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June 16, 2008

Ms. Lisa Driscoll
County Finance Director
Contra Costa County Administrator's Office
651 Pine Street, 10th Floor
Martinez, CA 94553

RE: Governmental Accounting Standards Board (GASB) Statement #45 Valuation Results for Contra Costa County for FY 2007-2008 and FY 2008-09

Dear Lisa:

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 2008 census and cost data and current plan provisions, the GASB 45 liability was developed as of January 1, 2008. This valuation updates the preliminary retiree medical valuation completed in 2006. As additional guidance was issued by GASB over time it was found that already adopted pension plan valuation assumptions should be used when possible. The change in assumptions has led to lower liabilities than a two year rolled forward of the prior result would indicate.

The amount that CCC currently contributes toward medical benefits for non-CalPERS covered retired employees is a percentage of the 2008 plan rate varying from 59% 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 $96.40 per month for 2008 as an additional County contribution. The County contribution for CalPERS administered plans is a flat rate depending on the number of dependents covered under the plan.

Effective May 6, 2008 the County contribution for non-represented retirees will remain at the 2009 level for future years. This plan change is reflected in all results reported herein.

This analysis includes all actives and retirees 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 8,563 active employees with an average age of 45.6 years and average service of 9.8 years was used for this study. A separate file containing 5,813 retirees and survivors was provided for this study as well.

Table 1 summarizes the Accumulated Postemployment Benefit Obligation (APBO) as of January 1, 2008 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 2008. Discount rates of 4.5% and 7.75% 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, 7.75% would reflect a fully funded postretirement medical plan.

Table 1
CCC Postemployment Health Benefits Plan
APBO and Normal Cost as of January 1, 2008

	APBO @ 4.5% (PAYGO)	APBO @ 7.75% (Fully Funded)	NC @ 4.5% (PAYGO)	NC @ 7.75% (Fully Funded)
Active Employees	$1,390,880,000	$736,910,000	$116,102,000	$50,534,000
Retirees	976,394,000	663,542,000	0	0
Total	$2,367,274,000	$1,400,452,000	$116,102,000	$50,534,000

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, 2007 under the current health benefit plan under both discount rate assumptions.

Table 2
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year 2007-2008

	4.5% Discount Rate (PAYGO)	7.75% Discount Rate (Fully Funded)
Total APBO	$2,367,274,000	$1,400,452,000
Assets	0	0
UAAL	$2,367,274,000	$1,400,452,000
Annual Required Contribution		
Normal Cost	$116,102,000	$50,534,000
30 Year Amortization of UAAL	78,909,000	46,682,000
ARC	$195,011,000	$97,216,000

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 $345,774,000 of the liability is caused by this rate subsidy, or 14.6% of the total liability under the 4.5% discount rate assumption.

Table 3 shows the distribution for individual entities that we were asked to allocate for the CAFR presentation. Table 3 provides information using the PAYGO funding approach only which corresponds to fiscal year 2007-2008 reporting.

Table 3
CCC Postemployment Health Benefits Plan
By Reporting Entity
APBO, NC, and ARC at a **4.5%** discount rate for Fiscal Year 2007-2008

Entity	APBO	Normal Cost	ARC
Safety Non-Fire	$291,472,000	$14,231,000	$23,947,000
CCC Fire	178,462,000	5,283,000	11,232,000
East County Fire	10,544,000	923,000	1,274,000
Hospital	484,858,000	28,435,000	44,597,000
CCHP	20,277,000	1,523,000	2,199,000
Airport	4,535,000	137,000	288,000
First Five	251,000	23,000	31,000
CCC Retirement System	8,883,000	345,000	641,000
All Other CCC	1,367,992,000	65,202,000	110,802,000
Total	$2,367,274,000	$116,102,000	$195,011,000

For the 2008-2009 fiscal year, the County plans to partially pre-fund the plan to a dedicated, irrevocable trust. The initial contribution will be $20 million in addition to the pay-as-you-go cost. GASB 45 allows for a higher discount rate based on the level of partial pre-funding. The interpolated discount rate based on the $20 million pre-funding level is 6.32% for the 2008-2009 fiscal year.

Table 4 on the next page demonstrates this result calculated as of January 1, 2008 for the purpose of comparing both the plan change and partial pre-funding combined results to the current fiscal 2007-2008 year pay-as-you-go result on the same basis.

Table 4
CCC Postemployment Health Benefits Plan
Partial Pre-funding Result as of January 1, 2008

	6.32% Discount Rate (Partial Funding)
Total APBO	$1,736,915,000
Assets	0
UAAL	$1,736,915,000
Annual Required Contribution	
Normal Cost	$71,741,000
30 Year Amortization of UAAL	57,897,000
ARC	$129,638,000

Table 5 provides the rolled forward result of the January 2008 valuation result at both the 6.32% partial pre-funding discount rate as well as the full 7.75% pre-funding discount rate. This is an important component used in determining the 2008-2009 fiscal year results shown later in Table 6.

Table 5
CCC Postemployment Health Benefits Plan
APBO and Normal Cost Rolled Forward One Year

	APBO @ 6.32% (Partial Funding)	APBO @ 7.75% (Fully Funded)	NC @ 6.32% (Partial Funding)	NC @ 7.75% (Fully Funded)
Active Employees	$1,093,050,000	$844,555,000	$76,274,000	$54,450,000
Retirees	786,192,000	674,916,000	0	0
Total	$1,879,242,000	$1,519,471,000	$76,274,000	$54,450,000

Table 6 develops the 2008-2009 fiscal year annual required contribution based on the Table 5 rolled forward result based on the January 1, 2008 valuation result. Note that the planned $20 million contribution is not included as a beginning of year assets but does provide for the higher 6.32% discount rate leading to a lower ARC than the 2007-2008 result at a 4.5% pay-as-you-go discount rate.

Table 6
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year 2008-2009

	6.32% Discount Rate (Partial Funding)	7.75% Discount Rate (Fully Funded)
Total APBO	$1,879,242,000	$1,519,474,000
Assets	0	0
UAAL	$1,879,242,000	$1,519,471,000
Annual Required Contribution		
Normal Cost	$76,274,000	$54,450,000
30 Year Amortization of UAAL	62,641,000	50,649,000
ARC	$138,915,000	$105,099,000

The final table for this report, Table 7, presents the CAFR result by reporting entity for the 2008-2009 fiscal year based on the partial pre-funding discount rate of 6.32%.

Table 7
CCC Postemployment Health Benefits Plan
By Reporting Entity
APBO, NC, and ARC at a **6.32%** discount rate for Fiscal Year 2008-2009

Entity	APBO	Normal Cost	ARC
Safety Non-Fire	$222,019,000	$8,839,000	$16,240,000
CCC Fire	141,624,000	3,286,000	8,007,000
East County Fire	7,752,000	585,000	843,000
Hospital	385,644,000	18,730,000	31,585,000
CCHP	17,209,000	1,039,000	1,613,000
Airport	3,587,000	89,000	209,000
First Five	211,000	16,000	23,000
CCC Retirement System	6,712,000	223,000	447,000
All Other CCC	1,094,484,000	43,467,000	79,948,000
Total	$1,879,242,000	$76,274,000	$138,915,000

Appendix A provides the assumptions used for the actuarial analysis. This list includes items such as expected turnover rates, retirement rates, 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.

All results in the main body of this results letter reflect the use of the Entry Age Normal (EAN) actuarial cost method. This is a change from the Projected Unit Credit (PUC) actuarial cost method used for the preliminary valuation in 2006. This update allows for participation in the CalPERS Trust (CERBT) and also matches the cost method used by CCCERA for the pension valuation. The change to EAN did result in a slightly lower liability compared to the PUC result. Either cost method is allowable under GASB 45 reporting guidelines.

Appendix C provides a 5 year projected example of accounting under GASB 45 based on continued partial pre-funding of the ARC at the $20 million level beginning in fiscal year 2008-2009. Actual accounting results will vary based on the level of pre-funding contributions made, earnings from the trust, and any future change in discount rates for future valuations. The current assumption is that annual actuarial valuations will be conducted although GASB 45 does allow for biennial valuations.

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

cc: Jacqueline Farren, Buck Consultants

Valuation Assumptions

Mortality Rates—RP-2000 Combined Healthy Mortality Tables set back two years.

Withdrawal Rates—Representative values are shown below

Year	**General** Withdrawals per 1,000 Lives for employees with less than 5 years of Service	**Safety** Withdrawals per 1,000 Lives for employees with less than 5 years of Service
1	140.00	110.00
2	90.00	70.00
3	80.00	50.00
4	60.00	40.00
5	50.00	30.00
	General Withdrawals per 1,000 Lives for employees with more than 5 years of Service	**Safety** Withdrawals per 1,000 Lives for employees with more than 5 years of Service
Age		
30	50.00	30.00
35	49.20	22.00
40	42.30	16.10
45	35.40	10.50
50	16.80	0.00
55	3.70	0.00
60	0.00	0.00

New Entrants—None Assumed.

Dependent Assumptions—For active employees, 80% of males and 55% of females are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.

Discount Rates—4.5%, 6.32%, and 7.75%.

Participation Assumption—98% active participation assumed upon retirement.

Medical Demographic Information—8,563 active employees and 5,813 retirees as of January 1, 2008.

Retirement Rates

Probability of Eligible Retirements During the Year		
Age	General	Safety
50	3.0%	25.0%
51	3.0%	20.0%
52	3.0%	20.0%
53	3.0%	20.0%
54	5.0%	25.0%
55	10.0%	30.0%
56	10.0%	30.0%
57	10.0%	40.0%
58	10.0%	40.0%
59	10.0%	40.0%
60	15.0%	100.0%
61	20.0%	100.0%
62	25.0%	100.0%
63	25.0%	100.0%
64	30.0%	100.0%
65	35.0%	100.0%
66	35.0%	100.0%
67	35.0%	100.0%
68	35.0%	100.0%
69	35.0%	100.0%

Probability of retiring at age 70 equals 100% for both General and Safety.

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

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

Contra Costa County 2008 Rates and Contributions

		Current contribution	Rate
Early Retirees (under 65)			
Kaiser	EE	80%	$499.70
	EF	80%	$1,164.29
Health Net HMO	EE	80%	$598.09
	EF	80%	$1,467.14
Health Net PPO	EE	59%	$832.24
	EF	59%	$1,977.04
CCHP - A			
	EE	98%	$516.42
	EF	98%	$1,230.38
CCHP - B	EE	90%	$569.72
	EF	90%	$1,353.74

Contra Costa County 2008 Rates and Contributions (continued)

Retirees (over 65)		Current contribution	Rate
Kaiser Cost	EE	80% + $96.40	$551.88
Retiree	EF	80% + $192.80	$1,268.65
Kaiser Senior	EE	80% + $96.40	$226.97
Advantage	EF	80% + $192.80	$618.83
Health Net Cost	EE	80% + $96.40	$404.42
Retiree	EF	80% + $192.80	$808.86
Health Net	EE	80% + $96.40	$296.40
Seniority Plus	EF	80% + $192.80	$592.80
Health Net Flex	EE	59% + $96.40	$642.48
Net PPO	EF	59% + $192.80	$1,284.97
CCHP - A	EE	98% + $96.40	$420.02
Retiree	EF	98% + $192.80	$1037.58
CCHP - B	EE	90% + $96.40	$473.32
Retiree	EF	90% + $192.80	$1,160.94

CalPERS Participating Retirees:

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

Single	-	$409.48
Employee +1 Dependent	-	$818.97
Employee + Family	-	$1,064.65

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.

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.

APPENDIX C

Contra Costa County
Example of Accounting for GASB 45
Cost Impact of the Initial 5 Year Period
($ in Thousands)

Fiscal Year Ending	Final ARC	Interest on Net OPEB Obligation	ARC Adjustment	Amortization Factor	OPEB Cost	County Contribution	Change in Net OPEB Obligation	Net OPEB Obligation Balance
2008	$195,011	$0	$0	14.1470	$195,011	$38,556	$156,455	$156,455
2009	$149,974	$9,888	$11,059	14.1470	$148,803	$64,288	$84,515	$240,970
2010	$165,057	$15,229	$17,033	14.1470	$163,253	$69,953	$93,300	$334,270
2011	$181,291	$21,126	$23,628	14.1470	$178,789	$75,939	$102,850	$437,120
2012	$198,764	$27,626	$30,898	14.1470	$195,492	$82,201	$113,291	$550,411

Table Notes:

The 2007-2008 fiscal year ARC is based on the 4.5% pay-as-you-go discount rate.

The 2008-2009 and all future ARCs are based on a 6.32% discount rate and $20 million in partial pre-funding annual trust contributions over the pay-as-you-go cost.

The amortization factor for the Net OPEB obligation is based on 30 years at 6.32%.

Contributions to the trust are assumed to accrue interest at 7.75% annually.