

August 3, 2012

Mr. Robert A. Marical
Business Manager
Dixie School District
380 Nova Albion Way
San Rafael, CA 94903

RE: Dixie School District – GASB 45 Valuation as of June 30, 2012

Dear Robert:

This letter provides the results of the actuarial valuation of the Dixie School District postretirement medical plan as of June 30, 2012. These results are intended to assist the Dixie School District in reporting under the requirements of Government Accounting Standards Board (GASB) Statement Number 45. Use of these results for any other purpose is neither intended nor recommended. This is the third biennial valuation completed by Buck Consultants for the Dixie School District. The prior biennial valuation was completed as of June 30, 2010 and dated May 17, 2010.

The following outlines our understanding of the major Dixie School District (the District) retiree medical plan provisions that were used for this valuation (the substantive plan):

- Medical and dental coverage are offered to certificated employees with 5 years of service and classified employees with 10 years of service in the District who elect to retire after the age of 55.
- For employees retiring on or after July 1, 2007, the District will contribute a maximum of \$425 per month for five years. For those who retired prior to July 1, 2007, the maximum value was \$208.
- After the initial five years has expired, retirees participating in the medical plan will receive a \$7.40 per month District contribution for life.
- 2012 monthly medical premiums and District contributions are summarized in Appendix A.

General Results

Table 1 summarizes the Actuarial Accrued Liability (AAL) as of June 30, 2012 for active employees and retirees for the current program. The AAL is defined as the actuarial present value of the accrued benefits expected to be paid to current and future retirees under the plan. The AAL for active employees is the amount of future benefit that has been earned to date based on the service rendered by the active employees as of the valuation date. For retirees the AAL is the present value of future benefits. The table also shows the normal cost, which is the amount of benefit to be earned by the active employees for service in the fiscal year July 1, 2012 through June 30, 2013.

Table 1
Dixie School District Postretirement Medical Plan
Actuarial Accrued Liability (AAL) as of June 30, 2012

| | <u>AAL</u> | <u>Normal Cost</u> |
|----------|------------------|--------------------|
| Actives | \$799,000 | \$53,000 |
| Retirees | <u>\$258,000</u> | <u>\$0</u> |
| Total | \$1,057,000 | \$53,000 |

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 the District to actually fund this amount. The UAAL is the Actuarial Accrued Liability (AAL) less any assets held for the plan. Most government postretirement plans are currently 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 develops the estimated ARC for fiscal year July 1, 2012 through June 30, 2013.

Table 2
 Dixie School District Postretirement Medical Plan
 Annual Required Contribution for the 2012-2013 Fiscal Year

| | |
|------------------------------|---------------|
| Total AAL | \$1,057,000 |
| Assets | <u>0</u> |
| UAAL | \$1,057,000 |
| | |
| Annual Required Contribution | |
| Normal Cost | \$53,000 |
| 30 Year Amortization of UAAL | <u>65,000</u> |
| Estimated ARC | \$118,000 |

Table 3 shows the undiscounted postretirement medical cash flows over the next 30 years for currently active and retired employees. These projected cash flows correspond to the expected pay-as-you-go cost of the plan.

Table 3
 Dixie School District
 Postretirement Medical Plan
 Cash Flow Projections

| <u>Year</u> | <u>Active</u> | <u>Retired</u> | <u>Total</u> |
|--------------------|---------------|----------------|--------------|
| <u>Ending</u> 2013 | \$8,000 | \$103,000 | \$111,000 |
| 2014 | \$42,000 | \$61,000 | \$103,000 |
| 2015 | \$62,000 | \$48,000 | \$110,000 |
| 2016 | \$71,000 | \$26,000 | \$97,000 |
| 2017 | \$78,000 | \$11,000 | \$89,000 |
| 2018 | \$75,000 | \$4,000 | \$79,000 |
| 2019 | \$93,000 | \$4,000 | \$97,000 |
| 2020 | \$98,000 | \$4,000 | \$102,000 |
| 2021 | \$83,000 | \$4,000 | \$87,000 |
| 2022 | \$81,000 | \$3,000 | \$84,000 |
| 2023 | \$89,000 | \$3,000 | \$92,000 |
| 2024 | \$102,000 | \$3,000 | \$105,000 |
| 2025 | \$104,000 | \$3,000 | \$107,000 |

Table 3
Dixie School District
Postretirement Medical Plan
Cash Flow Projections

| <u>Year</u> <u>Ending</u> | <u>Active</u> | <u>Retired</u> | <u>Total</u> |
|------------------------------|---------------|----------------|--------------|
| 2026 | \$88,000 | \$3,000 | \$91,000 |
| 2027 | \$80,000 | \$2,000 | \$82,000 |
| 2028 | \$85,000 | \$2,000 | \$87,000 |
| 2029 | \$86,000 | \$2,000 | \$88,000 |
| 2030 | \$91,000 | \$2,000 | \$93,000 |
| 2031 | \$93,000 | \$2,000 | \$95,000 |
| 2032 | \$88,000 | \$2,000 | \$90,000 |
| 2033 | \$85,000 | \$1,000 | \$86,000 |
| 2034 | \$74,000 | \$1,000 | \$75,000 |
| 2035 | \$71,000 | \$1,000 | \$72,000 |
| 2036 | \$62,000 | \$1,000 | \$63,000 |
| 2037 | \$63,000 | \$1,000 | \$64,000 |
| 2038 | \$67,000 | \$1,000 | \$68,000 |
| 2039 | \$64,000 | \$1,000 | \$65,000 |
| 2040 | \$50,000 | \$1,000 | \$51,000 |
| 2041 | \$44,000 | \$0 | \$44,000 |
| 2042 | \$34,000 | \$0 | \$34,000 |

A 5% discount rate has been used for all liability calculations in this report. This corresponds to a pay-as-you-go funding method and is based on current interest earnings on general fund District assets. A higher discount rate resulting in lower calculated plan liabilities is allowable under GASB 45 if the District chooses to adopt a plan of pre-funding the retiree medical benefit to a dedicated, irrevocable trust.

The mortality tables were updated from the 1993 CalPERS rates to the projected RP-2000 rates, reflecting improved mortality. This resulted in an insignificant increase in the projected liabilities.

Mr. Robert A. Marical
August 3, 2012
Page 5

An addition to the Net OPEB Obligation is created each year the full Annual Required Contribution (ARC) is not funded. It is the difference between the calculated ARC and the actual pay-as-you-go employer contribution. For example, for 2012-2013, the ARC is \$118,000 from Table 2 while the pay-as-you-go cost is projected at \$111,000 from Table 3. This creates a possible addition to any existing Net OPEB Obligation of \$7,000 for that fiscal year.

Assumptions

Appendix A provides the actuarial assumptions used for the valuation. They include items such as expected turnover rates, retirement rate, future trend rates, and mortality rates. Appendix B provides a glossary of commonly used terms for retiree medical valuations. Please review the report and then we can discuss in more detail. In the meantime please call us at (619) 725-1769 if you have any questions.

Sincerely,



Kristi Olivas, F.S.A., M.A.A.A., F.C.A.
Director, Health & Productivity Actuary

cc: Michael Schionning, F.S.A., M.A.A.A.

Valuation Assumptions

Mortality:

Actives - RP-2000 Combined Mortality Table, projected to 2027
 Retirees - RP-2000 Combined Mortality Table, projected to 2019

Discount Rate:

5.00%

Withdrawal Rates:

Representative values are shown below

Male Turnover/Withdrawal from Service

| <u>Age</u> | <u>Years of Service</u> | | | | | |
|------------|-------------------------|----------|----------|----------|----------|-----------|
| | <u>0</u> | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5+</u> |
| 20 | 7.04% | 14.99% | 10.22% | 9.13% | 7.35% | 6.02% |
| 30 | 6.60% | 12.55% | 8.61% | 7.14% | 5.81% | 3.87% |
| 40 | 6.18% | 10.48% | 7.21% | 4.86% | 3.99% | 0.63% |
| 50 | 5.79% | 8.77% | 6.11% | 4.40% | 3.69% | 0.43% |
| 60 | 5.59% | 7.69% | 5.49% | 3.74% | 3.25% | 0.20% |

Female Turnover/Withdrawal from Service

| <u>Age</u> | <u>Years of Service</u> | | | | | |
|------------|-------------------------|----------|----------|----------|----------|-----------|
| | <u>0</u> | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5+</u> |
| 20 | 8.51% | 18.20% | 14.66% | 12.17% | 11.27% | 7.50% |
| 30 | 8.07% | 15.32% | 11.23% | 9.02% | 7.20% | 3.25% |
| 40 | 7.66% | 12.88% | 8.56% | 6.63% | 4.54% | 1.38% |
| 50 | 7.25% | 10.85% | 6.59% | 4.98% | 2.98% | 0.63% |
| 60 | 7.09% | 9.57% | 5.38% | 4.01% | 2.12% | 0.31% |

APPENDIX A

Retirement Rates:

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 55 | 8.00% | 10.0% |
| 60 | 16.00% | 13.0% |
| 62 | 26.00% | 23.0% |
| 65 | 25.00% | 27.0% |
| 70 | 100.00% | 100.0% |

New Entrants:

None Assumed.

Dependent Assumptions:

50% of the retirees were assumed to elect dependent coverage.

Participation Assumption:

100% of all future retirees eligible under the plan are expected to elect medical coverage.

Health Care Cost and Expense Trend:

| | |
|--------|-------|
| Year 1 | 10.0% |
| 2 | 9.0% |
| 3 | 8.0% |
| 4 | 7.0% |
| 5 | 6.0% |
| 6+ | 5.0% |

Demographic Information

| | <u>Fully Eligible</u> | <u>Not Yet Eligible</u> |
|--------------------------|-----------------------|-------------------------|
| Active Employees | 52 | 128 |
| Retired Employees | 58 | |

Current District Contribution

| | <u>Contribution Rate (monthly)</u> | |
|------------------------------------|----------------------------------------|------------------|
| <i>Current District Caps</i> | | |
| Kaiser | \$425.00 | 5 Years Only |
| Health Net | \$425.00 | 5 Years Only |
| Retirees pre July 1, 2007 | \$208.00 | 5 Years Only |
| All retirees after initial 5 years | \$7.40 | Lifetime Benefit |

Monthly Single Premium Rate Information

| | <u>Premium Rate</u> |
|---------------------------------------|---------------------|
| <i>Current District Retiree Rates</i> | |
| Kaiser | \$808.85 |
| Health Net HMO | \$1,561.24 |
| Health Net POS | \$1,573.90 |
| Delta Dental | \$72.67 |

Glossary of Terminology

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 Accrued Liability (AAL) - The actuarial present value of benefits attributed to employee service rendered to a particular date.

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 total present value of future benefits 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 (component of the Annual Required Contribution) - The portion of the total 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.