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September 4, 2013

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 1/1/2014

Dear Ms. Driscoll:

This letter documents the estimated changes in future annual costs including actuarial accrued liability, normal cost, and future cash flows based on changes to be effective as early as January 1, 2014 for the Contra Costa County Deputy Sheriffs' Association (DSA) to the postretirement medical plan. Throughout this document "medical" refers to both health and dental costs.

The baseline results used for the actuarial comparison of the current plan that presented herein reflect the County's GASB 45 liability as presented in a prior 7507 report dated June 20, 2012, prepared by the prior Buck actuary, reflecting the Contra Costa County California Nurses Association changes as of November, 1, 2012. The June 20, 2012 report was the most recently updated valuation for the County's postretirement medical plan. It was developed using census data as of January 1, 2012, and reflected the Contra Costa County CNA changes as of July 1, 2012.

The impact of the changes for the DSA to be effective January 1, 2014, has been estimated using more refined calculation methodologies than were used in overall baseline results in order to better capture the change in future employer subsidy amounts. In addition, the Annual Required Contribution is presented using an updated amortization basis, as discussed below.

General Description of the Contra Costa County DSA Postretirement Medical Benefits Prior to Currently Negotiated Benefit Changes

For Employees Represented by the Contra Costa County DSA:

County contributions for 2011 were based on an 87%/13% split of the Kaiser Bay Area Pre-Medicare retiree rates. In 2012, inflation in these rates was split 80% County/20% retiree and prior to the change measured in this calculation, and for 2013 the inflation was split 75% County/25% retiree, with that same 75% County/25% retiree split intended to continue for future years.

Baseline Valuation Results Before Plan Changes

Table 1 summarizes the Actuarial Accrued Liability (AAL) as of January 1, 2012, 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 up 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 2012.

Table 1
CCC Postemployment Health Benefits Plan
Actuarial Accrued Liability and Normal Cost as of January 1, 2012

Before Plan Changes	Actuarial Accrued Liability at a 6.32% Discount Rate	Normal Cost at a 6.32% Discount Rate
Active Employees	$432,153,000	$27,209,000
Retirees	594,915,000	0
Total	$1,027,068,000	$27,209,000

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

Table 2 on the following page shows the calculated ARC for the fiscal year ending in 2012 under the current health benefit plan using the 6.32% discount rate assumption, and updated amortization basis.

Table 2
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year Ending 2012

Before Plan Changes	
Total AAL	$1,027,068,000
Assets*	65,491,000
UAAL	$961,577,000
Annual Required Contribution	
Normal Cost	$27,209,000
30 Year Amortization of UAAL	43,342,000
ARC	$70,551,000

* Assets as of 1/1/2012

The baseline amounts above reflect the liability associated with the subsidization of retiree premiums by active employees as required by GASB 45. This subsidization occurs in the Contra Costa County sponsored medical benefits because the under age 65 medical costs for retirees are much higher than for active employees at the same ages, but the retiree premium rates are the same as the active rates due to pooling of the costs in the underwriting process. According to the baseline calculations from the prior 7507 report dated June 20, 2012, approximately $111 million of the liability is caused by this rate subsidy, or 10.8% of the total liability under the 6.32% discount rate assumption.

The calculation does not reflect any subsidization for retirees who participate in the CalPERS health care program, where we have determined that that the CalPERS would offer the same premium rate if only the Contra Costa County non-Medicare-eligible retirees were covered under the CalPERS arrangement. The calculation also does not reflect any subsidization for dental premium costs which do not vary significantly by age.

Table 3 below shows the updated ARC for the fiscal year ending in 2012 under the new health benefit provisions to begin as early as January 1, 2014, for employees represented by the Contra Costa County DSA using the same 6.32% discount rate assumption and updated amortization basis.

Here is a brief summary of the Contra Costa County DSA changes:

Retired Employees

- Premium Cost Sharing. Effective January 1, 2014, the County will pay a monthly premium subsidy for each health plan that is equal to the actual dollar monthly premium subsidy that is paid by the County as of November 30, 2013. In addition, if there is an increase in the monthly premium charged by a particular health plan for 2014 and for each year thereafter, the County and the employee will each pay fifty percent of the monthly premium increase that is above the previous year's plan premium.

- Delta, and PMI Delta Care. Beginning on January 1, 2014, the County will pay a monthly dental premium subsidy for each dental plan that is equal to the actual dollar monthly premium subsidy that is paid by the County for 2013. If there is an increase in the premium charged by a dental plan for 2014, the County and the employee will pay fifty percent (50%) of the increase. For each calendar year thereafter, the County and the employee will each pay fifty percent (50%) of the premium increase that is above the 2013 plan premium.
- Dental Only. Beginning on January 1, 2014, the County will pay a monthly dental premium subsidy for each dental plan that is equal to the actual dollar monthly premium subsidy that is paid by the County for 2013. If there is an increase in the premium charged by a dental plan for 2014, the County and the employee will pay fifty percent (50%) of the increase. For each calendar year thereafter, the County and the employee will each pay fifty percent (50%) of the premium increase that is above the 2013 plan premium.

Table 3
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year Ending 2012

After Plan Changes	
Total AAL	$1,006,096,000
Assets*	65,491,000
UAAL	$940,605,000
Annual Required Contribution	
Normal Cost	$26,251,000
30 Year Amortization of UAAL	42,396,000
ARC	$68,647,000

* Assets as of 1/1/2012

The plan changes for the Contra Costa County DSA created a **$20,972,000** or **2.04%** decrease in the Actuarial Accrued Liability (AAL), and a **$1,904,000** or **2.70%** decrease in the calculated ARC using amortization based on 4.0% payroll growth. Future valuation results will change with demographic and cost updates, but these changes to the most recent valuation as of January 1, 2012, do accurately measure the magnitude and direction of the plan change costs.

In undiscounted cash flow terms there will be changes in cash costs for the County as early as the January 1, 2014, calendar year for the postretirement medical plan based on these plan changes. The first 2-year total cash differential from the plan change beginning in calendar 2014 is about a $931,000 increase, while the 25-year total cash differential beginning in calendar 2014 is about a $40,150,000 decrease. These are estimates based on current plan participation and are subject to change upon open enrollment as the plan changes may affect future retiree plan selections.

The proposed arrangement results in initial cash cost increases since for some options, 50% of the expected initial trend increase for the current premium amount is actually greater than 75% of the expected premium increase on the Kaiser Bay Area option. Over time, compounding results in the employer share will be reduced by the 50% cost share. But in the short run, especially for options currently elected by non-Medicare retirees, the 50% cost share will result in a slightly higher employer cost.

Basis of Calculation

This analysis includes all actives and retirees of County entities included in the County's CAFR and utilizing Contra Costa County (CCC) health benefits. All results rely on census and health plan data provided by the County. A listing of 7,720 active employees with an average age of 46.1 years and average service of 10.8 years was used for this study. A separate file containing 5,941 retirees and survivors was provided for this study as well. Of these individuals, DSA participants included in this analysis represented 759 active employees with an average age of 38.9 years and average service of 8.9 years, and 601 retirees and survivors. The DSA measured in this calculation included individuals identified in bargaining units V#, VH, and VN, as well as individuals with CalPERS benefits in bargaining units F8 and FW. It does not include other bargaining units that currently have the same benefits structure as DSA.

Appendix A provides the assumptions used for this actuarial analysis. Unless otherwise noted, these assumptions were developed by the prior Buck actuary. The undersigned actuaries are relying upon the work of the prior Buck actuary in stating that the assumptions are reasonable for the purpose of measurement of the County's GASB 45 costs. Other sets of assumptions may be equally reasonable for this measurement, and could produce significantly different results.

The assumptions include demographic 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. A discount rate of 6.32% is used throughout this analysis. This rate was developed based on the County's decision to partially prefund the plan to a dedicated irrevocable trust. Under GASB 45, the discount rate for partially funded plans reflects the proportionate amount of plan and employer assets expected to be used to pay benefits. We have not reviewed the discount rate in light of any potential difference in proportions that may result from the change in DSA benefits measured in this analysis.

All valuation results reflect the use of the Entry Age Normal (EAN) actuarial cost method. The entry age normal actuarial cost method also matches the cost method used by CCCERA for the pension valuation. For the postretirement medical calculation, the entry age calculation allocates costs on a level basis over service of the individual between entry age and assumed exit ages.

As noted above, the baseline results used for the actuarial comparison of the current plan reflect the County's GASB 45 liability as presented in a report prepared by the prior Buck actuary. The amounts shown in this letter reflect an estimated split between active and retired employees for the impact of the changes for the CNA benefits from the prior 7507 report dated June 20, 2012.

The Annual Required Contribution amounts presented by the prior Buck actuary in the June 20, 2012 results reflect an amortization assuming level percentage of pay with overall projected payroll increase at the same rate as the discount rate (e.g. 6.32%), using a 30 year amortization period. The undersigned actuaries who prepared this analysis believe that an assumption of payroll growth of 6.32% may not be reasonable prospectively, and accordingly, we have provided results based on an assumed payroll growth rate of 4.0%, which we feel is more consistent with other assumptions in this analysis and the requirements of GASB 43 and 45 and is consistent with the growth rate used by CCCERA for the pension valuation. This amortization scenario retains the 30 year amortization period. We also note that the January 1, 2012, GASB 43 and 45 Valuation Report describes the amortization method as level dollar amortization, with an open 30 year period, while the county's June 30, 2012, financial statements describes the UAAL as being amortized as a level dollar amount over a 30 year closed basis, of which only twenty five years remained. These level dollar amounts would be larger than either of the scenarios presented. We can provide ARC amounts calculated on either of these bases if requested.

Appendix B provides a glossary of commonly used terms for postretirement medical valuations. Appendix C provides a brief summary of key provisions of the plan.

Please contact us at (201) 902-2585 or (201) 902-2990 should you have any questions.

Sincerely,

Robin Simon   Frank Svara Jr.

Robin B. Simon, FSA, EA, MAAA, JD
Principal & Consulting Actuary

Frank R. Svara Jr., ASA, MAAA
Director & Consulting Actuary

cc: Jacqueline Farren, Buck Consultants

APPENDIX A
Valuation Assumptions

Mortality Rates — RP-2000 Combined Healthy Mortality Tables, projected forward with Scale AA to 2019 and 2027 for currently retired and currently active participants, respectively.

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%.

Amortization — Level percentage of pay with an overall projected payroll increase of 4.00%, on an open 30 year basis.

Participation Assumption — 98% active participation assumed upon retirement.

APPENDIX A (Continued)
Valuation Assumptions

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.

Marital Characteristics — Retirees: actual data. Active Employees: Wives are three years younger than their husbands. 80% of males and 55% of females are assumed married at retirement.

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

Medical Trend Rates by Calendar Year	
CY12	10%
CY13	9%
CY14	8%
CY15	7%
CY16	6%
CY17+	5%

All calculations are based on these assumed trend rates. While premium rates for 2013 and 2014 are available, the assumed trend rates are used throughout the calculation for consistency.

APPENDIX A (Continued)
Valuation Assumptions

Contra Costa County 2012 Rates and Contributions

The following Premium Rates and Increases vary by bargaining unit. For illustrative purposes the following R-1A rates for 2012 cover over 75% of the current retiree population.

		Total Monthly Premium	County Monthly Premium
Early Retirees (under 65)			
Kaiser	EE	$673.87	$478.91
	EF	$1,570.11	$1,115.84
Health Net HMO	EE	$894.87	$627.79
	EF	$2,195.19	$1,540.02
Health Net PPO	EE	$1,109.51	$604.60
	EF	$2,635.73	$1,436.25
CCHP - A			
	EE	$586.13	$509.92
	EF	$1,396.49	$1,214.90
CCHP – B	EE	$649.74	$528.50
	EF	$1,543.89	$1,255.79
Retirees (over65)			
Kaiser Cost	EE	$678.32	$626.37
Retiree	EF	$1,542.28	$1,397.80
Kaiser Senior	EE	$261.96	$261.95
Advantage	EE+1	$707.46	$707.45
Health Net Cost	EE	$515.78	$467.13
Retiree	EF	$1031.56	$934.29
Health Net	EE	$468.83	$409.69
Seniority Plus	EE+1	$937.66	$819.38
CCHP – A	EE	$489.73	$420.27
Retiree	EE+1	$1,203.69	$1,035.60
CCHP – B	EE	$553.34	$444.63
Retiree	EE+1	$1,351.09	$1,088.06

APPENDIX A (Continued)
Valuation Assumptions

CalPERS Participating Retirees:

For those retirees participating in CalPERS such as DSA retirees, the County contribution had been based on a percentage of the Bay Area Kaiser non-Medicare rates; the 2012 rates are shown below.

Non-Medicare		
Single	-	$610.44
Employee +1 Dependent	-	$1,220.88
Employee + Family	-	$1,587.14
Medicare		
Medicare Retiree Only	-	$277.81
Medicare Retiree & 1 Medicare Dependent	-	$555.62
Medicare Retiree & 2 Medicare Dependents	-	$833.43
Medicare Retiree & 1 Basic Dependent	-	$888.25
Medicare Retiree & 2+ Basic	-	$1,254.51
Medicare Retiree & Dependent & Basic Dependent	-	$921.88
Basic Retiree & 1 Medicare Dependent	-	$888.25
Basic Retiree & 2 Medicare Dependents	-	$1,166.06
Basic Retiree & 1 Dependent & 1 Medicare Dependent	-	$1,254.51

In measuring the impact of the changes outlined in this report, costs for non-Medicare coverage were based on current medical benefit option and total premium amount reported for each employee and retiree. For current Medicare retirees as identified by their tier, we reflect the medical the cost for their current medical benefit option. For other individuals, the premiums for Medicare coverage is based on a percentage reduction off of the level of the non-Medicare coverage that is based on the average cost by tier (Medicare Retiree Only vs. Medicare Retiree and Dependent) for participants who currently have the 75%/25% inflation cost sharing provision, the bulk of whom are represented by the DSA .

APPENDIX B
Glossary of Terms

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.

APPENDIX C
Summary of Plan Provisions

1. Plans Available

   The following medical providers are currently available to General employees: Kaiser, Health Net, and the Contra Costa Health Plan. These plans are all available to both Medicare and Non-Medicare eligible retirees in varying forms. The majority of Safety employees are covered under various CalPERS health plans. All retirees have dental options provided through the County.

2. Covered Groups

   All current active employees other than new tiers as established through bargaining are eligible for subsidized coverage, as are retirees currently receiving pension benefits. Employees hired after January 1, 2011 in many of the bargaining groups are eligible to participate in the medical plans only if they pay the entire stated premium. A retiree must be receiving pension benefits to receive health benefits.

3. Eligibility for Retirement (individuals hired prior to January 1, 2013)[1]

   General employees can retire once they satisfy any of the following requirements: 50 years old with 10 years of service, 70 years old, or 30 years of service.

   Safety employees can retire once they satisfy any of the following requirements: 50 years old with 10 years of service, 70 years old, or 20 years of service.

4. Dependents

   Participating retirees may cover dependents at the rates given in Appendix A. Surviving dependents of deceased retirees may continue County provided coverage (medical or dental) if they pay the full stated premium. Surviving dependents of participants in CalPERS plans may continue employer subsidized premium for health coverage.

5. Significant Contribution Provisions

   For Unrepresented County Employees, In Home Supportive Services, and First Five as well as Employees Represented by AFSCME Local 512, AFSCME Local 2700, Public Employees Union Local One, SEIU Local 1021 and Western Council of Engineers, Professional & Technical Engineers Association (AFL-CIO) Local 21, Public Defender s' Association, Probation Peace Officers Association, and Deputy District Attorneys' Association:

   County Premium Subsidy – Non-CalPERS plans:
   - January 1, 2012, and forward – the County's monthly subsidy will be fixed at the 2011 dollar amount

[1] The Califormia Public Employees' Pension Reform Act of 2013 (PEPRA), generally raises retirement eligibility to age 52 for non-safety employees hired after January 1, 2013.

For Employees Represented by the Deputy Sheriff's Association District:

County contributions for 2011 were based on an 87%/13% split of the Kaiser Bay Area Pre-Medicare retiree rates; in 2012, inflation in these rates was split 80% County/20% retiree and prior to the change measured in this calculation, for 2013, the inflation was split 75% County/25% employee and under the bargaining agreement in place before the change discussed in this letter, future inflation was to be split 75% County/25% employee.

For Employees Represented by the Physician's and Dentist's Association, United Chief Officers Association, United Professional Firefighters, IAFF, and Local 1230:

County contributions for the particular benefits offered to the bargaining groups noted are assumed to increase with trend as in the governing Memoranda of Understanding.

For Employees Represented by the Contra Costa UCOA:

As of July 1, 2012, employer/retiree contribution split is 80% employer/20% retirees—based on Kaiser Bay Area rate, with subsequent medical inflation also to be split 80% employer/20% retiree.

For Employees Represented by the Contra Costa District Attorney Investigators' Association (DAIA):

Effective September 1, 2012, the County will contribute up to an amount, equivalent to 87% of the 2011 CalPERS Kaiser Bay Area premium plus 80% of the increases premium amount for Kaiser Bay Area premium for 2012 at each level (retiree only, retiree + one, retiree + two or more) toward the covered retiree's CalPERS or CalPERS Alternative Plan (CCHP) premium plus:

Effective January 1, 2013, the County and the DAIA will divide any increase in the Kaiser Bay area premium 75% employer/25% employee.

For Employees Represented by the Contra Costa County California Nurses Association (CNA):

Employees Active as of July 1, 2012:

- o <u>Medicare</u>. Persons who become age 65 on or after July 1, 2012, and who are eligible for Medicare must enroll in Medicare Parts A and B. Effective July 1, 2012, there will be no County subsidy for Medicare Part B.

Retirees Retired as of July 1, 2012:

- Medicare. Persons who become age 65 on or after November 1, 2012, and who are eligible for Medicare must enroll in Medicare Parts A and B. Effective November 1, 2012, there will be no County subsidy for Medicare Part B.