SD. 2

Contra Costa County

TO: BOARD OF SUPERVISORS

FROM: JOHN CULLEN, COUNTY ADMINISTRATOR

DATE: MAY 16, 2006

SUBJECT: ACCEPT THE REPORT FROM BUCK CONSULTANTS LLC, CONERNING PRELIMINARY ACTUARIAL ANALYSIS OF THE COUNTY'S LIAIBILITY FOR RETIREE HEALTHCARE AND OTHER POST-EMPLOYMENT BENEFITS, CONSISTENT WITH THE REQUIREMENTS OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATE NO. 45, AS PRESENTED TO THE FINANCE COMMITTEE.

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

RECOMMENDATIONS:

ACCEPT the report and presentation materials from Buck Consultants, LLC, (attached) concerning preliminary actuarial analysis of the County's liability for retiree healthcare and other post-employment benefits, consistent with the requirements of Governmental Accounting Standards Board Statement No. 45 (GASB 45), as presented to the Finance Committee.

FISCAL IMPACT:

None

BACKGROUND:

On February 28, 2006, the Board of Supervisors authorized the County Administrator to execute a contract with Buck Consultants, LLC (Buck) to provide actuarial and consulting services related to compliance with the requirements of GASB 45. The Board also directed staff to provide future progress reports on this subject to the Finance Committee.

Since the Board's action in late February, Buck has developed an analysis of the County's liability for retiree healthcare and other post-employment benefits (OPEB) consistent with the requirements of GASB 45. The attached letter contains the findings of Buck's analysis.

On May 4, 2006, Michael Schionning and Jacqueline Farren from Buck presented their analysis to the Finance Committee. A copy of Buck's presentation to the Finance Committee is also attached.

CONTINUED ON ATTACHMENT: X YES SIGNATURE: Jason Crapo

✓ RECOMMENDATION OF COUNTY ADMINISTRATOR ____ RECOMMENDATION OF BOARD COMMITTEE
✓ APPROVE ____ OTHER

SIGNATURE(S): Julie Enea

BOARD ON 5/16/2006 APPROVE AS RECOMMENDED X OTHER X ACTION OF
Please see attached addendum

VOTE OF SUPERVISORS
X UNANIMOUS (ABSENT None)
AYES: ____ NOES: ____
ABSENT: ____ ABSTAIN: ____

I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY OF AN ACTION TAKEN AND ENTERED ON THE MINUTES OF THE BOARD OF SUPERVISORS ON THE DATE SHOWN.

ATTESTED May 16, 2006
JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS AND COUNTY ADMINISTRATOR

CONTACT: Jason Crapo 335.1021

CC: County Administrator/Capital Facilities
County Auditor-Controller
County Treasurer-Tax Collector
Human Resources Department

BY Lena O'Neal, DEPUTY

At the conclusion of Buck's presentation, the Finance Committee provided the following direction to staff:

1. Prepare an analysis of OPEB liability reductions that could be produced through changes to healthcare benefits

2. Prepare an analysis of the cost associated with funding varying levels of the liability and make recommendations concerning the portion of the liability that should be pre-funded

3. Investigate unresolved questions concerning State and Federal reimbursement for pre-funding OPEB costs, establishment of an irrevocable trust for the accumulation of pre-funding assets, and options for investment of such assets

4. Work with California State Association of Counties (CSAC) and other public sector partners to gather data and develop statewide strategies for managing this issue

Buck's calculation of the County's OPEB liability represents an important step in the County's compliance with the requirements of GASB 45 and development of a plan for managing OPEB liability. Going forward, the CAO will continue to work with other County departments and Buck Consultants to develop recommendations for the Board to consider concerning strategies for managing the County's OPEB liability. The CAO and Buck Consultants will continue to provide future progress reports on this subject to the Finance Committee.

buckconsultants
an ACS company

April 25, 2006

Mr. Jason Crapo
Capital Facilities Administrator
Office of the County Administrator
Contra Costa County
651 Pine Street, 11th 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) postemployement 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.

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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	46,161,000	31,754,000	0	0
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	0	0
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	85,721,000	47,519,000
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

Entity	APBO	Normal Cost	ARC
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	2,377,514,000	124,135,000	203,385,000
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

Entity	APBO	Normal Cost	ARC
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	1,318,565,000	52,736,000	96,688,000
Total	$1,425,587,000	$55,182,000	$102,701,000

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

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
	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**
Age		
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.

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.

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

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

Contra Costa County 2006 Rates and Contributions (continued)

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

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.