


**To:** A&F Committee  
**From:** Kathy Casenave  
 Director of Finance

**Date:** November 28, 2011  
**Reviewed By:** 

**SUBJECT:** November 2011 Actuarial Report on Postretirement Medical Benefits

**BACKGROUND:**

The Government Accounting Standards Board (GASB) has issued reporting standards that require government entities to recognize and report in their financial statements the present value of future medical benefits that employees have earned, even though the actual payment of the benefits will be over many future periods.

CCCTA was required to comply with this statement (GASB 45) starting in FY 2009 (July 1, 2008- June 30, 2009) and is required to commission a new actuarial report every two years.

**UPDATE:**

The draft report was emailed to me today. The report shows two scenarios- the Paygo method discounted at 5% and the fully funded at 7.75%.

Our actuary will prepare a final report after the Committee determines the investment rate of return.

**ANALYSIS:**

The following analysis compares the October 2009 report with the draft November 2011 report.

	PAYGO- (5%)		
	October 2009	November 2011	
Normal Cost	\$154,458	\$141,232	\$(13,226)
30 Yr amortization of unfunded liability	<u>\$211,818</u>	<u>\$235,054</u>	<u>\$ 23,236</u>
<b>Annual Required Contribution</b>	<b>\$366,276</b>	<b>\$376,286</b>	<b>\$ 10,010</b>
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$6,354,552</b>	<b>\$7,051,618</b>	<b>\$697,066</b>

**Fully funded with 7.75% Discount rate**

	October 2009	November 2011	
Normal Cost	\$ 88,193	\$ 79,508	\$( 8,685)
30 Yr amortization of unfunded liability	<u>\$146,153</u>	<u>\$206,354</u>	<u>\$ 60,201</u>
<b>Annual Required Contribution</b>	<b>\$234,346</b>	<b>\$237,481</b>	<b>\$ 51,516</b>
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$4,384,592</b>	<b>\$4,739,204</b>	<b>\$354,612</b>

The unfunded liability has increased since the last report, even though over \$600,000 was in the trust. The actuary has stated that this is normal. Active employees have earned two additional years of benefits since the last report and there is less time before they retire; therefore investment earnings will be less.

The actuary also stated that the ARC will fall between these two options. It is the intent of the Board to fully fund, and even if a 5% investment rate is chosen, the ARC will be less than the Paygo option of \$376,286 on prior page because that option represents paying only the amount owed monthly for current retirees receiving medical benefits.

**ATTACHMENTS:**

Draft Postretirement Medical Valuation Report dated November 2011.

November 23, 2011

DRAFT

Ms. Katherine Casenave  
Director of Finance  
Central Contra Costa Transit Authority  
2477 Arnold Industrial Way  
Concord, CA 94520-5326

**RE: Postretirement Medical Valuation Results as of July 1, 2011**

Dear Ms. Casenave:

This letter presents the results of Buck Consultants' (Buck's) actuarial analysis of the current liability for Central Contra Costa Transit Authority's (CCCTA) postemployment medical benefits. Using 2011 census and cost data and current plan provisions, the GASB 45 liability was developed as of July 1, 2011. This valuation updates the previous retiree medical valuation completed in 2009.

The amount that CCCTA currently contributes toward medical benefits for CalPERS covered retirees is a frozen percentage of the total plan premium for Administration and Teamster retirees and 50% of the active contribution for ATU retirees. Mechanics and Service workers do not participate in the retiree medical plan.

The ATU contribution will increase by 5% annually until it reaches 100% of the frozen active ATU premium contribution in the year 2021. Retiring employees that are at least age 50 with 5 years of service and participating in the CalPERS pension plan are eligible for this benefit.

This analysis includes all actives and retirees of CCCTA that are eligible for postretirement medical benefits. All results rely on census and medical plan data provided by CalPERS and CCCTA. A listing of 251 active employees with an average age of 51.4 years and average service of 14.0 years was used for this study. An additional file containing 36 participating retirees with an average age of 67.8 was also provided for this study.

Table 1 summarizes the Actuarial Accrued Liability (AAL) as of July 1, 2011 as calculated for all participants under the current contribution schedule. The AAL is defined as the actuarial present value of benefits attributed to employee service rendered to a particular date.

The table also shows the Normal Cost (NC), which is the amount of benefit to be earned by the active employees for service in fiscal year 2011-2012. A discount rate of 7.75% is used throughout this valuation result. The 7.75% discount rate reflects full funding of the Annual Required Contribution (ARC) net of pay-as-you-go costs to a dedicated irrevocable trust.

Table 1  
 CCCTA Postemployment Medical Plan  
 AAL and Normal Cost as of July 1, 2011

	AAL @ 5.0% (PAYGO)	AAL @ 7.75% (Fully Funding)	NC @ 5.0% (PAYGO)	NC @ 7.75% (Fully Funding)
<b>Active Employees</b>				
Administration	\$2,252,359	\$1,541,234	\$61,945	\$36,212
Teamsters	538,375	366,871	1,369	704
ATU	<u>3,496,094</u>	<u>2,323,637</u>	<u>77,918</u>	<u>42,592</u>
Active Total	\$6,286,828	\$4,231,742	\$141,232	\$79,508
<b>Retirees</b>				
Administration	\$794,908	\$643,052	\$0	\$0
Teamsters	128,884	106,524		
ATU	<u>640,896</u>	<u>513,044</u>	<u>0</u>	<u>0</u>
Retiree Total	\$1,564,688	\$1,262,620	\$0	\$0
<b>Grand Total</b>	<b>\$7,851,516</b>	<b>\$5,494,362</b>	<b>\$141,232</b>	<b>\$79,508</b>

Government Accounting Standards Board (GASB) Statement Number 45 provides disclosure requirements for Other Postemployment Benefit (OPEB) plans effective as early as plan years beginning after December 15, 2006. GASB Statement 45 requires the calculation of an Annual Required Contribution (ARC) consisting of the Normal Cost and a not greater than 30 year amortization of the Unfunded Actuarial Accrued Liability (UAAL). There is no requirement for CCCTA to actually fund the ARC. The UAAL is the Actuarial Accrued Liability (AAL) less any assets held for the plan.

Most government postretirement medical plans are currently funded on a pay-as-you-go basis with no dedicated assets or funding scheme. For fiscal years beginning after December 15, 2006 the GASB statement requires that these plan liabilities be recognized on an accounting basis if not through an actual pre-funding arrangement.

Table 2 shows the ARC for the fiscal year that begins July 1, 2011 under the current health benefit plan under the full funding discount rate assumption.

Table 2  
CCCTA Postemployment Medical Plan  
Annual Required Contribution for Fiscal Year 2011-2012

	5.0% Discount Rate (PAYGO)	7.75% Discount Rate (Fully Funding)
Total AAL	\$7,851,516	\$5,494,362
Present Value of Future Employee Contributions	186,190	141,450
Assets	<u>613,708</u>	<u>613,708</u>
UAAL	\$7,051,618	\$4,739,204
Annual Required Contribution		
Normal Cost	\$141,232	\$79,508
30 Year Amortization of UAAL	<u>235,054</u>	<u>206,354</u>
ARC	\$376,286	\$237,481

CCCTA has initiated prefunding of this liability through the Public Agency Retirement Services (PARS) GASB 45 Program Trust. This is a dedicated, irrevocable, 115 Trust which offsets the AAL in Table 2 resulting in a lower unfunded liability as well as a lower ARC under GASB 45.

Table 3 shows the expected 25-year cash flows based on the current plan and valuation assumptions for the current retirees as well as the currently active employees that are expected to retire in the future. These cash flow projections are independent of the chosen discount rate.

Table 3  
 CCCTA Postemployment Medical Plan  
 Projected 25-Year Cash Flows as of July 1, 2011

Fiscal Year	Actives	Retirees	Total Cash Flow	Retiree Count
2012	\$14,018	\$127,294	\$141,312	40
2013	82,816	127,386	210,202	54
2014	134,899	127,302	262,201	64
2015	187,594	127,015	314,609	75
2016	236,472	126,498	362,970	83
2017	281,400	125,721	407,121	90
2018	328,589	124,655	453,244	97
2019	372,319	123,276	495,595	103
2020	411,818	121,566	533,384	108
2021	450,617	119,508	570,125	112
2022	475,258	114,547	589,805	116
2023	499,106	109,359	608,465	119
2024	521,978	103,956	625,934	123
2025	541,405	98,375	639,780	124
2026	556,429	92,656	649,085	126
2027	570,245	86,848	657,093	128
2028	579,368	81,008	660,376	128
2029	584,937	75,178	660,115	128
2030	588,416	69,398	657,814	128
2031	591,845	63,702	655,547	127
2032	591,061	58,115	649,176	126
2033	586,316	52,672	638,988	124
2034	578,829	47,396	626,225	121
2035	568,668	42,323	610,991	118
2036	557,015	37,493	594,508	115

It should be noted that valuation results are assumption driven, especially with regard to the future participation assumptions for currently active employees. The final discount rate should be based on whether or not full prefunding of the ARC to a dedicated, irrevocable trust continues in the future and will be an interpolated result of two rates (7.75% full funding and 5.0% pay-as-you-go) based on that expected level of prefunding if any.

Appendix A provides the assumptions used for the actuarial analysis. This list includes items such as expected turnover rates, retirement rate, future trend rates, and mortality rates. The rates that we used are consistent with those used by CalPERS in its CCCTA pension plan actuarial valuation. Appendix B provides a glossary of commonly used terms for postretirement medical valuations. Finally, Appendix C provides an alternative split of the Table 2 results by Administration, Teamsters, and ATU.

Please contact us at (619) 725-1769 should you have any questions.

Sincerely,

Michael W. Schionning, FSA, MAAA  
Principal & Consulting Actuary

James A. Summers, FSA, MAAA  
Director & Consulting Actuary

APPENDIX A

**Valuation Assumptions**

**Mortality Rates**—CalPERS Mortality Table from the CCCTA pension valuation.

**Withdrawal Rates**—Representative values are shown below

Duration of Service	Entry Age 30	Entry Age 35
0	0.1622	0.1553
1	0.1423	0.1353
2	0.1224	0.1154
3	0.1025	0.0955
4	0.0826	0.0756
5	0.0232	0.0206
10	0.0139	0.0117
15	0.0083	0.0064
20	0.0041	0.0025
25	0.0009	0.0002
30	0.0002	0.0002

**New Entrants**—None Assumed.

**Dependent Assumptions**—For active employees, 56% are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.



APPENDIX A

**Discount Rate**—7.75%.

**Participation Assumption**—80% active participation assumed upon retirement for Administration and Teamsters, 50% for ATU members.

**Medical Demographic Information**—251 active employees and 36 retirees as of July 1, 2011.

**Retirement Rates**

Representative Rates	
Age	
50	1.65%
51	1.13%
52	1.78%
53	2.00%
54	2.11%
55	3.83%
56	3.48%
57	4.00%
58	5.05%
59	6.46%
60	11.87%
61	12.12%
62	24.26%
63	24.36%
64	18.75%
65	33.39%
66	18.25%
67	24.53%

Probability of retiring at age 70 equals 100%.

APPENDIX A

**Health Care Cost and Expense Trend**—Annual trend rates are shown below.

Medical Trend Rates by Fiscal Year	
FYE12	10%
FYE13	9%
FYE14	8%
FYE15	7%
FYE16	6%
FYE17+	5%

**Central Contra Costa Transit Authority 2011-2012 Rates and Contributions**

**Administration**

The Admin employees will have the ER contribution frozen at 57% of the 2010 Premium. Since this group has been in the PERS medical program for over 20 yrs, this contribution amount will not increase.

**Frozen Contribution**

Blue Shield EE	<b>\$329.08</b>
Blue Shield +1	<b>658.16</b>
Blue Shield +2	<b>855.60</b>
Kaiser EE	<b>303.56</b>
Kaiser +1	<b>607.12</b>
Kaiser +2	<b>789.26</b>
PERS Choice EE	<b>289.98</b>
PERS Choice +1	<b>579.96</b>
PERS Choice +2	<b>753.95</b>
PERSCARE EE	<b>494.86</b>
PERSCARE +1	<b>989.71</b>
PERSCARE +2	<b>1,286.63</b>

APPENDIX A

**Teamsters**

The Teamsters have had the ER contribution frozen since September 2008, at the below rates. This group also has been in the PERS medical program for over 20 yrs, so this will not increase.

	<b>Frozen Contribution</b>
Blue Shield EE	<b>\$280.28</b>
Blue Shield +1	<b>560.57</b>
Blue Shield +2	<b>728.74</b>
Kaiser EE	<b>254.15</b>
Kaiser +1	<b>508.30</b>
Kaiser +2	<b>660.79</b>
PERS Choice EE	<b>241.24</b>
PERS Choice +1	<b>482.48</b>
PERS Choice +2	<b>627.22</b>
PERSCARE EE	<b>374.91</b>
PERSCARE +1	<b>749.83</b>
PERSCARE +2	<b>974.78</b>

**ATU**

This has been frozen since the last contract in 2007. But this group joined PERS Medical much later. In 2011, CCCTA is paying 50% of the below amounts for retiree, in 2012 it will be 55% and so on, until 100% is reached.

Blue Shield EE	<b>\$266.47</b>
Blue Shield +1	<b>532.93</b>
Blue Shield +2	<b>692.81</b>
Kaiser EE	<b>235.34</b>
Kaiser +1	<b>470.67</b>
Kaiser +2	<b>611.87</b>
PERS Choice EE	<b>241.24</b>
PERS Choice +1	<b>482.48</b>
PERS Choice +2	<b>627.22</b>
PERSCARE EE	<b>374.92</b>
PERSCARE +1	<b>749.83</b>
PERSCARE +2	<b>974.78</b>
PERS Select EE	<b>233.59</b>
PERS Select +1	<b>467.18</b>
PERS Select +2	<b>607.34</b>

**Glossary of Terminology**

Actuarial Accrued Liability (AAL) - The actuarial present value of benefits attributed to employee service rendered to a particular date.

Active Plan Participant - Any active employee who has rendered service during the credited service period and is expected to receive benefits, including benefits to or for any beneficiaries and covered dependents, under the postretirement benefit plan.

Actuarial Present Value - The value, as of a specified date, of a future benefit cost or a series of benefit costs, with each amount adjusted to reflect (a) the time value of money (through discounts for interest and (b) the probability of payment (for example, by means of decrements for events such as death, disability, withdrawal or retirement) between the specified date and the expected date of payment.

Amortization - Systematic reduction of the principal portion (only) of an asset or liability.

Annual Required Contribution – Consists of the normal cost and a portion of the total unfunded actuarial accrued liability (UAAL). The normal cost and UAAL are derived from the actuarial present value of benefits, the actuarial cost method and the plan assets.

Attribution Period - The period of an employee's service to which the expected postretirement benefit obligation for that employee is assigned.

Discount Rate - The interest rate used in developing present values to reflect the time value of money.

## APPENDIX B

Health Care Cost Trend Rate - An assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The Health Care Cost Trend Rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of plan participants. Differing types of service, such as hospital care and dental care, may have different trends.

Normal Cost - The portion of the Expected Postretirement Benefit Obligation attributed to employee service during a period.

Substantive Plan - The terms of a postretirement benefit plan as understood by an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. The substantive plan is the basis for the accounting for that exchange transaction. In some situations an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan differs from the extant written plan.

APPENDIX C

Table 2 Additional Split  
CCCTA Postemployment Medical Plan

DRAFT

	7.75% Discount Rate <u>(Fully Funding)</u>
<b>Administration</b>	
Total AAL	\$2,184,286
Present Value of Future Employee Contributions	0
Assets	<u>243,980</u>
UAAL	\$1,940,306
Annual Required Contribution	
Normal Cost	\$36,212
30 Year Amortization of UAAL	<u>64,676</u>
ARC	\$100,888

DRAFT

	7.75% Discount Rate <u>(Fully Funding)</u>
<b>Teamsters</b>	
Total AAL	\$473,395
Present Value of Future Employee Contributions	7,898
Assets	<u>52,877</u>
UAAL	\$412,620
Annual Required Contribution	
Normal Cost	\$704
30 Year Amortization of UAAL	<u>13,754</u>
ARC	\$14,458

APPENDIX C

DRAFT

	7.75% Discount Rate <u>(Fully Funding)</u>
<b>ATU</b>	
Total AAL	\$2,836,681
Present Value of Future Employee Contributions	133,552
Assets	<u>316,851</u>
UAAL	\$2,386,278
Annual Required Contribution	
Normal Cost	\$42,592
30 Year Amortization of UAAL	<u>79,543</u>
ARC	\$122,135