

**B**ARTEL  
ASSOCIATES, LLC

## **County of Marin Retiree Healthcare Plan**

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### **Actuarial Valuation as of July 1, 2013 For Fiscal Years 2013/14 & 2014/15 GASB 45 Information**

January 2014

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## ACTUARIAL VALUATION CERTIFICATION

This report presents the July 1, 2013 actuarial valuation for the County of Marin Retiree Healthcare Plan (“Plan”). The purpose of this valuation is to:

- determine the Plan benefit obligations and funded status as of July 1, 2013 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45),
- calculate the County’s 2013/14 & 2014/15 fiscal year Annual Required Contribution for the Plan pursuant to GASB 45.

Use of this valuation for other purposes may not be appropriate.

This report includes the following sections:

- Section 1 presents a staff summary of the GASB 45 valuation results.
- Section 2 provides financial accounting information, including the 2013/14 & 2014/15 Annual Required Contributions.
- Section 3 provides the results of the actuarial valuation.
- Sections 4, 5, 6 and 7 summarize the census data, premium rates, Plan provisions, funding method, and actuarial assumptions that form the basis for this valuation.
- Section 8 provides a summary of GASB 45.

This report presents Bartel Associates’ valuation of the County of Marin Retiree Healthcare Plan in accordance with accepted actuarial principles and our understanding of GASB 45. Future valuations may differ significantly if the Plan’s experience differs from our assumptions or if there are changes in plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

We have relied on demographic and premium information supplied by the County, which has been reviewed for general reasonableness, but not audited.

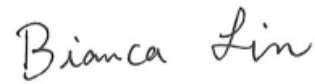
The undersigned are members of the American Academy of Actuaries and meet Academy Qualification Standards to render the actuarial results and opinions in this report.

Respectfully submitted,  
Bartel Associates, LLC



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January, 2014

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### Actuarial and Accounting Terminology Used in this Report

- AAL – Actuarial Accrued Liability
- AOC – Annual OPEB Cost
- ARC – Annual Required Contribution
- EAN – Entry Age Normal Cost Method
- GASB 45 – Governmental Accounting Standards Board Statement No. 45
- NC – Normal Cost
- NOO – Net OPEB Obligation
- OPEB – Other (than pensions) Post Employment Benefits
- PVPB – Present Value of all Projected Benefits
- UAAL – Unfunded Actuarial Accrued Liability

## SECTION 1 STAFF SUMMARY

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### Plan Provisions

Under the current practice, the County allows eligible service and disability retirees and their dependents to continue health coverage in the County's medical and dental plans. The County pays a portion of the premiums based on date of hire.

- Plan 1: For retirees hired before October 1, 1987, the County pays 100% of the eligible retiree's single health plan premiums.
- Plan 2: For retirees hired between October 1, 1987 and September 30, 1993, the County pays the retiree's single health plan premiums up to \$2,275 per year.
- Plan 3: For retirees hired between October 1, 1993 and December 31, 2007, the County pays a percentage of the retiree's single premium up to a dollar cap based on years of service at retirement, where the dollar cap is reviewed each year. Through January 1, 2007 the cap was increased to cover single Anthem Blue Cross Prudent Buyer Classic and Delta Dental premiums. Due to the amount of unfunded liability the County faces, the Board of Supervisors has implemented a policy to limit annual increases in the maximum allocation for Plan 3 to no more than 3%, subject to annual approval regarding whether any increase will be granted and, if so, the amount of the increase. Cap increases were 3% effective January 1, 2008 and January 1, 2009. No cap increases have been adopted since that time. Currently the Plan 3 Cap is \$8,853 per year.
- Plan 4: For retirees hired on or after January 1, 2008, the County pays \$150 per year of service up to \$3,000 per year for the retiree's single health plan premiums only.

Retirees eligible for Plans 1 and 2 may elect Plan 3 instead; and retirees eligible for Plans 1, 2, or 3 may elect Plan 4 instead.

Medical coverage is provided through Anthem Blue Cross and Kaiser. Anthem Blue Cross premiums vary by status (employee, retiree under age 65, retiree age 65 or over with Medicare). Kaiser premiums are the same for employees and retirees under age 65. To the extent these premium structures result in subsidies of retiree claim costs from premiums paid for employees by the County, an implied subsidy exists which under GASB 45 must be included in County post-retirement healthcare calculations.

### Funding Policy

Through the 2011/12 fiscal year the County used pay-as-you-go funding in conjunction with contributions to a reserve intended to be used to fund the plan. The County transferred the reserve balance to the CalPERS California Employers' Retiree Benefit Trust (CERBT) Fund and began prefunding the full Annual Required Contribution beginning in the 2012/13 fiscal year using Asset Allocation Strategy 2.

**SECTION 1**  
**STAFF SUMMARY**

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**Plan Changes since the Prior Valuation**

There were no changes to the Plan.

**Actuarial Valuation Assumptions and Methods**

Changes were made to the methodology and assumptions underlying the calculation of the value of expected future claims costs.

The percentage of future retirees assumed to elect Kaiser coverage at retirement was increased.

Costs for medical coverage for retirees covered under Kaiser's Northern California Senior Advantage pool were calculated using estimated age-gender based claim costs instead of premium. This change was made in anticipation of changes in actuarial standards of practice in this area – as reflected in the second exposure draft of Actuarial Standard of Practice #6.

**Results**

The July 1, 2013 benefit obligations and the 2013/14 Plan cost are as follows using a 5.50% interest rate, based on assuming that the County will continue full ARC prefunding (amounts in 000's):

	<u><b>July 1, 2013</b></u>
<b>■ Present Value of Projected Benefits (PVPB)</b>	\$ 432,497
The Present Value of Benefits is a measure of the total County obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.	
<b>■ Actuarial Accrued Liability (AAL)</b>	361,711
The Actuarial Accrued Liability is a measure of the County obligation for benefits earned or allocated to past service.	
<b>■ Plan Assets</b>	26,366
Plan Assets include funds that have been segregated and restricted in a trust so that they can only be used to pay plan benefits.	
<b>■ Unfunded Actuarial Accrued Liability (UAAL)</b>	335,345
The Unfunded Actuarial Accrued Liability is the excess of the AAL over Plan Assets. This represents the amount of the Actuarial Accrued Liability at the valuation date that must still be funded.	

**SECTION 1**  
**STAFF SUMMARY**

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	<b><u>2013/14</u></b> <b><u>Plan Cost</u></b>
<p>■ <b>Normal Cost (NC)</b></p> <p>The Normal Cost is the value of benefits expected to be earned or allocated to the 2013/14 fiscal year.</p>	\$ 8,609
<p>■ <b>Annual Required Contribution (ARC)</b></p> <p>The Annual Required Contribution is the sum of the Normal Cost plus a 29-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability. It is determined as of the middle of the 2013/14 fiscal year.</p>	24,412
<p>■ <b>Estimated Annual OPEB Cost (AOC)</b></p> <p>The Annual OPEB Cost is the expense recognized on the County's income statement for providing post-retirement healthcare benefits. The AOC equals the ARC, adjusted for prior differences between the ARC and actual contributions.</p>	25,053

**SECTION 2**  
**ACCOUNTING INFORMATION**

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The following are the 2013/14 and 2014/15 ARCs, estimated AOCs, and the estimated June 30, 2013, June 30, 2014 and June 30, 2015 Net OPEB Obligations (NOO).

**Annual Required Contribution (ARC)**

The 2013/14 Annual Required Contribution determined by this valuation includes the Normal Cost and a 29-year amortization of the unfunded AAL, both as a level percentage of payroll and determined as of the middle of the fiscal year (amounts in 000's):

	<u>July 1, 2011</u>		<u>July 1, 2013</u>	
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
■ Interest Rate	4.25%	5.50%	5.50%	5.50%
■ Normal Cost	\$ 11,941	\$ 8,593	\$ 8,609	\$ 8,352
■ UAAL Amortization <sup>1</sup>	<u>15,241</u>	<u>15,760</u>	<u>15,803</u>	<u>16,317</u>
■ Total ARC	27,182	24,353	24,412	24,669
■ Projected Payroll	150,405	155,293	151,988	156,928
■ ARC as a % of Payroll	18.1%	15.7%	16.1%	15.7%

**Annual OPEB Cost (AOC)**

The AOC is equal to the ARC, except when the County has a Net OPEB Obligation (NOO) at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by the amortization of the NOO included in the ARC. The end of year AOC for fiscal year 2013/14 and 2014/15 are determined as follows (amounts in 000's):

	<u>July 1, 2011</u>		<u>July 1, 2013</u>	
	<u>2011/12</u>	<u>2012/13</u>	<u>Estimated 2013/14</u>	<u>Estimated 2014/15</u>
■ Interest Rate	4.25%	5.50%	5.50%	5.50%
■ ARC	\$ 27,182	\$ 24,353	\$ 24,412	\$ 24,669
■ Interest on NOO	4,085	6,137	5,347	5,382
■ Amortization of NOO	<u>(3,828)</u>	<u>(5,272)</u>	<u>(4,706)</u>	<u>(4,859)</u>
■ Total AOC	27,439	25,218	25,053	25,192
■ AOC as a % of Payroll	18.2%	16.2%	16.5%	16.1%

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<sup>1</sup> Amortized as a level percent of payroll over rolling 30 years.  
Amortized as a level percent of payroll over closed 30 years beginning 2012/13.



**SECTION 2**  
**ACCOUNTING INFORMATION**

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**Net OPEB Obligation (NOO)**

The NOO is the historical difference between the ARC and actual contributions. If an agency has always contributed the ARC, then the NOO equals zero. However, contributions have not been “made” for purposes of GASB 45 unless they have been segregated in an irrevocable trust for the sole purpose of paying plan benefits or used to pay premiums or benefits for the current year.

Based on the AOC developed on the prior page, the June 30, 2014 NOO and the June 30, 2015 NOO are estimated at year end as shown below. Final figures will be dependent on actual benefits paid, actual contribution made to the Trust and final NOO balances as of 6/30/2013 and 6/30/2014.

	<u>Actual</u> <u>2011/12</u>	<u>Estimated</u> <u>2012/13</u>	<u>Estimated</u> <u>2013/14</u>	<u>Estimated</u> <u>2014/15</u>
■ Beginning of Year NOO	\$ 96,102	\$ 111,585	\$ 97,217	\$ 97,858
■ <i>plus</i> AOC	27,439	25,218	25,053	25,192
■ <i>minus</i> Contributions				
• Estimated Benefits Paid	n/a	11,390	11,190	11,946
• Implied Subsidy Payments for FY <sup>2</sup>	n/a	1,280	1,681	1,994
• Trust Prefunding	n/a	26,284	11,541	10,729
• Interest to End of Year	<u>n/a</u>	<u>631</u>	<u>n/a</u>	<u>n/a</u>
• Total Contributions	11,955	39,586	24,412	24,669
■ End of Year NOO	111,585	97,217	97,858	98,381

Since the source of the implied subsidies paid in 2012/13, 2013/14 and 2014/15 is employer-paid employee medical premiums, this implied subsidy amount should be subtracted from employer-paid employee medical premium payments recognized in the County’s financial statements.

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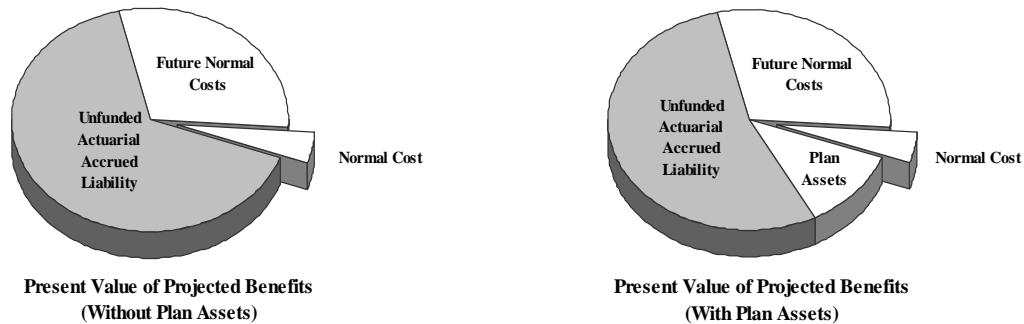
<sup>2</sup> Through active employee premiums.

## SECTION 3 ACTUARIAL VALUATION RESULTS

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### Actuarial Obligations

This report develops the AAL and Normal Cost using the Entry Age Normal actuarial cost method. It is designed to produce a Normal Cost that, if all assumptions are met, will generally be a level percent of payroll. The following charts illustrate a sample PVPB, both with and without plan assets, with the shaded area representing the unfunded AAL:



- **The Present Value of Projected Benefits (PVPB)** is a measure of the total County obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.
- **The Actuarial Accrued Liability (AAL)** is a measure of the County obligation for benefits earned or allocated to past service.
- **The Normal Cost (NC)** is the value of County-provided benefits expected to be earned or allocated to the current fiscal year determined as of the end of the fiscal year.
- **Plan Assets** must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for GASB 45.
- **The Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AAL and the Plan Assets.
- **Expected Benefit Payments** are the County-paid retiree healthcare benefit payments for the current fiscal year. It includes payments for current retirees and active employees expected to retire during the year.
- **The Annual Required Contribution** is the sum of the Normal Cost plus a 29-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability (or less an amortization of excess assets) determined as of the middle of the fiscal year.
- GASB45 requires that the **Implied Subsidy** for retirees be included in the AAL and the ARC for plans that are not community rated. An Implied Subsidy exists when the premium for a group of employees is determined by aggregating the experience of the group.

**SECTION 3**  
**ACTUARIAL VALUATION RESULTS**

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**Asset Reconciliation – Market Value of Assets**  
(amounts in 000's)

	<u>2012/13</u>
■ Market Value of Assets at Beginning of Year	\$ 0
• Contributions	26,284
• Disbursements <sup>3</sup>	-
• Expenses	(8)
• Investment Earnings	(757)
	25,520
■ Market Value of Assets at End of Year	25,520

**Assets Reconciliation – Actuarial Value of Assets**  
(amounts in 000's)

<u>Year</u>	<u>Expected Earnings</u>	<u>Actual Earnings<sup>4</sup></u>	<u>Additional Earnings</u>	<u>% Not Recognized</u>	<u>Unrecognized Earnings</u>
2009/10	\$ n/a	\$ n/a	\$ n/a	20%	\$ n/a
2010/11	n/a	n/a	n/a	40%	n/a
2011/12	n/a	n/a	n/a	60%	n/a
2012/13	293	(765)	(1,058)	80%	(846)

	<u>2012/13</u>
(1) Total Unrecognized Earnings	\$ (846)
(2) Market Value of Assets at End of Year	25,520
(3) Preliminary Actuarial Value of Assets: = (2) - (1)	26,366
(4) Ratio of Preliminary Actuarial Value to Market Value	103%
(5) 80% of Market Value	20,416
(6) 120% of Market Value	30,623
(7) Actuarial Value of Assets at End of Year: = (3) but not less than (5) or over (6)	26,366

<sup>3</sup> Paid directly by the County outside of the trust.

<sup>4</sup> Net of expenses.

**SECTION 3**  
**ACTUARIAL VALUATION RESULTS**

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**Benefit Obligations as of July 1, 2013**  
**5.50% Interest Rate**  
**(amounts in 000's)**

<b>■ Present Value of Benefits</b>	
• Actives	\$ 226,394
• Retirees	<u>206,103</u>
• Total	432,497
<b>■ Actuarial Accrued Liability</b>	
• Actives	155,608
• Retirees	<u>206,103</u>
• Total	361,711
<b>■ Actuarial Value of Assets</b>	<u>26,366</u>
<b>■ Unfunded AAL @ 7/1/2013</b>	335,345

**SECTION 3**  
**ACTUARIAL VALUATION RESULTS**

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**Annual Required Contribution (ARC) for 2013/14 and 2014/15<sup>5</sup>**  
**5.50% Interest Rate**  
**(amounts in 000's)**

	<u>2013/14</u>	<u>2014/15</u>
■ <b>ARC - \$</b>		
• Normal Cost	\$ 8,609	\$ 8,352
• UAAL Amortization <sup>6</sup>	<u>15,803</u>	<u>16,317</u>
• ARC	24,412	24,669
■ <b>Projected Payroll<sup>7</sup></b>	151,988	156,928
■ <b>ARC - %</b>		
• Normal Cost	5.7%	5.3%
• UAAL Amortization	<u>10.4%</u>	<u>10.4%</u>
• ARC	16.1%	15.7%

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<sup>5</sup> Payable at middle of fiscal year.

<sup>6</sup> Amortized as a level percent of payroll over 29 years for 2013/14 and 28 years for 2014/15.

<sup>7</sup> Payroll projected using aggregate payroll increase assumption.

**SECTION 3**  
**ACTUARIAL VALUATION RESULTS**

**Comparison of July 1, 2011 and July 1, 2013 Valuations**  
(amounts in 000's)

	<u>July 1, 2011</u>		<u>July 1, 2013</u>
■ <b>Interest Rate</b>	<u>4.25%</u>	<u>5.50%</u>	<u>5.50%</u>
■ <b>Present Value of Benefits</b>			
• Actives	\$ 287,362	\$ 216,067	\$ 226,394
• Retirees	<u>204,839</u>	<u>176,509</u>	<u>206,103</u>
• Total	492,201	392,576	432,497
■ <b>Actuarial Accrued Liability</b>			
• Actives	177,881	142,969	155,608
• Retirees	<u>204,839</u>	<u>176,509</u>	<u>206,103</u>
• Total	382,720	319,478	361,711
■ <b>Assets</b>	<u>0</u>	<u>0</u>	<u>26,366</u>
■ <b>Unfunded AAL</b>	382,720	319,478	335,345
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
■ <b>ARC - \$</b>			
• Normal Cost	\$ 11,941	\$ 8,593	\$ 8,609
• UAAL Amortization <sup>8</sup>	<u>15,241</u>	<u>15,760</u>	<u>15,803</u>
• ARC	27,182	24,353	24,412
■ <b>Projected Payroll<sup>9</sup></b>	150,405	155,293	151,988
■ <b>ARC - %</b>			
• Normal Cost	7.9%	5.5%	5.7%
• UAAL Amortization	<u>10.2%</u>	<u>10.1%</u>	<u>10.4%</u>
• ARC	18.1%	15.7%	16.1%

<sup>8</sup> Amortized as a level percent of payroll over rolling 30 years.  
Amortized as a level percent of payroll over closed 30-year period beginning 2012/13, 29 years remaining 7/1/2013, 28 years remaining 7/1/2014.

<sup>9</sup> Payroll projected using aggregate payroll increase assumption.

**SECTION 3**  
**ACTUARIAL VALUATION RESULTS**

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**Actuarial Gains/Losses**  
**(amounts in 000's)**

The impacts on the Actuarial Accrued Liability of experience gains and losses as well as assumption and method changes are shown below.

- There were experience gains due to continuing to keep the Plan 3 cap at its 2010 level and medical premiums increasing less than anticipated since the last valuation.
- Changes were made to the methodology and assumptions underlying the calculation of the value of expected future claims costs used in determining the implied subsidy. In addition, costs for medical coverage for retirees covered under Kaiser's Northern California Senior Advantage pool were calculated using estimated age-gender based claim costs instead of premium. The later change was made in anticipation of changes in actuarial standards of practice in this area – as reflected in the second exposure draft of Actuarial Standard of Practice #6.
- The percentage of future retirees assumed to elect Kaiser coverage at retirement was increased.

	<u>AAL</u>	<u>Assets</u>	<u>UAAL</u>
■ <b>Actual – 7/1/2011</b>	<b>\$ 319,478<sup>10</sup></b>	<b>\$ 0</b>	<b>\$ 319,478</b>
■ <b>Expected – 7/1/2013</b>	<b>348,621</b>	<b>26,998<sup>11</sup></b>	<b>321,623</b>
■ <b>Experience (Gains)/Losses</b>			
• Premium gains	(7,053)	-	(7,053)
• Plan 3 cap increases	(6,662)	-	(6,662)
• Investments	-	(632)	632
• Demographic & other	1,823	-	1,823
• <b>Total</b>	<b>(11,892)</b>	<b>(632)</b>	<b>(11,260)</b>
■ <b>Assumptions and Method Changes</b>			
• Claim cost method and assumptions	19,215		19,215
• Age / Gender based Claims Cost for Kaiser Senior Advantage Pool	6,341	-	6,341
• Medical plan elections	(574)	-	(574)
• <b>Total</b>	<b>24,982</b>	<b>-</b>	<b>24,982</b>
■ <b>Total Change</b>	<b>13,090</b>	<b>(632)</b>	<b>13,722</b>
■ <b>Actual – 7/1/2013</b>	<b>361,711</b>	<b>26,366</b>	<b>335,345</b>

<sup>10</sup> Based on 5.50% discount rate.

<sup>11</sup> Based on trust contribution for FY 2012/13 of \$26,284,000.

**SECTION 4**  
**DEMOGRAPHIC INFORMATION**

**Participant Statistics – July 1, 2013**

	Miscellaneous	Safety	Total
<b>Actives</b>			
Count	1,475	343	1,818
Average Age	50.2	41.8	48.6
Average Service	11.2	12.0	11.4
Average Pay	\$ 79,566	\$ 93,928	\$ 82,276
Total Pay (000's)	117,360	32,217	149,577
<b>Retirees</b>			
Count	1,180	249	1,429
Average Age	72.7	64.1	71.2

**Medical Coverage – July 1, 2013**

Medical Plan	Employees	Retirees Under 65	Retirees 65+	Total
Kaiser Low	1,064	244	548	1,856
Kaiser Low – Cost Plan	-	-	32	32
Kaiser Silver	274	13	8	295
Kaiser – Out of State	-	8	16	24
Anthem Blue Cross PPO	185	100	352	637
Waived	295	29	79	403
Total	1,818	394	1,035	3,247

**Plan Coverage – July 1, 2013**

Plan	Plan 1	Plan 2	Plan 3	Plan 4	Self-Paying Surviving Spouse	Total
Retirees	798	29	505	-	97	1,429
Actives	122	143	1,153	400	-	1,818



**SECTION 4**  
**DEMOGRAPHIC INFORMATION**

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**Miscellaneous Employees**  
**Age & Service Distribution**

**July 1, 2013**

Age	County Service							Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	
Under 25	4	1	-	-	-	-	-	5
25-29	13	18	12	-	-	-	-	43
30-34	15	42	47	6	-	-	-	110
35-39	14	27	60	29	4	-	-	134
40-44	13	20	69	45	23	4	-	174
45-49	19	33	49	64	40	18	4	227
50-54	9	23	59	62	35	22	20	230
55-59	8	21	63	63	35	23	33	246
60-64	3	14	42	67	37	21	25	209
65 & Over	1	2	23	32	16	4	19	97
Total	99	201	424	368	190	92	101	1,475

**SECTION 4**  
**DEMOGRAPHIC INFORMATION**

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**Safety Employees**  
**Age & Service Distribution**

**July 1, 2013**

Age	County Service							Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	
Under 25	-	1	-	-	-	-	-	1
25-29	7	22	5	-	-	-	-	34
30-34	8	14	27	5	-	-	-	54
35-39	2	7	25	28	-	-	-	62
40-44	-	1	13	26	23	4	-	67
45-49	-	2	9	13	15	16	3	58
50-54	-	3	2	7	9	7	17	45
55-59	-	1	2	2	2	1	4	12
60-64	-	-	2	2	1	1	1	7
65 & Over	-	-	1	-	1	-	1	3
Total	17	51	86	83	51	29	26	343

**SECTION 4**  
**DEMOGRAPHIC INFORMATION**

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**All Employees**  
**Age & Service Distribution**

**July 1, 2013**

Age	County Service							Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	
Under 25	4	2	-	-	-	-	-	6
25-29	20	40	17	-	-	-	-	77
30-34	23	56	74	11	-	-	-	164
35-39	16	34	85	57	4	-	-	196
40-44	13	21	82	71	46	8	-	241
45-49	19	35	58	77	55	34	7	285
50-54	9	26	61	69	44	29	37	275
55-59	8	22	65	65	37	24	37	258
60-64	3	14	44	69	38	22	26	216
65 & Over	1	2	24	32	17	4	20	100
Total	116	252	510	451	241	121	127	1,818

**SECTION 5**  
**PREMIUM RATES**

**2013 Monthly Premium Rates**

**Actives**

<b>Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Kaiser Low	\$ 648.25	\$ 1,296.50	\$ 1,724.35
Kaiser Silver	585.41	1,170.82	1,557.19
Anthem Blue Cross PPO	940.46	1,904.93	2,413.82

**Retirees**

<b>Plan</b>	<b>Non-Medicare</b>			<b>Medicare</b>		
	<b>Single</b>	<b>2-Party</b>	<b>Family</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Kaiser Low <sup>12</sup>	\$ 648.25	\$1,296.50	\$1,724.35	\$ 381.79	\$ 763.58	n/a
Kaiser Low – Cost Plan <sup>13</sup>	n/a	n/a	n/a	778.13	1,556.26	n/a
Kaiser Silver <sup>14</sup>	585.41	1,170.82	1,557.19	269.19	538.38	n/a
Anthem Blue Cross PPO <sup>15</sup>	978.43	1,837.21	2,542.39	578.27	1,156.56	n/a

Delta Dental 2013 monthly premiums are \$54.47 for single coverage, \$102.28 for 2-party coverage and \$160.43 for family coverage.

	<b>Kaiser Low</b>	<b>Kaiser Silver</b>	<b>Anthem Blue Cross PPO</b>
	<b>Network</b>	<b>Network</b>	<b>Network</b>
Calendar Year Deductible	None	None	\$500/member \$1,000/family
Annual Out-of-Pocket Maximums	\$1,500/member \$3,000/family	\$1,500/member \$3,000/family	\$3,000/member \$6,000/family
Lifetime Maximum	None	None	None
Hospital			
Inpatient Services	No charge	No charge	20%
Outpatient Surgery	\$5/procedure	\$25/procedure	20%
Physician Services			
Physician Office Visit	\$5/visit	\$25/visit	\$20/visit
Preventive Care	No charge	No charge	No charge
Diagnostic X-Ray and Lab	No charge	No charge	20%
Ambulance Service	\$50/trip	\$50/trip	20%
Emergency	\$50/visit	\$50/visit	\$50 ded. + 20%
Prescription Drugs			
Retail (30-day supply)	\$5/generic \$5/brand-name	\$10/generic \$25/brand-name	\$5/generic \$15/brand-name
Mail Order (90-day supply)	\$5/generic \$5/brand-name	\$20/generic \$50/brand-name	\$10/generic \$25/brand-name

<sup>12</sup> With Senior Advantage for Medicare

<sup>13</sup> 65+, Closed plan.

<sup>14</sup> With Senior Advantage for Medicare

<sup>15</sup> Medical + Rx for Medicare premiums.

**SECTION 5**  
**PREMIUM RATES**

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**2014 Monthly Premium Rates**

**Actives**

Plan	Single	2-Party	Family
Kaiser Low	\$ 737.80	\$1,475.59	\$1,962.54
Kaiser Silver	666.29	1,332.58	1,772.32
Anthem Blue Cross PPO	996.88	2,019.21	2,558.68

**Retirees**

Plan	Non-Medicare			Medicare		
	Single	2-Party	Family	Single	2-Party	Family
Kaiser Low <sup>16</sup>	\$ 737.80	\$1,475.59	\$1,962.54	\$397.08	\$ 794.16	n/a
Kaiser Low – Cost Plan <sup>17</sup>	Plan eliminated					
Kaiser Silver <sup>18</sup>	666.29	1,332.58	1,772.32	284.67	569.34	n/a
Anthem Blue Cross PPO <sup>19</sup>	1,037.14	1,947.43	2,694.93	578.27	1,156.56	n/a

Delta Dental 2014 monthly premiums are \$54.47 for single coverage, \$102.28 for 2-party coverage and \$160.43 for family coverage.

<sup>16</sup> With Senior Advantage for Medicare

<sup>17</sup> 65+, Closed plan.

<sup>18</sup> With Senior Advantage for Medicare

<sup>19</sup> Medical + Rx for Medicare premiums.

**SECTION 6**  
**PLAN PROVISIONS**

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**Benefits**

Under current practice, the County allows eligible service and disability retirees and their dependents to continue health coverage in the County's medical and dental plans. The County pays a portion of the premiums based on date of hire. Retirees must retire from the County and have 5 years of County service to be eligible.

	<b>Plan 1</b>	<b>Plan 2</b>	<b>Plan 3</b>	<b>Plan 4</b>
Eligibility	Hired before 10/1/87	Hired between 10/1/08 and 9/30/93	Hired between 10/1/93 and 12/31/07	Hired on or after 1/1/08
Benefits	The County pays 100% of the eligible retiree's single health plan premiums.	The County pays the retiree's single health plan premiums up to \$2,275 per year.	The County pays a percentage of the retiree's single premium (and those for spouses of eligible retiree's with 30 years of service) up to a dollar cap (\$8,853 per year from 2009 to 2014) based on years of service at retirement <sup>20</sup>	The County pays \$150 per year of service up to \$3,000 per year for the retiree's single health plan premiums only.

- The Plan 3 dollar cap is reviewed each year. Through January 1, 2007 the cap was increased to cover single Anthem Blue Cross Prudent Buyer Classic and Delta Dental premiums. Due to the amount of unfunded liability the County faces, the Board has implemented a policy to limit annual increases in the maximum allocation for Plan 3 to no more than 3%, subject to annual approval regarding whether any increase will be granted and, if so, the amount of the increase. The last cap increase was at 3% on January 1, 2009.
- Retirees eligible for Plans 1 and 2 may elect Plan 3 instead; and retirees eligible for Plans 1, 2, or 3 may elect Plan 4 instead.

The County also implicitly subsidizes a portion of retirees' benefits because non-Medicare retirees are charged the same premiums as employees for Kaiser participants. Anthem Blue Cross retirees are also charged premiums that are somewhat lower than the cost. Under GASB 45, the value of the implied subsidy must be included in the employer's ARC and AAL calculations to the extent that the employer pays at least the yearly implied subsidy through active employee premiums.

The County also provides retirees with 20 years of service \$10,000 of life insurance and, on an 8-year phase-out basis, continuance of supplemental life coverage.

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<sup>20</sup> 100% for 20 years of service, prorated for those with less than 20 years of service.

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

---

**Data**

Results were based on the demographic data as of July 1, 2013 provided by the County. Data has been reviewed for reasonability but not audited.

**Actuarial Methods**

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll payable throughout the participants' working lifetime. The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits.

The unfunded AAL is amortized over a closed 29-year period as a level percentage of payroll.

**Actuarial Value of Assets:** Smoothed based on market results over a period of 5 years. 1/5 of the difference between actual investment earnings and the assumed investment return recognized each year. 120% / 80% market value corridor also applied.

**Actuarial Assumptions**

**Interest (Discount) rate**

5.50%, assuming that the County continues to prefund with CERBT Asset Allocation Strategy 2.

**Inflation**

Assumed to increase 3.25% per annum.

**Aggregate Payroll**

Assumed to increase 3.25% per annum. (Used to amortize unfunded AAL.)

**Medical Care Cost Trend Rates**

<b>Year</b>	<b>Anthem Blue Cross / Kaiser</b>	<b>Kaiser Senior Advantage</b>	<b>Medicare B Premiums</b>
2014	n/a	n/a	6.75%
2015	7.50%	7.50%	6.50%
2016	7.00%	7.00%	6.25%
2017	6.50%	6.50%	6.25%
2018	6.00%	6.00%	6.00%
2019	5.50%	5.50%	5.50%
2020+	5.25%	5.25%	5.25%

**Plan 3 Cap Trend Rate** 3.00% per year

**Dental Care Cost Trend Rate** 4.25% per year

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

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**Monthly Claims Costs**

The AHP Cost Model™, which is based on Axene Health Partners, LLC’s proprietary claims database, was used in the determination of age/ gender/ plan specific claims factors. Blue Cross and Kaiser Plans offered by the County were run through the cost model to determine benefit values by age and gender. These benefit values were then used to develop the corresponding age / gender-based claims factors for the valuation.

The same AHP Cost Model was used to determine the benefit value of Medicare for purposes of reflecting coordination in the projected claims costs for Medicare participants. The model was run using the 2013 Medicare benefits for Part A and Part B for individuals aged 65 and older. The resulting benefit value was then subtracted from the non-Medicare benefit value at each age over 65 to develop the claims cost value for participants receiving Medicare.

Premium rates for each health plan were used in the claims cost projections. Current (CY 2013) premiums, as reported by Alliant Insurance Services, Inc. on behalf of County of Marin, were reviewed and deemed reasonable relative to benefits offered and the covered populations; however, these premiums were not audited against actual claims and we do not attest herein to their adequacy.

It is Kaiser’s policy not to release any demographic information summaries for its Northern California Senior Advantage pool. Public agency client enrollment data for entities covered by CalPERS Northern California Kaiser Senior Advantage was used for determination of age-gender based claim costs for the Kaiser Medicare plans.

For Kaiser plans outside California, age-gender based claim costs were developed using the County’s Kaiser Low plans as a proxy. This assumption has negligible impact due to the relatively small proportion of enrollees outside California.

Age	2013					
	Kaiser Low Non-Medicare		Kaiser Low Medicare		Kaiser Silver Non-Medicare	
	Male	Female	Male	Female	Male	Female
30	\$ 200	\$ 484	n/a	n/a	\$ 187	\$ 459
35	237	481	n/a	n/a	222	452
40	293	500	n/a	n/a	275	467
45	372	544	n/a	n/a	350	506
50	487	616	n/a	n/a	460	572
55	674	746	n/a	n/a	639	695
60	948	934	n/a	n/a	900	875
65	1,096	1,023	\$ 277	\$ 256	1,042	959
70	1,271	1,170	350	320	1,209	1,096
75	1,562	1,411	430	386	1,486	1,323
80	1,793	1,639	493	448	1,706	1,536
85	1,962	1,851	540	506	1,867	1,735



**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

Age	2013					
	Kaiser Silver Medicare		Anthem Blue Cross PPO Non-Medicare		Anthem Blue Cross PPO Medicare	
	Male	Female	Male	Female	Male	Female
30	n/a	n/a	\$ 221	\$ 558	n/a	n/a
35	n/a	n/a	266	557	n/a	n/a
40	n/a	n/a	332	582	n/a	n/a
45	n/a	n/a	426	637	n/a	n/a
50	n/a	n/a	565	726	n/a	n/a
55	n/a	n/a	796	887	n/a	n/a
60	n/a	n/a	1,139	1,123	n/a	n/a
65	\$ 199	\$ 177	1,328	1,236	\$ 402	\$ 368
70	251	222	1,542	1,415	508	461
75	308	267	1,895	1,707	624	556
80	354	311	2,175	1,983	716	645
85	387	351	2,380	2,239	784	729

Age	2014					
	Kaiser Low Non-Medicare		Kaiser Low Medicare		Kaiser Silver Non-Medicare	
	Male	Female	Male	Female	Male	Female
30	\$ 227	\$ 551	n/a	n/a	\$ 213	\$ 523
35	270	548	n/a	n/a	253	515
40	333	569	n/a	n/a	313	532
45	423	619	n/a	n/a	398	576
50	554	701	n/a	n/a	524	651
55	768	849	n/a	n/a	728	791
60	1,078	1,064	n/a	n/a	1,025	995
65	1,247	1,164	\$ 288	\$ 266	1,186	1,091
70	1,447	1,332	364	333	1,376	1,248
75	1,778	1,606	447	401	1,691	1,505
80	2,041	1,866	513	466	1,941	1,748
85	2,233	2,106	561	526	2,124	1,974

Age	2014					
	Kaiser Silver Medicare		Anthem Blue Cross PPO Non-Medicare		Anthem Blue Cross PPO Medicare	
	Male	Female	Male	Female	Male	Female
30	n/a	n/a	\$ 230	\$ 580	n/a	n/a
35	n/a	n/a	276	579	n/a	n/a
40	n/a	n/a	345	604	n/a	n/a
45	n/a	n/a	442	662	n/a	n/a
50	n/a	n/a	587	754	n/a	n/a
55	n/a	n/a	827	921	n/a	n/a
60	n/a	n/a	1,183	1,167	n/a	n/a
65	\$ 210	\$ 188	1,380	1,285	\$ 418	\$ 383

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

Age	2014					
	Kaiser Silver Medicare		Anthem Blue Cross PPO Non-Medicare		Anthem Blue Cross PPO Medicare	
	Male	Female	Male	Female	Male	Female
70	265	234	1,602	1,470	527	478
75	326	283	1,969	1,773	648	577
80	374	328	2,259	2,060	744	670
85	410	371	2,473	2,326	814	757

**Percentage of Future Retirees Participating in Medical Plans**

	Service			
	<10	10-14	15-19	20+
Plan 1	100%	100%	100%	100%
Plan 2/3	75%	85%	90%	100%
Plan 4	60%	75%	80%	85%

**Percentage of Future Retirees Participating in Dental Plans: 97.5%**

**Medical Plan Coverage after Retirement**

Current Employees:

	Plan 1	Plan 2/3	Plan 4
Anthem Blue Cross PPO	30.0%	25.0%	20.0%
Kaiser Low	70.0%	75.0%	80.0%
Total	100.0%	100.0%	100.0%

Current Retirees and Beneficiaries: Current medical plan election. Annual open enrollment is only available for employees and does not apply to retirees.

**Election of Plan 3 at Retirement by Currently Employed Plan 1 and 2 Members**

Plan 1 members with 30 years service and eligible spouses are assumed to elect Plan 3. All Plan 2 members are assumed to elect Plan 3.

**Medicare Coverage**

100% except 10% of those hired between July 1, 1967 and March 31, 1986 are assumed to be ineligible for Medicare.

**Spouse Coverage**

30 years of service at retirement: 80% of male retirees and 50% of female retirees cover a spouse. All others: 50% of male retirees and 20% of female retirees cover a spouse. Female spouse is assumed to be 3 years younger than male spouse.

**Salary Merit and Longevity Increases**

Assumptions based on the Marin County Employees' Retirement Association Experience Study July 1, 2008 through June 30, 2011.

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

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<b>Service</b>	<b>Miscellaneous</b>	<b>Safety</b>
0	5.00%	5.00%
1	4.00%	5.00%
2	3.00%	5.00%
3	2.00%	2.00%
4	1.00%	1.25%
5+	0.50%	1.25%

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

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**Demographic Assumptions**

Assumptions based on the Marin County Employees' Retirement Association 2008-2011 Experience Study except for the allowance for future post-retirement mortality improvement.

Pre-retirement Probabilities Other than Retirement:

Miscellaneous

Age	Withdrawal and Vested Termination (by service)								
	0	1	2	3	4	5-9	10-14	15-19	20+
20	.150	.090	.070	.070	.070	.079	.053	.030	.000
35	.150	.090	.070	.070	.070	.068	.045	.025	.000
55	.150	.090	.070	.070	.070	.012	.000	.000	.000

Age	Death Male	Death Female	Disability Ordinary	Disability Duty
20	.00020	.00020	.00000	.00025
35	.00050	.00030	.00008	.00080
55	.00220	.00180	.00078	.00165

Safety

Age	Withdrawal and Vested Termination (by service)								
	0	1	2	3	4	5-9	10-14	15-19	20+
20	.080	.050	.040	.040	.040	.021	.021	.021	.000
35	.080	.050	.040	.040	.040	.034	.034	.034	.000
55	.080	.050	.040	.040	.040	.000	.000	.000	.000

Age	Death Male	Death Female	Disability Ordinary	Disability Duty
20	.00020	.00020	.00020	.00061
35	.00050	.00030	.00070	.00302
55	.00220	.00180	.00460	.02145

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

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Retirement Probabilities:

Age	10-29 Years of Service			30+ Years of Service		
	Misc	Safety 3%@50	Safety 3%@55	Misc	Safety 3%@50	Safety 3%@55
50	4%	25%	5%	4%	50%	25%
51	4%	10%	5%	4%	20%	25%
52	4%	10%	5%	4%	20%	25%
53	4%	10%	5%	4%	20%	25%
54	4%	10%	5%	4%	20%	25%
55	10%	25%	15%	25%	50%	30%
56	4%	25%	15%	25%	50%	30%
57	6%	25%	15%	25%	50%	30%
58	8%	25%	15%	25%	50%	30%
59	10%	25%	15%	25%	50%	30%
60	10%	100%	100%	35%	100%	100%
61	10%	100%	100%	35%	100%	100%
62	20%	100%	100%	35%	100%	100%
63	20%	100%	100%	35%	100%	100%
64	20%	100%	100%	35%	100%	100%
65-69	25%	100%	100%	35%	100%	100%
70	100%	100%	100%	100%	100%	100%

Pre-retirement Mortality:

RP-2000 Combined Healthy Basic Mortality Table, projected to 2010 using Projection Scale AA, with three-year setback for males and females.

Sample life expectancies are shown below.

7/1/2013 Age	Male	Female
25	58.8	61.4
30	53.9	56.5
35	49.0	51.6
40	44.1	46.6
45	39.3	41.8
50	34.5	36.9
55	29.8	32.2
60	25.2	27.5
65	20.8	23.1

Post-retirement Mortality:

**SECTION 7**  
**ACTUARIAL METHODS AND ASSUMPTIONS AND DATA**

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Service Retirements and Spouses: RP-2000 Combined Healthy Basic Mortality Table, projected fully generational using Projection Scale AA, with one-year setback for males and two-year setback for females.

Disability Retirement: RP-2000 Combined Healthy Basic Mortality Table, projected fully generational using Projection Scale AA, with three-year set forward.

Sample life expectancies are shown below.

7/1/2013 Age	Service		7/1/2013 Age	Disability	
	Male	Female		Male	Female
50	35.0	37.4	50	31.5	32.7
55	29.9	32.4	55	26.4	27.8
60	24.9	27.6	60	21.6	23.2
65	20.3	23.0	65	17.2	18.9
70	16.0	18.7	70	13.2	15.0
75	12.2	14.8	75	9.8	11.6
80	8.9	11.4	80	6.9	8.6
85	6.2	8.3	85	4.8	6.1

## SECTION 8

### GASB OPEB SUMMARY

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On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), accounting standards for *other* (than pensions) *post employment benefits* (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impact on state and local government financial statements. This section summarizes GASB 45.

#### **Background**

Historically, most public sector entities have accounted for OPEB using a “pay-as-you-go” approach; very few have prefunded or even accrued for these benefits. This means OPEB costs are ignored while an employee renders service and recognized only after an employee retires. GASB argues this delayed recognition shifts “costs” from one taxpaying generation to another. The GASB position is that OPEB, like pension benefits, are a form of deferred compensation. Accordingly, GASB 45 requires recognizing OPEB (in the financial statement) *as employees render service* (and consequently earn the benefit), rather than when paid.

#### **Effective Dates**

GASB 45 effective dates are phased in similar to GASB Statement No. 34:

- Fiscal years beginning after December 15, 2006 for GASB 34 phase 1 governments (total annual revenue of \$100 million or more)
- Fiscal years beginning after December 15, 2007 for GASB 34 phase 2 governments (total annual revenue of \$10 million to \$100 million)
- Fiscal years beginning after December 15, 2008 for GASB 34 Phase 3 governments (total annual revenue less than \$10 million).

#### **What Benefits are OPEB?**

OPEB includes most post employment benefits, other than pensions, that employees are entitled to after leaving employment:

- Retiree medical
- Dental
- Prescription drug
- Vision
- Life insurance
- Outside group legal
- Long-term care
- Disability benefits outside a pension plan

OPEB does not include vacation, sick leave, COBRA, or ad hoc early retirement incentives, which fall under other GASB accounting statements.

## SECTION 8

### GASB OPEB SUMMARY

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#### Accounting Standards

Under GASB 45, pay-as-you-go accounting is replaced with accrual accounting. This is virtually identical to GASB's approach under Statement No. 27, with the key financial statement components being an Annual Required Contribution, an Annual OPEB Cost, and a Net OPEB Obligation.

- **Annual Required Contribution (ARC):** GASB 45 doesn't require an agency to make up any shortfall (unfunded Actuarial Liability) immediately, nor does it allow an immediate credit for any excess Plan Assets. Instead, the difference is amortized over time. An agency's ARC is nothing more than the employer current Normal Cost (value of benefits being "earned" during a year), plus the amortized unfunded Actuarial Liability (or less the amortized excess Plan Assets). Simply put, the ARC is the value of benefits earned during the year plus (or minus) something to move the plan toward being on track for funding. GASB 45 allows actuaries to amortize the unfunded Actuarial Liability (or excess Plan Assets) on a level dollar or level percent of payroll basis. We believe most agencies will want to use a level percent of payroll amortization because it's more consistent with the budget process and how pension contributions are usually calculated. The ARC must be based on the underlying OPEB promise (as understood by the plan sponsor and employees).
- **Annual OPEB Cost (AOC):** The first year an agency complies with the new standards, the AOC equals the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and AOC.
- **Net OPEB Obligation (NOO):** An agency's NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the ARC, the NOO equals zero. However, an agency has not "made" the contribution unless it has been set aside *and* cannot legally be used for any other purpose.

#### Implementation Process

The implementation process will be relatively straightforward: An agency will hire an actuary to calculate the ARC. The first time an agency does this, their AOC equals their ARC. The agency then decides whether to contribute all, none, or part of the ARC into a Trust that cannot legally be used for any purpose other than paying OPEB.

If an agency always contributes the ARC, then each subsequent year's AOC equals their ARC – and the NOO is zero. The first year an agency does *not* contribute the ARC; they must establish an NOO equal to the difference between their actual contribution and the ARC. The subsequent year's AOC equals the ARC, adjusted for discount and amortization of the NOO.

#### Disclosure Requirements

This may be the most important aspect of GASB 45. When disclosed, some agencies will show large OPEB unfunded liabilities, while others will show small or no unfunded liabilities. These differences *may* require an adjustment in an agency's bond rating.



**SECTION 8**  
**GASB OPEB SUMMARY**

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Plan sponsors must disclose in their financial statement footnotes:

- Basic plan information
  - Plan type
  - Benefits provided
  - Authority under which benefits were established
- Plan funding/contribution policy information:
  - Required contribution rates for active members and employers shown in dollars or as a percent of payroll
- Plan Funded Status information:
  - AOC and the dollar contributions actually made
  - If the employer has a NOO, also
    - Components of the AOC
    - NOO increase or decrease during the year
    - End of year NOO
  - 3-year history of
    - AOC
    - Percent of AOC contributed during the year
    - End of year NOO
  - Most recent year's plan Funded Status
  - Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status.

In addition, plan sponsors must provide 3 years of historical required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial Liability
- Unfunded Actuarial Liability (excess Plan Assets)
- Plan funded ratio
- Annual covered payroll
- Ratio of unfunded Actuarial Liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years.

## SECTION 8

### GASB OPEB SUMMARY

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#### **Defining the Plan**

GASB 45 refers to the *substantive plan* as the basis for accounting. It may differ from the *written plan* in that it reflects the employer's cost sharing policy based on:

- Past practice or communication of intended changes to a plan's cost sharing provisions, or
- Past practice of cost increases in monetary benefits.

The substantive plan is the basis for allowing recognition of potential future plan changes.

What if retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience? (This was a contentious issue during the statement drafting, with one of the seven board members dissenting from Board adoption of the final statement.) In general, GASB 45 requires recognition of the implied subsidy. However, if benefits are provided through a community rated plan (premium rates based on experience of multiple employers rather than a single employer), and the same premium is charged for active and retired participants, it is appropriate to value unadjusted premiums.

#### **Actuarial Assumptions and Discount Rate Requirements**

Under GASB 45, the actuary must follow current actuarial standards of practice, which generally call for explicit assumptions – meaning each individual assumption represents the actuary's best estimate.

GASB 45 also requires basing the discount rate on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on Plan Assets for funded plans. Since the source of funds for unfunded plans is usually an agency's general fund, and California and most other state law restricts what investments agencies can have in their general fund, unfunded plans will need to use a low (for example, 4% to 5%) discount rate. If an agency sets up a Trust and diversifies Trust Plan Assets, however, the discount rate might be much higher depending on the Trust fund's expected long-term investment return.

#### **Transition Issues**

Typically, new accounting standards allow transition from old to new requirements. Because historical ARC calculations will rarely be available, GASB 45 takes a prospective transition approach: there is no requirement for an initial transition obligation. But if AOCs, before transition, were calculated consistently with the standard, a NOO at transition can be established at an agency's discretion.

#### **Valuation Frequency Requirements and Small Plans**

GASB 45 requires an actuarial valuation at least every two years for plans with more than 200 (active, inactive, and retired) members. Plans with fewer than 200 members will need a valuation every 3 years. In a significant departure from prior standards, though, GASB 45 allows plans with fewer than 100 members to elect a simplified measurement method not requiring an actuarial certification.