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July 1, 2009

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

RE: Complying with California Government Code Section 7507 Regarding Changes to the Postretirement Medical Plan Effective as of 7/1/2009

Dear Ms. Driscoll:

This letter documents the changes in future annual costs including actuarial accrued liability, normal cost, and future cash flows based on collectively bargained changes to be effective as of July 1, 2009 and other assumed changes to the post retirement medical plan. Throughout this document medical refers to both health and dental costs. All costs presented herein tie to the County's GASB 45 liability that was developed using census data as of January 1, 2008 and finalized in a correspondence dated June 16, 2008. This was the most recently completed valuation for the County and serves as the baseline for actuarial comparison of the plan change costs/savings.

General Description of the Current Plan Prior to Negotiated Benefit Changes

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 for 2008 is 87% of the CalPERS Kaiser Bay Area rate.

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In calendar year 2008, the Contra Costa County Board of Supervisors adopted for both safety and non-safety unrepresented employees, and appointed and elected officials, and for persons who retired from classifications that were unrepresented at the time of retirement, appointed, or elected, the following changes:

- Beginning on January 1, 2010, the County health care premium subsidy including CalPERS is set at the calendar year 2009 dollar amount.

- Beginning on January 1, 2010, the County dental care premium subsidy including CALPERS is set at the calendar year 2009 dollar amount.

- After December 31, 2008, employees and retirees, and dependents of employees and retirees, can no longer have dual coverage in two County/District health or dental plans, including CalPERS plans. This provision will apply to County and District employees and retirees who have spouses or partners who are either County or District employees or who have retired either from the County or from a Board governed special district such as the Contra Costa County Fire Protection District.

- Individuals who become 65 on or after January 1, 2009 are required to enroll in Medicare Parts A and B.

- A new health care tier was established for employees hired, appointed, or elected after December 31, 2008.

These plan changes are reflected in the June 16, 2008 Valuation Report and 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.

Baseline Valuation Results Before Plan Changes

Table 1 summarizes the Actuarial Accrued Liability (AAL) as of January 1, 2008 as calculated for all participants under the current benefit 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 calendar year 2008. A discount rate of 6.32% is used throughout this analysis based on the County's intention to partially prefund the plan to a dedicated irrevocable trust.

Table 1
CCC Postemployment Health Benefits Plan
Actuarial Accrued Liability and Normal Cost as of January 1, 2008

Before Plan Changes	Actuarial Accrued Liability at a 6.32% Discount Rate	Normal Cost at a 6.32% Discount Rate
Active Employees	$960,416,000	$71,741,000
Retirees	776,499,000	0
Total	$1,736,915,000	$71,741,000

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 full ARC. The UAAL is the Actuarial Accrued Liability (AAL) less any assets held for the plan.

Table 2 shows the calculated ARC for calendar 2008 (prior to fiscal year timing adjustments) under the current health benefit plan using the 6.32% discount rate assumption.

Table 2
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Calendar Year 2008

Before Plan Changes	6.32% Discount Rate
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

The amounts above include the liability associated with the subsidization of retiree premiums by active employees as required by GASB 45. This subsidization occurs because the under age 65 retiree medical costs are much higher than active employee costs but the retiree premium rates are the same as the active rates due to the pooling of the costs in the underwriting process. Approximately $253,589,000 of the liability is caused by this rate subsidy, or 14.6% of the total liability under the 6.32% discount rate assumption.

Summary of Proposed Benefit Changes and Resulting Cost Changes

Recently completed collective bargaining with the Coalition Bargaining Group (CBG) has resulted in the following postretirement medical plan changes that impact this bargaining group's active members. This report assumes that these changes also will be extended to persons who retired from classifications that were represented at the time of retirement by unions included in the CBG. Additionally, this report assumes that these changes will be made for safety and non-safety unrepresented employees and appointed and elected officials and for persons who retired from classifications that were unrepresented at the time of retirement, appointed, or elected. [It should be noted that the number of unrepresented management employees is much smaller today due to the formation of Professional & Technical Engineers Local 21 AFL-CIO, which occurred after the 2008 valuation date.]

- For Unions in the Coalition Bargaining Group, employees hired after December 31, 2009 will not receive a County subsidized retiree health/dental care benefit.
- Active & retired employees will remain in one rate pool.
- Effective January 1, 2010, active & retired employees will no longer have dual coverage for health/dental care.
- County Premium Subsidy- Non CalPERS plans:
    - Kaiser and Health Net HMO and Dental Plans:
        - January 1, 2010 - medical inflation will be shared 50%/50% between the Participant and Employer, up to 11%.
        - January 1, 2011 - medical inflation will be shared 50%/50% between the Participant and Employer, up to 11%.
        - January 1, 2012 and forward – the County's monthly subsidy will be fixed at the May 2011 dollar amount

- CCHP A, B, and Coordinated Dental Plans:
  - January 1, 2010 - total premium of CCHP-A will be shared 7%/93% between the Participant and Employer
  - January 1, 2010 - total premium of CCHP-B will be shared 13%/87% between the Participant and Employer
  - January 1, 2011 - medical inflation will be shared 50%/50% between the Participant and Employer, up to 11% (both CCHP-A & CCHP-B)
  - January 1, 2012 and forward – the County's monthly subsidy will be fixed at the May 2011 dollar amount
- Health Net PPO
  - Commencing January 1, 2010, medical inflation will be shared between the County and the Participant 50%/50%.
  - January 1, 2012 and forward, the County's monthly subsidy will be fixed at the May 2011 dollar amount.

- County Premium Subsidy- CalPERS Plans
  - Based on Bay Area Kaiser premium rate, January 1, 2010, medical inflation will be shared 50%/50% between the Participant and the Employer, up to 11%.
  - Based on Bay Area Kaiser premium rate, January 1, 2011, medical inflation will be shared 50%/50% between the Participant and the Employer, up to 11%.
  - January 1, 2012 and forward, the County's monthly subsidy will be fixed at the May 2011 dollar amount paid by the County for the Bay Area Kaiser premium rate.
  - For Dental, County premium same as non-CalPERS plans.

- As of January 1, 2010, all eligible for Medicare must enroll in Parts A and B.
- As of January 1, 2010, increase to $1800, from $1600, the annual maximum benefit available in the Delta Dental Insurance Plan.

Table 3 provides the updated January 1, 2008 Actuarial Accrued Liability and Normal Cost based on these plan changes for the employees represented by unions in the CBG, for unrepresented employees, appointed and elected officials, for persons who retired from classifications that were represented at the time of retirement by unions included in the CBG, and for persons who retired from classifications that were unrepresented, appointed or elected at the time of retirement.

Table 3
CCC Postemployment Health Benefits Plan
Actuarial Accrued Liability and Normal Cost as of January 1, 2008

After Plan Changes	Actuarial Accrued Liability at a 6.32% Discount Rate	Normal Cost at a 6.32% Discount Rate
Active Employees	$750,089,000	$53,285,000
Retirees	686,786,000	0
Total	$1,436,875,000	$53,285,000

The plan change results in over $300 million in AAL savings representing a 17.3% reduction in the AAL due to the plan change. The Normal Cost decreased by $18.5 million or 25.7%.

Table 4 shows the updated ARC for calendar 2008 (prior to fiscal year timing adjustments) under the new health benefit plan for employees represented by unions in the CBG, for unrepresented employees and appointed and elected officials , for persons who retired from positions that were represented at the time of retirement by unions included in the CBG, and for persons who retired from positions that were unrepresented at the time of retirement, elected and appointed, using the same 6.32% discount rate assumption.

Table 4
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Calendar Year 2008

After Plan Changes	6.32% Discount Rate
Total APBO	$1,436,875,000
Assets	0
UAAL	$1,436,875,000
Annual Required Contribution	
Normal Cost	$53,285,000
30 Year Amortization of UAAL	47,896,000
ARC	$101,181,000

The plan changes indicated create a $28.5 million or 22.0% reduction in the calculated Annual Required Contribution. Future valuation results will change with demographic and cost updates but these changes to the current valuation as of

January 1, 2008 do accurately measure the magnitude and direction of the plan change savings.

In undiscounted cash flow terms there will be immediate cash savings for the County as early as the January 1, 2010 calendar year for the postretirement medical plan based on these plan changes. The first 2-year total cash savings from the plan change beginning in calendar 2010 are about $2.6 million, while the 25-year total cash savings beginning in calendar 2010 are about $510 million. These are conservative estimates based on current plan participation and are subject to change upon open enrollment as the plan changes impact future retiree plan selections. The above dollar savings are in comparison to the original 2008 valuation cash flow projections prior to the plan change and should not be confused with savings compared to previously budgeted retiree medical costs by the County. For example, in the 2008 actuarial valuation medical inflation was projected at 8% for 2010. Under the 50%/50% employer/retiree shared inflation scenario, a greater proportionate amount of that increase is absorbed by the retiree resulting in a lower cash cost to the County after the plan change. However, the FY 2009/10 County Budget did not include any appropriation for medical inflation. This means that the actual costs to the County in FY 2009/10 will be less than originally projected, but greater than what is currently budgeted.

Appendix A provides the assumptions used for this 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 CCCERA in its pension actuarial valuations. Appendix B provides a glossary of commonly used terms for postretirement medical valuations.

All valuation results reflect the use of the Entry Age Normal (EAN) actuarial cost method. This allows for future participation in the CalPERS Trust (CERBT) and also matches the cost method used by CCCERA for the pension valuation.

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

APPENDIX A

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 Rate—6.32%.

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, for 2008 the County pays the lesser of the actual rate or the following amounts (based on 87% of the CalPERS Kaiser Bay Area rate):

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

APPENDIX 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.

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 Actuarial Present Value of Future Benefits 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.