Bickmore

City of San Fernando

Actuarial Valuation of the Other Post-Employment Benefit Programs As of April 1, 2013

Submitted February 2014

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A. Executive Summary

This report presents the results of the April 1, 2013 actuarial valuation of the City of San Fernando (the City) other post-employment benefit (OPEB) programs. Briefly, benefits include subsidized medical coverage for eligible retirees. The purpose of this valuation is to assess the OPEB liabilities and provide disclosure information as required by Statement No. 45 of the Governmental Accounting Standards Board (GASB 45).

How much the City contributes each year affects the calculation of liabilities. Prefunding is the term used to describe when an agency consistently contributes an amount at least equal to the annual required contribution (ARC) each year. Contributing only the current year's retiree payments is referred to as pay-as-you-go funding. There are other options relating to the funding policy, including shorter amortization periods and partial pre-funding. These other options would require additional calculations not provided in this report, though we would be happy to provide illustrations at the City's request.

Prefunding the plan supports use of a higher discount rate and often produces substantially lower liabilities than a pay-as-you-go funding policy, which requires a lower discount rate. This valuation uses discount rates of 7.0% and 4.0% for prefunding and pay-as-you-go calculations, respectively. Neither rate is a guarantee of future investment performance, but rather an assumption about the long term rate of return. We have selected these rates for illustrative purposes, though the ultimate decision for these rates lies with the City.

In its financial report for the period ending June 30, 2012, the City reported a net OPEB obligation of $6,002,474. The City confirmed it has not yet established an irrevocable OPEB trust and is unlikely to do so in the immediate future. In other words, OPEB funding is expected to continue on a pay-as-you-go basis for the years to which this report will likely be applied.

Accordingly, we calculate the GASB 45 actuarial accrued liability (AAL) on an unfunded basis to be $32,974,100 as of April 1, 2013. With no trust assets to offset these liabilities, the unfunded accrued liability as of this date is also $32,974,100.

The following summarizes results for the fiscal year ending June 30, 2013:

- We calculate the annual required contribution (ARC) to be $2,450,677.
- The City reported contributions totaling $985,164 for the fiscal year ending June 30, 2013, equal to the premium payments for retirees.
- Based on the calculations and contributions as described above, we calculate a net OPEB obligation of $7,445,639 as of June 30, 2013.

These results are shown in tables beginning on page 11. Projected results for the fiscal years ending June 30, 2014 and June 30, 2015 are also shown in these tables.

The liabilities shown in the report reflect assumptions regarding continued future employment, rates of retirement and survival, and elections by future retirees to retain coverage for themselves and their dependents. To the extent that actual experience is not

Executive Summary (Concluded)

what we assumed, future results will be different. We also note that this valuation has been prepared on a closed group basis; no provision is made for new employees.

Details of our valuation process and the various disclosures required by GASB 45 are provided on the succeeding pages. The date of the next actuarial valuation should not be later than April 1, 2016. If there are any significant changes in the employee data, benefits provided or the funding policy, please contact us to discuss whether an earlier valuation is appropriate.

B. Requirements of GASB 45

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. We understand that the City implemented GASB 45 for the fiscal year ended June 30, 2009.

For agencies with fewer than 200 members covered by or eligible for plan benefits, GASB 45 requires that a valuation be prepared no less frequently than every three years. We have included results for three years in this report, though the City should review the total number of covered members prior to applying the results of this valuation for its fiscal year ending June 30, 2015.

GASB 45 disclosures include the determination of an annual OPEB cost. For the first year, the annual OPEB cost is equal to the annual required contribution (ARC) as determined by the actuary.

- If the City's OPEB contributions equal the ARC each year, the net OPEB obligation will equal $0.
- If the City's actual contribution is less than (greater than) the ARC, then a net OPEB obligation (asset) amount is established. In subsequent years, the annual OPEB expense will reflect adjustments made to the net OPEB obligation, in addition to the ARC (see Table 1C).

GASB 45 provides for recognition of payments as contributions if they are made (a) directly to retirees or beneficiaries, (b) to an insurer, e.g., for the payment of premiums, or (c) to an OPEB fund set aside toward the cost of future benefits. Funds set aside for future benefits should be considered contributions to an OPEB plan only if the vehicle established is one that is capable of building assets that are separate from and independent of the control of the employer and legally protected from its creditors. Furthermore, the sole purpose of the assets should be to provide benefits under the plan. These conditions generally require the establishment of a legal trust. Earmarked assets or reserves may be an important step in financing future benefits, but they may not be recognized as an asset for purposes of reporting under GASB 45.

The decision whether or not to prefund, and at what level, is at the discretion of the City, as are the manner and term for paying down the unfunded actuarial accrued liability. Once a funding policy has been established, however, the City's auditor may have an opinion as to the timing and manner of any change to such policy in future years. The level of prefunding also affects the selection of the discount rate used for valuing the liabilities.

We note that various issues in this report may involve legal analysis of applicable law or regulations. The City should consult counsel on these matters; Bickmore does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the City consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.

C. Sources of OPEB Liabilities

Post-employment benefits other than pensions (OPEB) comprise a part of compensation that employers offer for services received. The most common OPEB are:

- Medical
- Dental
- Prescription drug
- Vision
- Life insurance

Other possible post-employment benefits may include outside group legal, long-term care, or disability benefits outside of a pension plan. OPEB does not generally include vacation, sick leave[1] or COBRA benefits, which fall under other GASB accounting statements.

A direct employer payment toward the cost of OPEB is referred to as an "explicit" subsidy and these are included in the determination of OPEB liabilities. In addition, if claims experience of employees and retirees are pooled when determining premiums, the retirees pay a premium based on a pool of members that, on average, are younger and healthier. For certain types of coverage, such as medical, payment of the same premium rate results in an "implicit subsidy" of retiree claims by active employee premiums since the retiree premiums are lower than they would have been if the retirees were insured separately. Paragraph 13.a. of GASB 45 generally requires an implicit subsidy of retiree premium rates be valued as an OPEB liability.

Exceptions may exist when the plan is part of a "community-rated" program. Current GASB guidance[2] may allow an agency whose membership is a small portion (in the neighborhood of 1%) of the total coverage of a multiple employer plan to reasonably conclude that any change in their group's mix of retirees and active employees would not affect the premium rates for the plan. In those circumstances, while an implicit subsidy may exist, it is not required to be disclosed.

OPEB Obligations of the City

The City provides continuation of medical coverage to its retiring employees. For retirees and their dependent(s) who have chosen to retain this coverage:

- The City contributes directly to the cost of retiree medical coverage. These benefits are described in Table 3 and liabilities have been included in this valuation.
- Employees are covered by the CalPERS medical program. The experience of public agency employer membership in this program is community-rated ("OPEB Assumption Model", April 2010) and the City's membership in this program is incidental relative to the total number of members covered. As currently permitted by GASB 45, this report does not make age-related premium adjustments or compute an implicit rate subsidy for employees covered under this program.

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[1] When a terminating employee's unused sick leave credits are converted to provide or enhance a defined benefit OPEB, e.g., healthcare benefits, such converted sick leave credits should be valued under GASB 45.

[2] Changes in Actuarial Standard of Practice and a new GASB Statement for reporting of OPEB liabilities are being considered. One possible change would be the elimination of the exception for disclosing the implicit subsidy liability for community rated plans. If implemented, this change would significantly impact the OPEB liability to be reported by the City.

D. Valuation Process

The valuation has been based on employee census data initially submitted to us by the City in December 2013 and clarified in various related communications. Summaries of that data are provided in Table 2. While the individual employee records have been reviewed to verify that they are reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. A summary of the benefits provided under the Plan is provided in Table 3, based on information supplied to Bickmore by the City. The valuation described below has been performed in accordance with the actuarial methods and assumptions described in Table 4.

In the specific development of the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee's future retirement. We then calculate a present value of these benefits as of the valuation date.

- These present value determinations discount the value of each future expected benefit payment back to the valuation date, using the discount rate. The present value calculations also reflect assumptions for the likelihood that an employee may not continue in service with the City to receive benefits.
- For those that do continue in service with the City, assumptions are made regarding the probability of retirement at various ages.
- After adjustments for the probabilities of whether and when an employee may retire from the City, we then apply an assumption about whether or not the retiree will elect coverage for themselves and/or dependents.
- The cost of benefits payable, once they begin for each employee, reflect expected trends in the cost of those benefits and the assumptions as to the expected date(s) those benefit will cease.
- These benefit projections and liabilities have a very long time horizon. The final payments for currently active employees may not be made for 70 years or more.

The resulting present value for each employee is allocated as a level percent of payroll each year over the employee's career using the entry age normal cost method. This creates a cost expected to increase each year as payroll increases. Amounts attributed to prior fiscal years form the "actuarial accrued liability" (AAL). The amount of future OPEB cost allocated to the current year is referred to as the "normal cost". The remaining cost to be assigned to future years is called the "present value of future normal costs".

In summary:

Actuarial Accrued Liability	Past Years' Costs
plus Normal Cost	Current Year's Cost
plus Present Value of Future Normal Costs	Future Years' Costs
equals Present Value of Future Benefits	Total Benefit Costs

Where contributions have been made to an irrevocable OPEB trust, the accumulated value of trust assets is applied to offset the AAL. It is our understanding that the City's plans have not yet been funded and no assets have been set aside in an irrevocable trust as of the valuation date. The portion of the AAL not covered by assets is referred to as the unfunded actuarial accrued liability (UAAL).

E. Basic Valuation Results

The following chart compares the results of the April 1, 2013 valuation of OPEB liabilities (Column 2) to the results of the April 1, 2011 valuation (Column 1).

	Pay-As-You-Go Basis	
Valuation date	**4/1/2011**	**4/1/2013**
Discount rate	4.00%	4.00%
Number of Covered Employees		
Actives	112	102
Retirees	94	93
Total Participants	206	195
Actuarial Present Value of Projected Benefits		
Actives	$ 27,708,936	$ 27,064,250
Retirees	19,708,872	17,813,180
Total APVPB	47,417,808	44,877,430
Actuarial Accrued Liability (AAL)		
Actives	14,018,542	15,160,920
Retirees	19,708,872	17,813,180
Total AAL	33,727,414	32,974,100
Actuarial Value of Assets	-	-
Unfunded AAL (UAAL)	33,727,414	32,974,100
Normal Cost	1,137,981	1,040,811
Benefit Payments		
Actives (in retirement)	-	-
Retirees	898,937	985,164
Total	898,937	985,164

The funded ratio (the ratio of the Actuarial Value of Assets divided by the Actuarial Accrued Liability) is 0.0% as of April 1, 2013. Covered payroll as of April 1, 2013 was reported to be $7,256,300. The Unfunded Actuarial Accrued Liability, expressed as a percentage of payroll, is 454.4 % as of this date.

Changes Since the Prior Valuation

Even if all of our previous assumptions were met exactly as projected, liabilities generally increase over time as active employees get closer to the date their benefits are expected to begin. Of course, due to the uncertainties involved and the long term nature of these projections, our prior assumptions were *not* and are likely never to be exactly realized. Nonetheless, it is helpful to review why results are different than we anticipated.

Basic Valuation Results (Concluded)

In comparing results shown in the exhibit above, we can see that the *actual* decrease in the AAL over the two year period between April 1, 2011 and April 1, 2013 was approximately $753,000. We *expected* the AAL to increase by $3,302,000 from new costs accrued and the passage of time, offset by benefits expected to be paid to retirees. The actual AAL is $4,055,000 lower than expected, primarily as a result of the following:

- Plan experience relative to prior assumptions, including changes in the plan's population and premium rates other than as projected in the 2011 valuation;
- A modest increase in the AAL from projecting future improvement in mortality rates, i.e., longer life expectancies;
- An increase in the AAL due to an increase in assumed future increases in medical premiums.

F. Funding Policy

The specific calculation of the ARC and annual OPEB expense for an employer depends on how the employer elects to fund these benefits. Contributing an amount greater than or equal to the ARC each year is referred to as “prefunding”. Prefunding generally allows the employer to have the liability calculated using a higher discount rate, which in turn lowers the liability. In addition, following a prefunding policy does not build up a net OPEB obligation because the contribution equals or exceeds the annual OPEB cost each year.

Determination of the ARC

The Annual Required Contribution (ARC) consists of two basic components, which have been adjusted with interest to the City’s fiscal year end:

- The amounts attributed to service performed in the current fiscal year (the normal cost) and
- Amortization of the unfunded actuarial accrued liability (UAAL).

The ARC for each of the fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015 is developed in Table 1B.

Decisions Affecting the Amortization Payment

The period and method for amortizing the AAL can significantly affect the ARC. GASB 45:

- Prescribes a maximum amortization period of 30 years and requires no minimum amortization period (except 10 years for certain actuarial gains). Immediate full funding of the liability is also permitted.
- Allows amortization payments to be determined (a) as a level percentage of payroll, designed to increase over time as payroll increases, or (b) as a level dollar amount much like a conventional mortgage, so that this component of the ARC does not increase over time. Where a plan is closed and has no ongoing payroll base, a level percent of payroll basis is not permitted.
- Allows the amortization period to decrease annually by one year (closed basis) or to be maintained at the same number of years (open basis).

Funding Policy Illustrated in This Report

It is our understanding that the City’s pay-as-you-go policy includes amortization of the unfunded AAL over a closed 30-year period initially effective July 1, 2009; the remaining period applicable in determining the ARC for the fiscal year ending June 30, 2013 is 26 years. Amortization payments are determined on a level percent of pay basis.

G. Choice of Actuarial Funding Method and Assumptions

The “ultimate real cost” of an employee benefit plan is the value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted, and as such are not affected by the actuarial funding method. The actuarial funding method attempts to spread recognition of these expected costs on a level basis over the life of the plan, and as such sets the “incidence of cost”. Methods that produce higher initial annual (prefunding) costs will produce lower annual costs later. Conversely, methods that produce lower initial costs will produce higher annual costs later relative to the other methods. GASB 45 allows the use of any of six actuarial funding methods; a brief description of each is in the glossary.

Factors Impacting the Selection of Funding Method

While the goal of GASB 45 is to match recognition of retiree medical expense with the periods during which the benefit is earned, the funding methods differ because they focus on different financial measures in attempting to level the incidence of cost. Appropriate selection of a funding method contributes to creating intergenerational equity between generations of taxpayers. The impact of potential new employees entering the plan may also affect selection of a funding method, though this is not a factor in this plan.

We believe it is most appropriate for the plan sponsor to adopt a theory of funding and consistently apply the funding method representing that theory. This valuation was prepared using the entry age normal cost method with normal cost determined on a level percent of pay basis. The entry age normal cost method often produces initial contributions between those of the other more common methods and is generally regarded by pension actuaries as the most stable of the funding methods and is one of the most commonly used methods for GASB 45 compliance.

Factors Affecting the Selection of Assumptions

Special considerations apply to the selection of actuarial funding methods and assumptions for the City. The actuarial assumptions used in this report were chosen, for the most part, to be the same as the actuarial assumptions used for the most recent actuarial valuation of the retirement plan covering City employees. Several of these assumptions were updated since the last valuation was prepared. Other assumptions were selected based on demonstrated plan experience and/or our best estimate of expected future experience.

In selecting an appropriate discount rate, GASB states that the discount rate should be based on the expected long-term yield of investments used to finance the benefits. The City approved calculation of liabilities on a pay-as-you-go basis using a 4.0% discount rate, the same rate used in the prior valuation. Since no OPEB trust has yet been established, for illustrative purposes, we have used a 7.0% discount rate in developing results on a funded basis. The actual discount rate, should the City decide to establish an irrevocable OPEB trust, will depend on the particular investments and asset allocation strategy selected.

H. Certification

This report presents the results of our actuarial valuation of the other post employment benefits provided by the City of San Fernando. The purpose of this valuation was to provide the actuarial information required for the City's reporting under Statement 45 of the Governmental Accounting Standards Board. The calculations were focused on determining the plan's funded status as of the valuation date, developing the Annual Required Contribution and projecting the Net OPEB Obligations for the years to which this report is expected to be applied.

We certify that this report has been prepared in accordance with our understanding of GASB 45. To the best of our knowledge, the report is complete and accurate, based upon the data and plan provisions provided to us by the City. We believe the assumptions and method used are reasonable and appropriate for purposes of the financial reporting required by GASB 45. The results may not be appropriate for other purposes.

Each of the undersigned individuals is a Fellow in the Society of Actuaries and Member of the American Academy of Actuaries who satisfies the Academy Qualification Standards for rendering this opinion.

Signed: February 11, 2014

Catherine L. MacLeod

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Francis M. Schauer, Jr.

Francis M. Schauer Jr., FSA, FCA, EA, MAAA

Table 1A
Summary of Valuation Results
Pay-As-You-Go Basis

The following summarizes the results of our valuation of OPEB liabilities for the City calculated under GASB 45 for the fiscal year ending June 30, 2013 as well as projected amounts for the fiscal years ending June 30, 2014 and 2015.

	Pay-As-You-Go Basis		
Valuation date	**4/1/2013**		
For fiscal year beginning	7/1/2012	7/1/2013	7/1/2014
For fiscal year ending	6/30/2013	6/30/2014	6/30/2015
Discount rate	4.00%	4.00%	4.00%
Number of Covered Employees*			
Actives	102	102	102
Retirees	93	93	93
Total Participants	195	195	195
Actuarial Present Value of Projected Benefits			
Actives	$ 27,064,250	$ 28,146,820	$ 29,234,190
Retirees	17,813,180	17,510,997	17,336,412
Total APVPB	44,877,430	45,657,817	46,570,602
Actuarial Accrued Liability (AAL)			
Actives	15,160,920	16,849,800	18,602,911
Retirees	17,813,180	17,510,997	17,336,412
Total AAL	32,974,100	34,360,797	35,939,323
Actuarial Value of Assets	-	-	-
Unfunded AAL (UAAL)	32,974,100	34,360,797	35,939,323
Normal Cost	1,040,811	1,074,637	1,109,563
Benefit Payments			
Actives (in retirement)	-	37,382	81,275
Retirees	985,164	849,546	851,033
Total	985,164	886,928	932,308

* The numbers of active employees and retirees shown above are as of the valuation date and are not necessarily the number expected in the following two years. Because this valuation has been prepared on a closed group basis, no potential future employees are included and, based on assumptions outlined in Table 4, we recognize the possibility that active employees may leave employment, some may retire and elect benefits and coverage for some of the retired employees may cease.

Table 1B
Calculation of the Annual Required Contribution
Pay-As-You-Go Basis

The following exhibit calculates the amortization payments and the annual required contribution (ARC) on a pay-as-you-go basis for the fiscal years ending June 30, 2013, June 30, 2014 and June 30, 2015.

	Pay-As-You-Go Basis		
Fiscal Year End	**6/30/2013**	**6/30/2014**	**6/30/2015**
Funding Policy			
Discount rate	4.00%	4.00%	4.00%
Amortization method	Level % of Pay	Level % of Pay	Level % of Pay
Initial amortization period (in	30	30	30
Remaining period (in years)	26	25	24
Determination of Amortization Payment			
UAAL	$ 32,974,100	$ 34,360,797	$ 35,939,323
Factor	23.7860	22.9515	22.1110
Payment	1,386,280	1,497,101	1,625,404
Annual Required Contribution (ARC)			
Normal Cost	1,040,811	1,074,637	1,109,563
Amortization of UAAL	1,386,280	1,497,101	1,625,404
Interest to 06/30	23,586	24,992	26,578
Total ARC at fiscal year end	2,450,677	2,596,730	2,761,545

While the following is not intended to be used to determine the normal cost or ARC in future years, this information may be of value for planning purposes:

Valuation date	**4/1/2013**		
Fiscal Year End	**6/30/2013**	**6/30/2014**	**6/30/2015**
Projected covered payroll	$ 7,256,300	$ 7,492,130	$ 7,735,624
Normal Cost as a percent of	14.3%	14.3%	14.3%
ARC as a percent of payroll	33.8%	34.7%	35.7%
ARC per active ee	24,026	25,458	27,074

Table 1C
Expected OPEB Disclosures
Pay-As-You-Go Basis

The exhibit below develops the annual OPEB expense, estimates the expected OPEB contributions and projects the net OPEB obligation for the fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015. The calculations assume the City continues to follow the pay-as-you-go funding approach outlined on the prior page.

	Pay-As-You-Go Basis		
Fiscal Year End	**6/30/2013**	**6/30/2014**	**6/30/2015**
1. Calculation of the Annual OPEB Expense			
a. ARC for current fiscal year	$ 2,450,677	$ 2,596,730	$ 2,761,545
b. Interest on Net OPEB Obligation (Asset) at beginning of year	240,099	297,826	364,635
c. Adjustment to the ARC	(262,447)	(337,383)	(428,769)
d. **Annual OPEB Expense (a. + b. + c.)**	2,428,329	2,557,173	2,697,411
2. Calculation of Expected Contribution			
a. Estimated payments on behalf of retirees	985,164	886,928	932,308
b. Estimated contribution to OPEB trust	-	-	-
c. **Total Expected Employer Contribution**	985,164	886,928	932,308
3. Change in Net OPEB Obligation *(1.d. minus 2.c.)*	1,443,165	1,670,245	1,765,103
Net OPEB Obligation (Asset), beginning of fiscal year	6,002,474	7,445,639	9,115,884
Net OPEB Obligation (Asset) at fiscal year end	7,445,639	9,115,884	10,880,987

Please note that the expected payments to retirees for the fiscal years ending June 30, 2014 and June 30, 2015 shown above are projections and should be replaced with the actual payments in order to determine the accurate end of year OPEB obligation.

Table 2
Summary of Employee Data

The City reported 102 active employees; of these, 4 are currently participating in the medical program while 98 employees were waiving coverage as of the valuation date. Age and service information for the reported individuals is provided below:

Distribution of Benefits-Eligible Active Employees								
Current Age	**Years of Service**						**Total**	**Percent**
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 & Up		
Under 25							0	0%
25 to 29	2	1	2				5	5%
30 to 34	1	2	7	4			14	14%
35 to 39		3	7	9	2		21	21%
40 to 44		2	4	11	4		21	21%
45 to 49			1	4	2	4	11	11%
50 to 54			1		7	12	20	20%
55 to 59			1	2	2	2	7	7%
60 to 64	1					2	3	3%
65 to 69							0	0%
70 & Up							0	0%
Total	4	8	23	30	17	20	**102**	**100%**
Percent	4%	8%	23%	29%	17%	20%	**100%**	

(Percentages adjusted to total 100%)

Annual Covered Payroll	$7,256,300
Average Attained Age for Actives	43.4
Average Years of Service	13.4

There are also 93 retirees or their beneficiaries receiving benefits. The following chart summarizes the ages of current retirees in the City plan.

Retirees by Age		
Current Age	**Number**	**Percent**
Below 50	3	3%
50 to 54	6	6%
55 to 59	10	11%
60 to 64	19	20%
65 to 69	14	15%
70 to 74	11	12%
75 to 79	8	9%
80 & up	22	24%
Total	**93**	**100%**
Average Attained Age for Retirees:		69.2

Includes 1 surviving spouse

Table 2- Summary of Employee Data (Concluded)

The chart below reconciles the number of actives and retirees included in the April 1, 2011 valuation of the District plan with those included in the April 1, 2013 valuation:

Reconciliation of City Plan Members Between Valuation Dates					
Status	Covered Actives	Waiving Actives	Covered Retirees	Covered Surviving Spouses	Total
Number reported as of April 1, 2011	112	-	94	-	206
New employees	3	2	-	-	5
Terminated employees	(11)	-	-	-	(11)
New retiree, elected coverage	(4)	-	4	-	0
Previously covered, now waiving	(2)	2		-	0
Previously waiving, now covered	-	-	1	-	1
Deceased or dropped coverage	-	-	(7)	1	(6)
Number reported as of April 1, 2013	**98**	**4**	**92**	**1**	**195**

Table 3A
Summary of Retiree Benefit Provisions

OPEB provided: The City has indicated that the only OPEB provided is medical plan coverage.

Access to coverage: Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital and Care Act (PEMHCA).

- This coverage requires the employee to satisfy the requirements for retirement under CalPERS. CalPERS retirement requires attainment of age 50 with 5 years of State or public City service or approved disability retirement.
- If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement or during any future open enrollment period.
- Coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.
- Unless covered by a vesting resolution, the employee must commence his or her retirement warrant within 120 days of terminating employment with the City to be eligible to continue medical coverage through the City and be entitled to the employer subsidy described below.
- Unless covered by a vesting resolution with at least 20 years of service for the City or an approved disability retirement, an employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

Benefits provided: As a public agency participating in the CalPERS medical program, the District is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. For employees covered by this valuation, the District has resolutions with CalPERS defining the level of the District's contribution toward the cost of retiree medical plan premiums for each bargaining unit. The resolutions provide for these benefits:

1. For the following employees, the City pays 100% of the premium for retirees and dependents for any of the plans available in the CalPERS medical:
   - San Fernando Public Employees Association (SFPEA) employees who retired before October 12, 2009
   - San Fernando Police Officers Association (SFPOA) employees who hired before July 1, 2008
   - San Fernando Management Group/SEIU (SFMG/SEIU) employees who retired on or before July 1, 2011
2. For the following employees, the City pays 100% of the premium for retirees and dependents up to but not exceeding the monthly premiums (reflecting coverage level and Medicare eligibility) for the highest cost HMO plan available, which is the Anthem HMO Traditional plan in 2014:
   - San Fernando Public Employees Association (SFPEA) employees who retire on or after October 12, 2009
   - San Fernando Management Group/SEIU (SFMG/SEIU) employees who retired after July 1, 2011

Table 3A
(Continued)

3. Retired San Fernando Police Officers Association (SFPOA) employees hired after June 30, 2008 are covered by the PEMHCA vesting resolution. This resolution provides that the City pays 100% of the premium for retirees and dependents up to but not exceeding the vesting formula maximum benefits *multiplied by* the vesting percent, based on the retiree's years of CalPERS membership.

   The maximum benefits under the vesting formula in 2014 are $642 (employee), $1,218 (employee plus one) and $1,559 (employee plus family). The vesting percentages are as follows:

Years of Qualifying Service	Vested Percent	Years of Qualifying Service	Vested Percent
Less than 10	0%	15	75%
10	50%	16	80%
11	55%	17	85%
12	60%	18	90%
13	65%	19	95%
14	70%	20 or more	100%

Current premium rates: The 2014 CalPERS monthly medical plan rates in the Los Angeles Area rate group are shown in the table below. If different rates apply where the member resides outside of this area, those rates are reflected in the valuation, but not listed here.

Los Angeles Area 2014 Health Plan Rates						
	Actives and Pre-Med Retirees			Medicare Eligible		
Plan	Ee Only	Ee & 1	Ee & 2+	Ee Only	Ee & 1	Ee & 2+
Anthem HMO Select	$ 475.86	$ 951.72	$ 1,237.24	$ 341.12	$ 682.24	$ 967.76
Anthem HMO Traditional	549.76	1,099.52	1,429.38	341.12	682.24	1,012.10
Blue Shield Access/ Adv HMO	469.91	939.82	1,221.77	298.21	596.42	878.37
Blue Shield NetValue/ Adv HMO	395.50	791.00	1,028.30	298.21	596.42	833.72
Health Net Salud y Más	425.44	850.88	1,106.14	261.24	522.48	777.74
Health Net SmartCare	542.71	1,085.42	1,411.05	261.24	522.48	848.11
Kaiser HMO	541.79	1,083.58	1,408.65	294.97	589.94	915.01
UnitedHealthcare HMO	487.76	975.52	1,268.18	193.33	386.66	679.32
PERS Choice PPO	599.19	1,198.38	1,557.89	307.23	614.46	973.97
PERS Select PPO	573.83	1,147.66	1,491.96	307.23	614.46	958.76
PERSCare PPO	624.59	1,249.18	1,623.93	327.36	654.72	1,029.47
PORAC Association Plan	634.00	1,186.00	1,507.00	397.00	791.00	1,112.00

Note that the additional CalPERS administration fee is not included in this valuation.

Table 3B
General CalPERS Annuitant Eligibility Provisions

The content of this section has been drawn from Section C, Summary of Plan Provisions, of the State of California OPEB Valuation as of June 30, 2012, issued February 2013, to the State Controller from Gabriel Roeder & Smith. It is provided here as a brief summary of general annuitant and survivor coverage.

Health Care Coverage

Retired Employees

A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment and receives a monthly retirement allowance. If the member meets this requirement, he or she may continue his or her enrollment at retirement, enroll within 60 days of retirement, or enroll during any Open Enrollment period. If a member is currently enrolled in a CalPERS health plan and wants to continue enrollment into retirement, the employee will notify CalPERS and the member's coverage will continue into retirement.

Eligibility Exceptions*:* Certain family members are not eligible for CalPERS health benefits:

- Children age 26 or older
- Children's spouses
- Former spouses
- Never enrolled or disabled children over age 26
- Grandparents
- Parents
- Children of former spouses
- Other relatives

Coordination with Medicare

CalPERS retired members who qualify for premium-free Part A, either on their own or through a spouse (current, former, or deceased), must sign up for Part B as soon as they qualify for Part A. A member must then enroll in a CalPERS sponsored Medicare plan. The CalPERS-sponsored Medicare plan will pay for costs not paid by Medicare, by coordinating benefits.

Survivors of an Annuitant

If a CalPERS annuitant satisfied the requirement to retire within 120 days of separation, the survivor may be eligible to enroll within 60 days of the annuitant's death or during any future Open Enrollment period. Note: A survivor cannot add any new dependents; only dependents that were enrolled or eligible to enroll at the time of the member's death qualify for benefits.

Surviving registered domestic partners who are receiving a monthly annuity as a surviving beneficiary of a deceased employee or annuitant on or after January 1, 2002, are eligible to continue coverage if currently enrolled, enroll within 60 days of the domestic partner's death, or enroll during any future Open Enrollment period.

Surviving enrolled family members who do not qualify to continue their current coverage are eligible for continuation coverage under COBRA.

Table 4
Actuarial Methods and Assumptions

Valuation Date	April 1, 2013
Funding Method	Entry Age Normal Cost, level percent of pay[3]
Asset Valuation Method	Market value of assets ($0; no OPEB trust has been established)
Discount Rate	4.0%
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year, used only to allocate the cost of benefits between service years
Assumed Increase for Amortization Payments	3.25% per year where determined on a percent of pay basis
General Inflation Rate	3.0% per year

The demographic actuarial assumptions used in this valuation are based on the (demographic) experience study of the California Public Employees Retirement System using data from 1997 to 2007. Rates for selected age and service are shown below and on the following pages.

Mortality Before Retirement

Mortality rates in each of the tables below were projected by applying Scale AA on a fully generational basis.

CalPERS Public Agency Miscellaneous Non-Industrial Deaths only		
Age	Male	Female
15	0.00045	0.00006
20	0.00047	0.00016
30	0.00053	0.00036
40	0.00087	0.00065
50	0.00176	0.00126
60	0.00395	0.00266
70	0.00914	0.00649
80	0.01527	0.01108

CalPERS Public Agency Police & Fire Combined Industrial & Non-Industrial Deaths		
Age	Male	Female
15	0.00045	0.00006
20	0.00050	0.00019
30	0.00063	0.00046
40	0.00100	0.00078
50	0.00191	0.00141
60	0.00412	0.00283
70	0.00933	0.00668
80	0.01548	0.01129

[3] The level percent of pay aspect of the funding method refers to how the normal cost is determined. Use of level percent of pay cost allocations in the funding method is separate from and has no effect on a decision regarding use of a level percent of pay or level dollar basis for determining amortization payments.

Table 4 - Actuarial Methods and Assumptions (Continued)

Mortality After Retirement

Mortality rates in each of the tables below were projected by applying Scale AA on a fully generational basis.

Healthy Lives

CalPERS Public Agency Miscellaneous, Police & Fire Post Retirement Mortality		
Age	Male	Female
40	0.00093	0.00062
50	0.00239	0.00125
60	0.00720	0.00431
70	0.01675	0.01244
80	0.05270	0.03749
90	0.16747	0.12404
100	0.34551	0.31876
110	1.00000	1.00000

Disabled Lives

CalPERS Public Agency Disabled Police Post Retirement Mortality		
Age	Male	Female
20	0.00230	0.00181
30	0.00227	0.00188
40	0.00272	0.00224
50	0.00503	0.00401
60	0.00845	0.00835
70	0.02304	0.01771
80	0.06984	0.04569
90	0.16774	0.13822

CalPERS Public Agency Disabled Miscellaneous Post Retirement Mortality		
Age	Male	Female
20	0.00664	0.00478
30	0.00790	0.00512
40	0.01666	0.00674
50	0.01632	0.01245
60	0.02293	0.01628
70	0.03870	0.03019
80	0.08388	0.05555
90	0.21554	0.14949

Termination Rates

For miscellaneous employees: sum of CalPERS Terminated Refund and Terminated Vested rates for miscellaneous employees – Illustrative rates

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1812	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1742	0.1193	0.0946	0.0000	0.0000	0.0000
25	0.1674	0.1125	0.0868	0.0749	0.0000	0.0000
30	0.1606	0.1055	0.0790	0.0668	0.0581	0.0000
35	0.1537	0.0987	0.0711	0.0587	0.0503	0.0450
40	0.1468	0.0919	0.0632	0.0507	0.0424	0.0370
45	0.1400	0.0849	0.0554	0.0427	0.0347	0.0290

Table 4 - Actuarial Methods and Assumptions (Continued)

Termination Rates (continued)

For SFPOA employees hired prior to July 1, 2008
CalPERS Terminated Refund and Terminated Vested rates for police officers – Illustrative rates

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1013	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1013	0.0258	0.0249	0.0000	0.0000	0.0000
25	0.1013	0.0258	0.0249	0.0179	0.0000	0.0000
30	0.1013	0.0258	0.0249	0.0179	0.0109	0.0000
35	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
40	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
45	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082

For SFPOA employees hired after June 30, 2008:
CalPERS Public Agency Police: sum of Terminated Refund and Terminated Vested rates, but only Refund rates at and after 20 years of service

Attained Age	Years of Service					
	0	5	10	20	25	30
15	0.1013	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1013	0.0249	0.0000	0.0000	0.0000	0.0000
25	0.1013	0.0249	0.0179	0.0000	0.0000	0.0000
30	0.1013	0.0249	0.0179	0.0000	0.0000	0.0000
35	0.1013	0.0249	0.0179	0.0017	0.0000	0.0000
40	0.1013	0.0249	0.0179	0.0017	0.0012	0.0000
45	0.1013	0.0249	0.0179	0.0017	0.0012	0.0009

Service Retirement Rates

For SFPEA employees hired after July 1, 2005 and SFMG/SEIU employees hired after November 1, 2005:
CalPERS Public Agency Miscellaneous 2% @ 55 – Illustrative rates

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0150	0.0200	0.0240	0.0290	0.0330	0.0390
55	0.0500	0.0640	0.0780	0.0940	0.1070	0.1270
60	0.0720	0.0920	0.1120	0.1340	0.1530	0.1820
65	0.1740	0.2210	0.2690	0.3230	0.3690	0.4390
70	0.1380	0.1760	0.2140	0.2570	0.2930	0.3490
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Table 4 - Actuarial Methods and Assumptions (Continued)

Service Retirement Rates (continued)

For SFPEA employees hired on or before July 1, 2005 and SFMG/SEIU employees hired on or before November 1, 2005: CalPERS Public Agency Miscellaneous 3% @ 60 – Illustrative rates

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0261	0.0333	0.0404	0.0475	0.0546	0.0618
55	0.0825	0.1050	0.1275	0.1500	0.1725	0.1950
60	0.0935	0.1190	0.1445	0.1700	0.1955	0.2210
65	0.1485	0.1890	0.2295	0.2700	0.3105	0.3510
70	0.1320	0.1680	0.2040	0.2400	0.2760	0.3120
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

For police employees hired before January 1, 2013: CalPERS Public Agency 3% @ 50 – Illustrative rates

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0700	0.0700	0.0700	0.1310	0.1930	0.2490
52	0.0610	0.0610	0.0610	0.1160	0.1710	0.2200
55	0.0900	0.0900	0.0900	0.1700	0.2500	0.3220
57	0.0800	0.0800	0.0800	0.1520	0.2230	0.2880
60	0.1350	0.1350	0.1350	0.2550	0.3765	0.4845
62	0.1125	0.1125	0.1125	0.2125	0.3138	0.4038
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

For police employees hired on or after January 1, 2013: CalPERS Public Agency 2.7% @ 57 – Illustrative rates

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0138	0.0138	0.0138	0.0138	0.0253	0.0451
55	0.0854	0.0854	0.0854	0.0854	0.1563	0.2785
60	0.1396	0.1396	0.1396	0.1396	0.1719	0.2506
65	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
70	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

For misc. employees hired on or after January 1, 2013: CalPERS Public Agency 2% @ 62 – Illustrative rates

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
55	0.0440	0.0560	0.0680	0.0800	0.0920	0.1040
60	0.0616	0.0784	0.0952	0.1120	0.1288	0.1456
65	0.1287	0.1638	0.1989	0.2340	0.2691	0.3042
70	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964
75 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Table 4 - Actuarial Methods and Assumptions (Continued)

Disability Retirement Rates

Illustrative rates:

CalPERS Public Agency Miscellaneous Disability		
Age	Male	Female
25	0.00010	0.00010
30	0.00021	0.00020
35	0.00063	0.00088
40	0.00145	0.00164
45	0.00252	0.00243
50	0.00331	0.00311
55	0.00366	0.00306
60	0.00377	0.00253

CalPERS Public Agency Police Combined Disability	
Age	Unisex
20	0.00079
25	0.00332
30	0.00664
35	0.00996
40	0.01327
45	0.01659
50	0.01999
55	0.06803
60	0.06869

Healthcare Trend Rate

Medical plan premiums are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown in the chart below:

Effective Jan 1	Premium Increase	Effective Jan 1	Premium Increase
2014	Actual	2020	6.00%
2015	8.50%	2021	5.50%
2016	8.00%	2022	5.00%
2017	7.50%	2023	4.50%
2018	7.00%	2024	4.50%
2019	6.50%	2025 & later	4.64%

Participation Rate

Active employees: 100% of active employees are assumed to continue their current plan election in retirement, except that, for San Fernando Police Officers Association (SFPOA) employees hired after June 30, 2008 (i.e., those SFPOA employees covered by the "Vesting Resolution"), the following percentages are assumed to continue their current plan election in retirement, based on their years of service at the time of retirement:

PERS Service	Assumed % Participation	PERS Service	Assumed % Participation
Under 10	0%	13	90%
10	75%	14	95%
11	80%	15 or more	100%
12	85%		

Table 4 - Actuarial Methods and Assumptions (Continued)

Participation Rate (concluded)	Those not currently participating are assumed to elect coverage in Blue Shield Net Value at or prior to retirement. *Retired participants*: Existing medical plan elections are assumed to be maintained until the retiree's death.
Spouse Coverage	*Active employees:* 85% are assumed to be married and elect coverage for their spouse in retirement. Surviving spouses are assumed to retain coverage until their death. Husbands are assumed to be 3 years older than their wives. *Retired participants*: Existing elections for spouse coverage are assumed to be maintained until the spouse's death. Actual spouse ages are used, where known; if not, husbands are assumed to be 3 years older than their wives.
Dependent Coverage	*Active employees*: 30% are assumed to cover dependents other than a spouse under age 26 at retirement; eligibility for coverage for the youngest dependent is assumed to end at the retiree's age 65. *Retired participants* covering dependent children are assumed to end such coverage when the youngest currently covered dependent reaches age 26.
Medicare Eligibility	Absent contrary data, all individuals are assumed to be eligible for Medicare Parts A and B at age 65.

Changes Since the Prior Valuation:

Healthcare trend	Medical plan premiums are assumed to increase at somewhat higher rates than were assumed in the prior valuation.
Mortality	Future improvement in mortality rates was projected by applying Scale AA on a fully generational basis to the rates published in the 1997-2007 CalPERS Experience Study.

Table 5
Projected Benefit Payments

The following is an estimate of other post-employment benefits to be paid on behalf of current retirees and current employees expected to retire from the City.

- No benefits expected to be paid on behalf of current active employees prior to retirement are considered in this projection.
- No benefits for potential future employees have been included.

Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Table 4.

Projected Annual Benefit Payments			
Fiscal Year Ending June 30	Current Retirees	Future Retirees	Total
2013	$ 985,164	$ -	$ 985,164
2014	849,546	37,330	886,876
2015	851,033	81,169	932,202
2016	886,565	139,901	1,026,466
2017	907,460	207,133	1,114,593
2018	914,829	281,109	1,195,938
2019	943,500	352,409	1,295,909
2020	956,877	435,050	1,391,927
2021	957,271	519,476	1,476,747
2022	965,204	607,779	1,572,983

Appendix 1
Prefunding Illustration for the FYE 2013

The following table compares an illustration of prefunding results to those developed on a pay-as-you-go basis for the fiscal year ending June 30, 2013. Amortization of the unfunded actuarial accrued liability is developed on the same basis as described in Section F.

	Pay-As-You-Go	Prefunding
Valuation date	**4/1/2013**	
For fiscal year beginning	7/1/2012	7/1/2012
For fiscal year ending	6/30/2013	6/30/2013
Discount rate	**4.00%**	**7.00%**
Actuarial Present Value of Projected Benefits		
Actives	$ 27,064,250	$ 13,187,674
Retirees	17,813,180	12,675,395
Total APVPB	44,877,430	25,863,069
Actuarial Accrued Liability (AAL)		
Actives	15,160,920	8,752,991
Retirees	17,813,180	12,675,395
Total AAL	32,974,100	21,428,386
Actuarial Value of Assets	-	-
Unfunded AAL (UAAL)	32,974,100	21,428,386
Amortization factor	23.786	17.248
Annual Required Contribution (ARC)		
Normal Cost	1,040,811	473,687
Amortization of UAAL	1,386,280	1,242,372
Interest to fiscal year end	23,586	28,869
Total ARC at fiscal year end	2,450,677	1,744,928
1. Calculation of the Annual OPEB Expense		
a. ARC for current fiscal year	$ 2,450,677	$ 1,744,928
b. Interest on beginning Net OPEB Obligation	240,099	420,173
c. Adjustment to the ARC	(262,447)	(372,371)
d. **Annual OPEB Expense (a. + b. + c.)**	2,428,329	1,792,730
2. Calculation of Expected Contribution		
a. Estimated payments on behalf of retirees	985,164	985,164
b. Estimated contribution to OPEB trust	-	759,764
c. **Total Expected Employer Contribution**	985,164	1,744,928
3. Change in Net OPEB Obligation *(1.d. minus 2.c.)*	1,443,165	47,802
Net OPEB Obligation, beginning of fiscal year	6,002,474	6,002,474
Net OPEB Obligation at fiscal year end	7,445,639	6,050,276

Appendix 2
OPEB Disclosure Information

The Information necessary to complete the OPEB footnote in the City's financial reports is summarized below, or we note the location of the information contained elsewhere in this report:

Summary of Plan Provisions:	See Table 3A
OPEB Funding Policy:	See Section F; details are provided also at the top of the exhibit in Table 1B
Annual OPEB Cost and Net OPEB Obligation:	See Table 1C
Actuarial Methods and Assumptions:	See Table 4.
Funding Status and Funding Progress:	See Section E – Basic Valuation Results

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
4/1/2009	$ -	$ 27,397,966	$ 27,397,966	0%	$ 10,768,148	254.44%
4/1/2011	$ -	$ 33,727,414	$ 33,727,414	0%	$ 7,991,271	422.05%
4/1/2013	$ -	$ 32,974,100	$ 32,974,100	0%	$ 7,256,300	454.42%

Required Supplementary Information:	Three Year History of Amounts Funded See chart below:

OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Employer OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2010	$ 2,220,854	$ 773,108	35%	$ 2,757,485
6/30/2011	$ 2,485,403	$ 898,937	36%	$ 4,343,951
6/30/2012	$ 2,627,170	$ 968,647	37%	$ 6,002,474
6/30/2013	$ 2,428,329	$ 985,164	41%	$ 7,445,639
6/30/2014	*$ 2,557,173*	*$ 886,876*	*35%*	*$ 9,115,936*

Italicized values above are estimates which may change if contributions are other than projected.

Glossary

Actuarial Accrued Liability (AAL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; see “Actuarial Present Value”

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value (APV) – The amount presently required to fund a payment or series of payments in the future, it is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

Aggregate – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Annual Required Contribution (ARC) – The amount the employer would contribute to a defined benefit OPEB plan for a given year, it is the sum of the normal cost and some amortization (typically 30 years) of the unfunded actuarial accrued liability

Annual OPEB Expense – The OPEB expense reported in the Agency’s financial statement, which is comprised of three elements: the ARC, interest on the net OPEB obligation at the beginning of the year and an ARC adjustment.

Attained Age Normal Cost (AANC) – An actuarial funding method where, for each plan member, the excess of the actuarial present value of benefits over the actuarial accrued liability (determined under the unit credit method) is levelly spread over the individual’s projected earnings or service forward from the valuation date to the assumed exit date

CalPERS – Many state governments maintain a public employee retirement system; CalPERS is the California program, covering all eligible state government employees as well as other employees of other governments within California who have elected to join the system

Defined Benefit (DB) – A pension or OPEB plan which defines the monthly income or other benefit which the plan member receives at or after separation from employment

Defined Contribution (DC) – A pension or OPEB plan which establishes an individual account for each member and specifies how contributions to each active member’s account are determined and the terms of distribution of the account after separation from employment

Entry Age Normal Cost (EANC) – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual’s projected earnings or service from entry age to assumed exit age

Glossary
(Continued)

Frozen Attained Age Normal Cost (FAANC) – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability (determined under the unit credit method) is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Frozen Entry Age Normal Cost (FEANC) – An actuarial funding method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability (determined under the entry age normal cost method) is levelly spread over the earnings or service of the group forward from the valuation date to the assumed exit date, based not on individual characteristics but rather on the characteristics of the group as a whole

Financial Accounting Standards Board (FASB) – A private, not-for-profit organization designated by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles (GAAP) for U.S. public corporations

Government Accounting Standards Board (GASB) – A private, not-for-profit organization which develops generally accepted accounting principles (GAAP) for U.S. state and local governments; like FASB, it is part of the Financial Accounting Foundation (FAF), which funds each organization and selects the members of each board

Net OPEB Obligation (Asset) - The net OPEB obligation (NOO) represents the accumulated shortfall of OPEB funding since GASB 45 was implemented. If cumulative contributions have exceeded the sum of the prior years' annual OPEB expenses, then a net OPEB asset results.

Non-Industrial Disability (NID) – Unless specifically contracted by the individual Agency, PAM employees are assumed to be subject to only non-industrial disabilities.

Normal Cost – Total dollar value of benefits expected to be earned by plan members in the current year, as assigned by the chosen funding method; also called current service cost

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go (PAYGO) – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

PEMHCA – The Public Employees' Medical and Hospital Care Act, established by the California legislature in 1961, provides community-rated medical benefits to participating public employers. Among its extensive regulations are the requirements that medical insurance contributions for retired annuitants and paid for by a contracting Agency be equal to the medical insurance contributions paid for its active employees, and that a contracting Agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

Glossary
(Concluded)

Projected Unit Credit (PUC) – An actuarial funding method where, for each individual, the projected plan benefit is allocated by a consistent formula from entry date to assumed exit date

Public Agency Miscellaneous (PAM) – Actuarial assumptions used by CalPERS for most non-safety public employees.

Select and Ultimate – Actuarial assumptions which contemplate rates which differ by year initially (the select period) and then stabilize at a constant long-term rate (the ultimate rate)

Trend – The healthcare cost trend rate, defined as the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments

Unfunded Actuarial Accrued Liability (UAAL) – The excess of the actuarial accrued liability over the actuarial value of plan assets

Unit Credit (UC) -- An actuarial funding method where, for each individual, the unprojected plan benefit is allocated by a consistent formula from entry date to assumed exit date

Vesting – As defined by the plan, requirements which when met make a plan benefit nonforfeitable on separation of service before retirement eligibility