



April 25, 2006

Mr. Jason Crapo  
Capital Facilities Administrator  
Office of the County Administrator  
Contra Costa County  
651 Pine Street, 11<sup>th</sup> Floor  
Martinez, CA 94553

**RE: Governmental Accounting Standards Board (GASB) Statement #45  
Analysis for Contra Costa County**

Dear Jason:

This letter presents the results of Buck Consultants' (Buck's) actuarial analysis of the current liability for Contra Costa County's (CCC) postemployment health benefits, including medical, prescription drug, and dental benefits. Using 2006 census and cost data and current plan provisions, the GASB 45 liability was developed as of January 1, 2006.

The amount that CCC currently contributes toward medical benefits for non-CalPERS covered retired employees is a percentage of the 2006 plan rate varying from 61% for Health Net PPO to 98% for the CCHP – A plan. Employees who retire and are eligible for and immediately begin receiving a pension benefit through the Contra Costa County Employees' Retirement Association receive the full County contribution as presented for all plans in Appendix A. Retirees over age 65 also receive a contribution offset equal to the Medicare Part B premium of \$88.50 per month for 2006 as an additional County contribution. The County contribution for CalPERS administered plans is a flat rate depending on the employees' union representation and the number of dependents covered under the plans.

This analysis includes all actives, retirees, and surviving spouses of County entities included in the County's CAFR and utilizing CCC health benefits. All results rely on census and health plan data provided by the County. A listing of 8,428 active employees with an average age of 45.6 years and average service of 10.1 years was used for this study. Separate files containing 4,856 retirees and 360 survivors were provided for this study as well.

Table 1 summarizes the Accumulated Postemployment Benefit Obligation (APBO) as of January 1, 2006 as estimated for all participants under the current contribution schedule. The APBO 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 calendar year 2006. Discount rates of 4.5% and 7.9% are provided for comparison purposes. The 4.5% discount rate relates to the current pay-as-you-go (PAYGO) funding method while at the other extreme, 7.9% would reflect a fully funded postretirement medical plan.

Table 1  
 CCC Postemployment Health Benefits Plan  
 APBO and Normal Cost as of January 1, 2006

	APBO @ 4.5% (PAYGO)	APBO @ 7.9% (Fully Funded)	NC @ 4.5% (PAYGO)	NC @ 7.9% (Fully Funded)
Active Employees	\$1,605,649,000	\$779,265,000	\$130,604,000	\$55,182,000
Retirees	919,840,000	614,568,000	0	0
Survivors	<u>46,161,000</u>	<u>31,754,000</u>	<u>0</u>	<u>0</u>
Total	\$2,571,650,000	\$1,425,587,000	\$130,604,000	\$55,182,000

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 CCC to actually fund the ARC. The UAAL is the Accumulated Postretirement Benefit Obligation (APBO) 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, 2006 under the current health benefit plan under both discount rate assumptions.

Table 2  
 CCC Postemployment Health Benefits Plan  
 Annual Required Contribution for Fiscal Year 2006

	4.5% Discount Rate (PAYGO)	7.9% Discount Rate (Fully Funded)
Total APBO	\$2,571,650,000	\$1,425,587,000
Assets	<u>0</u>	<u>0</u>
UAAL	\$2,571,650,000	\$1,425,587,000
 Annual Required Contribution		
Normal Cost	130,604,000	55,182,000
30 Year Amortization of UAAL	<u>85,721,000</u>	<u>47,519,000</u>
ARC	\$216,325,000	\$102,701,000

The amounts above include the liability associated with the subsidization of retiree premiums by active employees. This occurs because the under age 65 retiree medical costs are much higher than active employee costs but the retiree rates are the same as the active rates due to the pooling of the costs in the underwriting process. Approximately \$424,583,000 of the liability is caused by this rate subsidy, or 16.0% of the total liability under the 4.5% discount rate assumption.

Table 3-A and 3-B show the distribution for individual entities that we were asked to review. Table 3-A provides information using the PAYGO funding approach and Table 3-B provides information using the Fully Funded approach.

Table 3-A  
 CCC Postemployment Health Benefits Plan  
 Using Current PAYGO Funding Approach  
 By Reporting Entity  
 APBO, NC, and ARC at a 4.5% discount rate as of January 1, 2006

<u>Entity</u>	<u>APBO</u>	<u>Normal Cost</u>	<u>ARC</u>
Contra Costa Fire	\$175,510,000	\$5,068,000	\$10,918,000
East Contra Costa Fire	8,990,000	887,000	1,187,000
First Five	120,000	36,000	40,000
CCC Retirement System	9,516,000	478,000	795,000
Contra Costa County	<u>2,377,514,000</u>	<u>124,135,000</u>	<u>203,385,000</u>
Total	\$2,571,650,000	\$130,604,000	\$216,325,000

Table 3-A shows that most of the cost resides with Contra Costa County - \$2.38 billion for the liability and \$203 million for the ARC. Contra Costa Fire is the next largest at \$176 million for the liability and \$11 million for the ARC. The other entities are relatively small.

Table 3-B provides the same results by entity at a 7.9% discount rate. This reflects a fully funded postemployment health benefit program

Table 3-B  
 CCC Postemployment Health Benefits Plan  
 Using a Fully Funded Approach  
 By Reporting Entity  
 APBO, NC, and ARC at a 7.9% discount rate as of January 1, 2006

<u>Entity</u>	<u>APBO</u>	<u>Normal Cost</u>	<u>ARC</u>
Contra Costa Fire	\$97,685,000	\$1,911,000	\$5,167,000
East Contra Costa Fire	4,310,000	317,000	461,000
First Five	44,000	13,000	14,000
CCC Retirement System	4,983,000	205,000	371,000
Contra Costa County	<u>1,318,565,000</u>	<u>52,736,000</u>	<u>96,688,000</u>
Total	\$1,425,587,000	\$55,182,000	\$102,701,000

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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 actuarial valuations. Appendix B provides a glossary of commonly used terms for postretirement medical valuations.

Please contact me at (619) 297-4930 should you have any questions.

Sincerely,

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

James A. Summers, FSA, MAAA  
Senior Consultant & Actuary

cc: Jacqueline Farren, Buck Consultants

APPENDIX A

**Valuation Assumptions**

**Mortality Rates**—1993 CalPERS Service Retirement for males and females

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

Year	Withdrawals per 1,000 Lives for Males with less than 5 years of Service	Withdrawals per 1,000 Lives for Females with less than 5 years of Service
1	70.18	85.32
2	143.5	174.73
3	99.87	136.66
4	87.69	113.72
5	72.44	99.83
Age	Withdrawals per 1,000 Lives for Males with more than 5 years of Service	Withdrawals per 1,000 Lives for Females with more than 5 years of Service
30	16.33	25.67
35	14.67	22.64
40	13.18	19.97
45	11.84	17.62
50	10.64	15.54
55	9.56	13.71
60	8.59	12.09

**New Entrants**—None Assumed.

APPENDIX A

**Dependent Assumptions**—For active employees, 85% are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.

**Discount Rates**—4.5% and 7.9%.

**Participation Assumption**—100% active participation assumed upon retirement.

**Medical Demographic Information**—8,428 active employees, 4,856 retirees and 360 surviving spouses as of 01/01/2006. Because we currently do not know the source of the survivors, we allocated all of their liability to the general Contra Costa County grouping.

**Retirement Rates**

Probability of Eligible Retirements During the Year		
Age	Males	Females
50	2.654%	3.684%
55	4.813%	5.390%
56	3.957%	4.576%
57	4.788%	4.213%
58	5.500%	6.735%
59	6.811%	6.523%
60	12.807%	9.825%
61	12.426%	8.696%
62	23.818%	18.980%
63	21.037%	17.706%
64	14.311%	12.882%
65	24.399%	23.837%
66	13.820%	14.190%
67	11.208%	14.001%
68	11.736%	10.330%
69	9.036%	12.344%

Probability of retiring at age 70 equals 100% for both male and female.

APPENDIX A

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

Medical Trend Rates by Calendar Year	
CY06	12%
CY07	11%
CY08	10%
CY09	9%
CY10	8%
CY11	7%
CY12	6%
CY13+	5%

**Contra Costa County 2006 Rates and Contributions**

		<u>Current contributions</u>	<u>Rate</u>
<b>Early Retirees (under 65)</b>			
<b>Kaiser</b>	EE	80%	\$451.87
	EF	80%	\$1,052.62
<b>Health Net HMO</b>	EE	80%	\$537.65
	EF	80%	\$1,318.87
<b>Health Net PPO</b>	EE	61%	\$656.75
	EF	61%	\$1,560.16
<b>CCHP - A</b>			
	EE	98%	\$425.25
	EF	98%	\$1,013.17
<b>CCHP - B</b>			
	EE	90%	\$469.14
	EF	90%	\$1,114.74

**Contra Costa County 2006 Rates and Contributions (continued)**

<b>Retirees (over 65)</b>			
<b>Kaiser Cost</b>	EE	80% + \$88.50	\$509.28
<b>Retiree</b>	EF	80% + \$177.00	\$1,167.64
<b>Kaiser Senior</b>	EE	80% + \$88.50	\$256.43
<b>Advantage</b>	EF	80% + \$177.00	\$661.94
<b>Health Net Cost</b>	EE	80% + \$88.50	\$366.66
<b>Retiree</b>	EF	80% + \$177.00	\$733.32
<b>Health Net</b>	EE	80% + \$88.50	\$296.40
<b>Seniority Plus</b>	EF	80% + \$177.00	\$592.80
<b>Health Net Flex</b>	EE	61%	\$507.01
<b>Net PPO</b>	EF	61%	\$1,014.03
<b>CCHP - A</b>	EE	98% + \$88.50	\$347.05
<b>Retiree</b>	EF	98% + \$177.00	\$856.77
<b>CCHP - B</b>	EE	90% + \$88.50	\$390.94
<b>Retiree</b>	EF	90% + \$177.00	\$958.34

**CalPERS Participating Retirees:**

For those retirees participating in CalPERS, the County pays the lesser of the actual rate or the following amounts:

Single	-	\$338.76
Employee +1 Dependent	-	\$677.62
Employee + Family	-	\$880.78

## APPENDIX B

### Glossary of Terminology

Accumulated Postemployment Benefit Obligation (APBO) - 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 Postemployment 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.