

MEETING DATE:

05/05/08

AGENDA ITEM:

Presentation of Draft Actuarial Valuation Study of
Postretirement Health Benefits

ATTACHMENTS

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CITY OF CULVER CITY POSTRETIREMENT HEALTH BENEFITS

Actuarial Valuation Study

Valuation Date: July 1, 2007
Date of Report: April 15, 2008

Executive Summary

Background

The City of Culver City provides retiree healthcare benefits for employees who retire with CalPERS pension benefits immediately upon termination of employment from the City. Eligible retirees must elect coverage through the City's contract with CalPERS healthcare benefits.

Under the program, the City pays a portion of the premiums for retiree medical coverage. Participants who retired before January 1, 2007 are eligible for a City contribution up to 100% of the average of Kaiser and PERSCare premiums. For retirees after January 1, 2007, the City pays 70% of the PERSCare premium and 95% of the premium for all other plans.

GASB 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement 45, which addresses accounting and financial reporting for Postemployment Benefits Other Than Pensions (OPEB). This statement replaces and significantly modifies prior guidance. GASB 45 is effective for government entities as early as fiscal years beginning after December 15, 2006.

There are several reasons an agency should review its OPEB obligations sooner rather than later, such as:

- Pre-funding alternatives – although funding is not required, an unfunded plan results in higher balance sheet liabilities and costs
- Bargaining issues – recognizing how the obligation will impact the collective bargaining process in the near and long term
- Bond rating – potential impact to the cost of debt due to unfunded liabilities

The liabilities and annual costs for the City's contribution promises to retirees are calculated in this actuarial valuation in accordance with GASB 45. Similar to most government entities, the City does not currently prefund contributions in a qualified irrevocable trust or recognize OPEB liability as benefits are accrued. As this report shows, any required accrual determined on a GASB basis will be considerably higher than the amount on a pay-as-you-go basis.

It is important to note that only current active and retired participants are valued in this actuarial study. Future new entrants or any projected growth in the City's employee population are not considered.

This actuarial valuation determines the liabilities and annual costs for benefits as if the City adopted GASB 45 for the fiscal year ending June 30, 2008.

Executive Summary (cont.)

ARC Development

GASB requires an Annual Required Contribution (ARC) to be developed each year based on the Plan's assets and liabilities. Although GASB does not actually require prefunding, the portion of the ARC that is not funded each year accumulates as a liability on the City's financial statements.

The ARC can be developed under a variety of funding methods. This report shows results under two of the methods permitted – Aggregate and Entry Age Normal. We also show the ARC calculated using different amortization periods as a level percent of pay.

Summary of Results

Liabilities

There are a few terms to understand related to the Plan's liabilities. The Present Value of Benefits (PVB) represents the actuarial present value of all future benefits expected to be paid to current employees and retirees. The Actuarial Accrued Liability (AAL) is the portion of the PVB attributable to past service. The Normal Cost is the portion of the PVB that is allocated to the current plan year for active employees.

Each liability is a present value calculated by using a selected discount rate. As requested by the City, results in this report are shown using a 7.75% discount rate, which represents the City's intention to fully pre-fund the ARC. In order to understand the sensitivity of results to changing this assumption, we also show results based on a 4.00% discount rate. The table below summarizes the liability results based on these two discount rates as of July 1, 2007:

	4.00%	7.75%
Present Value of Benefits (PVB)	\$208,690,000	\$105,154,000
Actuarial Accrued Liability (AAL)	\$158,324,000	\$89,558,000
Normal Cost	\$4,604,000	\$1,911,000

Note: The AAL and Normal Cost were calculated by spreading costs over the participants' working lifetimes as a level percentage of pay. The costs could also be spread as level dollar amounts.

As an explanation of the meaning of the discount rate, the PVB using a 7.75% discount rate implies that if the City invested \$105,154,000 today in an interest bearing account that earns 7.75%, the liabilities would be fully funded. By comparison, if the interest bearing account were to only earn 4.0%, \$208,690,000 would be required to fully fund the liability.

Executive Summary (cont.)

Discount Rate Selection

As illustrated above, the discount rate can have a considerable impact on the magnitude of the liabilities, with lower discount rates resulting in higher liabilities. As guidance in selecting an appropriate discount rate, GASB states that the discount rate should be based on the long-term yield of investments used to finance the benefits.

For example, if the City were to pre-fund the obligations by contributing into a trust with a mix of asset classes, 7.75% might be an appropriate discount rate. However, for an unfunded plan or in the case where contributions are simply allocated to separate accounts, but still reside in general assets, it is more appropriate to consider the return on general City assets. The liabilities shown in the report are based on a 4.0% discount rate.

If the City wanted to better understand the long term advantages and disadvantages to pre-funding in a trust, a study which projects cash flow, accrual amounts, and balance sheet obligations based on current and future participants should be performed.

Annual Required Contributions (ARC)

As discussed above, the ARC can be developed using various methodologies. Selecting an appropriate method and amortization period for funding the liabilities is a balance between the City's ability to pay costs immediately and the long-term cost of borrowing.

The following table summarizes the ARC under the methodologies provided in the report based on both the 4.0% and 7.75% discount rates for the fiscal year ending June 30, 2008:

	4.00%	7.75%
Aggregate Method	\$16,048,000	\$10,350,000
% of pay	34.1%	22.0%
Entry Age Normal Method		
30 year amortization	\$10,681,000	\$7,466,000
% of pay	22.7%	15.9%
20 year amortization	\$13,322,000	\$8,859,000
% of pay	28.3%	18.8%
10 year amortization	\$21,260,000	\$13,298,000
% of pay	45.2%	28.3%

These annual costs can be compared to the estimated pay-as-you-go funding amount of \$3,732,000.

Executive Summary (cont.)

The difference in the cost methods is the period over which past service liabilities are spread. The aggregate method spreads unfunded past service liabilities over the future working lifetimes of active participants while the entry age normal method spreads unfunded past service liabilities over the specified amortization period. It should be noted that the entry age normal method with costs spread as a level percent of pay is used to determine the ARC for CalPERS retirement plans.

The results shown are developed by spreading costs as a level percent of payroll (\$47.0 million), as compared to a level dollar amount. Funding as a percent of payroll reduces current costs but increases future costs as City payroll increases. Funding over a longer period reduces annual costs but extends the funding period.

Sensitivity to Healthcare Trend

The healthcare trend rate also has a significant effect on the amounts reported. To illustrate, increasing the healthcare trend rates by one percentage point each year would increase the accrual by approximately 23-26%.

* * *

The following report shows the details of results by participant status and benefits provided, based on a 4.00% discount rate.

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I Actuarial Valuation Certificate

This report presents the results of the actuarial valuation for the City of Culver City Postretirement Health Benefits as of July 1, 2007 for development of the Annual Required Contribution and disclosure items under Governmental Accounting Standards Board (GASB) Statement 45.

This report was prepared using generally accepted actuarial practices and methods. The actuarial assumptions used in the calculations are individually reasonable and reasonable in aggregate.

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Actuarial computations under GASB 45 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations for purposes other than meeting Employer financial accounting requirements may be different from these results. As required by GASB 45, this valuation assumes this will be an ongoing plan. However, this assumption does not imply any obligation by the employer to continue the plan.

This report is intended for the sole use of the City. It is intended only to supply information for the City to comply with the stated purpose of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purposes, puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including the City should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon Consulting.

The actuary whose signature appears below is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The actuary is available to answer any questions with regard to the matters enumerated in this report.

I Actuarial Valuation Certificate (cont.)

Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of our work.

Respectfully submitted,

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April 15s, 2008

II Plan Liabilities

The liabilities shown in this exhibit were calculated using a 4.0% discount rate as of the July 1, 2007 valuation date. They are utilized in the development of the Annual Required Contribution (ARC) under various alternatives shown in the following exhibit.

While GASB 45 allows the development of the ARC under various funding cost methods, this report shows the ARC under the Aggregate and Entry Age Normal cost methods, which are based on the following PVB and AAL liabilities, respectively.

The **Present Value of Benefits (PVB)** represents the actuarial present value of all benefits ever to be paid to current employees and retirees. The PVB follows:

	Police	Fire	Miscellaneous	Total
PVB				
Pre-65				
Actives	\$13,215,000	\$6,397,000	\$19,125,000	\$38,737,000
Retirees	8,948,000	3,003,000	9,164,000	21,115,000
Subtotal	<u>\$22,163,000</u>	<u>\$9,400,000</u>	<u>\$28,289,000</u>	<u>\$59,852,000</u>
Post-65				
Actives	16,554,000	\$10,922,000	\$56,028,000	\$83,504,000
Retirees	15,456,000	11,190,000	38,688,000	65,334,000
Subtotal	<u>\$32,010,000</u>	<u>\$22,112,000</u>	<u>\$94,716,000</u>	<u>\$148,838,000</u>
Total				
Actives	\$29,769,000	\$17,319,000	\$75,153,000	\$122,241,000
Retirees	24,404,000	14,193,000	47,852,000	86,449,000
Total PVB	<u>\$54,173,000</u>	<u>\$31,512,000</u>	<u>\$123,005,000</u>	<u>\$208,690,000</u>
PVB Per Participant				
Active	\$276,000	\$275,000	\$155,000	\$186,000
Retirees	\$281,000	\$200,000	\$168,000	\$195,000

II Plan Liabilities (cont.)

The **Actuarial Accrued Liability (AAL)** is a portion of the PVB attributable to past service. For retirees and fully eligible active employees, the AAL is equal to the PVB. For other active employees, the AAL is the portion of the PVB deemed to be accrued to date. The **Normal Cost** is the portion of the PVB that is allocated to the current plan year for active employees.

The AAL in this report is based on the Entry Age Normal cost method and has been developed by spreading costs as a level percentage of payroll. Spreading costs as a level percent of payroll results in lower AAL (i.e. past service liability) and higher normal cost (i.e. future service liability) than if costs are spread as a level amount.

The AAL and Normal Cost developed by spreading costs as a level percent of payroll follows:

	Police	Fire	Miscellaneous	Total
AAL				
Pre-65				
Actives	\$8,194,000	\$4,077,000	\$9,958,000	\$22,229,000
Retirees	8,948,000	3,003,000	9,164,000	21,115,000
Subtotal	<u>\$17,142,000</u>	<u>\$7,080,000</u>	<u>\$19,122,000</u>	<u>\$43,334,000</u>
Post-65				
Actives	\$11,105,000	\$7,406,000	\$31,135,000	\$49,646,000
Retirees	15,456,000	11,190,000	38,688,000	65,334,000
Subtotal	<u>\$26,561,000</u>	<u>\$18,596,000</u>	<u>\$69,823,000</u>	<u>\$114,980,000</u>
Total				
Actives	\$19,299,000	\$11,483,000	\$41,093,000	\$71,875,000
Retirees	24,404,000	14,193,000	47,852,000	86,449,000
Total AAL	<u>\$43,703,000</u>	<u>\$25,676,000</u>	<u>\$88,945,000</u>	<u>\$158,324,000</u>
AAL Per Participant				
Active	\$179,000	\$182,000	\$85,000	\$109,000
Retirees	\$281,000	\$200,000	\$168,000	\$195,000
Normal Cost				
Pre-65	\$410,000	\$179,000	\$844,000	\$1,433,000
Post-65	461,000	278,000	2,432,000	3,171,000
Total Normal Cost	<u>\$871,000</u>	<u>\$457,000</u>	<u>\$3,276,000</u>	<u>\$4,604,000</u>
Normal Cost per Active	\$8,100	\$7,300	\$6,700	\$7,000
Expected Benefit Payments	<u>\$868,000</u>	<u>\$610,000</u>	<u>\$2,181,000</u>	<u>\$3,659,000</u>

III Annual Required Contributions

The ARC amounts shown on this page are determined by amortizing future costs as a level percent of payroll. The level percent of payroll method will reduce current costs but increase future costs as City payroll increases over time.

The ARC amounts shown assume payments are made at the end of the year. The assets are allocated proportionately to the actuarial accrued liability for illustration purposes.

Aggregate Cost Method

The Aggregate method is one of the more basic and easy to understand cost methods. Under this method, the ARC is the amount required to fund the unfunded PVB over the future working lifetime of active participants.

	Police	Fire	Miscellaneous	Total
PVB	\$54,173,000	\$31,512,000	\$123,005,000	\$208,690,000
Assets	0	0	0	0
Unfunded PVB	54,173,000	31,512,000	123,005,000	208,690,000
ARC	\$4,166,000	\$2,423,000	\$9,459,000	\$16,048,000
% of Payroll	40.9%	39.1%	30.8%	34.1%

Entry Age Normal Cost Method

The Entry Age Normal method is used to develop the City's CalPERS pension costs. Under this method, the ARC is equal to the Normal Cost plus the amortization of the unfunded AAL over the selected period.

	Police	Fire	Miscellaneous	Total
Accrued Liability	\$43,703,000	\$25,676,000	\$88,945,000	\$158,324,000
Assets Allocated by AAL	0	0	0	0
Unfunded Accrued Liability	43,703,000	25,676,000	88,945,000	158,324,000
Normal Cost, plus interest	\$906,000	\$475,000	\$3,407,000	\$4,788,000
Percent of payroll	8.9%	7.7%	11.1%	10.2%
ARC				
- 30 year amortization	\$2,533,000	\$1,431,000	\$6,717,000	\$10,681,000
Percent of payroll	24.9%	23.1%	21.9%	22.7%
- 20 year amortization	\$3,262,000	\$1,859,000	\$8,201,000	\$13,322,000
Percent of payroll	32.0%	30.0%	26.7%	28.3%
- 10 year amortization	\$5,453,000	\$3,146,000	\$12,661,000	\$21,260,000
Percent of payroll	53.6%	50.8%	41.3%	45.2%

Note: 30 years is the longest period that GASB allows for amortizing unfunded liabilities.

IV Projected Benefit Payments

The following table shows the estimated projected net City benefit payments based on the current plan provisions, current plan participants, and the valuation assumptions used in this report. The payments would be equivalent to funding the liabilities on a pay-as-you-go basis.

Year Ending June 30	Police	Fire	Miscellaneous	Total
2008	\$ 886,000	\$ 622,000	\$ 2,224,000	\$ 3,732,000
2009	999,000	696,000	2,474,000	4,169,000
2010	1,117,000	770,000	2,723,000	4,610,000
2011	1,241,000	845,000	2,981,000	5,067,000
2012	1,366,000	926,000	3,241,000	5,533,000
2013	1,493,000	1,000,000	3,508,000	6,001,000
2014	1,594,000	1,058,000	3,737,000	6,389,000
2015	1,671,000	1,107,000	3,943,000	6,721,000
2016	1,765,000	1,156,000	4,182,000	7,103,000
2017	1,868,000	1,207,000	4,426,000	7,501,000
2018	1,971,000	1,259,000	4,649,000	7,879,000
2019	2,072,000	1,311,000	4,890,000	8,273,000
2020	2,170,000	1,371,000	5,109,000	8,650,000
2021	2,285,000	1,431,000	5,371,000	9,087,000
2022	2,391,000	1,482,000	5,625,000	9,498,000
2023	2,510,000	1,549,000	5,882,000	9,941,000
2024	2,613,000	1,605,000	6,123,000	10,341,000
2025	2,709,000	1,660,000	6,354,000	10,723,000
2026	2,811,000	1,711,000	6,598,000	11,120,000
2027	2,896,000	1,752,000	6,811,000	11,459,000
2028	2,998,000	1,784,000	7,012,000	11,794,000
2029	3,072,000	1,824,000	7,229,000	12,125,000
2030	3,170,000	1,861,000	7,417,000	12,448,000
2031	3,272,000	1,888,000	7,586,000	12,746,000
2032	3,331,000	1,913,000	7,741,000	12,985,000
2033	3,416,000	1,937,000	7,887,000	13,240,000
2034	3,486,000	1,971,000	7,996,000	13,453,000
2035	3,552,000	1,983,000	8,099,000	16,634,000
2036	3,607,000	1,992,000	8,160,000	13,759,000
2037	3,639,000	2,000,000	8,218,000	13,857,000
2038	3,678,000	2,004,000	8,244,000	13,926,000

V GASB Reporting and Disclosure Information

GASB 45 requires certain items to be disclosed in the footnotes to the City's financial statements, including the following:

- Plan description
 - Name of plan and identification of the entity that administers plan
 - Brief description of the types of benefits
- Funding policy
 - Required contribution rates of plan members
 - Required contribution rates of employer

In addition, the tables below show required supplementary information to be shown with three years of historical information in the City's financial statements.

Sample information is shown as if the City adopted GASB 45 for the current fiscal year, elected to use the entry age normal cost method with unfunded liabilities amortized over 30 years, and continues to fund on a pay-as-you-go basis.

Development of Net OPEB Obligation (NOO) and Annual OPEB Cost (000s omitted)

<u>Fiscal Year Ending</u>	<u>Annual Required Contributions</u>	<u>Actual Contribution</u>	<u>NOO End of Year</u>	<u>Interest on Net OPEB Obligation</u>	<u>Adjustment to the Annual Required Contribution</u>	<u>Annual OPEB Cost</u>	<u>Interest Rate</u>	<u>Salary Scale</u>	<u>Amortization Factor</u>
06/30/08	\$10,681	\$3,732	\$6,949	\$0	\$0	\$10,681	4.00%	3.25%	26.9

Schedule of Funding Progress (000s omitted)

<u>Type of Valuation</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>	<u>Interest Rate</u>	<u>Salary Scale</u>
Actual	7/1/08	\$0	\$158,324	\$158,324	0%	\$47,046	337%	4.00%	3.25%

Schedule of Employer Contributions (000s omitted)

<u>Fiscal Year Ending</u>	<u>Annual OPEB Costs</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$10,681	\$3,732	34.9%	\$6,949

VI Participant Information

These exhibit summaries contain participant demographic information.

Participant Statistics

	Police	Fire	Miscellaneous	Total
Actives				
Number	108	63	486	657
Average age of actives	39.90	43.07	43.63	42.96
Average entry age	26.64	27.64	35.05	32.96
Average past service	13.26	15.43	8.58	10.00
Average future service	12.59	12.08	14.15	13.71
Total Salary	\$10,179,130	\$6,197,120	\$30,670,185	\$47,046,435
Service retirees				
Number	28	34	209	271
Average retiree age	64.02	69.70	67.60	67.49
Disabled retirees				
Number	52	26	38	116
Average disabled retiree age	58.80	64.46	61.90	61.08
Survivors				
Number	7	11	38	56
Average survivor age	67.46	78.52	73.10	73.46
Total Retirees				
Number	87	71	285	443
Average age	61.18	69.15	67.57	66.57

VI Participant Information (cont.)

Active Employee Age/Service Distributions

Police

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	>=30	
<25	1							1
25-29	9	5						14
30-34	6	10						16
35-39	1	11	5	3				20
40-44	1	2	7	5	4	1		20
45-49	2		2	3	6	9		22
50-54			2	2	2	5		11
55-59					2		2	4
60-64								0
>=65								0
Total	20	28	16	13	14	15	2	108

Fire

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	>=30	
<25	2							2
25-29	5							5
30-34	6	2						8
35-39	2	1	2					5
40-44	1	2	3	4				10
45-49		2	1	4	4	3		14
50-54					2	9	2	13
55-59						5	1	6
60-64								0
>=65								0
Total	16	7	6	8	6	17	3	63

Miscellaneous

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	>=30	
<25	12							12
25-29	30	10						40
30-34	33	26	1					60
35-39	30	20	10	7				67
40-44	18	30	5	5	5			63
45-49	29	29	7	16	8	4		93
50-54	12	17	11	20	6	9	2	77
55-59	8	14	8	5	5	5	1	46
60-64	2	9	2	3	2	3	2	23
>=65		1	1	1	1		1	5
Total	174	156	45	57	27	21	6	486

VI Participant Information (cont.)

Grand Total – All Groups

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	>=30	
<25	15							15
25-29	44	15						59
30-34	45	38	1					84
35-39	33	32	17	10				92
40-44	20	34	15	14	9	1		93
45-49	31	31	10	23	18	16		129
50-54	12	17	13	22	10	23	4	101
55-59	8	14	8	5	7	10	4	56
60-64	2	9	2	3	2	3	2	23
>=65		1	1	1	1		1	5
Total	210	191	67	78	47	53	11	657

VI Participant Information (cont.)

Distribution of Participants by Medical Plan – Actives

<i>Police</i>	Single	Dual	Family	None	Grand Total
BlueShield	9	3	4	0	16
Kaiser	6	3	9	0	18
PERSCare	0	1	1	0	2
PERSChoice	6	1	4	0	11
PORAC	15	11	34	0	60
WAIVED	0	0	0	1	1
Total	36	19	52	1	108

<i>Fire</i>	Single	Dual	Family	None	Grand Total
BlueShield	8	1	3	0	12
Kaiser	1	1	8	0	10
PERSCare	1	0	1	0	2
PERSChoice	1	6	32	0	39
PORAC	0	0	0	0	0
WAIVED	0	0	0	0	0
Total	11	8	44	0	63

<i>Miscellaneous</i>	Single	Dual	Family	None	Grand Total
BlueShield	38	16	84	0	138
Kaiser	39	35	107	0	181
PERSCare	7	1	1	0	9
PERSChoice	37	20	39	0	96
PORAC	0	0	0	0	0
WAIVED	0	0	0	62	62
Total	121	72	231	62	486

<i>Total Actives</i>	Single	Dual	Family	None	Grand Total
BlueShield	55	20	91	0	166
Kaiser	46	39	124	0	209
PERSCare	8	2	3	0	13
PERSChoice	44	27	75	0	146
PORAC	15	11	34	0	60
WAIVED	0	0	0	63	63
Grand Total	168	99	327	63	657

VI Participant Information (cont.)

Distribution of Participants by Medical Plan – Retirees

<i>Police</i>	Single	Dual	Family	None	Grand Total
BlueShield	2	3	5	0	10
Kaiser	3	6	4	0	13
PERSCare	14	12	1	0	27
PERSChoice	6	7	9	0	22
PORAC	1	7	7	0	15
WAIVED	0	0	0	8	8
Total	26	35	26	8	95

<i>Fire</i>	Single	Dual	Family	None	Grand Total
BlueShield	0	3	2	0	5
Kaiser	6	6	0	0	12
PERSCare	12	10	1	0	23
PERSChoice	4	20	6	0	30
PORAC	0	0	1	0	1
WAIVED	0	0	0	0	0
Total	22	39	10	0	71

<i>Miscellaneous</i>	Single	Dual	Family	None	Grand Total
BlueShield	9	11	7	0	27
Kaiser	41	38	23	0	102
PERSCare	41	29	2	0	72
PERSChoice	27	42	15	0	84
PORAC	0	0	0	0	0
WAIVED	0	0	0	32	32
Total	118	120	47	32	317

<i>Total Retirees</i>	Single	Dual	Family	None	Grand Total
BlueShield	11	17	14	0	42
Kaiser	50	50	27	0	127
PERSCare	67	51	4	0	122
PERSChoice	37	69	30	0	136
PORAC	1	7	8	0	16
WAIVED	0	0	0	40	40
Grand Total	166	194	83	40	483

VII Summary of Principal Plan Provisions

The following plan provisions are the basis for the calculations in this actuarial valuation.

1. Benefit Eligibility

The City of Culver City provides retiree healthcare benefits for employees who retire with CalPERS pension benefits immediately upon termination of employment from the City. Employees hired after January 1, 2007 require 5 years of service, or 10,400 hours. Eligible retirees must elect medical coverage through the City's contract for healthcare coverage through CalPERS.

2. Benefits / Plans Covered

City employees are eligible to elect coverage in the following plans:

- Blue Shield
- Kaiser
- PERS Choice
- PERS Care
- PORAC

Eligible retirees and dependents receive lifetime benefits. For employees who retire before January 1, 2007, the City pays 100% of the medical premium, up to the City's cap. The City's cap is the average of the Kaiser and PERSCare premiums in the Los Angeles region.

For employees who retire on and after January 1, 2007, the City pays 70% of the premium under PERSCare and 95% of the premium for all other plans.

3. Retiree Contributions

Retirees pay the portion of premiums not paid by the City.

4. Dependent Coverage

The retirement health benefit continues for the lifetime of surviving spouses.

VIII Actuarial Assumptions

1. Actuarial Cost Method

The costs shown in the report were developed using two different funding methods:

Under the Aggregate cost method, the ARC equals an amortization of the unfunded present value of future benefits, based on the following:

- Period equal to the average future working lifetime of active participants
- Level percentage of future payroll amounts

The Entry Age Normal (EAN) – Level Percent of Pay cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under this method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The Actuarial Accrued Liability (AAL) is the present value of all projected benefits less the present value of all future normal costs. For retirees, the AAL is simply the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL based on the following:

- Specified amortization period (10, 20, or 30 years are shown)
- Level percentage of future payroll amounts

The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

2. Discount Rate

4.0% - This is based on the assumption that benefits will be paid from general City assets, or paid from a separate trust where assets are invested relatively conservatively.

7.75% was used for the illustration of results assuming the City pre-funds benefits in a trust with a mix of assets classes.

3. Payroll Increases

3.25% - This is the annual rate at which total payroll is expected to increase and is used in the cost method used to calculate the ARC as a level percent of payroll.

VIII Actuarial Assumptions (cont.)

4. Mortality

Mortality rates developed in the CalPERS 1997-2002 Experience Study were used in the valuation. The rates for selected ages are as follows:

<u>Age</u>	<u>Pre-retirement Mortality</u>					
	<u>Police</u>		<u>Fire</u>		<u>Misc</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
45	0.00130	0.00088	0.00130	0.00088	0.00110	0.00068
50	0.00179	0.00125	0.00179	0.00125	0.00156	0.00102
55	0.00248	0.00178	0.00248	0.00178	0.00221	0.00151
60	0.00344	0.00256	0.00344	0.00256	0.00314	0.00226
65	0.00480	0.00369	0.00480	0.00369	0.00447	0.00336

<u>Age</u>	<u>Post-retirement Mortality</u>					
	<u>Police</u>		<u>Fire</u>		<u>Misc</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50	0.00245	0.00136	0.00245	0.00136	0.00245	0.00136
55	0.00429	0.00253	0.00429	0.00253	0.00429	0.00253
60	0.00721	0.00442	0.00721	0.00442	0.00721	0.00442
65	0.01302	0.00795	0.01302	0.00795	0.01302	0.00795
70	0.02135	0.01276	0.02135	0.01276	0.02135	0.01276
75	0.03716	0.02156	0.03716	0.02156	0.03716	0.02156
80	0.06256	0.03883	0.06256	0.03883	0.06256	0.03883
85	0.10195	0.07219	0.10195	0.07219	0.10195	0.07219

5. Disability

Disability rates developed in the CalPERS 1997-2002 Experience Study were used in the valuation. Sample rates are as follows:

<u>Age</u>	<u>Police</u>	<u>Fire</u>
30	0.0058	0.0022
35	0.0087	0.0032
40	0.0116	0.0042
45	0.0145	0.0053
50	0.0175	0.0067
55	0.0594	0.0611
60	0.0601	0.0616

VIII Actuarial Assumptions (cont.)

6. Turnover

Turnover rates developed in the CalPERS 1997-2002 Experience Study were used in the valuation. The following sample rates are based on age and service:

Public Agency - Police

Entry Age	Years of Service							
	0	5	10	15	20	25	30	35
30	0.1299	0.0297	0.0213	0.0129				
35	0.1299	0.0297	0.0213	0.0129	0.0097			
40	0.1299	0.0297	0.0213	0.0129	0.0097	0.0082		
45	0.1299	0.0297	0.0213	0.0129	0.0097	0.0082	0.0076	
50	0.1299	0.0110	0.0068	0.0035	0.0022	0.0015	0.0012	0.0012
55	0.1299	0.0110	0.0068	0.0035	0.0022	0.0015	0.0012	0.0012

Public Agency - Fire

Entry Age	Years of Service							
	0	5	10	15	20	25	30	35
30	0.0947	0.0257	0.0090	0.0079				
35	0.0947	0.0257	0.0090	0.0079	0.0069			
40	0.0947	0.0257	0.0090	0.0079	0.0069	0.0057		
45	0.0947	0.0257	0.0090	0.0079	0.0069	0.0057	0.0054	
50	0.0947	0.0095	0.0029	0.0021	0.0016	0.0010	0.0009	0.0009
55	0.0947	0.0095	0.0029	0.0021	0.0016	0.0010	0.0009	0.0009

Public Agency - Miscellaneous

Entry Age	Years of Service							
	0	5	10	15	20	25	30	35
30	0.1622	0.0696	0.0574	0.0515				
35	0.1553	0.0627	0.0504	0.0446	0.0387			
40	0.1483	0.0557	0.0435	0.0376	0.0318	0.0259		
45	0.1414	0.0488	0.0366	0.0307	0.0249	0.0190	0.0131	
50	0.1345	0.0155	0.0095	0.0064	0.0041	0.0022	0.0010	0.0002
55	0.1275	0.0129	0.0073	0.0046	0.0025	0.0009	0.0002	0.0002

VIII Actuarial Assumptions (cont.)

7. Retirement Age

Retirement rates developed in the CalPERS 1997-2002 Experience Study were used in the valuation. Sample rates are as follows:

Public Agency – Police 3% at 50

Attained Age	Years of Service							
	5	10	15	20	25	30	35	40
50	0.0435	0.0435	0.0435	0.0821	0.1208	0.1559	0.1910	
51	0.0385	0.0385	0.0385	0.0728	0.1071	0.1382	0.1693	
52	0.0614	0.0614	0.0614	0.1159	0.1705	0.2200	0.2695	
53	0.0689	0.0689	0.0689	0.1303	0.1916	0.2472	0.3028	
54	0.0710	0.0710	0.0710	0.1342	0.1974	0.2547	0.3120	
55	0.0898	0.0898	0.0898	0.1698	0.2497	0.3222	0.3947	0.3947
56	0.0687	0.0687	0.0687	0.1299	0.1910	0.2465	0.3019	0.3019
57	0.0803	0.0803	0.0803	0.1518	0.2232	0.2880	0.3528	0.3528
58	0.0791	0.0791	0.0791	0.1495	0.2198	0.2837	0.3475	0.3475
59	0.0820	0.0820	0.0820	0.1549	0.2279	0.2940	0.3602	0.3602
60	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Public Agency – Fire 3% at 55

Attained Age	Years of Service							
	5	10	15	20	25	30	35	40
50	0.0024	0.0024	0.0024	0.0035	0.0055	0.0065	0.0065	
51	0.0048	0.0048	0.0048	0.007	0.011	0.0128	0.0218	
52	0.0147	0.0147	0.0147	0.0215	0.0339	0.0396	0.0396	
53	0.0425	0.0425	0.0425	0.0621	0.0979	0.1142	0.1142	
54	0.0567	0.0567	0.0567	0.0828	0.1306	0.1523	0.1523	
55	0.0915	0.0915	0.0915	0.1337	0.2109	0.2459	0.2459	0.2459
56	0.0811	0.0811	0.0811	0.1184	0.1868	0.2178	0.2178	0.2178
57	0.0996	0.0996	0.0996	0.1455	0.2295	0.2676	0.2676	0.2676
58	0.0814	0.0814	0.0814	0.1189	0.1874	0.2185	0.2185	0.2185
59	0.0775	0.0775	0.0775	0.1131	0.1784	0.2080	0.2080	0.2080
60	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

VIII Actuarial Assumptions (cont.)

Public Agency – Miscellaneous 2.5% at 55

Attained Age	Female	Male
50	0.07	0.05
51	0.05	0.02
52	0.05	0.03
53	0.05	0.03
54	0.05	0.04
55	0.09	0.08
56	0.07	0.06
57	0.07	0.07
58	0.10	0.08
59	0.09	0.09
60	0.12	0.16
61	0.10	0.15
62	0.21	0.26
63	0.18	0.22
64	0.13	0.15
65	0.25	0.25
66	0.15	0.14
67	0.14	0.12
68	0.11	0.12
69	0.13	0.09
70	1.00	1.00

8. Annual Medical Inflation (“Trend”)

The medical trend rate represents the long-term expected growth of medical benefits paid by the plan, due to non-age-related factors such as general medical inflation, utilization, new technology, and the like. The following table sets forth the trend assumptions used for the valuation:

Year	Annual Rate
2007	11.0%
2008	10.0%
2009	9.0%
2010	8.0%
2011	7.0%
2012	6.0%
2013+	5.0%

VIII Actuarial Assumptions (cont.)

9. Monthly Premiums

The monthly premiums valued were based on the CalPERS 2008 “Los Angeles” Area Health Premiums.

Age	Blue Shield	Kaiser	PERS Choice	PERSCare	PORAC	Weighted Blend (for Active Waivers)
Not Medicare Eligible	\$392.01	\$359.30	\$449.04	\$697.87	\$452.00	\$408.48
Medicare Eligible	341.44	273.36	349.11	404.60	308.00	\$319.28

The weighted blend is used for actives currently waiving coverage who are assumed to elect retiree medical plan coverage in the same proportion as those actives currently covered. See the Plan Coverage at Retirement section below for these rates.

10. Participants Valued

Only current active and retired participants are valued. No future entrants are considered in this valuation.

11. Plan Participation

95% of future eligible retirees (from active status) are assumed to elect coverage.

12. Plan Coverage at Retirement

Current and future retirees are assumed to continue in the same medical plan.

Actives currently waiving coverage were assumed to elect coverage in the Blue Shield, Kaiser, PERS Choice, and PERSCare plans at the rate of 30%, 40%, 25%, and 5%, respectively.

13. Medicare Eligibility

Except for 102 Police and Fire members who are not eligible for Medicare upon retirement, all other participants are assumed to be eligible for Medicare.

14. Spouse Age Assumption

Males are assumed to be three years older than their female spouses.

15. Dependents Coverage at Retirement

Current plan elections are used. For actives currently waiving coverage, 65% are assumed to elect spousal coverage at retirement, and 35% are assumed to elect dependent coverage at retirement.

IX Glossary

Actuarial Accrued Liability (AAL)

As determined by a particular Actuarial Cost Method, the portion of the Actuarial Present Value of plan benefits and expenses which is attributable to past service, and thus not provided for by future Normal Costs.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting benefit costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and employer provided benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items. The Actuarial Assumptions are used in connection with the Actuarial Cost Method to allocate plan costs over the working lifetime of plan participants.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods (e.g., past service, future service), usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Experience Gain or Loss

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation Dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.).
- b. multiplied by the probability of the occurrence of an event (such as survival, death disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

IX Glossary (cont.)

Actuarial Present Value of Total Projected Benefits or Present Value of Benefits (PVB)

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Valuation

The determination, as of a Valuation Date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a benefit plan.

Actuarial Valuation Date

The date as of which an actuarial valuation is performed.

Actuarial Value of Assets

The value of cash, investments, and other property belonging to a benefit plan, as used by the actuary for the purpose of an Actuarial Valuation.

Agent Multiple-Employer Plan

An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Aggregate Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets.

IX Glossary (cont.)

Amortization (of Unfunded Actuarial Accrued Liability)

The portion of benefit plan costs or contributions which is designed to pay off principal and interest on the Unfunded Actuarial Accrued Liability.

Annual OPEB Cost (AOC)

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contributions of the Employer (ARC)

The employer's periodic required contributions to a Defined Benefit OPEB Plan, which is the basis for determining an employer's Annual OPEB Cost. For a Cost Sharing Multiple-Employer Plan, the Contractually Required Contributions should be used to determine an employer's Annual OPEB Cost.

Contractually Required Contributions (CRC)

The contributions assessed by a Cost Sharing Multiple-Employer Plan to the participating employer for a period, without regard for the method used to determine the amounts.

Cost Sharing Multiple-Employer Plan

A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.

Covered Group

Plan members included in an actuarial valuation.

Deferred Inactives

Former employees, not yet receiving retirement benefits, who are eligible for plan benefits in the future.

Defined Benefit OPEB Plan

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

IX Glossary (cont.)

Discount Rate (Investment Return Assumption)

The rate used to adjust a series of future payments to determine the present value by reflecting the time value of money.

Employer Contributions

Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) of plan administrator. Employer contributions generally do not necessarily equate to benefits paid.

Entry Age Normal Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Funded Ratio

The actuarial value of assets expressed as a percentage of the Actuarial Accrued Liability.

Funding Excess

The excess of the Actuarial Value of Assets over the Actuarial Accrued Liability.

Funding Policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities to provide the benefits specified by an OPEB plan.

Healthcare Cost Trend Rate

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

IX Glossary (cont.)

Implicit Rate Subsidy

The differential between utilizing a blend of active and non-Medicare retiree experience for cost of benefits, and utilizing solely the expected retiree experience. Blending a lower cost active cohort with retirees results in an implicit rate subsidy for the retirees of the entire group.

Inactives

Certain former employees with a minimum amount of years of creditable service who have benefits payable from the retirement system.

Level Percentage of Projected Payroll Amortization Method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases (e.g., due to inflation); in dollars adjusted for inflation, the payments can be expected to remain level.

Market-Related Value of Plan Assets

A term used with reference to the actuarial value of assets. A market related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair or market value over a period of, for example, three to five years.

Net OPEB Obligation (NOO)

The cumulative difference since the effective date of this Statement between Annual OPEB Cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Normal Cost

The portion of the Actuarial Present Value of plan benefits and expenses that is allocated to a valuation year by the Actuarial Cost Method.

OPEB Assets

The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expense.

OPEB Expenditures

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the modified accrual basis of accounting.

IX Glossary (cont.)

OPEB Expense

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.

OPEB Liabilities

The amount recognized by an employer for contributions to an OPEB plan less than OPEB expense/expenditures.

Other Postemployment Benefits (OPEB)

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-As-You-Go

A method of financing a plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Plan Assets

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Plan Members

The individuals covered by the terms of an OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Postemployment

The period between termination of employment and retirement as well as the period after retirement.

Postemployment Healthcare Benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

IX Glossary (cont.)

Postretirement Benefit Increase

An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. Ad hoc increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. Automatic increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

Projected Benefits

Those plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual's Projected Benefit allocated to service to date, determined in accordance with the terms of a plan and based on future compensation as projected to retirement, is called the Credited Projected Benefit.

Projected Unit Credit Actuarial Cost Method

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Under this method, the Actuarial Gains (or Losses), as they occur, generally reduce (or increase) the Unfunded Actuarial Accrued Liability.

Under this method, benefits are projected to all future points in time under the terms of the Plan and actuarial assumptions (for example, health trends). Retirees are considered to be fully attributed in their benefits. For actives, attribution is to expected retirement age; thus, benefits at each future point in time are allocated to past service based on a proration of service-to-date over total projected service.

Required Supplementary Information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Single-Employer Plan

A plan that covers the current and former employees, including beneficiaries, of only one employer.

IX Glossary (cont.)

Sponsor

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees and employees of other employers.

Substantive Plan

The terms of an OPEB plan as understood by the employer(s) and plan members.

Transition Year

The fiscal year in which this Statement is first implemented.

Unfunded Actuarial Accrued Liability (Unfunded Actuarial Liability)

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.