SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FROM: Paul McDonnell, Treasurer-Tax Collector
Chairman, Pension Advisory Review Committee (PARC)

SUBMITTAL DATE:
September 12, 2006

SUBJECT: PARC report on Early Retiree Medical Coverage

RECOMMENDED MOTION: That the Board of Supervisors:

(1) Receive and file the PARC report on Early Retiree Medical Coverage.
(2) Approve modifications to Board Policy B-25 to reflect the Board's direction that PARC serve as a clearing house for discussions of the financial aspects of Other Post Employment Benefits (OPEB).
(3) Adopt a policy position that effective January 1, 2011 the County will establish a separate medical rate for all pre-Medicare retirees. Employees whose retirement date predates January 1, 2009 would receive the subsidy until January 1, 2011. Employees retiring, after January 1, 2009 would receive no subsidy.
(4) Direct the HR Department to enhance their program to educate employees about their total package of retirement benefits which emphasizes the employee's need to plan for post -retirement medical costs.
(5) Direct the Executive Office to explore the options for establishing a Trust to include funding for OPEB and make an initial deposit of $10 million to the Trust.
(6) Direct Human Resources to develop an alternative cost-effective medical plan appropriate for retirees' medical needs, working in conjunction with other interested public agencies.

(Continued on page 2)

Paul McDonnell
Treasurer-Tax Collector, Chairman

Ron Komers
Asst CEO/ HR Director, Member

Bill Luna
County Finance Director, Member

FINANCIAL DATA				
	Current F.Y. Total Cost:	$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS:

Positions To Be Deleted Per A-30 ☐
Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

APPROVE

County Executive Office Signature

Dep't Recomm.: ☐ Consent ☑ Policy
Per Exec. Ofc.: ☐ Consent ☑ Policy

Prev. Agn. Ref.: | **District:** | **Agenda Number:** 3.41

Departmental Concurrence

BACKGROUND: The Board of Supervisors approved the formation of the PARC on October 2003 to develop a better understanding of the County's defined benefit pension plan; and it normally reports on performance of the plan, evaluate strategies to address under-funded and/or over-funded positions, and evaluate changes to the plan.

The Committee, with input from the County's independent actuaries John Bartel (Barel Associates) and Bradley J. Au (Aon) has prepared the following report for the Board. In June 6, 2006, the Board of Supervisors requested PARC to review and report on Early Retiree Medical Coverage liabilities which PARC had identified as a major concern for the County in its FY2005/2006 Annual Report.

The report reviews the Human Resources Department proposal to separate pre-Medicare retirees (the "early retirees") from the health insurance rating pool which includes active employees. It re-frames the early Retiree Proposal under revised assumptions and provides recommendations.

The Committee has recommended that the Board:

(1) Receive and file the PARC report on Early Retiree Medical Coverage.

(2) Approve modifications to Board Policy B-25 to reflect the Board's direction that PARC serve as a clearing house for discussions of the financial aspects of Other Post Employment Benefits (OPEB).

(3) Adopt a policy position that effective January 1, 2011 the County will establish a separate medical rate for all pre-Medicare retirees. Employees whose retirement date predates January 1, 2009 would receive the subsidy until January 1, 2011. Employees retiring, after January 1, 2009 would receive no subsidy.

(4) Direct the HR Department to enhance their program to educate employees about their total package of retirement benefits which emphasizes the employee's need to plan for post -retirement medical costs.

(5) Direct the Executive Office to explore the options for establishing a Trust to include funding for OPEB and make an initial deposit of $10 million to the Trust.

(6) Direct Human Resources to develop an alternative cost-effective medical plan appropriate for retirees' medical needs, working in conjunction with other interested public agencies.

Pension Advisory Review Committee

Special OPEB Report

Riverside County
Pension Advisory Review Committee

September 12, 2006

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Appendices

Executive Summary

Introduction

On June 6, 2006 the Board considered a proposal from the Human Resources Department to separate pre-Medicare retirees (the "early retirees") from the health insurance rating pool which includes active employees in order to reduce the County's retiree medical liability and to limit future increases to the cost of employee health care. The Board referred the matter to the PARC for consideration.

That same date the PARC presented its first annual report which identified retiree medical costs as an ongoing concern as a result of the new Government Accounting Standards Board Statement No. 45 ("GASB 45").

The PARC held a special meeting on June 19, 2006 and heard from over 25 speakers regarding the proposal. The PARC has received input from its actuarial consultant, had discussions with HR's actuary and has had preliminary discussions with municipal finance experts.

PARC held its regular meeting on August 7, 2006 and discussed the issues then.

GASB 45

GASB 45 will require the County to report OPEB costs on an actuarial basis to account for future cost of promised benefits. Currently, the County reports on a "pay-as –you-go" basis, that is; the annual amount paid for benefits is simply reported as an expense as incurred.

GASB 45 does not require funding of an agency's unfunded liability, nevertheless it is clear that the credit markets will eventually expect full funding. Public Agencies will be expected to move over a reasonable period of time from a pay-as-you-go basis towards making its actuarially determined annually required contribution.

Pooling pre-Medicare retirees with active employees is considered an implicit subsidy that must be reported on an actuarial basis.

Early Retiree Proposal

The Human Resources Department has recommended that instead of including all covered persons under age 65 in a single rating pool, that separate a rating pool be created for the early retirees. The rationale was twofold. First, it would reduce the cost of employee health care coverage. Second, it would reduce the amount of the County's reportable liability under GASB 45. The subsidy that the early retirees receive by inclusion in a single rating pool is considered to be a liability of the County and is referred to as the "implicit" subsidy.

The proposal included a direct financial subsidy to soften the financial impact of current retirees and on any employees who retire prior to January 1, 2008, whose premiums would rise.

Amount of GASB 45 Liability

The liability reported in the actuarial report attached to the HR proposal is conservatively stated, for purposes of comparison with last year's initial report. The PARC has met and revised the report and its assumptions. Based upon the revisions the present value of the County's liabilities have been reduced to $ 236.7 million.

PARC Discussions of OPEB Issues

On June 6, 2006 the Board designated PARC as the clearing house for OPEB financing strategies. Board Policy B-25, which covers PARC has been amended to reflect this. (See Appendix 1 for a copy of the revised Policy,)

The PARC will continue to examine our options in that regard in the coming months. Such examination will necessarily require further dialogue with the rating agencies and other experts.

Funding the Liability

Although GASB 45 requires only financial reporting of other (i.e., non-pension) post-employment benefits, a consensus is building that public agencies will need to move toward making contributions over their employees' active employment to fund health benefit contributions provided during retirement. While it may be possible to avoid pre-funding the "soft" liability of the "implicit subsidy", that is not true with respect to the direct subsidy. Further, establishing a fund specifically for this purpose has the advantage of allowing the County to discount its future liabilities at a higher interest rate. Accordingly we are recommending an initial deposit of $ 10 million.

Ending the Implicit Subsidy

Ending the subsidy not only cleans up the financial statement, but it also limits the potential cost increases for employee health care. To the extent ending the subsidy seems to make sense, setting a termination several years in the future would allow all current employees sufficient time to adjust. Such an approach would reduce the implicit subsidy initially and cause it to subsequently disappear.

Employee Education

Even with out any changes to the current practice of maintaining a single pool for all covered persons under 65, retirees are already exposed to rapidly increasing health care costs. With health care premiums rising as a multiple of inflation, retirees without supplemental income or savings find themselves in a difficult position. The "early"

retirees are especially vulnerable to this. Employees need to understand that it is their responsibility to plan for an extended retirement period prior to separating from County service. Fully understanding the value of the existing pension plan, the 457 Plan and the County's medical savings plans (i.e., PEP & VEBA)

Recommendations

1. Receive and file the PARC report on Early Retiree Medical Coverage.

2. Approve modifications to Board Policy B-25 to reflect the Board's direction that PARC serve as a clearing house for discussions of the financial aspects of Other Post Employment Benefits (OPEB).

3. Adopt a policy position that effective January 1, 2011 the County will establish a separate medical rate for all pre-Medicare retirees. Employees whose retirement date predates January 1, 2009 would receive the subsidy until January 1, 2011. Employees retiring, after January 1, 2009 would receive no subsidy.

4. Direct the HR Department to enhance their program to educate employees about their total package of retirement benefits which emphasizes the employee's need to plan for post -retirement medical costs.

5. Direct the Executive Office to explore the options for establishing a Trust to include funding for OPEB and make an initial deposit of $10 million to the Trust.

6. Direct Human Resources to develop an alternative cost-effective medical plan appropriate for retirees' medical needs, working in conjunction with other interested public agencies.

I GASB 45

The Government Accounting Standards Board ("GASB"), through its Statement Number 45 (hereafter referred to as "GASB 45"), will require every state, city, and county government, as well as specialized public organizations such as school districts, hospitals, colleges, and universities to reflect the cost of providing other post employment benefits (OPEBs) to its active and retired employees. OPEBs include benefits other than pensions and termination incentives provided to former employees, such as medical, dental, and vision coverage; life insurance; and long-term care.[1]

Currently the County reports the cost of OPEBs on a "pay-as-you-go" basis; that is; the annual amount paid for benefits has been the annual expense with no other liabilities or funding requirements. GASB 45 requires that OPEB cost be reported on an actuarial basis to account for the future cost of promised benefits, in the same way pension benefits are reported.

The County will be required to include the information in the financial statements prepared following FY 2007-08.

Implicit Subsidy. The County allows retirees to receive coverage prior to age 65 by paying premiums that are developed by blending active and retiree costs. Since retirees are older and generally cost more than actives, the premium paid by the retiree is less than the "true cost" of coverage for retirees. The GASB Board believes that this implicit subsidy is an obligation that will need to be reported.[2]

This portion of the County's OPEB obligation can be considered a "soft" liability, in contrast to the "hard" liability of the monthly contributions.

Financial Disclosure. The OPEB liability would be reported off balance sheet in the Notes to the Financial Statements and in the Required Supplementary Information of the Financial Statements. (See Disclosure sample in Appendix 4)

The Notes should include basic disclosures regarding plan description and funding policy for each OPEB plan in which an employer participates and disclosures regarding annual OPEB cost and its components, the net OPEB obligation, and actuarial methods and assumptions.

The Required Supplementary information should include the current actuarial valuation, two preceding valuations and schedule of funding progress.

Beyond Financial Statement Disclosure. GASB 45 does not require funding of an agency's unfunded liability nevertheless it is clear that the credit markets will eventually

[1] Debt Line, How Bonds Deals are evaluated by rating agencies, June 2006 page 6-7
[2] Aon, County of Riverside Postretirement Benefits Actuarial Valuation Study

expect full funding. Agencies will be expected to move from a pay-as-you-go basis towards making its actuarially determined annually required contribution over a reasonable period of time.

It is clear that the rating agencies will want to see the information long before the 2008 deadline. At the same time, these are indications that compliance with SEC disclosure guidelines, may argue for including, the information with offering statements.

II Early Retiree Proposal

On the June 6, 2006 Board agenda the Human Resources Department recommended changing how we provide optional medical insurance coverage to retirees. (The majority of early retirees secure their coverage through the County at least until they are Medicare-eligible, with 80% of Safety retirees and 60% of Miscellaneous retirees under the age of 65 purchasing their coverage through the County.) The substance of the proposal was to separate employees from retirees for rate determination purposes. This would have had the effect of lowering the cost of insurance for employees and increasing the cost of medical insurance for retirees because of their higher average age.

The average cost saving to employees was estimated to be $24 monthly and the average cost increase to retirees was estimated to $299 monthly. To soften the impact on the current 834 retirees who purchase their coverage through the county plans and employees on the verge of retiring, the proposal included an additional monthly contribution of $100 per month for individuals and $200 for couples. The additional subsidy would terminate the sooner of reaching Medicare eligibility or December 31, 2011. Depending upon the age of the retiree and the medical plan selected the net impact would vary in amount and duration. Younger retirees in the County's most expensive plans would see the greatest impact.

The proposal is consistent with the approach already taken by three other California counties. It is important to note that those Counties were able to implement those changes a number of years ago when the financial impact of such a change on retirees would not have been as great as it is now.

The HR Department also proposed developing a new health plan in concert with neighboring counties to lower cost of obtaining insurance for early retirees and to address limitations inherent in the current plans offered by County. For example, the County's medical plans are designed to meet the needs of our employees who live and work in Southern California. A growing number of our retirees live elsewhere and there is a lack of coverage options for employees who move out-of-state. At the same time, the plans are designed to meet the health care needs of our employee base, which has a different profile than that of our retirees. The Committee supports developing such a plan.

During the hearing held on June 19, 2006 the greatest objections came from retirees and employees close to retirement age who had planned on the continuation of the current rating practices. While suggestions that such reliance had a firm legal basis which could be upheld are at odds with thinking of most experts, the concerns raised by those already retired are understandable. Another comment from some retirees at the hearing was that we should return to CalPERS health options for all employees and retirees. The liability for the County would increase by 58% (from $236.7 million to

$373.5 million) if we returned to CalPERS health options, due primarily to the mandated increases in required County contributions.

III Amount of Retiree Medical Liability

Settling on an initial amount of the County's retiree medical GASB 45 liability is important not only for reporting purposes, but also for purposes of determining the cost/benefit of different approaches to address the liability.

Given that a significant portion of the County's liability will most likely be derived from the implicit subsidy, in any case, it is critical to have a baseline number by which to measure specific proposals to minimize that portion of the liability. For example, the original proposal to end the implicit subsidy had the result of trading a "soft" liability for a hard liability by increasing the amount of the direct monthly subsidy provided to retirees.

To date, the County has had two preliminary reports prepared to assess the County's liability at the request of the Human Resources Department. Neither has been deemed final for purposes of inclusion in the County's financial statement. The first report was prepared in January 2005 primarily for discussion purposes. The second report was prepared in June 2006 using many of the original assumptions contained in the first report for purposes of comparison.

The PARC has met and agreed upon a revised set of assumptions for the valuation. The revised report is included as an attachment to this report. The report now states a total current liability of $ 236,728,000, of which $ 165,972,000 is attributable to the implicit subsidy.

IV Strategies to Reduce the Medical Retiree Liability

There are three basic steps public agencies can take to address their long term retiree medical liability. The first is to make sure that the actuarial report uses assumptions which reasonable, but favorable to the agency. The second is to restructure the benefits provided, either by limiting future growth or by modifying how current benefits are provided. Ending the implicit subsidy is a good example of that. The third is to move from a pay-as-you-go basis to pre-funding a portion of the future liability.

We have taken the first step with the completion of the revised actuarial report. The Following section addresses the question of the Benefit Structure.

The PARC is recommending that the County establish an OPEB Trust and make an initial deposit of approximately $10 million. Starting in FY 2007/08 departments would be charged an amount equal to the annual required contribution corresponding to the direct subsidy only, assuming that deposit had been made. That amount would be sufficient to repay the initial advance made by the General Fund, while still adding to the balance in the account. The total contribution Countywide would go from approximately $1.8 million to $ 4.6 million. While the percentage increase is significant, the impact at the department al level should be manageable.

Pre-funding offers the advantage of being able to use a higher discount rate, assuming an appropriate investment trust were established to invest the asset in a manner similar to the investment of pension assets. A higher discount rate reduces the amount of the liability. For example, the Aon report indicates that pre-funding via a trust would reduce the County's "hard" liability from approximately $70 million to $ 43 million. It also reduces the total contribution from an economic perspective. In the short-term there would be a cash flow impact because the amount of the annual contributions would go up. Longer-term the annually required contributions would be more uniform.

V Ending the Implicit Subsidy

Ending the implicit subsidy is an attractive option from the County's perspective. It would reduce the County's reportable liability. Maintaining the subsidy places upward pressure on employee health care rates, which in turn costs both the County and employees more in the long run. At the same time it appears as though the cost of the subsidy is a disproportionate burden on lower paid employees, while the benefit accrues to retirees from more highly paid positions in Management or Safety.

The challenge in ending the subsidy is to implement it without creating an undue burden on retirees whose ability to adjust financially may be limited

Transition Plan

Setting a date far enough in the future will allow current employees to adjust their plans. An implementation date several years off should allow employees sufficient time to adjust any projected retirement dates or increase their overall rate of saving and use of the County's retirement medical savings plans PEP/VEBA. For most employees a modest delay in their projected retirement date would be sufficient to offset the impact of the loss of the subsidy.

The original proposal included a "soft landing" via the inclusion of an increased County contribution to offset the higher premium. The PARC's current recommendation is to end the subsidy in two phases. All employees with retirement dates of January 1, 2009 or later would receive no subsidies. Effective January 1, 2011 subsidies for all other retirees would end. To offset the impact of higher costs the Human Resources Department believes an alternative medical plan is a viable option.

VI Employee Education

Even with out any changes to the current practice of maintaining a single pool for all covered persons under 65, retirees are already exposed to rapidly increasing health care costs. With health care premiums rising as a multiple of inflation, retirees without supplemental income or savings find themselves in a difficult position. The "early" retirees are especially vulnerable to this since their period of exposure is by definition longer.

Medical insurance costs have risen on average nationally by close to 50% over the last five years. Ultimately a continuation of that trend for twenty or thirty years is unlikely. To put that in perspective we can look at what we spend nationally on health care. At the aggregate level health care expenditures represent 16% of GDP. At an assumed growth rate of 7.5%, a rate less the current rate of increase, health care costs would represent over 50% of the economy, on inflation adjusted basis, in 2032. A level of helath care spending that high would be hard for the ecomony to support.

Nevertheless, for the near term there is no solution in sight to the problem of increasing medical insurance costs. Employees need to understand that it is their responsibility to plan for an extended retirement period prior to separating from County service. The current framework of the County contributing a specified amount towards the cost of purchasing County sponsored health care places the risk of higher premiums squarely on the retiree. And indeed all of our retirees have seen their premiums go up over the last several years.

There have been numerous article's in the popular press with describe the generally low savings rate and the lack of retirement planning. County employees enjoy a significant advantage over the general population because of the County's generous pension plans. However, most employees would benefit significantly from taking additional steps to plan for their retirement.

On average, Miscellaneous employees retire an average of 15-20 years of service, which translates into a starting monthly pension of 45% to 60% of final pay. To the extent that survivorship options are chosen, or an employee retires before age 60, that amount would be reduced. Social Security payments start no sooner than age 62, and Medicare is effective only after age 65. With the extended life expectancy of today's retirees, it is vital that employees plan for their retirement years.

The County for many years has offered a tax deferred compensation savings program (the "457 Plan"). Many employees do not participate in this plan. Others do so minimally. In 2002 the County established a PEP/VEBA plan which allows employees to avoid paying FICA taxes on accumulated leave balances and to further maintain funds in a tax-advantaged status if designated for medical care costs.

Fully understanding the value of the existing pension plan, the 457 Plan and the County's medical savings plans (i.e., PEP & VEBA) will help employees better plan for

this and other financial risks retiring employees face. An education program geared towards older employees long before their retirement dates would be most helpful in that regard.

VII. Recommendations

The PARC has made the following recommendations:

1. Receive and file the PARC report on Early Retiree Medical Coverage.

2. Approve modifications to Board Policy B-25 to reflect the Board's direction that PARC serve as a clearing house for discussions of the financial aspects of Other Post Employment Benefits (OPEB).

3. Adopt a policy position that effective January 1, 2011 the County will establish a separate medical rate for all pre-Medicare retirees. Employees whose retirement date predates January 1, 2009 would receive the subsidy until January 1, 2011. Employees retiring, after January 1, 2009 would receive no subsidy.

4. Direct the HR Department to enhance their program to educate employees about their total package of retirement benefits which emphasizes the employee's need to plan for post -retirement medical costs.

5. Direct the Executive Office to explore the options for establishing a Trust to include funding for OPEB and make an initial deposit of $10 million to the Trust.

6. Direct Human Resources to develop an alternative cost-effective medical plan appropriate for retirees' medical needs, working in conjunction with other interested public agencies.

APPENDIX 1
Revised Board Policy B-25

Subject:	Number	Page
Pension Management Policy	**B-25**	**Page 1 of 3**

Policy:

The County of Riverside (the "County") has created this pension management policy (the "Policy") to ensure the financial stability of the County through proper pension plan management. The purpose of this policy is to safeguard the public trust by assuring prudent decisions regarding the County's pension plans and other post-employment benefits, providing proper oversight of the benefits provided by these plans and their associated cost. This Policy applies to all County Defined Benefit Pension Plans administered by the California Public Employees Retirement System ("CalPERS").

I. Definitions

A. The term "Pension Plans" shall mean the Riverside County Miscellaneous, Safety, Flood Control, Park District and Waste Management Plans.

B. The term "Funding Level" shall mean plan actuarial assets divided by plan actuarial liability.

C. The term "Net Funding Level" shall mean plan assets divided by plan liabilities and any pension debt.

D. The term "Committee" shall mean the Pension Advisory Review Committee.

E. The term "Liability Management Fund" shall mean fund created in conjunction with a Pension Obligation Bonds (POBs) held in trust by designated trustee funded by pension savings and used solely for Pension cost purposes.

II. County Pension Policy

A. The assets of County's Pension Plans constitute a trust independently administered by CalPERS which exists to satisfy the County's obligation to provide retirement benefits to all covered employees. The County bears the ultimate obligation to meet distribution obligations.

B. Any withdrawal of a group of employees from participation in the Plans will not necessarily trigger a distribution of any assets. All contracts or grants will include the full amount of estimated pension cost in the contract or grant. Upon the termination of such contracts or grants, a termination payment may be negotiated.

C. Additionally if any employee group or department separates from the County, the associated actuarial liability and pension assets will be subject to an independent actuarially determined "true value".

D. The County seeks to maintain a minimum Funding Level of 80%. To the extent the Funding Level falls below that, the County will prepare a plan to address the issue.

E. Any proposed changes to pension benefits or liability amortization schedules will be reviewed by the Committee, which shall provide the Board with an analysis of the long term costs and benefits and related recommendations. Such evaluations are to take into account any outstanding Pension Obligation Bonds (POBs.)

F. The County will set contribution rates sufficient to: 1.) pay any amounts due to PERS, 2.) capture the full cost of the annual debt service on any pension obligation bonds that are outstanding, 3.) if the County has established a Liability Management Fund in connection with the issuance of such bonds, collect the designated annual contribution and 4.) pay the cost of consultants hired to assist the Committee.

III. Pension Advisory Review Committee

A. The members of the Pension Advisory Review Committee shall be comprised of the following:

1) The County Treasurer (Chair)

2) The County Finance Director

3) The Human Resources Director

B. The Chair of the Committee will be responsible for preparing and distributing the Agenda.

C. Members of the Pension Advisory Review Committee may designate staff to represent them. Members shall notify the Chair, in writing, of the name and title of staff that are authorized to represent them. Upon written notification,

the designee will be authorized to represent and vote on behalf of the Member.

D. Pension Advisory Review Committee meetings shall be convened quarterly or as necessary on the call of the Chair.

E. The Pension Advisory Review Committee may retain experts or consultants.

F. The Pension Advisory Review Committee shall prepare a public report of the County's pension plan status and related financing, at least annually each January, which shall include an analysis of the most recently available actuarial report from CalPERS.

G. As a Board established Committee, this Committee is subject to and will comply with the Brown Act.

IV. Pension Obligation Financing

A. Any issuance of pension related debt will be reviewed first by the Committee.

B. The County will establish a Liability Management Fund in connection with the initial debt issuance pertaining to the Pension Plans and may do so for any future issuance. The Liability Management Fund shall be funded by capturing a portion of the projected savings associated with issuance and be used solely to retire pension bond debt and or be transferred to CalPERS to reduce any unfunded liability.

C. The Committee will make an annual recommendation relating to the prepayment of POBs or the annual CalPERS contributions and the potential savings available from CalPERS for such an early payment.

Reference:

Minute order 16.3 dated 1-25-2005

APPENDIX 2
Aon Report

AON

COUNTY OF RIVERSIDE

POSTRETIREMENT BENEFITS

Actuarial Valuation Study

Valuation Date: January 1, 2006

Date of Report: September 12, 2006

Executive Summary

Background

The County of Riverside provides retiree medical benefits for eligible retirees enrolled in County sponsored plans. The benefits are provided in the form of:

- Monthly County contributions toward the retiree's premium, and
- Allowing pre-65 retirees to receive coverage at the active premium rates instead of normally higher retiree rates.

County Contributions

The County of Riverside makes contributions to eligible retirees' medical plan premiums when the retiree enrolls in a County sponsored health plan. The current monthly amount paid by the County ranges from $25 – $256, depending on the retiree's bargaining unit at retirement. The County provided amounts are detailed in Exhibit VIII and summarized as follows:

- **CalPERS Health Benefits program retirees** (Law Enforcement Management, Prosecution (Deputy DAs), and RSA Public Safety members) receive the greater of the stated Public Employees' Medical and Hospital Care Act (PEMHCA) amounts and the bargaining unit's negotiated amount. The PEMHCA monthly amount of $64.60 in 2006 grows incrementally to $97.00 in 2008 and increases annually thereafter by Medical CPI. These are the only groups that have inflation-indexed benefits.
- **All other retirees** receive the bargaining unit negotiated amount (i.e. $25 – $256). These amounts do not increase in future years to account for inflation.

  Note: The County contributes $25.00 per month to the RSA Benefit Trust for RSA Law Enforcement retirees. Although the Trust is responsible for providing a benefit with a much larger premium, the County is responsible for the $25.00 monthly contribution and this benefit is included in Plan liabilities.

As described above, the majority of participants are eligible to receive benefits that are fixed at current levels. Only those receiving the PEMHCA benefits are eligible for inflation-indexed benefits. The long term benefit under PEMHCA could be 10 times greater than certain fixed benefit amounts in 25 years, as illustrated in Appendix A.

Implicit Subsidy

The County allows retirees to receive coverage prior to age 65 by paying premiums that are developed by blending active and retiree costs. Since retirees are older and generally cost more than actives, the premium paid by the retiree is less than the "true cost" of coverage for retirees. For example, under the Blue Shield HMO, the estimated "true cost" for retirees is $530 per month, while the required premium is only $354 per month. This implicit subsidy is considered an obligation under the new GASB requirements.

The implicit subsidy does not apply to post 65 benefits as premiums are based exclusively on retiree costs. It also does not apply to the CalPERS provided benefits as these premiums are considered "community rated" and, unlike the County's other plan premiums, do not vary due to demographic differences of the employer.

The accounting rules do not require recognition of such implicit subsidization in the case of a "community-rated" plan. In this case, as just one of many employers in the plan, it is assumed that County premiums do not fluctuate on the basis of the number of covered County retirees. Rather, rates are dependent on the proportion of retirees from *all employers* in the plan, and the implied subsidy is not allocated to individual employers at all under the current accounting rules.

In the same respect, the dental and vision benefits offered to the County retirees are not considered to vary by age or demographics. Therefore, because a retiree must pay the entire premium amount to receive dental and vision benefits, there is no liability to the County for providing these benefits.

GASB 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement 45, which addresses accounting and financial reporting for Postemployment Benefits Other Than Pensions (OPEB). This statement replaces and significantly modifies prior guidance. GASB 45 is effective for Phase I governments for fiscal years beginning after December 15, 2006.

Although adoption of the GASB guidance is not required immediately, there are several reasons an agency should review its OPEB obligations sooner rather than later, such as:

- Pre-funding alternatives – although funding is not required, an unfunded plan results in higher balance sheet liabilities and costs
- Bargaining issues – recognizing how the obligation will impact the collective bargaining process in the near and long term
- Bond rating – potential impact to the cost of debt due to unfunded liabilities

The County has taken a responsible step in requesting this study. Understanding the obligations now provides the County more time to review ways to mitigate the standard's impact before it becomes mandatory.

The liabilities and annual costs for the County's contribution promises to retirees are calculated in this actuarial valuation in accordance with GASB 45. Similar to most government entities, the County does not currently prefund or recognize OPEB liability as benefits are accrued. As this report shows, any required accrual determined on a GASB basis will be considerably higher than the amount on a pay-as-you-go basis.

It is important to note that only current active and retired participants are valued in this actuarial study. Future new entrants or any projected growth in the County's employee population are not considered.

ARC Development

GASB requires an Annual Required Contribution (ARC) to be developed each year based on the Plan's assets and liabilities. Although GASB does not actually require prefunding, the portion of the ARC that is not funded each year accumulates as a liability on the County's financial statements.

The ARC can be developed under a variety of funding methods. This report shows results under two of the methods permitted – Aggregate and Entry Age Normal. We also show the ARC calculated using different amortization periods as a level percent of pay.

Summary of Results

Liabilities

There are a few terms to understand related to the Plan's liabilities. The Present Value of Benefits (PVB) represents the actuarial present value of all future benefits expected to be paid to current employees and retirees. The Actuarial Accrued Liability (AAL) is the portion of the PVB attributable to past service. The Normal Cost is the portion of the PVB that is allocated to the current plan year for active employees.

Each liability is a present value calculated by using a selected discount rate. As requested by the County, the sensitivity of results is illustrated by providing liabilities using a 4.50% and 7.75% discount rate. The table below summarizes the liability results based on these two discount rates:

	4.50%	7.75%
Present Value of Benefits (PVB)	$236,728,000	$147,375,000
Actuarial Accrued Liability (AAL)	$141,920,000	$102,821,000
Normal Cost	$10,264,000	$6,225,000

As an explanation of the meaning of the discount rate, the PVB using a 7.75% discount rate means that if the County invested $147,375,000 today in an interest bearing account that earns 7.75%, the liability for all benefits expected to be earned by current participants would be fully funded. By comparison, if the interest bearing account were to only earn 4.50%, $236,728,000 would be required to fully fund the liability.

Executive Summary (cont.)

Discount Rate Selection

As illustrated above, the discount rate can have a considerable impact on the magnitude of the liabilities, with lower discount rates resulting in higher liabilities. As guidance in selecting an appropriate discount rate, GASB states that the discount rate should be based on the long-term yield of investments used to finance the benefits.

The County has requested results based on a 4.50% and 7.75% discount rate to understand the sensitivity of results due to the discount rates. For example, if the County were to pre-fund contributions into a trust with a mix of asset classes, 7.75% may be an appropriate discount rate. However, for an unfunded plan or in the case where contributions are simply allocated to separate accounts, but still reside in general assets, it may be more appropriate to consider the return on general County assets. Since the Plan is currently unfunded, the liabilities shown in the report are based on a conservative 4.50% discount rate.

Annual Required Contributions (ARC)

As discussed above, the ARC can be developed using various methodologies. Selecting an appropriate method and amortization period for funding the liabilities is a balance between the County's ability to pay costs immediately and the long-term cost of borrowing.

The following table summarizes the ARC under the methodologies provided in this report based on a 4.50% and 7.75% discount rate:

	4.50%	7.75%
Aggregate Method	$19,186,000	$14,521,000
Entry Age Normal Method		
30 year amortization	$15,991,000	$12,400,000
20 year amortization	$18,377,000	$13,991,000
10 year amortization	$25,570,000	$19,061,000

The difference in the cost methods is the period over which past service liabilities are spread. The aggregate method spreads past service liabilities over the future working lifetimes of active participants while the entry age normal method spreads past service liabilities over the specified amortization period. It should be noted that the entry age normal method – level percent of pay is used to determine the ARC for CalPERS retirement plans.

Executive Summary (cont.)

Projected ARC

As discussed in the previous section, the ARC amounts are determined based on a level percent of payroll. Thus, the ARC is expected to increase as payroll increases. The following table illustrates this based on the Entry Age Normal Method with 30 year amortization of the unfunded actuarial accrued liability:

	2005-2006	2006-2007	2006-2007
ARC	$15,991,000	$16,511,000	$17,047,000

Comparison to Prior Valuation Results

The following table compares results to the prior valuation:

	January 1, 2006	January 1, 2005
Liabilities		
Present Value of Benefits (PVB)	$236,728,000	$389,907,000
Actuarial Accrued Liability (AAL)	$141,920,000	$204,014,000
Normal Cost	$10,264,000	$17,670,000
ARC		
Aggregate Method	$19,186,000	$29,679,000
Entry Age Normal Method		
30 year amortization	$15,991,000	$24,569,000
20 year amortization	$18,377,000	$28,021,000
10 year amortization	$25,570,000	$38,373,000

The liability and ARC decreased from the prior year. This is the net result of the following factors:

- The discount rate was increased from 3% to 4.50%. This reduced liabilities approximately 15%-20% and the ARC approximately 15%.
- It was assumed that only 60% of future eligible retirees elect coverage under the plan (80% if the participants are covered under CalPERS health plans). The prior valuation assumed all future eligible retirees elect coverage.
- The assumed trend rates for future PEMCHA contributions were increased.
- The County contribution increased significantly for a number of bargaining units.
- The retiree contribution rates increased less than premium rates, resulting in a larger portion of total costs paid by the County.
- The liabilities, by their nature, grow each year as all participants get closer to receiving benefits and active participants accrue additional benefits.

The remainder of the report provides details of results based on the 4.50% discount rate.

Executive Summary (cont.)

Implicit Subsidy Effect on Results

The liabilities associated with the implicit subsidy are a significant portion of the total plan liabilities. If the County were to increase retiree contribution rates to cover the true cost of retirees, County liabilities and ARC would decrease approximately 70%. The following table shows the impact of the implicit subsidy, based on a 4.50% discount rate:

	County Contributions	Implicit Subsidy	Total
Liabilities			
PVB	$70,756,000	$165,972,000	$236,728,000
AAL	$48,726,000	$93,194,000	$141,920,000
Normal Cost	$2,611,000	$7,653,000	$10,264,000
ARC Range	$4,577,000	$11,414,000	$15,991,000
	- $7,866,000	- $17,704,000	- 25,570,000

Table of Contents

I Actuarial Valuation Certificate

This report presents the results of the actuarial valuation for the County of Riverside Postretirement Medical Benefits as of January 1, 2006 for development of the Annual Required Contribution and disclosure items under the Governmental Accounting Standards Board (GASB) Statement 45.

This report was prepared using generally accepted actuarial practices and methods. The actuarial assumptions used in the calculations are individually reasonable and reasonable in aggregate.

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Actuarial computations under GASB 45 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations for purposes other than meeting Employer financial accounting requirements may be different from these results. As required by GASB 45, this valuation assumes this will be an ongoing plan. However, this assumption does not imply any obligation by the employer to continue the plan.

This report is intended for the sole use of the County of Riverside. It is intended only to supply information for the County to comply with the stated purpose of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purposes, puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including the County of Riverside should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon Consulting.

The actuaries whose signatures appear below are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The actuaries are available to answer any questions with regard to the matters enumerated in this report.

I Actuarial Valuation Certificate (cont.)

Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of our work.

Respectfully submitted,

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September 12, 2006

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II Plan Liabilities

The liabilities shown in this exhibit were calculated using a 4.5% discount rate as of the January 1, 2006 valuation date. They are utilized in the development of the Annual Required Contribution (ARC) under various alternatives shown in the following exhibit.

While GASB 45 allows the development of the ARC under various funding cost methods, this report shows the ARC under the Aggregate and Entry Age Normal cost methods, which are based on the following PVB and AAL liabilities, respectively.

The **Present Value of Benefits (PVB)** represents the actuarial present value of all benefits ever to be paid to current employees and retirees. The PVB follows:

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
PVB					
County Contribution					
Retirees	$ 39	$ 23	$ 1,076	$ 16,127	$ 17,265
Actives	580	215	2,360	50,336	53,491
Subtotal	619	238	3,436	66,463	70,756
Implicit Subsidy					
Retirees	$ 13	$ 11	$ 0	$ 18,405	$ 18,429
Actives	1,385	1,171	0	144,987	147,543
Subtotal	1,398	1,182	0	163,392	165,972
All Benefits					
Retirees	$ 52	$ 34	$ 1,076	$ 34,532	$ 35,694
Actives	1,965	1,386	2,360	195,323	201,034
Total PVB	2,017	1,420	3,436	229,855	236,728
PVB Per Participant	$ 23	$ 17	$ 2	$ 15	$ 13

II Plan Liabilities (cont.)

The **Actuarial Accrued Liability (AAL)** is a portion of the PVB attributable to past service. For retirees and fully eligible active employees, the AAL is equal to the PVB. For other active employees, the AAL is the portion of the PVB deemed to be accrued to date. The **Normal Cost** is the portion of the PVB that is allocated to the current plan year for active employees.

The AAL in this report is based on the Entry Age Normal cost method and has been developed by spreading costs as a level percentage of payroll.

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
AAL					
County Contribution					
Retirees	$ 39	$ 23	$ 1,076	$ 16,127	$ 17,265
Actives	442	130	1,292	29,597	31,461
Subtotal	481	153	2,368	45,724	48,726
Implicit Subsidy					
Retirees	$ 13	$ 11	$ 0	$ 18,405	$ 18,429
Actives	1,000	651	0	73,114	74,765
Subtotal	1,013	662	0	91,519	93,194
All Benefits					
Retirees	$ 52	$ 34	$ 1,076	$ 34,532	$ 35,694
Actives	1,442	781	1,292	102,711	106,226
Total AAL	1,494	815	2,368	137,243	141,920
AAL Per Participant	$ 17	$ 10	$ 1	$ 9	$ 8
Normal Cost					
County Contribution	$ 17	$ 12	$ 107	$ 2,475	$ 2,611
Implicit Subsidy	41	58	0	7,554	7,653
Total Normal Cost	58	70	107	10,029	10,264

III Annual Required Contributions – Total (County Contributions and Implicit Subsidy)

The ARC amounts shown on this page represent the total current costs of postretirement medical benefits to the County under GASB 45.

The ARC amounts shown assume payments are made on average in the middle of the year.

Aggregate Cost Method

The Aggregate method is one of the more basic and easy to understand cost methods. Under this method, the ARC is the amount required to fund the unfunded PVB over the future working lifetime of active participants.

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
PVB	$ 2,017	$ 1,420	$ 3,436	$229,855	$236,728
Assets	0	0	0	0	0
Unfunded PVB	2,017	1,420	3,436	229,855	236,728
ARC	163	115	278	18,630	19,186

Entry Age Normal Cost Method

The Entry Age Normal method is used to develop the County's CalPERS pension costs. Under this method, the ARC is equal to the Normal Cost plus the amortization of the unfunded AAL over the selected period.

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
AAL	$ 1,494	$ 815	$ 2,368	$137,243	$141,920
Assets	0	0	0	0	0
Unfunded AAL	1,494	815	2,368	137,243	141,920
Normal Cost	58	70	107	10,029	10,264
ARC					
30 year amortization	119	103	203	15,566	15,991
20 year amortization	144	117	242	17,874	18,377
10 year amortization	220	158	362	24,830	25,570

IV Annual Required Contribution – County Contribution Only

The ARC amounts shown on this page represent the cost of the County contribution to retired Members. The cost of the implicit subsidy is not reflected in the amounts shown below

The ARC amounts shown assume payments are made on average in the middle of the year.

Aggregate Cost Method

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
PVB	$ 619	$ 238	$ 3,436	$66,463	$70,756
Assets	0	0	0	0	0
Unfunded PVB	619	238	3,436	66,463	70,756
ARC	50	19	278	5,387	5,734

Entry Age Normal Cost Method

(in thousands)	Waste	Parks	RSA Trust	All Others	Total
AAL	$ 481	$ 153	$ 2,368	$ 45,724	$ 48,726
Assets	0	0	0	0	0
Unfunded AAL	481	153	2,368	45,724	48,726
Normal Cost	17	12	107	2,475	2,611
ARC					
30 year amortization	36	18	203	4,320	4,577
20 year amortization	44	21	242	5,089	5,396
10 year amortization	69	29	362	7,406	7,866

V Projected Benefit Payments

The following table shows the estimated projected net County benefit payments based on the current plan provisions, current plan participants, and the valuation assumptions used in this report. The payments would be equivalent to funding the liabilities on a pay-as-you-go basis.

Year Ending June 30	Projected Distributions		
	County Contribution	Implicit Subsidy	Total
2006	$ 1,449,000	$ 3,103,000	$ 4,552,000
2007	1,597,000	3,844,000	5,441,000
2008	1,758,000	4,640,000	6,398,000
2009	1,922,000	5,483,000	7,405,000
2010	2,092,000	6,424,000	8,516,000
2011	2,264,000	7,531,000	9,795,000
2012	2,438,000	8,335,000	10,773,000
2013	2,609,000	9,143,000	11,752,000
2014	2,781,000	9,755,000	12,536,000
2015	2,949,000	10,513,000	13,462,000
2016	3,107,000	11,184,000	14,291,000
2017	3,263,000	11,624,000	14,887,000
2018	3,416,000	12,033,000	15,449,000
2019	3,562,000	12,188,000	15,750,000
2020	3,704,000	12,560,000	16,264,000
2021	3,840,000	12,738,000	16,578,000
2022	3,969,000	12,665,000	16,634,000
2023	4,090,000	12,640,000	16,730,000
2024	4,204,000	12,331,000	16,535,000
2025	4,311,000	12,229,000	16,540,000
2026	4,410,000	11,815,000	16,225,000
2027	4,504,000	11,530,000	16,034,000
2028	4,592,000	11,310,000	15,902,000
2029	4,672,000	11,050,000	15,722,000
2030	4,747,000	10,604,000	15,351,000
2031	4,815,000	10,339,000	15,154,000
2032	4,871,000	10,083,000	14,954,000
2033	4,916,000	9,963,000	14,879,000
2034	4,947,000	9,669,000	14,616,000
2035	4,964,000	9,086,000	14,050,000
2036	4,965,000	8,425,000	13,390,000

VI GASB Reporting and Disclosure Information

GASB 45 requires certain items to be disclosed in the footnotes to the County's financial statements, including the following:

- Plan description
  - Name of plan and identification of the entity that administers plan
  - Brief description of the types of benefits
- Funding policy
  - Required contribution rates of plan members
  - Required contribution rates of employer

In addition, the tables below show required supplementary information to be shown with three years of historical information in the County's financial statements.

Sample information is shown as if the County adopted GASB 45 for the current fiscal year and elected to use the entry age normal cost method with unfunded liabilities amortized over 30 years.

Development of Net OPEB Obligation (NOO) and Annual OPEB Cost (000s omitted)

Fiscal Year	Annual Required Contributions	Actual Contribution	NOO End of Year	Interest on Net OPEB Obligation	Adjustment to the Annual Required Contribution	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
05/06	$ 15,991	N/A	N/A	$ 0	$ 0	$15,991	4.5%	3.25%	25.90

Schedule of Funding Progress (000s omitted)

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	1/1/2006	$ 0	$ 141,920	$ 141,920	0.0%	N/A	N/A	4.5%	3.25%

Schedule of Employer Contributions (000s omitted)

Fiscal Year Ending:	Annual OPEB Costs	Actual Contribution	Percentage Contribution	Net Pension Obligation
6/30/2006	$ 15,991	N/A	N/A	N/A

VII Participant Information

These exhibit summaries contain participant demographic information.

Active Employee Age/Service Distribution

	Years of Service								
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	>35	Total
<25	548	15							563
25-29	1,298	317	1	1					1,617
30-34	1,105	743	110	1					1,959
35-39	845	791	315	159					2,110
40-44	703	611	344	448	98	7			2,211
45-49	658	618	336	465	232	96	4		2,409
50-54	476	498	302	403	217	165	44	1	2,106
55-59	351	346	201	273	157	122	49	6	1,505
60-64	147	175	104	106	46	26	10	2	616
>65	34	51	26	33	12	3	3	4	166
Total	6,165	4,165	1,739	1,889	762	419	110	13	15,262

Participant Statistics

	Waste	Parks	RSA Trust	All Others	Total
Retirees					
Number of retirees	8	7	221	2,286	2,522
Number of retiree spouses	0	3	177*	492	672
Actives					
Number of actives	80	78	1,969	13,135	15,262
Number of active spouses	56	55	1,576*	7,120	8,807
Average age	48.52	46.33	36.89	43.23	42.46
Average past service	17.40	9.53	7.93	8.52	8.50

*assumed 80% of RSA participants are married.

VII Participant Information (cont.)

Active Participant Benefit Summary

The table below summarizes the number of participants by bargaining units and the benefits valued. As described in the plan summary and actuarial assumptions sections, certain groups are eligible for PEMHCA benefits not shown in this summary.

Union Code	Description	Bargaining Unit (used to determine contribution)	# Records	Monthly County Contribution	CalPERS Retirement program
CNF	Confidential	Confidential	217	$ 256.00	misc
LEM	Law Enforcement Management	LEMU	329	128.00*	safety
MGT	Management (General)	Management	381	256.00	misc
MLX	Law Enforcement Exec Staff	LE Exec Staff	28	256.00	safety
MPU	Parks Management Unit	Management	7	256.00	misc
MWU	Waste Management Unit	Management	32	256.00	misc
PR7	Prosecution (Deputy DAs)	DDAA	184	64.60*	misc
RSA	RSA Law Enforcement	RSA	1,969	25.00	safety
RSP	RSA Public Safety	RSA Public Safety	536	64.60*	safety
SE2	SEIU Professional	SEIU	2,306	25.00	misc
SE8	SEIU Registered Nurses	SEIU	598	25.00	misc
SE9	SEIU Para Professional	SEIU	665	25.00	misc
SES	SEIU Supervisory	SEIU	1,257	25.00	misc
SPG	SEIU Parks General	SEIU	63	25.00	misc
SPS	SEIU Parks Supervisory	SEIU	8	25.00	misc
SW2	SEIU Waste Professional	SEIU	13	25.00	misc
SW5	SEIU Waste Trades Crafts Labor	SEIU	23	25.00	misc
SW6	SEIU Waste Support Services	SEIU	12	25.00	misc
UNC	Unrepresented Confidential	Confidential	337	256.00	misc
UNM	Unrepresented Management	Management	247	256.00	misc
UP4	LIUNA Inspection and Technical	LIUNA	1,346	25.00	misc
UP5	LIUNA Trades, Crafts and Labor	LIUNA	972	25.00	misc
UP6	LIUNA Supporting Services	LIUNA	3,732	25.00	misc
		County Total	15,262		

* Law Enforcement Management (LEMU), Prosecution (Deputy DAs), and RSA Public Safety members are eligible to receive the greater of the PEMHCA amount or the bargained amount. Currently, LEMU and Prosecution (Deputy DAs) are above the PEMHCA amount and RSA Public Safety is at the PEMHCA amount.

VII Participant Information (cont.)

Retired Participant Benefit Summary

The table below summarizes the number of current retirees receiving various monthly County contribution amounts:

Age	$25.00	$50.00	$64.60	$128.00	$256.00	Total
<40	11					11
40-44	21					21
45-49	22					22
50-54	154	3	2	42	2	203
55-59	347		17	95	5	464
60-64	449	1	12	97	1	560
65-69	365	1	3	63		432
70-74	281	1		35		317
75-79	170			39		209
80-84	138			25		163
85-89	79			11		90
90-94	23			2		25
95+	2			3		5
Total	2,095	6	34	412	8	2,522

The amounts shown above do not represent benefits being received by retirees under age 65 due to the implicit subsidy.

VIII Summary of Principal Plan Provisions

The following plan provisions are the basis for the calculations in this actuarial valuation.

1. Benefit Eligibility

All employees who retire from active employment after age 50 with 5 years of County service (and are immediately eligible for CalPERS pension benefits) are eligible to participate. Former employees eligible for CalPERS pension benefits but who are not eligible for retirement at termination of employment are not eligible for retiree health benefits.

2. Benefits / Plans Covered

The County provides retirees access to the same medical coverage as active participants. Prior to age 65, the retiree premiums are the same as active premiums and are developed by blending active and retiree costs. The actuarial assumptions exhibit provides details of the premiums and contributions. After age 65, retiree premiums are based exclusively on retiree costs.

In addition, the County contributes a portion of an eligible retiree's medical plan premium under a County sponsored health plan (either at retirement or during a subsequent annual enrollment) for the retiree's lifetime. Contributions are based on bargaining unit at the time of retirement as follows:

Bargaining Unit at Retirement	***Monthly Contribution***			
	2005	**2006**	**2007**	**2008**
Confidential	$128.00	$256.00	$256.00	$256.00
LEMU (Management)*	$128.00	$128.00	$128.00	$128.00
LEMU (Executive Staff)	$128.00	$256.00	$256.00	$256.00
LIUNA	$25.00	$25.00	$25.00	$25.00
Management	$128.00	$256.00	$256.00	$256.00
Prosecution (Deputy DA)*	$50.00	$64.60	$80.80	$97.00
RSA Law Enforcement	$25.00	$25.00	$25.00	$25.00
RSA Public Safety*	$48.40	$64.60	$80.80	$97.00
SEIU	$25.00	$25.00	$25.00	$25.00
Unrepresented	$128.00	$256.00	$256.00	$256.00

* Law Enforcement Management (LEMU), Prosecution (Deputy DAs), and RSA Public Safety members are eligible to receive the greater of the PEMHCA amount or the bargained amount. Currently, LEMU is above the PEMHCA amount and Prosecution (Deputy DAs) and RSA Public Safety are at the PEMHCA amount.

After 2008, the PEMHCA amounts increase at the same rate as Medical CPI. See Appendix A for a projection of the monthly PEMHCA contribution amounts.

Note: The County contributes $25.00 per month to the RSA Benefit Trust for RSA Law Enforcement retirees. Although the Trust is responsible for providing a benefit with a much larger premium, the County is responsible for the $25.00 monthly contribution and this benefit is included in Plan liabilities.

Note: Bargaining unit codes were not available for some of the retirees. Although liabilities for active Court members are not provided in this report, liability for some retired Court members may be included in this report.

3. Survivor Coverage Benefits

Upon the death of the retiree, the eligible surviving spouse receives the same monthly benefit amount for their lifetime.

IX Actuarial Assumptions

1. Actuarial Cost Method

The costs shown in the report were developed using two different funding methods:

Under the Aggregate cost method, the ARC equals an amortization of the unfunded present value of future benefits, based on the following:

- Period equal to the average future working lifetime of active participants
- Level percentage of future payroll amounts

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value, on the valuation date, of prior service costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL based on the following:

- Specified amortization period (10, 20, or 30 years are shown)
- Level percentage of future payroll amounts

The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

2. Discount Rate

4.5% (3.0% used in the prior valuation) - This is based on the assumption that benefits will be paid from general County assets earmarked for purposes of County Postretirement Benefits, and not invested in a separate trust.

7.75% - For illustration purposes, this rate is an example of an investment return assuming the County pre-funded a trust with a mix of asset classes.

3. Payroll Increases

3.25% (3.0% used in the prior valuation) - This is the annual rate at which total payroll is expected to increase and is used in the funding method to calculate the ARC as a level percent of payroll.

IX Actuarial Assumptions (cont.)

4. Mortality

Mortality rates developed in the 1997-2002 CalPERS Experience Study were used in the valuation. Sample rates are as follows:

	Public Agency Police		CalPERS Miscellaneous	
Age	**Male**	**Female**	**Male**	**Female**
30	0.05%	0.03%	0.04%	0.02%
40	0.09%	0.06%	0.08%	0.05%
50	0.18%	0.13%	0.16%	0.10%
60	0.34%	0.26%	0.31%	0.23%
70	2.14%	1.28%	2.14%	1.28%
80	6.99%	3.88%	6.99%	3.88%
90	17.38%	12.59%	17.38%	12.59%

5. Turnover

Turnover rates developed in the 1997-2002 CalPERS Experience Study were used in the valuation. The following sample rates are based on age and service:

Public Agency Police

Hire	Years of Service						
Age	**0 – 1**	**5**	**10**	**15**	**20**	**25**	**30**
30	12.99%	2.97%	2.13%	1.29%	0.22%	0.15%	0.12%
35	12.99%	2.97%	2.13%	0.35%	0.22%	0.15%	0.12%
40	12.99%	2.97%	0.68%	0.35%	0.22%	0.15%	0.12%
45	12.99%	1.10%	0.68%	0.35%	0.22%	0.15%	0.12%
50	12.99%	1.10%	0.68%	0.35%	0.22%	0.15%	0.12%
55	12.99%	1.10%	0.68%	0.35%	0.22%	0.15%	0.12%

CalPERS Miscellaneous

Hire	Years of Service						
Age	**0 – 1**	**5**	**10**	**15**	**20**	**25**	**30**
30	16.22%	6.27%	4.35%	3.07%	0.41%	0.09%	0.02%
35	15.53%	5.57%	3.66%	0.64%	0.25%	0.02%	0.02%
40	14.83%	4.88%	0.95%	0.46%	0.09%	0.02%	0.02%
45	14.14%	1.55%	0.73%	0.27%	0.02%	0.02%	0.02%
50	13.45%	1.29%	0.51%	0.08%	0.02%	0.02%	0.02%
55	12.75%	1.04%	0.28%	0.03%	0.02%	0.02%	0.02%

6. Disability

Disability rates developed in the 1997-2002 CalPERS Experience Study were used in the valuation. Sample rates are as follows:

	Public Agency Police		CalPERS Miscellaneous	
Age	**Male**	**Female**	**Male**	**Female**
25	0.58%	0.29%	0.02%	0.02%
30	1.16%	0.58%	0.02%	0.04%
35	1.75%	0.87%	0.08%	0.10%
40	6.01%	1.16%	0.15%	0.16%
45	1.45%	1.45%	0.24%	0.23%
50	1.75%	1.75%	0.37%	0.35%
55	5.94%	5.94%	0.49%	0.41%

7. Retirement Age

Retirement rates developed in the 1997-2002 CalPERS Experience Study were used in the valuation. Police 3%@50 rates were used for Safety employees and Miscellaneous 3%@60 rates were used for all other employees. Sample rates are as follows:

Police 3%@50 Male

Attained	Years of Service						
Age	**5**	**10**	**15**	**20**	**25**	**30**	**35**
50	4.35%	4.35%	4.35%	8.21%	12.08%	15.59%	19.10%
51	3.85%	3.85%	3.85%	7.28%	10.71%	13.82%	16.93%
52	6.14%	6.14%	6.14%	11.59%	17.05%	22.00%	26.95%
53	6.89%	6.89%	6.89%	13.03%	19.16%	24.72%	30.28%
54	7.10%	7.10%	7.10%	13.42%	19.74%	25.47%	31.20%
55	8.98%	8.98%	8.98%	16.98%	24.97%	32.22%	39.47%
56	6.87%	6.87%	6.87%	12.99%	19.10%	24.65%	30.19%
57	8.03%	8.03%	8.03%	15.18%	22.32%	28.80%	35.28%
58	7.91%	7.91%	7.91%	14.95%	21.98%	28.37%	34.75%
59	8.20%	8.20%	8.20%	15.49%	22.79%	29.40%	36.02%
60	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Police 3%@50 Female

Attained Age	Years of Service 5	10	15	20	25	30	35
50	4.35%	4.35%	4.35%	8.21%	12.08%	15.59%	19.10%
51	3.85%	3.85%	3.85%	7.28%	10.71%	13.82%	16.93%
52	6.14%	6.14%	6.14%	11.59%	17.05%	22.00%	26.95%
53	6.89%	6.89%	6.89%	13.03%	19.16%	24.72%	30.28%
54	7.10%	7.10%	7.10%	13.42%	19.74%	25.47%	31.20%
55	8.98%	8.98%	8.98%	16.98%	24.97%	32.22%	39.47%
56	6.87%	6.87%	6.87%	12.99%	19.10%	24.65%	30.19%
57	8.03%	8.03%	8.03%	15.18%	22.32%	28.80%	35.28%
58	7.91%	7.91%	7.91%	14.95%	21.98%	28.37%	34.75%
59	8.20%	8.20%	8.20%	15.49%	22.79%	29.40%	36.02%
60	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Miscellaneous 3%@60

Attained Age	Male	Female	Attained Age	Male	Female
50	5.00%	7.00%	61	17.00%	12.00%
51	2.00%	5.00%	62	31.00%	25.00%
52	3.00%	5.00%	63	26.00%	22.00%
53	3.00%	5.00%	64	18.00%	16.00%
54	4.00%	5.00%	65	30.00%	30.00%
55	8.00%	9.00%	66	17.00%	18.00%
56	7.00%	8.00%	67	14.00%	17.00%
57	8.00%	7.00%	68	15.00%	13.00%
58	9.00%	11.00%	69	11.00%	15.00%
59	11.00%	10.00%	70	100.00%	100.00%
60	19.00%	15.00%			

8. Annual Medical Inflation ("Trend")

County Contribution: PEMHCA amounts have been determined through 2008 (2005 – $48.40; 2006 – $64.60; 2007 – $80.80; 2008 – $97.00). After 2008, the PEMHCA amounts will increase at the same rate as Medical CPI. For valuation purposes, this is assumed to be the same as the medical cost trend shown below. This applies to RSA Public Safety, Prosecution (Deputy DAs), Law Enforcement Management, and Law Enforcement Executive Staff who were assumed to participate in CalPERS Health Benefits programs and receive the PEMHCA amounts.

All other County contributions are assumed to remain at their current level.

Annual medical costs were assumed to increase as follows:

Year	Annual Rate
1	12.0%
2	9.0%
3	8.5%
4	8.0%
5	7.5%
6	7.0%
7	6.5%
8	6.0%
9	5.5%
10+	5.0%

9. Monthly Medical Costs

The assumed monthly costs for retirees were based on the weighted average cost of current retirees not yet eligible for Medicare. The table below shows estimated retiree only costs, developed separately from active costs. The estimates were either provided by carriers or based on claim experience.

	Single Coverage		Dual Coverage	
	Cost	# of Retirees	Cost	# of Retirees
Exclusive Care	$ 587	96	$1,198	47
Kaiser HMO	634	206	1,267	79
Blue Shield HMO	530	236	1,059	94
Blue Shield PPO	926	27	1,854	14
Weighted average cost	597		1,205	

Underlying this estimate is the assumption that future retirees elect coverage, by plan, in the same proportion as current retirees.

10. Base Year Claims

The expected monthly claims for retirees not yet eligible for Medicare were developed from the costs shown above. The following claims were based on an average retiree age of 60 and assume 2.5% increases in costs for each age:

Age	Members	Spouses	Age	Members	Spouses
50	$467	$486	58	$569	$593
51	478	499	59	583	607
52	490	511	60	597	623
53	502	524	61	612	638
54	515	537	62	628	654
55	528	550	63	643	670
56	541	564	64	659	687
57	555	578			

11. Monthly Retiree Contributions

The assumed monthly retiree contributions were based on the weighted average premiums paid by current retirees not yet eligible for Medicare.

	Single Coverage		Dual Coverage	
	Cost	# of Retirees	Cost	# of Retirees
Exclusive Care	$ 292	96	$ 596	47
Kaiser HMO	392	206	782	79
Blue Shield HMO	354	236	706	94
Blue Shield PPO	648	27	1,295	14
Weighted average cost	372		745	

12. Dental Benefits

Retirees are eligible for dental benefits if they pay the entire premium. Since dental costs are not assumed to vary with age, it is assumed that no implicit subsidy applies and no County liabilities exist.

13. Participants Valued

Only current active and retired participants are valued. No future entrants are considered in this valuation.

Certain employees are eligible for retirement benefits at termination but do not immediately elect coverage. Such former employees may still be eligible to elect retiree coverage at a later date. Although the liabilities for such benefits are not directly valued, the County believes that the likelihood of such former employees returning to elect benefit coverage is considerably small. The plan participation assumption discussed below is adjusted to consider this liability.

14. Plan Participation

80% of future retirees eligible for CalPERS benefits are assumed to elect coverage and 60% of all other future eligible retirees are assumed to elect coverage. These percentages were developed based on the County's review of experience for the fiscal year ended June 30, 2005. (100% of all future eligible retirees were assumed to elect coverage in the prior valuation.)

15. Spouse Assumption

Current marital status is used (except for RSA participants – 80% assumed married). Males are assumed to be three years older than their female spouses.

16. Court Members

Liabilities for active Court members are not included in this report. However, since bargaining units were not available for some of the current retirees, liability for some retired Court members may be included in this report.

Appendix A – Comparison of County Contribution to PEMHCA

The following table compares the projected monthly benefit per participant under the current plan to the projected annual benefit per participant under PEMHCA. The PEMHCA amounts are assumed to increase at the same rate as medical cost each year after 2008.

	Current Benefits		
Year	Low - $25/month	High - $256/month	PEMHCA Benefit
2006	$25.00	$256.00	$64.60
2007	$25.00	$256.00	$80.80
2008	$25.00	$256.00	$97.00
2009	$25.00	$256.00	$105.25
2010	$25.00	$256.00	$113.66
2011	$25.00	$256.00	$122.19
2012	$25.00	$256.00	$130.74
2013	$25.00	$256.00	$139.24
2014	$25.00	$256.00	$147.60
2015	$25.00	$256.00	$155.71
2016	$25.00	$256.00	$163.50
2017	$25.00	$256.00	$171.67
2018	$25.00	$256.00	$180.26
2019	$25.00	$256.00	$189.27
2020	$25.00	$256.00	$198.73
2021	$25.00	$256.00	$208.67
2022	$25.00	$256.00	$219.10
2023	$25.00	$256.00	$230.06
2024	$25.00	$256.00	$241.56
2025	$25.00	$256.00	$253.64
2026	$25.00	$256.00	$266.32
2027	$25.00	$256.00	$279.64
2028	$25.00	$256.00	$293.62
2029	$25.00	$256.00	$308.30
2030	$25.00	$256.00	$323.72

Appendix B – Benefit Studies

This Appendix provides results the County has requested under certain benefit scenarios.

All Retirees Participate in CalPERS Health Benefits Program

Results were also calculated assuming all retirees participate in the CalPERS Health Benefits program. In this case, County contributions are assumed to equal the stated PEMHCA amounts, with assumed increases after 2008.

This scenario does not included liabilities for an implicit subsidy. The premium that CalPERS charges is considered "community rated" and, unlike the County's other plan premiums, does not vary due to demographic differences of the employer. Therefore, the County premiums would be the same no matter how many retirees were covered.

	Current Plan, Including Implicit Subsidy	Participation in CalPERS Health Benefits program
Liabilities		
Present Value of Benefits (PVB)	$236,728,000	$373,456,000
Actuarial Accrued Liability (AAL)	$141,920,000	$226,195,000
Normal Cost	$10,264,000	$15,737,000
ARC		
Aggregate Method	$19,186,000	$30,268,000
Entry Age Normal Method		
30 year amortization	$15,991,000	$24,864,000
20 year amortization	$18,377,000	$28,668,000
10 year amortization	$25,570,000	$40,131,000

Appendix B – Benefit Studies (cont.)

Annual Normal Cost of County Contribution

The table below shows the annual normal cost related to the County contribution (no implicit subsidy) for newly hired employee under the various bargaining groups. The normal cost is shown based on the average hire age of the bargaining group and age 35, the approximate average hire age of all active employees.

Union Code	Description	Monthly County Contribution	Average Age at Hire	Normal Cost for Average Aged New Hire	Normal Cost for 35 Year Old New Hire
CNF	Confidential	$ 256.00	35	$ 566	$ 566
LEM	Law Enforcement Management	128.00*	27	1,328	1,502
MGT	Management (General)	256.00	36	626	566
MLX	Law Enforcement Exec Staff	256.00	34	630	663
MPU	Parks Management Unit	256.00	41	1,062	566
MWU	Waste Management Unit	256.00	30	348	566
PR7	Prosecution (Deputy DAs)	50.00*	32	1,213	1,407
RSA	RSA Law Enforcement	25.00	30	49	63
RSP	RSA Public Safety	64.60*	30	1,427	1,502
SE2	SEIU Professional	25.00	36	61	55
SE8	SEIU Registered Nurses	25.00	36	61	55
SE9	SEIU Para Professional	25.00	36	61	55
SES	SEIU Supervisory	25.00	36	61	55
SPG	SEIU Parks General	25.00	36	61	55
SPS	SEIU Parks Supervisory	25.00	36	61	55
SW2	SEIU Waste Professional	25.00	32	42	55
SW5	SEIU Waste Trades Crafts Labor	25.00	32	42	55
SW6	SEIU Waste Support Services	25.00	32	42	55
UNC	Unrepresented Confidential	256.00	36	626	566
UNM	Unrepresented Management	256.00	36	626	566
UP4	LIUNA Inspection and Technical	25.00	34	50	55
UP5	LIUNA Trades, Crafts and Labor	25.00	34	50	55
UP6	LIUNA Supporting Services	25.00	34	50	55
	County Average		34		

* Law Enforcement Management (LEMU), Prosecution (Deputy DAs), and RSA Public Safety members are eligible to receive the greater of the PEMHCA amount or the bargained amount. Currently, LEMU is above the PEMHCA amount and Prosecution (Deputy DAs) and RSA Public Safety are at the PEMHCA amount.

APPENDIX 3

Debt Line,
"How Bond Deals
are Evaluated by rating Agencies"

SUMMARY OF GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NO. 45, "ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS"

Overview

Starting this year, the Government Accounting Standards Board (GASB), through its Statement Number 45 (hereafter referred to as "GASB 45"), will require every state, city, and county government, as well as specialized public organizations such as school districts, hospitals, colleges, and universities to reflect the cost of providing other postemployment benefits (OPEBs) to its active and retired employees. OPEBs include benefits other than pensions and termination incentives provided to former employees, such as medical, dental, and vision coverage; life insurance; and long-term care. GASB 45 will have an initial implementation date of December 15, 2006 for certain agencies and will be fully implemented by December 15, 2008.

Typically, government employers have reported the cost of OPEBs (which include heath care and other non-pension benefits) on a "pay-as–you-go" basis; that is, the annual amount paid for benefits has been the annual expense with no other liabilities or funding requirements. GASB 45 states that the current pay-as-you-go method does not accurately reflect the true liabilities that governments are accumulating for future benefits of current employees. Under the new GASB 45 standards, state and local government employers must account for and report the annual cost of OPEBs in the same way they report pensions. As a result, the annual OPEB costs for most employers will be based on actuarially determined amounts rather than the pay-as-you-go method.

Governments must use actuarial evaluations to determine the final accounting and reporting amounts expected in the future. OPEB costs also must be reported over the working lifetime of employees, and the information provided in financial statements must include the funding, costs, and provisions in an OPEB plan.

Timing of Implementation

Effective dates for GASB 45 are phased in for periods beginning after December 15 of 2006, 2007, or 2008, depending upon the size of the agency. The three phases are:

December 15, 2006 for agencies with total annual revenue of $10 million or more.
December 15, 2007 for agencies with total annual revenue of $1 million to $100 million.
December 15, 2008 for agencies with total annual revenue of les than 10 million.

Accounting/Actuarial Requirements

Governmental employers subject to GASB accounting must calculate and accrue a cost based on the Annual Required Contribution (ARC) for OPEB benefits. The ARC includes an amount that covers the current normal cost (or service cost) of benefits as they are earned during active employment and an amount that amortizes the unfunded OPEB liability for prior service, if any. The ARC is simply an actuarially-determined amount that, if set aside on an ongoing basis, would provide the government with sufficient resources to make OPEB payments as they come due. To the extent that OPEB costs exceed the employer's contributions, the unfunded portion is reported as a liability.

The excess of the ARC over the sum of contributions made to a separate trust to fund benefits and actual benefit payments made directly by the employer accumulates each year as a net OPEB obligation on the employer's balance sheet (which must be disclosed as a note in financial statements). Since the ARC may be several times greater than actual benefit payments, balance sheet net OPEB obligations might grow rapidly unless additional funds are set aside each year to reduce the balance sheet liability. Since funding, or the lack thereof, will influence the accounting results, there may be a strong incentive for governmental entities with available cash flow to fund their OPEB plans.

Employers with over 200 participants (active and retired beneficiaries) must have a certified actuarial valuation every two years. Employers with 100 to 200 participants (active and retired beneficiaries) must have a certified actuarial valuation every three years. Employers with less than 100 participants (active and retired beneficiaries) can use the Alternative Measurement Method valuat[illegible] prescribed by GASB. The Alternative Measurement Method includes the same broad measurement steps as an actuarial evaluation, however, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

(Continue on page 7)

GASB 45 SUMMARY

(Continued from page 6)

Estimating the OPEB Liability

The size of OPEB liabilities for prior service will vary with each employer, depending on promised benefits, average age of the employee group, and the ratio of active to retired members. As a general rule, the ARC may be five to ten times greater than current annual benefit payments.

One of the most important factors in determining OPEB liabilities and costs is the interest rate used to discount future benefit payments to their present day value. GASB rules state that the discount rate to value OPEB liabilities must reflect expected returns on assets used to pay benefits. If OPEB liabilities are not funded in advance, this means the discount rate would be the expected return on the investment assets of the employer. Statutory restrictions on the type and term length of investments may result in a low rate of return on assets. This in turn may result in the mandated use of a low discount rate for OPEB liabilities. On the other hand, if the OPEB liabilities are funded in advance in a separate trust dedicated to provide OPEB benefits, the assets may be invested in longer-term investments with higher expected returns.

Future Implications

Three significant issues are certain to affect agencies in the future:

- Healthcare inflation, which is forecast to grow at a faster rate than the general rate of inflation.
- An increased number of government employee retirements.
- Public/investor community's perception of the agencies future financial condition.

Healthcare Costs. Rapid advances in technology, increased utilization, growth in prices, demographic changes, and the expansion of health care programs are a few of the many factors contributing to the growth in health care spending. According to the Centers for Medicare and Medicaid Services, national health expenditure in 1995 totaled about $1 trillion while the total was almost double that in 2005. Experts expect no significant slowdown in spending. While medical expenditures are rising for everyone, they are growing at an even faster rate for retirees.

Government Employee Retirees. Over the next several decades, the number of public employees eligible to retire will substantially increase. Along with the potential loss of skills and expertise, state and local governments anticipate a substantial drain on their retirement benefit plans. In 2005, state and local governments employed an estimated 16 million workers, more than 10 percent of the national workforce. According to the Rockefeller Institute of Government, workers over 45 years old comprised 46 percent of the government workforce. This compares to 31 percent over 45 years old in the private sector.

Financial Risk Perception. The major credit rating agencies have indicated that they will judge the creditworthiness of governments based in part on their plan for meeting OPEB liabilities rather than simply on the size of the liability. While GASB 45 governs the rules that auditors must follow when preparing and reporting government financial statements, it does not have the power to change how governments fund benefits. The difference between the pay-as-you-go method of funding benefits and the prefunding method will have significant financial, political, legal, and bond rating implications.

OPEB Funding Strategies

Governments are expected to approach GASB 45 in the same way that they approached changes in pension accounting and actuarial standards by steadily increasing contributions, altering benefit plans, or implementing other strategies that will guarantee long-term solvency. These include:

Plan Changes. While pension benefits are constitutionally protected in many states, governments have greater control over OPEB plans; therefore, they may choose to seek concessions from future, current, and retired employees. This could be accomplished by decreasing benefits, capping employer-provided benefits, closing off existing benefit levels for new employees, converting plans from defined benefit to defined contribution, instituting or increasing contributions from current members, or increasing employee co-pays.

Prefunding. While the new accounting rules do not require OPEB funding, prefunding offers several advantages. If the funds are invested, the investment returns can be used to reduce annual contributions and could result in lower long-term costs. If the funds are placed in a qualifying trust, employers can take advantage of better discount rates when reporting liabilities.

OPEB Bonds. OPEB bonds allow for investment in potentially higher yielding investment vehicles such as equities. If the investment yield from the bond asset exceeds the interest that will be paid to bond holders, the bond proceeds can be used to cover part of the government's liability. However, if bond proceed investment returns do not meet expectations, OPEB liabilities may remain.

Conclusion

As GASB 45 implementation deadlines near, public agencies must determine a strategy for determining the effect that GASB 45 has on their organizations and what means are necessary for managing their future OPEB expenses. Failure to effectively manage OPEB expenses in the long run will create a significant financial liability affecting an agency's ability to perform its obligation. For more information on GASB 45, visit the GASB website at **www.gasb.org**. DL

APPENDIX 4
GASB45
"Illustration # 3"

Illustration 3—Notes to the Financial Statements and Schedule of Funding Progress for an Employer Contributing to an Agent Multiple-Employer Defined Benefit Healthcare Plan

City of Mocha

Notes to the Financial Statements
for the Year Ended June 30, 20X2

Note X. Postemployment Healthcare Plan

Plan Description. The city's defined benefit postemployment healthcare plan, Mocha Postemployment Healthcare Plan (MPHP), provides medical benefits to eligible retired city employees and their beneficiaries. MPHP is affiliated with the Municipal Retired Employees Health Plan (MREHP), an agent multiple-employer postemployment healthcare plan administered by the Robusta Retirement System. Article 39 of the Statutes of the State of Robusta assigns the authority to establish and amend the benefit provisions of the plans that participate in MREHP to the respective employer entities; for MPHP, that authority rests with the city of Mocha. The Robusta Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for MREHP. That report may be obtained by writing to Robusta Retirement System, 399 Grocer Aisle, Caffe, RO 02000, or by calling 1-877-555-PLAN.

Funding Policy. The contribution requirements of plan members and the city are established and may be amended by the MREHP board of trustees. MPHP members receiving benefits contribute $75 per month for retiree-only coverage and $150 per month for retiree and spouse coverage to age 65, and $40 and $80 per month, respectively, thereafter.

The city of Mocha is required to contribute the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 13.75 percent of annual covered payroll.

Annual OPEB Cost. For 20X2, the city's annual OPEB cost (expense) of $870,517 for MPHP was equal to the ARC. The city's annual OPEB cost, the

percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 20X2 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/X0	$929,401	100%	$0
6/30/X1	910,042	100	0
6/30/X2	870,517	100	0

Funded Status and Funding Progress. The funded status of the plan as of December 31, 20X1, was as follows:

Actuarial accrued liability (AAL)	$19,490,482
Actuarial value of plan assets	15,107,180
Unfunded actuarial accrued liability (UAAL)	$ 4,383,302
Funded ratio (actuarial value of plan assets/AAL)	77.5%
Covered payroll (active plan members)	$ 6,331,031
UAAL as a percentage of covered payroll	69.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 20X1, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Both rates include a 4.5 percent inflation assumption. The actuarial value of MPHP assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. MPHP's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 20X1, was twenty-two years.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for MPHP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)—Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
12/31/W9	$10,138,007	$16,867,561	$6,729,554	60.1%	$5,984,554	112.4%
12/31/X0	12,093,839	17,572,474	5,478,635	68.8	6,182,351	88.6
12/31/X1	15,107,180	19,490,482	4,383,302	77.5	6,331,031	69.2