*9

CITY OF MILPITAS

Actuarial Valuation of

Postemployment Medical and Dental Plans

Valuation Date: July 1, 2009

NICOLAY CONSULTING

NICOLAY CONSULTING GROUP

NICOLAY CONSULTING

PENSION CONSULTANTS AND ACTUARIES

575 MARKET STREET
SUITE 2450
SAN FRANCISCO, CALIFORNIA 94105-2854

TEL: 415 512-5300
FAX: 415 512-5314

August 28, 2009

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, 2009 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.

The undersigned meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Questions about the report should be directed to Dennis Daugherty at (800) 998-7675 x221.

Sincerely,

Nicolay Consulting Group

By: Dennis Daugherty

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

City of Milpitas

Actuarial Valuation of
Postemployment Medical and Dental Plans
Valuation Date: July 1, 2009

Table of Contents

NICOLAY CONSULTING

SECTION I

Executive Summary

This Executive Summary presents the results of the July 1, 2009 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, 2009 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 participating in the CERBT.

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 1-1

Actuarial Accrued Liability*
Based on a 7.75% discount rate
as of July 1, 2009

Active Employees	$24,104,046
Retirees	$17,057,939
Total	$41,161,985**

* The present value of future benefits attributable to past service

** $39,558,512 (96.1%) of the Past Service obligation is attributable to Medical Benefits; $1,603,473 (3.9%) is attributable to Dental Benefits.

Table 1-2 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 a June 30, 2009 Trust Fund balance of $9,931,187 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 1-2 are based on the closed group of current employees and retirees. The projections do not include any assumptions about future employees 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 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 of amortization of the Unfunded Actuarial Accrued Liability over a closed 30-year period as a level percentage of payroll. 2 years of amortization have occurred; 28 years remain.
- 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 1-2, the Annual OPEB Cost is expected to increase gradually throughout the five-year projection period.

Table 1-2

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

	2009/10	2010/11	2011/12	2012/2013	2013/2014
Unfunded Actuarial Accrued Liability (UAAL)	$31,230,798	$31,506,084	$31,740,477	$31,929,252	$32,067,314
Remaining Amortization Period	28	27	26	25	24
Normal Cost	$1,340,913	$1,421,368	$1,506,650	$1,597,049	$1,692,871
Amortization of UAAL	$2,015,923	$2,072,941	$2,131,288	$2,190,960	$2,251,948
Annual Required Contribution (ARC)	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Annual Required Contribution (ARC)	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Interest on net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Contributions made to the CERBT	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
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	$42,390,000	$43,768,000	$45,190,000	$46,659,000	$48,175,000
Normal Cost as a % of Annual Payroll	3.2%	3.2%	3.3%	3.4%	3.5%
Annual OPEB Cost as a % of Annual Payroll	7.9%	8.0%	8.1%	8.1%	8.2%
Pay-as-you-go Expense as a% of Annual Payroll	2.9%	3.2%	3.5%	3.8%	4.2%

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, 2009, 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 account for postemployment benefits on an accrual basis rather than 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.

The City of Milpitas adopted Statement 45 in the fiscal year ending June 30, 2008.

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, 2009 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. The amounts shown in Table 3-1 do not include 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, 2009 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, 2009

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

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$4,007,241	$1,627,543	$1,495,751	$8,191,952	$3,953,958	$654,397	$4,173,203	$24,104,046
Retirees	$2,232,255	$937,965	$2,694,594	$4,681,460	$2,003,115	$459,143	$4,049,406	$17,057,939
Total	$6,239,497	$2,565,508	$4,190,346	$12,873,412	$5,957,073	$1,113,541	$8,222,609	$41,161,985

Total Present Value Attributable to Future Service

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$1,957,251	$913,226	$676,284	$3,693,154	$1,588,091	$126,631	$1,779,350	$10,733,986
Retirees	$0	$0	$0	$0	$0	$0	$0	$0
Total	$1,957,251	$913,226	$676,284	$3,693,154	$1,588,091	$126,631	$1,779,350	$10,733,986

Total Present Value

	PROTECH	LIUNA	Unrepresented	MPOA	MEA	MSA	IAFF	Total
Actives	$5,964,492	$2,540,769	$2,172,035	$11,885,105	$5,542,049	$781,029	$5,952,554	$34,838,032
Retirees	$2,232,255	$937,965	$2,694,594	$4,681,460	$2,003,115	$459,143	$4,049,406	$17,057,939
Total	$8,196,747	$3,478,734	$4,866,629	$16,566,566	$7,545,164	$1,240,172	$10,001,959	$51,895,971

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
2009/10	$1,244,789
2010/11	$1,407,339
2011/12	$1,586,341
2012/13	$1,785,653
2013/14	$2,023,031
2014/15	$2,275,637
2015/16	$2,547,846
2016/17	$2,833,522
2017/18	$3,089,313
2018/19	$3,393,485

GASB 45 Benefit Cost

The City adopted GASB 45 in the 2007/08 fiscal year. The following Tables provide illustrations of the City's GASB 45 obligation and 2009/10 financial statement expense assuming that the City's June 30, 2009 CERBT asset will equal $9,931,187 and that in future years the City will contribute an amount equal to the Annual OPEB cost.

The 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 payroll.

Table 3-3 illustrates the City's 2009/10 Annual Required Contribution assuming a June 30, 2009 CERBT balance of $9,931,187.

Table 3-4 contains a 5-year projection assuming that the City continues to make CERBT contributions equal to the full ARC. 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 3-3

Development of Illustrative 2009/10 Fiscal Year
OPEB Annual Required Contribution – based on a 7.75% discount rate

Actuarial Accrued Liability	$41,161,985
Actuarial Value of Assets at June 30, 2009	$9,931,187
Unfunded Actuarial Accrued Liability	$31,230,798
Remaining Amortization Period	28 years
Level percent of pay Amortization Factor (based on a 7.75% discount rate and a 3.25% annual increase in payroll)	15.492
Annual level percentage of payroll Amort. of Unfunded AAL	$2,015,923
Normal Cost (based on Entry Age Normal Method)	$1,340,913
Annual Required Contribution	$3,356,836
Estimated 2009/2010 pay-as-you-go Expense	$1,244,789

Table 3-4 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 CERBT**, the discount rate remains 7.75% and the Normal Cost component of the ARC increases by 6.0% each year. We assumed mid-year additions to and subtractions from the Trust.

Table 3-4

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

	2009/10	2010/11	2011/12	2012/2013	2013/2014
Actuarial Accrued Liability (AAL)	$41,161,985	$44,400,826	$47,802,402	$51,367,073	$55,091,513
Actuarial Value of Assets at beginning of year	$9,931,187	$12,894,743	$16,061,925	$19,437,821	$23,024,199
Unfunded Actuarial Accrued Liability (UAAL)	$31,230,798	$31,506,084	$31,740,477	$31,929,252	$32,067,314
Remaining Amortization Period	28	27	26	25	24
Normal Cost	$1,340,913	$1,421,368	$1,506,650	$1,597,049	$1,692,871
Amortization of UAAL	$2,015,923	$2,072,941	$2,131,288	$2,190,960	$2,251,948
Annual Required Contribution (ARC)	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Annual Required Contribution (ARC)	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Interest on net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$3,356,836	$3,494,309	$3,637,938	$3,788,009	$3,944,819
Contributions made to the CERBT	($3,356,836)	($3,494,309)	($3,637,938)	($3,788,009)	($3,944,819)
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	$42,390,000	$43,768,000	$45,190,000	$46,659,000	$48,175,000
Normal Cost as a % of Annual Payroll	3.2%	3.2%	3.3%	3.4%	3.5%
Annual OPEB Cost as a % of Annual Payroll	7.9%	8.0%	8.1%	8.1%	8.2%
Pay-as-you-go Expense as a% of Annual Payroll	2.9%	3.2%	3.5%	3.8%	4.2%

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 and retired between July 1, 1990 and September 1, 2002	At least 5 years of service	Any employee only medical premium rate provided that the retiree maintains enrollment in one of the health plans offered by the City.
Hired prior to July 1, 1995 and retire after September 1, 2002	At least 5 years of service	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	5 but fewer 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 fewer than 15 years of service	The City will contribute 50% of the employee only premium
	15 but fewer 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.

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	5 but fewer 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 fewer than 15 years of service	The City will contribute 50% of the employee only premium
	15 but fewer 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	5 but fewer 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 fewer than 15 years of service	The City will contribute 50% of the employee only premium
	15 but fewer 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. Fire Exempt and unrepresented employees follow IAFF 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 ($14.70 per month in 2007, $38.80 per month in 2008 and $45.45 per month in 2009)
Hired prior to January 1, 1996 and retired before June 30, 2003	At least 5 years of service	Any single, medical premium rate.
Hired prior to January 1, 1996 and retire on or after July 1, 2003	At least 5 years of service	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	fewer than 9 full years of service	The City will contribute up to 25% of the "retiree cap amount"
	More than 9 but fewer than 14 full years of service	The City will contribute up to 50% of the "retiree cap amount"
	more than 14 but fewer than 19 full years of service	The City will contribute up to 75% of the "retiree cap amount"
	19 or more full 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 and retired before July 17, 1989		None.
Hired prior to June 30, 1996 and retire before March 18, 2003	At least 5 years of service	Any employee only medical premium rate
Hired prior to June 30, 1996 and retire on or after March 18, 2003	At least 5 years of service	Up to the employee only medical premium rate, but no more than the employee only rate paid by the City for active employees.
Hired on or after June 30, 1996	1 but fewer 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 fewer than 15 years of service	The City will contribute 50% of the lowest cost employee only premium
	15 but fewer 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 June 30, 1995 and retired prior to Nov. 27, 2007	At least 5 years of service	Any employee only medical premium rate provided that the retiree maintains enrollment in one of the health plans offered by the City.
Prior to June 30, 1995 and retire on or after Nov. 27, 2007	At least 5 years of 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 June 30, 1995 and retire after Nov. 27, 2007	Completion of 5 but fewer 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 fewer than 15 years of service	The City will contribute 50% of the employee only premium
	15 but fewer 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.

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 ($14.70 per month in 2007, $38.80 per month in 2008 and $45.45 per month in 2009)
Retired January 1, 1990 through December 31, 1994	N/A	Any employee only premium as long as the retiree maintains enrollment in one of the City health plans.
Hired prior to January 1, 1995 and retire on or before February 20, 2007	1 but fewer than 10 years of service	The City will contribute 50% of the employee only medical premium as long as the employee remains in one of the City sponsored health plans.
	10 or more years of service	The City will contribute 100% of the employee only premium.
Hired prior to January 1, 1995 and retire after February 20, 2007	1 but fewer 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 on or before February 20, 2007	1 but fewer than 10 years of service	The City will contribute 25% of employee only premium as long as the employee remains in one of the City sponsored health plans.
	10 but fewer than 15 years of service	The City will contribute 50% of the employee only premium.
	15 but fewer 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.
Hired on or after January 1, 1995 and retire after February 20, 2007	1 but fewer 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 fewer 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 fewer 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 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 employees who retired prior to November 27, 2007 contribute $62.50 per month. MSA employees who retire on, or after, November 27, 2007 contribute 50% of the composite active employee dental premium/funding rate.

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 .0.82% 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.

In no case will the City be required to place funds in the Funds above the 1% of payroll with benefits amount. If funds are depleted before the next year's City contribution is due, dependent medical premiums will be raised accordingly and will be the responsibility of the retiree and/or dependent.

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	5 but fewer than 10 years of service	The Fund will pay 25% of the dependent premium as long as the retiree maintains enrollment in one of the eligible health plans.
	10 but fewer than 15 years of service	The Fund will pay 50% of the dependent premium.
	15 but fewer than 20 years of service	The Fund will pay 75% of the dependent premium.
	20 or more years of service	The Fund will pay 100% of the dependent premium.

After a dependent of a PROTECH retiree becomes Medicare eligible the Fund 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) will be paid from the Fund, 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 fewer than 10 years of service	The Fund will pay 25% of the dependent premium as long as the retiree maintains enrollment in one of the eligible health plans.
	10 but fewer than 15 years of service	The Fund will pay 50% of the dependent premium.
	15 but fewer than 20 years of service	The Fund will pay 75% of the dependent premium.
	20 or more years of service	The Fund will pay 100% of the dependent premium.

After a dependent of a LIUNA retiree becomes Medicare eligible the Fund 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 retirees receive the same dependent benefits from the Fund as MPOA retirees. Fire Exempt and unrepresented retirees receive the same dependent benefits from the Fund as IAFF retirees. No other Unrepresented retirees are eligible for dependent benefits.

After a dependent of a Police Exempt retiree becomes Medicare eligible the Fund 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 while still employed 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. Dependent Benefits end on the death of the retiree.
Hired on or after January 1, 1996 and retired or deceased while still employed on or after July 1, 2003	5 but fewer than 9 full years of service more than 9 but fewer than 14 full years of service more than 14 but fewer than 19 full years of service 19 or more full years of service.	The Fund will pay 25% of the dependent premium. The Fund will pay 50% of the dependent premium. The Fund will pay 75% of the dependent premium. The Fund will pay 100% of the dependent premium. Dependent Benefits end on the death of the retiree.

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

Employee Association (MEA) (This fund is maintained and administered by the MEA, not the City)

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 fewer than 10 years of service	The Fund will pay 25% of lowest cost dependent premium
	10 but fewer than 15 years of service	The Fund will pay 50% of lowest cost dependent premium
	15 but fewer than 20 years of service	The Fund will pay 75% of lowest cost dependent premium
	20 or more years of service	The Fund will pay 100% of lowest cost dependent premium

After a dependent of an MEA retiree becomes Medicare eligible, the Fund shall pay 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 and retire before Nov 27, 2007	At least 5 years of full-time service	100% of the dependent medical premium rate from the Fund.
Prior to June 30, 1995 and retire on or after Nov. 27, 2007	At least 5 years of full-time service	100% of the dependent 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.
On or after June 30, 1995 and retire on or after Nov. 27, 2007	5 but fewer than 10 years of service	The Fund will pay 25% of the dependent medical premium (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.
	10 but fewer than 15 years of service	The Fund will pay 50% of the dependent premium.
	15 but fewer than 20 years of service	The Fund will pay 75% of the dependent premium.
	20 or more years of service	The Fund will pay 100% of the dependent premium.

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

Fire (IAFF)

Hire Date/Retirement Date	Eligibility Rule	Dependent Benefits paid from the Fund
Hired prior to January 1, 1995 and retired or deceased while still employed 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. Dependent Benefits end on the death of the retiree
Hired on or after January 1, 1995 and retired or deceased while still employed after February 20, 2007	5 but fewer than 9 years of service 9 but fewer than 14 years of service 15 but fewer than 19 years of service 19 or more years of service	The Fund will pay 25% of the dependent premium. The Fund will pay 50% of the dependent premium. The Fund will pay 75% of the dependent premium. The Fund will pay 100% of the dependent premium. Dependent Benefits end on the death of the retiree

After a dependent of an IAFF retiree becomes Medicare eligible the Fund 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 2009. However, for this valuation we assumed that the census was stable between April 2009 and the July 1, 2009 valuation date and used the census as if it was the actual July 1, 2009 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, 2009

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	3	1	0	0	0	0	**4**
30-34	4	8	1	0	0	0	**13**
35-39	4	3	1	1	0	0	**9**
40-44	1	8	1	1	0	0	**11**
45-49	3	3	2	5	1	0	**14**
50-54	1	6	0	4	7	0	**18**
55-59	3	4	2	1	3	0	**13**
60-64	1	2	0	1	1	1	**6**
65+	0	1	1	0	1	1	**4**
Total	**20**	**36**	**8**	**13**	**13**	**2**	**92**

Table 4-2
Age and Service Table for
Active LIUNA Employees
as of July 1, 2009

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	1	0	0	0	0	1
30-34	2	2	0	0	0	0	4
35-39	1	4	1	0	0	0	6
40-44	1	1	1	1	0	0	4
45-49	0	1	2	1	2	0	6
50-54	3	2	2	1	0	0	8
55-59	1	3	0	0	1	0	5
60-64	0	1	1	0	0	0	2
65+	0	1	0	1	1	0	3
Total	8	16	7	4	4	0	39

Table 4-3
Age and Service Table for
Active Unrepresented Employees
as of July 1, 2009

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	1	0	0	0	0	0	1
35-39	1	1	0	0	0	0	2
40-44	2	0	0	1	2	0	5
45-49	2	0	0	1	3	2	8
50-54	1	1	2	1	1	2	8
55-59	2	1	0	0	1	0	4
60-64	0	0	0	0	0	0	0
65+	1	0	0	0	0	0	1
Total	10	3	2	3	7	4	29

Table 4-4
Age and Service Table for
Active MPOA Employees
as of July 1, 2009

	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	7	0	0	0	0	0	**7**
30-34	7	13	0	0	0	0	**20**
35-39	2	10	4	2	0	0	**18**
40-44	0	4	9	10	5	0	**28**
45-49	0	2	1	2	9	5	**19**
50-54	0	2	1	1	4	2	**10**
55-59	0	1	0	0	0	1	**2**
60-64	0	0	0	0	0	0	**0**
65+	0	0	0	0	0	0	**0**
Total	**18**	**32**	**15**	**15**	**18**	**8**	**106**

Table 4-5
Age and Service Table for
Active MEA Employees
as of July 1, 2009

	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	1	0	0	0	0	**2**
30-34	0	3	0	0	0	0	**3**
35-39	1	5	0	0	0	0	**6**
40-44	0	9	6	2	1	0	**18**
45-49	3	0	2	3	2	1	**11**
50-54	1	3	4	4	6	0	**18**
55-59	0	1	0	1	5	0	**7**
60-64	0	2	1	1	0	0	**4**
65+	0	1	0	0	0	1	**2**
Total	**6**	**25**	**13**	**11**	**14**	**2**	**71**

Table 4-6
Age and Service Table for
Active MSA Employees
as of July 1, 2009

			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	0	2	0	**2**
50-54	0	0	0	0	2	0	**2**
55-59	0	0	0	0	1	1	**2**
60-64	0	0	0	0	1	0	**1**
65+	0	0	0	0	0	0	**0**
Total	**0**	**0**	**0**	**1**	**6**	**1**	**8**

Table 4-7
Age and Service Table for
Active IAFF Employees
as of July 1, 2009

			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	2	1	0	0	0	0	**3**
30-34	5	2	0	0	0	0	**7**
35-39	2	4	1	1	0	0	**8**
40-44	1	1	2	2	2	0	**8**
45-49	0	2	4	3	6	2	**17**
50-54	0	1	1	0	4	3	**9**
55-59	0	0	0	0	0	0	**0**
60-64	0	0	1	0	1	0	**2**
65+	0	0	0	0	0	0	**0**
Total	**10**	**11**	**9**	**6**	**13**	**5**	**54**

Table 4-8
Age and Service Table for All Active Employees
as of July 1, 2009

	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	13	4	0	0	0	0	**17**
30-34	19	28	1	0	0	0	**48**
35-39	11	27	7	5	0	0	**50**
40-44	5	23	19	17	10	0	**74**
45-49	8	8	11	15	25	10	**77**
50-54	6	15	10	11	24	7	**73**
55-59	6	10	2	2	11	2	**33**
60-64	1	5	3	2	3	1	**15**
65+	1	3	1	1	2	2	**10**
Total	**72**	**123**	**54**	**53**	**75**	**22**	**399**

Note: 27 employees and Council members who have waived medical coverage were included in the valuation.

Table 4-9
Age Table for Retirees and Surviving Spouses
Currently Receiving Benefits
as of July 1, 2009

Age	PROTECH	LIUNA	UNREP	MPOA	MEA	MSA	IAFF	Total
Under 50	0	0	0	7	1	0	3	**11**
50-54	1	1	2	6	1	0	10	**21**
55-59	5	2	5	5	2	1	14	**34**
60-64	7	5	8	8	7	1	3	**39**
65-69	6	0	13	10	4	1	6	**40**
70-74	6	0	6	4	5	1	0	**22**
75-79	3	0	3	1	0	0	2	**9**
80-84	0	0	0	0	0	0	0	**0**
85+	2	0	0	0	0	0	0	**2**
Total	**30**	**8**	**37**	**41**	**20**	**4**	**38**	**178**

Table 4-10
Enrollment by Medical Plan
as of July 1, 2009

Medical Plan	Total
Blue Shield	21
Blue Shield Net Value	3
Kaiser	88
PERS Care	20
PERS Choice	37
PORAC	4
Dental Only	5
Total	**178**

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, 2009. 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 contribute the full ARC each year it may be necessary to remeasure the obligation factoring in the rate 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 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, 2010	8.05%	3.0%
July 1, 2011	7.75%	3.0%
July 1, 2012	7.45%	3.0%
July 1, 2013	7.15%	3.0%
July 1, 2014	6.85%	3.0%
July 1, 2015	6.55%	3.0%
July 1, 2016	6.25%	3.0%
July 1, 2017	5.95%	3.0%
July 1, 2018	5.65%	3.0%
July 1, 2019 and later	5.50%	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 2009/2010 baseline cost per retiree or spouse. We assumed that the premium rates for all medical plans will increase 8.2% on January 1, 2010 and the composite dental funding rate will increase by 3.0%.

Table 5-2a

2009 and Estimated 2010 Premium Rates

Medical	**2009**	**Estimated 2010**
- Cal PERS "Minimum Employer Contribution"	$101.00	$105.00
- Cal PERS Bay Area Retiree or Spouse Monthly Premium Rates		
Basic Rates		
Blue Shield	$560.57	$606.54
Blue Shield Net Value	$495.50	$536.13
Kaiser	$508.30	$549.98
PORAC	$484.00	$523.69
PERS Choice	$482.48	$522.04
PERS Care	$749.83	$811.32
Medicare Supplement Rates		
Blue Shield	$341.44	$369.44
Blue Shield Net Value	$304.66	$329.64
Kaiser	$280.17	$303.14
PORAC	$330.00	$357.06
PERS Choice	$349.11	$377.74
PERS Care	$404.60	$437.78
Dental composite Funding rate	$207.61	$213.84

Table 5-2b contains the 2009/2010 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, 2009

Medical cost per retiree or spouse		**2009/10**
- Maximum Annual City Contribution		
Cal PERS "Minimum Employer Contribution" (Applicable to certain MPOA and IAFF retirees)		$1,241
Lowest Cost Plan (i.e., Kaiser) (Applicable to PROTECH, UNREP, and LIUNA retirees)	Pre-Medicare	$6,378
	Medicare	$3,515
Any available plan (weighted average of current enrollees) (Applicable to certain MPOA, PROTECH, MEA MSA and IAFF retirees)	Pre-Medicare	$6,727
	Medicare	$3,933
115% of Lowest Cost Plan (i.e., Kaiser) (weighted average of current enrollees) (Applicable to certain MPOA and IAFF retirees)	Pre-Medicare	$6,486
	Medicare	$3,685

Dental composite cost per retiree	**2009/10**
– Estimated Annual Composite Cost per Retiree (90% of Active EE funding rate)-	$2,276
–Annual Retiree Contribution – MSA retired prior to Nov, 28, 2007	$750
–Annual Retiree Contribution – PROTECH, LIUNA, UNREP, MEA, MSA	$1,264

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.

Payroll Increases
In this valuation we assumed a 3.25% annual rate of increase in future payroll. 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 payroll; increasing each year as payroll increase. The amortization period began in the City's 2007/08 fiscal year and that 28 years remain.

Plan Assets
As of June 30, 2009 The City's CERBT Fund balance was $9,931,187.

Demographic Assumptions

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

Withdrawal

For the IAFF and MPOA valuations we used withdrawal rates that were used in the most recent 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

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 Police 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 future 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.

- <u>Annual Other Postemployment Benefit (OPEB) Cost</u> - 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.

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

- <u>Defined benefit OPEB plan</u> - 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.