

To: A&F Committee

Date: January 25, 2012

From: Kathy Casenave, Director of Finance

Reviewed by:

SUBJECT: Postretirement Medical Valuation as of July 1, 2011

Summary of Issues:

At the December meeting the committee reviewed a draft actuarial valuation report prepared by Buck Consultants and discussed various aspects of it with James Summers, Director & Consulting Actuary. It was decided that the committee would meet with our OPEB trust investment manager to determine an investment rate of return before the valuation report was finalized. That was done at the January meeting and the committee decided on an investment rate of return of 5.5%. This final valuation report has incorporated the 5.5% rate of return.

The Annual Required Contribution is \$344,127. This will be used for FY 2012 and FY 2013. The amount actually deposited in the trust will be the difference between the \$344,127 and the amount that the Authority will be paying out for medical premiums on current retirees, approximately \$112,000, or about \$232,000.

Recommendation:

Staff recommends that the committee accept the finalized actuarial valuation report and forward to the Board of Directors as an information only item.

Financial Implications: The annual contribution will be \$344,127 for FY 2012 and FY 2013.

Options:

- 1) Approve recommendation
- 2) Decline recommendation
- 3) Other

January 4, 2012

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 5.5% is used throughout this valuation result. The 5.5% 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

	<u>AAL @ 5.5%</u> <u>(Fully Funding)</u>	<u>NC @ 5.5%</u> <u>(Fully Funding)</u>
Active Employees		
Administration	\$2,092,045	\$55,806
Teamsters	499,835	1,204
ATU	<u>3,229,465</u>	<u>69,384</u>
Active Total	\$5,821,345	\$126,394
Retirees		
Administration	\$762,719	\$0
Teamsters	124,232	
ATU	<u>613,839</u>	<u>0</u>
Retiree Total	\$1,500,790	\$0
Grand Total	\$7,322,135	\$126,394

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

	5.5% Discount Rate <u>(Fully Funding)</u>
Total AAL	\$7,322,135
Present Value of Future Employee Contributions	176,450
Assets at 6/30/2011	<u>613,708</u>
UAAL	\$6,531,977
Annual Required Contribution	
Normal Cost	\$126,394
30 Year Amortization of UAAL	<u>217,733</u>
ARC	\$344,127

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 <u>Year</u>	<u>Actives</u>	<u>Retirees</u>	Total <u>Cash Flow</u>	Retiree <u>Count</u>
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

Ms. Katherine Casenave

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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 is based on the PARS Trust expected return on assets (5.5%) and full prefunding of the ARC to this dedicated, irrevocable trust as the currently adopted funding policy.

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

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—5.5%.

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

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.

Frozen Contribution

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

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

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

	5.5% Discount Rate <u>(Fully Funding)</u>
Administration	
Total AAL	\$2,854,764
Present Value of Future Employee Contributions	0
Assets	<u>239,273</u>
UAAL	\$2,615,491
Annual Required Contribution	
Normal Cost	\$55,806
30 Year Amortization of UAAL	<u>87,183</u>
ARC	\$142,989

	5.5% Discount Rate <u>(Fully Funding)</u>
Teamsters	
Total AAL	\$624,067
Present Value of Future Employee Contributions	9,853
Assets	<u>52,306</u>
UAAL	\$561,908
Annual Required Contribution	
Normal Cost	\$1,204
30 Year Amortization of UAAL	<u>18,730</u>
ARC	\$19,934

APPENDIX C

5.5% Discount Rate
(Fully Funding)

ATU	
Total AAL	\$3,843,304
Present Value of Future Employee Contributions	166,597
Assets	<u>322,129</u>
UAAL	\$3,354,578
Annual Required Contribution	
Normal Cost	\$69,384
30 Year Amortization of UAAL	<u>111,820</u>
ARC	\$181,204