




Date: September 5, 2012

To: GCT Board of Directors

From: Steve L. Rosenberg 
Director of Administrative Services

RE: Receive and File Actuarial Study and Consider Staff Funding
Recommendation Regarding Future GCT Retiree Health Liabilities

I. EXECUTIVE SUMMARY

In January 2012 the Board approved the staff recommendation that GCT initiate a GASB 45 actuarial valuation study to quantify GCT's OPEB obligations as of June 30, 2011. An RFP was issued and a contract was issued to Total Compensation Systems Inc. of Agoura Hills, CA (TCS). The draft study was reviewed in July, and the final study was completed in August and is presented to the Board as an attachment to this report.

The goal of such a study is to determine the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. Key variables that must be covered by assumptions include the cost of retiree health benefits to the agency, the trend rate at which benefit costs increase, employee turnover rates, retirement rates, participation rates and the discount rate (the premised return on investment). The discount rate recommended by the actuary for this study is 5%.

Based on the experience of numerous other agencies it was anticipated that the total obligation would be startlingly high for an expense that currently costs GCT less than \$5,000 per year on a pay-as-you-go basis, and that is the case. The study pegs the actuarial present value of total projected benefits at just under \$1.2 million.

The most relevant calculation is the annual cost to prefund retiree health benefits; this is the amount required to be expensed each year to cover 1) the "normal cost" – the cost of the current year's employees' current and future health benefits, and 2) the "unfunded actuarial accrued liability" (UAAL) – the amount needed to amortize over 30 years the obligation for past years during which the normal cost was not fully recognized. The study determined that based on data for the year ending June 30, 2011 the total cost to prefund GCT retiree benefits should be \$87,363.

The cost breakdown is: \$51,800 for normal cost and \$35,563 for UAAL. Since the pay-as-you-go amount GCT is already paying is included in the UAAL calculation, that amount is deducted from the year-end accrual. GCT's pay-as-you-go amount for FY 2011-12 was \$3,893, so the year-end accrual was \$83,470. GCT is required to update this study every two years. Both the normal cost and the UAAL components of this calculation will rise in future years as GCT's headcount and payroll cost increase, however the Board should note that GCT's annual obligation is considerably lower than that of many smaller agencies that offer so-called "medical for life."

GCT is obligated under GASB 45 to expense this amount annually and report it as a liability; however GASB 45 does not include an obligation to actually fund this obligation. Nonetheless, there are compelling reasons for the Board to consider pre-funding this obligation by establishing an irrevocable trust. Essentially, pre-funding will reduce the annual cost impact by allowing GCT to use a higher discount rate and will reduce the long-term cost impact by allowing a substantial portion of the total cost to be paid by investment returns. Pre-funding will also reduce GCT's balance sheet liability, which would impact GCT's future ability to borrow money or issue bonds. The primary benefit to not pre-funding is retaining access to the accrued funds.

Many California municipalities and public agencies have chosen to pre-fund using the California Employers' Retiree Benefit Trust (CERBT), administered by CalPERS. CERBT offers very low administrative fees and the flexibility that annual OPEB contributions are not mandatory. CERBT offers three long-term asset allocation investment options; the actuary has estimated that choosing the highest-return option could reduce GCT's annual expense by approximately \$20,000. The process of establishing the trust would require some additional calculations by the actuary and would take 4-6 months, including the Board resolution process.

The primary risk of pre-funding using an irrevocable trust such as the CERBT is that should GCT in future years change health insurance providers and opt not to offer any contribution toward retiree medical benefits, the funds already paid into CERBT would remain with CERBT until either they were depleted by paying the benefit costs of existing retirees or GCT's actuarial obligation was reduced to zero. This would likely take many years. Staff's analysis is that this scenario is possible but unlikely.

GASB 45 requires GCT to record this expense on an annual basis regardless of whether or not it is funded. GCT did not have the results of this study in time to incorporate the findings into the FY2012-13 budget, however staff anticipates at this time that GCT can absorb the additional expense without a major impact.

To place this new line item in perspective, it represented .5% of GCT's operating expense and 1.5% of GCT's unrestricted cash at FY2011-12 year end. Because establishing this trust will not significantly impact GCT's overall cash position and GCT retains the ability to defer contributions during financially challenging years, staff recommends that the benefits to GCT of establishing a CERBT trust and pre-funding retiree health benefits clearly outweigh any negatives.

IT IS RECOMMENDED that the Board receive and file the Gold Coast Transit Actuarial Study of Retiree Health Liabilities dated June 11, 2012 and direct staff to initiate the process of establishing an irrevocable CERBT trust to pre-fund retiree health benefits.

II. BACKGROUND

In 2006 the Governmental Accounting Standards Board (GASB) issued Standard Number 45 to require governmental entities to identify the cost of non-pension post-employment benefits (commonly referred to as OPEB) offered to retirees. This requires the entity to obtain an actuarial valuation and incorporate its future obligation into its financial disclosures. GASB 45 does not require these future obligations to be funded; it only requires that the projected cost associated with non-pension postemployment benefits be calculated and reported.

The only non-pension post-employment benefit GCT offers is the CalPERS medical plan, as provided under the California Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, GCT pays the minimum employer contribution for retirees using the unequal method, which allows a gradual twenty-year buildup to the full minimum employer contribution by starting at 5% per year in year one and increasing by 5% per year until it reaches 100% in year 20. In 2012 the CalPERS minimum monthly employer contribution is \$112 per participant. This is GCT's eleventh year in the plan, so GCT's monthly contribution for current annuitants is \$61.60 ($\$112 \times 5\% \times 11$).

GCT currently has a very small number of annuitant participants; a data extract provided by CalPERS earlier this year showed that of fifty-five (55) retirees from SCAT/GCT since 2000, only six were participants in GCT's CalPERS medical coverage. GCT's annual pay-as-you-go costs for retiree medical benefits have been and remain at this point clearly immaterial, and project to remain so over the next several years. For that reason GCT had not prior to this point initiated a GASB 45 actuarial analysis and subsequent disclosure.

As a result of the increasing public scrutiny this issue continues to receive, staff and GCT's outside audit firm, Charles Z. Fedak & Co., jointly concluded that the prudent approach would be to recommend that GCT initiate an actuarial valuation study to quantify GCT's OPEB obligations as of June 30, 2011. The Board approved staff's recommendation in January 2012. The actuarial study was conducted by Total Compensation Systems Inc. of Agoura Hills, CA (TCS); a draft was reviewed with staff in July 2012 and the final study was completed in August 2012 for presentation to the Board.

The complete list of assumptions used in this study is listed in Appendix C. The key assumptions are:

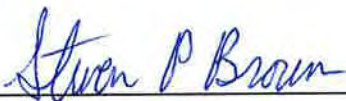
- 30-year amortization period
- 5% annual investment returns (discount rate)
- 3% annual inflation factor
- 3% annual payroll increase
- 50% participation rates (% of eligible retirees who will take GCT health benefits) – *While this is higher than GCT's current participation rate, TCS' experience is that this rate will increase as GCT approaches funding 100% of the minimum monthly employer contribution*

TCS' actuarial study also includes a list of recommendations on pages 5 and 6; these recommendations are generic and, as stated, made without regard to whether GCT is already in compliance with the recommendations. GCT has reviewed this list of recommendations and has or will comply with them as appropriate. GCT has also reviewed this report with its outside audit firm, Charles Z. Fedak & Co., which has accepted GCT incorporating results of this report into its financial statements.

III. SUMMARY AND RECOMMENDATIONS

IT IS RECOMMENDED that the Board receive and file the Gold Coast Transit Actuarial Study of Retiree Health Liabilities dated June 11, 2012 and direct staff to initiate the process of establishing an irrevocable CERBT trust to pre-fund retiree health benefits.

Concurrence:



Steven P. Brown
General Manager

Total Compensation Systems, Inc.

**Gold Coast Transit
Actuarial Study of
Retiree Health Liabilities
As of July 1, 2011**

*Prepared by:
Total Compensation Systems, Inc.*

Date: June 11, 2012

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Gold Coast Transit
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

Gold Coast Transit engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of July 1, 2011 (the valuation date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2012. If the report will first be used for a different fiscal year, the numbers will need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree's cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under Governmental Accounting Standards Board (GASB) Standards 25/27.

This actuarial study is intended to serve the following purposes:

- » To provide information to enable Gold Coast Transit to manage the costs and liabilities associated with its retiree health benefits.
- » To provide information to enable Gold Coast Transit to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.
- » To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, Gold Coast Transit should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for Gold Coast Transit's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Gold Coast Transit in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- the ten year "pay-as-you-go" cost to provide these benefits.
- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees' service prior to the valuation date.)
- the amount necessary to amortize the UAAL over a period of 30 years.

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- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").
- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning July 1, 2011 to be \$5,245 (see Section IV.A.). The "pay-as-you-go" cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2011 (the normal cost) is \$51,800. This normal cost would increase each year based on covered payroll. Had Gold Coast Transit begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be \$802,894. This amount is called the "actuarial accrued liability" (AAL).

We calculated the annual cost to amortize the unfunded actuarial accrued liability using a 5% discount rate. We used a 30 year amortization period. The current year cost to amortize the unfunded "actuarial accrued liability" is \$35,563.

Combining the normal cost and UAAL amortization costs in the first year produces an annual required contribution (ARC) of \$87,363. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the "pay-as-you-go" cost.

We based all of the above estimates on employees as of June, 2011. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

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	<u>All Employees</u>
Benefit types provided	Medical only
Duration of Benefits	Lifetime
Required Service	5 years
Minimum Age	50
Dependent Coverage	Yes
District Contribution %	100%
District Cap	\$54 per month*

*Adjusted and indexed pursuant to Government Code Section 22892

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Gold Coast Transit should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Gold Coast Transit's practices, it is possible that Gold Coast Transit is already complying with some or all of our recommendations.

- We recommend that Gold Coast Transit inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Gold Coast Transit should determine whether the benefit is material and subject to GASB 43 and/or 45.
- We recommend that Gold Coast Transit conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two or three years, as required under GASB 43/45.
- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.
- Under GASB 45, it is important to isolate the cost of retiree health benefits. Gold Coast Transit should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – *even on a retiree-pay-all basis* – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Gold Coast Transit should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.
- Gold Coast Transit should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.
- Several assumptions were made in estimating costs and liabilities under Gold Coast Transit's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Gold Coast Transit should

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maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Gold Coast Transit to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,



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Total Compensation Systems, Inc.

PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be “accrued” over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an “actuarial cost method.”

Under most actuarial cost methods, there are two components of actuarial cost - a “normal cost” and amortization of something called the “unfunded actuarial accrued liability.” Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method that will be permitted under GASB 43 and 45. This actuarial cost method is called the “entry age normal” method.

Under the entry age normal cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, normal cost can be expressed either as a level dollar amount or a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current **cost of retiree health benefits** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.
- The “**trend**” rate at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A “cap” on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.
- **Mortality rates** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.
- **Employment termination rates** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between public agencies.
- The **service requirement** reflects years of service required to earn full or partial retiree benefits.

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While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- **Retirement rates** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.
- **Participation rates** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.
- The **discount rate** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, employer funds earning money market rates in the county treasury are likely to earn far less than an irrevocable trust containing a diversified asset portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions are exactly met and an employer expensed the normal cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the actuarial accrued liability or AAL. The excess of AAL over the **actuarial value of plan assets** is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. At inception of GASB 43 and 45, there is usually a substantial UAAL. Some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)
- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.
- The employer may elect a "closed" or "open" amortization period.
- The employer may choose to amortize on a level dollar or level percentage of payroll method.

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PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Gold Coast Transit. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. The method of coordinating Medicare benefits with the retiree health plan's benefits can have a substantial impact on retiree health costs. We will be happy to provide more information about Medicare integration methods if requested.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent Gold Coast Transit uses contribution caps, the influence of the trend factor is further reduced.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date July 1, 2011 at 5% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on July, 2011 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

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Actuarial Present Value of Total Projected Benefits

July 1, 2011	<u>All</u> <u>Employees</u>
Active: Pre-65	\$230,659
Post-65	\$851,432
Subtotal	<u>\$1,082,091</u>
Retiree: Pre-65	\$19,349
Post-65	\$95,810
Subtotal	<u>\$115,159</u>
Grand Total	<u>\$1,197,250</u>
Subtotal Pre-65	\$250,008
Subtotal Post-65	\$947,242

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been "earned" by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 36. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 24 years (assuming an average retirement age of 60). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning

July 1, 2011	<u>All</u> <u>Employees</u>
# of Employees	140
Per Capita Normal Cost	
Pre-65 Benefit	\$108
Post-65 Benefit	\$262
First Year Normal Cost	
Pre-65 Benefit	\$15,120
Post-65 Benefit	\$36,680
Total	<u>\$51,800</u>

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Accruing retiree health benefit costs using normal costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs.

The initial UAAL was amortized using a closed amortization period of 30 years. The table below shows the annual amount necessary to amortize the UAAL over a period of 30 years at 5% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 will allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect the level percentage of payroll method. This amortization payment would increase each year based on covered payroll.

Actuarial Accrued Liability as of July 1, 2011

	<u>All Employees</u>
Active: Pre-65	\$115,550
Post-65	\$572,185
Subtotal	<u>\$687,735</u>
Retiree: Pre-65	\$19,349
Post-65	\$95,810
Subtotal	<u>\$115,159</u>
Subtot Pre-65	<u>\$134,898</u>
Subtot Post-65	<u>\$667,995</u>
Grand Total	\$802,894
Funded at July 1, 2011	\$0
Unfunded AAL	<u>\$802,894</u>
UAAL Amortization at 5.0% over 30 Years	\$35,563

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs will include both normal cost and one or more components of UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

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Annual Required Contribution (ARC) Year Beginning July 1, 2011

	<u>All</u> <u>Employees</u>
Normal Cost	\$51,800
UAAL Amortization	\$35,563
ARC	<u>\$87,363</u>
Pay-As-You-Go Cost	\$5,245
Added Cost of GASB 43/45	<u>\$82,118</u>

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

4. Other Components of Annual OPEB Cost (AOC)

Expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This will apply to employers that don't fully fund the Annual Required Cost (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) will include assumed interest on the net OPEB obligation (NOO). The annual OPEB cost will also include an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)
- The net OPEB obligation will equal the accumulated differences between the (AOC) and qualifying "plan" contributions.