Agenda Item #:

Staff Report
City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Richard Thompson, Interim City Manager

FROM: Bruce Moe, Finance Director
Henry Mitzner, Controller

DATE: June 1, 2010

SUBJECT: Consideration of the Annual Required Contribution Payment to CalPERS for Retiree Medical Plans ($424,013)

RECOMMENDATION:
Staff recommends that the City Council: a) authorize the payment of the Annual Required Contribution for retiree medical programs to CalPERS in the amount of $424,013; and b) appropriate funds totaling $155,013 from the following funds[1]: General Fund ($140,104), Water Fund ($5,926), Storm Water Fund ($516), Waste Water Fund ($1,376), Refuse Fund ($842), Parking Fund ($593), County Parking Lot Fund ($152), State Pier Fund ($153), Insurance Fund ($764), Information Systems ($1,529), Fleet ($1,529) and Building Maintenance Fund ($1,529).

FISCAL IMPLICATION:
Funds totaling $269,000 are budgeted in FY 2009-2010 for the payment of the City's Annual Required Contribution (ARC) to support the City's retiree medical programs. That amount was determined in the July 1, 2007 valuation of the City's liabilities for the retiree medical programs. Accounting standards require that the valuation be updated every two years. As a result, the City authorized an actuary to update the values as of July 1, 2009. That report (attached) values the programs' assets and liabilities as of July 1, 2009, and states the City's normal costs, as well as the additional payments (amortized over 30 years in this case) required to meet the benefits obligation. The report indicates that the City payment due June 30, 2010 is $424,013 which exceeds the $269,000 budgeted in FY 2009-2010. As a result, appropriations totaling $155,013 are needed to effect the payment. The report also indicates that the City has an unfunded liability of $979,000 as of July 1, 2009.

---

[1] This allocation represents the appropriate distribution of benefits based on labor charged to the funds. Because of funding deficiencies, the Proposition "A" ($1,147) and Street Light and Landscape Fund ($382) portions are included in the General Fund appropriation.

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," or OPEB, liabilities. The City has several OPEB plans including Police, Fire, Miscellaneous and Department Head retiree medical stipend plans, all of which provide flat payments ranging from $250 per month to $400 per month effective upon retirement from the City until age 65 or Medicare eligibility commences (these are not tied to medical premiums and are fixed). Additionally, a State law (AB2544), which was effective January 1, 2008, requires the City to maintain certain minimum payments for retirees who remain in the CalPERS health plan. The AB2544 plan is less restrictive than the City's plans, and as a result, is much more expensive.

The City utilizes the California Public Employees Retirement System (CalPERS) medical trust program to manage these funds.

DISCUSSION:
The City hired an actuary in order to comply with the GASB standards which require biennial valuation to determine our existing OPEB liabilities as well as on-going funding requirements. The actuary performed the study in accordance with CalPERS assumptions, which are listed in the report. CalPERS requires that these assumptions be utilized if an agency is contracting with them for OPEB trust services. The valuations are based on annual payments at the end of each fiscal year, in this case, June 30, 2010. A copy of the report is attached (Attachment "A"), but a summary of the highlights follows:

As of July 1, 2009

(All dollars in thousands)	AB2544	City Programs	Total
Actuarial Accrued Liability	$4,533	$1,393	$5,926
Plan Assets	$3,785	$1,162	$4,947
Unfunded Liability	$ 748	$ 231	$ 979
Normal Cost[2]	$ 272	$ 67	$ 339
Amortization of Liability			$ 85
Total Payment due 6/30/2010			$ 424

[2] The normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

In addition to the normal cost of $339,000 for FY 2009-2010, the unfunded liability of $979,000 may be amortized over several years. Given the City's budgetary situation, staff assumed a thirty year amortization, which results in an increase in our annual required contribution of $85,000.

Because the report covers a two year period, the actuary has provided us with the FY 2010 and FY 2011 required contribution schedule, based on the July 1, 2009 valuation. The total contributions are as follows:

FY 2009-2010 payment due 6/30/2010	$424,013
FY 2010-2011 payment due 6/30/2011 (normal cost of $366K + $85K amortization)	$451,000

The FY 2010 payment was budgeted at $269,000 which was the normal annual cost based on having previously fully funded the liability in 2008. However, because of the CalPERS investment losses through June 30, 2009, we now have an unfunded liability for which additional contributions are required. As a result, in order to make the $424,013 payment due June 30, 2010, funds totaling $155,013 will need to be appropriated from the various funds listed above. The funds required for FY 2010-2011 ($451,000) have been included in the proposed FY 2010-2011 budget.

Attachments: A. Actuarial report

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

July 1, 2009 GASB 45 Actuarial Valuation

Prepared by:

Joseph D. Sintov, Consulting Actuary

April 2010

Joseph D. Sintov, Consulting Actuary
M.A.A.A., F.S.A., F.C.A., E.A.
13648 Heritage Way, Sarasota, Florida 34240-7500
jsintov@earthlink.net (941) 371-6750

April 26, 2010

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, 2009

Dear Mr. Moe:

We have performed an actuarial valuation of the City's retiree medical insurance program as of July 1, 2009 under Statement No. 45 of the Government Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The results of the actuarial valuation were used to determine the annual required contribution (ARC) and OPEB cost for the City's fiscal years beginning July 1, 2009 and July 1, 2010.

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, 2009

Table of Contents

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Summary of Valuation

The following are the highlights of the July 1, 2009 actuarial valuation.

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
A. Actuarial Accrued Liability (AAL) at July 1, 2009	$ 4,533	$ 1,393	$ 5,926
B. Plan Assets at July 1, 2009	3,785	1,162	4,947
C. Unfunded AAL: AAL - Assets	$ 748	$ 231	$ 979
D. Net OPEB Obligation (Asset)			
- At June 30, 2009	$(4,469)	$(1,419)	$(5,888)
- At June 30, 2010 (projected)	(4,815)	(1,530)	(6,345)
- At June 30, 2011 (projected)	(5,188)	(1,649)	(6,837)
E. Annual Required contribution (ARC)			
- Fiscal Year beginning July 1, 2009	$ 0	$ 0	$ 0
- Fiscal Year beginning July 1, 2010 (projected)	0	0	0
F. OPEB Cost			
- Fiscal Year beginning July 1, 2009	$ (9)	$ (24)	$ (33)
- Fiscal Year beginning July 1, 2010 (projected)	(15)	(26)	(41)
G. Projected Annual Payments to Retirees (Pay-as-You-Go Cost)			
- Fiscal Year beginning July 1, 2009	$ 86	$ 88	$ 174
- Fiscal Year beginning July 1, 2010	103	107	210
H. Number of Participants at July 1, 2009			
- Active Employees			
- Safety Employees	93	93	93
- Other Employees	160	160	160
- Total Employees	253	253	253
- Retirees	58	12	62
- Total Participants	311	265	315

Note: Eight 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, 2009

Valuation Results

The results of the July 1, 2009 actuarial valuation are outlined below.

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
A. Unfunded Actuarial Accrued Liability as of July 1, 2009			
1. Actuarial Accrued Liability (AAL)			
a. Active Participants:			
b. Police	$ 824	$ 524	$ 1,348
c. Fire	440	200	640
d. Other	1,705	320	2,025
e. Totals	$ 2,969	$ 1,044	$ 4,013
2. Retired Participants:			
a. Police	$ 643	$ 297	$ 940
b. Fire	247	0	247
c. Other	674	52	726
d. Totals	$ 1,564	$ 349	$ 1,913
3. Total Active and Retired Participants			
a. Police	$ 1,467	$ 821	$ 2,288
b. Fire	687	200	887
c. Others	2,379	372	2,751
d. Totals	$ 4,533	$ 1,393	$ 5,926
4. Plan Assets	3,785	1,162	4,947
5. Unfunded AAL	$ 748	$ 231	$ 979
6. Covered Annual Base Payroll	19,502	19,502	19,502
7. Unfunded AAL as Percent of Base Payroll	3.8%	1.2%	5.0%

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Valuation Results (Cont'd)

B. Net OPEB Obligation (NOO)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
1. Fiscal Year July 1, 2007 – June 30, 2008			
a. NOO at beginning of year	$ 0	$ 0	$ 0
b. Net OPEB Cost	861	248	1,109
c. Employer Contributions			
1. Payments to Retirees	33	28	61
2. Contributions to CERBT	4,919	1,501	6,420
3. Total Employer Contributions	$ 4,952	$ 1,529	$ 6,481
d. NOO at end of Year [a + b – c3]	$(4,091)	$(1,281)	$(5,372)
2. Fiscal Year July 1, 2008 – June 30, 2009			
a. NOO at beginning of year	$(4,091)	$(1,281)	$(5,372)
b. Net OPEB Cost	(98)	(49)	(147)
c. Employer Contributions			
1. Payments to Retirees	61	39	100
2. Contributions to CERBT	219	50	269
3. Total Employer Contributions	$ 280	$ 89	$ 369
d. NOO at end of Year [a + b – c3]	$(4,469)	$(1,419)	$(5,888)
3. Fiscal Year July 1, 2009 – June 30, 2010 (projected)			
a. NOO at beginning of year	$(4,469)	$(1,419)	$(5,888)
b. Net OPEB Cost (determined in Section D)	(9)	(24)	(33)
c. Employer Contributions			
1. Payments to Retirees	0	0	0
2. Contributions to CERBT	337	87	424
3. Total Employer Contributions	$ 337	$ 87	$ 424
d. NOO at end of Year [a + b – c3]	$(4,815)	$(1,530)	$(6,345)

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Valuation Results (Cont'd)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
4. Fiscal Year July 1, 2010 – June 30, 2011 (projected)			
a. NOO at beginning of year	$(4,815)	$(1,530)	$(6,345)
b. Net OPEB Cost (determined in Section D)	(15)	(26)	(41)
c. Employer Contributions			
1. Payments to Retirees	0	0	0
2. Contributions to CERBT	358	93	451
3. Total Employer Contributions	$ 358	$ 93	$ 451
d. NOO at end of Year [a + b – c3]	$(5,188)	$(1,649)	$(6,837)

Notes:

Employer contributions for the fiscal years beginning July 1, 2009 and July 1, 2010 are assumed to be the sum of the normal cost plus a 30-year level dollar amortization of the unfunded actuarial accrued liability at July 1, 2009.

Payments to retirees for the 2009-2010 and 2010-2011 fiscal years are assumed to be made from the CERBT, thus are not considered employer contributions.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Valuation Results (Cont'd)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
C. Annual Required Contribution (ARC)			
1. Fiscal Year July 1, 2009 – June 30, 2010			
a. Normal Cost	$ 272	$ 67	$ 339
b. Amortization of Unfunded AAL	65	20	85
c. Amortization of NOO	(388)	(123)	(511)
d. Sum of a + b + c	$ (51)	$ (36)	$ (87)
e. ARC [a + b + c, not less than zero]	0	0	0
Breakdown of ARC by Employee Group:			
a. Police	$ 0	$ 0	$ 0
b. Fire	0	0	0
c. Other	0	0	0
d. Total Group	$ 0	$ 0	$ 0
2. Fiscal Year July 1, 2010 – June 30, 2011 (projected)			
a. Normal Cost	$ 293	$ 73	$ 366
b. Amortization of Unfunded AAL	65	20	85
c. Amortization of NOO	(421)	(134)	(555)
d. Sum of a + b + c	$ (63)	$ (41)	$ (104)
e. ARC [a + b + c, not less than zero]	0	0	0
Breakdown of ARC by Employee Group:			
a. Police	$ 0	$ 0	$ 0
b. Fire	0	0	0
c. Other	0	0	0
d. Total Group	$ 0	$ 0	$ 0

Note: Amortization amounts are based on a level-dollar amortization over a closed 30-year period beginning July 1, 2009.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Valuation Results (Cont'd)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
D. Annual OPEB Cost			
1. Fiscal Year July 1, 2009 – June 30, 2010			
a. Annual Required Contribution (ARC) without regard to minimum amount of zero	$ (51)	$ (36)	$ (87)
b. Interest on Net OPEB Obligation	(346)	(111)	(457)
c. ARC Adjustment	(388)	(123)	(511)
d. OPEB Cost [a + b - c]	$ (9)	$ (24)	$ (33)
Breakdown of OPEB Cost by Employee Group:			
a. Police	$ (13)	$ (14)	$ (27)
b. Fire	(11)	(8)	(19)
c. Other	15	(2)	13
d. Total Group	$ (9)	$ (24)	$ (33)
2. Fiscal Year July 1, 2010 – June 30, 2011 (projected)			
a. Annual Required Contribution (ARC) without regard to minimum amount of zero	$ (63)	$ (41)	$ (104)
b. Interest on Net OPEB Obligation	(373)	(119)	(492)
c. ARC Adjustment	(421)	(134)	(555)
d. OPEB Cost [a + b - c]	$ (15)	$ (26)	$ (41)
Breakdown of ARC by Employee Group:			
a. Police	$ (15)	$ (16)	$ (31)
b. Fire	(13)	(8)	(21)
c. Other	13	(2)	11
d. Total Group	$ (15)	$ (26)	$ (41)

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Valuation Results (Cont'd)

	All Dollar Figures in Thousands		
	AB 2544 Program	MOU Program	Program Totals
E. Projected Plan Assets			
1. Fiscal Year July 1, 2009 – June 30, 2010			
a. Plan Assets at beginning of year	$ 3,785	$ 1,162	$ 4,947
b. Employer Contributions to CERBT	337	87	424
c. Payments to Retirees from CERBT	(147)	(127)	(274)
d. Administrative expenses	(8)	(2)	(10)
e. Expected investment return at CalPERS Discount Rate Assumption	293	90	383
e. Plan Assets at end of year [a + b – c – d + e]	$ 4,260	$ 1,210	$ 5,470
2. Fiscal Year July 1, 2010 – June 30, 2011			
a. Plan Assets at beginning of year	$ 4,260	$ 1,210	$ 5,470
b. Employer Contributions to CERBT	358	93	451
c. Payments to Retirees from CERBT	(103)	(107)	(210)
d. Administrative expenses	(9)	(3)	(12)
e. Expected investment return at CalPERS Discount Rate Assumption	330	94	424
e. Plan Assets at end of year [a + b – c – d + e]	$ 4,836	$ 1,287	$ 6,123

Notes:

Plan assets at July 1, 2009 are allocated to the AB 2544 Program and MOU Program, and to the Police, Fire and Miscellaneous groups in proportion to the actuarial accrued liability.

It is assumed that the City will be reimbursed from the California Employers' Retiree Benefit Trust (CERBT) for its payments of retiree insurance premiums and MOU stipends, during the same fiscal year in which the premiums and stipends are paid. Accordingly, the payments to retirees are considered made from the CERBT rather than the City. The amount shown for the 2009-2010 fiscal year includes a reimbursement of $100,383 for payments to retirees in the 2008-2009 fiscal year.

Employer contributions to the CERBT are assumed to be the sum of the normal cost plus a 30-year level dollar amortization of the unfunded actuarial accrued liability at July 1, 2009.

Administrative expenses are assumed as 0.20% of average assets during the fiscal year.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Participant Data

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

A. Distribution of Active Participants

1. All Employees

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
	Years of Service									
Under 25		4								4
25 to 29		9	4	1						14
30 to 34		16	13	8						37
35 to 39		8	3	6	7					24
40 to 44		11	7	7	14	5				44
45 to 49	2	8	11	9	6	11	5			52
50 to 54		3	4	3	3	3	7	2		25
55 to 59		6	2	8	4	1	7	4		32
60 to 64		3	3	1	3	4		1	2	17
65 to 69		0	1			2	1			4
70 & up		0								
Total	2	68	48	43	37	26	20	7	2	253

Average Age	44.6
Average Years of Service	12.2

2. Safety Employees

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
	Years of Service									
Under 25		3								3
25 to 29		4	2							6
30 to 34		5	8	7						20
35 to 39		2		5	5					12
40 to 44		4	1	4	11	1				21
45 to 49	1	1	2	2	1	4	4			15
50 to 54		1		1		1	5	2		10
55 to 59							3	2		5
60 to 64								1		1
65 to 69										
70 & up										
Total	1	20	13	19	17	6	12	5		93

Average Age	40.6
Average Years of Service	13.7

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

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								1
25 to 29		5	2	1						8
30 to 34		11	5	1						17
35 to 39		6	3	1	2					12
40 to 44		7	6	3	3	4				23
45 to 49	1	7	9	7	5	7	1			37
50 to 54		2	4	2	3	2	2			15
55 to 59		6	2	8	4	1	4	2		27
60 to 64		3	3	1	3	4			2	16
65 to 69			1			2	1			4
70 & up										
Total	1	48	35	24	20	20	8	2	2	160

Average Age	46.9
Average Years of Service	11.3

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Participant Data (Cont'd)

B. Participant Statistics

	Police	Fire	Other	Total
Active Participants				
Count	64	29	160	253
Average Age	39.3	43.5	46.9	44.6
Average Service	12.5	16.4	11.3	12.2

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	22	9	27	58
Average Age	61.0	64.3	66.6	64.1
Average Retirement Age	N/A	N/A	N/A	N/A
Retired Participants in MOU Program				
Count	9	0	3	12
Average Age	54.9	N/A	56.7	55.0
Average Retirement Age	52.8	N/A	56.3	53.1

Notes:

Eight retired participants are in both the AB 2544 Program and the MOU Program.

Dates of retirement were not reported for retired participants in the AB 2544 Program, thus the average retirement ages for this program are not shown.

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.

Net OPEB Obligation. The cumulative difference between the annual OPEB cost and the employer's contributions to the plan.

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.

Glossary (Cont'd)

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

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.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

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 Government Code section 22892 as amended by California Assembly Bill 2544 (AB 2544) and described in CalPERS' Circular Letter 600-009-09.

Actuarial Assumptions

A. Economic Assumptions

Discount Rate

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.

Future Increases in Payments to Retirees

- MOU Program

  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 at least 20 years of participation in the Public Employees' Medical and Hospital Care Act (PEMHCA) at July 1, 2009.
  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 July 1, 2009 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 California Government Code section 22892(b)(2).

     Annual rate of increase in the MEC

Fiscal Year Beginning July 1	Annual Rate
2009	11.0%
2010	10.0%
2011	9.0%
2012	8.0%
2013	7.0%
2014	6.0%
2015+	5.0%

  3. Maximum year-to-year increase in the City's monthly payment to retirees. The current maximum year-to-year increase is $100, as stated in Government Code section 22892(c). This amount 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 14 years of service for CalPERS Public Agency Miscellaneous employees (changed from 12 years of service in July 1, 2007 valuation).
- Sample rates are as follows:

Age	Police	Fire	Other Ees
30	1.29%	0.79%	5.27%
35	1.12%	0.69%	4.57%
40	1.12%	0.69%	3.88%
45	1.12%	0.69%	3.19%

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

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. Non-Industrial Disability Male Rates for CalPERS Public Agency Miscellaneous employees. (Note: CalPERS non- industrial disability rates are similar for male and female miscellaneous employees. 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.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

Actuarial Assumptions and Methods (Cont'd)

- Sample rates are as follows:

Age	Police	Fire	Other Ees	Age	Police	Fire	Other Ees
50	12.08%	0.55%	2.69%	58	21.98%	18.74%	8.79%
51	10.71%	1.10%	1.98%	59	22.79%	17.84%	9.48%
52	17.05%	3.39%	2.12%	60	100.00%	100.00%	13.28%
53	19.16%	9.79%	2.78%	61	100.00%	100.00%	13.28%
54	19.74%	13.06%	3.69%	62	100.00%	100.00%	23.69%
55	24.97%	21.09%	8.83%	63	100.00%	100.00%	23.92%
56	19.10%	18.68%	7.35%	64	100.00%	100.00%	17.29%
57	22.32%	22.95%	7.93%	65	100.00%	100.00%	100.00%

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 projected unit credit cost method (changed from entry age normal method used in July 1, 2007 valuation). This method is used to determine the actuarial accrued liability and normal cost. The accrued liability is the present value of benefits assigned to past service, and is determined as the present value of projected benefits, multiplied by the ratio of years of service as of the valuation date to projected years of service as of the assumed exit date. The normal cost is equal to the expected increase in accrued liability during the year.

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 and other items

- The unfunded actuarial accrued liability at July 1, 2009 is amortized at the July 1, 2009 discount rate assumption of 7.75% over 30 years as a level-annual dollar amount. (Note: The amortization of the initial unfunded actuarial accrued liability at July 1, 2007 was effectively cancelled at June 30, 2008 due to the City's contribution that funded the entire unfunded AAL during the fiscal year ended June 30, 2008. Because the one-time contribution effectively eliminated the unfunded AAL, the amortization was cancelled in accordance with Q&A 91 of the GASB 45 Implementation Guide.)
- Experience gains or losses, plan amendments and changes in actuarial assumptions or cost method that are recognized after July 1, 2009 are amortized at the then-current discount rate assumption as a level-dollar amount over a closed 30-year period beginning July 1, 2009, i.e., over a period that is 30 years less one year for each year after July 1, 2009. For example, a plan amendment recognized at July 1, 2011 would be amortized over 28 years.
- The Net OPEB obligation is amortized at the discount rate assumption as a level-dollar amount over a closed 30-year period beginning July 1, 2009.

CITY OF MANHATTAN BEACH, CALIFORNIA
RETIREE MEDICAL INSURANCE PROGRAM

GASB 45 Actuarial Valuation - July 1, 2009

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 Government Code section 22892 as amended by Assembly Bill 2544 (AB 2544) and further described in CalPERS' Circular Letter 600-009-09.

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 the applicable MOU's as well as from other written documents, discussions and 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. However, this assumption does not imply an obligation to continue the program

Principal Provisions of the MOU Program

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

Eligibility for Service Retirement Benefit. 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.

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.

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: $400 per month.
2. Fire employees: $400 per month.
3. Miscellaneous employees.
   a. Department heads. $400 per month
   b. Other miscellaneous employees: $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 2009 is the Minimum Employer Contribution (MEC) for agencies participating in the Public Employees' Medical and Hospital Care Act (PEMHCA). The MEC is $101.00 in 2009 and $105.00 in 2010. For years after 2010, California Government Code section 22892(b)(2) provides that 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.

California Government Code section 22892(c) provides that the maximum year-to-year increase in the employer's monthly payment shall be $100.00.

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.