RESPONSE TO GRAND JURY REPORT FORM

Report Title: *Marin's Retirement Health Care Benefits: The Money Isn't There*

Report Date: May 22, 2013

Public Release Date: June 3, 2013

Response by: Michael Watenpaugh, Superintendent, San Rafael City Schools

FINDINGS

- I (we) agree with the findings numbered: F3, F4, F6, F7, F8, F9
- I (we) disagree wholly or partially with the findings numbered: F1, F2, F5, F8, F9

(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

Please see District responses to listed findings

RECOMMENDATIONS - Please see attached.

- Recommendations numbered R1, R2, R5, R6 have been implemented.

  (Attach a summary describing the implemented actions.)

- Recommendations numbered _____ have not yet been implemented, but will be implemented in the future.

  (Attach a timeframe for the implementation.)

- Recommendations numbered _____ require further analysis.

  (Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)

- Recommendations numbered R4, R3 will not be implemented because they are not warranted or are not reasonable.

  (Attach an explanation.) Please see District responses to Recommendations 3 & 4

Date: 8/29/13 Signed: Michael Watenpaugh

Number of pages attached 7

San Rafael City Schools
Response to Grand Jury Report dated May 22, 2013
"Marin's Retirement Health Care Benefits: The Money Isn't There"

INTRODUCTION

In August 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." This standard represented a significant change in accounting and requires government employers to account for post-employment healthcare benefits during an employee's employment service with the District instead of during retirement on a "pay-as-you-go" basis.

Implementation of this requirement for San Rafael City Schools was effective January 1, 2008 and the Board of Education took this new standard very seriously. The District took steps to prepare the GASB 45 Actuarial Valuation of its post-employment benefit (OPEB) plans by contracting with an actuarial firm and has made sure these reports are prepared every two years in compliance with the requirements outlined by GASB 45. In addition, the Board took steps to discuss the implications of the long-term liabilities identified and related to the OPEB in public meetings, established District funds to account for the Annual Required Contributions (ARC) as District funds were available, and took steps to educate staff and bargaining units about GASB 45.

GRAND JURY FINDINGS

F1. We find that many of Marin's local governments and special districts are failing to pre-fund future costs for retired employees by making investments to cover promised benefits for active employees. This jeopardizes the certainty that retiree health care benefits promised to current employees will be paid.

Response: The fiduciary responsibility of the District, as outlined by AB1200, is to ensure that the District can meet its fiscal obligations for the current fiscal year and two subsequent. The Board and the District take this responsibility very seriously and have provided the path to ongoing fiscal solvency and local control through the most challenging fiscal crisis experience in the past several decades.

Neither the San Rafael City Elementary School District nor the San Rafael City High School District have established an irrevocable trust, however, the Board of Education has taken action to establish separate funds to be designated for the District's contributions towards the District's anticipated retiree health benefit costs. In the past 3 years, the High School District has, in fact, funded the Annual Required Contribution (ARC) in accordance with the most current GASB 45 Actuarial Valuation of Post-Employment Benefits Other than Pensions. This fund currently has an estimated ending fund balance of $1.9 million dollars as of June 30, 2014 and this amount represents close to 40% of the total Unfunded Actuarial Liability (UAL) identified in the most recent report (January 2012). The District is in the process of funding this for the San Rafael City Elementary District in the same manner, and has taken action to establish a separate fund (Fund 20) with interest earnings to increase the funds over time through investments by the Marin County Treasurer.

The decision not to establish an irrevocable trust was an intentional decision considered and reviewed at public board meetings. Determining factors in this decision were concerns regarding:

Cash-flow concerns

SRCS represents two separate and distinct legally defined public school districts. The San Rafael City Elementary School District receives school funding as a Local School Funding Formula (LCFF) District (formerly known as Revenue Limit funded school district.)

As a LCFF/Revenue Limit school district we have experienced irregular and/or deferred revenues from the State of California. This created a need for the District to plan for deferred revenues, while maintaining a sufficient cash balance on hand to meet monthly expenditures, with the funding of employee payroll to be the greatest monthly expenditure for the District. The necessity to have cash available so that the District's employees receive their monthly compensation is an urgent and critical need that occurs every 30 days.

The San Rafael City High School District is a Basic Aid funded school district. While the State expectation is for a minimum of a 3% Reserve for Economic Uncertainty, Basic Aid school districts rely almost exclusively on the collection and distribution of local property tax revenues for annual revenues. Most Basic Aid districts maintain a 10-20% Reserve for Economic Uncertainty to maintain a cash reserve to manage the lag time in between the distribution of local property taxes and operating costs.

Lastly, public school districts are severely limited in the investment opportunities that a school district may invest in. The cost/benefit analysis of maintaining an irrevocable trust vs. the benefits of maintaining a District fund specifically for this purpose, has determined that a formal trust is not in the fiscal interest of the district.

In spite of these issues, the Board of Education took action to set aside an amount equivalent to the Annual Required Contribution (ARC) for the High School District beginning in 2010-11. As mentioned earlier, for the past 3 years, the District has, in fact, funded the ARC in accordance with the most current GASB 45 Actuarial Valuation of Post Employment Benefits Other than Pensions. This fund currently has an estimated ending fund balance of $1.9 million dollars as of June 30, 2014 and this amount represents close to 40% of the total Unfunded Actuarial Liability (UAL) identified in the most recent report (January 2012).

The District is in the process of funding this for the San Rafael City Elementary District in the same manner and has experienced delays in implementation due to the past 5 years of significant State budget cuts. In looking at the next several years of pay-as-you-go, the total annual amount represents less than 4/10th of 1% of the entire District General Fund budget.

F2. The failure of the majority of entities studied in this investigation to begin an investment program to provide a portion of the needed funds to pay for retiree health care benefits leads to generation shifting of the payment responsibility. Thus it appears to be, at the least unethical, and even a breach of fiduciary responsibility.

Response: As stated in our previous answer, the District has taken steps to fully fund the ARC in the SR High School District and is in the process of implementing the same in the SR Elementary School District.

As members of the San Rafael City Schools Board of Education, staff and community understand, the District has been in the challenging position of having to make tough choices over the past five years in response to an unprecedented National and State Budget crisis. GASB 45 was implemented at a time in which Districts were just beginning to fully understand the extent of the impact of the Fiscal Crisis which continued to grow beginning in 2008.

True leadership is establishing transparent priorities and making tough choices based on data and staff, and community input. Throughout the fiscal crisis, the District held community meetings to discuss the impact of the fiscal crisis and to gather information on how to address it. With over $17 million dollars in state budget cuts over a 5 year period of time, most of these choices were challenging at best. Decisions were made with the best of interest of students and staff and the community, knowing that priorities would need to be adjusted as funding changed.

This is the climate in which the GASB 45 liabilities became known and trying to address them at a time in which the outcome would have been to take even more drastic measures to cut even deeper into the important programs for students rather than make it a priority to fund once the economy started to recover. Rather, the District made prudent and fiscally responsible decisions that increased District reserves, which can ultimately be repurposed to this or other priorities. The Board and the District take the Fiduciary responsibility of the District very seriously and have provided the path to ongoing fiscal solvency and local control through the most challenging fiscal crisis experience in the past several decades. This does not negate the importance of addressing the fiscal obligations identified by the OPEB. It merely underscores the need to prioritize and do long-term planning in a fluid and volatile fiscal environment.

F3. The extreme 30 year amortization period used by most entities minimizes the annual cost of funding the liability gap and further defers to future generations the compensation owed to present employees who provide services to present taxpayers and customers. Shorter amortization periods should be required for reasons of equity and to ensure that the promised benefits will be provided.

Response: The amortization period allows the district to gradually phase in the cost of the liability that had been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.

F4. By capping retiree health care benefits, the City of San Rafael has reasonable certainty as to what those costs are. Other entities studied here that promise to pay for future retiree health care with uncertain and likely rapidly increasing costs are accepting an unknown and potentially very costly risk.

Response: San Rafael City Schools does provide a cap on the limited retiree benefits offered for both Administration and their certificated bargaining units. Retiree benefits are not offered to the classified units except on a periodic, limited basis through a one-time retirement incentive designed to create cost-savings. These caps further limit the retirement benefits for health & welfare to age 65 or 5 years, whichever comes first. And, with a growing second career work force, many of our employees choose to work well past age 65. The Board and District have taken these steps to be prudent and fiscally responsible while providing employees with a reasonable benefits package.

F5. Because a few Marin County cities and other entities studied provide very limited benefits yet still appear able to meet community service needs, and because providing such benefits is increasingly rare in the private sector, such benefits appear to be unnecessary for attracting and retaining employees. Accordingly, for active and newly hired employees, the benefits should be trimmed and costs should be shared between the employees and their employer.

Response: Benefits are subject to negotiations with the District's bargaining units and as such cannot be unilaterally changed. Additionally, the majority of the OPEB obligation identified for both the SRHSD and the SRESD are created by the regulations and policies outlined by CalPERS, of which SRCS is a member. The District has no ability to adjust these rules and the benefits provided for retirees by the CalPERS plans.

F6. Marin entities using "Pay-Go" funding are paying only the current year health care benefits of those already retired. This ignores the reasonably known rising costs to cover future retirees who are already heading for retirement. Some actuarial valuation reports the Grand Jury studied provided those future "Pay-Go" estimates year-by-year, so they should be readily available from the actuary's valuations. Estimates of those annual costs for each of the next 10 years should be provided to the public so that those who will incur those costs can know those costs.

Response: As required under GASB 45, the District hires a licensed, independent actuary to prepare the ***Actuarial Valuation of Post Employment Benefits Other than Pensions Report*** *for both Districts. These reports, in compliance with GASB 45, are prepared every 2 years beginning in 2008. The reports are publicly noticed on the Board agenda and presented to the Board of Education at a public meeting. In addition, they are posted on the District's website at http://www.srcs.org/business and have been reviewed and discussed with members of each of the bargaining units so that they understand the fiscal obligations and long-term liabilities. These long-term liabilities have also been reviewed and discussed in Budget Advisory Committees and have been publicly discussed during the Budget Adoption Cycle and Unaudited Actuals. All of these reports include schedules of the Pay-as-you-go benefits projected over 30 years. Copies of the* ***Actuarial Valuation of Post Employment Benefits Other than Pensions Reports*** *for both Districts are attached.*

F7. Employers studied for this report should include an age-60, or even later, date for retiree health care benefits to commence in future negotiations with employees and their representatives.

Response: As stated in the response to F4, San Rafael City Schools CAPS retiree benefits offered for both Administration and their certificated bargaining units. Retiree benefits are not offered to the classified units. These caps further limit the retirement benefits for health & welfare to age 65 or 5 years, whichever comes first and for employees who have worked in the District a minimum of 10 years. With a growing second career work force, many of our employees choose to work well past age 65, which further reduces the number of employees who are eligible. The Board and District have taken these steps to be prudent and fiscally responsible while providing employees with a reasonable and competitive benefits package.

F8. The results of retiree health care actuarial cost analyses are summarized if at all only in obscure notes to annual financial statements. The public is entitled to more readily accessible explanation of these costs because the public will bear those costs.

Response: The district's annual audited financial statements provide full disclosure of the district's OPEB including the key assumptions used in the actuarial study. The audited financial statements are discussed at a public board meeting.

Also, as stated in the response to F6, The District hires a licensed, independent actuary to prepare an ***Actuarial Valuation of Post Employment Benefits Other than Pensions Report*** *for both Districts. These reports, in compliance with GASB 45, are prepared every 2 years beginning in 2008. The reports are publicly noticed on the Board agenda and presented to the Board of Education at a public meeting. In addition, they are posted on the District's website and have been reviewed and discussed with members of each of the bargaining units so that they understand the fiscal obligations and long-term liabilities. These long-term liabilities have also been reviewed and discussed in Budget Advisory Committees and have been publicly discussed during the Budget Adoption Cycle and Unaudited Actuals. All of these reports include schedules of the Pay-as-you-go benefits projected over 30 years.*

F9. There is a wide range of retiree health care benefits offered among the entities studied in this investigation. No clear explanation for the range from minimal to extremely generous is readily available. Those entities that are promising relatively generous benefits should provide clear justifications to their citizens and customers.

Response: As described in previous responses, San Rafael City Schools provides reasonable and prudent employment benefit packages for our employees. All health and welfare benefits that are provided to both active employees and retirees are capped with reasonable and prudent levels of benefits. As described in the response to F5, benefits are subject to negotiations with the district's bargaining units and as such cannot be unilaterally changed. Additionally, the majority of the OPEB obligations identified for both the SRHSD and the SRESD are created by the regulations and policies outlined by CalPERS, of which SRCS is a member. The District has no ability to adjust these rules and the benefits provided for retirees under the CalPERS plans.

F10. Most of the entities the Grand Jury investigated are using fairly reasonable discount rates of 4% - 5% per year to bring back to today in actuarial valuations the future annual costs of retiree health benefits. However, some are using higher and highly questionable rate assumptions that are not justified by the investments (if any) that they have made to grow and fund the future benefits. The result is to understate the total funding needed today and in future years, to pay for those future benefits.

Response: The discount used in the most recent ***Actuarial Valuation of Post Employment Benefits Other than Pensions Report*** *is* ***3.75%,*** *which is lower than the* fairly reasonable discount rates listed above by the Grand Jury.

R1. Begin setting aside in separate investment accounts, if it is not already doing so, each year's funds for amortizing its retiree health care benefits' UAAL, in addition to it's "Pay-Go" funding of those benefits for present retirees.

Response: As stated in the response to F1, the Board of Education took action to set aside an amount equivalent to the Annual Required Contribution (ARC) for the High School District beginning in 2010-11. These funds are transferred into a separate fund (Fund 20) with interest earnings to increase the funds

over time through investments by the Marin County Treasurer. Therefore, for the past 3 years, the District has, in fact, funded the ARC in accordance with the most current GASB 45 Actuarial Valuation of Post Employment Benefits Other than Pensions. This fund currently has an estimated ending fund balance of $1.9 million dollars as of June 30, 2014 and this amount represents close to 40% of the Unfunded Actuarial Liability identified in the most recent report (January 2012).

The District is in the process of funding this for the San Rafael City Elementary District in the same manner, and has established a separate fund (Fund 20) with interest earnings to increase the funds over time through investments by the Marin County Treasurer.

R2. Begin a program to lower the amortization period for funding its retiree health care benefits UAAL from as much as 30 years presently, to approach (within 10 years), the commonly used 17 year amortization period for retiree pension funding.

Response: The amortization period allows the district to gradually phase in the cost of the liability that had been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.

R3. Negotiate caps on the amounts it commits to pay existing and new employees for retiree health care benefits.

Response: As stated in the response to F4 and F7, San Rafael City Schools already CAPS retiree benefits offered for both Administration and their certificated bargaining units. Retiree benefits are not offered to the classified units. These caps further limit the retirement benefits for health & welfare to age 65 or 5 years, whichever comes first and for employees who have worked in the District a minimum of 10 years. With a growing second career work force, many of our employees choose to work well past age 65, which further reduces the number of employees who are eligible. The Board and District have taken these steps to be prudent and fiscally responsible while providing employees with a reasonable and competitive benefits package.

R4. Negotiate a higher retirement age than the currently applicable age for the commencement of retiree health care benefits.

Response: The age for retiree benefits is currently 55, under the District plan for certificated and administrative positions, however, since it is capped at 5 years, changing the age would not have a significant impact on the cost. The District has no ability to change the retiree health benefits offered by CalPERS, which is the component that drives the majority of the Unfunded Actuarial Liability (UAL).

R5. Require active employees to make a contribution towards the cost of their retiree health care benefit.

Response: Retirees already make a significant contribution to their retiree benefits both through the District retiree benefit package and through the CalPERS Health Benefits program.

R6. Place a link on its website to provide the latest actuarial valuation of its AAL, its UAAL, its consequent percent funded, its discount rate (annual percentage) used to determine these

values, and a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years.

Response: The most recent ***Actuarial Valuation of Post Employment Benefits Other than Pensions Reports*** *for the San Rafael Elementary and High School Districts are currently posted on the District website at http://www.srcs.org/business and include all of the information listed in item R6. Copies of these reports are attached.*

Milliman Client Report

San Rafael Elementary School District

GASB 45 Actuarial Valuation of
Post Employment Benefits Other than Pensions as of January 1, 2012

Prepared by:

John R. Botsford
FSA, MAAA

Milliman, Inc.
650 California Street, 17th Floor
San Francisco, California 94108
Tel 415 403 1333 Fax 415 403 1334
milliman.com

March 13, 2012

650 California Street, 17th Floor
San Francisco, CA 94108-2702
USA

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

March 13, 2012

San Rafael City Schools
310 Nova Albion Way
San Rafael, California 94903

San Rafael Elementary School District–
GASB 45 Actuarial Valuation of Post Employment Benefits as of January 1, 2012

At the request of the San Rafael City Schools (SRCS), we have completed an actuarial valuation of post employment benefits as of January 1, 2012.

The purpose of this report is to determine the Annual Required Contribution and required financial disclosures under the Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Our determinations reflect the procedures and methods prescribed in GASB 45.

In preparing our report, we relied on financial information and employee data furnished to us by SRCS. The actuarial cost method and assumptions used as well as the supporting data and principal plan provisions upon which the analysis is based are set forth in the following report. While Milliman has not audited the financial and census data, they have been reviewed for reasonableness and are, in our opinion, sufficient and reliable for the purposes of our calculations. If any of this information as summarized in this report is inaccurate or incomplete, the results shown could be materially affected and this report may need to be revised.

The values provided in this report are estimates only. They represent results if actual experience exactly matches the assumptions used. Actual experience will likely differ and continued monitoring of experience should be performed and adjustments made to the assumptions as necessary. The 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 GASB 45. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein.

Milliman's work is prepared solely for the internal business use of the San Rafael Elementary School District and San Rafael City Schools. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

(a) The San Rafael Elementary School District and San Rafael City Schools may provide a copy of Milliman's work, in its entirety, to San Rafael Elementary School District and San Rafael City Schools' professional service advisors who are subject to a duty of confidentiality and who

agree to not use Milliman's work for any purpose other than to benefit the San Rafael Elementary School District and San Rafael City Schools.

(b) The San Rafael Elementary School District and San Rafael City Schools may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, the report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice of the American Academy of Actuaries. The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

John R. Botsford, FSA, MAAA
Principal and Consulting Actuary

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TABLE OF CONTENTS

Introduction

Milliman, Inc. ("Milliman") has been retained by San Rafael City Schools (SRCS) to provide a GASB 45 actuarial valuation of its post employment benefit (OPEB) plans. In our valuation we:

- Project expected benefit payouts
- Calculate the present value of total benefits
- Calculate the actuarial liability (present value of benefits attributable to past service)
- Determine the Annual Required Contribution (ARC) and annual OPEB expense under GASB Statement No. 45
- Prepare the financial statement disclosures relating to the funded status of the plan

Background

Retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. The retiree health benefits are described in the labor agreements between SRCS and San Rafael Elementary District (District) employees.

Appendix A provides a detailed summary of benefits.

Assumptions

With any valuation of future benefits, assumptions of anticipated future events are required. If actual events differ from the assumptions made, the actual cost of the plan will vary as well. The following assumptions should be reviewed for appropriateness.

Discount Rate. GASB 45 requires that the interest rate used to discount future benefit payments back to the present be based on the expected rate of return on any investments set aside to pay for these benefits. The District funds its OPEB obligation on a "pay-as-you-go" basis (retiree health benefits are paid from the District's general funds), and with no funds are set aside for this purpose. For this valuation, we recommend using a discount rate of 3.75% based on the long-term expected return for the District's operating funds, and the results contained in this report reflect our recommend assumption. The prior valuation was based on a 4% discount rate. Note that a higher or lower discount rate may ultimately be more appropriate depending on the funding and investment policies the District ultimately establishes for its GASB 45 liabilities. For comparison purposes, we have also shown valuation results using a discount rate of 7.00% to illustrate the impact that funding its liabilities in a separate, irrevocable trust may have on the District's annual OPEB costs.

Health Cost Trend (PEMHCA Minimum Monthly Employer Contribution for Actives). California Government Code Section 22890(b) specifies that annual increases to the minimum District contribution are based on medical CPI. We assumed this index will increase by 4.00% per year. A 4.25% annual increase was assumed in the prior valuation.

Demographic Assumptions. The demographic assumptions (assumed rate of employee termination, retirement, and mortality) were updated to reflect the latest CalSTRS experience study.

A complete summary of the actuarial assumptions is presented in Appendix B.

Selection/Approval of Actuarial Assumptions

An actuarial valuation of post-employment benefits includes estimates of uncertain future events. We have developed a set of economic and demographic actuarial assumptions to anticipate future plan experience. In our opinion, these assumptions fall within a best estimate range of future plan experience. Ultimately, the school district and its auditor must select/approve the set of actuarial assumptions used in reporting liabilities on its financial statements.

Results of Study

The valuation results are summarized in the following exhibit and use the following terms:

The **Present Value of Benefits** is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The **Actuarial Accrued Liability (AAL)** is the present value of benefits that are attributed to employee service rendered prior to the valuation date. For retirees, this is equal to the present value of benefits. For active employees the AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement.

The **Normal Cost** is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero.

The **Annual Required Contribution (ARC)** is equal to the Normal Cost plus an amount to amortize the unfunded AAL over a period of 30 years on a "closed" basis from January 1, 2008 (i.e. the amortization period remaining is 26 years as of January 1, 2012 for Fiscal Year ending June 30, 2013). The Annual OPEB Cost (shown in Exhibit 4) is equal to the ARC plus a technical adjustment and is the amount the District would be required to report as an expense for the 2012-2013 fiscal year under GASB 45.

	January 1, 2012	January 1, 2010	January 1, 2008
Participants			
Active employees	335	340	332
Retirees	72	72	71
Total	407	412	403
Present Value of Benefits	$ 11,463,043	$ 10,172,232	$ 10,512,303
Actuarial Accrued Liability	$ 5,462,058	$ 4,649,073	$ 4,621,185
Assets	0	0	0
Unfunded Actuarial Accrued Liability	$ 5,462,058	$ 4,649,073	$ 4,621,185
Normal Cost	$ 406,462	$ 363,270	$ 369,382
Annual Required Contribution (ARC)	$ 768,217	$ 669,813	$ 664,301
Annual OPEB Cost (End of Fiscal Year)	$ TBD	$ 649,333	$ 664,301
Est. benefit payments (Calendar Year)	$ 74,245	$ 72,629	$ 67,454

Changes from Prior Valuation

The Actuarial Accrued Liability (AAL) increased by approximately $0.9 million since the last valuation. The following is a summary of changes in AAL from the prior valuation:

- The cost of benefit accruals since the last valuation (i.e. the cost attributed to employee service since the last valuation), plus interest on the prior year's AAL due to the passage of time, less benefit payments since the last valuation date contributed to the change in Actuarial Accrued Liability. The combined impact of these factors was an increase in AAL of approximately $1.0 million.

- The discount rate used in the valuation was lowered from 4.00% in the prior valuation to 3.75% in the current valuation. This change resulted in an increase in AAL of approximately $0.2 million.

- The medical CPI was lowered from 4.25% in the prior valuation to 4.00% in the current valuation. This change resulted in a decrease in AAL of approximately $0.2 million.

- The demographic assumptions (termination, retirement, disability, and mortality rates were updated to reflect the latest CalSTRS experience study. This assumption change resulted in an increase in AAL of approximately $0.2 million. The increase was primarily due to a change in the mortality rates to reflect a longer life expectancy.

- Other factors such as changes in the District's demographic composition also contributed to the change in Actuarial Accrued Liability. The impact of other factors was a decrease in liability of approximately $0.3 million.

Variability of Results

The results contained in this report represent our best estimates. However, variation from these or any other estimates of future retiree medical costs is not only possible but probable. Actual future costs may vary significantly from estimates in this report.

Valuation results are particularly sensitive to the assumptions used to project future health plan cost increases (medical inflation trend) and to discount projected benefits to the present (discount rate). To illustrate this variability, Exhibit 6 shows a comparison of valuation results based on best estimate assumptions and on an alternate discount rate.

Exhibit 1. Projected Benefit Payments

The table below illustrates the projected pay-as-you-go District costs of providing retiree health benefits. The projections only consider the closed group of existing employees and retirees and is based on the current labor agreements.

Year	Calendar Year	Current Retirees	Future Retirees	Total
1	2012	$ 68,165	$ 6,080	$ 74,245
2	2013	65,998	15,811	81,809
3	2014	67,202	26,208	93,410
4	2015	73,993	38,930	112,923
5	2016	80,787	50,768	131,555
6	2017	87,500	70,406	157,906
7	2018	94,074	87,285	181,359
8	2019	101,121	102,991	204,112
9	2020	107,901	131,451	239,352
10	2021	112,624	160,654	273,278
11	2022	112,937	185,978	298,915
12	2023	113,416	215,705	329,121
13	2024	113,290	245,835	359,125
14	2025	112,596	273,765	386,361
15	2026	111,292	293,646	404,938
16	2027	109,901	325,278	435,179
17	2028	107,896	352,809	460,705
18	2029	105,203	384,789	489,992
19	2030	102,397	417,956	520,353
20	2031	98,875	450,951	549,826
21	2032	94,728	483,058	577,786
22	2033	90,409	524,465	614,874
23	2034	85,509	563,688	649,197
24	2035	80,442	594,447	674,889
25	2036	74,866	625,859	700,725
26	2037	69,038	650,974	720,012
27	2038	63,164	678,716	741,880
28	2039	57,165	710,464	767,629
29	2040	51,293	740,386	791,679
30	2041	45,476	773,970	819,446

Exhibit 2. Liabilities and Normal Cost

The **Present Value of Benefits** is the actuarial present value of benefits expected to be paid for all retirees and covered employees.

The **Actuarial Accrued Liability (AAL)** is the present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement.

The **Normal Cost** is the actuarial present value of benefits attributed to one year of service. The Projected Unit Credit cost method as described in Appendix A was used to determine the normal cost in this valuation. Since retirees are not accruing any more service, their normal cost is zero.

	January 1, 2012	January 1, 2010	January 1, 2008
Present Value of Benefits			
Active employees	$ 9,760,529	$ 8,669,531	$ 9,012,554
Retirees	1,702,514	1,502,701	1,499,749
Total	$ 11,463,043	$ 10,172,232	$ 10,512,303
Actuarial Accrued Liability			
Active employees	$ 3,759,544	$ 3,146,372	$ 3,121,436
Retirees	1,702,514	1,502,701	1,499,749
Total	$ 5,462,058	$ 4,649,073	$ 4,621,185
Normal Cost	$ 406,462	$ 363,270	$ 369,382