Agenda Item #:____________________________

Staff Report
City of Manhattan Beach

TO: Honorable Mayor Aldinger and Members of the City Council

Through: Geoff Dolan, City Manager

FROM: Bruce Moe, Finance Director
Henry Mitzner, Controller

DATE: April 15, 2008

SUBJECT: Consideration of the Establishment and Funding of a Trust Fund with the California Public Employees Retirement System (CalPERS) for Funding of the City's Retiree Medical Plans and the State-Mandated Medical Stipends for Retired Member-Subscribers in CalPERS Medical

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RECOMMENDATION:
The Finance Subcommittee and City staff recommend that the City Council:

a) approve the selection of the CalPERS "California Employer's Retiree Benefit Trust Program" (CERBT) program, and authorize the execution of the associated agreement and election form;

b) approve the CalPERS "Delegation of Authority to Request Disbursements" naming the Finance Director as the authorized City representative;

c) approve a funding plan which cash funds all accrued liability for the retiree benefits;

d) appropriate $2,520,000 from the Pension Trust Fund, $2,262,371 from the Employee Leave Reserve, and $1,638,079 from the General Fund; and

e) authorize the deposit of those funds ($6,420,450) with CalPERS.

FISCAL IMPLICATION:
In order to determine the City's liability for our retiree medical plans in accordance with the Governmental Accounting Standards Board (GASB) pronouncement No. 45, the City ordered an actuarial report (Attachment "A"). The report indicates that the City, as of July 1, 2007, had an unfunded liability of $5.7 million. That amount assumes that funds were paid into the trust at the beginning of the fiscal year (July 1, 2007). However, because the funds have yet to be deposited, we have not realized the benefit of accruing the actuarially assumed rate of 7.75% per year on those funds. As a result, we must also fund an additional $442,450 in accrued interest for the year. Finally, we also must fund this year's normal cost for retiree medical benefits, which totals $269,000. This results in a total liability of $6,420,450 through June 30, 2008.

Because the actuary does not recognize the $2.5 million the City has already set aside in our own discretionary accounts for these purposes, the actual unfunded liability as of July 1, 2007 was approximately $3.2 million. The total funds needed as of June 30, 2008 to completely fund our liabilities, including accrued interest and FY 2007-2008 normal costs, totals $6,420,450.

The Finance Subcommittee discussed several funding alternatives for our liability (see Attachment "B"). Options include:

1. Paying off the entire amount ($6,420,450);
2. Paying down a portion of the liability using funds already set aside ($2.5 million) and amortizing the remaining balance over a period of time. The cost of this option over cash funding ranges from $606,015 (ten year amortization) to $1,507,718 (thirty year amortization);
3. Amortizing the entire liability (excluding FY 2007-2008 normal cost), which would free-up the $2.5 million for other uses. The cost of this option over cash funding ranges from $1,020,928 (ten year) to $2,539,992 (thirty year);
4. Issuing pension bonds for all or a portion of the liability. The added cost over cash funding ranges from $226,000 (ten year bond issue after paying down $2.5 million) to $1,335,110 (thirty year bond issue for the entire liability). Under either scenario, the City saves money over amortizing with CalPERS because the interest rate for pension bonds will be lower than the interest rate charged by CalPERS (but greater than the City's earning rate).

After reviewing the alternatives, the Subcommittee recommends that the City Council cash fund the entire liability ($6,420,450 including accrued interest and current year normal cost). This is the most cost effective option, and can be accomplished through the following resources:

• Existing pension reserve funds	$2,520,000
• Use of Employee Leave reserve[1]	2,262,371
• Unreserved General Fund	1,638,079
Total	$6,420,450

If the recommended funding plan is approved, this will result in a remaining unreserved (available) General Fund balance of approximately $1.5 million at the end of FY 2007-2008.

It is important to note that, with the proposed payment to CalPERS for these liabilities, the General Fund FY 2007-2008 expenditures will exceed revenues since the transfer of the funds is considered an expenditure without a corresponding revenue.

[1] This General Fund reserve was established to set aside funds for employee accrued leave (vacation and sick leave). It is not a legally required reserve, and we are not required to disclose such future benefit costs. As a result, this reserve is not mandatory. The Subcommittee and staff therefore recommend its use to reduce the costs of funding our retiree medical plan liabilities.

BACKGROUND:
As a result of the Governmental Accounting Standards Board's (GASB) issuance of statements #43 and #45, governmental agencies must recognize and report "Other Post Employment Benefit" (OPEB) liabilities (please note that these statements do not require funding, rather only that we identify and report these liabilities). The City has several OPEB plans including Police, Fire (currently in place) and Miscellaneous (which becomes effective January 1, 2009) retiree medical plans, all of which provide payments ranging from $250 per month to $400 per month until age 65 or Medicare eligibility commences. Additionally, a new State law (AB2544), which was effective January 1, 2008, now requires the City to maintain certain minimum payments for retirees who remain in the CalPERS health plan. This new plan is less restrictive than the City's plans, and as a result, is much more expensive.

DISCUSSION:
In order to comply with the GASB standards, the City hired an actuary to determine our existing liability, as well as on-going funding requirements. A copy of the report is attached, but a summary of the highlights follows:

Plan Liabilities as of July 1, 2007

(All dollars in thousands)

	AB2544	City Programs	Total
Actuarial Accrued Liability	$4,362	$1,347	$5,709
Funds Set Aside	$1,173	$1,347	$2,520
Unfunded Liability	$3,189	$ 0	$3,189
Normal Cost	$ 219	$ 50	$ 269

By paying off the entire liability of $5.709 million ($6,151,450 as of June 30, 2008), the City will need only pay the "normal" cost of $269,000 per year. This amount will be on-going and budgeted annually starting in FY 2008-2009 (The total proposed payout of $6,420,450 includes the FY 2007-2008 normal cost of $269,000).

When analyzing how we arrived at the total liabilities for retiree medical, it is important to note that the City provided programs were entirely funded as of FY 2007-2008. The unfunded liability stems from the new State law requiring minimum retiree medical contributions starting January 1, 2008. This alone added $4.36 million in liability as of July 1, 2007 ($4.7 million as of June 30, 2008).

Governmental Accounting Standards Board Statement No. 45
The GASB 45 reporting requirement is being implemented by public agencies based on their total revenues as follows:

Phase	Total Revenues	Effective with Period Beginning After
I	$100 million+	December 15, 2006
II	$10 million+	December 15, 2007
III	<$10 million	December 15, 2008

Manhattan Beach (Phase II) is required to disclose our OPEB liabilities beginning in our first full fiscal year after December 15, 2007 (FY 2008-2009). However, by completing the actuarial study this past November, we will report our liabilities a full year ahead of schedule in our FY 2007-2008 audit report. This early reporting was performed at the request of the Finance Subcommittee after becoming aware of the new reporting requirements while reviewing the FY 2005-2006 audit report in December 2006.

Subcommittee's Funding Recommendation

The Subcommittee and staff believe that paying off the liabilities in full with available cash reserves is the most prudent and cost effective manner to addressing these <u>known future costs</u>. Support for this approach is justified because:

1. Funds are available now;
2. The payoff still leaves $1.5 million in unreserved funds in the General Fund for discretionary spending;
3. The payoff avoids on-going amortization costs for the full liability ranging from $534,000 (30 year amortization) to $906,000 (10 year amortization) impacting the General Fund budget beginning in FY 2008-2009[2], which helps in balancing during difficult (current) economic conditions;
4. Cash funding results in costs savings ranging from $226,000 to $2,539,992 depending upon the amortization schedule and financing method selected.
5. Cash funding will be viewed favorably by the Rating Agencies (Moody's, Standard & Poor's and Fitch) when reviewing our AAA/Aaa rating, which will be an important cost-saving factor in any future bond issues the City may undertake.

In summary, this funding plan provides the right balance between the use and retention of existing financial resources, and avoids expensive debt.

Competing Needs and the Cost of Borrowing

Staff realizes that the use of existing cash resources to payoff our retiree medical liability reduces the amount of cash available for other purposes, including capital improvements. However, to the extent we use our cash for other purposes, and amortize the retiree medical liabilities through

[2] Annual normal costs of $269,000 will be added beginning in 08-09 regardless of the funding option selected.

CalPERS, we are in essence borrowing for those other purposes at a 7.75% interest rate (or, if we issue pension bonds in lieu of amortizing with CalPERS, we are borrowing at an estimated rate of approximately 6%[3]).

If the Council determines that there are certain projects that need to be funded in the near term, the most cost effective method is to use the cash for the retiree medical liabilities, and issue tax-exempt bonds for the improvements. The tax exempt bonds would carry an approximate 30 year rate of 4.85% (compared to our retiree medical rate of between 6% for pension bonds and 7.75% with CalPERS). This strategy would allow us to save significantly on the retiree medical liability, and borrow funds for capital improvements at attractive rates.

California Public Employees Retirement System "California Employer's Retiree Benefit Trust"
CalPERS has established a mechanism for public agencies to pre-fund their OPEB liabilities. Their professional investment management expertise will reduce overall costs of providing these benefits through higher average returns than can be achieved through normal City investments (of course, there is also risk of losses being incurred during poor performing market cycles as well). The CERBT program funds are invested in the same manner CalPERS invests pension funds, which have realized an average return on investment over the past ten years of slightly more than 9%, and 12.8% over the past 5 years. For these reasons, the Finance Subcommittee and staff recommend the CalPERS program for funding our OPEB liabilities.

Timing of Fund Allocation
As previously discussed, the actuarial report funding requirements are based upon a July 1, 2007 deposit date. In our calculations, we have included the accrued interest through June 30, 2008 (same fiscal year). In the event we do not fund the trust this fiscal year, the amount that will need to be deposited will continue to grow at the actuarially-assumed interest rate of 7.75% until the trust is funded. Additionally, a new actuarial report may be required (approximate cost of $13,000).

CONCLUSION:
The City has identified liabilities for retiree medical plans that must now be accounted for and disclosed beginning in FY 2008-2009. Those liabilities present known future costs for employee benefits that have been, and continue to accrue, and should be provided for as part of our fiscal planning. As a result, the Finance Subcommittee and staff have recommended a number of actions by the City Council, including establishing and funding trust accounts with CalPERS. Specific recommended Council actions include:

1. approving the selection of the CalPERS "California Employer's Retiree Benefit Trust Program" (CERBT) program, and authorizing the execution of the associated agreement and election form;
2. approving the CalPERS "Delegation of Authority to Request Disbursements" naming the Finance Director as the authorized City representative;
3. approving the funding plan which cash funds all accrued liability for the retiree benefits;
4. appropriating $2,520,000 from the Pension Trust Fund, $2,262,371 from the Employee

[3] Pension bonds are not tax-exempt, and as a result, the rates are 100-150 basis points higher than tax-exempt bonds for infrastructure improvements.

Leave Reserve, and $1,638,079 from the General Fund; and

5. authorizing the deposit of those funds ($6,420,450) with CalPERS.

If all of the recommended actions are approved, the trust will be established and funded by the end of this current fiscal year.

Attachments: A. Actuarial report
B. Funding options chart

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

July 1, 2007 GASB 45 Actuarial Valuation

Prepared by:

Joseph D. Sintov, Consulting Actuary
November 2007

Joseph D. Sintov, Consulting Actuary
M.A.A.A., F.S.A., F.C.A., E.A.
1927 Highland Oaks Drive, Arcadia, California 91006-1741
jsintov@earthlink.net (626) 355-8995

November 15, 2007

Mr. Bruce A. Moe
Finance Director
City of Manhattan Beach, California
1400 Highland Avenue
Manhattan Beach, CA 90266

Re: Valuation of Retiree Medical Program as of July 1, 2007

Dear Mr. Moe:

We have performed an actuarial valuation to determine the annual required contribution under Statement No. 45 of the Government Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) for the City's retiree medical insurance program for the fiscal year ending June 30, 2008.

The actuarial valuation was based upon the program provisions, employee data and financial information that you provided to us. This data was not audited but has been accepted as accurate for purposes of our calculations. The valuation was performed in accordance with GASB 45 and CalPERS requirements, using applicable actuarial principles and practices. In our opinion, the assumptions used represent reasonable expectations of anticipated experience. On the basis of the information and assumptions stated herein, we certify that, to the best of our knowledge, the information presented in this report is complete and accurate.

We appreciate the opportunity to prepare this report.

Respectfully submitted,

Joseph D. Sintov

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation – July 1, 2007

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CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation – July 1, 2007

Summary of Valuation

The following are the highlights of the July 1, 2007 actuarial valuation.

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
A. Actuarial Accrued Liability (AAL)	$ 4,362	$ 1,347	$ 5,709
B. Plan Assets	0	0	0
C. Unfunded AAL: AAL - Assets	$ 4,362	$ 1,347	$ 5,709
D. Annual Required contribution (ARC)			
- Assuming 10-Year Amortization of Unfunded AAL	$ 861	$ 248	$ 1,109
- Assuming 30-Year Amortization of Unfunded AAL	$ 597	$ 167	$ 764
E. City's Current Annual Payments (Pay-as-You-Go Cost)	$ 39	$ 25	$ 64
F. Number of Participants			
- Active Employees			
- Safety Employees	86	86	86
- Other Employees	166	166	166
- Total Employees	252	252	252
- Retirees	45	7	49
- Total Participants	297	259	301

Note: Three retired participants are in both the AB 2544 Program and the MOU Program.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation – July 1, 2007

Valuation Results

The results of the July 1, 2007 actuarial valuation are outlined below.

A. Actuarial Accrued Liability as of July 1, 2007

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
Actuarial Accrued Liability (AAL)			
Active Participants:			
- Police	$ 837	$ 571	$ 1,408
- Fire	523	230	753
- Other	1,867	381	2,248
- Totals	$ 3,227	$ 1,182	$ 4,409
Retired Participants:			
- Police	$ 488	$ 162	$ 650
- Fire	125	3	128
- Other	522	0	522
- Totals	$ 1,135	$ 165	$ 1,300
Total Active and Retired Participants			
- Police	$ 1,325	$ 733	$ 2,058
- Fire	648	233	881
- Others	2,389	381	2,770
- Totals	$ 4,362	$ 1,347	$ 5,709
Plan Assets	0	0	0
Unfunded AAL	$ 4,362	$ 1,347	$ 5,709
Covered Annual Base Payroll	18,654	18,654	18,654
Unfunded AAL as Percent of Base Payroll	23.4%	7.2%	30.6%

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2007

Valuation Results (Cont'd)

B. Annual Required Contribution as of June 30, 2008

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
1. 10-Year Level Dollar Amortization of Unfunded AAL:			
Annual Required Contribution as Dollar Amount			
Normal Cost	$ 219	$ 50	$ 269
Amortization of Unfunded AAL	642	198	840
Annual Required Contribution (ARC)	$ 861	$ 248	$ 1,109
Breakdown of ARC by Employee Group:			
- Police	$ 245	$ 134	$ 379
- Fire	115	40	155
- Other	501	74	575
- Totals	$ 861	$ 248	$ 1,109
Covered Annual Base Payroll	18,654	18,654	18,654
ARC as Percent of Base Payroll			
Normal Cost	1.2%	0.2%	1.4%
Amortization of Unfunded AAL	3.4%	1.1%	4.5%
Annual Required Contribution (ARC)	4.6%	1.3%	5.9%
Breakdown of ARC by Employee Group:			
- Police	5.1%	2.8%	7.9%
- Fire	3.9%	1.4%	5.3%
- Other	4.6%	0.7%	5.3%
- Totals	4.6%	1.3%	5.9%

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation – July 1, 2007

Valuation Results (Cont'd)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
2. 30-Year Level Dollar Amortization of Unfunded AAL:			
Annual Required Contribution as Dollar Amount			
Normal Cost	$ 219	$ 50	$ 269
Amortization of Unfunded AAL	378	117	495
Annual Required Contribution (ARC)	$ 597	$ 167	$ 764
Breakdown of ARC by Employee Group:			
- Police	$ 165	$ 90	$ 255
- Fire	76	26	102
- Other	356	51	407
- Totals	$ 597	$ 167	$ 764
Covered Annual Base Payroll	18,654	18,654	18,654
ARC as Percent of Base Payroll			
Normal Cost	1.2%	0.2%	1.4%
Amortization of Unfunded AAL	2.0%	0.7%	2.7%
Annual Required Contribution (ARC)	3.2%	0.9%	4.1%
Breakdown of ARC by Employee Group:			
- Police	3.5%	1.9%	5.4%
- Fire	2.6%	0.9%	3.5%
- Other	3.2%	0.5%	3.7%
- Totals	3.2%	0.9%	4.1%

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2007

Participant Data

The participant data underlying the valuation are summarized in this section.

A. Distribution of Active Participants

1. All Employees

	Years of Service									
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 & up	Total
Under 25	1	2	0	0	0	0	0	0	0	3
25 to 29	3	8	6	0	0	0	0	0	0	17
30 to 34	3	12	9	6	0	0	0	0	0	30
35 to 39	3	6	10	7	9	0	0	0	0	35
40 to 44	1	5	11	8	10	2	0	0	0	37
45 to 49	2	4	13	4	10	9	2	0	0	44
50 to 54	0	3	4	5	6	4	14	1	0	37
55 to 59	3	2	5	6	4	2	6	1	1	30
60 to 64	0	2	2	0	3	3	1	3	1	15
65 to 69	0	0	1	0	1	1	0	0	0	3
70 & up	0	0	0	0	0	1	0	0	0	1
Total	16	44	61	36	43	22	23	5	2	252

Average Age	44.6
Average Years of Service	11.8

2. Safety Employees

	Years of Service									
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 & up	Total
Under 25	0	2	0	0	0	0	0	0	0	2
25 to 29	0	3	3	0	0	0	0	0	0	6
30 to 34	0	4	6	5	0	0	0	0	0	15
35 to 39	3	2	4	4	6	0	0	0	0	19
40 to 44	0	0	2	4	6	2	0	0	0	14
45 to 49	0	0	2	1	1	5	2	0	0	11
50 to 54	0	0	0	0	1	1	11	0	0	13
55 to 59	0	0	0	0	0	0	2	0	0	2
60 to 64	0	0	1	0	0	0	1	1	1	4
65 to 69	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0
Total	3	11	18	14	14	8	16	1	1	86

Average Age	41.1
Average Years of Service	14.3

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation – July 1, 2007

Participant Data (Cont'd)

3. Other Employees

	Years of Service									
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 & up	Total
Under 25	1	0	0	0	0	0	0	0	0	1
25 to 29	3	5	3	0	0	0	0	0	0	11
30 to 34	3	8	3	1	0	0	0	0	0	15
35 to 39	0	4	6	3	3	0	0	0	0	16
40 to 44	1	5	9	4	4	0	0	0	0	23
45 to 49	2	4	11	3	9	4	0	0	0	33
50 to 54	0	3	4	5	5	3	3	1	0	24
55 to 59	3	2	5	6	4	2	4	1	1	28
60 to 64	0	2	1	0	3	3	0	2	0	11
65 to 69	0	0	1	0	1	1	0	0	0	3
70 & up	0	0	0	0	0	1	0	0	0	1
Total	13	33	43	22	29	14	7	4	1	166

Average Age	46.4
Average Years of Service	10.4

Participant Data (Cont'd)

B. Participant Statistics

	Police	Fire	Other	Total
Active Participants				
Count	57	29	166	252
Average Age	39.4	44.6	46.4	44.6
Average Service	13.0	16.7	10.4	11.8

Note: All active participants are in both the AB 2544 Program and MOU Program.

	Police	Fire	Other	Total
Retired Participants in AB 2544 Program				
Count	18	5	22	45
Average Age	60.0	64.4	64.9	62.8
Average Retirement Age	51.2	59.6	58.4	55.8
Retired Participants in MOU Program				
Count	6	1	0	7
Average Age	53.5	64.0	N/A	55.0
Average Retirement Age	52.8	55.0	N/A	53.1

Note: Three retired participants are in both the AB 2544 Program and the MOU Program.

Glossary

The following is a glossary of terms used in this report.

Actuarial Accrued Liability. The portion of the Actuarial Present Value of medical plan benefits, which is not provided by future normal costs, as determined by the Actuarial Cost Method.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of plan benefits and assigning this value to past and future time periods, usually in the form of a Normal Cost and Actuarial Accrued Liability.

Amortization Payment. That portion of the Annual Required Contribution that is assigned to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Actuarial Present Value. The value of a benefit or series of benefits payable or receivable at various times, determined as of a given date using a particular set of actuarial assumptions.

Annual Required Contribution of the Employer (ARC). The employer's periodic required contributions to a Defined Benefit OPEB Plan, calculated in accordance with the parameters of GASB 45.

Defined Benefit OPEB Plan. An OPEB plan that provides specific benefits after retirement or other termination of employment. The amount of the benefit is usually a function of one or more factors such as the participant's age, years of service and medical insurance plans offered by the employer.

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

Normal Cost. The portion of the Actuarial Present Value of OPEB plan benefits that is allocated to a particular fiscal year by the Actuarial Cost Method.

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 other than those provided from a pension plan, excluding benefits defined as termination offers and benefits.

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

Glossary (Cont'd)

Substantive Plan. The terms of the OPEB plan as understood by the employer and plan members, taking into account past administrative practices.

Unfunded Actuarial Accrued Liability. The excess, if any, of the Actuarial Accrued Liability over the assets of the plan.

Actuarial Assumptions and Methods

The following are the actuarial assumptions and methods used to determine the actuarial accrued liability and normal cost. It is important to keep in mind that, while these assumptions represent best estimates of future events, the assumptions are not guaranteed. The ultimate expense of the retiree medical insurance program is the net of:

1. The sum of the benefits paid plus the cost of administration; less,
2. The investment income earned, if any, from cash contributions to the program.

For purposes of valuing the provisions of the substantive plan, it is assumed that the provisions of the program (as described in the Summary of Principal Provisions) will remain in effect into the indefinite future. However, this assumption does not imply an obligation to continue the program.

This description of the actuarial assumptions and methods recognizes that the City sponsors two sub-programs that provide payments toward the cost of health insurance during retirement:

- The "MOU Program." This sub-program provides fixed, temporary stipends during retirement, under the terms of a Memorandum of Understanding (MOU). Three such MOU's are in effect, covering the benefits for police, fire and miscellaneous employees.
- The "AB 2544 Program." This sub-program provides payments during retirement, in addition to the stipends under the MOU's. These payments are subject to increases in future years, as provided under the terms of California Assembly Bill 2544 (AB 2544) and described in CalPERS' Circular Letter 600-012-07.

<u>Actuarial Assumptions</u>

A. Economic Assumptions

<u>Discount Rate</u>

7.75% per annum. This rate is specified by CalPERS and assumes the Program is funded through CalPERS in a qualifying trust arrangement under GASB 45, with annual contributions equal to at least the ARC. This rate represents the assumed return on such trust, net of expenses.

<u>Future Increases in Payments to Retirees</u>

- <u>MOU Program</u>

  Stipend payments. The current levels of stipend payments are assumed to remain unchanged. The stipends are subject to collective bargaining. The City has expressed its intent not to increase the stipends in the future, in light of the increasing payments that will be required under the AB 2544 Program.

Actuarial Assumptions and Methods (Cont'd)

- AB 2544 Program

  Several assumptions are used in order to project the City's future payments.

  1. It is assumed that the City has 18 years of participation at July 1, 2007 and the years of participation are capped at 20 years.
  2. Annual rate of increase in the Minimum Employer Contribution (MEC). The assumed annual rate of increase in the MEC for agencies participating in the Public Employees' Medical and Hospital Care Act (PEMHCA) after 2008 is shown below. These rates of increase are intended to reflect the assumed increase in the medical care component of the Consumer Price Index as provided in CalPERS Circular Letter 600-068-02, which sets forth the MEC requirements.

     Annual rate of increase in the MEC

Fiscal Year Beginning July 1	Annual Rate
2007	11.0%
2008	10.0%
2009	9.0%
2010	8.0%
2011	7.0%
2012	6.0%
2013+	5.0%

  3. Maximum year-to-year increase in the City's monthly payment to retirees. The current maximum year-to-year increase of $100, as stated in AB 2544, is assumed to remain unchanged through 2016, then increase 2% per annum in subsequent years. Note: Current legislation does not address increases to this maximum amount, however it is assumed that future legislation will provide such increases.

B. Demographic Assumptions

Marital Status

- Active participants. 90% of police and fire employees, and 85% of other (miscellaneous) employees, are assumed married. Male spouses are assumed to be three years older than female spouses.
- Retired participants. 90% of police and fire employees, and 85% of other (miscellaneous) employees, are assumed married. Male spouses are assumed to be three years older than female spouses.

Actuarial Assumptions and Methods (Cont'd)

Mortality Rates

- Employee Mortality Prior to Retirement.
  - Police employees. Sum of industrial plus non-industrial mortality rates for CalPERS Public Agency Police male and female employees.
  - Fire employees. Sum of industrial plus non-industrial mortality rates for CalPERS Public Agency Fire male and female employees. (Note: The CalPERS rates are identical for police and fire employees.)
  - Other employees. Sum of industrial plus non-industrial mortality rates for CalPERS Public Agency Miscellaneous male and female employees. (Note: CalPERS industrial mortality rates are zero for Miscellaneous Public Agency employees.)
  - Sample rates are as follows:

	Male Rates		Female Rates	
Age	Police/ Fire	Other Employees	Police/ Fire	Other Employees
30	0.048%	0.038%	0.031%	0.021%
35	0.067%	0.054%	0.044%	0.031%
40	0.094%	0.077%	0.063%	0.046%
45	0.130%	0.110%	0.088%	0.068%
50	0.179%	0.156%	0.125%	0.102%
55	0.248%	0.221%	0.178%	0.151%
60	0.344%	0.314%	0.256%	0.226%

- Healthy Retiree Mortality During Service Retirement
  - Post-retirement mortality rates for healthy recipients, as reported by CalPERS for male and female Public Agency employees. (Note: The CalPERS rates are identical for all employee groups.)

Actuarial Assumptions and Methods (Cont'd)

- Sample rates are as follows:

Age	Males	Females
50	0.245%	0.136%
55	0.429%	0.253%
60	0.721%	0.442%
65	1.302%	0.795%
70	2.135%	1.276%
75	3.716%	2.156%
80	6.256%	3.883%
85	10.195%	7.219%
90	17.379%	12.592%

- Disabled Retiree Mortality During Disability Retirement
  - Police employees. Post-retirement mortality rates for disabled recipients, as reported by CalPERS for male and female Public Agency Police employees. The CalPERS disabled mortality rates are reported separately for industrial disability and non-industrial disability. These rates were weighted 95% for industrial disability and 5% for non-industrial disability, based on the respective magnitude of the CalPERS incidence rates of industrial and non-industrial disability.
  - Fire employees. Post-retirement mortality rates for disabled recipients, as reported by CalPERS for male and female Public Agency Fire employees. The CalPERS disabled mortality rates are reported separately for industrial disability and non-industrial disability. These rates were weighted 95% for industrial disability and 5% for non-industrial disability, based on the respective magnitude of the CalPERS incidence rates of industrial and non-industrial disability. (Note: CalPERS disabled retiree mortality rates are identical for police and fire employees.)
  - Other employees. Post-retirement mortality rates for disabled recipients, as reported by CalPERS for male and female Public Agency Miscellaneous employees. The CalPERS disabled mortality rates are reported separately for industrial disability and non-industrial disability. These rates were weighted 0% for industrial disability and 100% for non-industrial disability, based on the respective magnitude of incidence rates of industrial and non-industrial disability. (Note: CalPERS industrial disability incidence rates are zero for Miscellaneous Public Agency employees.)

Actuarial Assumptions and Methods (Cont'd)

- Sample rates are as follows:

	Male Rates		Female Rates	
Age	Police/ Fire	Other Employees	Police/ Fire	Other Employees
35	0.245%	0.796%	0.208%	0.607%
40	0.260%	0.865%	0.233%	0.637%
45	0.394%	1.059%	0.311%	0.846%
50	0.592%	1.459%	0.425%	1.129%
55	0.691%	2.115%	0.614%	1.481%
60	1.109%	2.870%	0.871%	1.884%
65	1.941%	3.617%	1.271%	2.356%
70	3.434%	4.673%	1.823%	3.020%
75	5.807%	6.552%	2.850%	4.298%
80	8.711%	9.481%	4.781%	6.514%
85	13.082%	14.041%	8.362%	10.269%
90	19.648%	20.793%	14.094%	16.189%

Spouse Mortality (both prior to and after employee's retirement)

Mortality rates for healthy recipients during service retirement, as reported by CalPERS for male and female Public Agency employees. Sample rates are shown above.

Termination Rates

- Police employees. Sum of Terminated Refund Rates and Terminated Vested Rates at 16 years of service for CalPERS Public Agency Police employees.
- Fire employees. Sum of Terminated Refund Rates and Terminated Vested Rates at 20 years of service for CalPERS Public Agency Fire employees.
- Other employees. Sum of Terminated Refund Rates and Terminated Vested Rates at 12 years of service for CalPERS Public Agency Miscellaneous employees.
- Sample rates are as follows:

Age	Police	Fire	Other Ees
30	1.290%	0.790%	5.500%
35	1.120%	0.690%	4.810%
40	1.120%	0.690%	4.120%
45	1.120%	0.690%	3.420%

Actuarial Assumptions and Methods (Cont'd)

Disability Retirement Rates

- Police employees. Sum of Industrial Disability Male Rates and Non-industrial Disability Male Rates for CalPERS Public Agency Police employees. (Note: CalPERS disability rates are identical for male and female police employees.)
- Fire employees. Sum of Industrial Disability Male Rates and Non-industrial Disability Male Rates for CalPERS Public Agency Fire employees. (Note: CalPERS disability rates are identical for male and female fire employees.)
- Other employees. Industrial Disability Male Rates for CalPERS Public Agency Miscellaneous employees. (Note: CalPERS industrial disability rates are similar for male and female miscellaneous employees. Non-Industrial Disability rates are zero.)
- Sample rates are as follows:

Age	Police	Fire	Other Ees
35	0.870%	0.320%	0.080%
40	1.160%	0.420%	0.150%
45	1.450%	0.530%	0.240%
50	1.750%	0.670%	0.370%
55	5.940%	6.110%	0.490%
60	6.010%	6.160%	0.550%
65	6.010%	6.160%	0.540%

Service Retirement Rates

- Police employees. Retirement Rates at 25 years of service for Public Agency Police employees on CalPERS 3% @ 50 pension formula. Rates are the same for males and females.
- Fire employees. Retirement Rates at 25 years of service for Public Agency Fire employees on CalPERS 3% @ 55 pension formula. Rates are the same for males and females.
- Other employees. Retirement Rates at 20 years of service for Public Agency Miscellaneous employees on CalPERS 2% @ 55 pension formula. Rates are the same for males and females. Employees at age 65 or above are assumed to retire immediately.

Actuarial Assumptions and Methods (Cont'd)

- Sample rates are as follows:

Age	Police	Fire	Other Ees	Age	Police	Fire	Other Ees
50	12.080%	0.550%	2.690%	58	21.980%	18.740%	8.790%
51	10.710%	1.100%	1.980%	59	22.790%	17.840%	9.480%
52	17.050%	3.390%	2.120%	60	100.000%	100.000%	13.280%
53	19.160%	9.790%	2.780%	61	100.000%	100.000%	13.280%
54	19.740%	13.060%	3.690%	62	100.000%	100.000%	23.690%
55	24.970%	21.090%	8.830%	63	100.000%	100.000%	23.920%
56	19.100%	18.680%	7.350%	64	100.000%	100.000%	17.290%
57	22.320%	22.950%	7.930%	65	100.000%	100.000%	100.000%

Participation at Retirement

- MOU Program
  100% of employees are assumed to receive stipend payments upon retirement.
- AB 2544 Program
  100% of employees are assumed to receive payments upon retirement.

Participation During Retirement

100% of retirees and 100% of their eligible spouses who survive to each future year are assumed to elect to continue coverage during retirement.

Future New Participants

None. A closed group is assumed for purposes of the valuation.

Actuarial Assumptions and Methods (Cont'd)

Actuarial Methods

A. Actuarial Cost Method

The actuarial cost method used in this actuarial valuation is the entry age normal cost method. This method is used to determine the normal cost and accrued liability. The normal cost is the present value of projected benefits considered accrued during the current fiscal year. Under this cost method, the normal cost is the annual amount which would exactly fund a participant's projected benefit if the amount were contributed annually from date of eligibility, i.e. date of hire (as if the plan had always been in existence) to each assumed exit age.

The normal cost is determined as the present value of benefits, divided by the present value of future service, with both values determined as of the date of eligibility (as if the plan had always been in existence). The present value of future service is the present value at date of eligibility, of $1.00 for each year from date of hire to each assumed exit age, taking into account the discount rate and applicable annual decrements for termination, death, disability and retirement.

The accrued liability is the present value of benefits assigned to past service. Under this cost method, the accrued liability is the present value of benefits for all active and non-active participants, less the present value of future normal costs.

For active employees at ages 65 and above and for all retirees, the actuarial accrued liability is equal to the present value of projected benefits and the normal cost is zero.

B. Amortization of Unfunded Actuarial Accrued Liability

Two alternative amortization methods are used:

- Amortization of the unfunded actuarial accrued liability over 10 years as a level annual dollar amount.
- Amortization of the unfunded actuarial accrued liability over 30 years as a level annual dollar amount.

Summary of Principal Provisions

Retirees from the City of Manhattan Beach may elect coverage under any of the available health insurance plans that the City offers to its employees through CalPERS. The City sponsors two sub-programs that provide payments toward the cost of health insurance during retirement:

- The "MOU Program." This sub-program provides fixed, temporary stipends during retirement, under the terms of a Memorandum of Understanding (MOU). Three such MOU's are in effect, covering the benefits for police, fire and miscellaneous employees.
- The "AB 2544 Program." This sub-program provides payments during retirement, in addition to the stipends under the MOU's. These payments are subject to increases in future years, as provided under the terms of California Assembly Bill 2544 (AB 2544) and described in CalPERS' Circular Letter 600-012-07.

The City's fiscal year is July 1 through June 30, and the Annual Required Contribution under GASB 45 is measured over this period.

The following summarizes the provisions of the program. This information was gathered from excerpts of the applicable MOU's and from CalPERS Circular letters that address AB 2544, as well as well as from written documents, discussions and other correspondence with the City. Although the City has reviewed this summary for accuracy, it is not intended as a legal document from which to administer the retiree medical insurance program.

For purposes of valuing the provisions of the substantive plan, it is assumed that the provisions described in this summary will remain in effect into the indefinite future. MOU Program benefits for retirees are based on the MOU in effect at date of retirement, except for fire employees who retire before August 1, 2008. For these fire employees, the monthly stipend payment will increase to $400 per month effective for payments made on or after August 1, 2008.

Principal Provisions of the MOU Program

<u>Eligible participants.</u> Employees covered under the terms of the MOU's for police, fire and miscellaneous employees.

<u>Eligibility for Service Retirement Benefit.</u> A covered employee may retire at age 50 or above, provided he or she has the following number of years of service:

1. Police employees. At least 20 total years of service as sworn law enforcement in U.S. public agencies, including at least 10 consecutive years of service in the City of Manhattan Beach in a sworn police status immediately prior to retirement.
2. Fire employees. At least 20 years of service in the City.
3. Miscellaneous employees. At least 15 years of service in the City. The employee must retire on or after December 31, 2008 in order to receive a benefit.

Summary of Principal Provisions (Cont'd)

Eligibility for City Post-Retirement Medical Plan under a Disability Retirement. In order to be eligible for the City Post-Retirement Medical Plan disability retirement benefit, an employee must satisfy the following minimum requirements:

1. Be covered under the MOU for police or miscellaneous employees. Fire employees are not eligible.
2. Meet the definition of service disability or industrial disability as defined in the CalPERS Pension Plan. The definition of service disability includes the requirement that the employee be vested in the CalPERS Pension Plan (requires five years of overall service in CalPERS contracting agencies). The definition of industrial disability does not require that the employee be vested in the CalPERS Pension Plan.
3. Have at least the following number of years of service:
    a. Police employees. At least 20 total years of service as sworn law enforcement in U.S. public agencies, including at least 10 consecutive years of service in the City of Manhattan Beach in a sworn police status immediately prior to disability.
    b. Miscellaneous employees. At least 15 years of service in the City. The employee must incur a disability on or after December 31, 2008 in order to receive a benefit.

Stipend Payments. The City provides monthly stipends toward the cost of retiree medical insurance, until the earlier of the retiree's attainment of age 65 or death. No payments are provided to spouses of married retirees or to any other family members or individuals. The amounts of the monthly stipends are as follows:

1. Police employees.
    a. Police employees who retire before December 31, 2007: $300 per month.
    b. Police employees who retire on or after December 31, 2007: $400 per month.
2. Fire employees.
    a. Fire employees who retire before August 1, 2008: $300 per month, increasing to $400 per month effective for payments made on or after August 1, 2008.
    b. Fire employees who retire on or after August 1, 2008: $400 per month.
3. Miscellaneous employees.
    a. Miscellaneous employees who retire before December 31, 2008: Stipend is not provided.
    b. Miscellaneous employees who retire on or after December 31, 2008: $250 per month.

Benefits Prior to Retirement. There is no benefit provided upon death or other termination of employment prior to attaining the necessary age and service required in order to qualify for the service retirement benefit or disability retirement benefit.

Summary of Principal Provisions (Cont'd)

Principal Provisions of the AB 2544 Program

Eligible participants. Employees and retirees who are covered by insurance plans that the City offers to its employees through CalPERS.

Eligibility for Service Retirement Benefit. A covered employee may retire at age 50 or above, provided he or she is vested in the CalPERS Pension Plan (requires five years of overall service in CalPERS contracting agencies).

Eligibility for Disability Retirement Benefit. In order to be eligible for the disability retirement benefit, an employee must meet the definition of service disability or industrial disability as defined in the CalPERS Pension Plan. The definition of service disability includes the requirement that the employee be vested in the CalPERS Pension Plan (requires five years of overall service in CalPERS contracting agencies). The definition of industrial disability does not require that the employee be vested in the CalPERS Pension Plan.

Payment Period and Amount. The City provides monthly payments toward the premium for retiree medical insurance, during the lifetimes of the retiree and, if the retiree is married, his or her spouse at time of retirement. The monthly payment amount is the same for both married and unmarried retirees, and is not reduced upon the first death of the retiree or spouse. The City's monthly payment for any year after 2006 is the product of A times B times C as follows, subject to a maximum year-to-year increase of $100 (under current legislation) in the City's monthly payment:

A. The Minimum Employer Contribution (MEC) for agencies participating in the Public Employees' Medical and Hospital Care Act (PEMHCA). The MEC is $80.80 in 2007 and $97.00 in 2008. For years after 2008, CalPERS Circular Letter 600-068-02 states that, "Commencing January 1, 2009, the employer contribution will be adjusted annually by the CalPERS Board of Administration to reflect any change in the medical care component of the Consumer Price Index."
B. The number of years that the City has participated in PEMHCA. For purposes of the valuation, it is assumed that the City has 18 years of participation at July 1, 2007 and the years of participation are capped at 20 years.
C. 5%

Benefits Prior to Retirement. There is no benefit provided upon death or other termination of employment prior to attaining the necessary age and service required in order to qualify for the service retirement benefit or disability retirement benefit.

City of Manhattan Beach
Options for Funding Retiree Medical Plan Liabilities

Attachment "B"

Option #1 - Cash fund the entire liability		
Potential Sources of Cash:		
Unreserved General Fund	$	1,369,079
Employee Leave Reserve	$	2,262,371
OPEB set aide	$	2,520,000
Total including accrued interest	$	6,151,450
Normal Cost	$	269,000

Option #2 - Pay down liability by $2.5 million and amortize the balance with CalPERS

Amortization Period		10 year	30 Year
Unfunded Liability (including accrued interest)	$	3,795,000	$ 3,795,000
Term (Years)		10	30
Interest Rate		7.75%	7.75%
Amortization Payment		$538,000	$317,000
Normal Cost		$269,000	$269,000
Total Annual Payment		$807,000	$586,000

Added Cost Compared to Cash Funding	
10 year	30 year
$ 606,015	$ 1,507,718

Option #3 - Amortize entire liability with CalPERS

Amortization Period		10 year	30 Year
Unfunded Liability (including accrued interest)	$	6,151,450	$ 6,151,450
Term (Years)		10	30
Interest Rate		7.75%	7.75%
Amortization Payment		$906,000	$534,000
Normal Cost		$269,000	$269,000
Total Annual Payment		$1,175,000	$803,000

Added Cost Compared to Cash Funding	
10 year	30 year
$ 1,020,928	$ 2,539,992

Option #4 - Issue Pension Obligation Bonds (POB) for entire liability

Amortization Period		10 year	30 Year
Gross POB Amount including cost of issuance	$	6,315,000	$ 6,315,000
Term (Years)		10	30
Interest Rate		6.00%	6.00%
Amortization Payment		$800,000	$465,000
Normal Cost		$269,000	$269,000
Total Annual Payment		$1,069,000	$734,000

Added Cost Compared to Cash Funding	
10 year	30 year
$ 301,663	$ 1,335,110

Option #5 - Pay down liability by $2.5 million and issue Pension Obligation Bonds for balance of liability

Amortization Period		10 year	30 Year
Gross POB Amount	$	3,795,000	$ 3,795,000
Term (Years)		10	30
Interest Rate		6.00%	6.00%
Amortization Payment		$495,000	$281,000
Normal Cost		$269,000	$269,000
Total Annual Payment		$764,000	$550,000

Added Cost Compared to Cash Funding	
10 year	30 year
$ 226,000	$ 831,864