirees)	Pre-Medicare	$5,982
	Medicare	$3,874
115% of Lowest Cost Plan (i.e., Kaiser) (Applicable to certain MPOA and IAFF retirees)	Pre-Medicare	$5,685
	Medicare	$3,804

Dental composite cost per retiree	**2007/08**
– Estimated Annual Composite Cost per Retiree (90% of Active EE funding rate)-	$1,794
–Annual Retiree Contribution - MSA	$750
–Annual Retiree Contribution – PROTECH, LIUNA, UNREP, MEA	$991

Administrative Expenses
The City pays a monthly administration fee to Cal PERS. The current fee is .44% of monthly premium. We included this administration fee in the valuation.

Salary Increases
In this valuation we assumed a 3.25% annual rate of increase in future salaries. This rate is a component of the Entry Age Normal Actuarial Cost Method and is used in the calculation of the amortization component of the Annual Required Contribution and in calculation of the Normal Cost.

Amortization Methodology
GASB 45 allows amortization of the Unfunded Actuarial Accrued Liability based on a level dollar approach or as a level percentage of covered payroll. The maximum amortization period is 30 years. This valuation is based on a closed, 30-year amortization of the Unfunded Actuarial Accrued Liability as a level percentage of earnings; increasing each year as earnings increase.

Plan Assets
We understand that as of July 1, 2007, no portion of this obligation had been prefunded.

Demographic Assumptions

In estimating this obligation, a number of demographic assumptions are needed. These assumptions match those used in the most recent next California PERS pension valuations.

Withdrawal

For the IAFF and MPOA valuations we used withdrawal rates that were used in the most recent next California PERS Fire and Police 3% @50 retirement plan valuations. Selected rates are shown below.

Table 5-3
IAFF and MPOA
Withdrawal Rates

Completed Years of Service	Fire	Police
0	0.09470	0.12990
1	0.07390	0.08160
2	0.05310	0.03480
3	0.03230	0.03310
4	0.02900	0.03140
5	0.02570	0.02970
6	0.02230	0.02810
7	0.01890	0.02630
8	0.01560	0.02470
9	0.01230	0.02300
10	0.00900	0.02130
15	0.00790	0.01290
20	0.00690	0.00970
25	0.00570	0.00820
30	0.00540	0.00760
35	0.00090	0.00120

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For the PROTECH, LIUNA, Unrepresented, MEA and MSA valuations we used withdrawal rates that were used in the most recent California PERS Public Agency Miscellaneous 2% @55 and 2.7% @55 retirement plan valuations. Selected rates are shown below.

Table 5-4
Annual Withdrawal Rates

	Entry Age						
Service	**20**	**25**	**30**	**35**	**40**	**45**	**50**
0	0.17600	0.16910	0.16220	0.15525	0.14830	0.14140	0.13450
1	0.15610	0.14920	0.14230	0.13535	0.12840	0.12150	0.11460
2	0.13620	0.12930	0.12240	0.11545	0.10850	0.10160	0.09470
3	0.11630	0.10940	0.10250	0.09555	0.08860	0.08170	0.07480
4	0.09640	0.08950	0.08260	0.07565	0.06870	0.06180	0.05490
5	0.07650	0.06965	0.06270	0.05575	0.04880	0.03085	0.01290
6	0.07270	0.06580	0.05880	0.05190	0.04500	0.02810	0.01120
7	0.06890	0.06190	0.05500	0.04815	0.04110	0.02535	0.00960
8	0.06500	0.05805	0.05120	0.04425	0.03730	0.02265	0.00800
9	0.06120	0.05430	0.04730	0.04040	0.03350	0.02000	0.00650
10	0.05740	0.05045	0.04350	0.03660	0.00950	0.00730	0.00510
15	0.04460	0.03755	0.03070	0.00645	0.00460	0.00270	0.00080
20	0.03180	0.02490	0.00410	0.00250	0.00090	0.00055	0.00020
25	0.01900	0.00215	0.00090	0.00055	0.00020	0.00020	0.00020
30	0.00100	0.00060	0.00020	0.00020	0.00020	0.00020	0.00020
35	0.00020	0.00020	0.00020	0.00020	0.00020	0.00010	0.00000

Retirement Rates

For IAFF employees we used the same retirement rates as those used in the most recent California PERS 3% @50 Firefighter retirement plan valuation. Sample rates are shown below.

Table 5-5
IAFF
Annual Rates of Retirement

	Years of Service						
Age	**5**	**10**	**15**	**20**	**25**	**30**	**35**
50	0.03410	0.03410	0.03410	0.04770	0.06790	0.08040	0.08610
51	0.04630	0.04630	0.04630	0.06470	0.09220	0.10910	0.11690
52	0.06930	0.06930	0.06930	0.09670	0.13770	0.16300	0.17460
53	0.08350	0.08350	0.08350	0.11660	0.16610	0.19650	0.21050
54	0.10250	0.10250	0.10250	0.14310	0.20380	0.24120	0.25840
55	0.12650	0.12650	0.12650	0.17660	0.25160	0.29770	0.31900
56	0.12100	0.12100	0.12100	0.16900	0.24070	0.28480	0.30520
57	0.10100	0.10100	0.10100	0.14110	0.20100	0.23780	0.25480
58	0.11840	0.11840	0.11840	0.16520	0.23540	0.27860	0.29850
59	0.10020	0.10020	0.10020	0.13990	0.19930	0.23580	0.25260
60	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

For MPOA employees we used the same retirement rates as those used in the most recent California PERS 3% @50 Firefighter retirement plan valuation. Sample rates are shown below.

Table 5-6
MPOA
Annual Rates of Retirement

	Years of Service						
Age	**5**	**10**	**15**	**20**	**25**	**30**	**35**
50	0.04350	0.04350	0.04350	0.08210	0.12080	0.15590	0.19100
51	0.03850	0.03850	0.03850	0.07280	0.10710	0.13820	0.16930
52	0.06140	0.06140	0.06140	0.11590	0.17050	0.22000	0.26950
53	0.06890	0.06890	0.06890	0.13030	0.19160	0.24720	0.30280
54	0.07100	0.07100	0.07100	0.13420	0.19740	0.25470	0.31200
55	0.08980	0.08980	0.08980	0.16980	0.24970	0.32220	0.39470
56	0.06870	0.06870	0.06870	0.12990	0.19100	0.24650	0.30190
57	0.08030	0.08030	0.08030	0.15180	0.22320	0.28800	0.35280
58	0.07910	0.07910	0.07910	0.14950	0.21980	0.28370	0.34750
59	0.08200	0.08200	0.08200	0.15490	0.22790	0.29400	0.36020
60	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

For all other employees we used the retirement rates used in the most recent California PERS 2.7% @55 retirement plan valuation. Selected rates are shown below.

Table 5-7
Annual Rates of Retirement

Age	Male	Female
50	0.05	0.07
55	0.09	0.10
60	0.17	0.13
61	0.16	0.11
62	0.28	0.23
63	0.23	0.20
64	0.16	0.14
65	0.27	0.27
67	0.25	0.25
70	1.00	1.00

Disability Retirement

Sample disability rates for Fire and Police employees are shown in Table 5-8. These rates match those used in the most recent California PERS pension valuations.

Because of the low incidence of disability retirements for non-Safety employees we did not value disability retirement for non-Safety employees.

Table 5-8
Annual Rates of Disability

Age	IAFF	MPOA
25	0.21%	0.56%
30	0.21%	0.56%
35	0.41%	1.12%
40	0.41%	1.12%
45	0.62%	1.67%
50	0.62%	1.67%
55	6.00%	5.81%

Mortality

We used same mortality rates as those used in the most recent California PERS retirement plan valuations. Annual mortality rates for selected ages are shown in Table 5-9.

Table 5-9

Sample Mortality Rates

	Preretirement		Postretirement	
Age	Male	Female	Male	Female
55	0.248%	0.178%	0.429%	0.253%
60	0.344%	0.256%	0.721%	0.442%
65	0.480%	0.369%	1.302%	0.795%
70	0.671%	0.537%	2.135%	1.276%
75			3.716%	2.156%
80			6.256%	3.883%
85			10.195%	7.219%
90			17.379%	12.592%

Health Plan Participation

We assumed that upon retiring from the City 100% of eligible employees will enroll in one of the available medical plans and that 55% of eligible future retirees will enroll a spouse.

We assumed that 55% of eligible retirees will enroll in the City's dental program.

Medicare Coverage

We assumed that all retirees will be eligible for and enroll in Medicare Part A and Part B when they reach age 65.

SECTION VI
Glossary

- Accrual Accounting – A method of matching the cost of an employee's service, including long term obligations such as OPEB, to that employee's period of active service.

- Actuarial Accrued Liability (AAL) – The Actuarial Present Value of all postemployment benefits attributable to past service. Note: the AAL is sometimes referred to as the Past Service Liability.

- Actuarial Cost Method – A procedure for allocating the actuarial present value of 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.

- Actuarial Present Value – The value of an amount or series of amounts payable or receivable at various times. Each such amount or series of amounts is:

  a. adjusted for the probable financial effect of certain intervening events (such as changes in healthcare costs, compensation levels, Medicare, 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

- Actuarial Valuation – The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and related Actuarial Present Values.

- Actuarial Value of Assets – The value of cash, investments and other property belonging to a plan. These are amounts that may be applied to fund the Actuarial Accrued Liability. Note: assets must be segregated and placed in a Trust in order to be considered OPEB assets

- Amortization Payment – That portion of the Annual OPEB cost which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

In the year that Statement 45 becomes effective an employer is allowed to commence amortization of the Unfunded Actuarial Accrued Liability, over a period not to exceed 30 years.

- Annual Other Postemployment Benefit (OPEB) Cost - An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. The annual OPEB cost is the amount that must be calculated and reported as an expense.

  When an employer has no net OPEB obligation (e.g., in the year of implementation) the annual OPEB cost is equal to the Annual Required Contribution (ARC).

  In subsequent years the Annual OPEB cost will include:

  - the ARC (equal to the Normal Cost plus one year's amortization of the Unfunded Actuarial Accrued Liability);
  - one year's interest on the net OPEB obligation at the beginning of the year using the valuation discount rate; and
  - an adjustment to the ARC. This adjustment is intended to provide a reasonable approximation of that portion of the ARC that consists of interest associated with past contribution deficiencies. GASB Statement No. 45 specifies that this adjustment should be equal to an amortization of the discounted present value of the net OPEB obligation at the beginning of the year. The amortization should be calculated using the same amortization method and period used in determining the ARC for that year. If the net OPEB obligation is positive the adjustment should be deducted from the ARC.
  - Note: As long as the net OPEB obligation is zero, there will not be any interest charge or adjustment to the ARC. However, if an employer does not contribute the full amount of the ARC, a net OPEB obligation will emerge.

- Annual required contributions of the employer (ARC) - The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

- Defined benefit OPEB plan - An OPEB plan having terms that specify the *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors, such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

- Defined contribution plan - A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify how contributions to an active plan member's account are to be determined, rather than the income or other benefits the member or his beneficiaries are to receive at or after separation from employment. Those benefits will depend only on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits.

- Employer's contributions - Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.

- Entry Age Normal Actuarial Cost Method – An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in the valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

- Healthcare cost trend rate - The rate of change in 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.

- Investment return assumption (discount rate) - The rate used to adjust a series of future payments to reflect the time value of money.

- Net OPEB obligation - The cumulative difference since the effective date of GASB Statement 45 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.

  Most employers will have no net OPEB obligation at the beginning of the year in which Statement 45 is implemented.

If an employer contributes the annual OPEB cost to the plan each year, and there are no actuarial or investment gains or losses then the net OPEB Obligation will remain zero.

- Normal Cost - That portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Another interpretation is that the Normal Cost is the present value of future benefits that are "earned" by employees for service rendered during the current year.

- OPEB assets - The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expenses.

- OPEB expense - The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.

- Other postemployment benefits (OPEB) - Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.

- Plan assets - Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan.

- Present Value – See Actuarial Present Value.

- Projected Unit Credit Cost Method – An actuarial cost method under which the projected benefits of each individual included in an Actuarial Valuation are separately calculated and allocated to each year service by a consistent formula.

- Substantive plan - The terms of an OPEB plan as understood by the employer(s) and plan members.

- Unfunded Actuarial Accrued Liability (UAAL) – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

- Valuation date – The date as of which the postemployment benefit obligation is determined.

AGREEMENT AND ELECTION OF

CITY OF MILPITAS

(NAME OF EMPLOYER)

TO PREFUND OTHER POST EMPLOYMENT BENEFITS THROUGH CALPERS

WHEREAS (1) Government Code Section 22940 establishes in the State Treasury the Annuitants' Health Care Coverage Fund for the prefunding of health care coverage for annuitants (Prefunding Plan); and

WHEREAS (2) The California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has sole and exclusive control and power over the administration and investment of the Prefunding Plan, the purposes of which include, but are not limited to (i) receiving contributions from participating employers and establishing separate Employer Prefunding Accounts in the Prefunding Plan for the performance of an essential governmental function (ii) investing contributed amounts and income thereon, if any, in order to receive yield on the funds and (iii) disbursing contributed amounts and income thereon, if any, to pay for costs of administration of the Prefunding Plan and to pay for health care costs or other post employment benefits in accordance with the terms of participating employers' plans; and

WHEREAS (3) CITY OF MILPITAS

(NAME OF EMPLOYER)

(Employer) is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA) administered by the Board, and desires to participate in the Prefunding Plan upon the terms and conditions set by the Board and as set forth herein; and

WHEREAS (4) Employer may participate in the Prefunding Plan upon (i) approval by the Board and (ii) filing a duly adopted and executed Agreement and Election to Prefund Other Post Employment Benefits (Agreement) as provided in the terms and conditions of the Agreement; and

WHEREAS (5) The Prefunding Plan is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 consisting of an aggregation of single-employer plans, with pooled administrative and investment functions;

NOW, THEREFORE, BE IT RESOLVED THAT EMPLOYER HEREBY MAKES THE FOLLOWING REPRESENTATION AND WARRANTY AND THAT THE BOARD AND EMPLOYER AGREE TO THE FOLLOWING TERMS AND CONDITIONS:

A. Representation and Warranty

Employer represents and warrants that it is a political subdivision of the State of California or an entity whose income is excluded from gross income under Section 115 (1) of the Internal Revenue Code.

B. Adoption and Approval of the Agreement; Effective Date; Amendment

(1) Employer's governing body shall elect to participate in the Prefunding Plan by adopting this Agreement and filing with the CalPERS Board a true and correct original or certified copy of this Agreement as follows:

Filing by mail, send to: CalPERS Employer Services Division
P.O. Box 942709
Sacramento, CA 94229-2709

Filing in person, deliver to:
CalPERS Mailroom
Attn: Employer Services Division
400 Q Street
Sacramento, CA 95814

(2) Upon receipt of the executed Agreement, and after approval by the Board, the Board shall fix an effective date and shall promptly notify Employer of the effective date of the Agreement.

(3) The terms of the Agreement may be amended only in writing upon the agreement of both CalPERS and Employer, except as otherwise provided herein. Any such amendment or modification to the Agreement shall be adopted and executed in the same manner as required for the Agreement. Upon receipt of the executed amendment or modification, the Board shall fix the effective date of the amendment or modification.

(4) The Board shall institute such procedures and processes as it deems necessary to administer the Prefunding Plan, to carry out the purposes of the Agreement, and to maintain the tax exempt status of the Prefunding Plan. Employer agrees to follow such procedures and processes.

C. Actuarial Valuation and Employer Contributions

(1) Employer shall provide to the Board an actuarial valuation report on the basis of the actuarial assumptions and methods prescribed by the Board. Such report shall be for the Board's use in financial reporting and shall be:

(a) prepared and signed by a fellow or associate of the Society of Actuaries who is also a member of the American Academy of Actuaries or a person with equivalent qualifications acceptable to the Board;

(b) prepared in accordance with generally accepted actuarial practice and GASB Statement Nos. 43 and 45; and,

(c) provided to the Board prior to the Board's acceptance of contributions for the valuation period or as otherwise required by the Board.

(2) The Board may reject any actuarial valuation report submitted to it, but shall not unreasonably do so. In the event that the Board determines, in its sole discretion, that the actuarial valuation report is not suitable for use in the Board's financial statements or if Employer fails to provide a required actuarial valuation, the Board may obtain, at Employer's expense, an actuarial valuation that meets the Board's financial reporting needs. The Board may recover from Employer the cost of obtaining such actuarial valuation by billing and collecting from Employer or by deducting the amount from Employer's account in the Prefunding Plan.

(3) Employer shall notify the Board of the amount and time of contributions which contributions shall be made in the manner established by the Board.

(4) Employer contributions to the Prefunding Plan may be limited to the amount necessary to fully fund Employer's actuarial present value of total projected benefits, as that term is defined in GASB Statement No. 45, as supported by the actuarial valuation acceptable to the Board. If Employer's contribution causes its assets in the Prefunding Plan to exceed the amount required to fully fund projected benefits, the Board may refuse to accept the contribution.

(5) The minimum Employer contribution shall be the lesser of $5000 or be equal to Employer's Annual Required Contribution as that term is defined in GASB Statement No. 45. Contributions can be made at any time following the seventh day after the effective date of the Agreement provided that Employer has first complied with the requirements of Paragraph C.

D. Administration of Accounts, Investments, Allocation of Income

(1) The Board has established the Prefunding Plan as an agent plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions, under the terms of which separate accounts will be maintained for each employer so that Employer's assets will provide benefits only under Employer's plan.

(2) All Employer contributions and assets attributable to Employer contributions shall be separately accounted for in the Prefunding Plan (Employer's Prefunding Account).

(3) Employer's Prefunding Account assets may be aggregated with prefunding account assets of other employers and may be co-invested by the Board in any asset classes appropriate for a Section 115 Trust.

(4) The Board may deduct the costs of administration of the Prefunding Plan from the investment income or Employer's Prefunding Account in a manner determined by the Board.

(5) Investment income shall be allocated among employers and posted to Employer's Prefunding Account as determined by the Board but no less frequently than annually.

(6) If Employer's assets in the Prefunding Plan exceed the amount required to fully fund projected benefits, the Board may return such excess to Employer.

E. Reports and Statements

(1) Employer shall submit with each contribution a contribution report in the form and containing the information prescribed by the Board.

(2) The Board shall prepare and provide a statement of Employer's Prefunding Account at least annually reflecting the balance in Employer's Prefunding Account, contributions made during the period and income allocated during the period, and such other information as the Board determines.

F. Disbursements

(1) During any of the first three years following the effective date of this Agreement, no disbursement shall be made in a fiscal year from the Prefunding Plan to Employer unless Employer first contributes the full amount of its actuarially determined Annual Required Contribution during that fiscal year. If during any of the first three years following the effective date of the Agreement, Employer has contributed the full amount of its actuarially determined Annual Required Contribution during a fiscal year, Employer may receive disbursements not to exceed the annual premium cost for post employment healthcare benefits and other post employment benefits paid during the same fiscal year.

(2) Employer shall notify CalPERS in writing in the manner specified by CalPERS of the persons authorized to request disbursements from the Prefunding Plan on behalf of Employer.

(3) Employer's request for disbursement shall be in writing signed by Employer's authorized representatives, in accordance with procedures established by the Board. The Board may require that Employer certify or otherwise establish that the monies will be used for the purposes of the Prefunding Plan.

(4) Requests for disbursements received on or after the first of a month will be processed by the 15th of the following month. (For example, a disbursement request received on or between March 1st and March 31st will be processed by April 15th; and a disbursement request received on or between April 1st and April 30th will be processed by May 15th.)

(5) CalPERS shall not be liable for amounts disbursed in error if it has acted upon the instruction of an individual authorized by Employer to request disbursements. In the event of any other erroneous disbursement, the extent of CalPERS' liability shall be the actual dollar amount of the disbursement, plus interest at the actual earnings rate but not less than zero.

(6) No disbursement shall be made from the Prefunding Plan which exceeds the balance in Employer's Prefunding Account.

G. Costs of Administration

Employer shall pay its share of the costs of administration of the Prefunding Plan, as determined by the Board.

H. Termination of Employer Participation in Prefunding Plan

(1) The Board may terminate Employer's participation in the Prefunding Plan if:

(a) Employer gives written notice to the Board of its election to terminate;

(b) Employer ceases to be a PEMHCA participant;

(c) The Board finds that Employer fails to satisfy the terms and conditions of the Agreement or of the Board's rules or regulations.

(2) If Employer's participation in the Prefunding Plan terminates for any of the foregoing reasons, all assets in Employer's Prefunding Account shall remain in the Prefunding Plan, except as otherwise provided below, and shall continue to be invested and accrue income as provided in Paragraph D.

(3) After Employer's participation in the Prefunding Plan terminates, Employer may not make contributions to the Prefunding Plan.

(4) After Employer's participation in the Prefunding Plan terminates, disbursements from Employer's Prefunding Account may continue upon Employer's instruction or otherwise in accordance with the terms of the Agreement.

(5) After thirty-six (36) months have elapsed from the effective date of the Agreement:

(a) Employer may request a trustee to trustee transfer of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that the transfer will satisfy applicable requirements of the Internal Revenue Code and the Board's fiduciary duties, then the Board shall effect the transfer within one hundred twenty (120) days. The amount to be transferred shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the transfer by more than 120 days.

(b) Employer may request a disbursement of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that all of Employer's obligations for payment of post employment health care benefits and other post employment benefits and reasonable administrative costs of the Board have been satisfied, then the Board shall effect the disbursement within one hundred twenty (120) days. The amount to be disbursed shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the disbursement by more than 120 days.

(6) After Employer's participation in the Prefunding Plan terminates and at such time that no assets remain in Employer's Prefunding Account, this Agreement shall terminate.

(7) If, for any reason, the Board terminates the Prefunding Plan, the assets in Employer's Prefunding Account shall be paid to Employer after retention of (i) amounts sufficient to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants, and (ii) amounts sufficient to pay reasonable administrative costs of the Board.

(8) If Employer ceases to exist but Employer's Prefunding Plan continues to exist and if no provision has been made by Employer for ongoing payments to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants, the Board is authorized to and shall appoint a third party administrator to carry out Employer's Prefunding Plan. Any and all costs associated with such appointment shall be paid from the assets attributable to contributions by Employer.

(9) If Employer should breach the representation and warranty set forth in Paragraph A., the Board shall take whatever action it deems necessary to preserve the tax-exempt status of the Prefunding Plan.

I. General Provisions

(1) Books and Records.

Employer shall keep accurate books and records connected with the performance of this Agreement. Employer shall ensure that books and records of subcontractors, suppliers, and other providers shall also be accurately maintained. Such books and records shall be kept in a secure location at the Employer's office(s) and shall be available for inspection and copying by CalPERS and its representatives at any time.

(2) Audit.

(a) During and for three years after the term of this Agreement, Employer shall permit the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, at all reasonable times during normal business hours to inspect and copy, at the expense of CalPERS, books and records of Employer relating to its performance of this Agreement.

(b) Employer shall be subject to examination and audit by the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, during the term of the Agreement and for three years after final payment under the Agreement. Any examination or audit shall be confined to those matters connected with the performance of the Agreement, including, but not limited to, the costs of administering the Agreement. Employer shall cooperate fully with the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, in connection with any examination or audit. All adjustments, payments, and/or reimbursements determined to be necessary by any examination or audit shall be made promptly by the appropriate party.

(3) Notice.

(a) Any notice, approval, or other communication required or permitted under this Agreement will be given in the English language and will be deemed received as follows:

1. Personal delivery. When personally delivered to the recipient. Notice is effective on delivery.

2. First Class Mail. When mailed first class to the last address of the recipient known to the party giving notice. Notice is effective three delivery days after deposit in a United States Postal Service office or mailbox.

3. Certified mail. When mailed certified mail, return receipt requested. Notice is effective on receipt, if delivery is confirmed by a return receipt.

4. Overnight Delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account, Notice is effective on delivery, if delivery is confirmed by the delivery service.

5. Telex or Facsimile Transmission. When sent by telex or fax to the last telex or fax number of the recipient known to the party giving notice. Notice is effective on receipt, provided that (i) a duplicate copy of the notice is promptly given by first-class or certified mail or by overnight delivery, or (ii) the receiving party delivers a written confirmation of receipt. Any notice given by telex or fax shall be deemed received on the next business day if it is received after 5:00 p.m. (recipient's time) or on a nonbusiness day.

6. E-mail transmission. When sent by e-mail using software that provides unmodifiable proof (i) that the message was sent, (ii) that the message was delivered to the recipient's information processing system, and (iii) of the time and date the message was delivered to the recipient along with a verifiable electronic record of the exact content of the message sent.

Addresses for the purpose of giving notice are as shown in Paragraph B.(1) of the Agreement.

(b) Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified shall be deemed effective as of the first date that said notice was refused, unclaimed, or deemed undeliverable by the postal authorities, messenger or overnight delivery service.

(c) Any party may change its address, telex, fax number, or e-mail address by giving the other party notice of the change in any manner permitted by this Agreement.

(d) All notices, requests, demands, amendments, modifications or other communications under this Agreement shall be in writing. Notice shall be sufficient for all such purposes if personally delivered, sent by first class, registered or certified mail, return receipt requested, delivery by courier with receipt of delivery, facsimile transmission with written confirmation of receipt by recipient, or e-mail delivery with verifiable and unmodifiable proof of content and time and date of sending by sender and delivery to recipient. Notice is effective on confirmed receipt by recipient or 3 business days after sending, whichever is sooner.

(4) Modification

This Agreement may be supplemented, amended, or modified only by the mutual agreement of the parties. No supplement, amendment, or modification of the Agreement shall be binding unless it is in writing and signed by the party to be charged.

(5) Survival

All representations, warranties, and covenants contained in the Agreement, or in any instrument, certificate, exhibit, or other writing intended by the parties to be a part of their Agreement shall survive the termination of the Agreement until such time as all amounts in Employer's Prefunding Account have been disbursed.

(6) Waiver

No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of the Agreement shall be effective unless it is in writing and signed by the party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right, or remedy shall be deemed a waiver of any other breach, failure, right, or remedy, whether or not similar, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

(7) Necessary Acts, Further Assurances

The parties shall at their own cost and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to evidence or carry out the intent and purposes of the Agreement.

A majority vote of Employer's Governing Body at a public meeting held on the 5th day of the month of June 2007, authorized entering into the Agreement.

Signature of the Presiding Officer: ______________________

Printed Name of the Presiding Officer: Jose S. Esteves, Mayor

Name of Governing Body: City Council

Name of Employer: City of Milpitas

Date: ______________________

BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY______________________
ACTUARIAL AND EMPLOYER SERVICES BRANCH
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

To be completed by CalPERS
The effective date of the Agreement is: ______________________

CalPERS

DELEGATION OF AUTHORITY TO REQUEST DISBURSEMENTS

RESOLUTION OF THE

City Council
(GOVERNING BODY)

OF THE

CITY OF MILPITAS
(NAME OF EMPLOYER)

The City Council (GOVERNING BODY) delegates to the incumbents in the positions of City Manager (TITLE) and Director of Financial Services (TITLE) authority to request on behalf of the Employer disbursements from the Other Post Employment Prefunding Plan and to certify as to the purpose for which the disbursed funds will be used.

By ______________________________

Title Jose S. Esteves, Mayor

Witness ______________________________

Date ______________________